

KNIGHT DORIN & ROUNTREY

2008 Real Estate Market Participant Survey



of Central Virginia

CENTRAL VIRGINIA MARKET INSIGHT – 2008

Commercial Real Estate Market Outlook for 2008– Our local experts were correctly reserved and cautious in last year's survey for 2007. As of early 2008 many participants (50%) moved from caution to pessimism as noted below. Another 35% predict no change in the Central Virginia Commercial Real Estate Market for 2008. The much publicized national “sub-prime lending crisis” and “housing market crash” appear to be hurting consumer sentiment more clearly than they are having a real impact on the economy of Central Virginia. Population, jobs and our local economy all continue to grow at a modest but healthy pace – providing a solid foundation for real estate demand. Commercial real estate occupancy rates in Central Virginia are softening slightly while rents and values appear to be holding steady during the first half of 2008.

- Half the market participants were pessimistic about real estate market conditions for 2008. This is the most negative reading in our survey's 16 year history.
- Expected property investment holding periods have decreased significantly in all categories.
- Tenant retention/renewal rates declined across the board and expected months vacant between tenants increased significantly in all categories.
- In general there was little change in projected going-in cap rates but increases in discount rates for all property types. Equity yield projections (leveraged internal rate of return) are lower for all property types – except apartments.
- Apartment properties, registered the most optimistic expectations of all property types in our survey. Apartments have historically performed well in real estate market downturns and our participants expect them to do well in 2008.
- Central Virginia's Office, Retail and Industrial markets appear to be reasonably stable and healthy for 2008 based on survey results.
- Mortgage financing is expected to be scarce for all property types except apartments and industrial in 2008. It is noteworthy that there has been substantial decline in the commercial mortgage abundance scores over the past three years - suggesting growing caution from the lending community.
- Marketing times are overwhelmingly (79%) expected to increase in 2008.

This Real Estate Market Survey is an annual publication of Knight, Dorin & Rountrey. This is our 16th 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.

INVESTMENT CRITERIA

Office Market				
Category	2008 Range	2008 Average	2007 Range	2007 Average
Holding Period (Years)	3.0 – 8.0	5.6	5.0 - 10.0	7.2
Income (Growth Rate)	2.0% – 4.0%	3.0%	0% - 4.0%	2.9%
Operating Expenses (Growth Rate)	1.0% – 4.0%	2.8%	1.0% - 3.0%	2.6%
Vacancy Loss	5.0% – 10.0%	7.5%	5.0% - 10.0%	7.5%
Going-In Capitalization Rate	8.0% – 9.5%	8.3%	8.0% - 9.0%	8.3%
Terminal Capitalization Rate	8.0% – 10.0%	9.0%	8.0% - 10.0%	8.9%
Discount Rates (Unleveraged IRR)	10.0% – 15.0%	11.5%	8.0% - 13.0%	11.0%
Equity Yield (Leveraged IRR)	13.0 % – 16.0%	14.5%	11.0% - 16.0%	14.6%
Tenant Retention Rates:				
Class A	65% – 80%	72%	60% – 80%	73%
Class B	50% – 60%	58%	60% - 75%	69%
Months vacant between tenants:				
Class A	4.5 – 6.0	5.2	3.0 – 9.0	5.0
Class B	6.0 – 9.5	8.0	4.0 – 12.0	7.0
Retail Market				
Category	2008 Range	2008 Average	2007 Range	2007 Average
Holding Period (Years)	5.0 – 10.0	6.7	5.0-10.0	6.9
Income (Growth Rate)	2.0% – 4.0%	3.4%	1.0% - 5.0%	3.3%
Operating Expenses (Growth Rate)	.5% – 4.0%	2.6%	2.0% - 4.0%	2.9%
Vacancy Loss	5.0% – 10.0%	6.7%	5.0% - 7.0%	5.6%
Going-In Capitalization Rate	7.5% – 8.5%	8.0%	7.0% - 9.0%	8.0%
Terminal Capitalization Rate	8.5% – 10.0%	9.1%	8.0% - 10.0%	8.7%
Discount Rates (Unleveraged IRR)	10.0% – 15.0%	11.4%	9.0% - 14.0%	10.9%
Equity Yield (Leveraged IRR)	11.0% – 15.0%	13.0%	16.0% - 16.0%	16.0%
Tenant Retention Rates:				
Neighborhood	60% – 90%	76%	60% - 95%	81%
Community	70% – 90%	83%	60% - 93%	84%
Months vacant between tenants:				
Neighborhood	4.0 – 12.0	6.3	1.0 – 8.0	4.5
Community	3.0 – 8.0	5.7	3.0 – 9.0	4.7
Apartment Market				
Category	2008 Range	2008 Average	2007 Range	2007 Average
Holding Period (Years)	6.0 – 10.0	8.3	5.0-10.0	8.8
Income (Growth Rate)	3.0% – 5.0%	4.1%	2.0%-5.0%	3.5%
Operating Expenses (Growth Rate)	2.0% – 3.0%	2.8%	2.0% - 3.0%	2.8%
Vacancy Loss	3.0% – 5.0%	4.6%	3.0% - 5.0%	4.6%
Going-In Capitalization Rate	6.8% – 8.0%	7.2%	6.0% - 9.0%	7.6%
Terminal Capitalization Rate	7.5% – 9.5%	8.4%	7.0% - 10.0%	8.0%
Discount Rates (Unleveraged IRR)	9.5% – 12.5%	10.7%	9.0% - 12.0%	10.5%
Equity Yield (Leveraged IRR)	12.0% – 16.0%	14.3%	14.0% - 16.0%	15.0%

Industrial Market				
Category	2008 Range	2008 Average	2007 Range	2007 Average
Holding Period (Years)	3.0 – 10.0	7.3	5.0-10.0	8.3
Income (Growth Rate)	2.0% – 3.0%	2.6%	2.0% - 4.0%	3.0%
Operating Expenses (Growth Rate)	.5% – 3.0%	2.3%	.05% - 3.0%	2.5%
Vacancy Loss	3.0% – 5.0%	4.6%	3.0% - 10.0%	5.8%
Going-In Capitalization Rate	8.0% – 12.0%	8.8%	8.0% - 10.0%	8.7%
Terminal Capitalization Rate	8.0% – 12.0%	9.6%	8.0% - 15.0%	9.8%
Discount Rates (Unleveraged IRR)	10.0% – 11.0%	10.8%	9.0% - 13.0%	10.8%
Equity Yield (Leveraged IRR)	13.0% – 16.0%	14.3%	12.0% - 16.0%	14.3%
Tenant Retention Rates:				
Office/Whse.	60% – 90%	74%	60% - 90%	73%
Distribution	50% – 70%	64%	50% - 90%	68%
Months vacant between tenants:				
Office/Whse.	4.5 – 9.0	6.4	3.0 – 6.0	5.0
Distribution	5.0 – 12.0	8.3	3.0 – 8.0	6.33

LAND LEASE RATES

	Range	Average
Cap Rate (with flat rent)	7.25% - 10.00%	8.50%
Cap Rate (average 2% ann. escalation)	7.00% - 10.00%	8.06%
Subordination Impact?	50 – 400 basis points	
Credit Impact?	150 - 300 basis points	

RESERVES, LEASING COSTS, AND TI'S

Include in Cap Rate Analysis	Yes	No
Reserves for Replacement	83%	17%
Leasing Commissions	64%	36%
Tenant Improvement Costs	40%	60%

COST OF SALE

Price Range	Low	High	Average
<\$500K	6%	10%	7.1%
\$500K to \$1M	5%	8%	6.2%
\$1M to \$3M	4%	7%	5.1%
\$3M to \$5M	3%	6%	5.4%
>\$5M	2%	5%	3.9%

ENTREPRENEURIAL PROFIT

Basis	Year	Low	High	Median
Improvements Only	2008	8%	20%	12%
	2007	10%	18%	15%
	2006	10%	25%	15%
	2005	10%	30%	15%
	2004	10%	20%	13%
	2003	5%	15%	10%
	2002	10%	30%	20%
Land and Improvements	2008	10%	15%	10%
	2007	9%	25%	16%
	2006	8%	35%	15%
	2005	8%	30%	15%
	2004	10%	25%	14%
	2003	10%	20%	13%
	2002	10%	30%	16%
Gross Sales	2008	18%	35%	28%
	2007	10%	25%	25%
	2006	12%	50%	24%
	2005	15%	30%	25%
	2004	15%	33%	22%
	2003	10%	25%	18%
	2002	25%	35%	30%

LOT PRICE RATIOS

Improved Property Price	Lot Value Ratio Range as % of Total Price					Median				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
Starter Housing \$200-\$300K	20-30%	18-32%	15-30%	13-34%	20-40%	24%	25%	26%	25%	28%
Move Up Housing \$300-\$400K	20-30%	20-35%	18-35%	13-33%	20-35%	24%	24.5%	25%	25%	25%
Luxury Housing \$400-600K	18-30%	19-37%	20-35%	13-30%	15-35%	22%	22%	25%	25%	25%
High End Luxury Housing Over \$600K					15-35%					25%

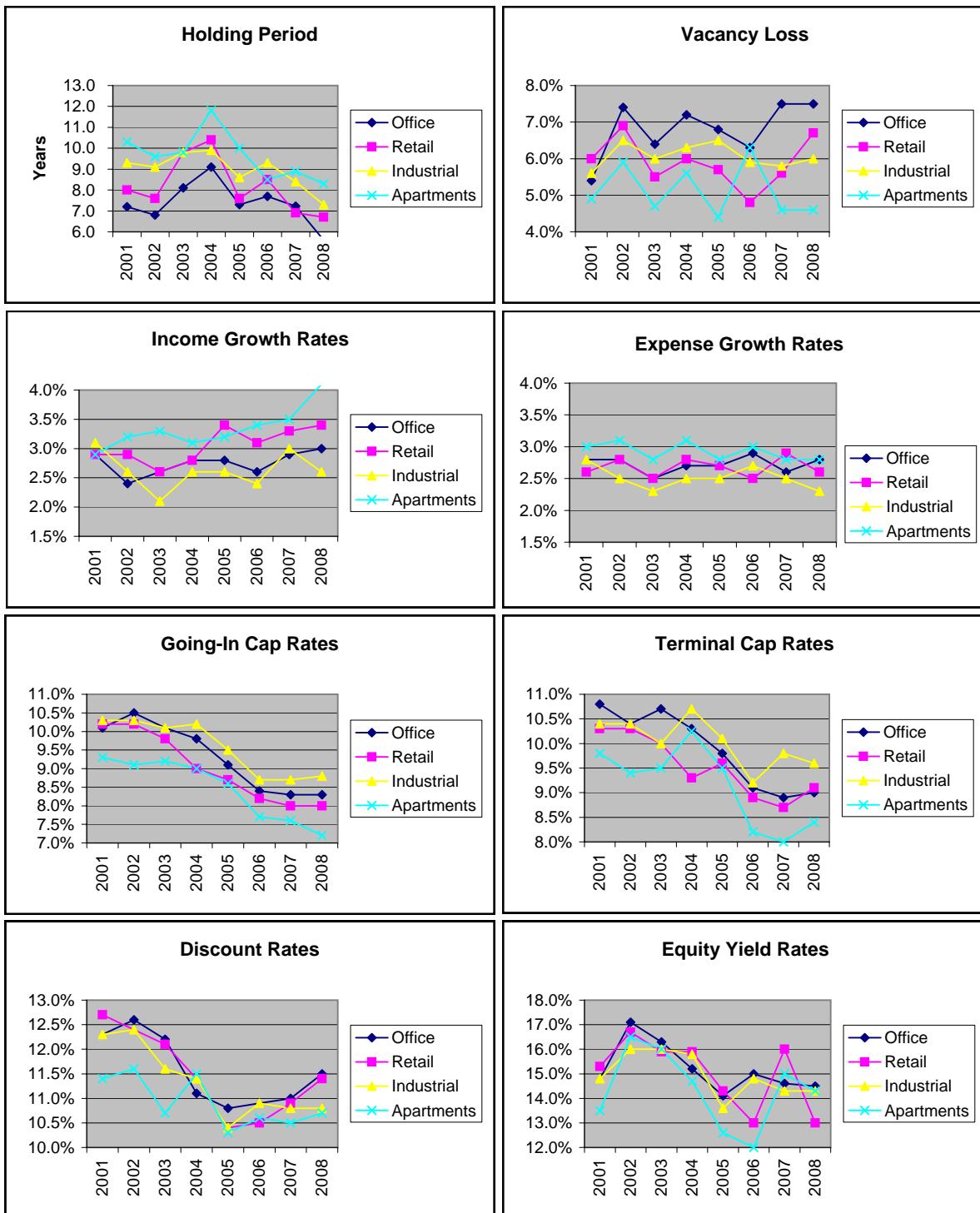
AVAILABILITY OF MORTGAGE FINANCING

Property Type	Past 12 months	Next 12 months
Apartments	2.6	2.3
Hotels	2.0	1.6
Industrial	2.3	2.2
Office	2.0	1.4
Retail	2.6	1.6
Residential (A & D)	2.1	1.6
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	45.8%	37.3%	16.9%	
Small unanchored retail center	42.2%	48.2%	9.6%	
Neighborhood retail center	45.8%	44.6%	9.6%	
Community retail center	47.6%	52.4%	0.0%	
Regional retail center	27.3%	72.7%	0.0%	
Multi-family				
Apartment (> 120 units)	56.6%	43.4%	0.0%	
Apartment (< 120 units)	41.7%	58.3%	0.0%	
Office				
Large - well leased	66.7%	33.3%	0.0%	
Large – poorly leased	0.0%	64.5%	35.5%	
Small – well leased < 20,000 sf	79.8%	11.7%	8.5%	
Small – poorly leased < 20,000 sf	11.7%	50.0%	38.3%	
Industrial				
Small single user	59.8%	40.2%	0.0%	
Multi-tenant flex/bulk distribution	40.6%	46.9%	12.5%	
Manufacturing Buildings	0.0%	17.9%	82.1%	
Special use properties				
Banks, historic, churches, etc.	34.0%	29.8%	36.2%	
Land				
Single family development	0.0%	44.3%	55.7%	
Multi-family development	51.6%	29.5%	18.9%	
Retail	0.0%	75.0%	25.0%	
Office	0.0%	89.2%	10.8%	
Industrial	0.0%	38.9%	61.1%	
		No Change	Increase	Decrease
Marketing period change from 2007		16%	79%	5%

CENTRAL VIRGINIA
MARKET SURVEY HISTORICAL SUMMARY 2008
 (Response Averages)



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RICHMOND MSA EMPLOYMENT ANALYSIS

Month-Year	Apr-98		Apr-07		Apr-08	
Total Non Farm	558,800	100.0%	631,700	100.0%	636,800	100.0%
Manufacturing	57,600	10.3%	42,400	6.7%	41,200	6.5%
Wholesale Trade	23,900	4.3%	28,500	4.5%	28,900	4.5%
Retail Trade	61,200	11.0%	67,000	10.6%	68,100	10.7%
Transportation, Warehousing & Utilities	20,000	3.6%	20,800	3.3%	20,900	3.3%
Information	11,700	2.1%	11,700	1.9%	10,700	1.7%
Finance	39,500	7.1%	45,800	7.3%	45,200	7.1%
Professional & Business Services	87,400	15.6%	98,600	15.6%	98,300	15.4%
Education & Health Services	51,000	9.1%	72,000	11.4%	74,100	11.6%
Leisure and Hospitality	43,700	7.8%	51,600	8.2%	53,300	8.4%
Other Services	22,400	4.0%	31,200	4.9%	30,800	4.8%
Government	104,100	18.6%	116,000	18.4%	118,000	18.5%

	10 Year Change		1 Year Change	
Total Non Farm	78,000	100.0%	5,100	100.0%
Manufacturing	-16,400	-21.0%	-1,200	-23.5%
Wholesale Trade	5,000	6.4%	400	7.8%
Retail Trade	6,900	8.8%	1,100	21.6%
Transportation, Warehousing & Utilities	900	1.2%	100	2.0%
Information	-1,000	-1.3%	-1,000	-19.6%
Finance	5,700	7.3%	-600	-11.8%
Professional & Business Services	10,900	14.0%	-300	-5.9%
Education & Health Services	23,100	29.6%	2,100	41.2%
Leisure and Hospitality	9,600	12.3%	1,700	33.3%
Other Services	8,400	10.8%	-400	-7.8%
Government	13,900	17.8%	2,000	39.2%

10 Year Annual Rate of Change:	1.46%
1 Year Annual Rate of Change:	0.81%

Source: Virginia Employment Commission - estimates based on sample survey
 Analysis: Knight Dorin & Rountrey

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
- Roanoke MSA – Shenandoah Valley Area

OWNER

Edward G. Knight, MAI, SRA

PROFESSIONAL STAFF

J. Parks Rountrey, MAI, SRA
William A. Hopkins, Jr., MAI, SRA
Michael S. Larson
Michael A. Knight

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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