

MARKETBEAT

FREDERICKSBURG INDUSTRIAL REPORT

Overview

A persistent pattern of low business spending continues to impact the industrial market across the nation. Small amounts of growth have been reported but the numbers are too small to constitute any real economic recovery for the third quarter. According to the Census Bureau in a report released September 28th, durable goods orders in August indicate that manufacturing is slowly expanding, not enough to be considered solid growth, but enough to avoid a recession. Inventory spending rose a modest 0.9% in August, close to the average increase of 1% a month during the past year. With investors and owners wary of sliding into a recession, a lack of confidence has further stunted any development in the market. A return of confidence depends on avoiding shocks similar to those in the first half of the year, such as soaring oil prices and the earthquake in Japan.

Leasing Activity Gains

Several large leases in the area weren't enough to prevent negative absorption numbers for the third quarter. Nearly 53,000 square feet (sf) of warehouse space was leased at 10848 Houser Drive, followed by a seven-year deal with Capital Tristate Electrical for 13,200 sf at 11001 Houser Drive, both in Spotsylvania County. Hyundai Motor America leased 5,940 sf in the Commerce Centre at Stafford Industrial Park to serve as a training facility. Trends for Kids leased 9,120 sf in the Fredericksburg Center C Building at 11812 Main Street. The Center C Building is a 275,000-sf class C industrial warehouse building originally built in 1935. The Lab MMA, a mixed martial arts training facility, recently opened in a 6,000-sf space at 4500 Carr Drive in Fredericksburg. Fairground Industrial on Airport

Avenue in the City of Fredericksburg filled a 5,216-sf warehouse space with a lease signed by Time to Ride Motorcycle Sales & Service.

Sales Activity on the Rise

Sales activity continued to remain steady in the industrial market for the Greater Fredericksburg area with multiple sales closing during the third quarter. The majority of sales were focused in Spotsylvania County, the largest of which was the \$2.8-million sale of 9351 Northeast Drive. The 73,340-sf property sold to T and T Properties. 5112 Park Drive LLC purchased a 48,196-sf property at 5112 Park Drive for \$1.2 million. The transaction closed on the final day of the third quarter. Partners, Kelsey and VanBruggen, purchased a 3,000-sf property at 10950 Pierson Drive for \$204,000. Several others sales, including three 1,500-sf properties in the Fred II Warehouse on Trade Center Drive, contributed to the upswing in sales for the third quarter.

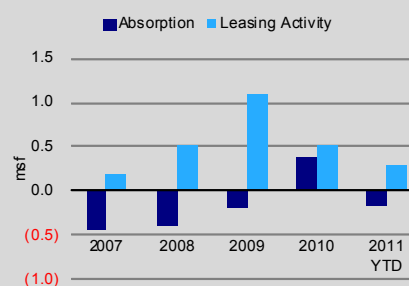
Outlook

After slowing significantly over the summer, the U.S. economy will barely avoid a recession and isn't expected to improve much in the upcoming year. Growth in gross domestic product will be a little less than 2% this year and about the same in 2012. Data released by the Department of Commerce on Sept. 29 shows job rates, spending, income and manufacturing all pointing to an economy that continues to struggle with no sign of relief in the near future. The lack of economic recovery is expected to continue to impact industrial markets.

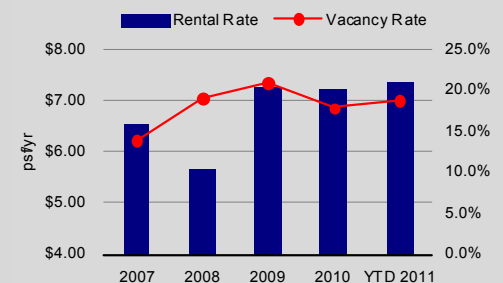
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	18.0%	18.8%	0.8 pp	◀▶
Overall Asking Rents	\$7.22	\$7.35	1.8%	◀▶
YTD Leasing Activity (sf)	450,224	271,718	-39.6%	▲

Overall Net Absorption vs. Leasing Activity



Overall Rental vs. Vacancy Rates



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Market/Submarket Statistics

Submarket	Inventory	Overall Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Net Absorption	YTD Overall Net Absorption	Direct Weighted Average Net Rental Rate*		
								MF	OS	W/D
Caroline County	795,555	56.2%	0	0	0	15,800	15,800	\$0.00	\$7.00	\$2.52
King George County	221,893	33.8%	0	0	0	70,000	70,000	\$0.00	\$0.00	\$2.98
Fredericksburg City	1,155,205	20.1%	29,796	0	0	(53,420)	(53,420)	\$0.00	\$4.65	\$3.56
Spotsylvania County	5,724,291	16.9%	150,175	0	0	(233,631)	(233,366)	\$4.68	\$8.24	\$6.75
Stafford County	3,773,200	12.6%	91,747	0	0	29,522	29,522	\$6.40	\$9.19	\$6.34
FREDERICKSBURG TO TAL	11,670,144	18.8%	271,718	0	0	(171,729)	(171,464)	\$5.91	\$7.38	\$6.53

* Rental rates reflect asking \$psf/year.

HT= High Tech MF=Manufacturing OS= Office Service W/D = Warehouse/Distribution

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
10848 Houser Dr	Spotsylvania	N/A	52,500	Warehouse/Distribution
11900 Main Street*	Fredericksburg	Chesapeake Furniture	16,549	Warehouse/Distribution
11001 Houser Dr	Spotsylvania	Capital Tristate Electrical	13,200	Warehouse/Distribution

* Renewal – not included in leasing activity statistics

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
9351 Northeast Drive	Spotsylvania	TandT Properties, LLC	73,340	\$2,800,000
5112 Park Drive	Spotsylvania	5112 Park Drive LLC	48,196	\$1,200,000
10950 Pierson Drive	Spotsylvania	Kelsey & VanBruggen	3,000	\$204,000

SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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N/A

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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N/A