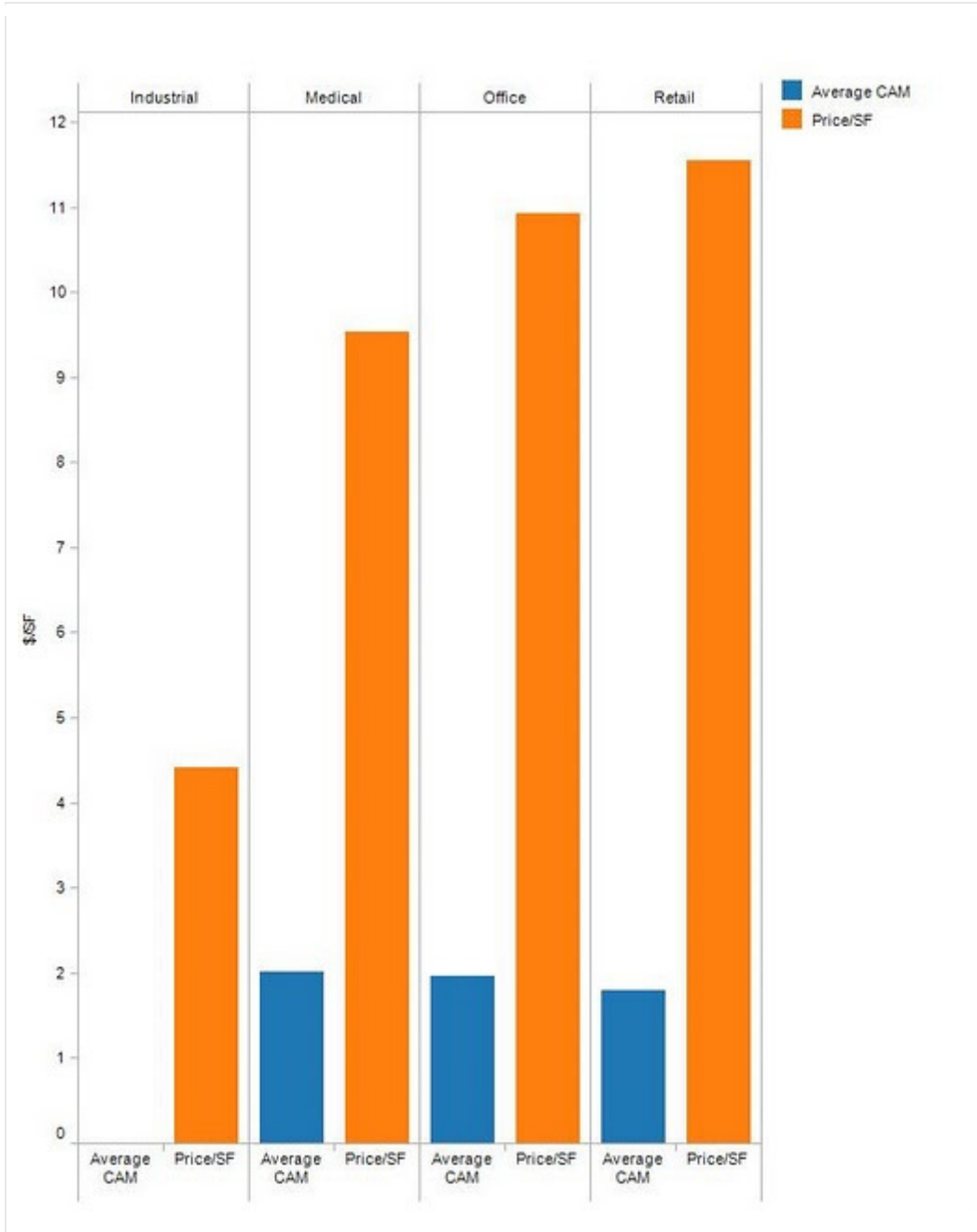


Are you paying too much for your lease? Plus two bonuses...

	Average CAM	Price/SF
Industrial	0.00	4.41
Medical	2.02	9.53
Office	1.97	10.93
Retail	1.79	11.54

Asking lease rates tend to be just what the name implies. Much like the purchase of a house, the price may be negotiated higher or lower depending on the market. It's no secret that tenants have the upper hand in negotiations at this time and examples of asking lease rates being slashed by 30% is not terribly uncommon. Sticking with the analogy of a home purchase, potential tenants will find that flexibility on asking lease rates depends on a number of factors not limited to location, neighbors, condition, and size. Additionally, commercial space is subject several more conditions such as lease type and length (terms), tenant improvements required, and creditworthiness.

The chart below is an assessment of well over 100 active leases and reflects the asking price for each type of property including industrial, medical, office, and retail space (not including CAM). As you might expect, in Harrisonburg and surrounding areas, asking prices for retail space are the highest at an average rate of \$11.54 per square foot (the highest at \$26.50 and the lowest at \$5.00) and industrial came in at the lowest rate of \$4.41 per square foot (in a much tighter range).



October 2010: Asking Lease Rates for Harrisonburg & Surrounding Areas

Commercial averages realize a fair amount of upward pressure from a few select areas. As expected, rates for commercial were highest in newer developments in close proximity to national retailers such as Wal-Mart, Home Depot, and Best Buy. On average lease rates for these spaces were \$19.00/sf. The lowest retail rates are found on the south and west sides of Harrisonburg and averaged approximately \$8 and \$5/sf respectively. Downtown came in close to the average at \$12.15/sf primarily as a result of Urban Exchange and the Wetsel Seed building.

Office space within the Harrisonburg area is more tightly clustered than retail with nearly 50% of available spaces falling in at plus or minus \$1 of the average rate. The highest rates for office space are found downtown. The lowest rate available is approximately \$7.00, but most spaces are within a range of \$12-\$15/sf. Downtown office space came in higher than the average rate per square foot at \$12.55.

Medical space appears to be limited based on properties currently on the market, although this is seemingly not reflected within the asking rate. \$12/sf is the highest asking rate for what many would expect to command the highest rent. An explanation for the low rate may exist within the fact that much of what is currently on the market is space on second floors and in the rear of existing buildings. Lower rates (approximately \$7-\$8/sf) require improvement as they are "cold dark shells."

Industrial space tends to be a little more straightforward. Small industrial gets a higher rent and large spaces get lower rent, but all generally fall within a \$3-\$5/sf range. This is not to suggest that industrial space is without complexity. Nothing could be further from the truth. Utilities, column spacing, ceiling height, floor depth, dock doors, drive-in doors, interstate proximity, natural gas availability, electrical capacity, and workforce (to name a few) all contribute to the site selection process and, ultimately, the rate. As odd as it may sound, industrial space may be subject to the least amount of commoditization of any of the four.

Harrisonburg and the surrounding area currently has approximately 867,000sf of available space spread across large (100,000sf or greater), mid-size (20,00-99,999sf), and small (10,000 or less) properties. Size categories are relative to the area.

Bonus Section

You may have noticed in the chart above that industrial has CAM of \$0.00. This leads to two questions, first why is there no CAM for industrial and second, what is CAM.

Bonus #1: Let's look at the second question first. CAM, and what it is, has been subject to quite a bit of debate. Simply, however, CAM (common area maintenance) is a fee landlords charge to tenants in an effort to help cover the landlord's direct expenses for "common areas." Common areas can include both internal (hallways, elevators, lobbies, public bathrooms, etc.) and external expenses (parking lots, landscaped areas, etc.).

Bonus #2: So why no CAM for industrial property. Generally, this occurs because industrial properties are NNN or triple net or 3N. NNN is simply a lease in which the tenant pays for property taxes, insurance and maintenance in addition to the rent. In other words, the tenant already pays all the expenses so there is no need for CAM.

One last note. The data presented in this article will be updated on a quarterly basis with both asking and effective rents. The goal is to provide a comprehensive source for leasing data for the Harrisonburg market while at the same time helping subscribers and clients identify trends that may help in making effective business decisions. This exercise will be in addition to previous and ongoing efforts to track and analyze data related to commercial real estate in the Harrisonburg/Rockingham market.