

OFFICE

MARKET VANTAGEPOINT



ELITE

Market Overview

The Office market in the Fredericksburg Region is showing signs of improvement as the year continues. After vacancy rates hit a historical high in the first quarter, the office market has rebounded with a decline in vacancy of 50 basis points. The office market also witnessed an increase in demand, recording the highest net absorption and new deliveries in over 10 consecutive quarters.

Vacancy

Vacancy rates for the Region's office market decreased by 20 basis points to 14.0% in the second quarter of 2016. Compared to the same quarter of the previous year, vacancy rates have risen just 40 basis point from 13.6% in Q2-2015. King George (-2.2%) and Spotsylvania County (-1.3%) recorded substantial decreases in vacancy in the second quarter of 2016. Spotsylvania is the only locality that recorded a year-over-year decline in vacancy from 15.7% in Q2-2015 to its current rate of 14.5%. Stafford County (+0.3%) and the City of Fredericksburg both witnessed an increase in vacancy in Q2-2016. Over the past few years vacancy rates have continued on an upward path, but with a steady increase in demand the market should see a turn-around in 2016.

The Region's office market benefited from an increase in demand. After two consecutive quarters with negative net absorption, the office market bounced back recording over 40,000 SF in total net absorption and over 104,000 in new leasing activity. Although net absorption

might seem low it was actually the highest positive net absorption achieved in the past 10 quarters. Spotsylvania County led the way with over 38,000 SF of space absorbed, 36,972 in direct leasing and 1 new delivery. Stafford County also had a fairly impressive second quarter with 42,000 SF in leasing and 1 new delivery. Stafford and Spotsylvania recorded the only new deliveries totaling 33,500 SF. With 51,916 SF of new office space delivered in the first half of 2016 we have already surpassed the total deliveries for both 2015 (22,214 SF delivered) and 2014 (47,266 SF delivered).

Rents

Rent growth seems to have stalled for the Region's office market. Although minor fluctuations are observed from quarter-to-quarter there appears to be no definitive trend yet toward rent growth. Regional effective office rents dropped by 0.8% in the second quarter to \$22.42, with year-over-year rents slightly lower from 22.46 in Q2-2015. Each locality in the Region experienced a decline in effective rents during the second quarter. With an increase in new product to the market we should begin to see more solid rent growth, but as vacancy rates remain high landlords will continue to be fairly competitive with pricing aggressiveness.

With absorption and vacancy trending into more positive territory this should begin to impact rent growth, but until this momentum is sustained, expect landlords to remain aggressive.

Fredericksburg Region: Current Stats

	Region AVG	High	Low
Rental Rates	\$22.42	Stafford \$24.06	Caroline \$15.61
Vacancy	14.0%	King George 18.0%	Caroline 7.5%
Inventory (SF)	9.77M	Stafford 3.83M	Caroline 0.4M

Vacancy



Overall office vacancy decreased by 20 basis points to 14.0% in Q2 2016

Lease Rates



The Average Effective office rents decreased by 0.8% in Q2 2016.

Absorption

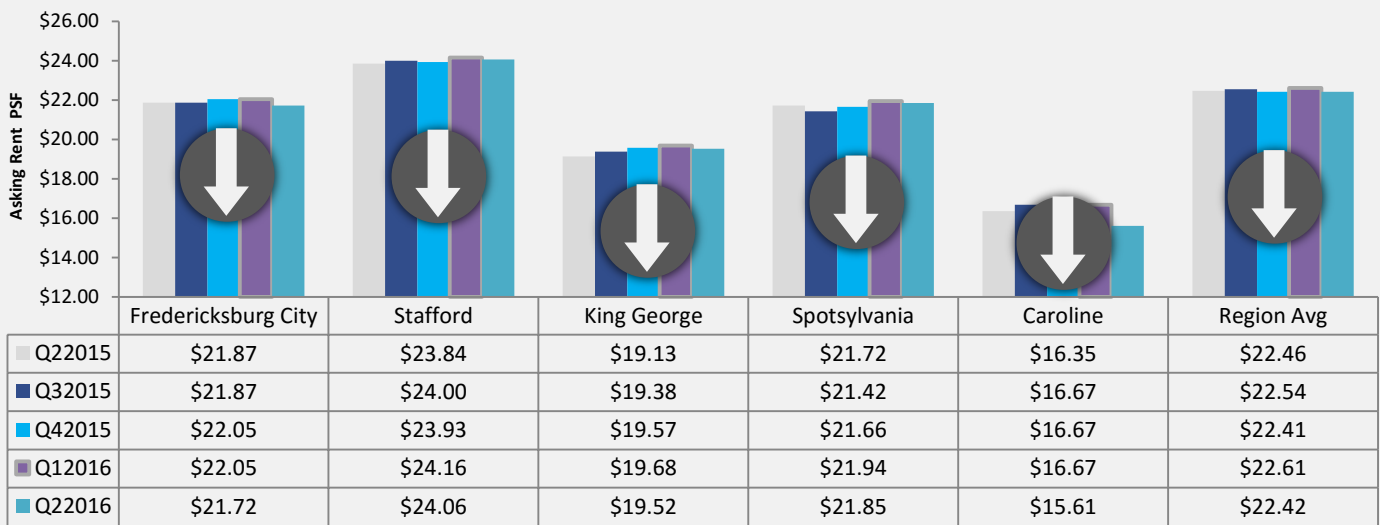


40,871 SF of positive Net Absorption was recorded for Q2 2016

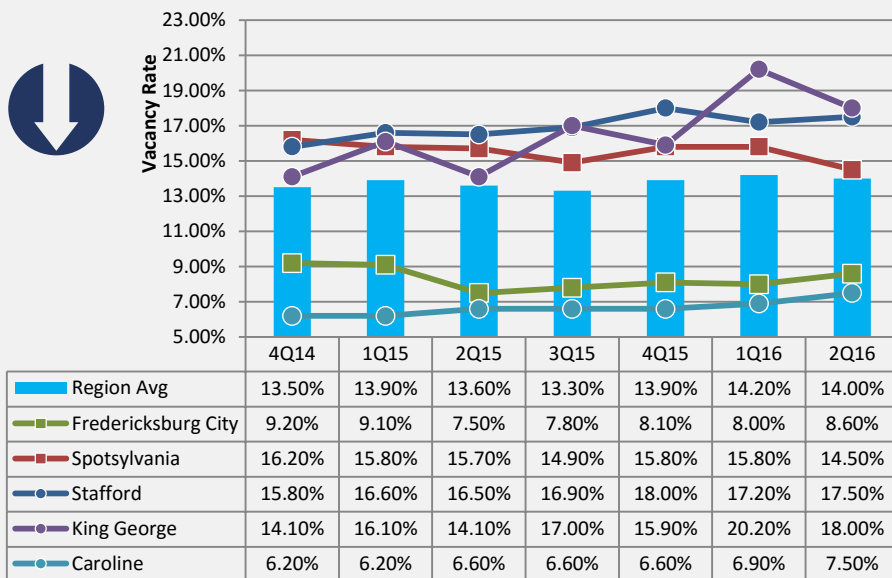
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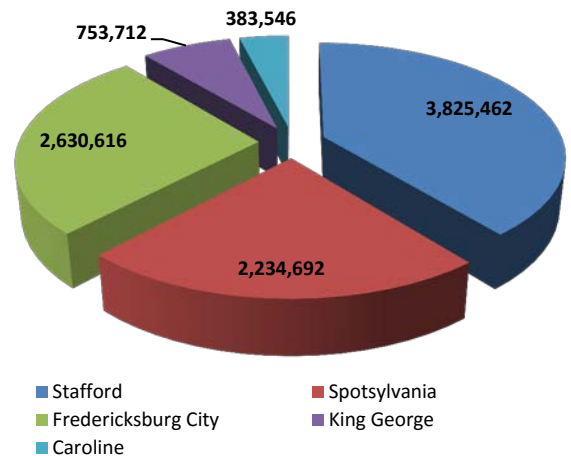
Gross Office Rental Rates, By Year and Sub Market Q2 2015 - Q2 2016



Vacancy Rates By Sub Market Q4 2014- Q2 2016



Office Inventory By County/City (Q2 2016)



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Reports

2016
Q2



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Q2 OFFICE NEWS RE-CAP

The Free Lance Star signs 18,700 sq. ft. Lease at Central Park Corporate Center



In June, The Free Lance Star signed an 18,700 SF lease at Central Park Corporate Center (CPCC) to move its headquarters from their long time home in downtown Fredericksburg, Virginia. The Free Lance Star's 90,000 square-foot building in downtown Fredericksburg was sold to WJ Vakos in November of last year which provided the need to relocate. The Free Lance Star choose CPCC because they wanted to remain in the City and have a visible and convenient location for their customers so that they could remain an integral part of the community.

One other deciding factor was the assistance and support provided by The Fredericksburg EDA who approved a \$25,000 grant to help cover The Free Lance-Star's moving expenses on the condition that the company remains in the city.

The Landlord initially has some extensive exterior improvements and interior demolition to complete. After that, the tenant improvements will be completed with a move-in and occupancy date of January 1st, 2017.

Lifecycle Construction Services Moves into new Fredericksburg HQ

Lifestyle Construction Services, a government contractor moved into its new downtown Fredericksburg corporate headquarters in May. The company purchased the former Stellar One building at 1016 Charles Street from the Fredericksburg's EDA for \$1.1 million at the end of March. The business moved from its previous location on Jefferson Davis Hwy near the intersection of Cowan Blvd.

Mobility Prosthetics & Orthotics constructing new location in Spotsylvania

Construction is well underway on Mobility Prosthetics & Orthotics, new 2-story office building in Spotsylvania County. The company was recently forced to move from their location on Harrison Road when VDOT purchased the property for road widening and intersection improvements at Route1 and Harrison Road. Mobility purchased the new site in anticipation of the relocation and began construction early this year.



Mobility Prosthetics New Building
Spotsylvania County-VA



New 12,000 SF, 3-Story Office, Spotsylvania, VA
12225 Amos Lane, Fredericksburg, VA 22407

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LEASING ACTIVITY Q2 2016 (3,000 SF +)

Address or Office Park	City/County	Tenant	Space Leased
Central Park Corporate Center 1340 Central Park Blvd.	Fredericksburg	BH Media Group, Inc. Free Lance Star Publishing	18,700 SF
200 Executive Center Parkway	Fredericksburg	Fox Therapy Center, PLLC	4,947 SF
Jackson Square Business Park 4300- 4524 Carr Drive	Spotsylvania	The Mixed Martial Arts Academy	6,000 SF
111 Olde Greenwich Drive	Spotsylvania	Capital Caring	3,265 SF
1051 Careway Drive	Fredericksburg	Dr. Jayarathne Kottage, MD	3,200 SF

LEASING ACTIVITY Q2 2016 (Less Than 3,000 SF)

520 William Street	Fredericksburg	Premier Accounting & Business Administration	1,968 SF
Cosner's Corner 10007 Jefferson Davis Hwy	Spotsylvania	Allstate	2,300 SF
12225 Amos Lane	Fredericksburg	Shaheen Law, P.C.	1,250 SF
12225 Amos Lane	Spotsylvania	Rappahannock Insurance Agency	1,000 SF
3504 Plank Road	Spotsylvania	Bankers Life & Casualty	2,550 SF
10708 Ballantraye Drive	Spotsylvania	PEOPLE, LLC	1,486 SF
305 Hanson Ave	Fredericksburg	Safe Harbor Child Advocacy Center	2,407 SF
2216 Princess Anne St	Fredericksburg	Ailment Wellness Center	1,524 SF
510 Princess Anne St	Fredericksburg	Nest Realty	2,500 SF