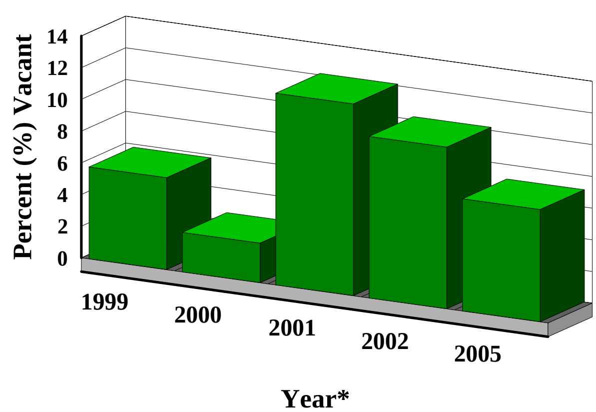
Office Market Review

Ivo H. Romenesko, MAI, CCIM **Charlottesville, Virginia** **2005 Edition**

APPRAISAL GROUP, INC
Real Estate Appraisers and Consultants

Good Vibrations

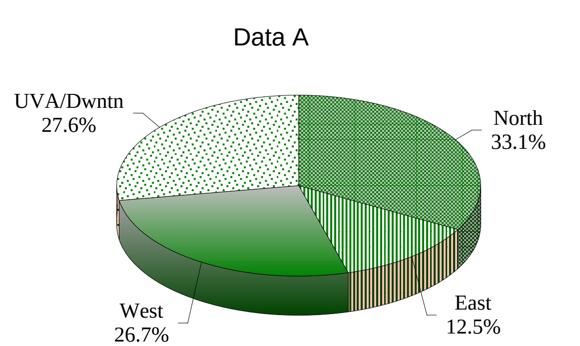
The Charlottesville rental market has fluctuated between a "soft market" and "building market" in recent years. In 2004 there were increases in both inquiries and leasing activity; however the rise flattened in 2005. Now, much of the new space is being converted to condominiums. The office market will most likely undergo a "wait and see" time while planning is done, even amidst a positive economic outlook for the area. New demand in the wake of local and federal government presence, as well as planned expansion of health care facilities, may round out the balance of supply and demand.



Source: Appraisal Group, Inc.
*Data incomplete for 2003-04

Market Area

The market area is divided into four sectors including UVA/Downtown, North, East and West. The North quadrant maintains the largest share at 33.1% overall, however, as predicted, this quadrant did lose share to the West and East. The Downtown/UVA Quadrant maintains a second place in share, 27.6%, however the area will likely see a downturn in rental demand in favor of condominium unit space. West Quadrant rentals grew a phenomenal 4% over the last two years, and now represent 26.7% of the overall space. Most of the future development in the area is projected for the East Quadrant, though overall share only rose by one point and stands now at 12.5%.



Source: Appraisal Group, Inc.

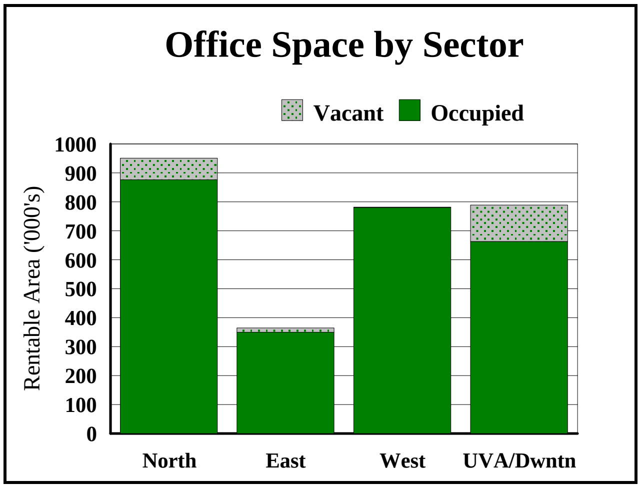
Overview by Quadrant

North Quadrant

North quadrant rents rose, ranging from $13 to $19 per square foot. The North also increased rental inventory almost 12,000 square feet in the years prior to 2006. This could indicate a positive trajectory in growth, however a majority of new development is slated for office condos rather than speculative space. Vacancy dropped to slightly less than 8%, which can be attributed to lack of additional supply.

Downtown/ UVA

Though Downtown rates on average are no longer the highest ($11 to $21 range), lessors continue to see a need for rent concessions. New space commands higher rates, but softness in the rental market in previous years solidified the general trend of conversion of office space into residential units; new development will most likely be for residential rather than commercial uses. Office vacancy in this area is the highest at 16%.



Source: Appraisal Group, Inc.

West Quadrant

Due to significant growth (rental increase of 23,000 SF), the lowest vacancy rate (less than 1%) and a developing demand for high-end space, the West quadrant continues to draw higher rents ranging from $14 to $20, and to maintain a strong market position. However, there is limited remaining land for new supply in the area; 2006 and beyond may see stasis rather than the growth of the previous two years.

East Quadrant

The Eastern quadrant, in 2004 to the end of 2005, demonstrated an outstanding turnaround from the slump only two years previous, and this trend is expected to continue for some time. Vacancy dropped almost nine points and is back under control at 4%. AGI predicts that the East Quadrant will emerge as the new front runner for growth as demand follows the newest major tenants (medical, local and federal government) into the area. For now, rents remain stable at between $12 and $19 per square foot.

Office Space Totals

Sector	Total Area	Vacant Area	Vacancy %
North	967,910	74,588	7.7%
East	365,033	14,929	4.0%
West	781,855	960	.123%
UVA/Dwntn	789,399	126,109	15.98%
TOTALS	**2,904,197**	**205,716**	**7.08%**

Source: Appraisal Group, Inc.

Predictions

There is limited new office development in the pipeline that is not earmarked for either condo conversion or specialty sectors (health and government). As Albemarle County continues to grow, and the City of Charlottesville also sees moderate expansion, the area is not over or under-supplied in either space or demand. AGI predicts a year of stasis, restrained by limited private sector job growth; however, no downturn is expected in the immediate future. ❖

Ivo Romenesko, MAI, CCIM, invites you to call our Charlottesville Office for professional real estate advisory and appraisal services.

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