4 REAL ESTATE MARKET ANALYSIS

A. INTRODUCTION

In this section, RKG examined the existing types of development, development geographic distribution, property value, historical development patterns, development trends, and the market performance and development opportunities of the industrial, office, retail and hotel sectors. This analysis enables RKG to understand the existing real estate market environment, market supply/demand trends, and the gaps/limitations and opportunities in the various real estate market sectors in the context of the County's economic development goals. The results provide substantial technical evidence for RKG's economic development strategies and recommendations.

B. MAJOR FINDINGS

The Washington DC Metro growth expansion of the late 1990s and early 2000s temporarily shifted the County's real estate market. Development data show that new real estate development activity, particularly single family detached residential, reached unprecedented levels within Shenandoah County. The County's housing supply increased by approximately 10% in seven years. Further, this development reportedly targeted commuter households from the Metro DC area, most of the development occurring along I-81 from Woodstock north. Once the National Recession hit, development activity returned to more traditional levels.

Interest in semi-retirement and retirement estate homes has remained strong. Local real estate professionals indicated that the demand for estate-style houses (larger homes on larger tracts of land) remain in demand due to the County's proximity to the Washington DC and Baltimore markets and the high quality of life. From an economic development perspective, this growth does not benefit the County's vision of increased job creation and accommodation of the new workers it will attract.

Non-residential development has been slow, but steady in the County. The net new commercial and industrial development did not keep pace with residential development since 2000, with less than 800,000 square feet of new development over the 18-year period. Growth has been split between industrial uses and commercial development, concentrated in smaller projects. The largest development was the 410,000 square foot Mercury Paper in the Northern Shenandoah Business Park in Strasburg followed by the 66,000 square foot Hampton Inn in Woodstock. The next largest development was the 24,000 square foot Route 11 Chips factory.

The County has not been capturing its 'fair share' of non-residential growth. Regional development activity indicate that Shenandoah County has not captured a proportional share of growth occurring in the Shenandoah Valley. Most notably, there have been over 5.2M square feet of industrial building space delivered regionally since 2015. Shenandoah County has only captured 75,000 square feet of this development.

Shenandoah County properties need to be more competitive to attract investment. RKG Associates' observation of current land asking prices reveal there is a disconnect between Shenandoah's competitive position within the region and property owners' expectations. Simply put, land assets elsewhere in the Valley are more development-ready and priced such that prospects likely will be able to get to market more quickly and see better value at those locations (particularly around Winchester and Harrisonburg. Owner engagement will be necessary for the County to increase is potential success.

C. METHODOLOGY

The analysts utilized a variety of data sources including the County property assessment data, Shenandoah Valley Partnership data, Colliers International, CoStar Group, a third-party hotel data provider Smith Travel Research, as well as online property listing websites including LoopNet and Zillow.com. RKG looked at the industrial, office, retail, hotel, ownership residential and rental residential sectors in the County, and compared the current conditions and future trends in these sectors with the County's economic development goals to identify gaps and opportunities that would either constrain or support the County's economic plan.

D. REAL ESTATE MARKET CONDITIONS

Understanding the current development pattern and how development has occurred in the recent past is foundational to understanding market dynamics and opportunities. Simply put, the private sector is going to invest in development projects that meet risk-reward thresholds required by equity partners and debt providers. In other words, the market will only build projects that are going to be profitable within a reasonable risk tolerance. While development patterns do not provide the entire picture of market potential, they do give insight into how current land use policies are shaping real estate investment.

It is important to note that this section does not include tax exempt or active agricultural land. Tax exempt properties are commonly omitted from a real estate development trends analysis due to the nature of those developments (i.e. public buildings, parks, religious facilities). These investments are more reactive to the market and do not have very much influence on the location decisions for businesses. The active agricultural land is addressed in detail within the agricultural section. This section highlights the key findings.

1. Development Profile

Agricultural uses account for more than 35% of the County's total land area. Of those private uses outside of agriculture, Shenandoah County is mostly residential, with single-family homes being the major residential property type. Approximately 80% of the housing in Shenandoah County is single family detached houses. Apartment units (both traditional complexes as well as traditional ownership housing being used as rental) constitutes the second largest housing type, comprising less than 8% of the County's inventory. The lack of housing diversity has been reported to affect local workers from moving into Shenandoah County. The anecdotal data indicate that there is a portion of the workforce that is seeking more urban environments/housing types than currently offered in the County. This is particularly true in the Towns, where there are 'walkable' areas that can integrate housing and commercial activity.

The distribution of single-family homes is balanced throughout the County. Each subarea has a high concentration of these houses. However, the higher density housing is concentrated in Strasburg (SA1), Woodstock (SA2), and Basye (SA4) areas. The Strasburg and Woodstock townhomes/apartments are more traditional living units. The Basye area townhomes and multifamily units are almost exclusively vacation and second homes for owners who frequent Bryce Resort. Having this supply benefits the resort but does not help bolster housing choice for the County's other economic development sectors.

Not surprisingly, the I-81 corridor has a higher concentration of residential development than the eastern and western portions of the County. Strasburg and Woodstock have the highest proportion of nonagricultural, private sector development, taking advantage of the interstate connectivity and proximity to the I-66 connection to Washington DC.

However, nonresidential development almost exclusively exists along the I-81 corridor. With few exceptions, the I-81 and Route 11 corridors serve the nonresidential activity. This finding is not surprising, as transportation access and visibility are critical for the County's retail/service and industrial sectors. Also, public water and sewer services provided by both the towns and the County are primarily concentrated along I-81 and Route 11. Running this infrastructure to the less developed areas of the County has not been supported by the County's residents and would not be a financially savvy investment without major land use changes.

2. Development Trends 2000-2006

Like the rest of the country, Shenandoah County experienced substantial development between 2000 and 2006. The County experienced a 10% increase in housing units and an 6% increase in non-residential square footage during this seven-year period (Table 4-1). Single family detached housing constitutes most of the new residential development, remaining approximately 80% of all new units developed since 2000. While there was a slight uptick in other housing type development since 2012, the lack of housing diversity has been identified as a challenge to labor recruitment efforts, particularly for entry-level positions and fields that are more popular with younger workers.

Most of the new development occurred within the County's six municipalities along Route 11 and Interstate 81. Strasburg (Submarket 1) and Woodstock (Submarket 2) accounted for 1,081 of the 1,480 single family units and 136,769 of the 165,657 non-residential square feet constructed during this time period. Mount Jackson/New Market, Bayse, and Fort Valley constituted approximately 33% of residential development and 10% of non-residential development during this time period. Based on feedback from local real estate professionals, much of the residential development was targeted to Northern Virginia commuters seeking a more pastoral lifestyle with convenient transportation access (I-81 to I-66). Maps 4-1 to 4-3 show where all commercial and industrial development occurred within the County since 2000.

3. Development Trends 2007-2018

Similarly, residential development activity slowed down substantially since 2006 due to the National Recession. Shenandoah County experienced a net increase of 471 new single family detached housing development in the 12 years since 2006, less than 33% of the total built during the previous 7 years. The distribution of residential development was similar post-Recession within the County.

However, non-residential development since the Recession was more robust. The County experienced a net increase of 638,654 square feet of new non-residential space since 2007. This finding is not surprising, as commercial activity typically follows residential cycles. Thus, strong residential growth from 2000 to 2006 would create commercial interest from 2003-2009. The County's property assessment data reveal that most of the commercial development (i.e. 100 Founders Way in Strasburg and 225 E. Lee Highway occurred by 2010). Commercial development has waned since 2012, reflecting the slow-down in residential development since 2006. Furthermore, much of this new development has been industrial in nature, which is less impacted by swings in residential development. The Mercury Paper facility, the largest industrial development since 2007, occurred in 2008.

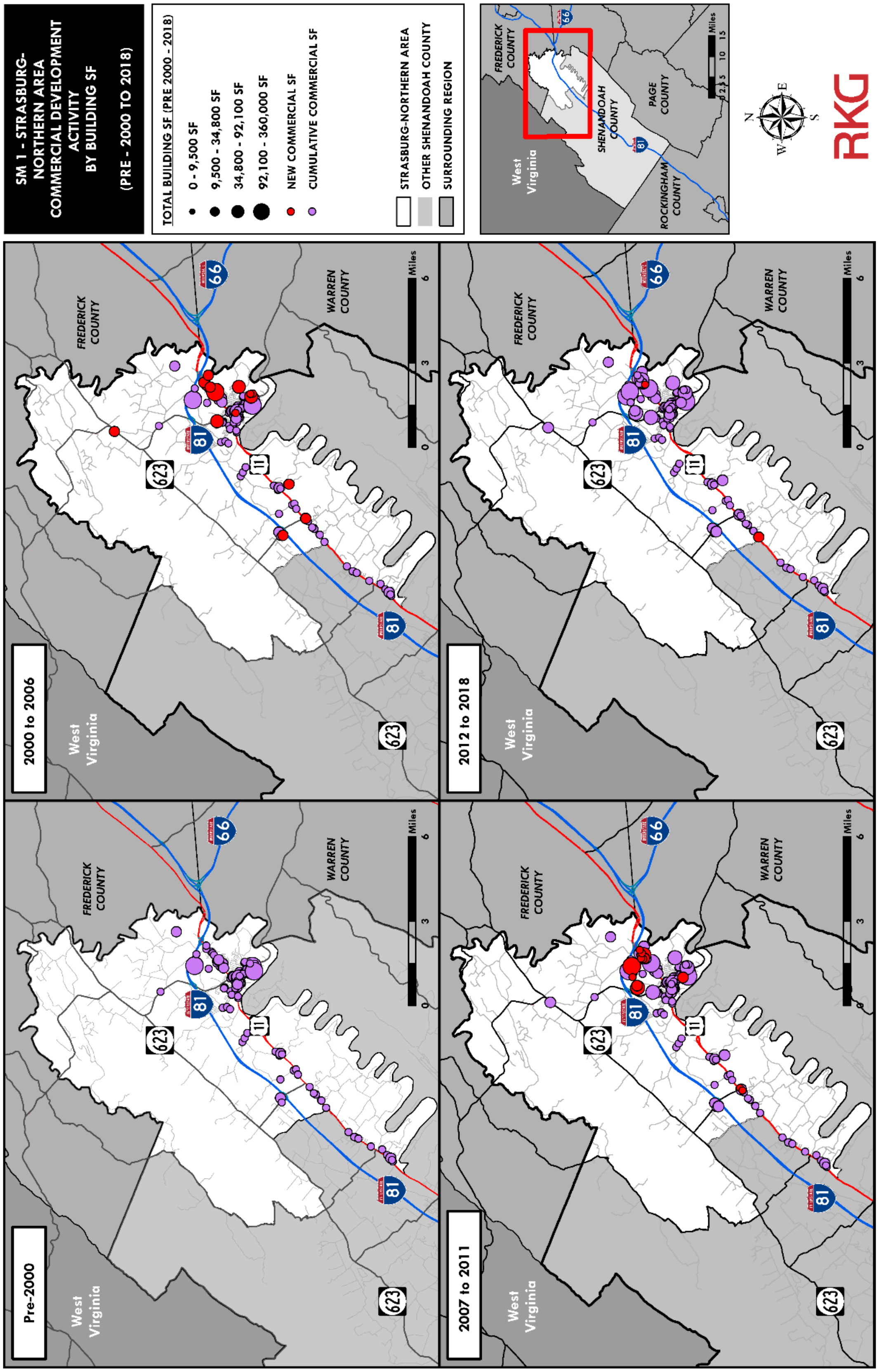
Almost all new non-residential development since 2000 is located along I-81 in Submarkets 1, 2, and 5. All new non-residential development constructed between 2000 and 2018, except for 1618 Orkney Grade, is located along the I-81and Route 11 corridors. This finding is consistent with traditional non-residential market economics, as businesses seek the advantages of being in proximity to major highways, having access to infrastructure, and require visibility (particularly commercial development) of major transportation routes. Route 11 and I-81 are the only commercial corridors that offer all three benefits.

Table 4-1
Development Trends
Shenandoah County; 2000-2018

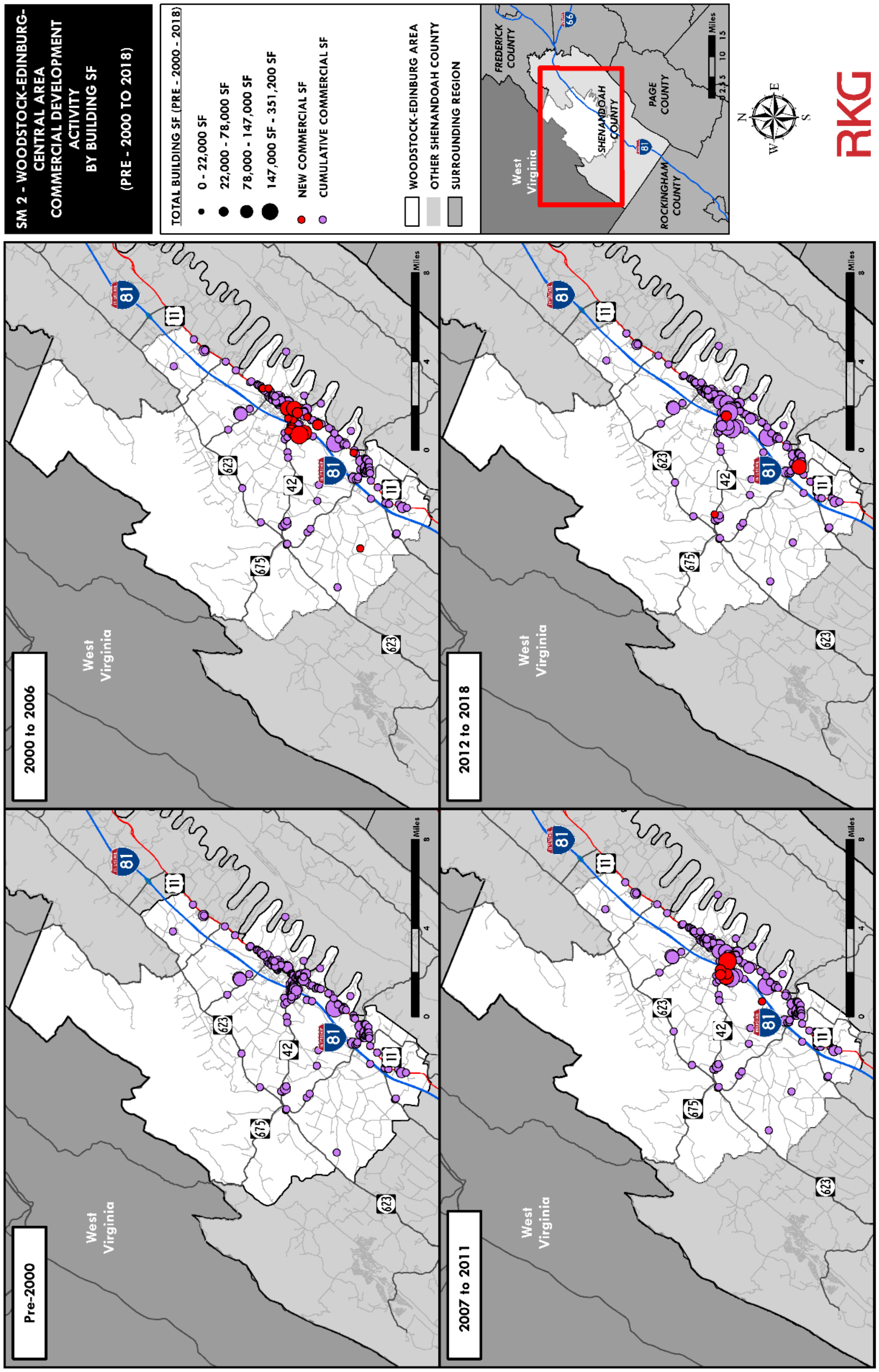
SHENANDOAH COUNTY	Units/ Properties	% of All Units/ Properties	Acreage	% of All Land Area	Total Bldg SF	% of Building SF	Avg. Bldg SF	Land Assessed Value	Building Assessed Value	Total Assessed Value	Avg. Land AV/Acre	Avg. Bldg AV/SF	FAR
PRE 2000													
RESIDENTIAL													
Single Family	14,397	80.7%	108,711.00	86.4%	15,958,057	87.4%	1,108	$1,282,745,300	$980,332,800	$2,263,078,100	$11,800	$61.43	0.00
Condominium	456	2.6%	2,063.55	1.6%	224,085	1.2%	491	$21,067,000	$19,528,500	$40,595,500	$10,209	$87.15	0.00
Townhouse	905	5.1%	6,662.57	5.3%	1,088,114	6.0%	1,202	$99,528,300	$64,639,600	$164,167,900	$14,938	$59.41	0.00
Duplex	347	1.9%	3,048.43	2.4%	307,614	1.7%	886	$21,373,400	$21,652,300	$43,025,700	$7,011	$70.39	0.00
Triplex	16	0.1%	54.94	0.0%	16,617	0.1%	1,039	$1,125,500	$881,300	$2,006,800	$20,488	$53.04	0.01
Apartment	1,291	7.2%	2,254.42	1.8%	302,056	1.7%	234	$20,430,400	$18,387,900	$38,818,300	$9,062	$60.88	0.00
Mobile Home	428	2.4%	2,999.21	2.4%	368,439	2.0%	861	$27,800,100	$24,103,300	$51,903,400	$9,269	$65.42	0.00
TOTAL	**17,840**	**88.3%**	**125,794.11**	**92.9%**	**18,264,981**	**78.4%**	**1,024**	**$1,474,070,000**	**$1,129,525,700**	**$2,603,595,700**	**$11,718**	**$61.84**	**0.00**
NONRESIDENTIAL													
Commercial	249	100.0%	1,408.69	100.0%	2,637,449	100.0%	10,592	$134,778,500	$45,395,300	$180,173,800	$95,677	$17.21	0.04
TOTAL	**249**	**85.9%**	**1,408.69**	**84.9%**	**2,637,449**	**76.8%**	**10,592**	**$134,778,500**	**$45,395,300**	**$180,173,800**	**$95,677**	**$17.21**	**0.04**
2000 TO 2006													
RESIDENTIAL													
Single Family	1,480	84.0%	5,794.32	91.1%	3,111,286	88.7%	2,102	$299,438,600	$100,868,200	$400,306,800	$51,678	$32.42	0.01
Condominium	12	0.7%	135.75	2.1%	29,603	0.8%	2,467	$3,158,600	$1,608,900	$4,767,500	$23,267	$54.35	0.01
Townhouse	66	3.7%	97.86	1.5%	128,937	3.7%	1,954	$12,096,500	$3,772,000	$15,868,500	$123,608	$29.25	0.03
Duplex	23	1.3%	57.69	0.9%	48,582	1.4%	2,112	$5,178,200	$1,771,000	$6,949,200	$89,764	$36.45	0.02
Triplex	2	0.1%	0.58	0.0%	2,708	0.1%	1,354	$292,900	$92,000	$384,900	$508,507	$33.97	0.11
Apartment	137	7.8%	167.15	2.6%	65,951	1.9%	481	$6,237,800	$2,104,700	$8,342,500	$37,318	$31.91	0.01
Mobile Home	41	2.3%	106.79	1.7%	122,450	3.5%	2,987	$11,541,200	$2,413,200	$13,954,400	$108,072	$19.71	0.03
TOTAL	**1,761**	**8.7%**	**6,360.14**	**4.7%**	**3,509,516**	**15.1%**	**1,993**	**$337,943,800**	**$112,630,000**	**$450,573,800**	**$53,135**	**$32.09**	**0.01**
NONRESIDENTIAL													
Commercial	18	100.0%	152.41	100.0%	165,657	100.0%	9,203	$19,599,000	$11,105,200	$30,704,200	$128,593	$67.04	0.02
TOTAL	**18**	**6.2%**	**152.41**	**9.2%**	**165,657**	**4.8%**	**9,203**	**$19,599,000**	**$11,105,200**	**$30,704,200**	**$128,593**	**$67.04**	**0.02**
2007 TO 2012													
RESIDENTIAL													
Single Family	313	81.7%	1,412.63	75.3%	810,461	82.1%	2,589	$77,514,400	$24,432,000	$101,946,400	$54,872	$30.15	0.01
Condominium	3	0.8%	41.42	2.2%	16,360	1.7%	5,453	$1,397,600	$454,800	$1,852,400	$33,743	$27.80	0.01
Townhouse	22	5.7%	102.98	5.5%	109,847	11.1%	4,993	$10,162,100	$2,516,800	$12,678,900	$98,683	$22.91	0.02
Duplex	5	1.3%	31.41	1.7%	15,205	1.5%	3,041	$1,435,800	$396,100	$1,831,900	$45,710	$26.05	0.01
Triplex	0	0.0%	0.00	0.0%	0	0.0%	0	$0	$0	$0	$0	$0.00	0.00
Apartment	28	7.3%	6.93	0.4%	11,083	1.1%	396	$1,096,000	$315,800	$1,411,800	$158,176	$28.49	0.04
Mobile Home	12	3.1%	280.23	14.9%	23,751	2.4%	1,979	$2,505,500	$1,591,000	$4,096,500	$8,941	$66.99	0.00
TOTAL	**383**	**1.9%**	**1,875.61**	**1.4%**	**986,707**	**4.2%**	**2,576**	**$94,111,400**	**$29,706,500**	**$123,817,900**	**$50,177**	**$30.11**	**0.01**
NONRESIDENTIAL													
Commercial	19	100.0%	77.56	100.0%	605,764	100.0%	31,882	$37,200,600	$8,991,400	$46,192,000	$479,614	$14.84	0.18
TOTAL	**19**	**6.6%**	**77.56**	**4.7%**	**605,764**	**17.6%**	**31,882**	**$37,200,600**	**$8,991,400**	**$46,192,000**	**$479,614**	**$14.84**	**0.18**
2012 OR LATER													
RESIDENTIAL													
Single Family	158	68.4%	1,014.29	77.1%	414,887	79.0%	2,626	$42,263,300	$13,932,700	$56,196,000	$41,668	$33.58	0.01
Condominium	1	0.4%	17.24	1.3%	9,680	1.8%	9,680	$1,048,900	$313,800	$1,362,700	$60,827	$32.42	0.01
Townhouse	10	4.3%	94.67	7.2%	43,494	8.3%	4,349	$4,465,700	$1,557,700	$6,023,400	$47,170	$35.81	0.01
Duplex	2	0.9%	48.86	3.7%	13,002	2.5%	6,501	$1,334,400	$408,200	$1,742,600	$27,310	$31.40	0.01
Triplex	0	0.0%	0.00	0.0%	0	0.0%	0	$0	$0	$0	$0	$0.00	0.00
Apartment	52	22.5%	76.90	5.8%	21,950	4.2%	422	$2,105,300	$756,300	$2,861,600	$27,376	$34.46	0.01
Mobile Home	8	3.5%	62.97	4.8%	21,988	4.2%	2,748	$2,118,800	$693,600	$2,812,400	$33,648	$31.54	0.01
TOTAL	**231**	**1.1%**	**1,314.95**	**1.0%**	**525,001**	**2.3%**	**2,273**	**$53,336,400**	**$17,662,300**	**$70,998,700**	**$40,562**	**$33.64**	**0.01**
NONRESIDENTIAL													
Commercial	4	100.0%	20.16	100.0%	26,747	100.0%	6,687	$2,326,200	$754,800	$3,081,000	$115,393	$28.22	0.03
TOTAL	**4**	**1.4%**	**20.16**	**1.2%**	**26,747**	**0.8%**	**6,687**	**$2,326,200**	**$754,800**	**$3,081,000**	**$115,393**	**$28.22**	**0.03**
TOTAL INVENTORY (PRE 2000 - 2018)													
RESIDENTIAL													
Single Family	16,348	80.9%	116,932.25	86.4%	20,294,691	87.2%	1,241	$1,701,961,600	$1,119,565,700	$2,821,527,300	$14,555	$55.17	0.00
Condominium	472	2.3%	2,257.96	1.7%	279,727	1.2%	593	$26,672,100	$21,906,000	$48,578,100	$11,812	$78.31	0.00
Townhouse	1,003	5.0%	6,958.08	5.1%	1,370,392	5.9%	1,366	$126,252,600	$72,486,100	$198,738,700	$18,145	$52.89	0.00
Duplex	377	1.9%	3,186.39	2.4%	384,402	1.7%	1,020	$29,321,800	$24,227,600	$53,549,400	$9,202	$63.03	0.00
Triplex	18	0.1%	55.51	0.0%	19,325	0.1%	1,074	$1,418,400	$973,300	$2,391,700	$25,552	$50.37	0.01
Apartment	1,508	7.5%	2,505.41	1.9%	401,040	1.7%	266	$29,869,500	$21,564,700	$51,434,200	$11,922	$53.77	0.00
Mobile Home	489	2.4%	3,449.21	2.5%	536,628	2.3%	1,097	$43,965,600	$28,801,100	$72,766,700	$12,747	$53.67	0.00
TOTAL	**20,215**	**98.6%**	**135,344.80**	**98.8%**	**23,286,204**	**87.1%**	**1,152**	**$1,959,461,600**	**$1,289,524,500**	**$3,248,986,100**	**$14,478**	**$55.38**	**0.00**
NONRESIDENTIAL													
Commercial	290	100.0%	1,658.82	100.0%	3,435,617	100.0%	11,847	193,904,300	66,246,700	$260,151,000	$116,893	$19.28	0.05
TOTAL	**290**	**1.4%**	**1,658.82**	**1.2%**	**3,435,617**	**12.9%**	**11,847**	**193,904,300**	**66,246,700**	**$260,151,000**	**$116,893**	**$19.28**	**0.05**
SHENANDOAH COUNTY TOTAL	**20,505**	**100.0%**	**137,003.63**	**100.0%**	**26,721,821**	**100.0%**	**1,303**	**$2,153,365,900**	**$1,355,771,200**	**$3,509,137,100**	**$15,718**	**$50.74**	**0.00**

Source: Shenandoah County and RKG Associates, Inc., 2019

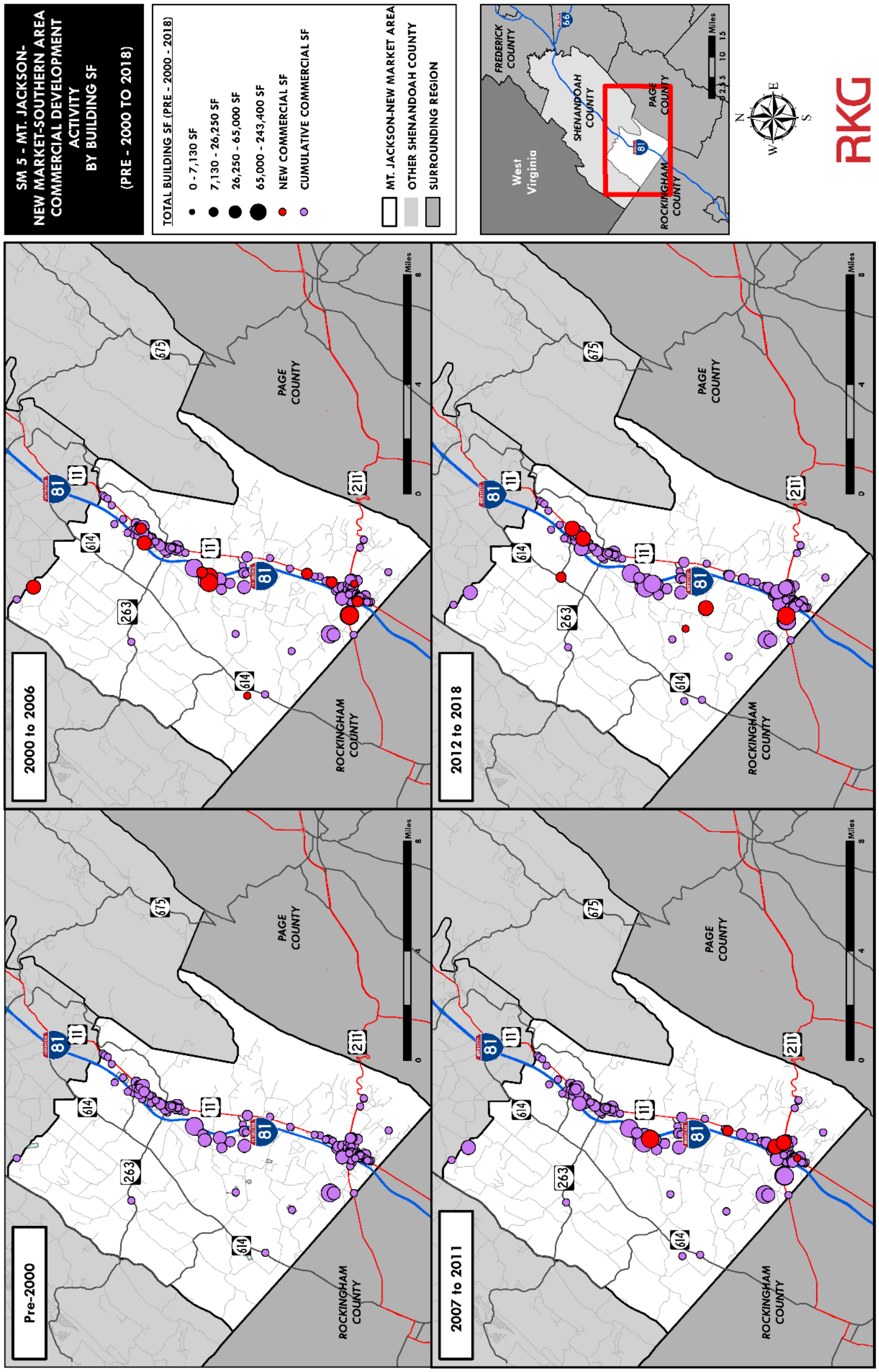
Map 4-1


SM 1 - STRASBURG-NORTHERN AREA COMMERCIAL DEVELOPMENT ACTIVITY BY BUILDING SF
(PRE - 2000 TO 2018)
TOTAL BUILDING SF (PRE 2000 - 2018)
0 - 9,500 SF
9,500 - 34,800 SF
34,800 - 92,100 SF
92,100 - 360,000 SF
NEW COMMERCIAL SF
CUMULATIVE COMMERCIAL SF
STRASBURG-NORTHERN AREA
OTHER SHENANDOAH COUNTY
SURROUNDING REGION
Pre-2000
2000 to 2006
2007 to 2011
2012 to 2018
West Virginia
FREDERICK COUNTY
WARREN COUNTY
SHENANDOAH COUNTY
PAGE COUNTY
ROCKINGHAM COUNTY
Miles
RKG

Map 4-2


SM 2 - WOODSTOCK-EDINBURG-CENTRAL AREA
COMMERCIAL DEVELOPMENT ACTIVITY
BY BUILDING SF
(PRE - 2000 TO 2018)
TOTAL BUILDING SF (PRE - 2000 - 2018)
0 - 22,000 SF
22,000 - 78,000 SF
78,000 - 147,000 SF
147,000 SF - 351,200 SF
NEW COMMERCIAL SF
CUMULATIVE COMMERCIAL SF
WOODSTOCK-EDINBURG AREA
OTHER SHENANDOAH COUNTY
SURROUNDING REGION
FREDERICK COUNTY
West Virginia
SHENANDOAH COUNTY
PAGE COUNTY
ROCKINGHAM COUNTY
Pre-2000
2000 to 2006
2007 to 2011
2012 to 2018
West Virginia
Miles

Map 4-3


SM 5 - MT. JACKSON-NEW MARKET-SOUTHERN AREA COMMERCIAL DEVELOPMENT ACTIVITY BY BUILDING SF
(PRE - 2000 TO 2018)
TOTAL BUILDING SF (PRE - 2000 - 2018)
0 - 7,130 SF
7,130 - 26,250 SF
26,250 - 65,000 SF
65,000 - 243,400 SF
NEW COMMERCIAL SF
CUMULATIVE COMMERCIAL SF
MT. JACKSON-NEW MARKET AREA
OTHER SHENANDOAH COUNTY
SURROUNDING REGION
Pre-2000
2000 to 2006
2007 to 2011
2012 to 2018
PAGE COUNTY
ROCKINGHAM COUNTY
FREDERICK COUNTY
SHENANDOAH COUNTY
West Virginia
Miles
RKG

E. RESIDENTIAL ANALYSIS

1. Introduction

As RKG understands, Shenandoah County aims to attract additional employment. However, the feasibility and effects of this strategy are largely dependent on whether the County has the resources and amenities, such as housing, to accommodate the new growth and to retain new workers' spending within the County. Therefore, RKG analyzed the existing housing market and recent trends of residential development in the County to understand whether the housing supply can match the future demand as the County attracts new companies.

2. Methodology

RKG obtained the data of 2018 average earning of $48,376/year per Manufacturing job from the third-party data provider EMSI, Labor Market Analytics. The analysts then back-calculated the maximum affordable home value for this wage level to be around $190,000 under the assumption that the buyer will be using FHA 30-year fixed-term loan with an interest rate of 3.75% (as of August 15, 2019, from Bankrate.com, 0 points, lowest allowed credit score is 580-619) and a 3.5% down payment. The County's real estate tax rate is $0.64 per a hundred assessed value (Virginia assesses the value of properties based on 100% of the fair market price, meaning the assessed value equals the fair market price). The MIP FHA required insurance rate is 0.85%, and the average annual insurance premium rate is 1.2%. As the majority of the residential properties in the County is single-family detached home (Single Family) and single-family attached home (including Townhouse, Duplex, and Triplex), the above assumptions are based on the scenario of purchasing single-family homes.

3. Current Housing Inventory

Based on RKG Associates' analysis, most homes are assessed to be affordable for the average Manufacturing salary. More than 75% of the Single-Family homes, Townhouses, Duplexes and Triplexes in the County are valued under $200,000 according to the property assessment data (Table 4-2). Since the assessed home value is meant to proximate the market price, this means most of the existing single-family homes in the County are affordable for an average local Manufacturing salary of 48,376/year.

Table 4-2
Residential Value Distribution by Property Type
Shenandoah County (2018)

	SHENANDOAH COUNTY							
	Single Family	**Condo**	**Townhouse**	**Duplex**	**Triplex**	**Apartment**	**Mobile Home**	**TOTAL**
<$100,000	7,332	86	470	202	6	126	242	8,464
$100,000 - $199,999	5,801	81	362	110	10	121	163	6,648
$200,000 - $299,999	2,399	31	165	43	1	40	67	2,746
$300,000 - $500,000	1,162	17	85	27	1	24	23	1,339
$500,000 - $749,999	265	7	15	9	0	8	6	310
$750,000 - $999,999	82	4	3	2	0	1	5	97
>$1,000,000	146	5	7	2	0	2	5	167
Total	**17,187**	**231**	**1,107**	**395**	**18**	**322**	**511**	**19,771**
PERCENT DISTRIBUTION								
<$100,000	42.7%	37.2%	42.5%	51.1%	33.3%	39.1%	47.4%	42.8%
$100,000 - $199,999	33.8%	35.1%	32.7%	27.8%	55.6%	37.6%	31.9%	33.6%
$200,000 - $299,999	14.0%	13.4%	14.9%	10.9%	5.6%	12.4%	13.1%	13.9%
$300,000 - $500,000	6.8%	7.4%	7.7%	6.8%	5.6%	7.5%	4.5%	6.8%
$500,000 - $749,999	1.5%	3.0%	1.4%	2.3%	0.0%	2.5%	1.2%	1.6%
$750,000 - $999,999	0.5%	1.7%	0.3%	0.5%	0.0%	0.3%	1.0%	0.5%
>$1,000,000	0.8%	2.2%	0.6%	0.5%	0.0%	0.6%	1.0%	0.8%
% Total	**86.9%**	**1.2%**	**5.6%**	**2.0%**	**0.1%**	**1.6%**	**2.6%**	**100.0%**

Source: Shenandoah County and RKG Associates, Inc., 2019

However, the Submarkets where economic development has been most robust have the fewest price-appropriate housing options. As noted, SM1 has experienced the most amount of residential and non-residential development since 2000. However, only a small proportion (16.9%) of the County's most affordable residential properties are in SM1, and there are proportionally housing units valued below $100,000 in SM1 compared to the rest of the County. While not an absolute deal breaker, the overall need for a large workforce (detailed in the last chapter) combined with the fewest price-appropriate choices in the areas with greatest access to jobs and amenities could be a challenge for Shenandoah County's long-term employment growth. As also detailed in Chapter 3, the cities in the Shenandoah Valley have experienced the greatest working-age population growth. Part of this trend is due to housing availability, part is due to proximity and access to amenities and services (i.e. shopping choice).

4. Recent Development Valuation 2012-2018

While the County does have price-appropriate housing, most of that housing stock is older. RKG Associates analyzed housing values for units built since 2012. In contrast to the overall 76% of traditional ownership units being valued below $200,000, only 43% of units built in the past seven years are valued similarly. There have been as many housing units built that are valued between $200,000 and $500,000 as there have been for the most affordable units (Table 4-3). Further, only 15 of the 260 units developed in the past seven years are valued below $100,000, a price point necessary for entry-level and part-time workers.

Table 4-3
Residential Value Distribution by Property Type (Built Since 2012)
Shenandoah County & Surrounding Sumbarket Aras

	Shenandoah County							
	Single Family	Condominium	Townhouse	Duplex	Triplex	Apartment	Mobile Home	Total Inventory
<$100,000	14	0	0	0	0	0	1	15
$100,000 - $199,999	81	1	6	1	0	3	4	96
$200,000 - $299,999	72	1	8	0	0	3	3	87
$300,000 - $500,000	29	1	7	0	0	3	3	43
$500,000 - $749,999	6	1	1	1	0	1	0	10
$750,000 - $999,999	3	0	0	0	0	0	0	3
>$1,000,000	5	0	0	1	0	0	0	6
Total	**210**	**4**	**22**	**3**	**0**	**10**	**11**	**260**
PERCENT DISTRIBUTION								
<$100,000	6.7%	0.0%	0.0%	0.0%	0.0%	0.0%	9.1%	5.8%
$100,000 - $199,999	38.6%	25.0%	27.3%	33.3%	0.0%	30.0%	36.4%	36.9%
$200,000 - $299,999	34.3%	25.0%	36.4%	0.0%	0.0%	30.0%	27.3%	33.5%
$300,000 - $500,000	13.8%	25.0%	31.8%	0.0%	0.0%	30.0%	27.3%	16.5%
$500,000 - $749,999	2.9%	25.0%	4.5%	33.3%	0.0%	10.0%	0.0%	3.8%
$750,000 - $999,999	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%
>$1,000,000	2.4%	0.0%	0.0%	33.3%	0.0%	0.0%	0.0%	2.3%
% Total	**80.8%**	**1.5%**	**8.5%**	**1.2%**	**0.0%**	**3.8%**	**4.2%**	**100.0%**

Source: Shenandoah County and RKG Associates, Inc., 2019

5. Residential Sales Activity and Annual Turnover (2014-2018)

In order to paint a more realistic picture of the current housing availability and the actual sales prices in the County, RKG looked at residential properties sold between 2014 and 2018 using the property assessment database. The sales analysis enables the analysts to better understand the housing market demand. RKG also obtained current sales listings from Zillow.com, a national residential real estate listing website. As of August 16, 2019, there are 280 residential properties listed for sale and 19 units for rent actively listed within Shenandoah County.

The annual turnover rate based on all the residential sales occurred between 2014 and 2018 in the County is 4.0% according to the property assessment data, which indicates Shenandoah County is a relatively healthy housing market. Typical 'healthy' housing markets experience turnover ratios between 3% and 5%. The data also indicate Shenandoah County is less transient compared to urban metropolitan areas. In other words, people tend to stay in their current places of residence in the County for a long time, and it is not likely that many currently occupied housing units, especially those affordable ones will become available to accommodate new workers.

The sales data also reveal that most of the residential properties sold in the recent five years were built prior to 2000 (Table 4-4). This further supports the discussion that there has been very limited newly-built housing supply in the marketplace, making it even more infeasible for the type of employment companies that the County wishes to attract to enter the County with hundreds of new workers looking for housing.

Table 4-4
Residential Sales Analysis by Property Type
Shenandoah County (2014 - 2018)

SHENANDOAH COUNTY	Arms Length Sales	Average Assessed Value	Average Sales Price	Sale-To-Value Ratio
BUILT PRIOR TO 2000				
Single Family	2,849	$133,919	$126,866	94.7%
Condominium	43	$141,700	$323,138	228.0%
Townhouse	192	$148,089	$158,810	107.2%
Duplex	76	$150,137	$192,736	128.4%
Triplex	5	$180,900	$126,600	70.0%
Mobile Home	89	$120,999	$112,083	92.6%
Total	**3,254**	**$875,744**	**$1,040,233**	**n/a**
BUILT BETWEEN 2000 & 2006				
Single Family	436	$223,903	$175,101	78.2%
Condominium	2	$179,950	$131,500	73.1%
Townhouse	21	$218,786	$193,329	88.4%
Duplex	4	$218,250	$209,875	96.2%
Triplex	0	$0	$0	0.0%
Mobile Home	9	$200,344	$204,989	102.3%
Total	**472**	**$1,041,233**	**$914,794**	**n/a**
BUILT BETWEEN 2007 & 2012				
Single Family	113	$243,289	$230,933	94.9%
Condominium	1	$313,900	$340,000	108.3%
Townhouse	17	$263,459	$211,276	80.2%
Duplex	2	$174,300	$172,115	98.7%
Triplex	0	$0	$0	0.0%
Mobile Home	3	$192,000	$211,633	110.2%
Total	**136**	**$1,186,948**	**$1,165,958**	**n/a**
BUILT SINCE 2012				
Single Family	120	$242,017	$201,547	83.3%
Condominium	1	$287,700	$0	0.0%
Townhouse	15	$300,560	$210,224	69.9%
Duplex	2	$812,800	$684,627	84.2%
Triplex	0	$0	$0	0.0%
Mobile Home	5	$306,420	$60,980	19.9%
Total	**143**	**$1,949,497**	**$1,157,378**	**n/a**
TOTAL INVENTORY				
Single Family	3,518	$843,128	$734,448	87.1%
Condominium	47	$923,250	$794,638	86.1%
Townhouse	245	$930,893	$773,640	83.1%
Duplex	84	$1,355,487	$1,259,352	92.9%
Triplex	5	$180,900	$126,600	70.0%
Mobile Home	106	$819,763	$589,686	71.9%
SHENANDOAH COUNTY TOTAL	**4,005**	**5,053,421**	**4,278,363**	**n/a**

Source: Shenandoah County and RKG Associates, Inc. 2019

The sales listings reveal there are few existing housing units priced below $190,000 available. In total, only 92 of the 280 (32.9%) properties listed on Zillow.com are priced below $190,000. Though Zillow likely is not an exhaustive list, this one-time snapshot provides an insight into the relationship between the number of housing options affordable to a salary level that will be prevalent in many of the target industry jobs (see Chapter 7 for more detail). The result further confirms the previous finding that there is only a small proportion of the for-sale housing supply that is affordable to the average Manufacturing sector wage earner. As noted, this could inhibit job/labor force attraction if no additional measure is adopted to address this mismatch between housing supply and new demand.

Rental options are very scant, further limiting the affordable options for modest-wage workers. While the analysis to this point has focused on ownership units, there are very few traditional and non-traditional rental housing options. At a base level, the property assessment data identifies fewer than 500 traditional apartment units. According to the Zillow search result, there are only 19 units currently listed for rent within the County. The average Manufacturing wage rate of $48,376/year can afford a maximum monthly rent of $1,200 (assuming the HUD threshold of spending 30% of gross income on housing). While 16 out of the 19 rental listings are price at or below $1,200 on Zillow, the total affordable rental options are scant.

6. Implications

Housing availability and appropriateness is an economic development issue. Within Shenandoah County, the diversity and availability of price-appropriate housing should be taken into consideration as part of the County's economic development efforts. This is because a lack of available housing options that are affordable to the new workers added by the economic development activities could only limit the potential success of the County's economic development efforts. The data analysis conducted by RKG indicates that there likely is a mismatch between the potential incomes of the types of jobs most likely to locate in Shenandoah County and the pricing/availability of the County's existing housing stock.

At a base level, Shenandoah County does not have a diverse housing supply. With more than 80% of all housing units being single family detached, this limits those existing employees and potential future employees not seeking an ownership opportunity or a housing unit requiring relatively higher property maintenance. More strategically, the regional growth data indicate working-aged households are clustering in the cities within Shenandoah Valley. This most likely is due to several factors, of which housing choice, housing availability, housing pricing, and access to services/amenities are important.

While these other communities can (and already do) house many of Shenandoah's existing labor force, it creates an incentive to prospective businesses to find locations closer to these labor force concentrations away from Shenandoah County.

F. INDUSTRIAL MARKET ANALYSIS

1. Introduction

RKG also examined the non-residential real estate market performance and sales/leasing activities in Shenandoah County to study the existing market environment, supply/demand and opportunities for future growth especially for commercial and industrial uses. This study enables RKG to compare the market reality with the County's economic development goals and to identify gaps and strategies to tap into existing opportunities to boost the County's economic health.

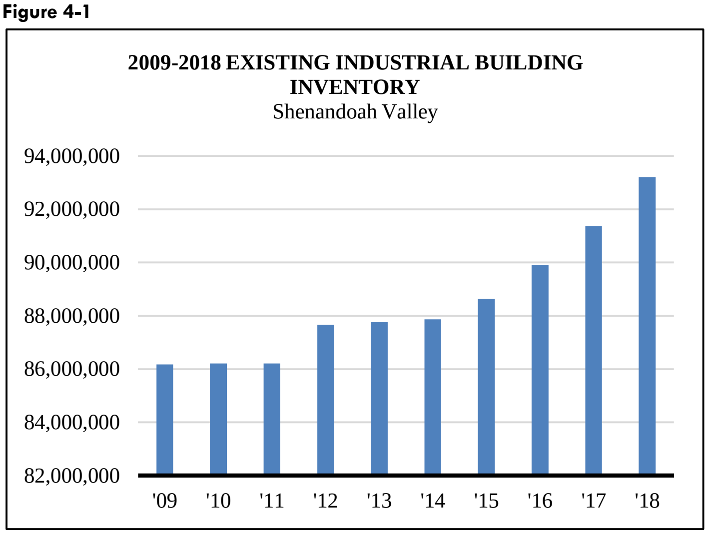
2. Methodology

The RKG team utilized the data provided by Shenandoah Valley Partnership, Colliers International and CoStar Group. Data types include existing inventory, new delivery, the volume under construction, vacancy rate and absorption of the industrial sector. It should be noted that the industrial data from Colliers International and CoStar Group target a broader geographic area of Shenandoah Valley/I-81 Corridor, as this is the level of details available.

3. Market Performance

The industrial real estate market has been successful within the Shenandoah Valley. Since 2009, more than 7M square feet of industrial space has been built within Go Virginia Region 8, increasing from 86,000,000 square feet in 2009 to over 93,000,000 square feet in 2018 (Figure 4-1).

Figure 4-1



Source: Colliers International, CoStar Group and RKG Associates, Inc., 2019

Based on industry market data, this new development has been split between traditional production space and warehouse/distribution space. According to the data from Colliers International and CoStar Group, in both the last quarter of 2017 and the last quarter of 2018, the new constructions split equally between

Industrial/Manufacturing and Warehouse/Distribution uses in terms of square footage. This is also true for the square footage under construction. This indicates that the development interest in these two use types is mostly equal in the Shenandoah Valley region (Table 4-5). This finding is not surprising as the Shenandoah Valley offers a comparatively large, well-trained workforce and is well situated on a major goods transit route (I-81) with the intersections of I-81with I-66 (to Northern Virginia/Washington DC) and I-70 (to Baltimore and Pittsburgh).

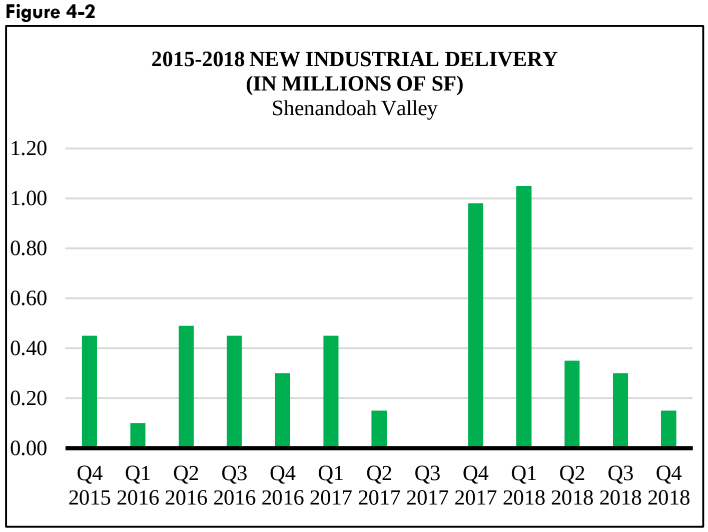
Table 4-5
Shenandoah Valley Industrial Market Summary (Q3 2017 vs Q3 2018)

	Industrial	Warehouse	Flex
Q3 2017			
Vacancy Rate	6.5%	6.5%	6.5%
Absportion	35,126	(23,307)	58,433
New Construction (SF)	--	--	--
Under Construction (Million SF)	2.7	2.7	--
ASKING RENTS PER SF/YR			
Direct Asking Rates	$4.08	$3.95	$5.76
Change From Q2 2017	($0.04)	($0.07)	$0.32
Q3 2018			
Vacancy Rate	4.3%	4.2%	7.4%
Absportion	1,082,795	1,052,825	29,970
New Construction (SF)	287,000	287,000	--
Under Construction (Million SF)	2.23	2.23	--
ASKING RENTS PER SF/YR			
Direct Asking Rates	$4.23	$4.15	$5.04
Change From Q2 2018	-0.7%	1.0%	0.9%

Source: Colliers International, CoStar Group and RKG Associates, Inc., 2019

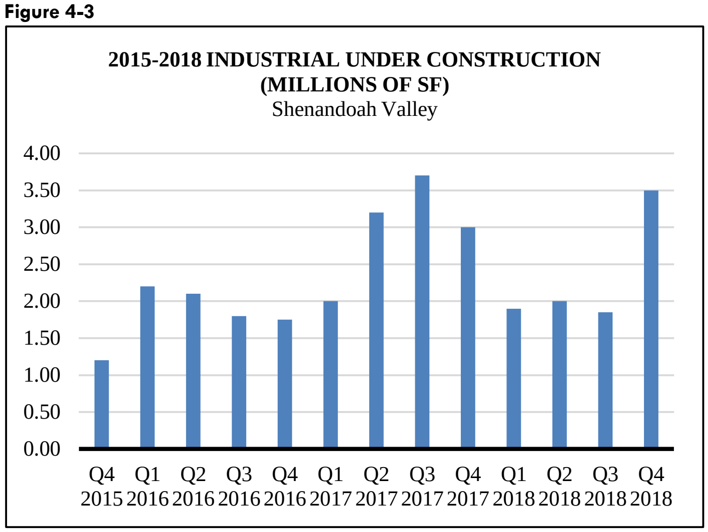
The industrial development pipeline has remained strong, suggesting continued development interest and positive market outlook. The new industrial delivery and industrial square footage under construction by quarter have been fluctuating since the last quarter of 2015. However, in general, new industrial development in the pipeline remains active since 2015, delivering between 1M and 3M square feet annually since 2015 (Figure 4-2). The development pipeline also has remained strong, with as much as 3.7M square feet (3rd quarter 2017) being developed at any given time (Figure 4-3). Despite this strong development activity, building absorption has been positive in 12 of the last 13 quarters (Figure 4-4). In total, approximately 5.2M square feet of industrial space has been delivered in the Shenandoah Valley region since 2015.

Figure 4-2



Source: Colliers International, CoStar Group and RKG Associates, Inc., 2019

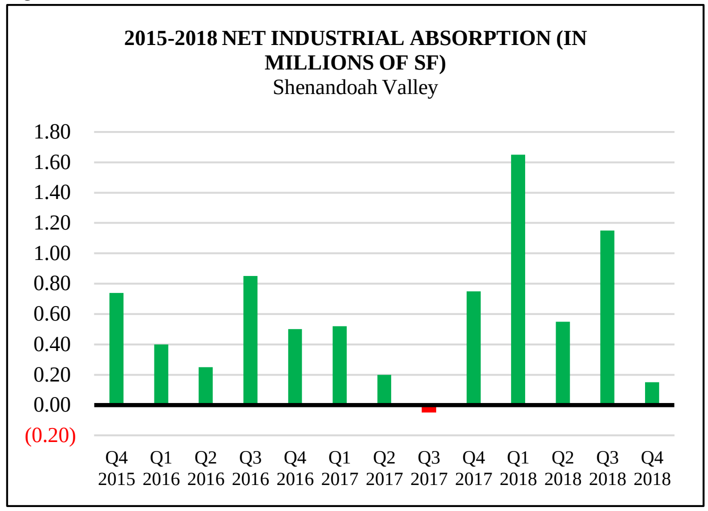
Figure 4-3



Source: Colliers International, CoStar Group and RKG Associates, Inc., 2019

Development activity is concentrated around Winchester and Harrisonburg. Harrisonburg/Rockingham County and Winchester/Frederick County have captured most of the region's industrial development. As discussed earlier in this chapter, there are several mitigating factors that have created this disparity. Public and private investment are the primary drivers. However, access to services, amenities, and labor force also have played a substantial role. In contrast, delivery in Shenandoah County has been substantially less. Based on the County assessment data, less than 610,000 square fee of industrial space has been delivered in the County since 2000. Since 2015, less than 75,000 square feet (of the region's 5,200,000 square feet) were delivered locally.

Figure 4-4

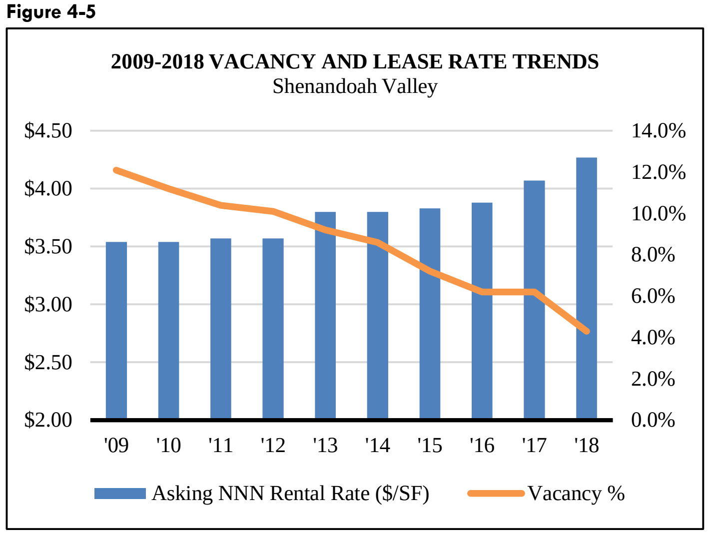


Source: Colliers International, CoStar Group and RKG Associates, Inc., 2019

4. Leasing Dynamics

Despite the strong development activity and continued investment in new space, occupancy rates have declined and average asking rent has increased. The vacancy rate of the industrial sector declined from around 12% in 2009 to around 4% in 2018, indicating a fast recovery from the recession (Figure 4-5). Accordingly, the asking triple net rental rate/SF has been steadily rising during the same period, a good example that the leasing activities and demand in the industrial sector have been increasing after the recession as people are willing to pay more.

Figure 4-5



Source: Colliers International, CoStar Group and RKG Associates, Inc., 2019

5. Implications

The industrial market (both production and warehouse/distribution) have rebounded since the 2006 Recession. The Shenandoah Valley has proven it is a highly competitive and desirable market for the manufacturing and logistics sectors. Unfortunately, Shenandoah County has not experienced its 'fair share' of this investment despite being centrally located in the region. On one hand, the County's central location works against it, as Winchester (to the north) and Harrisonburg (to the south) are the economic poles of the linear I-81 marketplace. Shenandoah County, by choice, has not welcomed the level and type of development that has occurred elsewhere along I-81. On the other hand, land assets are still plentiful around these to cities, making it challenging for Shenandoah County to equally compete.

To these points, there is potential for the County to capture more of the region's dynamic industrial sector. However, the County will have to be strategic in creating competitive assets and opportunities. Not the least of which is working with property owners to get pad-ready sites in Shenandoah County priced competitively to similarly prepared sites around Winchester and Harrisonburg.

G. HOTEL MARKET ANALYSIS

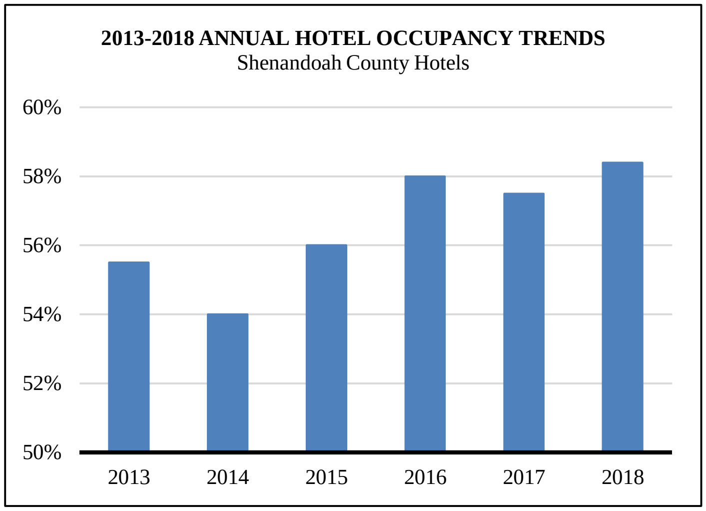
1. Methodology

RKG Associates used Smith Travel Research, a U.S. third-party hotel data provider, to obtain the County's hotel industry data including occupancy rates, hotel room rates and revenue per available room (RevPAR).

2. Market Performance

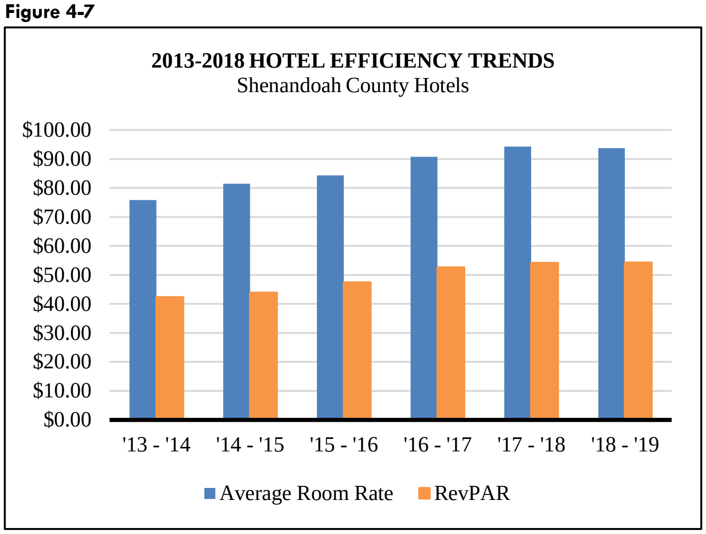
The occupancy rate has been on the rise, indicating improving hotel market performance. The hotel occupancy rate in Shenandoah County has been steadily increasing between 2013 and 2018. It rose from the lowest point in 2014 at 54% to over 58% in 2018 (Figure 4-6). The data indicate that the traditional hotel market in Shenandoah County has been improving over the past five years as more visitors choose to stay in the County overnight. While this corroborates the tourism data showing spending in the County has been increasing over the past decade, a 58% occupancy rate is below the traditional investment threshold of 65% to 70% typically sought by new hotel developers. It should be noted, that with the rise of rental home websites such as Airbnb and VRBO, hotel occupancy rates in the area have been impacted.

Figure 4-6



Source: Colliers International, CoStar Group and RKG Associates, Inc., 2019

Figure 4-7



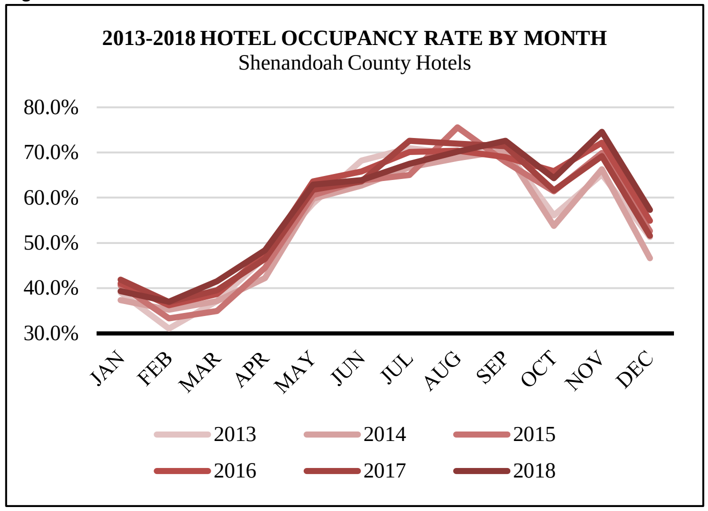
Source: Colliers International, CoStar Group and RKG Associates, Inc., 2019

In addition, RKG Associates analyzed trends in Revenue per available room, or RevPAR. RevPAR is a measure of operating efficiency that compares occupancy and ADR. In short, RevPAR multiplies the ADR by occupancy to get the result. RevPAR is a better indicator of market health than occupancy and ADR alone because it tracks the impacts of changing room rates on market demand. Hotels in Shenandoah County have experienced an increase in both average daily rate and RevPAR. RevPAR increased from $42.35 in 2013 to $54.29 in 2018 (Figure 4-7). The growth in RevPAR further proves the positive economic growth in the County's tourism market.

3. Market Characteristics

Part of the reason that occupancy rates have remained below 60% is that Shenandoah County appears to be a 'two-season' market. STR occupancy rate by month between 2013 and 2018 indicate that occupancy rates escalate in March and reaches a peak during the summer months of June, July and August. It then slides down before reaching another peak during the fall in November (Figure 4-8). This suggests that the hotel market in Shenandoah County generally depends on the demand during the summer and the fall, as the natural scenery (e.g. Shenandoah National Park) and related activities during these two seasons in the County are most attractive to tourists.

Figure 4-8



Source: Colliers International, CoStar Group and RKG Associates, Inc., 2019

Anecdotally, RKG learned that much of Bryce Resort's seasonal demand is captured by the weekly condominium rental market that has been built around the resort. These individually-owned units accommodate week-long and overnight demand during the spring and summer for those seeking to enjoy the County's natural beauty and during the winter season as the Resort attracts skiers and other winter enthusiasts. These transaction are not captured in the STR Data.

4. Implications

The Shenandoah County hotel marketplace offers opportunities for the County's continued tourism and economic development efforts. Though the hotel occupancy rate has been improving over the past five years as noted, the average occupancy remains under 60%. This indicates there are opportunities to partner with hoteliers, particularly in the low-occupancy months, to expand the County's tourism events and partnerships. That said, the 58% occupancy level is below the level typically found in more sought-after hotel markets. Further, the growth in RevPAR indicates profitability of the hotel market in the County has been improving, although not to support additional new hotel developments in the short term. Further development of the County's tourism and business operations (through economic development efforts) will be necessary to attract further larger-scale accommodations.

It is important to note that the market performance data does not include new accommodation types such as Airbnb units. These units operate outside the 'traditional' data collection methods like those used by STR. To this point, the current regulatory environment makes it challenging for the County to truly track the impact these individual properties are having on the marketplace. That said, any increase in supply will consume a portion of market demand. Thus, impacting investment decisions for new larger-scale accommodation venues.

H. OFFICE MARKET CLIMATE

As the office market in Shenandoah County is limited with very few existing and new developments, the analysts relied on active sales and leasing data retrieved from online listing sources including LoopNet and CoStar Group to analyze the trends of the supply and demand in these two sectors. The sections below detail RKG's analysis results by sector.

Active office listings for lease are scant, and there has been no new office development recently. According to the data from LoopNet and CoStar Group, currently there are only two office properties that are actively listed for lease, and both of them were built in the 2000s. One property is a storefront retail/office building with 14,400 gross leasable square footage, and the other is a Class B medical building with 28,800 gross leasable square footage (Table 4-6). The County's property assessment data indicate less than 10,000 square feet of office space has been delivered Countywide since 2007. This indicates that the office leasing and development market in the County is stable, but with very low activity. It is also worth noting that there is additional office space found in non-traditional buildings such as converted homes on Main Street that are often listed for sale or lease by owner.

Anecdotally, local real estate professionals have indicated that the office market typically has been for locally-serving uses (i.e. tax accountants, financial advisors…). It was reported that these businesses typically have occupied traditional retail space in existing strip centers or been established as home-based businesses. Some have created live-work opportunities in the downtown areas of the Towns. However, these are reported to be less common.

Table 4-6
Active Office Market Supply Listings (Leasing)
Shenandoah County, VA (2019)

	Property 1	Property 2
OFFICE PROPERTY FOR LEASE		
Address	100 Founders Way	105 Stony Pointe Way
Area	Strasburg	Strasburg
Rental Rate	\$8.00/SF/YR	\$7.00 - \$37.50/SF/Yr
Property Type	Retail	Office
Property Sub-type	Store Front Retail/Office	Medical (Building Class B
Gross Leasable Area SF	14,400	28,800 (4.08 AC)
Year Built	2008	2004

Source: LoopNet, CoStar Group and RKG Associates, Inc., 2019

Any office development most likely will be build-to-suit for a specific end user, and more than likely smaller space. From an economic development perspective, the County's strongest potential for new office use would be working with the Towns to strengthen their regulations and incentives to promote further live-work opportunities in traditional houses located in their respective downtowns. Further, it demonstrates that any office-based economic development recruitment should focus on small (under 20) employees, as there is little available in the market and speculative development is infeasible.