



NAIOP Capital Markets 101

September 2016



The Myth – DC Metro Falling in Eyes of Investors

GATES HUDSON HAS EVOLVED
Q2 OFFICE SALES DROP MORE ON SENTIMENT THAN FUNDAMENTAL ISSUES, RESEARCHER SAYS

Jul 07, 2016 | Jon Banister, DC
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Figure 3: Investment Sales
 Millions (\$)

Washington office buildings, not just downtown any more

Microsoft Cloud
 lower the cost of borrowing by 90%.
[See the story](#)

Washington's sputtering office market has developers scrambling



Lackluster Performance Ensures Tenant-Favorable Conditions Will Persist in DC

Emery
 h Manager

office market has thus far failed to reach the heights of 2015's robust

D.C.'s \$6B real estate market sinks deeper in the eyes of foreign investors

Jan 6, 2015, 11:03am EST Updated Jan 6, 2015, 11:50am EST
 INDUSTRIES & IACS Banking & Financial Services, Commercial Real Estate

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Daniel J. Sornovitz
 Staff Reporter
 Washington Business Journal

Investment sales in the D.C. region came in at a robust \$6 billion in 2014, with banner deals such as the sale of PNC Place for in excess of \$1,000 per square foot. Much of the cash for those deals was fueled by foreign money.

And yet, by at least one measure, Washington's multibillion-dollar commercial real estate market lost its footing over the past year among the world's most coveted commercial real estate investment markets. In its 23rd annual survey, the Association of Foreign Investors in Real Estate revealed Washington slipped to last place among the five best U.S. markets in the eyes of foreign investors, trailing New York, San Francisco, Houston and Los Angeles, respectively. On the global front, the District dropped to the 15th slot, from 10th place last year.

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 D.C.-area investment sales hit \$6B in 2014 and break a major milestone
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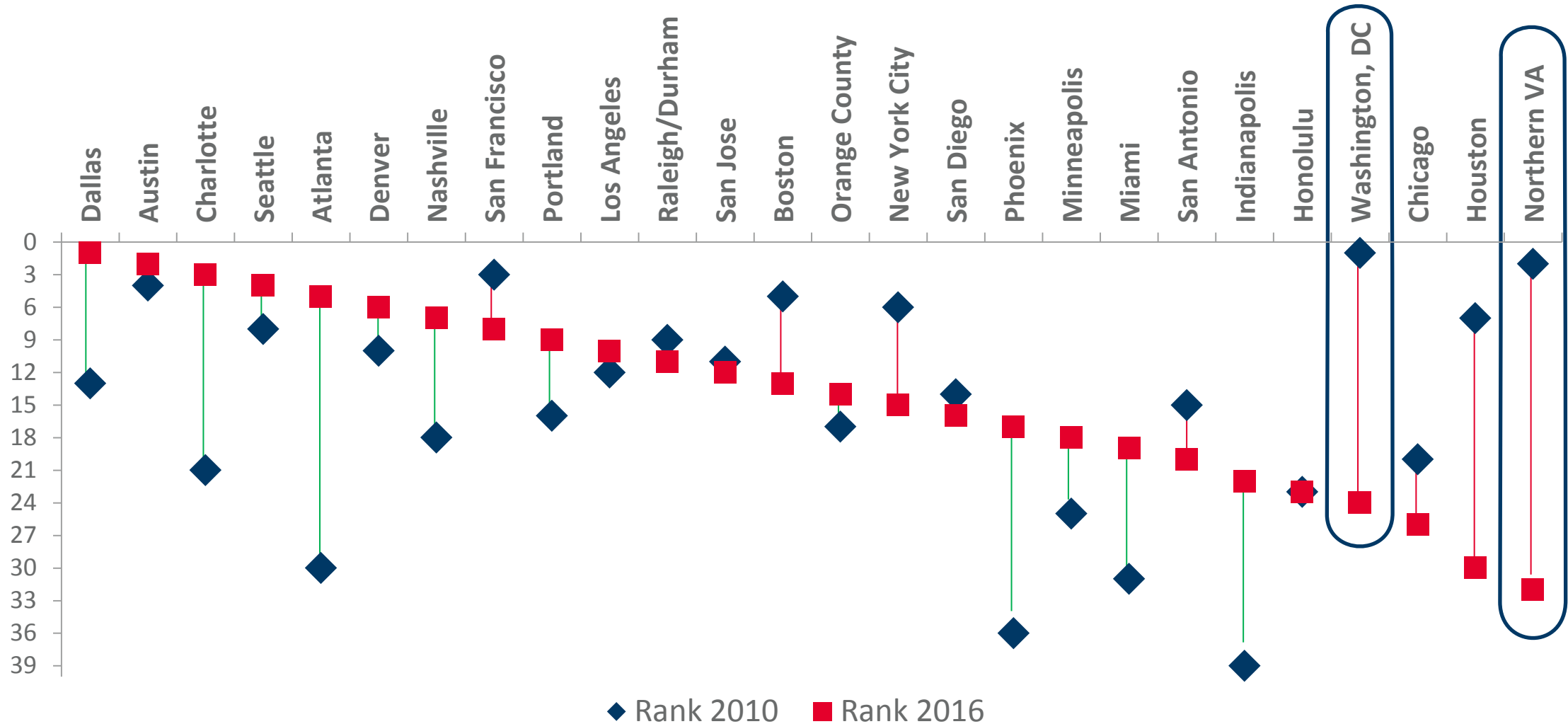
CONSTANT CONTACT



Norges Bank Investment Management of Norway teamed up with D&B & Co.

Market Outlook 2010 vs. 2016

PWC Overall Real Estate Prospects



...and then we have this...



Reality – US is Strong, DC Economy is Stronger



The New York Times

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Terror threat in Europe 'as high as it's ever been,' officials say

By Barbara Starr, CNN Pentagon Correspondent
Updated 2:43 PM ET, Wed February 3, 2016

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Middle East economies take hit from low oil prices

Posted by Associated Press Date: April 20, 2016

Auto loan rates as low as 1.79% APR for 36 months on new vehicles. [LEARN MORE](#)

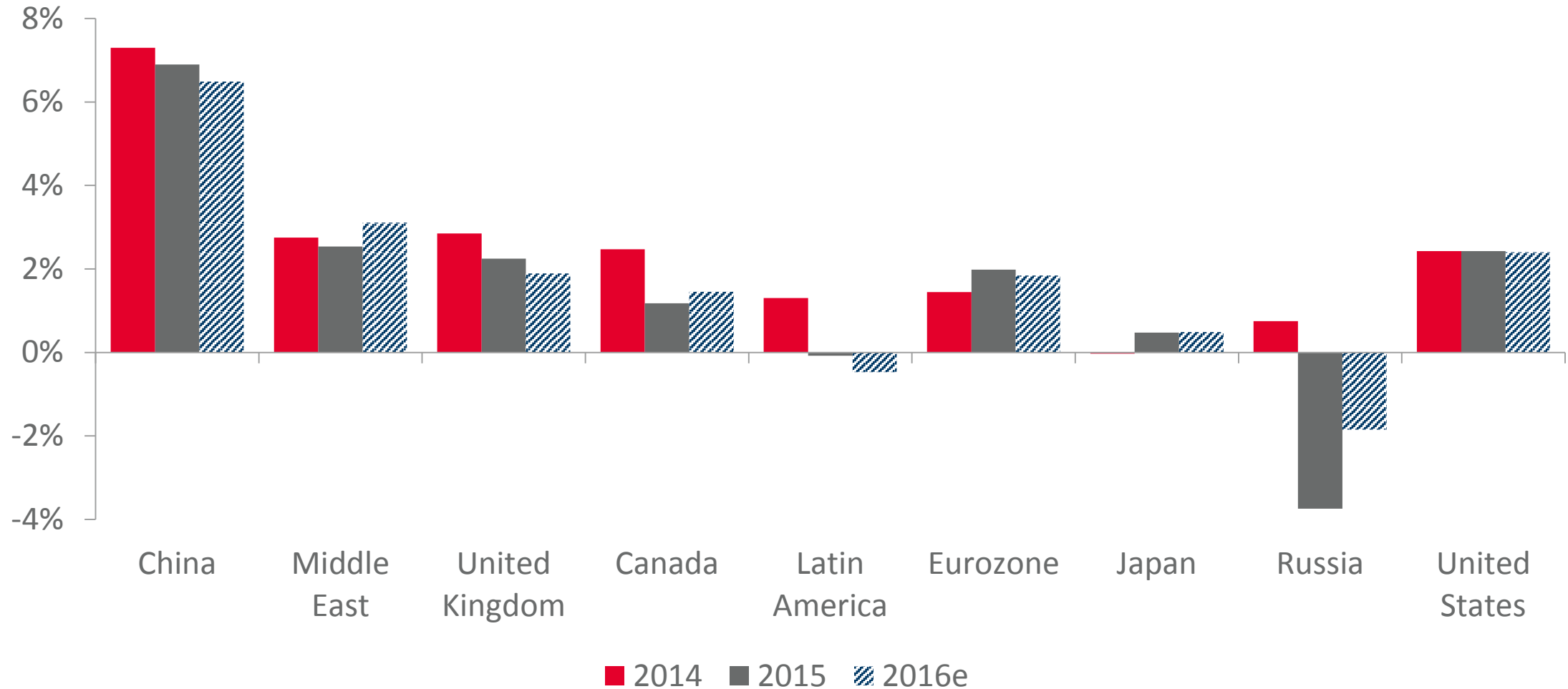
NAVY FEDERAL Credit Union Federally insured by NCUA.



Brazil crisis: Economy spirals deeper into recession

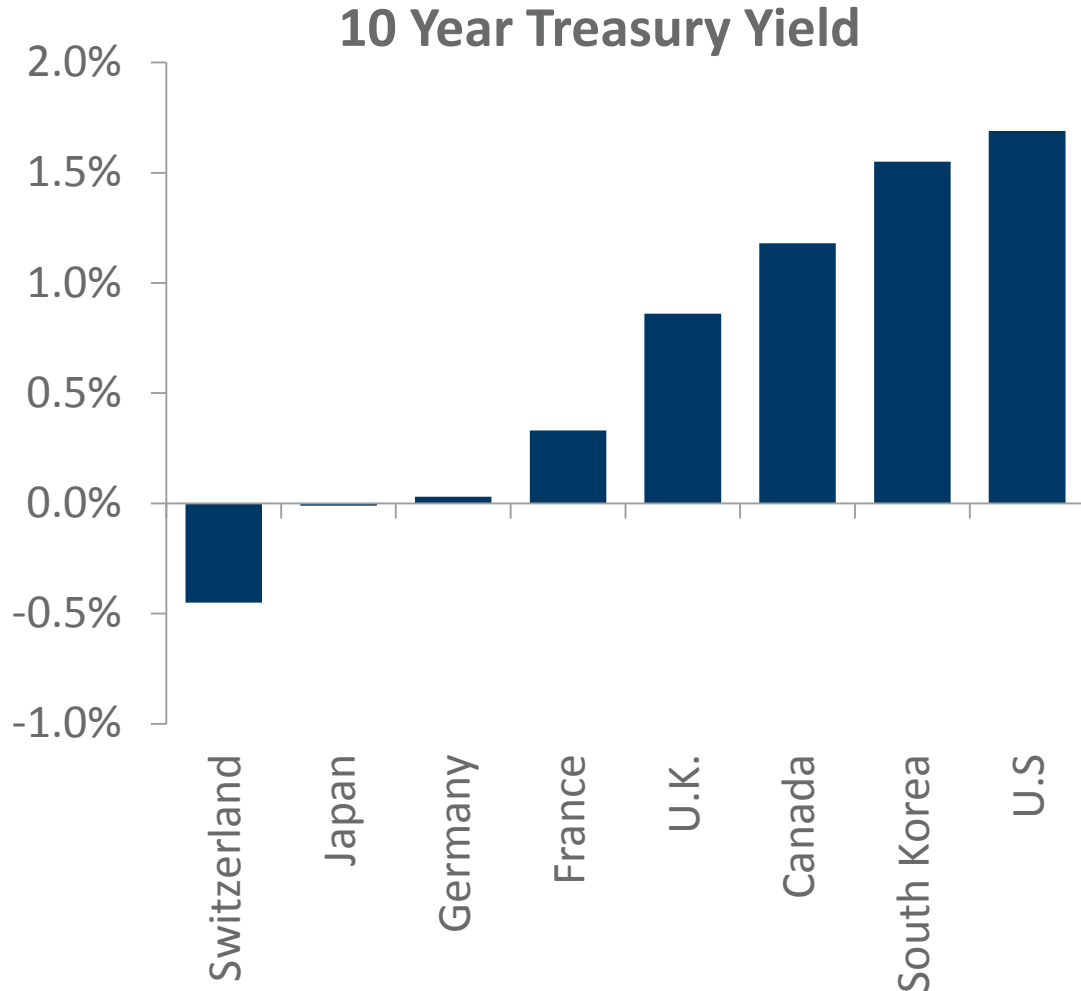
Global Slowdown

GDP Growth with Forecast , 2014-2016



Global Monetary Policy

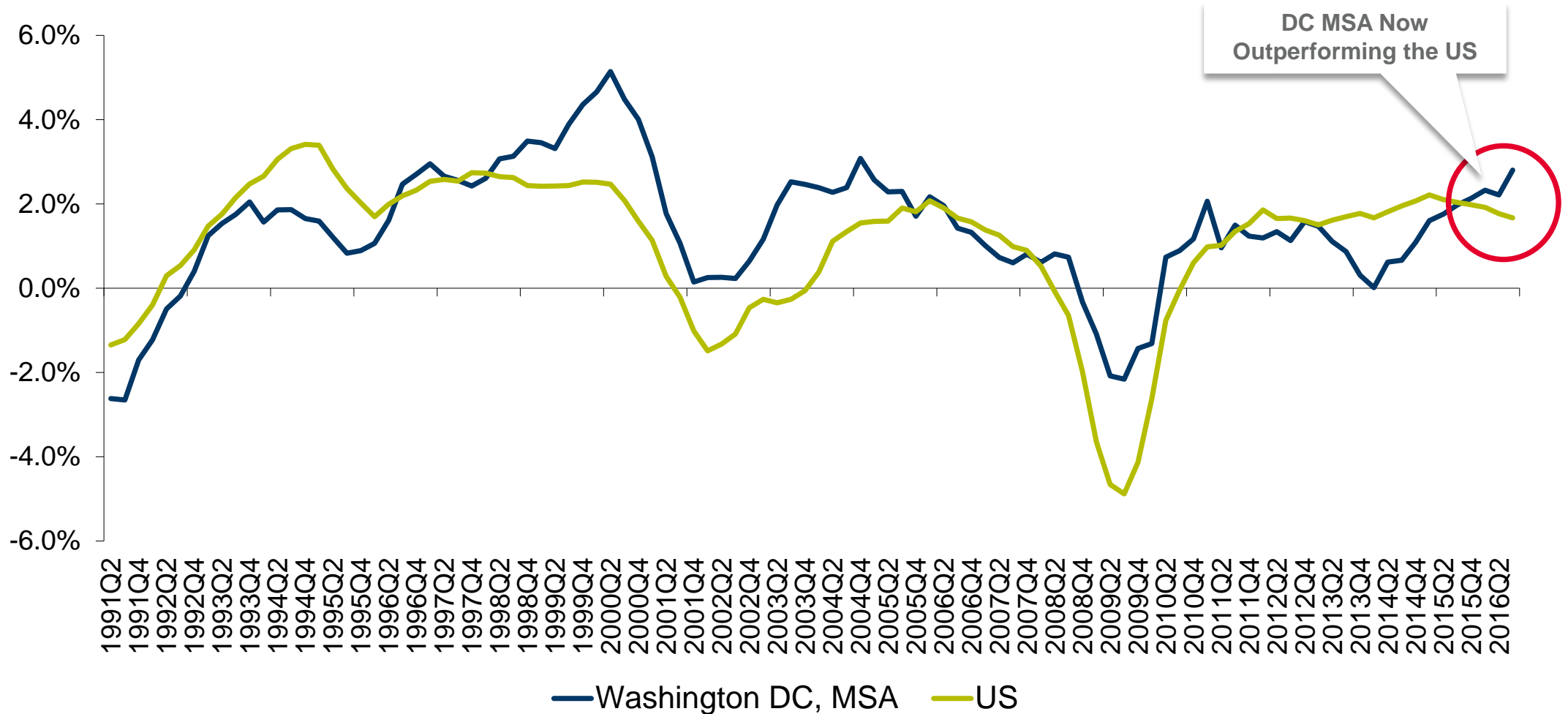
Central Banks Ease while U.S. Considers Tightening



- **Eurozone** ECB launching QE in March 2015, bond-buying \$60 Billion per month through March 2017; also dropped short-term rates to effectively 0%
- **Japan** BOJ launched new QE in October of 2014, swelling monetary base by \$670 billion per year; introduced negative interest rate on new excess reserves
- **China** PBOC cut interest rates from 4.6% to 4.35% in October 2015 – has continued to inject Yuan thru liquidity facilities
- **Australia** cut interest rates in May to record low of 2%
- **India** Central bank reduced its main rate by half a percentage point in October 2015 – citing economy is “far from robust”

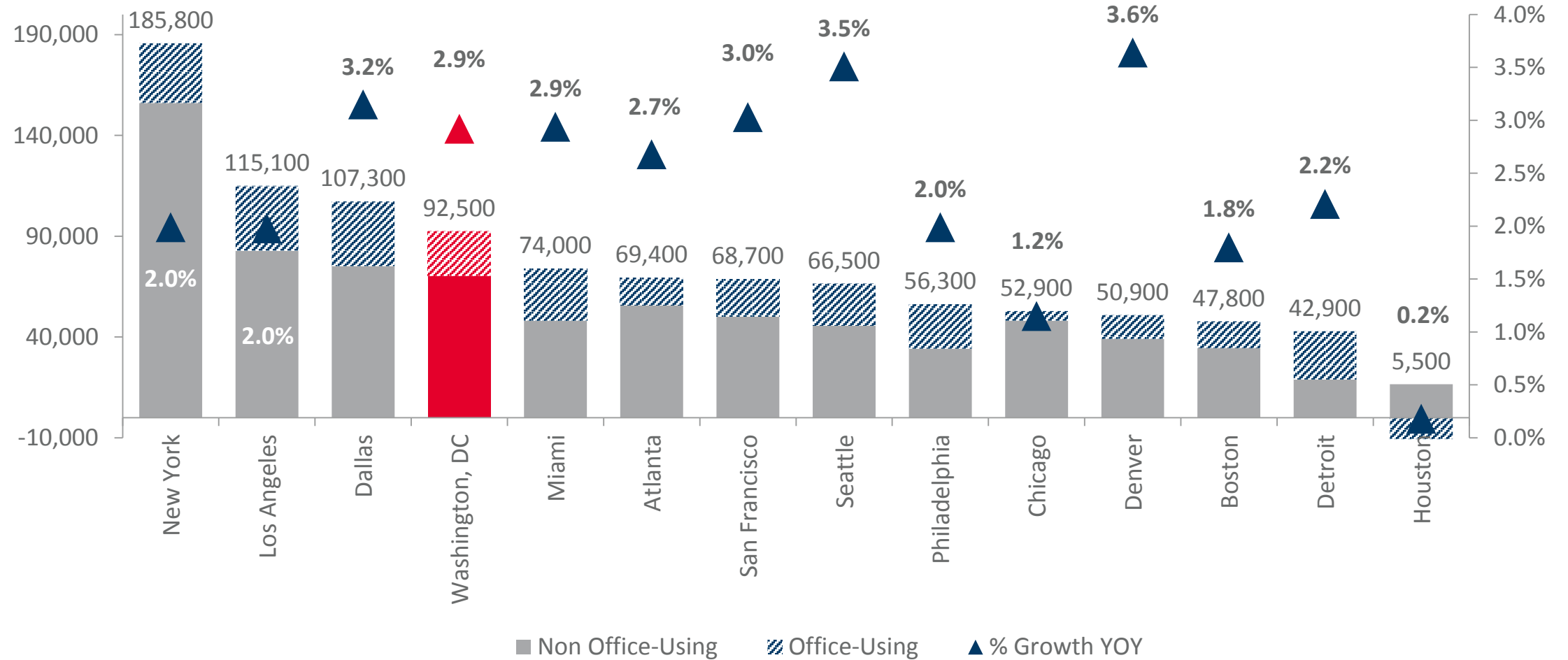
DC Metro Employment

% Growth YOY



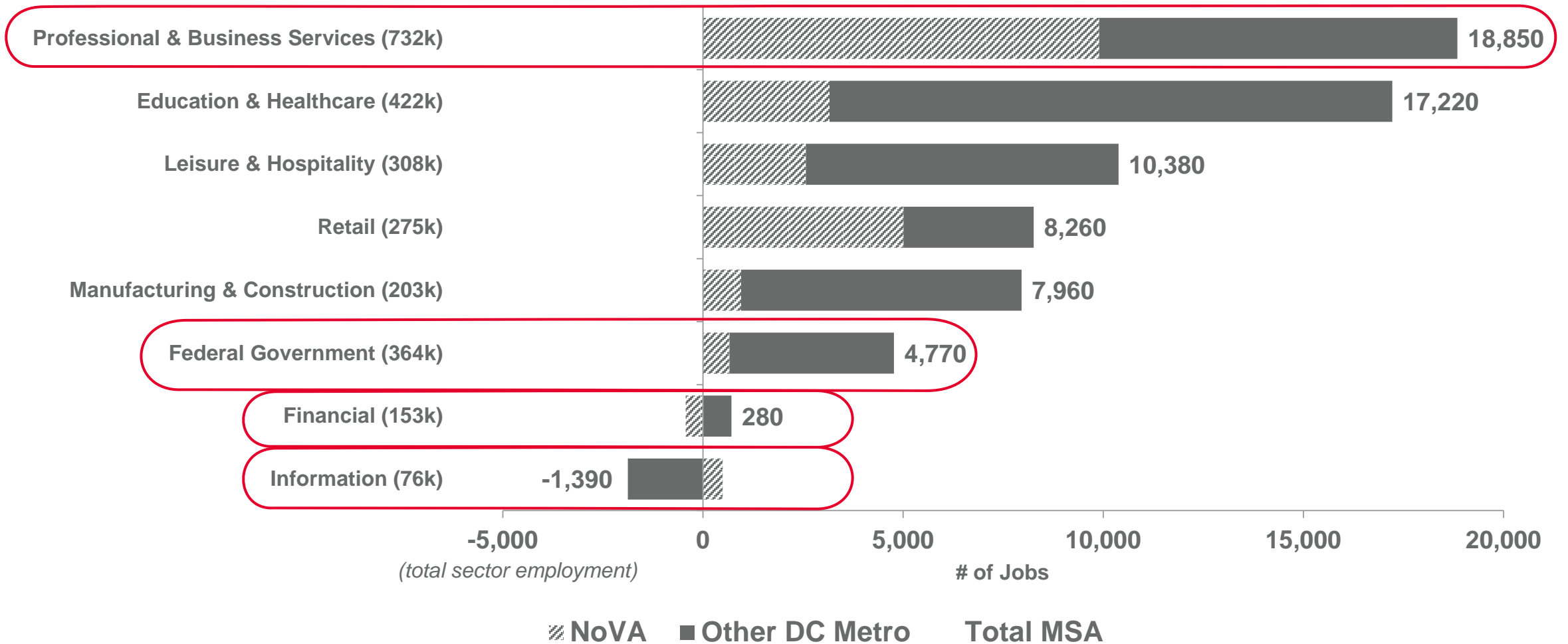
Job Growth in Major Markets

July 2016 YOY



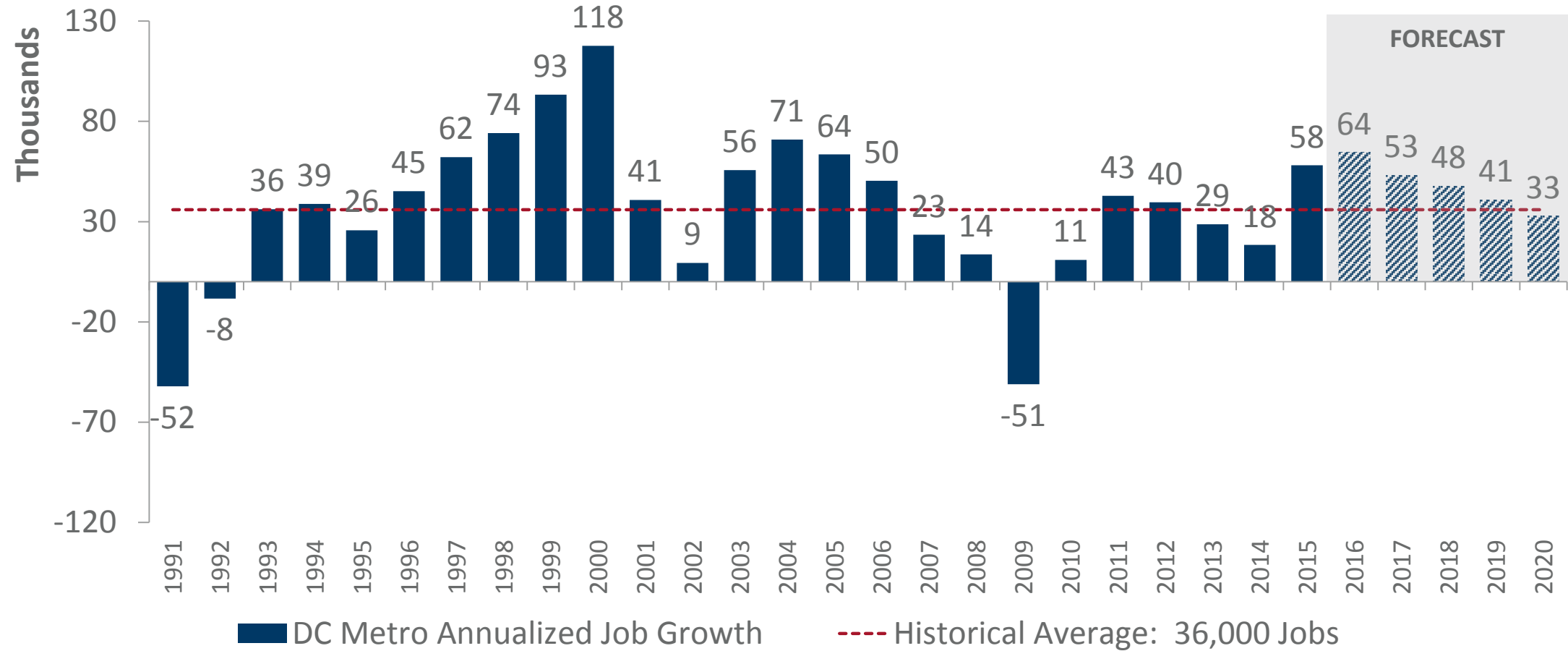
Employment by Sector

DC Metro with NoVA Breakout, July 2016 YOY

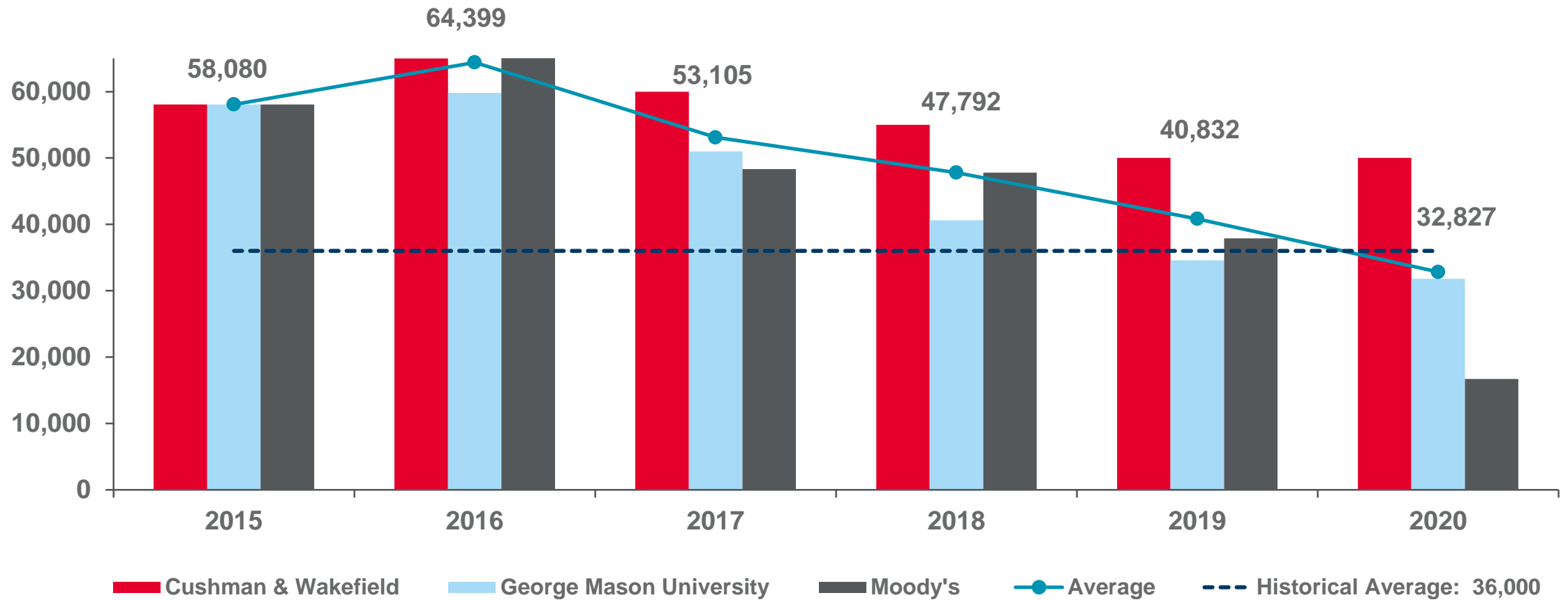


Historical, Current and Projected Job Growth

DC Metro Annualized Job Growth

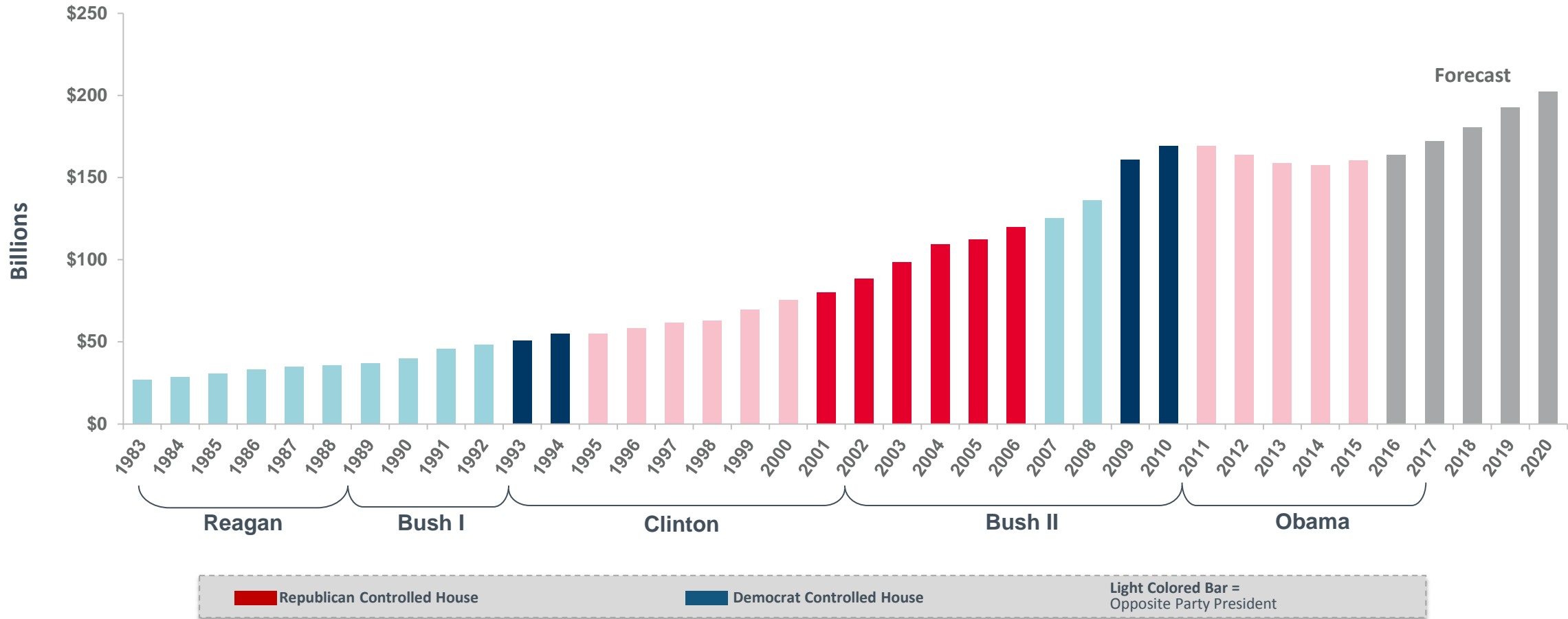


Job Growth Forecast



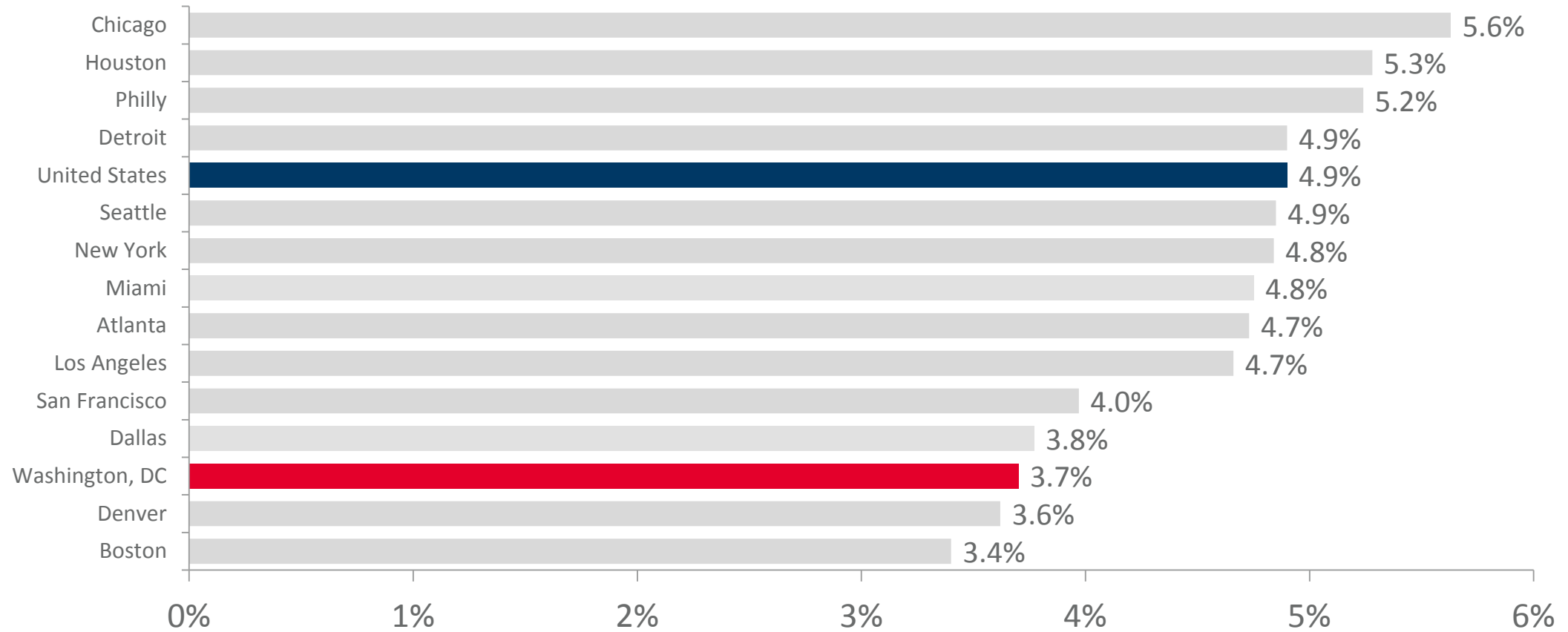
Federal Spending In The DC Region

The Party Doesn't Matter



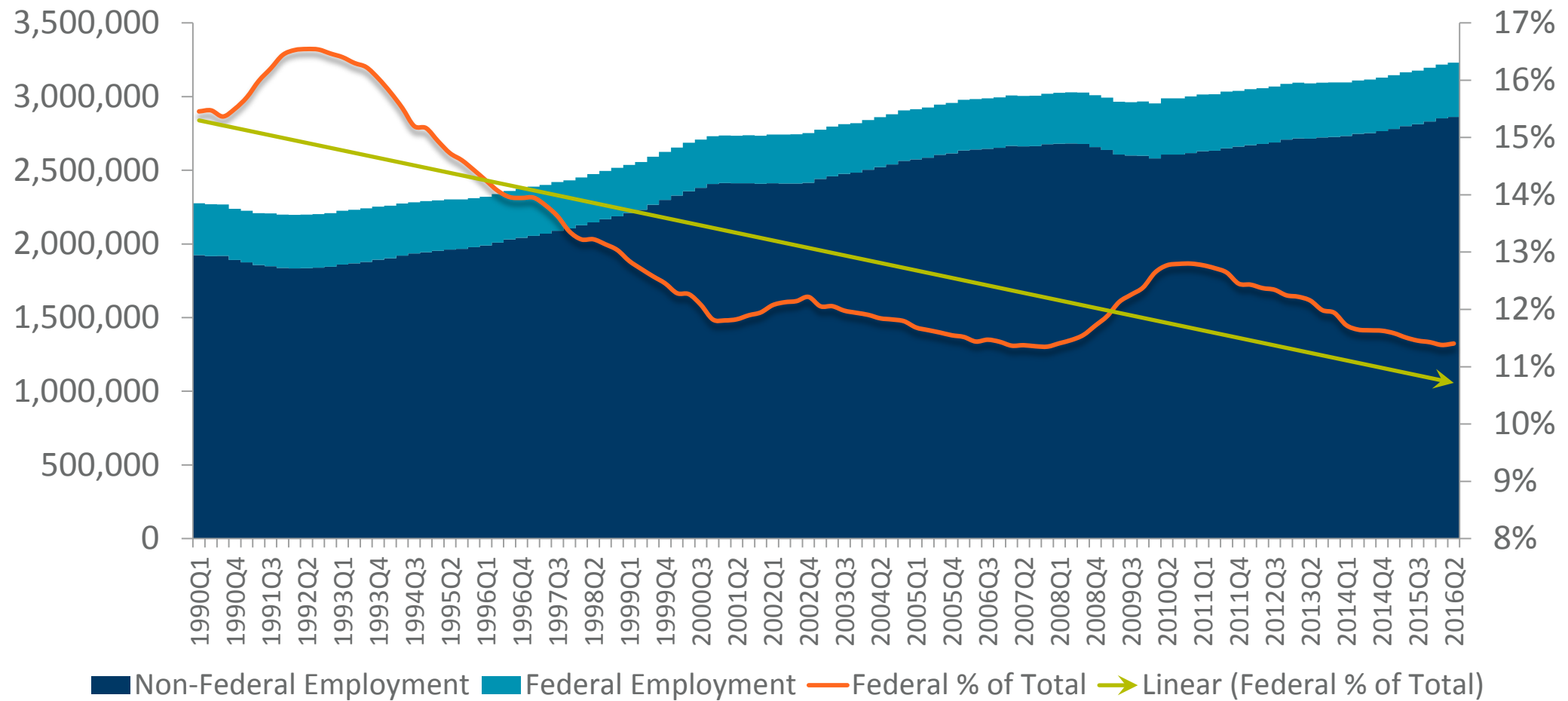
DC Metro Unemployment Rate

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



Federal % of Total Employment is Shrinking

DC Metro Federal Government as a Percentage of Total Employment



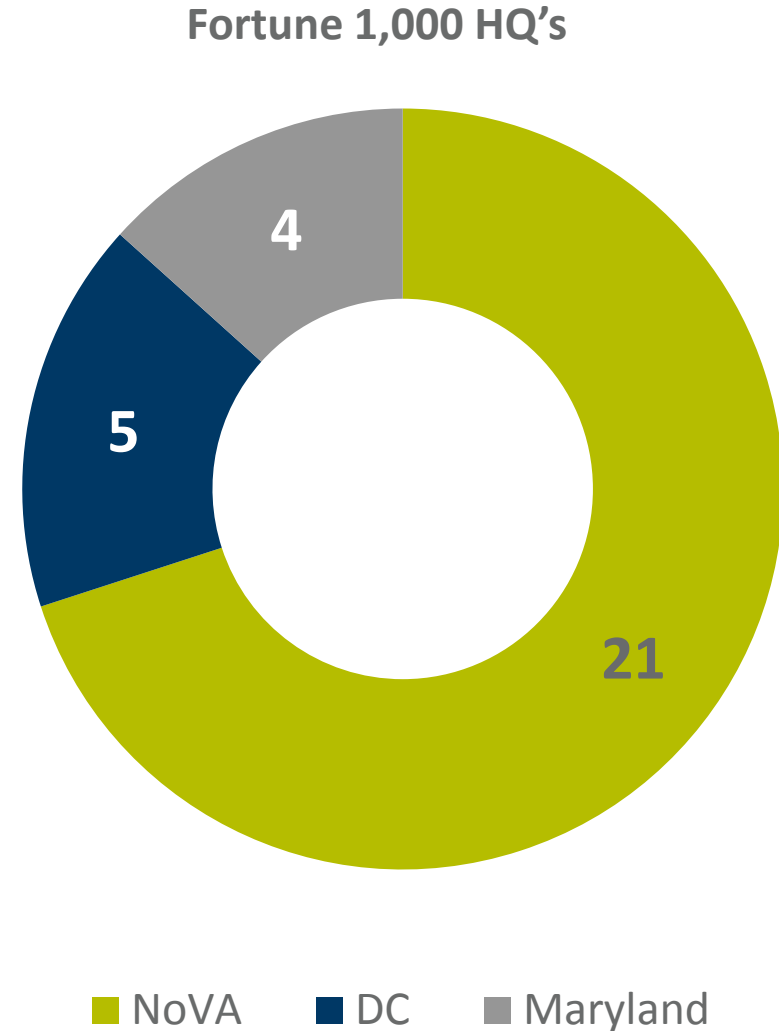
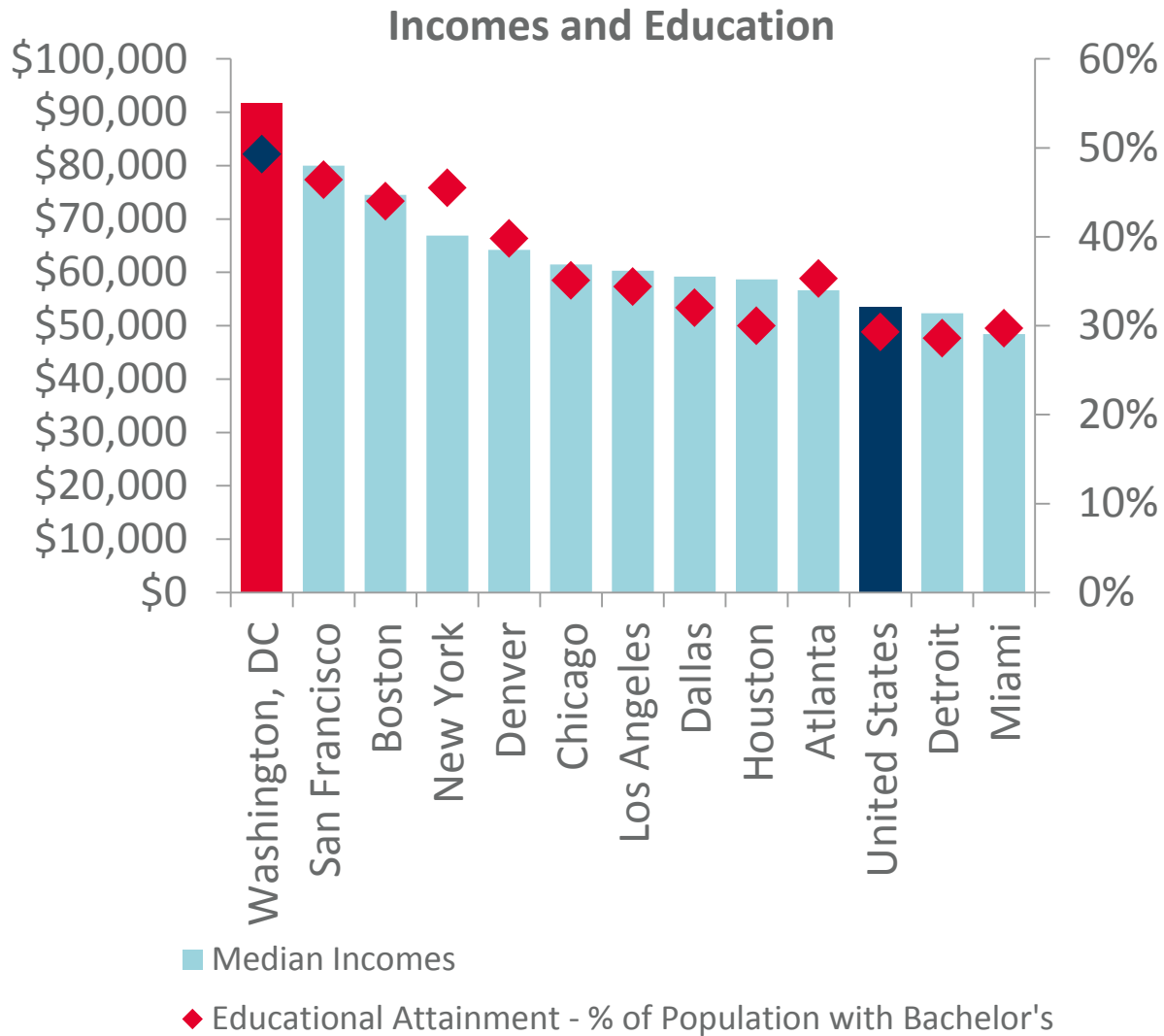
DC Metro Population

540,000 new people from 2009-2015



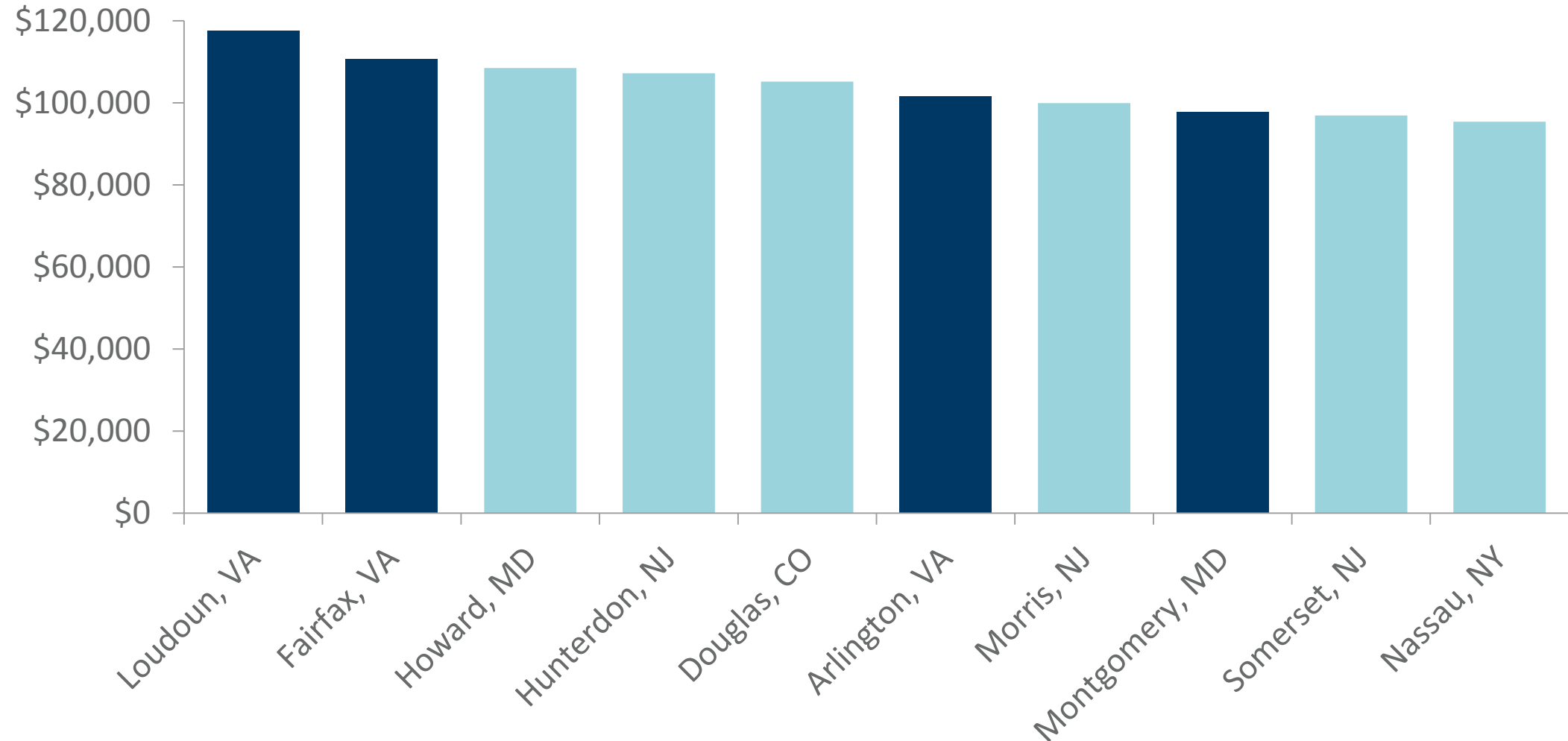
DC Metro Economic Indicators

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



Wealthiest Counties in the U.S.

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

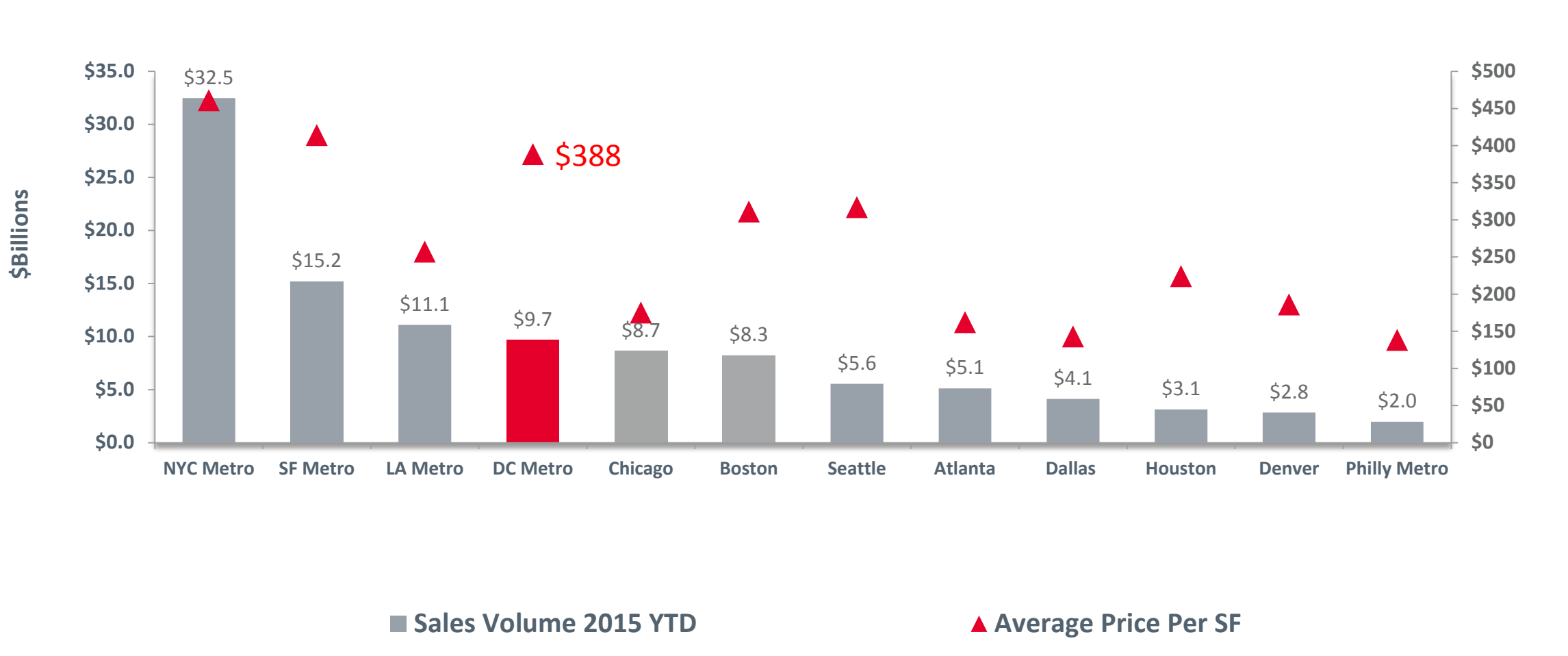




Capital Markets – DC Metro Office Trends

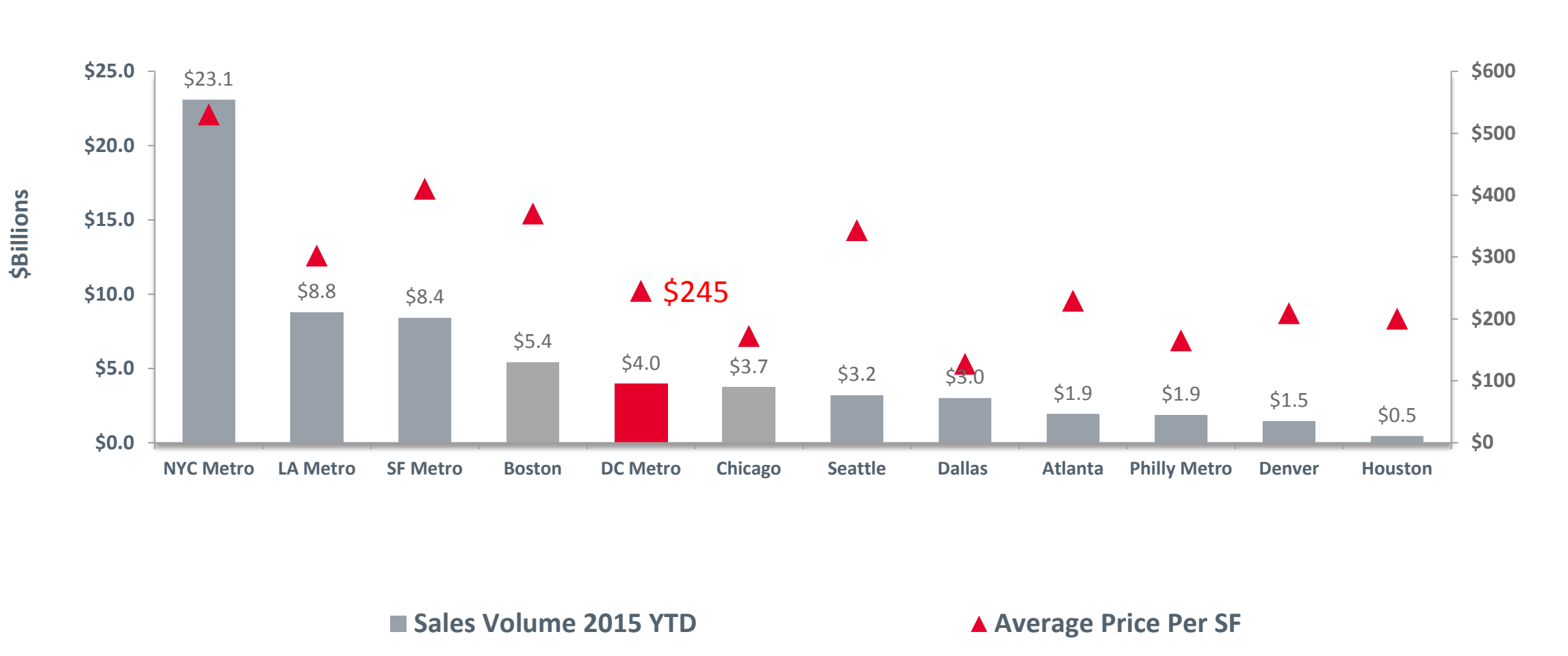
Office Sales Volume 2015

Among Major Metros



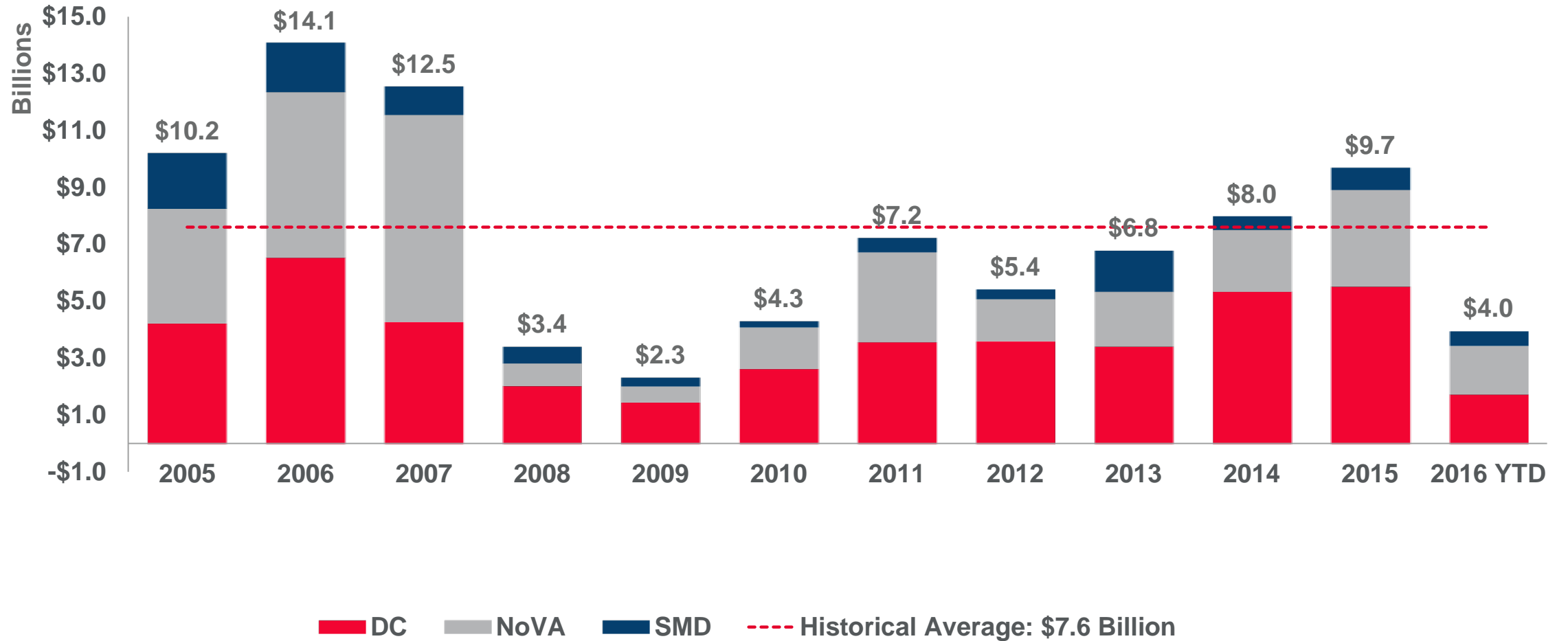
Office Sales Volume YTD 2016

Among Major Metros



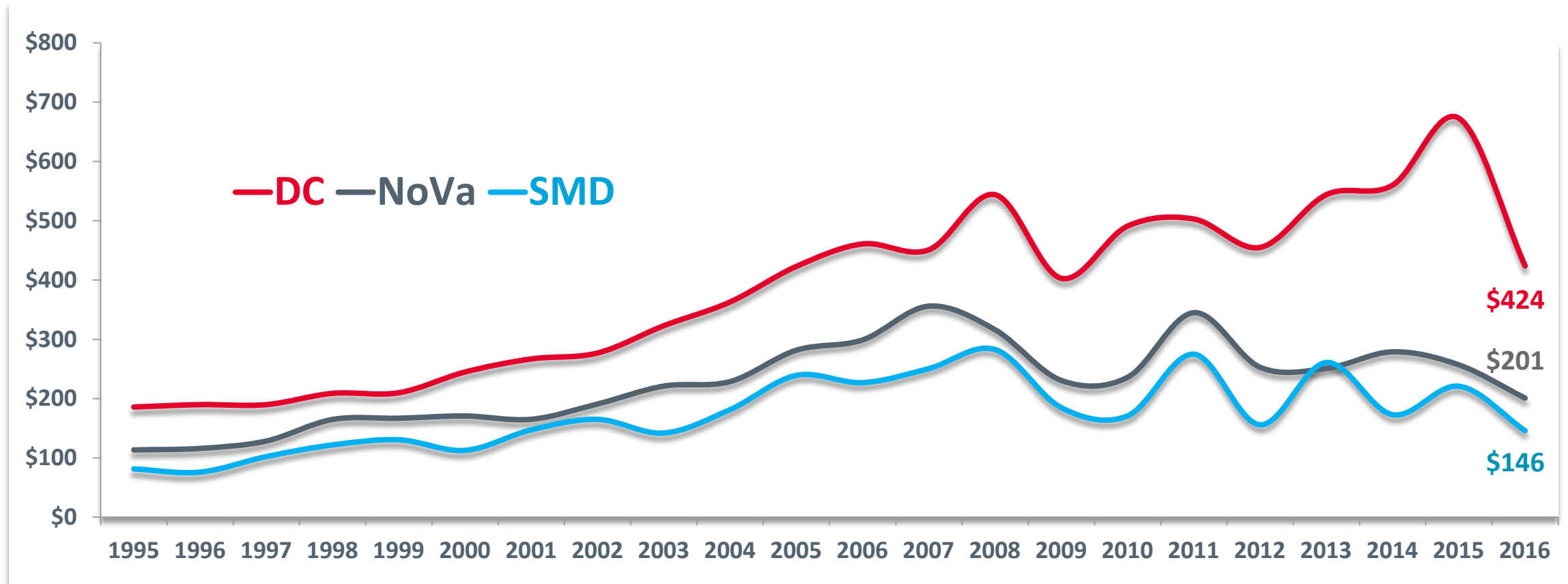
Office Investment Sales Volume

Washington DC Metro



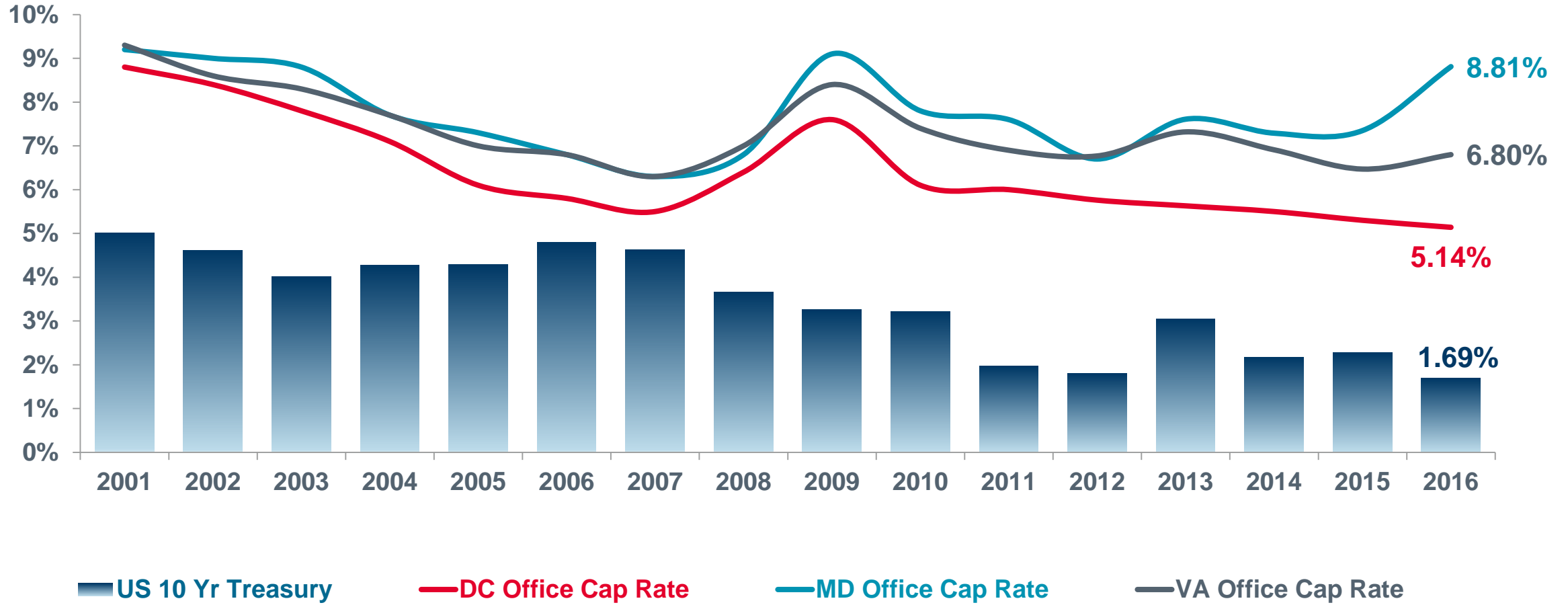
Office Pricing

\$/square foot

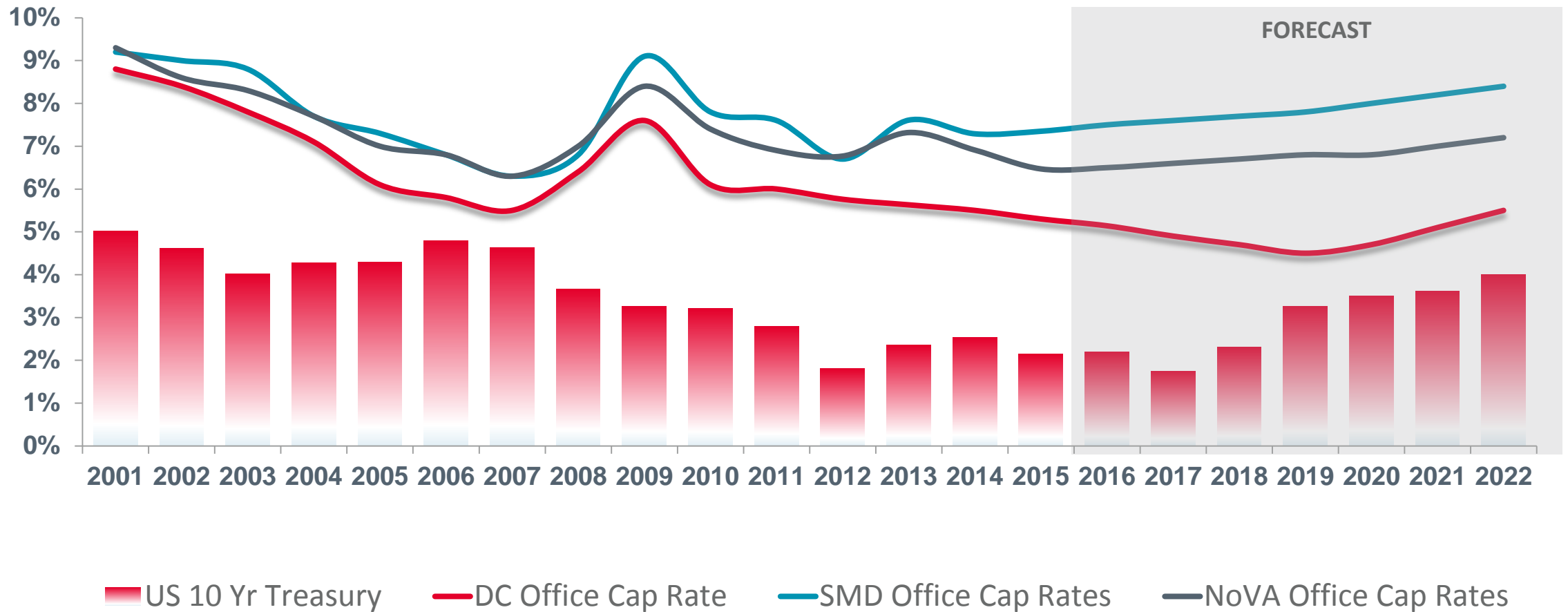


Office Cap Rates

Washington, DC Metro Area, all classes



Historical and Projected Interest and Cap Rates



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%

Tysons

Class A	5.75-6.75%
Class B	6.75-8.00%

R/B Corridor

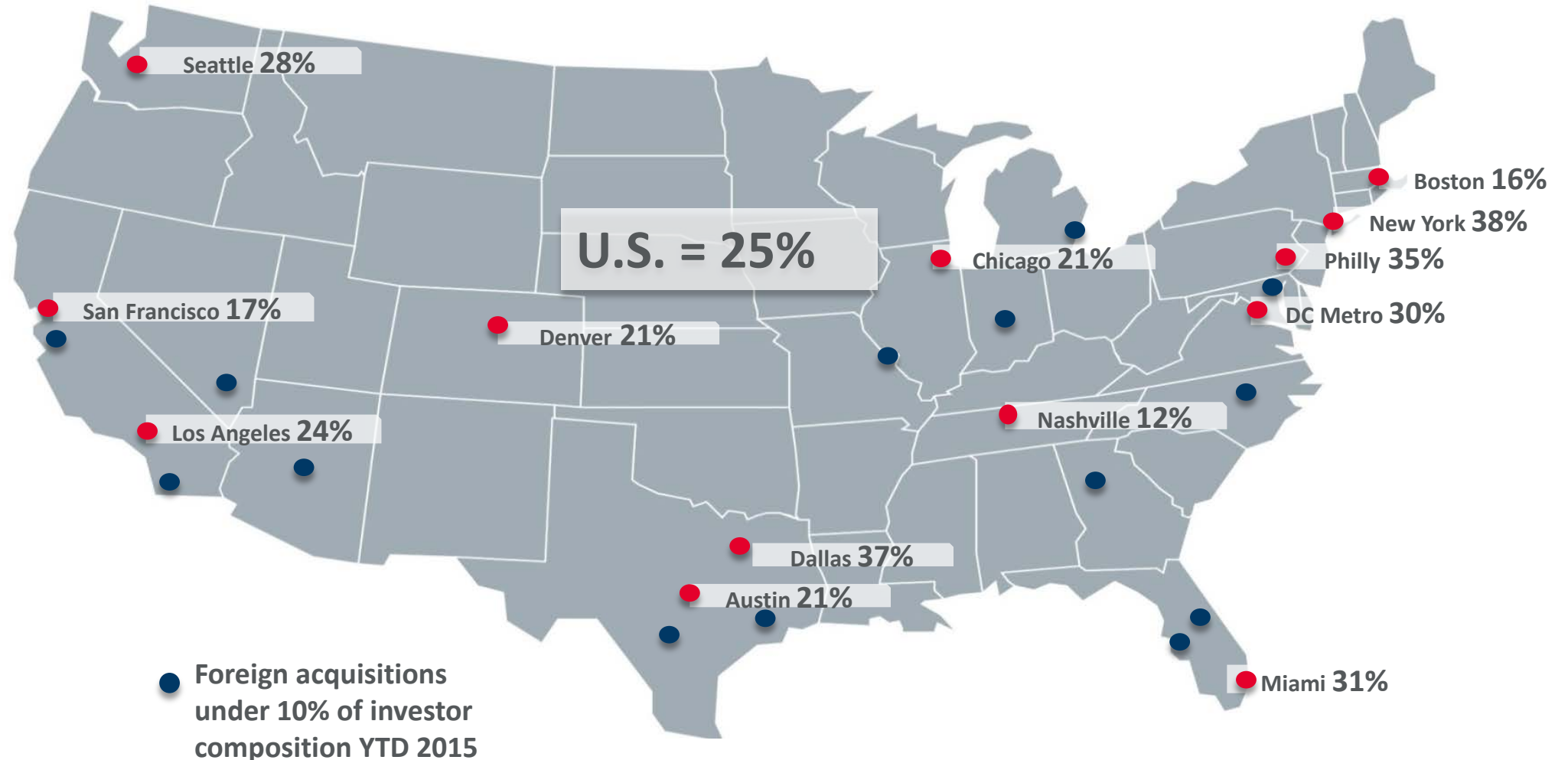
Class A	5.00-5.75%
Class B	5.75-6.50%

Alexandria

Class A	5.75-6.25%
Class B	6.50-7.25%

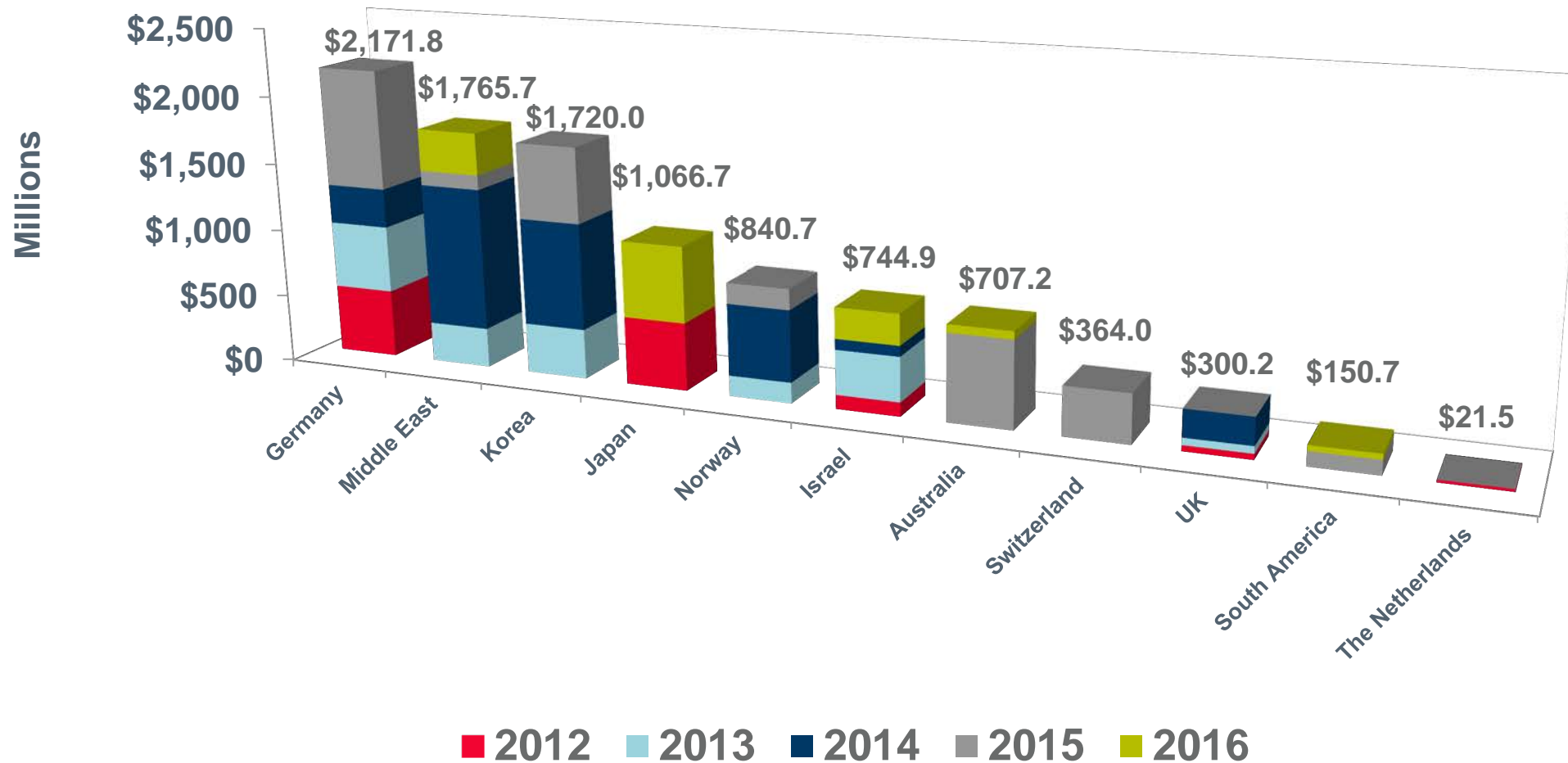
Where Foreign Buyers Are Most Active

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



Foreign Investment in DC Metro Office

By Country, DC Metro 2012-2015

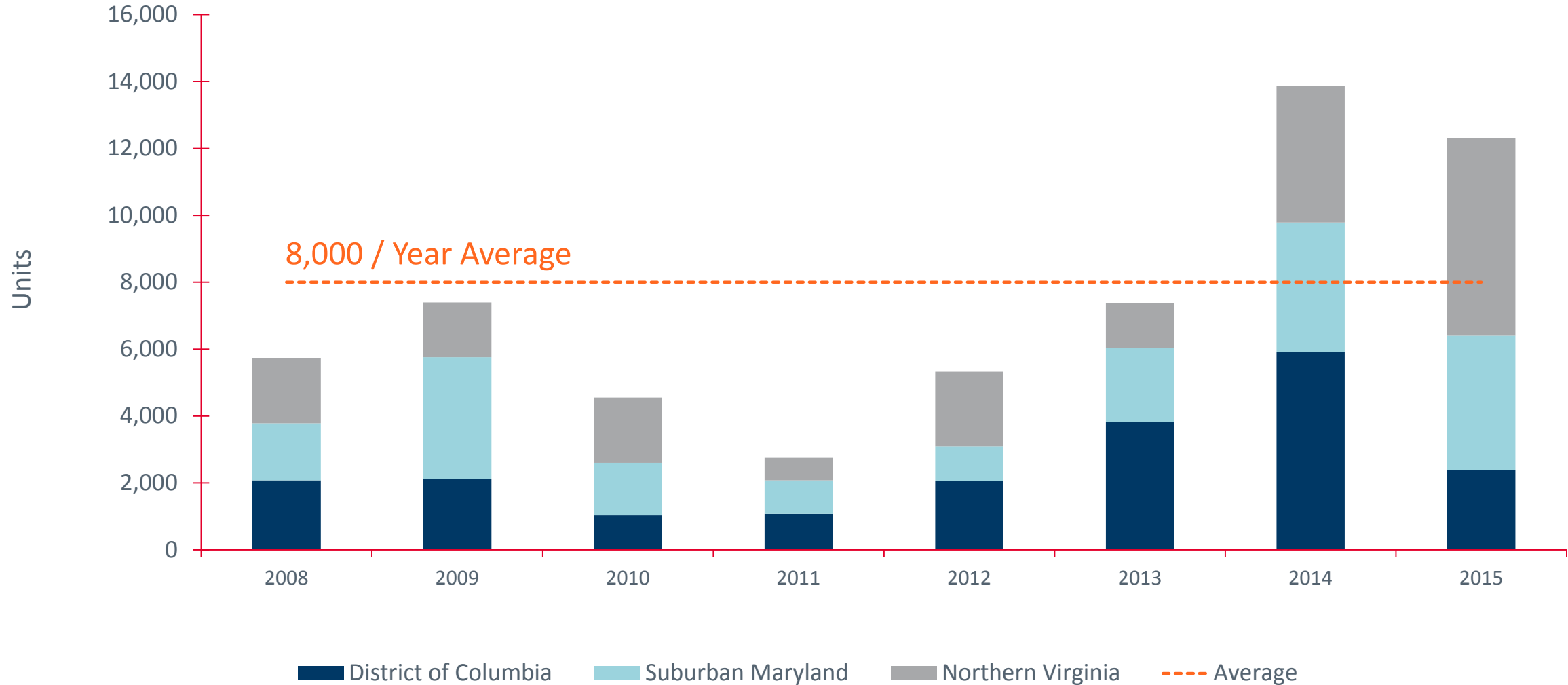


The image features a low-angle, upward-looking shot of a modern building's exterior. The architecture is characterized by clean lines and a grid-like pattern of panels. A prominent red geometric shape, resembling a stylized arrow or a series of overlapping planes, is superimposed on the left side of the frame. The text 'The Multifamily Market' is written in white, sans-serif font within this red area. The background shows the building's facade receding into the distance under a bright sky, with some mechanical details like pipes and railings visible on the right side.

The Multifamily Market

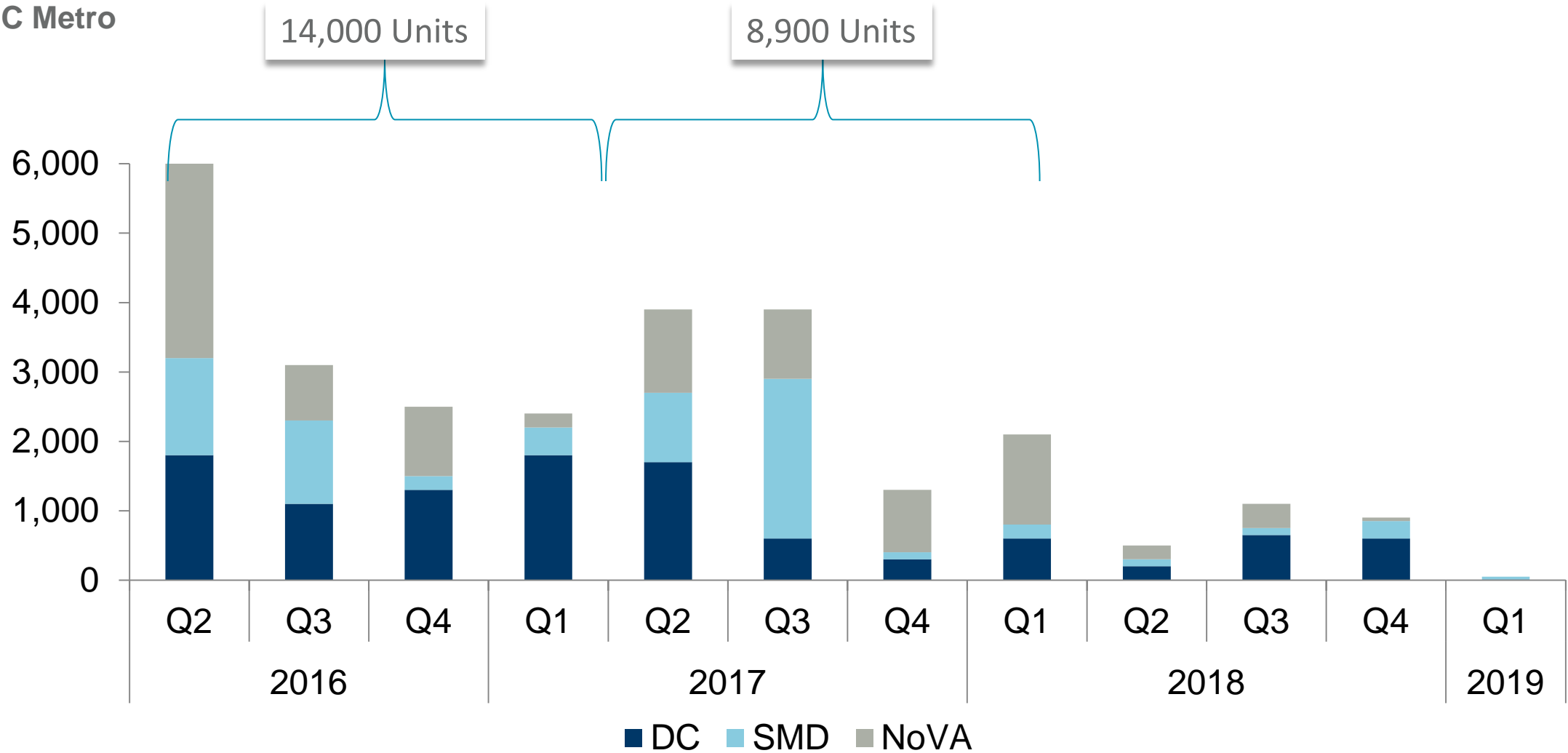
Historical Completions by Market

DC Metro



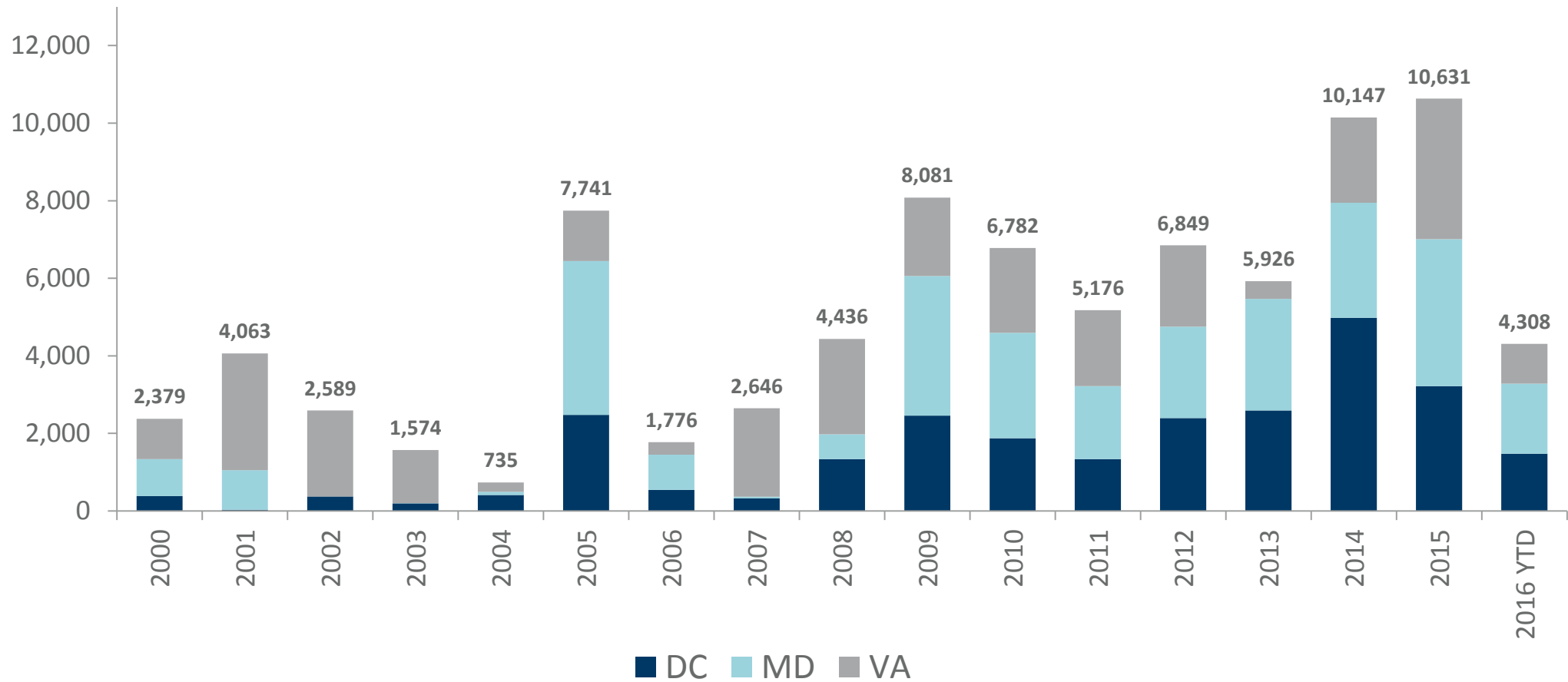
Forecasted Deliveries

DC Metro



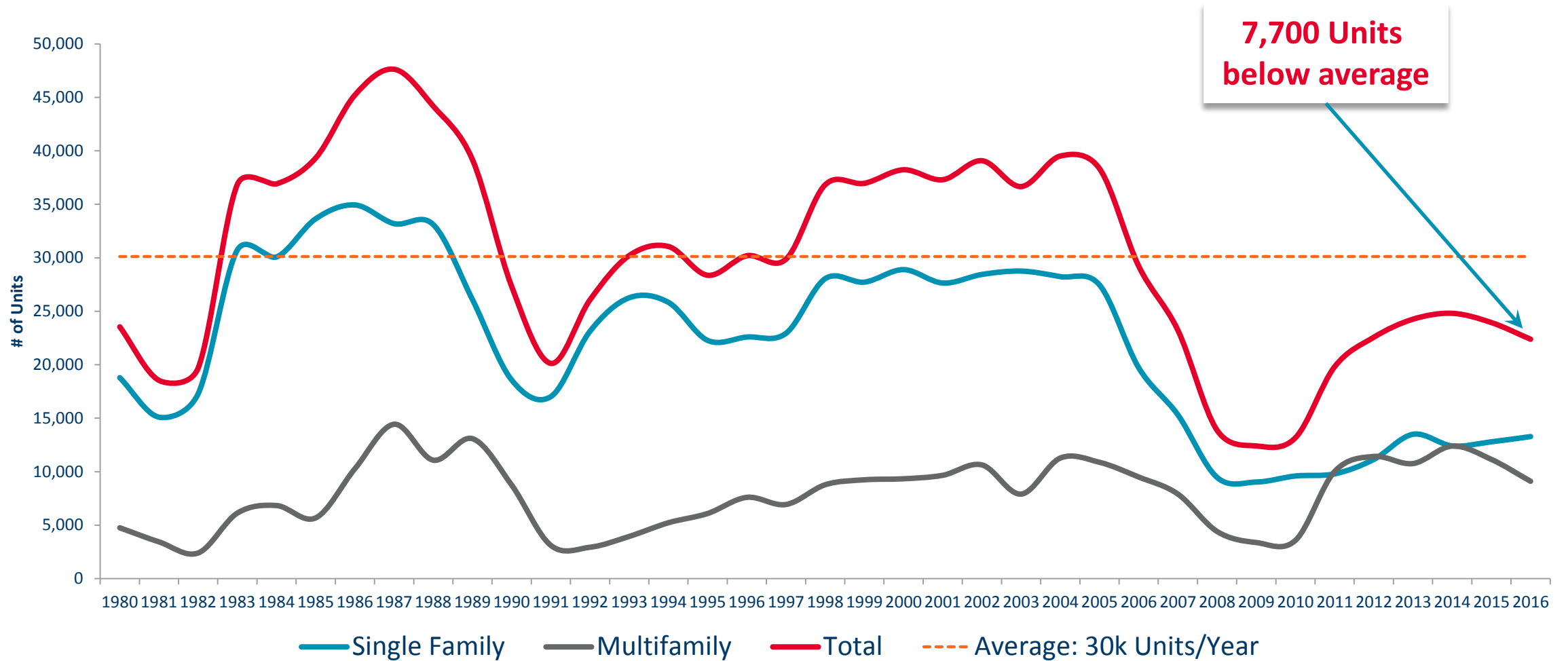
Multifamily Absorption

DC Metro



Housing Permits

Single Family vs. Multifamily



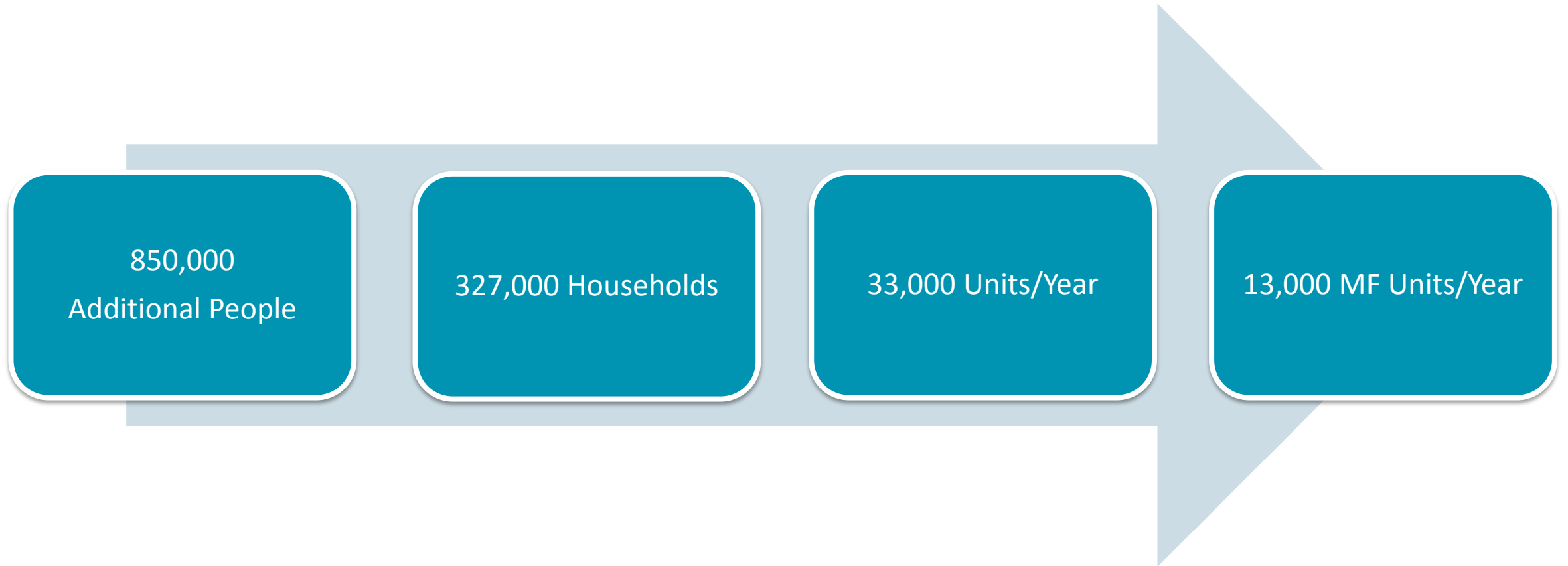
Multifamily – Washington Metro Area

Multifamily	2010	2011	2012	2013	2014	2015	2016 YTD
Total Volume	\$3.26 Billion	\$4.91 Billion	\$5.74 Billion	\$8.65 Billion*	\$3.96 Billion	\$8.31 Billion**	\$2.42 Billion
# of Transactions	57	91	101	123	73	129	43
Average of Price/Unit	\$223k	\$190k	\$193k	\$271k	\$185k	\$200k	\$208k
Average Cap Rate		5.66%	5.54%	5.16%	5.25%	5.60%	5.60%
DC		4.50%	4.77%	4.54%	5.60%	5.00%	5.70%
Nova		5.57%	5.60%	5.12%	5.40%	5.40%	5.00%
Maryland		6.15%	6.23%	5.83%	6.89%	6.10%	5.50%

*Inclusive of the Archstone portfolio sale

**Inclusive of the Home Properties, Associate Estates, Gables Residential privatizations / portfolio transactions

By 2026...



Thanks