

# OFFICE

## MARKET VANTAGEPOINT

### FREDERICKSBURG REGION, VIRGINIA



**ELITE**  
Reports  
2017  
Q4

**ELITE**

#### Despite A Slow Finish, The Region's Office Market Fared Well in 2017

The Office market in the Fredericksburg Region squeaked out a fair performance in 2017, with the first half of the year looking much more promising than the last. The office market seemed to slow in the final 2 quarters of the year, as the Region recorded consecutive quarters with negative net absorption. Despite the minor setback, the office market managed to show signs of stabilization & health throughout the year as vacancy rates declined to the lowest we've seen since 2008.

Demand for office space remained strong during 2017, recording significant leasing activity that was well above the 5-year average, as well as decent construction growth.

#### Vacancy Rates Down Year-Over-Year

Vacancy rates for the Region's office market increased by just 10 basis points (bps) from 12.1% in Q3-2017 to 12.2% in Q4-2017. Following a robust decline in vacancy through the first 2 quarters of the year, vacancy rates have climbed. Although the office market experienced an increase in vacancy to end the year, vacancy rates are still down by 20bps year-over-year.

Stafford County recorded the largest decrease in vacancy during Q4-2017, dropping by 80bps. Stafford also experienced a year-over-year decline in office vacancy rates of 20bps, but no where near the progress seen in Spotsylvania, which recorded the most significant drop.

Spotsylvania's office market has been outperforming every other locality for the past 2 years, closing the year with another stellar performance. During Q4, vacancy rates in Spotsylvania County dropped by 60bps. Year over year Spotsylvania's office vacancy rates have plummeted down a total of 1.8% from Q4-2016 (10.3%), and are now down a massive 5.9% over the past 7 quarters from 14.4% in Q2-2016.

The City of Fredericksburg and King George County both recorded a decent increase in vacancy rates during the 4<sup>th</sup> quarter and are also

the only 2 localities that saw a rise in vacancy year-over-year.

King George recorded a massive increase in vacancy in the final quarter of 2017, climbing 7% from 12.1% in Q3 to 19.1% in Q4. This may seem astronomical, but with only a little over 700,000 sq. ft. of office space in the county it doesn't take much to cause vacancy fluctuations. Year-over-year vacancy rates in King George are up 5.5% from 13.5% in Q4-2016.

The office market in the City of Fredericksburg has been fairly stable throughout the year. The 1% increase in vacancy rates in Fredericksburg during the 4<sup>th</sup> quarter seems to be out of the ordinary considering rates have hovered in the mid-5% range for the previous 3 quarters. This end of the year increase caused year-over-year vacancy rates to show an increase of 60bps from Q4-2016. Nevertheless, the City still holds the lowest vacancy rates at 6.6%, which is fairly impressive considering it has 2.6M sq. ft. of existing inventory.

#### Demand Remains Robust in Q4

Throughout the year, demand for office space in the Region was impressive, closing out the year with leasing activity well above the 12 month average. The office market recorded negative net absorption of -22,000 sq. ft. in the 4<sup>th</sup> quarter, but during the same time there was over 129,000 sq. ft. of office space leased. The notable leasing activity in Q4 pushed the yearly leasing total to over 436,000 sq. ft. for 2017.

Stafford County led the way in Q4 with over 33,000 sq. ft. of net absorption, as well as 58,800 sq. ft. in leasing activity in Q4-2017. Spotsylvania County also recorded decent activity in Q4 with 18,600 sq. ft. in net absorption and 27,300 sq. ft. of office space leased. Stafford and Spotsylvania also topped the charts in total yearly leasing activity, with Stafford recording over 202,000 sq. ft. and Spotsylvania closing the year with a total of over 106,000 sq. ft. of office space leased. Where Stafford might have recorded more leasing activity, Spotsylvania outperformed in total absorption for 2017.

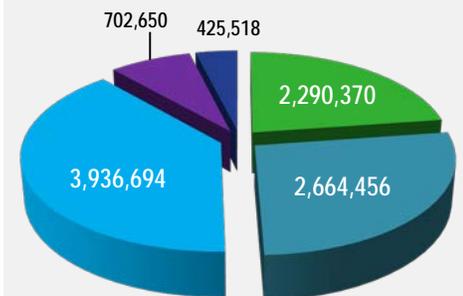
#### Regional Office Stats (Q4-2017)

	Region	High	Low
<b>Rental Rates (Gross)</b>	<b>\$22.31</b>	<b>Stafford \$23.92</b>	<b>King George \$19.70</b>
<b>Vacancy</b>	<b>11.9%</b>	<b>King George 19.1%</b>	<b>Fredericksburg 6.6%</b>
<b>Inventory (SF)</b>	<b>10.22M</b>	<b>Stafford 3.93M</b>	<b>Caroline 0.45M</b>

**436,000**  
**SQUARE FEET**  
**OFFICE SPACE**  
**LEASED IN 2017**  
OVER 129,500 SF LEASED YTD IN Q4

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

- 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.

# OFFICE

## MARKET VANTAGEPOINT

### FREDERICKSBURG REGION, VIRGINIA

ELITE  
Reports

2017  
Q4

Spotsylvania posted the most positive net absorption in 2017, with a total of 45,000 sq. ft. while Stafford fell a little short, only recording 8,600 sq. ft. Spotsylvania recorded the only new delivery in Q4-2017, a 6,200 sq. ft. building at Lees Hill Medical Center. Additionally, a new 48,000 sq. ft. office building is currently underway at the Southpoint II development in Spotsylvania. A 40,000 sq. ft. office building is near completion at the South Campus near Stafford Hospital in Stafford County.

The City of Fredericksburg, showed strong leasing activity with 30,700 sq. ft. leased, but managed to record negative net absorption of -33,278 sq. ft. in the final quarter of the year. The same trend can be seen in the City's year end total as there was over 91,000 sq. ft. of office space leased, but negative net absorption of -15,900 sq. ft. There is also a new 15,000 sq. ft. office building under construction at Cowan Crossings and a new 10,000 sq. ft. urgent care facility planned on Route 3.

King George closed the year, posting negative net absorption in Q4 of -49,000 sq. ft. Year end totals are -39,000 sq. ft. in net absorption and just 20,000 sq. ft. of leasing activity. Caroline County managed to record positive net absorption and also recorded a new delivery in 2017 with the completion of a 13,000 sq. ft. building in Ruther Glen.

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

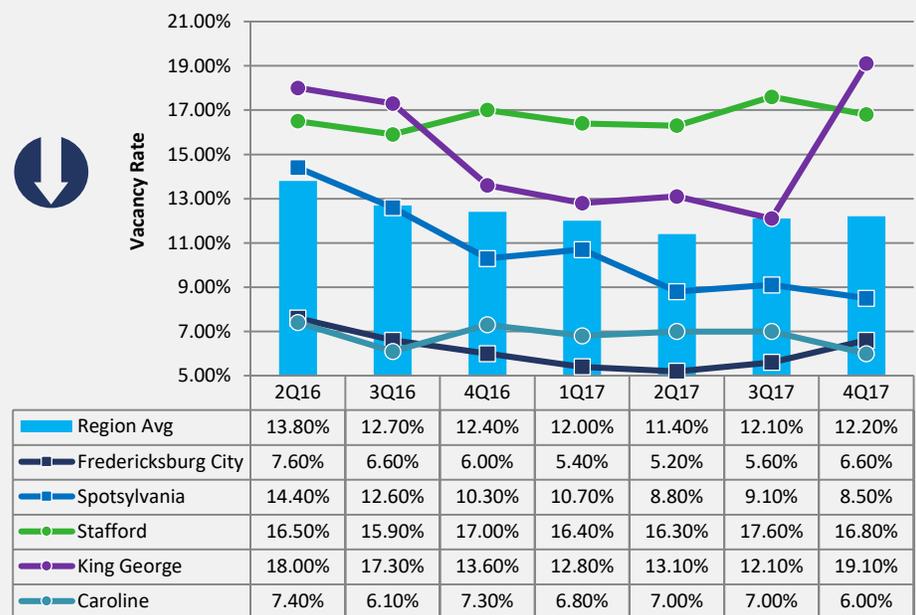
### Rents Decline for Most Localities in 2017

Regional office rents took a slight dip in 2017, dropping by 1.1% to \$22.36 in Q4, and year-over-year by 0.7% in comparison to Q4-2016. Most localities experienced a similar drop in rents with the exception of the City of Fredericksburg and Caroline County.

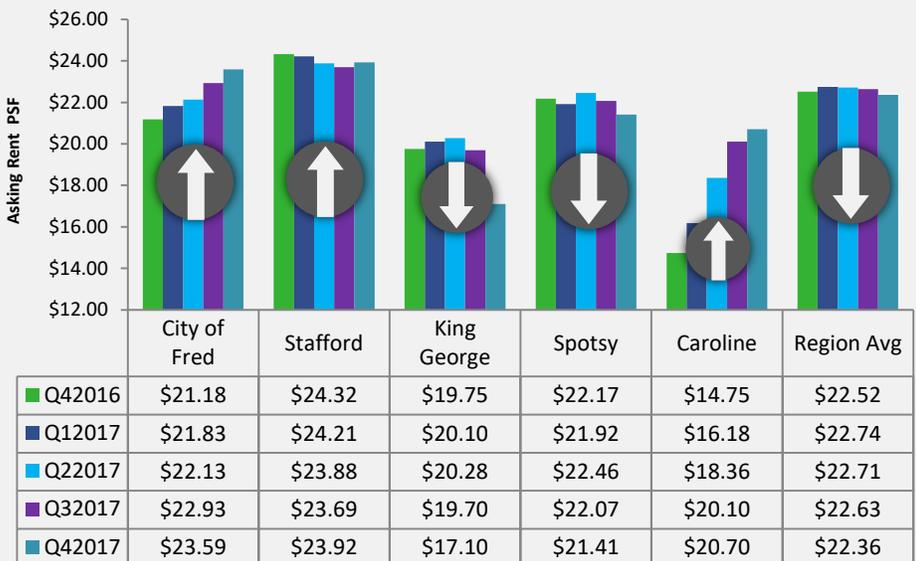
The City of Fredericksburg has recorded a year-over-year rent increase of \$2.41, over 11% growth, reaching over \$23 for the first time. Caroline County experienced an increase of a massive \$5.95 in 2017. All other localities experienced minor decreases in rent year-over-year and seem to be stabilizing at sustainable rates.

Over the next year the Region should see some decent rent growth in the office market, which seem to be stabilizing in the mid- \$22 range.

Vacancy Rates By Sub Market Q2 2016- Q4 2017



Gross Office Rental Rates, By Sub Market Q4 2016 – Q4 2017



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.

# OFFICE

## MARKET VANTAGEPOINT

### FREDERICKSBURG REGION, VIRGINIA

ELITE  
Reports

2017  
Q4



ELITE

NEW CONSTRUCTION  
IN THE PIPELINE | 2017

Cowan Crossings | 15,000 SF  
Fredericksburg, VA

Planned delivery May 2018



Southpoint Landing | 48,000 SF  
Spotsylvania County, VA



124 Old Potomac Church Rd  
South Campus | Stafford, VA



## Q4 OFFICE NEWS RE-CAP

### New Office Building completed at Lee's Hill Medical Center



In December, construction of a new 6,200 sq. ft. office building was completed at Lee's Hill Medical Center in Spotsylvania County, VA.

The building has been leased by Children's Hospital of Richmond at VCU who currently operates two locations in the greater Fredericksburg Region. The Children's Hospital is a multispecialty and therapy center which offers a variety of different services from Neurology to Occupational Therapy.

### 10,000 SF Office Building in Stafford County Sells for \$1.5M



During the 4<sup>th</sup> quarter of 2017 a 10,000 sq. ft. office building located in Stafford County sold for \$1.5M. The building is located at 25 Clement Drive, just off Garrisonville Rd/Route 610 in North Stafford.

The property is currently 20% leased to Sylvan Learning Centers.

### Former Carlos O'Kelly's Site Cleared to make way for new Urgent Care Facility



The former Carlos O'Kelly's restaurant building at 2306 Plank Road in Fredericksburg has been demolished to make way for a new practice.

The property sold for \$1,337,500 in February of 2017. It was sold to a limited-liability company called Ansari, LLC.

Carlos O'Kelly's closed there in 2014 and the building remained vacant for the past few years.

The urgent care facility owner plans to relocate his office from 4510 Plank Road. The new office should be open in early 2018.

### Three Office Buildings Currently Under Construction to be completed early 2018

Three new office buildings that are currently under construction are planned for completion in early 2018. Of these there is 1 office building under construction in Stafford, Spotsylvania and Fredericksburg.

The largest building is located at Southpoint Landing in Spotsylvania which will consist of 3 stories, an underground parking garage and feature 48,000 sq. ft. of office space.

In Stafford, a 40,000 sq. ft. office building is near completion at the new South Campus near Stafford Hospital. The building will be home to Germanna Community College's new Stafford Campus.

Last is the new ILM headquarters building at the Cowan Crossings development in the City of Fredericksburg, which will most likely be the first of these 3 buildings completed in 2018.

# OFFICE

## MARKET VANTAGEPOINT

### FREDERICKSBURG REGION, VIRGINIA

ELITE  
Reports

2017  
Q4



COLDWELL  
BANKER  
COMMERCIAL

ELITE

### REGIONAL MARKET HIGHLIGHTS

**OVER 100K  
SQUARE FEET  
OFFICE SPACE  
UNDER CONSTRUCTION**

**The Region currently has  
over 10 million sq. ft. of  
existing office inventory**

**435,930 SF sq. ft.  
of office space was  
leased in 2017**

**Office Vacancy Rates at  
the Lowest Since 2008**

#### LEASING ACTIVITY Q4-2017 (3,000 SF +)

TENANT	ADDRESS/OFFICE PARK	COUNTY/CITY	SPACE LEASED
SDX Homecare Operations, LLC	305 Westwood Office Park	Fredericksburg	4,500 SF
David E. Burks	3986 & 3990 Lafayette Blvd	Spotsylvania	5,672 SF
GCubed	10 Center St	Stafford	3,808 SF
Hematology-Oncology Associates of Fredericksburg	125 Woodstream Blvd <i>Stafford Marketplace</i>	Stafford	7,048 SF
Tychon, LLC	725 Jackson Street, Unit 101	Fredericksburg	3,500 SF

#### LEASING ACTIVITY Q4-2017 (Less Than 3,000 SF)

LTC Solutions, LLC	65 Barrett Heights Rd	Stafford	1,844 SF
Wells Fargo	725 Jackson Street, Unit 104 <i>Millrace North</i>	Fredericksburg	2,628 SF
Greenbook TMS	10304 Spotsylvania Ave <i>Lees Hill II</i>	Spotsylvania	1,207 SF
State Farm Insurance	2046-2048 Jefferson Davis Hwy	Stafford	1,500 SF
CC Home Health and Hospice	4545 Empire Ct	Spotsylvania	2,500 SF
Atlantic Coast Mortgage	1420 Central Park Blvd	Fredericksburg	2,213 SF
Empower Behavioral Services	11905 Bowman Dr	Spotsylvania	2,886 SF
New Dominion Financial, LLC	2093 Jefferson Davis Hwy	Fredericksburg	1,000 SF
Thriveworks Fredericksburg	701 Kenmore Ave	Fredericksburg	1,375 SF
Click2Mail	12000 Kenedy Lane	Spotsylvania	1,450 SF
Blanchard's Contracting	925 Corporate Drive, Suite 203 <i>Quantico Corporate Center</i>	Stafford	1,943 SF