



BENCH^{MARKS} DC

NOVEMBER 20, 2019

TONIGHT'S PROGRAM: CHALLENGES, OPPORTUNITIES AND DEVELOPMENTS TO WATCH

- Four Topics Shaping Washington's Commercial Real Estate Market:
 - 1. A Tale of Two Economies: Does the Expansion Still Have Room to Run?
 - 2. Challenges and Opportunities in the Regional Office Market
 - 3. The Multifamily Market Continues to Defy Expectations
 - 4. Developments to Watch in the Mature Phase of the Cycle
- NKF Extraordinary Achievement Award Presentation to The Meridian Group
- Panel Discussion: What's Next in Washington Investment and Development?

A TALE OF TWO ECONOMIES: DOES THE EXPANSION STILL HAVE ROOM TO RUN?

A TALE OF TWO ECONOMIES

CONFLICTING INDICATORS IN THE U.S. ECONOMY

Encouraging Signs

- Unemployment rate near 50-year low
- Average hourly earnings growth rate well above inflation rate
- Labor force participation rate rising recently
- Quits rate near all-time high

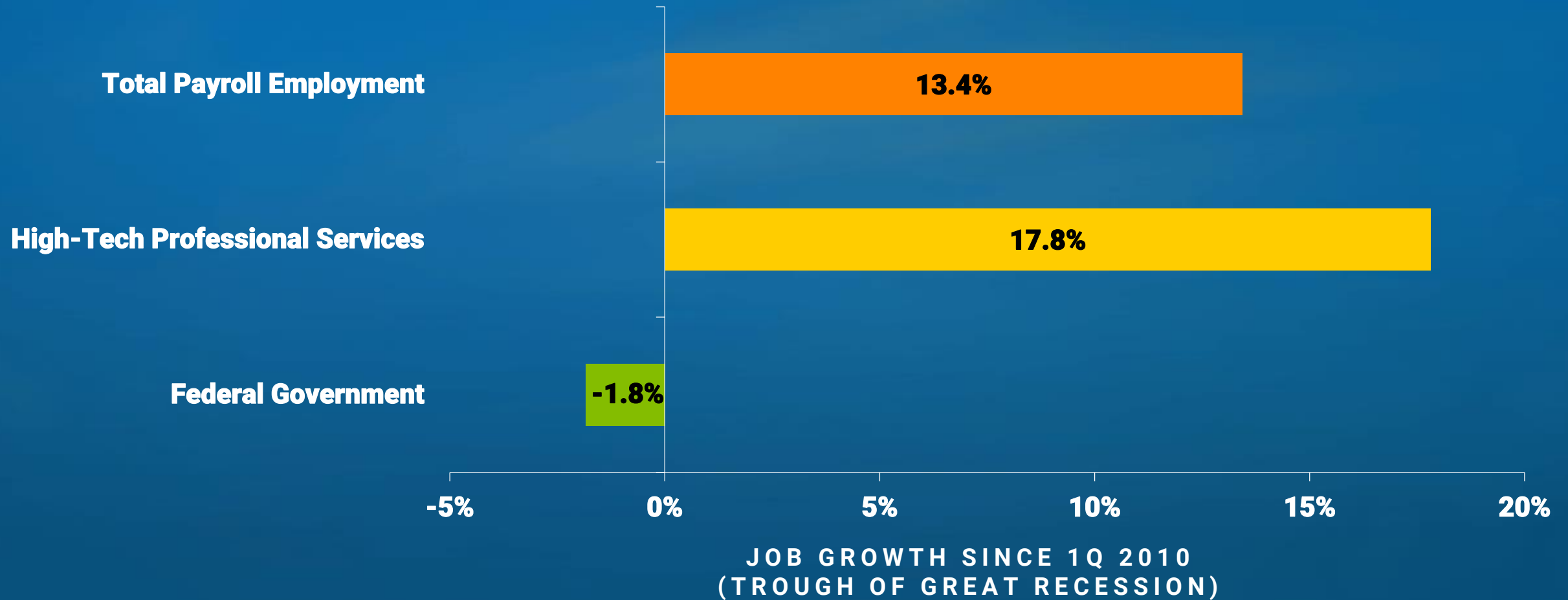
Factors to Watch

- Hiring slowing
- U.S. manufacturing activity recently contracted for the first time in three years
- Global economy decelerating
- Uncertainty about trade between U.S. and China clouding outlook

ECONOMY DIVERSIFYING, WITH HIGH-WAGE JOBS DRIVING GROWTH

GROWTH BY SELECTED SECTORS SINCE GREAT RECESSION

WASHINGTON METRO AREA



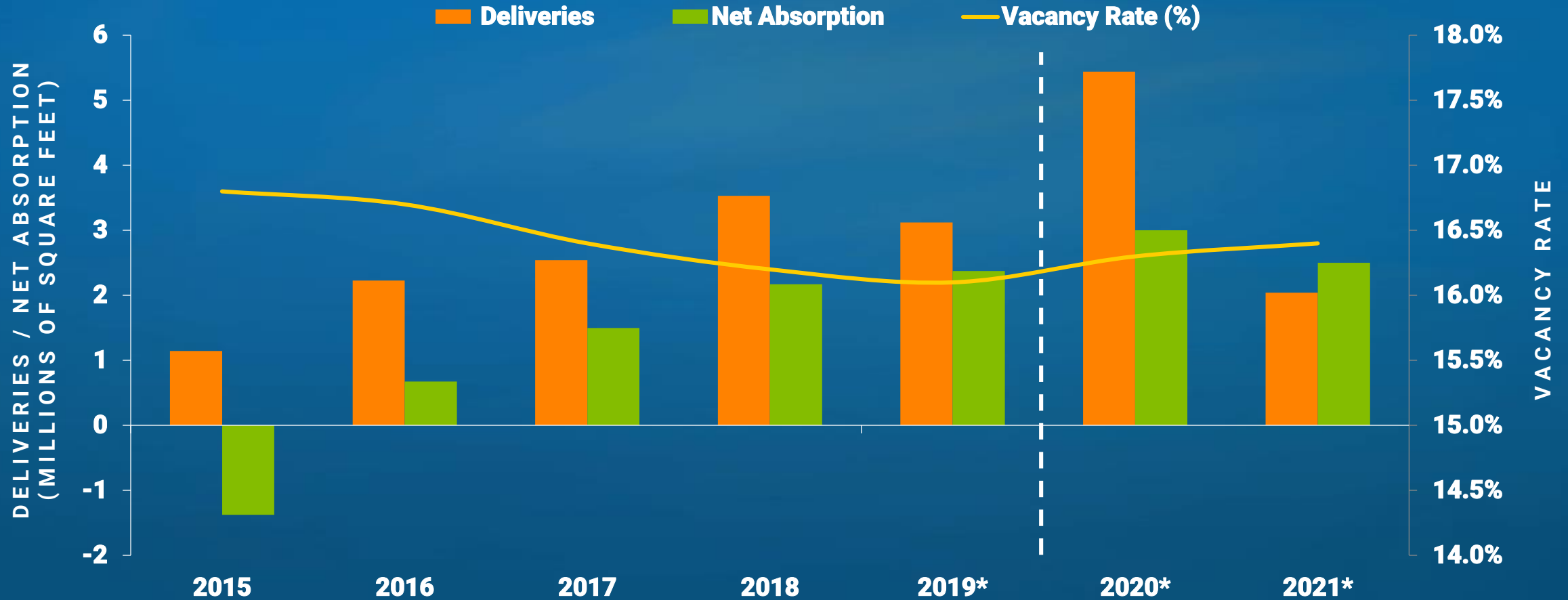
Note: High-Tech Professional Services comprises Professional, Scientific and Technical Services and Computer Systems Design and Related Services
Source: U.S. Bureau of Labor Statistics, NKF Research; November 2019

CHALLENGES AND OPPORTUNITIES IN THE REGIONAL OFFICE MARKET

OFFICE DEMAND RISING, BUT PIPELINE RISING FASTER

DELIVERIES, NET ABSORPTION, VACANCY

WASHINGTON METRO AREA OFFICE MARKET: 2015 – 3Q 2019 AND PROJECTIONS 4Q 2019 – 3Q 2021

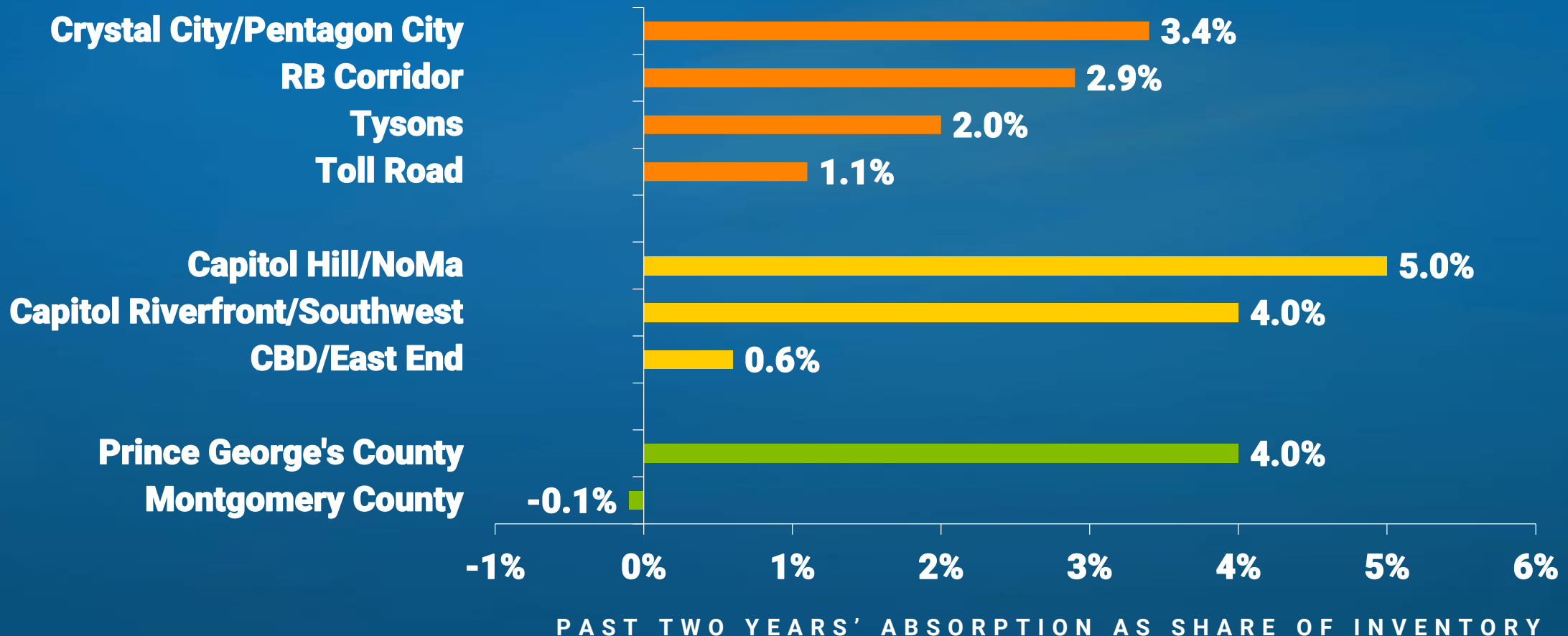


*12 months ending third quarter
Source: NKF Research; November 2019

EMERGING MARKETS CAPTURING MOST DEMAND RELATIVE TO INVENTORY

PAST TWO YEARS' ABSORPTION AS A SHARE OF INVENTORY

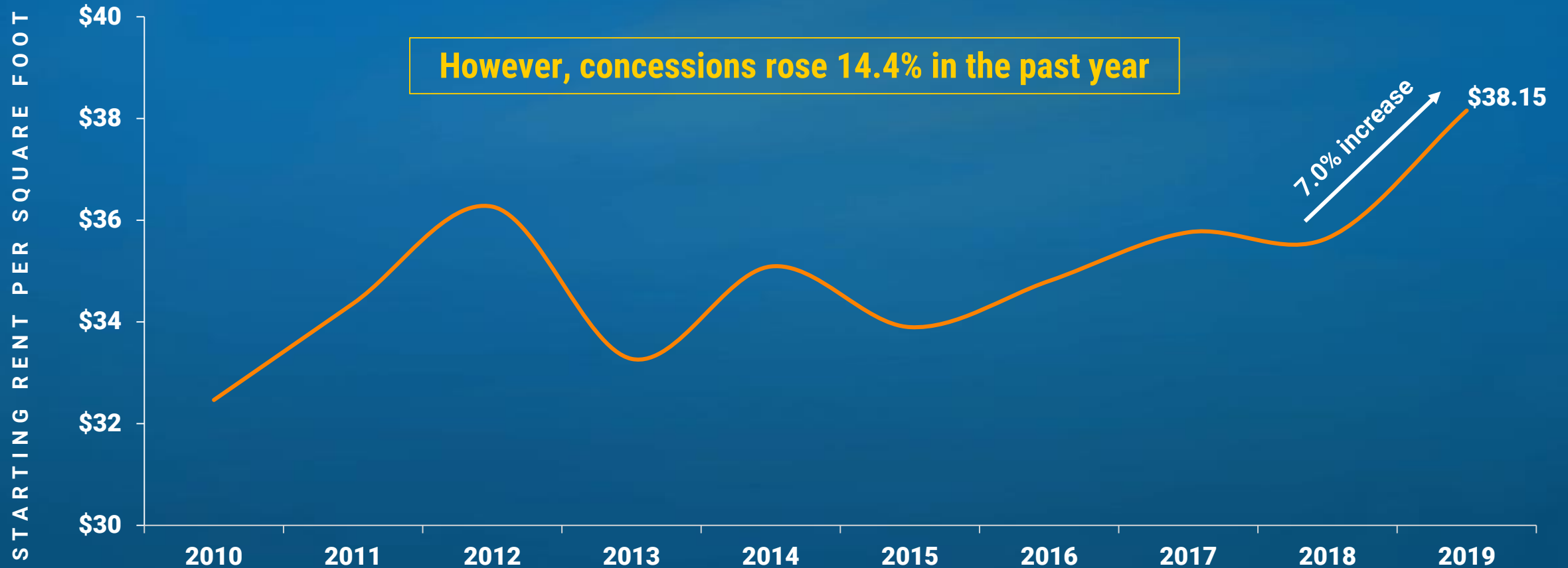
MAJOR WASHINGTON METRO AREA SUBMARKET CLUSTERS



RENTS ARE RISING IN NORTHERN VIRGINIA

CLASS A STARTING RENTS

NORTHERN VIRGINIA OFFICE MARKET

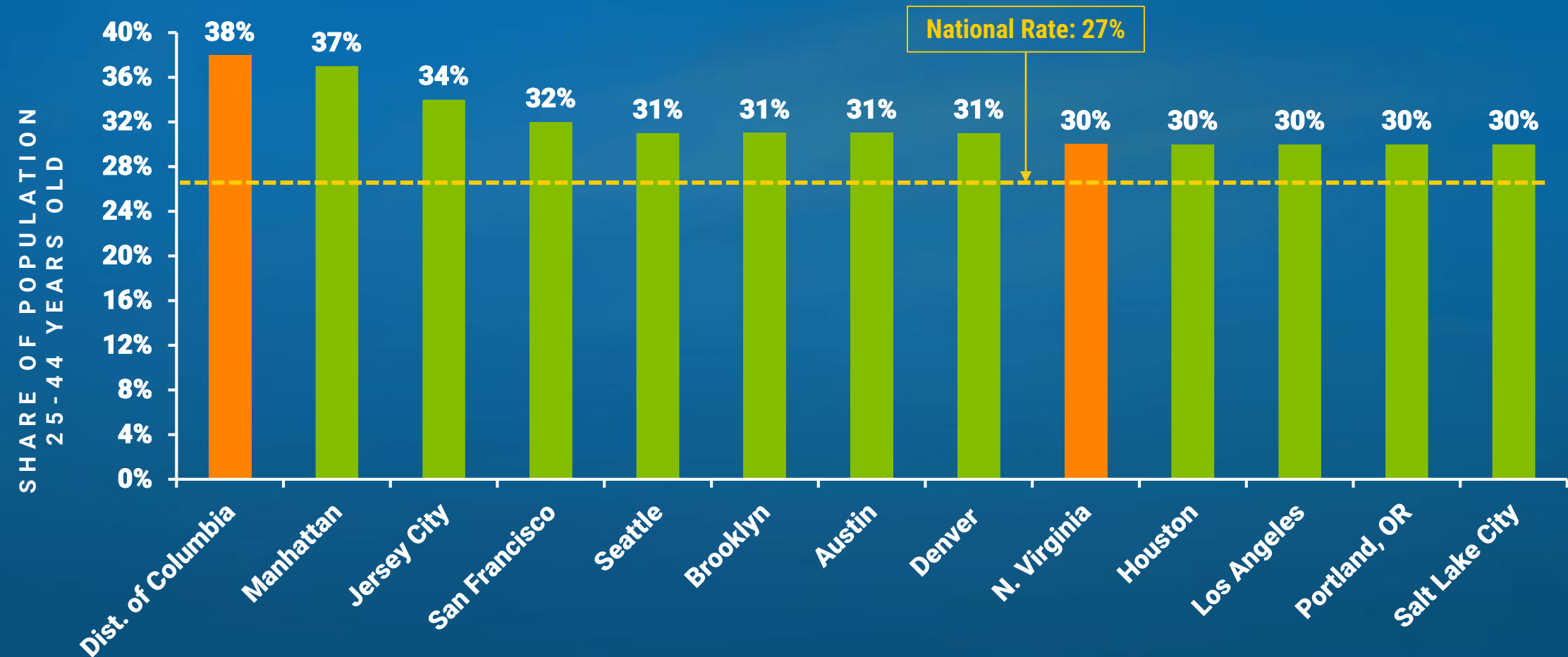


THE MULTIFAMILY MARKET CONTINUES TO DEFY EXPECTATIONS

DISTRICT CONCENTRATION OF YOUNG PEOPLE OUTPACES U.S. AND PEER CITIES

SHARE OF POPULATION 25-44 YEARS OLD

U.S. JURISDICTIONS WITH 30% SHARE OR GREATER

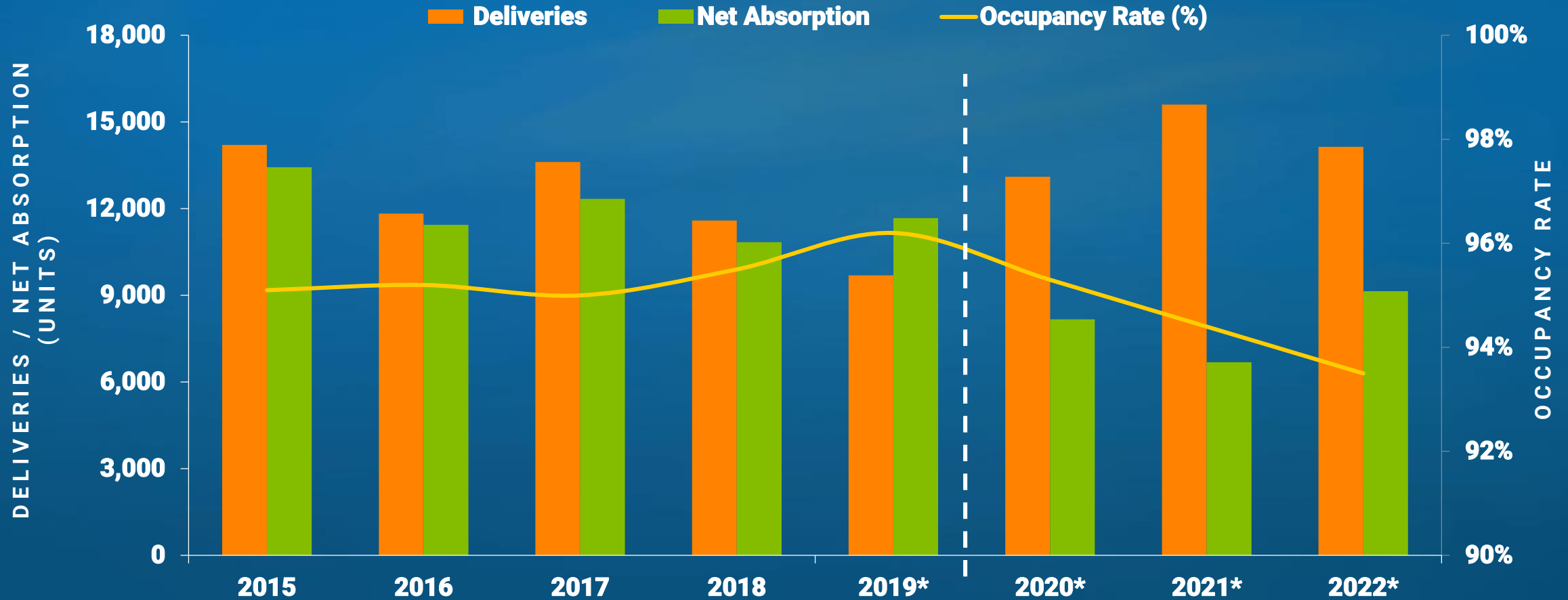


Source: PwC Emerging Trends in Real Estate 2020, NKF Research; November 2019

STRONG MULTIFAMILY DEMAND TO CONTINUE, BUT PIPELINE REMAINS SIGNIFICANT

DELIVERIES, NET ABSORPTION, OCCUPANCY

WASHINGTON METRO AREA MULTIFAMILY MARKET: 2015 – 3Q 2019 AND PROJECTIONS 4Q 2019 – 3Q 2022



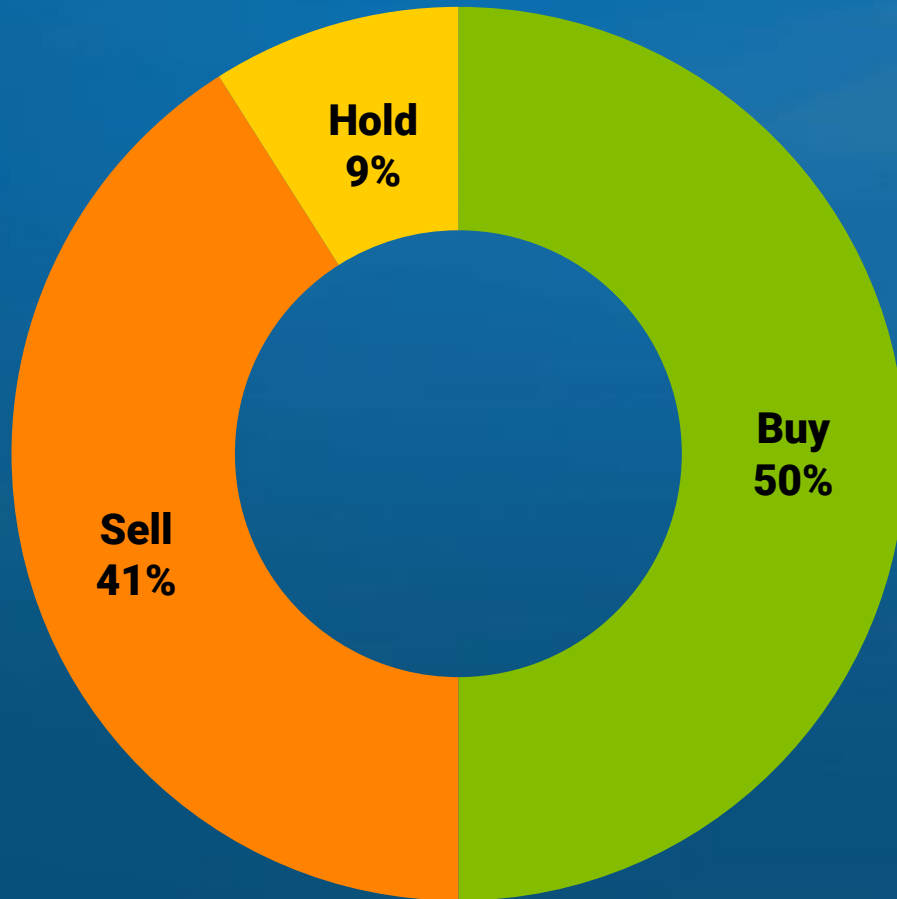
*12 months ending third quarter

Source: Axiometrics, NKF Research; November 2019

WASHINGTON AREA RANKS HIGHLY FOR INVESTORS

EMERGING TRENDS IN REAL ESTATE 2020 SURVEY

NORTHERN VIRGINIA MULTIFAMILY BUY/HOLD/SELL RECOMMENDATION



REAL ESTATE PROSPECTS FOR ALL PROPERTY TYPES (OUT OF 80 MARKETS)

NORTHERN VIRGINIA #14

DISTRICT OF COLUMBIA #28

SUBURBAN MARYLAND #34

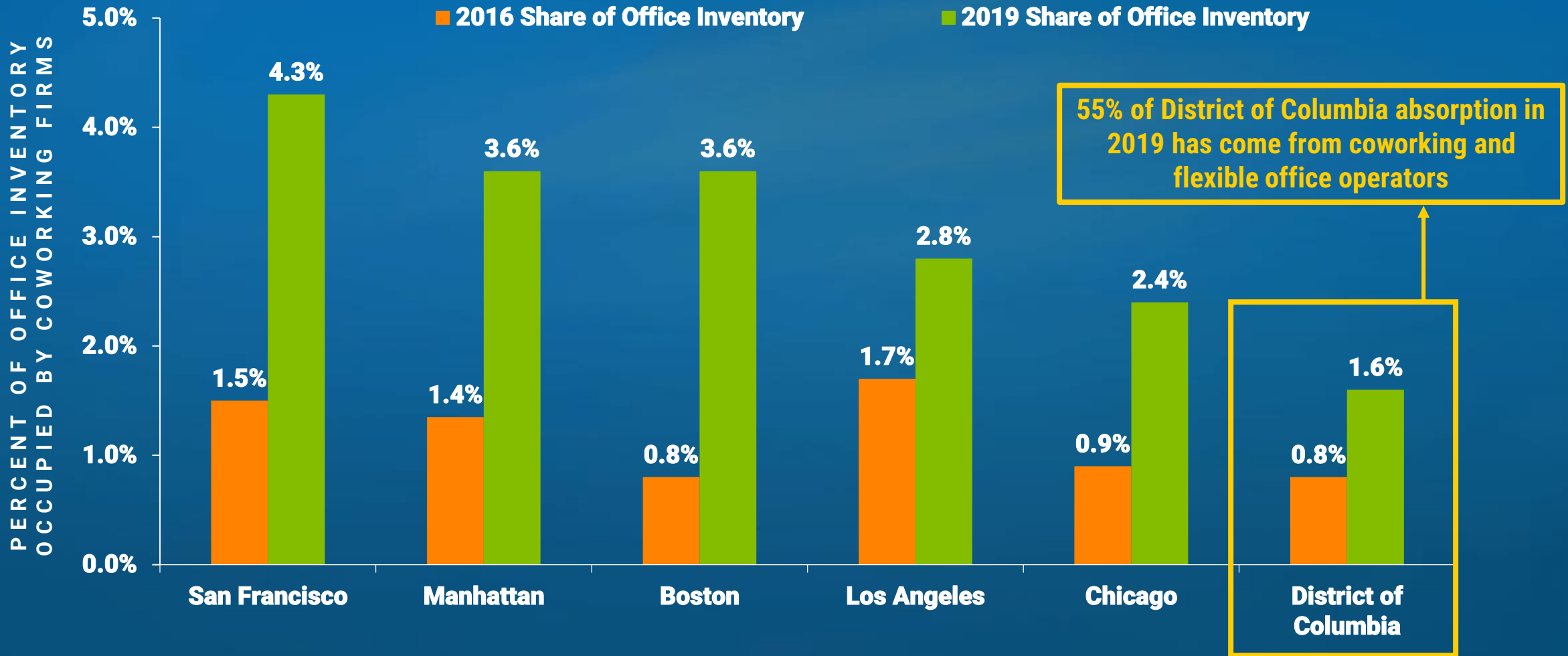
Source: PwC Emerging Trends in Real Estate 2020 Survey, NKF Research; November 2019

DEVELOPMENTS TO WATCH IN THE MATURE PHASE OF THE CYCLE

RAPID GROWTH OF COWORKING AND FLEXIBLE SPACE IN GATEWAY CITIES

SHARE OF CENTER CITY OFFICE INVENTORY OCCUPIED BY COWORKING FIRMS

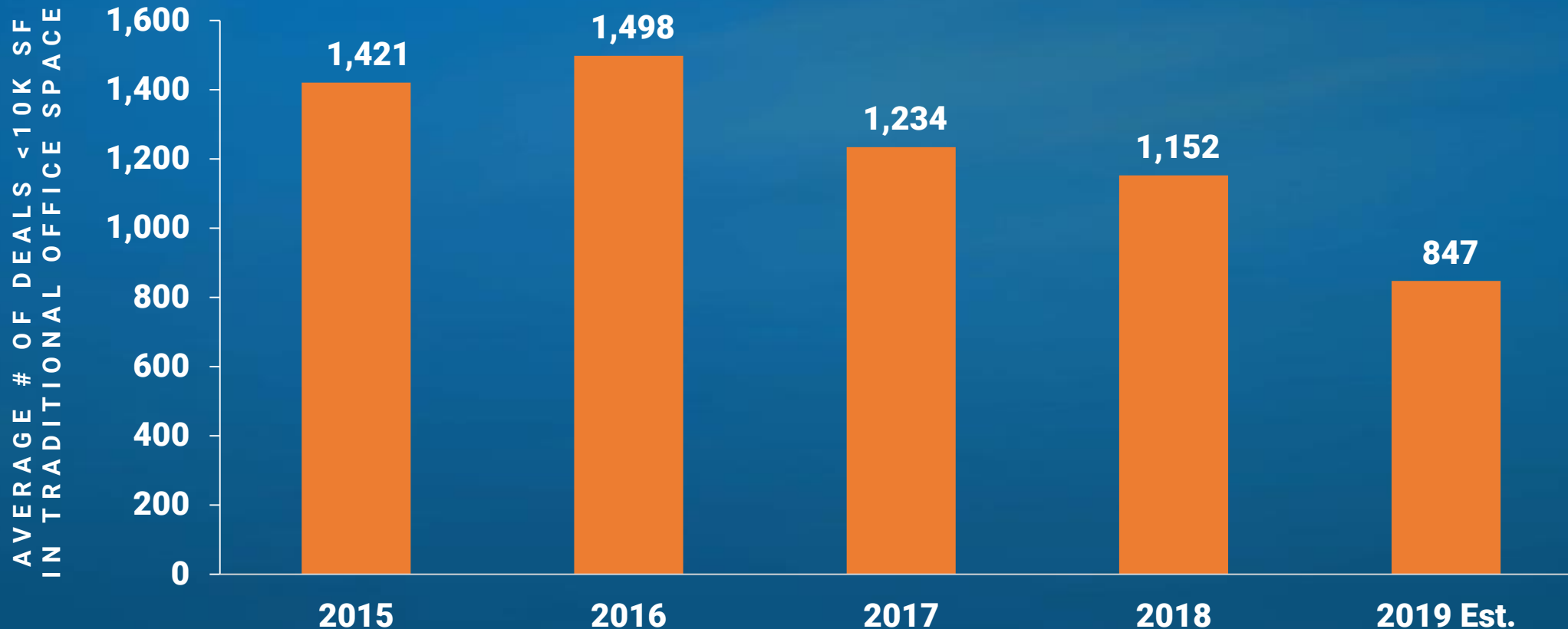
2016 VS. 2019



SMALL DEAL VOLUME DOWN AS MORE TENANTS TURN TO COWORKING

AVERAGE NUMBER OF TRANSACTIONS <10,000 SF IN TRADITIONAL OFFICE SPACE

12 LARGEST U.S. METRO AREAS | 2015 - 2019



Note: Traditional office space refers to deals done directly with an asset owner, and not through a coworking or flexible office provider.

Source: CompStak, NKF Research; November 2019

COWORKING AND FLEXIBLE OFFICE SPACE CONTINUES TO EVOLVE

WHAT ARE THE LATEST DEVELOPMENTS?

1. More asset owners entering the game



TISHMAN SPEYER

WASH★REIT

CARR
PROPERTIES

2. Management agreements becoming more popular

KNOTEL



INDUSTRIOUS

3. WeWork's failed IPO brings questions

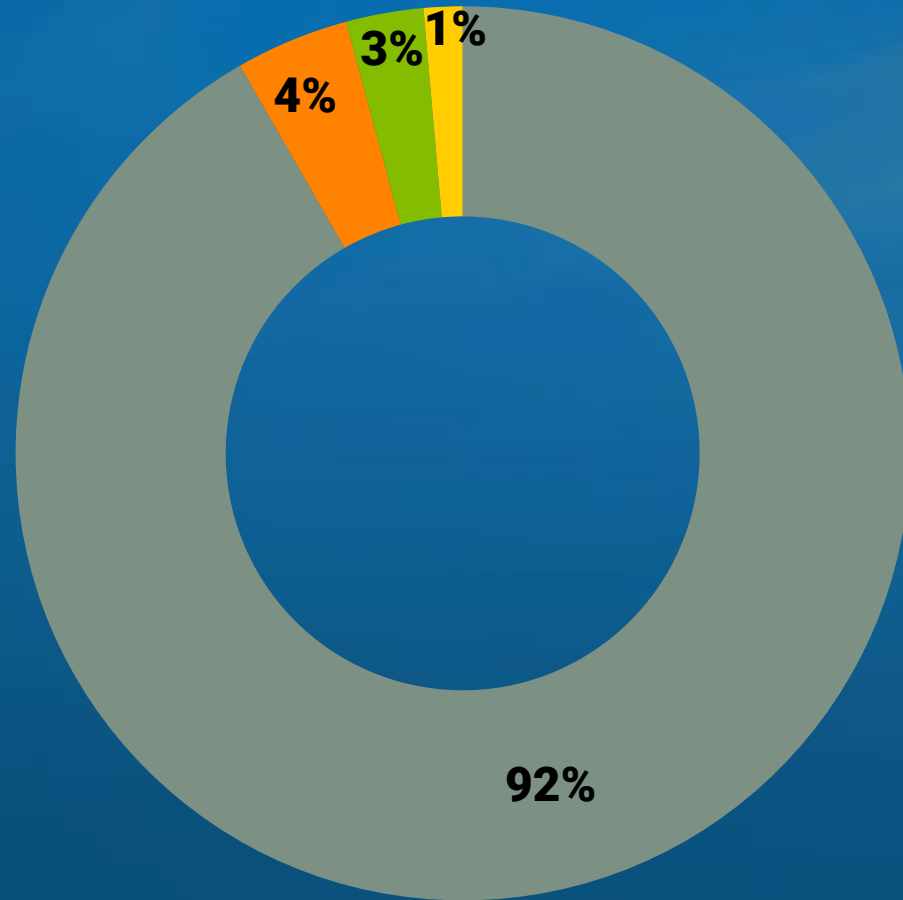
wework

Remember the
~~30%~~ Rule
20%

COWORKING AND FLEXIBLE SPACE EXPOSURE IN THE DISTRICT OF COLUMBIA

OFFICE ASSETS BY SHARE OF COWORKING AND FLEXIBLE SPACE OCCUPANCY

DISTRICT OF COLUMBIA OFFICE MARKET



Assets by Share of Coworking Occupancy

- No Coworking Occupancy
- 1-10% Coworking Occupancy
- 11-25% Coworking Occupancy
- >26% Coworking Occupancy

Note: Includes buildings larger than 20,000 SF
Source: NKF Research; November 2019

IS WASHINGTON THE NEXT BIG TECH MARKET?

MAJOR WASHINGTON METRO TECHNOLOGY TENANT TRANSACTIONS

2017 - 2019



52,000 SF in Washington, DC

facebook

73,000 SF in Washington, DC
75,000 SF at Reston Town Center

yext

43,000 SF in Rosslyn



23,000 SF in Washington, DC

amazon

At least 25,000 jobs
585,000 SF of leased office space
4 million developable square feet

Microsoft

In the market for 300,000 SF
in Northern Virginia

Google

115,000 SF in Reston

aws

670,000 SF in Herndon

AMAZON'S ARRIVAL DRIVING SALES ACTIVITY

RECENT SALES OF BUILDINGS IN NATIONAL LANDING

AURA PENTAGON CITY



PRICE PER UNIT
\$426,966

PARK AT PENTAGON ROW



PRICE PER UNIT
\$392,617

CRYSTAL FLATS



PRICE PER UNIT
\$367,500

PRESIDENTIAL TOWER



PRICE PER SF
\$344

NORTHERN VIRGINIA AVERAGE MULTIFAMILY PRICE PER UNIT = \$252,734

VA AVERAGE OFFICE PRICE
PSF= \$271

*Note: Multifamily and office average pricing is for 12 months ending third quarter 2019
Source: CoStar, Real Capital Analytics, NKF Research; November 2019*



THE “SMART MONEY” IN AN EVOLVING COMMERCIAL REAL ESTATE MARKET

CHALLENGES AND OPPORTUNITIES: TAKEAWAYS AND ACTION STEPS

WASHINGTON METRO AREA

- The U.S. economy remains sturdy, but keep an eye on high debt levels; rising household debt could threaten consumer spending, the largest contributor to GDP growth.
- Emerging office submarkets recently have captured the most demand relative to inventory. Consider investing in these submarkets as they mature, as these assets likely will offer higher risk-adjusted returns.
- The multifamily market has been outperforming other property types, but the pipeline bears monitoring. Submarkets along Metro's Green and Silver Lines offer growth potential as Amazon ramps up its hiring.
- Coworking/flexible office space continues to evolve. Asset owners may wish to focus on service programs and customized amenities to stay competitive.

NKF EXTRAORDINARY ACHIEVEMENT AWARD

THE MERIDIAN GROUP