

COTTONWOOD

Commercial

A Commercial Real Estate Brokerage

HARRISONBURG & ROCKINGHAM
COMMERCIAL REAL ESTATE REPORT

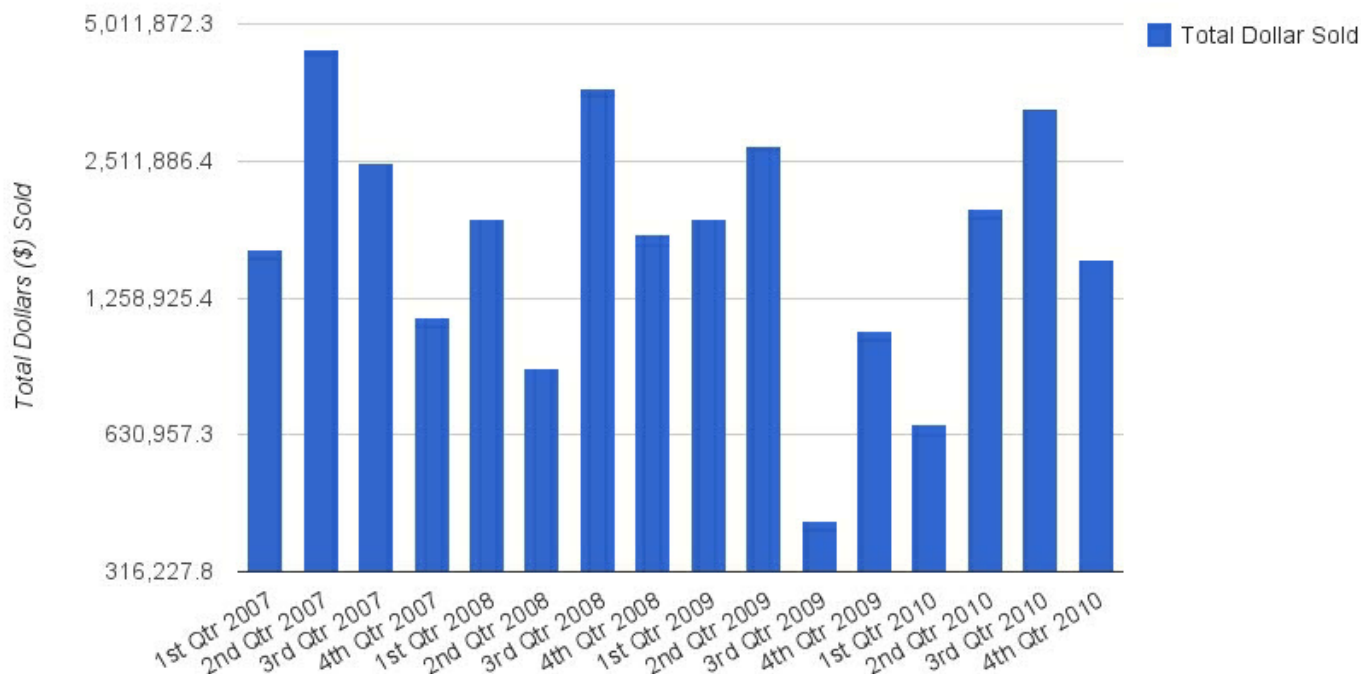
FOURTH QUARTER 2010

EXECUTIVE SUMMARY

Those that were cautiously optimistic about commercial real estate heading into the fourth quarter of 2010 have reason to maintain that outlook as 4th quarter numbers for the Harrisonburg/Rockingham County area continued to show promise.

- **Treasures or Traumas Phase:** *Nearly 40% of all transactions (excluding land) in 2010 have been off-the-market sales in which businesses and investors targeted specific properties not on the multiple listing service (MLS). This provides evidence that we are still in the “treasures or traumas” phase, but may also be a signal of increased transactions in 2011 and help move the market closer to normalcy in 2012.*
- **Best Quarter Since 2008:** *Sales volume is up for the year and year-over-year for the quarter; transactions have back-to-back quarters for the first time since 2008; median and average sale prices are up (excluding an outlier); price/sf is up; and price reductions (ask price to final sale price) are down.*
- **Continues to Illustrate 3rd Quarter 2009 Bottom:** *Nearly every indicator found in this report has shown a positive up-trend since the 3rd Quarter of 2009 providing further evidence that we may well have seen the bottom in the local market.*

Harrisonburg Area Commercial Real Estate: Total Sales



TOTAL VOLUME

Year-over-year total sales (excluding land) for the 4th quarter realized a 43% increase. This was the highest percentage increase since 2008, which came in at a 52% increase from 2007 levels. Total sales for the quarter were just over \$1.5 million helping to push 2010 sales volume for the year to its highest level since 2008. This percentage increase was driven primarily by investors and businesses targeting property in off-the-market transactions. In other words, purchasers were not in the mood to compromise in the selection process. If the building met investment criterion or fit business needs exactly, and if the seller not actively marketing the property was receptive to the offer, a sale occurred.

While it might seem counterintuitive (as some may view it as timid investment), I believe these targeted transactions are indicative of a bullish signal within the local commercial market. A similar mentality has been evidenced in investment grade commercial property throughout the nation (often referred to as NNN or Triple Net). ***This time last year investors were solely focused on 'treasures' or 'traumas' — properties that were either top-notch quality or significantly discounted due to sellers in distress, and there was no appetite for assets in the middle of the spectrum.*** However, as the economy has slowly healed, investors have shown a willingness to take on property with greater perceived risk. This has brought more investors into the market and has started to drive down capitalization (cap) rates, which, has in turn, brought additional investors into the market as they do not want to miss out on the apparent bottom.

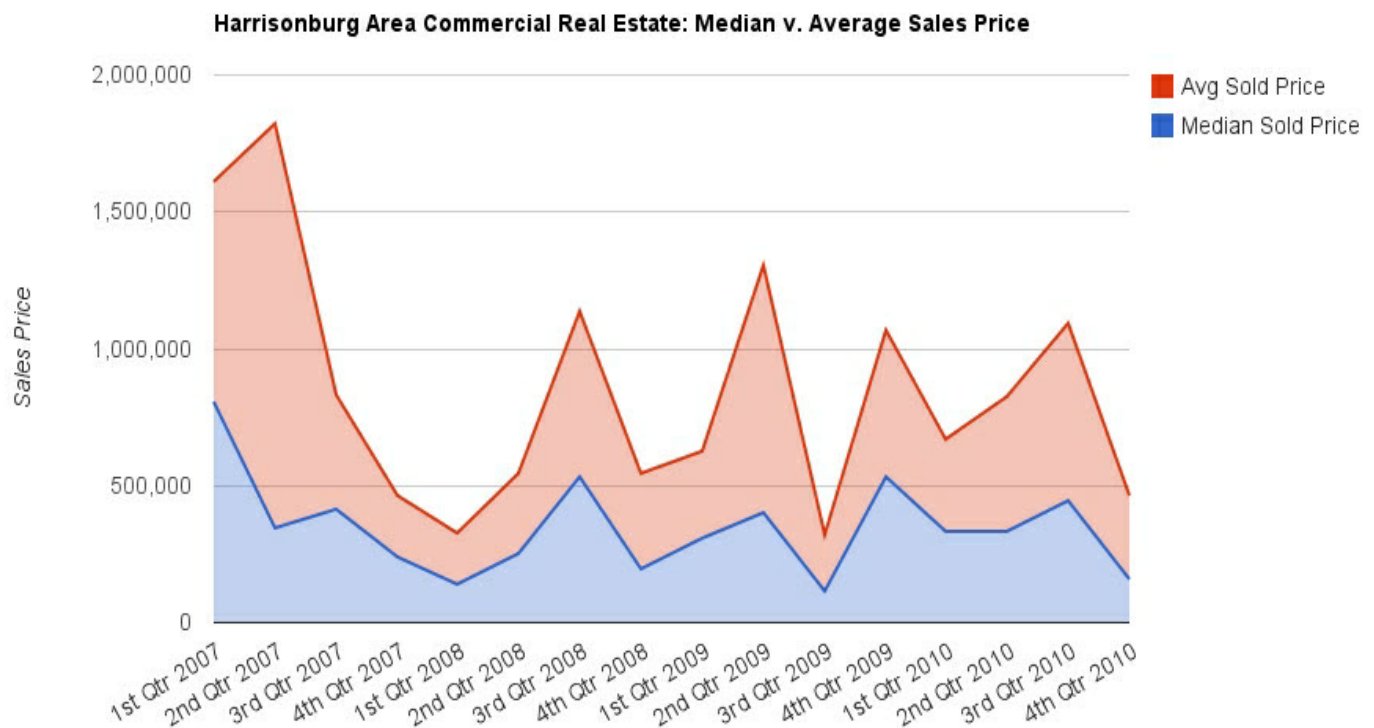
If the local market follows a similar trend line, I would expect we would begin to see greater transaction levels in 2011 followed by a closer position to normalcy in 2012.



TRANSACTIONS

In real estate markets, changes in the frequency of transactions, as measured by changes in the number of properties sold from a stock of properties comparing one period to another (e.g., month to month, year to year), have been shown to be related to asset price movements. Therefore, transaction frequency is a key indicator of current conditions of the real estate market. In addition, it is widely viewed as an important "leading" indicator of the expected general conditions of local, regional and national economies. By monitoring transaction levels, market participants are better able to form market expectations, evaluate prices and develop investment strategies.

We are still a long way from the 1st Quarter of 2008, but the 3rd and 4th quarter of 2010 marked the first time since that year the local market has realized back to back quarters of five or greater transactions. For the year, the market is 33% lower than its high in 2008, but has increased from 2009 levels by 19% and matched levels in 2007. As mentioned earlier, the number of closed sales for the 4th quarter and 2010 shows a promising increase, even if it was driven by a treasures or traumas mentality.



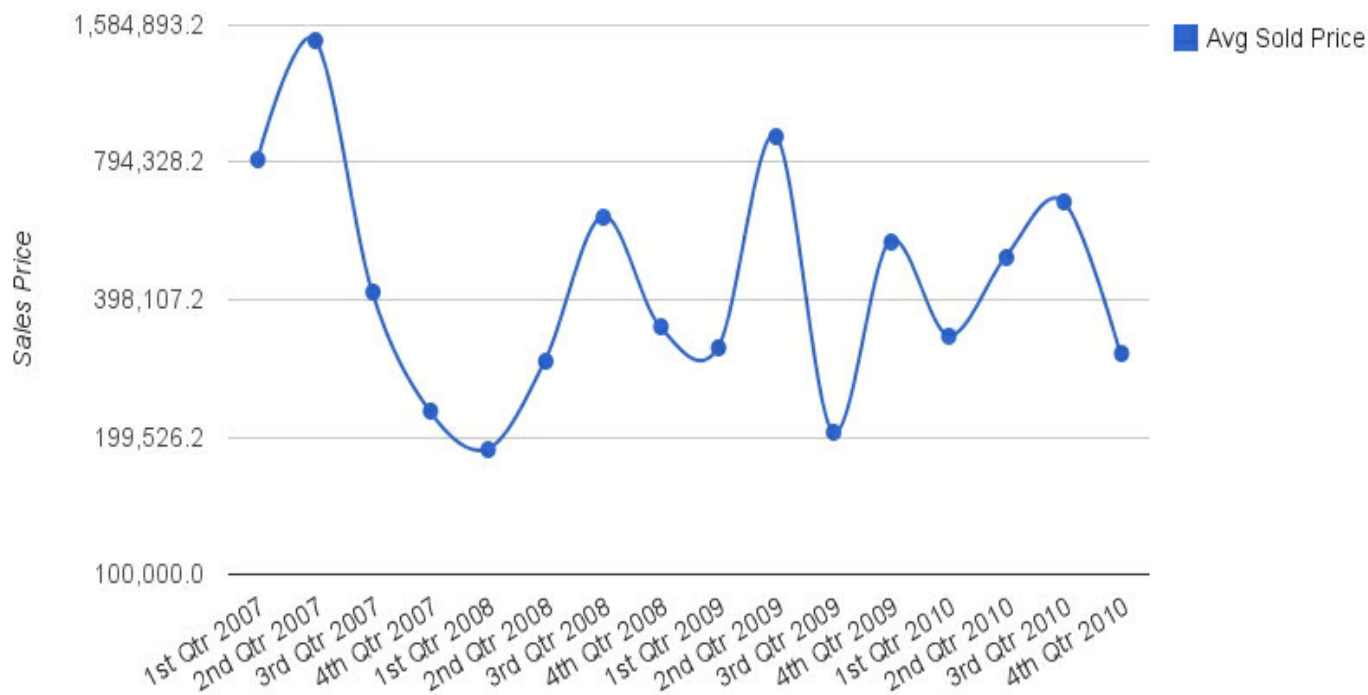
MEDIAN AND AVERAGE PRICE SOLD

The sharp drop in median price sold in the 4th quarter was primarily the result of an outlier. Excluding the low (an \$80,000 renovation project), the median and average transaction is \$359,000 and \$387,000 respectively. In other words, this shows a slight increase over the 3rd quarter of 2010.

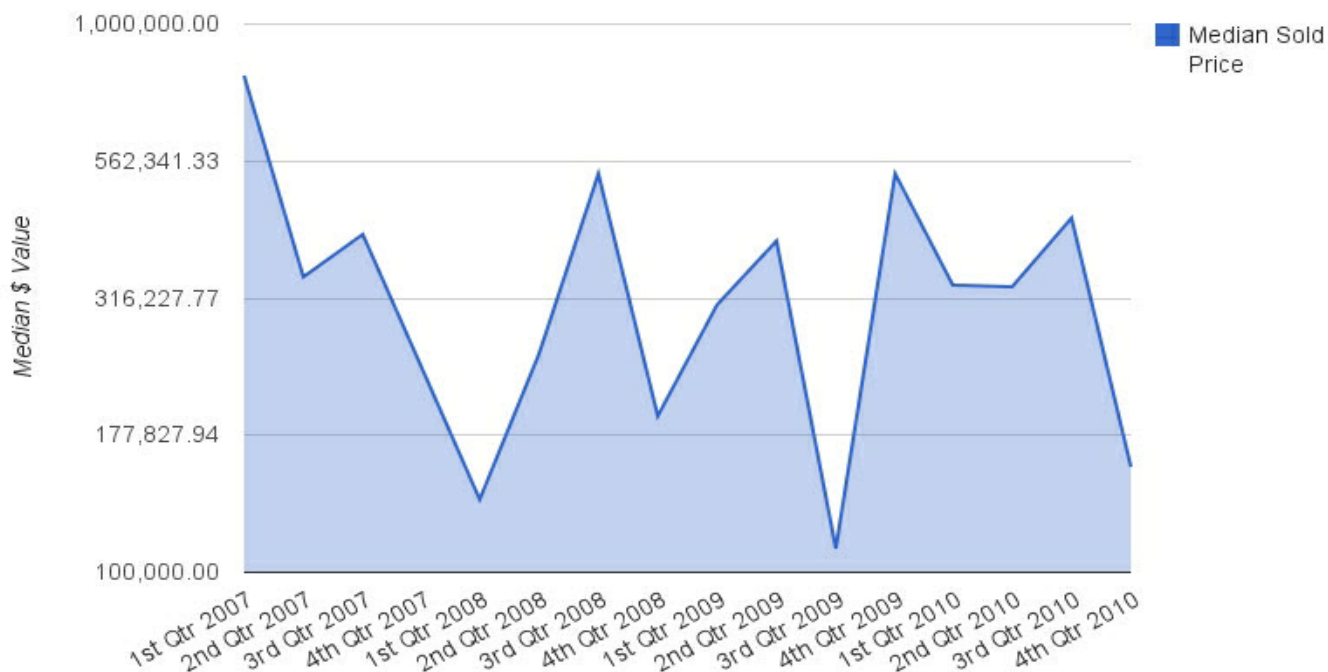
In terms of year-over-year increases, the 4th quarter figures illustrate a strong increase over the same quarter in 2009 even with the outlier. Exclude the outlier for the 4th quarter 2010 and the 4th quarter of 2010 was the strongest for data tracked since 2007.

The ability of a singular transaction to manipulate the results of local data is strong given the limited data. As illustrated above, any transaction that has such a significant impact on the data will be highlighted to ensure the information provided is as accurate as possible.

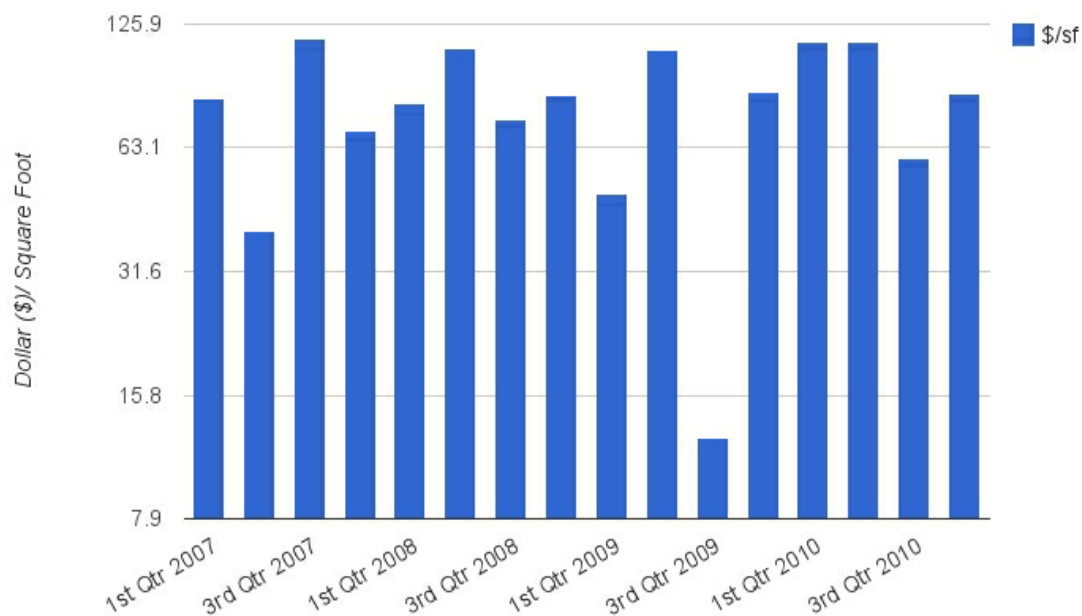
Harrisonburg Area Commercial Real Estate: Average Price Sold



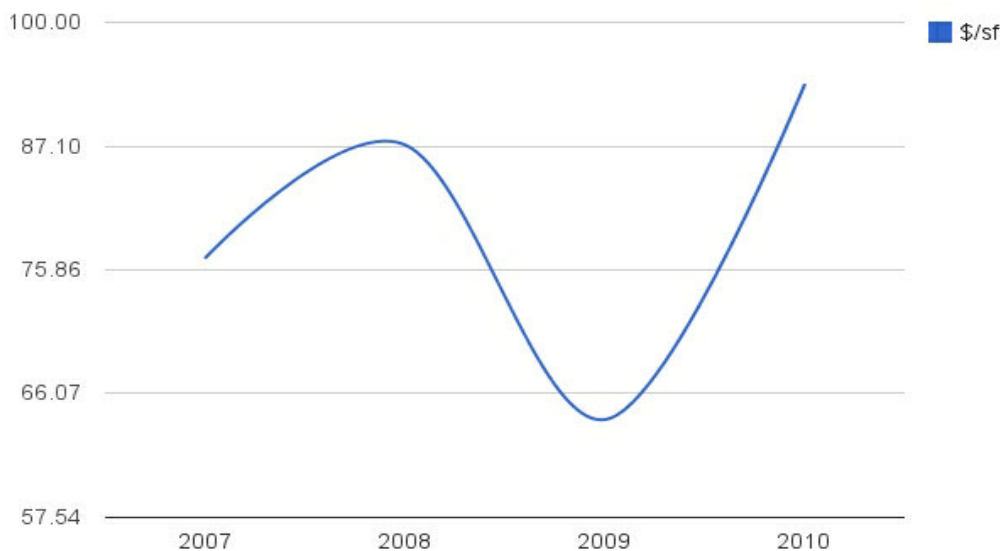
Harrisonburg Area Commercial Real Estate: Median Price Sold



Harrisonburg Area Commercial Real Estate: Average Price/SF

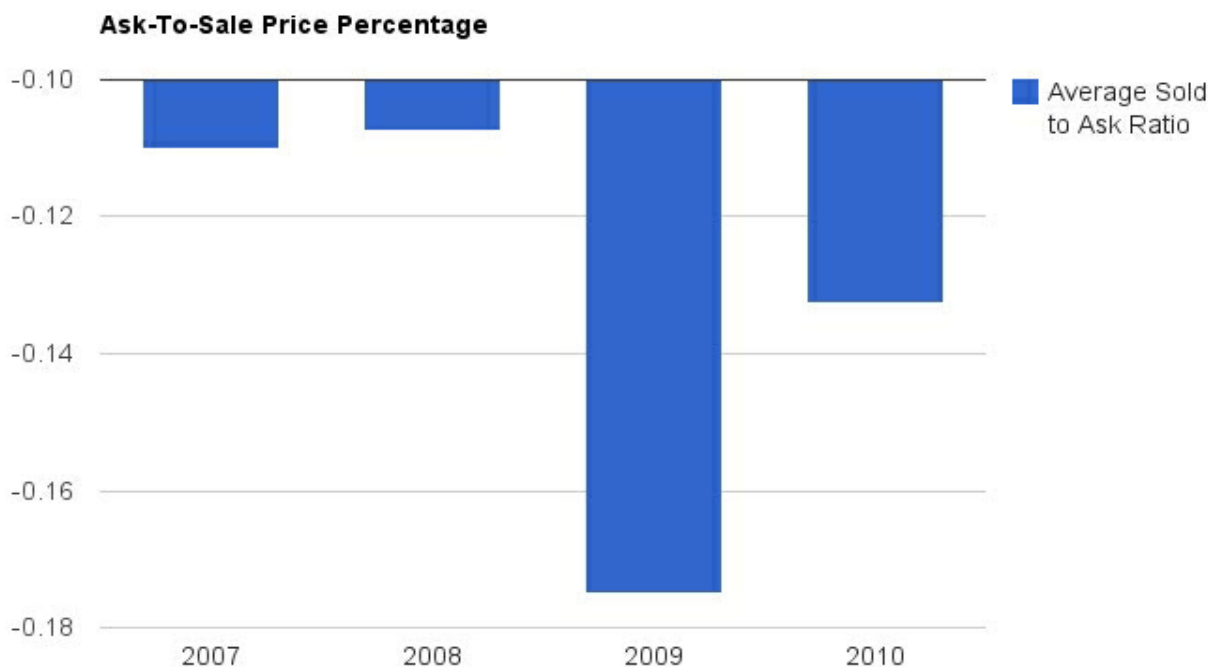


Harrisonburg Rockingham Commercial Real Estate: Price Per Square Foot By Year



PRICE PER SQUARE FOOT

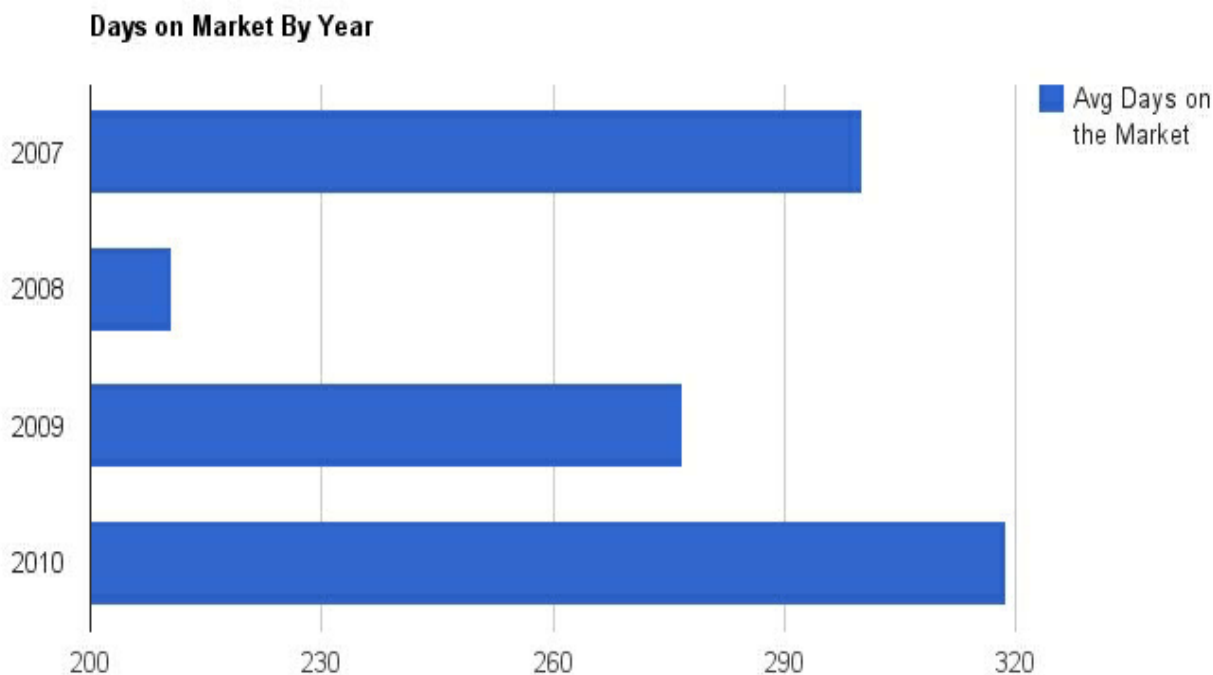
Price per square foot for the quarter has remained remarkably stable with only a slight adjustment year-over-year in the previous two final quarters. Stability is a terrific thing, especially in the current economic climate, but improvement is worth your excitement. A look at the annual chart immediately above demonstrates a fairly dramatic jump (\$64 to \$93) in the price per square foot in the last year that is seemingly the result of several office purchases in the medical and financial sectors.



ASKING VERSUS SOLD PRICE

Certainly, it would be expected that such a large increase in price per square foot would indicate a reduction in ask-to-sale price percentage. If this was your assumption, you would be right, but the percentage did not drop as far as might be expected given the high price per square foot purchasers were willing to pay. Why?

Again, I believe this is evidence of the “treasures or traumas” phase. Properties were either top-notch quality or significantly discounted due to sellers in distress. As mentioned previously, there were more of the former than the latter.



DAYS ON MARKET

As illustrated on the chart above, it would appear that days on market has realized a significant up tick in 2010. This would be extraordinary, but not impossible, given every other indicator listed within this report is showing improvement. The simple explanation for the increase is that it did not really increase; it is simply a result of the type of transactions. The phenomenon of treasures or traumas being has simply impacted the data. As mentioned, forty percent of transactions in 2010 were targeted investments involving real estate not on the market. As a result, the days on market for these properties typically hover around zero to fifteen. Obviously, including these properties in the data would result in an average days on market that was much lower, artificially lower. Consequently, the data was not included and the days on market number was much higher, artificially higher. Sometimes, you can't win.

FOR MORE INFORMATION

Contact:

Tim Reamer
Cottonwood | Commercial
1958 Evelyn Byrd Avenue
Harrisonburg, Virginia 22801
(e) tim.reamer@cottonwood.com
(w) www.cottonwood.com/ www.timreamer.com
(ph) 540.437. 3680
(mob) 540.271.7525

About Tim Reamer

Tim Reamer joined Cottonwood after serving nine years as an economic development director. As Director for the City of Buena Vista, he worked with commercial, industrial, and residential sector clients to provide site selection, demographic study, financing, and marketing assistance that attracted several million dollars in private capital investment. Tim's nine years of experience in the interpretation of market analysis and consumer behavioral studies have provided an irreplaceable recognition of the economic and social factors affecting business and consumer decisions. Previously Tim served in similar positions for the Town of Broadway and Town of New Market.

Outside of his professional duties, Tim has dedicated himself to the study of real estate, finance, and economics. He has successfully completed training from the Appraisal Institute and is completing his Masters Program in Real Estate Finance and Analysis through Florida State University. In addition to being a student of real estate theory, Tim has put this knowledge into practice as an active investor with income properties in Rockingham and Rockbridge County.