

KNIGHT DORIN & ROUNTREY

Central Virginia

2012 Real Estate Market Participant Survey



20th Year Edition

CENTRAL VIRGINIA MARKET INSIGHT – 2012

Commercial Real Estate Market Outlook for 2012 – As of first quarter 2012 the experts' views regarding the local CRE market were for the most part - slightly more upbeat than they were in 2011. However, Single Family Residential and Retail are still considered to be in recession in 2012, but an increasing number did indicate a recovery for these property types. The mixed signals from our current survey are detailed in the charts that follow. Industrial and Office markets are generally considered to be in recovery. The local economy is improving, but 2011 was a tough year in Central Virginia with volatile and weak employment growth. Virginia's outstanding 5.6 % overall unemployment rate is influenced by strength in the Northern Virginia area fueled by Federal Government expansion. Growing unsustainable government deficits and mounting government debt remain a source of much concern relative to the long term economic outlook. Commercial real estate values are benefiting from easier financing, lower cap rates and stable to increasing rents. Although many of our survey participants as of early 2012 still felt financing availability was sub-par, they note that it has continued to improve. By most accounts 2012 will likely be better than 2011 for CRE. However, the fragile recovery could easily stall if challenged by any additional headwinds.

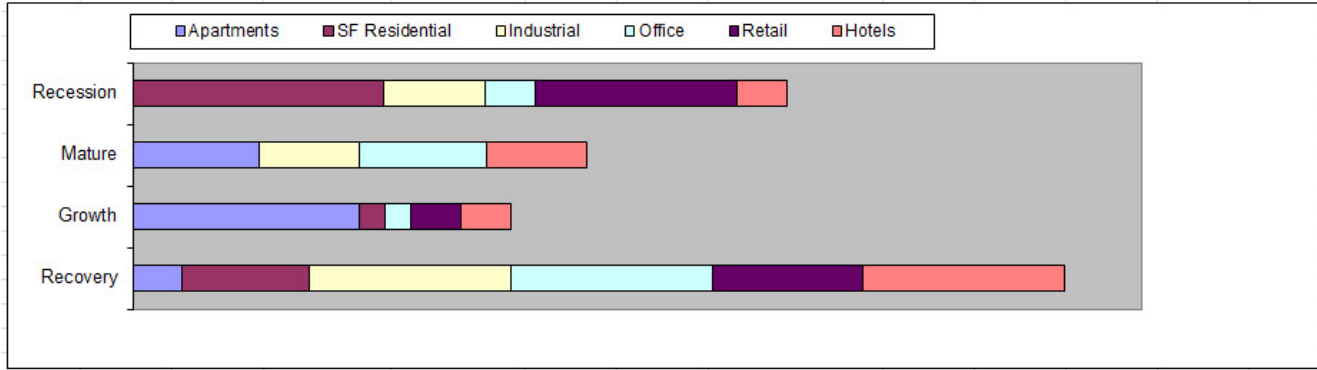
- Investment Holding Periods are getting shorter for all categories except Apartments.
- Overall Cap Rates are anticipated to decline 10 to 50 basis points in 2012.
- Unleveraged Discount Rates are anticipated to decline 10 to 60 basis points for 2012.
- Expected vacancy rates declined in all categories – Office down by a whopping 1.2 %.
- Mortgage financing availability is still regarded as less than adequate, but gradually improving for all property types – even Residential A&D loans can be had for the right deal.
- Marketing times are expected to remain similar to what they were in 2011 with a few experts expecting marketing times to decrease a bit in 2012.
- CRE is benefiting from low interest rates, increasing risk tolerance and the lack of attractive alternative investment yields.

CURRENT STAGE OF REAL ESTATE MARKET CYCLE

	Recovery	Growth	Mature	Recession
Apartments	12.4%	56.3%	31.3%	00.0%
Single Family Residential	31.3%	6.3%	0.0%	62.4%
Industrial	50.0%	0.0%	25.0%	25.0%
Office	50.0%	6.3%	31.3%	12.4%
Retail	37.5%	12.5%	0.0%	50.0%
Hotels	50.0%	12.5%	25.0%	12.5%

Most of the results show a split of opinion - primarily between Recovery and Recession. Apartments were the only category where no one indicated recession. Single family residential and retail categories actually had more votes for recession than the 2011 survey with a higher percentage being in a recession than in any other part of the cycle. From the responses it can be said that the experts see continuing improvement in CRE markets, but the velocity of improvement has slowed since 2011.

LIKELY BEGINNING OF RECOVERY STAGE



This chart provides a forecast of when recovery will start for the various property types from the respondents who indicated we were still in recession. The apartment market is recovered with only a small percentage indicating the recovery stage. SF Residential continues to be the primary category of property type in recession, followed by retail. As shown below over 50% of the responses indicate that single family recovery will occur during 2013. The largest single quarter response was for the first quarter of 2014. Seventy-five percent of responses indicated that retail recovery will be during 2013. Likewise hotels are expected to fully recover in 2013. In fact the only property type with a response of recovery occurring in 2014 was single family residential.

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
SF Residential				
2012	0%	0%	0%	18.8%
2013	18.8%	18.8%	6.3%	6.3%
2014	31.3%	0%	0%	0%
Industrial				
2012	33.3%	0%	0%	33.3%
2013	33.3%	0%	0%	0%
2014	0%	0%	0%	0%
Retail				
2012	0%	0%	25%	0%
2013	50.0%	0%	25%	0%
2014	0%	0%	0%	0%
Office				
2012	0%	0%	18.8%	0%
2013	18.7%	62.5%	0%	0%
2014	0%	0%	0%	0%
2015	0%	0%	0%	0%
Hotels				
2012	0%	0%	0%	14.3%
2013	28.6%	42.9%	0%	14.3%
2014	0%	0%	0%	0%

INVESTMENT CRITERIA

Office Market				
CATEGORY	2012 Range	2012 Average	2011 Range	2011 Average
Holding Period (Years)	5.0-10.0	7.4	5.0 – 10.0	8.4
Income (Growth Rate)	1.0% - 3.0%	2.2%	0% - 6.0%	2.5%
Operating Expenses (Growth Rate)	1.0% - 3.0%	2.1%	1.0% - 3.0%	2.5%
Vacancy Loss	5.0% - 12.0%	8.6%	5.0% – 15.0%	9.8%
Going-In Capitalization Rate	7.5% - 10.0%	8.8%	8.0% - 11.0%	8.9%
Terminal Capitalization Rate	8.5% - 10.5%	9.5%	8.0% - 12.0%	9.5%
Discount Rates (Unleveraged IRR)	8.0% - 12.0%	10.4%	9.5% - 12.0%	10.8%
Equity Yield (Leveraged IRR)	12.0% - 18.0%	13.7%	12.0% - 20.0%	14.2%
Tenant Retention Rates:				
Class A	60% - 75%	69%	50% - 85%	68%
Class B	50% - 40%	63%	50% - 85%	64%
Months vacant between tenants:				
Class A	6.0 – 12.0	8.0	6.0 – 12.0	9.9
Class B	6.0 – 16.0	10.7	6.0 – 18.0	12.1
Retail Market				
CATEGORY	2012 Range	2012 Average	2011 Range	2011 Average
Holding Period (Years)	5.0 – 10.0	8.0	7.0 – 10.0	9.0
Income (Growth Rate)	1.0% - 3.0%	1.6%	(5.0)% - 3.0%	2.0%
Operating Expenses (Growth Rate)	1.0% - 2.0%	2.0%	1.0% - 3.0%	2.7%
Vacancy Loss	8.0% - 15.0%	11.0%	8.0% - 20.0%	11.0%
Going-In Capitalization Rate	7.5% - 10.0%	8.7%	8.0% - 12.0%	9.1%
Terminal Capitalization Rate	8.5% - 10.0%	9.3%	8.0% - 13.0%	9.6%
Discount Rates (Unleveraged IRR)	9.0% - 13.0%	10.7%	9.5% - 12.0%	11.0%
Equity Yield (Leveraged IRR)	11.0% - 18.0%	13.8%	12.0% - 16.0%	14.3%
Tenant Retention Rates:				
Neighborhood	40% - 80%	59%	50% - 80%	64%
Community	50% - 85%	68%	60% - 80%	67%
Months vacant between tenants:				
Neighborhood	3.0 – 18.0	10.4	6.0 – 18.0	10.4
Community	6.0 – 12.0	10.4	4.0 – 18.0	9.0
Apartment Market				
CATEGORY	2012 Range	2012 Average	2011 Range	2011 Average
Holding Period (Years)	8.0 – 12.0	10.0	7.0 – 10.0	9.0
Income (Growth Rate)	2.0% - 5.0%	3.4%	2.0% - 5.0%	3.0%
Operating Expenses (Growth Rate)	1.0% - 3.0%	2.0%	1.0% - 4.0%	3.0%
Vacancy Loss	4.0% - 8.0%	6.0%	4.0% - 10.0%	6.8%
Going-In Capitalization Rate	6.0% - 8.0%	7.1%	6.0% - 9.0%	7.6%
Terminal Capitalization Rate	7.0% - 9.0%	7.9%	7.0% - 9.0%	8.3%
Discount Rates (Unleveraged IRR)	8.5% - 10.5%	9.6%	8.0% - 11.0%	9.7%
Equity Yield (Leveraged IRR)	10.0% - 14.0%	11.8%	12.0% - 15.0%	13.2%

Industrial Market				
CATEGORY	2012 Range	2012 Average	2011 Range	2011 Average
Holding Period (Years)	5.0 -10.0	8.9	5.0 - 10.0	9.1
Income (Growth Rate)	0% - 3.0%	1.8%	1.0% - 3.0%	2.4%
Operating Expenses (Growth Rate)	1.0% - 3.0%	2.3%	1.0% - 3.0%	2.5%
Vacancy Loss	7.0% - 12.0%	9.6%	5.0% - 15.0%	10.0%
Going-In Capitalization Rate	7.0% - 10.0%	8.9%	8.0% - 11.0%	9.0%
Terminal Capitalization Rate	8.0% - 12.0%	9.5%	8.0% - 12.0%	9.5%
Discount Rates (Unleveraged IRR)	8.0% - 12.0%	10.5%	9.5% - 12.0%	11.1%
Equity Yield (Leveraged IRR)	10.0% - 18.0%	13.6%	12.0% - 16.0%	14.0%
Tenant Retention Rates:				
Office/Whse.	60% - 70%	68.0%	40% - 85%	65%
Distribution	60% - 75%	68.3%	50% - 85%	66%
Months vacant between tenants:				
Office/Whse.	6.0 – 12.0	10.4	3.0 – 18.0	11.5
Distribution	6.0 – 18.0	10.6	4.0 – 18.0	11.6

LAND LEASE RATES

	Range	Average	Change From 2011
Cap Rate (with flat rent)	6.50% - 10.00%	8.60%	-51 basis point
Cap Rate (average 2% ann. escalation)	5.00% - 10.00%	7.25%	-100 basis points

RESERVES, LEASING COSTS, AND TI'S

Include in Cap Rate Analysis	Yes	No
Reserves for Replacement	80%	20%
Leasing Commissions	80%	20%
Tenant Improvement Costs	30%	70%

COST OF SALE

Price Range	Low	High	Average
<\$500K	4%	10%	6.5%
\$500K to \$1M	3%	9%	6.0%
\$1M to \$3M	3%	8%	4.7%
\$3M to \$5M	2%	7%	4.1%
>\$5M	1%	6%	3.1%

ENTREPRENEURIAL PROFIT

Basis	Year	Low	High	Median
Improvements Only	2012	10%	18%	14%
	2011	10%	15%	11%
	2010	10%	20%	15%
	2009	10%	25%	15%
	2008	8%	20%	12%
	2007	10%	18%	15%
	2006	10%	25%	15%
Land and Improvements	2012	5%	15%	10%
	2011	10%	25%	15%
	2010	10%	30%	15%
	2009	10%	20%	14%
	2008	10%	15%	10%
	2007	9%	25%	16%
	2006	8%	35%	15%

LOT PRICE RATIOS

Improved Property Price	Lot Value Ratio Range as % of Total Price					Median				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Starter Housing \$200-\$300K	20-40%	20-30%	20-35%	20-25%	20-25%	28%	28%	25%	24%	25%
Move Up Housing \$300-\$400K	20-35%	20-28%	20-30%	20-25%	20-27%	25%	25%	22%	25%	24%
Luxury Housing \$400-600K	15-35%	20-28%	20-25%	20-30%	20-30%	25%	23%	23%	25%	25%
High End Luxury Housing Over \$600K	15-35%	20-25%	20-25%	20-25%	20-30%	25%	20%	22%	25%	27%
Townhouse				25-33%	25-30%				28%	25%

AVAILABILITY OF MORTGAGE FINANCING

Property Type	Past 12 months	Next 12 months	
Apartments	2.4	2.6	
Hotels	1.4	1.6	
Industrial	1.7	1.9	
Office	1.7	1.9	
Retail	1.7	1.9	
Residential (A & D)	1.1	1.5	
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	57.1%	28.6%	14.3%
Small unanchored retail center	0.0%	71.4%	28.6%
Neighborhood retail center	40.0%	60.0%	0.0%
Community retail center	33.3%	50.0%	16.7%
Regional retail center	16.7%	33.3%	50.0%
Multi-family			
Apartment (> 120 units)	80.0%	20.0%	0.0%
Apartment (< 120 units)	40.0%	60.0%	0.0%
Office			
Large - well leased	66.7%	33.3%	0.0%
Large – poorly leased	0.0%	16.7%	83.3%
Small – well leased < 20,000 sf	33.3%	66.7%	0.0%
Small – poorly leased < 20,000 sf	0.0%	16.7%	83.3%
Industrial			
Small single user	12.5%	87.5%	0.0%
Multi-tenant flex/bulk distribution	12.5%	75.0%	12.5%
Manufacturing Buildings	0.0%	12.5%	87.5%
Special use properties			
Banks, historic, churches, etc.	0.0%	40.0%	60.0%
Land			
Single family development	0.0%	28.6%	71.4%
Multi-family development	12.5%	62.5%	25.0%
Retail	0.0%	66.7%	33.3%
Office	0.0%	50.0%	50.0%
Industrial	0.0%	25.0%	75.0%

	No Change	Increase	Decrease
Marketing period change from 2011	82%	0%	18%

This Real Estate Market Survey is an annual publication of Knight, Dorin & Rountrey. ***This is our 20th 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

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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 2012**
(Response Averages)

