

WASHINGTON METRO AREA ECONOMY AND OFFICE MARKET

REGIONAL OFFICE MARKET AND ECONOMY MAINTAIN STURDY GROWTH

The Washington metro area sustained its pace of growth through the second quarter while office metrics continued to improve. For the 12 months ending in May, the region added 41,300 jobs, down slightly from the 2017 annual average of 50,900 jobs per annum but on par with the metro area's 20-year average growth of 43,300 jobs per annum. The Washington Leading and Coincident indices maintained their positive trajectory, indicating the current pace of economic growth is likely to continue through 2019.

After a banner first quarter performance, demand in the Washington area's office market moderated during the second quarter with a total of 440,765 square feet of net absorption, a performance similar to that of one year ago. The region experienced positive absorption across all three substate areas for a fourth consecutive quarter. The Washington area's overall vacancy rate declined 30 basis points from one year ago to 16.2% but edged up 50 basis points from the prior quarter, largely as a result of five office deliveries in the District.

Weighted average asking rents increased 1.3% over the past 12 months to \$38.11/SF. This is largely a result of the outsized impact of new, core product and renovated assets being delivered to the market. The market remains tenant-favored, as significant concession packages continue to exert downward pressure on effective rents.

The Washington region registered \$6.2 billion in office sales transaction volume for the 12 months ending in the second quarter of 2018. Transaction volume is down from 12-month totals at the second quarter of 2017, when volume measured \$8.6 billion. This is partly a result of the limited inventory available for trade. Still, pricing remains high, as transactions across the metro area averaged \$326/SF over the past 12 months, on par with pricing over the prior year. Meanwhile, region-wide cap rates averaged 6.3% over the past 12 months.

CAPITAL MARKETS

Office Investment Sales Volume and Price/SF 12 Months Ending 2Q 2018



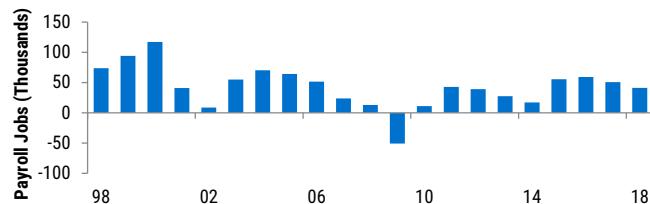
Source: Real Capital Analytics, NKF Research

ECONOMY

- Historical Job Change:** 41,300 jobs were added in the 12 months ending May 2018, versus 43,300 per annum for the past 20 years.
- Projected Job Growth:** NKF forecasts an average increase of 35,300 jobs per annum from 2018 through 2022.
- Unemployment Rate:** 3.1% in April 2018, down 30 basis points from April 2017.

Source: Dr. Stephen Fuller, Bureau of Labor Statistics, NKF Research; June 2018

Washington Metro Payroll Job Change

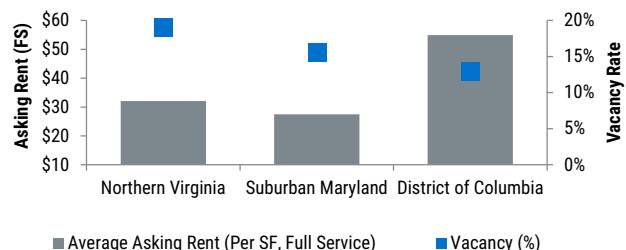


Note: Totals reflect annual average net change, except 2018, which reflects change for the 12 months ending May 2018

Source: Bureau of Labor Statistics, NKF Research; June 2018

MARKET ANALYSIS

Asking Rent and Vacancy Rate



MARKET SUMMARY

	District of Columbia	Northern Virginia	Suburban Maryland	Metro Region
Total Inventory (SF)	127.1 M	164.2 M	74.5 M	365.7 M
Vacancy Rate	12.9%	19.0%	15.5%	16.2%
Quarterly Net Absorption (SF)	151,778	40,961	248,026	440,765
Average Asking Rent (Per SF, Full Service)	\$54.92	\$32.08	\$27.48	\$38.11
Under Construction (SF)	4.0 M	1.7 M	1.5 M	7.2 M
YTD Deliveries (SF)	2.2 M	175,800	0	2.3 M

REGIONAL ECONOMY GROWING LESS RELIANT ON FEDERAL GOVERNMENT

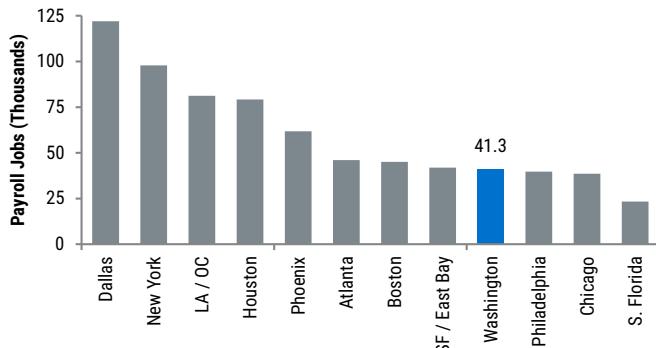
The Washington area's moderated rate of job growth is not unique to this region, as growth has begun to moderate across most major metro areas. However, the region's unemployment rate reflects a robust regional economy: At 3.1% in April 2018, it was down 30 basis points from 12 months ago and 80 basis points lower than the national (seasonally adjusted) unemployment rate of 3.9% at April 2018. The region's largest employment sector, at 23.0% of the region's total employment, is Professional and Business Services (PBS). This sector added 15,800 jobs in the 12 months ending May 2018, or 38.3% of the total jobs added. Jobs in the PBS sector tend to be high-paying and use office space, which bodes well for the continued improvement of the region's office market. As the regional economy grows more diverse and less dependent on federal spending, the government's effect on the region's office market remains important but less dominant. It is a steady influence rather than a driving influence.

COWORKING A GROWING PRESENCE IN REGION

During the past 10 years, coworking companies have gained in popularity, as they have been increasingly successful at transforming the traditional corporate office environment into a collaborative community. As demand for coworking space has grown, the number of providers has increased. From 2008 to 2012, 391,290 square feet of office space was leased in the Washington metro area by today's larger coworking providers, those defined as having a minimum of four locations and occupying more than 100,000 square feet of space. That number jumped to 1.4 million square feet of office space leased from 2013 to the second quarter of 2018. The sharp growth of coworking spaces demonstrates the current appeal of such concepts. As a result, owners of office properties are increasingly courting coworking providers as tenants. This has the added bonus of boosting occupancy rates in their buildings. However, owners who court coworking tenants should exercise caution, as demand for coworking has not been tested in the face of a national recession, and the sharp rate of growth these firms have undergone may be unsustainable. The District of Columbia has seen the most activity from coworking tenants, but these concepts have been slowly expanding, first in Virginia and now Maryland.

PAYROLL JOB CHANGE – LARGEST METRO AREAS

12 Months Ending May 2018



Source: U.S. Bureau of Labor Statistics, NKF Research; June 2018

REGION STRONG CONTENDER FOR HQ2

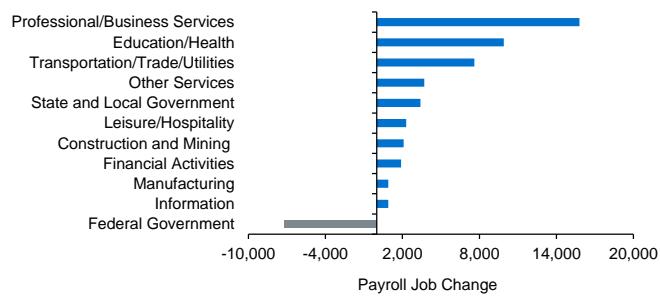
Last fall, Amazon announced plans to add a second North American headquarters. The Washington metro area submitted eight proposals—four in the District, one in Suburban Maryland and three in Northern Virginia. Amazon requires a minimum of 500,000 square feet of existing space in the near term for a move anticipated for 2019, with the potential to expand into 8.0 million square feet through 2027. The new headquarters would be a boost to Amazon's chosen jurisdiction, as it has pledged to add approximately 50,000 jobs, potentially spurring investment and driving activity to the chosen location.

The Washington metro region is considered to have many competitive advantages in Amazon's search for a second headquarters (dubbed HQ2), placing it among the top metro regions that are competing. This was reinforced in mid-January, when all three of the region's sub-state areas made Amazon's short list of 20 locations—making Washington the only metro area to house that many finalists. The region has a great deal of optimism about its chances of being selected. Northern Virginia in particular—with its land availability and growing tech sector, appears to have an excellent chance at winning the final bid. Investors seem to think so as well, with JBG Smith's stock rising nearly 16% over the past three months. The newly formed REIT has a site in Crystal City that Amazon is contemplating for its new corporate campus.

Amazon's search for a second headquarters has invigorated the region and has even inspired increased regional cooperation to lure the tech giant to the Washington area. One of the major challenges it faces is the unreliability of the Metro system. Fortunately for area residents, each of the substate areas pledged a contribution to the cumulative \$500 million in annual funding to assist with addressing the issues that plague the Metro system.

JOB CHANGE BY INDUSTRY

Washington Metro Area I 12 Months Ending May 2018



Source: U.S. Bureau of Labor Statistics, NKF Research; June 2018

WASHINGTON AREA DEMAND STURDY

The Washington area's office market experienced sturdy demand in the second quarter of 2018, as net absorption for the region totaled 440,765 square feet. Absorption was positive across all three substate areas for the fourth consecutive quarter. Suburban Maryland led the region with 248,026 square feet of absorption. The District closely followed with 151,778 square feet of absorption, followed by Northern Virginia with 40,961 square feet.

All but one of the six projects that completed this quarter were District-based. The District saw 2.1 million square feet of new construction deliver, in addition to the 518,684-square foot Alexander Court North renovation. One Fair Oaks at 4114 Legato Road in the Fairfax Center submarket delivered 175,800 square feet in Northern Virginia. Still, the Washington area has a significant development pipeline with 7.2 million square feet of new product under construction.

The region's overall vacancy rate declined 30 basis points from one year ago to 16.2% but edged up 50 basis points from the prior quarter, a result of new deliveries. Weighted average asking rents increased 1.3% over the past 12 months to \$38.11/SF. This is largely the result of the outsized impact of new, core product and renovated assets being delivered to the market. Effective rents, on the other hand, continue to be under downward pressure, as incentives—especially tenant improvement allowances—are generous.

CLASS A MARKET CONTINUES TO SEE STEADY GAINS

The Class A market experienced 1.0 million square feet of absorption in the second quarter, which equates to 33.6% of the Class A annual absorption registered in all of 2017. Tenant preference for new, quality space is evident. As a result of strong demand, the region's Class A vacancy rate declined 20 basis points from one year ago to 15.9%. Class A rents metro-wide increased by \$0.15/SF from last quarter and were up 0.5% over the year. Although these numbers point to a strong Class A market across the region, there are pockets where Class A assets are performing significantly better. Across all substate areas, trophy and Class A+ office space have continued to outperform commodity Class A space.

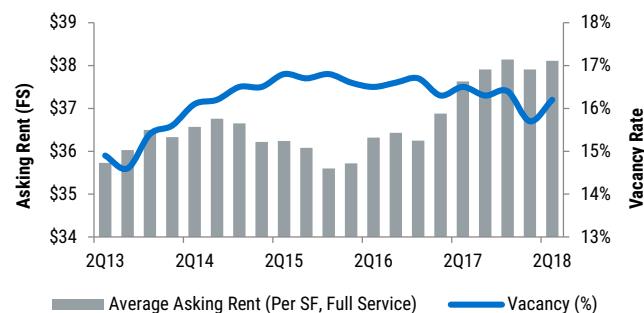
ABSORPTION WAS POSITIVE ACROSS ALL THREE SUBSTATE AREAS FOR THE FOURTH CONSECUTIVE QUARTER

CURRENT CONDITIONS

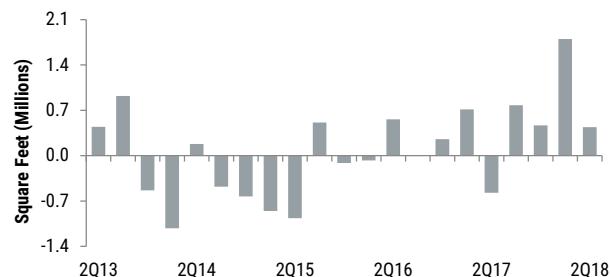
- The region absorbed 440,765 square feet during the second quarter, with positive absorption across all three substate areas.
- The Class A market recorded 1.0 million square feet of absorption during the second quarter.
- Asking rents have risen 1.3% over the past 12 months, reflecting the introduction of renovated and new product to the inventory.

MARKET ANALYSIS

Asking Rent and Vacancy Rate



Net Absorption



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	365.7 M	363.0 M	363.4 M	↑
Vacancy Rate	16.2%	15.7%	16.5%	↑
Quarterly Net Absorption (SF)	440,765	1.8 M	-572,737	↑
Average Asking Rent (Per SF, Full Service)	\$38.11	\$37.91	\$37.63	↑
Under Construction (SF)	7.2 M	8.9 M	8.3 M	↓
YTD Deliveries (SF)	2.2 M	100,000	73,500	↓

WASHINGTON AREA ECONOMIC OUTLOOK

Washington area job growth peaked at mid-year 2017, but growth has remained steady at the decelerated rate of 30,000 to 50,000 jobs per annum—plenty of jobs to support a healthy area economy. The Washington Leading Index continued its positive trajectory in the early months of 2018, suggesting that the regional economy still has room to run. Washington will likely continue to add jobs at a similar rate of growth over the next year, as the economic cycle enters its mature phase. In consultation with Dr. Stephen Fuller of George Mason University, Newmark Knight Frank forecasts job growth of 35,300 positions per annum over the five-year period from 2018 to 2022, slightly below the region's 20-year average of 43,300 jobs per annum.

OFFICE MARKET OUTLOOK

Over the next 12 months, the market faces several headwinds to demand and absorption:

- Discovery Communications announced in January that it will relocate its headquarters from Suburban Maryland to New York, leaving 545,000 square feet unoccupied in a multi-phased move scheduled across the next two years. Suburban Maryland could see a slight uptick in vacancy with Discovery's departure.
- Capital One will close up shop at several leased locations in the Arlington area, as it consolidates under its owned 975,000-square-foot headquarters in Tysons, which is expected to deliver in the third quarter of 2018. This will put downward pressure on occupancy in this area.
- Tenants maintain leverage in an already competitive office market, with some landlords offering sizeable concession packages to help backfill space. This puts downward pressure on commodity Class A effective rents, as those properties struggle to compete in an environment of limited demand. Quality Class B space, at a relative bargain price, will remain in high demand.
- Although the densification trend appears to have peaked, it is not yet over, and many new leases signed over the next several years will translate into smaller footprints than were previously occupied.

- Moderating regional job growth, issues of affordability and demographic shifts are seeing millennials less inclined to settle in the Washington metro area. The region is faced with persistent outmigration of this demographic cohort.

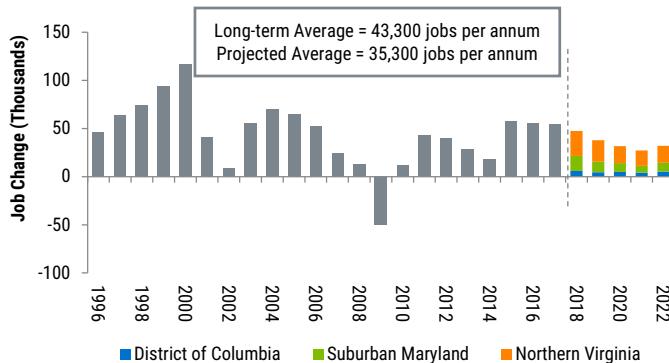
However, the market is experiencing or will experience some significant tailwinds:

- The new federal budget includes a significant uptick in defense spending. Increased activity among government contractors is likely to increase absorption and reduce vacancy in submarkets that have a high concentration of defense contractors, notably in Tysons, Reston and parts of Arlington. The District also stands to benefit, though to a lesser extent.
- Major tenants such as 2U Inc., Nestle and Amazon Web Services have recently either relocated to the area or expanded, particularly in Northern Virginia. In June, Bechtel Corp. announced plans to rebrand its headquarters from its San Francisco office to its existing leased space at 12011 Sunset Hills Road in Reston.
- On the heels of Amazon's HQ2 search, Apple announced that it was looking to create a new, four-million-square-foot corporate campus and in doing so create 20,000 jobs. Northern Virginia is a top contender.
- The Professional and Business Services sector has continued to represent an increasing share of job growth and will be the leading contributor to office demand in the region.
- President Trump set in motion the repeal of certain provisions of the Dodd Frank Act in order to induce economic activity through increased lending. The bill rewrite, signed into law by President Trump, will ease oversight on all banks excepting those with \$250 billion in assets. This may positively impact commercial real estate investment sales volume and borrowing and development velocity.

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

PAYROLL JOB GROWTH FORECAST

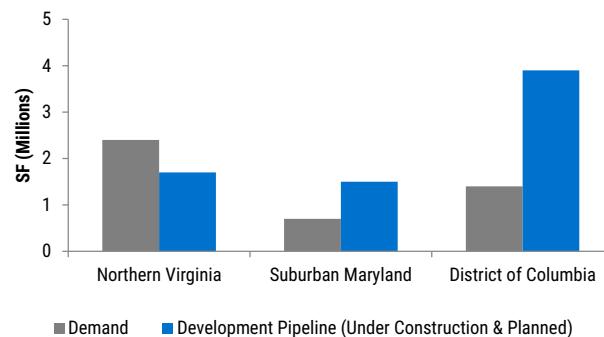
Washington Metro Area



Source: U.S. Bureau of Labor Statistics, Stephen S. Fuller Institute, NKF Research; June 2018

SUPPLY/DEMAND FORECAST

Washington Metro Area | 24 Months Ending June 2020



Source: Stephen S. Fuller Institute, NKF Research; June 2018

VACANCY EDGES UP WITH A SPIKE IN DELIVERIES

Although the District saw its absorption in the second quarter of 2018 mirror its first-quarter absorption, the vacancy rate rose 150 basis points in the second quarter to 12.9%, largely due to the delivery of five projects totaling 2.1 million square feet:

- 2112 Pennsylvania Avenue NW delivered 250,000 square feet to the CBD submarket and was 56.6% pre-leased at completion.
- The Wharf at 1000 Maine Avenue SW delivered 267,560 square feet to the Southwest submarket and was 60.3% pre-leased at completion.
- 99 M Street SE delivered 234,000 square feet to the Capitol Riverfront submarket and was 37.2% pre-leased at completion.
- Fannie Mae's HQ at Midtown Center (1100 15th Street NW) delivered 875,000 square feet to the CBD submarket and was 91.4% pre-leased at completion.
- Capitol Crossing at 200 Massachusetts Avenue NW delivered 425,420 square feet to the Capitol Hill submarket and was 18.0% pre-leased at completion.

In addition to these construction deliveries, Alexander Court North at 2000 L Street NW completed its renovation and delivered 518,684 square feet to the CBD submarket. It was 66.0% leased at completion.

The District of Columbia registered 151,778 square feet of net absorption in the second quarter of 2018, comparable to the 160,763 square feet absorbed in the first quarter. The CBD topped District submarkets with 837,279 square feet of absorption, supported by Fannie Mae's occupancy of its new corporate headquarters at the recently delivered Midtown Center. However, this absorption was negated by 862,461 square feet in occupancy losses in the Uptown submarket, facilitated by the move-outs at five former Fannie Mae locations. The Capitol Riverfront and East End submarkets recorded the second and third-highest absorption totals in the District, measuring 151,030 square feet and 87,365 square feet, respectively.

DISTRICT OF COLUMBIA OUTLOOK

The District of Columbia will continue to favor tenants for the next 24 months, largely because of a robust development pipeline—18 buildings are expected to deliver in this timeframe—and GSA consolidations. The District faces a supply-demand imbalance exacerbated by tenants that have locked in long-term leases to relocate as their current leases approach expiration. Despite rising asking rents, effective rents remain under downward pressure, as tenants are being offered sizable concession packages to incentivize a move or renewal. The flight-to-quality persists, as tenants are seeking well-located, highly amenitized space. Notwithstanding the competitive nature of the office leasing market in general, well-located trophy and cleaned up Class B properties have outperformed the market and will likely continue to do so. However, the amount of available and affordable Class B product is declining at premier locations. Commodity Class A space—generally buildings that delivered 10 to 15 years ago—are oversupplied; this share of the market is stressed.

CURRENT CONDITIONS

- The District of Columbia absorbed 151,778 square feet in the second quarter of 2018, supported by several tenant expansions.
- Five projects totaling 2.1 million square feet delivered during the second quarter—a ramp-up from 2017—when only 458,899 square feet came online during the entire year.
- The Class A market recorded 656,247 square feet of absorption in the second quarter as tenants continue their pursuit of quality space.

MARKET ANALYSIS

Asking Rent and Vacancy Rate



Net Absorption



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	127.1 M	124.4 M	124.9 M	↑
Vacancy Rate	12.9%	11.4%	11.6%	↑
Quarterly Net Absorption (SF)	151,778	160,763	12,346	↑
Average Asking Rent (Per SF, Full Service)	\$54.92	\$54.82	\$54.05	↑
Under Construction (SF)	4.0 M	6.0 M	4.8 M	↓
Deliveries (SF)	2.1 M	100,000	0	↓

RECORD ABSORPTION POSTED THROUGH MID-YEAR 2018

After posting record net absorption during the first quarter of 2018, Northern Virginia's office market continued its healthy performance through the second quarter:

- Net absorption measured 40,961 square feet, following up on the 1.3 million square feet recorded in the previous quarter—the largest quarterly total posted in Northern Virginia in eight years.
- For the second consecutive quarter, overall vacancy remained below the 20% range, measuring 19.0% at second-quarter 2018.
- Three buildings totaling 551,000 square feet began construction during the second quarter, with an average of 74.4% pre-leased at groundbreaking.
- Average asking rents measured \$32.08/SF in the second quarter. This is the first time rents have exceeded \$32/SF for four consecutive quarters since 2015.

As of second-quarter 2018, 1.7 million square feet of office space is under construction in Northern Virginia, excluding renovations and the 975,000-square-foot owner-occupied Capital One project in Tysons. This total represents an increase of more than 350,000 square feet from first-quarter 2018, as three buildings began construction during the second quarter.

NORTHERN VIRGINIA OUTLOOK

The 2017 Tax Cuts and Jobs Act along with increased defense spending may lead to government contractors and their respective subsidiaries headquartered or operating within Northern Virginia to increase their real estate footprints. Although Amazon made national headlines in 2017 after announcing its search for a second U.S. headquarters, Apple is also reportedly eyeing Northern Virginia as a potential second headquarters location.

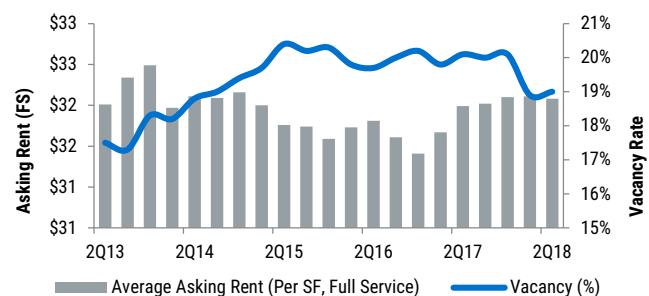
Through the first half of 2018, Northern Virginia's office market posted the highest mid-year absorption total in over 10 years, with overall vacancy measuring 19.0% and average asking rents remaining in the \$32/SF range for the fourth consecutive quarter—all signs that Northern Virginia's office market has continued its stout performance well into 2018. With over 1.7 million square feet of space currently under construction within the market, office deliveries within Northern Virginia will increase through the second half of 2018. Trophy space located in transit-oriented submarkets such as Tysons, the Rosslyn-Ballston Corridor and Reston will continue to command top-level rents over the next several quarters. Conditions in these submarkets will continue to tighten, as the available product evolves with the introduction of more mixed-use development.

CURRENT CONDITIONS

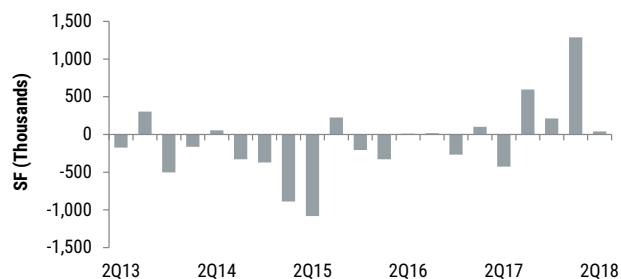
- Northern Virginia's construction pipeline grew to over 1.7 million square feet at second-quarter 2018.
- Multinational computing giant Apple announced in May its search for a second headquarters, with multiple Northern Virginia sites reportedly in consideration.
- 2311 Wilson Boulevard, a 175,800-square-foot building located within the Clarendon/Courthouse submarket, delivered during the second quarter of 2018.

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 MSF	164.1 MSF	163.9 MSF	↑
Vacancy Rate	19.0 %	18.9 %	20.1 %	↓
Quarterly Net Absorption (SF)	40,961	1.3 MSF	-426,929	↑
Average Asking Rent (Per SF, Full Service)	\$32.08	\$32.11	\$31.99	↑
Under Construction (SF)	1.7 MSF	1.3 MSF	3.3 MSF	↑
Deliveries (SF)	175,800	0	73,500	↑

SUBURBAN MARYLAND OFFICE MARKET CONDITIONS TIGHTEN

Suburban Maryland's office market saw strong demand and declining vacancy in the second quarter of 2018. Net absorption totaled 248,026 square feet during the second quarter, while the vacancy rate dropped 130 basis points from one year ago to 15.5%, the lowest figure since the fourth quarter of 2012. Asking rental rates rose 1.5% over the past year to \$27.48/SF. Class A fundamentals tightened as the market continues to show a preference for quality, with 188,274 square feet of absorption in the second quarter.

PROPOSED CHANGES TO DEVELOPMENT PROCESS

Montgomery County is preparing to streamline its development review process as it attempts to lure major office players to the region by becoming more business-friendly. The proposal would expedite the process from 120 days to 60 days for companies that commit to bringing 25,000 employees to the region. Montgomery County is among the 20 finalists for Amazon's second headquarters, and state officials have prepared a significant incentive package worth up to \$8.5 billion, with \$924.0 million in tax credits. Maryland has long lagged behind other local jurisdictions, and the amendment to the current review process would make the county more competitive with other regional finalists.

The amendment comes on the heels of news that Suburban Maryland is actively courting Apple, as the tech giant searches for its own new corporate campus. Apple invited the Montgomery County Economic Development Corporation to submit more information following discussions with county officials. With the announcement that Discovery Communications would be vacating its 545,000-square-foot Silver Spring headquarters, county officials maintained that they were in talks with major tech firms to fill their space in the market.

SUBURBAN MARYLAND OUTLOOK

Office fundamentals in Suburban Maryland are likely to keep improving in the short run, supported by a limited pipeline. However, construction will experience an uptick over the next several quarters, especially in transit-oriented submarkets such as Landover/Lanham/Largo and Bethesda, as several projects are expected to break ground in the next 12 to 24 months. Tenant preference for high-quality Class A office space may be met with as much as 1.9 million square feet of new ground breakings of Class A office space just in the Bethesda submarket. This level of new development will be transformational for the Suburban Maryland office market.

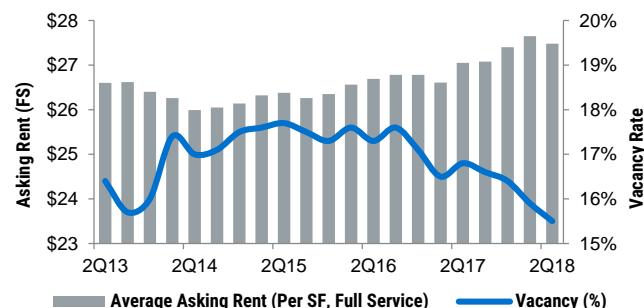
As developers continue to show confidence in the region, Maryland lawmakers are working to attract major office tenants through improved transportation infrastructure and new business-friendly legislation. Additionally, the 2017 Federal Tax Reform Act provides major benefits to REITs, which may spur increased real estate investment.

CURRENT CONDITIONS

- Suburban Maryland registered 248,026 square feet of absorption during the second quarter of 2018.
- The vacancy rate declined 130 basis points from one year ago to 15.5%—the lowest figure since the fourth quarter of 2012.
- Class A market conditions tightened, with 188,274 square feet of absorption and a vacancy rate of 16.1%, its lowest level since 2012.

MARKET ANALYSIS

Asking Rent and Vacancy Rate



Net Absorption



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory	74.5 MSF	74.5 MSF	74.5 MSF	↑
Vacancy Rate	15.5%	15.9%	16.8%	↓
Quarterly Net Absorption (SF)	248,026	350,575	-158,154	↔
Average Asking Rent (Per SF, Full Service)	\$27.48	\$27.65	\$27.05	↑
Under Construction (SF)	1.5 MSF	1.5 MSF	75,000 SF	↑
Deliveries (SF)	0	0	0	↑

SUBMARKET STATISTICS – VACANCY AND ABSORPTION

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2015 Absorption (SF)	2016 Absorption (SF)	2017 Absorption (SF)	2Q 2018 Absorption (SF)	YTD 2018 Absorption (SF)
Washington Metro Area	365,730,408	15.4%	16.2%	-1,421,185	845,325	1,472,000	440,765	2,241,157
District of Columbia	127,053,916	12.0%	12.9%	468,789	1,221,885	515,345	151,778	312,541
Suburban Maryland	74,452,843	15.0%	15.5%	62,309	202,902	389,758	248,026	598,601
Northern Virginia	164,223,649	18.3%	19.0%	-1,952,283	-579,462	566,897	40,961	1,330,015

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2015 Absorption (SF)	2016 Absorption (SF)	2017 Absorption (SF)	2Q 2018 Absorption (SF)	YTD 2018 Absorption (SF)
Washington Metro Area	365,730,408	15.4%	16.2%	-1,421,185	845,325	1,472,000	440,765	2,241,157
Class A	218,772,005	15.1%	15.9%	-1,359,104	556,953	3,106,734	1,043,595	2,682,555
Class B	109,171,060	16.2%	17.0%	5,701	699,784	-865,358	-576,305	-302,341
Class C	37,787,343	15.1%	15.4%	-67,782	-411,412	-769,376	-26,525	-139,057

SUBMARKET STATISTICS – RENTS AND DEVELOPMENT

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q18 Deliveries (SF)	YTD 2018 Deliveries (SF)	Under Construction (SF)
Washington Metro Area	365,730,408	\$42.26	\$34.33	\$38.11	2,227,780	2,327,780	7,157,874
District of Columbia	127,053,916	\$58.80	\$48.17	\$54.92	2,051,980	2,151,980	3,961,688
Suburban Maryland	74,452,843	\$29.64	\$25.55	\$27.48	0	0	1,484,767
Northern Virginia	164,223,649	\$34.54	\$29.92	\$32.08	175,800	175,800	1,711,419

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q18 Deliveries (SF)	YTD 2018 Deliveries (SF)	Under Construction (SF)
Washington Metro Area	365,730,408	\$42.26	\$34.33	\$38.11	2,227,780	2,327,780	7,157,874
Class A	218,772,005	\$42.26	NA	\$42.26	2,227,780	2,327,780	7,157,874
Class B	109,171,060	NA	\$34.33	\$34.33	0	0	0
Class C	37,787,343	NA	NA	\$28.67	0	0	0

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

METRO AREA INVESTMENT SALES TAPER IN 2018

The Washington region registered \$6.2 billion in office sales transaction volume for the 12 months ending in the second quarter of 2018. Transaction volume is down from 12-month totals at the second quarter of 2017, when volume measured \$8.6 billion. This is partly a result of the limited inventory available for trade. Still, pricing remains high, as transactions across the metro area averaged \$326/SF over the past 12 months, on par with pricing over the prior year. Meanwhile, region-wide cap rates averaged 6.3% over the past twelve months. The sale of 8180-8200 Greensboro Drive for \$142 million represented the largest transaction during the quarter. The property, located in the Tysons submarket, sold at \$277/SF and was 86% occupied at time of sale. The property is slated to undergo common area renovations.

FOREIGN INVESTORS REMAIN INTERESTED IN WASHINGTON

Washington remains an attractive gateway market for foreign capital. Concerns that the Trump Administration's "America First" foreign policy would push overseas investors to other markets have not yet materialized; investors remain bullish on the Washington area and continue to place capital here because of the market's long-term safety and the stability of returns. As was the trend throughout 2017, foreign investors remain interested in Washington-area office assets, with foreign buyers accounting for 33.3% of area office sales in the second quarter of 2018. In 2017, total foreign office volume for the Washington metropolitan area measured \$3.6 billion, and 57% of office assets sold in the District of Columbia—the region's core—were purchased by foreign capital.

OFFICE INVESTMENT SALES OUTLOOK

Office transaction volume began to taper in 2018 but remains robust. NKF expects Washington-area investment sales volume this year to edge lower from 2017, although pricing will remain robust for three reasons:

- Investors—especially foreign investors—continue to seek the safety of a primary market like Washington during the mature phase of the cycle.
- There is significant dry powder available to invest.
- Commercial real estate represents a superior alternative to other forms of available investments, even if additional interest rate increases will likely give some buyers pause.

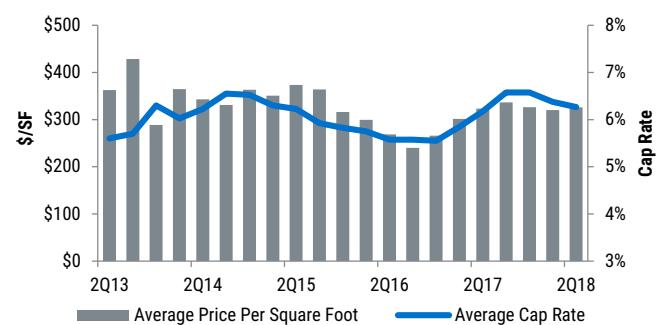
METRO AREA MARKET SUMMARY

Metro Region	
12 Month Transaction Volume at 2Q 2018	\$6.2 B
12 Month Transaction Volume at 2Q 2017	\$8.6 B
2Q 2018 Average Price PSF	\$326
2Q 2018 Average Cap Rate	6.3%

Note: Averages are for trailing 12-months
Source: Real Capital Analytics, NKF Research

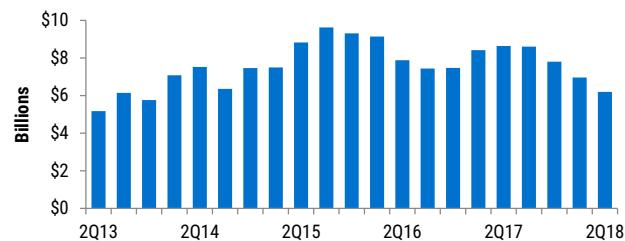
MARKET ANALYSIS

Average Office Cap Rate and Price Per Square Foot



Note: Values are trailing 12-month averages
Source: Real Capital Analytics, NKF Research

Trailing 12-Month Office Transaction Volume



Source: Real Capital Analytics, NKF Research

MAJOR 2Q18 OFFICE SALES TRANSACTIONS

Address	Sale Price	Price/SF	Sub-state
8180-8200 Greensboro Drive	\$142 M	\$277	VA
875 15th Street NW	\$139 M	\$594	DC
2000 Pennsylvania Avenue NW	\$138 M	\$341	DC
1250 I Street NW	\$100 M	\$562	DC
14360-70 Newbrook Drive	\$98 M	\$309	VA
2000-2002 Edmund Halley Drive	\$95 M	\$327	VA

METHODOLOGY

Market statistics are calculated from a base building inventory of office properties 20,000 SF and larger that are deemed to be competitive in the Washington Metro Area office market. Properties that are more than 75% owner-occupied and federally owned buildings are generally excluded from inventory.

GLOSSARY

Asking Rental Rate: The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year. Average asking rents are calculated on a weighted average basis, weighted by the amount of available space. Asking rents are quoted on a full service basis, meaning all costs of operation are paid by the landlord up to a base year or expense stop.

Cap Rate: The ratio of Net Operating Income (NOI) to property asset value.

Class A: The most prestigious buildings competing for premier office users with rents above average for the area. Class A buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B: Buildings competing for a wide range of users with rents in the average range for the area. Class B building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

Class C: Buildings competing for tenants requiring functional space at rents below the area average.

Deliveries: Projects that have completed construction and received a certificate of occupancy.

Net Absorption: The net change in physically occupied space from one quarter to the next. **Year-to-Date (YTD) Net Absorption** is the net change in physically occupied space from the start of the calendar year to the current quarter. Net absorption is counted upon physical occupancy, not upon execution of a lease.

Price Per Square Foot: Transaction value divided by total square footage of the property.

Sublease: Sublease space is offered and marketed as available by the current tenant, rather than directly from the owner.

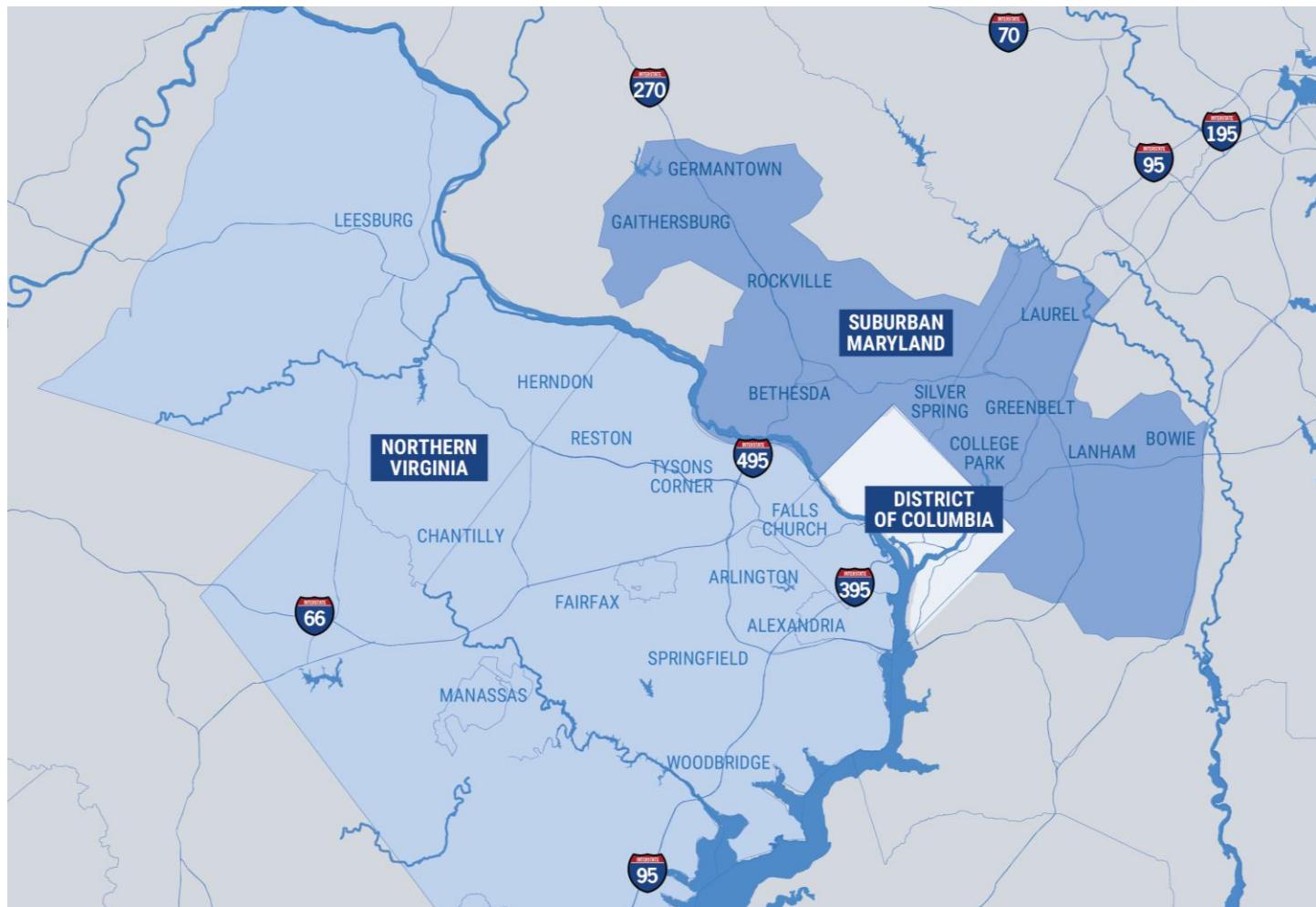
Transaction Volume: Total volume of office transactions \$20 million and greater during a specific reporting period.

Under Construction: Properties undergoing ground-up construction in which work has begun on the foundation. Properties that have only undergone grading or other site work are not included as under construction.

Under Renovation: Properties undergoing significant renovations that require all tenants to be out of the building. These properties are removed from inventory during the renovation period and delivered back to inventory upon completion of the renovations. These properties are not included in under construction totals.

Vacancy Rate: The amount of space that is physically vacant, expressed as a percentage of inventory. (Space that is being marketed as available for lease but is largely occupied is not included in the vacancy rate.) The **Overall Vacancy Rate** includes all physically vacant space, both direct and sublease while the **Direct Vacancy Rate** includes only direct space.

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.

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

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