

INDUSTRIAL MARKET VANTAGEPOINT

FREDERICKSBURG REGION, VIRGINIA

ELITE Reports

2017 Q3



ELITE

Industrial Vacancy Rates Decline to Sub 5% in the Third Quarter

The Industrial market in the Fredericksburg Region continues to break new records as overall vacancy rates plummet below 5% for the first time ever. The industrial market had a fairly slow start to the year, but since has resumed to its normal, high activity. Since the market's slight downturn in Q1-2017 it has recorded over 260,000 sq. ft. in positive net absorption, dropping vacancy rates down by 2.6%

The industrial market has experienced a tremendous rise in activity over the past 4 years. During this 4 year period there has been 1.38 million sq. ft. of industrial space absorbed, and with extremely limited construction the market's vacancy rates have continued to decline. As vacancy rates continue to plunge its only a matter of time until we begin to see construction activity and new industrial investment flood the Region.

The City of Fredericksburg is experiencing statistical extremes in the industrial market. As of Q3-2017, industrial vacancy rates dropped below 1%, an impressive feat when you consider it has over 1.4 million sq. ft. of existing inventory. Vacancy rates in the City of Fredericksburg dropped a total 1.1% from 1.9% in Q2-2017 to 0.8% in Q3-2017. Year-over-year industrial vacancy rates in the City have now dropped a total of 3% and are clearly the lowest in the Region!

Vacancy rates in Stafford County reached a new low dropping 80bps from 7% in Q2 to 6.2% in Q3-2017. Industrial vacancy rates in Stafford now sit 50bps lower than its previous all time low of 6.7% recorded in Q4-2016.

Caroline County also recorded a fairly impressive decrease in vacancy during Q3-2017. Caroline, industrial vacancy rates dropped by 1.9% from 5.3% in Q2 to 3.4% in Q3.

Spotsylvania County recorded the only increase in vacancy rates during Q3-2017, with rates rising by just a mere 10bps to 4.6%. Despite the slight uptick the industrial market in Spotsylvania is still performing extremely well. Vacancy rates in Spotsylvania hit an impressive low of 4.55% during Q2-2017 and as the inventory leader for in the Region with 7.18M sq. ft., this was not an easy achievement.

Regional Industrial Stats (Q3-2017)

	Region	High	Low
Rental Rates (NNN)	\$5.80	Stafford \$7.11	Caroline \$3.61
Vacancy	4.59%	King George 16.6%	City of Fred 0.8%
Total Inventory (SF)	14.51M	Spotsylvania 7.2M	King George 0.44M



Industrial vacancy rates dropped by over 40bps from 5.04% in Q2 to 4.59% in Q3-2017. Year-over-year Regional vacancy rates have also declined, recording a massive 3.7% drop and continuing to reach new all time lows. The same can be seen throughout every locality in the Region as vacancy rates have fallen to unprecedented numbers.

Demand – Absorption & Leasing

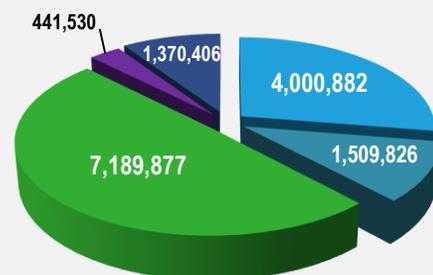
Demand for industrial space has remained fairly strong in the Region over the past 2 years, a trend that has continued for most of 2017. Net absorption totaled 65,734 sq. ft. in the third quarter. Leasing activity was down slightly in Q3 as there was just 71,615 sq. ft. of leasing activity recorded.

Stafford & Caroline lead the way in leasing activity and absorption during the third quarter. Stafford tallied just under 36,000 sq. ft. in leasing activity, and recorded over 26,600 sq. ft. in positive net absorption. Caroline County managed to record 26,050 sq. ft. in positive absorption despite limited leasing activity.

VACANCY DROPS
BELOW 5%
in Q3-2017

Existing Industrial Inventory (SF) By Locality (Q3 2017)

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



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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2017 Q3

Demand cont.

The City of Fredericksburg also performed fairly well, recording over 17,000 sq. ft. of positive net absorption. Industrial leasing activity was down in the City, which is most likely due to the extremely limited amount of available inventory.

Spotsylvania County was the only locality that recorded negative net absorption (-4,056 sq. ft.) during Q3-2017. Although absorption was down for Spotsylvania, there was still over 35,000 sq. ft. of industrial space leased.

With industrial demand up and available inventory reaching all time lows, we should begin to see a rise in new construction. The City of Fredericksburg will soon be desperate for new industrial space, and could potentially lose out on new businesses unless new construction resumes. 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.

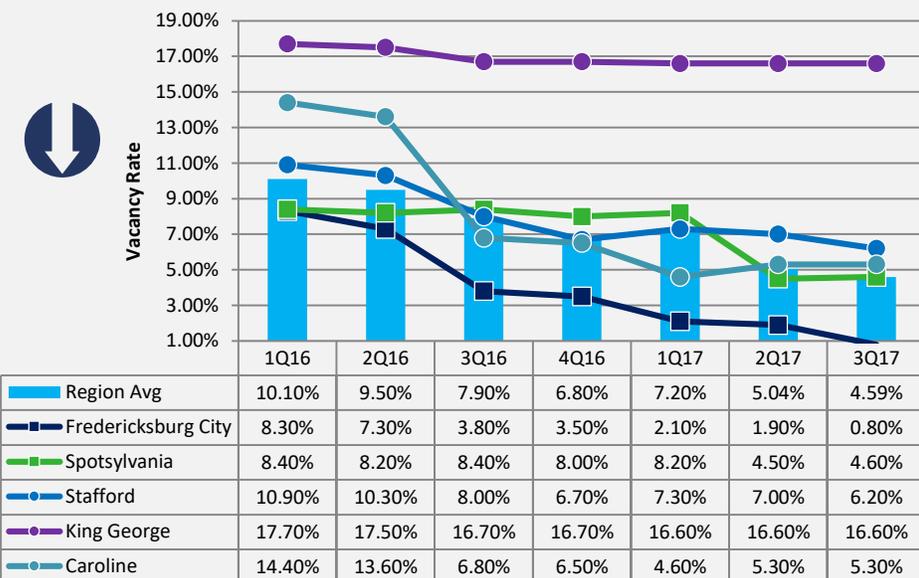
Rents Growth Remains at Slow Pace

Regional industrial rents grew by 1%, from \$5.74 in Q2 to \$5.80 in Q3-2017, growth can be seen year-over-year. In comparison to Q3-2016 industrial rents are still up, but by less than 1%. Rent growth might be slow but seems to be trending upward as market conditions tighten.

Minor rent growth was recorded in both the City of Fredericksburg and Spotsylvania County during the third quarter. Spotsylvania reached another milestone as rents climbed into the \$6 range for the first time since Q1-2011. Stafford County, despite a decrease in rent, still holds the highest rents in the Region and is the first locality with rent over \$7.

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 the remainder of the year and into 2018 as the market continues to tighten.

Industrial Vacancy Rates By Sub Market Q1 2016- Q3 2017



NNN Industrial Rental Rates, By Sub Market Q3 2016 - Q3 2017



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MARKET VANTAGEPOINT

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ELITE
Reports

2017
Q3



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Q3 INDUSTRIAL NEWS

Operations Start at Lidl's 1 Million Sq. Ft. Distribution Facility in Spotsylvania



Pictured is Lidl's distribution facility, which broke ground in Oct-2015 in Spotsylvania County. The massive 1 million sq. ft. facility is situated on 82 acres, which the company purchased in 2015 for \$2.1 million.

The distribution center was just recently completed during the second quarter of 2017. The total estimated cost of construction for the facility was in the ballpark of \$125 million

Distribution operations began shortly after construction was completed, and at full capacity will employ approximately 200 people. To date, the company has constructed 2 similar distribution centers and have opened 38 grocery stores in the U.S.

260,000 SF
NET ABSORPTION
OVER PAST 2 QUARTERS

J Barber Moving & Storage Purchases 43,995 SF Warehouse for \$2.437M



In July of 2017, Barber Property Management, LLC purchased a 43,955 sq. ft. warehouse building in the City of Fredericksburg, VA.

The warehouse/distribution facility will be used for J. Barber Moving Company's new regional HQs in Fredericksburg, VA.

64,374 sq. ft. Warehouse Building in Fredericksburg Sells for \$2M



Mike Adams a local real estate developer /investor recently purchased a 64,374 SF warehouse in the City of Fredericksburg for \$2,000,000.

The warehouse building, located at 1015 Tyler Street, was built in 1959 and sits on a 3.347 Acre parcel. The property was most recently occupied by RiteMade.

LIDL Distribution Facility | 1MM SF Spotsylvania, VA



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ELITE
Reports

2017
Q3



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2017 MARKET HIGHLIGHTS

528,000
SQUARE FEET
LEASED YTD

Industrial Vacancy Rates have
dropped 2.6% YTD | Year-over-
year rates are down 3.3% in
comparison to Q3-2016

Over 300,000 sq. ft. of net
absorption in the past 12 mo.

Over 528,000 sq. ft. of
industrial space has been
leased in 2017

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

MAJOR LEASING ACTIVITY Q3-2017 (4,000 SF +)

TENANT	ADDRESS /INDUSTRIAL PARK	CITY/COUNTY	SPACE LEASED
Rosner Motors	11901 Bowman Dr Deep Run Business Center	Spotsylvania	5,160 SF
Elite Customs	33 Perchwood Dr	Stafford	4,000 SF

LEASING ACTIVITY Q3-2017 (Less Than 4,000 SF)

Bryer's Roofing	4939-4953 Commerce Dr	Spotsylvania	1,500 SF
Raines Auctions	11720 Main Street	Spotsylvania	1,875 SF
Danella Construction	218 Industrial Dr	Spotsylvania	2,000 SF
Bruno Auto Repair	4939-4953 Commerce Dr	Spotsylvania	1,500 SF
Michael Richardson	1117 Tyler St	Fredericksburg	1,500 SF
The Butcher's Hook	2706 Lafayette Blvd	Spotsylvania	1,562 SF
Seasons Detailing	4901-4919 Commerce Dr	Spotsylvania	1,500 SF
Booz Allen Hamilton Inc.	3509 Shannon Park Dr	Spotsylvania	2,000 SF
Road Tek Traffic Solutions	15 Capital Ave	Stafford	1,833 SF
Amaan Lewis	11900 Main Street B Suites	Spotsylvania	2,000 SF

SIGNIFICANT SALES TRANSACTIONS Q3-2017 (\$800,000+)

Michael Adams	1015-1017 Tyler Street	Fredericksburg	64,732 SF \$2,000,000
J Barber Moving Company	8110 River Stone Dr	Fredericksburg	43,995 SF \$2,437,500