

□ FREDERICKSBURG-VA □

INDUSTRIAL MARKET VANTAGEPOINT

ELITE
Reports

2015
Q3



ELITE

Demand Remains Strong in the Industrial Market

In the third quarter of 2015 the industrial market in the Fredericksburg Region experienced another substantial drop in vacancy. Over the past three consecutive quarters industrial vacancy has dropped 200 basis points (2% YTD). With limited new construction and relatively low rental rates we should continue to see a decline in vacancy.

The industrial market posted solid gains in the third quarter following similar patterns as the two previous quarters in 2015. Strong net absorption continues to outpace new construction which has been very limited through 2015. Over 76,000 SF of total (positive) net absorption occurred in the second quarter, but there were no new construction starts or deliveries. The City had a positive net absorption of 36,000 SF, representing the 2nd highest absorption in the region behind Spotsylvania County who recorded over 37,000 SF. Caroline County posted its first quarter of positive net absorption over the past 4 quarters at 11,000 SF in Q3, while Stafford recorded a slight negative and King George witnessed no activity. Direct leasing deals accounted for just over 70,000 SF with only 15 deals recorded. The strong absorption posted in the third quarter pulled overall vacancy rates down to 11.1%, marking the lowest rates since Q2 2007.

In the third quarter (Q3) Vacancy rates in the industrial market dropped 60 basis points. The drop in vacancy over the past 2 quarters combined (Q2 & Q3) has been 130 basis points, the largest

two quarter consecutive drop in vacancy since Q4 2012-Q1-2013. The City of Fredericksburg recorded the largest drop in vacancy for the second consecutive quarter, with a decline of 2.5% in Q3 (8.5%) over the past 2 quarters). Both Caroline County (-1.0%) and Spotsylvania County (-0.8%) also recorded fairly decent declines in vacancy. Stafford County (+0.2%) posted the only increase in vacancy and King George County remained flat.

While demand in the industrial market is remaining strong, the Region is not yet enjoying rent growth. Industrial rental rates dropped for the region (-\$0.08) again in Q3, marking the 4th consecutive quarter of overall rent decline. The City of Fredericksburg (-\$0.07), Stafford County (-\$0.07), and Spotsylvania County (-\$0.08) all posted minor decreases in rents. King George and Caroline County's rents remained flat over the third quarter. 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.

Two major projects are planned for Spotsylvania County and Caroline County that will impact the regions industrial market over the next few years. Lidl is moving forward, planning to break ground in October with their 1 million square foot distribution center. Harris Teeter has announced plans to construct a \$200 million, 1.5 million square-foot distribution center in Caroline County, representing one of the largest industrial investments in Virginia.

Fredericksburg Region: Current Stats

	Region	High	Low
Rental Rates	\$5.44	Stafford \$6.57	Caroline \$3.62
Vacancy	11.10%	King George 18.70%	City of Fred 7.70%
Inventory (SF)	12.8M	Spotsy 5.90M	King George 0.39M

VACANCY DECLINE TO PRE-RECESSION LEVELS

11.10%

Vacancy



Overall industrial vacancy for the region dropped by over 70 basis, in Q3 of 2015.

Lease Rates



The Average Effective lease rate in Q3 of 2015 slightly decreased for the region.

Absorption



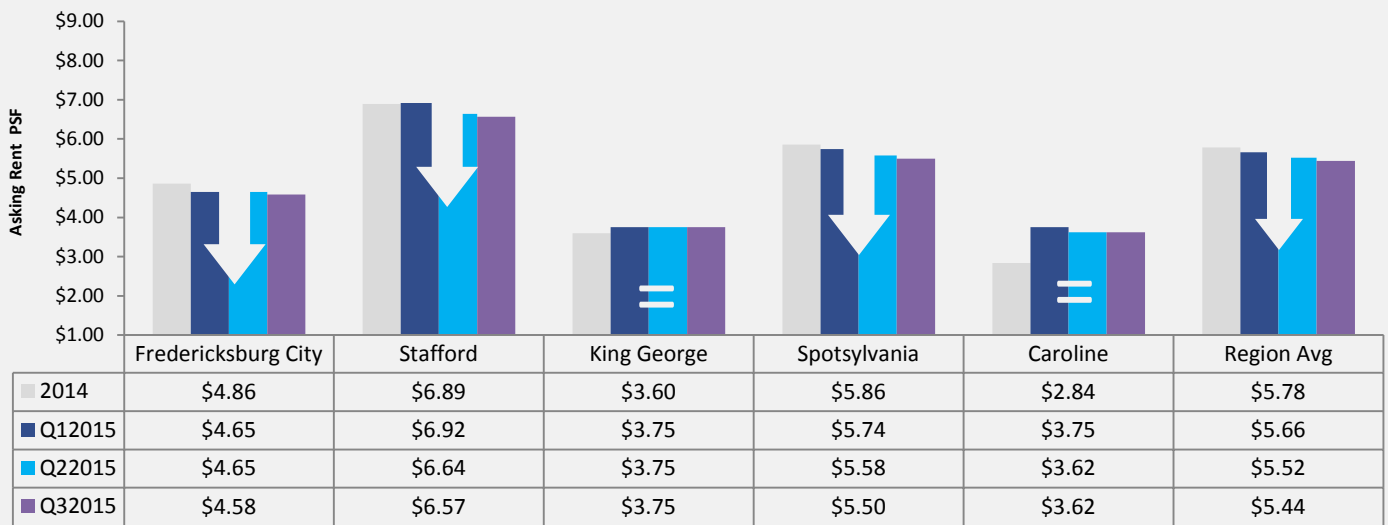
Total Net Absorption in Q3 of 2015 was 77,000 SF

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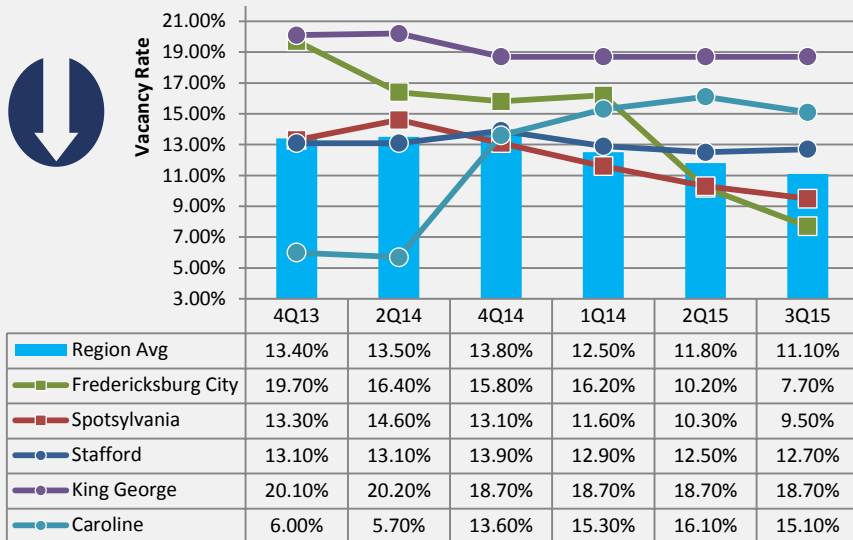
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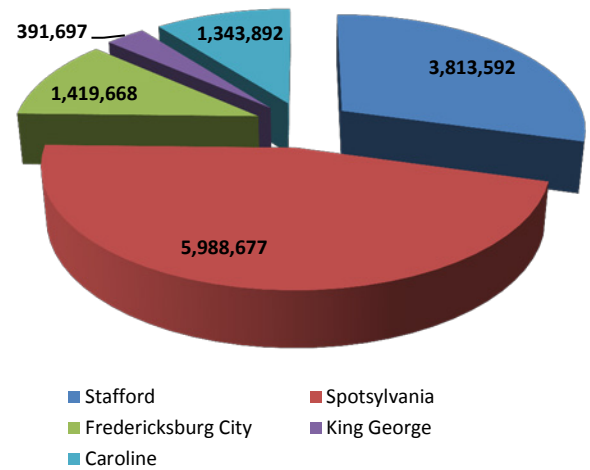
Effective NNN Industrial Rental Rates, By Year and Sub Market 2014-Q3 2015



Vacancy Rates By Sub Market Q4 2013- Q3 2015



Industrial Inventory By County/City (2015)



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**COLDWELL
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MAJOR LEASING ACTIVITY Q3 2015 (3,500 SF +)

Address or Office Park	Tenant	City/County	Space Leased
1127 International Pkwy Stafford Industrial Park	Stealth Sports Inc	Stafford	20,500 SF
10846 Houser Drive	Technology & Supply Management LLC	Fredericksburg	32,500 SF
1120 International Parkway- Stafford Industrial Park	Clarity Aesthetics & Beauty Academy LLC	Stafford	3,960 SF

LEASING ACTIVITY Q3 2015 (Less Than 3,500 SF)

11812 Main St-Bowman Center	NEI Noble Exteriors	Spotsylvania	2,400 SF
33 McWhirt Loop	BC Chassis & Fab	Stafford	3,000 SF
4974 Commerce Drive	Gargu Imports Corp	Spotsylvania	1,500 SF
4970 Commerce Drive	Anderson Auto & Exhaust	Spotsylvania	1,500 SF
10950 Pierson Drive	Clean State Powerwashing	Spotsylvania	3,101 SF
11720 Main St.-Bowman Center	National Wheel	Spotsylvania	1,875 SF
11900 Main Street-Fredericksburg Center (Bowman Center)	Universal Medical Equipment LLC	Spotsylvania	1,345 SF
12 Commerce Parkway, Suite 103- Heritage III	Limitless Automotive LLC	Stafford	3,185 SF
4939 Commerce Dr.-Fredericksburg II Warehouses	Corrsecure	Spotsylvania	1,500 SF
4910 Trade Center Dr	Specialized Medical Services HME	Spotsylvania	1,500 SF

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