

RETAIL

MARKET VANTAGEPOINT

FREDERICKSBURG REGION, VIRGINIA

ELITE
Reports

2017
Q2



ELITE

Retail Market Bouncing Back After Big Box Closures – Attracts new Retailers

The Fredericksburg Region's retail market seemed to have a fairly flat performance in Q2-2017, if you look solely at statistics. Most localities around the Region experienced a slight rise in vacancy and a minor decrease in rental rates. Retail net absorption took another dip in Q2-2017, but should turn around over the 2nd half of the year.

Despite negative indicators, there are market improvements that have yet to be seen in overall retail statistics. One in particular is the former Kmart in Spotsylvania County, which is now being repurposed for a new tenant, At Home. Renovations are currently underway on the 100,000 sq. ft. building, and should be completed this fall, ultimately driving down vacancy rates in Spotsylvania and the Region as a whole.



Retail market strength can be seen in the rise of new construction as well as the attraction of new retailers to the market. As of Q2-2017 there is over 240,000 sq. ft. of new retail construction underway with a majority coming from retailers that are new to the region.

Vacancy Rates hold steady | Grocery Sector Leads New Construction

Overall retail vacancy rates in the Region remained unchanged at 5.4% in Q2-2017. Vacancy rates in the City of Fredericksburg (5%) and Spotsylvania County (5.9%) also remained unchanged during Q2 while Caroline County was the only locality to record a decline in retail vacancy during the first quarter, with a decrease of 50 basis points to 2.2%.

King George and Stafford were the only two localities to record increases in vacancy during Q2-2017.

Vacancy rates in King George rose by 20bps from 5.5% to 5.7% in Q2-2017, following a substantial increase of 1.6% in Q1.



Vacancy rates in Stafford County rose another 30bps in Q2-2017 following a 30bps rise in the first quarter. Rates are now up a total of 60bps on the year from 4.9% in Q4-2016 to its current rate at 5.5%. Regardless of the rise in vacancy there is over 120,000 sq. ft. of new retail under construction. One large project that is underway is the construction of development anchors at Aquia Towne Center, Harris Teeter and Petco that will total 91,100 sq. ft. Lidl is also well underway with their second regional location off Route 17/Warrenton Rd. Stafford also recorded the only delivery during the second quarter with the completion of a new 42,000 sq. ft. Walmart Neighborhood Grocery store.

Spotsylvania is experiencing significant growth, despite holding the highest retail vacancy rates in the Region at 5.9%. The retail market in Spotsylvania is also showing its resilience and strength by overcoming major big box closures and maintaining its growth path. This is evident with over 124,000 sq. ft. of new retail space under construction in Spotsylvania including the Region's first Publix supermarket.

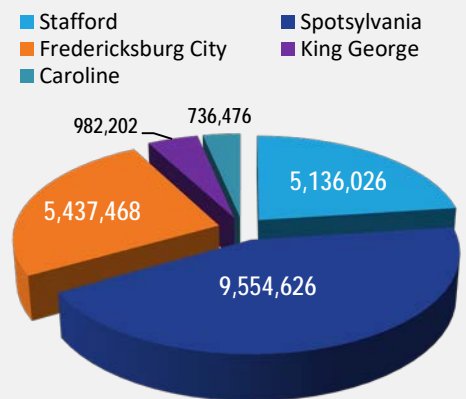
It is very clear that the grocery sector is leading the market, attributing to nearly 68% of all new retail construction. Infill development and smaller strip centers are also contributing to new construction, a trend that should continue as supporting retail space is developed to compliment new grocery anchored centers.

Regional Retail Stats (Q2-2017)

	Region	High	Low
Rental Rates	\$16.06	King George \$18.14	Caroline \$8.73
Vacancy	5.4%	Spotsylvania 5.9%	Caroline 2.2%
Inventory (SF)	21.81M	Spotsylvania 9.55M	Caroline 0.73M

240,000
SQUARE FEET
NEW RETAIL
CONSTRUCTION
UNDERWAY

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



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Retail Demand – Absorption & Leasing

The Region's retail market performed fairly mediocre in relation to leasing activity during the second quarter. Overall there was only 49,000 sq. ft. in retail leasing activity recorded while absorption fell into the negative at -12,000 sq. ft.

A large majority of the leasing activity came from the City of Fredericksburg and Spotsylvania County, where both recorded approximately 21,000 sq. ft.; each and were the only localities that recorded positive net absorption.

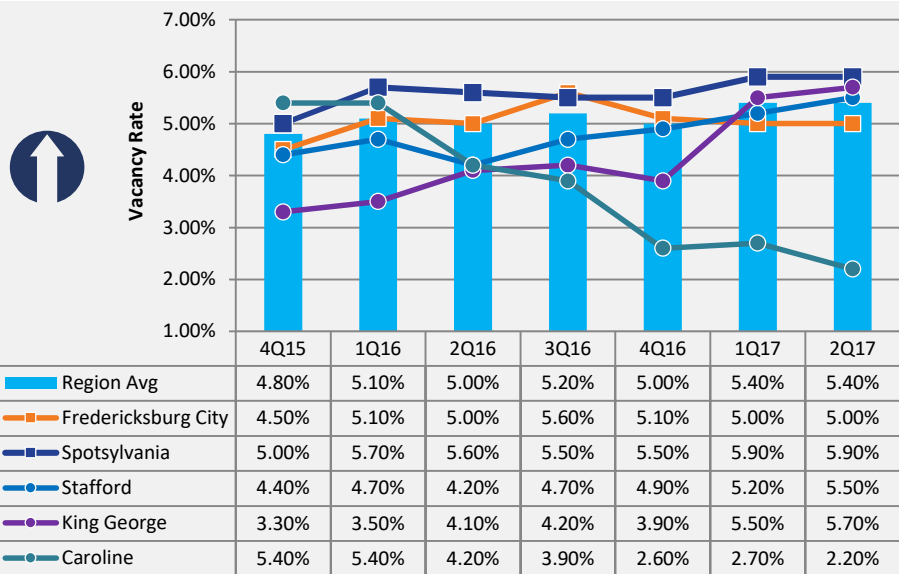
As mentioned earlier, from a statistical standpoint it may look like the Region's retail market is not performing well, but that is not the truth. Although vacancy rates have climbed slightly while absorption and leasing activity has slowed, the Region has attracted three major retailers. New retail construction is higher than we have seen in over 7 years, rents have experienced some stabilized growth, and the Region is attracting more new retailers.

Rents

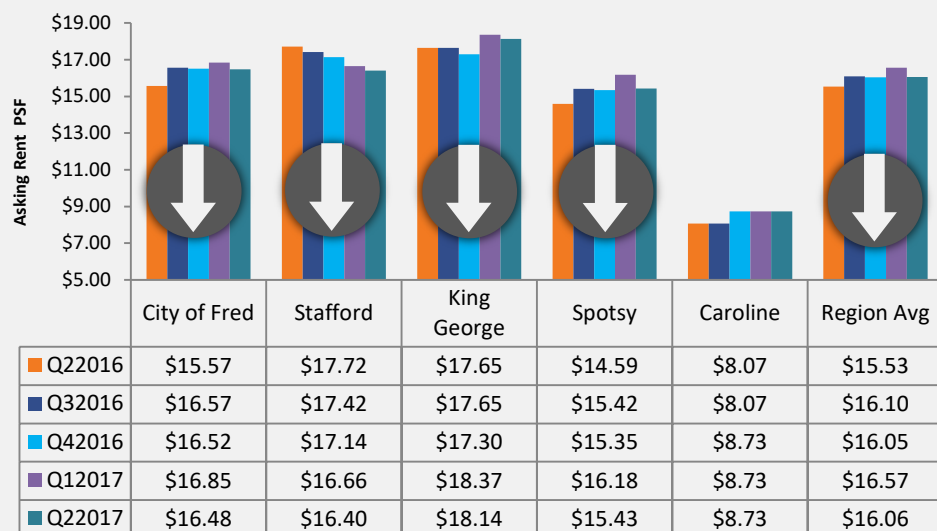
Overall NNN effective retail rents for the Region decreased by 3.1% from \$16.57 in Q1-2017 to \$16.06 in Q2-2017. This decrease was roughly equal to rent growth during the first quarter (3.2%) negating any rent growth this year. Year-over-year rents are up 3.4%, in comparison to Q2-2016 (\$15.53). Every locality experienced a decrease in rental rates during the second quarter with Spotsylvania County recording the largest drop at - 4.8%. Although the retail rents declined during Q2, year-over-year rents are up across the board, with the exception of Stafford County.

Stafford County has seen retail rents tumble down over the past 4 quarters and in comparison to the same quarter of last year, rents are down a total of 7.4% or \$1.32. Year-over-year retail rents are up in Spotsylvania (+5.7%), King George (+2.8%) and Fredericksburg (+5.8%) who has recorded the largest rent growth. Throughout the remainder of the year we should see rents stabilizing in the mid \$16's and possibly some continued growth in specific localities.

Vacancy Rates By Sub Market Q4 2015- Q2 2017



NNN Retail Rents PSF, By Quarter and Sub Market Q2 2016 – Q2 2017



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Q2 RETAIL NEWS RE-CAP

Publix Breaks Ground on first Regional Store Location

This past April, Publix announced that they will build their first location in the Fredericksburg Region. The supermarket chain has decided to locate at the Cosner's Corner shopping center at the intersection of Route 1 and Spotsylvania County Pkwy in Spotsylvania County, Virginia.

Publix has leased approximately 8.19 acres in front of Kohl's and will construct a 49,000 +/- square foot grocery store. The store, which recently broke ground, is scheduled to open between May and July of next year and will have about 140 employees.

Cosner's Corner is already home to a Super Target and approximately 800,000 sq. ft. of operating retail, but was lacking a sole supermarket. Located on a corridor undergoing massive residential growth the new Publix store should be able to capitalize on the grocery market void in the area.

Walmart Neighborhood Grocery Opens in North Stafford



The Region's first Walmart Neighborhood Grocery store opened in Stafford County during the second quarter. The 42,000 sq. ft. store is located within new commercial development at the intersection of Garrisonville Rd/Rt. 610 & Furnace Rd. The development is already home to Sheetz and plans for a Goodwill and other outparcel tenants are underway.

At Home to Occupy former Kmart



The former Kmart store in the Spotsylvania Crossing Shopping Center will soon be occupied by At Home, a home décor superstore. At home is currently repurposing/renovating the 100,000 sq. ft. store that was vacated by Kmart who closed this past spring.

At Home is a no-frills, warehouse-style store that sells furniture, garden, home textiles, housewares, patios, rugs and seasonal décor. This will be the 7th At Home store in Virginia and it is expected to open this fall.

Lidl well Underway on 2nd Location in the Region – Rt. 17 Stafford



Lidl is well underway with construction of their second location in the Fredericksburg Region. Last November Lidl closed on the purchase of a 6.34 Acre parcel in Stafford County for \$2.6 million. The site is located on Warrenton Rd/Route 17 near the Stafford Lakes Super Walmart store.

The first site, which Lidl purchased in October 2015, is located on Plank Road in Spotsylvania County, VA. Lidl has begun opening stores, including a location in Culpeper, VA, over the past two months with plans to open 20 stores this Summer. Plans have not been announced regarding the opening of either the Plank Rd store or this new location on Rt. 17 in Stafford.

BJ's Restaurant & Brewhouse (formerly Bailey's) Central Park, Fredericksburg, VA



IHOP (formerly Perkins) Route 17 – Simpson Ln | Stafford County, VA



Royal Farms | Rt. 17 Stafford County, VA (Delivered Q2-2017)



First Regional location for Royal Farms at the Falls Run Development on Route 17

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COLDWELL
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CONSTRUCTION COMPLETIONS/DELIVERIES Q2-2017

Address or (shopping center)	Tenant(s)	City/County	Building Size
Furnace Road & Garrisonville Road (Rt.610)	Walmart Neighborhood Market	Stafford	42,000 SF +/-
Central Park	BJ's Restaurant	Fredericksburg	7,500 SF
1221 Warrenton Road	Royal Farms	Stafford	5,500 SF

CONSTRUCTION UNDERWAY/ STARTS Q2-2017

Cosner's Corner	Publix	Spotsylvania	49,000 +/- SF
Plank Road & Kilarney Drive	Royal Farms	Spotsylvania	N/A
Spotsylvania Courthouse Village Hanover House	N/A	Spotsylvania	35,000 SF
Route 17/Warrenton Road	LIDL	Stafford	36,000 +/- SF
Aquia Towne Center	Harris Teeter & Petco	Stafford	91,105 SF
Harrison Crossing	Multi-Tenant Building	Spotsylvania	35,000 SF +/-

CONSTRUCTION PLANNED

Garrison at Stafford	Regal Cinemas	Stafford	57,000 SF
Garrison at Stafford	Olive Garden	Stafford	7,500 SF
Ladysmith Road	Walmart Supercenter	Caroline	160,000 SF
Harrison Crossing	New Multi-Tenant	Spotsylvania	8,250 SF
Cosner's Corner	Bojangles	Spotsylvania	2,500 +/- SF
Cosner's Corner	Virginia Credit Union	Spotsylvania	5,000 +/- SF
Cosner's Corner Collins Corner South	NSWC Federal Credit Union	Spotsylvania	9,000 SF
Liberty Place	Multi-Tenant	Fredericksburg	25,000+ SF

*New 35,000 SF Multi-Tenant Retail
Harrison Crossing | Spotsylvania County*



*Planned 8,250 SF Multi-Tenant Retail
Harrison Crossing | Spotsylvania County, VA*



\$1.12B
TOTAL RETAIL GAP

Total Retail Demand for the Greater Fredericksburg Region is Currently \$4.257B where supply is \$3.617B leaving a total gap of \$1.119B (Source: ESRI)