

OFFICE

MARKET VANTAGEPOINT

ELITE
Reports

2016
Q3



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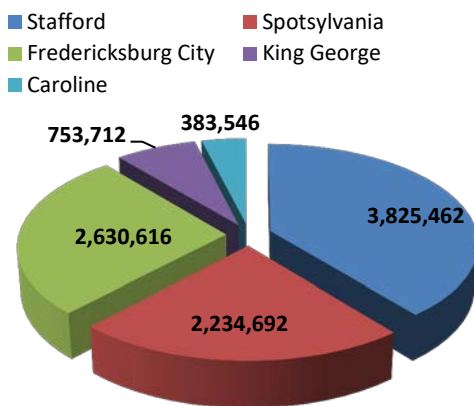
Market Overview

The Office market in the Fredericksburg Region experienced another quarter of sustained improvement across all market health indicators. In the first quarter of 2016, vacancy rates hit a historical high in the first quarter, but since then has rebounded with two consecutive quarters of declining vacancy. In the third quarter of 2016 the office market also recorded above average net absorption (for the second consecutive quarter) and positive rent growth.

Vacancy

Vacancy rates for the Region's office market decreased by 80 basis points(bps) to 13.2% in Q3-2016 bringing the total drop in vacancy to 1% of the past 2 quarters. Year over year vacancy rates are now down 10 bps in comparison Q3-2015. Every locality in the Fredericksburg Region recorded a drop in vacancy in the third quarter. Spotsylvania (-1.0%) and the City of Fredericksburg (-0.9%) recorded the most substantial decreases in vacancy, when considering volume/inventory, in the third quarter of 2016.

Office Inventory (SF) By Locality (Q3 2016)



In comparison Caroline County(-1.2%) recorded the largest percentage drop in vacancy but with only 383,500 SF of total inventory, it equates to a mere 4,910 SF change. Caroline also holds the Region's lowest vacancy rate at 6.3% as of Q3-2016. It seems like Stafford County's office market is beginning to improve, recording a -0.5% drop in vacancy in Q3-2016. The recent drop brings Stafford's total office vacancy rates back down to 17% after a rise to 18.0% at the end of 2015.

Demand – Absorption & Leasing

The Region's office market continued to experience a rise in demand in 2016. In the third quarter the office market recorded over 80,000 sq. ft. in positive net absorption, the highest positive net absorption achieved in the past 11 quarters. Year to date there has been 138,000+ SF in positive net absorption. Leasing activity also remained above average with over 106,000 sq. ft. of office space leased in Q3-2016.

Spotsylvania County led the way in both leasing activity (39,794 SF Leased) and absorption (+24,433 SF) during the third quarter and is leading the region YTD with over 75,000 sq. ft. absorbed in 2016. In the third quarter, The City of Fredericksburg recorded the largest net absorption (+27,591 SF) and also above par leasing (20,308 SF Leased). Despite strong leasing activity with over 38,000 sq. ft. leased, Stafford only recorded 16,665 SF of positive net absorption. Still, Stafford comes in at 2nd in absorption YTD with over 54,000 SF recorded in 2016.

(cont. on next page)

Fredericksburg Region: Current Stats

	Region AVG	HIGH	Low
Rental Rates	\$22.72	Stafford \$24.56	Caroline \$15.61
Vacancy	13.2%	King George 17.0%	Caroline 6.3%
Inventory (SF)	9.77M	Stafford 3.83M	Caroline 0.4M

VACANCY
RATES
DECLINE



80 Basis Points

Overall office vacancy decreased by 80bps (0.8%) to 13.2% in Q3 2016

80,761 sq. ft.

POSITIVE NET
ABSORPTION

Was Recorded in Q3 2016

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Demand-cont. King George (+7,172 SF) and Caroline County (+4,900 SF) recorded modest absorption with very limited leasing activity. Although no new deliveries were recorded in Q3-2016, the region has logged 76,076 SF in new construction deliveries YTD. With an additional 43,600 SF under construction, that number should climb before the end of the year.

Rents

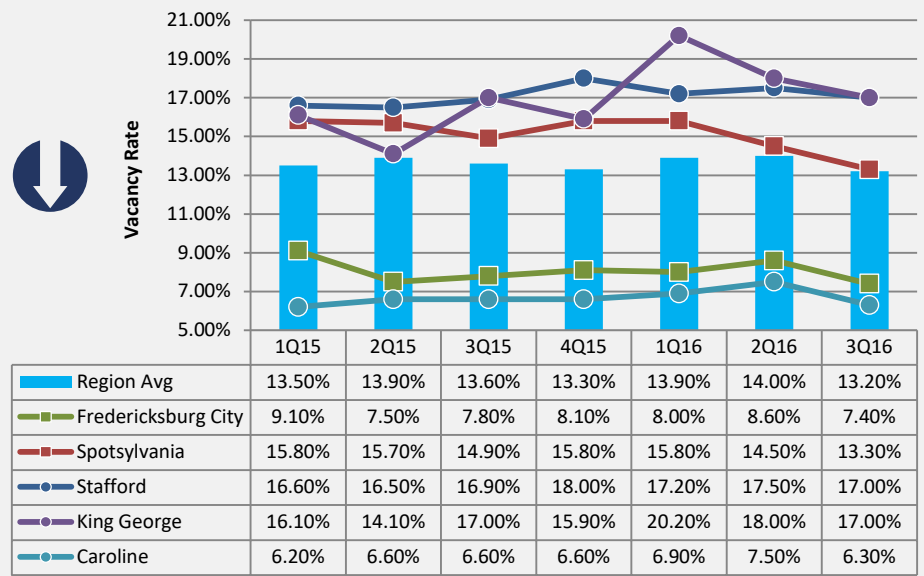
Rent growth continues to be fairly flat through 2016 with rents hovering between \$22-\$23 psf. Minor changes are observed from quarter-to-quarter, but there appears to be no definitive trend toward sustained rent growth. Regional effective office rents increased 1.3% to \$22.72 in the third quarter, after dropping from \$22.61 to \$22.42 between Q1 and Q2 2016. Nearly every locality witnessed positive rent growth with Spotsylvania (+2.2%) and Stafford (+2.1%) recording the largest growth. Stafford County continues to hold the highest rents at \$24.56 psf as of Q3-2016.

With an increase in new product, two quarters of substantial absorption and a decline in vacancy rates, we should continue to see solid rent growth through 2016 and into 2017.

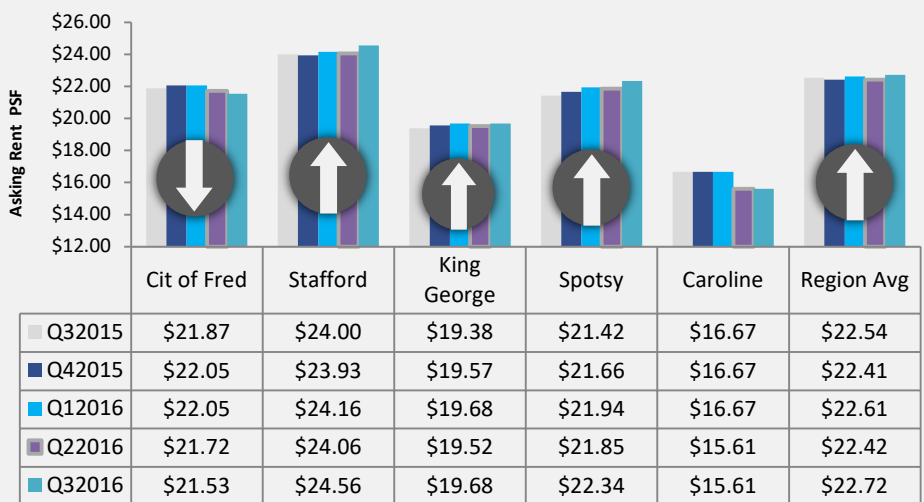
RENTAL RATES ↑ INCREASED **1.3%**

The Average Effective gross office rents increased by 1.3% to \$22.72 in Q3 2016.

Vacancy Rates By Sub Market Q1 2015- Q3 2016



Gross Office Rental Rates, By Sub Market Q3 2015 – Q3 2016



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Q3 OFFICE NEWS RE-CAP

Liberty Place Ready to Break Ground in Downtown Fredericksburg



The mixed-use redevelopment project, Liberty Place, is finally set for ground breaking. Wack Co., the developer of the project, says that they plan to begin the first phase of the redevelopment, which will include demolishing an existing vacant office building, in January 2017. At completion the project will total approximately 133,000 sq. ft. making it the largest redevelopment project in Downtown Fredericksburg to date.

The project will add up to 55,000 sq. ft. of commercial space to the market comprising of and 30,000 +/- SF of unparalleled Class A office space, 15,000 +/- SF of retail, 10,000 SF for Restaurants. Liberty Place will also feature 43 luxury condos, an underground parking garage and an outdoor courtyard lined with restaurants, and boutique retail shops.

ILM to Relocate to New 15,000 SF Building at Cowan Crossings

ILM Corporation purchased a 1.0 Acre parcel at Cowan Crossings in the City of Fredericksburg with plans of constructing a 15,000 sq. ft. office building which will serve as their new Fredericksburg Headquarters.



When the building is complete, ILM plans to occupy approx. 9,000 sq. ft. in the building and will lease out the remaining 6,000 sq. ft. They will be relocating from their existing 4,960 sq. ft. office building, located at 600 Lafayette Blvd in the City, which is also being offered for lease.

Fredericksburg Orthopedic HQ Sold for \$4.475 Million



In August of this year, Fredericksburg Orthopedic Associates sold their 14,900 sq. ft. headquarters building for \$4,475,000. The building, which was 100% occupied, was sold as an investment to a group based in Northern Virginia.

FEATURED NEW CONSTRUCTION Q3 2016

400 Corporate Drive, Stafford, VA 22554



400 Corporate Drive is the newest Class A Office Building constructed at Quantico Corporate Center in Stafford County, Virginia. The building is 40,000 sq. ft. in size and features high-end interior finishes, beautiful entry foyer and corridor with ceramic tile and suspended, vaulted ceilings.

12225 Amos Lane, Fredericksburg, VA 22407



This 3-story office Building located in Spotsylvania County was delivered in July 2016. The building totals 12,000 sq. ft. of which all but 3,000 sq. ft. has been leased, making it the quickest office lease-up in recent years.

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LEASING ACTIVITY Q3 2016 (3,000 SF +)

Address or Office Park	City/County	Tenant	Space Leased
1121-1440 Central Park Blvd Central Park Corporate Center	Fredericksburg	Samson Companies	4,331 SF
1320 Central Park Blvd Central Park Corporate Center	Fredericksburg	McLean Mortgage Corporation	4,060 SF
1051 Careway Dr. Mary Washington Hospital Campus	Fredericksburg	Dr. Jayarathne Kottage, MD	3,200 SF
2680 Jefferson Davis Hwy.	Stafford	Helping Hands, Inc	4,600 SF
150 Riverside Dr	Stafford	Cardinal Creek Consulting, LLC	5,316 SF
12225 Amos Lane	Spotsylvania	Cogent Solutions	3,000 SF
2309 Airport Ave	Fredericksburg	T J Holdings, LLC	4,960 SF
1420 Central Park Blvd Central Park Corporate Center	Fredericksburg	Charles F. Day & Associates	3,510 SF

LEASING ACTIVITY Q3 2016 (Less Than 3,000 SF)

11909 Main St. Bowman Center	Spotsylvania	M. Katherine Chambers	2,438 SF
4701 Spotsylvania Pkwy Cosner's Corner-Parkway Medical	Spotsylvania	Fusion Physiotherapy Assoc.	2,934 SF
10458 Hilltop Plaza Way	Spotsylvania	Schulz Chiropractic Center	1,200 SF
313 Central Rd	Fredericksburg	Democratic National Convention	1,685 SF
2216 Princess Anne St.	Fredericksburg	Ailment Wellness Center	1,524 SF
510 Princess Anne St.	Fredericksburg	Nest Realty	2,500 SF
10705 Spotsylvania Dr	Spotsylvania	Virginia Youth Soccer Association	2,113
11901 Bowman Dr. Deep Run Business	Spotsylvania	Holland Roofing	2,615