RESEARCH

2Q14
WASHINGTON, DC OFFICE MARKET

Newmark Grubb Knight Frank

A TENANTS MARKET

Market conditions remained in tenants' favor in the second quarter of 2014, as overall demand growth posted weak results while tenants across all industries downsized their real estate needs. Despite an increase in leasing activity, especially among mid-sized and large tenants, the net effect to the market was not positive.

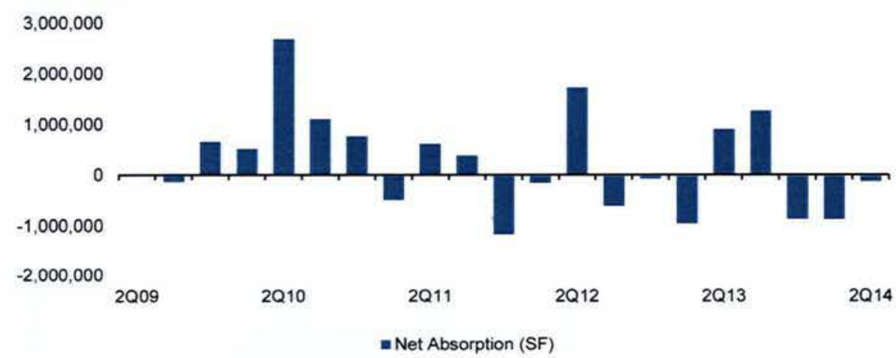
Well-located properties with a strong amenity base onsite and in the immediate vicinity continued to see the most activity from prospective tenants. Access to transportation nodes in Northern Virginia was an important factor, as the opening of Metrorail's new Silver Line was finally announced for July 2014.

Shorter lease term lengths remained prevalent and are lower than historical averages of five years in the suburbs and seven years downtown. Long-term leases for relocations with a term greater than 10 years were almost exclusively limited to larger requirements that won significant concessions to offset tenant expenses. Concession packages in each jurisdiction, encompassing free rent, tenant improvement allowances, assumption of lease liability and other items, remained at historical highs, as landlords aim to fill vacancy. This was especially prevalent with publicly traded real estate investment trusts (REITs), resulting in downward pressure on Class A and Class B rental rates.

Tenant demand is forecast to remain soft for the remainder of 2014, with additional downsizings resulting in vacant space coming to market.

Asking Rent and Vacancy

Absorption



Key Indicators			
Total Inventory (SF)			364,368,183
	2Q14	1Q14	2Q13
Asking Rent (Price/SF)	$36.55	$36.31	$35.57
Vacancy Rate (%)	16.1%	15.6%	14.8%
Under Construction (SF)	2,637,147	3,861,793	3,131,986
	2Q14	1Q14	YTD
Net Absorption (SF)	-118,925	-866,538	-985,463
Deliveries (SF)	1,900,346	575,941	2,476,287

WASHINGTON, DC

FUNDAMENTALS REMAIN WEAK

Leasing market fundamentals remained weak at mid-year in Washington, DC Asking rents moved sideways during the quarter, while the vacancy rate increased. The largest tenant move of note was the relocation of Intelsat's North American headquarters, from Uptown to Tysons Corner. This pushed the Uptown vacancy rate to 12.7%, while the site is marketed for lease and planned for future redevelopment. The other large block of space brought to market was 190,000 square feet in the Central Business District (CBD), as the GSA moved a group to the new St. Elizabeth headquarters.

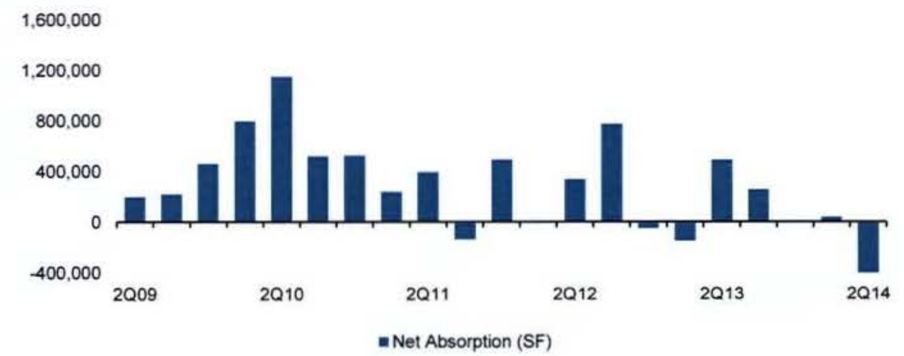
Nearly 60.0% of the largest 25 leases signed during the second quarter were renewals. The largest transaction of the quarter was the renewal and contraction of Hogan Lovells for 365,000 square feet. Making headlines was the new lease signed by The Washington Post, as it will move into 300,000 square feet at 1301 K Street NW.

Two new properties totaling 456,569 square feet were added to inventory during the quarter: 655 K Street NW, which is the new headquarters of the American Association of Medical Colleges; and 1200 17th Street NW, where Pillsbury, Winthrop, Shaw, Pittman will occupy 60.0% of the building.

There are no other properties planned for completion in the second half of 2014. However, there are three slated for delivery during 2015 totaling over 932,000 square feet. Additionally, Brookfield Properties began ground-up renovation on 2001 M Street NW this quarter, which will increase the building's size to 283,000 square feet.

Asking Rent and Vacancy

Absorption



Key Indicators			
Total Inventory (SF)			124,500,233
	2Q14	1Q14	2Q13
Asking Rent (Price/SF)	$51.26	$51.26	$49.92
Vacancy Rate (%)	11.8%	11.2%	10.3%
Under Construction (SF)	1,060,173	1,174,742	1,395,442
	2Q14	1Q14	YTD
Net Absorption (SF)	-394,919	39,059	24,140
Deliveries (SF)	456,569	575,941	1,032,510

NORTHERN VIRGINIA

GOVERNMENT IMPACT CONTINUES

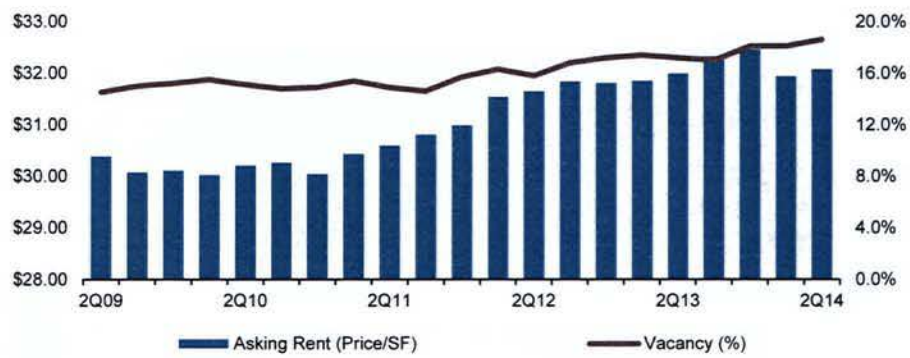
Overall leasing activity in Northern Virginia slowed while heading into the summer of 2014. This resulted in tepid market fundamentals, as additional government contractor downsizings offset expansions in the market.

Renewals still dominated the landscape, representing more than 60.0% of the largest 25 leases signed during the quarter. The largest of these was Quest Diagnostics' blend-and-extend for 248,000 square feet. The GSA was also active this quarter, signing three renewals across Northern Virginia. The largest new lease was signed by XL Associates, which committed to 19,000 square feet in Tysons Corner.

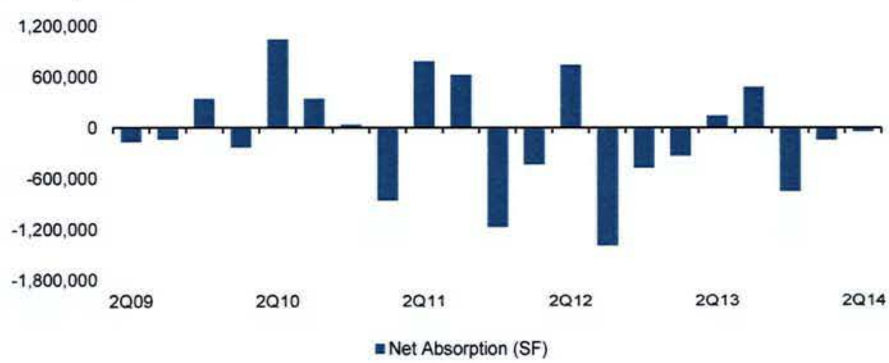
Four properties totaling 953,000 square feet were completed, with 66.0% of the space pre-leased. The largest was 7900 Tysons One Place, Tysons Tower, the new North American headquarters for Intelsat, which moved from Washington, DC Penzance completed two buildings at 3001 and 3003 Washington Boulevard in Clarendon, totaling 303,000 square feet. The Center for Naval Analysis relocated to this project from Alexandria.

Four properties remain under construction. Tysons Overlook at 7940 Jones Branch Drive and 43777 Central Station Drive, which together total 371,000 square feet, are due for completion during next quarter. The other two properties, Reston Station at the Dulles Toll Road and Whiele Avenue and 1775 Tysons Boulevard, are scheduled for a 2015 completion date. Both properties remain 100% available, and are being touted as the beginning of the new transit-oriented development that the area is seeing because of the new Metrorail Silver Line.

Asking Rent and Vacancy



Absorption



Key Indicators

Total Inventory (SF)			165,219,214
	2Q14	1Q14	2Q13
Asking Rent (Price/SF)	$32.07	$31.93	$31.99
Vacancy Rate (%)	18.6%	18.1%	17.2%
Under Construction (SF)	1,180,764	1,799,843	846,902
	2Q14	1Q14	YTD
Net Absorption (SF)	-41,498	-143,670	-174,020
Deliveries (SF)	952,779	0	952,779

SUBURBAN MARYLAND

MARKET ACTIVITY FLAT

Market fundamentals remained relatively flat in the second quarter, as the federal government and its contractors continue to plan for future downsizings. This quarter witnessed several mid-sized move-ins that helped absorb some of the vacant space. Asking rental rates continued to trend downward, as overall tenant demand posted weak results.

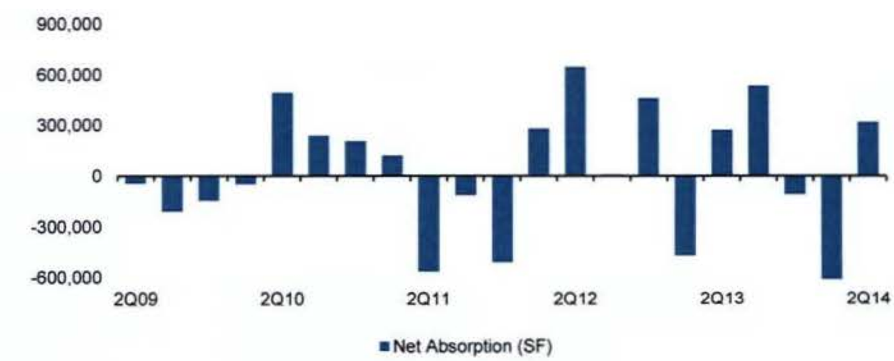
One notable change for the quarter was that relocations outnumbered renewals by the number of leases and total square footage occupied. Tenant relocations resulted from the significant amount of incentives available for an appreciable amount of high-quality space for lease. The largest lease signed during the quarter was for the National Institute of Child Health and Human Development, which relocated into 85,000 square feet at 6710 Rockledge Drive. The largest private lease to sign during the quarter was by Sun Edison at 7550 Wisconsin Avenue, as it moves from Beltsville.

The Suburban Maryland construction activity remained limited, with only one property delivering and two under construction. The build-to-suit for the National Institute of Allergy and Infectious Diseases (NIAID) at 5601 Fishers Lane was completed in April. It plans to occupy the entire 491,000-square-foot building next quarter.

4500 East West Highway, Bethesda's newest building, is still under construction, and is 100% available for lease. In Rockville, 11800 Grand Park Avenue is being developed, and is fully available. Construction continues on the 170,000-square-foot building, and it is expected to be completed by next quarter. No other properties are slated for construction at this time.

Asking Rent and Vacancy

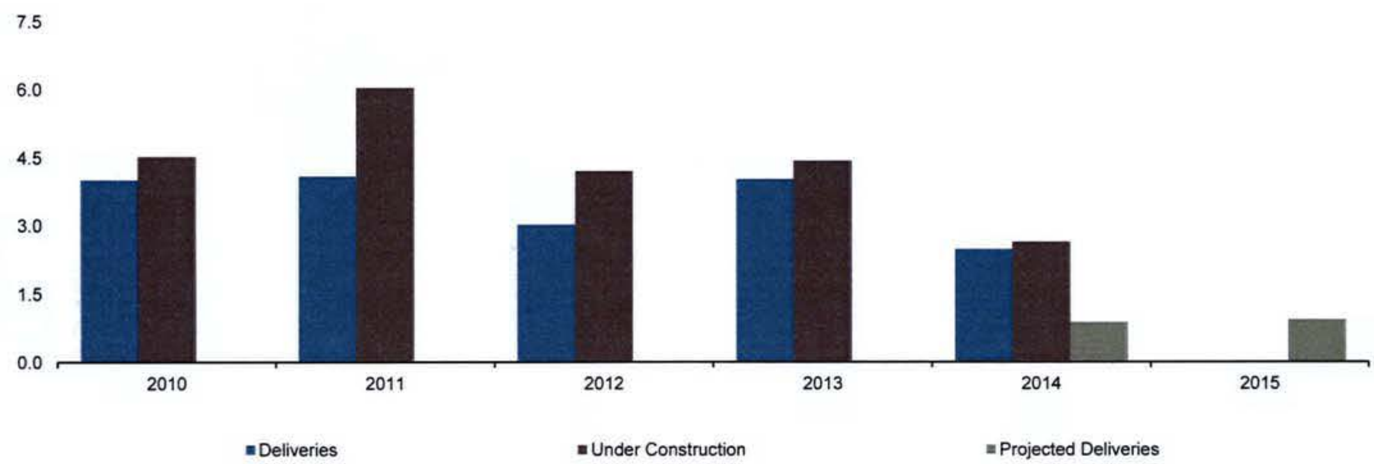
Absorption



Key Indicators			
Total Inventory (SF)			74,648,736
	2Q14	1Q14	2Q13
Asking Rent (Price/SF)	$25.89	$26.16	$25.91
Vacancy Rate (%)	17.7%	17.6%	16.8%
Under Construction (SF)	396,210	887,208	889,642
	2Q14	1Q14	YTD
Net Absorption (SF)	317,792	-1,151,375	-835,583
Deliveries (SF)	490,998	0	490,998

2Q14 WASHINGTON, DC OFFICE MARKET

Construction and Deliveries
Square Feet, millions



Select Lease Transactions

Tenant	Building	Submarket	Square Feet
Hogan Lovells	555 13th Street NW	East End	364,650
The Washington Post	1301 K Street NW	East End	249,898
Quest Diagnostics	14225 Newbrook Drive	Route 28 South	248,186
GSA – National Park Service	1201 Eye Street NW	East End	220,000
GSA – Department of Veterans' Affairs	1800 G Street NW	CBD	154,568
National Institute of Child Health and Dev.	6710 Rockledge Drive	North Bethesda	85,000

Select Sales Transactions

Building	Submarket	Square Feet	Sale Price	Price/SF
801 Eye Street NW	East End	757,904	$320,000,000	$422
1310 N Courthouse Road	Clarendon/Courthouse	380,752	$150,000,000	$394
100 Edison Park Drive	Gaithersburg	341,692	$76,340,000	$223
801 17th Street NW	CBD	244,812	$229,215,000	$936
1775 Eye Street NW	CBD	185,177	$104,500,000	$564
11350 Random Hills Road	Rt 50/I-66 Fairfax Center	177,642	$32,000,000	$180

Submarket Statistics

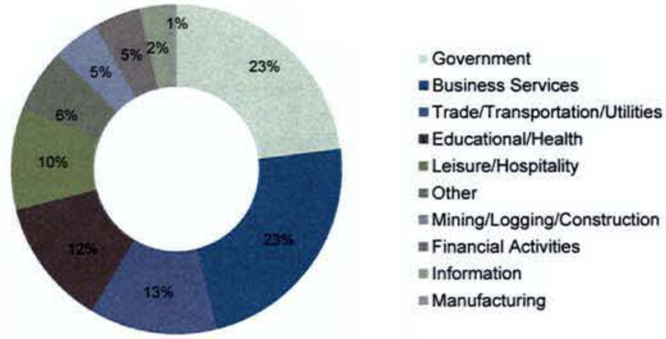
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Overall Direct Asking Rent (Price/SF)	Class A Asking Rent (Price/SF)	YTD Deliveries (SF)
Washington, DC	**124,500,233**	**1,060,173**	**11.8%**	**-394,919**	**24,140**	**$51.26**	**$56.68**	**1,032,510**
Capitol Hill	4,538,604	0	8.7%	2,078	-49,228	$56.33	$61.33	0
Capitol Riverfront	4,182,480	0	21.6%	-143,778	-127,042	$42.35	$45.11	168,769
CBD	38,771,596	127,825	11.0%	-142,243	67,791	$53.74	$61.10	863,741
East End	40,501,962	590,348	12.1%	167,129	347,007	$55.01	$59.18	0
Georgetown	2,851,274	0	8.2%	-14,321	13,226	$41.34	$53.42	0
NOMA	11,070,181	0	15.3%	42,854	38,632	$46.30	$50.15	0
Southwest	11,659,343	342,000	9.9%	9,106	-68,969	$43.64	$50.85	0
Uptown	7,400,288	0	12.7%	-284,321	-193,345	$39.23	$41.52	0
West End	3,524,505	0	5.8%	-31,423	-3,932	$52.63	$56.72	0
Northern Virginia	**165,219,214**	**1,180,764**	**18.6%**	**-41,798**	**-174,020**	**$32.07**	**$34.62**	**952,779**
Ballston	7,411,439	0	19.7%	-225,048	-300,423	$41.43	$44.85	0
Clarendon/Courthouse	4,552,826	0	12.9%	-35,793	-18,332	$43.61	$45.18	302,800
Crystal City/Pentagon City	13,055,420	0	25.0%	26,874	4,005	$39.13	$40.52	0
Eisenhower Ave	1,312,405	0	53.4%	73,169	82,869	$26.93	$26.93	0
Gainesville/Haymarket	282,522	0	29.5%	0	4,040	$25.24	$30.00	0
Herndon	11,833,545	0	14.5%	-179,582	-160,122	$26.48	$28.46	0
I-395 Corridor (Alexandria)	3,073,321	0	33.4%	-176,272	-204,238	$31.45	$32.09	0
I-395 Corridor (Arlington)	1,595,158	0	12.6%	-1,899	67	$30.56	$31.15	0
I-395 Corridor (Fairfax)	4,998,613	0	25.5%	191,927	212,806	$30.47	$34.14	0
Manassas	2,905,632	0	13.4%	-11,780	-13,069	$20.79	$21.59	0
Merrifield/ Falls Church	9,417,163	0	14.0%	-5,422	41,395	$28.87	$32.61	0
Old Town Alexandria	11,163,081	0	12.2%	93,924	80,235	$32.73	$35.36	0
Reston	16,790,791	333,700	16.3%	-38,907	121,346	$27.89	$31.18	0
Rosslyn	9,011,760	0	28.0%	-62,005	-152,506	$45.40	$59.59	0
Route 28 North	4,965,050	49,099	18.8%	73,726	16,161	$23.76	$25.47	0
Route 28 South	10,889,863	0	17.2%	4,543	-2,101	$25.54	$26.28	125,000
Rt. 50/I-66 Fairfax Center	10,736,686	0	14.6%	7,697	-53,262	$25.42	$28.60	0
Route 7 Corridor	4,927,753	0	16.5%	17,825	5,275	$24.33	$26.11	0
Springfield/Newington	4,807,907	0	29.3%	-39,470	-51,216	$30.18	$40.51	0
Stafford County	762,335	0	17.7%	-21,759	-20,707	$25.97	$25.99	0
Tysons Corner	27,673,893	797,965	17.6%	255,318	209,636	$31.08	$34.10	524,979
Virginia Square	1,025,719	0	31.9%	2,009	8,792	$41.58	$43.57	0
Western Loudoun County	727,788	0	7.7%	12,117	20,423	$24.15	$25.01	0
Woodbridge	1,298,544	0	13.1%	-3,000	-5,094	$25.28	$27.01	0
Suburban Maryland	**74,648,736**	**396,210**	**17.7%**	**317,792**	**-835,583**	**$25.89**	**$27.81**	**490,998**
Beltsville/Calverton	1,457,852	169,644	29.3%	12,752	9,785	$21.03	$21.51	0
Bethesda	10,603,982	226,566	9.1%	79,723	12,842	$36.22	$42.58	0
Bowie/Upper Marlboro	1,227,032	0	16.2%	-6,179	-28,109	$25.66	$26.30	0
College Park	3,662,824	0	19.0%	50,210	50,219	$21.16	$22.44	0
Gaithersburg	3,817,679	0	16.2%	12,437	-78,839	$22.36	$22.96	0
Germantown	2,301,846	0	16.0%	-10,003	-12,331	$24.94	$25.85	0
Greenbelt/New Carrollton	2,869,682	0	33.5%	6,830	-75,559	$21.75	$22.95	0
Landover/Lanham/Largo	4,576,930	0	26.8%	13,844	-309,418	$19.35	$18.35	0
Laurel	1,767,934	0	10.5%	92,464	100,766	$17.70	$21.98	0
North Bethesda	9,726,961	0	19.2%	15,960	-221,245	$29.54	$31.38	0
North Rockville	11,911,330	0	22.2%	6,909	-210,051	$25.68	$28.34	0
Rockville	8,199,761	0	17.8%	9,246	-96,261	$30.77	$33.17	490,998
Silver Spring/Burtonsville	10,153,271	0	13.6%	14,360	-16,172	$25.82	$30.94	0
Southern Prince George's Co.	2,371,652	0	10.1%	19,239	38,790	$25.09	$25.12	0
DC Metro Area	**364,368,183**	**2,637,147**	**16.1%**	**-118,925**	**-985,463**	**$36.55**	**$40.94**	**2,476,287**

ECONOMIC CONDITIONS

The unemployment rate in the DC metropolitan area continued to mirror the national rate as it increased to 5.0% from April to May 2014, while the national rate increased to 6.1% during the same period. The delta between the two rates has decreased over the past few years as the federal government and its contractors continue to downsize, resulting in more jobseekers.

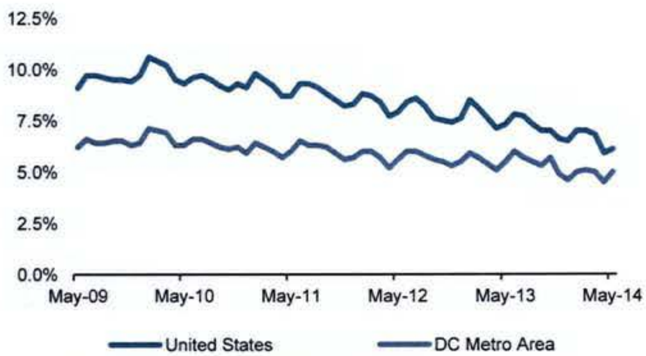
Government and Business Services remain the largest employment industries in the DC region. They are especially dominant in downtown DC, where they occupy almost 50% of the leased office inventory. Currently, though, they are each looking to downsize their office space needs by almost 30%. The majority of local economic development agencies are focused on the technology sector as the most likely industry to see growth in the region, and are creating initiatives to do so.

Employment By Industry
Washington, DC MSA, May 2014



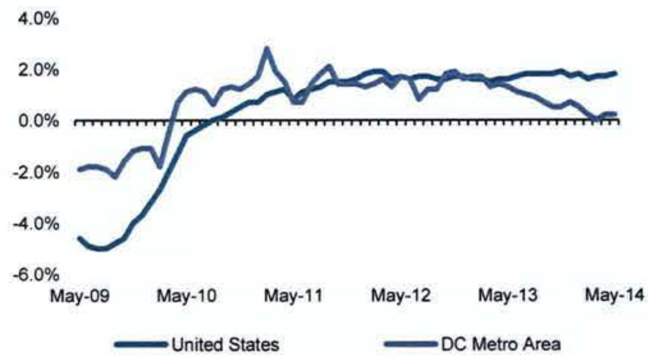
Source: U.S. Bureau of Labor Statistics

Unemployment Rate
Not Seasonally Adjusted, May 2014



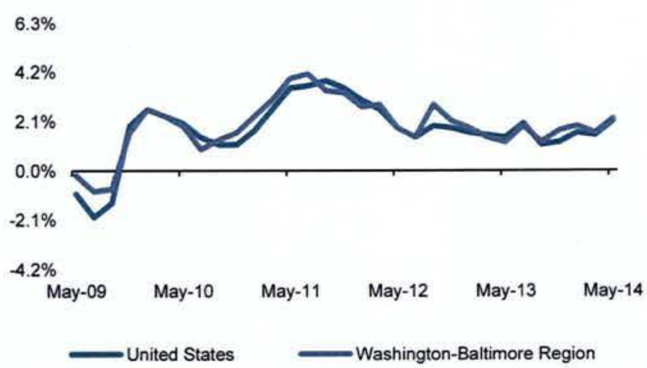
Source: U.S. Bureau of Labor Statistics

Payroll Employment
May 2014, 12-Month % Change, Not Seasonally Adjusted



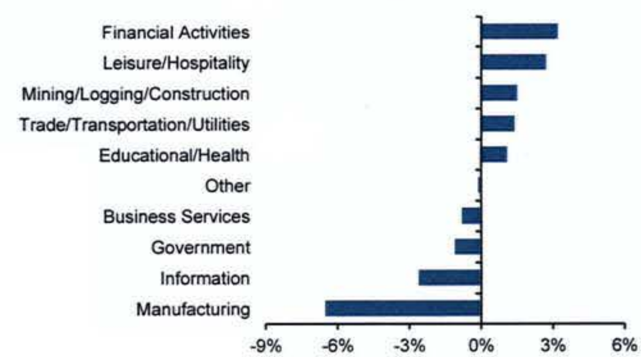
Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)
All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry
Washington, DC MSA, May 2014, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

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Glossary of Terms

Absorption
A measure of the change in occupied space

Availability
Space marketed for lease regardless of when the space will be available or whether the space is vacant or occupied

Deliveries
The total RBA of properties added to the inventory once construction has been completed

Direct Space
Available space offered for lease by the building owner, landlord, or owner representative

Leasing Activity
The volume of leases signed including new leases, direct and sublet leases, extensions and renewals, and leases signed in proposed or under construction buildings

Occupancy
Any space physically occupied by a tenant, regardless of lease status of the space

Rentable Building Area (RBA)
A measurement of the total square feet in a building including the tenant and common areas such as the lobby and hallways

Sublet Space
Available space offered for lease by a building tenant seeking a subtenant to fulfill the remaining lease obligation

Under Construction
Buildings under construction are defined by the time the foundation is poured through the time the building is certified for occupancy

Vacancy
Space not physically occupied by a tenant, regardless of the lease status or availability of space

Weighted Average Rent
The asking dollar amount for the use of available space, weighted by size--the average does not include negotiable or unpublished rates and is reported as full service including operating costs

Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet in total rentable building area. Owner occupied buildings are included in the inventory. Government and medical building are excluded from inventory.

Newmark Grubb Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.

Newmark Grubb Knight Frank Research Reports are also available at **www.ngkf.com/research**