

Q1 2021 COMMERCIAL MARKET REPORT



Key Takeaways

Virginia's economy has been improving steadily since the summer, although the pace of job growth slowed in early 2021. The statewide unemployment rate fell to 5.2% in February, below the national rate. There have been economic gains in all regions across the state, but job totals are still below pre-pandemic levels in every metropolitan area. With the widespread availability of the COVID-19 vaccine and the third round of Federal stimulus spending, economic conditions in Virginia are expected to improve significantly in 2021.

Despite concerns about a serious downturn in the commercial market as a result of the COVID-19 pandemic, the commercial real estate market in Virginia has been surprisingly resilient.

- Office.** Vacancy rates have risen modestly, but office rents have risen or remained stable in most markets in Virginia. Flexibility in lease terms has allowed existing tenants to continue to pay rent. Mid-sized and suburban markets have been performing best. Businesses will be evaluating their office space needs in the coming year.
- Retail.** Retail vacancy rates are up and net absorption is down in most markets in Virginia. The impacts on the retail market have not been as severe as expected. COVID-19 has accelerated trends that were already underway in the retail market. These shifts will continue in 2021.
- Industrial.** The industrial sector outperformed other commercial property sectors during the pandemic. Growth in e-commerce has been an important driver of this sector, but demand for industrial and warehouse space has also been as a result of shifting retail practices and changing office space needs.

Economic Conditions (as of February 2021)

	Y-o-Y Change	Monthly Change
3.9 million <i>Virginia employment</i>	▼	▼
5.2% <i>Virginia unemployment rate</i>	▲	▼
6.2% <i>U.S. unemployment rate</i>	▲	▼

Source: U.S. Bureau of Labor Statistics

Metro Area Employment (as of February 2021)

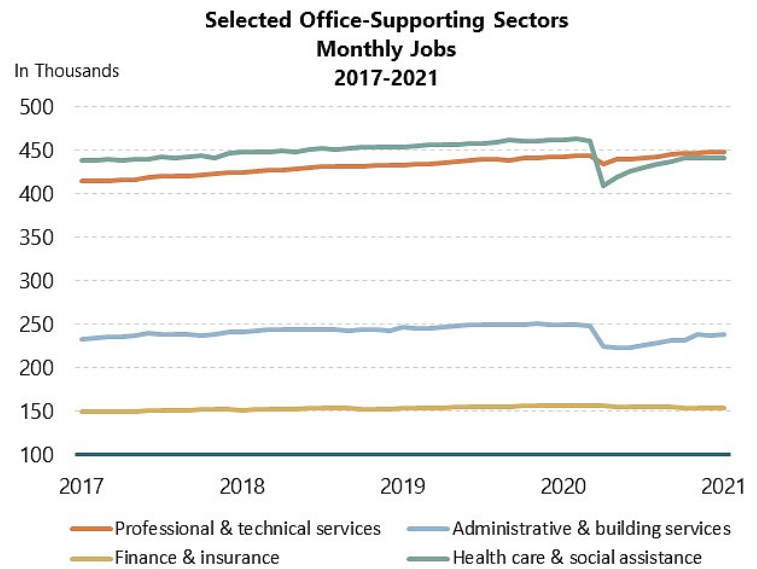
	Y-o-Y Change	Monthly Change
Northern Virginia	▼	▼
Richmond	▼	▼
Hampton Roads	▼	▲
Roanoke	▼	▲
Lynchburg	▼	▲
Charlottesville	▼	▼
Blacksburg	▼	▼
Winchester	▼	▲
Harrisonburg	▼	▲

Source: U.S. Bureau of Labor Statistics

Office Market

The office market in Virginia has fared better than expected through the COVID-19 pandemic and economic recession. Resiliency in several key office-supporting sectors has been one important reason why the office market has done relatively well.

In Virginia, the economy has gained back all of the jobs that were lost in the important Professional & Technical Services sector. The Finance & Insurance sector has remained steady throughout the past year.



Office Market Trends

- Despite anxiety at the beginning of the pandemic, office tenants in Virginia have generally been continuing to pay rent. Office rents have risen in nearly all markets across the state, with the fastest rent growth in the 1st quarter occurring in Charlottesville and Roanoke. To accommodate tenants in an uncertain market, building owners have offered concessions to new and existing tenants in lieu of lowering rents.
- Demand for office space is highly dependent on industry. Some sectors that have shifted to entirely working from home are re-evaluating their total office space needs. However, the pandemic has increased demand for specialized office space for some sectors that have continued to operate and to increase business activity through the pandemic.
- Net absorption was lower in the 1st quarter of 2021 compared to a year ago in most major markets in Virginia, although the decline has not been as severe as some had projected.
- Mid-sized office markets in Virginia are doing well. Richmond is a good example of a mid-size market where existing tenants have been able to move to suburban space, but the downtown area has attracted office tenants from higher-cost markets, such as Washington DC and New York City.
- COVID-19 and the economic recession have accelerated trends in the office market that were already underway. For example, over the past few years, companies have begun shifting to more shared space—for example, unassigned hot desks and hoteling—which had led to a decline in average office space per employee even before the pandemic hit.
- Companies and employees are still in a “wait and see” phase when it comes to a return to the office. It is likely that 2021 will be characterized by a hybrid work environment, with more employees back in an office at least part-time and companies evaluating space needs.

1st QUARTER 2021

Office Market

	Northern Virginia		Richmond		Hampton Roads	
	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg
Total Inventory (SF)	228.8M	▼	65.4M	▼	55.2 M	▲
Vacancy Rate	16.1%	▲	7.7%	▲	8.2%	▲
Net Absorption (SF)	-2,717,533	▼	-325,173	▼	-44,970	▼
Avg Gross Rent Overall (Per SF)	\$32.22	▲	\$20.27	▲	\$19.97	▲
Deliveries (SF)	-2,400	▼	40,451	▲	153,450	▲
Under Construction (SF)	5.5M	▲	330,944	▼	136,154	▼

	Roanoke		Charlottesville		Winchester	
	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg
Total Inventory (SF)	14.9 M	▲	8.9 M	▲	3.2 M	▼
Vacancy Rate	6.3%	▲	3.6%	▲	2.9%	▲
Net Absorption (SF)	-48,308	▼	64,379	▲	12,188	▲
Avg Gross Rent Overall (Per SF)	\$20.03	▲	\$26.43	▲	\$20.22	▲
Deliveries (SF)	23,520	-	120,000	▲	-792	▼
Under Construction (SF)	19,000	▼	413,790	▼	0	-

	Lynchburg		Harrisonburg		Blacksburg	
	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg
Total Inventory (SF)	5.4 M	▲	2.2 M	▲	3.2 M	-
Vacancy Rate	3.1%	▼	4.8%	-	3.4%	▲
Net Absorption (SF)	-21,681	▲	9,952	▲	-23,180	▼
Avg Gross Rent Overall (Per SF)	\$16.32	▼	\$16.29	▲	\$15.06	▼
Deliveries (SF)	0	▼	0	▼	0	-
Under Construction (SF)	5,400	▼	0	▼	0	-

Source: CoStar, data accessed March 24, 2021

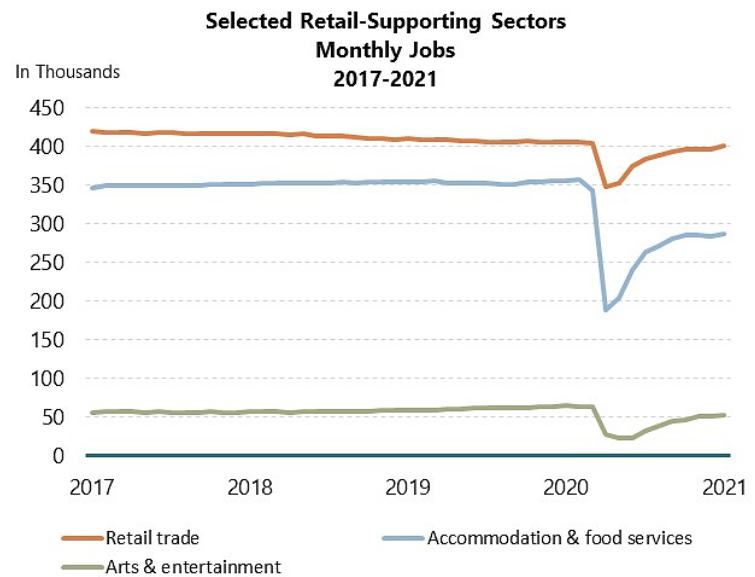
M millions

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Retail Market

The COVID-19 pandemic has had a devastating effect on employment in several sectors that use retail space. However, the retail market has been more resilient than expected. Many businesses have been able to pivot to remain afloat and ride out the recession.

Employment in the Accommodations & Food Services sector declined dramatically during the pandemic. The Retail Trade sector also took a major hit. However, these sectors have been slowly regaining jobs.



Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted

Retail Market Trends

- Despite early predictions, there has been no major fleeing from retail spaces in many Virginia markets. While retail vacancy rates have increased over the past year in Virginia, vacancy has remained fairly low—under 6%—in all markets across the state. In most markets, net absorption is also lower in the 1st quarter of 2021 than it was in the 1st quarter of 2020. But, again, the impact has not been as severe as anticipated.
- Retail rents have declined modestly in Northern Virginia and Richmond, though there has been rent growth in some smaller markets, including Hampton Roads and Roanoke. Many retail tenants have been able to work with owners to continue to pay rent.
- Many feared the restaurant industry and that segment of the retail market would suffer significantly during the pandemic. However, restaurants have been surprisingly resilient in many markets. Restaurant owners have been able to pivot, offering more delivery and take-out orders. For nearly all restaurants, revenue is down significantly, but so too are expenses as they have fewer people on the payroll.
- Trends already impacting the retail market were accelerated during the pandemic. Traditional interior malls, for example, have suffered during the recession, but this is part of a larger trend that has been ongoing for some time.
- E-commerce has led to re-organization among some retailers. There is significant pent-up consumer demand, and the retail sector will improve in 2021. However, there will be shifts that will persist post-pandemic, including smaller retail stores and greater “in-person/online” shopping experiences.

1st QUARTER 2021

Retail Market

	Northern Virginia		Richmond		Hampton Roads	
	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg
Total Inventory (SF)	135.5 M	▲	82.2 M	▲	105.4 M	▲
Vacancy Rate	5.0%	▲	5.3%	▲	5.8%	▲
Net Absorption (SF)	-528,508	▼	-75,877	▼	-101,528	▲
Avg Asking Rent (Per SF)	\$24.61	▼	\$15.58	▼	\$15.10	▲
Deliveries (SF)	223,490	▼	48,850	▼	45,122	▼
Under Construction (SF)	1.2 M	▼	384,471	▼	204,514	▼

	Roanoke		Charlottesville		Winchester	
	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg
Total Inventory (SF)	24.6 M	▼	10.1 M	▲	9.2M	-
Vacancy Rate	2.9%	▲	3.9%	▲	4.9%	-
Net Absorption (SF)	-101,528	▼	63,537	▲	-20,102	▲
Avg Asking Rent (Per SF)	\$13.29	▲	\$19.55	▼	\$10.21	▲
Deliveries (SF)	0	▼	5,820	▲	0	▼
Under Construction (SF)	2,880	▼	273,185	▲	9,428	▲

	Lynchburg		Harrisonburg		Blacksburg	
	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg
Total Inventory (SF)	14.4 M	▲	6.9 M	▲	10.0 M	▲
Vacancy Rate	4.5%	▲	3.2%	▲	4.3%	▲
Net Absorption (SF)	-71,159	▼	-9,951	▼	-97,022	▲
Avg Asking Rent (Per SF)	\$12.56	▲	\$13.61	▼	\$12.41	▼
Deliveries (SF)	3,280	▼	0	-	40,924	▲
Under Construction (SF)	2,400	▼	0	▼	0	-

Source: CoStar, data accessed March 24, 2021

M millions

- no change

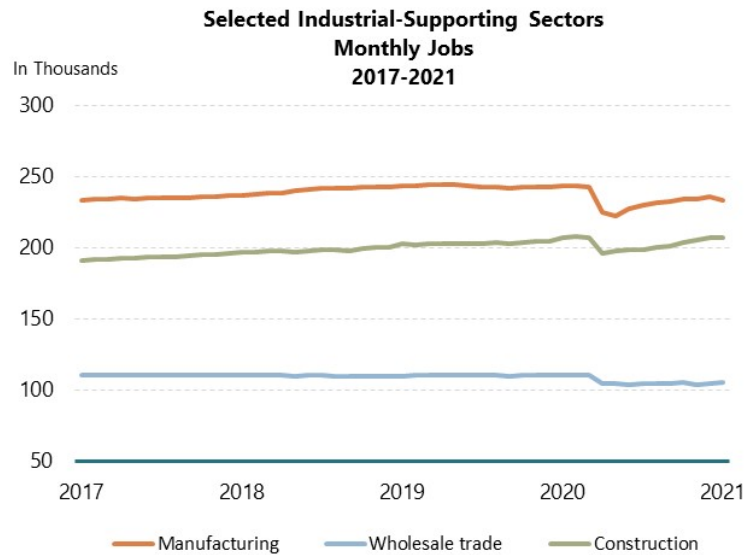
Industrial Market

Industrial real estate has outperformed all other property sectors, benefiting from the pandemic's fallout, rather than being set back by it. Sectors of the economy that use industrial space, including the Manufacturing, Wholesale Trade, and Construction sectors, have been fairly resilient during the downturn.

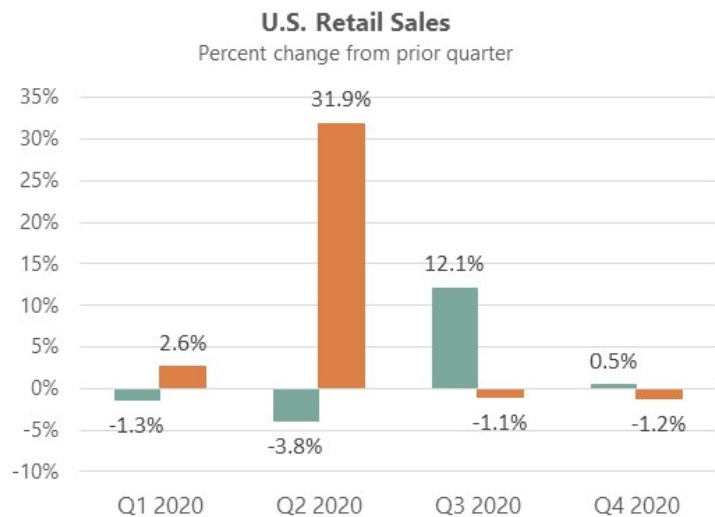
Growth in e-commerce sales has been a key driver of the strong demand for industrial space, particularly warehousing and fulfillment centers. E-commerce is still a very important part of the market, though it has accounted for a slightly smaller share of all retail spending as the economy has opened up.

Industrial Market Trends

- Even before COVID-19, demand for warehouse space was on the rise, particularly growing demand for cold storage to accommodate the growth in grocery and other delivery services.
- Larger industrial spaces have been in demand for fulfillment centers and other online businesses, but there has also been strong demand for small industrial spaces in many Virginia markets.
- Additional demand for industrial space in the Commonwealth has come from industries that have not been able to shift to working from home, including contractors and research and development. These tenants are looking for large, open spaces, often with ample parking, to accommodate their business activities.
- The industrial vacancy rate has declined or remained stable in the state's largest markets, reflecting strong demand. Many local markets saw an uptick in deliveries and new construction in the 1st quarter of 2021. In Hampton Roads, for example, there is nearly five million square feet of industrial/warehouse space under construction, while the Northern Virginia market has 2.3 million square feet under construction.



Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted



Source: U.S. Census Bureau

1st QUARTER 2021

Industrial Market

	Northern Virginia		Richmond		Hampton Roads	
	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg
Total Inventory (SF)	86.1 M	▲	118.0 M	▲	103.8 M	▲
Vacancy Rate	3.9%	▼	3.8%	▼	2.7%	▲
Net Absorption (SF)	113,867	▼	110,088	▲	126,054	▼
Avg Asking Rent (Per SF)	\$9.53	▲	\$4.74	▲	\$5.98	▲
Deliveries (SF)	-5,250	▼	34,200	▼	67,140	▼
Under Construction (SF)	2.3 M	▲	1.8 M	▲	4.8 M	▲

	Roanoke		Charlottesville		Winchester	
	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg
Total Inventory (SF)	36.7 M	▲	4.1 M	▲	19.0 M	▲
Vacancy Rate	4.5%	▲	5.4%	▼	6.2%	▲
Net Absorption (SF)	-314,493	▼	206,299	▲	169,909	▲
Avg Asking Rent (Per SF)	\$4.05	▲	\$4.95	▲	\$5.66	▲
Deliveries (SF)	0	-	56,760	▲	0	▼
Under Construction (SF)	0	▼	111,000	-	39,999	▼

	Lynchburg		Harrisonburg		Blacksburg	
	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg	Q1 2021	Y-o-Y Chg
Total Inventory (SF)	15.9 M	▲	8.7 M	▲	10.0 M	-
Vacancy Rate	12.0%	▼	1.8%	▲	6.5%	▲
Net Absorption (SF)	-290,341	▼	-54,731	▼	-47,682	▼
Avg Asking Rent (Per SF)	\$2.30	▼	\$6.15	▲	\$4.06	▼
Deliveries (SF)	7,000	▼	0	-	0	-
Under Construction (SF)	0	-	0	▼	300,000	▲

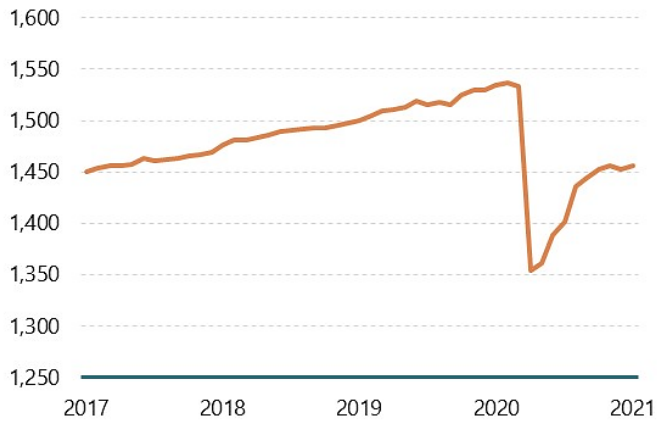
Source: CoStar, data accessed March 24, 2021

M millions

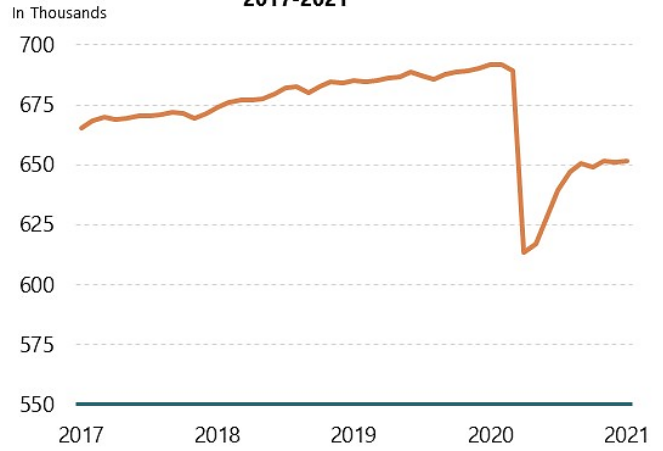
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Metro Area Employment

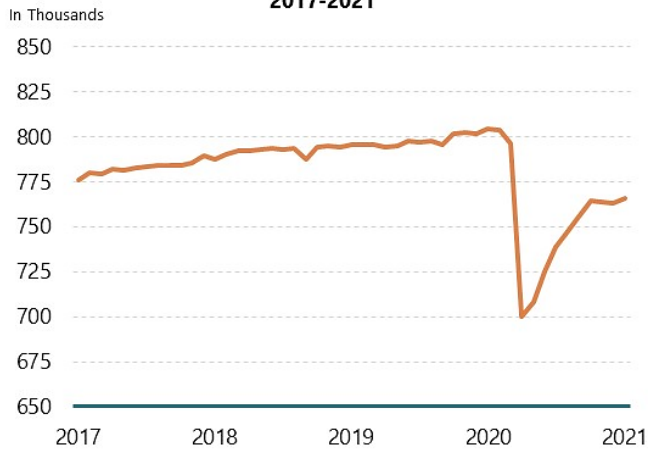
**Northern Virginia Metro Area Monthly Jobs
2017-2021**



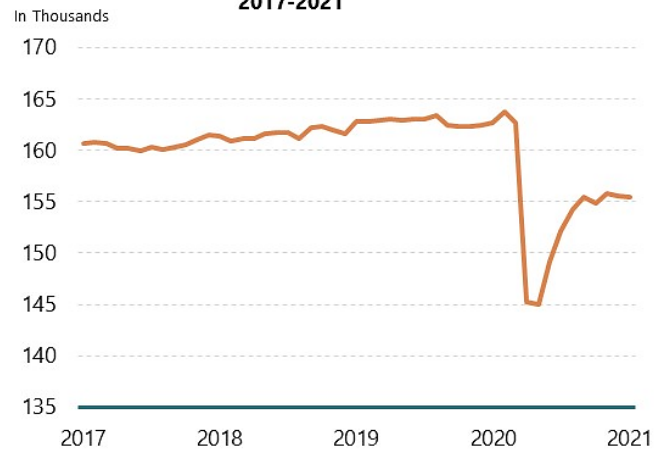
**Richmond Metro Area Monthly Jobs
2017-2021**



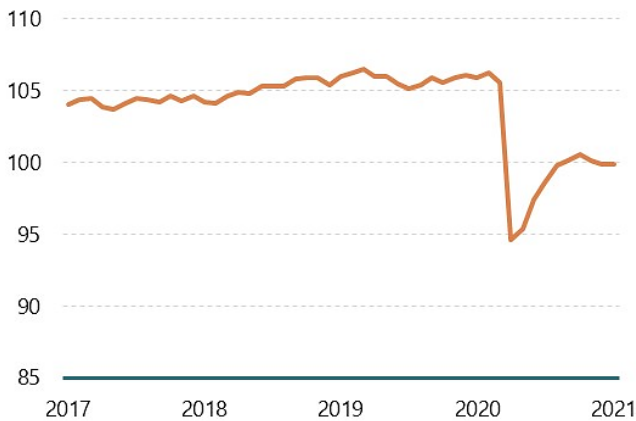
**Hampton Roads Metro Area Monthly Jobs
2017-2021**



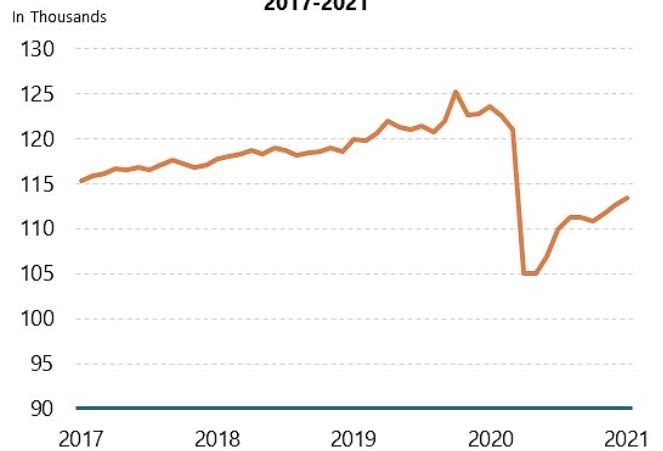
**Roanoke Metro Area Monthly Jobs
2017-2021**



**Lynchburg Metro Area Monthly Jobs
2017-2021**

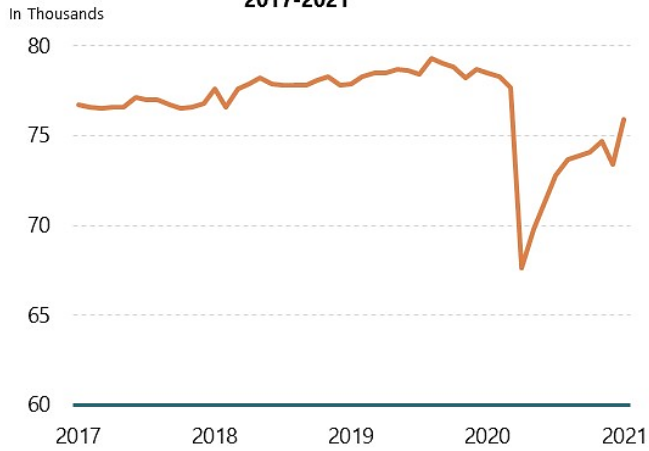


**Charlottesville Metro Area Monthly Jobs
2017-2021**

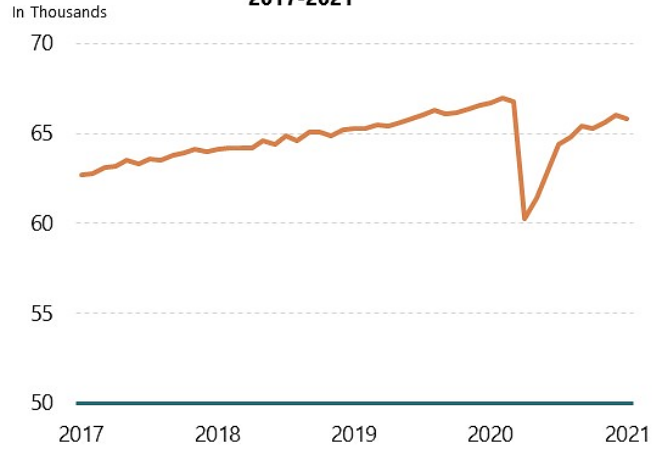


Metro Area Employment

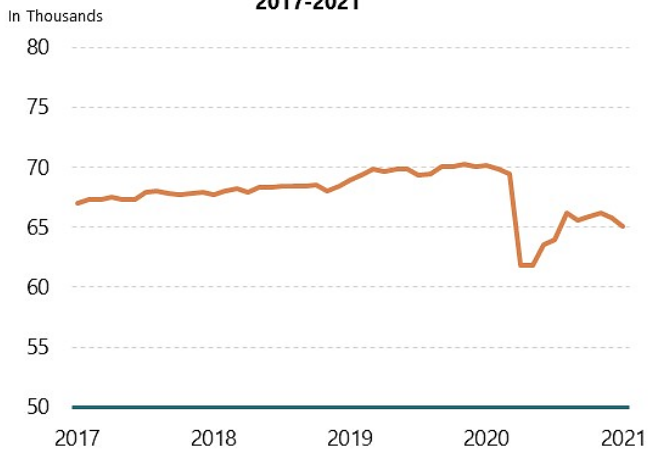
**Blacksburg Metro Area Monthly Jobs
2017-2021**



**Winchester Metro Area Monthly Jobs
2017-2021**



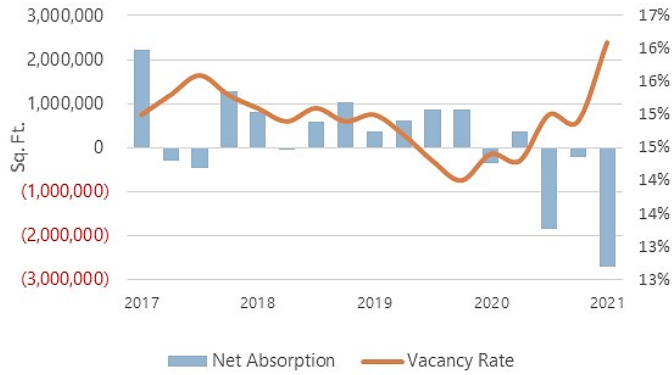
**Harrisonburg Metro Area Monthly Jobs
2017-2021**



Office Market

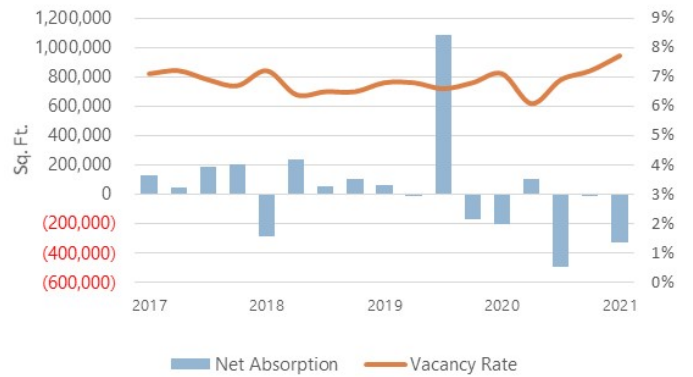
Northern Virginia

Northern Virginia Metro Area
Quarterly Net Absorption & Vacancy Rates
 Office

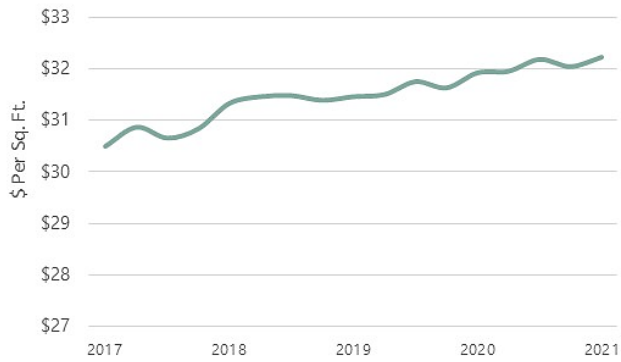


Richmond Metro

Richmond Metro Area
Quarterly Net Absorption & Vacancy Rates
 Office



Northern Virginia Metro Area
Quarterly Gross Rent
 Office



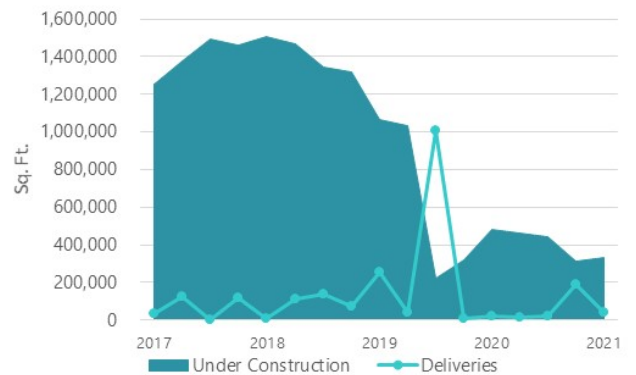
Richmond Metro Area
Quarterly Gross Rent
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Northern Virginia Metro Area
Net Deliveries & Under Construction
 Office



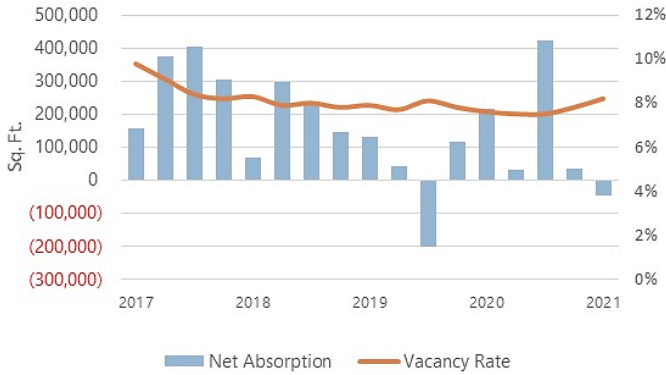
Richmond Metro Area
Net Deliveries & Under Construction
 Office



Office Market

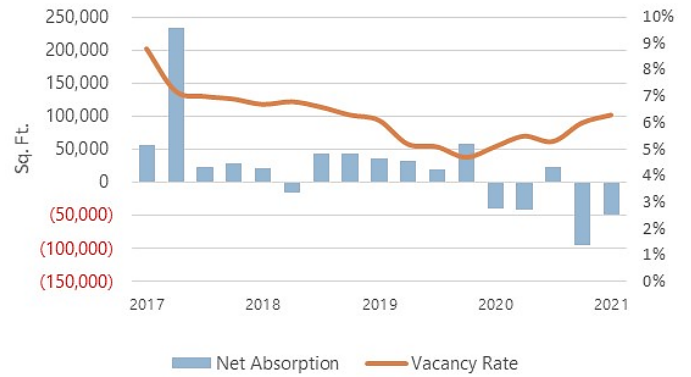
Hampton Roads Metro

Hampton Roads Metro Area
Quarterly Net Absorption & Vacancy Rates
 Office



Roanoke Metro

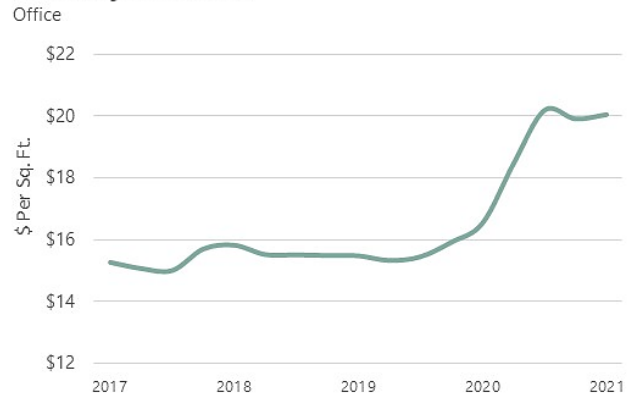
Roanoke Metro Area
Quarterly Net Absorption & Vacancy Rates
 Office



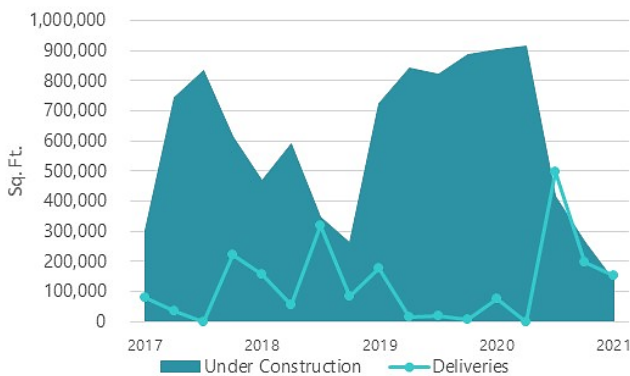
Hampton Roads Metro Area
Quarterly Gross Rent
 Office



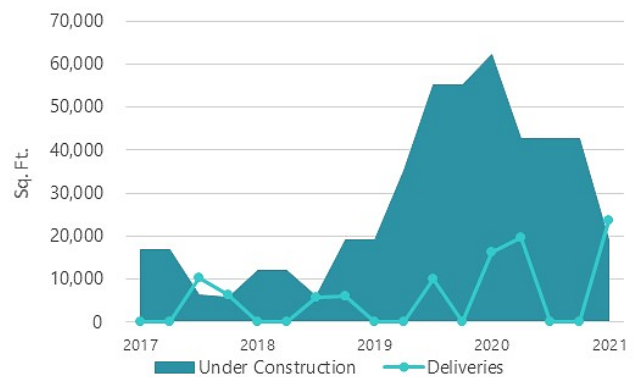
Roanoke Metro Area
Quarterly Gross Rent
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Hampton Roads Metro Area
Net Deliveries & Under Construction
 Office



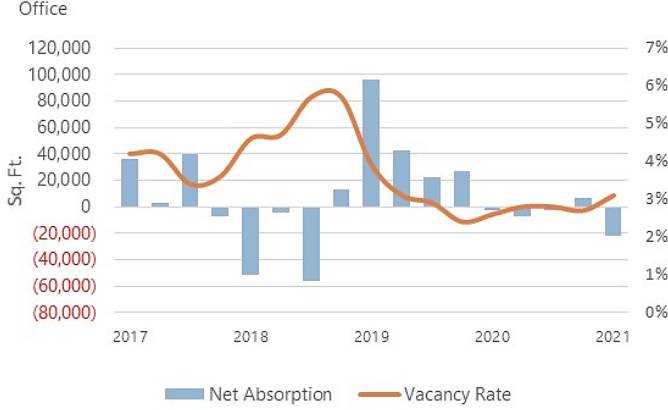
Roanoke Metro Area
Net Deliveries & Under Construction
 Office



Office Market

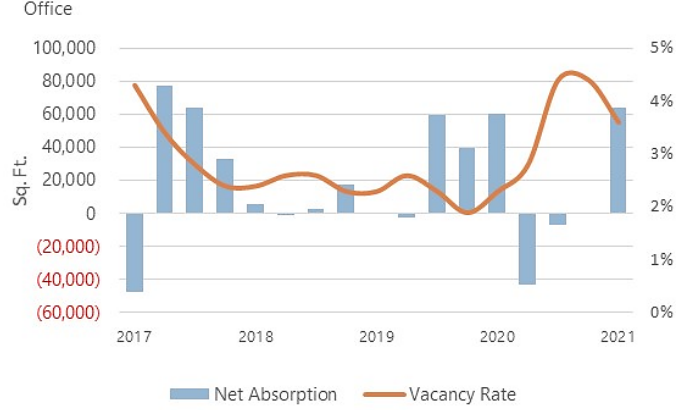
Lynchburg Metro

Lynchburg Metro Area
Quarterly Net Absorption & Vacancy Rates
 Office

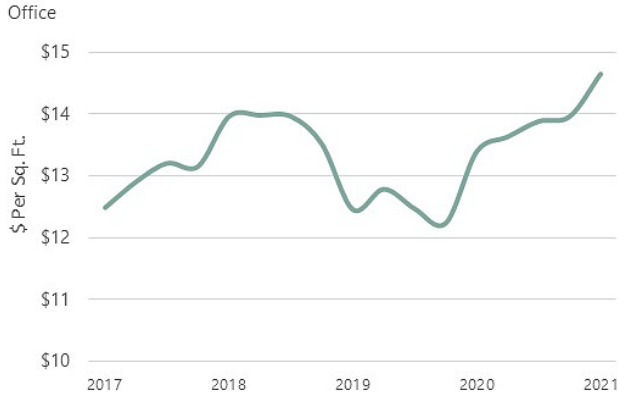


Charlottesville Metro

Charlottesville Metro Area
Quarterly Net Absorption & Vacancy Rates
 Office



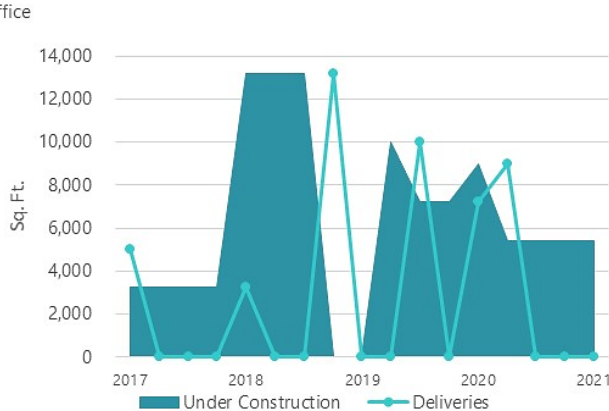
Lynchburg Metro Area
Quarterly Gross Rent
 Office



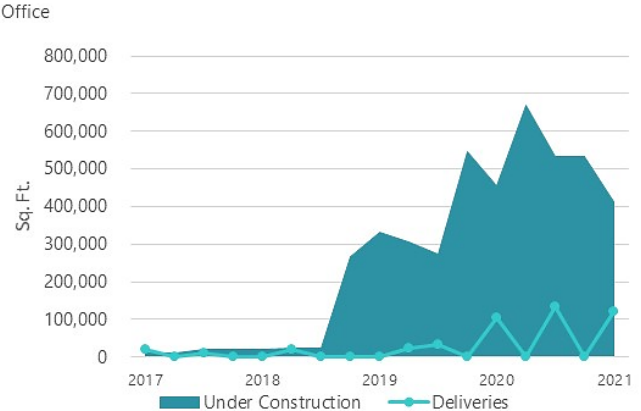
Charlottesville Metro Area
Quarterly Gross Rent
 Office



Lynchburg Metro Area
Net Deliveries & Under Construction
 Office



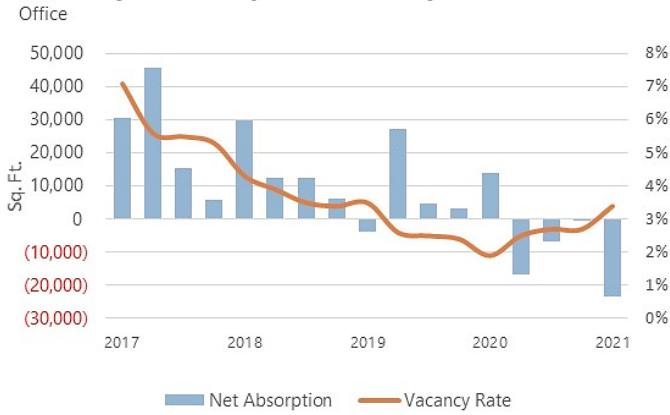
Charlottesville Metro Area
Net Deliveries & Under Construction
 Office



Office Market

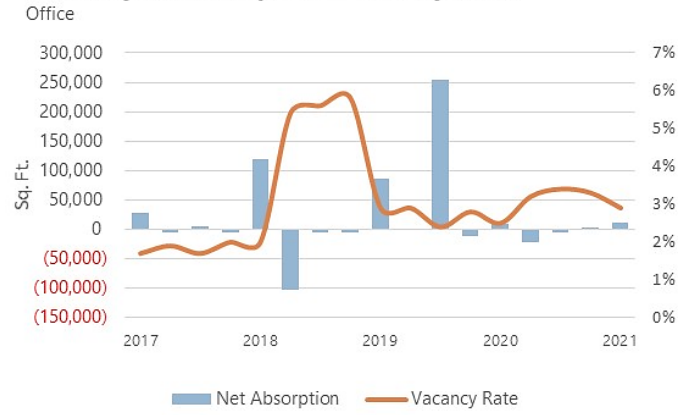
Blacksburg Metro

Blacksburg Metro Area
Quarterly Net Absorption & Vacancy Rates

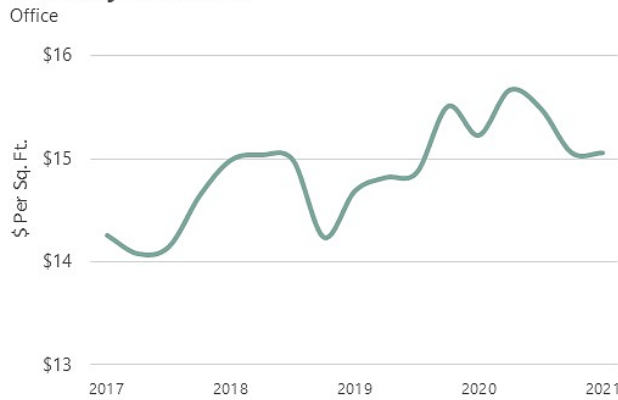


Winchester Metro

Winchester Metro Area
Quarterly Net Absorption & Vacancy Rates



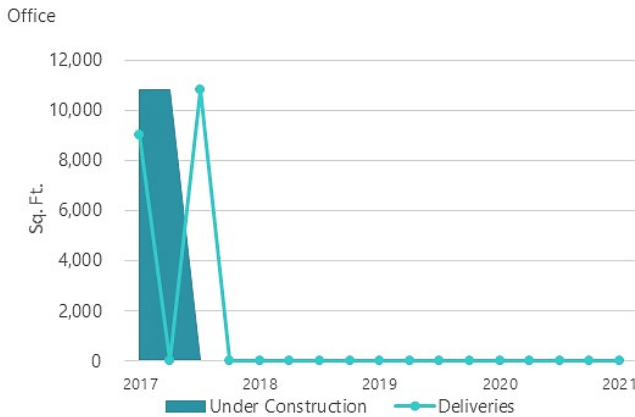
Blacksburg Metro Area
Quarterly Gross Rent



Winchester Metro Area
Quarterly Gross Rent



Blacksburg Metro Area
Net Deliveries & Under Construction



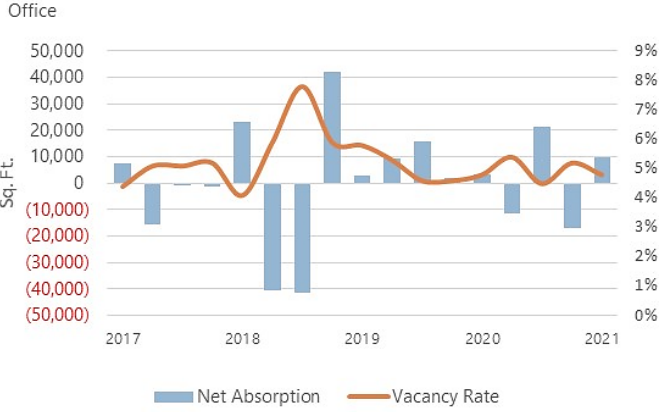
Winchester Metro Area
Net Deliveries & Under Construction



Office Market

Harrisonburg Metro

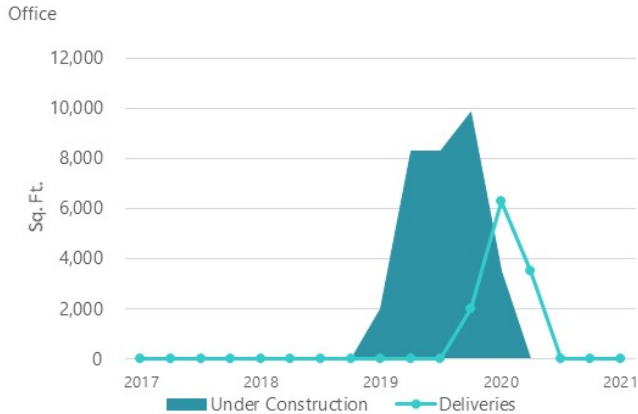
Harrisonburg Metro Area
Quarterly Net Absorption & Vacancy Rates



Harrisonburg Metro Area
Quarterly Gross Rent



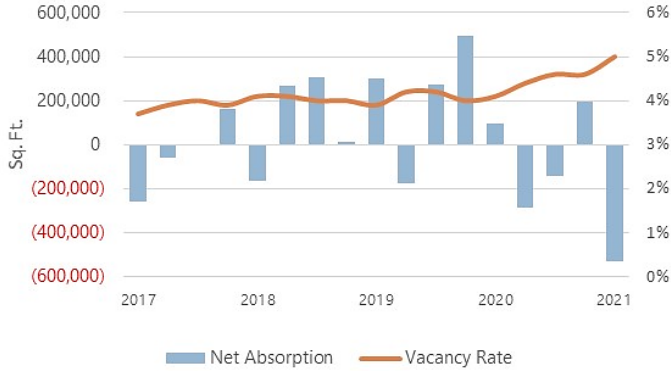
Harrisonburg Metro Area
Net Deliveries & Under Construction



Retail Market

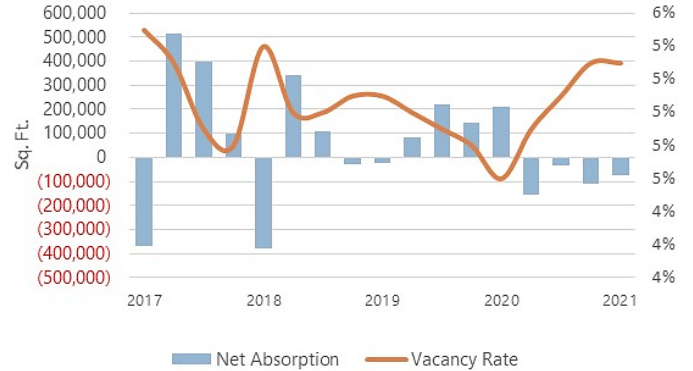
Northern Virginia

Northern Virginia Metro Area
Quarterly Net Absorption & Vacancy Rates
 Retail

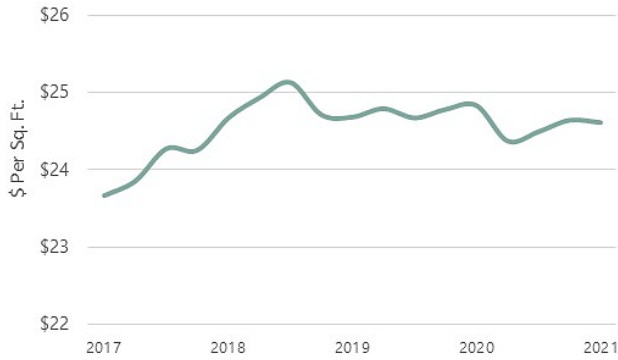


Richmond Metro

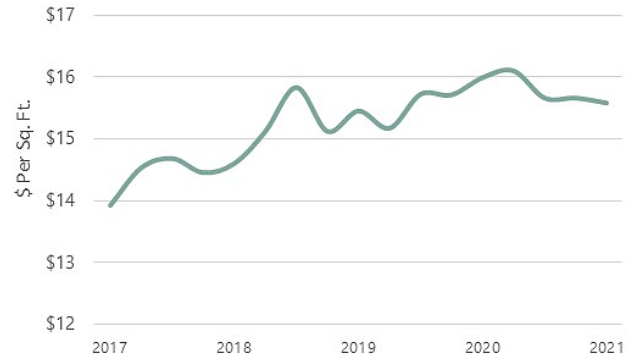
Richmond Metro Area
Quarterly Net Absorption & Vacancy Rates
 Retail



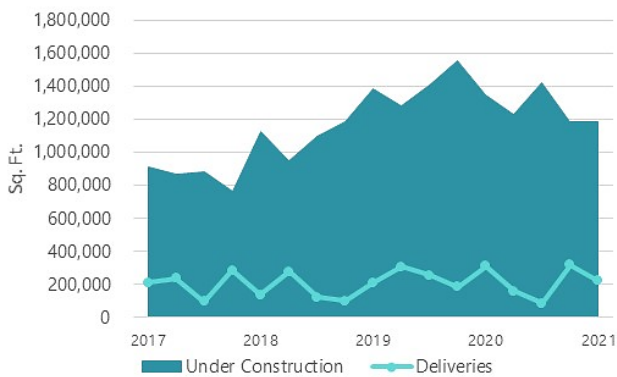
Northern Virginia Metro Area
Quarterly Full Service Rent
 Retail



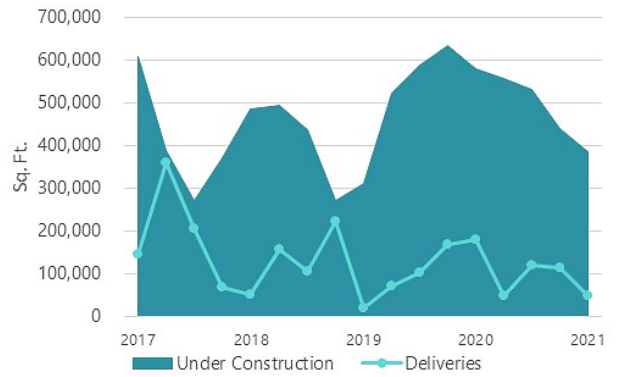
Richmond Metro Area
Quarterly Full Service Rent
 Retail



Northern Virginia Metro Area
Net Deliveries & Under Construction
 Retail



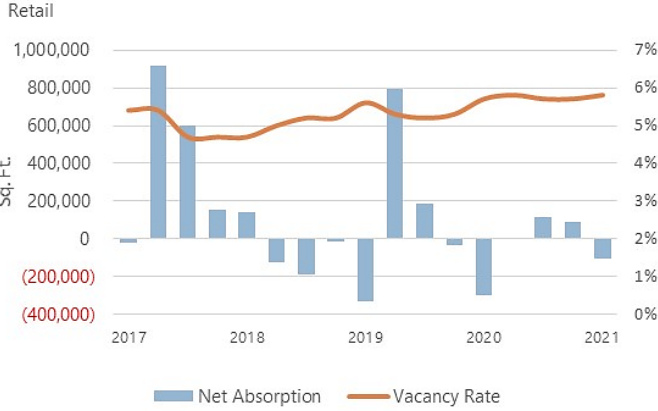
Richmond Metro Area
Net Deliveries & Under Construction
 Retail



Retail Market

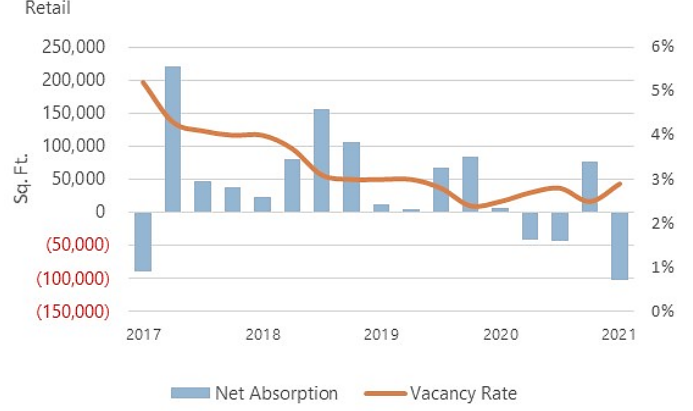
Hampton Roads Metro

Hampton Roads Metro Area
Quarterly Net Absorption & Vacancy Rates

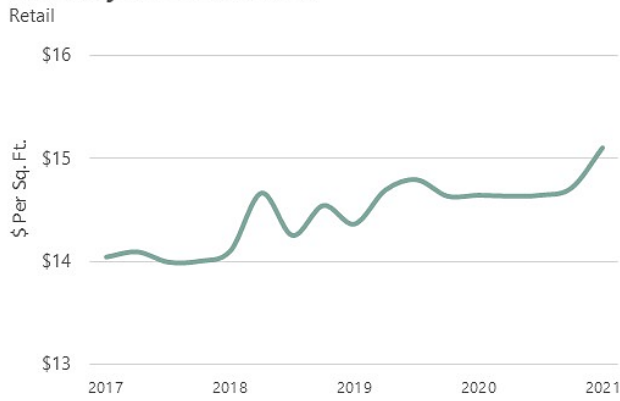


Roanoke Metro

Roanoke Metro Area
Quarterly Net Absorption & Vacancy Rates



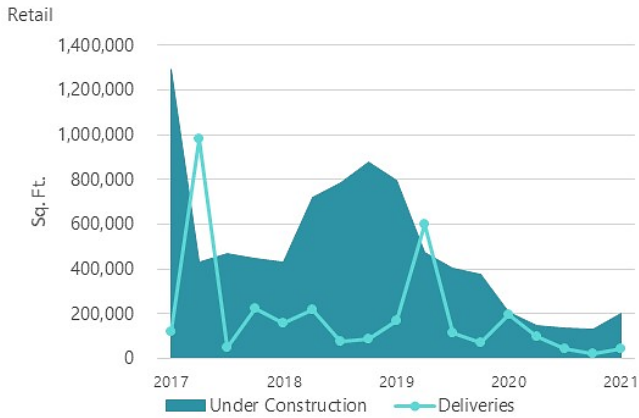
Hampton Roads Metro Area
Quarterly Full Service Rent



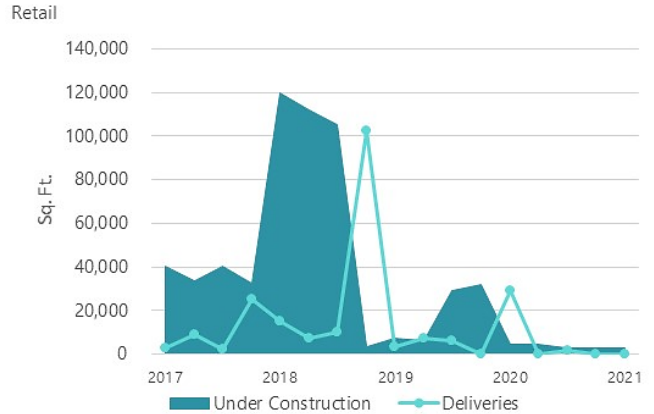
Roanoke Metro Area
Quarterly Full Service Rent



Hampton Roads Metro Area
Net Deliveries & Under Construction



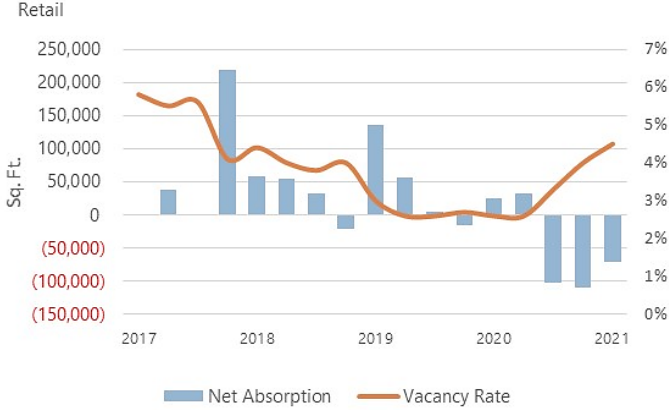
Roanoke Metro Area
Net Deliveries & Under Construction



Retail Market

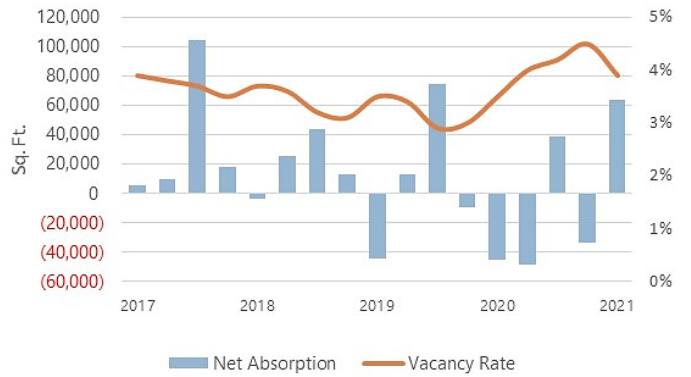
Lynchburg Metro

Lynchburg Metro Area
Quarterly Net Absorption & Vacancy Rates
 Retail



Charlottesville Metro

Charlottesville Metro Area
Quarterly Net Absorption & Vacancy Rates
 Retail



Lynchburg Metro Area
Quarterly Full Service Rent
 Retail



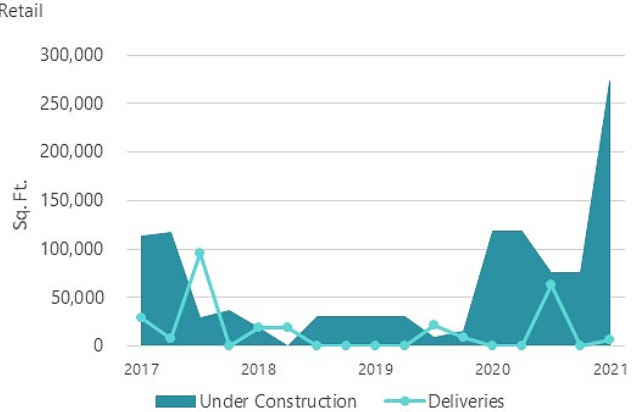
Charlottesville Metro Area
Quarterly Full Service Rent
 Retail



Lynchburg Metro Area
Net Deliveries & Under Construction
 Retail



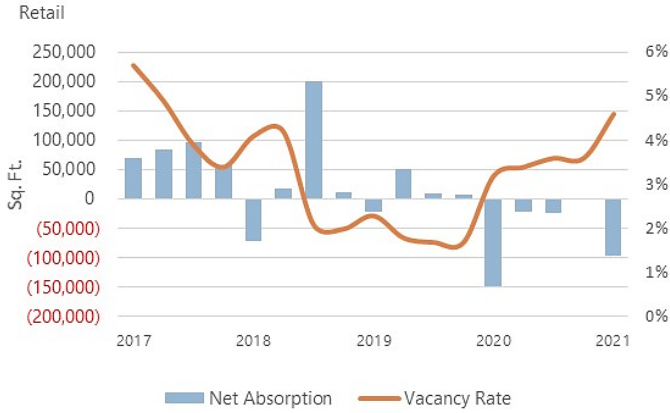
Charlottesville Metro Area
Net Deliveries & Under Construction
 Retail



Retail Market

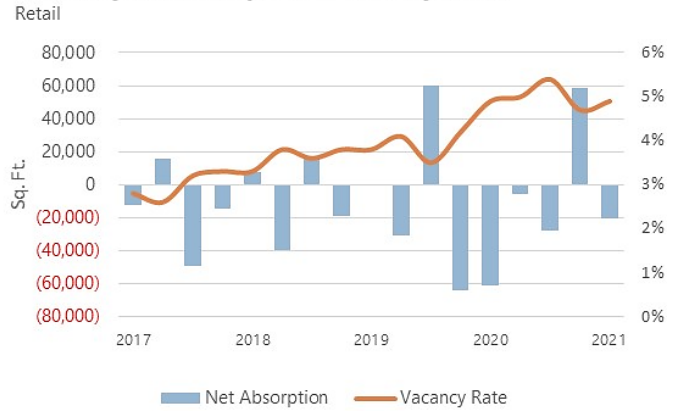
Blacksburg Metro

Blacksburg Metro Area
Quarterly Net Absorption & Vacancy Rates



Winchester Metro

Winchester Metro Area
Quarterly Net Absorption & Vacancy Rates



Blacksburg Metro Area
Quarterly Full Service Rent



Winchester Metro Area
Quarterly Full Service Rent



Blacksburg Metro Area
Net Deliveries & Under Construction



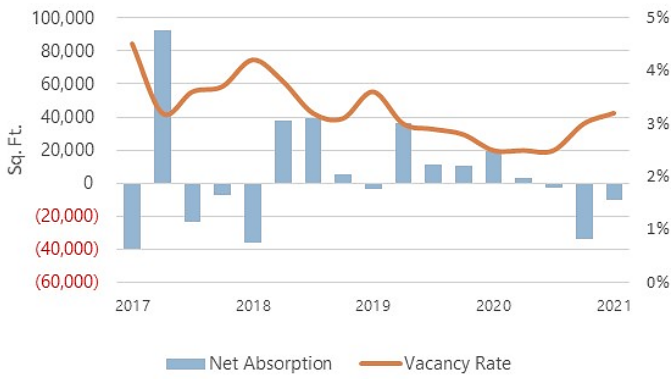
Winchester Metro Area
Net Deliveries & Under Construction



Retail Market

Harrisonburg Metro

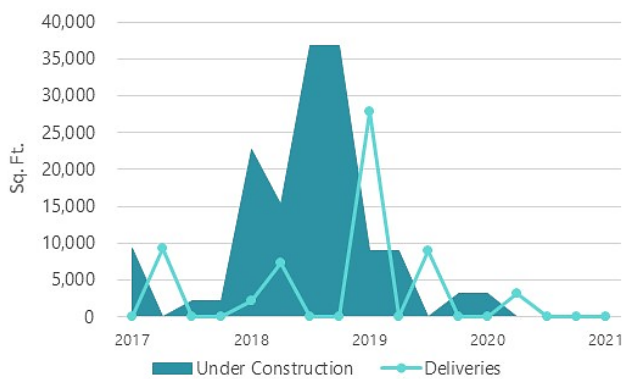
Harrisonburg Metro Area
Quarterly Net Absorption & Vacancy Rates
 Retail



Harrisonburg Metro Area
Quarterly Full Service Rent
 Retail



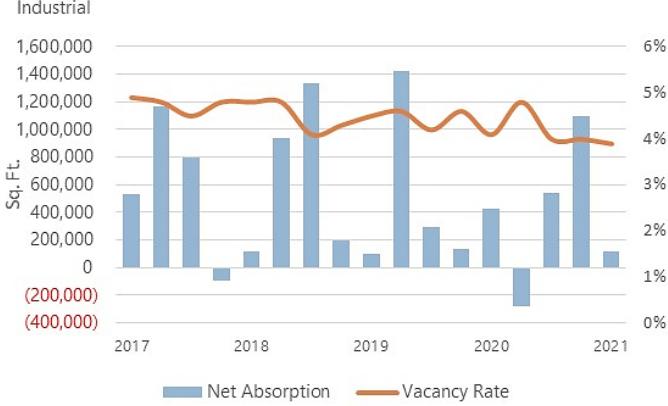
Harrisonburg Metro Area
Net Deliveries & Under Construction
 Retail



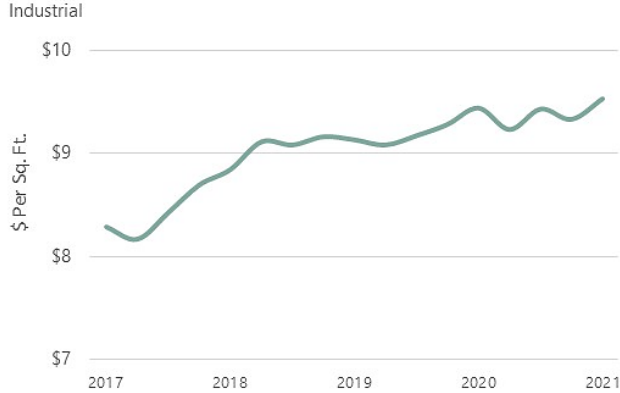
Industrial Market

Northern Virginia

Northern Virginia Metro Area
Quarterly Net Absorption & Vacancy Rates
 Industrial



Northern Virginia Metro Area
Quarterly Full Service Rent
 Industrial

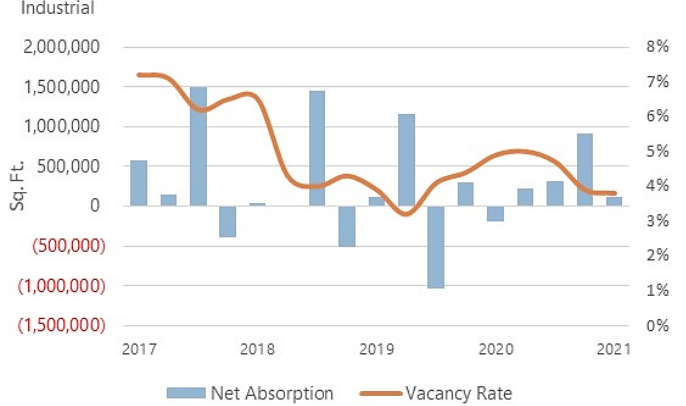


Northern Virginia Metro Area
Net Deliveries & Under Construction
 Industrial

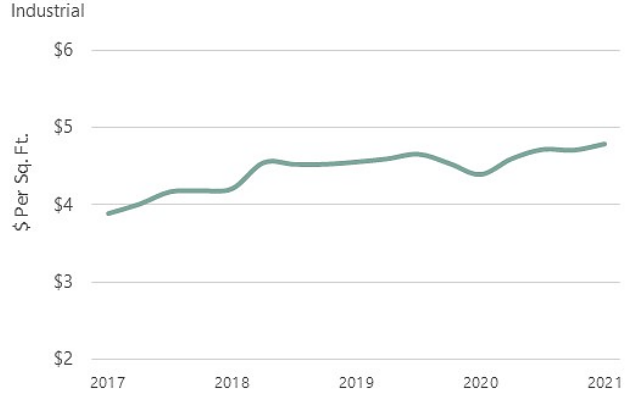


Richmond Metro

Richmond Metro Area
Quarterly Net Absorption & Vacancy Rates
 Industrial



Richmond Metro Area
Quarterly Full Service Rent
 Industrial



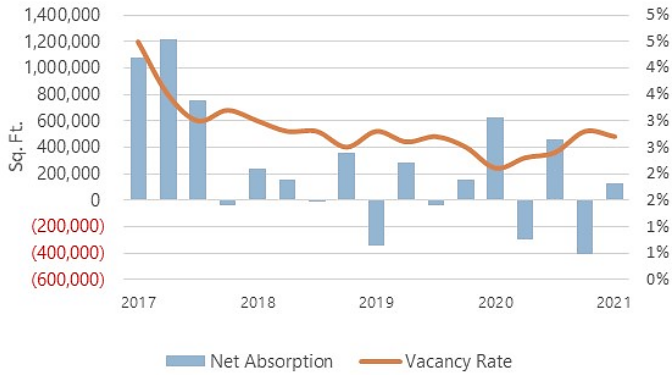
Richmond Metro Area
Net Deliveries & Under Construction
 Industrial



Industrial Market

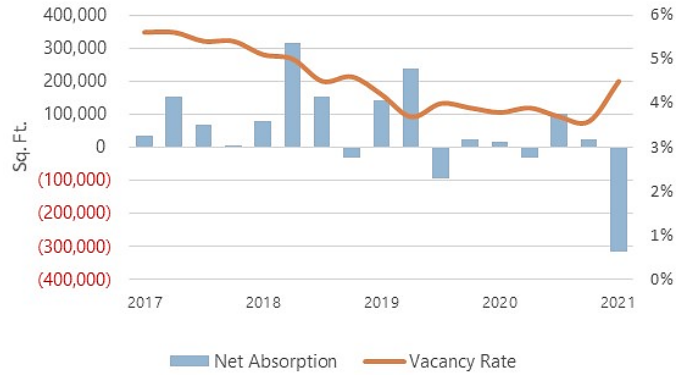
Hampton Roads Metro

Hampton Roads Metro Area
Quarterly Net Absorption & Vacancy Rates
 Industrial



Roanoke Metro

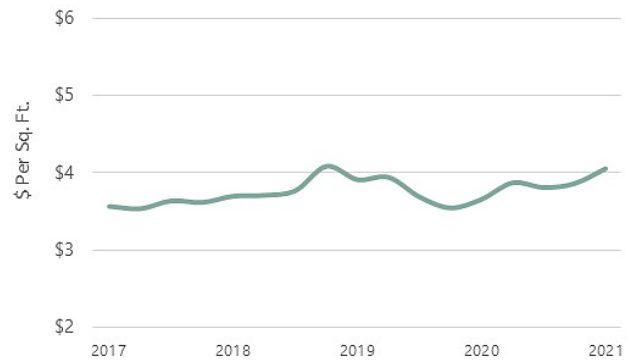
Roanoke Metro Area
Quarterly Net Absorption & Vacancy Rates
 Industrial



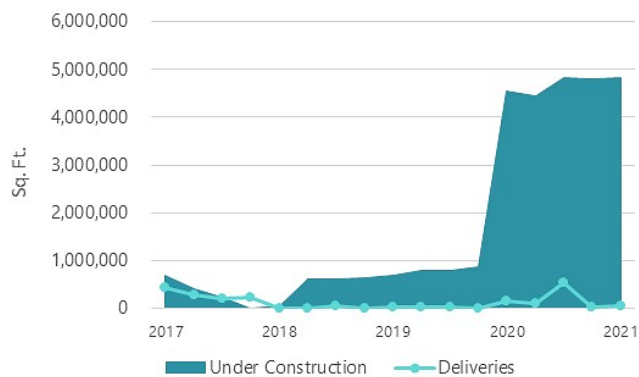
Hampton Roads Metro Area
Quarterly Full Service Rent
 Industrial



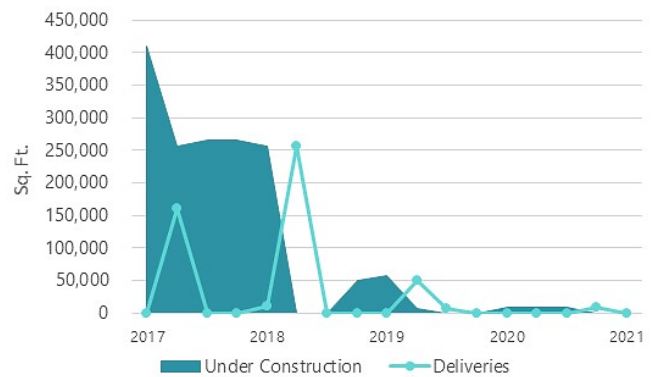
Roanoke Metro Area
Quarterly Full Service Rent
 Industrial



Hampton Roads Metro Area
Net Deliveries & Under Construction
 Industrial



Roanoke Metro Area
Net Deliveries & Under Construction
 Industrial



Industrial Market

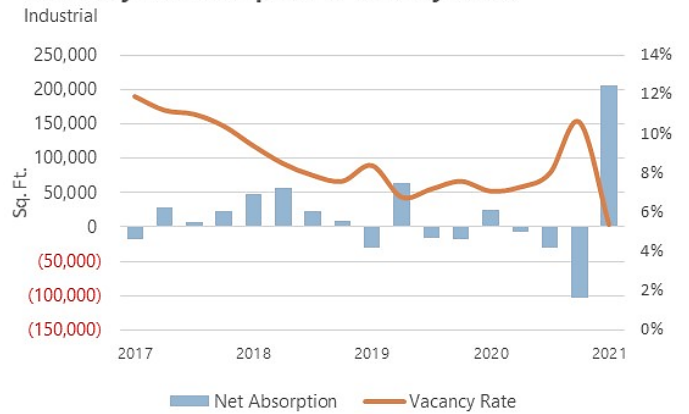
Lynchburg Metro

Lynchburg Metro Area
Quarterly Net Absorption & Vacancy Rates



Charlottesville Metro

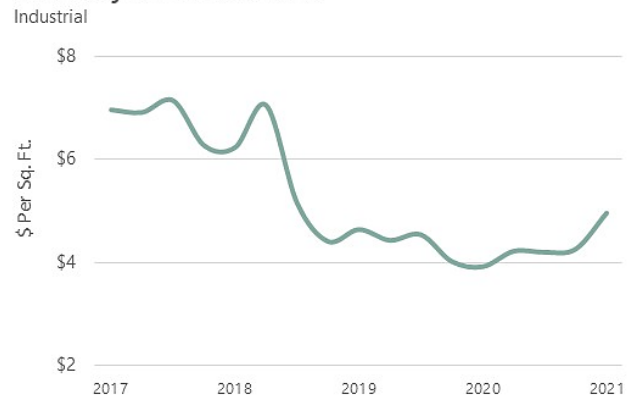
Charlottesville Metro Area
Quarterly Net Absorption & Vacancy Rates



Lynchburg Metro Area
Quarterly Full Service Rent



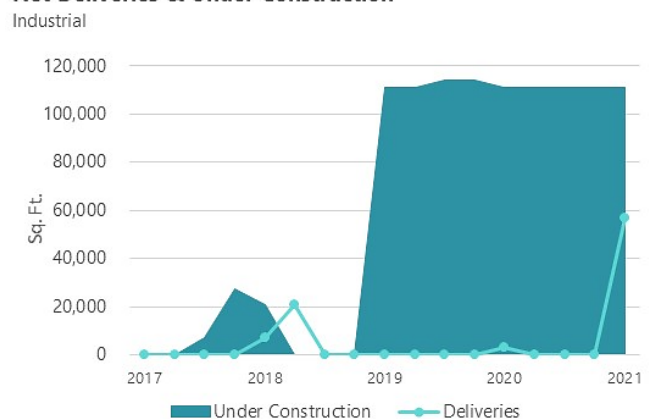
Charlottesville Metro Area
Quarterly Full Service Rent



Lynchburg Metro Area
Net Deliveries & Under Construction



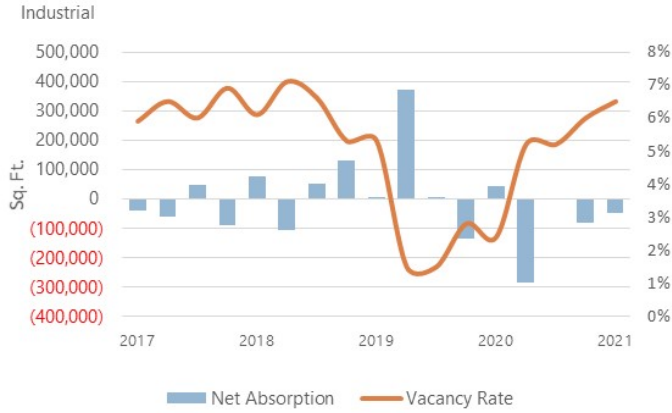
Charlottesville Metro Area
Net Deliveries & Under Construction



Industrial Market

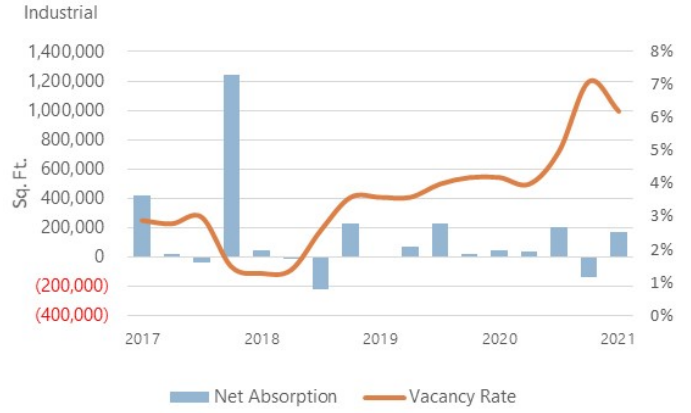
Blacksburg Metro

Blacksburg Metro Area
Quarterly Net Absorption & Vacancy Rates



Winchester Metro

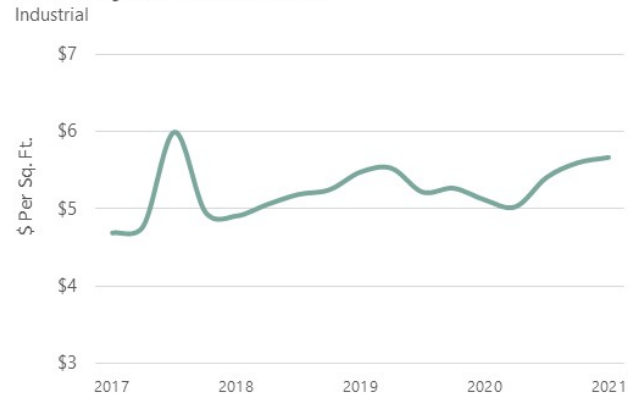
Winchester Metro Area
Quarterly Net Absorption & Vacancy Rates



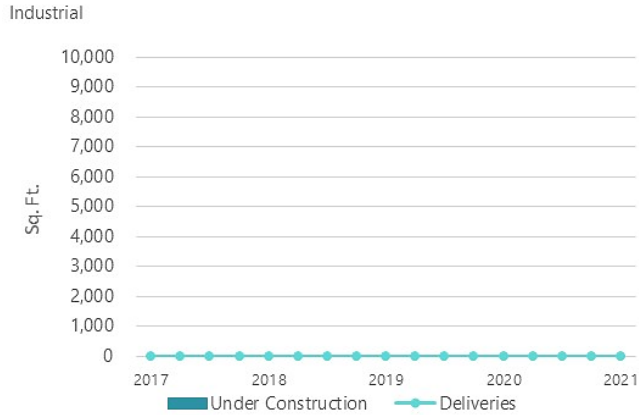
Blacksburg Metro Area
Quarterly Full Service Rent



Winchester Metro Area
Quarterly Full Service Rent



Blacksburg Metro Area
Net Deliveries & Under Construction



Winchester Metro Area
Net Deliveries & Under Construction



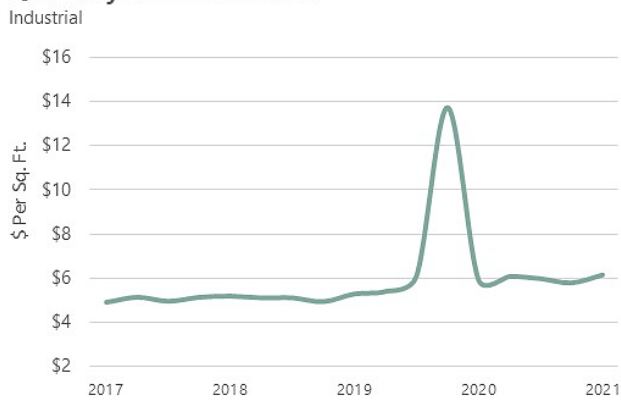
Industrial Market

Harrisonburg Metro

Harrisonburg Metro Area
Quarterly Net Absorption & Vacancy Rates



Harrisonburg Metro Area
Quarterly Full Service Rent



Harrisonburg Metro Area
Net Deliveries & Under Construction



The Virginia REALTORS® association is the largest professional trade association in Virginia, representing 35,000 REALTORS® engaged in the residential and commercial real estate business. The Virginia REALTORS® association serves as the advocate for homeownership and private property rights and represents the interests of real estate professionals and property owners in the Commonwealth of Virginia.

NOTE: The term REALTOR® is a registered collective membership mark that identifies a real estate professional who is a member of the National Association of REALTORS® and subscribes to its strict code of ethics.

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804-622-7954

Data and analysis provided by Virginia REALTORS® Chief Economist, Lisa Sturtevant, PhD. The numbers reported here are based on data from CoStar. Insights into market conditions were provided by the following Virginia REALTORS® members: Beckwith Bolle Kilgore, Kelly Graham, Nathan Hughes, Percy Montague, and Heather Placer Mull.

