

RETAIL MARKET VANTAGEPOINT



Region's Retail Market Reveals Strengthening Trends in 2015

The Fredericksburg Region's Retail market truly revealed its strength throughout 2015. The region's retail market as a whole performed fairly well over the previous quarter but with the 2015 year coming to a close, we can begin to discern the trends that should carry into 2016 as we analyze Q4 along with the Year over Year comparisons.

Vacancy rates in the Region have continued a slow & steady decline over the past few years. At the current vacancy rates we are only down 1.6% from the market highs prior to the recession. Retail vacancy rates in the Fredericksburg Region for the 4th quarter 2015 are 4.7%, down 20 basis points from Q3 2015. The year to year decline totaled 40 basis point as retail vacancy rates dropped from 5.1 % in the 4th quarter 2014.

During Q4, retail vacancy rates dropped in every locality in the Region excluding the City of Fredericksburg which witnessed an increase of only 30 bps. Stafford County experienced the largest decrease in vacancy in the 4th quarter with a drop of 100 bps from the previous quarter. Stafford also recorded the largest drop in retail vacancy over the year, down 150 bps year over year, from 5.9% at Q4 2014.

Overall NNN effective retail rents for the Region dropped ever so slightly

from \$15.26 at Q3 2015, to \$15.12 during Q4, a mere 0.9%. Two counties that saw increases in rental rates were Caroline County (+\$0.88 psf) and King George (+\$0.66 psf).

Although effective rents for the Region dropped in the 4th quarter, they are beginning to trend upward as seen in year over year change. Effective rents for the Region increased by 3.7% during 2015, the only year to year increase since 2010-2011. Stafford County had the largest change in effective rents during the year, recording an 8.2% increase from Q4 2014 (\$16.42 psf) to Q4 2015 (\$17.76 psf), also finishing the year with the highest rents in the region.

Net Absorption remained positive in Q4 2015 marking the 6th consecutive quarter with positive net absorption. In the 4th quarter, the Region's retail market recorded over 52,000 SF in positive net absorption. The 4th quarter's positive net absorption numbers bring the overall yearly total to 177,546 SF. Net absorption is up 49% from 2014 and marks the strongest yearly performance in 5 years.

The past year has revealed that the retail market is continuing to strengthen and although the market may fluctuate from quarter to quarter, key indicators show that it is trending in the right direction. In 2016 the Region should continue its progression, and as interest becomes stronger our area will add to the growing list of new retailers.

ELITE Reports

2015 Q4



ELITE

Fredericksburg Region: Current Stats

	Region	High	Low
Rental Rates	\$15.12	Stafford \$17.76	Caroline \$8.95
Vacancy	4.70%	Caroline 5.40%	King George 3.30%
Inventory (SF)	21.31M	Spotsylvania 9.36M	Caroline 0.67M

Vacancy



Retail vacancy declined by 20 basis point to 4.7% in Q4-2015

Lease Rates



The Average Effective lease rate decreased 0.9% in Q4-2015

Absorption



52,000 SF of Positive Net Absorption in Q4 of 2015

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

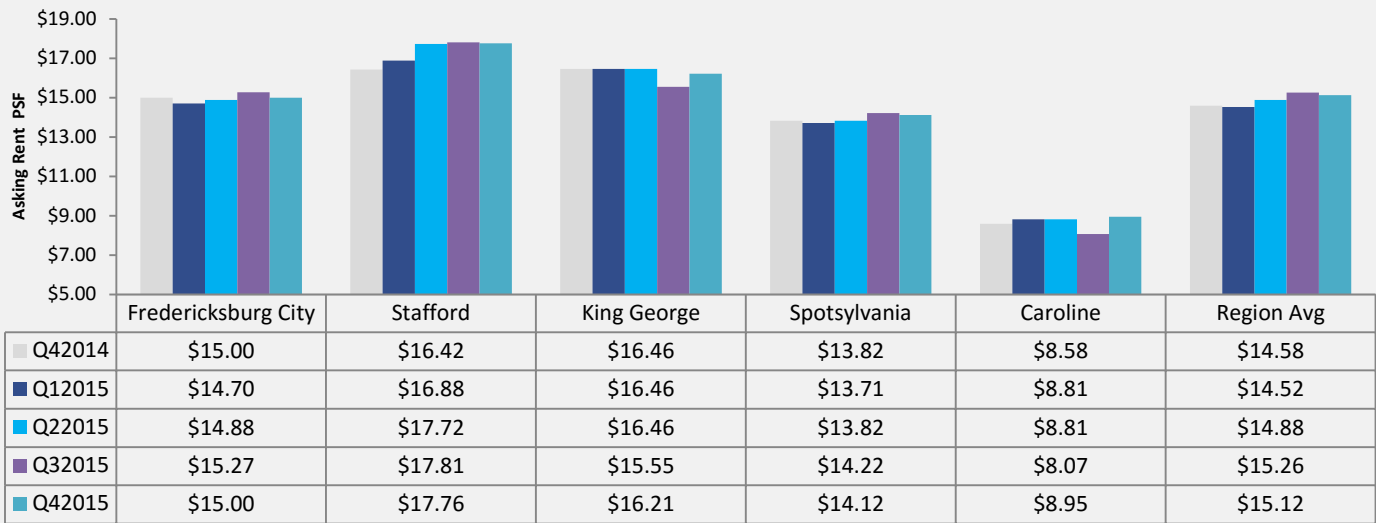
Source: ESRI

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.

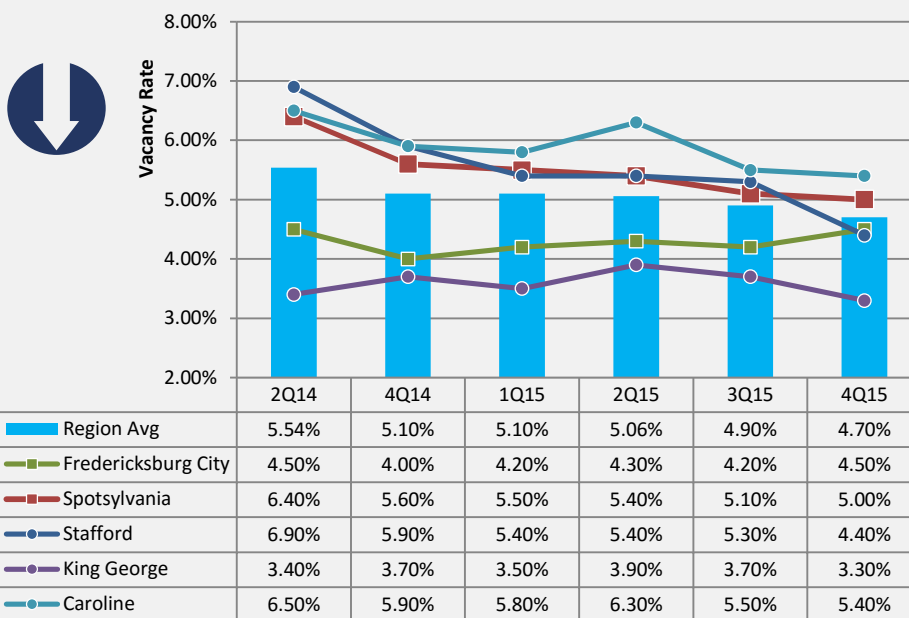
RETAIL

MARKET VANTAGEPOINT

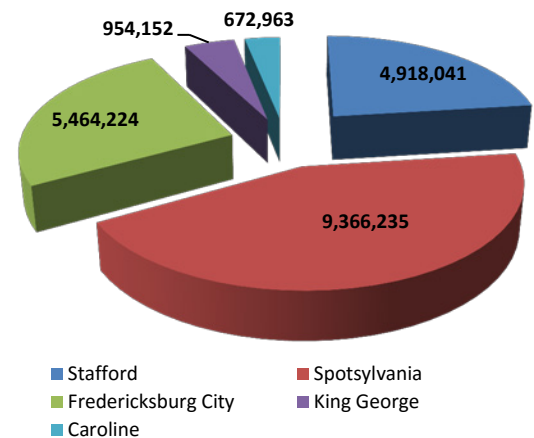
NNN Retail Rents Per SF, By Quarter and Sub Market Q4 2014 - Q4 2015



Vacancy Rates By Sub Market Q2 2014- Current (Q4-2015)



Retail Inventory (SF) By County/City



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.

RETAIL

MARKET VANTAGEPOINT

ELITE
Reports

2015
Q4



ELITE

500,000+ SF

IN THE PIPELINE

Notable Announcements 2015

Walmart Announced Plans to Build a 158,000 SF Supercenter in Caroline County. The development will also include up to 100,000 SF of supporting retail

Plans are being finalized on the redevelopment of Aquia Towne Center in Stafford. The planned Grocery Anchored center will total approx. 160,000 SF



LIDL, Spotsylvania County (Dec-8-2015)

New retail deliveries were limited in the 4th quarter of 2015 but in a year over year comparison total deliveries were up over 140% from 2014. One notable completion in the 4th quarter of 2015 was a new 9,660 SF multi-tenant retail building at Carter's Crossing in Stafford, VA featuring AT&T, Chipotle and two restaurants new to the region, Quickway Hibachi and Freddy's Frozen Custard & Steakburgers.

Currently over 52,000 SF of new retail is under construction including Lidl's first Regional location in Spotsylvania County. Lidl, the European Grocery Retailer broke ground on the first of two store locations in the Region during the 4th Quarter. Construction is moving along rapidly on Lidl with completion expected in 2016. Lidl has not yet announced plans for when construction will begin on their 2nd location in Spotsylvania County.

Cookout is well underway on their 2nd location in the Region, which will be located in the Cosner's Corner area of Spotsylvania County. Cookout opened their first Fredericksburg Region location in May of 2015.

Also underway is a new 8,200 SF multi-tenant building in King George Gateway that will feature Starbuck's, Sleepy's and Tropical Smoothie who are all new retailers for King George County.

Sheetz has been rapidly expanding in the Fredericksburg Region over the past few years, opening 3 stores with a 4th currently underway. Sheetz opened a new King George location in May of 2015 and construction on a new store in Stafford County is near completion.

New retail construction growth is positioned to continue into 2016 with new and existing retailers expanding in the Region.

CONSTRUCTION COMPLETIONS Q4-2015

Address or (shopping center)	Tenant(s)	City/County	Building Size
Carter's Crossing	Multi-Tenant: Chipotle, Freddy's, AT&T & Quickway Hibachi	Stafford	9,660 SF

CONSTRUCTION UNDERWAY/ STARTS Q4-2015

Parkview-Mixed Use	Bank of Chesapeake	Fredericksburg	4,000+ SF
5455 Plank Road	LIDL	Spotsylvania	36,000 SF +/-
King George Gateway	Multi-Tenant: Starbuck's, Sleepy's & Tropical Smoothie	King George	8,200 SF
5410 Jefferson Davis Hwy	Cookout	Spotsylvania	3,000 SF +/-
Furnace Rd & 610/Garrisonville Rd	Sheetz	Stafford	6,500 SF +/-

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.

RETAIL MARKET VANTAGEPOINT

ELITE Reports

2015 Q4



ELITE

REGIONAL YEAR OVER YEAR STATS

2014-2015

3.7%

Effective Rents are up 3.7% from Q4 2014

40

Basis Points

Vacancy rates have declined by 40 basis points since Q4 2014

49%

Net Absorption is up 49% from 2014

The Big Picture

The inventory of existing retail in the Fredericksburg Region now totals 21.3 million SF as of the 4th quarter 2015. Over the past 4 years (2012-2015) new retail construction has been limited, with a total of only 276,000 SF of construction deliveries. In 2015 there were over 109,000 SF of new retail space delivered, a good increase in comparison to the 45,000 SF delivered in 2014. Most areas around the U.S. experienced limited construction due to tighter financing regulations and the plethora of existing vacant inventory as we have seen here in the Fredericksburg Region.

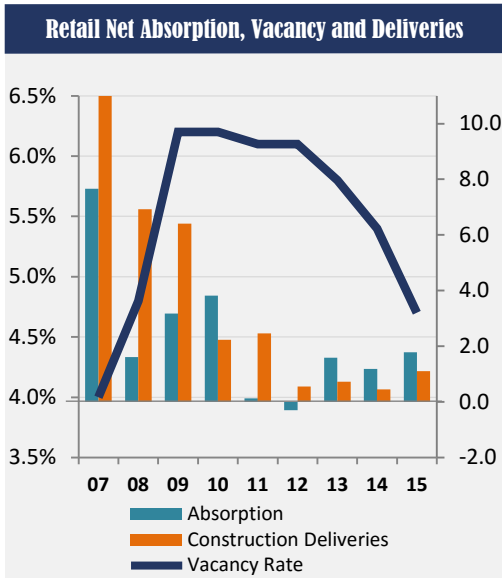
During the Mid-2000's the Region witnessed massive growth in the retail market, with new shopping centers being completed just as the recession hit. Over a 3 year period (2007-2009) over 11% of the Region's current retail inventory was constructed and in 2007 alone there was a massive 1.1 million SF

of retail delivered. There were some fairly flat years that followed this influx which, coinciding with the lack of retail expansion, caused vacancy rates to climb. However, we are finally working our way out of the pitfalls of the recession and trending in the right direction.

The turning point for the Fredericksburg Region occurred in 2013 as positive net absorption began to increase, driving vacancy down to 5.8%. Over the past 2 years we have seen these trends continue and slowly we have reached stabilization and evolved into growth. Any person who was in the commercial real estate industry, whether a developer, broker or contractor can attest to the changes brought by the "great recession" that we are witnessing today.

The recession has helped mold most of the trends that we are seeing today, ultimately initiating smarter and more strategic retail development. In the

Fredericksburg Region, nearly all new shopping centers are being delivered at or near 100% leased, such as the 72,000 SF King George Gateway shopping center completed in Jan 2015 at 95% occupancy. In part these trends can be attributed to the more stringent financing along with risk mitigation on the part of developers. Exciting developments are happening around the Region and over the next few years we will experience a period of steady growth and reinvigoration of the retail market paired with in-fill development and creative adaptation of 2nd and 3rd generation centers.



King George Gateway-King George, VA

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.