FREDERICKSBURG BY THE NUMBERS

Residential | Office | Hospitality | Retail
REAL ESTATE CYCLE

Phase II — Expansion
- Declining vacancy
- New construction

Long-Term Occupancy Average

Phase III — Hypersupply
- Increasing vacancy
- New construction

Phase IV — Recession
- Increasing vacancy
- More completions

Phase I — Recovery
- Declining vacancy
- No new construction

DETERMINING DEVELOPMENT POTENTIAL

To build upon preceding studies

To provide market information for various classes of commercial real estate development

To inform the ongoing work effort of the Comprehensive Plan
DEVELOPMENT HISTORY

• Major cycles of development reveal that much of the housing stock is historic, with a few major booms

• Slightly more than a quarter of residents moved to their existing units in the first decade of the 2000’s and have remained there since

Source: Sitewise Reports Created for Streetsense, November 2018.
EXECUTIVE SUMMARY

• Regroup/Reset
• Renovate/Redevelop
• Prepare for Future Growth
RESIDENTIAL MARKETS
TODAY AND INTO THE FUTURE
SUPPLY
12,000 STRUCTURES

- Dominant structure type is Single-Family
- Median Year Built is 1977

Housing Units by Units in Structure

- 45% Multifamily
- 40% Single Family Detached
- 15% Single Family (Attached)

OCCUPANCY:
11,000 UNITS

Of the occupied structures…
• 63% are Renter Occupied
• 37% are Owner Occupied

Occupancy of Housing Units (Tenant Type)

- 58% Renter Occupied
- 34% Owner Occupied
- 8% Vacant
RESIDENTIAL DEMAND

- 52% are Family Households
- Census calculations project annual addition of 168 household formations
- Assume constant rates of occupancy and tenant type
HOME SALES MARKET ACTIVITY:

• Total home sales steadily increasing, 2017 (335 home sales) sales trends are comparable to the peak in 2004
• Predominantly re-sale
• Listing Price to Sale Price ratio is below Virginia trend
• Days on Market - an indicator of buyer motivation - yearly average exceeds Virginia and National trend
SALE PRODUCT RESIDENTIAL DEVELOPMENT POTENTIAL

• Home values have stabilized to pre-recession prices but the number of homeowners in the market underwater on mortgages exceeds the national average

• A few new infill projects capitalize on returns and deliver homes adjacent to amenities (market bumps)

• Development pipeline indicates 450 new for-sale units will be delivered by 2020
DEPTH OF RENTAL MARKET

• Observational data points to many sale listings converting to rental listings

• Many renters occupy single family units (considered an atypical commercial residential product)

• Renters are price sensitive - price point may be more important than quality (or new product)
MARKET RATE, MULTIFAMILY RENTAL MARKET ACTIVITY

• Average Asking Rent is $1,093
• Comparable Units PPSF is $1.53
• 33% of buildings constructed since 2000
• 10-Year Average Annual Absorption of 74 units
MARKET RATE, MULTIFAMILY RENTAL MARKET PERFORMANCE

- A vacancy rate of 2.4% would indicate rental rates may increase, if not limited by
  - Aging units that are driving rents down
  - Abilities of renters to pay higher rents

VACANCY RATE BY BUILDING AGE

Reis Reports Submarket Analysis, 2018.
RENTAL MARKET DEVELOPMENT POTENTIAL

• Annual addition of **461 additional rental units will be demanded** from projected household formations after absorption of pipeline, in approximately 4 years

• Smaller unit sizes favor returns on development and drive the market toward alignment with demand; however…
HOUSING AFFORDABILITY AND ACCESSIBILITY

• Renters have a higher cost burden
• Rents unlikely to catalyze development of rental units
• Homes are difficult to obtain for the target population

2017 COST BURDEN BY OCCUPANT TYPE

Source: 2012-2016 American Community Survey 5-Year Estimates
COMMERCIAL OFFICE
TODAY AND INTO THE FUTURE
## OFFICE TYPOLOGIES

<table>
<thead>
<tr>
<th>Professional</th>
<th>Medical</th>
<th>Traditional</th>
<th>Flex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law</td>
<td>Dental</td>
<td>Creative professional</td>
<td>Retail or office depending on tenant</td>
</tr>
<tr>
<td>Accounting</td>
<td>Physical therapy</td>
<td>Coworking</td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td>Urgent care</td>
<td>Architecture</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>Specialty</td>
<td>Interiors</td>
<td></td>
</tr>
</tbody>
</table>
MARKET POSITIONING

• Fredericksburg competes with Stafford market for
  • Economy of scale: 2.6m SF vs. 4m SF
  • PPSF: $20.12 in Fredericksburg vs. Stafford at $23.92 PPSF
• Fredericksburg has a low vacancy rate

Source: Coldwell Banker Market Vantage Point
CITYWIDE SUPPLY

- Aging: average office structure is 66 years old (35% of space built since 2000)
- Most buildings are Class B/C
- Tenants require an average of 10,500 SF
OFFICE PERFORMANCE CITYWIDE

434,000 SF of Vacancy
Note: Neighborhood 1 (Vacancy Rate 40%)
Some types of office space are more demanded than others.

<table>
<thead>
<tr>
<th>Category</th>
<th>Vacancy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flex</td>
<td>10%</td>
</tr>
<tr>
<td>Medical</td>
<td>9%</td>
</tr>
<tr>
<td>Professional</td>
<td>20%</td>
</tr>
<tr>
<td>Traditional</td>
<td>18%</td>
</tr>
</tbody>
</table>
EMPLOYEES AND INDUSTRY GROWTH

- Of 30,600 employees, a third work in Healthcare and Social Assistance.
- Other major groups are Professional, Scientific, and Technical Services, Food Service, and Retail Trade.
EMPLOYMENT GROWTH

Assessing office-demand generating industries

Healthcare growing fastest

<table>
<thead>
<tr>
<th>Office Type</th>
<th>Office Demand Generating Industries</th>
<th>Examples</th>
</tr>
</thead>
</table>
| Traditional Office        | • Professional, Scientific, and Technical Services  
  • Information  
  • Management of Companies and Enterprises  
  • Administrative and Support and Waste Management | • Long & Foster Realtors  
  • Serenity Home Builders  
  • iPOGO Surveying Software |
| Medical Office            | • Healthcare and Social Assistance                                                                  | • Kaiser Permanente Fredericksburg  
  • Center for Family Counseling |
| Professional or Flex      | • Finance and Insurance  
  • Real Estate and Rental and Leasing  
  • Educational Services              | • Fredericksburg Area Association of Realtors, C&F Mortgage, FAAR Academy |
DEMAND FOR CLASS A AND B SPACE

- Starting 2020, demand for Traditional Office will increase by 29,200 SF annually
- Starting 2021, demand for Medical Office will increase by 44,500 SF annually
- Starting 2025, demand for Professional or Flex Office will increase by 11,400 SF annually
HOSPITALITY
## HOTEL TYPOLOGIES

<table>
<thead>
<tr>
<th>Economy</th>
<th>Midscale</th>
<th>Upper midscale</th>
<th>Upscale</th>
<th>B+B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lower priced</td>
<td>• Moderately priced</td>
<td>• Guest suites</td>
<td>• Amenities and desirable location</td>
<td>• Typically historic, locally-run and unique to market</td>
</tr>
<tr>
<td>• Motels</td>
<td>• Limited service</td>
<td>• Separate living areas</td>
<td>• Specialty or boutique</td>
<td></td>
</tr>
<tr>
<td>• Value Place</td>
<td>• Best Western Inn</td>
<td>• Kitchenettes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Super 8</td>
<td></td>
<td>• Residence Inn</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Economy**
  - Lower priced
  - Motels
  - Value Place
  - Super 8

- **Midscale**
  - Moderately priced
  - Limited service
  - Best Western Inn

- **Upper midscale**
  - Guest suites
  - Separate living areas
  - Kitchenettes
  - Residence Inn

- **Upscale**
  - Amenities and desirable location
  - Specialty or boutique

- **B+B**
  - Typically historic, locally-run and unique to market
SUPPLY

• 1,370 hotel rooms in 10 hotels
• Economy to Upscale
• Interstate-95 is primary location
TRAVELER TYPES AND SOURCES OF DEMAND

- Leisure travelers are primary customer group
- Business travelers are a secondary customer group
HOTEL PERFORMANCE

- Peak months occupancy rates are climbing, and healthy
- Peaks during the summer or on weekends do not make hotel rooms scarce
- Average Daily Rate in 2017 was $96.16, reflecting a steady trend upward
HISTORIC LODGING

• Confirmed competitive advantage that can achieve a higher Average Daily Rate and Revenue per Available Room
• 48 rooms exist, primarily in Neighborhood 7
RETAIL
TODAY AND INTO THE FUTURE
<table>
<thead>
<tr>
<th>Neighborhood Goods &amp; Services</th>
<th>Food &amp; Beverage</th>
<th>General Merchandise, Apparel, Furnishings, &amp; Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Grocery</td>
<td>• Restaurants</td>
<td>• Department Stores</td>
</tr>
<tr>
<td>• Pharmacy</td>
<td>• Bars</td>
<td>• Jewelry Stores</td>
</tr>
<tr>
<td>• Florist</td>
<td>• Coffee Shops</td>
<td>• Electronic Stores</td>
</tr>
<tr>
<td>• Dry Cleaners</td>
<td>• Juice Bars</td>
<td>• Card Stores</td>
</tr>
<tr>
<td>• Nail/Hair Salon</td>
<td>• Ice Cream Parlor</td>
<td>• Home Décor Stores</td>
</tr>
</tbody>
</table>

**Examples:**
- Grocery: Grocery Store
- Pharmacy: Pharmacy
- Florist: Florist
- Dry Cleaners: Dry Cleaning Service
- Nail/Hair Salon: Hair Salon
- Restaurants: Restaurant
- Bars: Bar
- Coffee Shops: Coffee Shop
- Juice Bars: Juice Bar
- Ice Cream Parlor: Ice Cream Shop
- Department Stores: Department Store
- Jewelry Stores: Jewelry Store
- Electronic Stores: Electronic Store
- Card Stores: Card Store
- Home Décor Stores: Home Décor Store
CITY-WIDE SUPPLY

• 4.2 million SF of retail appropriate space
• 52% is located in Neighborhood 1 (a regional destination)
RETAIL PERFORMANCE: VACANCY

- 54% of vacant retail space is in Neighborhood 1
- 28 Class A spaces available to retailers
• 58% of all retail is General Merchandise, Apparel, Furnishings, and Other – 63% is located in Neighborhood 1
UTILIZATION AND STABILITY

Citywide retail vacancy rate of 10%

An additional 9% is occupied by non-retail uses
MAPPING COMPETITION

LOCAL OPPORTUNITIES

- Route 3
- Interstate 95’s Cosner’s Corner and Four Mile Fork
- Falmouth
- Route 17 Community Centers (Plantation Crossing)
- Stafford Marketplace cluster

REGIONAL DESTINATIONS

- Spotsylvania Town Centre
- Potomac Mills

WALKABLE EXPERIENCES

- Downtown Culpeper
- Spotsylvania Towne Centre
# Trade Areas: Local

<table>
<thead>
<tr>
<th></th>
<th>East City</th>
<th>West City</th>
<th>Local PTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average HH Income</td>
<td>$83,682</td>
<td>$107,116</td>
<td>$81,115</td>
</tr>
<tr>
<td>Median HH Income</td>
<td>$54,937</td>
<td>$82,671</td>
<td>$59,522</td>
</tr>
<tr>
<td>Average HH Size</td>
<td>2</td>
<td>2.86</td>
<td>2.62</td>
</tr>
<tr>
<td>Years In Home</td>
<td>10.1</td>
<td>8.5</td>
<td>10.4</td>
</tr>
<tr>
<td>% Family Households</td>
<td>41%</td>
<td>67%</td>
<td>63%</td>
</tr>
<tr>
<td>Median Age</td>
<td>33</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>Bachelor’s Degree +</td>
<td>45%</td>
<td>38%</td>
<td>30%</td>
</tr>
<tr>
<td>Cars Per Household</td>
<td>1.42</td>
<td>1.85</td>
<td>1.7</td>
</tr>
</tbody>
</table>
## TRADE AREAS: REGIONAL

<table>
<thead>
<tr>
<th></th>
<th>North STA</th>
<th>South STA</th>
<th>Regional North</th>
<th>Regional South</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average HH Income</td>
<td>$105,925</td>
<td>$98,650</td>
<td>$123,229</td>
<td>$97,985</td>
</tr>
<tr>
<td>Median HH Income</td>
<td>$82,584</td>
<td>$84,937</td>
<td>$97,452</td>
<td>$77,851</td>
</tr>
<tr>
<td>Average HH Size</td>
<td>2.76</td>
<td>3.04</td>
<td>2.97</td>
<td>2.85</td>
</tr>
<tr>
<td>Years In Home</td>
<td>11.8</td>
<td>11.6</td>
<td>12.6</td>
<td>12.5</td>
</tr>
<tr>
<td>% Family Households</td>
<td>73%</td>
<td>77%</td>
<td>79%</td>
<td>77%</td>
</tr>
<tr>
<td>Median Age</td>
<td>35</td>
<td>38</td>
<td>39</td>
<td>39</td>
</tr>
<tr>
<td>Bachelor’s Degree +</td>
<td>37%</td>
<td>30%</td>
<td>32%</td>
<td>28%</td>
</tr>
<tr>
<td>Cars Per Household</td>
<td>2.06</td>
<td>2.21</td>
<td>2.49</td>
<td>2.31</td>
</tr>
</tbody>
</table>
# Citywide Retail Demand

<table>
<thead>
<tr>
<th></th>
<th>Total Square Feet of Demand</th>
<th>Total Supply</th>
<th>Unmet</th>
</tr>
</thead>
<tbody>
<tr>
<td>NG&amp;S</td>
<td>1,233,037</td>
<td>737,503</td>
<td>495,534</td>
</tr>
<tr>
<td>F&amp;B</td>
<td>456,325</td>
<td>716,749</td>
<td>(260,424)</td>
</tr>
<tr>
<td>GAFO</td>
<td>806,763</td>
<td>2,037,970</td>
<td>(1,231,207)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,496,126</strong></td>
<td><strong>4,269,681</strong></td>
<td><strong>(1,773,555)</strong></td>
</tr>
</tbody>
</table>
OVERSUPPLY

• Not all neighborhoods are oversupplied
  • Neighborhood 1 causes the City’s oversupply and oversupply of GAFO
  • There is room for some retail categories in some neighborhoods

• Not all categories are oversupplied
  • There is unmet demand for NG&S in most neighborhoods
  • There is unmet demand for F&B in some neighborhoods

It is critically important to have the right retail space in an appropriate location with compatible retail tenants.
OVERSUPPLY

• When consumer expenditures are less than the amount of sales needed to support the number and type of retailers, the market is in oversupply.

• Depresses overall value of the market

• Creates a difficult situation for property owners as rental rates decrease

• Lowers the bar for new retailers, thereby lowering the overall quality of retailers

• Distributes sales over too many establishments. Stores and restaurants cannot meet minimum sales requirements for sustainable sales

• High tenant turnovers and lower rents throughout market
CONCLUSIONS
RESIDENTIAL MARKET

For-Sale
• Considers what is here and what is planned in the analysis
• Few small, new products likely to continue to capture demand
• Markets impact on existing homeowners is considered: significant additional near term development may amplify burdens of homeownership

Rental Demand
• Pipeline fully absorbed by 2023, prepare for some growth: 461 rental units will be demanded by 2028
• Smaller housing units could favor returns on development and drive the market toward alignment with demand

Most immediate opportunities are in rental units and keeping new home construction modest in scope.
RESIDENTIAL MARKET AFFORDABILITY

• Leverage existing assets to increase the supply
• Requires regulatory shifts
• Allows for flexibility should the market not deliver on rental units (low PPSF)
OFFICE MARKET

• In the Recovery phase: allow for redevelopment/renovation of Class C spaces and absorption of Class A and B spaces for ten years

• Demand for Traditional Office will present first, in 2020, but Medical Office will have a larger impact by 2028

• Professional/Flex Office opportunity is modest

Opportunities are in office space upgrades and conversions to medical office buildings where possible.
HOSPITALITY MARKET

• A local lodging facility with the right business opportunity can capitalize on the market in the future

• The unique value proposition of a historic lodging facility can also cater to a specific travel experience

Opportunity is present for a downtown hotel or appropriate context.
RETAIL MARKET

• Central Park serves an important purpose for regional hard goods but is hindered – macroeconomic changes and design
• Downtown is considered a regional destination with a competitive advantage and a unique value prospect
• Increasing sales productivity is the goal – there is no need to plan for significant retail development
• Fredericksburg can expect the market will naturally drive readjustments within retail categories and into new neighborhoods

Retail clusters should be defined for the marketplace and reinforced as districts.
REAL ESTATE CYCLE

PHASE II — EXPANSION
Declining vacancy
New construction

PHASE III — HYPERSONALITY
Increasing vacancy
New construction

PHASE I — RECOVERY
Declining vacancy
No new construction

PHASE IV — RECESSION
Increasing vacancy
More completions

CONCLUSION

• Regroup/Reset
• Renovate/Redevelop
• Prepare for Future Growth