

Savills Studley Report Washington, DC office sector

Q3 2018



SUMMARY

Market Highlights

Washington, DC: Q3 brought little change to market sentiment in the District. The removal of one large block of lingering space did bring availability down some on a quarter-to-quarter basis, however it still remains elevated when compared to Q3 2017 due to robust construction activity and continued tenant rightsizing. Overall availability ended the third quarter at 15.6%, a 60-basis-point decrease from Q2, yet notably still higher than where it was at Q3 2017 (14.9%).

Northern Virginia: Fundamentals in Northern Virginia are holding relatively flat with overall availability at 20.8%, a mere 20-basis-point decrease year-over-year. With few large leases seen, the pace of

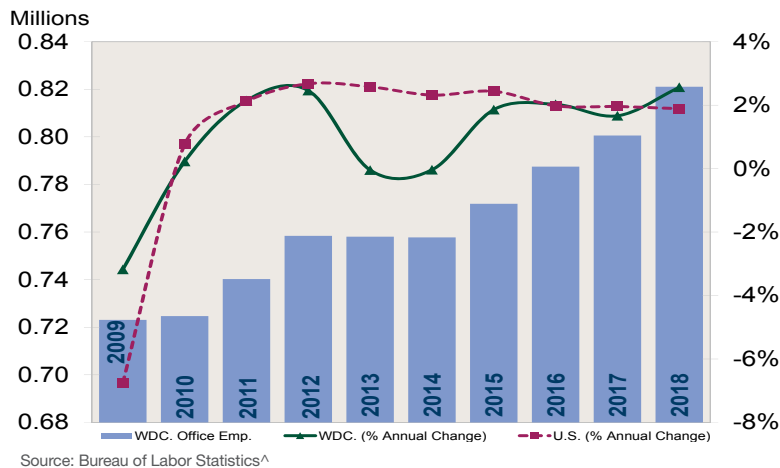
activity slowed in Q3 and quarterly volume, 1.9 million square feet (msf), hit its lowest point in two years. Rents held flat from last quarter and are currently averaging \$32.55/sf for all classes.

Suburban Maryland: With Discovery Communications' imminent departure in Silver Spring, availability shot up to 18.4%, marking a 200-basis-point increase year-over-year. Still, demand is strong and leasing held pace with more than 1.0 msf of activity seen in Q3, bringing the year-to-date total to 2.9 msf. Bethesda remains at the center of activity as it continues to lure tenants to its pipeline of new developments.

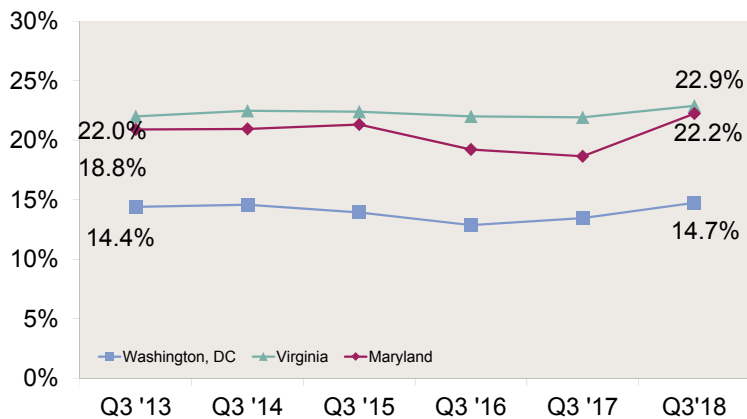
.....
"The third quarter saw a number of significant moves from tenants across all industries, with many securing terms now for leases that won't begin for several years. Occupiers throughout the region recognize, and are benefitting from, favorable conditions that have categorized the market for some time now and into the foreseeable future."

Tom Fulcher,
Executive Vice President

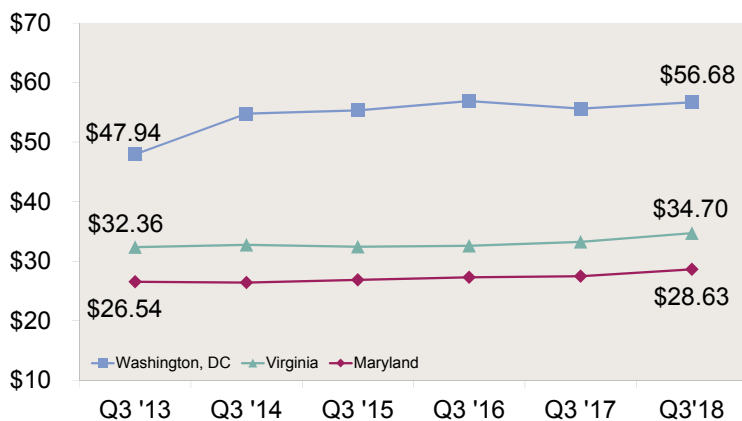
Office-Using Employment Trends



Class A Availability Rate Trends



Class A Asking Rent Trends (\$/sf)



Availability Declines in DC with Removal of Large Option, Demand Remains Strong

Overall availability in the District saw a 60-basis-point decline over the third quarter (now at 15.6%), due primarily to a lingering large-block option removed from the market. The Whittle School finalized its commitment to opening a new location at 4000 Connecticut Avenue NW in the Uptown submarket. The building has been vacant since Intelsat's departure in 2014 and will be overhauled for educational use. This lease accounted for 20.0% of the robust 3.3 msf leased during the quarter and was a key factor in the drop in overall availability. However, little change in market fundamentals was seen in DC's core submarkets including the CBD and East End, where options remain plentiful. With more than 2.5 msf of new inventory delivered so far this year, the higher-priced new product is pushing asking rents up slightly. Overall average rent ended the quarter at \$53.07/sf. Still, concessions remain at an all-time high.

Northern Virginia Fundamentals Hold Flat as Demand Slows

After several strong quarters, demand slowed in Q3 with only one lease over 100,000 sf seen in Northern Virginia — the lowest amount of activity seen since 2016. As a result, availability held fairly flat, hovering at 20.8% — 30 basis points higher than last quarter, but still 20 basis points lower than this time last year. Rents have also seen little change, currently averaging \$32.55/sf, a mere 0.9% increase from last quarter. Tysons Corner secured the largest relocation of the quarter, with the Air Line Pilots Association planning to move from Herndon to 103,711 sf at Valo Park. Other notable leases included Walmart's 66,415-sf renewal and expansion at Parkridge Center in Reston and health IT company Cerner's new 38,075-sf location at 1812 N. Moore Street in Rosslyn.

Large Departure Sends Availability Upwards in Suburban Maryland

With the sale of One Discovery Place to Foulger-Pratt finalized in September, Discovery Communications' impending 2019 move out of the region has resulted in nearly 500,000 sf returning to the market in Silver Spring. This pushed overall availability for Suburban Maryland up to 18.4% in Q3, a 200-basis-point increase year-over-year, and its highest level since 2014. Some submarkets are seeing more activity than others. Bethesda remains particularly tight as its pipeline of new development continues to attract and retain tenants. Energy company Enviva Partners chose to expand within the submarket this quarter. Enviva will shift from 7200 Wisconsin Avenue to a larger, 79,472-sf space at Carr's

new development at 7272 Wisconsin Avenue. New construction remains a top choice for tenants. More than 80.0% of the 1.4 msf currently under construction in Bethesda has been pre-leased to-date.

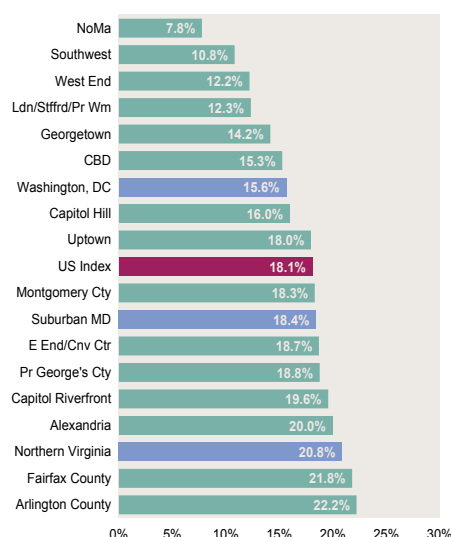
Submarket Focus

The CBD submarket saw a flurry of activity this quarter with more than 850,000 sf leased. A significant portion of that demand came from law firms seeking both new and existing options. Buckley Sandler LLP capitalized on one of the many new lower-floor options on the market, and will move into 65,000 sf at recently renovated 2001 M Street in 2019. Greenberg Traurig LLP renewed 61,060 sf at 2101 L Street NW. Clifford Chance renewed 53,728 sf at Alexander Court, also recently redeveloped. As law firms shift around the CBD, it has created opportunities for other groups to backfill space. Make Offices announced its tenth coworking location at 2000 Pennsylvania Avenue NW, which will soon be vacated by both Morrison & Foerster LLP and Cleary Gottlieb Steen & Hamilton LLP as they relocate to new buildings. The CBD has seen just over 1.0 msf of new or redeveloped space completed year-to-date, with an additional 1.7 msf under construction. This pipeline has kept availability on the rise in the submarket, even with strong leasing velocity, ending Q3 at 15.3% - a 210-basis-point increase year-over-year.

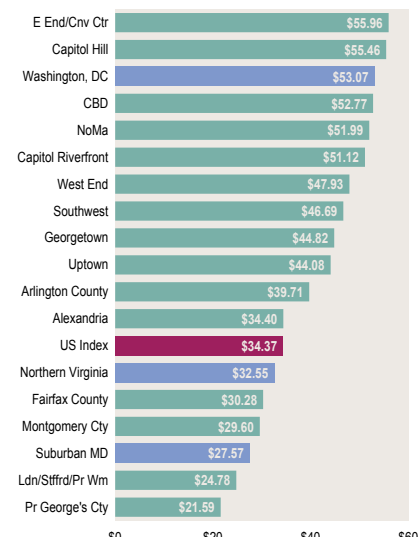
Despite the overall flatness in Northern Virginia, Arlington County has succeeded in chipping away at some of its lingering space on the market. The speculation over Amazon's future HQ2 location landing in the county has certainly created a buzz. Overall availability in the submarket decreased by 70 basis points year-over-year to 22.2%. The Rosslyn-Ballston (R-B) Corridor in particular has seen several notable leases this quarter from a variety of industries and user types. Joining Nestlé, Cerner's new 38,795-sf location at 1812 N. Moore Street in Rosslyn removes a block of space that has been vacant since the building's delivery in 2013. In Ballston, cybersecurity and IT company Two Six Labs LLC is shifting its space from 4350 N. Fairfax Drive to 29,798 sf at 901 N. Stuart Street, growing by 10,000 sf. Coworking group Industrious chose Ballston for its third location in the region, taking 25,634 sf at 4201 Wilson Boulevard. The R-B Corridor currently has only one project under construction, 4040 Wilson Boulevard, which is already nearly 50% pre-leased. The lack of development activity in the submarket will help to keep availability on a downward trend.

Conditions in Montgomery County continue to be a tale of two markets, with areas like

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
The Whittle School	666,202	4000 Connecticut Ave NW	Uptown
GSA - Federal Communications Commission	602,349	445 12th St SW	Southwest
U.S. Attorney's Office for the District of Columbia	345,776	555 4th St NW	East End/Convention Center
Embassy of Australia	122,458	1145 17th St NW	Central Business District
Air Line Pilots Association	103,711	7950 Jones Branch Dr	Fairfax County
Enviva	79,472	7272 Wisconsin Ave	Montgomery County
3M	71,500	12215 Plum Orchard Dr	Montgomery County
Children's National Health System	71,259	12211 Plum Orchard Dr	Montgomery County
Walmart	66,415	10780-10790 Parkridge Blvd	Fairfax County
Buckley Sandler LLP	65,000	2001 M St NW	Central Business District
Sum of Top 10 Leases	2,194,142	Sum of 3rd Quarter Leasing Activity	6.3 MSF

Silver Spring seeing a sharp increase in availability with Discovery Communication's upcoming departure. Meanwhile, Bethesda/Chevy Chase serves as a testament to transit-oriented development as it lures tenants with its active development pipeline, walkability and abundant amenities. In addition to securing Enviva's growth within the market, Bethesda/Chevy Chase also lured Hubbard Radio-owned WTOP from the District to 29,370 sf at 5425 Wisconsin Avenue. Large block options, particularly in Class A and Trophy space, in Bethesda/Chevy Chase are becoming scarcer as evidenced by the 80.0% pre-leased rate of the three projects currently underway.

Outlook

The decrease in overall availability in DC is not indicative of a change in the incredibly tenant-friendly conditions that remain prevalent in the market, but merely the removal of lingering obsolete space that will be converted to educational use. Development remains active and as tenants, particularly law firms,

continue to seek new construction options, opportunities in both existing and lower-floor new space will be plentiful for the foreseeable future.

With conditions seeing little change – or improvement – in Northern Virginia, tenants will have opportunity to chip away at the abundance of available quality space. Tysons Corner, Reston and the R-B Corridor will continue to see the bulk of activity into the future due to their rich amenities and access to transit. These three submarkets will attract tenants from more suburban submarkets and outside of the region as the race for Amazon's HQ2 heats up.

Tenants looking in Bethesda/Chevy Chase should note that large options, particularly in new construction, are dwindling in the submarket. However, the overall market softness in Suburban Maryland will continue to benefit tenants throughout the jurisdiction as pricing and flexibility remain favorable.

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	5,531	420	341	884	-1.0%	893	598	16.0%	0.2%	15.8%	10.6%	\$55.46	4.5%	\$53.06	\$55.09
Capitol Hill - Class A	2,235	264	250	590	-2.2%	603	248	26.4%	-0.6%	27.0%	11.1%	\$59.25	6.8%	\$55.50	\$61.50
Capitol Riverfront	5,289	211	N/A	1,035	-21.2%	1,313	1,389	19.6%	-5.3%	24.8%	26.9%	\$51.12	0.5%	\$50.84	\$41.99
Capitol Riverfront - Class A	4,075	210	N/A	426	-3.7%	442	368	10.4%	-0.4%	10.8%	9.3%	\$51.12	0.5%	\$50.84	\$46.25
NoMa	10,230	417	N/A	795	-5.4%	840	960	7.8%	-0.4%	8.2%	9.8%	\$51.99	-1.0%	\$52.51	\$52.02
NoMa - Class A	8,468	395	N/A	671	-6.4%	717	822	7.9%	-0.5%	8.5%	10.3%	\$53.49	-0.9%	\$53.97	\$53.33
East End/Convention Center	43,286	2,603	3,591	8,095	-6.0%	8,615	7,599	18.7%	-1.1%	19.8%	17.5%	\$55.96	0.8%	\$55.51	\$54.13
East End/Convention Center - Class A	31,430	1,776	2,738	5,546	-4.8%	5,824	5,150	17.6%	-0.9%	18.5%	16.4%	\$59.87	4.2%	\$57.43	\$56.03
Central Business District	35,884	2,931	2,865	5,481	10.0%	4,984	4,794	15.3%	1.5%	13.8%	13.2%	\$52.77	1.5%	\$52.00	\$52.08
Central Business District - Class A	15,085	1,749	1,654	2,046	2.8%	1,991	1,920	13.6%	0.2%	13.4%	12.9%	\$58.42	0.8%	\$57.95	\$58.44
West End	3,422	179	137	418	-6.4%	447	447	12.2%	-0.8%	13.1%	13.1%	\$47.93	0.2%	\$47.82	\$47.48
West End - Class A	2,628	179	110	418	-6.4%	447	447	15.9%	-1.1%	17.0%	17.0%	\$47.93	0.2%	\$47.82	\$47.48
Georgetown	2,610	208	169	370	-11.4%	417	268	14.2%	-1.8%	16.0%	10.3%	\$44.82	-0.4%	\$44.99	\$44.44
Georgetown - Class A	1,186	108	65	227	1.1%	224	165	19.1%	0.2%	18.9%	13.9%	\$45.52	-3.5%	\$47.18	\$47.03
Southwest	12,360	2,493	894	1,338	0.4%	1,333	958	10.8%	0.0%	10.8%	7.9%	\$46.69	-3.9%	\$48.60	\$46.74
Southwest - Class A	9,377	2,431	715	1,090	1.2%	1,077	747	11.6%	0.1%	11.5%	8.2%	\$47.65	-4.5%	\$49.90	\$47.77
Uptown	5,867	824	335	1,054	-28.5%	1,474	1,453	18.0%	-7.4%	25.4%	25.0%	\$44.08	4.0%	\$42.40	\$41.69
Uptown - Class A	619	0	24	56	0.0%	8,468	80	9.1%	0.0%	9.1%	12.9%	\$51.16	0.0%	\$51.16	\$48.31
Fairfax County	96,686	6,547	5,887	21,083	2.9%	20,482	20,796	21.8%	0.8%	21.0%	21.2%	\$30.28	1.8%	\$29.73	\$28.12
Fairfax County - Class A	59,913	5,140	4,347	14,606	8.9%	13,416	13,577	24.4%	1.9%	22.5%	22.8%	\$32.81	0.8%	\$32.55	\$30.29
Alexandria	15,687	428	897	3,129	-9.6%	3,422	3,856	20.0%	-2.1%	22.1%	24.7%	\$34.40	2.8%	\$33.48	\$33.05
Alexandria - Class A	8,528	236	431	1,317	-2.8%	1,354	1,312	15.4%	-0.4%	15.8%	15.5%	\$35.37	1.4%	\$34.88	\$32.66
Arlington County	36,648	2,958	3,041	8,141	-1.8%	8,289	8,387	22.2%	-0.4%	22.6%	22.9%	\$39.71	0.5%	\$39.52	\$38.81
Arlington County - Class A	23,551	2,559	1,970	5,599	-4.3%	5,852	5,684	23.8%	-1.0%	24.8%	24.2%	\$41.17	1.2%	\$40.69	\$40.19
Loudoun/Stafford/Prince William	15,154	649	627	1,869	5.9%	1,765	1,867	12.3%	1.1%	11.3%	11.8%	\$24.78	-0.1%	\$24.82	\$22.97
Loudoun/Stafford/Prince William - Class A	7,292	380	440	1,202	10.9%	1,084	1,054	16.5%	1.2%	15.3%	14.9%	\$26.97	0.7%	\$26.77	\$25.17
Montgomery County	55,400	3,350	3,022	10,143	7.9%	9,398	9,214	18.3%	1.9%	16.4%	15.7%	\$29.60	2.4%	\$28.91	\$28.58
Montgomery County - Class A	30,629	2,277	2,017	6,629	15.9%	5,718	5,469	21.6%	3.0%	18.7%	17.2%	\$30.93	1.3%	\$30.53	\$30.29
Prince George's County	20,452	674	1,021	3,840	-4.3%	4,013	4,153	18.8%	0.5%	18.3%	18.2%	\$21.59	-0.4%	\$21.68	\$21.47
Prince George's County - Class A	9,904	490	768	2,383	0.6%	2,368	2,568	24.1%	1.2%	22.8%	22.8%	\$22.23	-0.1%	\$22.25	\$21.82
Washington D.C. Total	124,480	10,287	9,208	19,469	-4.2%	20,316	18,466	15.6%	-0.6%	16.2%	14.9%	\$53.07	1.4%	\$52.33	\$50.94
Washington D.C. Total - Class A	75,102	7,113	6,397	11,070	-2.7%	11,383	9,947	14.7%	-0.5%	15.2%	13.5%	\$56.68	1.9%	\$55.62	\$54.83
Northern Virginia Total	164,175	10,581	10,453	34,223	0.7%	33,997	34,906	20.8%	0.3%	20.5%	21.0%	\$32.55	0.9%	\$32.24	\$30.96
Northern Virginia Total - Class A	99,283	8,315	7,189	22,724	4.7%	21,706	21,628	22.9%	0.9%	22.0%	21.9%	\$34.70	0.3%	\$34.60	\$32.78
Suburban Maryland Total	75,852	4,024	4,044	13,982	4.3%	13,410	13,367	18.4%	1.5%	16.9%	16.4%	\$27.57	3.1%	\$26.75	\$26.37
Suburban Maryland Total - Class A	40,532	2,767	2,785	9,012	11.5%	8,086	8,038	22.2%	2.5%	19.7%	18.6%	\$28.63	1.9%	\$28.10	\$27.59
Greater Washington D.C. Total	364,507	24,892	23,704	67,674	-0.1%	67,724	66,740	18.6%	0.3%	18.3%	18.0%	\$37.30	1.2%	\$36.86	\$35.91
Greater Washington D.C. Total - Class A	214,918	18,195	16,370	42,806	4.0%	41,175	39,612	19.9%	0.7%	19.2%	18.4%	\$38.99	-0.5%	\$39.18	\$38.25

Please contact us for further information

Savills Studley
Washington, DC
1201 F Street, N.W.,
Suite 500
Washington, DC 20004-1225
(202) 628-6000

Savills Studley
Suburban Washington
7900 Tysons One Place.
Suite 420
Tysons, VA 22102
(703) 442-9000

Washington, DC Region Co-Branch Managers

Thomas M. Fulcher Jr., Vice Chairman - tfulcher@savills-studley.com
Lois A. Zambo, Vice Chairman - lzambo@savills-studley.com
David Lipson, Vice Chairman - dlipson@savills-studley.com
William P. Quinby, Vice Chairman - bquinby@savills-studley.com
Gary Stein, Vice Chairman - gstein@savills-studley.com
Ben Plaisted, Executive Managing Director - bplaisted@savills-studley.com

(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.
Copyright © 2018 Savills Studley