

Real Estate Market Participants' Survey

Fall 2017



VCU

Kornblau Real Estate Program
School of Business

**KNIGHT DORIN
& ROUNTREY
REAL ESTATE ANALYSTS**

Real Estate Market Participant Survey Results

In Fall 2017, 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 first joint study.

The study's goal is to provide a diverse perspective of the real estate market for a more universal analysis. Eventually we hope to expand the survey's scope beyond the Central Virginia area.

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 2017 and had 769 respondents from various real estate backgrounds.

Feedback

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

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

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REAL ESTATE ANALYSTS

Summary

769 Respondents from diverse backgrounds.

Respondents are cautiously optimistic about market expectations for the next six months.

Retail is seeing a negative trend regarding market growth.

Financing for Multi-family is currently more abundant than other property types.

Most market participants feel that we are in the growth phase of the real estate market, with the exception of office and retail—most participants feel those sectors are in the maturity phase.

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, insurance, law, and construction.

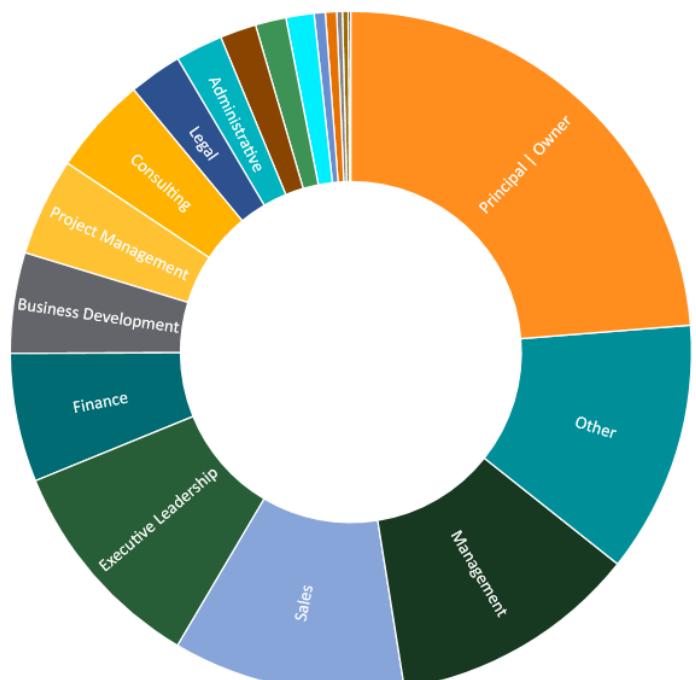
Which of the following best describes your principle industry?

n=768



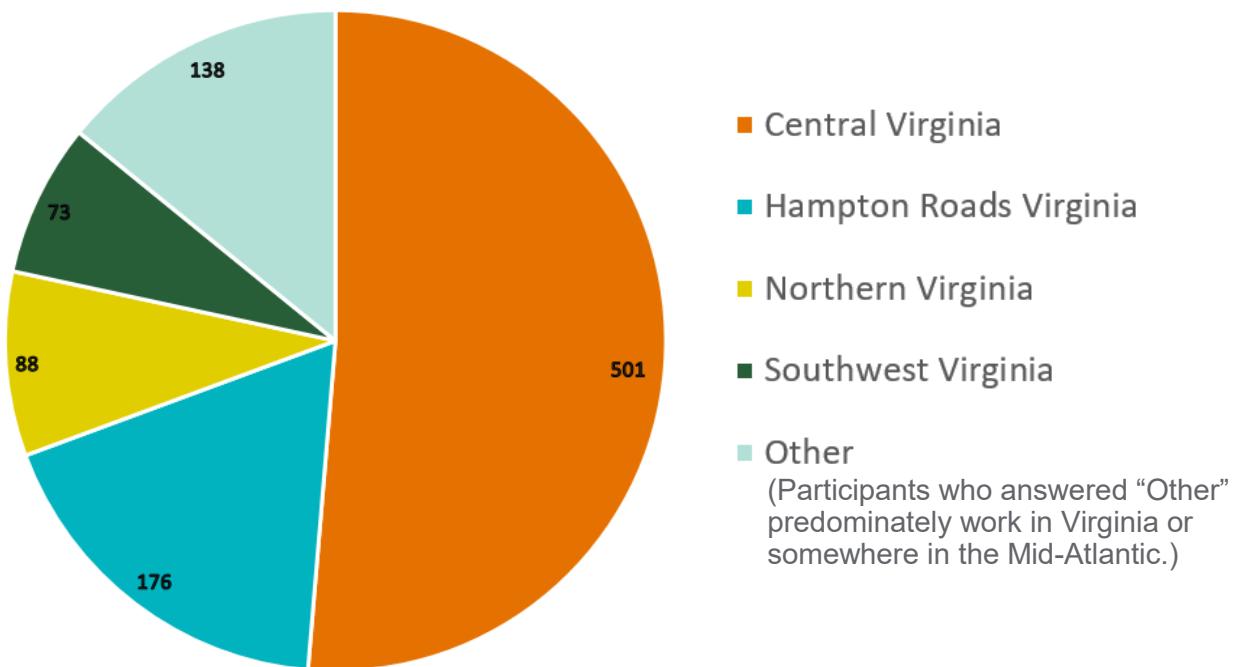
Which of the following best describes your job function?

n=754



What is your primary market?

n=762

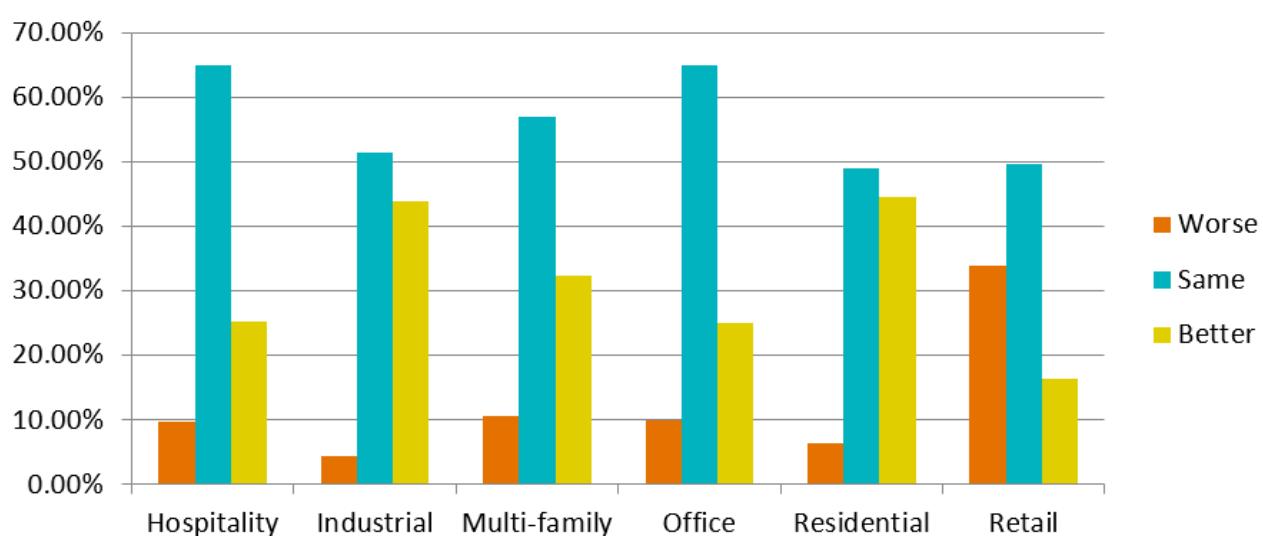


OUTLOOK

Expectations for the real estate market over the next six months remain the same. But the outlook leans more positively towards “better,” with the exception of Retail, which had mixed results and leans more negatively.

What are your real estate market expectations in the next six months as compared to the previous six months?

n=746



REAL ESTATE MARKET CYCLE

Overall, most sectors seem to be in the growth stage, with Industrial and Multi-family transitioning to the mature stage. Office is in the mature stage, while Retail again shows a downward slope, with about equal expectations in the mature and recession stages.

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 630 responses.

	Recovery	Growth	Mature	Recession	Total Respondents
Hospitality	9.89%	43.10%	42.35%	4.66%	536
Industrial	14.92%	51.57%	29.10%	4.42%	543
Multi-family	2.79%	49.39%	44.85%	2.97%	573
Office	16.34%	25.31%	47.22%	11.13%	557
Residential	9.40%	62.39%	25.81%	2.39%	585
Retail	9.09%	19.27%	37.45%	34.18%	550

ENTREPRENEURIAL INCENTIVE

Total hard and soft costs (land and improvements) averages are within +/- one percent of the overall average (14%).

Regarding new development ventures, what is your current minimum acceptable level of anticipated entrepreneurial profit (unleveraged) as expressed as a percentage?

n=305

	Central Virginia Range Average	Hampton Roads Range Average	NOVA Range Average	Southwest Range Average	All Range Average
Total hard and soft costs (land and improvements)	8% - 20% 14%	6% - 20% 13%	8% - 20% 13%	8% - 20% 12%	8% - 20% 14%

LAND VALUE ALLOCATION

When compared to the overall average, starter housing has a slightly higher expectation in the Hampton Roads and NOVA regions (+2% and 4%, respectively), while move-up housing has a slightly lower expectation in the Southwest region (-3%).

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?

n=220

Lot Price Ratios

	Central Virginia	Hampton Roads	NOVA	Southwest	All
	Range Average	Range Average	Range Average	Range Average	Range Average
Starter housing	15% - 25% 20%	15% - 35% 23%	15% - 35% 25%	15% - 30% 21%	15% - 30% 21%
Move-up housing	20% - 30% 23%	20% - 30% 23%	20% - 30% 24%	15% - 30% 21%	20% - 30% 24%
Luxury	20% - 30% 24%	20% - 30% 26%	20% - 30% 24%	20% - 35% 27%	20% - 30% 24%
High-end luxury housing	15% - 35% 25%	15% - 35% 27%	15% - 35% 26%	15% - 35% 26%	15% - 35% 25%
Townhouses	15% - 25% 20%	15% - 25% 20%	15% - 25% 21%	15% - 30% 20%	15% - 30% 21%

LAND LEASE RATES

NOVA has the lowest averages in all categories when compared to the other areas. Hampton Roads has the highest averages.

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)

n=47

	Central Virginia	Hampton Roads	NOVA	Southwest	All
	Range Average	Range Average	Range Average	Range Average	Range Average
Subordinated Lease - Cap Rate (with flat rent)	4.5% - 8.0% 6.2%	5.5% - 8.0% 6.9%	4.0% - 6.0% 5.4%	4.0% - 11.0% 6.8%	4.5% - 10.0% 7.0%
Subordinated Lease - Cap Rate (with rent escalations)	4.5% - 8.0% 6.0%	5.0% - 8.0% 6.7%	3.0% - 5.0% 4.5%	5.0% - 10.0% 6.5%	4.5% - 9.5% 6.6%
Unsubordinated Lease - Cap Rate (with flat rent)	5.0% - 9.0% 7.1%	6.0% - 10.0% 8.2%	4.5% - 8.0% 6.5%	6.0% - 9.0% 8.0%	5.0% - 10.0% 7.4%
Unsubordinated Lease - Cap Rate (with rent escalations)	4.5% - 8.5% 6.2%	6.0% - 10.0% 7.9%	4.0% - 7.0% 5.5%	6.0% - 8.0% 7.5%	4.5% - 9.5% 6.9%

COST OF SALE

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?

n=88

	Central Virginia	Hampton Roads	NOVA	Southwest	All
	Range	Range	Range	Range	Range
	Average	Average	Average	Average	Average
Less than \$1 million	4.5% - 6.5% 5.4%	5.0% - 10.0% 7.4%	3.0% - 6.0% 4.8%	4.0% - 6.4% 5.2%	4.7% - 6.8% 5.8%
\$1 million to \$5 million	4.0% - 5.5% 4.6%	4.0% - 8.0% 6.1%	3.0% - 5.5% 4.4%	3.3% - 5.4% 4.3%	4.1% - 5.7% 4.9%
\$5 million to \$15 million	3.0% - 4.0% 3.5%	2.0% - 6.0% 3.8%	2.0% - 4.5% 3.3%	2.3% - 4.3% 3.3%	2.5% - 4.4% 3.4%
Over \$15 million	1.5% - 3.0% 2.3%	1.0% - 5.0% 2.6%	2.0% - 3.5% 2.6%	1.8% - 4.0% 2.9%	1.5% - 2.5% 2.0%

AVAILABILITY OF MORTGAGE FINANCING

All sectors show high levels of adequate financing availability. Multi-family was split almost equally between adequate and abundant.

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 174 responses.

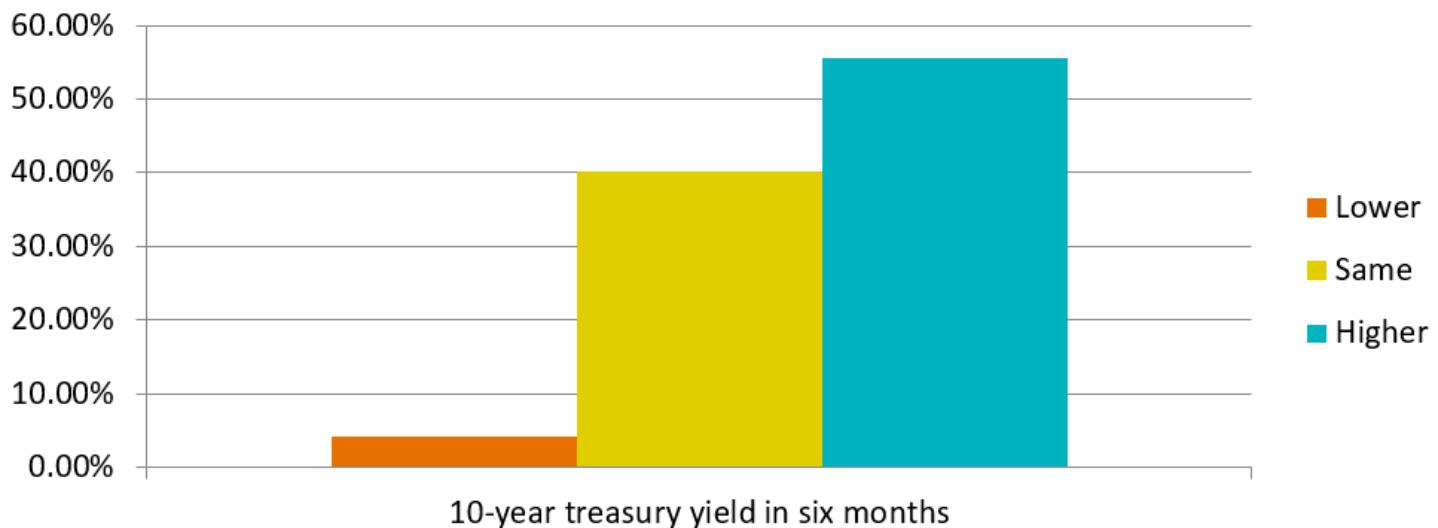
	Inadequate	Adequate	Abundant	Total Respondents
Hospitality	31.07%	61.17%	7.77%	103
Industrial	14.68%	64.22%	21.10%	109
Multi-family	12.03%	43.61%	44.36%	133
Office	18.75%	66.07%	15.18%	112
Residential (A&D)	15.79%	63.91%	20.30%	133
Retail	25.45%	62.73%	11.82%	110

TREASURY YIELD

The sentiment regarding treasury yield is that it will at least remain the same, but probably will rise.

The current 10-year treasury yield is approximately 2.29 percent. In six months, what is your prediction of the 10-year treasury yield rate?

n=189



Respondents expect to see a 2 to 2.5% spread on average over the 10-year treasury yield. NOVA has the highest average for most ranges (except for Multi-family), with a significantly higher average for Residential (A&D).

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

n=85

	Central Virginia	Hampton Roads	NOVA	Southwest	All
	Range	Range	Range	Range	Range
	Average	Average	Average	Average	Average
Hospitality	200 - 300 246	200 - 350 270	250 - 400 312	200 - 350 275	200 - 350 259
Industrial	150 - 300 237	150 - 300 216	225 - 275 250	200 - 300 235	175 - 300 242
Multi-family	150 - 250 198	150 - 225 185	125 - 225 185	125 - 250 175	150 - 250 199
Office	200 - 300 243	200 - 300 254	250 - 350 292	200 - 300 262	200 - 300 248
Residential (A&D)	200 - 325 256	200 - 350 239	200 - 450 325	200 - 300 250	150 - 350 255
Retail	200 - 325 251	200 - 350 267	225 - 400 295	200 - 325 250	200 - 350 260

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.

n=88-120

Real Estate Liquidity – Marketing Period

	Central Virginia				Hampton Roads				NOVA				Southwest				All			
	Less than six months	Six to 12 months	Twelve to 24 months	Over 24 months	Less than six months	Six to 12 months	Twelve to 24 months	Over 24 months	Less than six months	Six to 12 months	Twelve to 24 months	Over 24 months	Less than six months	Six to 12 months	Twelve to 24 months	Over 24 months	Less than six months	Six to 12 months	Twelve to 24 months	Over 24 months
Retail:																				
Free-standing store	41%	43%	15%	2%	52%	26%	19%	4%	43%	36%	21%	0%	30%	70%	0%	0%	38%	40%	18%	3%
Unanchored shopping center	15%	41%	30%	15%	15%	48%	19%	19%	21%	50%	29%	0%	10%	70%	10%	10%	14%	39%	30%	17%
Anchored neighborhood shopping center	37%	41%	20%	2%	43%	32%	21%	4%	57%	43%	0%	0%	40%	30%	20%	10%	33%	40%	23%	5%
Community and power shopping center	31%	40%	27%	2%	27%	42%	31%	0%	62%	23%	15%	0%	40%	10%	30%	20%	25%	42%	27%	6%
Regional shopping center - poorly leased	4%	19%	35%	42%	8%	15%	42%	35%	8%	15%	31%	46%	10%	10%	20%	60%	2%	16%	39%	43%
Regional shopping center - well leased	29%	50%	19%	2%	28%	64%	8%	0%	46%	38%	8%	8%	20%	30%	40%	10%	24%	52%	18%	5%
Multi-Family:																				
Apartment complex (less than 120 units)	62%	31%	7%	0%	61%	32%	6%	0%	71%	21%	7%	0%	55%	45%	0%	0%	57%	34%	9%	0%
Apartment complex (more than 120 units)	59%	29%	11%	1%	57%	30%	10%	3%	79%	7%	14%	0%	45%	45%	9%	0%	55%	30%	12%	3%
Office:																				
Large office building – well leased	38%	49%	11%	2%	32%	44%	12%	12%	40%	50%	10%	0%	29%	57%	14%	0%	31%	53%	12%	5%
Large office building – poorly leased	5%	33%	35%	27%	4%	24%	40%	32%	10%	10%	50%	30%	14%	14%	57%	14%	5%	26%	41%	28%
Small office building (less than 20,000 SF) – well leased	36%	56%	7%	0%	40%	52%	8%	0%	30%	60%	10%	0%	14%	71%	14%	0%	34%	53%	13%	0%
Small office building (less than 20,000 SF) – poorly leased	18%	27%	29%	25%	4%	32%	52%	12%	10%	20%	50%	20%	14%	29%	43%	14%	13%	26%	39%	22%
Industrial:																				
Small single user office/warehouse buildings	46%	42%	12%	0%	39%	35%	26%	0%	50%	50%	0%	0%	17%	83%	0%	0%	43%	41%	16%	0%
Multi-tenant flex/bulk distribution	42%	43%	11%	4%	25%	42%	21%	13%	50%	40%	10%	0%	33%	17%	50%	0%	31%	43%	20%	5%
Vacant Land:																				
Single-family residential development	21%	36%	34%	9%	21%	39%	32%	7%	27%	45%	9%	18%	14%	29%	0%	57%	23%	34%	30%	13%
Multi-family residential development	26%	48%	23%	3%	35%	42%	19%	4%	27%	64%	9%	0%	13%	63%	13%	13%	29%	44%	22%	5%
Retail	4%	22%	61%	14%	15%	27%	35%	23%	8%	33%	50%	8%	0%	38%	50%	13%	8%	22%	51%	19%
Office	4%	20%	50%	26%	17%	13%	46%	25%	11%	33%	33%	22%	0%	50%	33%	17%	6%	21%	43%	30%
Industrial	11%	32%	32%	25%	25%	29%	25%	21%	33%	33%	33%	0%	20%	20%	20%	40%	13%	33%	33%	22%
Special Purpose Properties:																				
Banks, historic, churches, etc.	5%	37%	33%	25%	4%	38%	38%	19%	8%	67%	8%	17%	14%	43%	29%	14%	3%	38%	34%	25%

PERFORMANCE FACTORS

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.

n=84-120

OFFICE

	Central Virginia Range Average	Hampton Roads Range Average	NOVA Range Average	Southwest Range Average	All Range Average
Income (Growth Rate)	1.5% - 2.5% 2.0%	1.0% - 4.0% 2.4%	1.0% - 4.0% 2.2%	1.0% - 2.5% 1.8%	1.0% - 4.0% 2.0%
Vacancy Loss	0.5% - 12.5% 7.3%	5.0% - 10.0% 7.7%	8.0% - 12.0% 10.0%	5.0% - 10.0% 6.8%	5.0% - 10.0% 7.4%
Going-In Capitalization Rate	7.0% - 9.0% 7.8%	6.5% - 8.5% 7.5%	7.0% - 8.5% 7.6%	7.5% - 9.5% 8.4%	6.5% - 9.0% 7.8%
Terminal Capitalization Rate	7.0% - 10.0% 8.4%	7.0% - 8.5% 7.6%	Inadequate Response	8.5% - 10.0% 9.1%	7.0% - 10.5% 8.5%
Discount Rates (Unleveraged IRR)	8.0% - 12.5% 9.8%	7.5% - 12.5% 8.9%	Inadequate Response	9.0% - 12.5% 11.2%	7.5% - 12.5% 9.6%
Equity Yield (Leveraged IRR)	12.0% - 15.0% 14.0%	12.0% - 15.0% 13.5%	Inadequate Response	10.0% - 20.0% 14.1%	10.0% - 20.0% 14.3%

Tenant Retention Rates:

Class A	60% - 90% 76%	40% - 80% 68%	65% - 90% 78%	40% - 90% 70%	40% - 90% 71%
Class B	60% - 90% 72%	40% - 85% 66%	60% - 90% 74%	65% - 85% 74%	40% - 90% 68%

Months vacant between tenants:

Class A	2 - 10 6.2	3 - 12 7.2	3 - 12 6.9	4 - 14 8	3 - 12 7
Class B	3 - 12 7.8	4 - 12 7.9	3 - 12 7.6	6 - 12 8.8	3 - 12 7.8

RETAIL

	Central Virginia		Hampton Roads		NOVA		Southwest		All						
	Range		Range		Range		Range		Range						
	Average		Average		Average		Average		Average						
Income (Growth Rate)	1.0%	-	2.5%	1.0%	-	4.0%	1.0%	-	3.0%	1.0%	-	2.0%	1.0%	-	4.0%
	1.6%		2.1%		1.8%		1.4%		1.9%						
Vacancy Loss	2.5%	-	15.0%	5.0%	-	10.0%	5.0%	-	10.0%	2.0%	-	8.0%	5.0%	-	10.0%
	7.4%		7.7%		6.0%		5.4%		7.3%						
Going-In Capitalization Rate	6.0%	-	9.0%	6.5%	-	8.5%	6.5%	-	7.5%	7.0%	-	9.5%	6.0%	-	9.0%
	7.5%		7.5%		7.0%		7.9%		7.5%						
Terminal Capitalization Rate	7.5%	-	10.0%	7.5%	-	9.0%	7.0%	-	9.0%	8.0%	-	10.0%	7.0%	-	10.5%
	8.5%		8.3%		8.5%		8.5%		8.6%						
Discount Rates (Unleveraged IRR)	7.5%	-	13.0%	8.5%	-	12.0%	Inadequate		8.5%	-	12.0%	7.5%	-	12.0%	
	10.4%		9.4%		Response		10.6%		9.8%						
Equity Yield (Leveraged IRR)	13.0%	-	17.5%	12.5%	-	14.0%	Inadequate		10.0%	-	17.0%	8.5%	-	20.0%	
	15.4%		13.2%		Response		13.0%		13.3%						

Tenant Retention Rates:

Neighborhood	40%	-	90%	40%	-	90%	40%	-	90%	40%	-	90%
	68%		68%		68%		70%		66%			
Community	40%	-	90%	40%	-	90%	60%	-	90%	65%	-	90%
	68%		69%		79%		80%		68%			

Months vacant between tenants:

Neighborhood	4	-	12	6	-	12	6	-	24	6	-	24	4	-	12
	7.8		8.1		12.1		12.1		8.3						
Community	4	-	12	4	-	12	6	-	14	4	-	20	4	-	12
	7.8		7.6		9.8		11.5		8.1						

INDUSTRIAL

	Central Virginia	Hampton Roads	NOVA	Southwest	All
	Range	Range	Range	Range	Range
	Average	Average	Average	Average	Average
Income (Growth Rate)	1.5% - 4.0% 2.5%	1.5% - 5.0% 2.8%	1.5% - 6.0% 2.8%	1.0% - 4.0% 2.3%	1.0% - 4.0% 2.3%
Vacancy Loss	0.5% - 10.0% 5.2%	0.5% - 5.0% 3.9%	3.0% - 8.0% 5.0%	3.5% - 10.0% 5.5%	0.5% - 8.0% 4.8%
Going-In Capitalization Rate	6.5% - 9.0% 8.1%	6.0% - 8.0% 7.1%	5.0% - 8.0% 7.1%	7.5% - 8.5% 7.9%	5.0% - 9.0% 7.3%
Terminal Capitalization Rate	7.0% - 10.0% 8.5%	5.5% - 8.5% 7.4%	6.0% - 10.0% 7.8%	8.5% - 10.0% 9.0%	6.5% - 9.5% 8.0%
Discount Rates (Unleveraged IRR)	8.0% - 12.0% 9.8%	8.0% - 11.0% 9.3%	Inadequate Response	11.0% - 13.5% 12.1%	6.5% - 12.0% 9.6%
Equity Yield (Leveraged IRR)	11.0% - 15.0% 13.9%	10.0% - 15.0% 13.8%	Inadequate Response	10.0% - 20.0% 15.1%	10.0% - 18.5% 13.0%

Tenant Retention Rates:

Office/Warehouse (Flex)	60% - 90% 73%	50% - 85% 69%	65% - 85% 76%	40% - 90% 71%	40% - 90% 71%
Warehouse/Distribution	70% - 90% 81%	40% - 80% 64%	55% - 90% 77%	40% - 90% 72%	40% - 90% 73%

Months vacant between tenants:

Office/Warehouse (Flex)	1 - 12 6.4	3 - 12 6.9	3 - 12 6.6	3 - 12 7.6	3 - 12 7.3
Warehouse/Distribution	1 - 12 6.5	3 - 12 7.8	1 - 12 5.7	3 - 12 7.8	3 - 12 7.4

APARTMENTS

	Central Virginia	Hampton Roads	NOVA	Southwest	All
	Range	Range	Range	Range	Range
	Average	Average	Average	Average	Average
Income (Growth Rate)	2.0% - 4.0% 2.7%	2.0% - 4.0% 2.7%	1.5% - 3.0% 2.6%	1.0% - 3.0% 2.2%	1.0% - 4.0% 2.5%
Vacancy Loss	0.5% - 7.0% 3.9%	0.0% - 7.0% 3.8%	0.5% - 5.0% 3.5%	0.0% - 6.0% 3.2%	0.5% - 7.0% 4.1%
Going-In Capitalization Rate	5.5% - 8.0% 6.4%	5.5% - 6.5% 5.9%	4.5% - 6.0% 5.5%	4.5% - 7.0% 5.9%	4.5% - 8.0% 6.2%
Terminal Capitalization Rate	6.0% - 8.0% 6.8%	5.0% - 7.5% 6.4%	5.0% - 7.5% 6.5%	6.0% - 8.0% 6.8%	5.0% - 8.5% 6.7%
Discount Rates (Unleveraged IRR)	7.0% - 12.0% 9.4%	7.0% - 12.0% 9.0%	Inadequate Response	6.5% - 12.5% 10.1%	6.0% - 12.0% 8.7%
Equity Yield (Leveraged IRR)	10.0% - 15.0% 12.8%	10.0% - 15.0% 12.8%	Inadequate Response	10.0% - 18.0% 13.6%	8.5% - 16.0% 12.3%

HOT TOPIC — APPROVAL PROCESS

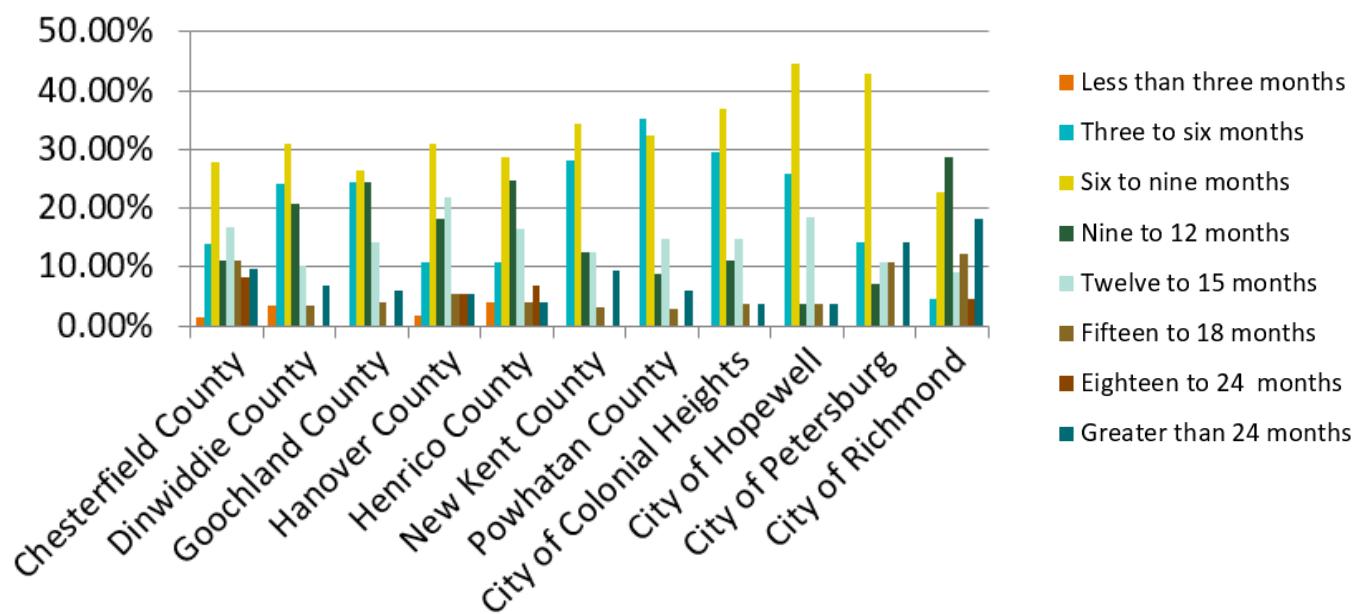
Our hot topic question for this edition focused on the legislative and administrative approval process for developments, with the following results shown on the next two pages.

LEGISLATION

Regarding legislative approval timelines, respondent answers were somewhat varied, but in each locality the lead average was six to nine months, with three to six months in second for most areas. Only two localities had more in a different category (though six to nine months was the second most common answer for each): Powhatan County is three to six months and the City of Richmond is nine to twelve months. The City of Richmond has the most responses for greater than 24 months.

For new developments, how long does it take to get necessary legislative approvals
(e.g., rezoning, use permits, etc.) in each of the jurisdictions?

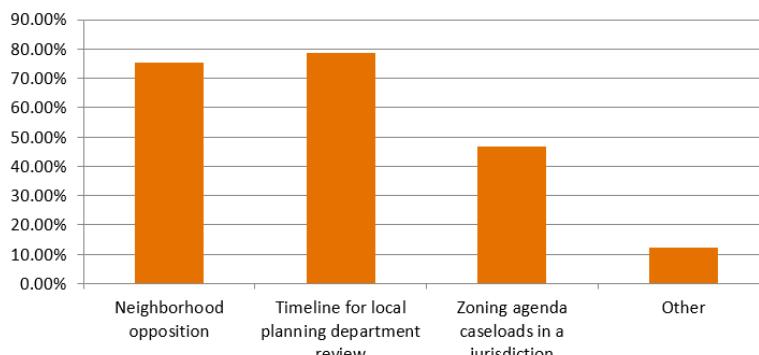
n=89



The results of this next question reflect those found in the previous question: respondents believe department reviews take too long. Most of the comments for “Other” (respondents could select more than one answer for this question) centered around insufficient legislative department staffing, unnecessarily complicated and extensive review processes and regulations, bureaucracy, and developer interference.

What factors tend to lengthen the legislative review timeline?

n=130

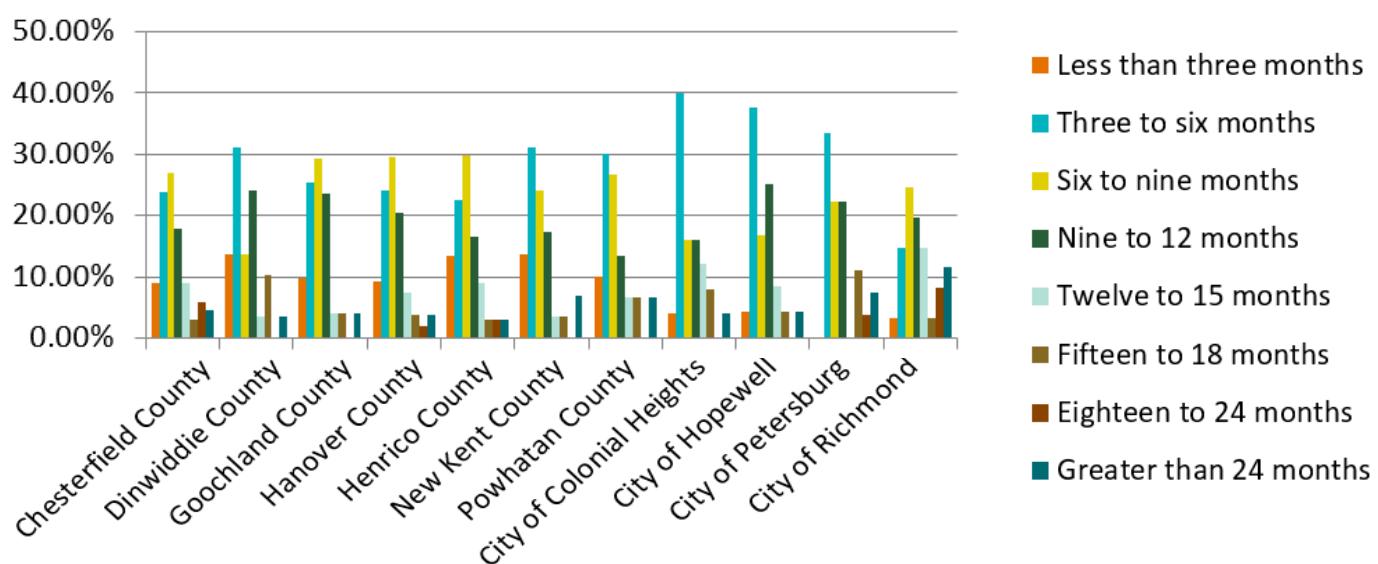


ADMINISTRATION

Administrative approvals skew more towards the three to six month period, though respondent answers show several localities have almost equal approval periods of six to nine months. Again, the City of Richmond has the highest responses for greater than 24 months, with most responses beyond six to nine months.

For new developments, how long does it take to get necessary administrative approvals (e.g., rezoning, use permits, etc.) in each of the jurisdictions?

n=85



THANK YOU

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 (contact information is at the beginning of this report). Please share this report with others who may be interested.