

FIGURES | RICHMOND OFFICE | Q4 2022

Major Richmond Tenants Make Big Moves to Secure HQ Space and Aid Future Growth

▲ 10.3%

Direct Vacancy Rate

▼ (16,262)

SF Net Absorption

▶ 0

SF Under Construction

▶ \$20.79

Average Gross Asking Rate

Note: Arrows indicate change from previous quarter.

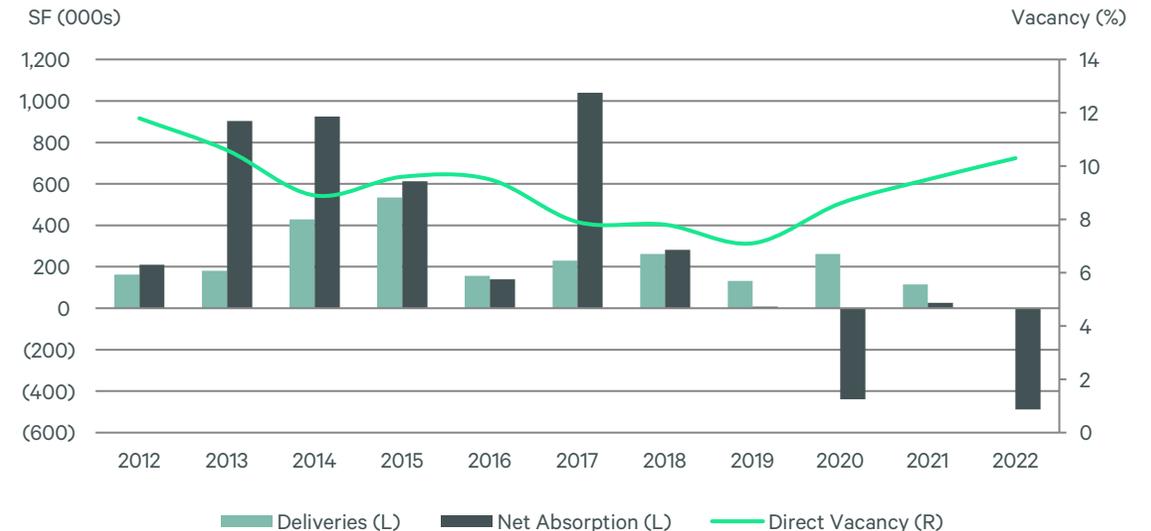
Despite economic headwinds, several large employers proved bullish on the Richmond market by securing new headquarters. Berkshire Hathaway Energy subsidiary BHE GT&S purchased two office buildings totaling 192,000 sq. ft. at 10700-10750 Capital One Way for \$20.75 million (\$107.97 per sq. ft.), relocating from 79,000 sq. ft. at 6603 West Broad Street in late 2023.

Noting rising construction costs and delays, Genworth Financial cancelled plans to build a new headquarters, and subleased 180,000 sq. ft. at 11011-11013 West Broad Street. Occupation of the space in Q3 2023 will reduce the current sublease vacancy rate of 1.9% by 50 basis points (bps).

Undeterred by construction challenges, Costar broke ground on its \$450 million research facility downtown. Completion is scheduled for 2024. Richmond-based Kinsale Insurance Company also purchased two buildings at 1912 Maywill Street and 2015 Staples Mill Road as a sale-leaseback from Elevance Health for \$76.2 million. Totalling 580,000 sq. ft., the purchase is an investment opportunity and potential site for expansion from Kinsale's 89,000 sq. ft. at 2035 Maywill Street.

Nine tenants signed a total 311,000 sq. ft. in Q4, up 14% quarter over quarter, but down 73% over the prior year. The market recorded just 16,000 sq. ft. of negative absorption in Q4. However, occupancy losses earlier in 2022 resulted in negative 489,000 sq. ft. for the year, the lowest on record. Direct vacancy closed at 10.3%, up 20 bps from Q3 and 80 bps year over year.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Financial Services

Propelled by Genworth’s 180,000 sq. ft. subleases at 11011-11013 West Broad Street, financial services firms accounted for 61% of quarterly leasing activity. In addition, Kositzka Wick & Company (KWC), an accounting firm, subleased 10,000 sq. ft. at 4315-4329 Cox Road for a total 190,000 sq. ft. signed by financial services firms this quarter. After recently expanding into the market by merging with Kimble CPAS, Alexandria-based KWC will vacate Kimble’s existing space at 6806 Paragon Place for 5,000 sq. ft. of net occupancy gain.

Government

State and federal government agencies signed two leases for 52,000 sq. ft, accounting for 17% of leasing transactions. The Office of Immigration and Customs Enforcement renewed its 19,000 sq. ft. lease at 9200 Arboretum Parkway. Richmond Redevelopment Housing Authority signed for 34,000 sq. ft. at 600 East Broad Street, relocating from its current location at 901 Chamberlayne Parkway. The new lease is nearly double the agency’s current footprint of 18,000 sq. ft.

Pricing

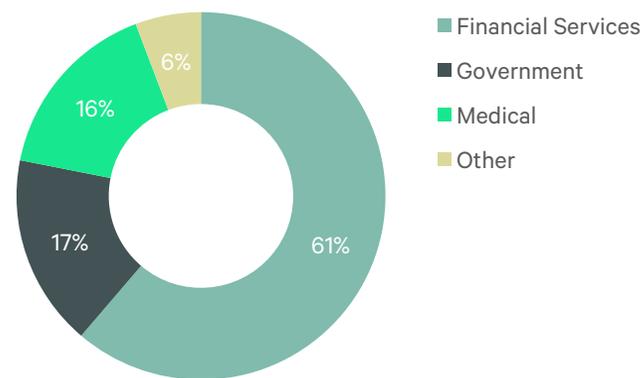
Overall gross asking rents remained flat quarter over quarter, ending the year at \$20.70 per sq. ft. per annum, just a 1.3% increase year over year. Submarkets with the most rental growth quarter over quarter include the Near West End with 12.2% asking rate increases driven by newly renovated creative office space coming online. Class A asking rates ended 2022 at \$22.51, a 50-bps uptick quarter over quarter.

FIGURE 2: Select Notable Q2 Lease Transactions

Tenant	Industry	Address	Submarket	Quadrant	Lease Type	SF	Market Effect
Genworth Financial	Financial Services	11011 W Broad St	Innsbrook	NW	Sublease	139,319	Growth
Genworth Financial	Financial Services	11013 W Broad St	Innsbrook	NW	Sublease	40,875	Growth
Richmond Redevelopment Housing Authority	Government	600 E Broad St	North Broad	NW	New Lease	33,503	Growth
Senior Connections	Medical	1300 Semmes Ave	Manchester	SE	New lease	19,916	Growth
GSA	Government	9200 Arboretum Pky	Midlothian Corridor	SW	Renewal	18,951	Flat
Journey Health	Medical	6800 Paragon Pl	Glenside/Broad St	NW	New lease	17,462	Growth
Body Contour Centers LLC	Medical	1802 Bayberry Ct	Glenside/Broad St	NW	New lease	12,775	Growth
Kositzka Wick & Company	Financial Services	4315-4329 Cox Rd	Innsbrook	NW	Sublease	10,276	Flat

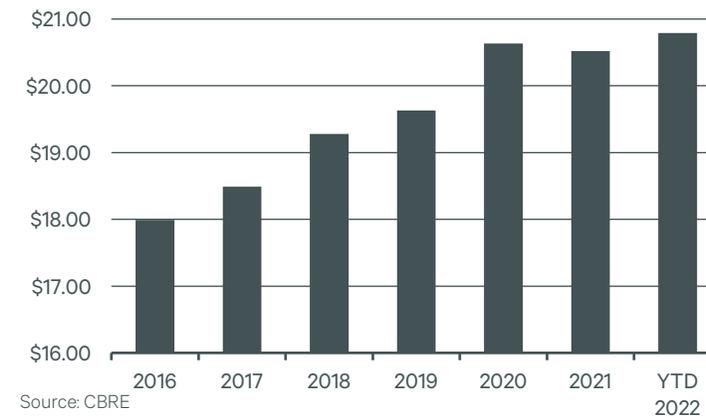
Source: CBRE

FIGURE 3: Q4 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: Historical Rent Growth



Source: CBRE

Investment Sales

The Richmond office market recorded \$133 million of investment sales across 13 properties in the fourth quarter. Of note, Lingerfelt sold an 11-building office portfolio to Seminole Trail Management—a multifamily investment and property management company—for \$119 million at a cap rate of 6.3%. Prior to the sale, Lingerfelt had received approval to rezone five of the properties to mixed-use as part of Henrico County’s plans for urban densification in Innsbrook. The developer had plans to build 1,400 apartment units within the properties’ existing parking areas, plans which Seminole Trail Management intends to fulfill.

Overall, the market recorded \$371 million in investment sales across 24 properties, a 61% decline from 2021 record sales volume as economic uncertainty and interest rate hikes by the Federal Reserve dampen capital markets activity. However, this year’s investment sales volume was still 2% above the average from the last ten years.

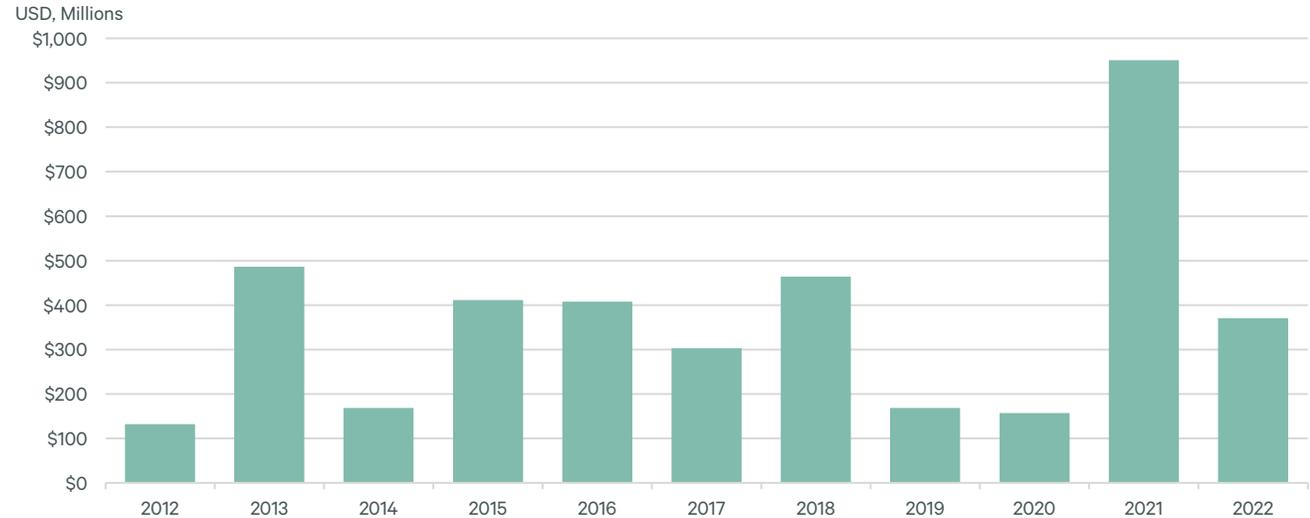
Development Activity

Henrico County’s Economic Development Authority recently approved three resolutions regarding GreenCity, moving the project forward and allowing the first phase of the \$2.3 billion project to break ground next year. The project includes plans for 2 million sq. ft. of new office space.

Despite abandoning its plans to build a new headquarters, Genworth Financial is still seeking proposal requests for a mixed-use redevelopment of its old headquarters at 6620 West Broad Street. The redevelopment calls for new office, retail, and residential properties across the 46-acre site.

Costar held a ceremonial groundbreaking for its 26-story, 750,000 sq. ft. office building in downtown Richmond. Upon completion, the 425-foot tower will be part of the company’s research and technology hub in Richmond and support an additional 2000 jobs.

FIGURE 5: Investment Sales Activity



Source: Real Capital Analytics

