Tyler · Donegan
Real Estate Services

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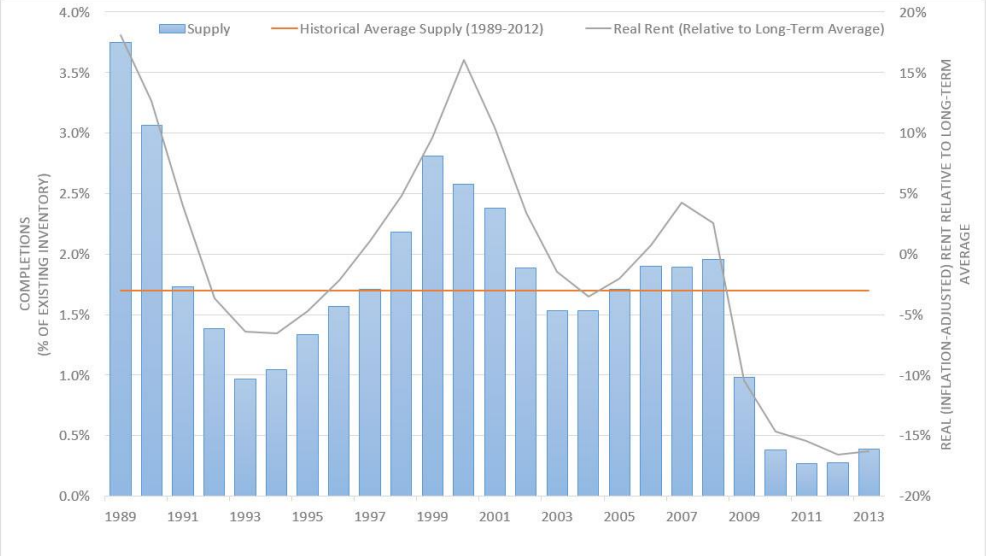
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4th Quarter 2014 Market Review

Trends influencing the year ahead (2015)

- Continued low supply: New supply is at a historic low (see figure below), in part because market rents generally have not justified new construction and because financing has remained constrained. This leaves enormous upside potential in the property sectors to push occupancies and rents.

COMMERCIAL REAL ESTATE COMPLETIONS (% OF INVENTORY)



- Increased capital flows into real estate: As real estate fundamentals continue to improve, among investment alternatives, real estate offers some of the best risk/reward propositions. This is particularly true given the multiyear run-up in equity and bond values. Look for higher allocation targets, and more foreign and retail investor money to continue to push capital values higher.

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- Increased appetite for risk: It has only been in recent quarters that investors have been willing to accept some additional risk to achieve higher yields, which will continue. That has brought new activity to a number of secondary markets, including Philadelphia, Denver, Austin, and Charlotte, where well-priced Class A properties have come into play. In addition, there has been some "trickle out" through the marketplace into still-riskier placements in the suburban office arena, and into some Class B and C properties, where some investors are making strategic value plays.
- Multifamily still popular: Multifamily transaction volume has reached pre-recession levels, outstripping office transactions for the first time in ten years, as real estate investment trusts (REITs) and pension funds have fed a fierce appetite for the multifamily sector. The pace is unlikely to slow anytime soon. Apartment demand has been—and is expected to be—robust, supercharged by the shock waves of the recession and by strong demographic trends that are only beginning to manifest. Most deals have been concentrated in larger urban markets, such as New York, Washington, Los Angeles, and Chicago, with considerable focus on the echo boomers, who are partial to the amenities of an urban lifestyle, and their parents, who are realigning t parents, who are realigning their housing needs toward walkable surroundings and mass transit.
- Ongoing retail bifurcation: A confluence of factors, including the economic recession and the inexorable wave of e-commerce, has redefined the retail market equation. The day of the suburban mall, anchored by a mid-market department store, has passed for the foreseeable future. Although the industry's evolution continues, we are already beginning to see a deeply bifurcated mix of high-end urban retail destinations at one end of the retail spectrum, with discounters at the other, and a scattering of local grocery-anchored strips in between. An improved housing market should lead to an improved retail environment. With home prices recovering and financial markets making strong gains, household wealth has risen to more than 5.5 times disposable income, the 20-year average. In addition, the annual expansion in retail sales, 6 percent per annum, is an indication that retail activity is well on its way to achieving a rate consistent with job creation and income growth.

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Washington DC and Suburban Office Market

The Washington DC Office market finished the 4th quarter with a vacancy rate of 14.5%, which was down slightly from the prior quarter. The suburban Maryland office vacancy rate is considerably higher. For example, the I-270 corridor finished the quarter with an 18.4% vacancy rate and Frederick County finished the quarter with a 16.9% vacancy rate (for Class A Properties).

Washington DC and Suburban Industrial Market

The Washington DC industrial market finished the 4th quarter with a 9.9% vacancy rate, down slightly from the prior quarter. This represents about a 1% drop in the vacancy rate over the past year and a 2.67 drop since the vacancy rate peaked out at 12% in FY 2010.

In Suburban Maryland, the vacancy rate for the total industrial sector was 9% along the I-270 corridor and 11.2% for Frederick County. This includes both flex and traditional warehouse.

Tyler-Donegan

4th Qtr. Completed Transactions

Tyler-Donegan represented Lab Recyclers in their expansion this fall at 801 N. East St. in Frederick. They leased 10,000 sf of additional space as their business continues to grow. Lab Recyclers is a supplier of new and used analytical instrumentation, lab furniture, biotechnology products and general lab equipment. Their lab furniture is refurbished to like-new condition and they service the equipment they sell.

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Tyler Donegan Real Estate represented BB&T Bank in a lease at 7200 Bank Court. The 2500 square foot space was leased to DPR Group. Established in 1998, DPR Group offers technology and business organizations a full-range of professional public relations, marketing and communications services. As a firm, DPR Group possesses an enviable record of successfully growing organizations' stature through well-crafted, targeted messaging. DPR Group was represented by Steve Krasnow of Core Commercial Group. Currently there are still 4500 square feet of office space available at 7200 Bank Court. Call Joe Donegan for details at 301-370-3612.



TD represented Brodsky Group (Landlord) in leasing 2500 square feet to Fitness Elite at 5711 Industry Lane in Frederick, MD. Fitness Elite is owned by Kenneth Franklin, a highly recognized athletic trainer. Mr. Franklin indicated he was excited to secure this convenient and cost effective location which will accommodate his growth plans for the next 5 years.

TD's HealthMed Realty Partners, along with Bill Montrose of AMR Commercial represented Point of Rocks LLC (Surgery Center Development) in the purchase of 3.25 acres in Point of Rocks. The property was sold by VMACK LLC for a price of $976,000.00 and settled in November of 2014. Construction will commence in 2015 for an 8,000 square surgery center.

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