

Co-Working Increasing Share of the Market

- » The Carlyle group's renewal and expansion was the most significant private sector lease of the quarter. The private equity firm took 200,000 square feet at 1001 Pennsylvania Avenue, an expansion of nearly 70,000 square feet.
- » Four leases over 20,000 square feet were signed this quarter by shared office space providers. These new leases will account for 192,000 square feet of net new demand to the market over the next few quarters.
- » Over 1.6 million square feet delivered in the second quarter, which is more than the last five quarters combined.

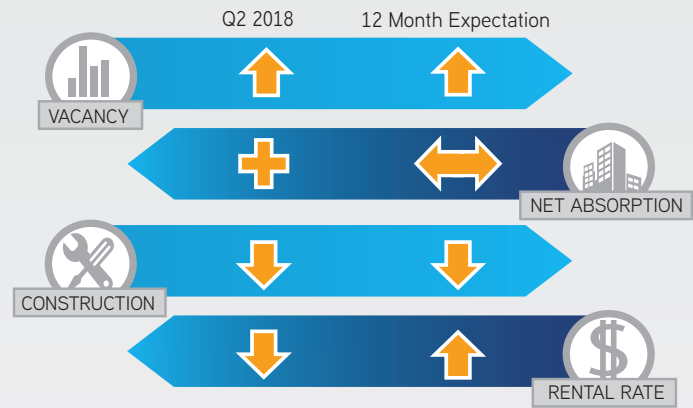
Market Overview

Despite few 100,000 square foot leases signed in the second quarter of 2018, there was a considerable amount 20,000 to 60,000 square foot deals. The continued expansion of private sector tenants offset the impact of the Federal Government, which continued shrinking its footprint in the District. This coupled with continued growth within the shared office space industry resulted in positive absorption in the second quarter of 2018. However, with just over 1.6 million square feet delivered to the market, it was nowhere near enough new demand to prevent the vacancy rate from rising 80 basis points during the quarter. At 12.9 percent, it was up from 12.1 percent last quarter and 11.8 percent at the start of the year.

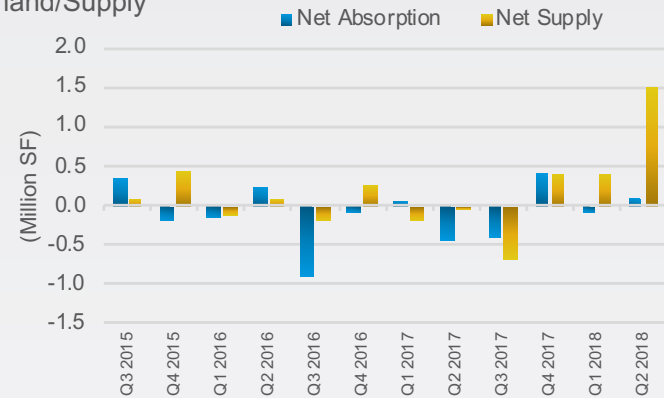
Outlook

Shared office providers have identified and capitalized on a very specific niche within the office market. Traditionally, they acted as incubators to new tenants, only to have them graduate to conventional office in months or years down the road. New product offerings by some of the larger shared office providers are retaining more of these smaller tenants and attracting much larger companies. This will affect the market sooner rather than later. It is only a matter of time before shared office providers take an entire buildings in the District. Whether this is a good thing for the market and if it will completely flip how real estate is handled in DC remains to be determined.

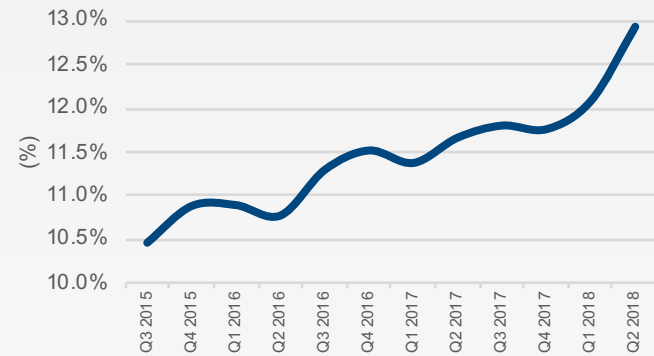
Market Indicators



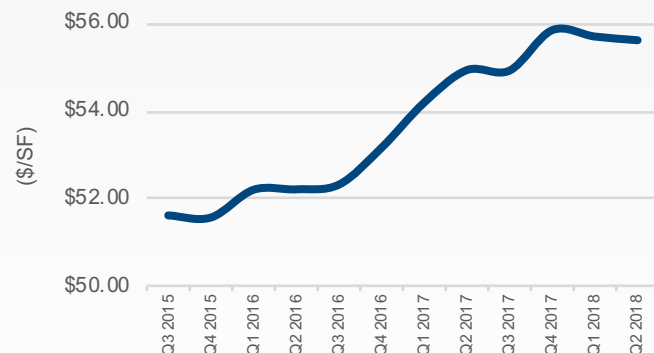
Demand/Supply



Vacancy Rate



Direct Asking Rental Rate



Source: Colliers International, CoStar Group

District of Columbia—Office Market—All Classes | Q2 2018

MARKET	EXISTING INVENTORY	NEW SUPPLY	YTD NEW SUPPLY	UNDER CONSTRUCTION	ABSORPTION	YTD ABSORPTION	OVERALL VACANCY RATE	DIRECT ASKING RATE
DISTRICT OF COLUMBIA								
Capitol Hill	5,986,400	425,420	425,420	539,289	63,071	80,157	19.2%	\$59.34
Capitol Riverfront	5,262,294	231,616	231,616	130,000	191,511	215,238	25.7%	\$42.79
CBD	45,058,708	694,450	1,127,339	1,302,711	324,557	381,475	9.4%	\$59.56
East End	46,514,333	-	105,000	1,781,778	-308,162	-60,942	13.6%	\$58.72
Georgetown	3,191,391	-	-	-	-56,000	-43,258	9.4%	\$51.39
NoMa	10,873,132	-	-	1,062,453	44,517	104,158	10.7%	\$51.99
Southwest	11,975,447	267,560	267,560	220,000	174,607	102,715	14.3%	\$54.82
West End	4,482,399	-	-	-	3,806	9,153	8.0%	\$47.50
Uptown	11,006,542	-	-	80,000	-342,844	-781,378	19.1%	\$42.75
District of Columbia Total	144,350,646	1,619,046	2,156,935	5,116,231	95,063	7,318	12.9%	\$55.64

District of Columbia—Office Market—Class A | Q2 2018

MARKET	EXISTING INVENTORY	NEW SUPPLY	YTD NEW SUPPLY	UNDER CONSTRUCTION	ABSORPTION	YTD ABSORPTION	OVERALL VACANCY RATE	DIRECT ASKING RATE
DISTRICT OF COLUMBIA								
Capitol Hill	3,601,540	425,420	425,420	539,289	51,455	46,429	23.2%	\$62.97
Capitol Riverfront	4,041,467	231,616	231,616	130,000	191,511	212,252	6.6%	\$48.46
CBD	22,491,548	694,450	1,108,721	1,110,508	357,411	603,934	11.2%	\$66.39
East End	33,172,908	-	105,000	1,744,878	66,786	300,244	13.6%	\$64.14
Georgetown	1,641,799	-	-	-	-22,584	-11,601	8.7%	\$54.19
NoMa	9,001,182	-	-	1,062,453	44,517	83,274	12.1%	\$52.97
Southwest	9,670,094	267,560	267,560	220,000	158,731	168,671	14.4%	\$57.06
West End	2,850,081	-	-	-	-631	13,121	11.9%	\$47.74
Uptown	2,193,535	-	-	-	-191,339	-473,862	25.6%	\$50.16
District of Columbia Total	88,664,154	1,619,046	2,138,317	4,807,128	655,857	942,462	13.2%	\$61.42

District of Columbia—Office Market—Class B & C | Q4 2017

MARKET	EXISTING INVENTORY	NEW SUPPLY	YTD NEW SUPPLY	UNDER CONSTRUCTION	ABSORPTION	YTD ABSORPTION	OVERALL VACANCY RATE	DIRECT ASKING RATE
DISTRICT OF COLUMBIA								
Capitol Hill	2,384,860	-	-	-	11,616	33,728	13.2%	\$50.46
Capitol Riverfront	1,220,827	-	-	-	-	2,986	89.1%	\$39.07
CBD	22,567,160	-	18,618	192,203	-32,854	-222,459	7.7%	\$48.58
East End	13,341,425	-	-	36,900	-374,948	-361,186	13.4%	\$47.36
Georgetown	1,549,592	-	-	-	-33,416	-31,657	10.2%	\$42.13
NoMa	1,871,950	-	-	-	-	20,884	3.8%	\$33.01
Southwest	2,305,353	-	-	-	15,876	-65,956	13.6%	\$44.36
West End	1,632,318	-	-	-	4,437	-3,968	1.4%	\$46.30
Uptown	8,813,007	-	-	80,000	-151,505	-307,516	17.5%	\$42.51
District of Columbia Total	55,686,492	-	18,618	309,103	-560,794	-935,144	12.6%	\$45.66