Real Estate
Market Participants
Survey

Summer 2021

VCU Kornblau Real Estate Program
School of Business

KNIGHT DORIN & ROUNTREY
REAL ESTATE ANALYSTS

Real Estate *Market Participants* *Survey* Parameters

In the Spring of 2021, 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 questions asked about the respondents' future expectations for various sectors of the real estate market.

Scope

The survey results were collected in March 2021 and had 157 respondents from various real estate backgrounds.

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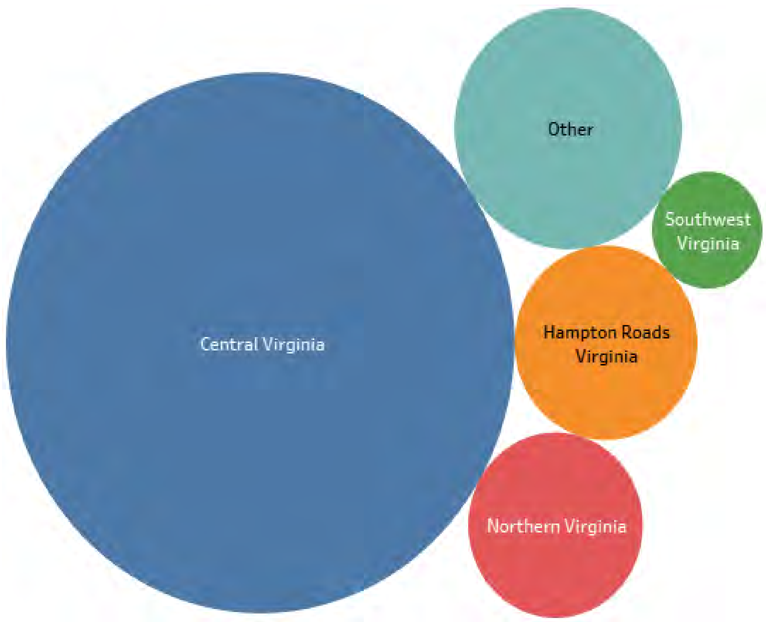
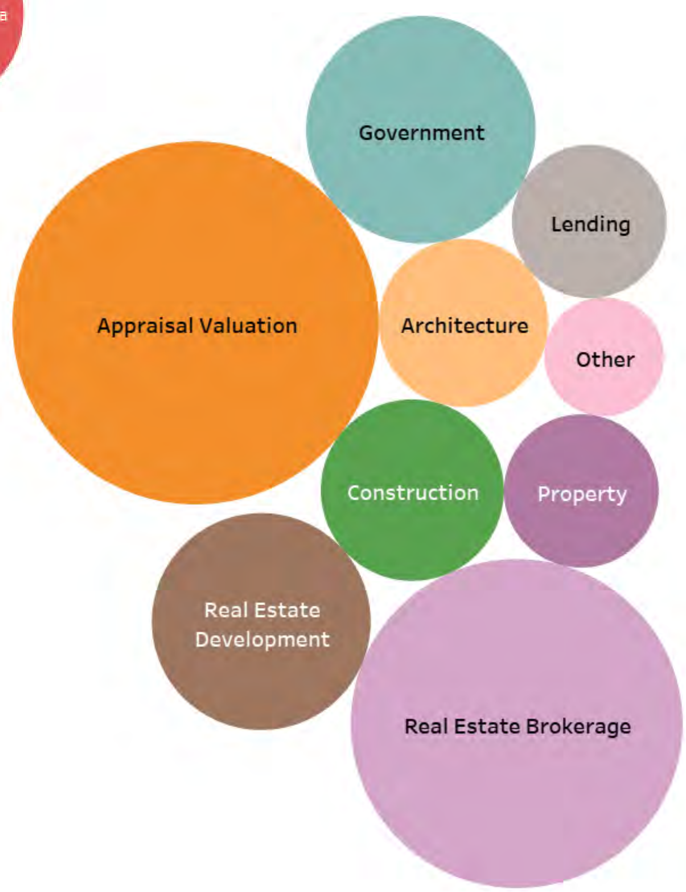
Demographics

The first few questions gathered demographic information. As illustrated in the graphs, respondents are from various sectors, including private, commercial, corporate, and other disciplines, including property management, brokerage, development, and appraisal. A majority of the respondents are from Central Virginia, with most being in real estate valuation or brokerage, as illustrated in the charts below:





Market Expectations

The consensus is that the outlook for hospitality and most industrial products is better for the next six months than the previous six months, while multi-family will remain the same and malls will be the worse performing asset class.

Asset class	Worse	Same	Better
Hospitality	5%	20%	75%
Industrial - Distribution	2%	28%	69%
Industrial - Flex	3%	43%	54%
Industrial - Manufacturing	5%	49%	46%
Industrial - Self-storage	5%	53%	42%
Industrial - Storage	1%	39%	60%
Multi-family	6%	54%	40%
Office - CBD	49%	30%	22%
Office - Suburban	38%	29%	34%
Residential (A&D)	14%	47%	39%
Retail - Free Standing	20%	42%	38%
Retail - Mall	54%	28%	18%
Retail - Neighborhood | Community Center	14%	42%	44%
Retail - Other	23%	46%	31%

Current Stage of the Real Estate Market Cycle

As with market expectations, most respondents felt the hospitality is in the recovery stage of the real estate cycle, with malls being in the recessionary stage.

Asset class	Recovery	Growth	Mature	Recession
Hospitality	59%	25%	7%	9%
Industrial - Distribution	10%	70%	20%	0%
Industrial - Flex	11%	61%	27%	1%
Industrial - Manufacturing	18%	52%	29%	1%
Industrial - Self-storage	9%	47%	44%	0%
Industrial - Storage	8%	68%	24%	0%
Multi-family	9%	56%	32%	4%
Office - CBD	31%	5%	25%	39%
Office - Suburban	29%	16%	29%	27%
Retail - Free Standing	38%	19%	25%	19%
Retail - Mall	24%	1%	10%	64%
Retail - Neighborhood | Community Center	45%	10%	31%	14%
Retail - Other	43%	7%	29%	21%

Land Development

The discount rate for land development with entitlements in place ranged from 10 percent to 30 percent. The range remains steady compared to the previous years.

Property type	Range	Average (%)
Commercial	10% - 25%	15.6%
Industrial	10% - 26%	15.3%
Mixed-Use	10% - 28%	15.9%
Single Family	10% - 30%	16.8%

Lot Price Ratios

The range in the contribution of the lot to the overall home price has inched up in recent years, yet the average remains somewhat consistent from prior years, as shown below

Product type	Range (%)	Average (%)
Starter housing	20% - 32%	23.9%
Move-up housing	18% - 28%	22.9%
Luxury housing	18% - 32%	23.9%
High-end luxury housing	20% - 32%	24.5%
Townhouses	18% - 30%	23.0%

Availability of Residential Lots

Most respondents fell in the next six to 18 months, residential lots will be scarce, with starter homes having the fewest lots available.

Product type	Next six months			12 to 18 months		
	Low	Medium	High	Low	Medium	High
Starter housing	70%	25%	5%	70%	21%	9%
Move-up housing	64%	29%	7%	60%	33%	7%
Luxury housing	47%	40%	13%	38%	48%	14%
High-end luxury housing	51%	33%	16%	40%	49%	11%
Townhouses	38%	46%	16%	46%	36%	18%

Tenant Turnover and Renewal Probabilities

	Vacancy		Renewal	
Asset class	**Range (in months)**	**Average vacancy (in months)**	**Range percentage**	**Average renewing**
Industrial - Distribution	3 - 10	5.1	70% - 90%	80.0%
Industrial - Flex	3 - 12	6.0	45% - 90%	69.4%
Industrial - Manufacturing	3 - 18	7.8	50% - 90%	71.9%
Industrial - Storage	3 - 12	6.2	45% - 90%	67.5%
Office - CBD	3 - 12	9.5	45% - 85%	63.1%
Office - Suburban	3 - 12	8.5	45% - 85%	65.0%
Retail - Free Standing	5 - 12	8.2	45% - 90%	68.9%
Retail - Mall	6 - 18	12.1	45% - 75%	58.3%
Retail - Mall - Anchor space	10 - 18	14.1	45% - 90%	60.8%
Retail - Neighborhood | Community Center	5 - 12	7.7	45% - 85%	66.3%
Retail - Neighborhood | Community Center - Anchor space	5 - 18	10.0	45% - 90%	68.9%
Retail - Other	5 - 15	9.0	45% - 85%	65.0%

Investment Criteria

Hospitality		
	Range	**Average**
Gross potential income growth	0% - 4%	2.6%
Expenses growth rate	3% - 4%	3.5%
Vacancy and credit loss as a % of GPI		
Stabilized going-in capillarization rate	7% - 9.5%	8.5%
Terminal canalization rate	8.5% - 11%	9.5%
Unleveraged IRR	9% - 12%	10.3%
Leveraged IRR	15.5% - 17%	16.2%

Industrial Distribution		
	Range	**Average**
Gross potential income growth	1.5% - 4%	2.8%
Expenses growth rate	2% - 3.5%	2.8%
Vacancy and credit loss as a % of GPI	1% - 5%	2.7%
Stabilized going-in capillarization rate	5% - 8.5%	6.7%
Terminal canalization rate	6% - 7.5%	6.8%
Unleveraged IRR	6.5% - 9.5%	8.0%
Leveraged IRR	10% - 15%	12.3%

Industrial Flex		
	Range	**Average**
Gross potential income growth	1.5% - 4%	2.8%
Expenses growth rate	1.5% - 3.5%	2.5%
Vacancy and credit loss as a % of GPI	3% - 7%	5.0%
Stabilized going-in capillarization rate	6.5% - 8.5%	7.5%
Terminal canalization rate	6.5% - 9%	7.9%
Unleveraged IRR	7% - 10.5%	8.9%
Leveraged IRR	12% - 17%	13.9%

Industrial Manufacturing		
	Range	**Average**
Gross potential income growth	1% - 4%	2.7%
Expenses growth rate	2% - 3.5%	2.8%
Vacancy and credit loss as a % of GPI	1% - 10%	4.9%
Stabilized going-in capillarization rate	7% - 8%	7.5%
Terminal canalization rate	7.5% - 8.5%	8.0%
Unleveraged IRR	7% - 10.5%	9.0%
Leveraged IRR	12.5% - 16%	14.2%

Industrial Storage		
	Range	**Average**
Gross potential income growth	1% - 3.5%	2.4%
Expenses growth rate	2% - 3%	2.5%
Vacancy and credit loss as a % of GPI	1% - 5%	2.6%
Stabilized going-in capillarization rate	5% - 8.5%	6.6%
Terminal canalization rate	6% - 8%	7.0%
Unleveraged IRR	7% - 9.5%	8.5%
Leveraged IRR	10% - 14.5%	12.1%

Industrial Self-Storage		
	Range	**Average**
Gross potential income growth	1% - 3%	2.1%
Expenses growth rate	2% - 3%	2.5%
Vacancy and credit loss as a % of GPI	1.5% - 6%	3.3%
Stabilized going-in capillarization rate	5% - 8.5%	6.6%
Terminal canalization rate	6% - 8%	7.1%
Unleveraged IRR	7% - 9.5%	8.5%
Leveraged IRR	11% - 15.5%	13.5%

Multi-Family		
	Range	**Average**
Gross potential income growth	2% - 3%	2.5%
Expenses growth rate	2% - 4%	2.9%
Vacancy and credit loss as a % of GPI	2% - 5%	3.1%
Stabilized going-in capillarization rate	4.5% - 6.5%	5.5%
Terminal canalization rate	5% - 7%	6.0%
Unleveraged IRR	7% - 8.5%	7.8%
Leveraged IRR	10% - 18%	15.1%

Office - CBD		
	Range	**Average**
Gross potential income growth	0% - 3%	1.6%
Expenses growth rate	2% - 3.5%	2.8%
Vacancy and credit loss as a % of GPI	4.5% - 10%	6.4%
Stabilized going-in capillarization rate	6% - 8%	7.3%
Terminal canalization rate	6.5% - 9%	7.8%
Unleveraged IRR	7% - 10.5%	8.8%
Leveraged IRR	12.5% - 14%	13.3%

Office - Suburban		
	Range	**Average**
Gross potential income growth	0% - 3%	2.1%
Expenses growth rate	2% - 3%	2.5%
Vacancy and credit loss as a % of GPI	3% - 8%	5.6%
Stabilized going-in capillarization rate	5% - 8.5%	7.8%
Terminal canalization rate	6.5% - 9.5%	8.2%
Unleveraged IRR	8.5% - 11%	9.5%
Leveraged IRR	11.5% - 18%	14.3%

Retail - Freestanding		
	Range	**Average**
Gross potential income growth	1% - 3%	2.0%
Expenses growth rate	2% - 3.5%	2.8%
Vacancy and credit loss as a % of GPI	3% - 8%	5.8%
Stabilized going-in capillarization rate	5.5% - 8%	6.8%
Terminal canalization rate	5.5% - 9%	7.4%
Unleveraged IRR	7% - 9.5%	8.3%
Leveraged IRR	11.5% - 16%	13%

Retail – Neighborhood | Community		
	Range	**Average**
Gross potential income growth	0.5% - 3%	1.8%
Expenses growth rate	2% - 3.5%	2.8%
Vacancy and credit loss as a % of GPI	3.5% - 7.5%	5.8%
Stabilized going-in capillarization rate	6.5% - 10.5%	8.4%
Terminal canalization rate	8% - 9.5%	8.7%
Unleveraged IRR	8% - 11%	9.3%
Leveraged IRR	11% - 20%	14.7%

Retail – Mall		
	Range	**Average**
Gross potential income growth	0% - 3%	1.3%
Expenses growth rate	3% - 4%	3.5%
Vacancy and credit loss as a % of GPI	7% - 10%	8.2%
Stabilized going-in capillarization rate	7% - 10.5%	9.0%
Terminal canalization rate	8% - 11%	9.5%
Unleveraged IRR	9% - 12%	10.3%
Leveraged IRR	11% - 15%	13.2%

Retail – Other		
	Range	**Average**
Gross potential income growth	0.5% - 3.5%	2.1%
Expenses growth rate	2.5% - 4%	3.3%
Vacancy and credit loss as a % of GPI	5% - 7%	6.0%
Stabilized going-in capillarization rate	6% - 8.5%	7.3%
Terminal canalization rate	7% - 9.5%	8.1%
Unleveraged IRR	7% - 10.5%	8.9%
Leveraged IRR	12% - 13%	12.5%

Cost of Sale

Price Range	Range	Percentage %
Less than $1 million	1.0% - 10.0%	6.1%
$1 million to $5 million	2.0% - 8.5%	5.3%
$5 million to $15 million	1.5% - 8.0%	4.2%
Over $15 million	1.0%- 10.0%	3.2%

Availability of Financing

Most market participants feel that there adequate or abundant financing is available for most asset classes

Asset class	Inadequate	Adequate	Abundant
Retail - Free Standing	16.7%	75.0%	8.3%
Retail - Neighborhood | Community Center	16.7%	75.0%	8.3%
Retail - Mall	54.5%	45.5%	0.0%
Retail - Other	30.4%	69.6%	0.0%
Office - CBD	20.0%	76.0%	4.0%
Office - Suburban	12.5%	75.0%	12.5%
Industrial - Flex	0.0%	44.0%	56.0%
Industrial - Distribution	0.0%	40.0%	60.0%
Industrial - Storage	0.0%	40.0%	60.0%
Industrial - Self-storage	4.2%	58.3%	37.5%
Industrial - Manufacturing	4.1%	50.0%	45.8%
Hospitality	59.1%	36.4%	4.6%
Multi-family	0.0%	33.3%	66.7%
Residential (A&D)	0.0%	62.5%	37.5%

Liquidity

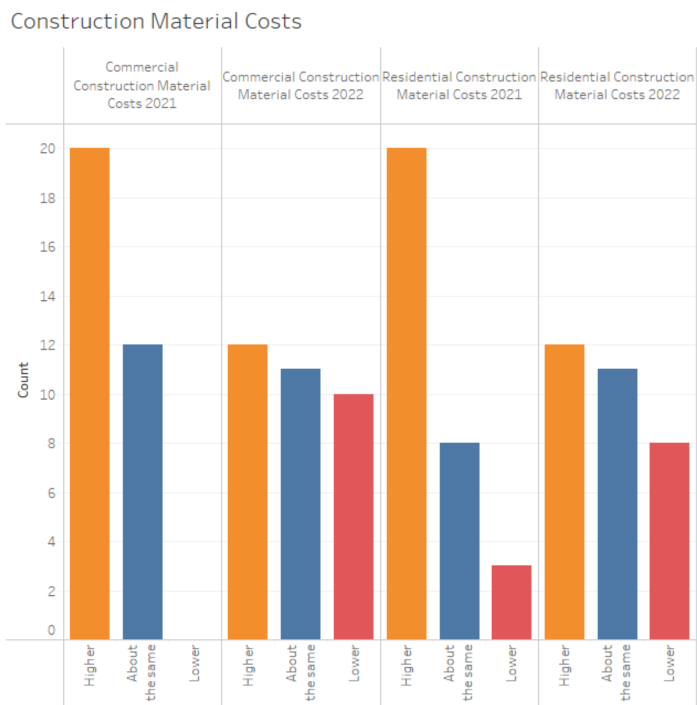
The reasonable selling/liquidity (marketing exposure) time for most real estate asset classes is six to 12 months. However, poorly leased regional shopping centers are over 24 months, and multi-family is less than six months.

		Months			
Category	**Property type**	**Under six**	**Six to 12**	**Twelve to 24**	**Over 24**
Retail	Free-standing store	30%	70%	0%	0%
	Unanchored shopping center	0%	70%	26%	4%
	Anchored neighborhood shopping center	35%	52%	13%	0%
	Community and power shopping center	23%	59%	14%	5%
	Regional shopping center - poorly leased	0%	23%	32%	45%
	Regional shopping center - well leased	14%	50%	32%	5%
Multi-family	Apartment complex (less than 120 units)	56%	32%	12%	0%
	Apartment complex (more than 120 units)	68%	28%	4%	0%
Office	Large office building - well leased	21%	71%	8%	0%
	Large office building - poorly leased	0%	43%	43%	13%
	Small office building (less than 20,000 SF)- well leased	25%	63%	13%	0%
	Small office building (less than 20,000 SF)- poorly leased	4%	48%	43%	4%
Industrial	Small single user office/warehouse buildings	50%	50%	0%	0%
	Multi-tenant flex/bulk distribution	50%	50%	0%	0%
Vacant Land	Single-family residential development	55%	14%	32%	0%
	Multi-family residential development	54%	25%	21%	0%
	Retail	0%	36%	59%	5%
	Office	0%	24%	33%	43%
	Industrial	36%	50%	14%	0%

		Months			
Category	**Property type**	**Under six**	**Six to 12**	**Twelve to 24**	**Over 24**
Special purpose property	Banks, historic, churches, etc.	10%	33%	38%	19%

Construction Materials Costs

The overwhelming consensus is that construction costs will remain higher in 2021 and moderate in 2022 for commercial and residential projects. Lumber prices peaked in early May at $1,686 per 1,000 board feet and have staidly declined but are still above 2019/2020 prices. Likewise, copper and steel prices have fallen from their highs of earlier this year but are still up significantly.



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:

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