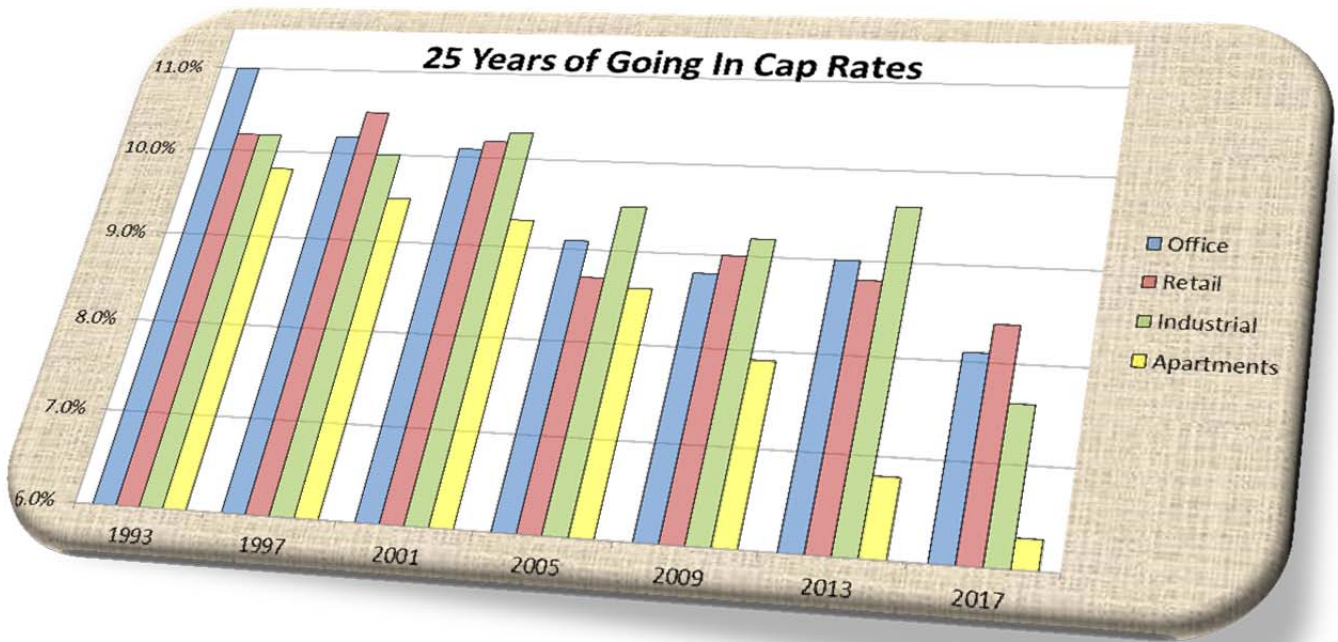


KNIGHT DORIN & ROUNTREY



Central Virginia

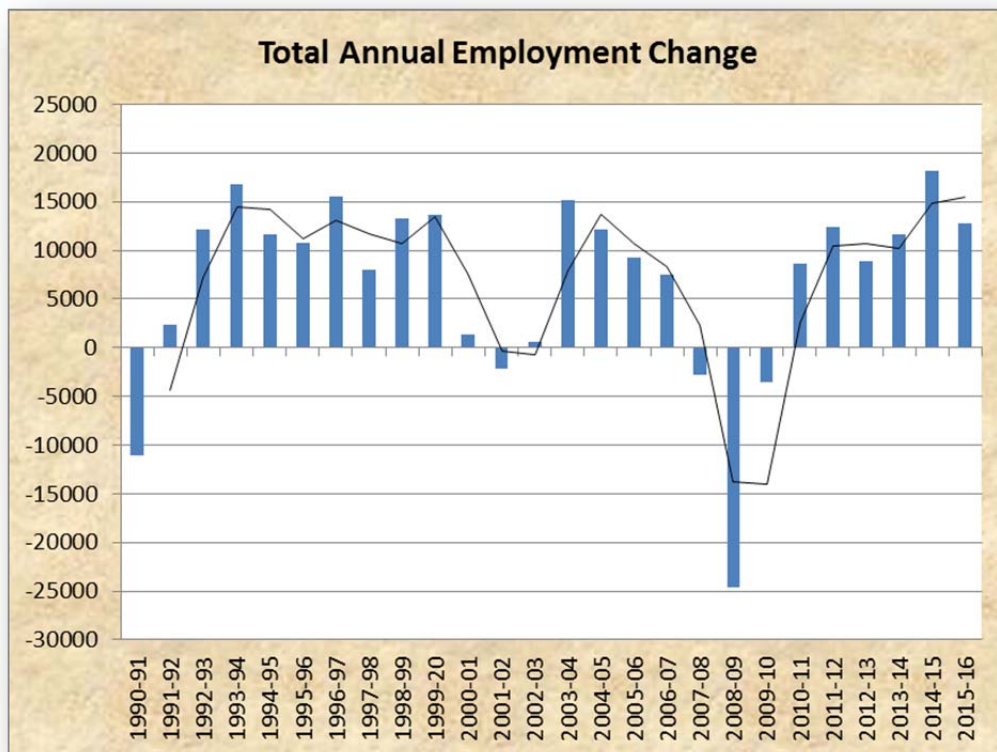
2017 Real Estate Market Participant Survey

25th Year Edition

CENTRAL VIRGINIA MARKET INSIGHT – 2017

Commercial Real Estate Market Outlook for 2017 – Our survey indicated that 69% of the market participants projected conditions to be the same and 31% projected that it would be better. This is a shift from last year when 55% indicated that it would be better. It is reflective of the slowdown in the business economy and the maturing of the current real estate cycle.

According to the Virginia Employment Commission, the average total nonfarm employment for the Richmond MSA in 2016 increased 12,800 jobs over the average for 2015. This was a decline from a growth of 18,100 jobs 2014-2015, but is still higher than the median of 9,950 since 1990-91. The 2015-16 growth continued to be led by the Professional and Business Services industry sector with an increase of 4,800 jobs, followed by Education and Health Services with 3,000 new jobs, and Leisure and Hospitality with 2,700 new jobs.

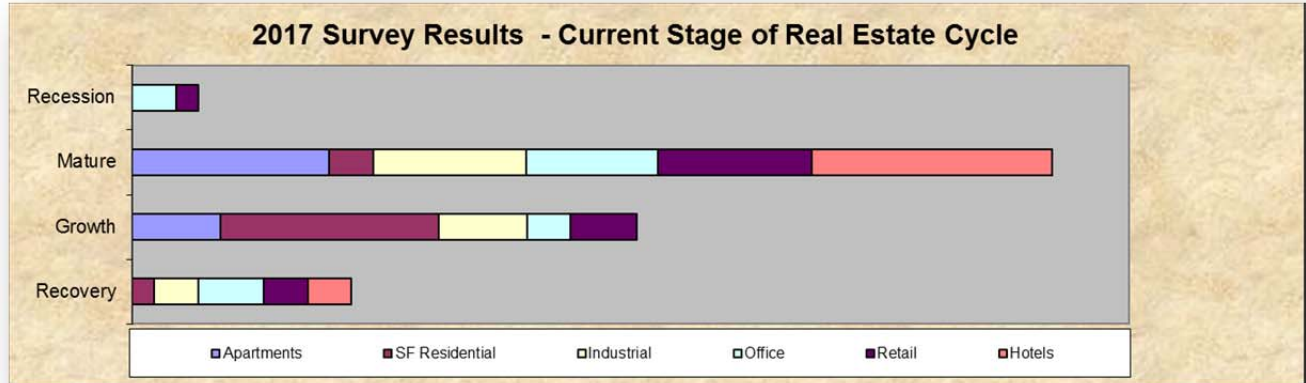


Richmond MSA – Virginia Employment Commission

As of March 2017 there was a continued moderation of growth with 7,500 jobs over the past 12 months. Education and Health Services remains strong with a growth of 3,600 jobs, but Professional and Business Services experienced a decline of 500 jobs. Construction jumped back up to 2,800 job growth.

Our survey indicates that overall, the current real estate cycle has shifted to a greater weighting in the Mature stage of the cycle versus the Growth stage of the cycle that was exhibited in 2016. The only real estate type that was still predominantly projected to be in the Growth stage was Single Family Residential. The greatest uncertainty was exhibited in Office and Retail where both Recession and Recovery were reported.

	Recovery	Growth	Mature	Recession
Apartments	0.0%	30.8%	69.2%	0.0%
Single Family Residential	7.7%	76.9%	15.4%	0.0%
Industrial	15.4%	30.8%	53.8%	0.0%
Office	23.1%	15.4%	46.2%	15.4%
Retail	15.4%	23.1%	53.8%	7.7%
Hotels	15.4%	0.0%	84.6%	0.0%



Typical characteristics of a market in the Mature stage of the real estate cycle include:

- (1) Market rents are above feasibility rent but are flat or decreasing;
- (2) Market vacancy is below normal (frictional) vacancy, but increasing;
- (3) Construction volume is more than the growth in demand;
- (4) Development profit is above the typical entrepreneurial incentive

Our survey indicates that the rate of projected increase of market rents is declining from the previous year projection. Vacancy rates are still low, but are increasing. Construction volume has been strong especially for apartments. We have observed in several recently constructed or proposed projects above normal developer profits. All factors suggest that we are, as projected by the market participants, in the Mature stage for most all property types.

The Mature stage of the real estate cycle is where values are at, or near their peak and, the sustainability of current cap rates is at greater risk than the other stages.

INVESTMENT CRITERIA

Office Market				
CATEGORY	2016 Range	2016 Average	2017 Range	2017 Average
Holding Period (Years)	6.0 - 9.0	7.0	5.0 - 10.0	8.5
Income (Growth Rate)	2.0% - 3.0%	2.5%	1.5% - 3.0%	2.1%
Operating Expenses (Growth Rate)	2.0% - 2.5%	2.3%	2.0% - 3.0%	2.4%
Vacancy Loss	5.0% - 10.0%	8.0%	7.0% - 10.0%	9.1%
Going-In Capitalization Rate	7.0% - 9.0%	7.9%	7.5% - 9.5%	8.1%
Terminal Capitalization Rate	7.0% - 10.0%	8.4%	8.0% - 10.0%	9.0%
Discount Rates (Unleveraged IRR)	9.5% - 11.0%	10.5%	9.0% - 11.0%	9.8%
Equity Yield (Leveraged IRR)	11.0% - 17.0%	13.4%	12.0% - 16.0%	14.0%
Tenant Retention Rates:				
Class A	60% - 75%	67%	60% - 75%	65%
Class B	30% - 75%	62%	60% - 70%	62%
Months vacant between tenants:				
Class A	4.0 - 9.0	7.4	6.0 - 9.0	8.3
Class B	6.0 - 12.0	9.0	6.0 - 12.0	10.0

Retail Market				
CATEGORY	2016 Range	2016 Average	2017 Range	2017 Average
Holding Period (Years)	5.0 - 10.0	7.3	7.0 - 10.0	8.5
Income (Growth Rate)	1.0% - 2.5%	2.0%	1.0% - 2.0%	1.7%
Operating Expenses (Growth Rate)	2.0% - 2.5%	2.2%	2.0% - 2.5%	2.2%
Vacancy Loss	5.0% - 10.0%	7.3%	6.0% - 10.0%	8.6%
Going-In Capitalization Rate	7.0% - 9.0%	7.9%	7.5% - 9.5%	8.4%
Terminal Capitalization Rate	8.0% - 9.5%	8.6%	8.0% - 10.0%	9.3%
Discount Rates (Unleveraged IRR)	9.0% - 13.0%	10.3%	9.0% - 11.0%	10.1%
Equity Yield (Leveraged IRR)	11.0% - 19.0%	13.7%	12.0% - 18.0%	14.2%
Tenant Retention Rates:				
Neighborhood	40% - 75%	64%	60% - 75%	68%
Community	50% - 75%	66%	55% - 75%	65%
Months vacant between tenants:				
Neighborhood	4.0 - 12.0	6.8	3.0 - 9.0	6.0
Community	6.0 - 12.0	9.0	3.0 - 9.0	7.0

Apartment Market				
CATEGORY	2016 Range	2016 Average	2017 Range	2017 Average
Holding Period (Years)	5.0 – 10.0	6.7	5.0 – 12.0	8.5
Income (Growth Rate)	2.0% - 3.0%	2.6%	2.0% - 3.0%	2.6%
Operating Expenses (Growth Rate)	2.0% - 3.0%	2.5%	2.0% - 3.0%	2.5%
Vacancy Loss	5.0% - 8.0%	5.8%	5.0% - 7.0%	5.7%
Going-In Capitalization Rate	5.5% - 7.0%	6.2%	5.8% - 7.0%	6.3%
Terminal Capitalization Rate	6.5% - 8.0%	7.1%	6.0% - 8.0%	6.6%
Discount Rates (Unleveraged IRR)	8.0% - 11.0%	8.9%	7.5% - 9.0%	8.4%
Equity Yield (Leveraged IRR)	12.0% - 19.0%	14.3%	12.0% - 18.0%	15.0%

Industrial Market				
CATEGORY	2016 Range	2016 Average	2017 Range	2017 Average
Holding Period (Years)	5.0 -10.0	7.7	5.0 - 10.0	7.5
Income (Growth Rate)	2.0% - 3.0%	2.5%	2.0% - 3.0%	2.3%
Operating Expenses (Growth Rate)	1.0% - 2.5%	1.9%	2.0% - 3.0%	2.1%
Vacancy Loss	4.0% - 10.0%	6.2%	3.0% - 10.0%	6.6%
Going-In Capitalization Rate	6.0% - 9.0%	8.1%	6.0% - 9.0%	7.6%
Terminal Capitalization Rate	6.0% - 10.0%	8.7%	7.5% - 9.0%	8.1%
Discount Rates (Unleveraged IRR)	9.0% - 13.0%	10.6%	8.0% - 11.0%	9.8%
Equity Yield (Leveraged IRR)	11.0% - 18.0%	13.3%	11.0% - 18.0%	13.6%
Tenant Retention Rates:				
Office/Whse.	30% - 80%	61.0%	60% - 80%	73%
Distribution	65% - 80%	74.2%	50% - 80%	74%
Months vacant between tenants:				
Office/Whse.	6.0 – 12.0	9.0	6.0 – 9.0	7.8
Distribution	2.0 – 12.0	5.7	4.0 – 15.0	6.7

LAND LEASE RATES

	Range	Average	Change From 2016
Cap Rate (with flat rent)	5.00% - 8.00%	6.27%	-48 basis points
Cap Rate (average 2% ann. escalation)	4.50% - 7.50%	5.36%	-11 basis points

RESERVES, LEASING COSTS, AND TI'S

Include in Cap Rate Analysis	Yes	No
Reserves for Replacement	75%	25%
Leasing Commissions	38%	62%
Tenant Improvement Costs	38%	62%

COST OF SALE

Price Range	Low	High	Average
<\$500K	3%	10%	5.56%
\$500K to \$1M	3%	7%	5.22%
\$1M to \$3M	2%	6%	4.33%
\$3M to \$5M	2%	6%	3.56%
>\$5M	1%	5%	2.32%

ENTREPRENEURIAL INCENTIVE

Basis	Year	Low	High	Median
Improvements Only	2017	12%	25%	18%
	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%
Land and Improvements	2017	7%	20%	14%
	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%
Gross Lot or Unit Sales	2017	30%	35%	33%
	2016	30%	35%	33%
	2015	25%	33%	25%
	2014	25%	50%	30%

LOT PRICE RATIOS

Improved Property Price Range	Lot Value Ratio as % of Total Price					Median				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Starter Housing \$200-\$300K	18-30%	15-30%	20-25%	20-25%	20-35%	22%	28%	25%	24%	25%
Move Up Housing \$300-\$400K	15-25%	17-30%	23-26%	18-25%	20-30%	20%	23%	26%	22%	24%
Luxury Housing \$400-600K	14-25%	18-25%	20-30%	25-30%	20-30%	20%	25%	28%	25%	25%
High End Luxury Housing Over \$600K	18-25%	20-28%	15-29%	23-30%	20-35%	20%	20%	27%	25%	26%
Townhouse	20-30%	15-32%	23-25%	23-28%	25-30%	20%	30%	25%	25%	27%

AVAILABILITY OF MORTGAGE FINANCING

Property Type	Past 12 months	Next 12 months
Apartments	2.9	2.7
Hotels	2.0	2.0
Industrial	2.4	2.4
Office	2.3	2.3
Retail	2.4	2.2
Residential (A & D)	2.3	2.3
Rating Scale:	1 = Inadequate	2 = Adequate
		3 = Abundant

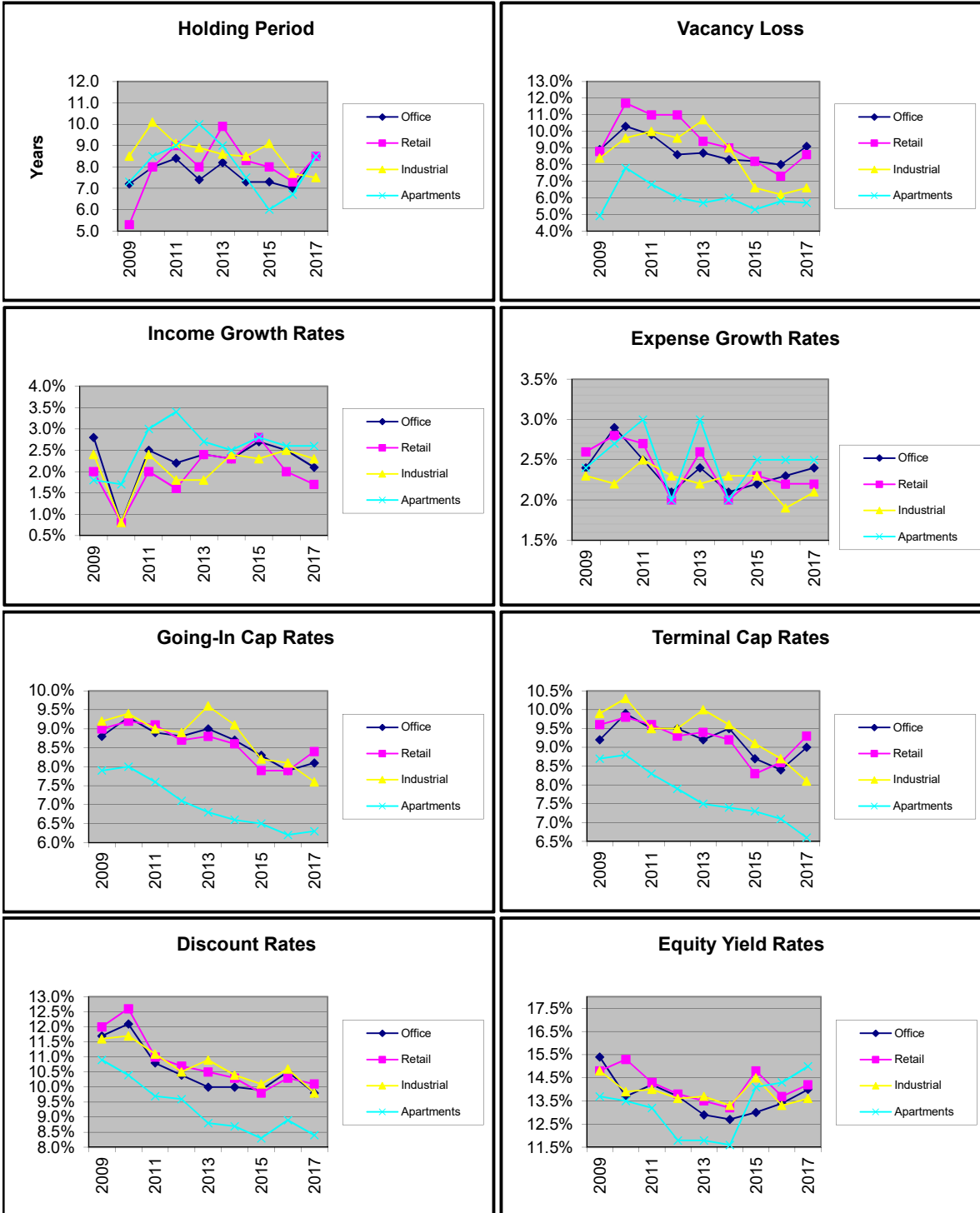
REAL ESTATE LIQUIDITY – MARKETING PERIOD

Property Type	% of Responses		
	< 6 Months	6-12 Months	> 12 Months
Retail			
Free-standing single user retail	60%	20%	20%
Small unanchored retail center	50%	50%	0%
Neighborhood retail center	75%	25%	0%
Community retail center	57%	43%	0%
Regional retail center	33%	67%	0%
Multi-family			
Apartment (> 120 units)	80%	20%	0%
Apartment (< 120 units)	100%	0%	0%
Office			
Large - well leased	67%	33%	0%
Large – poorly leased	33%	67%	0%
Small – well leased < 20,000 sf	67%	33%	0%
Small – poorly leased < 20,000 sf	25%	62%	13%
Industrial			
Small single user	60%	30%	10%
Multi-tenant flex/bulk distribution	60%	20%	20%
Manufacturing buildings	20%	20%	60%
Special use properties			
Banks, historic, churches, etc.	14%	14%	72%
Land			
Single family development	50%	50%	0%
Multi-family development	33%	50%	17%
Retail	33%	33%	34%
Office	16%	16%	68%
Industrial	14%	43%	43%

In general 67% of the respondents felt that there would be no change, 11% felt there would be an increase and 22% projected a decrease in marketing time.

This Real Estate Market Survey is an annual publication of Knight, Dorin & Rountrey. ***This is our 25th 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 2017**
(Response Averages)



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

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