

# INDUSTRIAL

## MARKET VANTAGEPOINT

### FREDERICKSBURG REGION, VIRGINIA

ELITE  
Reports

2017  
Q2



ELITE

### How Low Will They Go – Industrial Vacancy Rates at all time Lows

The Industrial market jumped back into hyper drive in Q2 after experiencing an abnormal first quarter. In Q1-2017 the industrial market experienced its first rise in vacancy and negative net absorption since 2014, but seems to have been temporary. The industrial market bounced back during the second quarter recording over 190,000 sq. ft. of net absorption, pulling vacancy rates down 1.4%.

Over the past 4 years the industrial market has only recorded 3 quarters with negative net absorption. During this 4 year period there has been 1.26 million sq. ft. of industrial space absorbed, far outpacing new construction. With limited construction planned, while demand continues to grow, there is one question we should be pondering....how much lower will vacancy rates go?

Caroline County was the only locality that saw an increase in vacancy as rates jumped 70bps to 5.3% in Q2-2017. Despite the slight increase, rates remain lower than the regional average.

Spotsylvania County recorded the most impressive drop in vacancy during Q2-2017, where rates fell by a full 3%. Spotsylvania holds the largest amount of existing space coming in at just over 6 million sq. ft., which truly shows how extraordinary this single quarter decline truly was. Vacancy rates also reached a new low in Spotsylvania at 5.2%, which was previously held by Q4-2016 where rates hit 8%.

Stafford County also experienced a minor decline in vacancy, dropping just 30bps from 7.3% in Q1-2017 to 7.0% in Q2-2017. At 7.0%, vacancy rates are just 20bps higher than their all time low in Stafford.

The City of Fredericksburg has over 1.4 million sq. ft. of existing inventory, so when vacancy rates hit sub 2% it is absolutely astounding. Vacancy rates in the City of Fredericksburg dropped 10bps to 1.9%, and new all time low, during Q2-2017. Industrial vacancy rates in the City of Fredericksburg have now dropped a total of 5.4% year-over-year and are clearly the lowest in the Region.

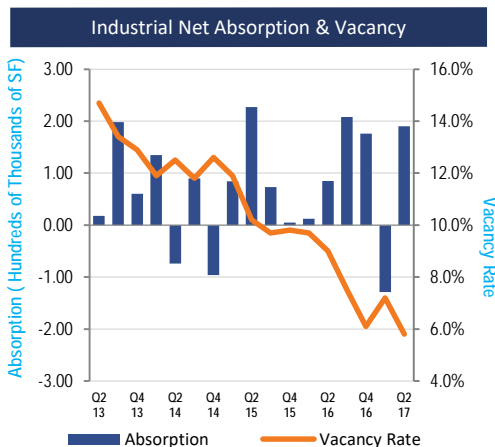
### Demand – Absorption & Leasing

Industrial demand throughout the Region has been extraordinary over the past 2 years, a trend that seems to be continuing into 2017, despite a lack luster first quarter. Net absorption totaled 190,070 sq. ft. in the second quarter. Leasing activity was also notable as there was 225,000 sq. ft. of leasing activity recorded.

Spotsylvania County outperformed the rest of the Region where net absorption totaled 181,000 sq. ft. and leasing activity topped out at 169,000 sq. ft. In relation, Spotsylvania accounted for 96% of the total absorption and over 75% of the leasing activity for the entire Region.

### Regional Industrial Stats (Q2-2017)

	Region	High	Low
Rental Rates (NNN)	\$5.74	Stafford \$7.26	Caroline \$3.61
Vacancy	5.8%	King George 16.6%	City of Fred 1.9%
Total Inventory (SF)	13.37M	Spotsylvania 6.06M	King George 0.44M

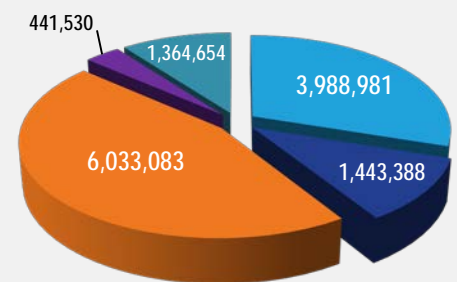


Industrial vacancy rates dropped by 1.4% from 7.2% in Q1 to 5.8% in Q2-2017. This drop followed a slight increase in Q1 where rates jumped up from 6.8%. Year-over-year Regional vacancy rates have declined substantially by 3.7% and current rates are now the lowest in recent memory. The same can be seen throughout every locality in the Region as vacancy rates have fallen to unprecedented numbers.

HISTORICALLY  
**LOW**  
VACANCY  
ACROSS THE REGION

### Existing Industrial Inventory (SF) By Locality (Q2 2017)

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



Data contained herein has been obtained from third party sources deemed reliable; no warranty, expressed or implied, is made regarding the accuracy, adequacy, completeness, legality, reliability or usefulness of any information. List of Sources are available upon request.

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#### Demand cont.

Stafford also performed fairly well, recording over 50,000 sq. ft. in leasing activity and 15,600 sq. ft. of net absorption. Both Spotsylvania and Stafford experienced a lull in Q1, but as evident in Q2 performance these markets are healthy and can bounce back extremely quick.

With industrial demand growing we should begin to experience the process beginning of new construction starts around the Region. As we begin to see existing space leased up, there will eventually be a need for new space which in return could assist in rent growth throughout the Region. For now, we should expect to see some smaller in-fill development in the industrial sector through the remainder of the year and into 2018, if demand stays on pace.

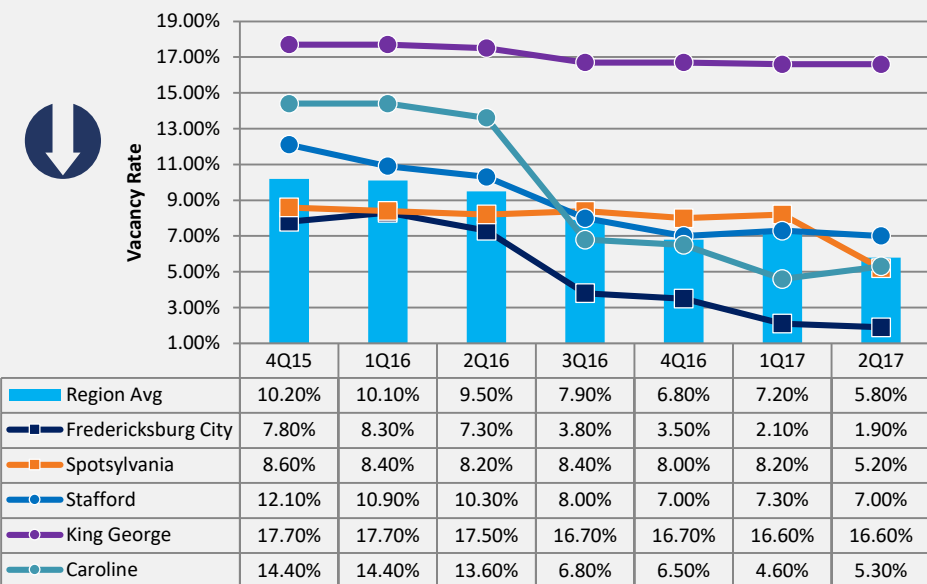
#### Rents Growth – Slow and Steady

Although Regional industrial rents were unchanged during the second quarter, growth can be seen year-over-year. In comparison to Q2-2016 industrial rents have grown by 2.7% from \$5.59 in Q2-2016 to \$5.74 in Q2-2017. Rent growth might be slow but seems to be trending upward as market supply tighten.

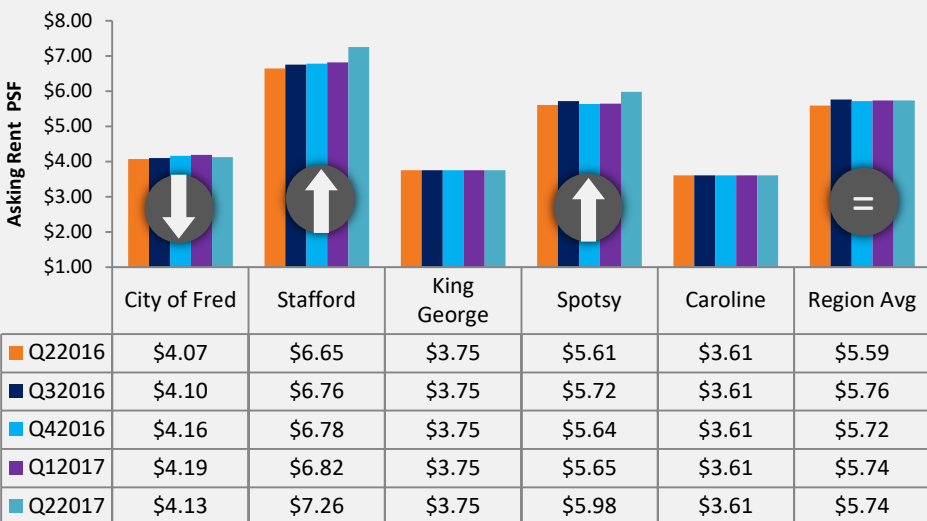
Two localities did experience some decent rent growth as Stafford posted a 6.4% increase and Spotsylvania followed closely with a 5.8% increase. Stafford County still holds the highest rents in the Region and is the first locality to break into the \$7 range. Surprisingly, with vacancy as low at it is, the City of Fredericksburg experienced a decrease in rents during the second quarter. 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 Q4 2015- Q2 2017



NNN Industrial Rental Rates, By Sub Market Q2 2016 – Q2 2017



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## Q2 INDUSTRIAL NEWS

### Liberty Roofing Center Leases 20,000 SF Building in Spotsylvania



Liberty Roofing Center executed a lease on a 20,000 sq. ft. industrial warehouse building at 5117 Commonwealth Drive in Spotsylvania County, Virginia.

Liberty Roofing Center is a distributor of roofing materials, vinyl siding, fiber cement siding, and other building supplies based out of Philadelphia, PA. The company currently owns 8 distribution facilities, Liberty Roofing Centers, throughout the Mid-Atlantic region including Pennsylvania, New Jersey, and Virginia.

The Spotsylvania facility will be a regional location for them, with their next closest operation in Chesterfield County, Virginia. Liberty will use the facility for warehousing, storage, distribution and retailing of commercial and residential construction materials and building supplies.



### 9,900 SF Flex Building Purchased for CrossFit Gym



In April, RARE CrossFit, purchased this 9,932 sq. ft. flex building with plans to relocate their existing business, a CrossFit gym. The property, located at 10941 Houser Drive was purchased for \$850,000. The new location more than doubles the gym's previous square footage which will provide a new, larger platform to grow RARE CrossFit's business. Co-owners Adam Eidson and Lee Walchester also plan to launch a nonprofit for pediatric cancer treatment called RARE Cares More.

The space provides over 6,600 sq. ft. of open warehouse space with 16 ft. ceilings. The building also features 3,200 sq. ft. of office space that will be helpful with operating the business, and could be potentially useful in launching RARE's new business.



190,000 SF  
NET  
IN Q2-2017  
ABSORPTION

### LIDL Distribution Facility | 1MM SF Spotsylvania, VA



### LIDL's Massive 1 Million SQ. FT. Distribution Facility has been completed

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.

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**COLDWELL  
BANKER  
COMMERCIAL**

**ELITE**

2017

**MARKET HIGHLIGHTS**

**400,000**  
SQUARE FEET  
LEASED YTD

Industrial Vacancy Rates have dropped 1% YTD | Year-over-year rates are down 3.7% in comparison to Q2-2016

Over 445,000 sq. ft. of net absorption in the past 12 mo.

400,000 sq. ft. of industrial space has been leased in 2017

The Region currently has over 13.37 million sq. ft. of existing industrial inventory

#### MAJOR LEASING ACTIVITY Q2 2017 (4,000 SF +)

TENANT	ADDRESS /INDUSTRIAL PARK	CITY/COUNTY	SPACE LEASED
Liberty Roofing Center	5117 Commonwealth Dr	Spotsylvania	20,000 SF
Zenith Aviation	11800 Main Street <i>Fredericksburg Center P Building</i>	Spotsylvania	18,000 SF
City Electric Service	4100 Lafayette Blvd. <i>Commerce Center @ Renaissance Plaza</i>	Spotsylvania	6,600 SF
Thrasher Group, Inc.	100 Industrial Dr., Suite A	Spotsylvania	5,500 SF
Illusion Wraps, LLC	3719 Lafayette Blvd.	Spotsylvania	4,030 SF

#### LEASING ACTIVITY Q2 2017 (Less Than 4,000 SF)

SKRZ LLC	3509 Shannon Park Dr. <i>Airport Center</i>	Spotsylvania	2,000 SF
Bases Loaded LLC	Central Rd & Tyler St	Fredericksburg	1,500 SF
Peak Financial Services	230 Industrial Dr. <i>Longwood Business Center</i>	Spotsylvania	3,000 SF
Jenkins Heating & Air	230 Industrial Dr. <i>Longwood Business Center</i>	Spotsylvania	2,000 SF
Primeway Movers, LLC	1130 International Pkwy <i>Stafford Commerce Center</i>	Stafford	3,120 SF
Calvin Meeks	11819 Main St. <i>Bowman Center</i>	Spotsylvania	1,040 SF

#### SIGNIFICANT SALES TRANSACTIONS Q2-2017 (\$800,000+)

Adlee, LLC	10941 Houser Drive	Spotsylvania	9,932 SF Flex \$850,000
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