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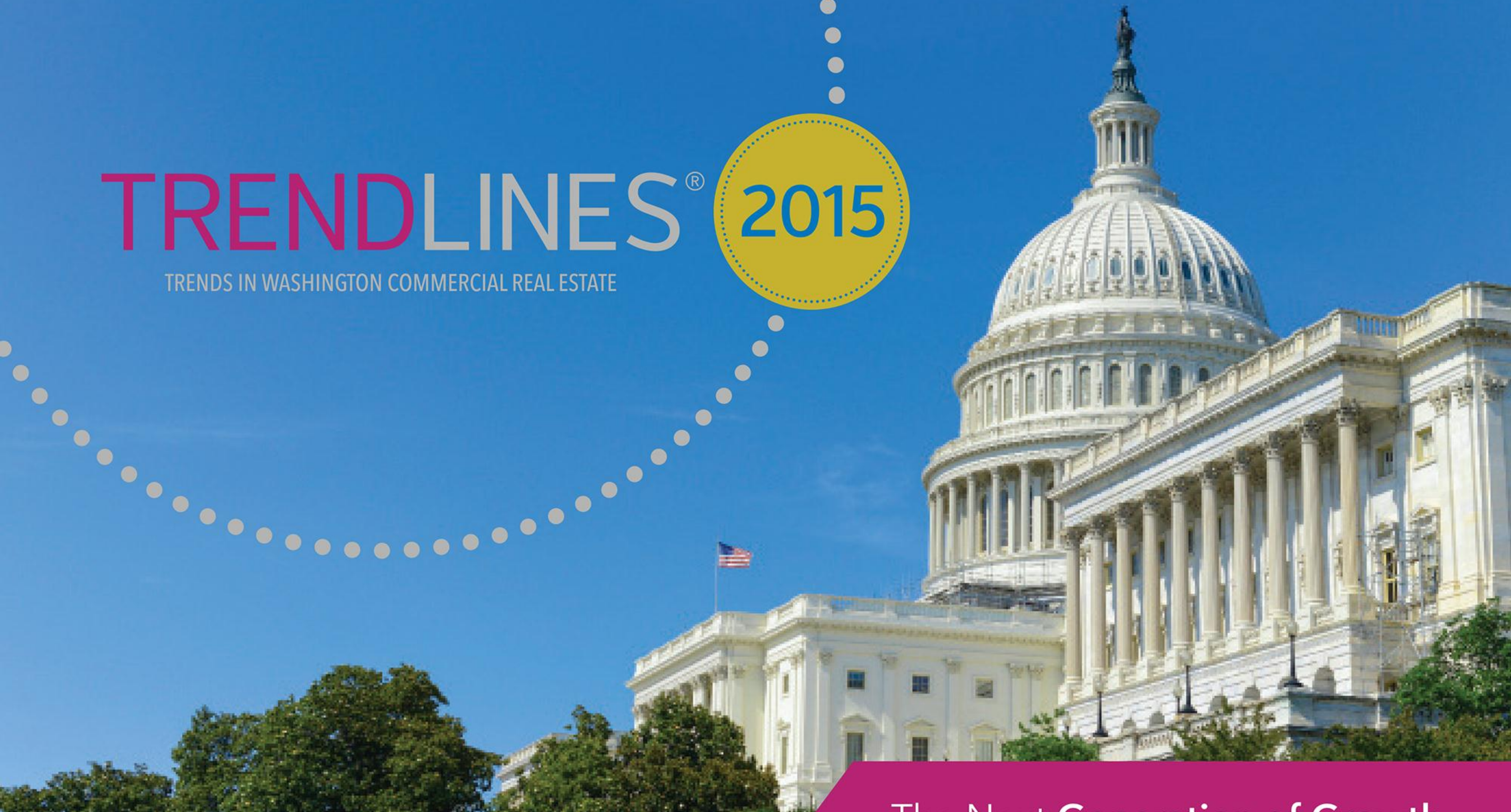
TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE



The Next **Generation of Growth**

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TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE

MEGATRENDS

MegaTrends

Metropolitan Washington Council of Governments

1. Wage growth is flat, but discretionary income is up
2. The regional economy is *recovering* — but not yet *recovered*
3. Consumer behavior is changing
4. Tenant behavior is changing
5. Real estate is now an *experience*, not simply a *location*
6. Real estate is a preferred investment vehicle, nationally and locally

Source: Delta Associates; March 2015.

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TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE

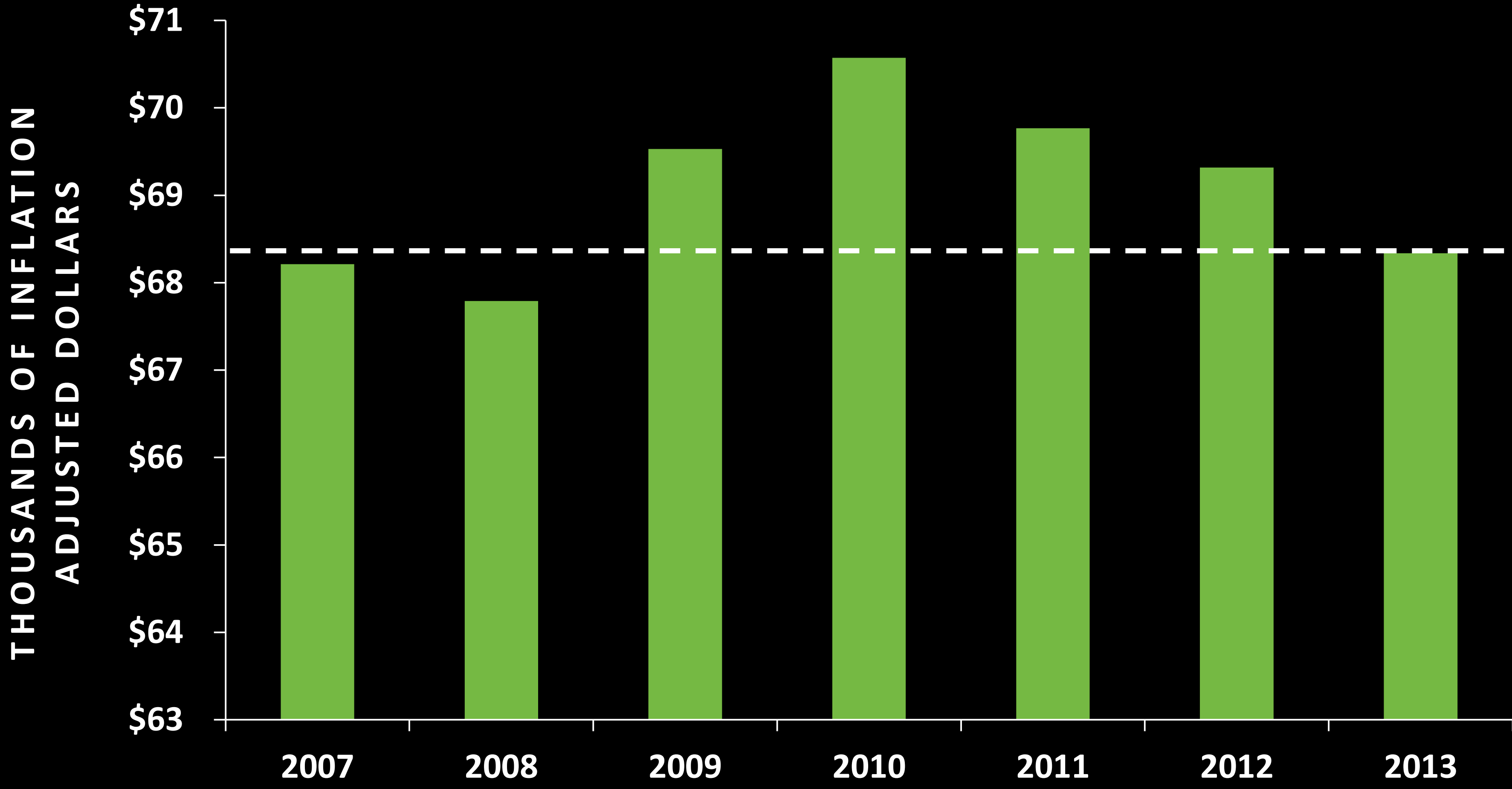
MEGATREND 1: WAGE GROWTH IS FLAT, BUT DISCRETIONARY INCOME IS UP

MegaTrend 1: Wage Growth Flat, Discretionary Income Up

Metropolitan Washington Council of Governments

Average Annual Wages

Washington Metro Area | 2007 – 2013



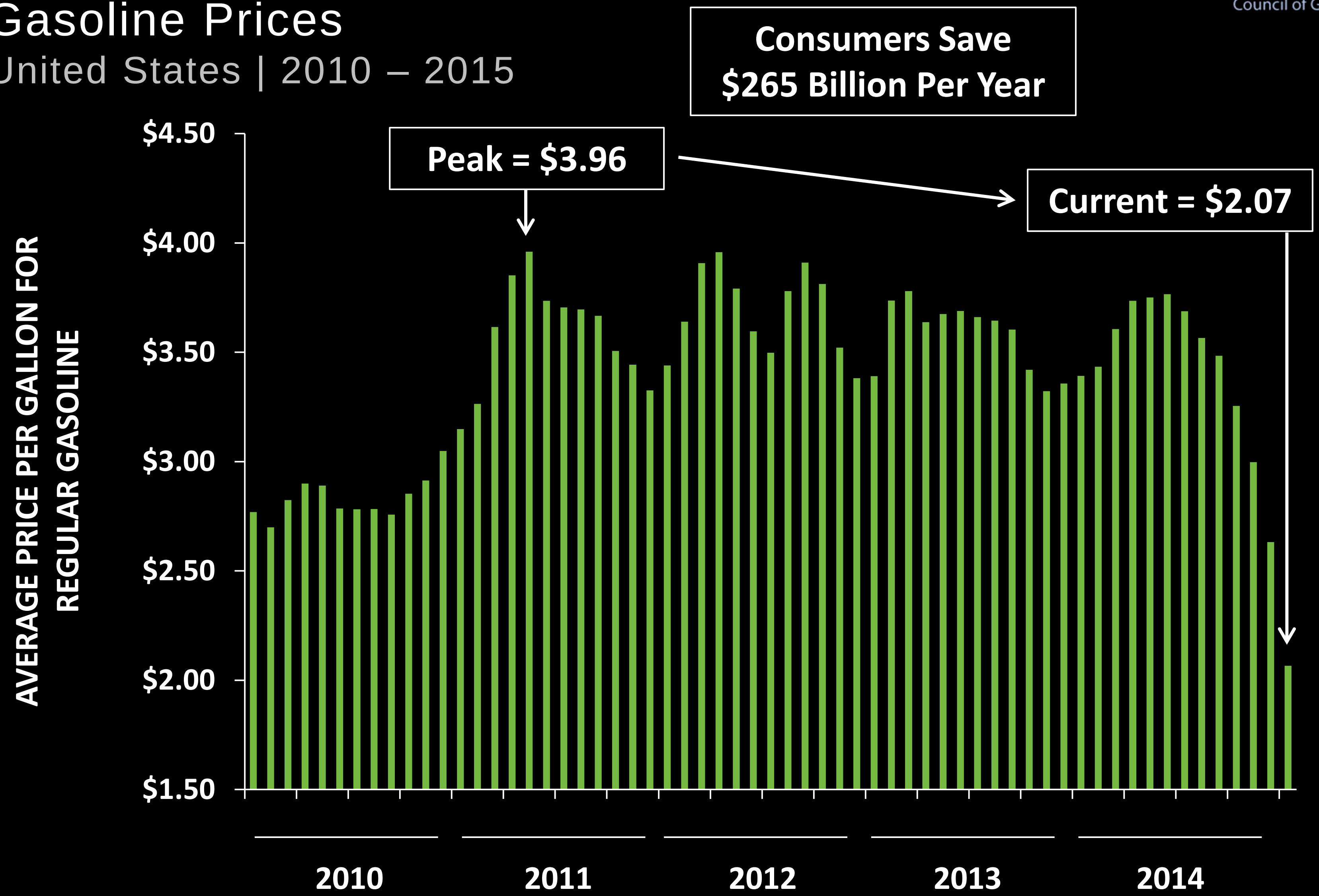
Source: BLS, GMU Center for Regional Analysis, Delta Associates; March 2015.

MegaTrend 1: Wage Growth Flat, Discretionary Income Up

Metropolitan Washington Council of Governments

Gasoline Prices

United States | 2010 – 2015

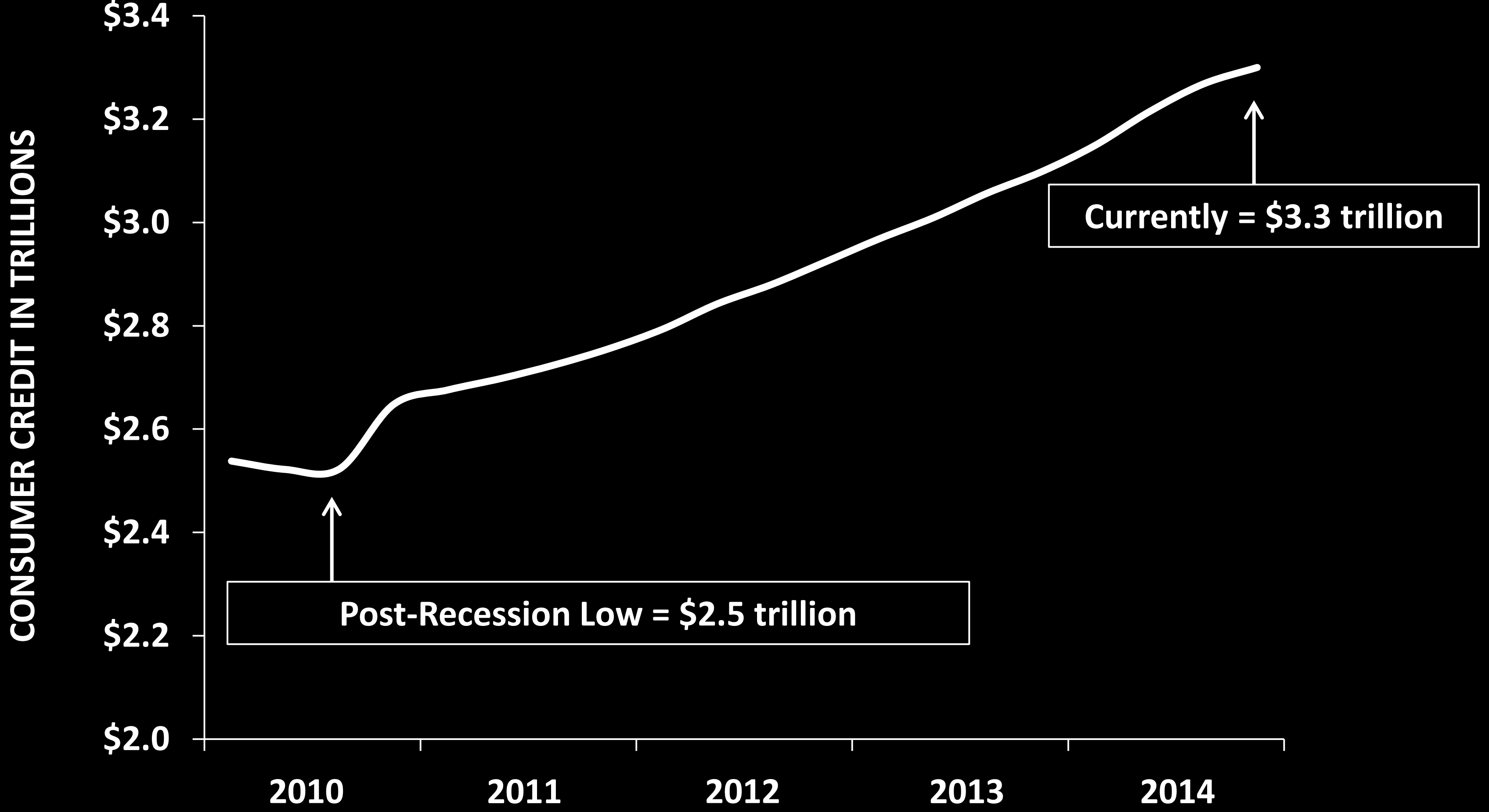


Source: U.S. Energy Information Administration, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Consumer Credit

United States | 2010 – 2014

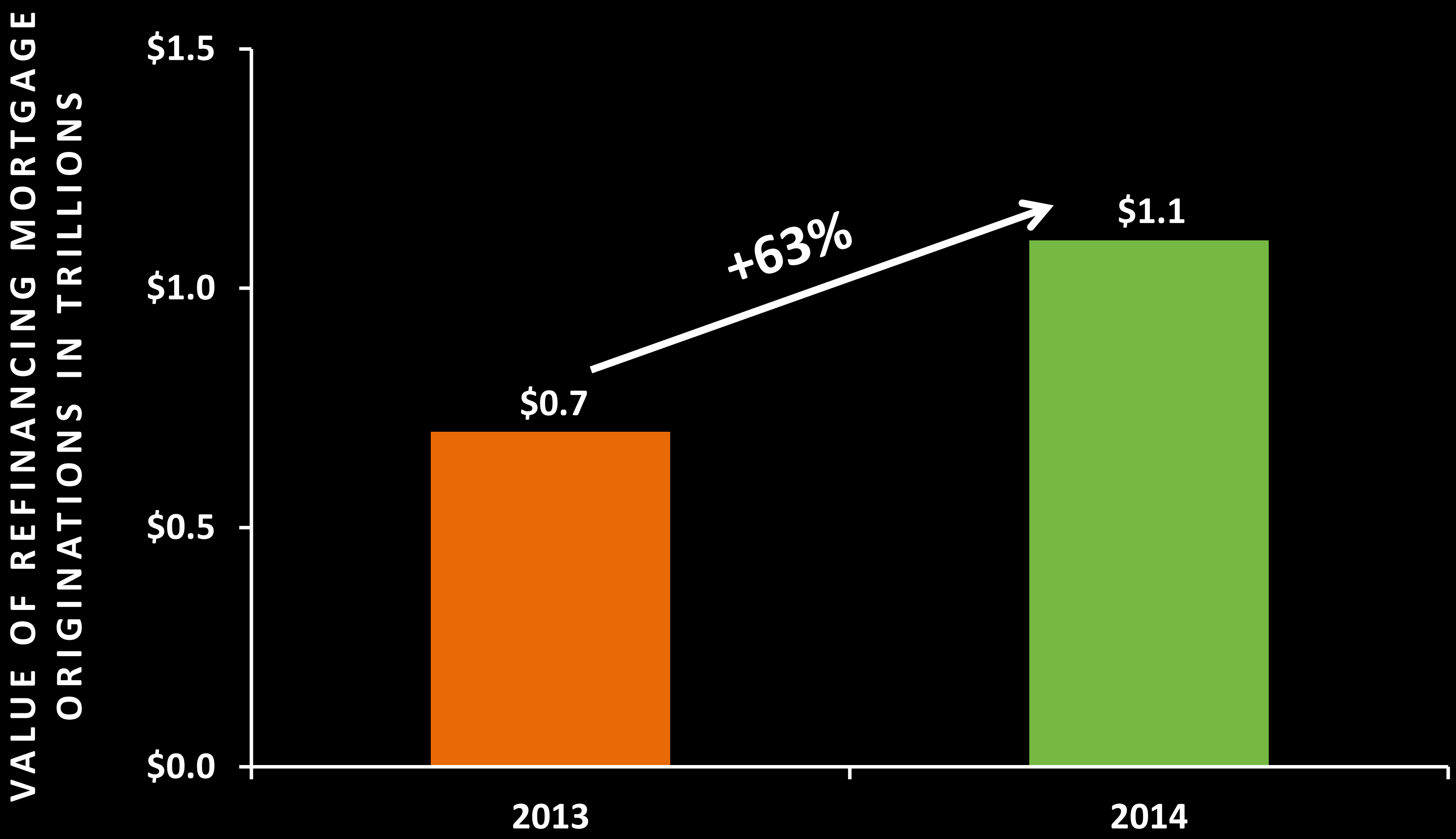


Source: Federal Reserve, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Refinancing Mortgage Originations

United States | 2013 – 2014

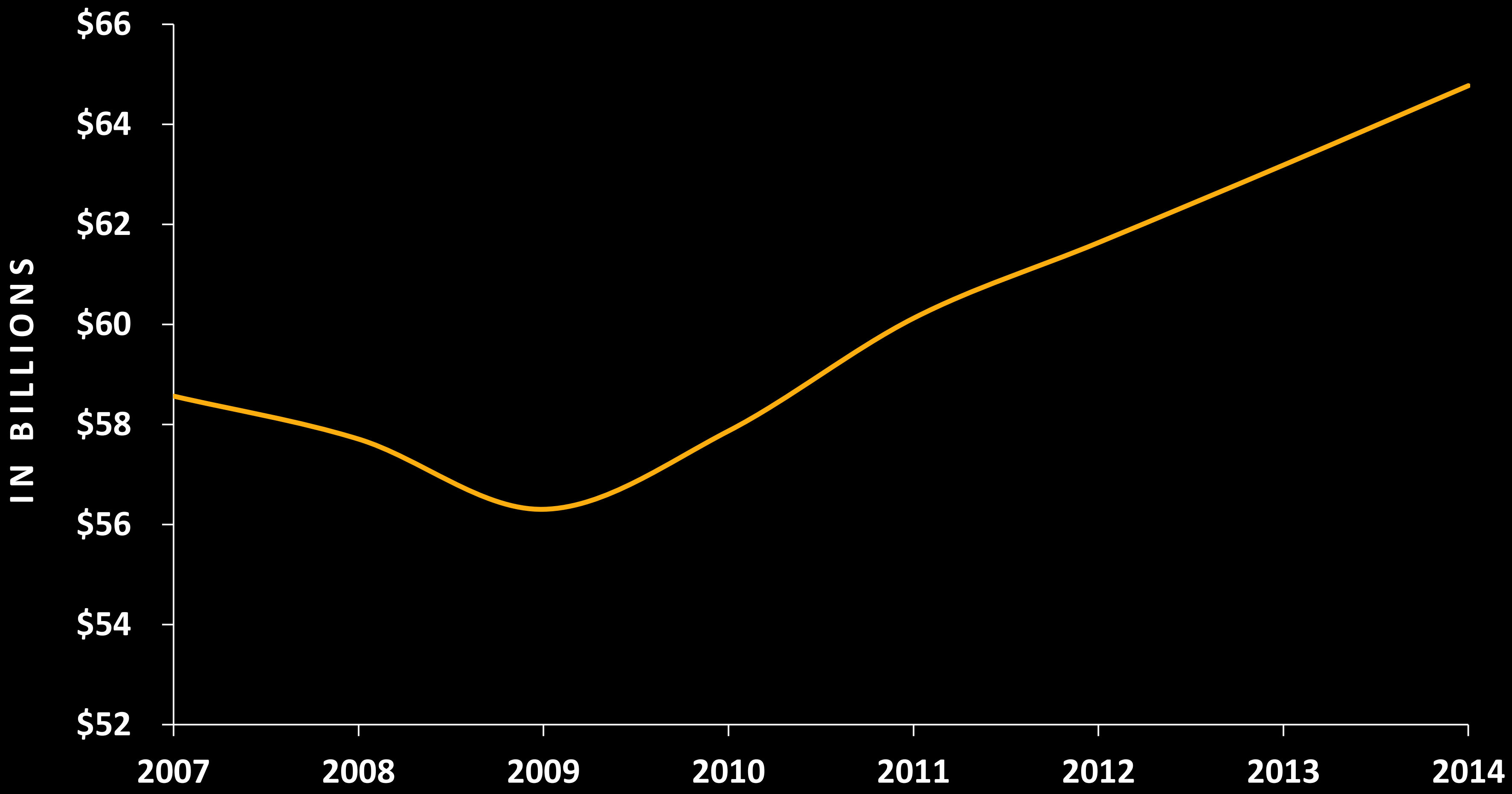


Source: Mortgage Bankers Association, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Annual Retail Sales

Washington Metro Area | 2007 – 2014



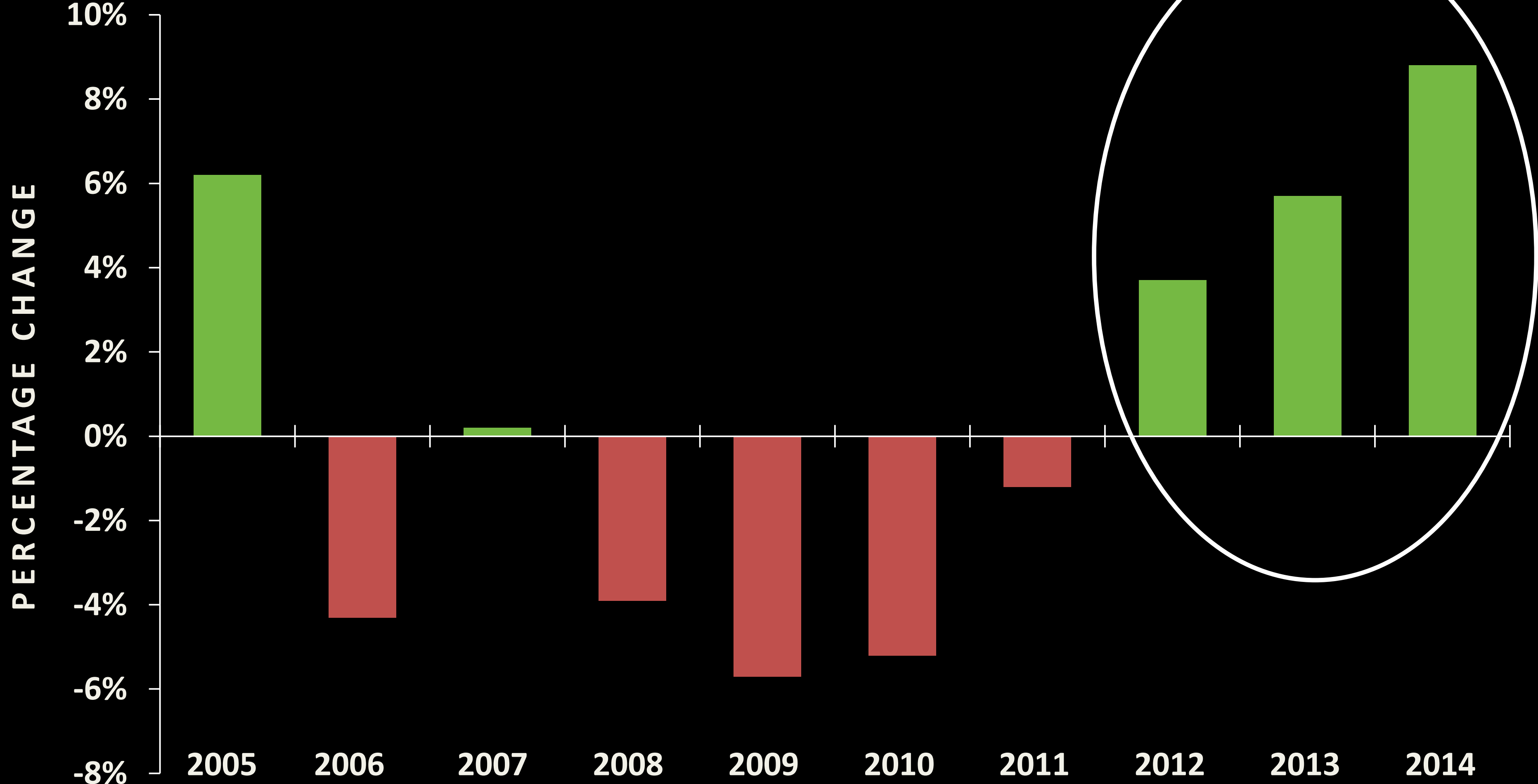
Source: Woods & Poole, Delta Associates; March 2015.

MegaTrend 1: Wage Growth Flat, Discretionary Income Up

Metropolitan Washington Council of Governments

Effective New Condominium Sales Price Change

Washington Metro Area | 2005 – 2014



Source: Delta Associates; March 2015.

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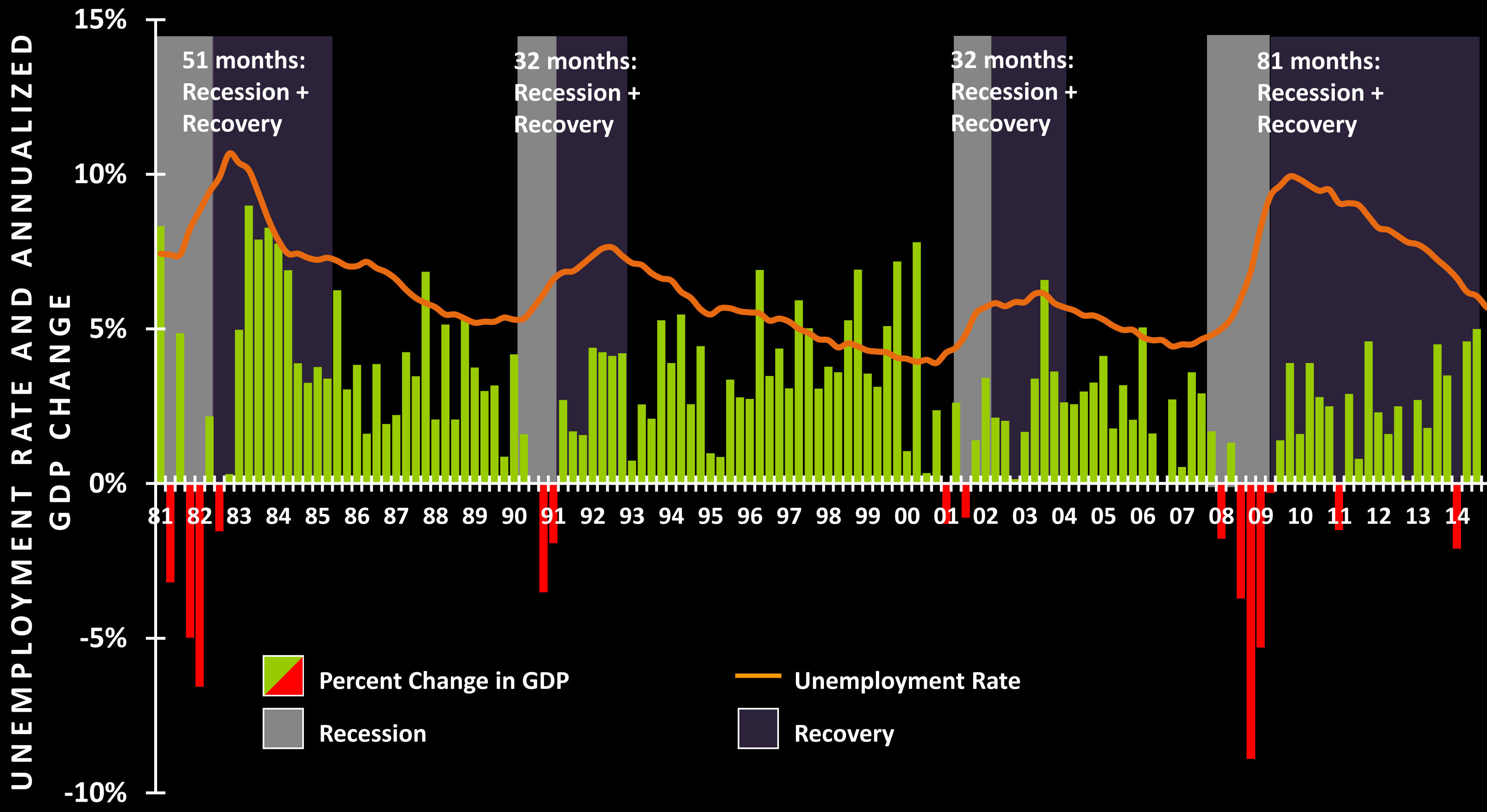
TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE

MEGATREND 2: THE REGIONAL ECONOMY IS RECOVERING, BUT NOT RECOVERED

Metropolitan Washington Council of Governments

National Economic Recovery is Complete

United States | 1981-2014



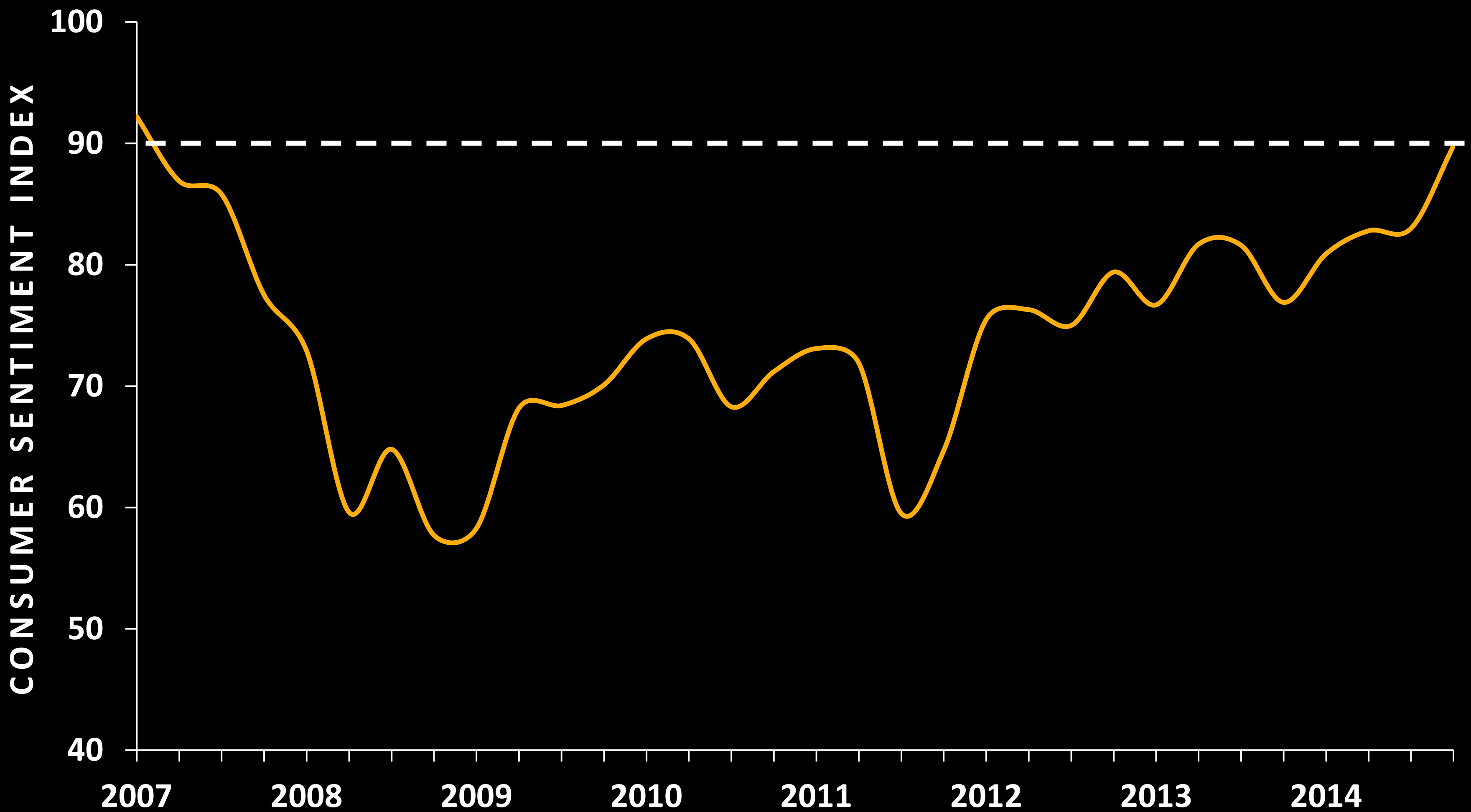
Source: BLS, BEA, Center for Regional Analysis, Global Insight, Delta Associates; March 2015.

MegaTrend 2: Regional Economy Recovering, Not Recovered

Metropolitan Washington Council of Governments

Consumer Sentiment

United States | 2007 - 2014

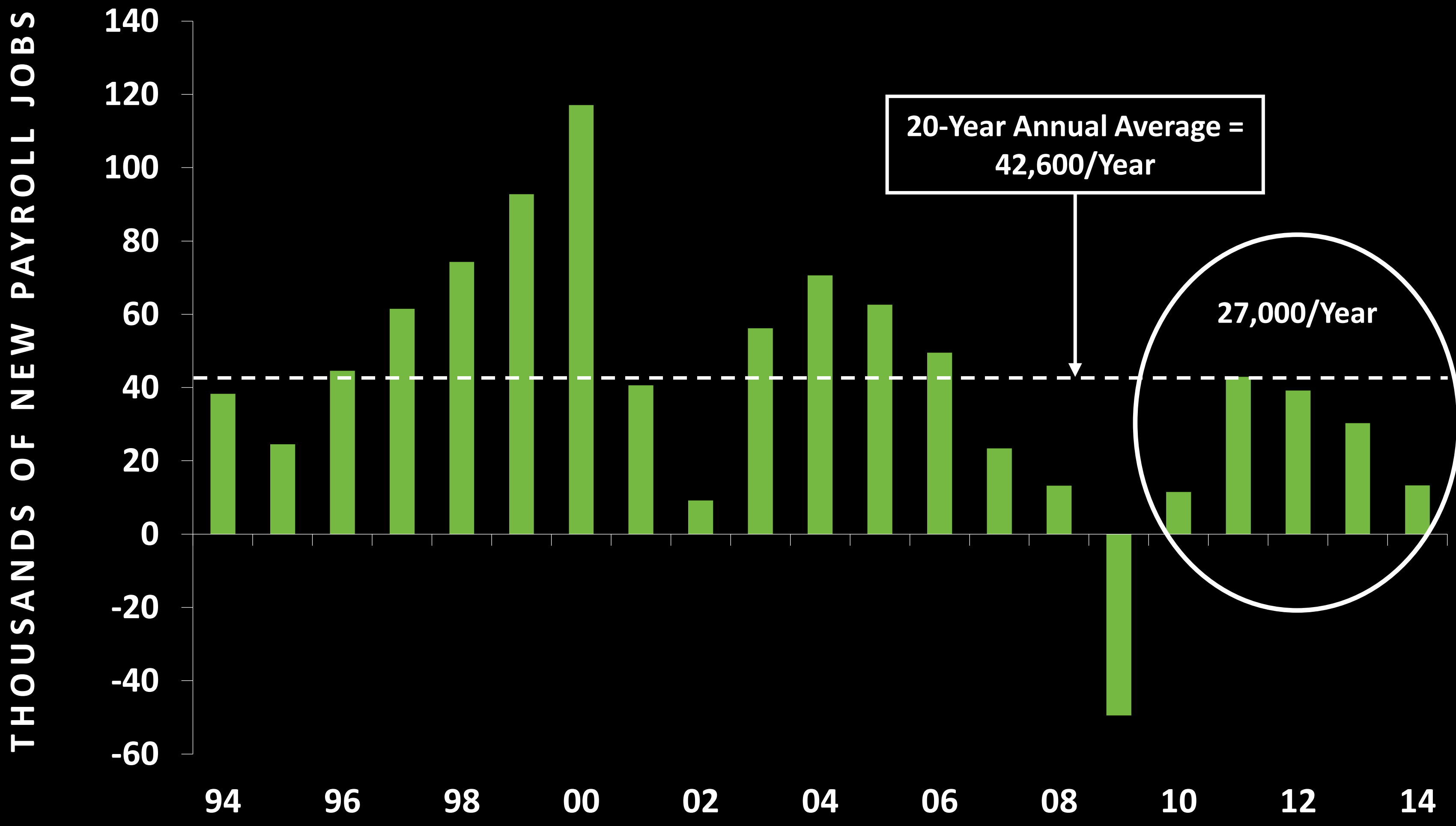


Source: University of Michigan, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Payroll Job Growth

Washington Metro Area | 1994 – 2014

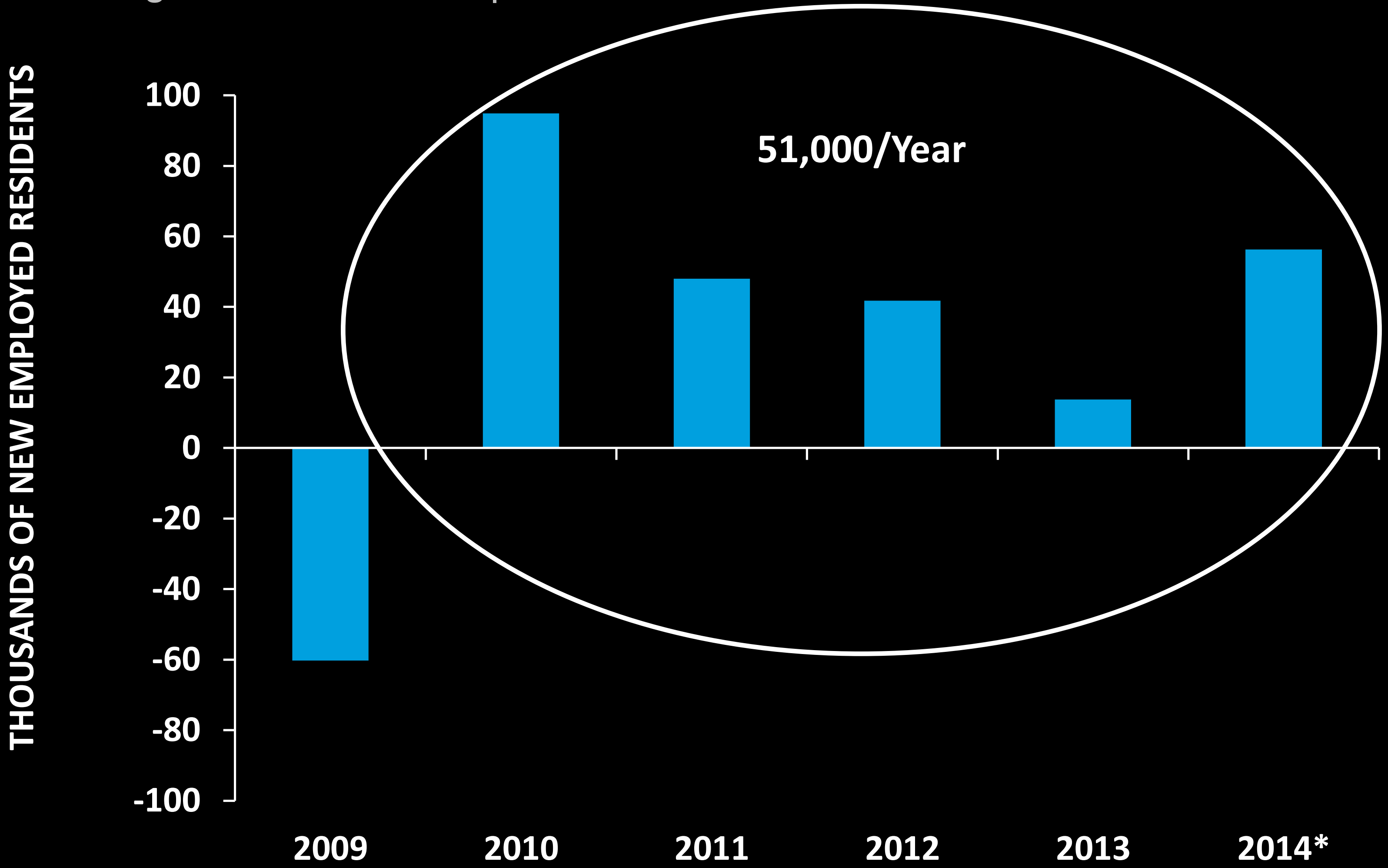


Source: BLS, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Change in Employed Residents

Washington Metro Area | 2009 – 2014



*12 months ending October 2014.

Source: GMU Center for Regional Analysis, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Change in Employed Residents

Washington Metro Area | 2009 – 2014

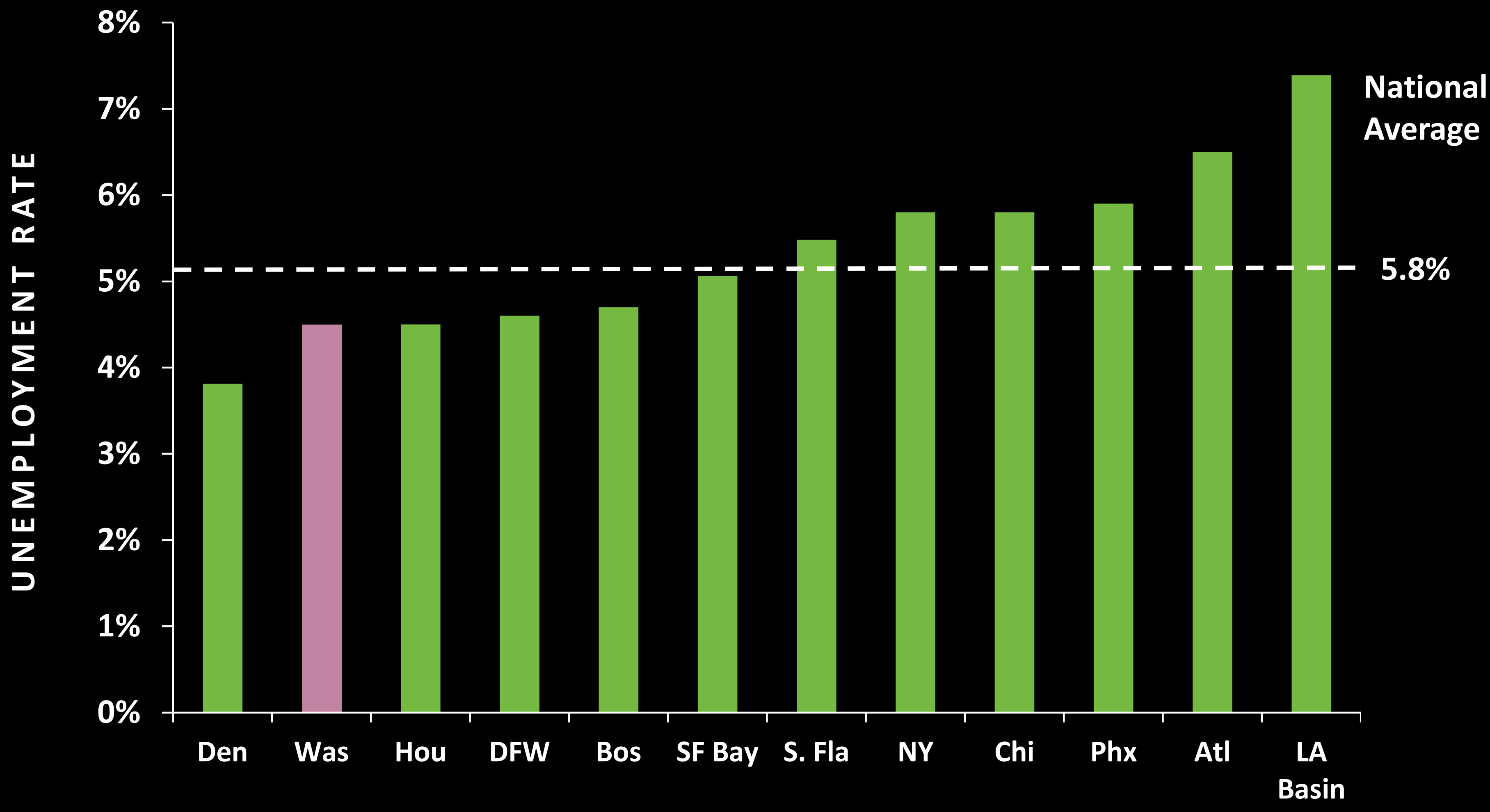
*12 months ending October 2014.

Source: BLS, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Unemployment Rate

Large Metro Areas | November 2014

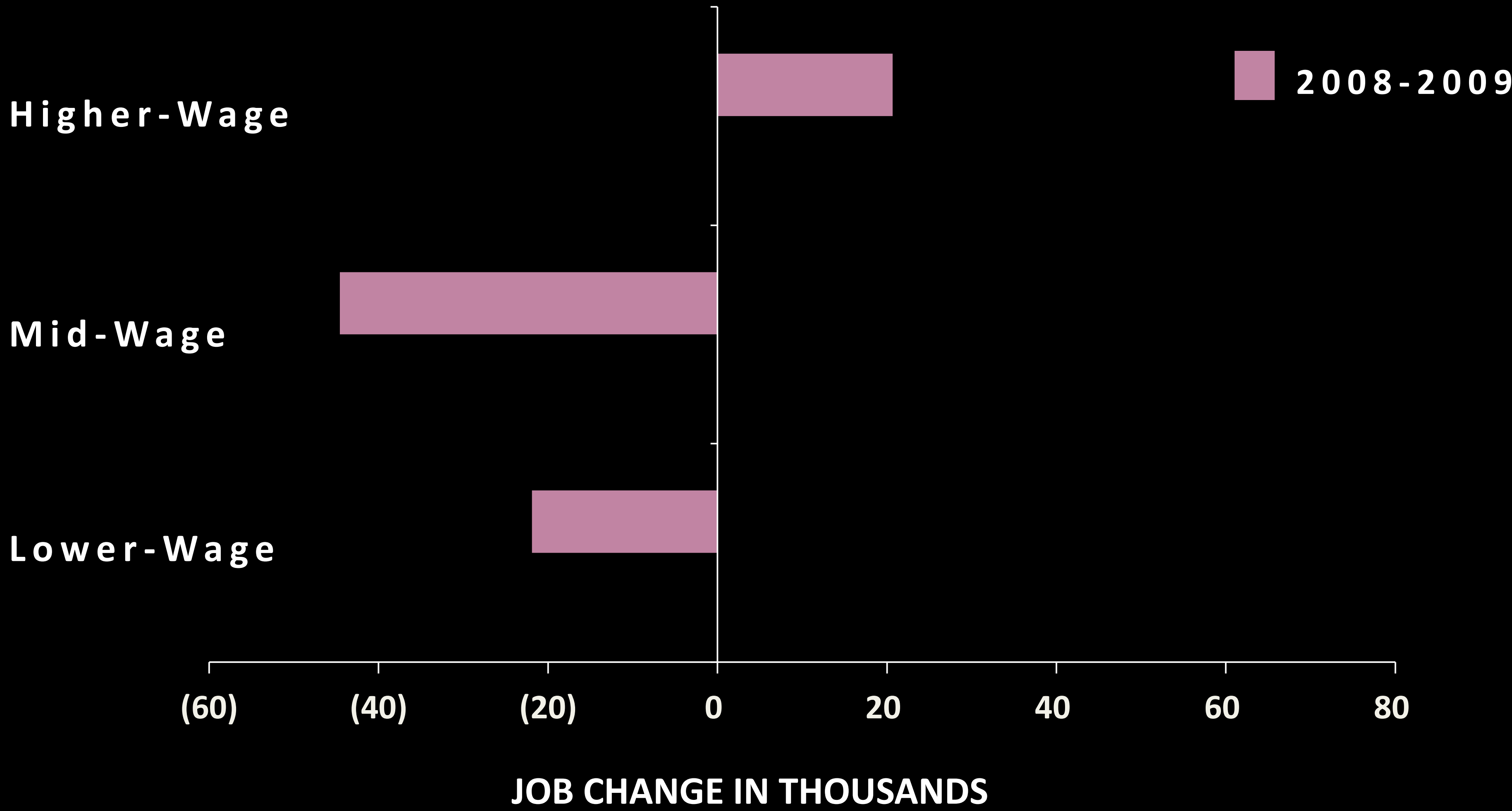


Source: BLS, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Payroll Job Change by Wage

Washington Metro Area | 2008 – 2009

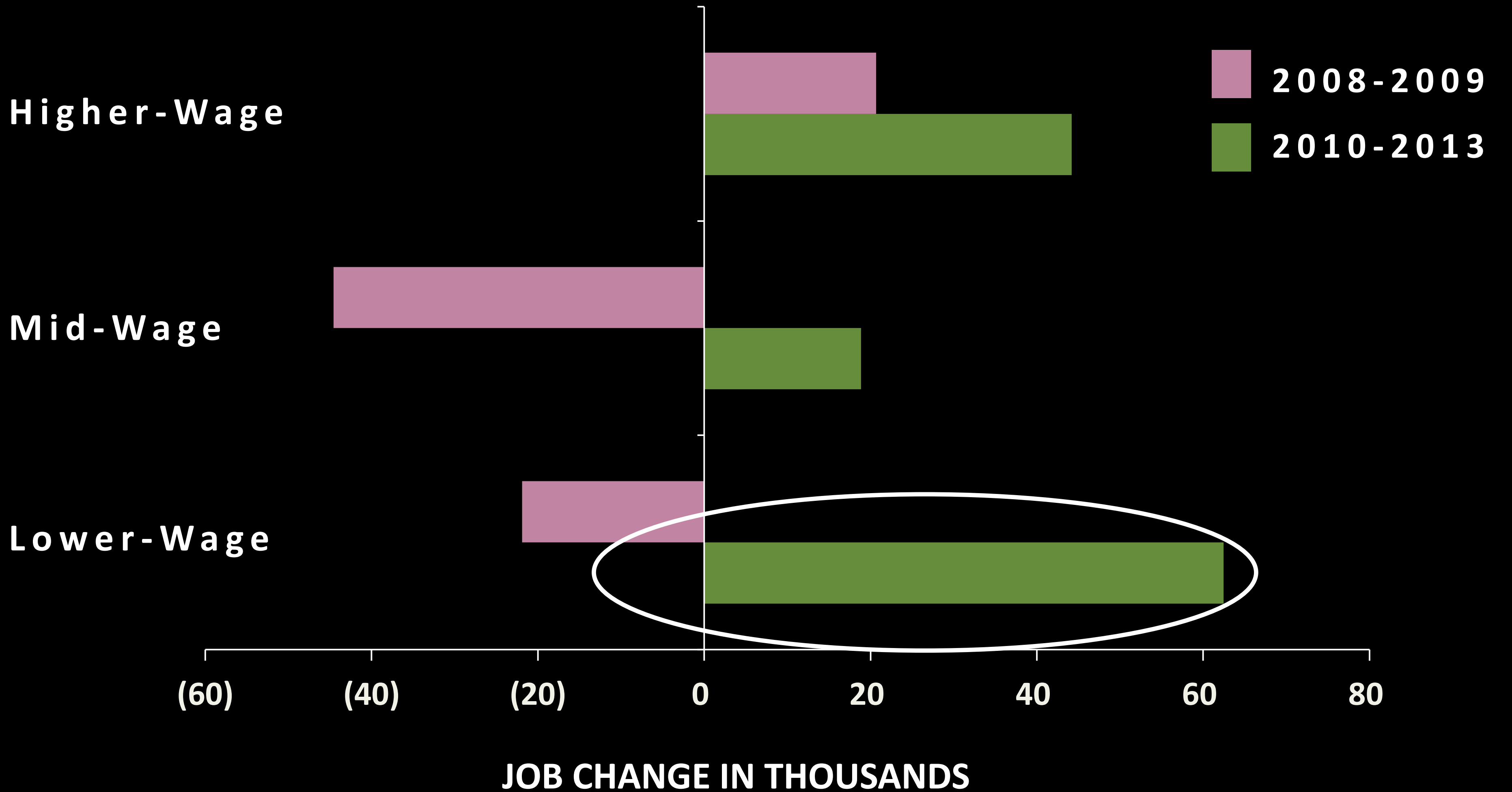


Source: Dr. Stephen Fuller, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Payroll Job Change by Wage

Washington Metro Area | 2008 – 2013

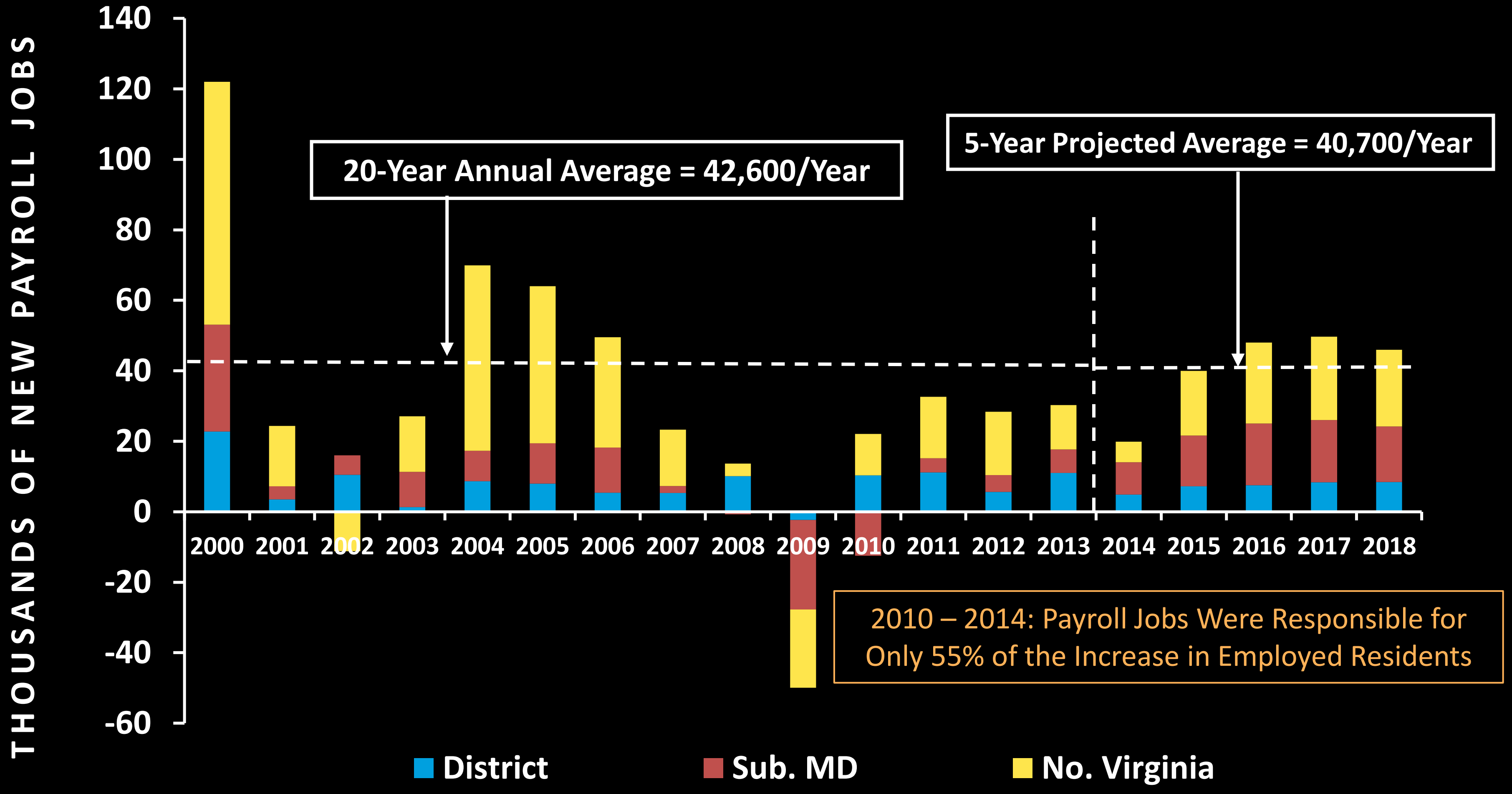


Source: Dr. Stephen Fuller, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Payroll Job Growth

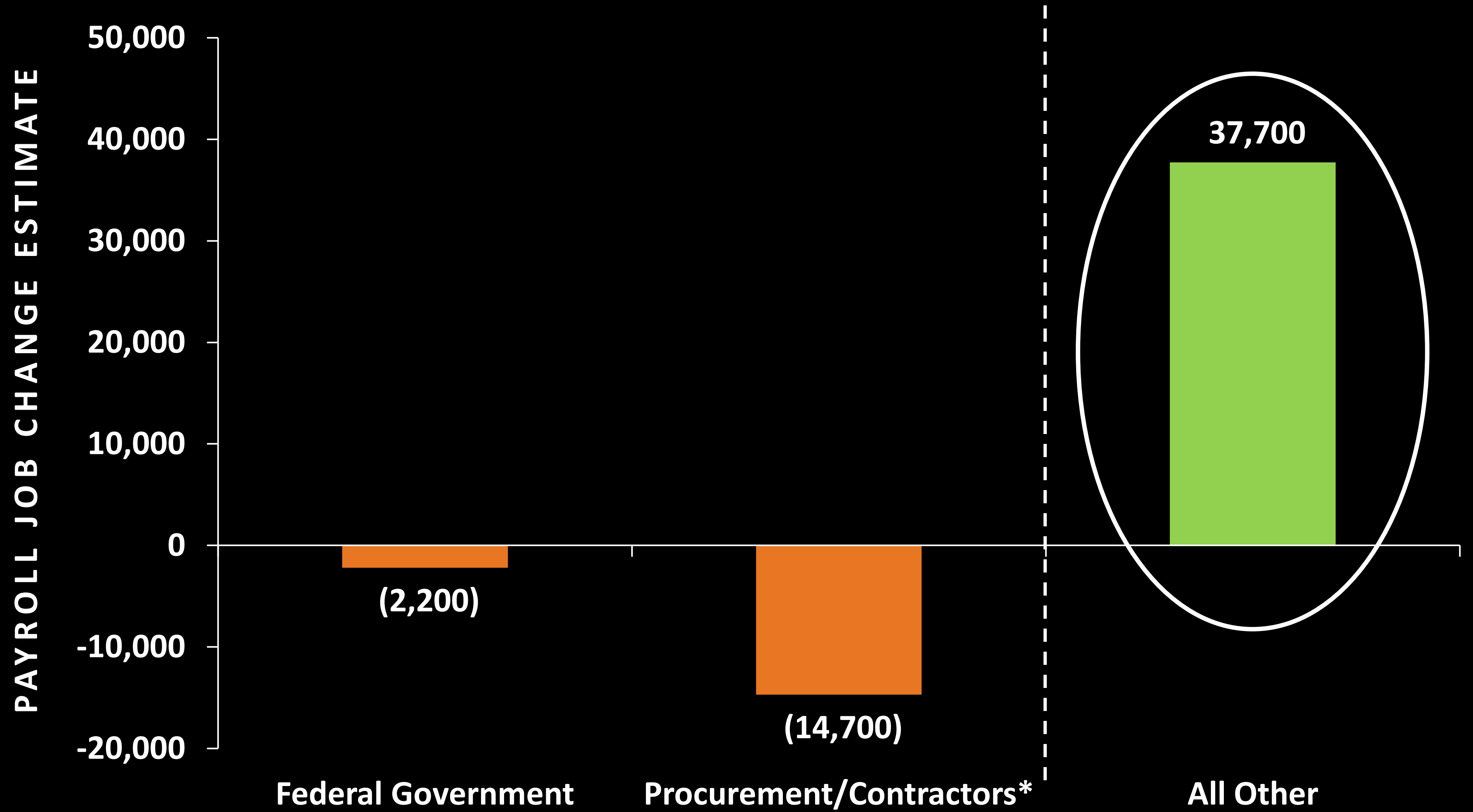
Washington Metro Area | 2000 – 2018



Metropolitan Washington Council of Governments

Job Change

Washington Metro Area | 12 Months Ending December 2014

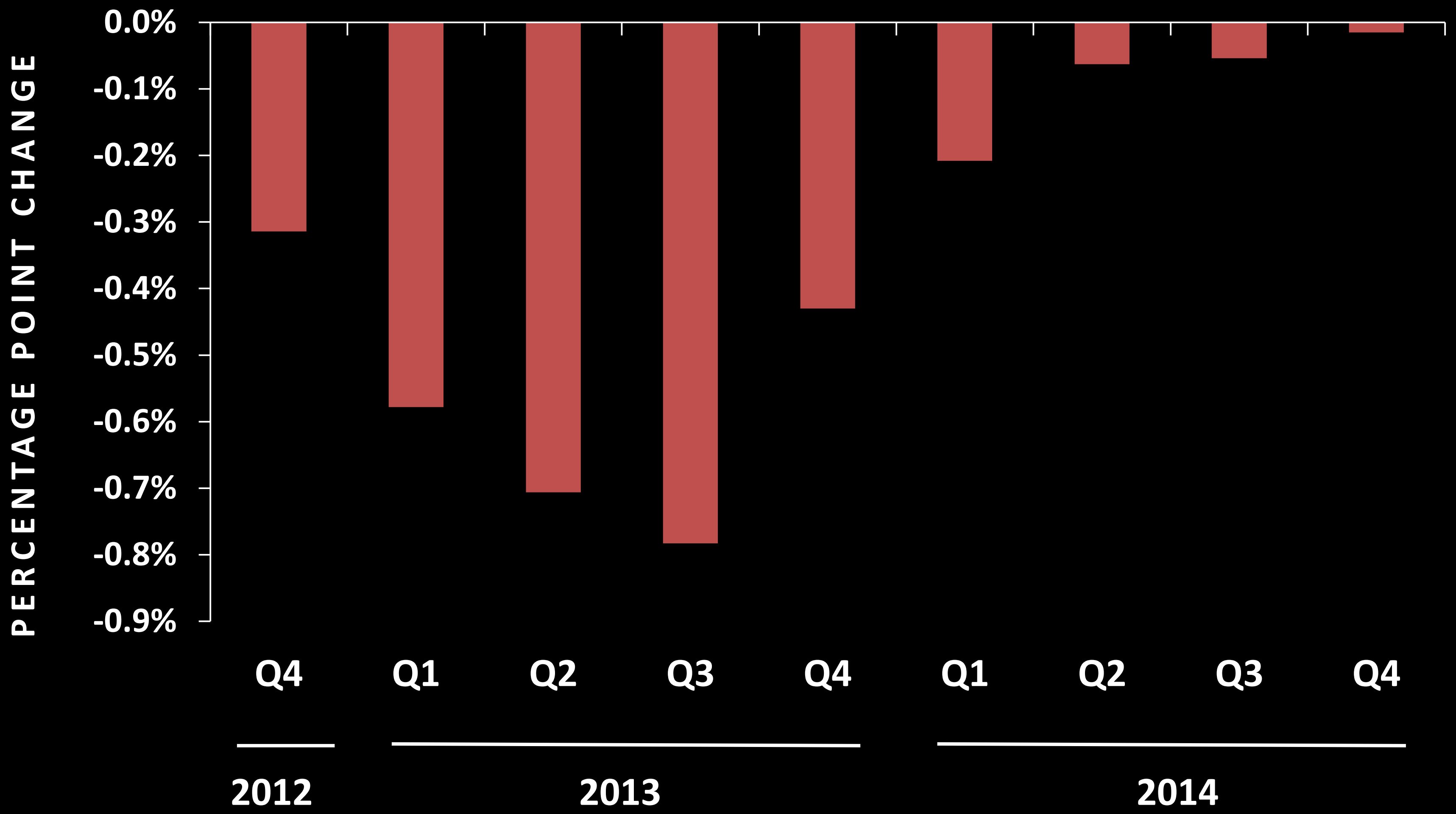


Source: BLS, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Impact of Sequester on GDP Growth

United States | 2012 – 2014

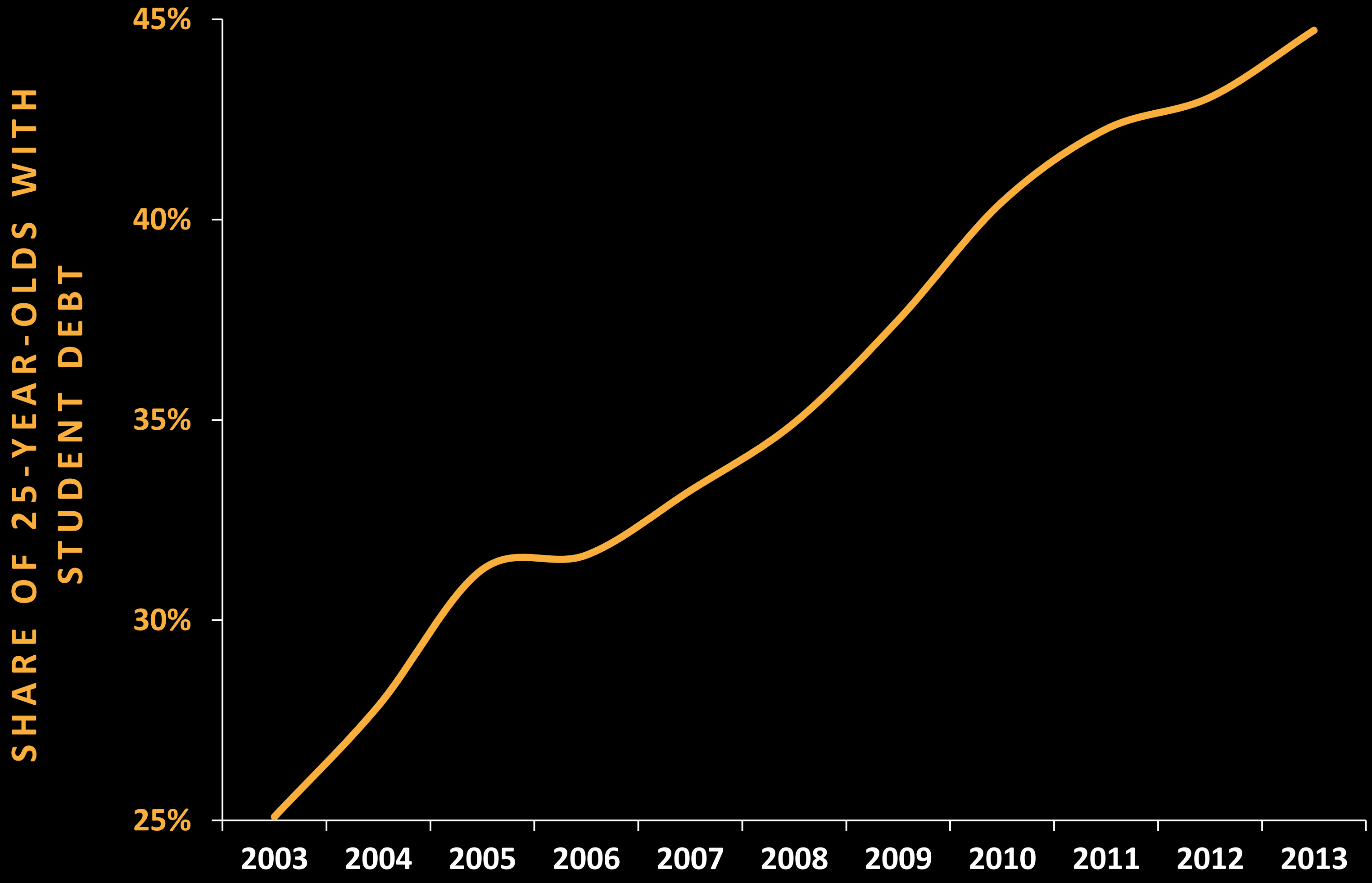


Source: Moody's Analytics, Delta Associates; March 2015.

MEGATREND 3: CONSUMER BEHAVIOR IS CHANGING

Student Loan Debt

United States | 2003 – 2013

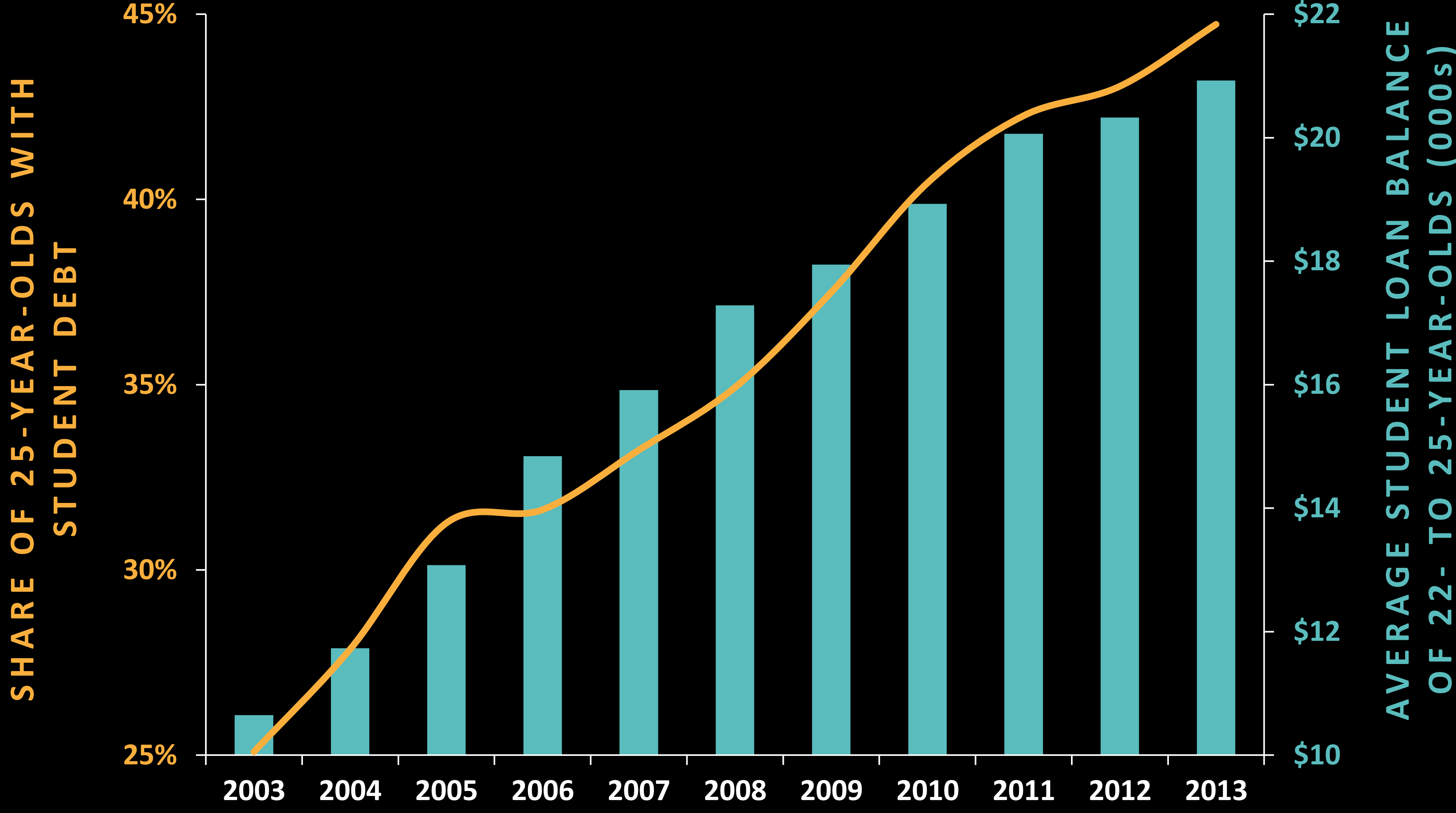


Source: Federal Reserve Bank of New York, Equifax, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Student Loan Debt

United States | 2003 – 2013



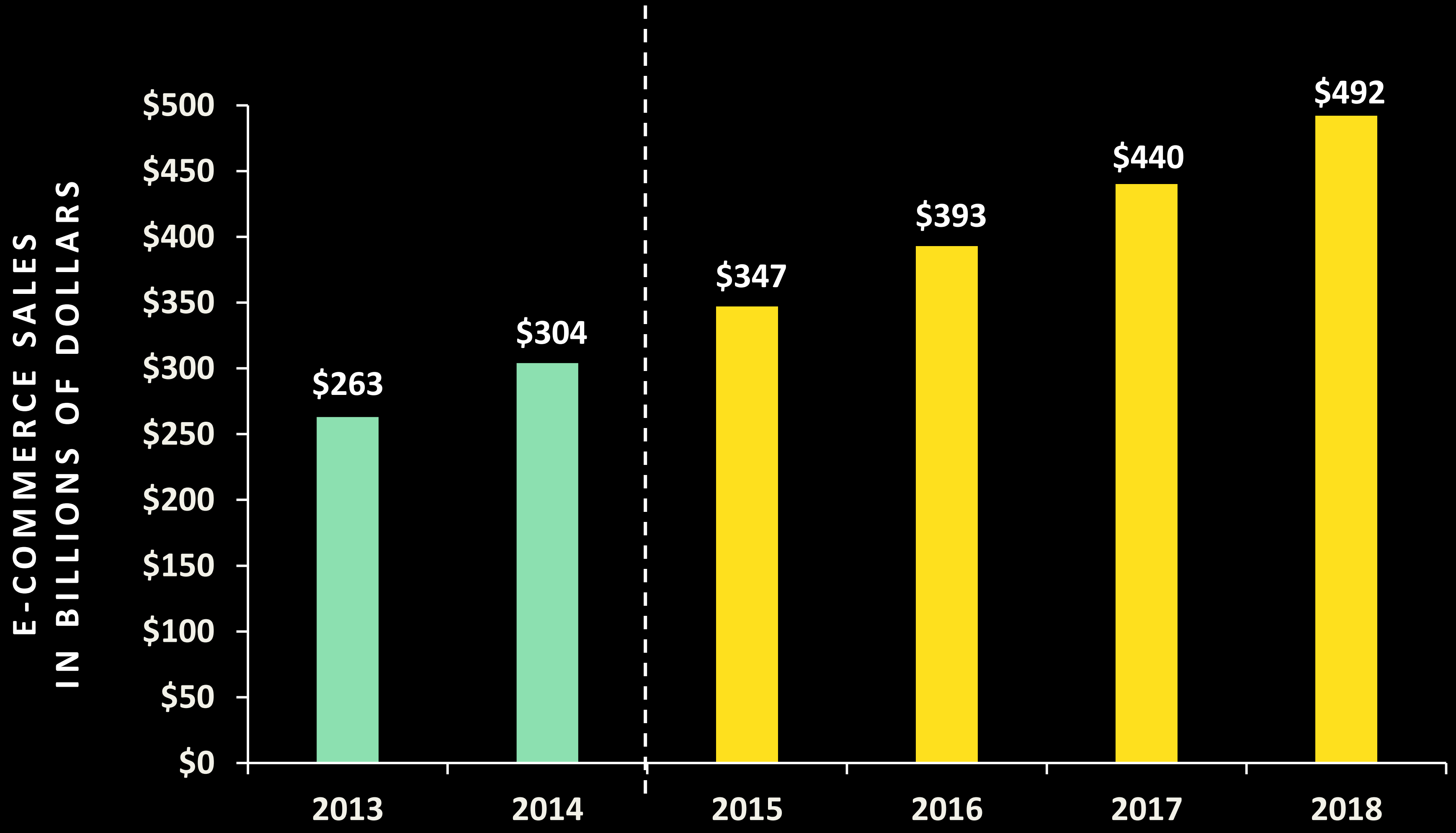
Source: Federal Reserve Bank of New York, Equifax, Delta Associates; March 2015.

MegaTrend 3: Consumer Behavior Changing

Metropolitan Washington Council of Governments

E-Commerce Sales Forecast

United States | 2013 – 2018



Source: eMarketer, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Apartments

Source: Mill Creek Residential Trust, Equity Residential, Delta Associates; March 2015.

MegaTrend 3: Consumer Behavior Changing

Metropolitan Washington Council of Governments

Retail

Source: Delta Associates; March 2015.

MegaTrend 3: Consumer Behavior Changing

Metropolitan Washington Council of Governments

Industrial

Source: Delta Associates; March 2015.

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TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE

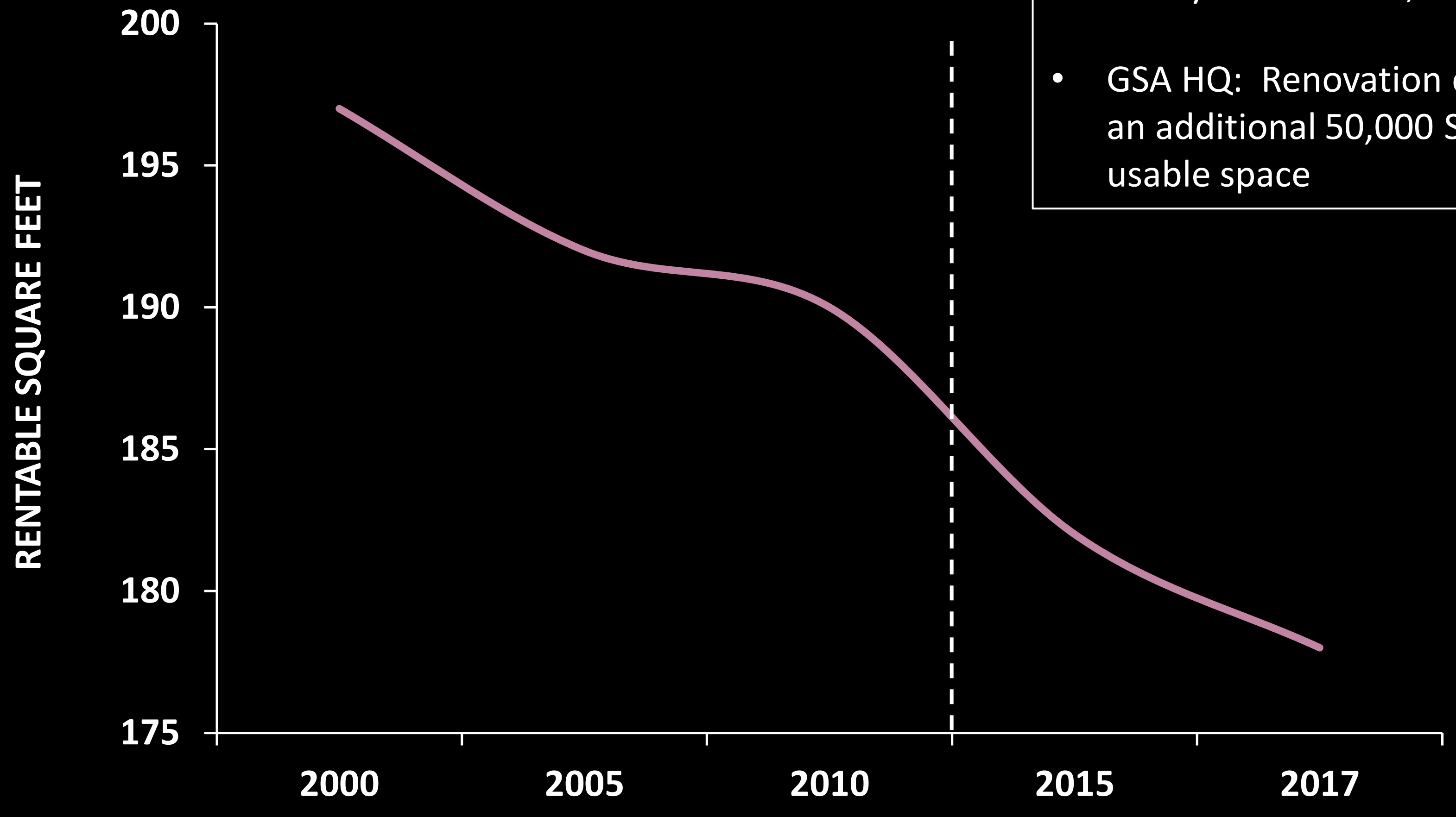
MEGATREND 4: TENANT BEHAVIOR IS CHANGING

Metropolitan Washington Council of Governments

Average Square Feet Leased Per Office Worker

Washington Metro Area | 2000 – 2017

- Accenture: Cut office space nearly in half to 90,000 SF
- GSA HQ: Renovation created an additional 50,000 SF of usable space

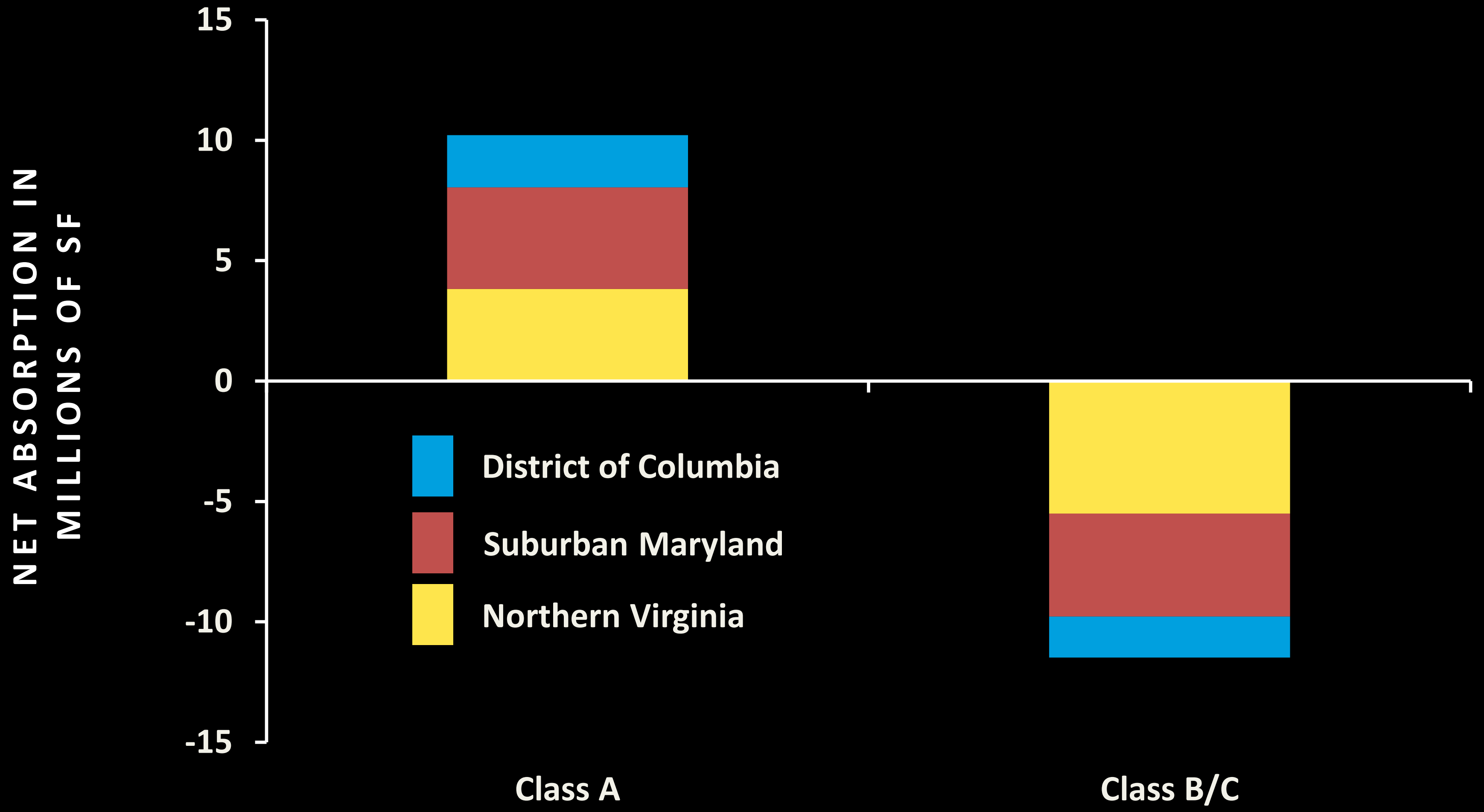


Source: Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Office Net Absorption by Class of Space

Washington Metro Area | 2011–2014



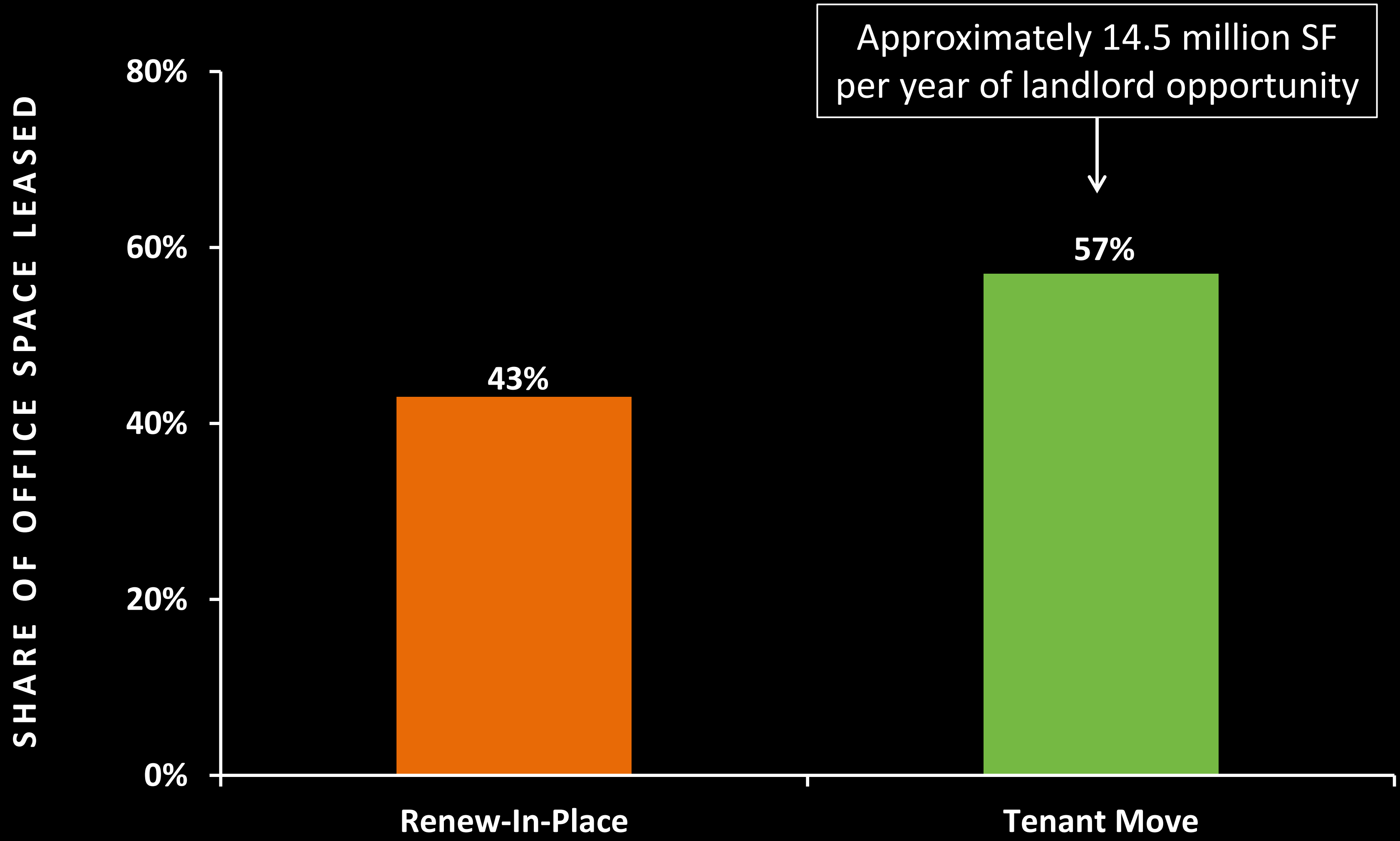
Source: Transwestern; March 2015.

MegaTrend 4: Tenant Behavior Changing

Metropolitan Washington Council of Governments

Office Leasing Activity by Type

Washington Metro Area | 2012 – 2014



Source: Transwestern; March 2015.

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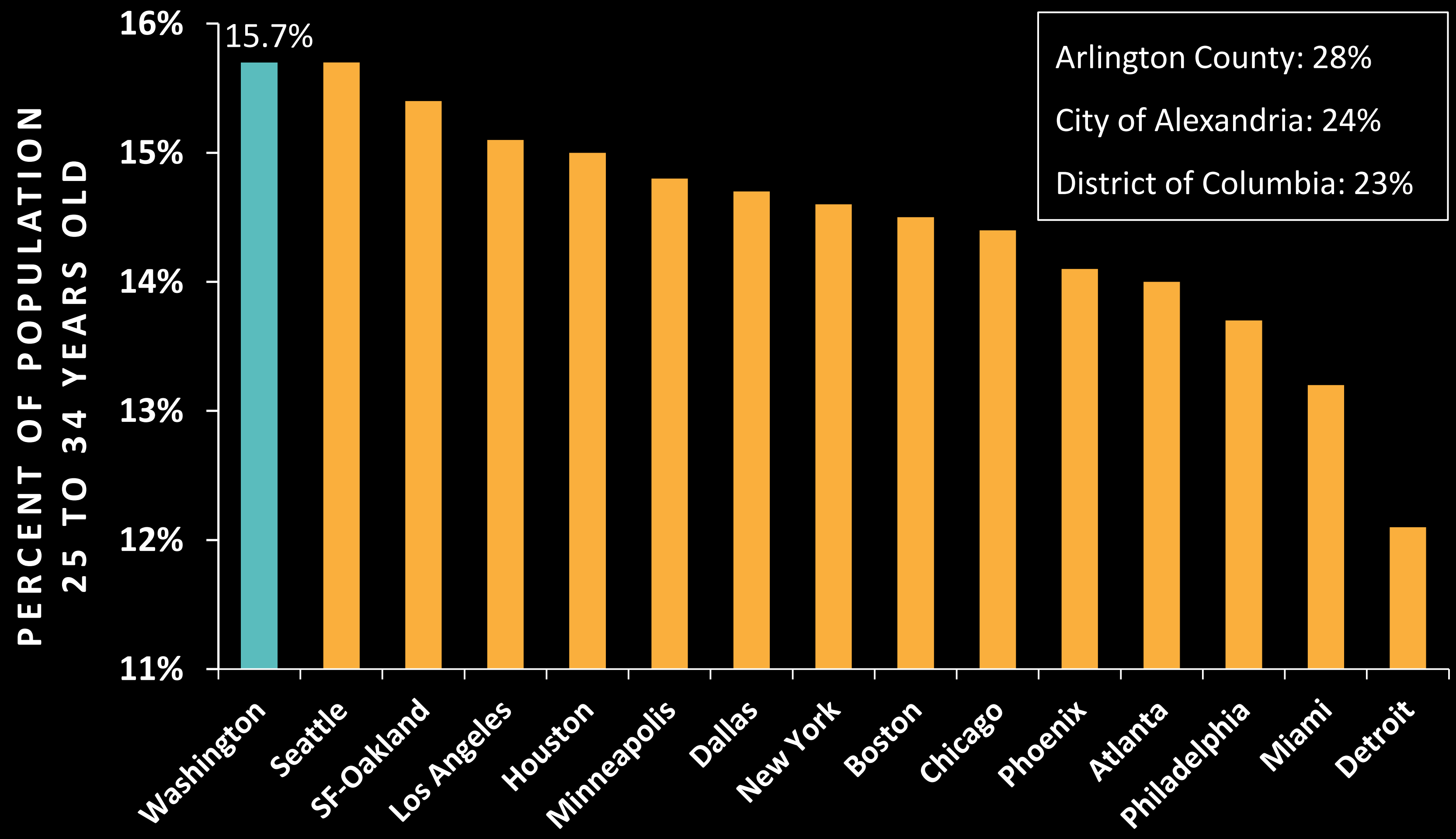
TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE

MEGATREND 5: REAL ESTATE IS NOW AN EXPERIENCE, NOT JUST A LOCATION

Share of Population Between 25 to 34 Years Old

Largest Metros | 2013



Source: U.S. Census Bureau, Delta Associates; March 2015.

MegaTrend 5: Real Estate As An Experience

Metropolitan Washington Council of Governments

Mosaic District
Merrifield, Virginia

Union Market
District of Columbia

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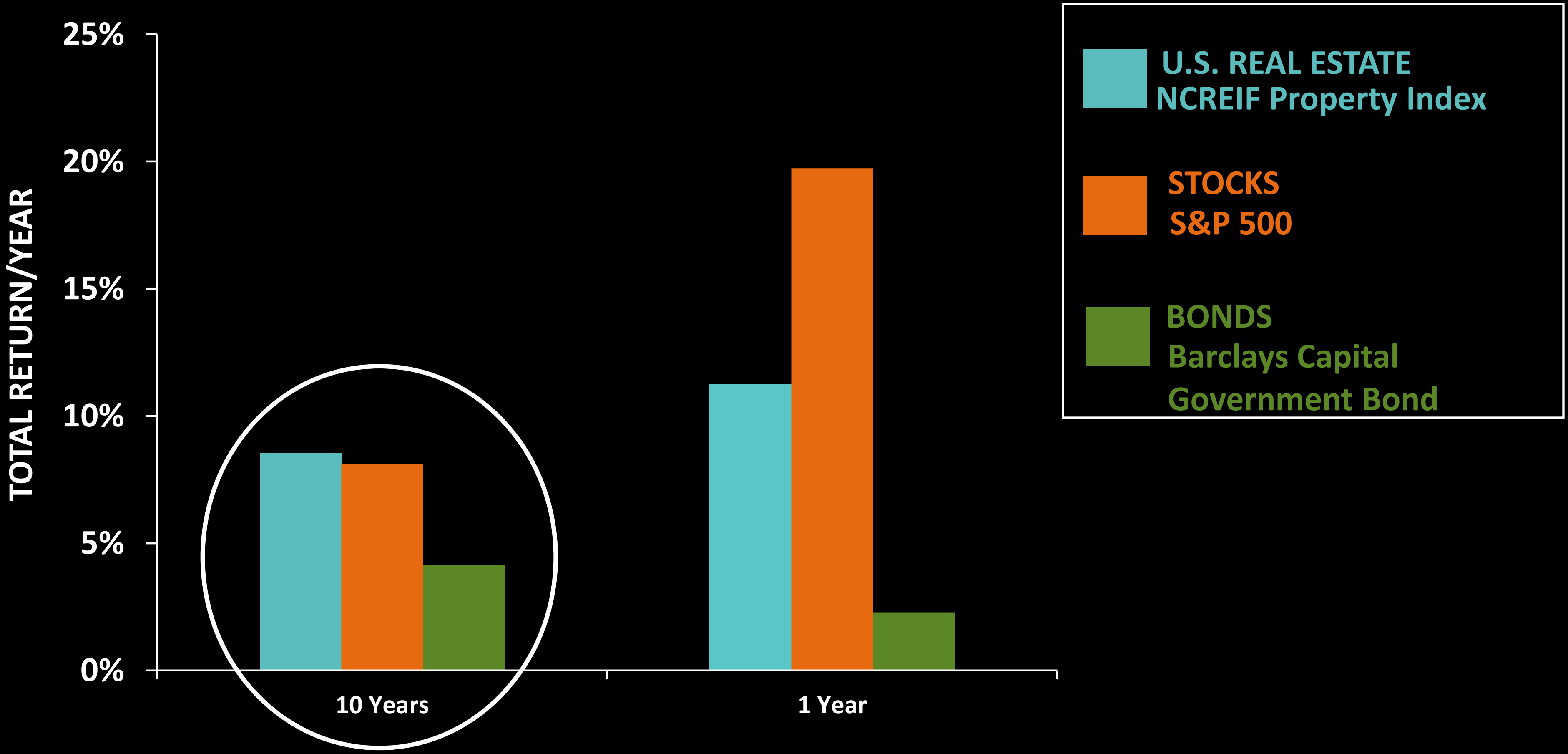
TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE

MEGATREND 6: REAL ESTATE IS A PREFERRED INVESTMENT VEHICLE BOTH NATIONALLY AND LOCALLY

Metropolitan Washington Council of Governments

Investment Alternatives

Commercial Real Estate vs. Stocks vs. Bonds | 12 Months Ending September 2014

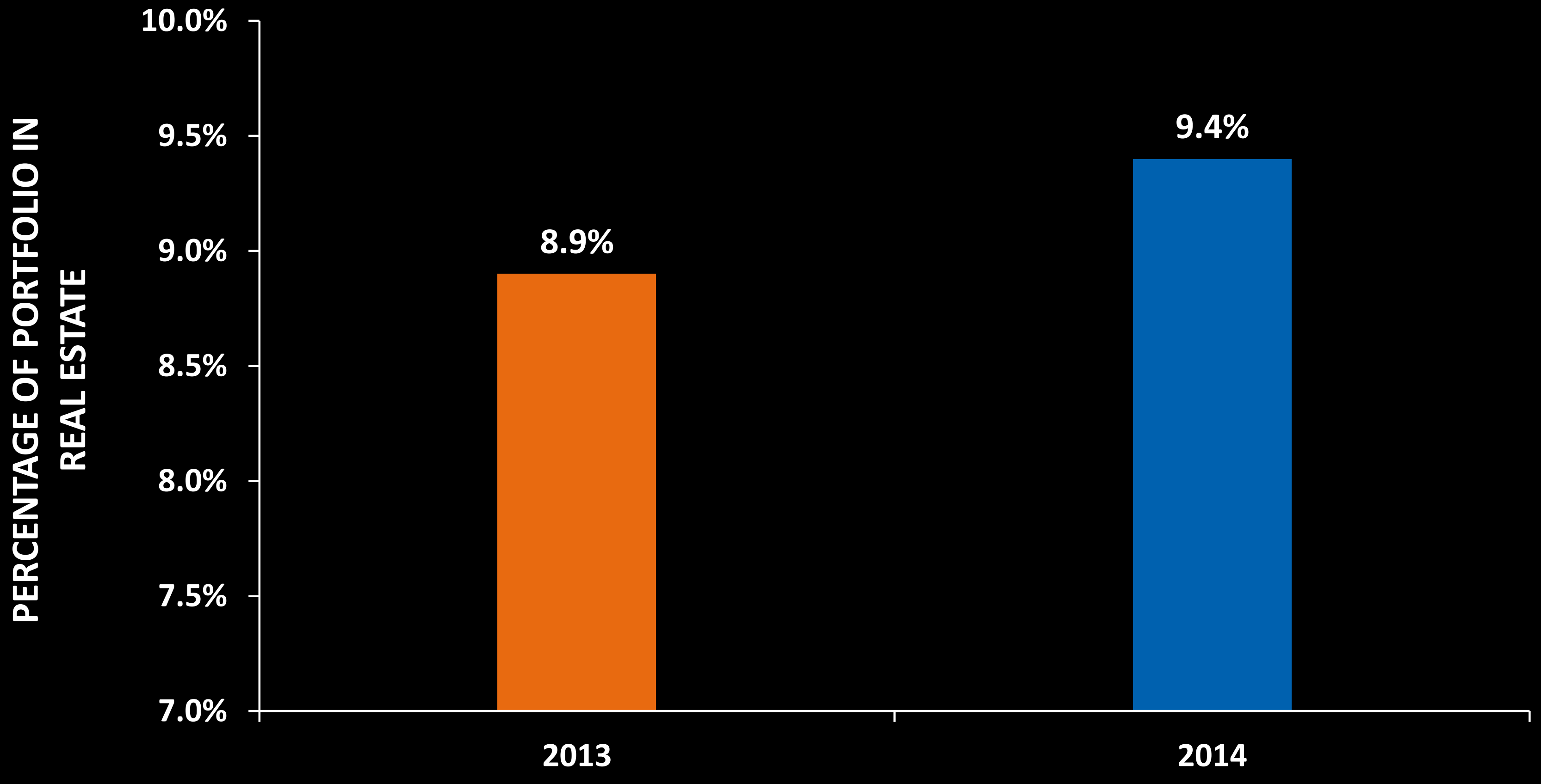


Source: NCREIF, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Institutional Target Allocation for Real Estate

2013 vs. 2014



Source: *2014 Institutional Real Estate Allocation Monitor*, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

AFIRE Rankings of U.S. Cities for Real Estate Investment

2010

1. New York
2. Washington, D.C.
3. Boston
4. San Francisco
5. Los Angeles

2015

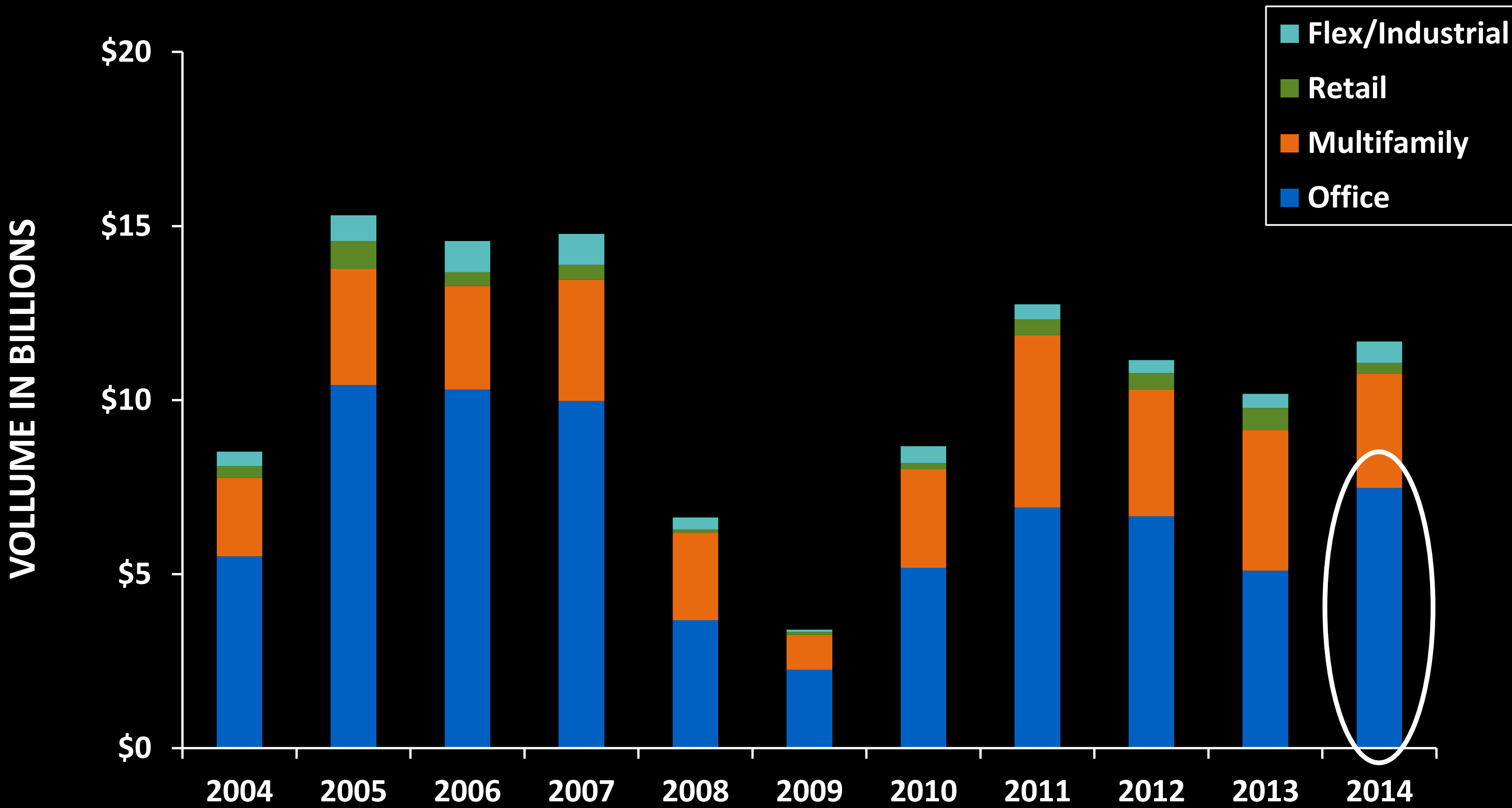
1. New York
2. San Francisco
3. Houston
4. Los Angeles
5. Washington, D.C.

Source: AFIRE, Delta Associates; March 2015.

MegaTrend 6: Real Estate as a Preferred Investment

Investment Sales

Washington Metro Area | 2004 – 2014

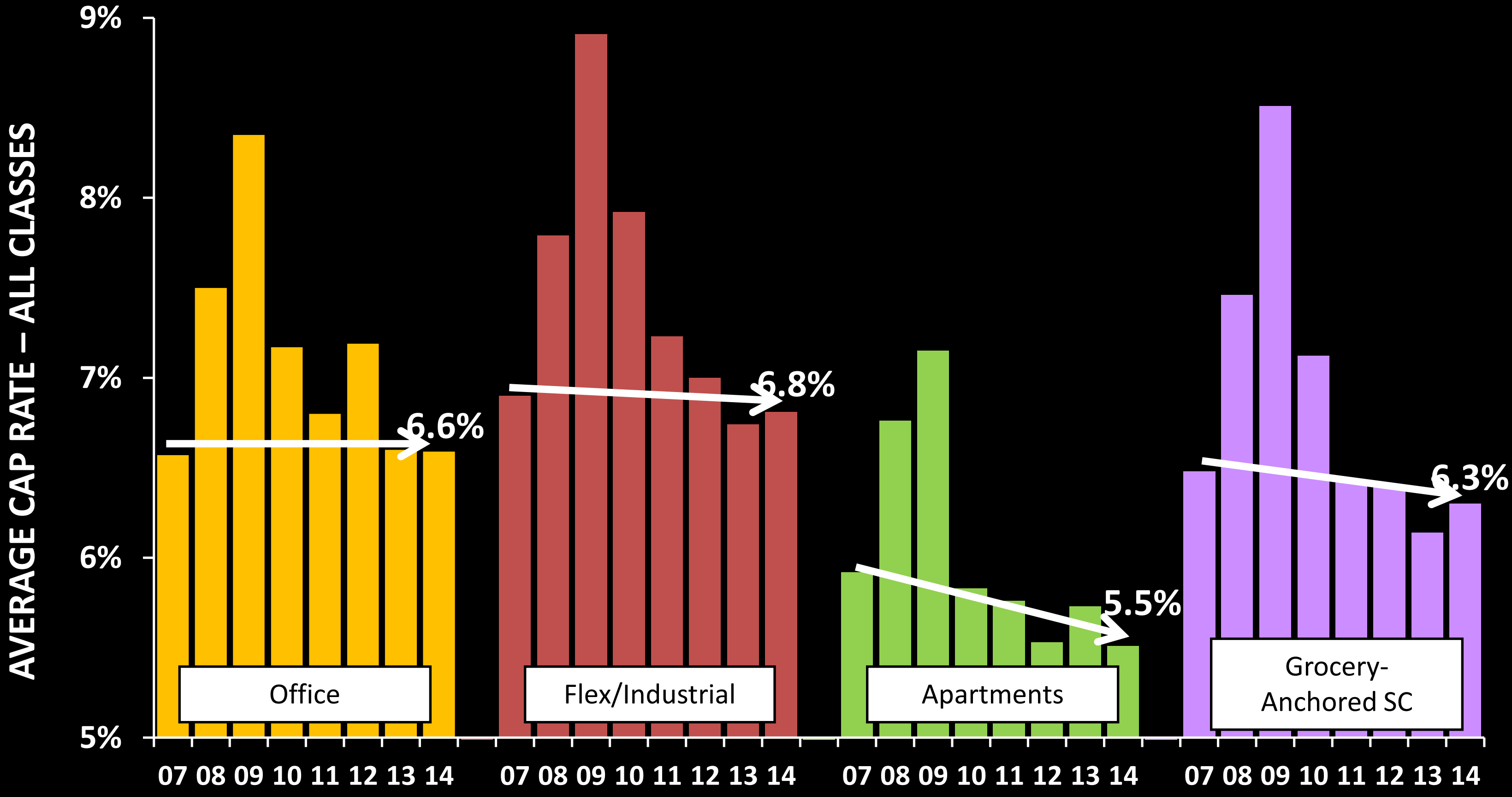


Note: Excludes whole- company transactions.
Source: Real Capital Analytics, graphic by Delta Associates; March 2015.

MegaTrend 6: Real Estate as a Preferred Investment

Estimate of Year-End Cap Rates

Washington Metro Area



Source: Delta Associates' Annual Market Maker Surveys; March 2015.

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TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE

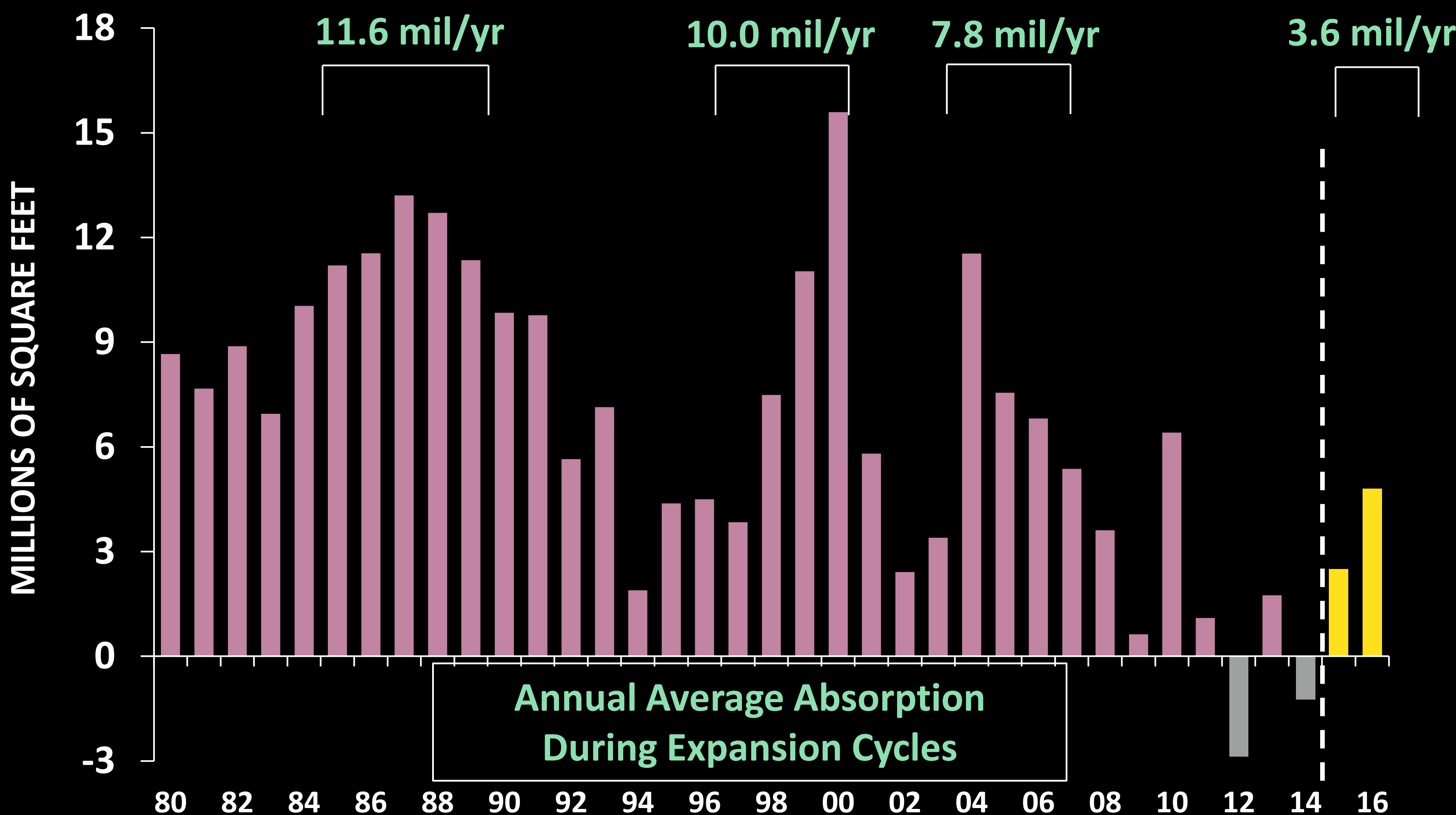
THE WASHINGTON AREA OFFICE MARKET

Office Space Net Absorption

Source: Transwestern; March 2015.

Metropolitan Washington Council of Governments

Office Space Net Absorption

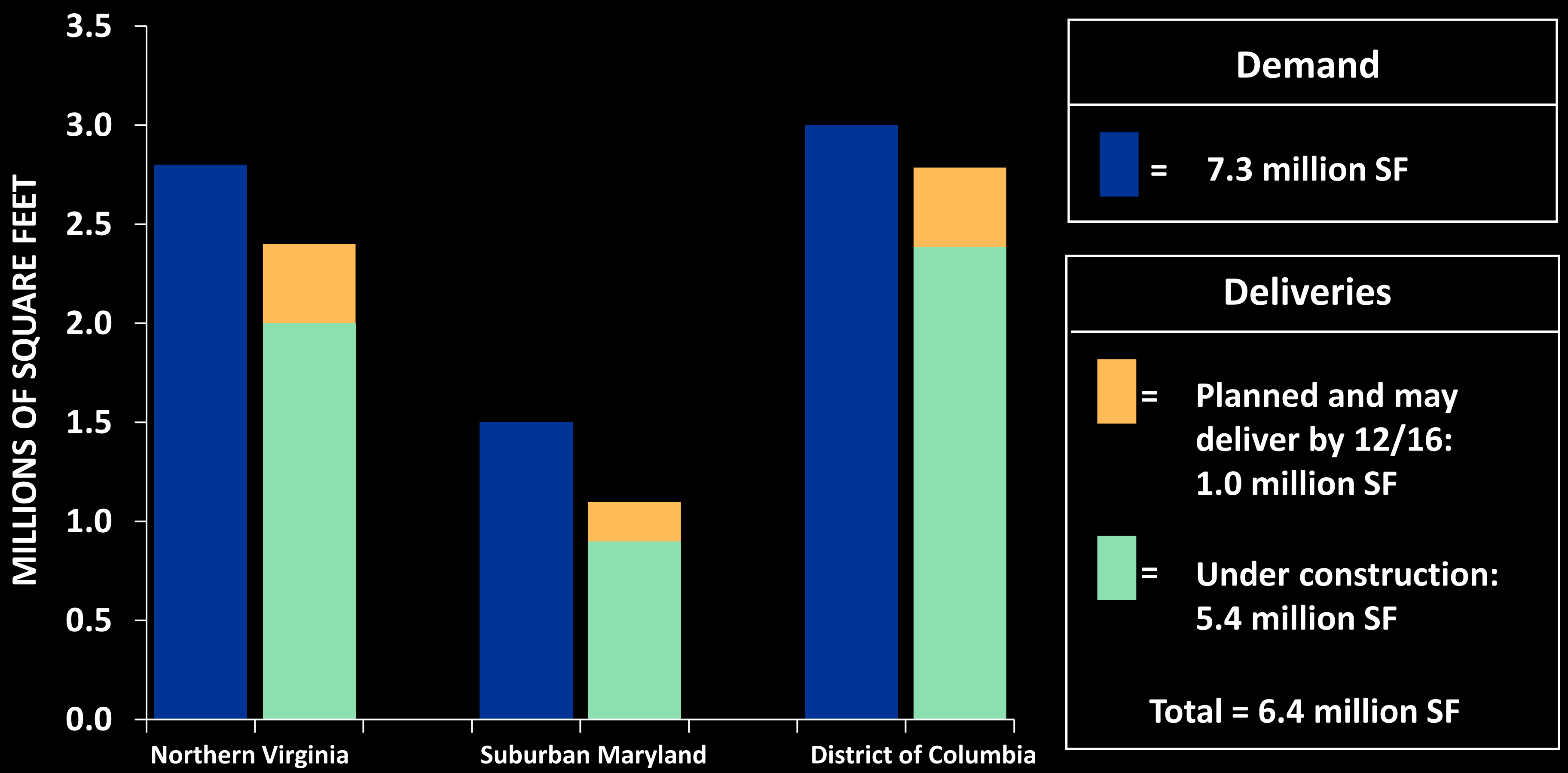


Source: Transwestern; March 2015.

Metropolitan Washington Council of Governments

Office Space Demand and Deliveries

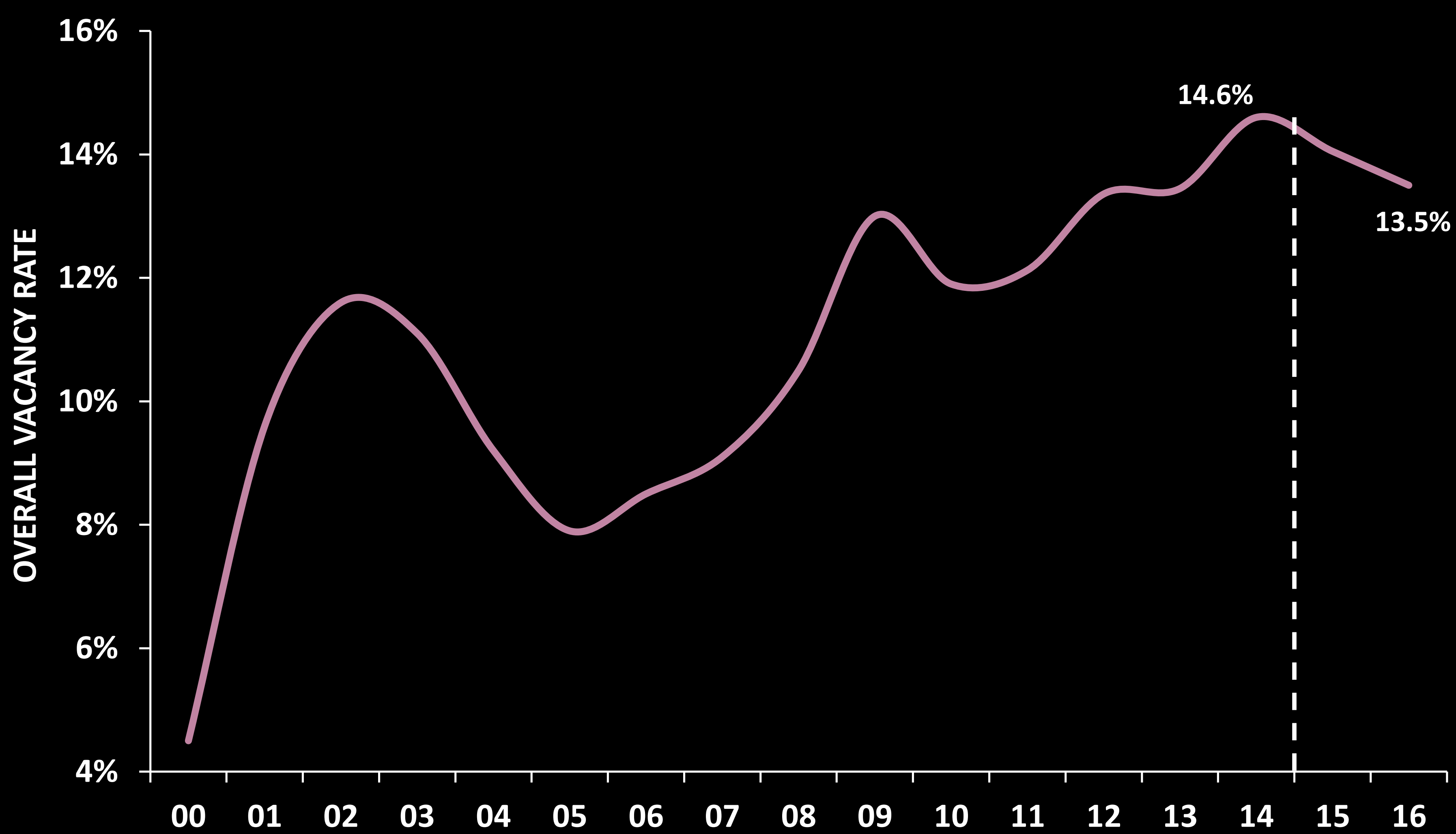
24 Months Ending December 2016



Source: CoStar, Transwestern; March 2015.

Metropolitan Washington Council of Governments

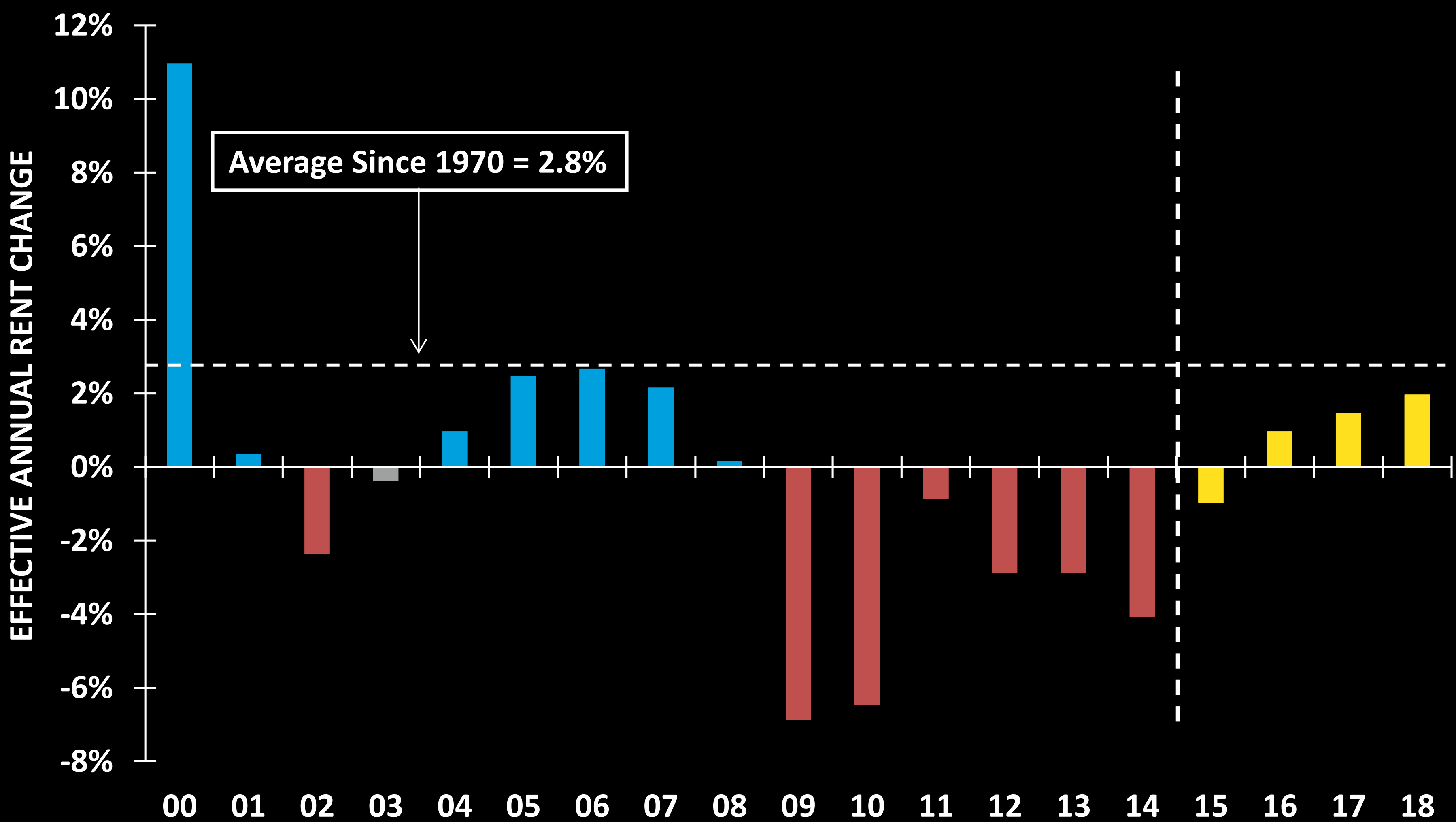
Overall Vacancy Rate



Source: CoStar, Transwestern; March 2015.

Metropolitan Washington Council of Governments

Effective Rent Change

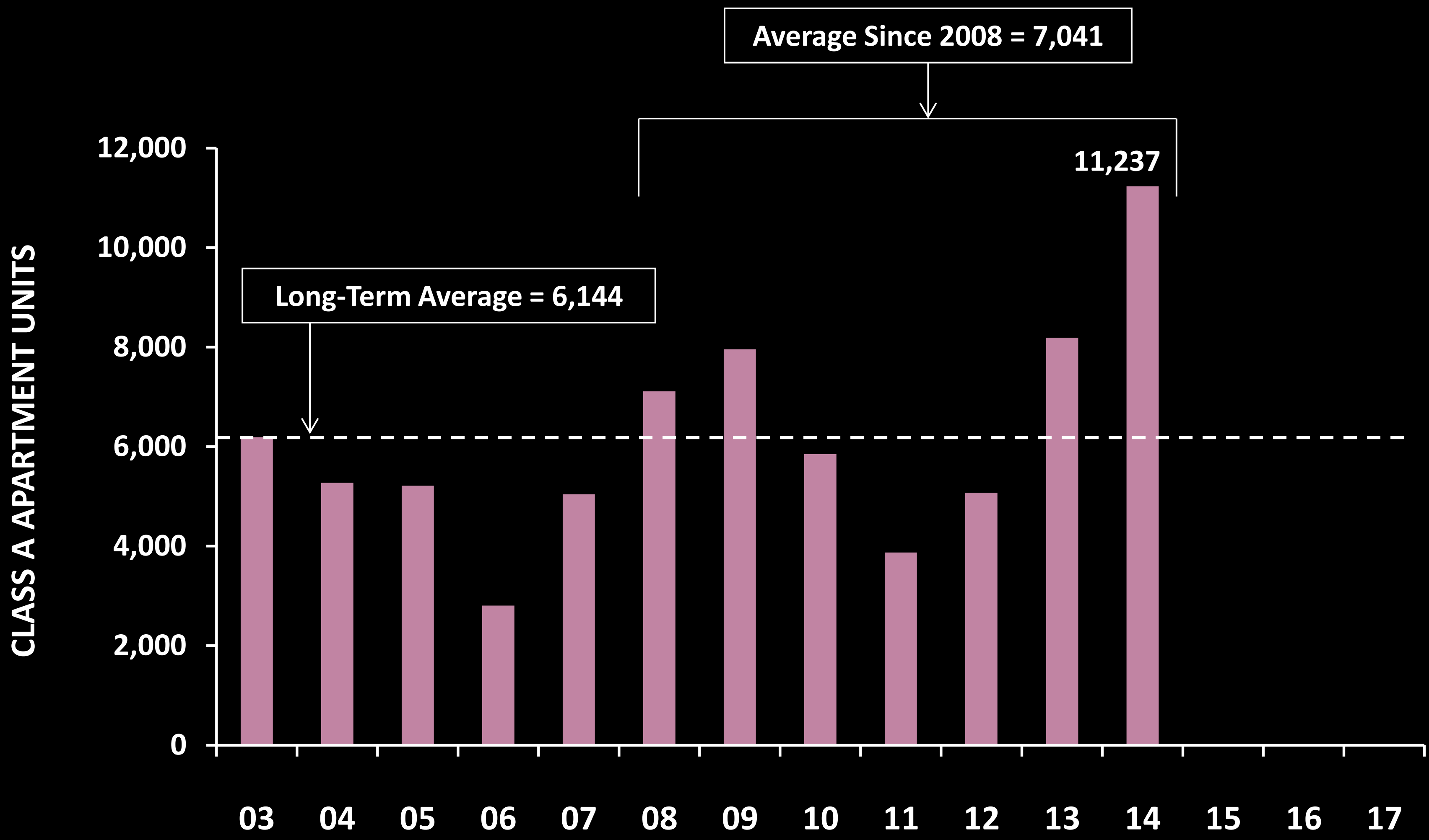


Source: Transwestern; March 2015.

THE WASHINGTON AREA APARTMENT MARKET

Metropolitan Washington Council of Governments

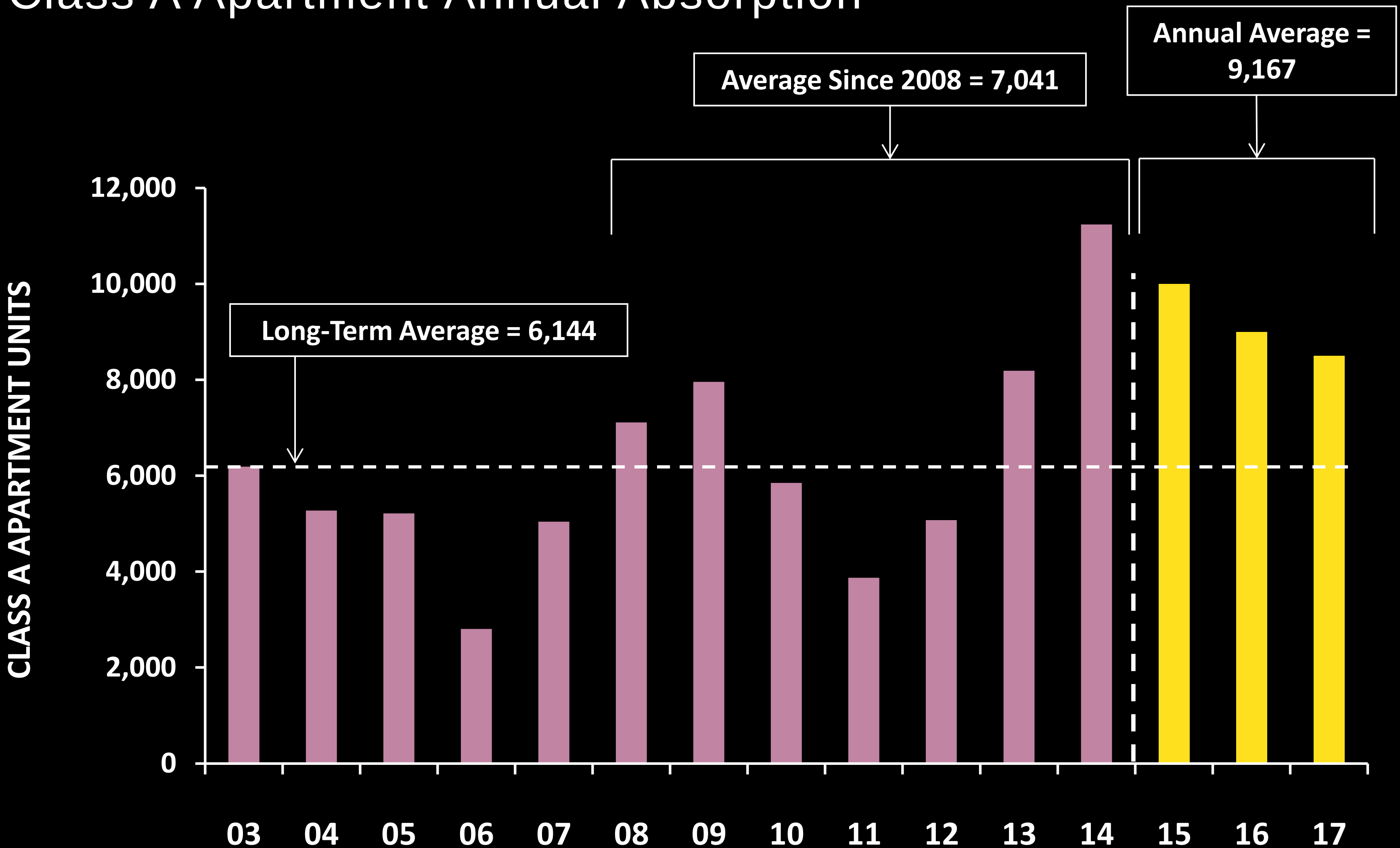
Class A Apartment Annual Absorption



Source: Delta Associates; March 2015.

Metropolitan Washington Council of Governments

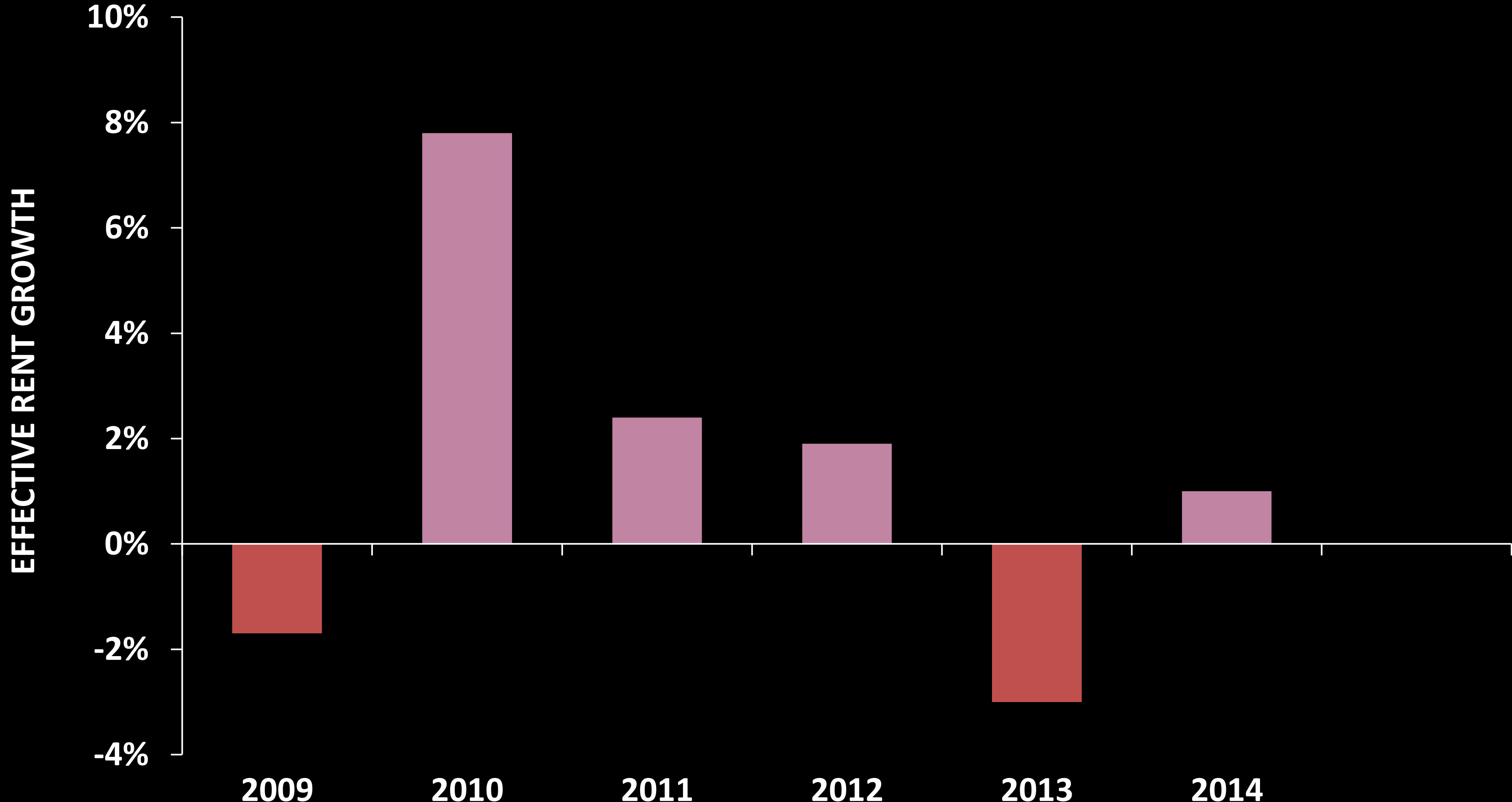
Class A Apartment Annual Absorption



Source: Delta Associates; March 2015.

Metropolitan Washington Council of Governments

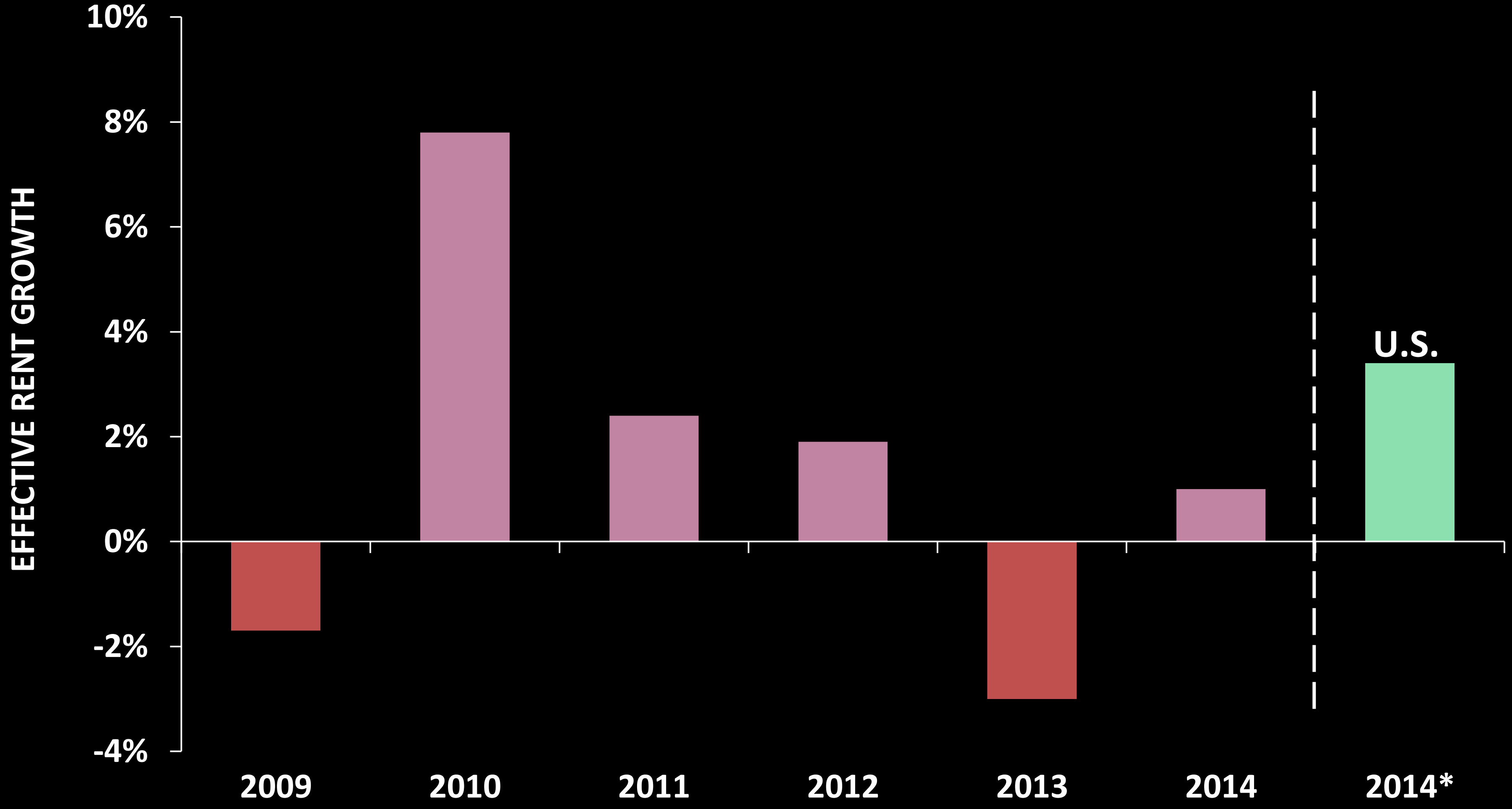
Class A Apartment Annual Effective Rent Growth



Source: Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Class A Apartment Annual Effective Rent Growth

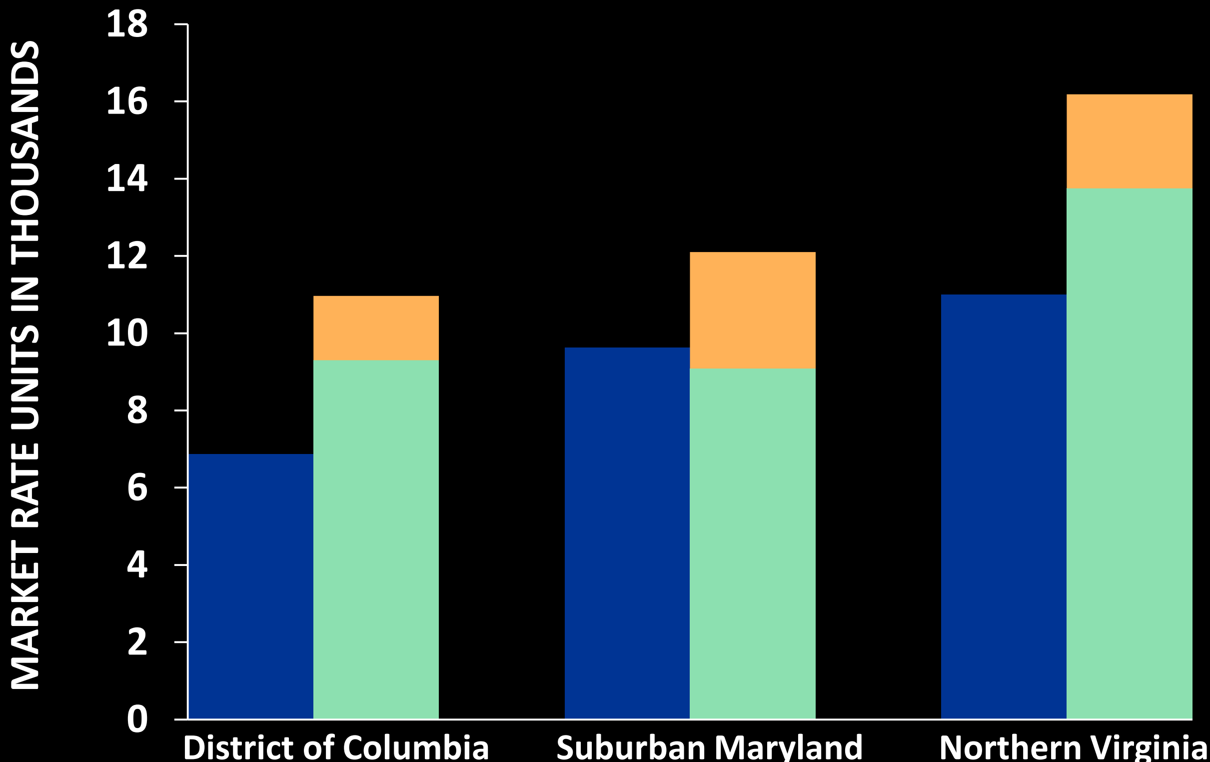


Source: Delta Associates; March 2015. *REIS

Metropolitan Washington Council of Governments

Class A Apartment Demand and Delivery Projections

Three Years Ending December 2017



Demand

Net Absorption: 9,167/Year = 27,500

Deliveries

Planned and may deliver by 12/17: 7,123 units

Under construction: 32,131 units

Total = 39,254 units

District of Columbia	Suburban Maryland	Northern Virginia
4.7%	**4.0%**	**4.9%**

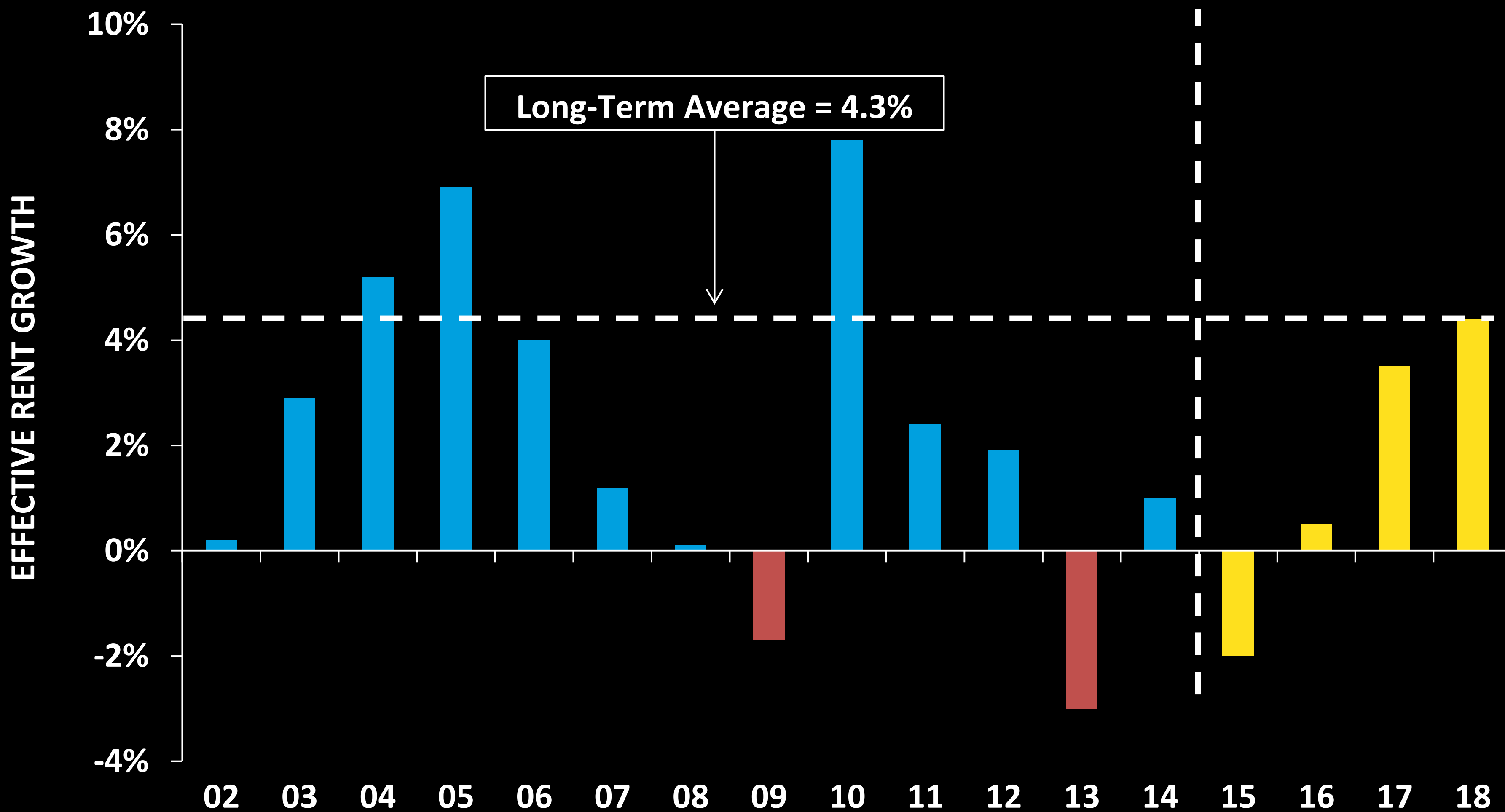
Projected Stabilized Vacancy at December 2017: 4.6% Metro-wide

Source: Delta Associates; March 2015.

The Washington Area Apartment Market

Metropolitan Washington Council of Governments

Class A Apartment Annual Rent Growth



Source: Delta Associates; March 2015.

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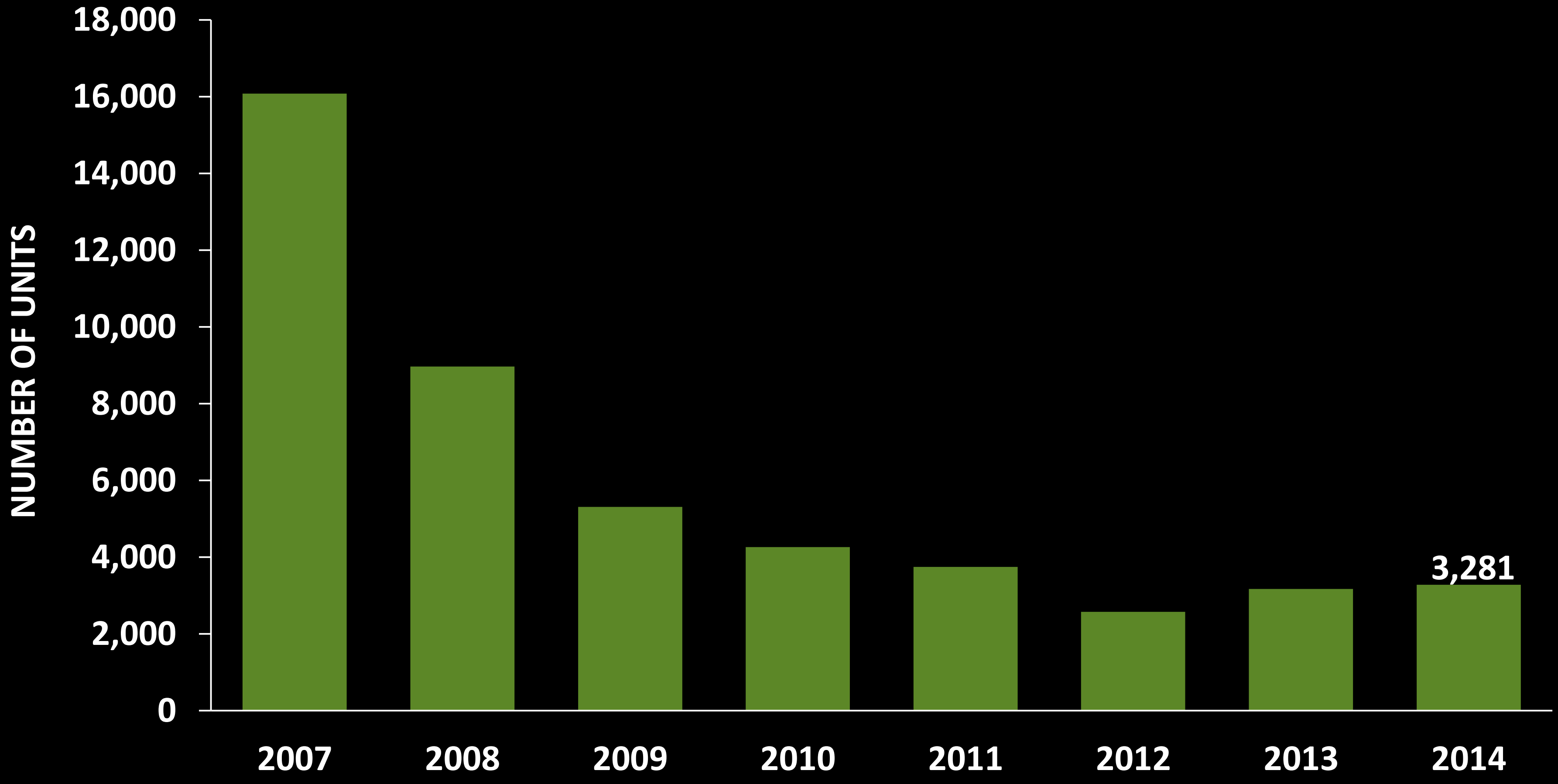
TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE

THE WASHINGTON AREA CONDOMINIUM MARKET

New Condominiums Actively Marketing or Under Construction

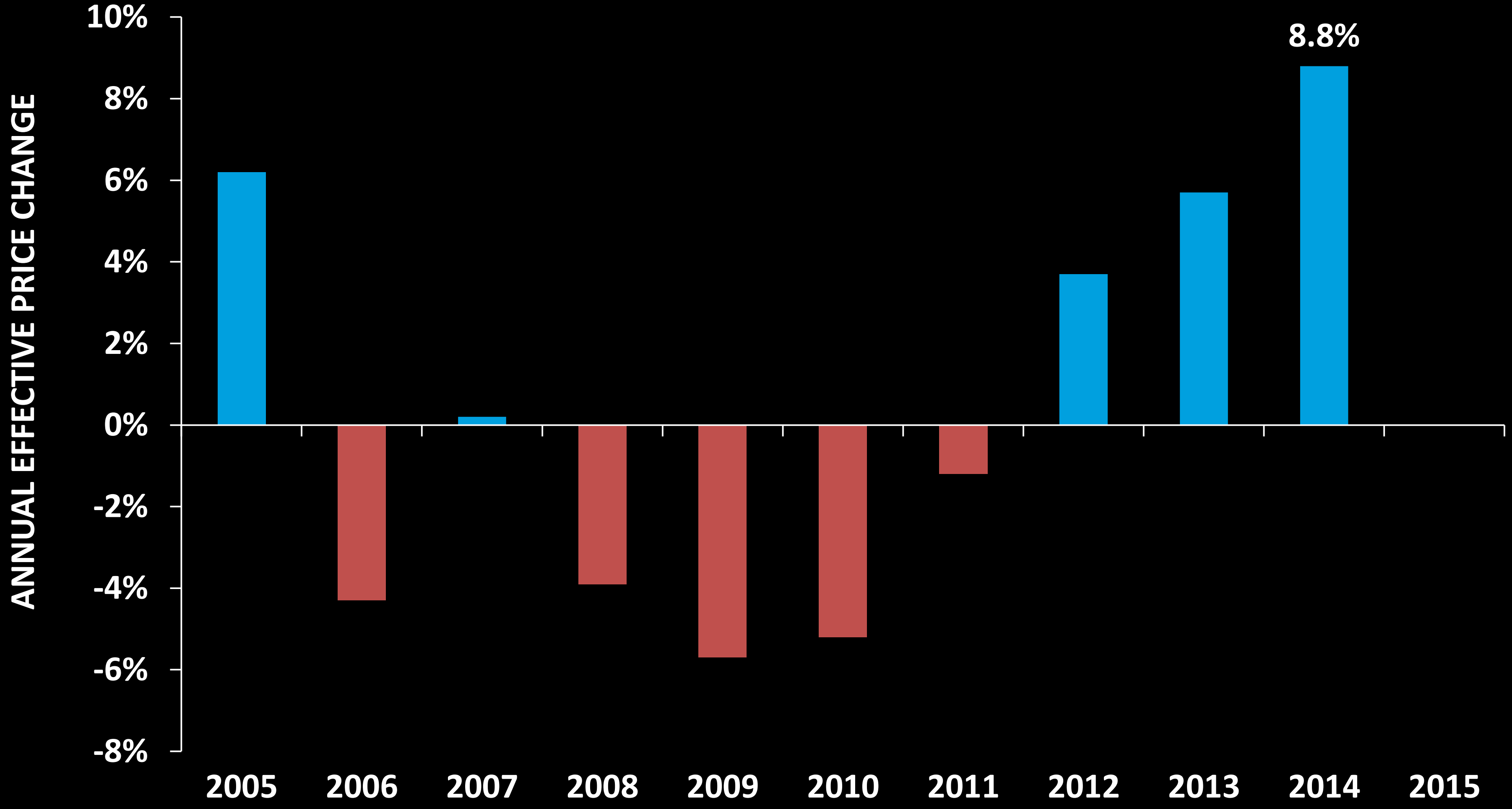
Washington Metro Area at Each Year-End



Source: Delta Associates; March 2015.

Metropolitan Washington Council of Governments

New Condominium Effective Price Change



Source: Delta Associates; March 2015.

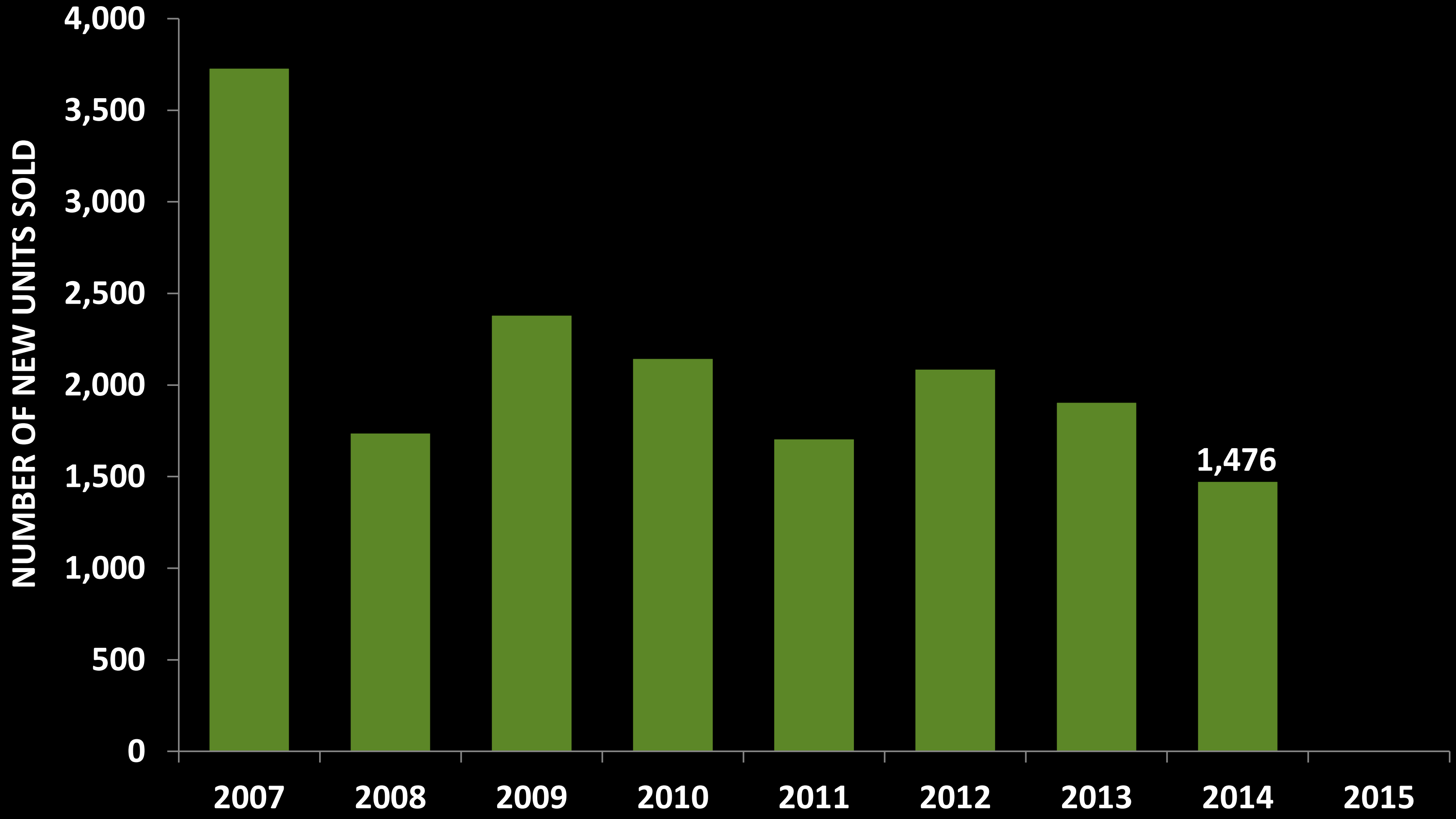
Metropolitan Washington Council of Governments

New Condominium Effective Price Change

Source: Delta Associates; March 2015.

Metropolitan Washington Council of Governments

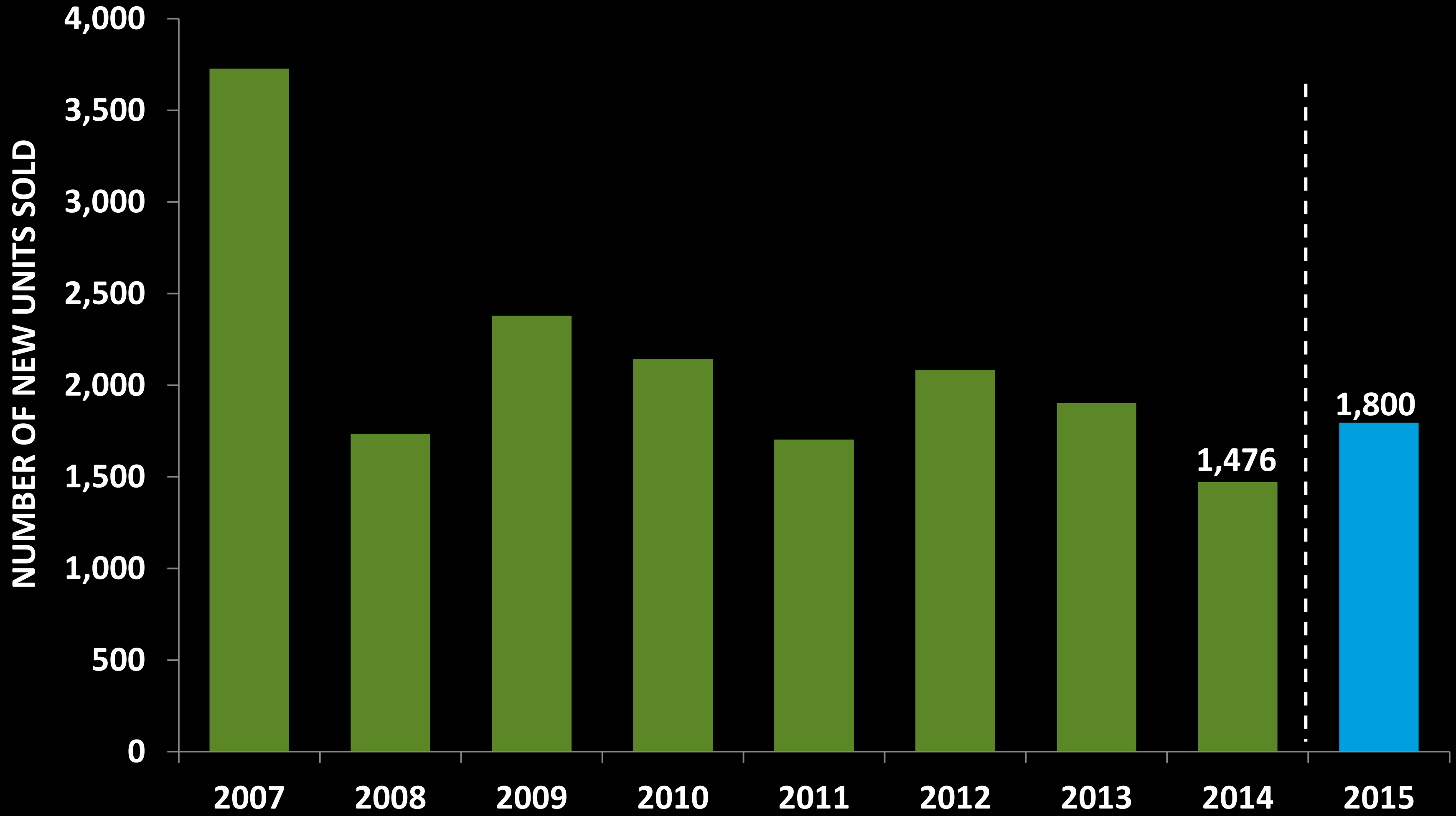
Past and Projected New Condominium Unit Sales



Source: Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Past and Projected New Condominium Unit Sales



Source: Delta Associates; March 2015.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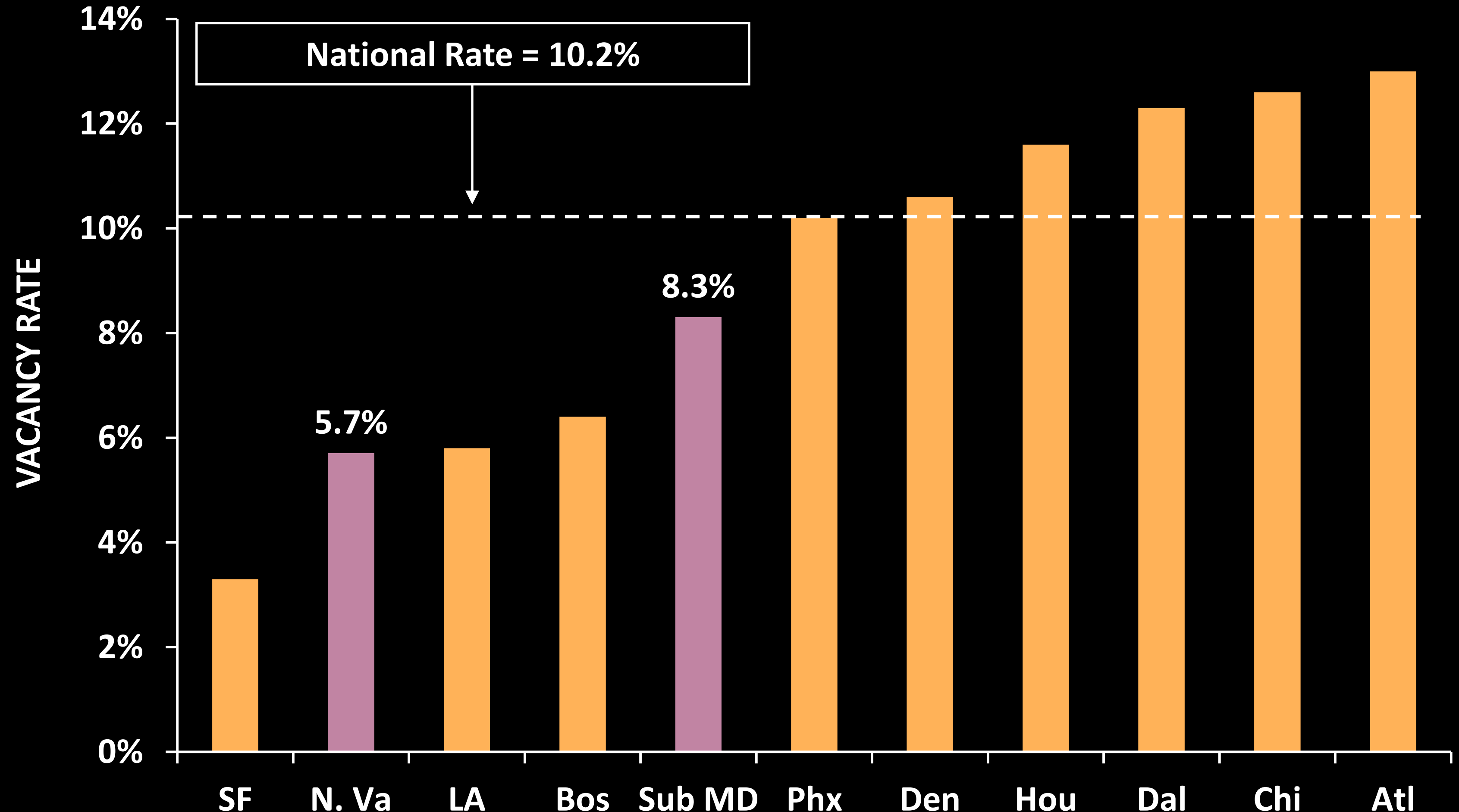
TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE
THE WASHINGTON AREA RETAIL MARKET

Metropolitan Washington Council of Governments

Neighborhood/Community Center Vacancy Rate

Select Metro Areas | Fourth Quarter 2014

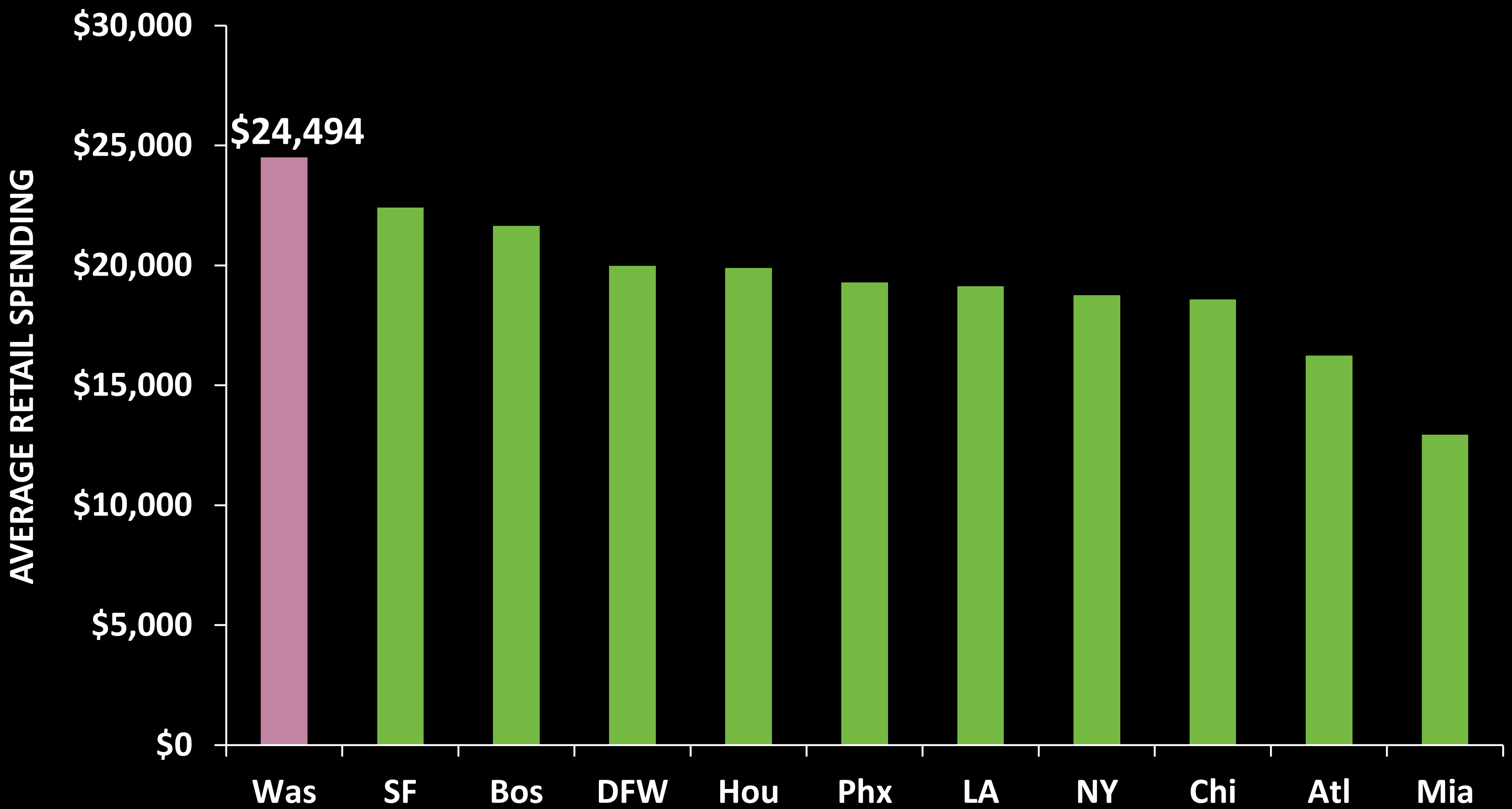


Source: REIS, Delta Associates; March 2015.

Metropolitan Washington Council of Governments

Average Retail Spending Per Household

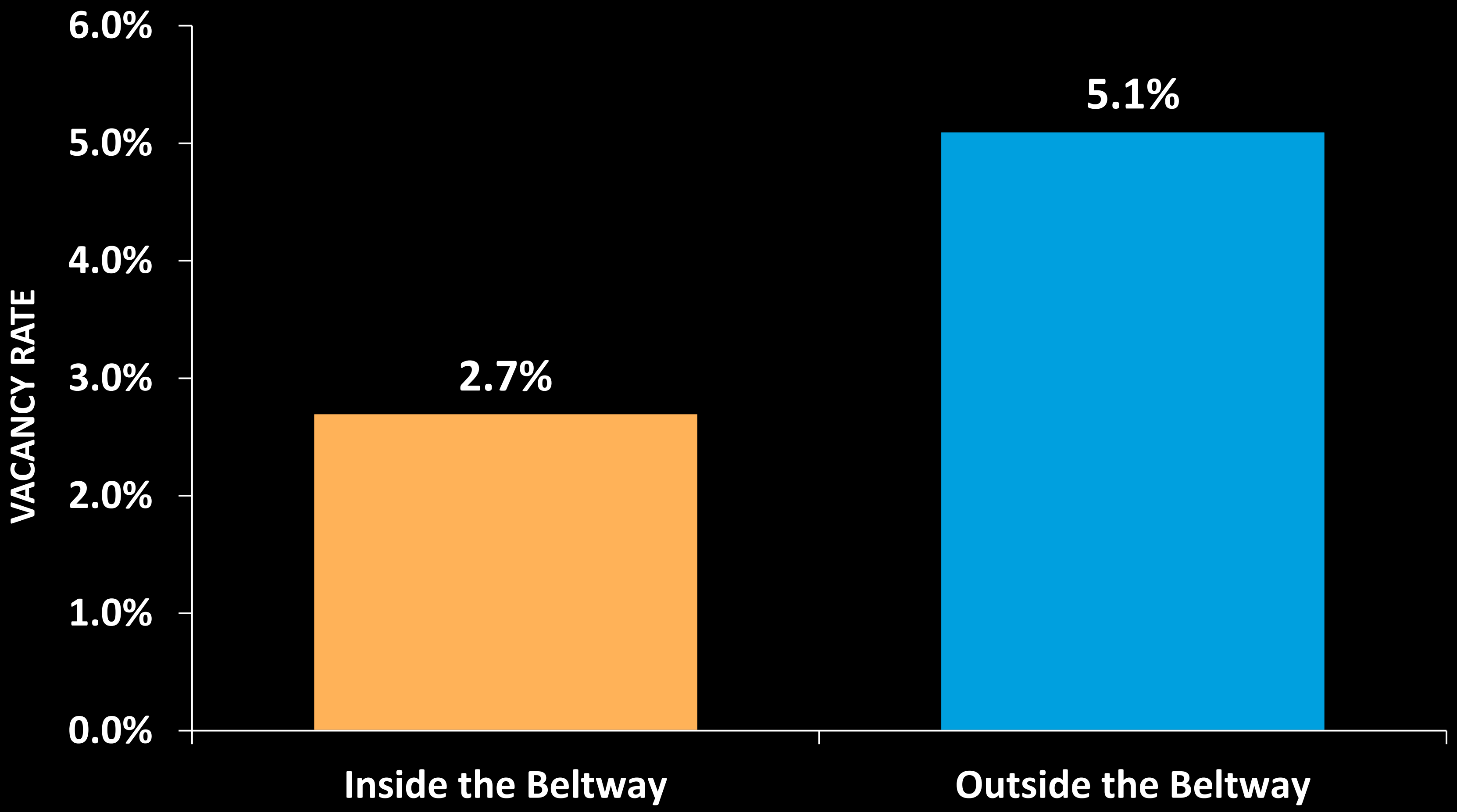
Select Metro Areas | 2013



Source: BLS, Delta Associates; March 2015.

Vacancy Rate – Grocery-Anchored Shopping Centers

Washington Metro Area | 2014



Source: Delta Associates; March 2015.

Office: Challenged by the reduced and changing use of space

Apartments: Strong demand (almost) offsetting record deliveries

Condominiums: Prices rising as new supply remains limited

Grocery-Anchored Shopping Center: Strong investor interest

Source: Delta Associates; February 2015.

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TRENDS IN WASHINGTON COMMERCIAL REAL ESTATE

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