

FREDERICKSBURG-VA

OFFICE MARKET VANTAGEPOINT

ELITE
Reports

2016
Q1



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Market Overview

The Office market in the Fredericksburg Region is beginning to experience new growth despite the continuing rise in vacancy. As of the first quarter of 2016, the office market has not only hit its highest recorded vacancy rates, but also its highest average rents in 9 years and a strong increase in new construction.

Vacancy rates for the Fredericksburg Region's office market increased by 30 basis points to 14.5% in the first quarter of 2016. Although vacancy rates have continued to fluctuate up and down from quarter to quarter the overall trend has continued upward. In comparison to the same quarter in the previous year the vacancy rates have increased by only 30 basis points (14.2%-Q1 2016). The City of Fredericksburg and Stafford County recorded the only decrease in vacancy for the first quarter. Stafford County's office vacancy dropped by 90 bps this quarter after a steep climb of 120 bps in the 4th quarter of 2015. Vacancy rates in the City of Fredericksburg dropped 10 bps in the first quarter to 8%, and recorded the largest year-over-year decline at 1.1%.

Vacancy rates increased in both King George (+4.3% | 29,913 SF) & Spotsylvania (+1.2%), while Caroline County had a minor increase by 30 bps. Looking at the data it may seem that the office market in King George is very volatile with large vacancy fluctuations from quarter to quarter, but the County only has 695,000 SF of existing office (7% of Region's total inventory). So, a 4.3% increase in vacancy is merely 29,913 SF and represents only 0.3% of the overall regional office inventory. King George may currently hold the highest vacancy rates in the region at 20.2% (140,528 SF) but Stafford, at 17.2% (649,309 SF) represents the largest amount of vacant inventory. Stafford's and King George's office markets are the most heavily influenced by defense spending and

output by their relative military bases Quantico and Dahlgren. Without any new announcements on Federal defense spending we should continue to see some fluctuation in vacancy and look to growth in other office market sectors.

Although vacancy rates continue to rise, so are the effective rents. The office market has recorded slow but steady rent growth over the past few quarters which continued in the first quarter. Regional effective office rents grew by 0.9% in the first quarter, climbing to \$23.40 (Highest rents since 2007); year-over-year rents posted a healthy increase of 6.26% from \$22.02 in Q1-2015. Each locality in the Fredericksburg Region recorded effective rent growth in the first quarter, with Spotsylvania County posting the largest growth at 1.4%. Stafford County still holds the mark for highest effective rents at \$25.16, up 0.96% from the previous quarter.

The office market witnessed a slump in leasing activity to start the year with just over 40,000 SF in direct leasing deals completed for the first quarter. Although absorption remained negative for the quarter, we are starting to see it trending upward with an increase of 52,587 SF quarter over quarter. Stafford County was the top performer in the region, recording over 34,000 SF of positive net absorption in the first quarter.

The region recorded just over 18,000 SF of new deliveries in the first quarter. The region should also see new deliveries increasing throughout 2016 with over 234,000 SF of office currently under construction. Two new building deliveries that we will see next quarter include a 39,000 + SF office building at Quantico Corporate Center and a 12,000 SF office building in Spotsylvania County. New office growth/new deliveries will potentially increase vacancy without a relative increase in demand/absorption of the region's existing vacant inventory.

Fredericksburg Region: Current Stats

	Region AVG	High	Low
Rental Rates	\$23.40	Stafford \$25.16	Caroline \$16.67
Vacancy	14.5%	Stafford 20.2%	Caroline 6.6%
Inventory (SF)	9.69M	Stafford 3.78M	Caroline 0.4M

Vacancy



Overall office vacancy increased by 30 basis points to 14.5% in Q1 2016

Lease Rates



The Average Effective office rents increased 0.9% in Q1 2016 for the region.

Absorption

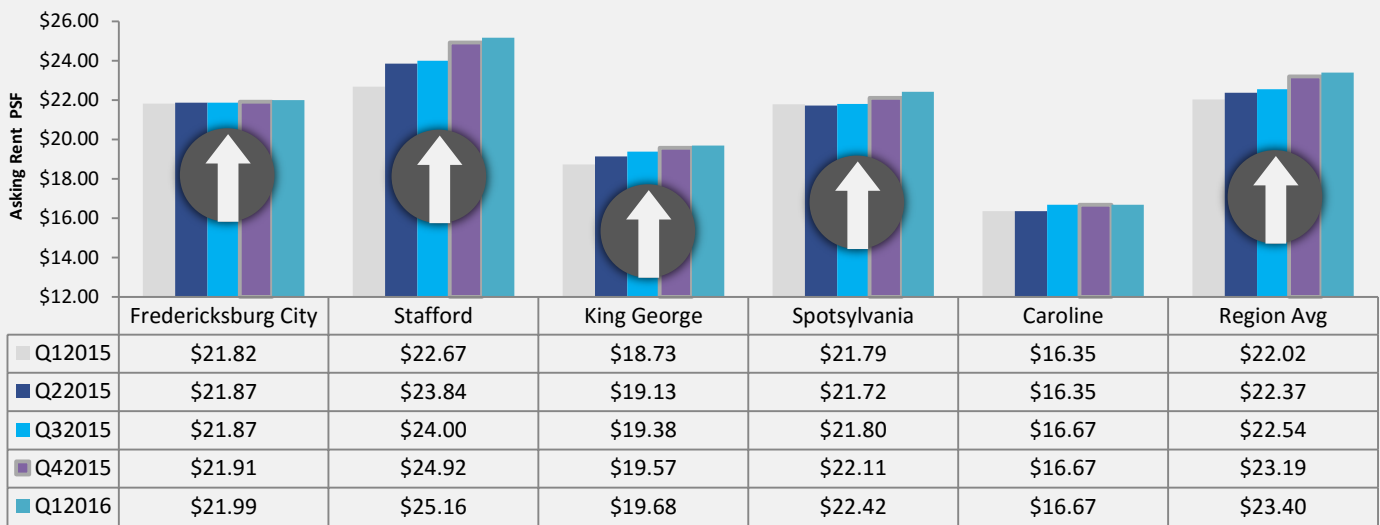


Overall Office Net Absorption was negative for Q1 2016

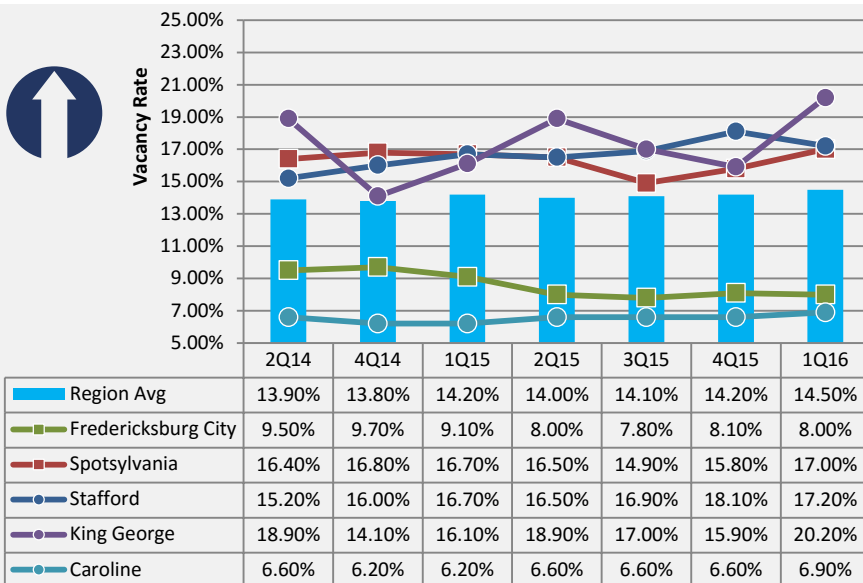
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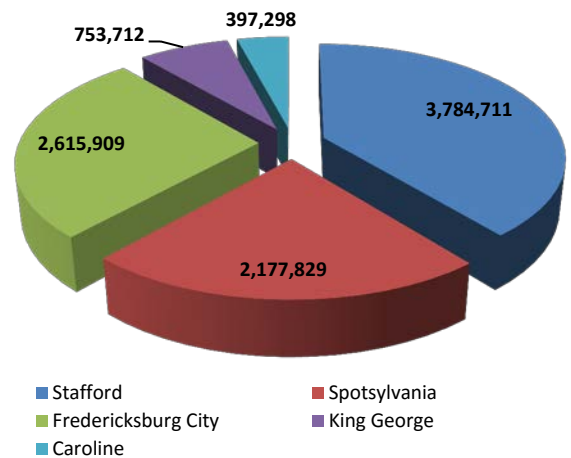
Gross Office Rental Rates, By Year and Sub Market Q1 2016- Q1 2016



Vacancy Rates By Sub Market Q2 2014- Q1 2016



Office Inventory By County/City (Q1 2016)



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.

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Q1 OFFICE NEWS RE-CAP

New Office Building Underway at Quantico Corporate Center



Virginia Properties, Inc. is well underway with the development of a new 39,600 SF Office Building at Quantico Corporate Center in Stafford County. This building will add to the existing 500,000 SF of existing office space at Quantico Corporate Center, and the first to be built since 2012. Although construction of new office at the development has stalled over the past few years, QCC has added other products to the mix including a Courtyard by Marriott and a fully leased retail building. The new building will be delivered 75% leased with tenants including Claxton Logistics Services, Physicians First, a dental office and a Minnieland Daycare.

Yyotta, LLC bringing IXP and Modular Data Center to Stafford

Yyotta is building an Internet Exchange Point (IXP) and Data Center at Quantico Corporate Center. The initial 2,480 ft facility features two (2) secure data rooms, and multiple global connectivity options, making it ideal for the region's unique IT connections. The first of two data rooms is available beginning June 2016.

Carmel Church Medical Building opens at Belmont



The Carmel Church Medical Office Building was completed at Belmont Professional Village in Ruther Glen, VA. With only 397,298 SF of existing office space in Caroline County the 13,000 SF building amounts to 3.3% of the current inventory and is one of the very few office buildings completed within the past 7 years. An additional 18,000 +/- SF of office is planned for Belmont and pre-leasing efforts are currently underway. The new building will house tenants including Germanna Community College Center for Workforce and Community Development, Ruther Glen Dental, and Carmel Church Medical Center.

SimVentions Moves Corporate Headquarters to Stafford

SimVentions recently moved and opened its new corporate HQ's in Stafford County. The company relocated from Deep Run Business Park in Spotsylvania County to Riverside Business Park in Stafford. SimVentions, which works mainly in defense, intelligence and national security was also recently awarded a \$37M contract to provide engineering and technical support to Naval Surface Warfare Center Dahlgren.

Liberty Place



Liberty Place, a mixed use project in downtown Fredericksburg should be breaking ground soon. The project will offer up-to 30,000 SF of office space, in addition to retail/restaurant space and 42 residential condo units.



New 12,000 SF, 3-Story Office, Spotsylvania, VA
Planned Delivery-June 2016

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LEASING ACTIVITY Q1 2016 (3,000 SF +)

Address or Office Park	City/County	Tenant	Space Leased
One Bowman Drive Bowman Center	Spotsylvania	Triangle Experience Group	3,030 SF
12000 Kennedy Ln.	Spotsylvania	Rappahannock Area Youth Services	6,000 SF

LEASING ACTIVITY Q1 2016 (Less Than 3,000 SF)

510 Princess Anne St	Fredericksburg	Accounting Solutions	1,500 SF
10401 Courthouse Road	Spotsylvania	Orion, Inc.	1,000 SF
100 Riverside Pkwy Riverside Business Park	Stafford	Balfour Beauty	1,885 SF
2300 Fall Hill Ave	Fredericksburg	Asefi Capital, LLC	1,374 SF
150 Riverside Pkwy Riverside Business Park	Stafford	NVE CORP	1,250 SF
11909 Main St. Bowman Center	Spotsylvania	Chambers Training Academy	2,438 SF
20 PGA Drive	Stafford	SES Government Solutions, Inc	2,857 SF
3308 Bourbon St. Bowman Center	Spotsylvania	Osrose Utilities Services, Inc.	1,900 SF
1671 Jefferson Davis Hwy	Fredericksburg	Embrace Home Loans, Inc.	1,916 SF
1701 Fall Hill Ave	Fredericksburg	Actual Care Home Health	1,600 SF