

□ FREDERICKSBURG-VA □

RETAIL MARKET VANTAGEPOINT

Vacancy Rates Hit Sub 5%

For the first quarter of 2015 the retail market in the Fredericksburg Region is continuing to show signs of recovery. Despite a few store closings, new construction is beginning to pick up and new retailers are opening throughout the region.

Overall retail vacancy in the Region declined by slightly in the first quarter of 2015, but a milestone was reached. The overall retail vacancy rate dropped to 4.8%, this is the first time the rates have hit sub 5% since 2008. For every county/city in the region the retail vacancy is below 6%, with King George (3.5%) and the City of Fredericksburg (4.2%) holding the lowest. Long time vacant strip centers are filling up, some that have been over 80% vacant for the past five years.

Retail development slowed in the wake of the Great Recession, but is starting to resume and set to continue. Over 97,000 SF of retail space was completed & delivered in the first quarter bringing the regional retail inventory to 20,982,957 SF.

The 72,000 SF retail center at King George Gateway was completed in February 2015 and as of April 1 nearly all occupants have opened for business. The completion of this project has also brought 3 new retailers to the region including Hibbett Sports, Peebles and Rue 21 opening their first locations at King George Gateway.

A 8,500 SF Multi-Tenant building is well underway at the Cowan Crossings Development that should be completed early summer of 2015, and multiple free standing buildings are under construction throughout the region.

The largest retailer to shut its doors was most likely do to the company restructuring rather than market conditions, as Staples closed their 20,000 SF store in the Cosner's Corner shopping center early in 2015. This closing came about as news of Staples restructuring and possible merger with Office Depot.

QSRs & Infill Development

Quick Service/Fast Casual restaurants are quickly expanding are continuing to lead the way in new construction and growth throughout the region.

Taco Bell opened a new location early 2015 at the Harrison Crossing shopping center in Spotsylvania County. Harrison Crossing has benefited from the expansion of QSRs over the past year as Wendy's and McDonalds also opened locations there and a Popeye's Chicken is currently under construction.

Construction is well underway on the first of multiple Cook Out locations in the region. The location at the Greenbrier Shopping Center in the City of Fredericksburg should be completed early 2nd quarter 2015.

Infill development is currently a trending factor in the retail market. Construction of a Dollar General is nearing completion at Smith Station and Gordon Road in Spotsylvania. According to the developer the store is one of the costliest dollar general stores this developer has ever constructed.

As new construction increases and vacancy drops rental rates will continue to increase and provide better returns for landlords.

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Vacancy



Overall retail vacancy slightly decrease to 4.88% in Q1 2015. Lowest Vacancy Rates in 7 years!

Lease Rates



The Average Effective lease rate increased nearly 40 basis points from previous quarter

Absorption



Net Absorption in Q1 of 2015 was positive at over 88,000 SF

Fredericksburg Region: Current Stats

	Region	High	Low
Rental Rates	\$14.52	Stafford \$16.88	Caroline \$8.81
Vacancy	4.88%	Caroline 5.90%	KG 3.50%
Inventory (SF)	20.98M	Spotsylvania 9.28M	Caroline 0.5M

Industry	Demand (Potential) in Billions	Supply (Sales) in Billions	Retail Gap in Billions
Retail Trade	\$3.870	\$3.033	\$0.836
Food & Drink	\$0.418	\$0.287	\$0.130
Totals	\$4.288	\$3.321	\$0.966

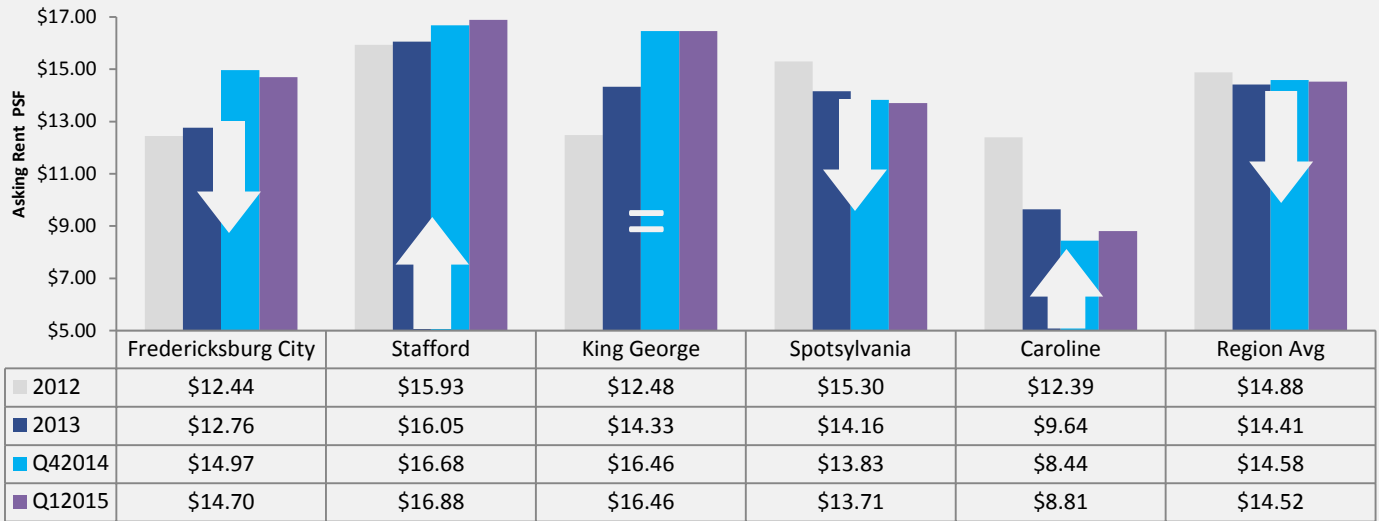
\$966M TOTAL RETAIL GAP

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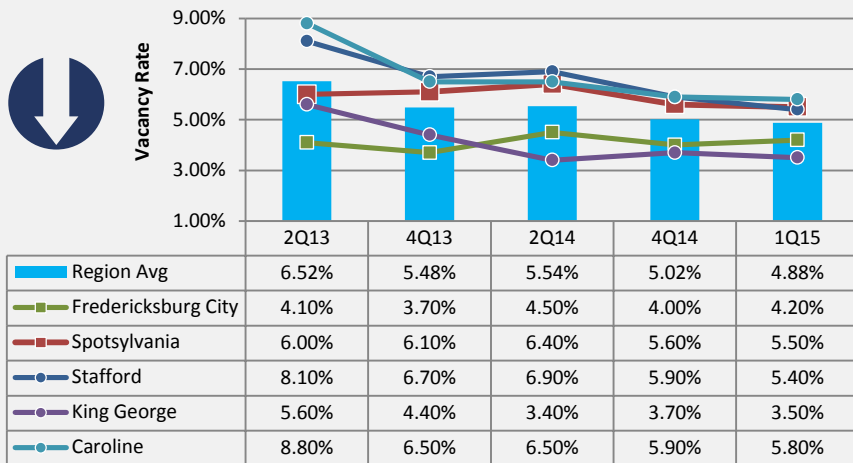
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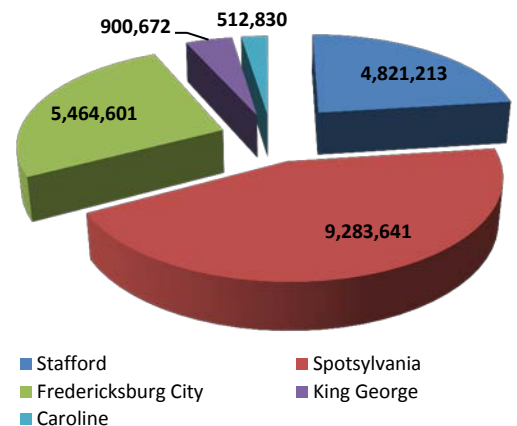
Asking Annual Retail Rental Rates, By Year and Sub Market 2012-2014



Vacancy Rates By Sub Market Q2 2012- Q4 2014



Retail Inventory By County/City (Q1 2015)



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Demand Drives Absorption

For Q1 2015 the region's net absorption was over 88,000 SF. Forecast are showing that the demand for retail space in the Fredericksburg Region is steadily increasing, as new business are opening and existing businesses are expanding.

Both 12 Mo. Retail absorption and leasing are now over the 5 year average. This can be attributed in part by the revitalization of older centers, such as Spotsylvania

Crossing. With a minor facelift and an ability to offer lower rates the older centers are attracting more retailers and driving vacancy down.

New construction starts are also trending over the 5 year average for the first time since the "great recession" with the help of strong pre-leasing activity. Multi-Tenant Retail centers are being delivered near 0% vacancy, such as the new center at King George Gateway that was delivered with only 2,400 SF vacant (3% vacancy).

Construction & Expansion Highlights Q1 2015

Sheetz has 1 additional store in development

Dollar General has 1 store nearing completion. The store that is currently under construction is said to be one of the costliest DG builds in the Nation

Relocation of Lay-Z-Boy Store was completed

Construction of 8,500 SF Multi-Tenant Building at Cowan Crossing near completion

Cook Out's first location in the Fredericksburg area in nearing completion

Popeye's broke ground at the Harrison Crossing Development

CONSTRUCTION COMPLETIONS Q1-2015

Address or (shopping center)	Tenant(s)	City/County	Building Size
King George Gateway	Peebles, Hibbett Sports, Petco, Goodwill, Famous Footwear, Rue 21, UPS	King George	72,000 SF
Harrison Crossing	Taco Bell	Spotsylvania	1,972 SF
Spotsylvania Towne Center	Lay-Z-Boy Furniture Relocation	Spotsylvania	10,000 SF

CONSTRUCTION UNDERWAY/ STARTS Q1-2015

Greenbrier Shopping Center	Cook Out	Fredericksburg	2,000+ SF
Smith Station & Gordon Road	Dollar General	Spotsylvania	9,100 SF
Cowan Crossing	Multi-Tenant	Fredericksburg	8,500 SF
Route 3 & Dahlgren Rd	Sheetz	King George	
Harrison Crossing	Popeye's	Spotsylvania	2,000 SF

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