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RETAIL

MARKET VANTAGEPOINT

Key Performance Indicators Reveal Retail Market Strength

The Fredericksburg Region's Retail market enjoyed another solid quarter in Q3 2015. Key performance indicators in the commercial real estate market revealed that the region's retail market continues to improve and provide growth opportunities. In Q3 2015 retail vacancy declined, rental rates increased and net absorption remained positive. These key indicators are showing that the market has made it out of the lull from the recession and is starting to reach full stabilization across all measures.

The pain of the recession has made it hard for many people to be optimistic about the real estate market but after fully digesting the statistics people's mood may change:

- Vacancy Rates are less than 5% for only the second time since 2008
- NNN Rental Rates are over \$15 psf for the first time since Q1 2012
- In the past 12 months Net Absorption is over 300,000 SF...that's up 192% from the 5 year average 12 months

The overall retail vacancy rates declined by 20 basis point to 4.9% in Q3 2015. Retail vacancy rates dropped in every locality in the Region with the largest in Caroline County, declining 80 basis point from the previous quarter. Overall retail vacancy for the region is down over

30 basis points from the same quarter of the previous year. Another impressive mark was met in Q3 as every locality recorded vacancy rates under 6%.

Overall NNN retail rental rates for the Region jumped to \$15.26, recording an increase of \$0.38 from the previous quarter and up \$0.66 from the previous year. Spotsylvania County (+ \$0.40) and The City of Fredericksburg (+ \$0.39) experienced the largest rent increases over the third quarter while the counties of King George (-\$0.91) and Caroline (-\$0.74) posted fairly large decreases. Stafford County recorded a slight increase (+\$0.09) but still holds the highest rents in the region.

Net Absorption has remained positive for 5 consecutive quarters with the last quarter of negative absorption in Q2 2014. Over the past 12 months the retail market has seen high demand with over 300,000 SF in positive net absorption compared to the 5 year average of 102,000 SF over 12 months. Leasing activity is also strengthening with over 441,000 SF of retail leased in the past 12 months compared to the 5 years average of 428,000 SF over 12 months.

The outlook for the retail market looks bright for the remainder of the year and into next. With the announcement of a Walmart Supercenter coming to Caroline County and Lidl closing on their 2nd store sites in Spotsylvania County, the area should see an increase in supporting retail leasing and construction activity.

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Fredericksburg Region: Current Stats

	Region	High	Low
Rental Rates	\$15.26	Stafford \$17.81	Caroline \$8.07
Vacancy	4.90%	Caroline 5.50%	King George 3.70%
Inventory (SF)	21.24M	Spotsylvania 9.36M	Caroline 0.66M

Vacancy



Retail vacancy declined by 20 basis point to 4.9% in Q3-2015

Lease Rates



The Average Effective lease rate increased \$0.38 from previous quarter

Absorption



Net Absorption in Q3 of 2015 remained positive

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

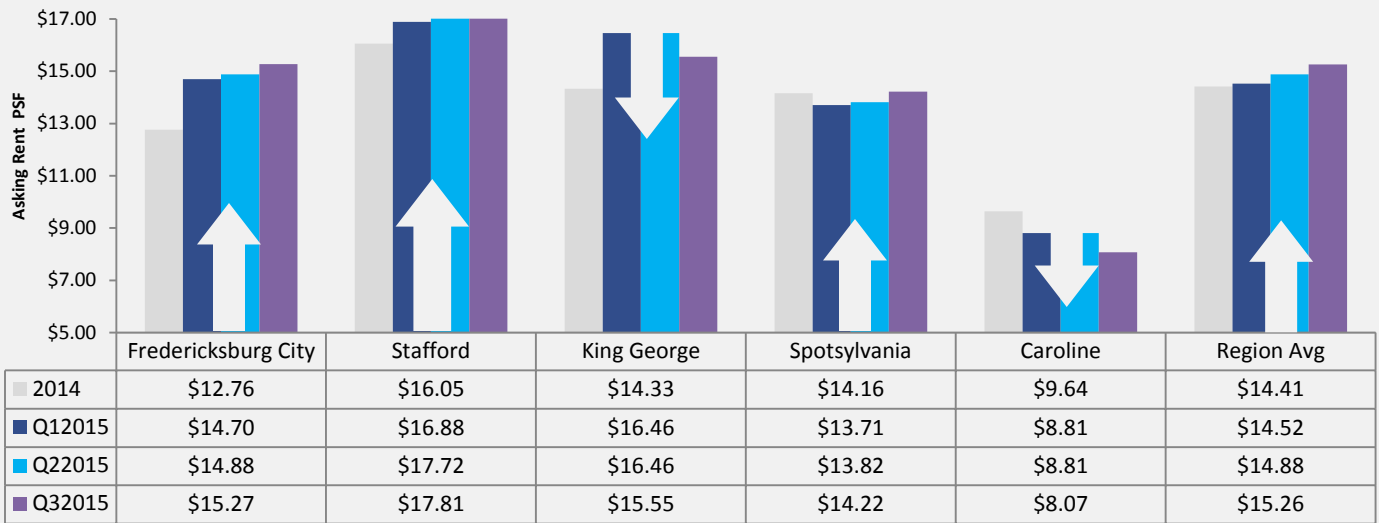
Source: ESRI

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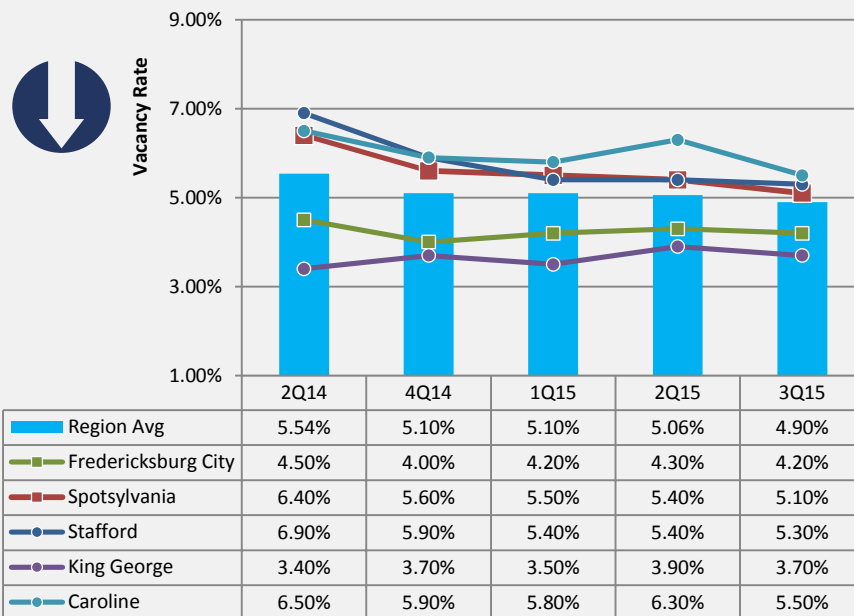
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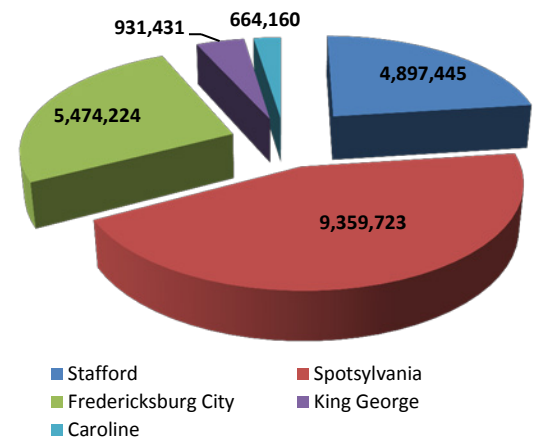
NNN Retail Rents Per SF, By Year and Sub Market 2014-Current (Q3-2015)



Vacancy Rates By Sub Market Q2 2014- Current (Q3-2015)



Retail Inventory (SF) By County/City (Q3 2015)



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Q3 RETAIL NEWS RE-CAP

Walmart Supercenter Planned for Caroline County



Late into the third quarter Walmart announced plans to open a new Supercenter in Caroline County, VA. The 158,000 SF store amounts to nearly 24% of Caroline's current retail inventory. The Caroline County store could provide up-to 300 jobs and marks the fifth Supercenter in the Region (one in every locality). Blackwood Development is also planning for an additional 100,000 SF of supporting retail at the Walmart anchored development.

Aquia Towne Center Redevelopment Underway



The 25-Acre shopping center that has sat idle for years in Stafford County is finally becoming a reality. In May, Mosaic Realty Partners purchased the center for \$6.15 Million and quickly began moving forward. Mosaic Realty is planning a 160,000 SF grocery-anchored

town center which will include a 76,000 SF grocery store that is new to the Stafford market. The space for the new grocery and retail will require an existing Regal Cinemas to be demolished. The new grocery store will also feature a pharmacy, which was confirmed as their conditional use permit for a drive-thru was approved this past September. Another conditional use permit for drive thru was approved for a free standing pharmacy which will most likely involve the relocation of an existing Rite Aid pharmacy on site. Groundbreaking for the commercial project is expected late this year.

Lidl Announces two Planned Location in Spotsylvania County



Lidl, the European Grocery Retailer purchased two store sites in Spotsylvania County during the third quarter. In August, Lidl closed on a two-acre parcel at the Southpoint II development off of the Southpoint Parkway. The second store site was purchased in September, which was a 4.1 Acre parcel at the Intersection of Gordon Rd and Plank Road. The grocery retailer's typical footprint is approx. 36,000 SF and could be similar to the rendering featured above. Lidl plans to open its first U.S. stores no later than 2018 which will possibly include the two stores planned in Spotsylvania County.

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RESTAURANT ROW

New Restaurants in the Region

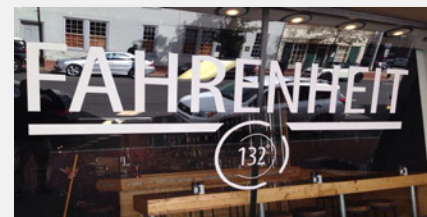
SEDONA TAP HOUSE (OPEN) *City of Fredericksburg*



FREDDY'S FROZEN CUSTARD & STEAK BURGERS (UNDERWAY) *Stafford County*



Fahrenheit 132 (OPEN) *City of Fredericksburg*



The former Cheeseburger in Paradise space in Central Park was leased in June. The 6,605 SF restaurant space was leased to Oishi Sushi King, an upscale, sushi-focused restaurant with locations in VA Beach and Richmond. Oishi is aiming to open before the end of 2015.

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CONSTRUCTION COMPLETIONS Q3-2015

Address or (shopping center)	Tenant(s)	City/County	Building Size
Cowan Crossing	Multi-Tenant: Chipotle, Starbucks, Vocelli's Pizza	Fredericksburg	8,500 SF
Harrison Crossing	Popeye's	Spotsylvania	2,000 SF
Amelia Square	Sedona Tap House	Fredericksburg	5,000 SF
Washington Square	Auto Zone	Stafford	6,912 SF
Ladysmith Rd & Jefferson Davis Hwy	CVS Pharmacy	Caroline	5,000+ SF
Four Mile Fork Shopping Center	Dunkin Donuts & Baskin Robbins	Spotsylvania	2,856 SF

CONSTRUCTION UNDERWAY/ STARTS Q3-2015

Parkview-Mixed Use	Bank of Chesapeake	Fredericksburg	4,000+ SF
Carter's Crossing	Multi-Tenant: Chipotle, Freddy's, AT&T & Quickway Hibachi	Stafford	9,660 SF

Construction & Expansion Highlights Q3 2015

A free standing CVS Pharmacy was completed in Caroline County-opened Aug-2015

Dunkin Donuts/Baskin Robbins completed the repurposing of the vacant Sun Trust Bank at Four Mile Fork Shopping Center

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

Construction of 8,500 SF Multi-Tenant Building at Cowan Crossing is was completed-Chipotle and Starbucks Open

9,660 SF Retail Building is near completion at Carter's Crossing-Stafford featuring Freddy's, Chipotle, AT&T and Quickway Hibachi

Popeye's at the Harrison Crossing Development in Spotsylvania was completed and opened for business

The Community Bank of The Chesapeake is well underway at the Parkview mixed-use project in Downtown Fredericksburg

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