

# Northern Virginia

**Spencer Stouffer**

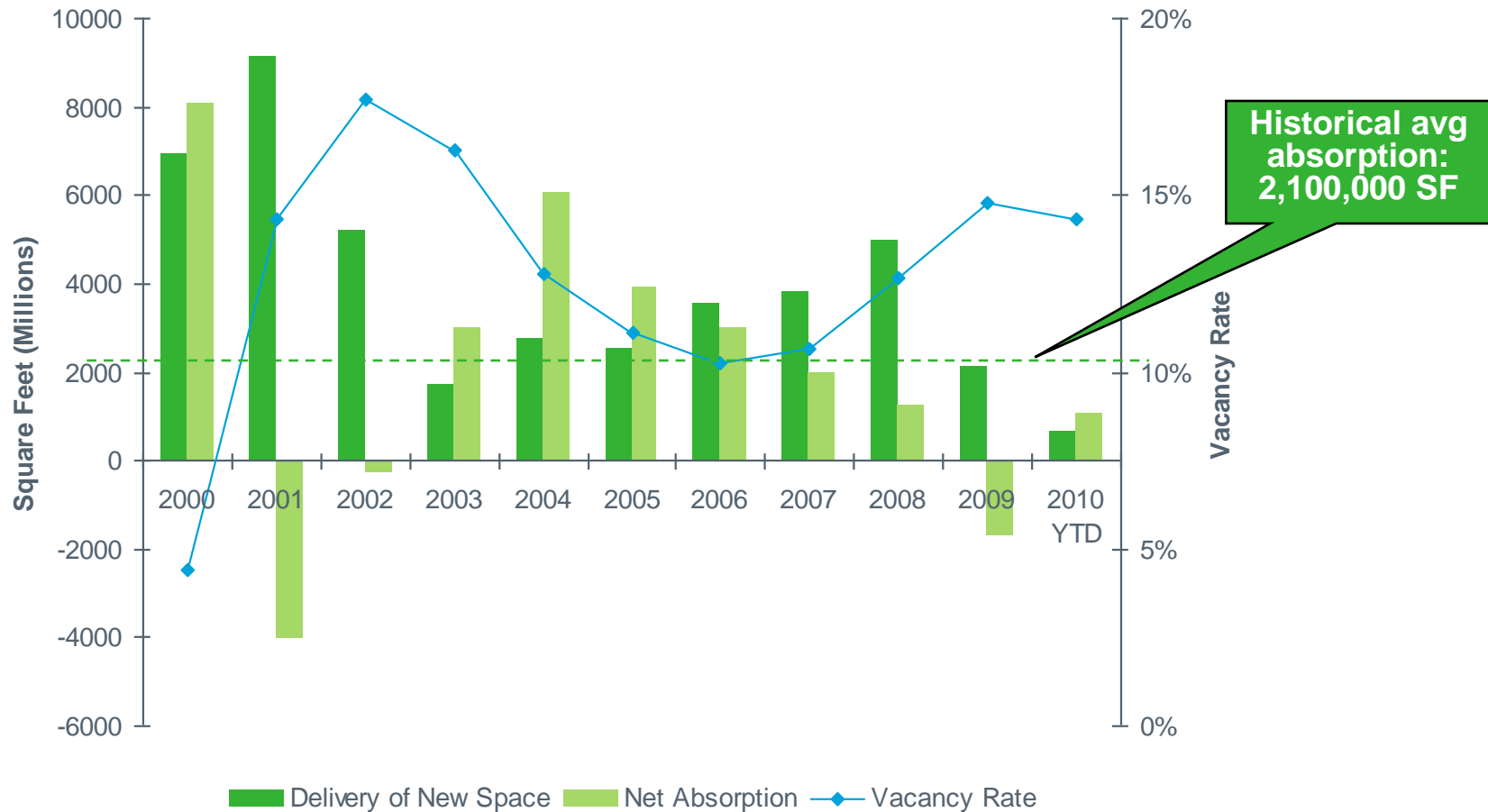
**Senior Managing Director, Principal**

# Outline

- 1. 2<sup>nd</sup> Quarter 2010 Vacancy & Absorption**
- 2. Office Sales Overview**
- 3. Ten Steps to a Landlord's Market**
- 4. Predictions & Forecast**

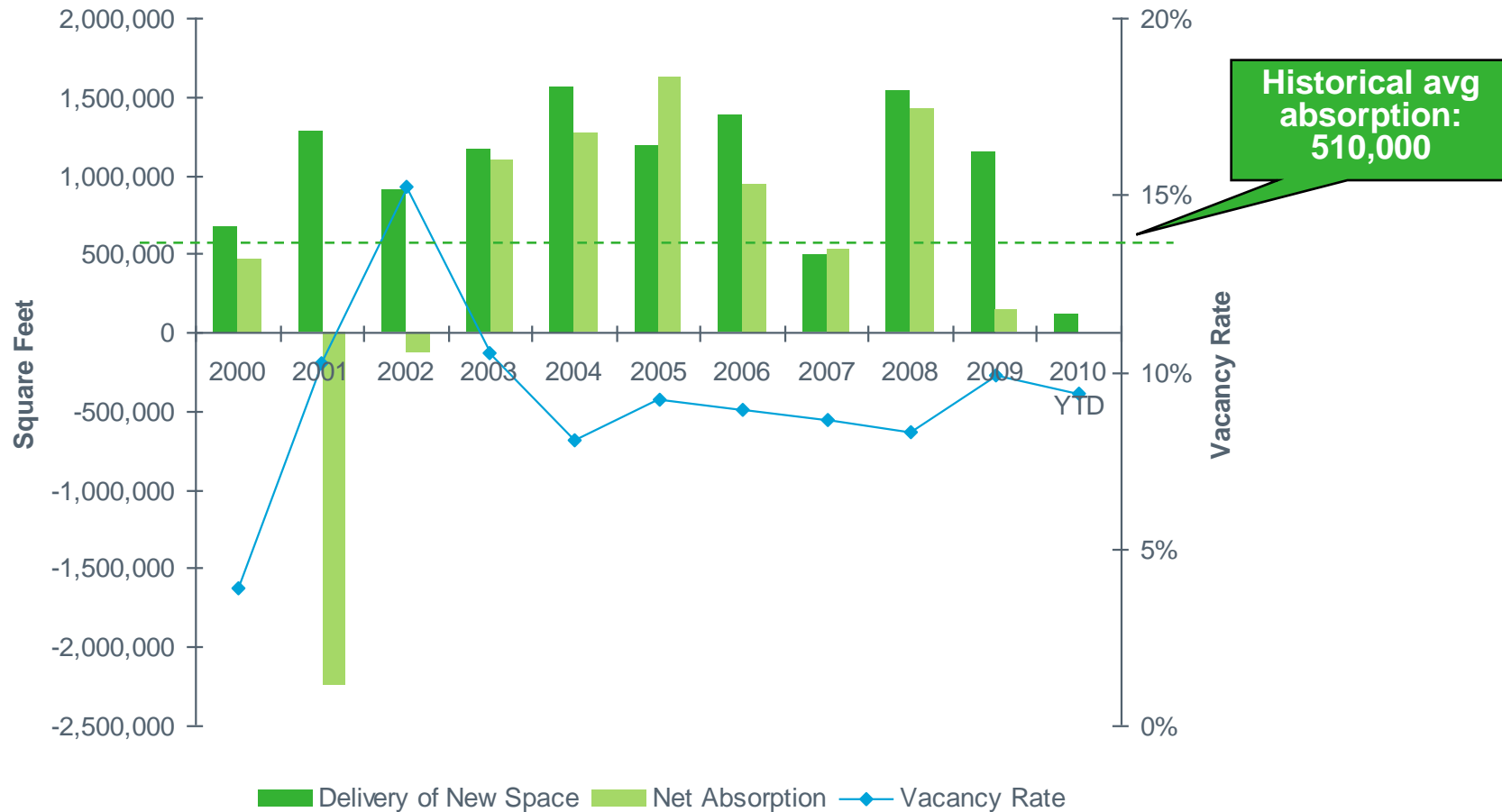
# Northern Virginia

## Deliveries – Net Absorption – Vacancy



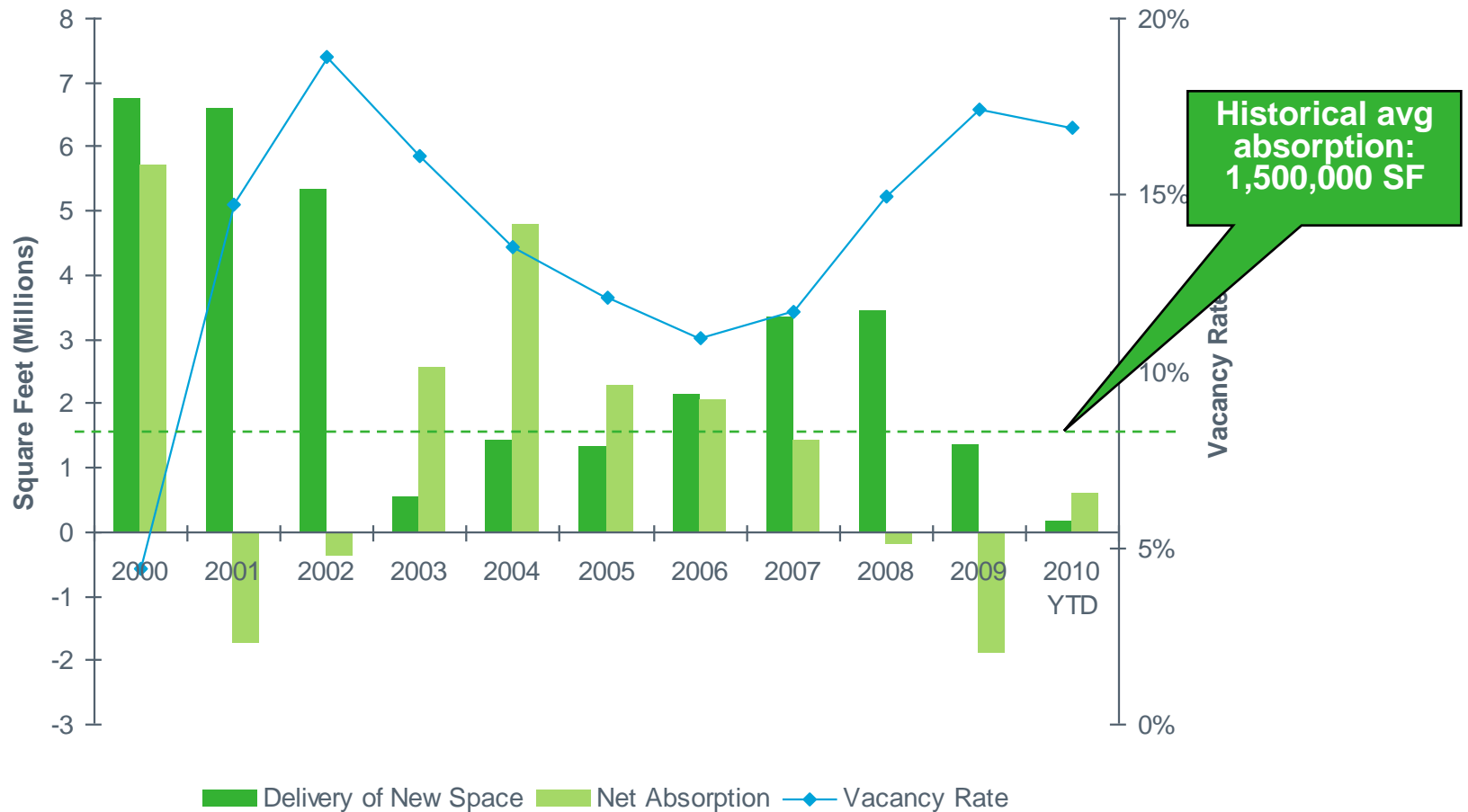
# Northern Virginia – Inside the Beltway

## Deliveries – Net Absorption – Vacancy



# Northern Virginia – Outside the Beltway

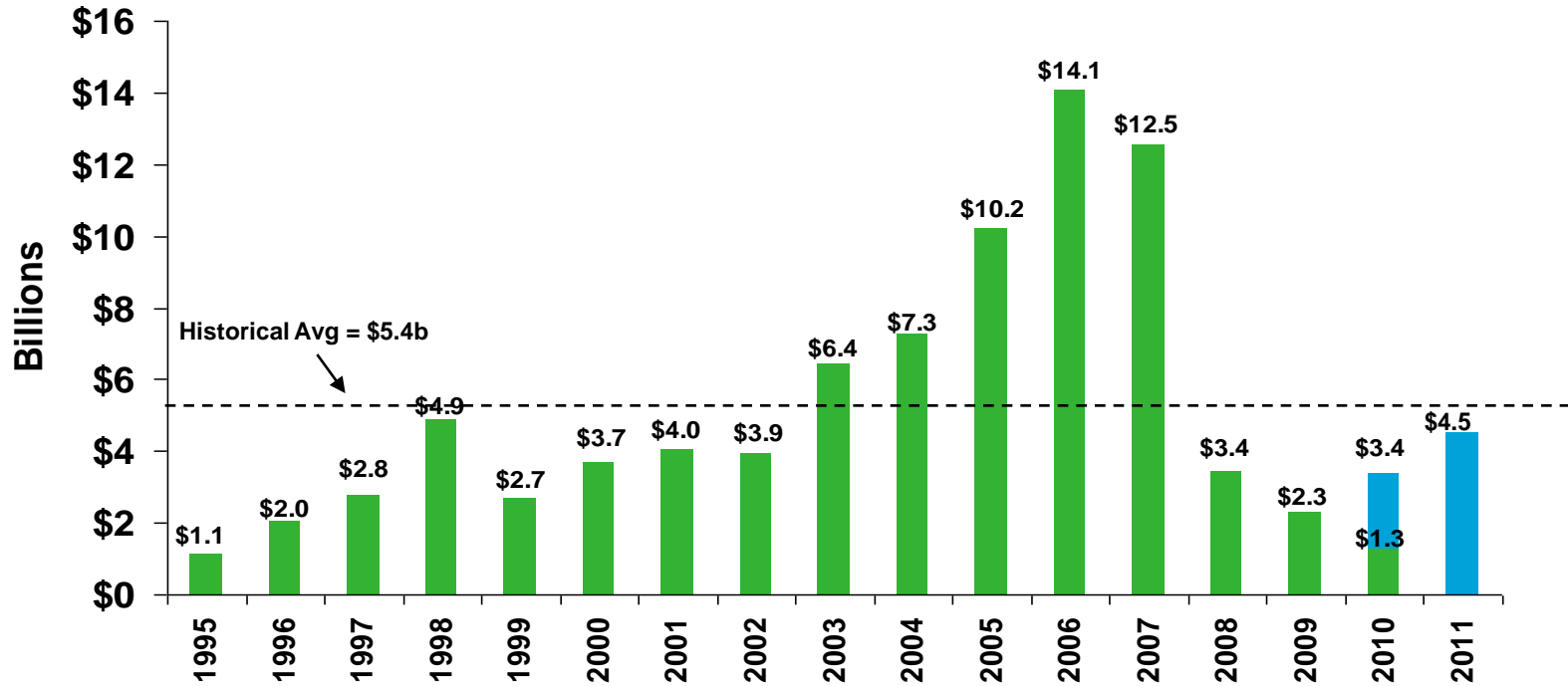
## Deliveries – Net Absorption – Vacancy



# Office Sales Overview

# Office Sales

## Washington, DC Metro Area



# Recent Sales – Inside Beltway

## Three Ballston Plaza

1<sup>st</sup> Quarter 2010



**Seller:** Cornerstone  
**Buyer:** AEW Capital Management  
**Net RSF:** 304,133  
**Price:** \$121,250,000  
**Price PSF:** \$398  
**% Leased:** 90%

**Cap Rate: 7.00%**

## The Hartford Building

2<sup>nd</sup> Quarter 2009



**Seller:** Multi-Employer Property Trust  
**Buyer:** MRP Realty/Angelo, Gordon & Associates  
**Net RSF:** 212,000  
**Price:** \$71,500,000  
**Price PSF:** \$337  
**% Leased:** 100%

**Cap Rate: 8.52%**



# Recent Sales – Outside Beltway

## Dulles Station East

2<sup>nd</sup> Quarter 2010



**Seller:** Crimson Partners  
**Buyer:** KBS Realty Advisors  
**Net RSF:** 186,734  
**Price:** \$66,000,000  
**Price PSF:** \$353  
**% Leased:** 88%

**Cap Rate: 7.00%**

## Monument III at Worldgate

4<sup>th</sup> Quarter 2009



**Seller:** GE Capital Real Estate  
**Buyer:** MRP Realty/Angelo, Gordon & Associates  
**Net RSF:** 193,138  
**Price:** \$51,000,000  
**Price PSF:** \$264  
**% Leased:** 90%

**Cap Rate: 8.28%**

# Ten Steps to a Landlord's Market

# Past is Prologue - Leading Indicators

## 10 Steps to a Landlord's Market

**Step 1**

**Shut Off New Supply**

**Step 2**

Less Sublease Space

**Step 3**

Flight to Quality

**Step 4**

Decreasing Big Blocks

**Step 5**

Increased Tour Activity

**Step 6**

Job Growth

**Step 7**

Positive Absorption

**Step 8**

Lower Concessions

**Step 9**

Vacancy Rate Sub-10%

**Step 10**

Rising Rents

# Step 1: Shut Off New Supply

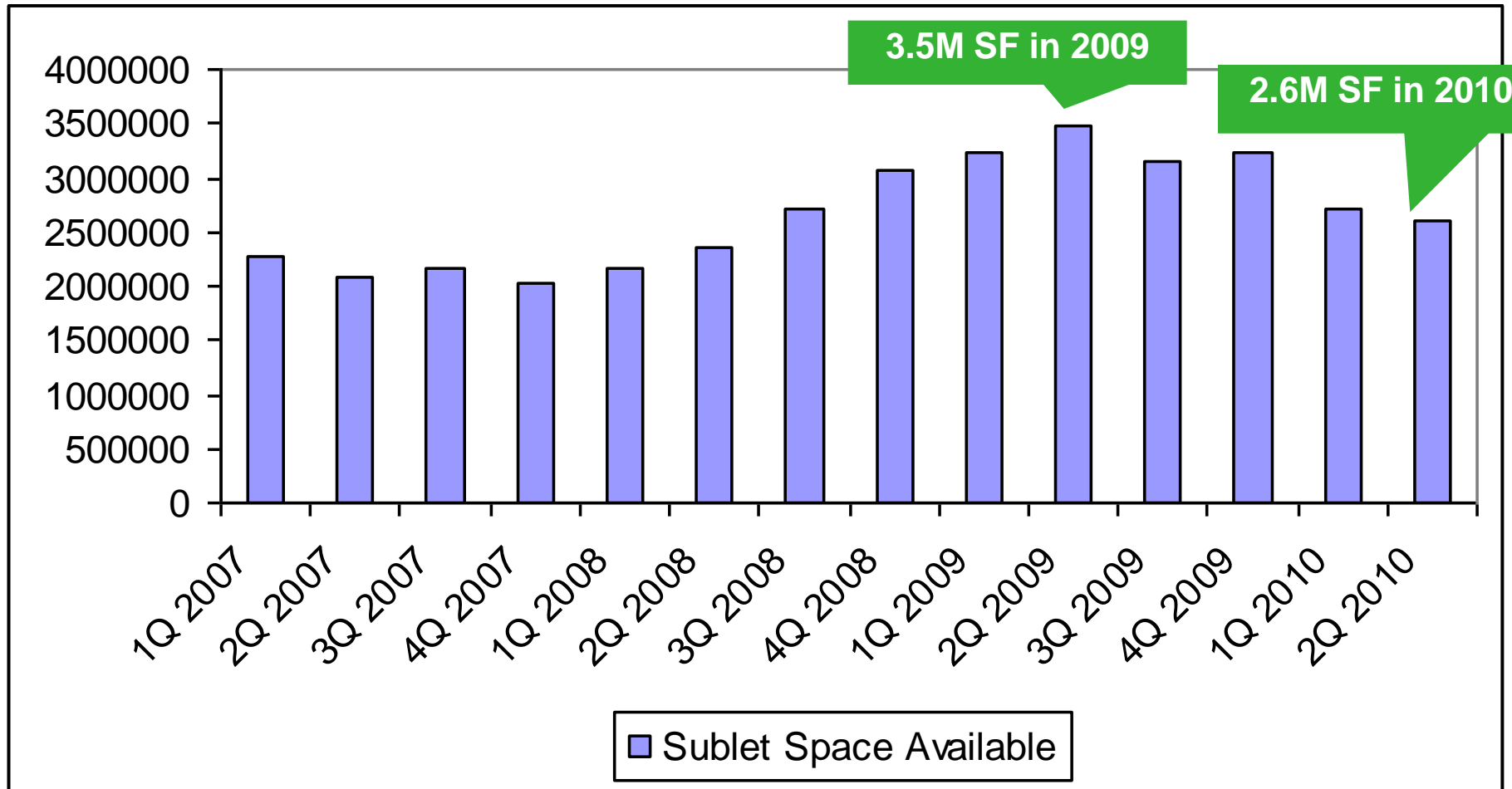
- Last Spec Office Building to Break Ground (Clarendon Center: 3<sup>rd</sup> Quarter 2008)
- No new speculative starts in two years

# Past is Prologue - Leading Indicators

## 10 Steps to a Landlord's Market

- |                |                            |
|----------------|----------------------------|
| <b>Step 1</b>  | Shut Off New Supply        |
| <b>Step 2</b>  | <b>Less Sublease Space</b> |
| <b>Step 3</b>  | Flight to Quality          |
| <b>Step 4</b>  | Decreasing Big Blocks      |
| <b>Step 5</b>  | Increased Tour Activity    |
| <b>Step 6</b>  | Job Growth                 |
| <b>Step 7</b>  | Positive Absorption        |
| <b>Step 8</b>  | Lower Concessions          |
| <b>Step 9</b>  | Vacancy Rate Sub-10%       |
| <b>Step 10</b> | Rising Rents               |

# Available Sublet Space 2007-2010 YTD

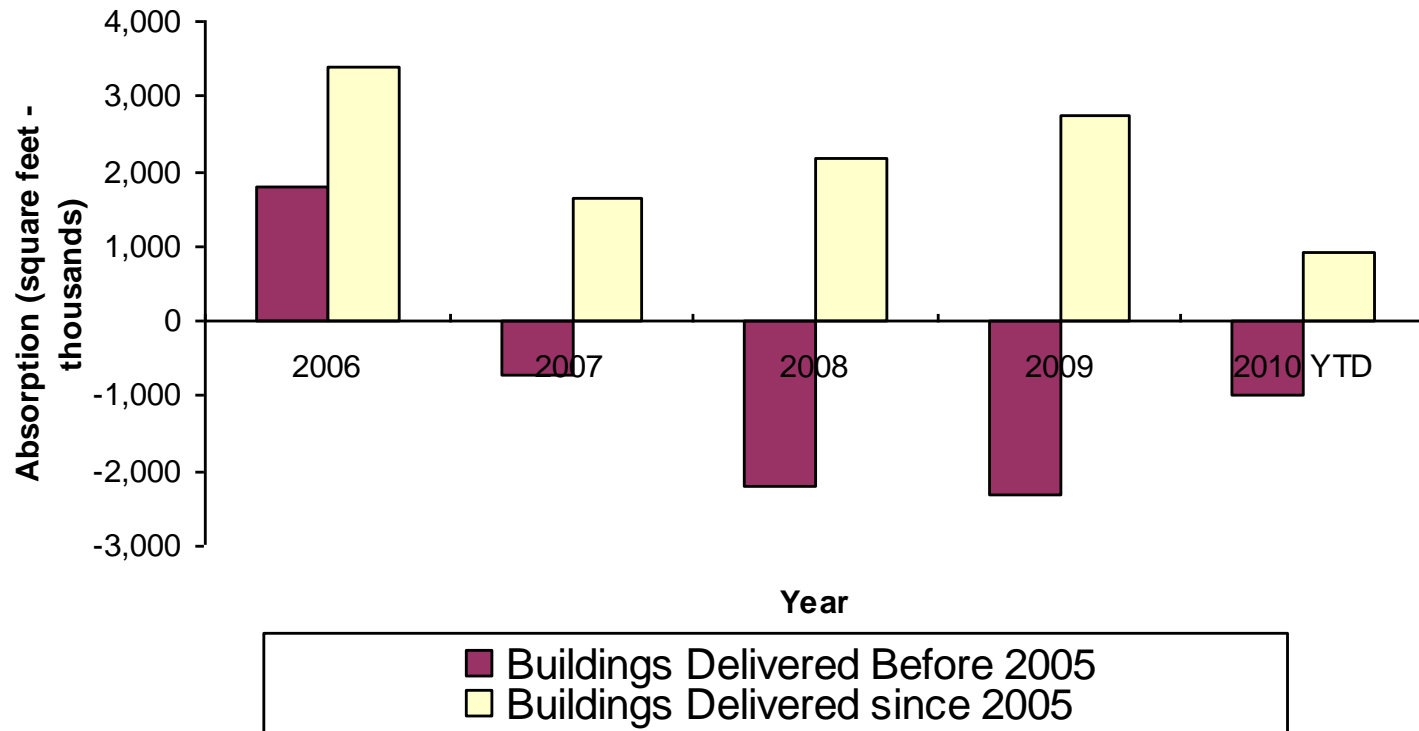


# Past is Prologue - Leading Indicators

## 10 Steps to a Landlord's Market

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| <b>Step 9</b>  | Vacancy Rate Sub-10%     |
| <b>Step 10</b> | Rising Rents             |

# New Building Absorption





# Inside the Beltway Flight to Quality

- 2006 to 2010 YTD Absorption

Total Absorption	New Space Absorption	Relet Space Absorption
3,500,000 sf*	3,550,000 sf	300,000 sf

\*total includes (350,000 SF) of sublease space

# Outside the Beltway Flight to Quality

- 2006 to 2010 YTD Absorption

Total Absorption	New Space Absorption	Relet Space Absorption
2,740,000 sf	+7,630,000 sf	(4,890,000) sf

# Past is Prologue - Leading Indicators

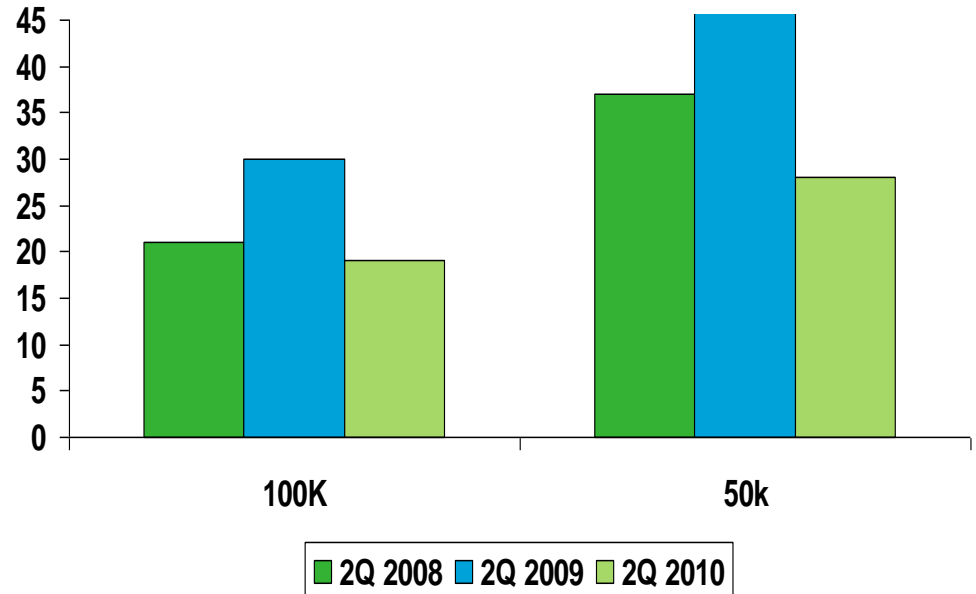
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# Outside Beltway Large Block Vacancy Any Trends?

## Tysons, Reston, Herndon

- Nominal decrease in big blocks
- Composition of vacancy has changed (2008 majority was new construction; 2010 majority is relet)



# Inside Beltway Large Block Vacancy

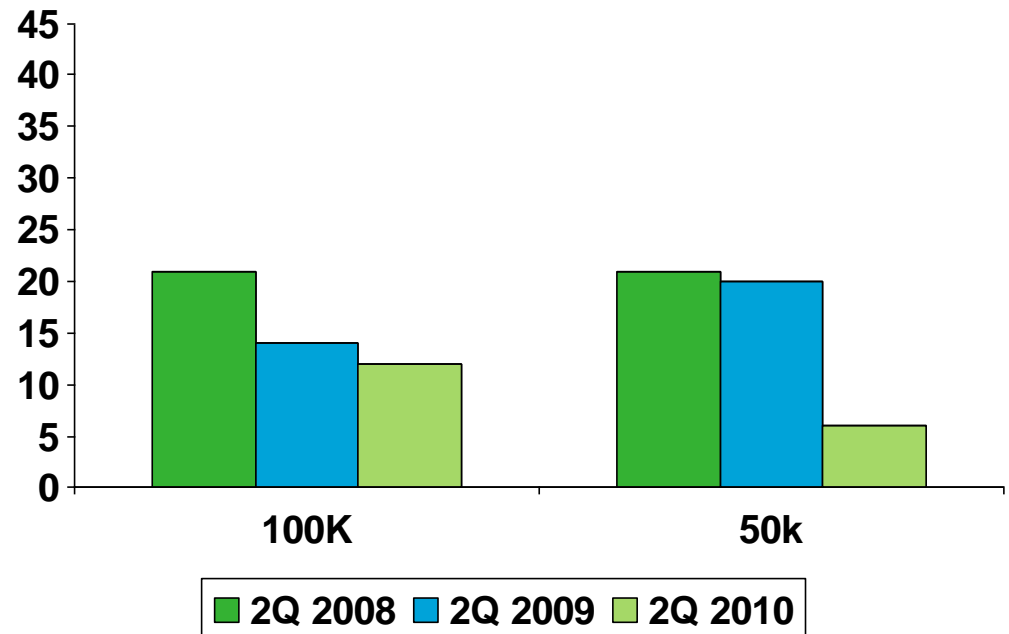
## Any Trends?

### Buildings with 100,000 sf Vacancy

- 21 blocks in 2008
- 12 blocks in 2010

### Buildings with 50,000-100,00 sf Vacancy

- 21 blocks in 2008
- 6 blocks in 2010



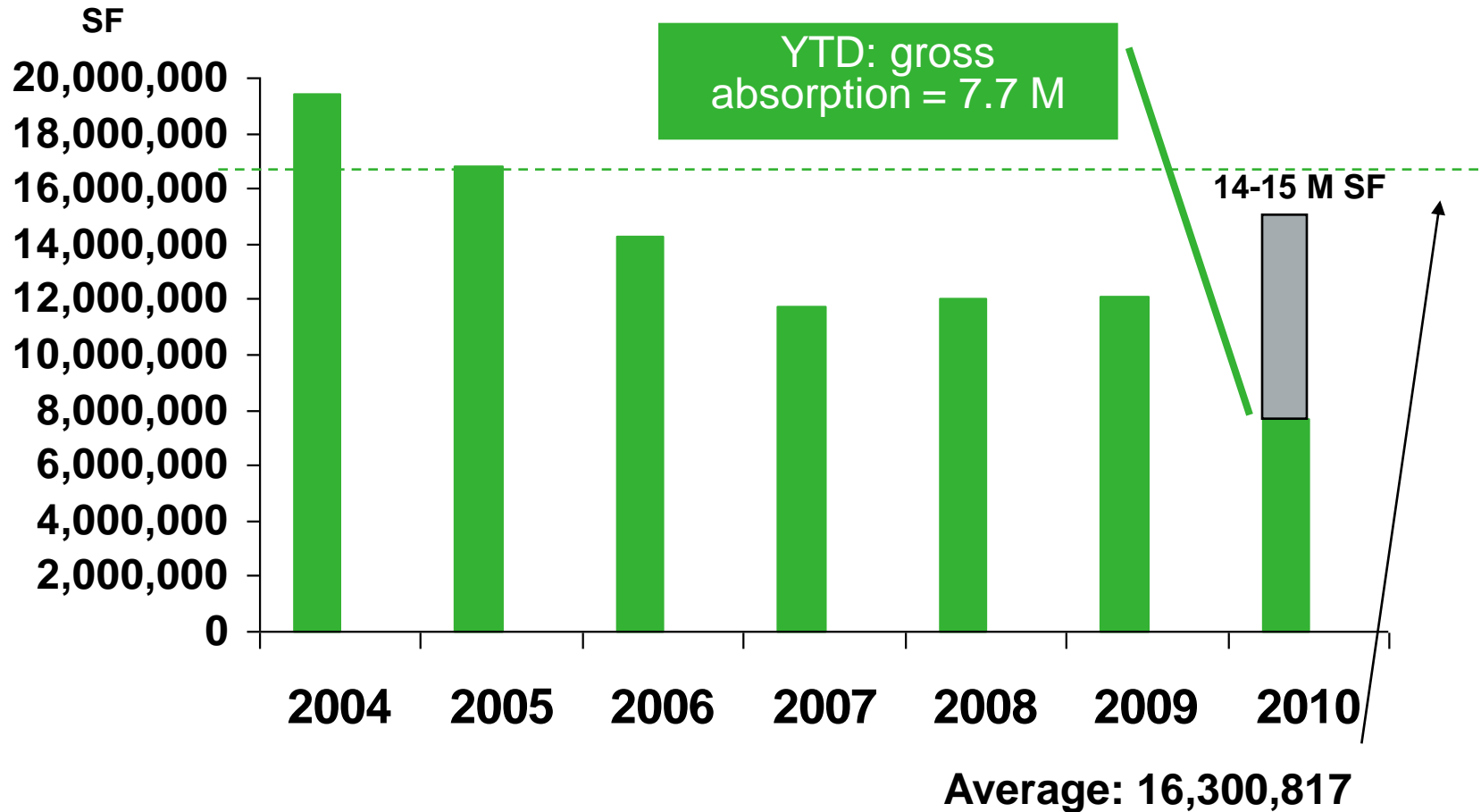
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# Deal Velocity and Tour Activity

## Gross Leasing Activity—NOVA Past 6 Years



# Past is Prologue - Leading Indicators

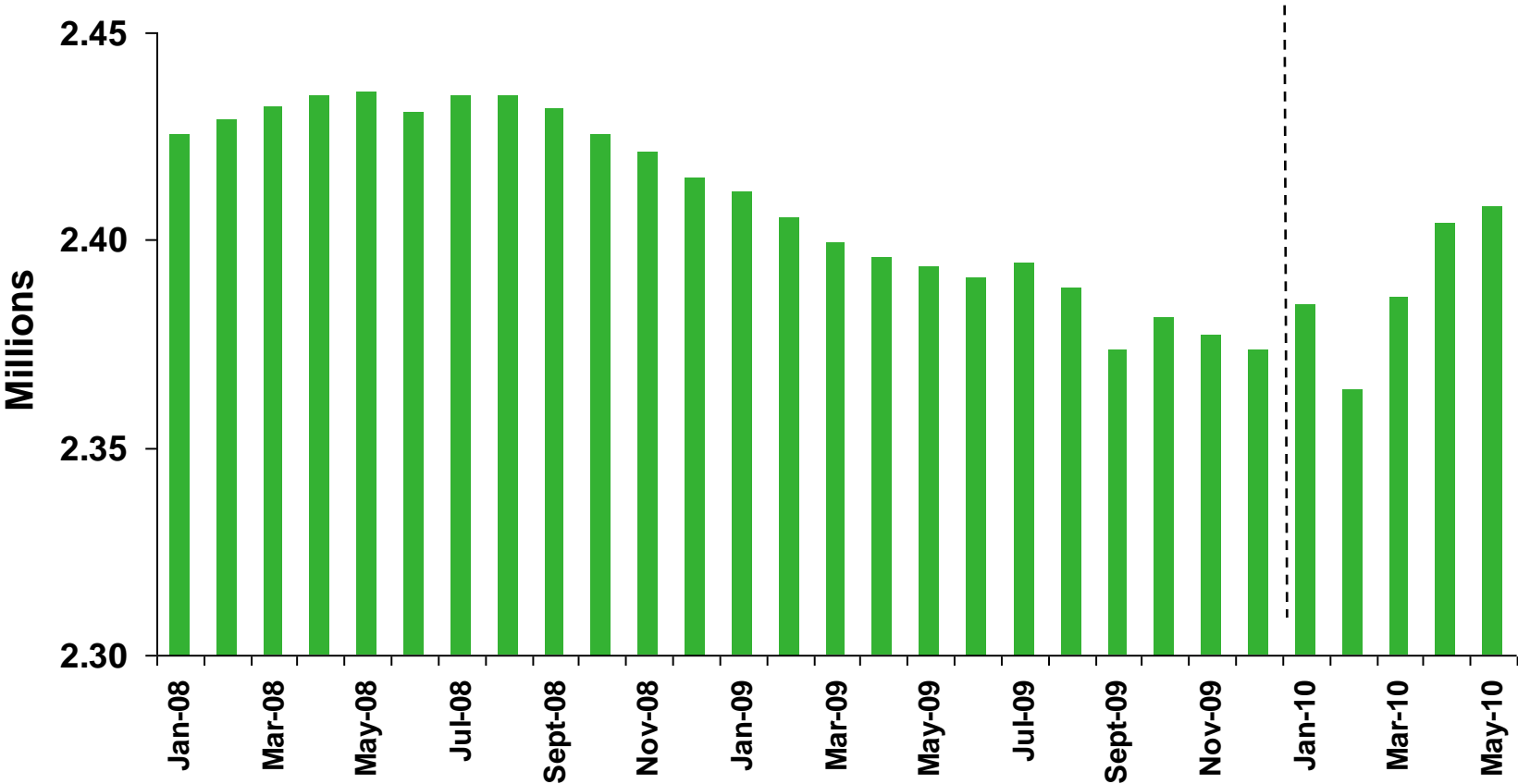
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# Step 6: Job Growth Improves

DC Metro, Total Non-farm Employment, SA



Source: Bureau of Labor Statistics

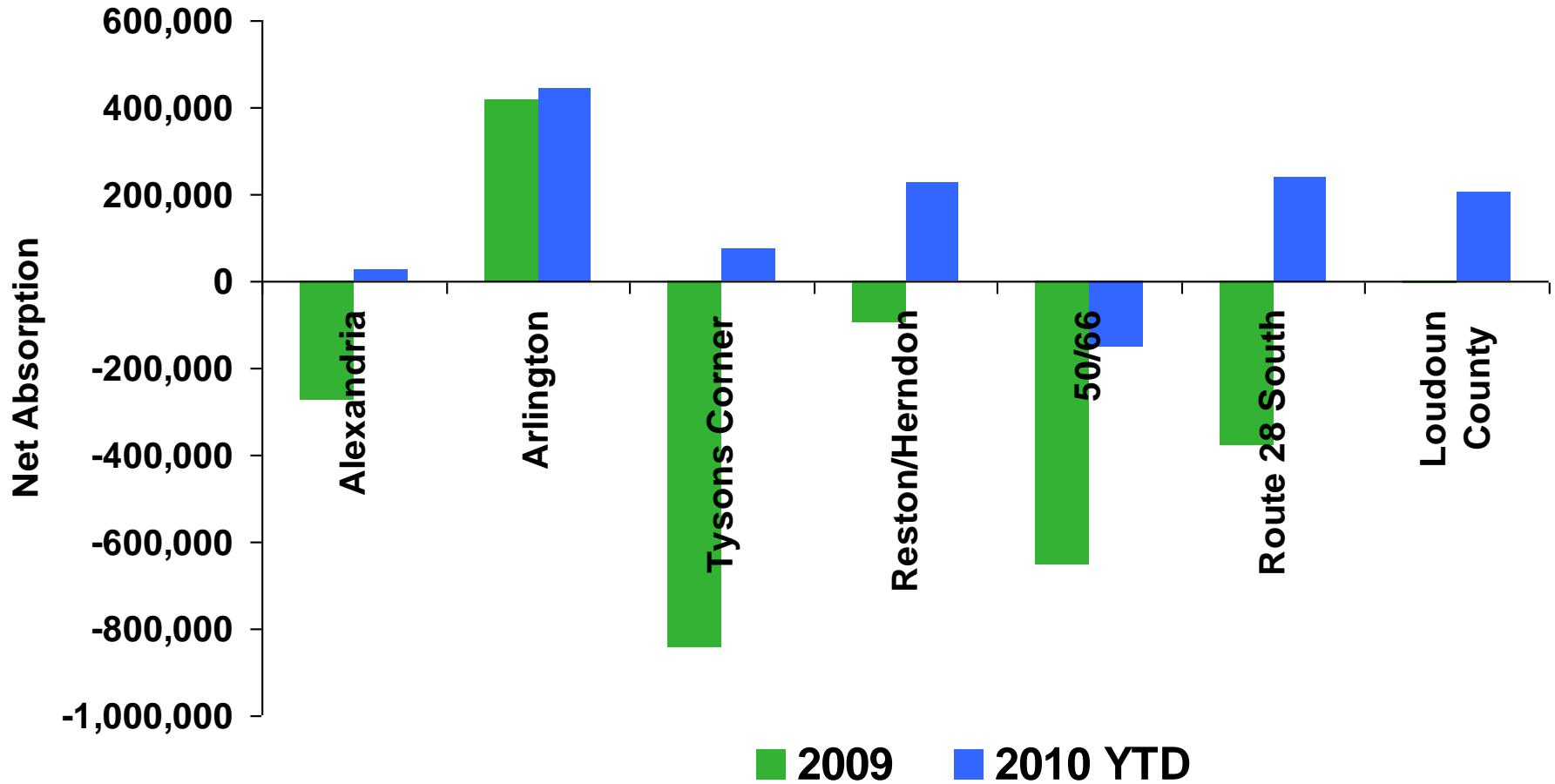
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# Positive Absorption – Most Major Markets

## Net Absorption by Nova submarket



# Past is Prologue - Leading Indicators

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# Construction Cost Comparison (Then vs. Now)

## 10 Steps to a Landlord's Market

Description	2007	2010
<b><u>Hard Costs</u></b>		
Doors, Glass	\$3	\$2.50
Millwork	\$4	\$3.50
Drywall & Ceilings	\$11	\$9
Carpet, VCT, Paint	\$7	\$6
MEP Systems	\$16	\$13
GC's and Fee	<u>\$4</u>	<u>\$2</u>
<b>Subtotal</b>	<b>\$45</b>	<b>\$36</b>
<b><u>Soft Costs</u></b>		
Peer Review / Permit Cost	\$1	\$1
A / E Design Costs	\$4	\$3.50
Full Services Project Management	\$3.50	\$3
Project Reimbursables	\$0.50	\$0.50
Project Contingency (10%)	<u>\$5</u>	<u>\$4</u>
<b>Subtotal</b>	<b>\$14</b>	<b>\$12</b>
<b>GRAND TOTAL</b>	<b>\$59 / psf</b>	<b>\$48 / psf</b>

**20% Cost Reduction**

# Past is Prologue - Leading Indicators

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# Office Vacancy

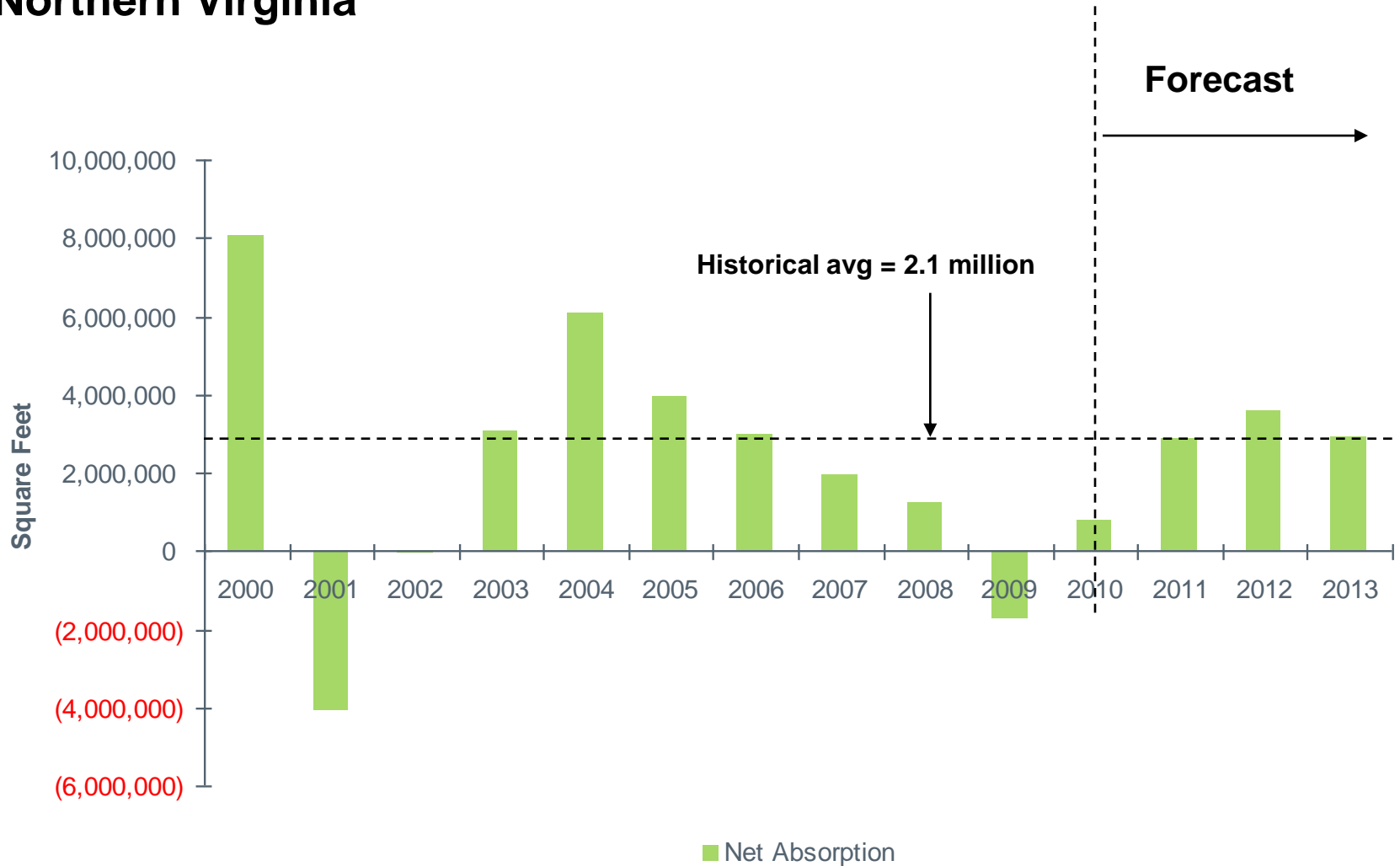
## Northern Virginia

Forecast



# Net Demand Forecast

## Northern Virginia





# Submarket Vacancy Below 10%

Submarket	Vacancy Rate:
Pentagon City	1.2%
Ballston	4.5%
Virginia Square	4.9%
Rosslyn	6.7%
Eisenhower	7.5%
Clarendon/Courthouse	9%
<b><i>Inside the Beltway</i></b>	<b>9.3%</b>

# Past is Prologue - Leading Indicators

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# Office Rents

## Markets with Rising Rents in 2010

- Rosslyn/Ballston
- Crystal City/Pentagon City
- Tysons Trophy & “The Hill”
- Reston Town Center
- Springfield
- All Metro locations (Alexandria)

## Pending Rent Increases

- Toll Road New Buildings
- Merrifield
- Oakton/Fairfax Center

# Reality Check

- Commodity space outside Beltway struggles
- 85 full floors available in Tysons
- 132 full floors available in Reston/Herndon
- NGA, Raytheon, Sprint, and BRAC pending vacancy
- Inside Beltway dynamics have not yet helped outside Beltway
- Depth of GSA and contractor demand?

# Predictions & Forecast

- 5% + rent growth Inside Beltway
- Speculative construction will start in next 12 months
- There will be “pre-lease or build-to-suit” signed in NOVA in next 12 months
- \$50 sf is the new \$60 sf (from shell)
- Some legislative Change (LEED, GAAP, Carried Interest, Capital Gains, etc.); material impact on industry
- Ownership Transfer
- Positive absorption will approach 2M SF
- Rents Rise Outside Beltway in 2011/2012

**Thank You**