

INDUSTRIAL MARKET VANTAGEPOINT

Industrial Demand in 2016 Was the Strongest in Over 9 years

Demand for industrial space remained strong in the fourth quarter, driving vacancy rates down over 1% to a new historical low at 6.8%. More industrial space has been absorbed in 2016 than in any of the previous 9 years. As demand remains strong, the market is continuing to tighten and we have started to experience some sustained rent growth and new construction.

Vacancy Rates Hit Historical Low

Industrial vacancy rates are reaching milestone lows across all localities. In the fourth quarter of 2016, rates declined a substantial 110 basis points to 6.8%. Vacancy rates are down 3.4% year-over-year from 10.2% in Q4-2015. Vacancy rates declined in every locality during the fourth quarter, with King George County recording the largest drop from 16.7% in Q3 to 1% in Q4-2016. Industrial vacancy in Stafford County reached an all time low in Q4-2016 at 7.0%, recording a 1% drop from 8.0% in Q3-2016. Stafford also recorded an impressive year-over-year decline in vacancy, plunging 5.1% from 12.1% in Q4-2015. Industrial vacancy rates in The City of Fredericksburg dropped a modest 30bps to 3.5%

in Q4-2016, and year-over-year have declined over 4% from 7.8% in Q4-2016.

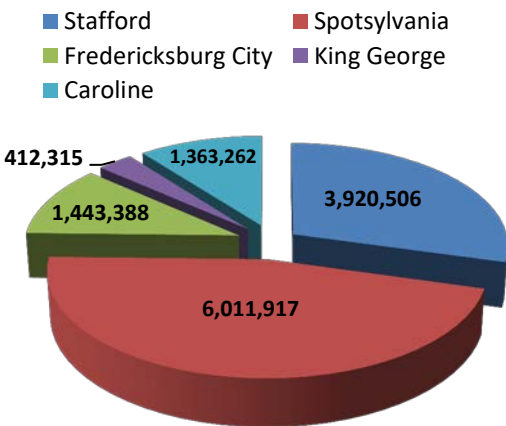
Industrial Vacancy in Spotsylvania County dropped 40bps in Q4 and year over year have dropped a total of 60bps from 8.6% in Q4-2015 to 8.0% in Q4-2016. This is also the lowest industrial vacancy rates that Spotsylvania County has seen in recorded history, with the previous low of 8.6% recorded in Q2-2007.

Caroline County recorded a decent drop in vacancy of 30bps in Q4-2016, following an extreme 6.8% drop recorded in Q3-2016. Year-over-year vacancy rates in Caroline have now dropped a total of 7.9% from 14.4% in Q4-2015 to 6.5% in Q4-2016. Although Caroline has witnessed an impressive drop in vacancy, rates have yet to hit their lowest of 5.4% which was recorded in Q1-2014. The increase in demand for industrial space is evident as absorption continues to outpace the average seen in previous years.

Demand – Absorption & Leasing

The Region's industrial market recorded over 144,000 sq. ft. of net absorption in Q4, bringing the Year-to-date total over 445,000 sq. ft. for 2016, a 15.5% increase from 2015. More industrial space has been absorbed than in any of the previous 9 years and also more than was recorded in the previous 2 years combined (385,000 SF in 2015 + 50,000 sq. ft. in 2014). Nearly 40,000 sq. ft. of positive net absorption was recorded in Stafford County in Q4, closing an impressive year with YTD total over 203,000 sq. ft.! King George County recorded 69,000 sq. ft. in net absorption, and with only 441,500 sq. ft. of industrial space in entirety, we can see why vacancy rates dropped dramatically in Q4-2016. Spotsylvania County experienced a fairly impressive 4th quarter, recording nearly 27,000 sq. ft. of net absorption, bringing its YTD total to 37,000 sq. ft., down slightly from 2015.

Industrial Inventory (SF) By Locality (Q4-2016)



ELITE Reports

2016 Q4



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Regional Industrial Current Stats

	Region	High	Low
Rental Rates	\$5.72	Stafford \$6.78	Caroline \$3.61
Vacancy	6.8%	Spotsylvania 8.0%	City of Fred 3.5%
Total Inventory (SF)	13.18M	Spotsylvania 6.0M	King George 0.39M

VACANCY RATES ARE DOWN



3.4% YTD

Overall industrial vacancy for the region dropped by 1.1% in Q4-2016 to 6.8% and have dropped 3.4% from 10.2% in Q4-2015

445,388 square feet POSITIVE NET ABSORPTION

144,000+ sq. ft. of net absorption was recorded in Q4-2015 bring the total YTD over 455,000

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The City of Fredericksburg recorded 5,000 sq. ft. of net absorption in Q4, bringing its YTD total to 26,610 sq. ft. The City experienced 3 consecutive quarters with positive absorption totaling 70,000 sq. ft., but YTD totals weren't too extraordinary due to a lack luster first quarter. Caroline County's industrial market had a strong year in 2016 with YTD absorption totals reaching over 107,000 sq. ft., a big improvement over 2015 where the county recorded negative net absorption of 14,104 sq. ft.

Leasing activity was also extremely impressive in 2016, with a total of 782,000 sq. ft. of industrial space leased in the Region. Leasing activity increased 72.5% year-over-year in comparison to 2015 where only 453,000 sq. ft. was leased. Demand for industrial space should remain strong and with limited new construction we should continue to see vacancy rates decline, potentially fueling some new construction.

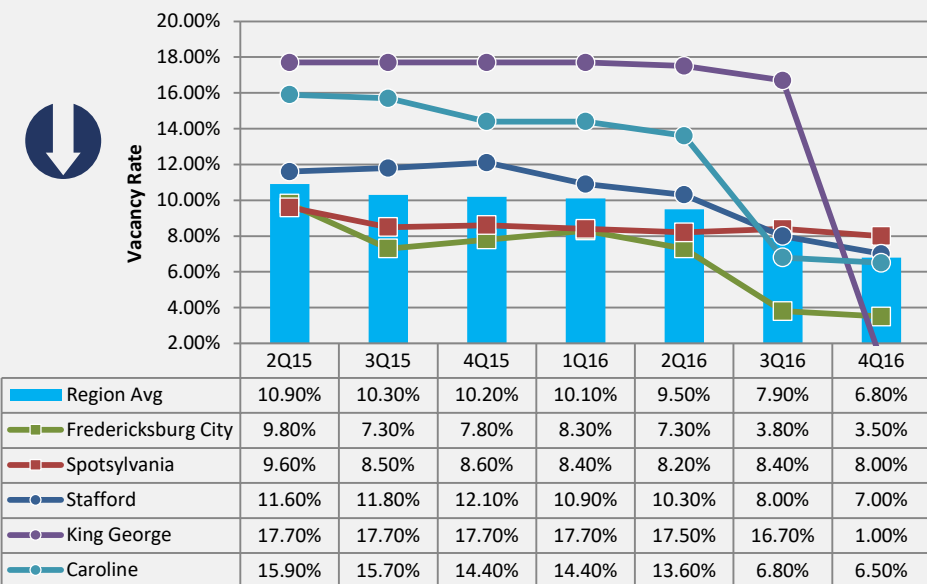
Rents

Although Regional industrial rents declined slightly in Q4 (-\$.04), year-over-year industrial rents have grown by 4.2% from \$5.42 in Q4-2015 to \$5.72 in Q4-2016. This marks the end of a five consecutive quarter run with positive rent growth. Stafford County was the only locality that recorded positive rent growth in Q4 and also holds the highest rents in the Region at \$6.78/psf. Spotsylvania (1.60%) recorded the largest rent growth year-over-year, where Fredericksburg experienced the opposite, with rents falling 7.0% in comparison to Q4-2015. Rent growth has remained fairly slow in the industrial market, but the low vacancy rates could aid rent growth and create a more landlord friendly market in 2017.

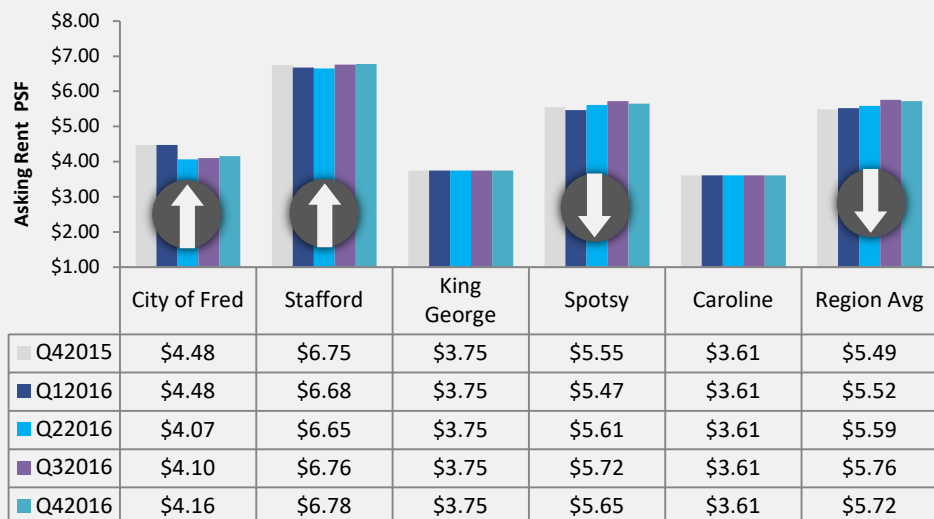
RENTAL RATES  **INCREASED 4.2%**

The Average NNN industrial rents increased by 4.2% from \$5.49 in Q4-2015 to \$5.72 in Q4-2016.

Industrial Vacancy Rates By Sub Market Q2 2015- Q4 2016



NNN Industrial Rental Rates, By Sub Market Q4 2015 - Q4 2016



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Q4 INDUSTRIAL NEWS

BMC West Leases 74,000 SQ. FT. Space in Spotsylvania County



Building Material Corporation (BMC West) has signed a lease for 74,430 sq. ft. within Berkeley Commerce Park at 8520 Jamison Lane in Spotsylvania County, Virginia. The company will be relocating and expanding from its current 30,000 sq. ft. warehouse at 1361 Belman Road, in the City of Fredericksburg, VA.

About BMC: "BMC is one of the nation's leading providers of diversified building products and services to professional builders and contractors in the residential housing market. The Company's comprehensive portfolio of products and services spans building materials, including millwork and structural component manufacturing capabilities, consultative showrooms and design centers, value-added installation management and an innovative eBusiness platform."

Their Fredericksburg Facility currently offers building products including Doors & Millwork, Lumber and Building Materials, and Windows, but with the expansion could soon be offering much more.

Redman Fleet Services, Inc. Purchases 21,555 SF Building in King George County for \$2.15M



In September, Redman Fleet Services, Inc. purchased a 21,555 sq. ft. industrial building located at 9003 Kings Highway in King George, Virginia for \$2,150,000. Redman purchased the building from B & M Automotive, who had previously occupied the building along with King George Auto Parts, Inc.

This will be Redman's first location in the Fredericksburg Region, adding to its current VA locations in Arlington, Fairfax and Prince William County. It is unknown when Redman plans to occupy the space.

LIDL's Massive 1 Million SQ. FT. Distribution Near Completion

Lidl's facility, which broke ground in Oct-2015 in Spotsylvania County, is situated on 82 acres, which the company purchased in 2015 for \$2.1 million. The distribution center is expected to be completed mid 2017, but could be delivered even sooner due to the impressive speed of construction.

The estimated facility cost is roughly \$125 million and will supply over 200 jobs when it begins operating.

2.5 Million SF

OF INDUSTRIAL SPACE CURRENTLY UNDER CONSTRUCTION, APPROVED, OR IN THE PIPELINE FOR THE GREATER FREDERICKSBURG REGION. THIS INCLUDES LIDL'S 1MM SF DISTRIBUTION FACILITY AND THE APPROVED 1.5MM SF HARRIS TEETER FACILITY PLANNED/ APPROVED IN CAROLINE COUNTY.



Lidl Distribution Facility, Spotsylvania County

3711 Lafayette Blvd, Fredericksburg, VA 22408



This 18,526 Flex Warehouse Building was previously occupied by RC Lee Carpet. The property was purchased and renovated to offer multiple flex suites for smaller individual users. The building renovation was completed in July 2016 and is already 82% occupied by 6 new tenants.

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MAJOR LEASING ACTIVITY Q4 2016 (4,000 SF +)

Address or Industrial Park	Tenant	City/County	Space Leased
497 Lendall Lane	Stafford Truck Repair, LLC	Stafford	5,000 SF
11765 Capital Ave Bowman Center	Finish Line Environmental	Spotsylvania	11,500 SF
3010 Mine Road Mck Business Park	Kaeser Compressors	Spotsylvania	28,800 SF
8520 Jamison Lane	BMC WEST	Spotsylvania	74,430 SF

LEASING ACTIVITY Q4 2016 (Less Than 4,000 SF)

4939 Commerce Drive Fredericksburg II Warehouses	Zerk Motors, LLC	Spotsylvania	1,500 SF
71 Commerce Parkway	Highlander Wrestling	Stafford	3,345 SF
11900 Main Street Fredericksburg Center B Building	Cornerstone Design Group	Spotsylvania	1,885 SF
27 McWhirt Loop	Mirza's Tire & Automotive	Stafford	1,800 SF
1130 International Pkwy	Curbside Manor, Inc.	Stafford	1,650 SF
3509 Shannon Park Dr Airport Center	CC & More, Inc.	Spotsylvania	2,000 SF
1007 Tyler Street, Unit B	Jack of All Trades	Fredericksburg	1,000 SF

SIGNIFICANT SALES TRANSACTIONS Q4-2016 (\$1M+)

9003 Kings Highway	Redman Fleet Services, Inc.	King George	21,555 SF \$2,150,000
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