Market Review & Outlook

Review: Effective Rents Fell

Northern Virginia's private sector remained focused on containing costs in 2015. Class A deal volume was well below the 10-year average and the Class A availability rate remained elevated, closing the year at 23.2%. Effective rent fell slightly as landlords jumpstarted leasing by pushing concessions to record levels.

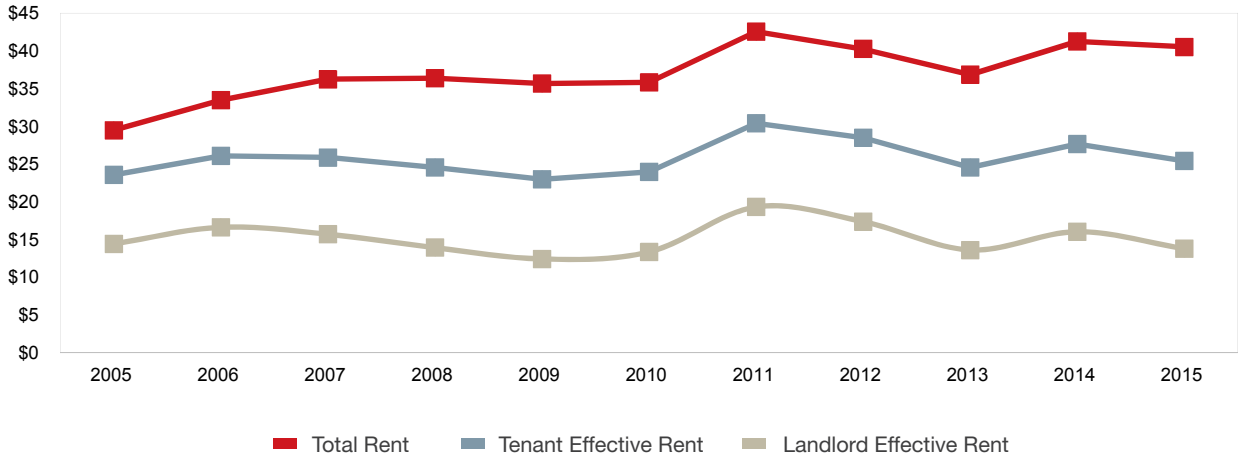
	2015	% Change
Net Rent	$28.17	-2.9
Operating Expenses	6.32	1.1
Real Estate Taxes	3.07	0.7
Electricity	2.97	0.0
Total Rent	40.53	-1.8
Amortized Concessions	-15.09	10.9
Tenant Effective Rent	**25.44**	**-8.0**
Landlord Effective Rent	**13.80**	**-14.1**

Outlook: Tenants to Enjoy Leverage in 2016

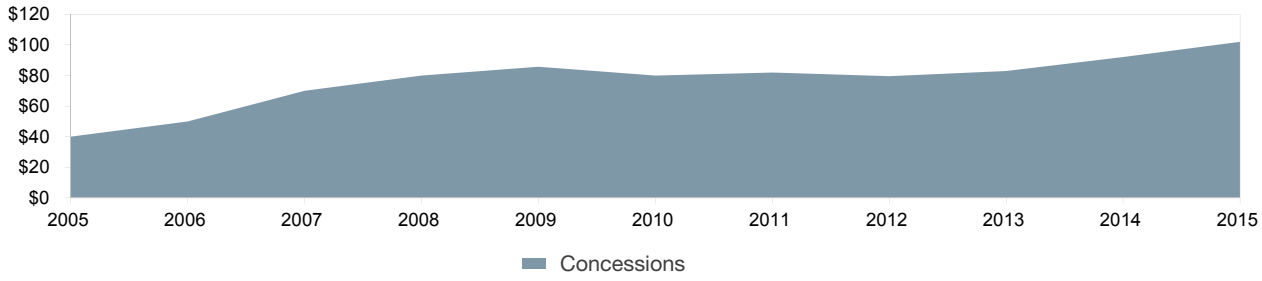
Supply continues to outpace demand in Northern Virginia, giving tenants an abundance of options to consider. Landlords will be forced to offer favorable lease terms as they compete with one another for a limited pool of tenants pursuing space.

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Rent Trends



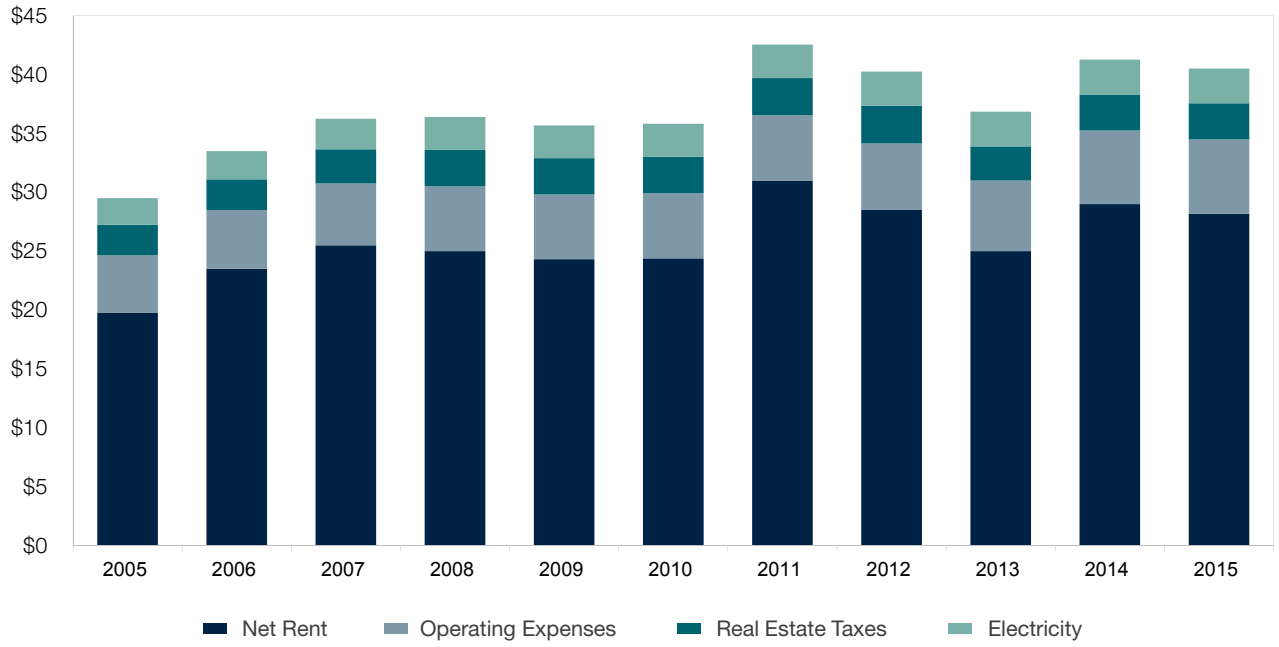
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Total Rent	$29.50	$33.50	$36.25	$36.40	$35.68	$35.82	$42.55	$40.25	$36.85	$41.27	$40.53	-1.8%	2.5%	3.6%
Tenant Effective Rent	$23.58	$26.10	$25.89	$24.56	$23.01	$23.98	$30.42	$28.49	$24.57	$27.66	$25.44	-8.0%	1.2%	0.8%
Landlord Effective Rent	$14.45	$16.64	$15.72	$13.95	$12.45	$13.37	$19.34	$17.40	$13.64	$16.06	$13.80	-14.1%	0.6%	-0.5%



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Concessions	$40.00	$50.00	$70.00	$80.00	$85.67	$80.00	$82.00	$79.50	$82.99	$92.00	$102.00	10.9%	5.0%	11.0%
Concessions/Rent Ratio*	20.1%	22.1%	28.6%	32.5%	35.5%	33.0%	28.5%	29.2%	33.3%	33.0%	37.2%	4.2		

* Equals amortized concessions as a percentage of total rent.

Total rent fell for the first time since 2009, decreasing by 1.8% to $40.53. Net rent dropped by 2.9% from $29.00 to $28.17. Operating expenses (+1.1%) and real estate taxes (+0.7%) pushed higher but tenant electric was unchanged. The value of concessions increased by more than 10% for a second year in a row, rising by 10.9% to $102.00. Tenant effective rent averaged $25.44, a year-on-year drop of 8.0%, and was 16.4% below the peak of $31.23 in 2011. Landlord effective rent fell by 14.1% to $13.80.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$19.75	$23.50	$25.50	$25.00	$24.32	$24.39	$31.00	$28.50	$25.00	$29.00	$28.17	-2.9%	2.9%	4.0%
Operating Expenses	$4.90	$5.00	$5.25	$5.50	$5.50	$5.53	$5.55	$5.65	$6.00	$6.25	$6.32	1.1%	2.7%	2.9%
Real Estate Taxes	$2.60	$2.60	$2.90	$3.10	$3.08	$3.10	$3.15	$3.20	$2.90	$3.05	$3.07	0.7%	-0.2%	1.9%
Electricity	$2.25	$2.40	$2.60	$2.80	$2.78	$2.80	$2.85	$2.90	$2.95	$2.97	$2.97	0.0%	1.2%	3.1%
Total Rent	**$29.50**	**$33.50**	**$36.25**	**$36.40**	**$35.68**	**$35.82**	**$42.55**	**$40.25**	**$36.85**	**$41.27**	**$40.53**	**-1.8%**	**2.5%**	**3.6%**

Lease Terms/Concessions

Review: Concessions Pushed to New Record

Despite an up-tick in leasing volume during 2015, the majority of activity continued to be driven by renewals, early lease restructures and tenant downsizings. Competition among landlords to attract what little activity existed in the market remained high, which pushed concession values to record levels.

Leases Under 50,000 sf	
Average Term:	5-10 years
Free Rent:	8-10 months
Tenant Improvements:	$25.00-$65.00/sf
Other:	Free Parking

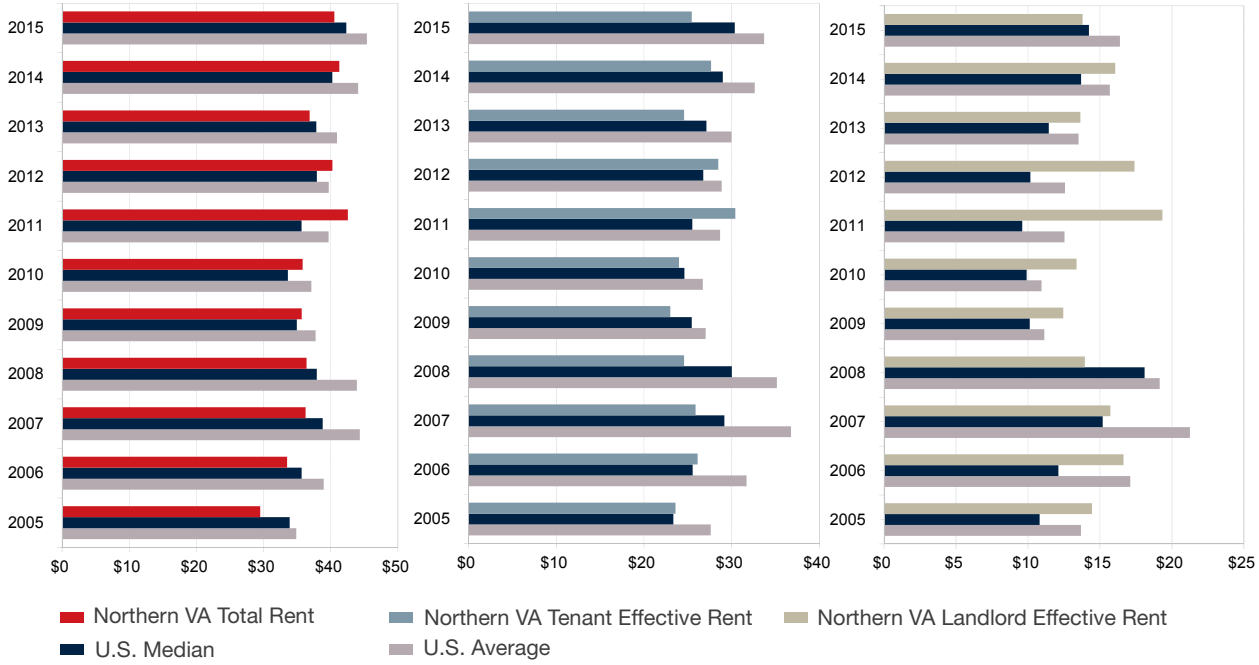
Leases Over 50,000 sf	
Average Term:	7-12 years
Free Rent:	8-12 months
Tenant Improvements	$45.00-$75.00/sf
Other:	Free Parking*

*Paid parking in close-in suburbs

Outlook: Little Change in 2016

Northern Virginia's growing supply of available space will sustain tenant-favorable conditions throughout 2016. Tenants will retain leverage and continue to be able to lock in generous terms and concessions.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Northern Virginia	$29.50	$33.50	$36.25	$36.40	$35.68	$35.82	$42.55	$40.25	$36.85	$41.27	$40.53
U.S Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

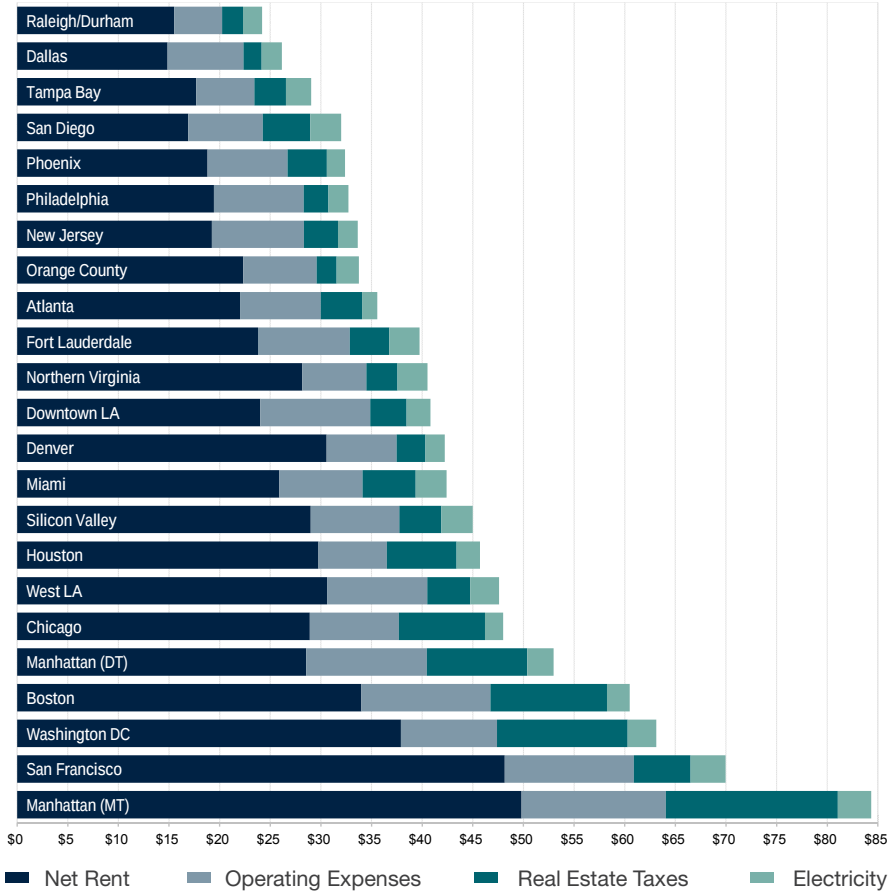
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Northern Virginia	$23.58	$26.10	$25.89	$24.56	$23.01	$23.98	$30.42	$28.49	$24.57	$27.66	$25.44
U.S Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Northern Virginia	$14.45	$16.64	$15.72	$13.95	$12.45	$13.37	$19.34	$17.40	$13.64	$16.06	$13.80
U.S Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

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

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing 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. All numbers in this report are based on larger long-term direct leases signed in higher-caliber Class A properties located in Fairfax, Arlington and Loudon Counties.

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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.

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