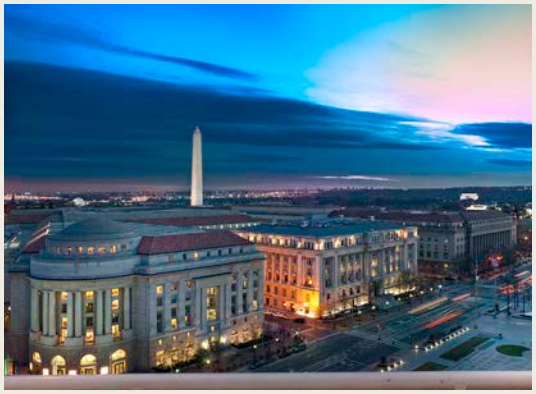
PMRG
Market at a Glance

WASHINGTON, D.C. OFFICE MARKET REPORT

SECOND QUARTER 2015

PMRG | PM Realty Group

PROPERTY SERVICES | DEVELOPMENT | INVESTMENT



ECONOMIC OVERVIEW

The second quarter of 2015 continued to build on the positive economic activity of the District's first quarter; signs that the Washington D.C. metropolitan economy is moving in a positive direction. With the District struggling to keep pace with the national unemployment trend, the regional economy is managing to do well in comparison. Employers have added 57,000 jobs within the past 12 months through May 2015, which is the highest growth since September 2011. On a year over year basis, Northern Virginia accounted for 22,700 jobs, Suburban Maryland gained 19,800 jobs, and D.C. created 6,700 jobs, reflecting a diversified economy that includes a reemerging tech sector.

Employment growth in the Washington D.C. region is typically tied closely with federal government spending. In recent quarters, however, the regional economy has improved despite federal spending decreases. With the exception of the Information sector, all employment sectors saw positive increases compared to their prior 12-month readings. The professional & business services and education & health services lead all sectors over the past 12 months accounting for 58% of employment gains. Although government spending is down, the government sector recorded a year-over-year increase of 2,000 jobs and has seen an uptick in employment growth each month since the start of 2015. Federal contracts are expected to increase during the remainder of the year, possibly improving employment growth even further. Historically, the federal sector sees less activity as we approach a Presidential election year. Expect the same to happen over the next 15 months.

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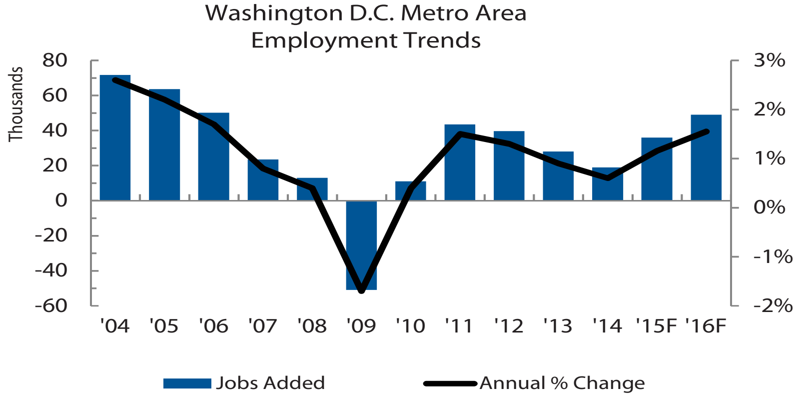

Source: U.S. Bureau of Labor Statistics, Center of Regional Analysis at George Mason University

Washington D.C. Metro Employment Growth by Sector

	CURRENT READING	12-MONTHS PRIOR READING	ANNUAL CHANGE	HEALTH (Improving or Declining)
Mining & Logging & Construction	153.9	149.6	2.9%	▲
Manufacturing	48.9	50.3	-2.8%	▼
Trade, Transportation & Utilities	404.1	394.7	2.4%	▲
Information	76.4	78.2	-2.3%	▼
Financial Activities	149.5	151.5	-1.3%	▼
Professional & Business Services	723.5	705.9	2.5%	▲
Education & Health Services	419.4	404.0	3.8%	▲
Leisure & Hospitality	310.4	305.8	1.5%	▲
Other Services	195.4	194.1	0.7%	▲
Government	699.6	690.0	1.4%	▲
Totals	3181.1	3,124.1	1.8%	▲

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

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PMRG Market AT A Glance

Q2 2015

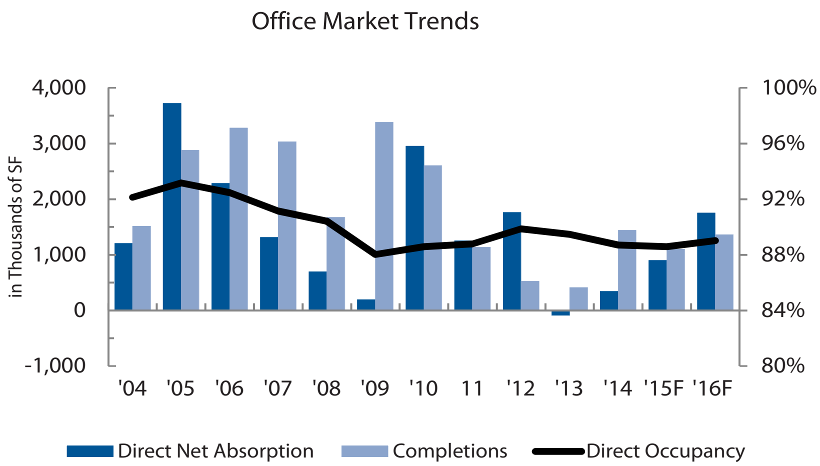
OFFICE MARKET ASSESSMENT

After contracting by roughly 285,758 sq. ft. during the first quarter of 2015, the District of Columbia's Class A market expanded with 253,705 sq. ft. of occupancy gains during the second quarter of 2015. The positive gains helped keep the trailing 12-month total trending upward with 338,164 sq. ft. and increased the year-over-year direct occupancy by 10 basis points to 88.5% for the quarter. The Class B sector had its third consecutive quarter of strong absorption growth. The sector saw 78,816 sq. ft. of direct space absorbed for the quarter which had a favorable impact on the 333,256 sq. ft. of lost space over the trailing 12-months. Although the Class B occupancy rates have fallen 100 basis points to 89% within the past year, the recent positive gains show optimism for the upcoming quarters.

Despite downsizing and consolidation actions by government and efficiency-minded tenants looking to reduce their office space footprint, the Downtown sector of the District of Columbia continued to experience strong leasing activity during the quarter. The Central Business District saw direct absorption of 86,326 sq. ft. while the East End saw a total of 112,857 sq. ft. of direct absorption. Sizable deals at 1111 19th St NW and 799 9th St NW helped boost absorption numbers for the sector. Notable tenants include Fulbright & Jaworski, Results for Development Institute and renewals with Ogilvy Public Relations Worldwide and Washington Institute for Near East Policy. The West End also saw positive absorption with 56,101 sq. ft. for the quarter.

FORECAST

- With federal government agencies and law firms reducing office space on a per employee basis, and the upcoming Presidential election, 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 to 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.



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 3rd for Energy Efficiency:
The American Council for Energy-Efficient Economy recently ranked Washington D.C. as the third most energy efficient city in the United States. Washington, with a score of 76.5 on its scorecard, trailed only Boston (82) and New York (78) in the rank. Washington was one of the most improved cities over the 2013 rankings.

Market Trend Indicators

	Current Quarter	Change from Previous Quarter	Change from Previous Year	12-month Forecast
Direct Occupancy	88.8%	▲	▼	▲
Trailing 12 mos. Direct Net Absorption	61,997	▲	▼	▲
Under Construction	2,988,658	▲	▲	▲
Direct Asking Rents	$50.53	▲	▼	▲

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"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.

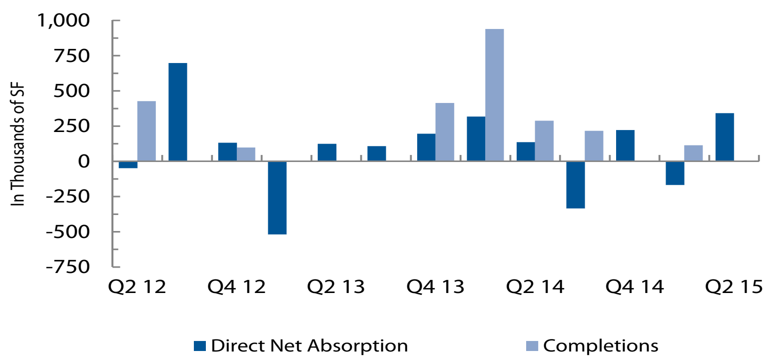
NET ABSORPTION & OCCUPANCY

- The CBD recorded an increase in direct net absorption of 88,352 sq. ft. during the second quarter, with the bulk of the gains taking place in the Class B sector. 1111 19th St NW played a big role in the total net direct absorption by signing several tenants totaling 86,331 sq. ft.
- The Southwest submarket overtook the East End as top performing submarket for the quarter with 189,453 sq. ft. of direct net absorption growth, but remains far behind the CBD with only 106,805 sq. ft. of occupancy gains in the prior 12 months.
- The West End rebounded with 56,101 sq. ft. of positive direct absorption during the quarter, but still has 255,771 sq. ft. of losses over the prior 12 months. The dive in demand has caused direct occupancy levels to plummet from 93% to 85.1% within the past 12 months.
- Capitol Hill saw a decrease of 26,151 sq. ft. in direct absorption during the second quarter, bringing the trailing 12-month occupancy loss total to 144,870 sq. ft. The Class A sector has accounted for the bulk of the occupancy losses, causing Class A direct occupancy to fall 460 basis points to 87.3% within the past year.
- NoMa recorded 68,197 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 123,893 sq. ft. of occupancy gains over the prior 12 months, boosting occupancy levels 1,300 basis points higher than the previous year.
- Capitol Riverfront experienced 6,497 sq. ft. of quarterly occupancy gains and has recorded 64,987 sq. ft. of direct absorption gains in the prior 12 months. The Class A market has solely accounted for the leasing gains, causing occupancy to rise by 170 basis points to 83.7% since mid-year 2014.

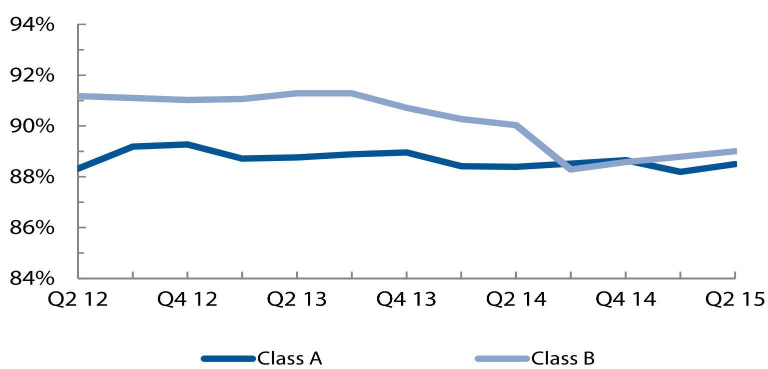
Submarket Direct Occupancy Ranking

Rank	Submarket	Occupancy Rate	Y-O-Y % Change
1	Northeast / Southeast	94.2%	0.0%
2	Georgetown	93.5%	2.2%
3	Southwest	91.2%	0.9%
4	CBD	90.3%	1.2%
5	East End	88.8%	-0.1%
6	Capitol Hill	88.8%	-3.4%
7	West End	85.8%	-7.5%
8	NoMa	85.1%	1.3%
9	Uptown	84.5%	-8.0%
10	Capitol Riverfront	82.9%	1.3%

Direct Net Absorption vs. Completions



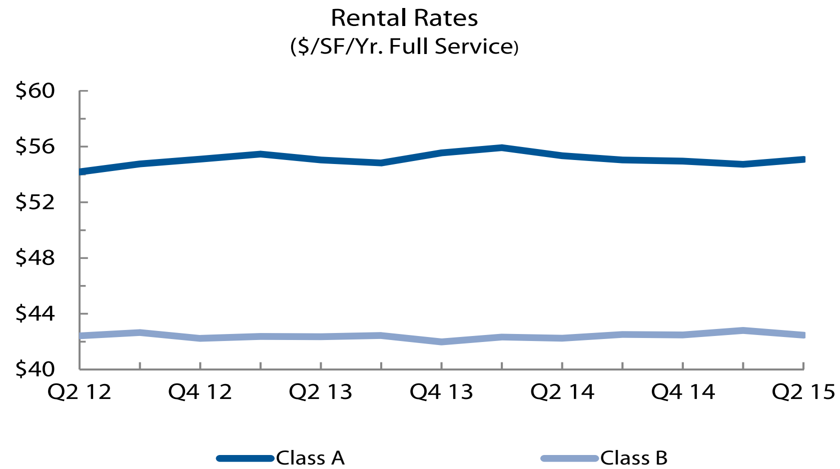
Direct Occupancy Rates

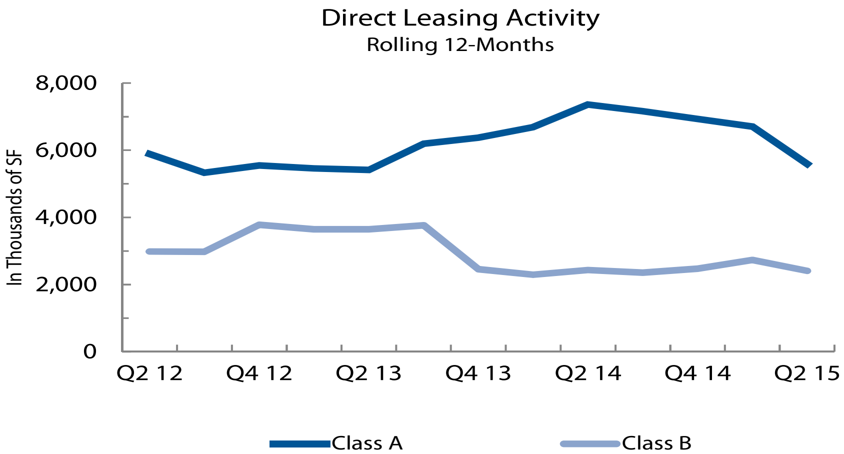


RENTAL RATES & LEASING ACTIVITY

- Citywide Class A full-service gross asking rents increased for the first time in five quarters by $0.35 to $55.08 per sq. ft. Within the past 12 months, Class A asking rents have dropped by $0.28 or 0.5%. However, rents are slowly trending upwards to the peaks attained in early 2014.
- Class B rents decreased by $0.33 to $42.47 per sq. ft. during the quarter but have increased $0.23 or 0.5%% within the past 12 months. However, Class B rents still remain 2.5% or $1.08 below their cyclical peak recorded early in 2011.
- Much of the leasing activity has been concentrated in the Downtown submarket. Areas such as Capital Hill, NoMa, and Uptown all saw higher direct net absorption losses during the second quarter compared to the first quarter. The heightened demand in the Downtown market has caused rent reductions in submarkets outside of the Downtown market.
- The overall market for Washington D.C. saw a slight increase in rents compared to the first quarter. Class A rents accounted for the bulk of the increase in rents. This signals that tenants still have strong bargaining power in the market, especially within Class B product.
- Leasing activity declined by 21.2% year-over-year and is 17.2% below the five-year historical average. Low leasing activity has allowed tenants to take advantage of market conditions by locking in favorable terms for leases and renewals.
- Deliveries of high-end office constructions will cause modest increases in rents through the end of the year, but effective rents will remain relatively flat due to generous concession packages being offered by landlords to retain and attract new tenants.

"An abundance of available office space is allowing tenants to receive generous concession packages across all asset classes. While we have seen an increase in tenant activity, the rate at which deals are closing remains slow, indicating that tenants are in the hunt for bargains and, at the same time, cautious about making new space commitments." said Andrew Gilpin, Senior Leasing Associate.





Submarket Rental Rate Ranking

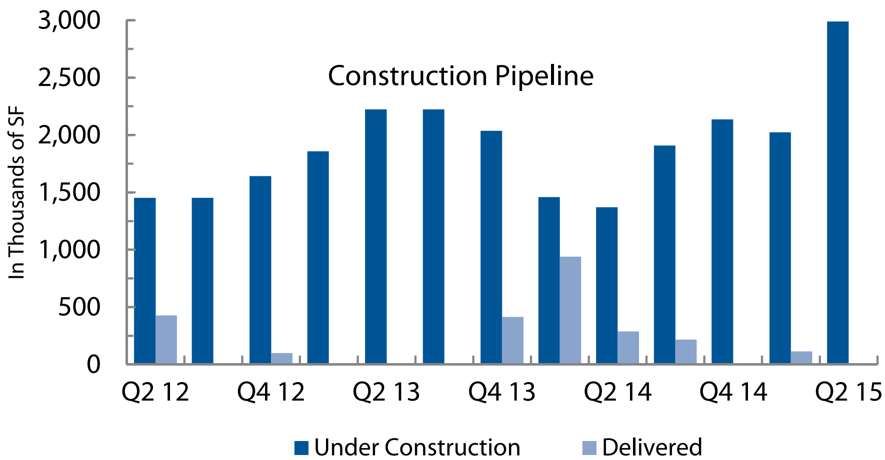
Rank	Submarket	Rental Rate (FS GRS)	Y-O-Y % Change
1	Capitol Hill	$57.35	0.7%
2	East End	$54.67	0.1%
3	West End	$52.59	0.5%
4	CBD	$51.46	1.5%
5	Southwest	$47.08	-5.8%
6	NoMa	$46.88	-0.9%
7	Georgetown	$41.84	-1.2%
8	Capitol Riverfront	$40.83	-2.2%
9	Uptown	$40.20	2.7%
10	Northeast / Southeast	$25.77	1.1%

RECENT ANNOUNCEMENTS

- 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. Global law firm Kirkland & Ellis LLP will anchor the property.
- The Urban Land Institute signed a lease to occupy 33,481 sq. ft. at 2001 L St. ULI plans to relocate from its current headquarters at 1025 Thomas Jefferson St. NW in June 2016.
- National Association of Counties and the National League of Cities are both under final negotiations to lease office space at Republic Square II near Union Station. The two leases are expected to cover about 81,000 sq. ft. of the available 200,000 sq. ft. in the building. Republic Square has an estimated delivery date of summer 2016.
- Mirae Asset Global Investments USA recently purchased 1750 K St NW from Sumitomo Corporation of Americas for $115 million or roughly $694 per sq. ft. The sale is the third highest ever for a Class B property in Washington D.C.
- Palantir recently moved into 61,736 sq. ft. of Class A office space in Georgetown at 1025 Thomas Jefferson St NW.
- The sale of 1101 K St NW in Washington's East End was recently finalized between Rockefeller Group U.S. Premier Office Fund LP, Mitsubishi Estate New York, and UBS Realty Investors.
- The National Association of Broadcasters recently announced plans to relocate their headquarters from the CBD 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.
- Cogent Communications Inc. has signed and moved into a 5-year, 43,117 sq. ft. of office space lease at 2450 N St. NW in the District's desirable West End submarket.

CONSTRUCTION

- New construction has doubled within the past year with nearly 3 million sq. ft. of office space underway in the District (excluding owner/user development). Although it remains well below its cyclical peak of 7.2 million sq. ft. underway in 2008 prior to the economic recession, it is currently 82.1% above its 5-year historical average.
- No new buildings were delivered during the second quarter. However, National Square, 400 6th Street, SW is slated to deliver over 360,000 sq. ft. during the third quarter of 2015.
- The District's office market is projected to grow by an additional 968,642 sq. ft. of space (excluding owner-occupied buildings) by the end of 2015, which is already 50.1% pre-leased. The new product is scheduled to deliver in the East End, Southwest, and CBD submarkets.
- A large portion of new projects are located in the Downtown area and slated to deliver in 2016 and 2017, indicating that a number of institutional owners, like Brookfield, are betting on a market rebound after the election. The Southwest and NoMa submarkets will grow as well but at a slower rate.
- Downtown's demand has spurred new construction focused on efficient office space, walkable amenities, and close proximity to mass transit for employees. Additionally, existing office buildings that lack some of similar functionality are being redeveloped to accommodate the upswing in demand.



SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT	% PRE-LEASED	DEVELOPER	TARGET COMPLETION
Capitol Crossing-250 Massachusetts	559,921	Capitol Hill	N/A	0%	Property Group Partners	1Q18
601 Massachusetts Ave NW	478,882	East End	Arnold & Porter LLP	83%	Boston Properties	4Q15
Capitol Crossing-200 Massachusetts	406,996	Capitol Hill	N/A	0%	Property Group Partners	1Q18
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	4Q15
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
Uline Arena - 1140 3rg St NE*	244,000	NoMa	REI	19%	Douglas Development Corp.	3Q16
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	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	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

PMRG Market at a Glance

Q2 2015

SUBMARKET STATISTICS

		TOTAL SPACE AVAILABLE		DIRECT OCCUPANCY		DIRECT NET ABSORPTION		OVERALL RENTAL RATES	
Submarket	Total Inventory SF	Direct Available	Sublease Available	Direct Occupancy	Y-O-Y Change	Current Qtr.	Trailing 12-Months	Avg Rents PSF/Yr	Y-O-Y % Change
CBD	35,400,526	3,981,249	840,896	90.3%	1.2%	86,326	564,236	$51.46	1.5%
Class A	20,825,982	2,596,469	502,387	89.0%	1.1%	(33,795)	388,264	$55.59	1.0%
Class B	14,320,986	1,370,005	338,509	92.1%	1.2%	118,817	172,951	$44.92	1.9%
Class C	253,558	14,775	0	99.0%	1.2%	1,304	3,021	$33.96	-15.6%
East End	42,576,621	8,133,667	796,508	88.8%	-0.1%	112,857	46,788	$54.67	0.1%
Class A	31,780,142	6,344,294	674,044	88.8%	-0.2%	72,784	37,835	$58.44	-0.4%
Class B	10,043,051	1,735,955	116,823	88.0%	0.0%	40,073	(971)	$44.19	0.8%
Class C	753,428	53,418	5,641	97.7%	1.3%	0	9,924	$50.25	23.6%
West End	3,412,366	579,797	83,446	85.8%	-7.5%	56,101	(255,771)	$52.59	0.5%
Class A	2,509,190	485,925	59,595	84.3%	-11.4%	63,307	(285,797)	$54.00	-1.5%
Class B	808,564	93,872	23,851	88.7%	3.7%	(7,206)	30,026	$44.66	1.2%
Class C	94,612	-	-	100.0%	0.0%	0	0	-	0.0%
Capitol Hill	4,276,689	732,725	39,730	88.8%	-3.4%	(26,151)	(144,870)	$57.35	0.7%
Class A	3,290,506	567,645	32,244	87.3%	-4.6%	(19,395)	(150,788)	$58.61	0.4%
Class B	733,011	139,618	7,486	95.0%	0.1%	(6,756)	636	$48.69	2.1%
Class C	253,172	25,462	0	89.9%	2.1%	0	5,282	$44.90	3.6%
Capitol Riverfront	4,896,859	905,494	125,890	82.9%	1.3%	6,497	62,987	$40.83	-2.2%
Class A	3,775,032	486,714	125,890	83.8%	1.7%	6,497	62,987	$44.27	-0.8%
Class B	1,086,827	412,394	0	80.0%	0.0%	0	0	$39.00	0.0%
Class C	35,000	6,386	0	81.8%	0.0%	0	0	$36.00	5.9%
NoMa	9,554,401	1,507,033	89,025	85.1%	1.3%	(68,197)	123,893	$46.88	-0.9%
Class A	8,690,778	1,297,064	81,413	85.8%	1.6%	(55,842)	141,807	$50.96	0.6%
Class B	778,007	195,339	7,612	76.6%	-0.4%	2,275	(3,284)	$29.61	1.5%
Class C	85,616	14,630	0	82.9%	-17.1%	(14,630)	(14,630)	$24.01	0.0%
Southwest	11,807,129	1,564,186	50,387	91.2%	0.9%	189,453	106,805	$47.08	-5.8%
Class A	8,790,730	1,098,851	49,173	89.8%	1.1%	185,327	99,340	$47.93	-6.0%
Class B	3,016,399	465,335	1,214	95.3%	0.2%	4,126	7,465	$43.37	0.0%
Class C	-	-	-	-	-	-	-	-	-
Georgetown	2,964,436	245,936	45,184	93.5%	2.2%	55,192	65,547	$41.84	-1.2%
Class A	1,780,418	134,808	35,465	93.6%	3.7%	75,075	66,438	$43.95	-0.5%
Class B	1,074,522	101,399	9,719	93.5%	-0.1%	(19,883)	(891)	$38.03	-3.3%
Class C	109,496	9,729	0	91.1%	0.0%	0	0	-	0.0%
Uptown	6,924,034	1,271,927	92,357	84.5%	-8.0%	(70,525)	(507,618)	$40.20	2.7%
Class A	2,134,017	101,014	69,062	94.9%	-1.0%	(40,253)	(21,922)	$45.34	7.0%
Class B	4,055,352	1,116,163	23,295	77.0%	-14.3%	(52,630)	(539,188)	$40.77	2.9%
Class C	734,665	54,750	0	95.7%	7.3%	22,358	53,492	$28.22	17.7%
Northeast / Southeast	1,075,626	72,208	0	94.2%	0.0%	0	0	$25.77	1.1%
Class A	0	0	0	100.0%	0.0%	0	0	-	0.0%
Class B	623,610	12,208	0	99.7%	0.0%	0	0	$27.45	-8.1%
Class C	370,016	60,000	0	83.8%	0.0%	0	0	$25.71	6.9%

		TOTAL SPACE AVAILABLE		DIRECT OCCUPANCY		DIRECT NET ABSORPTION		OVERALL RENTAL RATES	
Washington D.C. Totals	Total Inventory SF	Direct Available	Sublease Available	Direct Occupancy	Y-O-Y Change	Current Qtr.	Trailing 12-Months	Avg Rents PSF/Yr	Y-O-Y % Change
Class A	83,576,795	13,112,784	1,629,273	88.5%	0.1%	253,705	338,164	$55.08	-0.5%
Class B	36,540,329	5,642,288	528,509	89.0%	-1.0%	78,816	(333,256)	$42.47	0.5%
Class C	2,689,563	239,150	5,641	93.8%	2.1%	9,032	57,089	$33.00	6.2%
Overall	122,806,687	18,994,222	2,163,423	88.8%	-0.2%	341,553	61,997	$50.53	-0.6%

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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.