Market Review & Outlook

Review: Net Rent Falls, Concessions Mount

Deal volume was strong in 2015 as federal agencies, law firms and other tenants capitalized on record concession packages. Renewals and restructures were once again prevalent, but lower rents and generous concessions induced tenants to relocate. Even with the strongest annual leasing in several years, the District ended the year with ample space options in its Class A market.

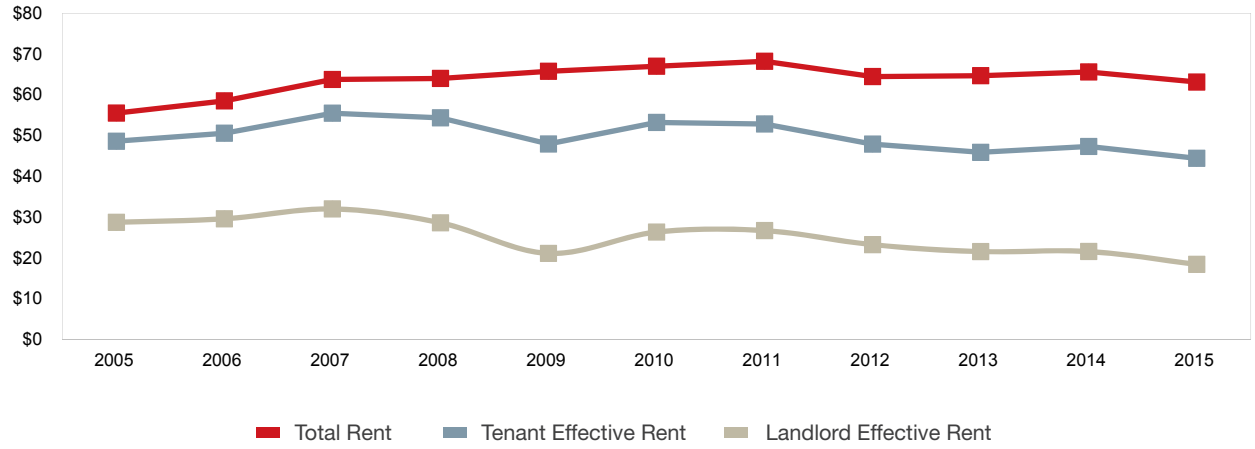
	2015	% Change
Net Rent	$37.89	-7.0
Operating Expenses	9.50	2.7
Real Estate Taxes	12.90	1.1
Tenant Electricity	2.83	0.0
Total Rent	63.12	-3.8
Amortized Concessions	-18.71	2.4
Tenant Effective Rent	**44.41**	**-6.2**
Landlord Effective Rent	**18.40**	**-14.6**

Outlook: Little Change in 2016

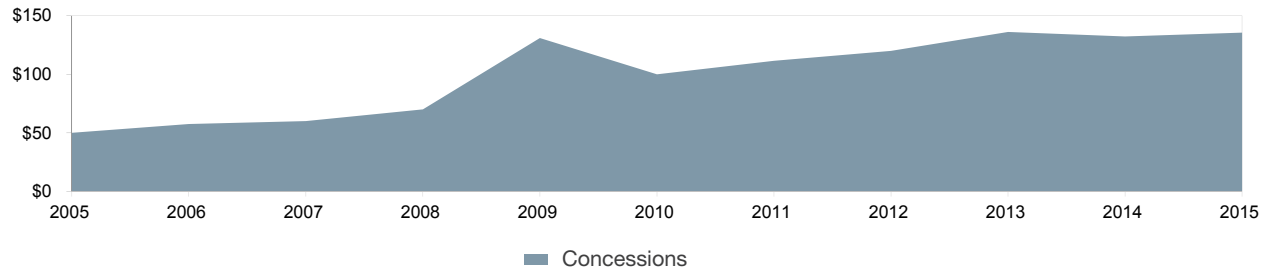
It will be a challenge to maintain the level of leasing registered in 2015. Many of the largest requirements have been filled and tenants willing to sign long-term commitments stand to once again capture very favorable terms as a number of repositioned buildings return to market, bolstering options for firms looking to reduce real estate costs.

savills Studley

Rent Trends



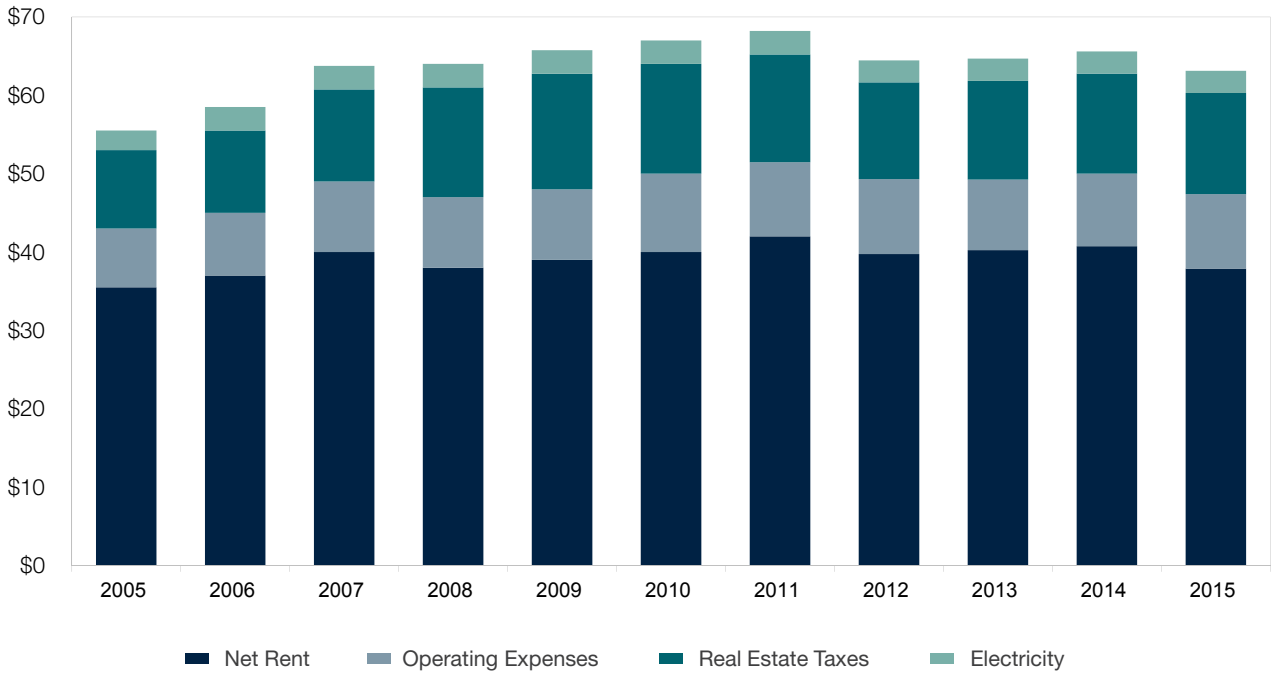
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Total Rent	$55.50	$58.50	$63.75	$64.00	$65.75	$67.00	$68.21	$64.45	$64.68	$65.59	$63.12	-3.8%	-1.2%	1.3%
Tenant Effective Rent	$48.60	$50.57	$55.47	$54.34	$47.92	$53.20	$52.82	$47.89	$45.88	$47.33	$44.41	-6.2%	-3.5%	-0.9%
Landlord Effective Rent	$28.72	$29.57	$31.99	$28.60	$21.09	$26.32	$26.68	$23.22	$21.52	$21.55	$18.40	-14.6%	-6.9%	-4.4%



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Concessions	$50.00	$57.50	$60.00	$70.00	$131.00	$100.00	$111.50	$120.00	$136.21	$132.35	$135.57	2.4%	6.3%	10.5%
Concessions/Rent Ratio*	12.4%	13.6%	13.0%	15.1%	27.5%	20.6%	22.6%	25.7%	29.1%	27.8%	29.6%	1.8		

* Equals amortized concessions as a percentage of total rent.

Total rent declined for the first time since 2012, dropping by 3.8% to $63.12. Net rent decreased by 7.0% from $40.75 to $37.89. Operating expenses (+2.7%) and real estate taxes (+1.1%) pushed higher but tenant electric was unchanged. Concessions attained a new record level, averaging $135.57, and the District was one of only a few major metros to see a significant jump in the value of concessions relative to rent in 2015. Tenant effective rent dropped by 6.2% to $44.41. Landlord effective rent posted a 14.6% decline from $21.55 to $18.40.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$35.50	$37.00	$40.00	$38.00	$39.00	$40.00	$42.00	$39.75	$40.25	$40.75	$37.89	-7.0%	-1.1%	0.7%
Operating Expenses	$7.50	$8.00	$9.00	$9.00	$9.00	$10.00	$9.46	$9.55	$9.00	$9.25	$9.50	2.7%	-1.0%	2.4%
Real Estate Taxes	$10.00	$10.50	$11.75	$14.00	$14.75	$14.00	$13.75	$12.35	$12.58	$12.76	$12.90	1.1%	-1.6%	2.6%
Electricity	$2.50	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$2.80	$2.85	$2.83	$2.83	0.0%	-1.2%	1.2%
Total Rent	**$55.50**	**$58.50**	**$63.75**	**$64.00**	**$65.75**	**$67.00**	**$68.21**	**$64.45**	**$64.68**	**$65.59**	**$63.12**	**-3.8%**	**-1.2%**	**1.3%**

Lease Terms/Concessions

Review: Concessions Continue Ascent

Renewals and restructures still accounted for much of the year's activity, but more tenants made significant relocations to capitalize on very favorable lease terms. Free rent periods inched higher and tenant improvement allowances increased.

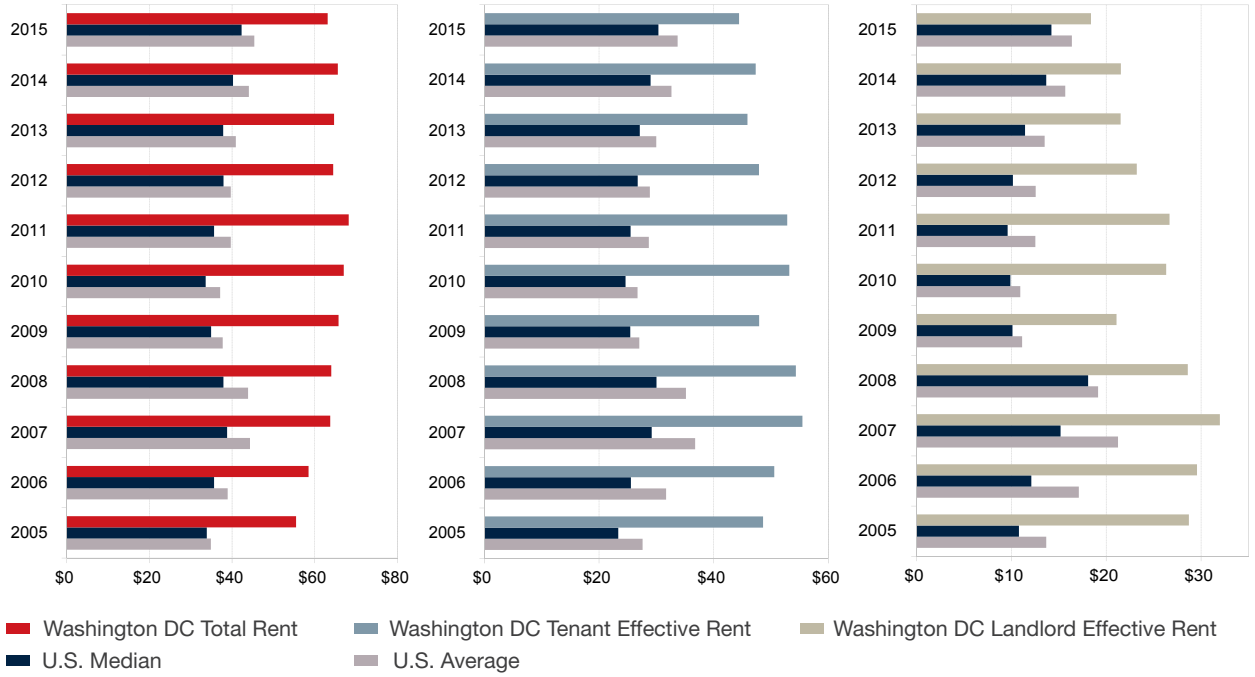
Leases Under 50,000 sf	
Average Term:	5-10 years
Free Rent:	6-12 months
Tenant Improvements:	$70.00-$90.00/sf

Leases Over 50,000 sf	
Average Term:	10-15 years
Free Rent:	6-12 months
Tenant Improvements:	$80.00-$110.00/sf

Outlook: Favorable Terms to Prevail

Core demand drivers remain weak at a time when tenants have a lot of quality options to consider. Landlords will be compelled to keep concessions at record levels and will face pressure to complete building renovations and upgrades in older Class A properties.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Washington, DC	$55.50	$58.50	$63.75	$64.00	$65.75	$67.00	$68.21	$64.45	$64.68	$65.59	$63.12
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

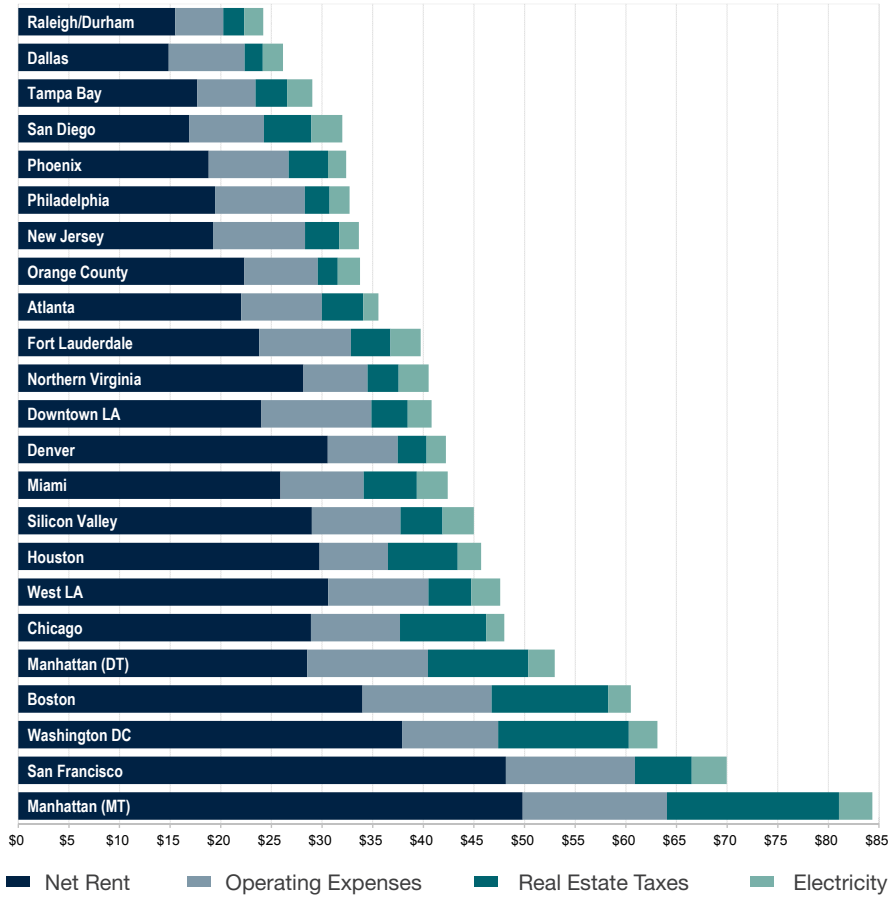
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Washington, DC	$48.60	$50.57	$55.47	$54.34	$47.92	$53.20	$52.82	$47.89	$45.88	$47.33	$44.41
U.S Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S. Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Washington, DC	$28.72	$29.57	$31.99	$28.60	$21.09	$26.32	$26.68	$23.22	$21.52	$21.55	$18.40
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 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 2015.

Entire contents copyright © 2016 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
Steve Coutts
SVP, National Research
scoutts@savills-studley.com
(212) 326-8610

Jared Emery
Research Manager
jemery@savills-studley.com
(202) 540-5510