

RETAIL

MARKET VANTAGEPOINT

FREDERICKSBURG REGION, VIRGINIA

ELITE
Reports

2017
Q4



ELITE

Retail Market Growth Evident in 2017, looks to continue into new year

The Fredericksburg Region's retail market performed fairly well throughout the year, with one clear takeaway, retail construction is up and will continue into the new year. During Q4-2017 the retail market experienced normal quarter to quarter fluctuations in market economics as vacancy rates climbed slightly and rents experienced a minor decline.

Over the past year an influx of new retailers have joined the Fredericksburg Region, some who have already opened locations and others who are currently under construction or have secured locations. Lidl, who has secured multiple sites in the Region, finally opened their first regional store, which is located on Route 17 in Stafford County.

While multiple new retailers are expanding in the Region or planning for growth, there is one who has backed out from former plans. During the final quarter of 2017, Walmart scraped plans for a supercenter in Caroline and Harris Teeter has backed out of Aquia Towne Center in Stafford.

Vacancy Rates Rise Slightly in Q4

Overall retail vacancy rates in the Region jumped slightly in the 4th quarter. Even with a minor increase, retail vacancy rates are still holding below 5% at 4.9% to close out the year. Regional vacancy rates have increased by just 40bps year-over-year from 4.5% in Q4-2016. Amid major national store closures the Fredericksburg Region has fared pretty well with vacancy rates well below the national average of 10%.

During the 4th quarter, Stafford County and Caroline County were the only two localities to record a drop in vacancy rates. Stafford recorded the largest drop of 50bps from 5.6% in Q3 to 5.1% in Q4. Vacancy rates in Caroline County dropped 30 bps in Q4 to 1.1%, the lowest in the Region.

Spotsylvania vacancy rates climbed by 20bps to 4.7% in the 4th quarter. In comparison to Q4-2016, vacancy rates have also only jumped by 20

bps from 4.5%. Vacancy rates in Spotsylvania have continued to hold in this range over the past year with minor quarter to quarter changes.

The City of Fredericksburg recorded the most significant increase retail vacancy with rates climbing 50 bps in Q4 from 5.2% to 5.7%. Year-over-year vacancy rates are also up in the City by nearly 1% from 4.8% in Q4-2016, the City also currently holds the highest vacancy rates in the Region.

New Retail Construction Booms in 2017

Year-to-date over 100,000 sq. ft. of new retail space has been delivered, including the Region's first Lidl grocery store which was completed and opened in the 4th quarter. Although new deliveries are down from last year, the Region has experienced a major increase in new construction starts with over 200,000 sq. ft. currently underway. Additionally, most of this new construction is coming from retailers and restaurants that are new to the Region.



Publix | Spotsylvania County, VA

Over the past 12 months there have been a major influx of new retailers joining the Region with stores currently under construction or planned. Spotsylvania remains the leaders in attracting retailers & new construction. A majority of new construction is also being seen between just 2 developments, Harrison Crossing and Cosner's Corner. This includes two new multi-tenant retail buildings at Harrison Crossing; at Cosner's Corner two credit unions, Bojangles, and the Region's first Publix Grocery store which is planned to be completed by the 2nd quarter of 2018.

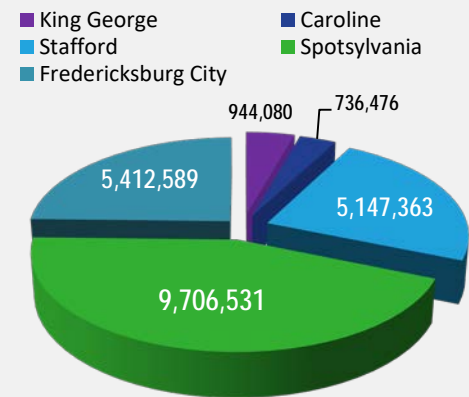
Although new construction has been absolutely booming throughout the past year, the Region has seen a steep drop in net absorption in comparison to the previous year.

Regional Retail Stats (Q4-2017)

	Region	High	Low
Rental Rates	\$15.08	King George \$17.81	Caroline \$11.00
Vacancy	4.9%	Fredericksburg 5.7%	Caroline 1.1%
Inventory (SF)	21.95M	Spotsylvania 9.71M	Caroline 0.73M

200,000
SQUARE FEET
NEW RETAIL
UNDER CONSTRUCTION

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



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Retail Demand – Absorption & Leasing

In 2016 the Region's retail market recorded 127,000 sq. ft. in positive net absorption in comparison to this year in which the region recorded negative net absorption of -72,000 sq. ft. Although there has been a drop in absorption, leasing activity has remained on pace with over 331,000 sq. ft. leased in 2017.

Stafford County finished the year strong, recording over 24,000 sq. ft. of net absorption as well as 12,500 sq. ft. in leasing activity. In 2017, Stafford county also recorded two major new deliveries with the completion of a 42,000 sq. ft. Walmart Neighborhood Market in Q2 and the recent completion of Lidl in Q4-2017.

During Q4-2017, the City of Fredericksburg and Spotsylvania County had the opposite performance to Stafford. The City of Fredericksburg recorded over 40,000 sq. ft. in leasing activity, while net absorption was in the negative at -34,000 sq. ft. Spotsylvania County recorded similar results with 20,700 sq. ft. in leasing activity and net absorption of -20,000 sq. ft. during Q4-2017.

There was very limited activity in both King George and Caroline County throughout the year with only 7,000 sq. ft. of leasing activity combined. King George did record one delivery in 2017 with the completion of a 15,800 sq. ft. Tractor Supply store in Q3.

As we move into 2018 the Fredericksburg Region will continue to see a rise in retail demand through new construction as well as fairly stable leasing activity.

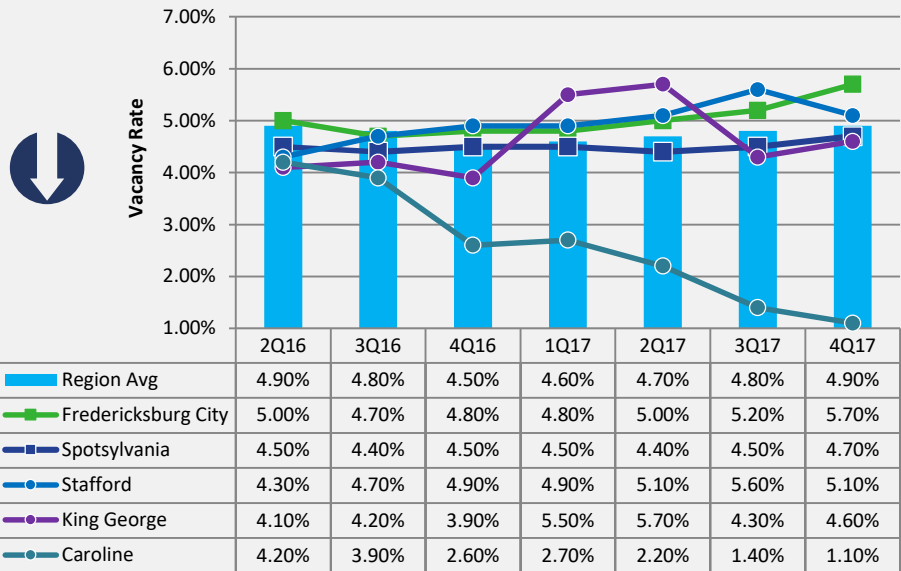
Rents

Overall NNN effective retail rents for the Region decreased in every quarter during 2017, ending the year with a decrease of 0.8% in Q4. Year-over-year rents are also down roughly 5.5%, in comparison to Q4-2016 (\$15.97).

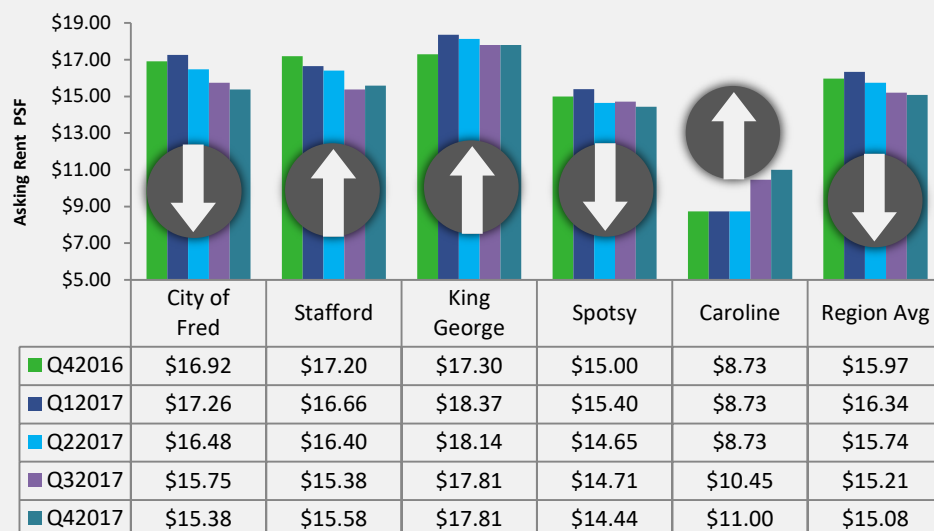
Stafford County recorded decent rent growth of 1.3%, but year-over-year rates have declined by 9.4%, the most in any locality in the Region.

With the influx of investments coming from new retailers flocking to the Region, paired with decreasing vacancy we should begin to see rents climb back upward throughout 2018.

Vacancy Rates By Sub Market Q2 2016- Q4 2017



NNN Retail Rents PSF, By Quarter and Sub Market Q4 2016 – Q4 2017



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Q4 RETAIL NEWS RE-CAP

Construction of the Region's 1st Publix is moving along quickly in Spotsylvania



Construction of the Region's first ever Publix grocery store is moving along quickly in Spotsylvania County. 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 2018 and will have about 140 employees.

NSWC Federal Credit Union well underway in Spotsylvania County

NSWC Federal Credit Union is building an 11,000-square-foot operations center and branch along U.S. 1 in Massaponax that should help improve the efficiency of its staff and reliability of its service.

The two-story structure at 9610 Jefferson Davis Highway at Cosner's Corner is on schedule to be completed April 20, and will open to customers in mid-May. The branch at 5422 Southpoint Plaza Way will then close.

Virginia Credit Union, who will also open a new bank at Cosner's Corner, will break ground during the first quarter of 2018 on an 11,000-square-foot, two-story, full-service bank branch with a drive-thru.

Lidl opens first store location in Fredericksburg Region



In November Lidl opened its first store in the Fredericksburg Region off Route 17/Warrenton Rd in Stafford County, VA. One year prior (Nov 2016) Lidl closed on the purchase of this 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. Although this was their 3rd site that the company initially secured in the Region, the company decided to open this store first.

The first site, which Lidl purchased in October 2015, is located on Plank Road in Spotsylvania County, VA. Plans have not been announced regarding the opening of the Plank Rd store.

Lidl began opening stores this past summer, and has since opened over 30 stores in 4 states.

New Restaurant Concept Involves Redevelopment of former Gas Station



The former Pure Gas Station at 1600 Princess Anne St. in the city of Fredericksburg is getting new life. The owner has nearly completed the redevelopment, turning it into a restaurant that looks like an old gas station with an addition. The project is planned to be completed by late spring-early summer 2018 and will have seating for about 50 to 60 customers inside.

Bojangles | Cosner's Corner East Spotsylvania County, VA



Bojangles broke ground on a new restaurant at the Cosner's East mixed-use development off Hospital Blvd. in Spotsylvania. This will be the company's second regional location to date.

NSWC Federal Credit Union Cosner's Corner | Spotsylvania County, VA



The Reserve at Amelia Square Fredericksburg, VA



New Live/Work units at the Reserve at Amelia Square on William Street in Downtown Fredericksburg. The units will consist of ground-level retail space and living space on 2nd & 3rd floors.

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COLDWELL
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CONSTRUCTION COMPLETIONS/DELIVERIES Q4-2017

Address or (shopping center)	Tenant(s)	City/County	Building Size
Route 17/Warrenton Road	LIDL	Stafford	36,000 +/- SF

CONSTRUCTION UNDERWAY/ STARTS Q4-2017

Cosner's Corner	Publix	Spotsylvania	49,000 +/- SF
Plank Road & Kilarney Drive	Royal Farms	Spotsylvania	5,200 +/- SF
Spotsylvania Courthouse Village Hanover House	N/A	Spotsylvania	35,000 SF
Aquia Towne Center	Harris Teeter & Petco <i>(On Hold)</i>	Stafford	91,105 SF
Cowan Crossings	Freddy's Frozen Custard & Steakhburgers	Fredericksburg	4,000 SF
Cosner's Corner East	Bojangles	Spotsylvania	2,500 +/- SF
Cosner's Corner Collins Corner South	NSWC Federal Credit Union	Spotsylvania	9,000 SF
Harrison Crossing	New Multi-Tenant	Spotsylvania	8,250 SF
Harrison Crossing Square	Cube Smart	Spotsylvania	N/A
10704 Courthouse Road Breezewood Falls	Raging Water Car Wash	Spotsylvania	4,000 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
Cosner's Corner	Virginia Credit Union	Spotsylvania	5,000 +/- SF
Liberty Place (Retail Portion)	Multi-Tenant	Fredericksburg	22,700+ SF

New Multi-Tenant Retail
Harrison Crossing | Spotsylvania County



8,250 SF Retail Building Underway
Harrison Crossing | Spotsylvania County



\$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)