



The Norfolk area commercial real estate market is seeing low prices and low capitalization rates for most of the property sectors. However, capitalization rate compression has slowed, and the rates for most property sectors will begin to increase. Capitalization rates should not increase in this area as much as in some other markets due to strong employment, helping to keep demand stable in several sectors.

Demographics & Economy

Population:

2006 (est.): 1.7 million

2011 (proj.): 1.8 million

Unemployment Rate:

Norfolk - 3.1%

Virginia - 2.7%

National - 4.5%

Office

- RERC's transaction analysis indicates office properties in the Norfolk area are selling for an average price of \$134 per square foot, much lower than the regional average price of \$200 per square foot and the national average of \$167 per square foot.
- The average capitalization rate for the Norfolk office market is 7.2 percent, slightly higher than the East regional rate of 7.1 percent, but equal to the national average.

With an average capitalization rate equal to the national average rate, but a lower average price per square foot, the Norfolk office market can expect similar returns but with lower prices. Although total population is expected to increase only slightly over the next 5 years, the unemployment rate is well below the national level, indicating a fairly strong and stable demand for properties that will help to keep the office market strong.

Industrial

- The average price for industrial space in the Norfolk area is \$76 per square foot, lower than the East regional average price of \$84 per square foot and the national average price of \$83

per square foot, according to RERC's transaction analysis.

- The average capitalization rate for industrial properties in the Norfolk area is 7.9 percent, slightly high compared to the regional and national averages of 7.3 percent and 7.4 percent, respectively.

It is generally expected that with a lower average sale price per square foot, comes a higher average capitalization rate, which is what we are seeing in the national industrial market. If Prices continue to fall, it is likely capitalization rates will increase.

Retail

- RERC's transaction analysis indicates the average selling price for retail space in the Norfolk area is \$129 per square foot, much lower than the regional average of \$199 per square foot and the national average of \$169 per square foot.

- The average transaction-based capitalization rate for retail properties in the Norfolk area is 6.9 percent, exactly the same as that for the East region and nation.

With the capitalization for retail properties in the Norfolk area the same as those seen on a regional and national basis, these properties require a lower price, which is what we are seeing with respect to price per square foot. With a low unemployment rate, the area economy and demand for retail property is strong and should continue to stay that way for the next few quarters.

Apartment

- RERC's transaction analysis indicates the Norfolk apartment market has an average sale price of \$71,688 per unit, considerably less than the regional average of \$128,020 per unit and the national average of \$107,833 per unit.

- The average capitalization rate for the Norfolk apartment market is 6.3 percent, equal to the national rate, but slightly lower than the East regional average of 6.1 percent.

As population growth in the Norfolk area slows, demand for apartment properties may decrease, and reduce the average sale price and increase the average capitalization rate.

National Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
<\$2 million	\$2,307	\$4,047	\$4,070	\$5,669	\$220	\$16,312
\$2-5 million	\$3,910	\$5,701	\$6,222	\$5,910	\$926	\$22,668
>\$5 million	\$155,131	\$32,581	\$50,896	\$87,663	\$33,689	\$359,961
All	\$161,348	\$42,328	\$61,188	\$99,242	\$34,835	\$398,942
Unit Price Averages						
<\$2 million	\$103	\$68	\$103	\$92,566	\$53,998	-
\$2-5 million	\$167	\$96	\$216	\$128,810	\$59,767	-
>\$5 million	\$209	\$104	\$250	\$126,410	\$137,649	-
All	\$167	\$83	\$169	\$107,833	\$110,713	-
Median of all	\$137	\$66	\$123	\$86,170	\$82,776	-
Capitalization Rates (All)						
Range	4.7 - 10.5	4.8 - 11	4.4 - 10.4	3.8 - 10.6	5.7 - 12.3	3.8 - 12.3
Average	7.2	7.4	6.9	6.3	8.7	7.3

Hotel

- The average sale price of hotel properties in the Norfolk area is \$52,082 per unit, drastically lower than the regional average of \$147,952 per unit and the national average of \$110,713 per unit, according to RERC's transaction analysis.
- The average transaction-based capitalization rate for hotels in the Norfolk area is 8.4 percent, equal to the East regional rate, but slightly lower than the national rate of 8.7 percent.

Although the Norfolk hotel market is seeing a low average price per unit and a low average capitalization rate, the era of capitalization rate compression, which the Norfolk hotel market has been able to take advantage of, is coming to an end. Expect the capitalization rate for hotels to increase, as prices may fall slightly.

East Region Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
<\$2 million	\$452	\$789	\$817	\$888	\$28	\$2,974
\$2-5 million	\$881	\$1,080	\$1,264	\$1,749	\$146	\$5,119
>\$5 million	\$62,999	\$8,110	\$12,157	\$30,547	\$8,698	\$122,511
All	\$64,287	\$9,914	\$14,178	\$33,144	\$8,861	\$130,384
Unit Price Averages						
<\$2 million	\$95	\$56	\$98	\$81,790	\$54,731	-
\$2-5 million	\$157	\$97	\$239	\$158,133	\$48,372	-
>\$5 million	\$258	\$127	\$338	\$174,721	\$182,367	-
All	\$200	\$84	\$199	\$128,020	\$147,952	-
Median of all	\$146	\$57	\$124	\$87,004	\$94,017	-
Capitalization Rates (All)						
Range	4.7 - 10	4.8 - 9.9	4.7 - 10.4	4.2 - 9	5.9 - 11.5	4.2 - 11.5
Average	7.1	7.3	6.9	6.1	8.4	7.2

Norfolk Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)						
	Office	Industrial	Retail	Apartment	Hotel	Total
Volume						
<\$5 million	\$43	\$39	\$41	\$9	\$5	\$137
>\$5 million	\$83	\$102	\$139	\$315	\$42	\$681
All	\$127	\$141	\$179	\$324	\$47	\$818
Unit Price Averages						
<\$5 million	\$122	\$77	\$101	\$48,008	\$33,813	-
>\$5 million	\$195	\$75	\$196	\$87,010	\$56,649	-
All	\$134	\$76	\$129	\$71,688	\$52,082	-
Median of all	\$107	\$63	\$86	\$68,674	\$43,750	-
Capitalization rates (all)						
Range	5.4 - 9	5.9 - 9.9	5.2 - 8.6	4.7 - 7.9	6.3 - 10.5	4.7 - 10.5
Average	7.2	7.9	6.9	6.3	8.4	7.3

Noteworthy Transactions

- A 28,585-square-foot industrial property located at 620 East Olney Road sold for around \$1.5 million, or \$52 per square foot, well below the area average price of \$77 per square foot for properties selling for under \$5 million.
- Talbot on Granby, a 114-unit apartment property, sold for \$17.2 million, or \$150,877 per unit, much higher than the average sale price of \$87,010 per unit for properties selling in this price category.
- The 6,029-square-foot office property located at 220 West 22nd St. sold for \$630,000, or \$105 per square foot, slightly less than the average price of \$122 per square foot for office properties selling for less than \$5 million.
- The 42,429-square-foot industrial property located at the intersection of Ellsmere Avenue and Henneman Drive sold for \$3.6 million, or \$85 per square foot, higher than the area average of \$77 per square foot for Norfolk properties selling for less than \$5 million.
- The 7,425-square-foot industrial property located at 4625 Kincaid Ave. sold for \$383,900, or about \$50 per square foot, less than the area average price of \$77 per square foot for properties selling for less than \$5 million.