

# Savills Studley Report

## Washington, DC office sector

Q2 2017



## SUMMARY

### Market Highlights

**Washington, DC:** Available space options continue to increase in the District, with the overall availability rate increasing by 0.7pp over the quarter to end Q2 at 13.5%. This marks a 0.6pp increase year-over-year, and coupled with subdued demand, indicates continued favorability and flexibility for tenants in the DC market with an abundance of space in new and existing office stock.

**Northern Virginia:** In spite of sluggish year-to-date leasing activity, overall availability has continued to tighten in Northern Virginia. On the heels of Nestle's announced headquarters relocation during the first quarter, the

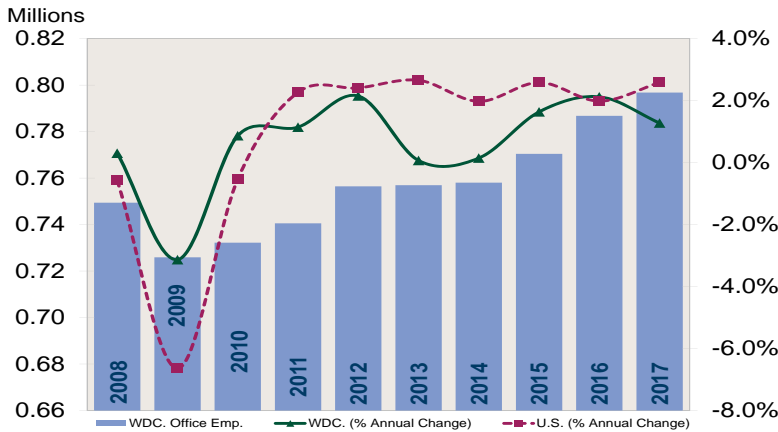
region landed another major corporate tenant in Amazon Web Services, who will lease all of One Dulles Tower in Herndon totaling 400,677 sf.

**Suburban Maryland:** The Maryland suburbs experienced a significant decrease in office demand during the second quarter as total leasing volume, just 595,316 sf, plummeted by 28.2% from the previous quarter. As a result, overall availability increased by 0.1pp to 16.2%. Despite the increase in available space, average asking rents increased by 1.4% but remain unchanged from the same period last year.

*"Sluggish demand has pervaded the region over the first half of 2017. Tenant options in the District continue to increase, and while Northern Virginia has seen a welcome burst of out-of-market interest from Nestle & Amazon Web services, market tightening is restricted to a few pockets with the rest of the market still posting record-high availability. Downward pressure on rents – particularly in relet availabilities – will continue for the foreseeable future and tenants can continue to expect generous concessions and flexible deals."*

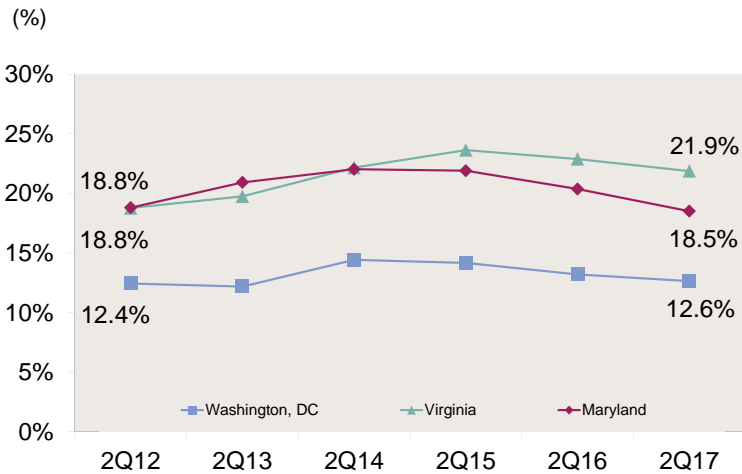
Tom Fulcher, Executive Vice President

## Office-Using Employment Trends

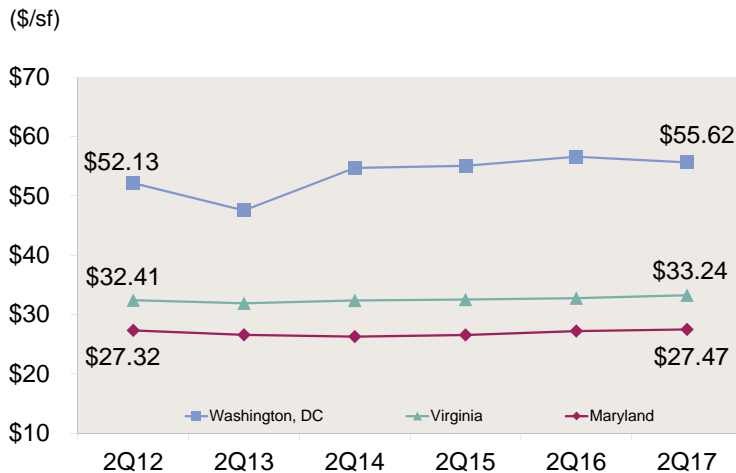


Source: Bureau of Labor Statistics

## Class A Availability Rate Trends



## Class A Asking Rent Trends



## Options Increase, Rent Growth Remains Restrained

As a result of tepid demand and continued downsizing, overall availability in the district has increased by 0.7pp year-over-year for all classes, now at 13.5%. As a result, average asking rents have seen little change – the current all-classes average asking rental rate is \$51.33 psf, just 0.1% lower than this time last year. With the current class A availability rate at 12.6%, the A market saw some tightening on a year-over-year basis. Availability is down 0.6pp from this time last year due to tenants’ focus on, and flight to, top quality product. Still, landlords are feeling pressure to lower rents to attract new occupants – particularly in relet space – and the class A average asking rental rate has decreased by 1.7% over the year ending Q2 at \$55.62 psf. Continuing the sluggish pace of activity seen in the first quarter, 2.0 msf of total leasing was seen across DC in Q2. This brings overall leasing activity for the year to just 3.9 msf, a 43% decrease from this same period last year. There were no new leases over 100,000 sf signed this quarter.

## Total Availability Decreases in Spite of Sluggish Leasing Volume

Total leasing volume in Northern Virginia has been sluggish through the first half of 2017 decreasing by 14.4% relative to the first six months of 2016. Despite subdued leasing velocity, overall availability has continued tightening in response to increased net demand and expansion activity. For the second consecutive quarter, Northern Virginia landed a major corporate user from outside the region as Amazon Web Services announced it had entered into a full-building lease totaling 400,677 sf at One Dulles Tower in Herndon. The building, which will serve as Amazon Web Services’ east coast corporate campus, had been on the market since Booz Allen Hamilton vacated in 2015. At the mid-way point of 2017, overall availability sits at 20.5%; a 0.3pp decrease relative to the previous quarter and 0.9pp below the rate twelve months ago. As a result, overall asking rents increased by 0.8% quarter-over-quarter with Class A rents posting a sharper increase, jumping by 1.2% over the same period.

## Availability Increases in Response to a Significant Drop in Leasing Volume

Total leasing activity plummeted by 28.2% during the second quarter posting just 595,316 sf, the lowest quarterly leasing total in the past two years. As a result, Suburban

Maryland's overall availability rate increased by 0.1pp quarter-over-quarter ending the period at 16.2%. In the largest Suburban Maryland lease of 2017, Kaiser Permanente of the Mid-Atlantic States announced plans to open a new, 176,000-sf administrative building in the New Carrollton Transit Center in Prince George's County. Despite the drop in quarterly leasing volume and resulting increase in overall availability, average asking rents increased by 1.4% relative to the previous quarter but remain unchanged from the same period twelve months ago.

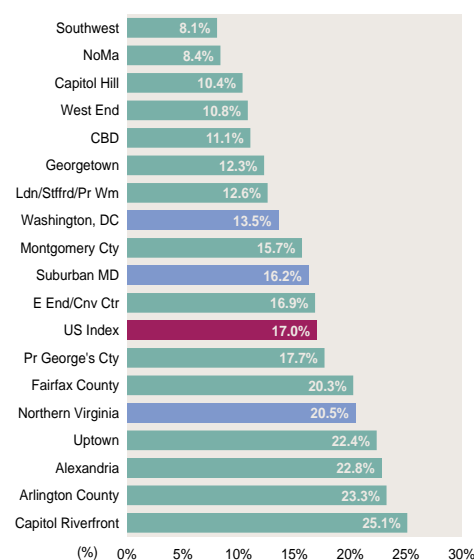
## Submarkets Focus

The CBD submarket has been very successful in attracting tenants - particularly law firms - from older buildings in the East End and other submarkets to jumpstart a wave of redevelopment activity. In the largest new lease of the quarter, law firm Goodwin Procter committed to 80,329 sf on the top floors of the 1900 N Street NW redevelopment. This lease highlights two key trends; the continued tenant preference for new construction and the ongoing push for efficiency with Goodwin reducing its footprint by approximately 25%. Leasing demand in the CBD (690,266 sf) accounted for 34% of all leasing this quarter and class A availability stands at 10.1%, 6.6pp lower than East End class A availability. However, it will not remain that low for long. 1900 N Street NW, is now one of four projects currently under construction that will add over 1.4 msf of inventory to the market upon delivery, without accounting for a number of proposed projects waiting to go. Approximately 50% of this space has been preleased, leaving over 700,000 sf of availability coming online in the near future; much of which is on lower floors as tenants are taking new space top-down.

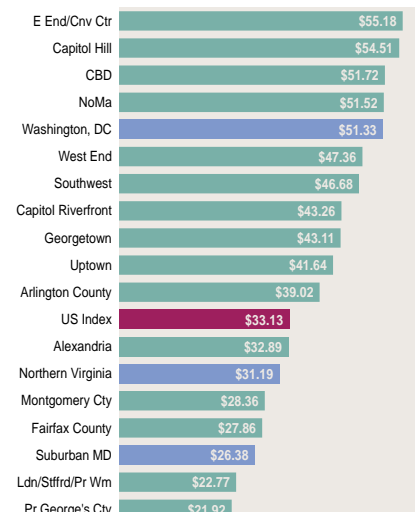
In perhaps the most clear-cut example of how auto-centric, non-transit oriented areas have fallen out of favor with DC area tenants, the I-395 Corridor submarket has seen its direct vacancy rate balloon from 27.3% to 37.6% over the past five years. Two of the submarket's major office parks, Mark Center and Skyline, recently underwent foreclosure and have current vacancy rates of 46.3% and 46.8% respectively. In stark contrast, Shirlington Village, another commercial center within the I-395 Corridor that offers tenants a more urban, walkable environment, ended the second quarter with a vacancy rate of 15.7%.

The Bethesda/Chevy Chase submarket has continued to be among the most stable

## Availability Rate Comparison



## Rental Rate Comparison



## Major Transactions

Tenant	Sq Feet	Address	Market Area
Amazon Web Services	400,677	13200 Woodland Park Dr	Fairfax County
GSA - Department of Education	314,243	550 12th Street SW	Southwest
Kaiser Permanente of the Mid-Atlantic States	176,000	4000 Garden City Dr	Prince George's County
Booz Allen Hamilton	117,206	6361 Walker Ln	Alexandria
*Goodwin Procter	80,329	1900 N Street NW	Central Business District
Facebook	73,840	575 7th Street NW	East End/Convention Center
Washington Gas	70,056	1000 Maine Avenue SW	Southwest
Bank of America	61,722	1800 K St NW	Central Business District
NCI Information Systems, Inc.	51,144	11730 Plaza America Dr	Fairfax County
*Tetracore Inc	49,258	9900 Belward Campus Dr	Montgomery County
<b>Sum of Top 10 Leases</b>	<b>1,394,475</b>	<b>Sum of 2nd Quarter Leasing Activity</b>	<b>4.6 MSF</b>

\*Savills Studley Lease

submarkets in Suburban Maryland. Over the past four quarters, the submarket has benefitted from an uptick in demand from the technology sector as WeddingWire expanded their footprint by 19,000 sf at 2 Wisconsin Circle and Fidelis Cybersecurity and TekSystems signed new leases for a combined 52,000 sf at 4500 East West Hwy. Looking ahead, both Carr Properties and JBG are expected to proceed with speculative office projects that are expected to deliver a combined 650,000 SF to the market by 2020.

## Outlook

The first half of 2017 in DC has been categorized by tepid demand, increasing availability, and little change to asking rents or the peak-level concessions that have been offered in recent quarters. Plentiful options exist in the market, particularly in "leftover" new construction as buildings are being preleased from the top down, and in the relet space left behind in older class A

properties as tenants move and continue to downsize. While Northern Virginia has had success in attracting two major corporate users from outside the region in the first half of 2017, this trend is unlikely to continue. As a result, overall availability is expected to begin trending upward throughout the remainder of the year putting downward pressure on asking rents. Record-high concession values will continue to be the norm in response to the muted levels of office demand anticipated for the near to mid-term.

Office leasing conditions in Suburban Maryland are likely to become increasingly tenant-friendly throughout the remainder of the year. With tepid private sector demand and federal leasing activity seemingly in flux, overall availability is expected to continue increasing during the second half of 2017. As a result, asking rents are likely to adjust downward in the near-term, with favorable concessions remaining in place.

Submarket	Total	Leasing Activity		Available SF				Availability Rate				Asking Rents Per SF			
		SF (1000's)	Last 12 Months	5 Year Average	This Quarter	% Change from Last Qtr.	Last Quarter	Year Ago	This Quarter	PP Change from Last Qtr. (1)	Last Quarter	Year Ago	This Quarter	% Change from Last Qtr.	Last Quarter
<b>Capitol Hill</b>	5,776	631	335	598	4.4%	573	518	10.4%	0.4%	9.9%	9.0%	\$54.51	-1.3%	\$55.23	\$58.53
Capitol Hill - Class A	2,136	517	210	198	-8.3%	216	344	9.3%	-0.8%	10.1%	16.1%	\$58.34	0.0%	\$58.36	\$60.86
<b>Capitol Riverfront</b>	5,343	236	N/A	1,342	-4.9%	1,410	1,024	25.1%	-1.3%	26.4%	19.2%	\$43.26	6.8%	\$40.52	\$41.35
Capitol Riverfront - Class A	4,088	235	N/A	320	-17.6%	389	608	7.8%	-1.7%	9.5%	14.9%	\$50.28	15.3%	\$43.60	\$44.01
<b>NoMa</b>	12,025	440	N/A	1,007	2.2%	985	1,231	8.4%	0.2%	8.2%	10.3%	\$51.52	2.0%	\$50.49	\$47.45
NoMa - Class A	9,685	340	N/A	842	3.5%	814	825	8.7%	0.3%	8.4%	8.5%	\$52.77	2.4%	\$51.55	\$52.60
<b>East End/Convention Center</b>	43,067	2,660	3,557	7,259	4.9%	6,917	7,044	16.9%	0.8%	16.1%	16.4%	\$55.18	0.5%	\$54.93	\$56.13
East End/Convention Center - Class A	29,915	1,888	2,686	5,005	8.4%	4,618	4,903	16.7%	1.3%	15.4%	16.4%	\$57.55	-0.4%	\$57.79	\$60.89
<b>Central Business District</b>	38,664	2,523	2,957	4,276	0.7%	4,245	3,915	11.1%	0.1%	11.0%	10.1%	\$51.72	0.2%	\$51.61	\$52.06
Central Business District - Class A	14,572	1,318	1,631	1,466	-6.3%	1,565	1,509	10.1%	-0.7%	10.7%	10.4%	\$58.32	1.4%	\$57.50	\$57.65
<b>West End</b>	3,863	144	142	418	-2.5%	429	516	10.8%	-0.3%	11.1%	13.4%	\$47.36	-0.1%	\$47.40	\$54.08
West End - Class A	2,646	89	113	418	-2.5%	429	516	15.8%	-0.4%	16.2%	19.5%	\$47.36	-0.1%	\$47.40	\$54.08
<b>Georgetown</b>	2,743	87	180	337	28.1%	263	269	12.3%	2.7%	9.6%	9.8%	\$43.11	-7.2%	\$46.45	\$42.94
Georgetown - Class A	1,190	37	69	211	58.0%	134	112	17.7%	6.5%	11.2%	9.4%	\$45.68	-15.1%	\$53.83	\$45.72
<b>Southwest</b>	12,852	896	615	1,037	9.0%	951	1,201	8.1%	0.7%	7.4%	9.3%	\$46.68	-2.6%	\$47.92	\$47.25
Southwest - Class A	8,813	736	348	813	12.2%	724	801	9.2%	1.0%	8.2%	9.1%	\$47.79	-3.4%	\$49.47	\$48.60
<b>Uptown</b>	6,303	207	355	1,410	41.5%	997	1,119	22.4%	6.6%	15.8%	17.8%	\$41.64	1.0%	\$41.23	\$40.81
Uptown - Class A	602	35	26	40	30.8%	9,685	88	6.7%	1.6%	5.1%	14.6%	\$50.58	5.2%	\$48.07	\$40.11
<b>Fairfax County</b>	100,889	4,612	5,815	20,454	-3.1%	21,108	21,885	20.3%	-0.6%	20.9%	21.7%	\$27.86	-0.1%	\$27.89	\$28.00
Fairfax County - Class A	60,660	3,375	4,128	13,099	-3.1%	13,517	14,315	21.6%	-0.7%	22.3%	23.6%	\$30.22	0.6%	\$30.05	\$30.03
<b>Alexandria</b>	15,495	607	875	3,531	0.2%	3,863	3,520	22.8%	0.0%	22.7%	22.7%	\$32.89	-1.1%	\$33.26	\$32.83
Alexandria - Class A	7,868	450	444	1,325	-1.7%	1,348	1,348	16.8%	-0.3%	17.1%	17.1%	\$32.67	-1.9%	\$33.30	\$32.77
<b>Arlington County</b>	37,176	2,973	2,800	8,646	2.0%	8,476	8,122	23.3%	0.5%	22.8%	21.8%	\$39.02	-0.4%	\$39.19	\$38.80
Arlington County - Class A	22,364	1,868	1,748	5,772	3.0%	5,606	5,182	25.8%	0.7%	25.1%	23.2%	\$40.31	-0.3%	\$40.43	\$40.19
<b>Loudoun/Stafford/Prince William</b>	14,993	379	612	1,889	-1.6%	1,919	2,469	12.6%	-0.2%	12.8%	16.5%	\$22.77	-0.2%	\$22.82	\$23.26
Loudoun/Stafford/Prince William - Class A	6,202	247	427	1,041	0.1%	1,040	1,374	16.8%	0.0%	16.8%	22.2%	\$24.98	0.2%	\$24.93	\$25.19
<b>Montgomery County</b>	60,026	3,452	3,262	9,409	1.6%	9,258	10,020	15.7%	0.3%	15.4%	16.7%	\$28.36	0.8%	\$28.13	\$28.49
Montgomery County - Class A	31,570	2,485	2,225	5,519	0.5%	5,494	5,908	17.5%	0.1%	17.4%	18.7%	\$29.96	0.1%	\$29.94	\$29.82
<b>Prince George's County</b>	23,802	774	883	4,211	-1.2%	4,261	4,583	17.7%	-0.2%	17.9%	19.3%	\$21.92	2.0%	\$21.49	\$21.65
Prince George's County - Class A	11,534	589	620	2,460	-2.2%	2,515	2,871	21.3%	-0.5%	21.8%	24.9%	\$21.76	2.1%	\$21.31	\$21.58
<b>Washington D.C. Total</b>	130,636	7,768	8,926	17,683	5.4%	16,770	16,837	13.5%	0.7%	12.8%	12.9%	\$51.33	0.5%	\$51.08	\$51.36
Washington D.C. Total - Class A	73,646	5,196	5,820	9,314	4.4%	8,918	9,706	12.6%	0.5%	12.1%	13.2%	\$55.62	0.2%	\$55.49	\$56.58
<b>Northern Virginia Total</b>	168,582	8,570	10,102	34,519	-1.4%	35,026	35,996	20.5%	-0.3%	20.8%	21.4%	\$31.19	0.8%	\$30.93	\$30.90
Northern Virginia Total - Class A	97,094	5,940	6,747	21,237	-1.3%	21,512	22,219	21.9%	-0.3%	22.2%	22.9%	\$33.24	1.2%	\$32.85	\$32.75
<b>Suburban Maryland Total</b>	83,828	4,226	4,151	13,620	0.7%	13,519	14,603	16.2%	0.1%	16.1%	17.4%	\$26.38	1.4%	\$26.01	\$26.37
Suburban Maryland Total - Class A	43,104	3,074	2,851	7,979	-0.4%	8,009	8,779	18.5%	-0.1%	18.6%	20.4%	\$27.47	1.1%	\$27.19	\$27.20
<b>Greater Washington D.C. Total</b>	383,046	20,565	23,179	65,822	0.8%	65,316	67,436	17.2%	0.1%	17.1%	17.6%	\$35.67	1.9%	\$34.99	\$35.50
Greater Washington D.C. Total - Class A	213,843	14,211	15,418	38,531	0.2%	38,439	40,704	18.0%	0.0%	18.0%	19.0%	\$38.01	2.1%	\$37.24	\$37.62

## Please contact us for further information

**Savills Studley**  
 Washington, DC  
 1201 F Street, N.W.,  
 Suite 500  
 Washington, DC 20004-1225  
 (202) 628-6000

**Savills Studley**  
 Suburban Washington  
 7900 Tysons One Place.  
 Suite 420  
 Tysons, VA 22102  
 (703) 442-9000

### Washington, DC Region Co-Branch Managers

Thomas M. Fulcher Jr., EVP - tfulcher@savills-studley.com  
 Lois A. Zambo, Vice Chairman - lzambo@savills-studley.com  
 Richard P. Rome, EVP - rrome@savills-studley.com  
 David Lipson, EVP - dlipson@savills-studley.com  
 William P. Quinby, EVP - bquinby@savills-studley.com  
 Gary Stein, EVP - gstein@savills-studley.com

(1) Percentage point change for availability rates.  
 Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.  
 Statistics are calculated using both direct and sublease information.  
 Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.  
 Copyright © 2017 Savills Studley