PMRG

Market at a Glance

WASHINGTON, D.C. OFFICE MARKET REPORT

FOURTH QUARTER 2014

PMRG | PM Realty Group

TABLE OF CONTENTS

FOR INFORMATION:

Dave Parker
Executive Vice President
Managing Director
(202) 209-5753
dparker@pmrg.com

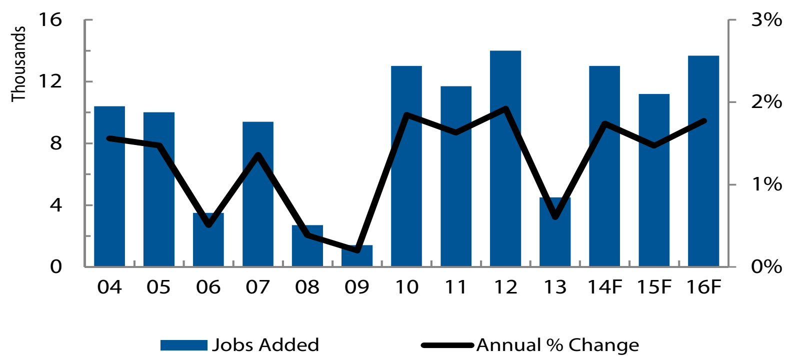
Ariel Guerrero
Senior Vice President, Research
(713) 209-5704
aguerrero@pmrg.com

ECONOMIC OVERVIEW

Washington D.C.'s economy has demonstrated signs of moving forward despite the government gridlock of the past several years. Although the local economy experienced sequester-related challenges in 2013 and early in 2014, job growth has recently picked up since early summer as employers have added 12,600 jobs within the past 12 months through November, which equates to a 1.7% annual increase. With a diversified economy that includes a booming tech sector and a variety of corporations in and outside the Beltway, employment has expanded in every industry sector except manufacturing with modest job losses. In the greater Washington, D.C. metro area, total employment has also expanded by 18,900 jobs, equivalent to a 0.6% annual increase.

Congress approved a $1.1 trillion spending bill in December that will fund the majority of the government through Sept. 30th, eliminating the threat of a government shutdown through the current budget year. The one exception was the Department of Homeland Security, which was funded only through February 27th. While the legislation reduced spending cuts this year, it did not address out year budgets in fiscal 2016 and beyond. Congress, with both the Senate and House under Republican control, will get a proposed budget covering the 2016 fiscal year on Feb. 2, setting off months of debate over setting spending priorities for next year. Businesses that occupy office buildings in downtown Washington are, in general, intimately involved in ongoing regulatory and legislative debate. Law firms, consultancies, trade associations and advocacies tend to expand or contract in relation to the policies adopted (and related appropriations) by the party in power.

Employment Trends



Source: U.S. Bureau of Labor Statistics, Moody's Analytics

Employment Growth by Sector

	CURRENT READING	12-MONTHS PRIOR READING	ANNUAL CHANGE	HEALTH (Improving or Declining)
Mining & Logging & Construction	14.4	13.6	5.9%	▲
Manufacturing	0.7	0.9	-22.2%	▼
Trade, Transportation & Utilities	32.0	29.7	7.7%	▲
Information	17.2	17.0	1.2%	▲
Financial Activities	29.0	28.9	0.3%	▲
Professional & Business Services	161.0	156.1	3.1%	▲
Education & Health Services	127.8	125.8	1.6%	▲
Leisure & Hospitality	69.4	68.0	2.1%	▲
Other Services	69.0	68.9	0.1%	▲
Government	239.9	238.9	0.4%	▲
Totals	760.4	747.8	1.7%	▲

Source: U.S. Bureau of Labor Statistics. Employment Data as of November 2014, All Employees, in Thousands

OFFICE MARKET ASSESSMENT

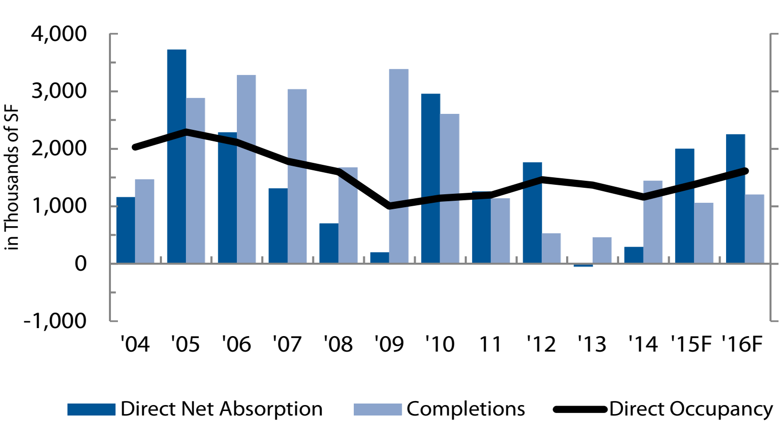
The District's Class A market recorded 128,484 sq. ft. of occupancy gains during the fourth quarter and accounted for the bulk of the annual demand with 966,110 sq. ft. of direct space absorbed in 2014. Despite the respectable annual gain, Class A direct occupancy rates declined by 30 basis points to 88.6%, as new supply outpaced demand with nearly 1.4 million sq. ft. of new Class A product delivered in 2014. Meanwhile, the Class B sector exhibited signs of turning the corner with 104,812 sq. ft. of direct absorption during the quarter, after recording occupancy losses in the prior four quarters. Despite the recent gain, the Class B sector still ended the year with 767,687 sq. ft. of occupancy losses in 2014, which have caused the sector's direct occupancy levels to plunge 220 basis points to 88.5% over the past 12 months.

Looking ahead, leasing demand from federal government agencies and law firms will likely remain suppressed as both tenant segments are committed to shedding excess space and/or utilizing contemporary workplace design strategies that enable tenants to utilize substantially fewer square feet per person. Two of the largest law firm moves in recent months resulted in significant vacancies that have yet to be filled. Pillsbury, whose lease expired in 2014, left behind 160,000 sq. ft. at 2300 N St. NW in their relocation to 1200 17th St. NW. In addition, Covington & Burling, whose lease expires in 2016, recently vacated 450,000 sq. ft. at 1201 Pennsylvania Ave. NW when it relocated to One CityCenter during the fourth quarter. On a positive note, the migration of suburban tenants into the District and robust expansion activity among startups and high-technology companies has recently begun to help fill a gap in an otherwise tepid demand environment.

FORECAST

- With federal government agencies and law firms reducing office space on a per employee basis, leasing demand is forecasted to remain sluggish in the near term. However, the influence from young office workers (known as millennials) seeking a comprehensive live-work-play environment will increasingly bring more companies downtown to help fill the void.
- Well-located properties with a strong amenity base onsite and in the immediate vicinity will capture a large share of the leasing activity from prospective tenants.
- Many landlords have started to reposition and modernize older assets to keep up with the quality of the new construction and make them more attractive to prospective tenants, a trend that is likely to continue as office leasing remains tepid and tenants are still in control of the market.

Office Market Trends



Employment Base:
The Washington D.C. region has a solid employment base, with the federal government supporting nearly 3 out of 10 jobs. Close ties to the federal government helped the area weather the Great Recession better than most major metropolitan areas.

Home to 18 Fortune 500 Companies:
In the private sector, Washington D.C. houses offices for numerous Fortune 1000 companies in a variety of industries. This includes 18 Fortune 500 Company headquarters - fourth in the nation.

Ranked 4th for CRE Investment:
Long-term stability and a diversified economy make Washington D.C. one of the top cities for commercial real estate investment. The Association of Foreign Investors in Real Estate (AFIRE) ranked Washington, D.C. as the #5 U.S. city for real estate investment in 2014 and as the #15 city globally for investors' real estate dollars.

Market Trend Indicators

	Current Quarter	Change from Previous Quarter	Change from Previous Year	12-month Forecast
Direct Occupancy	88.6%	▲	▼	▲
Annual Direct Net Absorption	286,710	▲	▲	▲
Under Construction	2,399,860	▲	▲	▲
Direct Asking Rents	$50.41	▼	▼	▲

"There are signs that private sector demand is increasing in terms of tour activity and recent leasing. In the 4th quarter net absorption was positive for all three classes of office space, A, B and C for the first time in 4 years. This was further evidenced by positive absorption in 8 of the 10 downtown submarkets we monitor," said Geoff Kieffer, Senior Vice President, Regional Director.

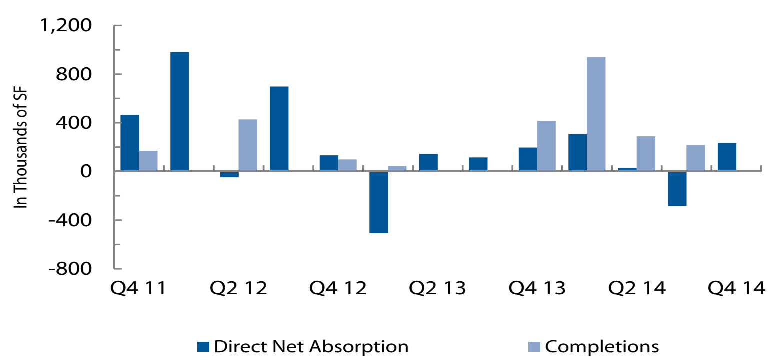
Submarket Direct Occupancy Ranking

Rank	Submarket	Occupancy Rate	Y-O-Y % Change
1	Northeast / Southeast	94.2%	1.7%
2	Georgetown	92.6%	1.4%
3	Southwest	91.1%	0.6%
4	CBD	90.1%	0.8%
5	East End	88.6%	-1.2%
6	Capitol Hill	87.6%	-5.1%
7	Uptown	86.0%	-4.2%
8	NoMa	86.0%	-0.6%
9	Capitol Riverfront	83.1%	1.8%
10	West End	82.4%	-11.8%

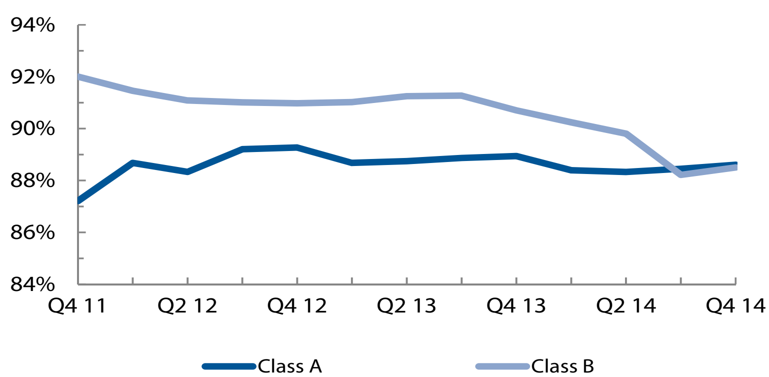
NET ABSORPTION & OCCUPANCY

- The CBD remained the top performing submarket with 256,152 sq. ft. of direct absorption during the quarter, bringing the annual total to 417,352 sq. ft. Class A properties led with 245,715 sq. ft. of quarterly gains, pushing the yearly total to 673,983 sq. ft. The largest quarterly tenant move-in involved Pillsbury Winthrop Shaw Pittman occupying 100,932 sq. ft. at 1200 17th St NW.
- NoMa recorded 170,403 sq. ft. of direct absorption, with Class A properties accounting for 165,117 sq. ft. of the quarterly gains. DC Department of Human Services & Mental Health recently moved into 120,255 sq. ft. at 64 New York Ave NE, which helped bring the submarket's Class A direct occupancy rate up by 190 basis points to 86.7%.
- The Southwest submarket posted its third consecutive quarter of absorption growth with 37,998 sq. ft., pushing the annual total to 69,678 sq. ft. The Class A market accounted for the majority of the growth last year, compliments of GSA – Nuclear Security Administration taking 87,286 sq. ft. at The Portals III.
- The Capitol Riverfront recorded 65,433 sq. ft. of quarterly occupancy gains, pushing the annual total to 86,971 sq. ft. CBS Radio moved into 33,029 sq. ft. at 1015 Half St. SE during the quarter, with an additional 143,116 sq. ft. to be occupied by National Labor Relations Board early in 2015.
- East End posted 40,595 sq. ft. of occupancy losses during the quarter, but still ended with 272,902 of absorption growth in 2014. The quarterly loss was attributed to Covington & Burling LLP shedding some space in their relocation to smaller and more modern efficient space at One CityCenter - North Tower, which delivered earlier in 2014.
- West End posted 298,188 sq. ft. of negative direct absorption during the quarter, causing occupancy levels to drop by 850 basis points to 82.4%. The largest vacancy involved Pillsbury Winthrop Shaw Pittman's relocation from 2300 N St NW to the CBD.

Direct Net Absorption vs. Completions



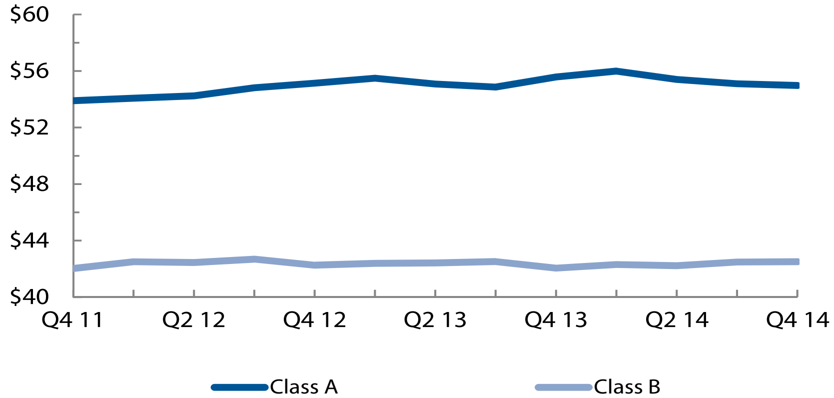
Direct Occupancy Rates



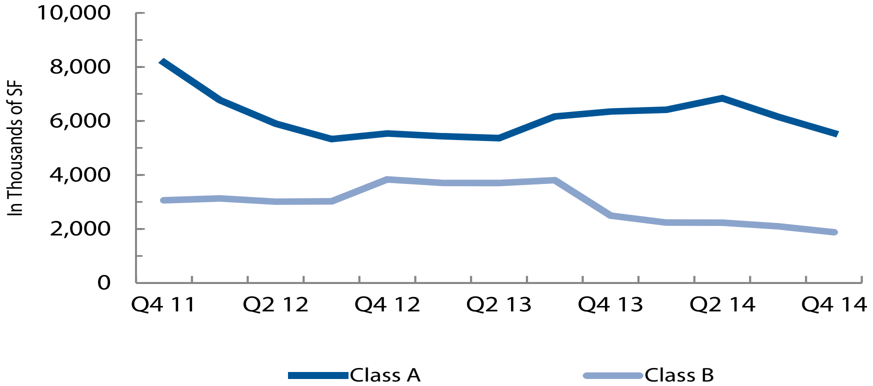
RENTAL RATES & LEASING ACTIVITY

- Citywide Class A full-service gross asking rents declined for the third consecutive quarter by $0.13 to $54.97 per sq. ft., after reaching its cyclical peak in early 2014. Within the past 12 months, Class A asking rents have dropped by $0.61 or 1.1%.
- Class B rents inched up $0.01 to $42.50 per sq. ft. during the quarter but have increased by 1.1% or $0.45 within the past 12 months. However, Class B rents still remain 2.7% or $1.17 below their cyclical peak recorded early in 2011.
- With much of the leasing demand last year focused in downtown, submarkets outside the downtown core such as Southwest, NoMa, and the Capitol Riverfront have seen average asking rates decline by 3.0% collectively since year-end 2013.
- Since vacancy and availability rates remain elevated, concessions such as free rent and tenant improvement allowances continue to be historically high as landlords are competing for their share of the diminished demand for space.
- Asking rental rates are expected moderately increase in the next 12 months as new, higher-end space is delivered. However, tenants will remain in the driver seat in lease negotiations as they explore the office market, weighing the possibilities of relocation or renewal in order to capitalize on favorable lease terms.
- Although asking rents are expected to gradually rise, effective rents will remain under pressure due to generous concession packages being offered by landlords to retain and attract new tenants.
- Leasing activity has declined by 13.3% year-over-year and is 18.6% below the five-year average. Renewals and early restructures have dominated the leasing activity as tenants continue to take advantage of optimal market conditions to lock in favorable terms and generous concessions offered by some landlords.

Rental Rates
($/SF/Yr. Full Service)



Direct Leasing Activity
Rolling 12-Months



"The Washington DC Area continues to be a great market for tenants. Rates remain flat with concessions up. Speculative construction and renovations will continue to keep those concessions coming. Law firms are benefiting the most," said Eddie C. Trujillo, Senior Vice President, Regional Director.

Submarket Rental Rate Ranking

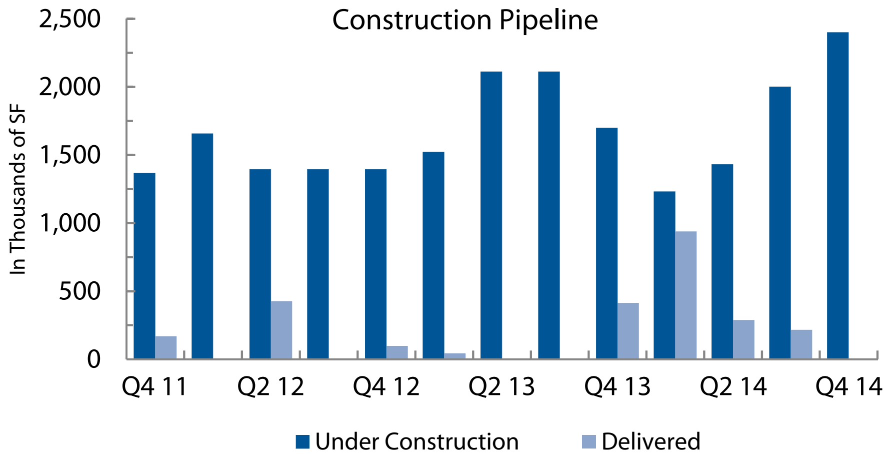
Rank	Submarket	Rental Rate (FS GRS)	Y-O-Y % Change
1	Capitol Hill	$57.08	1.2%
2	East End	$53.99	-0.6%
3	West End	$53.07	2.5%
4	CBD	$51.00	-1.5%
5	Southwest	$48.70	-2.4%
6	NoMa	$46.31	-2.0%
7	Georgetown	$42.31	4.2%
8	Capitol Riverfront	$41.78	-6.2%
9	Uptown	$39.47	1.4%
10	Northeast / Southeast	$24.15	0.0%

RECENT ANNOUNCEMENTS

- Fannie Mae is in advanced negotiations with developer Carr Properties to consolidate its headquarters into a new office building planned at the corner of 15th and L Streets NW. The new offices are planned as part of a new mixed-use development to be built in place of the current headquarters of The Washington Post.
- Douglas Development recently broke ground on 1000 F St., NW, its long-planned speculative office project in the East End. Delivery of the 94,655 sq. ft. office is expected in summer 2016.
- The District of Columbia Housing Authority Board of Commissioners selected the MRP Realty/CSG Urban team as its developer for their headquarters, located at 1133 North Capitol St., N.E. The redeveloped site in NOMA will include office, residential, and retail.
- CBS Corp. is in talks with Tishman Speyer about building a new Washington bureau to replace its current space at 2020 M St. NW. The proposal would be to combine the existing bureau with the adjacent building at 2030 M St. NW, to create larger site for a new building and potentially add FAR.
- Trammel Crow recently commenced construction on a speculative 12-story, 471,500 sq. ft. office building. The project, now referred to as 500 D St NW, is scheduled to deliver by 3Q 2015 and is focused on potential GSA tenancy.
- Square 452, LLC, a partnership of Gould Property Company and Oxford Properties Group, broke ground on a 400,000 sq. ft. office building at 600 Massachusetts Avenue. Law firm Venable recently secured a 245,000 sq. ft. pre-lease commitment.
- Quadrangle Development Corp. recently released plans for the redevelopment of 1301 Pennsylvania Avenue NW, a 283,550 sq. ft. office building in the East End. The developer is rumored to be targeting Kirkland & Ellis, with their lease expiring in 2019.

CONSTRUCTION

- New construction is down 34.5% from its 10-year historical average, with nearly 2.4 million sq. ft. of office space underway in the District (excluding owner/user development). This is down from its cyclical peak of 7.2 million sq. ft. underway in 2008 prior to the economic recession.
- Developers delivered just over 1.4 million sq. ft. of new space in 2014. The East End accounted for 60% of the new product delivered, while the NoMa submarket contributed to 25% of the District's construction deliveries in 2014.
- The largest office construction project to deliver during the second-half of 2014 was 1200 17th St NW, a 169,467 sq. ft. Class A building in the CBD developed by Akridge. Law firm Pilsbury Winthrop Shaw Pittman recently moved into 60% of the building.
- The District's office market is projected to deliver nearly 1.1 million sq. ft. of space (excluding owner-occupied buildings) in 2015, which is already 50.3% pre-leased. Nearly 56% of this new product is scheduled to deliver in the East End.
- The District appears to be ramping up for another wave of construction as several developers are considering breaking ground on a speculative basis in order to attract federal agencies and law firms, which have a surge of lease expirations beyond 2016.



SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT	% PRE-LEASED	DEVELOPER	TARGET COMPLETION
601 Massachusetts Ave NW	478,882	East End	Arnold & Porter LLP	83%	Boston Properties, Inc.	4Q15
National Square	341,283	Southwest	N/A	0%	Trammell Crow Co.	3Q15
600 Massachusetts Ave NW	401,172	East End	Venable LLP	60%	Gould Property Co.	3Q16
2001 M St NW	284,000	CBD	N/A	0%	Brookfield Properties	1Q16
800 Maine Ave SW	224,778	Southwest	N/A	0%	PN Hoffman & Associates	3Q17
Republic Square II	200,000	NoMa	N/A	0%	Republic Properties Corp	1Q16
905 16th St NW	135,798	CBD	Laborer's Health & Safety Fund	72%	Requity Real Estate Group	1Q16
900 16th St NW	127,825	CBD	Miller & Chevalier Chartered	68%	The JBG Companies	4Q15
900 G S Street NW	111,466	East End	Undisclosed	46%	MRP Realty, Inc	1Q15
1000 F St NW	94,656	East End	American Eagle Outfitters	9%	Douglas Development Corp.	3Q16

SIGNIFICANT PROJECT COMPLETIONS

PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT	% LEASED	DEVELOPER	COMPLETION
Three Constitution Square - 17	363,000	NoMa	N/A	6%	StonebridgeCaras, LLC	1Q14
Two CityCenter South - 800 10	293,010	East End	Covington and Burling LLP	99%	Hines	1Q14
AAMC - 655 K St NW	287,800	East End	AAMC	85%	Hines	2Q14
One CityCenter North - 850 10	282,931	East End	Covington and Burling LLP	97%	Hines	1Q14
1200 17th St NW	169,467	CBD	Pillsbury Winthrop Shaw Pittman	60%	Akridge	3Q14
1525 14th St NW	46,588	Uptown	Whitman-Walker Health	100%	Furioso Development Corp	3Q14

Note: Corporate owned office buildings excluded from competitive statistics

SUBMARKET STATISTICS

Submarket	Total Inventory SF	TOTAL SPACE AVAILABLE: Direct Available	TOTAL SPACE AVAILABLE: Sublease Available	DIRECT OCCUPANCY: Direct Occupancy	DIRECT OCCUPANCY: Y-O-Y Change	DIRECT NET ABSORPTION: Current Qtr.	DIRECT NET ABSORPTION: Trailing 12-Months	OVERALL RENTAL RATES: Avg Rents PSF/Yr	OVERALL RENTAL RATES: Y-O-Y % Change
CBD	35,406,512	4,241,065	904,315	90.1%	0.8%	256,152	417,352	$51.00	-1.5%
Class A	20,651,568	2,619,422	604,394	89.6%	2.5%	245,025	673,983	$55.39	-1.4%
Class B	14,501,386	1,611,467	299,116	90.7%	-1.8%	10,177	(262,603)	$44.99	2.9%
Class C	253,558	10,176	805	99.0%	2.4%	950	5,972	$36.54	-8.8%
East End	42,340,068	8,219,010	773,565	88.6%	-1.2%	(40,595)	272,902	$53.99	-0.6%
Class A	31,553,013	6,406,470	639,151	88.7%	-1.2%	(30,170)	396,393	$58.18	-1.1%
Class B	10,035,585	1,797,837	127,934	87.5%	-1.3%	(12,517)	(133,610)	$43.86	0.5%
Class C	751,470	14,703	6,480	98.3%	1.3%	2,092	10,119	$40.12	-0.3%
West End	3,493,928	727,434	37,012	82.4%	-11.8%	(298,188)	(412,666)	$53.07	2.5%
Class A	2,492,272	544,411	20,013	82.6%	-16.1%	(329,784)	(400,999)	$54.46	-3.0%
Class B	907,044	183,023	16,999	79.7%	-1.3%	31,596	(11,667)	$44.29	4.6%
Class C	94,612	-	-	100.0%	0.0%	0	0	-	-
Capitol Hill	4,276,689	754,149	48,931	87.6%	-5.1%	3,140	(217,036)	$57.08	1.2%
Class A	3,290,506	586,607	38,415	86.4%	-5.5%	14,601	(181,158)	$58.56	1.2%
Class B	733,011	131,292	10,516	93.5%	-3.1%	(9,432)	(23,089)	$49.45	15.6%
Class C	253,172	36,250	0	85.7%	-5.1%	(2,029)	(12,789)	$42.83	-1.1%
Capitol Riverfront	4,894,741	738,753	118,885	83.1%	1.8%	65,433	86,971	$41.78	-6.2%
Class A	3,774,443	515,477	118,885	84.0%	2.1%	65,433	80,462	$44.39	-6.4%
Class B	1,085,298	216,890	0	80.0%	0.0%	0	0	$39.00	0.0%
Class C	35,000	6,386	0	81.8%	18.6%	0	6,509	$36.00	5.9%
NoMa	9,554,802	1,442,818	111,066	86.0%	-0.6%	170,403	257,478	$46.31	-2.0%
Class A	8,691,179	1,228,281	103,454	86.7%	-0.7%	165,117	259,056	$50.77	0.4%
Class B	778,007	191,707	7,612	76.6%	-0.2%	5,286	(1,578)	$29.65	1.4%
Class C	85,616	22,830	0	100.0%	0.0%	0	0	$20.00	-
Southwest	11,807,129	1,563,190	34,370	91.1%	0.6%	37,998	69,678	$48.70	-2.4%
Class A	8,790,730	1,142,318	33,156	89.7%	0.9%	15,253	78,196	$49.69	-2.4%
Class B	3,016,399	420,872	1,214	95.3%	-0.3%	22,745	(8,518)	$42.55	-3.4%
Class C	-	-	-	-	-	-	-	-	-
Georgetown	2,964,436	282,253	50,449	92.6%	1.4%	10,261	42,305	$42.31	4.2%
Class A	1,780,418	173,273	38,958	91.0%	0.0%	(1,830)	(293)	$44.10	6.0%
Class B	1,074,522	99,251	11,491	95.3%	3.1%	12,091	33,598	$39.62	0.1%
Class C	109,496	9,729	0	91.1%	8.2%	0	9,000	-	-
Uptown	6,892,347	1,216,728	189,295	86.0%	-4.2%	29,705	(248,274)	$39.47	1.4%
Class A	2,110,493	117,781	168,646	96.9%	2.9%	(15,161)	60,470	$45.60	1.0%
Class B	4,050,105	969,171	20,649	80.1%	-10.4%	44,866	(378,220)	$39.66	-0.5%
Class C	731,749	129,776	0	87.7%	9.5%	0	69,476	$27.82	-1.2%
Northeast / Southeast	1,075,626	62,000	0	94.2%	1.7%	0	18,000	$24.15	0.0%
Class A	82,000	-	-	100.0%	0.0%	0	0	-	-
Class B	623,610	2,000	0	99.7%	2.9%	0	18,000	$27.45	0.0%
Class C	370,016	60,000	0	83.8%	0.0%	0	0	$24.04	0.0%

Washington D.C. Totals	Total Inventory SF	TOTAL SPACE AVAILABLE: Direct Available	TOTAL SPACE AVAILABLE: Sublease Available	DIRECT OCCUPANCY: Direct Occupancy	DIRECT OCCUPANCY: Y-O-Y Change	DIRECT NET ABSORPTION: Current Qtr.	DIRECT NET ABSORPTION: Trailing 12-Months	OVERALL RENTAL RATES: Avg Rents PSF/Yr	OVERALL RENTAL RATES: Y-O-Y % Change
Class A	83,216,622	13,334,040	1,765,072	88.6%	-0.3%	128,484	966,110	$54.97	-1.1%
Class B	36,804,967	5,623,510	495,531	88.5%	-2.2%	104,812	(767,687)	$42.50	1.1%
Class C	2,684,689	289,850	7,285	91.9%	3.3%	1,013	88,287	$29.73	-4.2%
Overall	122,706,278	19,247,400	2,267,888	88.6%	-0.8%	234,309	286,710	$50.41	-0.8%

PMRG Market at a Glance

Q4 2014

Dave Parker
Executive Vice President
Managing Director
(202) 503-1875
dparker@pmrg.com

Geoff Kieffer
Senior Vice President
Leasing
(202) 503-1854
gkieffer@pmrg.com

Eddie Trujillo
Senior Vice President
Leasing
(202) 503-1853
etrujillo@pmrg.com

Andrew Gilpin
Senior Leasing
Associate
(202) 503-1813
agilpin@pmrg.com

Ariel Guerrero
Senior Vice President
Research
(713) 209-5704
aguerrero@pmrg.com

Kristen Burney
Vice President
Director of Marketing
(713) 209-5910
kburney@pmrg.com

Doug Berry
Vice President
Creative Director
(713) 209-5897
dberry@pmrg.com

ABOUT PMRG

Headquartered in Houston, Texas, PM Realty Group (PMRG) is one of the nation's leading real estate companies focusing on comprehensive property services, development and acquisitions. With a strategic presence in 30 markets, PMRG provides the highest quality services to its clients and investors. PMRG's clients and investors include large financial institutions, advisors and high net worth individuals. By capitalizing on the team's experience and expertise, PMRG has the ability to undertake large and challenging management, leasing, development and acquisition projects.

PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit www.pmrg.com.

METHODOLOGY

Total Inventory: The total inventory includes all single and multi-tenant leased office buildings with at least 20,000 square feet of gross rentable square footage.

Total Space Available: Available space currently being marketed which is either physically vacant or occupied.

Direct Space: Space that is being offered for lease directly from the landlord or owner of a building. Under construction space is not included in space available figures.

Sublease Space: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

Direct Occupancy Rate: Direct space physically occupied divided by the total rentable inventory.

Direct Net Absorption: The net change in occupied direct space over a given period of time.

Under Construction: Office buildings which have commenced construction as evidenced by site excavation or foundation work.

Direct Asking Rents: The quoted full-service asking rent for available space expressed in dollars per sq. ft.