MAREMA

MID ATLANTIC REAL ESTATE MARKETING ASSOCIATION

Established in 1976

A NETWORK OF COMMERCIAL BROKERS AND ASSOCIATES

The MarketPlace

4th Qtr 2020

PRESIDENT'S REMARKS. . .

Introducing the 4th Quarter **MAREMA "MarketPlace" 2020** edition. In this addition we introduce the new leadership team and discuss topics important to our industry. The MAREMA Annual Meeting Committee is off to an early start. The 2021 Annual Meeting theme "REimagine" will celebrate our 45th anniversary and discuss the many changes and advancement in our industry. I would like to invite all members to join us at the February Monthly Meeting and invite a guest. If you are not a member yet join us as my guest and learn how we share best practices and share Haves (property listings) and Wants. I hope everyone enjoys "The MarketPlace".

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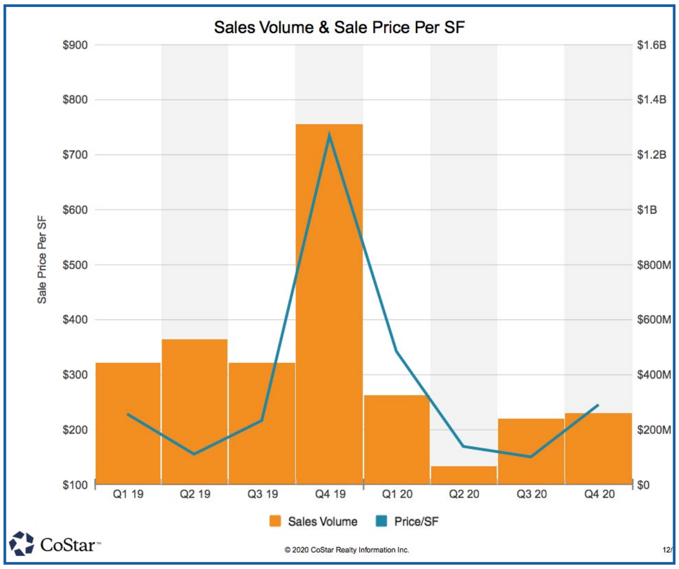
Commercial Investment Property Market Update: Comparing 2020 and 2021

December 14, 2020 | By Joe Serafin, Serafin Real Estate

As we reach the end of a year, it is always good to review past CRE activity to give us some perspective before we look ahead to next year. In this article we will compare 2019 and 2020's stats in both Loudoun and Fairfax Counties. In this way, we can see how different sectors performed. We will round numbers up and down a little for easier reading. We will look at total sales, buyer types, CAP rates and rental rates.

Loudoun County



Loudoun County's Investment Sales overall, in 2019 were $2.925 billion and involved 132 properties. In 2020, sales were $1.36 billion, down by about 46% and involved 59 properties. 2019's major buyers were REITs, which purchased $1.4 billion during the year. Purchases were low in the first three quarters, but Q4 delivered $1.1 billion in closed transactions. This contrasts sharply with 2020's REIT purchases of $62.5 million, all of which were closed in Q1

Buyer Types and Price per SF

Institutional Buyers in 2019 closed on $1.2 billion, with Private Equity and other Private Purchasers closing on $250 million each. 2020's Institutional Purchasers closed on $263 million, all in Q1 and Q4. Private Equity contracts totaled $69 million, Private Purchase contracts totaled $463 million with 86% of them closing in Q3 and Q4. Purchasers designated "Users" closed on $110 million.

Percentage of Sales by Buyer Type

35% of 2019's Buyers were REIT/Public, 30% were Institutional, 25% Private, 6% Private Equity, and 4% User. In 2020 the numbers were: 58% Private, 31% Institutional, 6% User, and 5% Private Equity.

Prices Per SF

If we compare price paid per SF, we see that Individual Purchases began 2019 at an average of $825, falling consistently until Q3, then rising from its low of $350 to finish the year at a $475 average. 2020's Individual Purchases began the year at just above $400 per sq ft, rising sharply in Q2 to $930, falling in Q3 to $865, and finishing the year at about $250 on sales of $160 million. Portfolio Purchases price per SF began the year on a par with Individual Purchases but, instead of rising, the price slipped steadily to end the year at $250 on a Q4 purchase figure of $45 million.

CAP Rates

2019 began with an average CAP Rate of 6.8%. Q2 saw a rise to 7.8%, Q3's CAP fell to 6.5%, and the year ended back at an average of 6.8%. A simple summary for 2019 tells us that 73% of purchased properties recorded a CAP Rate of between 5% and 8%. The rate continued to rise in 2020, with Q1 averaging 7.35%. Q2 began at 7%, falling in Q3 to average of just over 5.8%, then rising to end the year at 7.05%. The same summary shows that 70% of 2020's purchased properties recorded CAP Rates of between 6% and 8%.

Rental Rates

Direct Rental rates were fairly consistent in 2019. Q1 began with an average of $19.50 per SF, rising to $21 in Q2 and stabilizing at approximately $21.33 for the next six months. 2020 began with an average rent per SF of $21.50, rising in Q2 to $22.66, rising again to $22.80 in Q3, and it looks like Q4 will close at $21.80.

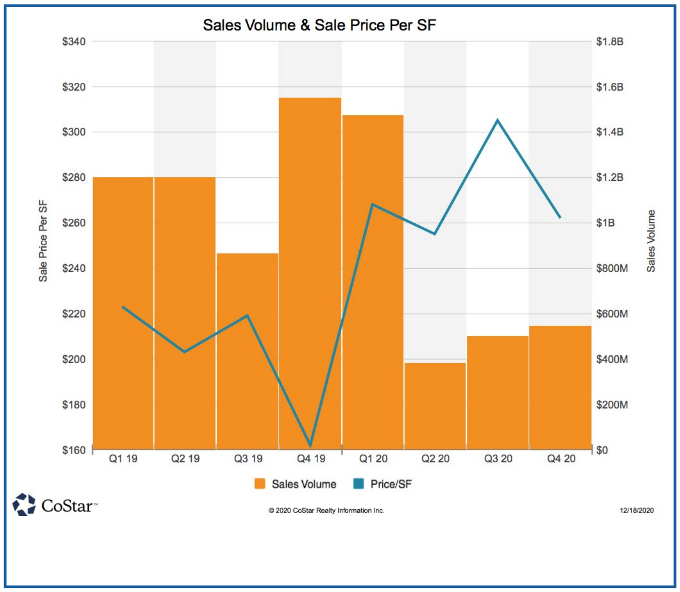
Sublet Rates varied quite a lot in the two years. 2019's Q1 averaged $18 per SF, rising in Q2 to $20, continuing in Q3 to reach $22.66 and peaking at year-end at an average of $26 per SF. 2020 began at $26.80, dipped in Q2 and ended Q3 at $25.33. Q4 is averaging below that at $21 per SF.

Occupancy Rates and Time to Lease

2019's occupancy rate began with a quarterly average of 91%, rising to 92%, dipping to 90% in Q3 and ending the year where it began. 2020 continued the pattern, beginning at 91% as expected. From Q2 onwards, occupancy has stood at 92%.

Time to lease has varied from 6 months at the beginning of last year, peaking at 22 months in Q2 and ending back at 6 months. 2020 rose from 6 months to 14 months in Q2, falling to a 12 month average in Q3, and we expect Q4 to end at an average of 18 months.

Fairfax County



Fairfax County's 2019 investment sales totaled $4.7 billion involving 245 properties, almost double 2020's overall figure of $2.7 billion and 121 properties. Most business in 2019 was with Private Buyers, who closed on $2.65 billion for the year. Institutional Buyers purchased $825 million, Private Equity firms $650 million. REIT/Public transactions totaled $325 million. In 2020 Private and Institutional Buyers closed most business.

Buyer Types and Prices per SF

56% of all closed transactions in 2019 were with Private Buyers, 21% were designated Institutional,13% Private Equity, 7% REIT/Public, and 3% User. Q1 and Q2 sales each totaled about $1.2 billion, while Q4 was the busiest period, with $1.55 billion in closed transactions. In 2020, Private buyers closed on 44% of the total, 33% were Institutional,11% Private Equity, 10% REIT/Public, and 2% User. Most closed volume took place in Q1. Q2 was a quiet month with a relative surge in Q3, and Q4 finishing just below Q3's totals.

Prices per SF

Looking at price paid per SF, we see that in 2019 Individual, as opposed to Portfolio sales, began the year with an average of $200 per SF. It rose in Q2 to $280, dropped to $260 by the end of Q3, and fell again to end the year at an average sales price of $220. Portfolio purchases hovered at just above or just below $200 per SF for the first half of the year, slipped to $160 in Q3 and ended the year at about an average of $100 per SF. 2020's figures tell us that, overall, sales price per SF started the year at $325, fell in Q2 to $165, then to $135 in Q3 but rose quickly to end the year at $225 per SF.

CAP Rates

2019's CAP rate began at 7.25%, falling in Q2 to just below 6.5%, dipping slightly again to 6.25% in Q3, and ending the year at slightly below 7.25%. 85% of property transactions recorded a CAP rate of between 5% and 8%. 2020 Q1's average CAP rate stood at just below 7.4% slipping to 7.2% at the start of Q2. Q3 began at 6.5% with the year ending at around a straight 6%. 70% of all sold properties fell into the CAP rate range of 6% to 8%.

Rental Rates

Direct Rental rates were fairly stable in 2019. The year began with a rental rate per SF of $22, slipping just below that in Q2, then steadying for the rest of the year at $21.50. The end of Q4 saw a rise in the rate, and 2020 Q1 began at $22.75 per SF. The rise continued throughout the year, going from $23.50 in Q2 to $24 at the start of Q3 and to an average of $24.25 at the beginning of Q4.

Sublet Rental rates per SF were at $18 for the first two quarters of 2019, rising to $20.75 in Q3, but dipping back to end the year at $19.75, which is where 2020 began. Q2 saw the rate dip to an average of $19.50, then to $18 at the start of Q3 and again in Q4 to $16.50 at the time of writing.

Occupancy Rates and Time to Lease

2019's occupancy rates were steady, beginning the year at 71%. This figure held, within fractions of a percentage point until Q4, when occupancy rates rose to 72%. 2020 began at 72% and rose in Q2 to 73%. This figure then held but with minor changes through Q4.

Time to lease varied in 2019 from 10 months at the beginning of the year, rising to 14 months in Q2, then up again in Q3 to 15 months, then falling dramatically to 5 months in the first half of Q4. 2020 Q1 saw the time to lease rise to 20 months. Q2 rose to 60 months, falling to 20 in Q3 and up again in Q4 to 29 months.

Summary Point

Our CRE market in both counties is active. 2020, for obvious reasons, saw unit volume and dollar value contract compared to 2019. Interestingly, if we just look at CAP Rates, we see that 2019 in Loudoun the rate ranged from 6.5% to 7.8%, a spread of 1.3%. In 2020, it ranged from 5.8% to 7.05%, a spread of 1.25%. This equates to a total spread across all eight quarters of 2%. CAP Rates in Fairfax ranged from 6.5% to 7.8% in 2019, a spread of 1.3%, and from 5.8% to 7.35% in 2020 (1.55% spread) The total spread across all eight quarters also comes out at 2%.

We anticipate strong, positive trends in 2021. A new Federal administration, COVID-19 vaccines, new economic stimulus measures, and a positive world outlook should all support our counties' established businesses leading to greater demands for commercial real estate properties.

High Tech Boom Drives Surge in Northern Virginia's Data Center Demand

By Frank Dillow

THE ONGOING RESPONSE to the coronavirus pandemic, with its reliance on Zoom meetings, video downloads, e-commerce and distance learning, has made data centers one of the hottest segments of commercial real estate.

"With more people using the internet, broadband speeds rising, more consumers watching online video, the number of mobile devices exploding, and web page sizes steadily increasing, internet traffic is exploding and shows no sign of slowing anytime soon," Alan Breznick concluded in a recent whitepaper report on behalf of edgecommex.com, a builder and operator of data centers.

While data centers are located throughout the Commonwealth, Northern Virginia has been the global crossroads for internet traffic since 1969 when the federal government began experiments that created the world's largest intersection for public and private communications networks. In the past 10 years, the area has developed into the most active data center market on the planet with up to 70% of the world's internet traffic traveling through the area.

Loudoun County alone is home to more than 100 data centers, amounting to more than 10 million square feet of data center space, mostly located in the Ashburn corridor, which has become known as "data center alley."

Demand has skyrocketed for greater data center capacity as digital traffic continues to surge. Developers are broadening their sights to seek approval for additional Loudoun County sites including South Riding, Herndon, Sterling, and around Dulles International Airport. Properties in Fairfax County near the southern boundary of Dulles are also being considered, as well as sites in less expensive locations around Manassas and Gainesville in Prince William County. Some of the land is being bought now to hold for long term future expansion – a strategy known as "land banking."

Digital Realty, the largest developer in Northern Virginia's data center market, is currently proceeding through Loudoun County's permitting process to build an additional 7.5 million-square- foot facility, which will be the largest multi-tenant data center campus in the world, located on its 424-acre "Western Lands" site bordering Dulles.

Amazon Web Services already operates more than 50 data centers with four million square feet of existing space in Northern Virginia. They are currently seeking approval to grow further, with plans to build an additional 2.5 million square feet near Dulles, including 11 two-story data center buildings located on 24 acres next to the airport. If approved, the data centers will locate on land currently used for industrial purposes – far removed from residential developments.

Other companies such as Google and Microsoft are also adding facilities in the area to support their “cloud computing” businesses.

As operators have been aggressively buying land around Dulles, land prices for data center sites have been rising drastically, according to Rich Miller, founder and editor of Data Center Frontiers, which tracks the industry.

Google paid about $425,000 an acre for its site in 2017, Cyrus One paid about $1 million an acre for nearby property in late 2018, and recently Amazon paid about $1.5 million an acre for its Dulles property.

“These data centers are the backbone of Loudoun’s economic success,” Loudoun County Board of Supervisors Chair Phyllis J. Randell noted. Nevertheless, one criticism has been that while the centers generate significant tax revenue, they produce few jobs for local residents.

Loudoun County’s Economic Development Director Buddy Rizer doesn’t agree. “It generates jobs and income for a substantial number of Loudoun’s households as well as a stream of tax revenues that contributes to the public facilities that all Loudoun’s residents enjoy,” Rizer explains. “And it supports the global scale businesses Loudoun County seeks to attract.”

In a recent filing, Loudoun County planners pointed out, “The draw of a best-in-class high tech workforce that is well educated and highly skilled is a key contributor to the growth of Loudoun’s successful economic development.”

“Data centers contribute more than $300 million annually in local tax revenue, which in turn saves the average Loudoun County household more than $2,100 in taxes every year,” according to Matt Letourneau, Loudoun County Supervisor for the Dulles District.

A recent study by the Northern Virginia Technology Council estimated that “for every dollar in Loudoun County expenditures that the data center industry caused in 2018, it generated $15.10 in local tax revenue. Property taxes would have had to rise 21% without the data center-induced tax revenue.” The lower tax rate also creates an attractive business climate that brings other businesses to the area.

The data center boom in Loudoun County’s commercial real estate market is a key driver in the long-term strength of the county’s residential market as well. Northern Virginia Realtors® understand and capitalize on the development in the area that drives employees and residents to live in this growing, tech-booming region.

UPCOMING EVENTS

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

We will hold the meeting at our new meeting location when permissible.

8230 Old Courthouse Road, Suite 400

Vienna VA 22182

JOIN US FOR THE
MAREMA
2021 ANNUAL MEETING

THIS YEARS THEME .....

REimagine

DAILY EXERCIES

Get Up Off that Thing

CAN BE DONE WHILE SITTING AT DESK

STEP 1	STEP 2	STEP 3	STEP 4
10-20 SECONDS	**10-15 SECONDS**	**10-12 SECONDS**	**15-20 SECONDS**
2 TIMES	1 TIME	2 TIMES EACH SIDE	1 TIME

STEP 5	STEP 6	STEP 7	STEP 8
3-5 SECONDS	**10-12 SECONDS**	**10-15 SECONDS**	**10-15 SECONDS**
3 TIMES	1 TIME EACH ARM	1 TIME	1 TIME