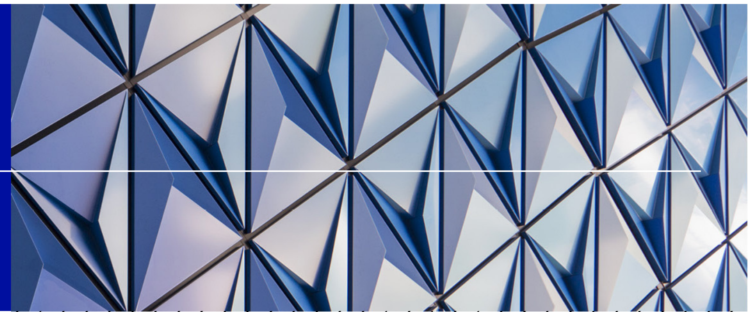


RESEARCH 1Q 2021

Washington Metro Area Market Overview

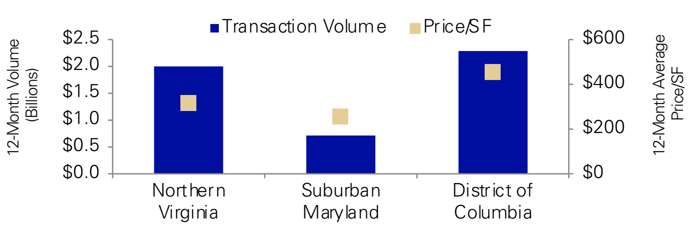
Fundamentals Soften but Employment Rebound is Likely to Tighten Conditions in 2022-2023

The economic recovery in the Washington metro area slowed in the first quarter of 2021; employment momentum failed to maintain the pace reached in the late summer. For the 12 months ending January 2021, the region lost 222,500 jobs; this compares with the region's 20-year average growth of 22,911 jobs per annum. It is common for the labor market to contract marginally in the winter months; however, the timing of this seasonal trend has hampered economic growth. The unemployment rate measured 6.0% in January, below the rate's peak during the Great Recession but 290 basis points higher than the rate in January 2020.

The Fuller Institute's Leading Index, a predictor of the economy's performance over the next six to eight months, increased 0.42% for the 12 months ending in December 2020. Factors such as the second wave of infections and the delayed passage of federal stimulus tempered projections. Recovery is likely to remain slow in the next month or two, but the loosening of business restrictions, rising vaccination rates and warmer weather are likely to accelerate economic momentum thereafter. The Fuller Institute projects that the area's gross regional product decreased by 2.9% in 2020 but will increase by 3.5% in 2021. The Institute also estimated a regional job loss of 208,100 workers in 2020, followed by a recovery averaging 86,460 jobs per annum over the four-year period from 2021 to 2024. Newmark expects the region-wide office market vacancy rate to rise to approximately 18.6% as of the end of first-quarter 2023 from 17.4%, where it stands today.

Capital Markets

Office Investment Sales Volume and Price/SF | 12 Months Ending 1Q 2021



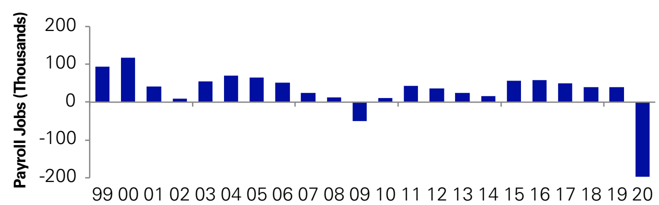
Source: Real Capital Analytics, Newmark Research; March 2021

Economy

- **Historical Job Change:** 222,500 jobs were lost in the 12 months ending January 2021 due to coronavirus restrictions. The region has added an average of 22,911 jobs per annum since 2000.
- **Projected Job Growth:** Newmark forecasts a net gain of 138,600 jobs in 2021. Job gains are expected to average 86,460 per annum from 2021 through 2024 as the economy rebounds.
- **Unemployment Rate:** 6.0% in January 2021, an increase of 290 basis points over the rate of 3.1% at January 2020.

Source: Stephen S. Fuller Institute, U.S. Bureau of Labor Statistics, Newmark Research; March 2021

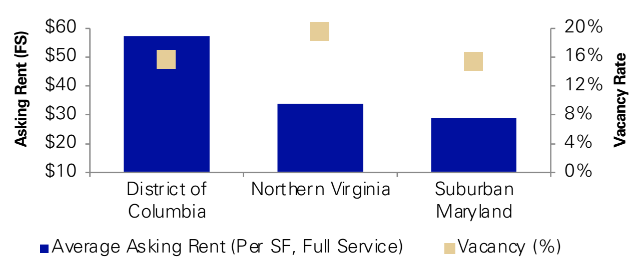
Washington Metro Payroll Job Change



Note: Totals reflect annual average net change.
Source: U.S. Bureau of Labor Statistics, Newmark Research; March 2021

Market Analysis

Asking Rent and Vacancy Rate



Market Summary

	District of Columbia	Northern Virginia	Suburban Maryland	Metro Area
Total Inventory (SF)	130.5 M	165.4 M	75.4 M	371.3 M
Vacancy Rate	15.7%	19.6%	15.4%	17.4%
Quarterly Net Absorption (SF)	-418,696	-659,905	415,211	-663,390
Average Asking Rent (Per SF, Full Service)	$57.37	$33.86	$29.08	$41.15
Under Construction (SF)	2.1 M	2.1 M	1.2 M	5.3 M
YTD Deliveries (SF)	0.2 M	0.6 M	0.9 M	1.8 M

Source: Newmark Research; March 2021

Vaccinations Pave the Way for Safe Return to Offices

Significant progress has been made with respect to the distribution and administration of the coronavirus vaccines in early 2021. Nationally, the U.S. vaccinated an average of more than two million people daily in March. Early candidates to receive the vaccines were largely older and health-compromised residents; however, each local substate is slowly broadening vaccine eligibility. At the writing of this report, Maryland and the District intend to open eligibility to all residents over 18 years of age on April 27 and May 1, respectively. As age restrictions are loosened, a larger number of office workers will begin receiving vaccinations, which will aid office re-boarding.

The Washington region will face challenges in rapidly reaching widespread immunity. Market size and labor composition will present unique challenges, as the Washington metro ranks 6th nationally in total population and 1st in office-using employment. Additionally, demand for the vaccine is exceptionally strong locally. According to the Census Bureau's Household Pulse Survey from early March, which measures the number of individuals who have or intend to be vaccinated, the Washington metro ranks 1st among the largest U.S. metros at 78.9%. This high rate of vaccine acceptance cuts both ways; while local immunity will likely be above average, it may take longer to administer the vaccinations demanded.

Despite the progress on vaccinations, viral spread remains prevalent, and most workers have not begun returning to the office. According to Kastle Systems key card data, Washington's office occupancy was 22.1% in mid-March, which is slightly higher than its pandemic average of 20.3% but below the current 10-city average of 25.0%.

Politicians Lobby for Reconsideration of Plan to Relocate FBI Headquarters

A decade-long plan to relocate the Federal Bureau of Investigation's (FBI) headquarters from Pennsylvania Avenue was halted by the Trump administration in favor of redeveloping in-place. Local politicians, cognizant of the Bureau's need for modern space and the economic opportunities of a relocation are looking to re-engage with the new administration and Congress. The FBI's current facility at 935 Pennsylvania Avenue, NW totals 2.4 million square feet and is incompatible with the modern space and security demands of the FBI.

According to a GSA report, a new FBI headquarters would require 2.6 million square feet and come at a cost of $3.3 billion. Past efforts by the GSA to identify redevelopment opportunities in the Washington metro area resulted in three shortlisted suburban development sites in Prince George's County (MD) and Fairfax County (VA). Attracted by the economic benefits of the headquarters, local jurisdictions had invested significant resources in developing plans to accommodate a new facility. Seeing the opportunity to re-engage with the GSA under the Biden administration, local politicians have begun to lobby for reconsideration of the current redevelopment plans.

Since the three shortlisted relocation options are in Maryland and Virginia, the economic benefits of a new FBI relocation are largely positive for each of those states. The District of Columbia faces larger tradeoffs in a relocation, however. While the District would gain 6.6 acres of highly desirable, developable and taxable land, it would also lose the roughly 11,000 highly paid daytime workers that had occupied that block. Although a firm decision is far from imminent, the reengagement of politicians may encourage the GSA to reconsider its plans to redevelop the FBI headquarters versus relocate.

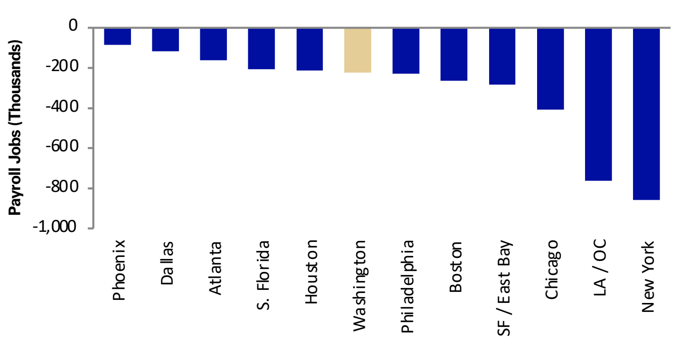
Large GSA Moves Shape Market Indicators

The GSA has been one of the more active tenants throughout COVID-19, and its activity has been a benefit to the otherwise quiet market. Long-planned relocations of large federal agencies have resulted in atypical shifts to market fundamentals in certain submarkets. In Virginia's Springfield submarket, the 622,812-square-foot move-in of the Transportation Security Administration caused vacancy to decline during the first quarter to 20.9%. Similarly, in the District's NoMa submarket, vacancy declined in late 2020 due to the 473,000-square-foot move-in of the Federal Communications Commission (FCC). This trend will continue in the coming quarters as the Pension Benefit Guaranty Corporation moves into 431,785 square feet in the District's Southwest submarket, largely offsetting the loss of the FCC from 2020.

Submarkets that have captured large GSA relocations recently may find fundamentals tightening; however, these shifts in tenancy can overshadow the overall market trajectory. Modest tenant demand has softened markets regionally, so despite GSA occupancy gains and tightening fundamentals, markets will remain challenged into 2022.

Payroll Job Change—Largest Metro Areas

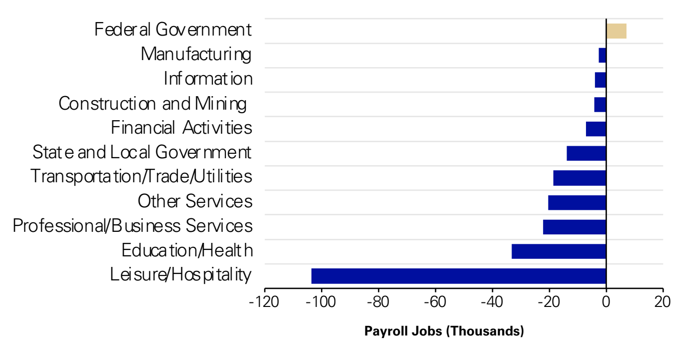
12 Months Ending January 2021



Source: U.S. Bureau of Labor Statistics, Newmark Research; March 2021

Job Change By Industry

Washington Metro Area I 12 Months Ending January 2021



Source: U.S. Bureau of Labor Statistics, Newmark Research; March 2021

Muted Demand Weighs on Occupancy Across Region

The first quarter tallied -663,390 square feet of net absorption in the region, marking a significant difference from fourth-quarter 2020, in which the region lost about 1.6 million square feet of occupancy. Suburban Maryland led the substate regions with net absorption of 415,211 square feet. Net absorption registered -418,696 square feet in the District of Columbia and -659,905 square feet in Northern Virginia. Occupancy contraction and new construction deliveries have resulted in a continued rise in vacancy, which measures 17.4% at the end of the first quarter. This marks a 60-basis-point increase from the previous quarter and a 140-basis-point increase from one year ago.

Four projects delivered in the Washington metro area in the first quarter, totaling 1.8 million square feet. These projects collectively delivered 100.0% preleased; although not all tenants moved in during the first quarter, these deliveries did account for 1.5 million square feet of gross absorption. The delivered properties include The Wilson, at 7272 Wisconsin Avenue in the Bethesda submarket, which saw WeWork and ProShares occupy space in the first quarter. Vacancy in The Wilson measures 243,318 square feet, as Enviva, Walker & Dunlop and Fox News Networks have yet to move in. Also delivering were the new headquarters for the U.S. Citizenship and Immigration Services, located at 1 Capital Gateway Drive in Southern Prince George's County, and the Transportation Security Administration, located at 6595 Springfield Center Drive.

Despite the region's elevated vacancy rate, weighted average asking rents grew 1.5% over the past 12 months to $41.15/SF. Annualized rent growth has been decelerating for the past year, which is consistent with asking rents serving as lagging indicators during downturns. Further softening rent growth, the region's construction pipeline has been shrinking and therefore limiting the weight of new product and renovated assets on average rents. Relative to last quarter, asking rents have contracted by $0.02/SF, which is only the fourth time in the past five years that rents have fallen quarter-to-quarter. Effective rents, on the other hand, have been under consistent downward pressure over the past year as tenants are being offered significant concession packages as incentive to relocate. Although the COVID-19 vaccines will help to reduce uncertainty and promote a safe return to offices, tenants and asset owners may continue to favor short-term lease renewals and extensions until more is known about workplace strategy post-pandemic. Flexible scheduling may modestly reduce overall net demand in the years ahead, but concerns surrounding corporate culture and talent retention are encouraging many tenants to reoccupy their office spaces as soon as it is safe to do so.

New Deliveries Soften Class A Market

Although the region's Class A market registered 145,244 square feet of positive net absorption in the first quarter, much of the gain was supported by new deliveries. The addition of 1.8 million square feet of Class A inventory supported the positive absorption as tenants relocated and occupied space in the new buildings, but these deliveries also inflated Class A vacancy by 60 basis points from last quarter, pushing it to 17.1% in first-quarter 2021.

Current Conditions

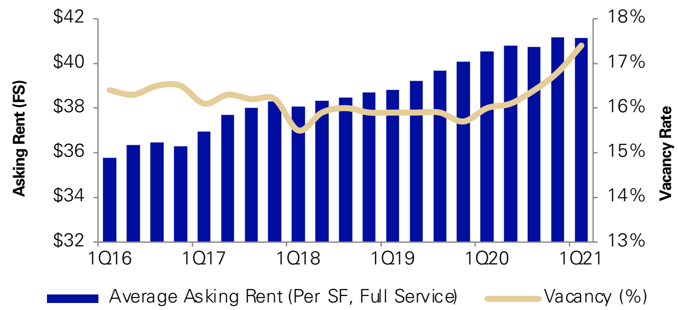
– The region registered -663,390 square feet of net absorption during the first quarter; negative net demand from 2020 still weighs on the market, as vacancy is elevated.

– Class A space tallied positive net absorption of 145,224 square feet during the first quarter, supported by four newly-constructed buildings delivering and welcoming tenants in the first quarter.

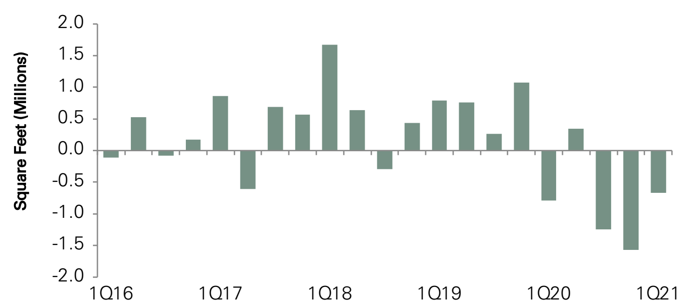
– Despite elevated vacancy, average asking rent growth remains positive, primarily a function of new product asking top-of-the-market rates. The pace of annual rent growth has decelerated to 1.5%, reflecting limited demand. Effective rents have been under downward pressure due to elevated concessions.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Prior Year	24-Month Forecast
Total Inventory (SF)	371.3 M	369.5 M	368.1 M	↑
Vacancy Rate	17.4%	16.8%	16.0%	↑
Quarterly Net Absorption (SF)	-663,390	-1.6 M	-792,254	↑
Average Asking Rent/SF	$41.15	$41.17	$40.55	→
Under Construction (SF)	5.3 M	6.8 M	7.5 M	↓
Deliveries (SF)	1.8 M	0	1.2 M	↓

Washington Area Economic Outlook

The economic recovery in the Washington metro area slowed in the first quarter of 2021; employment momentum failed to maintain the pace reached in late 2020. For the 12 months ending January 2021, the region lost 222,500 jobs; this compares with the region's 21-year average growth of 22,911 jobs per annum. It is common for labor to contract marginally in the winter months; however, the timing of this seasonal trend has hampered economic growth. The unemployment rate measured 6.0% in January, below the rate's peak during the Great Recession but 290 basis points higher than the rate in January 2020.

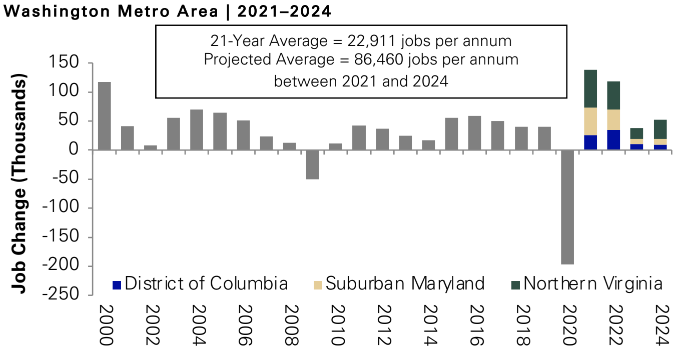
The BLS measured regional job losses of 197,000 jobs in 2020. The Fuller Institute estimates the employment recovery will average 86,460 jobs per annum over the four-year period from 2021 to 2024. Most of the early job losses related to the pandemic were in the retail, education/health and leisure/hospitality sectors. While office-using sectors also contracted, the losses were less severe, which helped to insulate the region's office market to a degree. Still, office-using sectors remain challenged; employment in January 2021 was down 3.1% in those sectors compared with one year ago. Newmark expects the regional office market vacancy rate to rise to approximately 18.6% as of the end of first-quarter 2023 from 17.4%, where it stands today.

The Fuller Institute's Leading Index, a predictor of the economy's performance over the next six to eight months, increased 0.42% for the 12 months ending in December 2020, but has been decelerating since reaching 1.1% in August 2020. Low consumer expectations have been a weight on the index, as pessimism regarding the passage of stimulus packages, political uncertainty and business restrictions dominated perspectives in late 2020. Many of these conditions are primed for improvement in early 2021 and, combined with rising COVID-19 vaccination rates, are likely to support rising economic activity. The Fuller Institute projects that gross regional product decreased by 2.9% in 2020 but will increase by 3.5% in 2021.

Washington is primed to enter a period of economic recovery in 2021, barring a prolonged resurgence of the virus. Business restrictions are likely to remain in place for several more months, but the widespread distribution of vaccines marks a turning point in the fight against the deadly virus and a return toward normal economic conditions.

Payroll Job Growth Forecast

Washington Metro Area | 2021–2024



Source: U.S. Bureau of Labor Statistics; forecast developed by Newmark Research with reference to data from the Stephen S. Fuller Institute and Moody's Analytics; March 2021

Note: Previous projections have been revised due to the coronavirus pandemic and are subject to further revision as conditions change.

Office Market Outlook

Over the next 12 to 24 months, the market faces a number of challenges that will impact absorption and rent growth, but opportunities also are available:

– The region's supply and demand imbalance has been exacerbated during the pandemic. First-quarter deliveries added 1.8 million square feet to the market, the most delivered since second-quarter 2018. Although those deliveries were 100.0% preleased, most tenants downsized in relocating, therefore increasing vacancy and reducing net demand. Oversupply has resulted a softening of market fundamentals, including rising concession packages. Both asset owners and tenants have taken a cautious approach during the pandemic, which is slowing markets and softening rents. More than 5.3 million square feet of office space is currently under construction and is approximately 66.5% preleased. New product is most appealing to tenants; the current leasing environment may make filling older spaces a challenge.

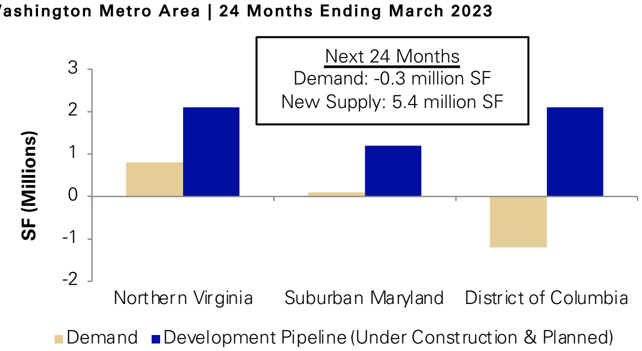
– Remote work is likely to be more common than before the pandemic but will vary by employee function. Many employers are concerned about their ability to build a strong corporate culture and to attract/retain top talent while working remotely, underscoring the value of office space. The degree to which firms will reassess their long-term workforce and workplace strategies is still unknown but increasing vaccination rates will aid office re-boarding.

– Regional sublet availability has risen by 3.2 million square feet since fourth-quarter 2019. The pandemic-induced shift to a remote workforce caused many tenants to "test the market" and list their unused spaces. Although some of these firms likely listed their space opportunistically and intend to re-occupy when it is safe to do so, others may have permanently vacated. Sublet availability has declined slightly from its peak of 2.43% in November 2020 and measured 2.39% in late March 2021, but greater reductions should be expected as vaccinations create a timeline for safe re-boarding.

For additional information on the District of Columbia, Northern Virginia, and Suburban Maryland office markets, please visit Newmark's website: [Mid-Atlantic Market Reports.]

Supply/Demand Forecast

Washington Metro Area | 24 Months Ending March 2023



Source: Stephen S. Fuller Institute, Newmark Research; March 2021

District of Columbia Office Market

The District of Columbia's office market continued softening in the first quarter of 2021. Although market activity modestly rebounded in the fourth quarter, the recovery's momentum stalled in the new year. Net absorption registered -418,696 square feet during the first quarter of 2021. Slow leasing activity over the last 12 months has limited opportunities for occupancy gains. This trend may become increasingly apparent in 2021 as the market exhausts the pipeline of leases signed prior to the start of COVID-19.

Vacancy continued to rise steadily during the first quarter, reaching 15.7%, a 50-basis-point increase from the fourth quarter and a 120-basis-point increase from a year ago. The District of Columbia's development pipeline measures 2.1 million square feet excluding renovations and is 54.1% preleased. Relatively low preleasing rates indicates that these deliveries may apply upward pressure on vacancy as space delivers unoccupied. One new office building delivered in the first quarter at 250 M Street SE. This project added 227,948 SF to inventory and was immediately occupied by the DC Department of Transportation, which relocated from nearby 55 M Street SE. Office construction activity is expected to slow in the coming quarters as supply-and-demand conditions suppress appetite among developers to break ground.

Asking rents declined in the first quarter to $57.37/SF, which offset the 12-cent gain measured in the fourth quarter of 2020. Although leasing conditions are expected to remain sluggish until public health conditions improve in earnest, asking rents are likely to hold fairly steady. Effective rents will be under downward pressure, as elevated vacancy yields generous concession packages for tenants in the market for new space.

District of Columbia Outlook

The District of Columbia's office market will continue to face pandemic-induced headwinds throughout 2021, as supply and demand forces remain imbalanced. While the construction pipeline has slowed over the past two years, several new and renovated buildings are still anticipated to deliver by the end of 2021. Any supply-side inventory expansion will apply upward pressure on vacancy, particularly given current sluggish demand. The combination of slow demand and rising inventory are expected to elevate the District's vacancy to 17.9% by March 2023.

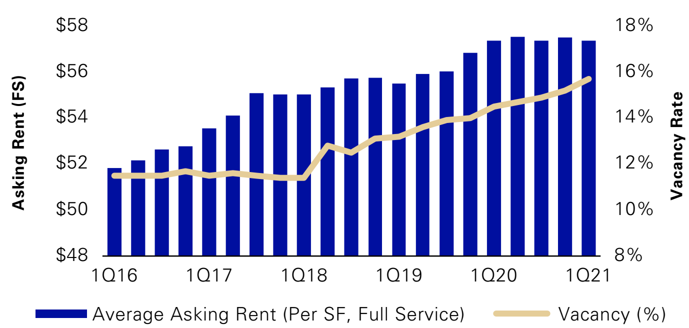
Average asking rent growth has been effectively static over the past year. Although face rents are expected to remain steady in 2021, market forces will apply downward pressure on effective rents. Tenant demand for office space may increase in the second half of 2021, as vaccination rates permit the safe re-boarding of offices. It is yet to be seen how COVID-19 will impact office space utilization and lease structures in the future, but a range of outcomes is possible. One trend perpetuated by the uncertainty of the pandemic has been the rising importance of lease flexibility. The growing prevalence of spec suites indicates that some asset owners expect tenants will place greater value on shorter terms and greater flexibility, rather than maximizing financial value in a long-term lease.

Current Conditions

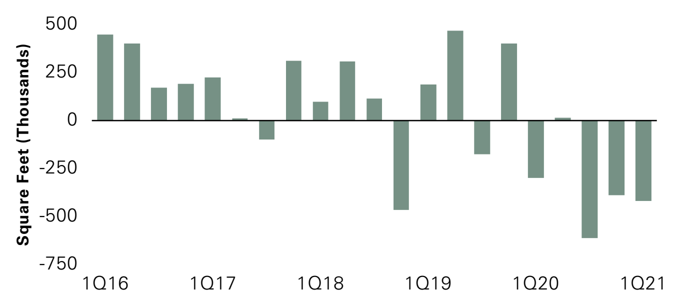
- The District of Columbia recorded -418,696 square feet of net absorption during the first quarter of 2021.
- The vacancy rate has risen 120 basis points from a year ago to 15.7%, as the continued pressure of COVID-19 has delayed real estate decision-making among office occupiers and led to an increase in sublease availabilities.
- Asking rents fell slightly in the first quarter as more supply and less demand is creating tenant leverage.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	130.5 M	130.2 M	129.7 M	↑
Vacancy Rate	15.7%	15.2%	14.5%	↑
Quarterly Net Absorption (SF)	-418,696	-389,812	-299,447	→
Average Asking Rent/SF	$57.37	$57.49	$57.36	→
Under Construction (SF)	2.1 M	2.1 M	2.4 M	↓
Deliveries (SF)	227,948	0	913,083	↑

Northern Virginia Office Market

The effects of the pandemic on the Northern Virginia office market continued to be felt during the first quarter of 2021, as -659,905 square feet was absorbed. Gross leasing was weak in the first quarter; however, there was an uptick in new leases compared to the large percentage of renewals seen in the previous two quarters.

Microsoft has leased almost 800,000 square feet of office space in Northern Virginia over the past year, solidifying a long-term commitment to the region. The most significant lease of the quarter was Microsoft's lease of 180,000 square feet at 1300 Wilson Boulevard in Rosslyn. Overall vacancy ended the fourth quarter at 19.6%, an increase of 70 basis points from the prior quarter and 140 basis points from one year ago. The average overall asking rent increased 0.9% from one year ago to $33.86/SF, primarily due to new supply that delivered last year without preleases. Effective rents remain under downward pressure as concessions are elevated.

Office space under construction in Northern Virginia, excluding renovations and owner-occupied buildings, totaled 2.1 million square feet at the end of the first quarter. The pre-lease rate of the buildings under construction was 82.1% and there were no significant groundbreakings in the first quarter. The only major project to deliver in the first quarter was 6595 Springfield Center Drive, a 625,000-square-foot build-to-suit headquarters for the Transportation Security Administration. This was the second consecutive quarter in which pandemic-driven slow leasing has been clearly reflected in market fundamentals. Weak demand likely will persist for the remainder of 2021, though Northern Virginia remains well positioned for recovery.

Northern Virginia Outlook

Most of Northern Virginia's office market fundamentals continued to soften in the first quarter of 2021, which was expected given the winter uptick in COVID-19 cases and lack of leasing activity. Overall vacancy rate ticked up during the first quarter to 19.6%. The vacancy rate likely will continue to rise during the next quarter or two of 2021 but may stabilize by the fall. Newmark Research projects that the vacancy rate will settle at 20.1% as of March 2023 but may exceed that level in the interim before returning to that rate.

The market's average asking rental rate rose 0.9% over the past year, primarily a function of new space delivering at top of the market rates, but concessions are elevated and effective rents are under downward pressure. Tenants will maintain considerable leverage through the summer. At 1.2% of the existing inventory, the construction pipeline is manageable.

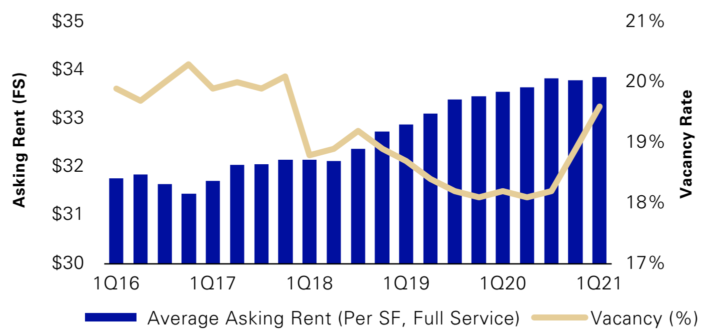
Northern Virginia's diversification over the past decade—blending government contracting with direct federal leasing, technology sector growth, investments in higher education, and medicine—has prepared the office market for a quicker-than-average recovery in 2021 and beyond. In addition, a lack of overbuilding and a high pre-lease rate compared to prior cycles puts the market in a better position to rebound faster.

Current Conditions

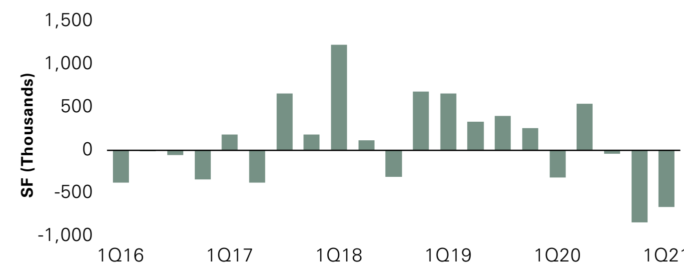
- Market indicators softened during the first quarter, the result of slow leasing activity.
- The largest lease of the quarter was signed by Microsoft: a new lease for 180,000 square feet in Rosslyn. This lease underscores Microsoft's commitment to the region, which has been enhanced over the past year.
- One building delivered in the first quarter of 2021: 6595 Springfield Center Drive, a 625,000-square-foot build-to-suit for the Transportation Security Administration (TSA).

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	165.4 M	164.6 M	164.0 M	↑
Vacancy Rate	19.6%	18.9%	18.2%	↑
Quarterly Net Absorption (SF)	-659,905	-840,225	-316,961	↑
Average Asking Rent/SF	$33.86	$33.80	$33.55	→
Under Construction (SF)	2.1 M	2.7 M	2.8 M	↓
Deliveries (SF)	625,000	0	329,788	↑

Suburban Maryland Office Market

Demand for office space in Suburban Maryland continued to soften during the first quarter of 2021. Net absorption totaled positive 415,211 square feet but was supported by the completion of the new United States Citizenship and Immigration Services (USCIS) headquarters in Suitland. This delivery attracted net new occupancy to Maryland, as the agency was previously located in the District.

The overall vacancy rate registered 15.4% at the end of the first quarter, an increase of 30 basis points from the previous quarter and an increase of 170 basis points from a year ago. Vacancy ticked up even with positive absorption because of the delivery of 7272 Wisconsin Avenue in Bethesda; only about 30% of that 358,000-square-foot building was occupied during the first quarter. The average asking rental rate was $29.08/SF, an increase of 2.3% from the first quarter of 2020. Rent growth is being driven by the construction pipeline, which boosts average asking rates. By contrast, effective rents are declining as concessions rise to lure tenants in an environment of tepid demand.

As of first-quarter 2021, 1.2 million square feet of office space is under construction in Suburban Maryland, excluding renovations. The pipeline is approximately 62.5% preleased. There were two office deliveries in the first quarter of 2021: 1 Capital Gateway Drive in the Southern Prince George's County submarket and 7272 Wisconsin Avenue in the Bethesda submarket. 1 Capital Gateway, a 574,767-square-foot property, delivered as the build-to-suit for USCIS. The Wilson at 7272 Wisconsin Avenue is 100.0% pre-leased to tenants including Enviva, WeWork, Fox 5, ProShares and Walker & Dunlop; however, not all of the pre-leased space was immediately occupied upon delivery.

Suburban Maryland Outlook

Office fundamentals in Suburban Maryland are likely to remain soft in the months ahead as leasing activity continues to be limited amid uncertainty surrounding COVID-19. It is likely that job losses in some private sector industries will have a negative impact on Suburban Maryland office space demand in the near future, as employment is not expected to return to pre-pandemic levels until 2022. Suburban Maryland's core sectors, including life sciences, technology and the federal government, should continue to aid in the market's recovery. Due to the increased demand for scientific and medical research, Suburban Maryland could be poised for steady growth; however, office demand usually lags job growth, so meaningful traction in the office market is likely to wait until 2023.

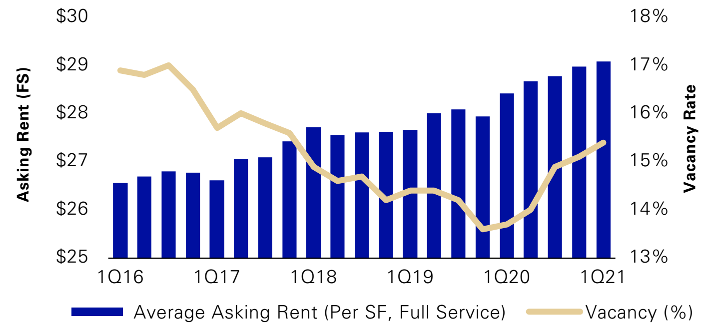
The pipeline of office deliveries in Suburban Maryland over the next two years is lower than last quarter's but still sits at 1.6% of inventory. It is concentrated in Bethesda and North Rockville, with a 62.5% pre-lease rate. Newmark Research projects that the overall vacancy rate will edge up in the intermediate term to 16.6% as of the end of the first quarter of 2023. This is due to the still unknown impact of remote work on office space demand and the effect of the pipeline and its modest pre-lease rate.

Current Conditions

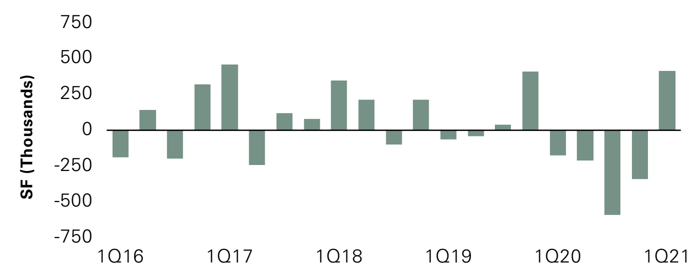
- Suburban Maryland registered 415,211 square feet of absorption during the first quarter. The positive absorption was due to the pre-leased delivery of the new USCIS headquarters in Suitland.
- The vacancy rate is up 30 basis points from last quarter and up 170 basis points from one year ago, to 15.4%. Demand slowed materially in 2020 and is likely to remain modest in 2021 before accelerating in 2022.
- 1.2 million square feet is under construction; groundbreakings are likely to slow given the easing of demand for office space.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	75.4 M	74.7 M	74.5 M	↑
Vacancy Rate	15.4%	15.1%	13.7%	↑
Quarterly Net Absorption (SF)	415,211	-343,307	-175,846	↓
Average Asking Rent/SF	$29.08	$28.98	$28.42	→
Under Construction (SF)	1.2 M	2.0 M	2.3 M	↓
Deliveries (SF)	932,767	0	0	↓

Submarket Statistics—Vacancy and Absorption

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	1Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Washington Metro Area	**371,285,295**	**16.3%**	**17.4%**	**2,456,296**	**2,885,837**	**-3,267,823**	**-663,390**	**-663,390**
District of Columbia	130,486,698	14.5%	15.7%	56,303	881,222	-1,287,341	-418,696	-418,696
Suburban Maryland	75,418,018	14.6%	15.4%	680,170	345,945	-1,324,934	415,211	415,211
Northern Virginia	165,380,579	18.6%	19.6%	1,719,823	1,658,670	-655,548	-659,905	-659,905

Submarket Statistics—Vacancy and Absorption By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	1Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Washington Metro Area	**371,285,295**	**16.3%**	**17.4%**	**2,456,296**	**2,885,837**	**-3,267,823**	**-663,390**	**-663,390**
Class A	225,746,334	15.9%	17.1%	3,237,298	2,900,809	-1,028,904	145,224	145,224
Class B	108,730,093	17.5%	18.5%	-735,024	207,622	-1,550,928	-831,050	-831,050
Class C	36,808,868	15.7%	16.0%	-45,978	-222,594	-687,991	22,436	22,436

Submarket Statistics—Rents and Development

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Washington Metro Area	**371,285,295**	**$45.16**	**$37.52**	**$41.15**	**1,785,715**	**1,785,715**	**5,302,031**
District of Columbia	130,486,698	$62.29	$49.99	$57.37	227,948	227,948	2,052,344
Suburban Maryland	75,418,018	$31.37	$27.47	$29.08	932,767	932,767	1,188,664
Northern Virginia	165,380,579	$36.26	$31.52	$33.86	625,000	625,000	2,061,023

Submarket Statistics—Rents and Development By Class

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Washington Metro Area	**371,285,295**	**$45.16**	**$37.52**	**$41.15**	**1,785,715**	**1,785,715**	**5,302,031**
Class A	225,746,334	$45.16	NA	$45.16	1,785,715	1,785,715	5,302,031
Class B	108,730,093	NA	$37.52	$37.52	0	0	0
Class C	36,808,868	NA	NA	$30.73	0	0	0

Note: Asking rents are quoted on a full service basis.

Investment Sales Market

The Washington region registered $4.8 billion in office sales volume for the 12 months ending in the first quarter of 2021. This marks a 47.4% decline from the 12-month period ending in the first quarter of 2019, when volume was $9.2 billion. Transaction volume was muted for much of 2020 due to the COVID-19 global pandemic, as investors paused to reassess the landscape during a time of rapid change. Transactions across the metro area averaged $350/SF over the past 12 months. Regional cap rates have averaged 6.8% over the past 12 months, up 10 basis points from the quarter prior and 60 basis points compared with one year ago.

The largest transaction of the first quarter was 2001 N. Beauregard Street in the I-395 Corridor. The 239,945-square-foot property was purchased for $71.7 million, or $299/SF by Aztec Fund from G8 Capital. This is the first acquisition by the Aztec Fund in the Washington metro area. The building was purchased fully leased to Systems Planning and Analysis. Although still pending as of late March, Carr Properties is expected to sell 49% ownership in Midtown Center at 1100 15th Street NW in a deal that will value the property at $980 million, or $1,120/SF.

Quarterly Volume Declines; Pricing Holding Up Well

Quarterly transaction volume retreated in the first quarter of 2021, despite the positive momentum of the fourth quarter of 2020, in which quarterly transaction volume measured $1.6 billion. First quarter transaction volume registered $647 million, down significantly from the first quarter of 2020, when volume measured $2.3 billion. Tepid office sales activity is directly related to the ongoing pandemic, which caused office assets to sit largely vacant for the last year. Still, pricing is holding up well; it is down only 1.9% on average over the past year, although the average is subject to greater variation given the smaller sample of activity. As the vaccine rollout accelerates, economic markets should begin to normalize and an increase in sales volume is likely. There may be opportunities in the coming months for shrewd investors to buy low, or for institutional investors to purchase with long-term holding strategies. The Washington area, known for its resilience in economic crises and boasting the highest concentration of office-using workers in the nation, will make this region appealing to investors.

Office Investment Sales Outlook

Although office transaction volume had been remarkably steady since reaching its cyclical high in 2015, volume was down in 2020 due to COVID-19. Washington's educated workforce and mix of industries give the region a boost relative to many of its peer markets. The largest factor in accelerating recovery among office-users will be the pace of vaccine distribution, which will lead to office re-occupation and steadying of the market. Even if recovery is prolonged, the value of hard assets, such as commercial real estate in a primary market such as Washington, can serve as a steady investment vehicle for investors looking for safety. As the Washington market has grown economically, investors have increasingly focused on the suburbs. The implications of COVID-19 may serve as an added driver of suburban demand, as tenants may value affordable space and more favorable parking ratios.

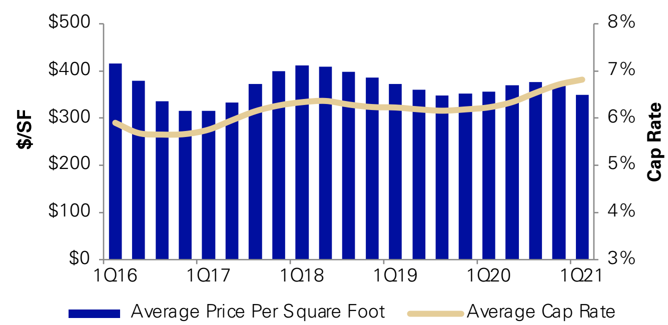
Market Summary

	Washington Metro Area
12-Month Transaction Volume at 1Q 2021	$4.8 B
12-Month Transaction Volume at 1Q 2020	$9.2 B
12-Month Trailing Average Price PSF at 1Q 2021	$350/SF
12-Month Trailing Average Cap Rate at 1Q 2021	6.8%

Note: Values are trailing 12-month averages
Source: Real Capital Analytics, Newmark Research

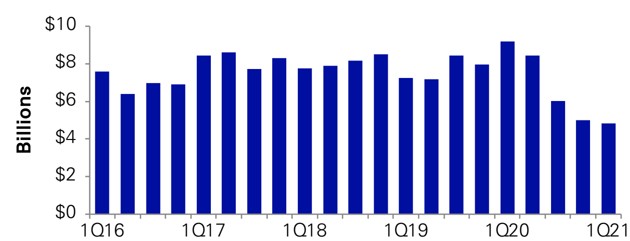
Market Analysis

AVERAGE OFFICE CAP RATE AND PRICE PER SQUARE FOOT



Note: Values are trailing 12-month averages
Source: Real Capital Analytics, Newmark Research

Trailing 12-Month Office Transaction Volume



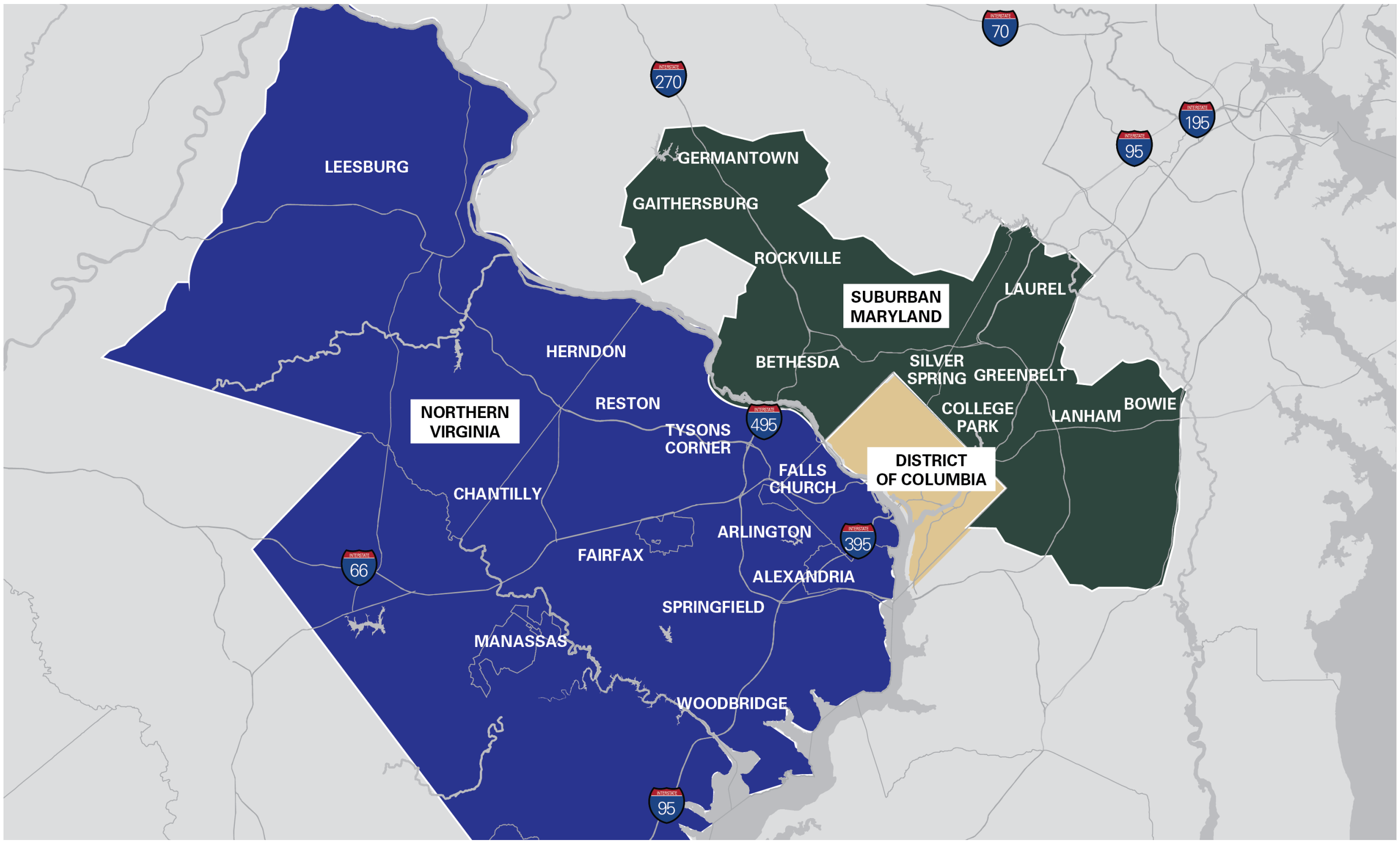
Source: Real Capital Analytics, Newmark Research

Notable Recent Office Sales Transactions

Address	Sale Price	Price/SF	Substate Area
Century Center I & II 2450 Crystal Drive & 2461 S. Clark Street	$389 M	$679	VA
Patriots Park 12290-12310 Sunrise Valley Drive	$325 M	$477	VA
600 Maryland Avenue SW	$254 M	$402	DC
1000 F Street NW	$105.9 M	$1,118	DC
1899 Pennsylvania Avenue NW	$92.2 M	$479	DC

Source: Real Capital Analytics, Newmark Research

Washington Metro Area



Methodology

Market statistics are calculated from a base building inventory of office properties 20,000 SF and larger that are deemed to be competitive in the Washington Metro Area office market. Properties that are more than 75% owner-occupied and federally owned buildings are generally excluded from inventory.

Glossary

Asking Rental Rate: The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year. Average asking rents are calculated on a weighted average basis, weighted by the amount of available space. Asking rents are quoted on a full service basis, meaning all costs of operation are paid by the landlord up to a base year or expense stop.

Class A: The most prestigious buildings competing for premier office users with rents above average for the area. Class A buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B: Buildings competing for a wide range of users with rents in the average range for the area. Class B building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

Class C: Buildings competing for tenants requiring functional space at rents below the area average.

Deliveries: Projects that have completed construction and received a certificate of occupancy.

Net Absorption: The net change in physically occupied space from one quarter to the next. **Year-to-Date (YTD) Net Absorption** is the net change in physically occupied space from the start of the calendar year to the current quarter. Net absorption is counted upon physical occupancy, not upon execution of a lease.

Sublease: Sublease space is offered and marketed as available by the current tenant, rather than directly from the owner.

Under Construction: Properties undergoing ground-up construction in which work has begun on the foundation. Properties that have only undergone grading or other site work are not included as under construction.

Under Renovation: Properties undergoing significant renovations that require all tenants to be out of the building. These properties are removed from inventory during the renovation period and delivered back to inventory upon completion of the renovations. These properties are not included in under construction totals.

Vacancy Rate: The amount of space that is physically vacant, expressed as a percentage of inventory. (Space that is being marketed as available for lease but is largely occupied is not included in the vacancy rate.) The **Overall Vacancy Rate** includes all physically vacant space, both direct and sublease, while the **Direct Vacancy Rate** includes only direct space.

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