

FREDERICKSBURG-VA

OFFICE MARKET VANTAGEPOINT

Office Market in 2016 Experiences Highest Demand in over 4 Years

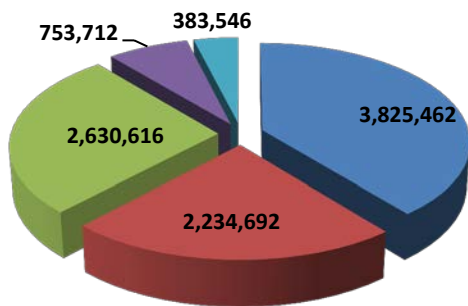
The Office market in the Fredericksburg Region experienced a strong year in 2016, recording 182,000 sq. ft. in positive net absorption. More office space was absorbed in 2016 than in the past 3 years combined: (2015: -18,009 SF), (2014: -19,912 SF), (2013: 18,385). This marks the end of a two year streak with negative net absorption. As strong demand feeds positive absorption we have witnessed vacancy rates declining for 3 consecutive quarters. 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 20 basis points(bps) to 13.0% in Q4-2016. Vacancy Rates have continued to drop throughout 2016 with Year over year vacancy rates now down 90bps from 13.9% in Q4-2015. Spotsylvania County recorded the most impressive decline in vacancy during the fourth quarter, dropping 2.1% from 13.9% in Q3 to 11.8% in Q4 2016. Spotsylvania also recorded the largest year-over-year decline in vacancy, plummeting 4% from 15.8% in Q4-2015.

Office Inventory (SF) By Locality (Q4 2016)

- Stafford
- Spotsylvania
- Fredericksburg City
- King George
- Caroline



King George county posted a fairly large drop in vacancy, from 17% in Q3-2016 to 13.2%, in Q4-2016, a total decline of 3.8%. In comparison to Q3-2015, (15.9%) King George's office vacancy rates have dropped 2.7%. Stafford County experienced a 1% increase in vacancy that can be directly attributed to the delivery of a 40,000 sq. ft. office building during the fourth quarter. The building was delivered at 77% occupancy, adding 10,000 sq. ft. of vacant office space to the market as well as 10,000 sq. ft. that tenant, Claxton Logistics, has listed for sublease.

The City of Fredericksburg experienced a slight uptick in vacancy of 50bps to 8.0% in Q4-2016, but remained fairly unchanged in comparison to Q4-2015 (8.1%).

Demand – Absorption & Leasing

As mentioned previously, the Region's office market continued to experience a rise in demand in 2016. In the fourth quarter, the office market recorded 42,000 sq. ft. in positive net absorption, following a stellar third quarter where 80,000 sq. ft. was absorbed, the highest positive net absorption achieved in the past 11 quarters. Year to date the office market has recorded 182,000+ SF in positive net absorption. Leasing activity also remained above average with over 129,793 sq. ft. of office space leased in Q4-2016, bringing the year's leasing total to 470,000+ sq. ft.

Spotsylvania County led the way with over 47,000 sq. ft. of net absorption, but only 17,784 sq. ft. in leasing activity in Q4-2016; the high net absorption can be attributed to the 40,000 sq. ft. leased in Q3-2016. Spotsylvania topped the charts for 2016, with a total of 124,500 sq. ft. of net absorption which equates to approx. 67% of the Region's total. King George County recorded over 26,000 sq. ft. and was the only other locality to record positive net absorption in Q4-2016. *(cont. on next page)*

ELITE Reports

2016
Q4



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Fredericksburg Region: Current Stats

	Region AVG	HIGH	Low
Rental Rates	\$22.63	Stafford \$24.32	Caroline \$14.75
Vacancy	13.0%	Stafford 18.2%	Caroline 7.4%
Inventory (SF)	9.89M	Stafford 3.88M	Caroline 0.4M

VACANCY
RATES
DECLINE



90 Basis Points

Overall office vacancy decreased by 70bps (0.7%) from 13.9% in Q4-2015 to 13.0% in Q4-2016

182,000 SQ. FT.

POSITIVE NET
ABSORPTION

Recorded in 2016

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OFFICE MARKET VANTAGEPOINT

Demand-cont. Despite strong leasing activity with 67,000 sq. ft. leased in Q4-2016, The City of Fredericksburg managed to record negative net absorption of -14,906 sq. ft.. The strong quarter of leasing will most likely be reflected in net absorption in the first quarter of 2017.

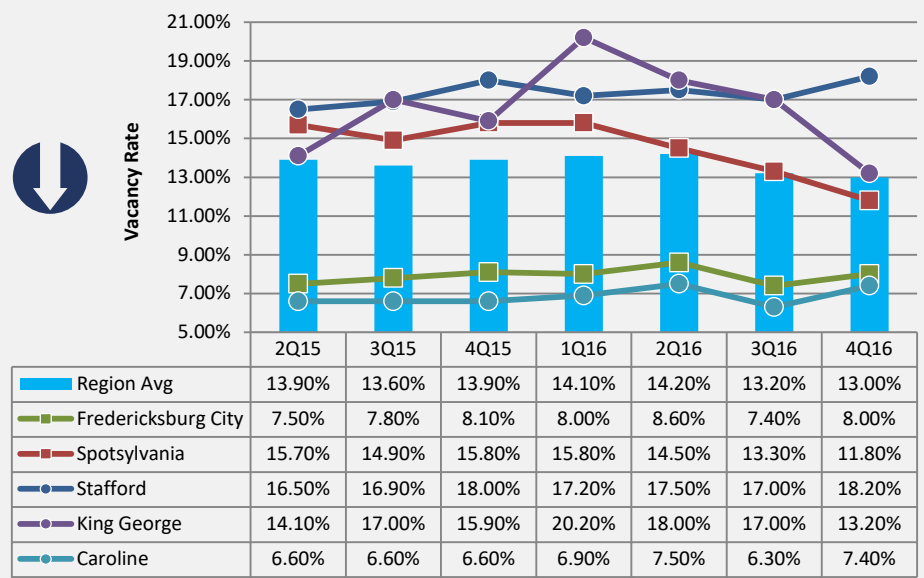
Only 1 delivery was recorded in Q4-2016 which was the previously mentioned 40,000 sq. ft. office building at Quantico Corporate Center in Stafford County. The Region closed the year with 134,000 sq. ft. in new office construction deliveries with approximately 69,000 sq. ft. currently under construction.

Rents

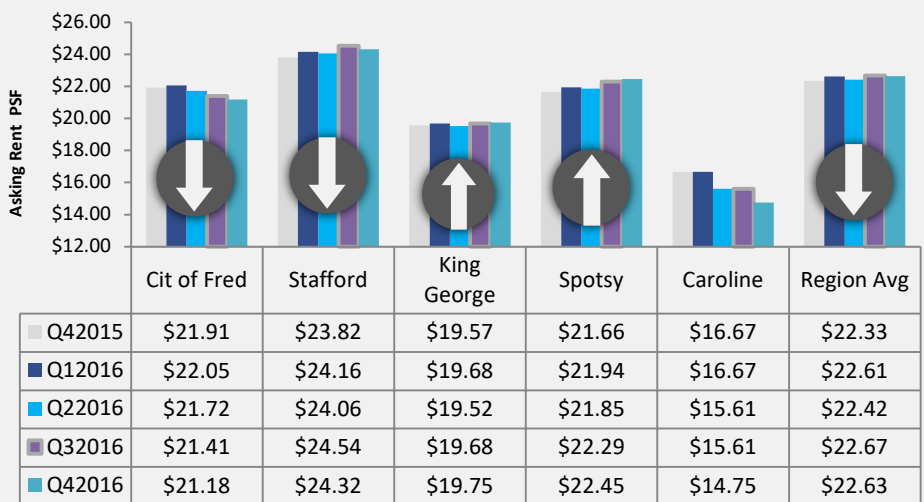
The relatively flat rental growth that we've seen over the past few years continued into 2016, with rents hovering between \$22-\$23/psf (gross). Rents actually took a -.04 dip during the fourth quarter to \$22.63/psf (gross). Minor changes are observed from quarter-to-quarter, but there appears to be no definitive trend toward sustained rent growth. Regional gross office rents increased a mere 1.3% during 2016 from \$22.33 (Q4-2015) to \$22.63 (Q4-2016). Stafford (2.1%) and Spotsylvania (3.6%) were the only two localities to experience exceptional rent growth in comparison to Q4-2015, and Stafford's office rents remain the highest at \$24.32/psf.


Average gross office rents in the Region hit their low mark of \$21.51 in Q1-2011 and haven't breached \$23 since Q1-2008. So, in comparison, the mid \$22 range seems to be a fairly stable and we should continue to see similar trends in 2017.

Vacancy Rates By Sub Market Q2 2015- Q4 2016



Gross Office Rental Rates, By Sub Market Q4 2015 – Q4 2016



RENTAL RATES  **INCREASED 1.3%**

The Average Effective gross office rents increased by 1.3% from \$22.33/psf in Q4-2015 to \$22.63/psf in Q4 2016.

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OFFICE

MARKET VANTAGEPOINT

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Q4 OFFICE NEWS RE-CAP

New 40,000 SF Building Completed at Quantico Corporate Center



400 Corporate Drive, Stafford, VA 22554

Construction has been completed on 400 Corporate Drive, the newest Class A Office Building at Quantico Corporate Center, in Stafford County, Virginia. The two story building is 40,000 sq. ft. and features high-end interior finishes, beautiful entry foyer and corridor with ceramic tile and suspended, vaulted ceilings. The building was completed with 77% leased, providing an additional 10,000 sq. ft. of vacant office space to the market. In addition to the vacant space, Claxton Logistics, a tenant in the building has decided to list their fully built-out, 10,000 sq. ft. space for sub-lease.



Quantico Corporate Center | Stafford, VA

Medical Office Condos at Parkway Medical Building Sell for \$4.85M



4701 Spotsylvania Pkwy, Fredericksburg, VA 22408

An investment group out of Northern Virginia has purchased medical office condos in the Parkway Medical Office Building in Cosner's Corner for \$4,850,000. The medical office condos are 80% leased to DaVita Dialysis and a Physical Therapist.

Sonalysts, Inc. Expands in the Fredericksburg Region

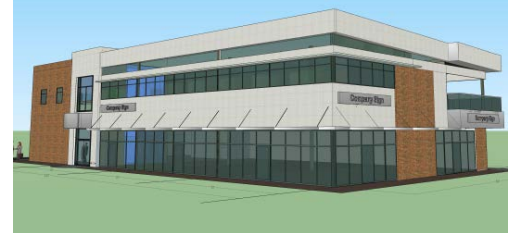


16441 Dahlgren Road, King George, VA 22485

Sonalysts, Inc. an employee-owned professional services business firm headquartered in Waterford, Connecticut has leased space in both King George County and Stafford County during the 4th quarter of 2016. They are moving from their previous Stafford location within Stafford Commerce Park at 51 Barrett Heights Road to a 3,531 sq. ft. space in the 4-Story office building at 125 Woodstream Blvd. They are also relocating from their current location in King George County, Dahlgren to the 8,608 sq. ft. former Mantech Office Building at 16441 Dahlgren Road. In addition to these 2 locations, Sonalysts also have 2 other Virginia based locations in Crystal City and Norfolk.

NEW CONSTRUCTION | IN THE PIPELINE 2017

ILM Headquarters | 15,000 Sq. Ft.
Cowan Crossings | Fredericksburg, VA



LIBERTY PLACE | 30,000 Sq. Ft. of Office
Fredericksburg, VA



FEATURED NEW CONSTRUCTION 2016

12225 Amos Lane, Fredericksburg, VA 22407
3-Story | 12,000 sq. ft.



OFFICE

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LEASING ACTIVITY Q4 2016 (3,000 SF +)

Address or Office Park	City/County	Tenant	Space Leased
10700 Ballantraye Drive	Spotsylvania	IOMAXIS, LLC	4,854 SF
1320 Central Park Blvd, Suite 405 Central Park Corporate Center	Fredericksburg	Woodcock & Associates	3,762 SF
17021 Combs Dr.	King George	Undisclosed	6,357 SF
17021 Combs Dr.	King George	JRC Integrated Systems	5,000 SF
125 Woodstream Blvd.	Stafford	Sonalysts, Inc.	3,531 SF
16441 Dahlgren Road	King George	Sonalysts, Inc.	8,680 SF
5450 Southpoint Plaza Way	Spotsylvania	Assurance Financial	3,000 SF
1440 Central Park Blvd. Central Park Corporate Center	Fredericksburg	Samson Companies	4,331 SF
1931 Plank Road The Shoppes at Westwood	Fredericksburg	Dominion Youth Services Residential, LLC	3,410 SF
1440 Central Park Blvd. Central Park Corporate Center	Fredericksburg	Liberty Mutual Insurance	3,175 SF

LEASING ACTIVITY Q4 2016 (Less Than 3,000 SF)

12225 Amos Lane	Spotsylvania	Facilities Plus	2,000 SF
16543 Commerce Dr.	King George	Kitty Hawk Technologies	2,426 SF
9010 Battlefield Blvd. Spotsylvania Courthouse Village	Spotsylvania	Stephen G. Judy, Attorney	1,233 SF
1701 Fall Hill Ave	Fredericksburg	Tech INT Solutions Group	1,000 SF
521 Sophia Street	Fredericksburg	ScoutComms, Inc.	2,160 SF
510 Princess Anne St.	Fredericksburg	WellSpring Child & Family Psychology	2,000 SF
604 William Street	Fredericksburg	Smith Contracting	1,000 SF
4485 Danube Dr. Bayberry Office Park	King George	Blastech Enterprises	2,287 SF