

INDUSTRIAL

MARKET VANTAGEPOINT

FREDERICKSBURG REGION, VIRGINIA

ELITE
Reports

2017
Q1



ELITE

Slight Slowdown in Industrial Market After 8 Quarters of High Performance

The Industrial market, which has been in hyper-drive over the past two years, finally witnessed a quarter of lack luster performance. In Q1-2017 the industrial market experienced its first rise in vacancy and negative net absorption since 2014. Following the "Great Recession" vacancy rates peaked at 18.4% in Q4-2011, and since, have been powering downward. Over the past two years industrial vacancy rates have dropped nearly 5% from 12.2% in Q1-2015 to the current rates of 7.6%. The rise in demand for industrial space has been astounding, and can be witnessed over the past 8 consecutive quarters where the region recorded over 860,000 sq. ft. of positive net absorption.

The extreme rise in industrial demand has now forced vacancy rates down to historical lows in nearly every locality in the Region.

Vacancy Rates Hit Historical Lows Across the Region

Industrial vacancy rates climbed slightly by 80 basis points from 6.8% in Q4-2016 to 7.6% in Q1-2017. This may seem like a substantial increase for a single quarter, but is not uncommon for the Fredericksburg Region. Vacancy Rates dropped from 9.5% (Q2-2016) to 7.9% (Q3-2016), a 1.6% decrease, and dropped again to 6.8% in Q4-2016, a 1.1% drop. Despite the slight increase in vacancy rates they are still down 2.5% in comparison to Q1-2016, and are also much lower than the national industrial vacancy averages.

The City of Fredericksburg and Caroline County were the only two localities that experienced a decline in vacancy during the first quarter. Caroline recorded the largest decline from 6.5% in Q4-2016 to 4.6% in Q1-2017, surpassing their previous low of 5.4% recorded in Q1-2014. Caroline has also experienced the most impressive decline in industrial vacancy, with rates dropping by 9.8% since Q1-2016 (14.4%)!

The City of Fredericksburg also recorded an impressive drop in vacancy of 1.5%, reaching a new historical low at 2%. Industrial vacancy rates in the City of Fredericksburg have now dropped a total of 6.3% over the last 4 quarters and are the lowest in the Region!

Industrial vacancy rates in Spotsylvania County climbed by 1.0% during Q1-2017. Although Spotsylvania experienced a rise in vacancy in the first quarter, current rates (9.0%) are still hovering around historical lows. In Q4-2016 vacancy rates in Spotsylvania hit their lowest in recorded history at 8.0%, with the previous low of 8.6% recorded in Q2-2007.

Stafford County also experienced a slight uptick in vacancy, rising just 50bps from 7.0% in Q4-2016 to 7.5% in Q1-2017. Vacancy rates are down 3.4% from 10.9% in Q1-2016. Stafford is also witnessing historically low vacancy rates. Prior to Q2-2016, where rates hit 9.8%, there has only been one other quarter that vacancy rates were below 10% which was Q1-2010 (9.9%).

Though we may witness some slight increases in vacancy, the industrial market is showing signs of strong stabilization which should continue throughout 2017.

Demand – Absorption & Leasing

Industrial demand throughout the Region, which has been extraordinary over the past 2 years, experienced a slump in Q1-2017. During the first quarter the region recorded (-131,000sf) in net absorption, after 8 consecutive quarters of positive absorption. Despite recording negative net absorption, the Region has recorded over 323,000sf of positive absorption over the past 12 months, which is still above normal averages.

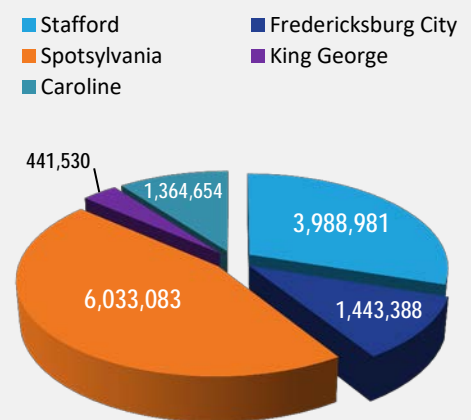
Caroline County (+26,368sf) and the City of Fredericksburg (+20,670sf) were the only two localities that recorded positive net absorption during Q1-2017. This brings Caroline County's 12 mo absorption totals to 133,800sf, and the City of Fredericksburg's to 90,700sf, both up significantly from their normal 12mo averages.

Regional Industrial Stats (Q1-2017)

	Region	High	Low
Rental Rates (NNN)	\$5.74	Stafford \$6.82	Caroline \$3.60
Vacancy	7.6%	King George 16.6%	City of Fred 2.0%
Total Inventory (SF)	13.27M	Spotsylvania 6.03M	King George 0.44M

HISTORICALLY
LOW
VACANCY
ACROSS THE REGION

Existing Industrial Inventory (SF) By Locality (Q1 2017)



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Demand cont. Spotsylvania County recorded (-98,000) the largest negative net absorption in the Region in Q1-2017. Despite this negative net absorption, leasing activity remained fairly strong in Spotsylvania and across most of the Region. Spotsylvania recorded nearly 50,000sf leased in Q1-2017, bring its 12mo leasing total to 306,000sf.

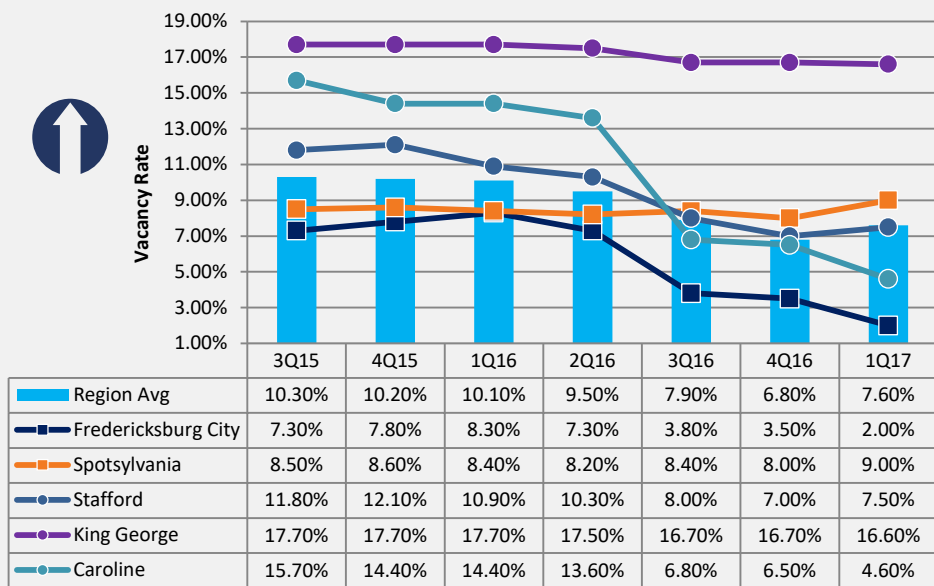
Stafford County also recorded negative net absorption while leasing activity remained strong. Stafford recorded (-11,700sf) in net absorption but over 63,000sf in leasing activity, which will positively affect absorption totals in the second quarter. Stafford also recorded the only new delivery, a 10,000sf building, which is the first since Q4-2015.

With industrial demand up, and vacancy rates down it is a little surprising that we are not experiencing more new construction. Although the Region has seen little or no new construction there are some major projects that are underway or planned, such as Lid's 1 million square foot distribution center. Throughout 2017 we should expect to see some new, smaller in-fill development in the industrial sector if demand stays on pace.

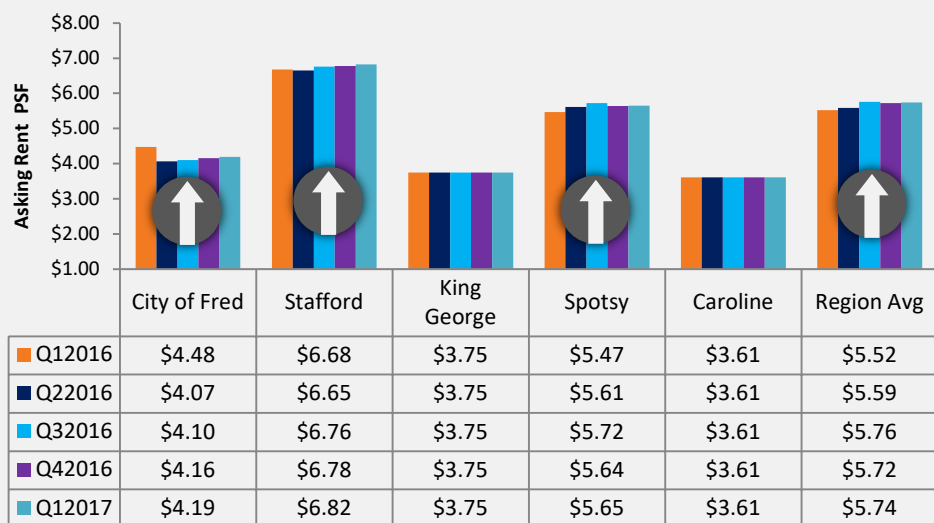
Rents

Regional industrial rents increased by \$.02 during the first quarter. Year-over-year industrial rents have grown by 4.2% from \$5.52 in Q1-2016 to \$5.74 in Q1-2017. This marks the end of a five consecutive quarter run with positive rent growth. Every locality (that experienced rent change) recorded rent growth during Q1-2017, but nothing to significant. Rents grew in Stafford by 0.5% to \$6.82, and still holds the highest rents in the Region. Year-over-year, rent growth per locality hasn't been to significant, yet it's still growth. Rent growth in the industrial sector has been fairly slow, despite increased competition due to low vacancy. We should expect to experience some minor rent growth throughout 2017 as the market continues to become more landlord friendly.

Industrial Vacancy Rates By Sub Market Q3 2015- Q1 2017



NNN Industrial Rental Rates, By Sub Market Q4 2015 - Q1 2017



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Q1 INDUSTRIAL NEWS

idX Corp Purchases Former GM Powertrain Plant | Plans 150 Jobs



Specialty manufacturing company idX Corp is acquiring the former General Motors Fredericksburg Powertrain plant and will convert it to a state-of-the-art manufacturing operation.

The 77-acre facility, which includes 289,000 square feet of industrial space on Tidewater Trail, has been vacant since the GM plant closed in 2010. The current owner is RACER Trust, which a federal judge created to sell off GM's former assets after the company declared bankruptcy in 2009.

idX plans to invest \$7.2 million in the facility and create 150 manufacturing jobs. A portion of those jobs will be filled by existing employees in Columbia, Md., which is about 90 miles north of Fredericksburg.

Virginia Gov. Terry McAuliffe approved a \$400,000 grant from the Commonwealth's Opportunity Fund to help lure idX to Virginia, which competed against Maryland and North Carolina. The company also will receive about \$1.5 million in incentives from Spotsylvania over 10 years, according to a county news release.

idX specializes in furnishings and displays for retail stores and showrooms and the hospitality industry. It has a facility in Columbia, Maryland, and eight other cities, as well as international locations in China, India, the U.K., Mexico, Toronto and Tokyo.

Major Police Supply Purchases 17,271 SF Industrial Building



Major Police Supply recently purchased a 17,271 sq. ft. industrial building for a new distribution facility. The building, located at 5113 Commonwealth Drive in Spotsylvania County, VA, was formerly the Skateland skating rink, but was most recently used by Mid Atlantic Vinyl as a production/manufacturing facility.

The purchaser, Major Police Supply, will operate their business out of the location, which will be their first in Virginia. The company currently has 2 locations in New Jersey and 1 in Maryland. Major Police Supply specializes in aftermarket parts supply and installation for emergency vehicles from single cars to entire fleets.

Milby Company Leases 22,000 SF in Stafford County

In January, Milby Company leased a 22,000 SF industrial warehouse space at 62 Debruen Lane in Stafford County, Virginia. The company decided to relocate its existing Colonial Heights branch, which officially closed in December of 2016.

Milby Company specializes in the distribution of water systems products, sump pumps, conditioning equipment and well drilling products for commercial and residential applications.

In a message on their company website Milby Company stated "This new location will allow us to expand their product offering and inventory, as well as, provide a superior level of service to our customers." Plans are to open the new location on Monday, April 3, 2017.

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

62 Debruen Lane, Stafford County, VA



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

Tenant	Address or Industrial Park	City/County	Space Leased
Milby Company	62 Debruen Lane	Stafford	22,000 SF
CrossFit 12 Gauge	3321 Dill Smith St. <i>Bowman Center</i>	Spotsylvania	4,330 SF
DPF Services	11812 Main St. <i>Bowman Center</i>	Spotsylvania	6,200 SF
BYOB (Bring Your Own Bike Garage)	220 Industrial St. Suite 112B	Fredericksburg	4,725 SF

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

Tricorp Amusements, Inc.	11819 Main Street, Suite B <i>Bowman Center</i>	Spotsylvania	1,160 SF
Power Door Products	11720 Main St. <i>Bowman Center</i>	Spotsylvania	3,750 SF
Tipco Technologies, Inc.	4100 Lafayette Blvd <i>Commerce Center @ Renaissance Plaza</i>	Spotsylvania	3,300 SF
Monsters & Machines	1001 Tyler St. Suite 4	Fredericksburg	1,200 SF
Edward Squire	400 Nelms Circle	Stafford	2,600 SF
Calvin Meeks	11819 Main St. <i>Bowman Center</i>	Spotsylvania	1,040 SF

SIGNIFICANT SALES TRANSACTIONS Q4-2016 (\$900,000+)

Major Police Supply	5113 Commonwealth Drive	Spotsylvania	17,271 SF \$967,500
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