

YES, VIRGINIA

Virginia and West Virginia Real Estate Markets Remain Steady

KRISTIN GUNDERSON IS A CONTRIBUTING WRITER FOR JPM. SEND QUESTIONS ABOUT THIS ARTICLE TO MARKISAN NASO AT MNASO@IREM.ORG.

VOTED THE BEST STATE FOR BUSINESS FOR THE FOURTH STRAIGHT YEAR BY *FORBES* MAGAZINE IN SEPTEMBER 2009, Virginia should perhaps change its long-time motto, “Virginia is for lovers,” to “Virginia is for businesses,” to explain its real estate market’s resiliency during the economic downturn.

The Forbes ranking, alongside state initiatives enticing businesses to the commonwealth with financial incentives, is bringing companies and people to Virginia, thereby absorbing real estate, said J. Todd Willett, CPM®, director of asset services, for CB Richard Ellis (CBRE), AMO®, in Richmond, Va.

“You can always judge a building by its parking lot, and they are starting to fill up,” he said.

RECOVERY IN RICHMOND

Virginia certainly hasn’t been immune to the recession, though. The Richmond area lost two major corporations to bankruptcy during the recession—LandAmerica Financial Group and electronics giant, Circuit City. Those losses added nearly 500,000 square feet in office space vacancy—still yet to be filled—as well as increased unemployment, which affects retail and housing.

Still, Willett said Richmond’s real estate market has been equal to or better than other parts of country because the area wasn’t overbuilt. In the first quarter of 2010, the retail market was nearly flat, with vacancies only increasing by .1 percentage points, according to a MarketView Richmond retail report by CBRE.

However, the market-weighted average asking lease rate decreased to \$15.42 per square foot in

the first quarter of 2010 from \$17.29 one year prior, according to the same report. Increasing tenant activity is likely to stabilize rental rates in the near future, however, and Willett said tenants seem fairly optimistic as business has begun to pick up.

The Richmond office market began showing signs of recovery in the first quarter of 2010. The area has benefitted from new businesses entering the market, including Dominion Resources Greentech Incubator, a center to assist new businesses focused on energy efficiency and other green technologies, which is supposed to add about 150 jobs over the next five years. Willett said he’s seen tenants begin to add staff again, which is a positive sign.

On the multifamily housing front, Willett said rents have decreased and vacancies have increased, but rents are likely to stay relatively flat for the next year. Managers are making concessions, like offering a couple months of free rent or including new appliance packages when leasing a space.

CAPITOL GAINS

Willett said the Norfolk and Virginia Beach area markets also have benefitted from not being overbuilt. But in the Northern Virginia/Washington, D.C. area, he said a lot of construction is now being delivered empty, which is hurting the market.

Real estate research firm, Reis Inc., projects the multifamily occupancy level to fall to a record low of 92.9 percent in December 2010 because of the multitude of apartment buildings, including nearly 3,500 units under con-



DISCUSS THE OUTLOOK FOR THE VIRGINIAS AND OTHER REGIONS AT

WWW.IREMFIRST.ORG



NEW BUSINESSES ENTERING THE OFFICE MARKET IN RICHMOND, VA., INDICATE SIGNS OF ECONOMIC RECOVERY.

struction, according to a January 2010 multifamily housing report from Red Capital Group, a provider of debt and equity capital to the multifamily housing, seniors housing and healthcare industries.

At the same time, the stability from the area's plethora of federal government jobs as well as new companies like defense contractor Northrop Grumman entering the region and D.C. currently being a hub for young professionals just out of college, have helped stabilize the market, Willett said.

Northern Virginia's office vacancy rate increased slightly from 14.3 to 14.4 percent in the first quarter of 2010 according to a CBRE MarketView Northern Virginia office report. Average asking rates rose but remained lower than one year ago.

Willett is encouraged by decreasing rent reduction requests throughout Virginia. He believes the sound management practices that have gotten property managers through these tough times are still going to be critical going forward.

"The biggest thing out there is that good management matters," Willett said. "Property managers have to be managing buildings better than ever before. Services have to be at top level. At the same time we have to watch operating costs, especially as we've seen a reduction in rental income."

OPEN FOR BUSINESS

Smart management doesn't just matter in Virginia. Real estate managers across the border in West Virginia have

had to make concessions as well.

"The main thing we've had to do is be a little leaner," said Jim Porter, CPM, president of Porter Properties Inc., in Charleston, W.V. "Clients are looking at their bottom line with more attention. We are supposed to do as good of a job as we can for as little as we can."

Still, Porter said the residential and multifamily market in Charleston has remained fairly stable with 95 to 96 percent occupancy rates. With the state government, and most hospitals and numerous coal companies having headquarters in Charleston, its economy is stable.

"Charleston is kind of like an island," Porter said. "It did not have the boom and bust like the rest of the country."

On the commercial office side, vacancies are up and rents are down, but again the shifts haven't been as dramatic as in other parts of the United States, said Juli Kuyk, CPM, managing director for West Virginia Commercial in Charleston. As a result, managers are still taking steps to combat the sluggish market.

"The activity level has been slow for the last couple of years," Kuyk said. "We obviously watch our expenses; we make a great attempt to keep properties in nice condition so they are attractive to tenants; and if we have to deal on the lease rate, we're willing to do that for now."

Porter said a real estate recovery is in the cards for West Virginia, and the rest of the country—it's just a matter of time.

"I think we will muddle through," Porter said. "We've come through these cycles before and I think we will again. We just have to keep our heads above water." ■