

MARKETBEAT INDUSTRIAL SNAPSHOT

FREDERICKSBURG, VIRGINIA A Cushman & Wakefield Research Publication

Q4 2014



ECONOMIC OVERVIEW

2014 ended as many predicted with a slight improvement in the economy and another drop in employment rates. The Federal Bureau of Labor Statistics data released in December shows that the area's average unemployment rate of 4.5% in November was down from 4.9% in the same period of 2013.

Vast deterrents for companies contemplating locating their business to the Fredericksburg region continue to be crowded highways and the cost of living. The Fredericksburg Regional Alliance has recently initiated an advertising campaign targeting commuters on busy Interstate 95 to help promote industry clusters (such as manufacturing and distribution, communications and information, business services, public administration, life sciences and health, and finance, insurance and real estate) in the local market. This initiative focuses on growing local companies while still conscripting new business from elsewhere. Economists feel that cyber-security and other tech and engineering based businesses will be the key to the region's future economic success.

Industrial leases and renewals remain strong in the Fredericksburg market, outnumbering both office and retail leases combined. Some current tenants decided that expansion was the answer to their need for space with over 18,000 square feet (sf) additional leased space in the fourth quarter 2014.

FOURTH QUARTER LEASING ACTIVITY

Industrial is the region's strongest market and is expected to remain strong in 2015. The current 12.7% vacancy rate is still high by market standards and continues to show gradual improvement.

Renewals were about even with new lease activity for the fourth quarter. Tenants are still looking for better lease rates or resizing their space rather than paying the expense of moving their company to another location. Four large renewals topped the large square footage leases in the fourth quarter - ranging from 12,000 sf to 40,480 sf and totaling 146,447 sf. A local baseball league leased 14,580 sf on Main Street to top the list.

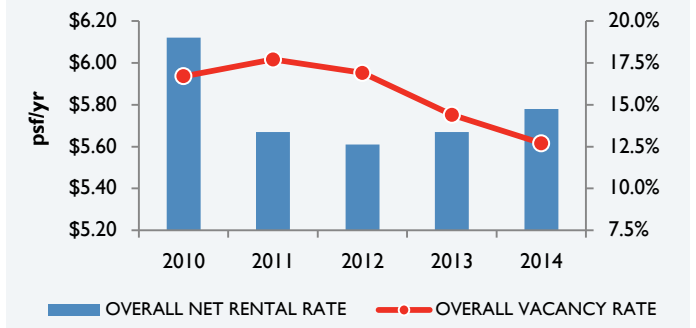
OUTLOOK

The 2015 economic outlook for the Fredericksburg region will continue the steady improvement witnessed in the recent quarter. Headwinds will still be felt from federal spending and defense cuts, partisan gridlock and regulatory burdens. Moderate economic improvement is expected until after the 2016 election. The regional economy is projected to snap back with 2% growth in 2017. Mortgage finance activity is expected to pick up, but the local housing market is projected to remain flat for most of the year.

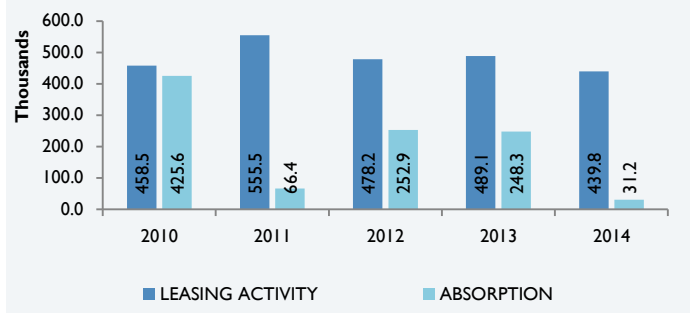
STATS ON THE GO

| | Q4 2013 | Q4 2014 | Y-O-Y CHANGE | 12 MONTH FORECAST |
|------------------------------|---------|---------|--------------|-------------------|
| Overall Vacancy | 17.2% | 12.7% | -4.5pp | ▼ |
| Direct Asking Rents (psf/yr) | \$5.20 | \$5.80 | 11.5% | ▲ |
| YTD Leasing Activity (sf) | 897,340 | 439,794 | -51.0% | ▼ |

OVERALL RENTAL VS. VACANCY RATES



LEASING ACTIVITY VS. ABSORPTION



FREDERICKSBURG, VA

| 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 | | | |
|---------------------|-------------------|----------------------|----------------------|--------------------|------------------------------|---------------------------|----------------------------|---|---------------|---------------|---------------|
| | | | | | | | | HT | MF | OS | W/D |
| Caroline County | 1,260,429 | 4.9% | 0 | 0 | 0 | 11,200 | 11,200 | \$0.00 | \$0.00 | \$0.00 | \$2.84 |
| King George County | 277,845 | 25.2% | 0 | 0 | 0 | 4,700 | 4,700 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Fredericksburg City | 1,229,690 | 11.7% | 45,998 | 0 | 0 | 19,860 | 18,984 | \$0.00 | \$12.00 | \$0.00 | \$6.89 |
| Spotsylvania County | 5,245,966 | 10.3% | 278,153 | 0 | 0 | 91,871 | 21,741 | \$0.00 | \$4.35 | \$0.00 | \$6.96 |
| Stafford County | 3,047,663 | 11.6% | 115,643 | 0 | 15,000 | (20,724) | (25,448) | \$0.00 | \$5.31 | \$0.00 | \$7.87 |
| TOTALS | 11,061,593 | 12.7% | 439,794 | 0 | 15,000 | 106,907 | 31,177 | \$0.00 | \$4.67 | \$0.00 | \$6.14 |

* RENTAL RATES REFLECT ASKING \$PSF/YEAR HT= HIGH TECH MF = MANUFACTURING OS = OFFICE SERVICE W/D = WAREHOUSE/DISTRIBUTION

MARKET HIGHLIGHTS

| SIGNIFICANT 2014 LEASE TRANSACTIONS | SUBMARKET | TENANT | PROPERTY TYPE | SQUARE FEET |
|--|---------------------|-------------------------------------|------------------------|----------------------|
| 1199 International Drive | Stafford | Hilldrup Moving & Storage | Warehouse | 53,000 |
| 3010 Mine Road | Spotsylvania | Tru Tech Doors | Warehouse/Distribution | 41,500 |
| 11905-11911 Gin Alley | Spotsylvania | OFIC North America, Inc | Warehouse/Distribution | 30,000 |
| 11900 Main Street, Suite B104 A | Spotsylvania | Stafford Baseball League Inc | Industrial | 14,586 |
| 11812 Main Street, Suite Lot B | Spotsylvania | Gentires Inc | Industrial | 12,000 |
| 11812 Main Street, Suite 105 A | Spotsylvania | TriCounty Sports | Industrial | 12,000 |
| 5211 Park Drive | Fredericksburg City | Valleycrest Landscaping Maintenance | Warehouse/Distribution | 10,000 |
| 11001 Pierson Drive, Suites D & E | Spotsylvania | Susan Nguyen | Industrial | 10,132 |
| 11812 Main Street, Suite C102A | Spotsylvania | Matt Cruz | Industrial | 5,772 |
| 11900 Main Street, Suite B115 | Spotsylvania | John Burgwald | Industrial | 5,243 |
| SIGNIFICANT 2014 SALE TRANSACTIONS | SUBMARKET | BUYER | PURCHASE PRICE / \$PSF | SQUARE FEET |
| 3427 Jefferson Davis Highway | Fredericksburg | RH SuperCenter | \$3,500,000/\$21 | 160,300 |
| 4406 Overview Drive | Fredericksburg | Concept Foods | \$2,380,000/\$43 | 55,000 |
| 29 Synan Road | Stafford | 29 Synan Road LLC | \$1,040,000/\$44 | 23,500 |
| SIGNIFICANT 2014 CONSTRUCTION COMPLETIONS | SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET |
| 2 Potomac Creek Drive | Stafford | ETA Repair | 4/2014 | 15,000 |
| SIGNIFICANT 2014 PROJECTS UNDER CONSTRUCTION | SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET |
| N/A | | | | |