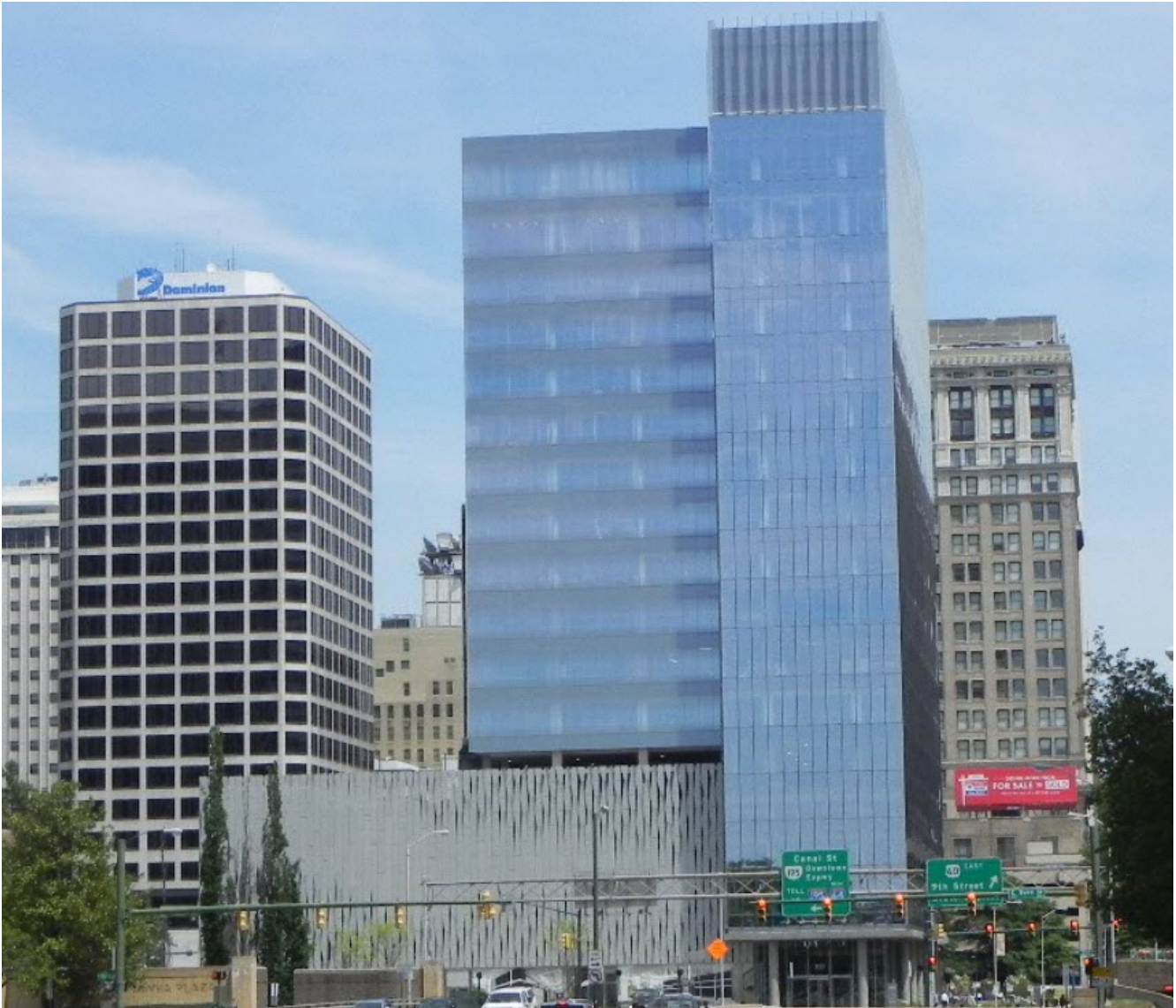


**KNIGHT DORIN & ROUNTREY**

**Central Virginia**

**2016 Real Estate Market Participant Survey**



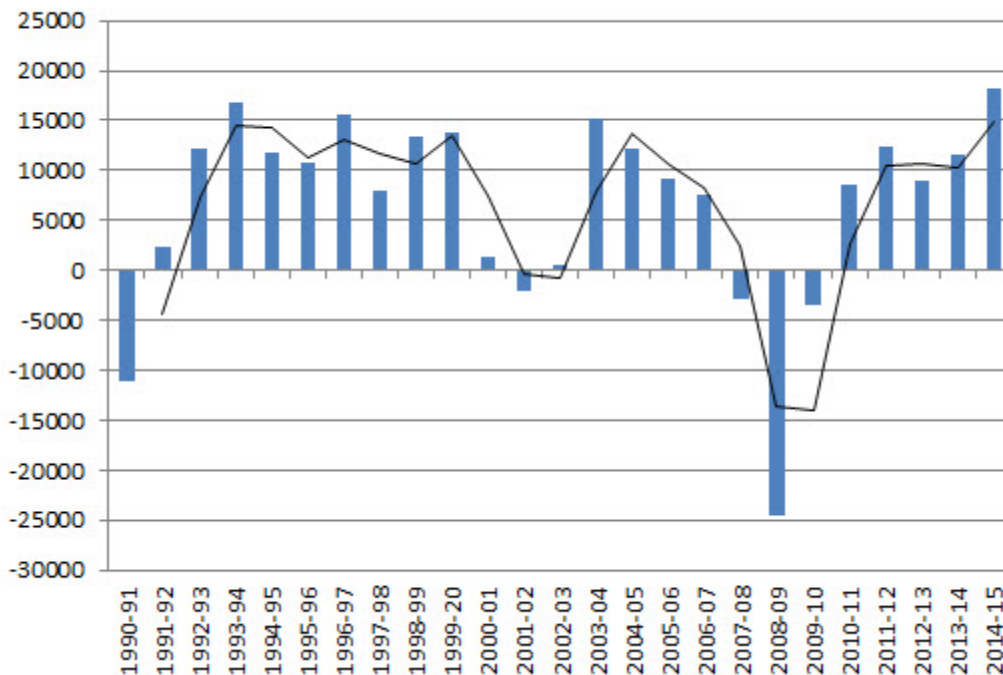
*24<sup>th</sup> Year Edition*

## CENTRAL VIRGINIA MARKET INSIGHT – 2016

**Commercial Real Estate Market Outlook for 2016** – Our survey indicated that 45% of the market participants projected conditions to be the same and 55% projected that it would be better. This is similar to last year, but with a slightly more optimistic response. This may be conservative when considering the jump in employment during 2015 which spurs demand for CRE.

According to the Virginia Employment Commission, the average total nonfarm employment for the Richmond MSA in 2015 jumped 18,100 jobs over the average for 2014. As shown in the chart below this is the largest single year growth over the past 24 years. The growth was broad based led by Professional and Business Services with an increase of 6,800 jobs; followed by Leisure and Hospitality with 2,800; Construction with 2,400 and Education and Health Services with 2,300.

### Total Annual Employment Change



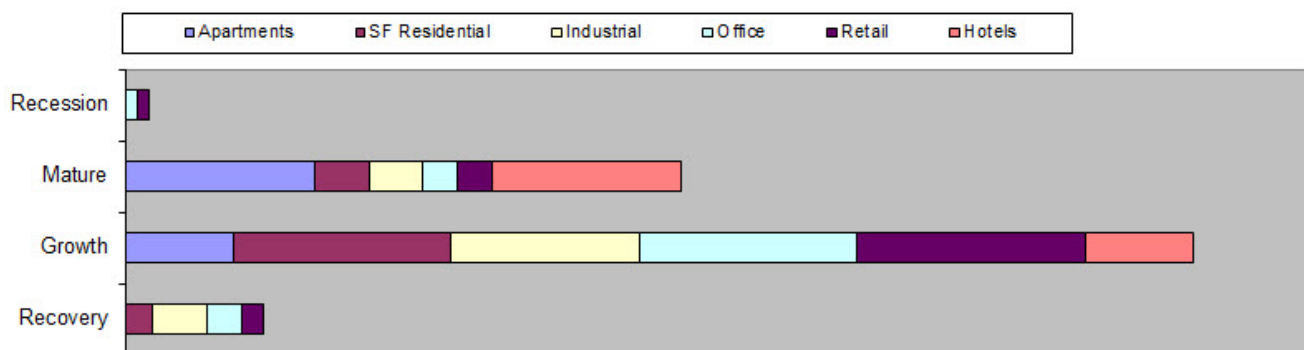
*Richmond MSA – Virginia Employment Commission*

Our survey indicates that vacancies are down for all property types, except for apartments which showed a slight upward tick. The improvement of fundamental demand (positive job growth), scarcity of product and continued low interest rates should lead to a greater amount of new construction during 2016 and for a few years to come. There are; however, concerns by many economists that we may be nearing the recession stage of the current business cycle as the economic recovery is now over six years old. Historically, the real estate cycle tends to trail or follow the business cycle. Our survey of the current state of the real estate market cycle indicated that apartments and hotels are in the mature stage, while office and retail properties are in the growth stage. The central Virginia CRE market should have at least two more years before entering into the recession stage of the real estate market cycle.

## CURRENT STAGE OF REAL ESTATE MARKET CYCLE

	Recovery	Growth	Mature	Recession
Apartments	0.0%	36.4%	63.6%	0.0%
Single Family Residential	9.1%	72.7%	18.2%	0.0%
Industrial	18.2%	63.6%	18.2%	0.0%
Office	11.5%	73.1%	11.5%	3.8%
Retail	7.7%	76.9%	11.5%	3.8%
Hotels	0.0%	36.4%	63.6%	0.0%

The results indicate a real estate cycle that is still primarily in a growth stage, but is moving into the mature stage. This is the stage of a cycle where prices are nearing their peak and brings into question the sustainability of the low cap rates we are experiencing.



## INVESTMENT CRITERIA

Office Market				
CATEGORY	2016 Range	2016 Average	2015 Range	2015 Average
Holding Period (Years)	6.0 - 9.0	7.0	5.0 - 10.0	7.3
Income (Growth Rate)	2.0% - 3.0%	2.5%	2% - 3.0%	2.7%
Operating Expenses (Growth Rate)	2.0% - 2.5%	2.3%	2.0% - 2.5%	2.2%
Vacancy Loss	5.0% - 10.0%	8.0%	5.0% - 10.0%	8.2%
Going-In Capitalization Rate	7.0% - 9.0%	7.9%	7.5% - 9.0%	8.3%
Terminal Capitalization Rate	7.0% - 10.0%	8.4%	8.0% - 10.0%	8.7%
Discount Rates (Unleveraged IRR)	9.5% - 11.0%	10.5%	9.0% - 12.0%	9.9%
Equity Yield (Leveraged IRR)	11.0% - 17.0%	13.4%	12.0% - 14.0%	13.0%
Tenant Retention Rates:				
Class A	60% - 75%	67%	60% - 89%	71%
Class B	30% - 75%	62%	60% - 75%	68%
Months vacant between tenants:				
Class A	4.0 - 9.0	7.4	3.0 - 12.0	6.8
Class B	6.0 - 12.0	9.0	6.0 - 18.0	11.8

<b>Retail Market</b>				
<b>CATEGORY</b>	<b>2016 Range</b>	<b>2016 Average</b>	<b>2015 Range</b>	<b>2015 Average</b>
Holding Period (Years)	5.0 – 10.0	7.3	7.0 – 10.0	8.0
Income (Growth Rate)	1.0% - 2.5%	2.0%	2.5% - 3.0%	2.8%
Operating Expenses (Growth Rate)	2.0% - 2.5%	2.2%	2.0% - 2.5%	2.2%
Vacancy Loss	5.0% - 10.0%	7.3%	7.0% - 10.0%	8.2%
Going-In Capitalization Rate	7.0% - 9.0%	7.9%	6.8% - 9%	7.9%
Terminal Capitalization Rate	8.0% - 9.5%	8.6%	7.3% - 8.5%	8.3%
Discount Rates (Unleveraged IRR)	9.0% - 13.0%	10.3%	9.0% - 12.0%	9.8%
Equity Yield (Leveraged IRR)	11.0% - 19.0%	13.7%	12.0% - 17.5%	14.8%
Tenant Retention Rates:				
Neighborhood	40% - 75%	64%	70% - 95%	81%
Community	50% - 75%	66%	65% - 90%	79%
Months vacant between tenants:				
Neighborhood	4.0 – 12.0	6.8	6.0 – 13.0	8.3
Community	6.0 – 12.0	9.0	3.0 – 7.0	5.6

<b>Apartment Market</b>				
<b>CATEGORY</b>	<b>2016 Range</b>	<b>2016 Average</b>	<b>2015 Range</b>	<b>2015 Average</b>
Holding Period (Years)	5.0 – 10.0	6.7	2.0 – 10.0	6.0
Income (Growth Rate)	2.0% - 3.0%	2.6%	2.0% - 3.0%	2.8%
Operating Expenses (Growth Rate)	2.0% - 3.0%	2.5%	2.0% - 3.0%	2.5%
Vacancy Loss	5.0% - 8.0%	5.8%	4.0% - 7.0%	5.3%
Going-In Capitalization Rate	5.5% - 7.0%	6.2%	6.0% - 8.0%	6.5%
Terminal Capitalization Rate	6.5% - 8.0%	7.1%	7.0% - 8.0%	7.3%
Discount Rates (Unleveraged IRR)	8.0% - 11.0%	8.9%	8.0% - 9.0%	8.3%
Equity Yield (Leveraged IRR)	12.0% - 19.0%	14.3%	12.0% - 17.5%	14.1%

<b>Industrial Market</b>				
<b>CATEGORY</b>	<b>2016 Range</b>	<b>2016 Average</b>	<b>2015 Range</b>	<b>2015 Average</b>
Holding Period (Years)	5.0 -10.0	7.7	7.0 - 10.0	9.1
Income (Growth Rate)	2.0% - 3.0%	2.5%	1.0% - 3.0%	2.3%
Operating Expenses (Growth Rate)	1.0% - 2.5%	1.9%	2.0% - 3.0%	2.3%
Vacancy Loss	4.0% - 10.0%	6.2%	3.0% - 10.0%	6.6%
Going-In Capitalization Rate	6.0% - 9.0%	8.1%	7.0% - 10.0%	8.2%
Terminal Capitalization Rate	6.0% - 10.0%	8.7%	7.5% - 12.0%	9.1%
Discount Rates (Unleveraged IRR)	9.0% - 13.0%	10.6%	9.0% - 10.5%	10.1%
Equity Yield (Leveraged IRR)	11.0% - 18.0%	13.3%	12.0% - 20.0%	14.5%
Tenant Retention Rates:				
Office/Whse.	30% - 80%	61.0%	65% - 90%	74%
Distribution	65% - 80%	74.2%	65% - 91%	75%
Months vacant between tenants:				
Office/Whse.	6.0 – 12.0	9.0	4.0 – 25.0	10.4
Distribution	2.0 – 12.0	5.7	5.0 – 24.0	10.4

## LAND LEASE RATES

	Range	Average	Change From 2015
Cap Rate (with flat rent)	6.00% - 9.00%	6.75%	-18 basis points
Cap Rate (average 2% ann. escalation)	4.20% - 7.50%	5.47%	-72 basis points

## RESERVES, LEASING COSTS, AND TI'S

Include in Cap Rate Analysis	Yes	No
Reserves for Replacement	71%	29%
Leasing Commissions	50%	50%
Tenant Improvement Costs	38%	63%

## COST OF SALE

Price Range	Low	High	Average
<\$500K	3%	10%	5.80%
\$500K to \$1M	3%	7%	5.27%
\$1M to \$3M	2%	6%	4.73%
\$3M to \$5M	2%	6%	4.09%
>\$5M	2%	6%	3.00%

## ENTREPRENEURIAL INCENTIVE

Basis	Year	Low	High	Median
<b>Improvements Only</b>	2016	10%	20%	15%
	2015	8%	20%	14%
	2014	10%	20%	15%
	2013	10%	20%	15%
	2012	10%	18%	14%
	2011	10%	15%	11%
	2010	10%	20%	15%
	2009	10%	25%	15%
	2008	8%	20%	12%
	2007	10%	18%	15%
<b>Land and Improvements</b>	2016	10%	15%	13%
	2015	8%	30%	12%
	2014	8%	18%	12%
	2013	8%	20%	10%
	2012	5%	15%	10%
	2011	10%	25%	15%
	2010	10%	30%	15%
	2009	10%	20%	14%
	2008	10%	15%	10%
	2007	9%	25%	16%
<b>Gross Lot or Unit Sales</b>	2016	30%	35%	33%
	2015	25%	33%	25%
	2014	25%	50%	30%

## LOT PRICE RATIOS

Improved Property Price Range	Lot Value Ratio Range as % of Total Price					Median				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Starter Housing \$200-\$300K	20-25%	18-30%	15-30%	20-25%	20-25%	25%	22%	28%	25%	24%
Move Up Housing \$300-\$400K	20-27%	15-25%	17-30%	23-26%	18-25%	24%	20%	23%	26%	22%
Luxury Housing \$400-600K	20-30%	14-25%	18-25%	20-30%	25-30%	25%	20%	25%	28%	25%
High End Luxury Housing Over \$600K	20-30%	18-25%	20-28%	15-29%	23-30%	27%	20%	20%	27%	25%
Townhouse	25-30%	20-30%	15-32%	23-25%	23-28%	25%	20%	30%	25%	25%

## AVAILABILITY OF MORTGAGE FINANCING

Property Type	Past 12 months	Next 12 months
Apartments	2.8	2.8
Hotels	2.0	2.0
Industrial	2.7	2.7
Office	2.0	2.4
Retail	2.4	2.6
Residential (A & D)	1.5	1.8
Rating Scale:	1 = Inadequate	2 = Adequate
		3 = Abundant

## REAL ESTATE LIQUIDITY – MARKETING PERIOD

Property Type	% of Responses		
	< 6 Months	6-12 Months	> 12 Months
<b>Retail</b>			
Free-standing single user retail	50%	50%	0%
Small unanchored retail center	20%	60%	20%
Neighborhood retail center	57%	43%	0%
Community retail center	50%	50%	0%
Regional retail center	50%	25%	25%
<b>Multi-family</b>			
Apartment (> 120 units)	67%	33%	0%
Apartment (< 120 units)	75%	25%	0%
<b>Office</b>			
Large - well leased	60%	40%	0%
Large – poorly leased	20%	60%	20%
Small – well leased < 20,000 sf	17%	83%	0%
Small – poorly leased < 20,000 sf	17%	50%	33%
<b>Industrial</b>			
Small single user	57%	43%	0%
Multi-tenant flex/bulk distribution	43%	29%	28%
Manufacturing buildings	14%	15%	71%
<b>Special use properties</b>			
Banks, historic, churches, etc.	0%	67%	33%
<b>Land</b>			
Single family development	20%	60%	20%
Multi-family development	40%	60%	0%
Retail	20%	60%	20%
Office	%	20%	80%
Industrial	14%	57%	29%

In general 83% of the respondents felt that there would be no change, 17% felt there would be an increase and 0% projected a decrease in marketing time.

This Real Estate Market Survey is an annual publication of Knight, Dorin & Rountrey. *This is our 24<sup>th</sup> 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
- Charlottesville Area
- Fredericksburg Area
- Williamsburg Area

#### OWNER

Edward G. Knight, MAI, SRA

#### PROFESSIONAL STAFF

J. Parks Rountrey, MAI, SRA  
William A. Hopkins, Jr., MAI, SRA  
Michael A. Knight  
James A. Wood, Jr.  
Nicholas W. Stafford  
W. Wickham Smith, III  
Summer D. Back

#### 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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Real Estate Analysts

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Website: [KDRRE.com](http://KDRRE.com)



**CENTRAL VIRGINIA  
MARKET SURVEY HISTORICAL SUMMARY 2016**  
(Response Averages)

