

□ FREDERICKSBURG-VA □

INDUSTRIAL MARKET VANTAGEPOINT

ELITE
Reports

2015
Q2



ELITE

Market Overview-Vacancy Continues to Decline

New deliveries in the industrial market have continued to be slow, with only 16,000 SF of new construction delivered in the past 6 months. The Fredericksburg Region industrial inventory is currently over 12,800,000 SF. One trend that continued through Q2 is the decline in vacancy.

The industrial market witnessed another solid quarter of positive net absorption. In Q2 the Fredericksburg Region's industrial market had a 59% increase in positive absorption. Over 172,000 SF of total (positive) net absorption occurred in the second quarter, representing the highest in 8 consecutive quarters. Leasing activity was also strong throughout the second quarter with over 20 lease deals recorded and over 100,000 SF in direct lease deals. Correspondingly, as net absorption remains positive and leasing activity strengthens, vacancy rates will continue their decline in the industrial market.

The reoccurring trend in Q2 2015 is the declining vacancy rates, which hit another historical low. Industrial vacancy rates dropped below 12% to 11.8% in the second quarter. Vacancy dropped 70 basis points from the previous quarter. The City of Fredericksburg experienced an extreme drop in vacancy, with a decline of 6% from Q1 through Q2. The City had a positive net absorption of 85,000 SF, representing the highest absorption in the region.

Although vacancy rates continue to drop the rental rates are also declining,

but not by a large margin as rental Rates dropped \$0.14 in Q2. Industrial rental rates along with vacancy rates have declined for three consecutive quarters. Stafford County had the largest decline in rental rates with a drop of only \$0.28 in Q2. Low average rental rates are assisting in the decline of vacancy, but the market should soon see a point where low vacancy will make space more competitive and begin to drive rates upward.

Spotsylvania County also saw a decent decline in vacancy rates with a decrease of 1.3% through Q2. Spotsylvania County still holds the largest amount of industrial space at 5.9MM sq. ft. and has consistently held some of the lowest vacancy rates in the region. Completion of a third CSX rail line in Spotsylvania could assist in further industrial growth. One major announcement was made in the 2nd quarter that will add 1 Million sq. ft. of industrial space, approx. 17% of Spotsylvania's current inventory, and nearly 8% of the entire Region's inventory.

Lidl to Invest \$125M in Spotsylvania Distribution Center

A European Grocer, Lidl, committed to build a major distribution warehouse in Spotsylvania County in June. The company is looking to enter into the U.S market with its first store planned for Henrico, Virginia. The distribution warehouse in Spotsylvania County is planned to be approximately 1MM SF and cost around \$125MM. The facility will also provide 200 local jobs.

Fredericksburg Region: Current Stats

	Region	High	Low
Rental Rates	\$5.66	Stafford \$6.64	Caroline \$3.62
Vacancy	11.8%	King George 18.7%	City of Fred 10.2%
Inventory (SF)	12.8M	Spotsy 5.90M	King George 0.39M

VACANCY DECLINE TO PRE-RECESSION LEVELS

11.8%

Vacancy



Overall industrial vacancy dropped by over 70 basis, in Q1 of 2015.

Lease Rates



The Average Effective lease rate in Q2 of 2015 slightly decreased for the region.

Absorption

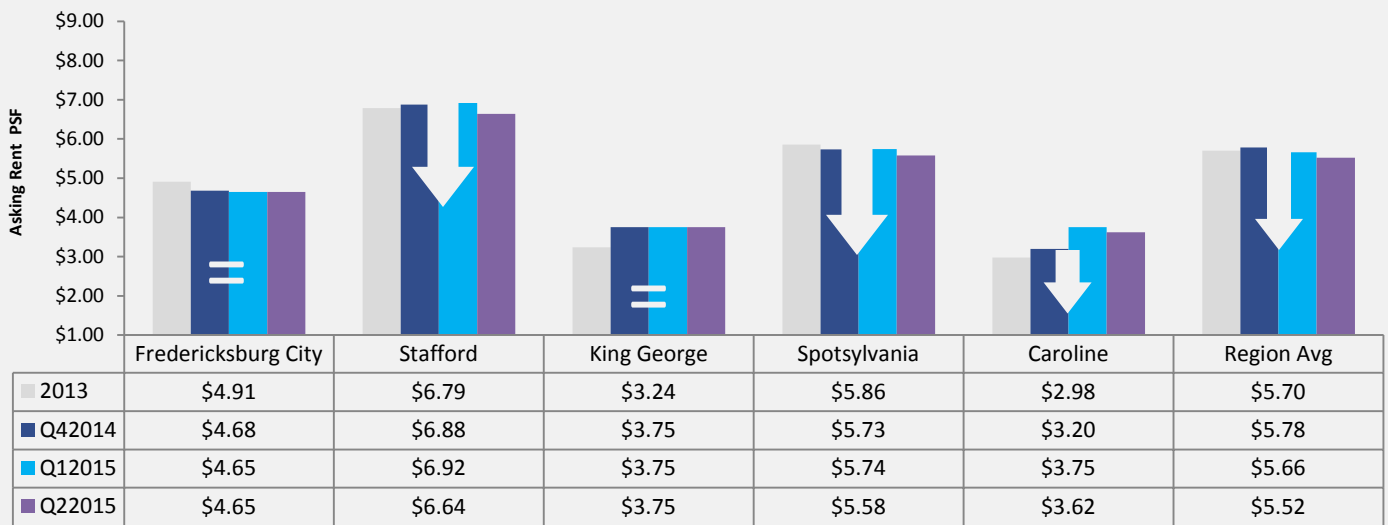


Net absorption in Q2 of 2015 was 172,000 SF of existing space, no new deliveries.

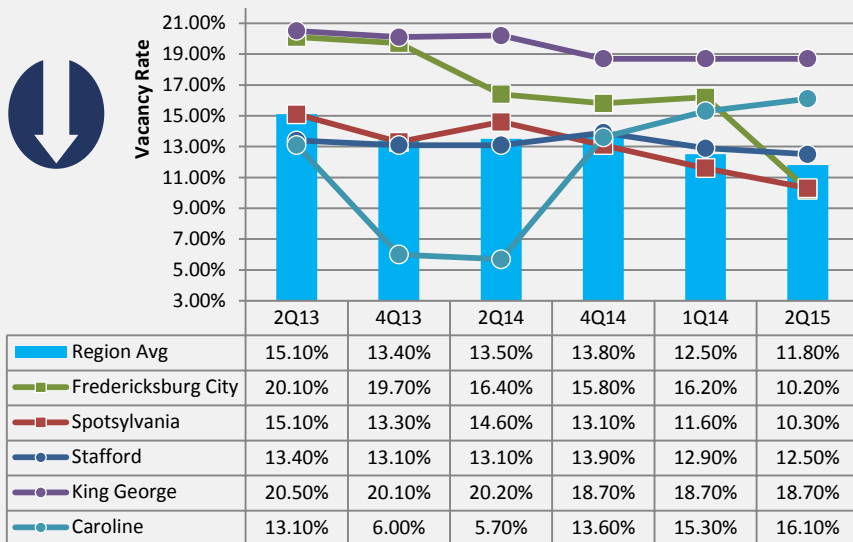
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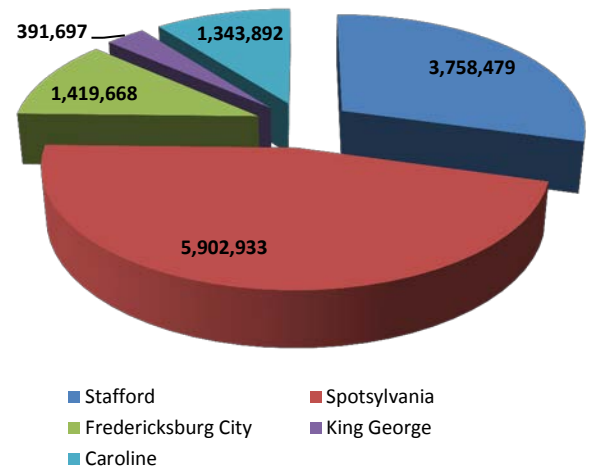
Effective Industrial Rental Rates, By Year and Sub Market 2013-Q2 2015



Vacancy Rates By Sub Market Q2 2013- Q2 2015



Industrial Inventory By County/City (2015)



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