

MARKETBEAT

Fredericksburg, VA

Office Q3 2019



FREDERICKSBURG OFFICE

Economic Indicators

| | Q3 18 | Q3 19 | 12-Month Forecast |
|-----------------------------|-------|-------|-------------------|
| Fredericksburg Employment | 66k | 66.9k | ▲ |
| Fredericksburg Unemployment | 3.0% | 3.1% | ▲ |
| U.S. Unemployment | 3.8% | 3.7% | ▲ |

Source: BLS, Moody's Analytics. 2019 Q3 data are based on latest available data.

Market Indicators (Overall, All Classes)

| | Q3 18 | Q3 19 | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Vacancy | 11.8% | 9.5% | ▼ |
| YTD Net Absorption (sf) | 42.6k | 37.5k | ■ |
| Under Construction (sf) | 10k | 30k | ■ |
| Average Asking Rent* | \$22.46 | \$22.78 | ■ |

*Rental rates reflect gross asking \$psf/year

Overall Asking Rent/Overall Vacancy

4-QTR TRAILING AVERAGE



Economy

Unemployment remains low, ending the quarter at 3.1%, slightly up from 3.0% a year ago but still below the national average of 3.7%. Analysts predict that although the national labor participation rate is beginning to fall after peaking in Q1 2019, it is still below the peak reached in the late 1990s, which suggests that there are people who have not rejoined the work force and can continue to fuel future job growth, at least in the short term.

Market Overview

Year-to-date (YTD) absorption made modest gains, ending the quarter at a positive 37,500-square-feet (sf). 30,000 sf of office space remains under construction, with no deliveries or construction starts reported in the quarter. The vacancy rate saw modest improvements, ending the quarter under 10% for the first time in over five years. Vacancy in Class A properties climbed to 17.8%. Rental rates have remained flat over the course of 2019, ending Q3 at \$22.78. This was a modest jump above Q1 and Q2, but overall rental rates have shown little variance in the past year.

Ninety percent of all lease deals signed in Q3 were under 3,500 sf, suggesting that small businesses or start-ups are leading momentum in office leasing. The U.S. Department of Veterans continues to lease new office space in the area with a deal for 14,500 sf at 4830 Southpoint Dr. and Chenango Corp inked a deal at 65 Barrett Heights Rd. for 8,461 sf.

Outlook

With absorption and rental rates remaining flat quarter over quarter, Q4 2019 is not anticipated to present any surprises in the office market. New leases are expected to be driven by smaller companies and the status quo should be maintained, at least into early next year.

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