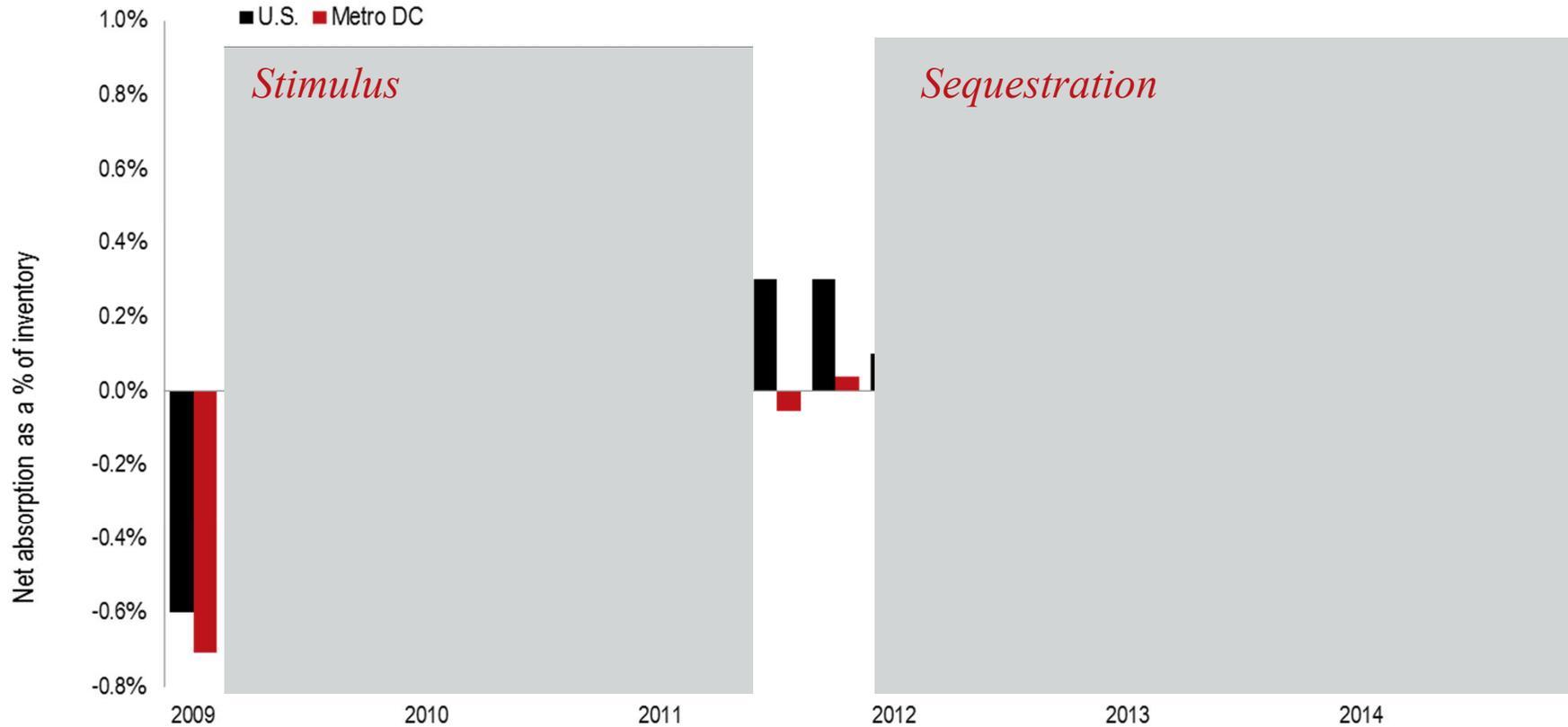




Washington, DC office market overview

February 11, 2015

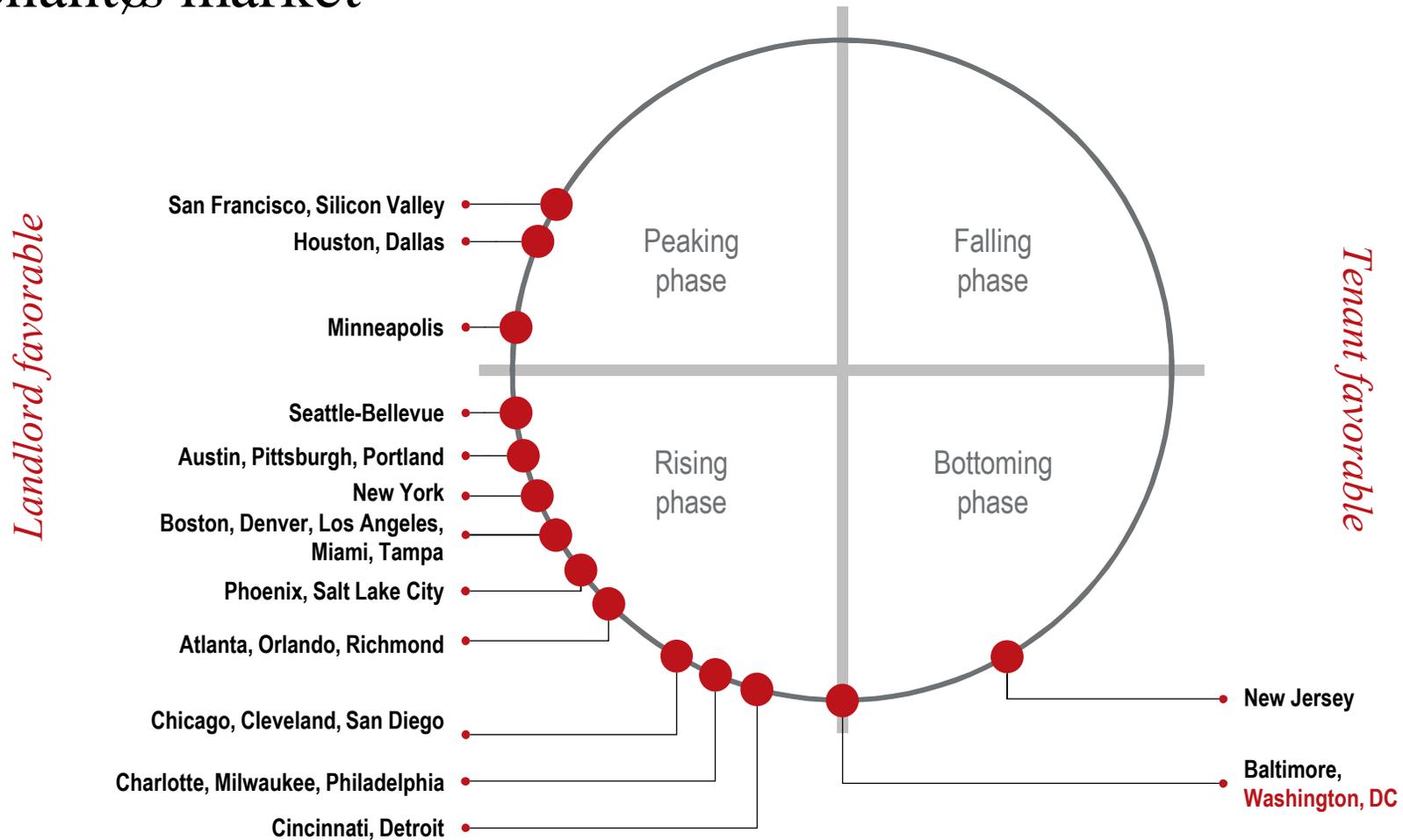
Stable and low volatility office market, Metro DC has experienced an unusual boom/bust cycle



Source: JLL Research

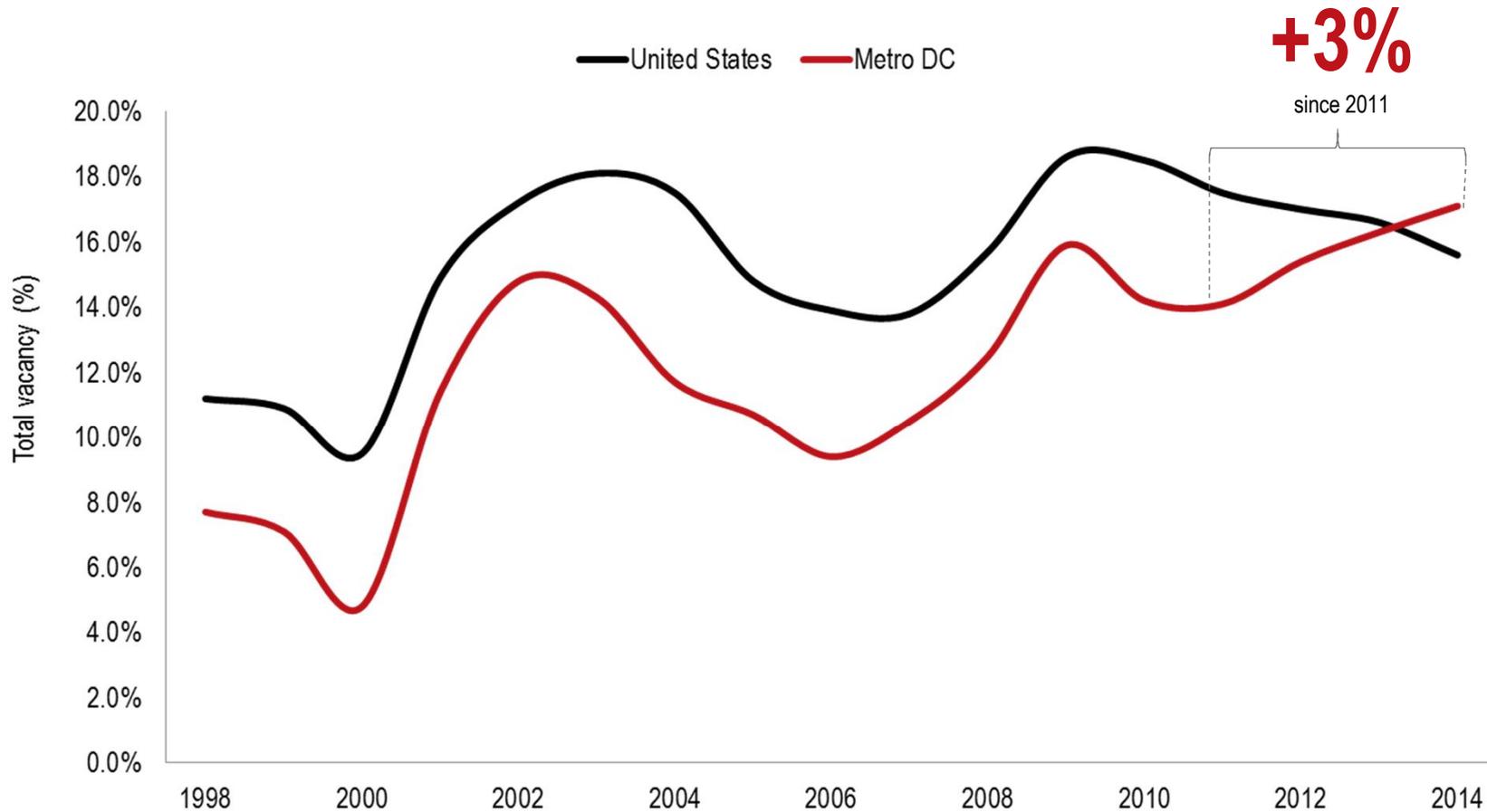
lock indicates that Washington, DC is a

tenant's market



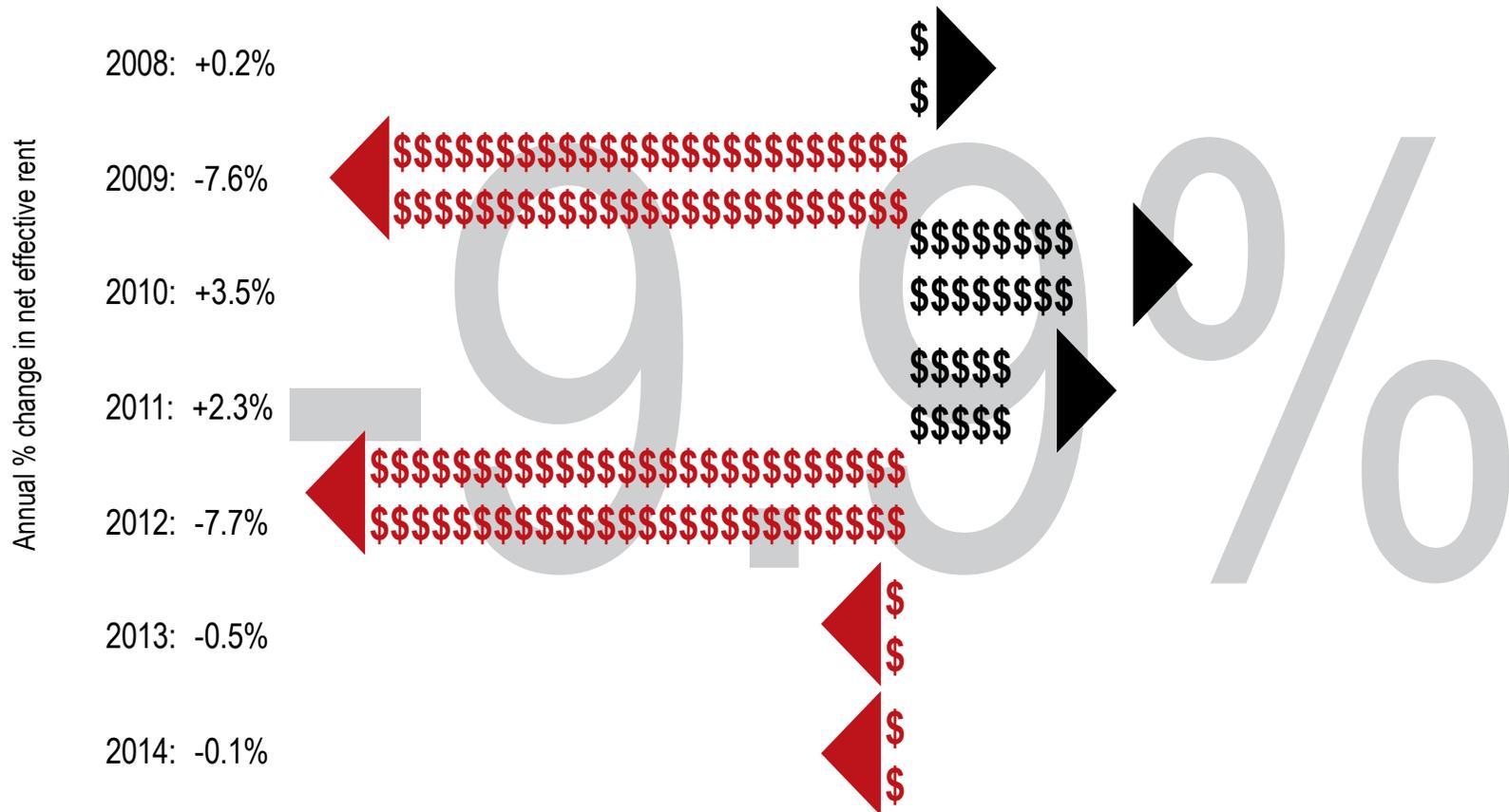
Source: JLL Research

in recorded history, office vacancy rates in Metro DC are higher than the national average



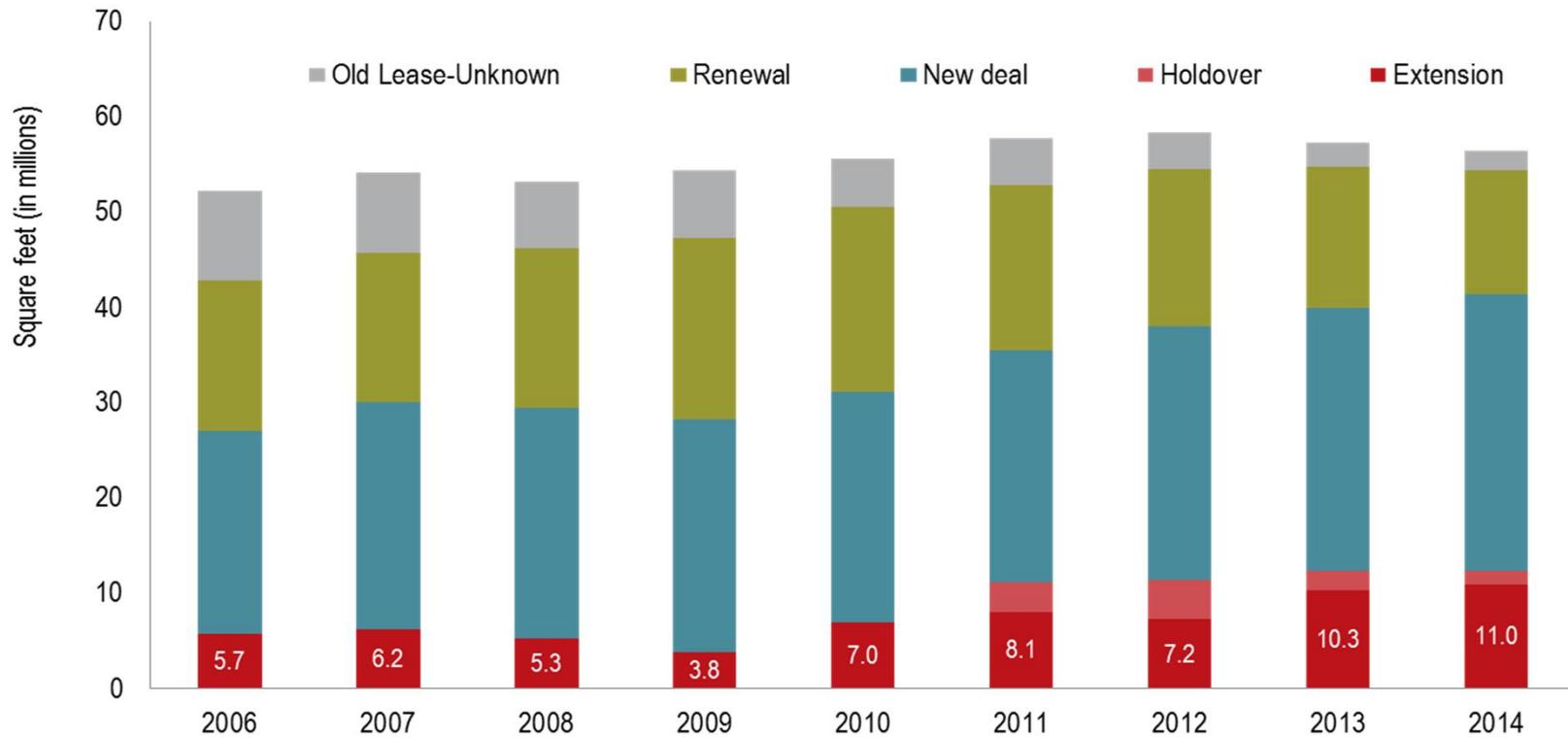
Source: JLL Research

Transactions, net effective rents in Washington, DC are 9.9% below 2008 peak



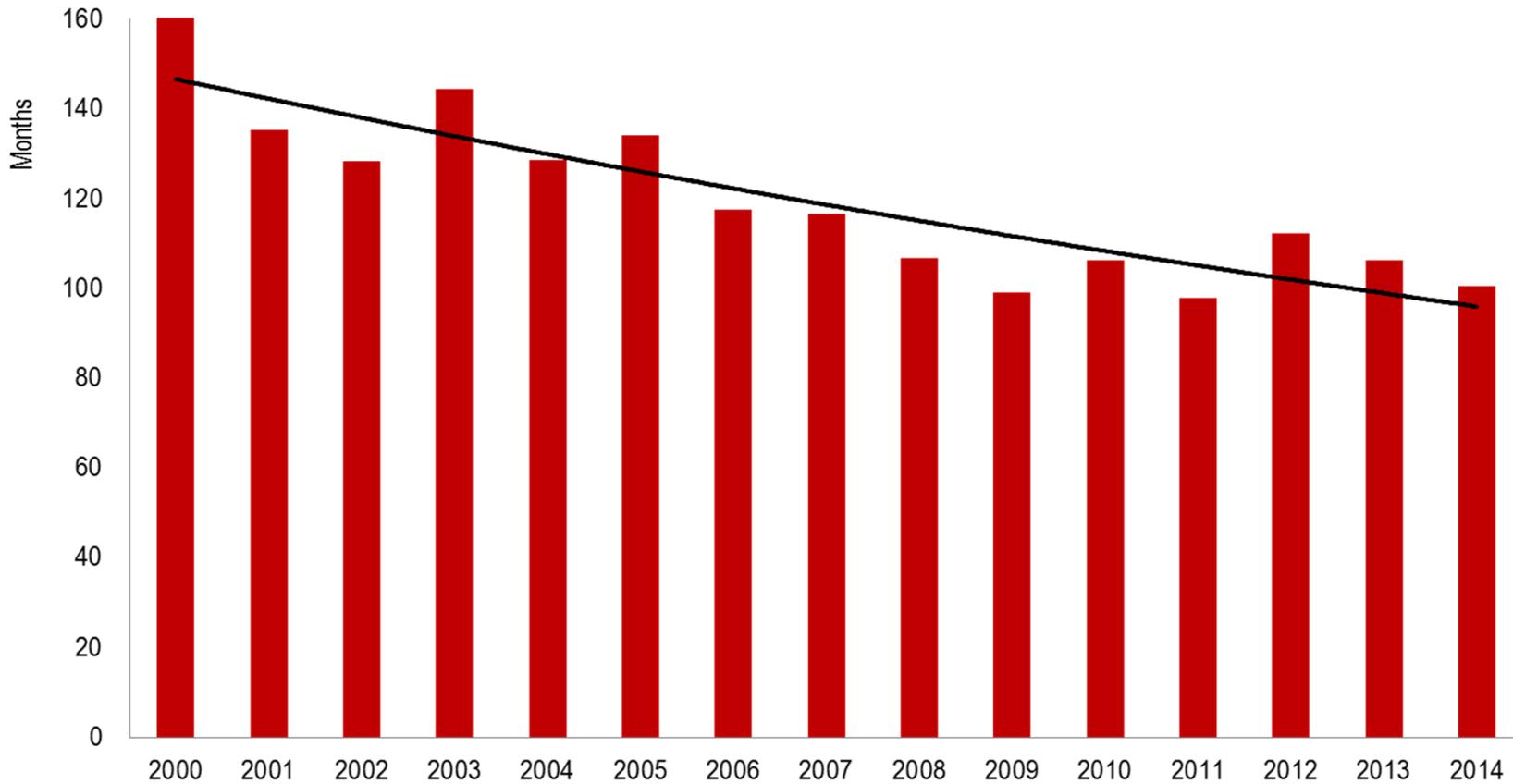
Source: JLL Research

Inventory in National Capitol Region



Source: JLL, GSA.gov, "Renewal" includes Superseding, Succeeding and Renewal actions affecting term as defined in GSA's 2014 Lease Inventory database; "New" includes New and New/Replacing actions affecting term; Holdover data only available back to 2011.

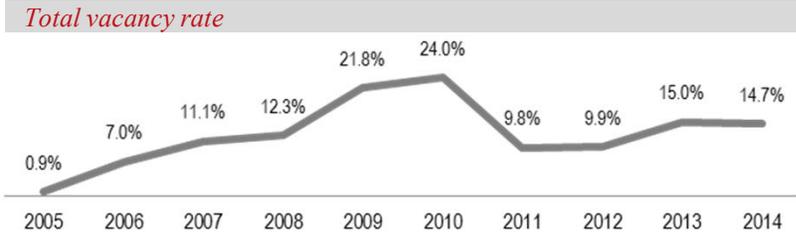
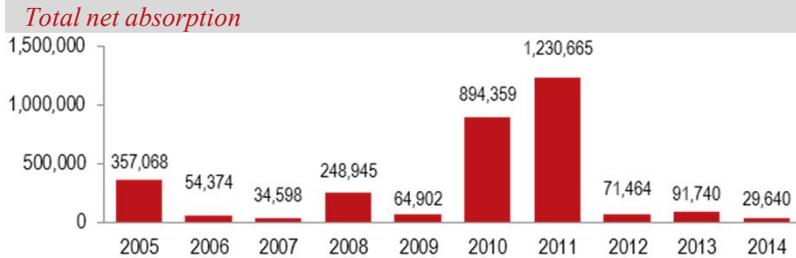
Cost savings, shortened lease terms have also become more prevalent in the private sector



Source: JLL Research (812 transactions; Class A, CBD and East End buildings only, excludes sublets, expansions and renewals)

profile

Limited leasing velocity due to lack of growth from the federal sector



Source: JLL Research

9.4 million s.f.
Inventory

14.7%
Total vacancy rate

\$51.62
Class A average direct asking rate

\$38.91
Class B average direct asking rate

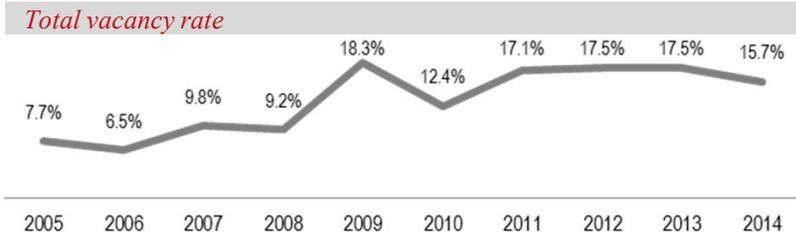
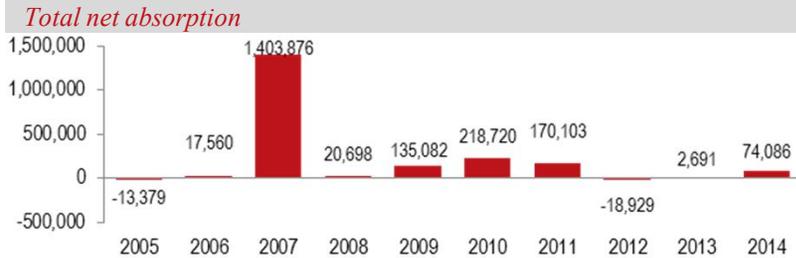
6
Blocks greater than 50,000 s.f.

0 s.f.
Under construction

- Submarket experienced unprecedented growth in 2010-2011 following the implementation of the stimulus
- Over the past three years, demand has diminished with restricted growth from the federal sector
- Two buildings remain fully-vacant post their 2013 deliveries – 1050 1st Street, NE & 175 N Street, NE
- Douglas Development will soon break ground at Uline Arena – a 200,000-square-foot adaptive reuse, which will deliver 150,000 square feet of office

Market profile

Lack of contractor and GSA demand hinders growth



Source: JLL Research

4.1 million s.f.
Inventory

15.7%
Total vacancy rate

\$46.13
Class A average direct asking rate

\$43.23
Class B average direct asking rate

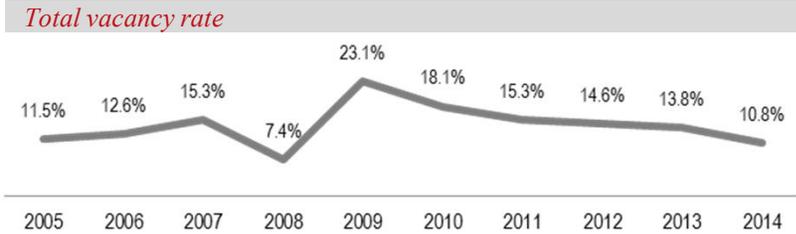
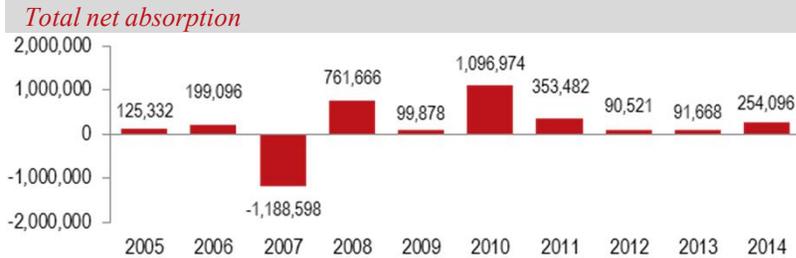
4
Blocks greater than 50,000 s.f.

0 s.f.
Under construction

- Submarket comprised mainly of federal tenants and government contractors
- Majority of office product delivered in the mid-2000's
- U.S. Department of Transportation and the Washington Navy Yard are located within the submarket
- Several large proposed development projects should significantly revitalize the submarket – Congressional Square & The Yards
- Neighborhood will continue to experience rapid retail and residential growth

Market profile

Federal enclave challenged with federal sector consolidations



Source: JLL Research

12.3 million s.f.
Inventory

10.8%
Total vacancy rate

\$50.24
Class A average direct asking rate

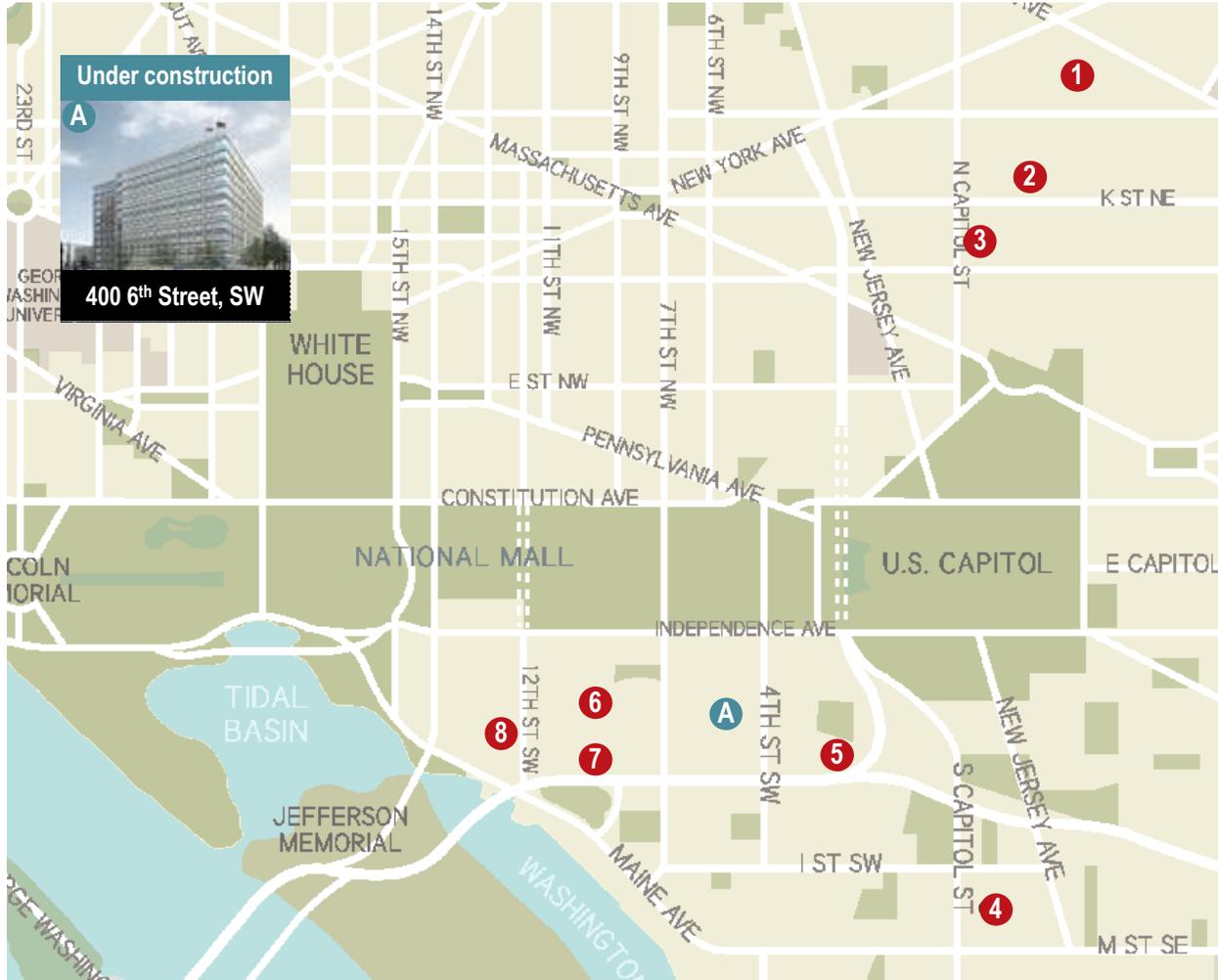
\$46.55
Class B average direct asking rate

4
Blocks greater than 50,000 s.f.

342,000 s.f.
Under construction

- Submarket comprised mainly of federal agencies
- Likely to see space return to the market with GSA consolidation efforts
- Dated, second-generation buildings increasingly finding it difficult to meet new GSA mandates due to inefficient layouts
- Trammell Crow's 400 6th Street, NW is actively under construction and scheduled to deliver in Q3 2015
- PN Hoffman's "The Wharf" development along the waterfront should help revitalize the submarket

term space options in government enclaves



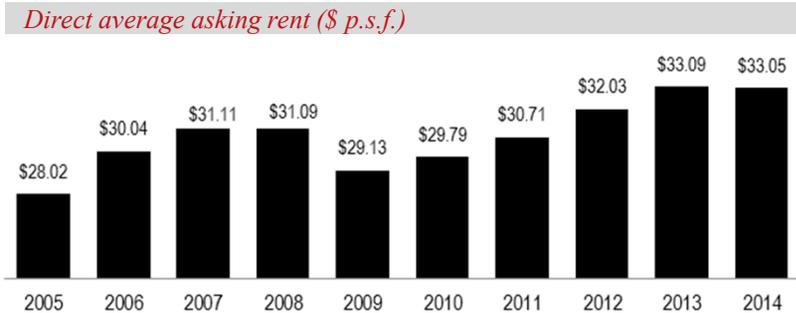
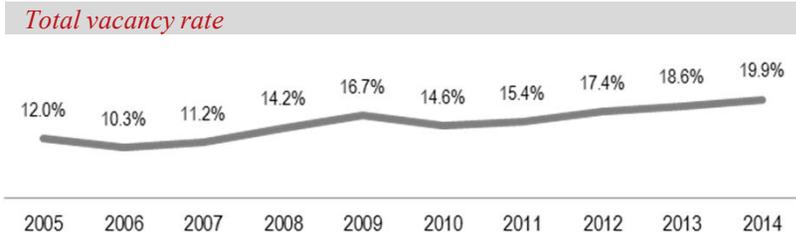
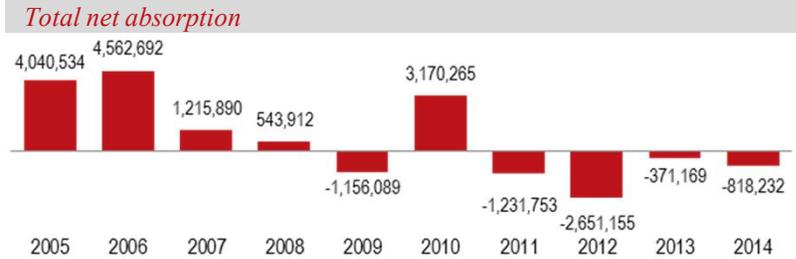
Existing supply

 1 175 N Street, NE	 2 1050 1st Street, NE
 3 899 N Capitol St, NE	 4 1015 Half Street, SE
 5 250 E Street, SW	 6 370 L'Enfant Plaza, SW
 7 950 L'Enfant Plaza, SW	 8 1250 Maryland Ave, SW

Source: JLL Research

Market profile

Market experiences fourth consecutive year of occupancy losses



Source: JLL Research

150.5 million s.f.
Inventory

19.9%
Total vacancy rate

\$35.85
Class A average direct asking rate

\$31.14
Class B average direct asking rate

108
Blocks greater than 50,000 s.f.

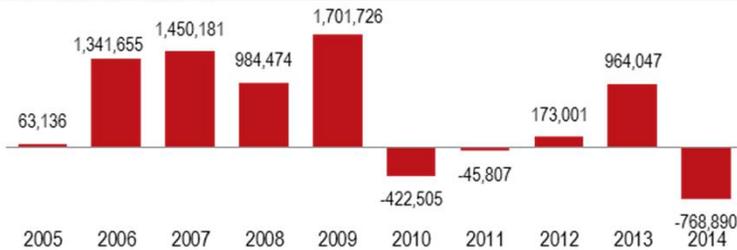
2,138,793 s.f.
Under construction

- Of the 23 largest leases signed in the fourth quarter, 12 were by growing tenants while only one was signed by a shrinking tenant.
- Concession packages from landlords are incentives by local government continue to grow throughout Northern Virginia. K2M received \$850,000 from Virginia for its new 145,819-square-foot Leesburg headquarters. Landlords are also increasing TI packages and giving above \$70.00 per square foot on a 10-year deal.
- While there is 29.9 million square feet of vacant space, much of the space is non-competitive due to changing demographic preferences and aging buildings inventory.

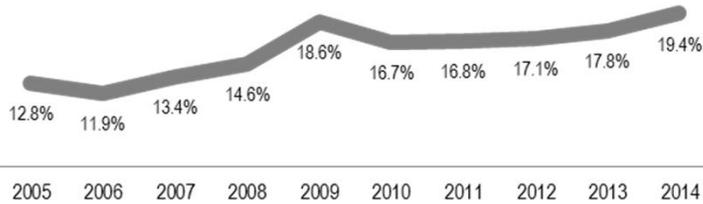
nd market overview

Leasing activity sharply declines in 2014 as vacancy hits record highs

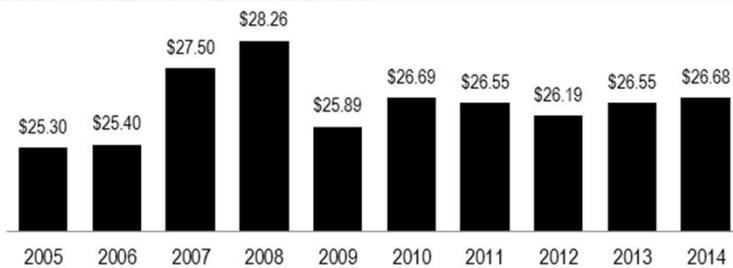
Total net absorption



Total vacancy rate



Direct average asking rent (\$ p.s.f.)



Source: JLL Research

66.3 million s.f.
Inventory

19.4%
Total vacancy rate

\$29.74
Class A average direct asking rate

\$24.06
Class B average direct asking rate

49
Blocks greater than 50,000 s.f.

605,918 s.f.
Under construction

- Flat federal budgets and restrained venture capital spending is unlikely to fuel significant demand
- Government contractors consolidating and downsizing as they await guidance on future levels of federal long-term spending
- Leasing activity declined 35.0 percent below the yearly average since 2000

recommendations

- 1. Given reduced rental rates and record-high vacancy, strong opportunities exist for federal agencies to lock in attractive deals in today's tenant-favorable leasing environment.*
- 2. Limited new development and private sector growth will close the window of opportunity for federal agencies to act over the next 24 months.*
- 3. GSA should consider widening their search parameters (e.g. by including older buildings with lower ceiling heights and suburban locations in multi-jurisdictional procurements) to increase their options and build additional leverage in the marketplace.*

Source: JLL Research



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