

Market Review & Outlook

Review: Effective Rent Increases in 2016

Effective rent has increased over 2016 as the market remains bifurcated. There is strong demand for the newest trophy product, but tepid activity in the balance of the market. As a result, total rents increased as a reflection of the caliber of property in which the bulk of activity took place. Concessions rose along with face rents, as landlords use increasingly attractive packages to lure tenants in a competitive market.

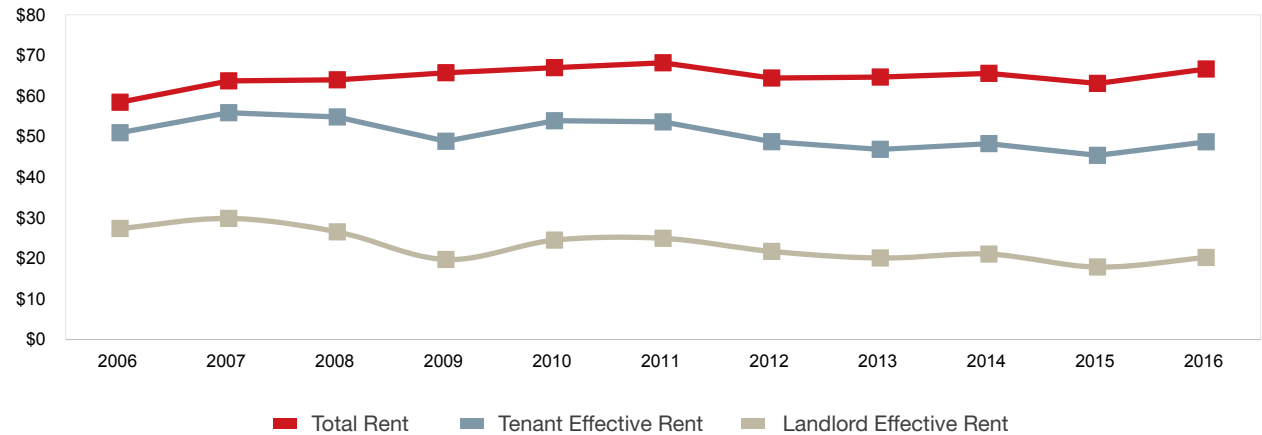
	2016	% Change
Net Rent	\$40.59	7.1
Operating Expenses	10.10	6.3
Real Estate Taxes	13.15	1.9
Tenant Electricity	2.83	0.0
Total Rent	66.67	5.6
Amortized Concessions	-17.93	1.3
Tenant Effective Rent	48.74	7.3
Landlord Effective Rent	20.27	13.1

Outlook: Uncertainty Reins in Demand

It remains to be seen what direction the new Administration and a Republican-led Congress will pursue. Some sectors such as defense and cyber-security may benefit from padded budgets, but this could come at the expense of a long list of discretionary spending. Tenants may proceed cautiously, forcing landlords to be flexible in the coming year.

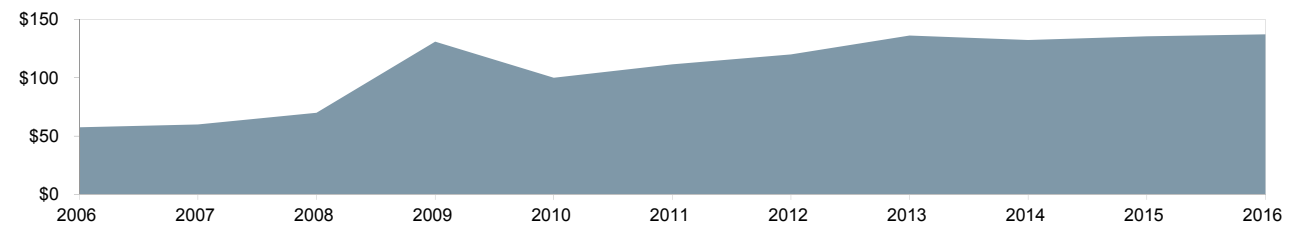


Rent Trends



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average Annual Change		
												2015-2016	2011-2016	2006-2016
Total Rent	\$58.50	\$63.75	\$64.00	\$65.75	\$67.00	\$68.21	\$64.45	\$64.68	\$65.59	\$63.12	\$66.67	5.6%	-0.5%	1.3%
Tenant Effective Rent	\$50.99	\$55.91	\$54.86	\$48.89	\$53.94	\$53.65	\$48.78	\$46.89	\$48.30	\$45.41	\$48.74	7.3%	-1.9%	-0.5%
Landlord Effective Rent	\$27.41	\$29.88	\$26.57	\$19.79	\$24.54	\$24.99	\$21.76	\$20.14	\$21.11	\$17.92	\$20.27	13.1%	-4.1%	-3.0%

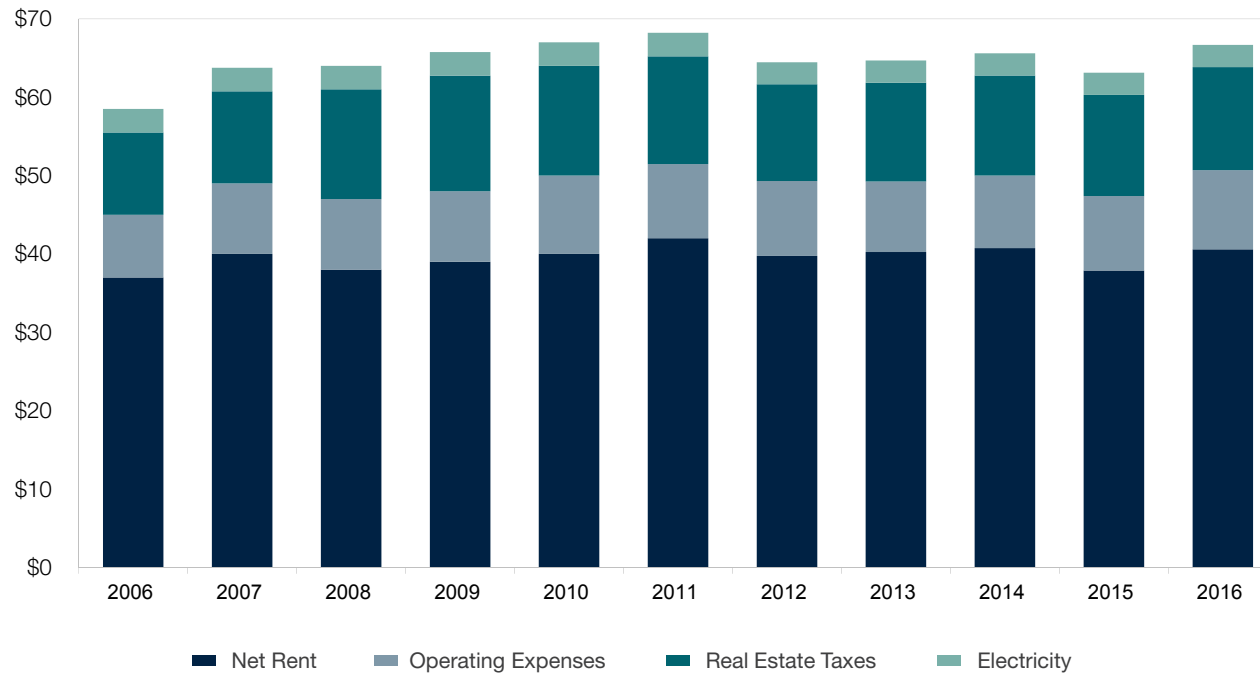
Concessions



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average Annual Change		
												2015-2016	2011-2016	2006-2016
Concessions	\$57.50	\$60.00	\$70.00	\$131.00	\$100.00	\$111.50	\$120.00	\$136.21	\$132.35	\$135.57	\$137.27	1.3%	4.2%	9.1%
Concessions/Rent Ratio*	12.8%	12.3%	14.3%	26.0%	19.5%	21.4%	24.3%	27.5%	26.4%	28.1%	26.9%			

* Equals amortized concessions as a percentage of total rent.

Total rent rose by 5.6% to \$66.67 as leasing in the very highest-caliber properties accounted for the majority of activity. Net rent increased by 7.1% to \$40.59, pushing just below its mark two years ago. Some of the increase in total rent came via higher operating expenses (+6.3%) and real estate taxes (+1.9%). Record rent was accompanied by record concessions, though. Concessions hit another peak, rising to \$137.27/sf. Tenant effective rent, nevertheless jumped by 7.3% to \$48.74 and landlord effective rent spiked by 13.1% to \$20.27. Even so, landlord effective rent was still 22.3% below the \$26.68 peak of 2011.



												Average Annual Change		
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2015-2016	2011-2016	2006-2016
Net Rent	\$37.00	\$40.00	\$38.00	\$39.00	\$40.00	\$42.00	\$39.75	\$40.25	\$40.75	\$37.89	\$40.59	7.1%	-0.7%	0.9%
Operating Expenses	\$8.00	\$9.00	\$9.00	\$9.00	\$10.00	\$9.46	\$9.55	\$9.00	\$9.25	\$9.50	\$10.10	6.3%	1.3%	2.4%
Real Estate Taxes	\$10.50	\$11.75	\$14.00	\$14.75	\$14.00	\$13.75	\$12.35	\$12.58	\$12.76	\$12.90	\$13.15	1.9%	-0.9%	2.3%
Electricity	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$2.80	\$2.85	\$2.83	\$2.83	\$2.83	0.0%	-1.2%	-0.6%
Total Rent	\$58.50	\$63.75	\$64.00	\$65.75	\$67.00	\$68.21	\$64.45	\$64.68	\$65.59	\$63.12	\$66.67	5.6%	-0.5%	1.3%

Lease Terms/Concessions

Review: Concessions Remain High

Tenants once again captured record concession packages, particularly in the newest trophy buildings. Landlords have been offsetting some of the costs associated with relocations and build-out via elevated tenant improvement allowances.

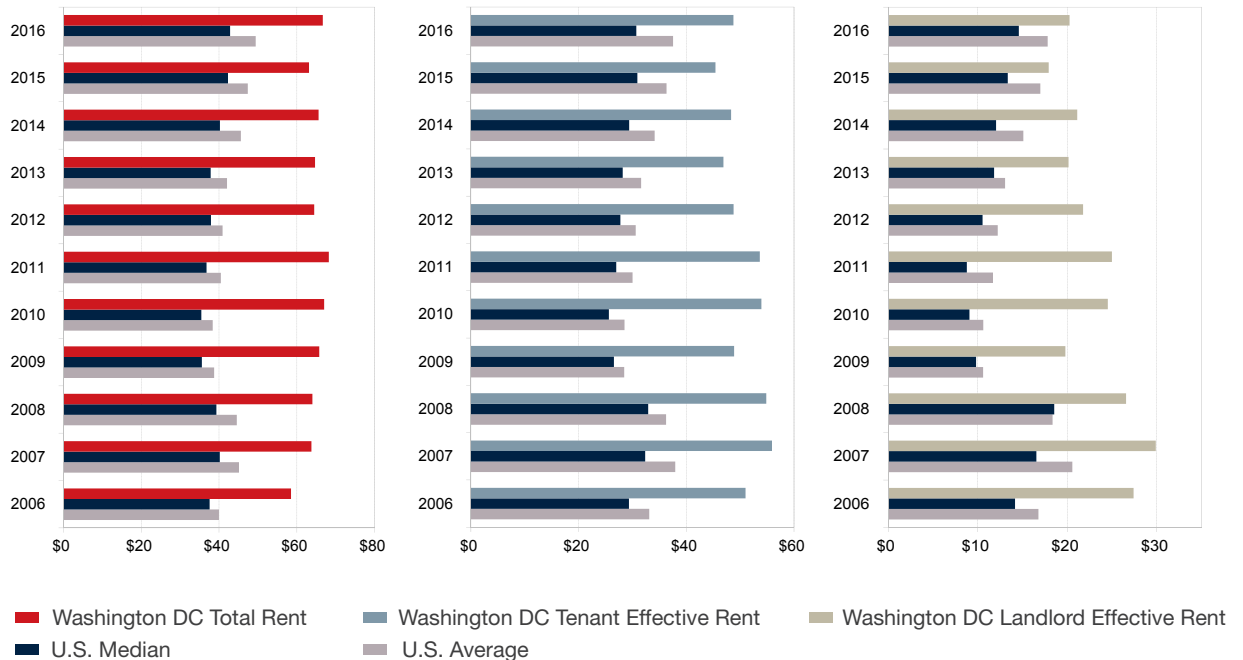
Leases Under 50,000 sf	
Average Term:	10 years
Free Rent:	6-12 months
Tenant Improvements:	\$70.00-\$90.00/sf

Leases Over 50,000 sf	
Average Term:	10-15 years
Free Rent:	9-15 months
Tenant Improvements:	\$90.00-\$130.00/sf

Outlook: Tenants in Strong Position

Compared to most other U.S. office markets, demand in Washington, DC is extremely vulnerable and tentative. The arrival of a new Administration that has promised to disrupt the federal government may create even more impediments to leasing activity.

Local & U.S. Historical Rent Trends



Total Rent[^]

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Washington, DC	\$58.50	\$63.75	\$64.00	\$65.75	\$67.00	\$68.21	\$64.45	\$64.68	\$65.59	\$63.12	\$66.67
U.S. Median	\$37.59	\$40.20	\$39.34	\$35.60	\$35.46	\$36.79	\$37.93	\$37.85	\$40.24	\$42.32	\$42.84
U.S. Average	\$39.99	\$45.13	\$44.57	\$38.74	\$38.40	\$40.45	\$40.93	\$42.06	\$45.61	\$47.41	\$49.42

Tenant Effective Rent

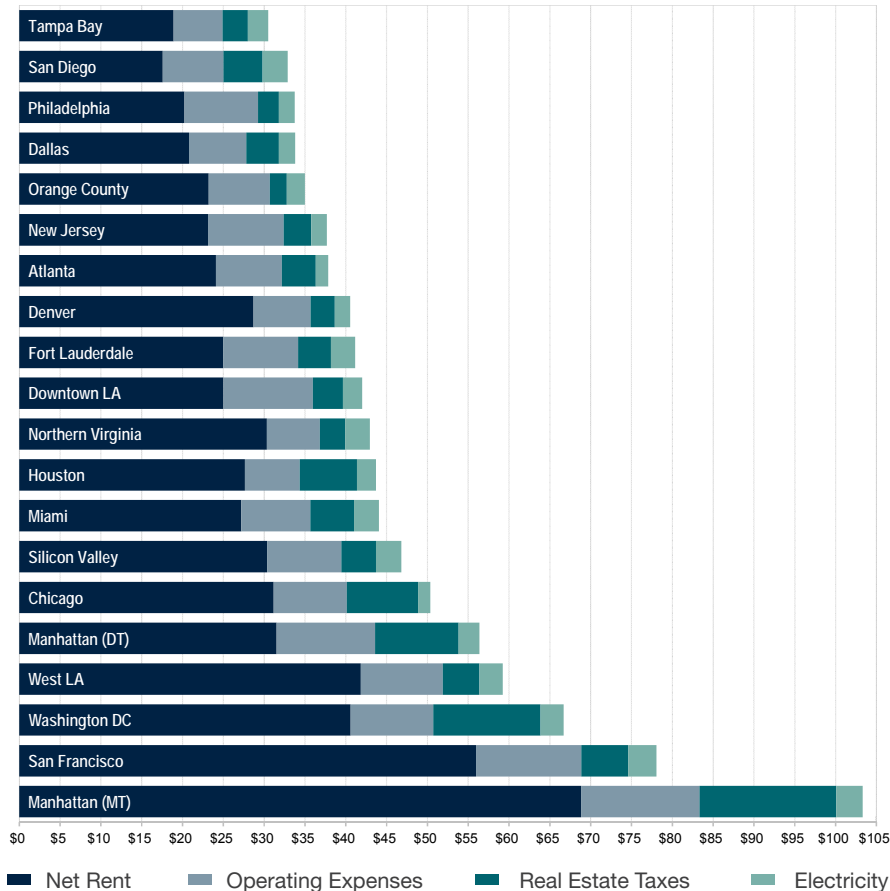
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Washington, DC	\$50.99	\$55.91	\$54.86	\$48.89	\$53.94	\$53.65	\$48.78	\$46.89	\$48.30	\$45.41	\$48.74
U.S. Median	\$29.36	\$32.36	\$32.93	\$26.55	\$25.63	\$26.99	\$27.77	\$28.20	\$29.39	\$30.91	\$30.73
U.S. Average	\$33.12	\$37.93	\$36.24	\$28.48	\$28.52	\$30.01	\$30.61	\$31.60	\$34.11	\$36.34	\$37.55

Landlord Effective Rent

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Washington, DC	\$27.41	\$29.88	\$26.57	\$19.79	\$24.54	\$24.99	\$21.76	\$20.14	\$21.11	\$17.92	\$20.27
U.S. Median	\$14.17	\$16.54	\$18.54	\$9.81	\$9.08	\$8.77	\$10.53	\$11.82	\$12.04	\$13.36	\$14.59
U.S. Average	\$16.78	\$20.57	\$18.35	\$10.60	\$10.61	\$11.70	\$12.23	\$13.05	\$15.09	\$16.99	\$17.82

[^] All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been the real estate industry’s only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation’s major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers “real world” numbers that reflect negotiated terms, including lease concessions and operating expense information. This report includes long-term direct leases signed in higher-caliber Class A buildings located in the East End/Convention Center, Capitol Hill and CBD submarkets during 2016.

*Updates to discount rate and building inventory have created revisions to historical data. Entire contents copyright © 2017 Savills Studley

Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant’s proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant’s premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes, and electricity.

Washington, DC Contact Information

1201 F Street, NW
Suite 500
Washington, DC 20004
(202) 628-6000

Research Contacts
Keith DeCoster
Director, National Research
kdecoster@savills-studley.com
(212) 326-1-23

Sarah Dreyer
Director
sdreyer@savills-studley.com
(202) 540-5510

