



TRENDLINES® WASHINGTON

2018

Trends in Washington Commercial Real Estate



tldc21

TRENDLINES® WASHINGTON

Economic Overview

 TRANSWESTERN®

 **PNC**
REAL ESTATE

 **BAKER TILLY**

 **DELTA**
ASSOCIATES

GET OFF OF MY CLOUD



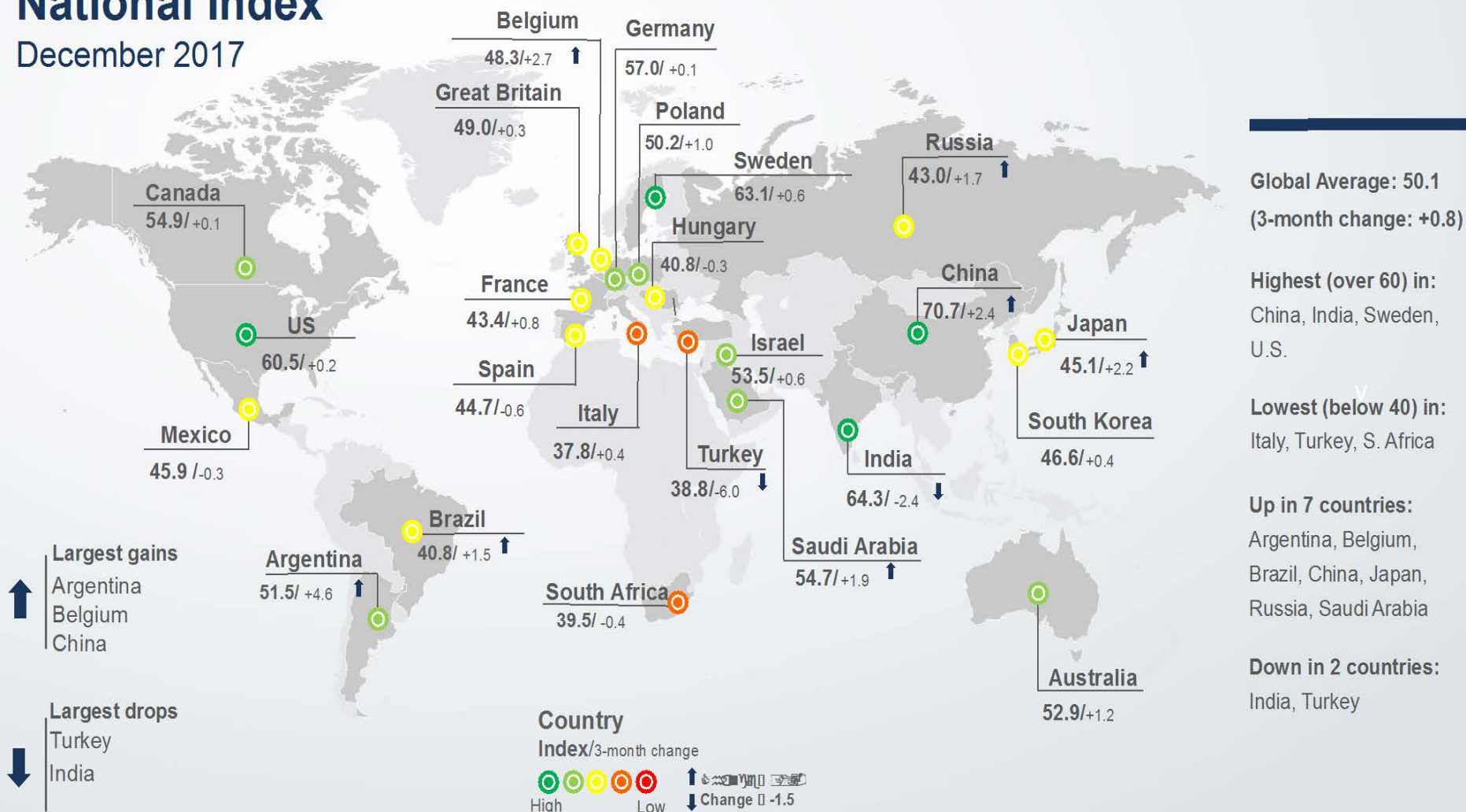
IPSOS GLOBAL CONFIDENCE INDEX

December 2017

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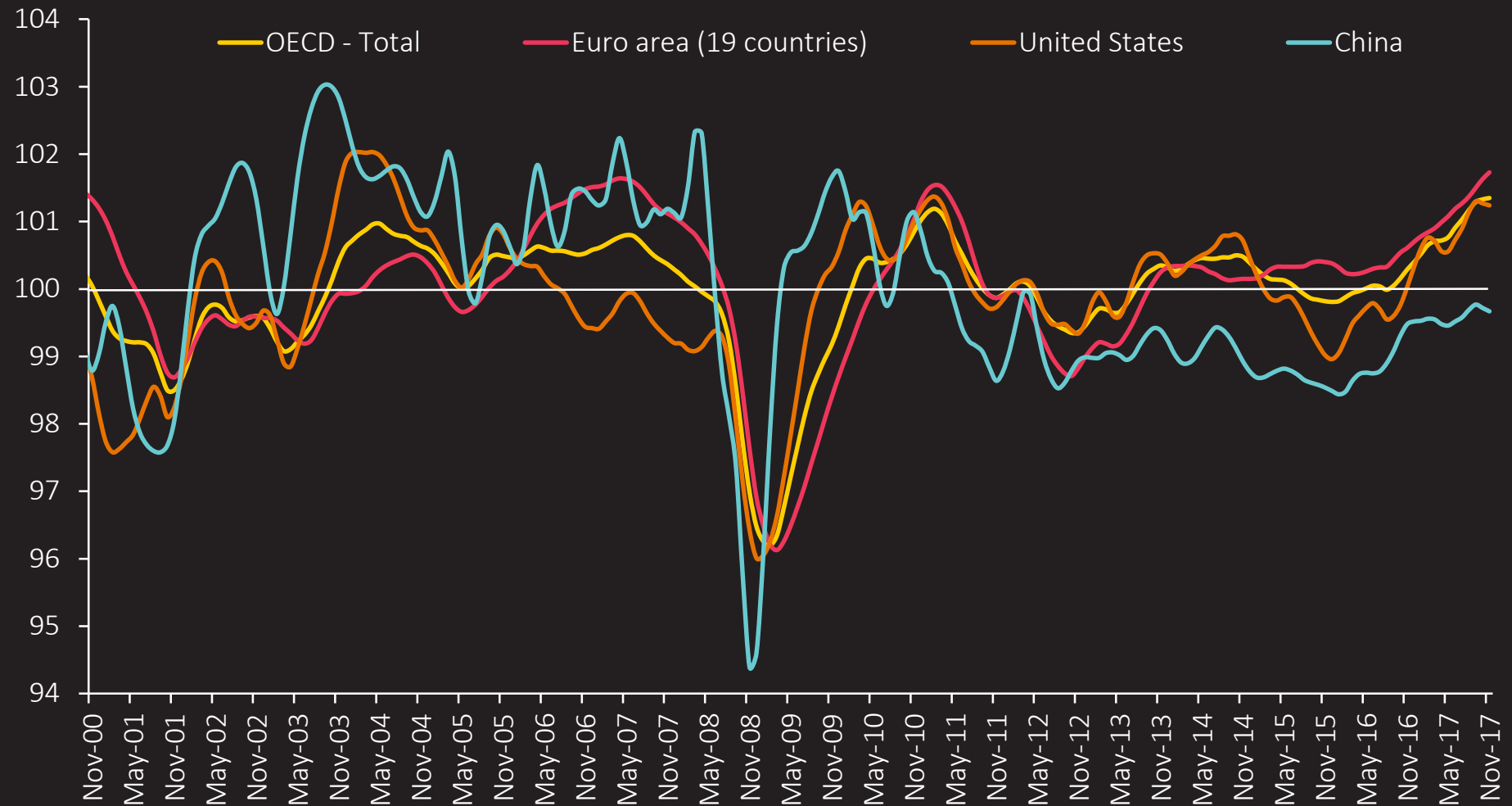
National Index

December 2017



OECD BUSINESS CONFIDENCE INDEX

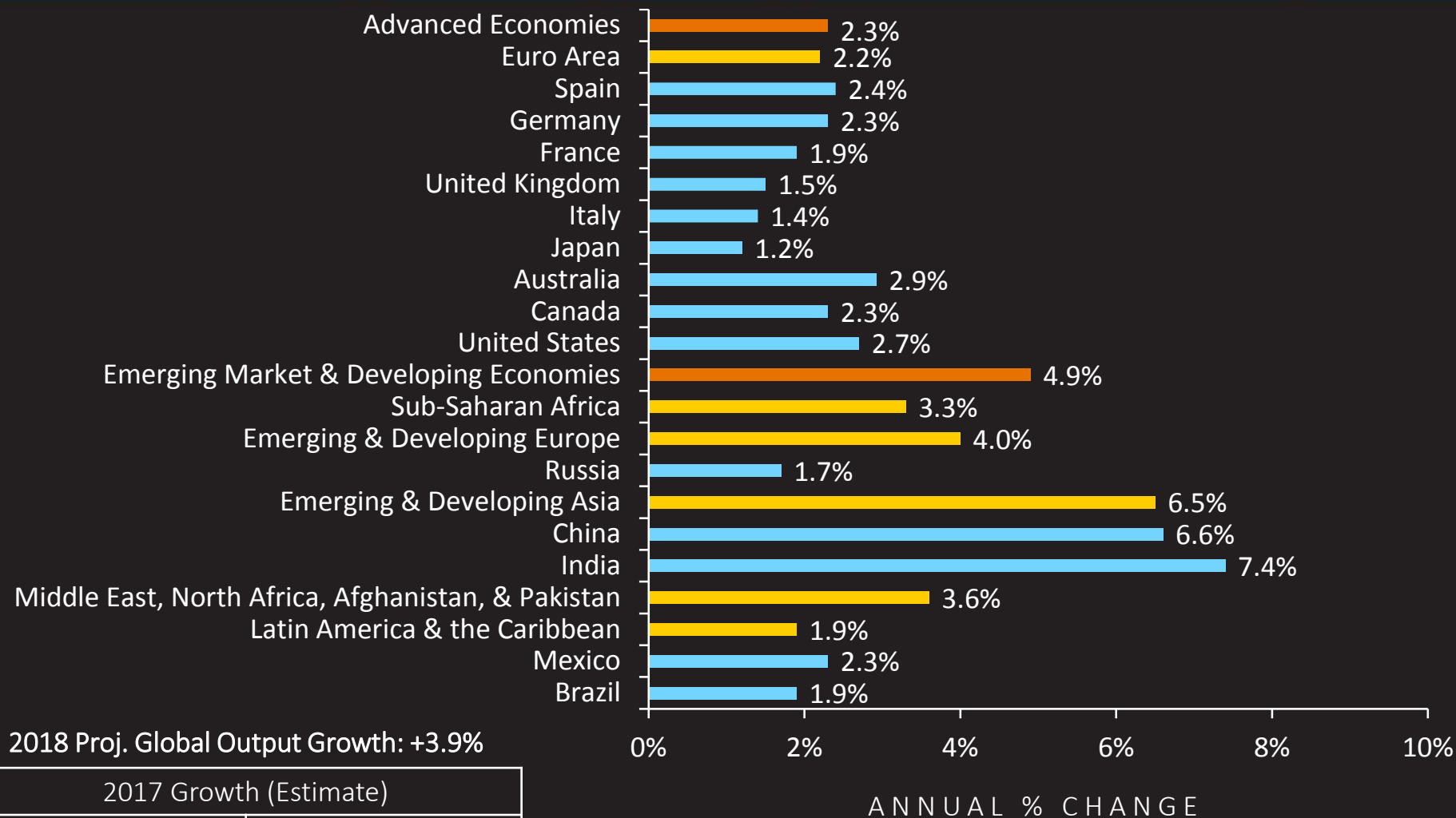
Select Regions / Countries



The business confidence index (BCI) is based on enterprises' assessment of production, orders and stocks, as well as its current position and expectations for the immediate future. Opinions compared to a "normal" state are collected and the difference between positive and negative answers provides a qualitative index on economic conditions.

ESTIMATED GROWTH IN OUTPUT

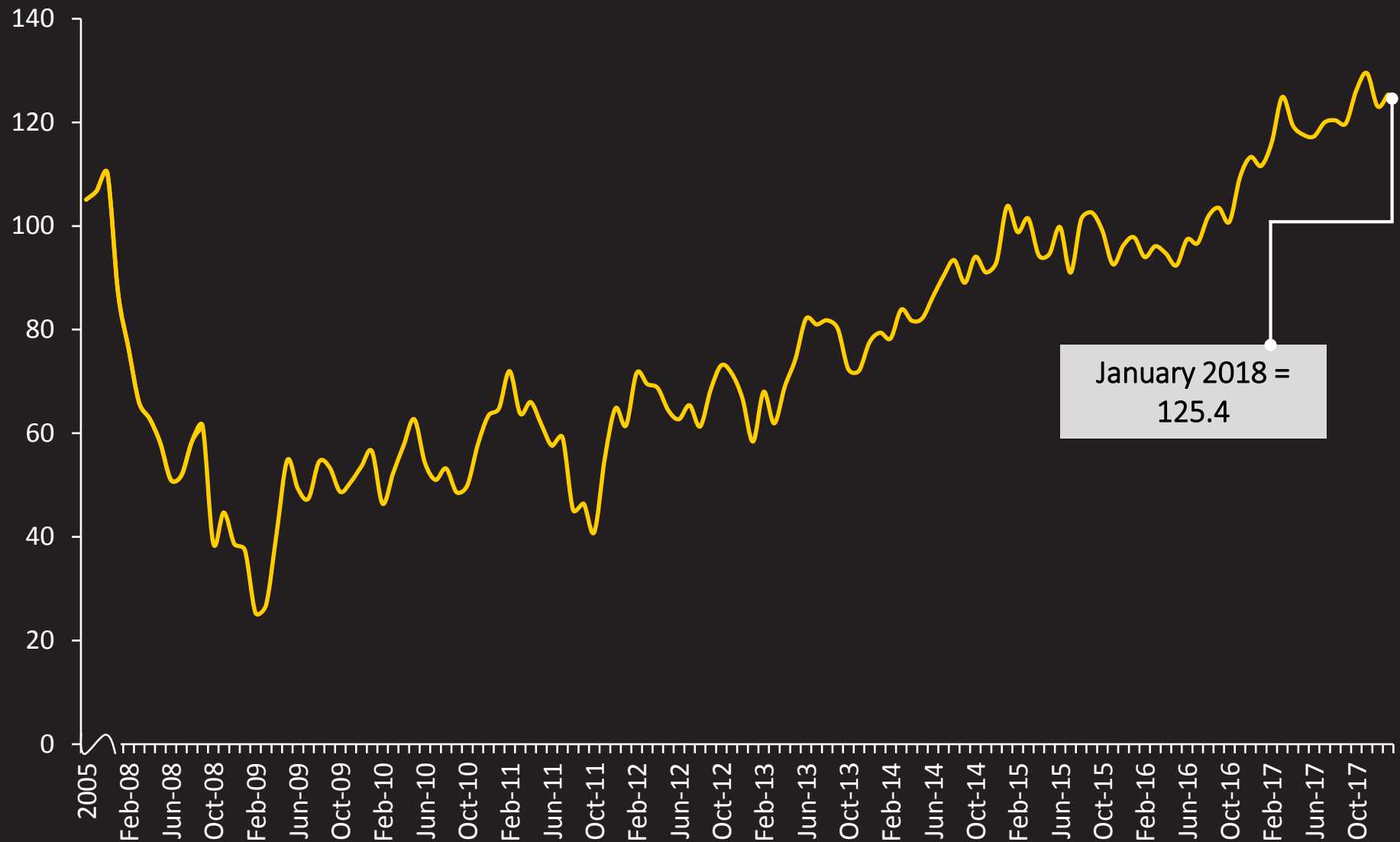
Select Global Areas | 2018 Projected



2017 Growth (Estimate)	
World: 3.7%	Euro Area: 2.4%
United States: 2.3%	Japan: 1.8%

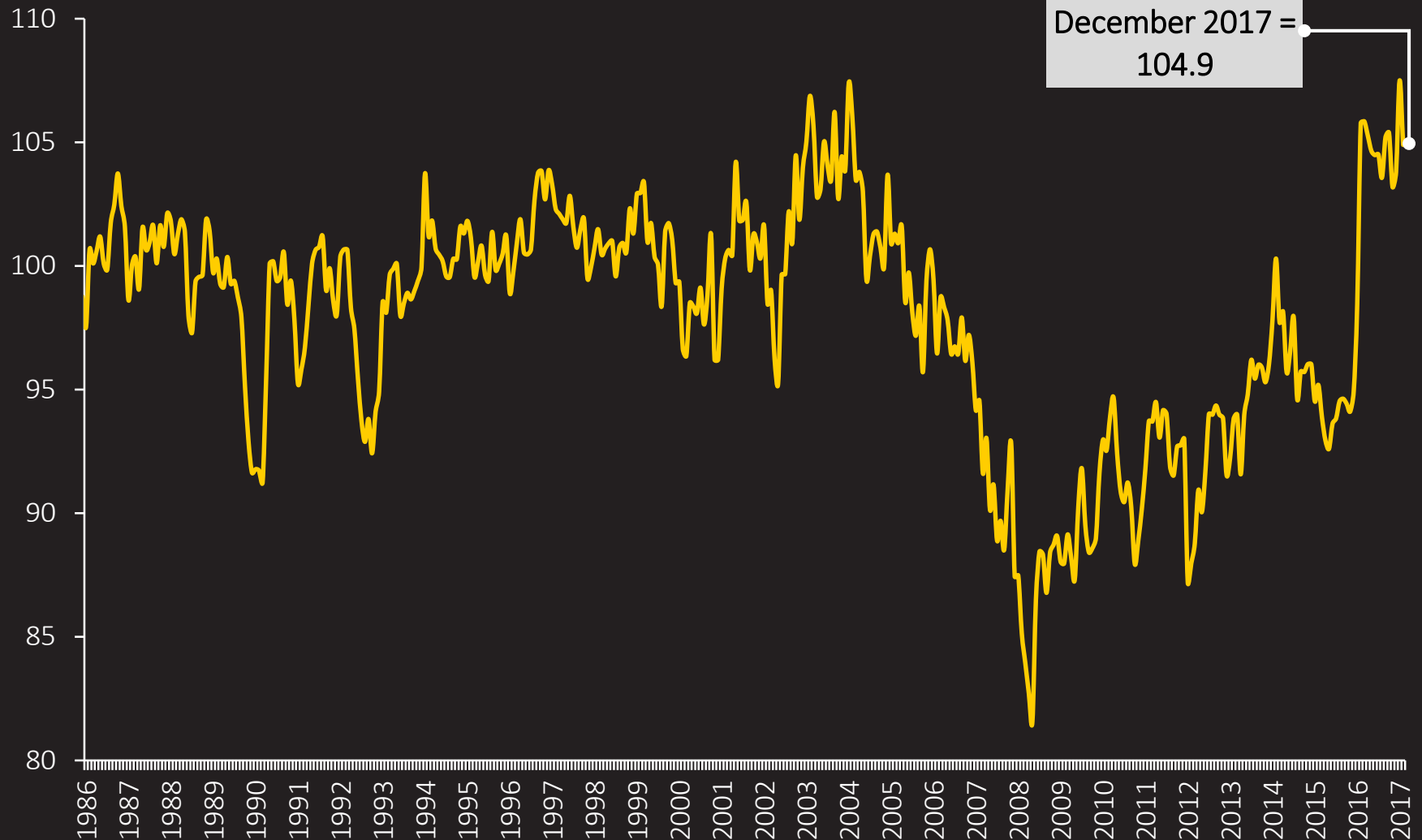
CONSUMER CONFIDENCE INDEX

United States



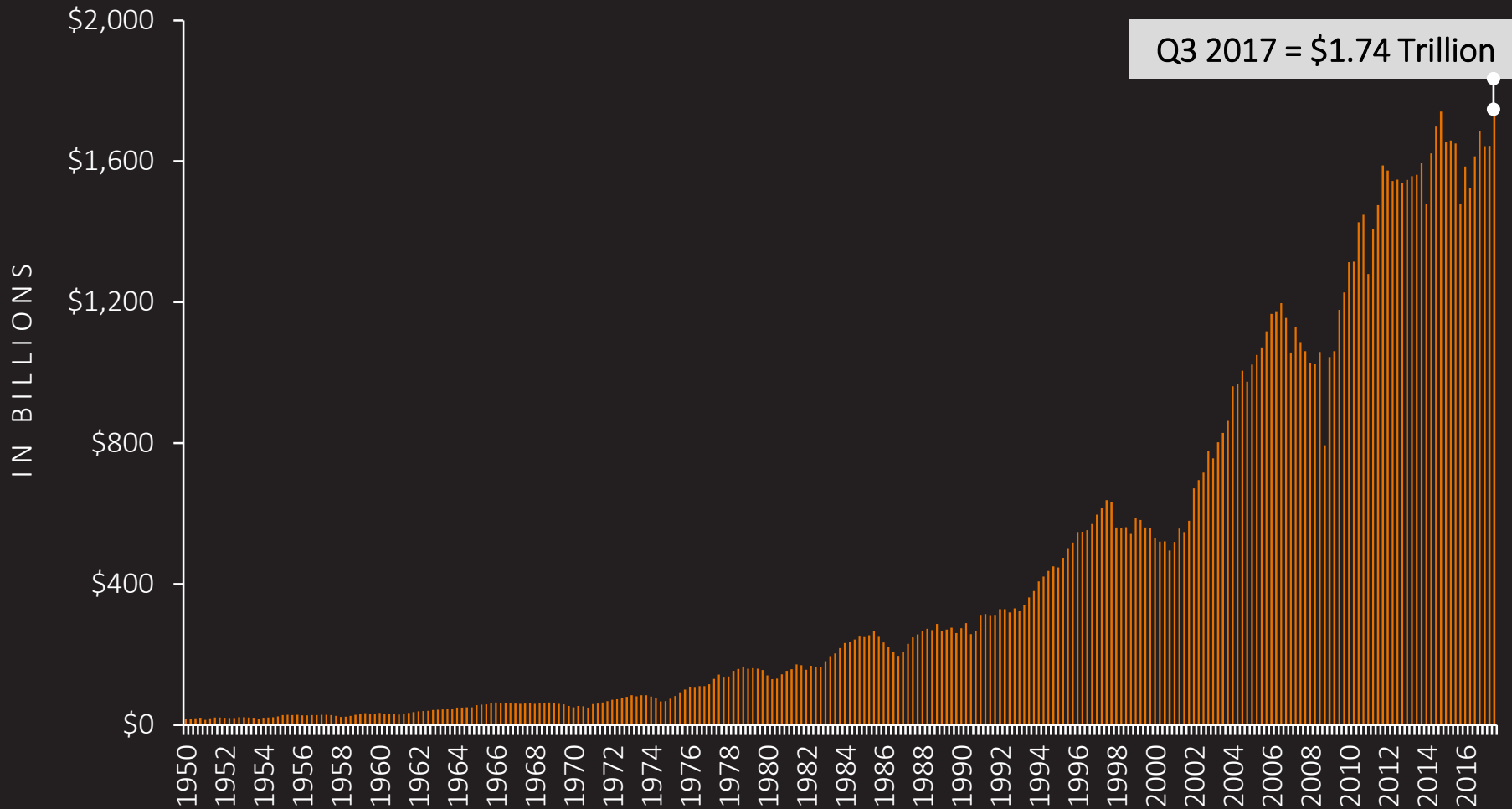
NFIB INDEX OF SMALL BUSINESS OPTIMISM

United States



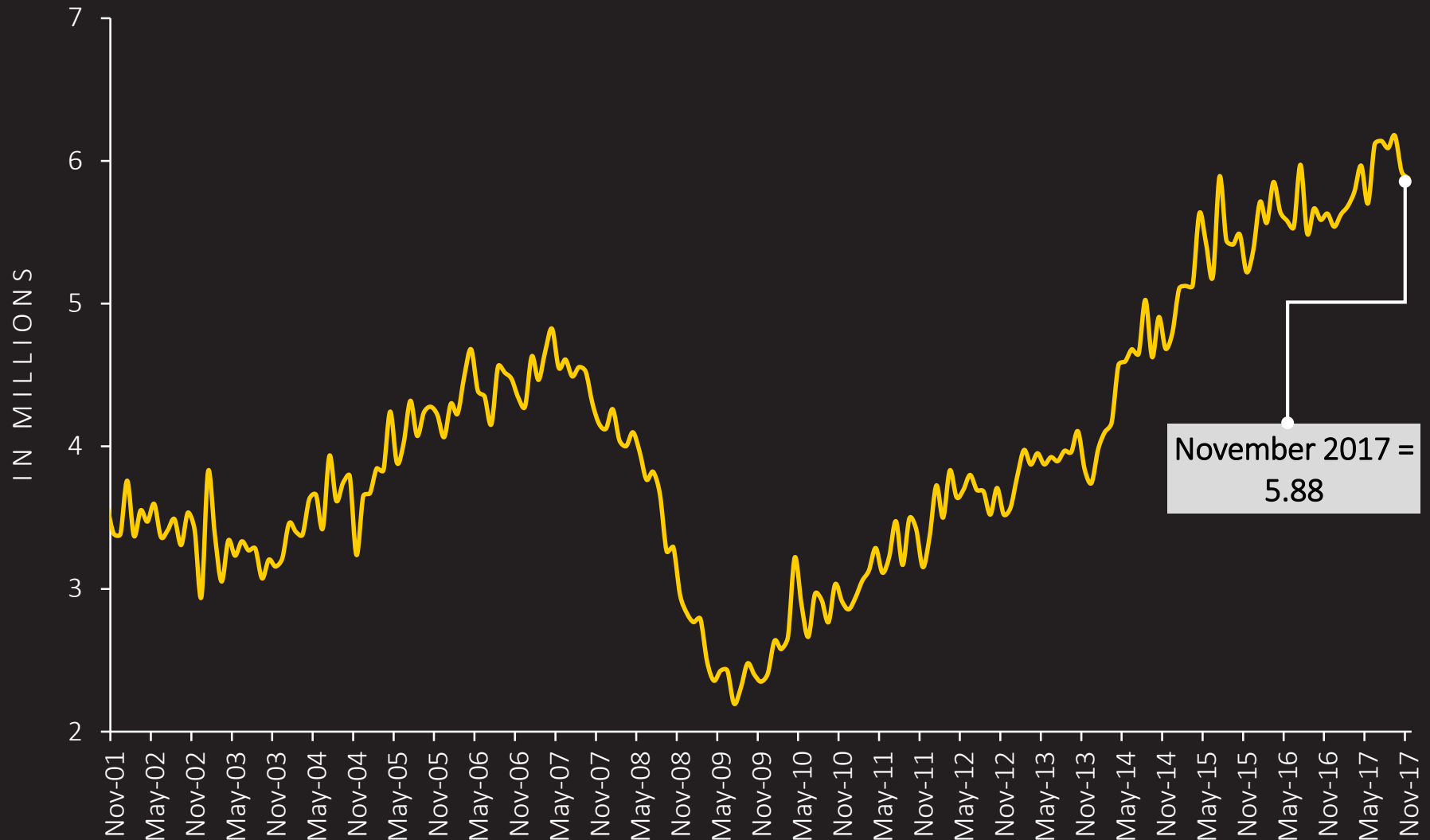
PAINT IT BLACK - CORPORATE PROFITS

United States



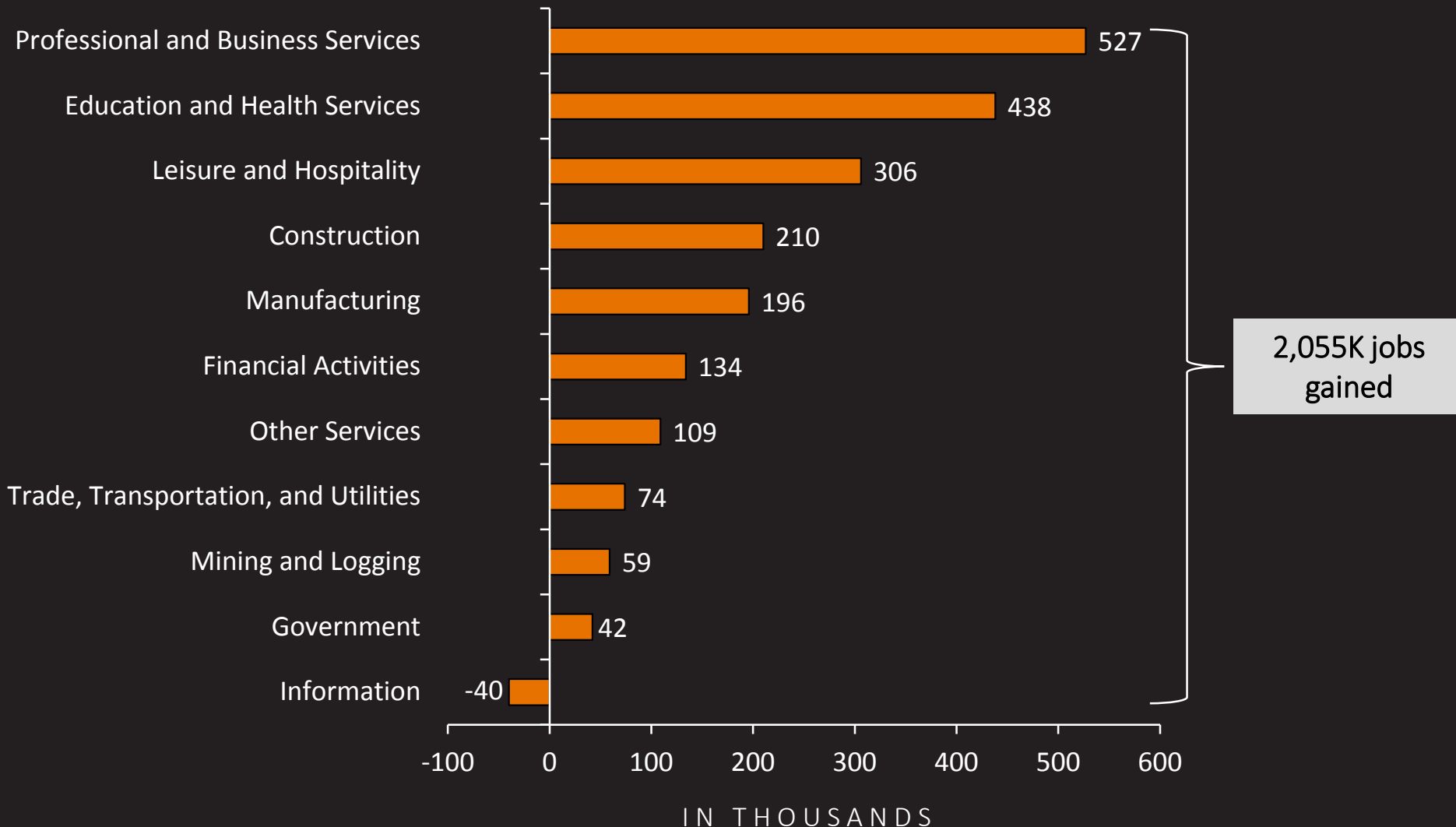
JOB OPENINGS

United States



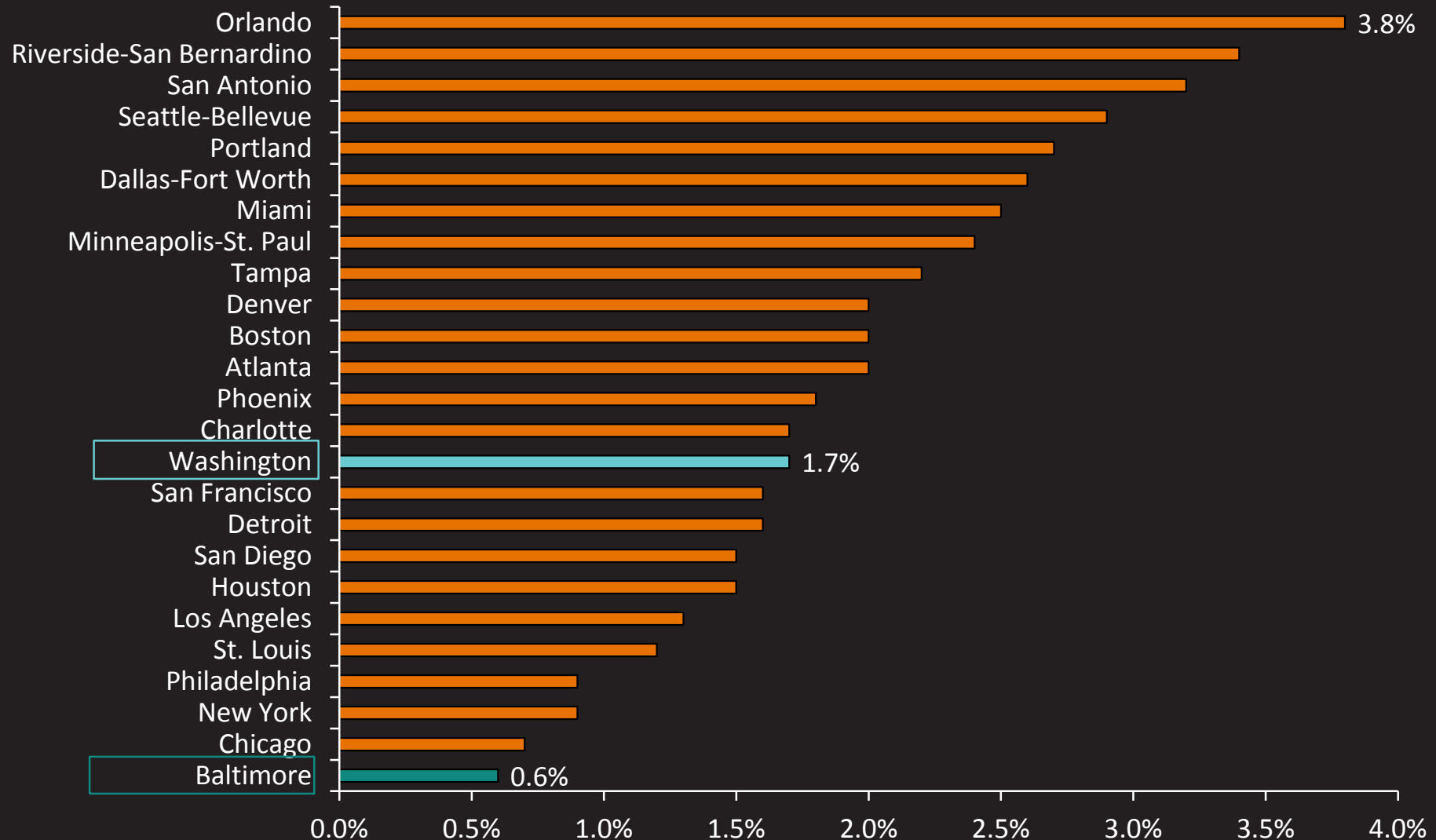
BEASTS OF BURDEN - NONFARM EMPLOYMENT

United States | December 2016 vs. December 2017



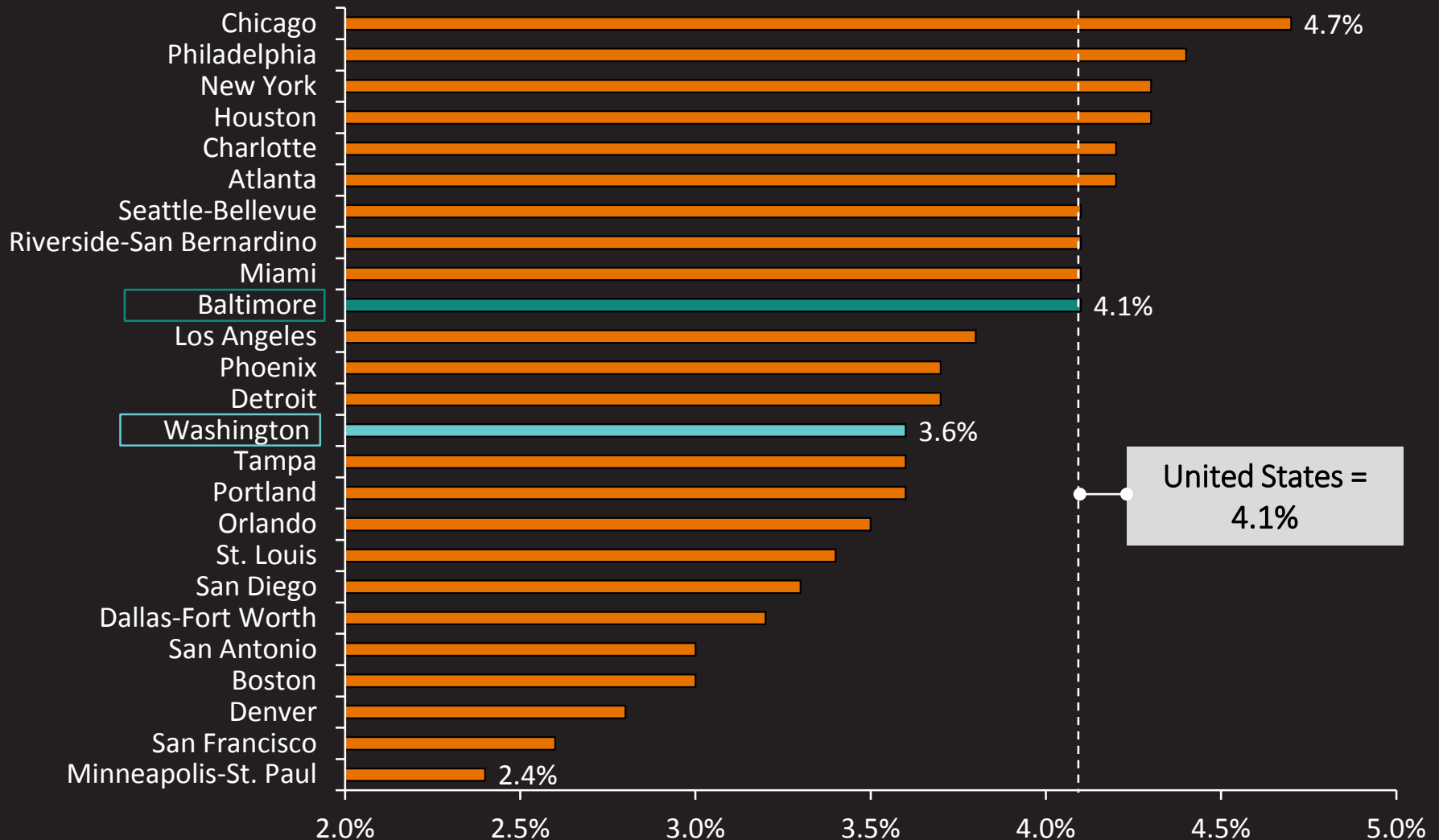
EMPLOYMENT GROWTH - PERCENT CHANGE

25 Largest Metros | December 2016 vs. December 2017



UNEMPLOYMENT RATES

25 Largest Metros | November 2017



GIMME SHELTER



The Rolling Stones
GIMME SHELTER

Directed by David Maysles, Albert Maysles, Charlotte Zwerin - A Maysles Films, Inc. Production

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MEGATREND ONE

The Revenge of Homeownership

 TRANSWESTERN®

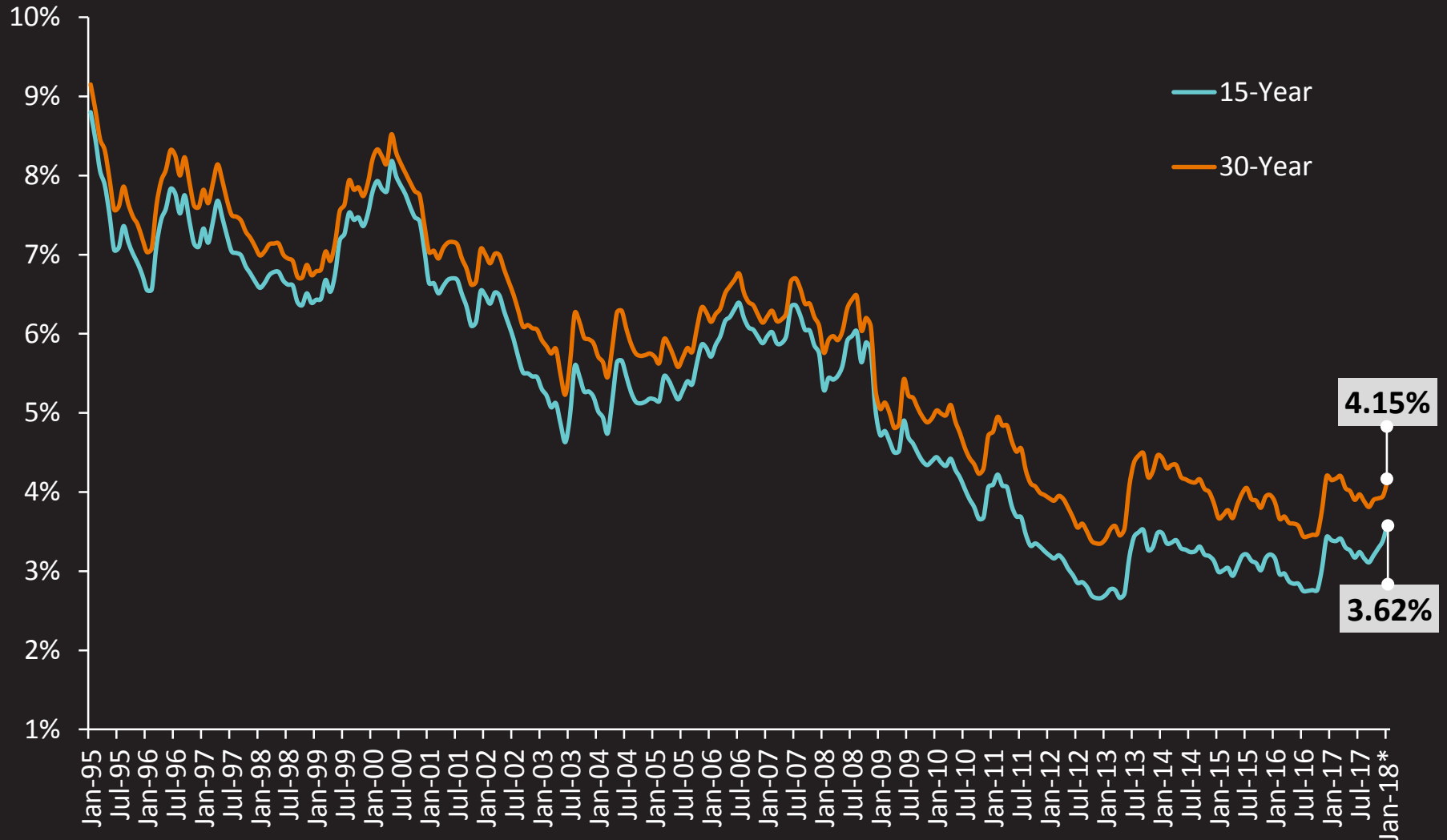
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REAL ESTATE

 BAKER TILLY

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ASSOCIATES

15-YEAR AND 30-YEAR FIXED MORTGAGE RATES

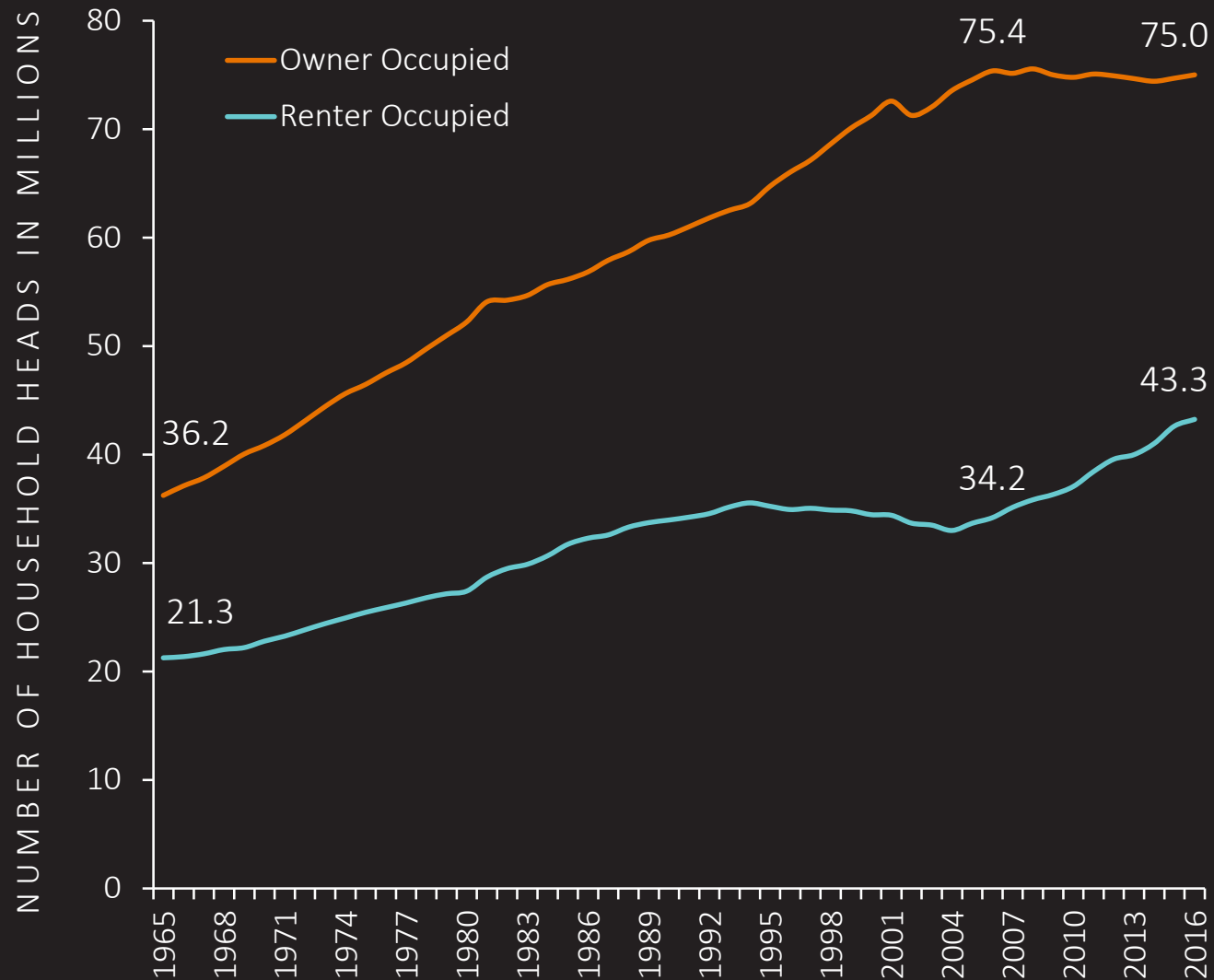
United States



HOUSEHOLDS: OWNER VS. RENTER OCCUPIED

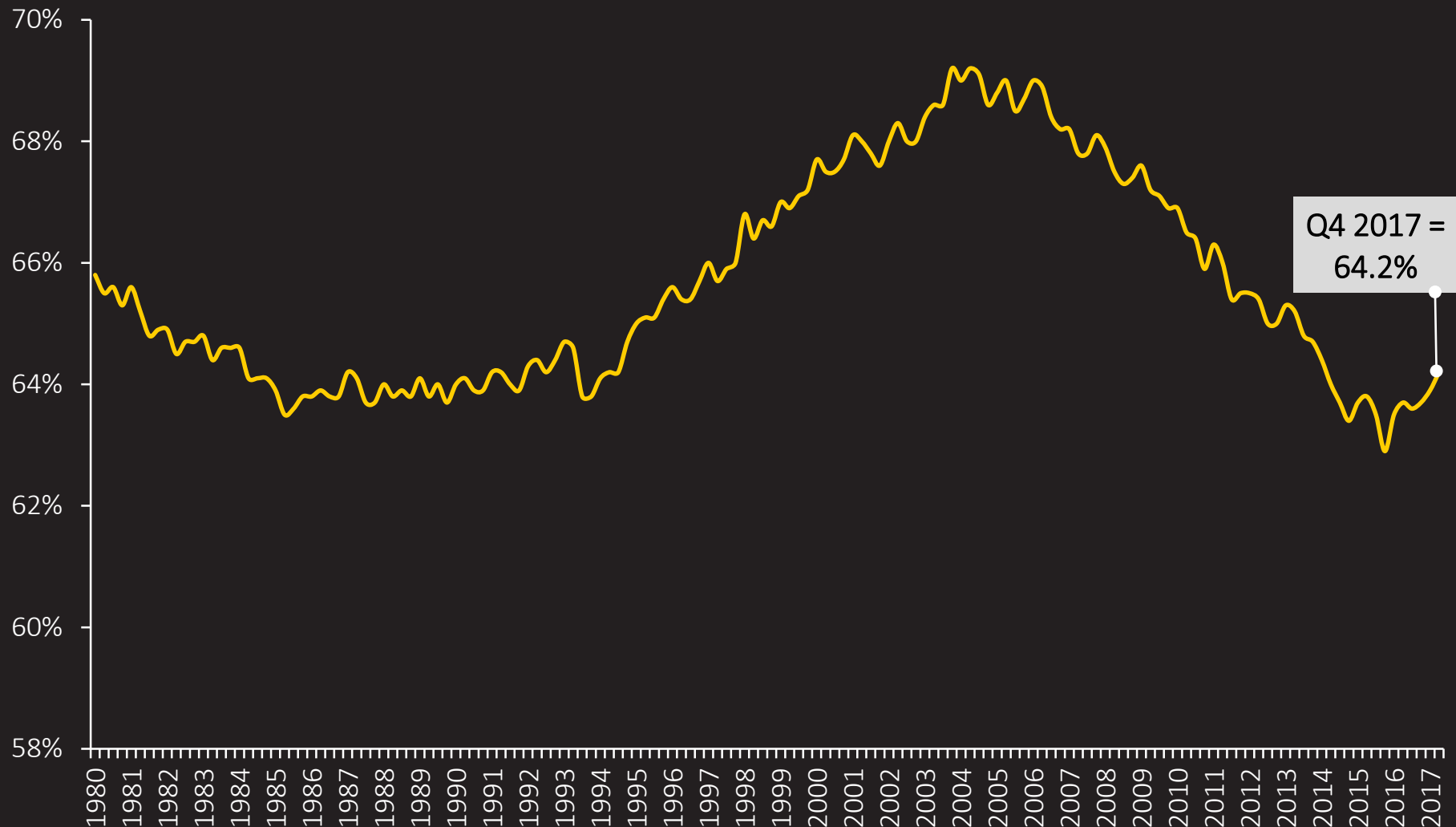
United States

- From 2006-2016 the number of households headed by owners remained relatively flat.
- At the same time, the number of households renting their home increased significantly (+26.5%).
- The share of renter households also increased—from 31.2% of households in 2006 to 36.6% in 2016.



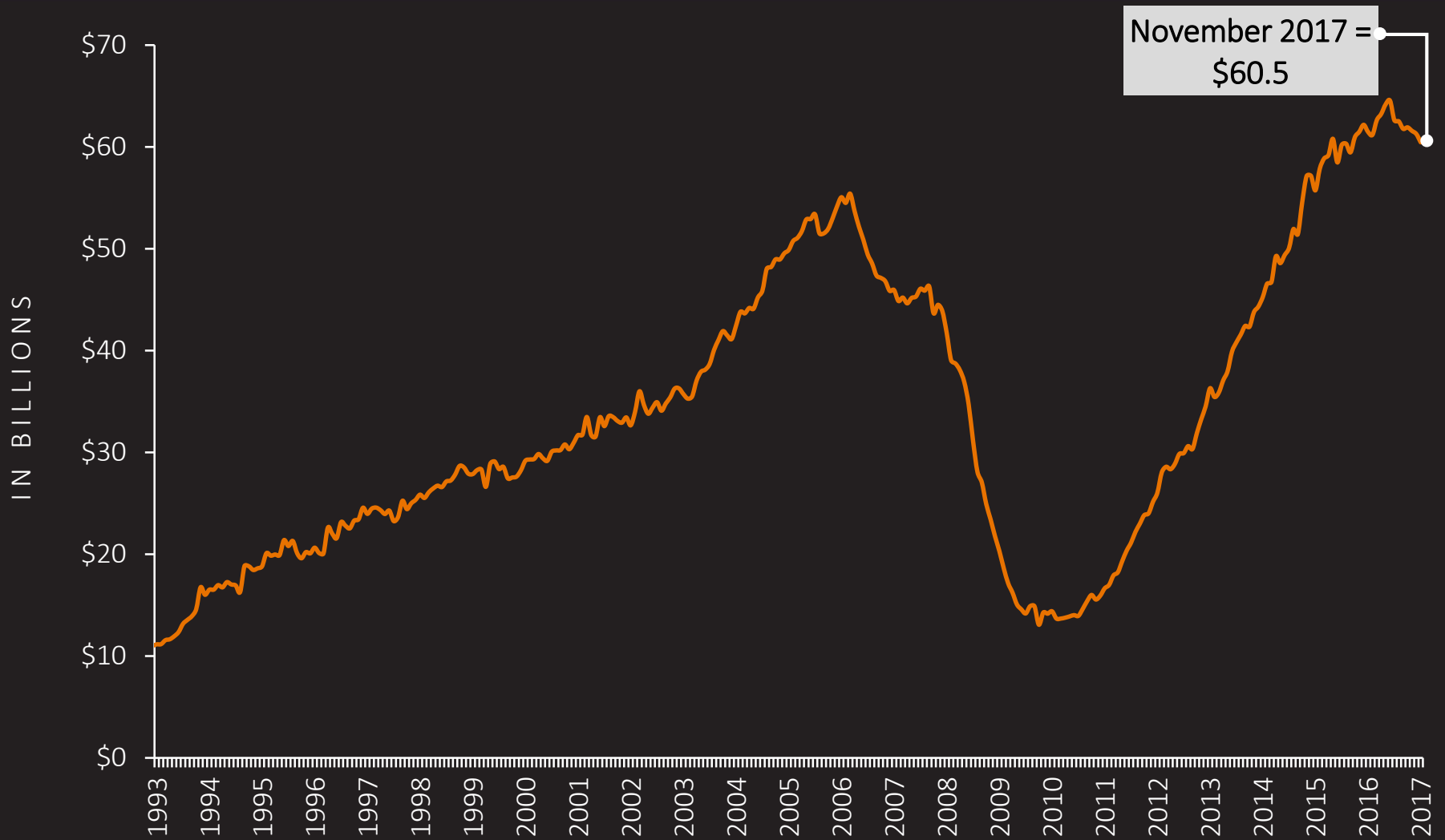
HOMEOWNERSHIP

United States



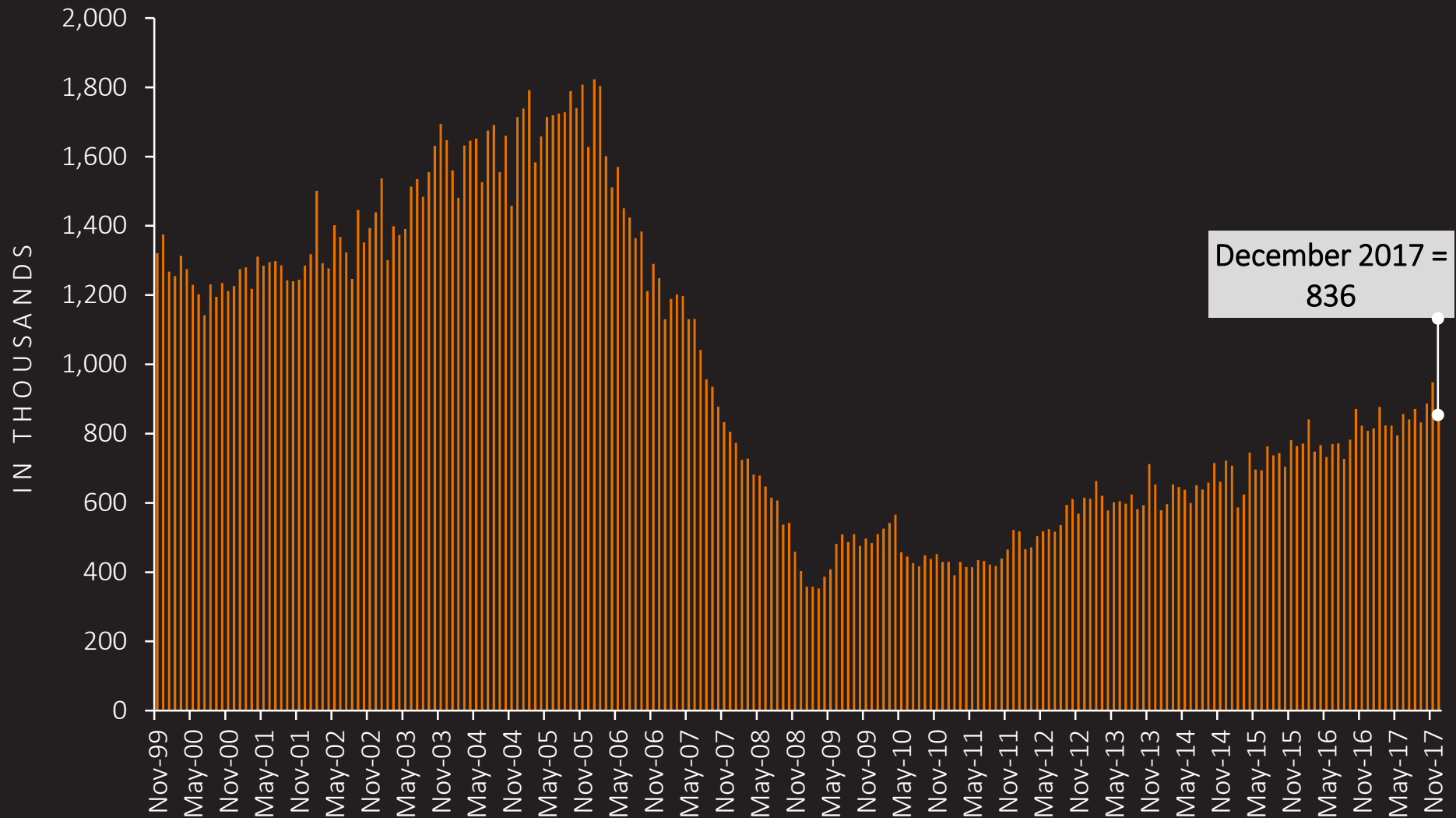
PRIVATE NEW MULTIFAMILY CONSTRUCTION

United States



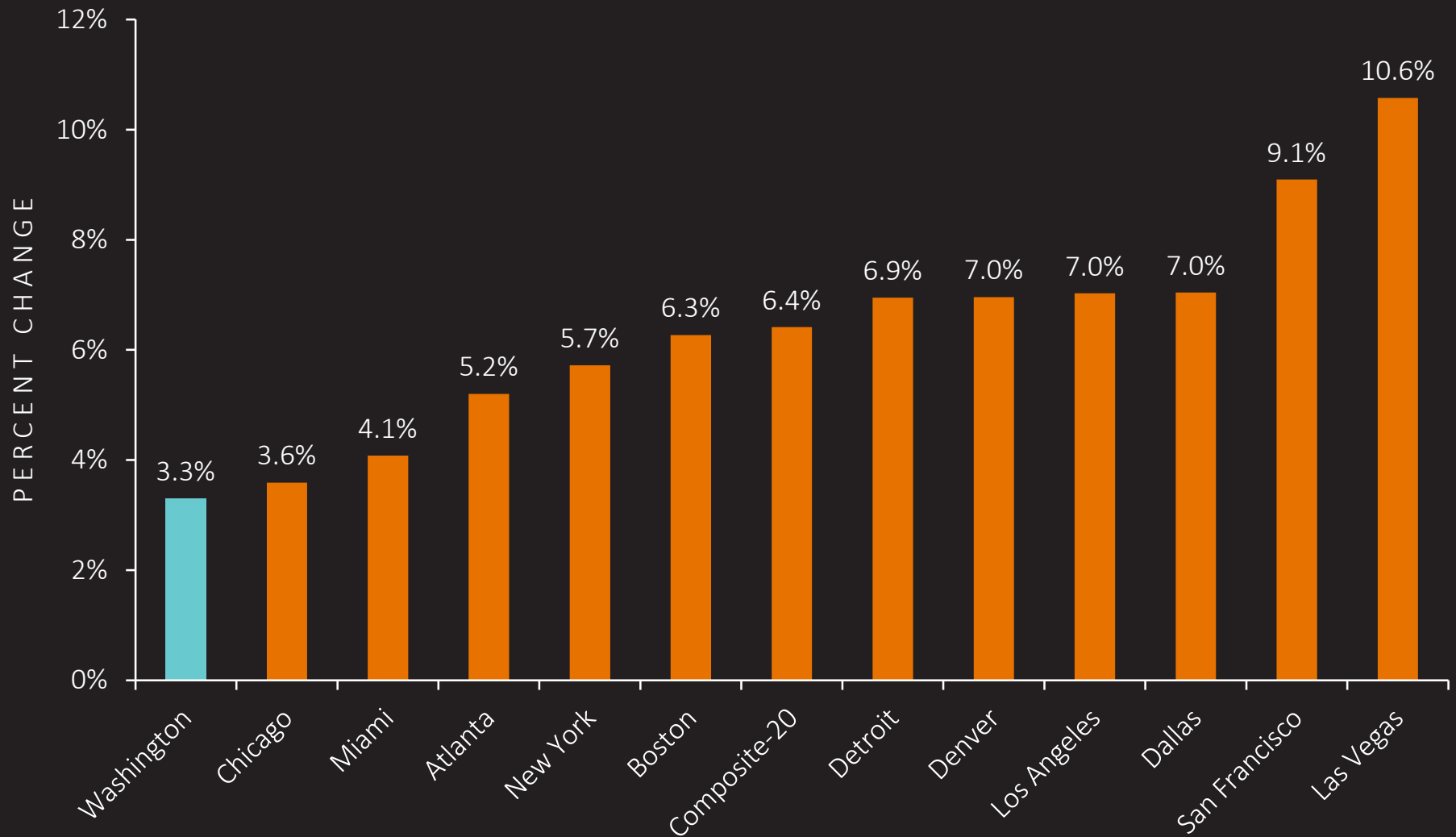
SINGLE-FAMILY HOUSING STARTS

United States



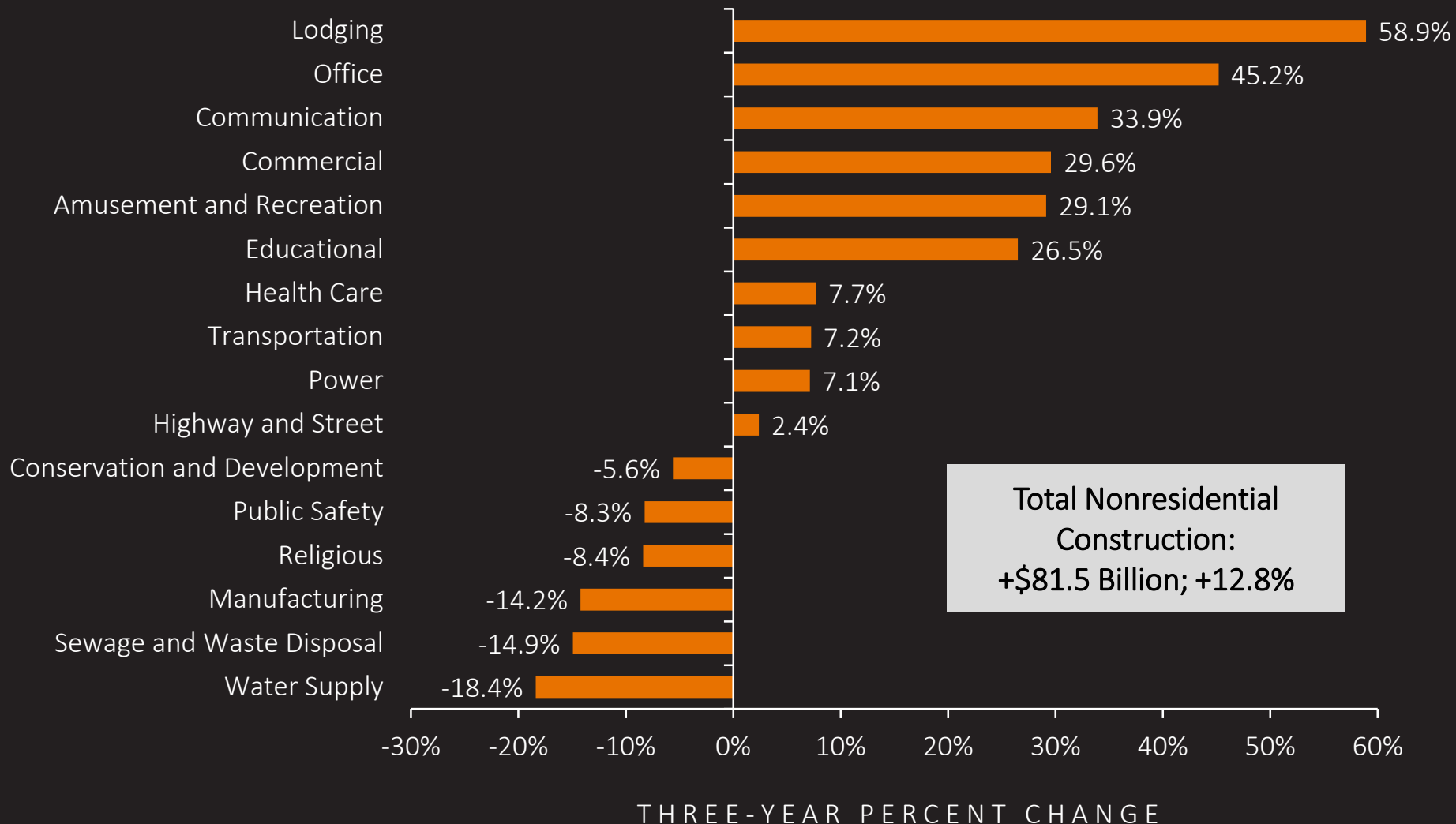
S&P/CASE-SHILLER HOME PRICE INDICES

Select Metro Areas | 12-Month Ending November 2017



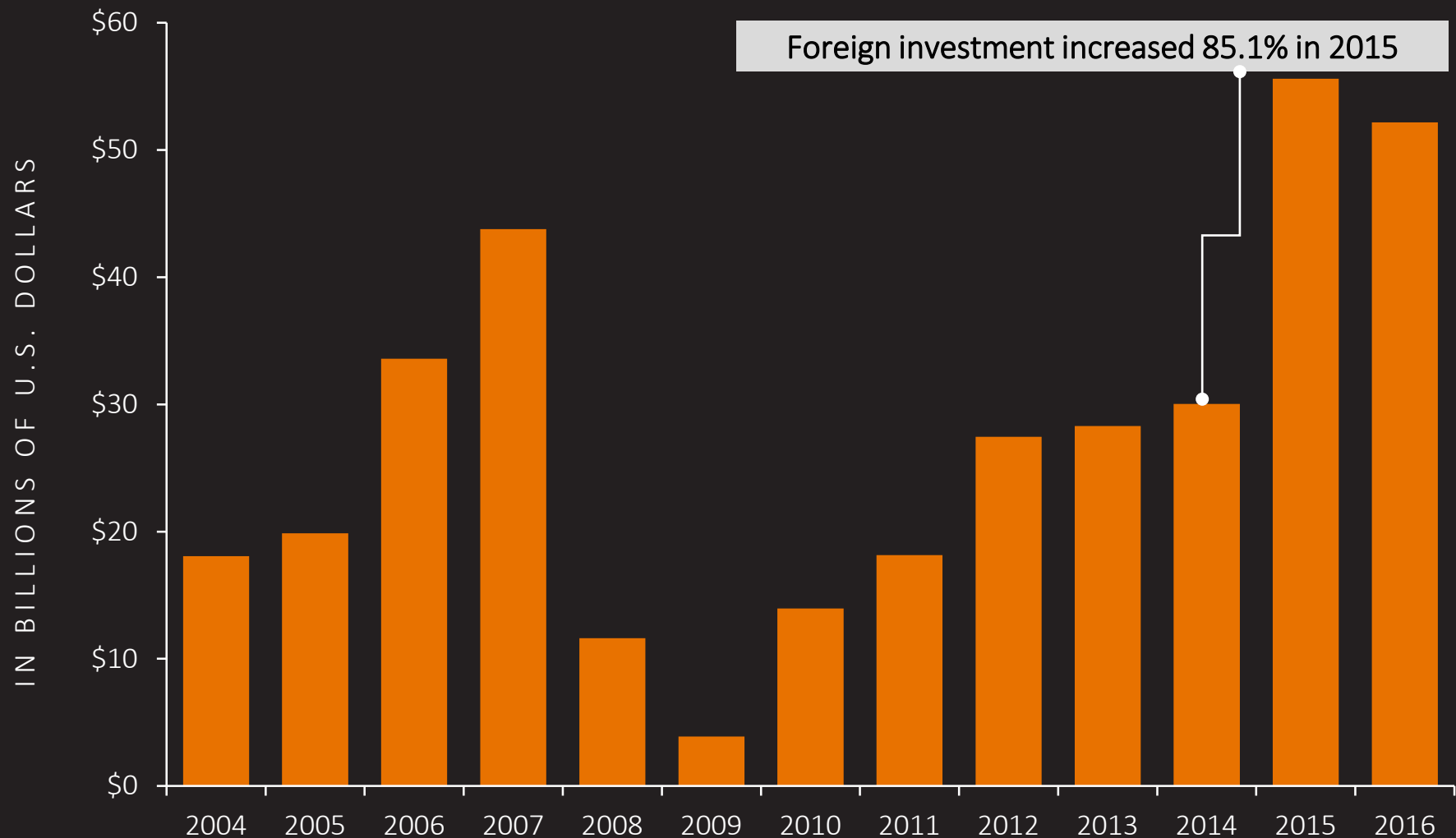
NONRESIDENTIAL CONSTRUCTION SPENDING

United States | November 2014 vs. November 2017



COMMERCIAL/MULTIFAMILY OFFSHORE INVESTMENT

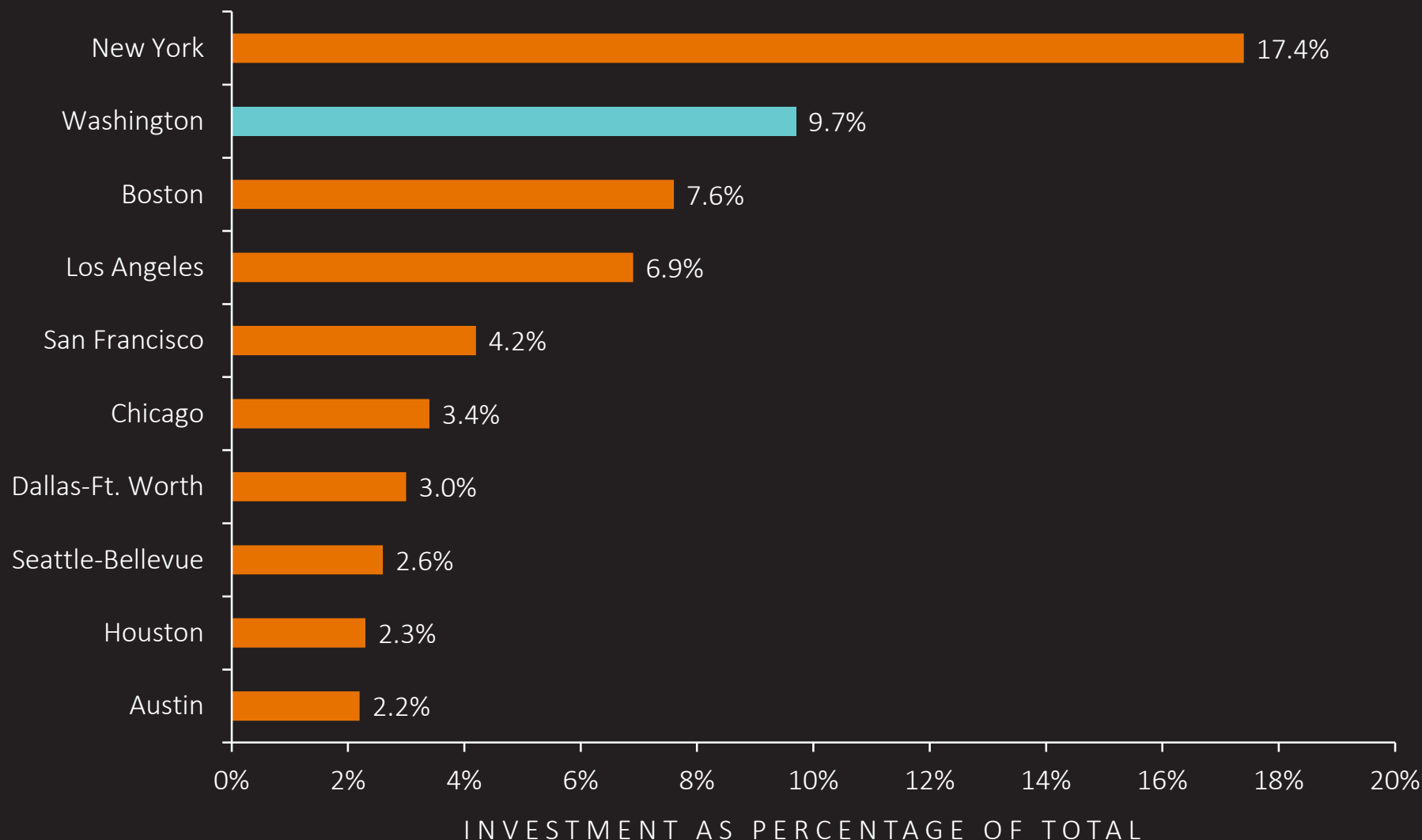
Sales Volume Reaches New Heights in 2015/2016



Cross-border investment remained elevated in 2016: Although down relative to a record 2015, offshore investment levels still exceeded the pre-2015 high in 2007.

FOREIGN INVESTMENT IN U.S. CRE

Top Destination Markets | First Half 2017



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MEGATREND TWO Capitalization Rates: Red Flag or New Normal?

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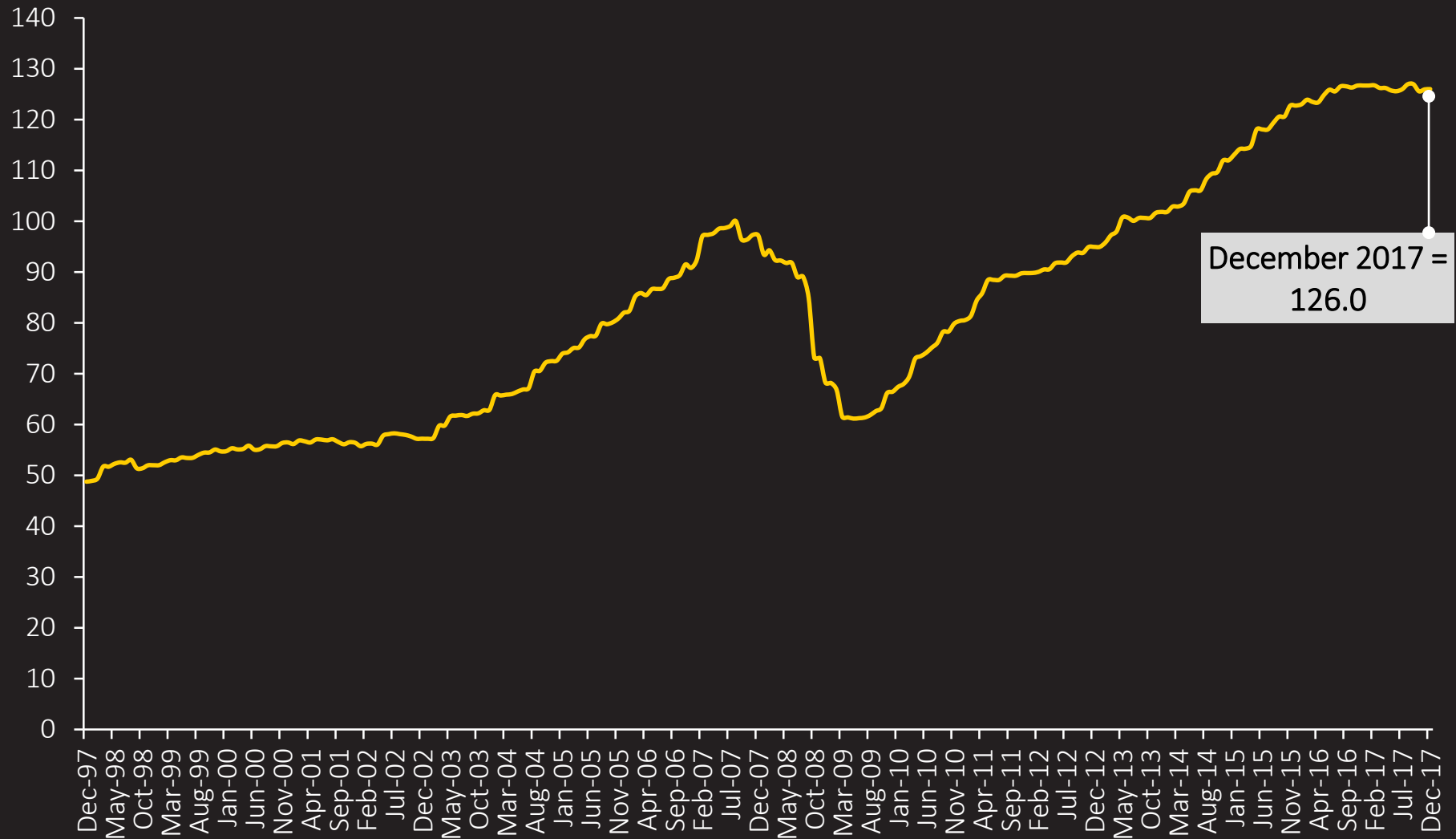
 PNC
REAL ESTATE

 BAKER TILLY

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ASSOCIATES

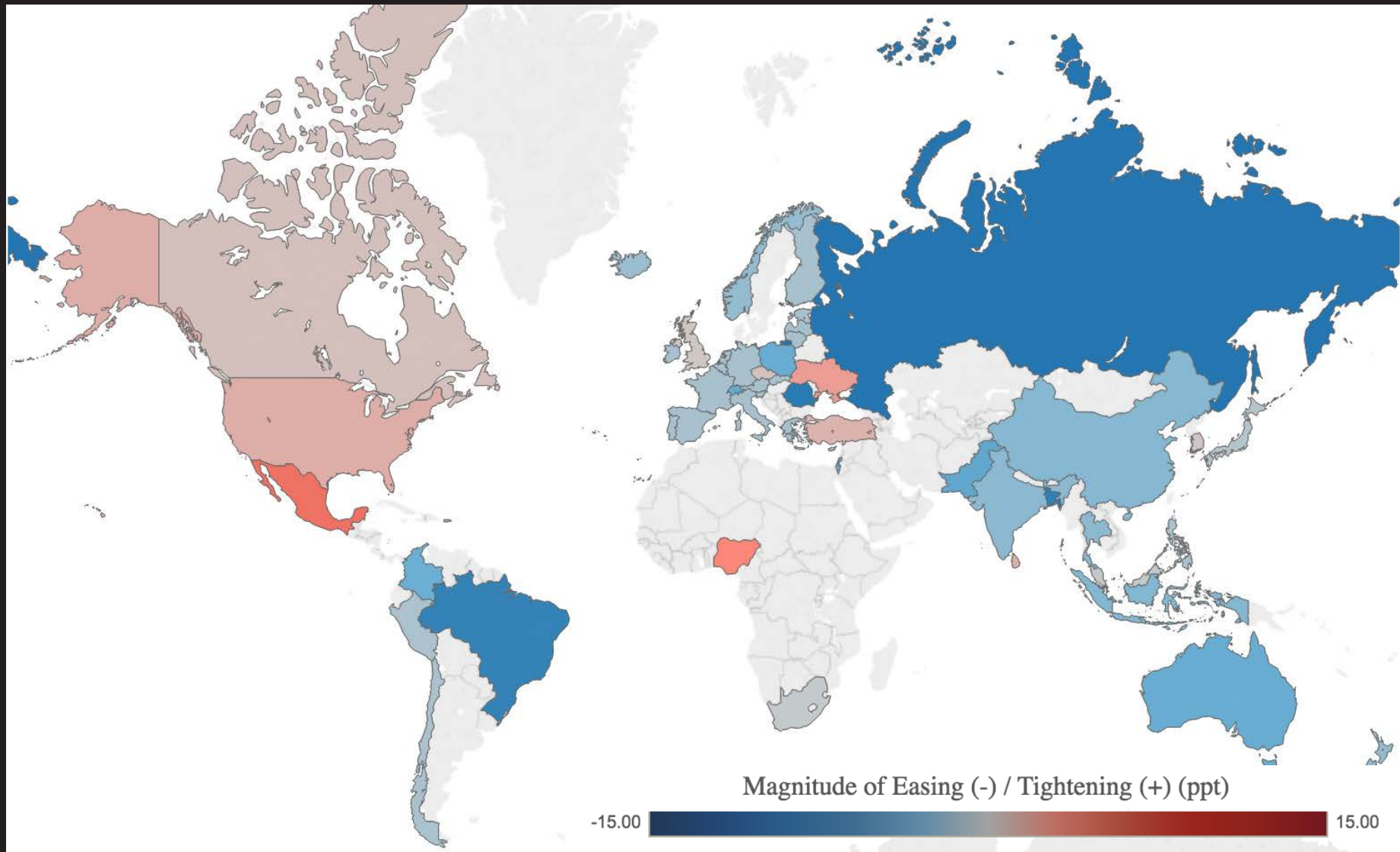
COMMERCIAL PROPERTY PRICE INDEX

United States



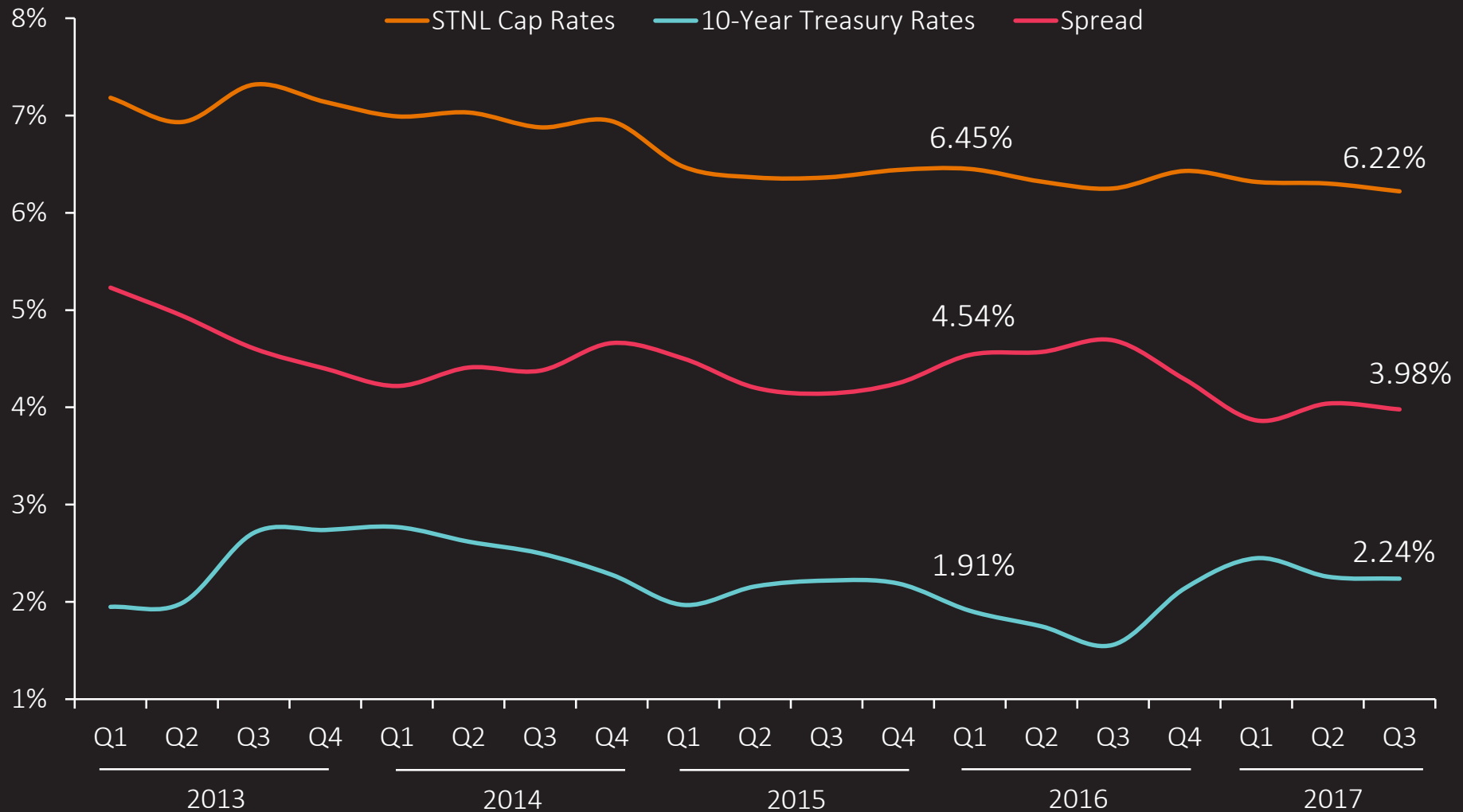
MONETARY POLICY TIGHTENING/EASING

Global | December 2017

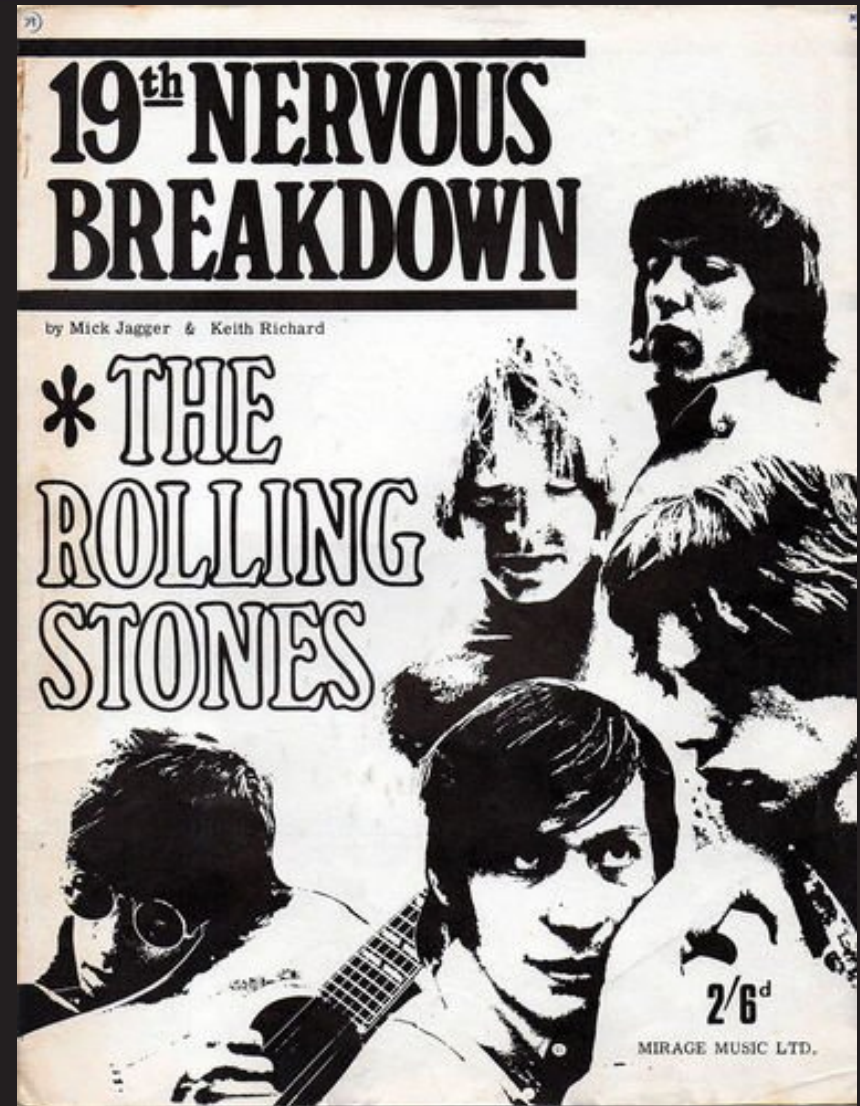


STNL* CAP RATES VS. 10-YEAR TREASURY RATES

United States

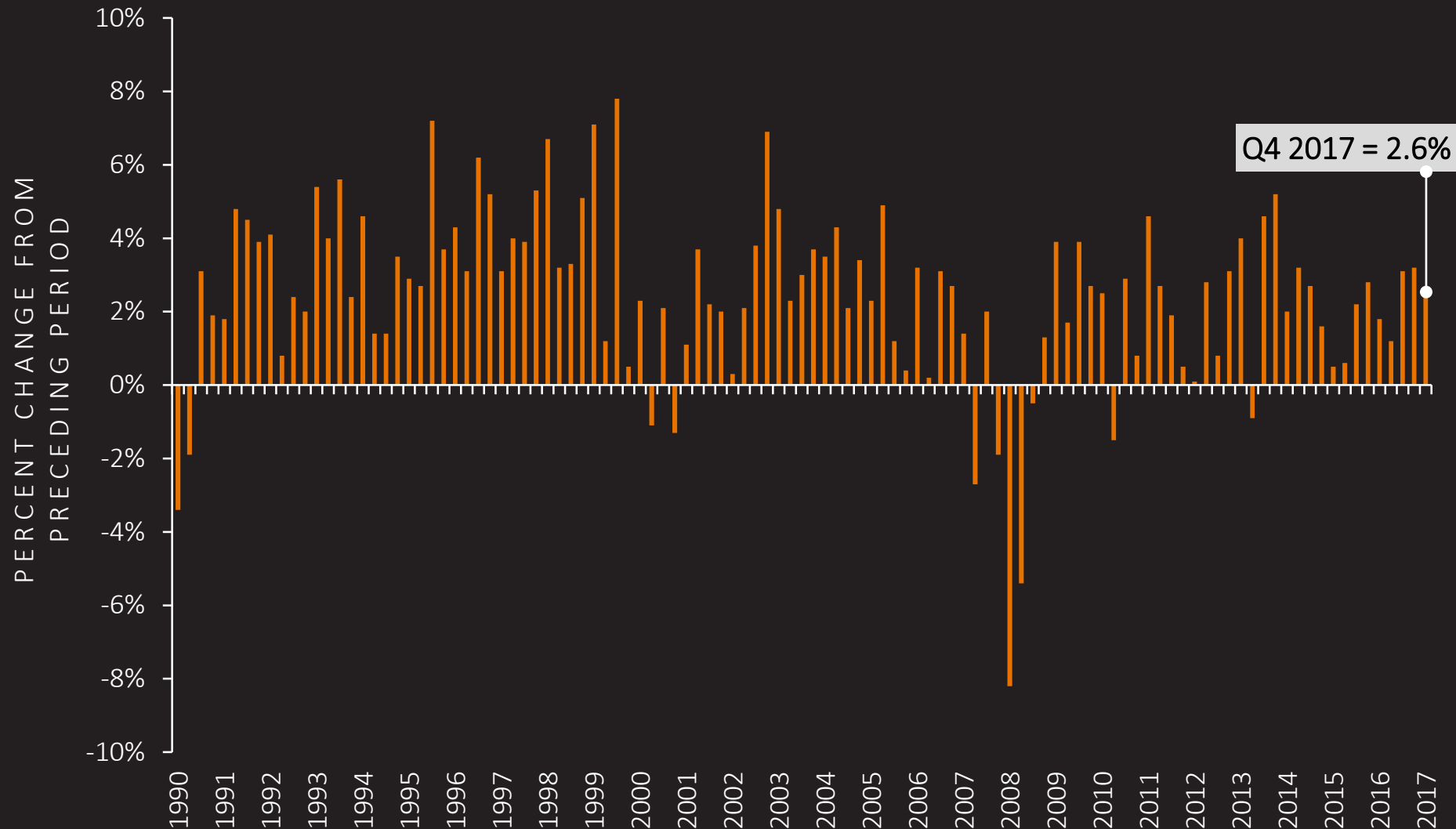


19TH NERVOUS BREAKDOWN



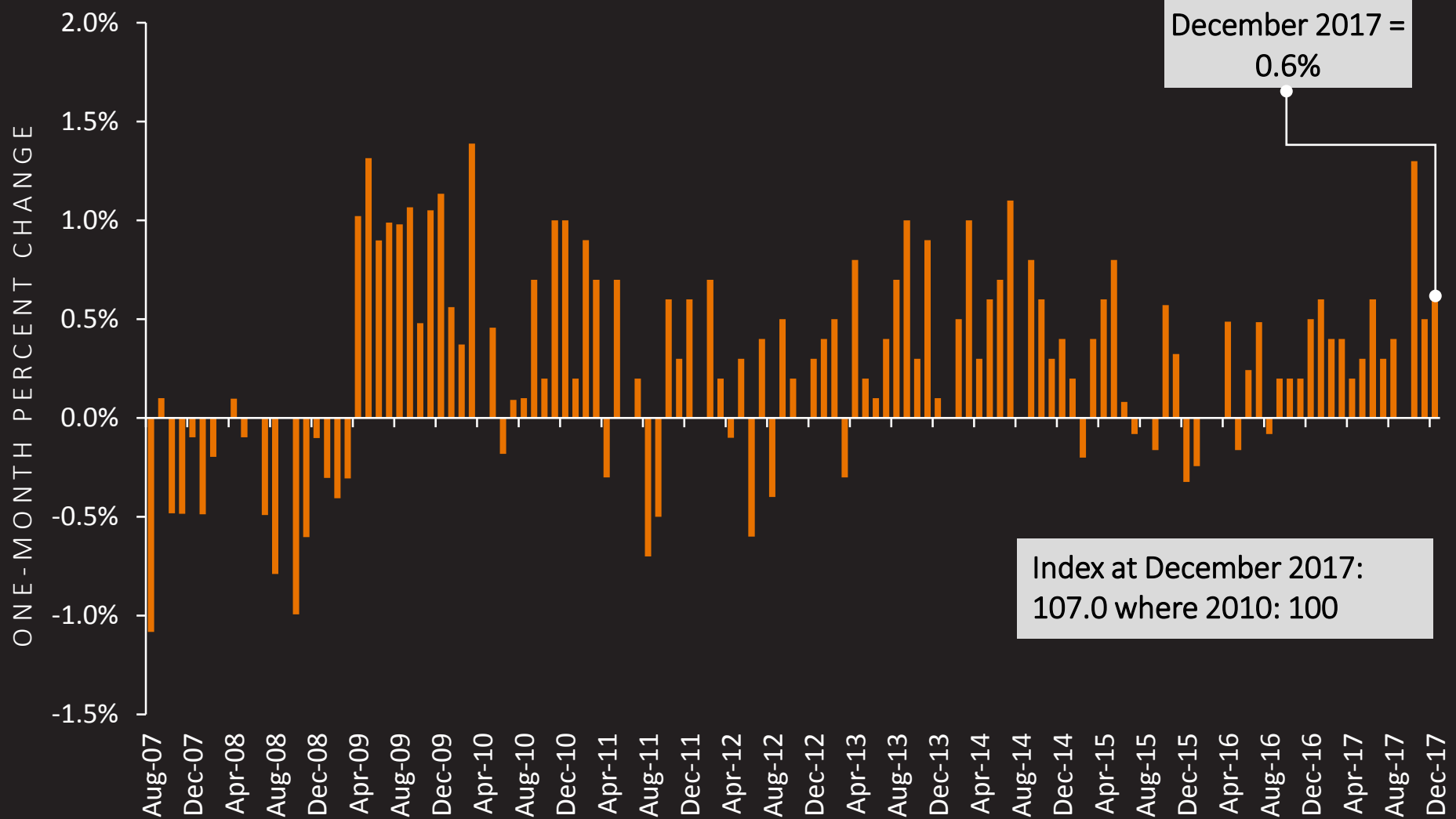
GROSS DOMESTIC PRODUCT

United States



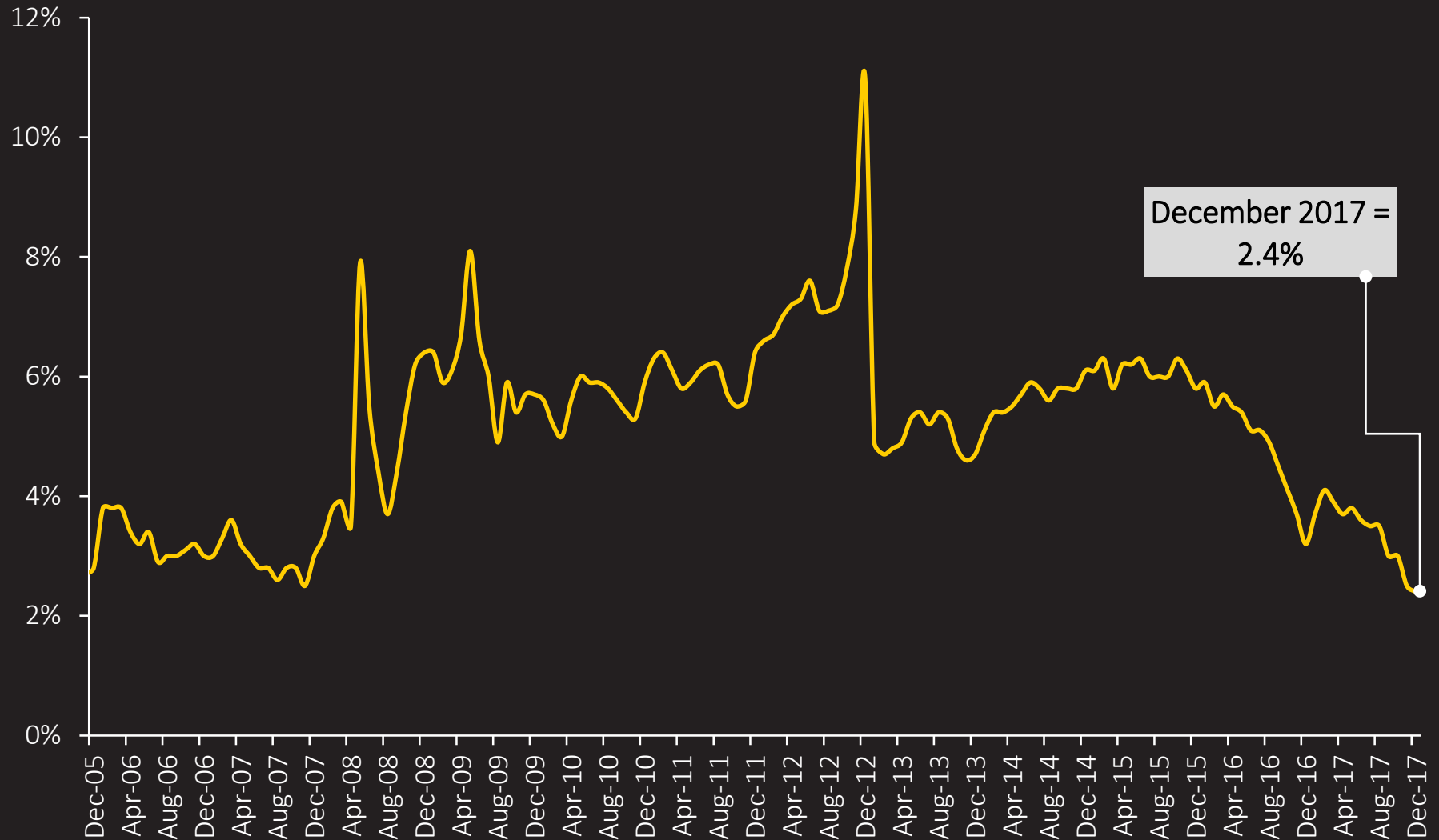
LEADING ECONOMIC INDICATORS INDEX

United States



SAVING RATE

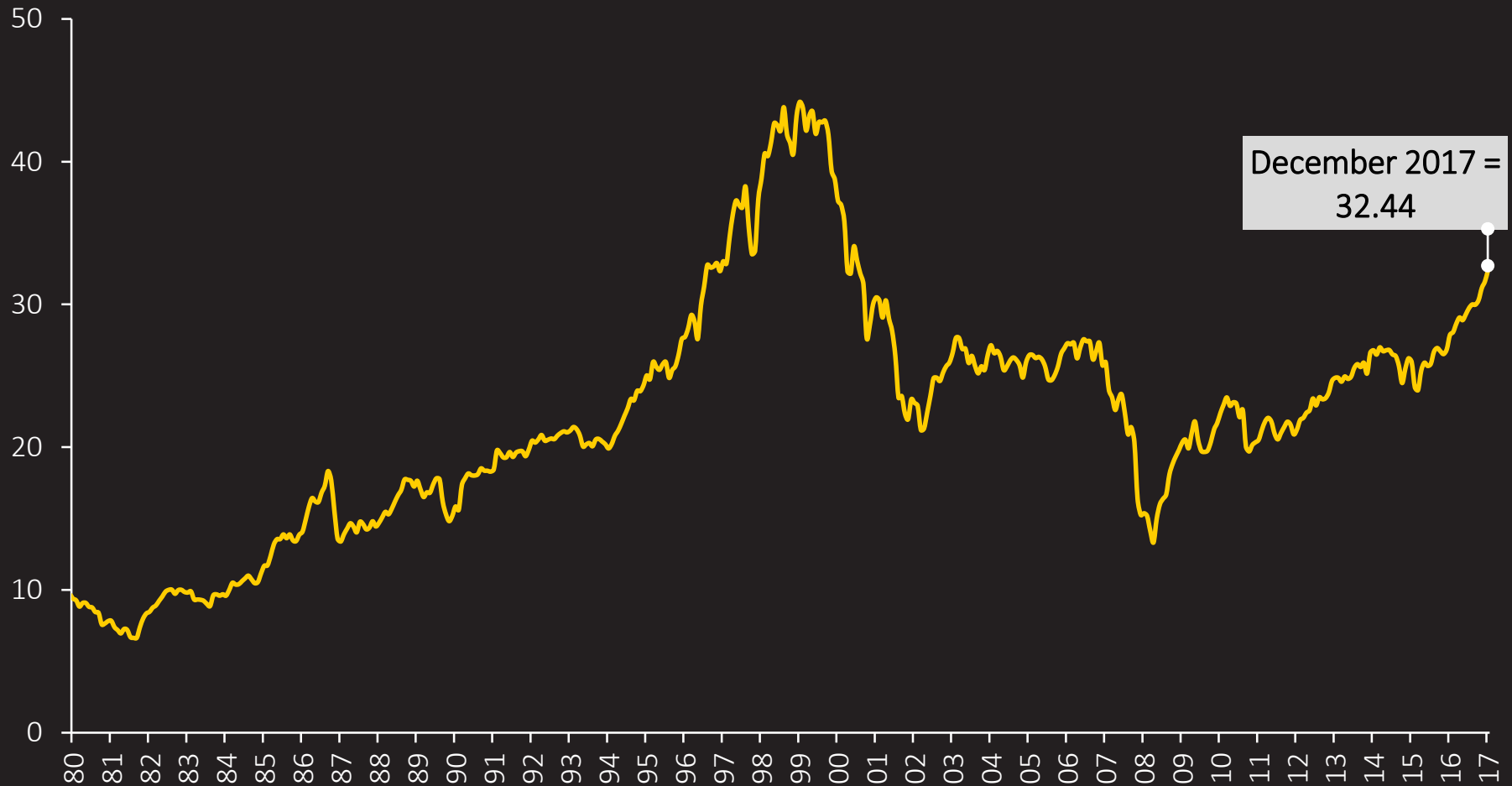
United States



- According to the International Institute of Finance (IIF), global debt has reached an all-time high in 2016
- At **\$215 trillion**, global debt—including household, government, and corporate—now represents **325% of global GDP**
- Last year, the IMF warned of risks to the global economy:
 - *“sheer size of debt could set the stage for an unprecedented private deleveraging process that could thwart the fragile economic recovery”*

SHILLER PRICE-EARNINGS RATIO

United States



SHATTERED! - BITCOIN PRICE



- U.S. setting up for best year since '05. . .
- Global economy also picking up momentum, in large measure due to policymaking
- Job opportunities are abundant
- Corporate profitability elevated
- Consumer and business confidence has been surging. . .
- And now tax cuts, including major reductions in corporate taxes . . . What could go wrong?
- A lot can go wrong – that's always true – first there are the Black Swan threats – cyber, contagion, conflict, Korea, EMP, trade war:
- “I’m forever blowing bubbles, pretty bubbles in the air, they fly so high, nearly reach the sky, and like my dreams, they fade and die”
- Equity markets? U.S. bond market? Commercial real estate? Bitcoin? Where are all the pretty bubbles?
- 2018 will be fine – better than fine – 2019 might be, too, but beyond that, possible deleveraging cycle prompted by a repricing of assets – Bad!!!!

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MEGATREND THREE

Elevated Apartment Absorption - Will it Continue?

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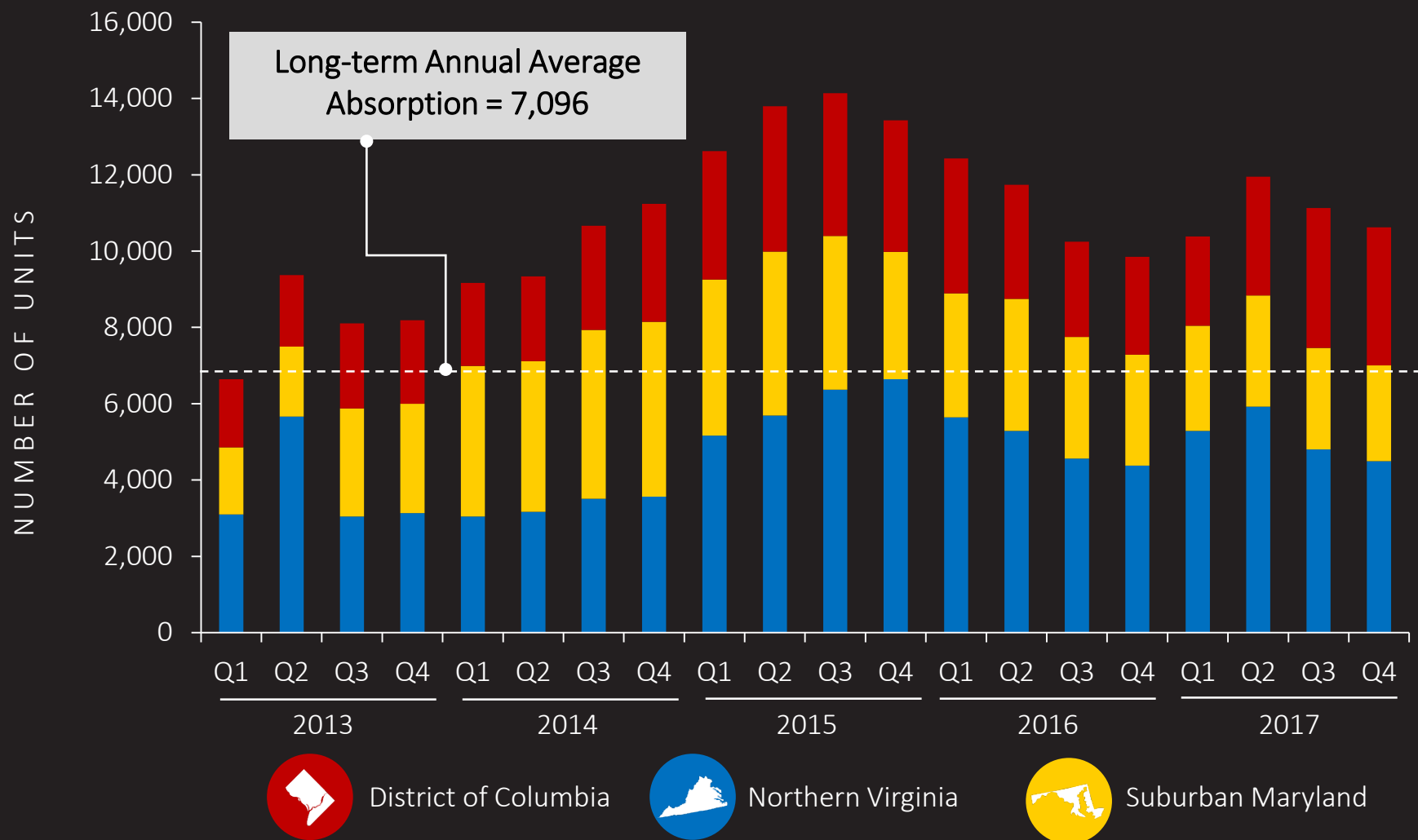
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REAL ESTATE

 BAKER TILLY

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CLASS A APARTMENT ABSORPTION

Washington Metro Area



APARTMENT ABSORPTION LEADERS

District of Columbia – Capitol Hill/Riverfront/SW & NoMa/H St.

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F1RST Residences, 1263 1st Street, SE



The Apollo, 600 H Street, NE

APARTMENT ABSORPTION LEADERS

Northern Virginia – RCB Corridor and Tysons

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Ten at Clarendon, 3110 10th Street N

Highgate at the Mile, 7915 Jones Branch Drive



APARTMENT ABSORPTION LEADER

Suburban Maryland – North Prince George's County

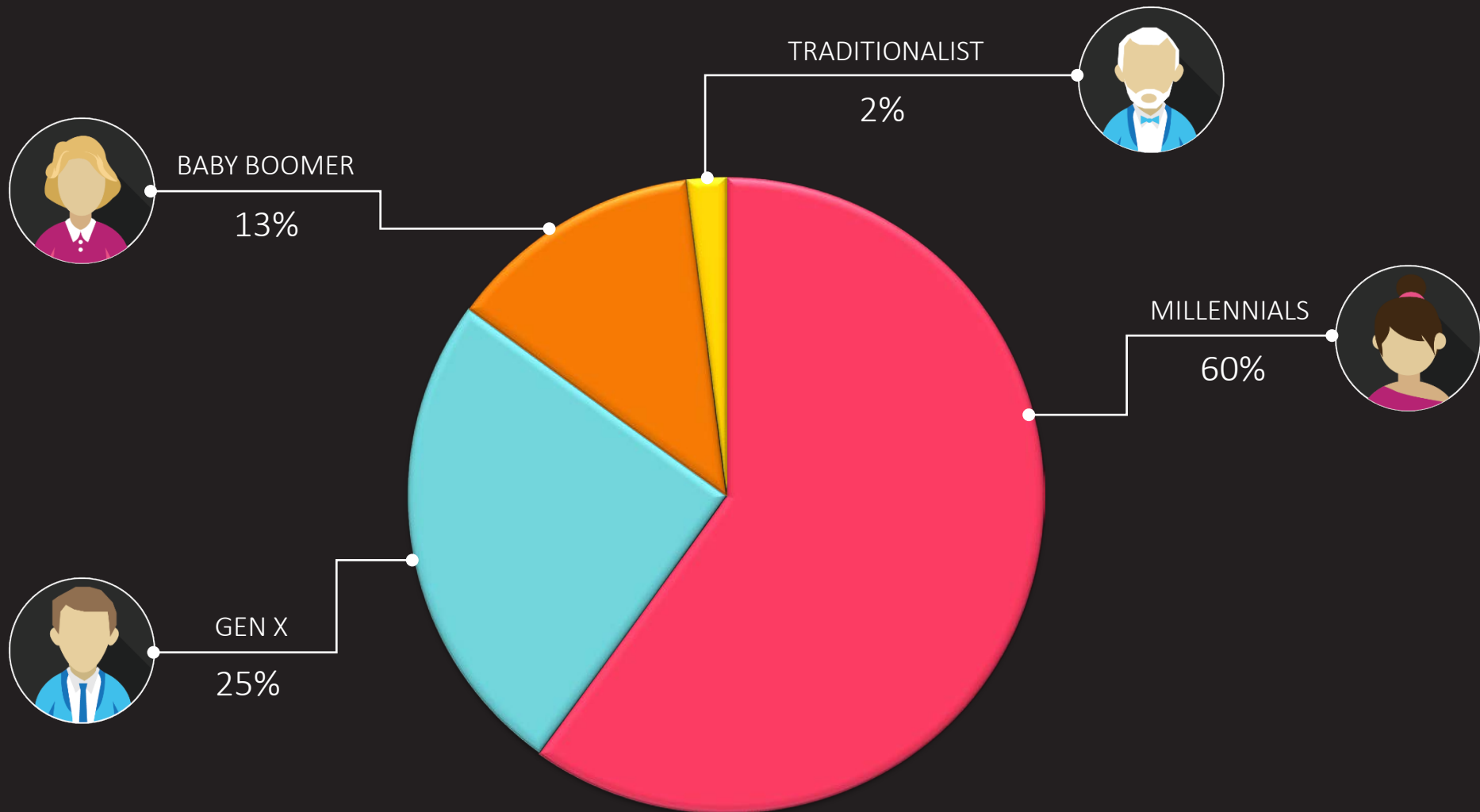
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Monument Village, 9122 Baltimore Avenue

The Remy, 7730 Harkins Road

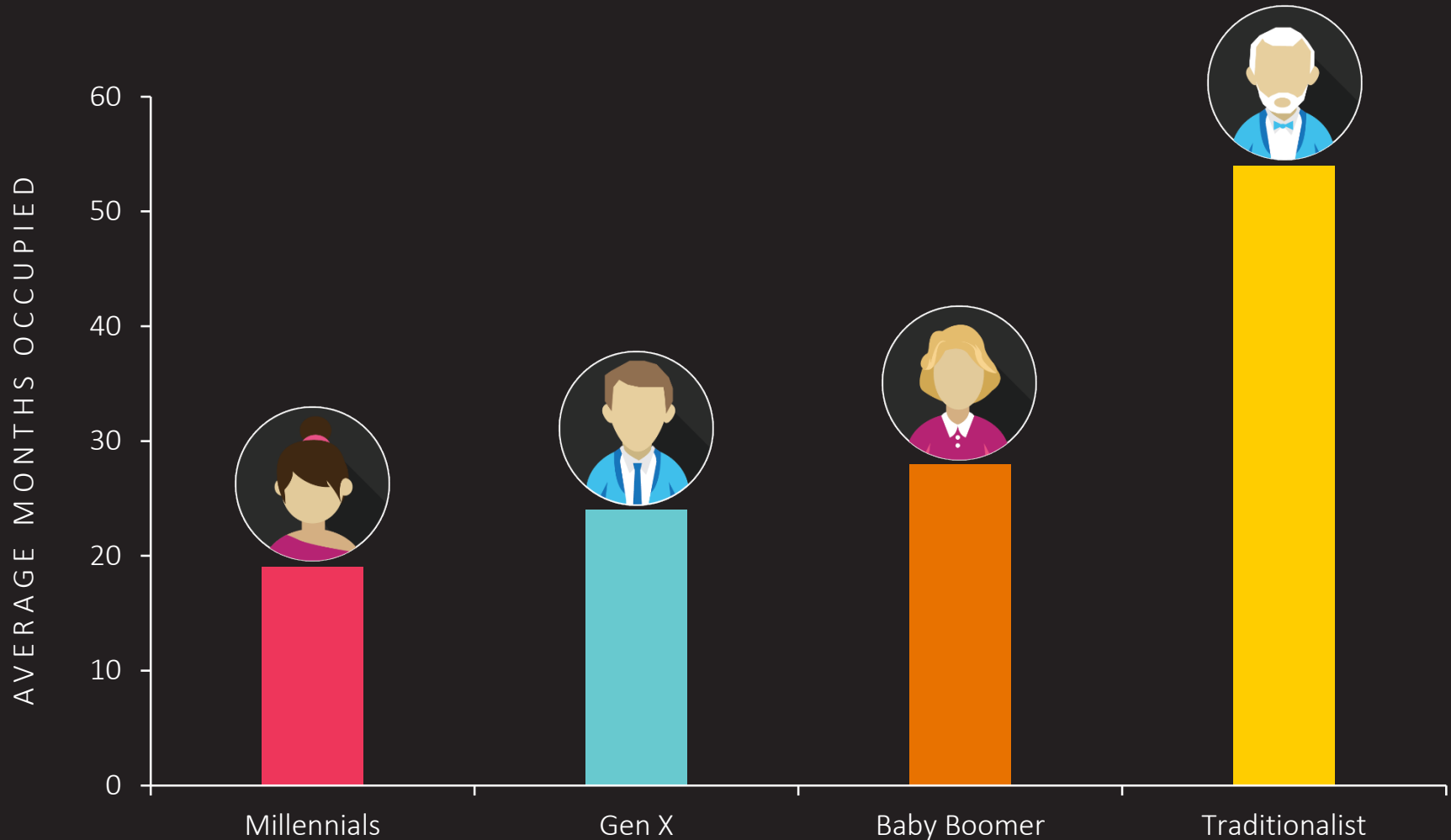
CLASS A APARTMENT RENTER TYPES

Urban Locations in Washington Metro Area | 2015



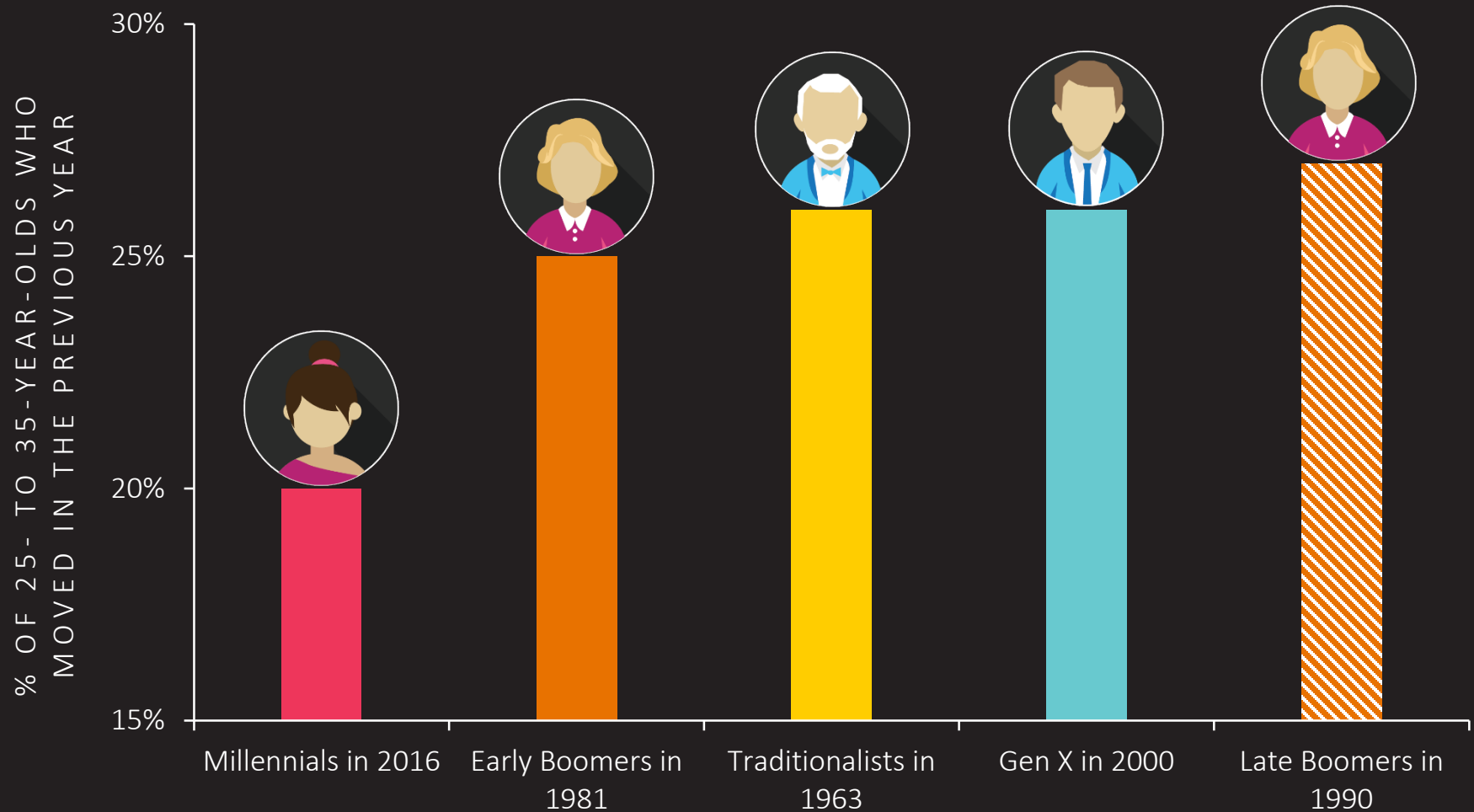
CLASS A APARTMENT AVERAGE TENURE BY RENTER TYPE

Urban Locations in Washington Metro Area | 2017



MOBILITY BY GENERATION OF 25 TO 35-YEAR OLDS

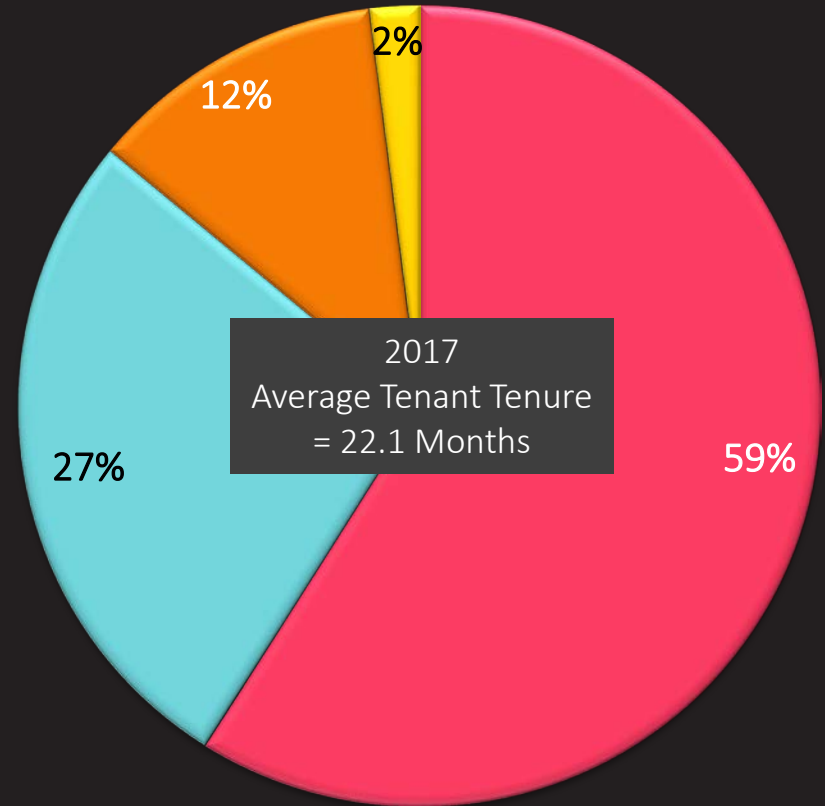
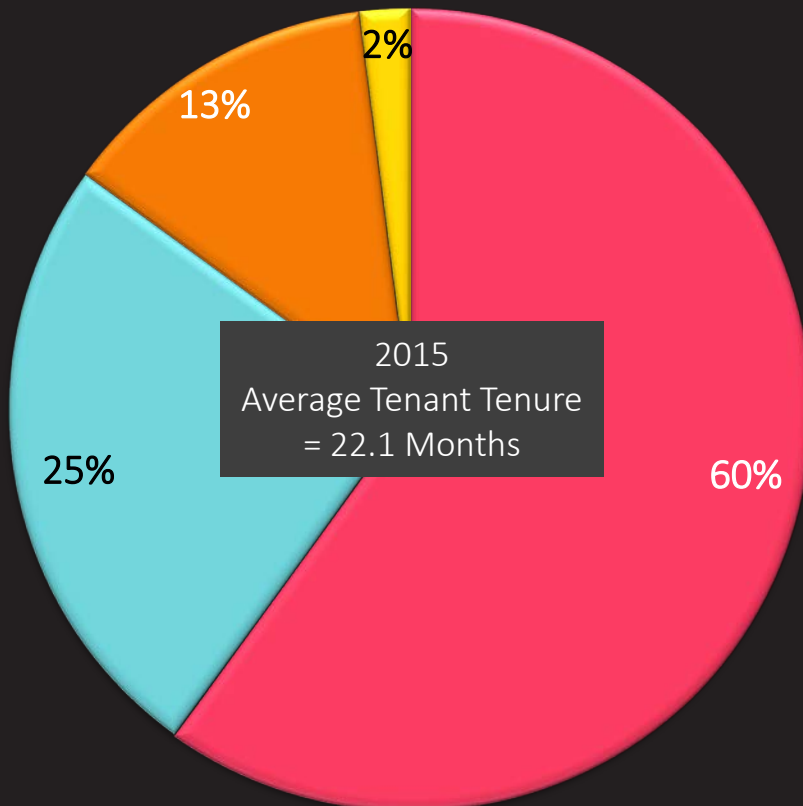
United States



CLASS A APARTMENT RENTER TYPES

Urban Locations in Washington Metro Area

Millennials Gen X Baby Boomer Traditionalist



APARTMENT MARKET OPPORTUNITIES

Washington Metro Area

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Co-Living
Apartments
Rise in
Popularity
Among
Millennials

Look Beyond
Fitness
Facilities and
Pools

Go with Smaller
and More
Efficient Unit
Designs

Invest in
Cutting-
Edge
Technology



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MEGATREND FOUR The Beginning of the End of Boutique Condominium Development?

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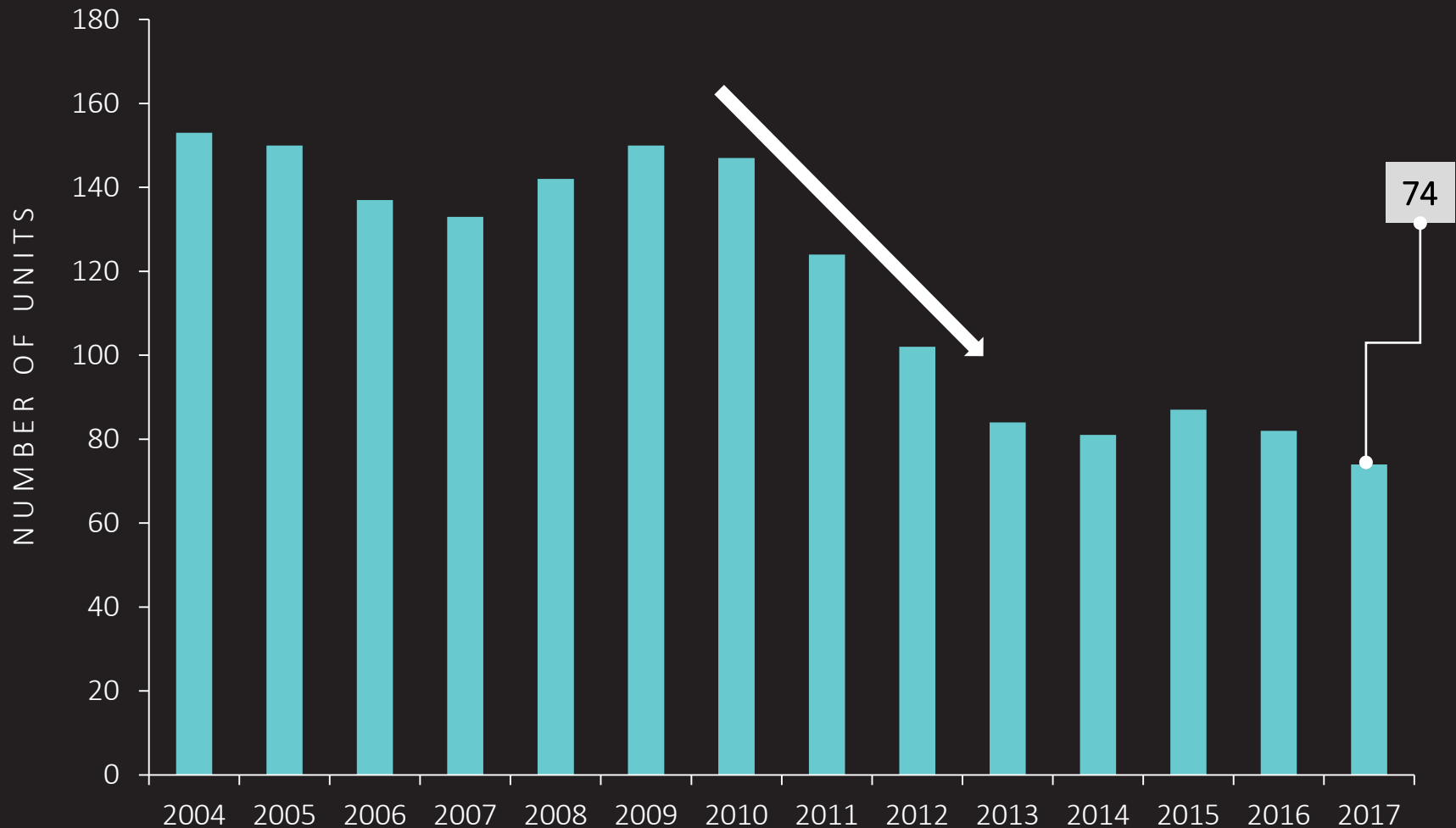
 **PNC**
REAL ESTATE

 **BAKER TILLY**

 **DELTA**
ASSOCIATES

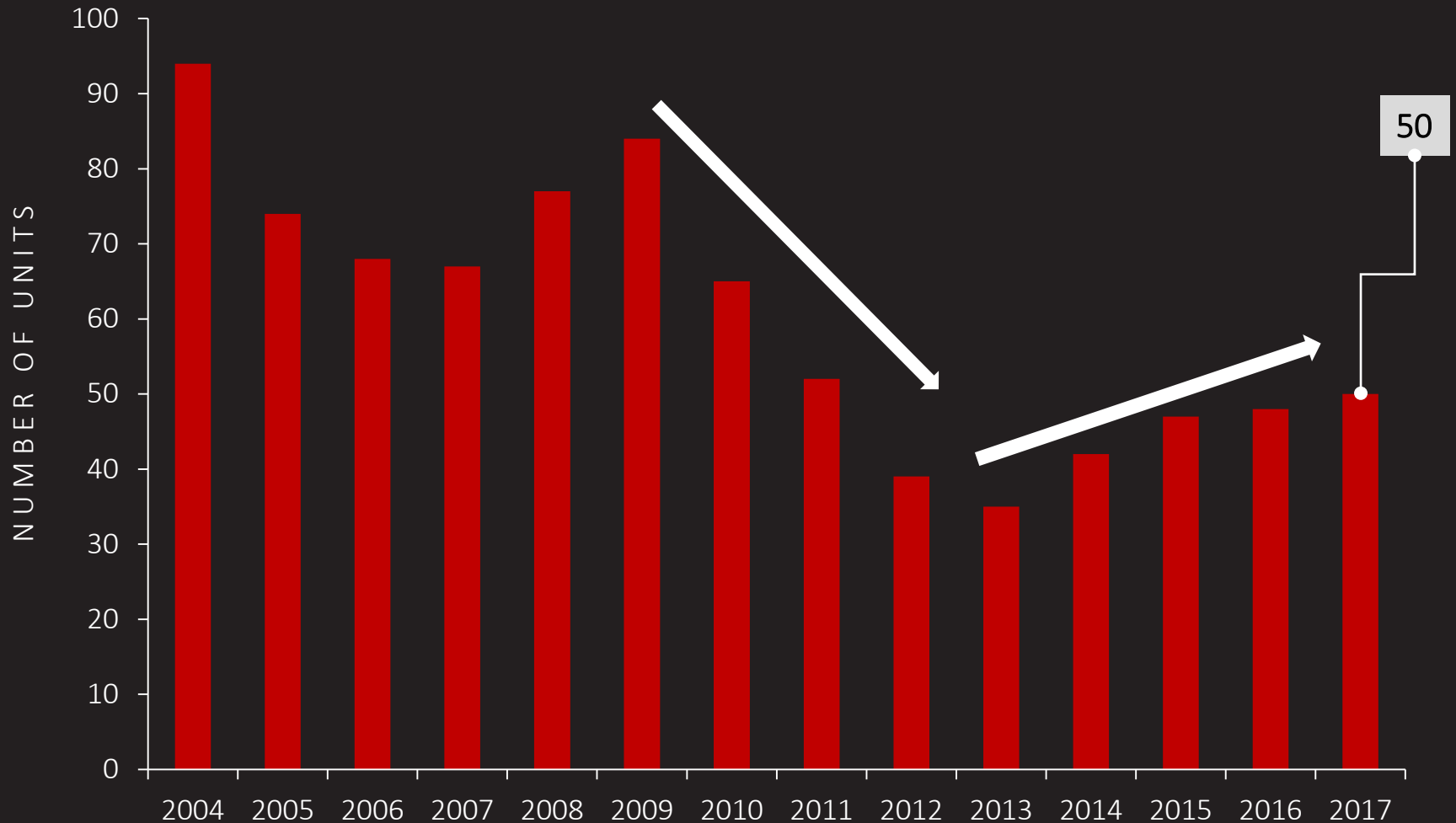
AVERAGE UNIT COUNT OF NEW CONDO PROJECTS

Washington Metro Area



AVERAGE UNIT COUNT OF NEW CONDO PROJECTS

District of Columbia



SHARE OF CONDOMINIUM SALES ACTIVITY

Washington Metro Area



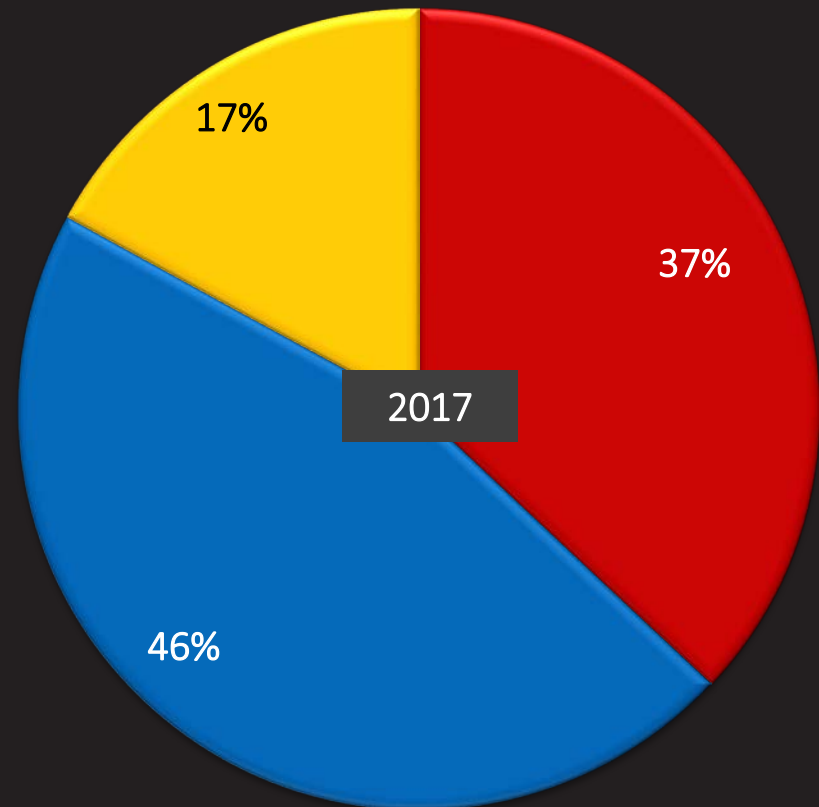
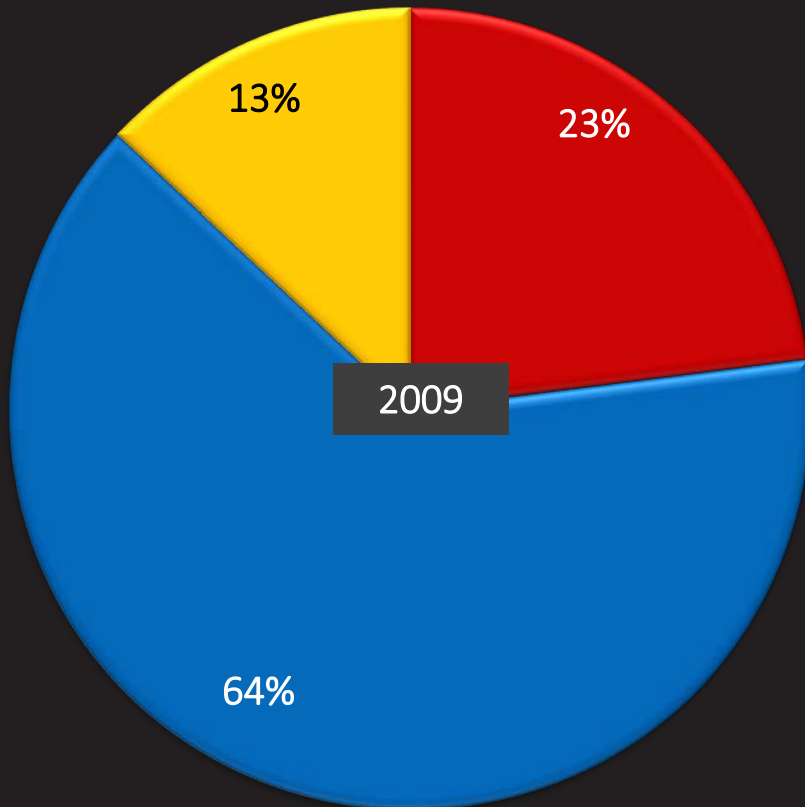
District of Columbia



Northern Virginia



Suburban Maryland



NEW CONDOMINIUM PROJECTS

District of Columbia

624 Eye Street, NW



Avidian, 1210 Van Street, SE



NEW CONDOMINIUM PROJECTS

Northern Virginia



The Arbor, Arbor Row - Tysons

Verse, The Boro - Tysons



NEW CONDOMINIUM PROJECTS

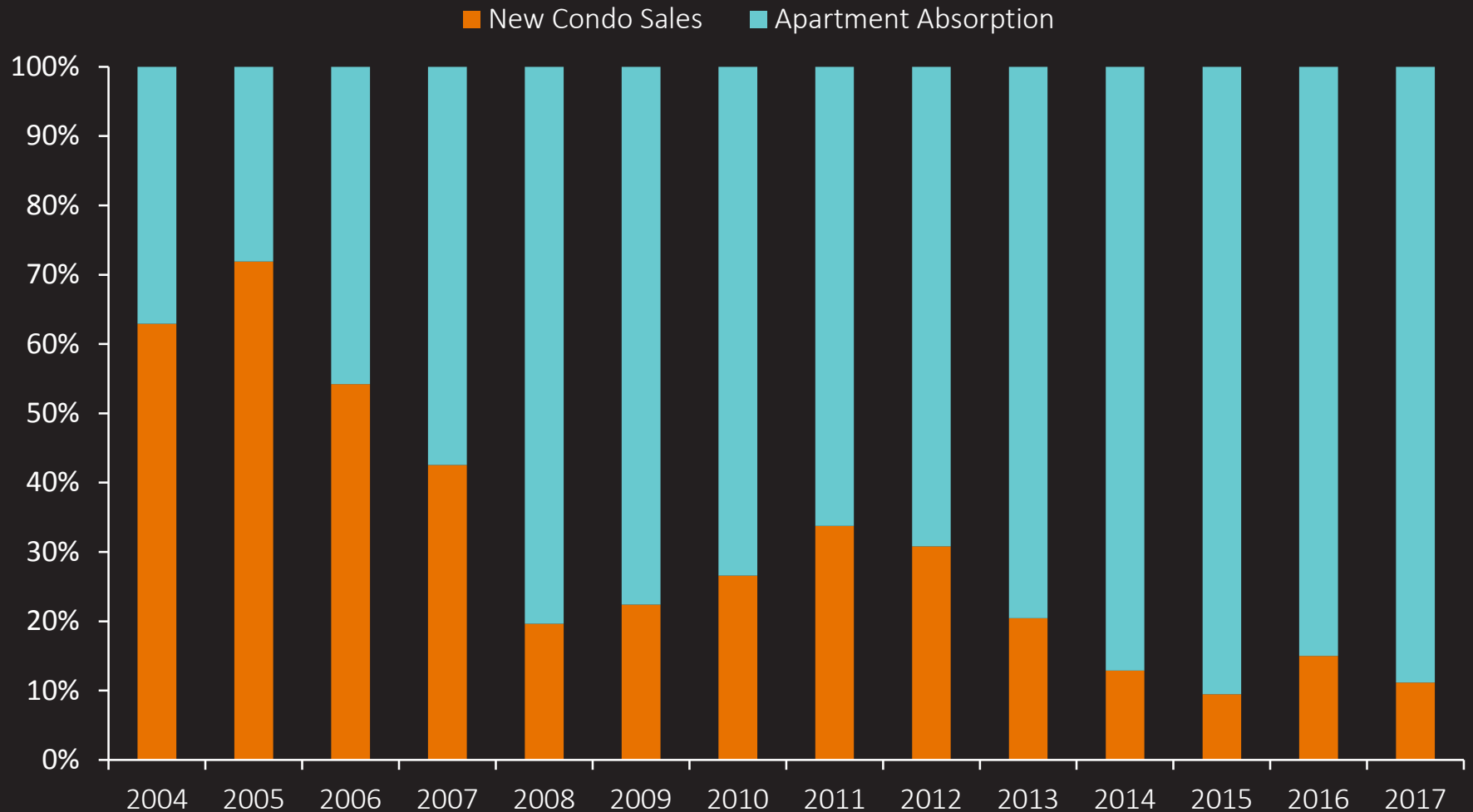
Suburban Maryland

The Haven at National Harbor



NEW CONDO SALES VS. APARTMENT ABSORPTION

Washington Metro Area



CONDOMINIUM MARKET OPPORTUNITIES

Washington Metro Area

Build in
Supply-
Constrained
Submarkets

Condo Project
Size Should Not
Be Too Large,
Avoiding Longer
Sales Programs

Create Mixed-Use
Buildings to Allow
for High-Rise
Condo
Construction

Target First-Time
Millennial
Homebuyers in
Select Submarkets



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MEGATREND FIVE

Battle of the Fittest - The Office Amenities War

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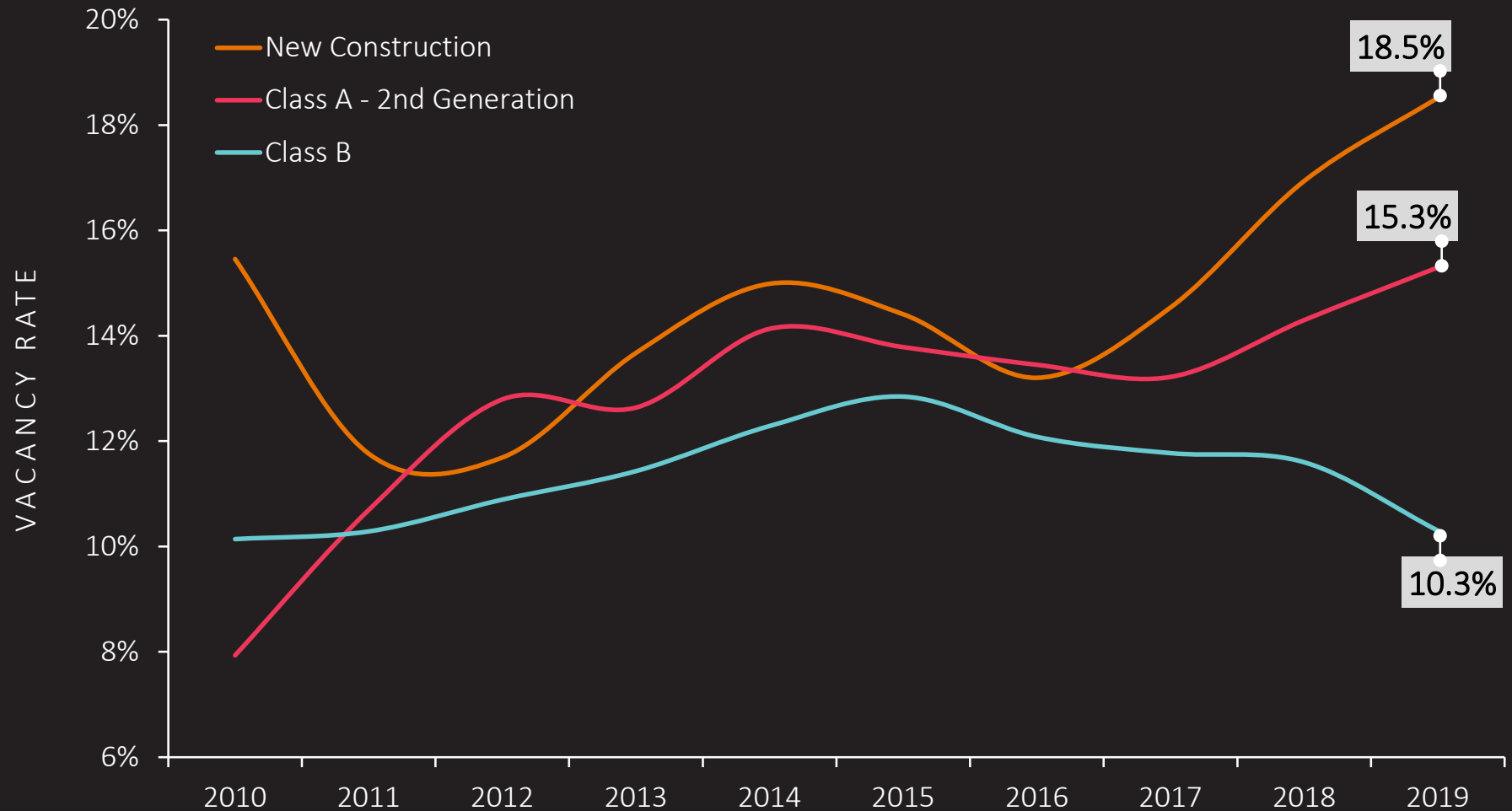
 **PNC**
REAL ESTATE

 **BAKER TILLY**

 **DELTA**
ASSOCIATES

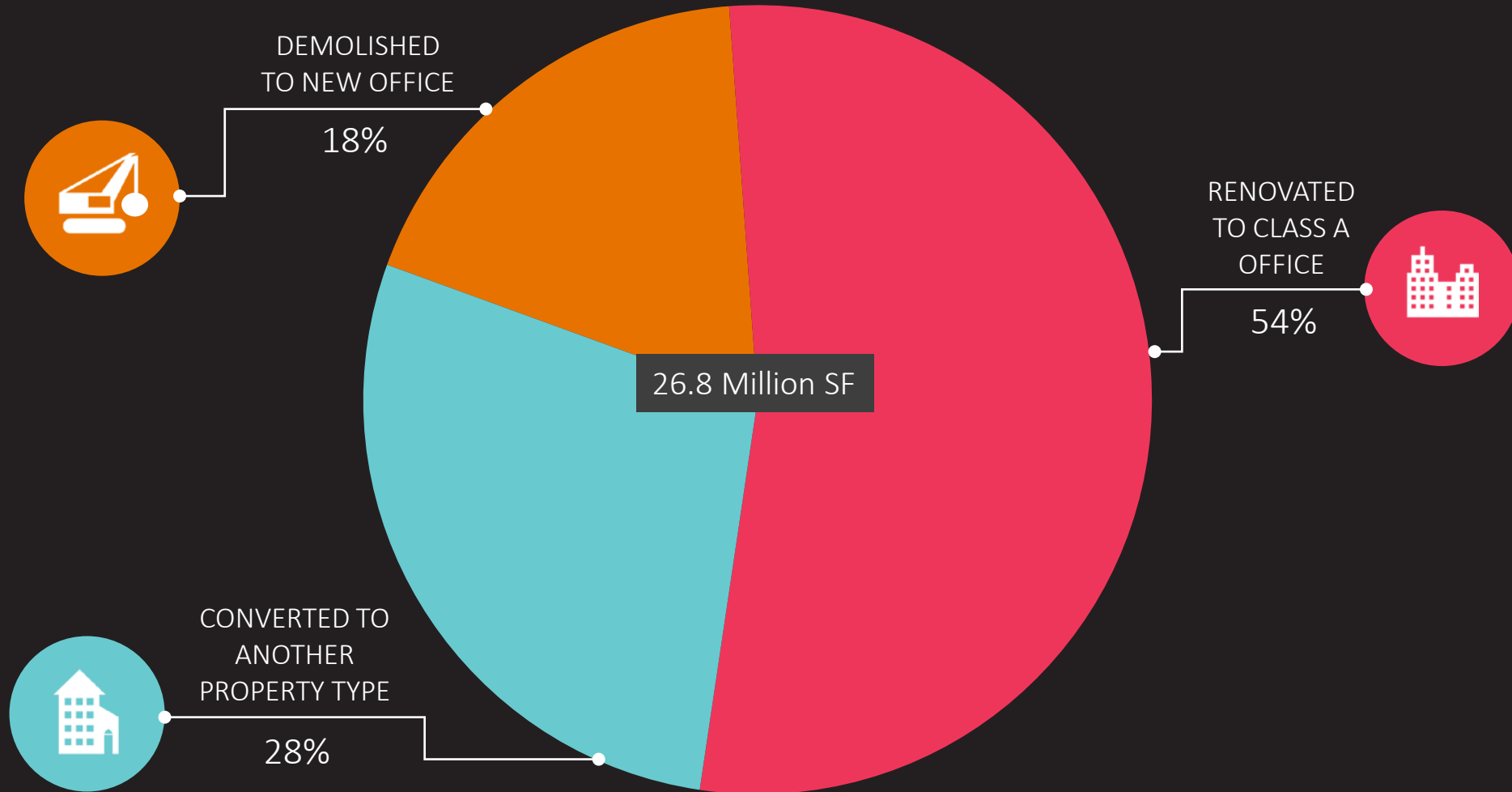
OFFICE VACANCY RATE

Washington Metro Area



CLASS B/C OFFICE INVENTORY REMOVED

Washington Metro Area | 2010 - 2020



OFFICE MARKET OPPORTUNITIES

Washington Metro Area

Success will go to assets with unique and above-average amenities and design:

Differentiate
Buildings Using
Lobby Space

Make Room
for Coworking,
Lounges, and
Spec Suites

Amenitize with
Unique, Tenant-
Focused Offerings



OFFICE MARKET OPPORTUNITIES

Differentiate Buildings Using Lobby Space



Terrell Place, 575 7th Street, NW

80 M Street, SE



OFFICE MARKET OPPORTUNITIES

Make Room for Coworking, Lounges, and Spec Suites

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TYSONS TOWN HALL™



8614 Westwood Center Drive

AMENITY SPACE
First Floor



OFFICE MARKET OPPORTUNITIES

Make Room for Coworking, Lounges, and Spec Suites

Spec Suite: Metropolitan Square, 655 15th Street, NW



3.1 MONTHS OF DOWNTIME
POST CONSTRUCTION



TENANTS PAY A 3%
PREMIUM



AVERAGE SPEC SUITE (3,500 SF)
ALIGNS WITH TENANTS IN THE
MARKET



OFFICE MARKET OPPORTUNITIES

Amenitize with Unique, Tenant-Focused Offerings

Market Square, 701/801 Pennsylvania Avenue, NW



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MEGATREND SIX

Barriers to Entry = Flex / Industrial Rent Spikes

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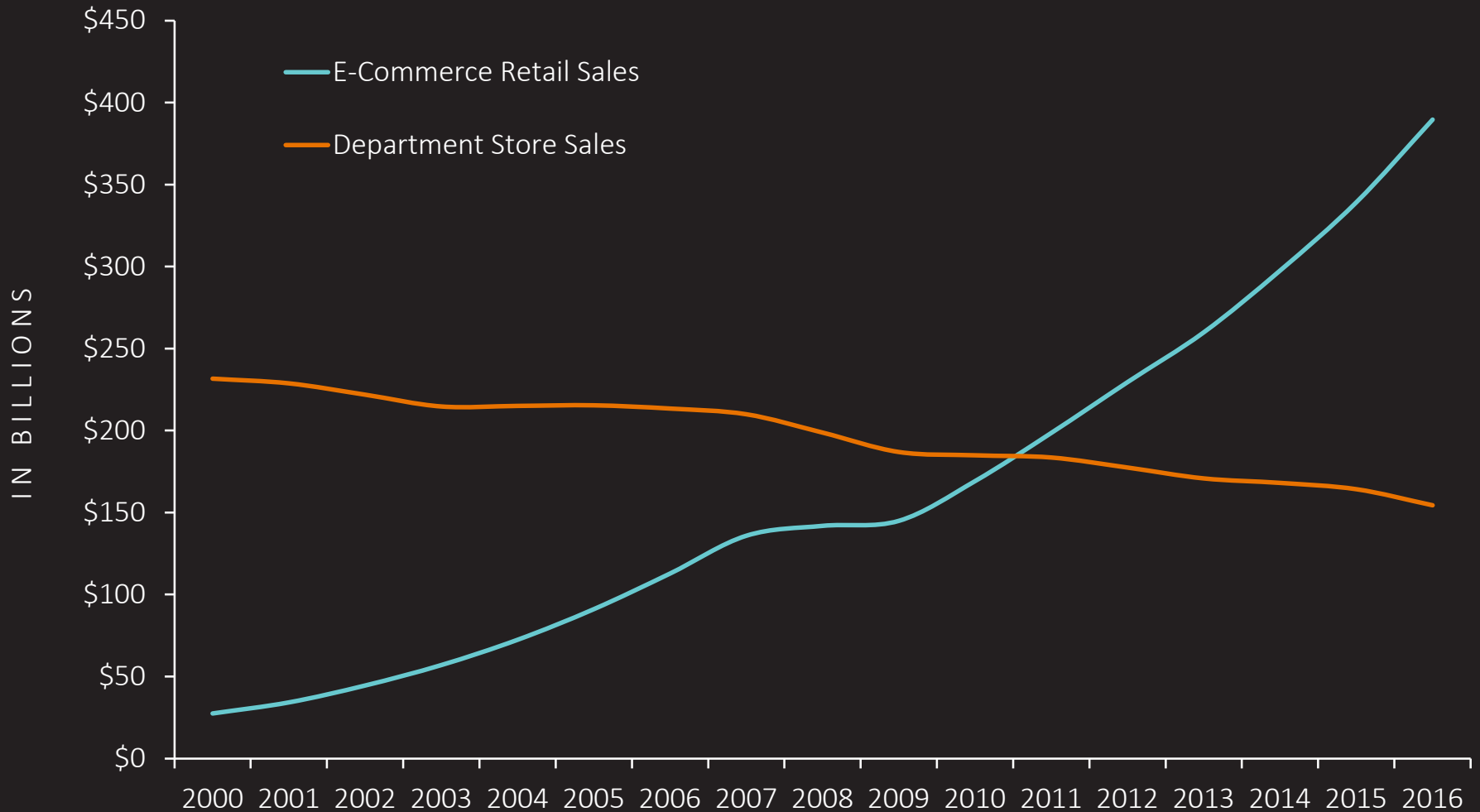
 PNC
REAL ESTATE

 BAKER TILLY

 DELTA
ASSOCIATES

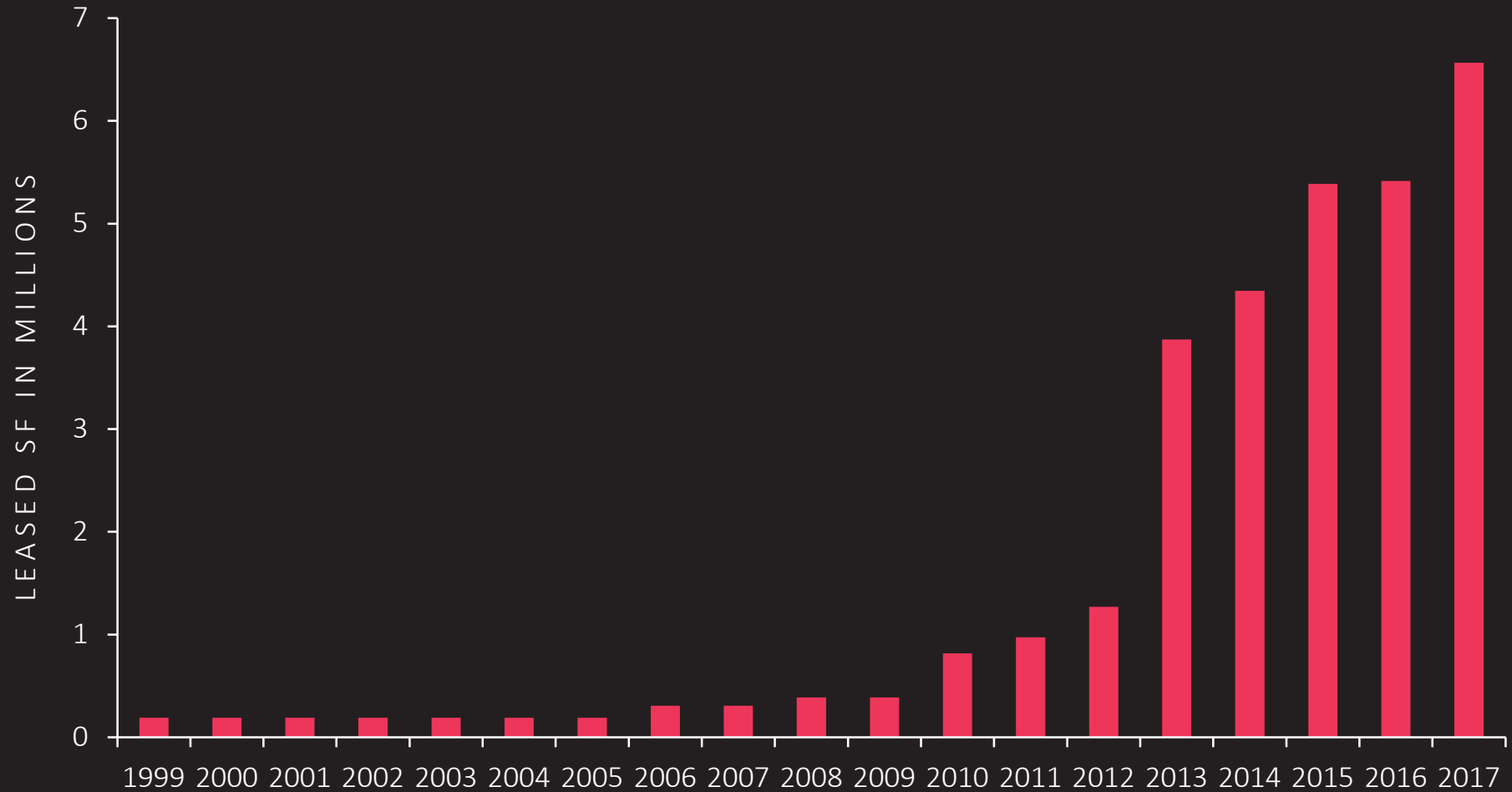
RETAIL SALES

United States



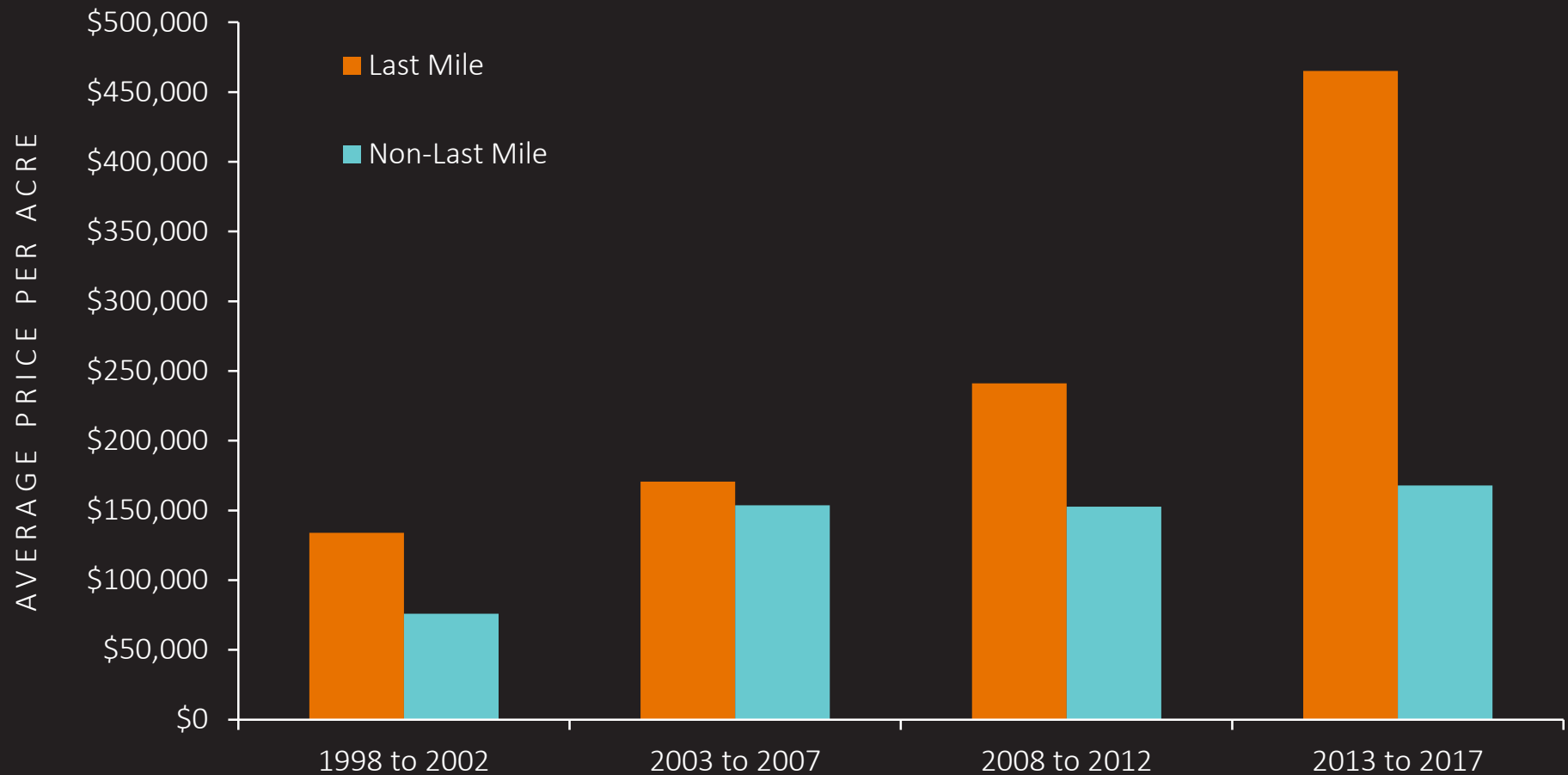
FLEX / INDUSTRIAL LEASED BY AMAZON

Washington / Baltimore Region



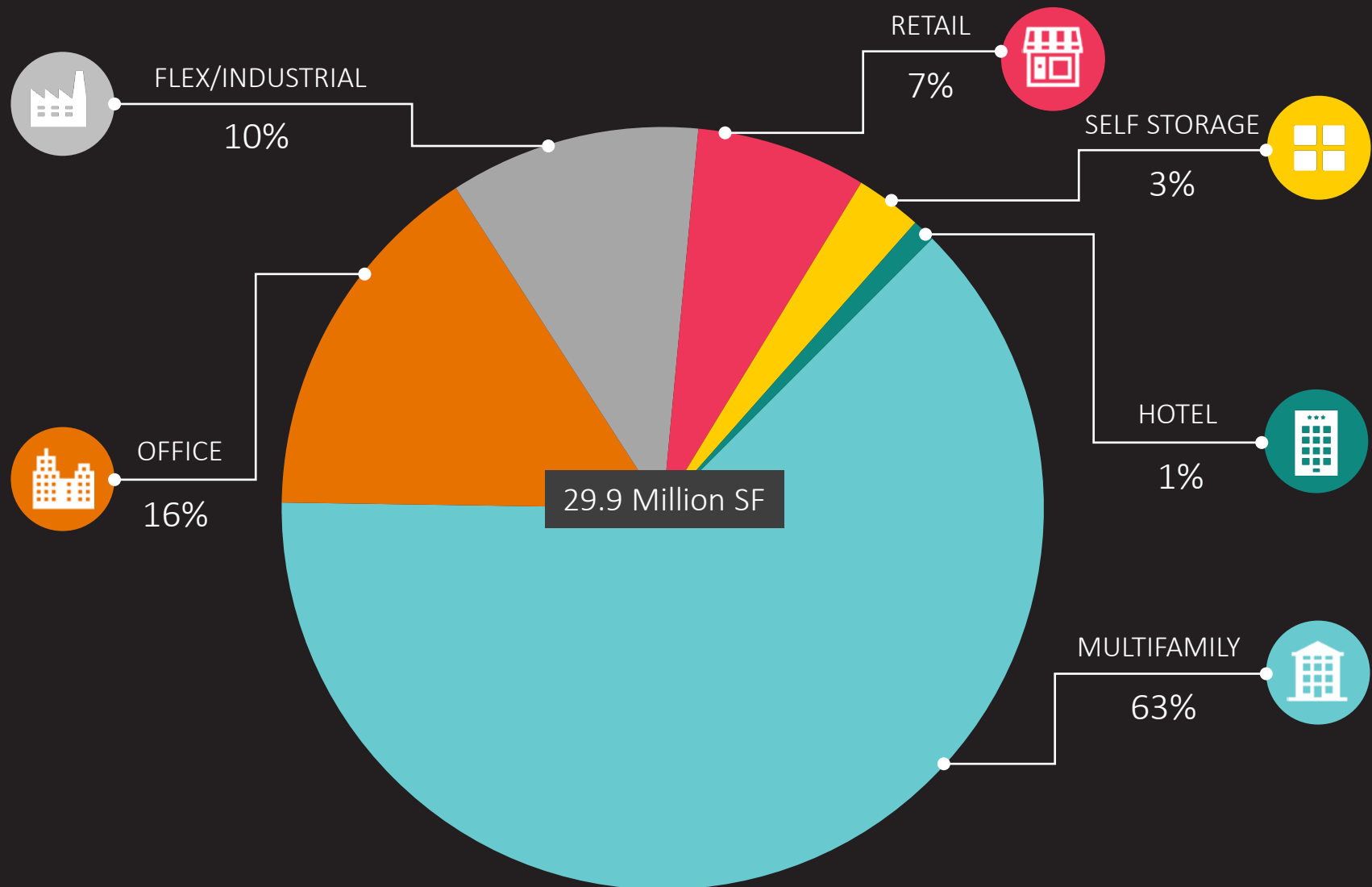
INDUSTRIAL LAND SALES PRICE

Washington / Baltimore Region



FLEX / INDUSTRIAL CONVERSION

Washington / Baltimore Region | 2005 to 2020



FLEX / INDUSTRIAL MARKET OPPORTUNITIES

Washington / Baltimore Region

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TRENDLINES® WASHINGTON

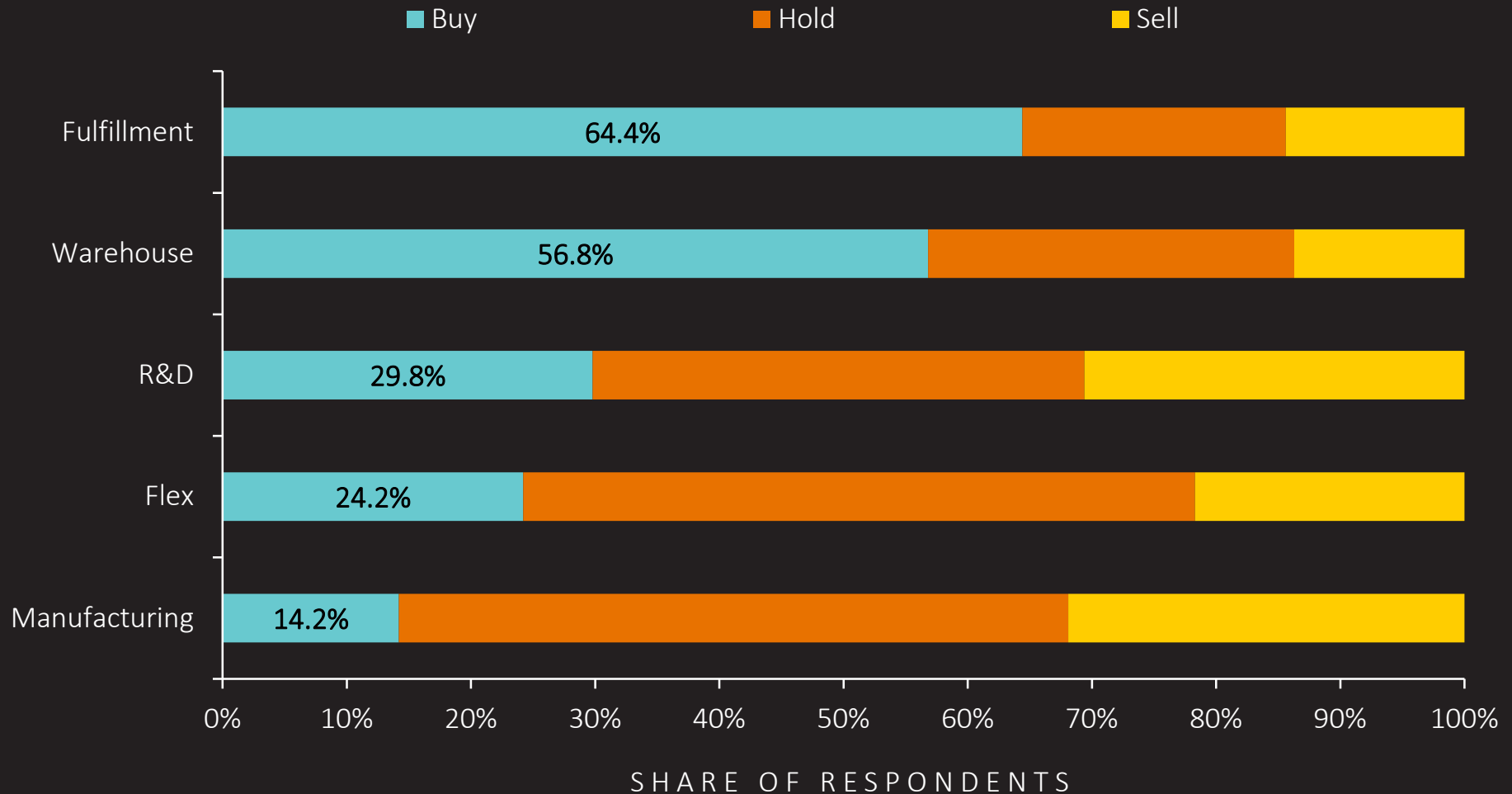
Focus on Fulfillment and
Warehouse Space

Select Submarkets
with the Best
Supply/Demand
Balance



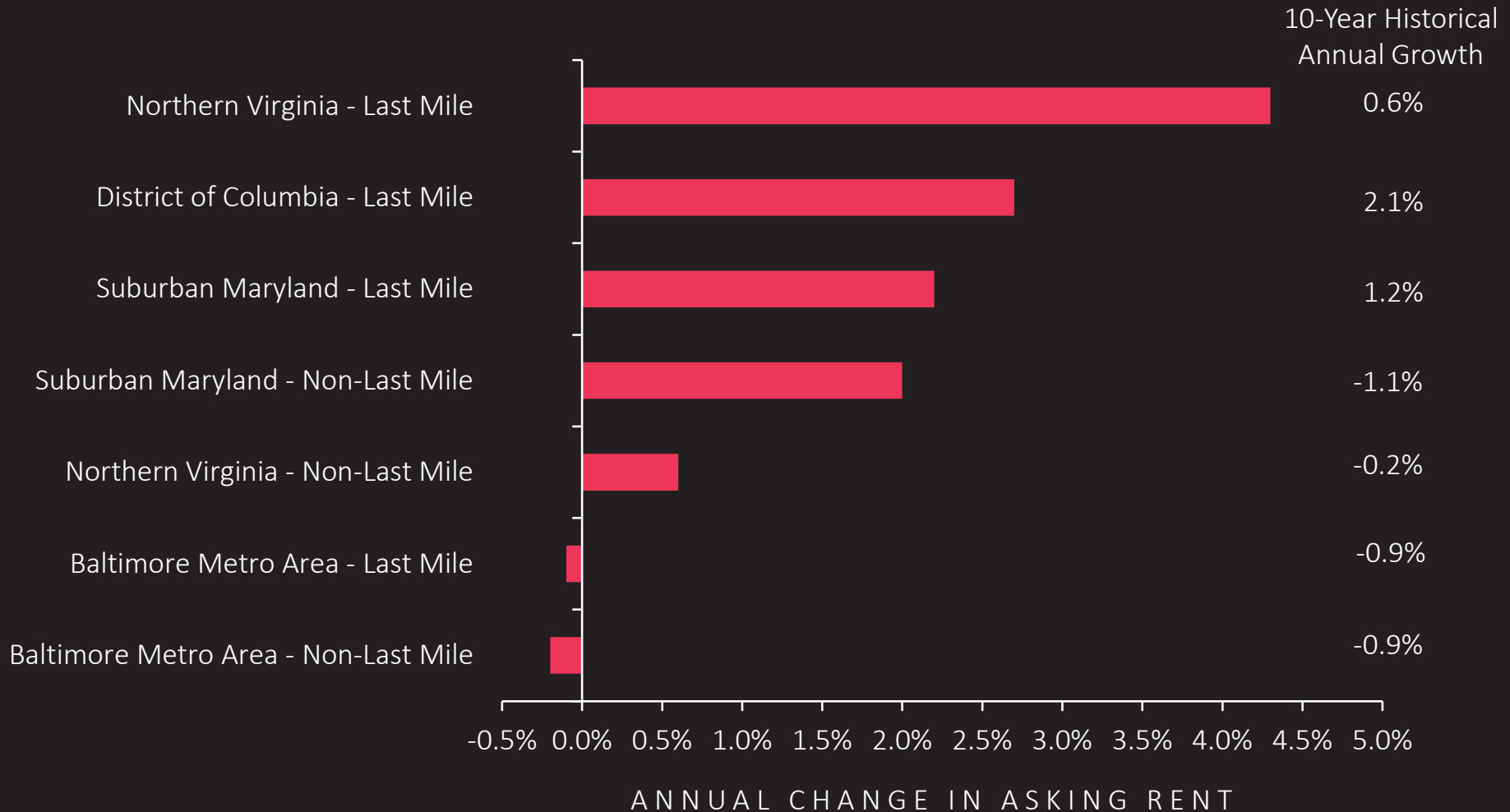
BUY / HOLD / SELL RECOMMENDATIONS

United States | 2018



FLEX / INDUSTRIAL ASKING RENT

Washington / Baltimore Region | Through 2019





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2018

Trends in Washington Commercial Real Estate

