RESEARCH

WASHINGTON METROPOLITAN AREA
1Q18 ECONOMY AND OFFICE MARKET OUTLOOK

EXECUTIVE SUMMARY

OFFICE MARKET STRENGTHENS AS REGIONAL ECONOMIC GROWTH MODERATES

The Washington metro area's economic growth continued to moderate in early 2018, while office metrics continued to improve. For the 12 months ending in January, the region added 43,800 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 have also started to moderate, suggesting that the current slower pace of growth will carry into the first half of 2018.

The Washington area's office market experienced robust demand during the first quarter with a total of 1.3 million square feet of net absorption, significantly outperforming 2017's average quarterly rate of 420,000 square feet. Strong absorption across all three substate areas contributed to the region's strongest quarterly performance since 2008. The region's overall vacancy rate declined 50 basis points from one year ago to 15.8%, the lowest rate in four years.

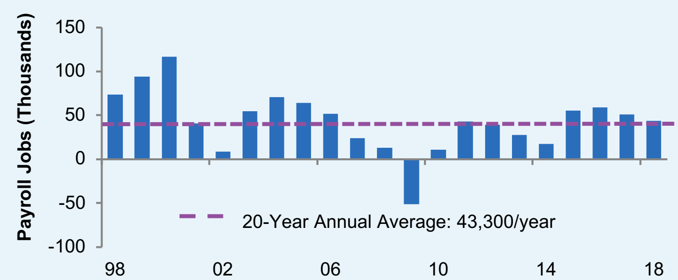
Weighted average asking rents increased 2.8% over the past 12 months to $37.88/SF. This is largely a result of the outsized impact of new, core product and renovated assets being delivered to the market. The market remains tenant-favored, as significant concession packages continue to exert downward pressure on effective rents.

The Washington region registered $1.7 billion in office sales transaction volume during the first quarter of 2018 through mid-March. Transaction volume is down somewhat from the first quarter of 2017, when volume measured $2.1 billion. However, that quarter appeared to be an outlier with several large transactions that had carried over from the prior year.

Economy

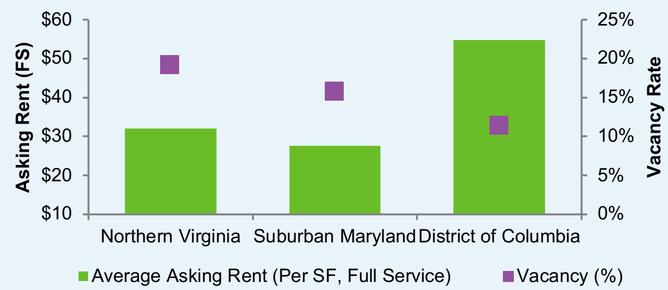
- **Historical Job Change:** 43,800 jobs were added in the 12 months ending January 2018, versus 43,300 per annum for the past 20 years.
- **Projected Job Growth:** NKF forecasts an average increase of 35,300 jobs per annum from 2018 through 2022.
- **Unemployment Rate:** 3.3% in December 2017, down 20 basis points from December 2016.

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



Note: Totals reflect annual average net change, except 2018, which reflects change for the 12 months ending January 2018
Source: Bureau of Labor Statistics, NKF Research; March 2018

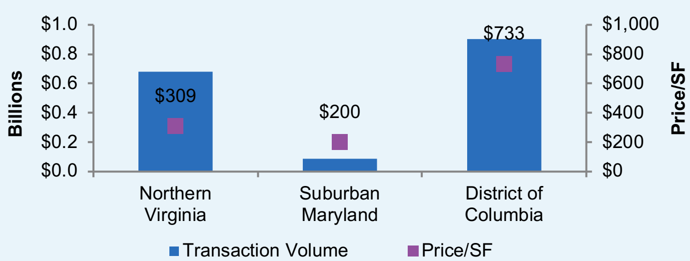
Office Market



1Q18 Office Market Summary

	Northern Virginia	Suburban Maryland	District of Columbia	Metro Region
Total Inventory (SF)	164.2 M	74.5 M	124.4 M	363.1 M
Vacancy Rate	19.2%	15.8%	11.4%	15.8%
YTD Net Absorption (SF)	865,970	320,432	122,277	1.3 M
Average Asking Rent (Per SF, Full Service)	$32.10	$27.65	$54.82	$37.88
Under Construction (SF)	1.4 M	1.5 M	6.0 M	8.9 M
YTD Deliveries (SF)	0	0	100,000	100,000

Capital Markets



WASHINGTON METROPOLITAN AREA
1Q18 ECONOMY AND OFFICE MARKET OUTLOOK

Professional and Business Services Growth Remains Strong

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 3.3% in December 2017, it was down 20 basis points from 12 months ago and 80 basis points lower than the national (seasonally adjusted) unemployment rate of 4.1% at December 2017. The region's largest employment sector, at 23.0% of the region's total employment, is Professional and Business Services (PBS). This sector added 10,700 jobs in the 12 months ending January 2018, or 24.4% of the total jobs added.

The region has undergone a significant transition over the past 43 years: In 1975, the region's federal workers made up 23% of the area work force, compared with whereas Professional and Business Services (PBS) comprised 11.0%. However, in 2018, federal workers account for just 11.0% of the total, while PBS has ballooned to 23%. 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.

Although 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 create high-paying, office-using jobs with a reduced dependency on the federal government is a significant source of optimism about the region's economic future. 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 steadying influence rather than a driving influence.

Fed Hikes Interest Rate; More Hikes Expected This Year

After three rate hikes in 2017, the Federal Reserve once again raised the federal funds rate in mid-March and is likely to introduce two or three more increases in 2018. At its March meeting, the Fed voted to raise rates by a quarter of a percentage point. Continued strong economic growth was one of the reasons cited for a rate increase. The March rate hike marked the sixth quarter-point increase since December 2015, with the rate now set at a range between 1.5% and 1.75% after remaining near zero for several years following the Great Recession and during the protracted recovery.

Rate increases are a potential concern for the commercial real estate industry, as higher rates could impact investment sales volume, cap rates and borrowing and development velocity. During the second quarter of 2017, U.S. banks reported tightening lending standards on commercial real estate loans, which suggests that the continued introduction of interest rate hikes may further limit borrowing. Still, many analysts believe that the industry can digest a slow increase in rates with little disruption.

Regional Commuting Opportunities in the Pipeline

The region has recently seen several proposals to expand regional commuting opportunities. The advancement of these projects will likely serve as a stimulus to the local economy:

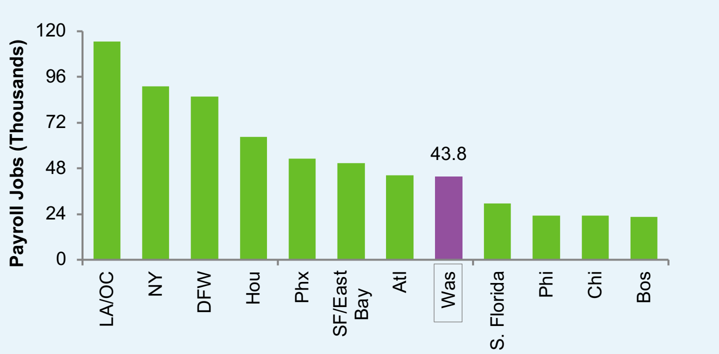
- **Elon Musk's Hyperloop**—a high-speed train that will connect DC to Baltimore, Philadelphia, and New York within a 30-minute timeframe. The project is in the initial permitting stage.

- **Baltimore—Washington DC Maglev Train**—another high-speed alternative. The environmental impact of the project is being reviewed and a decision on the project will be made at year-end. Notably, the push for the maglev train is a second attempt by the train's proponents. The Federal Railroad Administration (FRA) never issued a decision on the first feasibility study conducted in 2007.

- **Amtrak**—Amtrak's $151 billion proposal to improve its existing railway network through infrastructure upgrades aimed toward accommodating growing ridership.

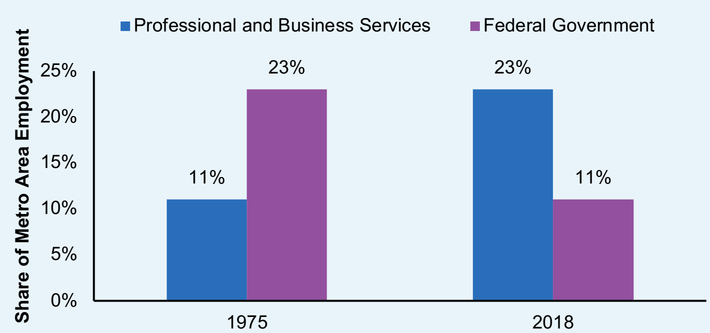
Payroll Job Change – Largest Metro Areas

12 Months Ending January 2018



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

Prof./Bus. Services Now Larger Than Federal Government



WASHINGTON METROPOLITAN AREA
1Q18 ECONOMY AND OFFICE MARKET OUTLOOK

What Will a New Federal Budget Mean for Our Region?

On March 23rd, the president signed the omnibus spending bill, funding the government through September 2018 and allocating military and defense spending. This is the first time in several years that the federal government has had a long-term spending plan rather than lurch from one short-term spending deal to the next. Our region captures a disproportionate amount of federal spending nationally—about 21% of the U.S. total, more than any other metro area—so our regional office market benefits more than others from increases in federal outlays. Procurement spending in this region rose every year from 1980 to 2010, leading to a significant expansion of the region's office market—especially in Northern Virginia. Then in 2013, sequestration reduced spending and led to a rising office vacancy rate across the region.

The new budget includes a significant uptick in defense spending, which will likely benefit the Washington region. Historically, increases in defense spending have been a meaningful driver of regional economic growth. Increased activity among government contractors from the lifting of budget caps is likely to increase absorption and reduce vacancy in submarkets that have a high concentration of defense contractors, notably in Tysons, Reston and portions of Arlington. This two-year agreement will bring needed certainty to the market and allow defense contractors to more confidently take down space, as there will be a greater chance of securing a contract and not having it cancelled or delayed.

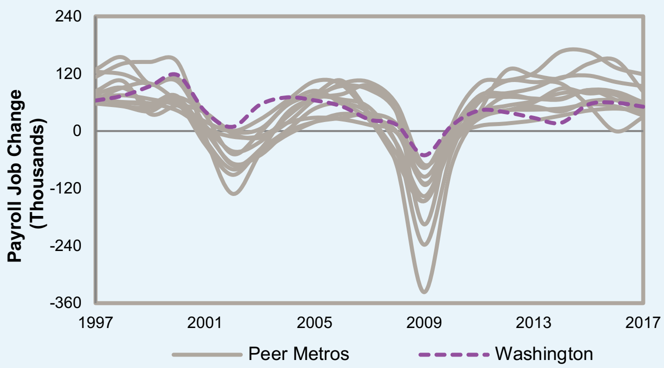
Washington Area Among the Top Metro Regions for Amazon HQ2

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.

Development Pipeline Continues to Expand

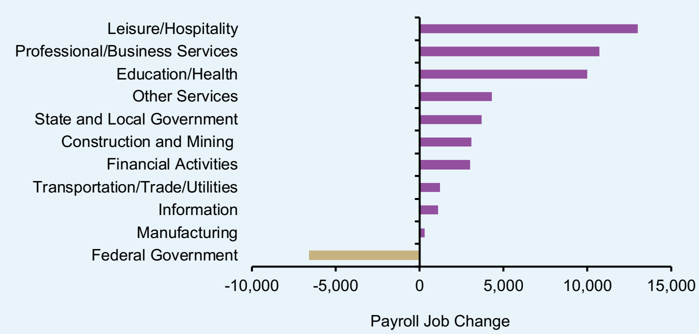
The Washington metro area has 11.9 million square feet of buildings in the development pipeline, with 8.9 million square feet under construction and 3.0 million square feet under renovation. Many tenants in the Washington metro area have shown a strong preference for new space and are willing to pay a premium to occupy new or newly renovated buildings, particularly those located near transit and with a strong amenity base. Drawn by the relatively strong performance of new Class A+ and trophy assets, many developers have begun or continued construction on a speculative basis despite elevated vacancy rates. Only one small office project delivered throughout the metro area during the first quarter of 2018: Quadrangle's 105,000-square-foot Mount Vernon Place delivered approximately 78.8% leased to the DC Bar Association. Notably, the construction pipeline in Suburban Maryland—and particularly the Bethesda submarket—is poised for growth after a long period of very little office construction. This sub-state area has four projects totaling 1.9 million square feet in the pipeline through 2020. The District's current development pipeline is 59.9% pre-leased while Northern Virginia's is 59.3% pre-leased, and Suburban Maryland's is 68.9% pre-leased. Although there has been a notable uptick in demand in the region, the significant pace of new construction means supply will very likely outpace demand over the next several years, putting downward pressure on occupancy and rental rates.

Washington's Recession Proof Nature



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

Job Change by Industry



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

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WASHINGTON METROPOLITAN AREA
1Q18 ECONOMY AND OFFICE MARKET OUTLOOK

REGION OFF TO A STRONG START IN 2018, MEASURING POSITIVE ABSORPTION ACROSS ALL THREE SUBSTATE AREAS

The Washington area's office market experienced robust demand in 2018, as net absorption for the region totaled 1.3 million square feet. Strong absorption across all three substate areas contributed to the region's robust performance, with the first quarter outperforming the last 22 consecutive quarters. In a significant reversal from the negative annual absorption recorded during the last eight years, Virginia led the Washington area in demand during the quarter, with 865,970 square feet of absorption. Suburban Maryland followed with 320,432 square feet of absorption, followed by the District with 122,277 square feet.

First-quarter construction completions were minimal, with only 100,000 square feet of District space delivering at the DC Bar's headquarters at Mount Vernon Place, which was 77.8% pre-leased at time of completion. Still, the Washington area has a significant development pipeline with 8.9 million square feet of new product under construction.

The region's overall vacancy rate declined 50 basis points from one year ago to 15.8%, and edged down 60 basis points from the prior quarter. Weighted average asking rents increased 2.8% over the past 12 months to $37.88/SF but declined slightly from last quarter by $0.23/SF. This is largely a 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.

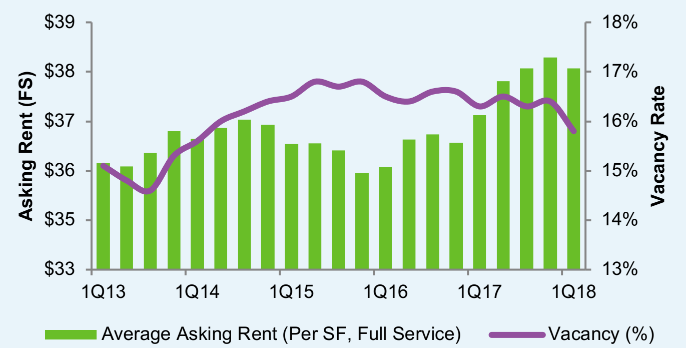
Class A Market Continues to Outperform

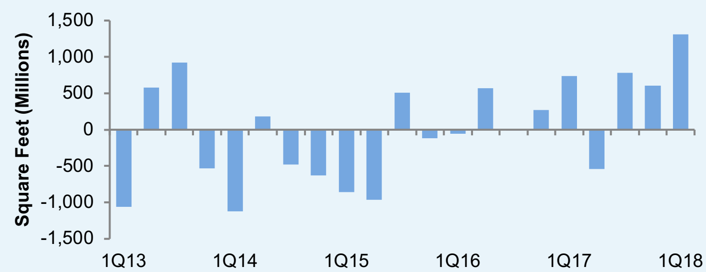
The Class A market experienced 1.3 million square feet of absorption in the first quarter alone, which equates to 40.1% of the Class A annual absorption registered in all of 2017. Tenant preference for new, quality space is evident. As a result of strong demand, the region's Class A vacancy rate declined 380 basis points from one year ago to 15.6%. Class A rents metro-wide saw a decline of $0.33/SF from last quarter but were up 2.4% over the year. While 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.

Current Conditions

- The region absorbed 1.3 million square feet during the first quarter, with positive absorption across all three substate areas.
- The Class A market recorded 1.3 million square feet of absorption in the first quarter alone versus 3.2 million square feet in all of 2017.
- Asking rents have risen 2.8% over the past 12 months, reflecting the introduction of renovated and new product to the inventory.

Market Analysis





Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	363.1 M	363.8 M	362.6 M	↑
Vacancy Rate	15.8%	16.4%	16.3%	↑
Quarterly Net Absorption (SF)	1.3 M	605,705	737,899	↓
Average Asking Rent (Per SF, Full Service)	$37.88	$38.11	$36.86	↑
Under Construction (SF)	8.9 M	9.0 M	8.3 M	↔
YTD Deliveries (SF)	100,000	1.2 M	0	↑

Newmark Knight Frank

WASHINGTON METROPOLITAN AREA
1Q18 ECONOMY AND OFFICE MARKET OUTLOOK

Washington Area Economic Outlook

Washington area job growth peaked at mid-year 2017, and the Washington Leading Index turned negative at December 2017, suggesting that the regional economy is moderating. The economy will likely continue to add jobs but at a slower pace 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. As a result, the region will likely see an 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 complete in the third quarter of 2018.

- Tenants maintain leverage in an already competitive office market, with some landlords offering sizeable concession packages to help backfill space. This places downward pressure on commodity Class A effective rents, as those properties struggle to compete in an environment of limited demand. Clean Class B space, at a relative bargain price, will remain in high demand.

- While 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. Moreover, the new federal budget, which was signed into law on March 23rd, includes a significant uptick in defense spending, but it may take a few years before that spending increase translates to greater net absorption, as most contractors do not lease space until a contract is awarded.

- 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:

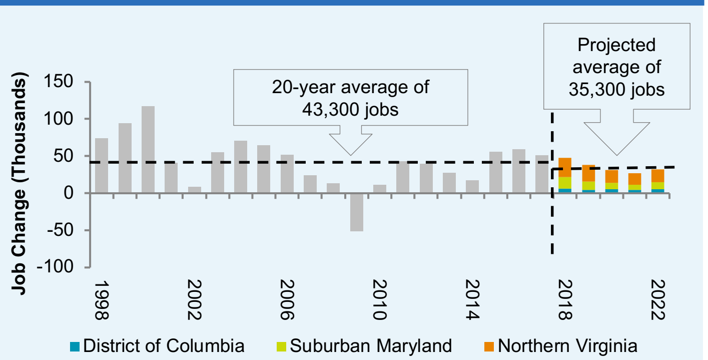
- The new federal budget—signed into law on March 23rd—includes a significant uptick in defense spending. Historically, increases in defense spending have been a meaningful driver of regional economic growth. Increased activity among government contractors is likely to increase absorption and reduce vacancy in submarkets that have a high concentration of defense contractors, notably in Tysons, Reston and portions of Arlington. The District also stands to benefit, though to a lesser extent.

- Although densification remains a factor, it has begun to plateau, with major tenants such as 2U Inc., Nestle and Capital One either relocating to the area or expanding, particularly in Northern Virginia.

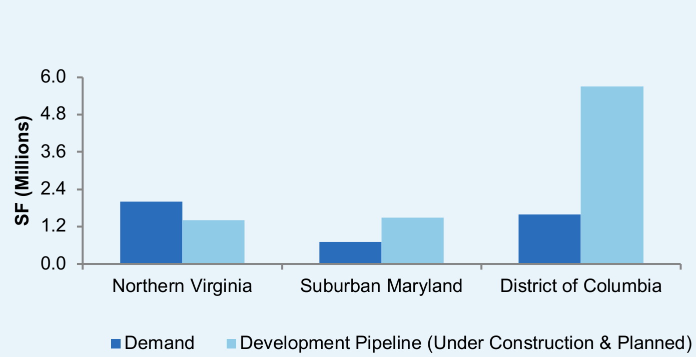
- The Professional and Business Services sector has continued to represent an increasing share of job growth and will be the leading contributor to office demand in the region.

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



Supply/Demand Forecast



RESEARCH

DISTRICT OF COLUMBIA
1Q18 OFFICE MARKET

FIRST QUARTER ABSORPTION MAINTAINS 2017 PACE

The District of Columbia registered 122,277 square feet of annual net absorption in the first quarter of 2018, maintaining a pace comparable to that of 2017, when net absorption averaged 149,000 square feet per quarter. In a reversal from last year's performance, absorption was strongest in the East End, with the submarket registering 271,921 square feet of net absorption.

District of Columbia Outlook

The District of Columbia will continue to favor tenants for the next 24 months, largely because of densification, a robust development pipeline (with 23 buildings 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. These forward-looking leases capitalize on the current "tenant's market", prompting landlords to offer sizeable concession packages. Despite rising asking rents, effective rents remain under downward pressure, as tenants are being offered sizable free rent and tenant improvement packages to incentivize a move. 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.

The District offers significant upside potential, with its LEED for Cities Platinum recognition highlighting the high quality of its existing inventory and tech's growing presence in the region, including Facebook and Yelp's deals at Terrell Place.

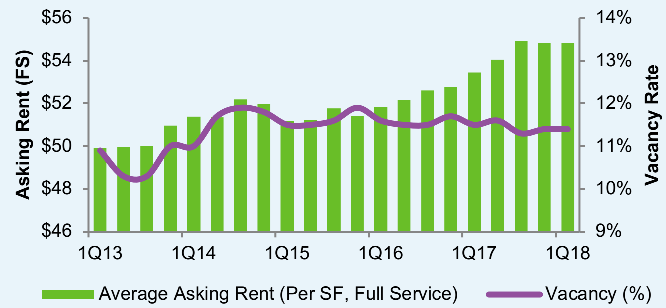
On March 23rd, the president signed the federal omnibus spending bill, funding the government through September 2018 and allocating military and defense spending during the next two years. The new budget includes a significant uptick in defense spending, that will likely benefit some parts of the District. Still pending, GSA's proposal to reconstruct a new FBI headquarters at its current downtown address rather than relocate to the suburbs as was originally proposed.

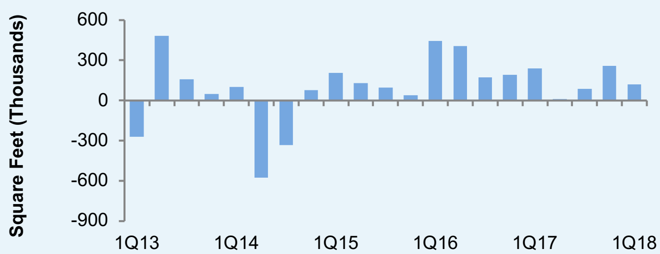
Additionally, the Washington metro region is considered to have many competitive advantages in Amazon's search for an additional headquarters that place it among the top two or three metro regions competing for HQ2.

Metro Area Market Summary

- The District of Columbia demand was sturdy in the first quarter with 122,277 square feet of absorption. In a reversal from last year's performance, the East End submarket led the District with 271,921 square feet of absorption.
- The Class A market recorded 224,295 square feet of absorption in the first quarter as tenants continue their pursuit of quality space.
- The vacancy rate remained flat at 11.4%, despite the delivery of 100,000 square feet of new construction during the first quarter.

Market Analysis





Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	124.4 M	124.3 M	124.3 M	↑
Vacancy Rate	11.4%	11.4%	11.5%	↑
Quarterly Net Absorption (SF)	122,277	257,446	240,095	↑
Average Asking Rent (Per SF, Full Service)	$54.82	$54.83	$53.45	↑
Under Construction (SF)	6.0 M	6.1 M	4.8 M	←→
Deliveries (SF)	100,000	458,889	0	↑

RESEARCH

NORTHERN VIRGINIA
1Q18 OFFICE MARKET

ABSORPTION BOOMING; VACANCY DECLINES THROUGH FIRST-QUARTER 2018

As of first-quarter 2018, nearly 1.4 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 is likely to increase throughout 2018, particularly in Fairfax County, where authorities have approved more than 40.0 million square feet of new development in the Tysons submarket alone, and where the Reston/Herndon submarket has seen substantial recent additions to the development pipeline as a result of both completed and current construction of Metro's Silver Line.

Northern Virginia Outlook

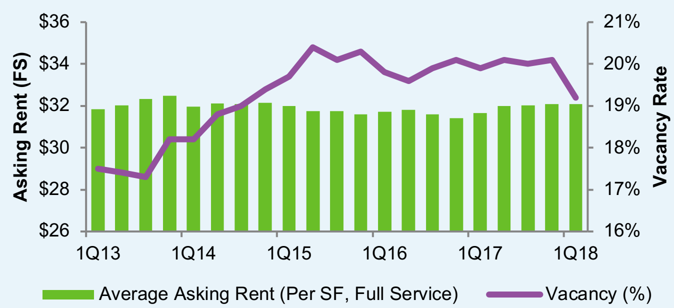
After six consecutive years of negative absorption, Northern Virginia's office market reached a turning point in 2017, as absorption measured 598,127 square feet. The first quarter of 2018 continued this trend by posting 865,970 square feet of net absorption, the highest quarterly total in nearly eight years. Over 2.0 million square feet of office space delivered during 2017 in Northern Virginia, demonstrating the market's appeal. However, with nearly 1.4 million square feet of space currently under construction and a substantial future pipeline, the continued success of Northern Virginia's office market will depend on tenants leasing Class A and trophy space in transit-accessible submarkets. Northern Virginia's strong tenant base of defense contractors, cybersecurity players and government clients could stand to benefit from increased defense spending and the 2017 Tax Cuts and Jobs Act. Separately, Amazon made national headlines in 2017, when the global ecommerce giant announced its search for a second U.S. headquarters. The Washington metro region, and Northern Virginia in particular, is considered to have many competitive advantages in Amazon's search, placing it among the top two or three locations competing for Amazon's HQ2.

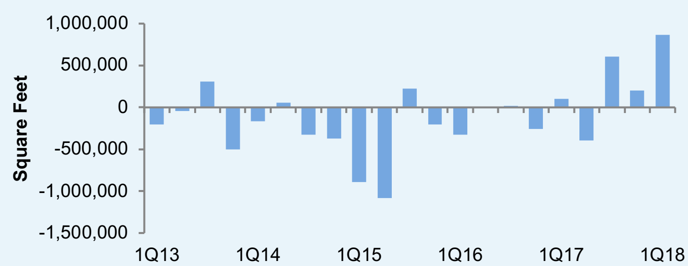
In recording 865,970 square feet of net absorption in first-quarter 2018, the Northern Virginia office market posted its largest quarterly absorption total since second-quarter 2010. Additionally, overall vacancy fell substantially, even with over 700,000 square feet of space delivering last quarter, and asking rents remained well above the $32/SF range, all signs that Northern Virginia's office market continues to gain momentum into 2018. Trophy space located in transit-oriented submarkets such as Tysons, the Rosslyn-Ballston Corridor and Reston will continue to command top-level rents through 2018. Conditions in these submarkets will continue to tighten, as the available product evolves with the introduction of more mixed-use development.

Metro Area Market Summary

- Net absorption in Northern Virginia measured 865,970 square feet during the first-quarter of 2018—the highest quarterly total in nearly eight years.
- Overall vacancy in Northern Virginia measured 19.2% at first-quarter 2018—a 90-basis point drop from the previous quarter and its lowest level in 3 ½ years.
- Nearly 1.4 million square feet of office space is currently under construction within Northern Virginia.

Market Analysis





Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	164.2 M	165.0 M	163.7 M	↑
Vacancy Rate	19.2%	20.1%	19.9%	↔
Quarterly Net Absorption (SF)	865,970	200,603	100,210	↓
Average Asking Rent (Per SF, Full Service)	$32.10	$32.09	$31.67	↑
Under Construction (SF)	1.4 M	1.4 M	3.4 M	↓
Deliveries (SF)	0	702,781	0	↑

Newmark Knight Frank

SUBURBAN MARYLAND
1Q18 OFFICE MARKET

SUBURBAN MARYLAND POSTS TIGHTENING OFFICE METRICS TO OPEN 2018

Suburban Maryland's office market began 2018 with strong demand, declining vacancy and a growing construction pipeline. Net absorption registered 320,432 square feet during the first quarter, while the vacancy rate dropped 70 basis points from one year ago to 15.8%, a new five-year low. Asking rental rates rose 3.7% from last year to $27.65/SF. Class A fundamentals held steady, with 251,824 square feet of absorption in the first quarter, as the market continued to show a preference for quality.

Continued Flight to Quality: Class A Market Remains Strong

Suburban Maryland's Class A office market fundamentals continued to shine in 2018, with 251,824 square feet of absorption during the first quarter of the year. The Class A vacancy rate registered 16.5%, its lowest level since the second quarter of 2012 and down 110 basis points from one year ago. Class A asking rents rose to $29.81/SF, a 5.1% increase from one year ago. Several sizeable move-ins contributed to the first quarter's relatively robust absorption, including GSA's move into 62,050 square feet at 4041 Powder Mill Road and Avendra's move into 53,200 square feet at 540 Gaither Road. Supernus Pharmaceuticals inked the largest Class A lease deal of the quarter, taking 118,834 square feet at 700 Quince Orchard Road. JBG Smith signed a pair of major office tenants to fill its new corporate headquarters at 4747 Bethesda Avenue, as Booz Allen Hamilton will take 65,316 square feet, and Host Hotels and Resorts will take 55,000 square feet when the project delivers in 2019.

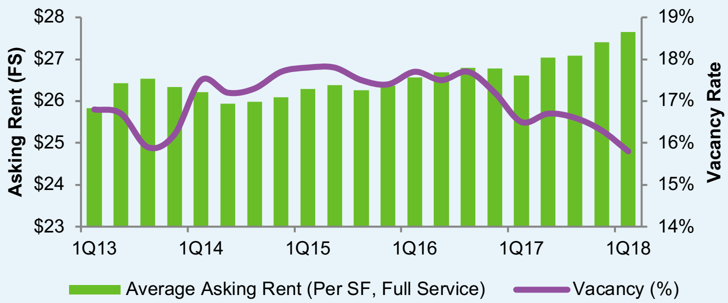
Suburban Maryland Outlook

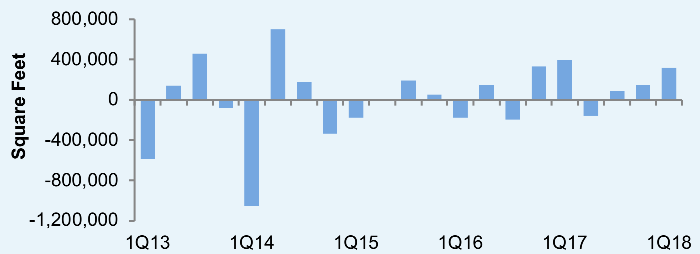
Office fundamentals in Suburban Maryland will continue to improve in the short run, supported by a limited pipeline. However, construction will experience an uptick over the next several quarters, especially in transit-oriented submarkets such as Landover/Lanham/Largo and Bethesda, as several projects 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 Class A office space just in the Bethesda-Chevy Chase submarket. This level of new development will be transformational for the Suburban Maryland office market. While it remains to be seen if the Trump administration's tax reform will significantly impact the Affordable Care Act (ACA), its future could affect healthcare-related agencies located in Suburban Maryland. Suburban Maryland's biotechnology corridor, which is home to more than 370 bioscience companies, may be impacted by the administration's emphasis on healthcare reform. Additionally, the 2017 tax reform provides major benefits to REITs, which may spur increased real estate investment.

Metro Area Market Summary

- Suburban Maryland opened 2018 with a robust 320,432 square feet of absorption during the first quarter.
- The vacancy rate declined 70 basis points from one year ago to 15.8%-- the lowest figure since the fourth quarter of 2012.
- Class A metrics continued to outperform, with 251,824 square feet of absorption during the first quarter of 2018.

Market Analysis





Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	74.5 M	74.5 M	74.6 M	↑
Vacancy Rate	15.8%	16.3%	16.5%	↔
Quarterly Net Absorption (SF)	320,432	147,656	397,594	↔
Average Asking Rent (Per SF, Full Service)	$27.65	$27.40	$26.61	↑
Under Construction (SF)	1.5 M	1.5 M	75,000	↑
Deliveries (SF)	0	0	0	↑

Sub-state Statistics – Vacancy & Absorption

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2015 Absorption (SF)	2016 Absorption (SF)	2017 Absorption (SF)	1Q 2018 Absorption (SF)	YTD 2018 Absorption (SF)
DC - District of Columbia	124,428,885	10.6%	11.4%	468,789	1,221,885	596,219	122,277	122,277
MD - Maryland – Suburban	74,462,843	15.2%	15.8%	62,309	217,859	482,039	320,432	320,432
VA - Virginia – Northern	164,188,409	18.5%	19.2%	-1,952,283	-559,392	598,127	865,970	865,970
Washington Metro Area	**363,080,137**	**15.1%**	**15.8%**	**-1,421,185**	**880,352**	**1,672,042**	**1,308,679**	**1,308,679**

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2015 Absorption (SF)	2016 Absorption (SF)	2017 Absorption (SF)	1Q 2018 Absorption (SF)	YTD 2018 Absorption (SF)
Class A	215,872,508	14.7%	15.6%	-1,359,104	577,023	3,184,675	1,277,620	1,277,620
Class B	109,410,286	15.8%	16.5%	5,701	714,741	-786,727	117,929	117,929
Class C	37,797,343	14.9%	15.2%	-67,782	-411,412	-725,906	-86,870	-86,870
Washington Metro Area	**363,080,137**	**15.1%**	**15.8%**	**-1,421,185**	**880,352**	**1,672,042**	**1,308,679**	**1,308,679**

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 2018 Deliveries (SF)	YTD 2018 Deliveries (SF)	Under Construction (SF)
DC - District of Columbia	124,428,885	$58.58	$47.84	$54.82	100,000	100,000	6,013,668
MD - Maryland – Suburban	74,462,843	$29.81	$25.77	$27.65	0	0	1,484,767
VA - Virginia – Northern	164,188,409	$34.46	$29.94	$32.10	0	0	1,392,406
Washington Metro Area	**363,080,137**	**$42.03**	**$33.89**	**$37.88**	**100,000**	**100,000**	**8,890,841**

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2018 Deliveries (SF)	YTD 2018 Deliveries (SF)	Under Construction (SF)
Class A	215,872,508	$42.03	NA	$42.03	100,000	100,000	8,837,841
Class B	109,410,286	NA	$33.89	$33.89	0	0	53,000
Class C	37,797,343	NA	NA	$28.83	0	0	0
Washington Metro Area	**363,080,137**	**$42.03**	**$33.89**	**$37.88**	**100,000**	**100,000**	**8,890,841**

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

WASHINGTON METROPOLITAN AREA

1Q18 CAPITAL MARKETS

2018 SALES VOLUME OFF TO STRONG START

The Washington region registered $1.7 billion in office sales transaction volume during the first quarter of 2018 through mid-March. Transaction volume is down somewhat from the first quarter of 2017 through mid-March, when volume measured $2.1 billion. However, that quarter appeared to be an outlier with several large transactions that carried over from the prior year. Sales volume in the region remains steady, reaching or surpassing $1.4 billion per quarter over the past year. Transactions across the metro area averaged $421/SF during the first quarter, up 5.3% from 2017's average price of $400/SF. Meanwhile, cap rates during the first quarter of 2018 averaged 5.7%, down from 6.6% in 2017. As was the trend throughout 2017, foreign investors continue their strong interest in Washington-area office assets, with foreign buyers accounting for 35.7% of area office sales in the first quarter of 2018, compared with 41.0% in all of 2017.

Trophies Continue to Set Records

There is a growing sense among investors that the peak volume of the cycle is behind them. Nevertheless, core and Trophy assets continue to set pricing records in the Washington market, and cap rates continue to surprise most observers, as they remain low in spite of recent interest rate hikes. The District saw two transactions that topped $1,000/SF during the first quarter: 900 G Street NW traded for $144 million, or $1,278/SF, and 1440 New York Avenue traded for $250 million, or $1,168/SF.

Office Investment Sales Outlook

Elevated sales performance during the first quarter of 2018 demonstrates that the local market remains strong. NKF expects Washington-area investment sales volume this year to edge lower from 2017, although pricing will remain robust for three reasons:

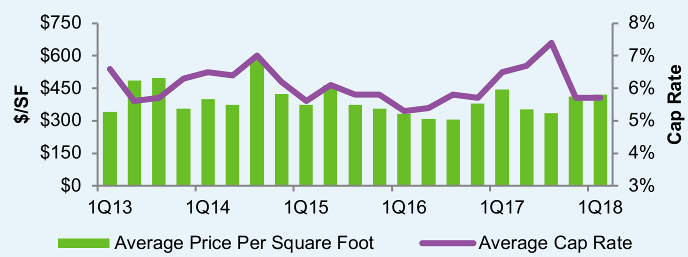
- Investors continue to seek the safety of a primary market like Washington during the mature phase of the cycle.
- Commercial real estate represents a superior alternative to other forms of available investments, even if additional interest rate increases will likely give some buyers pause.
- With a lack of other attractive investment options, investors, especially foreign investors, continue to target Washington.

Metro Area Market Summary

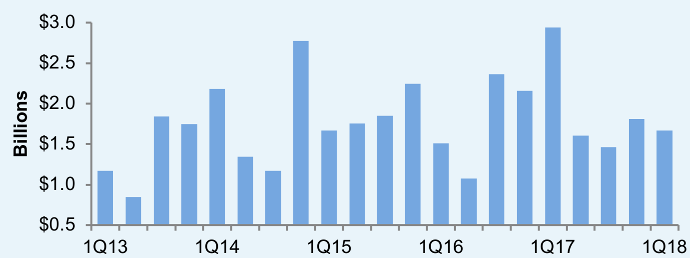
	Metro Region
1Q 2018 Transaction Volume*	$1.7 B
2017 Transaction Volume	$7.8 B
2017 Average Price PSF	$400
2017 Average Cap Rate	6.6%

*Data through mid-March
Source: Real Capital Analytics, NKF Research; as of March 15, 2018

Market Analysis



*1Q18 data through mid-March
Source: Real Capital Analytics, NKF Research; as of March 15, 2018



*1Q18 data through mid-March
Source: Real Capital Analytics, NKF Research; as of March 15, 2018

Major 1Q18 Sales Transactions

Address	Sale Price	Price/SF	Sub-state
900 G Street NW	$144 M	$1,278	District of Columbia
1440 New York Avenue NW	$250 M	$1,168	District of Columbia
1401 New York Avenue NW	$166 M	$785	District of Columbia
1300 N 17th Street	$250 M	$629	Northern Virginia
One Dulles Tower	$226 M	$560	Northern Virginia

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.

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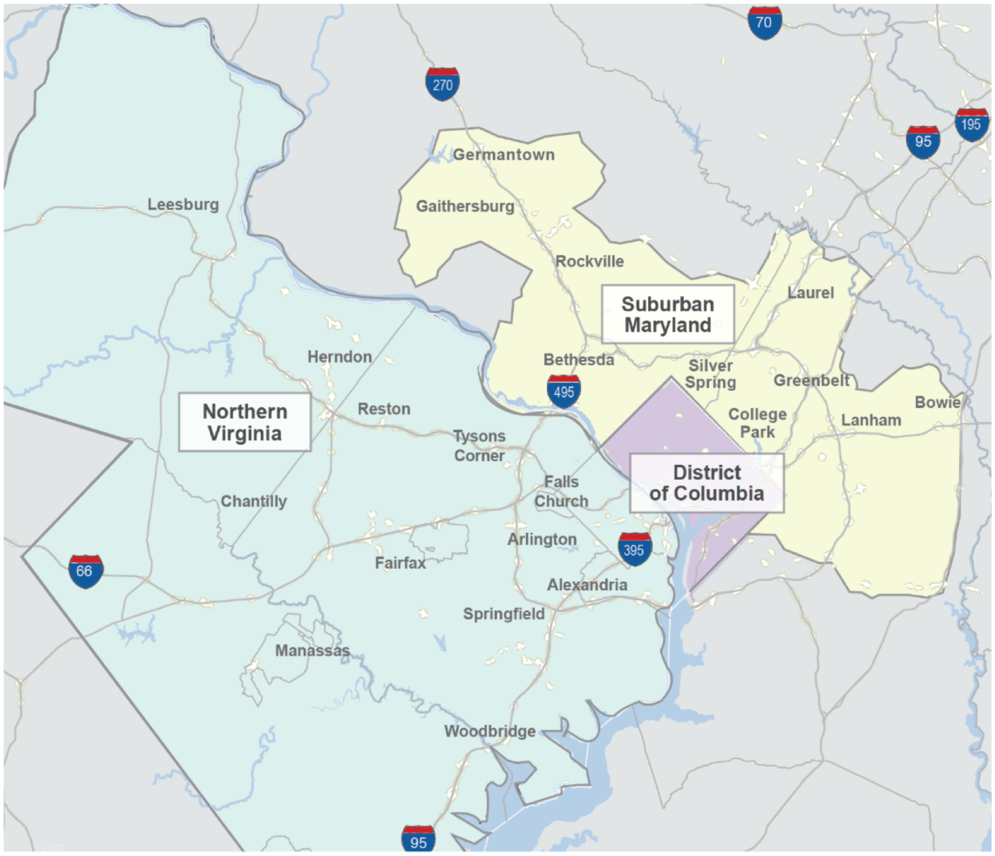
Washington Metro Area



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 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 also available at **www.ngkf.com/research**