

**Washington, DC
Waterfront Station
Tenant Demand Study**

Introduction

The purpose of this report is to provide Forest City with a recommendation on the type of development that should be considered for the vacant parcels at Waterfront Station in Southwest Washington. This analysis will include an overview of the type and size of tenants that would consider leasing office space in the recommended building. Additionally, it will suggest design and layout considerations required for Waterfront Station to accommodate and attract office tenants to the building.

Southwest Market – Existing Conditions

The subject property is located at the intersection of M Street and 4th Street, SW within the local neighborhood bordered by I-695 to the north, South Capitol Street to the east, Buzzard Point to the south and Washington Channel to the west. The neighborhood is traditionally considered part of the Southwest submarket.

Within the delineated area, there are forty-four existing buildings over 20,000 square feet and twelve buildings under construction. Forty-three of these properties are multifamily buildings. In addition, there are three hotels, four entertainment & retail buildings (including Arena Stage) and only five office buildings in the neighborhood. These include the two existing office buildings at Waterfront Station (1100 & 1101 4th Street, SW), 800 9th Street, SW and the two office buildings currently under construction at The Wharf (800 & 1000 Maine Avenue, SW). When measured on a rentable square foot basis, these office projects make up approximately nine percent of the neighborhood's inventory.

Washington DC Office Market

While the overall Washington, DC area experienced a slight uptick in absorption at the end of 2016, tenant demand for office space in Washington, DC continues to be severely limited. In the 4th quarter of 2016, office tenants absorbed approximately 695,300 square feet of office space, but the majority (79%) of the absorption was in the CBD and East End core submarkets. Despite this increase, construction of new office space continued to outpace demand, and the office vacancy rate had increased from 10.5% to 11% by the end of 2016.

Contractions by both law firms and federal government tenants continued to put downward pressure on office demand. In 2016, annual gross leasing activity had declined by thirty percent from the market's 10-year average of 10.3 million square feet to 7.2 million square feet. A tenant looking for over 100,000 square feet of class A office space has thirty-two options to consider in

Washington, DC, including eight buildings under construction and scheduled to deliver within the next twenty-four months.

The vacancy rate in the Southwest submarket is 12.9%. The Wharf, 800 & 1000 Maine Avenue is currently 47% preleased and will add over 260,000 square feet of vacant trophy quality office space to the Southwest inventory. This will push the vacancy rate in the Southwest submarket to over 15% over the next two years. In addition, the neighboring Capitol Riverfront/Southeast submarket has a 23.3% vacancy rate and over 3.5 million square feet of proposed office development in the pipeline. Both, The Wharf and the Capitol Riverfront, offer superior access, amenities and presence on the water, and will be in direct competition for any office user that might consider Waterfront Station.

Meany & Oliver Companies, Inc.'s Fourth Quarter 2016 Washington DC Office Market Statistical Overview is included in Exhibit A of this report.

Residential Development

While the office market continues to struggle with anemic absorption and double digit vacancy rates, the multifamily market in both Southwest submarket and Washington DC in general continues to thrive. According to CoStar Realty Information, Inc., the current vacancy rate for the existing apartment inventory in Southwest is 2.7% and the submarket has absorbed an average of 97 multifamily units per year over the past five years. Based on the strength of demand for residential product and current office market conditions, it is our recommendation that Forest City reconsider its office development plans for the remaining sites at Waterfront Station. Base on the project's proximity to Metro, access to neighborhood-oriented retail such as Safeway and CVS, the recommended use for the property would be mixed-use residential and retail in nature.

Potential Office Tenants

If Forest City chooses to incorporate office space within the mixed-use building, it should be limited to no more than a one-half floor in each building (or approximately 35,000 square feet). It has been our team's experience over the last 30 years that larger office users tend to avoid mixed-use residential buildings, especially when there are other options available. Residential tenants also prefer not to share building common areas with commercial tenants due to the concern for privacy and security.

While larger private sector tenants would prefer not to be in residential buildings, service oriented tenants such as doctors, lawyers, financial advisors and personal service providers often locate in these buildings. The buildings provide them easy access to potential customers and may shorten their commute times if they rent or own units within the building or surrounding neighborhood.

Using CoStar Realty Information's tenant database, we gathered information on 186 tenants in the Washington metropolitan area that occupy office space in residential buildings. Of these tenants,

forty-seven are in the real estate industry (25.3%), thirty-seven are medical users (19.9%), and thirty provide professional services such as accounting, law, financial advisory and insurance. Finally, twenty-three tenants (12.4%) are personal service providers such as barbers, nail salons, dry-cleaners, small independent fitness studios and massage therapy. It is reasonable to expect a similar mix of tenants if Forest City is required to include office space as part of its proposed development. Based on a review of the daytime employment report attached in Exhibit B of this report, there are over 332 business within a 1 mile radius of Waterfront Station that work in either the real estate, finance or healthcare sectors and they would be likely tenants for this type of space.

We also looked at the size of these tenants. Of the 186 tenants in the survey, over 75% occupied less than 3,000 square feet of office space with 17.7% ranging in size from 2,000 – 3,000 square feet, 27.4% occupying between 1,000 – 1,999 square feet and close to 30% measuring below 1,000 square feet. While there are a few outliers larger than 3,000 square feet, these larger users would likely not consider space on a second floor of a residential building for a variety of reasons, including building code, access, and signage requirements.

Based on the location and the type of use in demand in this location, we anticipate that up to a dozen users could be accommodated in the proposed development. Based transaction data obtained for CoStar Realty Information's tenant database, the Southwest submarket experiences an average of 6 office leases under 3,000 square feet annually. If Waterfront Station can capture the majority of small tenant demand in the submarket, we anticipate a lease up time frame of approximately 24 – 48 months.

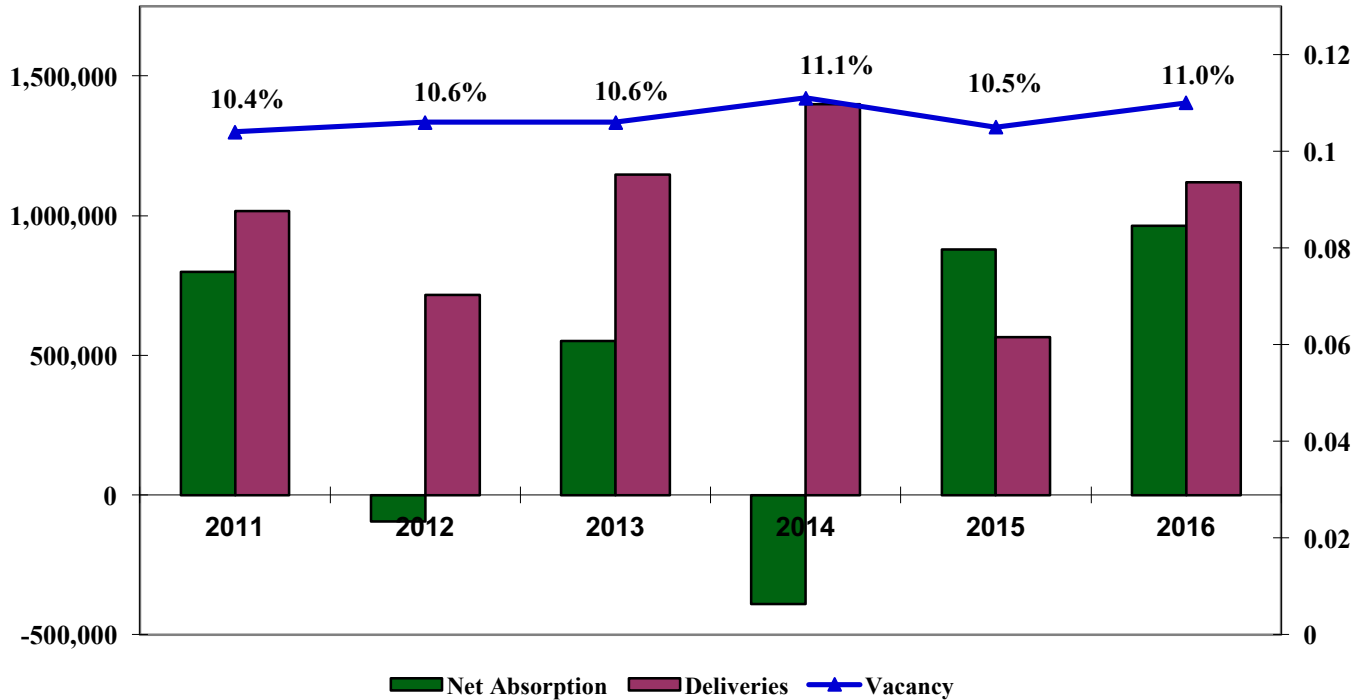
Conclusion

Given the target tenant market for office space in a residential building, the office portion of the building would need to be designed to provide separate building entrances and elevators to limit the comingling of the office and residential tenants. The office floor would also need to be easily sub-divided to accommodate multiple tenants ranging in size from 1,000 square feet to 3,000 square feet. Each suite would need to have access to windows along the exterior of the building. Any suites with courtyard views or no windows would need to have rents significantly discounted to attract tenants. A building that incorporates the design and programmatic elements described above would be attractive to tenants that would consider leasing office space in a residential building.

Disclaimer: The information and projections contained in this report are based on information collected from a variety of sources including data obtained from third party sources. While these sources are deemed reliable, Meany & Oliver Companies, Inc. makes no warranties or representations as to the completeness or accuracy of the information contained in this report. Although we are of the opinion that our findings are reasonable based on available evidence, we are not responsible for the effect of future market conditions.

**WASHINGTON, DC OFFICE MARKET
STATISTICAL OVERVIEW
4TH QUARTER 2016**

WASHINGTON, DC - HISTORICAL VACANCIES, ABSORPTION AND DELIVERIES

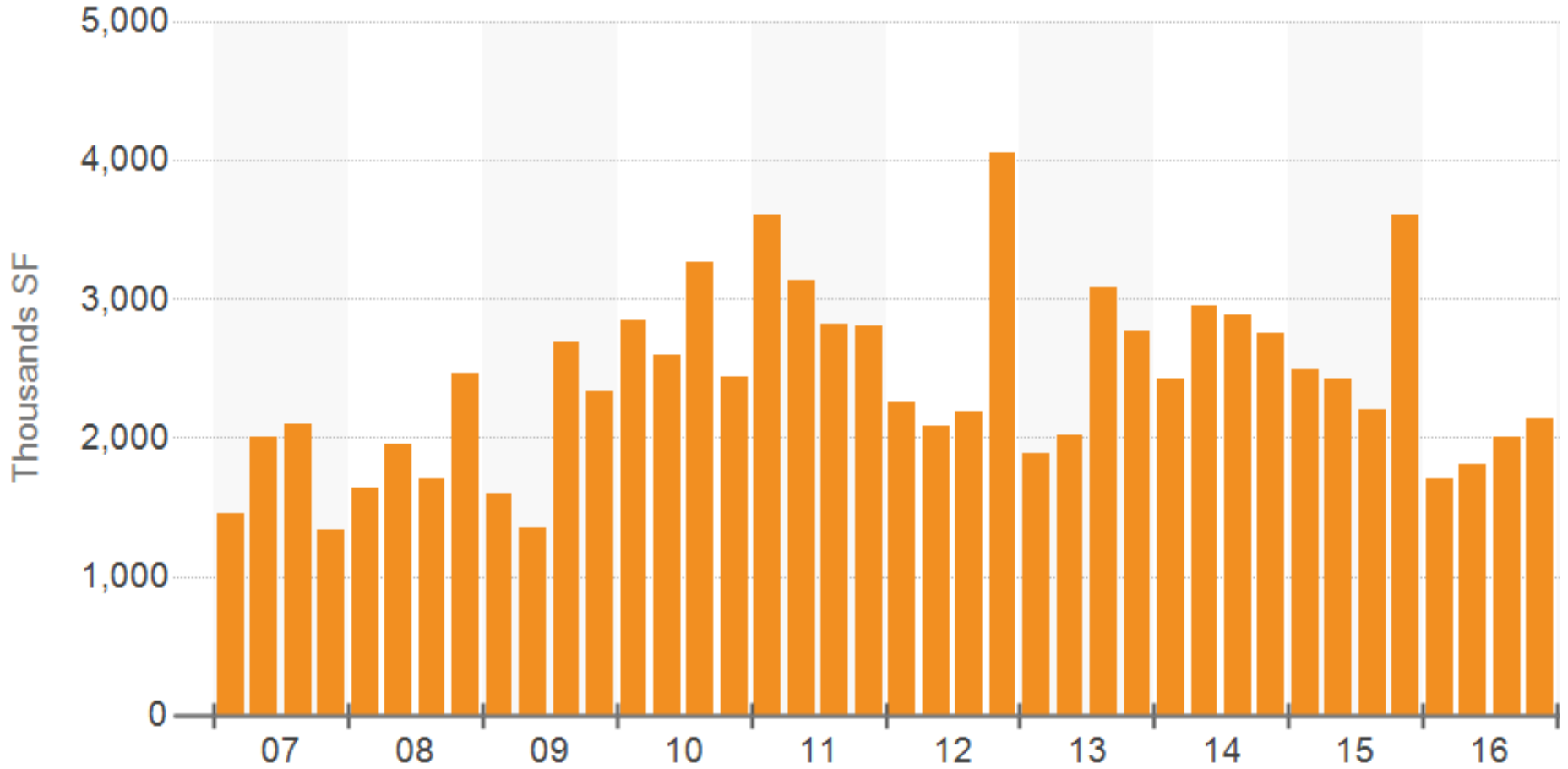


WASHINGTON, DC MARKET STATISTICS – 4TH QUARTER 2016

Submarket	Existing Inventory	Direct Available	Sublease Available	Total Available	Vacancy Rate	4 th Quarter Net Absorption	Average Asking Rents
CBD	43,943,346	2,856,125	333,621	3,189,746	7.3%	214,969	\$51.89
East End	48,225,480	5,500,932	430,269	5,931,201	12.3%	333,957	\$54.12
West End / Georgetown	7,810,181	622,172	28,652	650,824	8.3%	12,010	\$51.49
Capitol Hill	5,093,089	400,108	15,688	415,796	8.2%	2,429	\$52.01
NoMa	10,771,885	1,485,766	33,855	1,519,621	14.1%	-67,146	\$50.85
Southwest	12,328,593	1,553,817	37,695	1,591,512	12.9%	135,407	\$47.39
Capitol Riverfront / Southeast	5,532,929	1,267,627	20,687	1,288,314	23.3%	62,223	\$42.38
Uptown	10,188,654	1,219,295	63,208	1,282,503	12.6%	1,451	\$40.99
Total	143,894,157	14,905,842	963,675	15,869,517	11.0%	695,300	\$51.04

(Data provided by CoStar Property)

Washington, DC Office Market Quarterly Historical Gross Leasing Velocity



Data and graph provided by CoStar Property, results of an analytic survey of office buildings over 20,000 rentable sq. ft. in the District of Columbia including those under construction and under renovation

Waterfront Station
425 M St SW, Washington, DC 20024



Business Employment by Type	# of Businesses	# Employees	#Emp/Bus
Total Businesses	1,788	59,238	33
Retail & Wholesale Trade	119	1,409	12
Hospitality & Food Service	127	4,393	35
Real Estate, Renting, Leasing	122	810	7
Finance & Insurance	83	473	6
Information	51	3,646	71
Scientific & Technology Services	195	10,324	53
Management of Companies	1	3	3
Health Care & Social Assistance	127	1,513	12
Educational Services	33	1,449	44
Public Administration & Sales	609	22,543	37
Arts, Entertainment, Recreation	39	3,426	88
Utilities & Waste Management	47	752	16
Construction	49	5,423	111
Manufacturing	25	694	28
Agriculture, Mining, Fishing	2	44	22
Other Services	159	2,336	15

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