

# Real Estate Market Participants Survey



Fall 2020



**VCU**

Kornblau Real Estate  
Program

School of Business



**KNIGHT DORIN & ROUNTREY**  
REAL ESTATE ANALYSTS

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# Real Estate

## *Market Participants*

### Survey Parameters



In the Fall of 2020, the VCU Kornblau Real Estate Program in association with Knight, Dorin and Rountrey conducted a market participants survey using principles of anticipation to predict real estate market trends. This is a compilation of those results.

#### **About**

Since 1992, Knight, Dorin & Rountrey has surveyed the Central Virginia commercial real estate market to learn of market participants' sentiment. In Fall 2017, the Kornblau Real Estate Program teamed up with Knight, Dorin & Rountrey to produce this semi-annual survey. This is our fourth joint study.

The study's goal is to provide a diverse perspective of the real estate market for Central Virginia, Southwest Virginia, Hampton Roads, and Northern Virginia.

#### **Parameters**

The study was administered through email via Survey Monkey. Participation in the study was voluntary and participants were encouraged to skip inapplicable questions. The 24 questions asked about the respondents' future expectations for various sectors of the real estate market.

#### **Scope**

The survey results were collected in September 2020 and had 221 respondents from various real estate backgrounds.

## Feedback

We received feedback regarding the questions we asked and hope to improve our parameters and questions in future surveys.

If you would like to participate in the next semi-annual survey, please contact:

### **Robert Taylor**

Executive Director  
Kornblau Real Estate Program  
VCU School of Business  
(804) 828-3169  
rwtaylor@vcu.edu

### **Edward Knight**

President  
Knight, Dorin & Rountrey  
Real Estate Analysts  
(804) 427-6001  
eknight@kdrre.com



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# Survey Summary

Over 70 percent of respondents believe the 10-year treasury yield will remain about the same for the next six months.

Market participants view the real estate market cycle as split between growth and maturity across all sectors, with Industrial and Multi-family in the growth phase and Hospitality, Office, Residential, and Retail in the maturity phase. Residential was nearly split evenly between growth and maturity, and Retail had the greatest amount of responses for recession.

Respondents are expecting a complete market recovery in between 2021 and 2022 with the exception of Retail – Mall and Hospitality.

Most of the respondents are expecting the demand for office space to decline, while almost 30 percent respondents believe will be staying the same.

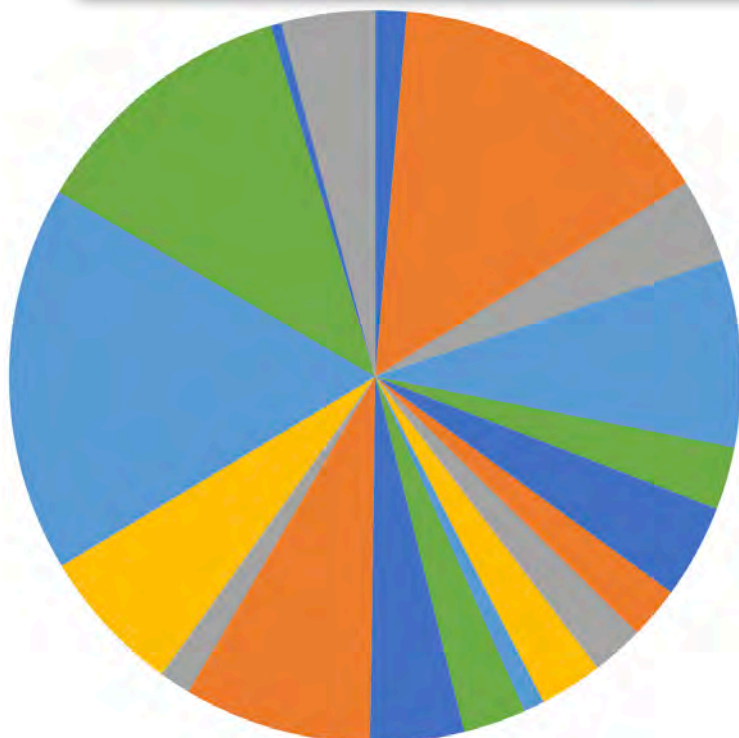
60 Percent of the respondents will feel comfortable to stay in hotels, fly on planes, eat in restaurants, and attend large gatherings by 2021.

A majority of the respondents are expecting people to move to less densely populated areas with larger homes.

# Demographics

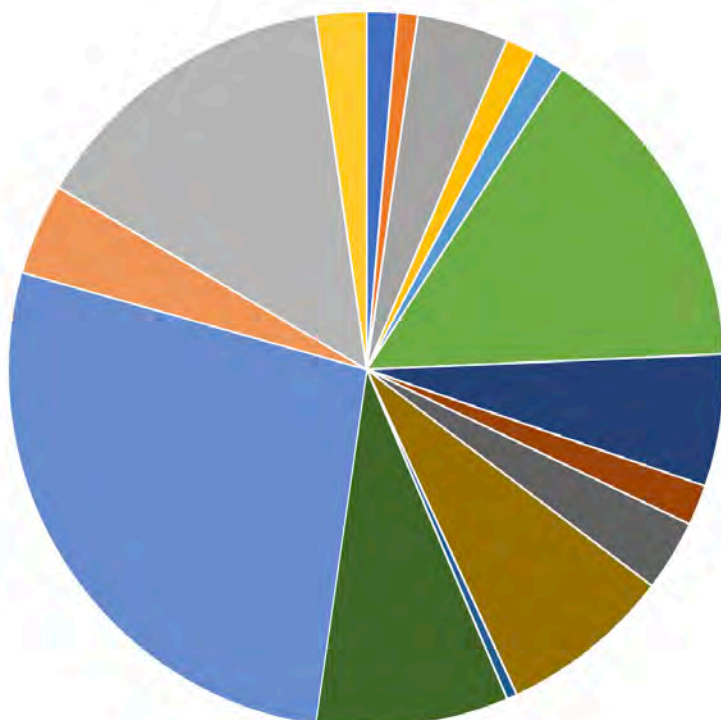
The first few questions gathered demographic information. As illustrated in the graphs, respondents are from a variety of backgrounds in multiple sectors including private, commercial, and corporate as well as other levels and disciplines including property management, brokerage, development, and appraisal.

Q: Which of the following best describes your principal industry?  
n= 221



Accounting	1%
Appraisal   Valuation	15%
Architecture	4%
Construction	8%
Consultant	3%
Corporate Real Estate	4%
Economic Development	2%
Engineering	2%
Government	3%
Insurance	1%
Investor	3%
Law	4%
Lending	8%
Non-Profit	1%
Property Management	6%
Real Estate Brokerage	17%
Real Estate Development	12%
Other	4%

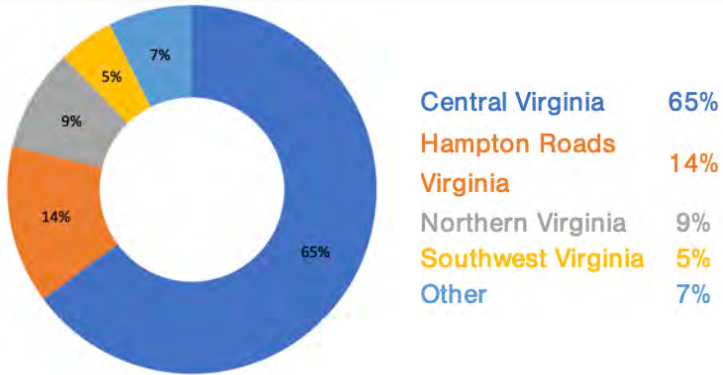
Q: Which of the following best describes your job function?  
n= 221



Administrative	1%
Advertising/Marketing	1%
Business Development	4%
Consulting	1%
Customer Service	1%
Executive Leadership	15%
Finance	6%
General Business	2%
Legal	3%
Management	8%
Other	9%
Principal   Owner	27%
Project Management	4%
Sales	14%
Strategic Planning	2%



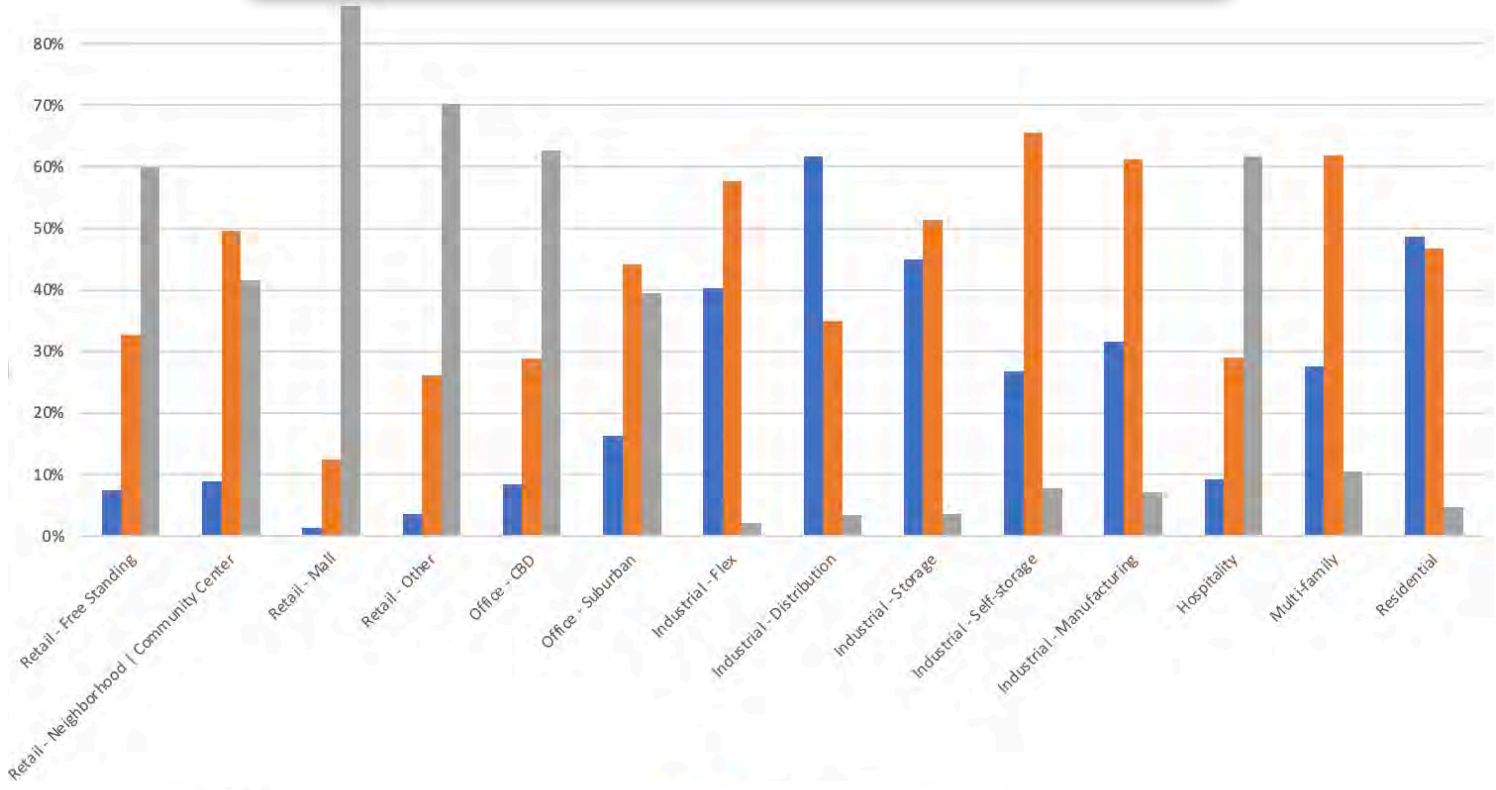
Q: What is your primary market? n = 221\*  
 \*Due to multiple people selecting more than one region as their primary market, the results totaled in 245.



# Outlook

Expectations for the real estate market over the next six months are mixed. Most market participants see a bleak outlook for retail, hospitality, and CBD office. Generally, there is a positive outlook for industrial and with residential industrial distribution showing the brightest future. The suburban office, self-storage, and multi-family are largely expected to remain the same.

Q: What are your real estate market expectations in the next six months compared to the previous six months?  
 n= 152



	Retail - Neighborhood				Office -				Industrial -				Hospitality			Multi-family		Residential
	Free Standing	Community Center	Mall	Other	CBD	Suburban	Flex	Distribution	Storage	Self-storage	Manufacturing							
Better	7%	9%	1%	4%	8%	16%	40%	62%	45%	27%	32%	9%	28%	49%				
Same	33%	50%	12%	26%	29%	44%	58%	35%	51%	65%	61%	29%	62%	47%				
Worse	60%	41%	86%	70%	63%	39%	2%	3%	4%	8%	7%	62%	11%	5%				

# Real Estate Market Cycle

The real estate market cycle, for the most part, mirrors the Outlook on page 7. Retail is in the recessionary cycle of the market, with malls being the most negatively impacted.

Q: Please select the stage of the real estate market cycle you think currently applies for each property type.

Respondents were able to select an answer for multiple sectors which applied to them, but did not necessarily have to answer all. This resulted in a total of 149 responses.

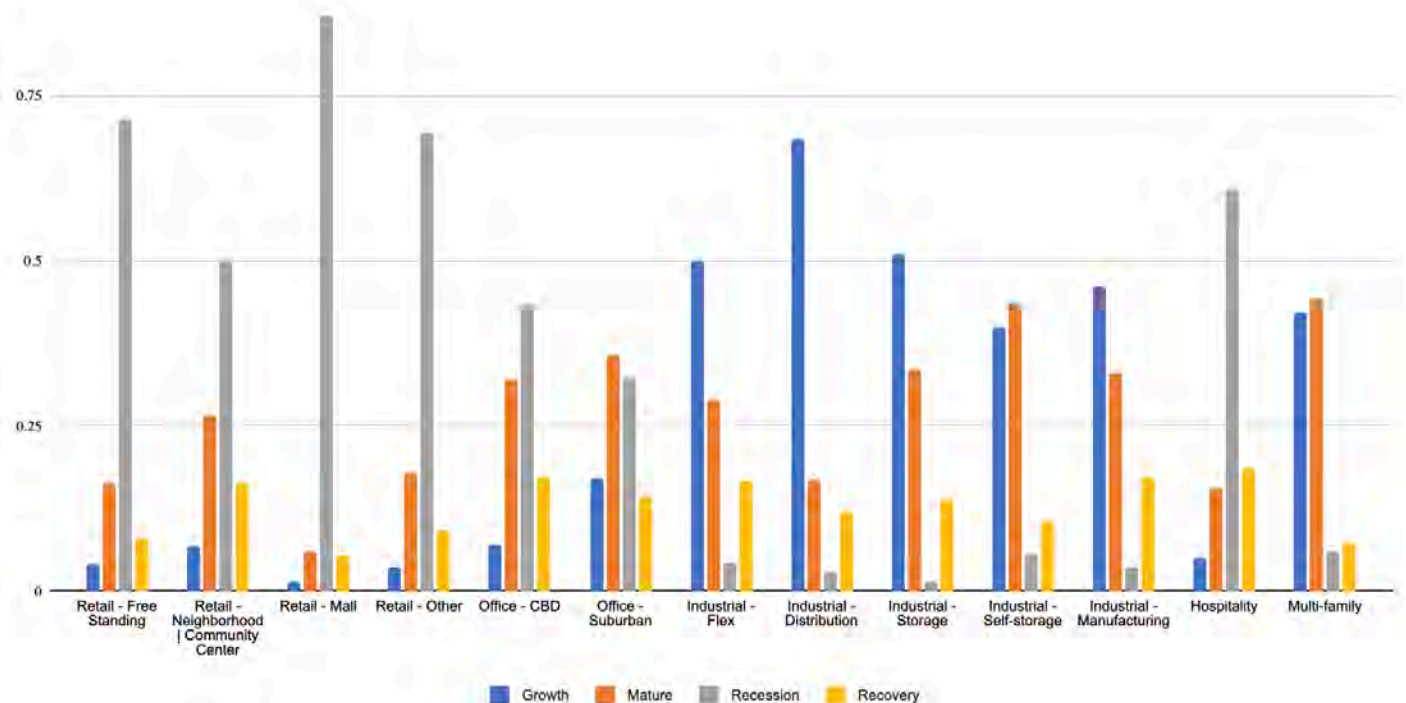
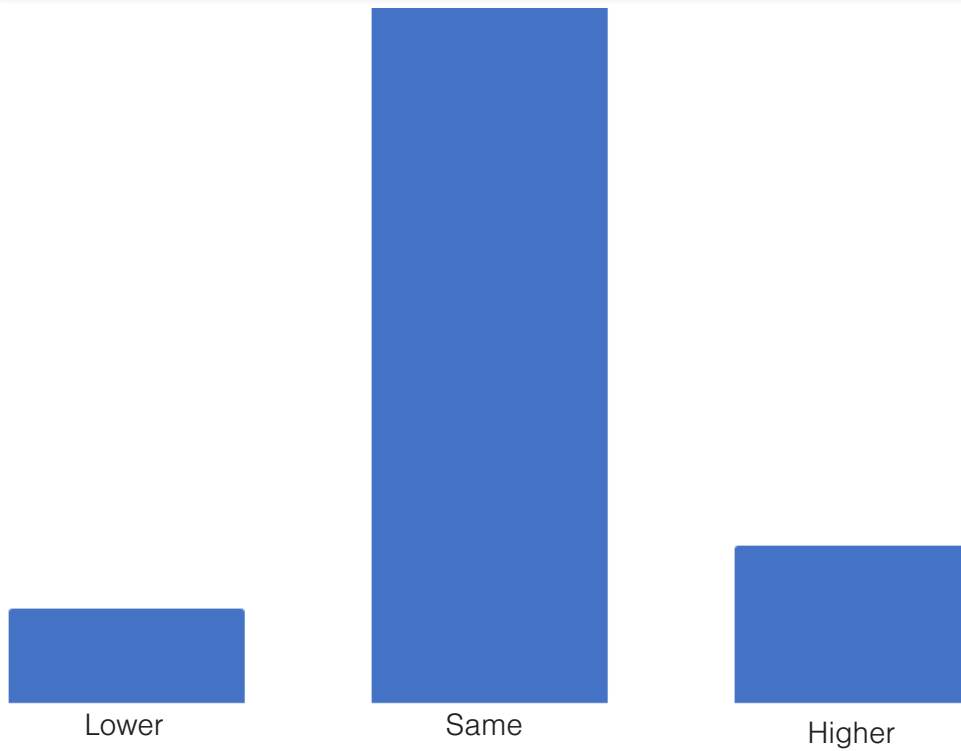
	Growth	Mature	Recession	Recovery	Total Respondants
Retail - Free Standing	4.1%	16.3%	71.4%	8.2%	147
Retail - Neighborhood Community Center	6.9%	26.7%	50.0%	16.4%	146
Retail - Mall	1.4%	6.2%	87.0%	5.5%	146
Retail - Other	3.6%	17.9%	69.3%	9.3%	140
Office - CBD	7.0%	32.2%	43.4%	17.5%	143
Office - Suburban	17.2%	35.9%	32.4%	14.5%	145
Industrial - Flex	50.0%	29.0%	4.4%	16.7%	138
Industrial - Distribution	68.3%	16.9%	2.8%	12.0%	142
Industrial - Storage	51.1%	33.6%	1.5%	13.9%	137
Industrial - Self-storage	40.0%	43.6%	5.7%	10.7%	140
Industrial - Manufacturing	46.0%	33.1%	3.6%	17.3%	139
Hospitality	5.0%	15.7%	60.7%	18.6%	140
Multi-family	42.3%	44.3%	6.0%	7.4%	149



# Treasury Yield

The sentiment regarding treasury yield is that it will remain the same.

Q: The current 10-year treasury yield is approximately 0.67 percent. In six months, what is your prediction of the 10-year treasury yield rate?



# Basis Point Spread

Respondents expect to see a 242 to 338 change in basis point spread, with Retail - Mall having the highest average basis point spread at 338.

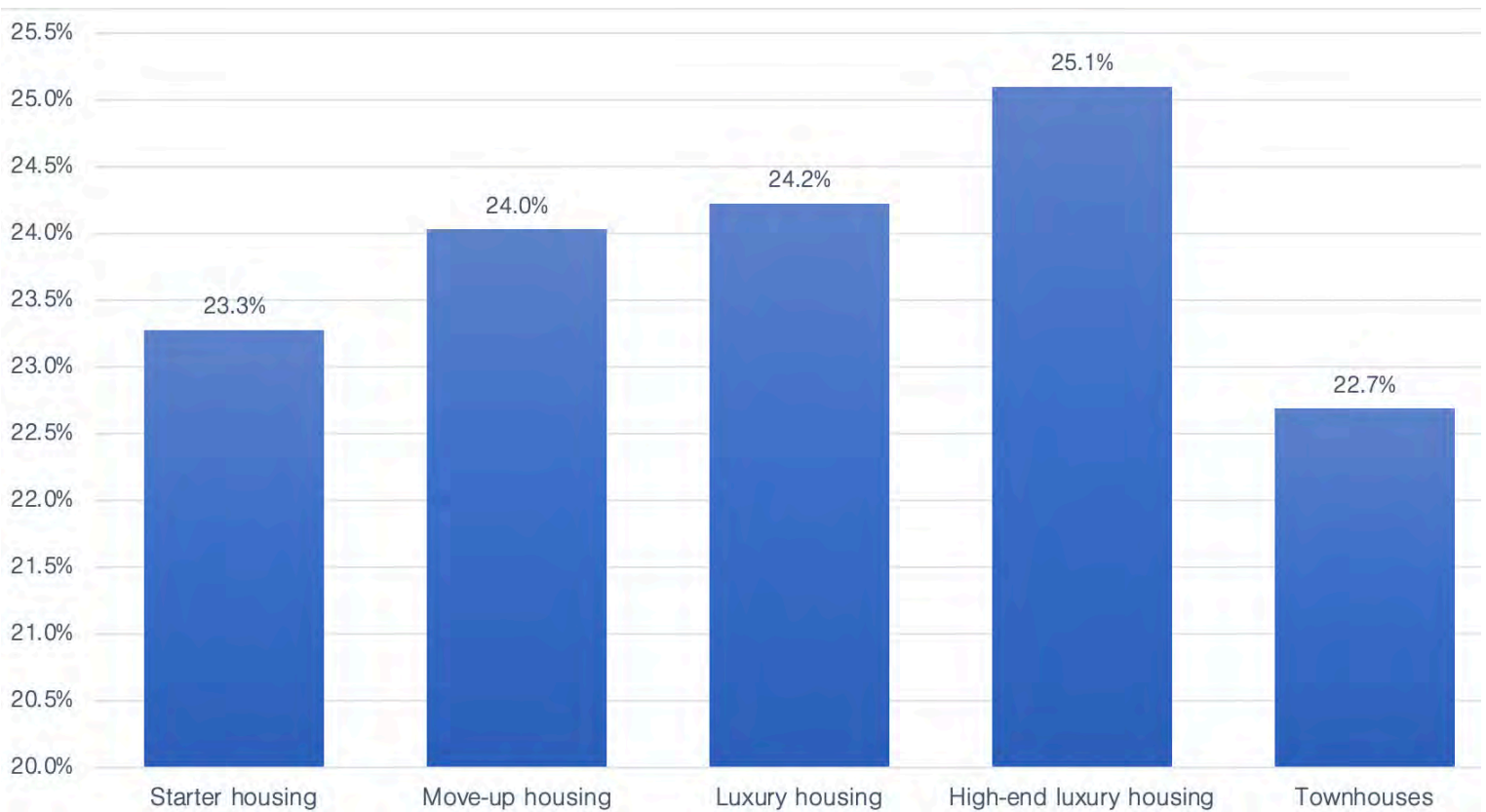
Q: What is the current basis point spread over the 10-year treasury yield for the financing of the following property types?

Property Type	Range	Average
Retail - Free Standing	150 - 400	293
Retail Neighborhood Community Center	200 - 400	319
Retail - Mall	150 - 400	338
Retail - Other	150 - 400	335
Office - CBD	200 - 350	283
Office - Suburban	150 - 350	276
Industrial - Flex	150 - 400	268
Industrial - Distribution	150 - 400	261
Industrial - Storage	150 - 400	261
Industrial - Self-storage	150 - 350	272
Industrial - Manufacturing	150 - 400	268
Hospitality	150 - 400	232
Multi-family	150 - 350	242
Residential (A&D)	150 - 400	275

# Land Value Allocation

The allocation of land to total value ranges between just between 16 and 32 percent with the average shown in the graph below. Interestingly this ratio has remained about the same over the last many years.

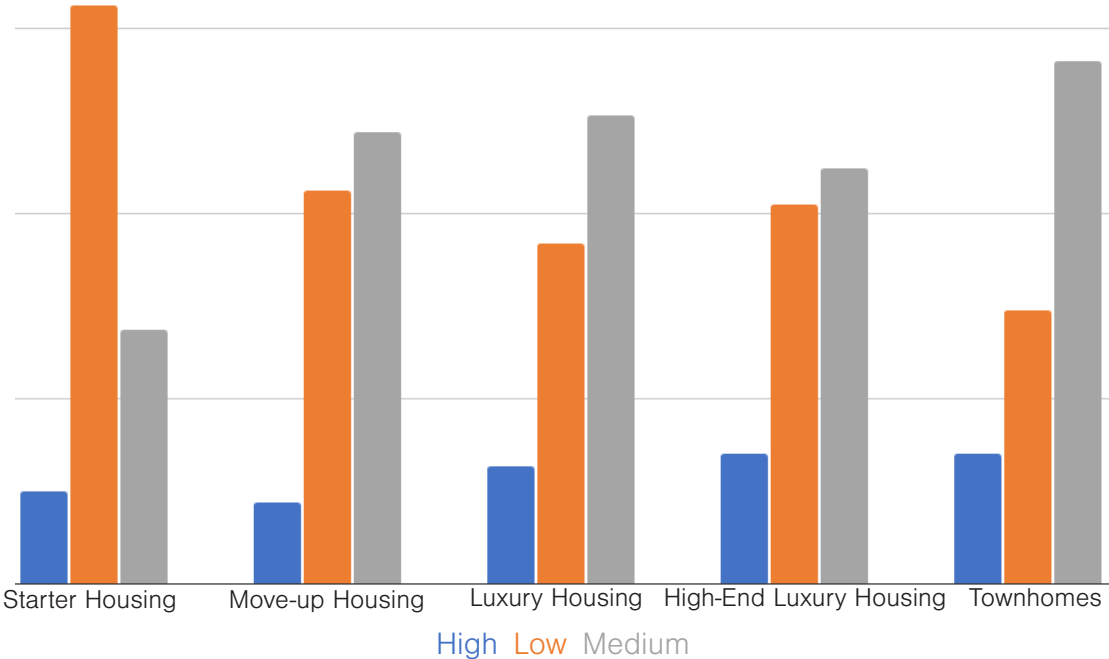
Q: Relative to a residential subdivision, what is the value of an average unimproved lot as a percentage of the total price of the finished home package in the following price ranges?



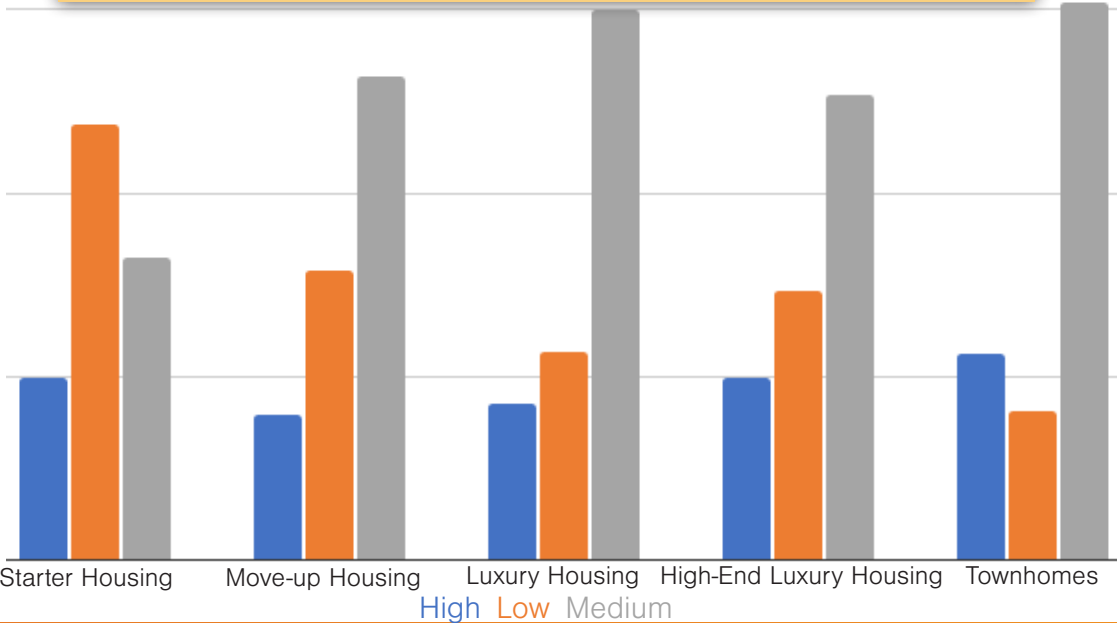
# Lot Availability

Market participants anticipate a low availability of starter housing lots over the next 18 months and do not expect a high availability with any type of housing lots.

Q: Over the course of the next six months, what is the projected market availability for residential lots?



Q: Over the course of the next 12 to 18 months, what is the projected market availability for residential lots?



# Land Lease Rates

Q: For typical long-term (20-year plus) net commercial land leases, particularly retail outparcels, what return is expected relative to land value? (ex: \$500,000 land value, \$50,000 annual rent = 10 percent return/cap rate)

	All Range Average
Subordinated Lease - Cap Rate (with flat rent)	6.0% - 8.5%
Fall 2020	7.2%
Fall 2019	6.3%
Subordinated Lease - Cap Rate (with rent escalations)	5.0% - 9.0%
Fall 2020	6.4%
Fall 2019	6.2%
Unsubordinated Lease - Cap Rate (with flat rent)	5.5% - 8.0%
Fall 2020	6.8%
Fall 2019	6.4%
Unsubordinated Lease - Cap Rate (with rent escalations)	4.5% - 8.5%
Fall 2020	6.2%
Fall 2019	6.4%

# Cost of Sale

Q: What is your estimated cost of sale (commissions, legal and recording fees, etc.) of most types of commercial real estate expressed as a percentage of the total sales price for the following value ranges?

	Range
Less than \$1 million	2.0% - 10.0%
Fall 2020 Average	6.4%
Fall 2019 Average	5.5%
\$1 million to \$5 million	2.0% - 8.5%
Fall 2020 Average	5.6%
Fall 2019 Average	4.7%
\$5 million to \$15 million	2.0% - 10.0%
Fall 2020 Average	4.55%
Fall 2019 Average	4.0%
Over \$15 million	1.0% - 8.0%
Fall 2020 Average	3.2%
Fall 2019 Average	3.4%



# Entrepreneurial Incentive

Q: Regarding new development ventures, what is your current minimum acceptable level of anticipated entrepreneurial profit (unleveraged) as expressed as a percentage of total hard and soft costs (land and improvements)?

Property Type	Range	Average
Retail - Free Standing	6.0% - 22.0%	13.6%
Retail - Neighborhood Community Center	6.0% - 22.0%	13.5%
Retail - Mall	6.0% - 22.0%	14.1%
Retail - Other	6.0% - 22.0%	13.5%
Office - CBD	6.0% - 22.0%	13.2%
Office - Suburban	6.0% - 22.0%	12.8%
Industrial - Flex	6.0% - 20.0%	12.5%
Industrial - Distribution	6.0% - 20.0%	12.5%
Industrial - Storage	6.0% - 22.0%	12.3%
Industrial - Self-storage	6.0% - 21.0%	13.1%
Industrial - Manufacturing	6.0% - 21.0%	13.0%
Hospitality	6.0% - 22.0%	14.2%
Multi-family	6.0% - 20.0%	13.1%
Residential	6.0% - 20.0%	13.7%

# Performance Factors

Q: We asked market participants a variety of questions relating to income growth, vacancy rate, capitalization rate, yield rate, etc. for offices, retail, industrial, and multi-family, with the following results shown on the next four pages.

# Office

	CBD Range	Suburban Range
Gross Potential Income	0.0% - 2.0%	0.0% - 3.5%
Average	0.9%	1.5%
Expenses	1.0% - 3.0%	1.0% - 2.5%
Average	2.0%	1.8%
Vacancy and Credit Loss	2.5% - 10.0%	3.0% - 10.0%
Average	7.5%	6.6%
Stabilized (going-in) Capitalization Rate	6.0% - 8.5%	5.5% - 9.5%
Average	7.5%	7.9%
Terminal Capitalization Rate	6.5% - 9.5%	6.5% - 11.0%
Average	8.3%	8.5%
Unleveraged IRR	7.0% - 11.0%	6.5% - 12.0%
Average	9.4%	9.8%
Leveraged IRR	10.5% - 15.5%	11.0% - 18.0%
Average	13.6%	14.2%

## Renewal - Office

## Vacancy (in months) - Office

CBD	40% - 85%	CBD	4.00 - 12.00
Average	66%		8.6
Suburban	40% - 90%	Suburban	3.00 - 12.00
Average	69%		7.9

# Industrial

	Flex Range	Distribution Range	Storage Range	Self-Storage Range	Manufacturing Range
Gross Potential Income	0.0% - 3.0%	0.0% - 4.0%	0.0% - 3.0%	0.0% - 3.0%	0.0% - 3.5%
Average	1.6%	2.1%	1.6%	1.7%	1.8%
Expenses	0.5% - 2.5%	0.5% - 3.0%	0.5% - 2.5%	0.5% - 3.0%	0.5% - 3.0%
Average	1.7%	1.5%	1.4%	1.5%	1.7%
Vacancy and Credit Loss	3.0% - 7.0%	1.0% - 7.0%	2.0% - 7.0%	3.5% - 8.0%	3.0% - 9.0%
Average	6.0%	4.2%	4.9%	5.7%	5.8%
Stabilized (going-in) Capitalization Rate	7.0% - 8.0%	6.0% - 8.0%	6.0% - 8.5%	6.0% - 7.5%	6.5% - 9.5%
Average	7.4%	7.0%	7.4%	6.7%	7.5%
Terminal Capitalization Rate	6.5% - 9.0%	6.0% - 9.0%	6.5% - 9.0%	6.5% - 8.5%	7.0% - 9.0%
Average	7.9%	7.7%	8.2%	7.6%	8.1%
Unleveraged IRR	7.5% - 12.0%	8.5% - 10.0%	8.0% - 10.0%	7.5% - 11.0%	8.0% - 10.0%
Average	9.7%	9.3%	9.1%	9.1%	9.3%
Leveraged IRR	10.5% - 17.0%	10.0% - 15.0%	11.0% - 15.0%	10.5% - 15.0%	10.5% - 15.0%
Average	13.7%	13.1%	13.1%	12.8%	12.5%

## Renewal - Industrial

## Vacancy (in months) - Industrial

Flex	40% - 85%	Flex	3.00 - 12.00
Average	56%		5.9
Distribution	50% - 90%	Distribution	3.00 - 12.00
Average	78%		5.4
Storage	40% - 85%	Storage	3.00 - 12.00
Average	66%		5.8
Manufacturing	60% - 90%	Manufacturing	3.00 - 12.00
Average	74%		7.8

# Retail

	Free Standing Range	Neighborhood Community Center Range	Mall Range	Other Range
Gross Potential Income	0.0% - 2.5%	0.0% - 2.0%	0.0% - 1.5%	0.0% - 1.5%
Average	1.0%	0.6%	0.4%	0.3%
Expenses	1.0% - 3.0%	1.0% - 2.0%	1.5% - 3.0%	0.5% - 2.0%
Average	1.9%	1.7%	2.2%	1.5%
Vacancy and Credit Loss	3.0% - 10.0%	3.0% - 10.0%	3.5% - 10.0%	3.0% - 10.0%
Average	6.3%	7.0%	8.8%	8.4%
Stabilized (going-in) Capitalization Rate	6.0% - 9.0%	7.0% - 10.0%	7.0% - 10.0%	7.5% - 10.0%
Average	7.3%	8.3%	8.4%	8.5%
Terminal Capitalization Rate	7.5% - 10.5%	8.0% - 11.0%	7.5% - 10.5%	8.0% - 10.5%
Average	8.6%	9.2%	9.3%	9.3%
Unleveraged IRR	7.0% - 10.0%	6.5% - 11.0%	8.0% - 12.0%	8.0% - 12.0%
Average	8.7%	8.8%	10.3%	10.0%
Leveraged IRR	10.5% - 15.0%	10.5% - 16.0%	10.5% - 20.0%	10.5% - 15.0%
Average	12.7%	13.1%	14.6%	13.2%

## Renewal - Retail

## Vacancy (in months) - Retail

Free Standing	40% - 80%	Free Standing	3.00 - 12.00
Average	62%		8.6
Neighborhood Community Center	40% - 90%	Neighborhood Community Center	3.00 - 12.00
Average	63%		8.3
Mall	40% - 90%	Mall	6.00 - 12.00
Average	63%		11
Other	6% - 12%	Other	4.00 - 12.00
Average	11%		9

# Hospitality

	Hospitality Range
Gross Potential Income Average	0.0% - 2.0% 0.5%
Expenses Average	1.0% - 2.5% 1.8%
Vacancy and Credit Loss Average	2.5% - 10.0% 7.3%
Stabilized (going-in) Capitalization Rate Average	5.5% - 10.5% 9.1%
Terminal Capitalization Rate Average	6.5% - 11.0% 9.5%
Unleveraged IRR Average	8.5% - 12.5% 11.0%
Leveraged IRR Average	12.0% - 20.0% 16.1%

# Internal Rate of Return

Discount rate for development and sellout of undeveloped land with entitlements.

	Range
Commercial Average	10.0% - 30.0% 14.7%
Industrial Average	10.0% - 30.0% 15.3%
Mixed-use Average	10.0% - 30.0% 16.2%
Single-family Housing Average	10.0% - 30.0% 16.0%



# Availability of Mortgage Financing

All sectors show high levels of adequate financing availability. Multi-family is leaning towards abundant, while Retail is leaning towards inadequate.

Q: Please rate your experience regarding the current availability of mortgage financing for the following property types.

Respondents were able to select an answer for multiple sectors which applied to them, but did not necessarily have to answer all. This resulted in a total of 54 responses.

		Abundant	Adequate	Inadequate	Total Respondents
Retail	Free Standing	13%	58%	29%	31
	Neighborhood Community Center	6%	53%	41%	32
	Mall	3%	17%	79%	29
	Other	7%	41%	52%	27
Office	CBD	23%	48%	29%	31
	Suburban	18%	59%	24%	34
Industrial	Flex	25%	63%	13%	32
	Distribution	45%	48%	6%	33
	Storage	34%	59%	6%	32
	Self-storage	28%	66%	6%	32
	Manufacturing	20%	73%	7%	30
Hospitality		6%	13%	81%	32
Multi-family		46%	43%	11%	46
Residential (A&D)		40%	50%	10%	40

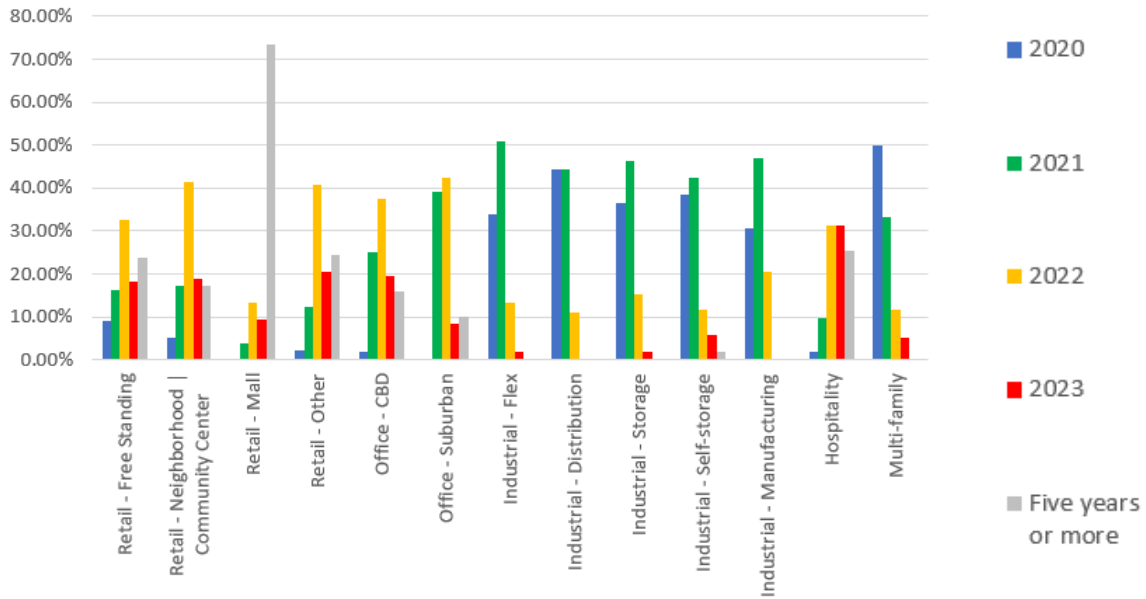
# Real Estate Liquidity – Marketing Period

Please select the most appropriate block regarding your opinion of reasonable selling/liquidity time (from the date of listing to the date of closing) relative to the following property types. This assumes the property is realistically priced to sell by a reasonably motivated seller.

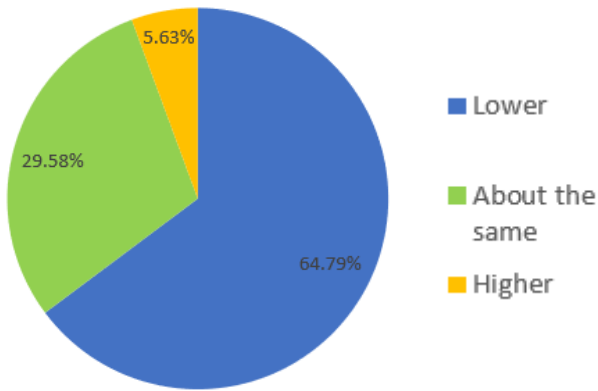
		Less than six months	Six to 12 months	Twelve to 24 months	Over 24 months
Retail	Free Standing	29%	43%	25%	4%
	Neighborhood/Community Center	18%	43%	32%	7%
	Mall	0%	16%	44%	40%
	Other	4%	46%	42%	8%
Office	CBD	12%	50%	31%	8%
	Suburban Office	16%	55%	26%	3%
Industrial	Flex	38%	58%	4%	0%
	Distribution	48%	44%	8%	0%
	Storage	33%	50%	17%	0%
	Self-storage	48%	43%	9%	0%
	Manufacturing	20%	40%	36%	4%
Hospitality		9%	17%	22%	52%
Multi-family		79%	21%	0%	0%
Residential		83%	17%	0%	0%

# COVID Effect

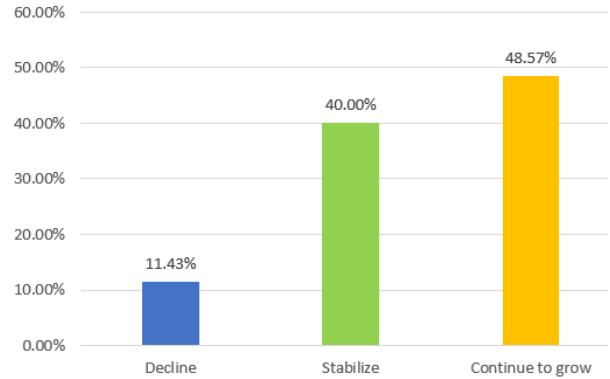
## Expected complete market recovery time



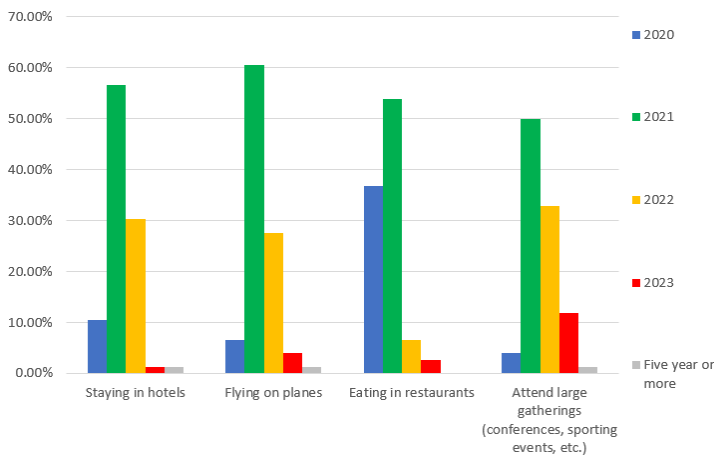
## Expected demand for office space



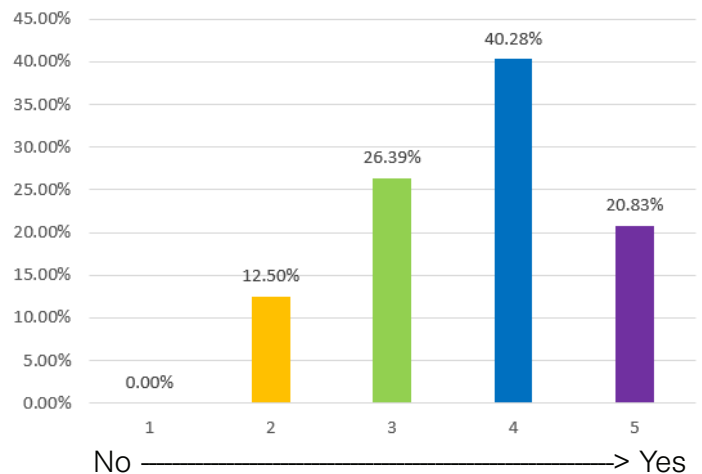
## Expectations for single-family housing market



## Assuming a successful vaccine, Expected time to:



## Will there be a flight to less densely populated areas with larger homes





**Thank you** to all the participants who responded to the survey request. We appreciate your input.

If you have questions you want us to include in our next survey, or would like to be added to our survey and/or report mailing lists, please contact either Robert Taylor or Edward Knight. Please share this report with others who may be interested.



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