



**WASHINGTON METROPOLITAN AREA
4Q16 ECONOMY AND OFFICE MARKET OUTLOOK**

EXECUTIVE SUMMARY

**METRO AREA ECONOMY
REMAINS HOT AS 2016 ENDS;
OFFICE MARKET TIGHTENS**

The Washington metro regional economy continued its strong growth throughout 2016, adding 70,200 jobs in the 12 months ending October 2016. This year produced some of the highest 12-month job growth totals the region has seen in over a decade. Job growth in the area began to gain momentum in 2015 and has totaled at least 55,000 jobs on a trailing 12-month basis since April 2015—well above the region’s 20-year average growth of 43,400 jobs per annum. In addition to strong private-sector job growth, the government has begun to see a return to job growth at the federal, state and local levels, with 10,900 government jobs added in the 12 months ending October 2016. The region’s unemployment rate was 3.9% in October 2016, down 30 basis points from 12 months prior.

The Washington area’s office market had a strong finish to 2016, with fourth-quarter absorption positive in all three sub-state areas and rents and occupancy ticking up. Net absorption for the metro area totaled 821,180 square feet during the fourth quarter, bringing the annual absorption total to 1.5 million square feet. Despite positive absorption, more than 2 million square feet of new office space delivered in the region during 2016. As a result, the region’s vacancy rate was essentially unchanged, declining only 10 basis points over the past year to 16.3%. At this elevated vacancy rate, the market remains tenant-favored. Average weighted asking rents registered \$36.23/SF at the end of 2016, an increase of 1.8% over the past year.

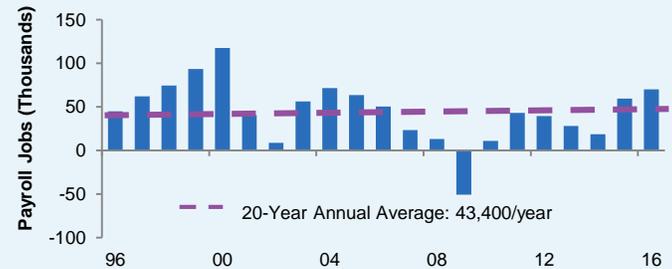
The Washington area’s office investment sales volume totaled \$6.4 billion through November, slightly above the \$6.2 billion in volume posted through the first 11 months of 2015. It is likely that 2016 volume will tick up closer to 2015’s annual volume of \$7.5 billion once the December transactions are tallied.

Economy

- **Historical Job Change:** 70,200 jobs added in the 12 months ending October 2016, versus 43,400 per annum for the past 20 years.
- **Projected Job Growth:** NGKF forecasts an average increase of 45,500 jobs per annum from 2017 through 2021.
- **Unemployment Rate:** 3.9% in October 2016, down 30 basis points from 4.2% in October 2015.

Source: Dr. Stephen Fuller, Bureau of Labor Statistics, NGKF Research; December 2016

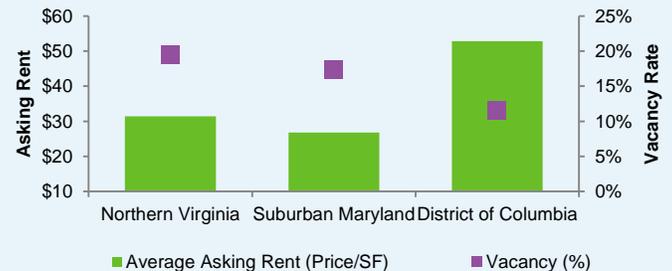
Washington Metro Payroll Job Change



Note: Totals reflect annual average net change, except 2016, which reflects change for the 12 months ending October 2016
Source: Bureau of Labor Statistics, NGKF Research; December 2016

Office Market

Asking Rent and Vacancy Rate

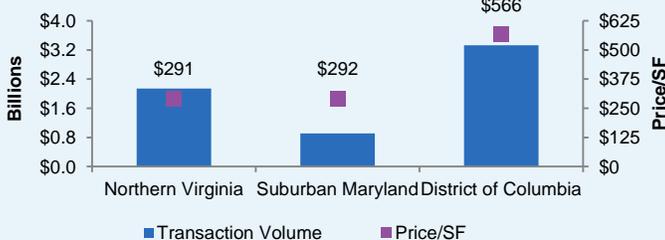


4Q 2016 Office Market Summary

	Northern Virginia	Suburban Maryland	District of Columbia	Metro Region
Total Inventory (SF)	164.2 M	74.8 M	124.4 M	363.5 M
Vacancy Rate	19.5%	17.4%	11.5%	16.3%
2016 Net Absorption (SF)	119,316	233,428	1.1 M	1.5 M
Average Asking Rent (FS)	\$31.42	\$26.76	\$52.79	\$36.23
Under Construction (SF)	3.2 M	0	4.2 M	7.4 M
2016 Deliveries (SF)	745,000	238,550	1.2 M	2.2 M

Capital Markets

2016 Office Investment Sales*



*Through November
Source: Real Capital Analytics, NGKF Research



WASHINGTON METROPOLITAN AREA
4Q16 ECONOMY AND OFFICE MARKET OUTLOOK

Washington Metro Ties for Third-Lowest Unemployment Rate Among Major Metros

The Washington metro area’s nearly 3.3 million payroll jobs make it the fifth-largest U.S. job market, behind New York, Los Angeles/Orange County, Chicago and Dallas/Fort Worth. As of October 2016, the region registered an unemployment rate of 3.9%, down 30 basis points from 4.2% in October 2015. This places it third, along with San Francisco, for lowest unemployment rate among the 12 largest U.S. metro areas. It also compares favorably to the national rate of 4.9% (seasonally-adjusted) in October 2016, a slight improvement over October 2015’s rate of 5.0%. The Washington metro area was among five of the largest U.S. metros that experienced year-over-year job growth in excess of 70,000 during October 2016. The area has boasted year-over-year payroll employment growth of more than 60,000 jobs each month since October 2015.

New Administration’s Impact on Office Market Is Likely to be Modest

November’s election results remain foremost on the minds of Washington area residents and investors, given the city’s status as the nation’s capital. Various market observers have weighed in, and the consensus appears to be that the Trump Administration will potentially have a materially positive impact on Washington’s commercial real estate market. However, there is reason to believe that the impact will be more moderate. Mr. Trump ran on a platform of increased infrastructure spending, which could boost local construction employment and possibly benefit Metrorail, but he is likely to face opposition from fiscal conservatives in the House of Representatives.

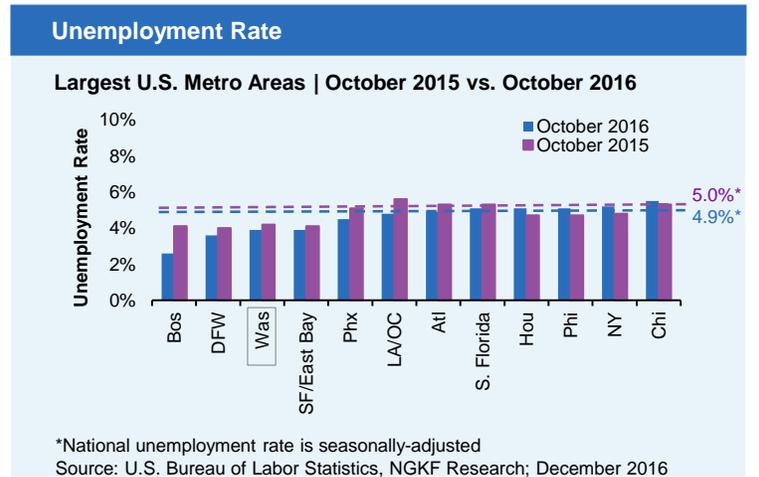
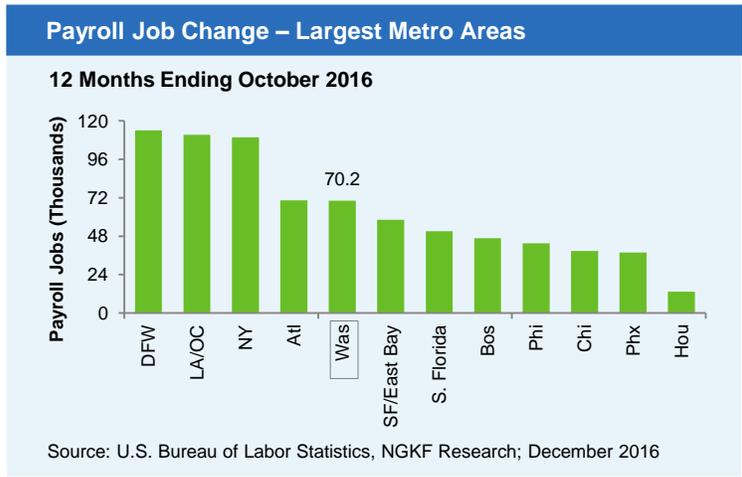
Various other elements of Mr. Trump’s proposed policy agenda could impact specific area industries. His plans to reform healthcare and taxes might spur growth in lobbying firms within the District, and analysts suggest Mr. Trump’s policies on health insurance and pharmaceuticals are positives for these industries—a boon for the substantial biomedical tenant base in Suburban Maryland. Meanwhile, increased

defense spending may benefit the large number of contractors in Northern Virginia.

Mr. Trump’s platform also called for the shrinking of domestic programs and their related agencies. If these initiatives are passed by Congress, they could offset potential local gains from infrastructure and defense spending. Therefore, the upcoming change in administration is not likely to have a material impact on demand for commercial space in Washington. One notable exception would be if foreign investors were to no longer see Washington as a safe haven for capital and thus reduce their investment in this market. Nevertheless, the relative strength of the U.S. economy compared with others around the globe will likely keep foreign investment dollars flowing into Washington.

Fed Raises Interest Rate After Months of Signaling

In November 2016, initial claims for unemployment dropped to their lowest weekly level since 1973. For the week ended November 12, 2016, seasonally adjusted claims numbered 235,000, far lower than the consensus of 257,000 projected by economists. This also marked the 89th consecutive week in which initial claims were fewer than 300,000. Given these and other positive economic indicators, the Federal Reserve decided to raise short-term interest rates 25 basis points during its December meeting. This increase comes after months of signaling by the Fed that it would make an upward adjustment in rates. Prior to its most recent increase, rates were last raised in December 2015. Higher rates will likely benefit savers and normalize above-average activity in higher-yielding investments. However, they also make borrowing more expensive for businesses and individuals, potentially reducing home and auto purchases.





WASHINGTON METROPOLITAN AREA
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Economic Incentives Influence Corporate Locations

Economic incentives remain a powerful force in the Washington metro area office market. During the fourth quarter, Marriott International announced it would relocate its headquarters within Montgomery County, opting to move its 3,500 employees to a location near the Bethesda Metrorail station by the time its current lease expires in 2022. In exchange, the company may receive up to \$62 million in incentives from the state and county. Recent examples of other powerful incentives in the region include the District's success in retaining the headquarters of two major local employers, The Advisory Board and Blackboard. In 2015, education and healthcare consulting firm The Advisory Board was given a \$60 million incentive package in exchange for creating 1,000 net new jobs for DC residents over the next 10 years and anchoring a space in 665 New York Avenue NW. During 2016, education technology provider Blackboard was the recipient of a \$1 million tenant improvement grant for remaining in the District and implementing several economic development initiatives. Also in 2016, technology company Optoro announced it was in talks with the DC government to move its corporate headquarters from Lanham, Maryland, into the District, with the final decision contingent on the competitiveness of the incentive package offered. While these headquarters relocations are undoubtedly wins for these jurisdictions, it is often at the expense of other jurisdictions within the region. Regional cooperation in attracting headquarters from outside the Washington area could lead to sustained growth for the entire metro.

Strong Construction Continues in the District and Northern Virginia

Area job growth has increased demand for Washington area office space in recent years. However, tenants remain very selective about the properties they occupy, opting for highly amenitized spaces near public transportation. Drawn by the relatively strong performance of Class A and Trophy assets, many developers have begun or continued construction efforts despite elevated vacancy rates.

The District's development pipeline as of the fourth quarter was approximately 5.5 million square feet, comprising 4.2 million square feet of new construction and 1.3 million square feet of renovation or redevelopment projects. Only 49% of this development is pre-leased. In Northern Virginia, the market delivered approximately 745,000 square feet of new construction in 2016. Looking ahead, the construction pipeline in Northern Virginia stands at 3.2 million square feet, over half of which is expected to deliver in 2017. Approximately 69% of Northern Virginia's pipeline is pre-leased. Suburban Maryland delivered only two projects in 2016 for a total of 238,550 square feet. Its lack of a development pipeline suggests supply may be aligning with demand in a sub-state area that has historically featured higher levels of vacancy.

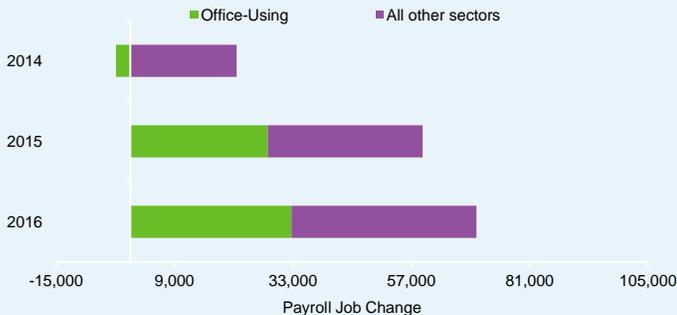
SafeTrack: More Time-Consuming and Costly Than Anticipated

In effect since June 2016, SafeTrack is the Washington Metropolitan Area Transit Authority's (WMATA's) accelerated maintenance program to get the region's rail-based mass-transit system back up to safety and infrastructure standards. The program, which consists of 15 surges, all of which require single-tracking or complete shutdowns of portions of Metrorail's various transit lines, was initially scheduled to last 10 months. WMATA has since extended the schedule due to weather and organizational delays and also safety concerns. With only 11 of the 13 original 2016 surges complete, a recent Federal Transit Administration (FTA) report indicates work will likely continue until June 2017.

Not only are improvements proving to be more time-consuming than originally planned, but they also are more expensive. The FTA estimates that in total the program will cost \$118.8 million, an 83% increase over the approximately \$65.0 million initially budgeted. This cost overrun, combined with a 6% year-over-year decline in ridership, has resulted in significant financial concerns, aggravated by a lack of consensus from regional leaders on how the Metrorail system should be funded.

Payroll Job Change

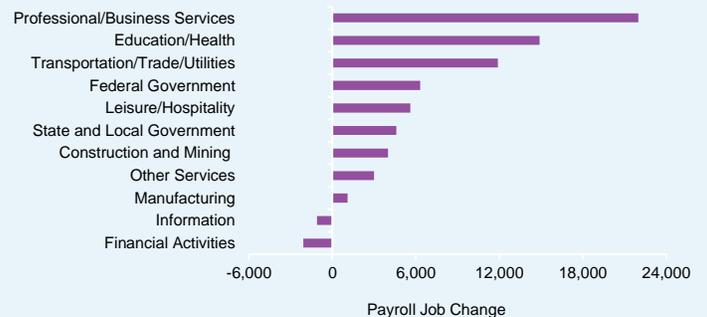
Washington Metro Area | 12 Months Ending October 2014 vs. 2015 vs. 2016



Source: U.S. Bureau of Labor Statistics, NGKF Research; December 2016

Job Change by Industry

Washington Metro Area | 12 Months Ending October 2016



Source: U.S. Bureau of Labor Statistics, NGKF Research; December 2016



WASHINGTON METROPOLITAN AREA
4Q16 METROPOLITAN AREA OFFICE MARKET

DEMAND POSITIVE ACROSS ALL THREE SUB-STATE AREAS BOTH FOR THE FOURTH QUARTER AND ALL OF 2016

The Washington area’s office market had a strong finish to 2016, with fourth-quarter absorption positive in all three sub-state areas and rents and occupancy ticking up. Net absorption for the metro area totaled 821,180 square feet during the fourth quarter, bringing the 2016 annual absorption total to 1.5 million square feet. Demand was strongest in the District of Columbia, which registered 1.1 million square feet of annual absorption. Northern Virginia and Suburban Maryland saw more modest demand of 119,316 and 233,428 square feet, respectively. Despite positive absorption, more than 2 million square feet of new office space delivered in the region during 2016. As a result, the region’s vacancy rate was essentially unchanged, declining only 10 basis points over the past year to 16.3%. At this elevated vacancy rate, the market continues to favor tenants. Average weighted asking rents registered \$36.23/SF at the end of 2016, an increase of 1.8% over the past year. This increase is largely a result of the rise in demand as well as the higher asking rents for the new product reaching the market.

Class A Market Continues to Experience Positive Demand

The Class A market saw significant gains in demand during the fourth quarter of 2016, registering 1.5 million square feet of absorption to bring the annual absorption total to 1.7 million square feet. A result of the strong demand, the region’s Class A vacancy rate declined 30 basis points over the past year and ended 2016 at 16.2%. With the uptick in demand and more than 2 million square feet of new space delivered to the Class A market, asking rents for this class of space rose 2.5% over the past year to end 2016 at \$40.53/SF metro-wide.

While these numbers point to a strong Class A market across the region, there are pockets where Class A assets are performing significantly better. The District of Columbia absorbed 1.4 million square feet of Class A space in 2016, whereas Suburban Maryland and Northern Virginia absorbed 62,974 and 275,668 square feet, respectively. Across all sub-state areas, trophy and “Class A plus” office space has significantly outperformed the commodity Class A space.

Current Conditions

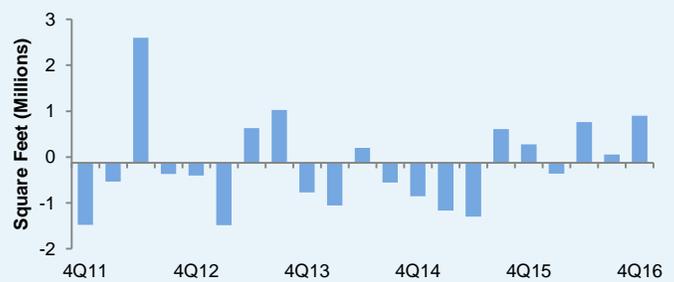
- Region ends 2016 with 1.5 million square feet of annual absorption.
- Despite positive demand, new deliveries keep vacancy nearly unchanged. The region’s vacancy rate is down 10 basis points over the year to 16.3%.
- Class A market sees significant uptick in demand with 1.7 million square feet of annual absorption in 2016.

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	363.5 M	362.8 M	362.4 M	↑
Vacancy Rate	16.3%	16.4%	16.4%	↑
Quarterly Net Absorption (SF)	821,180	143,011	318,452	↓
Average Asking Rent	\$36.23	\$36.42	\$35.59	↑
Under Construction (SF)	7.4 M	7.2 M	5.0 M	↔
Deliveries (SF)	1.0 M	501,000	511,557	↓



WASHINGTON METROPOLITAN AREA
4Q16 ECONOMY AND OFFICE MARKET OUTLOOK

Washington Area Economic Outlook

Since April 2015, the Washington metro area has consistently exceeded payroll employment growth of 50,000 jobs per annum (on a trailing 12-month basis), with 70,200 jobs added in the 12 months ending October 2016. This most recent figure is 62% greater than the 20-year average of 43,400. The Washington area currently ranks fifth among major metro areas for payroll employment growth during the year ending October 2016. Looking ahead, in consultation with Dr. Stephen Fuller of George Mason University, NGKF estimates that annual payroll job growth will average 45,500 during the five-year period from 2017 to 2021. Annual job growth will taper to more modest levels as 2021 approaches, with estimates in the range of 34,000 to 46,000 per year between 2018 and 2021.

With the most recent economic expansion approaching 89 months—versus the post-1945 average of 58 months—the consensus of economists is that a national recession will likely take place in 2018 or 2019. However, if past experience is any indication, the cyclicality of Washington’s economy tends to differ from that of the broader nation, and local recessions tend to result in fewer area job losses and more rapid recoveries relative to other locales. The area’s strong and diverse regional employment growth since mid-year 2014 and above-average employment projections also bode well for its ability to withstand a future recession.

Office Market Outlook

The market faces several headwinds to demand and absorption:

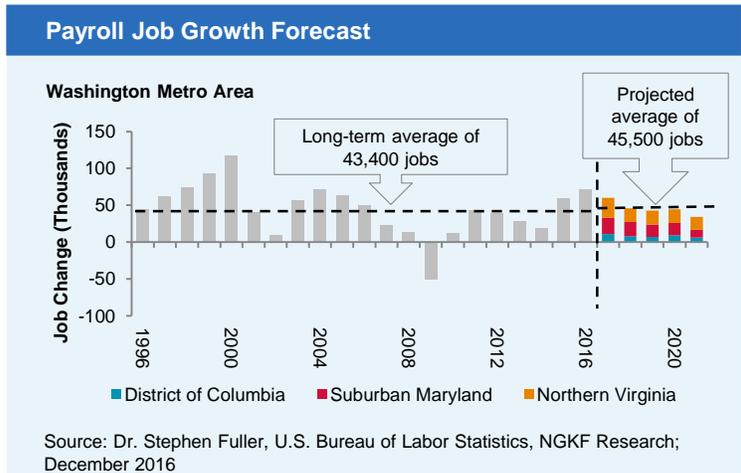
- Despite vacancy rates that remain stubbornly elevated, developers continue to build new assets in Northern Virginia and the District. While catering to the demand for highly-amenitized, transit-oriented space, these properties may need to use lower rents and higher concessions to attract tenants. Suburban Maryland’s lack of development pipeline means supply in that sub-state area may become more balanced with demand over the same period.

- While the densification trend appears to have peaked, it is not yet over, and many new leases signed over the next several years will still translate into a smaller footprint than was previously occupied.
- The Trump administration has been vocal about its desire to scale back the size of the federal government through attrition, with exceptions for military, public safety and public health organizations. This may reduce public sector demand for office space or shift demand to private sector contractors employed in maintaining the government’s operations.
- While an increase in defense spending could benefit the region—and particularly Northern Virginia—it may take a few years before that spending increase translates to net absorption, as most contractors do not lease space until a contract is awarded.

By contrast, the market is experiencing or will experience some tailwinds:

- Young professionals, the fastest growing segment of DC’s population, are encouraging growth in co-working spaces. The approximately 70 such spaces throughout the District have helped offset occupancy losses from law firms and government agencies.
- Shadow space and sublet space have declined to cyclical lows, so staff additions require space additions.
- In 2015 and 2016, regional office-using job growth has been strong, with 32,700 jobs added in the 12 months ending October 2016. This represents nearly 47% of the total jobs added during the period and will eventually translate into more demand for office space.

For additional information on the District of Columbia, Suburban Maryland and Northern Virginia office markets, please visit NGKF’s website: [Washington, DC Market Reports](#).





**DISTRICT OF COLUMBIA
4Q16 OFFICE MARKET**

DISTRICT SEES GROWTH IN 2016, BUT VACANCY FLAT AS DELIVERIES CANCEL OUT UPTICK IN DEMAND

The District of Columbia’s office market conditions tightened steadily during 2016. Absorption was positive, but vacancy remained flat, as new deliveries countered the modest uptick in demand. Net absorption registered 236,554 square feet during the fourth quarter, bringing the year-to-date total to 1.1 million square feet. Despite positive net demand, the vacancy rate rose 20 basis points during the fourth quarter to 11.5%, a result of three new properties delivering. However, vacancy is still down 10 basis points from one year ago. Asking rental rates rose 2.7% over the past year, to \$52.79/SF. Although demand has remained modest, the significant pace of redevelopment, renovations and new construction in the District has pushed asking rents higher.

Investment Sales Volume Escalates in Second Half of 2016

Through the end of November 2016, 24 major office investment properties traded hands in the District of Columbia for a total of \$3.4 billion in sales volume. After a slow first half of the year—with less than \$1 billion in sales volume registered through June—volume picked up in the second half of the year, thanks in part to continued interest from foreign buyers. Most notably, Japanese firm Unizo purchased five District of Columbia office properties in 2016. Through November, the largest sale of the fourth quarter and also the year was 655 15th Street NW. Blackstone purchased the Class A property from a joint venture between Boston Properties and the New York State Common Retirement Fund for \$356.5 million, or \$607/SF. The property traded at a 4.5% cap rate. Through November, District of Columbia sales volume was even with 2015’s annual volume of \$3.4 billion. Volume in 2016 will top the previous year’s total once the December transactions are tallied.

District of Columbia Outlook

Despite consistent asset sales and sturdy absorption, the District of Columbia will remain a tenant’s market in the near term, especially for commodity Class A space. During the 24 months ending in December 2018, office space deliveries are expected to exceed demand, with 3.7 million square feet of delivered space compared with 2.3 million square feet of demand. This supply-demand imbalance is exacerbated by the many District of Columbia tenants that have already locked in long-term leases to relocate after their current leases expire. These forward-looking leases capitalize on the current tenant’s market, prompting landlords to increase concessions or reduce rents to fill space.

Metro Area Market Summary

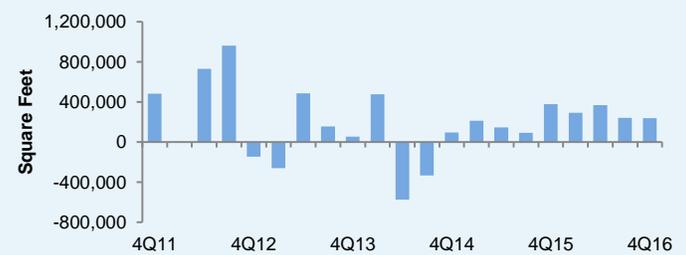
- The District of Columbia ended 2016 with 1.1 million square feet of annual net absorption and an overall vacancy rate of 11.5%, down 10 basis points over the past year.
- The Class A market posted strong quarterly absorption of 621,428 square feet, but its vacancy rate of 12.3% is still elevated compared with the Class B rate of 10.5%.
- Investment sales activity picked up in the second half of 2016, registering \$3.4 billion in sales volume through November.

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	124.4 M	124.2 M	124.2 M	↑
Vacancy Rate	11.5%	11.3%	11.6%	↑
Quarterly Net Absorption (SF)	236,554	240,691	378,278	↑
Average Asking Rent	\$52.79	\$52.62	\$51.42	↑
Under Construction (SF)	4.2 M	3.6 M	2.2 M	↔
Deliveries (SF)	739,827	0	478,882	↔



**NORTHERN VIRGINIA
4Q16 OFFICE MARKET**

MARKET EXPERIENCES RISE IN ABSORPTION

The Northern Virginia office market finished the year on a positive note for property owners, with 282,473 square feet of net absorption in the fourth quarter of 2016. This increase in demand brought the yearly total to 119,316 square feet. The vacancy rate edged down 10 basis points over the year, to 19.5%. Asking rents remain under downward pressure, however, as the market remains in tenant's favor due to elevated vacancy and a substantial development pipeline. Since last year at this time, average asking rents have declined \$0.19/SF to \$31.42/SF, and the development pipeline has increased by 1.0 million square feet to 3.4 million square feet.

Northern Virginia experienced a decline in completions, as 182,000 square feet delivered in the fourth quarter, compared with more than 500,000 square feet delivered in the third-quarter. This has helped the market to stabilize. Generally speaking, Northern Virginia's office market continues to favor tenants. However, growing interest in the market, as measured by a higher rate of tenant tours and fewer available large blocks of space, means landlords in Northern Virginia anticipate an improvement in market conditions over the next few years, – at least at properties with strong amenities and access to transit.

Tysons Corner Is Home to the Largest Delivery of the Year

Northern Virginia's largest delivery of the quarter was 22318 Glenn Drive, a 182,000-square-foot building in Sterling. Upon completion in October 2016, the entire building was leased to the General Services Administration, and it is occupied by an undisclosed government agency. The largest delivery of 2016 was 1775 Tysons Boulevard, known as The Corporate Office Centre at Tysons II. The 476,913-square-foot trophy office tower was developed by Lerner Corporation.

Northern Virginia Outlook

Even when accounting for recent job growth and the potential positive effects of the presidential election on market demand, Northern Virginia's office market still favors the tenant, as vacancy rates outside of a few select submarkets remain elevated. Even so, absorption in Northern Virginia ended 2016 slightly positive for the year, and we expect positive absorption in 2017 and 2018. With the availability of large blocks of space throughout Northern Virginia decreasing, look for select landlords to hold more sway in the leasing process. Trophy space located in transit-oriented submarkets like Tysons Corner and Reston will continue to command top-level rents through the next several quarters. However, Class A space located in submarkets that do not offer convenient transit access or walkable environments will continue to struggle to attract top tenants.

Metro Area Market Summary

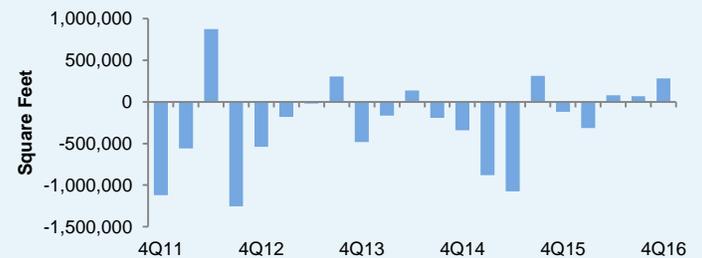
- Absorption totaled 282,473 square feet during the fourth quarter of 2016.
- Older, value-add properties located near Metrorail stations are seeing increased buyer interest for purchase and renovation.
- Properties adjacent to current and future Metrorail stations, most notably in Tysons Corner and Reston, experienced the greatest absorption during 2016.

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	164.2 M	163.8 M	163.4 M	↑
Vacancy Rate	19.5%	19.5%	19.6%	↑
Quarterly Net Absorption (SF)	282,473	68,068	-118,766	↔
Average Asking Rent (FS)	\$31.42	\$31.60	\$31.61	↔
Under Construction (SF)	3.2 M	3.4 M	2.4 M	↓
Deliveries (SF)	182,000	501,000	32,675	↑



**SUBURBAN MARYLAND
4Q16 OFFICE MARKET**

**SUBURBAN MARYLAND
OFFICE MARKET SEES
MODEST DEMAND,
IMPROVED OCCUPANCY**

Suburban Maryland's office market had a strong end to 2016 with demand positive and vacancy slightly down over the past year. Net absorption registered 302,153 square feet during the fourth quarter. This helped to balance out negative absorption earlier in the year and brought the 2016 annual absorption total to 233,428 square feet. The overall vacancy rate at year-end 2016 is 17.4%, down 40 basis points from the previous quarter and 10 basis points from a year ago. Overall asking rents have risen 1.5% over the past year, to end 2016 at \$26.76/SF.

Marriott Announces Plans to Stay in Montgomery County

In October 2016, after evaluating options in the District of Columbia, North Bethesda, Arlington, Fairfax and Prince George's County, Marriott International announced plans to develop its new headquarters in downtown Bethesda. The company is relocating in an effort to reach younger employees through a more transit-oriented location. The specific site is expected to be announced during the first half of 2017. It is slated to include a \$600 million facility spanning 700,000 square feet of space and housing approximately 3,500 employees. The company may receive up to \$62 million in state- and county-based incentives and tax credits tied to job creation and investment.

Suburban Maryland Outlook

A lack of new construction in Suburban Maryland means market observers should have little concern related to oversupply in the near term. In contrast to the District of Columbia and Northern Virginia, Suburban Maryland is likely to see office demand outpace the development pipeline over the next 24 months. Demand during that period, estimated at 480,000 square feet, should allow vacancy to decline, as no new construction deliveries are expected during this time period.

Suburban Maryland's biotechnology corridor, which is home to more than 370 bioscience companies, may benefit from the new administration's emphasis on healthcare reform. While this will not necessarily lead to demand for office space, it will generate business activity, which could trickle down to related service companies and contractors. The area is also the location of two of the three potential sites for the new Federal Bureau of Investigation (FBI) headquarters. With the final decision to be announced in March 2017, Suburban Maryland stands to benefit from the addition of a 2.1 million-square-foot facility housing approximately 11,000 employees.

Metro Area Market Summary

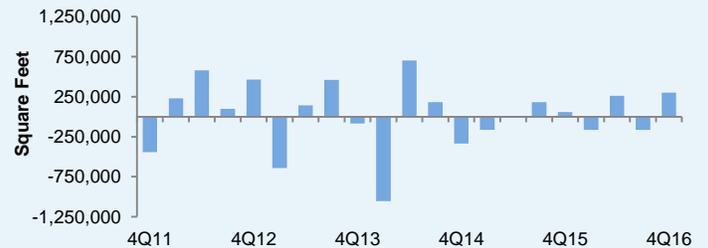
- Suburban Maryland ends 2016 with 233,428 square feet of annual absorption and an overall vacancy rate of 17.4%, down 10 basis points over the past year.
- Incentives are playing a role in drawing businesses to the area.
- Lack of a construction pipeline could allow the area's vacancy rate to decline after a prolonged period of elevation.

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	74.8 M	74.7 M	74.6 M	↔
Vacancy Rate	17.4%	17.8%	17.5%	↓
Quarterly Net Absorption (SF)	302,153	-165,748	58,940	↓
Average Asking Rent (FS)	\$26.76	\$26.79	\$26.36	↔
Under Construction (SF)	0	103,550	238,550	↑
Deliveries (SF)	103,550	0	0	↓



WASHINGTON METROPOLITAN AREA

4Q16 ECONOMY AND OFFICE MARKET OUTLOOK

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Sub-state Statistics – Vacancy & Absorption

	Total Inventory (SF)	Direct Vacancy Rate	Total Vacancy Rate	2013 Absorption (SF)	2014 Absorption (SF)	2015 Absorption (SF)	4Q 2016 Absorption (SF)	2016 Absorption (SF)
DC - District of Columbia	124,406,246	10.8%	11.5%	435,227	-340,945	829,577	236,554	1,137,208
MD - Maryland – Suburban	74,841,506	16.7%	17.4%	-128,028	-506,293	65,521	302,153	233,428
VA - Virginia – Northern	164,209,520	18.7%	19.5%	-380,552	-555,687	-1,762,554	282,473	119,316
Metropolitan Area	363,457,272	15.6%	16.3%	-73,353	-1,402,925	-867,456	821,180	1,489,952
	Total Inventory (SF)	Direct Vacancy Rate	Total Vacancy Rate	2013 Absorption (SF)	2014 Absorption (SF)	2015 Absorption (SF)	4Q 2016 Absorption (SF)	2016 Absorption (SF)
Class A	213,306,714	15.4%	16.2%	1,684,879	229,875	-949,166	1,464,126	1,737,241
Class B	110,689,351	16.2%	16.9%	-1,603,112	-1,473,213	64,584	-217,116	254,588
Class C	39,461,207	15.1%	15.4%	-155,120	-159,587	17,126	-425,830	-501,877
Metropolitan Area	363,457,272	15.6%	16.3%	-73,353	-1,402,925	-867,456	821,180	1,489,952

Sub-state Statistics – Rents & Development

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	4Q 2016 Deliveries (SF)	2016 Deliveries (SF)	Under Construction (SF)
DC - District of Columbia	124,406,246	\$56.90	\$44.48	\$52.79	739,827	1,203,450	4,164,299
MD - Maryland – Suburban	74,841,506	\$28.46	\$25.21	\$26.76	103,550	238,550	0
VA - Virginia – Northern	164,209,520	\$33.67	\$29.61	\$31.42	182,000	745,000	3,243,623
Metropolitan Area	363,457,272	\$40.53	\$31.75	\$36.23	1,025,377	2,187,000	7,407,922
	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	4Q 2016 Deliveries (SF)	2016 Deliveries (SF)	Under Construction (SF)
Class A	213,306,714	\$40.53	NA	\$40.53	921,827	1,922,652	7,407,922
Class B	110,689,351	NA	\$31.75	\$31.75	103,550	239,348	0
Class C	39,461,207	NA	NA	\$29.30	0	25,000	0
Metropolitan Area	363,457,272	\$40.53	\$31.75	\$36.23	1,025,377	2,187,000	7,407,922



WASHINGTON METROPOLITAN AREA
4Q16 CAPITAL MARKETS

2016 OFFICE INVESTMENT SALES VOLUME ON PAR WITH 2015 TOTAL

The Washington region registered \$1.7 billion in sales volume during the fourth quarter through November, bringing the 2016 annual volume through November to \$6.4 billion. This is ahead of the pace of 2015 volume; sales through the first 11 months of that year totaled \$6.2 billion. Sales activity through the first half of December has been quiet, and market experts have observed that the surprise election results have created some turbulence in the market. Still, it is expected that the end-of-the-year push to close sales will result in 2016 ending at or near 2015's annual volume of \$7.5 billion.

Interest from foreign investors in Washington metro area office assets continued to be a theme throughout 2016. As of mid-December, 40% of 2016 sales volume came from foreign investment. In the District proper, that number was significantly higher at 60%. With continued instability in global markets, foreign investors see U.S. gateway markets like Washington as a safer bet for deploying capital.

Suburbs Rule First Half of 2016, District Returns in Second Half

Through the first half of 2016, suburban sales volume significantly outpaced that of the District of Columbia, with suburban sales representing 66% of the region's total volume through June. During the second half of 2016, that trend reversed, as sales activity in the District of Columbia saw a significant uptick, with 73% of the District of Columbia's 2016 sales volume through November occurring in the second half of the year. In the end, total 2016 volume through November was split fairly evenly between downtown and the suburbs, with the District of Columbia representing 52% of the region's volume to the suburbs' 48%.

Office Investment Sales Outlook

Expect Washington-area investment sales to decrease slightly from their current pace of volume and pricing in 2017, for three reasons:

1. In the mature phase of the cycle, investors tend to seek the safety of a primary market like Washington, but the surprise election results have created some turbulence in the market.
2. Commercial real estate represents a superior alternative to other forms of available investments, but the interest rate increase is giving some buyers pause.
3. Foreign investors continue to target Washington, although market turbulence from the election results may spark caution.

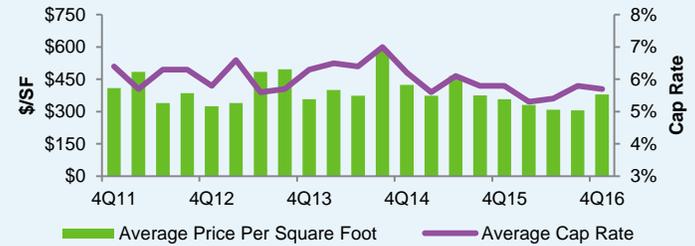
Metro Area Market Summary

	Metro Region
4Q 2016 Transaction Volume*	\$1.7 B
2016 Transaction Volume*	\$6.4 B
2016 Average Price PSF*	\$379
2016 Average Cap Rate*	5.70%
NCREIF Office Total Return (12 mos. ending 9/16)	4.38%

*Through November
Source: Real Capital Analytics, NCREIF, NGKF Research; as of December 15, 2016

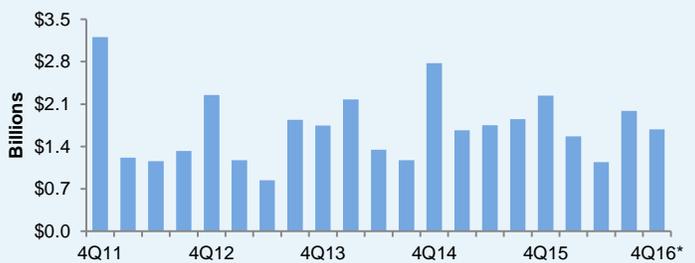
Market Analysis

Average Cap Rate and Price Per Square Foot
Office Sales



Source: Real Capital Analytics, NGKF Research; as of December 15, 2016

Quarterly Transaction Volume
Office Sales



*4Q16 through November
Source: Real Capital Analytics, NGKF Research

Major 4Q16 Sales Transactions

Address	Sale Price	Price/SF	Sub-state
655 15 th Street NW	\$356.5 M	\$607	District of Columbia
500 N Capitol Street NW	\$231.4 M	\$995	District of Columbia
1030 15 th Street NW	\$228.0 M	\$695	District of Columbia
901 N Stuart Street	\$69.5 M	\$295	Northern Virginia
12343-12345 Sunrise Valley Drive	\$60.0 M	\$190	Northern Virginia



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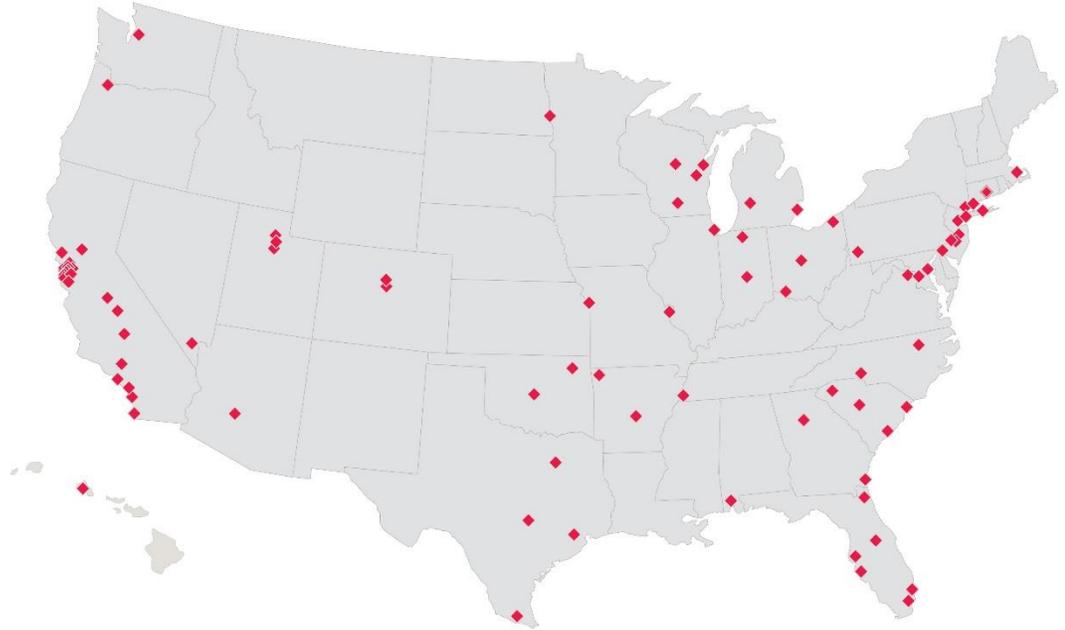
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