

Savills Studley Report Washington, DC office sector

Q1 2018



SUMMARY

Market Highlights

Washington, DC: Over 4.0 million square feet (msf) is set to deliver in Washington, DC this year alone, pushing the overall availability rate to 16.6% - its highest in at least the last 20 years. Tenants are capitalizing on current conditions. Leasing activity held pace from the end of last year, posting nearly 2.3 msf in total for Q1 2018, a 20.7% increase compared to Q1 2017. Asking rents are holding fairly flat, increasing just slightly despite the new product coming to market, but also pushing concessions up to the highest levels on record in the market.

Northern Virginia: With stronger demand seen over the past few quarters, overall availability in Northern Virginia is leveling off some, ending the quarter at 20.8% - a 0.5 percentage point (pp) decrease from this same

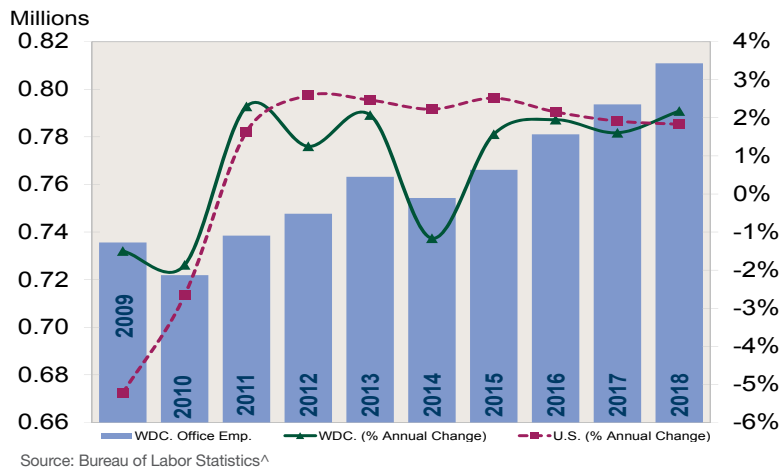
time last year. Leasing for the quarter totaled 2.7 msf with help from a mega-deal signed by Fannie Mae, taking 850,000 square feet (sf) at Boston Properties' to-be-developed Reston Gateway site. This quarter's activity marks a 23.6% increase year-over-year.

Suburban Maryland: Availability remains level in Suburban Maryland, ending the quarter at 16.5% overall - just a 0.1pp decrease from this time last year. The pace of leasing activity declined slightly from 2017's year-end momentum, but still posted nearly 1.0 msf for the quarter. Supernus Pharmaceuticals signed the largest lease in the Maryland market this quarter, doubling in size and shifting its headquarters from Rockville to Gaithersburg.

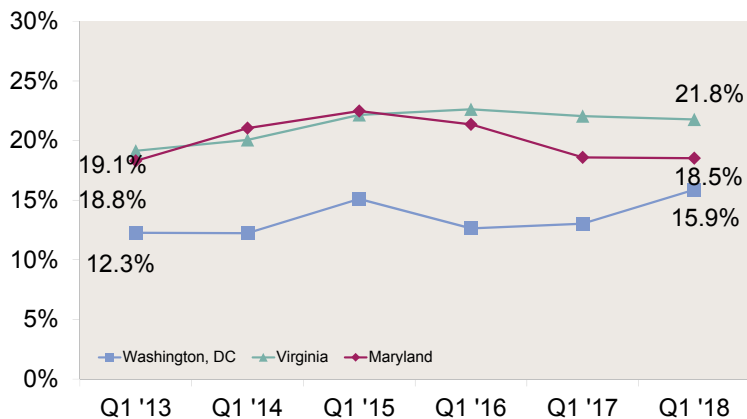
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"2018 has brought some of the most tenant-favorable office market conditions ever seen across all jurisdictions of the Washington metro region. A preference for efficient and amenitized space has led to the highest amount of new development since the recession, and tenants across all industry sectors are benefiting from unprecedented options, flexibility and concessions as they make real estate decisions in the current cycle."

Tom Fulcher,
Executive Vice President

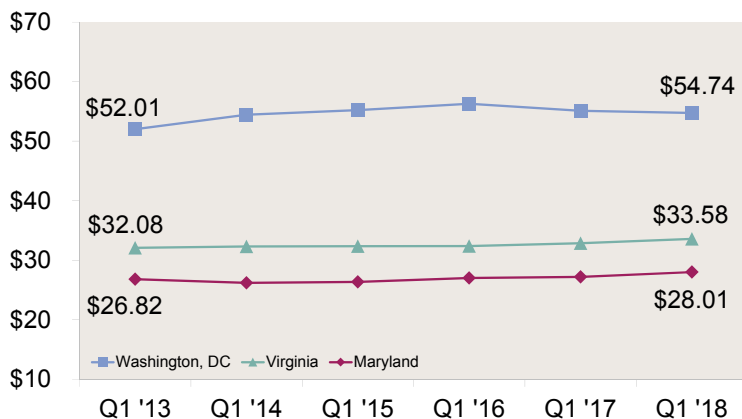
Office-Using Employment Trends



Class A Availability Rate Trends



Class A Asking Rent Trends (\$/sf)



Upcoming Burst of Deliveries Pushes DC Availability Higher

Overall availability in DC ended the first quarter at 16.6% an increase of 0.5pp from last quarter, and more than 2.0pp from this time last year. While a significant portion of this increase is attributable to the new deliveries slated to come to market this year, existing options also play a factor as tenants continue to right-size across the market. Leasing posted a healthy 2.3 msf for the quarter, though a large portion of this came from renewals. Baker Botts signed the largest new lease of the quarter, committing to 103,300 sf at 700 K Street NW and cutting its footprint by over 25%. On top of that, WeWork is expanding its footprint in the District and absorbing three floors at 777 6th Street NW (approximately 55,000 sf) in its newest location. Increasing availability has kept asking rents in check, currently at \$51.43 psf overall and marking just a 0.5% increase over the year, despite the flurry of new construction. Concessions, however, continue to climb and, on average, are now topping \$200.00/sf in improvement allowances and free rent combined for long-term, class A deals.

Northern Virginia Fundamentals Stabilizing With Increased Demand

After seeing steady increases over the past several years, overall availability in Northern Virginia appears to be leveling off some with the help of large tenant demand. Overall availability ended the quarter at 20.8%, a 0.5pp decrease from this time last year. Leasing activity totaled 2.6 msf for the quarter, a 24.0% increase year-over-year. Significant leases included new space for both Fannie Mae (850,000 sf) and Leidos (275,809 sf) in Reston, along with large renewals for the Drug Enforcement Administration (514,000 sf) in Pentagon City and Microstrategy (213,060 sf) in Tysons. Asking rents, currently at \$31.58 psf overall, have held fairly flat from the end of the last quarter. However, they have increased some (2.1%) year-over-year, with a handful of 2017 deliveries bringing new options to the market at above-average pricing.

Suburban Maryland Availability Holds Flat, Options Will Increase as New Development Continues

Like Virginia, availability in Suburban Maryland is also starting to level off as stronger leasing activity chips away at the abundance of space on the market. Overall availability ended the quarter at 16.5%, a slight 0.1pp decrease year-over-year. Still, with a number of large deliveries in the Bethesda/Chevy Chase submarket slated to deliver in 2019 and beyond, we expect to see availability – and options – increase

in the future, even with strong pre-leasing activity. Leasing demand totaled nearly 950,000 sf for the quarter, marking a 14.4% increase compared to the same period in 2017. Asking rents saw a 2.6% increase over the year, currently at \$26.70 psf overall, again due to larger blocks of high-quality space coming to market.

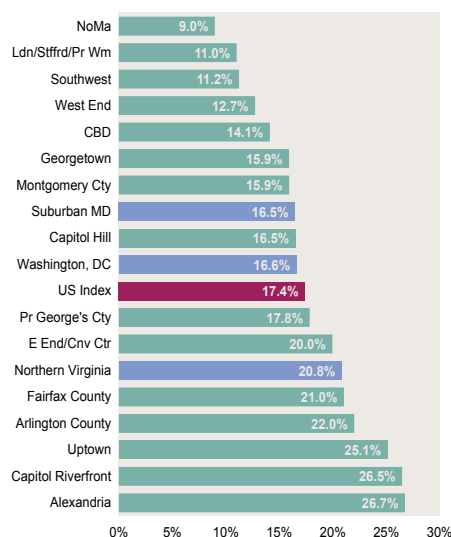
Submarket Focus

With the end of the first quarter, availability in the East End increased to 20%, marking a 3.8pp jump over the year and its highest level in at least the past twenty years. Construction activity is a key factor in this increase, with 48% of planned 2018 deliveries falling within this submarket. With projects like 1100 15th Street NW, 655 New York Avenue NW, and the renovation of 1441 L Street NW, nearly 2 msf is slated to deliver in East End this year. A strong 75% of planned deliveries has been pre-leased to date, but that still leaves roughly 0.5 msf to fill. Another element contributing to the East End increase is law firms' preference to stay in or relocate to the CBD. In the majority of recent large law firm relocation transactions—including Morrison & Foerster and WilmerHale at the end of last year, and Pepper Hamilton LLP this quarter—firms have chosen new buildings in the CBD over other submarkets. Pepper Hamilton, for example, plans to move from the East End to the CBD. If these trends continue, we can expect to see East End availability remain at peak levels for the balance of the year.

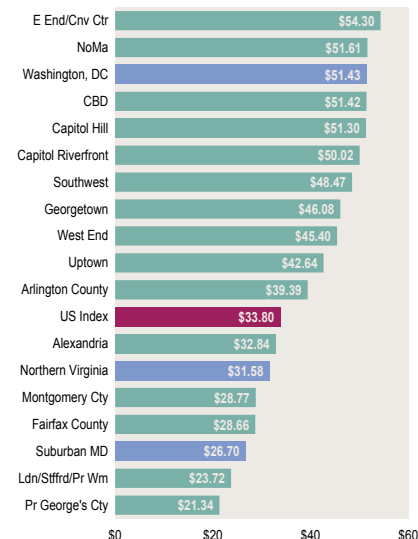
The Fairfax County submarket, particularly Reston, has seen a boost with the start of the new year. Overall availability in Fairfax declined by 0.6pp year-over-year, now at 21%. This quarter saw two major leases at Reston Town Center, with Leidos signing for 275,809 sf and Fannie Mae signing for 850,000 sf at two separate to-be-developed buildings by Boston Properties. These leases underscore not only tenant preference for the Town Center micro-submarket, but for new construction as well. Leidos is consolidating several locations to accommodate 1,000 employees in one building, while Fannie Mae is centralizing its Northern Virginia locations in a space that is actually 100,000 sf larger than its new DC headquarters.

Montgomery County retained a major headquarters this quarter with Supernus Pharmaceuticals staying within the county. Supernus will receive a generous incentives package, they will move north from Rockville to new development at 700 Quince Orchard Road in Gaithersburg. Supernus is leasing 118,834 sf, doubling its current size and adding 160 new jobs.

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Fannie Mae	850,000	Reston Gateway	Fairfax County
GSA - Drug Enforcement Administration	514,000	600-700 Army-Navy Dr	Arlington County
GSA - Immigration and Customs Enforcement	502,997	500 12th St SW	Southwest
GSA - United States Agency for International Development	348,173	500 D St SW	Southwest
Leidos	275,809	1750 Presidents St	Fairfax County
MicroStrategy	213,060	1850 Towers Crescent Plz	Fairfax County
E-Trade	121,308	671 N Glebe Rd	Arlington County
Supernus Pharmaceuticals	118,834	700 Quince Orchard Rd	Montgomery County
Inovalon	110,000	4321 Collington Rd	Prince George's County
Baker Botts	103,317	700 K St NW	East End/Convention Center
Sum of Top 10 Leases	3,157,498	Sum of 1st Quarter Leasing Activity	5.8 MSF

Despite the stronger activity, availability in Montgomery County has remained flat over the year, currently standing at 15.9%. And while leasing activity in Montgomery County accounted for 78.9% of all leasing seen in Suburban Maryland during the first quarter, plentiful options remain in both existing and new developments throughout the submarket, keeping conditions tenant favorable for 2018.

Outlook

New construction activity, coupled with continued tenant downsizing and large tenant shifts, has created the most tenant-favorable office market in DC's history. In addition to the 4.0 msf set to deliver this year, an additional 3.0 msf is expected in 2019 and another 2.0 msf in 2020, despite the already elevated level of availability. With new construction comes remarkably generous concession packages that have made average tenant improvement allowances and free rent in DC the highest seen in the nation. The current, and

foreseeable, market remains an optimal environment for tenants seeking to relocate or renew in the District.

Northern Virginia's ability to attract and retain large headquarters locations and regional hubs has led to some tightening in the market, with the benefit of bringing additional jobs and demand to the region. However, with an overall availability rate still greater than 20%, Northern Virginia remains firmly in the tenant's favor and groups looking in the market will only benefit from the buzz that the recent uptick in activity has generated.

Like Northern Virginia, Suburban Maryland has also seen its fair share of victories over the past year in its ability to secure – and lure – a variety of sectors to the market. Tenant preference for walkable submarkets with access to Metro, amenities and retail will continue to drive demand, spurring additional development activity and new, higher-quality, options in the future.

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	335	328	933	-5.7%	989	694	16.5%	-1.0%	17.5%	12.3%	\$51.30	-2.1%	\$52.43	\$52.10
Capitol Hill - Class A	2,235	194	224	611	-4.6%	640	337	27.3%	-1.3%	28.6%	15.1%	\$52.79	-4.2%	\$55.12	\$52.26
Capitol Riverfront	5,159	321	N/A	1,366	10.6%	1,235	1,410	26.5%	2.5%	23.9%	27.3%	\$50.02	5.4%	\$47.48	\$40.52
Capitol Riverfront - Class A	3,945	320	N/A	495	35.9%	364	389	12.6%	3.3%	9.2%	9.9%	\$50.02	5.4%	\$47.48	\$43.60
NoMa	9,788	539	N/A	878	3.6%	848	1,151	9.0%	0.3%	8.7%	11.8%	\$51.61	-1.1%	\$52.17	\$51.21
NoMa - Class A	7,945	490	N/A	755	5.2%	718	979	9.5%	0.5%	9.0%	12.3%	\$52.95	-1.6%	\$53.80	\$52.13
East End/Convention Center	43,443	1,989	3,467	8,670	1.1%	8,578	7,040	20.0%	0.2%	19.7%	16.2%	\$54.30	0.5%	\$54.04	\$54.93
East End/Convention Center - Class A	31,315	1,439	2,634	5,861	1.4%	5,782	4,740	18.7%	0.3%	18.5%	15.1%	\$56.26	0.7%	\$55.87	\$57.79
Central Business District	36,241	2,410	2,834	5,116	3.7%	4,936	4,441	14.1%	0.5%	13.6%	12.3%	\$51.42	0.2%	\$51.32	\$52.16
Central Business District - Class A	14,861	1,170	1,564	2,178	1.2%	2,153	1,781	14.7%	0.2%	14.5%	12.0%	\$57.96	-1.1%	\$58.63	\$57.00
West End	3,422	64	133	436	-6.4%	466	429	12.7%	-0.9%	13.6%	12.5%	\$45.40	-2.4%	\$46.51	\$47.40
West End - Class A	2,628	64	106	436	-6.4%	466	429	16.6%	-1.1%	17.7%	16.3%	\$45.40	-2.4%	\$46.51	\$47.40
Georgetown	2,610	206	169	415	8.8%	382	263	15.9%	1.3%	14.6%	10.1%	\$46.08	1.7%	\$45.31	\$46.45
Georgetown - Class A	1,186	165	65	228	0.0%	228	134	19.2%	0.0%	19.2%	11.3%	\$48.17	0.0%	\$48.17	\$53.83
Southwest	12,140	2,238	739	1,364	18.6%	1,149	1,035	11.2%	1.8%	9.5%	8.5%	\$48.47	3.9%	\$46.64	\$47.67
Southwest - Class A	9,157	2,215	510	1,098	28.8%	852	808	12.0%	2.7%	9.3%	8.8%	\$49.75	4.1%	\$47.79	\$48.95
Uptown	5,803	121	322	1,458	3.5%	1,408	997	25.1%	0.9%	24.3%	17.2%	\$42.64	1.5%	\$42.00	\$41.23
Uptown - Class A	619	12	23	75	21.2%	7,945	31	12.2%	2.1%	10.1%	5.0%	\$51.28	2.2%	\$50.19	\$48.07
Fairfax County	97,932	7,571	6,042	20,603	-0.4%	20,692	21,108	21.0%	-0.1%	21.1%	21.6%	\$28.66	0.9%	\$28.40	\$27.89
Fairfax County - Class A	59,592	6,141	4,415	13,551	0.3%	13,513	13,517	22.7%	0.1%	22.7%	22.7%	\$30.78	0.7%	\$30.57	\$30.05
Alexandria	15,592	564	881	4,169	0.5%	3,422	3,524	26.7%	0.1%	26.6%	22.6%	\$32.84	-0.3%	\$32.93	\$33.26
Alexandria - Class A	8,459	287	436	1,350	0.3%	1,346	1,348	16.0%	0.0%	15.9%	15.9%	\$33.27	-1.0%	\$33.61	\$33.30
Arlington County	36,598	3,455	2,943	8,051	-0.6%	8,101	8,713	22.0%	-0.1%	22.1%	23.8%	\$39.39	0.3%	\$39.29	\$39.19
Arlington County - Class A	23,500	2,603	1,869	5,585	-0.6%	5,620	5,843	23.8%	-0.1%	23.9%	24.9%	\$40.86	0.0%	\$40.87	\$40.43
Loudoun/Stafford/Prince William	15,801	493	604	1,740	-2.0%	1,775	1,919	11.0%	-0.2%	11.2%	12.1%	\$23.72	0.2%	\$23.67	\$22.82
Loudoun/Stafford/Prince William - Class A	7,085	306	422	994	-8.1%	1,081	1,040	14.0%	-1.2%	15.3%	14.7%	\$26.30	1.6%	\$25.88	\$24.93
Montgomery County	58,594	3,226	3,104	9,326	2.9%	9,067	9,258	15.9%	0.4%	15.5%	15.8%	\$28.77	1.4%	\$28.37	\$28.13
Montgomery County - Class A	31,830	2,208	2,083	5,561	0.4%	5,541	5,494	17.5%	0.1%	17.4%	17.3%	\$30.63	1.0%	\$30.32	\$29.94
Prince George's County	22,863	1,356	1,007	4,077	1.5%	4,018	4,261	17.8%	0.3%	17.6%	18.6%	\$21.34	-0.4%	\$21.43	\$21.49
Prince George's County - Class A	11,266	1,121	744	2,420	-1.1%	2,447	2,515	21.5%	-0.2%	21.7%	22.3%	\$22.06	0.4%	\$21.98	\$21.31
Washington D.C. Total	124,249	8,223	8,802	20,636	3.2%	19,990	17,459	16.6%	0.5%	16.1%	14.1%	\$51.43	0.4%	\$51.20	\$51.17
Washington D.C. Total - Class A	73,891	6,068	5,900	11,737	4.2%	11,266	9,627	15.9%	0.6%	15.2%	13.0%	\$54.74	0.1%	\$54.70	\$55.09
Northern Virginia Total	165,923	12,083	10,469	34,563	-0.4%	34,717	35,263	20.8%	-0.1%	20.9%	21.3%	\$31.58	0.4%	\$31.46	\$30.93
Northern Virginia Total - Class A	98,637	9,337	7,141	21,479	-0.4%	21,560	21,749	21.8%	-0.1%	21.9%	22.0%	\$33.58	0.4%	\$33.45	\$32.85
Suburban Maryland Total	81,457	4,583	4,111	13,403	2.4%	13,084	13,519	16.5%	0.4%	16.1%	16.6%	\$26.70	1.0%	\$26.44	\$26.01
Suburban Maryland Total - Class A	43,097	3,328	2,827	7,981	-0.1%	7,988	8,009	18.5%	0.0%	18.5%	18.6%	\$28.01	0.9%	\$27.76	\$27.19
Greater Washington D.C. Total	371,629	24,889	23,382	68,603	1.2%	67,792	66,242	18.5%	0.2%	18.2%	17.8%	\$36.22	0.5%	\$36.03	\$35.17
Greater Washington D.C. Total - Class A	215,625	18,734	15,868	41,198	0.9%	40,814	39,386	19.1%	0.2%	18.9%	18.3%	\$38.51	0.8%	\$38.22	\$37.46

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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.