

NAIOP
MID-YEAR
FORECAST PANEL

JULY 18, 2019

PANELISTS



JIM BOGNET
President & CEO
Bognet Construction



MICHAEL BURKE
Vice President of
Real Estate & Development
Convener



MATT NICHOLSON
Senior Director
HFF/JLL



JUNIUS TILLERY
Executive Managing Director
Newmark Knight Frank

MODERATOR



SPENCER STOUFFER
Executive Vice President
& Chief Leasing Officer
Carr Properties

CARR PROPERTIES SNAPSHOT





CARR PROPERTIES **COMPANY SNAPSHOT**

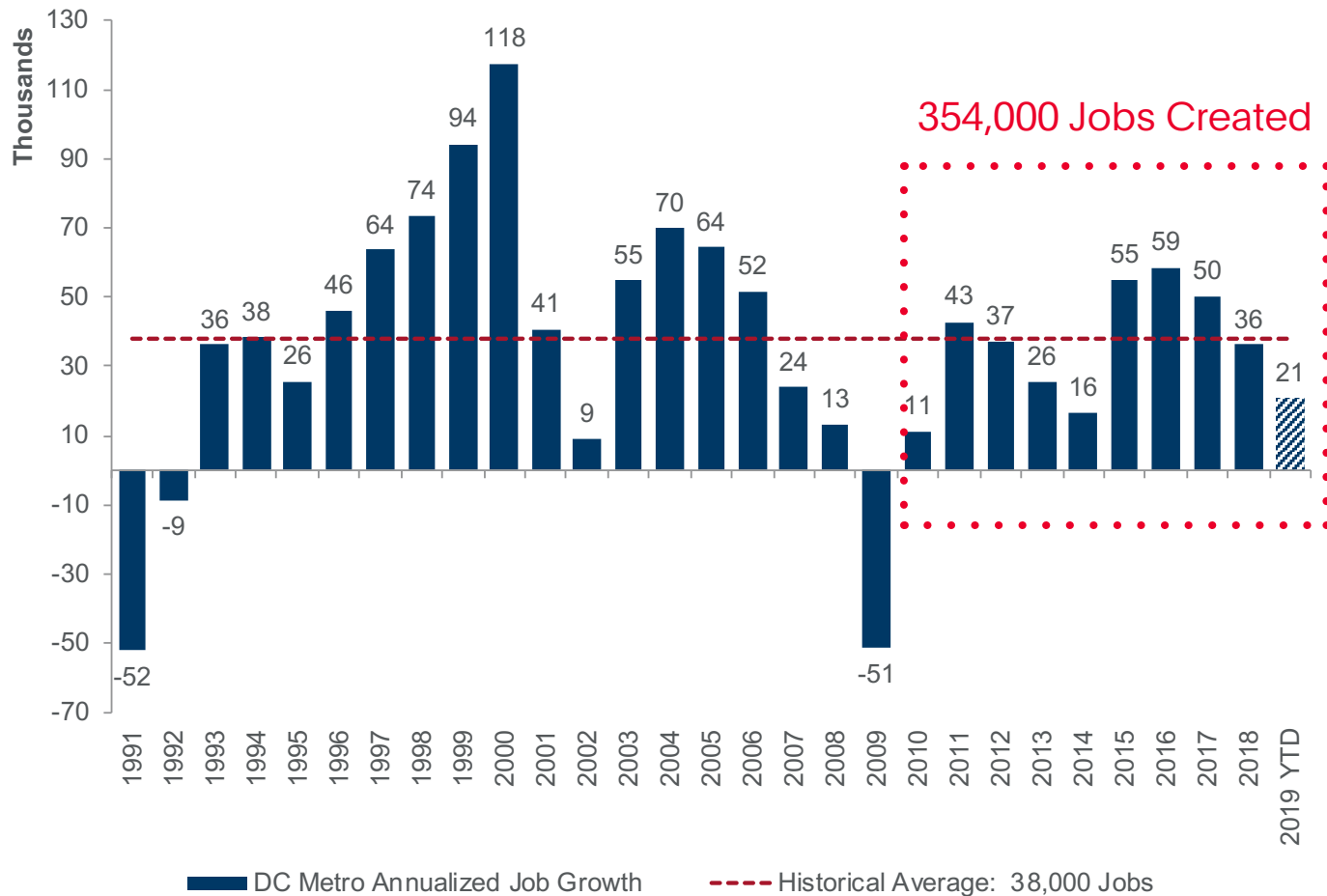
- 17 operating properties
- 4.0 million square feet
- 95% leased
- Four development projects
- 82% Midatlantic/18% Boston

NOVA OFFICE
MARKET DISCUSSION

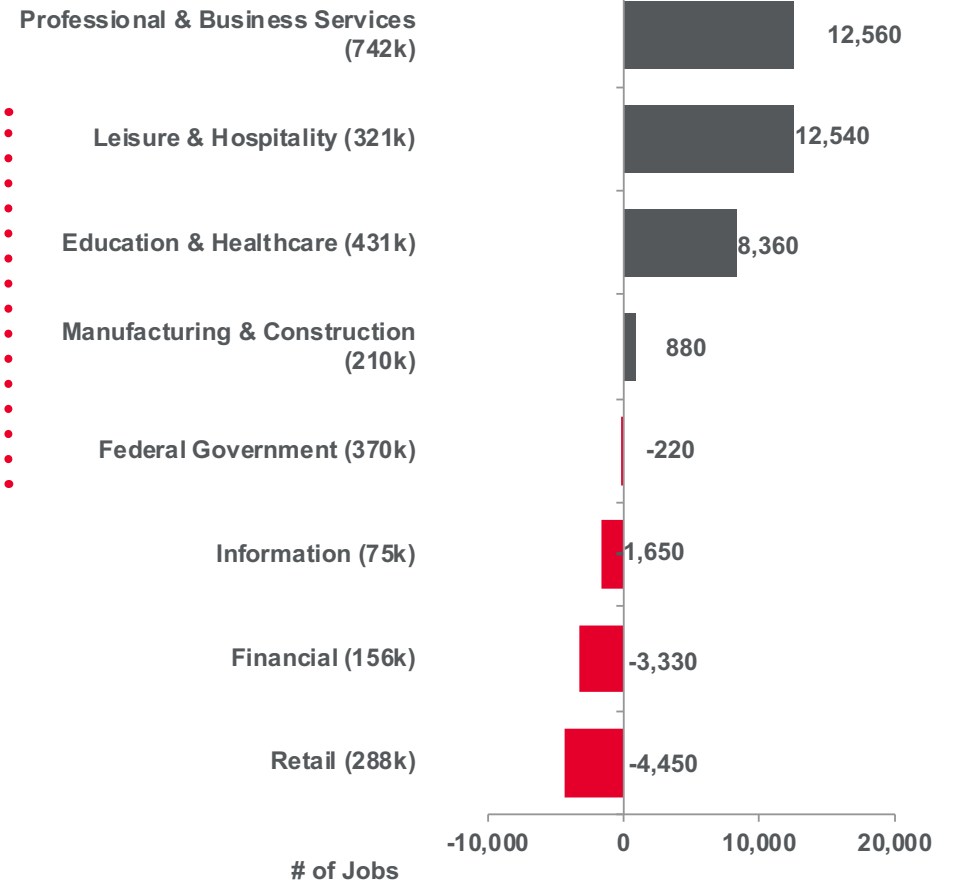
DC METRO JOB GROWTH



Historical Net New Nonfarm Jobs and Industry Breakout



Job Growth by Sector (YOY)

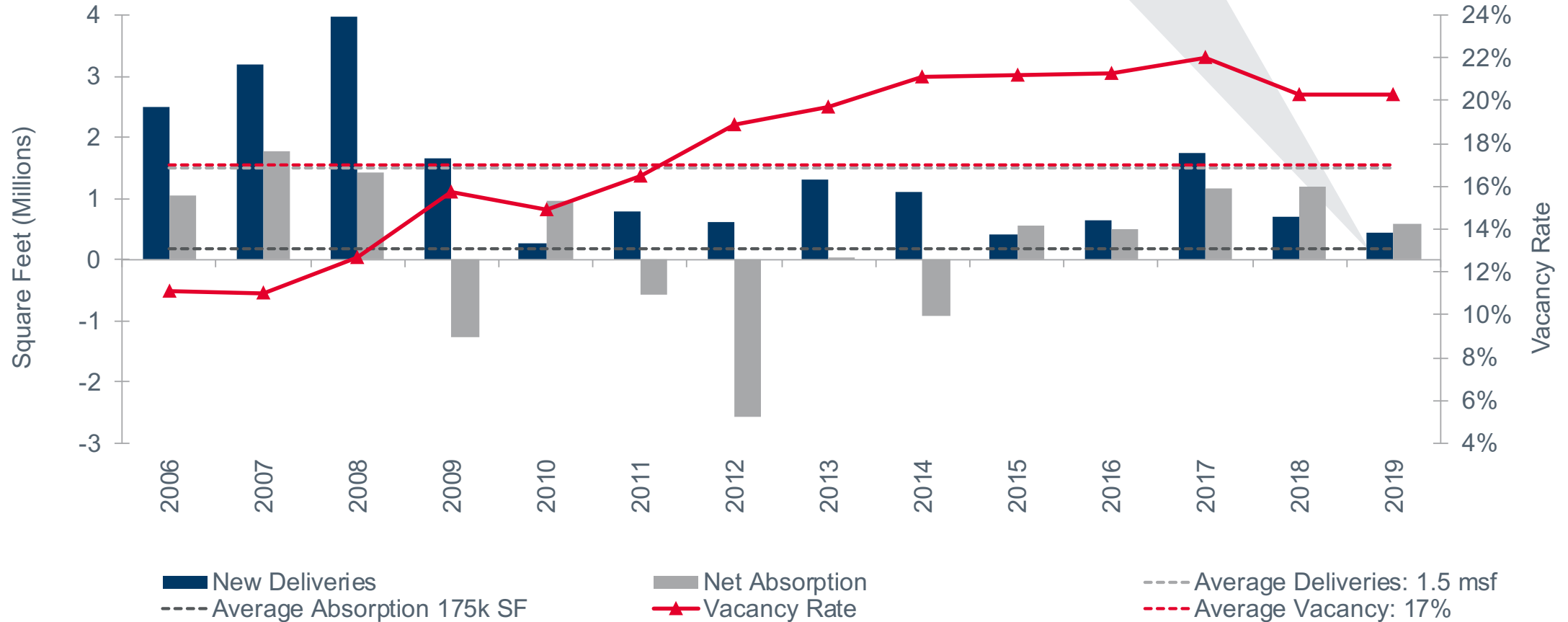


NORTHERN VIRGINIA

Office Leasing Fundamentals




Q2 2019
YTD Deliveries: 450k SF
YTD Net Absorption: 591k SF
Vacancy: 20.3%





* Source: Cushman & Wakefield


ASKING RATE ANALYSIS

MARKET IS TIGHTENING

Greensboro Station	
	
24 Months Ago	
Rate	\$42.00
Vacancy	14.2%
Today	
Rate	\$45.00 FS
Vacancy	1.8%

Eastboro	
	
24 Months Ago	
Rate	\$35.00 - \$36.00
Vacancy	13.4%
Today	
Rate	\$39.00 FS
Vacancy	3.4%

8280 Greensboro Drive	
	
24 Months Ago	
Rate	\$36.00 - \$37.00
Vacancy	30.1%
Today	
Rate	\$39.00 FS
Vacancy	20.8%

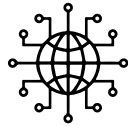
Greensboro Park	
	
24 Months Ago	
Rate	\$32.00 - \$34.00
Vacancy	18%
June 2018 (Purchase Date)	
Rate	\$35.00 - \$36.00
Vacancy	15.7%
Today	
Rate	\$40.00 - \$43.00
Vacancy	9.5%

Takeaways

- Metro located buildings gaining the most leasing activity
- Vacancy tied to Metro focused buildings on "The Hill" is approx. 6.0%
- Buildings not on Metro are being forced to reestablish themselves
- New Development has been successful, and has created an opportunity for the next generation of trophy quality product

*Buildings less than .25mi from metro and recently renovated

NOVA DEMAND



| HEAD WINDS

- Efficiency
- Government not growing
- Flight to quality impact on commodity



| TAIL WINDS

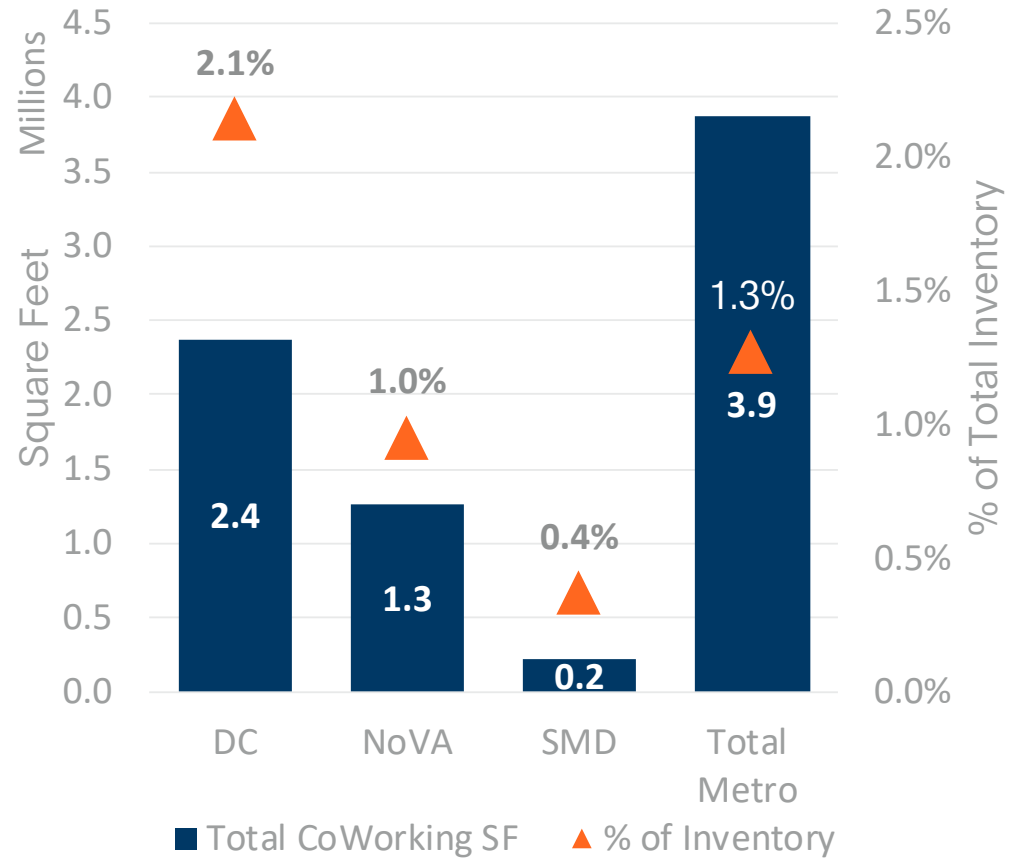
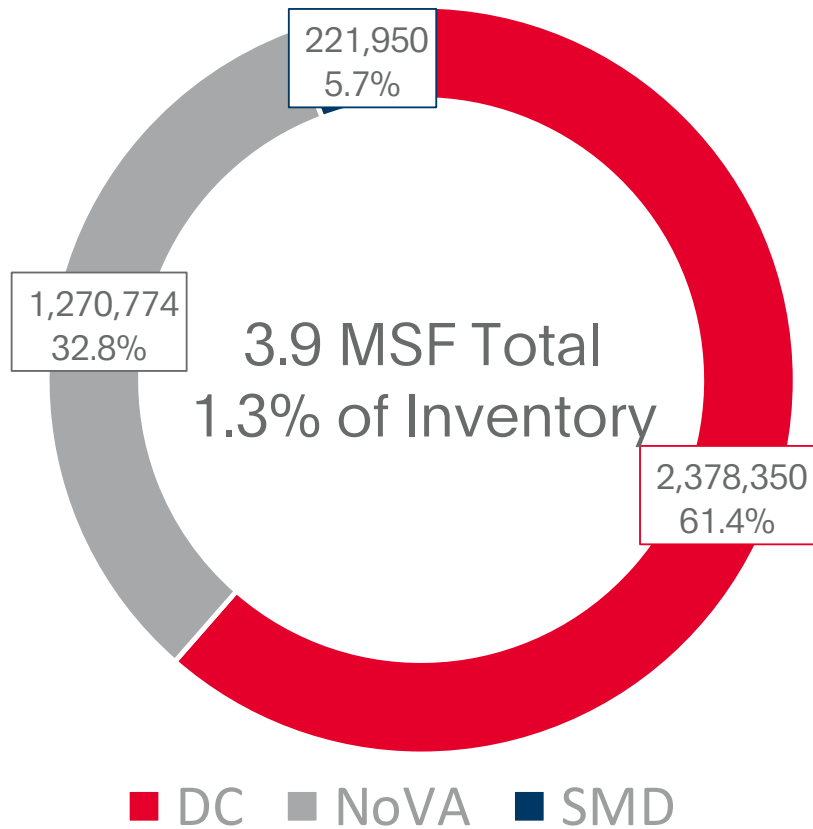
- Amazon
- Best region within the DMV
- Silver line – phase 2

COWORKING DISCUSSION



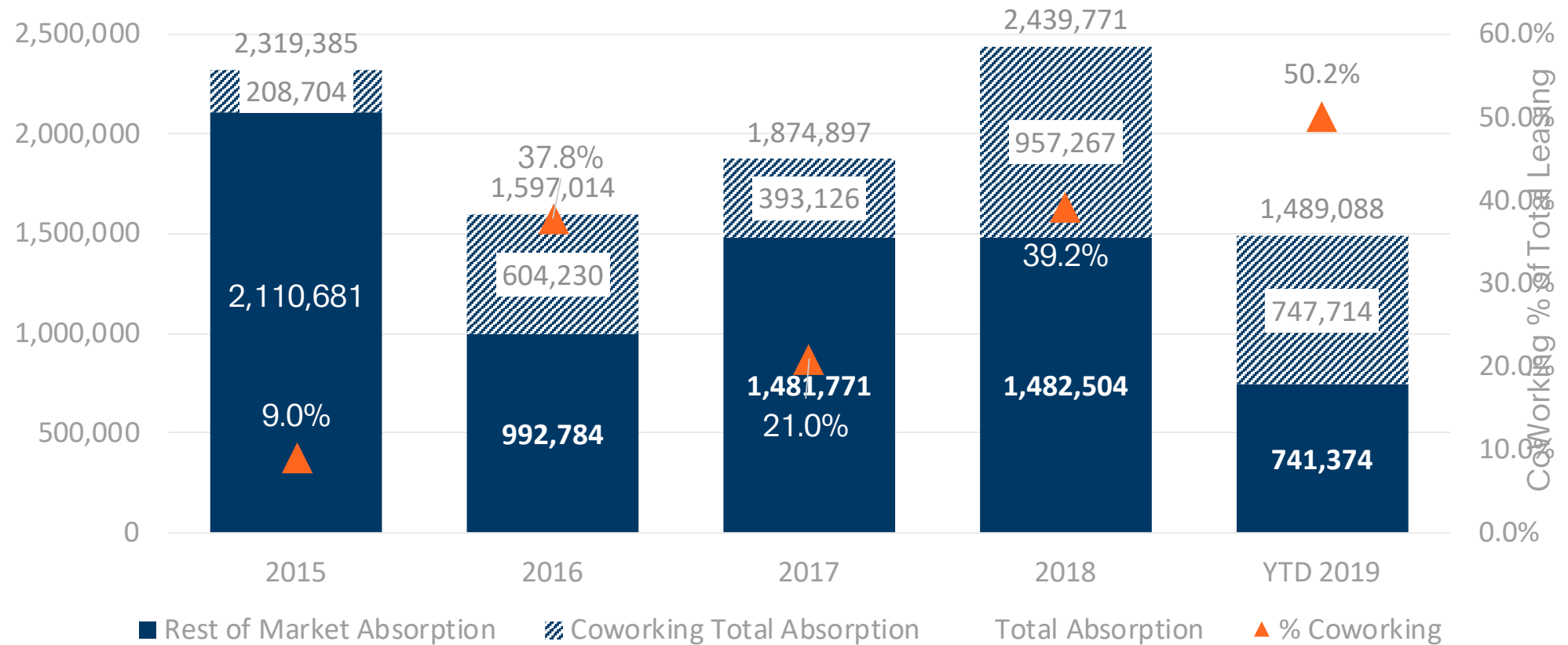
COWORKING FOOTPRINT

Total and as a Percent of Inventory by Market



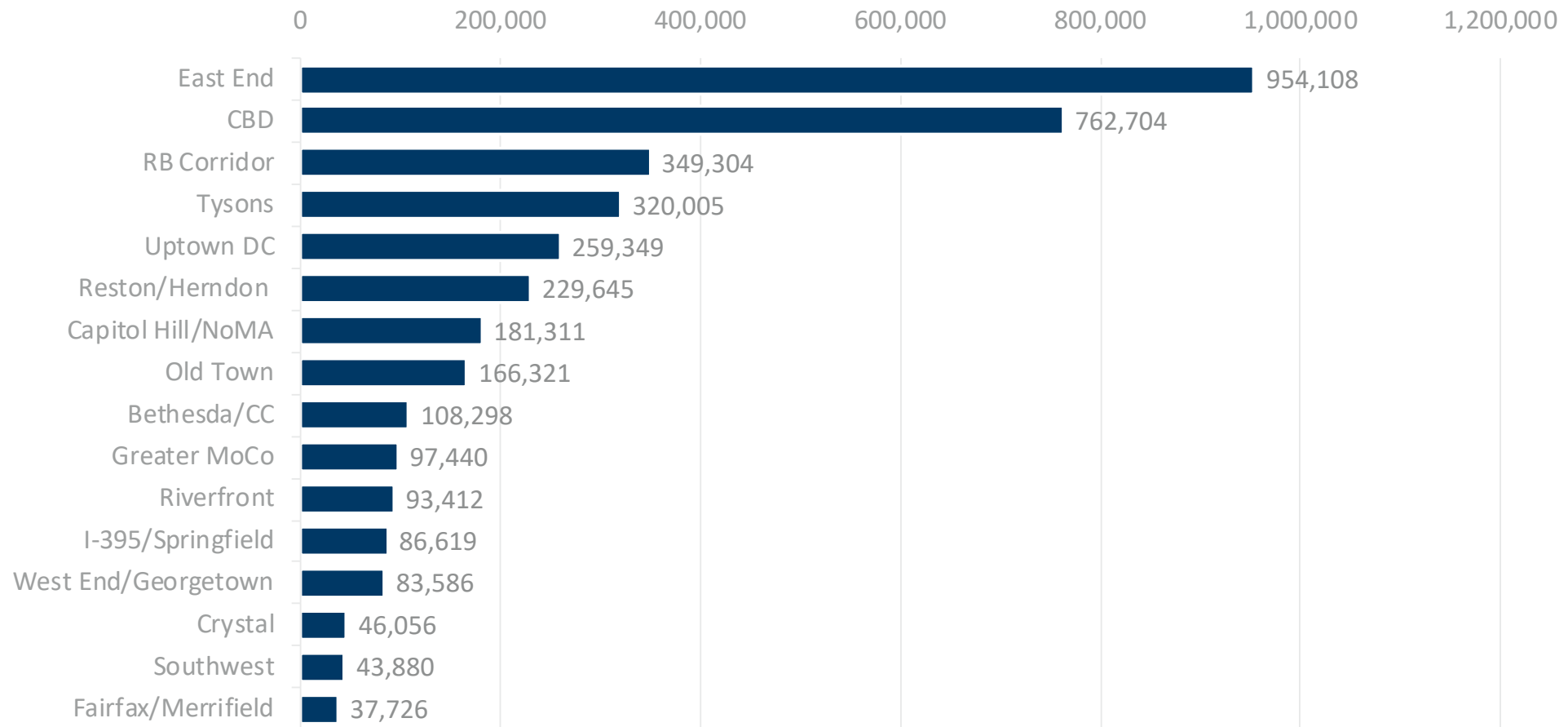
DC METRO COWORKING ABSORPTION

- Vs. Market



TOP SUBMARKETS

- By CoWorking SF



COWORKING



| HEAD WINDS

- Stats related to shorter term leases
- Capital markets issues re financing or sale
- What happens in a downturn



| TAIL WINDS

- All the net positive absorption
- Can help land bigger tenants
- Less spec suites for landlords

CONSTRUCTION PRICING



BASE

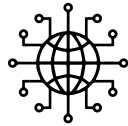
2016 PROJECT COSTS		
Project Uses	Per RSF	% of Total
Land Cost	\$ 81	14.5%
Government	18	3.3%
Hard Constructions Costs	295	52.5%
Soft Construction Costs	30	5.3%
Tenant Improvements	75	13.4%
Leasing Commissions	32	5.7%
Recordation Tax/Loan Fees	4	0.8%
Interest Expense	20	3.6%
Lease-Up NOI	5	0.9%
Net Project Costs	\$ 561	100.00%

2019 PROJECT COSTS		
Project Uses	Per RSF	% of Total
Land Cost	\$ 81	12.6%
Government	22	3.3%
Hard Constructions Costs	341	52.9%
Soft Construction Costs	31	4.7%
Tenant Improvements	103	15.9%
Leasing Commissions	34	5.3%
Recordation Tax/Loan Fees	3	0.5%
Interest Expense	15	2.3%
Lease-Up NOI	15	2.4%
Net Project Costs	\$ 645	100.00%

3 YEAR INCREASE

\$14.9%
\$84 SF

CONSTRUCTION PRICING



HEAD WINDS

- Net effective rent compression
- Cost to build out



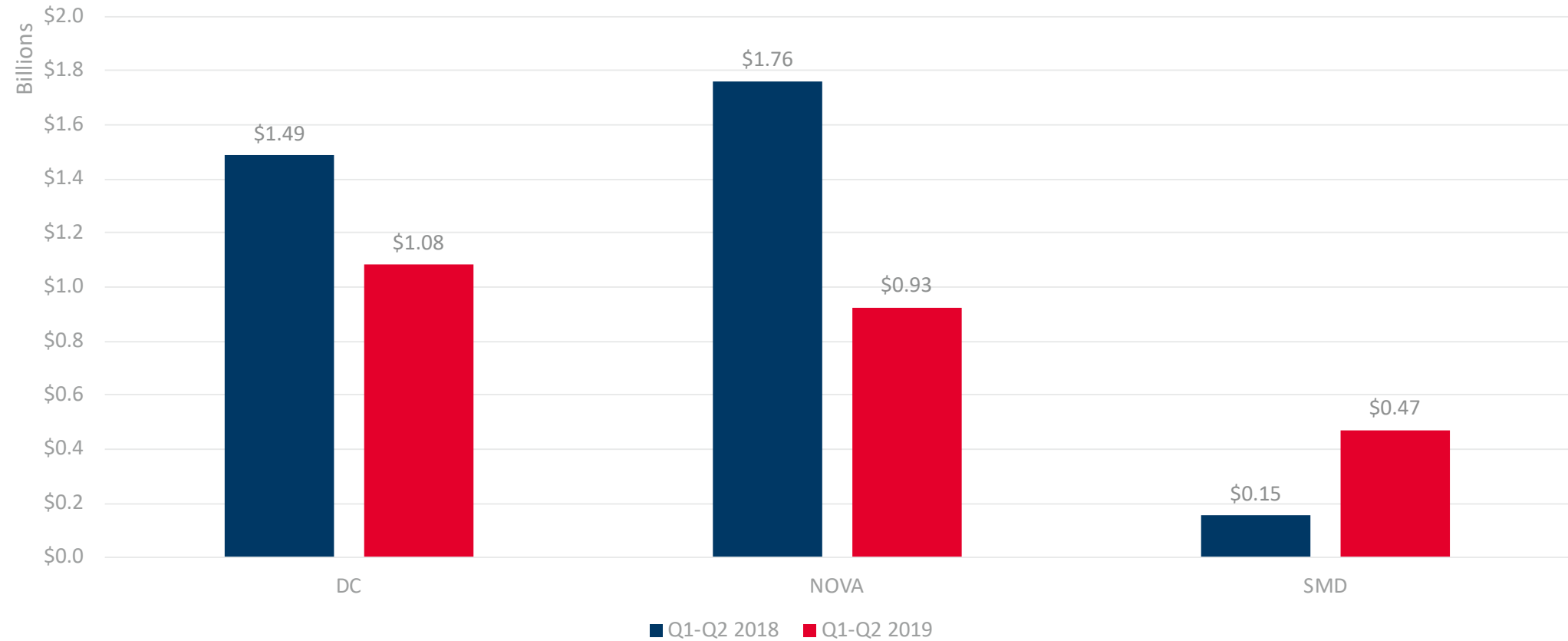
TAIL WINDS

- Govern new development
- High replacement cost - compared to existing
- Current build out has value

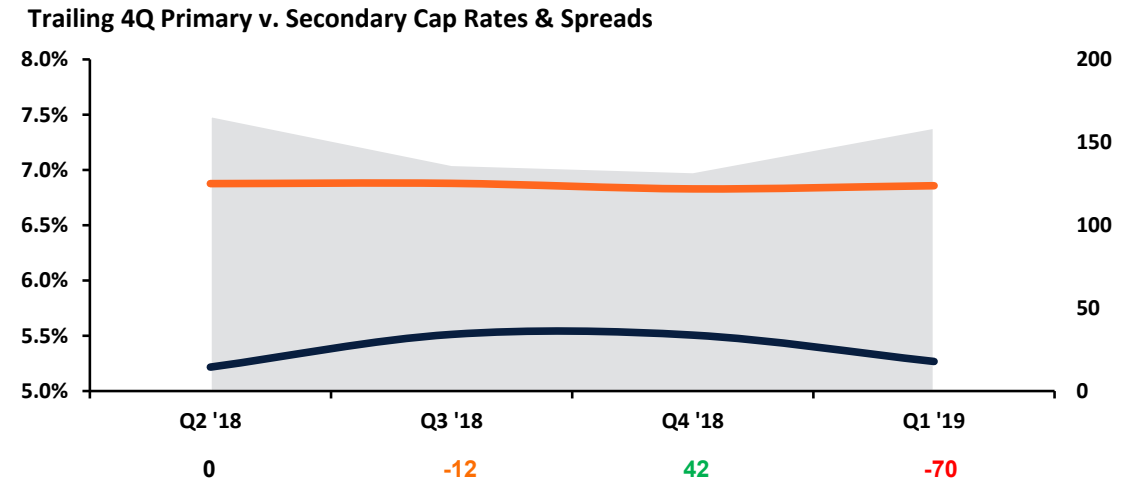
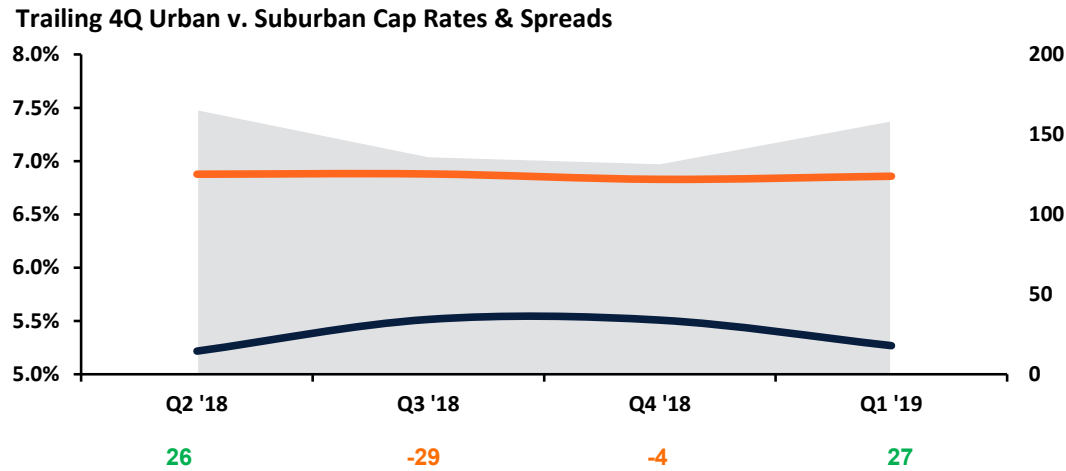
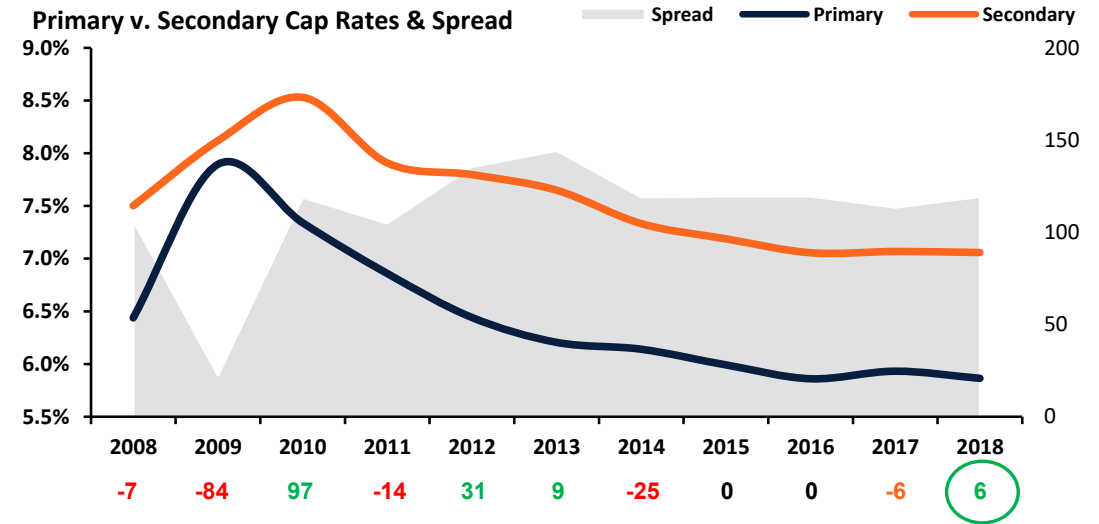
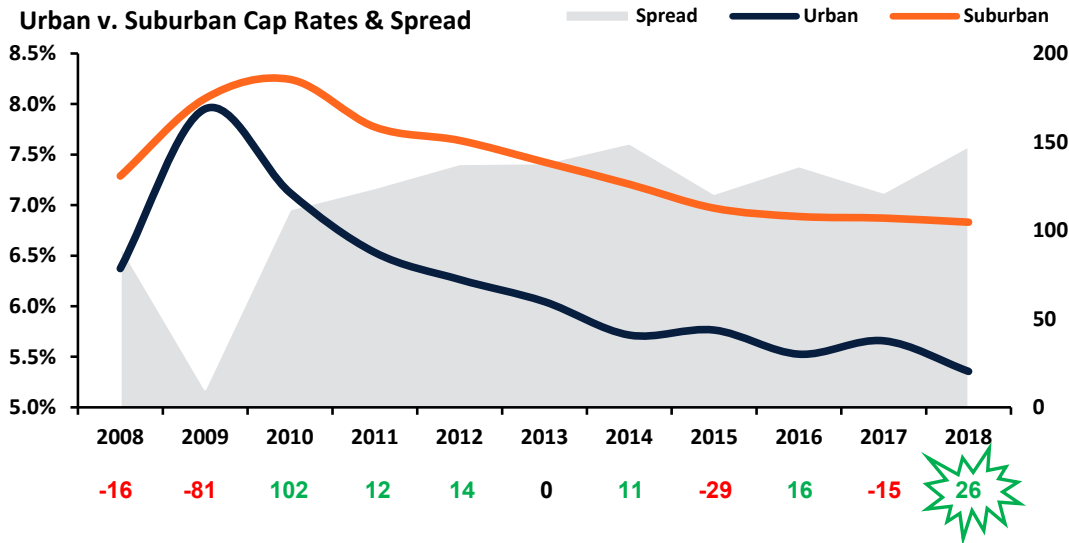
CAPITAL MARKETS



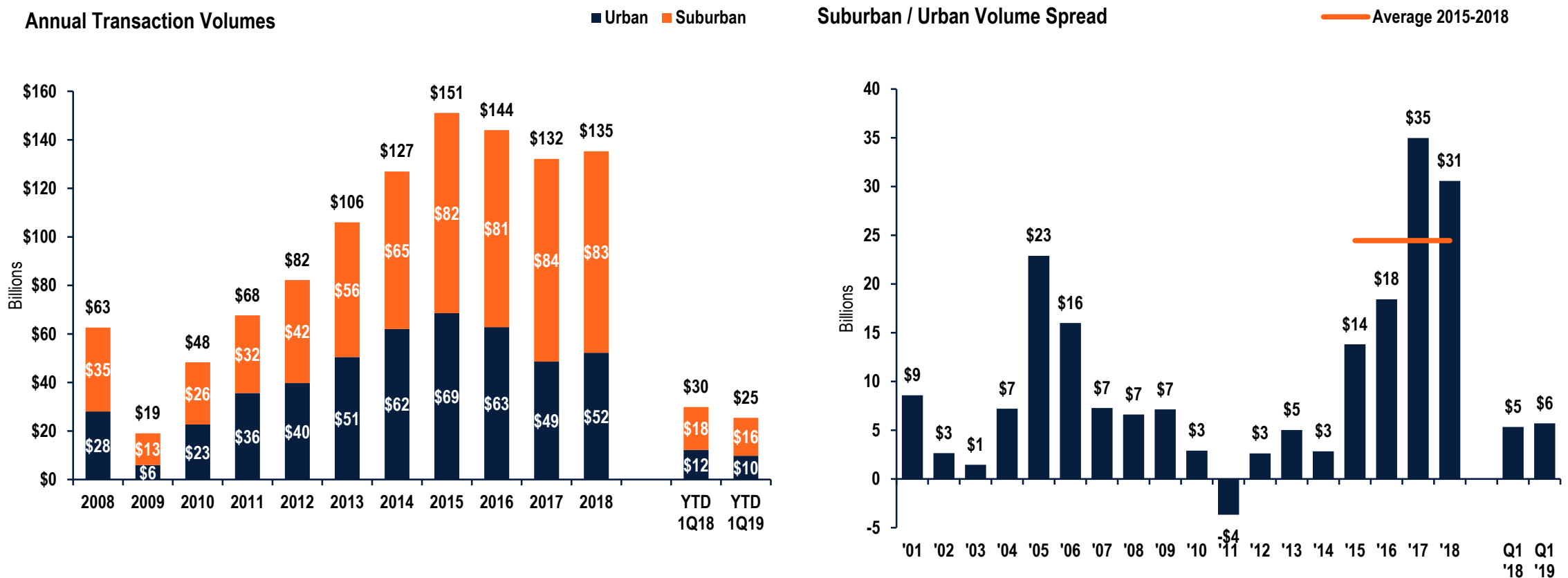
CAPITAL MARKETS OFFICE VOLUME



URBAN VS. SUBURBAN CAP RATE SPREADS INCREASE 26 BPS YOY, HIGHEST JUMP SINCE 2010



SINCE 2015, ANNUAL SUBURBAN VOLUME AVERAGED \$25B MORE THAN URBAN VOLUME

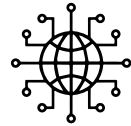


YoY Transaction Volume Change

	2010	2011	2012	2013	2014	2015	2016	2017	2018	Q1 2018	Q1 2019
Urban	280%	57%	12%	27%	23%	10%	-8%	-23%	8%	-10%	-20%
Suburban	96%	25%	33%	31%	17%	27%	-1%	3%	-1%	-3%	-12%

PANEL Q4.

CAPITAL MARKETS



| HEAD WINDS

- Late cycle
- Limited capital for core plus
- Resi and industrial are favored



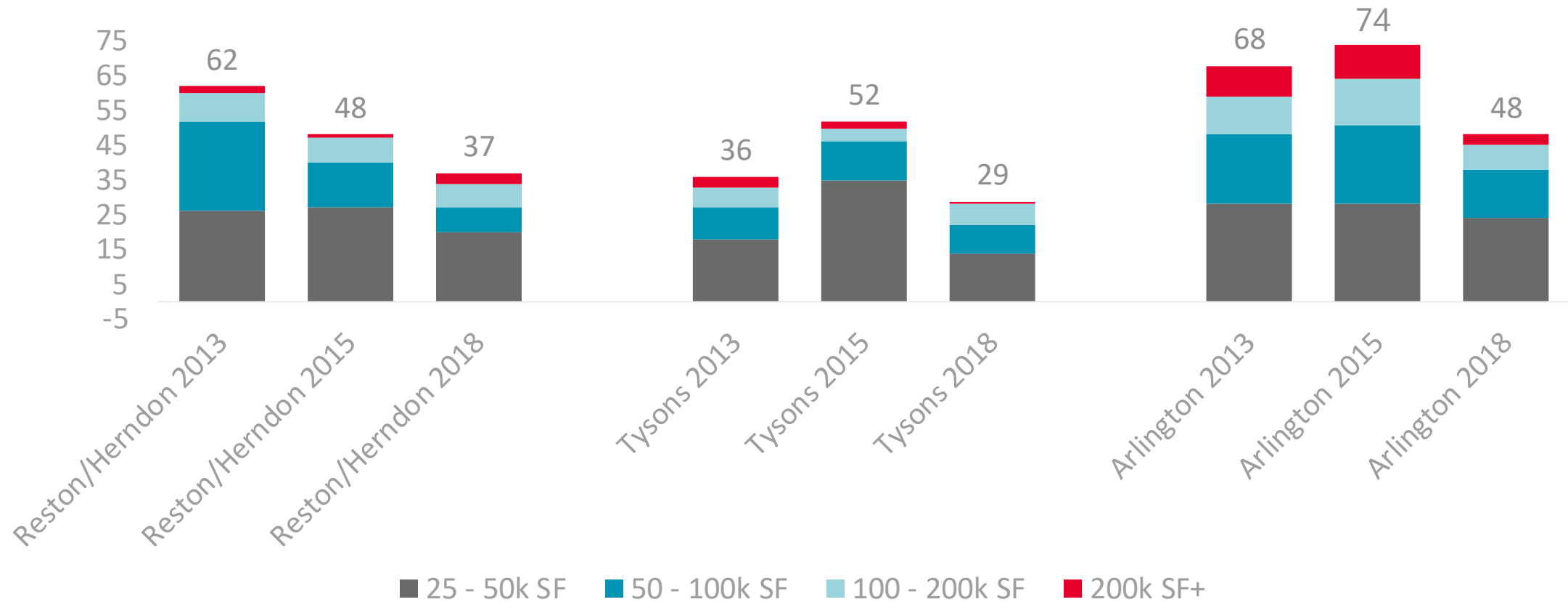
| TAIL WINDS

- Yield
- Asset Allocation
- Low interest rates

BIG BLOCK VACANCY



TYSONS, TOLL ROAD AND ARLINGTON LARGE BLOCKS



PANEL Q5. **BIG BLOCK VACANCY**



| **HEAD WINDS**

- Number of blocks across all of NOVA



| **TAIL WINDS**

- Number of blocks today vs 2017
- Metro based blocks vs 2017
- Tysons + Toll Road

Q&A



LIGHTNING ROUND





BIGGEST CHALLENGE FOR COMMERCIAL REAL ESTATE

- Coworking?
- AI or automation?
- Continued development leading to oversupply?
- Efficiency and work from home?



BIGGEST UPSIDE FOR INVESTORS IN COMMERCIAL REAL ESTATE

- If you amenitize it they will come
- Development
- Yield

CARR
PROPERTIES

www.carrprop.com