

KNIGHT DORIN & ROUNTREY







2009 Real Estate Market Participant Survey



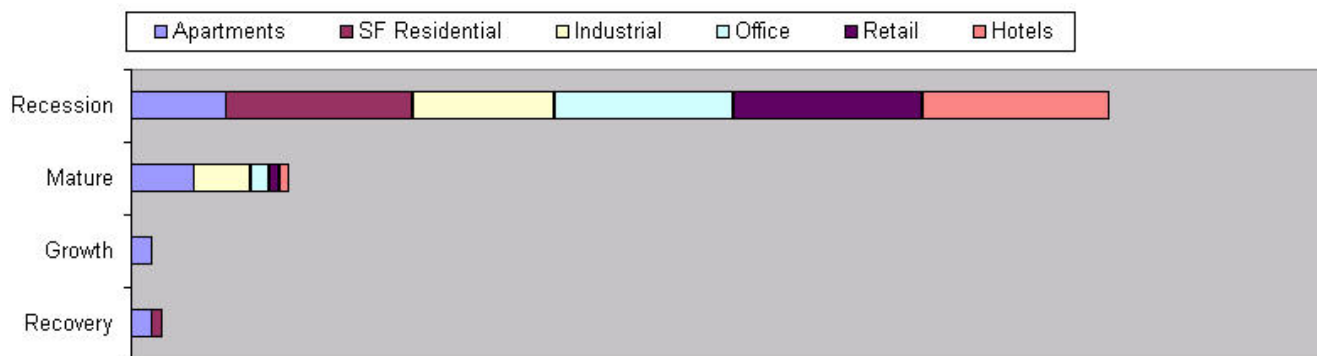
of Central Virginia

CENTRAL VIRGINIA MARKET INSIGHT – 2009

Commercial Real Estate Market Outlook for 2009– Our local experts were correctly pessimistic in last year’s survey for 2008. As of early 2009 almost all participants (91%) believe the Central Virginia Commercial Real Estate Market in 2009 will be even worse than 2008. The pessimistic outlook is generally revealed in the detailed survey data charts that follow. Only 9% predict stable conditions for CRE in 2009 and 0% are optimistic. The rapid evaporation of trillions of dollars in wealth in late 2008 and early 2009 left financial institutions and consumers weakened, frozen and shell-shocked. As of early 2009 the housing market had not found a firm bottom yet. Cascading job losses and falling home prices have reduced housing demand. The construction industry has contracted dramatically. The economy of Central Virginia is better than many other areas in the country, but not healthy. Retail sales, jobs and our local economy are all trending negative – providing no help for real estate. Commercial real estate values have multiple negative forces at work – as rents and occupancy rates in Central Virginia are declining while cap rates increase and financing is hard to find. By all accounts 2009 will be a very tough year.

-  Overall Cap Rates anticipated to be up 40 to 100 basis points for 2009.
-  Unleveraged Discount Rates up 20 to 80 basis points for 2009.
-  Expected vacancy rates up significantly in all categories – especially industrial.
-  Mortgage financing is expected to remain scarce in 2009 for all property types. The magic yield booster “leverage” has become a dirty word. LTV’s are down, DCR’s are up and commercial mortgage rate risk spreads have grown dramatically.
-  Marketing times are projected to increase in 2009.
-  Do the Math: Take retail data from this survey as an example: Increase vacancy by 2.1%; Increase cap rate by 100 BP; Even if you assume no reductions of rents and all other factors remain unchanged, the math suggests a 15% value decline just from those 2 factors. The 80 to 90% LTV mortgages done in recent years are likely on thin ice.

In this year’s survey we added a question about the current stage of the real estate cycle for the various property types. The results were not surprising as the market participants overwhelmingly indicated that we are in the recession stage of the cycle for all property types. This is atypical for a “normal” economic recession as property types usually will flow through the real estate cycle at different points in time. This graph shows the relative degree of the responses.



The apartment market responses were spread between all stages, but most indicated recession. As a follow up question we asked what quarter between 2009 and 2011 the recovery stage would begin for each property type. The crystal ball got pretty cloudy. Apartments had the most certainty with 46.2% stating 2nd quarter 2010. For SF residential the highest percentage (25%) stated 1st Quarter 2010, Industrial (25%) 3rd quarter 2010, Retail (36.4%) 4th quarter 2010, Office (33.3%) 2nd quarter 2010 and Hotels (35%) 2nd quarter 2010. We plan to update this part of our survey later this year to see how expectations may change.

CURRENT STAGE OF REAL ESTATE MARKET CYCLE

	Recovery	Growth	Mature	Recession
Apartments	10.5%	10.5%	31.6%	47.4%
Single Family Residential	5.3%	0%	0%	94.7%
Industrial	0%	0%	28.6%	71.4%
Office	0%	0%	9.5%	90.5%
Retail	0%	0%	5.0%	95.0%
Hotels	0%	0%	5.6%	94.4%

LIKELY BEGINNING OF RECOVERY STAGE

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Apartments				
2009	0%	7.7%	7.7%	0%
2010	15.4%	46.2%	7.7%	7.7%
2011	0%	7.7%	0%	0%
SF Residential				
2009	0%	0%	5.0%	20.0%
2010	25.0%	15.0%	10.0%	5.0%
2011	5%	0%	5.0%	10.0%
Industrial				
2009	0%	0%	6.3%	15.0%
2010	12.5%	12.5%	25.0%	16.3%
2011	0%	0%	0%	12.5%
Retail				
2009	0%	0%	0%	4.5%
2010	4.5%	18.2%	18.2%	36.4%
2011	0%	0%	4.5%	13.6%
Office				
2009	0%	0%	0%	11.1%
2010	22.2%	33.3%	16.7%	11.1%
2011	0%	0%	0%	5.6%
Hotels				
2009	0%	0%	0%	10.0%
2010	10.0%	35.0%	25.0%	15.0%
2011	0%	0%	0%	5.0%

INVESTMENT CRITERIA

Office Market				
CATEGORY	2009 Range	2009 Average	2008 Range	2008 Average
Holding Period (Years)	2.0 – 10.0	7.2	3.0 – 8.0	5.6
Income (Growth Rate)	2.0% – 5.0%	2.8%	2.0% – 4.0%	3.0%
Operating Expenses (Growth Rate)	1.0% - 3.0%	2.4%	1.0% – 4.0%	2.8%
Vacancy Loss	3.0% – 15.0%	8.9%	5.0% – 10.0%	7.5%
Going-In Capitalization Rate	8.0% - 10.0%	8.8%	8.0% – 9.5%	8.3%
Terminal Capitalization Rate	8.0% - 10.0%	9.2%	8.0% – 10.0%	9.0%
Discount Rates (Unleveraged IRR)	11.0% - 13.0%	11.7%	10.0% – 15.0%	11.5%
Equity Yield (Leveraged IRR)	14.0% - 18.0%	15.4%	13.0 % – 16.0%	14.5%
Tenant Retention Rates:				
Class A	50% - 85%	64%	65% – 80%	72%
Class B	50% - 90%	64%	50% – 60%	58%
Months vacant between tenants:				
Class A	9.0 – 12.0	11.4	4.5 – 6.0	5.2
Class B	9.0 – 12.0	9.8	6.0 – 9.5	8.0
Retail Market				
CATEGORY	2009 Range	2009 Average	2008 Range	2008 Average
Holding Period (Years)	2.0 – 7.0	5.3	5.0 – 10.0	6.7
Income (Growth Rate)	1.0% - 3.0%	2.0%	2.0% – 4.0%	3.4%
Operating Expenses (Growth Rate)	2.0% - 3.0%	2.6%	.5% – 4.0%	2.6%
Vacancy Loss	3.0% - 15.0%	8.8%	5.0% – 10.0%	6.7%
Going-In Capitalization Rate	8.0% - 10.0%	9.0%	7.5% – 8.5%	8.0%
Terminal Capitalization Rate	9.0% - 10.5%	9.6%	8.5% – 10.0%	9.1%
Discount Rates (Unleveraged IRR)	11.0% - 13.0%	12.0%	10.0% – 15.0%	11.4%
Equity Yield (Leveraged IRR)	14.0% - 16.0%	14.8%	11.0% – 15.0%	13.0%
Tenant Retention Rates:				
Neighborhood	50% - 90%	69%	60% – 90%	76%
Community	50% - 80%	59%	70% – 90%	83%
Months vacant between tenants:				
Neighborhood	6.0 – 14.0	9.3	4.0 – 12.0	6.3
Community	6.0 – 12.0	10.0	3.0 – 8.0	5.7
Apartment Market				
CATEGORY	2009 Range	2009 Average	2008 Range	2008 Average
Holding Period (Years)	5.0 – 10.0	7.3	6.0 – 10.0	8.3
Income (Growth Rate)	1.0% - 2.0%	1.8%	3.0% – 5.0%	4.1%
Operating Expenses (Growth Rate)	1.0% - 3.0%	2.4%	2.0% – 3.0%	2.8%
Vacancy Loss	3.0% - 10.0%	4.9%	3.0% – 5.0%	4.6%
Going-In Capitalization Rate	7.0% - 9.0%	7.9%	6.8% – 8.0%	7.2%
Terminal Capitalization Rate	8.0% - 10.0%	8.7%	7.5% – 9.5%	8.4%
Discount Rates (Unleveraged IRR)	10.0% - 12.0%	10.9%	9.5% – 12.5%	10.7%
Equity Yield (Leveraged IRR)	12.0% - 15.0%	13.7%	12.0% – 16.0%	14.3%

Industrial Market				
CATEGORY	2009 Range	2009 Average	2008 Range	2008 Average
Holding Period (Years)	7.0 - 10.0	8.5	3.0 - 10.0	7.3
Income (Growth Rate)	1.0% - 3.0%	2.4%	2.0% - 3.0%	2.6%
Operating Expenses (Growth Rate)	2.0% - 3.0%	2.6%	.5% - 3.0%	2.3%
Vacancy Loss	3.0% - 15.0%	8.4%	3.0% - 5.0%	4.6%
Going-In Capitalization Rate	8.0% - 12.0%	9.2%	8.0% - 12.0%	8.8%
Terminal Capitalization Rate	8.0% - 13.0%	9.9%	8.0% - 12.0%	9.6%
Discount Rates (Unleveraged IRR)	11.0% - 13.0%	11.6%	10.0% - 11.0%	10.8%
Equity Yield (Leveraged IRR)	11.0% - 18.0%	14.8%	13.0% - 16.0%	14.3%
Tenant Retention Rates:				
Office/Whse.	50% - 90%	74%	60% - 90%	74%
Distribution	50% - 90%	71%	50% - 70%	64%
Months vacant between tenants:				
Office/Whse.	4.0 - 15.0	9.9	4.5 - 9.0	6.4
Distribution	6.0 - 15.0	10.0	5.0 - 12.0	8.3

LAND LEASE RATES

	Range	Average
Cap Rate (with flat rent)	7.5% - 10.00%	9.19%
Cap Rate (average 2% ann. escalation)	7.00% - 10.00%	8.62%
(Rates up about 50 basis points over 2008)		

RESERVES, LEASING COSTS, AND TI'S

Include in Cap Rate Analysis	Yes	No
Reserves for Replacement	63%	37%
Leasing Commissions	64%	36%
Tenant Improvement Costs	46%	54%

COST OF SALE

Price Range	Low	High	Average
<\$500K	3%	13%	6.8%
\$500K to \$1M	3%	11%	6.3%
\$1M to \$3M	2%	11%	5.3%
\$3M to \$5M	1%	9%	4.5%
>\$5M	1%	8%	3.3%

ENTREPRENEURIAL PROFIT

Basis	Year	Low	High	Median
Improvements Only	2009	10%	25%	15%
	2008	8%	20%	12%
	2007	10%	18%	15%
	2006	10%	25%	15%
	2005	10%	30%	15%
	2004	10%	20%	13%
	2003	5%	15%	10%
Land and Improvements	2009	10%	20%	14%
	2008	10%	15%	10%
	2007	9%	25%	16%
	2006	8%	35%	15%
	2005	8%	30%	15%
	2004	10%	25%	14%
	2003	10%	20%	13%

LOT PRICE RATIOS

Improved Property Price	Lot Value Ratio Range as % of Total Price					Median				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Starter Housing \$200-\$300K	18-32%	15-30%	13-34%	20-40%	20-30%	25%	26%	25%	28%	28%
Move Up Housing \$300-\$400K	20-35%	18-35%	13-33%	20-35%	20-28%	24.5%	25%	25%	25%	25%
Luxury Housing \$400-600K	19-37%	20-35%	13-30%	15-35%	20-28%	22%	25%	25%	25%	23%
High End Luxury Housing Over \$600K				15-35%	20-25%				25%	20%

AVAILABILITY OF MORTGAGE FINANCING

Property Type	Past 12 months	Next 12 months
Apartments	1.7	1.5
Hotels	1.0	1.0
Industrial	1.5	1.4
Office	1.4	1.5
Retail	1.4	1.3
Residential (A & D)	1.2	1.0
Rating Scale:	1 = Inadequate	2 = Adequate
		3 = Abundant

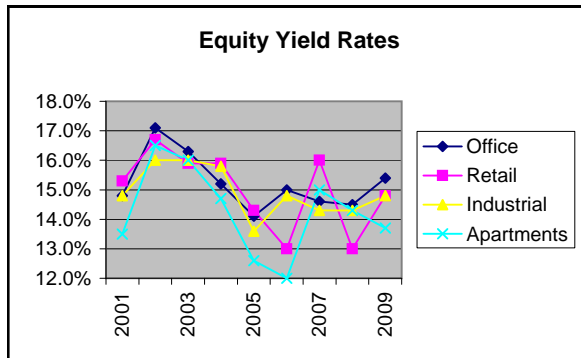
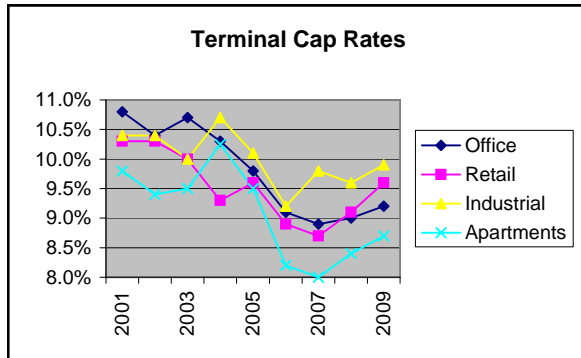
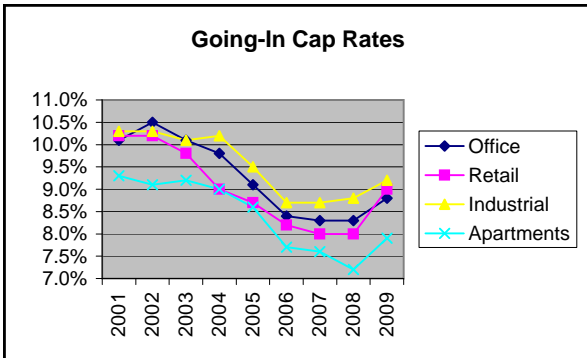
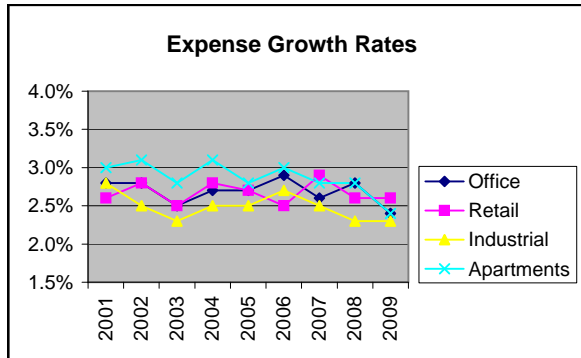
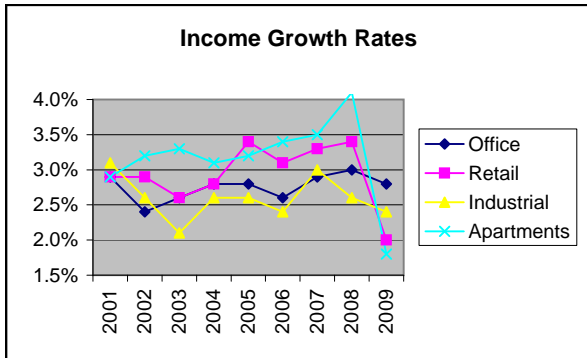
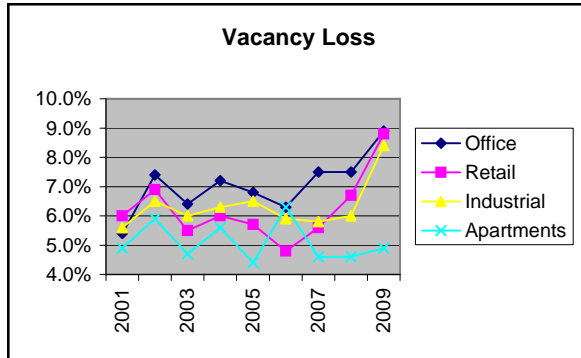
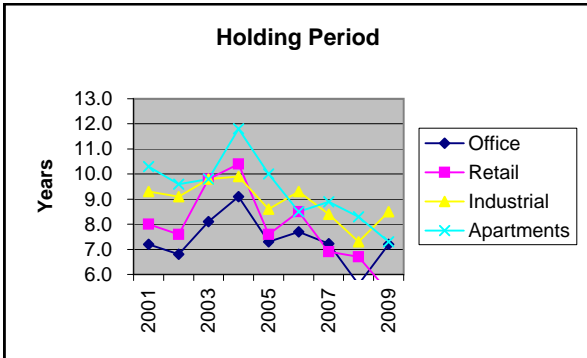
REAL ESTATE LIQUIDITY – MARKETING PERIOD

Property Type	% of Responses		
	< 6 Months	6-12 Months	> 12 Months
Retail			
Free-standing single user retail	16.7%	58.3%	25.0%
Small unanchored retail center	8.3%	33.3%	58.3%
Neighborhood retail center	9.1%	36.4%	54.5%
Community retail center	0.0%	50.0%	50.0%
Regional retail center	0.0%	22.2%	77.8%
Multi-family			
Apartment (> 120 units)	25.0%	58.3%	16.7%
Apartment (< 120 units)	27.3%	54.5%	18.2%
Office			
Large - well leased	15.4%	76.9%	7.7%
Large – poorly leased	7.7%	7.7%	84.6%
Small – well leased < 20,000 sf	13.3%	80.0%	6.7%
Small – poorly leased < 20,000 sf	6.7%	20.0%	73.3%
Industrial			
Small single user	18.8%	56.3%	25.0%
Multi-tenant flex/bulk distribution	7.1%	42.9%	50.0%
Manufacturing Buildings	7.1%	7.1%	85.7%
Special use properties			
Banks, historic, churches, etc.	0.0%	33.3%	66.7%
Land			
Single family development	0.0%	6.7%	93.3%
Multi-family development	0.0%	38.5%	61.5%
Retail	0.0%	30.8%	69.2%
Office	0.0%	23.1%	76.9%
Industrial	0.0%	20.0%	80.0%

	No Change	Increase	Decrease
Marketing period change from 2008	42%	58%	0%

This Real Estate Market Survey is an annual publication of Knight, Dorin & Rountrey. This is our 17th year publishing the survey. At the beginning of each year we send our survey questionnaire to over 200 of the most active and respected commercial real estate professionals in Central Virginia. The survey participants include real estate brokers, developers, investors, consultants and lenders. We hope this survey proves useful and welcome your comments and suggestions.

**CENTRAL VIRGINIA
MARKET SURVEY HISTORICAL SUMMARY 2009**
(Response Averages)



CORPORATE PROFILE

KNIGHT, DORIN & ROUNTREY

REAL ESTATE ANALYSTS

ADVISORY & CONSULTING SERVICES

REAL ESTATE MARKET KNOWLEDGE

- Leading real estate appraisal and consulting company founded in 1986
- Strong network with other real estate professionals
- Comprehensive commercial real estate transaction database covering most of the developed areas of Virginia (outside of Northern Virginia)
- Over 1,000 commercial lease and sale transactions analyzed annually
- Clients – include financial institutions, government agencies, law firms, investors, developers, and major corporations

COMMERCIAL APPRAISAL SERVICES FOR

- Office, retail, industrial, apartment, subdivision, and special purpose properties
- Mortgage, securitization, investments, and exchanges
- Buyer, seller, tenant – decision support analysis
- Estates, trusts, partitions, partial interests, valuation subject to environmental impairment
- Portfolio evaluation
- Appraisal reviews
- Litigation support
- Bankruptcy
- Estate planning

MARKET COVERAGE – VIRGINIA

- Richmond-Petersburg MSA
- Newport News-Hampton Area
- Fredericksburg Area
- Williamsburg Area
- Charlottesville MSA
- Roanoke MSA – Shenandoah Valley Area

OWNER

Edward G. Knight, MAI, SRA

PROFESSIONAL STAFF

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William A. Hopkins, Jr., MAI, SRA
Michael S. Larson
Michael A. Knight

- Market studies
- Feasibility analysis
- Project development analysis
- Litigation support
- Highest and best use analysis
- Lease analysis
- Asset evaluation
- Strategic planning
- Due diligence research and advice
- Site selection
- Land use analysis

Contact Us

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