

FREDERICKSBURG-VA

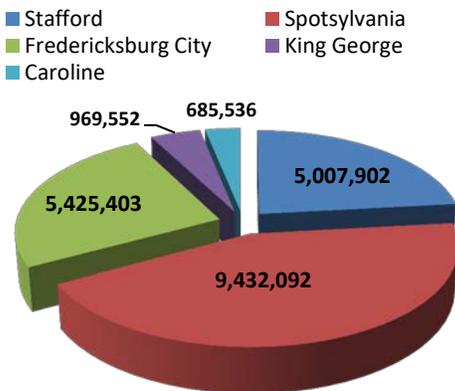
RETAIL MARKET VANTAGEPOINT

Overview

The Fredericksburg Region's Retail market experienced fairly minor changes across all indicators, with the exception of rents, during the third quarter of 2016. While retail vacancy rates continued to hover around 5% in the third quarter of 2016, retail rents witnessed their largest single quarter jump in quite some time. Retail rents have climbed modestly over the past few quarters but in Q3-2016 the region witnessed a 3.6% increase, the largest in over 5 years, and also the first time rents have reached over \$16/PSF since the fourth quarter of 2011.

New announcements were made for some of the upcoming retail projects around the region. Aquia Town Center, 1 of the 2 major projects planned in Stafford County, will likely break ground by the end of the year. Petco will join Harris Teeter as an anchor tenant at Aquia Town Center that will feature over 166,000 SF of retail space at completion. The second major new development planned, The Garrison at Stafford, will feature up to 500,000 SF of retail space and has secured Regal Cinemas as the first tenant to anchor the development.

Retail Inventory (SF) By Locality (Q3 2016)



Other notable projects that are underway include a new 35,000 sq. ft. retail building at Harrison Crossing, the 85,000 sq. ft. mixed use building at Courthouse Village, and a Walmart Neighborhood Market in North Stafford which will be the first in the Region. Another project near ground breaking is Liberty Place, a mixed use redevelopment project in the City of Fredericksburg that will feature 25,000 sq. ft. +/- of restaurant and retail space in addition to 30,000 sq. ft. of Office and 43 Luxury Residential Condos planned to break ground Jan-17.

Vacancy & Absorption

The retail vacancy rates in the Region increased by 20 basis points to 5.2% in the third quarter. Over the past year retail vacancy rates have held around 5% in the Fredericksburg Region, as net absorption has been slightly outpacing new construction.

During the third quarter of 2016, Spotsylvania (-0.1%) and Caroline County (-0.4%) were the only 2 localities that experienced a decline in vacancy. Spotsylvania has now recorded two consecutive quarters with declining vacancy, but still remains a few basis points higher than rates in the previous year (5.1% Q3-2015). The City of Fredericksburg experienced the largest uptick in vacancy, increasing by 60 bps (+0.6%). The City's rise in vacancy can be mainly attributed to the closing of the 42,900 sq. ft. Sports Authority store in Central Park and fairly stagnant leasing activity, resulting in negative net absorption of -30,491 sq. ft. for Q3. Stafford County also experienced a fairly large increase in vacancy of 40bps after recording a drop of 50bps in Q2-2016.

ELITE Reports

2016 Q3



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Regional Retail Current Stats

	Region	High	Low
Rental Rates	\$16.10	King George \$17.65	Caroline \$8.07
Vacancy	5.2%	City of Fred 5.6%	Caroline 3.9%
Inventory (SF)	21.50M	Spotsylvania 9.43M	Caroline 0.68M

1M IN THE SQ.FT PIPELINE

36,000 SQ. FT. UNDER CONSTRUCTION AS OF Q3-2016

\$1.12B TOTAL RETAIL GAP

Total Retail Demand for the Greater Fredericksburg Region is Currently \$4.257B where supply is \$3.617B leaving a total gap of \$1.119B (Source: ESRI)

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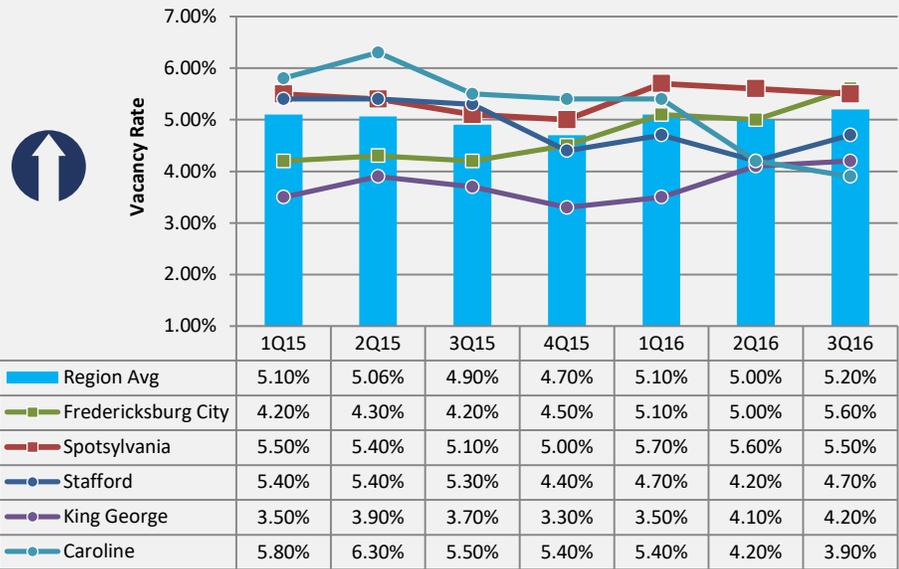
Vacancy & absorption cont.

The Region's retail market dipped in the third quarter, recording negative net absorption of -47,900 sq. ft. YTD absorption is also in the negative at -63,405, a big swing from the first 3 quarters of 2015 where the retail market recorded positive net absorption of 125,670 sq. ft. Leasing activity is slightly lower, but isn't far off pace from last year or the 12 month average. Big box closures and vacancies such as Hancock Fabrics (16,033 sq. ft.), and the previously discussed Sports Authority, have been the large contributors to the drop in absorption all the while new construction is beginning to pick up.

Rents

Overall NNN effective retail rents for the Region grew by 3.6% to \$16.10 during the third quarter. The retail market has also seen decent Year-over-year rent growth at 5.5%, up nearly a dollar in comparison to Q3-2015. King George County recorded the largest quarter-to-quarter rent growth with a 8.9% increase. Spotsylvania County (5.7%) and the City of Fredericksburg (6.42%) posted the most sizable rent growth in Q3-2016. Effective rent growth is the strongest it has been since 2007 and the region should continue to see relatively solid rent growth through 2016.

Vacancy Rates By Sub Market Q1 2015- Q3 2016



NNN Retail Rents PSF, By Quarter and Sub Market Q3 2015 – Q3 2016



RENTAL RATES INCREASED **3.6%**

The Average NNN Retail Rents increased by 3.6% (+0.57) to \$16.10 in Q3 2016.

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Q3 RETAIL NEWS RE-CAP

85,000 sq. ft. Mixed Use Building planned for Courthouse Village



Construction began on a new mixed-use building, dubbed the “Hanover House”, at Courthouse Village in Spotsylvania County. Vakos, the developer of Courthouse Village, broke ground in August on the new 85,000 sq. ft. building that will consist of a mix of residential units and first floor retail & restaurant space. Hanover House will have 53 residential units with penthouse suites on the top floor, featuring covered balconies that will overlook the square. The first floor will feature 7 to 16 commercial spaces that will host either restaurant or retail businesses. Additional commercial phases were recently completed at Courthouse Village including Block 600, consisting of five new colonial style commercial buildings that are leased to Edward Jones, Anytime Fitness, Subway and more.

13 Local Food Lion Stores purchased by Weis Markets

In a deal that was inked this past July, Food Lion supermarket chain has announced that they will sell 13 local Food Lions to Weis Markets. The Fredericksburg and Culpeper Food Lion stores are among 38 in Virginia, Maryland and Delaware being sold. The local Food Lion stores will begin the transition to Weis Market in Oct-Nov of this year.

Walmart Neighborhood Market Underway in North Stafford - 1st in the Region

A Walmart Neighborhood Market broke ground during the third quarter in North Stafford. The store will sit next to a Sheetz gas station on the corner of Garrisonville and Furnace Road, across the street from North Stafford Center for Business & Technology. The Stafford County Board of Supervisors approved a special use permit to allow the store to have a drive-through window to allow customers to drop off and pick up prescriptions at the store’s pharmacy. This store will be the first Walmart Neighborhood Market in the region.

Aquia Town Center Lands 2nd Large Retailer & Prepared for Ground Breaking



Mosaic Realty Partners, the developers tackling the revitalization of Aquia Town Center, have announced that Petco will be the second anchor tenant at the development. The project, which could break ground as early as Nov-2017, has already secured Harris Teeter as the main anchor tenant. Harris Teeter will construct a 78,000 SF grocery store located on the parcel that Regal Cinemas currently occupies. Petco will occupy a portion of the additional 166,000 SF of retail space that will be offered at the Town Center. The location at Aquia Town Center would be the first Harris Teeter store in the Region.

Construction & Expansion Highlights Q3 2016

A new 35,000 +/- SF multi-tenant retail building is under construction at Harrison Crossing in Spotsylvania County



O’Reilly Auto Parts completed construction of their first regional location on Mine Rd; Construction has also begun on their 2nd store at Harrison Crossing

Cook Out opened their 2nd location in the Region at Cosner’s Corner

Starbucks completed construction of a new freestanding store on Warrenton Road (Route 17) in Stafford

Construction on a new, freestanding Dunkin Donuts began on an outparcel to Gander Mountain on Route 3 in Spotsylvania

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CONSTRUCTION COMPLETIONS Q3-2016

Address or (shopping center)	Tenant(s)	City/County	Building Size
5455 Plank Road	LIDL	Spotsylvania	36,000 SF +/-
Cosner's Corner 5410 Jefferson Davis Hwy	Cook-Out	Spotsylvania	3,000 SF +/-
Route 17 & McWhirt Loop	Starbucks	Stafford	1,800 SF
Mine Road	O'Reilly's Auto Parts	Spotsylvania	8,600 SF
King George Gateway	Murphy Oil	King George	1,200 SF
National Bank Bldg 900 Princess Anne St	FOODE	Fredericksburg	6,400 SF Renovation

CONSTRUCTION UNDERWAY/ STARTS Q3-2016

Furnace Road & Garrisonville Road (Rt.610)	Walmart Neighborhood Market	Stafford	40,000 SF +/-
Route 3 (Gander Mountain Outparcel)	Dunkin Donuts	Spotsylvania	N/A
Harrison Crossing- Plank Road	O'Reilly's Auto Parts	Spotsylvania	6,300 SF
Harrison Crossing	Multi-Tenant Building	Spotsylvania	35,000 SF +/-
Howard Johnson Redevelopment	Raceway Gas	Spotsylvania	5,000 SF +/-
Route 17 & Village Parkway	Royal Farms	Stafford	N/A



Renovations on the 6,400 sq. ft. National Bank Building were completed this August. The historic bank building was repurposed as a restaurant for FOODE's new location and now features 90 seats, two dining room, open kitchen and even seating inside the original bank vault.



Dunkin Donuts | Plank Road – Gander Mountain Pad Site- Fredericksburg, VA