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804.346.4966

7130 Glen Forest Drive • Suite 110  
Richmond, Virginia 23226  
CommonwealthCommercial.com

 **COMMONWEALTH  
COMMERCIAL**

Virginia's Commercial Real Estate Leader

## What We Do.

**Commonwealth Commercial Partners, Inc.** is a full service commercial real estate firm founded in 1996. Commonwealth Commercial provides demonstrated expertise in the areas of leasing, purchasing, selling, developing, consulting and property/asset management services for office, industrial, retail, multi-family, senior living and investment clients, as well as the brokerage of land, both rural and development sites.

**We specialize in all aspects of commercial real estate.** Over the past fifteen years, Commonwealth Commercial has grown to become one of the leading commercial real estate firms in Virginia.



## Retail Review & 2012 Outlook LANDLORD REPRESENTATION IN VIRGINIA

IT'S WHAT WE DO...

While 2011 was a difficult year, there was some positive news.

- **The vacancy rate dropped from 6.5% to 6.4% net.**
- **There was a positive gain of 135,563 sf in net absorption.**
- **Vacant sublease space decreased by 34,161 sf.**
- **Seven new buildings totaling 60,587 sf delivered.**
- **Currently there is 271,591 sf under construction.**

In the first half of 2011 the investment market saw an increase with eight sales of \$51 million (\$84.33/sf) versus six sales of \$35 million (\$82.92/sf) during 2010.

All indicators point to 2012 being similar to 2011. The outlook for local retail leasing is positive for desirable locations; however, tenants will still expect economic incentives to close the deal. It appears that National tenants are becoming more active in the market and are willing to make reasonable deals.

One area of growth in the local retail market was in small shop leasing. The retail team found success in focusing efforts on leasing 1,000 to 5,000 square foot shops either to new tenants or upgrading current tenants to larger properties. All indicators point to this trend continuing in 2012 as local tenants seek to upgrade their locations.

## Richmond Office Market Report

Despite a number of macroeconomic headwinds, the Richmond office market appears to be warming up. The effects of the deteriorating housing industry to the financial crisis in Europe have helped keep a damper on commercial activity across the globe. However, Richmond's economy is bucking the trend somewhat as evidenced by a reduction in the unemployment rate to 7% in Q3. The office vacancy rate has followed suit steadily decreasing from a high of more than 16% in 2010 to 11.4% in Q3 2011. Even with the reduction in the vacancy rate, lease rates have yet to creep up very much. Landlords are just now beginning to tighten concessions which should begin to put upward pressure on rates in the not too distant future.

Sales activity has also begun to pick up. From a strictly investment viewpoint, Richmond does not register on many investor's radar screens because it is not a major metropolitan area. The discrepancy between local CAP rates, which have remained steady at around 8% for the past few years, versus increasing rates over the same time period at the national level have helped justify this perception. Over the past few months, however, the national rates have begun to decline making the local rates look much more attractive on a relative basis. From an owner/occupant perspective, purchasers have been reluctant to make any bold moves for some time because of uncertainty with the economy. However, many cannot afford to wait any longer and have begun to deploy some capital for new facilities.

## State of the Rural Land Market 2011

*Commonwealth Land has begun gathering land sales transactions in over 50 counties in Virginia. There is a mounting consensus that the value of most raw land is at the "bottom."*

Commonwealth Land is finalizing its Rural Land Database which is comprised of land transfers in 50 counties in Virginia. A comprehensive review of the data collected to date indicates that while 2011 was another challenging year for most land classes, we did not see the severe levels of compression in rural land values that we experienced in 2009 and 2010. There was a slight increase in the number of transactions as well which can be attributed in part to the institutional buyers reentering the marketplace. While there is still

a significant amount of available acreage to cycle through the marketplace, we are beginning to see the void between asking prices and selling prices compress to a more reasonable level which should create a measurable level of stability in 2012. This in itself is reason for optimism.

While cash is "king", investors are now looking outside of Wall Street for less volatile long-term investments, and land is reappearing as a front-runner to add to their financial portfolios. Income producing transitional

land as well as farmland and timberland offer investors a strong long-term investment as well as an excellent hedge against inflation.

That being said, the market should offer some extremely good buying opportunities with some land classes being available at significant discounts.



## Property Management Update

*Commonwealth Commercial Partners, Inc. property management division saw significant growth in 2011. In the last 6 months, we secured management for over 2 million square feet of class A office, retail and warehouse space. This is no small feat for any firm. We now manage approximately 7 million square feet.*

We continue to move forward with our strategic plan of expanding our services into the Mid-Atlantic region. We feel there are several markets in need of high-quality property management especially during these tough economic times. We continue to demonstrate our commitment to this strategic plan by opening offices in Virginia Beach and North Carolina in 2011.

Our property management model is client-centered and service-driven. Our approach to high-quality property management continues to support our growth, resulting in new relationships with clients who understand the value of properly managed assets. Too often property management

is perceived as a "commodity" yet our approach continues to demonstrate the value of our "hands-on" services. Our daily logs, physical property inspections and constant tenant interaction are only a small sample of our "hands-on" approach. Lower vacancy, higher tenant retention and renewal rates translate to a better bottom line for any client.

We anticipate continued and controlled growth in the future. Our managers will continue to manage less square footage per person than our competitors, allowing them to provide services with the necessary attention to detail for which we are committed.



## State of the Multifamily Market



We saw four multifamily transactions through the 3rd Quarter of 2011.

- **Sundance Station**, a 300 unit, Class B community sold in September for \$85,833 per unit or a 6.77 cap rate based on the buyer's pro forma.
- **Broadmoor Apartments**, also a Class B, sold in July for \$89,444 per unit or a 6.32 cap rate based on historic performance.
- **Copper Spring**, also a Class B, sold in June for \$98,360 per unit or a 6.63 cap rate based on historic performance.
- **The Hamptons at Hunton Park**, a Class A investment grade community, sold in June for \$136,833 per unit or a 6.46 cap rate.

As multifamily and healthcare seem to be the only asset classes that have any traction, there is a potential for another 18 deals that are in the pipeline in some form or fashion. If all 18 deals are built it would result in over 5,200 potential units. About 1,100 of those are in the city of Richmond (primarily Manchester), 1,700 are in Chesterfield, 1,000 or so in Henrico and even Powhatan has gotten into play with a potential 400+ units.

This pattern is fairly typical of Richmond in that we can go years without any new or limited development and then suddenly we run the risk of overbuilding. It will be interesting to see if this surge is successful.