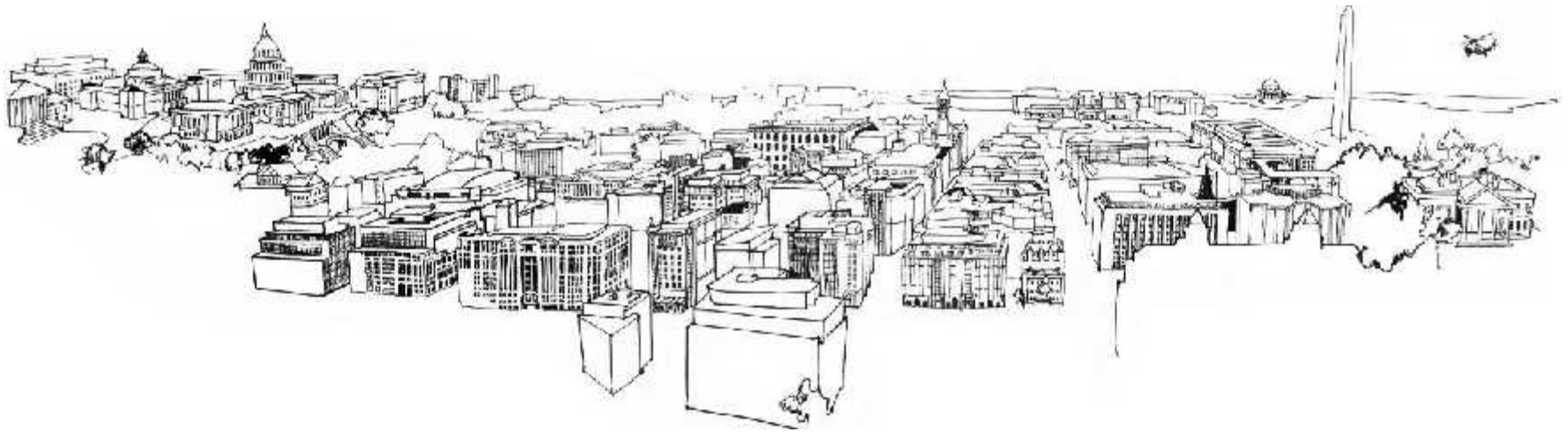




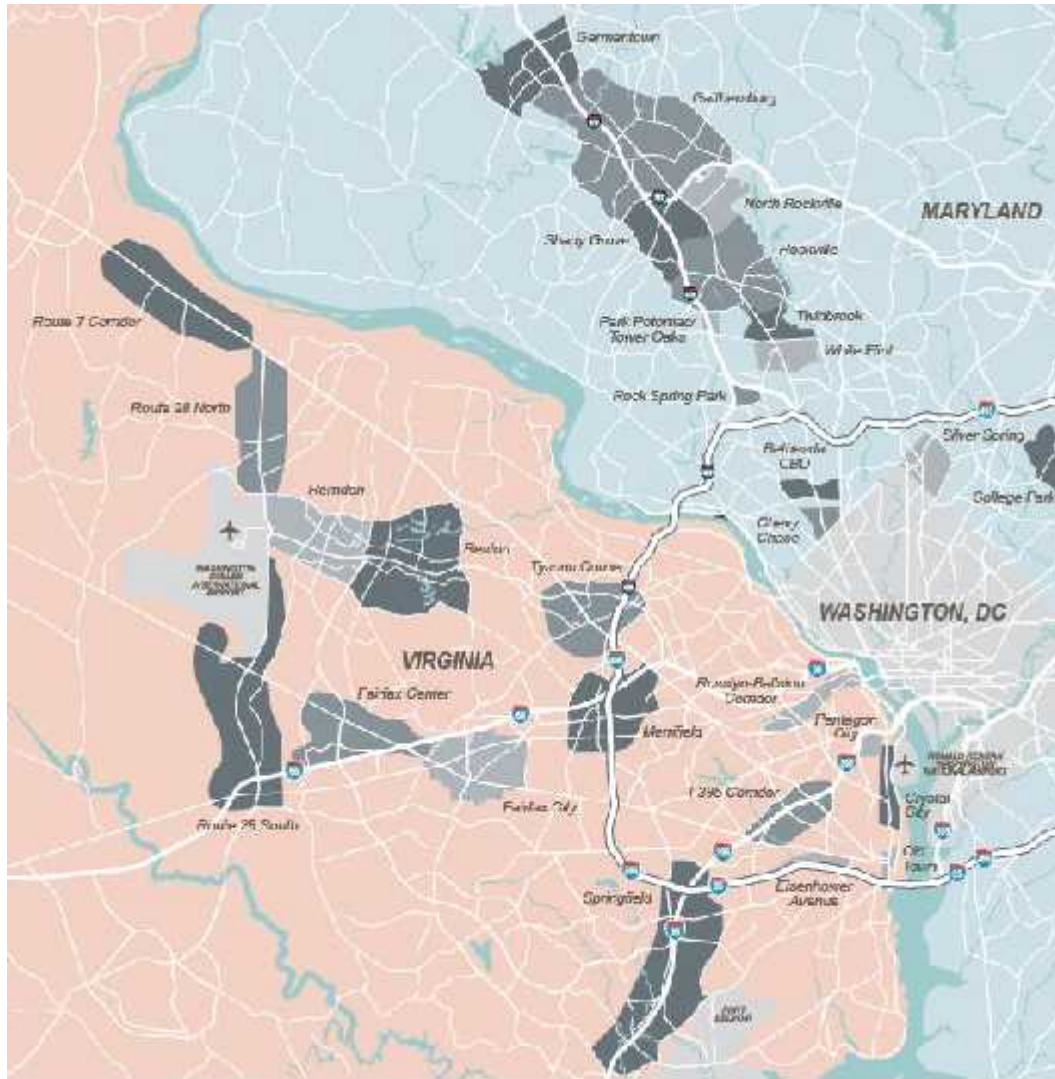
Metro DC State of the Market

January 2017

Regional Economic and Office Trends

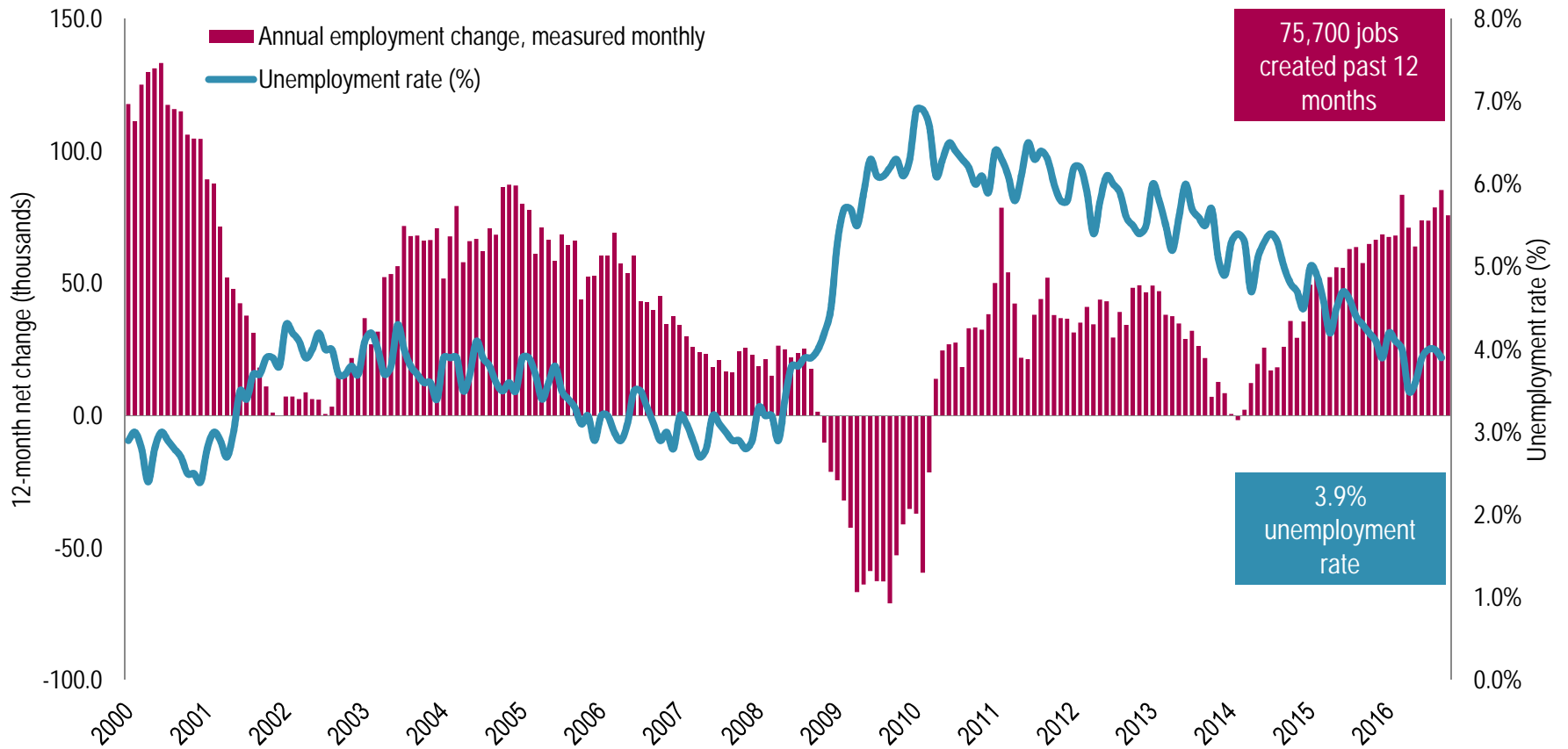


Metro Washington, DC at a glance



- 2nd largest U.S. downtown office market (behind New York)
- 6th largest regional population in the U.S. (6.1 million residents)
- 2nd highest population growth (trailing 3-yr) (behind North Dakota)
- 1st in educational attainment (nearly 50% possess a bachelor's degree)
- Highest median household income (\$90,149 per year)
- Historically low unemployment (currently 3.9% vs. U.S. average of 4.9%)
- 3 major airports located within 30 miles
- Internationally recognized as a durable, low volatility, "safe haven" market due to federal government presence

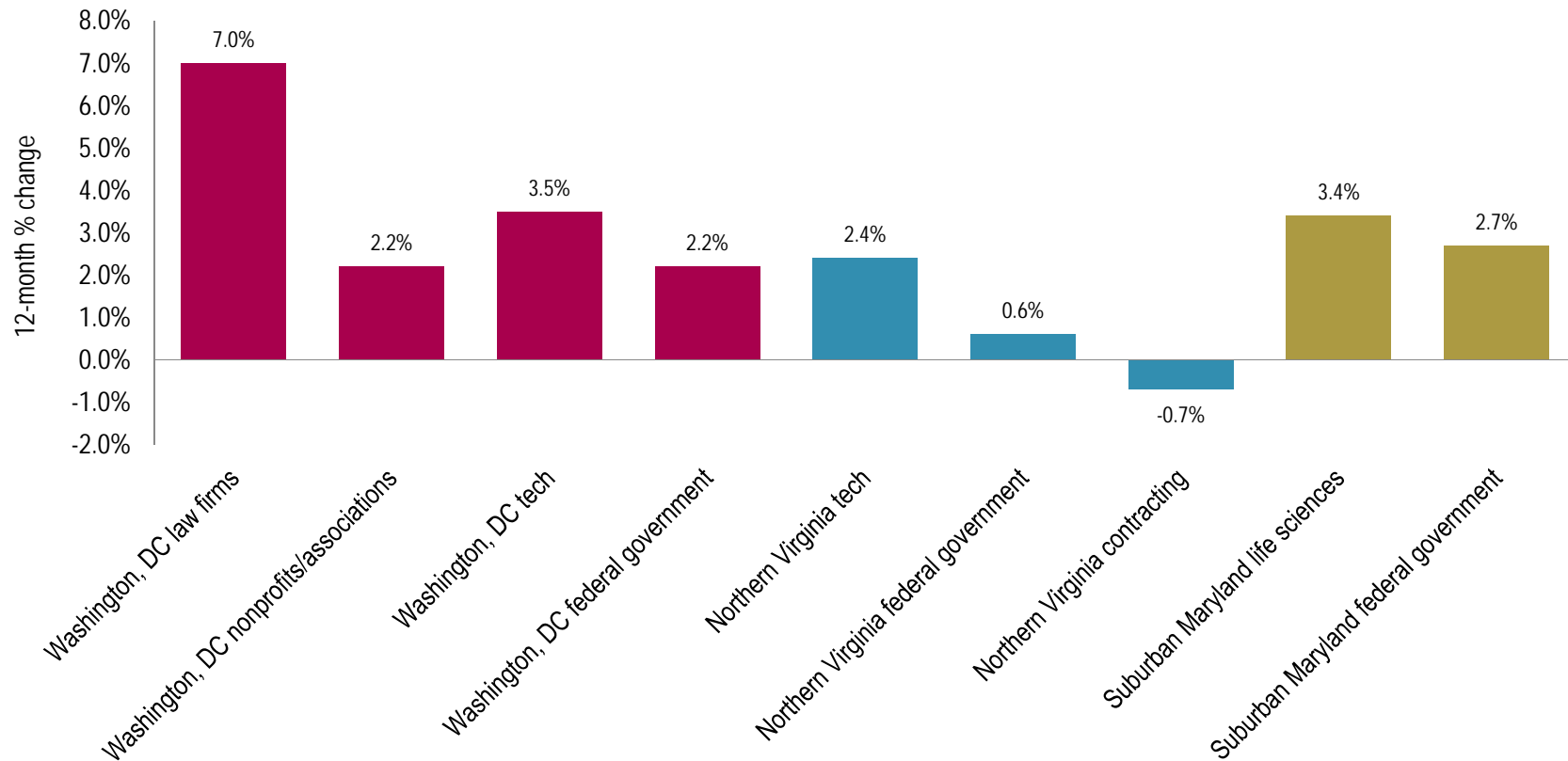
Metro DC job growth continues to surge, with unemployment near historical lows



Source: JLL Research, BLS



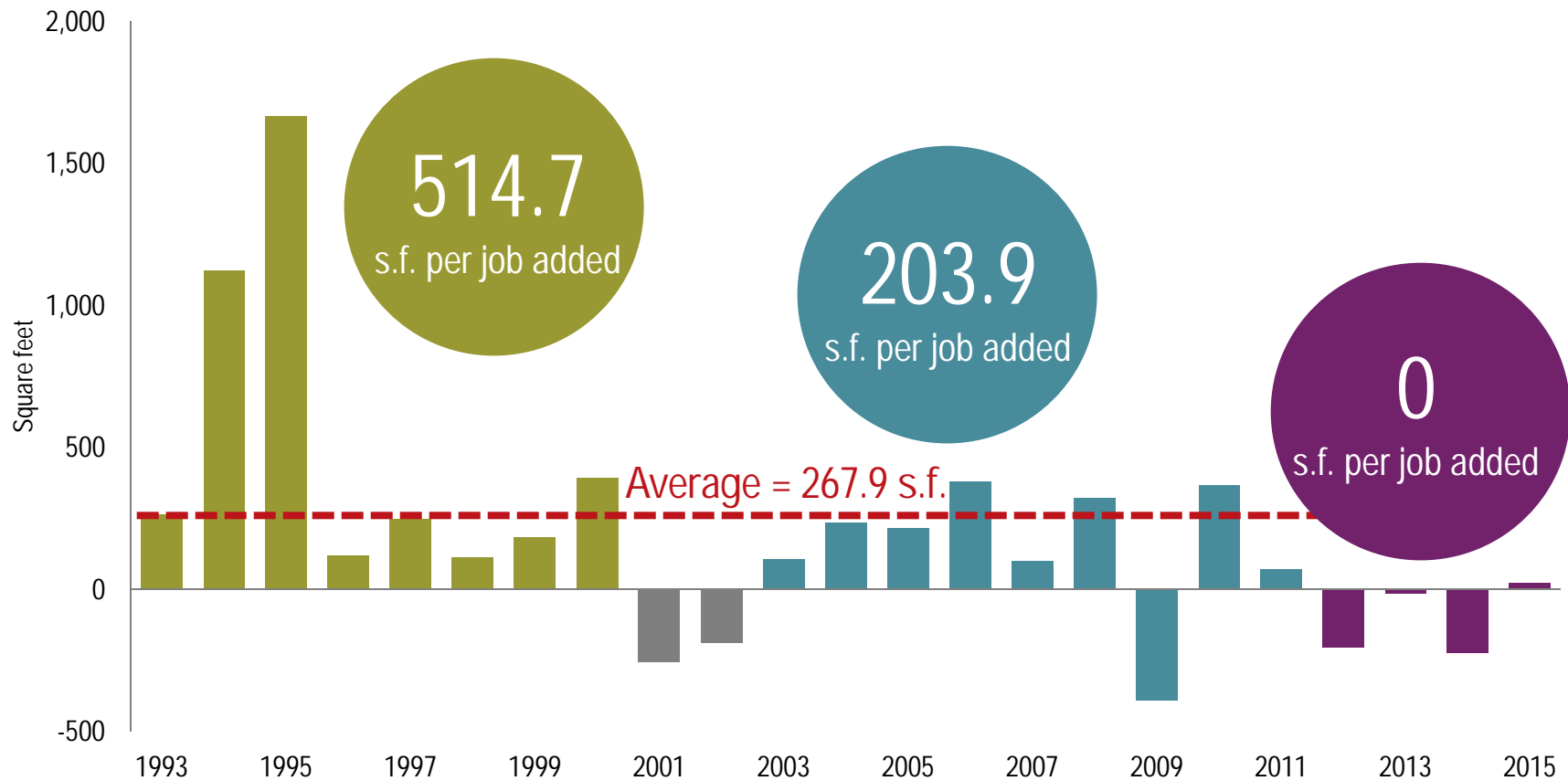
Pop in law firm employment overshadows recent growth in tech and life sciences; federal employment steadily increasing



Source: JLL Research, Bureau of Labor Statistics

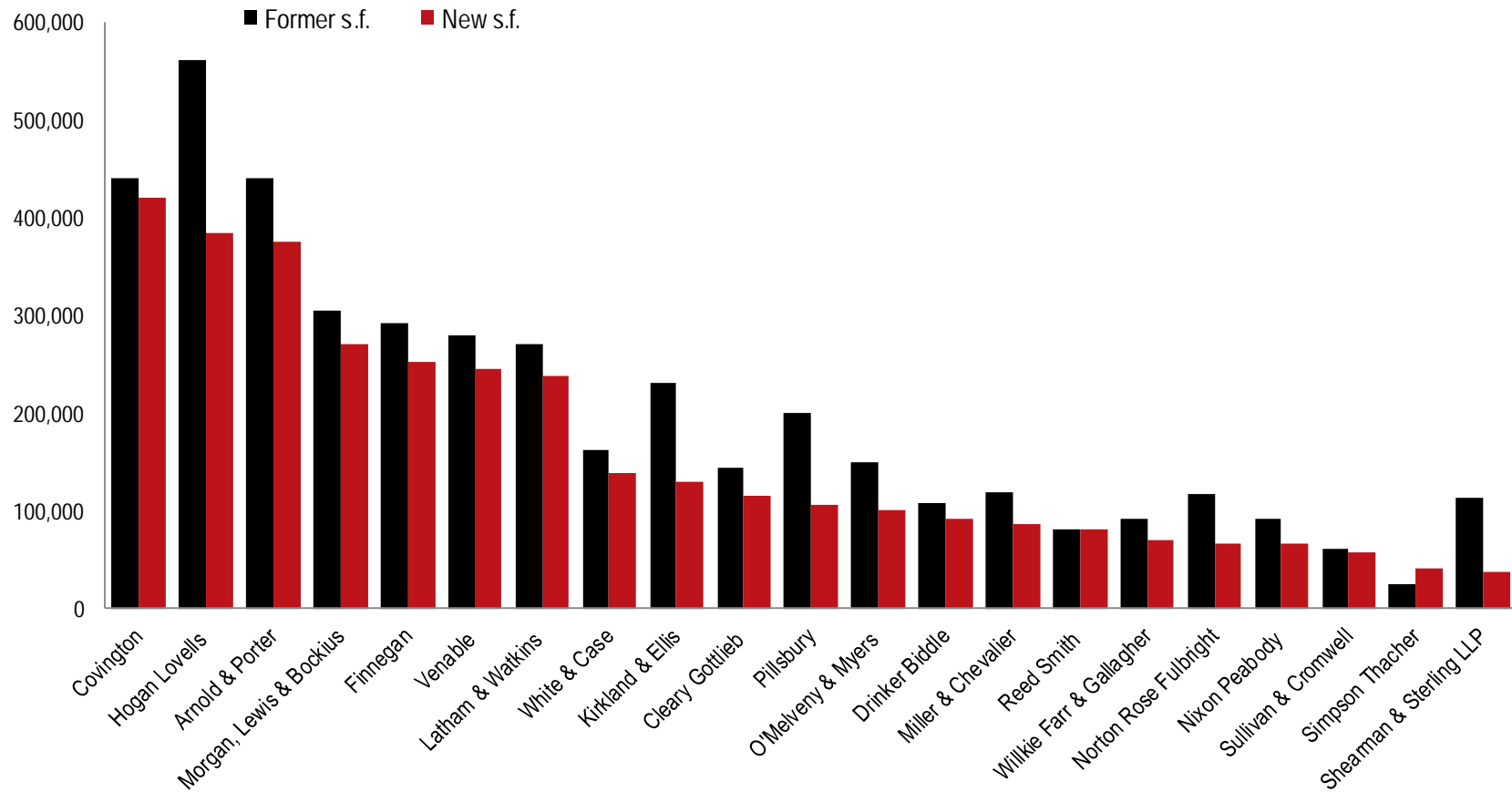


Despite strong job creation, each new office job created in Metro DC today is generating minimal net absorption



Source: JLL Research, Bureau of Labor Statistics

Reason for slower growth: rightsizing and law firms are the case study, returning 20+% to the market when transacting



Source: JLL Research



Metro DC market profile

327.5 million s.f.
Inventory

10,224,898 s.f.
Under construction

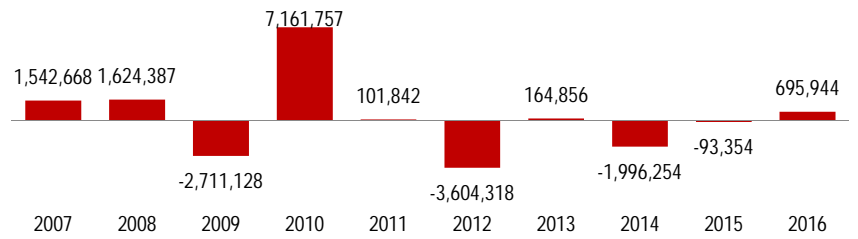
\$41.62
Class A average direct asking rate

\$33.55
Class B average direct asking rate

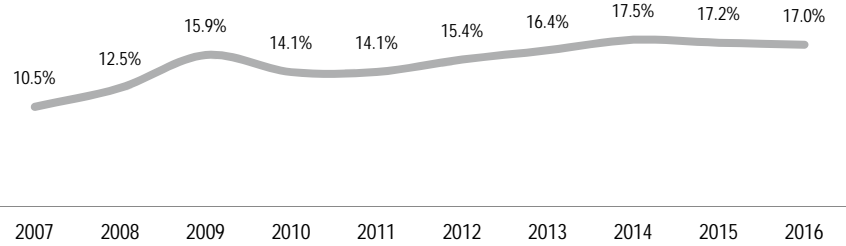
192
Buildings with vacant blocks greater than 50,000 s.f.

132
Active tenant requirements greater than 50,000 s.f.

Total net absorption



Total vacancy rate

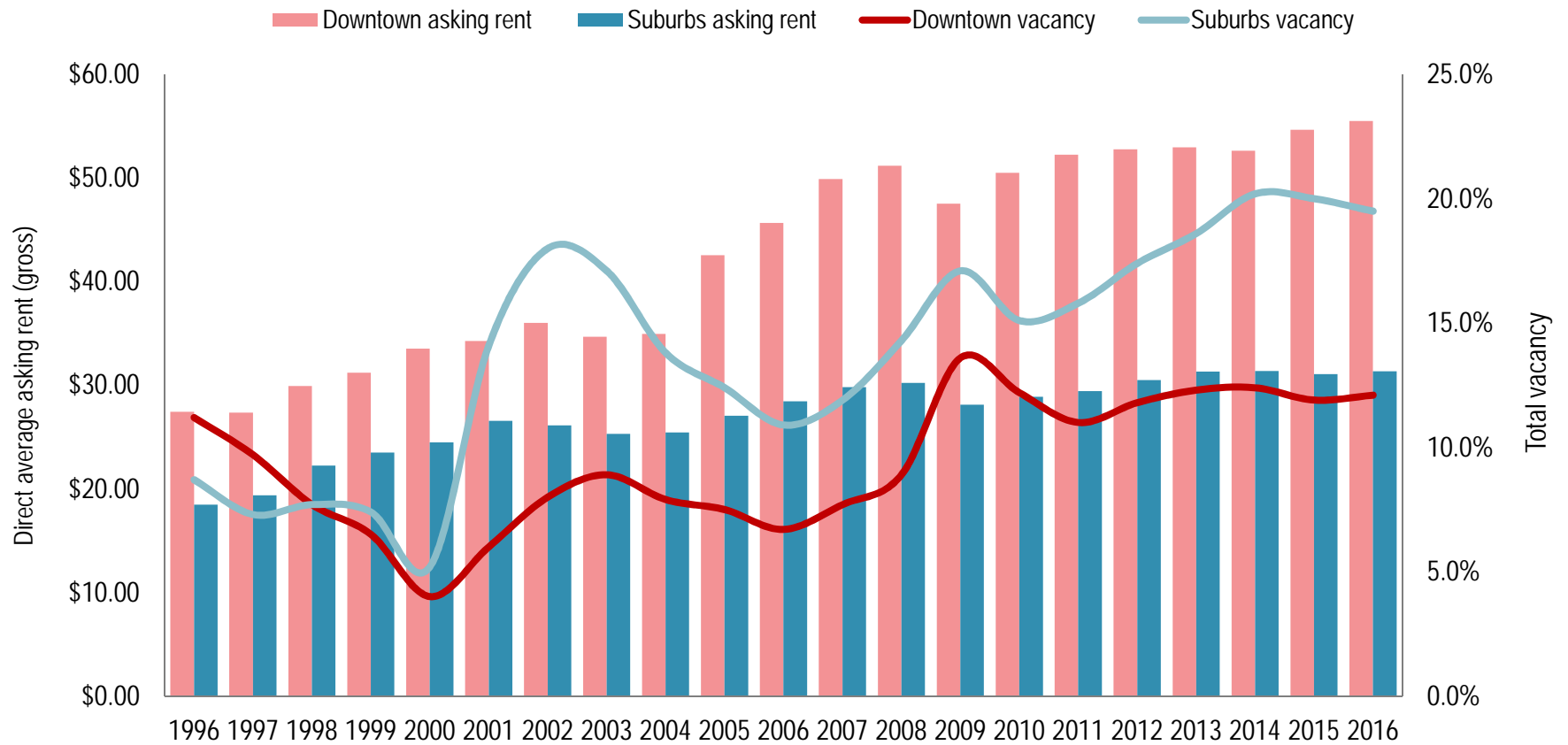


Direct average asking rent (\$ p.s.f.)



- A flight to value-oriented, mixed-use and transit-oriented development remained prevalent across the region.
- Tightening Class B conditions downtown coincided with an uptick in creative-sector demand.
- Migration to the transportation spine in Northern Virginia helped boost activity in Tysons and along the Toll Road. Meanwhile, the revival of the biotech industry in Suburban Maryland and federal government consolidations produced robust activity in Montgomery and Prince George's counties.
- Post election shake-up on Capitol Hill has the potential to reshape market drivers and produce a long-awaited upturn within the contractor community. Federal investments in national defense and R&D present hope for a market catalyst in 2017 as new leadership takes office and begins to implement their policy initiatives.

Historical rent and vacancy in Metro DC



Source: JLL Research



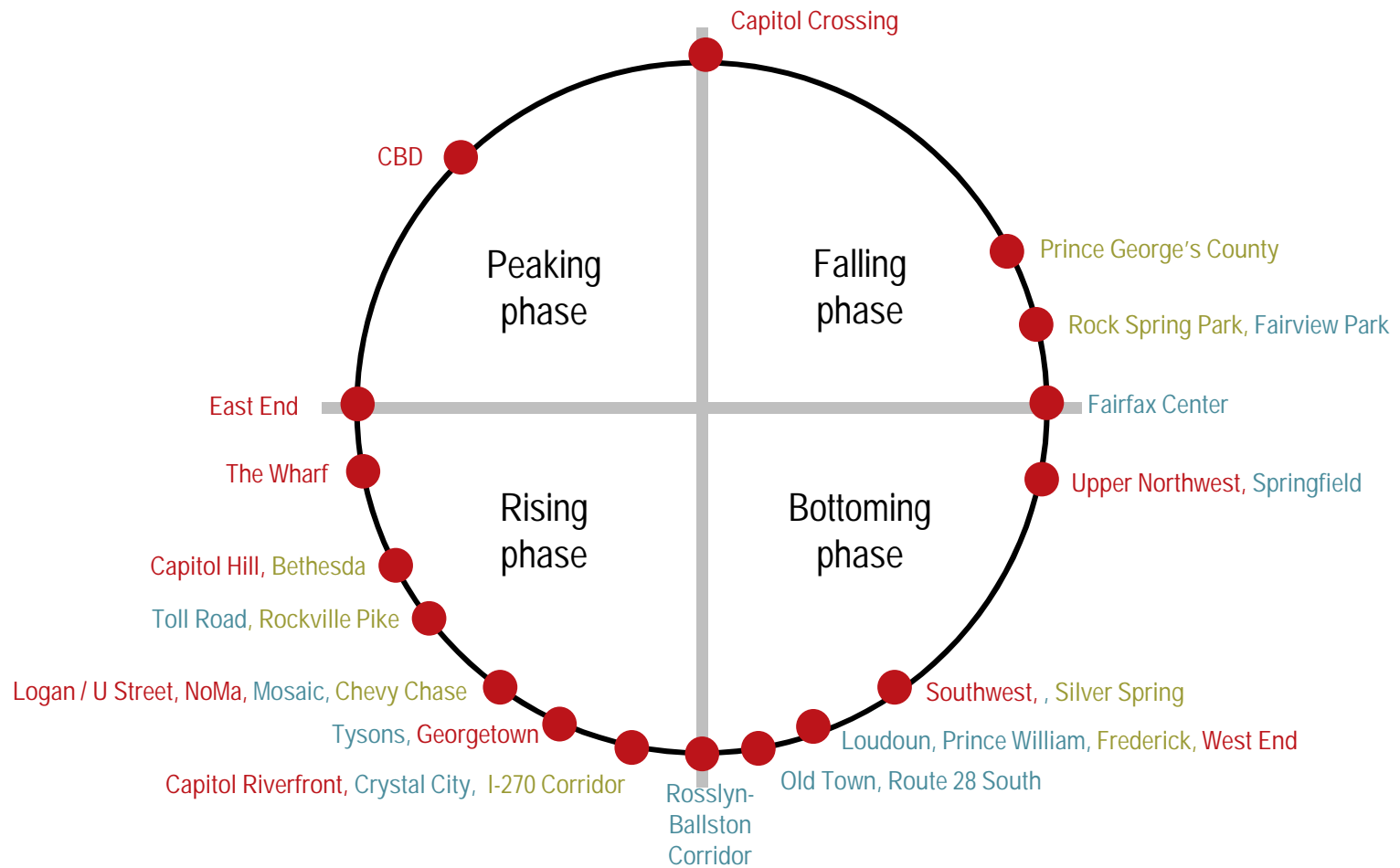
Typical deal terms vary for Class A and B buildings across Metro DC jurisdictions

	DC			Arlington		Bethesda
	A	A-	B	A	B	A
Full-service asking rents	\$58-\$65	\$50-\$57	\$44-\$49	\$43-\$60	\$33-\$43	\$43-\$47
Average TIs (PSF)	\$90-\$100	\$85-\$95	\$70-\$85	\$75-\$95	\$60-\$85	\$40-\$50
Free rent (months)	10-14	9-12	6-9	9-12	9-12	7
Average term (Years)	7-10	7-10	5-7	5-10	5-10	5-10
Typical opex (PSF)	\$13.00	\$12.50	\$11.50	\$7.50	\$6.50	\$9.00
Typical taxes (PSF)	\$12.50	\$12.50	\$12.00	\$7.50	\$6.50	\$3.50

Source: JLL Research



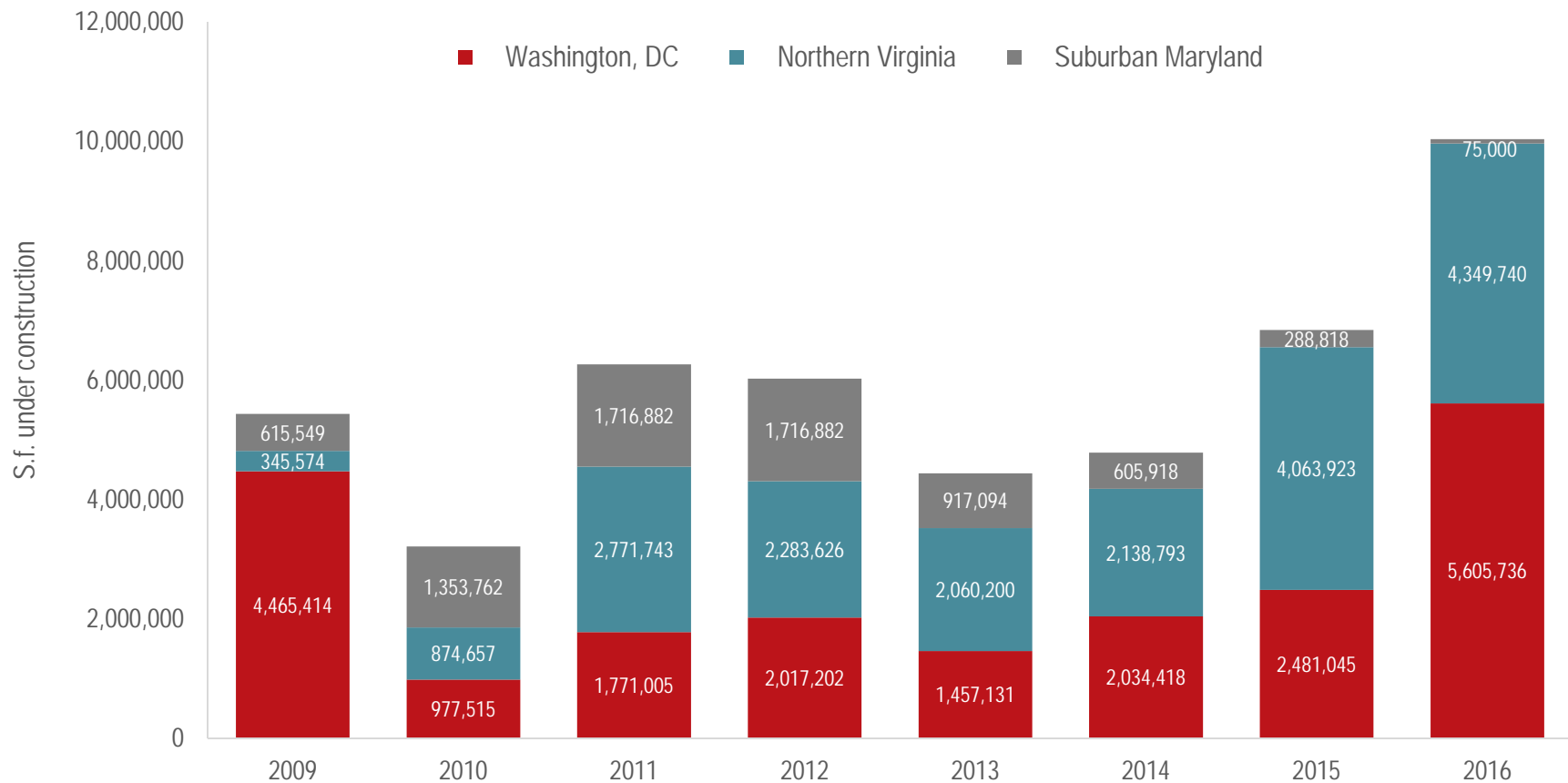
Metro DC office outlook is wildly different based on location



Source: JLL Research



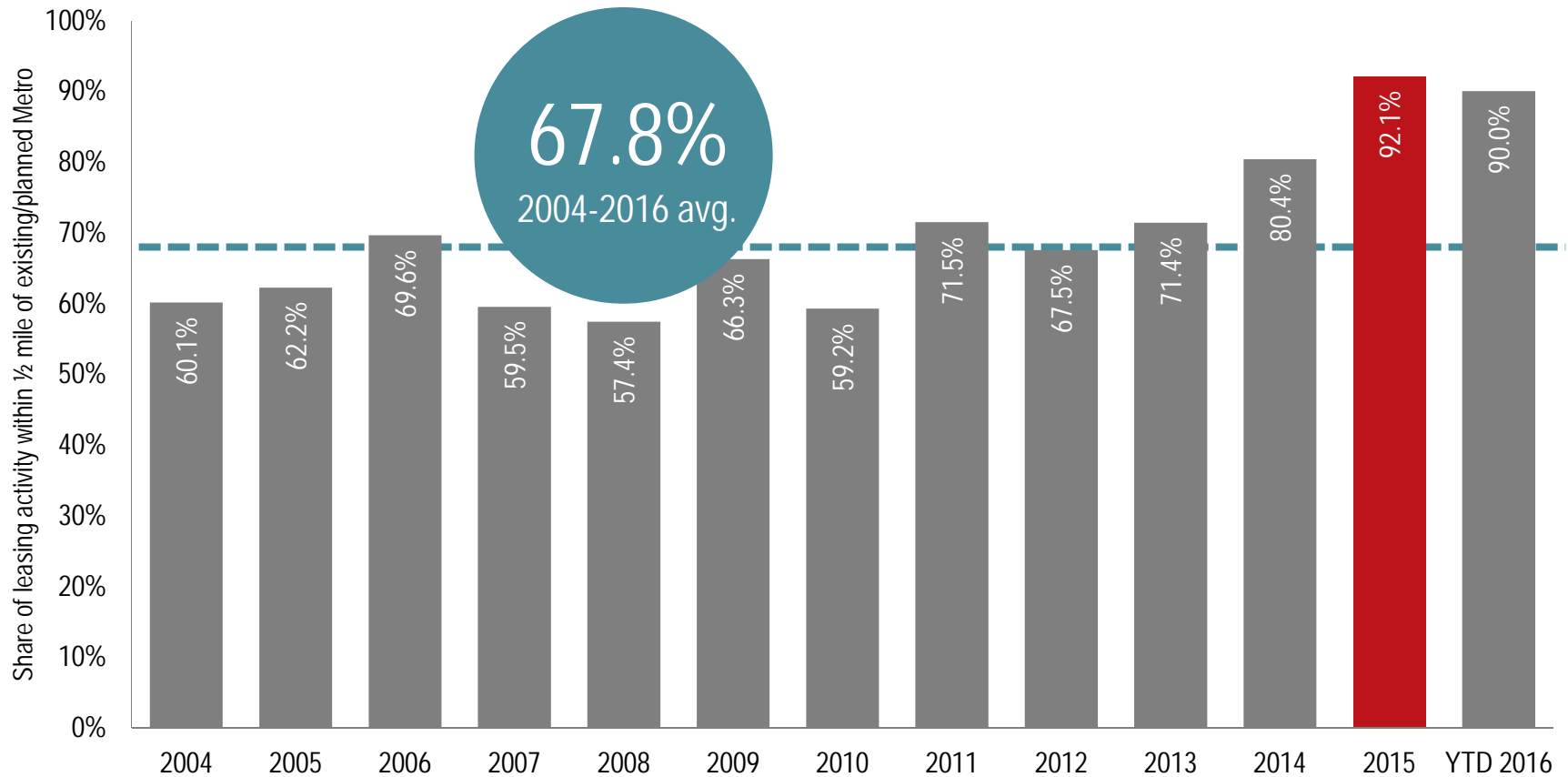
Rampant spec construction downtown leads Metro DC development pipeline to 8-year high



Source: JLL Research



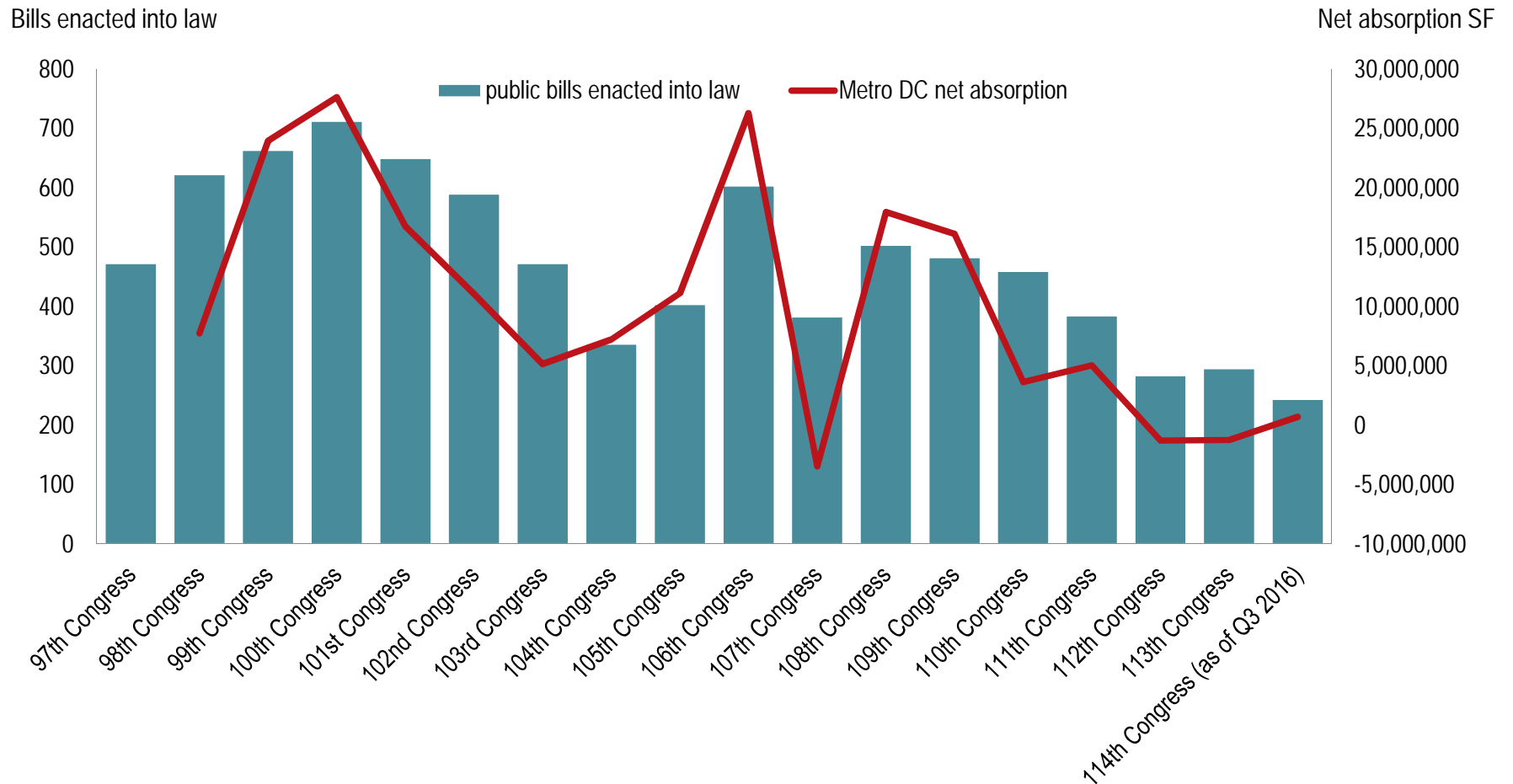
Product proximate to Metro capturing 90%+ share of leasing activity



Source: JLL Research



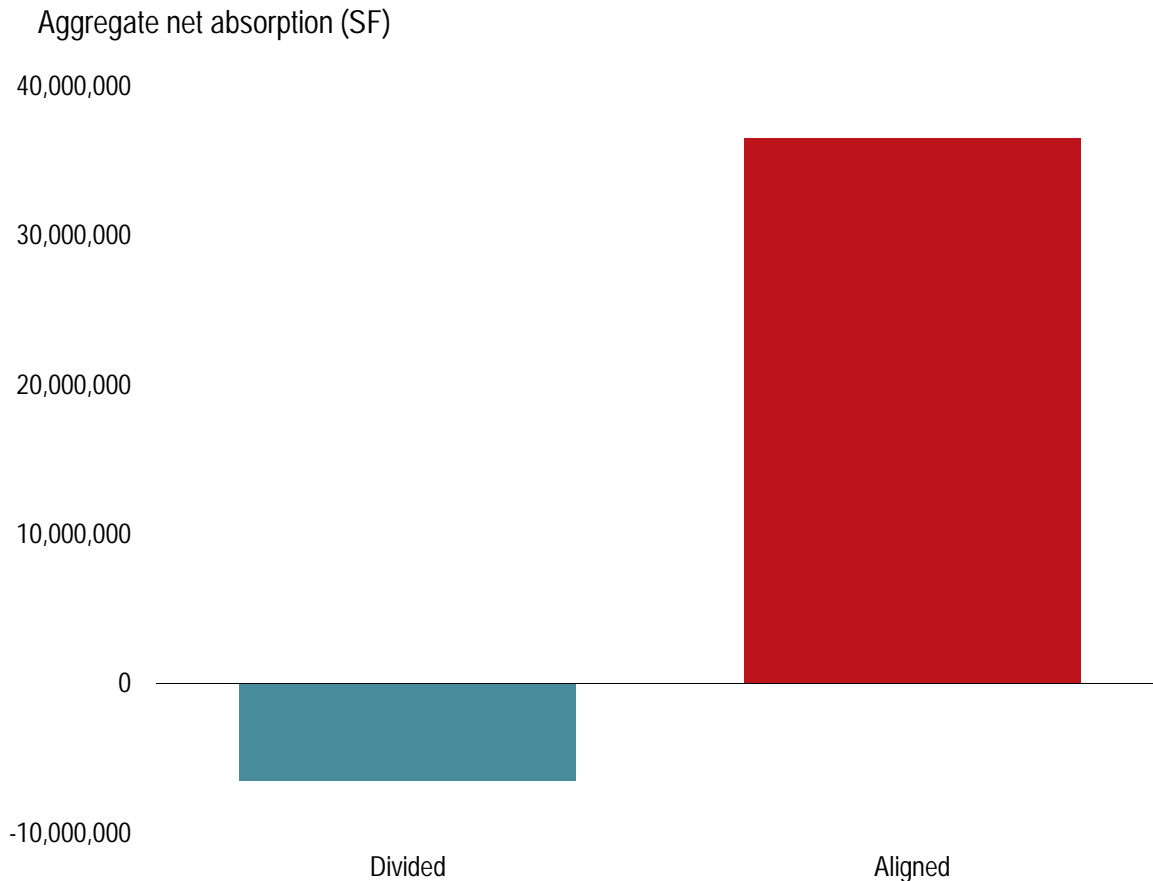
Washington, DC remains a political town and legislation fuels net absorption



Source: JLL Research



Political *alignment* (not party affiliation) drives Metro DC office demand



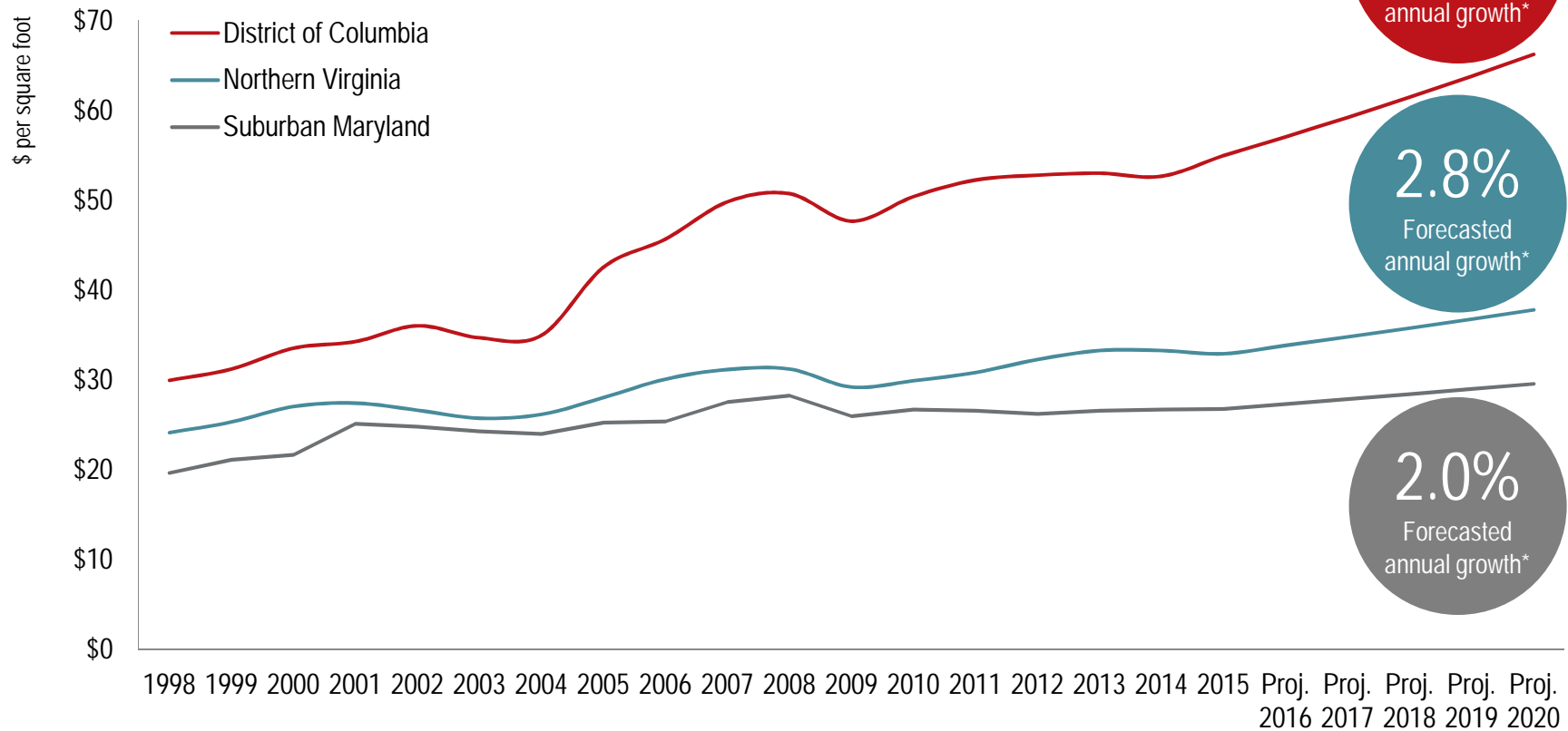
Tenant demand in Metro DC is highly correlated with the alignment of Congress and the Presidency and the market historically thrives under single-party rule. When one party is in control of both the executive and legislative branches, the resulting political agreement enables the easy passage of laws and the establishment of clear fiscal policies.

Over the past 12+ years, the Metro DC office market has absorbed 36.5 MSF when Congress and the Presidency have been in alignment (2003-06 and 2009-10) and lost 6.5 MSF of occupancy when there has been division (2001-02; 2007-08; and 2011-16), making political clarity the most important predictor of office market performance.

Source: JLL Research



Metro DC average asking rents have shown remarkable stability and are forecasted to show healthy increases

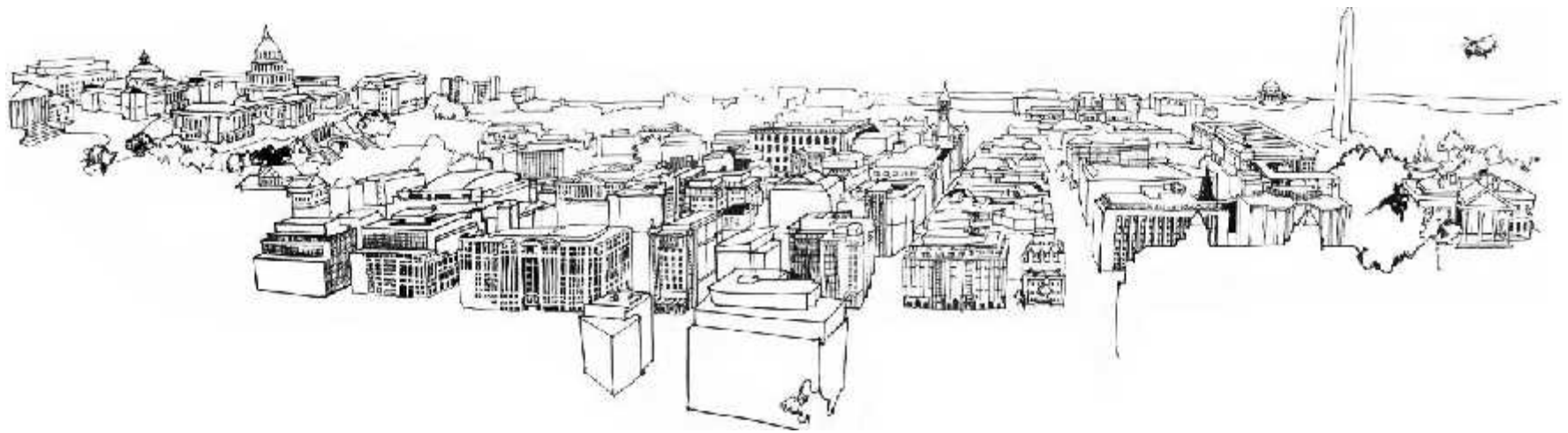


Source: JLL Research

*growth forecast based on historical average rate of growth between 1998 and 2015

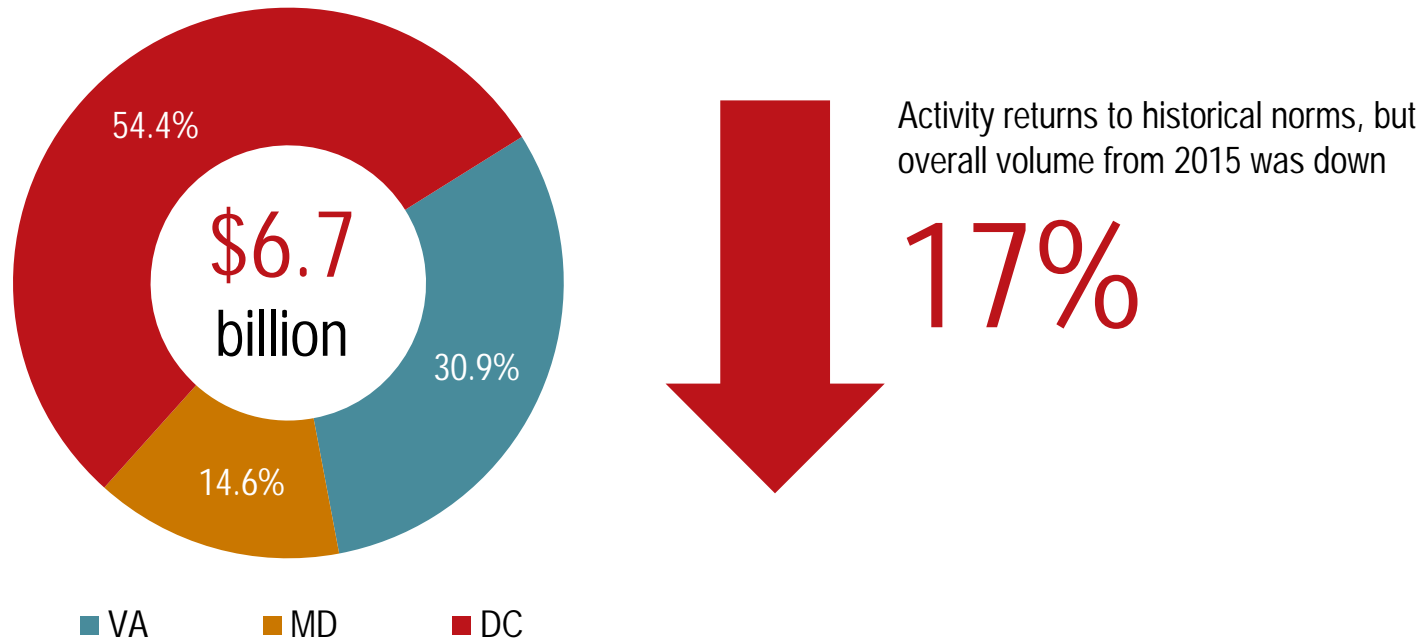


Capital Markets Trends



2016 office investment sales review

- Although sales activity across the region lagged in the first half of 2016, a Q4 rally brought total sales volume in line with the annual historical norm of \$6.3 billion.
- The trend of cap rate compression, which remained fairly constant across the region from 2009 to present, has slowed as cap rates in all three regions held steady y-o-y. Furthermore, the Federal Reserve's December interest rate hike and the additional bumps expected throughout 2017 will apply upward pressure to building yields.



Source: JLL Research

2016 office investment sales review

- Downtown, the proportion of sales in the Class B & C segments saw an uptick over previous years. Rising demand for Class B assets mirrors downtown leasing trends, where dwindling supply and rising demand are pushing rents continually higher. Whereas Class B sales in years past were often driven by redevelopment plays, the leasing market's appetite for B-to-A renovated product is now satiated. However, given the tightness created by redevelopment in the Class B segment, Class B buildings have become attractive targets for acquisition with light, if any, renovation required to garner strong demand.
- With most suburban leasing markets now bottoming or on the upswing, sales activity in Northern Virginia and Suburban Maryland will realize some increases. Those markets have seen over \$3 billion in sales volume for two consecutive years, compared with an average \$1.9 billion annually since 2008. Strong y-o-y employment growth in recent months, coupled with the expected surge in contractor activity resulting from the Trump presidency and political alignment, should drive leasing activity that further raises the appeal of owning a suburban asset.

Notable 2016 sales transactions

District of Columbia

- 733 10th Street (\$1,053 psf)
- 500 N Capitol Street (\$993 psf)
- 815 Connecticut Ave (\$805 psf)
- 1875 K Street NW (\$789 psf)

Northern Virginia

- 1735 N Lynn Street (\$363 psf)
- 1110 N Glebe Road (\$359 psf)
- Tysons Tech Center I/II (\$344 psf)
- Mission Ridge (\$307 psf)

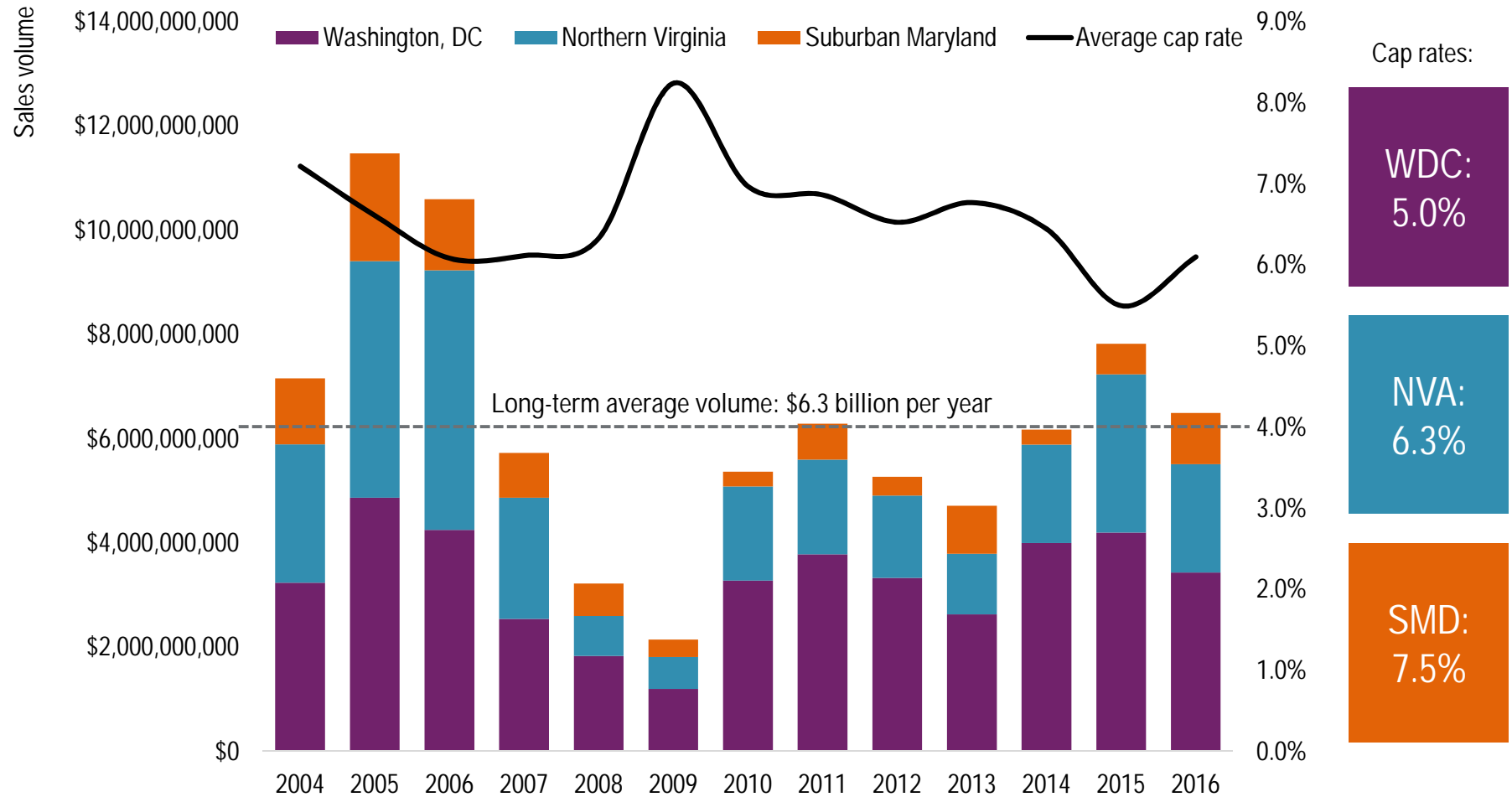
Suburban Maryland

- 4800 Montgomery Lane (\$529 psf)
- 9609 Medical Center Dr (\$453 psf)
- 5601 Fishers Lane (\$362 psf)
- Wash REIT assets (\$250 psf)

Source: JLL Research



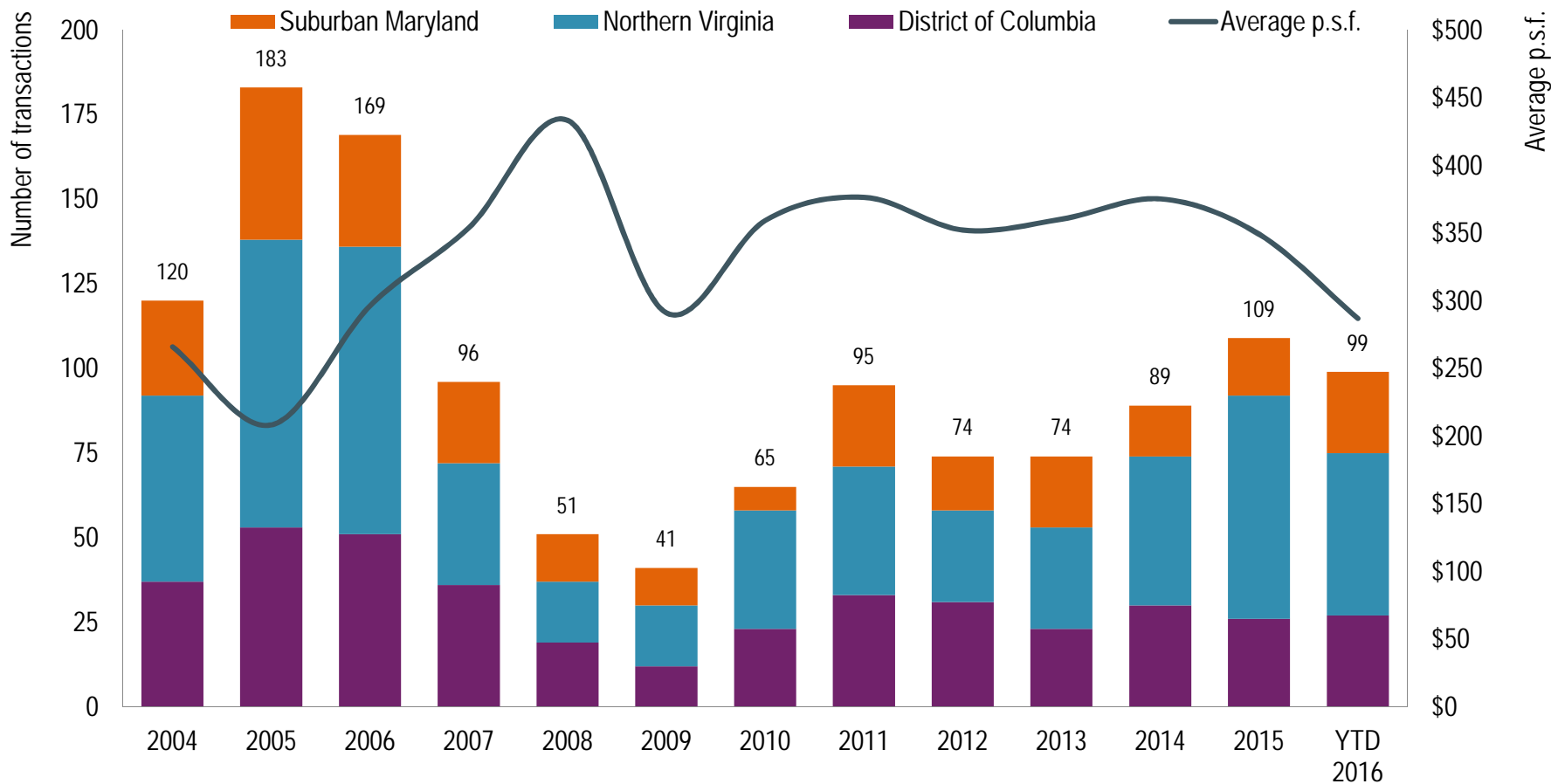
With resurgence in Q4, 2016 regional office sales reach long-term average



Source: JLL Research



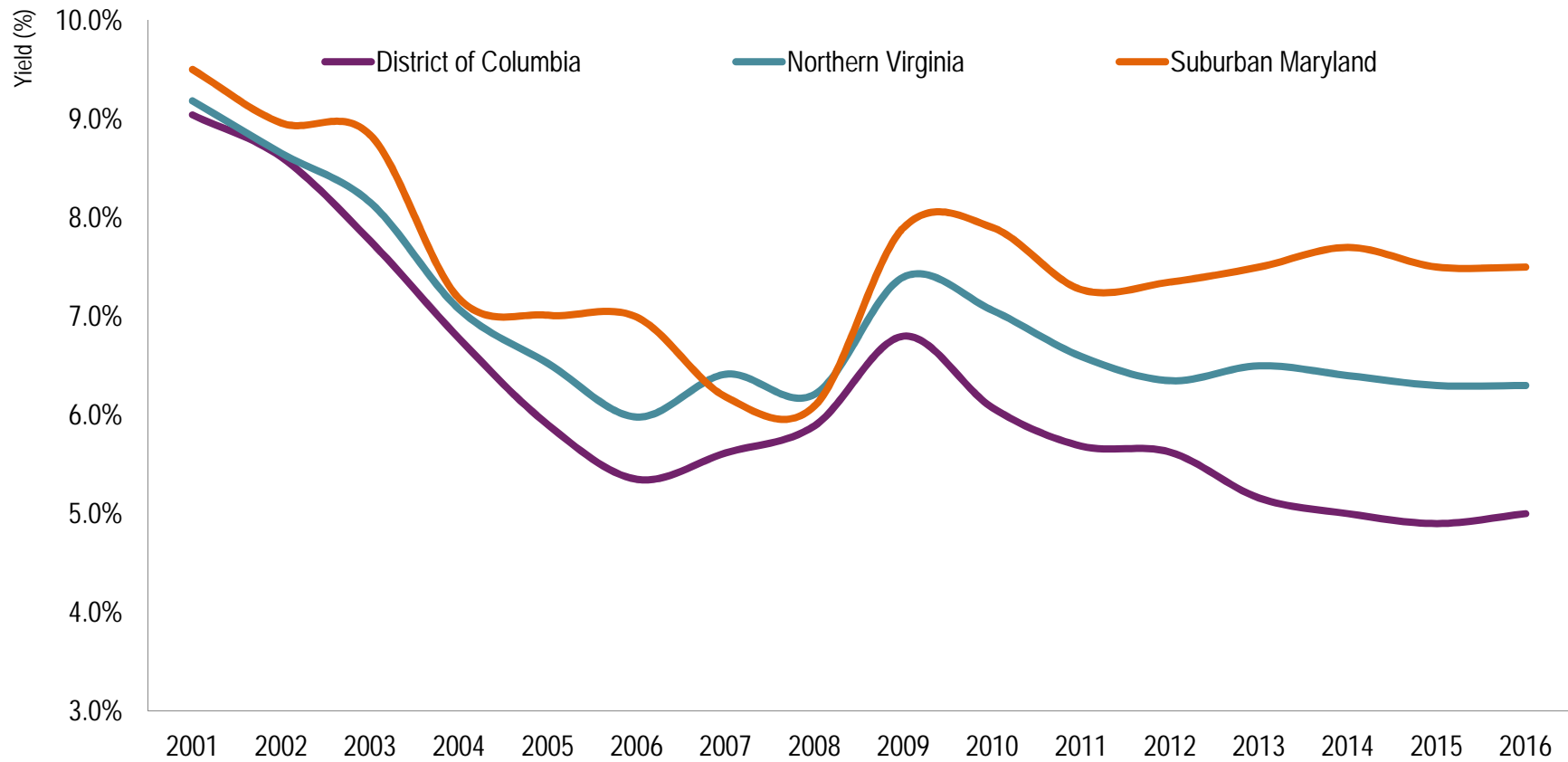
High share of value-add sales and lack of Trophy product coming to market diluted average \$ p.s.f. in Metro DC



Source: JLL Research



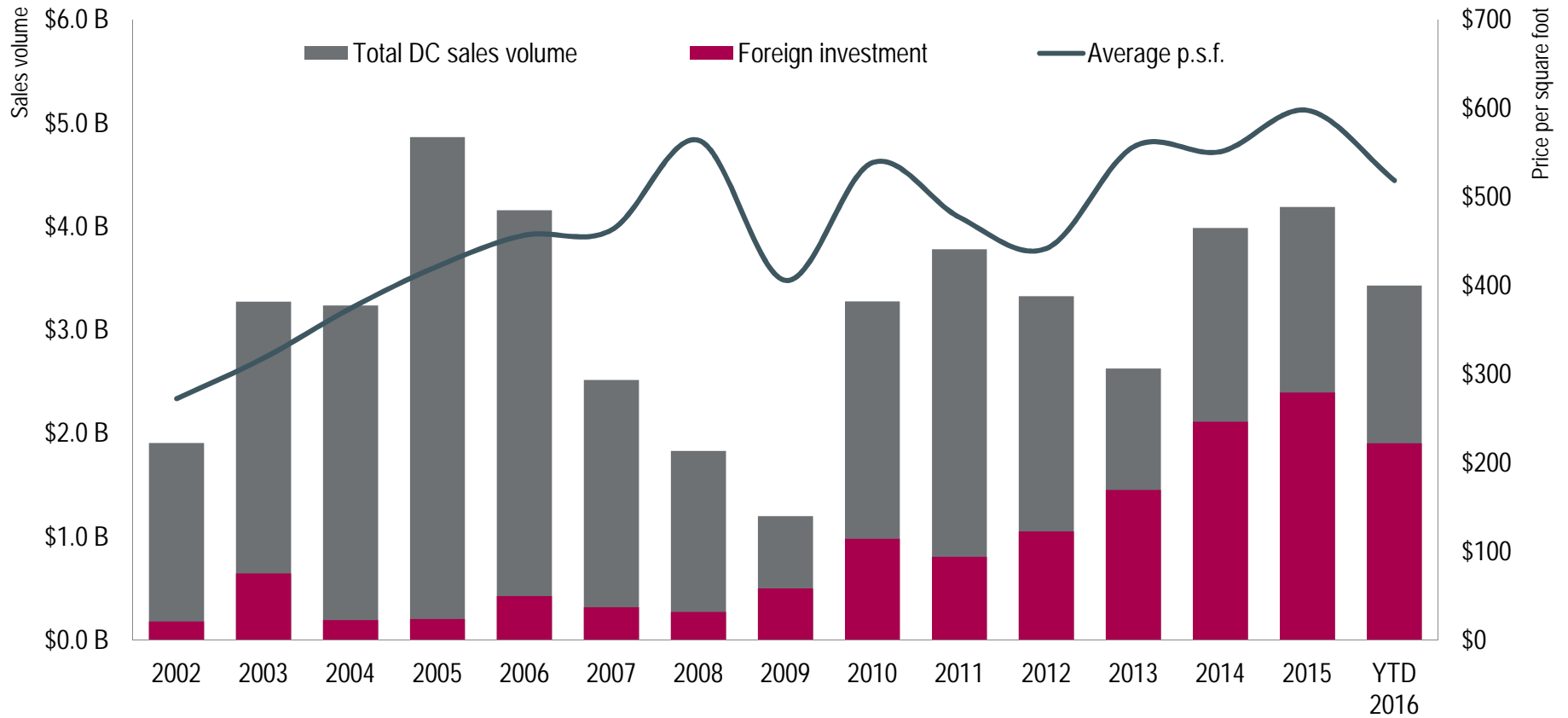
Cap rate compression remains evident with a significant spread evident between urban core and suburban assets



Source: JLL Research



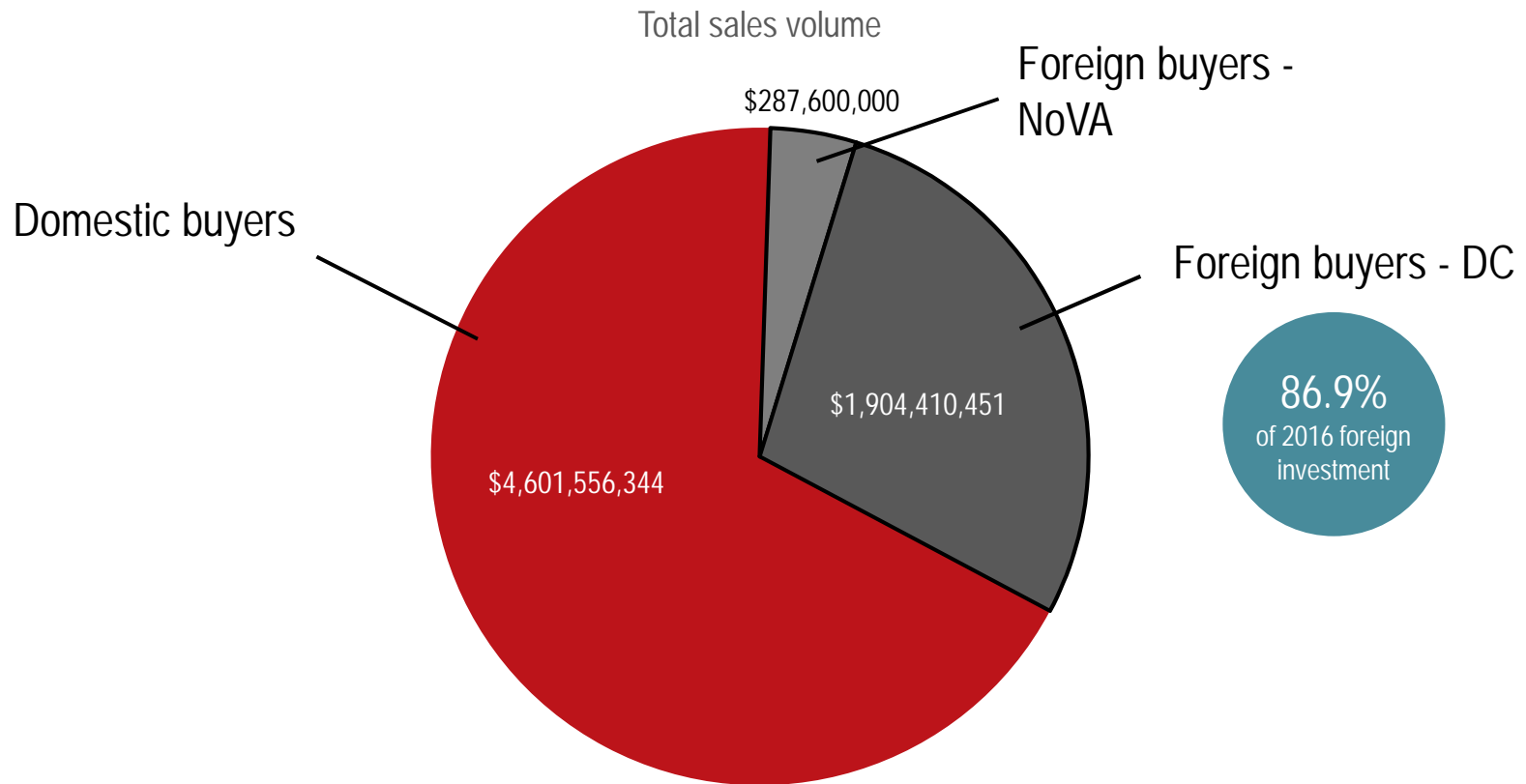
Foreign investment in the District remains strong, with 55.5% of 2016 sales trading to offshore investors



Source: JLL Research



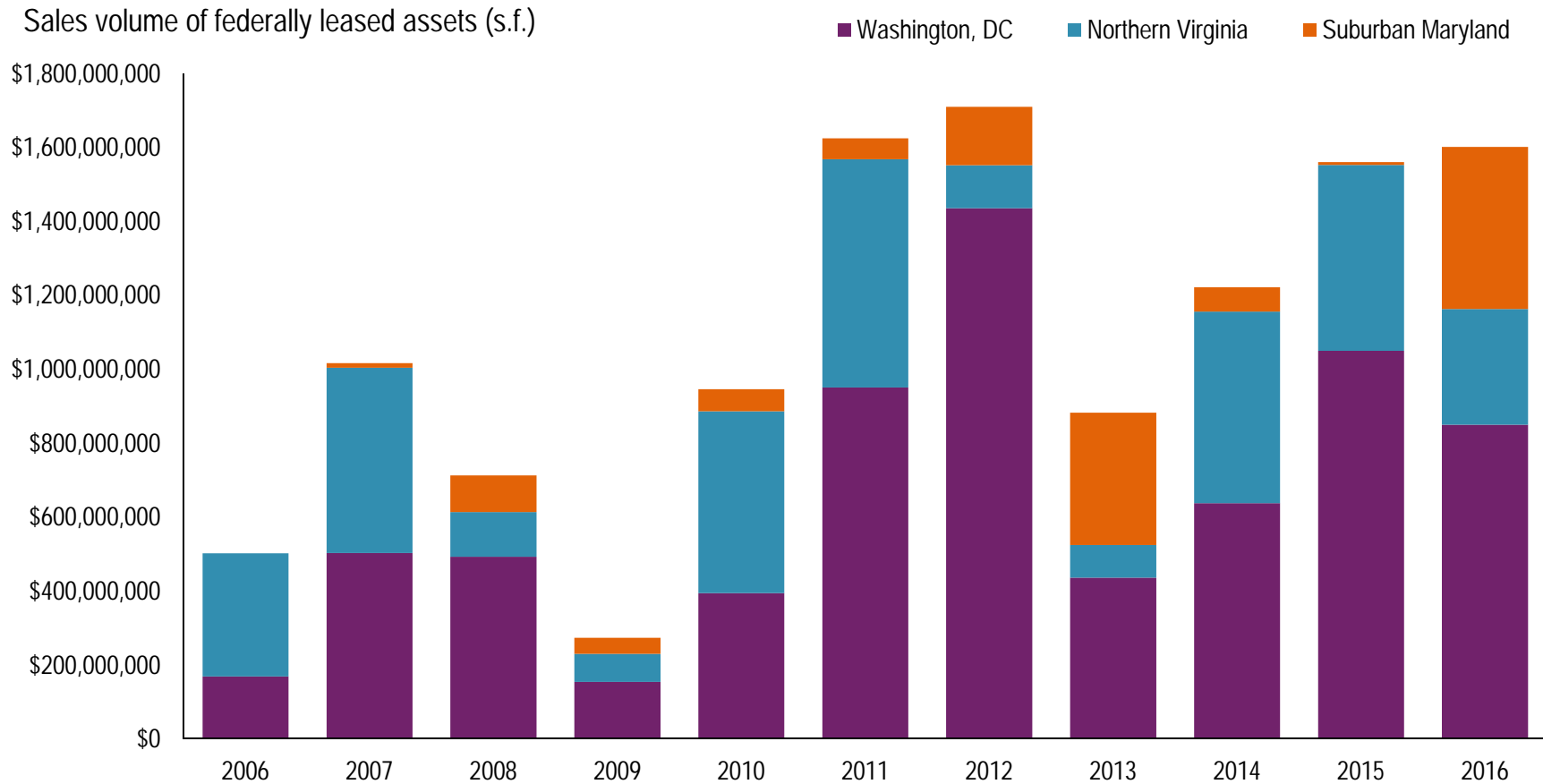
Strong foreign investment concentrated downtown in 2016



Source: JLL Research



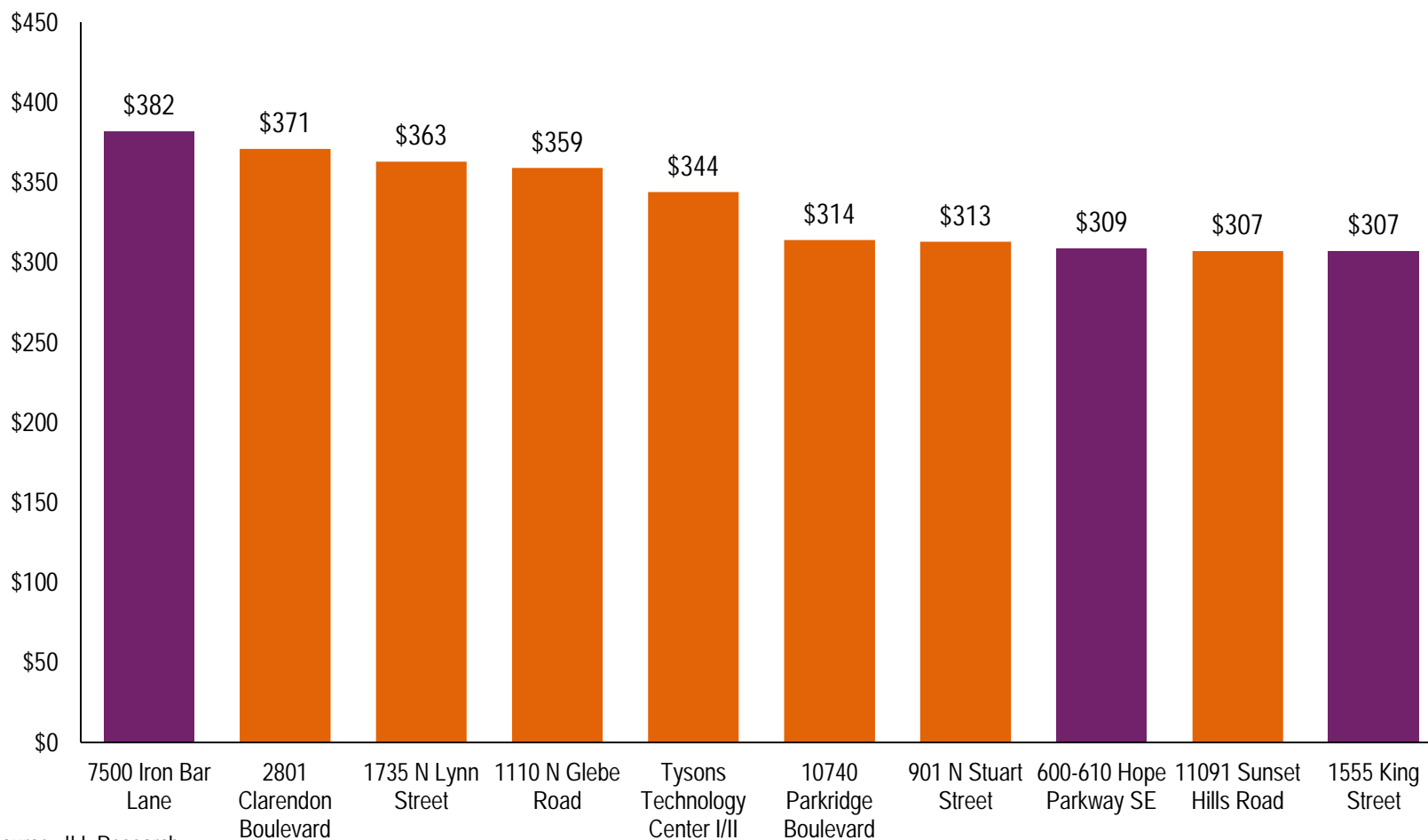
Sales of federally leased assets continue comeback in 2016



Source: JLL Research



In Northern Virginia, 7 of the 10 highest prices (\$ p.s.f.) were achieved in Orange/Silver Line-served submarkets



Source: JLL Research



Current Lending Environment

Banks

- 50–70% LTV
- 175–275 bps spread
- 3–10 year terms
- Limited interest only available
- Increased regulation leading to limits on structure, interest only periods, and construction financing

Life Company

- 50–65% LTV
- 140-165 bps spread at 10% debt yields or better
- 3–10 year terms
- Interest only available

CMBS

- 50%–75% LTV
- Swaps+185-225 for 10% DY+; Swaps+225-285 for lower debt yield, less investment grade properties
- 5–10 year terms
- Full Term I/O at 60% or less; 2-3 years I/O at 65%
- Risk retention regulations have taken effect. Originators without a balance sheet are going by wayside

Bridge

- 60–85% LTV
- 325–650 bps spread
- Large lender universe with varying degrees of risk appetite; relative cost is priced accordingly
- Unregulated lenders are the fastest growing segment of lending universe—picking up bank business



Metro DC State of the Market

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