

INVESTMENT FORECAST

Office
Richmond Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

As Firms Create New Roles, Centralized Demand Rises and Suburban Construction Accelerates

Strong interest in contemporary spaces drives a tight market. Leases with term lengths of 10 years or more are on the rise in Richmond, reflecting growing tenant confidence coming into 2025. Concessions like free months and rent discounts are becoming less commonplace. While vacancy in Class B and C offices — which compose 70 percent of inventory — remained relatively stable, the Class A rate has dropped 350 basis points since the first quarter of 2023, indicating growing demand for premium office spaces. The proportion of new Class A leases that are sublet is up from 5 percent in 2023 to 12 percent in 2024, edging sublease availability back toward pre-pandemic levels. Overall, vacancy fell in Downtown and Southwest Richmond, two of the metro's three largest office submarkets by inventory. Accelerating completions, however, may see these rates elevate slightly in 2025. The metro's office stock will grow at the third-fastest pace in 18 years, although many of these projects are intended for medical tenants. Richmond's population of residents aged 65 and older is growing at three times the rate of its general population, suggesting ongoing demand for medical office space.

CBD and suburban office use diverge. Despite smaller average footprints, sales volume in 2024 returned to pre-pandemic levels. Over 80 percent of those transactions occurred in the Northwest, Southwest or Downtown submarkets. Downtown continues to be the most popular area for office-to-apartment conversions, which is the intended future for a 325,000-square-foot former Dominion Energy property. Renovations, meanwhile, are concentrated in the Northwest and Southwest, where some investors have targeted high-vacancy assets for refurbishment. This reflects confidence that discounted office spaces may stand to benefit from updates to their facilities.

2025 MARKET FORECAST

+2.0%



EMPLOYMENT: Total employment growth is expected to slow in 2025, adding 15,000 jobs on net. Traditionally office-using firms are forecast to yield 3,100 roles, barring possible public sector cuts.

717,000
sq. ft.



CONSTRUCTION: Elevated deliveries will grow inventory 1.3 percent, with medical office spaces composing nearly half of all projects. This is the highest rate since 2019 and more than triple 2024's.

-10 bps



VACANCY: Vacancy is expected to fall to 10.1 percent in 2025, reflecting a slowing pace of decline. Pre-leasing of new facilities will help limit upward pressure from accelerated completions.

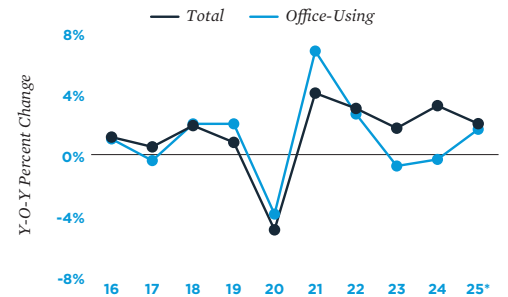
+1.0%



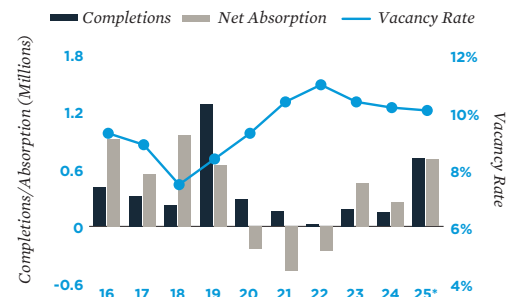
RENT: Richmond remains one of the nation's least vacant major metros. Robust demand and newly completed office spaces will contribute to a mean marketed rent of \$21.51 by year-end.

INVESTMENT: *Return-to-office mandates may hasten declining vacancy among high-end Downtown offices, which has fallen 600 basis points in three years. Investors may look nearby in anticipation of spillover demand.*

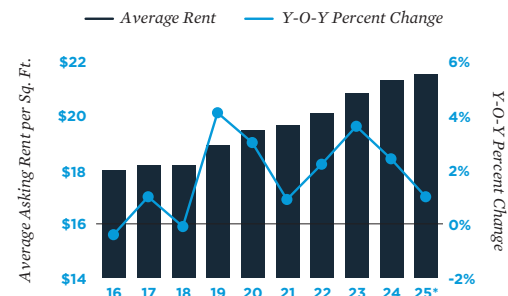
Employment Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.