

KNIGHT DORIN & ROUNTREY

2010 Real Estate Market Participant Survey



of Central Virginia

CENTRAL VIRGINIA MARKET INSIGHT – 2010

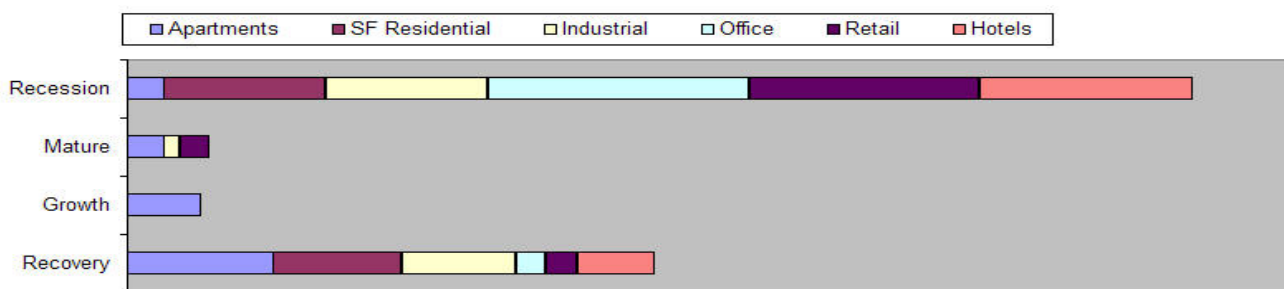
Commercial Real Estate Market Outlook for 2010– As of first quarter 2010 the experts' views regarding the 2010 local CRE market were almost evenly spread between "worse", "same" and "better". This is a huge improvement in sentiment from 2009 where our local experts were 91% pessimistic and 0% optimistic. This balanced outlook seems more optimistic than the statistics revealed in the detailed survey results charts that follow. As of early 2010 the housing market was showing some signs of finding a bottom. The CRE market has not yet seen the cascading foreclosures that have been widely predicted. The construction industry remains a shadow of its former size. Engineering firms are nearly idle - waiting for real estate development activity to return. The economy of Central Virginia remains better than many other areas in the country, but not yet healthy. Retail sales, jobs and our local economy are all out of the tailspin and leveling off - providing hope for the future. Government stimuli and special programs are underway, but growing government deficits and mounting debt are a source of much concern. Commercial real estate values still face multiple headwinds - as asking rents and occupancy rates in Central Virginia are still declining while cap rates remain relatively high and financing is hard to find for anything but the very best fully-leased properties. By most accounts 2010 will be another tough year for CRE.

- Overall Cap Rates anticipated to be up 10 to 50 basis points for 2010.
- Unleveraged Discount Rate expectations for 2010 range from down 50 basis points for Apartments to up 60 basis points for Retail.
- Expected vacancy rates up tremendously in all categories - especially Retail and Apartments.
- Mortgage financing is expected to remain scarce in 2010 for all property types. LTV's are down, DCR's are up and commercial mortgage rate risk spreads are wide for everything but the very best fully-leased properties.
- Marketing times are projected to increase in 2010.
- Negative trends of the past two years have taken their toll on CRE values. Certainly some highly leveraged CRE is well underwater by now.

CURRENT STAGE OF REAL ESTATE MARKET CYCLE

	Recovery	Growth	Mature	Recession
Apartments	50.0%	25.0%	12.5%	12.5%
Single Family Residential	44.4%	0.0%	0.0%	55.6%
Industrial	38.8%	0.0%	5.6%	55.6%
Office	10.5%	0.0%	0.0%	89.5%
Retail	10.5%	0.0%	10.5%	79.0%
Hotels	26.7%	0.0%	0.0%	73.3%

The results of our question of the current stage of the real estate cycle for the various property types were not surprising. Apartments were the only category where a majority did not deem it to be in a recession. Single family residential showed improvement as well as industrial. Office, retail and hotels are still firmly in recession. This is typical of economic recessions as property types will flow through the real estate cycle at different points in time. The following graph shows the relative degree of the responses.



LIKELY BEGINNING OF RECOVERY STAGE

This chart provides the percentage of responses as to when recovery will start. The apparent recovery cycle is Apartments by 2nd Quarter 2011, SF residential by 3rd Quarter 2011 and Industrial by 1st Quarter 2012. Most respondents felt that retail and hotels would recovery during 2011, but Office had strong response of 2012 or later.

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Apartment				
2010	20%	0%	20%	20%
2011	20%	20%	0%	0%
2012	0%	0%	0%	0%
SF Residential				
2010	0%	9.1%	0%	9.1%
2011	18.2%	54.5%	9.1%	0%
2012	0%	0%	0%	0%
Industrial				
2010	0%	0%	14.3%	28.6%
2011	7.1%	28.6%	0%	7.1%
2012	14.3%	0%	0%	0%
Retail				
2010	0%	0%	0%	6.7%
2011	26.7%	13.3%	13.3%	20.0%
2012	6.7%	6.7%	0%	6.7%
Office				
2010	0%	0%	0%	5.9%
2011	11.8%	23.5%	11.8%	5.9%
2012	17.6%	0%	0%	23.5%
Hotels				
2010	0%	0%	0%	11.1%
2011	22.2%	33.3%	0%	11.1%
2012	0%	11.1%	0%	11.1%

INVESTMENT CRITERIA

Office Market				
CATEGORY	2010 Range	2010 Average	2009 Range	2009 Average
Holding Period (Years)	7.0-10.0	8.0	2.0 – 10.0	7.2
Income (Growth Rate)	(5.0)% - 3.0%	.8%	2.0% – 5.0%	2.8%
Operating Expenses (Growth Rate)	1.0% - 5.0%	2.9%	1.0% - 3.0%	2.4%
Vacancy Loss	10.0% - 12.0%	10.3%	3.0% – 15.0%	8.9%
Going-In Capitalization Rate	8.0% - 10.5%	9.3%	8.0% - 10.0%	8.8%
Terminal Capitalization Rate	8.5% - 11.0%	9.9%	8.0% - 10.0%	9.2%
Discount Rates (Unleveraged IRR)	9.0% - 16.0%	12.1%	11.0% - 13.0%	11.7%
Equity Yield (Leveraged IRR)	11.0% - 18.0%	13.7%	14.0% - 18.0%	15.4%
Tenant Retention Rates:				
Class A	50% - 90%	62%	50% - 85%	64%
Class B	40% - 90%	59%	50% - 90%	64%
Months vacant between tenants:				
Class A	8.0 – 20.0	13.0	9.0 – 12.0	11.4
Class B	10.0 – 24.0	15.0	9.0 – 12.0	9.8
Retail Market				
CATEGORY	2010 Range	2010 Average	2009 Range	2009 Average
Holding Period (Years)	7.0 – 10.0	8.0	2.0 – 7.0	5.3
Income (Growth Rate)	(5.0)% - 3.0%	.8%	1.0% - 3.0%	2.0%
Operating Expenses (Growth Rate)	2.0% - 4.0%	2.8%	2.0% - 3.0%	2.6%
Vacancy Loss	7.0% - 15.0%	11.7%	3.0% - 15.0%	8.8%
Going-In Capitalization Rate	8.0% - 10.0%	9.2%	8.0% - 10.0%	9.0%
Terminal Capitalization Rate	9.0% - 10.5%	9.8%	9.0% - 10.5%	9.6%
Discount Rates (Unleveraged IRR)	10.0% - 18.0%	12.6%	11.0% - 13.0%	12.0%
Equity Yield (Leveraged IRR)	13.0% - 18.0%	15.3%	14.0% - 16.0%	14.8%
Tenant Retention Rates:				
Neighborhood	40% - 85%	63%	50% - 90%	69%
Community	40% - 85%	58%	50% - 80%	59%
Months vacant between tenants:				
Neighborhood	6.0 – 24.0	11.1	6.0 – 14.0	9.3
Community	6.0 – 24.0	11.5	6.0 – 12.0	10.0
Apartment Market				
CATEGORY	2010 Range	2010 Average	2009 Range	2009 Average
Holding Period (Years)	7.0 – 10.0	8.5	5.0 – 10.0	7.3
Income (Growth Rate)	(2.0)% - 5.0%	1.7%	1.0% - 2.0%	1.8%
Operating Expenses (Growth Rate)	2.0% - 4.0%	2.7%	1.0% - 3.0%	2.4%
Vacancy Loss	6.0% - 10.0%	7.8%	3.0% - 10.0%	4.9%
Going-In Capitalization Rate	7.0% - 9.0%	8.0%	7.0% - 9.0%	7.9%
Terminal Capitalization Rate	8.0% - 9.5%	8.8%	8.0% - 10.0%	8.7%
Discount Rates (Unleveraged IRR)	9.5% - 12.0%	10.4%	10.0% - 12.0%	10.9%
Equity Yield (Leveraged IRR)	12.0% - 16.0%	13.5%	12.0% - 15.0%	13.7%

Industrial Market				
CATEGORY	2010 Range	2010 Average	2009 Range	2009 Average
Holding Period (Years)	7.0 - 15.0	10.1	7.0 - 10.0	8.5
Income (Growth Rate)	(5.0)% - 3.0%	.8%	1.0% - 3.0%	2.4%
Operating Expenses (Growth Rate)	1.0% - 3.0%	2.2%	2.0% - 3.0%	2.6%
Vacancy Loss	7.0% - 12.0%	9.6%	3.0% - 15.0%	8.4%
Going-In Capitalization Rate	8.0% - 10.5%	9.4%	8.0% - 12.0%	9.2%
Terminal Capitalization Rate	9.0% - 12.0%	10.3%	8.0% - 13.0%	9.9%
Discount Rates (Unleveraged IRR)	10.0% - 15.0%	11.7%	11.0% - 13.0%	11.6%
Equity Yield (Leveraged IRR)	12.0% - 18.0%	13.9%	11.0% - 18.0%	14.8%
Tenant Retention Rates:				
Office/Whse.	50% - 90%	71.5%	50% - 90%	74%
Distribution	50% - 80%	65.6%	50% - 90%	71%
Months vacant between tenants:				
Office/Whse.	4.0 - 18.0	11.1	4.0 - 15.0	9.9
Distribution	6.0 - 24.0	13.3	6.0 - 15.0	10.0

LAND LEASE RATES

	Range	Average	Change From 2009
Cap Rate (with flat rent)	8.25% - 10.00%	9.65%	+46 basis point
Cap Rate (average 2% ann. escalation)	8.00% - 10.00%	8.00%	+38 basis points

RESERVES, LEASING COSTS, AND TI'S

Include in Cap Rate Analysis	Yes	No
Reserves for Replacement	88%	12%
Leasing Commissions	80%	20%
Tenant Improvement Costs	46%	54%

COST OF SALE

Price Range	Low	High	Average
<\$500K	5%	9%	6.6%
\$500K to \$1M	4%	8%	6.3%
\$1M to \$3M	3%	7%	5.0%
\$3M to \$5M	3%	6%	4.2%
>\$5M	2%	5%	3.4%

ENTREPRENEURIAL PROFIT

Basis	Year	Low	High	Median
Improvements Only	2010	10%	20%	15.5%
	2009	10%	25%	15%
	2008	8%	20%	12%
	2007	10%	18%	15%
	2006	10%	25%	15%
	2005	10%	30%	15%
	2004	10%	20%	13%
Land and Improvements	2010	10%	30%	15%
	2009	10%	20%	14%
	2008	10%	15%	10%
	2007	9%	25%	16%
	2006	8%	35%	15%
	2005	8%	30%	15%
	2004	10%	25%	14%

LOT PRICE RATIOS

Improved Property Price	Lot Value Ratio Range as % of Total Price					Median				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Starter Housing \$200-\$300K	15-30%	13-34%	20-40%	20-30%	20-35%	26%	25%	28%	28%	25%
Move Up Housing \$300-\$400K	18-35%	13-33%	20-35%	20-28%	20-30%	25%	25%	25%	25%	22%
Luxury Housing \$400-600K	20-35%	13-30%	15-35%	20-28%	20-25%	25%	25%	25%	23%	23%
High End Luxury Housing Over \$600K			15-35%	20-25%	20-25%			25%	20%	22%

AVAILABILITY OF MORTGAGE FINANCING

Property Type	Past 12 months	Next 12 months
Apartments	1.6	1.6
Hotels	1.1	1.1
Industrial	1.3	1.3
Office	1.1	1.2
Retail	1.3	1.2
Residential (A & D)	1.1	1.1
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	14.3%	57.1%	28.6%
Small unanchored retail center	0.0%	46.2%	53.8%
Neighborhood retail center	7.7%	38.5%	53.8%
Community retail center	0.0%	50.0%	50.0%
Regional retail center	0.0%	54.5%	45.5%
Multi-family			
Apartment (> 120 units)	33.3%	50.0%	16.7%
Apartment (< 120 units)	33.3%	58.3%	8.3%
Office			
Large - well leased	7.7%	61.5%	30.8%
Large – poorly leased	7.7%	0.0%	92.3%
Small – well leased < 20,000 sf	15.4%	53.8%	30.8%
Small – poorly leased < 20,000 sf	0.0%	23.1%	76.9%
Industrial			
Small single user	14.3%	64.3%	21.4%
Multi-tenant flex/bulk distribution	0.0%	57.1%	42.9%
Manufacturing Buildings	0.0%	23.1%	76.9%
Special use properties			
Banks, historic, churches, etc.	0.0%	33.3%	66.7%
Land			
Single family development	0.0%	0.0%	100.0%
Multi-family development	0.0%	30.8%	69.2%
Retail	0.0%	23.1%	76.9%
Office	0.0%	8.3%	91.7%
Industrial	0.0%	16.7%	83.3%

	No Change	Increase	Decrease
Marketing period change from 2009	50%	25%	25%

This Real Estate Market Survey is an annual publication of Knight, Dorin & Rountrey. This is our 18th 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.

CORPORATE PROFILE

KNIGHT, DORIN & ROUNTREY

REAL ESTATE ANALYSTS

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

J. Parks Rountrey, MAI, SRA
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Michael A. Knight

ADVISORY & CONSULTING SERVICES

- 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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**CENTRAL VIRGINIA
MARKET SURVEY HISTORICAL SUMMARY 2010**
(Response Averages)

