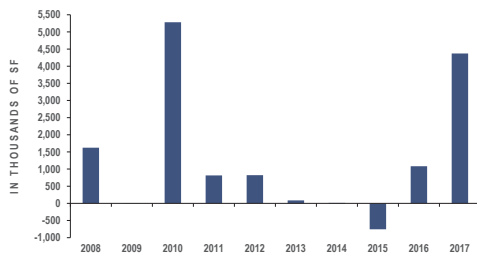
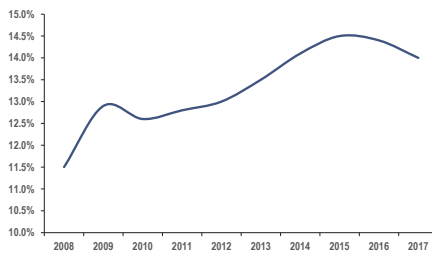


OFFICE NET ABSORPTION Washington Metro Area



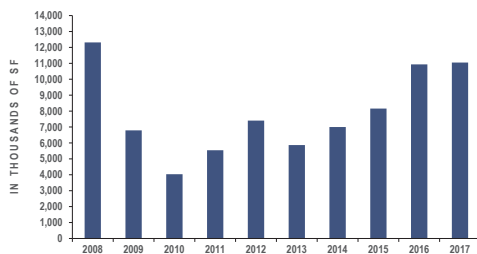
Source: Selkirk Commercial Real Estate, CoStar, March 2018.

OVERALL DIRECT OFFICE VACANCY RATE Washington Metro Area, 2008-2017



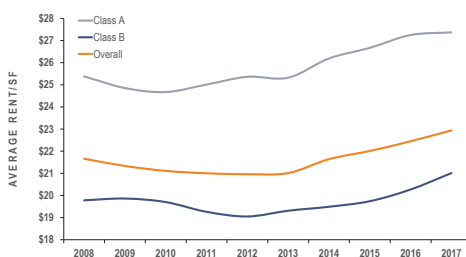
Note: Vacancy rate includes single-tenant/owner-occupied and multi-tenant buildings.
Source: Selkirk Commercial Real Estate, CoStar, March 2018.

OFFICE CONSTRUCTION ACTIVITY Washington Metro Area



Source: Selkirk Commercial Real Estate, CoStar, March 2018.

OFFICE ASKING RENTS Washington Metro Area



Source: Selkirk Commercial Real Estate, CoStar, March 2018.

Net absorption of office space in the Washington metro area accelerated in 2017, totaling 4.37 million SF. This is over four times the total net absorption recorded metro-wide in 2016. Class A absorption totaled 3.6 million SF, compared to 934,800 SF in 2016. Absorption in the region has largely been driven by private sector tenant expansion, as the public-sector office footprint continues to contract.

The direct office vacancy rate for all classes of space is 14.0% as of the end of 2017—a decline of 40 basis points from YE 2016. While absorption has strengthened, the increase in new construction activity is keeping office vacancy elevated across much of the metro area. The struggling Rosslyn-Ballston corridor has the region's highest vacancy rate at 20.8%, but has managed to attract a number of major tenants in recent years, including the headquarters of Nestlé USA.

The average rent for office space in the metro area is \$35.88 as of December 2017, which is a 1.9% increase from December 2016. Demand for new, ground-up Class A construction is strengthening in the region's top submarkets, providing for significant rent premiums in many cases. However, the increase in new construction is partially offsetting stronger demand. While rent is slowly creeping upward, average concessions are growing at a much faster pace.

Office building construction activity has picked up significantly. A total of 11.0 million SF of space is currently under construction, with development activity concentrated almost exclusively in the District of Columbia and inner submarkets such as Bethesda in Suburban Maryland and Tysons in Northern Virginia. There were 20 office building deliveries in the metro area in 2017, totaling 3.1 million SF of space.

Outlook

The Washington area office market should continue its march forward in 2018, but at a continued sluggish pace. Potential headwinds include: negative demand from the federal government; the abandonment of suburban office parks; and a threat of oversupply.

Selkirk Partners is a Mid-Atlantic based commercial real estate services firm dedicated to providing unparalleled service and value to tenants and buyers of commercial space. Our fully integrated, conflict-free approach delivers real estate solutions that save time and reduce costs, while providing value above and beyond what is asked of us or considered standard in the industry.

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