

□ FREDERICKSBURG-VA □

RETAIL MARKET VANTAGEPOINT

The Fredericksburg Region's Retail market experienced minor change throughout Q1 of 2016. As a whole, the region witnessed a slight increase in both vacancy rates and NNN rental rates. Two major announcements were made that include a new grocer making its way into the region and an existing sporting good retailer closing its doors. The developers of the new Aquia Town Center announced that Harris Teeter will potentially anchor the 160,000 SF center, with plans to break ground sometime this year. With the addition of one new retailer comes the departure of another: Sports Authority declared Chapter 11 bankruptcy protection with its Fredericksburg store being one of 40 on its list to close.

Overview

The retail vacancy rates in the Region increased by 30 basis points to 5.0% in the first quarter. The vacancy rates have been following a similar up & down pattern year-over-year since their historical peak in 2011. Overall vacancy has declined since its peak but only by a meager 1.3%. With vacancy currently holding around 5% the Fredericksburg Region's retail market is still performing well below the national average of 10% as of Q1 2016, according to REIS.

During Q1, retail vacancy rates increased in every locality in the Region excluding Caroline County, which remained unchanged. The City of Fredericksburg experienced the largest jump in vacancy from 4.5% to 5.1%. Stafford County has made the largest improvement year-

over-year with a decline in vacancy from 5.4% (Q1-2015) to 4.7% in Q1 2016.

Overall NNN effective retail rents for the Region grew by 1.8% to \$15.40 during the first quarter. The City of Fredericksburg recorded the largest quarter-to-quarter rent growth at 5.6%. The counties of Stafford (0.5%) and Spotsylvania (0.9%) each experienced rent growth, where as rents decreased in King George and remained unchanged in Caroline. King George county was the only county that had a decrease in rent, but it was negligible at \$0.01.

Effective retail rents for the Region are up 6% year-over-year with nearly each locality edging close to 5 year highs. Year-over-year (Q1 2015-Q1 2016) growth rates were fairly impressive for The City of Fredericksburg (7.8%), Stafford (5.8%) and Spotsylvania (3.9%). Effective rent growth is the strongest it has been since 2007 and the region should continue to see relatively solid rent growth through 2016.

The Region's retail market recorded negative net absorption in the first quarter of 2016. This marks the end of six consecutive quarters of positive net absorption. In the previous year the retail market logged its strongest yearly performance in 5 years with total net absorption over 177,000 SF. Absorption will need to improve to hold vacancy rates down, which will subsequently assist in driving rent growth throughout the year.

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Fredericksburg Region: Current Stats

	Region	High	Low
Rental Rates	\$15.40	Stafford \$17.86	Caroline \$8.07
Vacancy	5.0%	Caroline 5.4%	King George 3.50%
Inventory (SF)	21.24M	Spotsylvania 9.36M	Caroline 0.66M

Vacancy



Retail vacancy increased by 10 basis point to 5.0% in Q4-2016

Lease Rates



The Average Effective rents grew by 1.8% (\$0.28) in Q1 2016

Absorption



Net Absorption was negative for the first quarter recording (-60,184 SF)

Industry	Demand (Potential) in Billions	Supply (Sales) in Billions	Retail Gap in Billions
Retail Trade	\$4.257	\$3.273	\$0.983
Food & Drink	\$0.479	\$0.343	\$0.136
Totals	\$4.737	\$3.617	\$1.119

\$1.12B TOTAL RETAIL GAP

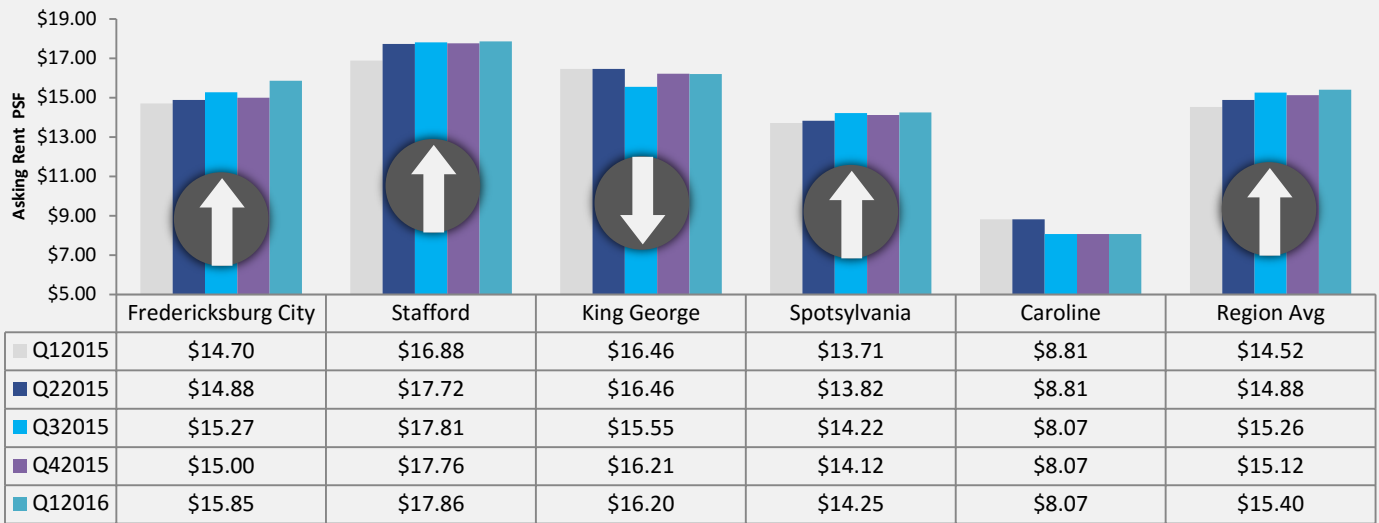
Source: ESRI

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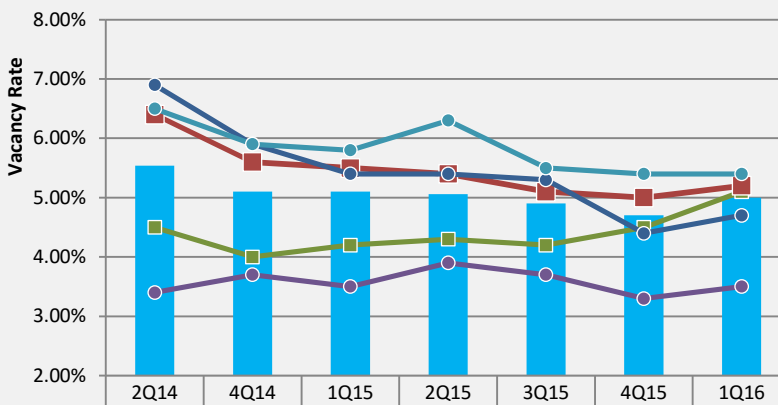
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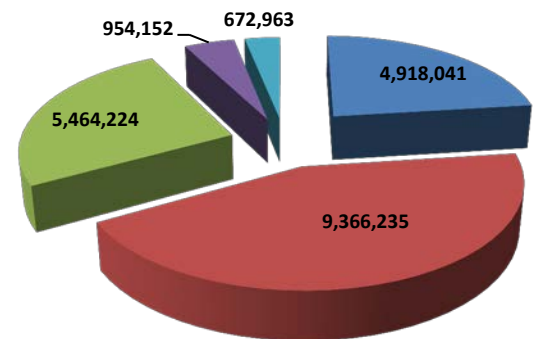
NNN Retail Rents Per SF, By Quarter and Sub Market Q1 2015 – Q1 2016



Vacancy Rates By Sub Market Q2 2014- Current (Q1-2016)



Retail Inventory (SF) By County/City (Q1 2016)



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Q1 RETAIL NEWS RE-CAP

Harris Teeter to Anchor Aquia Town Center



Mosaic Realty Partners, the developers of Aquia Town Center, have announced that Harris Teeter will anchor the \$40 million, 160,000 square foot center. Harris Teeter plans to build a 76,000 SF grocery store, however, there are some contingencies that must be met before that becomes certain. Residents of the 2,300 home Aquia Harbour community must first agree to open a road (required by Harris Teeter) that would provide a second entrance from Washington Drive in addition to the main entrance at U.S. Route 1. The second entrance can only be approved by the Aquia Harbour Board of Directors. Harris Teeter would locate where Regal Cinemas is currently occupying on a month-to-month lease. The location at Aquia Town Center would be the first Harris Teeter store in the Region. Other plans for the development include the possible relocation of an existing, in-line Rite Aid pharmacy to a free standing pad. A 256-unit Class A multifamily project is also well underway with planned completion in June 2016.

New 35,000 SF Retail Center Underway at Harrison Crossing



Virginia Properties, Inc. broke ground on a new 35,000 SF retail center at Harrison Crossing. The center will consist of two buildings that will be joined by a courtyard with outdoor seating and dining. The property is located at Harrison Crossing, a unique 70 Acre power center anchored by Giant and Home Depot. The new center will add to the 366,000 SF of existing retail at Harrison Crossing.

Spotsylvania Courthouse Village-Block 600 Completed



Block 600 at Vakos' Spotsylvania Courthouse Village was recently completed. This phase of the development consists of 5 buildings totaling 20,000 SF with a mix of retail, restaurant and office space.

Sports Authority Announces closing of local store

In March, Sport Authority filed for Chapter 11 bankruptcy protection and announced plans to close or sell 140 stores. One of the stores on that list included its location at Central Park in the City of Fredericksburg. Other Virginia locations on the list included Hampton, Norfolk, Sterling and Virginia Beach.

Construction & Expansion Highlights Q1 2016

Lidl is well underway with their first regional store location on Plank Road

Cook Out began construction of their 2nd location in the Region at Cosner's Corner

Bojangles completed their first regional location at Celebrate VA North in Stafford, VA

The Community Bank of The Chesapeake was completed at the Parkview mixed-use project in Downtown Fredericksburg

Taco Bell opened a new location in Thornburg, VA



Bojangles, Celebrate VA North- Stafford, VA

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CONSTRUCTION COMPLETIONS Q1-2016

Address or (shopping center)	Tenant(s)	City/County	Building Size
Thornburg	Taco Bell	Spotsylvania	2,000 SF
Celebrate Virginia North	Bojangles	Stafford	2,000 SF
Parkview	Community Bank of the Chesapeake	Fredericksburg	4,000 SF +/-
Furnace Road & Route 610/ Garrisonville Road	Sheetz	Stafford	6,500 SF +/-

CONSTRUCTION UNDERWAY/ STARTS Q1-2016

Cosner's Corner 5410 Jefferson Davis Hwy	Cook-Out	Spotsylvania	3,000 SF +/-
Harrison Crossing	N/A	Spotsylvania	35,000 SF +/-
5455 Plank Road	LIDL	Spotsylvania	36,000 SF +/-

Lidl, Spotsylvania County (March-9-2016)



Parkview - Fredericksburg, VA



Taco Bell- Thornburg, VA

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