Washington Metro Area Market Overview

Office Recovery Decelerates; Large Employment Gains Support Optimism

The economic recovery in the Washington metro area accelerated in the fall of 2021, following a period of slow growth in late summer. The region added 124,600 jobs in the 12 months since October 2020. Month-over-month labor gains increased sharply for both total employment and office-using sectors. The Washington metro area has recovered 85.6% of the total jobs lost between March and April of 2020, and office-using employment has now recovered more jobs than were lost between March and April of 2020, registering a job recovery rate of 101.9%. The region's unemployment rate measured 3.9% in October and is well below the peak of 9.4% set in April 2020 and is 250 basis points below year-ago levels.

The emergence of the Delta variant hindered recovery in the late summer, but economic momentum has been regained. Although the recovery has accelerated, public health remains a key driver of the economy. The emergence of new variants and unpredictability of increased infections will lead to near-term uncertainty. Although many office-using employers have not yet instituted return-to-office mandates, a slowing increasing number of workers have returned to offices in recent months. New job creation will bolster future demand for office space, though tenants are expected to reduce their footprints in the period ahead due to the long-term impacts of remote working.

Economy

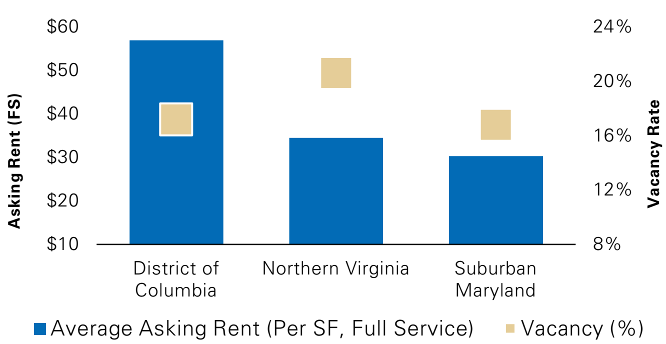
- **Historical Job Change:** 124,600 jobs were gained in the 12 months ending October 2021. This large job gain is due to recovery from the COVID-19 pandemic. The region added an average of 22,911 jobs per annum from 2001-2020.
- **Projected Job Growth:** Newmark forecasts a net gain of 138,600 jobs in 2021. Year-to-date job gains measured 117,100 through October 2021. Job gains are expected to average 86,463 per annum from 2021 through 2024 as the economy rebounds.
- **Unemployment Rate:** 3.9% in October 2021, a decrease of 250 basis points from the rate of 6.4% at October 2020.

Market Summary

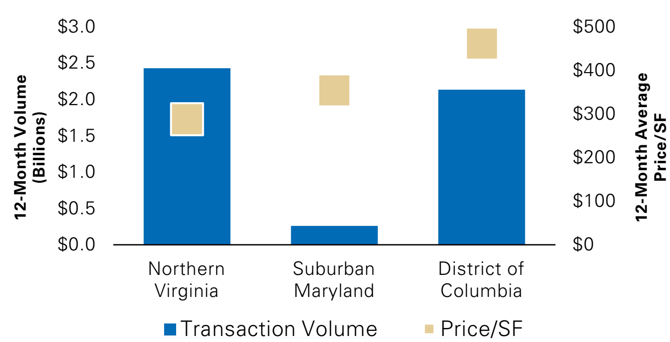
	District of Columbia	Northern Virginia	Suburban Maryland	Metro Area
Total Inventory (SF)	131.5 M	164.7 M	74.4 M	370.5 M
Vacancy Rate	17.2%	20.6%	16.8%	18.6%
Quarterly Net Absorption (SF)	44,848	-384,270	-185,190	-524,612
Average Asking Rent/SF	$56.88	$34.49	$30.26	$41.76
Under Construction (SF)	1.4 M	2.2 M	1.3 M	5.0 M
YTD Deliveries (SF)	954,512	679,000	932,767	2.6M

Market Analysis

ASKING RENT AND VACANCY RATE



OFFICE INVESTMENT SALES VOLUME AND PRICING



Source: Newmark Research, December 2021

Inventory Oversupply and Demand for High-Quality Space Complicate Construction Pipeline

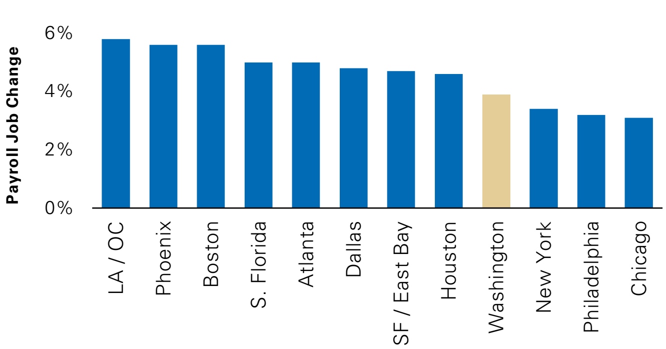
The Washington metro area has faced inventory oversupply challenges prior to the pandemic, a problem which has since been exacerbated by recent contractions. The pandemic emerged in the waning period of a local construction cycle, meaning the region was in a period of inventory expansion and held a construction pipeline of 7.0 million square feet in second-quarter 2020. Since the onset of the pandemic, few projects have broken ground and only 2.0 million square feet has delivered. Over 4.8 million square feet is expected to deliver in 2022, which will prove to be a double-edged sword for market fundamentals. While inventory expansion may boost absorption as firms relocate to new buildings, it will conversely add large blocks of net-new vacant space to the market. Based on current prelease rates, buildings delivering in 2022 could add as much as 1.6 million square feet of new vacant space to the market. This could result in up to a 16 basis-point increase in the region's overall vacancy rate.

Landlords are facing significant competition given the construction pipeline and existing oversupply in most markets. As supply and demand comes under increased pressure, some owners will look to maximize the value of struggling office assets by converting or selling them for alternative or higher uses. Locally, most developers are targeting the conversion to multifamily. Office conversions have been common in recent years, but attention from converters is up given slow demand and depressed pricing. Regionally, 1.7 million square feet of office space has transacted over the last two years with the intent of conversion. Most recently, Foulger-Pratt purchased 1425 New York Avenue, NW with plans to convert the property into a 255-unit multifamily building.

Not all properties' best alternate use is multifamily, however. Several office conversions and tear-downs began in 2021 for other high-value uses. In Gaithersburg, over 500,000 square feet of office space was demolished to make way for Progress Labs, a biotech/lab facility, at 700 N Frederick Avenue. Also, 20 Massachusetts Avenue, NW, near Union Station, began the gut-renovation of a former GSA-leased building with the intention of a future hotel. The conversion of uncompetitive or struggling office assets will benefit office market fundamentals by easing vacancy and helping to establish greater diversity and mixed-uses in previously office-heavy commercial nodes.

Payroll Job Change – Largest Metro Areas

12 MONTHS ENDING OCTOBER 2021



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

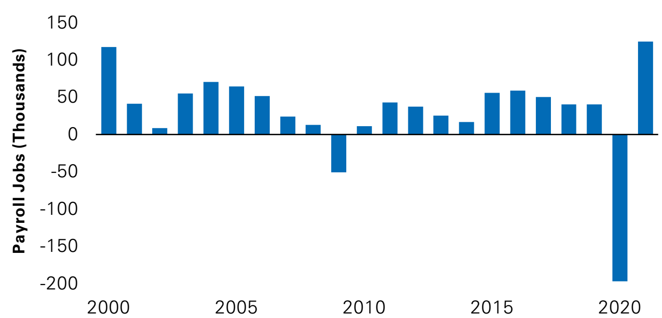
Pandemic Conditions Dictate Office Reboarding

The Washington metro area's vaccination rate has been increasing throughout 2021. In early December, 65.5% of the region's population was fully vaccinated with a growing number of residents qualifying for boosters. Though high vaccination rates can set the foundation for normal business activities, the emergence of variants has proven that the pace of office reboarding remains closely tied to the spread of the pandemic.

Although the pandemic continues to present headwinds to office market recovery, some of the region's return-to-office metrics have continued to improve. Kastle Systems' key fob usage data has been slowly increasing, signaling a growing number of employees returning to offices. Local key fob use reached a post-pandemic high of 35.9% after Thanksgiving. Additionally, Metrorail ridership has been trending up in 2021 and has increased by 139.8% between January 2021 and October 2021.

Not all recovery metrics have been improving, however. Sublease availability has risen by about 10 basis points since the summer, indicating that tenants are still evaluating the utility of their space while considering hybrid schedules, corporate culture, and talent development. Additionally, a new variant, Omicron, emerged in December, and while its true public health threat is not known at the writing of this report, infection rates increased substantially in the closing weeks of the quarter. Office occupiers are likely to take a more cautious approach to reboarding in 2022 given the likely elevated infection rates in January.

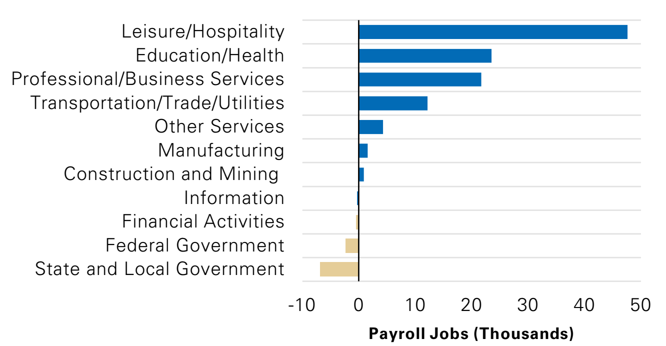
Washington Payroll Job Change



Note: Values reflect annual average net change; 2021 reflects 12-month net change ending October 2021
Source: U.S. Bureau of Labor Statistics, Newmark Research; December 2021

Job Change By Industry

WASHINGTON METRO AREA | 12 MONTHS ENDING OCT 2021



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

Recovery of Fundamentals Slow; Vacancy Pressured by Occupancy Losses and New Deliveries

Quarterly net absorption measured negative 524,612 square feet in the fourth quarter, which brings the year-end total to negative 4,266,717 square feet. Quarterly net absorption was in line with the third quarter, indicating a slowing pace of recovery. For the first time since the onset of the pandemic, the District of Columbia recorded positive absorption, measuring 44,848 square feet. Quarterly net absorption measured in Northern Virginia and Suburban Maryland was in line with third-quarter, measuring negative 384,270 square feet and negative 185,190 square feet, respectively. As has been anticipated, leasing activity increased in the quarter as pent-up demand has begun to slowly loosen regionally. Additional leasing gains are expected in 2022 as more pent-up demand returns to market and firms with 2023/2024 requirements consider testing the tenant-favorable market.

Vacancy continued to rise in the fourth quarter, increasing by 170 basis points over the last 12 months to 18.6%. Mounting occupancy losses have been the largest factor in driving vacancy over the course of the pandemic, however, new construction deliveries were a significant factor in the fourth quarter. The three projects to deliver in the fourth quarter collectively added 447,327 square feet of new vacant space to the market. New deliveries with low pre-lease rates could be a challenge for the region's vacancy in 2022, even if net absorption recovers. Next year, the metro area is anticipated to deliver 4.8 million square feet of new and renovated office product, which is currently 66.2% preleased.

Despite the region's elevated vacancy, average asking rents continue to appreciate, though at a slowing rate. Average asking rents have increased 1.0% over the last year to $41.76/SF. Class A rents have generally fared better during the pandemic due to the relatively stronger demand for higher-quality office space. Still, the duration of the pandemic has weakened landlord leverage and has resulted in greater downward pressure on effective rents. Significant concession packages as incentives to relocate remain commonplace in most submarkets in the Washington region.

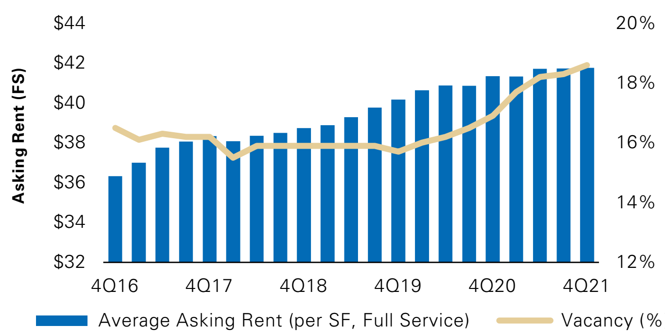
The COVID-19 vaccines and boosters have set the foundation for a safe return to offices; however, uncertainty persists and both tenants and asset owners are likely to favor flexibility through lease renewals, shorter term lengths, or spec suites with immediate occupancy until more is known about post-pandemic workplace strategy. Flexible scheduling may reduce overall net demand in the years ahead, but concerns surrounding lost corporate culture and productivity are persuading some leaders to prioritize office reboarding as soon as it is safe to do so.

Current Conditions

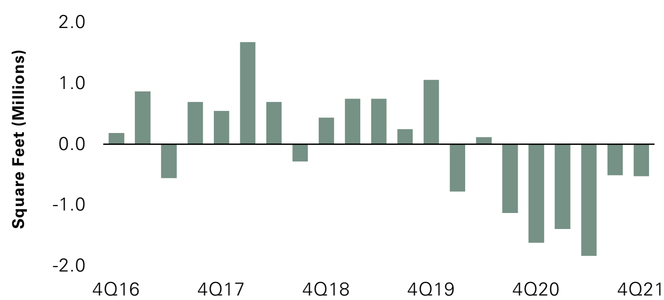
- The region registered negative 524,612 square feet of net absorption during the fourth quarter. Year-end net absorption recorded negative 4,266,717 square feet, much of which was lost in the first half of 2021.
- Vacancy continued to rise in the fourth quarter, reaching 18.6%. Vacancy has increased recently in all building classes, but Class B recorded a particularly strong increase, rising 250 basis points from last year to 20.4%.
- Despite elevated vacancy, average asking rents have held steady in 2021, due to top-of-market deliveries and growing optimism of the impending recovery of the market. 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	Year Ago Period	24-Month Forecast
Total Inventory (SF)	370.5 M	370.2 M	368.8 M	↑
Vacancy Rate	18.6%	18.3%	16.9%	→
Quarterly Net Absorption (SF)	-524,612	-511,496	-1,618,362	↑
Average Asking Rent/SF	$41.76	$41.73	$41.35	→
Under Construction (SF)	5.0 M	5.7 M	7.1 M	↓
Deliveries (SF)	688,373	38,191	0	↑

Washington Area Economic Outlook

Economic recovery accelerated in the fourth quarter of 2021, following a brief period of tepid expansion. The region's relatively high vaccination and booster rates have set the foundation for economic recovery, but the spread of the pandemic and its variants remain the largest factor dictating the pace of recovery.

The region gained 124,600 jobs in the 12-months ending in October 2021. The unemployment rate measured 3.9%, down 250 basis points from one year ago. The BLS measured job losses of 170,300 jobs in 2020. Through October 2021, 117,100 jobs have been recovered year-to-date, on pace with the forecasted recovery of 138,600 jobs. The Fuller Institute estimates recovery to average 86,463 jobs per annum from 2021 to 2024. Most job losses during the pandemic were in the leisure/hospitality and education/health sectors, which have recorded the largest gains in the last 12 months. The region has recovered 85.6% of total jobs lost between March and April 2020. Office-using job recovery has been stronger, boasting a recovery rate of 101.9%; exceeding pre-pandemic employment levels. Growth in office-using sectors, and specifically Professional & Business Services, has supported labor expansion regionally.

The pace of Washington's economic recovery will depend on continued improvement to public health, suppression of variants, and protective measures implemented by civic leaders. The region's high concentration of office-using employment has helped to insulate its labor market since the start of the pandemic. The region's growing reputation as a technology hub combined with its stabile foundation of federal tenancy give reason for above-average growth potential in the coming year.

Office Market Outlook

Economic momentum was gained in the Washington metro in the fourth quarter, but office fundamentals are likely to remain challenged in 2022. Growth opportunities, particularly in the suburbs, are emerging as possible boons to both economic and office market expansion. Demand is expected to rise in 2022 as tenants reengage in real estate planning; however, many firms are expected to downsize due to the impacts of remote working, resulting in net-negative occupancy on balance. The degree to which firms reassess their long-term workforce and workplace strategies is still unknown, but many leaders are seeking a balance between employee flexibility and corporate culture, productivity and mentorship/development.

While office square footage per employee may contract, the region's office-using employment growth provides optimism for the net-new demand required for these new workers. The region's growing technology sector has seen significant growth and investment during the pandemic and could be a catalyst for office demand in the years to come.

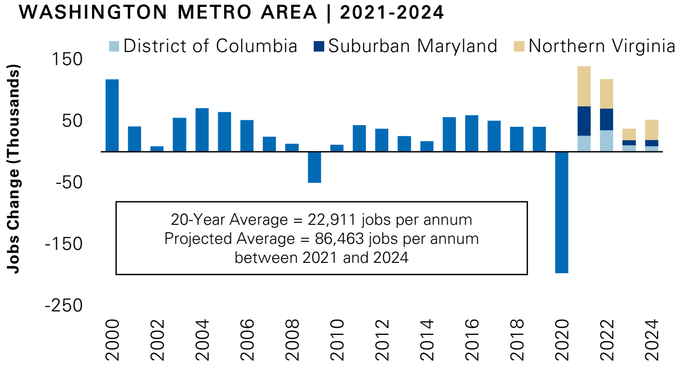
The regional construction cycle is set to deliver 4.8 million square feet of new and renovated space in 2022. Inventory expansion may encourage quality-focused tenants to consider relocating to new space, but it will also add large blocks of net-new vacant space to the market. Newmark estimates that over the next 24 months, regional net demand will be about 275,000 square feet. Though positive, construction deliveries will cause vacancy to rise to 19.6% by December 2023.

Oversupply will continue to apply pressure to fundamentals, including concession packages. Both asset owners and tenants have taken a cautious approach to leasing during the pandemic, which has caused downward pressure on effective rents by way of elevated concessions. Face rents are expected to hold steady regionally, though they have been under greater pressure.

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

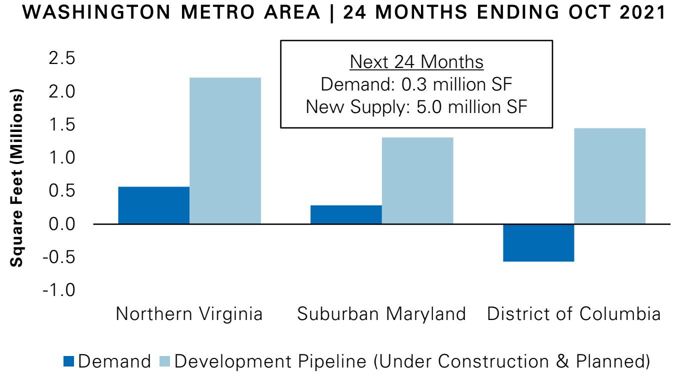
WASHINGTON METRO AREA | 2021-2024



Source: U.S. Bureau of Labor Statistics; Forecast by Newmark Research, Stephen S. Fuller Institute and Moody's Analytics; December 2021

Supply/Demand Forecast

WASHINGTON METRO AREA | 24 MONTHS ENDING OCT 2021



District of Columbia Office Market

The District of Columbia's office market continued to show signs of modest recovery from the pandemic's worst effects. For the first time since the second quarter of 2020, the District recorded positive net occupancy. Office market recovery is dependent on how and when firms return to their offices, which remains uncertain given the continued public health challenges. The federal government is anticipated to be a catalyst for the market's pace of office reboarding, but agencies have not yet put forth formal return-to-office plans.

Net absorption registered 44,848 square feet in the fourth quarter, bringing the year-end absorption to negative 1,516,412 square feet. Marginally positive occupancy in the fourth quarter continues the trend of recovery; however, improved net absorption is largely supported by fewer move-outs, as opposed to more move-ins. While further consolidations are expected as firms reassess their office needs, pandemic related space "give backs" appear to be dissipating. Vacancy increased in the fourth quarter, reaching 17.2%, up 40 basis points from third-quarter 2021 and 170 basis points from one year ago. Although net demand was positive on the quarter, several construction deliveries caused vacancy to rise. The District's construction pipeline currently measures 1.4 million square feet, excluding renovations, and is 48.1% pre-leased. This marks the District's smallest construction pipeline since late 2014.

Average asking rents fell in the fourth quarter to $56.88/SF, measuring $0.60/SF below year-ago rents. After holding steady for much of the pandemic, asking rents have begun to follow the softening market over the last six months. Effective rents remain 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 inched further in its recovery in the fourth quarter. The Delta variant slowed the pace of recovery for much of the fall but did not result in significant degradation of quarterly market fundamentals. However, Delta did slow firms' return-to-office plans, a trend that may be prolonged due to the increased infection rates in December and the emergence of the Omicron variant. While the true threat of Omicron is not known at the writing of this report, office occupiers are likely to take a more cautious approach to reboarding in early 2022.

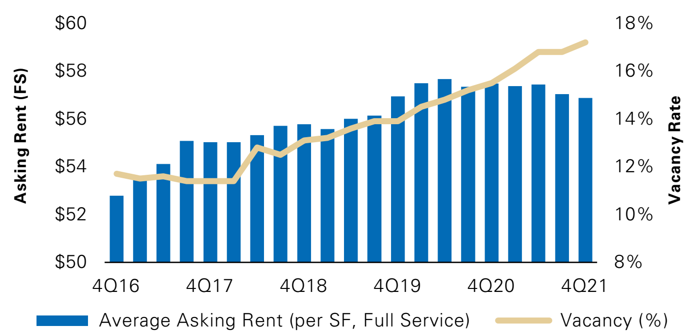
Although the re-occupancy of many offices remains delayed, some pent-up demand has loosened in the quarter and boosted leasing activity. Office market fundamentals such as absorption and vacancy are lagging indicators, however, and are expected to remain challenged, despite improved activity. Given the supply-demand imbalance, asking rents are expected to remain under modest pressure through the first half of 2022. While significant rent contraction is not anticipated, particularly in Class A assets, the surplus of available supply will ensure that tenants maintain considerable leverage in lease negotiations. Effective rents will remain under downward pressure, a result of generous landlord concession packages, well into 2022. Newmark Research projects that the vacancy rate will reach 18.5% by December 2023.

Current Conditions

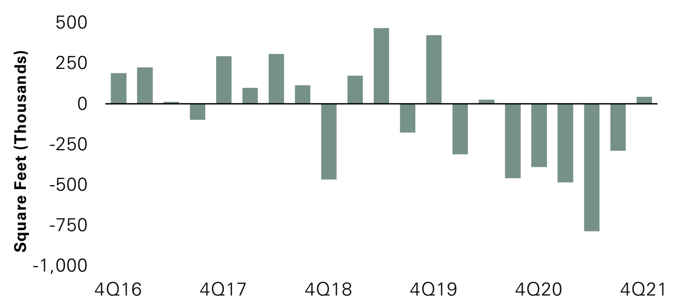
- The District of Columbia recorded 44,848 square feet of net absorption during the fourth quarter of 2021. This marks the first quarter of positive occupancy growth since second-quarter 2020.
- Annual net absorption in 2021 was negative 1,516,412 which exceeds that of 2020 year-end net absorption.
- The vacancy rate has risen 170 basis points from one year ago to 17.2%. Vacancy increased by 40 basis points from third-quarter, in part, due to net-new vacant space in newly-delivered buildings.
- Asking rents fell for the second consecutive quarter to $56.88/SF, as the prolonged pressure of the pandemic suppressed asking rent growth potential.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	131.5 M	130.7 M	130.5 M	↑
Vacancy Rate	17.2%	16.8%	15.5%	→
Quarterly Net Absorption (SF)	44,848	-288,806	-389,812	↑
Average Asking Rent/SF	$56.88	$57.04	$57.48	→
Under Construction (SF)	1.4 M	2.1 M	2.2 M	↓
Deliveries (SF)	688,373	38,191	0	↓

Northern Virginia Office Market

Northern Virginia's office market recovery was mostly steady on the quarter, recording a slight increase in vacancy and continued pressure on net absorption. Although occupancy contraction softened earlier in the year, that trend was broken in the fourth quarter. Quarterly net absorption measured negative 384,270 square feet, bringing the year-end absorption to negative 2,335,370 square feet. Continued occupancy losses resulted in greater pressure on Northern Virginia's vacancy rate. The overall vacancy rate measured 20.6% at the end of the fourth quarter, up 20 basis points from the previous quarter and up 170 basis points from one year ago. Asking rents averaged $34.49 per square foot; unchanged from the previous quarter but up 1.8% over the last 12 months.

Office space under construction in Northern Virginia, excluding renovations and owner-occupied buildings, totaled 2.2 million square feet at the end of the fourth quarter. The overall pre-lease rate of the buildings under construction was 68.4%. There were no new construction completions, renovations, or ground-breaks in the fourth quarter.

Northern Virginia Outlook

Northern Virginia's office market showed modest signs of recovery in the fourth quarter. Transaction velocity for new leases increased slightly during the quarter, and several significant long-term renewals were also executed, signaling that tenants are more confident in making long-term real estate decisions while also weighing future space needs. Northern Virginia, with the assistance of economic development and incentive programs from the Commonwealth, has excelled at attracting large office users to the market. Most recently, Qualtrics announced that they will be relocating from the District of Columbia and establishing a larger headquarters facility in Northern Virginia. The market is seen as a business-friendly environment with room to grow, particularly among tech companies.

Steady gains to public health recovery have helped to set the foundation for a return to offices in 2022, which should further accelerate pent-up leasing demand. Still, many office occupiers will continue to reassess their office space needs in the coming years. Northern Virginia's fast-growing industries, like technology, could provide a boost to occupancy as new-to-market firms consider establishing a Mid-Atlantic presence near industry leaders like Amazon and Microsoft.

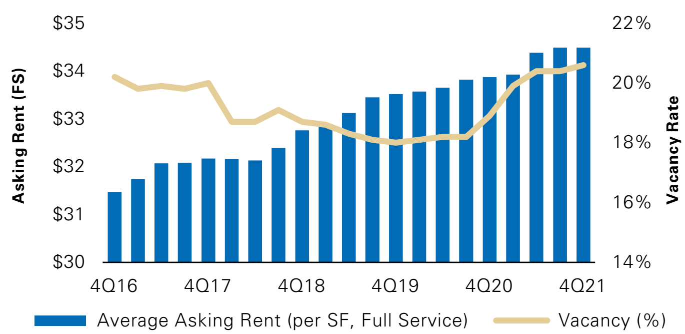
Despite future growth potential, Northern Virginia's overall vacancy rate has risen significantly over the past year, driven by negative absorption in the last five consecutive quarters. The vacancy rate likely will continue to slowly rise in the near term, due to continued pressures of the pandemic. Newmark Research projects that the vacancy rate will reach 21.3% as of December 2023. The market's average asking rental rate rose 1.8% over the past year, but concessions remain elevated and effective rents are under downward pressure. Given the magnitude of space availability in most markets, tenants should expect similarly generous concessions at least into mid-to-late 2022.

Current Conditions

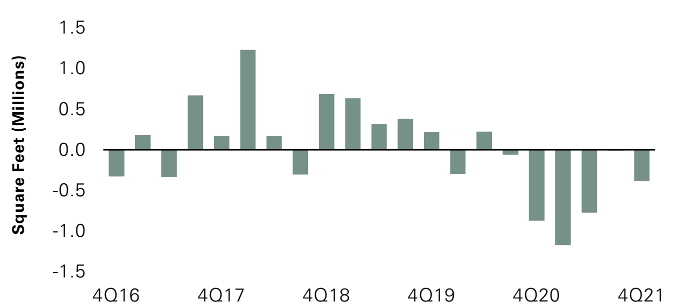
- Quarterly net absorption was negative 384,270 square feet, bringing the year-to-date absorption total to negative 2,335,370 square feet.
- The overall vacancy rate was 20.6% at the end of the fourth quarter, up 170 basis points from one year ago.
- Office space under construction, excluding renovations and owner-occupied buildings, totaled 2.2 million square feet at the end of the fourth quarter, with a pre-lease rate of 68.4%.
- Asking rents held steady at $34.49/SF on the quarter but are up $0.62 from one year ago.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	164.7 M	164.7 M	164.1 M	↑
Vacancy Rate	20.6%	20.4%	18.9%	↑
Quarterly Net Absorption (SF)	-384,270	-3,850	-873,243	↑
Average Asking Rent/SF	$34.49	$34.49	$33.87	↑
Under Construction (SF)	2.2 M	2.2 M	2.7 M	↓
Deliveries (SF)	0	0	0	↑

Suburban Maryland Office Market

Suburban Maryland's office market recovery remained static in the fourth quarter of 2021. Net absorption totaled negative 185,190 square feet on the quarter; marginally less negative than last quarter, but still largely flat. The overall vacancy rate was 16.8% at the end of the fourth quarter, an increase of 40 basis points from the previous quarter and an increase of 160 basis points from a year ago. The average asking rental rate measured $30.26/SF, an increase of 4.2% from fourth-quarter 2020.

Currently, 1.3 million square feet of office space is under construction, excluding renovations and owner-occupied buildings. The pipeline is approximately 63.4% pre-leased. The most notable projects currently under construction are scheduled to deliver in early 2022. Avocet Tower at 7373 Wisconsin Avenue is roughly 380,000 square feet with no space pre-leased. The lower six floors of the building will be a Marriott hotel, with office space in the floors above. Also anticipated to deliver in early 2022 is Marriott's new headquarters at 7750 Wisconsin Avenue. Marriott has fully leased the 726,000 square-foot building, but the pandemic caused company leadership to reconfigure their intended layout and prioritize more communal spaces. Flexible work schedules have lowered the time employees are expected to be in-office. Variants have forced tenants to evolve their corporate footprint alongside their employees' schedules to maximize office space value, without losing talent.

Suburban Maryland Outlook

Soft office market fundamentals in Suburban Maryland are likely to slowly tighten over the next two years; leasing activity is increasing slowly, but the Omicron variant and continued management of public health are why leasing remains limited as tenants remain cautious in assessing office needs. Leasing activity should continue slowly accelerating in 2022, as tenants reboard and consider office needs for the next year. Many office tenants are focusing on communal workspace, as opposed to smaller individual offices, which reflects a common change in work preferences; many people prefer a hybrid work schedule in which traditional offices are used more frequently for meetings and collaborative work.

Marriott's and Choice Hotels' growing and renewed presence in the area is a boon, especially as it shows confidence that with the improvement of the public health situation, Suburban Maryland will be an even greater destination for work and personal travel. As the pandemic and variants are further controlled and vaccination rates increase, there is an opportunity for the hospitality industry to see a relative boom by attracting people to travel more for work and pleasure in a safe way. Suburban Maryland's concentration of active federal agencies, such as the NIH, will help to support this recovery.

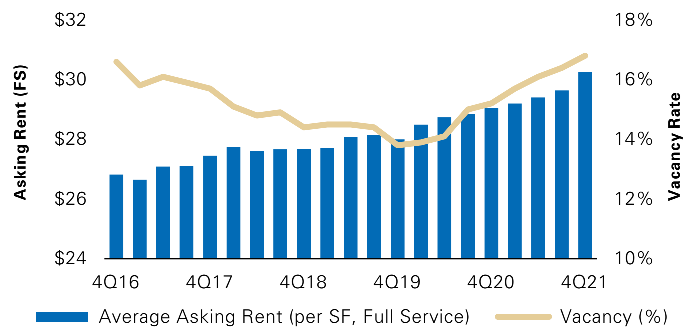
Suburban Maryland's construction pipeline measures 1.8% of inventory. Future new deliveries will be concentrated in Bethesda, with a 63.4% pre-lease rate overall. Newmark Research projects that Suburban Maryland's overall vacancy rate will increase to 17.9% by the end of the fourth quarter of 2023, a consequence of the long-term workplace changes caused by COVID-19.

Current Conditions

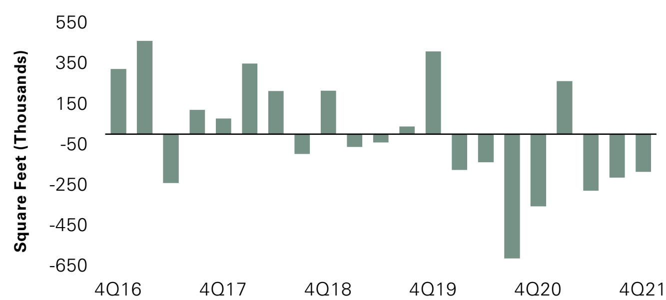
- Suburban Maryland registered negative 185,190 square feet of absorption during the fourth quarter. Year-end net absorption recorded negative 414,935 square feet.
- The vacancy rate is up 40 basis points from last quarter and up 160 basis points from one year ago, to 16.8%. Demand is likely to remain modest during the rest of 2021 before accelerating in 2022, dependent on variant spread.
- Over 1.3 million square feet is under construction; groundbreakings are limited given low demand for space and cost of construction.
- Asking rents in the fourth quarter increased to $30.26/SF, up $0.62 from a quarter ago, and up $1.21 from one year ago.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	74.4 M	74.9 M	74.1 M	↑
Vacancy Rate	16.8%	16.4%	15.2%	↑
Quarterly Net Absorption (SF)	-185,190	-213,840	-355,307	↓
Average Asking Rent/SF	$30.26	$29.64	$29.05	↑
Under Construction (SF)	1.3 M	1.3 M	2.1 M	↓
Deliveries (SF)	0	0	0	↑

Market Statistics – Vacancy and Absorption

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	4Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Washington Metro Area	**370,543,328**	**17.4%**	**18.6%**	**2,526,955**	**2,824,512**	**-3,412,461**	**-524,612**	**-4,266,717**
District of Columbia	131,450,091	16.0%	17.2%	56,303	890,479	-1,131,361	44,848	-1,516,412
Suburban Maryland	74,423,591	15.7%	16.8%	680,170	345,945	-1,281,027	-185,190	-414,935
Northern Virginia	164,669,646	19.3%	20.6%	1,790,482	1,558,088	-1,000,073	-384,270	-2,335,370

Market Statistics – Vacancy and Absorption By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	4Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Washington Metro Area	**370,543,328**	**17.4%**	**18.6%**	**2,526,955**	**2,824,512**	**-3,412,461**	**-524,612**	**-4,266,717**
Class A	228,580,118	16.8%	18.2%	3,272,632	2,886,180	-1,019,504	-286,056	-1,171,528
Class B	106,989,768	19.2%	20.4%	-699,699	160,926	-1,655,983	-50,611	-2,762,768
Class C	34,973,442	15.8%	16.3%	-45,978	-222,594	-736,974	-187,945	-332,421

Market Statistics – Rents and Development

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	4Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Washington Metro Area	**370,543,328**	**$45.69**	**$37.67**	**$41.76**	**688,373**	**2,566,279**	**4,965,659**
District of Columbia	131,450,091	$62.10	$48.64	$56.88	688,373	954,512	1,445,742
Suburban Maryland	74,423,591	$32.80	$27.58	$30.26	0	932,767	1,305,860
Northern Virginia	164,669,646	$36.85	$32.12	$34.49	0	679,000	2,214,057

Market 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)	4Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Washington Metro Area	**370,543,328**	**$45.69**	**$37.67**	**$41.76**	**688,373**	**2,566,279**	**4,965,659**
Class A	228,580,118	$45.69	NA	$45.69	688,373	2,566,279	4,965,659
Class B	106,989,768	NA	$37.67	$37.67	0	0	0
Class C	34,973,442	NA	NA	$30.60	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 fourth-quarter 2021. Quarterly sales volume measured $951 million in the final quarter of 2021, a reduction from third-quarter volume of $2.8 billion. Historically, quarterly sales volume is highest in the closing quarter of the calendar year; however, at the writing of this report, that is not the case in 2021. Several deals may be nearing completion in the closing days of the quarter, which could result in modest improvement to fourth-quarter volume.

Quarterly Volume Falls; Investors Favor Quality

Transaction volume was relatively weak in the fourth quarter, measuring $951 million. While this exceeds quarterly investment volumes in the first and second quarters of 2021, it is a 65.6% reduction from third-quarter. The emergence of the Delta and Omicron variants likely stunted investment activity. Although local office occupancy rates have improved throughout the quarter, they remain far below pre-pandemic rates, and many firms have again delayed return-to-office timelines into 2022. So long as employees continue to work remotely and office buildings remain underutilized, investors are likely to exercise caution, resulting in limited investment volume.

Regional transactions averaged $351 per square foot over the past year. This marks the continuation of a steady pricing decline dating back to mid-2020. Office assets have been particularly challenged during the pandemic and the slowed pace of office reboarding has further suppressed the potential for pricing recovery. Regional cap rates have averaged 6.6% over the past 12 months, down 10 basis points from last quarter and unchanged from one year ago. A pricing "reset" has been felt in many regional markets due to the prolonged headwinds presented by the pandemic. There may be opportunities in select markets for shrewd investors to buy low, or for institutional investors to purchase with long-term holding strategies.

The largest transaction of the fourth quarter was the partial interest sale of 655 New York Avenue, NW in the East End submarket. Douglas Development and Brookfield sold 49% share in the building for $388.7 million to Rockwood Capital on behalf of Mertiz Alternative Investment Management. The partial ownership transacted at a cap rate of 4.75%, according to the Washington Business Journal, and the sale valued the building at an estimated $1,033/SF. Although many office assets are struggling with pricing pressures during the pandemic, top-of-market assets with high occupancy rates are still attracting investor attention and retaining relatively strong pricing.

Office Investment Sales Outlook

Washington's educated workforce and mix of industries give the region a boost relative to many of its peer markets. 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.

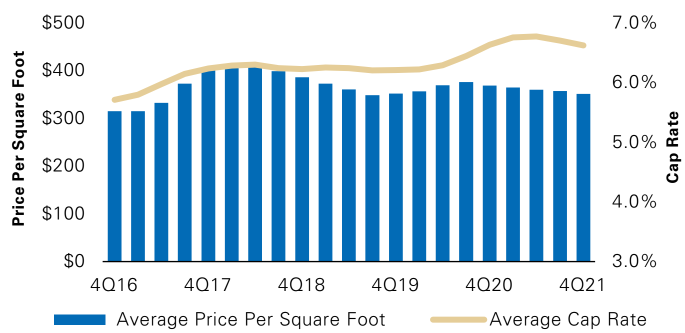
Market Summary

	Washington Metro Area
12-Month Transaction Volume at 4Q 2021	$4.8 B
12-Month Transaction Volume at 4Q 2020	$4.8 B
12-Month Trailing Average Price PSF at 4Q 2021	$351/SF
12-Month Trailing Average Cap Rate at 4Q 2021	6.6%

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

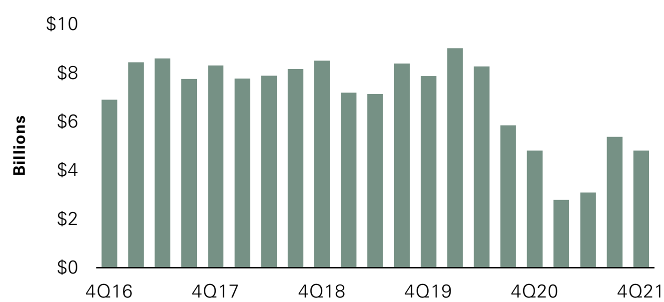
Market Analysis

AVERAGE OFFICE CAP RATE AND PRICE PER SQUARE FOOT



Note: Values are trailing 12-month averages

TRAILING 12-MONTH OFFICE TRANSACTION VOLUME



Notable Recent Office Sales Transactions

Address	Sale Price	Price Per SF	Substate Area
655 New York Avenue, NW Partial Interest Stake of 49%	$388.7 M	$1,033	DC
Midtown Center – 1100 15th Street, NW Partial Interest Stake of 49%	$455.1 M	$1,070	DC
Sentinel Square III 45 L Street, NW	$305.0 M	$560	DC
1015 Half Street, SE	$220.0 M	$563	DC
Sequoia Plaza I, II, III	$206.5 M	$559	VA
The Peoples Building 77 P Street, NE	$201.8 M	$589	DC

Source: Real Capital Analytics, Newmark Research

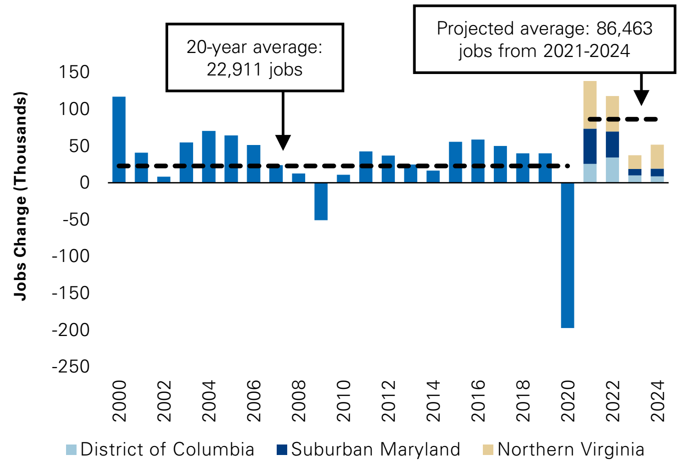
Economic Conditions

The Washington region's unemployment rate registered 3.9% in October 2021, the most recent data available at production of this report. The spread of the Delta variant in late summer slowed the pace of the region's recovering unemployment rate. Strong job growth over the last three months has offset the influence of Delta and accelerated the pace of unemployment declines. The Washington metro area is projected to create approximately 138,600 net new jobs in 2021 and average 86,463 new positions per annum from 2021 to 2024.

In the 12 months ending in October 2021, Washington's net change in employment was 124,600 jobs and the region has recovered 85.6% of the jobs lost between March and April 2020. Over the past year, metro employment growth was 3.9%. Office-using employment contracted less severely during the pandemic and has been faster to achieve recovery toward pre-pandemic levels. In October 2021, office-using employment officially recovered all the jobs lost between March and April 2020. This feat was supported by Professional & Business Services, which recovered 176.8% of the jobs lost in between March and April 2020.

Employment Forecast

WASHINGTON METRO AREA | PAYROLL JOB CHANGE | 2001-2020 AND FORECAST 2021-2024

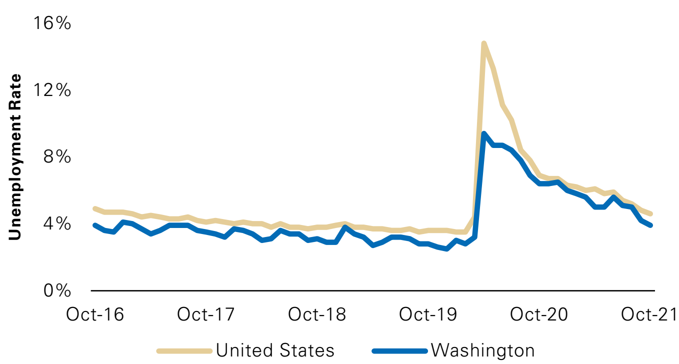


Note: Previous projections have been revised due to COVID-19 and are subject to further revision as conditions change.

Source: U.S. Bureau of Labor Statistics, Moody's Analytics, Newmark Research; December 2021

Unemployment Rate

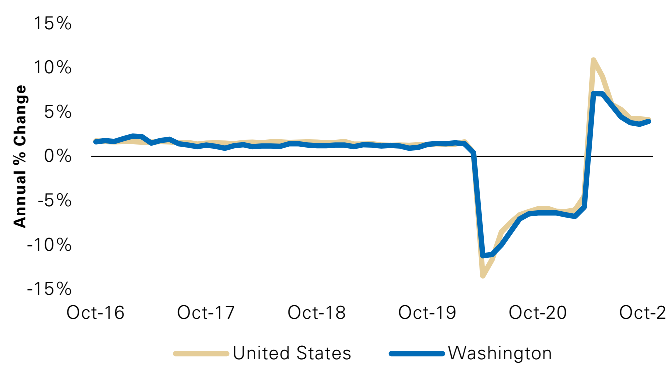
U.S.—SEASONALLY ADJ.
WASHINGTON—NOT SEASONALLY ADJ.



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

Payroll Employment

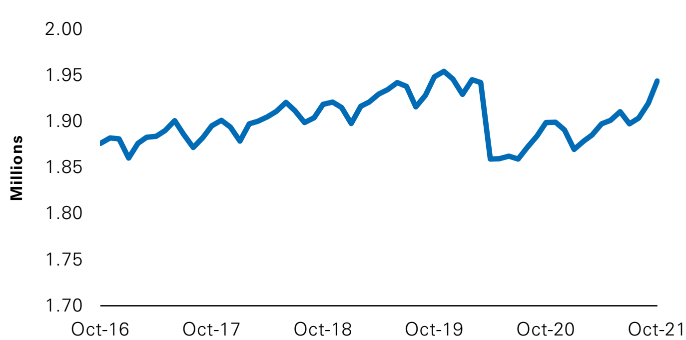
TOTAL NONFARM, U.S.—SEASONALLY ADJ.
WASHINGTON—NOT SEASONALLY ADJ., 12-MO. % CHANGE



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

Office-Using Employment*

WASHINGTON, OFFICE-USING EMPLOYMENT (000'S), NOT SEASONALLY ADJ.

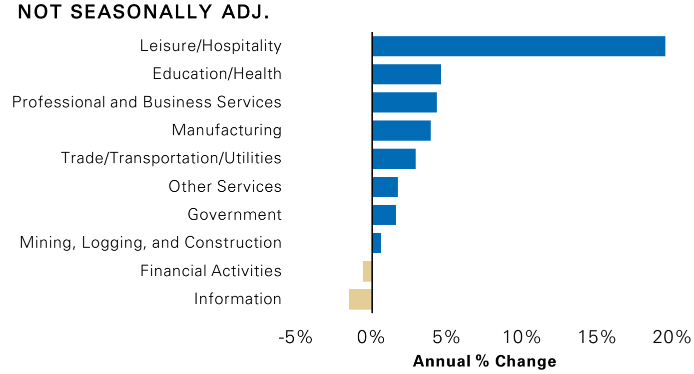


*Identified as Financial Activities, Government, Information, Other Services, and Professional and Business Services

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

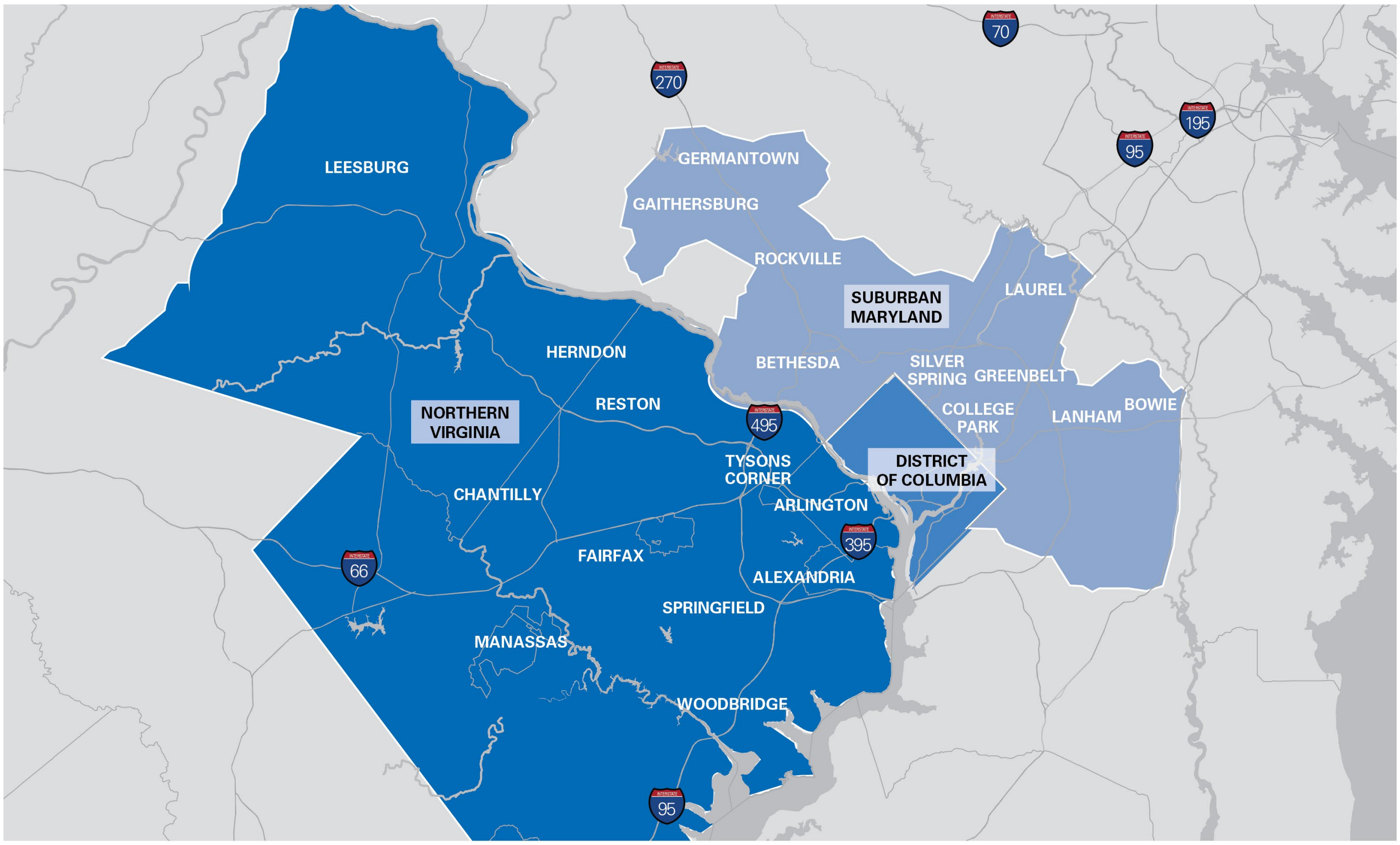
Employment Growth By Industry

WASHINGTON, % CHANGE, 12 MONTHS ENDING OCT. 2021, NOT SEASONALLY ADJ.



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

Washington Metro Office Markets



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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