

□ FREDERICKSBURG-VA □

INDUSTRIAL MARKET VANTAGEPOINT

ELITE
Reports

2016
Q2



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Industrial Demand Skyrockets in Q2

The Fredericksburg Region's industrial market performed extremely well in the second quarter of 2016. Demand for industrial space continues to steadily increase, driving vacancy rates to the lowest point in over 10 years. The Region is continuing to attract more businesses and investment, that is providing confidence in the strength of our market.

Vacancy

In the second quarter of 2016 industrial vacancy rates declined of 130 basis points to 9.1%. Vacancy rates are down 2.2% year-over-year from 11.30% in Q2-2015. Vacancy rates declined in every locality during the second quarter with the City of Fredericksburg (-3.5%), Stafford County (-2.9%) and Caroline County (-0.9%) all recording impressive decreases. Stafford's vacancy rates have now dropped over 4% since the beginning of the year. Regional vacancy rates have dropped at a steady pace over the last 12 months from 11.2% in Q2-2015 and have now dropped 11.3% since its peak of 20.4% in 2009.

Demand for industrial space accelerated during the second quarter. The Region recorded over 213,000 SF of net absorption in the second quarter, closely reaching the average 12 month absorption at 271,000. The industrial market also recorded over 291,000 SF in direct leasing in the second quarter, up from 53,000 in the Q1. Each locality experienced strong demand increases

with Stafford County recording the largest share of the second quarter activity with over 140,000 SF in net absorption, and rounding out a extremely strong first half of the year. Stafford County has now recorded nearly 200,000 SF YTD, representing 83% of the total region's net absorption. The City of Fredericksburg witnessed a rebound after a weak first quarter, recording over 50,000 SF in net absorption and 92,000 SF in direct leasing in Q2-2016. With increases in demand paired with the lack of new construction we should continue to see robust declines in vacancy.

Rents

Regional industrial rents grew by 1.2% to \$5.59 psf in the first quarter. Rent growth remains somewhat inconsistent with vacancy performance as witnessed in Stafford and Fredericksburg in Q2. Although Stafford County and the City of Fredericksburg experienced significant declines in vacancy, the rents for both localities dropped in the second quarter. Spotsylvania County experienced rent growth of 2.5% in the second quarter while the counties of Caroline and King George witnessed no change. Rent growth should remain slow and steady as vacancy continues to decline and the region pushes for more business investment.

Through the second half of the year the Region's industrial market should see gains in demand persist and potentially fuel some new construction.

Fredericksburg Region: Current Stats

	Region	High	Low
Rental Rates	\$5.59	Stafford \$6.65	Caroline \$3.61
Vacancy	9.1%	King George 17.9%	City of Fred 7.3%
Inventory (SF)	13.02M	Spotsylvania 6.01M	King George 0.39M

VACANCY DROPS TO 10 YEAR LOWS AT 9.1%

Vacancy



Overall industrial vacancy for the region dropped by 1.6% in Q2 2016.

Lease Rates



Effective Industrial Rent grew by 1.2% in Q2 2016.

Absorption



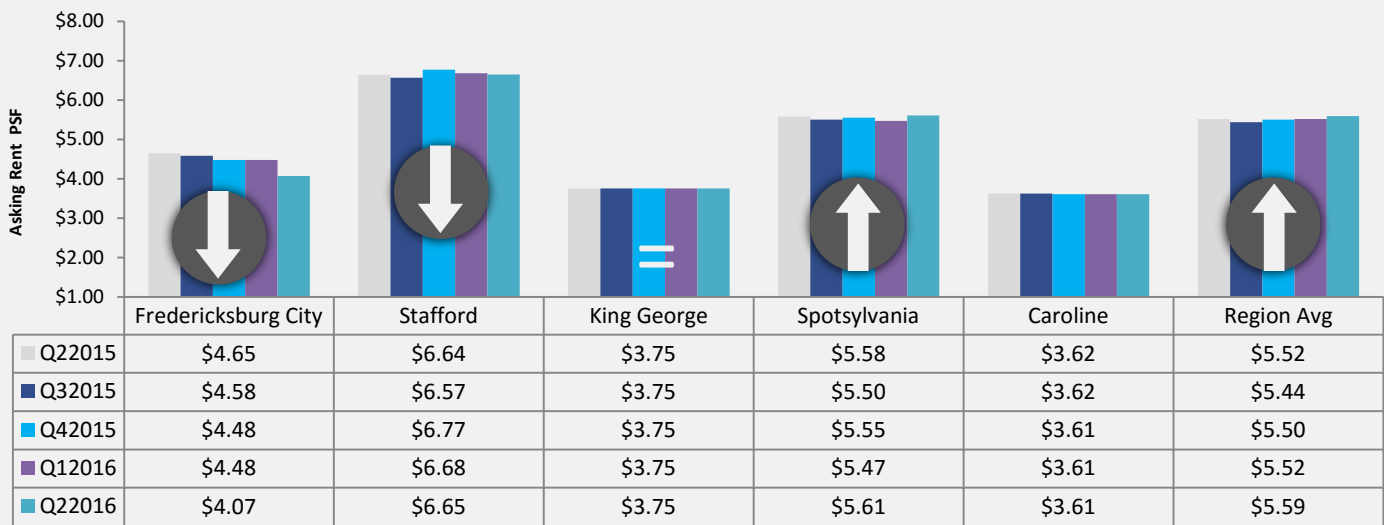
213,000 SF of existing Industrial inventory was absorbed in Q2 2016

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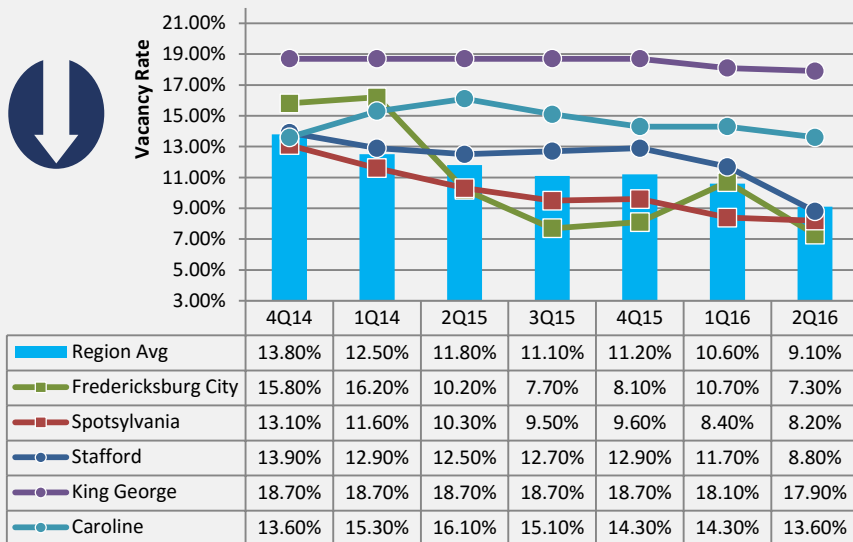
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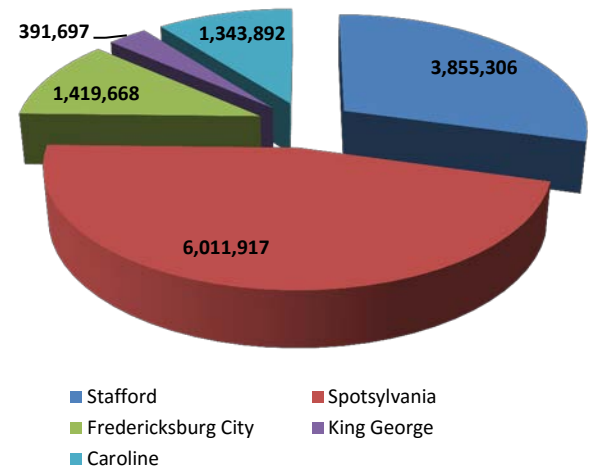
Effective NNN Industrial Rental Rates, By Year and Sub Market Q2 2015 – Q2 2016



Vacancy Rates By Sub Market Q4 2014- Q2 2016



Industrial Inventory By County/City (2016)



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2.5 Million SF

OF INDUSTRIAL SPACE CURRENTLY UNDER CONSTRUCTION, APPROVED, OR IN THE PIPELINE FOR THE GREATER FREDERICKSBURG REGION. THIS INCLUDES LIDL'S 1MM SF DISTRIBUTION FACILITY AND THE APPROVED 1.5MM SF HARRIS TEETER FACILITY PLANNED/ APPROVED IN CAROLINE COUNTY.



Lidl Distribution Facility, Spotsylvania County

Q2 INDUSTRIAL NEWS

King George to Become Region's First Locality with Major Solar Energy Plant

(King George EDA Newsletter) Coronal Group of Charlottesville intends to build a solar power generation plant on a portion of the King George Industrial Park and an adjacent, privately-owned tract. The King George Economic Development Authority (EDA) recently approved a contract to lease 49.2 acres of the industrial park to Coronal Group. An adjacent 69.2 acres owned by the Taylor family are also expected make up the 119 acre solar farm that will have a constant generating capacity of 15-20 megawatts of electricity. (One megawatt can power 164 residences.)

Coronal Group would lease the property for an initial term of 25 years at \$550 an acre with a 1.5% escalator yearly and two five-year additional options at the end of the 25 year lease which could extend to a total of 35 years. During an initial two-year option/study period, Coronal Group would pay the County \$2,000 the first year and \$6,500 the second year. Upon completion of the option, they would begin construction of the solar farm.

This property is ideal for use as a solar farm because it lies close to a major transmission line owned by Dominion Power. Representatives from Coronal Group have indicated that they intend to sell the power generated at the farm to Dominion's electric grid.

M.C. Dean Leases 90,000 SF in Caroline County



M.C. Dean leased a 90,000 SF Building in Caroline County, Virginia. The property is located off Bull Church Road within a few minutes from I-95, Ladysmith exit 110. M.C. Dean is an electrical design-build and systems integration firm headquartered in Dulles, VA. M.C. Dean already owns a large facility in Caroline County where they perform Prefabrication.

Paragon Seeks new location at Commonwealth Industrial Park



Paragon gymnastics announced plans for moving to a new location at Commonwealth Industrial Park in Spotsylvania County. Paragon plans on buying a 20,000 square-foot building at 5117 Commonwealth Drive to use for training and national competition programs. They will also lease an adjacent 17,000 square-foot building, 5113 Commonwealth Drive, that was once Skateland, roller skating rink. The properties are currently owned & occupied by Mid-Atlantic Vinyl who uses the buildings for production and storage warehouses. Mid-Atlantic Vinyl has not announced a new location but plans to remain in Spotsylvania.

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MAJOR LEASING ACTIVITY Q2 2016 (4,000 SF +)

Address or Industrial Park	Tenant	City/County	Space Leased
11900 Main St. Fredericksburg Center B	Southeast Cabinetry & Countertops, LLC	Spotsylvania	14,588 SF
Bowman Center	OFICE	Spotsylvania	30,000 SF
11900 Main St. Fredericksburg Center B	Rappahannock Goodwill	Spotsylvania	12,686 SF
265 Cambridge St Falmouth Industrial Park	Koons Automotive	Stafford	12,000 SF
1117 Tyler St	Coastal Insulation & Fireplace, LLC	Fredericksburg	6,850 SF
400 Nelms Circle	Havens Best Carpet Cleaning & Spartan Emergency	Stafford	11,350 SF
309 Central Road	Brothers Marble	Fredericksburg	10,578 SF
11001 Houser Drive	Tiny House Building Company, LLC	Spotsylvania	6,318 SF
220 Industrial Drive	Wave Printing & Graphics	Spotsylvania	4,000 SF
30 Blackjack Road	USA All Stars	Stafford	7,500 SF

LEASING ACTIVITY Q2 2016 (Less Than 4,000 SF)

9017 Jefferson Davis Hwy	Nice Auto Sales, LLC	Spotsylvania	2,280 SF
4936 Trade Ct Fredericksburg II Warehouses	Michael & Son	Spotsylvania	1,200 SF
1009 Tyler St	Lookout Safety Company	Fredericksburg	1,000 SF
10 Commerce Pkwy	Stanley Steemer	Stafford	3,050 SF
3717 Lafayette Blvd	Morris Tile Distributors of Richmond, Inc.	Spotsylvania	1,957 SF

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