WEST, LANE & SCHLAGER
THE TENANT'S EDGE

**YEAR-END 2017**

# TENANT LANDSCAPE

*A Washington metro office market summary from the tenant's perspective, prepared exclusively for West, Lane & Schlager's clients*

## LAY OF THE LAND

**Federal leasing activity in the District declined 69% in 2017 compared to the five-year average**

**While Class A vacancy decreased in 2017, the construction pipeline will outpace demand in 2018, increasing vacancy**

**The inventory of affordable Class B space in core markets continues to decrease as older buildings are repositioned or completely redeveloped into Class-A or trophy assets**

**To combat vacancy, Landlords are increasing concession packages to historic highs and are entering into transactions today for occupancy in 2-3 years**

## EXECUTIVE SUMMARY

**NET ABSORPTION** IN 2017

**DC** | + 1,667,900 SF
**N. VA** | + 1,182,200 SF
**Sub MD** | + 465,500 SF

**DIRECT VACANCY** AT YEAR-END 2017

**DC** | ↓ to 12.0%, from 12.6% at Year-End 2016
**N. VA** | ↑ to 19.3% from 19.1% at Year-End 2016
**Sub MD** | ↓ to 17.3%, from 17.9% at Year-End 2016

**OVERALL GROSS RENT AVERAGES** AT YEAR-END 2017

**DC** | Class A: $58.84/SF Class B: $46.79/SF
**N. VA** | $32.83/SF
**Sub MD** | $27.86/SF

## TENANT OUTLOOK: BEST OF BOTH WORLDS FOR PRIVATE SECTOR TENANTS

Due to the combination of widespread GSA downsizing and increasingly healthy macro-economic conditions, private sector tenants in the Washington, DC area are enjoying a best of both worlds scenario: growing net-income with relatively flat occupancy costs and ballooning landlord concession packages. In addition, the current wave of development also provides tenants large and small with a wide range of options for relocation into well-located trophy or Class A space. That said, the market for Class B is continuing to tighten in core submarkets as more buildings are being demolished and redeveloped or renovated into higher-quality space. We expect these trends to persist through at least 2018, before any major shifts in market leverage.

Regarding rents, possible action steps for tenants include:

- Lock-in low rents for as long as possible
- Renegotiate leases to reduce costs and obtain market concessions up to 5 years in advance of the lease expiration date
- Maximize flexibility by securing options to terminate the lease
- Consider relocation to higher-quality space in emerging office centers — NoMa, Capitol Riverfront — or in established, but struggling transit-accessible hubs
- Relocate closer to rail transit stations in high-demand urban areas while owners are still offering substantial incentives
- Lock in a substantial tenant improvement budget to customize space for a modern work environment to attract and retain top talent

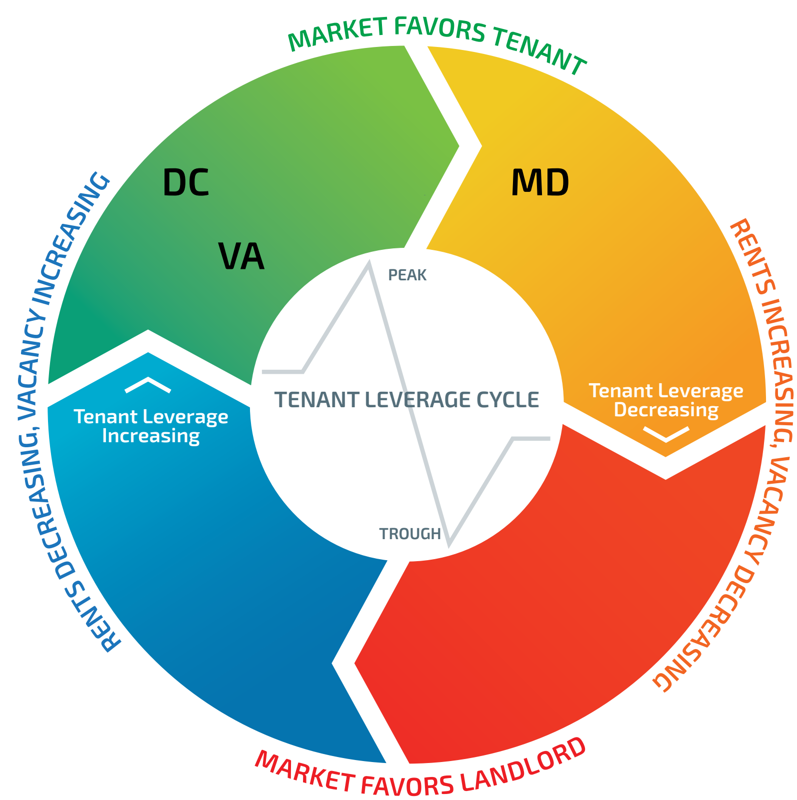
# WLS LEVERAGE LOOKUP

*The West, Lane & Schlager Leverage Lookup curves reflect how much leverage the typical office tenant currently has in each jurisdiction. As the leverage position moves down the curve, demand for space is increasing and tenant leverage is diminishing. As the leverage position moves up the curve, demand for space is declining and tenant leverage is increasing.*

**District of Columbia:** Major gains in hiring and corporate profits are stimulating demand on the private sector, which will be further buoyed by the recently approved tax reductions. Normally this would lead to tightening market conditions and a reduction in tenant leverage. However, a pullback in GSA leasing is holding the office market back. Other market headwinds include a bloated construction pipeline and downsizing legal sector. As a result, tenant favorable conditions should continue in the near term. Some submarkets, such as the CBD and East End have tightened considerably, and while tenants have the upper hand still, leverage should shift to property owners as inventory stabilizes. Tenants should look for deals in high-quality space in emerging submarkets such as NoMa, Southwest, and Capitol Riverfront.

**Northern Virginia:** Despite strengthening demand in the private sector, vacancy continues to increase due to a growing inventory and weak federal demand. Nevertheless, we expect market conditions to gradually tighten in transit-accessible submarkets. The Rosslyn-Ballston Corridor is already beginning to exhibit signs of a turnaround, indicating a possible decline in tenant-favorable conditions. In other submarkets tenants will continue to have the upper hand for the foreseeable future.

**Suburban Maryland:** With new construction nonexistent in the vast majority of Suburban Maryland submarkets, vacancy has begun to slowly compress, and rents have increased faster than in Northern Virginia. That said, tenants still have significant leverage in most submarkets outside of the Beltway. The Bethesda/Chevy Chase submarket is in a class of its own and landlords have significantly more leverage than elsewhere in the market. That said, a surge in development activity will provide attractive opportunities for tenants who have been waiting on the sidelines.




### TENANT LEVERAGE DESCRIPTIONS

- Vacancy and rents stabilizing, concessions plateauing; **tenant's leverage at apex**
- Vacancy beginning to decrease, rents relatively stable
- Vacancy declining, rents edging up, tenant's leverage decreasing
- Vacancy declining, rents rising, concession offerings low
- Vacancy low and nearing bottom, rents at highest, available space at minimum; **tenant's leverage at nadir**
- Vacancy stable or rising, rents up only slightly if not flat, available space increasing
- Vacancy rising, rents flat to declining, concessions accelerating
- Vacancy rising, rents declining, available space at or near maximum

*Note: Tenant leverage descriptions are a guide; not all listed conditions will be present even when market is at the corresponding place on the diagram.*

*Source: Delta Associates; January 2018.*

# VACANCY AND ABSORPTION

Office absorption in the Washington metro area strengthened steadily in the Washington metro area in 2017 as the labor market expanded. Annual net absorption for the year was positive in the District of Columbia, Suburban Maryland, and Northern Virginia for year, with absorption metro-wide totaling 3.3 million SF.

Despite the return of positive absorption, the elevated overall vacancy rate has remained relatively rigid, standing at 16.3% as of the end of 2017 This is down just 20 basis points from 16.5% at the end of 2016. The metro area's Class A market has fared slightly better with overall vacancy standing at 16.9% at the end of December 2017, down 60 basis points from 17.5% at the end of 2016.

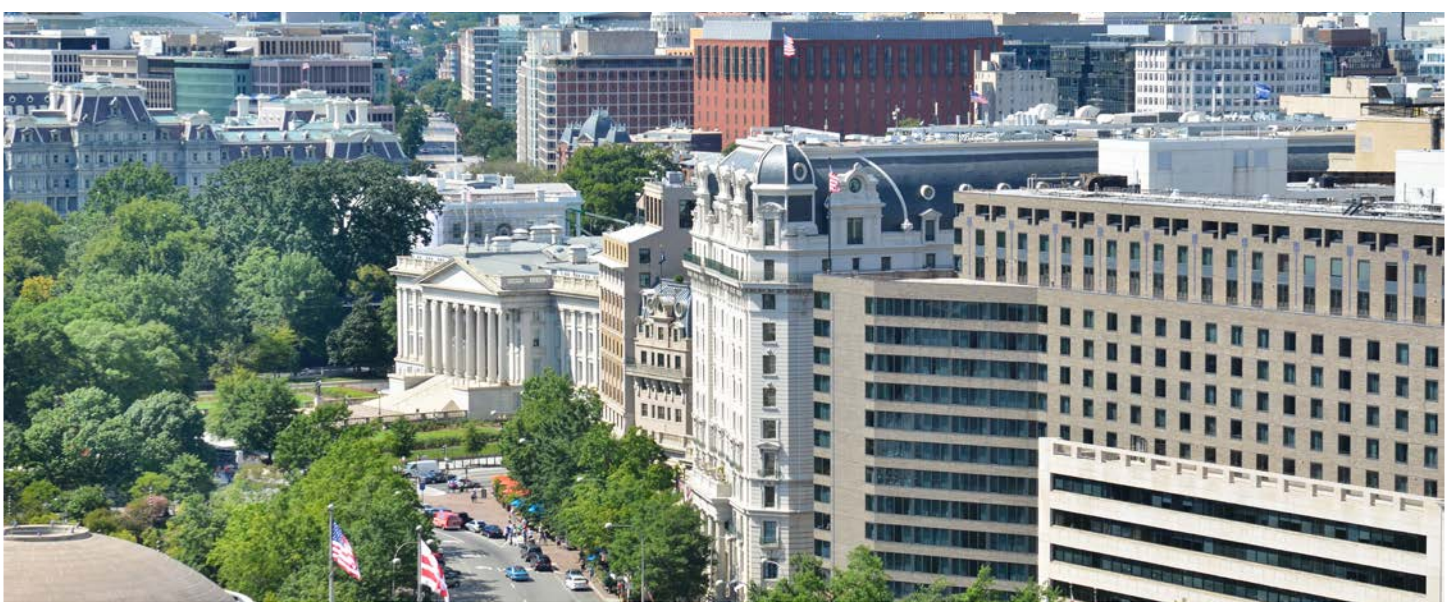
## The District

The District of Columbia's office market has slowly improved over the past year, with absorption substantially more robust than in 2016. Class A space in particular has been in high demand, although demand for Class B/C properties has been picking up as well, as affordability becomes a growing concern.

Net absorption for all classes of space in the District of Columbia was 1.67 million SF during all of 2017, triple the total 412,500 SF absorbed during 2016. The rapidly growing NoMA submarket led office space absorption in the District in 2017, accounting for 615,900 SF during the year. This was a marked turnaround from 2016, when it recorded absorption of -57,000 SF. The large East End submarket also posted a turnaround in net absorption from -27,800 SF in 2016 to 330,400 SF in 2017. Absorption was just slightly positive in the premier CBD submarket which recorded 35,400 SF of net absorption during 2017.

Higher demand for newer office space resulted in 2.02 million SF of positive absorption for the District's Class A market in the 2017. NoMa led in Class A absorption as well, thanks largely to the plentiful availability of new product, with 617,400 SF. Looking ahead, we expect absorption in the District to remain positive but flat in 2018.

The District's overall vacancy rate for all classes of office space is 13.0% at Year-End 2017, down 40 basis points from the end of 2016. The direct vacancy rate for all classes of space in the District is 12.0%, down 60 basis points from 12.6% at Year-End 2016. The overall Class A vacancy rate dropped 110 basis points to 13.1% at Year-End 2017 from 14.2% at the end of 2016. The direct vacancy rate for Class A space decreased by 130 basis points to 12.1% at Year-End 2017, from 13.4% at Year-End 2016. We project that the District's overall vacancy rate will remain stable in 2018, despite increased leasing activity, as additional office space comes to market. Class A vacancy will continue to shrink in the near-term due to continued strong demand from tenants seeking to upgrade space, but will eventually tick back upwards as new space delivers.



## SUMMARY OF OFFICE MARKET INDICATORS - ALL SPACE

District of Columbia | Year-End 2017

| SUBMARKET | YEAR-END 2017 | | | | NET ABSORPTION (SF) | |
|---|---|---|---|---|---|---|
| | TOTAL RENTABLE SF[1] | DIRECT VACANCY RATE | VACANCY RATE WITH SUBLET SPACE | SF UNDER CONSTRUCTION | 2016 | 2017 |
| CBD | 36,107,124 | 10.2% | 11.2% | 511,100 | 269,500 | 35,400 |
| East End | 43,911,162 | 12.6% | 14.0% | 2,021,600 | (27,800) | 330,400 |
| Capitol Hill | 4,302,536 | 10.9% | 11.8% | 955,220 | 106,200 | 108,500 |
| Capitol Riverfront | 4,885,174 | 22.4% | 22.9% | 361,600 | (18,000) | 205,500 |
| NoMa | 9,778,472 | 11.2% | 11.4% | 1,068,400 | (57,000) | 615,900 |
| Southwest | 11,663,443 | 12.2% | 12.5% | 267,600 | 57,500 | 359,500 |
| Georgetown | 3,029,994 | 6.1% | 7.5% | 0 | 25,600 | (28,700) |
| West End | 4,055,348 | 8.8% | 9.1% | 0 | 7,400 | 110,200 |
| Uptown | 6,829,411 | 16.5% | 17.1% | 0 | 49,100 | (68,800) |
| **TOTAL** | **124,562,664** | **12.0%** | **13.0%** | **5,185,520** | **412,500** | **1,667,900** |

*1/Includes buildings 15,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government. 2/Does not include sublet space.*
*Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by West, Lane, & Schlager; January 2018.*
**Includes major renovation projects which are defined as "slab" renovations.*

## SUMMARY OF OFFICE MARKET INDICATORS - CLASS A[1]

District of Columbia | Year-End 2017

| SUBMARKET | YEAR-END 2017 | | | | NET ABSORPTION (SF) | |
|---|---|---|---|---|---|---|
| | TOTAL RENTABLE SF[1] | DIRECT VACANCY RATE | VACANCY RATE WITH SUBLET SPACE | SF UNDER CONSTRUCTION | 2016 | 2017 |
| CBD | 19,677,676 | 12.5% | 13.3% | 511,100 | 97,000 | 152,600 |
| East End | 31,583,986 | 13.8% | 15.5% | 2,021,600 | 132,400 | 394,000 |
| Capitol Hill | 3,497,346 | 9.3% | 10.0% | 955,220 | 92,400 | 183,000 |
| Capitol Riverfront | 3,798,347 | 5.9% | 6.5% | 361,600 | (18,000) | 205,500 |
| NoMa | 9,137,206 | 11.3% | 11.5% | 1,068,400 | (53,400) | 617,400 |
| Southwest | 9,490,488 | 13.4% | 13.6% | 267,600 | 22,700 | 361,600 |
| Georgetown | 1,804,113 | 4.7% | 7.1% | 0 | 4,300 | 18,700 |
| West End | 3,281,579 | 10.5% | 10.7% | 0 | 4,000 | 114,000 |
| Uptown | 2,233,724 | 5.5% | 5.9% | 0 | (6,900) | (19,100) |
| **TOTAL** | **84,504,465** | **12.1%** | **13.1%** | **5,185,520** | **274,500** | **2,027,700** |

*1/Defined as buildings deemed Class A by CoStar and those greater than 50,000 SF. 2/Does not include buildings under construction or buildings owned by the government. 3/Does not include sublet space. Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by West, Lane, & Schlager; January 2018. Includes major renovation projects which are defined as "slab" renovations.*

## Northern Virginia

The Northern Virginia office market saw net absorption increase considerably in 2017. During the year, there was 1.18 million SF of office space absorbed, compared to -582,900 SF in 2016. The overall numbers do not tell the whole picture though, as there is a significant disparity in performance between newer Metro-accessible space and older space in suburban office parks. For instance, the Springfield/Burke and Herndon submarkets remained in the red for 2017.

The submarket with the highest net absorption was the Eisenhower Avenue Corridor with 690,800 SF, which can be attributed almost entirely to the delivery of the fully-occupied, 690,800 SF National Science Foundation headquarters. Arlington County experienced a marked turnaround in 2017 with every submarket, with the exception of Ballston, recording positive net absorption. The submarket with the highest net absorption outside of Arlington County was the Reston submarket, which experienced 161,800 SF in positive absorption.

Northern Virginia's Class A market vastly outperformed than the Class B/C market, with 1.3 million SF of positive net absorption during 2017. Class A absorption was also strongest in Arlington County (again except for Ballston). Two Fairfax County Class A submarkets—Merrifield and Herndon—performed especially poorly with a combined 379,600 SF of space vacated.

### SUMMARY OF OFFICE MARKET INDICATORS - ALL SPACE

Northern Virginia | Year-End 2017

| SUBMARKET | YEAR-END 2017 | | | | NET ABSORPTION (SF) | |
|---|---|---|---|---|---|---|
| | TOTAL RENTABLE SF[1] | DIRECT VACANCY RATE | VACANCY RATE WITH SUBLET SPACE | SF UNDER CONSTRUCTION | 2016 | 2017 |
| Ballston | 7,610,368 | 24.3% | 24.9% | 0 | 55,300 | (394,000) |
| Clarendon/Courthouse | 5,122,405 | 16.6% | 17.1% | 0 | (18,300) | 263,400 |
| Rosslyn | 9,647,948 | 26.5% | 27.0% | 0 | 170,700 | 410,700 |
| Virginia Square | 1,029,331 | 9.8% | 9.8% | 0 | 67,100 | 20,300 |
| Crystal City | 10,318,192 | 21.7% | 22.1% | 0 | (189,000) | 129,900 |
| Pentagon City | 1,260,541 | 0.0% | 0.0% | 0 | 0 | 0 |
| Falls Church | 1,636,669 | 12.3% | 12.4% | 0 | 40,800 | (28,700) |
| Herndon | 11,668,727 | 21.0% | 23.4% | 249,000 | (574,700) | (215,600) |
| Reston | 16,176,291 | 13.2% | 14.0% | 0 | 346,500 | 161,800 |
| Mclean | 1,069,697 | 10.2% | 10.2% | 0 | (4,500) | 7,300 |
| Merrifield | 7,636,156 | 17.9% | 18.8% | 0 | 14,300 | (125,700) |
| Old Town Alexandria | 6,863,041 | 12.1% | 13.7% | 0 | (52,300) | 16,600 |
| Eisenhower Avenue Corridor | 4,998,011 | 9.5% | 9.7% | 0 | 44,000 | 690,800 |
| Tysons | 23,715,512 | 20.7% | 21.8% | 801,800 | 13,800 | 104,600 |
| Fairfax Center | 6,874,189 | 23.6% | 25.2% | 150,000 | (524,100) | 4,300 |
| Fairfax City | 3,455,139 | 14.4% | 14.6% | 0 | (6,100) | 74,500 |
| Vienna | 1,107,544 | 12.2% | 15.2% | 0 | (500) | (98,800) |
| Huntington/Mt. Vernon | 671,478 | 14.9% | 17.9% | 0 | 18,100 | 28,600 |
| I-395 Corridor | 7,799,815 | 39.6% | 39.6% | 0 | (213,900) | 36,000 |
| Rt 28 Corridor South (Chantilly) | 11,549,708 | 14.9% | 16.4% | 0 | 231,400 | 158,500 |
| Rt 29/I-66 Corridor | 2,099,333 | 8.7% | 8.7% | 53,000 | 57,400 | 22,100 |
| Springfield/Burke | 5,475,439 | 22.1% | 22.3% | 0 | (31,000) | (62,500) |
| Woodbridge/ I-95 Corridor | 1,694,969 | 15.5% | 16.3% | 0 | (27,900) | (21,900) |
| **TOTAL** | **149,480,503** | **19.3%** | **20.3%** | **1,253,800** | **(582,900)** | **1,182,200** |

*1/Includes buildings 15,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government. 2/Does not include sublet space.*
*Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by West, Lane, & Schlager; January 2018.*
**Includes major renovation projects which are defined as "slab" renovations.*

Despite the growth in net absorption, overall office vacancy in Northern Virginia budged upwards in 2017, standing at 20.3% as of the end of the year. This is a 40 basis point increase from a vacancy rate of 19.9% at the end of 2016. Eight of the twenty-three Northern Virginia submarkets continue to have overall vacancy rates more than 20%, with vacancy in the I-395 Corridor standing at a massive 39.6%. The direct vacancy rate in Northern Virginia increased slightly from the 19.1% at the end of 2016 to 19.3% as of the end of 2017. Overall Class A vacancy in Northern Virginia at Year-End 2017 is 21.3%, an increase of 40 basis points from 20.9% at Year-End 2016, while the direct vacancy rate for Class A space at Year-End 2017 is 20.2%, up 20 basis points from 20.0% at Year-End 2016.

Overall, tenant-favorable conditions continue to prevail in most submarkets in Northern Virginia, especially considering the crowded construction pipeline. Tenants can continue expect attractive lease terms for space in the majority of Class B/C properties, as well as many Class A buildings. We expect demand to become increasingly concentrated in submarkets along Metro's Silver Line corridor.

### SUMMARY OF OFFICE MARKET INDICATORS - CLASS A[1]

Northern Virginia | Year-End 2017

| SUBMARKET | YEAR-END 2017 | | | | NET ABSORPTION (SF) | |
|---|---|---|---|---|---|---|
| | TOTAL RENTABLE SF[1] | DIRECT VACANCY RATE | VACANCY RATE WITH SUBLET SPACE | SF UNDER CONSTRUCTION | 2016 | 2017 |
| Ballston | 6,837,308 | 23.0% | 23.7% | 0 | 101,600 | (383,000) |
| Clarendon/Courthouse | 3,947,756 | 15.7% | 16.2% | 0 | (27,600) | 309,200 |
| Rosslyn | 5,817,297 | 28.5% | 29.4% | 0 | 95,500 | 426,400 |
| Virginia Square | 620,800 | 13.1% | 13.1% | 0 | 37,300 | 100 |
| Crystal City | 4,829,892 | 24.4% | 25.1% | 0 | (220,000) | 150,100 |
| Pentagon City | 698,150 | 0.0% | 0.0% | 0 | 0 | 0 |
| Falls Church | 141,903 | 23.6% | 23.6% | 0 | 0 | 0 |
| Herndon | 9,134,550 | 21.5% | 24.2% | 249,000 | (644,100) | (248,100) |
| Reston | 12,614,019 | 12.5% | 13.2% | 0 | 290,200 | 134,000 |
| Mclean | 0 | 0.0% | 0.0% | 0 | 0 | 0 |
| Merrifield | 5,258,896 | 21.2% | 22.2% | 0 | 79,300 | (131,500) |
| Old Town Alexandria | 4,302,676 | 14.1% | 16.1% | 0 | (50,000) | 21,900 |
| Eisenhower Avenue Corridor | 4,488,315 | 10.0% | 10.0% | 0 | 26,300 | 690,900 |
| Tysons | 16,504,969 | 19.2% | 20.6% | 801,800 | 647,700 | 90,400 |
| Fairfax Center | 5,111,809 | 25.4% | 27.1% | 150,000 | (471,500) | 31,100 |
| Fairfax City | 686,960 | 22.2% | 22.2% | 0 | (8,900) | 37,200 |
| Vienna | 420,825 | 3.2% | 11.0% | 0 | (4,500) | 4,500 |
| Huntington/Mt. Vernon | 190,685 | 35.6% | 46.1% | 0 | 0 | 12,500 |
| I-395 Corridor | 5,055,003 | 44.9% | 45.0% | 0 | (140,800) | 43,400 |
| Rt 28 Corridor South (Chantilly) | 8,313,894 | 13.2% | 13.7% | 0 | 283,000 | 197,500 |
| Rt 29/I-66 Corridor | 617,749 | 5.4% | 5.4% | 53,000 | 7,500 | (4,900) |
| Springfield/Burke | 2,487,680 | 32.9% | 33.0% | 0 | (24,400) | (32,700) |
| Woodbridge/ I-95 Corridor | 405,048 | 28.5% | 31.7% | 0 | (60,100) | (21,600) |
| **TOTAL** | **98,486,184** | **20.2%** | **21.3%** | **1,253,800** | **(83,500)** | **1,327,400** |

*1/Defined as buildings deemed Class A by CoStar and those greater than 50,000 SF. 2/Does not include buildings under construction or buildings owned by the government. 3/Does not include sublet space. Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by West, Lane, & Schlager; January 2018. Includes major renovation projects which are defined as "slab" renovations.*

## Suburban Maryland

Of the three substate areas in the Washington metro area, the Suburban Maryland office market experienced the least growth in 2017. Nonetheless absorption has trended moderately positive, and vacancy has begun to decrease thanks to limited construction activity. The inner-Beltway submarkets of Silver Spring and Bethesda have vacancy rates among the lowest in the region, and relatively few larger blocks of space available, providing landlords with significant leverage. Tenants will find considerably better deals outside the Beltway and in Prince George's County where vacancy is significantly higher.

Net absorption for all types of space in Suburban Maryland totaled 465,500 SF in 2017, which was a small decrease compared to 646,200 SF in all of 2016. Leading positive absorption were the Greenbelt and College Park submarkets in Prince George's County and the Rockville submarket in Montgomery County. Despite the overall positive net absorption for Suburban Maryland, just under half of its submarkets saw negative absorption during the year.

The Class A market continues to be the primary driver of growth in the Suburban Maryland office market, totaling 468,600 SF of net absorption during 2017, compared to 326,600 SF in 2016. The Lanham submarket, where 2U moved into a 303,300 SF building vacated by CSC, saw the greatest amount of Class A absorption in 2017, at 140,600 SF. Suburban Maryland submarkets will continue to see positive absorption of Class A space in 2018 as demand for the product type grows, to the detriment of Class B/C properties.

### SUMMARY OF OFFICE MARKET INDICATORS - ALL SPACE

Suburban Maryland | Year-End 2017

| SUBMARKET | YEAR-END 2017 | | | | NET ABSORPTION (SF) | |
|---|---|---|---|---|---|---|
| | TOTAL RENTABLE SF[1] | DIRECT VACANCY RATE | VACANCY RATE WITH SUBLET SPACE | SF UNDER CONSTRUCTION | 2016 | 2017 |
| Bethesda/Chevy Chase | 9,416,636 | 9.1% | 11.6% | 300,000 | 142,400 | 12,200 |
| North Bethesda/Potomac | 8,885,732 | 23.8% | 24.1% | 0 | 85,100 | 85,000 |
| Rockville | 8,204,018 | 13.3% | 13.8% | 0 | 81,500 | 152,800 |
| North Rockville | 11,273,662 | 18.5% | 19.7% | 0 | (146,700) | 7,400 |
| Gaithersburg | 3,345,420 | 15.0% | 15.6% | 0 | 33,000 | (33,400) |
| Kensington/Wheaton | 1,223,952 | 32.8% | 32.8% | 0 | 44,700 | (25,900) |
| Silver Spring | 5,449,542 | 11.4% | 12.3% | 0 | 58,000 | (75,900) |
| North Silver Spring Rt 29 | 2,073,758 | 16.2% | 16.2% | 0 | 80,900 | 6,900 |
| Germantown | 2,560,957 | 17.4% | 17.6% | 0 | 67,400 | 8,800 |
| Beltsville/Calverton | 1,597,491 | 32.6% | 32.6% | 0 | (15,400) | (44,500) |
| College Park | 3,169,540 | 13.7% | 13.7% | 75,000 | (102,300) | 137,200 |
| Greenbelt | 3,286,480 | 26.0% | 26.2% | 0 | 123,900 | 120,200 |
| Landover/Largo/Captl Hts | 2,481,132 | 22.8% | 23.0% | 176,000 | 64,100 | (53,700) |
| Lanham | 1,652,725 | 23.9% | 24.3% | 0 | 150,800 | 155,800 |
| Laurel | 1,813,513 | 13.4% | 13.5% | 0 | (21,200) | 12,600 |
| **TOTAL** | **66,434,558** | **17.3%** | **18.1%** | **551,000** | **646,200** | **465,500** |

*1/Includes buildings 15,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government. 2/Does not include sublet space.*
*Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by West, Lane, & Schlager; January 2018.*
**Includes major renovation projects which are defined as "slab" renovations.*

Office vacancy in Suburban Maryland has slowly, but steadily compressed over the past few years. The overall vacancy rate for all classes of space is 18.1% at Year-End 2017, down 40 basis points from the 18.5% at Year-End 2016. The Suburban Maryland direct vacancy rate for all types of space is 17.3% at Year-End 2017, down 60 basis points from 17.8% at Year-End 2016. The overall Class A vacancy rate in Suburban Maryland is 19.7% as of the end of 2017, which is down 100 basis points from 20.7% at the end of 2016. Suburban Maryland's direct Class A vacancy rate is 18.9% at the end of 2017, down 20 basis points from 20.1% at the end of 2016. Among the larger submarkets, vacancy is lowest in Bethesda/Chevy Chase, although a rapidly growing development pipeline could lead to increases in coming years. The North Bethesda/Potomac Class A vacancy rate is currently 26.4%, with much of the vacancy located in mixed-use and/or transit-proximate space, providing an appealing opportunity for tenants seeking high-quality space at an attractive rate.

## SUMMARY OF OFFICE MARKET INDICATORS - CLASS A[1]

Suburban Maryland | Year-End 2017

| SUBMARKET | YEAR-END 2017 | | | | NET ABSORPTION (SF) | |
|---|---|---|---|---|---|---|
| | TOTAL RENTABLE SF[1] | DIRECT VACANCY RATE | VACANCY RATE WITH SUBLET SPACE | SF UNDER CONSTRUCTION | 2016 | 2017 |
| Bethesda/Chevy Chase | 5,507,893 | 6.2% | 8.5% | 300,000 | 192,700 | 32,100 |
| North Bethesda/Potomac | 6,041,864 | 26.3% | 26.4% | 0 | 84,300 | 128,400 |
| Rockville | 4,040,850 | 19.1% | 19.9% | 0 | 32,500 | 109,700 |
| North Rockville | 6,918,261 | 19.8% | 20.5% | 0 | (186,300) | 11,300 |
| Gaithersburg | 807,345 | 26.0% | 26.0% | 0 | 10,000 | 7,300 |
| Kensington/Wheaton | 215,811 | 9.5% | 9.5% | 0 | 48,800 | 7,300 |
| Silver Spring | 3,664,162 | 12.6% | 13.7% | 0 | 22,200 | (51,100) |
| North Silver Spring Rt 29 | 340,167 | 6.7% | 6.7% | 0 | 7,400 | 11,300 |
| Germantown | 1,402,613 | 15.2% | 15.6% | 0 | 40,600 | 67,600 |
| Beltsville/Calverton | 897,404 | 50.7% | 50.7% | 0 | (3,700) | (66,800) |
| College Park | 1,448,974 | 8.1% | 8.1% | 75,000 | (62,700) | (24,500) |
| Greenbelt | 2,153,272 | 27.5% | 28.0% | 0 | 67,700 | 87,800 |
| Landover/Largo/Captl Hts | 595,158 | 36.4% | 36.4% | 176,000 | 13,000 | (700) |
| Lanham | 615,307 | 25.2% | 25.2% | 0 | 116,600 | 140,600 |
| Laurel | 568,090 | 21.2% | 21.2% | 0 | (41,700) | 8,300 |
| **TOTAL** | **35,217,171** | **18.9%** | **19.7%** | **551,000** | **341,400** | **468,600** |

*1/Defined as buildings deemed Class A by CoStar and those greater than 50,000 SF. 2/Does not include buildings under construction or buildings owned by the government. 3/Does not include sublet space. Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by West, Lane, & Schlager; January 2018. Includes major renovation projects which are defined as "slab" renovations.*

# RENTAL RATES

The average overall gross rent for office space in the District is $54.92/SF as of Year-End 2017. Average rents for Class A space is $58.84/SF. The East End submarket has the highest overall average rents in the District at $58.11/SF. The East End also has the city's highest Class A rents at $63.02/SF, while the Capitol Hill submarket has the highest Class B rents at $51.11/SF. For tenants seeking to optimize value, the burgeoning Capitol Riverfront submarket offers a wide variety of quality options with the lowest Class A rents in the District, averaging $49.00/SF.

Northern Virginia's overall gross rents average $32.83 at Year-End 2017. Submarkets in the Rosslyn-Ballston Corridor (Ballston, Clarendon/ Courthouse, Rosslyn, and Virginia Square) command the highest rents in Northern Virginia, with rental rates in all four submarkets averaging about 20% higher than the Northern Virginia average. Rent growth has been stagnant in many Virginia outer-Beltway submarkets, providing a plethora of affordable opportunities for tenants. We anticipate rent growth will accelerate in Tysons Corner and Reston over the next several years as Metro's new Silver Line generates renewed tenant interest in these submarkets, especially for buildings within easy walking distance of Metro.

Overall gross rents in Suburban Maryland averaged $27.86 at Year-End 2017. The premier Bethesda/Chevy Chase submarket continues to be the priciest submarket, with overall gross rents averaging $41.12 and new construction commanding rents in the $60's. With a scarcity of office development and declining inventory of vacant space, the bulk of rent growth in Suburban Maryland has been limited to Class-A product near transit. High vacancy in outer-Beltway submarkets such as North Rockville and Gaithersburg has led to little rent growth or even decreases in rent. The diversity of supply in Suburban Maryland continues to provide tenants with a variety of options at any price level and asset class.

### RENT RATE OVERVIEW, DISTRICT OF COLUMBIA
Class A and B Office Buildings

| YEAR-END 2017 AVERAGE DIRECT FACE RENT | | |
|---|---|---|
| SUBMARKET | CLASS A $/SF PER ANNUM | CLASS B $/SF PER ANNUM |
| CBD | $62.96 | $47.66 |
| East End | $63.02 | $47.91 |
| Capitol Hill | $59.85 | $51.11 |
| Capitol Riverfront | $49.00 | $39.00 |
| NoMa | $53.02 | $47.00 |
| Southwest | $50.34 | $45.47 |
| Georgetown | $51.61 | $42.64 |
| West End | $50.85 | $46.25 |
| Uptown | $50.84 | $43.58 |
| **DC Totals** | **$58.84** | **$46.79** |

*Source: CoStar; January 2018.*

### RENT RATE OVERVIEW, NORTHERN VIRGINIA
All Classes of Office Buildings

| YEAR-END 2017 AVERAGE DIRECT FACE RENT | |
|---|---|
| SUBMARKET | $/SF PER ANNUM |
| Ballston | $41.59 |
| Clarendon/Courthouse | $43.31 |
| Rosslyn | $43.25 |
| Virginia Square | $41.20 |
| Crystal City | $36.66 |
| Pentagon City | N/A |
| Falls Church | N/A |
| Herndon | $28.44 |
| Reston | $32.87 |
| Mclean | $32.31 |
| Merrifield | $30.89 |
| Old Town Alexandria | N/A |
| Eisenhower Avenue Corridor | $39.81 |
| Tysons Corner | $33.81 |
| Fairfax Center | $26.68 |
| Fairfax City | $24.19 |
| Vienna | $27.30 |
| Huntington/Mt. Vernon | $25.35 |
| I-395 Corridor | $29.45 |
| Rt 28 Corridor South (Chantilly) | $25.76 |
| Rt 29/I-66 Corridor | $19.38 |
| Springfield/Burke | $28.51 |
| Woodbridge/ I-95 Corridor | $23.68 |
| **VA Totals** | **$32.83** |

*Source: CoStar; January 2018.*

### RENT RATE OVERVIEW, SUBURBAN MARYLAND
All Classes of Office Buildings

| YEAR-END 2017 AVERAGE DIRECT FACE RENT | |
|---|---|
| SUBMARKET | $/SF PER ANNUM |
| Bethesda/Chevy Chase | $41.12 |
| North Bethesda/Potomac | $29.05 |
| Rockville | $30.85 |
| North Rockville | $24.90 |
| Gaithersburg | $22.37 |
| Kensington/Wheaton | $24.48 |
| Silver Spring | $29.14 |
| North Silver Spring Rt 29 | $23.15 |
| Germantown | $23.05 |
| Beltsville/Calverton | $21.56 |
| College Park | $23.58 |
| Greenbelt | $21.53 |
| Landover/Largo/Captl Hts | $20.85 |
| Lanham | $20.27 |
| Laurel | $20.27 |
| **MD Totals** | **$27.86** |

*Source: CoStar; January 2018.*

In 2018, we expect moderate rent growth of around 1.5% in the Washington metro area, driven mainly by submarkets inside the Beltway. Outer Beltway submarkets in Maryland and Virginia will continue to experience stagnant rent growth. In the District, tightening market conditions will be offset by the significant amount of new supply recently delivered and slated for completion over the next two years. The shrinking federal footprint will also provide a bulwark against major rent appreciation in the region.

# LEASING ACTIVITY

Office leasing activity picked up in the Washington metro area in 2017, driven by steadily growing demand in the private sector. Despite the uptick, sluggish public-sector leasing activity and the on-going trend of "rightsizing" continue to hold the market back. In addition, unlike other recoveries, demand has not been strong across the board and some submarkets continue to be burdened with weak demand and high vacancy.

The tech sector heated up in 2017 as national firms Facebook, Yelp, Amazon Web Services, VideoBlocks, FiscalNote, Hughes Network Systems, and IT Cadre all signed major deals for space in 2017. Co-working firms also continued to expand in the region, including a few startups new to the metro area such as Mindspace and Spaces. The legal sector, which is the District's second-largest tenant base after the federal government, finally began to show signs of moderate growth in 2017 after years of contraction and right-sizing.

GSA signed a number of large new leases and renewals during 2017. Most recently, GSA signed for 173,000 SF at One Constitution Square — the 330,000 SF building developed by StonebridgeCarras in NoMa. Other large new GSA leases in 2017 include spaces for: Federal Communications Commission, Department. of Homeland Security, Pension Benefit Guaranty Corp., Transportation Security Administration, and Citizenship and Immigration Services.

Heading into 2018, we expect private sector leasing activity to increase as tenants expand their business. On the federal side, we expect activity to remain muted. Amazon has revealed the shortlist of its HQ2 RFP, with the District, Montgomery County, and Northern Virginia being included in the twenty finalists. Without a doubt, an Amazon move to the area would lead to a dramatic tightening of the office market and shift leverage heavily in favor of property owners if Seattle is any example.

## The District

A decline in GSA leasing caused a decrease in total leasing activity in the District. Gross leasing activity (including renewals) in the District of Columbia was an estimated 6.8 million SF in 2017, compared to 8.1 million SF in 2016. Gross leasing activity for Class A space totaled 5.4 million SF in 2017, compared to 6.0 million SF in 2016. A number of law firms have signed leases in the District recently, with many shedding space in the process. Most recently WilmerHale signed a lease for 288,000 SF at Boston Properties future 488,000 SF building at 2100 Pennsylvania Ave, NW, downsizing from 542,000 SF at 1875 Pennsylvania Ave., NW.

## Northern Virginia

Gross leasing activity totaled 8.8 million SF in Northern Virginia in 2017, compared to 9.6 million SF in 2016. Leasing activity for Class A space totaled 6.3 million SF during the year, compared to 7.0 million SF total in 2016. The majority of new leasing activity in Northern Virginia in 2017 was concentrated in submarkets along Metrorail lines. Both Rosslyn and Tysons saw over 1 million SF of leasing activity during 2017. Aside from a new GSA lease for TSA, the private sector dominated new tenant leasing, taking advantage of the groundswell of new office construction accessible by transit. IT and defense contractors in particular were active in picking up new space. However, the most notable lease of the year was signed by international food and drink company Nestlé USA for 250,000 SF in Monday Properties' long-vacant Rosslyn.

## Suburban Maryland

Estimated gross leasing activity in Suburban Maryland totaled 3.0 million SF in 2017, compared to 4.2 million SF in 2016. New leases and renewals for Class A office space totaled 1.9 million SF during the year, compared to 2.6 million in 2016. Bethesda/Chevy Chase and North Rockville led in leasing activity accounting for just under a million SF combined. The former submarket saw a number of marquee lease deals signed, including a mammoth 825,000 SF contract from Marriott International for a new headquarters. This was followed up by additional large leases from Host Hotels & Resorts, Booz Allen Hamilton, JBG Smith, and Fox 5/WTTG. Of course, the end of 2017 marked Discovery Communication's decision to vacate the market and consolidate operations. While this does not impact the region's fundamentals immediately, the move will dramatically alter both Suburban Maryland's market fundamentals and leasing outlook next year.

## NOTABLE LEASE TRANSACTIONS IN THE WASHINGTON, DC

2017

| TENANT | ADDRESS | SUBMARKET-CLASS | LEASE TYPE | LEASED SPACE (SF) | SOURCE |
|---|---|---|---|---|---|
| Consumer Financial Protection Bureau | 1120 Vermont Ave. NW | CBD - A | Short-Term Renewal | 96,000 | Colliers |
| Goodwin Procter, LLP | 1900 N St. NW | CBD - A | Relocation | 75,000 | Colliers |
| Washington Gas & Energy Services | 1000 Maine Ave. SW | SW - T | Relocation | 70,063 | Colliers |
| Research Triangle InstituteA | 701 13th St. NW | EE - A | Renewal | 52,274 | Colliers |
| Hollingsworth | 1350 Eye St. NW | EE - A | Renewal | 48,543 | LPC |
| Bank of America | 1800 K St. NW | CBD - A | New | 61,722 | LPC |
| FiscalNote | 1201 Pennslyvania Ave. | EE - A | New | 38,000 | LPC |
| Morrison and Foerster | 2100 L St | CBD - A | New | 70,000 | JLL |
| Edgeworth Economics | 1111 19th Street, NW | CBD - A | Expansion | 20,500 | WLS |
| National Association of Attorneys General | 1850 M St. NW | CBD - A | New | 20,500 | WLS |
| Adfero Group | 1101 15th St. NW | CBD - A | New | 15,000 | WLS |

## NOTABLE TENANT LEASE TRANSACTIONS IN NORTHERN VIRGINIA

2017

| TENANT | ADDRESS | SUBMARKET-CLASS | LEASE TYPE | LEASED SPACE (SF) | SOURCE |
|---|---|---|---|---|---|
| Amazon Web Services | 13200 Woodland Park Drive | Herndon - A | New | 400,677 | Colliers |
| GDIT | 11111 Sunset Hills Road | Reston - A | Renewal | 100,000 | Colliers |
| CGI | 11325 Random Hills Road | Fairfax Center - A | Renewal | 42,000 | Colliers |
| Booze Allen Hamilton | 6361 Walker Lane | Springfield | Expansion | 117,176 | LPC |
| Micropact | 12901 Worldgate Drive | Reston | Renewal | 41,960 | LPC |
| Nestle | 1812 N Moore St | Rosslyn - A | New | 206,000 | JLL |

## NOTABLE TENANT LEASE TRANSACTIONS IN THE SUBURBAN MARYLAND

2017

| TENANT | ADDRESS | SUBMARKET-CLASS | LEASE TYPE | LEASED SPACE (SF) | SOURCE |
|---|---|---|---|---|---|
| Kaiser Permanente | 4000 Garden City Drive | Landover/Largo/Capital Heights - A | Relocation | 172,863 | Colliers |
| Clarivate Analytics | 1445-1455 Research Blvd. | North Rockville - A | Relocation | 26,892 | Colliers |
| Pacific Trade International | 5515 Security Lane | North Bethesda/Potomac - B | Renewal | 13,004 | Colliers |
| Lurn | 2098 Gaither Rd. | North Rockville - B | New | 24,672 | LPC |
| FTI Consulting | 16701 Melford Blvd. | Bowie - A | New | 30,835 | LPC |
| Family Health Centers | 19851 Observation Dr. | Germantown- A | New | 13,989 | LPC |

*Note: List is intended to be illustrative of market activity, not comprehensive.*
*Note: Highlighted transactions reflect deals brokered by West, Lane & Schlager.*
*Source: CoStar, West, Lane & Schlager; January 2018.*

KEY

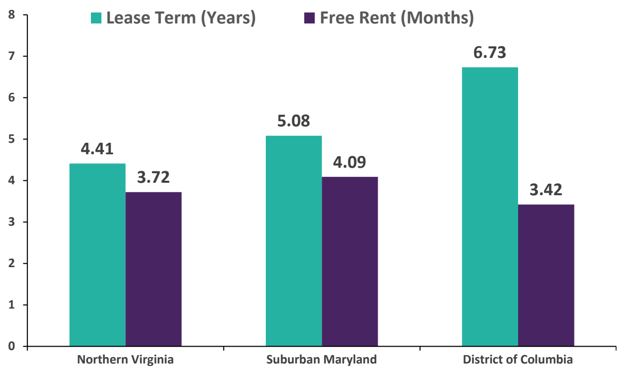
= Tenant represented by WLS

# LEASING METRICS

During the fourth quarter of 2017, the average period of free rent provided in lease deals ranged from 3.4 months in the District of Columbia to 4.1 months in Suburban Maryland, with Northern Virginia falling in the middle at 3.7 months. The average tenant improvement allowance per SF is $40.96 in Northern Virginia, $38.73 in Suburban Maryland, and $66.99 in the District of Columbia.

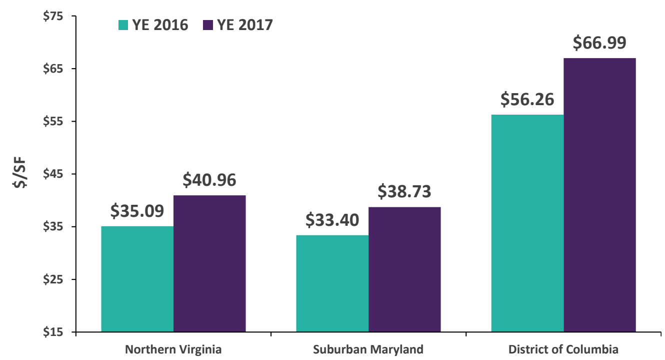
The average lease term as of the end of 2017 was 4.4 years in Northern Virginia, 5.1 years in Suburban Maryland, and 6.7 years in the District of Columbia. Operating expenses in the suburbs remain roughly half of what they are in the District. Expenses average $11.24 per SF in Northern Virginia, $13.04 per SF in Suburban Maryland, and $21.73 per SF in the District of Columbia.

## LEASING TERMS & CONCESSIONS
Washington Metro Area | Year-End 2017




*Source: REIS, Delta Associates; January 2018.*

## AVERAGE TENANT IMPROVEMENT PACKAGE
Washington Metro Area | Year-End 2017




*Source: REIS, Delta Associates; January 2018.*

# REGIONAL ECONOMY

*Washington Metro Economy Lost Some Momentum in the Second Half of 2017*

The Washington area's economy lagged slightly during the closing months of 2017. Both the labor and housing markets underperformed compared to prior quarters of the year. During the 12 months ending November 2017, the region added 48,900 new jobs. The total is modestly higher than the 20-year annual average of 44,100 new jobs.

As previously anticipated, job losses in the Federal sector hurt fourth quarter numbers as the Trump administration followed through on its policy of workforce contraction. The sector experienced the greatest amount of net job losses over the year (-4,200) of any primary employment sector.

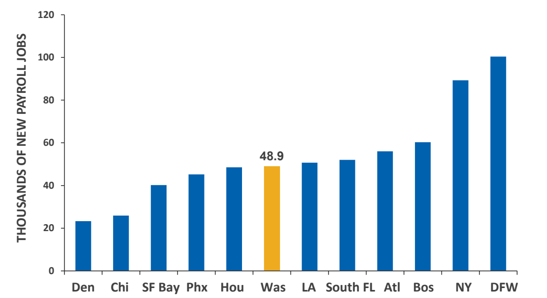
As the rate of job creation slowed in 2017, so did the decline in the Washington region's unemployment rate. As of November 2017, the unemployment rate stood at 3.6%—unchanged from 12 months prior. The region's unemployment rate is currently the fifth lowest among its peer metropolitan areas, having fallen behind the booming Dallas/Fort Worth metro area in the fourth quarter.

Consumer price growth in the Baltimore/Washington region strengthened in 2017 after stagnating in prior years. On average, prices for consumer goods and services across the region in November 2017 were 1.6% higher than a year ago, equal to the rate of inflation nationally over the same period. According to the S&P/Case-Shiller Home Price Index, home prices in the region increased 3.1% in the 12 months ending October 2017, which was less than half of the 6.4% growth recorded nationwide.

There was a great deal of economic uncertainty in the Washington metro area heading into 2017, and it appears to be the same case heading into 2018. On top of the shrinking federal workforce, other concerns in the public sector include a rapidly growing deficit, the ever-looming threat of another government shutdown and another round of spending reductions. Conversely, the prospects in the Washington region's private sector are cautiously optimistic. Consumer spending remains strong, corporate profits are swelling and businesses continue to hire additional workers. Regional economic growth continues to be led by the booming Professional/Business Services sector, as well as the Educational/Health Services and Leisure/Hospitality sectors. We expect these positive growth trends to continue well into 2018, with the recently passed corporate tax cut further stimulating private sector growth.

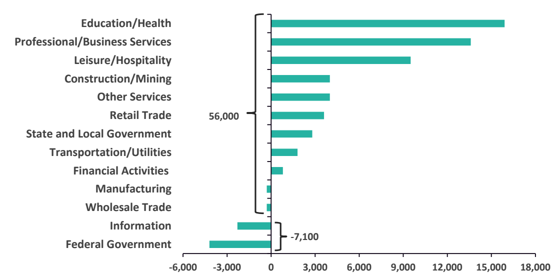
The net effect of these trends on the Washington office market remain to be seen, as private sector expansion could be offset by federal contraction and rightsizing, or vice versa.

**PAYROLL JOB GROWTH**
Large Metro Areas | 12 Months Ending November 2017




*Source: Bureau of Labor Statistics, Delta Associates; January 2018.*

**PAYROLL JOB GROWTH**
Washington Metro Area | 12 Months Ending November 2017




*Source: Bureau of Labor Statistics, Delta Associates; January 2018.*

# UNDER CONSTRUCTION/RENOVATION

## The District

Office development activity has picked up in the Washington metro area over the last few years after being at a standstill for a prolonged period. Nowhere is the pickup in construction more pronounced than in the District of Columbia, which accounts for three-quarters of the total space currently under construction. Lower pre-leased percentages at groundbreaking indicate that developers are more confident in the market and are willing to build speculatively. Banks have also been more willing to provide capital for speculative new construction projects. As development sites for ground-up construction of office space vanish in the District's CBD submarket, many owners of Class B/C buildings have chosen to renovate and reposition their properties to attract top-flight tenants and command competitive rents.

There is currently 5.4 million SF of office space under construction in the District of Columbia as of December 2017. Construction activity has flattened out somewhat since last year as developers wait for the current glut of product to deliver before breaking ground. The East End submarket has the most office space under construction or renovation, with a total of 2.0 million SF, including the new 870,000 SF Midtown Center at 1100 15th St. NW, which will serve as Fannie Mae's new headquarters. The Capitol Hill submarket also has nearly 1 million SF of office space under construction, but that is entirely due to the initial phase of the Capitol Crossing development being built over I-395. The historically quiet Southwest submarket has been relatively active as of late, with JBG Smith working on a long-planned 220,000 SF building at L'Enfant Plaza and Hoffman-Madison Waterfront delivering 500,000 SF to The Wharf in the fall, most of it pre-leased.

## Northern Virginia

In Northern Virginia, there is 1.3 million SF of office space under construction in Northern Virginia as of the end of 2017. Tysons Corner has the most office space under construction with 801,800 SF. This includes nearly 600,000 SF in two office towers are The Boro, The Meridian Group's massive Whole Foods anchored mixed-use development. Nearly all of the newly built office space in Northern Virginia will be Metro-accessible, highlighting the importance of transit access in the current market. Currently, construction is primarily concentrated along the Orange and Silver Line corridors.

## Suburban Maryland

As of the end of 2017, there is just 551,000 SF of office space under construction in Suburban Maryland, which is a considerable increase from 2016 and prior years, when the market has been very quiet.

More than half of the space currently under construction in Suburban Maryland is located in JBG Smith's 300,000 SF trophy project at 4747 Bethesda Ave. in downtown Bethesda, where Host Hotels & Resorts, Booz Allen Hamilton, and JBG Smith itself have already agreed to relocate when

### OFFICE SPACE UNDER CONSTRUCTION OR RENOVATION
District of Columbia | Year-End 2017

| SUBMARKET | SF | % PRE-LEASED |
|---|---|---|
| Capitol Hill | 955,200 | 9% |
| Capitol Riverfront | 616,600 | 43% |
| CBD | 511,100 | 41% |
| East End | 2,021,600 | 82% |
| NoMa | 1,068,400 | 93% |
| Southwest | 267,600 | 61% |
| **DC Totals** | **5,440,500** | **63%** |

*Source: CoStar; January 2018.*

### OFFICE SPACE UNDER CONSTRUCTION OR RENOVATION
Northern Virginia | Year-End 2017

| SUBMARKET | SF | % PRE-LEASED |
|---|---|---|
| Fairfax Center | 150,000 | 79% |
| Herndon | 249,000 | 0% |
| Route 29/I-66 Corridor | 53,000 | 0% |
| Tysons Corner | 801,800 | 15% |
| **VA Totals** | **1,253,800** | **19%** |

*Source: CoStar; January 2018.*

### OFFICE SPACE UNDER CONSTRUCTION OR RENOVATION
Suburban Maryland | Year-End 2017

| SUBMARKET | SF | % PRE-LEASED |
|---|---|---|
| Landover/Largo/Captl Hts | 176,000 | 100% |
| College Park | 75,000 | 0% |
| Bethesda/Chevy Chase | 300,000 | 49% |
| **MD Totals** | **551,000** | **59%** |

*Source: CoStar; January 2018.*

the building delivers in late 2019. This project is just the first of many to come to the submarket to capitalize on the new Purple Line station and satisfy the submarket's backlog of demand for large blocks of trophy-quality space. Next door to 4747, Carr Properties has begun demolition activities in preparation for construction of a 358,000 SF office tower, and across Wisonsin Ave. StonebridgeCarras plans to get started on their own 400,000 SF tower in 2019. Aside from Bethesda/Chevy Chase and northern Prince George's County, new construction is absent from most submarkets in Suburban Maryland and we expect that to remain the case in the near term.

## PLANNED AND PROPOSED PROJECTS

There is 46.9 million SF of office space planned in the Washington metro area as of December 2017. Well over 50% of this planned space is in Northern Virginia, primarily in Loudoun County and the Reston and Herndon submarkets. These submarkets are set to be the primary beneficiaries of the completion of Phase II of Metrorail's Silver Line, which is expected to open within the next four years. The District of Columbia has 5.5 million SF of projects planned, which is notably less than the 5.9 million SF currently under construction. In Suburban Maryland, the Laurel and Beltsville/Calverton submarket has the greatest amount of planned space, nearly all of it located in the Konterra Town Center mixed-use development.

As of December 2017, proposed office developments in the Washington metro area total 51.8 million SF of space. About 30.5 million SF, representing more than half of all proposed space, is targeted for Northern Virginia. More than 20 million SF of this space is situated along the Silver Line in the Tysons, Vienna, Merrifield, Reston, Herndon, and Rt. 28 Corridor South submarkets. Proposed developments in Suburban Maryland total 10.3 million SF, with most projects located along the I-270 corridor between Bethesda and Frederick. In the District, there are proposals for 10.3 million SF of new office development, the vast majority of which is located in the Capitol Riverfront, NoMa, and Southwest submarkets.

# INVESTMENT SALES

In 2017, there were 147 office investment sale transactions in the Washington metro area worth $9.2 billion at an average price of $349/SF. The total number of sales is a slight increase from the 137 recorded in 2016. However, trade values were significantly higher than the $225/SF 2016 average.

In 2017, investors continued to shift their attention away from core and trophy-quality products to properties with greater value-add opportunities in less expensive submarkets, particularly those that are a component of mixed-use developments and/or near transit stations. During the year, DC fell from 15th to 25th place among the top global cities for foreign real estate investors according to the Association of Foreign Investors in Real Estate.

Office cap rates in the Washington metro area have been trending upward since hitting a post-recession low of 5.6% in the second quarter of 2016. The 12-month average cap rate for core office assets in the Washington metro area stood at 6.7% as of the end of 2017, which was 70 basis points higher than a year prior. The 12-month trailing average for cap rates in the District is 5.2%, compared with 6.6% for the suburbs. The gap between the District and the suburbs widened further in 2017, with average office cap rates in the District holding steady at 5.2% compared to a year prior, while the suburban average climbed 140 basis points to 7.8% over the same period.

### INVESTMENT SALES OF OFFICE PROPERTIES

Washington Metro Area | 2016 and 2017

| | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | TOTAL | CLASS A | CLASS B / C | % OF REGION | TOTAL | CLASS A | CLASS B / C | % OF REGION |
| **Distrit of Columbia** | | | | | | | | |
| # of Transactions | 38 | 17 | 21 | | 42 | 16 | 26 | |
| Total Sales (in millions) | $3,064 | $1,758 | $1,306 | 47% | $4,211 | $3,288 | $923 | 46% |
| Average Price/SF | $538 | $584 | $487 | | $569 | $647 | $399 | |
| **Northern Virginia** | | | | | | | | |
| # of Transactions | 85 | 36 | 49 | | 62 | 29 | 33 | |
| Total Sales (in millions) | $2,825 | $1,732 | $1,093 | 44% | $3,428 | $2,688 | $740 | 37% |
| Average Price/SF | $264 | $186 | $225 | | $295 | $368 | $171 | |
| **Suburban Maryland** | | | | | | | | |
| # of Transactions | 38 | 11 | 27 | | 43 | 16 | 27 | |
| Total Sales (in millions) | $583 | $253 | $330 | 9% | $1,515 | $1,112 | $403 | 17% |
| Average Price/SF | $215 | $205 | $105 | | $210 | $369 | $96 | |
| **Washington Metro Total** | | | | | | | | |
| # of Transactions | 137 | 64 | 97 | | 147 | 61 | 86 | |
| Total Sales (in millions) | $6,472 | $3,743 | $2,729 | 100% | $9,154 | $7,088 | $2,066 | 100% |
| Average Price/SF | $225 | $231 | $213 | | $349 | $460 | $191 | |

*Source: Real Capital Analytics, table by Delta Associates; January 2018.*
*Note: Class B data may include some Class C sales.*

# METHODOLOGY AND GLOSSARY

### Vacancy
Only space immediately available is used and not space becoming available. Sublet space availability is reported separately from direct vacancy.

### Net Absorption
Net absorption is defined as the change in leased, standing inventory from one period to the next. If a building is under construction, and a large lease is signed for future occupancy, this transaction is counted as net absorption only when the building is delivered. Net absorption reflects directly-leased space; it excludes absorption of sublet space. Net absorption reflects the change from year-end 2014 through mid-year 2015.

### Class A
Defined as buildings deemed Class A by CoStar and those greater than 50,000 SF

### Rents
Rent rates are overall gross rents as surveyed in CoStar's database. Surveys include properties that are 15,000 square feet or greater. Classifications of A and B properties are based on CoStar's definitions.

### Owner Occupied Buildings
To qualify, the building's owner must occupy at least 75% of the rentable space in the building.

### Planned Projects
To qualify, permits are filed, a ground-break date is established, size and location is determined and the project is in one of many phases of the planning process: site plan review, design review, environmental compliance review, zoning, etc.

### Proposed Projects
To qualify, the developer has proposed to build a project (either formally or informally) but has not submitted any plans for review. Permits have not yet been filed.

### Free Rent
The average number of months of free rent granted by the owner per lease term.

### Lease Term
The average term currently being quoted for new leases (in years).

### Operating Expenses
The average annual cost per square foot of operating buildings, including property taxes, energy, janitorial service, insurance, general building maintenance, management and leasing fees, and other expenses.

### Tenant Improvements
The average value granted to a new tenant by an owner for work done on previously occupied space (expressed as dollars per square foot per lease term).

### Investment Sales
Sales exclude user purchases and reflect closed transactions. Class A properties are defined as properties that were built from 1997 to the present and are 50,000 SF or greater.

### Twelve-Month Over-the-Year Job Growth
The same-month change over a year; e.g., the difference from November 2013 to November 2014. It is the change for a one-year period for a given month. This measure does not require any adjustment for seasonality, since November of one year has similar seasonal behavior to November of the next year.

### Geographic Coverage
The Washington metro area office market is defined for purposes of this report as:

- District of Columbia (all)
- Northern Virginia: Arlington County, Alexandria City, Fairfax County, City of Falls Church, City of Fairfax
- Suburban Maryland: Montgomery County and Prince George's County

# ABOUT WEST, LANE & SCHLAGER

Founded in 1996, West, Lane & Schlager Realty Advisors, LLC adopted the mission of exclusively representing tenants in the leasing and purchasing of commercial real estate in the Washington, DC metropolitan area. We recognized the need for tenants to have strong, creative advocates to represent them in the complex process of securing and negotiating real estate transactions in a market dominated by international real estate companies conflicted in their representation of both owners and tenants.

We do not simply take on the task of representing tenants, but commit all of our resources and focus to creating a system that accomplishes that mission. As a result, WLS has developed a sophisticated strategic planning process that provides our clients a guide from the day-one determination of project goals through delivery of a complete analysis of all viable options. Our strategic plan provides for the benchmarking of various metrics against those of our clients' peers and competitors, and ultimately yields a document that provides our clients the necessary support and data required for their board of directors, executive committee, C-level decision makers or whoever is ultimately going to determine that the transaction is not only sound in its results, but in its process.

For nearly 20 years, West, Lane & Schlager has strived to provide our diverse and prestigious clients exceptional service and results, and has risen to become one of the most prominent tenant representation firms in one of the largest and most competitive commercial real estate markets in the world.

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