

FIGURES | RICHMOND INDUSTRIAL | Q4 2023

As Leasing Activity Normalizes, Market Fundamentals Remain Solid



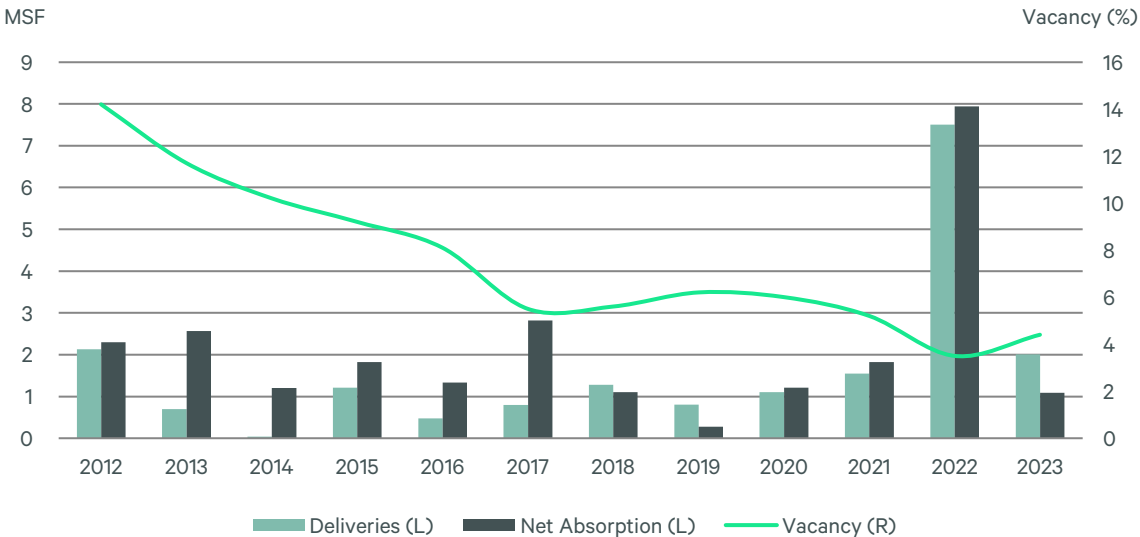
Note: Arrows indicate change from previous quarter.

The Richmond industrial and logistics market recorded 275,000 sq. ft. of occupancy loss during the fourth quarter and overall vacancy rates rose to 4.4%. Anheuser-Busch and Amazon each vacated more than 120,000 sq. ft. of aging distribution product and several smaller tenants shed space. In a positive sign, new-to-market PGT Innovations moved into the former Rolls-Royce manufacturing facility, a 292,000 sq. ft. facility located at 8800 Wells Station Road. Additionally, South Carolina-based Cooperative Electric Energy Utility Supply, Inc. purchased Cardinal West, a 187,000 sq. ft. industrial property completed in Q2, for \$30.8 million, (\$165 per sq. ft.), which is a new high watermark for shell space.

Despite the second consecutive quarter of negative absorption, Richmond ended the year with 1.1 million sq. ft. of positive absorption and continued its 13-year streak of occupancy gain. Overall vacancy rates rose to 4.4% as developers Samet and Lingerfelt supplied three new distribution centers to the market, 52% of which is preleased but not yet occupied.

A total 2.0 million sq. ft. of new product has delivered this year. Further, developers broke ground in Q4 on new speculative projects despite high interest rates, with 2.7 million sq. ft. now underway. The delivery of new class A space and a tight market continue to exert upward pressure on asking rents, with warehouse asking rents rising to \$7.30 per sq. ft. on a triple net basis.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Fears of a recession and shifts in consumer spending have dampened leasing activity to pre-pandemic levels this year, as industrial tenants shed their “just in case” inventory and shift back to a “just in time” strategy. In the Richmond industrial and logistics market, 14 tenants signed leases totaling 662,000 sq. ft. during the fourth quarter, a 64% decline quarter-over-quarter but just a 6% decline year-over-year.

Overall, 73 tenants signed leases totaling 5.3 million sq. ft. in 2023. While this is the lowest leasing volume recorded in the last five years, vacancy remains tight as industrial markets normalize across the country.

Manufacturing

Manufacturing tenants were the most active in the fourth quarter, signing six leases totaling 310,000 sq. ft. Star Pipe Products inked the largest transaction of the quarter with a 119,000 sq. ft. lease at 2301 Commerce Road and will relocate from 2913 Transport Road, growing by 25,000 sq. ft. in the process. The company plans to move in Q2 2023 and extended its current lease for six months. New-to-market Johnston Paper signed a 50,000 sq. ft. lease at 12075 Harley Club Drive. The class A warehouse, which delivered earlier this year, is now completely leased.

General Retail & Wholesale

General Retail and Wholesale tenants signed 19 leases totaling 2.3 million sq. ft. and accounted for 44% of gross leasing activity this year. During the fourth quarter, Tucker Door and Trim signed a 96,000 sq. ft. lease at 2700 Distribution Drive.

Third Party Logistics (3PL)

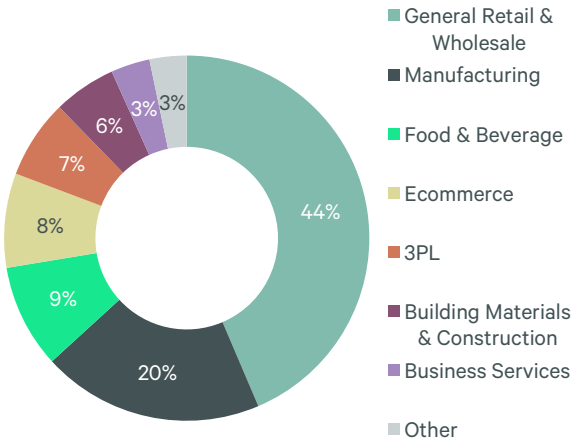
3PLs only accounted for 7% of gross leasing activity in the Richmond market this year, representing a much smaller share of activity than 3PLs recorded in the neighboring Norfolk market, which is home to the Port of Virginia. Still, two 3PLs signed leases during the fourth quarter totaling 116,000 sq. ft. and others remain out in the market for larger space.

FIGURE 2: Q4 2023 Select Notable Lease Transactions

Tenant	Industry	Address	Submarket	Quadrant	Lease Type	SF
Star Pipe Products	Manufacturing	2301 Commerce Rd	Jeff Davis Corridor	SW	New Lease	119,470
Tucker Door and Trim	General Retail & Wholesale	2700 Distribution Dr	Airport	SE	New Lease	96,117
Star Pipe Products	Manufacturing	2913 Transport St	Jeff Davis Corridor	SW	Renewal	94,384
Shipvine South	3PL	2626 N Hopkins Rd	Jeff Davis Corridor	SW	New Lease	78,000
Service Partners	General Retail & Wholesale	11800-11900 N Lakeridge Pky	I-95 North/Ashland	NW	Renewal	64,657
Johnston Paper	Manufacturing	12075 Harley Club Dr	I-95 North/Ashland	NW	New Lease	50,221
Musket Corporation	3PL	3310 Deepwater Terminal Rd	Jeff Davis Corridor	SW	New Lease	37,500
Synergy Installation Solutions	Building Materials & Construction	1410 Ingram Ave	Jeff Davis Corridor	SW	Extension	25,500
Haskell's Hardware	Building Materials & Construction	12075 Harley Club Dr	I-95 North/Ashland	NW	New Lease	21,321

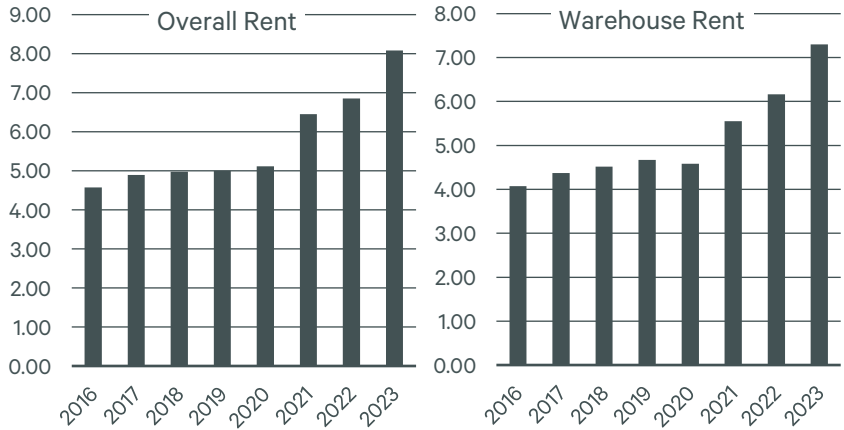
Source: CBRE

FIGURE 3: 2023 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: Historical Rent Growth (\$/SF)



Source: CBRE

Development Activity

One development project delivered in the Richmond industrial market during the fourth quarter:

- Samet Corporation completed construction on its two-building speculative project at 11111 Washington Highway. The properties total 400,000 sq. ft. and remain fully available for lease.

Two developers broke ground on projects totaling 755,000 sq. ft. during the quarter:

- Axial Industrial, the industrial arm of multifamily developer Crescent Communities, began pouring slabs on Axial Gateway 95. The single-building project totaling 505,000 sq. ft. is located in the Southwest and is the developer’s first industrial build in Virginia.
- Wigeon Capital began site work on its two-building project in the Northwest. Dubbed the Lakeridge Logistics Center, the project will bring 250,000 sq. ft. of new industrial product to 10383-10384 Lakeridge Parkway in Q4 2024.

This quarter, the Virginia Department of Transportation also broke ground on its project to widen the two-lane sections of I-64 between Williamsburg and Richmond to three lanes. Along with the bridge expansion project on the Hampton Roads Bridge Tunnel, the drive time between Richmond and the Port of Virginia looks to be significantly reduced by the end of the decade. More than 5.7 million sq. ft. of planned development in the corridor from Williamsburg to Richmond stand to benefit from these improvements.

FIGURE 5: Q4 2023 Notable Deliveries

Address	Project Name	Submarket	Quadrant	SF	Preleased	Tenant(s)	Developer(s)
11111 Washington Hwy	Washington Highway Distribution Center	I-95 North/Ashland	NW	400,450	0%	-	Samet Corporation

Source: CBRE

* Owner-occupied buildings are not included in the Richmond market’s statistical inventory.

FIGURE 6: Notable Warehouse Projects Under Construction

Address	Project Name	Submarket	Quadrant	SF	Preleased	Tenant(s)	Estimated Delivery	Developer
11517 Lakeridge Pky	Lewistown 95 Logistics	I-95 North/Ashland	NW	552,587	73%	GenPak	Q1 2024	Jim Pattison Development
16401 Walthall Industrial Pkwy	Axial Gateway 95	Jeff Davis Corridor	SW	505,068	0%	-	Q4 2024	Axial Industrial
1660 Ashton Park Dr	Ashton Logistics Park	I-95 S/I-295 S/Rt 10	SE	437,657 SF	100%	Trade Mango USA	Q1 2024	Lingerfelt
11174 Enterprise Pky	Carmel Church Business Center	Caroline County	NE	323,475	0%	-	Q3 2024	Lingerfelt
11115 Johnson Rd	North Richmond Industrial Park Phase II	I-95 North/Ashland	NW	315,000	0%	-	Q3 2024	Mckenzie
10383-10384 Lakeridge Pky	Lakeridge Logistics Center	I-95 North/Ashland	NW	249,500	0%	-	Q4 2024	Wigeon Capital
1611 Ashton Park Dr	Ashton Creek Business Park	I-95 S/I-295 S/Rt 10	SE	173,800	0%	-	Q3 2024	Lingerfelt
1635 Ashton Park Dr	Ashton Creek Business Park	I-95 S/I-295 S/Rt 10	SE	84,721	0%	-	Q1 2024	Lingerfelt

Source: CBRE

Economic Outlook

The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is now complete makes a ‘soft landing’ appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters.

Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, while remaining elevated, is slowing. This nuance with wage growth is important. Higher wages are helping to maintain higher, albeit decelerating, core inflation.

This backdrop will likely translate into the Fed only slowly lowering its target rate in 2024 (CBRE expects 75 to 100 basis points worth of rate cuts in 2024). This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets.

Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

FIGURE 7: Employment Growth by Industry, 12-Month Percent Change

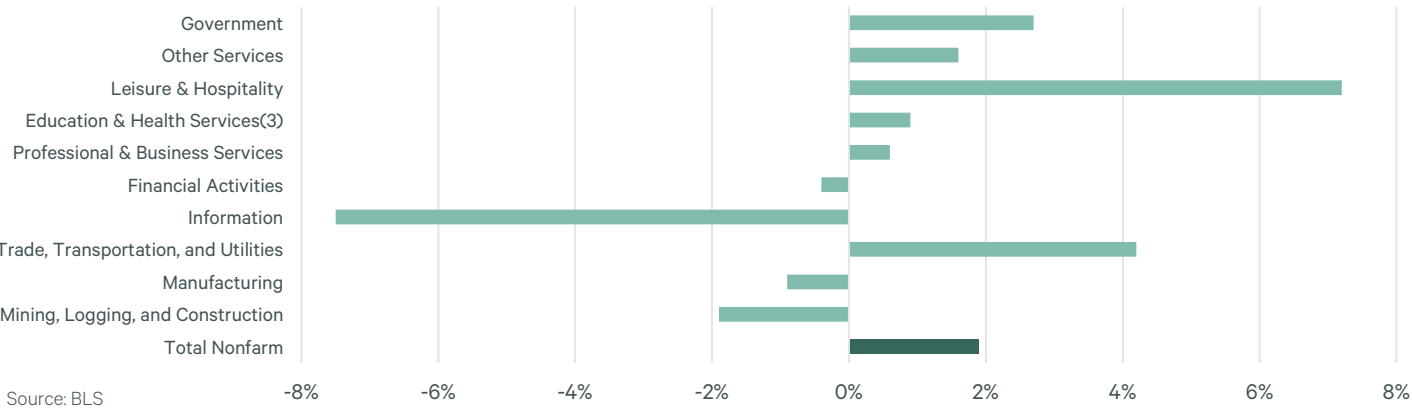


FIGURE 8: Unemployment Rate

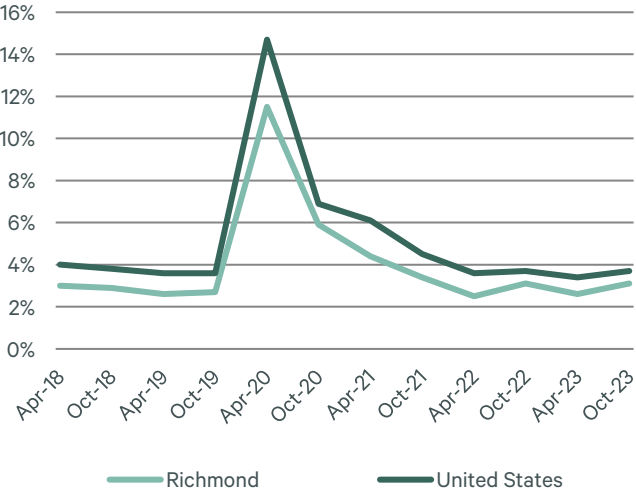


FIGURE 9: Consumer Price Index, 12-Month Percent Change

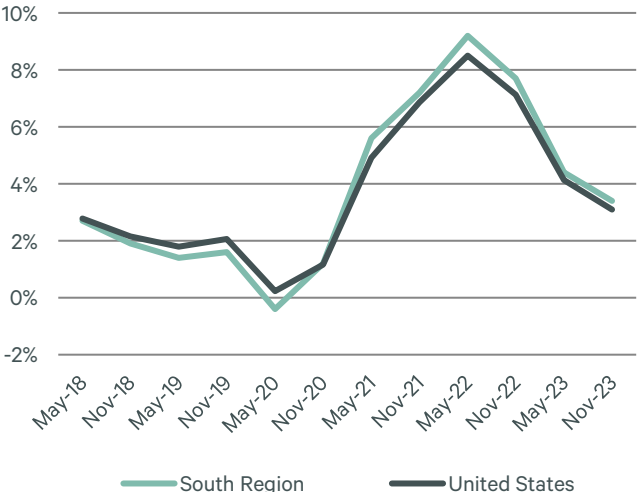


FIGURE 10: Key Market Statistics

Warehouse	Inventory	Overall Vacancy	Q4 2023 Net Absorption (SF)	2023 Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Northeast	4,970,631	1.0	(29,200)	29,108	9.39	323,475
Northwest	22,007,801	5.1	(324,785)	1,588,354	7.89	1,117,087
Southeast	32,445,948	3.7	92,424	203,829	7.04	696,178
Southwest	25,390,049	4.9	25,980	(639,913)	6.83	505,068
Total	84,814,429	4.3	(235,581)	1,181,378	7.30	2,641,808

Flex	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2023 Net Absorption (SF)	2023 Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Northeast	1,348,373	10.1	(61,251)	(50,709)	12.62	-
Northwest	5,279,779	4.7	26,577	(10,141)	11.62	92,000
Southeast	2,433,038	2.6	314	(27,433)	11.34	-
Southwest	2,550,616	6.3	(5,025)	(1,574)	10.88	-
Total	11,611,806	5.2	(39,385)	(89,857)	11.65	92,000

Overall	Inventory	Overall Vacancy Rate (%)	Q4 2023 Net Absorption (SF)	2023 Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Northeast	6,319,004	2.9	(90,451)	(21,601)	11.77	323,475
Northwest	27,287,580	5.0	(298,208)	1,578,213	8.52	1,209,087
Southeast	34,878,986	3.6	92,738	176,396	7.64	696,178
Southwest	27,940,665	5.1	20,955	(641,487)	7.32	505,068
Total	96,426,235	4.4	(274,966)	1,091,521	8.08	2,733,808

Survey Criteria:

Includes all classes of competitive single and multi-tenant, non-owner-occupied industrial buildings 10,000 sq. ft. and greater in Richmond

Source: CBRE

Contacts

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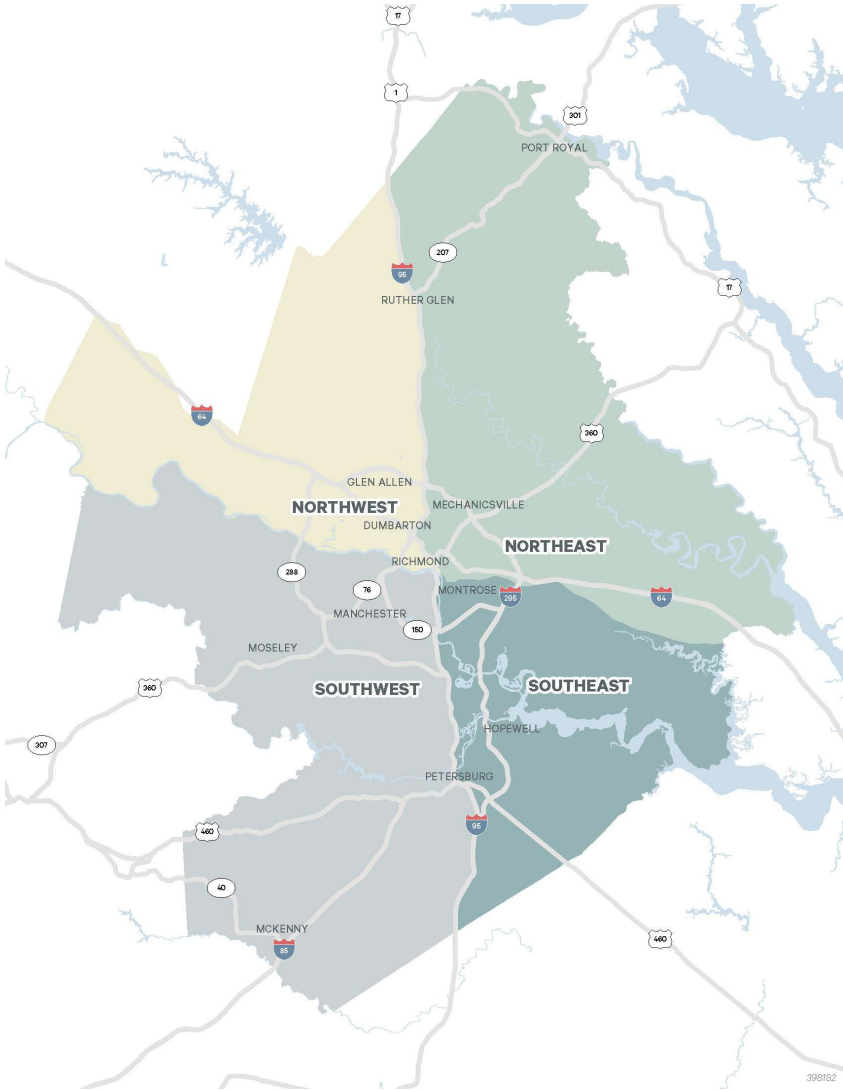
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