

OFFICE

MARKET VANTAGEPOINT

FREDERICKSBURG REGION, VIRGINIA

ELITE
Reports

2017
Q1



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Office Market Makes Strides Towards Stabilization

The Office market in the Fredericksburg Region experienced a high performance year in 2016, and those trends seem to be continuing into 2017. Last year we experienced a strengthening office market with the region recording the highest positive net absorption in a single year than in the past three (3) years combined. During the first quarter of 2017 the office market experienced another quarter with positive net absorption and declining vacancy. As of Q1-2017 the Fredericksburg region has now recorded 4 consecutive quarters with declining office vacancy. In addition to declining vacancy and a rise in net absorption the market is also witnessing an increase in demand with new construction.

Vacancy Rates Hit 5 year Low

Vacancy rates for the Region's office market decreased by 50 basis points(bps) from 13.0% in Q4-2016 to 12.5% in Q1-2017. Vacancy Rates continued to drop through the end of 2016, and now into 2017. Over the past 3 consecutive quarters vacancy rates have now dropped a total of 1.6%, down from its peak of 14.1% in Q2-2016.

Stafford recorded the largest decline in vacancy rates, as both dropped by 80 bps during Q1-2017. Stafford's office market still seems to be unpredictable, and despite the impressive drop, the county still holds the highest vacancy rates in the Region at 17.4%.

Spotsylvania County recorded a slight uptick in vacancy during Q1-2017, but the office market is still showing signs of stabilization. During Q4-2016, vacancy rates in Spotsylvania dropped by a massive 2.5% from 13.3% in Q3 to 10.8% in Q4 2016. Furthermore, Spotsylvania's office market has made some tremendous improvements over the past year, with vacancy rates down a whopping 4.4% in comparison to Q1-2016 where rates hit 15.4%.

Vacancy rates in both King George county and the City of Fredericksburg dropped by 70bps in Q1-2017. King George has now recorded its 4th consecutive quarter with declining vacancy, and has also made the largest improvement as rates are now down 7.7% since Q1-2016.

The City of Fredericksburg is experiencing a stable office market as vacancy rates continue to hover between 7-8%, which is fairly impressive as the City contains over 2.6 million sq. ft. of existing inventory. As demand continues to increase forcing vacancy rates downward we should begin to witness more signs of market stabilization in other localities throughout the Fredericksburg Region.

Office Demand Continues to Rise

As mentioned previously, the Region's office market continued to experience a rise in demand throughout 2016 and into 2017. In the first quarter of 2017, the office market recorded over 41,000 sq. ft. in positive net absorption. This marks the 4th consecutive quarter with positive net absorption with a total of 231,000 sq. ft. of office space absorbed.

This marks the first period, since 2012, where the office market has recorded 4 consecutive quarters of positive net absorption. During this previous time span, from Q1-2012 to Q4-2012, the market recorded 214,000 sq. ft. of net absorption, which is still 17,000 sq. ft. less than current 12 month absorption (Q2-2016-Q1-2017).

Leasing activity also remained above average to start the new year with over 101,000 sq. ft. of office space leased in Q1-2017. This is a great start, following a stellar year in 2016 where over 470,000 sq. ft. of office space was leased.

Stafford County led the way with over 23,000 sq. ft. of net absorption and 27,000 sq. ft. in leasing activity in Q1-2016. Stafford was followed closely by the City of Fredericksburg, which recorded 16,000 sq. ft. in net absorption and over 38,000 sq. ft. in leasing activity

Regional Office Stats (Q1-2017)

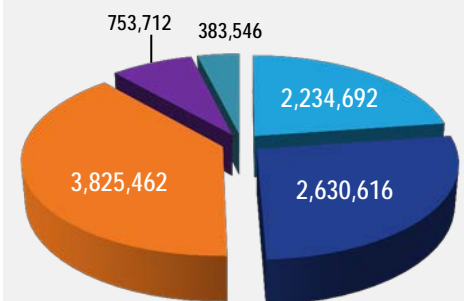
	Region	High	Low
Rental Rates (gross)	\$22.55	Stafford \$24.21	Caroline \$16.18
Vacancy	12.5%	Stafford 17.4%	Caroline 6.8%
Inventory (SF)	9.93M	Stafford 3.82M	Caroline 0.38M

231,000
SQUARE FEET
POSITIVE NET ABSORPTION

Over the Last 4 Quarters
(Q2-2016 - Q1-2017)

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

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



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Demand-cont.

Despite strong leasing activity with over 31,000 sq. ft. leased in Q1-2017, Spotsylvania managed to record negative net absorption of -6,138 sq. ft. With decent leasing activity, paired with the declining vacancy rates, Spotsylvania County is beginning to experience a rise in new construction over the past few months.

There were no new deliveries recorded in Q1-2017, but there is currently over 68,000 sq. ft. of new office space under construction. Of the 68,000 sq. ft. currently under construction, over 90% is located in Spotsylvania. The Region ended 2016 with a total of 108,000 sq. ft. of new space delivered; the most recent new delivery was a 40,000 sq. ft. office building at Quantico Corporate Center in Stafford County which was completed in Q4-2016.

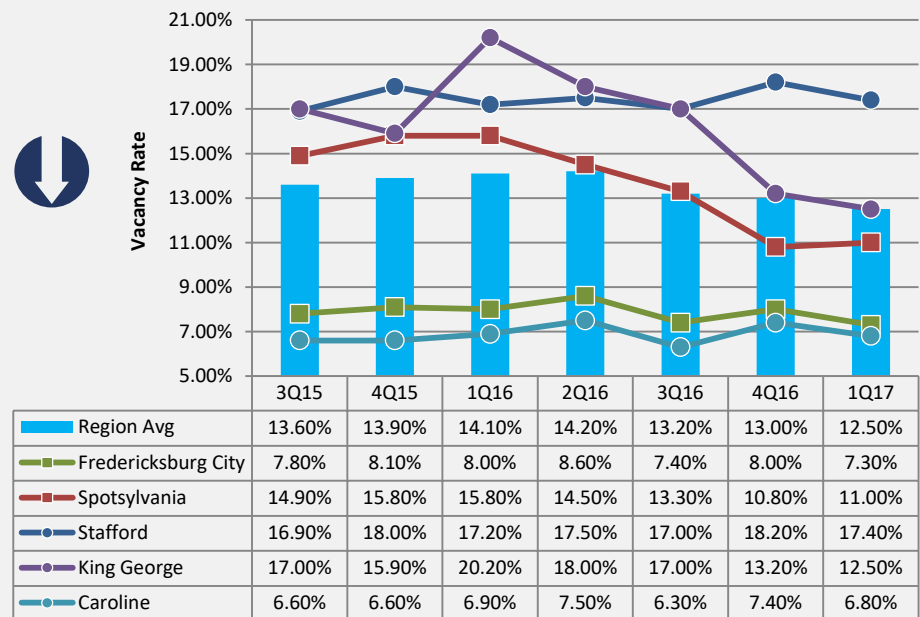
With new construction on the rise and vacancy rates declining we should expect to experience continued market stabilization and potential rent growth in through 2017.

Rents Experience Minor Growth

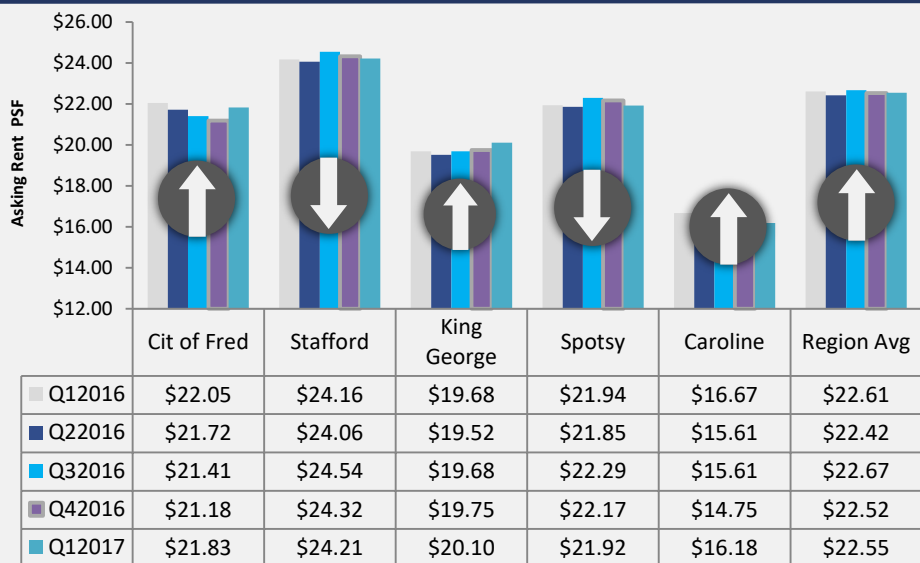
Rent growth is still relatively flat with rents hovering between \$22-\$23/psf (gross), which has been the trend over the past few year. Regional gross office rents grew slightly in Q1-2017 by \$.03 from \$22.52 in Q4-2016 to \$22.55 in Q1-2017. Minor changes are observed from quarter-to-quarter, but there appears to be no definitive trend toward sustained rent growth. Rents remained in the mid \$22 range throughout 2016 and in comparison to Q1-2016, current rents are down just 0.26%. Caroline County (+9.7%) recorded a strong increase in rents during the first quarter rising over \$1.40 to \$16.18, but are still slightly lower than Q1-2016 (\$16.67) The City of Fredericksburg (+3.1%) and King George County (+1.7%) also experienced decent rent growth in Q1-2017 but again are fairly unchanged year-over-year.

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 fairly stable and we should continue to see similar trends in 2017.

Vacancy Rates By Sub Market Q3 2015- Q1 2017



Gross Office Rental Rates, By Sub Market Q1 2016 – Q1 2017



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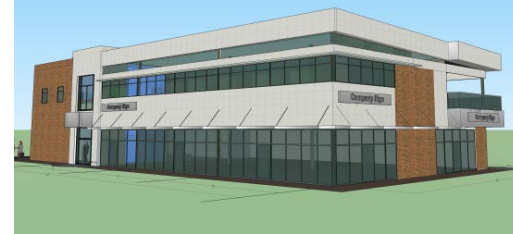
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NEW CONSTRUCTION
IN THE PIPELINE | 2017

ILM Headquarters | 15,000 SF
Cowan Crossings | Fredericksburg, VA



Liberty Place | 30,000 SF of Office
Fredericksburg, VA



Quantico Corporate Center | Stafford, VA



Q1 OFFICE NEWS RE-CAP

Vakos Break Ground on Southpoint Landing Mixed-Use Project

This past February W.J. Vakos broke ground on Southpoint Landing, the newest mixed-use project at the 355 acre Southpoint development. The first building at Southpoint Landing will consist of 3 stories, an underground parking garage and feature 48,000 sq. ft. of office and retail space. Vakos will occupy the entire top floor of the 3-story building for their new corporate headquarters.

The final phase began with the development of HH Hunt's 280 apartments dubbed the Aberly at Southpoint. The new apartments are situated on 23 of the remaining 76 acres that will be developed in the final phase. In addition to HH Hunt's apartments, Southpoint Landing is also planned to feature up-to 830 additional multi-family units, as well as additional office & retail space as well as a hotel.



Central Virginia Health Services opens new location in Fredericksburg



Central Virginia Health Services (CVHS), has leased a 7,500 sq. ft. space at 1965 Jefferson Davis Hwy in the City of Fredericksburg. CVHS opened this location, named the Community Health Center of the Rappahannock Region (CHCRR) this past March. The company is a non-profit community health center with Federally Qualified Health Center (FOHC) that is focused on providing care to people with limited access to the health services they need.

VxL Enterprises Leases 6,266 SF Suite at Mill Race Commons



VxL Enterprises, LLC has leased 6,266sf of office space at Mill Race Commons, 701 Kenmore Avenue, Suite 200 in the City of Fredericksburg. VxL Enterprises, a government contractor, will occupy the space which will also serve as their corporate headquarters.

The Quantico Innovation Center opens in Stafford County



The Quantico Innovation Center, an accelerator for local, technology-based, startup businesses, opened this past February. The nonprofit center is part of the Stafford Technology & Research Park at Quantico Corporate Center. Its purpose is to attract and retain technology-based businesses, which could fuel economic development.

The organization recently moved into 1000 Corporate Dr. and is being led by executive director Michael Tentnowski, who was hired last year. QuIC provides counseling, mentoring, seminars and workshops, shared office space, reception services and access to funding programs that assist early-stage technology companies. Companies that qualify include those that deal with cybersecurity, big data analytics, cloud services, national security and other IT industry sectors. QuIC also stated that there will also be special programs designed for veteran entrepreneurs.

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LEASING ACTIVITY Q1 2017 (3,000 SF +)

TENANT	ADDRESS/OFFICE PARK	COUNTY/CITY	SPACE LEASED
VxL Enterprises, LLC	701 Kenmore Avenue <i>Mill Race Commons</i>	Fredericksburg	6,266 SF
CVTV Corporation	923 Maple Grove Drive <i>Westpark Office Center</i>	Spotsylvania	5,286 SF
Virginia Dept. of Health	1320 Central Park Blvd. <i>Central Park Corporate Center</i>	Fredericksburg	3,729 SF
CVHS (Central VA Health Services)	1965 Jefferson Davis Hwy	Fredericksburg	7,500 SF
Fleming Therapy Services, Inc.	1955 Jefferson Davis Hwy <i>Townsend Office Park</i>	Fredericksburg	3,371 SF
Family Preservation Services of VA, Inc.	615 Jefferson Davis Hwy	Fredericksburg	3,160 SF
Triangle Experience Group	One Bowman Dr. <i>Bowman Center</i>	Spotsylvania	3,030 SF
Max Personal Health	11155 Journal Street	King George	3,000 SF
Tactical Engineering & Analysis, Inc.	4621 Carr Dr. <i>Jackson Square Office Park</i>	Spotsylvania	4,100 SF

LEASING ACTIVITY Q1 2017 (LESS THAN 3,000 SF)

Quality Dental, LLC	125 Hospital Center Blvd. <i>Stafford Medical Pavilion</i>	Stafford	2,521 SF
Behavioral Health Services of VA Corporation	10401 Courthouse Rd	Spotsylvania	1,850 SF
Law Office of Jeanette B. Purvis, PC	10703 Spotsylvania Ave. <i>Lee's Hill Professional Center</i>	Spotsylvania	1,100 SF
Cowboy up Enterprises, LLC	3940 Plank Road	Spotsylvania	1,500 SF
Furry Farm, Inc.	1523 Olde William St.	Fredericksburg	2,947 SF
C2M, LLC	3327 Bourbon St. <i>Bowman Center</i>	Spotsylvania	1,150 SF
Pelorus Counseling & Consulting	3306 Bourbon St. <i>Bowman Center</i>	Spotsylvania	1,555 SF
CRC Contracting Inc.	4485 Danube Dr. <i>Bayberry Office Park</i>	King George	1,600 SF