

PRESIDENT'S REMARKS . . .

Dearest MAREMA Members

We started 2022 with two goals in our mind:

- Increase the number of Commercial Real Estate Broker Members from 35 to 60 by the end of 2022.
- Create wealth for our members by increasing the number of referrals among our members.

Thanks to incredible support from our members and exceptional campaign run by our membership committee, we have so far **increased the number of commercial brokers 35 to 48. We need 12 more commercial brokers** to achieve our goal of 60. Our number of associate members is also increased from 24 to 27 members. We now have **75 active members** in total.

As we all noticed, with the increase in interest rates and inflation lately, we are seeing upward pressure on cap rates. The properties, especially the vacant ones or with cap rates lower than 6% are taking more time to sell. With this in mind, we need to increase business referrals among ourselves more than ever.

To make the most out of MAREMA and take your referral share, here are some ideas I suggest you to try:

- **ONE-ON-ONES:** Please reach out to other members set up one-on-one meetings. It will require at least 3 touches for someone recognize you and start considering doing business with you.
- **SERVE ON THE BOARD OR COMMITTEES:** We have several committees that need help, such as the technology committee, outreach, education, programs. Volunteering on those committees will help you connect with other fellow MAREMA members
- **ATTEND AND ARRIVE EARLY FOR THE MONTHLY MEETINGS:** Don't miss the monthly meetings. Arrive early for the monthly meetings and actively participate in networking. Talk to other participants, do business card exchanges, look for ways to help and solve problems for other MAREMA members.
- **SEND YOUR HAVES AND WANTS:** Bring your property flyers, present your properties, be ready for questions.
- **SHARE BUYER NEEDS:** Share your buyer needs, be specific and ready to answer questions.
- **INVITE OTHER COMMERCIAL BROKERS:** Invite other commercial brokers to our monthly meetings. More commercial broker means more business for all of us.
- **ACTIVELY ENGAGE IN THE MEETINGS:** Even if you are an associate member, think of ways to help brokers sell those properties. Bring buyer needs, bring clients that might need help with real estate purchase or sale.
- **GIVE REFERRALS:** Best way to secure a referral is to start giving referrals.
- **ATTEND THE ANNUAL MEETING:** Annual the meeting is the time and place you will really connect and build trust with other members on a personal level. Put it on your calendar and make time to attend the Annual Meeting.
- **SPONSOR:** Take advantage of Sponsorship opportunities, Happy hours and annual meetings sponsorships. This will put you on the map for other MAREMA Members.

MAREMA 2022 LEADERSHIP TEAM



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Surrendering the Premises

How to avoid the unexpected



Bruce Rosen
BRosen@RECDC.com
(202) 577-3552



Peter Pokorny
Peter@RECDC.com
(703) 850-9099

- **Introduction** – When a lease expires, the tenant surrenders its premises to the landlord. The same is true if the tenant contracts a portion of its space, or relocates from existing space to other space in a landlord’s property. Here are some key issues for a tenant to consider, to avoid unexpected obligations and expenses when it surrenders any leased space.
- **Alterations** – Ideally the tenant should ensure when it surrenders the premises, the tenant does not have to remove and restore the initial build-out of the premises (whether performed by the landlord or the tenant). A tenant should try to get its landlord to agree that any alterations the tenant makes during the term (after the initial build out), may remain in the premises when surrendered, *unless* the landlord has notified tenant that such alterations must be removed at the time the landlord provided its approval for such alterations.
- **Signage** –A tenant should review its lease regarding removal of signage. Retail leases commonly require the tenant to remove all of its exterior signs (whether on the premises or elsewhere on the shopping center) when surrendering the premises, any damage caused by the installation or removal. Office tenants with exterior signage often have similar provisions in their lease.
- **Wiring** – Years ago various tenants used various types of data and telephone cabling. Currently CAT5/CAT6 is standard. A tenant should try to get the right to leave such cabling when the term ends, provided the same was properly installed in accordance with lease requirements.



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Surrendering the Premises

How to avoid the unexpected

- **Existing Improvements** – Many businesses lease or sublease space that was previously built-out by a landlord or tenant for a prior lease. Occupants of such space should confirm that they have no obligation to remove any improvements that were existing on the date that possession was delivered.
- **Security Deposit** – A tenant should review its lease to confirm when its landlord must return the security deposit to the tenant after the lease ends. The tenant may also want to have a pre-surrender walk through of its space to confirm with the landlord that there are no outstanding issues prior to surrender so that the landlord does not withhold any amount from the security deposit.
- **Personal Property** – It is customary that a tenant has the right (and the obligation) to remove its furnishings, machinery, trade fixtures, equipment or any other property that it placed or installed in the premises. Sometimes certain improvements or equipment might be deemed “fixtures” or otherwise be deemed part of landlord’s interest in the building (e.g., a walk-in freezer). If the tenant has any such concerns, they should address such items specifically in their lease.
- **Unknown conditions** – Leases often require a tenant to surrender its space in the condition it was delivered on commencement, or state the tenant doesn’t have to remove landlord approved alterations. A tenant who is the successor or assignee of an original tenant may not, however, know what the original condition of the space was or what alterations the landlord approved. A tenant may need to research prior corporate correspondence to determine its surrender obligations, or attempt to clarify its surrender obligations with the landlord (and then document the same in a lease amendment).
- **Holdover** – Aggressive leases may provide that a tenant who does not properly surrender and vacates the premises is considered a holdover tenant subjecting the tenant to the penalties under such provisions.
- **Next Step** – This is a brief overview of issues that a tenant should be aware of prior to surrendering space at the end of its lease term or in connection with a contraction or relocation. An experienced commercial real estate attorney can best advise a tenant and protect its interests.



“BIG DIG” CONSTRUCTION PROJECTS TRANSFORM FALLS CHURCH AS “THE LITTLE CITY” GROWS UP



BY FRANK DILLOW

From one end of Falls Church to the other, big construction projects are changing the face of “The Little City” and the 2.2 square miles of land it covers.

“The success of the city comes down to having a strong and vibrant downtown that attracts people to live and shop here,” Falls Church Mayor P. David Tarter explained, “We want to create a stronger streetscape.... more inviting, accessible and walkable.”

“More than a million cars every month drive through Falls Church, and we want to make our city a destination for them to join our residents to shop, enjoy dining at our restaurants, attend our many active cultural events, and play in our parks,” Tarter continued.

Tarter, born and raised in Northern Virginia, has had a lifelong interest in real estate and economic development, getting his real estate license when he turned 18. After building a successful practice as a real estate lawyer, he headed the Falls Church economic development commission before becoming mayor.

A good place to start a tour of the new construction sites is at the city’s main intersection of Leesburg Pike, or Broad Street as it is named in Falls Church, and Washington Street, or Lee Highway as it was formerly known outside the city. Two projects catty-corner from each other are creating bigger and more prominent structures replacing long standing commercial buildings.

On the northeast corner construction is underway for a new seven-story mixed-use building to be anchored by a street level Whole Foods. The building will also provide a new home for the Creative Cauldron theater, plus 339 rental apartments, and four levels of parking. Two longtime office buildings and a stand-alone restaurant have been demolished and heavy excavation equipment is currently preparing the 2.5-acre site for the new construction.

Diagonally across the intersection, a new development named One City Center will incorporate the existing George Mason Center building and an adjoining building at 150 S Washington Street. Both existing buildings will be given new facades and included in a new ten-story mixed-use building providing more than 100,000

square feet of commercial space along with nearly 250 rental apartments, and a five-level parking garage. Several existing stand-alone retail buildings in the block will be demolished to make room, but the Ireland's Four Provinces restaurant will retain its current street level location, including its popular covered outdoor dining area along W. Broad Street.

Heading a few blocks north towards Arlington on N. Washington Street, construction equipment marks the site of the expanding facilities of the Columbia Baptist Church. Originally founded by abolitionists in what was then "rural Virginia" prior to the Civil War, the landmark church will soon feature a sanctuary seating 4,400 parishioners, by far the largest auditorium in Falls Church. Among other additions included in the project are educational facilities for a new Child Development Center and increased parking

Returning to Broad Street and heading west toward Tysons, construction is nearing completion on the new five-story Founder's Row development at the intersection with S. West Street. Founder's Row will provide 322 residential units, including 72 age restricted apartments, and a five-level parking garage along with ground floor restaurants, retail and an 800-seat movie theater. Until recently the property around the intersection was occupied by two gas stations, several separate retail properties and three single family homes.

A few blocks further west, the former Falls Plaza shopping center has recently been updated and rebranded as Birch & Broad with improved landscaping and non-automotive pedestrian and handicap access, as well as enhancing shopper's outdoor areas.

A massive new mixed-use development is now getting underway off Broad Street on the far west end of Falls Church just before the Fairfax County boundary, called The West End. The 40-acre project includes renovations to the existing West Falls Church Metro station and the adjoining campus of Virginia Tech. The former George Mason High School next door was demolished and replaced last school year with the new state of the art Meridian High School.

According to project developers Hoffman & Associates, the new neighborhood is designed as a western "Gateway" to Falls Church with new streets and sidewalks, public parking, green spaces, bicycle paths, new streets and sidewalks and a new one-acre park, to be called "The Commons."

The first phase, a 10 acre 1.4 million square foot project, is now underway and will include a 15 story, 212-unit senior living facility, which will become the tallest building in Falls Church, and an additional 125,00 square feet of medical office space. Also included are 123,000 square feet of ground floor retail and an 146-room hotel.

The second phase of construction beginning next year will transform nearly nine and a half acres of the West Falls Church Metro station into more walkable mixed-use destinations with new streets and sidewalks providing access to offices, retail and residential properties surrounding a redeveloped Metro facility. Construction is expected to begin next year.

The final part of the project will repurpose the current Virginia Tech site into an innovation center for the university's applied research for "smart city" technologies in addition to a new corporate headquarters for the Falls Church based Hitt Contracting, Inc.

Under the guidance of the Falls Church City Council, the recent developments have increased City property tax receipts to fund such civic projects as constructing the new Meridian High School, renovating and expanding the Mary Riley Styles Library and updating and expanding City Hall, all while reducing the city's property tax rate by roughly nine cents per thousand dollars of assessed valuation, according to Tarter.

"City officials seek input from our business community," emphasized Elise Bengston, executive director of the Falls Church Chamber of Commerce, "it's important to keep the community all together as we move through

the changes and the disruptions caused by the construction,” The Chamber works closely with city officials and tries to balance the interests of the new businesses attracted by the developments with the continued success of existing businesses, she added.

The city, recently named “the second healthiest city in America,” in the U.S. News and World Report annual ranking, has also recently expanded its city parks and made “walkability” a priority in its development plans.

Even with the extensive development currently underway in the city, Tarter expects construction projects to continue as Falls Church “fills in the gaps” to upgrade its real estate offerings.

WHAT INVESTORS SHOULD KNOW ABOUT HIGHER INTEREST RATES, CAP RATES, AND HOW GOOD DECISIONS DELIVER CRE SUCCESS IN NORTHERN VIRGINIA

BY JOE SERAFIN



The commercial real estate market is strong. Northern Virginia’s real estate market is particularly strong. We recently discussed [Q1’s results in our Review for Loudoun, Fairfax, and Prince William Counties](#). In that article, we referenced Forbes’ Article on The Seven Trends Driving 2022’s CRE Market.

In this month’s article, we will look at one of the major current topics of conversation: How higher interest rates can affect cap rates. There is a lot of talk about how the market will respond to what is happening regarding the influence of higher interest rates and other factors which affect cap rates. We will also look at how investors can view cap rate changes.

It is critical to put any single market force and its possible effect into context. Wise decisions come from broad and deep understanding rather than from the latest news headline or a single monetary policy action such as raising interest rates. Let us begin with a basic overview of the cap rate itself.

Cap Rate 101: The Key Forces and Factors

Cap rates, as we know, are impacted, both negatively and positively, by macroeconomic and microeconomic forces. Those forces affect different types of commercial property in different ways. This is one reason why investors should not look at a single issue (e.g., interest rate hikes) and make a sweeping decision. Experienced investors look closely at all three areas, then at the future, and then they make decisions.

In addition, investors understand that those forces impact three other elements. The first two are the opportunity cost of employing capital in a specific venture and the risk associated with continuing to employ that capital in that chosen venture. Risk is based on two other factors, of course; the first being the investor’s assumptions, beliefs, experience, etc., and how they then translate into future expectations regarding growth, stability, or recession. Those factors will specifically affect how the investor sees future NOI.

Macro, Micro, and Decision-Making

In the macroeconomy, we see the Fed raising interest rates to dampen inflation. That factor is limited; the Fed will not raise interest rates enough to damage the nation’s GDP. Inflation rates are expected to flatten and

fall a little. [A recent Reuters poll](#) expects the Fed fund rate to be 2.50% to 2.75% by the end of 2023. 10-year T-bonds will deliver a higher return than previously, and CRE investors can compare bond and real estate ownership returns over ten years. Yes, one is more certain than the other, but investors will consider how big or small the risk is compared to the expected return. And that is where microeconomic and property choice factors of Northern Virginia come into play.

While monetary policy will have an impact nationally, impacts will vary region by region and locale by locale, which is why understanding Northern Virginia's economic situation, trends, and forecasts is critical to making good investment decisions.

How Do Interest Rate Hikes and Cap Rates Correlate?

According to chief economist Ryan Severino, in an interview with [globest.com](#), interest rates and cap rates do not have a close connection. He is quoted as saying, "The poor correlation exists at both the short end of the curve with the fed funds rate and at the long end of the curve with longer dated Treasury yields."

He states that 40 years of checking the two rates, support his opinion because the three basic elements of cap rates are "the risk-free rate proxy, change in NOI, and risk premium." If an investor can look at a property type in a specific region, county, or town and expect increased NOI and improving cash flow, then where is the risk premium? An investment where an established NNN tenant is running a successful business, meeting local high-value and continuing needs, should not only generate effective NOI each year but the value of the real estate itself can be also expected to increase.

Increasing interest rates imply increased inflation. Increased inflation implies more cash and credit available for both spending and investing. On top of that, CRE has always been accepted as a hedge against inflation.

When investors see a strong and improving local economy, the risk factor associated with new investment reduces. When NOI and cash flow increase and the risk reduces, they combine to suppress cap rates.

Cap Rate Trends for 2022

An April 26 article by [the National Association of Realtors](#), focused on another economist's opinion of 2022's cap rates. Gay Cororaton, the economist interviewed, said there will probably be some modest upward pressure on cap rates, because of other factors which will result in CRE prices increasing.

She said:

- The apartment market will probably benefit from higher residential mortgage rates.
- Industrial space will be less in demand, but warehouse space will become more valuable as last-mile logistics become more important. With the recent disruption to international shipping. JIT (Just in time) logistics is giving way to JIC (Just in Case) logistics to keep deliveries on time.
- Retail stores providing essential services and products should do well.
- Returning to office-based activity, instead of WFH, will minimize any decline in office space demand.

Cap rates, she said, continued to compress across core property types in Q1 even though the 10-year T-note spiked to 2.8%. She also made a rather powerful statement, " . . . investors are factoring in the strong demand for commercial assets and local economic conditions."

The Northern Virginia Economy

In January, we reviewed [Fairfax, Loudoun, and Prince William Counties' CRE results for 2021](#). We want to repeat some of the comments, so investors can look at our microeconomy, and how local businesses see the future. The intention, of course, is to encourage investors to look at opportunities and to consider the risk premium we referred to earlier. The Virginia Economic Development Partnership stated, *"A Virginia location means quality and stability for companies seeking the right place to expand and grow."* Northern Virginia's Economic Survey of 100 Businesses showed that 72% of respondents are optimistic about their near-term economic and business prospects. 67% of respondents are based in Fairfax, Loudoun, and Prince William Counties.

Check out the rest of the review to see, not only overall stats for sales, projects under construction, etc. but also the profiles of buyers and sellers. To top that off, we reviewed sales activity across 11 CRE sectors. Because "property type" is an important factor when considering the potential value and annual NOI, the numbers should help the "confidence factor." By looking at both of our articles, you will get a detailed 15-month insight into our economy and CRE opportunities.

The Takeaway

Fed rate hikes and cap rates are not mutually reflective. Cap rates are determined by more powerful, as well as local, forces. Plus investor attitude. Northern Virginia's economy is strong, CRE prices are comparatively low, inventory is very low and prices are rising (the Law of Supply and Demand).

UPCOMING



EVENTS

MAREMA members meet on the
3rd Wednesday of each month
9:30 am - 12:00 PM

8230 Old Courthouse Road
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JOIN US FOR THE MAREMA 2022 ANNUAL MEETING

OCTOBER 27 - 29, 2022
OCEAN CITY, MARYLAND

THIS YEAR'S THEME

Piecing it Together