



Mid-Atlantic Education: 2013 Regional Real Estate Forecast

CoreNet Global
Mid-Atlantic Chapter
January 31, 2013

AGENDA

- MID-ATLANTIC ECONOMIC OFFICE MARKET OUTLOOK & UPDATE
- GSA NATIONAL CAPITAL REGION - LEASING TRENDS
- CAPITAL MARKETS OVERVIEW

INTRODUCTIONS

PAULA MUNGER

Regional Research Director- Mid Atlantic Region, *Cushman & Wakefield*

JAE LEE

Senior Vice President and GSA Specialist, *Jones Lang LaSalle*

BILL KAYE

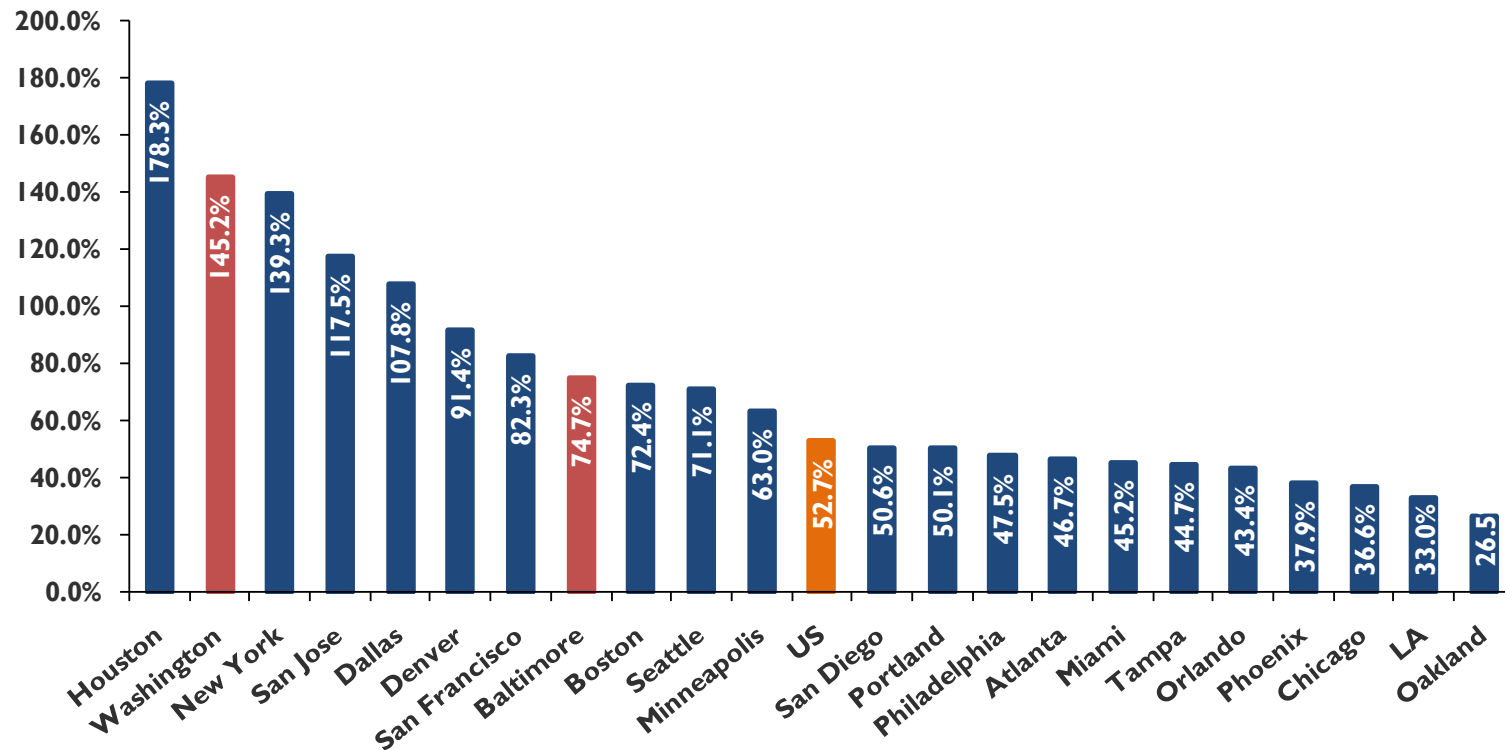
Executive Vice President and Capital Markets Specialist, *CB Richard Ellis*

PAULA MUNGER

Mid-Atlantic Economic Office Market
Outlook & Update

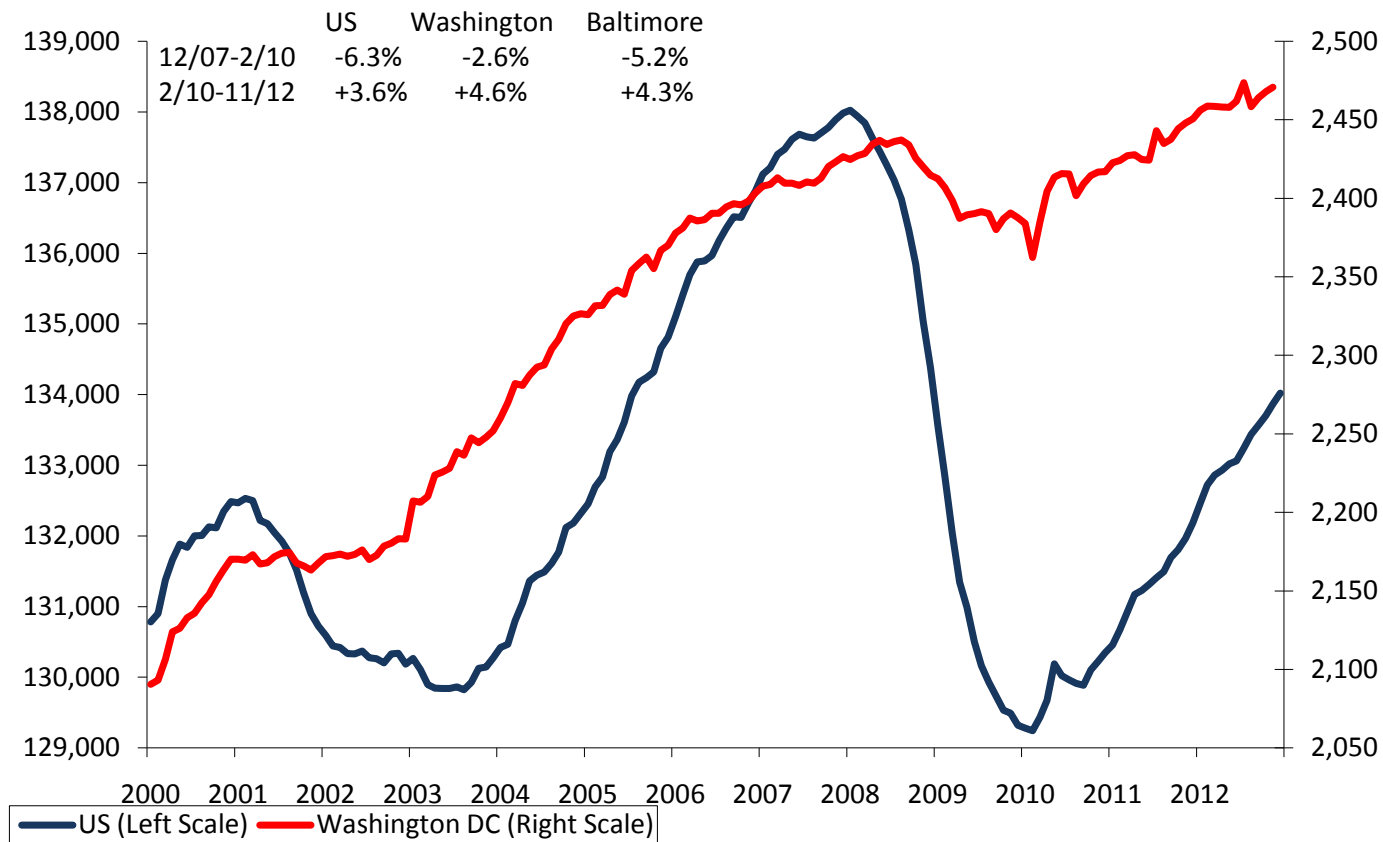
JOBS RECOVERED SINCE THROUGH AS A PERCENT OF JOBS LOST

ECONOMIC & OFFICE
MARKET UPDATE



PAYROLL EMPLOYMENT WASHINGTON DC Vs. US

ECONOMIC & OFFICE
MARKET UPDATE



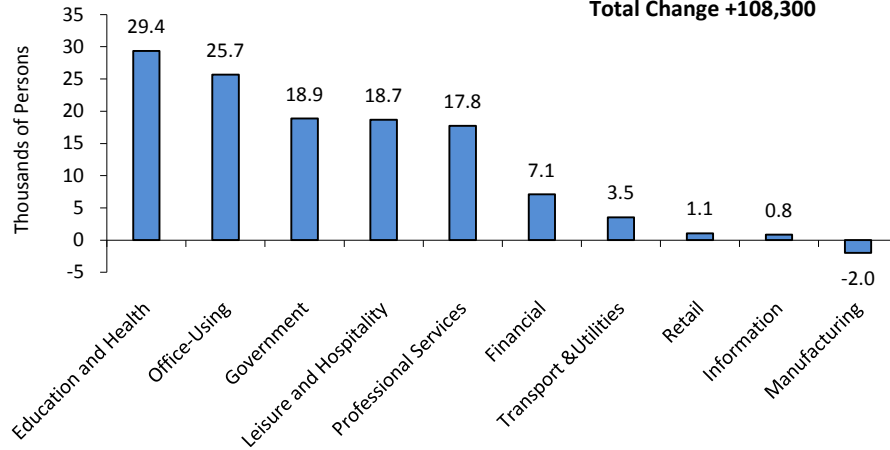
Source: US Bureau of Labor Statistics

EMPLOYMENT CHANGE SINCE FEBRUARY 2010

by Industry Sector

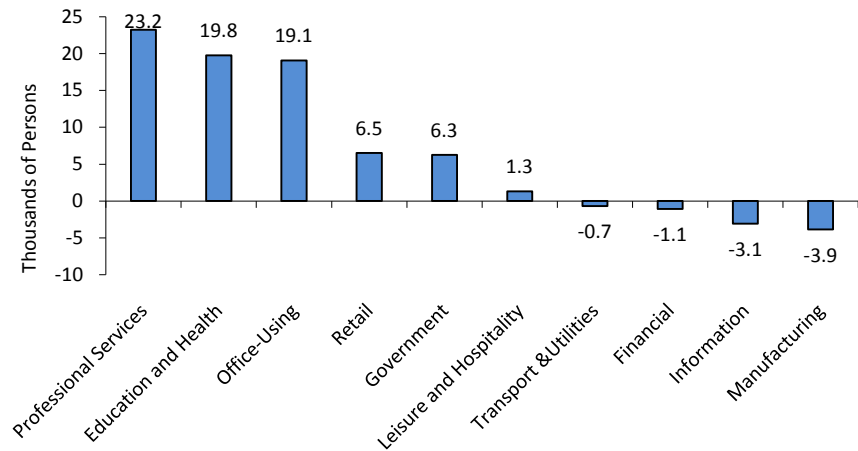
Washington DC

Total Change +108,300



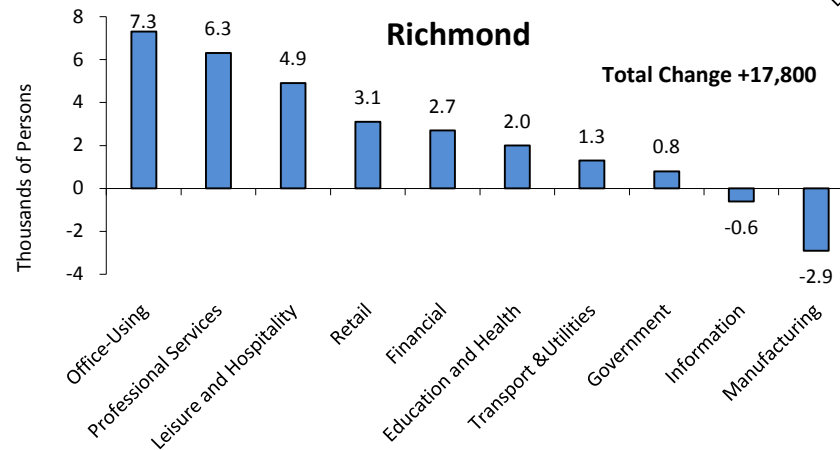
Baltimore

Total Change +54,000



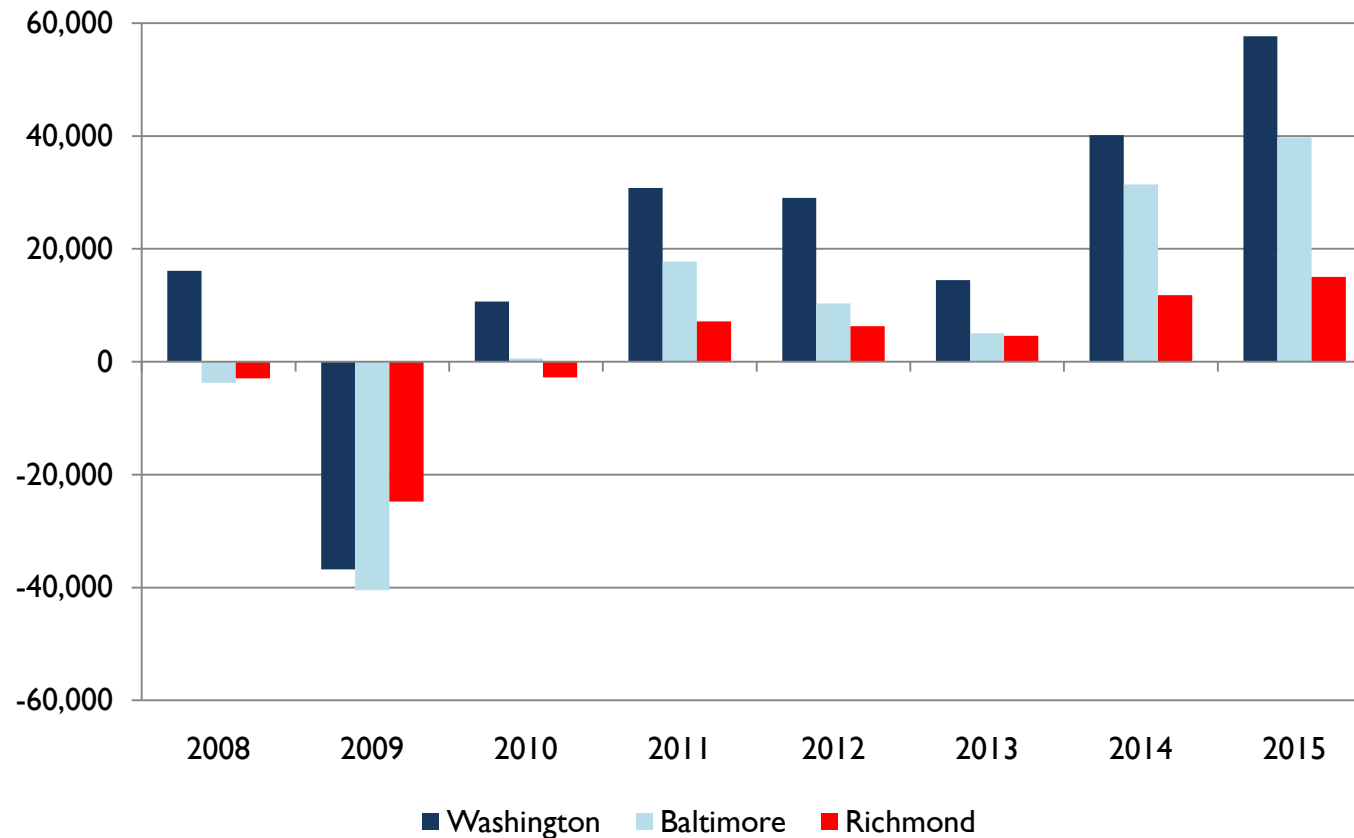
Richmond

Total Change +17,800



ANNUAL JOB GROWTH FORECAST

ECONOMIC & OFFICE
MARKET UPDATE



Size of Markets
(millions of jobs):

Washington: 2.5

Baltimore: 1.3

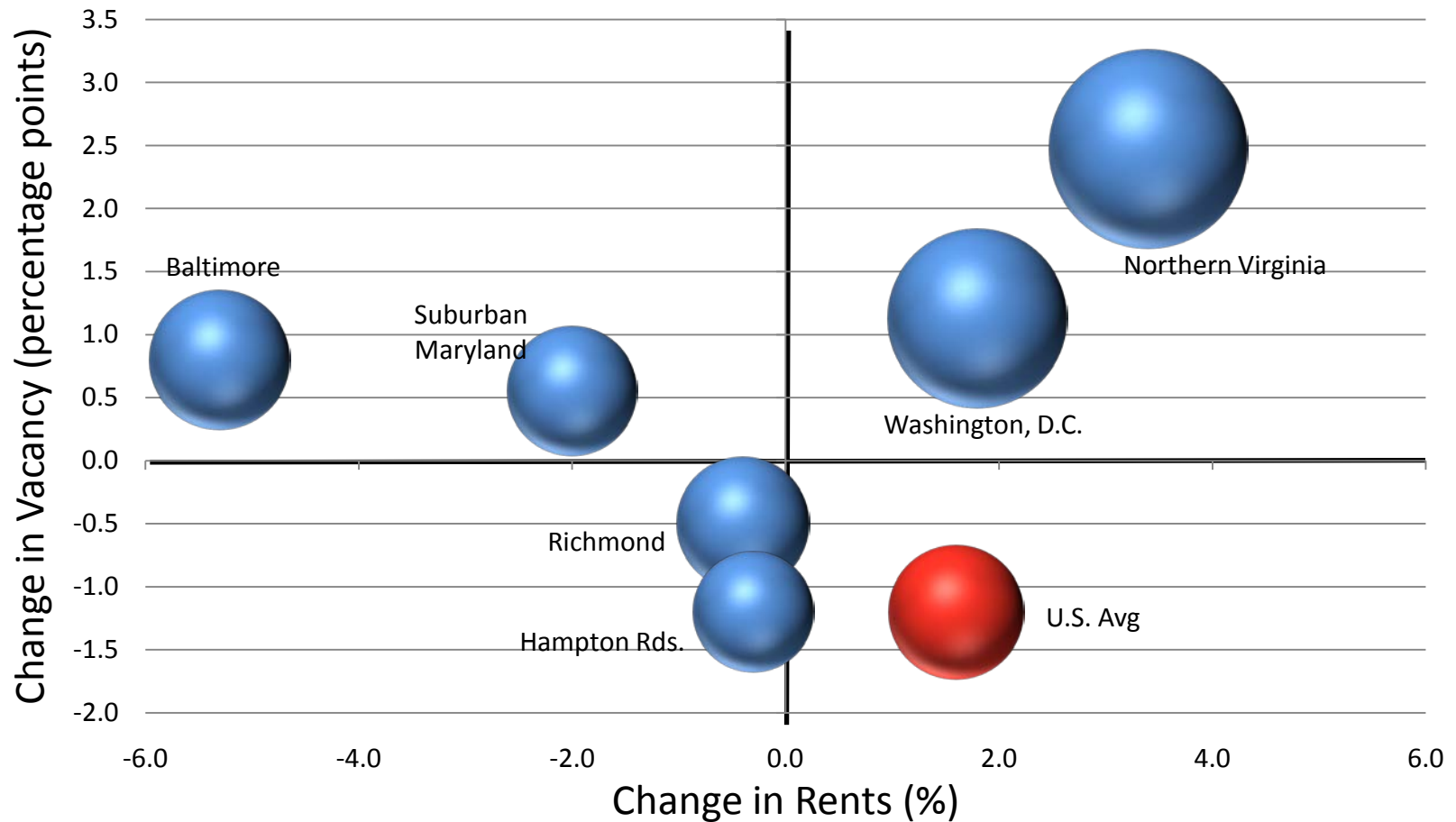
Richmond: 0.6

Source: Bureau of Labor Statistics; economy.com

MID-ATLANTIC OFFICE MARKETS

ECONOMIC & OFFICE
MARKET UPDATE

Change in Overall Vacancy & Rental Rates – Q4 2012



WASHINGTON METRO

Market Trends and Indicators

ECONOMIC & OFFICE MARKET UPDATE

- Uncertainty/lack of clarity.
- Demand driven by lease expirations.
- Efficiency is top priority.
- Renewals continue to dominate.
- Flight to quality & new construction continues.
- Concessions have topped out, but will hold firm through 2013.
- No significant rent growth until 2014/2015.
- 2014 ushers in stronger growth prospects.

Q4 2012	WASHINGTON DC	NORTHERN VA	SUBURBAN MARYLAND	12 Month Forecast
Total Absorption	(566,844) sf	(2.5) msf	(249,633) sf	↓
Leasing Activity	5.2 msf	5.1 msf	1.1 msf	↓
Renewals	38%	41%	60%	↑
Vacancy Rate	13.0%	18.9%	17.9%	↑
Asking Rents				↓
Class A	\$61.55	\$34.43	\$30.91	↓
Class B	\$47.69	\$30.58	\$22.76	↓
Under Construction	1.2 msf	2.5 msf	1.4 msf	↔

BALTIMORE

Market Trends and Indicators

ECONOMIC & OFFICE MARKET UPDATE

- Non-CBD markets responsible for all positive absorption.
- Fort Meade district was the healthiest - driven by government contractor demand (cyber-security and cloud computing).
- Several speculative projects deliver vacant in 2012, but 2011 deliveries begin to get absorbed.
- CBD weakens, due mainly to shrinking financial firms.

BALTIMORE	Q4 2012	12 MONTH FORECAST
YTD Total Absorption	325,075 sf	▼
YTD Leasing Activity	2.1 msf	▼
Overall Vacancy Rate	15.2%	▲
Overall Asking Rents	\$23.04	▼
Under Construction	820,700 sf	▼

RICHMOND

Market Trends and Indicators

ECONOMIC & OFFICE MARKET UPDATE

- Absorption stays positive for the year, but falls behind 2011 levels.
- Leasing activity drops sharply from last year. Larger tenants signing leases are taking less space or opting not to expand due to lack of significant growth in employment.
- Investors and developers continue buying spree.
- Continued slow improvement is expected.

RICHMOND	Q4 2012	12 MONTH FORECAST
YTD Total Absorption	398,716 sf	▲
YTD Leasing Activity	1.6 msf	▲
Overall Vacancy Rate	10.1%	▼
Overall Asking Rents	\$16.74	▲
Under Construction	0 sf	▲

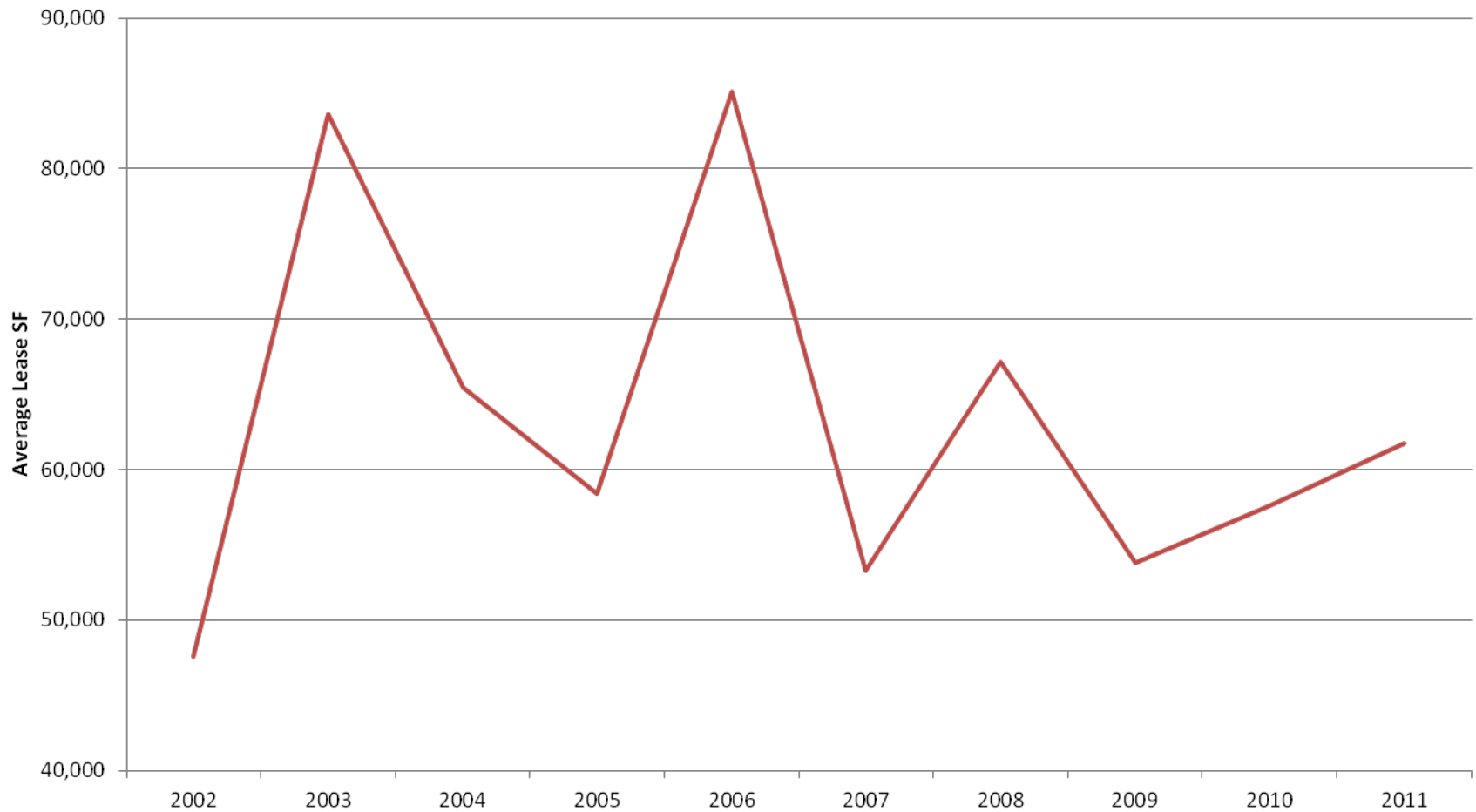
JAE LEE

GSA National Capital Region Leasing Trends

AVERAGE LEASE TERMS FROM 2002 - 2011



AVERAGE LEASE SQUARE FOOTAGE FROM 2002 - 2011



REASONS FOR DECREASE IN LEASE TERMS

- Agencies pursuing short-term leasing solutions while they establish long-term capital plans
- In uncharted budgetary territory, unwillingness to commit funds for more than near-term
- Without budgets for a relocation, agencies stay in place and prefer the flexibility of a shorter term to the cost-savings of a longer lease
- “New Normal”?

Average Lease Terms			
	2002	2011	% Change
Average Firm Term	10.4	7.2	-30.77%
Average Full Term	10.7	7.6	-28.97%

COST SAVINGS PARADOX

- **Executive Order M-12-12** (issued May, 2012) mandated that Federal agencies shall not increase the size of their real estate footprint (net zero)
- Prospectuses from Capitol Hill are mandating that agencies shrink their requirements on a lease-by-lease basis
- Agencies need cash at hand to pay for up-front move costs, but need to commit to longer lease terms to recoup their initial investment
- When the cash is unavailable, the agency cannot afford the short term investment required for long-term cost savings

BILL KAYE

Capital Markets

INVESTING IN TODAY'S MARKET

Current Office Investment Sale Conditions

- Low Transaction Volume
- Low Interest Rate Environment
- Uncertainty Around Local Economy

What is on Seller's Minds?

- Valuation
- Financing Markets
- Stability of Rent Roll
- Basis

What is on Investor's Minds?

- Job Growth
- Tenancy
- Stability of Rent Roll
- Building Efficiencies
- In-place Rent vs Market
- Location
- Valuation vs Replacement Cost
- Sustainability

METRO WASHINGTON, DC INVESTMENT ACTIVITY 2008–2012

2008	Number of Sales	Total Volume	Average Size	Average PPSF	YOY Growth
District of Columbia	22	\$2,085,244,601	\$94,783,846	\$514	-65%
Northern Virginia	14	\$942,641,481	\$67,331,534	\$313	-89%
Maryland	7	\$350,450,482	\$50,064,355	\$242	-71%
TOTAL	43	\$3,378,336,564	\$78,565,967	\$404	-79%

2009	Number of Sales	Total Volume	Average Size	Average PPSF	YOY Growth
District of Columbia	8	\$852,467,354	\$106,558,419	\$435	-59%
Northern Virginia	7	\$474,973,600	\$67,853,371	\$266	-50%
Maryland	8	\$364,604,000	\$45,575,500	\$205	4%
TOTAL	23	\$1,692,044,954	\$73,567,172	\$328	-50%

2010	Number of Sales	Total Volume	Average Size	Average PPSF	YOY Growth
District of Columbia	23	\$2,352,700,000	\$102,291,304	\$489	176%
Northern Virginia	26	\$2,026,770,565	\$77,952,714	\$219	327%
Maryland	4	\$155,500,000	\$38,875,000	\$179	-57%
TOTAL	53	\$4,534,970,565	\$85,565,482	\$302	168%

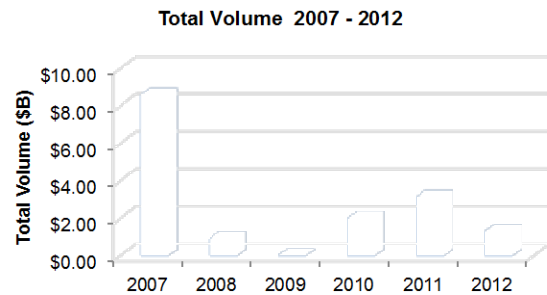
2011	Number of Sales	Total Volume	Average Size	Average PPSF	YOY Growth
District of Columbia	30	\$3,607,310,290	\$120,243,676	\$505	53%
Northern Virginia	26	\$3,172,513,514	\$122,019,751	\$358	57%
Maryland	11	\$574,032,203	\$52,184,746	\$258	269%
TOTAL	67	\$7,353,856,007	\$109,759,045	\$400	62%

2012	Number of Sales	Total Volume	Average Size	Average PPSF	YOY Growth
District of Columbia	30	\$3,367,085,475	\$112,236,183	\$447	-7%
Northern Virginia	23	\$1,331,298,000	\$57,882,522	\$281	-58%
Maryland	8	\$305,840,000	\$38,230,000	\$175	-47%
TOTAL	61	\$5,004,223,475	\$82,036,450	\$350	-32%

*2011 Northern Virginia Total Volume includes the \$1.22 billion purchase of the Lehman Brothers' Portfolio by Goldman Sachs. Removing this figure results changes YOY Growth to -32% for Northern Virginia and -19% for the Metropolitan Region as a whole.

2012 WASHINGTON, DC OFFICE TRANSACTION ANALYSIS

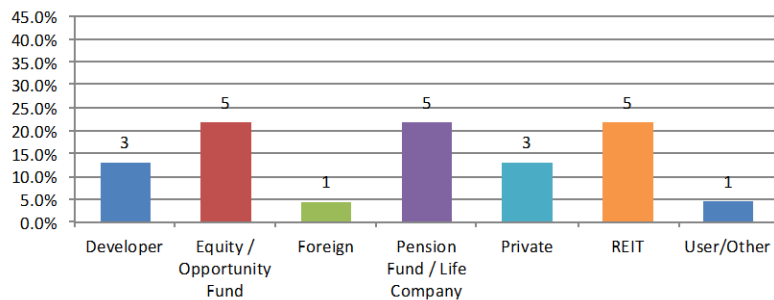
2012 NORTHERN VIRGINIA OFFICE TRANSACTION ANALYSIS



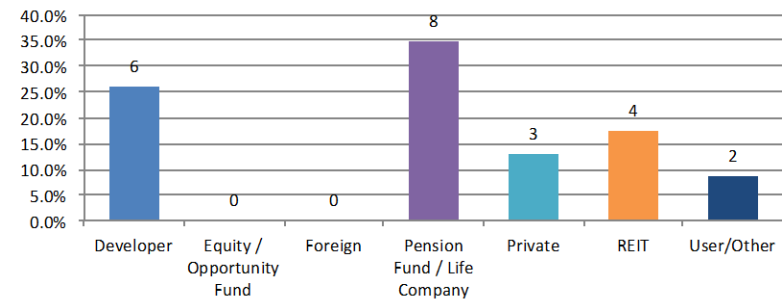
Investment Profile	Number of Sales	Total Volume	Initial Capitalization Rate Range	PPSF Range
Core	4	\$460,600,000	5.75% - 7.60%	\$254 - \$517
Core Plus	13	\$591,948,000	6.40% - 8.50%	\$186 - \$358
Value	5	\$251,650,000	N/A	\$147 - \$255
User/Other	1	\$27,100,000	N/A	\$399
TOTAL	23	\$1,331,298,000		

Buyer / Seller Profile Distribution

Buyer



Seller



2012 SUBURBAN MARYLAND OFFICE TRANSACTION ANALYSIS

Thank you to our Sponsors!

PINNACLE SPONSOR:



Thank you to our Sponsors!

PLATINUM SPONSOR:



JONES LANG
LASALLE®

Thank you to our Sponsors!

GOLD SPONSORS:



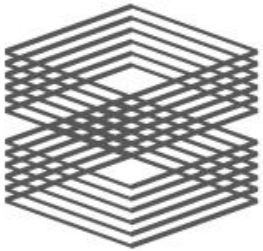
Price|Modern

Thank you to our Sponsors!

2012 SILVER SPONSORS:



*Insightful Ideas.
Inspired Environments.*



TISHMAN SPEYER

Thank you to our Sponsors!

2012 BRONZE SPONSORS:

Turner

 **Herman Miller**

VORNADO
CHARLES E. SMITH