MAREMA

MID ATLANTIC REAL ESTATE MARKETING ASSOCIATION

ESTABLISHED IN 1976

The MarketPlace

4TH Qtr 2021

PRESIDENT'S REMARKS....

What a year, rolling waves of the pandemic, optimistic reopening plans, a Delta-driven health scare – and a booming 4th quarter in US economy. What's waiting for us in 2022?

Drop in unemployment rates to 4.2%, addition of 6 million jobs in 2021, record-high job openings, employers willingness to pay higher wages, increase in consumer spendings, strong corporate earnings of $2.5 trillion and growth of GDP by 5.7% are the positive signs of the booming economy. That said, drastic increases of prices by 6.8% in 2021 due to supply shortages while we experience strong demand stands out as the key threat we face in the future.

As for the Washington DC Office Market, we see about 15% of vacancy rate and 0.8% decline in the rent growth further to that over the last 12 months according to public records,

908 offices sold with Cap rate of 7%.

Retail property market: vacancy rate ranges around 5.2%, and the rent growth stands at 0.2%. According to public records, over the last 12 months, 764 properties sold with an average cap rate of 6.3%.

Industrial property market: vacancy rate ranges around 4.6% with the rent growth of 8.7%. Over the last 12 months, 400 industrial properties have been sold with a 7.6% Cap rate.

Multifamily property market:

Demand for multifamily properties has surpassed the deliveries over the last year, and consequently, the rent growth reached 9.4%. According to costar, 238 buildings were sold over the previous year.

With no difference to the property type or local Washington DC market we specialize in, impact of health crises, increase in CPI due to supply shortages in the face of strong demand, the possibility of an increase in interest rates still stand out as important factors to watch out in 2022.

Given all these unpredictable factors blurring our future, strengthening the ties among our members, supporting each other, and creating wealth for our members will be my priority during my presidency in 2022.

By taking this opportunity, I would like to encourage each one of you to reach out and connect with other members, attend MAREMA monthly/annual meetings and happy hours and most importantly, seek out the opportunities to do business with each other.

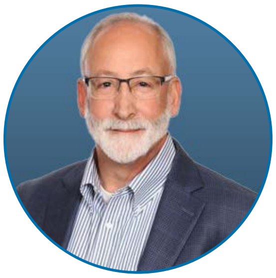
MAREMA 2022 Leadership Team

Deniz Senyurt
President

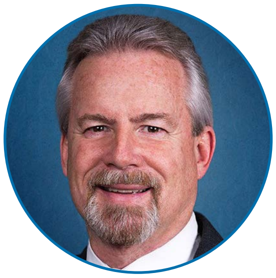
Jim Guisewhite
Vice President

Peter Pokorny
Secretary

Edward Donofrio
Treasurer



Paul Mandell
Sergeant at Arms



ED Cave
Director

Wayne Hallheimer
Director

Kayvan Mehrbakhsh
Director

Michael Wilmore
Director

Joe Serafin
Director

MAREMA 2021 ANNUAL MEETING

This year marked the 45th Anniversary of MAREMA. Many thanks to President Ed Cave and the members of the Annual Meeting Committee for their hard work in making this year's event such a monumental success!

The 2021 MAREMA Annual Meeting was a series of firsts. The meeting was at an outstanding oceanfront venue in Ocean City, Maryland for the first time. Never before was there a trade show at an annual meeting. A first of its kind, there was a video presentation from ten past and present presidents sharing their history, stories and knowledge of MAREMA. On the last day, for the first time an open forum allowed members the time to express concerns, make training suggestions and discuss ideas to grow the organization.

The meeting provided Associates and Brokers an opportunity to exchange deals and information.

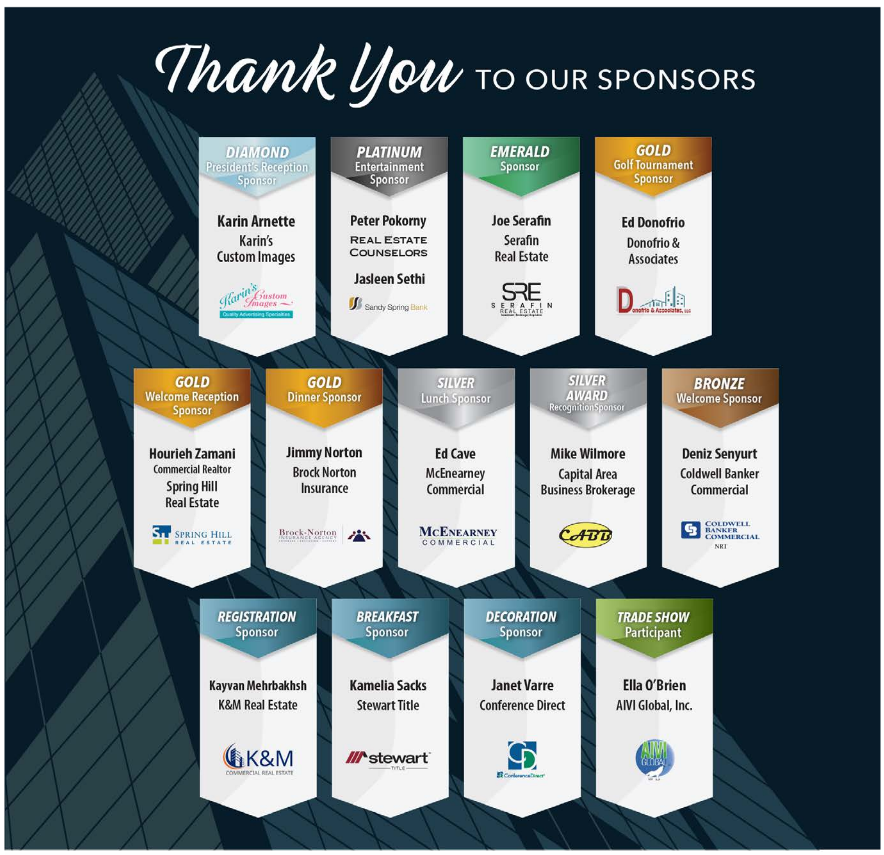
Excellent speakers, including keynote speaker Jan Zachariasse, provided informative and engaging presentations.

It was a mix of business and fun as numerous gifts and prizes were offered.

Attendees Mike and Lee Wilmore summarized it best:

"From flashing cocktail cups which held our signature "Marema cocktail" to the amazing trade show which included free toffee at the CABB table to the best Salsa dance team of Mike and Lee (exaggerated) it was a GREAT annual meeting. The presentations were top notch as always and included education, reflection, and MAREMA history. The Annual Meeting is a time for regular members and associate members to gather, relax, and develop our relationships professionally and personally enhancing our ability to get deals done."

Many thanks to our sponsors.



ANNUAL MEETING COMMITTEE

Deniz Senyurt, *Chairman*
Michael Wilmore
Ed Cave
Georgiana Hallheimer
Janet Haley-Varre
Karin Arnette

OFFICERS OF MAREMA

Ed Cave, *President*
Jim Guisewhite, *Vice President*
Peter Pokorny, *Secretary*
Ed Donafrio, *Treasurer*
Paul Mandell, *Sargeant at Arms*

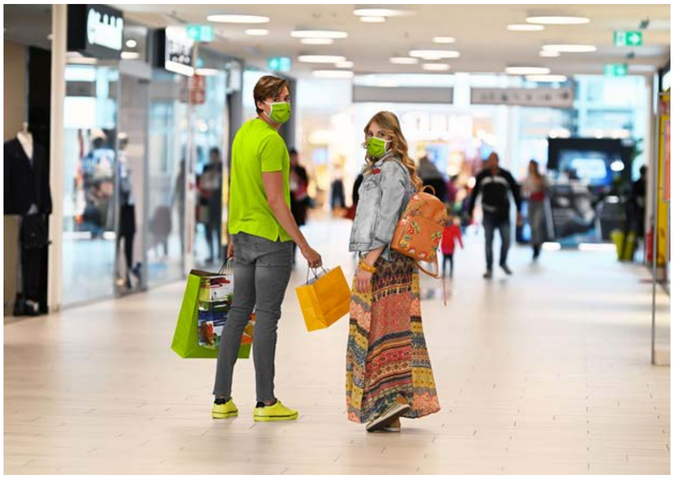
Wayne Hallheimer, *Director*
Kayvan Mehrbakhsh, *Director*
Deniz Senyurt, *Director*
Joe Serafin, *Director*
Michael Wilmore, *Director*

Health Concerns Shake Up Holiday Season Retailing and Influence the Future of Shopping

By: Frank Dillow

As the calendar marches from summer into autumn, retailers' attention turns to their all-important holiday shopping season, which accounts for 20-40% of annual sales according to the National Retail Federation.

This year retailers, shoppers and commercial Realtors® should all expect continued turmoil and change in the market. Like so many other things in our daily lives, the COVID-19 pandemic has drastically altered shoppers' behavior and changed the very nature of retailing and the holiday shopping season.



Traditionally the blockbuster holiday season began the day after Thanksgiving, known as "Black Friday," when retailers offered deep discounts and swarms of shoppers descended on their favorite stores. But in recent years shoppers began shifting to more online sales –a trend that was heightened during the pandemic. Foot traffic, especially in traditional malls, fell by roughly 50% in 2020, as many retailers sought to keep customers while minimizing the number of people in their stores.

At the same time, online retailers recorded record breaking sales, according to the U.S. Department of Commerce. Increased volume caused problems as websites jammed and package deliveries stalled. This year online retailers will be encouraging shoppers to begin their holiday buying in early October to reduce congestion and stretch the holiday buying season over an additional two months.

Already holiday decorations and music are appearing. But as the Delta variant continues to prolong the pandemic impact, major retailers like Walmart and Target have already announced that they will be closed on Thanksgiving Day. Macy's and Nordstrom will substitute interactive virtual holiday cheer and video calls to Santaland for the kids.

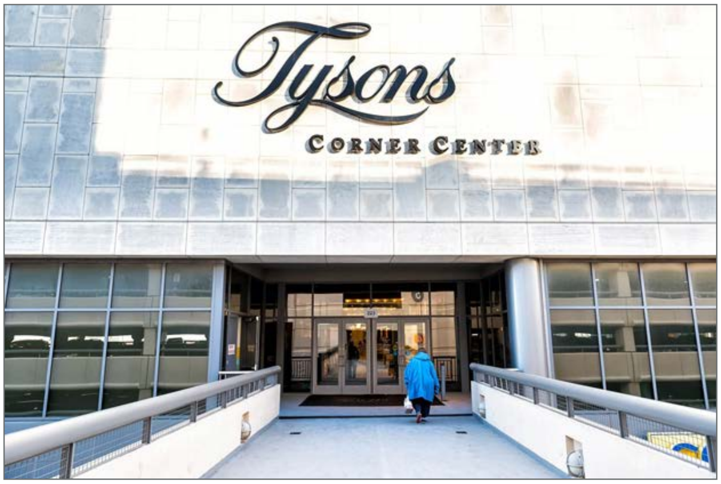
Retailers large and small are quickly revising their business plans to accommodate the new reality of customer reluctance, employee and supply shortages, increased costs, and global delivery problems. For individual retailers, customer demand requires a more integrated approach for the entire "online to in-store" shopping experience with the underlying technologies being largely transparent to the shoppers. A new world has slowly evolved with retailers providing shoppers with improved services such as personal shoppers, outdoor shopping, curbside pickup, home delivery and expedited return policies.

Shopping malls have been especially creative in changing the way they use their space:

- Bloomingdales, once a reliable mall anchor store, has recently opened its first-in-the-nation "Bloomies" store in Northern Virginia's Mosaic District. The all-new smaller store concept covering roughly 22,000 square feet or about one-tenth the size of their traditional stores, combines personalized high-end shopping enhanced with an available restaurant offering "small bites," coffee or cocktails
- Landmark Mall is being repurposed into a medical – hospital complex
- Ballston Mall is repurposing its shuttered Macy's store into a new 16-story building with 555 apartments above a new 41,500 square-foot ground-level grocery store, adding to recent renovations that created more open-air and diversified tenant uses

- Tysons Corner Center plans to demolish the vacant Lord & Taylor department store to create, at least temporarily, a park-like space where shoppers can relax. The facility will also be adding automobile sales in parking areas surrounding the 77.6-acre campus.

Malls are looking at ways to expand their capacity as social hubs with more diversity in tenant uses, from medical and governmental offices to exercise, sports, entertainment, education and cultural or religious offerings. Pop-up retailers operating on a short-term or seasonal basis are also becoming more common.



With reconfigured spaces for dining or shopping, many malls are also looking for new ways to integrate housing, daycare, pet services, distribution centers, farmer's markets and parks into their mix. Many are adapting a more open-air campus style architecture allowing customers to access individual facilities directly from outdoors and enjoy more of their recreational shopping or entertainment in the open air.

Other retailers are taking a more incremental approach to engage their customers. Target, which has transformed itself from traditional "bricks and mortar" stores into one of the largest online retailers, is expanding its "store-in-store" Disney stores with toys, videos, games and other Disney products. They plan to have 160 Disney stores opened in time for the current holiday season, while also adding 25 new Apple stores by the end of the year. Both will be available for Target's online shoppers as well.

Existing retail properties have a bright future. Whether they continue to rely on expanded retail uses or are repurposed for multifamily homes, distribution centers, medical facilities or other uses, they will be defined by the diversity of services they provide. Commercial Realtors® will have an essential role in assisting landlords and tenants to become more creative in adapting to future demand. These dramatic shifts reflect the new way that Realtors® must view land use as people choose where and how they want to live, work, shop and play.

Focus on Leasing: *Existing Equipment Issues*

By: Peter Pokorny

SOMETIMES IT MAKES SENSE TO LOOK EVEN A GIFT HORSE IN THE MOUTH.

- **Existing Furnishings** – Sometimes in commercial leasing, landlords will offer to lease a premises with existing equipment left by a prior tenant. It might be existing furniture in an office building, or a restaurant with existing kitchen equipment. For many tenants this provides a great opportunity to save money and may be a key consideration for entering into the lease. To avoid any unexpected surprises, however, a tenant should think through some key issues when leasing premises with existing equipment.
- **Own or Use** – In some cases the landlord may be willing to transfer ownership of the equipment to the tenant at the beginning of the lease, so the tenant will own the equipment outright. In other cases, the landlord may let the tenant use the equipment during the term and possibly purchase the equipment (or receive it for no charge) at the end of the term.
- **Right to Use** – If the landlord is letting the tenant use the equipment during the term, here are some key issues to consider:
  - **Condition** – Is the landlord ensuring that the equipment or furnishings be in good condition and (if applicable) operational? What if some equipment (e.g., a refrigerator in a kitchen or television in a conference room) breaks shortly after the term commences?
  - **Replacement** – If the equipment wears out during the term, is the tenant responsible to replace it? Is the landlord? Who pays for the replacement? If the tenant has to replace the equipment, at its expense, consider what happens if the useful life of the replacement equipment would extend beyond the end of the term. The tenant may want to negotiate that the landlord reimburses the tenant for landlord's share of such expense, based upon the percentage of the useful life that such replacement equipment will have after the expiration date.
  - **Maintenance** – If the tenant is required to maintain the equipment, the landlord may havecertain maintenance requirements in the lease. The tenant may be required to enter into maintenance contracts. The tenant may be required to use contractors selected by the landlord. In such case, tenant may want to negotiate it will not pay above market rate for such work.
  - **Insurance** – Does the landlord's insurance cover the equipment or should the tenant insure theequipment? If the tenant is required to carry insurance, the tenant may want to have its insurer review the requirements.
  - **Taxes** – Depending on the jurisdiction, the landlord may require that the tenant pay personal property tax on the equipment, even if the tenant does not own the equipment. If such taxes are significant, the tenant may want to pro-rate the tax based on when the lease begins.
- **Transferred Furnishings** – Sometimes the landlord does not value – and may not want to be responsible for – existing furnishings and equipment. In that case the landlord may decide to convey the property to the tenant at the beginning of the lease term. If the landlord is conveying the equipment to the tenant at the beginning of the term (or even at the end when the lease expires), here are some key issues to consider:
  - **Title** – In connection with the transfer, will the landlord made any representations concerning the equipment? Are they warranting that they own the equipment and/or have the right to convey the same to the tenant?
  - **Condition** – Will the landlord convey the equipment in its "AS IS" condition, or are there anywarranties from the landlord (or third-part warranties from manufactures)? If there are third-party warranties, the tenant

will want to make sure that landlord assigns its interest in any such warranties.

- **Liens** – The equipment or furnishings may have been financed by the original owner of the equipment. When conveying the equipment, will the landlord represent that there are no liens encumbering the equipment? If not (or if the equipment is important to the tenant), a prudent tenant may want to run a lien search to confirm the equipment is unencumbered. If there are any liens, the tenant should be clear as to which party is responsible for the cost of removing the liens.
- **Taxes** – In some jurisdictions, the tenant may be responsible for a transfer tax payable when the equipment is transferred. The tenant may also be responsible for personal property tax on the assessed value of the equipment. With respect to the personal property tax, the landlord and tenant may wish to pro-rate such tax based on the date of the transfer.

- **Your Transaction** – The issues discussed in this article may not necessarily apply to your transaction, and your transaction may raise issues not addressed in this article. In all cases, we advised you to consult an experienced commercial leasing broker and experienced commercial real estate attorney to make sure the issues for your transaction are properly addressed.

Q3 2021 Loudoun County CRE Report

By: Joe Serafin

COUNTY COMMERCIAL REAL ESTATE

Loudoun's commercial real estate market for the 3rd Quarter of 2021 is strong. Before we look at the detailed numbers, let us provide some context. CNBC's annual "America's Top States for Business" ranks Virginia as #1. Loudoun County, so far, in 2021 has seen 145 new businesses (open or expand, either by hiring more people or acquiring more floor space.) In the first three quarters, Loudoun saw more than $6.5 trillion in new commercial investment and more than 3.7 million square feet of new commercial space. SmartAsset ranks Loudoun as Virginia's 10th strongest county for economic development with a business growth rate of 8.4%, partly because of its geographic location and partly because of its Fast Track Commercial Incentive Programs.

We will now look more closely at Loudoun County's Q3 numbers for office spaces.

LOUDOUN COUNTY CRE SALES FOR Q3

Q3 2021, saw an overall total sales volume of $563,031,632 at an average $/SF of $249. This compares well with 2020's Q3 sales of $378,738,186 and a $/SF of $236. There were 89 properties still listed for sale at the end of Q3. The total square footage for sale in the quarter totaled 312,500 SF. The average asking price per square foot was $275 in July, rose to $280/SF, and ended the quarter with an average asking price of $273/SF.

The market sales price varied across a wide range. Taking the total sales volume and breaking it down into $/SF groupings, we see the following:

- Approximately 5% of sales had a $/SF of below $180.
- 15% were between $180 and $210.
- 32% were between $210 and $240.
- 15% were between $240 and $270.
- 13% were between$270 and $300.\
- 10% were between $300 and $330.
- 10% were above $330.

WITH A DIFFERENT PERSPECTIVE, WE SEE THAT MOST:

- Individual sales ranged from $100 to $200/SF.
- Portfolio sales ranged from $310 to $390/SF.
- Condo sales ranged from $205 to $245/SF.

CAP RATES

The overall market cap rate for Q3 in Loudoun, across all property types, was 7.5%. It is fairly stable and is forecast to remain so. Approximately 72% of all transactions had cap rates of between 7% and 8%. The lowest was 4-5%, and the highest was above 11%.

Individual property sales saw an average cap rate of 7.5% at the beginning of the quarter, rising slightly to 7.6% at the end of September. Condo sales averaged 7.1%, dipping slightly during the quarter, but still ending September at 7%.

If we look at cap rates by star rating, we see:

- Cap rate for 1-2 Star properties averaged at just below 7.5%.
- Cap rate for 3 Star properties was fractionally below 7.6%.
- Cap rate for 4-5 Star properties was just above 7.2%.

SELLER AND BUYER PROFILES

As a percentage of sales volume, seller types were as follows:

- Institutional 42%
- Private 33%
- Private Equity 15%.
- Owner-Use 8%
- REIT/Public 2%

55% of sellers were locally based, 44% were national names, and 2% were based outside the USA.

Buyer types were:

- Institutional 48%
- Private 34%
- REIT/Public 11%
- Owner-User 7%

79% of buyers were national names, 19% were locally based, and 2% were buyers based outside the USA.

A BRIEF SUMMARY OF LEASE DATA

Net absorption in Q3 stood at the highest level for 2021. Net absorption for the past 12 months calculates out at 183,000 SF. Occupancy rates stand at 90.1% and are forecast to rise a little in Q4 and then level off during 2022. The average market rent per SF currently stands at $28.00/SF, while the vacancy rate is continuing its 2021 drop, ending the quarter at 10%.

FINAL COMMENT

Loudoun County's economic record and current commercial real estate statistics speak for themselves. Owner-users, major corporations looking to expand into a growth area, and buyer-investors looking for predictive results and potentially rising cap rates, should consider anywhere in Northern Virginia, and focus on Loudoun.

Serafin Real Estate has a current listing inventory offering a range of opportunities. You may be looking for a NNN business investment, space to meet your company's expansion plans, or an educational establishment such as a pre-K or Montessori school.

Our expertise ensures our clients receive comprehensive acquisition and investment representation. Strategic forward planning, total and transparent investment analysis, and financial structuring, targeted at specific goals, are the tools of our trade. When working with owners, we employ the latest technology to market properties locally, nationally, and internationally to specific target markets and qualified buyers.

UPCOMING

EVENTS

MAREMA members meet on the

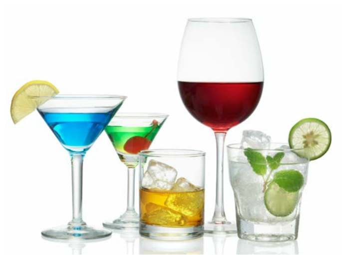
3rd Wednesday of each month

9:30 am - 12:00 PM

We are open for business, meeting this month in person at our new meeting location and online.

8230 Old Courthouse Road

Vienna VA 22182



MAREMA HAPPY HOUR

Thursday January 27, 2022

6PM – 8PM

Tower Club – Atrium

8000 Towers Crescent Dr Suite 1700

Tysons Corner

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RSVP to Peter Pokorny, peter@recdc.com

ASK AN EXPERT

A new forum in **The Market Place** will provide an opportunity for members to seek answers to CRE topics from our panel of experts.

Please forward questions you are encountering in your practice to:

Peter Pokorny

peter@recdc.com

or

Ed Cave

ecave@mcenearney.com