

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

Introduction

The purpose of this report is to provide a summary of the state of the office market and specific information relating to the high office vacancy rate and its impact on Forest City's development of the vacant parcels at Waterfront Station in Southwest Washington.

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 an 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 space. The majority (79%) of this absorption was in the CBD and East End core submarkets. Despite the uptick in absorption, construction of new office space is outpacing 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 in Washington, DC currently has thirty-two options to consider, 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%. At The Wharf, 800 & 1000 Maine Avenue are currently 47% preleased with approximately 260,000 square feet of trophy quality office space remaining to be leased. This will likely 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 to amenities and a 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.

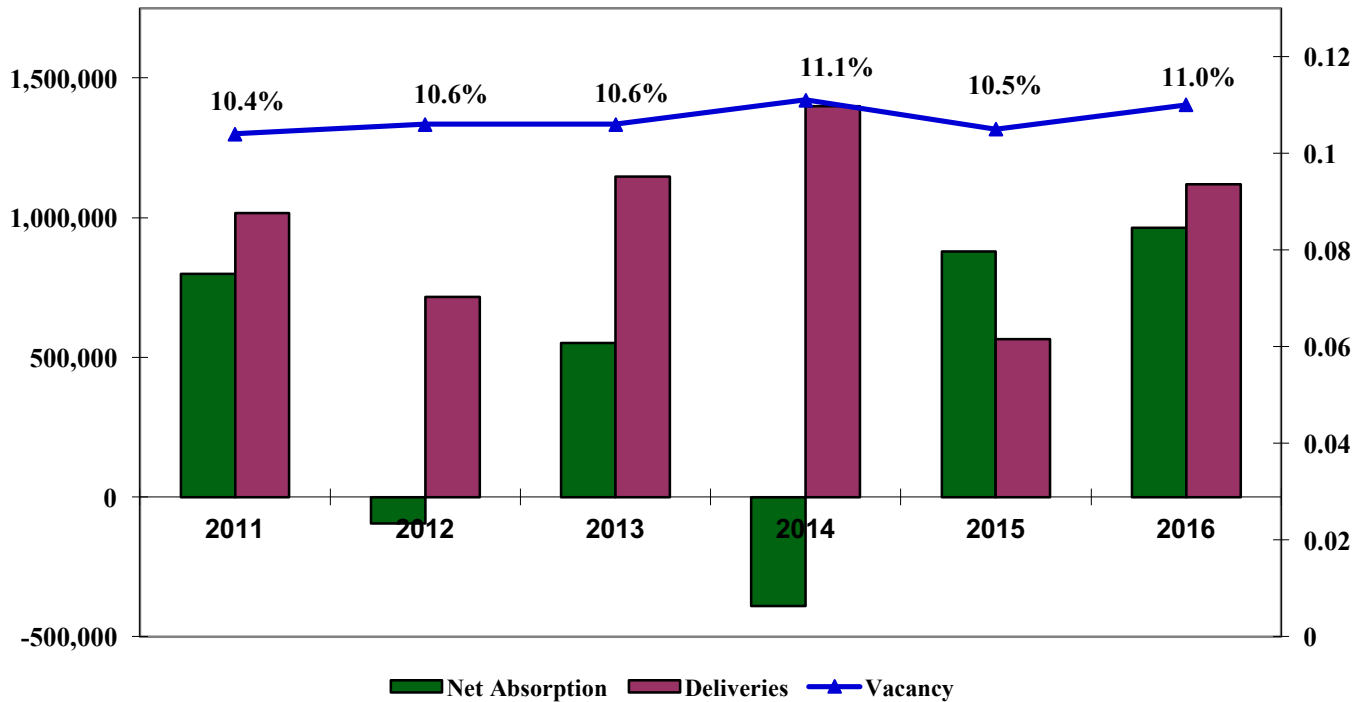
Conclusion

Based on current conditions in the office market and the high office vacancy rate both in the Southwest submarket and the nearby Capitol Riverfront, there is currently no market for Class A office use at this site. Accordingly, it will be difficult to lease the proposed office buildings at Waterfront Station.

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

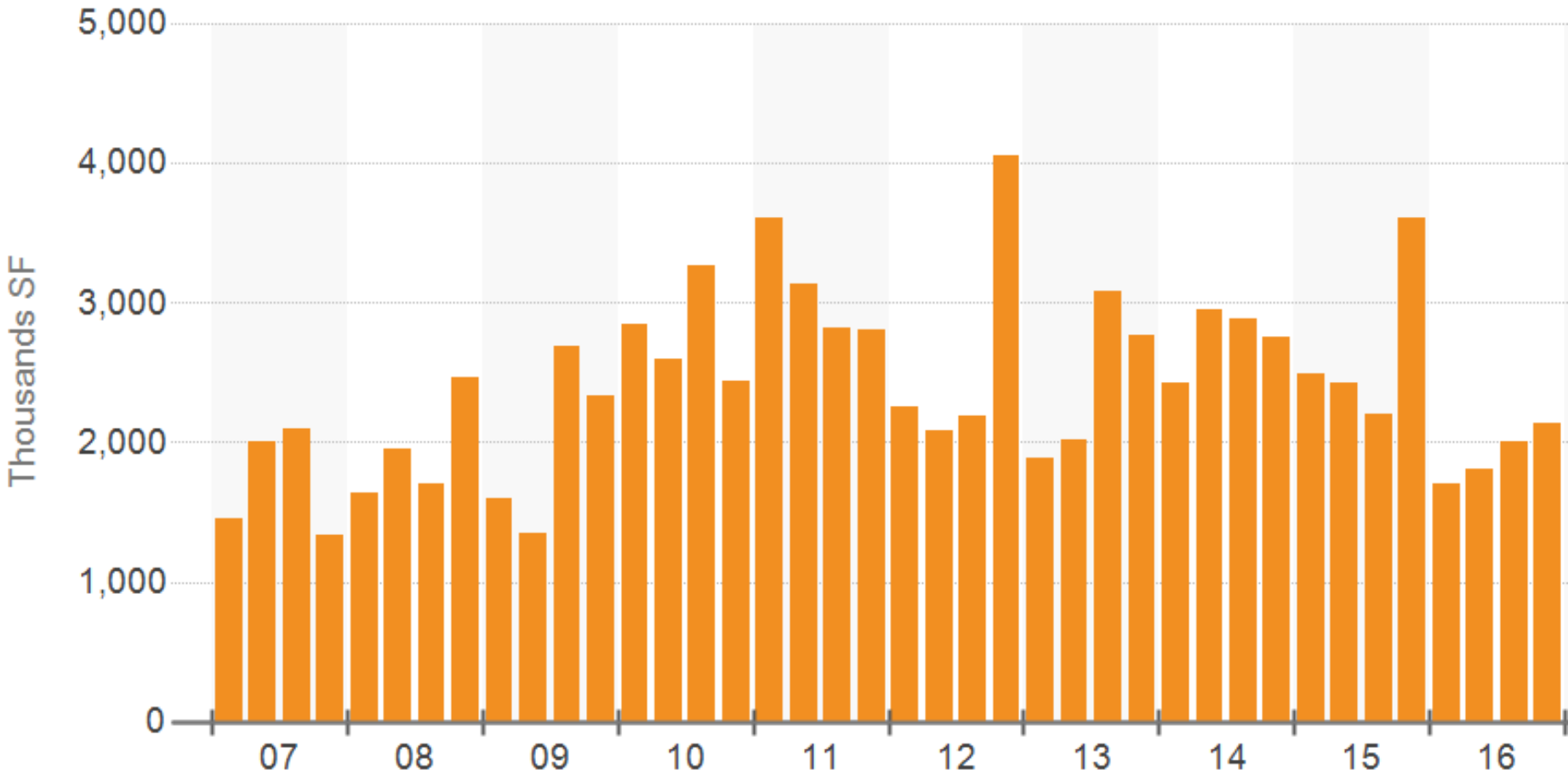


WASHINGTON, DC MARKET STATISTICS – 4TH QUARTER 2016

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