PMRG
Market AT A Glance

WASHINGTON, D.C. OFFICE MARKET REPORT

FIRST QUARTER 2015

PMRG | PM Realty Group

PROPERTY SERVICES | DEVELOPMENT | INVESTMENT

TABLE OF CONTENTS

FOR INFORMATION:

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

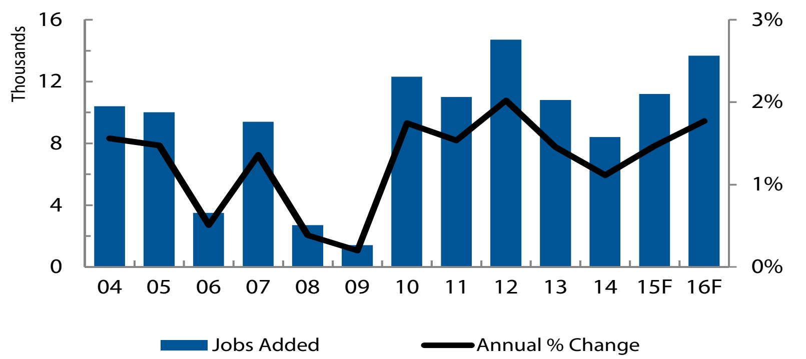
Ariel Guerrero
Senior Vice President, Research
(713) 209-5704
aguerrero@pmrg.com

ECONOMIC OVERVIEW

The Washington D.C. metropolitan economy has demonstrated signs of moving forward despite the government gridlock and sequester-related headwinds of the past two years. Although the regional economy continues to struggle to keep pace with the rest of the nation, employers have added 52,000 jobs within the past 12 months through February 2015, which is the highest growth since September 2011 and equates to a 1.8% annual increase. It is also encouraging that the job growth in the past year is fairly evenly distributed among Northern Virginia (17,100), D.C. (15,900), and Suburban Maryland (11,700). 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 and information with over the past year.

Although the Washington D.C. region continues to cope with a sustained decline in federal government spending, the regional economy has improved as the education & health services and professional & business services sectors have accounted for 46.7% of the employment gains within the past 12 months. The government sector has recorded four consecutive months on job growth. That said, this sector is projected to account for a smaller share of the future economic growth. According the Center for Regional Analysis at George Mason University, the federal government is projected to account for 28.8% of the local economic activity in 2019, down from 40% in 2010. The bulk of the 236,900 jobs forecasted to be created from 2014 to 2019 will not come from government, but from professional and business services, construction, education and health services and hospitality services.

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	14.3	14.1	1.4%	▲
Manufacturing	1.0	1.0	0.0%	▶
Trade, Transportation & Utilities	31.4	29.9	5.0%	▲
Information	17.1	17.1	0.0%	▶
Financial Activities	30.7	29.9	2.7%	▲
Professional & Business Services	162.9	155.9	4.5%	▲
Education & Health Services	128.0	127.5	0.4%	▲
Leisure & Hospitality	70.6	69.2	2.0%	▲
Other Services	71.2	69.9	1.9%	▲
Government	236.9	236.2	0.3%	▲
Totals	764.1	750.7	1.8%	▲

Source: U.S. Bureau of Labor Statistics. Employment Data as of February 2015, All Employees, in Thousands

OFFICE MARKET ASSESSMENT

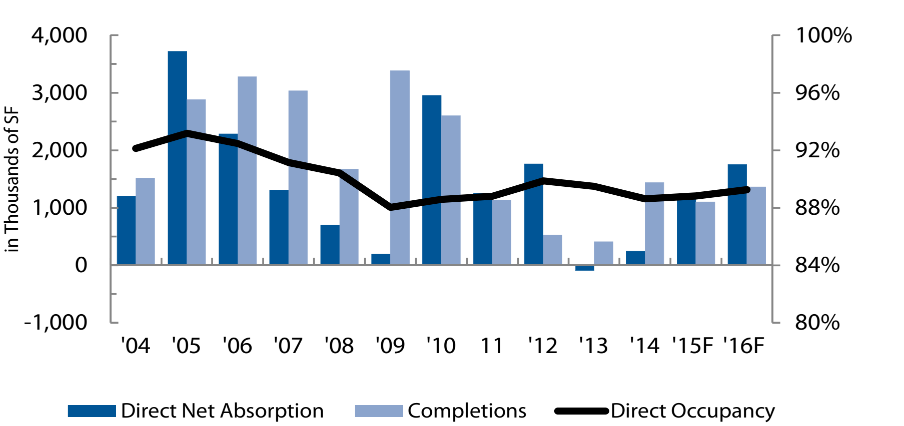
After expanding by nearly 1 million sq. ft. in 2014, the District of Columbia's Class A market contracted with 281,454 sq. ft. of occupancy losses during the first quarter of 2015. However the trailing 12-month total remained in positive territory with 313,196 sq. ft. of occupancy gains. Despite the annual gain, Class A direct occupancy rates declined by 20 basis points to 88.2% as new supply outpaced demand with 568,797 sq. ft. of new product delivered in the past 12 months. Following its strongest quarter of absorption in nearly four years, the Class B sector's performance was lackluster with 10,989 sq. ft. of occupancy losses during the first quarter, bringing the trailing 12-month occupancy loss total to 675,853 sq. ft. Although the Class B occupancy rates have fallen 200 basis points to 88.3% within the past year, there are signs that the deterioration is diminishing.

While the office market continues to feel the effects of law firm and federal government consolidations and downsizings, the downtown market experienced strong leasing activity during the quarter. The East End witnessed a flurry of leasing activity, with the largest being Fannie Mae's commitment for 685,000 sq. ft. at Carr Properties' redevelopment of the former Washington Post headquarters. Other notable lease transactions in the East End involved GSA – Federal Bureau of Investigations, Drinker Biddle & Reath, New America Foundation, Simpson Thacher & Bartlett LLP and Shearman & Sterling each signing deals above the above the 35,000 sq. ft. mark. The largest lease transactions in the CBD involved Uber Technologies' 72,900 sq. ft. lease expansion at 1717 Rhode Island Ave NW and Ropes & Gray's 60,400 sq. ft. lease at 2099 Pennsylvania Ave NW. Although leasing activity outside the core remained sluggish, the Southwest submarket featured the largest transaction as GSA - Corporation for National and Community Service inked an 83,962 sq. ft. lease at Independence Square.

FORECAST

- With federal government agencies and law firms reducing office space on a per employee basis, leasing demand will remain suppressed in the near term. However, the influence from the millennial workforce seeking a comprehensive live-work-play environment will help bring more companies into the District 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 compete with new construction, a trend that is likely to continue as office leasing remains tepid and tenants have positive leverage at the negotiating table.

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 5th 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	88.3%	▼	▼	▲
Trailing 12 mos. Direct Net Absorption	-326,185	▼	▼	▲
Under Construction	1,886,818	▼	▲	▶
Direct Asking Rents	$50.29	▼	▼	▲

NET ABSORPTION & OCCUPANCY

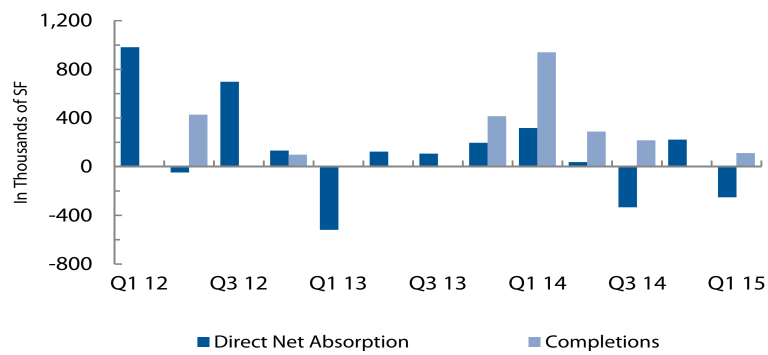
"Owners who cannot provide increased occupancy value or a reduced rental rate to their tenants will underperform in the next two years," said Geoff Kieffer, Senior Vice President, Regional Director.

- The CBD recorded a slight loss of 9,835 sq. ft. during the first quarter, with the bulk of the losses taking place in the Class A sector. However, recent deals by Uber Technologies and Ropes & Gray will help boost the absorption totals later this year.
- The East End overtook the CBD as top performing submarket for the quarter with 25,768 sq. ft. of direct net absorption growth, but remains far behind the CBD with only 165,742 sq. ft. of occupancy gains in the prior 12 months. However, the submarket witnessed a flurry of leasing activity, which will likely continue in the coming quarters.
- The West End posted 21,850 sq. ft. of negative direct absorption during the quarter, and 460,003 sq. ft. of losses over the prior 12 months. The dive in demand has caused direct occupancy levels to plummet from 94.9% to 81.8% within the past 12 months.
- Capitol Hill remained relatively flat with 4,196 sq. ft. of negative direct absorption during the first quarter, bringing the trailing 12-month occupancy losses total to 217,543 sq. ft. However, the Class A market managed to record 49,493 sq. ft. quarterly gains.
- NoMa recorded 23,180 sq. ft. of negative direct absorption during the quarter, with the Class A sector accounting for 20,905 sq. ft. of the losses. However, the submarket has witnessed 195,486 sq. ft. of occupancy gains over the prior 12 months, causing occupancy levels to climb 200 basis points to 85.8%.
- The Southwest submarket ended its positive absorption streak this past quarter with 184,972 sq. ft. of occupancy losses, largely due to Administration for Children and Families leaving behind 182,622 sq. ft. at 901 D St SW in their relocation to owned space.
- The Capitol Riverfront experienced 15,317 sq. ft. of quarterly occupancy losses, but has recorded 64,270 sq. ft. of direct absorption gains in the prior 12 months. Looking ahead, the National Labor Relations Board plans to move into 143,116 sq. ft. at 1015 Half St. by mid-year 2015.

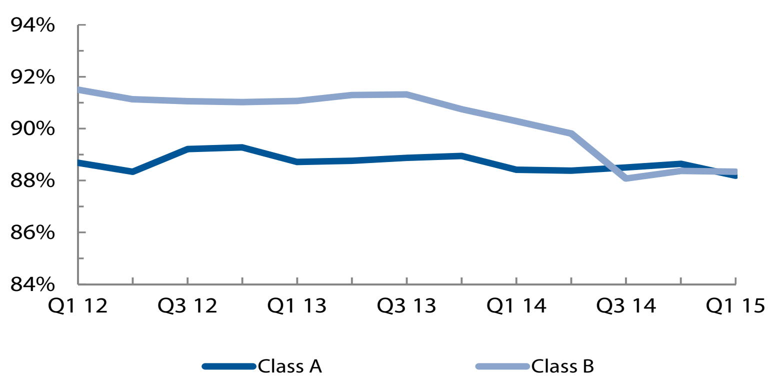
Submarket Direct Occupancy Ranking

Rank	Submarket	Occupancy Rate	Y-O-Y % Change
1	Northeast / Southeast	94.2%	1.7%
2	Georgetown	91.6%	-0.6%
3	CBD	90.0%	0.6%
4	Southwest	89.6%	-0.6%
5	East End	88.5%	-0.4%
6	Capitol Hill	87.5%	-5.1%
7	NoMa	85.8%	2.0%
8	Uptown	85.5%	-6.2%
9	Capitol Riverfront	82.8%	1.3%
10	West End	81.8%	-13.1%

Direct Net Absorption vs. Completions



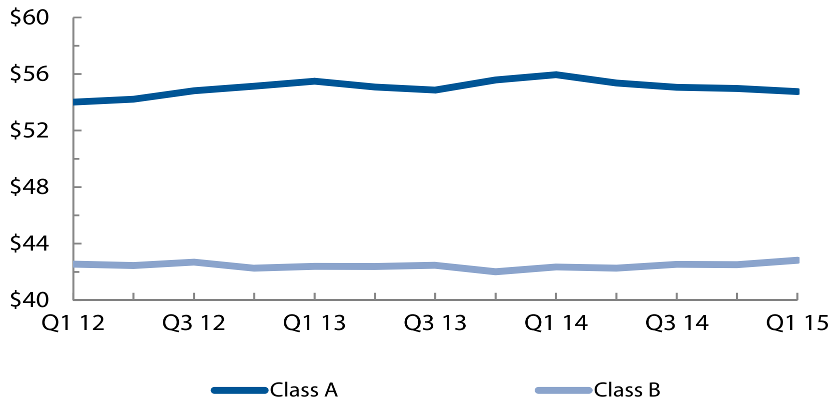
Direct Occupancy Rates



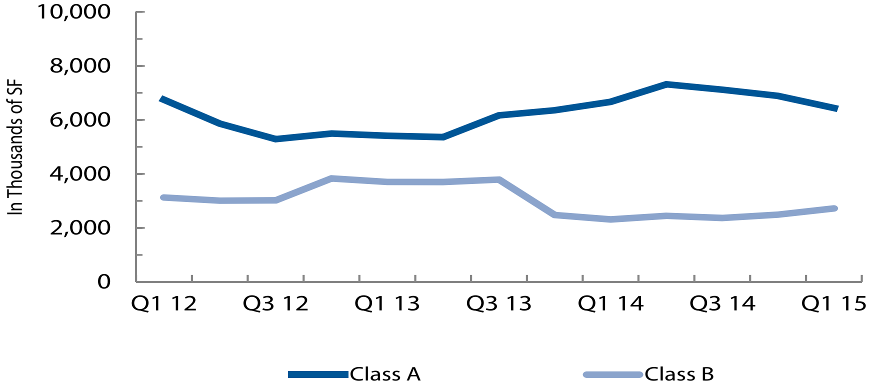
RENTAL RATES & LEASING ACTIVITY

- Citywide Class A full-service gross asking rents declined for the fourth consecutive quarter by $0.22 to $54.75 per sq. ft., after reaching its peak in early 2014. Within the past 12 months, Class A asking rents have dropped by $1.20 or 2.1%.
- Class B rents increased $0.32 to $42.82 per sq. ft. during the quarter and have increased $0.47 or 1.1% within the past 12 months. However, Class B rents still remain 1.9% or $0.85 below their cyclical peak recorded early in 2011.
- With much of the leasing demand focused in downtown, submarkets outside the downtown core such as Capitol Hill, Capitol Riverfront, NoMa and Southwest have seen average asking rates decline by 6.0% collectively within the past 12 months.
- 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 to modestly increase in the next 12 months as new, higher-end space is delivered, but effective rents will remain under pressure due to generous concession packages being offered by landlords to retain and attract new tenants.
- 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.
- Leasing activity has slightly declined by 2.1% year-over-year and is 5.9% below the five-year historical 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

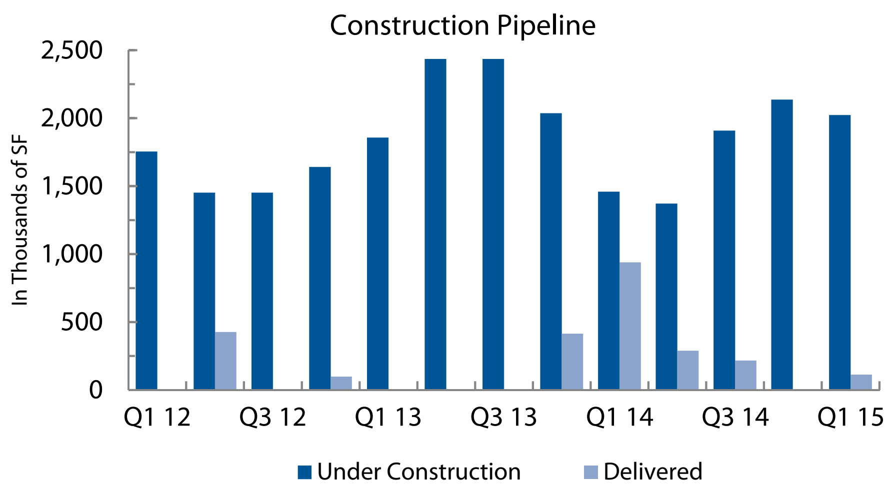
Rank	Submarket	Rental Rate (FS GRS)	Y-O-Y % Change
1	Capitol Hill	$54.77	-3.3%
2	East End	$54.58	-0.5%
3	West End	$52.36	0.9%
4	CBD	$50.84	-2.5%
5	Southwest	$47.02	-6.1%
6	NoMa	$46.16	-2.5%
7	Capitol Riverfront	$42.02	-6.0%
8	Georgetown	$41.90	1.2%
9	Uptown	$40.19	2.7%
10	Northeast / Southeast	$25.77	1.1%

RECENT ANNOUNCEMENTS

- Fannie Mae recently signed a 685,000 sq. ft. lease with Carr Properties, with plans consolidate from five locations into one property in 2018. The new planned offices at 1150 15th St NW are part of a 875,000 sq. ft. mixed-use development to be built in place of the The Washington Post headquarters.
- Douglas Development recently broke ground on 1000 F St., NW, its long-planned speculative boutique office project in the East End. Delivery of the 92,160 sq. ft. office is expected in Spring 2016.
- 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. Kirkland will take the majority of the space.
- The National Association of Broadcasters recently announced plans to relocate their headquarters to Monument Realty's proposed project at One M St. SE. The 130,000 sq. ft. office building is scheduled to break ground in May 2016 and deliver by late 2018.
- Forest City Enterprises Inc. recently announced plans to add two additional office buildings to their Waterfront Station development – a mixed-use project that will encompass 2.1 million sq. ft. of office space, retail and residential units. When completed, the development will have a total of 1.3 million sq. ft. of Class A office space.
- Skanska recently announced plans to develop a 235,000 sq. ft. Class A office space in the Capitol Riverfront submarket. The project will be located at 99 M St SE and will begin construction soon.
- CBS Corp. is in negotiations 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.

CONSTRUCTION

- New construction is down 47% from its 10-year historical average, with nearly 1.9 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.
- During the first quarter, MRP Realty, Inc. delivered 900 G St NW, a 113,218 sq. ft. Class A office building in the East End, which is 76% leased by Simpson Thacher & Bartlett LLP, American Legacy Foundation and Herman Miller.
- The District's office market is projected to deliver an additional 969,517 sq. ft. of space (excluding owner-occupied buildings) in 2015, which is already 50.1% pre-leased. The new product is scheduled to deliver in the East End, Southwest, and CBD submarkets.
- 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.
- Redevelopment of existing office buildings is also on the upswing in downtown, with approximately 419,798 sq. ft. of space to become available in 2015. The largest project being redeveloped is Brookfield's 284,000 sq. ft. office project at 2001 M St NW, which has recently secured a 50,000 sq. ft. lease by Bracewell & Giuliani LLP.



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	4Q15
600 Massachusetts Ave NW	401,172	East End	Venable LLP	60%	Gould Property Company	3Q16
National Square - 400 6th St SW	361,935	Southwest	N/A	0%	Trammell Crow Company	3Q15
2001 M St NW*	284,000	CBD	Bracewell & Giuliani LLP	18%	Brookfield Office Properties	1Q16
1800 K St NW*	251,091	CBD	N/A	36%	Deutsche Asset & Wealth Mgmt	1Q16
The Wharf Phase 1 - 800 Maine Ave SW	223,969	Southwest	N/A	0%	PN Hoffman	3Q17
Republic Square II - 660 N Capitol St NW	200,000	NoMa	N/A	3%	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	71%	The JBG Companies	4Q15
1000 F St NW	92,160	East End	American Eagle Outfitters	7%	Douglas Development Corp.	4Q16

Note: Corporate owned office buildings excluded from competitive statistics; * Under Renovation

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	35,396,107	3,888,099	938,237	90.0%	0.6%	(9,835)	376,992	$50.84	-2.5%
Class A	20,644,757	2,433,402	594,243	89.1%	1.4%	(87,962)	442,536	$54.91	-3.3%
Class B	14,497,792	1,441,257	343,189	91.2%	-0.5%	79,431	(69,149)	$45.38	2.5%
Class C	253,558	13,440	805	98.5%	1.4%	(1,304)	3,605	$34.52	-14.1%
East End	42,563,654	8,344,940	794,810	88.5%	-0.4%	25,768	165,742	$54.58	-0.5%
Class A	31,772,795	6,430,015	673,739	88.6%	-0.4%	25,800	216,991	$58.73	-0.4%
Class B	10,037,431	1,888,926	115,430	87.6%	-0.6%	4,198	(58,337)	$44.05	0.7%
Class C	753,428	25,999	5,641	97.7%	0.9%	(4,230)	7,088	$40.09	-0.3%
West End	3,509,451	640,322	66,210	81.8%	-13.1%	(21,850)	(460,003)	$52.36	0.9%
Class A	2,508,215	465,776	50,711	81.8%	-17.3%	(23,257)	(433,078)	$53.69	-2.4%
Class B	906,624	174,546	15,499	79.9%	-3.0%	1,407	(26,925)	$44.72	2.6%
Class C	94,612	-	-	100.0%	0.0%	0	0	-	-
Capitol Hill	4,276,689	728,243	56,484	87.5%	-5.1%	(4,196)	(217,543)	$54.77	-3.3%
Class A	3,290,506	573,329	48,250	87.9%	-3.9%	49,493	(128,472)	$56.63	-2.8%
Class B	733,011	129,452	8,234	84.7%	-11.6%	(64,477)	(85,047)	$48.92	14.3%
Class C	253,172	25,462	0	89.9%	-1.6%	10,788	(4,024)	$44.19	2.1%
Capitol Riverfront	4,895,330	739,080	126,297	82.8%	1.3%	(15,317)	64,270	$42.02	-6.0%
Class A	3,775,032	512,753	126,297	83.6%	1.7%	(15,317)	64,270	$44.64	-5.9%
Class B	1,085,298	216,890	0	80.0%	0.0%	0	0	$39.00	0.0%
Class C	35,000	9,437	0	81.8%	0.0%	0	0	$36.00	5.9%
NoMa	9,554,802	1,495,551	115,287	85.8%	2.0%	(23,180)	195,486	$46.16	-2.5%
Class A	8,691,179	1,275,107	107,675	86.5%	2.3%	(20,905)	199,339	$50.60	-0.2%
Class B	778,007	197,614	7,612	76.3%	-0.5%	(2,275)	(3,853)	$29.68	1.2%
Class C	85,616	22,830	0	100.0%	0.0%	0	0	$20.00	-
Southwest	11,807,129	1,578,069	51,237	89.6%	-0.6%	(184,972)	(65,667)	$47.02	-6.1%
Class A	8,790,730	1,089,674	50,023	87.7%	-0.7%	(178,918)	(60,920)	$47.90	-6.2%
Class B	3,016,399	488,395	1,214	95.1%	-0.2%	(6,054)	(4,747)	$43.44	-0.3%
Class C	-	-	-	-	-	-	-	-	-
Georgetown	2,964,436	283,733	45,253	91.6%	-0.6%	(27,737)	(16,707)	$41.90	1.2%
Class A	1,780,418	174,204	36,661	89.4%	-2.1%	(28,619)	(38,212)	$44.07	3.2%
Class B	1,074,522	99,800	8,592	95.4%	2.0%	882	21,505	$38.66	-1.8%
Class C	109,496	9,729	0	91.1%	0.0%	0	0	-	-
Uptown	6,922,347	1,228,017	93,724	85.5%	-6.2%	9,798	(386,755)	$40.19	2.7%
Class A	2,134,017	109,116	62,329	96.8%	2.4%	(1,769)	50,742	$45.17	10.0%
Class B	4,056,581	1,064,793	31,395	78.3%	-12.6%	(24,101)	(467,300)	$40.50	1.5%
Class C	731,749	54,108	0	92.6%	4.1%	35,668	29,803	$27.92	30.9%
Northeast / Southeast	1,075,626	72,208	0	94.2%	1.7%	0	18,000	$25.77	1.1%
Class A	82,000	-	-	100.0%	0.0%	0	0	-	-
Class B	623,610	12,208	0	99.7%	2.9%	0	18,000	$27.45	-8.1%
Class C	370,016	60,000	0	83.8%	0.0%	0	0	$25.71	6.9%

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	83,469,649	13,063,376	1,749,928	88.2%	-0.2%	(281,454)	313,196	$54.75	-2.1%
Class B	36,809,275	5,713,881	531,165	88.3%	-2.0%	(10,989)	(675,853)	$42.82	1.1%
Class C	2,686,647	221,005	6,446	93.4%	1.4%	40,922	36,472	$30.37	0.1%
Overall	122,965,571	18,998,262	2,287,539	88.3%	-0.7%	(251,521)	(326,185)	$50.29	-2.2%

PMRG Market at a Glance

Q1 2015

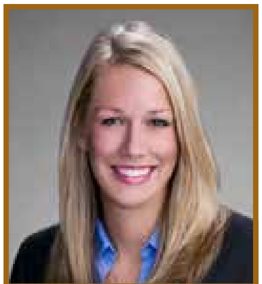
Dave Parker
Executive Vice President
Managing Director
(202) 503-1875
dparker@pmrg.com

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.