

# OFFICE

## MARKET VANTAGEPOINT

### FREDERICKSBURG REGION, VIRGINIA

ELITE  
Reports

2017  
Q2



ELITE

#### Office Vacancies Continue to Decline

The Office market in the Fredericksburg Region is off to a good start in 2017. As of Q2-2017 the Region's office market has recorded nearly 100,000 sq. ft. of positive net absorption on the year. This also marks the 5<sup>th</sup> consecutive quarter with declining office vacancy rates. In addition the office market is beginning to experience some stabilized rent growth.

Increasing demand coupled with very limited new construction should continue to push vacancy downward. This trend can be directly attributed to pre-recession over construction, as new, quality office space left vacant is now being leased, reducing the necessity for new construction.

are now below 17% in Stafford, a trend that should continue through 2017.

The counties of King George & Caroline were the only two localities to record an increase in vacancy, which were both fairly minor. Vacancy Rates in Caroline increased by 30bps to 7.1% in Q2-2017, which is on par with rates over the past few years.

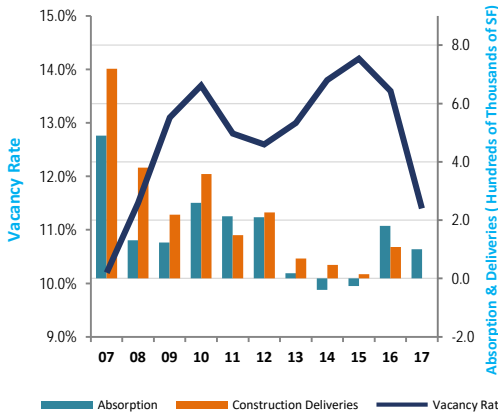
Despite a slight uptick in vacancy, King George's office market has made large improvements over the past year, with vacancy rates declining from 18% in Q2-2016 to the current rate at 13.1%. Nonetheless, with only 750,000 sq. ft. of inventory it doesn't take much for these rates to fluctuate.

Over the past two years vacancy rates in the City of Fredericksburg have continued to hover between 7-8%, which is fairly impressive as the City contains over 2.6 million sq. ft. of existing inventory. Through 2 quarters in 2017 rates have dropped below 7% to historically low 6.1%, and are currently the lowest in the Region.

#### Regional Office Stats (Q2-2017)

	Region	High	Low
Rental Rates (gross)	\$22.71	Stafford \$23.88	Caroline \$18.36
Vacancy	11.4%	Stafford 16.4%	Fredericksburg 6.1%
Inventory (SF)	9.93M	Stafford 3.82M	Caroline 0.38M

Office Net Absorption, Vacancy and Deliveries



Vacancy rates for the Region's office market decreased by 60 basis points(bps) from 12.0% in Q1-2017 to 11.4% in Q2-2017. Over the past 4 consecutive quarters vacancy rates have now dropped a total of 2.4%, down from 13.8% in Q2-2016.

Spotsylvania recorded the largest decline in vacancy rates, dropping by a massive 1.6% from 11.0% in Q1 to 9.4% in Q2-2017. Year over year Spotsylvania's office market has made enormous improvements with vacancy rates down a total of 5.5% in comparison to Q2-2016 (14.9%).

Stafford's office market recorded another quarter with declining vacancy as rates dropped 80bps from 17.2% to 16.4% in Q2-2017. Vacancy rates

#### Strong Demand – Limited Construction

As mentioned previously, the Region's office market is experiencing a sustained rise in demand while new construction is sparse. During the second quarter, the office market recorded over 58,000 sq. ft. in net absorption. Over the past 5 consecutive quarters the Region's office market has now recorded a total of 289,000 sq. ft. in net absorption.

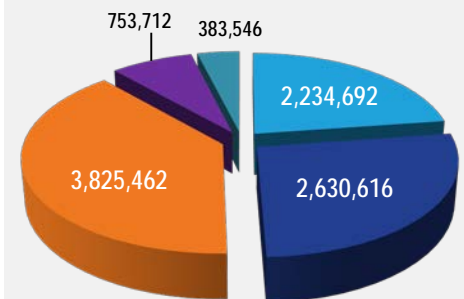
Leasing activity has also remained strong to start the new year with over 66,500 sq. ft. of office space leased in Q2-2017, bringing the year-to-date total to 167,000 sq. ft.

Stafford County led the way in office leasing, with nearly 30,000 sq. ft. leased, but only recorded 5,500 sq. ft. of net absorption. On the other hand Spotsylvania recorded 14,000 sq. ft. leased and 40,000 sq. ft. of net absorption in Q2-2016.

100,000  
SQUARE FEET  
POSITIVE NET  
ABSORPTION  
YTD-2017

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

- Spotsylvania
- Stafford
- 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.

The absorption recorded by Spotsylvania can be attributed to strong leasing activity in Q1 where 31,000 sq. ft. of office space was leased but not occupied until Q2-2017.

There were no new deliveries recorded in Q2-2017, but there is some minor new construction underway. As of Q2-2017 there is a mere 21,200 sq. ft. of new office under construction. This includes a 15,000 sq. ft. building at Cowan Crossing in the City of Fredericksburg, which broke ground in June, and a 6,200 sq. ft. building at Lee's Hill Professional Center. New construction has been fairly limited over the past few years, a trend that could start to change as fundamentals improve across the board in the office sector.

With vacancy rates plummeting and office demand remaining strong we may begin to see an uptick in new construction within the next few quarters.

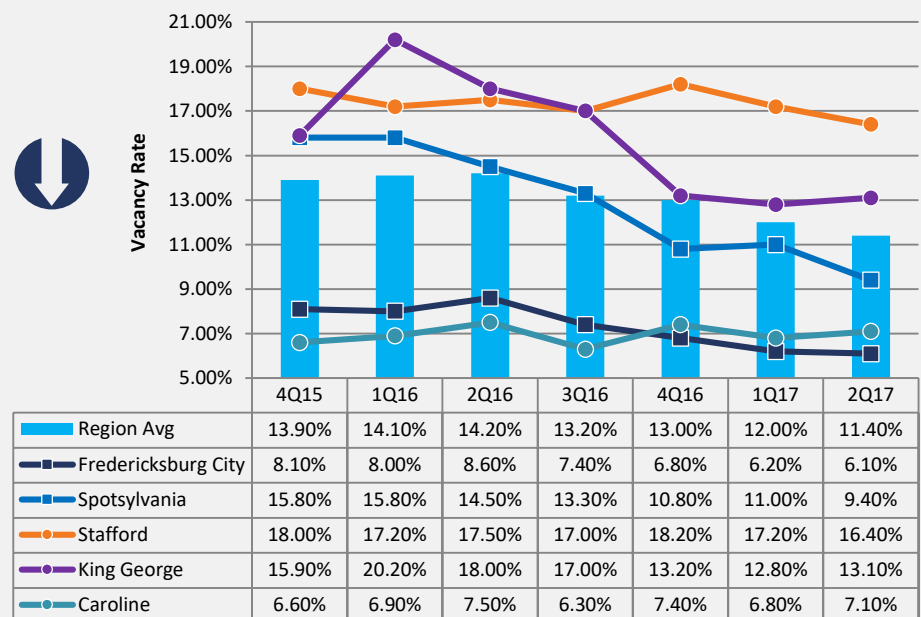
### Rents Experience Minor Growth

Rent growth is still relatively slow with rents hovering between \$22-\$23/psf (gross), which has been the trend over the past few year. Regional gross office rents grew again in Q2-2017 by \$0.16, an increase of just 0.7%, from \$22.55 in Q1 to \$22.71 in Q2-2017. Minor fluctuations occur from quarter-to-quarter, with rents stabilizing in the mid \$22 range.

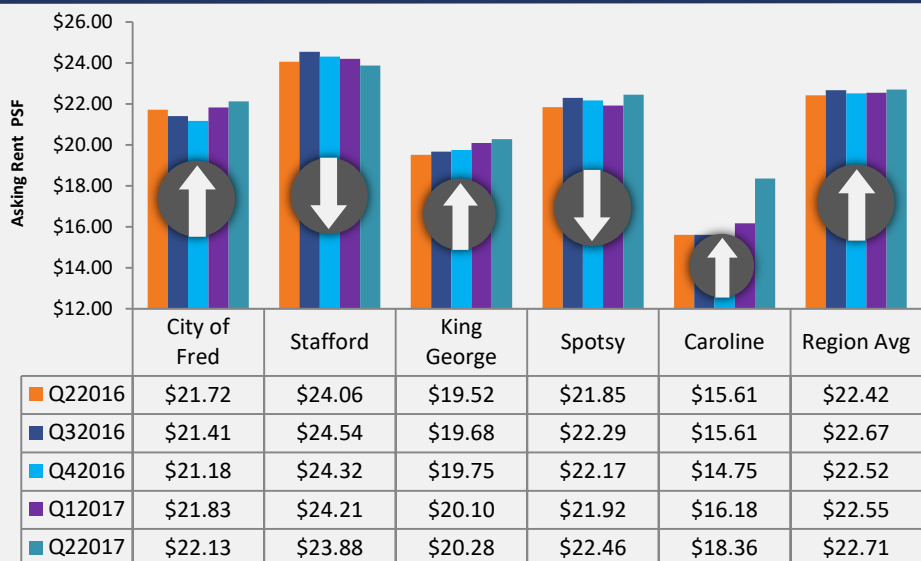
Every locality recorded rent growth during the second quarter with the exception of Stafford, where rents dropped by 1.3%. Caroline County experienced the most impressive rent growth during the second quarter as rates rose \$2.18 (+13%). Spotsylvania (+2.4%), the City of Fredericksburg (+1.3%) and King George (+0.8%) also experienced decent rent growth in Q2-2017 and year-over-year.

Average gross office rents seem to be fairly stable in the mid \$22 range and although we should continue to experience rent growth through the remainder of the year it will most likely be minimal.

### Vacancy Rates By Sub Market Q4 2015- Q2 2017



### Gross Office Rental Rates, By Sub Market Q2 2016 - Q2 2017



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NEW CONSTRUCTION  
IN THE PIPELINE | 2017

Liberty Place | Office/Retail  
*Fredericksburg, VA*



FEATURED PROPERTY

150 Riverside Drive  
*Riverside Business Park | Stafford, VA*

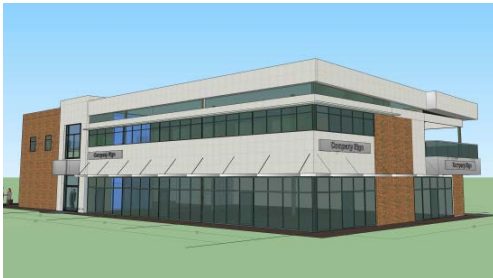


46% Increase in Occupancy

This 75,000 +/- SF office building has improved occupancy by over 40% in the past 18 months. After sitting only 50% occupancy for a few years increased demand, competitive offerings, and strong marketing has assisted with increasing occupancy to 96%.

## Q2 OFFICE NEWS RE-CAP

ILM Break Ground on New Corporate Headquarters in Fredericksburg



Construction has commenced on a new 15,000 sq. ft office building that will serve as ILM Corporation's new headquarters in the City of Fredericksburg. The company purchased a 1.0 Acre parcel at Cowan Crossings development last fall and since has been squaring away plans for the building.

When the building is complete, ILM plans to occupy approx. 9,000 sq. ft. in the building and will lease out the remaining 6,000 sq. ft. They will be relocating from their existing 4,960 sq. ft. office building, located at 600 Lafayette Blvd in the City, which is currently on the market for lease.

New Office Building Underway at Lee's Hill Office Park in Spotsy



A new 6,200 sq. ft. office building is underway at Lee's Hill Office Park in Spotsylvania County. This property is part of Lee's Hill Medical Center, a medical office complex located just off of Interstate 95 at Exit 126 adjacent the Lee's Hill Shopping Center in Spotsylvania County. The new building will be the 7<sup>th</sup> office building at the park and is estimated to be completed in October of this year.

Net Leased Office Building Sells in Spotsylvania County



A 4,744 sq. ft. net leased office building in Fredericksburg, Virginia sold for \$670,000 this past May. The building, located in the Potter Office Park at 5610 Southpoint Centre Boulevard, is 100% leased to National Institute of Family and Life Advocates and Bethany Christian Services.

The purchaser reflected on the win-win deal and why they chose to invest in the Fredericksburg Region stating: "We considered this to be a good investment both from a value and growth standpoint and given the fact that Fredericksburg is poised for big growth as the DC-Richmond corridor grows with the Government moving out of DC. The connectivity with VRE makes it a favorite destination for both commercial and residential growth in the near future."

## RENTAL RATES



INCREASED

75

BASIS POINTS

\$0.17 increase from Quarter 1 2017



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COLDWELL  
BANKER  
COMMERCIAL

ELITE

2017

MARKET HIGHLIGHTS

VACANCY RATES  
DECLINE 1.6%  
YTD

Office Vacancy has dropped from 13%  
in Q4-2016 to 11.4% in Q2-2017

100,000 sq. ft. of net  
absorption has been recorded  
YTD in 2017

12 mo. Absorption is 277,925  
sq. ft., which is 250% higher  
than the 12 mo. Average  
absorption over the past 5  
years (79,205 sq. ft.)

167,000 sq. ft. of office space  
has been leased in 2017

The Region currently has over  
9.98 million sq. ft. of existing  
office inventory

### LEASING ACTIVITY Q2-2017 (3,000 SF +)

TENANT	ADDRESS/OFFICE PARK	COUNTY/CITY	SPACE LEASED
Field Management Services	11905 Bowman Drive <i>Deep Run Office Park</i>	Spotsylvania	3,222 SF
Valkyrie Enterprises, LLC	16543 Commerce Drive	King George	4,073 SF
City Electric Supply Company	4126-4128 Lafayette Blvd	Fredericksburg	6,600 SF
RPI Group	11903 Bowman Drive <i>Deep Run Office Park</i>	Spotsylvania	4,448 SF
Dovetail Cultural Resources Group	450 Solomon Drive	Stafford	6,538 SF

### LEASING ACTIVITY Q2-2017 (Less Than 3,000 SF)

Painting with a Twist	3500 Plank Road	Spotsylvania	1,755 SF
Federal Strategies, LLC	150 Riverside Pkwy	Stafford	2,515 SF
Complete Mechanical Contracting	11047 Pierson Dr. <i>Fredericksburg Business Center</i>	Spotsylvania	2,800 SF
Children's House of Old Town, Inc	38 Chatham Heights Rd	Stafford	2,362 SF
Waldman & Associates	3516 Plank Road <i>Waverly Professional Office Park</i>	Spotsylvania	1,250 SF
Summit Mortgage Corp	710 Princess Anne St	Fredericksburg	1,054 SF
Dr. Manan Mehta	413 Chatham Square Office Park	Stafford	2,325 SF
Teel Technologies, Inc.	3509 Shannon Park Dr	Spotsylvania	2,000 SF
Stafford Endodontics	10703 Spotsylvania Ave <i>Lee's Hill Professional Center</i>	Spotsylvania	1,968 SF