



WINTER 2022 MARKET UPDATE



Greater Richmond
Commercial Real Estate

“Like all things these days, the calculations of creditworthiness are changing.”

The New Math of Tenant Creditworthiness



Understanding the creditworthiness of your tenant is one of the most important aspects of successful commercial real estate ownership.

The riskiness of tenants can be the difference between profit and default for some properties and tenant strength factors into both a building’s valuation and its ability to take out debt. Like all things these days, the calculations of creditworthiness are changing. Year three of a pandemic with no sign of normal in sight has redefined what a reliable tenant looks like. Some industry stalwarts have been hit hard by disruption and a changing work environment. But the big question is how much an office tenants’ new work policies impact its creditworthiness.

Creditworthiness starts in the books. Balances sheets, income statements, tax returns, and other official financial records help paint a basic picture of health for any tenant. Rental history gives landlords a timeline to see how a potential tenant has honored their leases and relationships with other tenants. A general assessment of the industry the tenant operates in helps colors in the big picture. But the devil is in the details and the ass is in the assumptions. (Continued on next page)

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Is a tenant that has robust hybrid work policies, allowing employees to work from home two or more days a week, a reliable tenant? Landlords across the country are scratching their heads. Taking an optimistic view, it's reasonable to think that companies with hybrid work policies during a pandemic are taking appropriate precautions to protect their staff and operations. Regardless of how much they use the space during the pandemic, they're still paying for it. That's good for the building's balance sheet, at least.

Pessimists might say that using the office less could very likely lead to a significant reduction in space. Worse yet, if a company decides to go entirely remote, they might drop out of the office market altogether. The credit agency Fitch Ratings looked at two different stress level scenarios for 144 single-asset/single-borrower bonds. The first scenario assumes employees work remotely 1.5 days per week, the second assumes 3 days per week. The result of such stress would see "average market-value declines from at-origination appraised values of approximately 44 percent and 54 percent, respectively, for moderate and severe stress scenarios. Were these declines in value to occur, downgrades are possible, with 25 percent and 55 percent of investment-grade bonds potentially moving to below investment-grade."

Offices aren't going away anytime soon, but some portion of tenants are rethinking their real estate strategy in light of how they've operated during a pandemic. For office landlords, in particular, determining which tenants are likely to renew or expand is key to a building's financial health. Predicting office leasing depends on understanding and accounting for a tenant's new workplace policies.

It may still be too early to think about these things, at least so far as traditional credit and valuation go. With the pandemic still ongoing, the broader world of commercial office landlords, lenders, and brokers are convinced the disruption of workplace usage is a temporary measure of the pandemic. Office buildings have been largely empty for two years now but that's hardly impacted valuations. Repeated return-to-office delays have so far not led to lease termination en masse or even a significant shrinkage in space needs. On the contrary, rent collection has been resilient. But, office landlords are offering tens of millions of dollars worth of concessions to prop up rent and demand.

The office leasing environment is uncertain. Project all the data onto the situation you want, the truth of the matter is that the office sector is waiting for the other shoe to drop. The



pandemic has tenants and landlords in wait-and-see mode. Very few occupiers are rushing to make major real estate decisions, must be struggling just to hang on during such a tumultuous time. When (if?) the pandemic calms down, then the reality of the situation will start to settle in. Leasing decisions are based on long-term planning, not short-term market disruptions. A tenant's attitude toward the office is an important part of their creditworthiness. Work from home policies define that attitude.

Office landlords took a bath during the 2008 recession. The property value of offices in the U.S. fell over 40 percent. So far nothing like that has happened because of the pandemic. That doesn't necessarily mean it won't. Just because a tenant hasn't made a major real estate decision yet doesn't mean their landlord will like the one they make when they finally do. In the storm that is the pandemic, seeing the horizon is nigh impossible, but it's out there. When the skies clear, landlords will need to properly assess the damage. Understanding a company's workplace and hybrid policies can help office landlords gauge how likely they are to renew, expand, or terminate their lease. Failing to account for the new creditworthiness of tenants could end up impacting the credit of the building itself. For anyone buying into the sky-high real estate valuations we have seen in the last few years, an unforeseen lease termination could be enough to push a building into default. All because the owner didn't do the creditworthiness math right.

Source: The New Math of Tenant Creditworthiness | Kyle Hagerty | Propmodo | January 20, 2022

SOLD/LEASED IN Q4 2021

See all our listings at:
JoynerCommercial.net/Property-Search

Recently Sold:

- 4,591 sf commercial building on 24.29 acres at 2800, 2801, 2802 Lamberts Ave in Richmond for \$600,000. Susan Haas represented the Buyer.
- 1.8 acres of vacant land at Rt 60 & Red Lan in Powhatan for \$262,000. Bill Phillips represented the Seller.
- 2,080 sf retail building on 6 acres at 5380 Darbytown Rd in Richmond for \$171,000. Rob Brown & Bernard Heyward represented the Buyer.
- 7.66 acres of vacant land at 00 Coffeys & Cumberland Rd in Farmville for \$29,000. Susan Haas represented the Buyer.

Recently Leased:

- 16,219 sf of office space at 6641 W Broad St in Richmond. Bill Phillips represented the Tenant.
- 6,679 sf of office space at 9011 Arboretum Pkwy in Richmond. Bill Phillips represented the Tenant.
- 2,400 sf of flex space at 2028 Dabney Rd in Richmond. Lebs Breeden represented the Tenant.
- 2,160 sf of retail space at 10835 W Broad St in Henrico. Todd Buttner represented the Tenant.
- 1,531 sf of flex space at 7921 Iron Bridge Pkwy in Chesterfield. Lebs Breeden represented the Landlord.
- 1,216 sf of retail space at 2100 John Rolfe Pkwy in Henrico. Bill Phillips represented the Tenant.
- 2,000 sf of retail space at 9015-9018 W Broad St in Henrico. Todd Buttner represented the Tenant.

What's New in RVA



Drive-Thru Coffee

Ironclad Coffee Roasters signed a lease last month on the former Bruster's Real Ice Cream at 2100 John Rolfe Parkway, in the Publix-anchored John Rolfe Commons shopping center.

Dubbed Ironclad West End, the 1,200-square-foot location will offer both drive-thru and walk-up window service. The plan is to open in mid-February. Bill Phillips of Joyner Commercial represented the buyer.



Louisa County Brewery, Winery

A new brewery and winery with a historical twist has opened on the outskirts of the Richmond region. Southern Revere Cellars opened at 1100 E. Jack Jouett Road in Louisa County.

Located on 70 acres about 45 miles west of downtown Richmond, Southern Revere offers both beer and wine — most of which will be made with grapes and hops that are currently growing on the land.



New Manufacturing Facility

Governor Ralph Northam announced that Starplast USA, will invest approximately \$17.7 million to develop a new manufacturing facility in Chesterfield. Virginia successfully competed for the project, which will create 300 new jobs over five years. Established in 1958, Starplast is a family-owned company with a wealth of experience and a long-standing commitment to superior plastics.

Source: Richmond BizSense | 2021

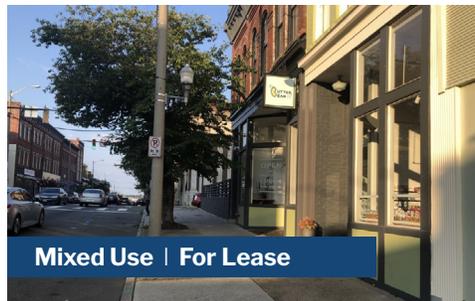
FEATURED PROPERTIES



Office | For Sale/Lease

2550 PROFESSIONAL RD
5,000 SF ON 2.98 ACRES
\$15.00/SF (MG) | 2,700 SF
Lebs Breenen | (804) 536-3933

Excellent owner-occupant opportunity for purchase or lease. Two-story Office Building located in Bon Air.



Mixed Use | For Lease

1208 HULL ST
\$4,000/MONTH (NNN) | 2,700 SF
Susan Haas, MURP | (804) 349-5788

Live and/or work with 6 medium and small rooms for office/retail, efficiency apartment in rear with private off-street entrance and 1 off-street parking space.



Land | For Sale

3630 CALL FEDERAL DR
\$999,900 | 2.731 ACRES
Ahsan Qureshi | (804) 967-2742

Excellent redevelopment opportunity of 2.721 acres of C3 Zoned Lot just south of Hull Street populated with hotels and retail.



Retail | For Lease

5100-5118 RICHMOND HENRICO TPKE
NEGOTIABLE \$ | 952-15,493 SF
Todd Buttner | (410) 382-7109

Meadowood Square Shopping Center redevelopment property undergoing major upgrades. Proximity to Hanover County and City of Richmond.



Office | For Lease

1301 E CARY ST
\$15.00/SF | 2,914 SF
Bill Phillips, CCIM | (804) 967-2739

Creative office space located on the basement level of the Columbian Block in Historic Shockoe Slip adjacent to The Martin Agency.



Warehouse | For Lease

5611 PRIDE RD
\$6.50 (NNN) | 26,190 SF
Lebs Breenen | (804) 536-3933

26,190 SF industrial warehouse building situated on 1.16 acres, currently zoned M-1. Located right off Route 60 w/ convenient access to Chippenham Parkway.