

Savills Studley Report Washington, DC office sector

Q2 2018



SUMMARY

Market Highlights

Washington, DC: Mid-year brings little change to DC's tenant-favorable market conditions. Overall availability dropped just 0.3 percentage points (pp) from Q1 to end Q2 at 16.2%, and remains among the highest levels on record. Leasing activity totals nearly 4.4 million square feet (msf) year-to-date, as tenants are eager to capitalize on the softer market conditions. With significant development activity, the current overall average asking rent increased by 1.4% to \$52.16 per square foot (psf). However, there is no sign of a pullback in the record-high concessions that prevail.

Northern Virginia: Northern Virginia continues on its very slow road to recovery, with available space shrinking slightly again this quarter. Overall availability currently stands at

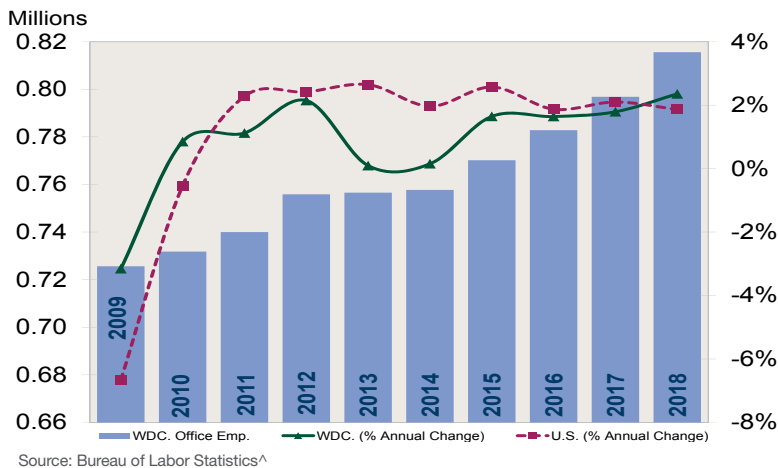
20.5%, a 0.3pp decline over both the quarter and the year. Year-to-date leasing now totals over 5.0 msf, a 24.7% increase year-over-year. New options have pushed asking rents up some, yet concessions for top-tier product are currently averaging over \$115.00 psf in free rent and improvement allowances.

Suburban Maryland: New developments and walkable, amenity-rich submarkets in Suburban Maryland have been very successful at luring tenants, though often to the detriment of more suburban locations. As a whole, overall availability fluctuated upwards, increasing 0.4 pp from Q1 to 16.9%. Leasing activity is keeping pace, totaling over 1.8 msf so far this year – however much of the activity seen this quarter was through renewals.

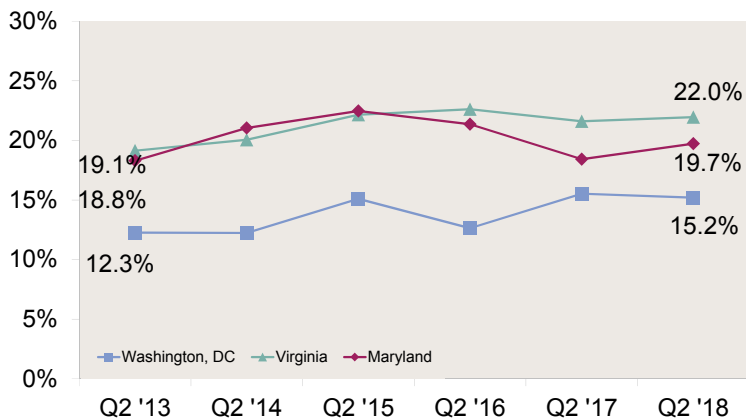
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"Mid-year brings little change to the unprecedented favorability and flexibility seen in office market conditions across the Washington metro region. Tenants are taking note, and the region is benefitting from an uptick in activity from key growth sectors including tech and coworking groups. Organizations in the market now will benefit from prime conditions and favorable terms in both new and existing options."

Tom Fulcher,
Executive Vice President

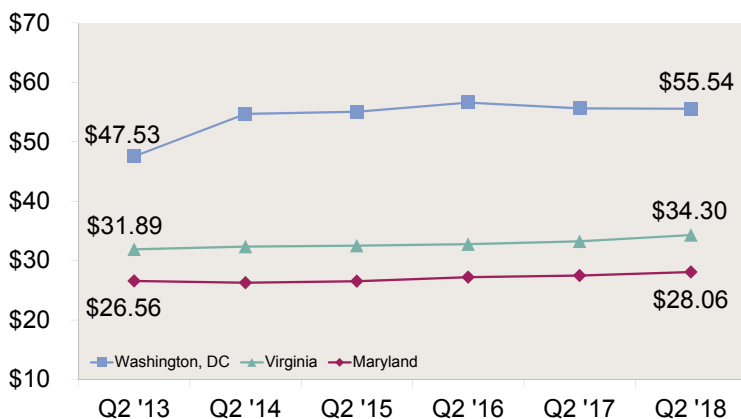
Office-Using Employment Trends



Class A Availability Rate Trends



Class A Asking Rent Trends (\$/sf)



DC Availability Remains Elevated With New Product Delivering

Overall availability in DC ended the second quarter at 16.2% marking a slight decrease from Q1. However, it is still 0.3 pp higher than this time last year, and a staggering 3.7 pp higher it was than two years ago. Over 2.0 msf of new space has delivered so far this year, with an additional 5.0 msf slated to deliver before the end of 2019, despite the elevated availability levels. Tenants are taking note of softer conditions and year-to-date leasing activity (4.4 msf) has picked up by 12.6% year-over-year. The private sector accounted for more than 90.0% of leasing activity this quarter. Coworking continues to expand, with WeWork taking an additional 107,726 square feet (sf) at Metropolitan Square, bringing its total occupancy in the building to over 225,000 sf. Bond Collective, another shared space provider, opened its first location in DC, taking 30,000 sf at 609 H Street NE in Capitol Hill. The tech sector has also been active. Educational technology company EverFi expanded its headquarters to 58,005 sf at 2300 N Street NW this quarter, adding to other notable expansions from companies like Facebook and Yelp over the past year.

Increase in Demand Leads to Some Stabilization in Northern Virginia

Increased demand has led to slowly stabilizing conditions in Northern Virginia. Overall availability ended the second quarter at 20.5%, a 0.3 pp decline from both last quarter and Q2 2017. Leasing activity has been significantly more robust in recent quarters, already topping 5.0 msf in total for the year and marking a 24.7% increase compared to the same period last year. The General Services Administration (GSA) signed the largest lease of the quarter, consolidating a major branch of the U.S. Customs and Border Protection into 444,595 sf across three buildings at Quantum Park in Loudoun County. The private sector also had an active quarter, with software company Appian announcing the move of its headquarters from Reston to a larger, 205,027-sf space at Valo Park in Tysons Corner and General Dynamics renewing 183,621 sf at 12450 Fair Lakes Circle in Fairfax.

Options on the Rise in Suburban Maryland

Suburban Maryland continues to see an increase in available space options across all types – new developments, existing properties, and in sublease space. This increase has pushed availability up 0.3 pp over the year to 16.9%. Total leasing activity

for the quarter came close to 1.0 msf; however it heavily favored renewals. The Henry M. Jackson Foundation renewed and expanded to 168,000 sf at 6720 Rockledge Drive in North Bethesda, and the Children's National Medical Center renewed 71,295 sf at 12211 Plum Orchard Drive in North Silver Spring. There were no new leases over 30,000 sf this quarter, and the small amount of new activity was concentrated in walkable, amenity-rich submarkets like Bethesda / Chevy Chase.

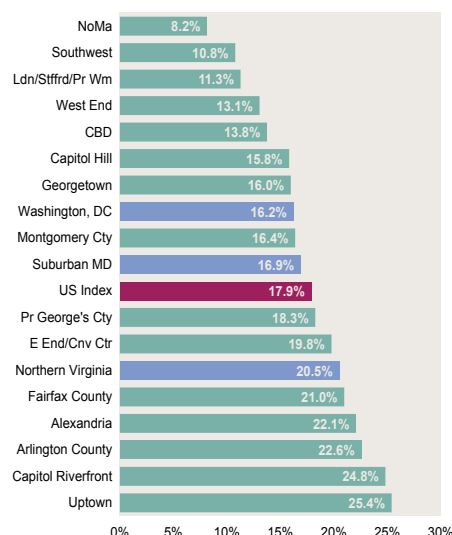
SUBMARKET FOCUS

Of the nearly 4.4 msf leased at mid-year in DC, 32.9% of this was seen in the East End. This activity pushed availability down slightly to 19.8% from its Q1 high of 20.0%, but it still remains among the highest seen in at least twenty years. A large portion of this availability is in relet options. Owners are fighting hard, with generous rates, terms and concessions, to fill empty buildings. Tenants are taking note, as evidenced in a number of organizations capitalizing on second-generation space options that have been lingering on the market. The Carlyle Group announced it will consolidate to an expanded headquarters at 1001 Pennsylvania Avenue NW, renewing and growing its presence in the building to 200,000 sf. WeWork also chose to expand in its existing location at 655 15th Street NW, adding an additional 107,726 sf and doubling its size – in space that was left behind by major law firm vacancies. With its acquisition of 875 15th Street NW this quarter (at \$598 psf), JPMorgan Chase is planning to fill empty space in the 231,000-sf building itself, occupying space that will be soon vacated in another law firm shift. This takes three large, existing options off the table in arguably the softest submarket in the city.

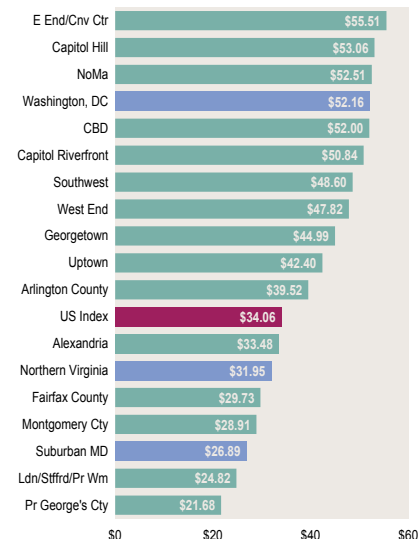
The Fairfax County submarket, particularly Tysons Corner, saw a flurry of activity this quarter, luring tenants from neighboring submarkets and securing significant expansions from growing industry sectors. Two large tech companies committed to Tysons Corner this quarter. Appian is relocating its headquarters from Reston, taking 205,027 sf of former Gannett / Tegna space at Valo Park. Also, Cvent renewed and added 72,000 sf to occupy a total of 140,000 sf at 1765 and 1785 Greensboro Station Place. This brought class A availability across all of Fairfax County down slightly to 22.5%, which now sits under Arlington County's class A availability of 24.8%.

More than 80.0% of all quarterly leasing

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
GSA - U.S. Customs & Border Protection	444,595	Quantum Park - Buildings B-1, B-2, C-2	Loudoun/Stafford/Prince William
Appian	205,027	7950 Jones Branch Drive	Fairfax County
The Carlyle Group	200,000	1001 Pennsylvania Avenue NW	East End/Convention Center
General Dynamics	183,622	12450 Fair Lake Circle	Fairfax County
The Henry M. Jackson Foundation	168,000	6720-A Rockledge Drive	Montgomery County
Cvent	140,000	1765 & 1785 Greensboro Station Place	Fairfax County
WeWork	107,726	655 15th Street NW	East End/Convention Center
Cambridge Associates	90,170	4100 N Fairfax Drive	Arlington County
GSA - U.S. Secret Service	78,722	1100 L St NW	East End/Convention Center
OneWeb	71,834	1785 Greensboro Station Place	Fairfax County
Sum of Top 10 Leases	1,689,696	Sum of 2nd Quarter Leasing Activity	5.5 MSF

activity in Suburban Maryland occurred in Montgomery County this quarter – and of that, the majority was in the form of renewals. For the few organizations that signed new leases, Bethesda / Chevy Chase remains the top choice and has been successful in continuing to lure tenants from all across the region, leading to additional tightening in both new and existing options within the submarket. Coworking group Industrious chose Bethesda as its first outpost outside of the District, signing for 28,000 sf at 7200 Wisconsin Avenue. Nuclear energy company, Orano USA, chose Bethesda as well, consolidating both its DC and Northern Virginia locations to new construction at 4747 Bethesda Avenue.

OUTLOOK

At mid-year, DC is still boasting the most tenant-friendly conditions seen in at least two decades. Availability remains elevated, and with the amount of new development in the pipeline, it is not expected to change dramatically in the foreseeable future. The

uptick seen in activity – particularly growing industry sectors like tech and coworking – is a testament to tenants securing flexible and favorable terms now while conditions are advantageous.

Market fundamentals in Northern Virginia are slowly stabilizing with an uptick in demand, yet are still far from “recovered” with the amount of space that remains available. Markets along the Metro system's Silver line are getting a fair share of the activity, and tenants have an abundance of new and existing options to choose from when evaluating the market.

Bethesda / Chevy Chase continues to lure organizations from across the region to Suburban Maryland, due to its pricing and saturation of amenities and transit options. Yet despite some tightening seen there, overall available space continues to increase in the market and tenants looking in Suburban Maryland will still benefit from softer conditions.

Submarket	Total	Leasing Activity		Available SF				Availability Rate				Asking Rents Per SF			
	SF (1000's)	Last 12 Months	5 Year Average	This Quarter	% Change from Last Qtr.	Last Quarter	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Last Quarter	Year Ago	This Quarter	% Change from Last Qtr.	Last Quarter	Year Ago
Capitol Hill	5,641	395	331	893	-4.3%	933	1,063	15.8%	-0.7%	16.5%	18.8%	\$53.06	3.4%	\$51.30	\$54.51
Capitol Hill - Class A	2,235	227	225	603	-1.2%	611	663	27.0%	-0.3%	27.3%	29.7%	\$55.50	5.1%	\$52.79	\$58.34
Capitol Riverfront	5,289	305	N/A	1,313	-3.9%	1,366	1,538	24.8%	-1.7%	26.5%	29.8%	\$50.84	1.6%	\$50.02	\$43.26
Capitol Riverfront - Class A	4,075	304	N/A	442	-10.7%	495	516	10.8%	-1.7%	12.6%	13.1%	\$50.84	1.6%	\$50.02	\$50.28
NoMa	10,311	540	N/A	840	-4.3%	878	1,109	8.2%	-0.8%	9.0%	11.3%	\$52.51	1.7%	\$51.61	\$51.52
NoMa - Class A	8,468	505	N/A	717	-5.0%	755	944	8.5%	-1.0%	9.5%	11.9%	\$53.97	1.9%	\$52.95	\$52.78
East End/Convention Center	43,558	2,267	3,480	8,615	-0.6%	8,670	7,867	19.8%	-0.2%	20.0%	18.1%	\$55.51	2.2%	\$54.30	\$55.07
East End/Convention Center - Class A	31,430	1,709	2,647	5,824	-0.6%	5,861	5,620	18.5%	-0.2%	18.7%	17.9%	\$57.43	2.1%	\$56.26	\$57.43
Central Business District	36,241	2,449	2,835	4,984	-2.6%	5,116	4,432	13.8%	-0.4%	14.1%	12.2%	\$52.00	1.1%	\$51.42	\$51.90
Central Business District - Class A	14,861	1,398	1,575	1,991	-8.6%	2,178	1,686	13.4%	-1.3%	14.7%	11.3%	\$57.95	0.0%	\$57.96	\$58.32
West End	3,422	159	137	447	2.5%	436	418	13.1%	0.3%	12.7%	12.2%	\$47.82	5.3%	\$45.40	\$47.36
West End - Class A	2,628	159	111	447	2.5%	436	418	17.0%	0.4%	16.6%	15.9%	\$47.82	5.3%	\$45.40	\$47.36
Georgetown	2,610	211	169	417	0.4%	415	337	16.0%	0.1%	15.9%	12.9%	\$44.99	-2.4%	\$46.08	\$43.11
Georgetown - Class A	1,186	156	64	224	-1.6%	228	211	18.9%	-0.3%	19.2%	17.8%	\$47.18	-2.0%	\$48.17	\$45.68
Southwest	12,360	1,859	721	1,333	5.1%	1,269	1,601	10.8%	0.3%	10.5%	13.2%	\$48.60	2.8%	\$47.25	\$46.68
Southwest - Class A	9,377	1,822	492	1,077	7.4%	1,003	1,378	11.5%	0.5%	11.0%	15.0%	\$49.90	3.1%	\$48.39	\$47.79
Uptown	5,803	138	323	1,474	1.1%	1,458	1,410	25.4%	0.3%	25.1%	24.3%	\$42.40	-0.6%	\$42.64	\$41.64
Uptown - Class A	619	7	23	56	-25.7%	7,945	40	9.1%	-3.1%	12.2%	6.5%	\$51.16	-0.2%	\$51.28	\$50.58
Fairfax County	97,685	7,783	6,052	20,482	-0.6%	20,603	20,289	21.0%	-0.1%	21.0%	20.7%	\$29.73	3.7%	\$28.66	\$27.85
Fairfax County - Class A	59,618	6,268	4,421	13,416	-1.0%	13,551	12,965	22.5%	-0.2%	22.7%	21.8%	\$32.55	5.7%	\$30.78	\$30.21
Alexandria	15,683	570	881	3,461	-17.0%	3,422	3,531	22.1%	-4.7%	26.7%	22.6%	\$33.48	1.9%	\$32.84	\$32.89
Alexandria - Class A	8,550	246	434	1,354	0.3%	1,350	1,325	15.8%	-0.1%	16.0%	15.7%	\$34.88	4.8%	\$33.27	\$32.67
Arlington County	36,719	3,672	2,953	8,289	3.0%	8,051	8,853	22.6%	0.6%	22.0%	24.2%	\$39.52	0.3%	\$39.39	\$39.05
Arlington County - Class A	23,622	2,874	1,882	5,852	4.8%	5,585	5,980	24.8%	1.0%	23.8%	25.4%	\$40.69	-0.4%	\$40.86	\$40.36
Loudoun/Stafford/Prince William	15,639	588	608	1,765	1.4%	1,740	1,878	11.3%	0.3%	11.0%	11.9%	\$24.82	4.6%	\$23.72	\$22.81
Loudoun/Stafford/Prince William - Class A	7,085	357	424	1,084	9.1%	994	1,038	15.3%	1.3%	14.0%	14.6%	\$26.77	1.8%	\$26.30	\$25.01
Montgomery County	57,362	3,696	3,126	9,398	0.6%	9,338	9,346	16.4%	0.4%	15.9%	16.0%	\$28.91	0.5%	\$28.76	\$28.34
Montgomery County - Class A	30,598	2,596	2,101	5,718	2.8%	5,561	5,480	18.7%	1.2%	17.5%	17.2%	\$30.53	-0.3%	\$30.63	\$29.96
Prince George's County	21,968	1,208	1,000	4,013	-1.6%	4,077	4,208	18.3%	0.4%	17.8%	18.4%	\$21.68	1.6%	\$21.34	\$21.92
Prince George's County - Class A	10,372	992	738	2,368	-2.2%	2,420	2,460	22.8%	1.3%	21.5%	21.8%	\$22.25	0.9%	\$22.06	\$21.76
Washington D.C. Total	125,236	8,323	8,806	20,316	-1.1%	20,541	19,775	16.2%	-0.3%	16.5%	15.9%	\$52.16	1.4%	\$51.43	\$51.33
Washington D.C. Total - Class A	74,879	6,288	5,910	11,383	-2.2%	11,642	11,475	15.2%	-0.6%	15.8%	15.5%	\$55.54	1.5%	\$54.74	\$55.62
Northern Virginia Total	165,726	12,613	10,494	33,997	-1.6%	34,563	34,552	20.5%	-0.3%	20.8%	20.8%	\$31.95	1.2%	\$31.58	\$31.19
Northern Virginia Total - Class A	98,875	9,745	7,160	21,706	1.1%	21,479	21,308	22.0%	0.2%	21.8%	21.6%	\$34.30	2.1%	\$33.58	\$33.24
Suburban Maryland Total	79,330	4,904	4,127	13,410	0.0%	13,415	13,554	16.9%	0.4%	16.5%	16.6%	\$26.89	0.7%	\$26.70	\$26.38
Suburban Maryland Total - Class A	40,970	3,589	2,840	8,086	1.3%	7,981	7,941	19.7%	1.2%	18.5%	18.4%	\$28.06	0.2%	\$28.01	\$27.47
Greater Washington D.C. Total	370,292	25,840	23,427	67,724	-1.2%	68,519	67,881	18.3%	-0.1%	18.4%	18.3%	\$36.86	1.9%	\$36.16	\$35.64
Greater Washington D.C. Total - Class A	214,724	19,622	15,910	41,175	0.2%	41,103	40,724	19.2%	0.1%	19.1%	18.9%	\$39.18	1.9%	\$38.43	\$37.98

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(1) Percentage point change for availability rates.

Current and historical availability and rent data subject to change due to changes in inventory.

Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.

Statistics are calculated using both direct and sublease information.

Short-term sublet spaces (terms under two years) were excluded.

^Unless otherwise noted, source for data is Savills Studley.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.