November 21, 2019

RESPONSES TO QUESTIONS/REQUESTS

FROM NH ADVISORY COMMISSION CHAIR

<u>Questions/Requests Sent via E-mail on November 12</u>

We have heard that the Parcel D construction may be financed independently from the rest of the proposed Navy Hill parcels. Can you please advise us if:

- The VCU-related development on Parcel D is financed separately from the rest of the NH projects and could proceed with or without the adoption of the proposed Navy Hill ordinances?

NHDC RESPONSE:

The development of Block D is integrated in the Navy Hill project, specifically included in the Master Plan and Project Schedule attached to the Development Agreement as Exhibits L and J respectively. Block D, as the other private development Blocks, may be separately financed or as part of a multi-Block financing. VCU has been identified as a tenant for Block D, just as any other tenant in the development, and the fact that the tenant is identified means the development of this Block may occur earlier than the Project Schedule requires. The Block will be a tax generating development with a credit tenant, which tenant would otherwise be exempt from taxes as a state entity.

The question of whether this Block's development could occur with or without the adoption of the proposed Navy Hill ordinances has several considerations and implications.

1. **Any development of this site requires a resolution of the GRTC bus transfer center, which is currently located there. As part of its proposed agreement with the City, Navy Hill is working in collaboration with GRTC on a suitable solution for a new GRTC transfer center location which will make development of Block D possible.**
2. **VCU wants to see the complete and coherent Navy Hill plan realized, as the certainty of the overall redevelopment is a critical factor in their program to expand west, into the Navy Hill redevelopment. The Navy Hill master plan provides a "known**

development environment" for VCU's own master planning efforts and allows for the recruitment of researchers and students who desire to live and work in a more stabilized environment.

3. **Parcels near VCU represent rational expansion possibilities for its campus, however the City wants/needs to increase its tax base, thus the build-to-suit / leaseback structure accomplishes both parties' needs, therefore is an essential structuring piece.**
4. **The infrastructure needs of the Navy Hill area are greater than the ability for one block's development to solve. Due to the significant amount of infrastructure improvements required for the area to redevelop, the costs are spread over the entire redevelopment within the Navy Hill master plan.**
5. **Developing only Block D, and not the overall project, the City and VCU would lose the opportunity to realize a replacement arena and the prospect for a much-needed convention center hotel and quality programming and renovation of the Blues armory (which would also be a part of VCU programs) would be foregone. The arena, convention center hotel and armory, and convention center itself work together in a powerfully synergistic manner to boost tourism and generate new revenue for the City.**

- The VCU-related development on Parcel D is taxable real property?

NHDC RESPONSE:

Yes. The VCU-related development on Parcel D, as proposed, will turn tax-exempt land into improved taxable property. Note that the "Form of Deed" required for conveyances of the Private Development Parcels (Exhibit B of the Purchase and Sale Agreement) includes provisions ensuring that at all times following conveyance the properties will be subject to real estate taxes.

- The City has planned or programmed funding to relocate the City uses on Parcel? If not, is there funding for such a relocation within the Navy Hill proposal?

CITY RESPONSE:

The estimated cost to relocate from the Public Safety Building is accounted for in the Fiscal and Economic Impact Analysis as well as subsequent year by year cash flows prepared by the City's financial advisor and provided to City Council and the Commission. Though the fiscal analysis and cash flows account for relocation cost in comparison to projected revenues from the project, it should be noted that independent of the Navy Hill project and regardless of whether it moves forward, relocation from the aging Public Safety Building is an objective of Justice Services (and therefore the projected cost to address the relocation is not solely related to the proposed project).

Additionally, note that as contemplated by the proposed project the City benefits from (1) avoiding the pending future cost to demolish the Public Safety Building and (2) gaining infrastructure necessary to connect E. Clay Street from 9th Street to 10th Street (i.e., through the footprint of the current building) at no cost to the City, as both the demolition and the infrastructure improvements will be performed by the developer at its sole cost.

<u>Questions/Requests Sent to Finance Department via E-mail on November 12</u>

1. The City provides real estate tax relief grants to a number of entities in the City. Can you provide a list of the current recipients of such grants within the proposed TIF boundaries and the dollar value for each grant? If there are confidentiality limitations, can you provide the aggregate amount in each of the last five years for any properties within the TIF boundaries? Can you project the aggregate value of such grants over the next ten years? Could any of the proposed Navy Hill projects qualify for such a grant?

FINANCE RESPONSE:

The Finance Department administers the Tax Relief for the Elderly and Disabled Program for those eligible according to income and net worth guidelines, as related to a primary residence. That doesn't appear applicable to this question.

Any grants that would involve the return of real estate taxes (through the Economic Development Authority) paid by a property owner would be administered by the Department of Economic Development and be approved by City Council in the annual budget. It appears that there

are currently no such grants of real estate taxes within the Increment Financing Area.

2. We are starting to evaluate the restaurant revenue projections. Can you please provide us with some basic information on the restaurants within the TIF boundary:
    a. The number of restaurants within the TIF boundary as of June 30 2019?

       FINANCE RESPONSE:

       The Finance Department is able to provide a list of restaurants that have active business licenses citywide in 2019, but we don't categorize them by geography.

    b. The meals and local sales tax generated by Richmond restaurants within the TIF boundary in FY 19 and projected for FY 20

       FINANCE RESPONSE:

       The Finance Department does not track or project revenues by business district, they are only reported on a citywide basis. Sales taxes are remitted to the Virginia Department of Taxation, and then the 1% local option portion is distributed to localities once per month.

    c. The real estate taxes generated by Richmond restaurants within the TIF boundary in FY 19 and projected for FY 20

       FINANCE RESPONSE:

       The real estate tax revenues projected for FY2020 associated with properties in the Increment Financing Area would equate to the taxable values provided by the City Assessor, applying a presumed 97% collection rate.

3. We are starting to evaluate the hotel revenue projections. Can you please provide us with some basic information on the hotels within the TIF boundary:

    a. The number of hotels within the TIF boundaries as of today?

       FINANCE RESPONSE:

Please see the response to 2(a) above.

b. The lodging and sales taxes generated by Richmond hotels within the TIF boundary in FY 19 and projected for FY 20?

FINANCE RESPONSE:

Please see the response to 2(b) above. If there are only a small number of hotels in a given sample, revenue information cannot be disclosed in accordance with Code of Virginia 58.1-3.

c. The real estate taxes generated by Richmond hotels within the TIF boundary in FY 19 and projected for FY 20?

FINANCE RESPONSE:

Please see the response to 2(c) above.

d. Who in the City or the Visitors Bureau can provide a STAR report for the hotels within the TIF boundary?

FINANCE RESPONSE:

If this is a reference to a Smith Travel Accommodations Report program, that isn't used by any City department to my knowledge.

Questions/Requests Sent Via E-mail on November 5

- Completion of our initial data requests, including:

    - Item 21 (City financial support for entertainment and tourism venues)

      RESPONSE:

      We anticipate finalizing the process of gathering and compiling the requested information sometime tomorrow (Nov. 22).

    - Item 22 (estimated of the number multifamily units constructed in downtown in each of the last five years)

      RESPONSE:

Relevant data regarding the recent historical growth in downtown multifamily residential units including total units by quarter is delineated in the analysis conducted by Hunden Strategic Partners. For your convenience, please see attached to this e-mail the relevant pages of the residential market analysis from the Hunden report. Note that the data contained in the Hunden analysis is specific to the area "north of the James River, south and east of I64/I95 and east of Belvidere Street."

For additional information, please see Appendix F to NHDC's original Proposal, which contains a market analysis conducted by HR&A showing multifamily residential data for a larger footprint (e.g., includes Manchester as well as certain areas east of I95/I64 such as Shockoe Bottom and West of Belvidere such as Oregon Hill).

- As we begin our due diligence on the NH project timelines and their assessed value, we will need CITY review and verification of the following Municap data and developer agreements:
    - Timing of completion and financial commitment to Blocks A2, A3, C, E & F in 2024
    - Timing of completion and financial commitment to Blocks B, D, U in 2025
    - Timing of completion and financial commitment to Blocks I & N in 2026

RESPONSE:

In order to ensure we respond appropriately, can you please provide clarity as to precisely what additional information you are seeking with this request?

- As we begin our evaluation of the impact on state aid education aid, we will also need the estimated value of leasehold interest on Arena Block A1 in 2024

RESPONSE:

Determinations as to the taxable leasehold value of real estate owned by an tax exempt entity and leased to a 501(c)(3) entity are in the purview of the City Assessor.

Richmond North of Broad/Downtown Redevelopment Project Analysis

Submitted to:

Davenport & Company LLC, on behalf of the City of Richmond

October 31, 2018

TABLE OF CONTENTS

Multi-Family (Rental) Market Inventory

The following table provides a look at downtown Richmond's residential market performance over the past six years. Note that downtown in this study is defined as everything north of the James River, south and west of I64/I95, and east of Belvidere Street.

Table 6-2

Downtown Richmond Historic Residential Market

Quarter	Inventory Buildings	Inventory Units	Inventory Average SF	Asking Rent Per Unit	Effective Rent Per Unit	Avg. Effective Rent Per SF	Occupancy	Vacancy
QTD	113	4,469	760	$1,183	$1,164	$1.53	91.9%	8.1%
2018 Q2	112	4,465	760	$1,184	$1,166	$1.53	93.3%	6.7%
2018 Q1	111	4,448	760	$1,180	$1,158	$1.52	93.9%	6.1%
2017 Q4	111	4,448	760	$1,170	$1,153	$1.51	94.8%	5.2%
2017 Q3	111	4,448	760	$1,163	$1,139	$1.49	92.7%	7.3%
2017 Q2	111	4,448	760	$1,169	$1,158	$1.52	93.5%	6.5%
2017 Q1	114	4,459	760	$1,180	$1,158	$1.52	93.2%	6.8%
2016 Q4	114	4,459	760	$1,191	$1,174	$1.54	92.6%	7.4%
2016 Q3	113	4,446	760	$1,200	$1,183	$1.55	90.5%	9.5%
2016 Q2	112	4,399	760	$1,165	$1,149	$1.51	86.0%	14.0%
2016 Q1	112	4,399	760	$1,128	$1,113	$1.46	85.5%	14.5%
2015 Q4	108	3,968	770	$1,093	$1,082	$1.42	90.4%	9.6%
2015 Q3	108	3,968	770	$1,074	$1,070	$1.40	90.2%	9.8%
2015 Q2	108	3,968	770	$1,058	$1,054	$1.38	90.2%	9.8%
2015 Q1	108	3,968	770	$1,043	$1,039	$1.36	90.5%	9.5%
2014 Q4	108	3,968	770	$1,026	$1,017	$1.33	90.9%	9.1%
2014 Q3	108	3,968	770	$1,015	$1,003	$1.31	90.0%	10.0%
2014 Q2	106	3,790	780	$1,033	$1,025	$1.34	90.9%	9.1%
2014 Q1	105	3,725	782	$1,040	$1,020	$1.34	90.9%	9.1%
2013 Q4	105	3,725	782	$1,035	$1,018	$1.32	91.2%	8.8%
Absolute Change	**8**	**744**	**-22**	**$148**	**$146**	**$0.21**	**0.7%**	**-0.7%**
Percentage Change	**7.6%**	**20%**	**-2.8%**	**14%**	**14%**	**16%**	**0.8%**	**-8.0%**

Source: CoStar

The downtown Richmond historic residential market has grown and improved in virtually every metric since the fourth quarter of 2013. Supply of residential buildings and units has increased, asking and effective rents have increased and occupancy has improved as well.

- **Supply** – The eight multifamily buildings added to the market since the second quarter of 2014 have added nearly 750 units or 20 percent and have been much larger on average with approximately 93 units per building compared to 38 units per building previously. During this same period multiple closings have occurred alongside the development of new projects. The growth in supply shown is net of the closings.
- **Rent** – Asking and effective rents per unit increased by nearly $150 during the period, representing an increase of 14 percent. The rent increases have occurred despite the slight cutback in unit square footage, which is illustrated in the greater percentage increase in effective

rent per square foot relative to unit rental rate increases. Effective rents were $14 less per month than asking rents, which is a 1.3-percent discount or concession on average. This low discount percentage indicates that asking rents are very near market rate and demand is strong for the market.

- **Occupancy** – Overall, occupancy has remained stable above 90 percent during most of the period. For the first half of 2016, occupancy remained below 90 percent at approximately 86 percent. Shortly thereafter occupancy increased steadily to nearly 95 percent in the fourth quarter of 2017. Occupancy has returned to a more average level in 2018.

Downtown Richmond has been growing and performing at a high level for the past few years. The market's ability to absorb the new inventory while increasing rental rates year-over-year bodes very well for the future.

The following table provides an illustrative list of apartment properties in downtown Richmond.

Table 6-3

Downtown Richmond Multifamily - Top 20 Overview

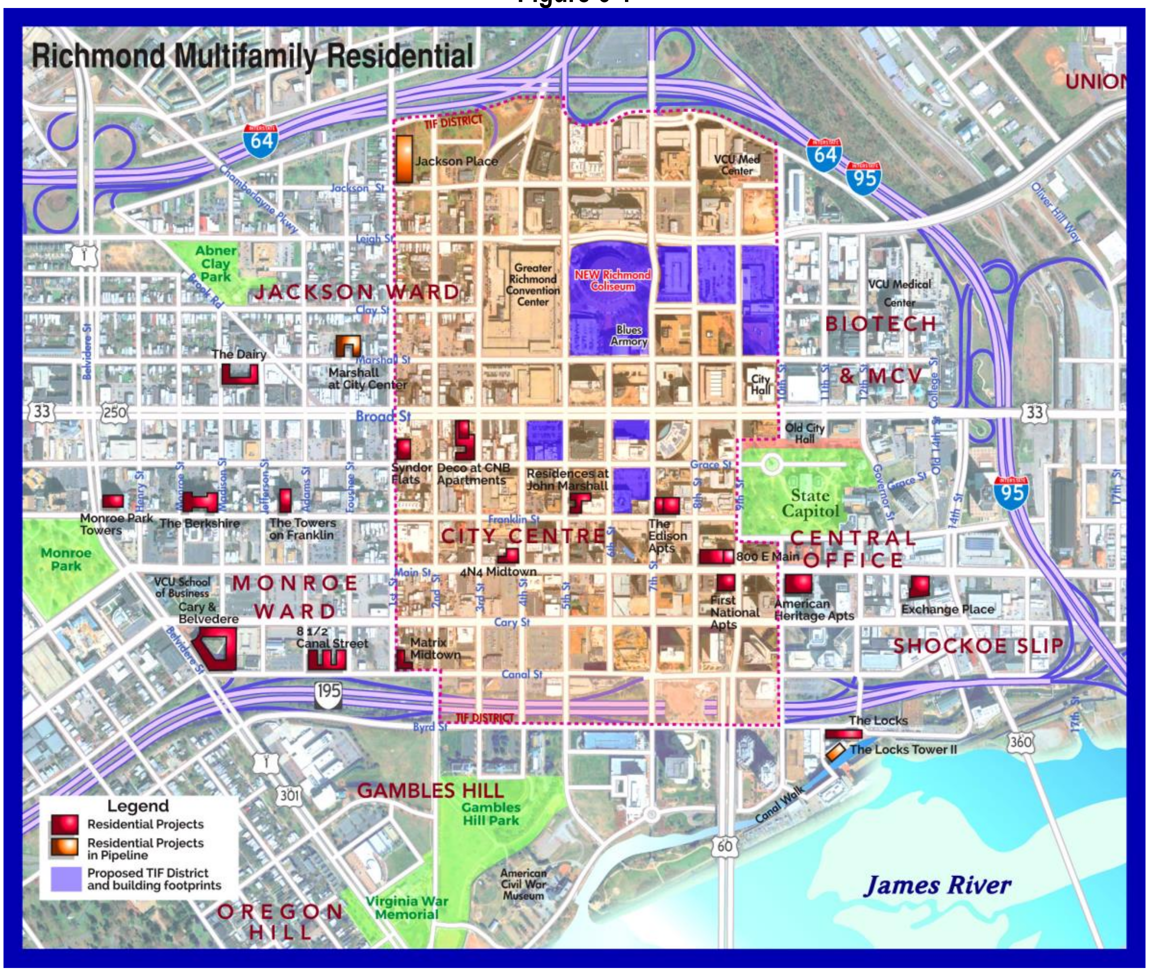
Name	Address	Opened	Units	Occupancy
Marshall at City Center	2 W Marshall Street	U/C	166	--
The Locks Tower	311 S 11th Street	U/C	10	--
Jackson Place	N 1st Street	Proposed	154	--
8th & Main	800 E Main Street	2016	197	100%
Deco at CNB	219 E Broad Street	2016	200	89%
Matrix Midtown	119 N 1st Street	2016	47	100%
Exchange Place	1313 E Main Street	2014	65	89%
The Edison Apartments	700 E Franklin Street	2014	174	97%
4N4 Midtown	4 N 4th Street	2013	76	97%
The Locks	311 S 11th Street	2012	226	97%
8 1/2 Canal Street	8 1/2 E Canal Street	2011	160	100%
Cary and Belvidere	301-375 W Cary Street	2008	155	100%
Monroe Park Towers	520 W Franklin Street	1972	180	97%
The Berkshire	300 W Franklin Street	1964	234	99%
The Towers on Franklin	104 W Franklin Street	1964	332	56%
Sydnor Flats	108 E Grace Street	1930	54	96%
Residences at the John Marshall	101 N 5th Street	1929	241	93%
First National Apartments	823 E Main Street	1913	154	91%
American Heritage Apartments	1001 E Main Street	1909	56	86%
The Dairy	201 W Marshall Street	1895	113	90%
Average		**1976**	**150**	**93%**

Source: CoStar

Nearly half of the Top 20 downtown residential properties have been built since 2008, while three more are proposed or currently under construction. There is generally a positive correlation between the year constructed of a property and its occupancy level in the downtown Richmond market. The new residential pieces of the North of Broad Project could expect the same positive correlation, since the market appears ready to absorb more inventory as it becomes available.

The following figure details the location of the current top 20 largest multi-family residences in downtown Richmond.

Figure 6-1



Most of the Top 20 residential buildings in downtown Richmond are located between Canal Street and Broad Street between US 301 and 9th Street and are located within one mile of the State Capitol building.

The following table shows the average rental rates for the Top 20 properties analyzed.

Table 6-4

Downtown Richmond Multifamily - Top 20 Average Rental Rates

Name	Opened	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4 Bedroom
Marshall at City Center	U/C	--	--	--	--	--
The Locks Tower	U/C	--	--	--	--	--
Jackson Place	Proposed	--	--	--	--	--
8th & Main	2016	--	$1,350	$1,713	--	$2,398
Deco at CNB	2016	$1,141	$1,144	$1,882	--	--
Matrix Midtown	2016	--	$1,225	$1,759	$2,101	--
Exchange Place	2014	--	$1,172	$1,495	--	--
The Edison Apartments	2014	$908	$1,067	$1,403	$1,989	--
4N4 Midtown	2013	--	$1,110	$1,501	--	--
The Locks	2012	--	$1,288	$1,708	--	--
8 1/2 Canal Street	2011	--	$1,294	$1,666	$2,319	$2,944
Cary and Belvidere	2008	$904	$1,029	$1,506	--	--
Monroe Park Towers	1972	$832	$968	$1,283	$1,885	--
The Berkshire	1964	--	$981	$1,478	$2,000	--
The Towers on Franklin	1964	$895	$1,109	$1,882	--	--
Sydnor Flats	1930	--	$940	$1,124	--	--
Residences at the John Marshall	1929	$1,087	$1,430	$1,795	--	--
First National Apartments	1913	$1,410	$1,524	$1,865	$2,325	--
American Heritage Apartments	1909	--	$1,114	$1,634	$2,464	--
The Dairy	1895	$610	$736	$955	--	--
Average Per Apartment		**$973**	**$1,146**	**$1,568**	**$2,155**	**$2,671**
Average Per Bedroom		**$973**	**$1,146**	**$784**	**$718**	**$668**

Source: CoStar

This pricing schedule is for various floor plans in each of the Top 20 buildings. Information is not available for Jackson Place, the Locks Tower and Marshall at City Center which are not yet open. The downtown Richmond market offers apartments ranging from studios to four bedrooms. One bedrooms and studios are by far the most expensive apartments on a per bedroom basis, which is expected. The most expensive apartments are the four-bedrooms at the 8 ½ Canal Street building, priced at $2,944 per month. The least expensive apartment is a studio at The Dairy, which is the oldest property in the Top 20 and is $610 per month.

The following table shows the average square foot per unit type.

Table 6-5

Downtown Richmond Apartments - Top 20 Average Unit Size (SF)						
Name	**Opened**	**Studio**	**1 Bedroom**	**2 Bedroom**	**3 Bedroom**	**4 Bedroom**
Marshall at City Center	U/C	--	--	--	--	--
The Locks Tower	U/C	--	--	--	--	--
Jackson Place	Proposed	--	--	--	--	--
8th & Main	2016	--	675	1,019	--	2,706
Deco at CNB	2016	449	522	897	--	--
Matrix Midtown	2016	--	596	951	1,243	--
Exchange Place	2014	--	618	909	--	--
The Edison Apartments	2014	432	542	866	1,144	--
4N4 Midtown	2013	--	566	977	--	--
The Locks	2012	--	651	971	--	--
8 1/2 Canal Street	2011	--	497	824	995	1,198
Cary and Belvidere	2008	447	637	825	--	--
Monroe Park Towers	1972	469	580	786	1,390	--
The Berkshire	1964	--	873	1,462	2,000	--
The Towers on Franklin	1964	403	651	1,150	--	--
Sydnor Flats	1930	--	863	853	--	--
Residences at the John Marshall	1929	481	756	1,147	--	--
First National Apartments	1913	663	857	1,296	2,028	--
American Heritage Apartments	1909	--	594	973	1,977	--
The Dairy	1895	350	548	853	--	--
Average		**462**	**649**	**986**	**1,540**	**1,952**
Average per Bedroom		**462**	**649**	**493**	**513**	**488**

Source: CoStar

Apartments in downtown Richmond range in size from a 350-square-foot studio to a more than 2,700-square-foot four-bedroom property. The smallest apartments, the studios at the Dairy, also happen to be the least expensive. The most expensive apartment is 1,200 square feet for a four-bedroom which is considerably smaller than the largest in the market which has more than 2,700 square feet.

On average, one-bedroom apartments offer the most space per bedroom of any apartment type in the market with nearly 650 square feet. Two-, three- and four-bedroom apartments are within 25 square feet of each other on a per bedroom basis averaging approximately 500 square feet.

The following table shows the average price per square foot for each unit type.

Table 6-6

Downtown Richmond Multifamily - Top 20 Rent per SF

Name	Opened	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4 Bedroom
Marshall at City Center	U/C	--	--	--	--	--
The Locks Tower	U/C	--	--	--	--	--
Jackson Place	Proposed	--	--	--	--	--
8th & Main	2016	--	$2.00	$1.68	--	$0.89
Deco at CNB	2016	$2.54	$2.19	$2.10	--	--
Matrix Midtown	2016	--	$2.06	$1.85	$1.69	--
Exchange Place	2014	--	$1.90	$1.64	--	--
The Edison Apartments	2014	$2.10	$1.97	$1.62	$1.74	--
4N4 Midtown	2013	--	$1.96	$1.54	--	--
The Locks	2012	--	$1.98	$1.76	--	--
8 1/2 Canal Street	2011	--	$2.60	$2.02	$2.33	$2.46
Cary and Belvidere	2008	$2.02	$1.62	$1.83	--	--
Monroe Park Towers	1972	$1.77	$1.67	$1.63	$1.36	--
The Berkshire	1964	--	$1.12	$1.01	$1.00	--
The Towers on Franklin	1964	$2.22	$1.70	$1.64	--	--
Sydnor Flats	1930	--	$1.09	$1.32	--	--
Residences at the John Marshall	1929	$2.26	$1.89	$1.56	--	--
First National Apartments	1913	$2.13	$1.78	$1.44	$1.15	--
American Heritage Apartments	1909	--	$1.88	$1.68	$1.25	--
The Dairy	1895	$1.74	$1.34	$1.12	--	--
Average		**$2.10**	**$1.81**	**$1.61**	**$1.50**	**$1.67**

Source: CoStar

Rent on a per square foot basis ranges from $0.89 to $2.60 in downtown Richmond. Studio apartments average the highest rent per square foot of the floor plan types. The most expensive floor plan is a one-bedroom apartment at 8 ½ Canal Street, which is the most expensive property overall in the downtown Richmond market.

New Developments

The following section profiles the recent developments in downtown Richmond.

Marshall at City Center

Marshall at City Center is a market-rate apartment building in downtown Richmond located at 2 West Marshall Street. Marshall at City Center's 166 units are currently under construction on a one-acre plot and will stand 5 stories tall with interior spaces totaling 115,000 square feet. The property will also offer 165 surface parking spaces. SNP Properties, LLC owns and is developing Marshall at City Center and has contracted Drucker & Falk to manage the property once completed.

The following figure shows a rendering of the Marshall at City Center apartment building.

Figure 1-2

Marshall at City Center will offer 66 studio apartments, 67 one-bedrooms and 33 two-bedrooms upon completion. All units will have access to a private balcony.

8th and Main Apartments

Located at 800 East Main Street, 8th and Main is a mid-rise apartment building that was completed in 2016. The 11-floor building offers 197 market-rate apartments within 200,000 square feet of interior space on approximately three-quarters of an acre. The property also offers 220 parking spaces in an attached parking garage.

The following figure shows the exterior and rooftop of the 8th and Main apartment building.

Figure 6-3

There are 176 one-bedroom apartments 18 two-bedrooms and 3 four-bedrooms at 8th and Main,. The one-bedroom apartments average 675 square feet, a monthly rent of $1,350 and a per square foot rent of $2. Two-bedroom apartments average approximately 1,000 square feet, $1,700 per month and $1.70 per square foot. The four-bedroom apartments are much larger at more than 2,700 square feet and also come at large discount, averaging nearly $0.90 per square foot and $2,400 per month.

Performance at 8th and Main is perfect in terms of occupancy at 100 percent. Concessions to maintain this level of occupancy are very low at approximately 0.2 percent on average relative to the market.

Deco at CNB

The Deco at CNB apartment building is a high-rise, market-rate property located at 219 East Broad Street on more than one-half of an acre. Completed in 2016, Deco at CNB offers 200 studio, one-bedroom and two-bedroom apartments and nearly 265,000 square feet on 23 floors.

The following figure shows the exterior of the Deco at CNB apartment building.

Figure 6-4

The mix of 200 apartments is two-thirds one-bedrooms with a nearly equal number of studios and two-bedrooms, totaling the remaining third. Studios and one-bedroom apartments are priced almost identically around $1,145 on average, while the two-bedroom apartments are similarly priced to one-bedrooms on a per square foot basis at $2.10.

The Deco at CNB currently has an occupancy rate of 89 percent, which seems to be a function of relatively expensive pricing and smaller than average unit sizes. Deco's one-bedroom apartments are 522 square feet on average, which is more than 120 square feet smaller than the market average. Deco's two-bedroom apartments are nearly 100 square feet smaller than the market average at 897 square feet. Deco at CNB has had to offer concessions averaging five percent on its one-bedroom apartments, which is much higher than the market average on concessions of 1.6 percent for 2018 year-to-date.

Demand and Stakeholder Feedback

Developers, residential brokers and key stakeholders in the downtown Richmond market provided Hunden Strategic Partners with specific and insightful feedback regarding residential nodes and developments. The following comments represent the themes and trends shared with HSP.

- Residential renovations are more common than new construction.
- Conversions in the market are made possible through tax credits.

- Major apartment offerings are south of downtown and the river in Manchester; new high rises are being constructed with a view of the James River.
- Scott's Addition is the newest residential neighborhood to emerge with popularity and will compete for young professionals who do not consider commute time a top priority; Scott's Addition lags behind other comparable neighborhoods in rental per SF.
- Belvidere, serving as the western border of downtown in this study, is a student housing node not a multi-family node currently.
- Major investments are being made by equity from larger markets, such as Washington D.C and New York.
- In addition to the need for more residential options for rent, there is demand for condos; there is currently very little for sale in downtown Richmond.

Implications

The residential market in downtown Richmond has expanded and improved in recent years with steady rental rate growth and a market occupancy rate consistently higher than 90 percent. Demand has continued to grow due to the growth in area employment. MCV and BioTech Park are growing and employing more people which means that apartments are needed to serve downtown workers. These are two large employers downtown currently with several suburban offices relocating downtown as well. The young workforce wants a shorter commute (walk/bike). As the office market grows and improves, the residential market will need do the same. This provides huge opportunity for the proposed residential components of the North of Broad Project.

TABLE OF CONTENTS

OFFICE MARKET ANALYSIS

In this chapter, HSP will analyze the current downtown Richmond office market and consider the feasibility of new office development. The chapter will first look at the entirety of Richmond's office market before focusing in on the Class A market. This will allow for an overarching understanding of the market when focusing on offices similar to those being proposed in this development. Hunden Strategic Partners conducted several interviews with office brokers knowledgeable about the downtown Richmond market to understand the market both as it is today and could be going forward.

Office buildings are categorized into Classes A, B and C based on quality and other important factors. Class A office buildings are typically new, high-quality buildings that are well located with good access and professional management. Office buildings are typically developed as Class A and, as time passes and newer, better buildings open, regress into Class B and Class C. Parameters for each class are not explicit or standard. Classes are used as a relative ranking system to group buildings of similar quality for leasing and market data collection.

Data presented in this chapter includes all three classes at the market level, but HSP focuses on Class A office space in downtown Richmond because the Project's office components will be Class A when developed.

The North of Broad Project proposes 740,000 SF of new office and research space. The Project proposes 200,000 SF of multi-tenant office space to be set on block A3, near the Coliseum. A single-tenant research facility of 540,000 SF is planned to be leased by the VCU Neuroscience Department on Block D.

The following table depicts the office space proposed within the development.

Table 7-1

Proposed Office

Block	SF	Type
A3	280,000	Multi-Tenant
D	510,000	Single-Tenant

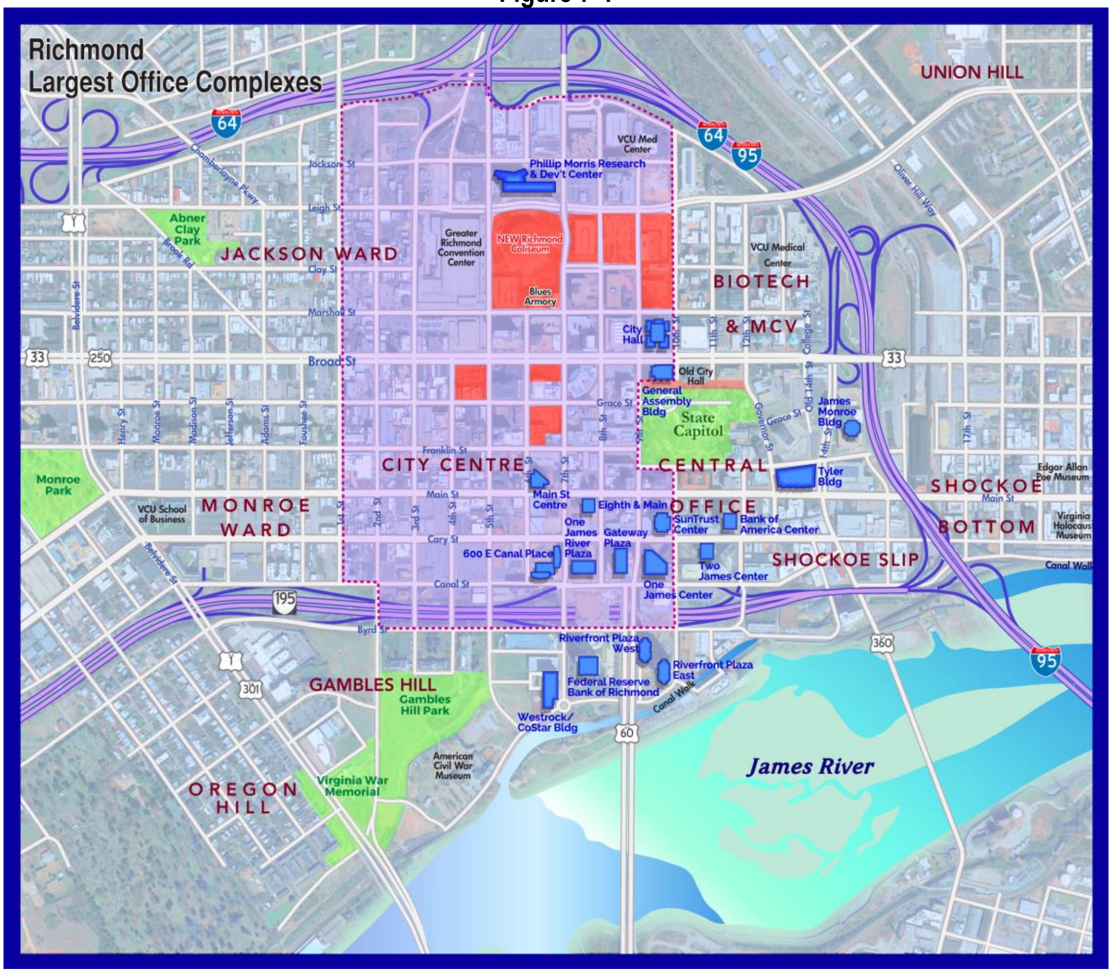
Source: Capital City Development, LLC

Richmond Office Market Overview

Currently, there are a total of 22 Class A buildings in downtown Richmond. Much of the downtown office market is shaped by government offices and office space related to Virginia Commonwealth University and their buildings shape the face of downtown Richmond. While almost a dozen Fortune 1,000 companies are headquartered in the Greater Richmond area, the majority of office space is middle-sized. Employers are drawn to Richmond as office spaces are much less expensive than major cities such as New York, Boston and Washington, D.C. In addition to cost savings for office space, employers can save on average of 15 percent on labor costs compared to the same major East Coast cities. A strong set of regional universities and a lower cost of living in Richmond allows employers to successfully acquire talent even at lower wages, making Richmond an increasingly attractive location for employers to locate.

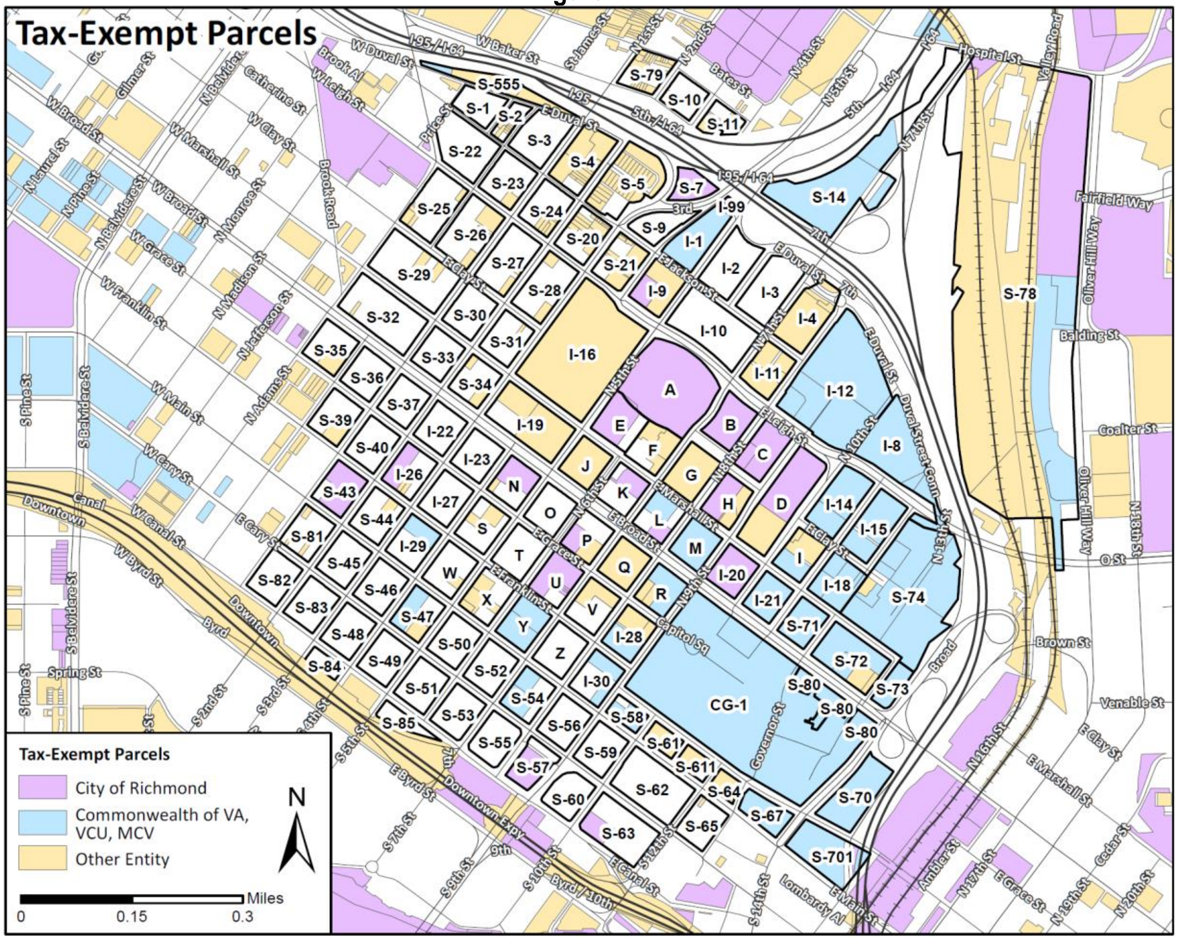
The figure below shows the current inventory of the largest office spaces in downtown Richmond.

Figure 7-1



While government office space and VCU office space contribute greatly to the workforce and culture of downtown, these buildings are entities are exempt from real estate taxes. The below figure shows which real estate parcels downtown are owned by the Commonwealth of Virginia, the City of Richmond, and other public entities that do not pay taxes (i.e. Universities).

Figure 7-2



This map shows much of the downtown area consists of tax-exempt parcels. Only the white areas on the map are taxable. The proposed project will help this situation.

The following table shows an overview of the total office supply in downtown Richmond and is broken down between class A, B and C.

Table 7-2

Downtown Richmond Office Supply

Building Class	Overall Total SF	Inventory Buildings	Occupied %	Vacant %
A	6,771,327	22	90.8%	9.2%
B	6,758,700	87	94.0%	6.0%
C	2,938,905	168	97.0%	3.0%
Total	**16,468,932**	**277**	**95.6%**	**4.4%**

Source: CoStar

Class A office space is the largest category of office space in the downtown Richmond market, and includes the largest buildings. Class A does have the lowest occupancy rate, but as is evidenced by the below table, has experienced occupancy growth at a greater rate than the other classes over the past two years.

The below table shows the 20 largest office buildings in downtown Richmond.

Table 7-3

Richmond Office Supply - Largest Buildings by SF

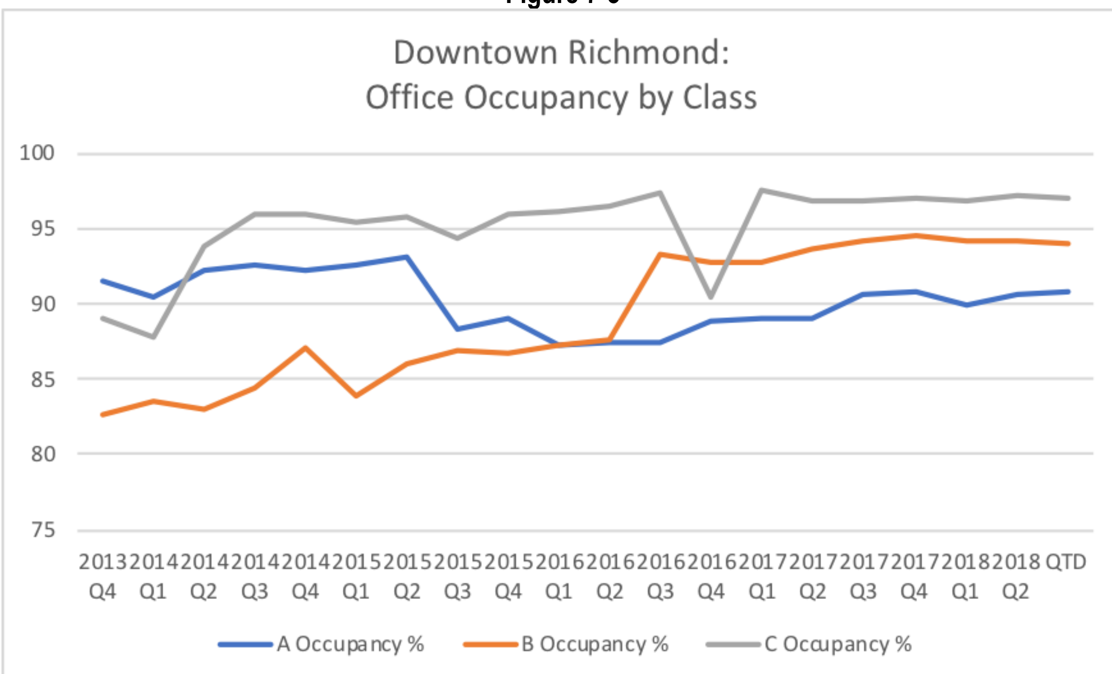
Property	Address	Class	Size (SF)	Opened	Tenancy
700 Canal Place	701 E. Cary St.	A	911,000	Proposed	Single-Tenant
Federal Reserve Bank of Richmond	701 E. Byrd St.	A	700,000	1978	Multi-Tenant
West Tower - Riverfront Plaza	901 E. Byrd St.	A	490,865	1990	Multi-Tenant
East Tower - Riverfront Plaza	951 E. Byrd St.	A	461,032	1989	Multi-Tenant
SunTrust Center	919 E. Main St.	A	460,084	1982	Multi-Tenant
600 Canal Place	600 E. Canal Pl.	A	450,000	U/C	Single-Tenant
Phillip Morris Research & Development Center	601 E. Jackson St.	A	450,000	2007	Single-Tenant
One James Center	901 E. Cary St.	A	426,096	1985	Multi-Tenant
Main Street Centre	600 E. Main St.	A	424,761	1987	Multi-Tenant
One James River Plaza	701 E. Cary St.	A	414,750	1977	Single-Tenant
Two James Center	1021 E. Cary t.	A	340,974	1986	Multi-Tenant
Gateway Plaza	800 E. Canal St.	A	330,000	2015	Multi-Tenant
Westrock/CoStar Building	501 S. 5th St.	A	310,950	2008	Multi-Tenant
Average Class A			**474,655**	**1991**	
James Monroe Building	101-109 N. 14th St.	B	815,967	1976	Single-Tenant
The Bank of America Center	1111 E. Main St.	B	513,479	1973	Multi-Tenant
Richmond Plaza Building	111 S. 6th St.	B	383,396	1974	Multi-Tenant
City Hall	900 E. Broad St.	B	373,824	1968	Single-Tenant
General Assembly Building	911 E. Broad St.	B	363,419	1906	Single-Tenant
Eight & Main Building	707 E. Main St.	B	325,000	1976	Multi-Tenant
Tyler Building	1300 E. Main St.	B	296,000	1992	Single-Tenant
Average Class B			**438,726**	**1966**	
Average - Overall			**440,076**	**1982**	

Source: CoStar

Other than the development of Gateway Plaza, no new large office development has occurred in recent years and the average age of the properties is more than 35 years. However, Dominion Tower and 700 Canal Place, currently under construction and proposed, respectively, will be constructed by Dominion. These towers are planned to be single-tenant, however, and therefore would not inject any new supply to other firms seeking to enter the Richmond market. Many of the buildings shown in the table above are multi-tenant properties, yet beyond the largest buildings in the market, many are single-tenant buildings for city, state and federal government, hospital facilities and Virginia Commonwealth University. While these single-tenant buidlings do not provide additional space for the office market in downtown Richmond, they do house thousands of daytime employees. A portion of the single-tenant buildings are corporate headquarters, which provide high-compensation employment in the downtown area adjacent to the Project site.

The below figure illustrates occupancy rates for Office classes A, B, and C in downtown Richmond.

Figure 7-3



All classes of office have trended upward since 2016. Class C has maintained the strongest occupancy rates, above 95 percent since the beginning of 2017, while Class B has been nearing 95 percent and Class A surpassed 90 percent the past five quarters.

A lack of large contiguous spaces in Class A multi-tenant buildings hinders the ability to attract large tenants and dampens performance of the market.

The following table shows the historic office supply and performance for downtown Richmond.

Table 7-4

Downtown Richmond Historic Class A Office Market					
Year	Inventory SF	Occupied SF	Occupancy Percent	Net Absorption SF Total	Office Gross Rent
QTD	6,771,327	6,145,983	90.80%	10,122	$24.22
2018 Q2	6,771,327	6,135,861	90.60%	48,023	$24.16
2018 Q1	6,771,327	6,087,838	89.90%	-60,197	$24.36
2017 Q4	6,771,327	6,148,035	90.80%	9,588	$23.99
2017 Q3	6,771,327	6,138,447	90.70%	102,094	$23.75
2017 Q2	6,771,327	6,036,353	89.10%	10,268	$23.66
2017 Q1	6,771,327	6,026,085	89.00%	10,435	$23.40
2016 Q4	6,771,327	6,015,650	88.80%	100,171	$23.64
2016 Q3	6,771,327	5,915,479	87.40%	-4,991	$23.27
2016 Q2	6,771,327	5,920,470	87.40%	12,986	$23.52
2016 Q1	6,771,327	5,907,484	87.20%	-127,148	$24.34
2015 Q4	6,771,327	6,034,632	89.10%	56,820	$24.35
2015 Q3	6,771,327	5,977,812	88.30%	-21,690	$24.37
2015 Q2	6,441,327	5,999,502	93.10%	34,760	$24.37
2015 Q1	6,441,327	5,964,742	92.60%	24,806	$24.43
2014 Q4	6,441,327	5,939,936	92.20%	-15,878	$23.87
2014 Q3	6,441,327	5,955,814	92.50%	18,861	$24.54
2014 Q2	6,441,327	5,936,953	92.20%	110,852	$24.90
2014 Q1	6,441,327	5,826,101	90.40%	169,976	$24.85

Source: CoStar

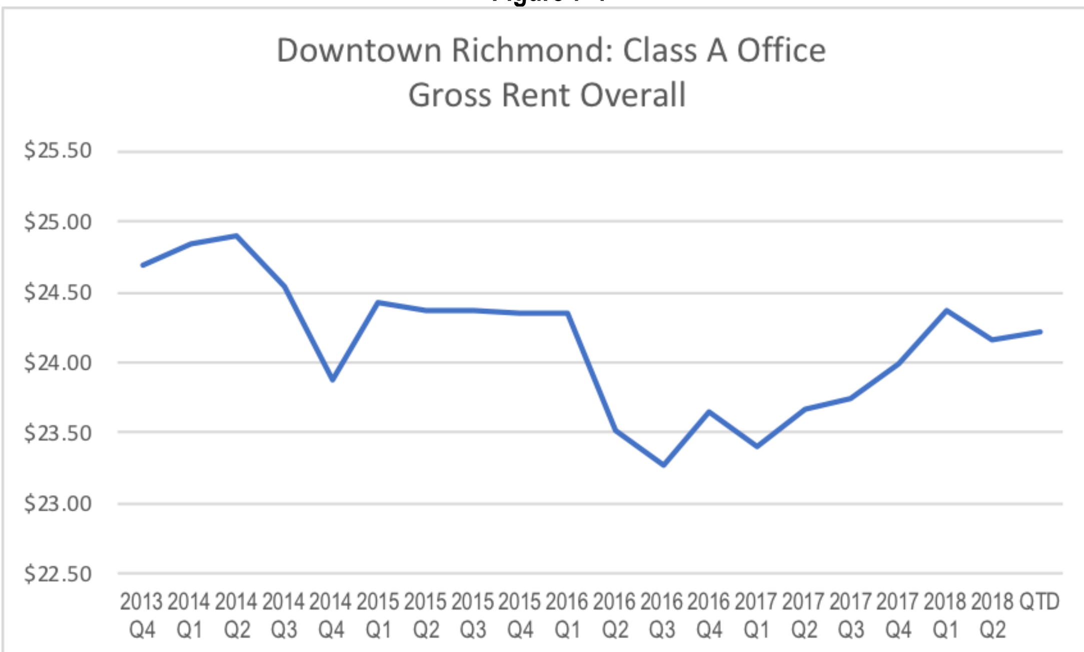
Class A office inventory increased marginally by 330,000 square feet or five percent to nearly 6.8 million square feet since the first quarter of 2014. Delivery of the new space in the third quarter of 2015 caused a nearly five-percentage-point drop in occupancy that has still not been completely absorbed. Total occupied square feet in Class A office downtown has increased by more than 300,000 during the period, though occupancy remains below its peak during the period in the second quarter of 2015.

Office gross rent per square foot decreased slightly during the period shown. The second quarter of 2014 had the highest gross rent at $24.90 per square foot. The slow absorption of the new supply inspired a 3.3 percent dip in rental rates three quarters after delivery. Rates hovered between $23 and $24 per square foot until surpassing $24 in the first quarter of 2018. Rates have remained at more than $24 since then.

Overall, the lease rate of Class A office space in downtown Richmond is slowly improving, yet still catching up to performance levels experienced in 2014 and 2015.

The figure below illustrates the overall gross rent per SF for Class A office space over the past six years.

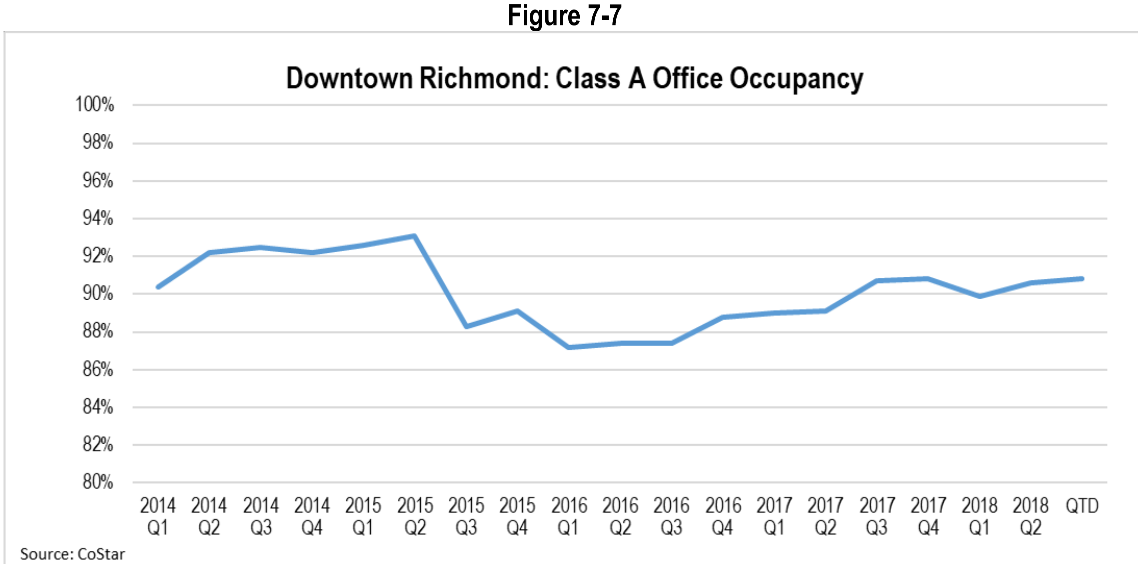
Figure 7-4



The figure above indicates that rental rates are recovering from the dip that began in early 2016, just as occupancy rates fell the year before. Absorption is occurring slowly, and as occupancy levels continue to increase rental rates will be compressed upward as the availability of space decreases.

The following figure displays the occupancy rates over the past four years.

Figure 7-7



Occupancy rates have increased since 2016 when occupancy was nearly 87 percent. Occupancy rates in 2018 have been slightly more than 90 percent and trending upward, another indicator that additional supply could be absorbed.

Building Profiles

In order to add context to the office market in downtown Richmond, this section presents profiles of three of the largest buildings in the market. Presented will be the newest building, Gateway Plaza, and the two largest Class A multi-tenant buildings, the Federal Reserve Back of Richmond building and the West Tower of Riverfront Plaza.

Gateway Plaza

Gateway Plaza is the newest large office building to be completed in downtown Richmond. It was opened in 2015 and was the first office delivery of this size in downtown Richmond in seven years. Gateway Plaza is 19 stories tall with 330,000 rentable square feet on nearly 1.5 acres. The building also offers 619 parking spaces, which is a ratio of 1.62 spaces per 1,000 square feet.

The following figure shows the Gateway Plaza.

Figure 7-5

Gateway plaza is performing adequately compared to the overall market. Asking rental rates are higher than average, while vacancy is also higher than the market average. Asking rates are currently approximately $30 per square foot. Gateway Plaza has two vacant spaces, or nearly 26,000 square feet, and more than 17,000 square feet for a total of nearly 43,000 square feet or 13 percent.

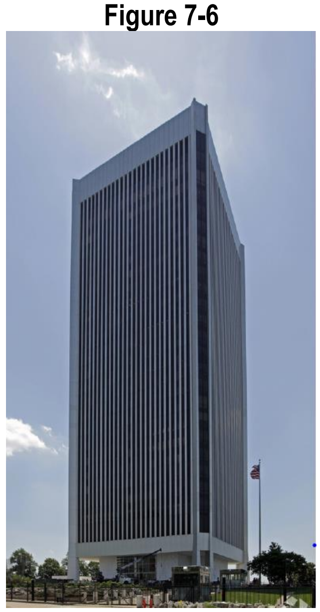
As the downtown Richmond market becomes more popular for office tenants, a wider variety of tenants and tenant sizes will be looking for space, which help fill in the smaller vacancies that exist in Gateway Plaza and many other multi-tenant buildings.

Federal Reserve Bank of Richmond

The Federal Reserve Bank of Richmond building was opened in 1978 and remains a Class A office building in the downtown Richmond market. It offers 700,000 rentable square feet on 26 floors and nearly eight acres, the second most of any building in downtown Richmond and the most for a Class A building. The Reserve building also offers nearly 850 parking spaces, 400 covered and the rest surface parking.

The following figure shows the Federal Reserve Bank of Richmond.

Figure 7-6



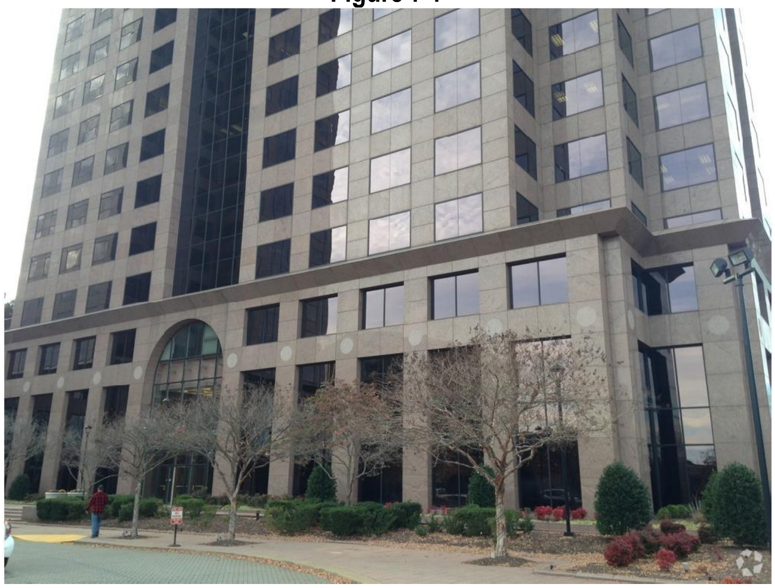
The Reserve building is the oldest Class A multi-tenant building in the downtown Richmond market. Despite its age, it is performing very well. There are currently no vacancies in the building, which is at least partially driven by the lower asking rents. Asking rents are approximately $21 per square foot, which is on the lower end of the spectrum in the Class A market.

West Tower – Riverfront Plaza

The Riverfront Plaza consists of two office buildings, the East Tower and the West Tower. The West Tower is the larger of the two with more than 490,000 square feet of rentable space. It is also the newer of the two towers being completed in 1990. The West Tower is 22 stories tall and sits on 3.8 acres of land. It also offers approximately 1,150 surface parking spaces for tenants and guests.

The following figure shows the West Tower of Riverfront Plaza.

Figure 7-7



The West Tower is operating very near the average of the downtown Richmond office market. Asking rents are set at $26.50 per square foot for both Riverfront Plaza buildings. Direct vacancy in the West Tower is just more than ten percent or approximately 50,000 square feet. There is also an additional 23,000 square feet of available space for lease that is not currently vacant.

Interview Feedback

As part the analysis, HSP reached out to stakeholders and market experts who have a vested interest in the downtown Richmond office market. In talking with these stakeholders, HSP identified numerous trends that are summarized below:

- Functionally obsolete office buildings have been converted into apartment buildings, which helps reduce office supply and pushes occupancy and rates.
- Companies that historically would have been likely to place their offices in the suburbs are now locating downtown to attract Millennial employee talent.
- Examples of companies locating downtown recently include Owens and Minor, who located from the Richmond suburbs and CoStar, who set up their head research facility in the MeadWestvaco Building
- MCV and Virginia BioTechnology Research park have a great deal of influence on downtown office market and makeup of workforce. MCV will continue to grow.
- CoStar hired 600 net new employees in Richmond in 18 months.
- Rent growth rate is currently very strong between 2.25 percent and 3 percent.
- 600 Canal Place (under construction) and 700 Canal Place (proposed) are the only two office new office buildings in the downtown Richmond market.

Implications

Regional college graduates forming a Millennial workforce want to work in Richmond, a growing city in terms of population and popularity. CoStar, the real estate research firm, recently placed their research headquarters in Richmond, a strong endorsement for the office market. As a result of the increasing popularity, vacancy is decreasing and rents are rising in the Richmond Office market. Despite this popularity, only the two Dominion Towers are being developed in the area of the North of Broad project. However, one of these towers will be a single-tenant building so it will have a limited impact on the market overall. VCU also has 540,000 square feet of research office space, but again, that will be single-tenant.

The office space proposed as part of the North of Broad Project will enter a strong market. As the overall office inventory continues to age, newer spaces will be well received as demand continues to rise. Class A spaces currently have the highest vacancy rate of the three classes, though the size of available spaces may be driving those higher vacancies. As more tenants with various spatial needs begin looking at downtown Richmond, these smaller spaces will fill in.

Despite the vacancy in Class A office buildings downtown, rental rates have increased since 2016. Rental rates have still not caught up to the levels experienced in 2014 before trending downward through mid-2016, but the trend is moving upward despite very little delivery of new, more expensive space.

The downtown Richmond office market's rise in performance and popularity has been steady, which shows that the area is gaining momentum organically. HSP believes this is a positive sign for the Project's office component coming online in a growing market that currently lacks large multi-tenant buildings with sizeable contiguous spaces.