RESEARCH

Newmark Grubb Knight Frank

WASHINGTON METROPOLITAN AREA

1Q17 ECONOMY AND OFFICE MARKET OUTLOOK

EXECUTIVE SUMMARY

ECONOMY REMAINS STURDY; OFFICE ABSORPTION INCREASES

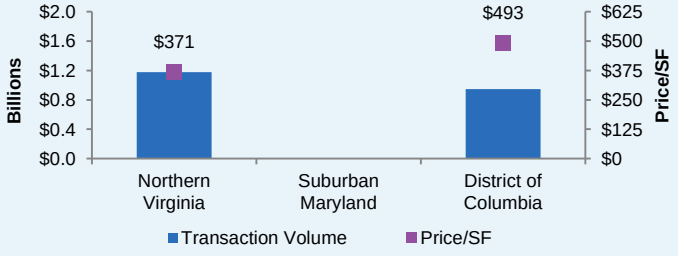
The Washington metro regional economy remained strong through early 2017, with 54,800 jobs added in the 12 months ending January. The region added 57,700 jobs in 2016, above the long-term average of 44,200 jobs per year. Office-using sectors added 25,900 jobs in the 12 months ending January 2017, more than 47% of the region's total jobs added. These jobs contribute to office space demand and are likely to help support continued improvement of market fundamentals.

The Washington area's office market tightened in the first quarter of 2017, with absorption positive in all three substate areas and rents and occupancy edging up. Net absorption for the metro area totaled 1,073,884 square feet, on par with 2016's annual absorption. With strong absorption and no new construction added to inventory, the region's vacancy rate ticked down 40 basis points from year-end 2016 to register 16.1%. Average weighted asking rents registered $36.89/SF as of the first quarter, an increase of 3.4% over the past year. This increase is largely attributable to two factors: (1) the higher asking rents from several new projects that have come online over the past year; and (2) the uptick in demand over the past few quarters.

The Washington region registered $2.1 billion in office sales transaction volume during the first quarter of 2017 through mid-March—up from $1.6 billion in the comparable period in 2016. Sales activity in 2017 has so far been focused in the District of Columbia and Northern Virginia, with no transactions larger than $20 million taking place in Suburban Maryland. Northern Virginia has led the region's volume with $1.2 billion.

Capital Markets

2017 Year-to-Date Office Investment Sales*



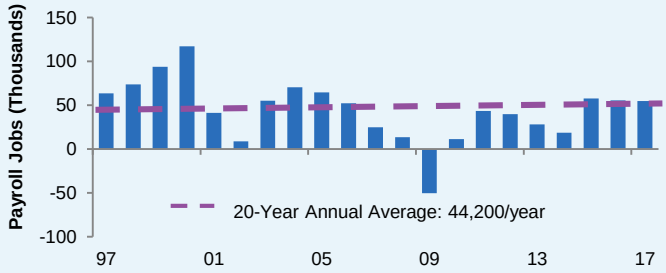
*Transactions $20M or greater through March 15th
Source: Real Capital Analytics, NGKF Research; March 2017

Economy

- **Historical Job Change:** 54,800 jobs added in the 12 months ending January 2017, versus 44,200 per annum for the past 20 years.
- **Projected Job Growth:** NGKF forecasts an average increase of 45,500 jobs per annum from through 2021.
- **Unemployment Rate:** 3.9% in January 2017, down 30 basis points from 4.2% in January 2016.

Source: Dr. Stephen Fuller, Bureau of Labor Statistics, NGKF Research; March 2017

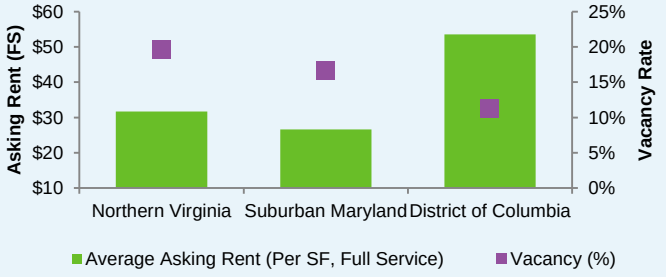
Washington Metro Payroll Job Change



Note: Totals reflect annual average net change, except 2017, which reflects change for the 12 months ending January 2017
Source: Bureau of Labor Statistics, NGKF Research; March 2017

Office Market

Asking Rent and Vacancy Rate



1Q 2017 Office Market Summary

	Northern Virginia	Suburban Maryland	District of Columbia	Metro Region
Total Inventory (SF)	163.9 M	74.7 M	124.4 M	363.0 M
Vacancy Rate	19.6%	16.6%	11.3%	16.1%
YTD Net Absorption (SF)	7,880	442,780	623,224	1.1 M
Average Asking Rent (Per SF, Full Service)	$31.67	$26.63	$53.51	$36.89
Under Construction (SF)	3.2 M	75,000	4.2 M	7.5 M
YTD Deliveries (SF)	0	0	0	0

WASHINGTON METROPOLITAN AREA
1Q17 ECONOMY AND OFFICE MARKET OUTLOOK

Washington Metro Ties for Second-Lowest Unemployment Rate among Major Metros

The Washington metro area's 3.2 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 January 2017, the region registered an unemployment rate of 3.9%, down 30 basis points from 12 months prior. This places it third for lowest unemployment rate among the 12 largest U.S. metro areas. It also compares favorably with the national rate of 4.8% (seasonally adjusted) at January 2017, a 30-basis-point improvement over January 2015's rate of 4.9%. Despite a low unemployment rate, the Washington metro area fell to ninth among the 12 largest metros in terms of jobs added over the past 12 months after being in the top five for most of 2016. It can be challenging for companies to fill new positions in the Washington market; most skilled workers who want a job have one.

Region Unlikely to See Major Economic Impact in Short Term from Federal Hiring Freeze

In one of his first acts after being sworn in as the 45th president of the United States, President Trump enacted a sweeping federal hiring freeze, exempting only those positions in national security, public safety and the military. While this caused alarm, as the federal workforce represents nearly 12% of the region's employed as of January 2017, local economists estimate the impact may not be as dire as initially assumed. Without adding new employees, the work of the federal government still needs to get done. This will likely lead to an uptick in government contracting, as happened during the Reagan and Clinton administrations. Thus, the economic impact of the loss of federal job growth will likely be canceled out by an uptick in hiring in the private sector to support the additional contracts. Many of the region's government contracting jobs fall within the professional, scientific and technical services subsector or computer systems design and related services subsector. These two industry subsectors have seen strong growth, as together they added nearly 30% of the region's new jobs in 2016.

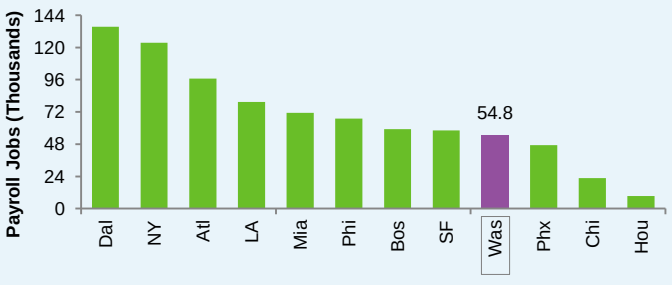
THE ECONOMIC IMPACT OF THE LOSS OF FEDERAL JOB GROWTH WILL LIKELY BE BALANCED OUT BY AN UPTICK IN HIRING IN THE PRIVATE SECTOR TO SUPPORT THE ADDITIONAL CONTRACTS

Construction Pipeline Growing to Replace Obsolete Office Stock

Many tenants in the Washington metro area have shown a strong preference for new construction and are willing to pay a premium to be in new or newly renovated space with a strong amenity base and good transit options. At the same time, the obsolescence of older office stock with poor access and transit options–particularly in the suburbs–is a growing challenge. NGKF's 2015 white paper on suburban office obsolescence found that over 38 million square feet of Washington's suburban inventory is obsolete. Drawn by the relatively strong performance of new Class A and Trophy assets, many developers have begun or continued construction efforts on a speculative basis despite elevated vacancy rates. Meanwhile, the region has struggled to attract new demand drivers as the traditional tenant base–namely the federal government, government contractors and law firms–has undergone a steady trend of consolidation and densification. While current tenant preferences mean these new properties are unlikely to have much trouble leasing up, the additional space added to the market with little new demand means the region's vacancy rate will likely remain elevated for the next several years, as commodity Class A space continues to struggle to attract tenants.

Payroll Job Change – Largest Metro Areas

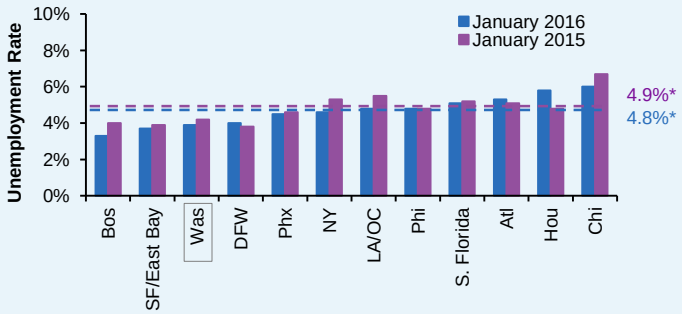
12 Months Ending January 2017



Source: U.S. Bureau of Labor Statistics, NGKF Research; March 2017

Unemployment Rate

Largest U.S. Metro Areas | January 2015 vs. January 2016



*National unemployment rate is seasonally-adjusted
Source: U.S. Bureau of Labor Statistics, NGKF Research; March 2017

No Trump Bump for Office Market—So Far

Since President Donald Trump took office in January 2017, the world's attention has been focused on Washington, as many wonder what effect President Trump and his administration's policies will have on both the United States and the world. However, when it comes to the Washington metro area's office market, history has shown that political control of the federal establishment has had little direct impact on office demand. The Trump administration's policies, like those of prior administrations, are likely to have a modest impact on the office market. For more information on the reasons behind this dichotomy, please see our 2016 white paper *Political Control*. In short, exogenous events such as recessions and terrorism have a much stronger relationship to office absorption in the Washington area than does party control of the White House and Congress. *Correlation* between party control and absorption is often confused for *causation*.

With that analysis as background, there appears to be no consensus coming from industry leaders and local market analysts on what impact the president's proposed budget would have on the Washington office market. Trump's proposed budget, including its major cuts to the federal workforce is just that—proposed—and it is unlikely to gain approval from Congress without significant revisions. For those agencies that are scaled down, much of their work will likely be outsourced to the private sector, leading to increased office demand from government contractors. Additionally, proposed increases in defense and homeland security spending would benefit not just Northern Virginia and its contractor community but portions of the District as well. By the time Congress passes spending authorization bills, the likely result will be a limited negative impact to the region overall, but with some submarket winners and losers.

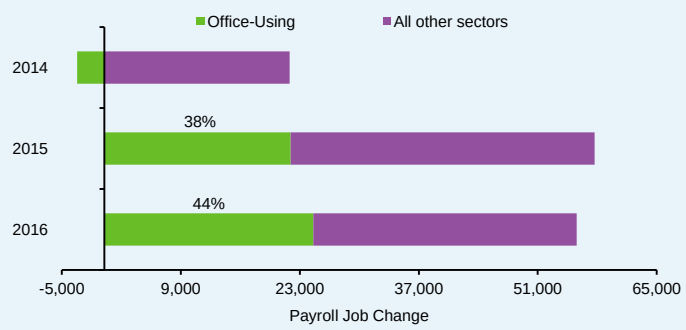
BY THE TIME CONGRESS PASSES SPENDING AUTHORIZATION BILLS, THE LIKELY RESULT WILL BE A LIMITED NEGATIVE IMPACT TO THE REGION OVERALL, BUT WITH SOME SUBMARKET WINNERS AND LOSERS

Fed Votes to Raise Interest Rate at March Meeting

As was widely expected, the Federal Reserve voted to raise the federal funds rate by 25 basis points at its mid-March meeting. A strong February U.S. jobs report provided the push the Fed needed to go ahead with the rate increase. The federal funds rate remained near zero for several years following the Great Recession and protracted recovery; prior to its most recent increase, the rate was last raised in December 2016 and December 2015. This most recent rate hike begins what is expected to be a series of more rapid rate increases over the next few years. The rate increase will likely help to ward off inflation but will also make it more expensive to borrow, potentially dampening further economic expansion. For the commercial real estate industry, further rate increases are a potential concern, as higher rates could impact investment sales volume, cap rates, and borrowing and development velocity.

Payroll Job Change

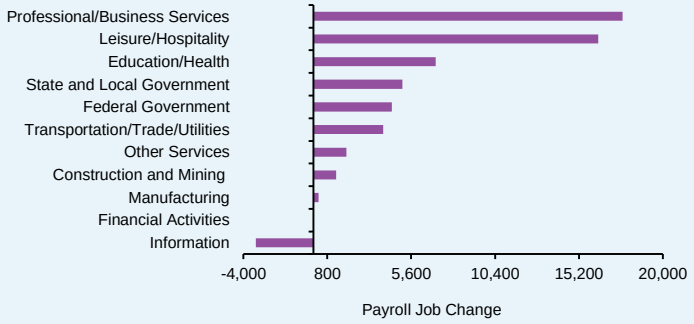
Washington Metro Area | 2014 vs. 2015 vs. 2016 Annual Averages



Source: U.S. Bureau of Labor Statistics, NGKF Research; March 2017

Job Change by Industry

Washington Metro Area | 12 Months Ending January 2017



Source: U.S. Bureau of Labor Statistics, NGKF Research; March 2017

DEMAND REMAINS POSITIVE ACROSS REGION AS OFFICE MARKET TIGHTENS

The Washington area's office market tightened in the first quarter of 2017, with absorption positive in all three sub-state areas and rents and occupancy ticking up. Net absorption for the metro area totaled 1.1 million square feet, already matching the total for all of 2016. As has been the case for the past several years, demand was strongest in the District of Columbia, which registered 623,224 square feet of absorption during the first quarter. Suburban Maryland also had a strong start to 2017, registering 442,780 square feet of absorption, its highest quarterly absorption total in nearly three years. Demand in Northern Virginia was essentially flat for the first quarter, as the market registered 7,880 square feet of absorption. For the first time in more than five years, there were no construction completions in the region during the quarter, although one building, 900 19th Street NW, completed its renovation. With strong absorption and no new construction added to inventory, the region's vacancy rate ticked down 40 basis points from year-end 2016 to register 16.1%. Average weighted asking rents registered $36.89/SF as of the first quarter, an increase of 3.4% over the past year. This increase is largely attributable to two factors: (1) the higher asking rents from several new projects coming online over the past year; and (2) the uptick in demand over the past few quarters.

Class A Demand Continues to Grow

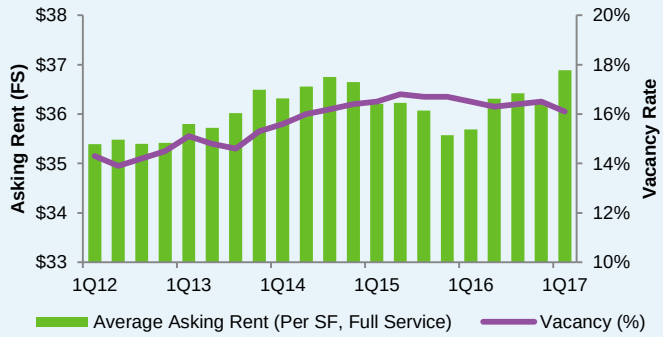
The Class A market continued to see significant net new demand during the first quarter of 2017, registering 1.0 million square feet of absorption. As a result of the strong demand, the region's Class A vacancy rate has declined 50 basis points over the past year to 16.1%. With the uptick in demand and the 1.7 million square feet of new space delivered over the past year, asking rents for Class A space metro-wide have risen 3.3% since the first quarter of 2016, to $41.09/SF. Across all substate areas, trophy and "Class A-plus" office space has significantly outperformed commodity Class A space. Metro area tenants' preference for high-quality space was evident during the first quarter, as Class A absorption topped 1.0 square feet, while Class B space registered only 226,093 square feet of absorption and Class C space returned 168,152 square feet of space to the market.

Current Conditions

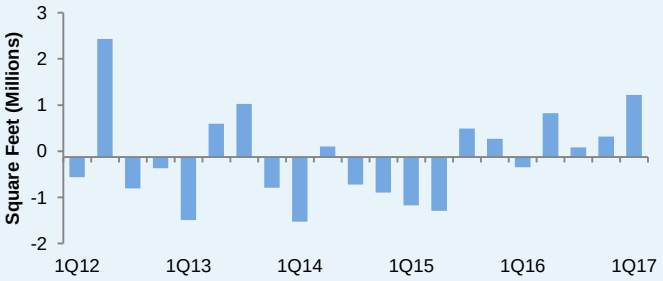
- Net absorption registered 1.1 million square feet during the first quarter, already matching the total for all of 2016.
- Positive demand and lack of construction deliveries during the first quarter allowed the metro area's vacancy rate to decline 40 basis points over the quarter to 16.1%. Overall asking rents have risen 3.4% over the past year.
- Class A market continues to see strong demand with 1.0 million square feet of absorption during the first quarter.

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	363.0 M	363.5 M	362.5 M	↑
Vacancy Rate	16.1%	16.5%	16.5%	↑
Quarterly Net Absorption (SF)	1.1 M	352,196	-179,908	↓
Average Asking Rent (Per SF, Full Service)	$36.89	$36.24	$35.69	↑
Under Construction (SF)	7.5 M	7.1 M	5.8 M	↓
YTD Deliveries (SF)	0	739,827	398,623	↑

WASHINGTON METROPOLITAN AREA
1Q17 ECONOMY AND OFFICE MARKET OUTLOOK

Washington Area Economic Outlook

Washington's regional economy has continued to expand in early 2017, even as an unpredictable presidential administration has taken office and the current economic cycle has reached its eighth consecutive year of growth. We predict that growth will continue but at a decelerating rate compared with the 2010-2016 recovery from the Great Recession. The consensus of both national and regional economists is that the next significant economic downturn will take place in 2018 or 2019. With that prediction in mind, 2017 should remain a time of consistent economic growth in the Washington metro area. In consultation with Dr. Stephen Fuller of George Mason University, NGKF forecasts job growth to slightly outpace the long-term average of 44,200 jobs (dating back to 1997). In the five-year period between 2017 and 2021, we expect the region to add an annual average of 45,500 payroll jobs, with Northern Virginia hosting the greatest share of new jobs in the region.

Office Market Outlook

The market faces several headwinds to demand and absorption:

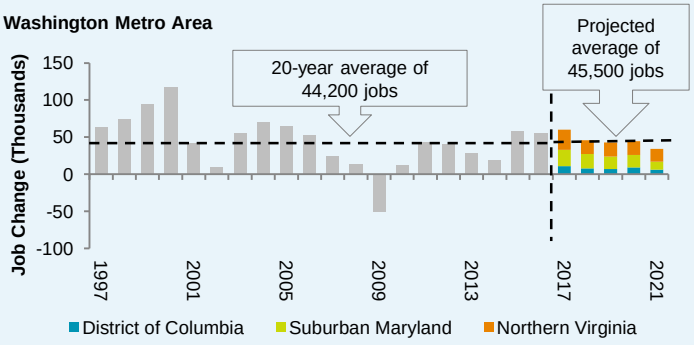
- Despite vacancy rates that remain stubbornly elevated, developers continue to build new assets in Northern Virginia and the District. While catering to the demand for highly amenitized, transit-oriented space, these properties may need to use higher concessions to attract tenants. This also has the potential to place downward pressure on commodity Class A rents, as those properties struggle to compete in an environment of limited demand.
- While the densification trend appears to have peaked, it is not yet over, as many tenants currently in the market for office space are seeking a smaller footprint than they now occupy.
- President Trump's proposed budget includes cuts to the local federal workforce that could total 15,000 to 24,000 jobs. As the federal government is estimated to occupy nearly one-third of the District of Columbia's privately owned, leased office space, these changes, if implemented, would add a significant amount of vacant space to the region's office market.

However, the market is experiencing or will experience some tailwinds:

- Trump's proposed budget, including its major cuts to the federal workforce, is just that—proposed—and it is unlikely to gain approval from Congress without significant revisions. For those agencies that are scaled down, much of that work will likely be outsourced to the private sector, leading to increased office demand from government contractors.
- Millennials, a significant component of the Washington-area population, are encouraging growth in coworking spaces. In 2016, coworking leases contributed 15% of the region's net absorption, helping to offset occupancy losses from law firms and government agencies.
- Washington-area job growth among office-using sectors was strong in 2015 and 2016, with those sectors adding between 35% and 45% of the region's jobs. Strong growth in these sectors, particularly professional and business services, is expected to continue and will eventually translate into more demand for office space.

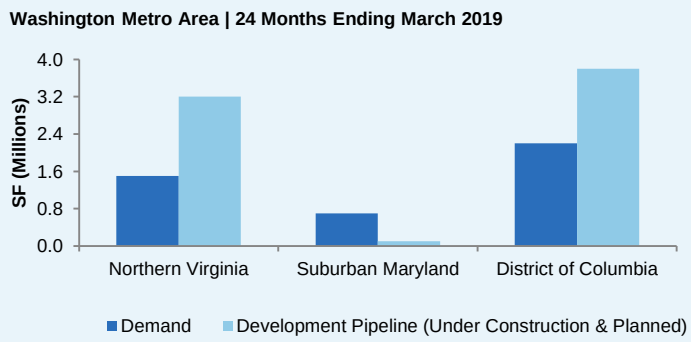
For additional information on the District of Columbia, Suburban Maryland and Northern Virginia office markets, please visit NGKF's website: Washington, DC Market Reports.

Payroll Job Growth Forecast



Source: Dr. Stephen Fuller, U.S. Bureau of Labor Statistics, NGKF Research; March 2017

Supply/Demand Forecast



Source: NGKF Research; March 2017

STRONG ABSORPTION PLUS AN UPTICK IN OCCUPANCY AND RENTS FOR THE DISTRICT OF COLUMBIA

Absorption was positive in the District of Columbia in the first quarter of 2017, supported by two large move-ins by Venable and the Department of Justice, whose combined footprint accounted for a total of 586,869 square feet. Vacancy declined by 40 basis points from the prior quarter, aided by a lack of deliveries. The quarter ended with net absorption totaling 623,224 square feet, a jump compared with the first quarter of 2016, when the District recorded only 291,162 square feet of net absorption. Asking rental rates rose by 3.2% over the past year to $53.51/SF, with most gains attributable to Class A assets. Despite this, Class A vacancies will remain elevated, as redevelopment, renovation and new construction of office space continue at robust levels.

Foreign Investment Continues to Drive Sales Activity

Since January, six major office properties traded hands in the District of Columbia for a total of $948.3 million. Foreign buyers remain interested in District assets. For example, Singapore's sovereign wealth fund, GIC, purchased One, Two & Three Lafayette Centre in the CBD submarket for $415 million, or $526/SF, from Beacon Capital Partners. The acquisition represented the largest transaction for the quarter and traded at a 5.5% cap rate. In an effort to consolidate, the GSA sold the GSA Cotton Annex at 300 12th Street SW in the Southwest submarket for $30.3 million, or $381/SF, to Douglas Development.

District of Columbia Outlook

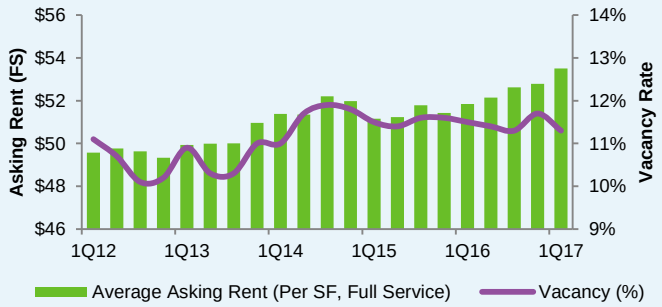
The District of Columbia's office market will remain in the tenant's favor over the next 24 months due in large part to an elevated level of deliveries. Absorption is expected to remain in the 1.0 to 1.2 million square feet per annum range, while deliveries (excluding renovations) are expected to total 3.8 million square feet over the next 24 months. During this period, we expect property owners to offer robust concessions, free rent periods and flexible lease rates to fill space. Notwithstanding the competitive nature of the office leasing market in general, well-located trophy and renovated Class B properties will continue to outperform the market.

Metro Area Market Summary

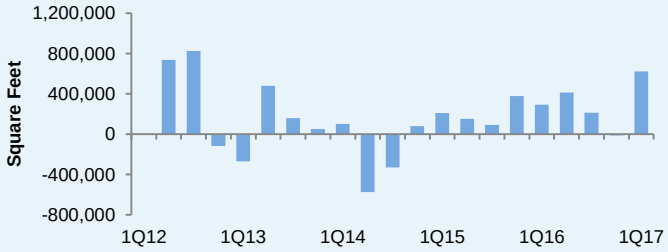
- The District of Columbia began 2017 with 623,224 square feet of net absorption and an overall vacancy rate of 11.3%, down 40 basis points from the previous quarter.
- The Class A market posted strong quarterly absorption of 504,079 square feet, but its vacancy rate of 12.4% is still elevated compared with the Class B rate of 9.6%.
- Investment sales activity registered $948.3 million in first-quarter 2017

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	124.4 M	124.0 M	↑
Vacancy Rate	11.3%	11.7%	11.5%	↑
Quarterly Net Absorption (SF)	623,224	-13,373	291,162	↓
Average Asking Rent (Per SF, Full Service)	$53.51	$52.79	$51.84	↔
Under Construction (SF)	4.2 M	4.2 M	3.1 M	↔
Deliveries (SF)	0	739,827	263,623	↑

INVESTMENT SALES ECLIPSE $1 BILLION FOR THE FIRST QUARTER OF 2017

The Northern Virginia office market began 2017 on a strong note, buoyed by several large investment sales and significant lease deals signed in the first quarter. Overall, absorption for the quarter was a modest 7,800 square feet, but that marked a significant improvement from the first quarter of 2016, when absorption was negative 301,301 square feet. Northern Virginia ended the quarter with an overall office vacancy rate of 19.6%, in line with the vacancy rates of both last quarter and one year ago.

Asking rents rose slightly during the first quarter of 2017, to $31.67/SF from last quarter's $31.41/SF. Asking rents are still facing downward pressure, however, as the market remains in tenant's favor due to elevated vacancy and a substantial development pipeline. Currently, there is 3.2 million square feet of office space under development in Northern Virginia, an increase of 400,000 square feet since last quarter. Even more projects are further back in the development pipeline, as Fairfax County in particular has approved over 40 million square feet of new development in Tysons alone.

The first quarter of 2017 saw no deliveries of new office product in Northern Virginia. This is consistent with the recent trend of modest deliveries – with only one 182,000-square-foot project delivering last quarter and no completions during the first quarter of 2016. This has helped the market to stabilize, which is especially important in advance of the 2 million square feet of new office space expected to deliver between the second and fourth quarters of 2017. Even when taking into account stabilizing fundamentals, 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 for properties with strong amenities and access to transit.

Northern Virginia Outlook

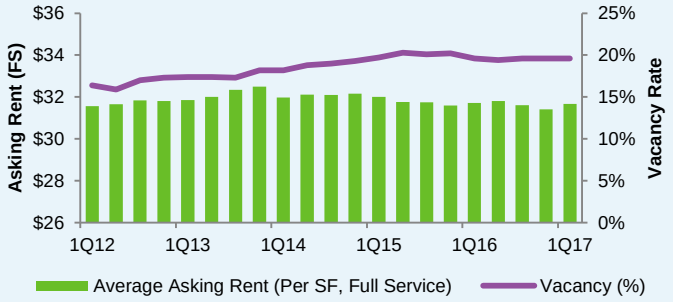
A material uptick in investment sales and large leases executed this quarter are good signs for the Northern Virginia office market. Absorption in Northern Virginia during the first quarter of 2017 was slightly positive, with the year overall expected to end with positive absorption. Northern Virginia's office market remains tenant-favored, but 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, commodity Class A space located in submarkets that do not offer convenient transit access or walkable environments will continue to struggle to attract tenants.

Metro Area Market Summary

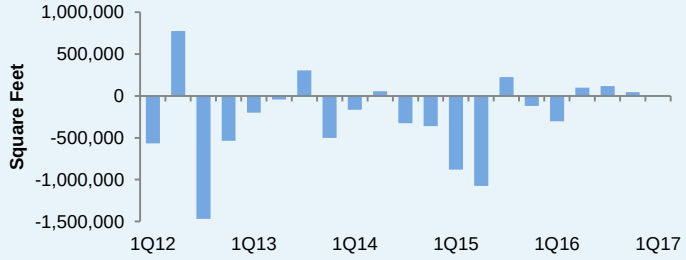
- Through the end of the first quarter of 2017, investment sales in Northern Virginia totaled more than $1.1 billion.
- Nestle USA has decided to move its headquarters to Rosslyn, signing a 205,000 square foot lease at 1812 N Moore Street.
- 7 buildings in Northern Virginia are set to deliver by the end of 2017, adding more than 2 million square feet of Class A office inventory to the market.

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	163.9 M	164.2 M	163.7 M	↑
Vacancy Rate	19.6%	19.6%	19.6%	↑
Quarterly Net Absorption (SF)	7,880	46,086	-301,301	↑
Average Asking Rent (Per SF, Full Service)	$31.67	$31.41	$31.72	↔
Under Construction (SF)	3.2 M	2.8 M	2.6 M	↓
Deliveries (SF)	0	182,000	0	↑

SUBURBAN MARYLAND OFFICE MARKET OCCUPANCY AND ABSORPTION UP

Suburban Maryland's office market began 2017 with strong demand and declining vacancy. Net absorption registered 442,780 square feet during the first quarter, bolstered by tech education firm 2U Inc.'s 252,952 square foot headquarters relocation to Lanham from Landover. The overall vacancy rate was 16.6%, down 70 basis points from the prior quarter and 110 basis points from a year ago. However, overall asking rent remained essentially flat during the quarter at $26.63/SF.

Tech Firm 2U Inc.'s Headquarters Relocation Boosts Absorption

2U Inc. relocated its headquarters to 7900 Harkins Road in Lanham, where it is proximate to public transportation, including the New Carrollton Metrorail, Amtrak and Greyhound stations. The company now occupies 252,952 square feet, up from its original lease of 68,000 square feet at 8201 Corporate Drive. The company's footprint increased by 184,952 square feet. The tech firm, which partners with universities to create leading online degree programs, is in expansion mode, growing its workforce by more than 900 employees between 2010 and 2015. In conjunction with this growth, 2U expects to add 900 jobs to the employment base of Prince George's County over the next five years.

Suburban Maryland Outlook

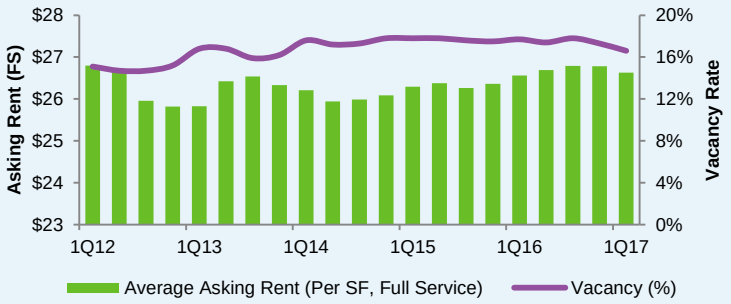
The limited supply pipeline in Suburban Maryland will allow vacancies to compress, as no deliveries are expected until 2018, with the completion of 5801 University Research Court in College Park. Oversupply is not a concern in the near term. Mr. Trump's promise to repeal the Affordable Care Act could have a significant effect on healthcare-related agencies located in Suburban Maryland. 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 may not lead directly 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. The federal government decided in March to postpone the FBI's relocation and has not provided a timeline as to when the agency's move will take place.

Metro Area Market Summary

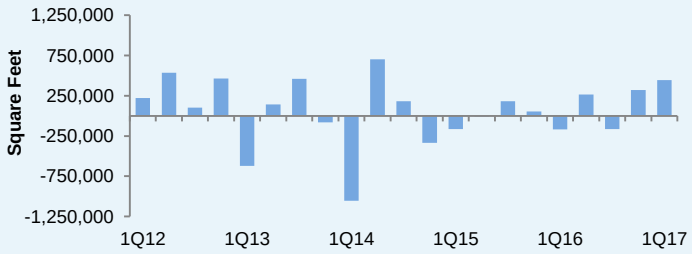
- 2U Inc.'s headquarters relocation boosts Suburban Maryland's net absorption by 184,952 square feet
- Class A fundamentals positive, with 409,358 square feet of absorption
- Limited pipeline allows for vacancy compression, with the first quarter vacancy rate declining to 16.6%

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	74.7 M	74.8 M	74.8 M	↔
Vacancy Rate	16.6%	17.3%	17.7%	↓
Quarterly Net Absorption (SF)	442,780	319,483	-169,769	↓
Average Asking Rent (Per SF, Full Service)	$26.63	$26.78	$26.56	↔
Under Construction (SF)	75,000	0	103,550	↔
Deliveries (SF)	0	0	135,000	↑

Sub-state Statistics – Vacancy & Absorption

	Total Inventory (SF)	Direct Vacancy Rate	Total Vacancy Rate	2014 Absorption (SF)	2015 Absorption (SF)	2016 Absorption (SF)	1Q 2017 Absorption (SF)	YTD 2017 Absorption (SF)
DC - District of Columbia	124,395,488	10.8%	11.3%	-731,779	824,602	903,948	623,224	623,224
MD - Maryland – Suburban	74,713,005	16.1%	16.6%	-506,293	62,521	248,031	442,780	442,780
VA - Virginia – Northern	163,889,680	19.0%	19.6%	-787,728	-1,852,657	-54,014	7,880	7,880
Washington Metro Area	**362,998,173**	**15.6%**	**16.1%**	**-2,025,800**	**-965,534**	**1,097,965**	**1,073,884**	**1,073,884**

	Total Inventory (SF)	Direct Vacancy Rate	Total Vacancy Rate	2014 Absorption (SF)	2015 Absorption (SF)	2016 Absorption (SF)	1Q 2017 Absorption (SF)	YTD 2017 Absorption (SF)
Class A	213,164,966	15.5%	16.1%	229,875	-949,166	993,535	1,015,943	1,015,943
Class B	110,630,965	15.9%	16.4%	-2,036,847	61,584	527,534	226,093	226,093
Class C	39,202,242	15.2%	15.5%	-218,828	-77,952	-423,104	-168,152	-168,152
Washington Metro Area	**362,998,173**	**15.6%**	**16.1%**	**-2,025,800**	**-965,534**	**1,097,965**	**1,073,884**	**1,073,884**

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)	1Q 2017 Deliveries (SF)	2016 Deliveries (SF)	Under Construction (SF)
DC - District of Columbia	124,395,488	$57.81	$46.53	$53.51	0	1,203,450	4,239,299
MD - Maryland – Suburban	74,713,005	$28.30	$25.46	$26.63	0	238,550	75,000
VA - Virginia – Northern	163,889,680	$34.10	$29.42	$31.67	0	745,000	3,212,261
Washington Metro Area	**362,998,173**	**$41.09**	**$32.87**	**$36.89**	**0**	**2,187,000**	**7,526,560**

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2017 Deliveries (SF)	2016 Deliveries (SF)	Under Construction (SF)
Class A	213,164,966	$41.09	NA	$41.09	0	1,922,652	7,526,560
Class B	110,630,965	NA	$32.87	$32.87	0	239,348	0
Class C	39,202,242	NA	NA	$29.29	0	25,000	0
Washington Metro Area	**362,998,173**	**$41.09**	**$32.87**	**$36.89**	**0**	**2,187,000**	**7,526,560**

Note: Asking rents are quoted on a full service basis.

1Q17 OFFICE INVESTMENT SALES VOLUME EXCEEDS PRIOR TWO YEARS' 1Q TOTALS

The Washington region registered $2.1 billion in sales transaction volume during the first quarter of 2017 through mid-March. This is ahead of the pace of volume in 2015 and 2016; in the first quarters of those years, sales volume totaled $1.7 billion and $1.5 billion, respectively. Sales activity in 2017 has so far been focused in the District of Columbia and Northern Virginia, with no transactions larger than $20 million taking place in Suburban Maryland. Northern Virginia led the region in sales volume with $1.2 billion and the District was close behind with $948 million.

Despite Common Assumptions, Interest Rate Hike Does Not Necessarily Foreshadow Higher Cap Rates or a Decline in Property Values

It is commonly assumed that when interest rates rise, so must capitalization rates, which can then translate into lower property values. However, new research from TH Real Estate—TIAA Global Asset Management's research division—found that there is a statistically insignificant correlation between 10-year treasury yields and growth in property values during periods of rising interest rates. During the two most recent periods of rate hikes, in the late 1990s and early 2000s, total returns averaged between 11% and 16%. In short, the relationship between interest rates and property values is complex, but if interest rates are rising as a result of strong economic growth—as is the case in the current climate—real estate demand tends to increase at a similar rate.

Office Investment Sales Outlook

Expect Washington-area investment sales to decrease slightly from their current pace of volume and pricing through the rest of 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 pricing has likely peaked for this cycle.
2. Commercial real estate represents a superior alternative to other forms of available investments, but additional interest rate increases will likely give some buyers pause.
3. Foreign investors continue to target Washington, although political forces like President Trump's attempted travel ban may dampen the pace and volume of foreign investment.

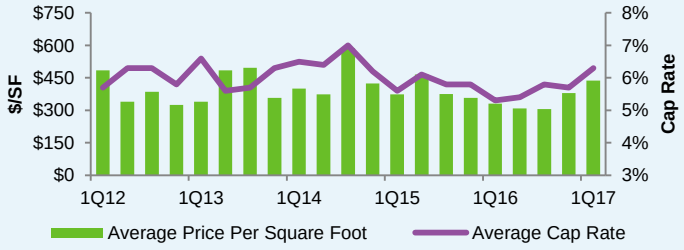
Metro Area Market Summary

	Metro Region
1Q 2017 Transaction Volume*	$2.1 B
1Q 2016 Transaction Volume*	$1.5 B
1Q 2017 Average Price PSF*	$437
1Q 2017 Average Cap Rate*	6.30%
NCREIF Office Total Return (12 mos. ending 12/16)	4.10%

*Through mid-March
Source: Real Capital Analytics, NCREIF, NGKF Research; as of March 16, 2017

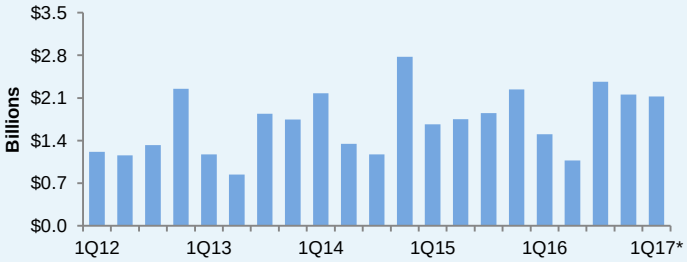
Market Analysis

Average Cap Rate and Price Per Square Foot
Office Sales



Source: Real Capital Analytics, NGKF Research; as of March 16, 2017

Quarterly Transaction Volume
Office Sales



*1Q17 through mid-March
Source: Real Capital Analytics, NGKF Research

Major 1Q17 Sales Transactions

Address	Sale Price	Price/SF	Sub-state
1919 N Lynn Street	$460 M	$726	Northern Virginia
1, 2 & 3 Lafayette Centre	$415 M	$526	District of Columbia
2521 S. Clark Street and 2530 Crystal Drive	$350 M	$385	Northern Virginia
8251-8285 Greensboro Drive	$230 M	$295	Northern Virginia
64 New York Avenue NE	$187 M	$527	District of Columbia

WASHINGTON, DC
1899 Pennsylvania Avenue NW
Suite 300
Washington, DC 20006
202.331.7000

TYSONS
1410 Spring Hill Road
Suite 600
McLean, VA 22102
703.448.2000

Gregory H. Leisch, CRE
Senior Managing Director
202.312.5745
gleisch@ngkf.com

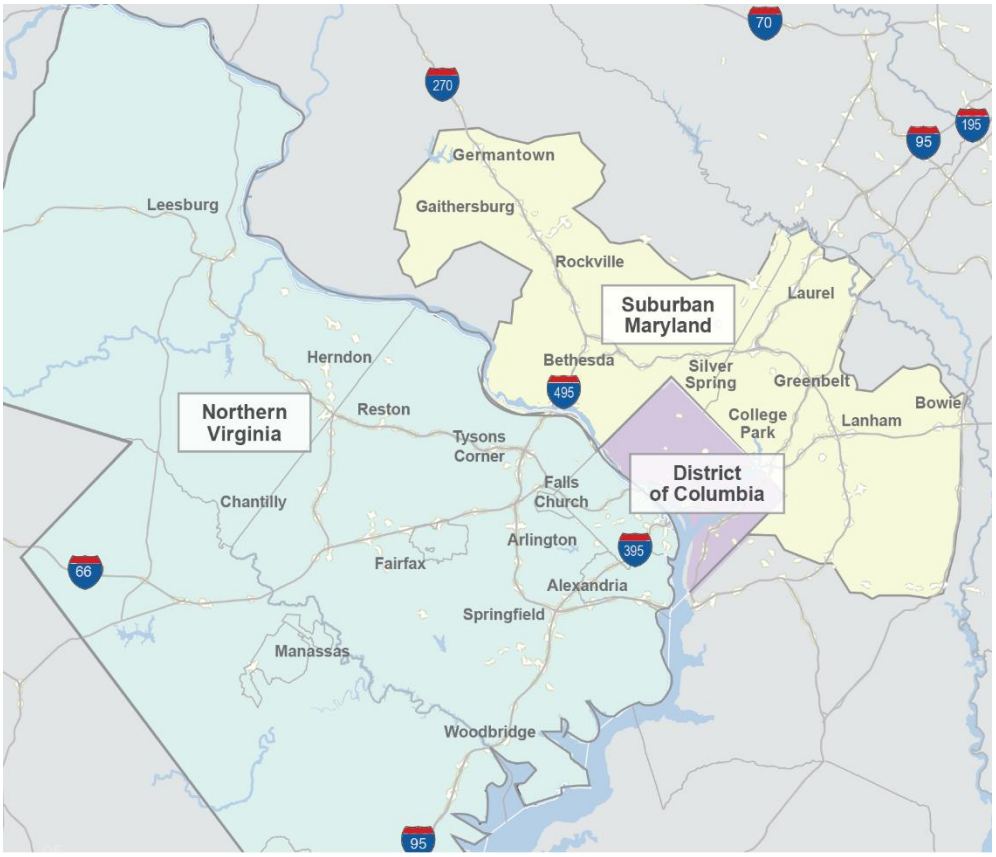
Alexander (Sandy) Paul, CRE
Managing Director
202.312.5783
apaul@ngkf.com

Bethany Schneider
Research Manager
202.664.5898
bschneider@ngkf.com

Natasha Flores
Senior Research Analyst
202.664.5902
natasha.flores@ngkf.com

Alex Shirokow-Louden
Research Analyst
202.312.5763
alex.shirokow-louden@ngkf.com

Washington Metro Area



Note: Major jurisdictions are labeled to provide orientation. This is not an exhaustive list of all covered submarkets. For detailed submarket maps for Northern Virginia, Suburban Maryland and the District of Columbia, please see each area's office market report.

Newmark Grubb Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.

Newmark Grubb Knight Frank Research Reports are also available at **www.ngkf.com/research**

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark Grubb Knight Frank (NGKF) has not verified any such information, and the same constitutes the statements and representations only of the source thereof, and not of NGKF. Any recipient of this publication should independently verify such information and all other information that may be material to any decision that recipient may make in response to this publication, and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial, and tax aspects and implications.

Any recipient of this publication may not, without the prior written approval of NGKF, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains.

Please recycle,
whenever possible
Sustainably
Newmark Grubb Knight Frank