

Savills Studley Report Washington, DC office sector

Q3 2017



SUMMARY

Market Highlights

Washington, DC: The third quarter brought a continuation of tenant-favorable trends experienced so far this year in the District. Availability continues to increase, yet DC is experiencing its highest level of construction activity since the recession. Overall availability ended Q3 at 14.2%, 0.7pp points higher than Q2, with year-to-date leasing activity down significantly compared to this time last year due to a lack of “mega deals”. Only two leases over 100,000 sf were seen this quarter.

Northern Virginia: Overall leasing volume in Northern Virginia posted a dramatic increase, jumping by 103.1% relative to the previous quarter. Despite

the uptick in volume, a significant percentage of activity came in the form of renewals and early restructures. As a result, overall availability still increased by 0.2pp and asking rents increased by just \$0.06 psf.

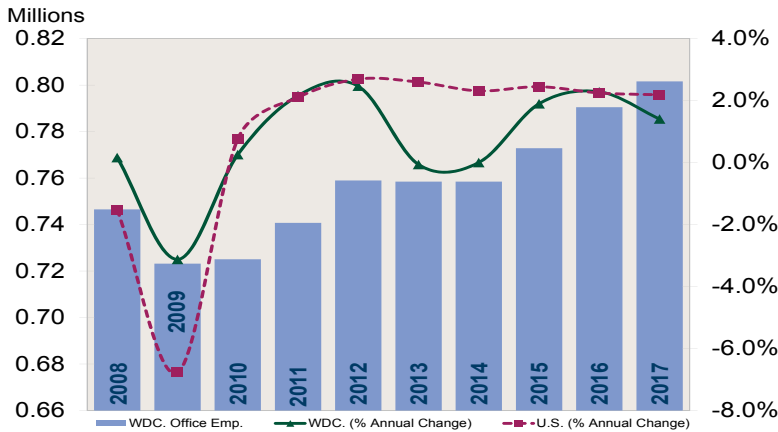
Suburban Maryland: The Maryland Suburbs experienced significant net growth during the third quarter. The region has been able to lure several tenants from outside the jurisdiction, and new construction is in high demand. As a result, overall availability decreased by 0.8pp year-over-year, and asking rents increased by 0.9% compared to this time last year.

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“Construction activity in the region is at its highest since the recession. That, coupled with a lull in demand, has led to an increase in availability in both DC and Northern Virginia. Suburban Maryland has seen some tightening, as Maryland has succeeded in luring several large tenants from DC. Still, on the whole, market conditions lean tenant favorable with an abundant number of options in any size range.”

Tom Fulcher,
Executive Vice President

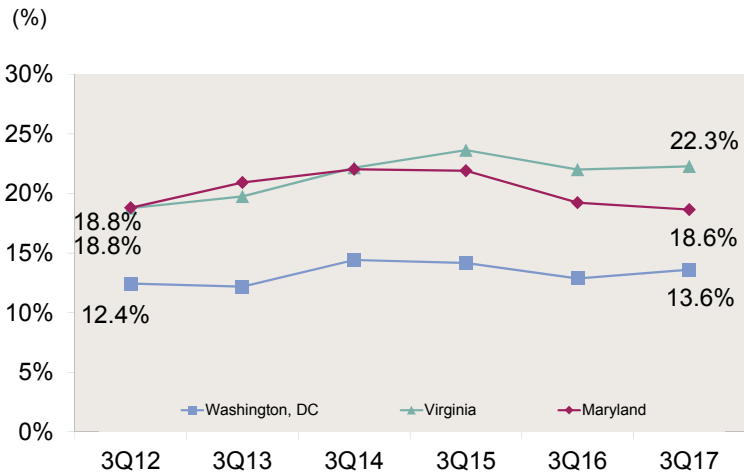
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Office-Using Employment Trends

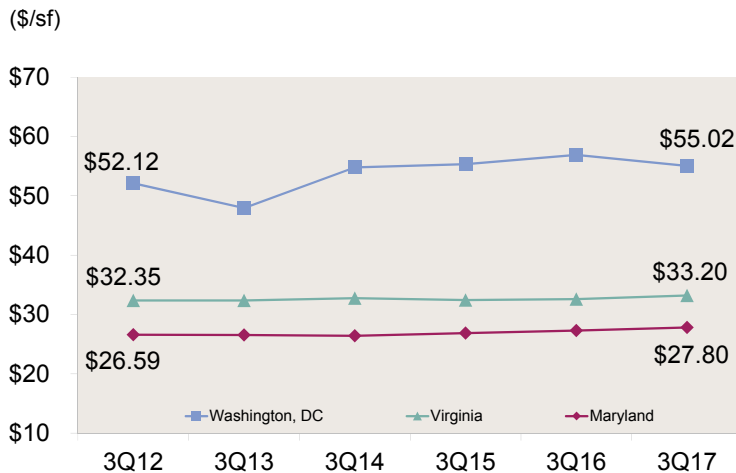


Source: Bureau of Labor Statistics

Class A Availability Rate Trends



Class A Asking Rent Trends



New Construction and Constrained Demand Lead to Increasing Availability

With new construction on the rise and the pace of leasing activity still well-below that seen in recent years, availability continues to tick up in DC. Overall availability increased by a full 1.0pp year-over-year for all classes, now at 14.2%. Class A product saw a similar rise in availability, increasing by 0.7 pp over the year to end Q3 at 13.6%. Two repositioned buildings added to the increase in available space this quarter with 2000 K Street NW delivering in the CBD, and 1441 L Street NW in the East End on target to complete this time next year. Neither project has yet to secure a tenant. Despite the continued increase in availability, owners are reluctant to drop asking rents significantly. At \$51.15 psf, the overall all-classes asking rent decreased by just 0.4% from Q2, marking a 1.1% decrease year-over-year. With very little demand from large tenants, year-to-date leasing activity totaled just 5.3 msf, a 40.6% decrease in activity when compared to the same period last year. In context, this decrease is about the same when compared to 2015 and marks the lowest third quarter year-to-date total since 2013.

Availability Increases Despite Dramatic Uptick in Leasing Volume

Leasing activity in the Virginia suburbs increased dramatically during the third quarter as total volume reached 3.95 msf; an increase of 103.1% relative to the previous quarter and the highest quarterly total since the fourth quarter of 2010. The uptick in activity can be attributed to several significant federal agency leases; chief among them, the Transportation Security Administration's announced relocation from Pentagon City into a new, 625,000-sf facility in the Springfield submarket. Despite the pronounced jump in leasing volume, a significant portion of the region's activity came in the form of renewals and early restructures. As a result, overall availability increased by 0.2pp relative to the previous quarter (and year) and average asking rents inched up by just 0.2% over Q3, ending the quarter at \$31.25 psf.

Tightening Availability Puts Upward Pressure on Asking Rents

The Suburban Maryland office market showed signs of tightening in the third quarter, as total leasing volume surpassed that seen in both the first and second quarters combined. The region tallied 1.9 msf in total leasing volume, representing a 226.1% increase relative to the previous quarter. Suburban Maryland benefitted

from several leases that will represent significant net growth for the region in the coming years as USCIS announced a lease to shift 3,700 employees from several locations in DC to a to-be-built facility totaling 574,767 sf in Prince George's County. And though not yet finalized, it has also been reported that Fox 5 announced plans to relocate from the District into nearly 60,000 sf at Carr Properties' new trophy development at the former Apex Building in downtown Bethesda. As a result of increased demand, overall availability decreased by 0.8pp and asking rents increased by 0.9% relative to the previous year.

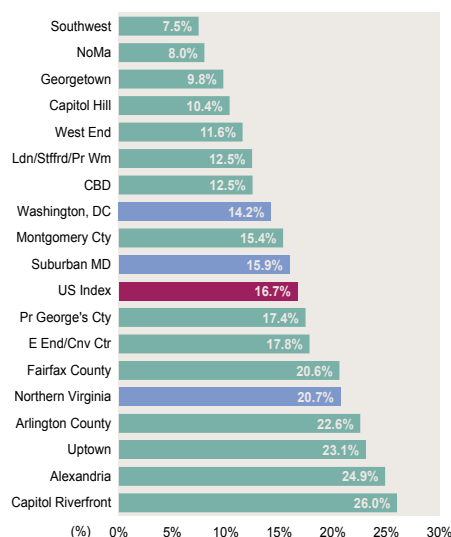
SUBMARKET FOCUS

Despite the pervasive slowness in the market, non-core submarkets saw some notable activity in the third quarter. There were only two leases over 100,000 sf signed in DC in Q3, both outside of the market's core downtown. The District of Columbia Department of General Services signed to relocate 118,720 sf to 1015 Half Street SE in the Capitol Riverfront, while Amtrak restructured its 106,360-sf space to stay at 10 G Street NE in NoMA. With a continued flight to new construction, Skanska was able to secure its first two tenants at 99 M Street SE in Capitol Riverfront with the Credit Union National Association signing on for 22,143 sf and PYXERA Global committing to 17,056 sf. The building is expected to deliver early next year. Additionally the Wharf, delivering in Q4, signed Cornerstone Government Affairs (14,810 sf) to 800 Maine Avenue SW bringing the building to 89% leased prior to opening.

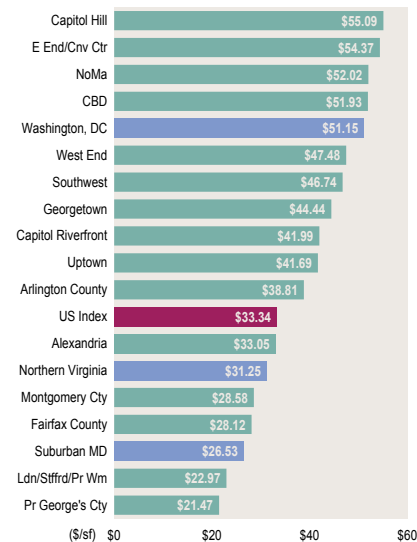
The Old Town Alexandria submarket posted a strong performance during the third quarter and continues to be among the tightest submarkets in the region in terms of vacancy. On the heels of the National Science Foundation's relocation from Arlington, Old Town landed another major federal agency. USDA Food & Nutrition Services announced plans to relocate from the I-395 Corridor submarket into 136,023 sf at 1320 Braddock Pl. The Global Business Travel Association also announced a relocation from 123 N Pitt St to 1101 King St expanding by 7,500 sf in the process.

The Bethesda/Chevy Chase submarket saw a flurry of activity during the third quarter, tallying 770,000 sf in total leasing volume. In the largest transaction of 2017, Marriott International finalized its lease to relocate into 700,000 sf at 7750 Wisconsin Ave in downtown Bethesda. New construction is a top-choice amongst tenants in the submarket; in addition to the Fox 5 announcement, there are a number of other rumored deals close to signing that will chip away at new and planned developments, like JBG Smith's new headquarters building, making

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Marriott International	700,000	7750 Wisconsin Avenue	Montgomery County
GSA - Transportation Security Administration	625,000	Springfield Center Drive	Fairfax County
GSA - US Citizenship & Immigration Services	574,767	1 Capital Gateway Drive	Prince George's County
GSA - Department of State	343,000	1701 N Fort Myer Drive & 1200 Wilson Blvd	Arlington County
Office of Naval Research	313,000	875 N Randolph Street	Arlington County
Lockheed Martin	285,449	13560 Dulles Technology Drive	Fairfax County
General Dynamics	215,501	3150 Fairview Park Drive	Fairfax County
Argon ST	141,724	12701 Fair Lakes Circle	Fairfax County
District of Columbia Department of General Services*	118,720	1015 Half Street SE	Capitol Riverfront
Amtrak*	106,360	10 G Street NE	NoMa
Sum of Top 10 Leases	3,423,521	Sum of 3rd Quarter Leasing Activity	7.2 MSF

*Savills Studley Lease

Bethesda/Chevy Chase one of the tightest submarkets in both Suburban Maryland and the region.

OUTLOOK

A lack of large-tenant demand coupled with the addition of new construction options has resulted in a significant increase in availability in DC over the year. And while new construction is still a top choice for tenants, they are in general leaving behind more space than they are taking. Relet space, combined with unleased new construction, - whether it is lower floors that tend to get leased after the top floors are taken, or speculative space that has yet to secure a tenant - has left tenants with plentiful options at a variety of price points.

Office leasing conditions in Northern Virginia will remain tenant favorable for the foreseeable future as muted new demand and slowing job growth will combine to put downward pressure on asking rents throughout much of the region.

Overall availability is expected to increase throughout the remainder of the year as the ongoing trend toward right-sizing continues to put a damper on net growth.

The leasing landscape in Suburban Maryland will continue to favor tenants for the near to mid-term. While availability has tightened over the past 12 months, 13.4 msf of office space remains available throughout the region. Despite a slight increase in asking rents, effective rents remain flat as a result of the generous concession values offered by landlords.

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
Capitol Hill	5,776	616	334	598	-0.1%	598	601	10.4%	0.0%	10.4%	10.4%	\$55.09	1.1%	\$54.51	\$58.60
Capitol Hill - Class A	2,136	538	211	248	25.5%	198	297	11.6%	2.4%	9.3%	13.9%	\$61.50	5.4%	\$58.34	\$61.69
Capitol Riverfront	5,343	391	N/A	1,389	3.5%	1,342	1,565	26.0%	0.9%	25.1%	29.3%	\$41.99	-2.9%	\$43.26	\$41.30
Capitol Riverfront - Class A	4,088	390	N/A	368	15.0%	320	540	9.0%	1.2%	7.8%	13.2%	\$46.25	-8.0%	\$50.28	\$43.85
NoMa	12,025	560	N/A	962	-4.5%	1,007	1,143	8.0%	-0.4%	8.4%	9.5%	\$52.02	1.0%	\$51.52	\$48.06
NoMa - Class A	9,685	481	N/A	823	-2.2%	842	781	8.5%	-0.2%	8.7%	8.1%	\$53.32	1.0%	\$52.77	\$52.68
East End/Convention Center	43,067	2,298	3,540	7,674	5.7%	7,259	7,142	17.8%	1.0%	16.9%	16.6%	\$54.37	-1.5%	\$55.18	\$56.54
East End/Convention Center - Class A	29,915	1,441	2,665	5,225	4.4%	5,005	4,926	17.5%	0.7%	16.7%	16.5%	\$56.30	-2.2%	\$57.55	\$61.08
Central Business District	38,664	2,238	2,944	4,832	13.0%	4,276	3,796	12.5%	1.4%	11.1%	9.8%	\$51.93	0.4%	\$51.72	\$52.69
Central Business District - Class A	14,572	936	1,613	1,920	30.9%	1,466	1,409	13.2%	3.1%	10.1%	9.7%	\$58.44	0.2%	\$58.32	\$58.03
West End	3,863	44	137	447	6.9%	418	487	11.6%	0.7%	10.8%	12.6%	\$47.48	0.2%	\$47.36	\$48.78
West End - Class A	2,646	44	111	447	6.9%	418	487	16.9%	1.1%	15.8%	18.4%	\$47.48	0.2%	\$47.36	\$48.78
Georgetown	2,743	162	184	268	-20.5%	337	250	9.8%	-2.5%	12.3%	9.1%	\$44.44	3.1%	\$43.11	\$42.51
Georgetown - Class A	1,190	100	72	165	-21.8%	211	98	13.9%	-3.9%	17.7%	8.3%	\$47.03	3.0%	\$45.68	\$44.98
Southwest	12,852	634	602	958	-7.5%	1,037	1,105	7.5%	-0.6%	8.1%	8.6%	\$46.74	0.1%	\$46.68	\$47.40
Southwest - Class A	8,813	611	342	747	-8.1%	813	859	8.5%	-0.7%	9.2%	9.7%	\$47.77	-0.1%	\$47.79	\$48.27
Uptown	6,303	230	356	1,453	3.1%	1,410	1,080	23.1%	0.7%	22.4%	17.1%	\$41.69	0.1%	\$41.64	\$41.13
Uptown - Class A	602	42	26	80	97.8%	9,685	62	13.3%	6.6%	6.7%	10.4%	\$48.31	-4.5%	\$50.58	\$48.49
Fairfax County	100,889	5,812	5,872	20,796	1.7%	20,454	21,373	20.6%	0.3%	20.3%	21.2%	\$28.12	0.9%	\$27.86	\$27.97
Fairfax County - Class A	60,660	4,402	4,177	13,577	3.7%	13,099	14,065	22.4%	0.8%	21.6%	23.2%	\$30.29	0.2%	\$30.22	\$29.96
Alexandria	15,495	683	878	3,856	9.2%	3,863	3,468	24.9%	2.1%	22.8%	22.4%	\$33.05	0.5%	\$32.89	\$33.06
Alexandria - Class A	7,868	396	442	1,312	-0.9%	1,325	1,339	16.7%	-0.2%	16.8%	17.0%	\$32.66	0.0%	\$32.67	\$33.05
Arlington County	37,176	3,111	2,806	8,387	-3.0%	8,646	7,664	22.6%	-0.7%	23.3%	20.6%	\$38.81	-0.5%	\$39.02	\$38.73
Arlington County - Class A	22,364	2,323	1,770	5,684	-1.5%	5,772	4,804	25.4%	-0.4%	25.8%	21.5%	\$40.19	-0.3%	\$40.31	\$39.98
Loudoun/Stafford/Prince William	14,993	369	612	1,867	-1.1%	1,889	2,096	12.5%	-0.1%	12.6%	14.0%	\$22.97	0.9%	\$22.77	\$23.64
Loudoun/Stafford/Prince William - Class A	6,202	237	426	1,054	1.2%	1,041	1,158	17.0%	0.2%	16.8%	18.7%	\$25.17	0.8%	\$24.98	\$25.33
Montgomery County	60,026	3,049	3,242	9,214	-2.1%	9,409	9,611	15.4%	-0.3%	15.7%	16.0%	\$28.58	0.8%	\$28.36	\$28.39
Montgomery County - Class A	31,570	2,269	2,215	5,469	-0.9%	5,519	5,510	17.3%	-0.2%	17.5%	17.5%	\$30.29	1.1%	\$29.96	\$30.07
Prince George's County	23,802	1,451	915	4,153	-1.4%	4,211	4,429	17.4%	-0.2%	17.7%	18.6%	\$21.47	-2.1%	\$21.92	\$21.71
Prince George's County - Class A	11,534	1,242	651	2,568	4.4%	2,460	2,775	22.3%	0.9%	21.3%	24.1%	\$21.82	0.2%	\$21.76	\$21.64
Washington D.C. Total	130,636	7,173	8,898	18,581	5.1%	17,683	17,169	14.2%	0.7%	13.5%	13.2%	\$51.15	-0.4%	\$51.33	\$51.74
Washington D.C. Total - Class A	73,846	4,583	5,791	10,024	7.6%	9,314	9,460	13.6%	1.0%	12.6%	12.9%	\$55.02	-1.1%	\$55.62	\$56.89
Northern Virginia Total	168,582	9,976	10,169	34,906	1.1%	34,519	34,601	20.7%	0.2%	20.5%	20.5%	\$31.25	0.2%	\$31.19	\$30.84
Northern Virginia Total - Class A	97,094	7,358	6,815	21,628	1.8%	21,237	21,365	22.3%	0.4%	21.9%	22.0%	\$33.20	-0.1%	\$33.24	\$32.57
Suburban Maryland Total	83,828	4,500	4,164	13,367	-1.9%	13,620	14,040	15.9%	-0.3%	16.2%	16.7%	\$26.53	0.6%	\$26.38	\$26.29
Suburban Maryland Total - Class A	43,104	3,511	2,871	8,038	0.7%	7,979	8,285	18.6%	0.1%	18.5%	19.2%	\$27.80	1.2%	\$27.47	\$27.29
Greater Washington D.C. Total	383,046	21,649	23,230	66,855	1.6%	65,822	65,810	17.5%	0.3%	17.2%	17.2%	\$35.97	0.8%	\$35.67	\$35.48
Greater Washington D.C. Total - Class A	213,843	15,451	15,477	39,689	3.0%	38,531	39,110	18.6%	0.5%	18.0%	18.3%	\$38.34	0.9%	\$38.01	\$37.55

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(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.
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