RESEARCH

Newmark Grubb Knight Frank

WASHINGTON METROPOLITAN AREA

2Q16 ECONOMY AND OFFICE MARKET OUTLOOK

EXECUTIVE SUMMARY

OFFICE MARKET GAINING MOMENTUM AS REGIONAL ECONOMY CONTINUES TO GROW

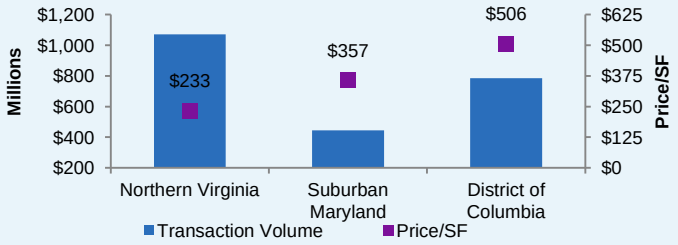
The Washington metro regional economy continued to improve through the second quarter of 2016, as the region added 71,700 jobs in the 12 months ending April 2016. After a lackluster three years, job growth in the area began to gain momentum in 2015 and has now added upwards of 50,000 jobs on a trailing 12-month basis since February 2015. The region's unemployment rate was 3.5% in April 2016, down 70 basis points from 12 months ago. With the private sector representing 95% of the jobs added in the past 12 months, it has led the rebound from the regional slowdown brought on by federal government austerity.

The Washington area office market gained momentum through the second quarter of 2016, as the region registered 559,081 square feet of absorption during the quarter. Suburban Maryland and the District of Columbia led the uptick in demand, registering 281,884 square feet and 330,921 square feet of absorption, respectively. Market conditions in Northern Virginia varied significantly by submarket and the sub-state area ended the quarter with negative 53,724 square feet of absorption.

The Washington area's office investment sales volume decelerated slightly through the second quarter of 2016. The region registered $783 million in investment sales volume during the second quarter through mid-June, bringing the total for the first half of 2016 to $2.3 billion. By comparison, investment sales volume in 2015 averaged $1.9 billion per quarter, heavily weighted by fourth-quarter closings. The majority of sales during second-quarter 2016 were in Northern Virginia, with only a handful of major transactions in the District of Columbia and Suburban Maryland.

Capital Markets

Year-to-date 2016 Office Investment Sales



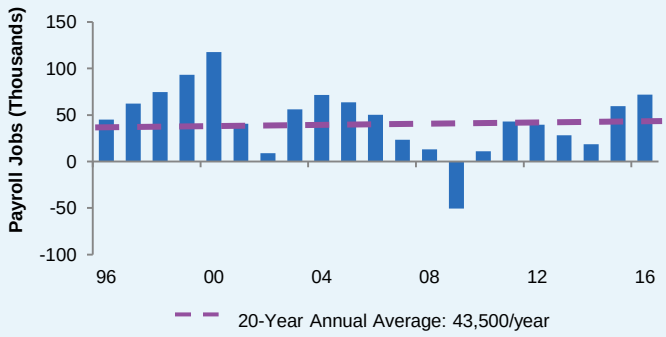
Source: Real Capital Analytics, NGKF Research; as of June 13, 2016

Economy

- **Payroll Employment:** 3.23 million at April 2016.
- **Job Change:** Increase of 71,700 in the 12 months ending April 2016. Compares to 43,500/annum for the 20-year average.
- **Unemployment Rate:** 3.5% in April 2016, down from 4.2% in April 2015.

Source: Bureau of Labor Statistics, NGKF Research; June 2016

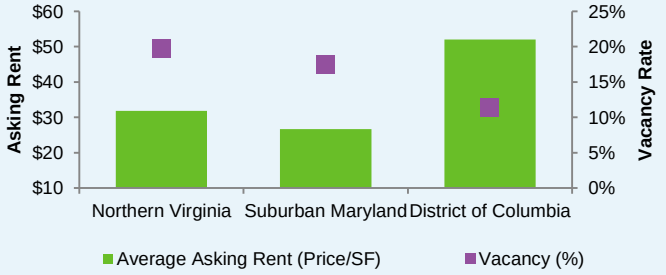
Washington Metro Payroll Job Change



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

Office Market

Asking Rent and Vacancy Rate



2Q 2016 Office Market Summary

	Northern Virginia	Suburban Maryland	District of Columbia	Metro Region
Total Inventory (SF)	163.7 M	74.8 M	124.2 M	362.7 M
Vacancy Rate	19.7%	17.4%	11.4%	16.4%
YTD Net Absorption (SF)	-451,815	141,112	510,244	199,541
Average Asking Rent (FS)	$31.82	$26.65	$52.00	$36.21
Under Construction (SF)	2.8 M	103,550	2.9 M	5.8 M
YTD Deliveries (SF)	62,000	135,000	463,623	660,623

WASHINGTON METROPOLITAN AREA
2Q16 ECONOMY AND OFFICE MARKET OUTLOOK

Washington Registers Lowest Unemployment Rate among Major Metros

With 3.2 million payroll jobs, the Washington metro area is the fifth-largest U.S. job market, behind New York, Los Angeles/Orange County, Chicago and Dallas/Fort Worth. The Washington-area unemployment rate was 3.5% in April 2016, down 70 basis points from 4.2% in April 2015. This is the lowest unemployment rate among the 12 largest U.S. metro areas and significantly below the national (seasonally adjusted) rate of 4.7% in April 2016, which was down 80 basis points year-over-year. The unemployment rate in the Washington metro area has not been lower than the current rate of 3.5% since May 2008, just before job losses from the Great Recession took hold. Job growth has been strong across most major metros through the 12 months ending April 2016, with 10 of the 12 largest metro areas adding over 50,000 jobs. The 71,700 payroll jobs added in the Washington metro over this time period makes it the sixth-strongest metro in terms of job growth, behind Los Angeles/Orange County, New York, Dallas/Fort Worth, Atlanta and Chicago.

THE UNEMPLOYMENT RATE IN THE WASHINGTON METRO AREA HAS NOT BEEN LOWER THAN THE CURRENT RATE OF 3.5% SINCE MAY 2008, JUST BEFORE JOB LOSSES FROM THE GREAT RECESSION TOOK HOLD.

Federal Reserve Continues to Delay Rate Hike amongst Uncertainty in Financial Markets

At the end of 2015, the Federal Reserve raised the Federal Funds Rate by 25 basis points and announced it would target a further increase of one percentage point during 2016, which was anticipated to be spread out over quarterly, 25-basis-point increments. A second rate hike was delayed when the Federal Open Market Committee (FOMC) met in March and then again in mid-June. With uncertainty surrounding the United Kingdom's decision to exit the European Union, the Fed will likely be hesitant to create any additional turbulence in global markets by raising rates in the short run. The FOMC next meets in September, and it appears a modest rate hike will most likely be affirmed at that meeting, if at all. With concerns about rising inflation, it is likely the Fed will announce at least one additional quarter-point increase this year, assuming stronger national jobs reports going forward and continued strength of underlying U.S. economic fundamentals.

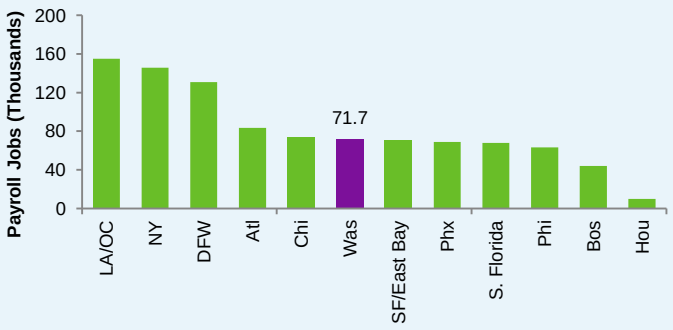
Election-Year Uncertainty Less of a Factor in Washington Metro

Because of the potential for policy and personnel changes, elections bring economic uncertainty, and this effect may be even more pronounced for the particularly tumultuous 2016 election cycle. This uncertainty, combined with global financial turmoil and other factors, has translated into weak national economic output, with U.S. GDP growing only 0.8% during the first quarter of 2016, according to the second estimate from the U.S. Bureau of Economic Analysis. At the national level, uncertainty decreases consumer confidence and means businesses are less likely to hire. This could be a factor contributing to the unexpectedly weak national jobs report for May.

But even as the national economy is enduring sluggish growth, the Washington regional economy is performing quite well. Federal procurement spending in the Washington area increased in 2014 after declining for three straight years, and the region added more than 70,000 jobs in the 12 months ending April 2016. If the nation is held back by economic uncertainty in presidential election years, that trend does not appear to have the same impact on the Washington region, which has outperformed the nation in job growth on a percentage basis in three of the last four presidential election years. Look for our forthcoming white paper on this topic, which will be available in mid-July on the Thought Leadership page at ngkf.com.

Payroll Job Change – Largest Metro Areas

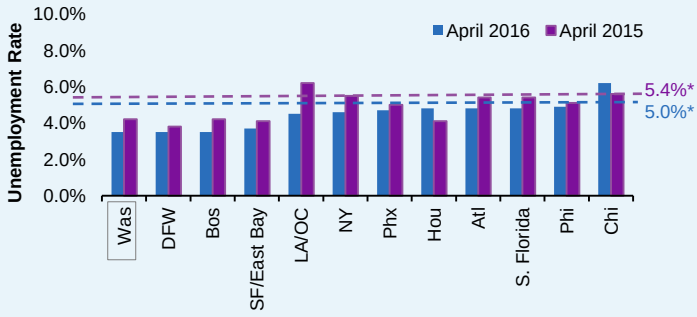
12 Months Ending April 2016



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

Unemployment Rate

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



*National unemployment rate is seasonally adjusted
Source: U.S. Bureau of Labor Statistics, NGKF Research; June 2016

Metrorail's SafeTrack Plan Inflicts Short-Term Pain for Longer-Term Results

Metrorail, the region's beleaguered mass transit system, continues to face challenges, as deferred maintenance and a lack of dedicated funding have rendered the multi-jurisdictional system largely in disrepair and potentially unsafe. In May, Metro announced its SafeTrack plan, an accelerated maintenance program to get the system back up to safety and infrastructure standards within a year. This plan includes continuous single-tracking and entire shutdowns of portions of Metro's various transit lines for weeks at a time, including during peak hours. While this will cause significant headaches for Washington area commuters over the next year, the much-needed upgrades will hopefully lead to sustainable improvement of the safety and reliability of the system.

In order to maintain the improvements that will result from SafeTrack and win back ridership, Metro needs to secure dedicated funding rather than rely on grants and funding from the various jurisdictions it connects. As of mid-June, the current federal transportation funding bill for Fiscal Year 2017 circulating in Congress cuts funding to Metro by a third, allocating only $100 million rather than the $150 million Metro has received for the last several years. While this bill is not yet approved, further federal funding cuts to Metro could be a significant blow to the already fraught system.

Transit-oriented properties have consistently captured the bulk of demand from office tenants, but that demand is predicated on having a well-functioning system. With so many problems around Metro lately, it remains to be seen whether access to transit will become less of a factor in influencing office demand, as more people find alternate commuting options.

Private Sector Generating 95% of the Region's Jobs

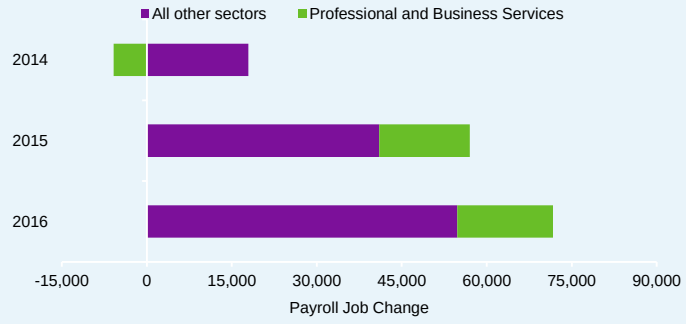
The Washington region has begun to transition from a deep-rooted dependence on the federal government to a more balanced regional economy. In the midst of a prolonged period of government austerity, the private sector has adapted to pick up the slack. The government sector added an annual average of 9,500 jobs from 2006 to 2010. From 2011 to 2015, this average declined to a loss of 900 jobs per annum. Meanwhile, private sector employment was virtually unchanged on average from 2006 to 2010 and increased to 38,600 jobs per year from 2011 to 2015. Put another way, whereas the government sector generated all of the region's job growth from 2006 to 2010, this ratio has flipped over the past five years, and the private sector is now the region's main job generator.

This growth appears to be continuing, with 68,300 jobs added by the private sector in the 12 months ending April 2016—95% of the total jobs added during this time period. While the federal government will likely always be a significant part of the Washington metro area economy, the fact that the private sector can continue to grow with a reduced dependency on the federal government is a significant source of optimism for the region's economy going forward. And with the regional economy becoming more diverse and less dependent on federal spending, the government's effect on the region's office market remains important but less dominant.

WHILE THE GOVERNMENT SECTOR GENERATED ALL OF THE REGION'S JOB GROWTH FROM 2006 TO 2010, THIS RATIO HAS FLIPPED OVER THE PAST FIVE YEARS, AND NOW THE PRIVATE SECTOR IS THE REGION'S MAIN JOB GENERATOR.

Payroll Job Change

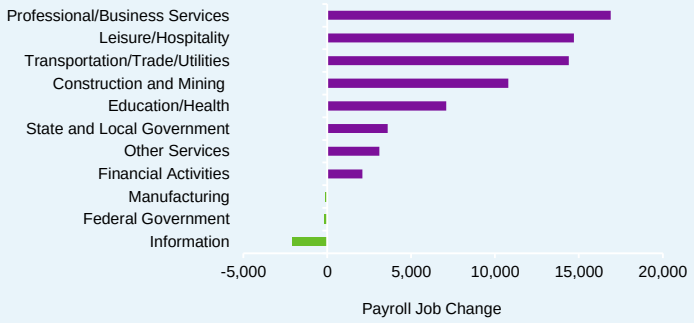
Washington Metro Area | 12 Months Ending April 2014 vs. 2015 vs. 2016



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

Job Change by Industry

Washington Metro Area | 12 Months Ending April 2016



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

METRO OFFICE MARKET BEGINNING TO SHOW SIGNS OF RECOVERY

The Washington area office market began to gain traction in the second quarter of 2016, as net absorption for the region registered 559,081 square feet. This helped temper some of the negative demand experienced in the first quarter, bringing the year-to-date absorption total to 199,541 square feet. The region's vacancy rate declined 10 basis points over the quarter to 16.4%. Absorption was positive in both the District of Columbia and Suburban Maryland, which registered 330,921 square feet and 281,884 square feet of absorption, respectively. Net absorption in Northern Virginia varied significantly across the submarkets but ended the quarter with negative 53,724 square feet of absorption. The metro-wide absorption total of nearly 600,000 square feet is the highest quarterly absorption total the region has experienced since the third quarter of 2015. The primary contributor to this positive demand was a collection of small to mid-size deals, as there were few significant large tenant moves during the second quarter. While this increasing momentum in office demand is a positive sign, it is too early to tell whether one quarter of data is the start of a larger change or just a blip. The densification trend that has stifled office demand over the past eight years does not appear to be over, as several large tenants in the market are searching for significantly less space than they currently occupy.

Class A Market Continues to Outperform

After a modest slowdown during the first quarter of 2016, the Class A market returned to growth in the second quarter. Net absorption for Class A properties registered 416,021 square feet—74.0% of the region's total absorption for all classes. This positive demand caused the Class A vacancy rate to decline 20 basis points over the quarter to 16.5%. The weighted average asking rent for Class A space in the metro region was $40.36/SF as of the second quarter, a 1.6% increase over the first quarter but essentially unchanged from $40.44/SF a year ago.

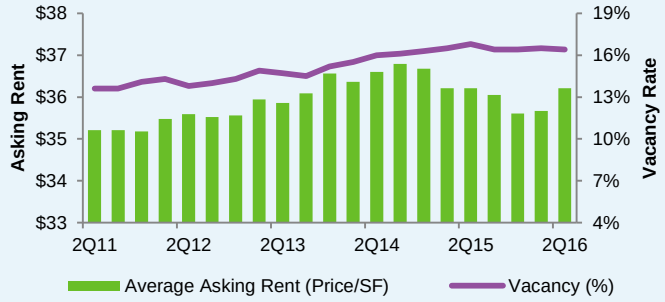
While these numbers point to a strong Class A market across the region, there are pockets where Class A assets are performing significantly better. In the District of Columbia and Suburban Maryland, Class A properties absorbed 333,293 and 129,990 square feet, respectively. Meanwhile, in Northern Virginia, Class A properties saw negative absorption of 47,262 square feet, while Class B properties saw positive 80,732 square feet of absorption. While this appears counter to the overall flight-to-quality trend the region has seen for the last several years, it is largely a result of a major government agency vacating a Class A property, and not necessarily a sign of shifting tenant behavior.

Current Conditions

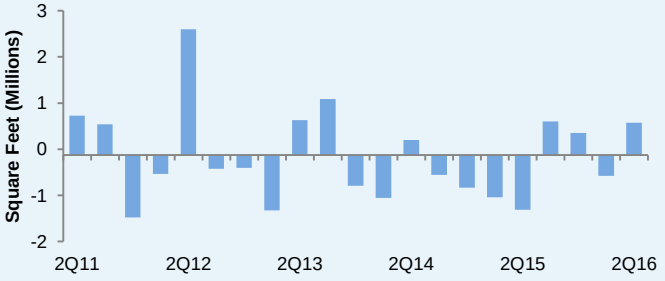
- Market gaining traction with 559,081 square feet of absorption during the second quarter.
- Market activity characterized by small to mid-size deals, with few large tenant moves during the quarter.
- Class A assets captured 74% of the region's total space absorbed during the second quarter.

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	362.7 M	362.5 M	363.5 M	↑
Vacancy Rate	16.4%	16.5%	16.8%	↓
Quarterly Net Absorption (SF)	559,081	-359,540	-949,483	↑
Average Asking Rent	$36.21	$35.67	$36.21	↑
Under Construction (SF)	5.8 M	6.1 M	4.6 M	↑
Deliveries (SF)	262,000	398,623	159,099	↑

WASHINGTON METROPOLITAN AREA
2Q16 ECONOMY AND OFFICE MARKET OUTLOOK

Washington Area Economic Outlook

The Washington area has seen strong job growth over the past 18 months. Since January 2015, job growth in the region has exceeded 40,000 jobs per annum consistently (on a trailing 12-month basis), with 71,700 jobs added in the 12 months ending April 2016. This is well above the region's 20-year average of 43,400 jobs per annum. In consultation with Dr. Stephen Fuller of George Mason University, NGKF estimates that an annual average of 43,600 payroll jobs will be added to the Washington metro area economy during the five-year period from 2016 to 2020. The region's job growth is expected to peak in 2016 with nearly 60,000 jobs created and then taper to more modest growth levels—in the range of 30,000 to 50,000 jobs per annum from 2017 through 2020.

As the current expansion cycle has entered its seventh year, talk of an impending recession has been increasing. It is the consensus of economists that the most likely arrival of a national recession will be in 2018. Historically, job change in Washington has trailed national job change from a timing perspective, which suggests the region might outperform the nation in the early months of a national recession.

Office Market Outlook

The market faces several continuing headwinds to office demand and absorption:

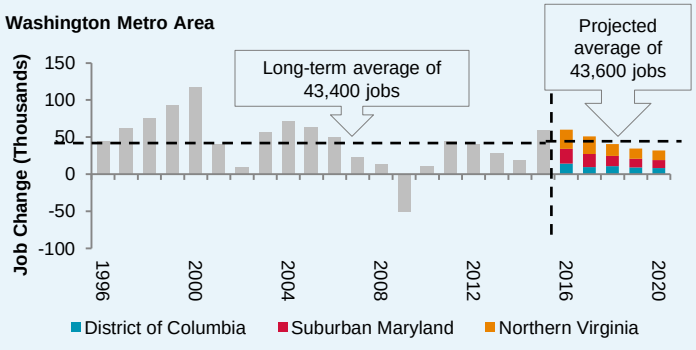
- The trend of office densification has significantly reduced demand from the private sector, and while it appears this trend may have peaked, it is not yet over. Legal Services is one of the largest industries in the Metro area, and many large law firms currently in the market still have plans to reduce their footprint.
- The federal government has started in earnest on working through the backlog of expired and holdover leases. While it is a positive sign that GSA is becoming more active in the market, many of these leases also represent significant space reductions, since GSA has been mandated to reduce its occupancy costs by shrinking its footprint and consolidating underutilized space.
- The pipeline of planned properties in the region is significant, particularly in the District. If the glimmers of increasing demand cause several of these properties to start on a speculative basis, the region may continue to see elevated vacancy.
- With 6.4 million square feet of office space slated to deliver over the next two years, vacancy is projected to rise to 16.5% by the end of the second quarter of 2018, an increase of 10 basis points from today.

On the other hand, the market is experiencing or will experience some positive tailwinds:

- Non-profits and associations—another major tenant type in our region—are less susceptible to the office space densification that many corporate companies are currently undergoing, since most of these companies have been more conservative with space needs all along. Indeed, many non-profits and associations in the market currently have plans to expand their footprint, bucking the densification trend.
- Private sector job growth in the region has been very strong, with 68,300 jobs added in the private sector in the 12 months ending April 2016. In addition, 33% of the region's jobs added have been in the office-using sectors, which will eventually translate to increased office demand.
- Shadow space and sublet space have diminished to cyclical lows. This means job growth should more directly translate into increased need for office space.

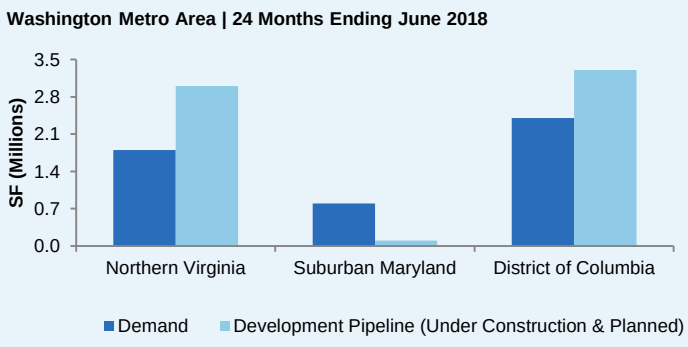
For additional information on the District of Columbia, Suburban Maryland, and Northern Virginia office markets, please visit NGKF's website at the following: Washington Metropolitan Area Research Reports.

Payroll Job Growth Forecast



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

Supply/Demand Forecast



Source: NGKF Research; June 2016

POSITIVE ABSORPTION REFLECTS INCREASED LEASING ACTIVITY

The District of Columbia's office market gained modest momentum during the second quarter of 2016, but tenants continued to have market leverage. At the end of the second quarter of 2016, the District's overall vacancy rate stands at 11.4%. Net absorption measured 330,921 square feet during second-quarter 2016, compared with 145,611 square feet during second-quarter 2015. Asking rental rates edged higher, to $52.00/SF from $51.84/SF in the prior quarter.

The recession of 2008 considerably influenced the market's fundamentals, and the statistics for second quarter 2016 echo the market's "new normal." Since 2009, the vacancy rate has fluctuated between 10% and 12%. The average asking rent has remained between $49.00/SF and $52.00/SF since 2013, with the second quarter's asking rent on the higher end of the spectrum.

The most activity continues to occur with properties at the top and bottom of the market. Those in the middle were not as strong.

- Companies able to pay higher rent are attracted to the Trophy and high Class A product, in order to occupy newer construction with an assortment of amenities. The Class C and lower Class B properties are competitive because they appeal to budget-conscious tenants that may not have the same requirements for amenities and location as other companies.

- Commodity Class A and Class B buildings—usually mid-block, lacking amenities, and farther from Metrorail—have been slow to build momentum. In order to appeal to different types of tenants than they usually pursue, commodity properties have to adjust their marketing techniques and incentives more creatively to build interest.

District of Columbia Outlook

The District of Columbia's office market will remain in the tenants' favor over the next 12 to 24 months, even with Class A and Trophy rents increasing and assets largely in favor with investors. Demand will remain modest, while companies will continue to be careful with expenditures and await more budget certainty from the federal government, moving into and beyond the 2016 election.

Current Conditions

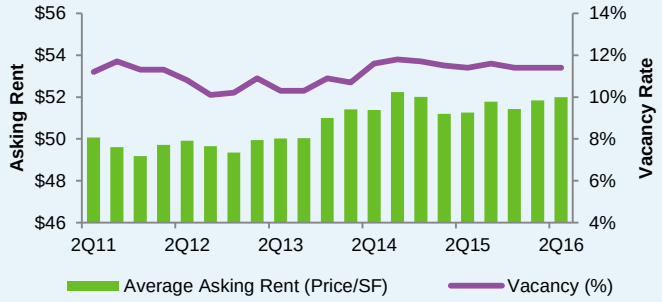
- Top and bottom of market gaining traction, while commodity buildings struggle to increase occupancy.

- Technology-focused shared office providers continue to attract tenants and act as a source of strength for the leasing market.

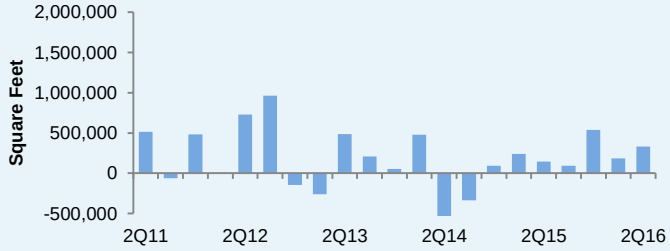
- As owners target high-end tenants, renovations in the CBD and East End continue. However, renovating Class B to commodity Class A is becoming less appealing.

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	124.2 M	124.0 M	123.9 M	↑
Vacancy Rate	11.4%	11.4%	11.4%	↓
Quarterly Net Absorption (SF)	330,921	185,625	145,611	↔
Average Asking Rent	$52.00	$51.84	$51.26	↑
Under Construction (SF)	2.9 M	2.8 M	2.0 M	↑
Deliveries (SF)	200,000	263,623	0	↔

MARKET MAKES MODEST IMPROVEMENT

Northern Virginia's office market gained modest traction during the second quarter of 2016, as the vacancy rate edged down, the average rental rate ticked higher and absorption improved. Although the market experienced negative 53,724 square feet of absorption, this was a considerable improvement over first-quarter 2016, when occupancy declined by 392,342 square feet. Absorption was also significantly improved from second-quarter 2015, when there was a loss of 1,084,642 square feet of occupancy. Northern Virginia remains a tenant's market, but increases in touring activity and reported tenant interest in the market point to a probable increase in signed deals and net absorption in the near future.

Recent and projected employment growth in the Washington area, especially in the category of Professional and Business Services, is a promising sign for the regional office market. In the meantime, there are select office submarkets in Northern Virginia, including Merrifield, Tysons Corner and Reston, which are experiencing positive absorption ahead of the broader market recovery. However, there are other submarkets, most notably the Rosslyn-Ballston Corridor, which continue to experience little market momentum. Obsolete office stock and limited access to Metrorail are two key reasons why some submarkets continue to see no net demand.

High-end space throughout the market is experiencing the most leasing activity and demand. This trend has appeared in Reston, where asking rents have increased for the top-quality space. In order to entice more tenants and satisfy their requests for up-to-date space with an assortment of amenities, some owners are investing in renovations. Owners of older buildings are marketing their properties to tenants with lower asking rents and considerable concessions. Matured properties and those located in less desirable areas are actively trying to compete for the budget-conscious tenants in the market.

Northern Virginia Outlook

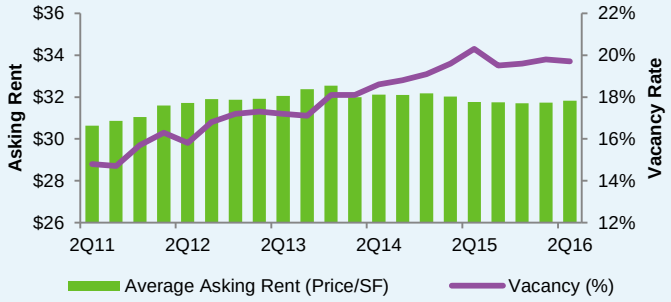
Due to consistent office-using job growth, plateauing densification, a decline in shadow space and chronically low sublet space, we project that there will be positive absorption in Northern Virginia by the fourth quarter of 2016. The growing number of tours of space by potential tenants further supports this projection. However, the market will remain tenant-favored due to the elevated vacancy rates, as demand is not expected to increase materially. Even though employment growth is picking up speed, it may be counteracted by the 907,000 square feet added to the market's inventory in 2016. Top-quality space continues to be the most desired by tenants, with many options leasing quickly. Development will continue to occur primarily around Metro stations in order to satisfy tenants' wants and needs. This may contribute to an uptick in activity overall, resulting in positive net absorption and declining vacancy. However, Class A space without easy access to transit and amenities may find difficulty attracting tenants.

Current Conditions

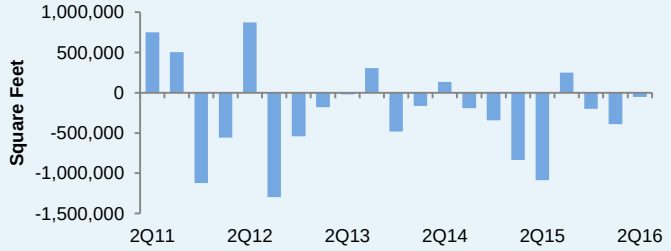
- Trends remained consistent during the second quarter of 2016.
- Tysons Corner has the most activity in the development pipeline and a substantial share of tenant interest.
- New construction is focused around Metrorail stations.
- Phase Two of Metrorail's Silver Line, including the opening of a station at Dulles Airport, is set for completion in 2020.

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	163.7 M	163.7 M	164.9 M	↑
Vacancy Rate	19.7%	19.8%	20.3%	↔
Quarterly Net Absorption (SF)	-53,724	-392,342	-1.1 M	↔
Average Asking Rent (FS)	$31.82	$31.74	$31.77	↑
Under Construction (SF)	2.8 M	3.1 M	2.3 M	↓
Deliveries (SF)	62,000	0	49,099	↑

MARKET GAINS TRACTION DURING SECOND QUARTER

Suburban Maryland's office market had a better second quarter than first quarter of 2016, when consolidations by the U.S. General Services Administration (GSA) impacted the market. Net absorption registered 281,884 square feet during the second quarter, as vacancy declined 30 basis points to 17.4%. The Suburban Maryland market is beginning to gain some momentum after a lengthy period of little activity.

- Vacancy is down 50 basis points from 17.9% one year ago.
- Absorption turned positive this quarter after a negative first quarter.
- The average asking rental rate of $26.65/SF has increased 30 cents from the rate of $26.35/SF one year ago.

Projections for the next 24 months feature net demand for office space in Suburban Maryland declining from traditional industry sectors – such as financial services, information, and government – but rising from the education and medical sectors, prompted by job growth in those industries. An example of increased demand from these sectors is the lease by the American Society of Health-Systems, which signed a deal for 65,776 square feet at 4500 East West Highway in Bethesda this quarter.

Major Lease Deal for North Bethesda

In the second quarter of 2016, Abt Associates, a consulting firm focused on health and education research, inked a deal for 155,000 square feet at Executive Plaza (6130 Executive Boulevard) in the North Bethesda submarket. The company's existing lease of 130,000 square feet will expire in approximately two years at Bethesda Crossing, located at 4550 Montgomery Avenue. Abt Associates was enticed to relocate its headquarters to White Flint because of the lower rents and newly renovated amenities offered at Executive Plaza.

Suburban Maryland Outlook

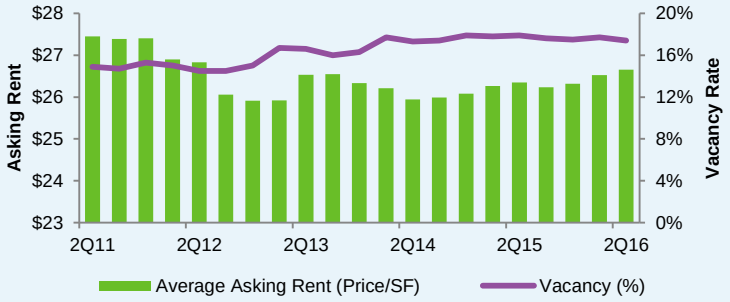
The next 12 to 24 months in Suburban Maryland will most likely remain consistent with recent performance, due to the limited new construction and modest tenant demand. Large blocks of vacant office space are expected to be left throughout Montgomery County since the federal government is likely to consolidate additional operations. Absorption will be limited without a significant new demand driver. Suburban Maryland may capture growth in the cyber-security market segment due to the continued focus of the federal government on that industry. Presently, a significant portion of that activity is occurring in the Baltimore-Washington Corridor, mainly in Howard and Anne Arundel counties.

Current Conditions

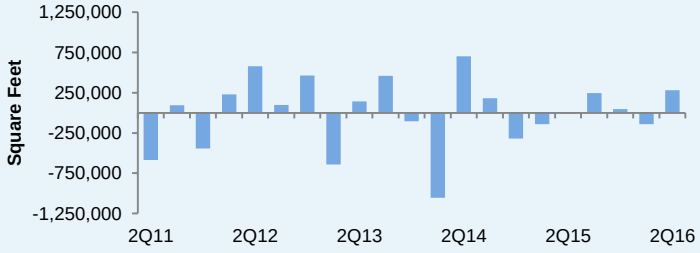
- Obsolescence of office parks an ongoing challenge.
- Effects of government consolidations beginning to plateau.
- Construction activity continues to be limited.
- Class A demand gaining momentum.
- Asking rents holding up despite government consolidations.

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	74.8 M	74.7 M	↑
Vacancy Rate	17.4%	17.7%	17.9%	↓
Quarterly Net Absorption (SF)	281,884	-140,772	-10,452	↔
Average Asking Rent (FS)	$26.65	$26.52	$26.35	↔
Under Construction (SF)	103,550	103,550	238,550	↔
Deliveries (SF)	0	135,000	110,000	↔

Sub-state Statistics – Vacancy & Absorption

	Total Inventory (SF)	Direct Vacancy Rate	Total Vacancy Rate	2013 Absorption (SF)	2014 Absorption (SF)	2015 Absorption (SF)	2Q 2016 Absorption (SF)	YTD 2016 Absorption (SF)
DC - District of Columbia	124,155,769	10.7%	11.4%	483,042	-340,945	1,018,794	330,921	510,244
MD - Maryland – Suburban	74,838,383	16.8%	17.4%	-148,545	-491,161	139,900	281,884	141,112
VA - Virginia – Northern	163,665,379	18.8%	19.7%	-380,552	-555,687	-1,895,686	-53,724	-451,815
Metropolitan Area	**362,659,531**	**15.6%**	**16.4%**	**-46,055**	**-1,387,793**	**-736,992**	**559,081**	**199,541**

	Total Inventory (SF)	Direct Vacancy Rate	Total Vacancy Rate	2013 Absorption (SF)	2014 Absorption (SF)	2015 Absorption (SF)	2Q 2016 Absorption (SF)	YTD 2016 Absorption (SF)
Class A	211,426,570	15.6%	16.5%	2,010,584	173,048	-1,034,248	416,021	218,646
Class B	110,875,091	16.1%	16.8%	-1,901,519	-1,416,386	275,293	207,934	187,270
Class C	40,357,870	14.1%	14.5%	-155,120	-144,455	21,963	-64,874	-206,375
Metropolitan Area	**362,659,531**	**15.6%**	**16.4%**	**-46,055**	**-1,387,793**	**-736,992**	**559,081**	**199,541**

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)	2Q 2016 Deliveries (SF)	YTD 2016 Deliveries (SF)	Under Construction (SF)
DC - District of Columbia	124,155,769	$56.72	$43.67	$52.00	200,000	463,623	2,861,915
MD - Maryland – Suburban	74,838,383	$28.10	$25.28	$26.65	0	135,000	103,550
VA - Virginia – Northern	163,665,379	$34.39	$29.45	$31.82	62,000	62,000	2,790,323
Metropolitan Area	**362,659,531**	**$40.36**	**$31.95**	**$36.21**	**262,000**	**660,623**	**5,755,788**

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2016 Deliveries (SF)	YTD 2016 Deliveries (SF)	Under Construction (SF)
Class A	211,426,570	$40.36	NA	$40.35	262,000	524,825	5,627,238
Class B	110,875,091	NA	$31.95	$31.96	0	135,798	103,550
Class C	40,357,870	NA	NA	$29.32	0	0	25,000
Metropolitan Area	**362,659,531**	**$40.36**	**$31.95**	**$36.21**	**262,000**	**660,623**	**5,755,788**

OFFICE INVESTMENT SALES VOLUME BEGINS TO DECELERATE

The Washington metropolitan area's office investment sales volume, which had been steady since late 2014, began to slow in the first half of 2016. Through mid-June, transaction volume for the second quarter totaled only $783 million, bringing the 2016 year-to-date total to $2.3 billion. By comparison, sales volume averaged $1.9 billion per quarter in 2015, although that was heavily influenced by a major portfolio transaction in the second quarter and several large year-end closings. While year-to-date sales volume is significantly below average, we expect this figure to rise closer to the five year quarterly average of $1.5 billion as the second quarter wraps up and all transactions have been accounted for.

The largest transaction during the second quarter was the sale of Pacific Corporate Park in Sterling. The four-building park along with two adjacent land parcels traded from Gramercy Property Trust to Beacon Capital Partners for $145.5 million. Another major second-quarter transaction was the sale of the Apex Building at 7272 Wisconsin Avenue in Bethesda for $105.5 million, or $647 per square foot. The American Society of Health Systems Pharmacists sold the building along with an adjacent retail property to Carr Properties, as it plans to relocate to a new office building at 4500 East West Highway in Bethesda (also owned by Carr Properties) later this year.

Cap Rates Remain Low

As of mid-June, the average price for transactions during the second quarter of 2016 was $308/SF. This is significantly below the $389/SF average in 2015 and the five-year average quarterly price of $396/SF for the metropolitan area due to an over-weighting of suburban properties. Meanwhile cap rates averaged 5.4% during the second quarter, on par with the first quarter average of 5.3% and significantly below the 2015 average of 6.1%.

Northern Virginia Captures Bulk of Investment Sales Volume

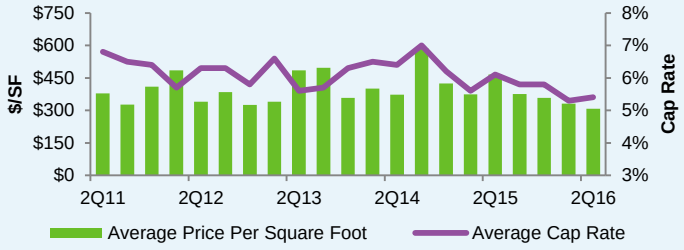
Through the first half of 2016, Northern Virginia captured a significant portion of total sales volume for the region, registering $1.1 billion—47% of the region's total volume through mid-June. This trend has accelerated in the second quarter, as Northern Virginia represented 9 of the 12 second-quarter transactions, registering $573 million in transaction volume—73% of the total. Investor interest in Northern Virginia shows no signs of slowing, and it will likely continue to capture a greater share of the region's volume through the rest of 2016, as several major office buildings are for sale, especially along the I-395 corridor.

Current Conditions

- Transaction volume totaled $783 million for the second quarter through mid-June.
- Cap rates remain low.
- Northern Virginia has captured the bulk of investment sales volume year-to-date in 2016, representing 47% of the region's total.

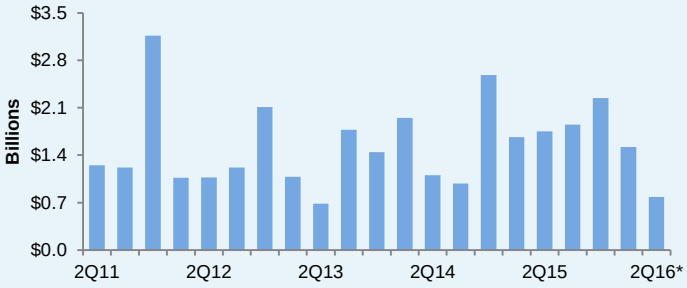
Market Analysis

Average Cap Rate and Price Per Square Foot
Office Sales



Source: Real Capital Analytics, NGKF Research; as of June 14, 2016

Quarterly Transaction Volume (Office Sales)



*2Q16 as of June 14, 2016
Source: Real Capital Analytics, NGKF Research

Major 2Q16 Sales Transactions

Address	Sale Price	Price/SF	Sub-state
22270 Pacific Boulevard	$145.5 M	$209	Northern Virginia
1735 N Lynn Street	$106.4 M	$368	Northern Virginia
7272 Wisconsin Avenue	$105.5 M	$647	Suburban Maryland
1110 N Glebe Road	$78.7 M	$359	Northern Virginia
1400 L Street, NW	$70.0 M	$407	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

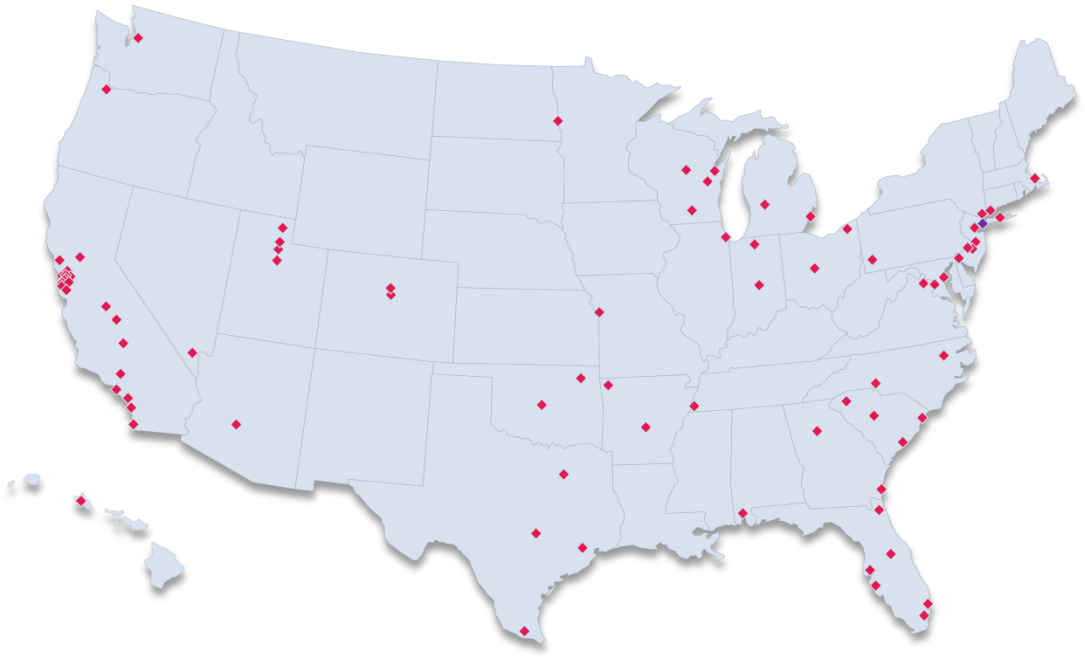
Gregory H. Leisch, CRE
Senior Managing Director
202.312.5745
gleisch@ngkf.com

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

Bethany Schneider
Senior Research Analyst
202.664.5898
bschneider@ngkf.com

Banning Kuebler
Senior Research Analyst
202.312.5770
banning.kuebler@ngkf.com

Newmark Grubb Knight Frank United States Office Locations



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