

FIGURES | RICHMOND INDUSTRIAL | Q1 2024

Port of Virginia Widening Project Complete; Leasing Activity Subdued

▼ 3.0%

Warehouse Vacancy Rate

▲ 311,202

SF Net Absorption

▼ 2.1M

SF Under Construction

▲ \$7.54

Average NNN Warehouse Asking Rate

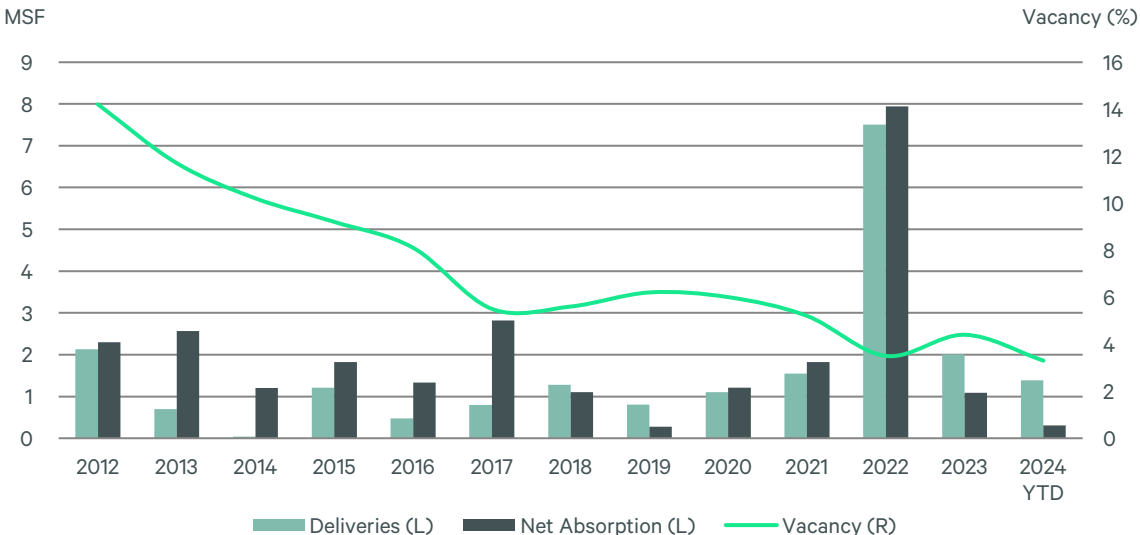
Note: Arrows indicate change from previous quarter.

A key driver of the Richmond industrial and logistics market, the Port of Virginia recently completed the widening portion of its \$450 million harbor dredging project. The expansion of the Thimble Shoals channel now allows for two-way traffic of ultra-large container vessels through the harbor. The dredging project will also deepen the Port’s harbor to 55 feet, making it the deepest port on the East Coast. These modernization projects help the Port to keep its competitive edge, particularly as a drought at the Panama Canal and geopolitical issues in the Mideast make the West Coast a more attractive shipping destination at present. The Port has recorded a strong start to 2024 with total TEUs processed up 2.4% year-over-year. After the tragic collapse of the Francis Scott Key Bridge in Baltimore, the Port of Virginia expects an increase in activity in the short-term as some shipping traffic is rerouted to its harbor.

Despite the Port’s strong start, leasing activity remains sluggish across much of the East Coast. In Richmond, 13 tenants signed leases totaling 235,000 sq. ft., the lowest quarterly leasing volume in nearly a decade. While tenant activity has picked up this quarter with many large requirements circling the market, deals are taking longer to reach full execution.

Four developments delivered a total 1.4 million sq. ft. during the first quarter, resulting in 311,000 sq. ft. of net occupancy gain for the market. New Class A availabilities helped to further increase warehouse asking rents to \$7.54 per sq. ft. on a triple net basis.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Total leasing volume in the Richmond market declined 64% quarter-over-quarter as no leases above 50,000 sq. ft. were signed this quarter. With only 12 properties with 100,000 sq. ft. or more currently available, and only one property with more than 500,000 sq. ft., industrial tenants with immediate large requirements have few options to choose from while those with more time have waited to make their decisions.

General Retail & Wholesale

Tenants in the general retail & wholesale sector signed only three leases totaling 56,000 sq. ft., yet enough to account for 24% of market activity. In a positive sign, two of those deals—D S Pipe & Steel and Select Crane Sales—were new leases.

Building Materials & Construction

Building Materials and Construction tenants signed three leases totaling 45,000 sq. ft. This included new-to-market tenant Capital Railing, a Baltimore-based company that opened its first Richmond location at 2400 Station Road.

Business Services

Texas-based engineering consulting firm Jacob’s Technology completed the largest transaction of the quarter, renewing its 36,000 sq. ft. lease at 4201 Caroline Avenue.

Pricing

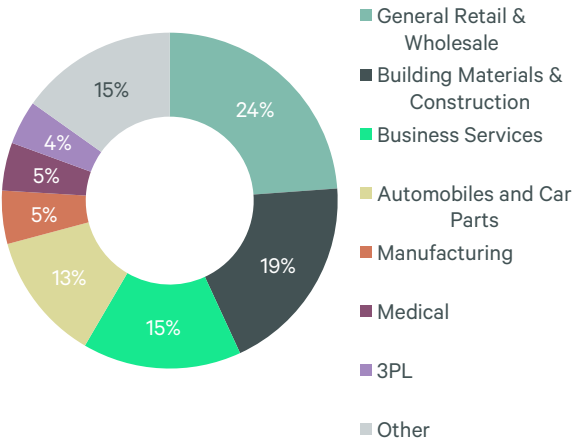
While leasing activity is down, landlords continue to exert upward pressure on rents due to the limited supply in the market. Warehouse asking rents increased 3.3% quarter-over-quarter, reaching a new record high. The sustained elevated rents may also be a factor in the decreased leasing activity.

FIGURE 2: Q1 2024 Select Notable Lease Transactions

Tenant	Industry	Address	Submarket	Quadrant	Lease Type	SF
Jacob's Technology	Business Services	4201 Carolina Ave	Laburnum/Rt 360	NE	Renewal	36,000
Deutz Corp	Automobiles and Car Parts	11089 Leadbetter Rd	I-95 N/Mechanicsville	NE	New Lease	29,200
D S Pipe & Steel	General Retail & Wholesale	2901 Commerce Rd	Jeff Davis Corridor	SW	New Lease	28,100
The Richmond Ballet	Other	601 Gordon Ave	Jeff Davis Corridor	SW	New Lease	25,920
Capital Railing	Building Materials & Construction	2400 Station Rd	Jeff Davis Corridor	SW	New Lease	20,000
Select Crane Sales	General Retail & Wholesale	11096 Leadbetter Rd	I-95 N/Mechanicsville	NE	New Lease	16,000
R.S. Harritan Mechanical Contractors	Building Materials & Construction	3280 Formex Rd	Jeff Davis Corridor	NW	Renewal	15,320
Turnkey Porch Enclosures	Manufacturing	4109 W Clay St	Scott's Add/West End	NW	New Lease	12,040
Carrier Enterprise	General Retail & Wholesale	2943 Oak Lake Blvd	Rt 288 Corridor	SW	Renewal	12,000

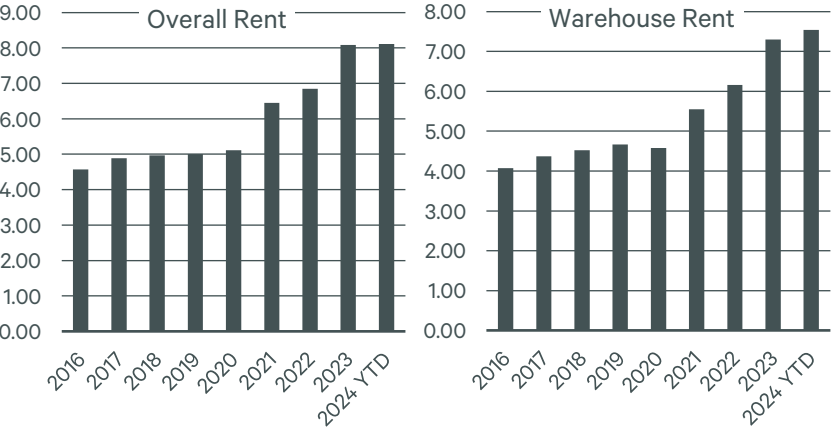
Source: CBRE

FIGURE 3: Q1 2024 YTD Gross Leasing by Sector (Share by SF)



Source: CBRE

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



Source: CBRE

Development Activity

Four distribution projects delivered during the first quarter.

- Jim Pattison Development completed work on its 553,000 sq. ft. project for intended owner-user GenPak. Originally planning to occupy more than 70% of the building, GenPak decided that it no longer needed the space and put the entire building up for lease.
- Lingerfelt Development delivered two speculative projects in the southeast: a 438,000 sq. ft. distribution facility preleased by online retailer Trade Mango USA, and an 85,000 sq. ft. warehouse not yet leased.
- Mackenzie finished construction on its 315,000 sq. ft. speculative project in the Southeast, which is not yet leased.

No developers broke ground on new projects during the quarter, but the development pipeline remains active with 2.3 million sq. ft. underway. AutoZone’s 800,000 sq. ft. project in the emerging submarket of New Kent County is nearing completion and will likely see the owner-user take occupancy next quarter.

Five speculative warehouse projects—none of which are preleased—remain underway. All scheduled for delivery in the latter half 2024, these projects will bring 1.6 million sq. ft. of new supply to the market at a time when interest rates are anticipated to decrease and leasing activity to forcefully return.

There are more than 18 million sq. ft. of proposed developments for the Richmond industrial market, several of which are likely to break ground later this year, particularly if interest rates decline and constructions costs normalize.

FIGURE 5: Q1 2024 Notable Deliveries

Address	Project Name	Submarket	Quadrant	SF	Preleased	Tenant(s)	Developer(s)
11517 Lakeridge Pky	Lewistown 95 Logistics	I-95 North/Ashland	NW	552,587	0%	-	Jim Pattison Development
11115 Johnson Rd	North Richmond Industrial Park Phase II	I-95 North/Ashland	NW	315,000	0%	-	Mackenzie
1660 Ashton Park Dr	Ashton Logistics Park	I-95 S/I-295 S/Rt 10	SE	437,657	100%	Trade Mango USA	Lingerfelt
1635 Ashton Park Dr	Ashton Creek Business Park	I-95 S/I-295 S/Rt 10	SE	84,721	0%	-	Lingerfelt

Source: CBRE

FIGURE 6: Notable Warehouse Projects Under Construction

Address	Project Name	Submarket	Quadrant	SF	Preleased	Tenant(s)	Estimated Delivery	Developer(s)
7050 Emmaus Church Rd	AutoZone Distribution Center	New Kent County	SE	800,000	Owned	AutoZone	Q2 2024	AutoZone
16401 Walthall Industrial Pkwy	Axial Gateway 95	Jeff Davis Corridor	SW	505,068	0%	-	Q4 2024	Axial Industrial
11174 Enterprise Pky	Carmel Church Business Center	Caroline County	NE	323,475	0%	-	Q3 2024	Lingerfelt
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 Distribution Center	I-95 S/I-295 S/Rt 10	SE	173,800	0%	-	Q3 2024	Lingerfelt

Source: CBRE

Economic Outlook

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure & hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines the job openings rate declining to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is actually delivered. Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.

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

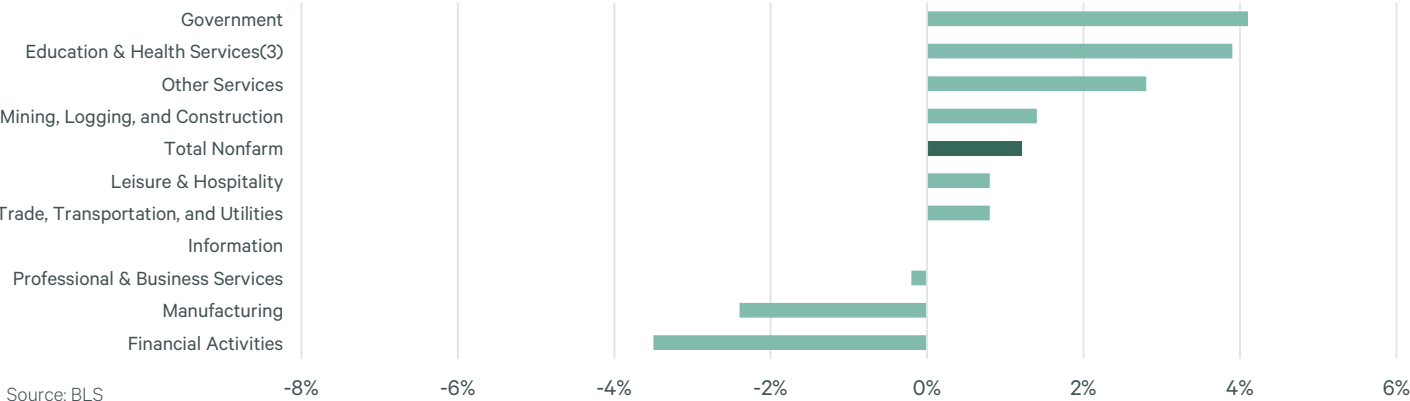


FIGURE 8: Unemployment Rate



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

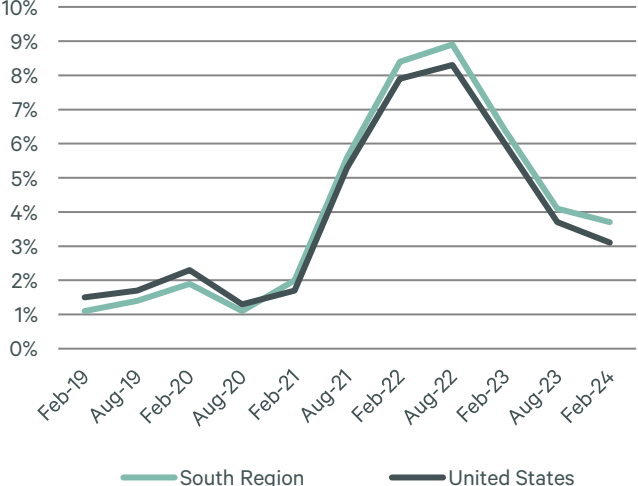


FIGURE 10: Key Market Statistics

Warehouse	Inventory	Overall Vacancy	Q1 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Northeast	24,151,926	1.8	(63,369)	(63,369)	7.56	323,475
Northwest	21,302,084	6.1	34,828	34,828	7.67	249,500
Southeast	50,402,110	1.9	362,056	362,056	8.13	973,800
Southwest	37,437,067	3.6	29,562	29,562	6.77	505,068
Total	133,293,187	3.0	363,077	363,077	7.54	2,051,843

Flex	Inventory (SF)	Overall Vacancy Rate (%)	Q1 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Northeast	1,784,040	9.2	(22,738)	(22,738)	12.56	
Northwest	5,170,305	4.7	(10,519)	(10,519)	11.69	92,000
Southeast	1,496,369	8.1	(58,862)	(58,862)	11.41	
Southwest	2,913,995	4.2	40,244	40,244	11.35	
Total	11,364,709	5.7	(51,875)	(51,875)	11.80	92,000

Overall	Inventory	Overall Vacancy	Q1 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Northeast	25,935,966	2.3	(86,107)	(86,107)	10.58	323,475
Northwest	26,472,389	5.8	24,309	24,309	8.20	341,500
Southeast	51,898,479	2.1	303,194	303,194	8.43	973,800
Southwest	40,351,062	3.6	69,806	69,806	7.17	505,068
Total	144,657,896	3.3	311,202	311,202	8.11	2,143,843

Source: CBRE

Survey Criteria:

Includes all classes of competitive single and multi-tenant industrial buildings 10,000 sq. ft. and greater in Richmond
As of Q1 2024, now includes owner-occupied buildings that meet the aforementioned criteria

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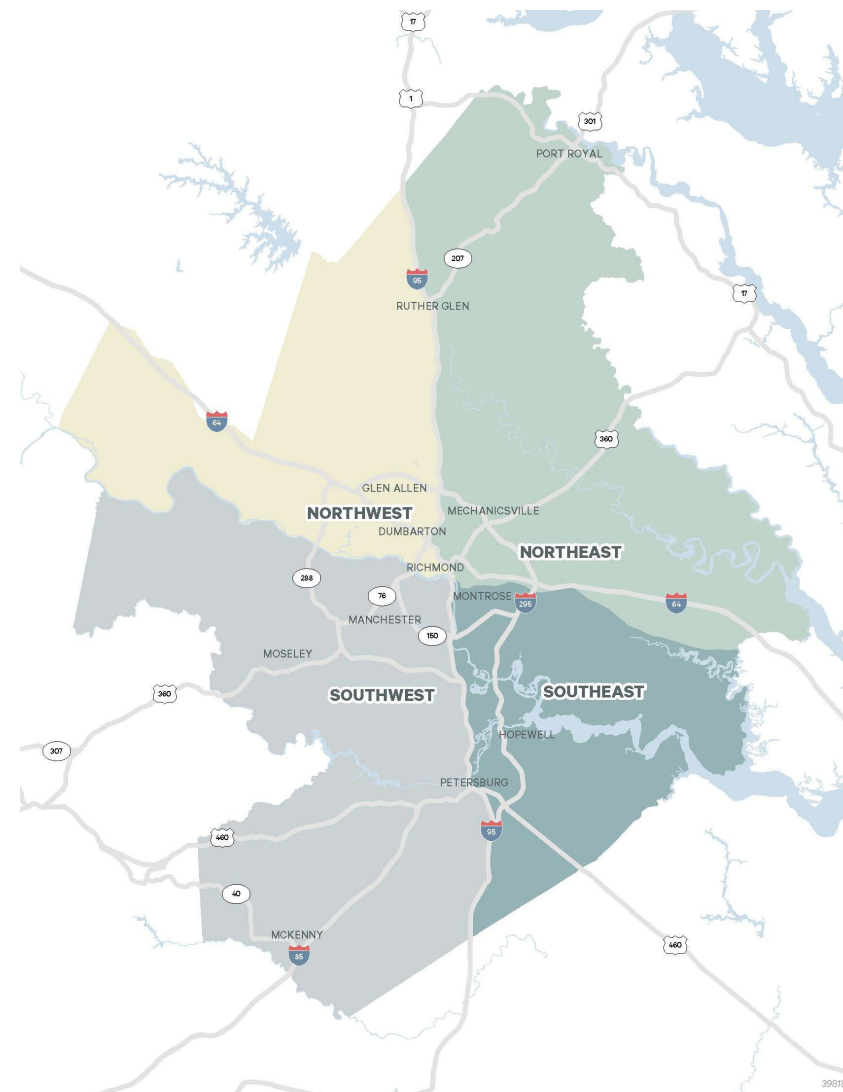
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