

INDUSTRIAL

MARKET VANTAGEPOINT

ELITE
Reports

2015
Q4



ELITE

Market Overview

In the fourth quarter of 2015 the Fredericksburg Region's industrial market was relatively unchanged. The year as a whole was a completely different story. In 2015 the industrial market reached clear stabilization, major growth plans were announced and construction commenced. In October of 2015 Lidl, the European Grocery Retailer, broke ground on a 1.0 million sq. ft. distribution center. This single facility will represent nearly 17% of Spotsylvania County's current inventory (5.9 million sq. ft.) and over 7.5% of the entire Region's inventory (12.99 million sq. ft.).

There were no new deliveries in the 4th quarter 2015, and at year end there have only been 16,000 SF total delivered in 2015. New construction has been very limited over the past few years and when the Lidl facility is completed it will amount to be more new space than has been delivered in the past 8 years combined. Net absorption in the industrial market slowed in the 4th quarter but finished the year strong with over 342,000 in positive net absorption, a massive increase from year total in 2014 (-35,050).

In the 4th quarter vacancy rates slightly rose by 10 basis points to 11.2%, marking the only quarter with vacancy increases in 2015. In 2014 industrial market vacancies climbed from 12.9% in Q1 2014 to 13.8% in Q4 2014, where as 2015 vacancy rates have continuously dropped, closing the year with a 260 bps drop between Q4 2014 and Q4 2015. For the 4th quarter 2015, Spotsylvania County and Caroline County were the only two markets that

experienced a decline in vacancy, with Caroline posting the largest drop of 0.8%. Stafford County and The City of Fredericksburg both experienced minor increases in vacancy in the 4th quarter with Stafford increasing by 20 bps and Fredericksburg by 30 bps. Although vacancy rates edged up for the City of Fredericksburg in the 4th quarter the City witnessed the largest overall decline in vacancy from Q4 2014 (15.8%) to Q4 2015 (8.1%), dropping by a massive 7.7%. The industrial market in King George remained unchanged in the 4th quarter and throughout most of 2015 where vacancy held at 18.7%, the highest in the region.

The Region's industrial market witnessed its first quarter of rent growth for the year in Q4 2015. Industrial rents increased by 6.4% in the 4th quarter to \$5.79 per SF. Oddly enough, the only quarter where vacancy rates rose, so did the effective rents, which has been the opposite of what the market has witnessed throughout 2015. Rents grew for both Spotsylvania (+\$0.05) and Stafford (+\$0.20) where as The City of Fredericksburg (-\$0.10) and Caroline County (-\$0.01) experienced a decrease. Industrial rents in King George County remained unchanged. The Region's industrial rents declined a mere 0.8% year over year from \$5.84 psf in Q4 2014. Caroline County was the only market where rents increased during the year from \$2.75 in Q4 2014 to \$3.61 psf in Q4 2015.

The market has reached a period of stabilization and as Industrial vacancy rates in the Region remain at historical lows, effective rents will most likely begin to trend upward.

Fredericksburg Region: Q4 2015 Stats

	Region	High	Low
Rental Rates	\$5.79	Stafford \$6.77	Caroline \$3.61
Vacancy	11.20%	King George 18.70%	City of Fred 8.1%
Inventory (SF)	12.99M	Spotsy 5.90M	King George 0.39M

2.5 Million SF
OF INDUSTRIAL CONSTRUCTION
IN THE PIPELINE

Vacancy



Overall industrial vacancy for the region increased slightly by 10 basis point in Q4 2015

Lease Rates



The Average industrial rents increased by 6.4% in Q4 2015.

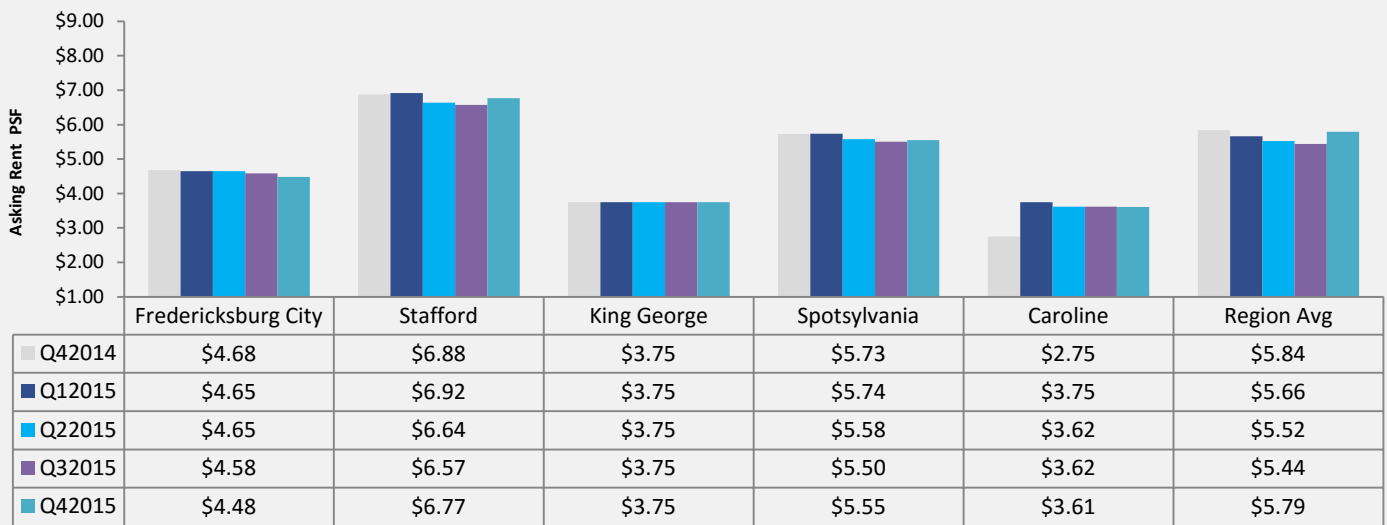
Absorption



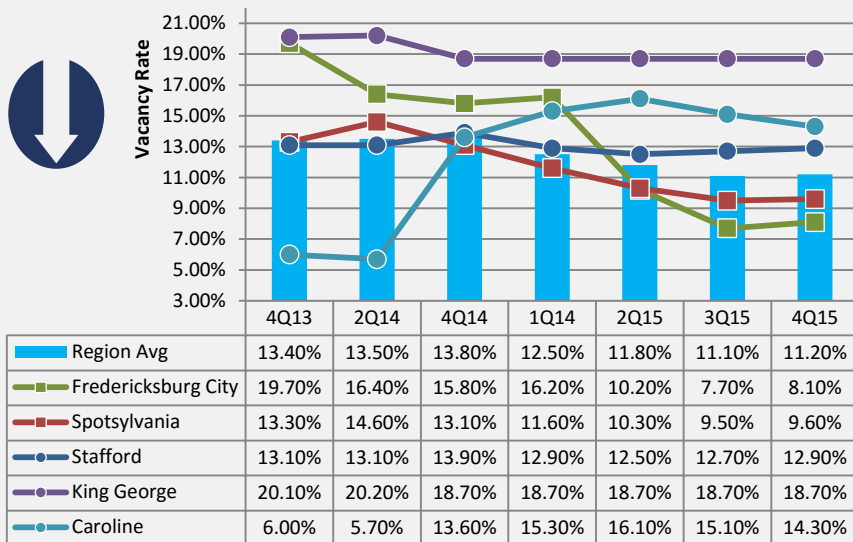
Total Net Absorption for 2015 was 342,061 SF

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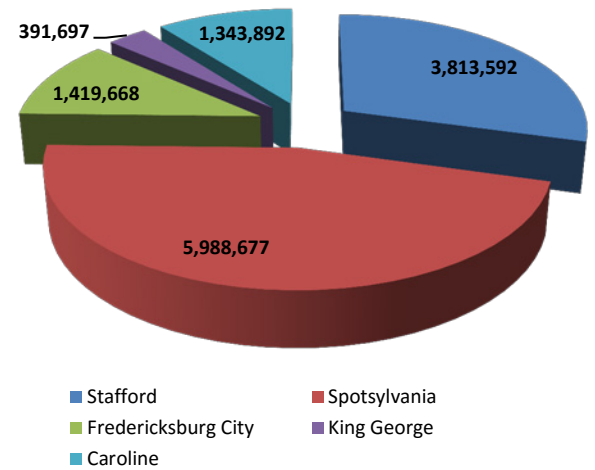
Effective NNN Industrial Rental Rates, By Year and Sub Market Q4 2014 – Q4 2015



Vacancy Rates By Sub Market Q4 2013- Q4 2015



Industrial Inventory By County/City (2015)



Data contained herein has been obtained from third party sources deemed reliable; no warranty, expressed or implied, is made regarding the accuracy, adequacy, completeness, legality, reliability or usefulness of any information. List of Sources are available upon request.

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MAJOR LEASING ACTIVITY Q4 2015 (3,500 SF +)

Address or Office Park	City/County	Tenant	Space Leased
3321 Bourbon Street-Bowman Center	Spotsylvania	Virginia Unity Softball	11,360 SF
2004 International Pkwy	Stafford	1-800 Pack-Rat	19,449 SF

LEASING ACTIVITY Q4 2015 (Less Than 3,500 SF)

3508 Shannon Park Dr	Fredericksburg	Lumenium Inc.	3,000 SF
101 Juliad Ct	Stafford	Commonwealth EMS	3,000 SF
96 Truslow Rd	Stafford	America Morroquin	1,500 SF
10 Commerce Pkwy	Fredericksburg	EBN Construction Products LLC	2,360 SF
33 McWhirt Loop	Stafford	CT3 Motorsports	1,200 SF
230 Industrial Dr.-Longwood Business Center	Spotsylvania	Wired Up Fiber & Data	3,000 SF
11901 Bowman Drive-Deep Run	Spotsylvania	Dsign and Graphics LLC	3,000 SF
27 McWhirt Loop-Unit 108	Stafford	Bourne Paint & Body	1,800 SF

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REGIONAL YEAR OVER YEAR STATS

2014-2015

0.8%

Effective Rents declined 0.8% from Q4 2014

2.6%

Vacancy rates have declined by 2.6% since Q4 2014

377,111 SF

Total Net Absorption increased by 377,111 SF from 2014

Industrial Mega Projects Underway

Two Mega Projects were announced in 2015 that will have substantial effects on the Fredericksburg Region. One of these projects mentioned previously is the 1 million SF Lidl Distribution Facility in Spotsylvania County that broke ground in October. The second, which has yet to be started, is the 1.5 million SF Harris Teeter distribution facility planned for Caroline County.



Harris Teeter Facility Rendering

These projects will not only be two of the largest industrial facilities to be built in the Region, but would represent two of the largest industrial investments in Virginia. For this reason both projects received tremendous support from both County and State officials to include a total of roughly \$16 million in county incentives and state grants combined.

In October, Caroline County approved

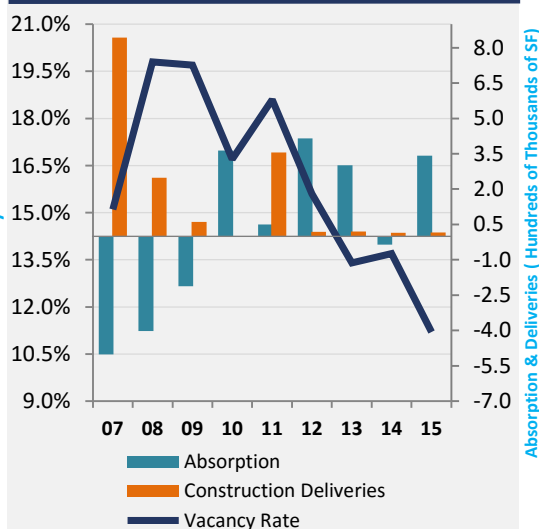
the rezoning of 190 acres for a 1.5 million SF Harris Teeter distribution center. Construction on the first phase of the project is not expected to begin until 2017 and will be at least 650,000 SF. The value of the project will likely exceed \$200 million by completion and will employ over 400 people. This will surpass Caroline County's largest economic investment, previously held by McKesson Corp. who built a \$50 million, 340,000 SF distribution center nearby. Caroline County has committed about \$3.4 million for the project for infrastructure, land acquisition, and construction costs while also receiving a \$650,000 grant from the Commonwealth's Opportunity Fund to assist with the project.

Lidl's facility, which is currently underway in Spotsylvania County, is situated on 82 acres which the company purchased in 2015 for \$2.1 million. The distribution center is expected to be completed by the middle of 2017, will cost roughly \$125 million and supply over 200 jobs. Spotsylvania County approved \$9.7

million incentive package for Lidl's project that includes property tax rebates, sales tax rebates, and funding for infrastructure improvements.

The scale of these two projects are massive by any standards. At completion these projects combined total 2.5 million SF. That's 19.2% of the industrial space inventory for the entire Region. The 1.5 million SF Harris Teeter facility will more than double Caroline County's current industrial inventory of 1.34 million. The Lidl project, once completed, will exceed the total amount of industrial space delivered in the Region over the past 8 years. These projects confirm that companies are investing in Virginia, and with large available land tracts paired with our strategic location, the Region should continue to attract comparable industrial investments.

Industrial Net Absorption, Vacancy and Deliveries



Lidl Ground Breaking (Oct-2015), Spotsylvania, VA (source: fredericksburg.com)

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