

□ FREDERICKSBURG-VA □

OFFICE MARKET VANTAGEPOINT

Office Market Trending Toward Recovery

The Fredericksburg Region's office market has been up and down throughout the recession with vacancy increasing and dropping from quarter to quarter and rental rates following suit. For Q2 2015 the regional office market experienced a slight improvement as vacancy dropped and rental rates increased.

In the second quarter of 2015 vacancy rates slightly dropped 20 basis points to 14.0%, a decrease of 20 basis points from the previous quarter. Office vacancy is virtually the same as the same quarter (Q2) 2014 . Vacancy rates have continued an inconsistent trend over the past 5 years. The rates have jumped up and down from quarter to quarter and year to year. In 2012 vacancy declined over 50 basis points before jumping back up through 2013-2015. King George is witnessing the most volatile office market with the largest quarter-quarter changes in vacancy. King George and Caroline are the only two counties that experienced an increase in vacancy, though Caroline's was small, King George had an over 2% jump (see vacancy chart on pg.2).

The City of Fredericksburg experienced the largest change in vacancy with a decrease over 1% from the previous quarter. The City of Fredericksburg, in comparison to its inventory (2,612,432 SF), is holding the lowest amount of vacancy at 8%. The City of Fredericksburg is the 2nd largest office market, only to Stafford County, in the Region. With the second largest inventory, the lowest vacancy by SF, and the second highest rents, the City of Fredericksburg still remains the best performing office market.

Stafford County had its best performing quarter in over a year as vacancy dropped by 20 basis points and rents increased by over \$1.00. Over the previous 5 quarters Stafford County had witnessed a 2% increase in vacancy and over a \$1.00 drop in office rents. Forecasts are showing that Stafford County should continue on a positive trajectory to recovery through the remainder of 2015.

The region also witnessed a positive net absorption in Q2 2015. Although the positive net absorption was low there was a decent amount of leasing activity. In the second quarter over 130,000 SF of office space was leased, but there was only a mere 16,000 SF of total, positive, net absorption. This can be attributed to businesses moving and consolidating offices, moving to more efficient space, and businesses moving from older to newer space.

The demand for new office space is growing with over 64,000 SF of new office construction underway in Q2 2015. A new 40,000 SF office building at Quantico Corporate Center broke ground and is planned to be completed early 2016. An office building is also well underway off Amos Lane in Spotsylvania County near the Spotsylvania Towne Center. The Amos Lane building will provide 12,000 SF of Class A office with a planned delivery of fall 2015.

With employment projections for the Fredericksburg Region and Northern VA continuing to climb the need for new office space will follow.

ELITE
Reports

2015
Q2



ELITE

Fredericksburg Region: Current Stats

	Region AVG	High	Low
Rental Rates	\$22.37	Stafford \$23.84	Caroline \$16.35
Vacancy	14.0%	King George 18.9%	Caroline 6.6%
Inventory (SF)	9.59M	Stafford 3.78M	Caroline 0.4M

Vacancy



Overall office vacancy dropped by 20 basis points to 14.0% in Q1 2015

Lease Rates



The Average Effective office rents increased in Q2 2015 for the region.

Absorption

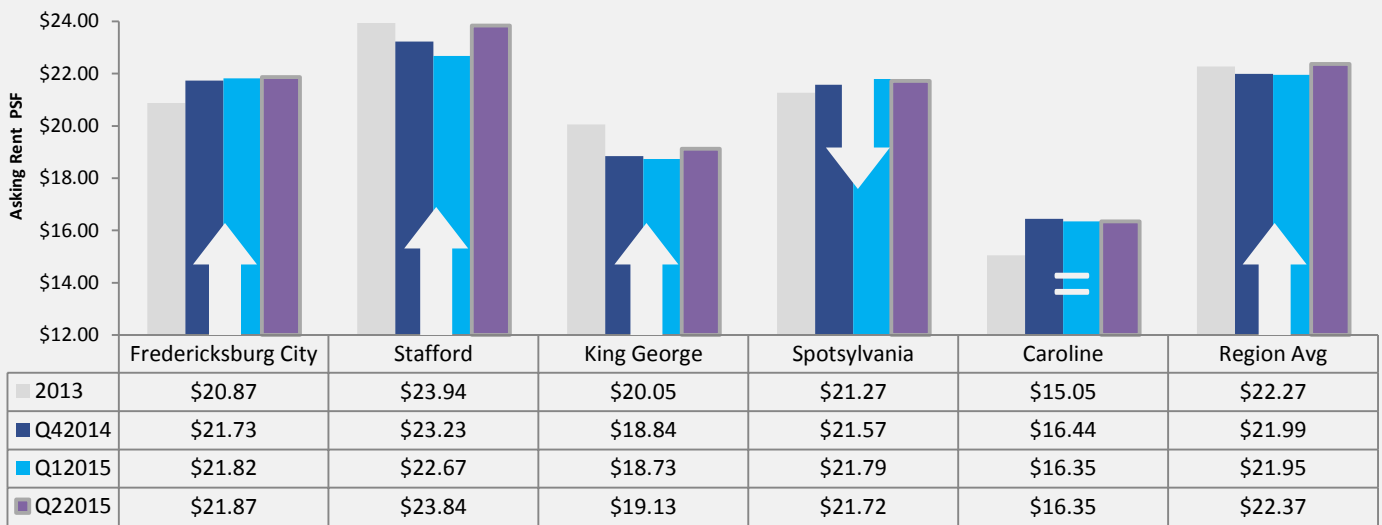


Overall office Absorption increased by over 43,000 SF in Q2 2015

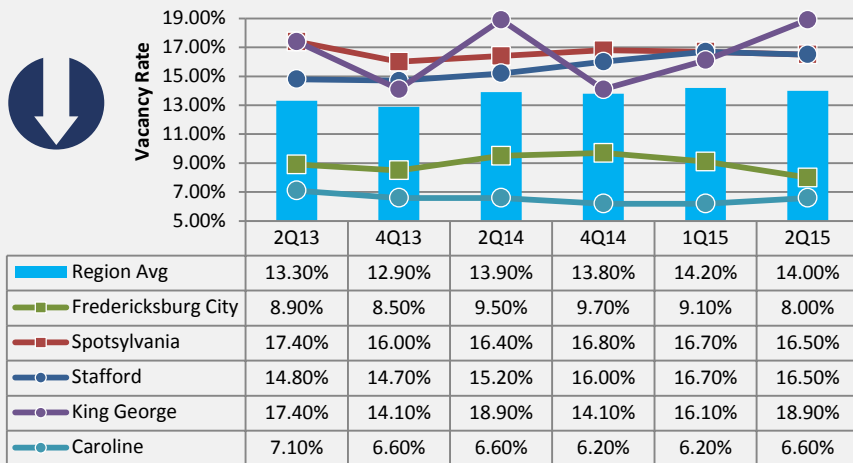
OFFICE

MARKET VANTAGEPOINT

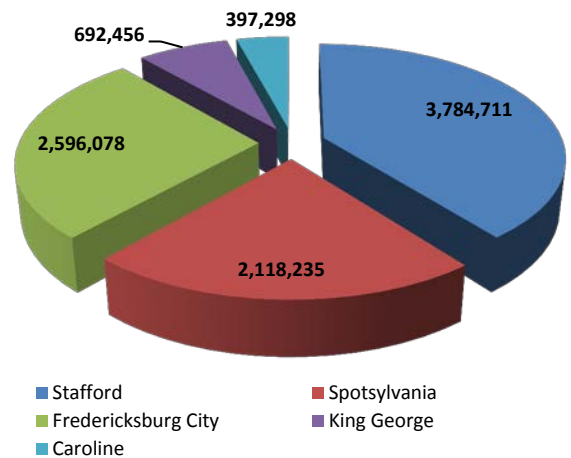
Asking Annual Office Rental Rates, By Year and Sub Market 2013- Q2 2015



Vacancy Rates By Sub Market Q2 2012- Q2 2015



Office Inventory By County/City (Q2 2015)



Data contained herein has been obtained from third party sources deemed reliable; no warranty, expressed or implied, is made regarding the accuracy, adequacy, completeness, legality, reliability or usefulness of any information. List of Sources are available upon request.