RESEARCH 2Q 2021

Washington Metro Area Market Overview

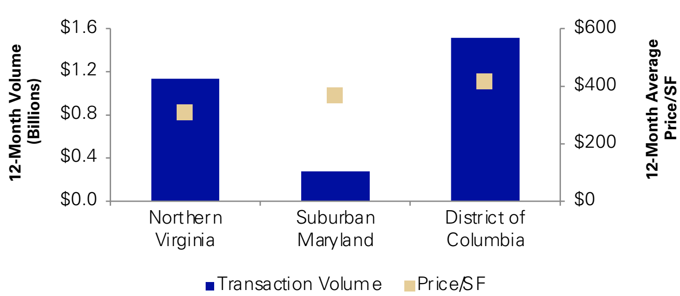
Vacancy Rises; Economic Recovery to Reignite Demand for Space

The economic recovery in the Washington metro area picked up in the second quarter of 2021 after a slow winter. For the 12 months ending May 2021, the region added 207,100 jobs; this compares with the region's 21-year average growth of 22,911 jobs per annum. This is a positive step in the metro area's recovery; however, the region still has work to do to recover fully from the jobs lost in 2020 and early 2021. The unemployment rate measured 5.0% in April and is well below the peak of 9.4% reached in April 2020; however, it remains 200 basis points higher than it was at the start of 2020.

The second quarter also saw the nationwide rollout of COVID-19 vaccines and the lifting of most restrictions across the region. The economic recovery is likely to continue throughout the remainder of 2021 at an accelerated rate as normalization continues. The region recorded job losses of 197,000 workers in 2020, which is likely to be 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 19.4% as of the end of second-quarter 2023 from 18.2%, where it stands today. Job creation will bolster demand for space, but tenants will continue to seek ways to reduce their footprint in the period ahead.

Capital Markets

Office Investment Sales Volume and Price/SF | 12 Months Ending 2Q 2021



Source: Real Capital Analytics, Newmark Research; June 2021

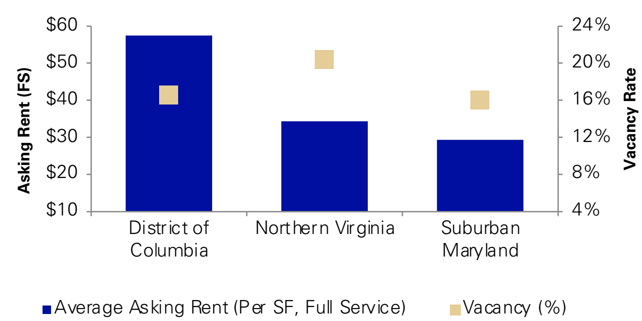
Economy

- **Historical Job Change:** 207,100 jobs were gained in the 12 months ending May 2021. This large job gain is due to recovery from the COVID-19 pandemic. The region added an average of 22,911 jobs per annum from 2000-2020.
- **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:** 5.0% in April 2021, a decrease of 440 basis points from the rate of 9.4% at April 2020.

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

Market Analysis

Asking Rent and Vacancy Rate



Source: Newmark Research; June 2021

Market Summary

	District of Columbia	Northern Virginia	Suburban Maryland	Metro Area
Total Inventory (SF)	130.6 M	165.1 M	75.1 M	371.0 M
Vacancy Rate	16.6%	20.4%	16.0%	18.2%
Quarterly Net Absorption (SF)	-836,866	-823,606	-277,919	-1.9 M
Average Asking Rent/SF	$57.43	$34.38	$29.35	$41.63
Under Construction (SF)	2.1 M	2.1 M	1.3 M	5.4 M
YTD Deliveries (SF)	0.2 M	0.7 M	0.9 M	1.8 M

Source: Newmark Research; March 2021

Return to Offices is Advancing

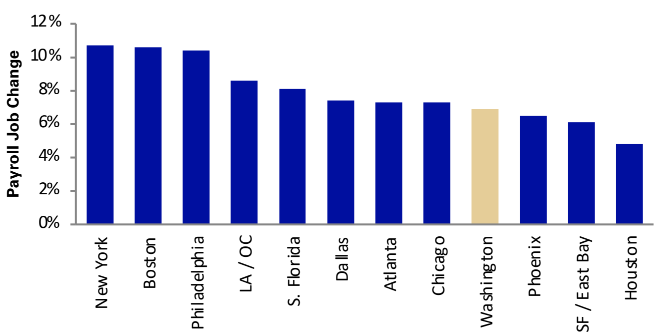
The vaccine rollout has proceeded quickly enough that many tenants are accelerating their return-to-office timelines from September to June or July. The high level of vaccine acceptance in the Washington area supports faster reboarding and will bring a return of commuters to Metrorail, although transit use remains modest for now. As physical occupancy of offices gradually increases, the amount of sublease space on the market has plateaued; tenants are re-evaluating their space needs as they balance more flexible scheduling with a renewed focus on corporate culture and talent development. The budding consensus to have employees return to the office at least three days per week will bolster demand for office space and keep top talent attached to the metro area.

Although the bulk of reboarding efforts are still likely to come after Labor Day, many of the region's largest private sector anchors (including some law firms) are encouraging a "soft" or part-time return to the office this summer. Modest increases in commuter activity are already evident, and began as early as March 2021. Ridership across all WMATA stops is up 65.4% over April of 2020, but ridership remains just 16.3% of the February 2020 level. Historical precedent suggests slow Metrorail usage during the summer; however, a rebound in transit use is underway.

The rate of vaccine uptake in the Washington region has been high, with the Maryland and the District registering 71.4% of the 18+ population having received one dose, while Virginia registered 70.1% as of June 23rd. All three jurisdictions are in the top 20 for vaccination rates in the country. This has yet to translate into a notable increase in office reboarding, but the high vaccine uptake will also help keep the spread of variants at bay relative to less vaccinated metro areas. According to Kastle Systems key card data, Washington's office occupancy was 27.4% in mid-June, which is higher than its pandemic average of 20.3% but below the current 10-city average of 32.1%.

Payroll Job Change—Largest Metro Areas

12 Months Ending May 2021

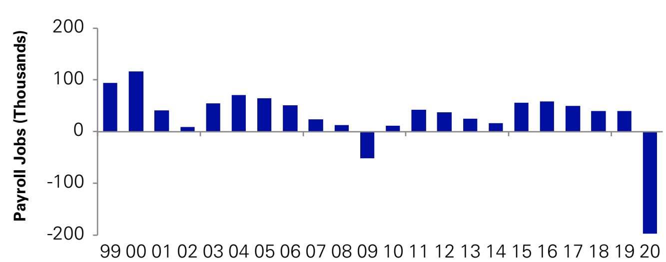


Source: U.S. Bureau of Labor Statistics, Newmark Research; June 2021

GSA Consolidations a Key Factor in Market

In the first and second quarters of 2021, the GSA made notable headway in its effort to consolidate agency headquarters. 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% but rise in Crystal City, where the agency's headquarters previously was located. The U.S. Citizenship and Immigration Services (USCIS) headquarters opened in Camp Springs during the first quarter, consolidating from space across the region, including full buildings at 111 Massachusetts Avenue NW and 20 Massachusetts Ave NW. This caused a notable shift in the Capitol Hill submarket's metrics, with the vacancy measuring 23.4% at the end of the second quarter. Another notable consolidation in 2021 includes the U.S. Customs and Border Protection's Office of Information Technology into Quantum Park in the Route 7 Corridor. Submarkets that have captured large GSA relocations recently may find fundamentals tightening; however, these shifts in tenancy can overshadow the overall market trajectory. The agencies involved in these moves are often shrinking their overall footprints, therefore softening metro-wide market conditions.

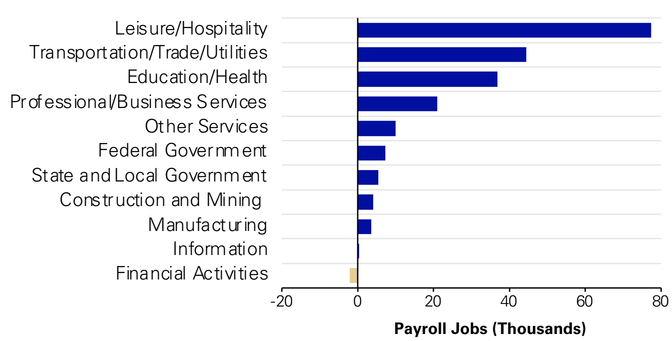
Washington Metro Payroll Job Change



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

Job Change By Industry

Washington Metro Area I 12 Months Ending May 2021



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

Muted Demand; Modest Pipeline Will Aid Recovery

Regional absorption measured -1.9 million square feet in the second quarter and -3.4 million square feet in the first half of 2021. All jurisdictions recorded negative net absorption during the second quarter, but Suburban Maryland saw the lease severe contraction, measuring -277,919 square feet. Net absorption registered -823,606 square feet in Northern Virginia and -836,866 square feet in the District. Occupancy contraction and new construction deliveries over the past four quarters have resulted in a steady rise in vacancy, which measures 18.2% regionally at the end of the second quarter. This marks a 50-basis-point increase from the previous quarter and a 210-basis-point increase from one year ago.

One project delivered in the Washington metro area in the second quarter of 2021: One Endicott at 44679 Endicott Drive, a 54,000-square-foot building partially preleased to Venture X. The current construction pipeline is just 1.5% of the region's standing office inventory.

Despite the region's elevated vacancy rate, weighted average asking rents grew 2.0% over the past 12 months to $41.63/SF. Annualized rent growth has been decelerating for the past year but increased in the second quarter as return to office plans became more imminent. Relative to last quarter, asking rents increased by 1.0%. 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 incentives to relocate. Although the COVID-19 vaccines have helped to curb anxiety about a safe return to the office, tenants and asset owners may continue to favor renewals or spec suites with immediate occupancy potential and flexibility until more is known about workplace strategy post-pandemic. Flexible scheduling may reduce overall net demand in the years ahead, but concerns surrounding corporate culture and productivity are encouraging many employers to try to reoccupy their office spaces as soon as it is safe to do so.

Slow Leasing Activity Weighs on Class A Market

Class A buildings tallied net absorption of -590,479 square feet in the second quarter. The scarcity of leasing activity throughout 2020 – even within higher-demand Class A assets – has created a market in which large move-outs are outpacing large move-ins. Class A occupancy growth during the pandemic had been supported by new building deliveries; however, with only 54,000 square feet delivering in the second quarter, new construction was not able to offset lost occupancy. Modest leasing activity will remain a drag on the market during the balance of 2021, but the employment recovery will help to spur some additional demand in the period ahead.

Current Conditions

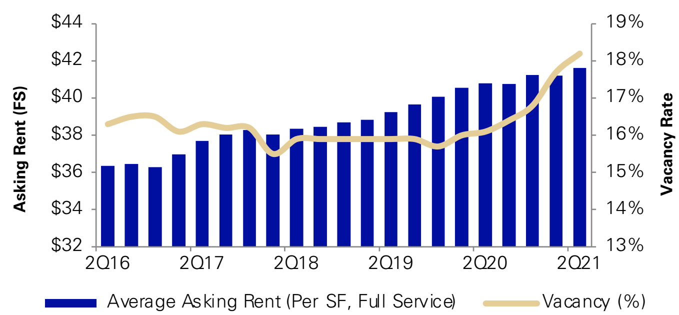
– The region registered -1.9 million square feet of net absorption during the second quarter; negative net demand from 2020 still weighs on the market, as vacancy is elevated.

– Class A space net absorption measured -590,479 square feet during the second quarter, due to several large move-outs across industry types.

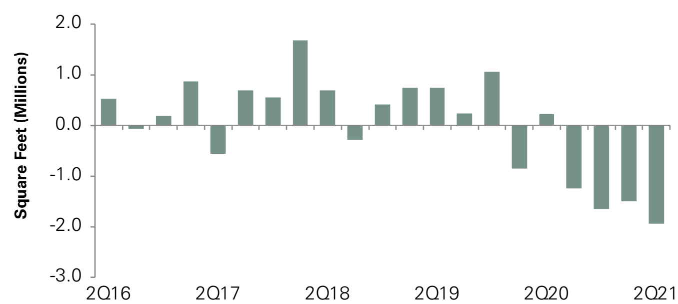
– Despite elevated vacancy, average asking rent growth remains positive, primarily a function of new product asking top-of-the-market rates. Net new demand currently remains modest. Effective rents have been under downward pressure due to elevated concessions.

Market Analysis

Asking Rent And Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Prior Year	24-Month Forecast
Total Inventory (SF)	371.0 M	370.1 M	369.6 M	↑
Vacancy Rate	18.2%	17.7%	16.1%	↑
Quarterly Net Absorption (SF)	-1.9 M	-1.5 M	218,372	↑
Average Asking Rent/SF	$41.63	$41.22	$40.81	→
Under Construction (SF)	5.4 M	5.5 M	7.1 M	↓
Deliveries (SF)	54,000	1.8 M	808,520	↑

Washington Area Economic Outlook

The economic recovery in the Washington metro area picked up again in the second quarter of 2021 as COVID-19 vaccines were rapidly distributed and restrictions on business were lifted. For the 12 months ending May 2021, the region gained 207,100 jobs; this compares with the region's 21-year average growth of 22,911 jobs per annum. The unemployment rate measured 5.0% in April, down 440 basis points from the pandemic-induced peak in April 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 job losses related to the pandemic were in the retail, education/health and leisure/hospitality sectors, and those are the sectors with the most job gains over the past 12 months. While office-using sectors also contracted during the initial phase of the pandemic, the losses were less severe, which helped to insulate the region's office market to a degree. Newmark expects the regional office market vacancy rate to rise to approximately 19.4% as of the end of second-quarter 2023, from 18.2%, where it stands today.

Washington is primed to continue its economic recovery in the latter half of 2021, as the high vaccination rates may help keep COVID infections at bay better than in some other parts of the country. Office use may be a lagging indicator as broader conditions normalize, but the return to office is likely to accelerate after Labor Day.

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. So far in 2021, deliveries have added 1.9 million square feet to the market, the most space delivered since 2018. Oversupply has resulted in a softening of market fundamentals, including rising concession packages. Both asset owners and tenants have taken a cautious approach during the pandemic, resulting in muted leasing velocity, which has slowed markets and caused downward pressure on effective rents. More than 5.4 million square feet of office space is currently under construction and is approximately 65.8% preleased. New product remains the most appealing to tenants; the current leasing environment may make filling older spaces a challenge.

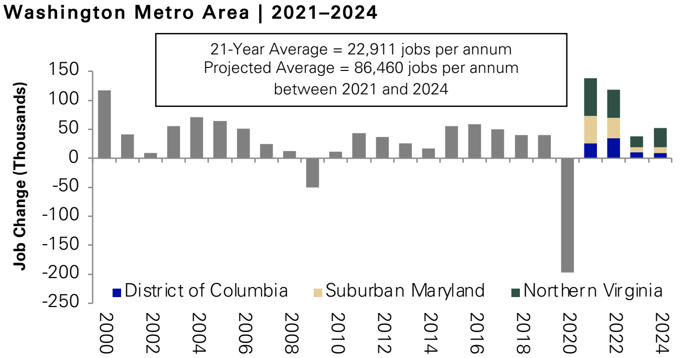
– Hybrid work is likely to be more common than before the pandemic but will vary by employee function. Many employers are concerned about their ability to create a strong corporate culture and enhance employee productivity while they work remotely, underscoring the value of office space. The degree to which firms will reassess their long-term workforce and workplace strategies is still unknown; the next year will see adaptations and experimentation.

– Regional sublet availability has risen by 3.6 million square feet since first-quarter 2020. 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 reached a new cyclical peak in the second quarter, measuring 2.55% of inventory, as a couple of large occupiers put space on the market; however, a reduction in available sublet space is likely in the second half of 2021 as the economy heals.

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

Payroll Job Growth Forecast

Washington Metro Area | 2021–2024

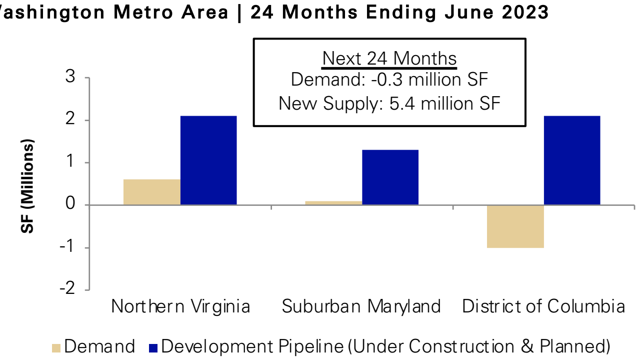


Source: U.S. Bureau of Labor Statistics; forecast developed by Newmark Research with reference to data from the Stephen S. Fuller Institute and Moody's Analytics; June 2021

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

Supply/Demand Forecast

Washington Metro Area | 24 Months Ending June 2023



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

District of Columbia Office Market

The District of Columbia's office market fundamentals continued to soften in the second quarter, despite the region's slowly accelerating economic and public health recovery. Net absorption registered -836,866 square feet during second-quarter 2021. Occupancy losses were predictably pronounced due to the move of the U.S. Citizenship and Immigration Services (CIS), which relocated to Maryland. Slow leasing activity throughout of the pandemic has limited opportunities for occupancy gains; however, pent-up demand is anticipated to loosen and drive activity in the second half of 2021. Leasing velocity increased slightly in the second quarter, illustrating that a momentum shift may be underway.

Vacancy rose in the second quarter, reaching 16.6%, a 70-basis-point increase from the first quarter and a 180-basis-point increase from one year ago. The District's development pipeline measures 2.1 million square feet, excluding renovations, and is 50.3% preleased. Office construction activity is expected to slow in the coming quarters as a supply-demand imbalance temporarily suppresses developers' appetite to break ground.

The average asking rent rose in the second quarter to $57.43/SF but remains $0.09 below second-quarter 2020 rents. Asking rents have held relatively steady despite the uncertainty of the past year. Effective rents will remain under downward pressure, as elevated vacancy yields generous concession packages for tenants in the market for new space.

District of Columbia Outlook

Public health conditions have improved rapidly in the District of Columbia throughout the second quarter. While the District's office market is likely to continue to face some long-term challenges related to the pandemic, conditions are aligning to permit recovery throughout the second half of 2021.

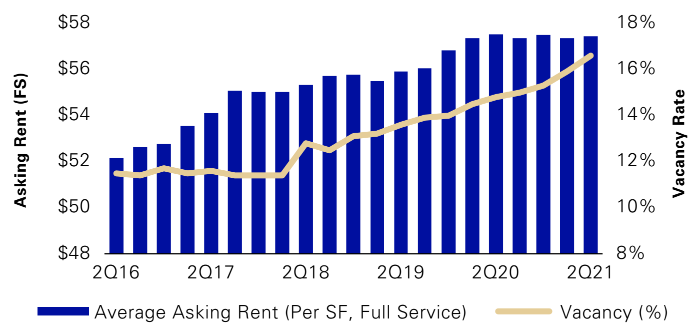
Pent-up demand is anticipated to loosen in the coming quarters as high vaccination rates and fewer business restrictions permit office reboarding in earnest. However, office market metrics such as absorption and vacancy are lagging indicators and therefore may remain challenged, despite the increased activity that is coming. Newmark Research projects the vacancy rate in the District to rise to 18.6% by the end of second-quarter 2023. Consolidations among law firms and the federal government, as well as the impact of remote working, will drive this increase in office vacancy in the coming quarters.

Current Conditions

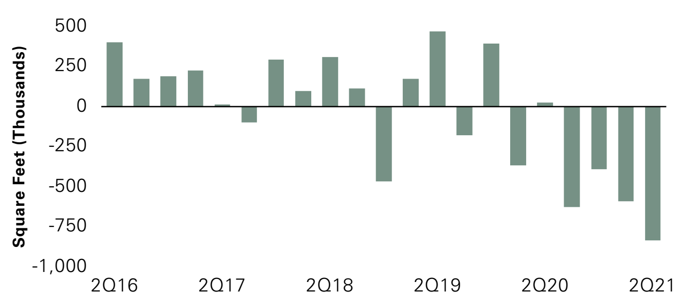
- The District of Columbia recorded -836,866 square feet of net absorption during the second quarter of 2021.
- The vacancy rate has risen 180 basis points from a year ago to 16.6%, driven by the lagging influence of slow leasing activity throughout the COVID-19 pandemic.
- Asking rents rose slightly in the second quarter to $57.43/SF as optimism regarding improved public health conditions supported a modest rebound.

Market Analysis

Asking Rent And Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	130.6 M	130.5 M	130.6 M	↑
Vacancy Rate	16.6%	15.9%	14.8%	↑
Quarterly Net Absorption (SF)	-836,866	-590,861	27,376	↑
Average Asking Rent/SF	$57.43	$57.37	$57.52	→
Under Construction (SF)	2.1 M	2.1 M	2.1 M	↓
Deliveries (SF)	0	227,948	335,063	↑

Northern Virginia Office Market

The effects of the pandemic on the Northern Virginia office market continued into the second quarter of 2021, as leasing activity remained limited. However, the second quarter also saw a nationwide vaccine rollout and the lifting of COVID-19 restrictions across the Washington area, which foreshadows a return to normalcy. Gross leasing in the second quarter was still below pre-pandemic levels.

Overall vacancy was 20.4% in the second quarter, an increase of 50 basis points from last quarter and 220 basis points from one year ago. The average overall asking rent increased 2.2% from one year ago to $34.38/SF. Despite the increase in asking rents from the second quarter of 2020, 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 second quarter. The overall pre-lease rate of the buildings under construction was 83.0%.

Northern Virginia Outlook

The rapid rollout of COVID-19 vaccines and the high vaccine uptake rate in the region has resulted in an end of pandemic-related business restrictions. Tenant movement is likely to accelerate in the second half of the year now that companies can begin having their employees safely return to the office. However, many forthcoming leases could include space reductions, as flexible work schedules will lead some occupiers to take less space.

The vacancy rate likely will continue to rise during the next quarter as a result of slow leasing velocity, but leasing activity should pick up in late 2021 and into 2022. Newmark Research projects that the vacancy rate will settle at 21.0% as of June 2023.

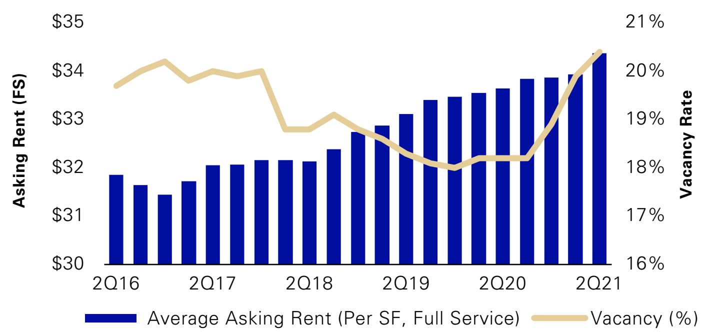
Northern Virginia's diversification over the past decade—blending government contracting with direct federal leasing, attracting headquarters locations, technology sector growth, investments in higher education and medicine—has set it up well for success following the pandemic-induced economic downturn. However, the continued consolidation of government contractors in the area and the rise of hybrid work schedules may result in sluggish net demand over the next two years.

Current Conditions

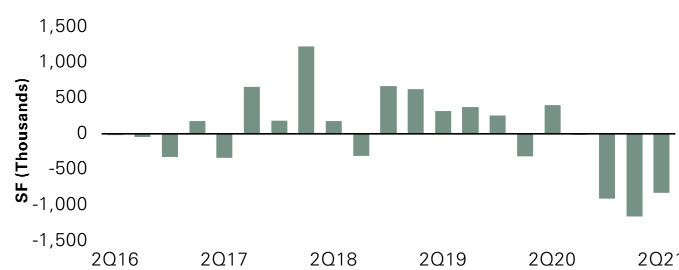
- Market indicators softened during the second quarter, the result of slow leasing activity as tenants reassess their post-COVID space needs.
- The largest lease of the quarter was signed by Raytheon, a renewal of a three-building complex for 521,366 square feet in the Route 28 North submarket.
- One building delivered in the second quarter of 2021: One Endicott at 44679 Endicott Drive, a 54,000-square-foot building in the Route 7 Corridor that is partially leased to coworking company Venture X.

Market Analysis

Asking Rent And Vacancy Rate



Net Absorption



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	165.1 M	165.0 M	164.6 M	↑
Vacancy Rate	20.4%	19.9%	18.2%	↑
Quarterly Net Absorption (SF)	-823,606	-1,155,713	404,177	↑
Average Asking Rent/SF	$34.38	$33.93	$33.65	→
Under Construction (SF)	2.1 M	2.1 M	2.7 M	↓
Deliveries (SF)	54,000	625,000	473,457	↑

Suburban Maryland Office Market

Demand for office space in Suburban Maryland softened during the second quarter of 2021. Net absorption totaled -277,919 square feet. As an ongoing result of disruption related to COVID-19, leasing activity was limited. The overall vacancy rate was 16.0% at the end of the second quarter, an increase of 30 basis points from the previous quarter and an increase of 200 basis points from a year ago. The average asking rental rate ended the second quarter at $29.23/SF, an increase of 2.0% from $28.67/SF in the second quarter of 2020. While it may seem counterintuitive that asking rents continued to increase despite occupancy losses, the construction pipeline and recently delivered product includes high-quality space with asking rates that match the quality, which boosts the average asking rent. By contrast, effective rents are under downward pressure as concessions remain high to lure tenants in an environment of tepid demand.

As of second-quarter 2021, 1.3 million square feet of office space is under construction in Suburban Maryland in four projects, excluding renovations and owner-occupied buildings. The pipeline is approximately 63.4% preleased. There were no office deliveries in the second quarter of 2021.

Suburban Maryland Outlook

Soft office fundamentals in Suburban Maryland are likely to slowly tighten over the next two years; leasing activity remains limited for now as tenants still grapple with the effects of COVID-19. Leasing activity is likely to accelerate, though, in the latter part of this year as tenants re-board throughout the summer and fall and make decisions about future office space needs.

The pipeline of office deliveries in Suburban Maryland over the next two years is higher than last quarter's, at 1.7% of inventory. Newmark Research projects that Suburban Maryland's overall vacancy rate will increase to 17.3% by the end of the second quarter of 2023, a consequence of the long-term workforce changes caused by COVID-19.

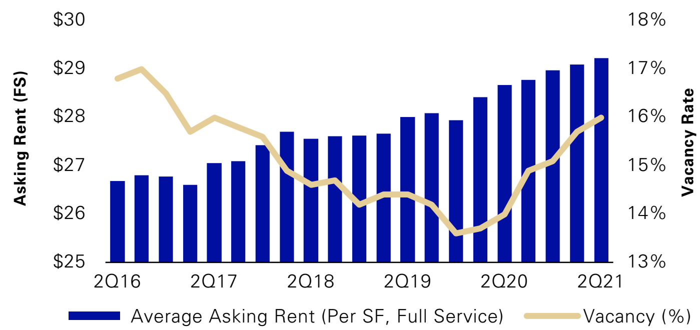
As the prioritization of COVID-related research and funding diminishes, cancer and cell research will become more prominent. Maryland is a significant player in these fields, as domestic and international companies flock to it for its proximity to the NIH and other government organizations.

Current Conditions

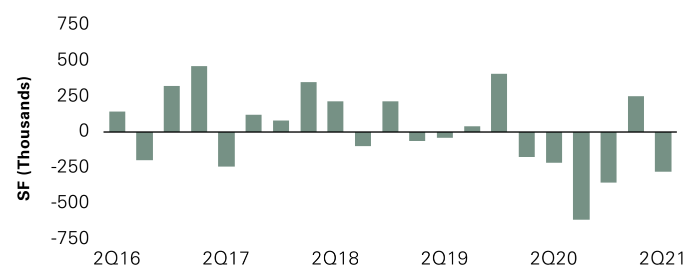
- Suburban Maryland registered -277,919 square feet of absorption during the second quarter.
- The vacancy rate is up 30 basis points from last quarter and up 200 basis points from one year ago, to 16.0%. Demand slowed materially in 2020 and is likely to remain modest during the rest of 2021 before accelerating in 2022.
- 1.3 million square feet is under construction; groundbreakings are limited given the easing 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)	75.0 M	75.4 M	74.5 M	↑
Vacancy Rate	16.0%	15.7%	14.0%	↑
Quarterly Net Absorption (SF)	-277,919	252,357	-213,181	↓
Average Asking Rent/SF	$29.23	$29.09	$28.67	↑
Under Construction (SF)	1.3 M	1.3 M	2.3 M	↓
Deliveries (SF)	0	932,767	0	↑

Submarket Statistics—Vacancy and Absorption

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	2Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Washington Metro Area	**370,701,653**	**17.0%**	**18.2%**	**2,501,561**	**2,779,063**	**-3,535,680**	**-1,938,391**	**-3,432,608**
District of Columbia	130,574,856	15.4%	16.6%	56,303	859,390	-1,358,509	-836,866	-1,427,727
Suburban Maryland	75,053,978	15.0%	16.0%	680,170	345,945	-1,356,741	-277,919	-25,562
Northern Virginia	165,072,819	19.2%	20.4%	1,765,088	1,573,728	-820,430	-823,606	-1,979,319

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)	2Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Washington Metro Area	**370,701,653**	**17.0%**	**18.2%**	**2,501,561**	**2,779,063**	**-3,535,680**	**-1,938,391**	**-3,432,608**
Class A	225,688,470	16.3%	17.6%	3,250,201	2,822,747	-1,090,619	-590,479	-1,049,947
Class B	108,513,960	18.9%	20.0%	-702,662	178,910	-1,708,087	-1,338,453	-2,309,037
Class C	36,499,223	16.0%	16.3%	-45,978	-222,594	-736,974	-9,459	-73,624

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)	2Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Washington Metro Area	**370,701,653**	**$45.85**	**$37.66**	**$41.63**	**54,000**	**1,839,715**	**5,419,227**
District of Columbia	130,574,856	$62.26	$49.81	$57.43	0	227,948	2,052,344
Suburban Maryland	75,053,978	$31.80	$27.48	$29.35	0	932,767	1,305,860
Northern Virginia	165,072,819	$36.91	$32.07	$34.38	54,000	679,000	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)	2Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Washington Metro Area	**370,701,653**	**$45.85**	**$37.66**	**$41.63**	**54,000**	**1,839,715**	**5,419,227**
Class A	225,688,470	$45.85	NA	$45.85	54,000	1,839,715	5,419,227
Class B	108,513,960	NA	$37.66	$37.66	0	0	0
Class C	36,499,223	NA	NA	$30.57	0	0	0

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

Investment Sales Market

The Washington region registered $2.8 billion in office sales volume for the 12 months ending in the second quarter of 2021. This marks a 68.0% decline from the volume recorded in second-quarter 2020, which measured $8.6 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 $370/SF over the past 12 months. Regional cap rates have averaged 6.6% over the past 12 months, down 20 basis points from the quarter prior but up 10 basis points compared with one year ago.

The largest transaction of the second quarter was 1015 Half Street SE in the Capital Riverfront submarket. The 391,000-square-foot property was purchased for $220.1 million, or $563/SF, by Hines from Prudential Real Estate Investors. The building was 96% occupied at the time of sale by tenants such as CBS Radio and the General Services Administration (GSA).

Quarterly Volume Limited; Pricing Sturdy

Quarterly transaction volume remained muted in the second quarter of 2021. Second-quarter transaction volume registered $636 million, measuring the same as the second quarter of 2020, which saw the beginning months of COVID-19. Tepid office sales activity is directly related to the ongoing pandemic, which caused office assets to sit largely vacant for the past year. Still, pricing is holding up well; it is down only 2.4% on average over the past year, although the average is subject to greater variation given the smaller sample of activity. As the region gets back to normal, 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.

Office Investment Sales Outlook

Washington's educated workforce and mix of industries give the region a boost relative to many of its peer markets. The Washington region was able to rapidly deploy vaccines and, as of the second quarter, has some of the highest vaccination rates in the country. This should lead to some office re-occupation this summer, with a majority of office reboarding happening in the fall. Hard assets, such as commercial real estate in a primary market such as Washington, can serve as a strong investment vehicle for investors seeking safety, particularly in an inflationary environment. The Washington region's strength in the growing technology sector is likely to bolster demand for regional office assets in the period ahead.

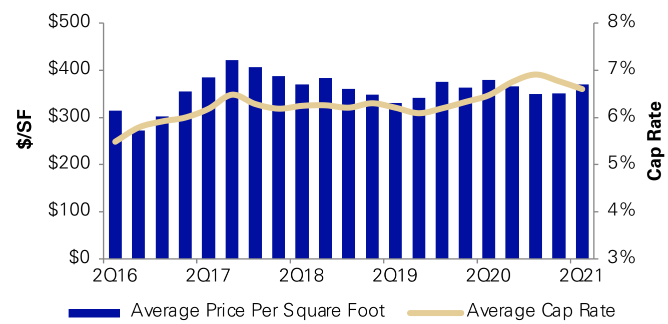
Market Summary

	Washington Metro Area
12-Month Transaction Volume at 2Q 2021	$2.8 B
12-Month Transaction Volume at 2Q 2020	$8.6 B
12-Month Trailing Average Price PSF at 2Q 2021	$370/SF
12-Month Trailing Average Cap Rate at 2Q 2021	6.6%

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

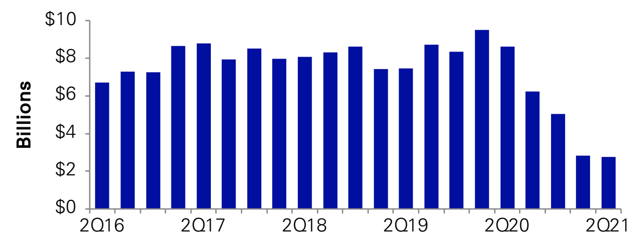
Market Analysis

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



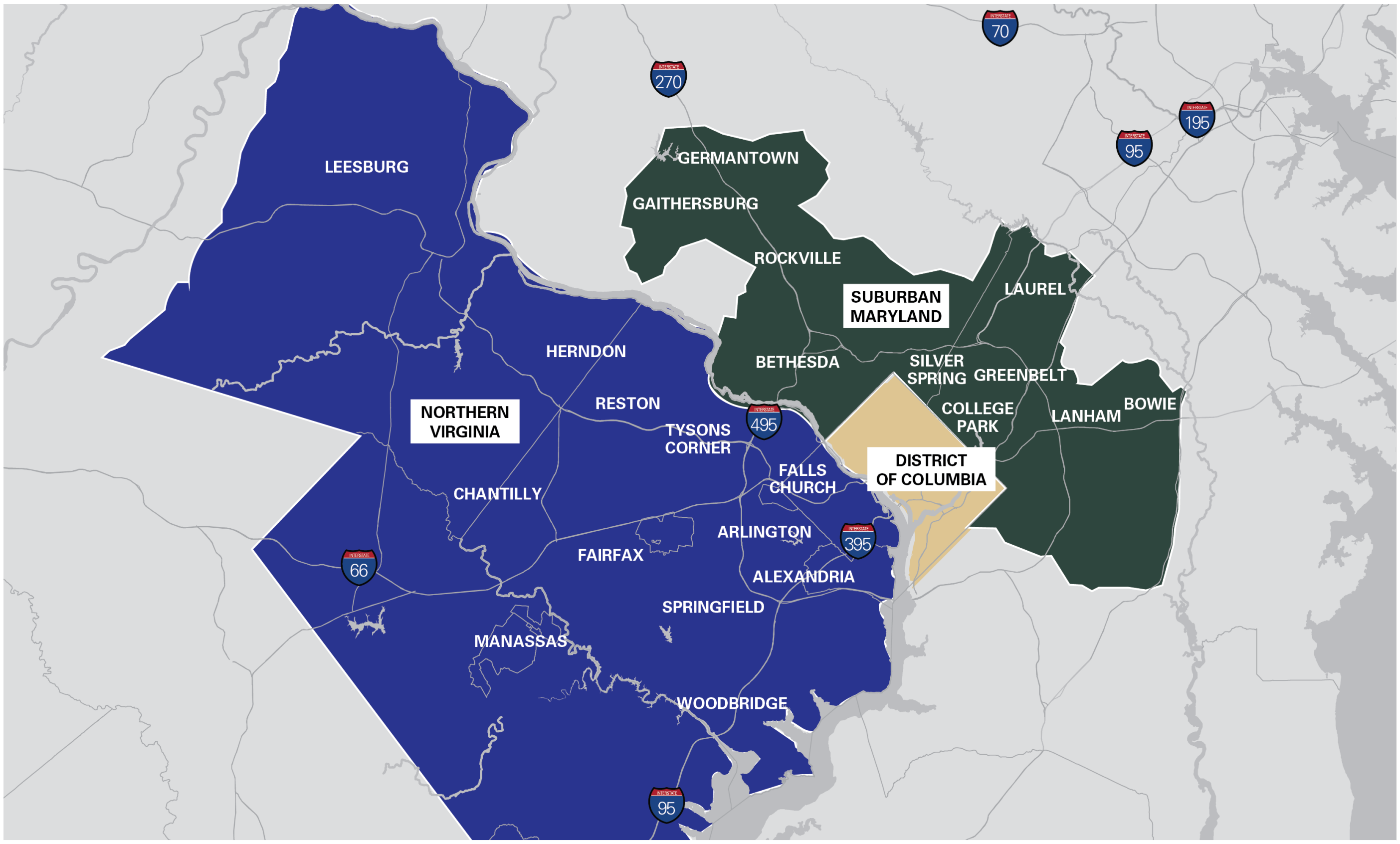
Source: Real Capital Analytics, Newmark Research

Notable Recent Office Sales Transactions

Address	Sale Price	Price/SF	Substate Area
1015 Half Street SE	$220 M	$563	DC
The Peoples Building 77 P Street NE	$201.8 M	$589	DC
Dulles Executive Plaza I & II 13530 Dulles Technology Drive	$113.5 M	$298	VA
Plaza East I &II 14291-14295 Park Meadow Drive	$72.1 M	$292	VA
2001 N Beauregard Street	$71.7 M	$299	VA

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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