

MARKETBEAT



FREDERICKSBURG OFFICE REPORT

1Q11

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Overview

As of January, the latest month that data is available, unemployment in the Fredericksburg area is 6.5%. This is lower than it was one year ago when it was 7.1%, and 2.5 percentage points lower than the national average of 9.0%. However, recovery continues to be slow. The current unemployment rate is up over previous months, and at its highest since June 2010.

The unemployment rate has a high correlation to occupancy rates in commercial real estate. Regardless of which one makes a move in an up or down direction first, the other is sure to follow not long after. Given that the office vacancy rate in Fredericksburg has been essentially flat for a few years and unemployment is comparatively low, there shouldn't be any sharp moves in either direction anytime soon.

Leasing Activity

Quantico Corporate Center continues to be the focus of office activity in the North Stafford submarket. QinetiQ, a defense contractor, has signed a lease for approximately half of the third 140,000-square foot (sf) building in the center. This deal allows Silver Companies to proceed with construction and begin leasing the rest of the space in the property. The impact on absorption will be minimized since QinetiQ is consolidating from various locations in Stafford Commerce Center and Stafford Commerce Park.

Medical office has experienced a steady increase in vacancy. Two years ago, the vacancy stood at 13.1%. As of this quarter, it is 26.2%. Much of this can be attributed to approximately 65,000 sf still vacant in the recently constructed Pogonia Medical Arts Building adjoining

Spotsylvania Regional Medical Center. Absorption in Medical office averaged 58,460 sf in 2008 and 2009, but turned negative in 2010 with a net loss of 42,380 sf. Absorption continues to be negative throughout the first quarter of 2011.

Construction Activity

Construction has begun on the third building in the Quantico Corporate Center as a result of the QinetiQ lease deal mentioned earlier.

Also of significance is the 105,000-sf building in the North Stafford Center for Building & Technology. This is the third office building in the park, and the first in the area to be fully Anti-Terrorism/Force Protection compliant. AT/FP compliance allows the building to house Department of Defense agencies in the entire building, versus the 25% maximum DOD tenancy allowable in non-AT/FP compliant buildings.

Although located on the Quantico Marine base, the 719,000-sf Russell Knox-Building will have a major impact on the surrounding market. The facility, which is a consolidation of five government agencies due to a Base Closure and Realignment Commission, will generate more demand in the surrounding area for defense contractors and others in the defense industry.

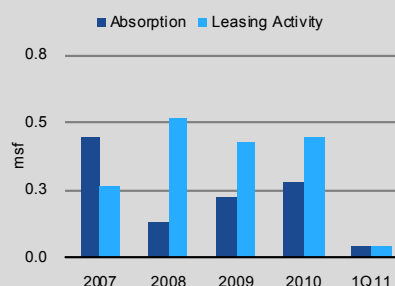
Outlook

With approximately 1,000 employees moving into the Russell-Knox building in September, expect a positive ripple effect throughout the region. Stafford continues to lead the way with the majority of activity surrounding defense contractors.

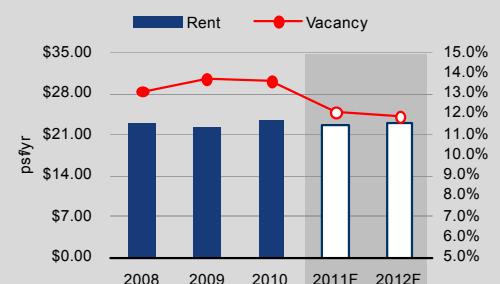
Stats on the Go

	1Q10	1Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	13.3%	12.4 %	-0.9 pp	▼
Direct Asking Rents	\$23.26	\$21.69	-6.7%	◀▶
YTD Leasing Activity (sf)	46,508	132,745	185.4%	▲

Absorption vs. Leasing Activity



Overall Rental vs. Vacancy Rates



Market/Submarket Statistics

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
Caroline County	299,104	5.7%	5.7%	0	0	0	0	0	\$10.00	\$0.00
Fredericksburg City	2,736,959	10.0%	10.0%	15,098	40,000	0	5,191	5,191	\$22.35	\$24.62
King George County	597,864	9.4%	9.4%	4,200	0	0	1,916	1,916	\$21.81	\$0.00
Spotsylvania County	1,902,687	19.8%	19.1%	950	0	0	2,765	(552)	\$20.92	\$28.67
Stafford County	2,952,374	7.1%	6.2%	112,497	245,000	0	80,295	83,652	\$22.18	\$24.82
FREDERICKSBURG TOTAL	8,488,988	12.4%	12.2%	132,745	285,000	0	90,167	90,207	\$21.71	\$25.50

* Rental rates reflect asking \$psf/year.

Market Highlights

SIGNIFICANT 1Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
Quantico Corporate Center - Building III	Stafford County	QinetiQ	75,000	A
51 Barret Heights	Stafford County	Metrostar Systems	11,500	A
130 Executive Center	Fredericksburg City	Veterans Administration	10,400	B

SIGNIFICANT 1Q11 SALE TRANSACTIONS

BUILDING	MARKET	BUYER	SQUARE FEET	PURCHASE PRICE
N/A				

SIGNIFICANT 1Q11 CONSTRUCTION COMPLETIONS

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Quantico Corporate Center - Building III	Stafford County	QinetiQ	140,000	4Q11
North Stafford Center for Building and Technology - Building 5	Stafford County	N/A	105,000	4Q11
Dixon Street	Fredericksburg City	N/A	40,000	3Q11