

# FREDERICKSBURG-VA

# OFFICE MARKET VANTAGEPOINT

ELITE  
Reports

2015  
Q4



ELITE

## Market Overview

The Fredericksburg Region's office market continued its unpredictable path toward recovery through the fourth quarter. For Q4 2015 the regional office market experienced a slight improvement as rental rates increased despite a slight uptick in vacancy.

In the 4th quarter of 2015 vacancy rates slightly increased for the second consecutive quarter by 10 basis points to 14.2%. The office market in the Fredericksburg Region has been somewhat unpredictable over the past few years as it seems to be the only market not clearly trending towards recovery. Between 2010 and 2012 vacancy rates dropped from a market high of 13.7% in the region before climbing back to the current rates which are a historical high. In comparison to the 4th quarter of 2014 (13.8%) vacancy rates have edged up 50 basis points.

During the 4th Quarter of 2015, every locality in the region saw a minor increase in vacancy except Caroline County (6.6%) who remained unchanged and King George which witnessed a 7.4% decrease from the previous quarter. Stafford & Spotsylvania County posted the largest increases in vacancy in the 4th quarter with Stafford increasing by 120 bps and Spotsylvania by 90 bps. Stafford County also holds the highest vacancy rates in the Region at 18.1% where as The City of Fredericksburg (8.1%) and Caroline County (6.6%) hold the lowest rates at year end. While Caroline County may hold the lowest vacancy in the region, it also represents the smallest inventory (397,000 SF) in comparison to the City of Fredericksburg with the second largest inventory at 2.6 million SF.

Although vacancy rates are increasing throughout the Region effective office rents are seeing growth. Effective rents in the Region grew by \$0.65 in the third quarter. Effective office rent growth has been strong throughout 2015, posting an increase of \$1.17 year over year from the 4th quarter of 2014. The counties of King George and

Caroline where the only two localities in the region that witnessed no effective rent growth in the 4th quarter as Caroline County (\$16.67) rents remained flat and King George (-\$0.19) experienced a slight drop. Stafford County experienced the largest increase in rents (+\$0.92) while Spotsylvania (+\$0.31), and Fredericksburg (+\$0.18) had minor increases. Stafford County has posted three consecutive quarters of strong rent growth and currently holds the highest rents in the region at \$24.92, which is up \$1.83 from Q4 2014.

While demand for office space in the region remains strong, with over 457,000 SF leased in 2015, we are seeing a decline in overall net absorption. Office leasing increased by 40% from 324,000 SF leased in 2014 to 457,000 SF in 2015. Net absorption also recorded an increase of 33% from 2014 (-38,953) but the region didn't manage to make it out of the red, recording a 2nd consecutive year of negative net absorption (-25,759 SF) for 2015.

The region did not record any new deliveries in the 4th quarter 2015 and completed the year with a historical low of only 14,700 SF delivered. The last real boom in new office construction was in 2012 where 227,000 SF of new office space was delivered which can be largely attributed to the 153,000 SF building completed at Quantico Corporate Center. The past few years following 2012, new deliveries have continued to decline but we are beginning to witness a change. With net absorption lagging it is odd to see that there is over 253,000 SF of new office space under construction as of Q4 2015. Demand for new office space is increasing. As this continues to trend older buildings will have to be upgraded to compete in the marketplace.

As we close out 2015 the office market remains unpredictable with vacancy increasing, rents growing, leasing activity strengthening, and construction flourishing we can only expect that the market will stabilize in 2016 and even expand as the office segment plays catch up to the other CRE segments in the Region.

## Fredericksburg Region: Current Stats

	Region AVG	High	Low
Rental Rates	\$23.19	Stafford \$24.92	Caroline \$16.67
Vacancy	14.2%	Stafford 18.1%	Caroline 6.6%
Inventory (SF)	9.69M	Stafford 3.78M	Caroline 0.4M

## Vacancy



Overall office vacancy increased by 10 basis points to 14.2% in Q4 2015

## Lease Rates



The Average Effective office rents increased 2.8% in Q4 2015 for the region.

## Absorption



Overall office Absorption remained positive in Q3 2015

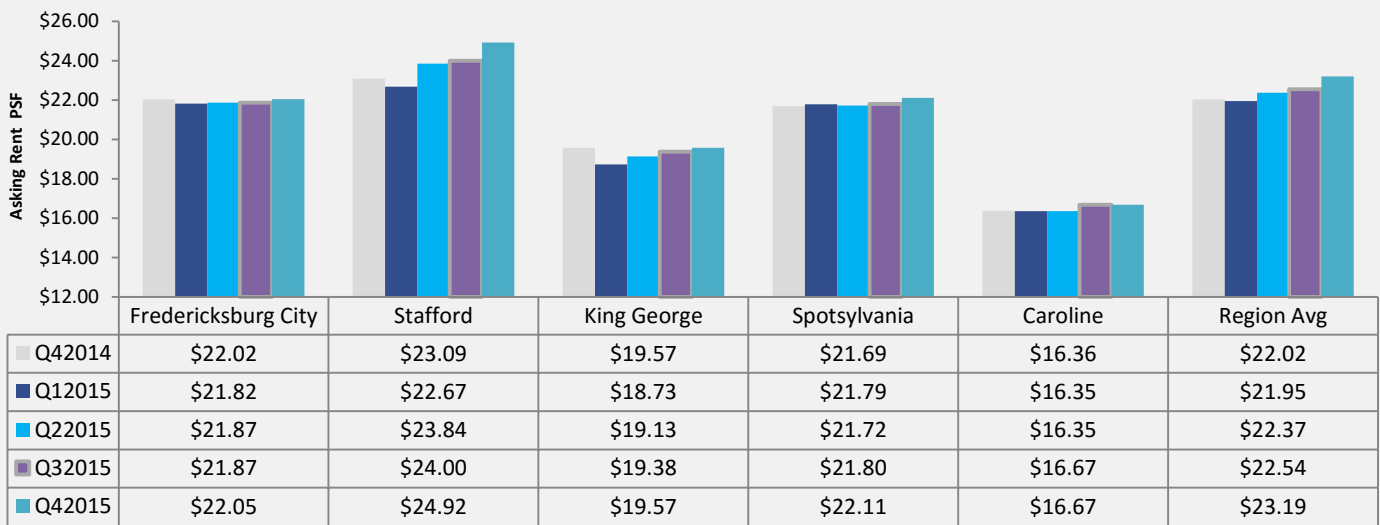
## Demand (2015)

LEASING ACTIVITY: 457,480 SF  
NET ABSORPTION: -25,759 SF

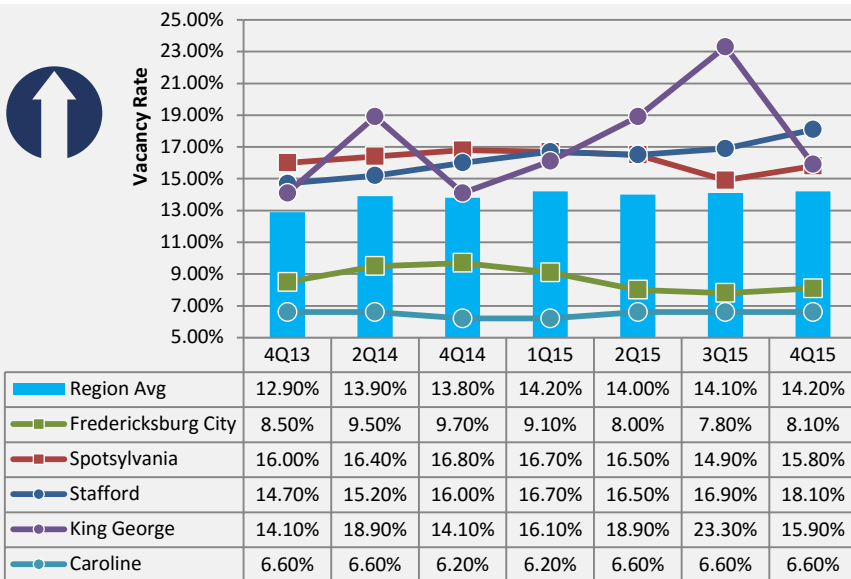
# OFFICE

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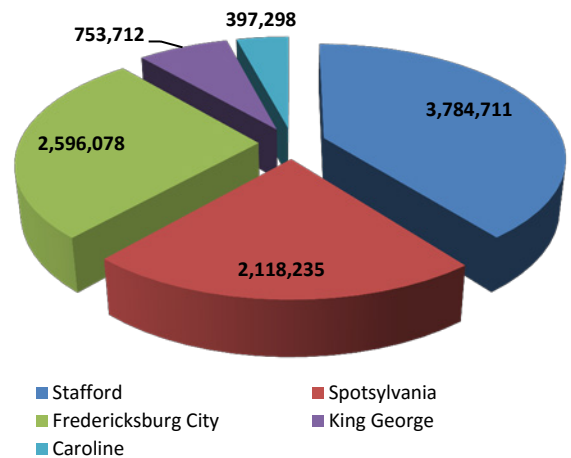
Gross Office Rental Rates, By Year and Sub Market Q4 2014- Q4 2015



Vacancy Rates By Sub Market Q4 2013- Q4 2015



Office Inventory By County/City (Q4 2015)



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### LEASING ACTIVITY Q4 2015 (3,000 SF +)

Address or Office Park	City/County	Tenant	Space Leased
20 PGA Drive	Stafford	Key Communications, Inc.	5,000 SF
4730 Business Drive	Fredericksburg	REXEL, Inc.	9,600 SF
50 Tech Parkway	Stafford	Joint Research & Development	3,938 SF
150 Riverside Pkwy	Stafford	Personal Selling Power, Inc	3,370 SF
12 Commerce Pkwy	Stafford	Tri Wire Engineering Solutions, Inc.	3,450 SF
1320-1440 Central Park Blvd.	Fredericksburg	EK Franchising Company	3,978 SF

### LEASING ACTIVITY Q4 2015 (Less Than 3,000 SF)

4920 Southpoint Drive	Spotsylvania	The Cleaning Authority	1,500 SF
1701 Fall Hill Ave	Fredericksburg	At Home Care Staffing, Inc	1,500 SF
1671 Jefferson Davis Hwy	Stafford	Raymond James & Assoc., Inc	1,885 SF
3327 Bourbon Street	Spotsylvania	C2M, LLC	1,150 SF
710 Princess Anne Street	Fredericksburg	TechINT	1,050 SF
9110 Old Battlefield Blvd	Spotsylvania	Edward Jones	1,300 SF
1701 Fall Hill Ave	Fredericksburg	Therapy Toolbox	1,180 SF

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## REGIONAL YEAR OVER YEAR CHANGE

2014-2015

5.3%

Effective Rents are up 5.3% from Q4 2014

40

Basis Points

Vacancy rates have increased by 40 basis points since Q4 2014

33%

Net Absorption is up 33% from 2014



New 12,000 SF, 3-Story Office, Spotsylvania, VA

been completed. The growth can also be attributed to the completion of two new hospitals, Stafford Hospital in 2009 and Spotsylvania Regional in 2010, which assisted in medical office growth during these years.

The office market in the Region continued a steady growth pattern up through 2012 as construction deliveries and absorption were on a near even path. During this stretch of time, 2010-2012, vacancy dropped from 13.7% in Q4 2010 to 12.6% in Q4 2012. Over 732,000 SF of new office space was completed of which 62% was located at Quantico Corporate Center, at virtually 100% occupancy. But by the end of 2012 growth had come to a halt and has been virtually suspended to current day.

The turning point for the office market began in 2013, as construction came to a halt and demand plunged. The largest contribution to this end was and still is Sequestration, which will lower federal spending by \$1.1 trillion between 2013-2021. Consequently the Region's office market has been hit hard. Vacancy rates have since edged up year over year to a current historical high. Furthermore, over the past few years medical office activity has stalled while providers weigh the impacts of the Affordable Health Care Act.

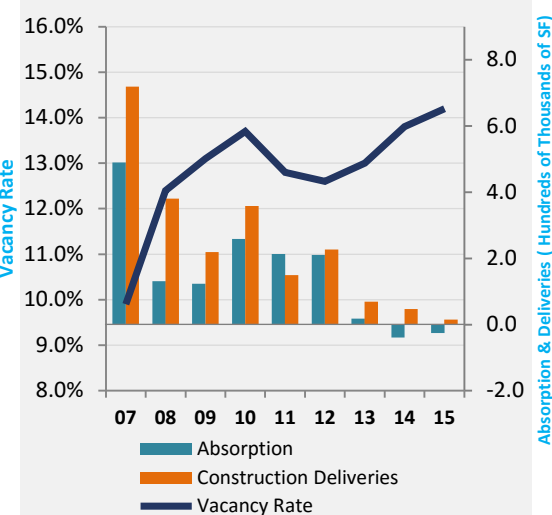
Looking forward, the health of the office market is still hard to predict. The market will continue to rely heavily on defense spending and industry output from our military bases which will be focused on tech fields such as cyber security. Professional services such as finance and engineering firms are rebounding and as the Region continues to grow we should also begin to attract more specialized health care providers. With the improvement of these three sectors the overall office market should begin to trend back towards stabilization and growth.

### The Big Picture: Pre-Recession to Now

The Fredericksburg Region's office market has been somewhat lagging in comparison to other markets. The Region's current inventory of existing office space now totals 9.62 million SF as of the 4<sup>th</sup> quarter 2015. Over the past three years, 2013-2015, the office market has been in a state of flux rather than the slow & steady growth and improvement relative to the other CRE segments, with negative net absorption of -64,700 SF exceeding new construction deliveries of 62,000 SF, vacancy rates are continuing to climb. From Q4 2013 (13.0%) to Q4 2015 (14.2%) vacancy rates have jumped 1.2%

With 3 large military installations contributing over \$7 billion in yearly economic impact and the close proximity to the Nation's Capital, the Fredericksburg Region's office market is heavily dependent upon federal spending. During pre-recession years, when federal defense spending was at historical highs, office growth ensued. Defense spending propelled growth at new office parks in the Region such as Quantico Corporate Center (QCC) where over 453,000 SF of office space has

Office Net Absorption, Vacancy and Deliveries



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