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Principal
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Q: Where is the industry in terms of the credit crisis?

A: "I think we are still in the middle of the crisis. Lenders are still skeptical so while they are restructuring existing loans, they are not making new loans. There is not as much liquidity in the market as is indicated and the liquidity that is available is unwilling to find a home. The problem is that even if there was money around it is unclear what a good investment decision would be and that complicates the issue and makes it harder to understand."

Q: So do you see more of the same for 2010?

A: "Yes, in terms of new construction. Part of it is the credit issue and the other part is that people are unsure of where values are. Buildings are still available for acquisition at prices below replacement costs and the existing rental rates that have not stabilized do not support new construction values; it is very hard to justify new building today. Most of the construction activity and the

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developer brain power is going towards tenant improvements and leasing, not new base building construction."

Q: How does this recession stack up against others for the development community?

A: "This downturn is more comprehensive in terms of the wide range of industries it has impacted; however, I do not think the impact on real estate is as severe as it was in the 90s. Today lenders are more flexible, extending debt and working with the attitude that it will get better with time. However, if you look at the total absence of investment sales in the real estate market, the lack of CMBS debt and the shut down in liquidity, it may be worse than the 90s. That portion does not impact developers as much as it does the investment community. In short, we do not feel as hard hit as we did in the 90s."

Q: Northern Virginia is a bit of an economic bubble. Are you seeing outside competition move to the area?

A: "What we are seeing is outside equity coming to buy buildings. The Metro Washington area is fairing better than the rest of the country and investors feel comfortable in this market; however, the flipside is that they are not finding the recession bargains here, so they are going elsewhere."

Q: Is there new development activity in 2010?

A: "Yes, the 95 corridor south of the beltway is as good a market as any; and the government demand because of BRAC takes care of the markets that are tight, keeping the vacancy rates low. From Alexandria down to Stafford County is a strong

corridor and if you can get better investment capital, buildings would be built. The best indication of a rebound that we are seeing is a surprisingly strong demand for residential housing in a number of markets. Residential rebound is typically followed by commercial activity. The industry really stopped developing and building very quickly in this downturn so it is more of a credit crisis than an oversupply issue, which is good."

Q: When do you expect the commercial construction industry in Northern Virginia to really begin a recovery and how robust do you believe it will be?

A: "It is going to take stabilized, growing rental rates and building sales that are at or above replacement costs; I think it is going to be 2012 at the earliest. I believe the rebound will be strong. The complete shut down of activity and the downsizing of companies means when the rebound occurs there is going to be a lot of demand for office space."

Q: What gets the contractor the job in 2010?

A: "Creativity and flexibility; it is not all about price. We did a job this year with a contractor that essentially brought us the tenant and it was one of the best deals we did in 2009. They were involved in the process and creative and flexible with how they approached the build out. It was done economically so we could afford to get the tenant in and it resulted in a significant piece of work for them and a big lease for us. So in that case it was creativity and flexibility that got the job; price is always a factor but it is not the only factor."



Craig Cope
Vice President
Liberty Property Trust

“So much of the economy is propped up by government subsidies, so once those run out and we are on our own (so to speak) we will see how true this recovery is...We will have to wait and see if this economy can carry its own weight.”

Q: Where is the industry in terms of the credit crisis and what do you foresee in the next 18 months in terms of development in Hampton Roads?

A: “We develop office, industrial and flex product; based on market conditions, I do not see any new speculative development in 2010. In the next 18 months there really is no need to develop product because of the available space already on the market.”

Q: How does the Hampton Roads market compare to rest of the state and the country?

A: “While our market is not as strong as Northern Virginia’s, the presence of the GSA, military bases and the defense contractors that serve those clients keep us somewhat insulated as compared to other markets across the country. Our strong maritime and tourism businesses are also big economic drivers. The fact is that while we have not seen as much activity as we would like, there is activity.”

Q: What is the vacancy rate going to do in 2010? Is it going to keep rising or stabilize?

A: “The current vacancy rate for warehouse space is around 14 percent, down a bit from last quarter and about the same as it was a year ago. However, the vacancy rates in the flex and office markets have continued to increase throughout this year, with office currently at 12 percent. I do not believe that is going to change until we start creating jobs. Leasing space will remain our main focus in 2010; we need to take care of existing tenants before we start thinking about new development. I think 2010 is going to be very similar to 2009 and the vacancy rate will likely stay where it is. Rental rates are continuing to decline to incentivize prospective tenants. Until rental rates increase new development will not realistically be discussed.”

Q: Any idea when we could see those rates go up?

A: “What I have seen is that we should see a favorable employment picture this year and once that happens and there is more demand for space, rates will move up as vacancies go down.”

Q: What are you seeing as common demands from clients today?

A: “Tenants are demanding free rent, moving expenses, higher tenant improvements and allowances to build out space. Sometimes it is not just an allowance but a promise to turn key the space based on an agreed upon plan and lower rental rates.”

Q: When do you expect the market to start shifting favorably for business?

A: “Today landlords have a ‘whatever it takes’ kind of attitude when it comes to filling space; some are simply looking to cover operating expenses. As vacancies start to decrease, I believe we will start seeing certain submarkets and buildings within those submarkets heading in the right direction. We are hoping to lead the market out of the bottom this year. We will begin pushing back on a deal to deal basis regarding business terms.”

Q: How robust do you anticipate the recovery being?

A: “So much of the economy is propped up by government subsidies, so once those run out and we are on our own (so to speak) we will see how true this recovery is; there has been a lot of money spent keeping the economy afloat. We will have to wait and see if this economy can carry its own weight.”

Q: What is the biggest challenge this recession has posed to the development community in Hampton Roads?

A: “I believe the greatest impact has been employment. In essence, the development machine has been put on hold or dismantled to a degree. Those companies that had geared up for new construction had to let people go, which means when the time comes to focus on new construction, this expertise will have to be replaced.”

Q: What gets a contractor the job in 2010?

A: “Price, quality and timeliness so we can commence our leases on time. We are also looking for good communication from the team and tenant satisfaction during the tenant build out process is paramount.”



Mark Larsen
 President
Larsen Commercial / ONCOR International

"I believe on a scale of one to 10, 10 being full recovery, we are at a two or three; though I do not believe it will be a steady climb. I can see potential for full recovery in 2014 or 2015."

Q: From the brokerage point of view, where are we today in terms of the credit crisis and what do you foresee for the next 18 months?

A: "I only represent tenants, so from the tenant-broker perspective, I see the credit crisis calming down. It is certainly better than it was six months to a year ago; they have needed loans for various aspects of expanding their businesses and they are now beginning to get them for regular business operations. Tenants are also making decisions today when push comes to shove, whereas six months ago they were not making decisions at all."

Q: You mentioned that you have done some development work. What is your opinion of the market from that point of view?

A: "From an office building or retail owners view it is still very tough. It is very difficult to refinance and there is no entity to refinance the larger loans. It is hard to find a new lender to pick up a new loan and that forces a borrower to renegotiate with its

existing lender, if they will actually renegotiate. The looming question is when will the Commercial Market Backed Security (CMBS) market, that in the past 10 years funded 60 to 70 percent of all the major loans, begin lending again?"

Q: How is the Northern Virginia market fairing compared to the rest of the nation?

A: "Northern Virginia is fortunate, thanks in large part to its proximity to D.C., higher education and dual income family status. The unemployment rate is somewhere between four and five percent while nationally the rate is 10 percent and likely not accounting for those who have stopped looking for jobs; realistically it is probably closer to 18 percent. That means in other areas of the nation the economy is just atrocious. Our office vacancy rate is 11 percent, which is slightly higher than equilibrium but vastly lower than other parts of the country. I hear L.A. has a 20 percent-plus vacancy rate."

Q: What are tenants demanding in today's market?

A: "Tenants are looking for what they always have but with more focus on flexibility and reasonably priced facilities. They do not want to take more space than they need, but they want the right to option more space for growth. They also recognize that they have been caught 'holding the bag' and if they take more than they need, they want the right to downsize or terminate the deal. And of course, in a down market everyone is looking to move up; if you can get an 'A' quality building at a 'B' quality price then why not upgrade?"

Q: How are you seeing landlords react?

A: "Right now the tenant has a tremendous amount of power; the only way to react is

to stay positive and avoid saying a flat out 'no'. They now entertain deals that they would have walked away from two years ago; but if they now say 'no', it may be a year or more before they get the opportunity to say 'no' again."

Q: Where do you see the industry in terms of recovery and how robust do you see it being?

A: "I believe on a scale of one to 10, 10 being full recovery, we are at a two or three; though I do not believe it will be a steady climb. I can see potential for full recovery in 2014 or 2015. I think we will get back to a high level of business, like three years ago and then, of course, we will see another recession in eight to 10 years because of a different sort of structural failure."

Q: How would you describe tenant activity today?

A: "In 2009 there was a lot of non-movement as opposed to a typical year. Typically there is much new development and incentives, companies feeling strong and wanting to expand because of a new need that drives tenant movement. Today they do not want to spend money to move, so as tenants look for ways to stay put, landlords willingly accommodate, knowing that if they lose a tenant now it may be several years before they get another."

Q: From a brokerage standpoint, how does this recession stack up?

A: "It certainly is far worse than 2000. 1990 was horrible for the banks and real estate markets, probably worse than it is today. The difference is that this economic downturn has had across-the-board impact. With the impact to everyone's 401Ks, higher taxes, healthcare costs, the general consumer along with the business community, is getting wacked left and right."



David Millard
Executive Director
Cushman & Wakefield

“It is not going to be way it used to be for a very long time or maybe even forever; so much was built in such a short amount of time. I believe we can realistically expect to return to the more traditional levels of construction like we saw in 2002 through 2005.”

Q: How is the credit crisis impacting commercial construction today and what do you foresee for the next 18 months?

A: “The last year and a half has introduced a general level of uncertainty relating to office space. Tenants who drive demand are reluctant to make long term commitments because they do not know how their business will be impacted. The other issue is that in those situations where there would be an opportunity to build something there is uncertainty on the part of the landlord in terms of being able to find a lender that will finance a deal. These factors impact demand negatively because more tenants on the demand side are looking for short term extensions or modest improvement instead of a complete build-out. In a normal year 30 to 35 percent of our transactions are renewals but in the last year 65 to 70 percent of transactions have been renewals. For the commercial construction industry the implication is that if someone is staying in place they are more likely to redo paint and carpet than a full blown build-out.”

Q: When do you expect the Northern Virginia market to start heading for recovery?

A: “The first six to nine months will keep us in much of the same situation with a gradual climb out beginning in the last quarter of the year. In general, you have to consider the use of the word ‘recovery.’ It is not going to be the way it used to be for a very long time or maybe even forever; so much was built in such a short amount of time. I believe we can realistically expect to return to the more traditional levels of construction like we saw in 2002 through 2005.”

Q: The government has its fingerprints on a lot of the work going on today; how does that impact the private market?

A: “Most of the new construction in our area is government construction; the Washington Headquarters Service, National Geospatial, the Metro extension of the Silver line and the HOT Lanes are good examples. The good news is that for those with properties around these projects or for those contractors that do work with the owners in close proximity to these locations, there is going to be expansion. We recently signed a lease with ING for a 95,000 sq. ft. building to be built. So there is life even if it is driven by the government market. The two hottest markets currently are Springfield and Arlington.”

Q: Today tenants are in the driver’s seat. When do you predict that the pendulum will start swinging back in favor of business?

A: “In most markets, I do not see any significant change happening for the next 12 to 18 months.”

Q: What is competition like for developers today?

A: “It is very difficult. It is hard enough to do deals in a good market, but in a bad market when you are wondering if you can get financing that complicates business tremendously. The same goes for GC’s as well; I foresee a very competitive environment for the contracting community over the next several years, until this phase passes and levels out. Work opportunities for the next 24 to 36 months are going to be at a premium. There is going to be tremendous downward pressure on pricing, overhead, profit and general conditions. There will be some contractors in a position to buy construction contracts, in a sense, by doing them for very little money. It is going to be all about staying in business, cutting costs where it is reasonable and accepting those jobs that make some sense in terms of contributing to fixed costs.”

Q: What is keeping a developer in business today?

A: “Meeting the demands of the client with quality of construction as well as great design and a good location. Those who are successful have had a little bit of luck and a lot of good planning. If you own property that is not in the path of development there is very little you can do to entice clients there.”

Q: How does this recession stack up against others you have seen?

A: “In the 25 years I have been in the business, this is the most challenging I have seen as it relates to the commercial real estate world.”