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Commercial real estate in Richmond still hurting

By Carol Hazard
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The commercial real estate industry is in for another tough year. But it's bound to be better than last year, local brokers said at yesterday's annual forecast meeting of the Greater Richmond Association of Commercial Real Estate.

"It's certainly not the rosiest topic, but I'll try to go easy on the doom and gloom and maybe even mention some bright spots on the horizon while trying to remain realistic," said Mac Wilson, a commercial broker with Thalhimer/Cushman & Wakefield in Richmond, who spoke about the office market.

About 250 people attended the presentation at The Westin hotel in Henrico County.

Laura Lafayette, CEO of the Richmond Association of Realtors, said it was fitting that she was the first speaker -- because residential real estate led the downturn.

"The residential market was in the soup first. Theoretically, it will be first out of the trough," she said. But it's not there yet.

The same issues plaguing residential real estate -- foreclosures, job losses and low consumer confidence -- are hurting the commercial market. The industry was hit last year with rising office, retail and industrial vacancies, plus falling rents and declining property values.

The Richmond area typically weathers downturns well because it doesn't depend on any one industry. But a rash of corporate bankruptcies, closings and relocations has made this cycle rougher than usual, experts said.

"In the fall of 2007, we felt the headwinds approaching," said John Gentry, senior vice president at Grubb & Ellis/Harrison & Bates, a commercial real estate firm in Richmond. "In 2008, we fell off the cliff in terms of investment real estate."

Nationally, the volume of commercial properties selling for $5 million or more has fallen 88 percent from 2007. The Richmond area has seen a similar drop.

"It's hard to make a living at those levels," Gentry said.

Consider, for example, sales of office buildings for $5 million or more in the Richmond area. The volume was $329 million in 2007. Last year, it was zero.

Nationwide, the U.S. commercial real estate debt is $3.5 trillion, with $1.5 trillion coming due in the next three years and $165 billion in default or foreclosure, Gentry noted.

He predicted another tough year, with sales volume up moderately due to distressed sales. He sees more "pretend and extend" tactics from lenders extending or reworking loan terms to delay foreclosures and ride out the cycle.

He also said commercial property values could drop as much as 10 percent this year. They are down 43.5 percent since peaking in 2007.

Wilson, speaking about the office sector, said he sees no more large corporate bankruptcies and no speculative building in the immediate future, which will help reduce the abundance of space on the market.

"As employment trends upward, we will begin to recover," he said.

Wilson said he hopes companies from outside the area will consider taking over big blocks of space in Henrico that were dumped on the market -- skewing vacancy rates up sharply -- by the bankrupt Circuit City Stores Inc. and LandAmerica Financial Group.

Pete Olson, a senior associate at CB Richard Ellis, said leasing rates in the industrial sector are down but may have stabilized. Still, "vacancy rates are up and they are rising. Absorption is down, and it's not getting better."

Nationally, the average vacancy rate in the industrial sector is 10 percent. "The market in the Richmond area is a little healthier at just under 9 percent," Olson said.

But a double-digit vacancy rate in the southwest quadrant of the Richmond area, generally Chesterfield County, is troublesome, he said.

"While we think the worst is behind us, activity is still light."

Brett H. McNamee, senior vice president at Divaris Real Estate, said many projects in the retail pipeline have stalled or were scaled back.

Some financially challenged centers will limp along, she said. Others will change hands.

Another troubling sign is the continuing difficulty small retailers face, evident in the increasing number of empty storefronts, McNamee said.

She said 2009 was "the lost year" for retail -- the Richmond area lost all of its locally based major retailers, including S&K Famous Brands and Circuit City. The area also lost 30 restaurants.

But it gained the attention of national retailers that opened stores here, such as REI and HomeGoods, and "hhgregg took the market by storm," McNamee said.

Another positive trend was the arrival of hotels, including the Westin, aloft hotel and the Hilton in Henrico, she said.

"The good news for 2010 is I think all the damage was done in 2009," McNamee said. "I think we will see a steady uptick and maybe start to feel better in 2011."

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