

2014 Outlook – What's Ahead in Commercial Real Estate

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To sum up the prospects for commercial real estate in 2014, I suggest two words - "cautious optimism."

Anecdotal evidence abounds that 2013 was a turning point for many local commercial real estate industries. At many Hampton Roads Association for Commercial Real Estate functions last year, I continued to run into people from different disciplines who were busier than they had been in years. Brokers, contractors, engineers, appraisers, lawyers and bankers seem to be working at levels that they have not seen since 2008, but most agree there is a lingering uncertainty that could still undermine the recovery we have seen so far.

Some of the factors that have been hurting the local commercial real estate market the past five years, such as a slow job growth, residential foreclosures, declining retail sales and unavailable capital, have greatly subsided or in some cases are now moving in a positive direction.

While some sectors of the market like commercial office space remain stagnant because of the sluggish job growth, other areas such as multifamily apartments and owner-occupied projects continue to thrive throughout the Hampton Roads market.

Banks as a whole also seem much more willing to lend these days, but the projects and the sponsors are still being carefully scrutinized.

Even large retailers seem to have finally shaken off the "no growth" mantra that caused many to halt new development in recent years. In 2013 Kroger unveiled a new supercenter concept in Virginia Beach and announced plans for other similar local projects for 2014. Drugstores, such as CVS and Walgreens, have new stores under development throughout the area, and a new major retail outlet project at Lake Wright in Norfolk is in the works.

New projects at the Oceanfront such as the Cavalier Hotel redevelopment and the Breeden Co.'s apartment and entertainment project on 25th Street will likely spur additional development opportunities in that submarket.

Finally the office sector, which hasn't seen any substantial new development in years, will see its first new office tower opening in the Virginia Beach Town Center in late 2014.

The biggest headwinds for 2014 are the federal budget and sequestration, the possible end to the Federal Reserve's bond purchase program that has kept interest rates at historically low levels and new stormwater regulations that will likely have a large impact on all new local projects.

The good news is that it appears that Congress may be willing to soften the impact of sequestration on governmental services and contractors, and consequently their commercial real estate needs in the Hampton Roads area.

As I look forward to 2014, one thing I consistently hear these days among participants at HRACRE functions is optimism. Deals are getting closed, new projects are being announced and it appears that there may finally be momentum in a positive direction.