

# INDUSTRIAL MARKET VANTAGEPOINT

## FREDERICKSBURG REGION, VIRGINIA

ELITE Reports

2017 Q4



ELITE

### Industrial Market Finishes another Record Breaking Year

The Industrial market in the Fredericksburg Region recorded another amazing performance in 2017. For the past four years the industrial market has been continuously improving, a trend that remained throughout the past year, hitting on all market health indicators. As the year came to a close, the industrial market has recorded a decline in vacancy, extraordinary leasing activity & absorption, as well as decent rent growth. Additionally, the Region's industrial market recorded it's first major new construction delivery in the past few years with the completion of the \$125 million, 1 million sq. ft. Lidl distribution facility in Spotsylvania County. With vacancy rates at all time lows, we are beginning to see a tightening market which could lead to further investment and growth in the Region through 2018 and beyond.

This reigns true for every locality in the Region which have all seen an increase in demand and vacancy rates plummeting to all time lows.

The City of Fredericksburg has experienced the most drastic decline over the past year with vacancy rates dropping a total of 2.7% from 3.5% in Q4-2016 to an astonishing 0.8% as of Q4-2017.

Caroline County also recorded a massive drop in vacancy during the year. Vacancy has declined by 3.1% from 6.5% in Q4-2016 to its current rate of 3.4%, a new all time low. In just the past 2 years industrial vacancy rates have now dropped by 11% from 14.3% in Q4-2015.

Spotsylvania County has also recorded massive decreases in vacancy with rates dropping 2.4% from 7.7% in Q4-2016 to 5.3% in Q4-2017. Rates looked to have stabilized in the mid 7% range last year, but demand has continued to increase ultimately driving rates down to historical lows.

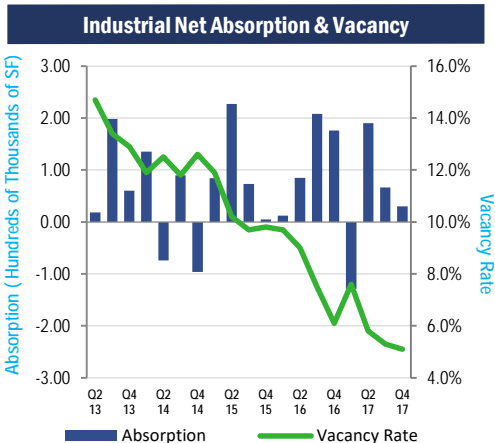
Stafford County has experienced similar trends, but not nearly as substantial as in each of the previously mentioned localities. Stafford's industrial vacancy rates dropped by a healthy 70bps year-over-year from 6.7% in Q4-2016. Looking back a little further, its evident that Stafford has also experienced a great rise in demand, with vacancy rates now down 5.9% since Q4-2015.

### Demand – Absorption & Leasing

Industrial demand throughout the Region, which has been extraordinary over the past 2 years, remained strong in 2017. Despite a minor slump in the first quarter of the year, the Region's industrial market finished the year with demand well above average, recording over 641,000 sq. ft. in space leased and nearly 160,000 sq. ft. in net absorption. Although net absorption was slightly lower, leasing activity increased by over 100,000 sq. ft. in comparison to the previous year. In Q4-2017 the market recorded over 159,000 sq. ft. leased and nearly 30,000 sq. ft. in net absorption to close out the year.

### Regional Industrial Stats (Q4-2017)

	Region	High	Low
Rental Rates (NNN)	\$5.79	Stafford \$7.46	Caroline \$3.61
Vacancy	5.1%	King George 15.9%	City of Fred 0.8%
Total Inventory (SF)	14.61M	Spotsylvania 7.2M	King George 0.44M

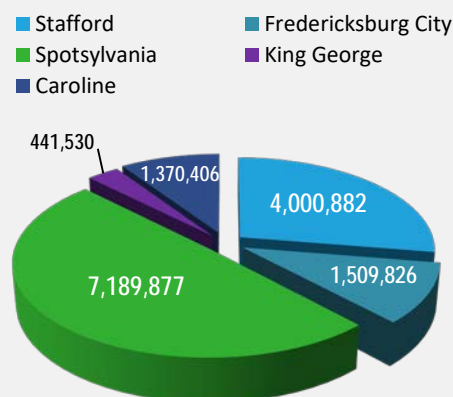


### Vacancy Rates Continue to Decline

When Regional industrial vacancy rates dropped below 7% in Q4-2016 it was hard to believe that they could continue drop, but they did. As of Q4-2017 industrial vacancy rates have dropped to 5.1%, which is down 1.5% year over year in comparison to Q4-2016 where rates hit 6.6%. Demand has remained strong, driving vacancy rates down to unprecedented lows as rates have dropped a solid 4.4% in just 2 years.

160,000 SF NET ABSORPTION RECORDED IN 2017

### Total Existing Industrial Inventory (SF) By Locality



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.*

Spotsylvania County finished strong in the fourth quarter, recording over 121,000 sq. ft. in leasing activity and 15,800 sq. ft. in net absorption. In 2017, Spotsylvania also significantly outperformed every locality in the Region during the year, recording over 400,000 sq. ft. leased and 101,000 sq. ft. in net absorption.

Stafford County recorded the next best performance with 196,500 sq. ft. of industrial space leased as well as 39,000 sq. ft. in net absorption. Combined, Spotsylvania and Stafford accounted for 94% of overall industrial leasing activity in the Region.

The City of Fredericksburg also performed fairly well in 2017, recording just over 41,000 sq. ft. in absorption and 16,156 sq. ft. in leasing activity. Over the past two quarters, the City has not recorded any significant activity as there is very limited industrial inventory available.

Demand for industrial space should remain strong into the new year, but with limited inventory available, it's only a matter of time before we begin to experience new construction and growth in the market.

**Rents Growth Remains at Slow Pace**

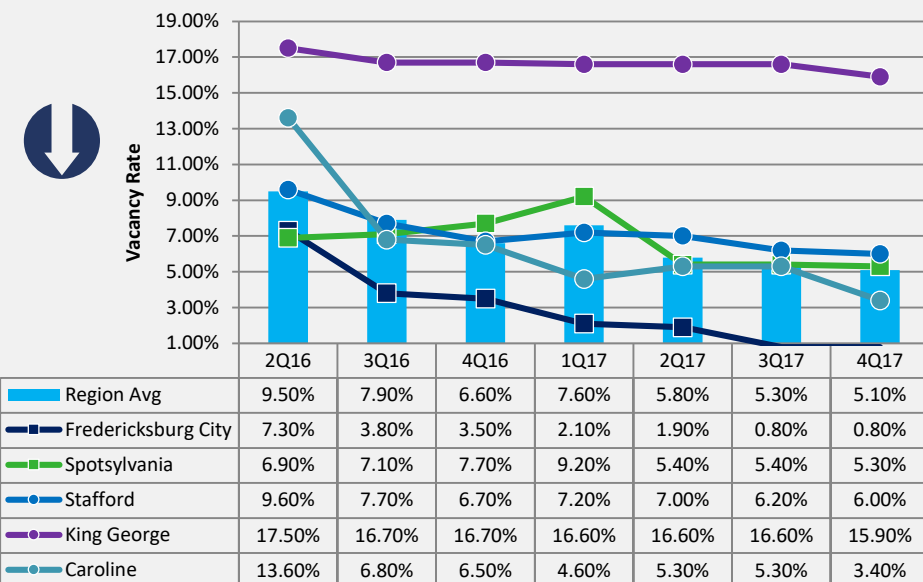
Regional industrial rents grew by 1.2%, year-over-year from \$5.72 in Q4-2016 to \$5.79 in Q4-2017. Rent growth has been fairly slow for the Region as a whole, but some localities have experienced significant rent growth over the past year.

Stafford, Spotsylvania and the City of Fredericksburg all recorded decent rent growth year-over-year with Stafford leading the way with a 10% increase. Industrial rents in Stafford County have climbed from \$6.78 in Q4-2016 to \$7.46 in Q4-2017, and are currently the highest rents in the Region

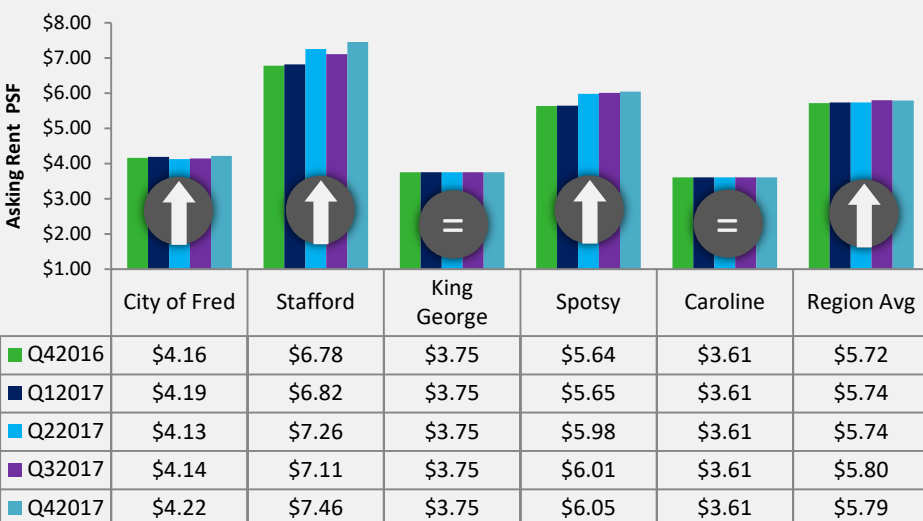
Spotsylvania recorded rent growth of 7.2% year over year as rents jumped from \$5.64 to \$6.05. This is the first time since 2011 that rents have reached over \$6.

As the market continues to tighten and become more competitive, due to decreasing vacancy, the Region should continue to experience decent rent growth in 2018.

**Industrial Vacancy Rates By Sub Market Q2 2016- Q4 2017**



**NNN Industrial Rental Rates, By Sub Market Q4 2016 - Q4 2017**



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## Q4 INDUSTRIAL NEWS

**73,421 sq. ft. Facility in Spotsylvania County Sells for \$3.85M**



The former United Grinders, Inc. facility, a 73,421 SF Industrial/Office Building, in Spotsylvania County, Virginia recently sold for \$3.85 million.

The building, situated on 7.44 acres, is located in Central Corridor Industrial Park, a well established industrial/ business park just off of Route 1/Jefferson Davis Hwy & Massaponax Church Rd. in Spotsylvania County, Virginia.

The building was sold as an investment with a lease/tenant in place, PAE Systems, who occupies the entire building. PAE Systems (A-T Solutions) leased 43,348 sq. ft. in the building in 2014, moving their operations from a former location in the Fredericksburg Region. Upon lease execution PAE made sizable capital improvements including a full upgrade of the office space within the premises.

Just recently, PAE Systems executed a lease on the remaining 29,983 sq. ft. in the building, which was predominately office space.

**Harris Teeter to Break Ground Early 2018 on Massive 1.5M SF Distribution Facility**



Construction could soon begin on a new massive Harris Teeter distribution facility planned for Caroline County. In October of 2015, Caroline County approved the rezoning of 190 acres for a 1.5 million SF Harris Teeter distribution center. The property is located near exit 104 off Interstate 95 in the Carmel Church area.

Construction on the first phase of the project is expected to begin sometime in early 2018 and will be at least 650,000 SF. The value of the project will likely exceed \$200 million by completion and will employ over 400 people. This will surpass Caroline County's largest economic investment, previously held by McKesson Corp. who built a \$50 million, 340,000 SF distribution center nearby. Caroline County has committed about \$3.4 million to the project for infrastructure, land acquisition, and construction costs.

Neighboring state North Carolina also sought to have Harris Teeter locate its new DC there, but Virginia Governor Terry McAuliffe approved a \$650,000 grant from the state's Commonwealth Opportunity Fund to assist Caroline County in getting the deal.

**260,000 SF**  
**NET ABSORPTION**  
**OVER PAST 2 QUARTERS**

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



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MARKET HIGHLIGHTS

**641,303**  
SQUARE FEET  
LEASED YTD

Year over year Industrial  
Vacancy Rates have dropped  
by 1.6%

160,000 sq. ft. of net  
absorption recorded in 2017

Over 641,000 sq. ft. of  
industrial space has been  
leased in 2017

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

#### MAJOR LEASING ACTIVITY Q4-2017 (4,000 SF +)

TENANT	ADDRESS /INDUSTRIAL PARK	CITY/COUNTY	SPACE LEASED
Chesapeake Furniture, Inc.	11900 Main St.	Spotsylvania	14,976 SF
Accurate Auto, LLC	42 Blackjack Road, Suite 125	Stafford	4,000 SF
N/A	2004 International pkwy	Stafford	19,449 SF

#### LEASING ACTIVITY Q4-2017 (Less Than 4,000 SF)

United Air-Temp, Air Conditioning and Heating, Inc.	11047 Pierson Dr.	Spotsylvania	1,400 SF
Right Now Plumbing	10973 Pierson Dr	Spotsylvania	3,000 SF
BrightStar Care of Frederick & Springfield-Burke	112 Juliad Ct	Stafford	1,500 SF
N/A	20 Synan Rd	Stafford	3,850 SF
N/A	24 Synan Rd	Stafford	1,925 SF

#### SIGNIFICANT SALES TRANSACTIONS Q4-2017 (\$800,000+)

Gaulin Properties	300 Centerport Pkwy	Stafford	64,655 SF \$8,400,000
Frog & Towed	407 TV Drive	Spotsylvania	9,890 SF \$1,100,000
Virginia Eagle Distribution	224 Industrial Drive	Spotsylvania	64,904 SF \$4,421,951