



TRENDLINES® WASHINGTON 2019

Trends in Washington Commercial Real Estate





THE
ECONOMY



**"There is always some
chance of recession in any
year. But the evidence
suggests that expansions
don't die of old age."
-Janet Yellen**

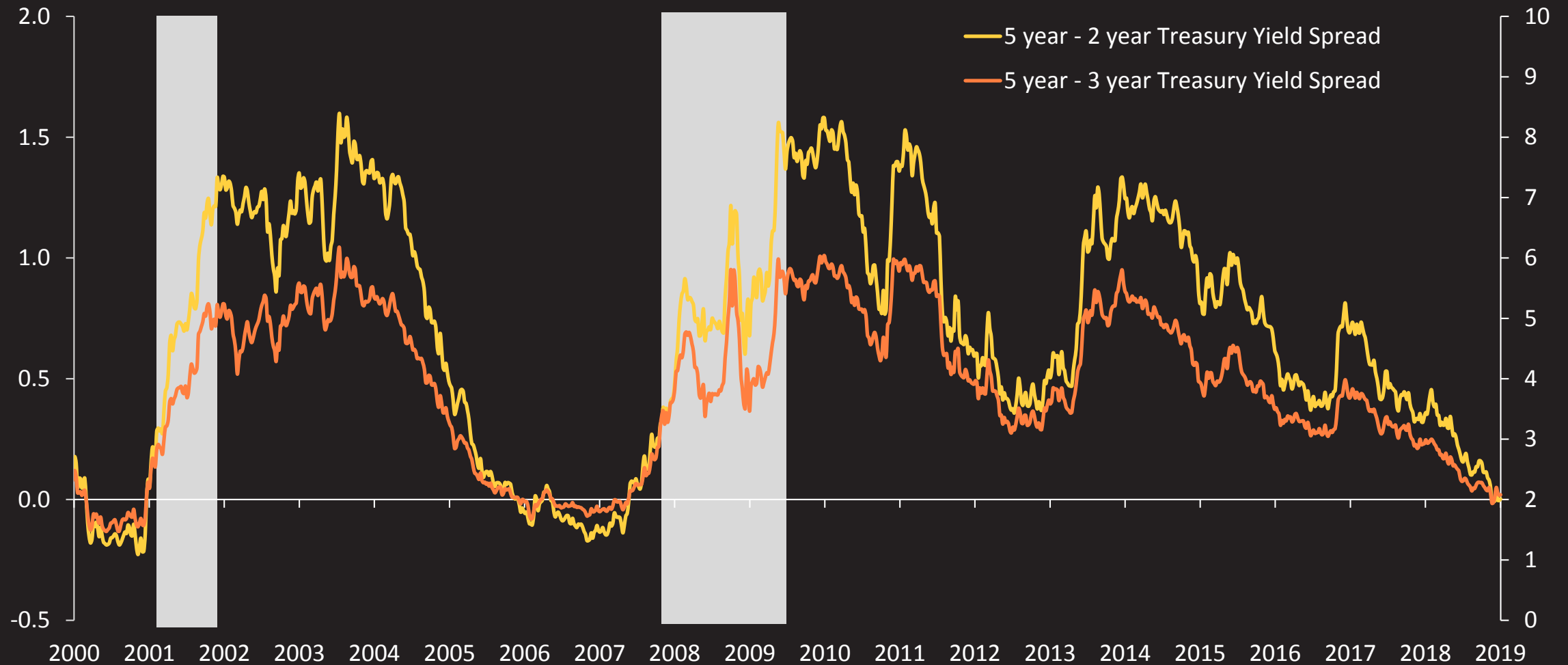


TREASURY YIELD CURVE BEGINNING TO INVERT?

United States



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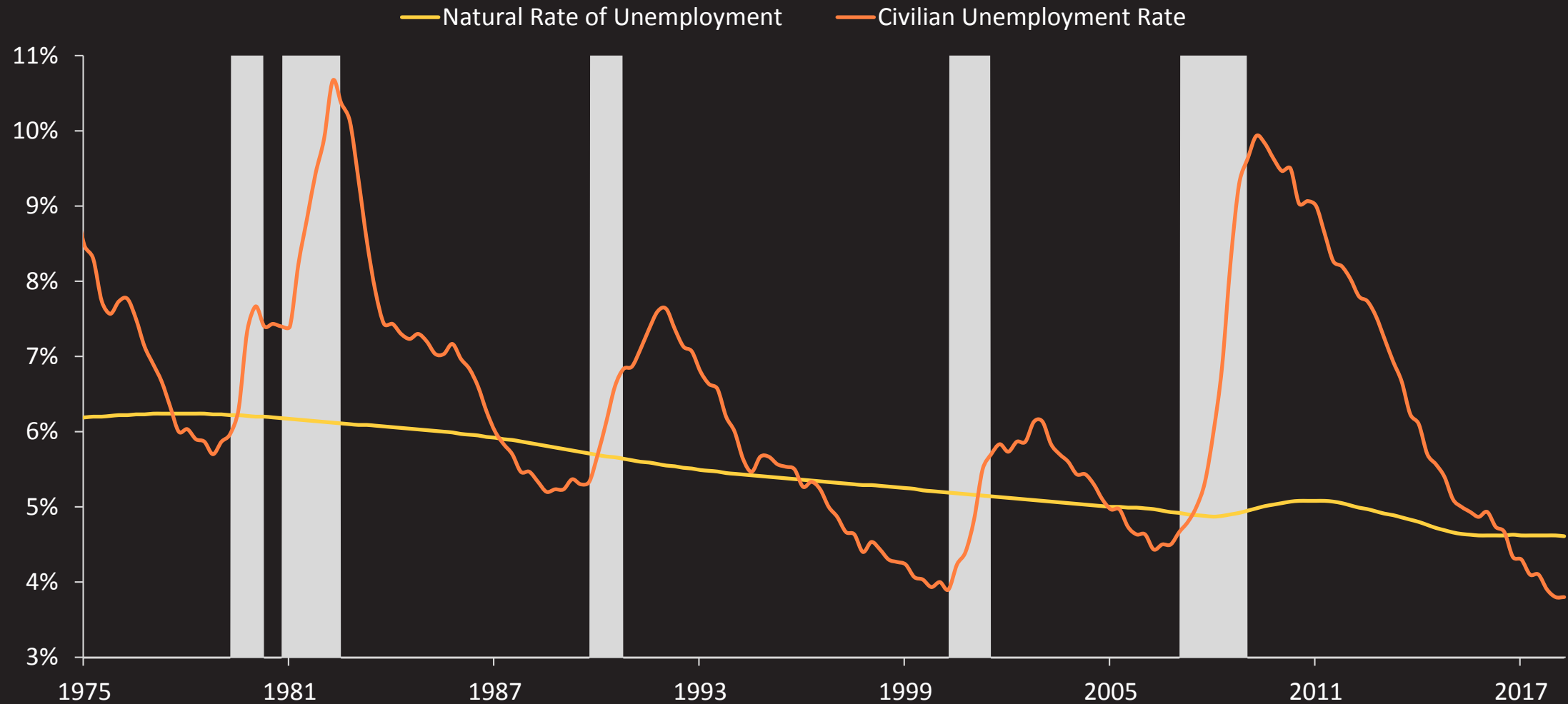


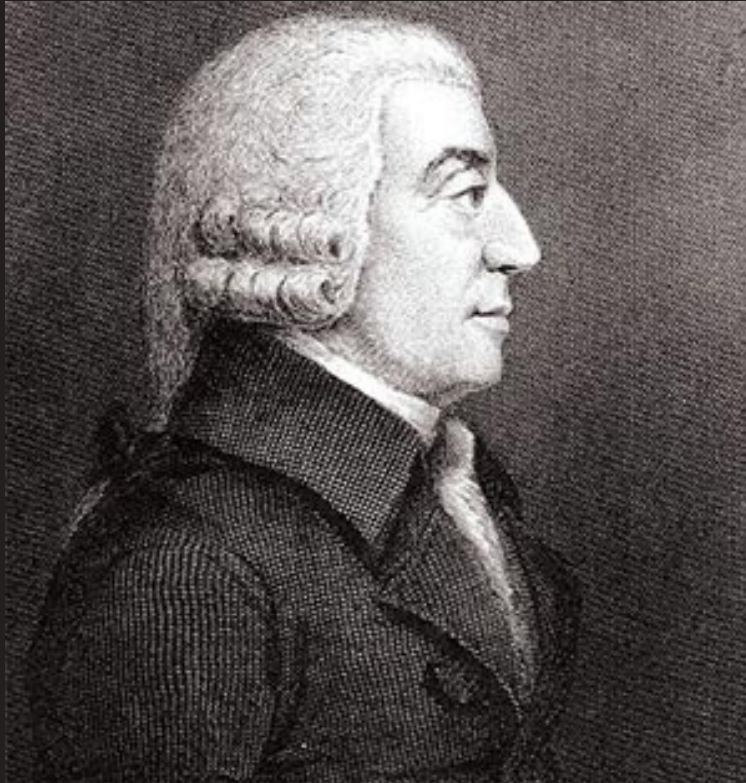
NATURAL VS. CIVILIAN UNEMPLOYMENT RATE

United States



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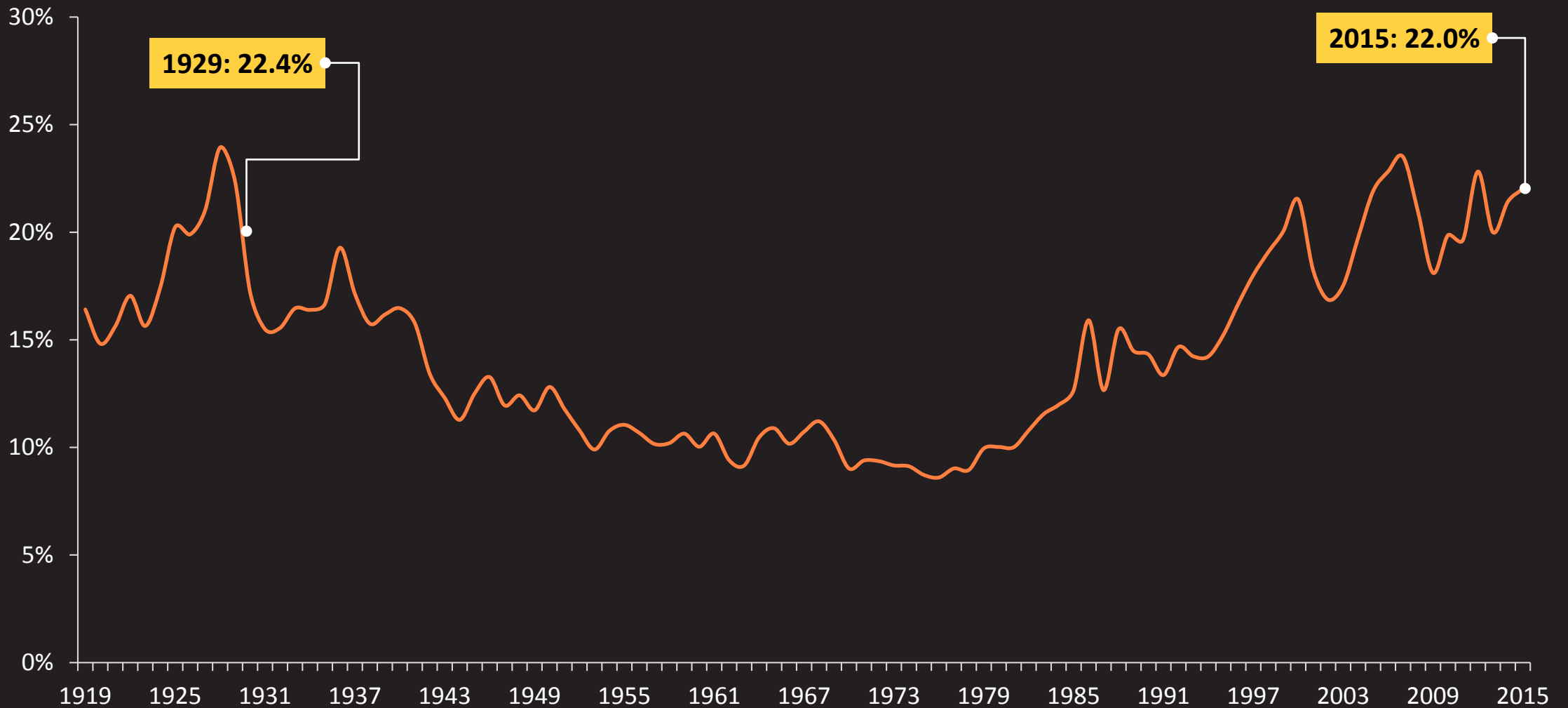
"No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable."

-Adam Smith

SHARE OF ALL INCOME HELD BY THE TOP 1% United States



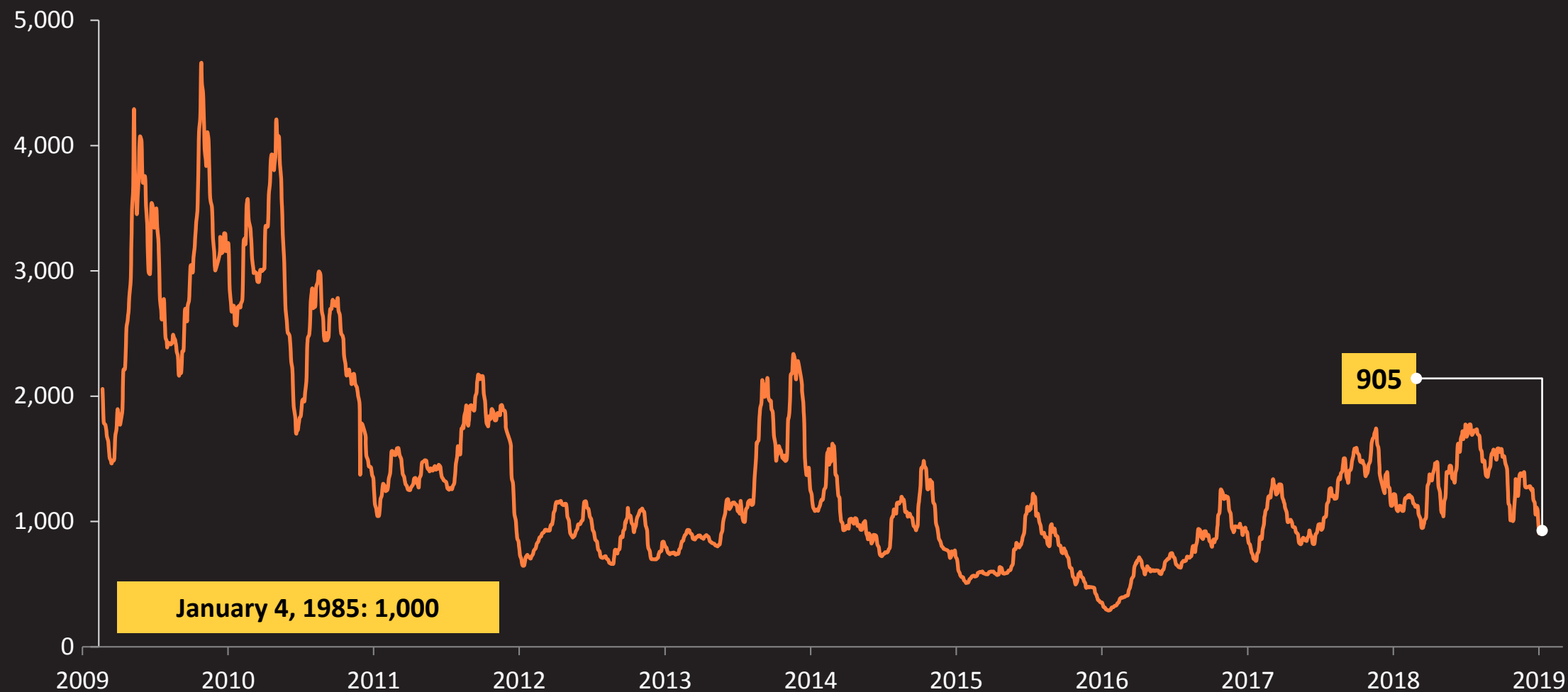
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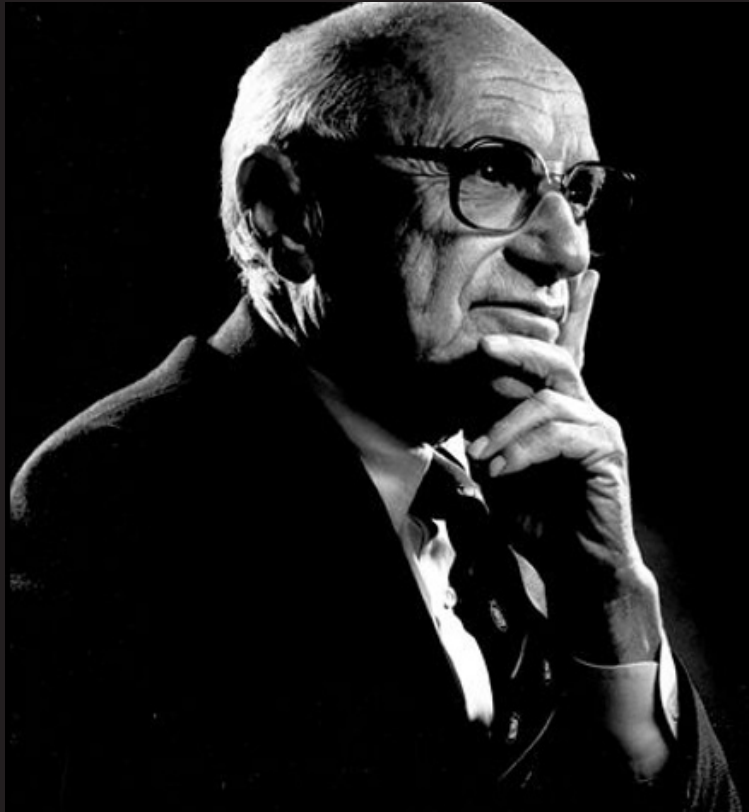


BALTIC DRY INDEX



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**"Inflation is the one form
of taxation that can be
imposed without
legislation."**

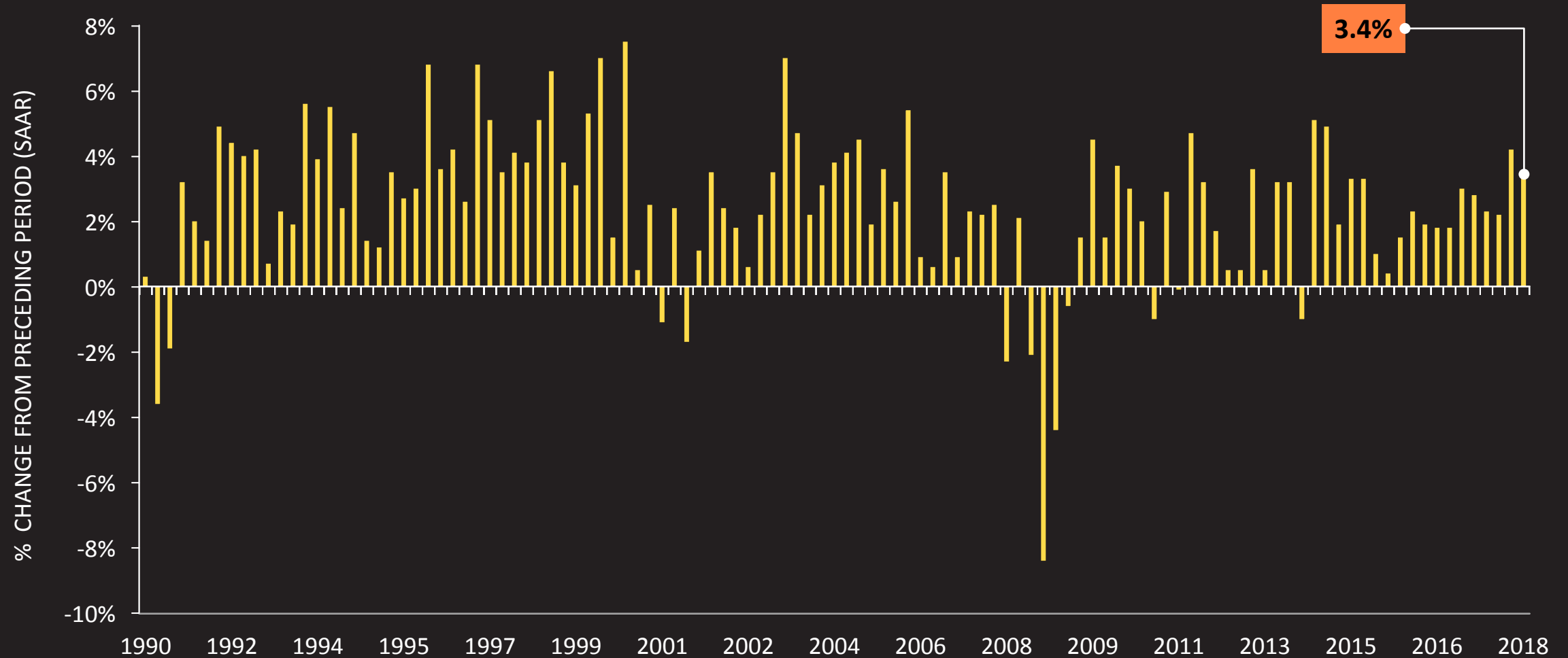
-Milton Friedman

GROSS DOMESTIC PRODUCT

United States



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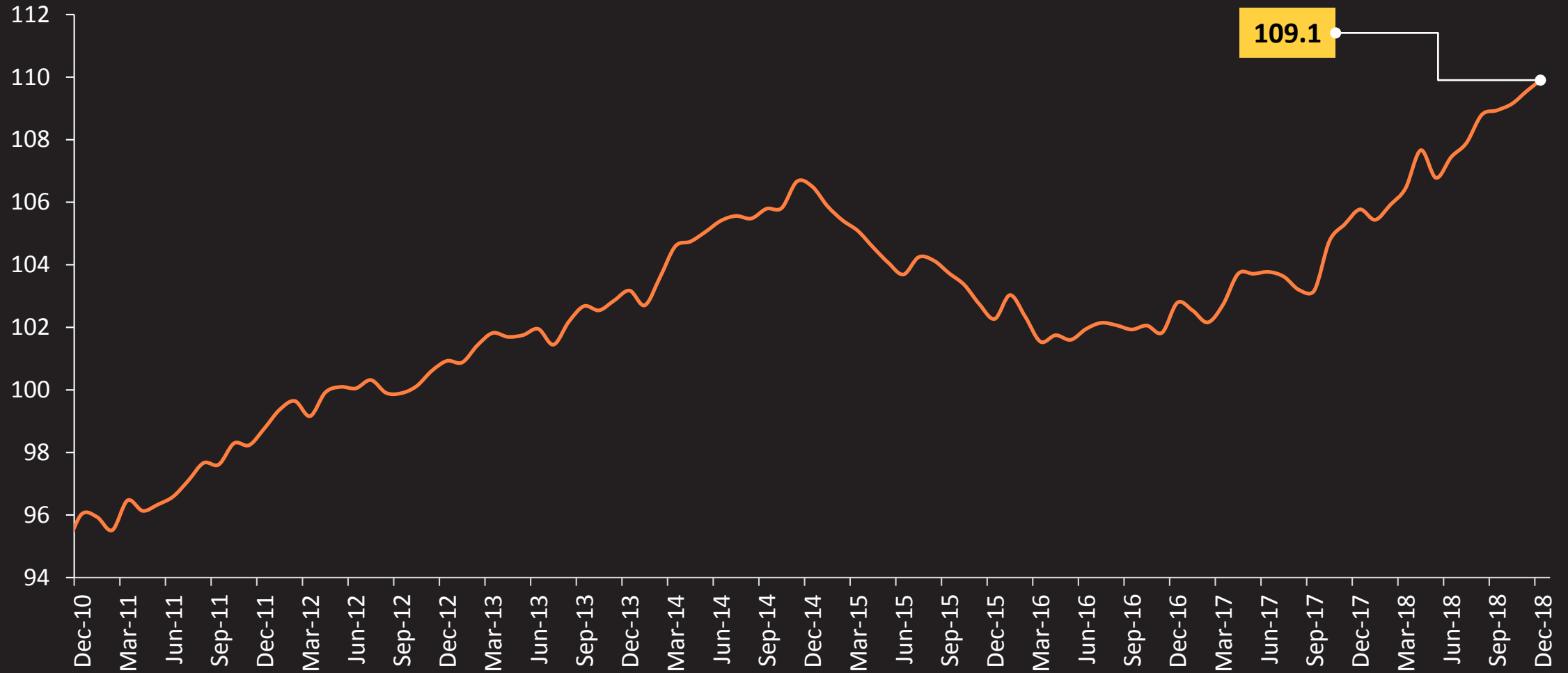


INDUSTRIAL PRODUCTION INDEX

United States



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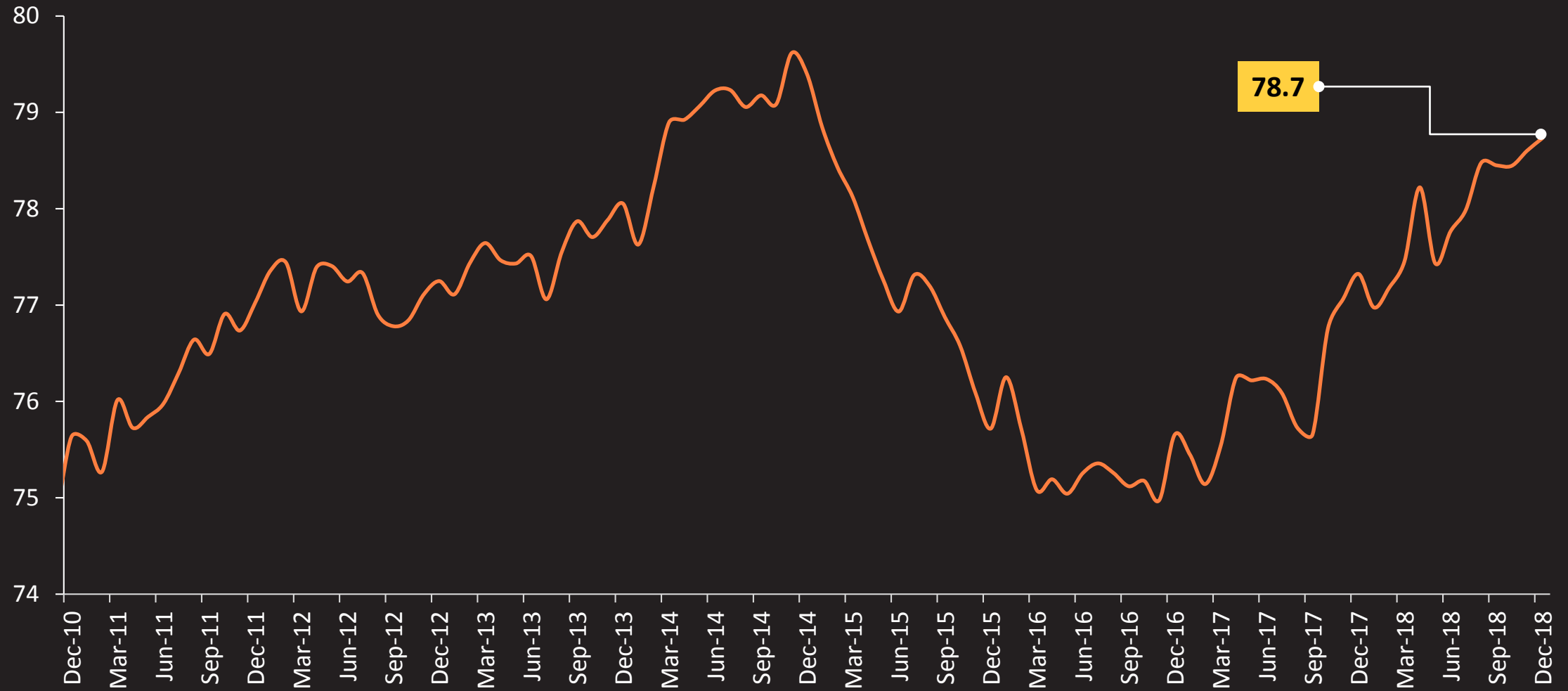


CAPACITY UTILIZATION INDEX

United States



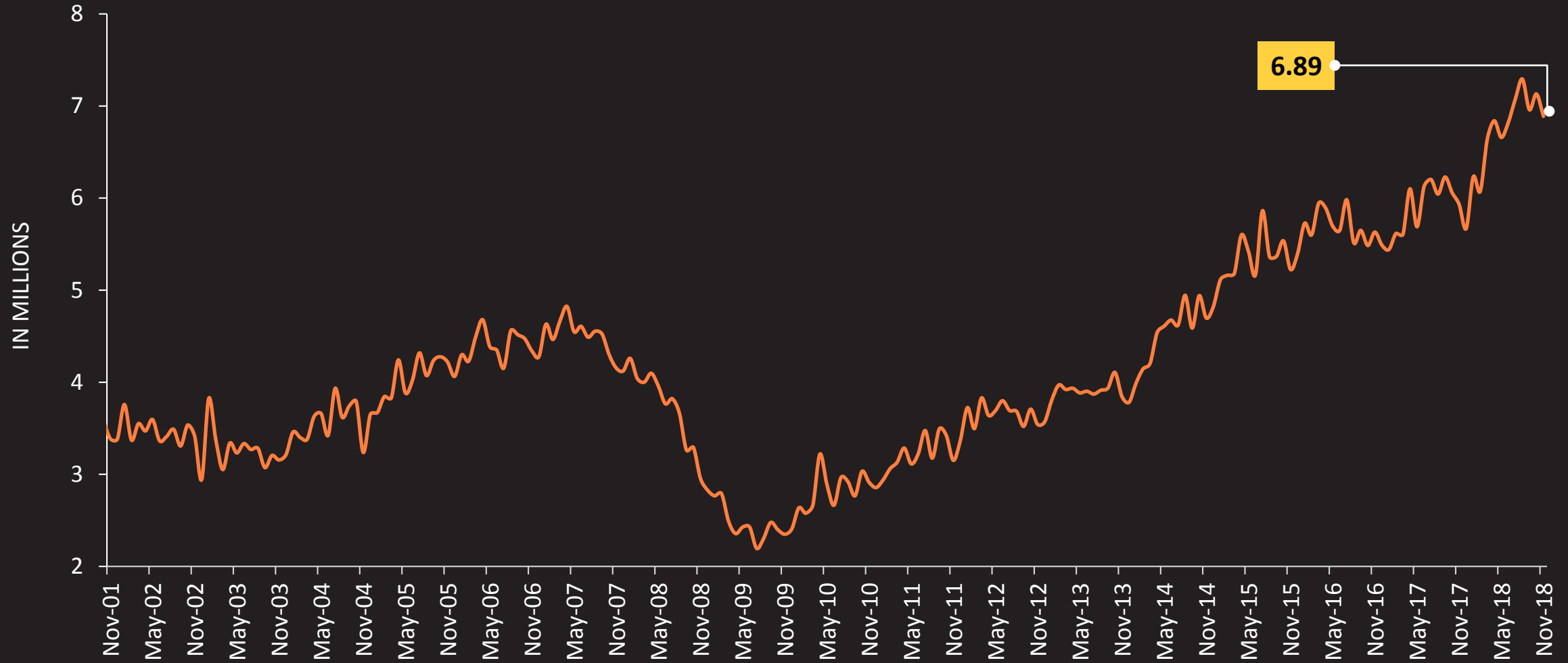
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JOB OPENINGS United States



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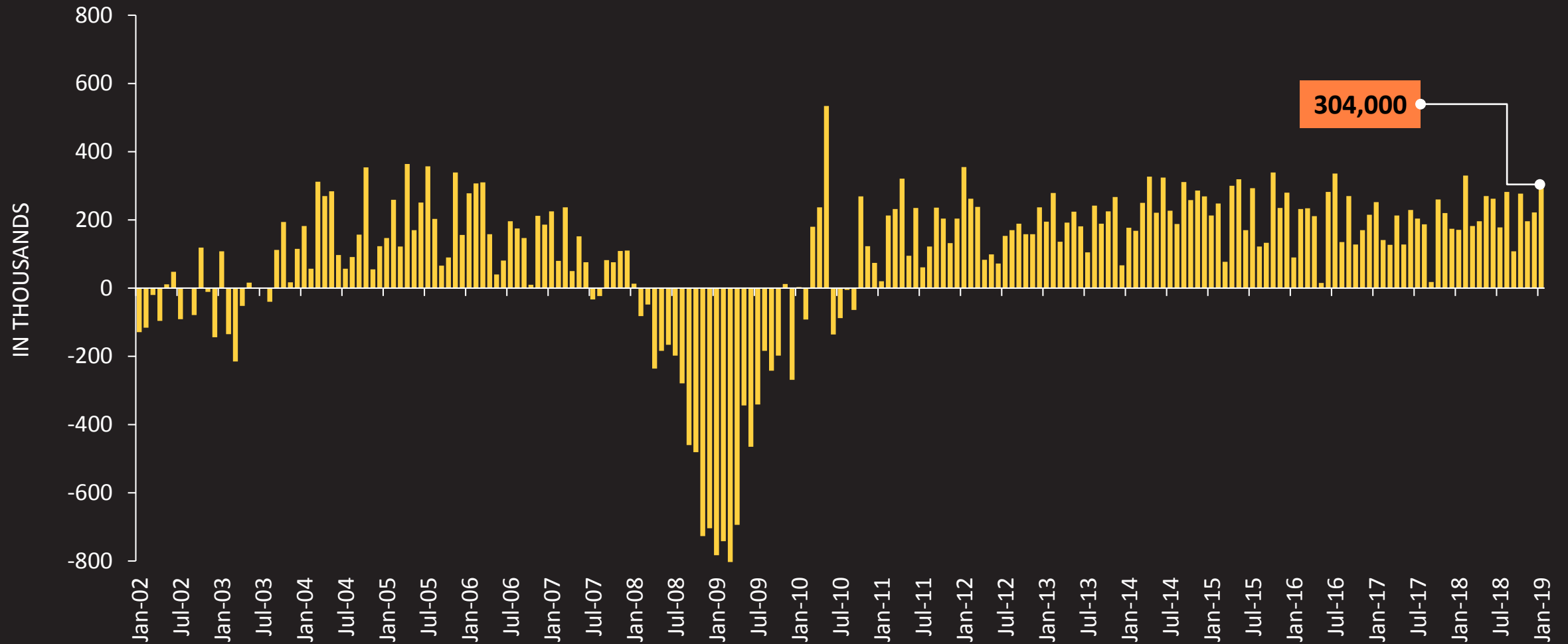


NET CHANGE IN JOBS

United States



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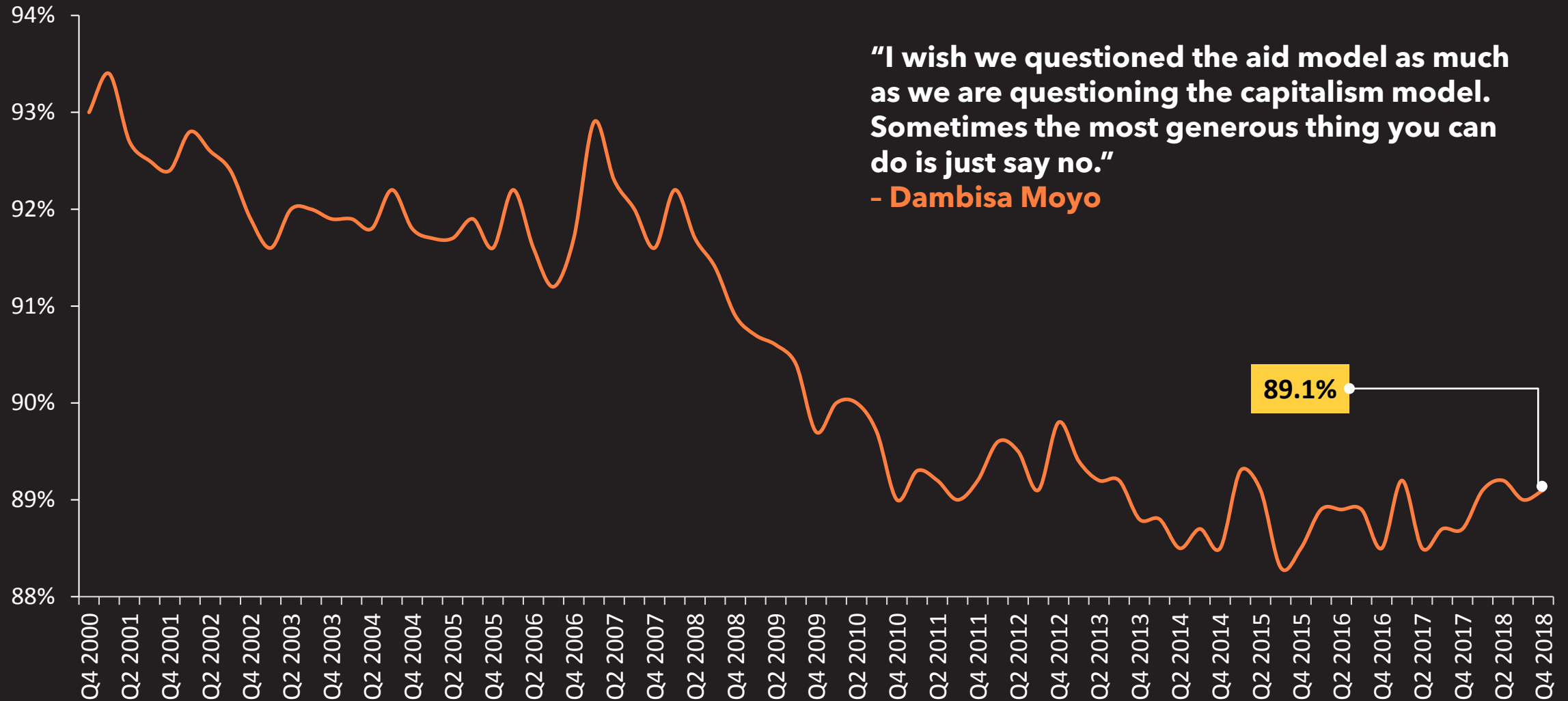


LABOR FORCE PARTICIPATION: MEN AGES 25 TO 34

United States



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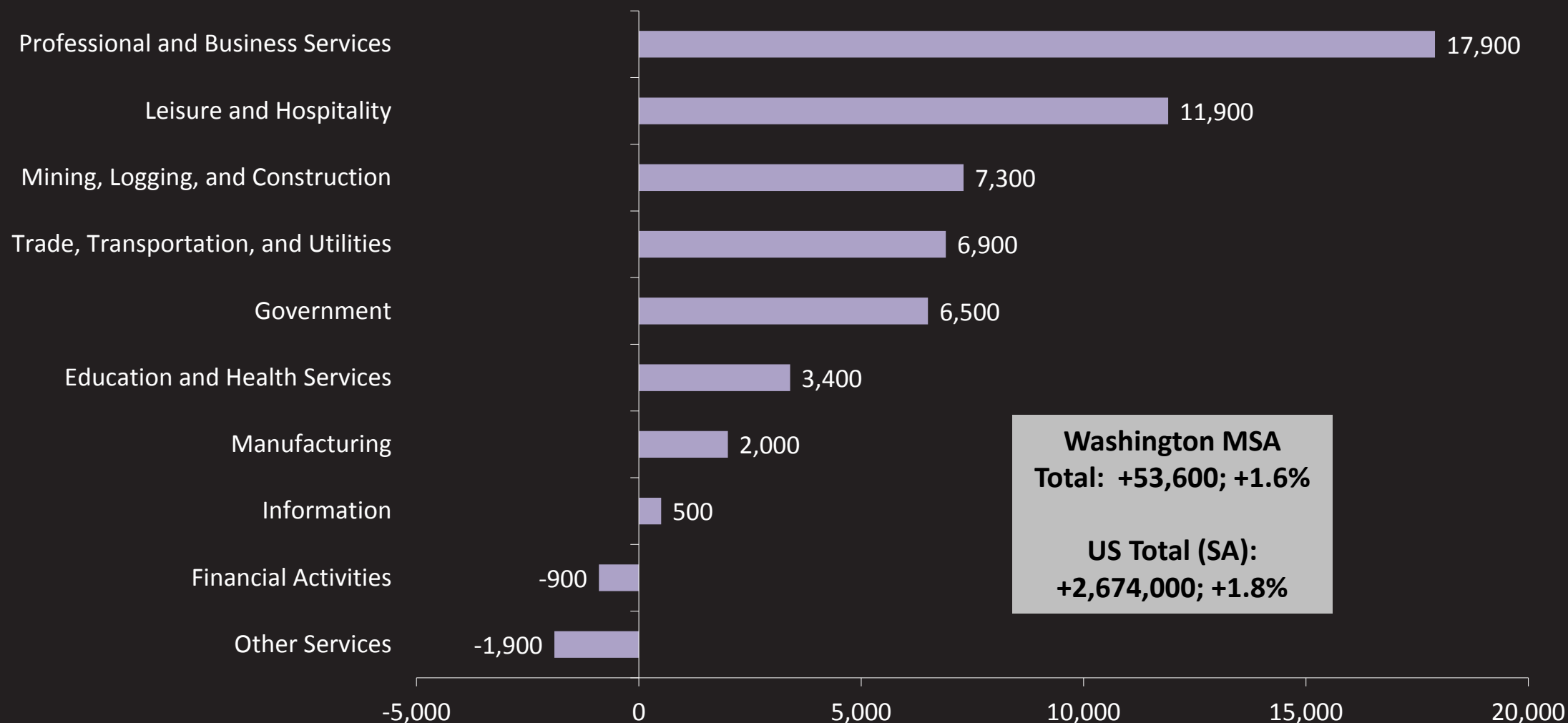


NONFARM EMPLOYMENT

Washington Metro Area | 12 Months Ending December 2018



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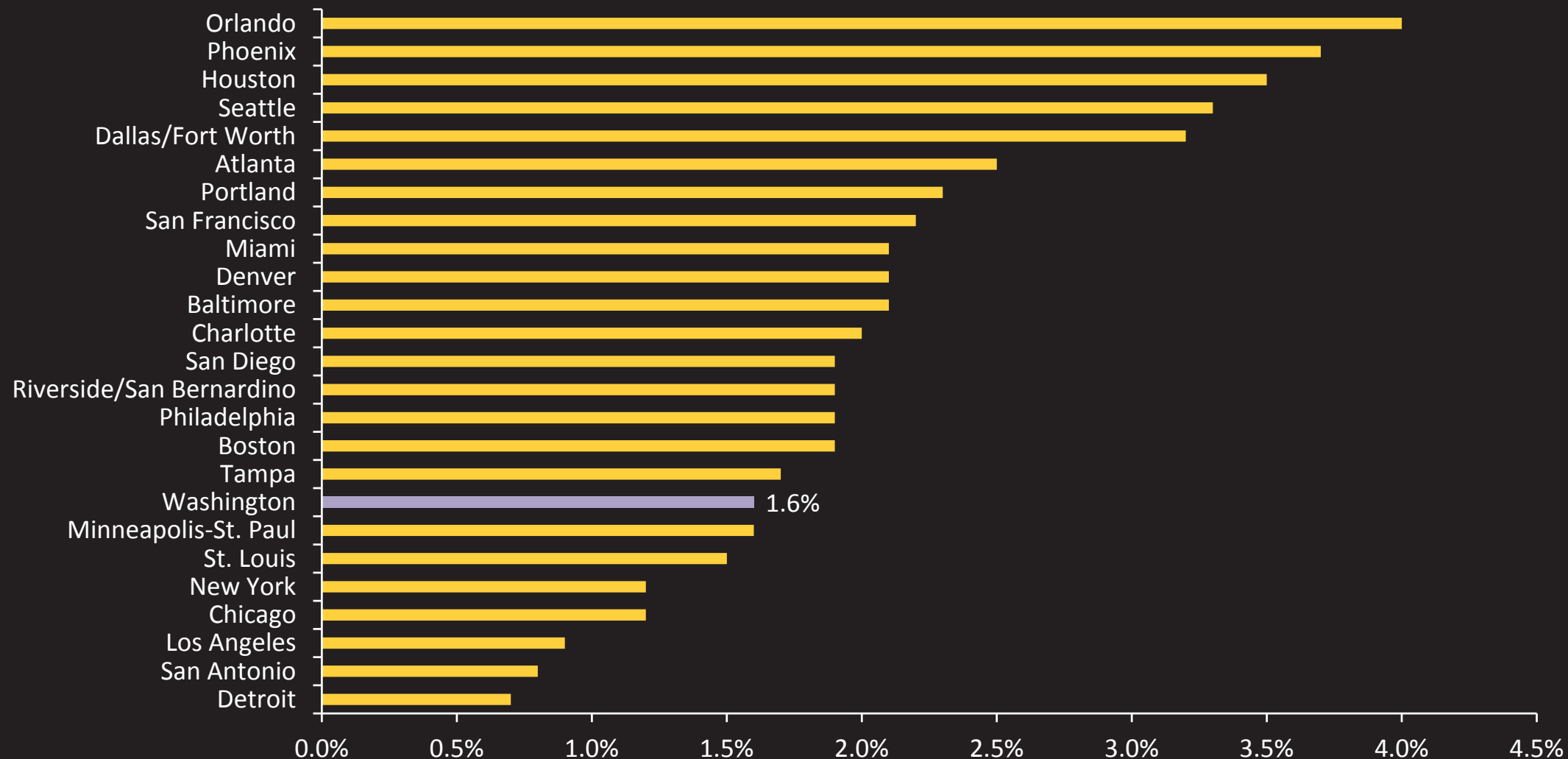


EMPLOYMENT GROWTH

25 Largest Metros | 12 Months Ending December 2018



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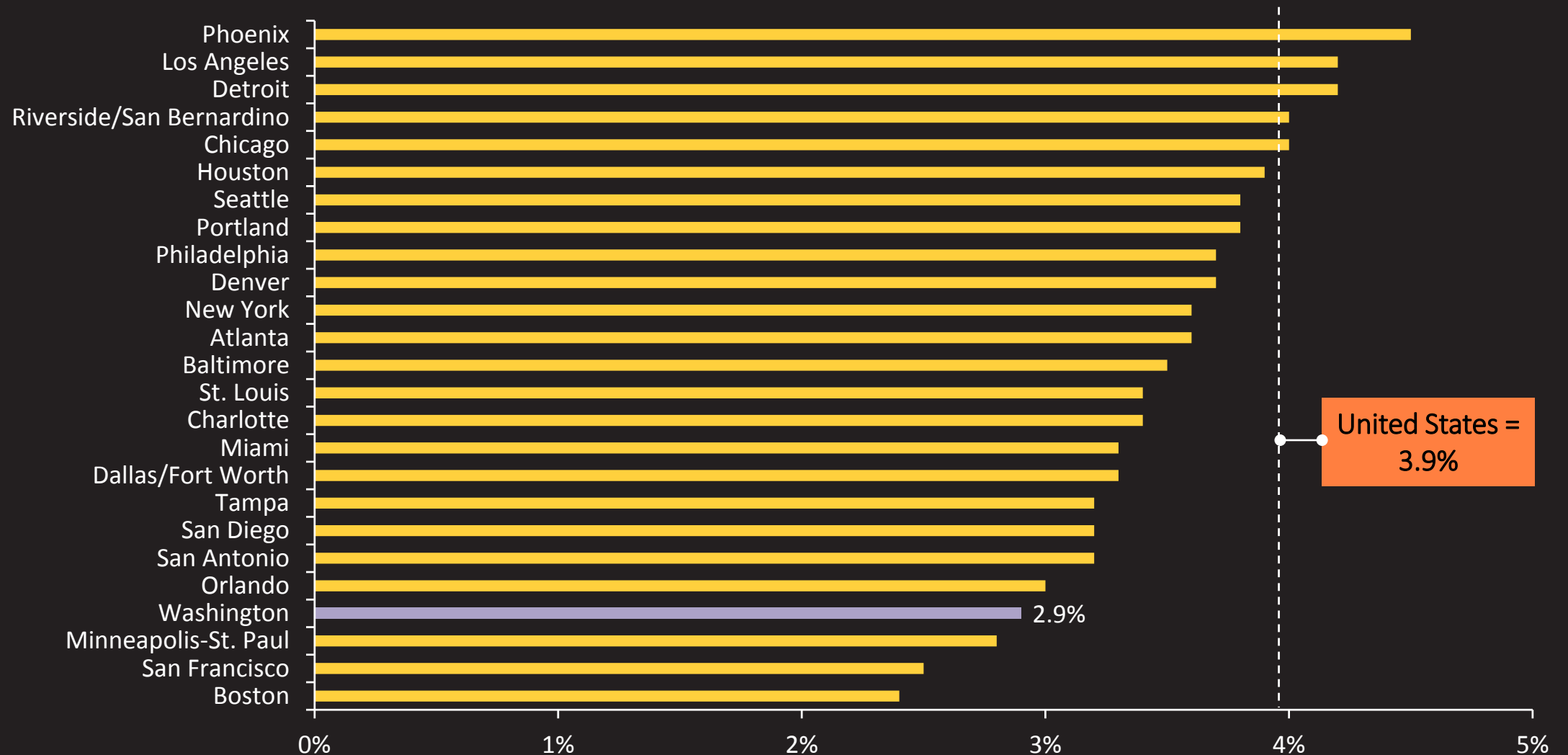


UNEMPLOYMENT RATES

25 Largest Metros | December 2018



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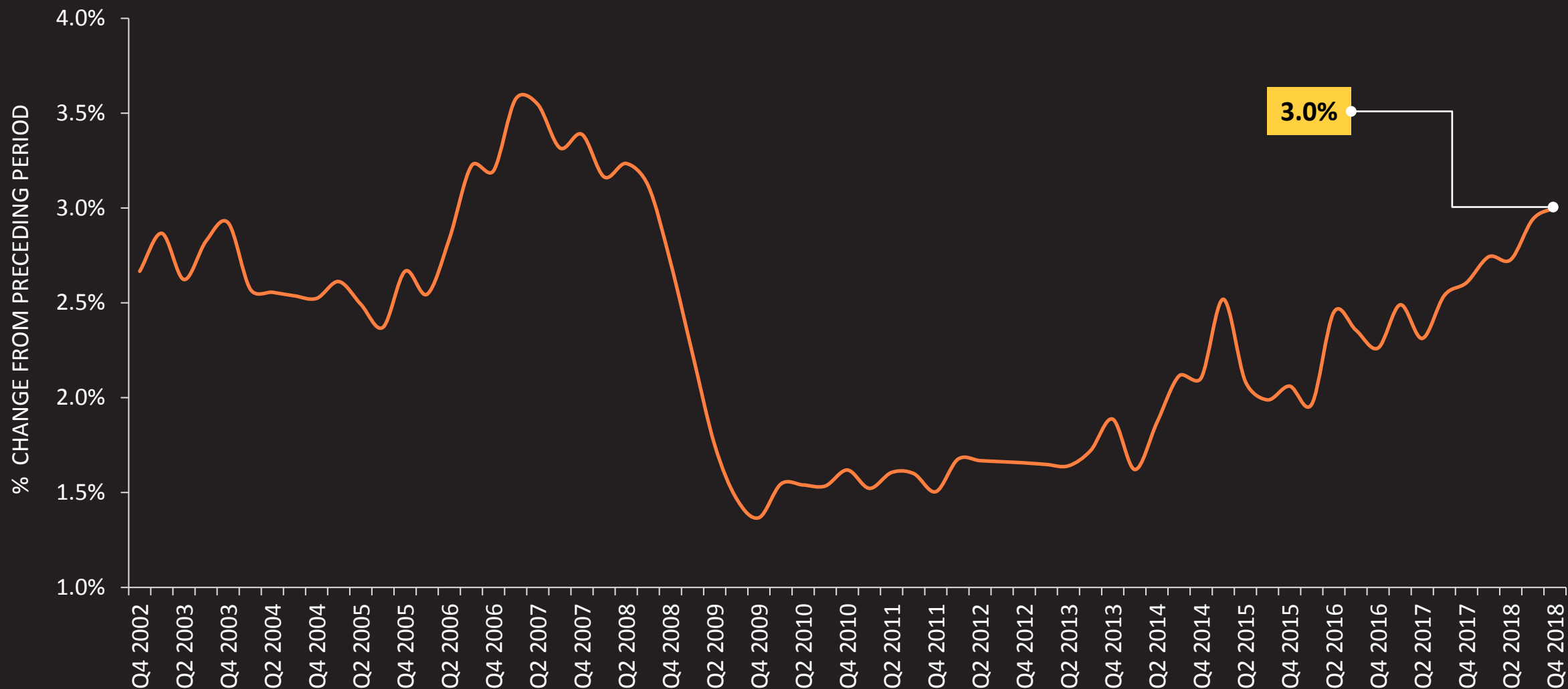


GROWTH IN WAGES AND SALARIES

United States Employment Cost Index (ECI)



TRENDLINES® WASHINGTON 2019

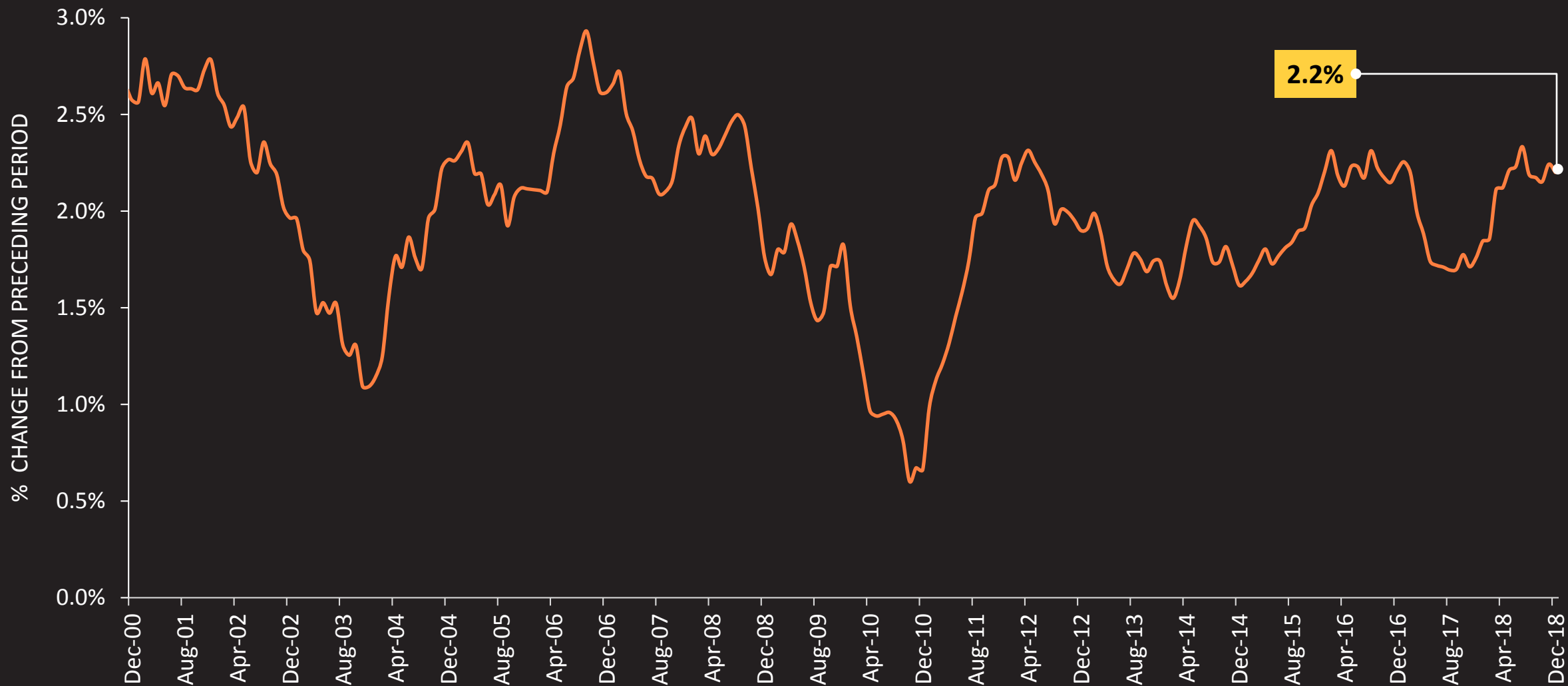


CONSUMER PRICE INDEX

United States



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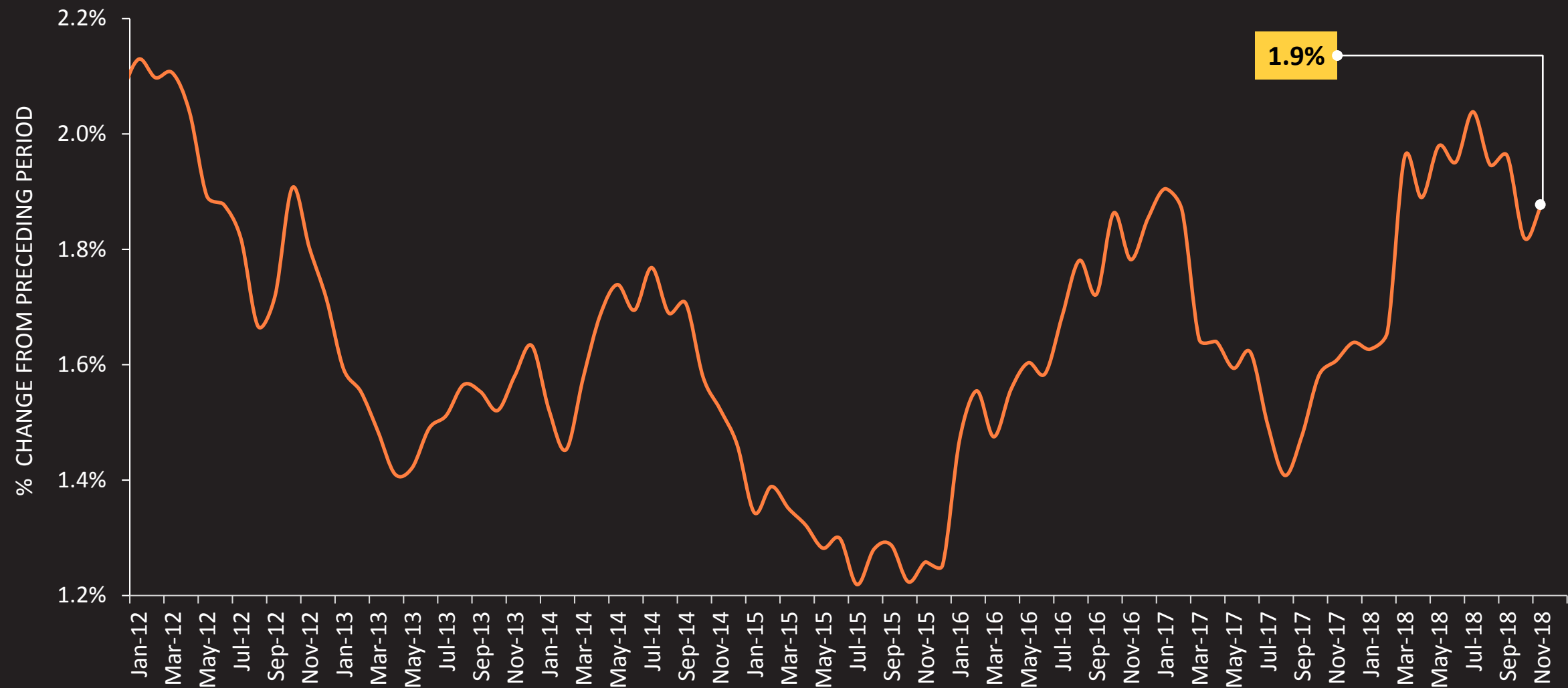


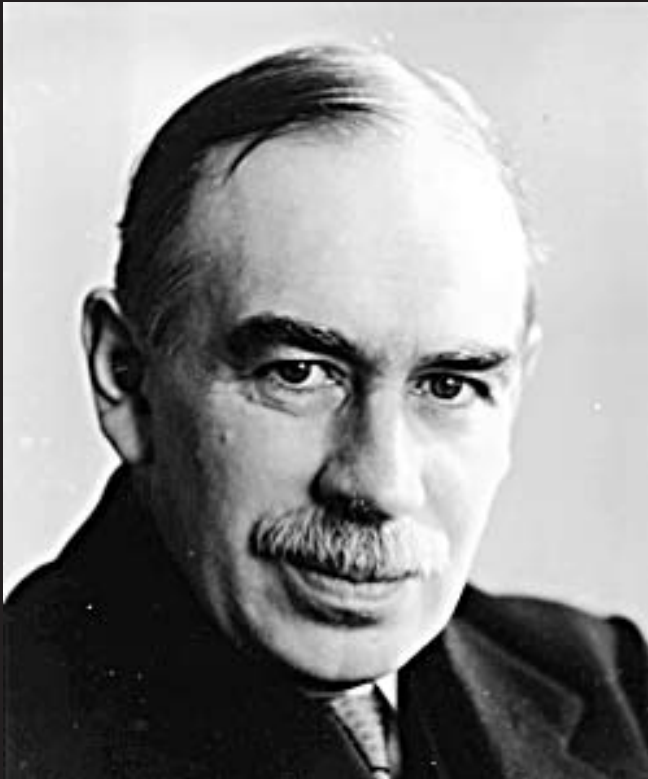
CORE PERSONAL CONSUMPTION INDEX

United States



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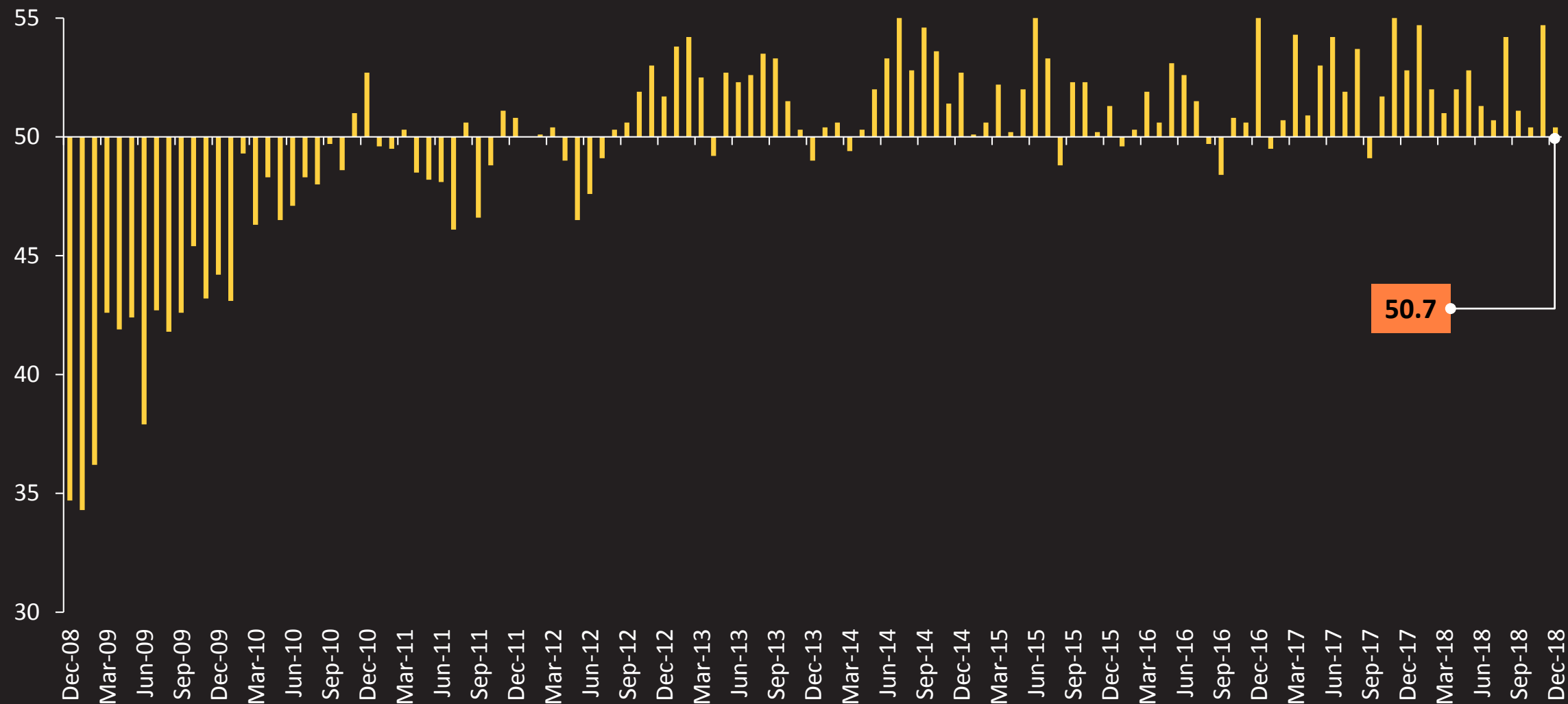
**"Most men love money
and security more, and
creation and
construction less, as
they get older."
-John Maynard Keynes**

ARCHITECTURE BILLINGS INDEX

United States



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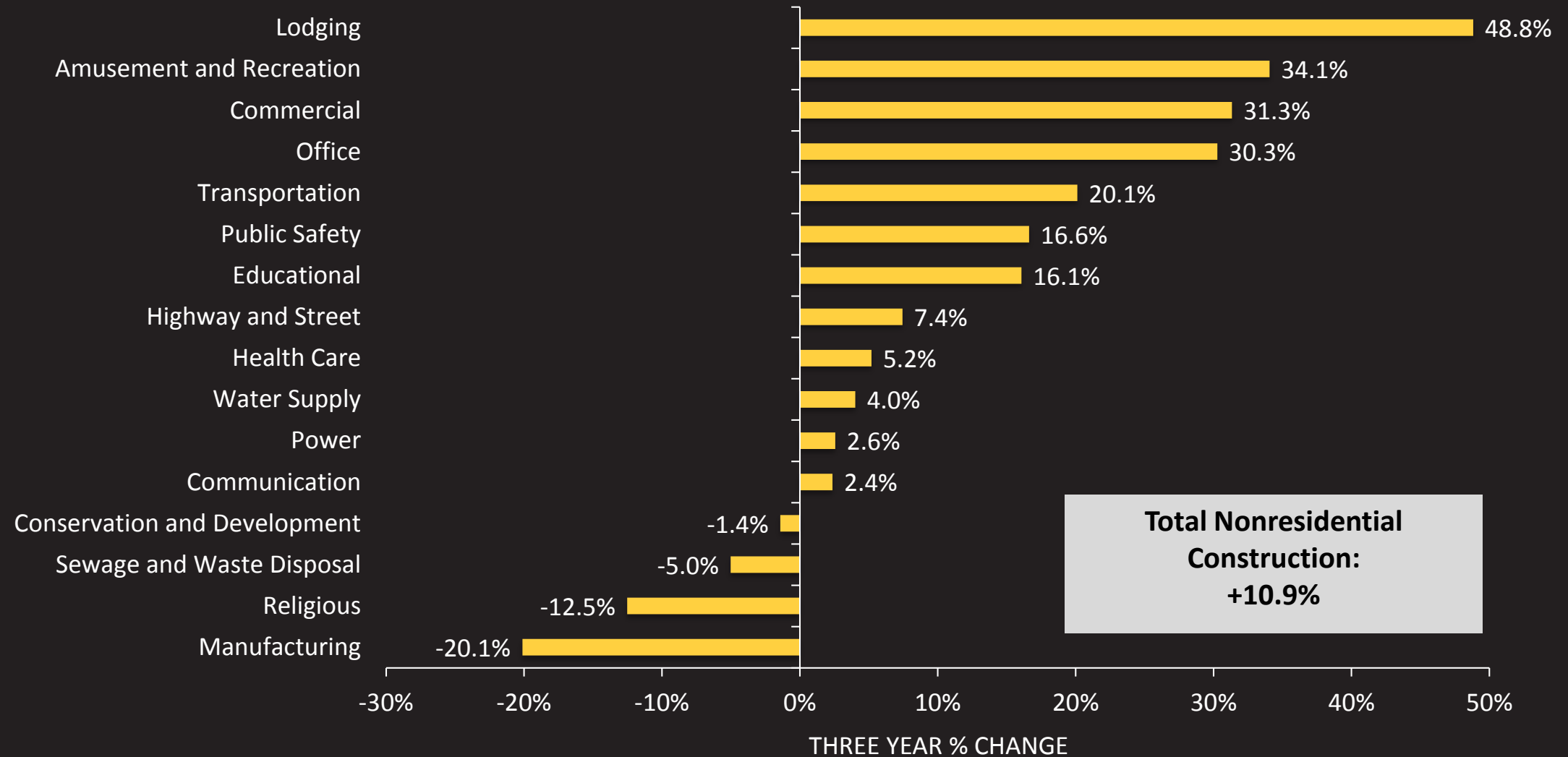


NONRESIDENTIAL CONSTRUCTION SPENDING

United States | November 2015 vs. November 2018



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1

MEGATREND ONE

Washington is a Superstar City

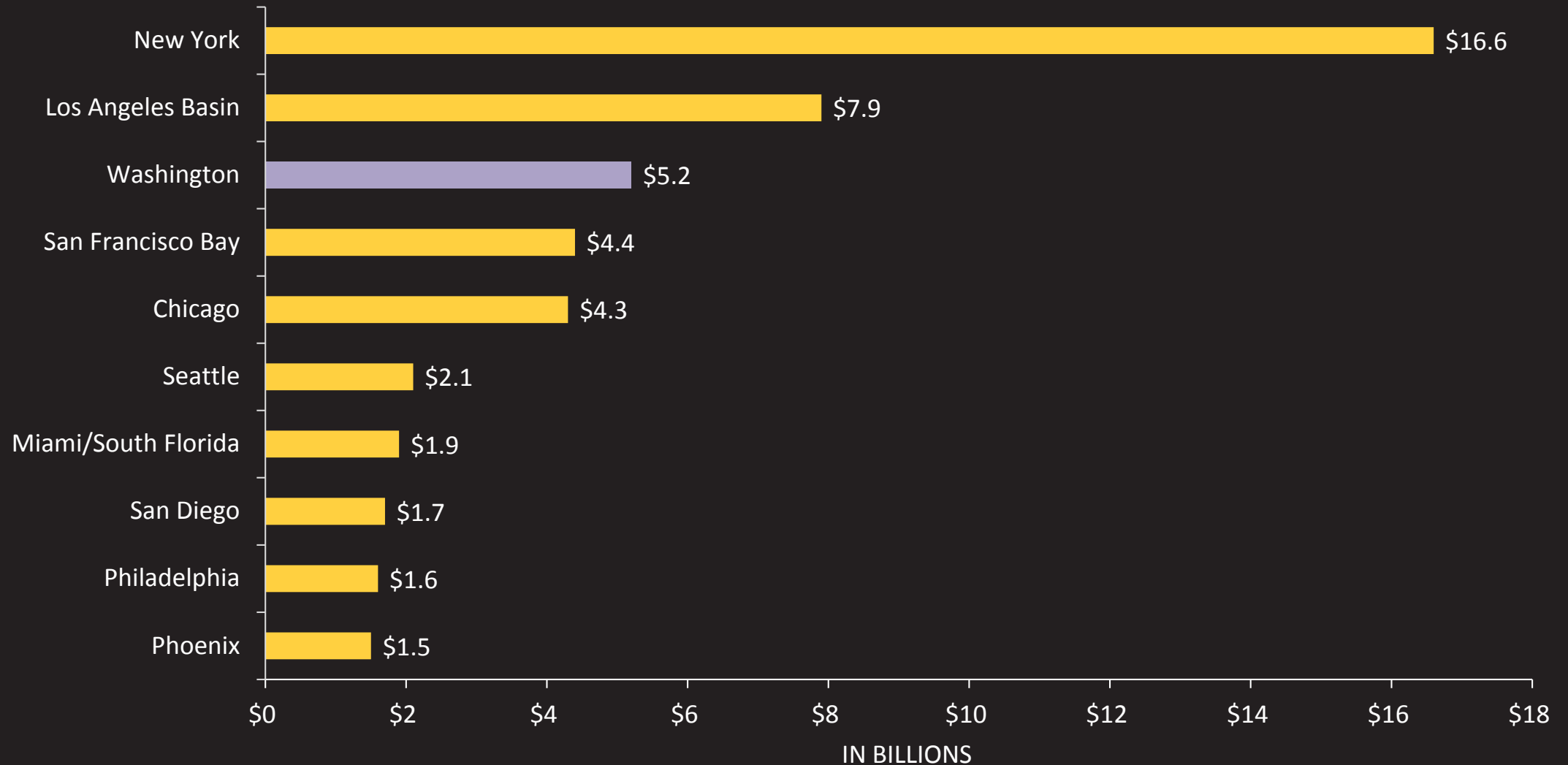


FOREIGN INVESTMENT IN U.S. COMMERCIAL REAL ESTATE

Top Destination Metros | 2018



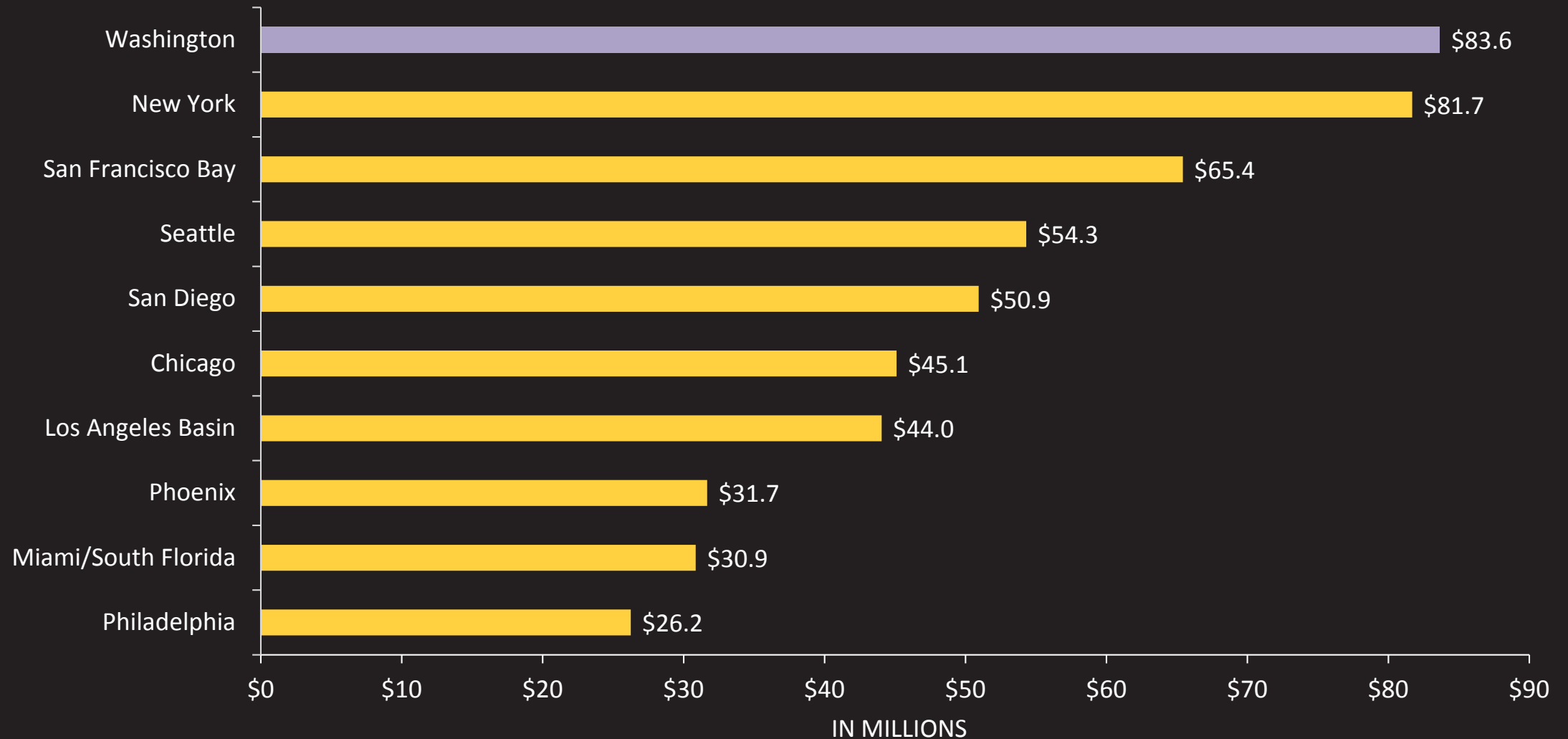
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FOREIGN INVESTMENT IN U.S. COMMERCIAL REAL ESTATE PER 100,000 RESIDENTS Top Destination Metros | 2018



TRENDLINES® WASHINGTON 2019

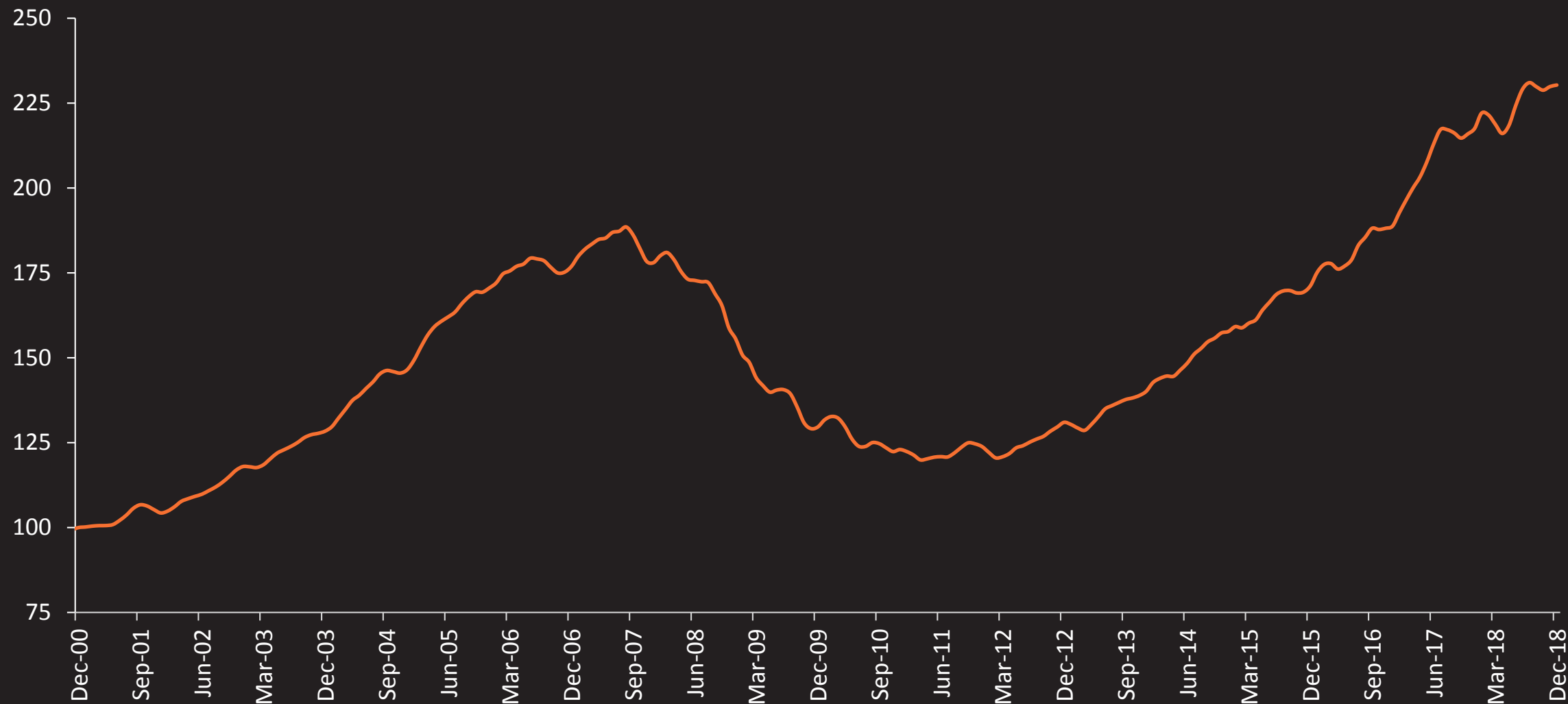


COSTAR COMMERCIAL REPEAT SALES INDEX

United States

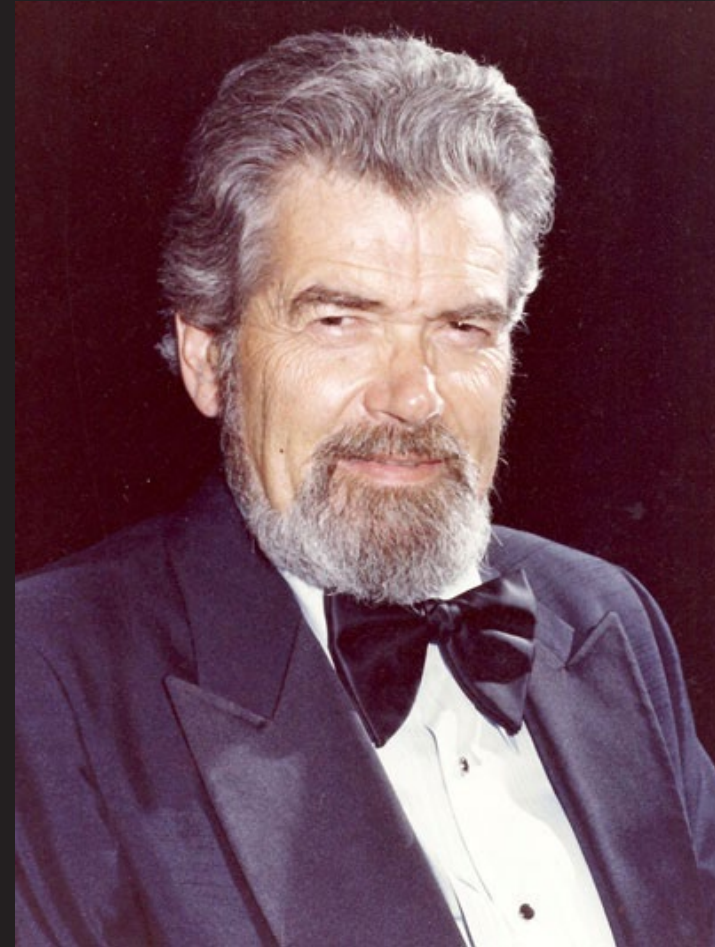


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"An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today."

-Laurence J. Peter

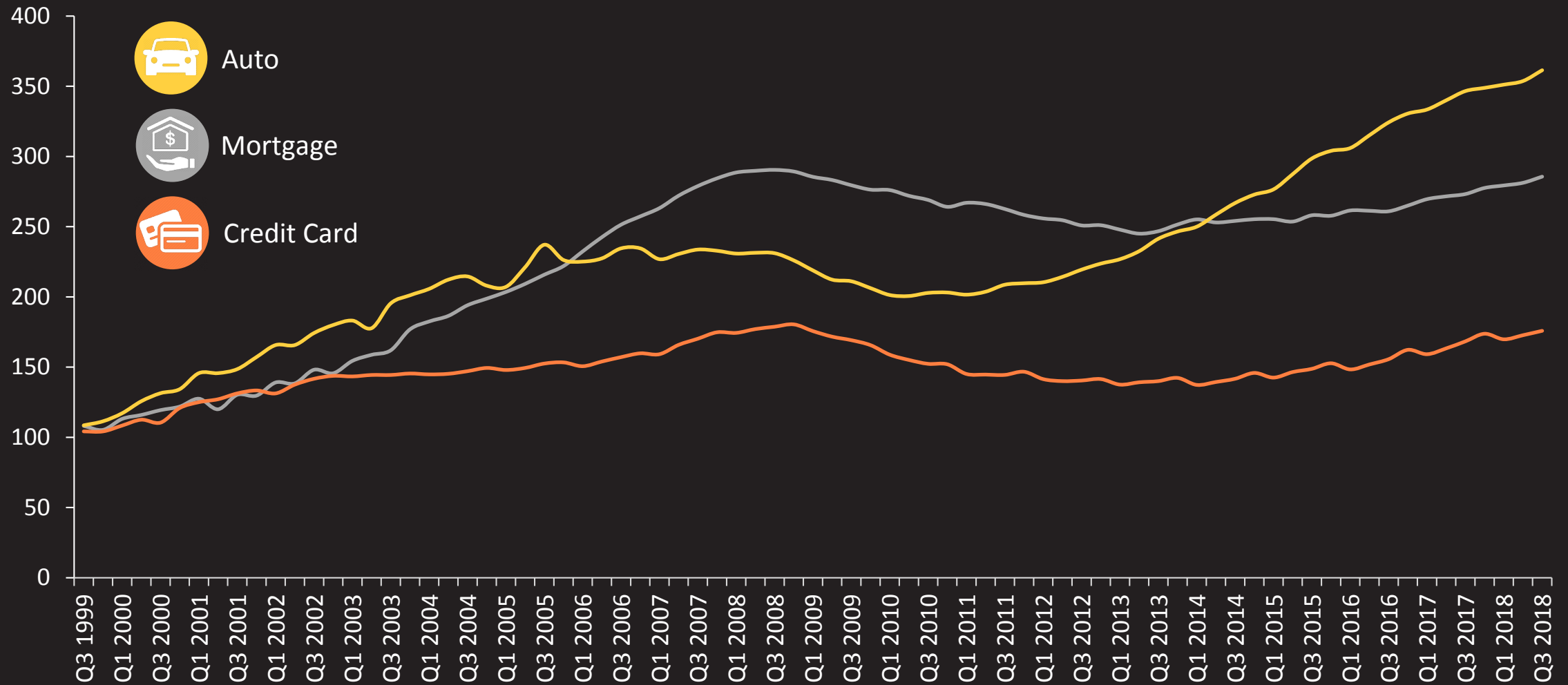


TOTAL DEBT VOLUME INDEX BY SELECT LOAN TYPES

United States



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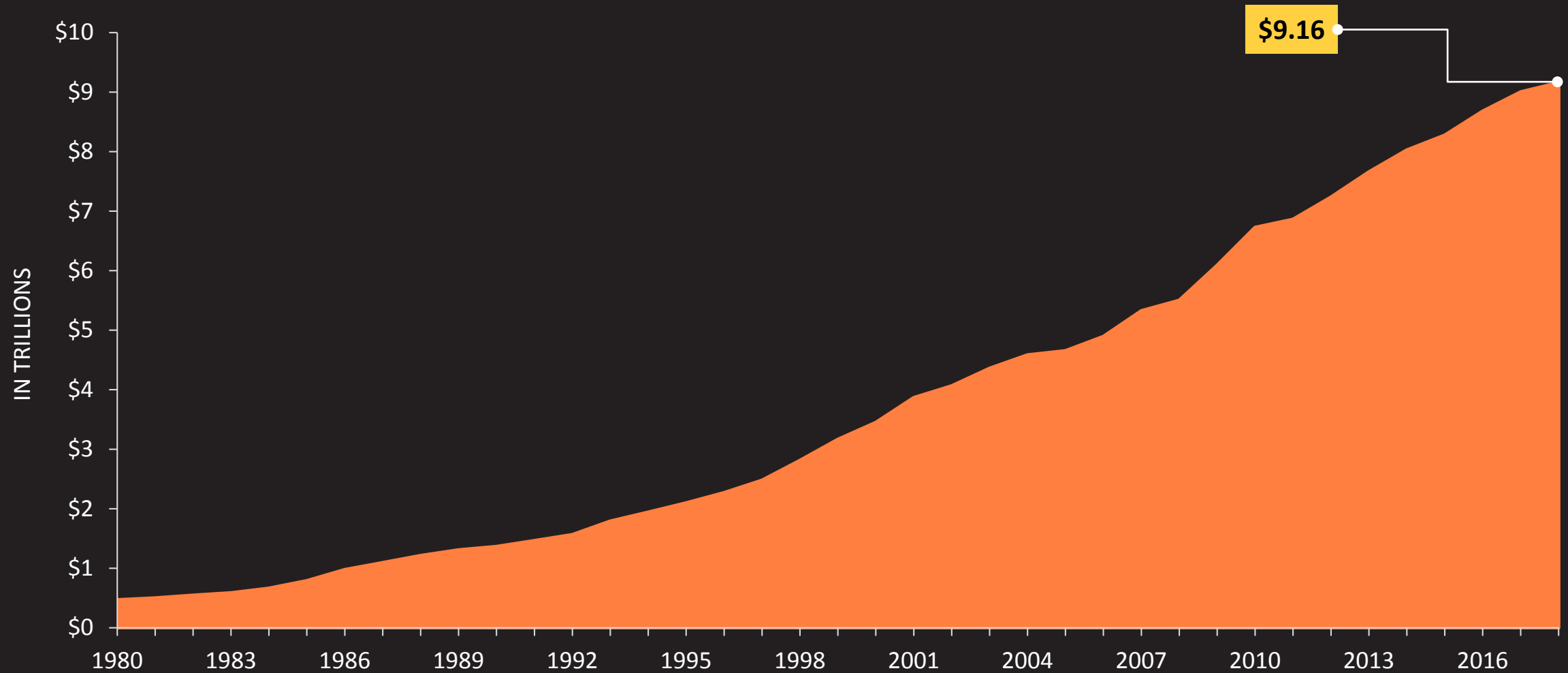


CORPORATE BOND DEBT OUTSTANDING

United States



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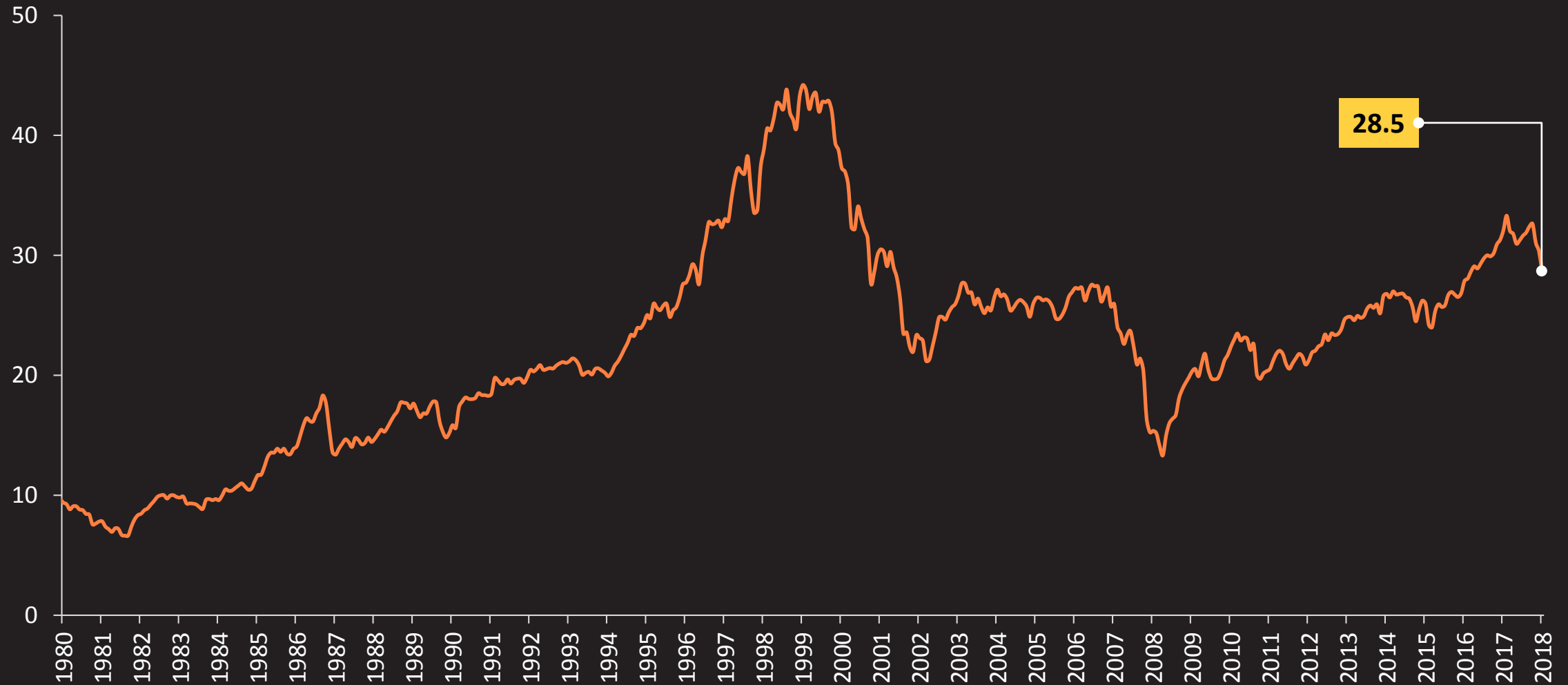


- According to the International Institute of Finance, global debt reached an all-time high in 2016;
- At **\$244.2 trillion** as of Q3 2018, global debt—including household, government, and corporate—now represents **318% of global GDP**;
- Last year the IMF warned of risks to the global economy:
 - *“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



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2

MEGATREND TWO

Mid-Cycle or Late Cycle? Tough to Tell



- Much of the negativity reflected in forecasts and in financial market volatility relates to things people believe will happen;
- But important parts of the U.S. economy continue to perform well – e.g. consumer, corporate earnings, construction.
- What's more, there is significant upside risk. What if the following happens?
 - Trade deal with China;
 - Infrastructure spending plan with revenue sources identified;
 - Elimination of tariffs on steel, aluminum, etc. &
 - Fed stops tightening!!!!
- Hypothesis - 2019 will be decent year for economy, especially the first half.

3

MEGATREND THREE

Suburban Washington Office Market Returns

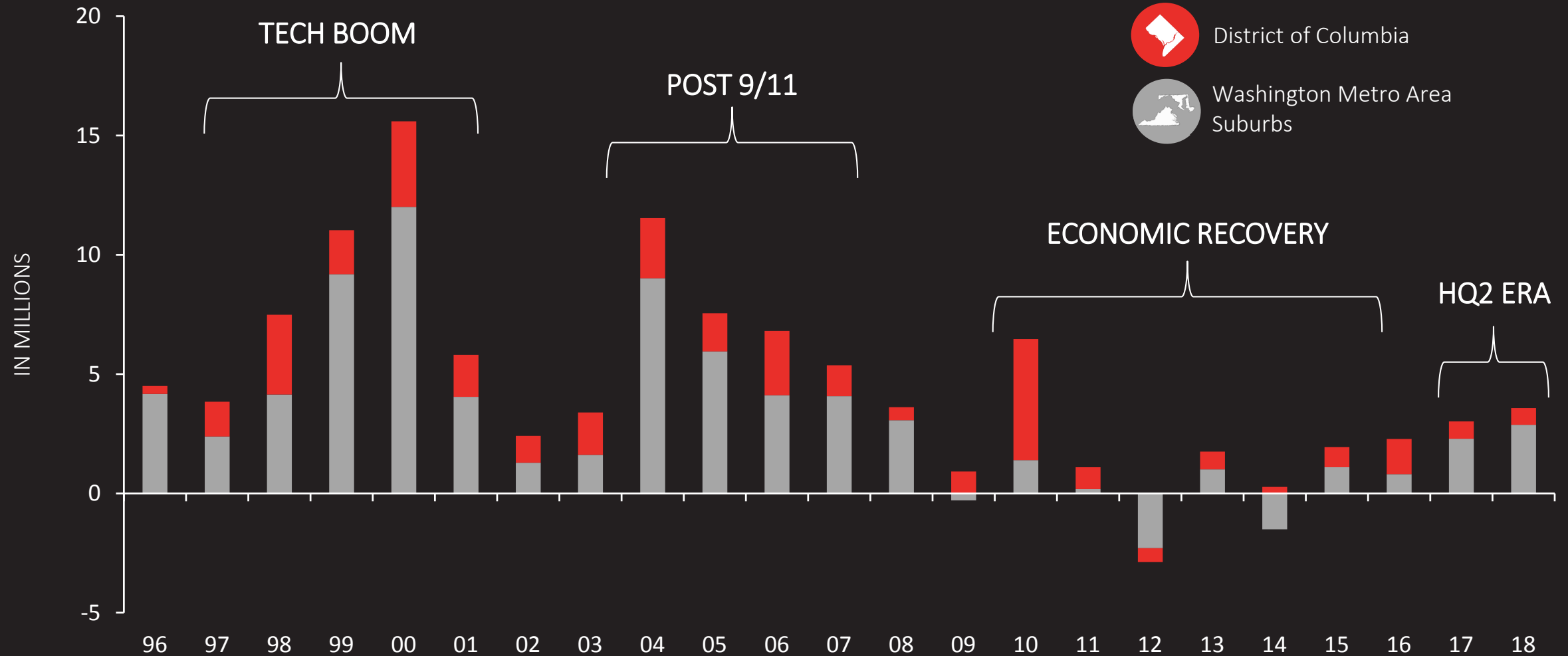


OFFICE NET ABSORPTION

Washington Metro Area



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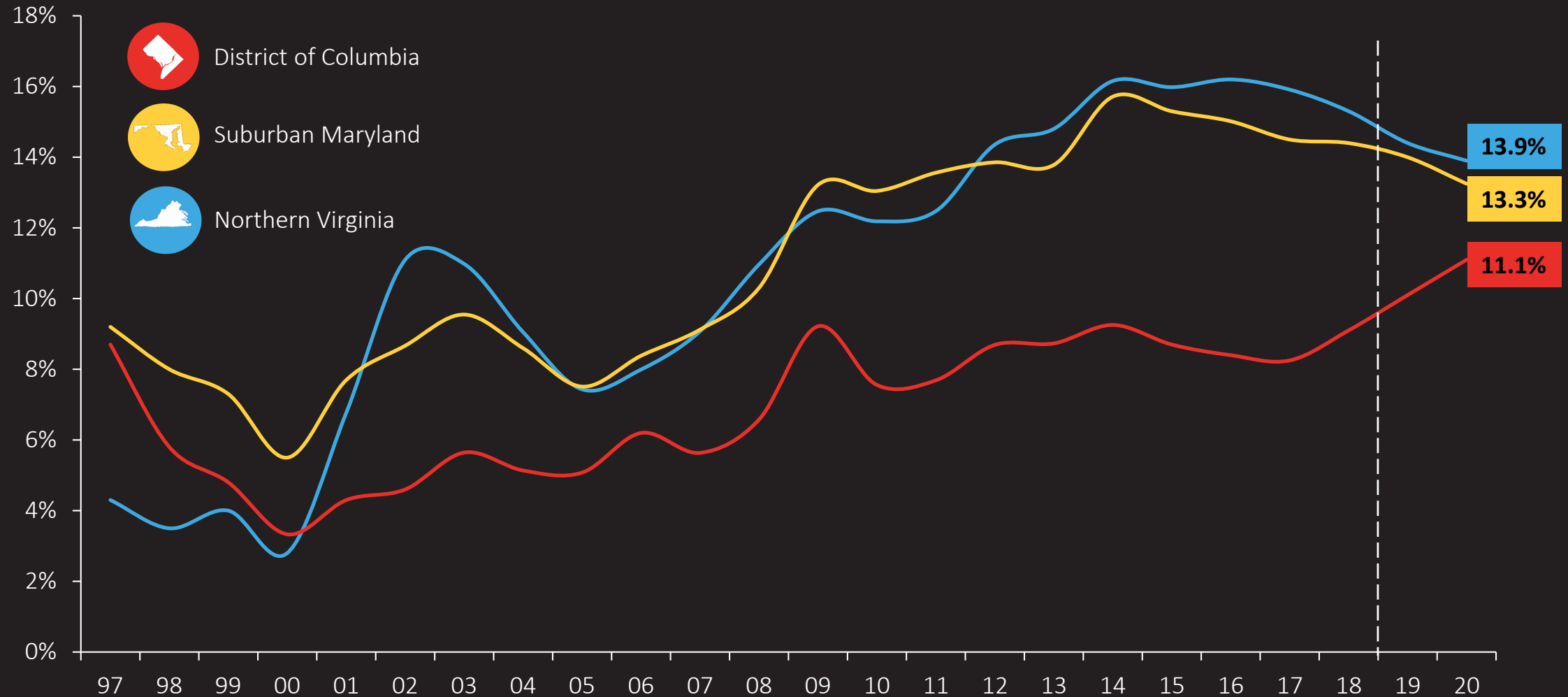


OFFICE VACANCY RATE

Washington Metro Area



TRENDLINES® WASHINGTON 2019

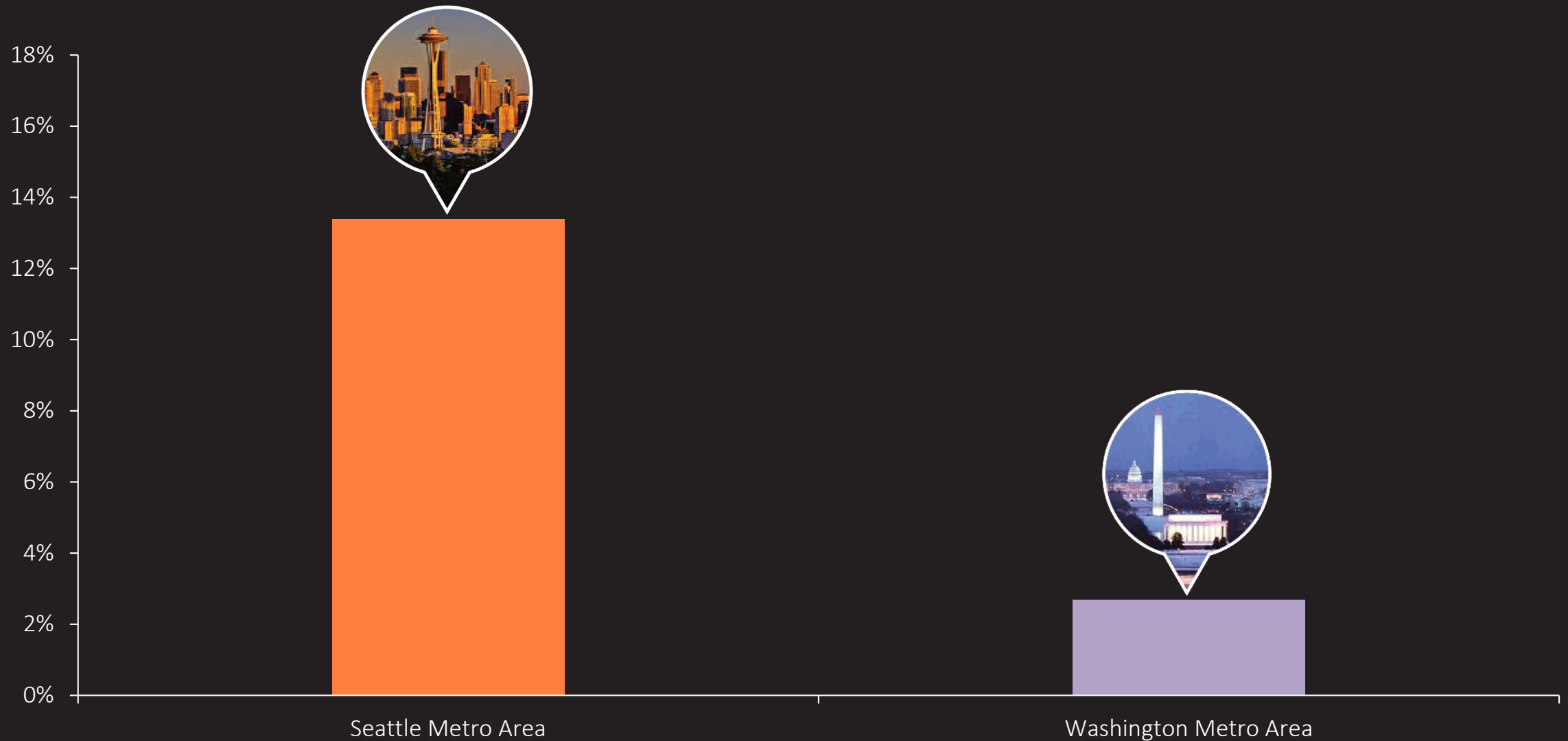


ANNUAL TECH EMPLOYMENT GROWTH

Washington Metro Area vs. Seattle | 1997 to 2017



TRENDLINES® WASHINGTON 2019

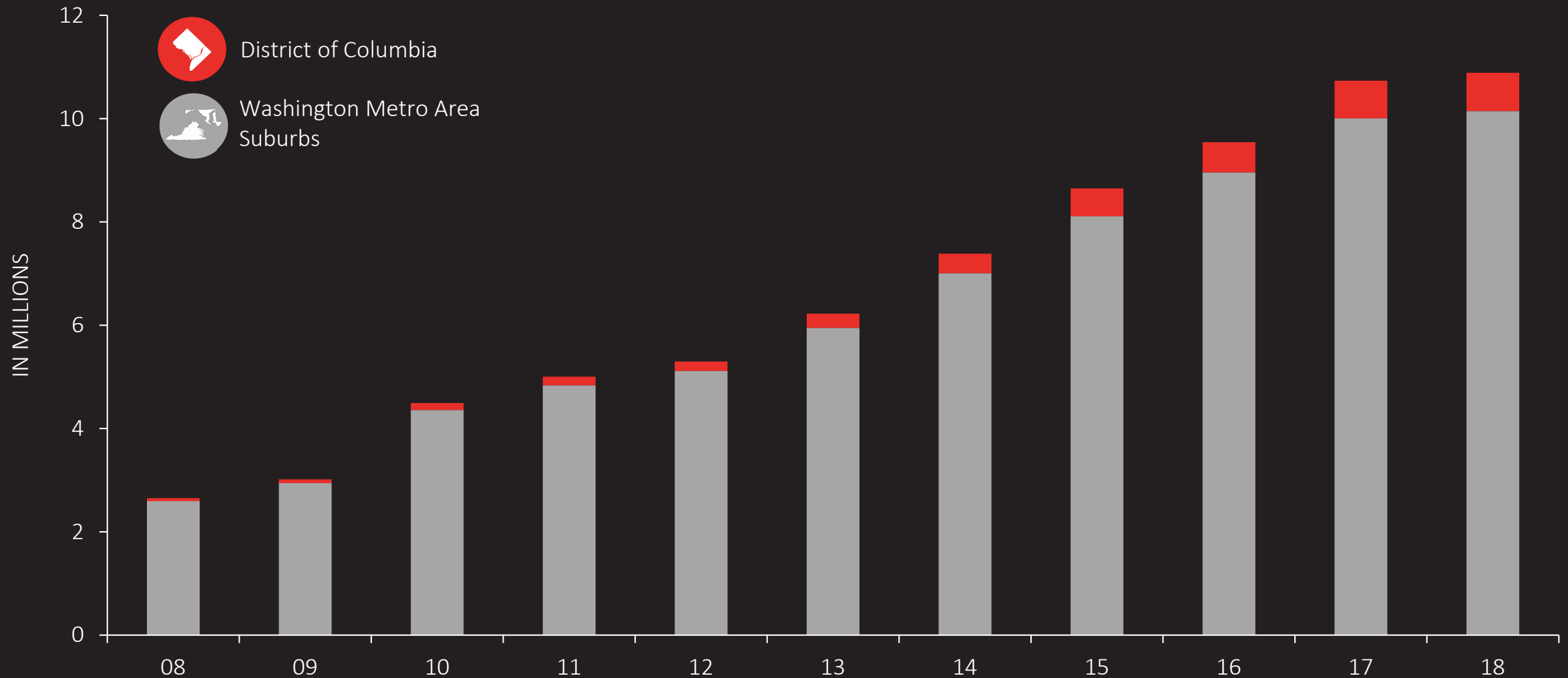


TECH OFFICE OCCUPANCY

Washington Metro Area



TRENDLINES[®] WASHINGTON 2019

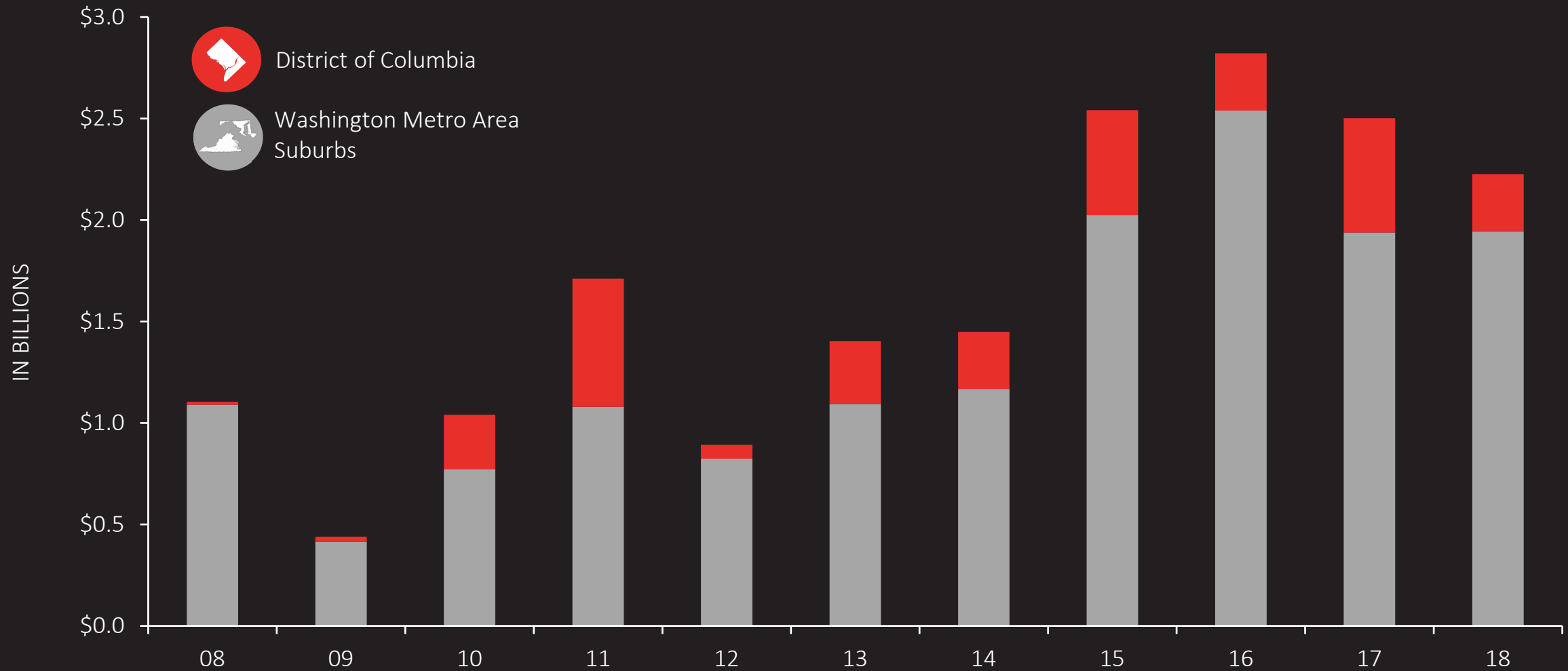


VENTURE CAPITAL FUNDING

Washington Metro Area



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COWORKING

Washington Metro Area

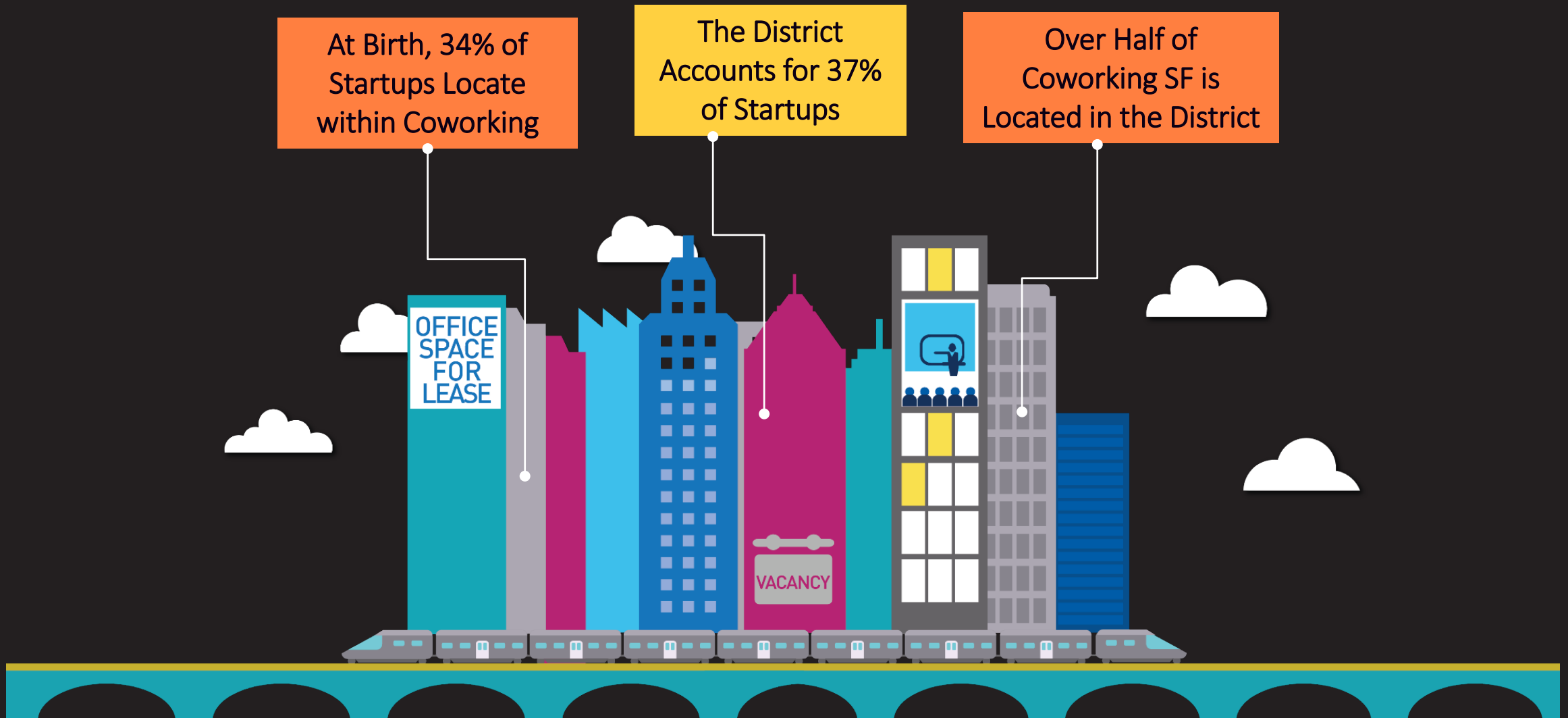


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At Birth, 34% of
Startups Locate
within Coworking

The District
Accounts for 37%
of Startups

Over Half of
Coworking SF is
Located in the District



OFFICE MARKET OPPORTUNITIES

Washington Metro Area



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Target Assets in
National Landing
and RCB Corridor
Before Rents Spike

Target Tysons
and Dulles
Corridor for
Growth

Invest in
Suburban Non-
Metro Assets
Before Prices
Rise

Allocate Space to
Coworking - Either
Through a Provider
or Self-Managed

Look to New York
Avenue, National
Landing, and
Dulles Corridor for
Startup Growth



4

MEGATREND FOUR

Strong Industrial Demand Pushes Boundaries

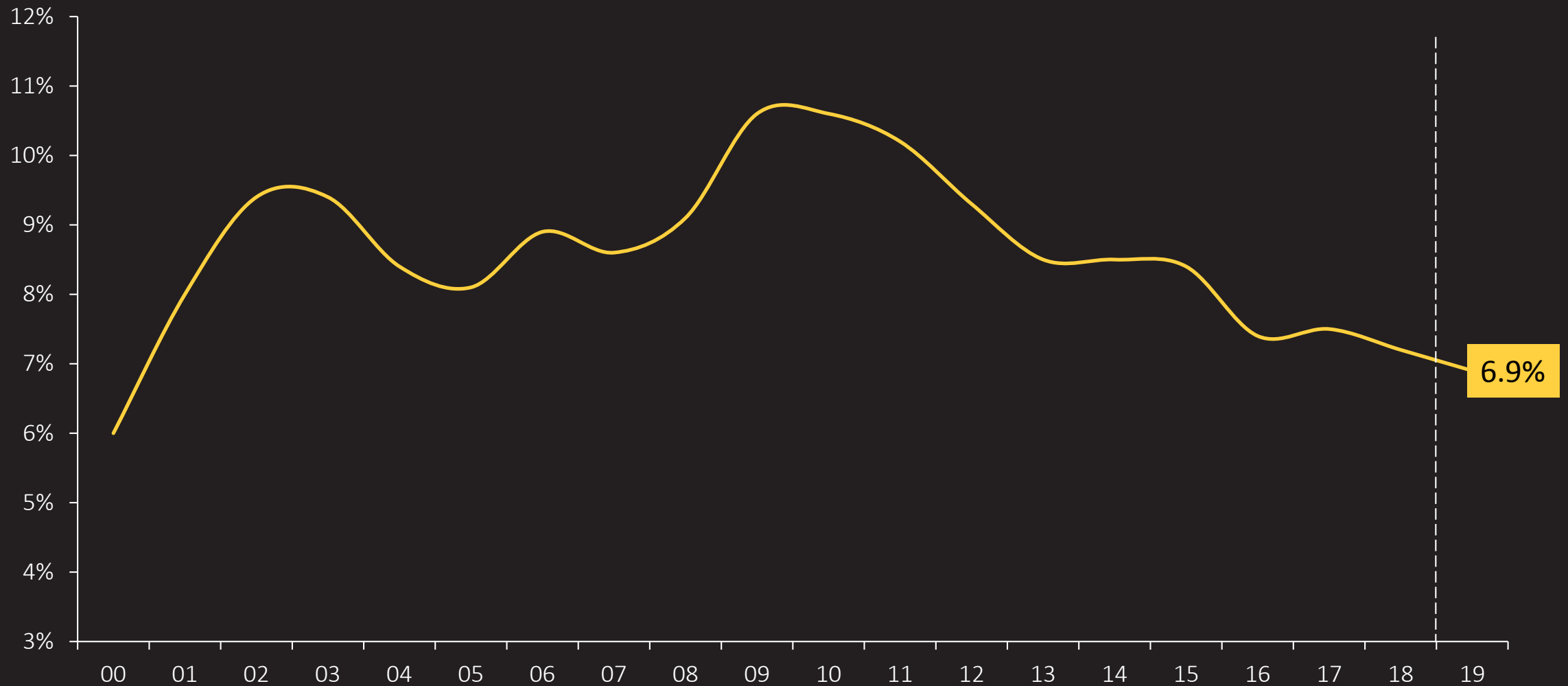


INDUSTRIAL VACANCY RATE

Washington / Baltimore Region



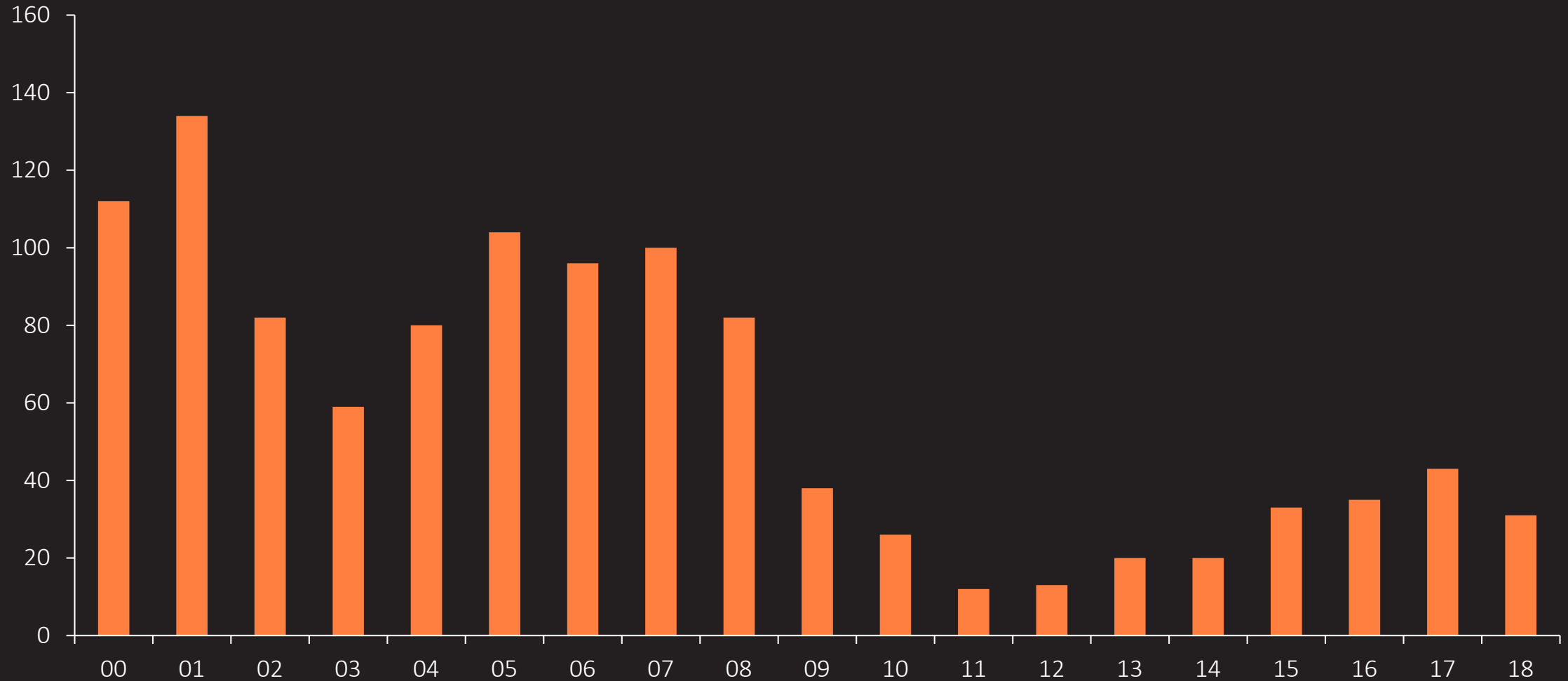
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NUMBER OF INDUSTRIAL DELIVERIES Washington / Baltimore Region



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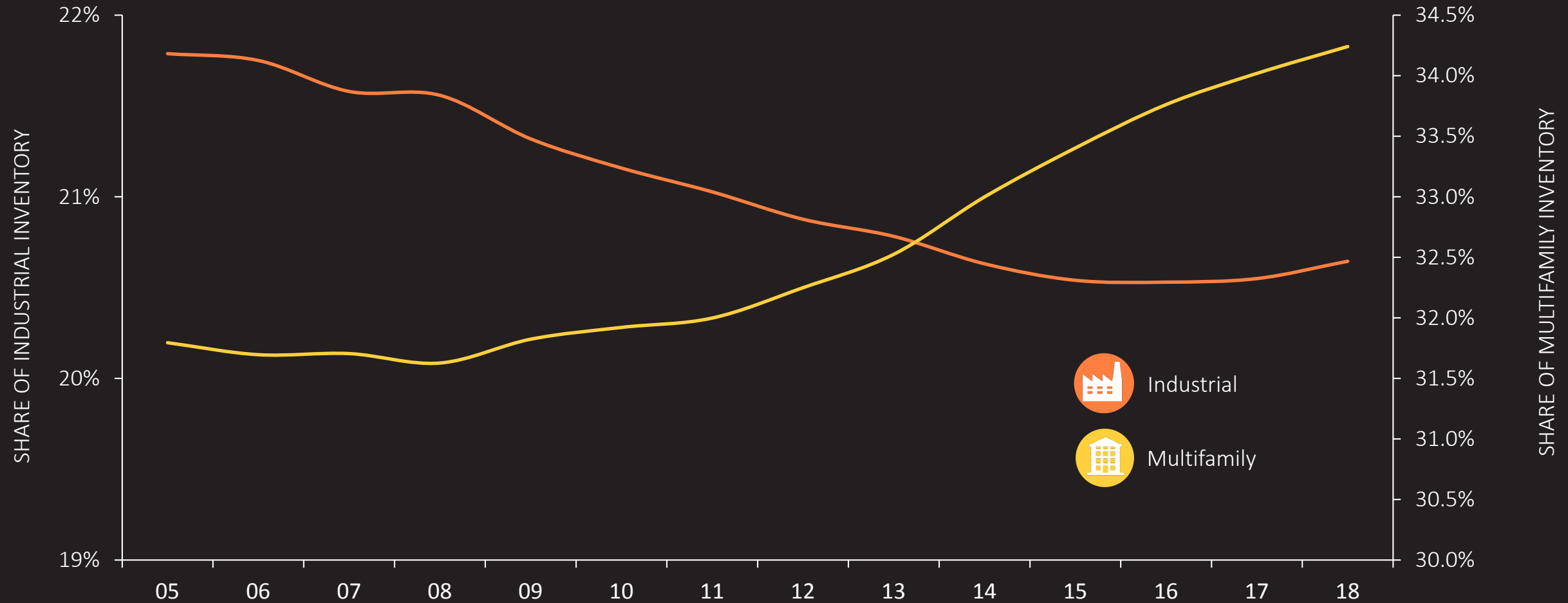


SHARE OF COMMERCIAL REAL ESTATE INVENTORY

Washington / Baltimore Region



TRENDLINES® WASHINGTON 2019

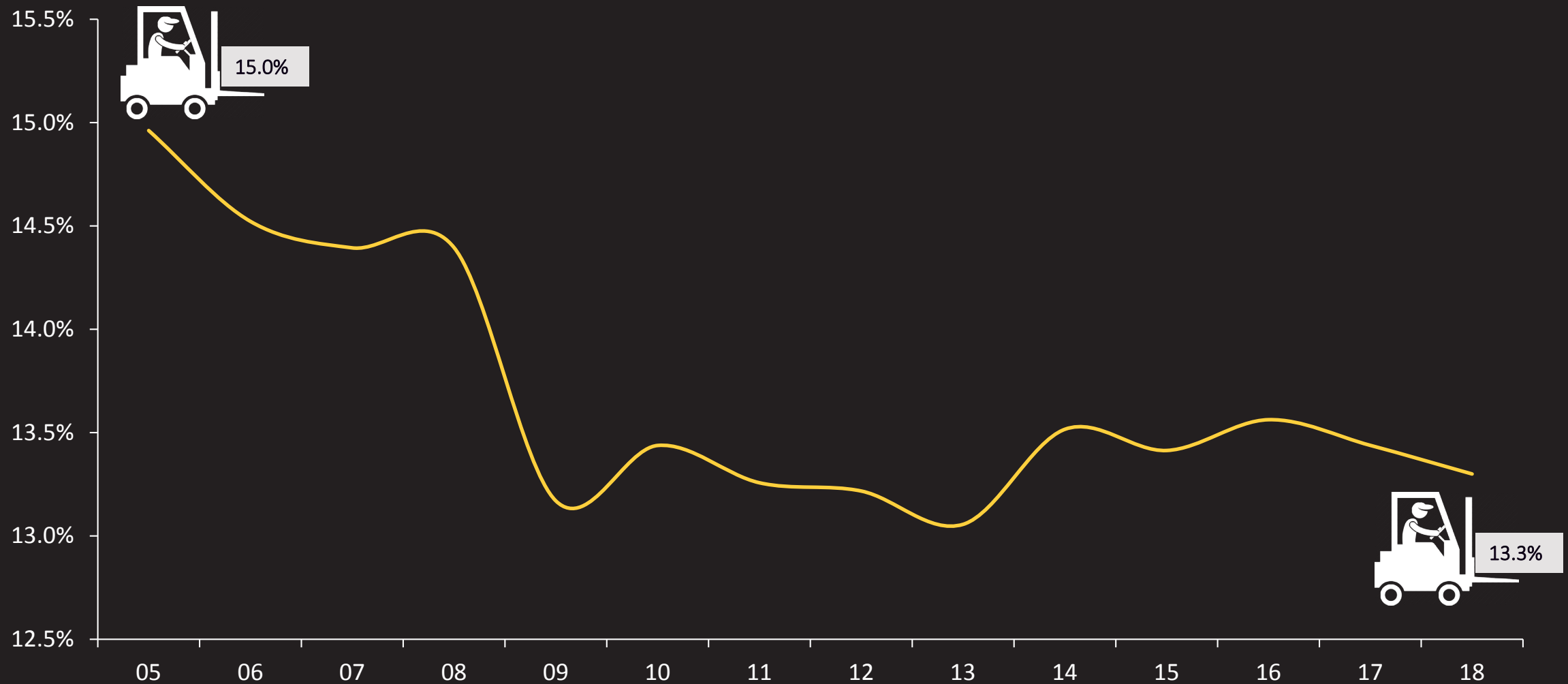


SHARE OF INDUSTRIAL EMPLOYEES

Washington / Baltimore Region



TRENDLINES® WASHINGTON 2019

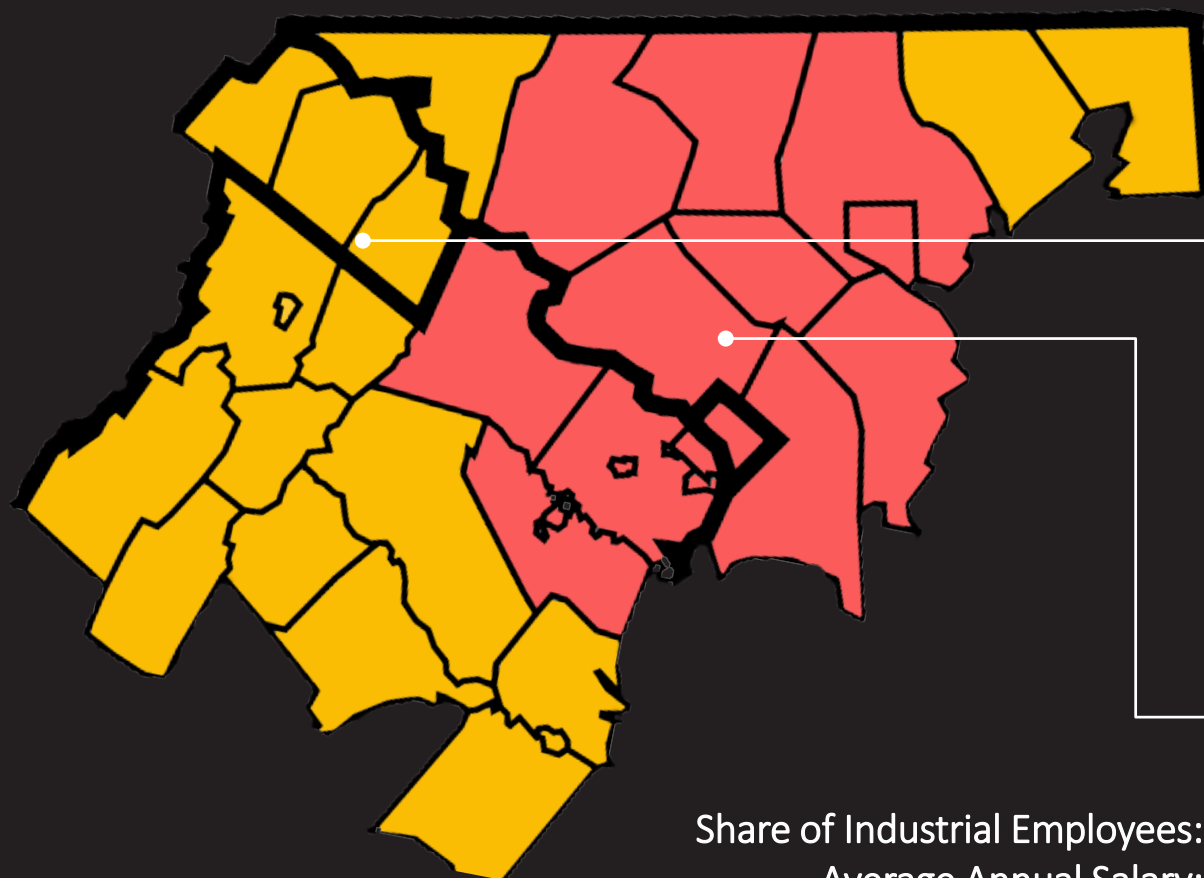


INDUSTRIAL STATS

Washington / Baltimore Region vs. Outer Markets



TRENDLINES® WASHINGTON 2019



	Washington/Baltimore Region	Outer Markets
Share of Industrial Employees:	13.3%	20.1%
Average Annual Salary:	\$41,200	\$36,000
Average Rent:	\$9.10 PSF	\$5.00 PSF
Rent Growth 2018:	4.5%	1.2%

INDUSTRIAL STATS BY TYPE

Washington / Baltimore Region



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Small Distribution /
Delivery



Flex/R&D



Cold Storage



Service
Warehouse

Vacancy Rate
at Q4 2018

5.0%

4.3%

4.0%

1.8%

Annual Rent
Growth Since 2013

2.2%

5.3%

4.9%

4.2%

INDUSTRIAL MARKET OPPORTUNITIES

Washington / Baltimore Region



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Invest in the Outer
Markets for Future
Large-User
Distribution Growth

Invest in Cold
Storage in the
Washington /
Baltimore Region

Acquire
Flex/R&D in
Montgomery
County

Target Service and
Small Distribution
Warehouse Close
to the Core



An aerial night view of a city, likely San Francisco, showing a dense urban landscape with numerous high-rise buildings. A large, semi-transparent number '5' is overlaid on the left side of the image. The city lights are visible, and a highway with light trails is seen on the right. The text 'MEGATREND FIVE' and 'Amazon HQ2's Impact on the Housing Market' is positioned over the number '5'.

5

MEGATREND FIVE

Amazon HQ2's Impact on the Housing Market



- Up to 37,850 direct jobs to be created at National Landing campus at full build-out.
- Initially, 400 positions will be added in 2019 and another 900 in 2020.
- Half of the positions will be tech-related.
- Average annual income of \$150,000.

Top Five Tapestry® Segments

South Lake Union/ Downtown Seattle

- Metro Renters
- Social Security Set
- Dorms to Diplomas
- Laptops and Lattes
- Retirement Communities

National Landing/ Arlington County

- Metro Renters
- Laptops and Lattes
- Top Tier
- Trendsetters
- Urban Chic

Long Island City

- Laptops and Lattes
- High-Rise Renters
- Trendsetters
- Downtown Melting Pot
- Metro Renters

Uptown Individuals
LifeMode Group:



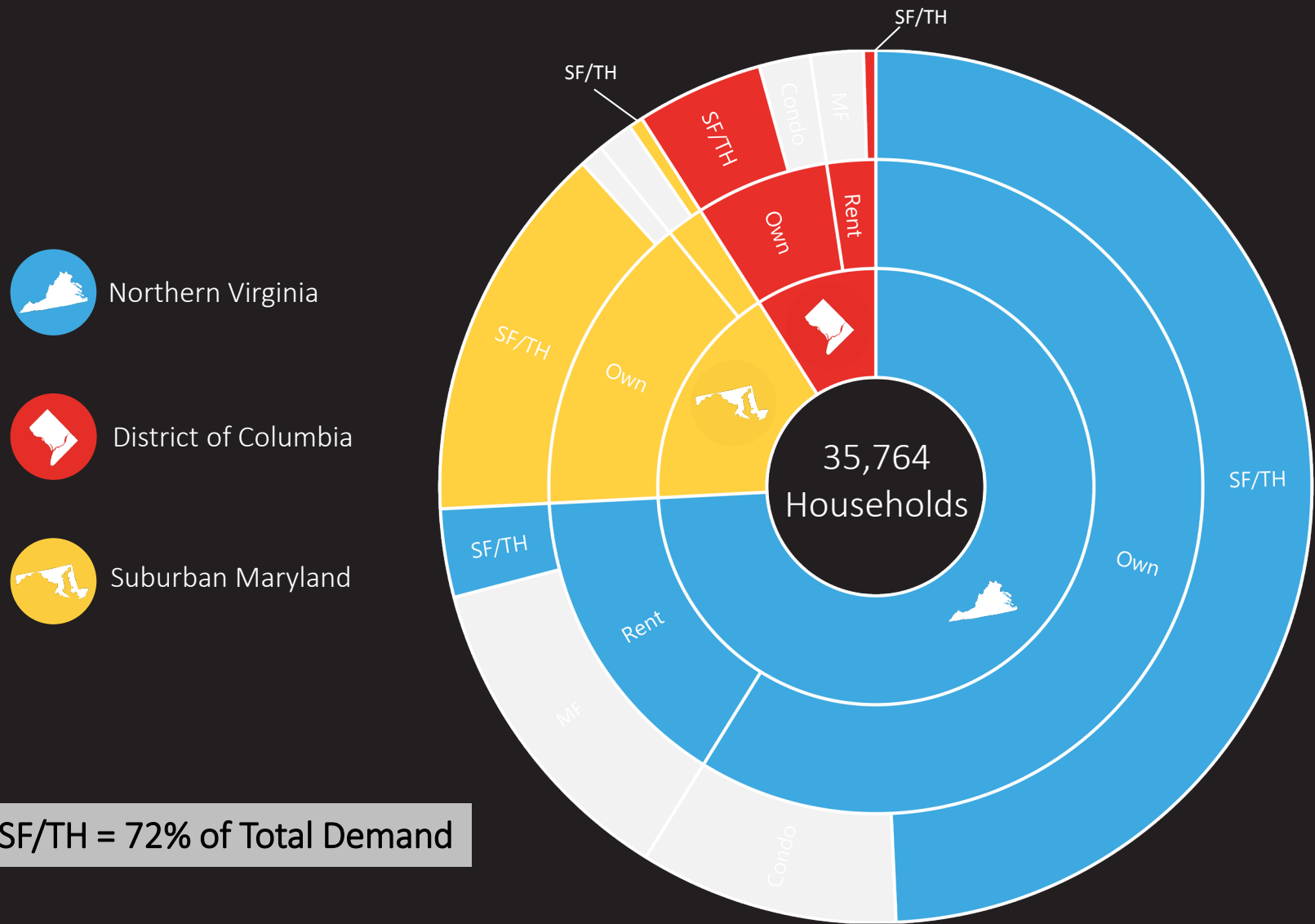
NETFLIX

AMAZON HQ2 WORKFORCE HOUSING DEMAND

Washington Metro Area | At Full Build-Out



TRENDLINES WASHINGTON 2019



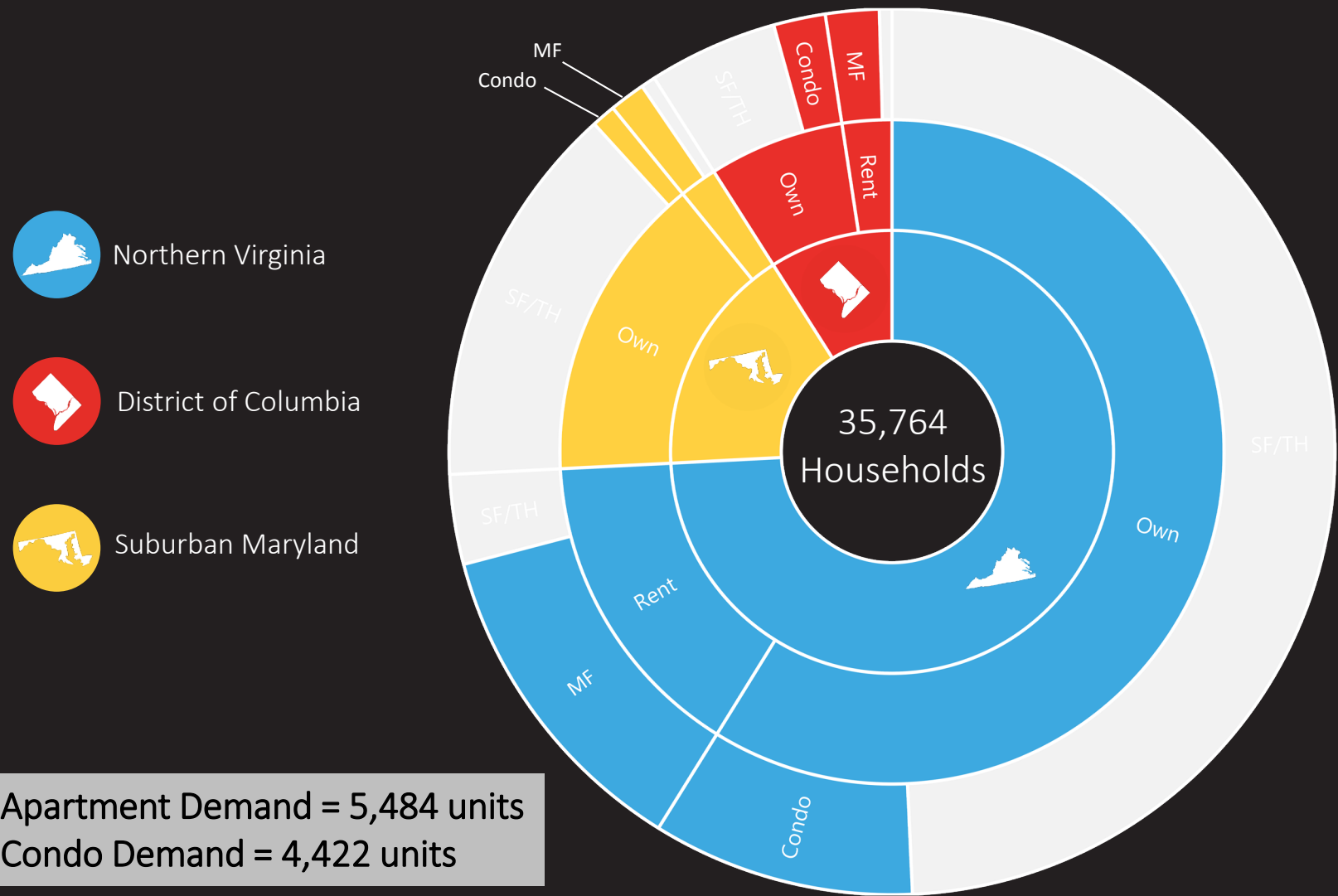
An estimated 2,086 households will live outside the Washington metro area, or about 6% of the HQ2 workforce at National Landing.

AMAZON HQ2 WORKFORCE HOUSING DEMAND

Washington Metro Area | At Full Build-Out



TRENDLINES WASHINGTON 2019

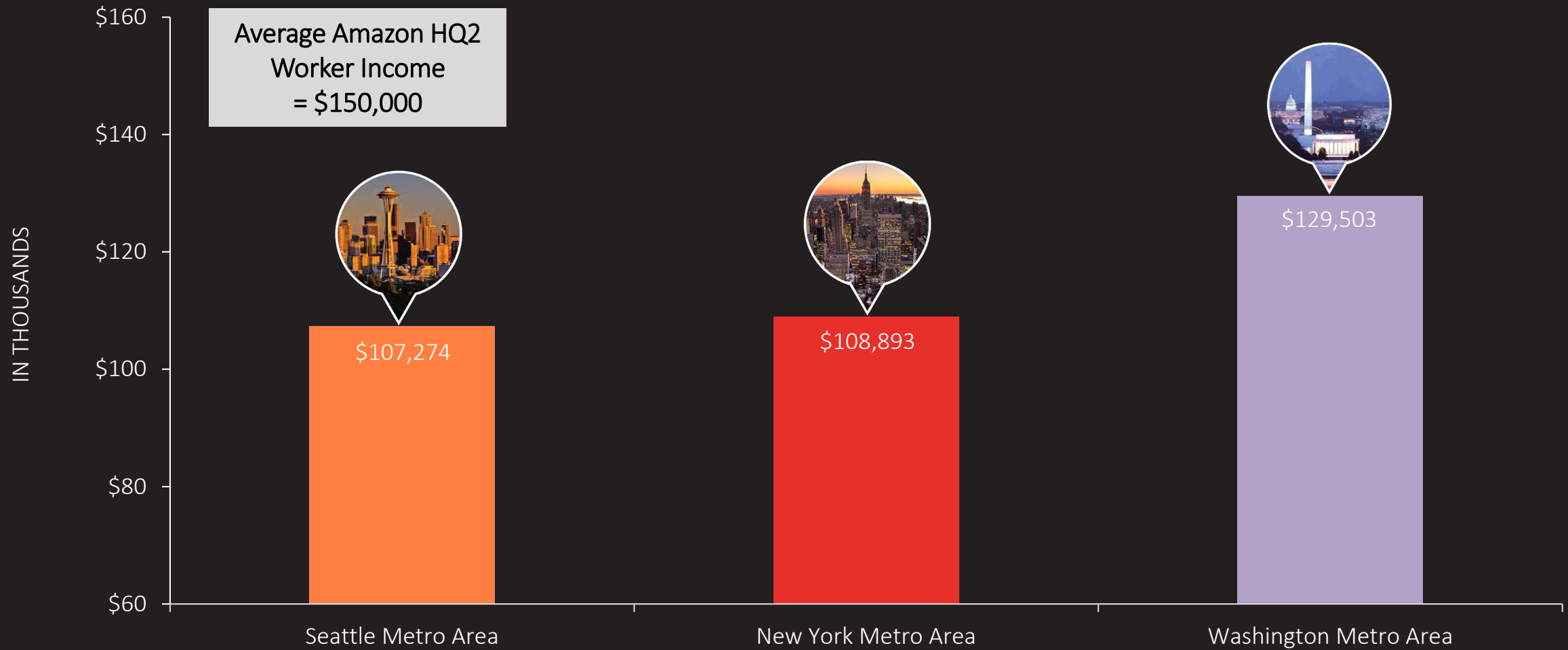


AVERAGE HOUSEHOLD INCOME

Amazon HQ1 and HQ2 Metro Areas | 2018



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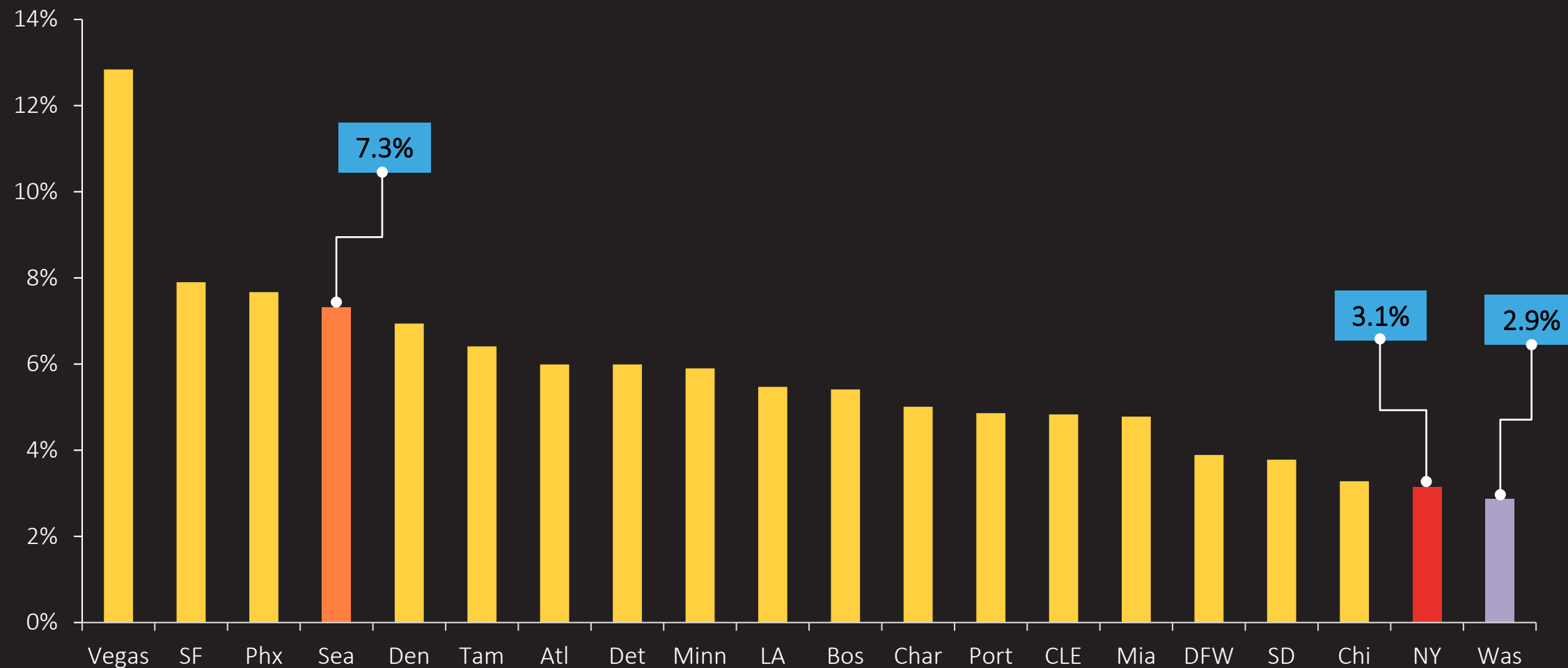


PRICE CHANGES - HOME PRICE INDICES

Select Markets | October 2017 - October 2018



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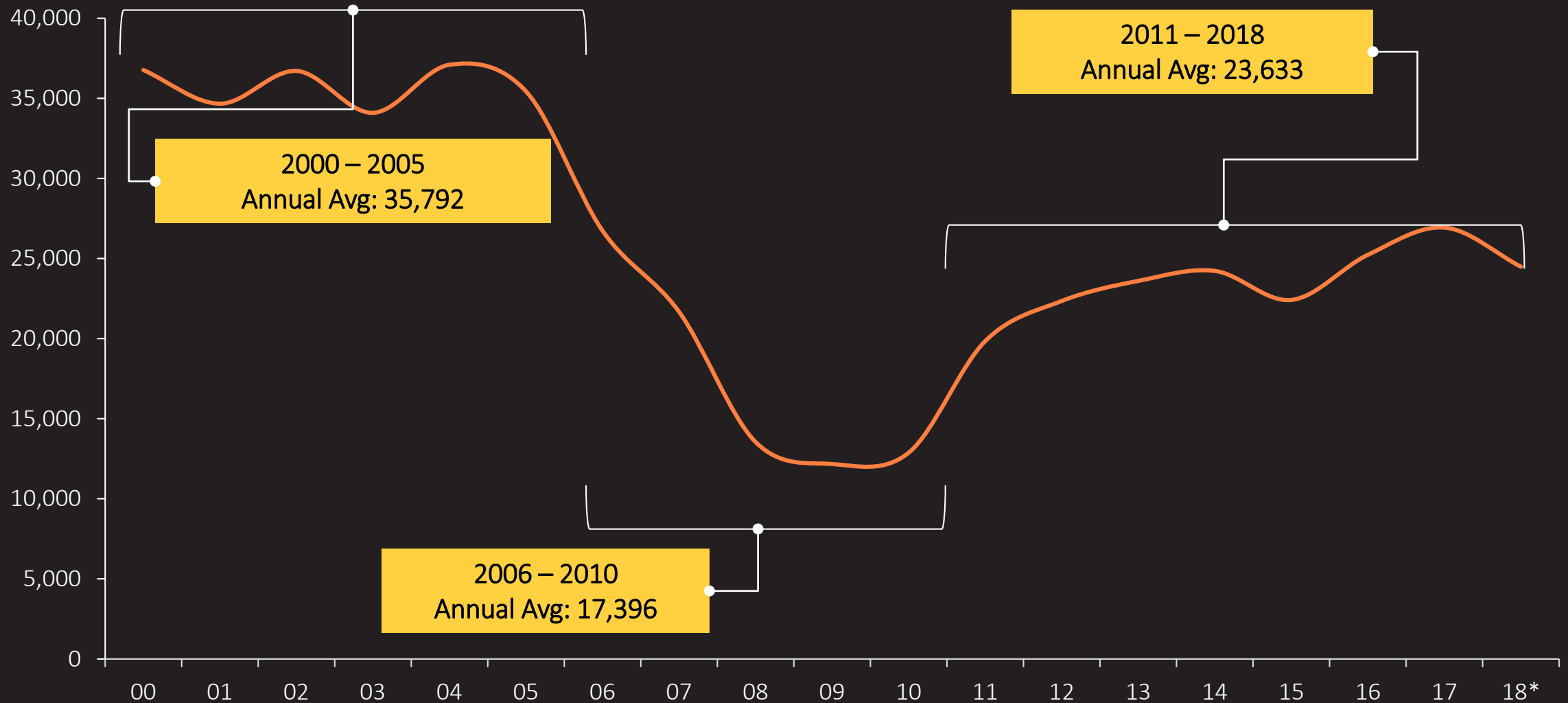


BUILDING PERMIT TREND FOR ALL HOUSING TYPES

Washington Metro Area



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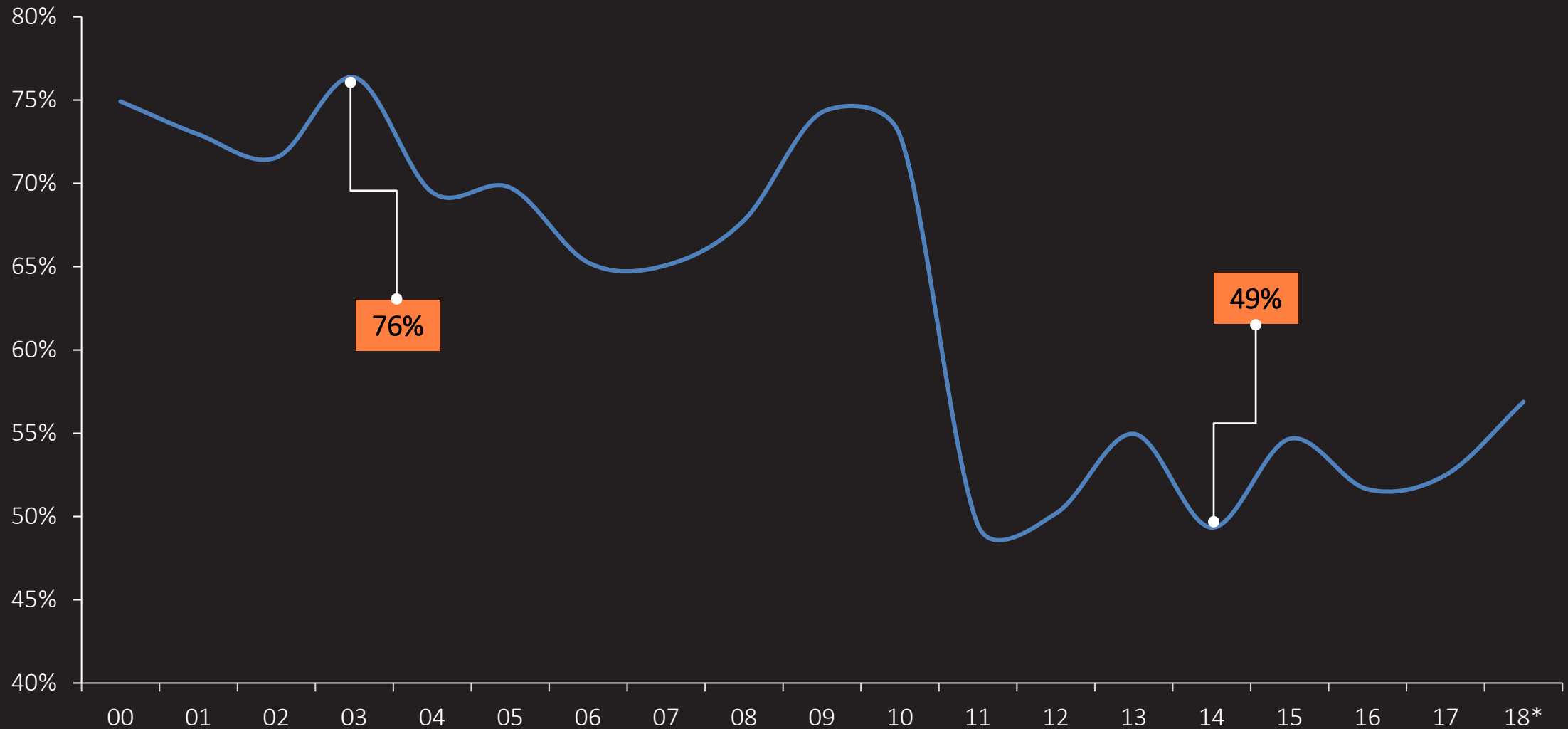


SINGLE-FAMILY SHARE OF TOTAL BUILDING PERMITS

Washington Metro Area



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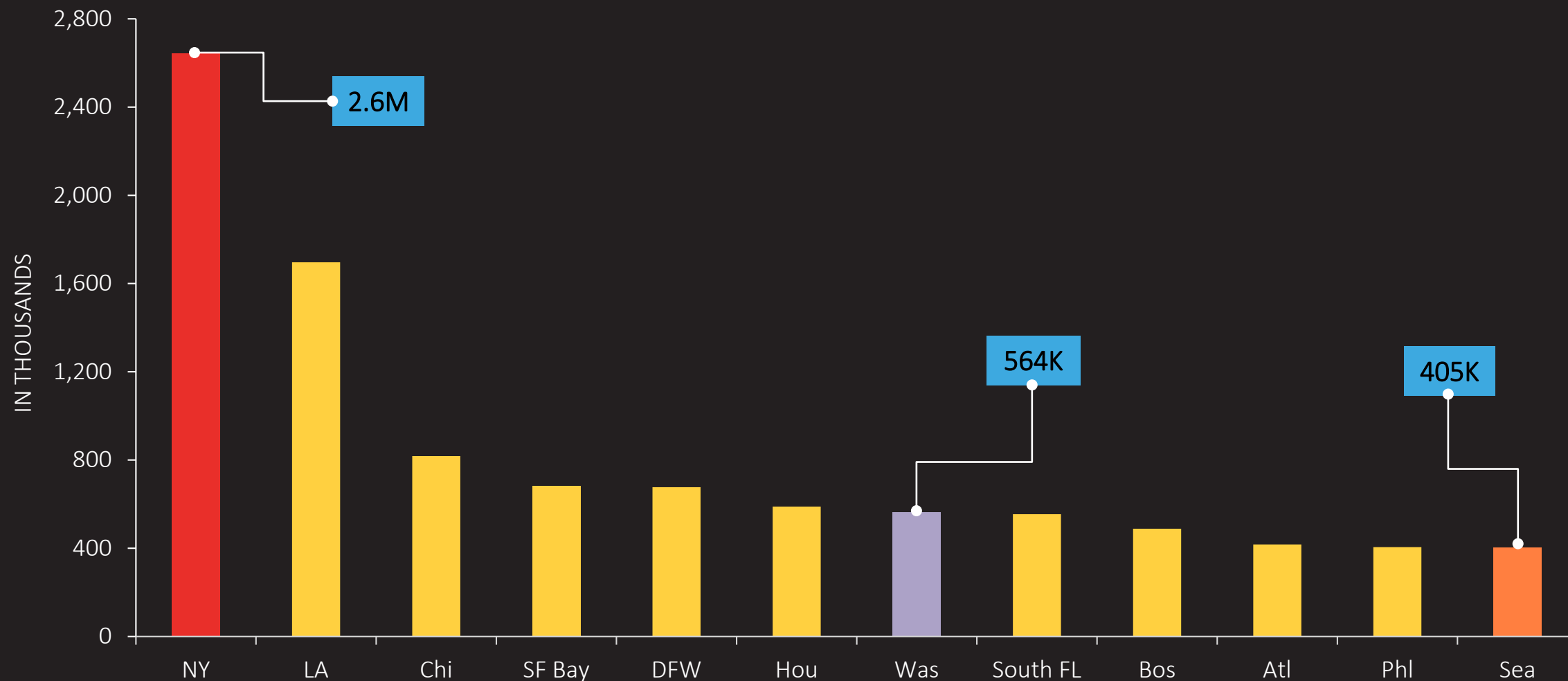


LARGEST APARTMENT MARKETS

Select Metro Areas | 2017



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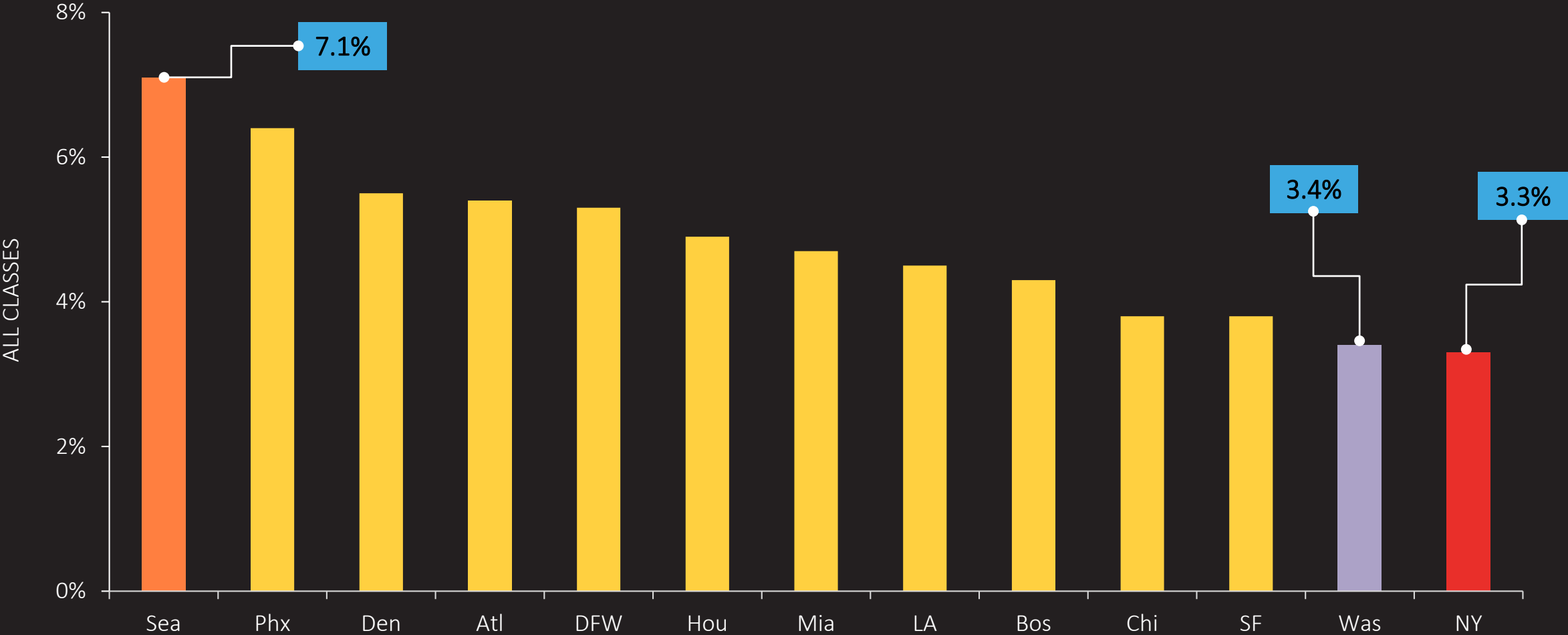


ANNUAL APARTMENT RENT GROWTH

Select Metro Areas | Third Quarter 2018



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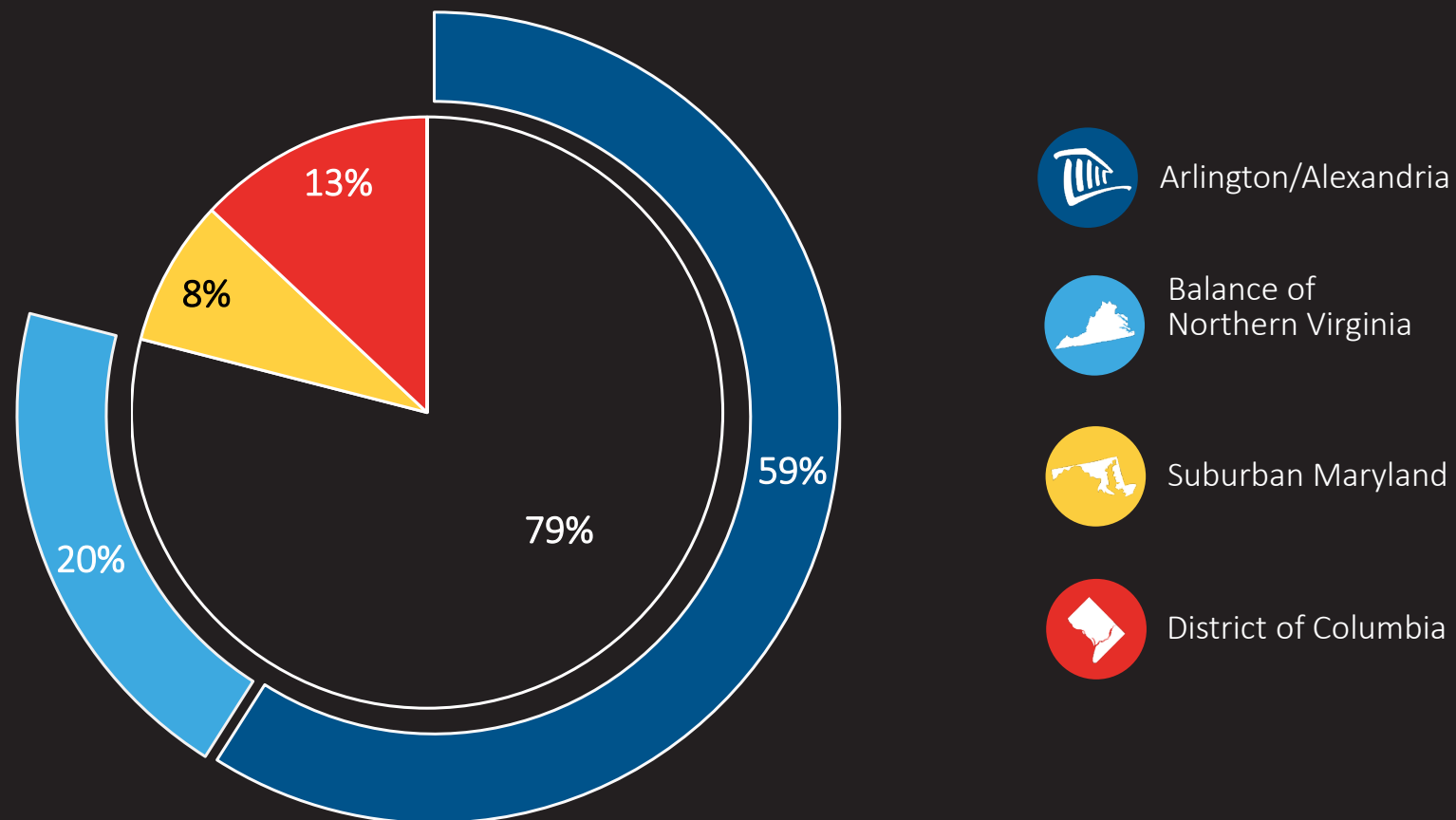
Source: REIS, Delta Associates; February 2019.

AMAZON HQ2 APARTMENT DEMAND

Washington Metro Area | At Full Build-Out



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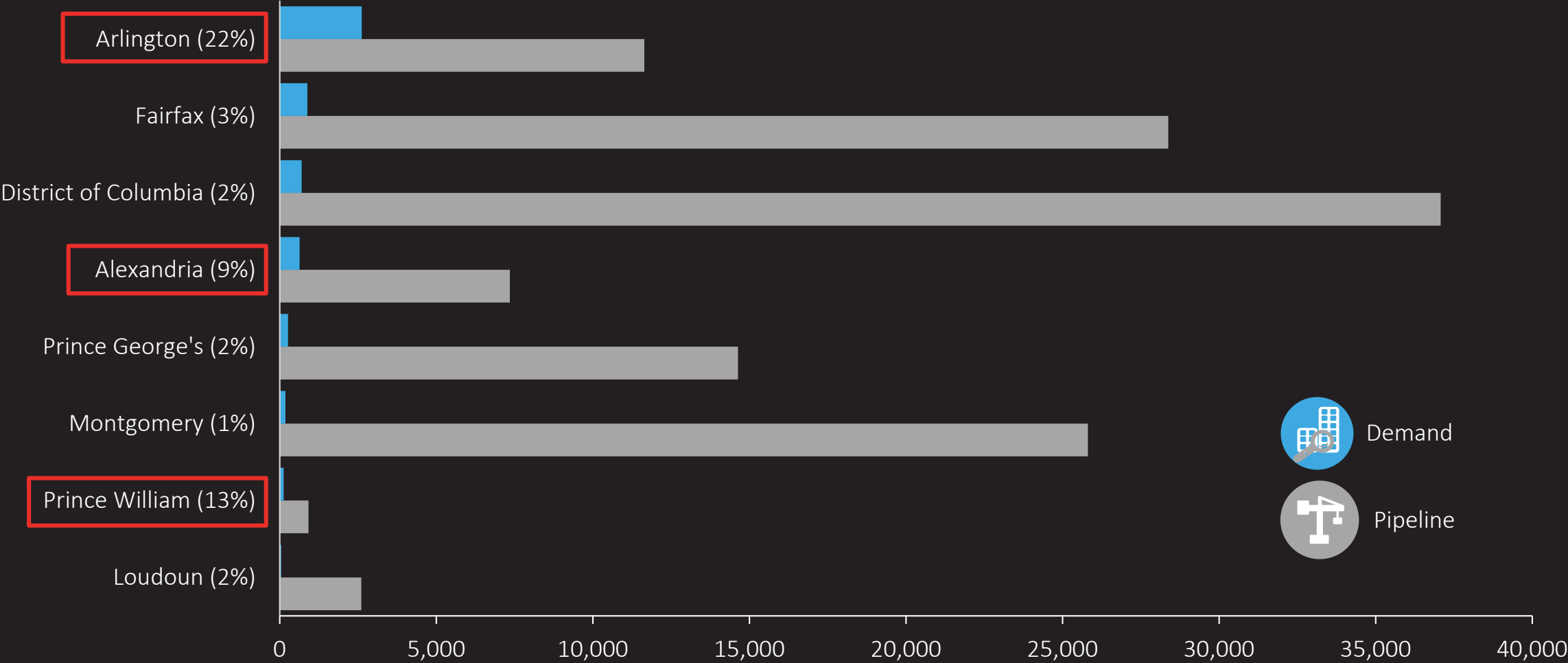


APARTMENT PIPELINE AND HQ2-RELATED DEMAND

Washington Metro Area | At Full Build-Out



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Demand



Pipeline

APARTMENT MARKET OPPORTUNITIES

Washington Metro Area



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Tailor Ground
Floor Retail
Space for the
Neighborhood

Opportunity
Zones

Advanced /
Personalized
Services i.e.
Hello Alfred

Mix of
Living Uses
in One
Project

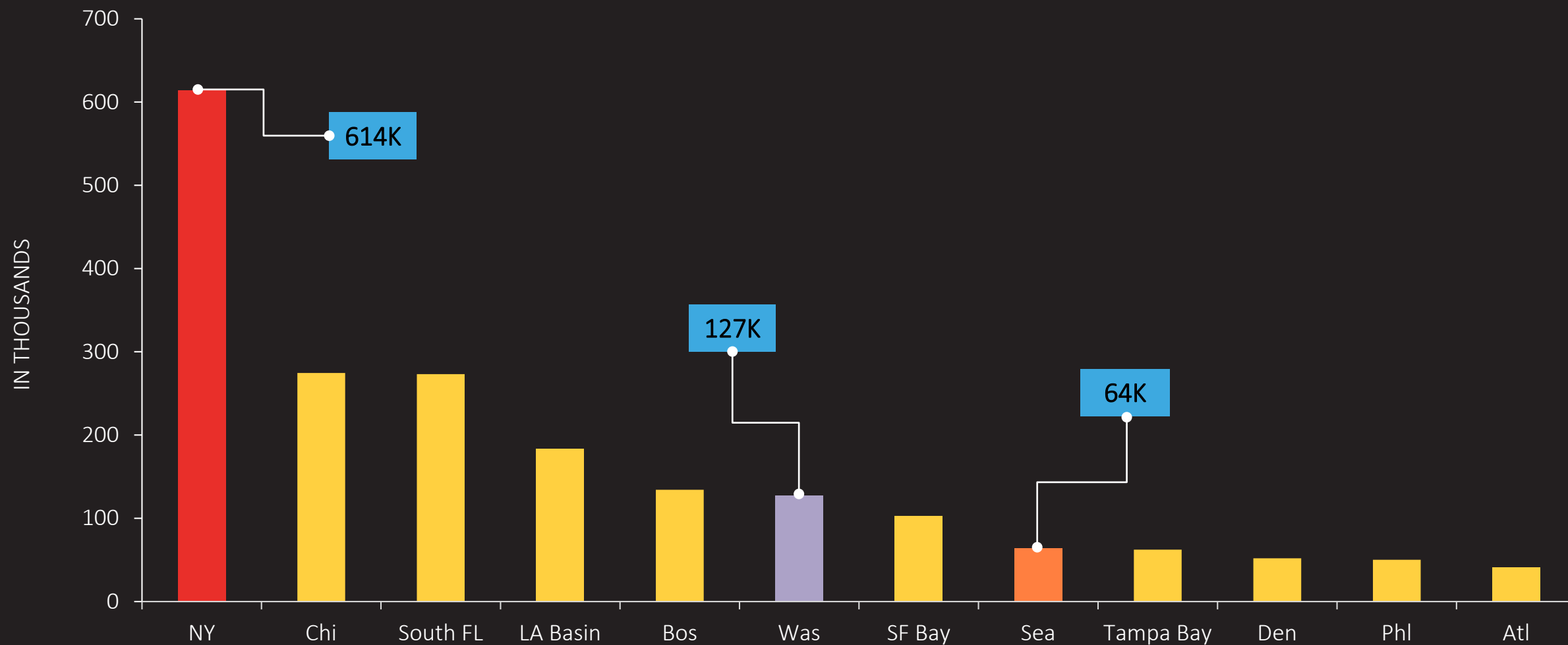


LARGEST CONDOMINIUM MARKETS

Select Metro Areas | 2017



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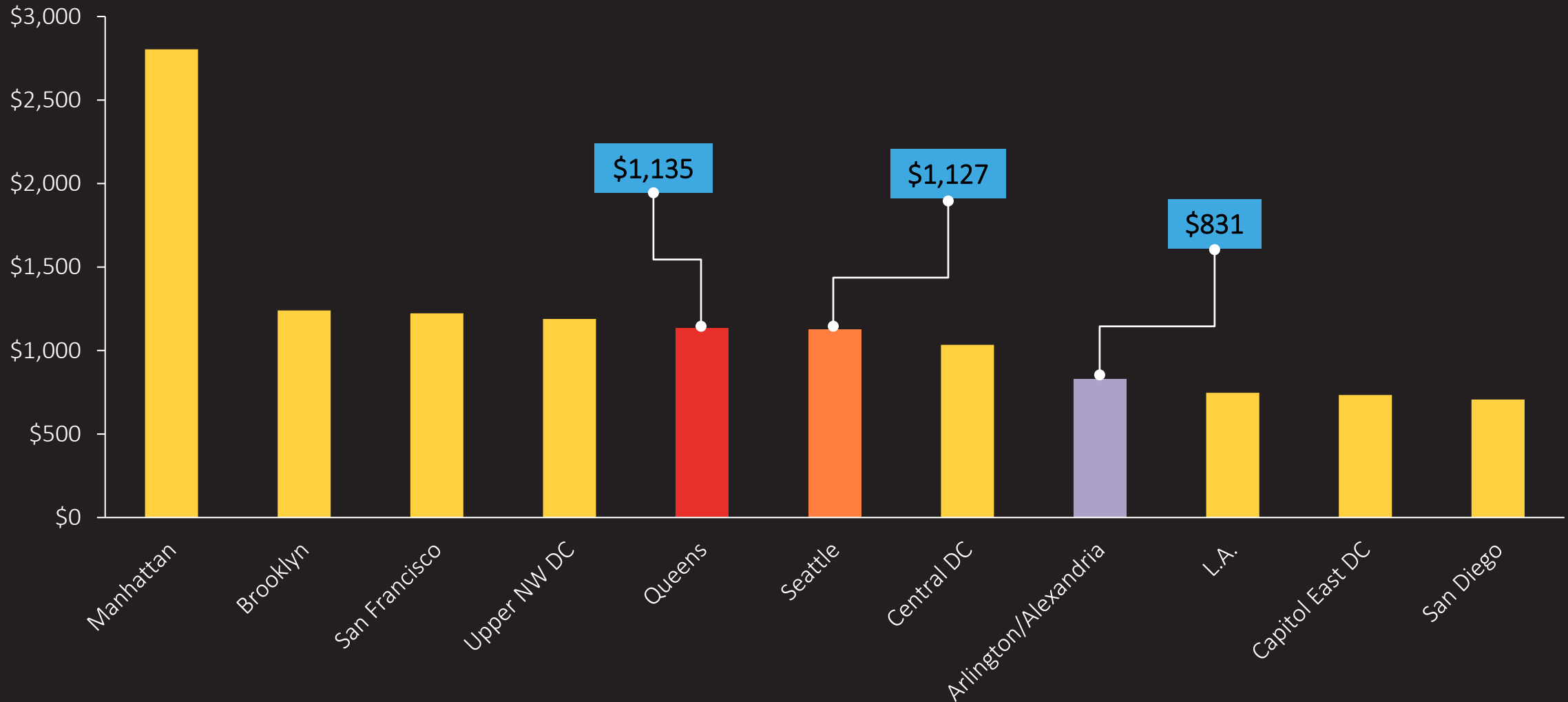


NEW CONDOMINIUM PRICE PER SF

Select Submarkets | Mid-Year 2018



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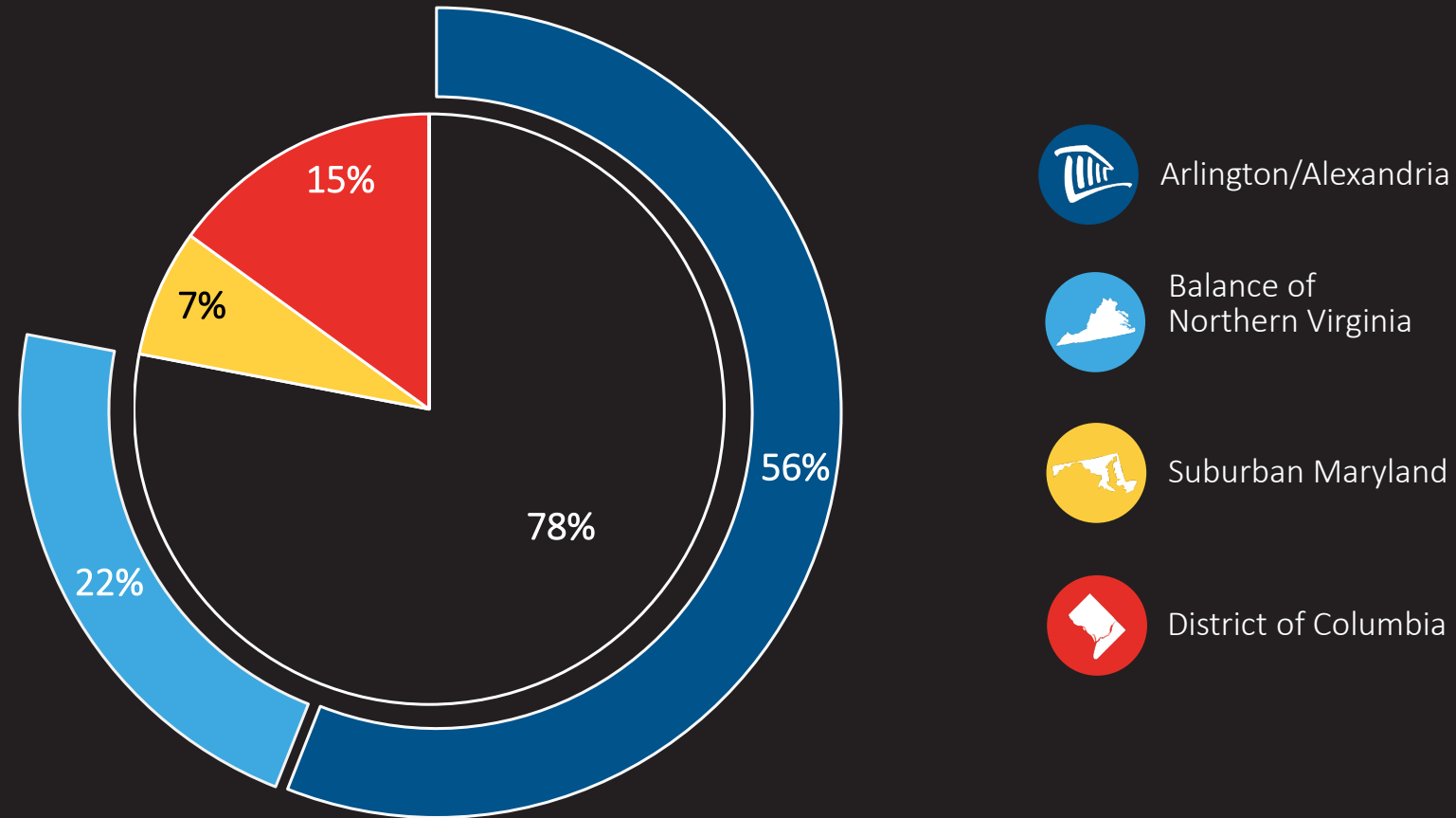


AMAZON HQ2 CONDOMINIUM DEMAND

Washington Metro Area | At Full Build-Out



TRENDLINES® WASHINGTON 2019

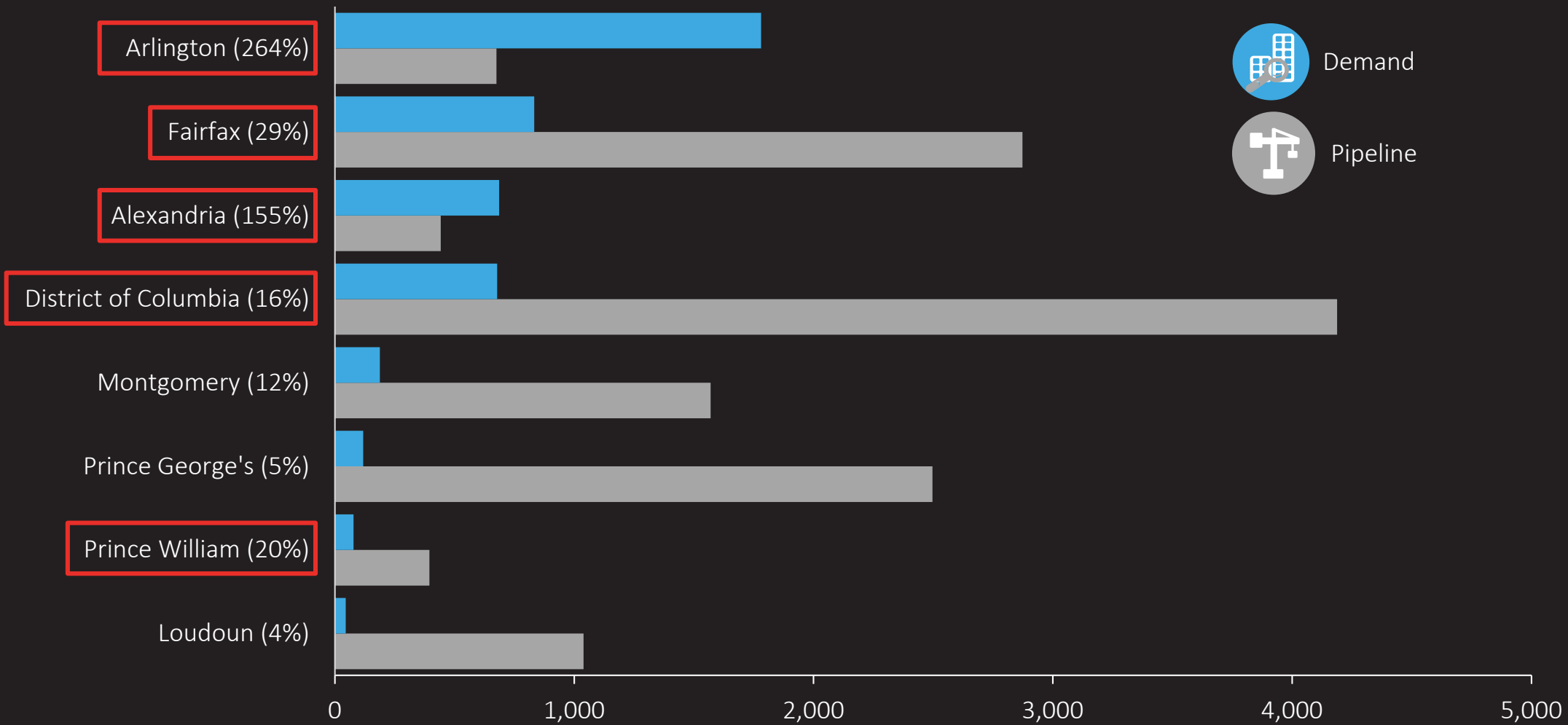


CONDOMINIUM PIPELINE AND HQ2-RELATED DEMAND

Washington Metro Area | At Full Build-Out



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CONDOMINIUM MARKET OPPORTUNITIES

Washington Metro Area



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Adaptive
Reuse
Projects

Offer Down
Payment
Assistance for
Millennial Buyers

Create Unit Mixes
That Will Appeal
to Multiple
Demographic
Types

Convert Existing or
Under Construction
Apartments to
Condos



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Trends in Washington Commercial Real Estate

