

Tenant Confidence Fueling Deal Velocity

- » Tenant's confidence in the overall economy has allowed them to sign longer deals recently, one of the reasons that tenant concession packages continued to increase.
- » Government tenants had the top three leases of the quarter, all of which were over 150,000 square feet.
- » The redevelopment of Alexander Court at 2001 K Street, NW was completed during the third quarter. The project included the integration of 2000 L Street, NW into the project creating two conjoined towers. In addition, 152,521 square feet of new floors and connecting space between the buildings was added bringing the project to just under 800,000 square feet of rentable space.

Market Overview

The downsizing of several tenants moving into the newly renovated space at 2001 K Street, NW was the largest cause of negative absorption in the third quarter of 2018. During the quarter, 264,961 square feet of space was returned to the market, bringing the year-to-date absorption to negative 214,971 square feet. Vacancy, however, ended at 12.7 percent, down from 13.1 percent the previous quarter. That was entirely due to the demolition and conversion of 1.12 million square feet in the District. By far the most significant was the conversion of the former Intelsat headquarters into the Whittle School. This took over 600,000 square feet of vacant space out of inventory.

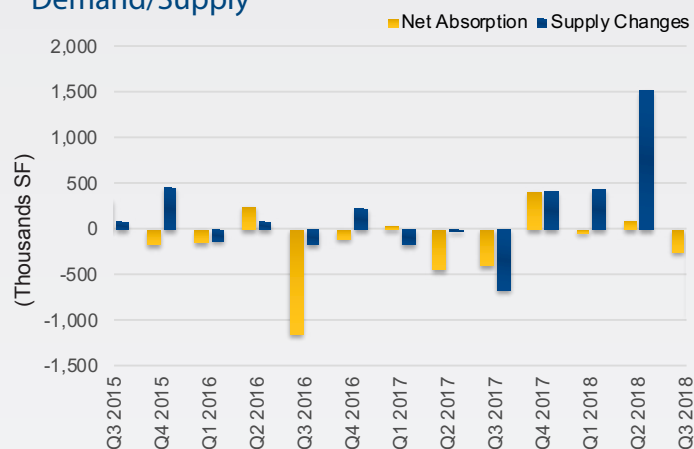
Outlook

Tenants in the District of Columbia, like tenants across the United States, are benefiting from strong financials associated with a growing economy. As a result, tenant confidence is at an all-time high. However, they are also faced with essentially full employment, and a very tight labor market. As a result, tenants are choosing to invest money into their space and are willing to locate to higher priced locations in order to attract and retain talent. They have taken advantage of their growth and landlords' willingness to provide abundant concessions to move into new, high-end space. However, most economists predict a slow down by mid-2019. This coupled with what appears to be a developing trade war with China will likely erode much of the confidence tenants have in their future growth. It is expected that tenant demand will grow through the first half of 2019 prompting new demand for office space, only to see it fall off again as the economy slows heading into 2020.

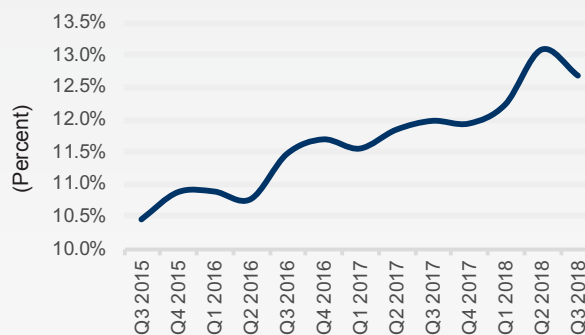
Market Indicators



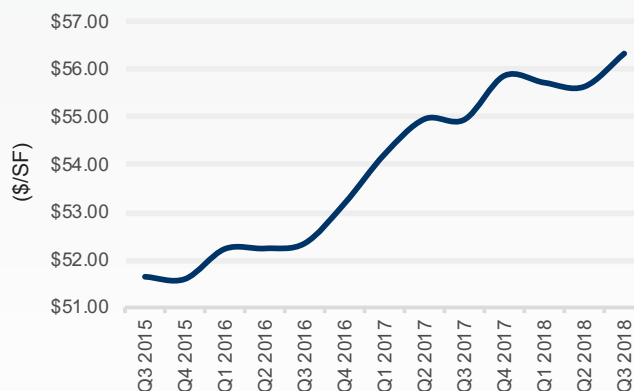
Demand/Supply



Vacancy Rate



Direct Asking Rate



District of Columbia—Office Market—All Classes | Q3 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	5,944,046	-	425,420	539,289	14,325	94,482	18.4%	\$59.06
Capitol Riverfront	5,262,294	-	231,616	130,000	-40,329	174,909	26.5%	\$55.05
CBD	44,982,332	152,521	1,279,860	1,556,578	-381,477	42,670	10.4%	\$57.11
East End	46,402,333	-	105,000	1,888,778	-34,478	-95,420	13.4%	\$59.82
Georgetown	3,191,391	-	-	-	-8,669	-51,927	9.7%	\$46.87
NoMa	10,873,132	-	-	1,068,373	146,839	250,997	9.3%	\$52.84
Southwest	11,975,447	-	267,560	215,000	85,984	188,699	13.5%	\$46.65
West End	4,482,399	-	-	-	-6,681	2,472	8.2%	\$49.96
Uptown	10,307,684	-	-	80,000	-40,475	-821,853	14.3%	\$46.41
DISTRICT OF COLUMBIA TOTAL	143,421,058	152,521	2,309,456	5,478,018	-264,961	-214,971	12.7%	\$56.34

District of Columbia—Office Market—Class A | Q3 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	539,289	26,671	73,100	22.5%	\$60.25
Capitol Riverfront	4,041,467	-	231,616	130,000	-41,804	170,448	7.6%	\$55.05
CBD	22,644,069	152,521	1,261,242	1,364,375	332,842	979,448	11.2%	\$63.86
East End	33,172,908	-	105,000	1,739,878	164,598	464,842	13.1%	\$64.30
Georgetown	1,641,799	-	-	-	-13,936	-25,537	9.5%	\$50.48
NoMa	9,001,182	-	-	1,068,373	146,839	230,113	10.5%	\$54.14
Southwest	9,670,094	-	267,560	215,000	78,053	246,724	13.6%	\$47.46
West End	2,850,081	-	-	-	-8,031	5,090	12.2%	\$49.88
Uptown	2,193,535	-	-	-	-17,098	-490,960	26.4%	\$51.13
DISTRICT OF COLUMBIA TOTAL	88,816,675	152,521	2,290,838	5,056,915	668,134	1,653,268	12.8%	\$60.17

District of Columbia—Office Market—Class B & C | Q3 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	2,342,506	-	-	-	-12,346	21,382	12.1%	\$55.51
Capitol Riverfront	1,220,827	-	-	-	1,475	4,461	89.0%	n/a
CBD	22,338,263	-	18,618	192,203	-714,319	-936,778	9.6%	\$49.34
East End	13,229,425	-	-	148,900	-199,076	-560,262	14.2%	\$53.10
Georgetown	1,549,592	-	-	-	5,267	-26,390	9.8%	\$40.82
NoMa	1,871,950	-	-	-	-	20,884	3.8%	\$33.02
Southwest	2,305,353	-	-	-	7,931	-58,025	13.2%	\$43.07
West End	1,632,318	-	-	-	1,350	-2,618	1.3%	\$50.36
Uptown	8,114,149	-	-	80,000	-23,377	-330,893	11.1%	\$44.93
DISTRICT OF COLUMBIA TOTAL	54,604,383	-	18,618	421,103	-933,095	-1,868,239	12.5%	\$50.14