NAIOP Northern Virginia 2017 Annual Forecast

50 years NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

CUSHMAN & WAKEFIELD

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U.S. Economic & Market Outlook

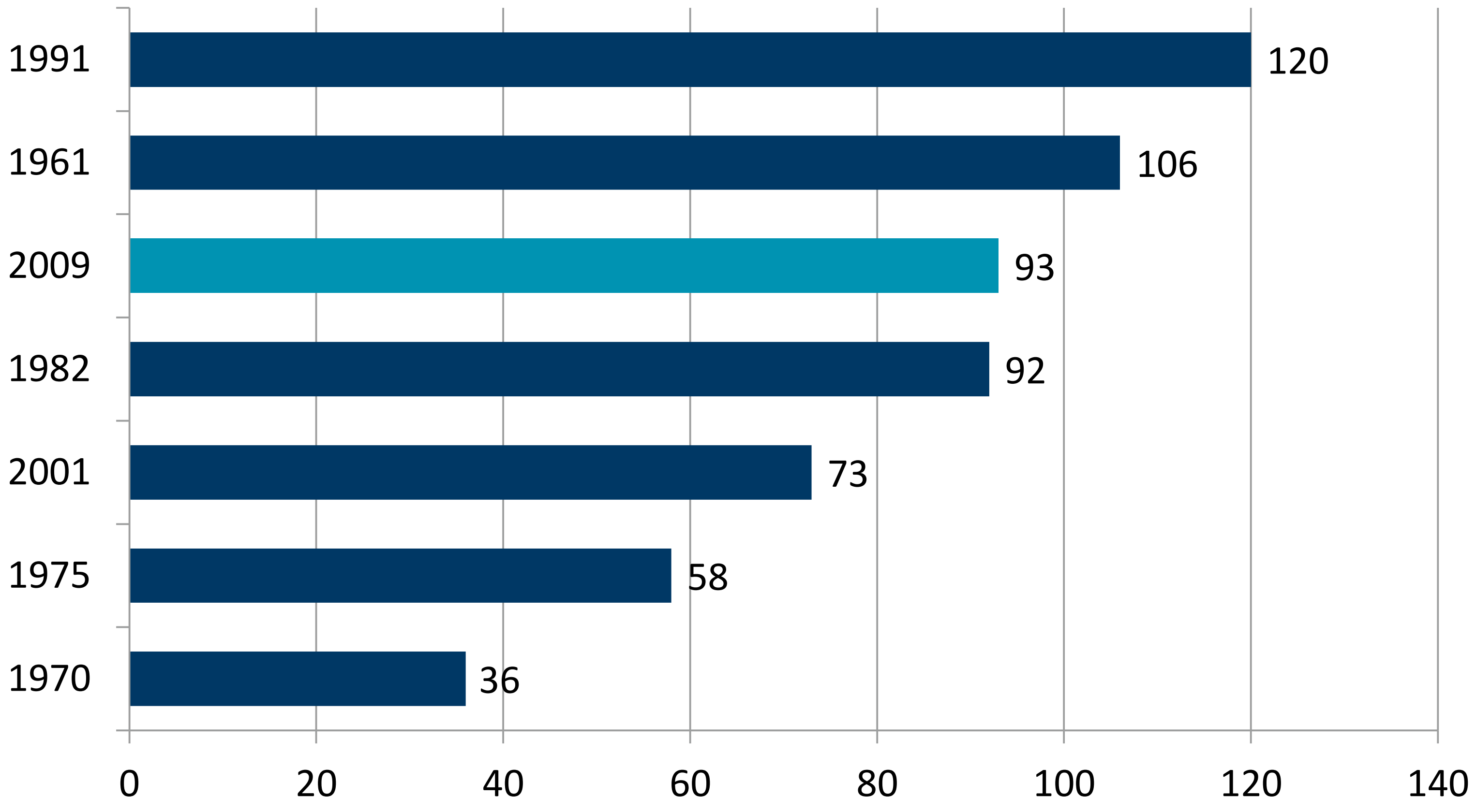
Ken McCarthy, Principal Economist
February 16, 2017

Today's Discussion

- The Longest Expansion Ever?
- Cyclical Drivers
- Long Term Drivers

Ranking Expansions by Duration

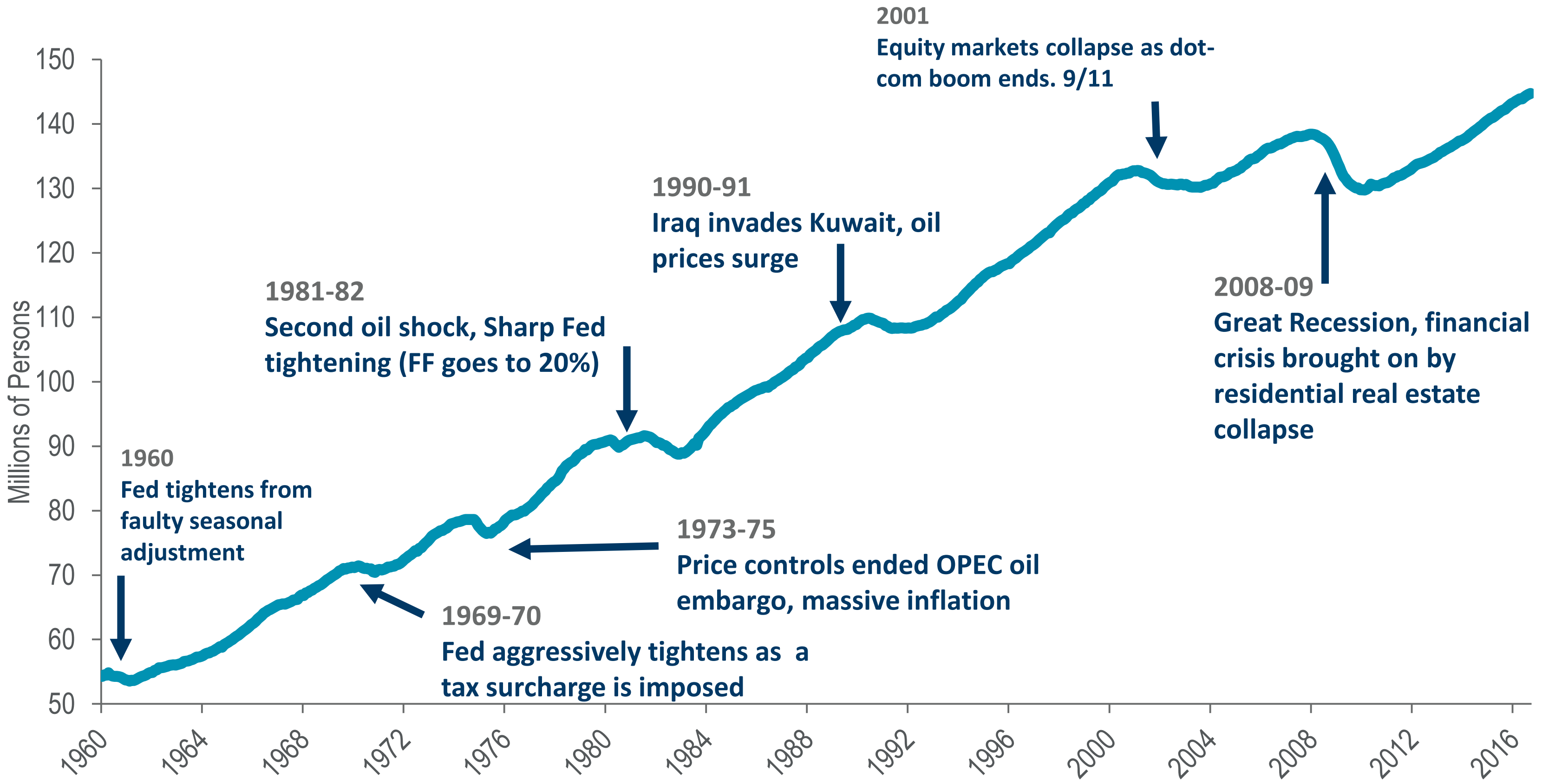
This is already the third longest in history



Source: National Bureau of Economic Research

This Expansion Still Has Legs

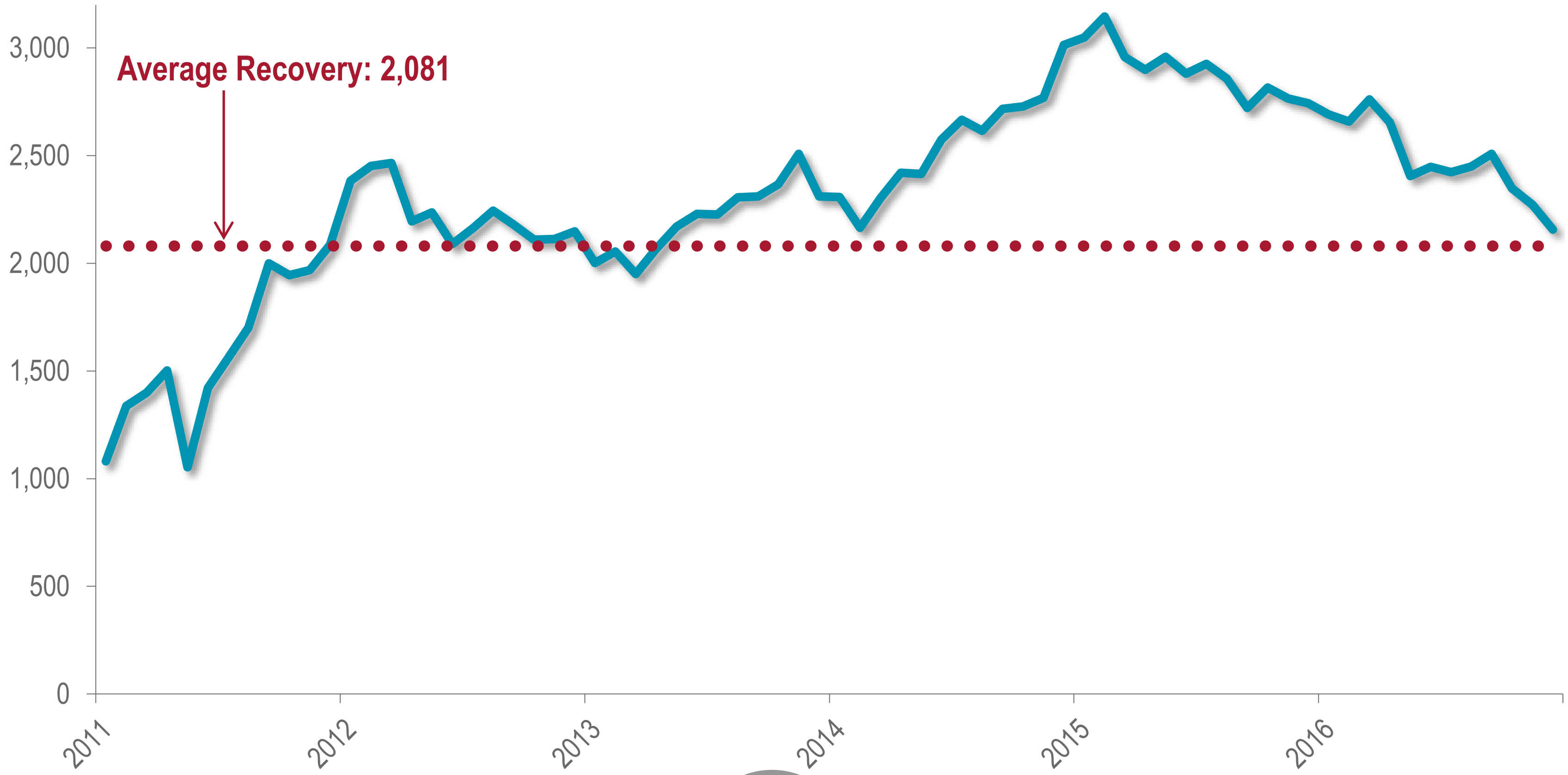
Few Excesses, No Trigger in Sight



Source: BLS, Cushman & Wakefield Research

No excesses in sight, Current expansion likely to last several more years.

Employment Growth Compared to Long-Term Recovery Average

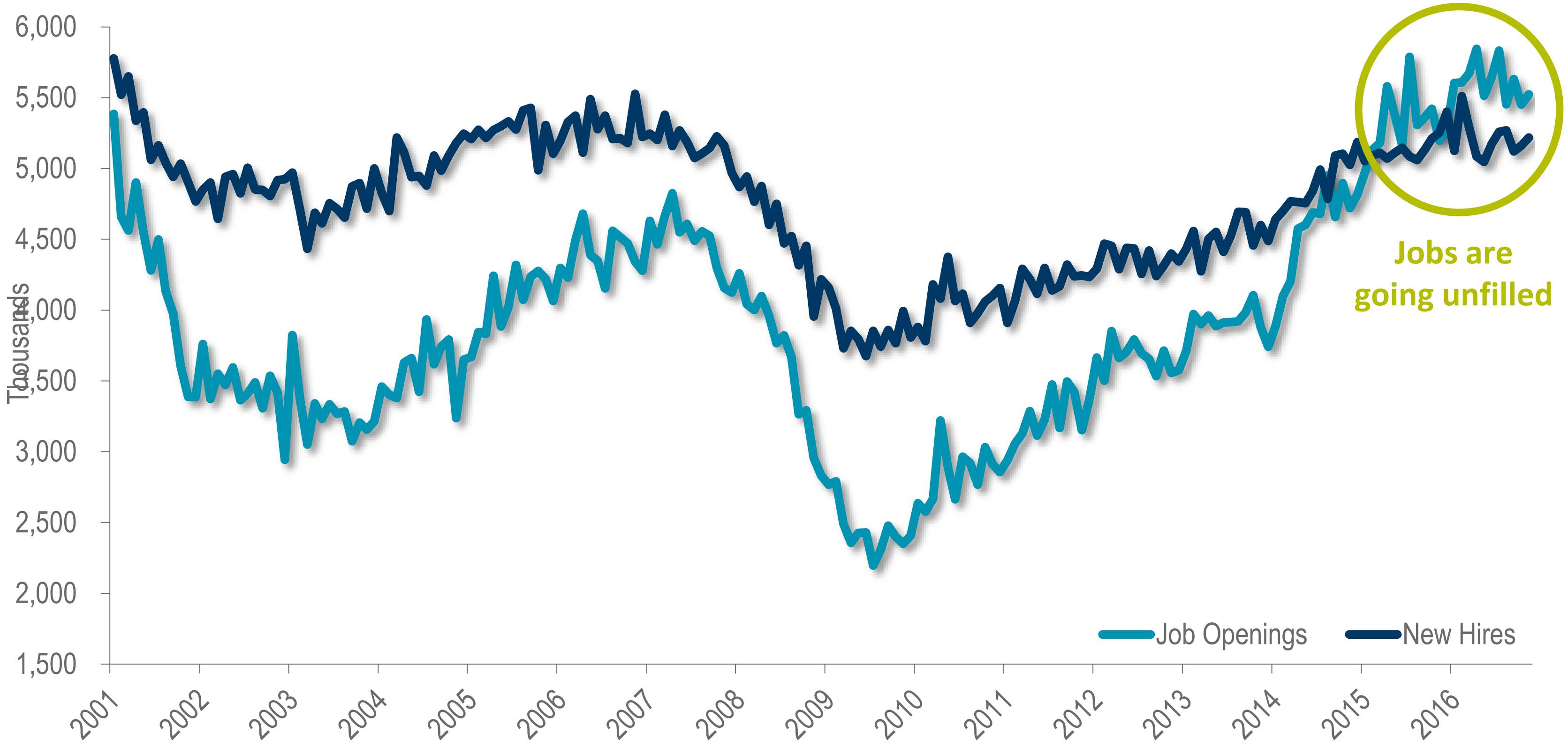


After two strong years job growth has returned to trend.

Source: U.S. Bureau of Labor Statistics

Growth Driver: Tighter Labor Markets, Higher Wages

U.S. Private Sector Job Openings and New Hires



Getting tougher to find workers/labor costs and household income will rise/ real estate is a recruiting tool

Source: U.S. Bureau of Labor Statistics

Atlanta Fed Wage Growth Tracker

Y-O-Y

Wages will continue to accelerate over the next two years, boosting income

Source: Federal Reserve Bank of Atlanta

U.S. Motor Vehicle Sales

Record-Setting Performance

When incomes rise, Americans buy cars

Source: U.S. Bureau of Economic Analysis

Now What?

Trump and Confidence

Business and Consumers More Optimistic

Small Business Confidence Surge

Consumer Confidence Soars

Source: National Federation of Independent Businesses, The Conference Board

- December increase largest on record
- Optimism is high as the new Administration takes office, but attitudes can change quickly.
- Since the election consumer confidence has surged to its highest level since 2001.
- If sustained, these increases set the stage for stronger growth in revenue

Trump and Confidence

S&P 500 Stock Price Index Hits a Record

Source: S&P Dow Jones

Trump Policies

Still a Lot We Don't Know

TAX REFORM PROPOSALS
No Update

- Reduce Corporate income tax from 35% to 15%
- Top income tax bracket reduced from 39.6% to 33%, number of brackets from 7 to 3
- Leave capital gains tax at 20%
- Repeal the estate tax and eliminate the alternative minimum tax
- Advocated for a one-off 10% tax rate on repatriated corporate earnings

SPENDING PROPOSALS
No Update

- Spend $1 trillion on infrastructure over 10 years much of it privately funded
- Eliminate the sequester on defense spending (boost troop levels, number of ships, aircrafts and bolster missile defense system
- Eliminate government waste and budget gimmicks

REGULATION POLICIES
Executive Orders

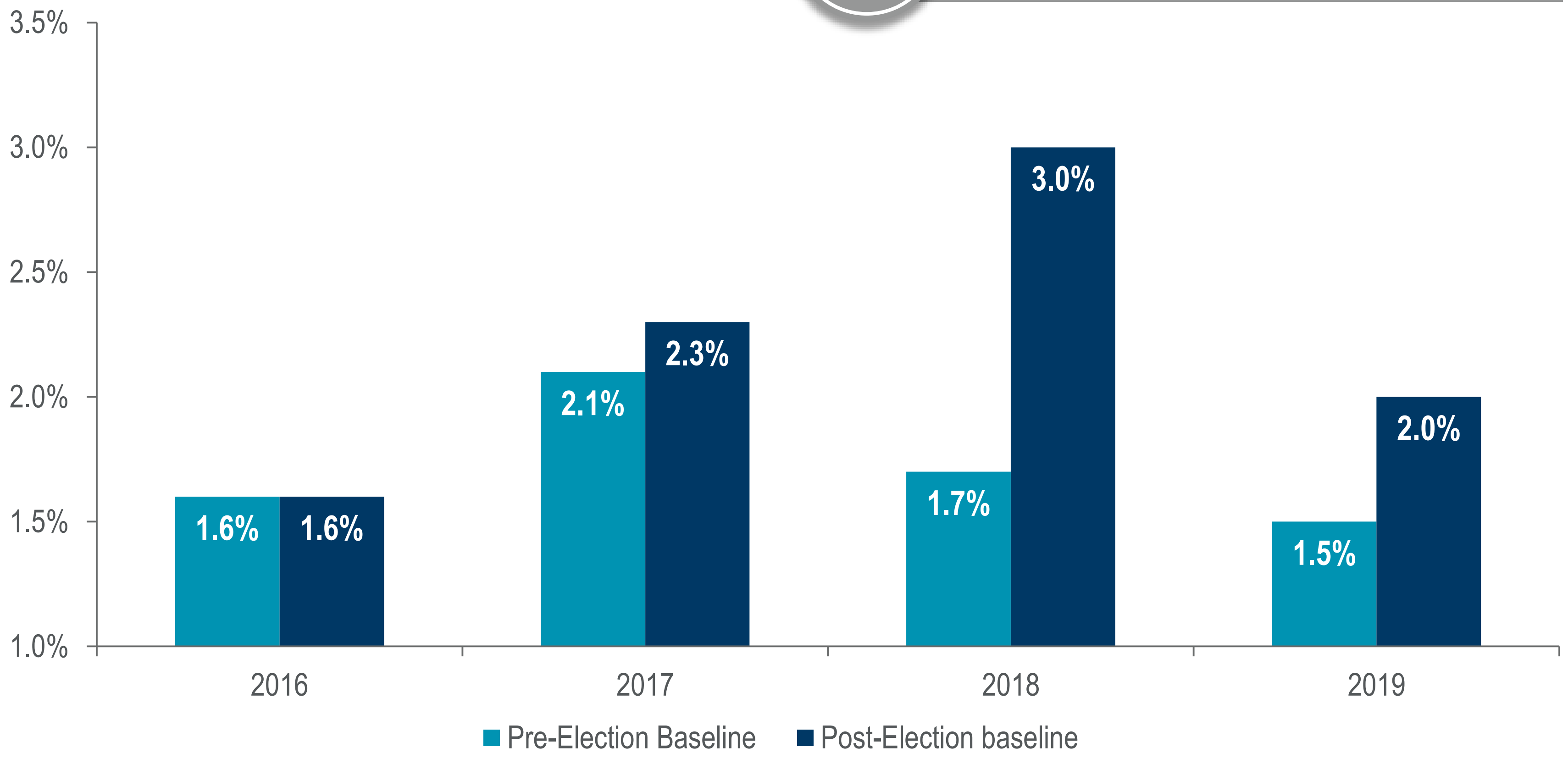
- Dismantle Dodd-Frank law
- Repeal & Replace Obamacare
- End the war on coal
- American energy dominance declared strategic priority

TRADE AND GLOBALIZATION
Executive Orders

- Halt new trade deals like the Trans-Pacific Partnership
- Enforce existing trade treaties more strictly
- Potentially renegotiate existing treaties like NAFTA
- Strengthen U.S. stance against currency manipulation

Trump and the Economy Stronger Growth Likely

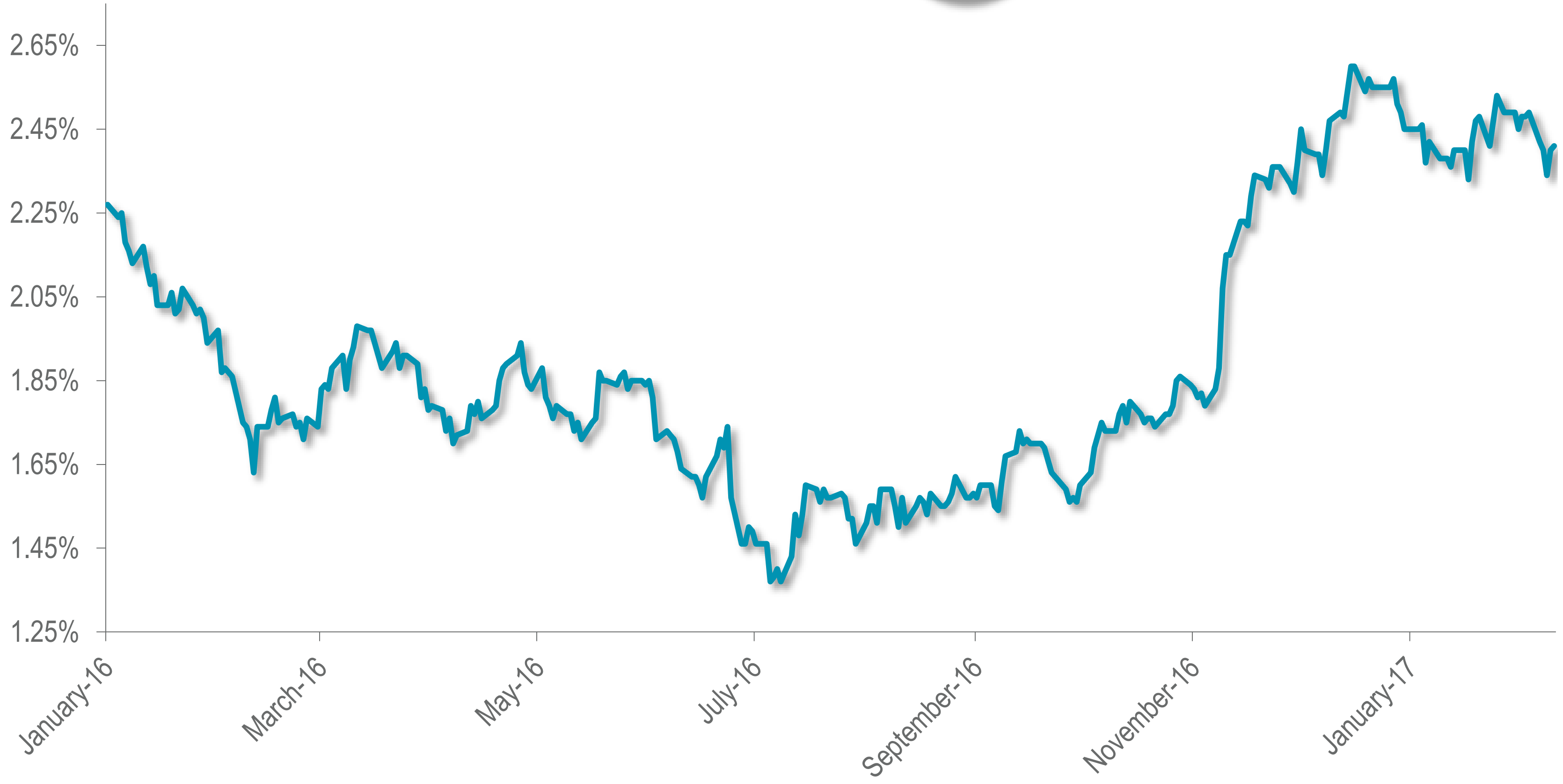
Most businesses will benefit from stronger consumer and business spending growth



Source: Cushman & Wakefield

10-Year Treasury Yield

Risk Free rate reset post-election.
Market now in “wait and see” mode



Source: U.S. Federal Reserve Board

The 35-Year Bull Run

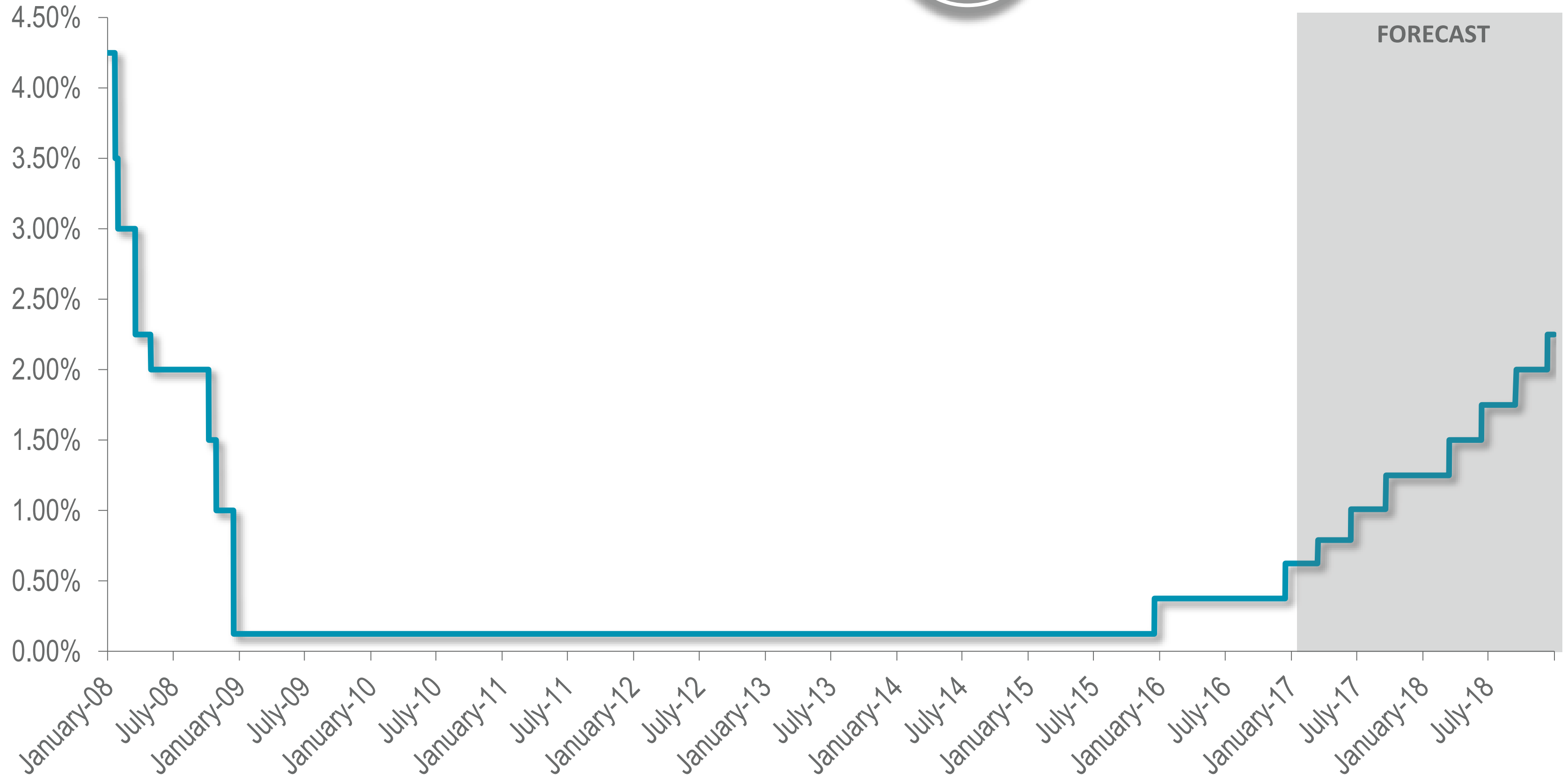
10-Year Treasury Yield

By any historical standard interest rates are low. Is the bull market over? To soon to tell.

Source: U.S. Federal Reserve Board

Fed Funds Target Forecast

Steady, Step by step tightening expected



Source: U.S. Federal Reserve Board, Cushman & Wakefield

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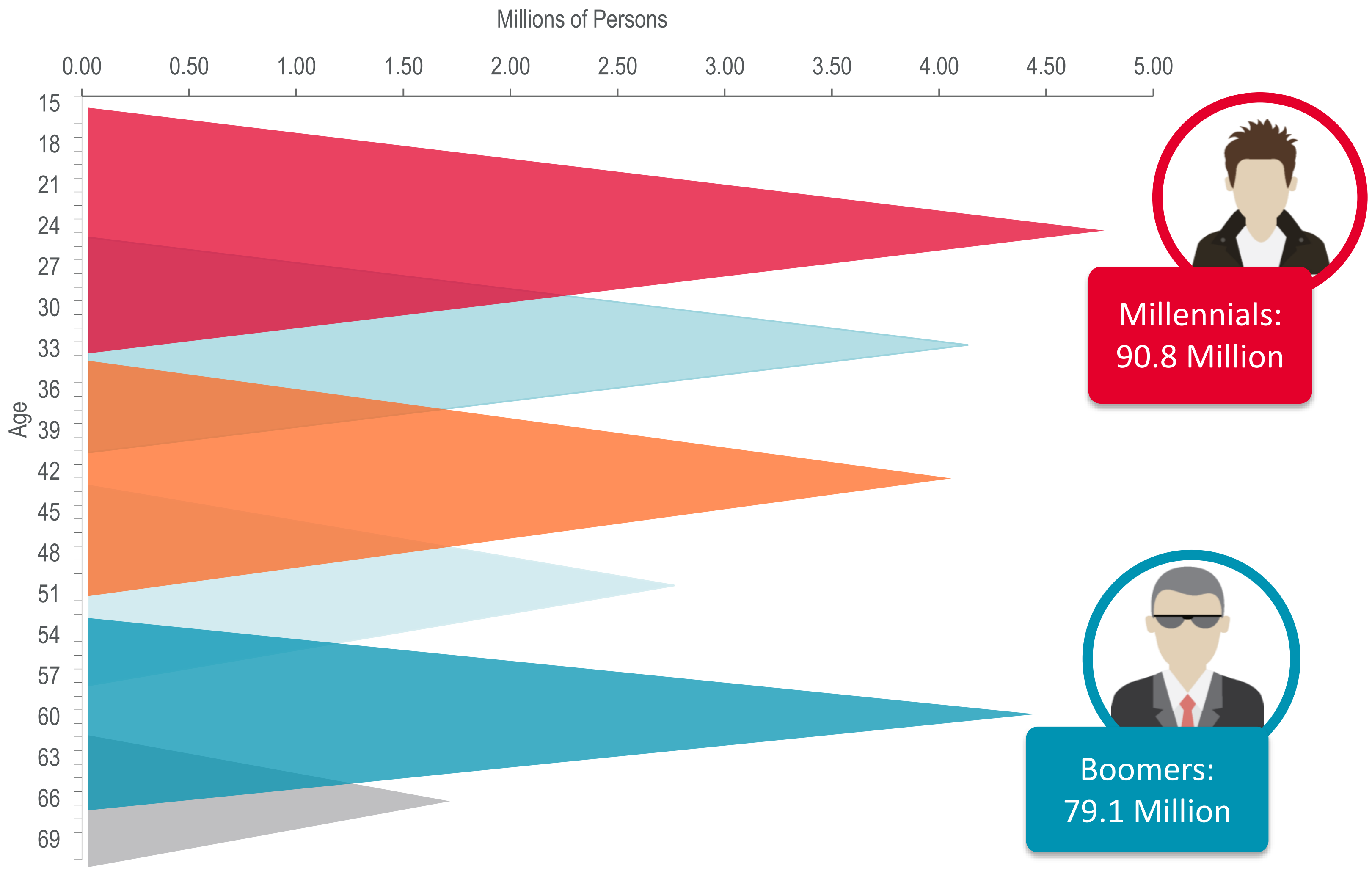
Long-Term Trends Millennials and Real Estate:

The Urbanization Trend will Continue

Millennials Are Now the Largest Component of the Labor Force



Source: U.S. Census Bureau

Millennial Characteristics

THEY DON'T DRIVE

- % of 19 year olds with a drivers license
- 1983: 87%
- 2014: 69%

MOST EDUCATED GENERATION IN HISTORY

- Larger % of millennials have a bachelors or higher than in any previous generation
- And many are still in high school

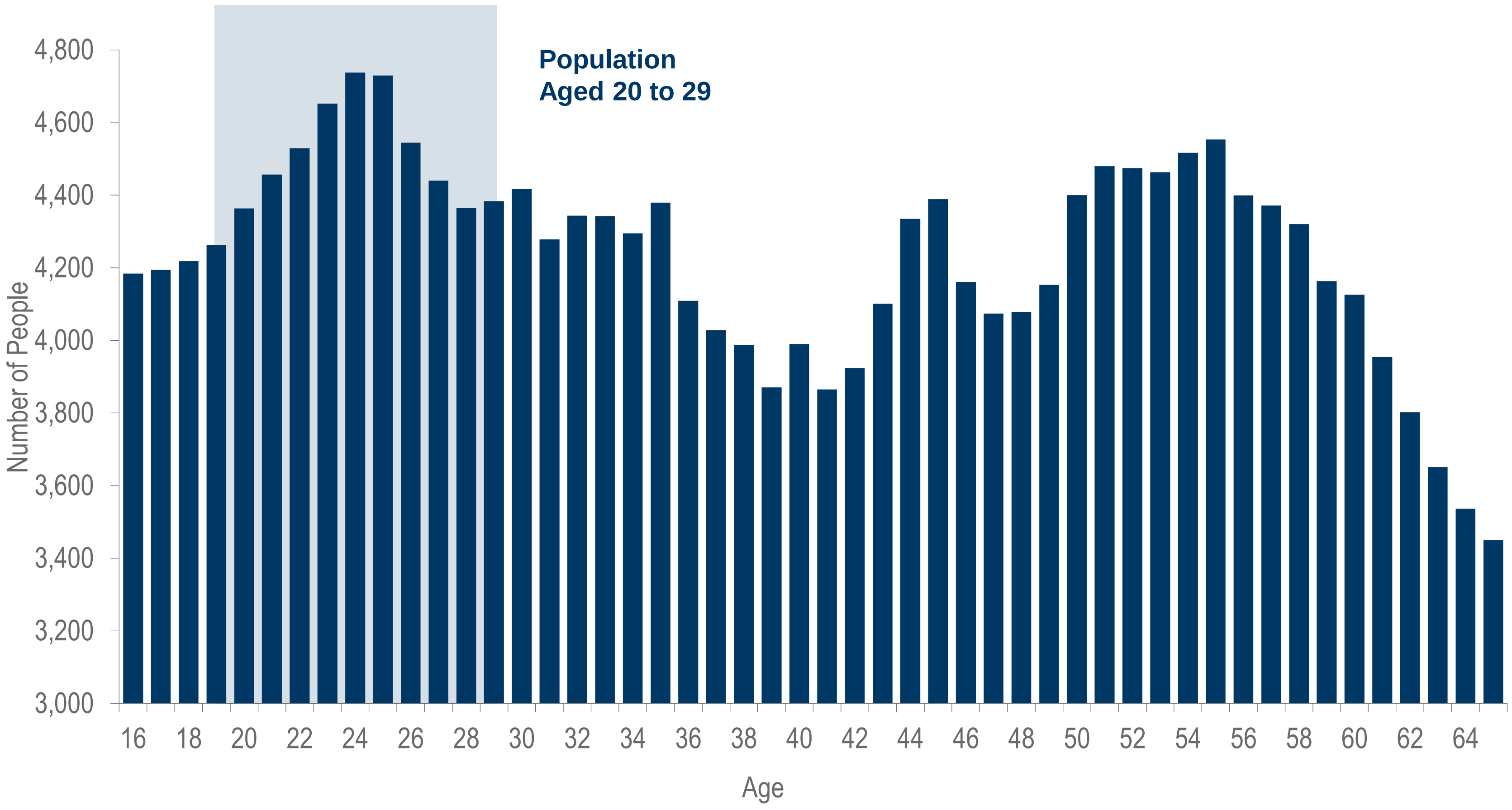
THEY GREW UP WITH THE INTERNET

- 1980: First Millennials
- 1993: First Web Browser
- 1980: First Gigabyte Hard Drive-weighed 550 lb and cost $40,000
- 2017 3.0 Terabyte drive (3,000 times as large) weighs 3 lb and costs $100

URBAN-FOCUSED

- Millennials are more likely to live in urban areas than earlier generations

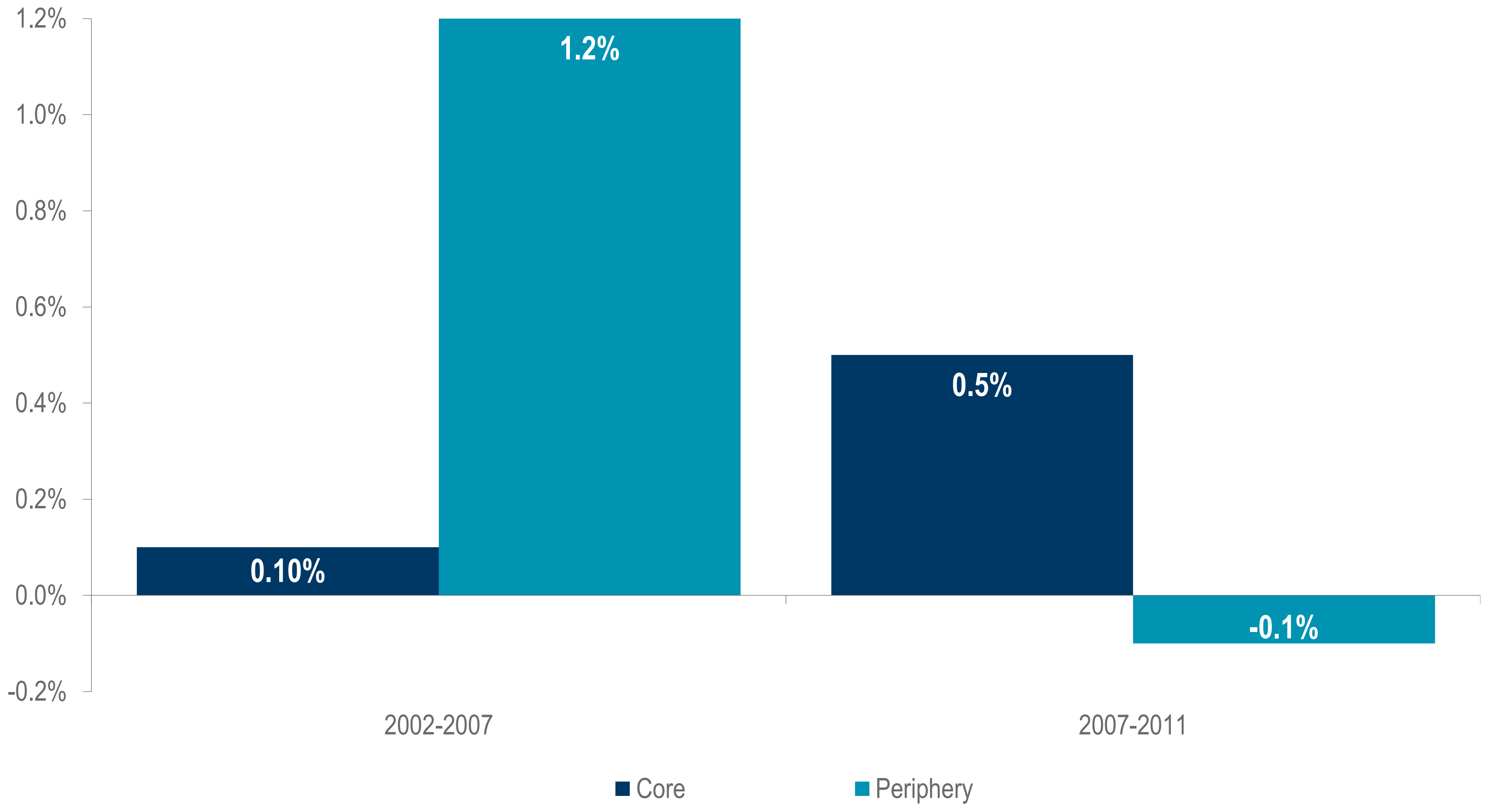
They are Mostly in Their 20s



Source: U.S. Census Bureau

Change in Employment

Core Vs. Periphery



Source: CityObservatory Surging Center City Job Growth

Fact Checker

Millenials?

Trump Effect?

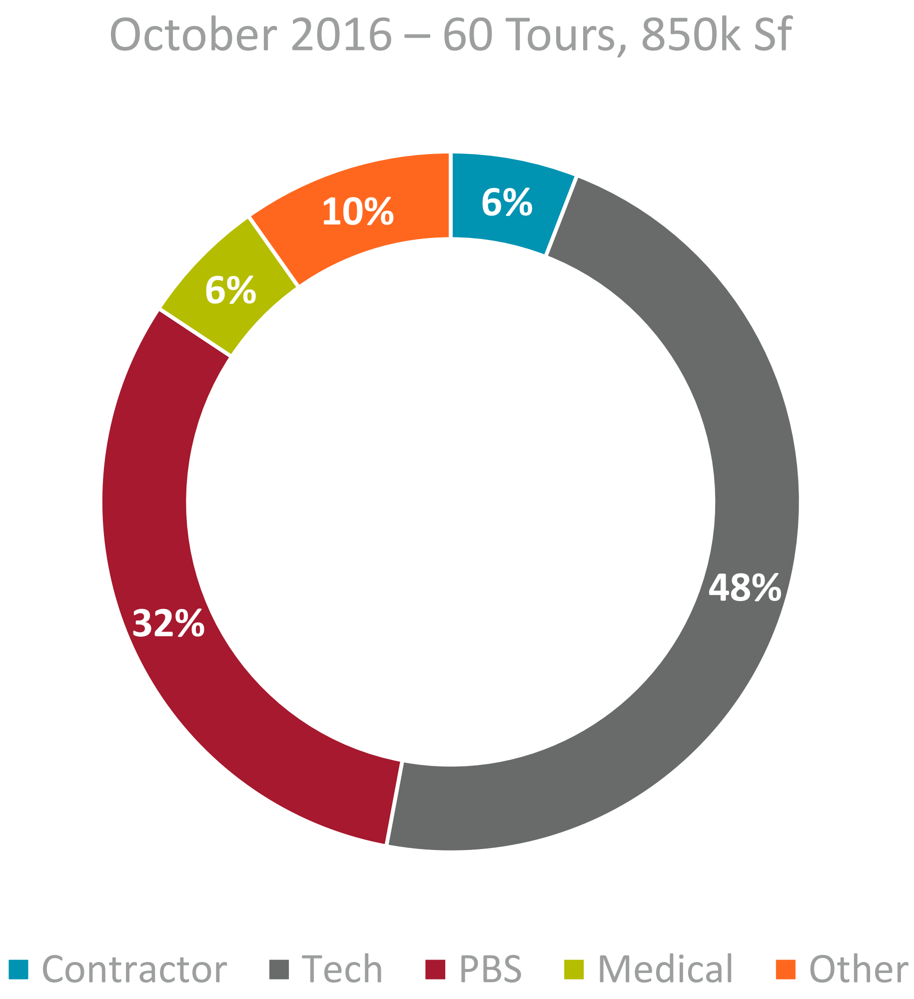
Top Private Sector Transactions 2014-2016

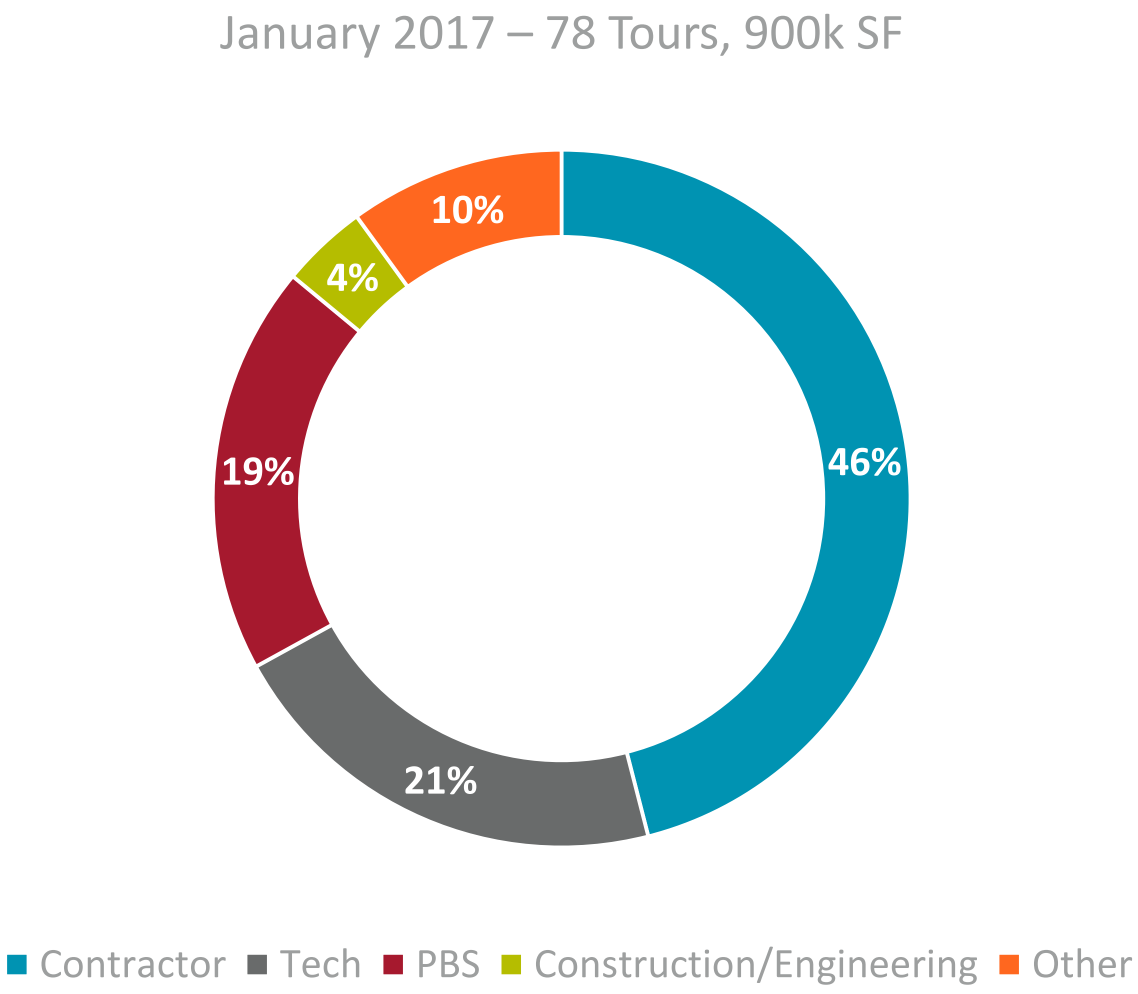
New Deals, 50k SF +, Inside vs. Outside the Beltway

Inside the Beltway	Outside the Beltway
CEB – 350k SF	Capital One – 272k SF
Nestle – 200k SF	NFCU – 235k SF
Marymount – 100k SF	Fannie Mae – 186k SF
Applied Predictive – 100k SF	Noblis – 150k SF
Am. Diabetes Assn – 78k SF	Ellucian – 100k SF
Sands Capital – 78k SF	AFCU – 93k SF
Grant Thornton – 76k SF	Serco – 88k SF
MWAA – 74k SF	MC Dean – 86k SF
Politico – 61k SF	Alarm.com – 83k SF
	Tegna – 70k SF
	EIT – 65k SF
	Carahsoft – 64k SF
TOTAL – 1.1 MSF	**TOTAL – 1.5 MSF**

The Fact Checker

Cushman & Wakefield's Tour Tracker Beta – Tour Activity is Up 30%





Source: BLS

Northern Virginia Economic & Market Outlook

Nate Edwards, Regional Director
February 16, 2017

CUSHMAN & WAKEFIELD

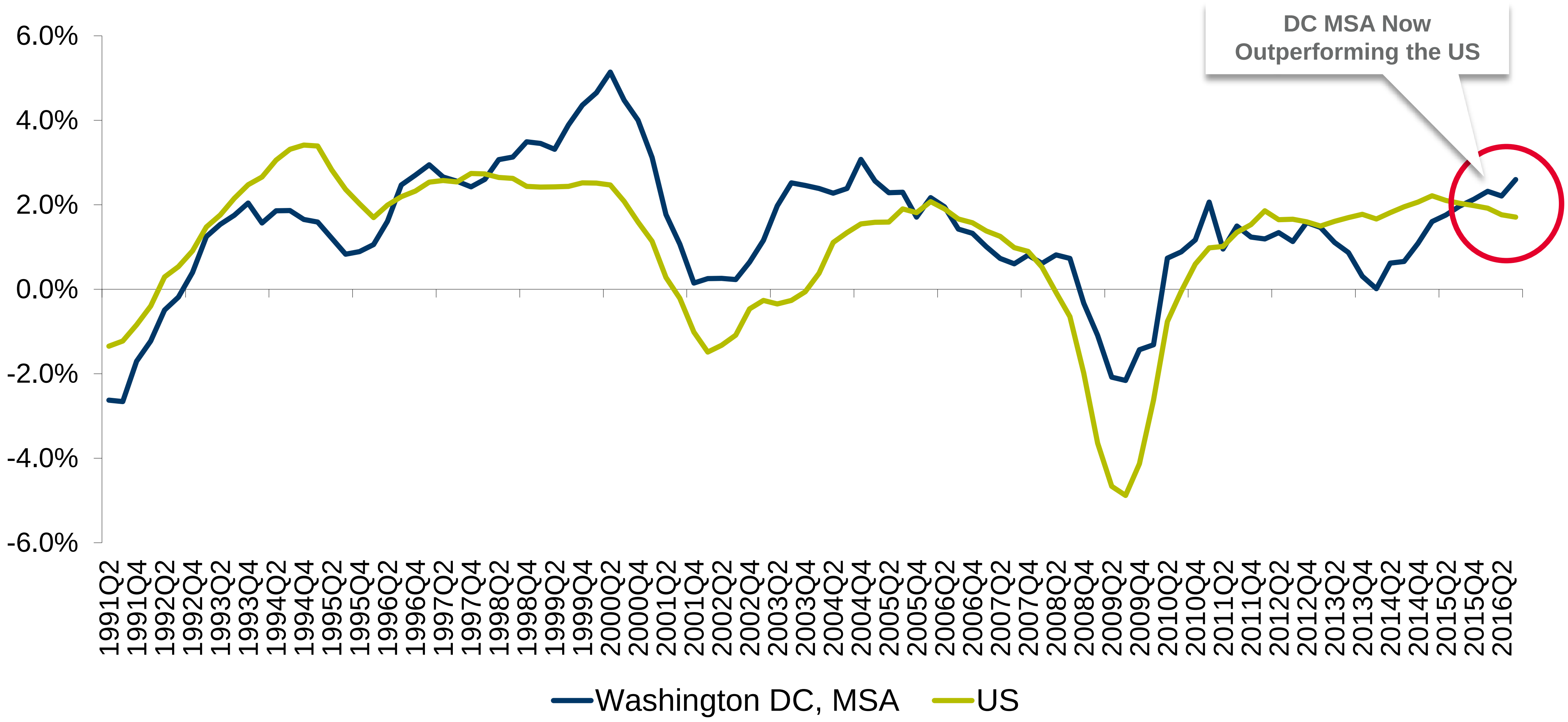
Today's Discussion

- NoVA Economy
- The Trump Impact
- Office Leasing
- Capital Markets

Current Local Economy - Very Strong

DC Metro Employment

% Growth YOY

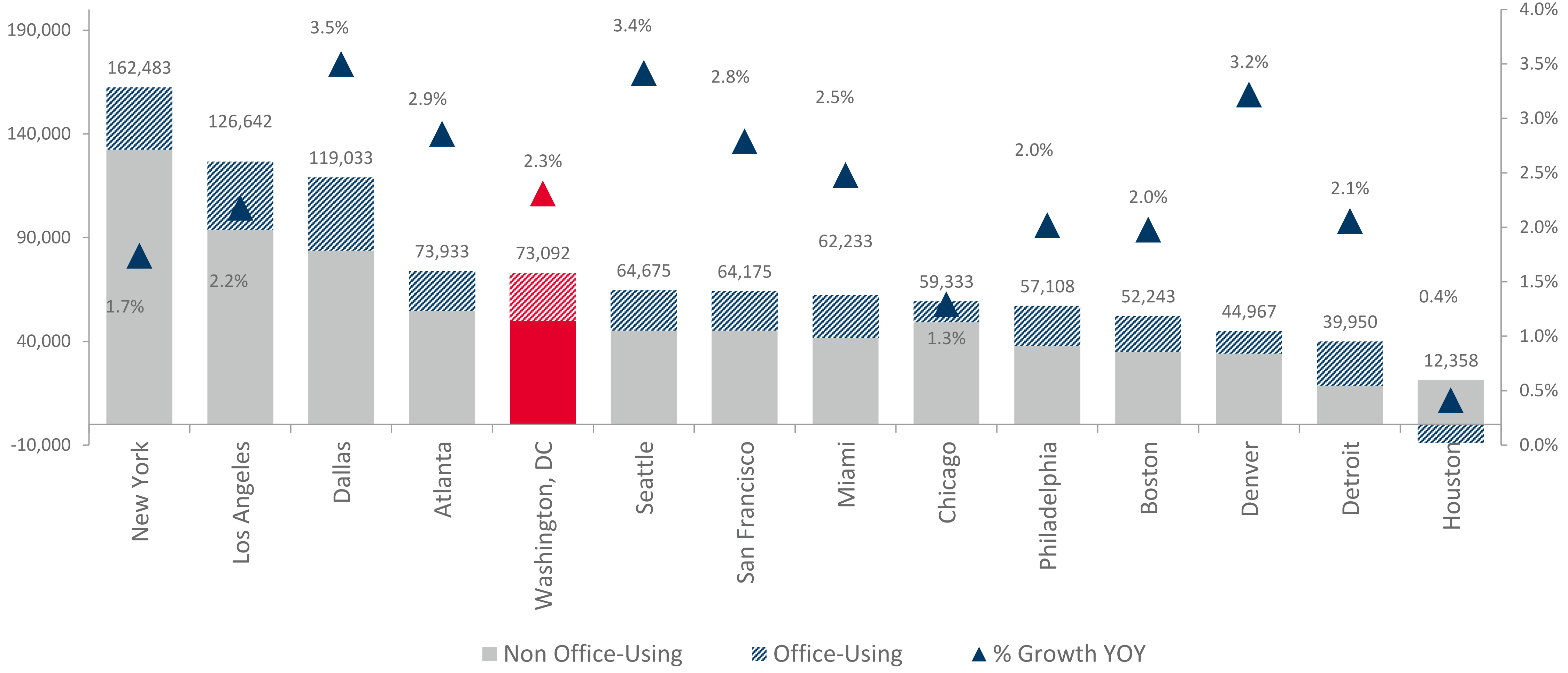


Source: BLS

Job Growth in Major Markets

2016 YOY

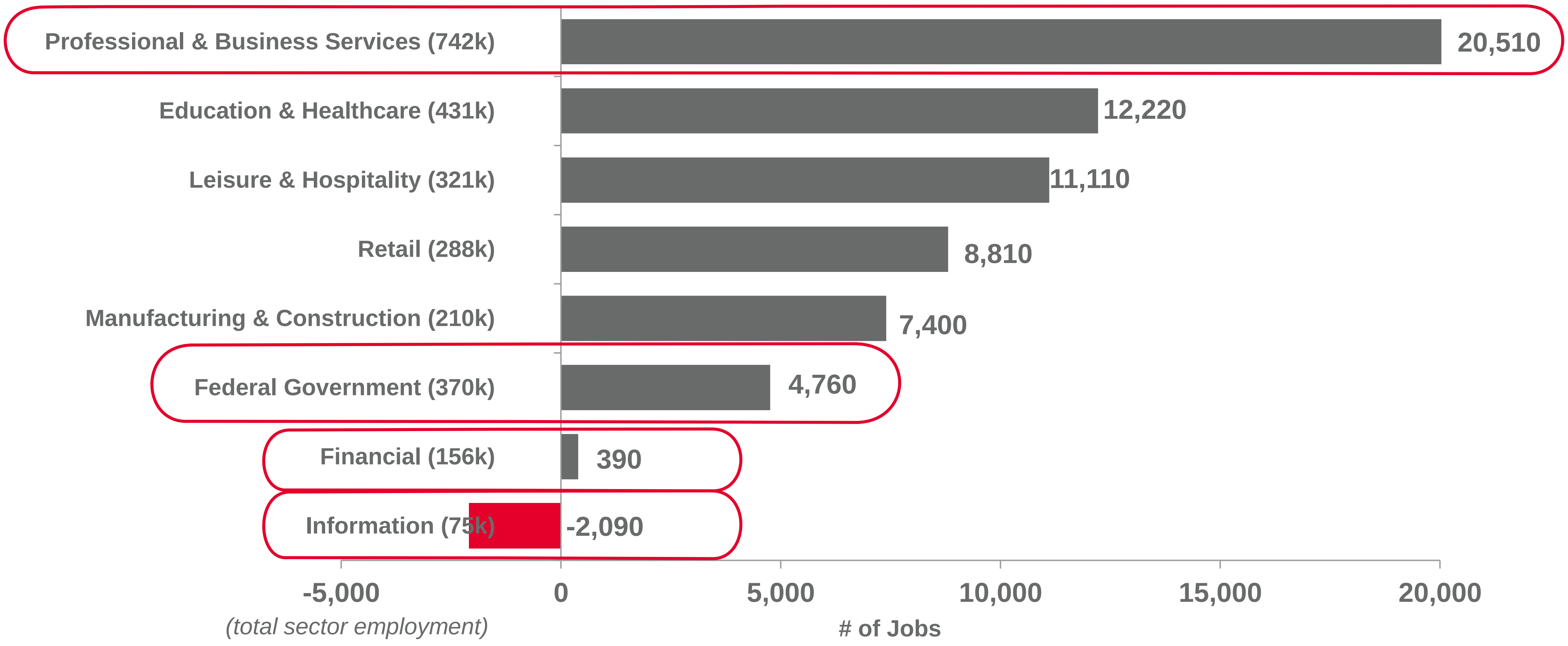
DC – 15,000 (8,500 Typical)
NoVA – 33,000 (19,300 Typical)
SMD – 25,000 (4,500 Typical)



Source: BLS

Employment by Sector

DC Metro, 2016 YOY

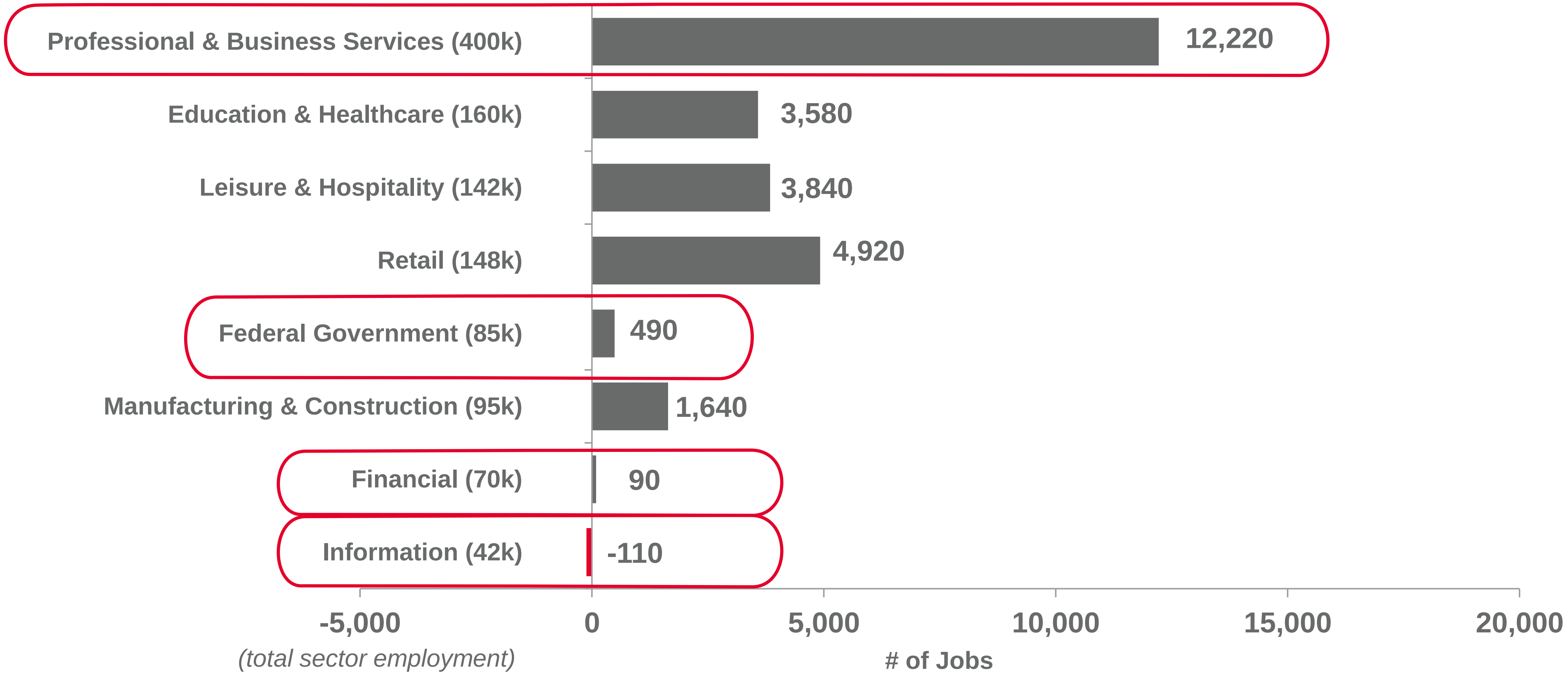


Source: BLS

Employment by Sector

Northern Virginia, 2016 YOY

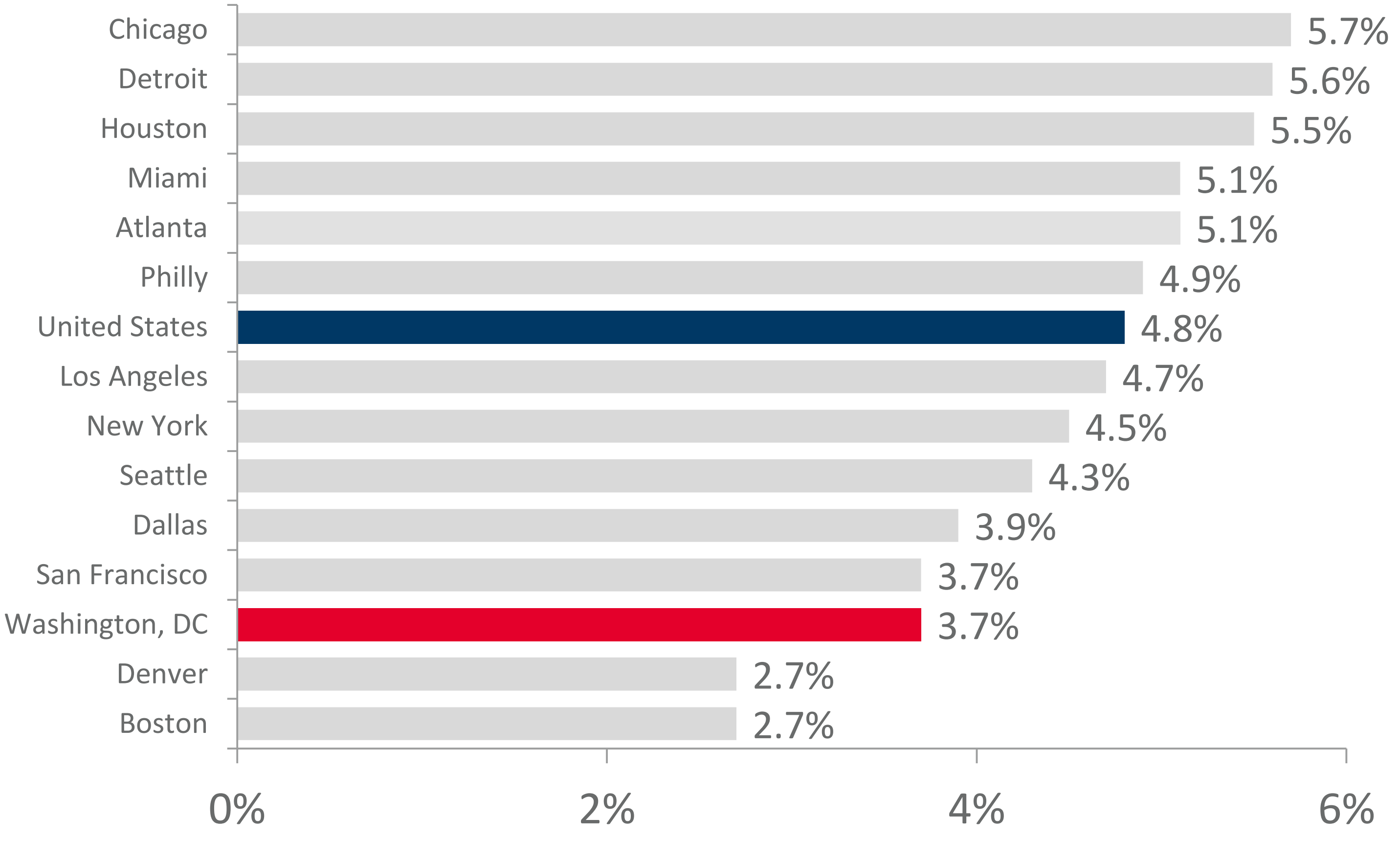
NoVA Captures 54% of the Region's Office – Using Job Growth

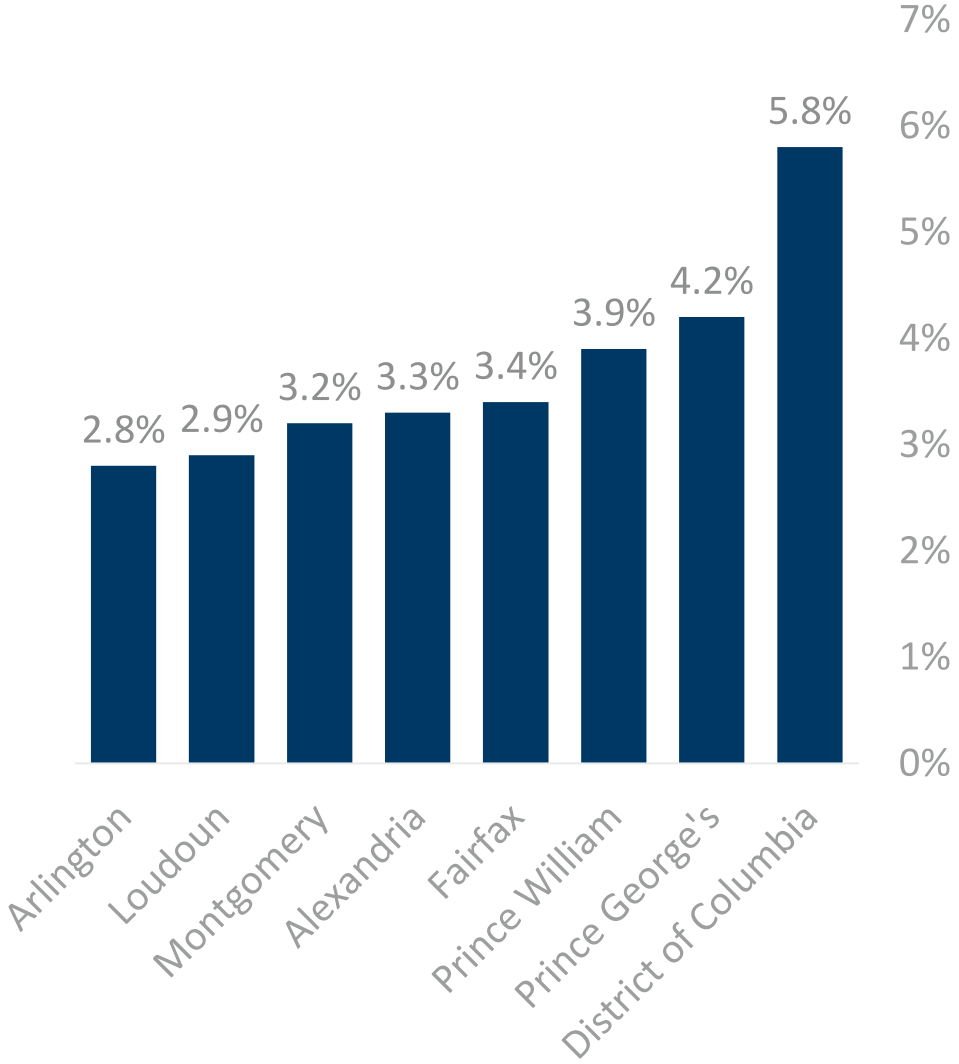


Source: BLS

DC Metro Unemployment Rate

DC Metro vs. the US and Major Markets, Yearend 2016.

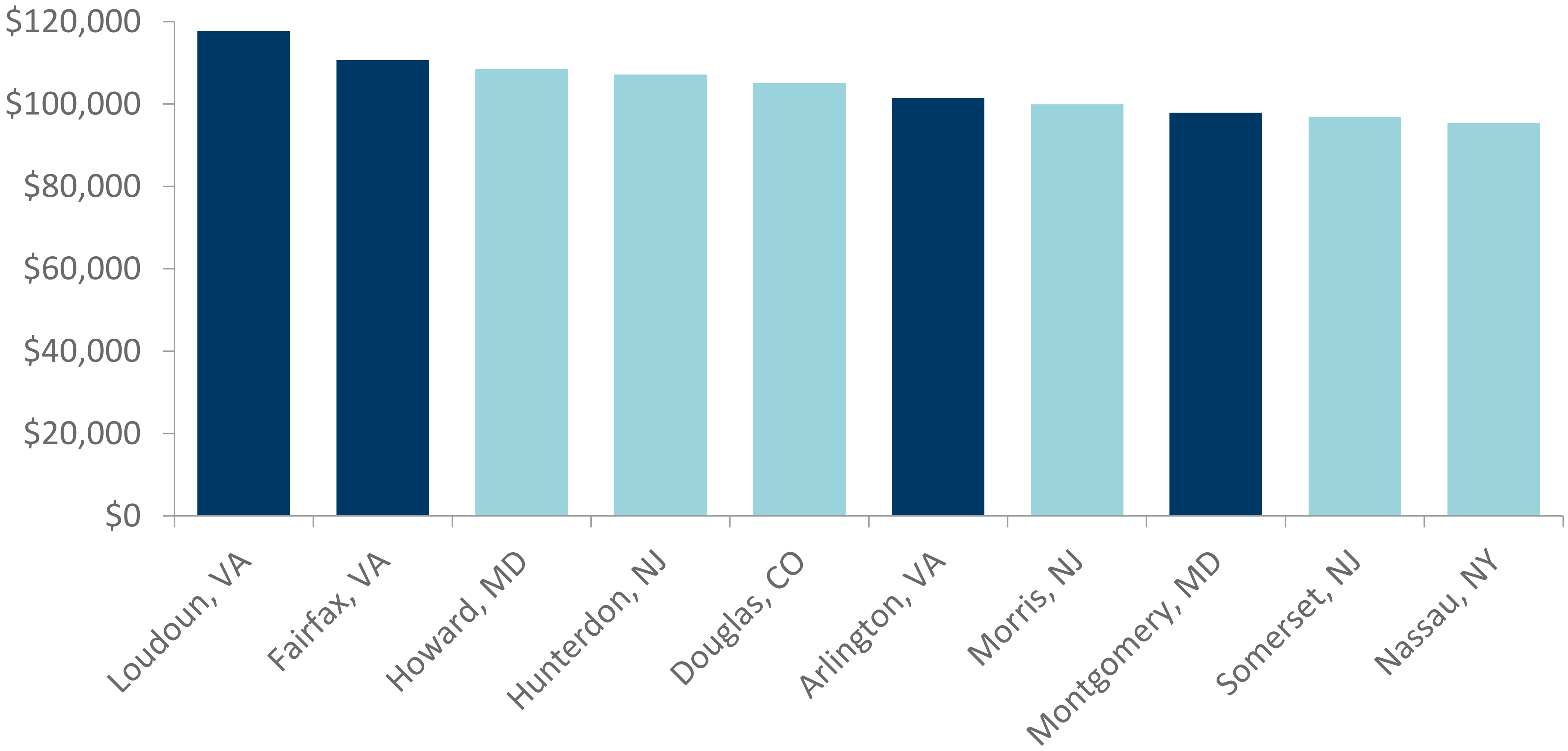




Source: BLS

Wealthiest Counties in the U.S.

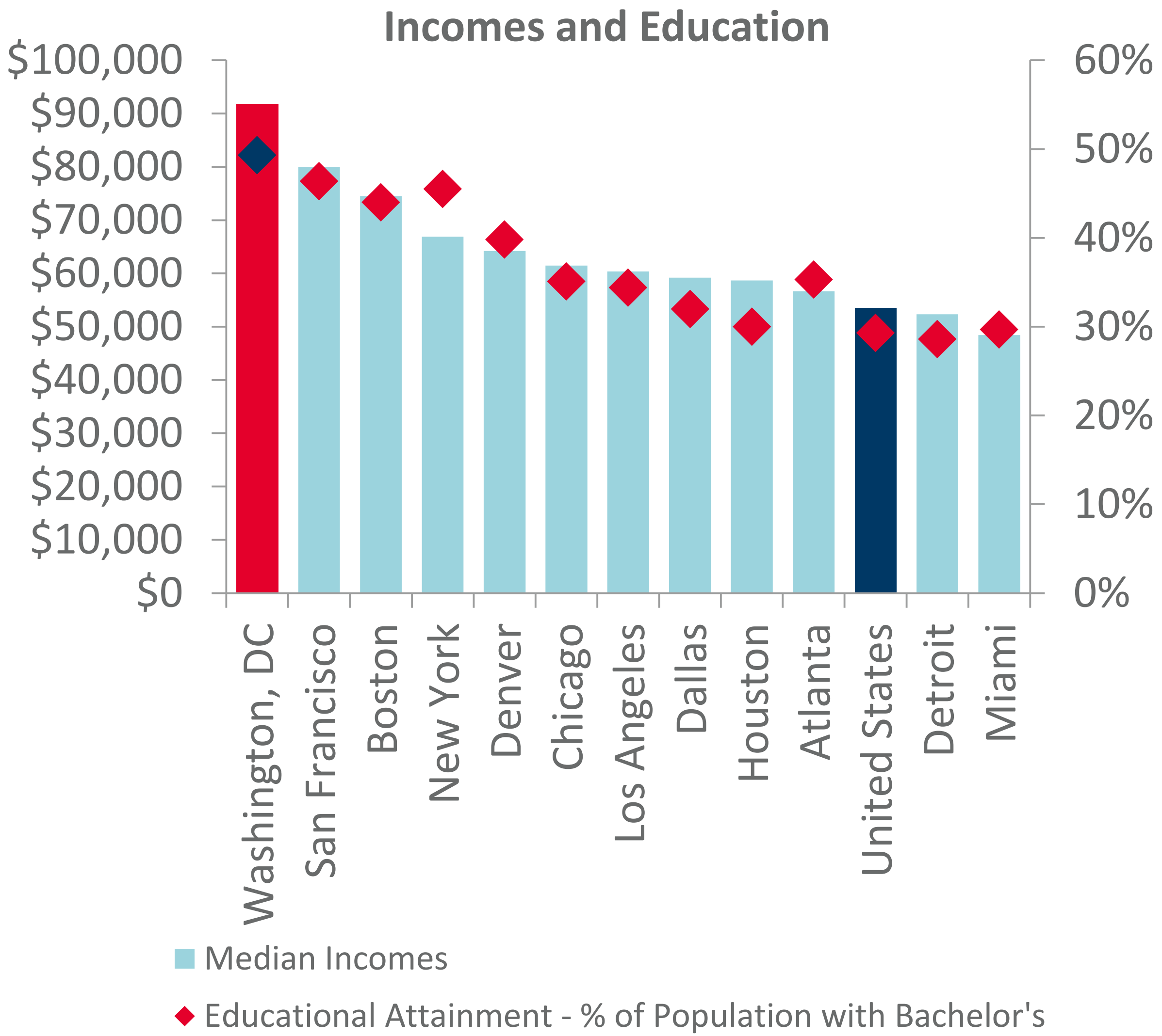
Median Household Income – 4 of 10 Wealthiest U.S. Counties are in the DC Metro Region

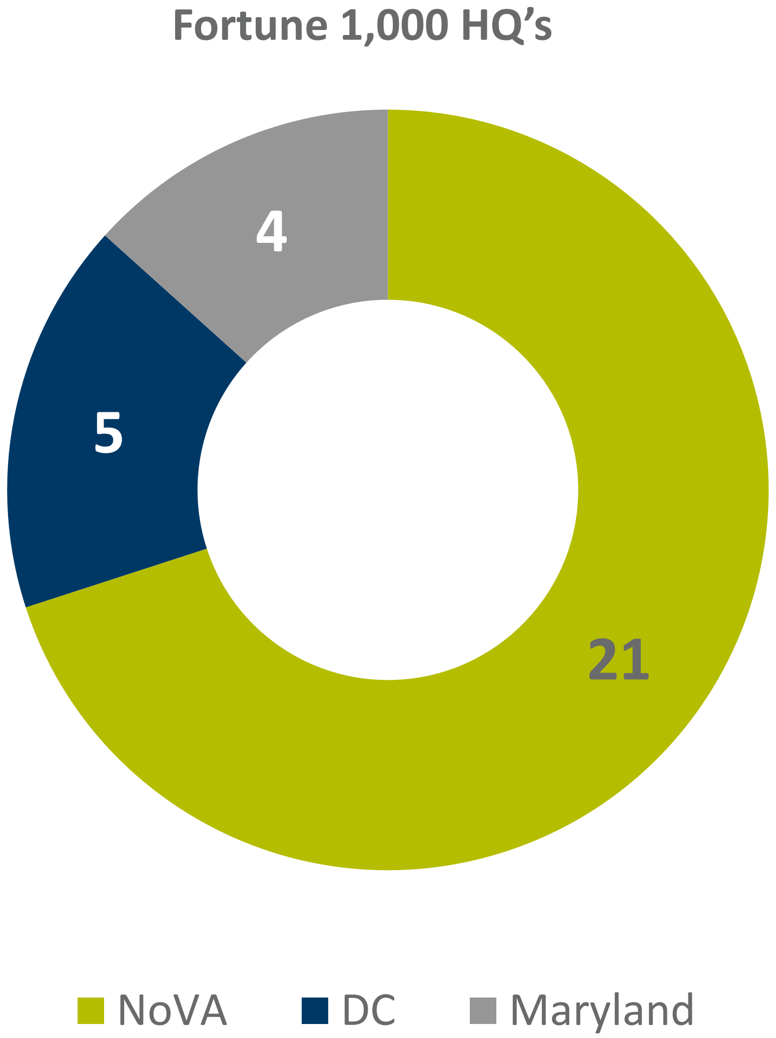


Source: Census, Motley Fool

DC Metro Economic Indicators

The Smartest, most Well-Paid Workforce in the Nation with Great Companies to Work For

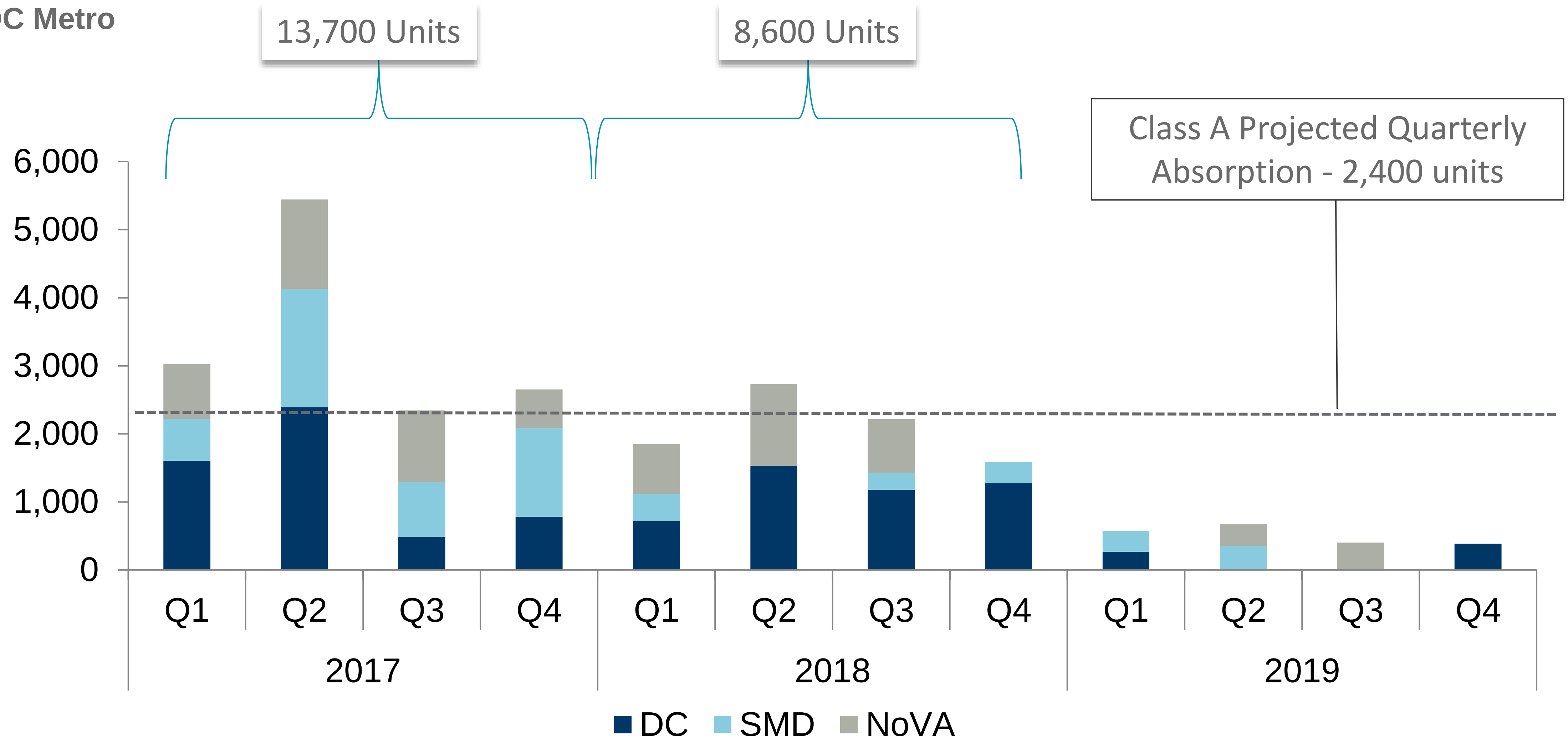




Source: US Census, Forbes

Forecasted MF Deliveries

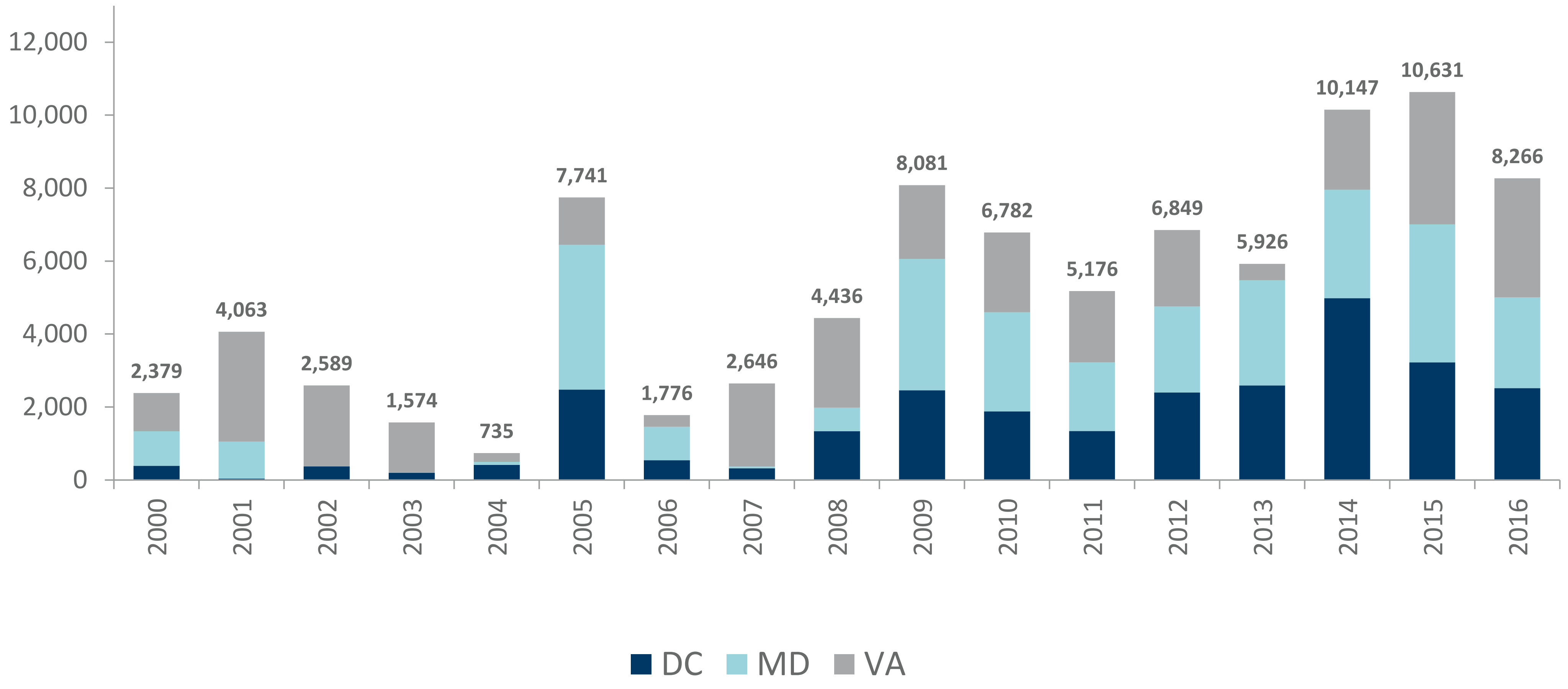
DC Metro



Source: Delta

MF Absorption

DC Metro



Source: REIS, CoStar

By 2025…

850,000
Additional People

327,000 Households

33,000 Units/Year

13,000 MF Units/Year

Source: Cushman & Wakefield

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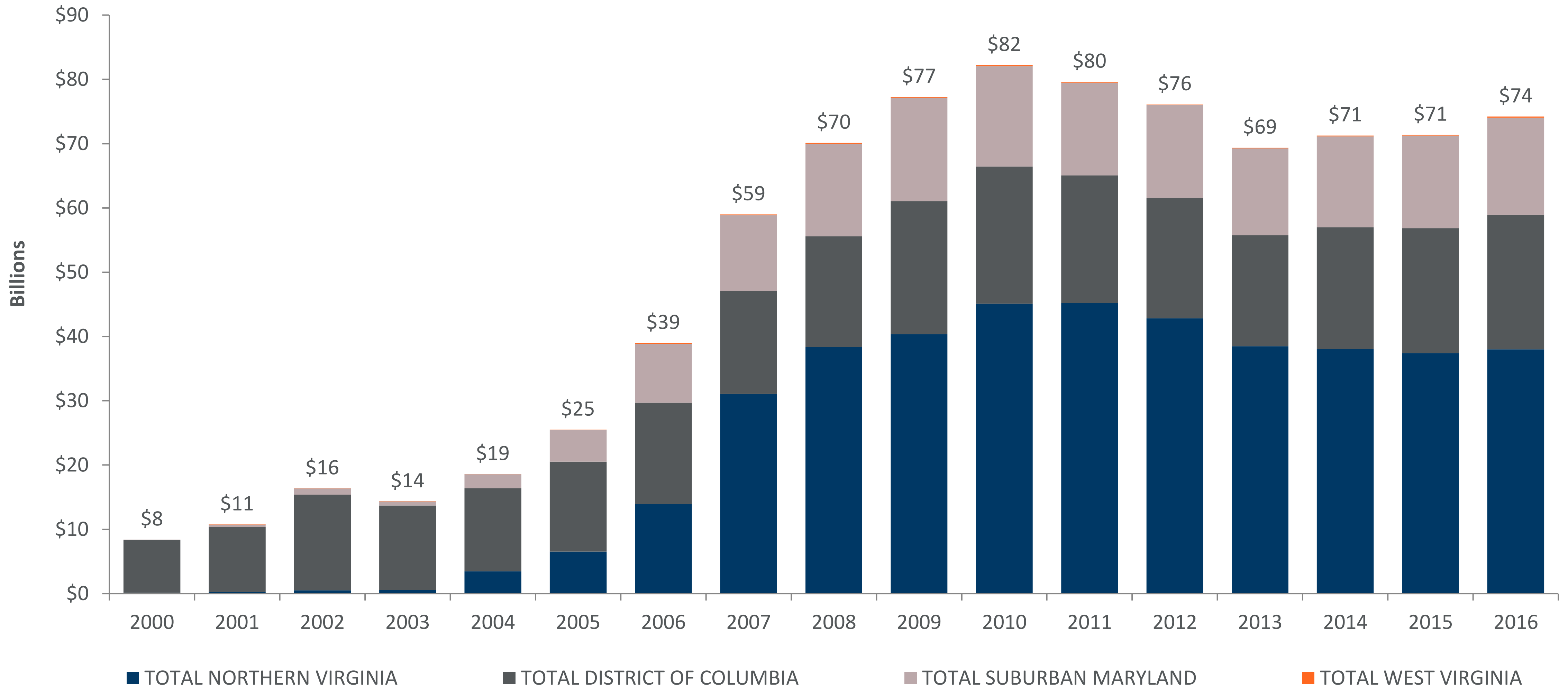
Trump Policies Could Mean Big Things for NoVA

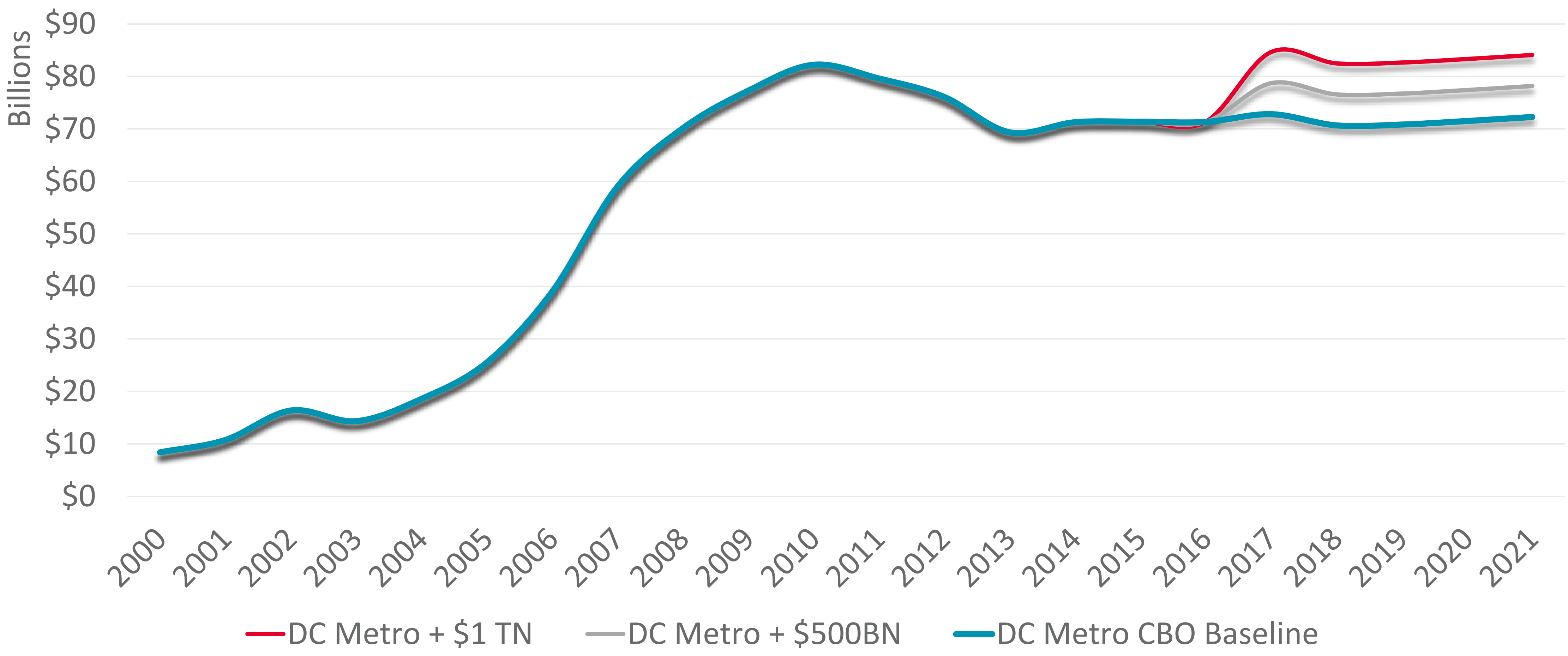
Federal Procurement in the DC Metro

By Market, $Billions



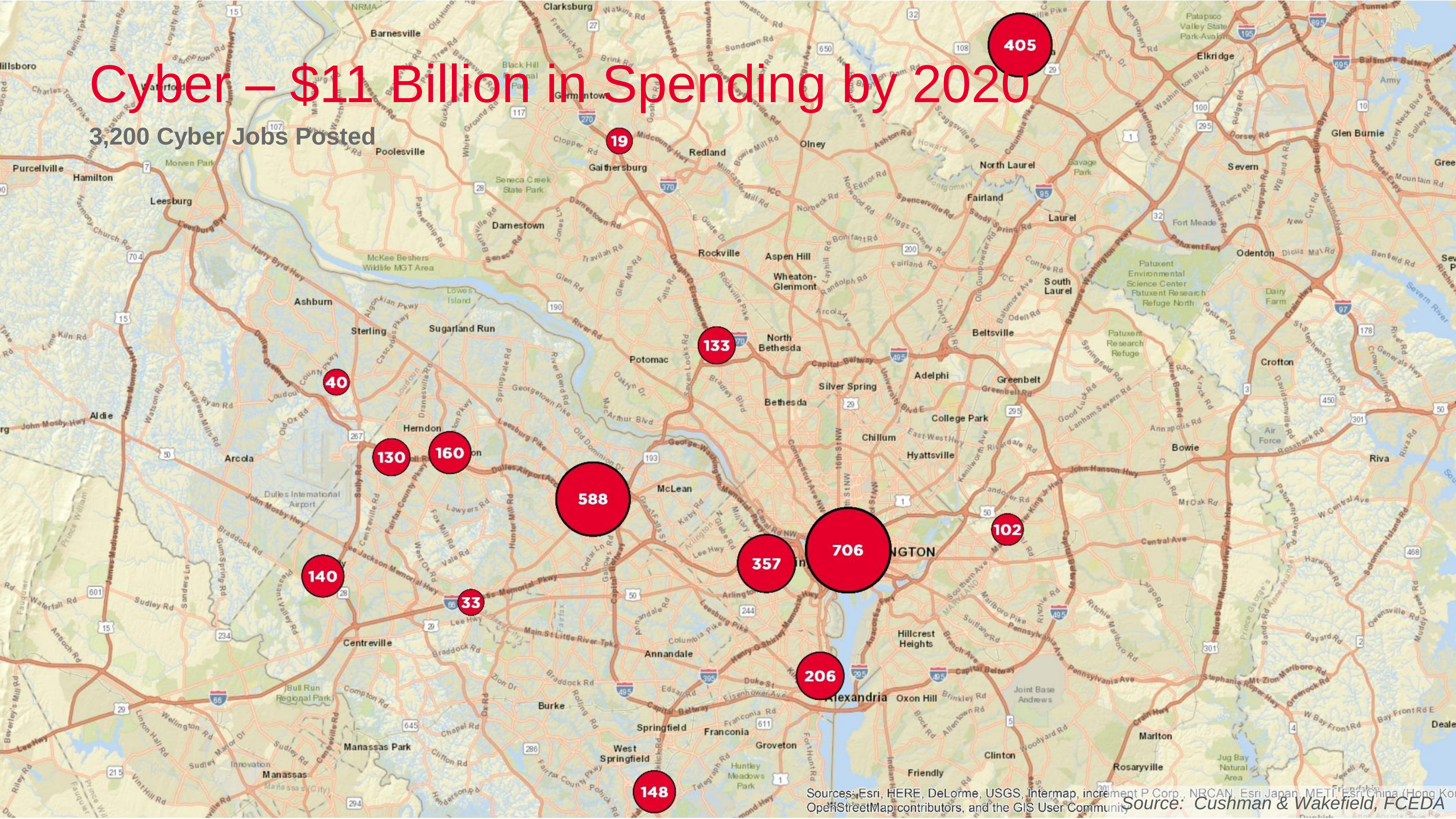
Contracting Opportunities Could Surge With Trump

DC Metro Procurement with Trump Proposed Defense Spending Increases



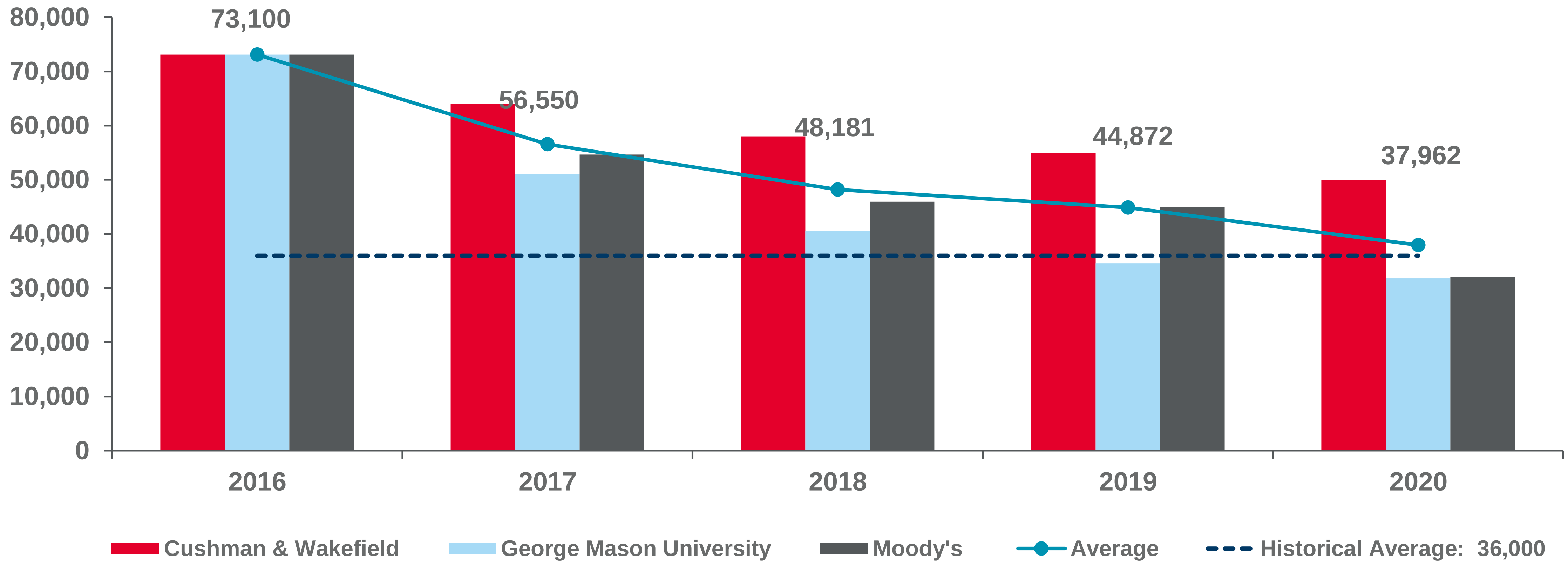
Cyber – $11 Billion in Spending by 2020

3,200 Cyber Jobs Posted



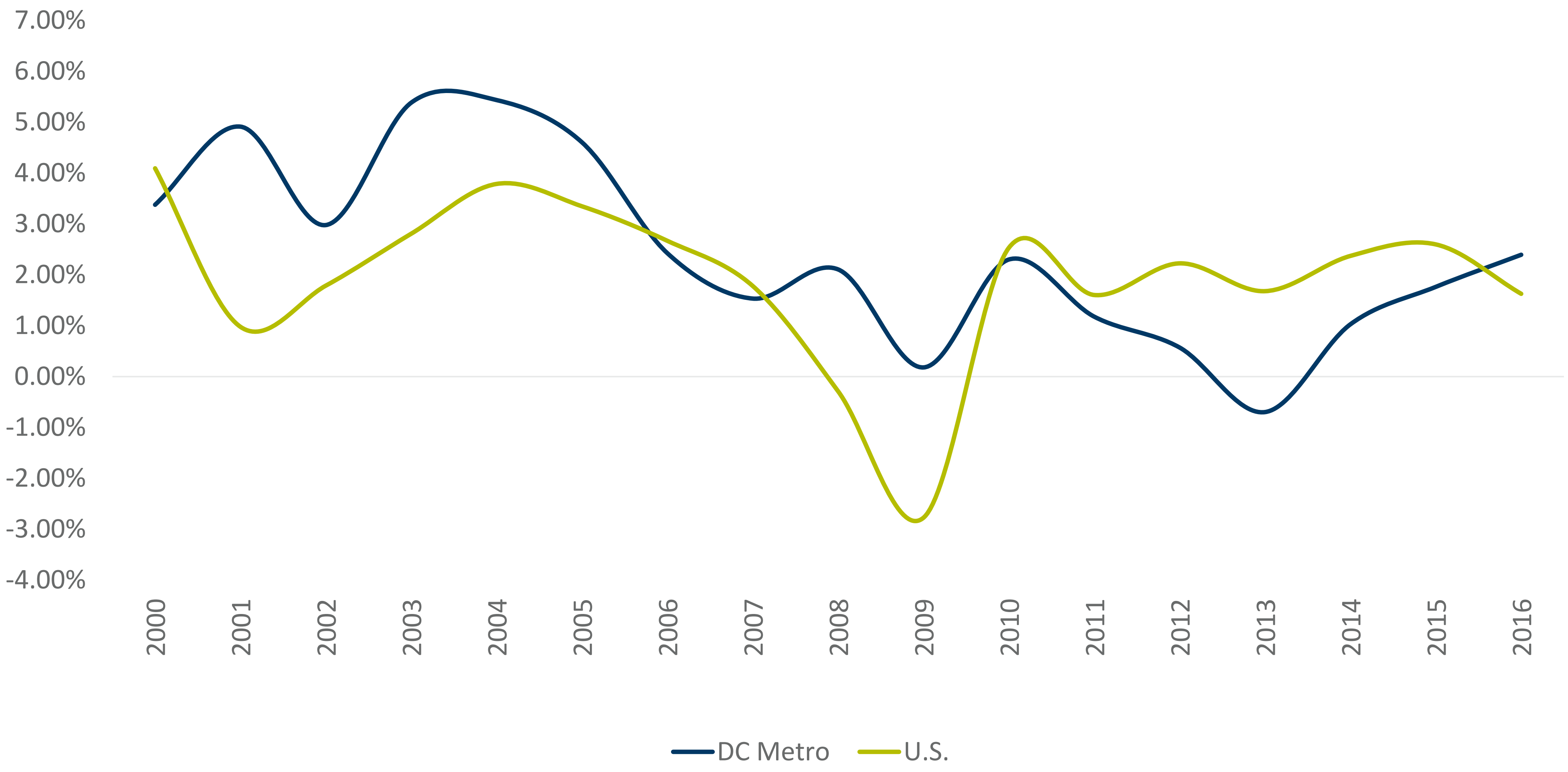
Source: Cushman & Wakefield, FCEDA

Job Growth Forecast



Source: Cushman & Wakefield, Moody's, GMU-CRA

Washington MSA GDP



Source: Moody's

Economic Growth Expected to Accelerate

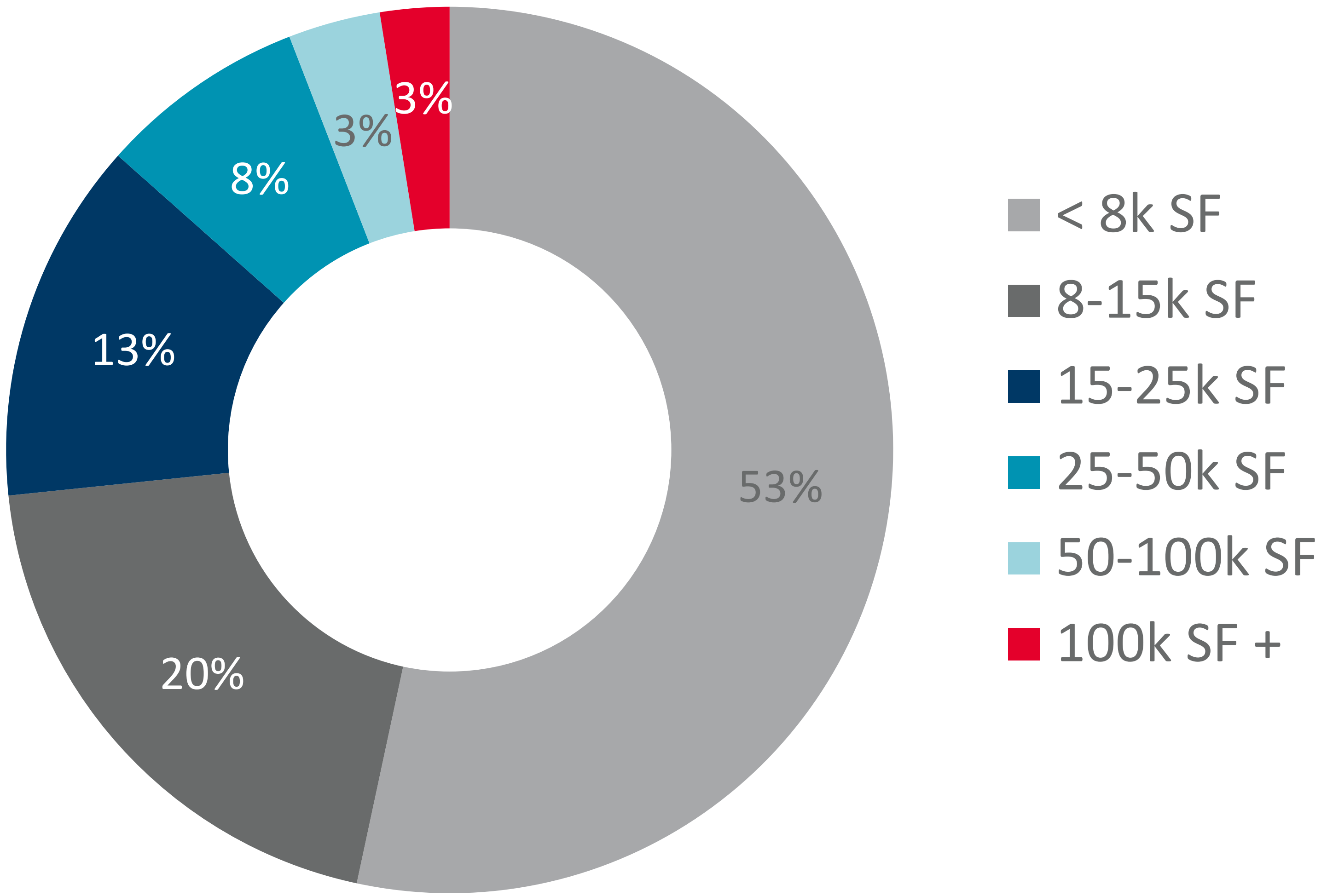
DC Metro: Gross Metro Product (GMP)

Source: Cushman & Wakefield Research, Bureau of Economic Analysis, NCREIF

Northern Virginia Leasing

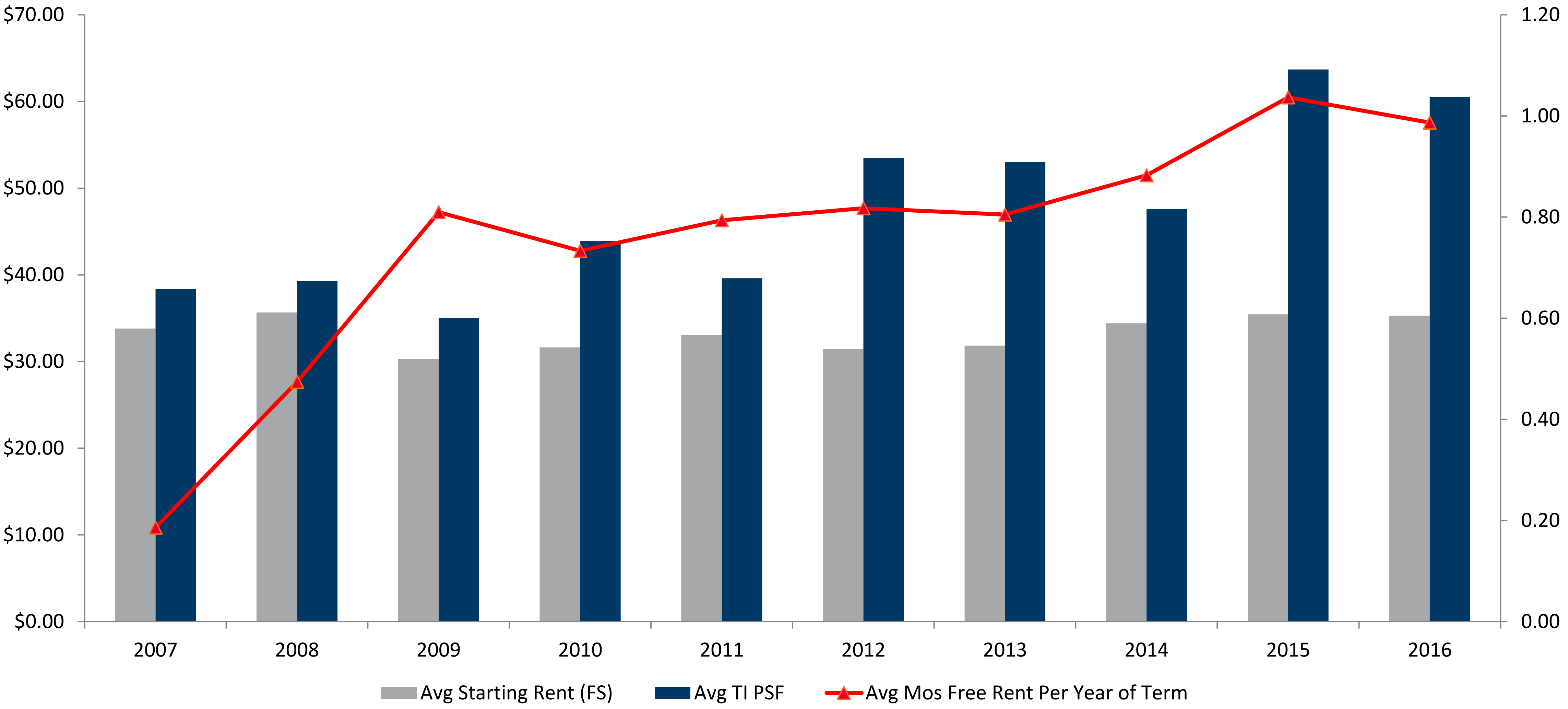
Lease Distribution

Since 2011 – 73% of Deals Below 15k SF



Concessions Remain Elevated

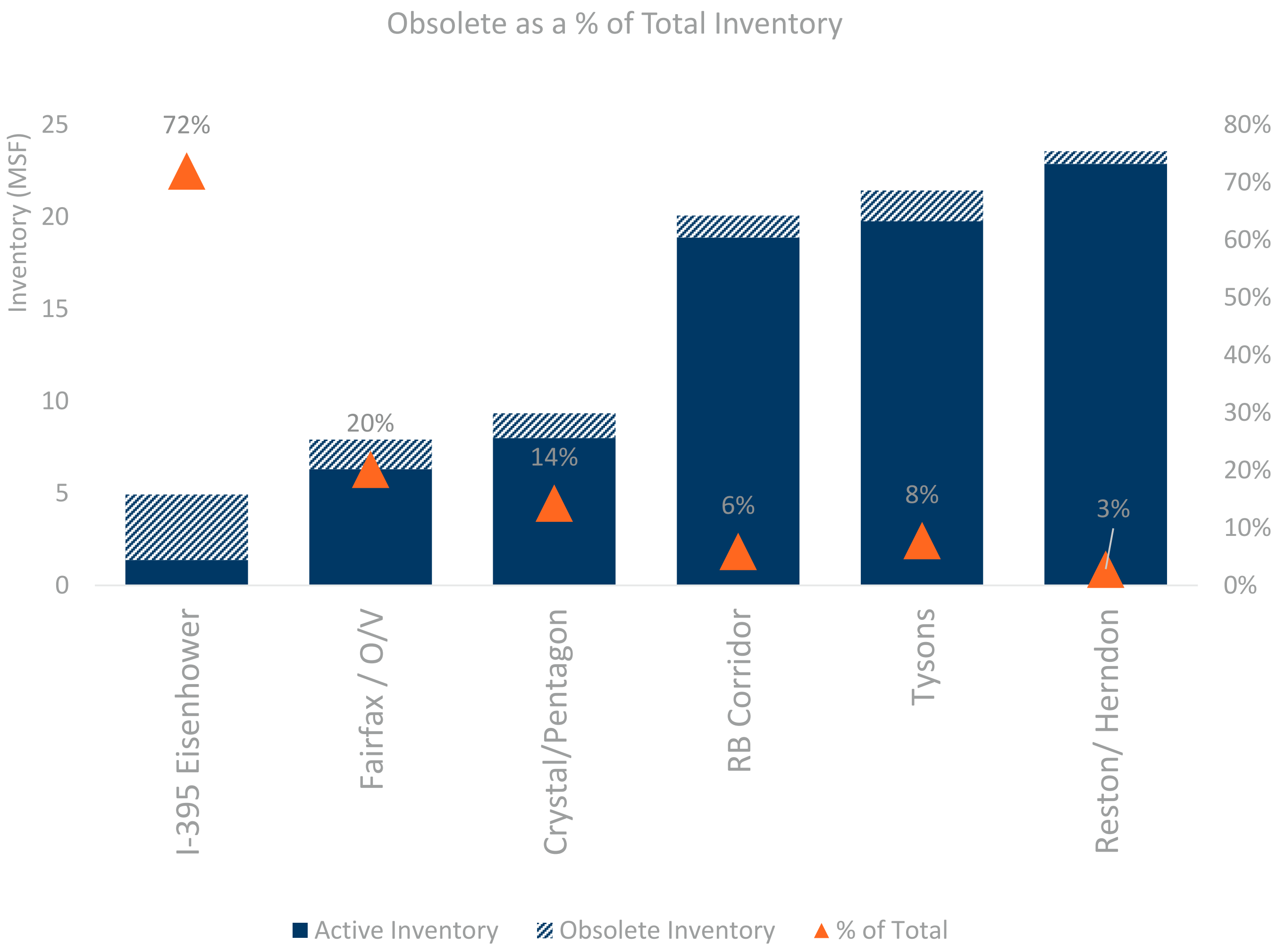
Class A Direct, 7+ Year Term



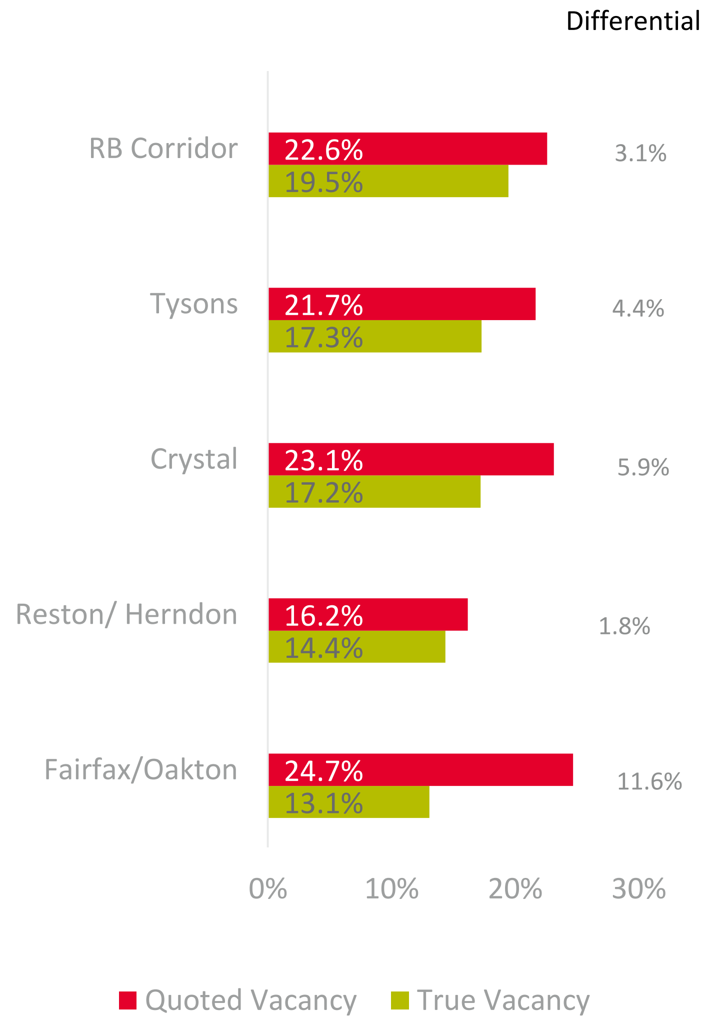
Source: Cushman & Wakefield

Obsolete Product

% of Inventory by Submarket that is Pre 1990 and less than 50% Leased



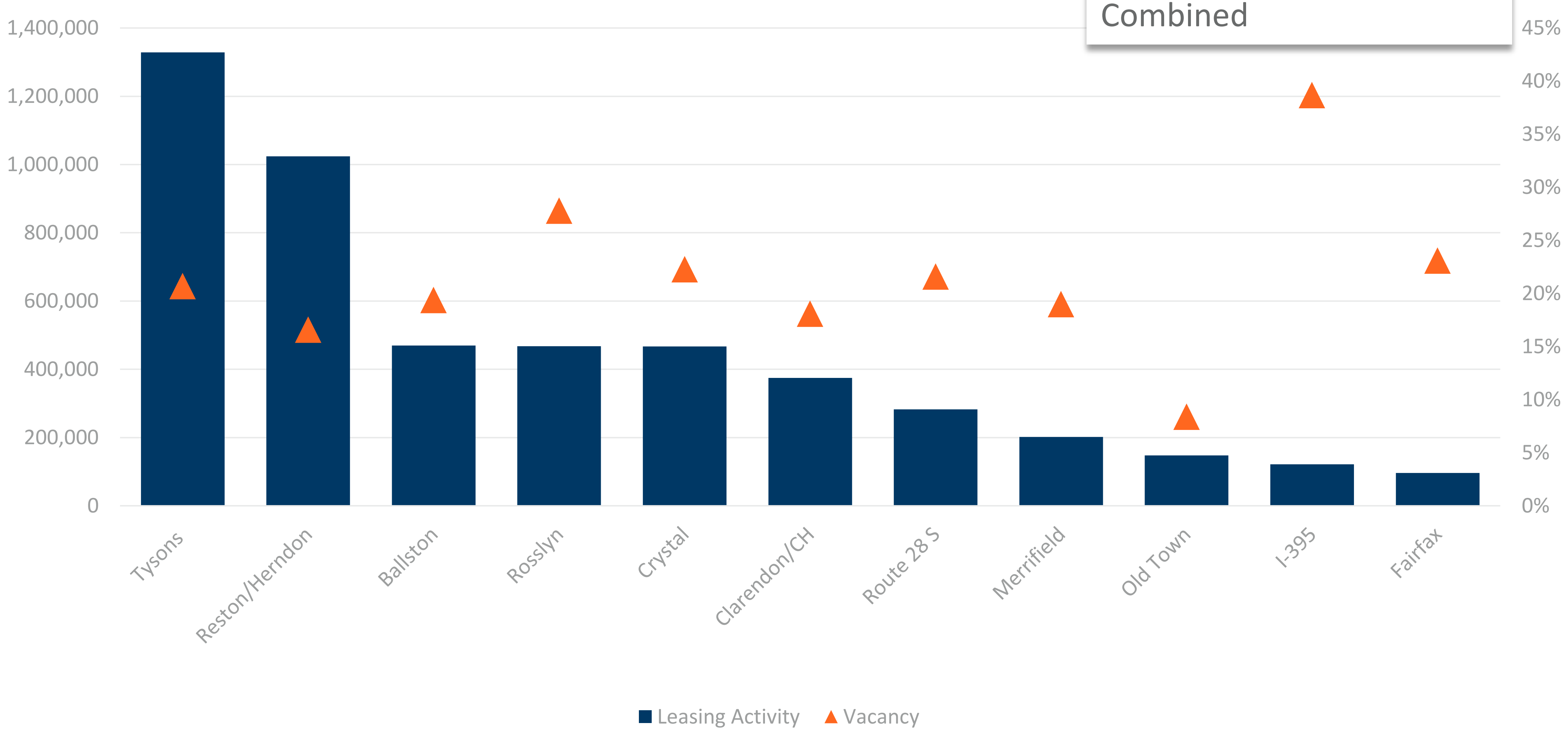
Quoted vs. True Vacancy



Source: Cushman & Wakefield

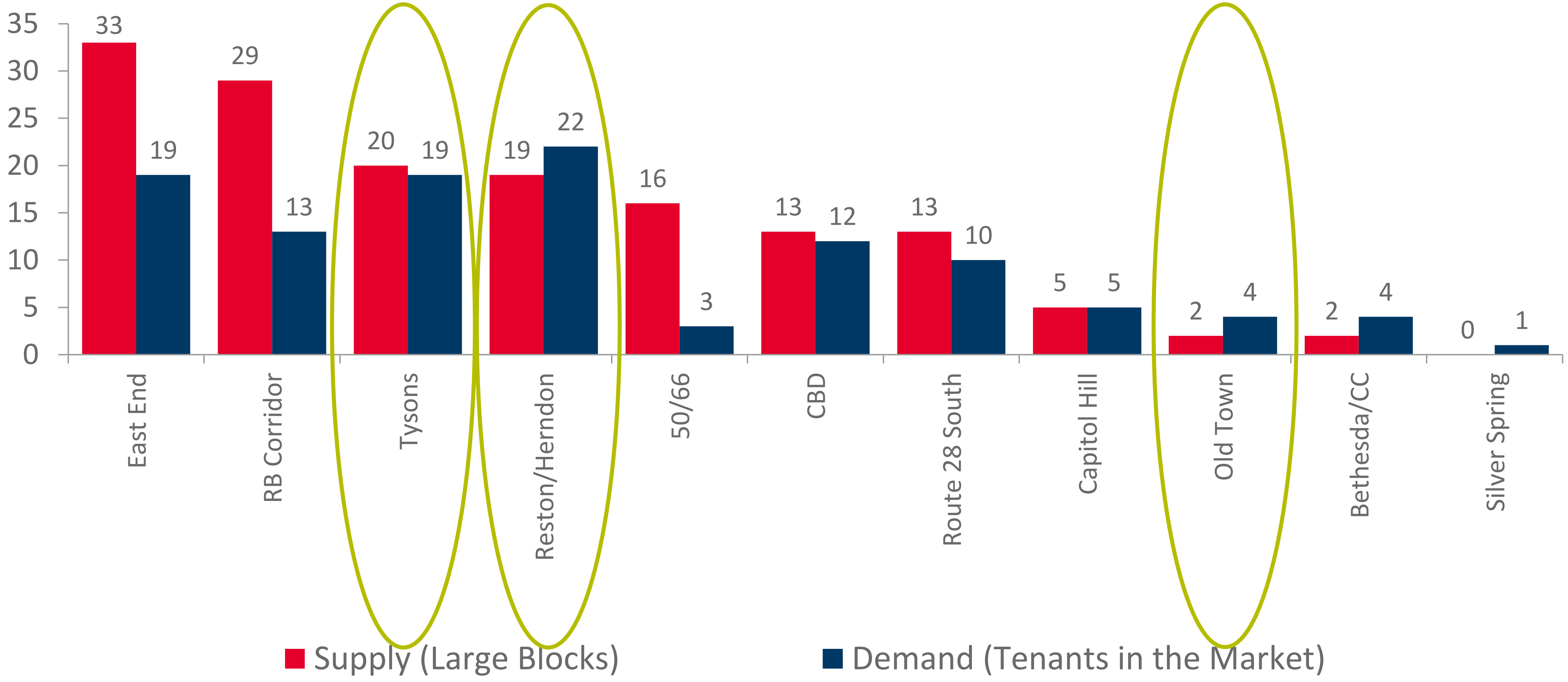
Deal Volume Concentrated in Silver Line Markets

Reston/Herndon & Tysons Experienced More New Leasing Activity than the Next 6 Submarkets Combined



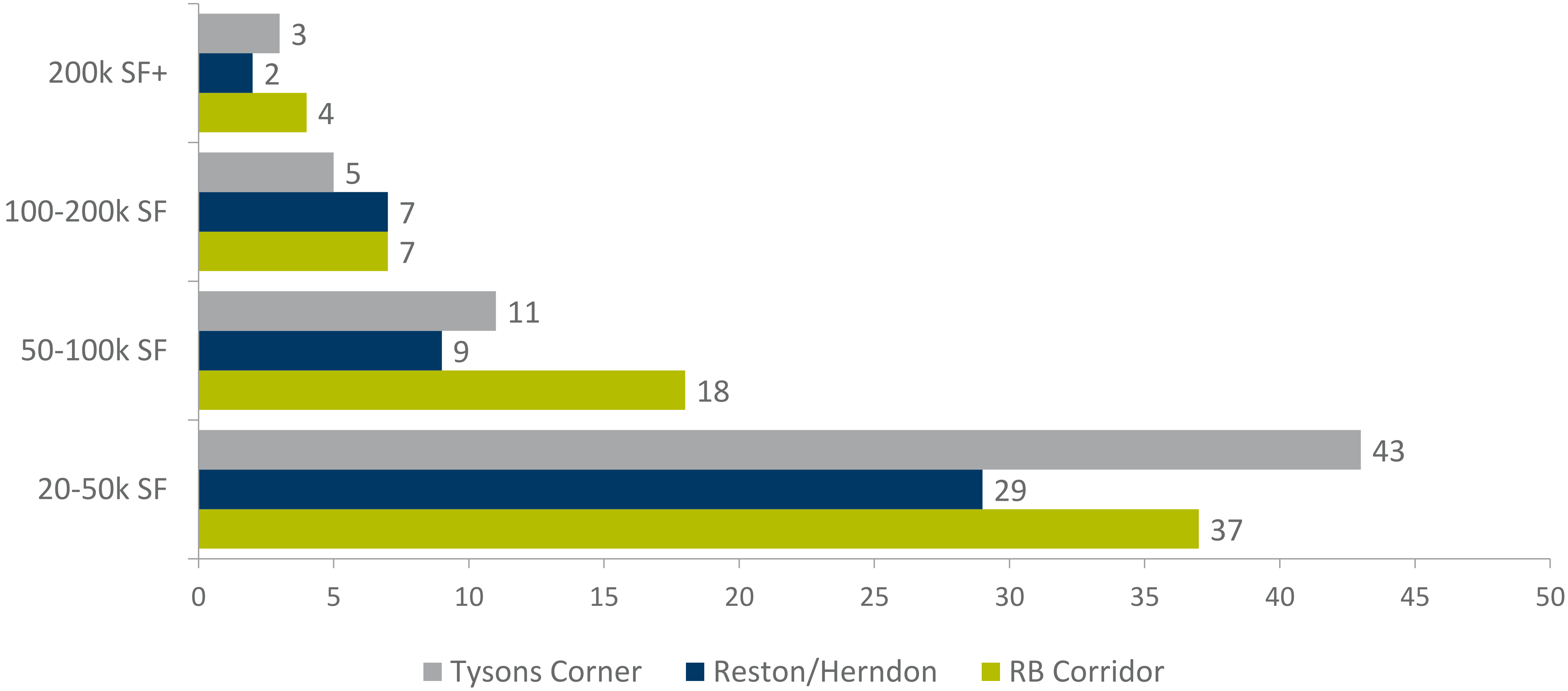
Key Submarket Supply and Demand

Demand is Outpacing Supply Among 50k and Up Users



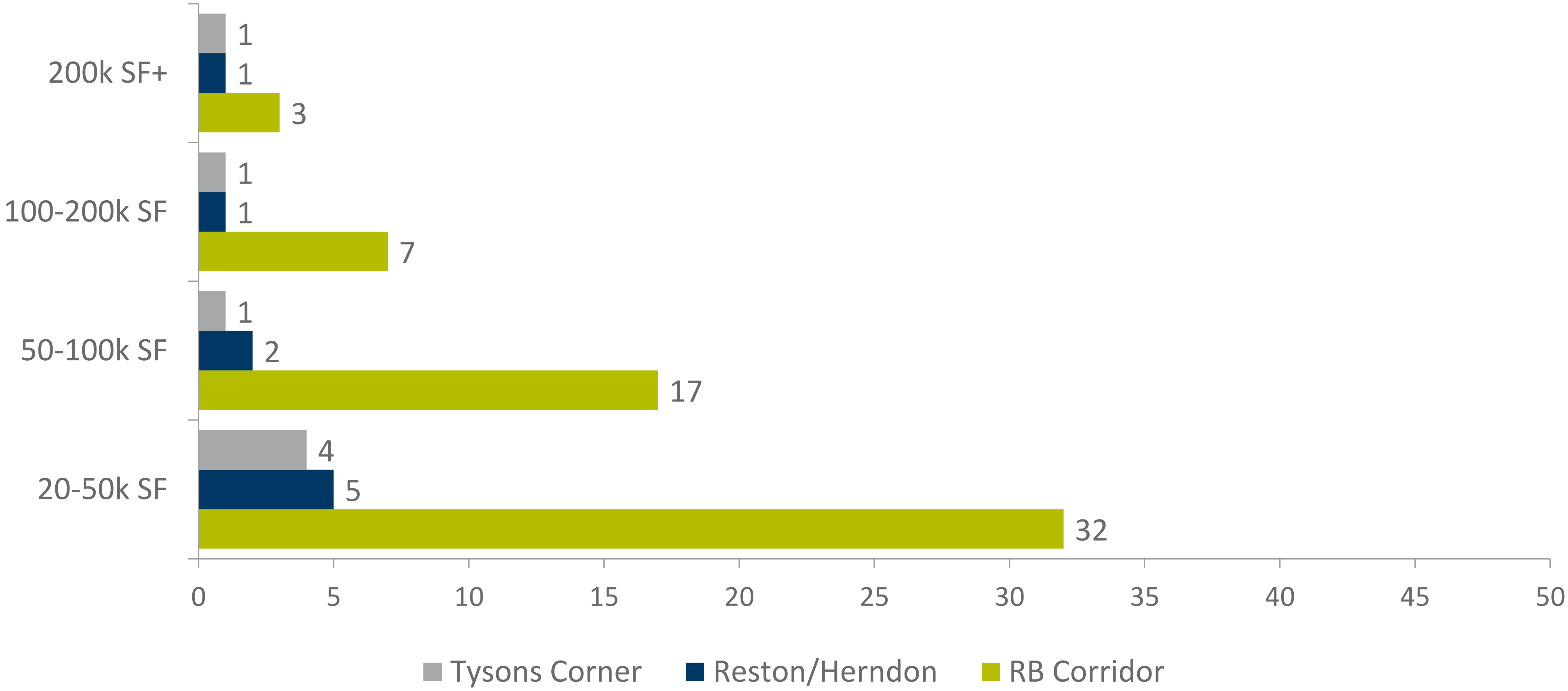
Large Blocks

Reston/Herndon, Tysons, Ballston



Large Blocks on Metro

Reston/Herndon, Tysons, Ballston, ¼ Mile From Metro/Future Metro



Net New Growth 2015-2016

Real Growth is Being Seen for the First Time in 5 Years

OneWeb
65,000 SF

NAVY FEDERAL Credit Union
235,000 SF

Nestlé
200,000 SF

ALARM.COM
60,000 SF

wework
120,000 SF

apple FEDERAL CREDIT UNION
100,000 SF

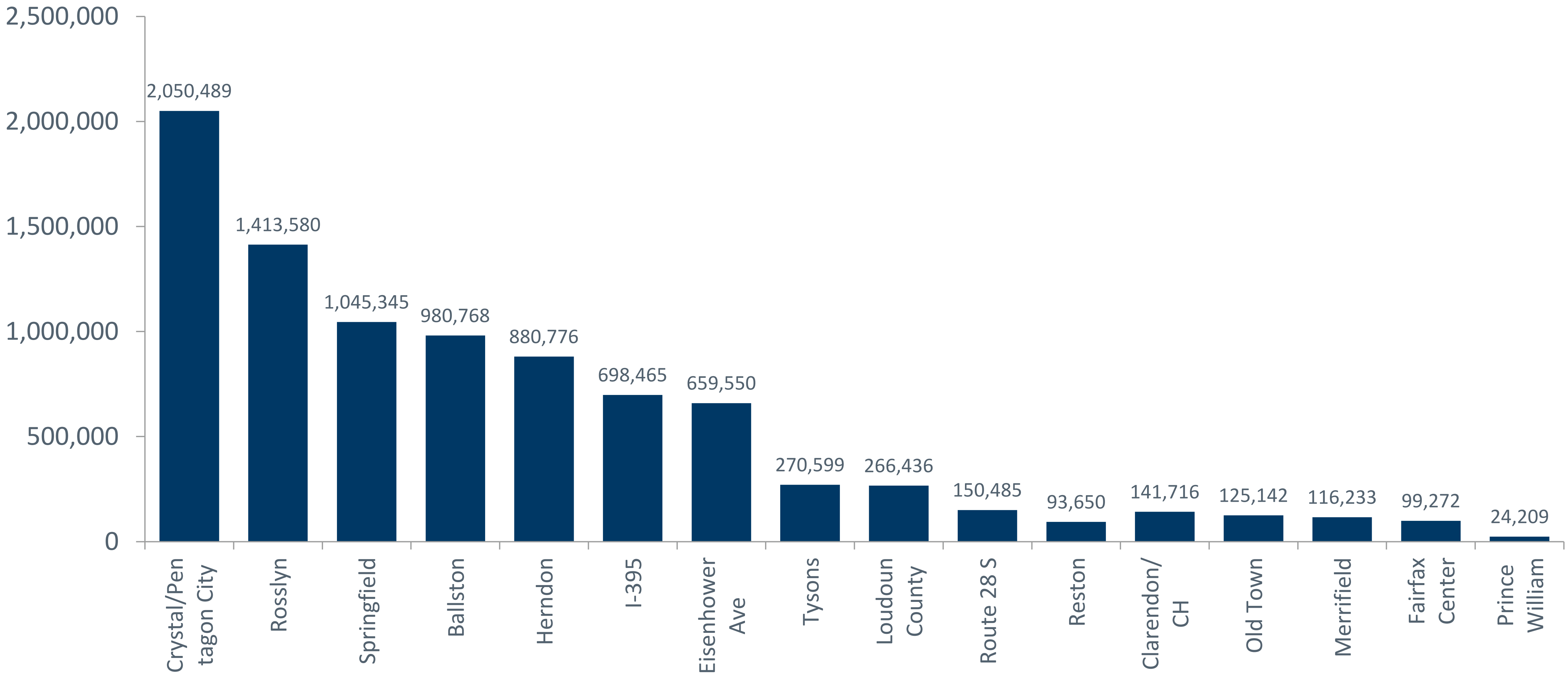
INOVA
1.2 MSF

amazon web services
230,000 SF

Capital One
300,000 SF

NoVA GSA Exposure

GSA Northern Virginia Expirations 2017-2020 by Submarket

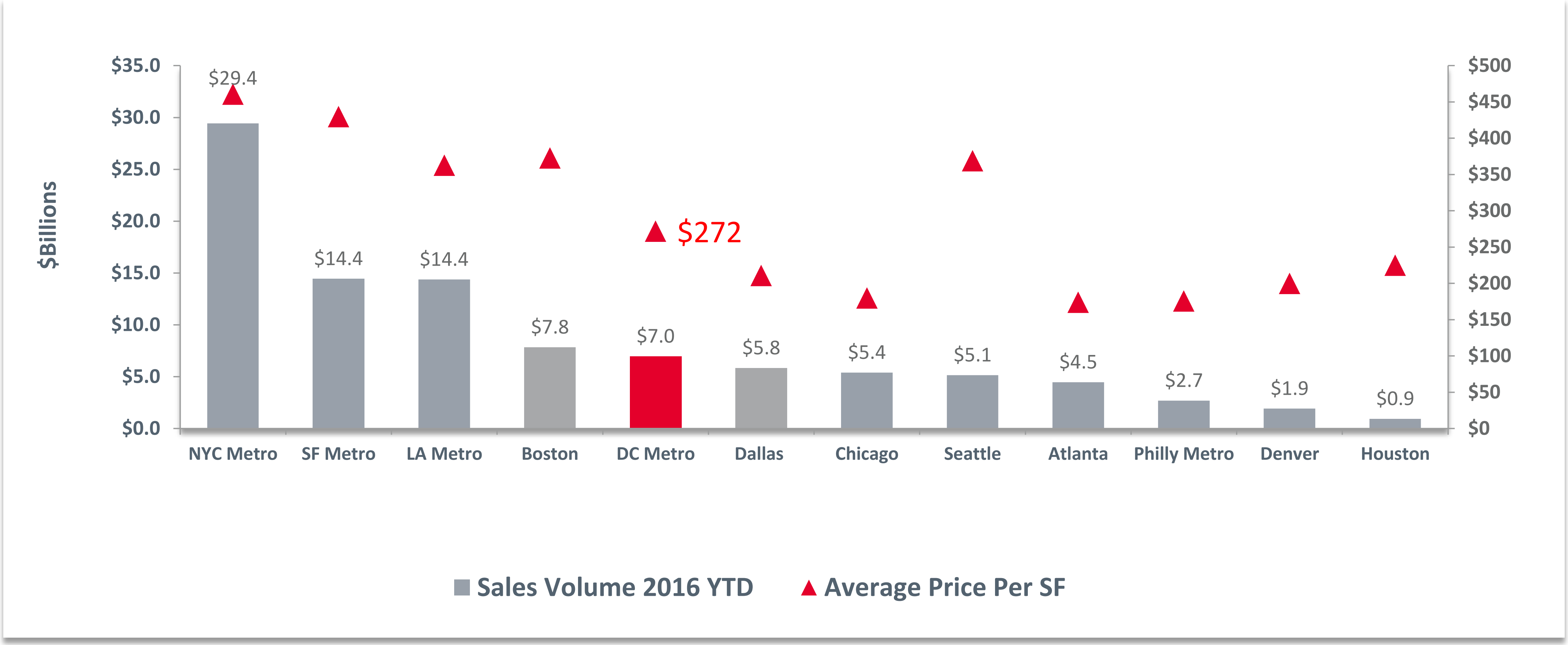


Source: GSA

Capital Markets

Office Sales Volume YTD 2016

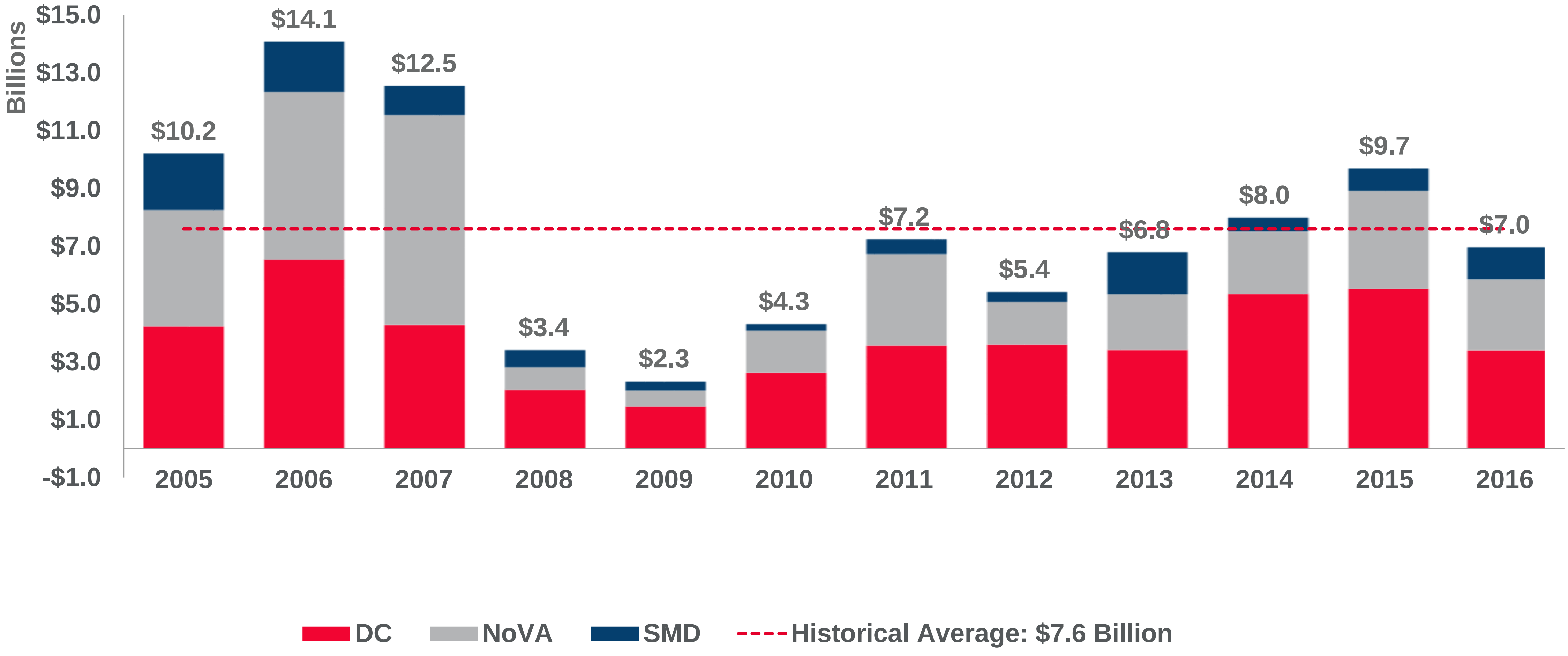
Among Major Metros



Source: C&W, RCA

Office Investment Sales Volume

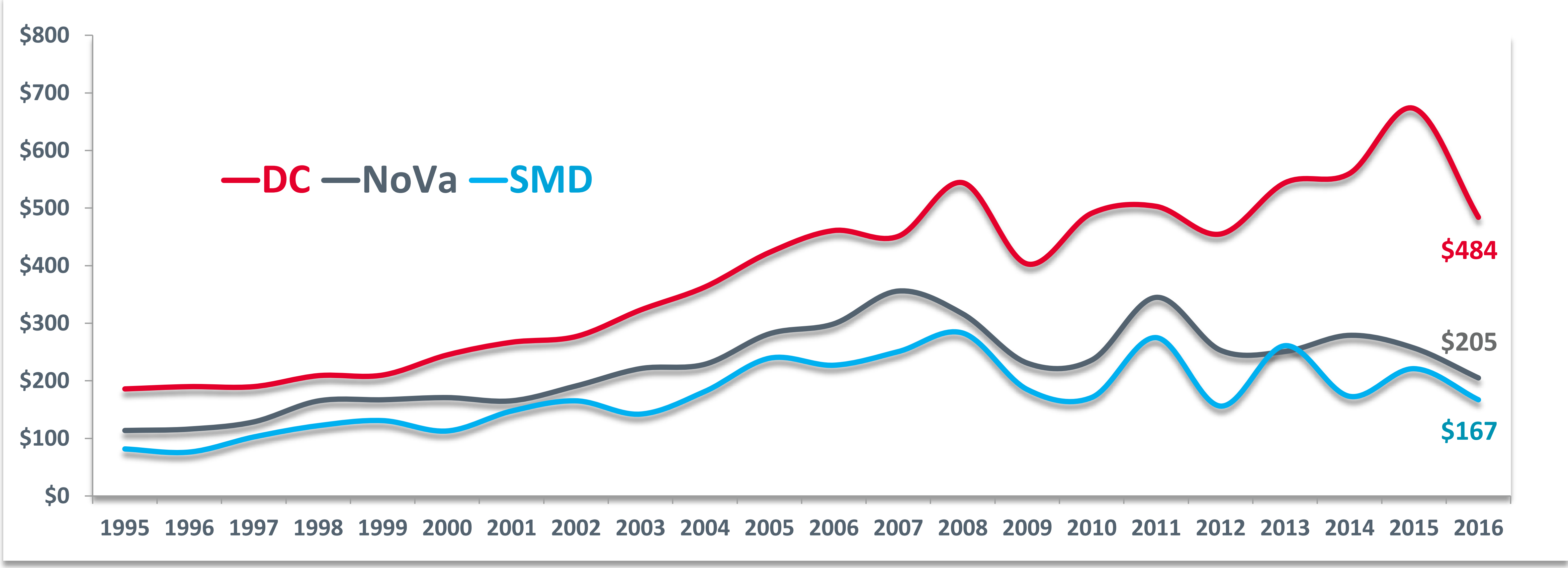
Washington DC Metro



Source: Cushman & Wakefield

Office Pricing

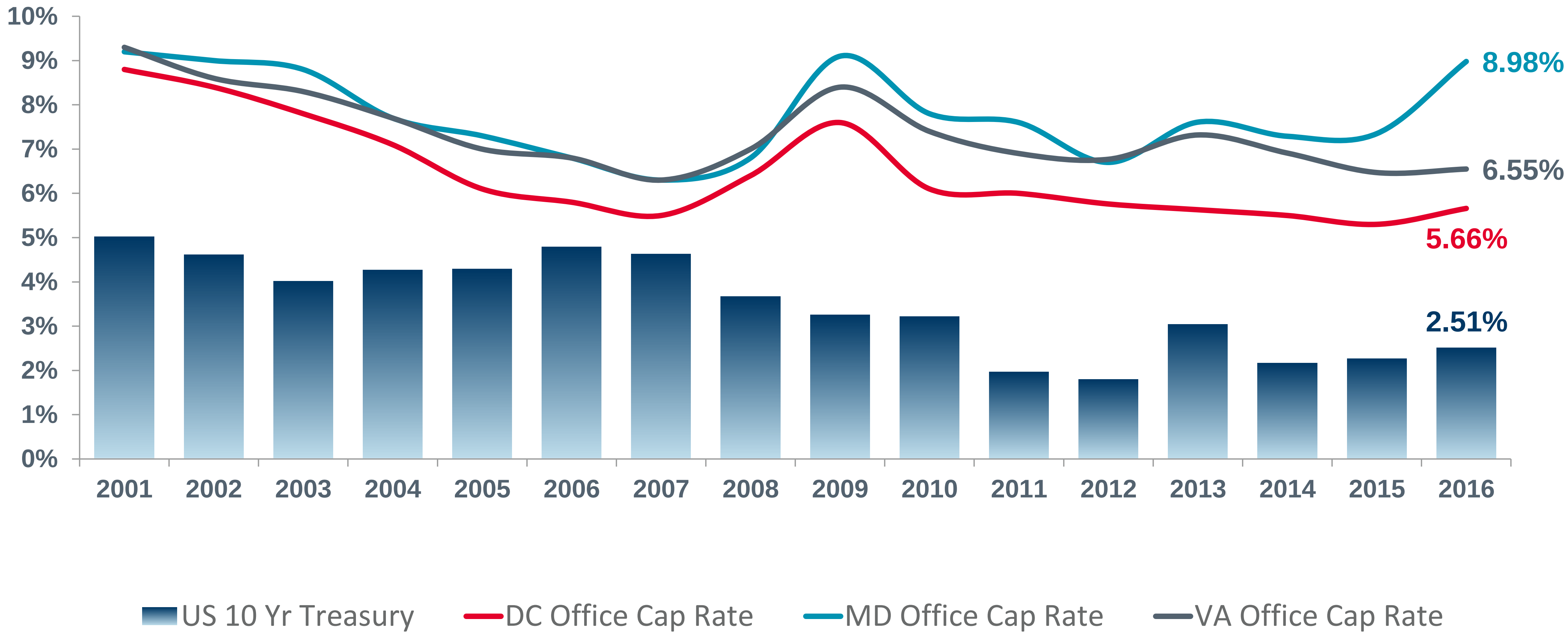
$/square foot



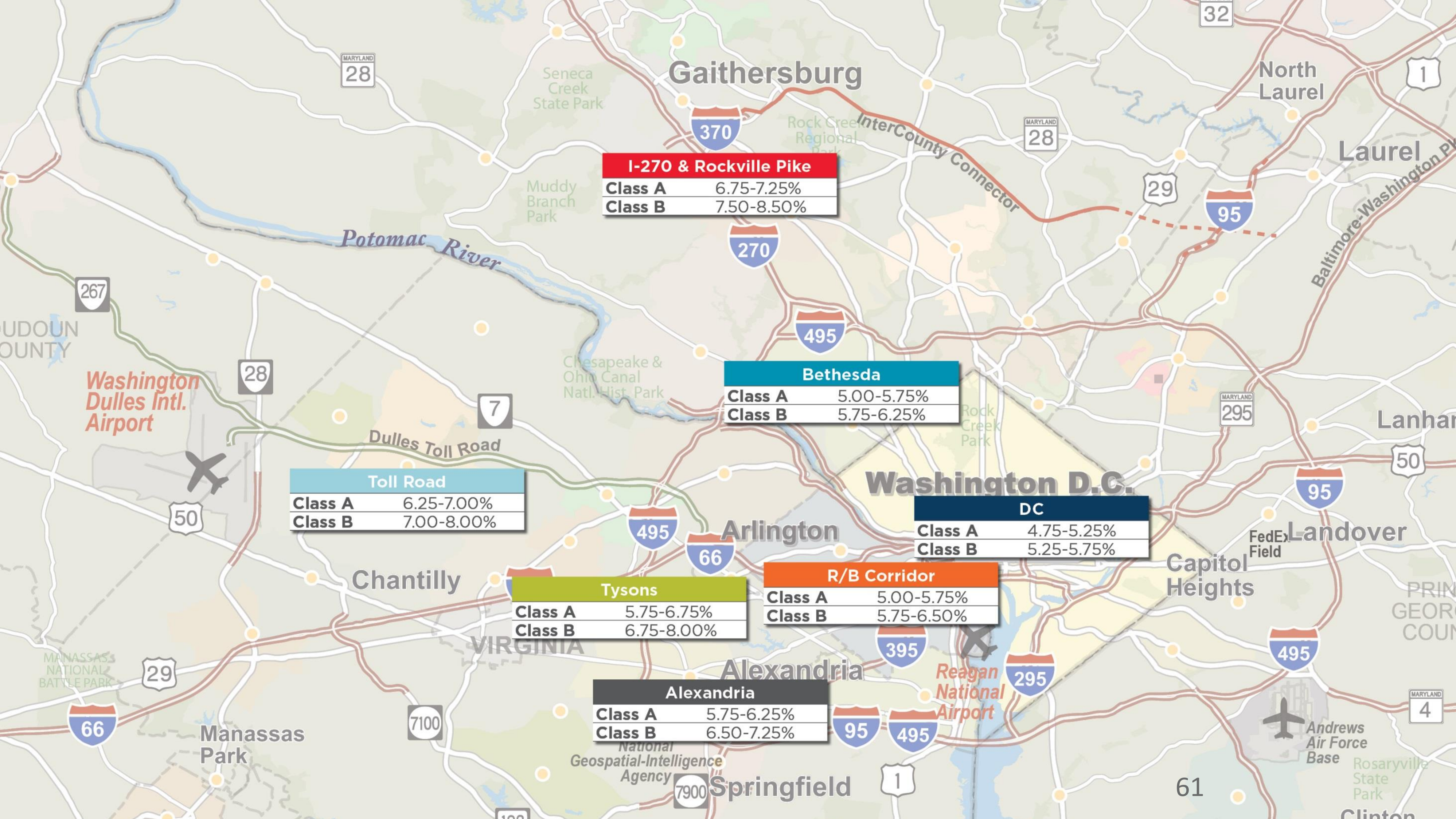
Source: Cushman & Wakefield

Office Cap Rates

Washington, DC Metro Area, all classes

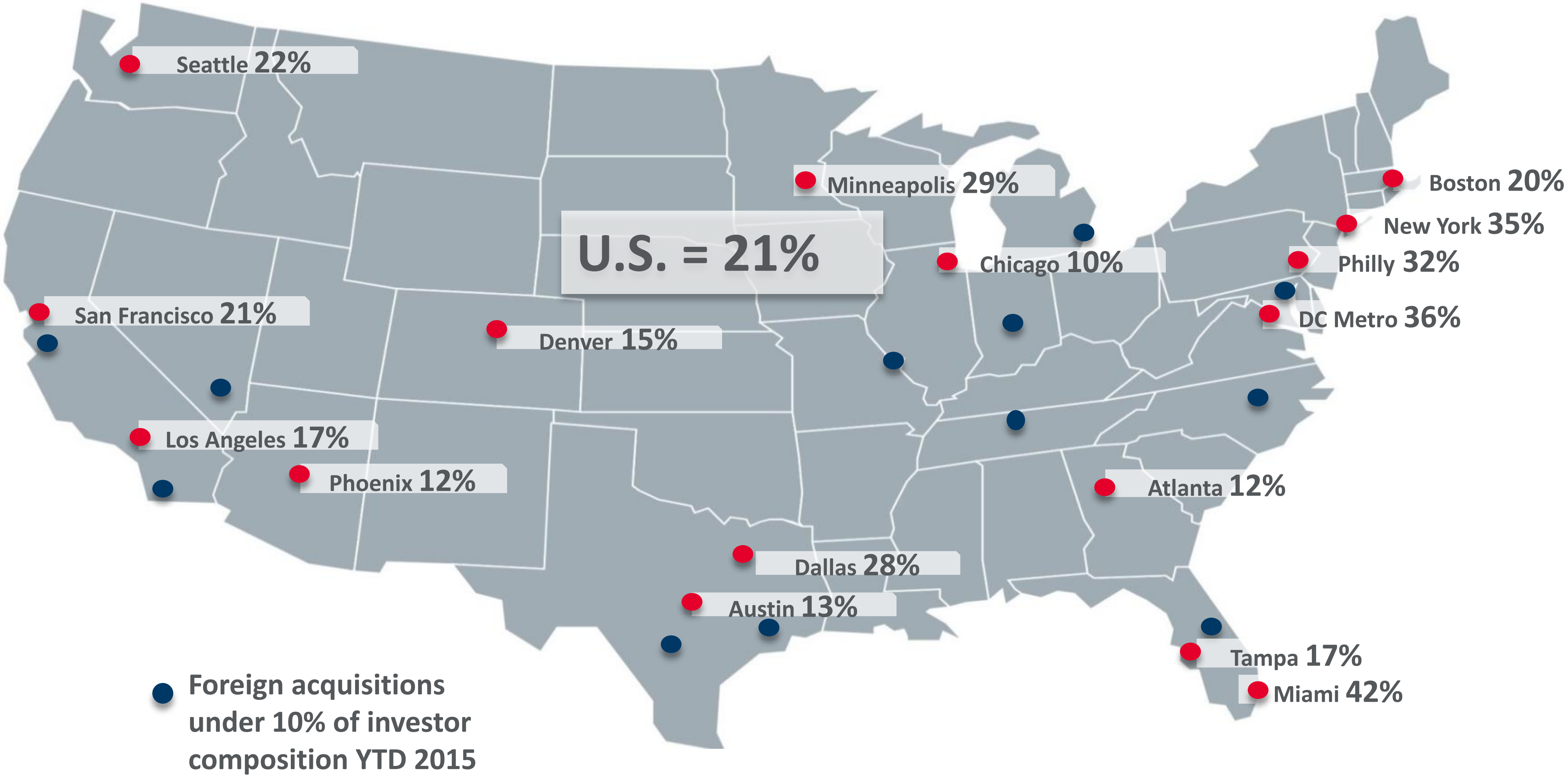


Source: C&W


I-270 & Rockville Pike
Class A 6.75-7.25%
Class B 7.50-8.50%
Bethesda
Class A 5.00-5.75%
Class B 5.75-6.25%
Toll Road
Class A 6.25-7.00%
Class B 7.00-8.00%
DC
Class A 4.75-5.25%
Class B 5.25-5.75%
R/B Corridor
Class A 5.00-5.75%
Class B 5.75-6.50%
Tysons
Class A 5.75-6.75%
Class B 6.75-8.00%
Alexandria
Class A 5.75-6.25%
Class B 6.50-7.25%
Gaithersburg
North Laurel
Laurel
Washington D.C.
Arlington
Chantilly
Alexandria
Springfield
Manassas Park
VIRGINIA
Landover
Capitol Heights
Washington Dulles Intl. Airport
Reagan National Airport
Andrews Air Force Base
Potomac River
Dulles Toll Road
InterCounty Connector
Baltimore-Washington Pkwy
Seneca Creek State Park
Muddy Branch Park
Chesapeake & Ohio Canal Natl. Hist. Park
Rock Creek Park
Manassas National Battle Park
National Geospatial-Intelligence Agency
FedEx Field
Rosaryville State Park

Where Foreign Buyers Are Most Active

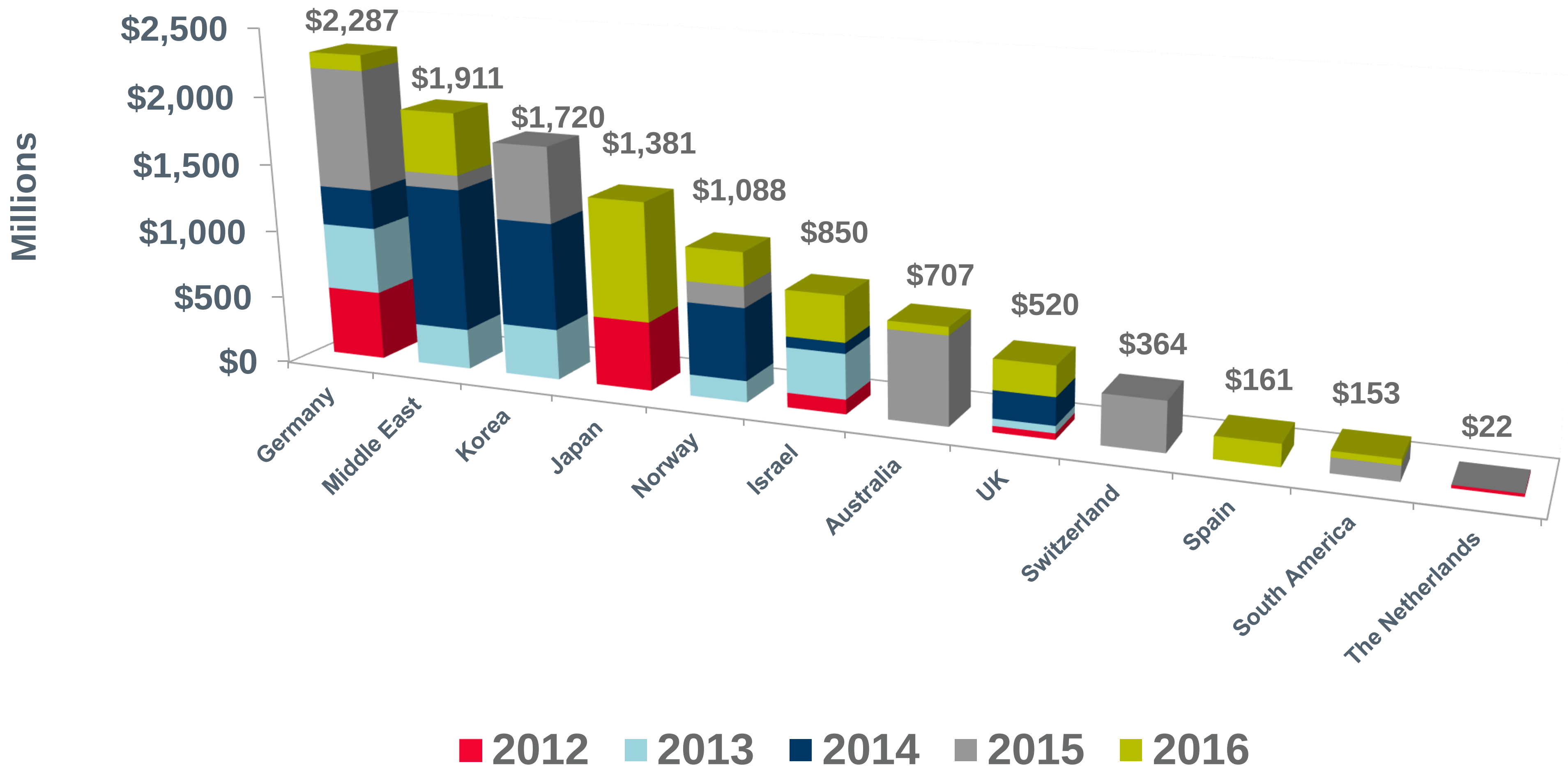
Cross-border office sales as % of total sales volume – 2016



Source: Cushman & Wakefield, RCA

Foreign Investment in DC Metro Office

By Country, DC Metro 2012-2016



Source: Cushman & Wakefield, RCA

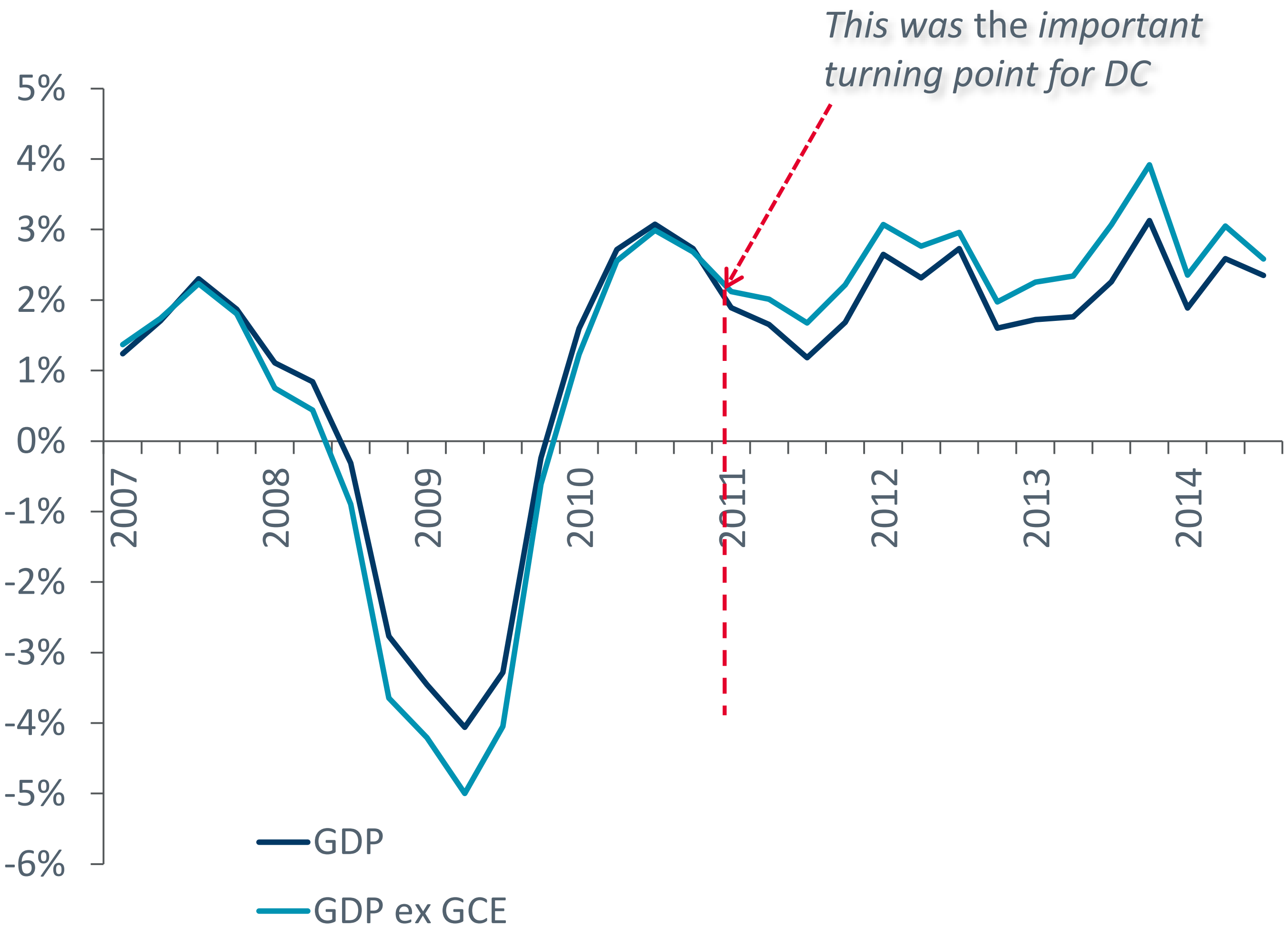
CUSHMAN & WAKEFIELD

Fact Checker

Is the Local Recovery Helping the Office Market?

2011-2013 Headwinds

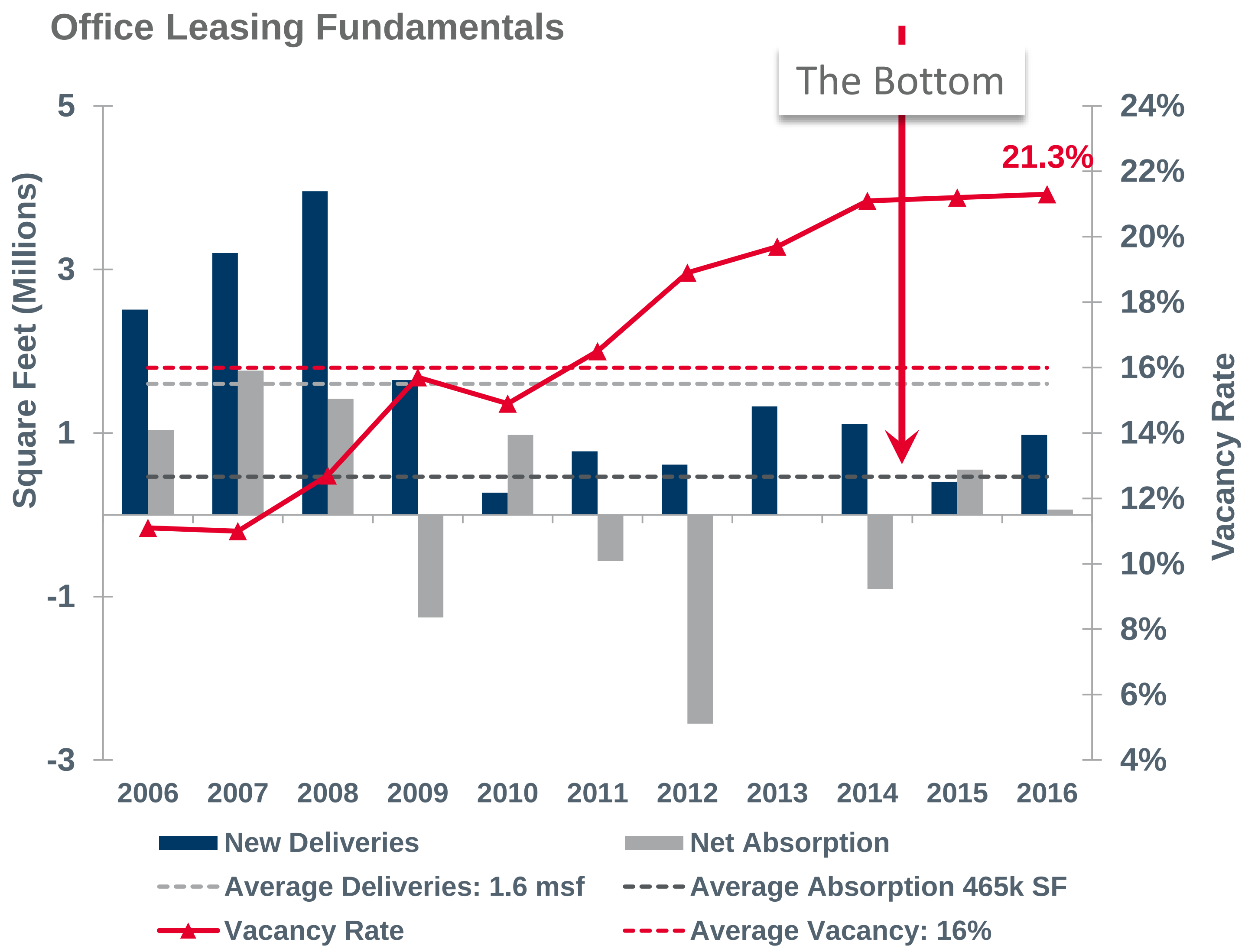
Real GDP, Y/Y % Change



- **Jan 3rd 2011: Tea Party Movement Begins**
- **Aug 2011: Debt ceiling deal, cuts gov't spend by $2.4T**
- **2012: Sequester kicks in**
- **2012: Majority of Brac Moves Occur**
- **2013: Fiscal Cliff Gov't shutdown**

Source: BEA

Northern Virginia Bounces off the Bottom



- **9/2014: Federal Employment starts to grow**
- **10/2014: GDP hits 5% for the region**
- **12/2014: First Budget in 6 Years Passed**
- **2015: 58,000 Jobs Created**
- **2016: 73,000 Jobs Created**
- **2017: Real Net New Demand and Rent Growth**

Source: Cushman & Wakefield

Contractors Have Rightsized in the Suburbs

Contractor Consolidations post-Recession

Company Name	Pre-recession Footprint	Current Footprint	% Reduction
Lockheed Martin	4,321,527	2,802,698	35.15%
Mitre	975,331	964,742	1.09%
L-3/Engility	538,366	368,151	31.62%
Harris Corporation	451,806	351,369	22.23%
EADS/Airbus	312,547	248,495	20.49%
SRA International	898,141	406,571	54.73%
IBM Corporation	1,139,960	913,299	19.88%
CACI	993,611	632,323	36.36%
		Average Reduction	**27.69%**

Source: Cushman & Wakefield

What’s Different Now?

Tenant Leasing Decisions

	7 YEARS AGO	TODAY
Department	Finance	Human Resources
Driver	Expense Management	Labor
Outlook	Liability	Asset
Criteria	Pro-Forma	Employee Experience

Leasing Cycle

Historical Office Recovery

Job Growth/ Confidence → Absorption (75% Renew) → Rents Increase → New Development → Over Supply

Office Recovery – Past 7 Years

Job Growth/ Confidence → Efficiency Offsets Absorption (50% Renew) → Flight to Quality → Obsolescence for Old / Demand for New → Haves & Have Nots

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Transactional Perspectives

Spencer Stouffer, Vice Chairman

February 16, 2017

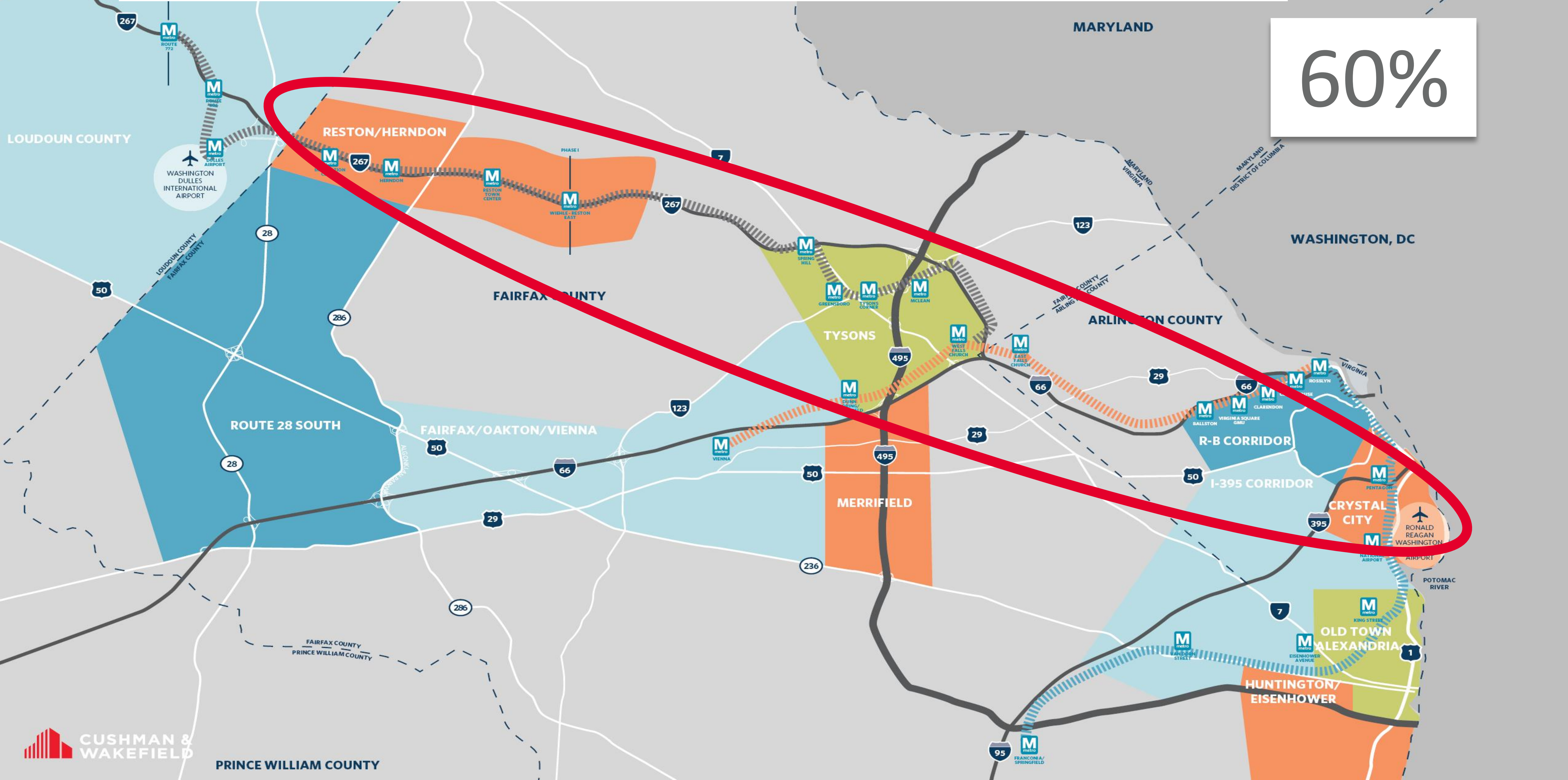
Today's Discussion

- Demand
- Supply
- Tysons – the Bellwether
- Predictions

DEMAND

The Core Markets – Arlington, Tysons, Reston/Herndon

60%



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Notable Private Sector Relocations

TYSONS	
INTELSAT Envision. Connect. Transform.	220k SF
Hilton	163k SF
PENFED CREDIT UNION	140k SF
CSC	92k SF
M.C. DEAN BUILDING INTELLIGENCE	86k SF
DynCorp INTERNATIONAL	80k SF
ReedSmith	29k SF
splunk>	29k SF
840,000 SF	

RESTON/HERNDON	
BECHTEL	198k SF
GENERAL DYNAMICS	190k SF
HARRIS	161k SF
noblis	160k SF
ellucian	97k SF
ch2m	40k SF
818,000 SF	

ARLINGTON	
Nestlé	200k SF
CNA ANALYSIS & SOLUTIONS	179k SF
American Diabetes Association	78k SF
Grant Thornton	76k SF
Chemonics Development works here.	54k SF
GMA The Association of Food, Beverage and Consumer Products Companies	35k SF
GH GRAHAM HOLDINGS	34k SF
656,000 SF	

Non-Core Markets - the Other 40%

Buildings will outperform given:

- Captive Tenants
- Pricing Advantage
- Best in Show

The top half will capture the absorption

Source: Spencer

Supply

Large Existing Blocks are Drying up – Tysons

2014

	 GREENSBORO STATION		 TYSONS METRO CENTER	 TYSONS TOWER	 WESTWOOD METRO TOWER	 TYCON COURTHOUSE	 FAIRFAX SQUARE II
ADDRESS	1710/1765/1775 GREENSBORO STATION PLACE	1660 INTERNATIONAL DRIVE	8251/8255/8281/8285 GREENSBORO DRIVE	7900 TYSONS ONE PLACE	8614 WESTWOOD CENTER DRIVE	2070 CHAIN BRIDGE RD	8075 LEESBURG PIKE
SF AVAILABLE	320,101	118,751	265,611	168,711	205,621	180,432	93,713
YEAR BUILT	1999/1980/1988	1999	1984/2002/1980/1999	2014	1985	1983	1990
ASKING RATE	$42.00	$34.00 - $36.50	$34.00 - $36.50	$55.00	$38.00	$30.00	$36.00 - $38.00

	 SILVERLINE CENTER	 VALO PARK	 GREENSBORO CORPORATE CENTER	 TYSONS EXECUTIVE PLAZA	 WESTPARK CORPORATE CENTER		 THE CORPORATE OFFICE CENTRE @ TYSONS II
ADDRESS	7900 WESTPARK DRIVE	7950 JONES BRANCH DRIVE	8401/8405 GREENSBORO DRIVE	2000 CORPORATE RIDGE	8444/8484 WESTPARK DRIVE	1750 OLD MEADOW RD	1775 TYSONS BLVD
SF AVAILABLE	287,958	471,749	197,948	261,393	172,102	142,932	122,212
YEAR BUILT	1971	2001	2000	1985	1999/2000	1985	2016
ASKING RATE	$40.00	$50.00	$38.00 - $40.00	$36.00	$40.00 - $42.00	$34.00 - $36.00	WITHHELD

Source: Cushman & Wakefield

Large Existing Blocks are Drying up – Tysons

2017

							
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Source: Cushman & Wakefield

Large Existing Blocks are Drying up – Reston/Herndon

2014						
			ONE RESTON CRESCENT	RESTON CROSSING WEST	Detroit RESTON METRO CENTER ONE	
ADDRESS	2355 DULLES CORNER BLVD	1860 MICHAEL FARADAY DR	12000 SUNRISE VALLEY DR	2001 EDMUND HALLEY DR	12120 SUNRISE VALLEY DR	11493 SUNSET HILLS RD
SF AVAILABLE	52,189	54,250	186,133	64,962	121,145	179,152
YEAR BUILT	1988	1969	2000	1998	2000	1987
ASKING RATE	\$32.00 - \$33.00	\$24.00	\$31.50	\$32.00	\$34.00	WITHHELD

						
	RESTON CROSSING EAST	ONE DULLES TOWER	2245 MONROE	PRESIDENTS PARK	ONE DISCOVERY SQUARE	NORTHRIDGE II
ADDRESS	2003 EDMUND HALLEY DR	13200 WOODLAND PARK	2245 MONROE STREET	13861 / 13865 SUNRISE VALLEY DRIVE & 2525 NETWORK PLACE	12010 SUNSET HILLS RD	13241 WOODLAND PARK RD
SF AVAILABLE	176,983	400,677	162,276	297,483	127,793	126,886
YEAR BUILT	1998	2002	2002	1999/2000/2001	2001	1998
ASKING RATE	\$32.00	\$38.00 - \$40.00	\$31.50 - \$33.00	\$28.00 - \$30.00	WITHHELD	\$28.00 - \$30.00

Source: Cushman & Wakefield

Large Existing Blocks are Drying up – Reston/Herndon

2017

					 RESTON METRO CENTER ONE	
ADDRESS	2355 DULLES CORNER BLVD	1860 MICHAEL FARADAY DR	12000 SUNRISE VALLEY DR	2001 EDMUND HALLEY DR	12120 SUNRISE VALLEY DR	11493 SUNSET HILLS RD
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			 2245 MONROE	 PRESIDENTS PARK	 ONE DISCOVERY SQUARE	 NORTHRIDGE II
ADDRESS	2003 EDMUND HALLEY DR	13200 WOODLAND PARK	2245 MONROE STREET	13861 / 13865 SUNRISE VALLEY DRIVE & 2525 NETWORK PLACE	12010 SUNSET HILLS RD	13241 WOODLAND PARK RD
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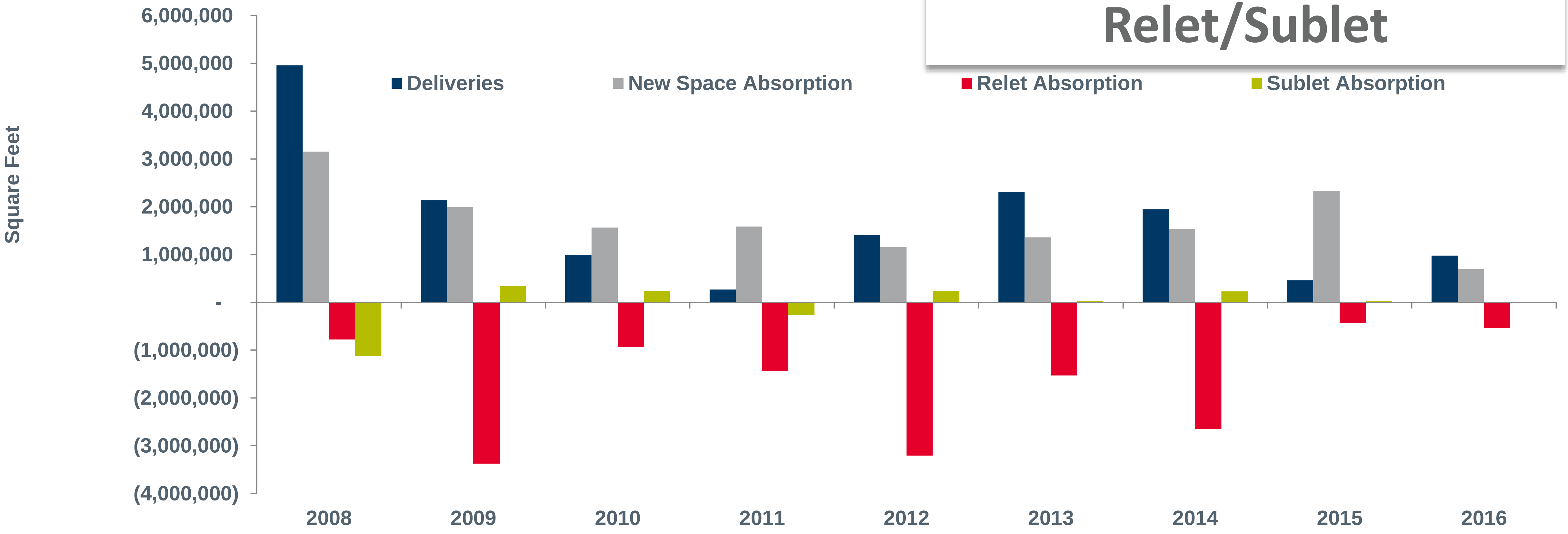
Source: Cushman & Wakefield

Demand for New Space

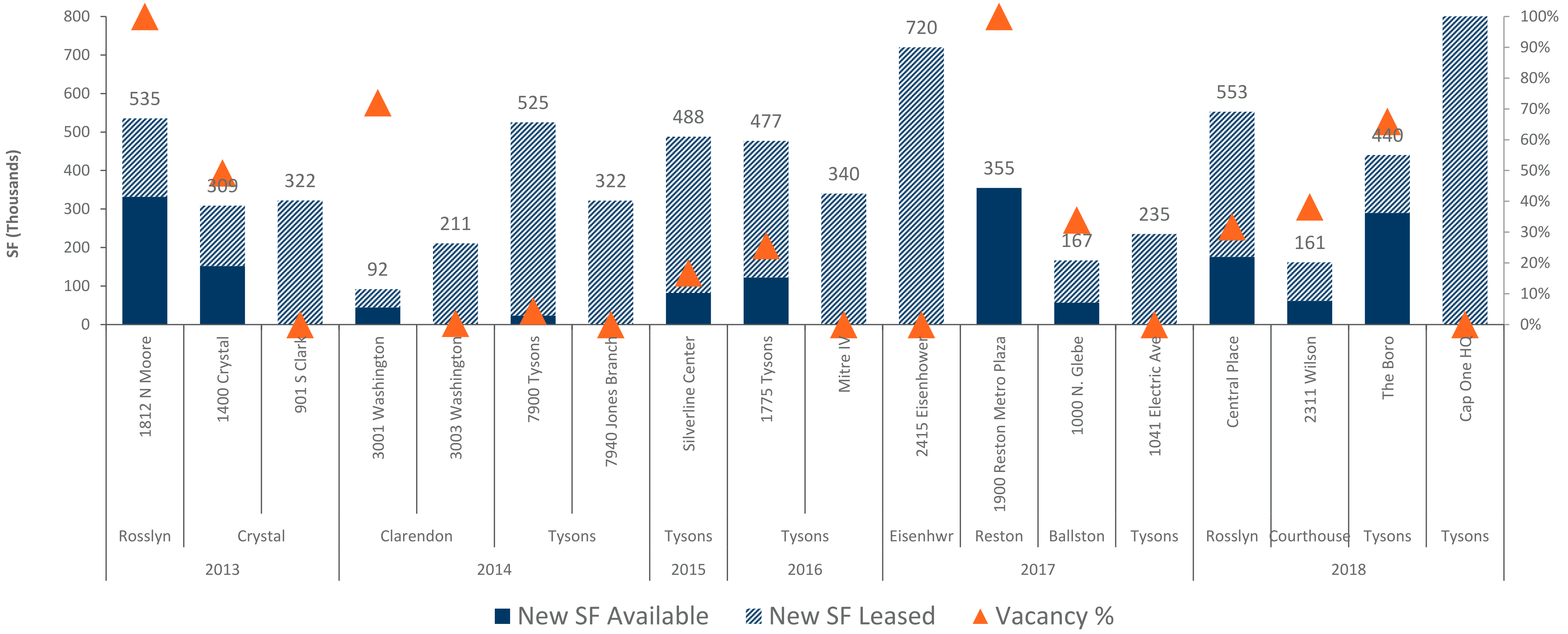
Northern Virginia New vs. Relet

Since 2008
15.4 msf absorbed in New
-15.2 msf absorbed in Relet/Sublet



Development Pipeline

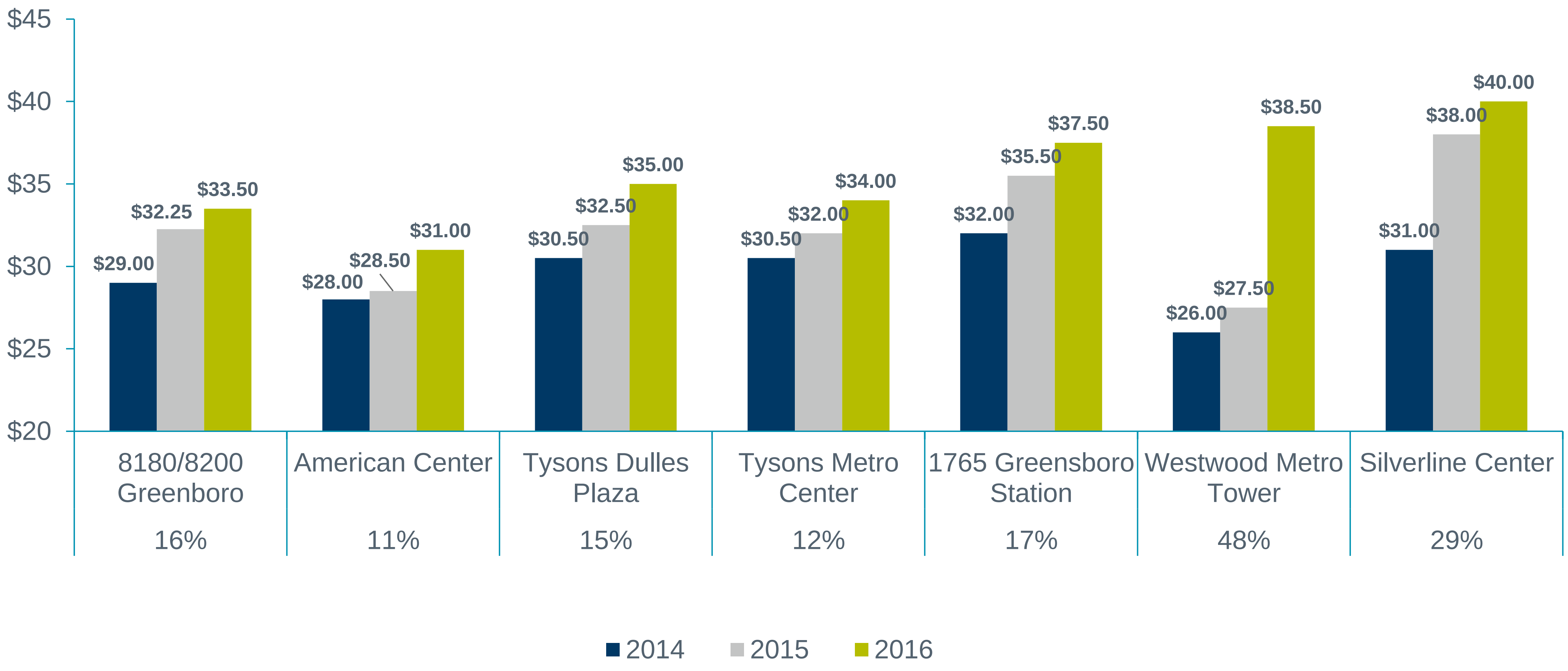
2013-2018 New Development – Tysons, Toll Road and Inside the Beltway – 77% Leased



Tysons – the Bellwether

Rent Growth – 2014 to Now

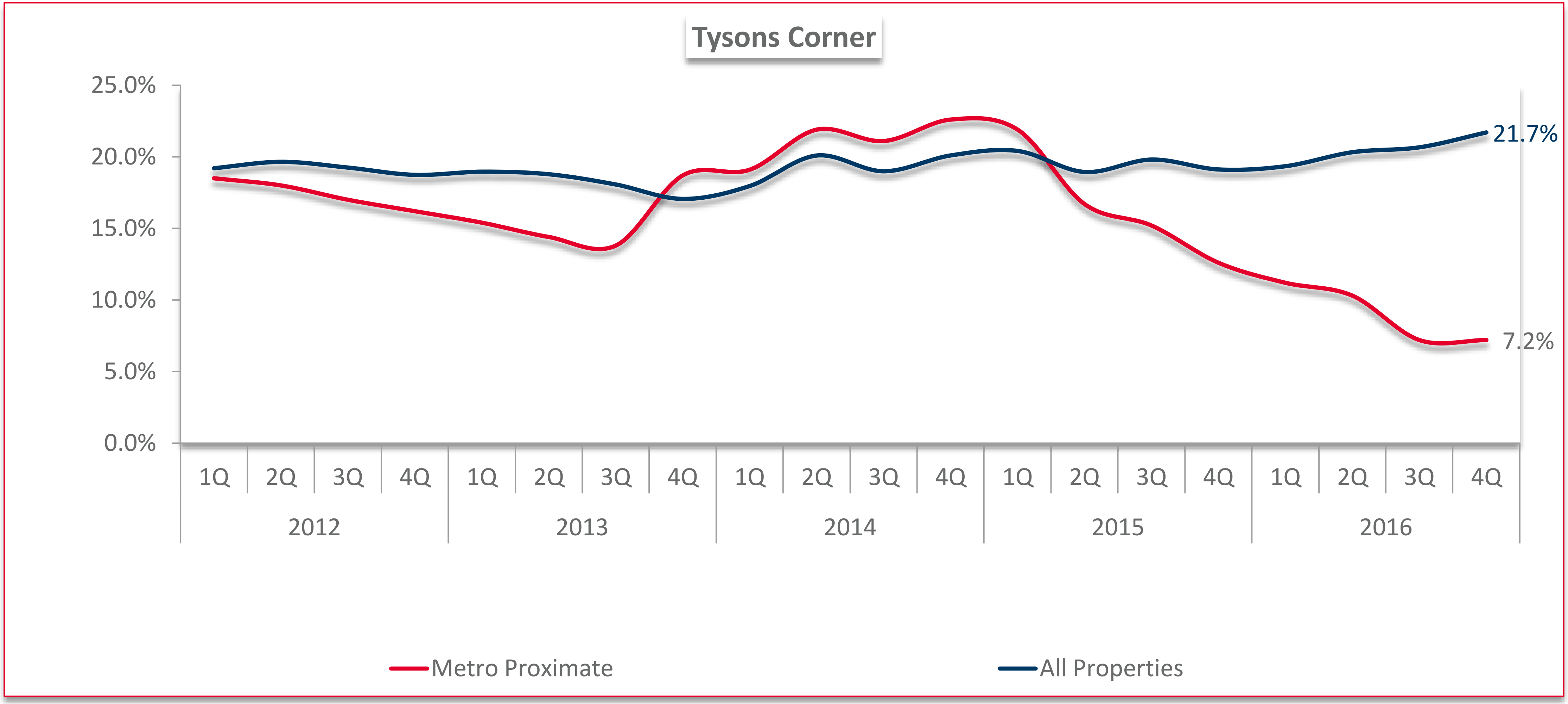
As Quality Space Becomes More Scare – Rents are Popping in Select Tysons Assets



Source: DTZ Research, CoStar

The Metro Effect

Demand is Outpacing Supply Among 50k and Up Users



Predictions

Predictions

- 2017 – the best year in Northern Virginia since 2007
- 1 million square feet of positive absorption in 2017
- At least 2 new preleases signed
- Rents continue to increase in Tysons/Reston/Herndon

Source: Spencer

Thank You

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