



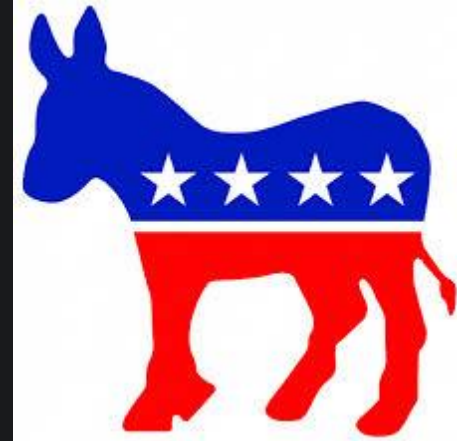
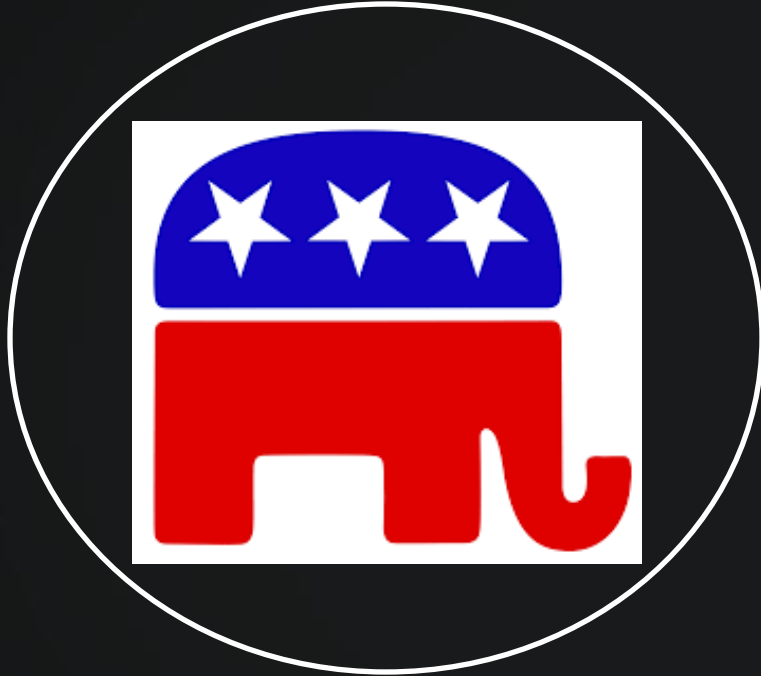
# TRENDS IN WASHINGTON METRO AREA COMMERCIAL REAL ESTATE

**NOVEMBER 16, 2016**



# ELECTION RESULTS

What is the Impact?



# ELECTION RESULTS

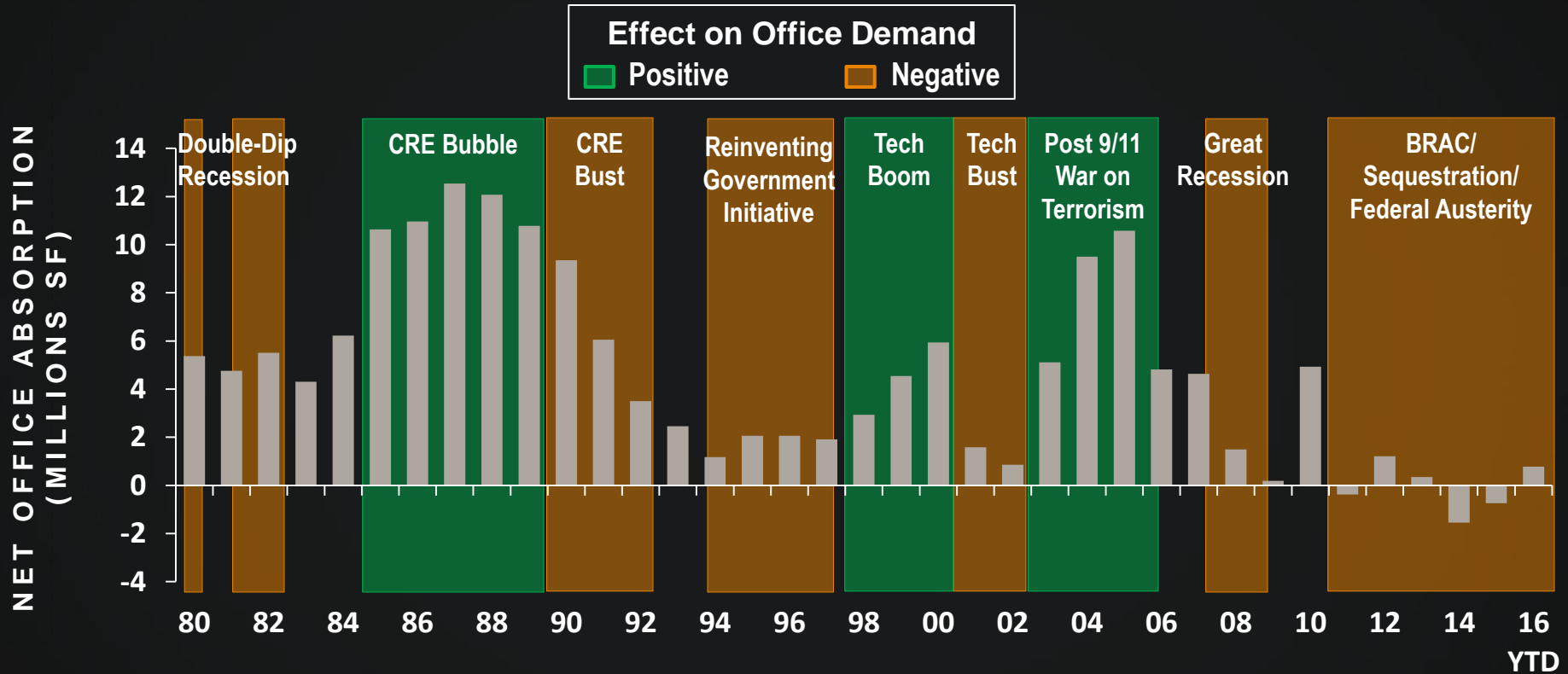
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# ELECTION RESULTS

## Net Absorption and Key Events | Washington Metro Area | 1980 - 2016



Source: CoStar, NGKF Research; November 2016



# STATE OF THE U.S. INDUSTRY



# STATE OF THE INDUSTRY

## U.S. Headlines of 2016



1. U.S. economic expansion has weathered global shocks and remains strong
2. However, GDP and labor markets tell two different stories — the former sluggish and the latter much stronger
3. Rising wages, record low initial unemployment claims, and low oil prices are empowering consumers — benefiting retail overall and housing in particular
4. Leasing metrics continue to improve across most product types and geographies
5. Commercial real estate sales volume is slowing to a more sustainable pace; capital remains abundant yet selective
6. Commercial real estate returns have edged lower, but are still a better alternative to other asset classes

*Source: NGKF Research; November 2016*

- #1 Regional economy expanding, even as mature phase of cycle approaches
- #2 Investment capital becoming more cautious nationally, but Washington remains a target
- #3 The sharing economy both disrupts and benefits our marketplace

*Source: NGKF Research; November 2016*





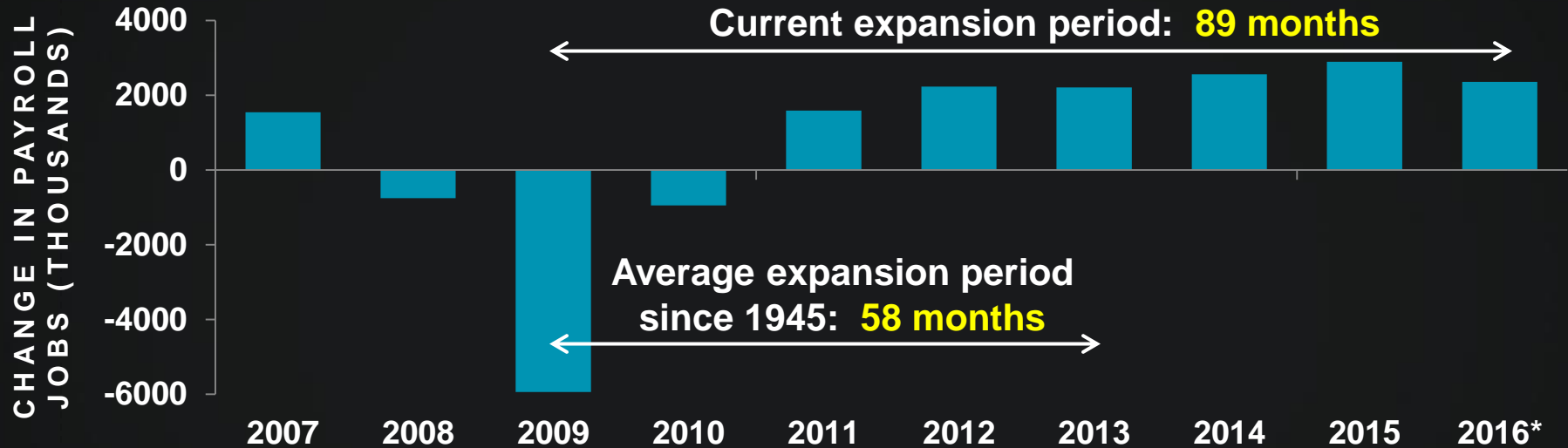
# MEGATREND #1: REGIONAL ECONOMY EXPANDING, EVEN AS MATURE PHASE OF CYCLE APPROACHES





# MEGATREND #1: MATURE PHASE

Payroll Job Change | United States | 2007 - 2016

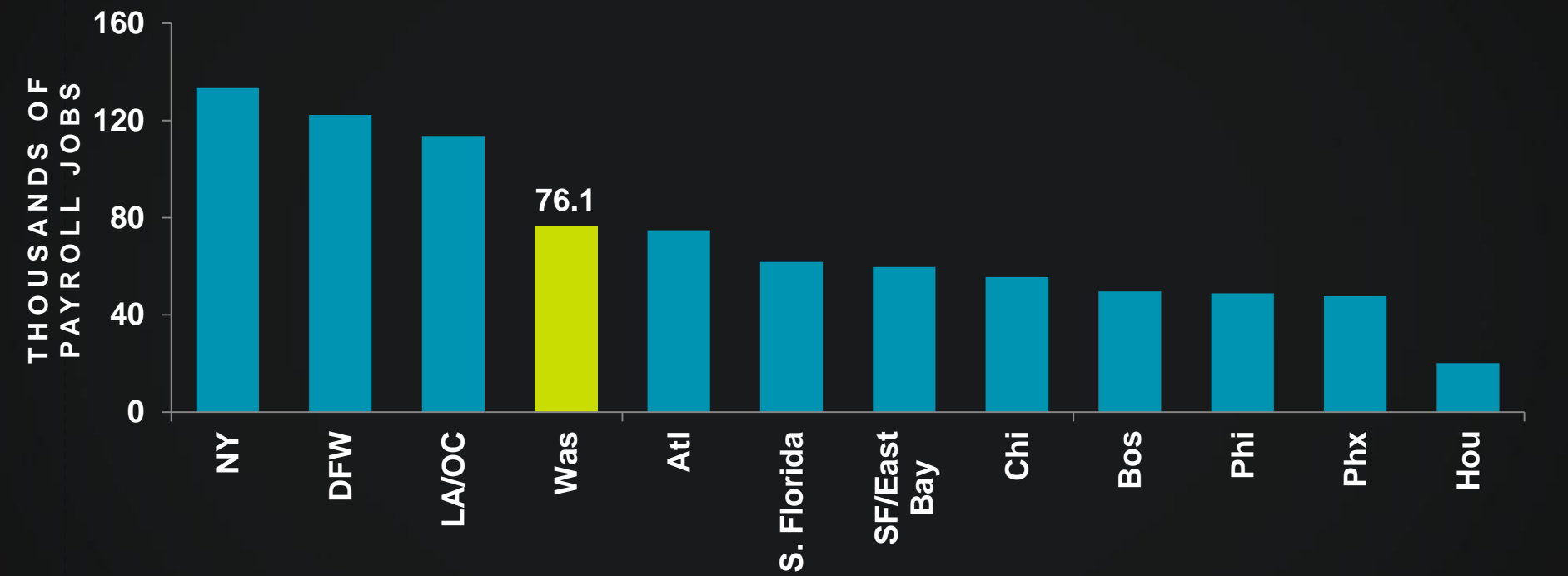


\*12 months ending in October 2016

Source: U.S. Bureau of Labor Statistics, National Bureau of Economic Research, NGKF Research; November 2016

# MEGATREND #1: MATURE PHASE

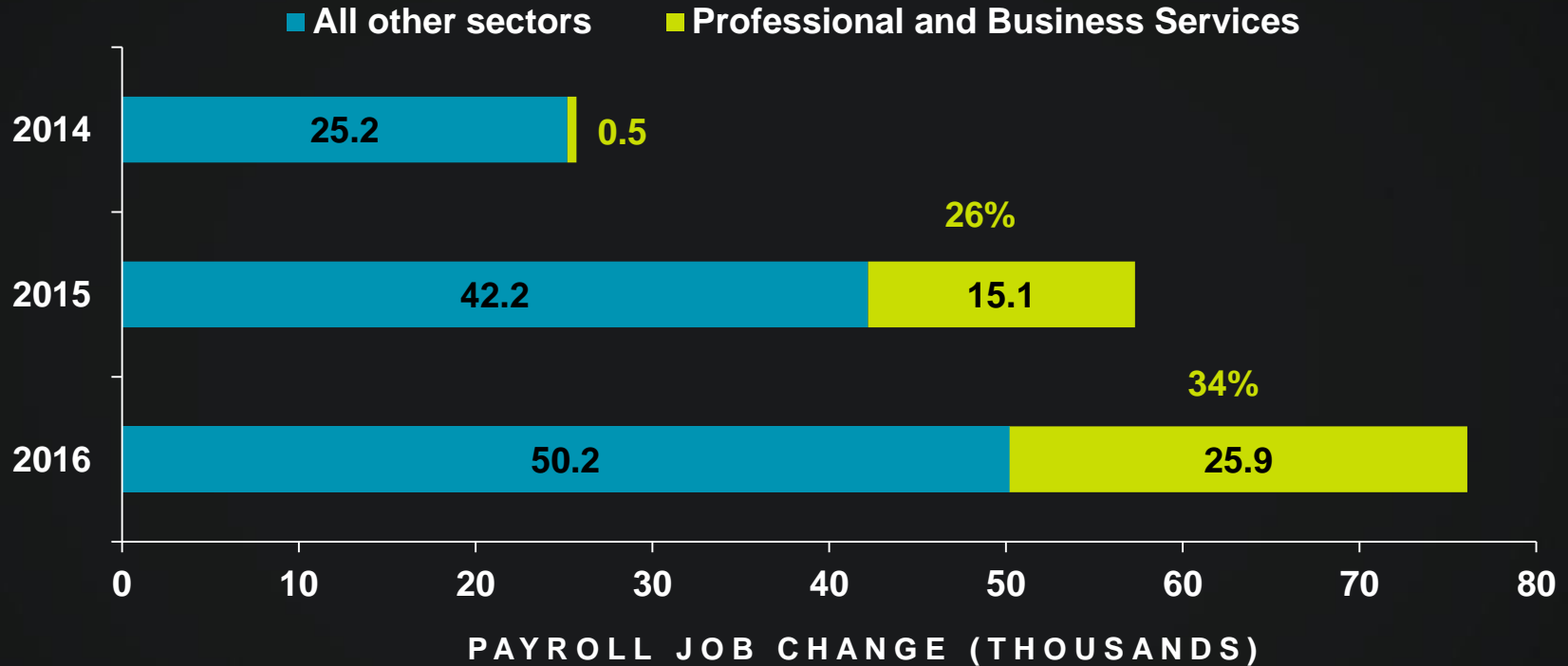
Payroll Job Growth: 12 Largest Metro Areas | 12 Months Ending September 2016



Source: U.S. Bureau of Labor Statistics, NGKF Research; November 2016

# MEGATREND #1: MATURE PHASE

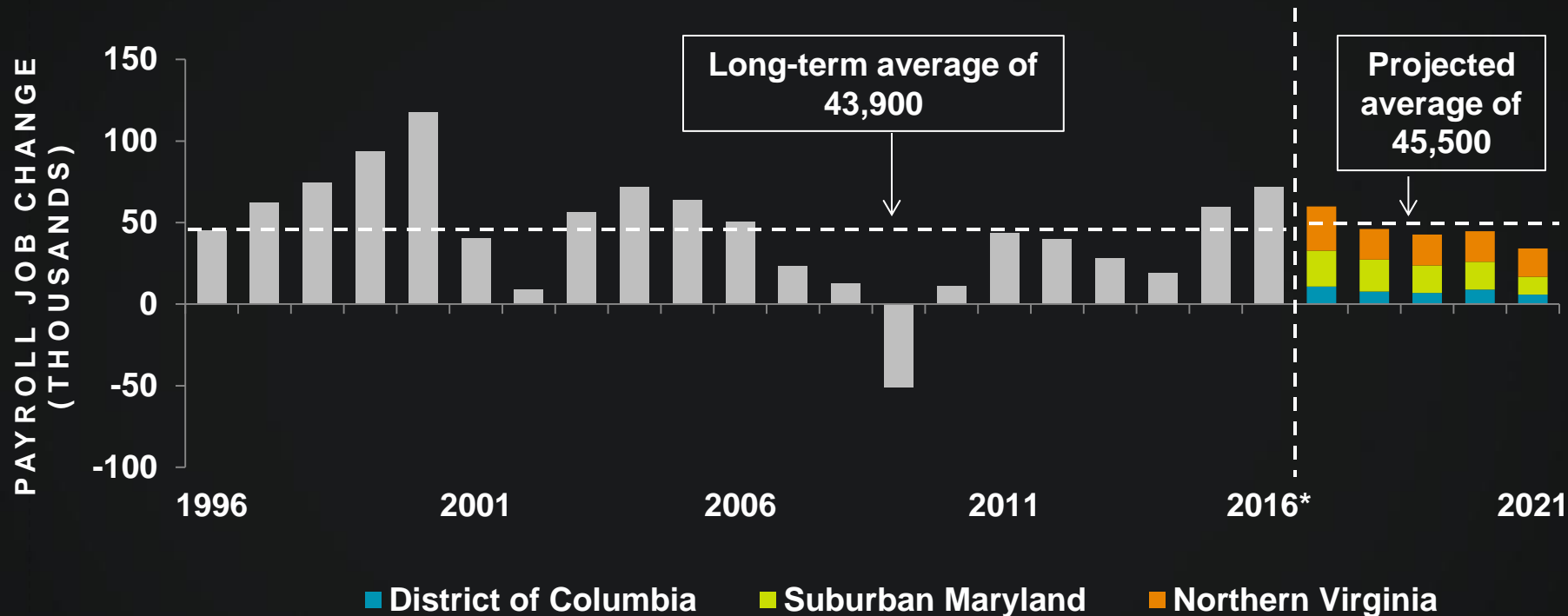
Payroll Job Change: Washington Metro Area | 12 Months Ending September



Source: U.S. Bureau of Labor Statistics, NGKF Research; November 2016

# MEGATREND #1: MATURE PHASE

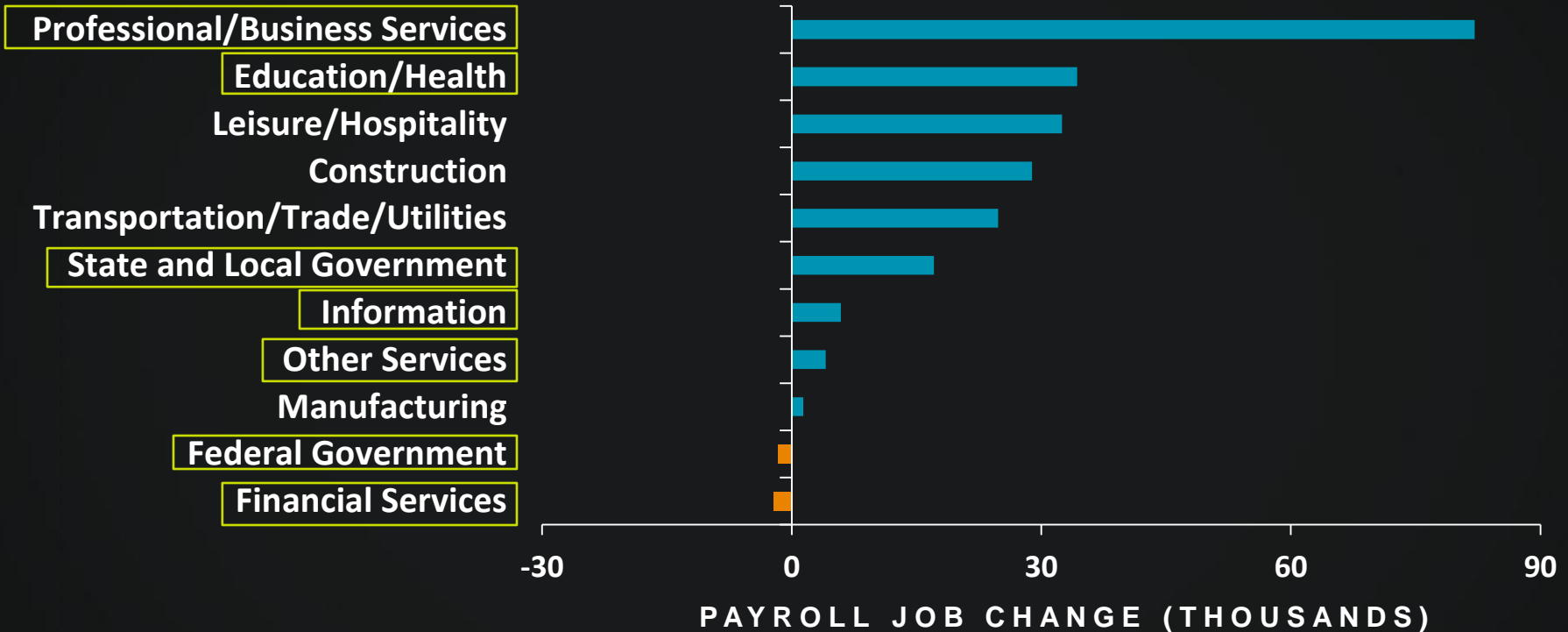
Payroll Job Change: Washington Metro Area | 1996 - 2016 and Forecast 2017 - 2021



*\*2016 reflects 8 months of reported job growth with remaining 4 months projected.  
Source: U.S. Bureau of Labor Statistics, Dr. Stephen Fuller, NGKF Research; November 2016*

# MEGATREND #1: MATURE PHASE

Job Change Projection by Industry: Washington Metro Area | 2017 - 2021



Source: Dr. Stephen Fuller, U.S. Bureau of Labor Statistics, NGKF Research; November 2016

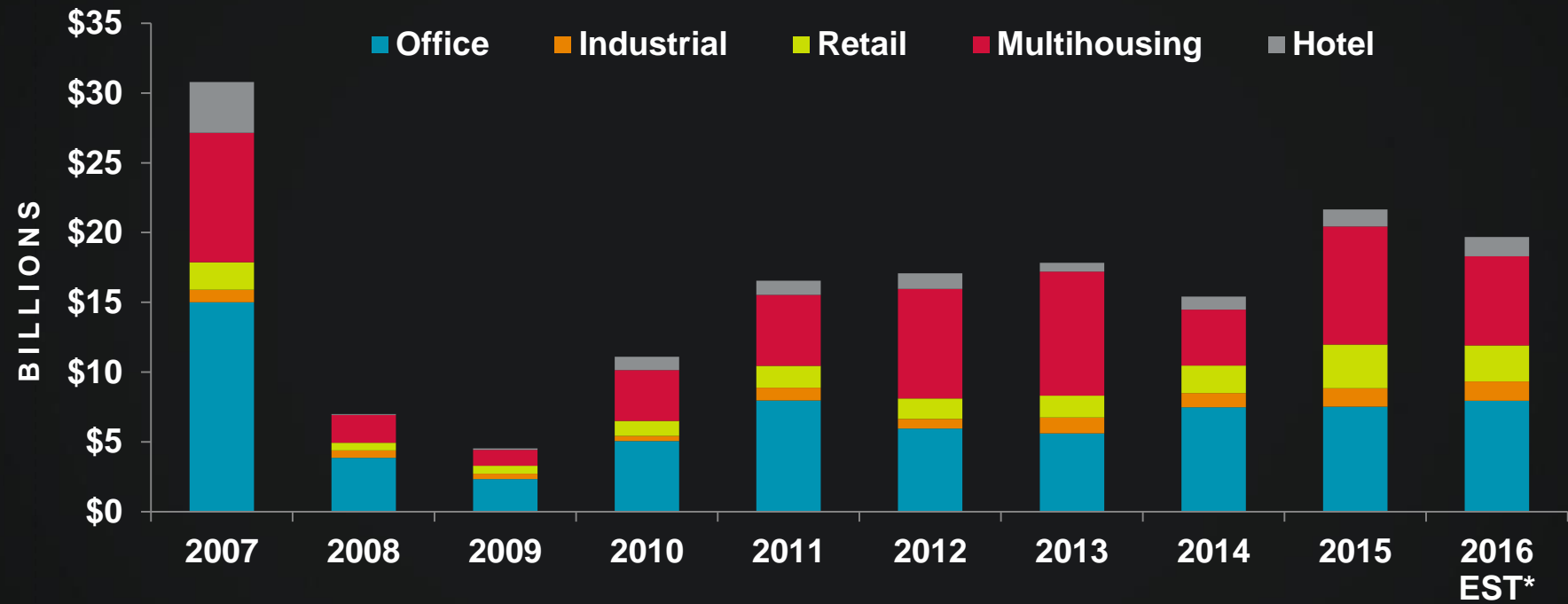


# MEGATREND #2: INVESTMENT CAPITAL BECOMING MORE CAUTIOUS NATIONALLY, BUT WASHINGTON REMAINS A TARGET



# MEGATREND #2: WASHINGTON REMAINS INVESTMENT TARGET

Investment Sales by Property Type: Washington Metro Area | 2007 – 2016

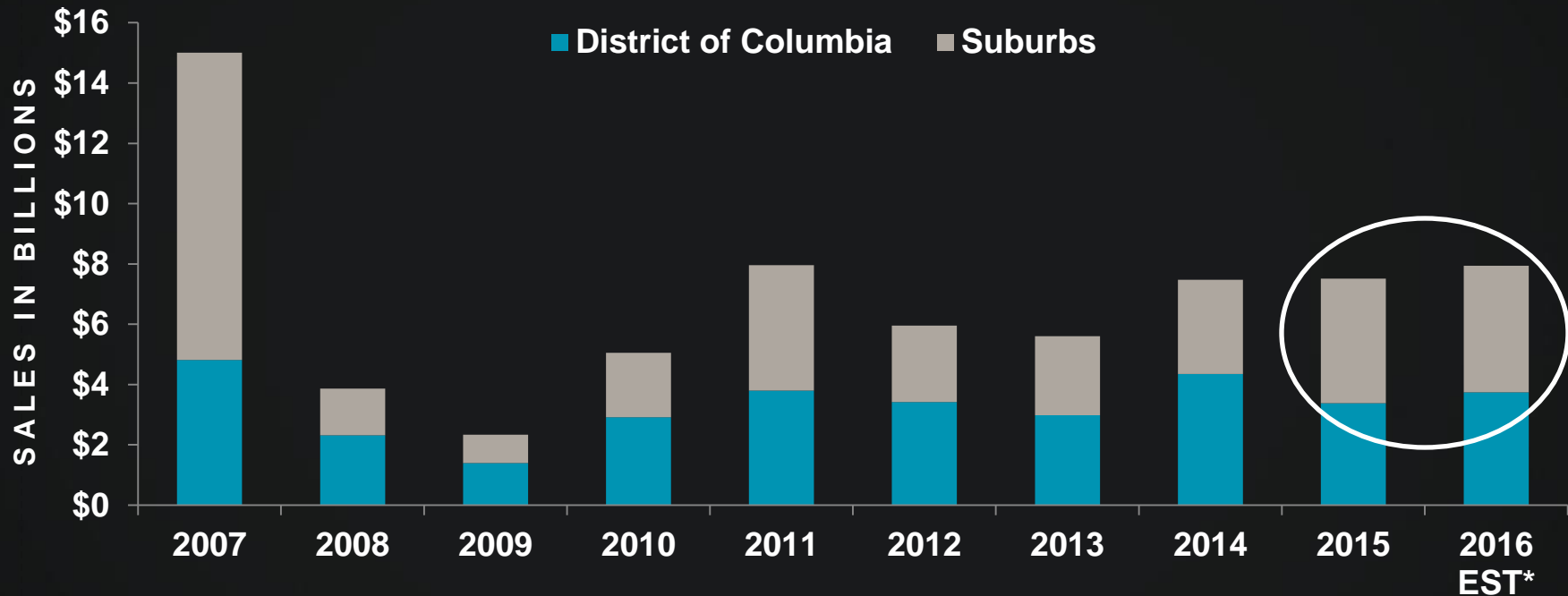


*\*2016 YTD through October annualized and seasonally adjusted  
Source: Real Capital Analytics, NGKF Research; November 2016*



# MEGATREND #2: WASHINGTON REMAINS INVESTMENT TARGET

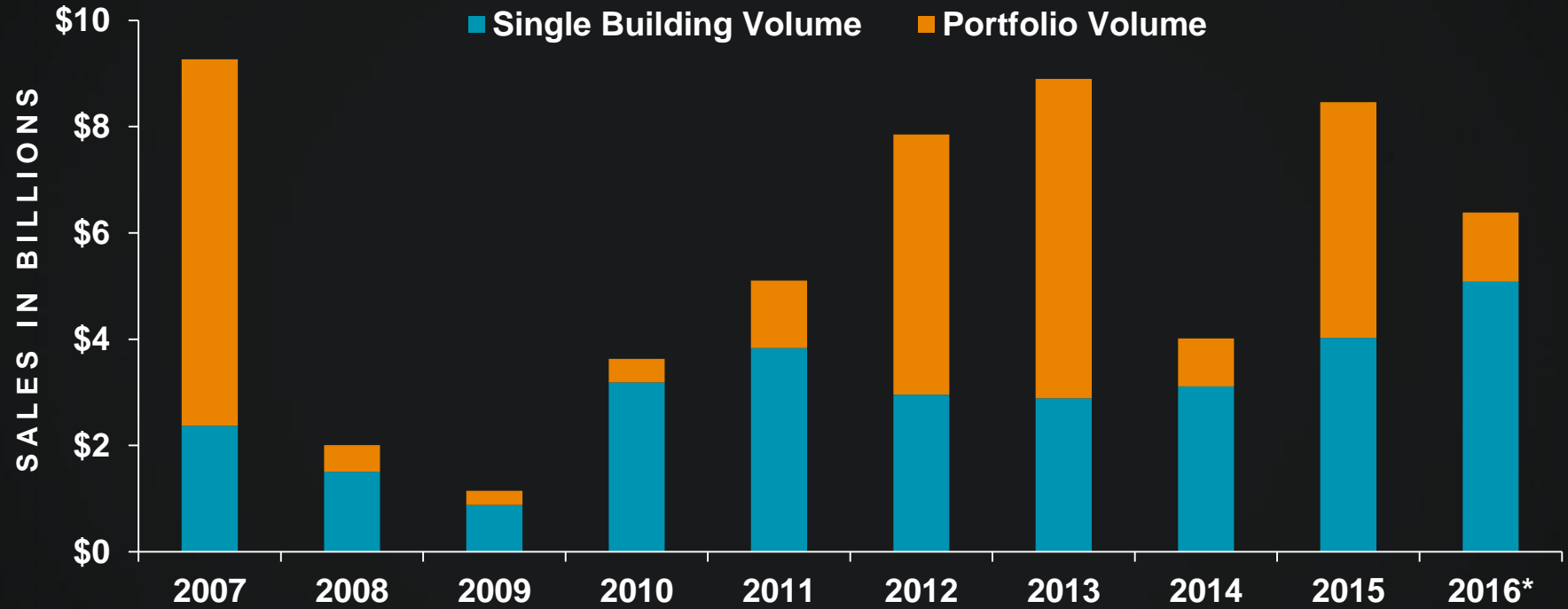
## Office Investment Sales: Washington Metro Area | 2007 – 2016



*\*2016 YTD through October, annualized and seasonally adjusted*  
*Source: Real Capital Analytics, NGKF Research; November 2016*

# MEGATREND #2: WASHINGTON REMAINS INVESTMENT TARGET

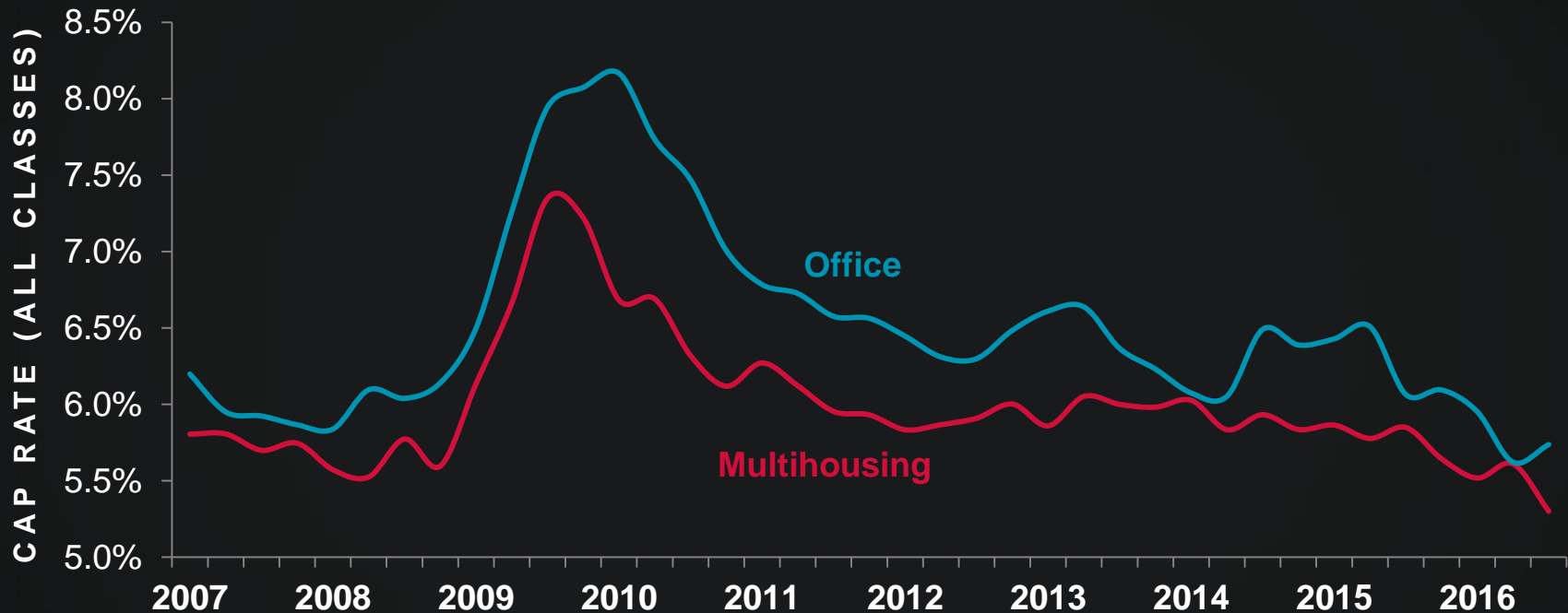
## Multihousing Investment Sales, All Classes: Washington Metro Area | 2007– 2016



*\*2016 YTD through October, annualized and seasonally adjusted  
Source: Real Capital Analytics, NGKF Research; November 2016*

# MEGATREND #2: WASHINGTON REMAINS INVESTMENT TARGET

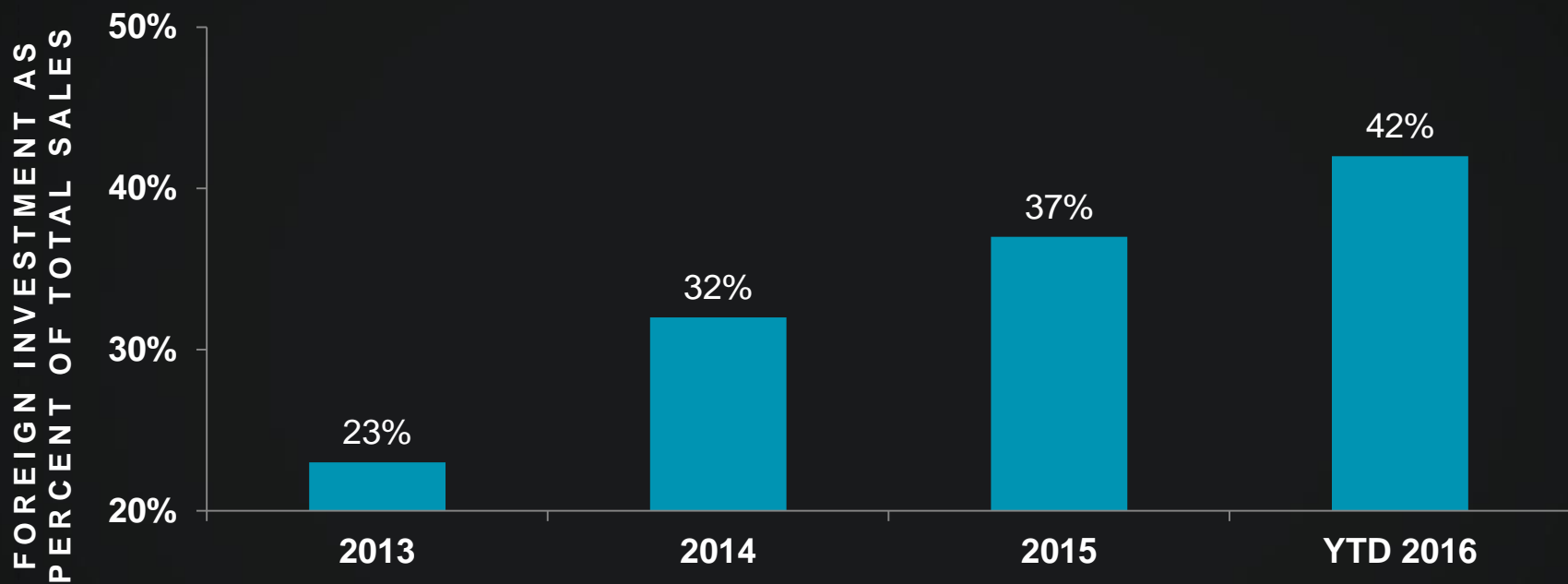
Average Cap Rate, Office and Multihousing: Washington Metro Area | 2007 – 2016



Source: Real Capital Analytics, NGKF Research; November 2016

# MEGATREND #2: WASHINGTON REMAINS INVESTMENT TARGET

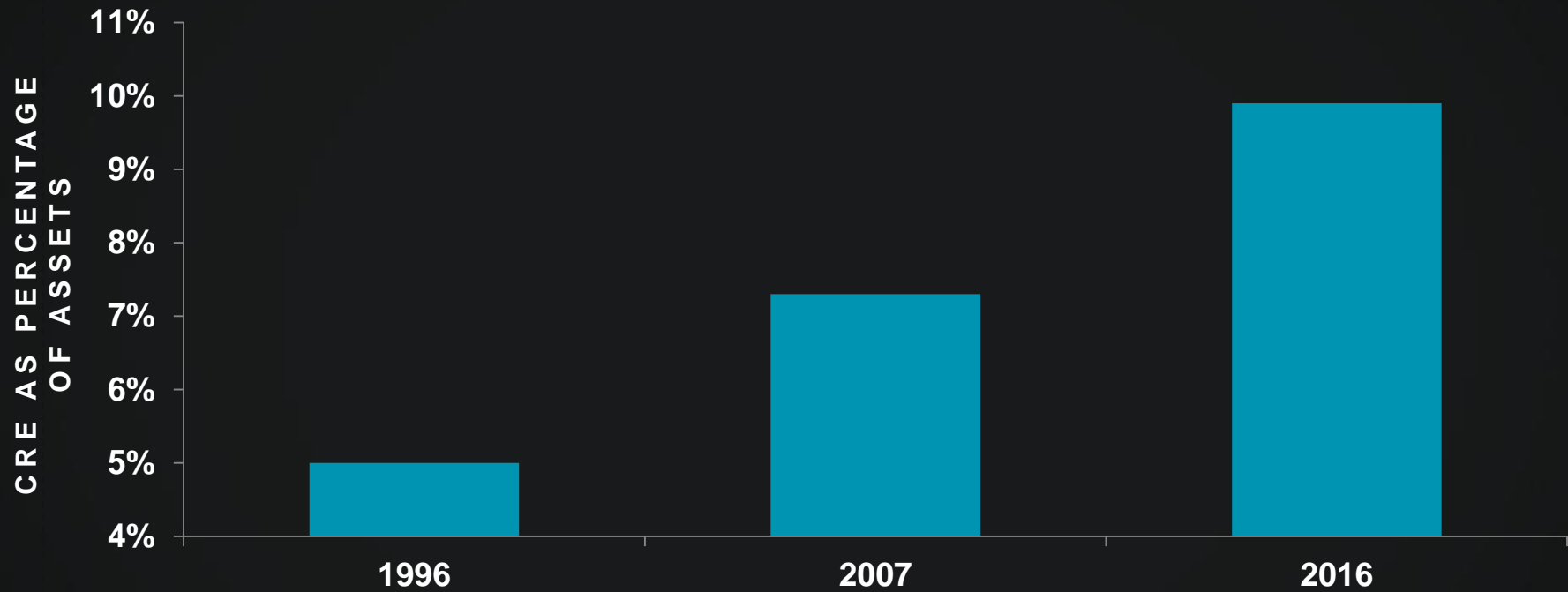
Direct Foreign Investment in Office Assets: Washington Metro Area | 2013 – 2016



*Note: 2016 YTD is through October*  
*Source: Real Capital Analytics, NGKF Research; November 2016*

# MEGATREND #2: WASHINGTON REMAINS INVESTMENT TARGET

## Institutional Allocations to CRE Have Increased



*Note: Includes only private institutional allocations*  
*Source: PREA, Cornell University's Baker Program in Real Estate and Hodes Weill & Associates, NGKF Research; November 2016*

## MEGATREND #2: WASHINGTON REMAINS INVESTMENT TARGET

### Outlook: Opportunities in Office and Multihousing Investment Sales



We believe that Washington area investment sales will continue into 2017 near the current pace of volume and pricing for four reasons:

1. In the mature phase of the cycle, investors tend to seek the safety of a primary market like Washington
2. Commercial real estate represents a superior alternative to other forms of available investments
3. Foreign investors continue to target Washington
4. Yet capital is selective and underwriting more disciplined

*Source: NGKF Research; November 2016*



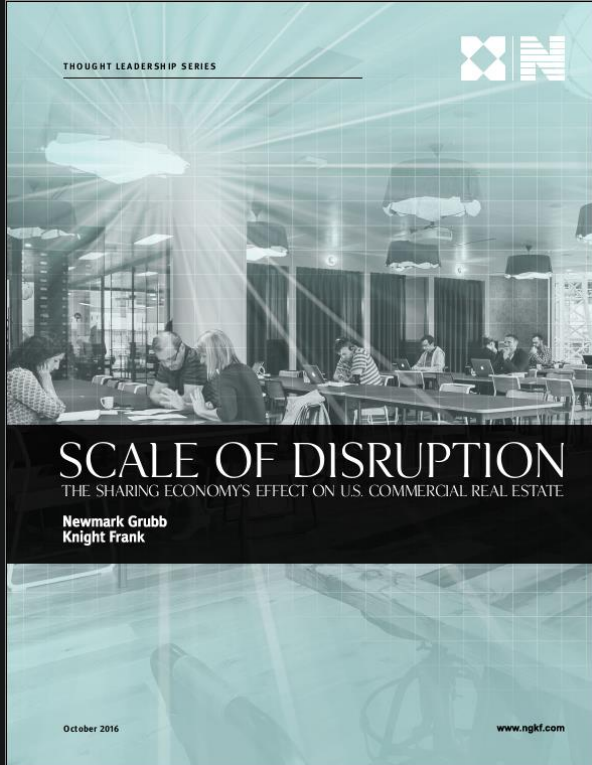
# MEGATREND #3: THE SHARING ECONOMY BOTH DISRUPTS AND BENEFITS OUR MARKETPLACE





# MEGATREND #3: SHARING ECONOMY DISRUPTS AND BENEFITS

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# MEGATREND #3: SHARING ECONOMY DISRUPTS AND BENEFITS

Space is Morphing



Source: Slide- photo by Richard Burger in Houston Chronicle, Desk- decoist.com, Tapas- Mulebone on facebook.com, Fulfillment center- thebillfold.com; November 2016

# PROPERTY REVIEW



## 1. Office

- Washington metro office market totals 363 million SF
- 2nd largest U.S. office market

## 2. Apartments

- Washington metro apartment market totals 313,000 institutional-quality units
- 4th largest U.S. apartment market

*Source: Axiometrics, NGKF Research; November 2016*

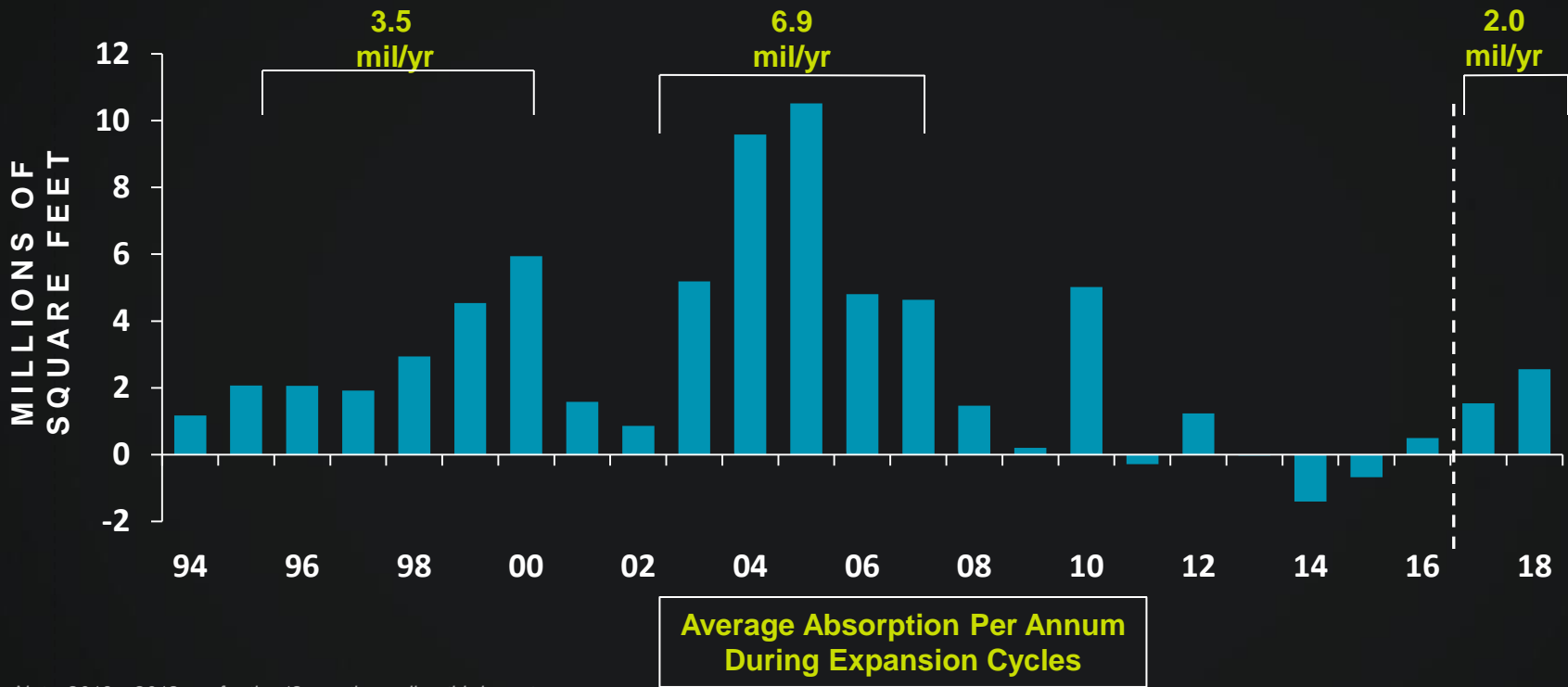


# THE WASHINGTON AREA OFFICE MARKET



# THE WASHINGTON AREA OFFICE MARKET

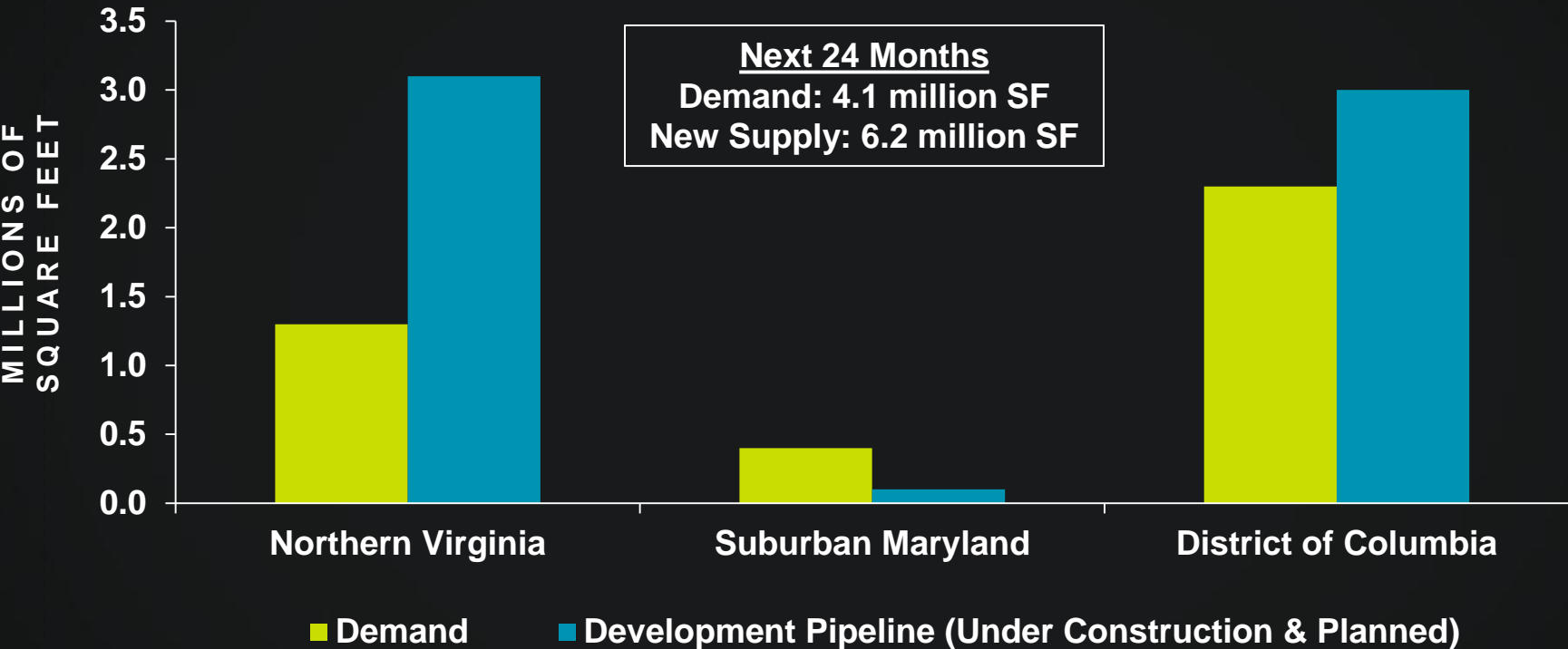
Office Space Net Absorption: Washington Metro Area | 1994 – 3Q 2018



*Note: 2016 – 2018 are for the 12 months ending third quarter*  
*Source: CoStar, NGKF Research; November 2016*

# THE WASHINGTON AREA OFFICE MARKET

Supply/Demand Forecast: Washington Metro Area | 24 Months Ending September 2018

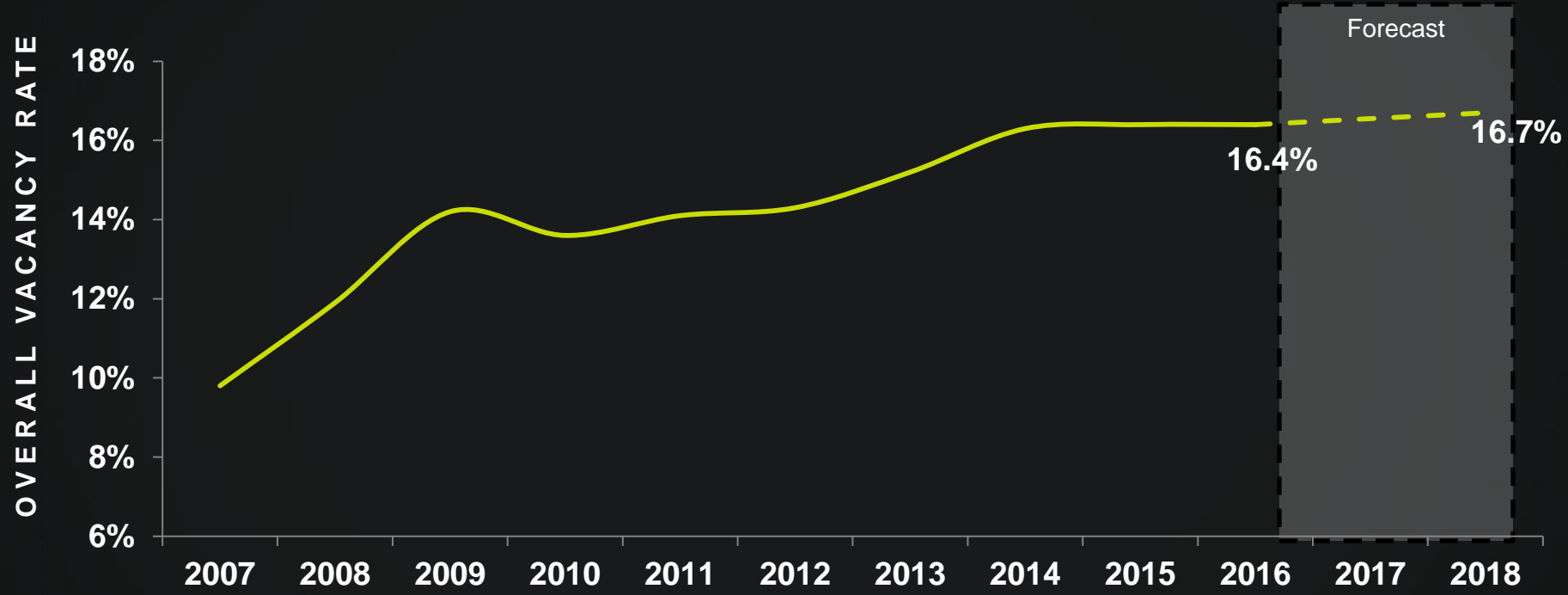


Source: NGKF Research; November 2016



# THE WASHINGTON AREA OFFICE MARKET

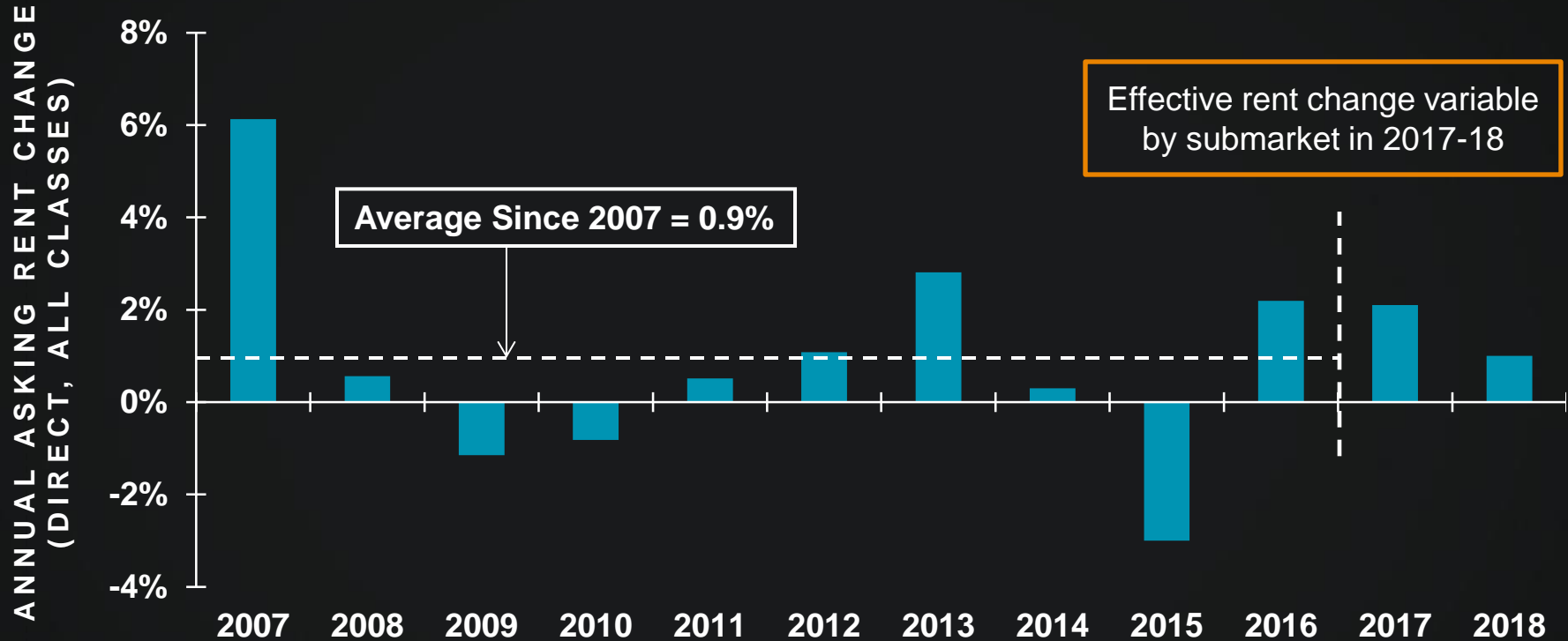
Vacancy Rate: Washington Metro Area | 2007 – 2016 and Projection through 3Q 2018



Source: NGKF Research; November 2016

# THE WASHINGTON AREA OFFICE MARKET

Asking Rent Change: Washington Metro Area | 2007 – 2016 and Projection through 2018



Source: CoStar, NGKF Research; November 2016

# THE WASHINGTON AREA OFFICE MARKET

## What is Driving Demand?

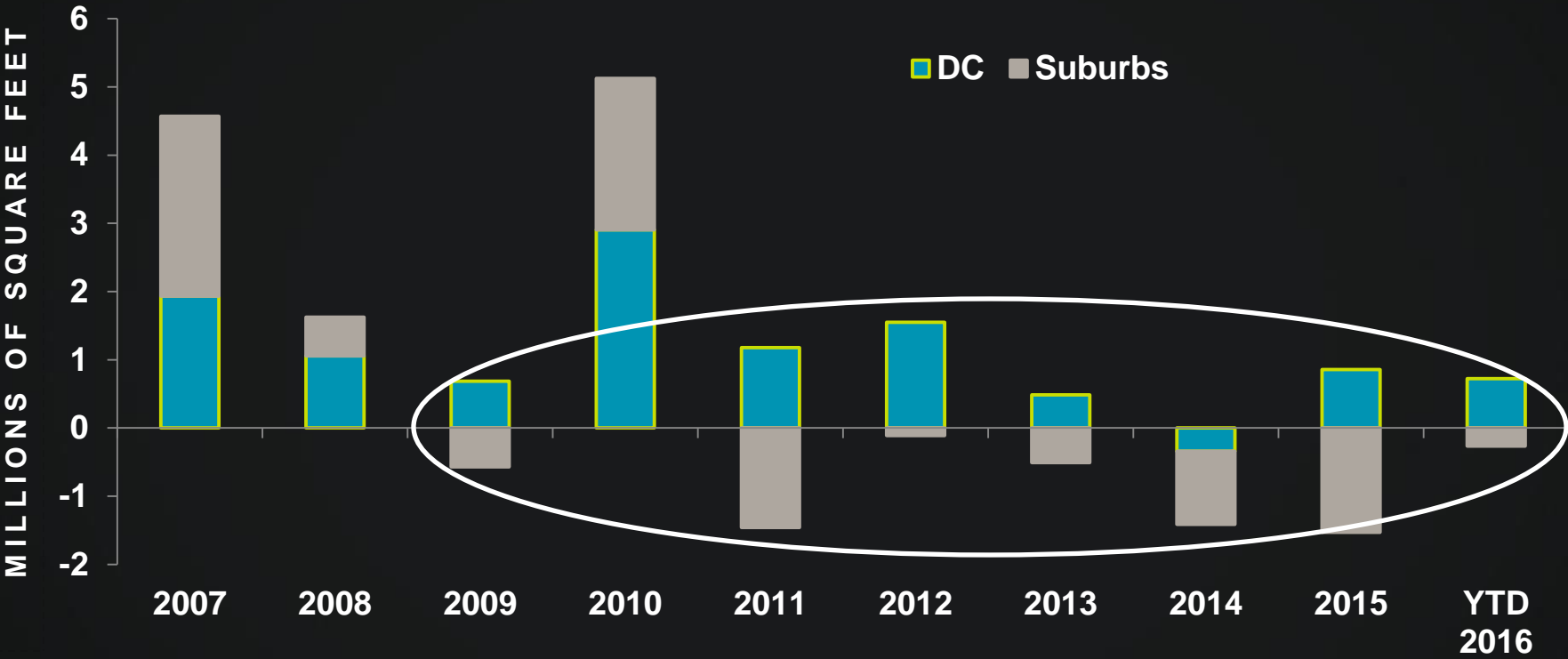


1. Job growth in office-using sectors
2. Plateauing of densification
3. Shadow space and sublet space have declined to cyclical lows
4. Regional cooperation leads to attracting corporate headquarters from outside the region?
5. Modest expectations of GSA re-entering the market?

*Source: NGKF Research; November 2016*

# SUPERIOR PERFORMING OFFICE NICHE: THE DISTRICT

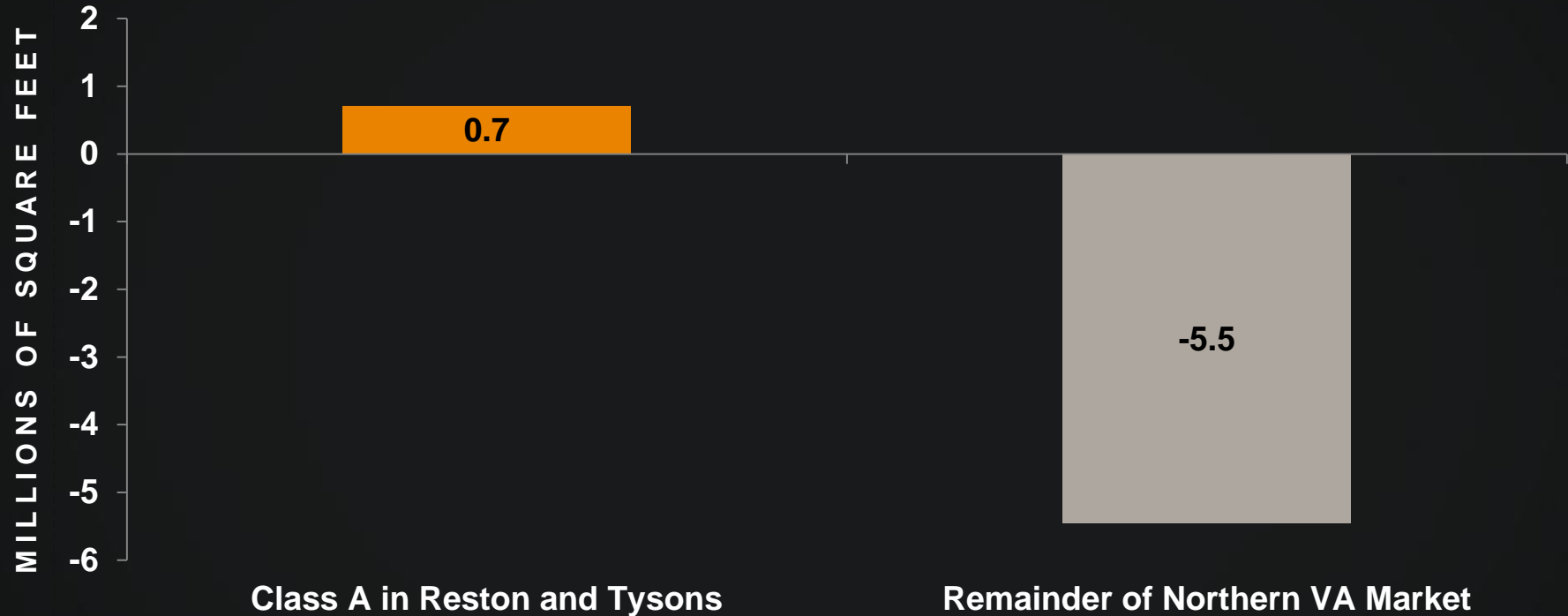
Annual Net Absorption: Washington Metro Area | 2007 – 2016



Source: NGKF Research; November 2016

# SUPERIOR PERFORMING OFFICE NICHE: SILVER LINE CLASS A

Total Net Absorption Since 2011: Northern Virginia



Source: NGKF Research; November 2016

# THE WASHINGTON AREA OFFICE MARKET

## What's Next? Opportunities in the Washington Area Office Market



- Embrace the sharing economy
- Less organic absorption, so collaborate with tenants looking to move, consolidate or densify
- Renovate well-located properties to Class A+, but beware of price niches
- Repurpose obsolete assets to another use
- Focus development in strong submarkets to attract the modern tenant

*Source: NGKF Research; November 2016*

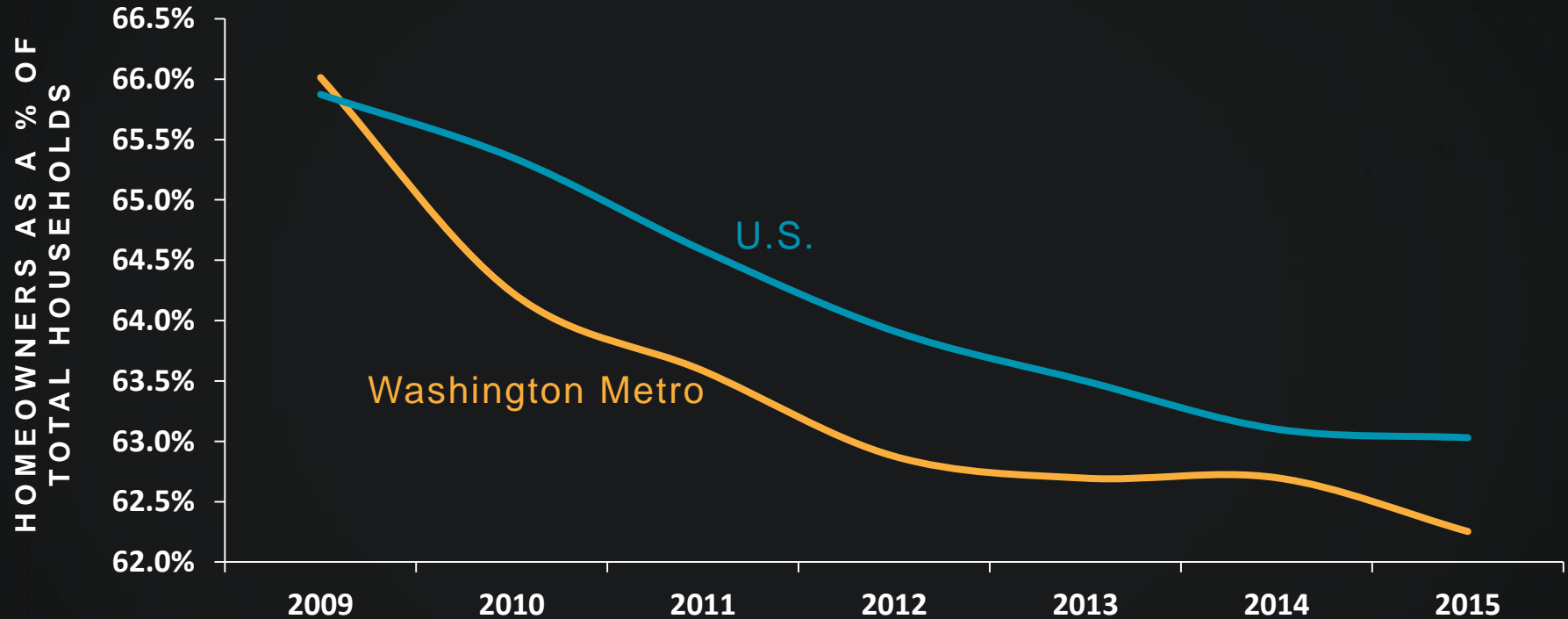
# THE WASHINGTON AREA MULTIHOUSING MARKET





# THE WASHINGTON AREA MULTIHOUSING MARKET

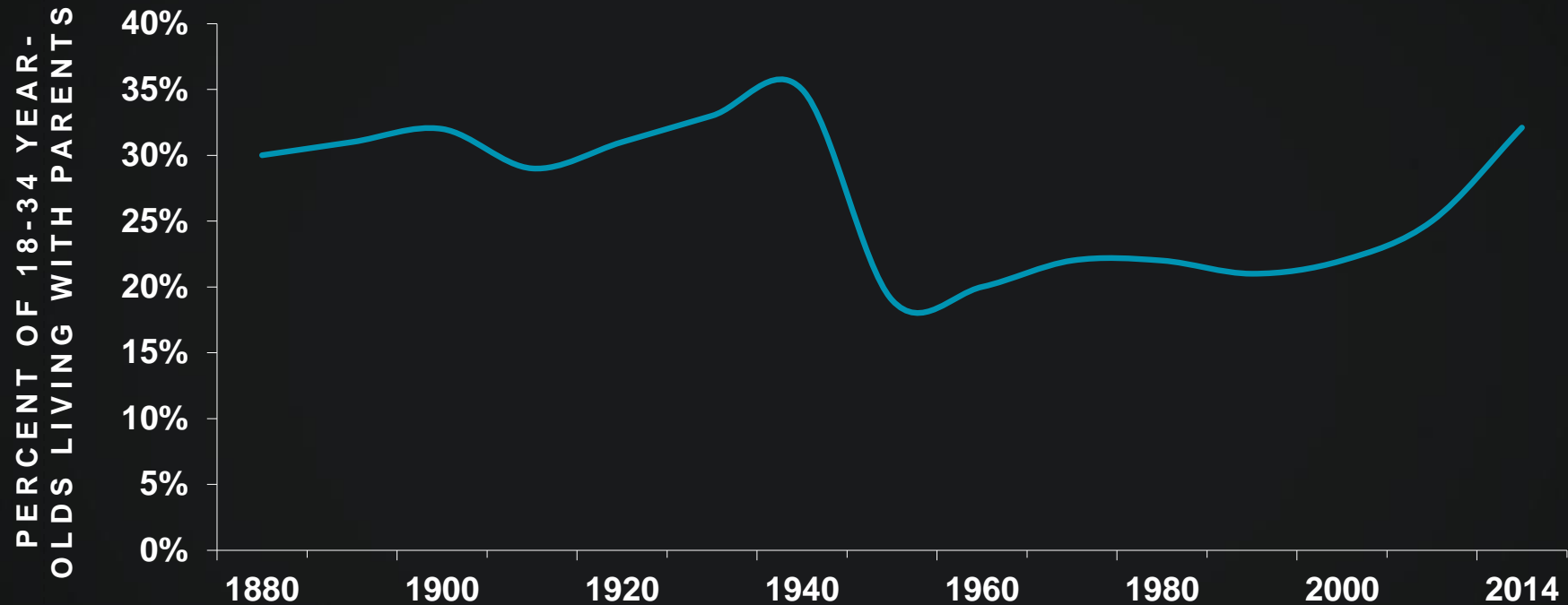
Homeowners as Percentage of Total Households: Washington Metro Area vs. U.S.  
2009 – 2015



Source: U.S. Census Bureau, NGKF Research; November 2016

# THE WASHINGTON AREA MULTIHOUSING MARKET

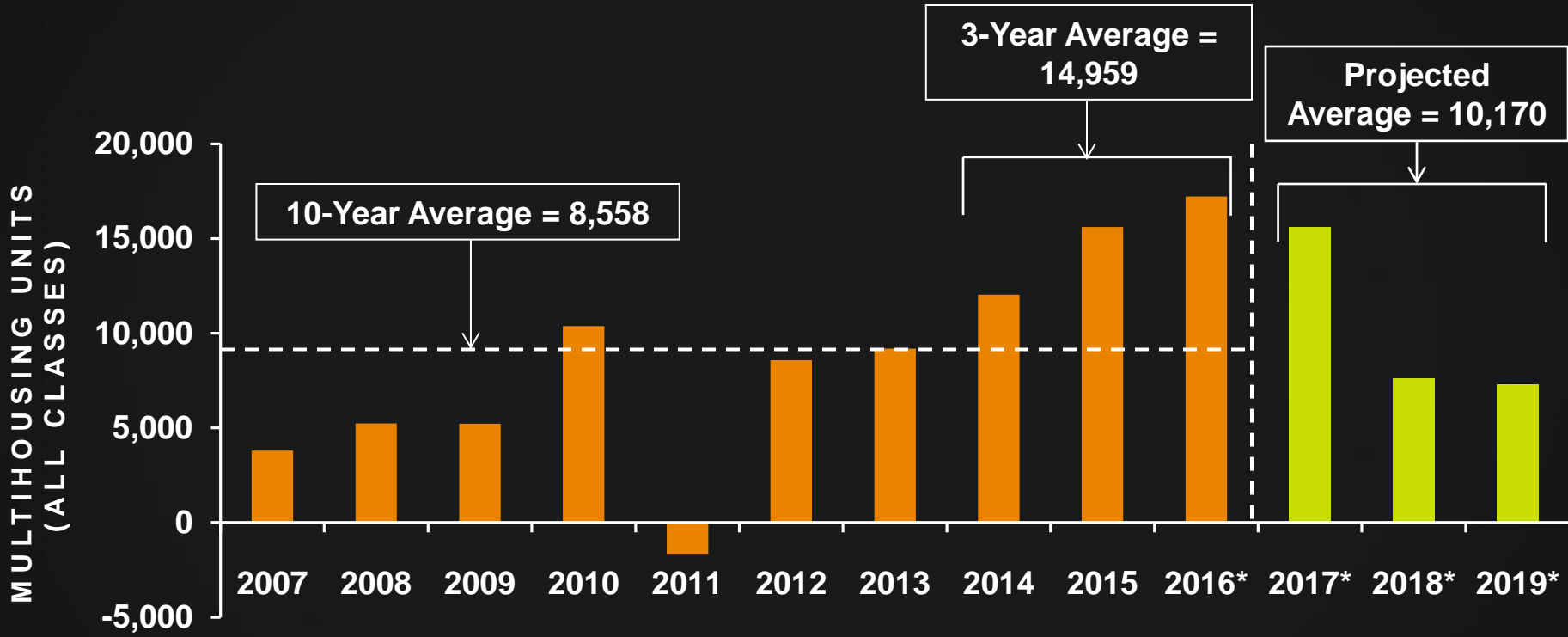
Young Adults Living with Parents: United States | 1880 - 2014



Source: U.S. Census Bureau, Pew Research Center, NGKF Research; November 2016

# THE WASHINGTON AREA MULTIHOUSING MARKET

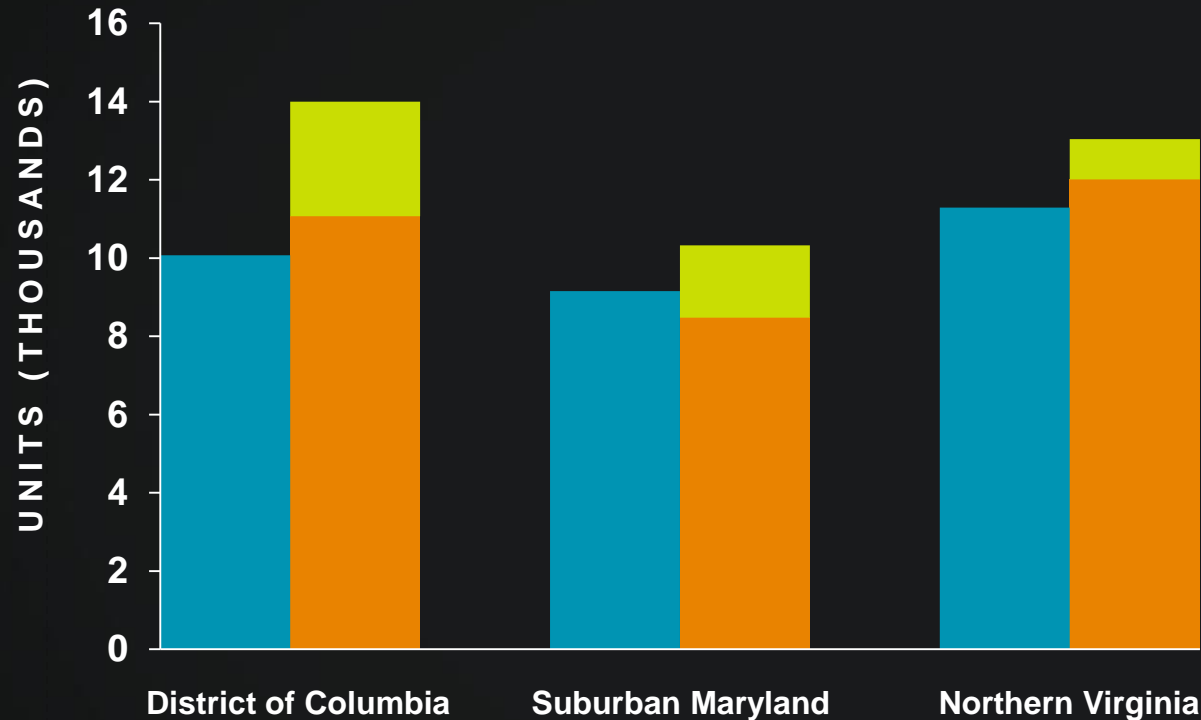
Annual Multihousing Absorption, All Classes: Washington Metro Area | 2007 - 2019



*\*12 months ending third quarter*  
Source: Axiometrics, NGKF Research; November 2016

# THE WASHINGTON AREA MULTIHOUSING MARKET


Demand and Delivery Projections: Washington Metro Area | 4Q 2016 – 3Q 2019




 Demand

Net Absorption:  
10,170 units/year = 30,510 units

## Deliveries

 Planned and may  
deliver by 9/19: 5,817 units

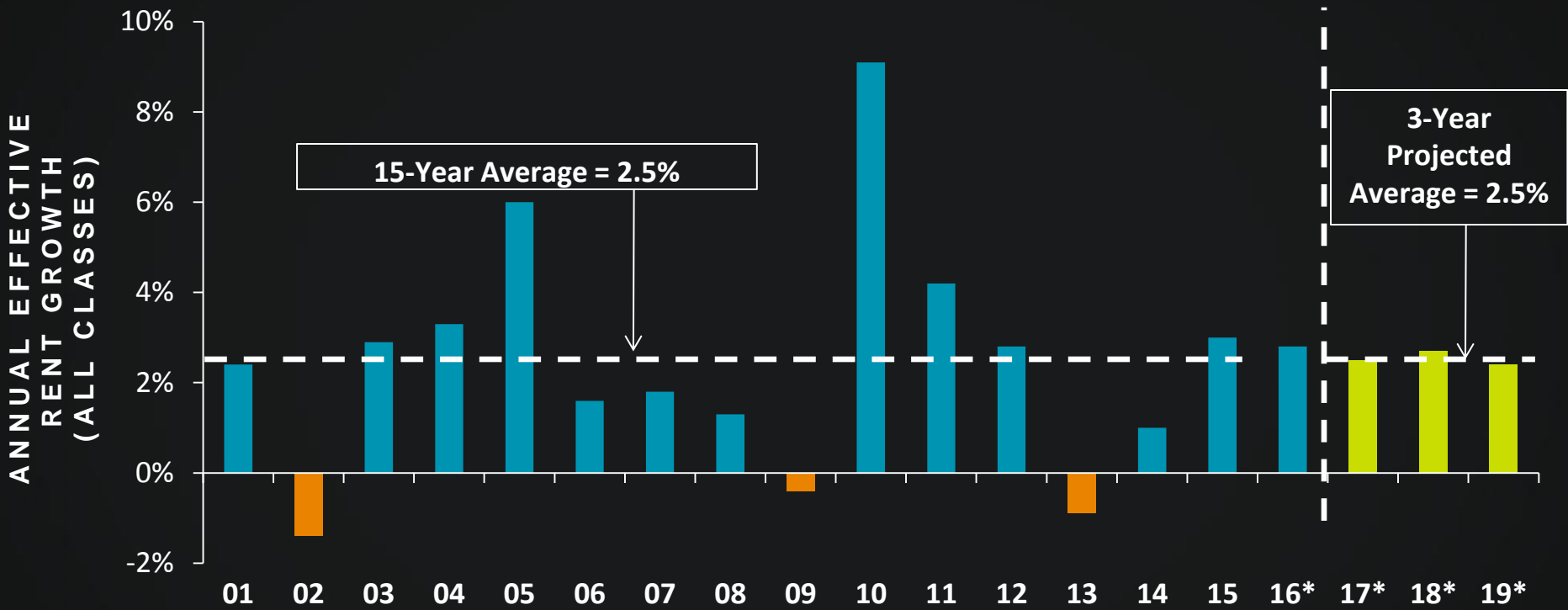
 Under construction:  
31,553 units

Total = 37,370 units

Source: Axiometrics, NGKF Research; November 2016

# THE WASHINGTON AREA MULTIHOUSING MARKET

Annual Effective Rent Growth: Washington Metro Area | 2001 - 2019



\*12 months ending 3<sup>rd</sup> quarter  
Source: Axionometrics, NGKF Research; November 2016

# THE WASHINGTON AREA MULTIHOUSING MARKET

## What's Next? Opportunities in the Washington Area Multihousing Market



- Embrace the sharing economy
- Build units that target empty nesters
- Cater to work-at-home tenants
- Renovate well-located Class B and C assets
- Develop highly-amenitized urban product near Metro stations in select submarkets and price-sensitive gardens at select locations in suburban submarkets

*Source: NGKF Research; November 2016*



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NOVEMBER 16, 2016

