Richmond Posts Record Shattering 2022 as Headwinds Emerge

▲ 3.5%
Vacancy Rate

▲ +2.6M
SF Net Absorption

▼ 3.8M
SF Under Construction

▲ $6.16
Average NNN Warehouse Asking Rate

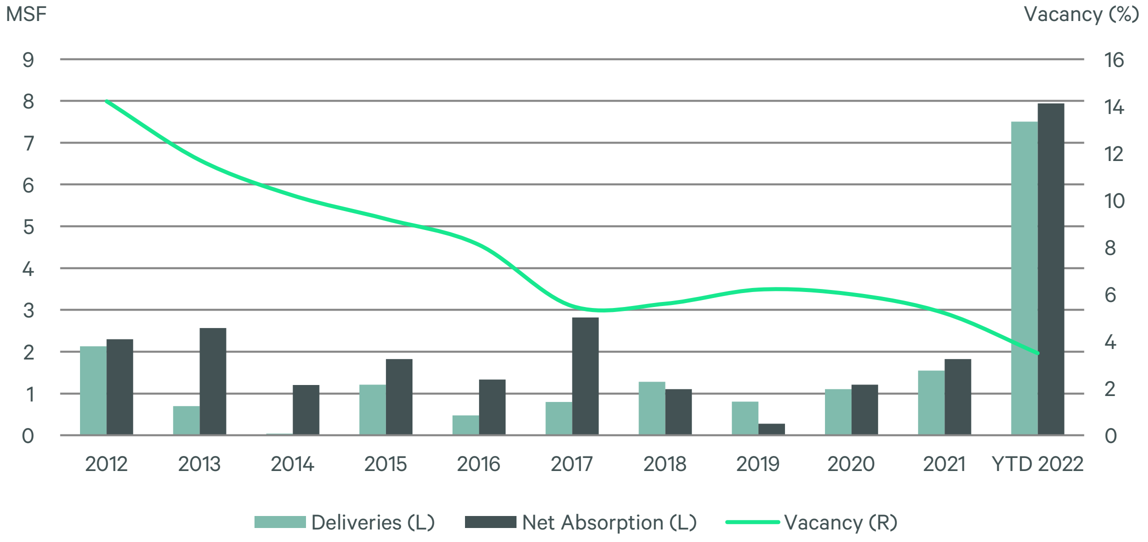
Note: Arrows indicate change from previous quarter.

The Richmond industrial and logistics market shattered previously held records for market fundamentals in the final quarter of 2022. As developer interest and tenant demand remained strong, annual industrial completions and positive net absorption cruised to all-time highs while vacancy dipped to all-time lows.

A total 4.0 million sq. ft. of warehouse product delivered across the market in Q4—65% of which was preleased, bringing total completions for 2022 to 7.5 million sq. ft and more than doubling the previous completion record from 2012. As a result, Richmond recorded 2.6 million sq. ft of positive occupancy gain in Q4—the eleventh consecutive quarter of positive absorption—and ended with 7.9 million sq. ft. of positive absorption for the full year, a 123% increase over the previous record from 2005.

Meanwhile, 1.1 million sq. ft. of speculative product delivered at Raith Capital's project at Hickory Hill Road. As a result, vacancy rates rose to 3.5% in Q4, a 170 basis points (bps) decline year over year, but a 110-bps uptick quarter over quarter. Another 3.8 million sq. ft. remains underway after a new quarterly record for deliveries. Of note, Flint Development Group recently announced the sale of its 1.2 million sq. ft. Caroline Logistics Project at 0 Carmel Church Loop to Worldwide Distribution Inc.—an owner-user set to close on the deal and occupy the distribution space upon its completion in Q2 2023.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Manufacturing

Manufacturing tenants signed three leases this quarter for 259,000 sq. ft, accounting for 38% of quarterly leasing activity.

New York based Worldwide Retail Solutions, a manufacturer, supplier, and full-service provider of customized retail displays, signed the largest lease of the quarter, inking a new deal for 195,000 sq. ft. in the Q2 delivered 6162 Quality Way—space that was originally preleased by Multipack Solutions but which they never ultimately occupied. Worldwide Retail Solutions will vacate 119,000 sq. ft. at 2121 Production Way next quarter but also signed a new lease for 50,000 sq. ft. at 1500 Commerce Road resulting in 126,000 sq. ft. of net occupancy gain.

The market has recently seen a resurgence in demand from manufacturing companies. Earlier this year, Lego Group announced plans to develop a user-built 1.7 million sq. ft carbon neutral manufacturing facility at 1000 Meadowville Technology Parkway, their first North American manufacturing facility. California vertical farming company Plenty Unlimited also announced plans to develop a $300 million vertical farm campus in the same industrial park, producing 300 jobs over six years.

Retail

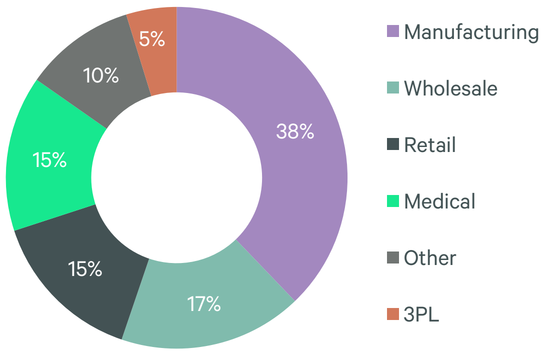
Lowe’s inked the third largest deal of the quarter, with plans to expand into 119,000 sq. ft. of preleased space at 3001 Commerce Road in the Deepwater Industrial park in the Southwest. Last quarter, Lowe’s occupied 1.1 million sq. ft. at 2301 Commerce Road in the same industrial park as it sought to strengthen its supply chain and capitalize on the seamless operations at the Port of Virginia. Further linking its logistics solutions to the port, Lowes will occupy 1.5 million sq. ft. in the Norfolk industrial market in Q2 2023 at 0 Enterprise Drive.

FIGURE 2: Q4 Select Notable Lease Transactions

Tenant	Industry	Address	Submarket	Quadrant	Lease Type	SF
Worldwide Retail Solutions	Manufacturing	6162 Quality Way	Prince George	SE	New Lease	194,880
Chadwell Supply	Wholesale	12043 Harley Club Dr	I-95 North/Ashland	NW	Prelease	119,242
Lowes	Retail	3001 Commerce Rd	Jeff Davis Corridor	SW	Prelease	101,197
Worldwide Retail Solutions	Wholesale	1500 Commerce Rd	Jeff Davis Corridor	SW	New Lease	50,000
Sunrise Construction LLC	Construction	3301 Rosedale Ave	Scott's Add/West End	NW	New Lease	45,000
Metropolitan Warehouse & Delivery Corp	3PL	12043 Harley Club Dr	I-95 North/Ashland	Northwest	Prelease	32,758
Dunn's Floor Covering	Contracting	8440 Times Dispatch Blvd	I-95 N/Mechanicsville	NE	New Lease	27,000
Option Care	Medical	Landmark Tech	Staples Mill/Parham	NW	Prelease	21,393
Daiken	Manufacturing	Landmark Tech	Staples Mill/Parham	NW	Prelease	14,512

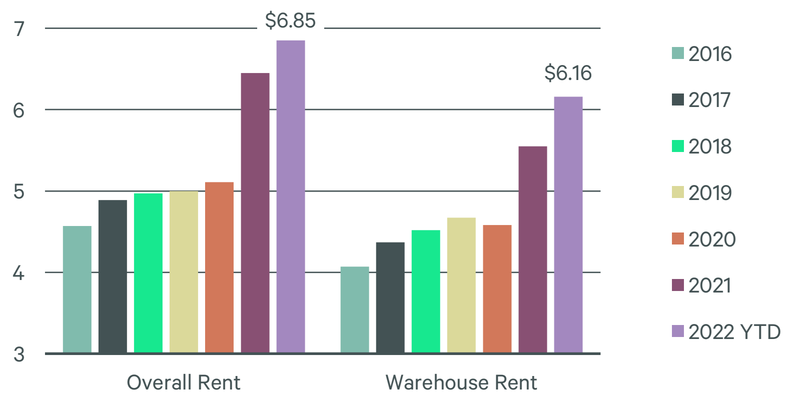
Source: CBRE

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



Source: CBRE

Figure 4: Historical Rent Growth ($/SF)



Source: CBRE

Development Activity

Three industrial properties supplied the Richmond market with 4.0 million sq. ft. of new warehouse product this quarter, breaking last quarter's record and ending 2022 with an historic 7.5 million sq. ft of industrial completions.

Of note, Hillwood Development's Project Raceway delivered 2.6 million sq. ft. at 5901 Richmond Henrico Turnpike. Preleased by Amazon, the multistory fulfillment center adds to Amazon's rapidly expanding footprint.

Two speculative distribution facilities also delivered this quarter, the largest of which was Raith Capital and Equity Industrial Partners' East Coast Commerce Center project. Located at 10462 Hickory Hill Road, the 1.1 million sq. ft. facility delivered in the Northwest with no tenants yet assigned. Becknell Industrial and Sauer Properties Inc. also completed their 279,000 sq. ft. project at 943 South Airport Drive Airport Drive, which is also not yet leased. Several large users remain active in the market, and these properties will likely not sit vacant for long.

Another 3.8 million product remains underway. Two projects broke ground this quarter:

- Lingerfelt Commonwealth Partners' 188,000 sq. ft. speculative project at 1701 Bermuda Hundred Road
- Samet Corporation's 400,000 sq. ft. project at 11111 Washington Highway.

While 16.4 million sq. ft of proposed developments remain in the pipeline, economic headwinds may ease the pipeline's momentum in the coming months. Speculative development projects without a prelease may struggle to secure financing as debt markets tighten nationally.

FIGURE 5: Q4 2022 Notable Deliveries

Address	Submarket	Quadrant	SF	Leased	Tenant(s)	Developer(s)
5901 Richmond Henrico Tpke	Laburnum/Rt 360	NW	2,600,000	100%	Amazon	Hillwood Development Corp.
10462 Hickory Hill Rd	I-95 North/Ashland	NW	1,112,100	0%	-	Raith Capital / Equity Industrial Partners
943 S Airport Dr	Airport	SE	279,319	0%	-	Becknell Industrial / Sauer Properties Inc.

Source: CBRE

FIGURE 6: Notable Warehouse Projects Under Construction

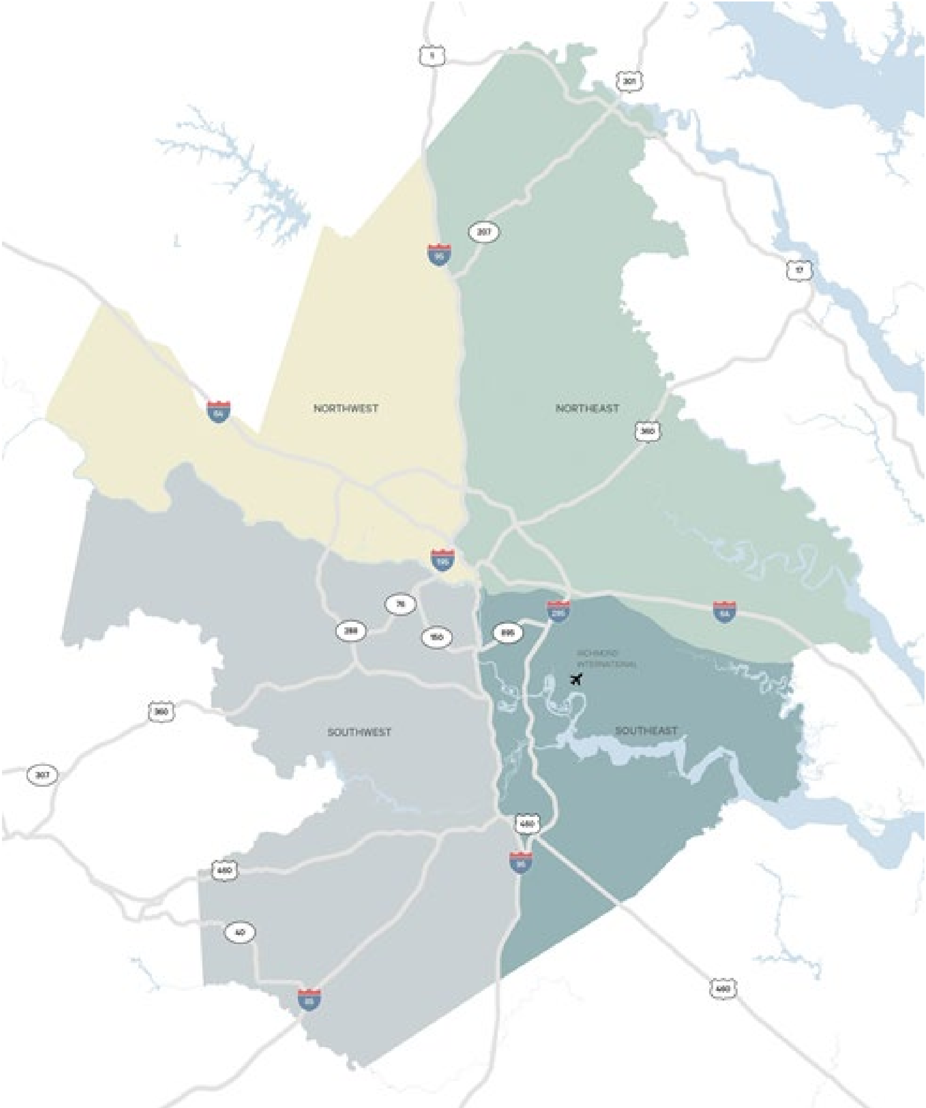
Address	Submarket	Quadrant	SF	Delivery	Developer(s)
0 Carmel Church Loop	Caroline County	NE	1,158,814	Q2 2023	Flint Development
1626–1632 Ashton Park Dr	I-95 S/I-295 S/Rt 10	SE	525,850	Q3 2023	Lingerfelt Commonwealth Partners
10460-10484 Cedar Ln	I-95 North/Ashland	NW	514,500	Q1 2023	Scannell Properties
11111 Washington Hwy	I-95 North/Ashland	NW	400,450	Q1 2024	Samet Corporation
0–12045 Harley Club Dr	I-95 S/I-295 S/Rt 10	SE	345,000	Q1 2023	Matan
2301-3001 Commerce Rd	Jeff Davis Corridor	SW	321,470	Q1 2023	Hourigan Development
801 Port Walthall Dr	Jeff Davis Corridor	SW	242,010	Q1 2023	Lingerfelt Commonwealth Partners
1701 Bermuda Hundred Rd	I-95 S/I-295 S/Rt 10	SE	187,980	Q4 2023	Lingerfelt Commonwealth Partners

Source: CBRE

FIGURE 7: Key Market Statistics

	Quadrant	Inventory (SF)	Overall Vacancy Rate (%)	Q4 Net Absorption	2022 Net Absorption	Asking Rent (NNN)	Under Construction (SF)
Warehouse	Northeast	4,958,613	1.9	137,066	(10,857)	7.30	1,158,814
	Northwest	21,268,728	7.7	2,631,836	3,375,968	6.15	1,260,000
	Southeast	32,172,353	2.7	(244,768)	2,923,861	6.27	713,830
	Southwest	24,838,025	1.2	51,460	1,554,255	5.90	579,480
	Total	83,237,719	3.5	2,575,594	7,843,227	6.16	3,712,124
Flex	Northeast	1,431,777	6.0	(14,677)	(34,205)	10.70	
	Northwest	5,203,691	3.5	10,559	32,983	11.81	44,505
	Southeast	2,433,038	1.4	(3,974)	105,286	9.71	-
	Southwest	2,581,452	6.6	17,200	(8,807)	10.05	-
	Total	11,649,958	4.0	9,108	95,257	10.85	44,505
Overall	Northeast	6,390,390	2.8	122,389	(45,062)	10.11	1,158,814
	Northwest	26,472,419	6.8	2,642,395	3,408,951	6.77	1,304,505
	Southeast	34,605,391	2.6	(248,742)	3,029,147	6.53	713,830
	Southwest	27,419,477	1.7	68,660	1,545,448	6.74	579,480
	Total	94,887,677	3.5	2,584,702	7,938,484	6.85	3,756,629

Source: CBRE



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