DELTA ASSOCIATES

Q3

TWO THOUSAND SEVENTEEN

WASHINGTON/BALTIMORE OFFICE MARKET REPORT

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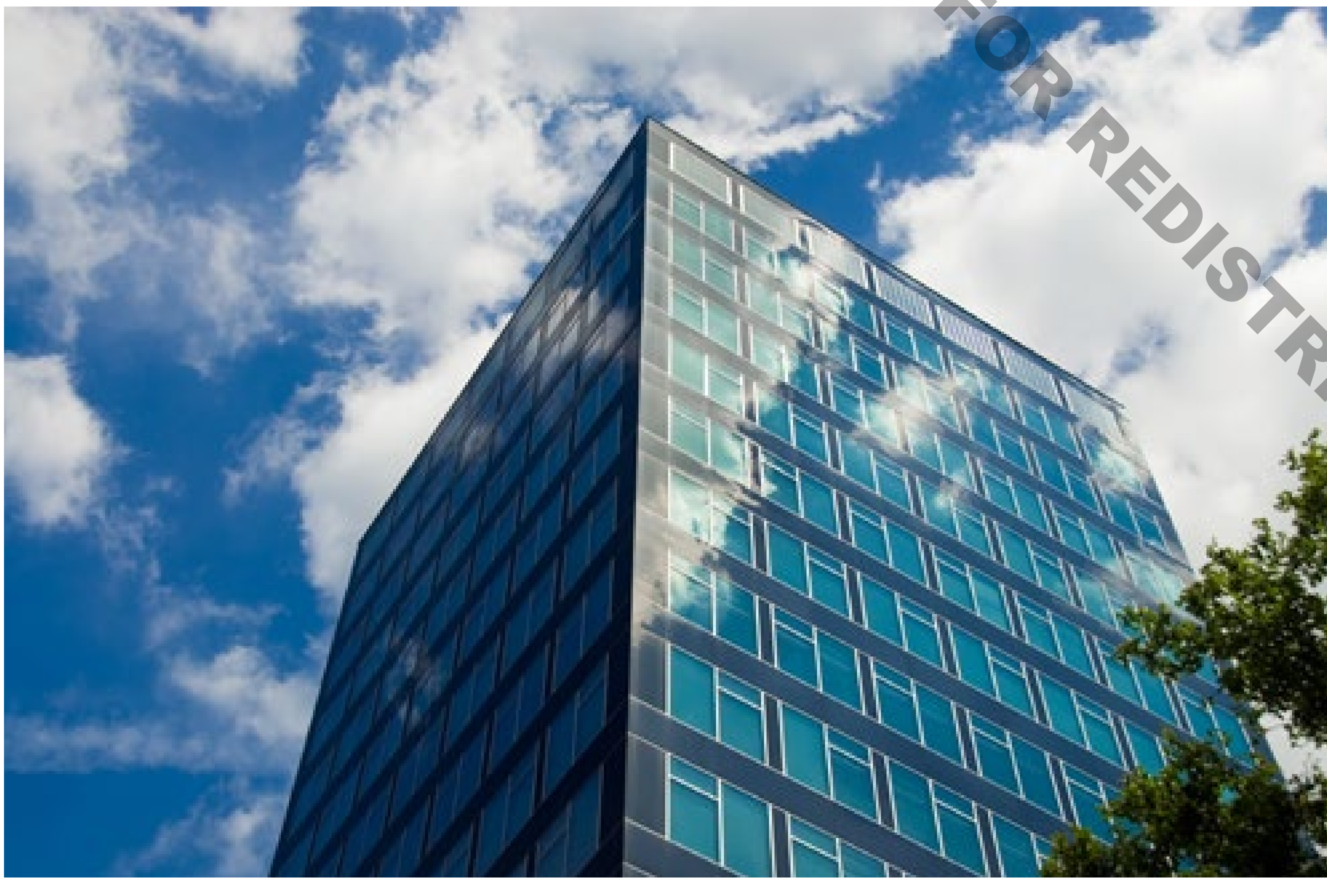
On September 30, 2017



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Please see www.DeltaAssociates.com for more information on our reports.

Go ahead, check us out.

We got a makeover – did you notice? Our goal is to improve and deliver quality services and publications consistently and we're excited to unveil new user-friendly Mid-Atlantic quarterly reports. Explore some of the changes we made and how to take advantage of the new layout below.

KEEP IT MOVING

Get where you need to be at the push of a button - no, not Uber, our internal navigation menu, of course! Hover over the icon at the top left corner to expand the menu, then click to go easily to a desired section of the report. Click the icon to compress.

TAKE IT EASY

We've reoriented our reports so each page fits completely (and legibly) on your screen. Get all the information without having to lift a finger.

GET NOTICED

Our new layout encourages links, buttons, and other interactive features. Advertise in or sponsor one of our publications and drive traffic directly to your site.

Download our media kit to find out more.

SAME INFO, NEW GRAPHICS

You'll find the same data and information as before, plus some. We've balanced data and graphics to bring you a more visually interesting and informative report.

DELTA ASSOCIATES

Leading advisor to the commercial real estate industry.

DELTA ASSOCIATES is a firm of experienced professionals providing advisory services and subscription market data publications. Our clients are active in all aspects of commercial real estate and land economics, including developers; banks; institutional investors; local, state, and federal government agencies; not-for-profit organizations; attorneys; educational institutions; and others.

ADVISORY SERVICES — Delta conducts more than 100 client assignments each year throughout the United States. Representative practice areas include:

- Market feasibility and development programming studies
- Asset repositioning and performance enhancement studies
- Highest and best use analyses
- Acquisition and financing due diligence
- Market entry strategies; metro area and submarket ranking analyses
- Valuation analyses
- Custom boardroom presentations on real estate and economic topics
- Sponsored webinars on real estate and economic topics
- Sponsored live market overview events on real estate and economic topics

SUBSCRIPTION PUBLICATIONS — Delta produces quarterly publications on the apartment, condo, retail, and office markets. See our Publications page elsewhere in this report.

Check out The Delta Download, Delta's blog on current topics of interest to the real estate community.

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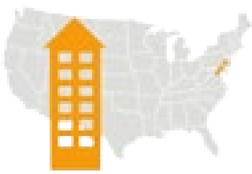
QUARTERLY PUBLICATIONS

MULTIFAMILY MARKET

MID-ATLANTIC CLASS A APARTMENT MARKET REPORT



A comprehensive report on apartment market conditions, focusing on the following indicators:

- National/regional economy analyses
- Regional condo market summary
- Regional apartment market summary
- Key market statistics for 49 submarkets and regional totals for:
  - Current rents and rent change
  - Vacancy
  - Concessions
  - Absorption
  - Development pipeline
  - Multifamily building and land sales

WASHINGTON METRO AREA CLASS B APARTMENT MARKET REPORT

A comprehensive report on apartment market conditions, focusing on the following indicators:

- National/regional economy analyses
- Regional apartment market summary
- Key market statistics for 30 submarkets and regional totals for:
  - Current rents and rent change
  - Vacancy
  - Concessions
- Renovation information including budget and timetable
- Multifamily building sales

WASHINGTON/BALTIMORE CONDOMINIUM MARKET REPORT

A comprehensive report on condominium market conditions, focusing on the following indicators:

- National/regional economy analyses
- Regional apartment market summary
- Regional condo market summary
- Key market statistics for 12 submarkets and regional totals for:
  - Sales trends for new and resale condo units
  - Historic condo unit price changes
  - Development pipeline
- Additional data including:
  - Absorption pace
  - Multifamily building and land sales

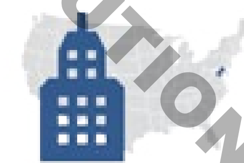
PHILADELPHIA CLASS A APARTMENT MARKET REPORT

An executive summary-style report on apartment market conditions, focusing on the following indicators:

- National/Regional economy analyses
- Regional apartment market summary
- Key market statistics for all major submarkets and regional totals for:
  - Current rents and rent change
  - Vacancy
  - Concessions
  - Absorption
  - Development pipeline
  - Multifamily building sales

OFFICE MARKET

WASHINGTON/BALTIMORE OFFICE MARKET REPORT



A comprehensive report on office market conditions, focusing on the following indicators:

- National/regional economy analyses
- Metropolitan area and substate area office market summaries
- Key market statistics (All Space and Class A Space) for all major submarkets
- Additional data including:
  - Supply/demand analysis
  - Rental rate and tenant improvements data
  - Average lease terms and operating expenses
  - Delivered, planned and proposed SF space
  - Building and land sales
  - Investment returns
  - Cap rate trends

View samples of our quarterly publications and reports at **deltaassociates.com/reports-and-publications.**

ADDITIONAL **OFFERINGS**

COMPLIMENTARY REPORTS		SUBSCRIPTION-BASED	

WASHINGTON AREA RETAIL OUTLOOK

In this quarterly report, Delta provides a quantitative and qualitative assessment of the Washington area retail market, with a focus on grocery-anchored shopping centers. Information is included on vacancy rates, rents, investment sales, projects of interest, and key trends in the retail market.

WASHINGTON AREA HOUSING OUTLOOK

The *Washington Area Housing Outlook* is a quarterly report in which Delta provides an assessment of the region's single-family housing market, including data on pricing, sales volume, and days on market.

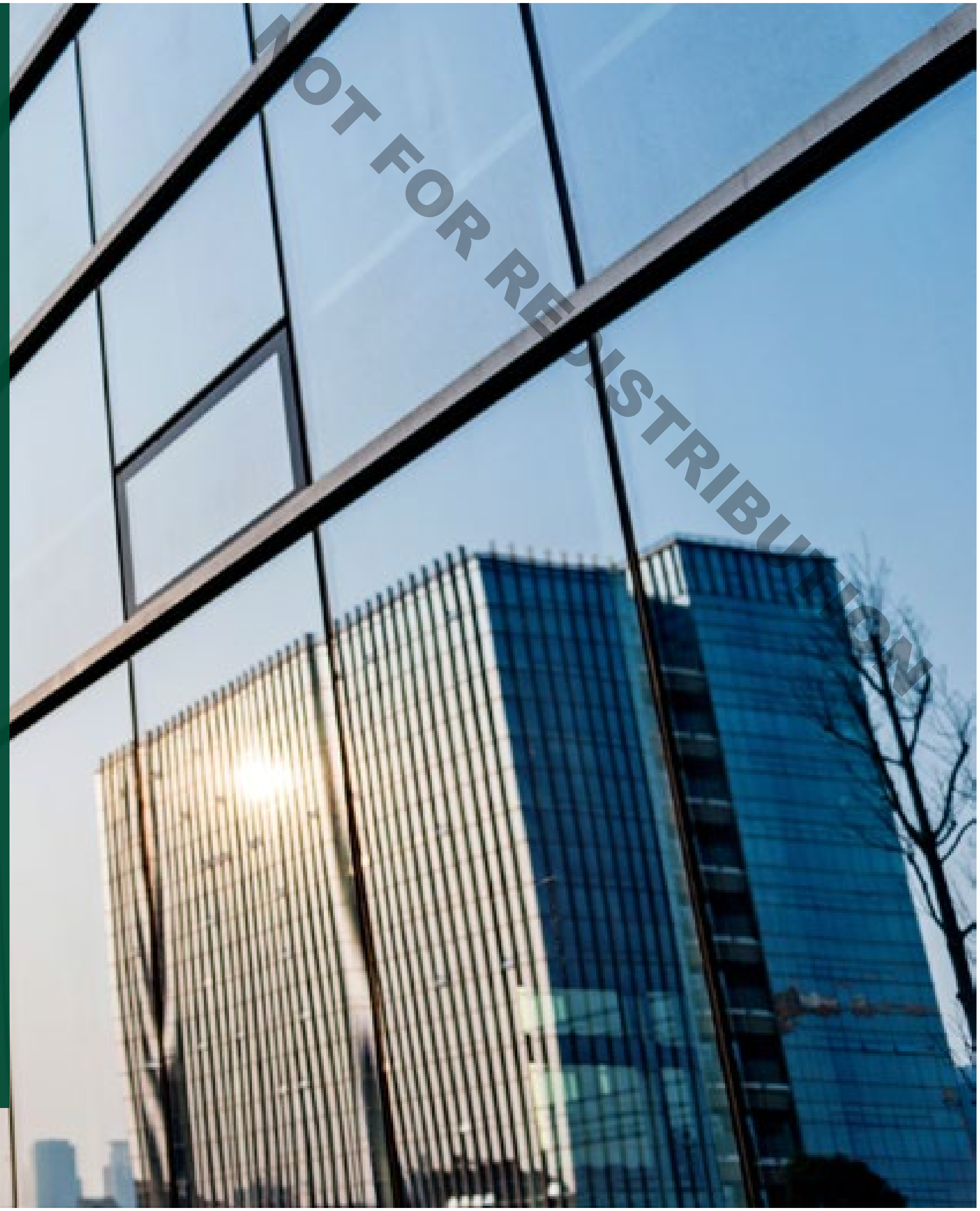
ECONOMY REPORTS

Delta's newest offering, these quarterly overviews take an in-depth look at the national and Mid-Atlantic metro area economies — Washington, Baltimore, and Philadelphia. Available individually or together, the overviews examine labor force data, GDP growth, interest rates, and employment changes from year to year.

MARKET MAKER SURVEY

This report is based on an annual survey of real estate, finance, and development experts and leaders in the Washington metro area. The results from the survey comprise this year-end report, which also addresses property performance, cap rate trends, investment returns, development costs, and business outlooks.

View samples of our quarterly publications and reports at **deltaassociates.com/reports-and-publications.**



annual events

[21ST ANNUAL]

WASHINGTON TRENDLINES

FEBRUARY 1, 2018

The 21st annual Washington TrendLines® event is planned for the evening of February 1, 2018 at the Ronald Reagan Building and International Trade Center in Washington, DC. TrendLines® is an invitation-only, annual presentation on the national and regional economy and commercial real estate market conditions, with an outlook for investment and development opportunities. This event will be co-sponsored by PNC Bank, Baker Tilly, and Transwestern. For an invitation to the 2018 event, or to learn more about our TrendLines presentations and reports, please send an email to Info@DeltaAssociates.com or visit TrendLinesDC.com.

[21ST ANNUAL]

WASHINGTON/ BALTIMORE MULTIFAMILY MARKET OVERVIEW & AWARDS FOR EXCELLENCE

OCTOBER 25, 2017

The 21st annual Washington/Baltimore Multifamily Market Overview and Awards will be held on October 2017 at the National Housing Center in Washington, DC. To see the list of last year's award winners, or to download the market presentation, please visit the Multifamily Awards page on our website. Please send an email to Info@DeltaAssociates.com for an application to submit your project for our consideration for the 2017 awards.

UPCOMING SPEECHES & PRESENTATIONS BY DELTA EXECUTIVES

- Lecture at GMU: October 4, 2017
- Delta's 21st Annual Washington / Baltimore Multifamily Market Overview & Awards: October 25, 2017
- NVBIA: December 2017
- 5th Tysons Real Estate Breakfast Panel: January 2018
- Annual Washington TrendLines®: February 1, 2018

RECENT SPEECHES & PRESENTATIONS GIVEN BY DELTA EXECUTIVES

- Presentation to Vanke: June 20, 2017
- Presentation to the Government of the District of Columbia, Office of the Chief Financial Officer: February 8, 2017
- Annual Washington TrendLines® 2017: February 2, 2017
- Real Estate Market Update: Economic Outlook for Metro DC Real Estate 2017 and Beyond: January 19, 2017
- Cornell University Real Estate Council: January 10, 2017
- 5th Annual Future of Downtown Baltimore: Rejuvenating Baltimore's CBD: December 13, 2016
- On the Waterfront: The Sequel: November 10, 2016
- Delta's 20th Annual Washington / Baltimore Multifamily Market Overview & Awards: October 19, 2016

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1 STATE OF THE ECONOMY

THE NATIONAL ECONOMY

Q3

U.S. Economy Rebounds But Policy Uncertainty Remains

As of the end of the third quarter of 2017, the U.S. economy remains in good shape thanks to strong consumer spending and job creation. During the 12 months ending August 2017, the national economy added a total of 2.1 million new jobs, including 156,000 in August 2017. Most employment sectors continue to see positive growth, and have been consistently adding new positions to meet renewed demand. Meanwhile, initial unemployment claims jumped to 268,750 in mid-September, and the national unemployment rate (seasonally adjusted) ticked up 10 basis points in August to 4.4%.

After yet another disappointing first quarter, real GDP rebounded markedly in the second quarter to 3.0%—the fastest pace of national economic expansion since the first quarter of 2015 and in line with our prior predictions. Consumers continue to propel the economy forward, with personal consumption increasing by 3.3% during the quarter. Looking ahead, we expect the disruption and damage caused by hurricanes Harvey, Irma, and Maria (HIM for short) to have an impact on economic growth in the third quarter, but the GDP growth rate will still be around 2.5%.

The Federal Open Market Committee (FOMC) has so far followed through on its plans for regular increases to the federal funds benchmark rate this year. It hiked interest rates by a quarter percent at both its March and June meetings, with another increase likely coming in December. In addition, the Fed has indicated that it will shortly proceed to normalize its balance sheets by winding down its security-purchase program. After an underwhelming spring, price inflation rebounded during the summer. The CPI for all urban consumers increased 1.9% over the 12 months ending August 2017, just shy of the Fed's 2.0% target.

Our economic outlook for the next several months remains bullish. The largest unknown regarding the future performance of the economy is public policy. After repeated failed attempts to repeal the Affordable Care Act (AKA Obamacare), congressional Republicans and President Trump have shifted their focus to long-awaited tax reform. The president's proposal to cut corporate taxes drastically from over 40% to 20% is likely to be watered down, as it would cost the government roughly $1.5 trillion over a decade according to most estimates.

Job growth, while still robust, appears to be slowing to a less aggressive pace as labor slack shrinks. We expect positive payroll growth to continue for the time being, but believe that the days of 200,000 monthly net additions are in the rear-view mirror. Based on the Fed's schedule of future

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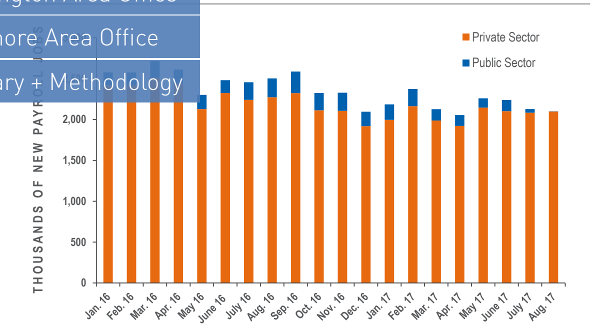
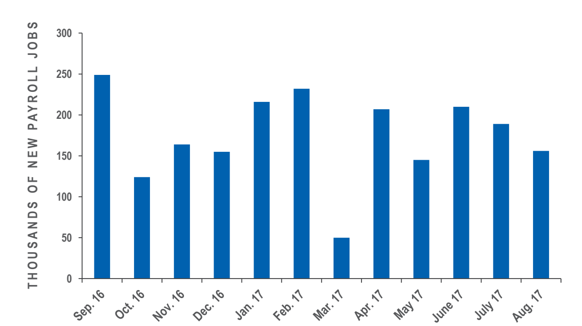
PAYROLL JOB GROWTH



Note: Data is not seasonally adjusted.
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

PAYROLL JOB GROWTH

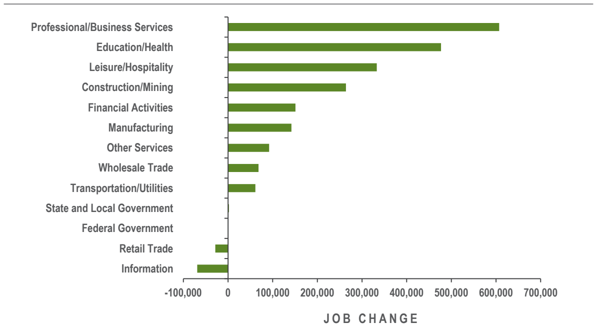
United States | Monthly



Note: Data is seasonally adjusted.
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

PAYROLL JOB GROWTH

United States | 12 Months Ending August 2017



Note: Data are not seasonally adjusted.
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

funds rate hikes and plans to shrink its balance sheet, higher interest rates in the near future is a given. However, relatively flat price inflation and continued uncertainty should keep long-term interest rate increases modest. Despite the higher cost of borrowing, we expect consumer spending to remain robust and remain the cornerstone of the national economy for the foreseeable future.

JOBS

The national economy continues to add jobs rapidly, but the pace is beginning to display signs of slowing. We have held the belief that the current rate of job creation is unsustainable in the long-term, and the economy does look to be losing some steam in that regard. July and August were the only consecutive months to experience declines in job additions (on a seasonally adjusted basis) during the 12-month period ending August 2017. In sum, the economy added 2.1 million new jobs during the period.

While the private sector has dominated the public sector in job creation throughout the recovery period, the public-sector contribution seems to be shrinking even further. Only a meager 2,000 jobs were added to government payrolls through the entire 12-month period—the lowest in any 12-month period since May 2014.

During the 12 months ending in August, monthly job growth has averaged 175,000 new positions. Seasonally-adjusted monthly job growth over the last three months are as follows:

- June 2017: 210,000
- July 2017: 189,000 (Preliminary)
- August 2017: 156,000 (Preliminary)

Most employment sectors continue to see positive growth, and have been consistently adding new positions to meet strengthened demand. This is especially true for the Professional/Business Services and Education/Health sectors which have a pronounced shortage of qualified workers. Recently, the labor market has been tightening in the resurging Leisure/Hospitality sector. These three sectors alone account for exactly one-third of the national job growth over the 12 months ending in August.

On the other side of the coin are the struggling Retail Trade and Information sectors, both of which are struggling from disruptive competition via the Internet. Combined, the two sectors saw payrolls drop by just under 100,000 during the year ending August. Unfortunately, there doesn't seem to be an end in sight to the hemorrhaging in either sector, as the parade of store closures and newspaper staff reductions continue apace. It's not all doom and gloom though. In the Retail sector, some brick-and-mortar retailers, such as Walmart and Kohl's, seem to be adapting to the shifting market successfully. In addition, niche retailers continue to outperform the overall industry.

Another area to watch is public sector job growth, which has been trending downward for months, due in no small measure to the federal government. President Trump may not have been successful in implementing wholesale layoffs of federal employees, but seems to be partially accomplishing his federal workforce reduction goals through attrition. The federal government has only recorded a single month of positive job growth in all of 2017 so far.

The Construction/Mining sector continues to be the turnaround story of the year, particularly the Mining subsector. After staggering job losses in 2015 and 2016, thanks to plunging fuel prices, the Mining subsector has entered a period of solid recovery. Unfortunately, the oil refining component suffered a significant setback in August and September caused by the disruptive and destructive effects of Hurricane Harvey along the Gulf

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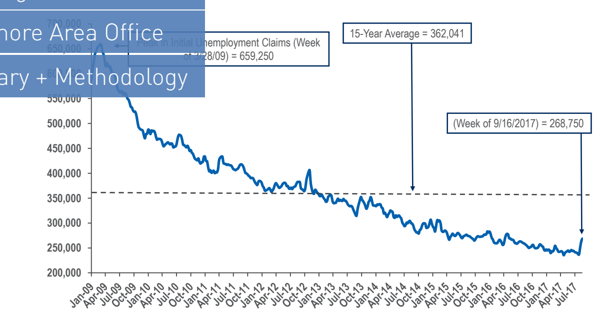
INITIAL UNEMPLOYMENT CLAIMS

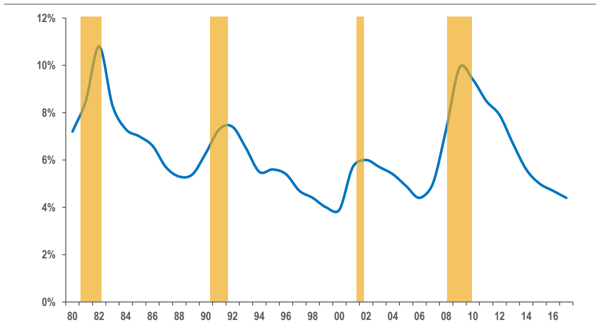
United States | Four-Week Moving Average



Note: Data are seasonally adjusted.
Source: Federal Reserve Bank of St. Louis, Delta Associates; September 2017.

UNEMPLOYMENT RATE

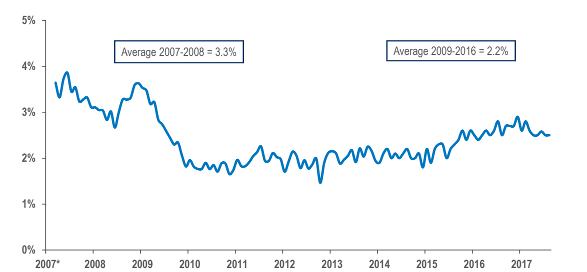
United States



*Note: *Through August 2017; seasonally adjusted; shaded bars represent recessions.*
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

AVERAGE HOURLY EARNINGS

12-Month Percentage Growth | 2007- August 2017



** Data available starting March 2007*
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

Coast. Mining aside, real estate construction continued to be the main driver of growth in the sector, as housing demand remains robust. In sum, the Construction/Mining sector has added 264,000 new jobs to the economy over the 12 months ending August 2017.

LABOR FORCE AND WAGES

Initial unemployment claims continued to hover around three-decade lows through most of August 2017, but jumped nearly 32,000 by mid-September. This hike is ostensibly due to the negative economic effects caused by both hurricanes Harvey and Irma in Texas and Florida, respectively. Per the Federal Reserve Bank of St. Louis, the four-week moving average of unemployment claims was 268,750 during the week ending September 16. As Florida and the Gulf Coast begin the recovery process in the near-term, we expect jobless claims to tick down some before flattening through the end of 2017 as there is little slack remaining in the labor market.

After falling to a 17-year low of 4.3% in May 2017, **the national unemployment rate** (seasonally adjusted) ticked back up 10 basis points in August to 4.4%. We expect the unusually low level of unemployment to climb above 4.5% before the end of the year.

In spite of the ever-tightening labor market, wage growth has failed to catch up. While there have been some gains in wages over the past year, much of this has been lost in recent months. During the 12-month period ending August 2017, the **national average hourly wage** increased by 2.5%. This is still lower than 3.0%+ annualized gains prior to the recession.

There are several theories explaining the lagging wage growth, including fundamental shifts in the labor market. Perhaps most apparent is an increasingly younger workforce, created in part by the retirement of baby boomers with considerably more seniority and who have been earning higher compensation. Competition from less expensive foreign labor has also been an issue, as it creates downward pressure on domestic wages. There is also a mismatch between high-paying open positions and a lower-skilled workforce. Existing wage growth is largely being driven by high demand for skilled workers; there remains a shortage of workers with the technical skills required for positions in many industries, including Healthcare, Life Sciences, and Construction.

As of August 2017, there were 125.8 million persons employed in full-time jobs in the U.S., and 27.6 million persons employed in part-time jobs. During the 12 months ending August 2017, the number of full-time jobs increased by 1.5 million, while the number of part-time jobs increased by 347,000.

One recent trend in the U.S. economy is full-time workers receiving substantial amounts of supplemental income

from participation in the “gig” or “sharing” economy. According to the JPMorgan Chase Institute, nearly 1% [illegible] earned income through a digital sharing platform in October 2015, compared to just 0.1% of adults in October 2012. Examples of popular income sources include: part-time driving for Uber, renting out a room on Airbnb, or selling products on eBay.

As of August 2017, the national job availability ratio (not seasonally adjusted) remains at 1.1. The job availability ratio measures the relationship between the number of potential applicants and the number of jobs available. On average, the fast-growing Education/Health Services, Professional/Business Services, and Financial Activities sectors had the highest number of job openings relative to the number of unemployed, each with job availability ratios lower than 1.0.

GROSS DOMESTIC PRODUCT (GDP)

After yet another disappointing first quarter, real GDP rebounded markedly in the second quarter to 3.0%—the fastest pace of national economic expansion since the first quarter of 2015 and in line with our prior predictions. Consumers continue to propel the economy forward, with personal consumption increasing by 3.3% during the quarter. Unfortunately, strong consumer spending has done little to lessen the turmoil in the brick and mortar retail sector.

Nonresidential fixed investment, federal spending, and private inventory investment also contributed to robust GDP growth. Holding back the expansion were slowdowns in residential fixed investment and state and local government expenditures.

Looking ahead, we expect the disruption and damage caused by HIM to have an impact on economic growth in the third quarter, but the GDP growth rate will still be around 2.5%. The most recent report from the Federal Reserve Bank of Philadelphia’s Survey of Professional Forecasters projects real GDP growth at 2.6% in the third quarter of 2017. Looking further ahead, GDP growth is expected to be 2.1% in 2017, 2.4% in 2018, and 2.2% in 2019.

CORPORATE PROFITS

Following a first quarter decline, corporate profits (before taxes) were back on the upswing during the second quarter of 2017, ending the period at $2.14 trillion (annualized and seasonally adjusted). Healthy domestic consumer spending continues to be the major driving force behind corporate earnings across most industries, while weak exports and meager productivity growth have weighed on margins. Looking forward, profit growth will remain muted as continued low unemployment places upward pressure on wage growth, increasing unit costs. However, a weaker U.S. dollar should boost real net income from business conducted overseas.

REVOLVING CREDIT

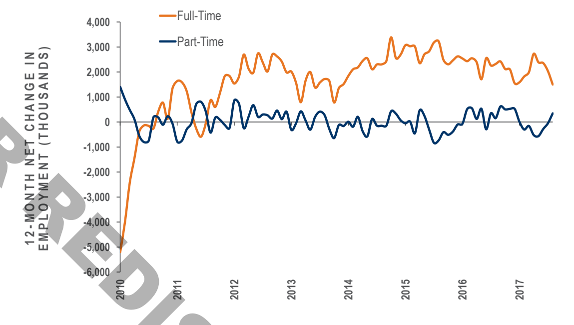
Revolving consumer credit increased at an annual rate of 3.2% in July 2017 hitting the $1 trillion mark as personal consumption picked up again during the middle part of the year. Non-revolving credit accelerated markedly at a 6.9% annual rate in July 2017, even as interest rates have steadily climbed, reflecting the resilience of the recovery. Looking forward, we expect consumer credit growth to flatten out as interest rate hikes counterbalance strong consumer spending. Outstanding revolving credit will be most affected as it is inherently less stable than longer-term non-revolving credit.

HOUSING MARKET

Home prices in the 20 major metro areas covered by the S&P/Case-Shiller index continued their hot streak, increasing 5.8% in the 12 months ending July 2017. The Pacific Northwest cities of Seattle and Portland claimed the highest rates of appreciation over the year at 12.9% and 9.3%, respectively. The continued strong growth in home prices is causing some speculation of an

EMPLOYMENT GROWTH BY JOB STATUS

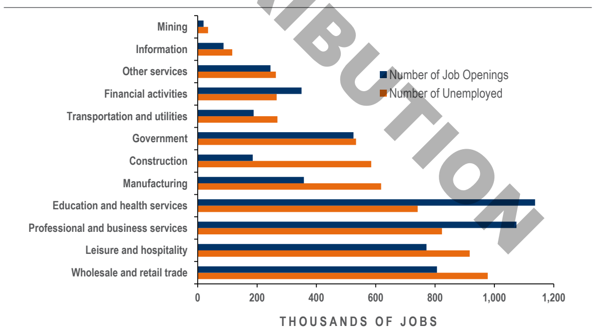
United States | 2010 – August 2017



Note: Data are seasonally adjusted.
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

NUMBER OF UNEMPLOYED VS. JOB OPENINGS

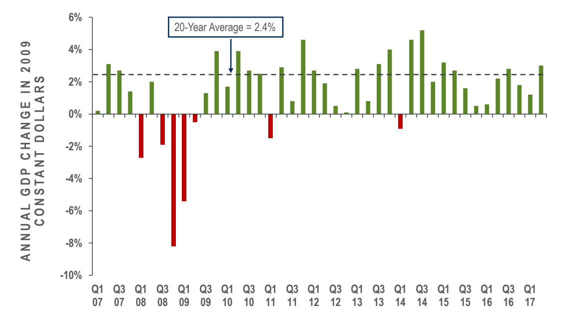
12-Month Averages Ending July 2017



Note: Based on 12-month trailing average. Data are not seasonally adjusted.
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

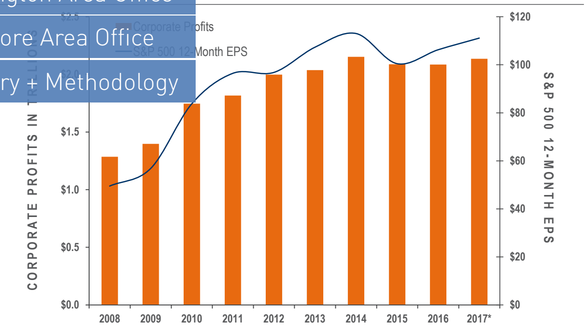
GDP PERCENT CHANGE

United States



Note: Quarters are seasonally adjusted at annual rates.
Source: Bureau of Economic Analysis, Delta Associates; September 2017.

U.S. CORPORATE PRE-TAX PROFITS



*Through Q2 2017; Note: Seasonally adjusted at annual rates. EPS=Earnings Per Share. Yearly data are not seasonally adjusted.
Source: Bureau of Economic Analysis, Standard and Poor's, Delta Associates; September 2017.

impending bubble. However, the combined effects of the rebounding labor market and continued low mortgage rates has kept demand high. Even with the acceleration of construction activity, supply has struggled to keep pace. The number of homes on the market relative to the number of households is still at its lowest level since the 1980s.

According to the National Association of Realtors, the annualized pace of existing home sales was 5.35 million in August 2017, up from 5.34 million a year prior. The current sales pace is the fastest seen since before the national housing crash in 2007. Sales would likely be even higher if not for a severe lack of inventory. The average sale price for an existing home was $294,600 in August 2017, up 4.5% from $282,000 in August 2016.

Mortgage rates have consistently been in decline since March 2017, but trended upward midway through September. Per Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage rose to 3.83% as of September 21, up from a 2017 low of 3.78% in the two weeks prior. The increase mirrored a corresponding seven basis-point hike in the 10-year Treasury yield. We expect rates to rebound back above 4% shortly as the Fed winds down its expansionary policy in the coming period. The 2017 annual average is expected to be significantly higher than 2016's, when 30-year rates bottomed out at 3.42% in October, which was the lowest since April 2013.

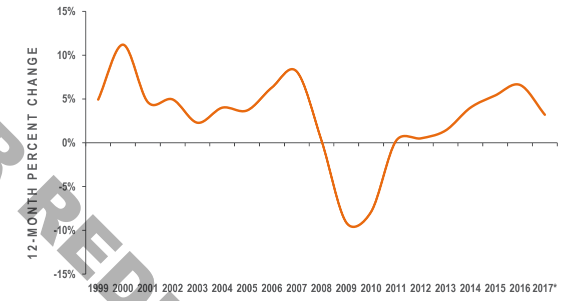
THE FEDERAL BUDGET

The Federal budget deficit for the 2016 fiscal year, which ended on September 30th of 2016, was $587 billion (or 3.2% of GDP), up from 2.5% in FY2015. The budget shortfall in FY2016 was a $148 billion increase over the deficit in FY2015, and marked the first federal budget deficit increase since FY2009. While the Congressional Budget Office (CBO) projects that the deficit to decline in fiscal years 2017 and 2018, it will resume its upward trajectory over at least the following eight years. The growing shortfalls would occur mainly because, under current law, growth in revenue would be outpaced by growth in spending for large federal benefit programs (primarily retirement and health care programs targeted to older people) and for interest payments on the federal debt.

Prior to being elected, President Trump proposed major increases to infrastructure and defense spending, and he has already attempted to follow through on the latter of these promises in his initial FY2018 budget proposal, which increases military spending by $54 billion. In order to fund the increase in defense spending, as well as $2.6 billion to construct a wall on the U.S.-Mexico border and $1.4 billion to fund a new private "school choice" program without increasing revenues, the budget proposes an equivalent amount of cuts in discretionary spending across nearly every federal department. Under the president's proposal, only the departments of Veteran Affairs, Homeland Security, and Defense would see funding increases. The Environmental Protection Agency, State, Agriculture, and Labor departments would see massive cuts exceeding 20% of their current budgets. The scale and timeline of the administration's

REVOLVING CREDIT

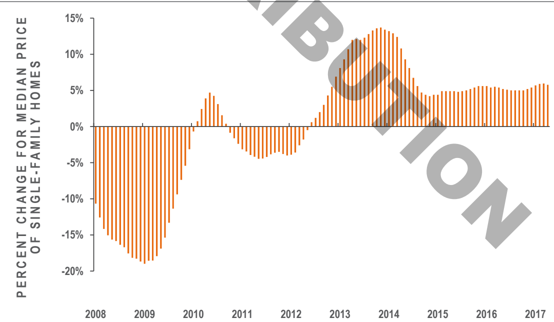
United States



*July 2017, seasonally adjusted at an annual rate.
Source: Federal Reserve Board, Delta Associates; September 2017.

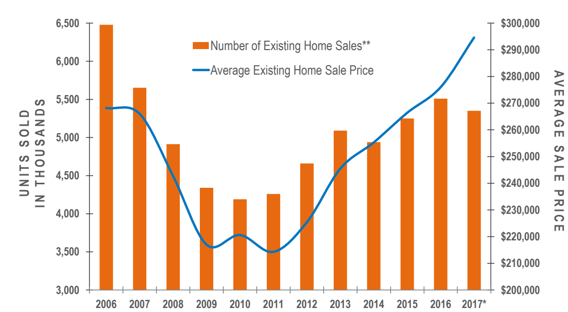
ANNUAL CHANGE IN EXISTING HOME SALE PRICES

United States



Note: Data reflect 20-city composite index.
Source: S&P/Case-Shiller, Delta Associates; September 2017.

U.S. EXISTING HOME SALES VS. SALE PRICE



*Data as of August 2017. ** Seasonally adjusted annual sales rate.
Source: National Association of Realtors, Delta Associates; September 2017.

proposed infrastructure investment remains up in the air, and the president recently abandoned his plans to ... partnerships, claiming that "they're more trouble than they're worth."

In September, congressional Republicans and the Trump administration presented a tax reform plan with steep rate cuts. Specifically, the proposal:

1. Reduces the corporate tax rate from 35% to 20%.
2. Reduces and consolidates the individual tax rates into three brackets: 12%, 25% and 35%, doubles the standard deduction, and eliminates the personal exemption.
3. Reduces the tax on S corporations, partnerships, and sole proprietorships to 25%.

Most economists contend that the tax plan is unrealistic as proposed, since it would drastically widen the federal deficit even more than projected. This makes it unlikely that it will pass Congress in its current form.

INTEREST RATES AND INFLATION

The Federal Open Market Committee (FOMC) has so far followed through on its plans for regular increases to the federal funds benchmark rate this year. It hiked interest rates by a quarter percent at both its March and June meetings, with another increase likely coming in December. In addition, the Fed has indicated that it will shortly proceed to normalize its balance sheets by winding down its security-purchase program. The decision to end quantitative easing is driven mainly by strong consumer spending and the tight labor market. Unfortunately, weak inflation continues to be a concern, at least in the short term.

Consumer price inflation started off the year strong, but weakened in the spring. However, the rate of price growth has shown signs of rebounding over the summer. The CPI for all urban consumers increased 1.9% over the 12 months ending August 2017, just shy of the Fed's 2.0% target. The increase was driven heavily by a sizeable 10.4% increase in gas prices as well as 3.3% increase in shelter costs. The personal consumption expenditure price index (PCEPI), which takes into account changes in consumption habits as people substitute some goods and services for others, experienced a lesser increase of 1.4% during the 12 months ending July 2017.

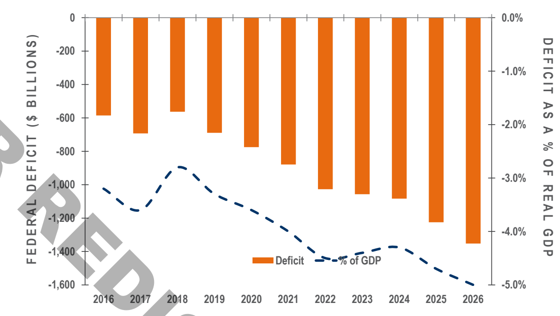
FINANCIAL MARKETS

U.S. financial markets have continued the strong bull market run through 2017, and the third quarter was no exception. The stock market returned to stability for much of 2016 as the economic recovery continued unhindered by turmoil overseas. Immediately following the presidential election, the stock market began a strong rally, in the process breaking record highs. On August 2, 2017, the Dow Jones Industrial Average crested 22,000 for the first time. The S&P 500 index stood at 2,496.84 as of market close on September 26, 2017, up 16.3% from a year ago. By comparison, total S&P 500 price returns in 2016 were 12.0%.

Much of the recent stock market gains can be attributed to the promises of President Trump to cut corporate taxes and alleviate federal regulations in the coming years. As such, continued positive performance in the marketplace is heavily dependent on the timing and framework of the new administration's policies. In September, the Trump administration proposed a tax reform plan that would lower the corporate tax rate to 20% and the pass-through business rate to 25%. The plan already faces stiff opposition from Democrats in Congress and skepticism from analysts. If promised tax cuts, which are a major factor behind the current lofty market caps, don't materialize as planned, there could be a profoundly negative reaction in financial markets.

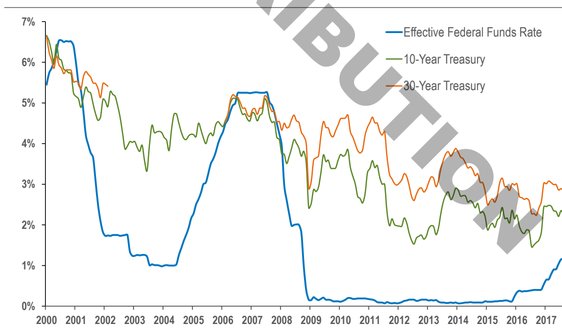
BASELINE BUDGET PROJECTIONS

United States



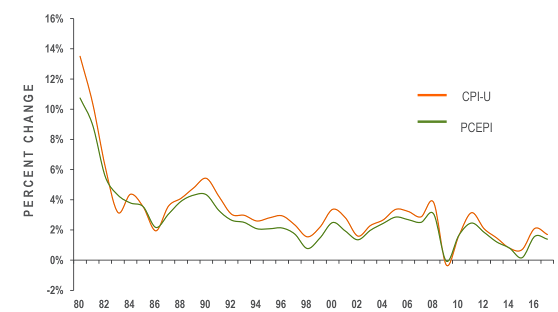
Baseline budget projections as of June 2017.
Source: Congressional Budget Office, Delta Associates; September 2017.

SELECTED U.S. GOVERNMENT INTEREST RATES



Data are non seasonally adjusted monthly averages. 30-Year Treasury not issued between March 2002-Dec. 2005.
Source: Federal Reserve Economic Data (FRED), Delta Associates; September 2017.

U.S. INFLATION AND PERSONAL CONSUMPTION EXPENDITURE INDEX



*Note: *CPI-U and PCEPI through July 2017. Data reflects 12-month percent change.*
Source: Federal Reserve Economic Database (FRED), Delta Associates; September 2017.

The looming U.S. debt ceiling could also have major market implications in the latter part of the year if Congress does not act preemptively, presenting a major downside risk. In what mostly amounts to just kicking the can down the road, Congress raised the debt ceiling in September to allow the federal government to pay its obligations for the next three months.

ECONOMIC OUTLOOK

Our economic outlook for the next several months remains bullish. Consumer sales, the labor market, and business spending remain fundamentally strong. Lost economic activity due to severe weather in some parts of the country will result in a modest pullback in GDP growth in the third quarter, but we expect it to rebound. Overseas, the outlook is murkier and less upbeat, but a number of G7 nations—particularly Canada, Japan, and Germany—have recorded robust economic growth so far this year.

Domestically, the largest unknown regarding the future performance of the economy is public policy. After repeated failed attempts to repeal Obamacare, congressional Republicans and President Trump have shifted their focus to long-awaited tax reform. However, the president's proposal to cut corporate taxes drastically from over 40% to 20% is likely to be watered down, as it would cost the government roughly $1.5 trillion over a decade according to most estimates. The administration has also pledged to boost infrastructure spending across the nation, which would provide another considerable boost to the economy. However, in September, President Trump abandoned his preference for public-private partnerships in rebuilding the nation's infrastructure, preferring instead to increase the burden of states and localities. Overall, non-defense federal spending is expected to be flat in the period ahead.

Job growth, while still robust, appears to be slowing to a less aggressive pace as labor slack shrinks. We expect positive payroll growth to continue for the time being, but believe that the days of 200,000 monthly net additions are in the rear-view mirror. With a prolonged recovery cycle comes a prolonged wait for wage increases, but as discussed previously, there remain other fundamental factors at play that could be placing downward pressure on wage growth. Nevertheless, we believe material wage growth will arrive before the end of the cycle.

Based on the Fed's schedule of future funds rate hikes and plans to shrink its balance sheet, higher interest rates in the near future is a given. However, relatively flat price inflation and continued uncertainty should keep long-term interest rate increases modest. Despite the higher cost of borrowing, we expect consumer spending to remain robust and remain the cornerstone of the national economy for the foreseeable future.

Specifically, we believe the economic outlook is as follows:

- **Real GDP growth:** 2.5% in 2017.
- **Payroll jobs:** 1.8 million additions in 2017.
- **Housing:** Price appreciation between 4.5% and 5.0% in 2017.
- **Unemployment rate:** 4.7% at end of 2017.
- **Federal funds rate:** Three 25 basis-point increases in 2017.
- **Interest rates:** Moderately up in 2017.
- **Inflation:** 1.9% in 2017.

NATIONAL PAYROLL JOB GROWTH SUMMARY

The U.S. economy gained 2.10 million payroll jobs over the 12 months ending August 2017 at an annual rate of 1.4%. This compares to the 25-year annual average of 1.3 million jobs at a 1.1% average growth rate.

S&P 500 INDEX

Note: *CPI-U and PCEPI through July 2017. Data reflects 12-month percent change.
Source: Federal Reserve Economic Database (FRED), Delta Associates; September 2017.

US PAYROLL JOB GROWTH

YEAR	JOB CHANGE	% CHANGE
2017*	2,097,000	1.4%
2016	2,463,000	1.7%
2015	2,885,000	2.1%
2014	2,577,000	1.9%
2013	2,206,000	1.6%
2012	2,243,000	1.7%
2011	1,571,000	1.2%
2010	-952,000	-0.7%
2009	-5,929,000	-4.3%
2008	-757,000	-0.5%
2007	1,546,000	1.1%
2006	2,402,000	1.8%
2005	2,264,000	1.7%
2004	1,440,000	1.1%
2003	-302,000	-0.2%
2002	-1,438,000	-1.1%

** 12 months ending in August 2017.*

12-MONTH PAYROLL EMPLOYMENT CHANGE THROUGH AUGUST 2017

METRO AREA	JOB CHANGE #	JOB CHANGE %	METRO AREA	JOB CHANGE #	JOB CHANGE %
New York	145,900	1.5%	Tampa-St. Petersburg	39,600	3.1%
Dallas/Ft. Worth	96,700	2.8%	Phoenix	34,900	1.8%
Atlanta	86,400	3.2%	Denver-Boulder	33,900	2.1%
LA Basin			Las Vegas	30,300	3.2%
Los Angeles/Long Beach/Glendale	37,200	0.9%	Charlotte	30,200	2.6%
Orange County (Santa Ana/Anaheim/Irvine)	900	0.1%	Raleigh-Durham	30,100	3.3%
Riverside/San Bernardino/Ontario	34,100	2.5%	Cincinnati	29,900	2.8%
Total LA Basin	72,200	1.0%	Portland (OR)	29,100	2.5%
Washington, DC	**67,600**	**2.1%**	Nashville	28,700	3.0%
Boston (Metropolitan NECTA)	63,400	2.3%	Chicago	24,700	0.5%
South Florida			San Antonio	23,000	2.3%
West Palm Beach/Boca Raton	15,700	2.6%	Columbus (OH)	22,300	2.1%
Fort Lauderdale	26,200	3.2%	Austin	21,200	2.1%
Miami/Miami Beach/Kendall	19,300	1.7%	Indianapolis	19,200	1.8%
Total South Florida	61,200	2.4%	San Diego	19,200	1.3%
Houston	53,500	1.8%	**Baltimore**	**19,100**	**1.4%**
Seattle	52,400	2.7%	Kansas City	17,200	1.6%
Philadelphia	51,500	1.8%	Jacksonville	16,900	2.5%
San Francisco Bay Area			Salt Lake City	16,800	2.4%
San Jose/Sunnyvale/Santa Clara	11,000	1.0%	Sacramento	16,000	1.7%
San Francisco/San Mateo/Redwood City	19,000	1.7%	St. Louis	15,500	1.1%
Oakland/Fremont/Hayward	19,400	1.7%	Pittsburgh	10,300	0.9%
Total Bay Area	49,400	1.5%	Cleveland	9,700	0.9%
Detroit (Detroit/Warren/Livonia)	44,900	2.3%	Memphis	9,500	1.5%
Minneapolis-St. Paul	44,800	2.3%	Oklahoma City	9,200	1.5%
Orlando	40,000	3.3%	New Orleans	1,600	0.3%

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THE WASHINGTON AREA ECONOMY Q3

Economic Growth Accelerates in Third Quarter

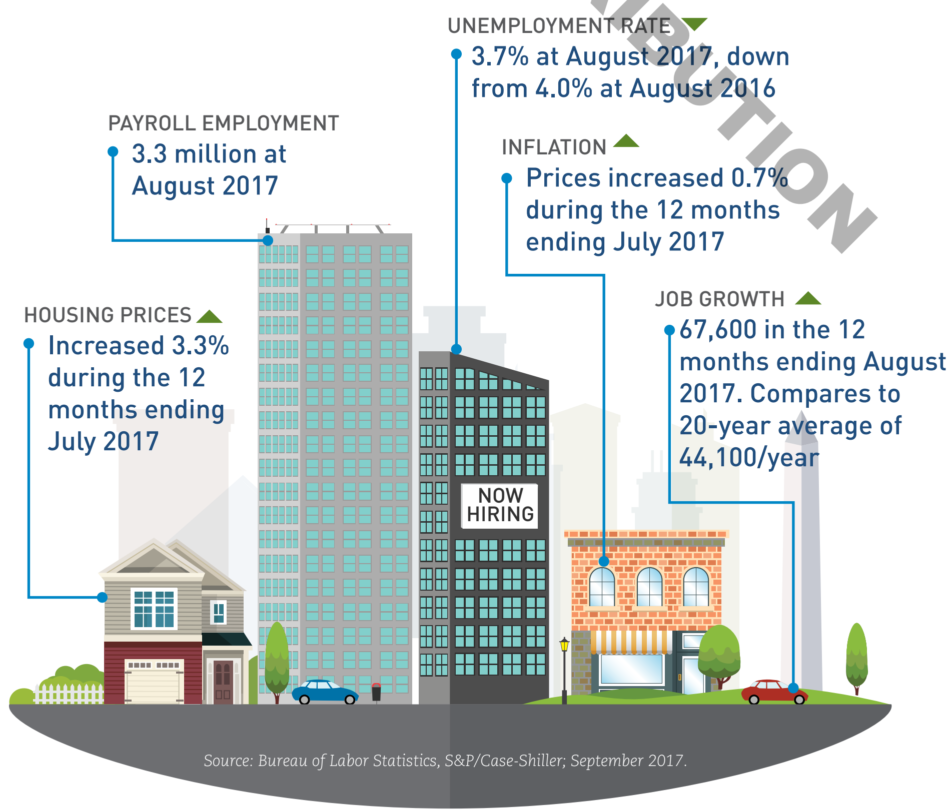
After slowing down somewhat earlier in the year, the pace of job growth has picked up again in the Washington metro area. A net total of 67,600 jobs were added to the Washington area economy during the 12 months ending August 2017, led again by the Education/Health Services and Professional/Business Services sectors. During the 12-month period ending August 2017, the total number of jobs in the Washington region grew at an annual rate of 2.1%, compared to a national rate of 1.4%. The unemployment rate in the Washington metro area stood at 3.7% as of August 2017, down 30 basis points from August 2016.

Consumer price growth in the Baltimore/Washington region showed little movement in the third quarter, reflecting national price stagnation. Consumer prices across the region in July 2017 were just 0.7% higher than they were a year prior, compared to 1.7% nationally. Regional gasoline prices stalled in the third quarter, after an extended period of robust growth, increasing just 1.6% over the 12 months ending July 2017. Home prices in the region increased 3.3% in the 12 months ending August 2017, compared to 5.8% nationwide.

We expect additional growth through the end of the year, as job growth remains robust and consumer spending strong. That said, there does remain significant downside potential regarding the policies of the new presidential administration and their effects on the region's economy, which is still heavily dependent on federal spending.

> *Amazon's RFP announcement for a second headquarters has sent regional economic development officials in a frenzy, as they rush to put together proposals for the highly-sought after award.*

ECONOMIC HIGHLIGHTS WASHINGTON METRO AREA

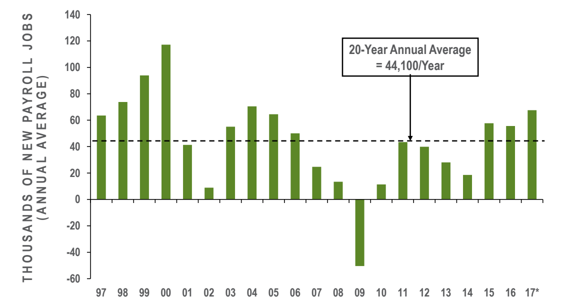


Source: Bureau of Labor Statistics, S&P/Case-Shiller; September 2017.

The tech industry has become a bright spot for the Washington region in recent years. In 2016 alone, tech firms 2U, Rainking Software, Optoro, and Opower expanded their operations in the region and committed to hiring additional workers in the near future. Likewise, coworking firms, which cater to tech startups, have been on a path of rapid expansion in the Washington area. Amazon's RFP announcement for a second headquarters has sent regional economic development officials in a frenzy, as they rush to put together proposals for the highly-sought after award. If selected, the tech behemoth's second headquarters would bring 50,000 new well-paying jobs to the region over a decade, and would undoubtedly have positive spillover effects for the entire regional economy.

PAYROLL JOB GROWTH

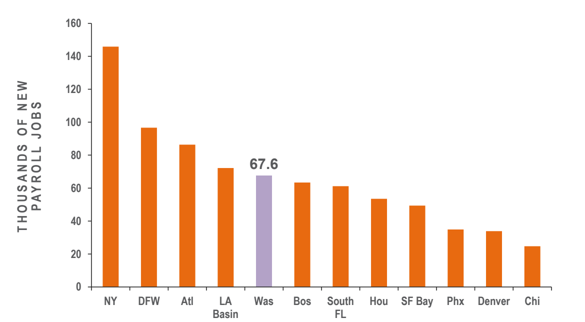
Washington Metro Area



*12 months ending in August 2017.
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

PAYROLL JOB GROWTH

Selected Large Metro Areas | 12 Months Ending August 2017



Source: Bureau of Labor Statistics, Delta Associates; September 2017.

PAYROLL JOBS

After slowing down somewhat earlier in the year, the pace of job growth has picked up again in the Washington metro area. This falls in line with our predictions last quarter of a coming "resurgence in job growth." A net total of 67,600 jobs were added to the Washington area economy during the 12 months ending August 2017, which was well above the long-term annual average of 44,300. During the 12-month period ending August 2017, the total number of jobs in the Washington region grew at an annual rate of 2.1%, compared to a national rate of 1.5%. The Washington region ranked 5th among its peers in total job growth. As of August 2017, the total non-farm payroll in the Washington metro area stood at 3.3 million.

PAYROLL JOBS BY SECTOR

As has been the case through most of the recovery period, the booming Education/Health and Professional/Business Services sectors lead job growth in the 12 months ending August 2017, totaling 36,200 combined. The resurging Washington area Leisure/Hospitality sector augmented that total with 14,400 jobs over the 12-month period. Payroll additions in most of the region's other employment sectors was positive, but below 10,000.

Job losses in the local Information sector continued to pile up in the third quarter, mirroring national trends as traditional publishing and media industries continue to rapidly contract. The sector experienced a 3,300 reduction in payroll positions during the 12 months ending August 2017. As we projected last quarter, the 12-month Federal Government job growth figure turned negative (-900) as of August. If President Trump follows through on his policy goals, we can certainly expect even more reductions in the size of the regional federal workforce in future periods. On the bright side, State and Local Governments picked up the slack in the public sector adding 5,100 jobs in the 12 months ending August 2017.

TRENDS IN EMPLOYMENT BY MAJOR SECTOR

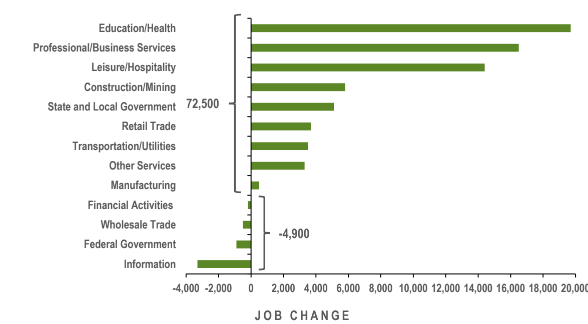
Washington Metro Area

	AUGUST 2017	12-MONTH CHANGE	20-YEAR ANNUAL AVERAGE
Education/Health	444.9	19.7	1.4
Professional/Bus. Svcs.	762.7	16.5	6.4
Leisure/Hospitality	346.4	14.4	1.9
Construction/Mining	165.0	5.8	15.2
State and Local Govt.	312.4	5.1	10.0
Retail Trade	282.5	3.7	1.8
Transportation/Utilities	67.8	3.5	1.7
Other Services	199.9	3.3	-0.1
Manufacturing	54.7	0.5	-1.0
Financial Activities	159.1	-0.2	0.2
Wholesale Trade	62.4	-0.5	-1.0
Federal Government	365.9	-0.9	4.3
Information	71.2	-3.3	3.5
Total	**3,294.9**	**67.6**	**44.1**

Note: In thousands of payroll jobs. Data are not seasonally adjusted.
Source: BLS, Delta Associates; September 2017.

PAYROLL JOB GROWTH

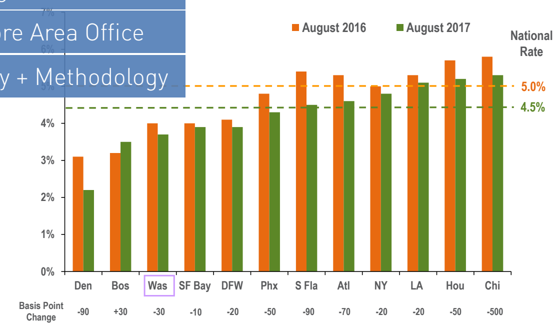
Washington Metro Area | 12 Months Ending August 2017



Source: Bureau of Labor Statistics, Delta Associates; September 2017.

UNEMPLOYMENT RATE

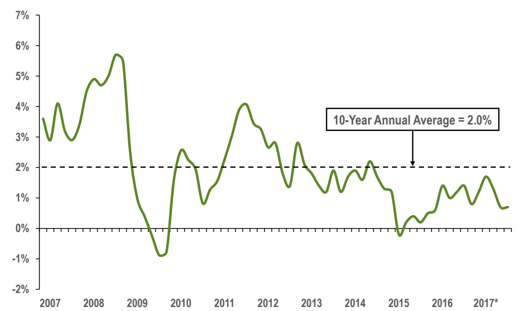
Large Metro Areas, August 2016 vs. August 2017



Source: Bureau of Labor Statistics, Delta Associates; September 2017.

CONSUMER PRICE INDEX (CPI)

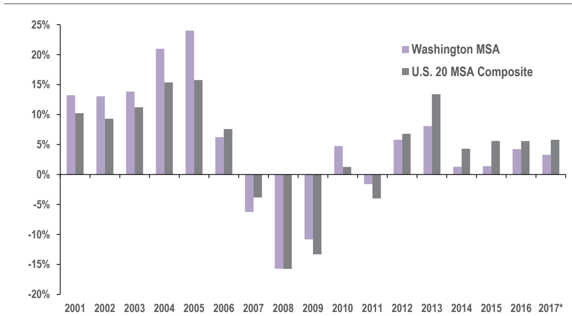
Washington/Baltimore Region



Note: Data is 12 month change ending in each period, through July 2017.
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

CHANGE IN HOUSE PRICES

Washington MSA vs. U.S. 20-MSA Composite



*12 months ending July 2017.
Source: S&P/Case-Shiller, Delta Associates; September 2017.

UNEMPLOYMENT RATE

The unemployment rate in the Washington metro area stood at 3.7% as of August 2017, down 30 basis points from August 2016. The region's unemployment rate is currently the third lowest among its peer metropolitan areas, trailing Denver and Boston. The rate is also 80 basis points lower than the national rate of 4.5% as of August 2017. We expect the Washington metro area's unemployment rate to continue to decline into the 3.0% - 3.3% range before the end of the year, then tick upwards as the federal workforce shrinks.

REGIONAL CONSUMER PRICE INDEX

Consumer price growth in the Baltimore/Washington region showed little movement in the third quarter, reflecting national price stagnation. Consumer prices across the region in July 2017 were just 0.7% higher than they were a year prior, compared to 1.7% nationally. After several quarters of robust growth, regional gasoline prices stalled in the third quarter, up just 1.6% over the 12 months ending July 2017. Household energy costs showed more significant appreciation over the period, rising 3.4%. We expect future CPI reports will show considerable increases in energy prices in reflection of rising gas prices following energy infrastructure damage caused by Hurricane Harvey in late August.

HOUSING PRICES

After lagging the rest of the country by a wide margin in terms of growth, home prices in the Washington metro area have been very slow to catch up. According to the S&P/Case-Shiller Home Price Index, home prices in the region increased 3.3% in the 12 months ending July 2017, compared to 5.8% nationwide. Looking ahead, we expect steady growth in home prices, although rising inventory and interest rates will place some downward pressure on prices.

REGIONAL GDP

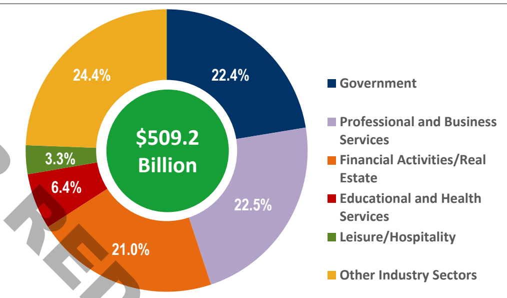
The total GDP produced in the Washington metro area in 2016 was $509.2 billion (in current dollars). This was a 3.2% increase from the estimated $493.7 billion in 2015, and just matched the 3.2% annual growth rate for all metro areas in the United States. Economic activity in the private sector totaled $394.9 billion in 2016, which was a 3.3% increase over 2015, while total activity in the public sector was $114.3 billion, just 2.8% higher than in 2015. The fastest growing economic sector in the Washington area during 2016 was Leisure/Hospitality which grew 4.6%, contributing $16.6 billion to regional GDP.

While the Federal government remains the largest single contributor to the Washington area economy, its share of spending is shrinking. Federal government spending (direct expenditures and procurement) was 36% of GRP in 2015 (2016 figures were not directly reported). We expect this share to be reduced to 27% by 2020, as private sector economic growth will accelerate while Federal spending will remain flat, or possibly contract.

A major share of Federal spending in the Washington metro area economy is for procurement – the government's purchase of goods and services from the private sector. After decreasing slightly in 2015, procurement spending in the Washington region increased 3.8% to $73.8 billion in 2016. Because these dollars drive private sector investment and job growth, they have a much greater secondary economic impact than dollars spent on Federal payroll.

SHARE OF REGIONAL GDP

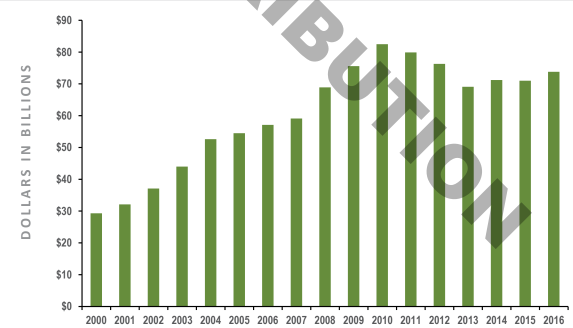
Washington Metro Area | 2016



Note: Percentages may not total to 100% due to rounding
Source: Bureau of Economic Analysis; Delta Associates; September 2017.

FEDERAL PROCUREMENT SPENDING

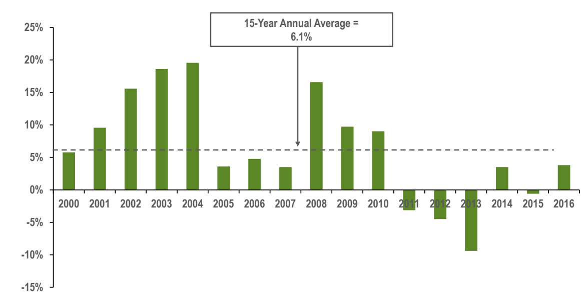
Washington Metro Area 2000-2016



Source: US Census, Consolidated Federal Funds Report and USAspending.gov, Delta Associates; September 2017.

ANNUAL CHANGE IN FEDERAL PROCUREMENT SPENDING

Washington Metro Area (Current Dollars) 2000-2016



Source: George Mason University Center for Regional Analysis, Delta Associates; September 2017.

SIDEBAR: THE COMPETITION TO SECURE AMAZON'S HQ2

In early September, Amazon released a RFP for the development of a second national headquarters somewhere in North America (note that this means it could be located outside of the U.S.). The new headquarters would be a $5 billion investment and provide 50,000 new full-time jobs paying an average of over $100,000 a year. Amazon's existing headquarters in Seattle has been a boon to the city, with over $85.8 billion in direct and indirect economic activity since Amazon moved their headquarters to Seattle in 2010.

Therefore, it comes as no surprise that hundreds of large cities and counties across the country are scrambling to put together RFP responses for submission by the October 19 deadline. Of course, this includes many of the Washington region's jurisdictions. While discussion of a single bid for the entire metro area surfaced early in the process, things quickly devolved into most jurisdictions submitting their own response in addition to a regional bid. WMATA has also thrown its hat into the ring, offering to join any regional bid by leveraging its valuable portfolio of transit-adjacent real estate.

Here is a brief overview of the building/site "preferences" specified in the HQ2 RFP:

- Within 30 miles of a population center.
- Within 45 minutes of an international airport.
- No more than two miles from "major highways and arterials."
- Must have direct access to rail, subway/metro, and/or bus routes.
- Provide for 500,000 SF of office space in 2019 and eight million SF of office space by 2027+.

While these are not strict requirements, the selection of available development sites in the densely-populated Washington region that satisfy all of them is actually very slim. Nevertheless, at least five jurisdictions (likely more) in the region have stated that they plan to submit bids to Amazon, including: the District of Columbia, Montgomery and Prince George's counties in Maryland, and Loudoun and Arlington counties in Virginia. This doesn't include other proposals in Maryland and Virginia from cities and counties outside of the immediate Washington area, including Baltimore City and Virginia Beach. Regardless of the separate bids coming from the region, it's clear that the Washington area has distinct advantages over most other metro areas including: a highly-educated workforce, a plethora of transit options, and three major airports.

The University of Maryland's Discover District in College Park. Future home of Amazon's HQ 2? (Source: COPT)

WASHINGTON AREA ECONOMIC OUTLOOK

The Washington area economy continues to expand, although the rate of growth has ebbed and flowed so far this year, mirroring national patterns. We expect additional growth through the end of the year, as job growth remains robust and consumer spending strong. That said, there does remain significant downside potential regarding the policies of the new presidential administration and their effects on the region's economy, which is still heavily dependent on federal spending.

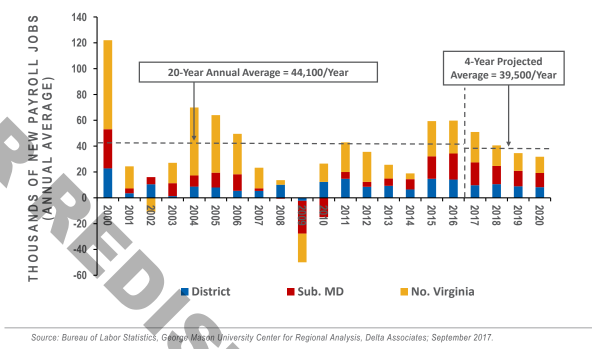
President Trump's initial FY2018 budget proposal to Congress prompts immediate cause for concern since it calls for steep budget cuts to nearly every federal agency. Some agencies stand to lose over 20% of their current budgets, including the Environmental Protection Agency, State, Agriculture, and Labor departments. Under the president's proposal, only the departments of Veteran Affairs, Homeland Security, and Defense would see funding increases. On top of the budget uncertainty is the looming debt ceiling which will need to be raised again before the end of the year, after a brief reprieve was passed by Congress in September.

The tech industry has become a bright spot for the Washington region in recent years. In 2016 alone, tech firms 2U, RainKing Software, Optoro, and Opower expanded their operations in the region and committed to hiring additional workers in the near future. Likewise, coworking firms, which cater to tech startups, have been on a path of rapid expansion in the Washington area. No doubt the most lucrative potential prize for the region is Amazon's planned second headquarters. If selected, the tech behemoth's second headquarters would bring 50,000 new well-paying jobs to the region over a decade, and would undoubtedly have positive spillover effects for the entire regional economy. A number of area jurisdictions have already indicated plans to submit bids (see sidebar).

Overall, we predict that 51,000 new jobs will be created in the region in 2017 (primarily in the private sector) with the pace of annual job growth slowly declining in subsequent years. Overall, we expect annual job growth in the metro area to average 39,500 over the next four years. The Washington metro area has a wealth of assets – a highly skilled workforce, access to international markets, high-quality education, and vast cultural resources – that will continue to give it a competitive advantage over other large metro areas in the long-run.

PAYROLL JOB GROWTH

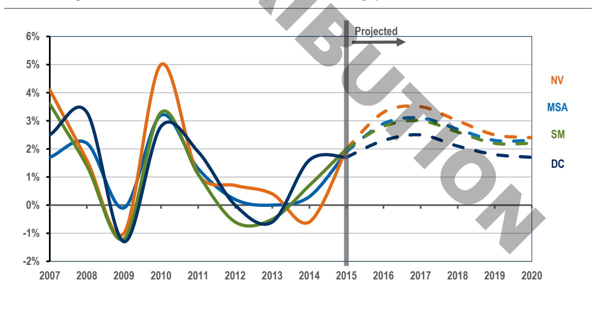
Washington Metro Area



Source: Bureau of Labor Statistics, George Mason University Center for Regional Analysis, Delta Associates; September 2017.

ECONOMIC OUTLOOK (GRP), 2007-2020

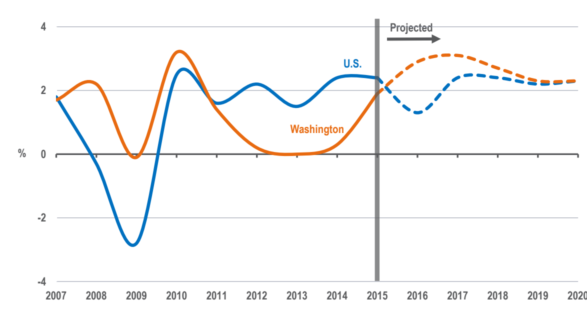
Washington Area and Sub-State Areas (Annual % Change)



Source: Bureau of Labor Statistics, George Mason University Center for Regional Analysis, Delta Associates; September 2017.

U.S. GDP AND WASHINGTON AREA GRP

2007 – 2020 (Annual % Change)



Source: IHS Economics, GMU Center for Regional Analysis, Delta Associates; September 2017.

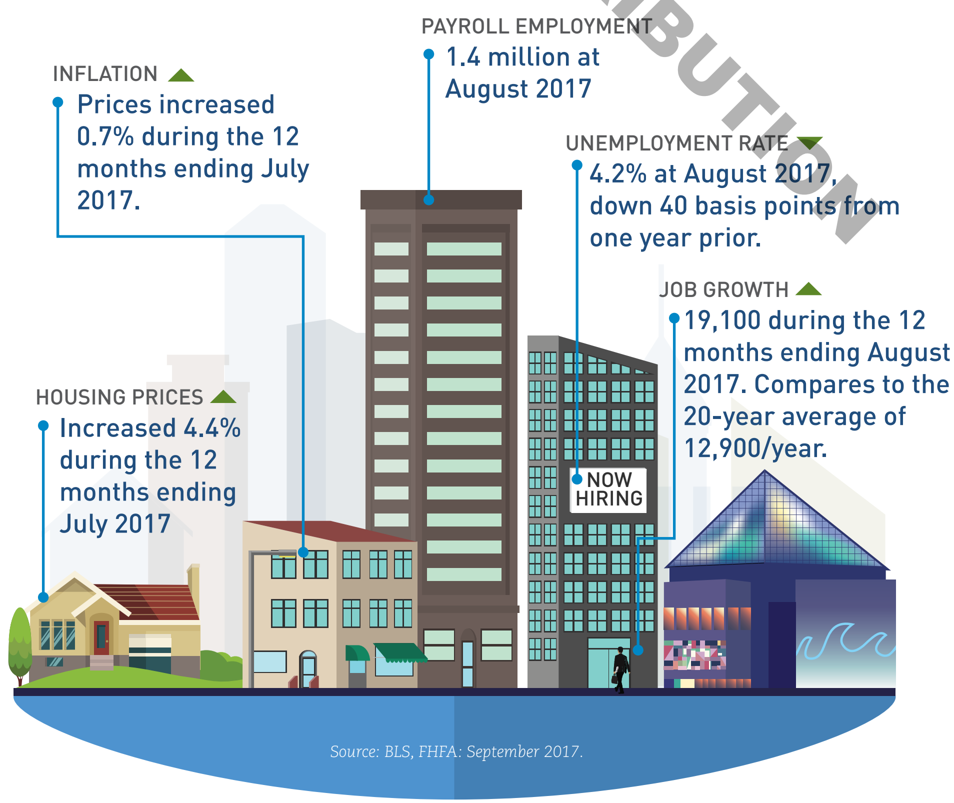
03 THE BALTIMORE AREA ECONOMY

Pace of Job Growth Picks Up As Economy Expands

Payroll job growth in the Baltimore metro area resumed its brisk pace during the third quarter after recovering from some second quarter weakness. The region added 19,100 jobs during the 12 months ending August 2017, well over the long-term average of 12,900/year. The nationwide struggles of the brick-and-mortar retail industry continues to be reflected in Baltimore's job growth this year. In the metro area, the Wholesale Trade and Retail Trade sectors shed a combined 3,400 jobs during the 12 months ending August 2017. The Baltimore metro area's unemployment rate was 4.2% (not seasonally adjusted) as of August 2017, down 40 basis points from August 2016, and 30 basis points below the national average. Baltimore's current unemployment rate ranks in the lower range among its peer metro areas, and we expect it to remain under 5% in 2017.

Once dominated by manufacturing, the Baltimore economy has become diversified over the past few decades. Despite the shift to a more service-oriented economy, the Baltimore area is not totally abandoning its industrial past. Amazon is finalizing plans to open its second fulfillment center in the area—an 855,000 SF facility at the Tradepoint Atlantic industrial site in Baltimore County. The online retail giant will join Under Armour and FedEx at the site, which have also recently announced plans to operate large distribution facilities there. Even bigger news from Amazon is the announcement of their search for a second headquarters, and Baltimore plans to enter a bid.

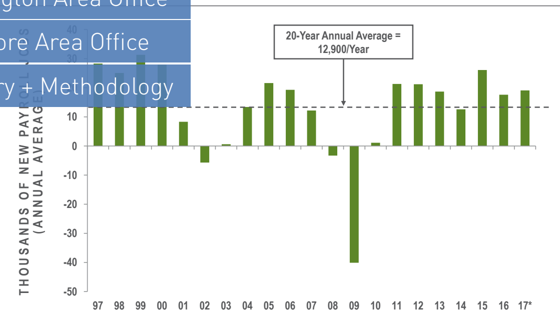
ECONOMIC HIGHLIGHTS BALTIMORE METRO AREA



Source: BLS, FHFA: September 2017.

PAYROLL JOB GROWTH

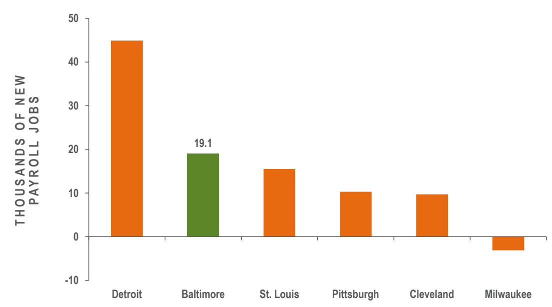
Baltimore Metro Area



*12 months ending August 2017.
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

PAYROLL JOB GROWTH

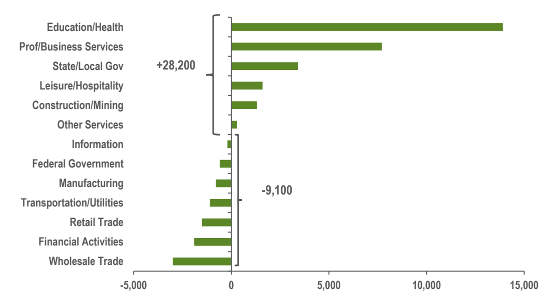
Comparable Metro Areas | 12 Months Ending August 2017



Source: Bureau of Labor Statistics, Delta Associates; September 2017.

PAYROLL JOB GROWTH

Baltimore Metro Area | 12 Months Ending August 2017



Source: Bureau of Labor Statistics, Delta Associates; September 2017.

We expect the Baltimore area economy to see additional growth through the remainder of 2017 and beyond. The regional economy is fundamentally sound and performing very well in comparison to its traditional peers. As the Baltimore region continues its transition from an economy dominated by manufacturing and distribution, we expect the share of jobs in the Professional/Business Services, Education/Health, and Financial Activities sectors to increase substantially. We expect an average of 14,400 new jobs will be added to the regional economy annually between 2017 and 2019.

PAYROLL JOBS

Job growth in the Baltimore metro area accelerated beyond the midpoint of 2017. The region added 19,100 jobs during the 12 months ending August 2017, well over the long-term average of 12,900/year. Baltimore's labor market continues to be robust, reflecting the healthy regional economy. Over seven years have passed since the region last recorded a negative 12-month job growth figure. As of August 2017, total payroll employment in the Baltimore region stood at 1.41 million jobs.

JOB GROWTH BY SECTOR

Unlike many other regions of the country, including the neighboring Washington metro area, Baltimore's total net payroll additions mask what is really a mixed bag in terms of sector to sector performance. Seven of the thirteen primary BLS job sectors recorded negative job growth in the 12 months ending August 2017, totaling -9,100. The six positive sectors more than compensated for the losses with 28,200 net total additions, but it does indicate a minor cause for concern as it can create inequality between available positions and the qualifications of jobseekers, and an overreliance on a handful of sectors over the long-term increases exposure to severe economic downturns.

TRENDS IN EMPLOYMENT BY MAJOR SECTOR

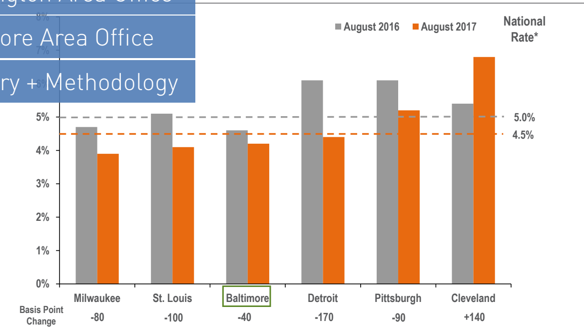
Baltimore Metro Area | In Thousands

	AUGUST 2017	12-MONTH CHANGE	20-YEAR ANNUAL AVERAGE
Education/Health	281.0	13.9	4.9
Professional/Bus. Svcs.	244.4	7.7	5.0
State/Local Govt.	168.2	3.4	0.7
Leisure/Hospitality	143.2	1.6	1.9
Construction/Mining	80.8	1.3	0.8
Other Services	58.2	0.3	0.5
Information	16.6	-0.2	-0.2
Federal Government	50.8	-0.6	0.2
Manufacturing	53.3	-0.8	-2.4
Transportation/Utilities	51.0	-1.1	0.7
Retail Trade	138.5	-1.5	0.3
Financial Activities	78.6	-1.9	0.3
Wholesale Trade	50.7	-3.0	0.1
Total	**1,415.3**	**19.1**	**12.9**

Note: In thousands of payroll jobs. Data are not seasonally adjusted. Sum of columns may not equal total due to rounding.
Source: BLS, Delta Associates; September 2017.

UNEMPLOYMENT RATES

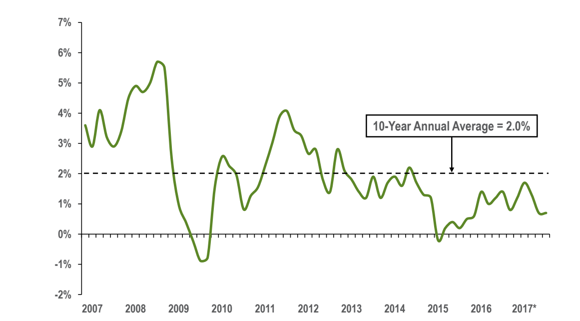
Comparable Metro Areas | August 2016 vs. August 2017



Source: Bureau of Labor Statistics, Delta Associates; September 2017.

CONSUMER PRICE INDEX (CPI)

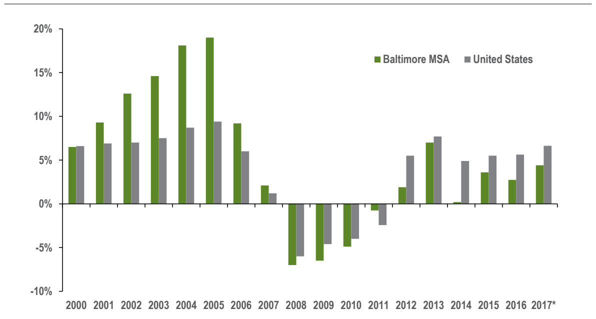
Washington/Baltimore Region



Note: Data is 12 month change ending in each period, through July 2017.
Source: Bureau of Labor Statistics, Delta Associates; September 2017.

CHANGE IN HOUSE PRICES

Baltimore Metro Area vs. United States



Note: Seasonally adjusted purchase-only price. *12-month change at June 2017.
Source: Federal Housing Finance Agency, Delta Associates; September 2017.

The Education/Health Services and Professional Business Services sectors continue to be the foundation of economic growth in the Baltimore metro area, accounting for 77% of the positive job growth in the metro area, with 21,600 additions combined. The State/Local Government, Leisure/Hospitality, Construction/Mining, and Other Services sectors were the only other employment sectors in the region to experience positive job growth during the 12-month period.

The nationwide struggles of the brick-and-mortar retail industry continues to be reflected in Baltimore's job growth this year. In the metro area, the Wholesale Trade and Retail Trade sectors shed a combined 3,400 jobs during the 12 months ending August 2017. There has been some good news for the sector in the Baltimore area though, as Amazon is nearing an agreement to construct an 855,000 SF fulfillment center employing 1,500 at the Tradepoint Atlantic industrial site in Baltimore County. The Financial Activities sector continues to struggle, losing 1,900 jobs between August 2016 and August 2017, but the sector does have some promising future prospects. In 2016, Morgan Stanley announced plans to lease additional office space in downtown Baltimore and add 800 new jobs over the next four years.

UNEMPLOYMENT RATE

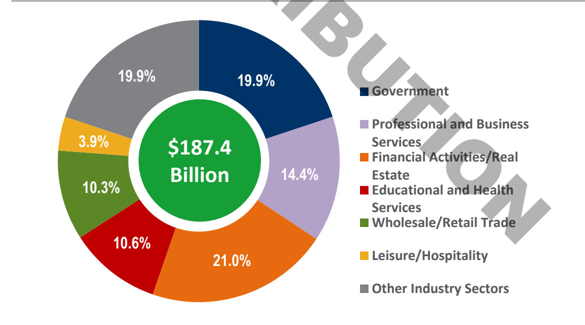
The Baltimore metro area's unemployment rate was 4.2% (not seasonally adjusted) as of August 2017, down 40 basis points from August 2016, and 30 basis points below the national average. Baltimore's current unemployment rate ranks in the lower range among its peer metro areas, and we expect it to remain under 5% in 2017.

REGIONAL CONSUMER PRICE INDEX

Consumer price growth in the Baltimore/Washington region showed little movement in the third quarter, reflecting national price stagnation. Consumer prices across the region in July 2017 were just 0.7% higher than they were a year prior, compared to 1.7% nationally. After several quarters of robust growth, regional gasoline prices stalled in the third quarter, up just 1.6% over the 12 months ending July 2017. Household energy costs showed more significant appreciation over the period, rising 3.4%. We expect future CPI reports will show considerable increases in energy prices in reflection of rising gas prices following energy infrastructure damage caused by Hurricane Harvey in late August.

SHARE OF REGIONAL GDP

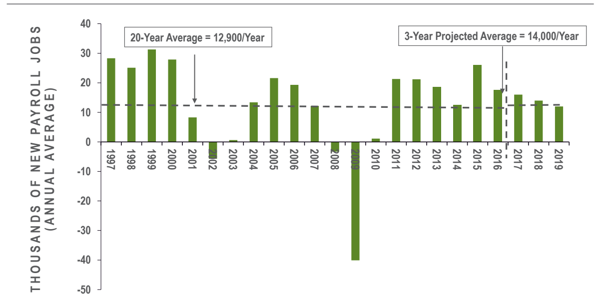
Baltimore Metro Area | 2016



Note: Percentages may not total to 100% due to rounding

JOB GROWTH

Baltimore Metro Area



Source: Bureau of Labor Statistics, Delta Associates; September 2017.

SIDEBAR: BALTIMORE'S CASE FOR AMAZON'S HQ2

In early September, Amazon released a RFP for the development of a second national headquarters somewhere in North America (note that this means it could be located outside of the U.S.). The new headquarters would be a $5 billion investment and provide 50,000 new full-time jobs paying an average of over $100,000 a year. Amazon's existing headquarters in Seattle has been a boon to the city, with over $85.8 billion in direct and indirect economic activity since Amazon moved their headquarters to Seattle in 2010.

Here is a brief overview of the building/site "preferences" specified in the HQ2 RFP:

- Within 30 miles of a population center.
- Within 45 minutes of an international airport.
- No more than two miles from "major highways and arterials."
- Must have direct access to rail, subway/metro, and/or bus routes.
- Provide for 500,000 SF of office space in 2019 and eight million SF of office space by 2027+.

Almost immediately following the announcement, state and local public officials decided to throw Baltimore City's hat into the ring, as the economic impact would be a major boon for the city, which has seen steady economic growth but has lagged many of its peers and suffered from an ongoing population decline. Regionwide support for the bid has already coalesced around a single development site—Sagamore's 235-acre Port Covington development. Of course, Baltimore would be in contention with potentially hundreds of other cities from across the continent (the RFP specified "North American" cities), particularly its larger neighbor to the southwest, but it does boast some distinct advantages:

- The rare availability of a 235-acre, largely vacant development site with highway and future transit access a few miles from downtown.
- A rapidly growing tech sector.
- A strategic position along the Northeast Corridor between DC and Philadelphia.
- Lower occupancy costs and cost of living for employees compared to the Washington region.

Rendering of the Port Covington mixed-use development with the future Under Armour headquarters on the left.(Source: Sagamore Development)

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HOUSING PRICES

Home prices in the Baltimore metro area increased 4.4% during the 12 months ending June 2017, according to the Federal Housing Finance Agency (FHFA), a significantly quicker pace than 2.7% in 2016. With a limited supply of new housing in the metro area, but growing demand, home price appreciation in the Baltimore metro crept closer to the national average of 5.5% over the 12 months ending June 2017.

REGIONAL GDP

The Baltimore metro area's total Gross Domestic Product (GDP) in 2016 was $187.4 billion. This was a 4.4% increase over 2015, and higher than the 3.2% average growth experienced by all 382 of the nation's metropolitan areas. Economic activity in the private sector grew 4.9% over the year, or nearly twice the 2.7% rate of growth experienced by the public sector. The Financial Activities/Real Estate sector just narrowly beat out Government to lead all sectors in economic contributions at $39.3 billion, or 21% of the total value of goods and services produced in the Baltimore region. The Professional/Business Services, Education/Health, and Manufacturing sectors round out the top 5 economic sectors in the metro area in 2016. The fastest growing economic node was Financial Activities (8.4%), while Mining was the only sector that contracted (-10.4%).

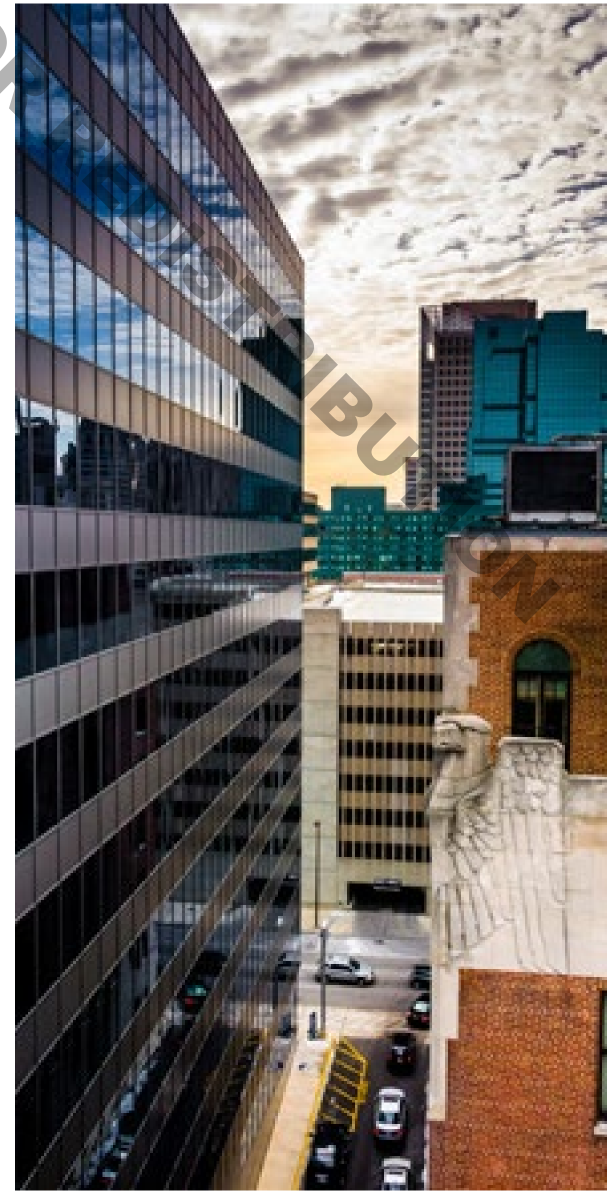
BALTIMORE AREA ECONOMIC OUTLOOK

Three-quarters of the way through 2017, the Baltimore metro area economy continues to perform well and we expect continued improvement through the end of the year. Job growth will continue to be above-average, although the pace will gradually decline in coming years. Most promising is the strong growth in higher-paying job sectors, particularly Professional/Business Services and Education/Health Services, the latter of which is quickly becoming the dominant growth sector in the region.

The region's largest private firms, such as Under Armour, Sinclair Broadcasting, and McCormick continue to grow and expand, benefiting the regional economy. Importantly for Baltimore City, is the growing trend of companies seeking to relocate to walkable, urban environments. In the third quarter, two companies currently located in the Baltimore suburbs announced that they would relocate their headquarters to the city. The first announcement came from Howard Bancorp, which announced plans to consolidate its headquarters (now located in Ellicott City in Howard County) into the former headquarters of the recently acquired 1st Mariner Bank in Baltimore's Canton neighborhood. Rapidly growing weight-loss company Medifast also announced plans to relocate its headquarters to Baltimore City, specifically the burgeoning Harbor East mixed-use district. The company's current headquarters is located in Owings Mills in Baltimore County. Perhaps the biggest relocation prospect for the city is Amazon's HQ2 (see sidebar).

Once dominated by manufacturing, the Baltimore economy has become diversified over the past few decades. Finance, healthcare, education, federal agency, government contractor, and tech employers account for the bulk of the region's economic activity. Innovative entrepreneurship has taken off in recent years in both Baltimore City and its suburbs. The region's low cost of living relative to Washington and other nearby metro areas, its affordable office space, and its anchor educational institutions have created a very appealing environment for startups.

The ongoing major concern moving forward is the persistently high level of violent crime in Baltimore City. After dropping to the lowest level in decades in the early 2010's, the city's violent crime rate climbed sharply following the civil unrest in May 2015 and has yet to come back down. The elevated crime rate could possibly deter new residents and businesses alike, which could threaten the region's recent run of economic success. Nevertheless, we project that the region will add an average of 14,000 new jobs per year between 2017 and 2019.



2 STATE OF THE WASHINGTON AREA OFFICE MARKET

THE WASHINGTON METRO AREA OFFICE MARKET

Q3

Strong Demand Fuels Growth, But Oversupply Concerns Mount

The Washington metro area's office market continued its growth streak in the third quarter of 2017. Net absorption of all classes of office space in the Washington metro area totaled 552,000 SF during the quarter, bringing the year-to-date total to 1.7 million SF of positive absorption. The Washington area's direct vacancy rate (which includes both multi-tenant and single-tenant properties) for all classes of office space as of the third quarter of 2017 is 11.4%, up 10 basis points from the second quarter of 2017, as well as a year prior.

Leasing activity remains robust as companies expand or upgrade their space. Tech firms have been especially prominent in the market recently, and some notable deals in the sector were signed in the third quarter, including spaces for Facebook and Yelp. Also signed in the third quarter were a pair of major GSA leases. The largest was for a new 625,000 SF home for the Transportation Security Administration (TSA) in Springfield, Virginia, and the other was for a new 574,800 SF headquarters for the US Citizenship and Immigration Services (USCIS) at the Branch Ave Metro station in Camp Springs, Maryland. There are a number of large tenants currently shopping for space in the Washington office market. Amazon's HQ2 RFP is at the forefront of everyone's mind in the Washington area, especially since the region is near the top of the list in satisfying the proposal requirements.

The average effective office rent for the Washington metro area is $32.90 per SF as of September 2017, up 1.4% from September 2016. The glut of new construction is beginning to offset stronger demand. As a result, we're dialing back our previous projection of 2.0% rent growth in 2017 to just 1.5%, as competition for tenants heats up.

The Washington area's office investment sales market has cooled somewhat since the beginning of the year, but prices remain elevated. There were 27 sales transactions

> *As of the third quarter there is just under 13 million SF of office space under construction in the Washington metro area—the most in nearly a decade.*

OFFICE MARKET HIGHLIGHTS
Washington Metro Area

NET ABSORPTION
▼ **552,000 SF during Q3 2017, down from 594,000 SF during Q2 2017**

DIRECT VACANCY RATE
▲ **11.4% at Q3 2017, up 10 basis points from 11.3% at Q2 2017 and from one year prior**

UNDER CONSTRUCTION
12.9 million SF

EFFECTIVE RENTS
▲ **Up 1.4% since Q3 2016**

INVESTMENT SALES
▼ **$1.3 billion ($312/SF) in Q3 2017, compared to $2.3 billion ($308/SF) SF in Q3 2016**

in the metro area during the third quarter of 2017 at an average price of $338 per SF (including partial interest and [illegible] compared to 56 transactions at $211 per SF during the third quarter of 2016. Office cap rates in the Washington metro area have been trending upward since hitting a post-recession low of 5.6% in the second quarter of 2016. The 12-month average cap rate for core office assets in the Washington metro area ticked up to 6.2% in the third quarter after of 2017, which was 40 basis points higher than a year prior.

The Washington area office market is solidly on the upside of the cycle. The regional economy continues to expand, fueling tenant demand and absorption. In addition, rent growth has been steady and office investment sales have been strong. However, there are many concerns regarding the current and future state of the office market. The most pressing issue currently is potential (and real in some submarkets) oversupply. As of the third quarter there is just under 13 million SF of office space under construction in the Washington metro area—the most in nearly a decade. In addition, while the region's office market may be in full recovery mode, there is a widening gap between the fortunes of office properties in central, mixed-use, transit-accessible locations and those in suburban, single-use, auto-oriented office parks. The former group is moving full-steam ahead, while the latter remains in a period of stagnation. Finally, the rain cloud of a massive cutback in the federal workforce remains, but is progressively becoming less likely.

NET ABSORPTION

Net absorption of all classes of office space in the Washington metro area totaled 552,000 SF in the third quarter of 2017, bringing the year-to-date total to 1.68 million square feet. The Washington metro office market has now recorded nine straight quarters of positive net absorption as the rebounding regional economy has driven demand for office space.

However, despite the rebound in positive absorption, the metro area office market still faces significant headwinds from tenant downsizing—primarily federal, but also private sector—as well as a high volume of new product coming online in the coming years. Despite these challenges, the Washington region's office market is on track to meet our earlier projection for a doubling of office net absorption in 2017 compared to 2016.

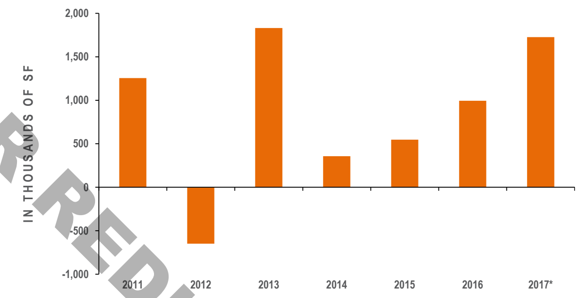
Northern Virginia again accounted for the lion's share of positive absorption in the second quarter of 2017, recording nearly 600,000 SF of absorption during the three-month period. The District of Columbia and Suburban Maryland office markets charted relatively flat performance in the third quarter, with total net absorption moderately negative in both submarkets. The performance roughly matches that seen among the region's substates in 2016, with Northern Virginia leading in absorption, followed by the District and Suburban Maryland.

For the first time in a while, the Washington metro area's Class A office market lagged the overall office market in growth (except in the District of Columbia). There was 227,000 SF of Class A office space absorbed during the third quarter of 2017, accounting for about half of total net absorption during the quarter.

The Northern Virginia office market also led in Class A absorption in the third quarter with 758,000 SF of space filled, followed by the District with 341,000 SF. Absorption in Suburban Maryland was moderately negative at 91,000 SF.

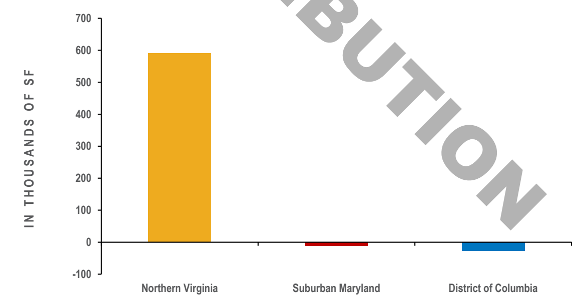
> ...the Washington region's office market is on track to meet our projection for a doubling of net absorption in 2017 compared to 2016.

OFFICE NET ABSORPTION
Washington Metro Area



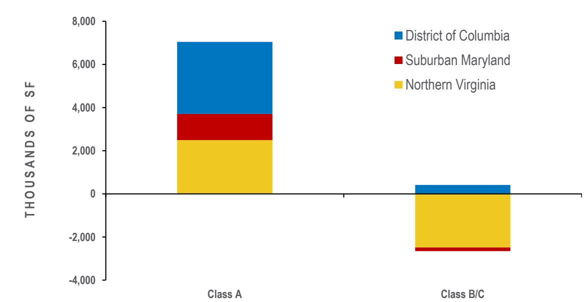
*12-months ending September 2017
Source: Delta Associates; September 2017.

OFFICE NET ABSORPTION
Washington Metro Area | Q3 2017



Source: Delta Associates; September 2017.

OFFICE NET ABSORPTION BY CLASS OF SPACE
Washington Metro Area | 2012 – Q3 2017



Source: Delta Associates; September 2017.

LEASING ACTIVITY

Office leasing activity continues to pick up in the Washington metro area, driven by steadily growing demand in the private sector. Unlike other recoveries, however, demand has not been strong across the board and some submarkets continue to be burdened with weak demand and high vacancy.

New leasing deals, particularly in the private sector, have steadily become more and more common in the Washington area over the past year or so, after being almost nonexistent during the post-recession period. Despite the increase in leasing activity, it will still be a while before property owners gain the upper-hand at lease negotiations, but conditions are certainly more favorable than they were a year ago. Tenants are continuing to shift away from traditional office parks to high-quality, highly amenitized space in dense, transit-accessible locations, which helps them attract and retain younger employees. This shift in demand has driven up vacancy rates well into the double digits in many of the region's traditional, single-use suburban office parks, but has given owners significantly more leverage in urban and suburban mixed-use environments.

If 2016 was the year of the co-working firm, then 2017 has been the year of the tech tenant. There have been a number of significant lease deals signed by tech tenants this year, including in the third quarter. During the quarter, tech giants Facebook and Yelp both took a combined 125,000 SF of office space at Terrell Place at 575 7th St., NW in the District's East End submarket. While Facebook was relocating and expanding from a nearby office building, the Yelp lease is the company's first presence in the metro area. By far the biggest lease of the year so far was Amazon Web Services' lease of the entire 400,000 SF building at 13200 Woodland Park Dr. in Herndon. The cloud services company will use the space as its East Coast headquarters and will employ 600 workers. Other tech firms that have signed major leases this year include: VideoBlocks, FiscalNote, Hughes Network Systems, and IT Cadre.

While players in the regional office market continue to wait for a possible major contraction in federal leasing under the Trump administration, GSA continues to sign large leases. During the third quarter, two large, long-awaited deals were finally finalized. The largest was for a new 625,000 SF home for the Transportation Security Administration (TSA) in Springfield, VA. The TSA headquarters relocation had been held up for years after a prior award to Victory Center in Alexandria was declared void. The other major GSA lease was for a new 574,800 SF headquarters for the US Citizenship and Immigration Services (USCIS) at the Branch Ave Metro station in Camp Springs, MD. Despite the duo of large GSA relocation leases this year, the prospects of the most valuable lease award—a new FBI Headquarters—are completely unknown after the Trump administration abruptly cancelled the RFP which was originally issued in 2012. However, after bipartisan criticism from the Senate, GSA officials agreed to draft a new strategy within 120 days (from August 2).

There are a number of large tenants currently shopping for space in the Washington office market. The largest prospect is the GSA's search for 1.27 million SF of space to house the Securities and Exchange Commission's headquarters. The requirement is a slight increase from the existing leases at a trio of buildings near Union Station in the Capitol Hill-Riverfront/NoMa submarket. Also, WMATA has retained JLL to assist in finding a new headquarters space somewhere in the Washington service area, in the process leveraging the

land value of its existing headquarters in the Jackson Graham Building at 600 5th St., NW. Of course, Amazon's HQ2 RFP is at the forefront of everyone's mind in the Washington area, especially since the region is near the top of the list in satisfying the proposal requirements.

> If 2016 was the year of the co-working firm, then 2017 has been the year of the tech tenant.

VACANCY RATE

The Washington area's direct vacancy rate (which includes both multi-tenant and single-tenant properties) for all classes of office space as of the third quarter of 2017 is 11.4%, up 10 basis points from the second quarter of 2017 and from a year prior. The metro-wide direct vacancy rate for just multi-tenant office space is 15.0% as of the end of the third quarter of 2017, also up 10 basis points from the end of the second quarter of 2017. The multi-tenant vacancy rate is higher than our reported rate, because the single-tenant market, which we include in our inventory, tends to be more stable and includes many fully-occupied build-to-suit properties.

Among the Washington region's substate areas, the District has the lowest vacancy rate at 6.8%. This compares with 13.8% in Suburban Maryland and 14.0% in Northern Virginia. We had previously maintained that the region's office vacancy rate had peaked for this cycle, and through 2016 it had shown signs of stabilizing. However, given the large amount of office projects that have recently broke ground, we expect vacancy to remain relatively flat through the remainder of the year and possibly ticking up in 2018, as increasing supply offsets steadily rising demand. Key to the future trajectory of the regional vacancy rate is continued momentum in the economic recovery and avoidance of a severe reduction in leased GSA space.

The Washington area's direct Class A vacancy rate at the end of the third quarter of 2017 is 13.8%, up 10 basis points from the previous quarter, but down 20 basis points from the third quarter of 2016. The Class A market has accounted for most of the growth in the Washington metro area's office market during the market recovery, but the increase in construction activity has led to some softening in the market.

> Key to the future trajectory of the regional vacancy rate is continued momentum in the economic recovery and avoidance of a severe reduction in leased GSA space.

CONSTRUCTION

Office space construction in the Washington metro area has tripled over the last two years. As of September 2017, there is 12.9 million SF of space under construction in the region. The District of Columbia currently has 5.8 million SF of space under construction. The bulk of new space in the District is concentrated in the Capitol Riverfront and NoMa areas, which have emerged as attractive alternatives to the city's traditional downtown. In the District's older East End and CBD submarkets, renovation activity dominates. Northern Virginia has 5.9 million SF of office space under construction, nearly all of which is concentrated near Metro stations, with

OFFICE SPACE UNDER CONSTRUCTION
Washington Metro Area | Millions of SF

SUBSTATE AREA	SEPTEMBER 2017
Northern Virginia	5.9
Suburban Maryland	1.2
District of Columbia	5.8
Total	**12.9**

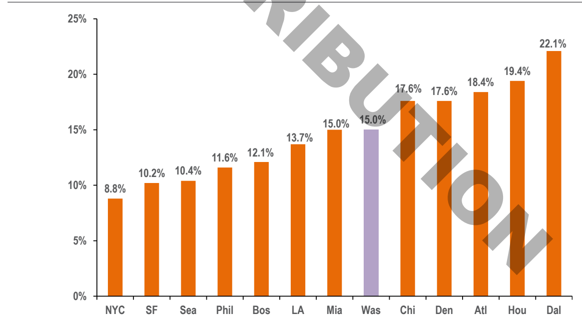
Source: REIS; Delta Associates; June 2017.

VACANCY RATES AND VACANT SPACE (ALL CLASSES)
Washington Metro Area | September 2016 vs. September 2017

	SEPTEMBER 2016	SEPTEMBER 2017
VACANCY RATE		
Direct	11.3%	11.4%
VACANT SPACE (MILLIONS OF SF)		
Direct	46.1	46.7

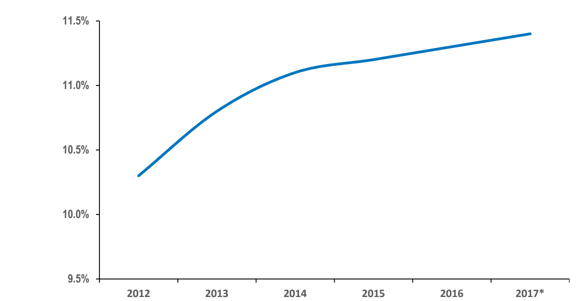
Source: Delta Associates; September 2017.

OVERALL DIRECT OFFICE VACANCY RATES
Selected Markets | Q3 2017



Note: Vacancy rates are for multi-tenant buildings.
Source: REIS. Delta Associates; September 2017.

OVERALL DIRECT OFFICE VACANCY RATE
Washington Metro Area | 2012 – 2017



*Note: Vacancy rate include single-tenant/owner-occupied and multi-tenant buildings. *As of Q3 2017.*
Source: Delta Associates; September 2017.

about half under construction along the Silver Line in Tysons and Reston. Even Suburban Maryland, which saw recently saw new office construction decline to almost zero, is experiencing a significant jump in activity, with 1.2 million SF currently under construction, half of which is located in downtown Bethesda.

Despite the increase in demand, the lending environment remains tight for speculative projects outside of the core submarkets. Speculative development will be limited to projects by well-capitalized developers in high-demand, transit-accessible locations, such as Bethesda, Tysons, and downtown Washington. With a limited number of sites available for new development in attractive locations and tenants that are in the market seeking more modern office space, we expect renovations of underperforming Class B/C buildings to become more prevalent.

There were seven office building deliveries in the Washington metro area during the third quarter of 2017, only three of which were inside the Beltway.

> Office space construction in the Washington metro area has tripled over the last two years. As of September 2017, there is 12.9 million SF of space under construction...

PLANNED AND PROPOSED PROJECTS

There is 43.9 million SF of office space planned in the Washington metro area as of September 2017. To qualify as planned, size and location are determined, and the project is in one of several phases of the planning process: site plan review, design review, environmental compliance review, zoning, etc.

Over 50% of this planned space is in Northern Virginia, primarily in the Loudoun County and Reston/Herndon submarkets. These two submarkets are set to be the primary beneficiaries of the completion of Phase II of Metrorail's Silver Line, which is expected to open within the next four years. The District of Columbia has 5.3 million SF of projects planned, with most targeted for the Capitol Hill-Riverfront/NoMa submarket. In Suburban Maryland, the Laurel/Calverton submarket has the greatest amount of planned space, nearly all of it located in the Konterra Town Center mixed-use development.

As of September 2017, proposed office developments in the Washington metro area total 56.6 million SF of space. Development projects classified as proposed have been envisioned by the developer, but have not yet been formally submitted for review. Proposed space hints at which parts of the region are likely to see the greatest impact during the next round of development. However, there is a large backlog of proposed office space in suburban office parks that likely will not be constructed at any point in the future.

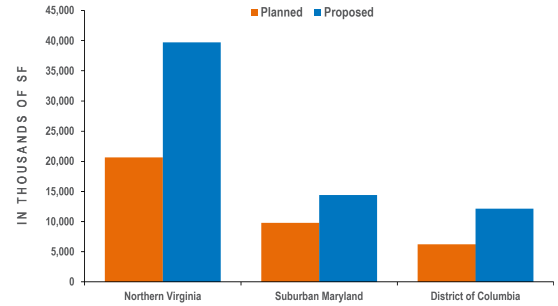
About 33.5 million SF, representing more than half of all proposed space, is targeted for Northern Virginia. More than 20 million SF of this space is situated along the Silver Line in the Tysons/Vienna/Merrifield, Reston/Herndon, and Loudoun County submarkets. Proposed developments in Suburban Maryland total 14.4 million SF, with most projects located along the I-270 corridor between Bethesda and Frederick. In the District, there are proposals for 11.5 million SF of new office development, the vast majority of which is located in the Capitol Hill-Riverfront/NoMa and Southwest submarkets.

PROJECTED SUPPLY VS. DEMAND

We currently project that the metro-wide overall vacancy rate will increase to 12.2% at September 2019 from the September 2017 level of 11.4%. We expect region-wide office space demand totaling 8.2 million SF between September 2017 and September 2019 compared to a projected supply increase of 12.8 million SF.

PLANNED & PROPOSED OFFICE PROJECTS

Washington Metro Area | Q3 2017



Source: REIS, Delta Associates; September 2017.

Strong regional job growth will help increase demand for office space, but will not be able to fully overcome the stream of new supply. A possible contraction of the federal government would contribute to higher vacancy in the region, but the timing and severity of such an occurrence are unknown. The office vacancy rate in the District of Columbia will increase about half a percent over the next two years as new product delivers to the market. Northern Virginia is also poised to see an increase (of about 1%) in its vacancy rate over the period. Suburban Maryland's vacancy rate will increase just slightly over the next two years thanks to a more restrained construction pipeline. Specifically, we project the following trends in vacancy rates between September 2017 and September 2019:

- Northern Virginia's direct vacancy rate will increase to 14.9% at September 2019, from 13.8% today.
- Suburban Maryland's direct vacancy rate will increase to 14.1% at September 2019, from 14.0% today.
- The District of Columbia's direct vacancy rate will increase to 7.6% at September2019, from 6.8% today.

As things stand now, office demand should continue to rise through the end of 2017 and beyond, but the stream of new supply and the downsizing of leased space by both federal and private tenants will continue to weigh on the market. Rehabilitation or demolition of older Class B/C office buildings will help push down vacancy, and there are multiple major rehab projects underway in the region, mostly in the District. There are also several projects in the development pipeline that call for razing lower-density suburban office buildings and replacing them with higher-density multifamily or mixed-use structures. Other projects involve renovating and repurposing obsolete office space to residential and other uses.

> A possible contraction of the federal government would contribute to higher vacancy in the region, but the timing and severity of such an occurrence are unknown.

EFFECTIVE RENTS

The average effective office rent for the Washington metro area is $32.90 per SF as of September 2017, up 1.4% from September 2016. We expect concession packages to remain relatively generous for the time being as landlords compete for tenants. Landlords will continue attempting to entice tenants to move from other buildings as their leases expire, and concessions allow them to do so while keeping face rents intact.

The market for new, ground-up Class A construction is becoming increasingly competitive among tenants in the region's top submarkets, providing for hefty rent premiums in many cases. However, the glut of new construction is partially offsetting stronger demand. As a result, we're dialing back our previous projection of 2.0% rent growth in 2017 to just 1.5%, as competition for tenants to fill new office buildings heats up.

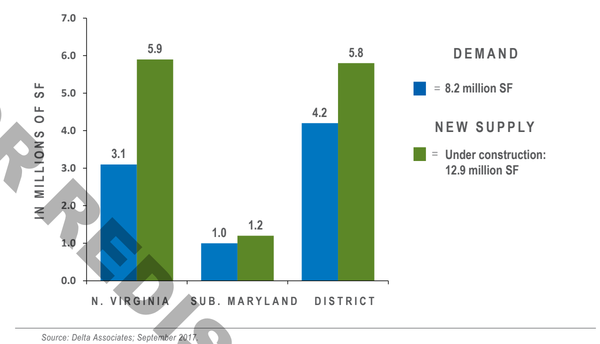
Renovated Class B/C product will continue to be a strong value option for tenants looking for quality space in desirable submarkets. On balance, tenants remain well-positioned to command reduced lease rates and more concessions, particularly for significant space requirements or long lease terms.

LEASING METRICS

During the third quarter of 2017, the average amount of free rent provided in lease deals ranged from 3.5 months in the District of Columbia to 4.1 months in Suburban Maryland, with Northern Virginia falling in the middle at 3.7 months. The average tenant improvement allowance per SF is $40.27 in Northern Virginia, $38.18 in Suburban Maryland, and $65.70 in the District of Columbia.

OFFICE DEMAND AND DELIVERIES

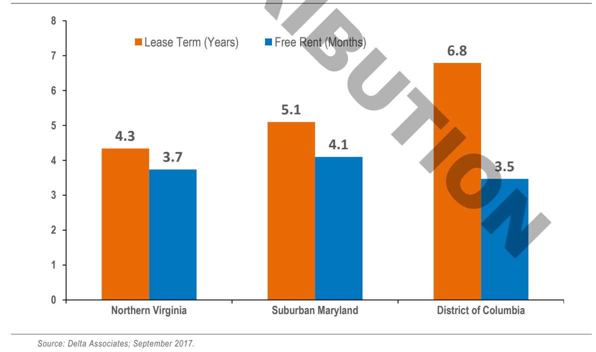
Washington Metro Area | 24 Months Ending September 2019



Source: Delta Associates; September 2017.

LEASE TERMS & CONCESSIONS

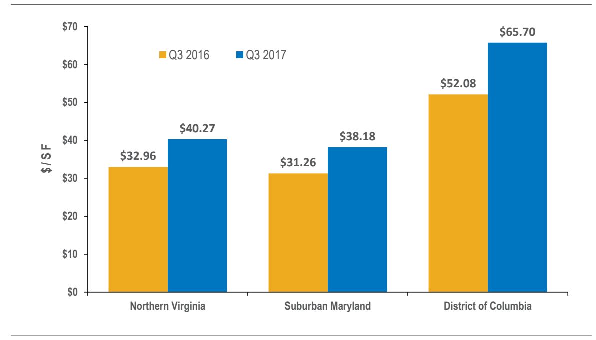
Washington Metro Area | Q3 2017



Source: Delta Associates; September 2017.

AVERAGE TENANT IMPROVEMENTS PACKAGE

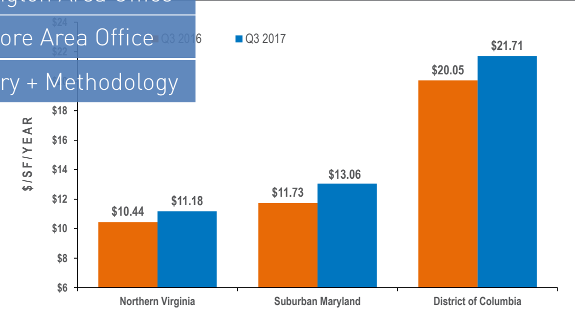
Washington Metro Area | Q3 2016 VS. Q3 2017



Source: Delta Associates; September 2017.

OPERATING EXPENSES

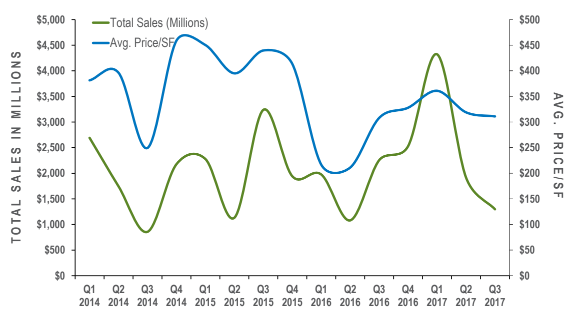
Washington Metro Area | Q3 2016 VS. Q3 2017



Source: REIS, Delta Associates; September 2017.

OFFICE INVESTMENT SALES

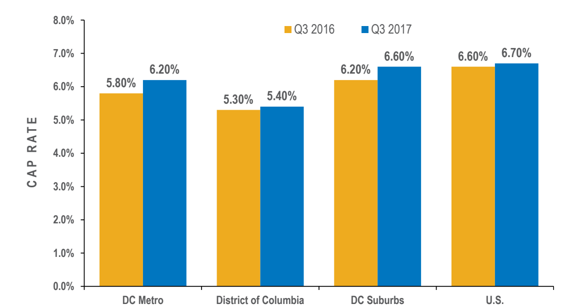
Washington Metro Area



Source: Real Capital Analytics, Delta Associates; September 2017.

WASHINGTON OFFICE MARKET CAP RATES

Q3 2016 VS. Q3 2017



Note: 12-month average cap rates of property and portfolio sales of $2.5 million or greater
Source: Real Capital Analytics, Delta Associates; September 2017.

The average length of a new lease as of September 2017 in Northern Virginia, Suburban Maryland, and the District of Columbia stood at 4.3 years, 5.1 years, and 6.8 years, respectively. Operating expenses in the suburbs remain roughly half of what they are in the District. Expenses average $11.18 per SF in Northern Virginia, $13.06 per SF in Suburban Maryland, and $21.71 per SF in the District of Columbia.

INVESTMENT SALES

The Washington area's office investment sales market has cooled somewhat since the beginning of the year. There were 26 sales transactions in the metro area during the third quarter of 2017 totaling $1.3 billion at an average price of $312 per SF (including partial interest and portfolio sales), compared to 56 transactions totaling $2.3 billion at $308 per SF during the third quarter of 2016.

In 2016, investors shifted their attention away from core and trophy-quality products to properties with greater value-add opportunities in less expensive submarkets, particularly those that are a component of mixed-use developments and/or near transit stations. Many transactions so far in 2017 reflect a continuance of this trend, but there were a few notable sales of core, Class A properties as well. Most notably, in July, a JV of international investors Oxford Properties Group and Norges Real Estate Management closed on a pair of trophy-quality buildings in the District. The newer of the two, the recently delivered 128,000 SF office building at 900 16th St., NW, was acquired at a record $1,183/SF.

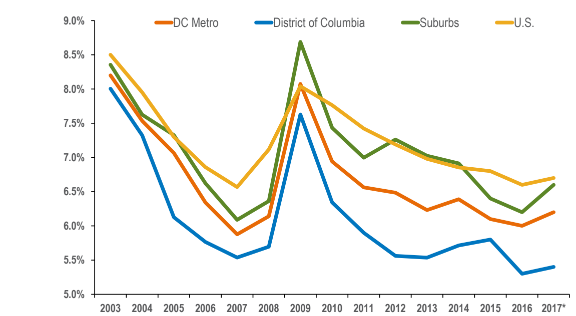
Office cap rates in the Washington metro area have been trending upward since hitting a post-recession low of 5.6% in the second quarter of 2016. The 12-month average cap rate for core office assets in the Washington metro area ticked up to 6.2% in the third quarter of 2017, which was 40 basis points higher than a year prior. The 12-month trailing average for cap rates in the District is 5.4%, compared with 6.6% for the suburbs. We believe the 12-month trailing average cap rate for the Washington metro area will continue to remain in the high 5% to low 6% range in 2017.

INVESTMENT RETURNS

Total short-term investment returns for CRE in the Washington area continue to lag the national average and other gateway metros, such as San Francisco and Boston. One-year office returns took a hit during 2016, as prices stabilized or fell in many submarkets after peaking in 2015. Total returns for Washington office properties during the 12-month period ending June 2017 were 3.3%, compared to the national total of 5.6% and ranking above only the depressed Houston market among major metro areas. Washington's longer term 10-year returns were marginally better at 4.8%, placing it ahead of Phoenix, Chicago, and Atlanta. Historically, office returns in the Washington area have been stable, thanks to the region's solid fundamentals and should remain so well into the future.

WASHINGTON OFFICE MARKET CAP RATES

Cap Rate



* As of Q3 2017. Note: 12-month average cap rates of property and portfolio sales of $2.5 million or greater
Source: Real Capital Analytics, Delta Associates; September 2017.

LAND SALES

There have been very few land sales for office building development in the Washington metro area over the past several years, as vacant developable land has become increasingly scarce. There has been just one land sale so far this year, in Suburban Maryland. During the second quarter, the Peterson Cos. sold a half-acre parcel at their rapidly expanding mixed-use development at National Harbor to Trammel Crow Co., which will construct a 93,000 SF medical office building on the site. Groundbreaking for the new building, which is already 62% pre-leased, occurred in June with delivery scheduled for fall 2018.

The development climate should continue to improve in most submarkets, and developers will be looking to purchase land while planning for the next round of development set to deliver in the 2019-2020 timeframe. The majority of investors seeking land purchase opportunities are typically planning innovative, transit-oriented projects to distinguish their developments from older space on the market.

THE WASHINGTON METRO AREA OFFICE MARKET OUTLOOK

The Washington area office market is solidly on the upside of the cycle. The regional economy continues to expand, fueling tenant demand and absorption. In addition, rent growth has been steady and office investment sales have been strong. However, there are many concerns regarding the current and future state of the office market:

1 New Construction Glut

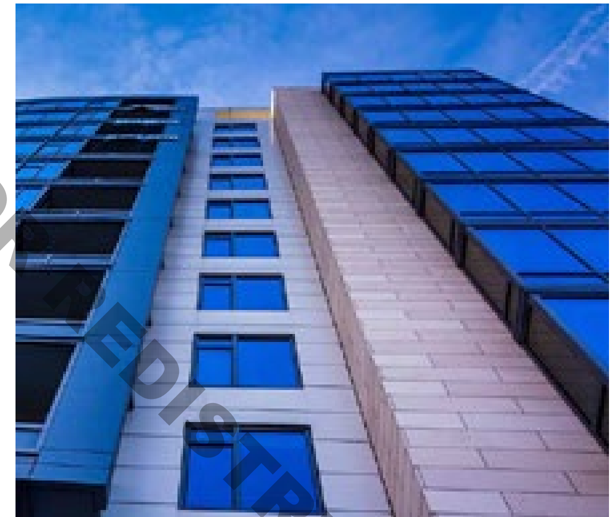
The most pressing issue currently is potential (and real in some submarkets) oversupply. As of the third quarter there is just under 13 million SF of office space under construction in the Washington metro area—the most in nearly a decade. While demand for office space has increased markedly over the past couple of years, it is very unlikely that the market can absorb this much space coming to market over such a short period. For perspective, total absorption in the entire Washington metro area over the last 12 months is 1.7 million SF. While that is a huge improvement over the roughly half million SF recorded annually just a few years ago, it is a far cry from the amount needed to simply maintain the region's current vacancy rate. As a result, we expect the regional office vacancy rate (which has just barely declined from its recession peak) to rise in the coming years.

2 Class Divergence

Naturally, the construction boom is limited to the Class A and trophy segments of the office market. Meanwhile, the Class B/C segment in many inner submarkets is experience tightening conditions, which is further intensified by property repositionings to Class A. Despite the ongoing flight-to-quality, there are still very many value-conscious tenants who still opt for older space, especially in transit-accessible submarkets. At the same time, demand in the middle segment of the market has steadily eroded, as current tenants are increasingly choosing to densify and upgrade to higher quality space.

3 The Office Park Gets Left Behind

The Washington region's office market may be in full recovery mode, but there is a widening gap between the fortunes of office properties in central, mixed-use, transit-accessible locations and those in suburban, single-use, auto-oriented office parks. The former group is moving full steam-ahead, while the latter remains in a period of stagnation. The "back-to-the-city" and "live-work-play" trends are still dominating all sectors of real estate, and non-compliant properties are getting left behind. Excluding the outliers of Frederick and Prince William counties (who are far enough from the Beltway to avoid directly competing with more urban submarkets), the



NCREIF RETURN INDEX[1]
Office Properties

METRO AREA	12-MONTH TOTAL RETURN 2ND QUARTER 2017
Dallas	11.16%
Los Angeles	9.04%
San Francisco	7.56%
Atlanta	5.91%
Phoenix	5.62%
National Average	**5.57%**
Boston	5.53%
Chicago	5.35%
Denver	4.48%
New York	3.39%
Washington	**3.25%**
Wash. CBD	4.07%
Wash. Suburbs	0.99%
Houston	-1.24%

[1] NCREIF compiles return based on its members' $169 billion office portfolios. The index includes both current income and capital appreciation returns.

Source: Delta Associates, based on data in NCREIF's 2nd Quarter 2017 Real Estate Performance Report.

average vacancy rate for suburban submarkets dominated by traditional office parks is 19.2% as of the third quarter, compared to 10.0% in other, more urban and transit-accessible submarkets. There have been a number of initiatives that property owners and local officials have utilized to alleviate this issue including: converting obsolete space to multifamily or other uses (even self-storage in one instance), adding multifamily and retail uses to office parks, and offering complimentary Metro shuttle or Uber services.

4 The Federal Government

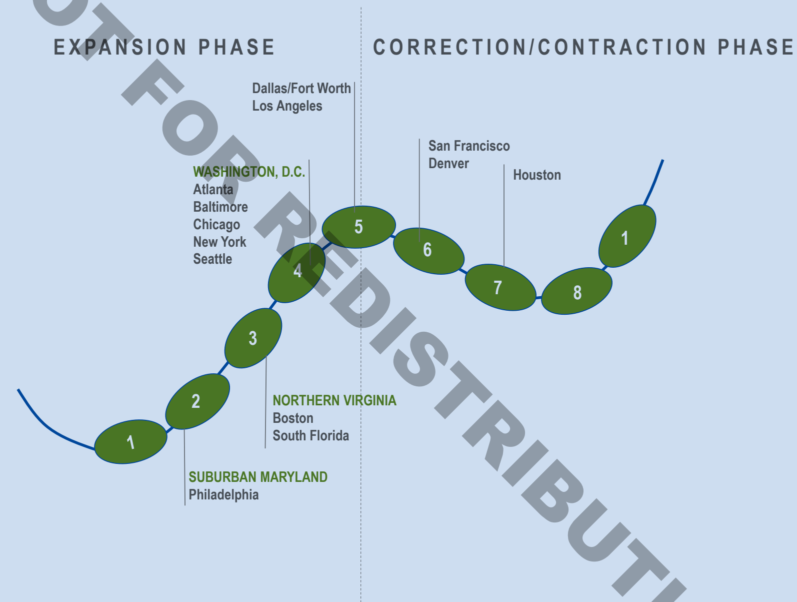
A significant reduction in the federal workforce, as proposed by the Trump administration, would dramatically reduce the government's need for office space in the Washington region, where the GSA leases around 20% of the total office inventory. GSA has already been cutting back on leased space through the Obama administration's "Freeze/Reduce the Footprint" initiatives, and this new policy direction would heavily exacerbate the issue.

Notwithstanding the gloomy outlook for the federal sector, it remains to be seen what cuts will actually be realized. In addition, federal agency budget cutbacks and layoffs will not directly translate immediately into vacant spaces as the majority are tied to long-term lease obligations that would be costly to terminate, so there is unlikely to be much of an effect on the office market in 2017. Also, as we have seen in the past, federal budget cutbacks often lead to an increase in outsourcing to the private sector, which will increase office demand from government contractors. The $50 billion increase in defense spending will almost certainly lead to increased leasing activity among defense contractors.

Overall, we expect to see continued improvement in the Washington metro area's office market through the remainder of 2017 and into 2018. The most significant threats to the market recovery are unlikely to materialize in the short term, and as strong job growth continues, leasing activity should continue to be robust. We project that annualized rent growth for all classes of space will be around 1.5% in 2017. Unfortunately, vacancy remains stubbornly high as new construction offsets gains in leased space.

OFFICE MARKET POSITION INDEX

THIRD QUARTER 2017



POSITION INDICATORS

1. Absorption flat to slightly positive, vacancy beginning to decrease, rents relatively stable, spec construction not justified
2. Absorption increasing, vacancy declining, rents rising, positioning for spec construction
3. Absorption strong, vacancy declining, rents rising, spec construction
4. Absorption strong, vacancy low and nearing bottom, rents up strong, spec construction
5. Absorption light, vacancy stable or rising, rents up only slightly if not flat, minimal new spec construction
6. Absorption flat/negative, vacancy rising, rents flat to declining, no or minimal new spec construction
7. Absorption negative, vacancy rising, rents dropping, no new spec construction
8. Absorption relatively flat, vacancy and rents stabilizing, no new spec construction

SUBSTATE POSITIONS/COMMENTS	
	Strong positive absorption; vacancy decreasing; rents stable; construction limited to Silver line corridor
	Negative absorption; vacancy fluctuating; rents increasing modestly; very limited construction
	Return to positive absorption; vacancy flattening for the time being; rents increasing; spec construction increasing

Source: Delta Associates, September 2017.

TABLE 1
OFFICE MARKET INDICATORS - ALL SPACE
Washington Metro Area | 2014 Through Q3 2017

	RENTABLE BUILDING AREA (SF)	VACANT AVAILABLE (SF)	DIRECT VACANCY RATE AT END OF:				NET ABSORPTION (SF)			
SUBSTATE AREA	Q3 2017	Q3 2017	2014	2015	2016	Q3 2017	2014	2015	2016	Q3 2017
Northern Virginia	180,052,981	24,937,000	13.6%	14.0%	13.9%	13.8%	(92,000)	(697,000)	642,000	591,000
Suburban Maryland	86,002,525	12,049,900	13.1%	13.0%	13.2%	14.0%	(142,000)	186,000	24,000	(11,000)
District of Columbia	142,320,834	9,691,000	6.9%	6.6%	7.0%	6.8%	591,000	1,058,000	328,000	(28,000)
TOTAL - Washington Metro Area	**408,376,340**	**46,677,900**	**11.1%**	**11.2%**	**11.3%**	**11.4%**	**357,000**	**547,000**	**994,000**	**552,000**

Source: REIS, Delta Associates; September 2017.

TABLE 2
OFFICE MARKET INDICATORS - CLASS A
Washington Metro Area | 2014 Through Q3 2017

SUBSTATE AREA	RENTABLE BUILDING AREA (SF) Q3 2017	VACANT AVAILABLE (SF) Q3 2017	DIRECT VACANCY RATE Q3 2017	NET ABSORPTION (SF) 2014	2015	2016	Q3 2017
Northern Virginia	80,623,386	13,369,000	16.6%	1,281,000	(889,000)	485,000	235,000
Suburban Maryland	31,839,522	5,125,000	16.1%	107,000	305,000	43,000	(95,000)
District of Columbia	64,362,463	5,962,000	9.3%	1,509,000	591,000	296,000	87,000
TOTAL - Washington Metro Area	**176,825,371**	**24,456,000**	**13.8%**	**2,897,000**	**7,000**	**824,000**	**227,000**

Source: REIS, Delta Associates; September 2017.

TABLE 3
OFFICE DEVELOPMENT PIPELINE
Washington Metro Area | Q3 2017

SUBSTATE AREA	UNDER CONSTRUCTION (SF)	PLANNED (SF)	PROPOSED (SF)	DELIVERED (SF)[1]
Northern Virginia	5,867,540	26,996,713	33,533,026	1,441,767
Suburban Maryland	1,225,814	11,540,205	11,515,757	47,727
District of Columbia	5,809,303	5,314,154	11,413,745	234,576
Washington Metro Area Total	**12,902,657**	**43,851,072**	**56,462,528**	**1,724,070**

[1]Buildings partially or fully delivered during the quarter.
Source: REIS, Delta Associates; September 2017.

TABLE 4
NOTABLE OFFICE LEASING ACTIVITY
Washington Metro Area | Q3 2017

	PROPERTY ADDRESS	TENANT	PROPERTY OWNER	TYPE	SIZE (SF)
NORTHERN VIRGINIA					
Loudoun County	43777 Central Station Dr., Ashburn	IT Cadre	Comstock Partners	New	22,400
Reston/Herndon	381 Elden St., Herndon	GSA/Department of the Interior	Stream Realty Partners	Renewal	88,000
Springfield/I-95	6595 Springfield Center Dr., Springfield	GSA/Transportation Security Admin.	Boston Properties	New	625,000
Tysons/Vienna/Merrifield	1600 Tysons Blvd., Tysons	Hensel Phelps	Lerner Enterprises	New	30,000
Tysons/Vienna/Merrifield	1775 Tysons Blvd., Tysons	Park Hotels	Lerner Enterprises	New	31,000
Tysons/Vienna/Merrifield	Boro Tower, Tysons	Hogan Lovells	The Meridian Group	New	44,500
SUBURBAN MARYLAND					
Bethesda/Chevy Chase	5404 Wisconsin Ave., Friendship Heights	SPS Holdings	Boston Properties	New	7,300
Bethesda/Chevy Chase	7315 Wisconsin Ave., Bethesda	Oakleaf Group	J.P. Morgan Asset Management	New	8,900
Bethesda/Chevy Chase	6931 Arlington Rd., Bethesda	Liquidity Services	Bradley Arlington LLC	Sublease	18,000
Bethesda/Chevy Chase	4445 Willard Ave., Friendship Heights	Spaces	JBG Smith	New	19,300
Bethesda/Chevy Chase	7501 Wisconsin Ave., Bethesda	Bank of America Merrill Lynch	B.F. Saul	New	26,000
Bethesda/Chevy Chase	6901 Rockledge Dr., Bethesda	Lockheed Martin	Prudential Real Estate Investors	New	40,000
Bethesda/Chevy Chase	7272 Wisconsin Ave., Bethesda	FOX 5 WTTG/FOX 5 Plus WDCA	Carr Properties	New	57,500
Bowie/U. Marlboro/S. Pr. George's	1 Capital Gateway Dr., Camp Springs	GSA/US Citizenship and Immigration Services	One Town Center LLC	New	575,000
I-270/Rockville	9605 Medical Center Dr., Rockville	J. Craig Venter Institute	Equus Capital	New	13,300
Silver Spring	8555 16th St., Silver Spring	Purple Line Transit Constructors	c/o Datawatch Systems	New	5,000
DISTRICT OF COLUMBIA					
Capitol Hill-Riverfront/NoMa	99 M St., SE	Pxyera Global	Skanska USA	New	17,000
Capitol Hill-Riverfront/NoMa	99 M St., SE	Credit Union National Association	Skanska USA	New	22,000
East End	575 Seventh St., NW	Yelp	Beacon Capital Partners	New	52,000
East End	575 Seventh St., NW	Facebook	Beacon Capital Partners	New	73,000
East End	200 Massachusetts Ave., NW	American Petroleum Institute	Property Group Partners	New	75,000
Southwest	800 Maine Ave., SW	Cornerstone Government Affairs	Hoffman-Madison Waterfront	New	15,000

Source: County Newsletters, Washington/Baltimore Business Journals, Bisnow, Delta Associates, September 2017.

TABLE 5
PROJECTED OFFICE VACANCY
Washington Metro Area By Substate | September 2017
(Millions of SF)

	NORTHERN VIRGINIA	SUBURBAN MARYLAND	DISTRICT OF COLUMBIA	METRO AREA TOTAL
INVENTORY				
Inventory at 9/2017	180.1	86.0	142.3	408.4
Pipeline Through 9/2019	5.9	1.2	5.8	12.9
Inventory at 9/2019	**185.9**	**87.2**	**148.1**	**421.3**
SUPPLY VS. DEMAND				
Direct Available Space at 9/2017	24.9	12.0	9.7	46.6
New Supply Through 9/2019	5.9	1.2	5.8	12.9
Direct Available Space Through 9/2019	**30.8**	**13.3**	**15.5**	**59.5**
Total Demand Through 9/2019	3.1	1.0	4.2	8.2
Direct Available Space at 9/2019	**27.7**	**12.3**	**11.3**	**51.3**
VACANCY				
Direct Vacancy at 9/2017	13.8%	14.0%	6.8%	11.4%
Direct Vacancy at 9/2019	14.9%	14.1%	7.6%	12.2%

Projected total demand is derived from two types of demand:
1) Underlying demand -- driven by new job growth.
2) Variable demand -- driven by market conditions and may add to or subtract from total. For example: A firm's decision to lease more space than currently needed to accommodate growth -- or conversely, a firm may be contracting and returning space to the market.

Source: Delta Associates; September 2017.

TABLE 6
OFFICE INVESTMENT SALES VOLUME
Washington Metro Area | 2009 Through Q3 2017

	NORTHERN VA		SUBURBAN MD		DISTRICT OF COLUMBIA		PORTFOLIO		PARTIAL INTEREST		TOTAL	
	Transactions	Total Sales[1]	Transactions	Total Sales[1]	Transactions	Total Sales[1]	Transactions	Total Sales[1]	Transactions	Total Sales[1]	Transactions	Total Sales[1]
YTD 2017	40	$2,331	34	$1,349	26	$2,761	11	$770	4	$323	115	$7,535
Q3 2017	11	$257	9	$357	5	$657	1	$26	0	$0	26	$1,296
2016	85	$2,825	38	$583	38	$3,210	10	$1,192	1	$27	172	$7,837
2015	69	$2,119	32	$741	36	$3,353	7	$751	13	$1,622	157	$8,587
2014	66	$1,644	34	$457	46	$3,715	6	$659	6	$992	158	$7,467
2013	36	$1,077	16	$519	21	$2,505	0	$0	18	$984	91	$5,085
2012	33	$1,819	18	$469	37	$4,166	0	$0	4	$205	92	$6,660
2011	38	$1,828	16	$552	31	$3,175	1	$1,250	1	$105	87	$6,910
2010	19	$1,164	11	$306	21	$2,928	1	$236	6	$547	58	$5,181
2009	15	$561	9	$201	15	$1,266	0	$0	1	$226	40	$2,254

[1] Total sales in millions of dollars.

Source: Real Capital Analytics, Delta Associates; September 2017.

TABLE 7
OFFICE INVESTMENT SALES PRICING
Washington Metro Area | 2009 Through Q3 2017

	NORTHERN VA Average Price/SF	SUBURBAN MD Average Price/SF	DISTRICT OF COLUMBIA Average Price/SF	TOTAL Average Price/SF
YTD 2017	$299	$218	$557	$341
Q3 2017	$233	$236	$523	$312
2016	$200	$133	$567	$268
2015	$264	$215	$639	$427
2014	$271	$132	$548	$369
2013	$239	$241	$556	$352
2012	$279	$168	$487	$355
2011	$297	$224	$481	$373
2010	$253	$184	$498	$335
2009	$233	$123	$383	$298

Source: Real Capital Analytics, Delta Associates; September 2017.

TABLE 8
OFFICE LAND SALES VOLUME
Washington Metro Area | 2011 Through Q3 2017

	NORTHERN VA		SUBURBAN MD		DISTRICT OF COLUMBIA	
	Acres	Gross FAR SF	Acres	Gross FAR SF	Acres	Gross FAR SF
YTD 2017	0.0	0	0.6	93,000	0.0	0
2016	1.9	377,000	0.0	0	0.8	100,000
2015	0.0	0	0.0	0	1.6	N/A
2014	4.3	N/A	0.0	0	0.0	0
2013	32.3	N/A	0.0	0	1.0	135,000
2012	40.5	N/A	1.3	220,000	0.0	0
2011	35.5	0	0.0	0	4.5	1,813,000

FAR = Floor Area Ratio

Source: Real Capital Analytics, Delta Associates; September 2017.

TABLE 9
OFFICE LAND SALES PRICING
Washington Metro Area | 2010 Through Q3 2017

	NORTHERN VA		SUBURBAN MD		DISTRICT OF COLUMBIA	
	Land Price/SF	FAR Price/SF	Land Price/SF	FAR Price/SF	Land Price/SF	FAR Price/SF
YTD 2017	N/A	N/A	$172	$44	$1,424	N/A
2016	$124	$27	N/A	N/A	$625	$205
2015	N/A	N/A	N/A	N/A	$1,424	N/A
2014	$216	N/A	N/A	N/A	N/A	N/A
2013	$21	N/A	N/A	N/A	$762	$96
2012	$19	N/A	$327	$83	N/A	N/A
2011	$7	N/A	N/A	N/A	$629	$68
2010	N/A	N/A	N/A	N/A	$1,431	$144

FAR = Floor Area Ratio

Source: Real Capital Analytics, Delta Associates; September 2017.

THE NORTHERN VIRGINIA OFFICE MARKET Q3

Absorption Strong, Vacancy Declining in Northern Virginia

Of the three substate office markets in the Washington metro area, Northern Virginia's has exhibited the strongest signs of growth over the past two years, after trailing its peers earlier in the recovery period. Demand for office space has been steadily growing and this is clearly reflected in net absorption which has increased for six straight quarters, with 591,000 SF absorbed during the third quarter of 2017. The direct vacancy rate as of September 2017 stands at 13.8%, up 10 basis points from June 2017, and down 10 basis points from September 2016. The Class A vacancy rate in Northern Virginia is 16.6% as of September 2017, an increase of 10 basis points from the second quarter of 2017, and a decrease of 20 basis points from a year prior.

Rent growth has been largely stagnant in Northern Virginia over the past year, and the robust pipeline of new buildings coming to market will likely prevent any major gains. The average effective rent in Northern Virginia stands at $27.11 per SF as of September 2017, an increase of 0.9% from September 2016. We maintain our projection of 1.0% rent growth in 2017.

Office investment sales activity in Northern Virginia cooled off since the feverish first quarter. The volume of office investment sales in the third quarter totaled $257 million across 11 transactions, compared to 13 sales totaling $576 million during the third quarter of 2016. The average sale price during the quarter was $281 per SF, compared to $233 per SF in the third quarter of 2016.

Northern Virginia's office market entered 2017 coming off a positive turnaround in 2016, and the momentum has continued. Construction of office space has resumed as landowners seek to meet the growing demand, but the amount of new space coming to market has prompted concerns of oversupply. There

> *Northern Virginia's office market has exhibited the strongest signs of growth in the Washington metro area over the past two years.*

OFFICE MARKET HIGHLIGHTS
Northern Virginia

NET ABSORPTION
▲ 591,000 SF during the third quarter of 2017, compared to 529,000 SF during the second quarter of 2017.

DIRECT VACANCY RATE
▼ 13.8% at the end of third quarter 2017, up 10 basis points from the second quarter and down 10 basis points from one year prior.

UNDER CONSTRUCTION
5.9 million SF

EFFECTIVE RENTS
▲ Up 0.9% from third quarter 2016

INVESTMENT SALES
▼ $257 million ($233/SF) in third quarter 2017, compared to $576 million ($214/SF) in third quarter 2016

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is also a great deal of uncertainty concerning the presidential administration's contractionary policies on the Washington area office market. Persistent concerns aside, the Northern Virginia office market is very well positioned for solid growth through the end of the year and beyond.

NET ABSORPTION

Net absorption of office space in Northern Virginia has grown every quarter since the second quarter of 2016, and the trend continued in the third quarter of 2017. Net absorption for all classes of space was 591,000 SF, compared to 529,000 SF in the second quarter of 2017, and marked a new high watermark since the beginning of the Great Recession.

The Reston/Herndon submarket led absorption in Northern Virginia during the third quarter, recording 290,000 SF. Loudoun County followed with a surprising 168,000 SF of net absorption—the highest quarterly total since prior to the Great Recession. The rebounding Rosslyn/Courthouse/Ballston submarket continued to improve with 68,000 SF of absorption. Old Town Alexandria experienced the highest amount of negative absorption in the third quarter with -39,000 SF. Year-to-date, a net total of 1.4 million SF of office space has been taken off the market in Northern Virginia.

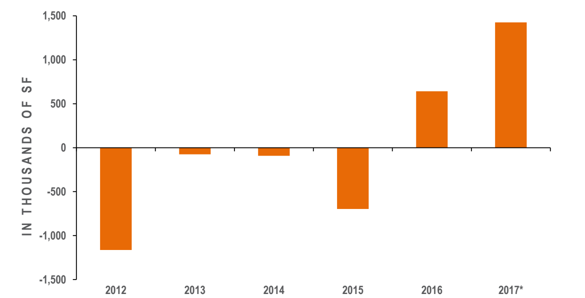
The Northern Virginia Class A office market saw 235,000 SF of net absorption during third second quarter of 2017, compared to 758,000 SF during the second quarter of 2017 and 134,000 SF a year prior. The Reston/Herndon submarket dominated Class A office absorption, with 291,000 SF. The Bailey's/Falls Church/Annandale submarket saw the most negative net absorption among Class A space, totaling negative 105,000 SF during the quarter.

> Net absorption of office space in Northern Virginia has grown every quarter since the second quarter of 2016, and the trend continued in the third quarter of 2017.

LEASING ACTIVITY

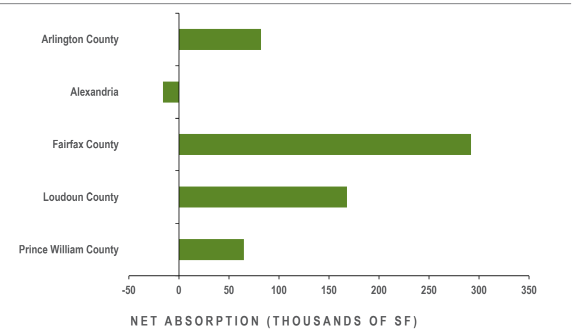
The majority of office leasing activity in Northern Virginia continues to be concentrated in submarkets along Metro's Silver Line. However, the largest lease in the third quarter was signed for space in Springfield near the Franconia/Springfield Blue Line station. That lease

OFFICE NET ABSORPTION
Northern Virginia

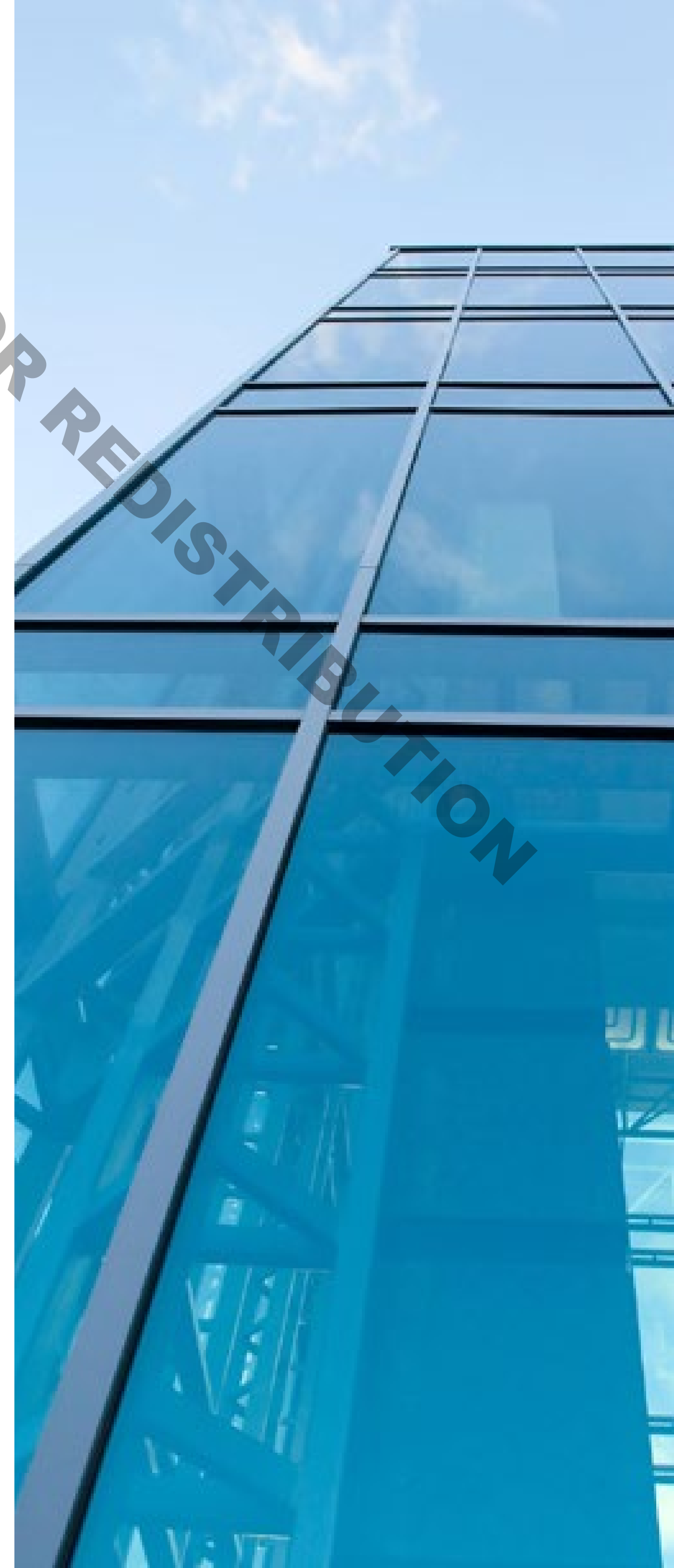


*12 months ending September 2017
Source: Delta Associates; September 2017.

OFFICE NET ABSORPTION
Northern Virginia | Q3 2017



Source: Delta Associates; September 2017.



was for 625,000 SF in a building to be constructed on Boston Properties' site on Springfield Center Drive. The building will be home to the headquarters for the Transportation Security Administration (TSA), which is currently located in Pentagon City.

The deal brings to a close the long saga of the TSA HQ solicitation process which has dragged on for nearly four years. The original award was granted to Prudential Real Estate Investors for space in their existing but completely vacant building at 5001 Eisenhower Ave. in Alexandria. Boston Properties successfully protested the award, forcing GSA to void it and reissue the RFP.

In addition to the TSA lease, GSA also renewed 88,000 SF of space for the Department of the Interior in Herndon.

The juggernaut that is the Tysons/Vienna/Merrifield submarket continued to lead in leasing activity during the third quarter. During the quarter there were a trio of large private sector leases in Metro-accessible space in Tysons. At The Boro, Meridian Group's 1.7 million SF mixed-use center, law firm Hogan Lovells secured 44,500 SF at Boro Tower. At 1600 Tysons Blvd., general contractor Jensel Phelps signed a lease with Lerner Enterprises for 30,000 SF. Just down the street, Lerner has been filling up its recently-delivered office tower at 1775 Tysons Blvd. at a fairly brisk pace. The latest tenant to sign was Park Hotels, whose headquarters which will occupy 31,000 SF in the building.

Just a few months after Amazon's AWS division leased an entire 400,000 SF Class A building in the Reston/Herndon submarket, the tech giant seems to be in play once again in Northern Virginia. However, the requirement is far larger and the competition is nationwide. Amazon's planned HQ2, as outlined in the RFP, will require 500,000 SF initially, but the total SF will balloon to eight million SF over the following decade.

While many had assumed that burgeoning Tysons would be the de facto candidate in Northern Virginia for Amazon's HQ2, Fairfax County partnered with Loudoun County for a bid including the state-owned and under-utilized Center for Innovative Technology in Herndon. The proximity to Dulles Airport, the Silver Line, and the future AWS office are considered unique advantages for the site, which includes an existing 173,000 SF building and 13.5 acres of undeveloped land. That said, the Fairfax/Loudoun bid isn't the only one from Northern Virginia, as both Arlington and Alexandria are expected to bid as well.

Looking ahead, most new leases will continue to be for Metro-proximate buildings, including those along the Silver Line, especially in Tysons. With the economic recovery in full swing, private sector firms are looking to expand to accommodate new hires. President Trump has made clear that he plans to boost military spending, allocating a $50 billion increase to defense in his fiscal year 2018 budget proposal. As a result, we expect to see a significant increase in leasing activity from defense contractors, which have a large presence in Northern Virginia. Unfortunately, a nearly equivalent amount of budget cuts to other federal agencies could have an adverse impact on submarkets with large federal tenants.

VACANCY RATE

Northern Virginia's direct vacancy rate as of September 2017 stands at 13.8%, up 10 basis points from June 2017, and down 10 basis points from September 2016. As of the third quarter of 2017, the Bailey's/Falls Church/ Annandale submarket has the highest overall office vacancy rate in Northern Virginia at 33.7%, followed closely by Springfield/I-95 at 33.5%. Prince William County continues to have the lowest vacancy rate at 7.0%. The vacancy rate in the Tysons/Vienna/Merrifield submarket—the largest in Northern Virginia—is 10.4% as of September 2017.

The Class A vacancy rate in Northern Virginia is 16.6% as of September 2017, an increase of 10 basis points from the second quarter of 2017, and a decrease of 20 basis points from a year prior. Class A office space along Metro corridors, and the Silver Line in particular, has been outperforming other Class A properties, and this trend should continue in the coming years. The McLean submarket has the lowest Class A vacancy rate in Northern Virginia at 10.3%, while the Loudoun County submarket has the highest at 44.3%.

The completion of Phase II of the Silver Line will eventually help Loudoun County's troubled Class A market, but this is not scheduled until 2020, and very little of the county's existing stock is located close to the future Metro stations. High vacancy remains a problem across many of Northern Virginia's older suburban submarkets as well, particularly those lacking access to Metrorail.

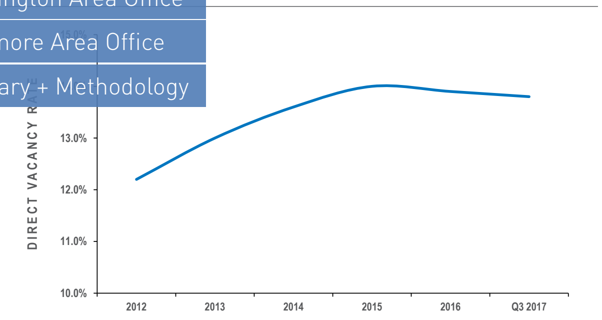
PIPELINE

There is 5.9 million SF of office space under construction in Northern Virginia as of September 2017. The Tysons/ Vienna/ Merrifield submarket has the most office space under construction with 1.8 million SF. Nearly all of this new space will be Metro-accessible, highlighting the importance of transit access in the current market. In addition, virtually all of the space under construction is pre-leased. In general, speculative construction of new office buildings outside of Tysons will remain an unlikely prospect over the next two to three years.

There were multiple building deliveries in Northern Virginia during the third quarter of 2017, three of which are fully leased or owner-occupied:

- The 150,000 SF building at 4097 Monument Corner Dr. in the Fairfax Center submarket which will house Apple Federal Credit Union's Headquarters

OVERALL DIRECT OFFICE VACANCY RATE



Note: Vacancy rate include single-tenant/owner-occupied and multi-tenant buildings.
Source: Delta Associates; September 2017.

VACANCY RATES AND VACANT SPACE (ALL CLASSES) Northern Virginia | Sept. 2016 vs. Sept. 2017		
	SEPTEMBER 2016	SEPTEMBER 2017
VACANCY RATE		
Direct	13.9%	13.8%
VACANT SPACE (MILLIONS OF SF)		
Direct	25.0	24.9

Source: Delta Associates; September 2017.

- The 166,800 SF building at 1000 N. Glebe Rd., in Arlington County's Rosslyn/Courthouse/Ballston submarket. The building will be fully occupied by Marymount University
- The 675,000 SF National Science Foundation headquarters in Alexandria's Eisenhower Ave./I-395 submarket.
- The 378,000 SF building at 1900 Reston Metro Plaza in the Reston/Herndon submarket
- One Loudon Building 6, the 72,000 SF building at 20408 Bashan Dr. in the Loudoun County submarket.

As of September 2017, there is 27.0 million SF of office space planned in Northern Virginia, with roughly two-thirds located in Fairfax and Loudoun counties. To qualify as planned, the size and location is determined, and the project is in one of many phases of the planning process: site plan review, design review, environmental compliance review, zoning, etc. We do not expect many of these projects to be constructed speculatively within the next two years, given current market conditions. Many of the Loudoun County projects are not likely to proceed at all, given that submarket's very high Class A vacancy rate and the trend of tenants relocating from suburban office parks to more walkable, transit-accessible submarkets.

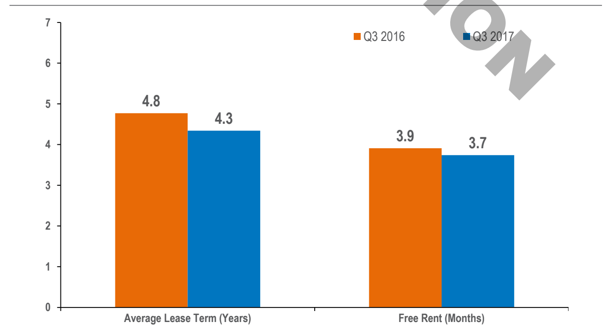
Proposed office developments in Northern Virginia total 33.5 million SF as of September 2017. Most of the proposed space is situated along the Silver Line in the Tysons/Vienna/Merrifield, Reston/Herndon, and Loudoun County submarkets. To qualify as proposed, the developer has proposed to build a project (either formally or informally) but has not submitted any plans for review.

EFFECTIVE RENTS

Rent growth has been largely stagnant in Northern Virginia over the past year, and the crammed pipeline of new buildings coming to market will likely prevent any major gains. The average effective rent in Northern Virginia stands at $27.11 per SF as of September 2017, an increase of 0.9% from September 2016. Rent growth has been dampened somewhat by generous concession packages and strong competition among building owners in assets in lease-up. Face rents average $32.53 per SF as of September 2017, a marginal increase over $32.37 per SF a year prior. We maintain our projection of 1.0% rent growth in 2017. However, the wide performance disparity between close-in submarkets, such as Tysons/Vienna/Merrifield and Rosslyn/Courthouse/Ballston, and outer Beltway submarkets, such as Chantilly/Rte. 28 South and Springfield/I-95, will remain.

LEASE TERMS & CONCESSIONS

Northern Virginia | Q3 2016 VS. Q3 2017



Source: REIS, Delta Associates; September 2017.

OFFICE RENTS PER SF Northern Virginia | Sept. 2016 vs. Sept. 2017	
SEPTEMBER 2016	SEPTEMBER 2017
AVERAGE FACE RENT	
$32.37	$32.53
AVERAGE EFFECTIVE RENT	
$26.87	$27.11

Source: REIS, Delta Associates; September 2017.

INVESTMENT SALES

Office investment sales activity in Northern Virginia cooled off since the feverish first quarter. The volume of office investment sales in the third quarter totaled $257 million across 11 transactions, compared to 13 sales totaling $576 million during the third quarter of 2016. The average sale price during the quarter was $281 per SF, compared to $233 per SF in the third quarter of 2016.

Notable office building transactions in Northern Virginia during the third quarter of 2017:

- Rockpoint Group purchased Tysons International Plaza at 1919-1921 Gallows Road in Tysons for $132 million at $280/SF from Tishman Speyer. The 471,400 SF property is 83% occupied. This acquisition was just the most recent for Rockpoint Group in Tysons in 2017. Earlier in the year the private equity firm purchased the office buildings at 1410 Spring Hill Rd. and 7901 Jones Branch Dr., and acquired a majority interest in 1600 International Dr.
- 1680 Duke St. in the Old Town Alexandria submarket was traded for $19 million at $398/SF. The buyer was Kassabian Realty LLC, while Normandy Real Estate Partners was the seller.

We expect investment sales activity in Northern Virginia to remain elevated in 2017. Northern Virginia has a large selection of older Class B buildings in transit-proximate locations, providing potential investors with appealing renovation and repositioning opportunities. Investors continue to see the long-term potential—with a strong existing tenant base and a highly-educated labor force—in Northern Virginia and are investing despite the short-term challenges.

NORTHERN VIRGINIA OUTLOOK

Northern Virginia's office market entered 2017 coming off a positive turnaround in 2016, and the momentum has continued. Construction of office space has resumed as landowners seek to meet the growing demand, but the amount of new space coming to market has prompted concerns of oversupply. There is also a great deal of uncertainty concerning the presidential administration's contractionary policies and their effects on the Washington area office market.

Persistent concerns aside, the Northern Virginia office market is poised for solid growth through the end of the year and beyond. High-wage private sector companies are rapidly adding new positions and seeking room to expand. Most new leases have been for high-quality, transit-accessible space. As a result, there is a clear market bifurcation between submarkets along Metro corridors and those that are not as well-served by Metrorail, and this will likely persist well beyond 2017.

"There is a clear market bifurcation between submarkets along Metro corridors and those that are not as well-served by Metrorail, and this will likely persist well beyond 2017."

TABLE 10
OFFICE MARKET INDICATORS - ALL SPACE
Northern Virginia | 2014 Through Q3 2017

	RENTABLE BUILDING AREA (SF)	AVAILABLE (SF)	DIRECT VACANCY RATE AT END OF:				NET ABSORPTION (SF)			
SUBMARKET	Q3 2017	Q3 2017	2014	2015	2016	Q3 2017	2014	2015	2016	Q3 2017
ARLINGTON COUNTY										
Rosslyn/Courthouse/Ballston	22,412,284	3,100,000	14.8%	15.7%	15.9%	13.8%	(587,000)	(191,000)	(43,000)	68,000
Crystal City/Pentagon City	15,308,171	2,492,000	14.7%	15.1%	14.5%	16.3%	143,000	(74,000)	100,000	14,000
Arlington County Total	**37,720,455**	**5,592,000**	**14.8%**	**15.5%**	**15.3%**	**14.8%**	**(444,000)**	**(265,000)**	**57,000**	**82,000**
ALEXANDRIA										
Old Town Alexandria	6,649,885	595,000	7.9%	8.0%	8.1%	8.9%	24,000	(34,000)	(11,000)	(39,000)
Eisenhower Ave./I-395	8,458,733	1,142,000	12.7%	14.9%	14.1%	13.5%	53,000	(184,000)	65,000	23,000
Alexandria Total	**15,108,618**	**1,737,000**	**10.6%**	**11.8%**	**11.5%**	**11.5%**	**77,000**	**(218,000)**	**54,000**	**(16,000)**
FAIRFAX COUNTY										
Springfield/I-95	5,423,334	1,815,000	30.0%	31.6%	31.4%	33.5%	(293,000)	(85,000)	6,000	13,000
Bailey's/Falls Church/Annandale	5,605,697	1,887,000	33.4%	36.2%	33.3%	33.7%	(30,000)	(159,000)	167,000	(8,000)
Reston/Herndon	29,313,888	3,629,000	12.5%	13.2%	13.2%	12.4%	122,000	(209,000)	7,000	290,000
Tysons/Vienna/Merrifield	40,817,479	4,254,000	9.2%	8.9%	9.2%	10.4%	739,000	123,000	306,000	25,000
McLean	979,365	103,000	11.9%	10.2%	10.4%	10.5%	(13,000)	17,000	(1,000)	(12,000)
Fairfax City/Oakton	3,913,952	709,000	16.2%	17.6%	17.2%	18.1%	(33,000)	(57,000)	16,000	(8,000)
Fairfax Center	6,741,703	1,166,000	12.9%	12.9%	15.2%	17.3%	(142,000)	0	(154,000)	(11,000)
Chantilly/Rte. 28 South	13,943,643	1,699,000	13.8%	14.4%	13.8%	12.2%	(202,000)	(85,000)	84,000	3,000
Fairfax County Total	**106,739,061**	**15,262,000**	**13.6%**	**14.0%**	**14.0%**	**14.3%**	**148,000**	**(455,000)**	**431,000**	**292,000**
LOUDOUN COUNTY										
Loudoun County Total	**14,337,351**	**1,913,000**	**15.8%**	**14.5%**	**14.3%**	**13.3%**	**134,000**	**216,000**	**65,000**	**168,000**
PRINCE WILLIAM COUNTY										
Prince William County Total	**6,147,496**	**433,000**	**8.0%**	**7.6%**	**7.0%**	**7.0%**	**(7,000)**	**25,000**	**35,000**	**65,000**
Northern Virginia Total	**180,052,981**	**24,937,000**	**13.6%**	**14.0%**	**13.9%**	**13.8%**	**(92,000)**	**(697,000)**	**642,000**	**591,000**

Source: REIS, Delta Associates; September 2017.

TABLE 11
OFFICE MARKET INDICATORS - CLASS A
Northern Virginia | 2014 Through Q3 2017

	RENTABLE BUILDING AREA (SF)	VACANT AVAILABLE (SF)	DIRECT VACANCY RATE	NET ABSORPTION (SF)			
SUBMARKET	Q3 2017	Q3 2017	Q3 2017	2014	2015	2016	Q3 2017
ARLINGTON COUNTY							
Rosslyn/Courthouse/Ballston	13,527,000	2,172,000	16.1%	(105,000)	(231,000)	46,000	93,000
Crystal City/Pentagon City	9,899,000	1,433,000	14.5%	509,000	46,000	119,000	27,000
Arlington County Total	**23,426,000**	**3,605,000**	**15.4%**	**404,000**	**(185,000)**	**165,000**	**120,000**
ALEXANDRIA							
Old Town Alexandria	1,271,000	240,000	18.9%	29,000	(13,000)	(13,000)	(9,000)
Eisenhower Ave./I-395	4,886,000	567,000	11.6%	(14,000)	(154,000)	12,000	12,000
Alexandria Total	**6,157,000**	**807,000**	**13.1%**	**15,000**	**(167,000)**	**(1,000)**	**3,000**
FAIRFAX COUNTY							
Springfield/I-95	2,404,000	991,000	41.2%	(81,000)	17,000	(24,000)	(11,000)
Bailey's/Falls Church/Annandale	4,229,000	1,044,000	24.7%	(11,000)	(180,000)	142,000	(105,000)
Reston/Herndon	16,378,000	1,835,000	11.2%	29,000	(166,000)	5,000	291,000
Tysons/Vienna/Merrifield	17,479,287	2,559,000	14.6%	1,042,000	(131,000)	254,000	(42,000)
McLean	341,000	35,000	10.3%	9,000	(4,000)	3,000	3,000
Fairfax City/Oakton	1,348,000	233,000	17.3%	22,000	(29,000)	1,000	4,000
Fairfax Center	3,216,000	569,000	17.7%	(93,000)	(22,000)	(3,000)	2,000
Chantilly/Rte. 28 South	3,949,000	939,000	23.8%	(87,000)	(71,000)	(67,000)	(15,000)
Fairfax County Total	**49,344,287**	**8,205,000**	**16.6%**	**830,000**	**(586,000)**	**311,000**	**127,000**
LOUDOUN COUNTY							
Loudoun County Total	**1,696,099**	**752,000**	**44.3%**	**32,000**	**49,000**	**10,000**	**(15,000)**
Northern Virginia Total	**80,623,386**	**13,369,000**	**16.6%**	**1,281,000**	**(889,000)**	**485,000**	**235,000**

Source: REIS, Delta Associates; September 2017.

TABLE 12
OFFICE DEVELOPMENT PIPELINE
Northern Virginia | Q3 2017

SUBMARKET	UNDER CONSTRUCTION (SF)	PLANNED (SF)	PROPOSED (SF)	DELIVERED (SF)[1]
ARLINGTON COUNTY				
Rosslyn/Courthouse/Ballston	737,730	938,361	3,465,351	166,767
Crystal City/Pentagon City	-	1,333,487	4,251,464	-
Arlington County Total	**737,730**	**2,271,848**	**7,716,815**	**166,767**
ALEXANDRIA				
Old Town Alexandria	100,000	-	107,000	-
Eisenhower Ave./I-395	-	3,066,000	465,000	675,000
Alexandria Total	**100,000**	**3,066,000**	**572,000**	**675,000**
FAIRFAX COUNTY				
Springfield/I-95	-	1,378,130	2,780,570	-
Bailey's/Falls Church/Annandale	-	-	144,000	-
Reston/Herndon	-	4,397,996	5,954,375	378,000
Tysons/Vienna/Merrifield	1,789,810	7,143,573	7,050,150	-
McLean	-	-	584,285	-
Fairfax City/Oakton	-	-	-	-
Fairfax Center	-	-	-	150,000
Chantilly/Rte. 28 South	240,000	272,131	1,701,587	-
Fairfax County Total	**2,029,810**	**13,191,830**	**18,214,967**	**528,000**
LOUDOUN COUNTY				
Loudoun County	**3,000,000**	**6,164,035**	**5,662,044**	**72,000**
PRINCE WILLIAM COUNTY				
Prince William County	**-**	**2,303,000**	**1,367,200**	**-**
Northern Virginia Total	**5,867,540**	**26,996,713**	**33,533,026**	**1,441,767**

[1]Buildings partially or fully delivered during the quarter.

Source: REIS, Delta Associates; September 2017.

TABLE 13
RENT RATE ANALYSIS - ALL CLASSES OF BUILDINGS
Northern Virginia | 2015 Through Q3 2017

	AVERAGE FACE RENT ($/SF, GFS) FOR:			AVERAGE EFFECTIVE RENT ($/SF, GFS) FOR:			12-MONTH	AVG. TI PACKAGE ($/SF)	
SUBMARKET	Q4 2015	Q4 2016	Q3 2017	Q4 2015	Q4 2016	Q3 2017	% CHANGE	Q4 2016	Q3 2017
ARLINGTON COUNTY									
Rosslyn/Courthouse/Ballston	$40.35	$40.68	$40.54	$34.11	$34.37	$34.31	-0.1%	$36.78	$41.42
Crystal City/Pentagon City	$39.69	$39.11	$38.55	$35.30	$34.80	$34.45	-1.8%	$42.18	$48.04
Arlington County Total	**$40.09**	**$40.08**	**$39.65**	**$34.58**	**$34.54**	**$34.37**	**-0.7%**	**$38.85**	**$44.37**
ALEXANDRIA									
Old Town Alexandria	$30.69	$31.32	$31.63	$25.85	$26.28	$26.59	1.4%	$43.83	$53.86
Eisenhower Ave./I-395	$33.62	$34.61	$34.68	$28.34	$29.19	$29.28	1.1%	$26.68	$29.09
Alexandria Total	**$32.75**	**$33.58**	**$33.63**	**$27.60**	**$28.28**	**$28.35**	**0.9%**	**$32.05**	**$37.57**
FAIRFAX COUNTY									
Springfield/I-95	$27.20	$27.19	$27.13	$22.09	$22.15	$22.08	0.0%	$21.96	$23.77
Bailey's/Falls Church/Annandale	$31.02	$31.22	$31.51	$26.23	$26.43	$26.74	1.3%	$39.60	$48.57
Reston/Herndon	$30.85	$31.35	$32.05	$24.90	$25.29	$25.97	2.9%	$31.57	$34.68
Tysons/Vienna/Merrifield	$33.62	$34.30	$34.20	$27.95	$28.59	$28.61	0.4%	$37.13	$42.87
McLean	$33.11	$34.11	$35.47	$28.74	$29.70	$30.97	7.0%	$25.26	$28.48
Fairfax City/Oakton	$25.83	$26.71	$27.40	$20.37	$21.15	$21.81	3.6%	$15.78	$17.26
Fairfax Center	$29.56	$29.93	$30.26	$25.12	$25.43	$25.75	1.7%	$35.60	$41.00
Chantilly/Rte. 28 South	$26.35	$26.33	$26.57	$21.14	$21.16	$21.41	1.5%	$44.25	$51.60
Fairfax County Total	**$30.22**	**$30.67**	**$31.06**	**$24.82**	**$25.23**	**$25.65**	**1.9%**	**$34.06**	**$38.90**
LOUDOUN COUNTY									
Loudoun County Total	**$23.77**	**$24.58**	**$24.89**	**$17.97**	**$18.59**	**$18.87**	**1.1%**	**$36.23**	**$43.77**
PRINCE WILLIAM COUNTY									
Prince William County Total	**$21.36**	**$21.58**	**$21.69**	**$15.91**	**$16.10**	**$16.20**	**0.7%**	**$27.25**	**$30.75**
Northern Virginia Average	**$32.01**	**$32.40**	**$32.53**	**$26.57**	**$26.90**	**$27.11**	**0.9%**	**$35.09**	**$40.27**
Northern Virginia Class A Average	**$35.88**	**$36.17**	**$35.98**						

Source: REIS, Delta Associates; September 2017.

TABLE 14
LEASING METRICS
Northern Virginia | Q3 2017

SUBMARKET	FREE RENT (MOS)	LEASE TERM (YRS)	TENANT IMPROVEMENTS	OPERATING EXPENSES
Rosslyn/Courthouse/Ballston	3.59	4.28	$41.42	$12.92
Crystal City/Pentagon City	3.78	3.69	$48.04	$11.14
Old Town Alexandria	4.47	4.24	$53.86	$14.15
Eisenhower Ave./I-395	2.99	4.36	$29.09	$10.95
Springfield/I-95	4.00	3.10	$23.77	$8.50
Bailey's/Falls Church/Annandale	4.70	5.42	$48.57	$10.75
Reston/Herndon	2.70	4.47	$34.68	$12.68
Tysons/Vienna/Merrifield	3.70	4.10	$42.87	$10.78
McLean	2.40	4.60	$28.48	$9.75
Fairfax City/Oakton	6.20	5.10	$17.26	$9.74
Fairfax Center	4.00	5.30	$41.00	$12.90
Chantilly/Rte. 28 South	4.20	5.90	$51.60	$9.95
Loudoun County	3.75	3.86	$43.77	$9.94
Prince William County	2.89	2.57	$30.75	$8.22
Northern Virginia Average	**3.74**	**4.34**	**$40.27**	**$11.18**

Note: Tenant Improvements and Operating Expenses are per SF.

Source: REIS, Delta Associates; September 2017.

THE SUBURBAN MARYLAND OFFICE MARKET

Q3

Third Quarter Brings Little Reprieve to Office Market's Troubles

The Suburban Maryland office market's struggles continued in the third quarter of 2017, in some submarkets more than others. Net absorption in the Suburban Maryland office market during the third quarter improved from the prior two quarters, but remained negative at -11,000 SF. Net absorption of Class A office space in Suburban Maryland during the third quarter of 2017 was also negative, at 95,000 SF, on top of negative 91,000 SF in the second quarter.

Annual rent growth in Suburban Maryland remains fairly robust. The average effective office rent as of September 2017 is $23.78 per SF, which is up 1.4% from a year prior. Limited new supply is helping to keep local office market conditions tighter than they would be otherwise. That said, the Bethesda/Chevy Chase submarket is on the verge of a possible construction boom. Two projects have broken ground this year, and at least another three are projected to break ground in the near-term (including Marriott's 700,000 SF build-to-suit headquarters).

Recent leasing activity in Suburban Maryland has been driven primarily by the private sector, although one of the largest leases of the year was signed in the third quarter for a federal tenant. During this past quarter, GSA agreed to lease 575,000 SF of office space in Camp Springs for a new headquarters for the U.S. Citizenship and Immigration Services (USCIS). In a major win for Montgomery County, Fox 5/WTTG/WDCA, the Washington region's Fox affiliate, signed a lease that relocates their offices from Friendship Heights in the District to the under-construction office building at 7272 Wisconsin Ave. in Bethesda. The media group announced that it will take 57,500 SF in the 23-story, 358,000 SF office tower which will accommodate 200 employees.

> *We expect improvement in the final quarter of 2017 and in 2018 as demand for office space has steadily grown thanks to the renewed local economy.*

OFFICE MARKET HIGHLIGHTS
Suburban Maryland

NET ABSORPTION
Negative 11,000 SF in third quarter 2017, up from negative 134,000 SF in second quarter of 2017

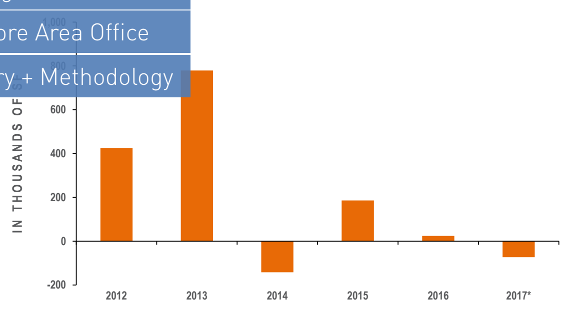
DIRECT VACANCY RATE
14.0% as of the end of third quarter 2017, up 10 basis points from the end of second quarter 2017 and up 60 basis points from one year prior

UNDER CONSTRUCTION
418,000 SF

EFFECTIVE RENTS
Up 1.4% since third quarter 2016

INVESTMENT SALES
$357 million ($236/SF) during third quarter 2017, compared to $238 million ($179/SF) during third quarter 2016

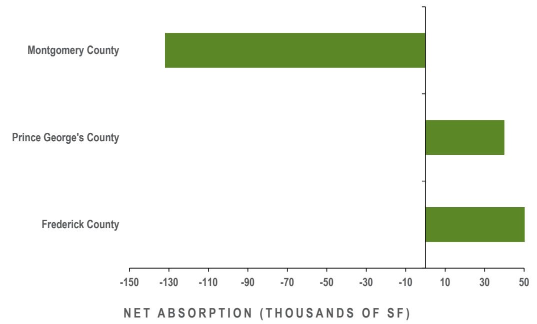
OFFICE NET ABSORPTION



*12 months ending September 2017
Source: Delta Associates; September 2017.

OFFICE NET ABSORPTION

Suburban Maryland | Q3 2017



Source: Delta Associates; September 2017.

Growth in the Suburban Maryland office market has been unexpectedly sluggish so far in 2017, especially in comparison to its metro area peers. Three quarters into the year, absorption has yet to turn positive, although it did come close in the third quarter. That said, market weakness does not appear to be uniform across Suburban Maryland, and larger submarkets dominated by traditional office parks seem to be holding the entire market back. We expect improvement in the final quarter of 2017 and in 2018 as demand for office space has steadily grown thanks to the renewed local economy. While construction activity has begun to pick up somewhat over the past year or so, much of the space is pre-leased which shouldn't lead to major increases in the vacancy rate in the period ahead, unlike Northern Virginia and the District.

NET ABSORPTION

Net absorption in the Suburban Maryland office market during the third quarter of 2017 improved from the prior two quarters, but remained negative at -11,000 SF. This compares with -134,000 SF in both the first and second quarters of 2017, and positive 103,000 SF in the third quarter of 2016. The Frederick County submarket again saw the greatest amount of positive absorption during the quarter at 81,000 SF, followed by Beltsville/College Park with 51,000 SF. As was the case in the first half of 2017, the struggling I-270/Rockville submarket held the market back in the third quarter, with 108,000 SF of negative absorption. The neighboring Rockville Pike submarket did experience a turnaround though, with 41,000 SF of net absorption recorded during the third quarter, after a total of negative 194,000 SF recorded in the first two quarters of 2017.

Net absorption of Class A office space in Suburban Maryland during the third quarter of 2017 was again negative, at 95,000 SF, on top of negative 91,000 SF in the second quarter. The previously struggling Rockville

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Pike submarket posted the most Class A absorption during the quarter at 41,000 SF, while the neighboring I-270/Rockville corridor saw the most Class A space put back on the market during the quarter, with negative 72,000 SF of net absorption.

We expect absorption in Suburban Maryland to turn positive before the end of 2017 as leasing activity grows and job growth remains strong. Further improvement in Class A absorption is likely on the near-term horizon as the majority of tenant demand is for Class A space.

LEASING ACTIVITY

Recent leasing activity in Suburban Maryland has been driven primarily by the private sector, although one of the largest leases of the year was signed in the third quarter for a federal tenant. During this past quarter, GSA agreed to lease 575,000 SF of office space in a new building to be constructed near the Branch Ave. Metro station in Camp Springs. The space will be used for a new headquarters for the U.S. Citizenship and Immigration Services (USCIS), which will be consolidating from six separate locations in the metro area. While the lease is certainly a win for Prince George's County, it is a net loss for the metro office market (as is often the case these days with federal leases), as the agency's densification results in a reduction of 128,000 SF of occupied space.

In a major win for Montgomery County, Fox 5/WTTG/WDCA, the Washington region's Fox affiliate, signed a lease that relocates their offices from Friendship Heights in the District to the under-construction office building at 7272 Wisconsin Ave. in Bethesda. The media group announced that it will take 57,5000 SF in the 23-story, 358,000 SF office tower which will accommodate 200 employees. Carr Properties just began demolition activities on the existing "Apex Building" at the site, which will also be the location of two new multifamily towers, the Bethesda Purple Line station, and a second entrance to the Bethesda Red Line station. Next door, JBG Smith announced that their headquarters would anchor the speculative trophy building currently under construction at 4747 Bethesda Ave. These leases seem to indicate a pending flurry of activity in Bethesda, the most significant of which is Marriott's earlier lease for 700,000 SF (see sidebar).

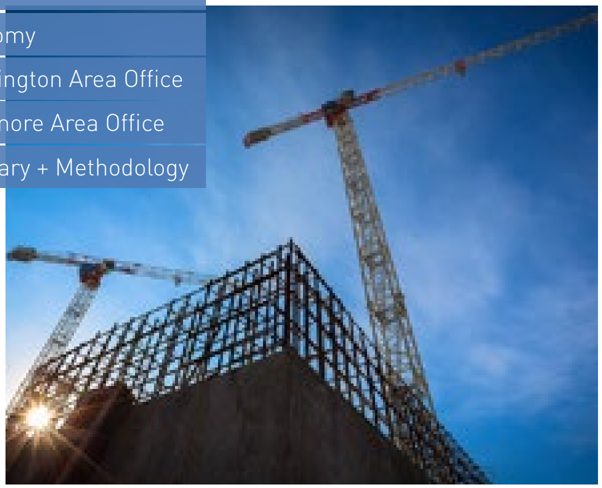
VACANCY RATE

The direct office vacancy rate for all classes of space in Suburban Maryland is 14.0% as of September 2017, up 10 basis points from the second quarter of 2017 and up 60 basis points from one year prior. In Montgomery County, the Gaithersburg/Germantown submarket has the lowest vacancy rate as of the third quarter of 2017, at 11.3%, and the I-270/Rockville submarket has the highest vacancy rate at 14.4%. In Prince George's County, the Greenbelt submarket has, by far, the highest vacancy rate at 38.3% as of September 2017. The Laurel/Calverton submarket has the county's lowest office vacancy rate at 8.1%. The overall vacancy rate in Frederick County stood at 7.1% as of September 2017.

The Class A vacancy rate in Suburban Maryland is 16.1% as of September 2017, up 50 basis points from September 2017, and unchanged from September 2017. The Greenbelt submarket claimed the highest Class A vacancy rate in the second quarter at 40.1%, while the adjacent Lanham/Landover/Largo submarket boasted the lowest, at 5.3%.

PIPELINE

As of September 2017, there is 1.25 million SF of office space under construction in Suburban Maryland. Much of this space is specialty/pre-leased space including: the new 303,000 SF office building in Wheaton that will serve as headquarters for the Montgomery County Planning Department and other county agencies, and a 121,700 "net-zero" addition to biotech United Therapeutics rapidly-expanding campus in downtown Silver Spring. At National Harbor in Prince George's County, Trammell Crow is building a 93,100 SF medical office building that is already 62% pre-leased. In addition to these, a number



of speculative office projects in the flagship Bethesda/Chevy Chase submarket have recently broken grown or are nearing approvals (see sidebar).

As of the third quarter of 2017, there is 11.5 million SF of planned office space in Suburban Maryland. To qualify as planned, size and location are determined and the project is in one of many phases of the planning process: site plan review, design review, environmental compliance review, zoning, etc. More than half of the planned office space in Suburban Maryland is located in the long-delayed Konterra development in the Laurel/Calverton submarket. This project includes 3.8 million SF of planned office space. Given current market conditions, we expect few, if any, of the planned projects to deliver within the next two years.

Proposed projects in Suburban Maryland total 11.5 million SF as of September 2017. To qualify as proposed, the developer must have proposed to build a project (either formally or informally) but has not submitted any plans for review. We do not expect any of these projects to be completed within the next two years.

In the I-270/Rockville and Gaithersburg/Germantown submarkets, there is an extremely limited supply of available specialized space for tenants in the county's booming life sciences sector. According to a recent JLL report, vacancy is currently under 4% and continuing to shrink. Despite the tight supply, new speculative construction for specialized laboratory/office space remains difficult to finance due to the high-risk nature of the industry. However, Alexandria Real Estate—which owns much of the lab/office space in the region—decided to take advantage of the tight market conditions and has begun converting 5 Research Court in Rockville to a 50,000 SF building for office/lab tenants, as reported in the Montgomery Newsletter. In addition, JBG Smith and John Hopkins University received site plan approval in July for a 69,000 SF laboratory building at 9615 Medical Center Dr. in the I-270/Rockville submarket.

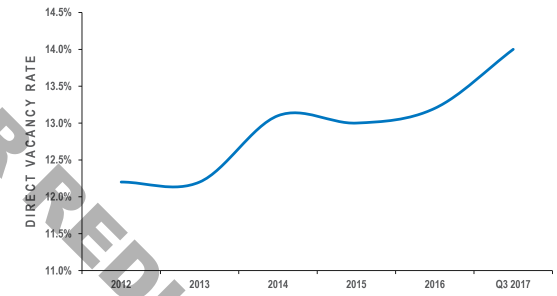
EFFECTIVE RENTS

The average effective office rent as of September 2017 is $23.78 per SF, which is up 1.4% from a year prior. At an average of $30.47 per SF, the Bethesda/Chevy Chase submarket continues to command the highest effective rents in Suburban Maryland by a wide margin. Frederick County remains the most affordable submarket with effective rents averaging $14.12 per SF.

We expect annual rent growth in Suburban Maryland to be between 1.5% and 2.0% in 2017, with more substantial growth coming later as supply tightens. We expect newer office buildings to experience more material rent gains in the near term. The availability of such space is limited, particularly in close proximity to Metrorail stations.

OFFICE VACANCY RATE

Suburban Maryland



Note: Vacancy rate include single-tenant/owner-occupied and multi-tenant buildings.
Source: Delta Associates; September 2017.

DIRECT VACANCY RATES

Suburban Maryland | All Classes of Space

	SEPTEMBER 2016	SEPTEMBER 2017
Montgomery County	11.9%	12.8%
Prince George's County	19.7%	19.9%
Frederick County	8.1%	7.1%
Total, Suburban MD	**13.4%**	**14.0%**

Source: Delta Associates; September 2017.

BETHESDA RISING

Bethesda/Chevy Chase is one of the region's premier office submarkets, with a wealth of reputable federal, financial and professional services tenants. However, for nearly a decade, new development in the office market has been largely non-existent, as it has been in much of the Washington region, despite one of the region's lowest Class A vacancy rates. However, the inertia has abruptly come to an end as several new office buildings have begun construction or are working their way through approvals to break ground.

The sudden onset of construction activity can be attributed to a number of factors, including: Marriott's decision to relocate to downtown Bethesda from the Rock Spring office park; the funding and commencement of construction of the Purple Line light rail line; and the approval of a new downtown sector plan that dramatically increases maximum building heights while allowing developers to build beyond mapped density through new mechanisms. Below is a summary of the new office towers coming to downtown Bethesda. Also see our recent Delta Download Blog post on Bethesda's construction boom.

7272 WISCONSIN AVENUE

Size:	358,000 SF
Height:	23 stories
Signed Tenant:	Fox 5 WTTG/WDCA (57,500 SF)
Status:	Demolition Underway

7750 WISCONSIN AVENUE

Size:	825,000 SF
Height:	21 stories
Signed Tenant:	Marriott International (825,500 SF)
Status:	Groundbreaking scheduled for the third quarter of 2018

7359 WISCONSIN AVENUE

Size:	400,000 SF
Height:	21 stories (office component)
Signed Tenant:	N/A
Status:	Demolition to commence in the second quarter of 2018

4747 BETHESDA AVENUE

Size:	280,000 SF
Height:	15 stories
Signed Tenant:	JBG Smith (95,500 SF)
Status:	Under Construction

4 BETHESDA METRO CENTER

Size:	~500,000 SF
Height:	~21 stories
Signed Tenant:	N/A
Status:	Seeking entitlements. (May be multifamily instead.)

INVESTMENT SALES

There were nine office investment sales in Suburban Maryland during the third quarter of 2017. The total value of these transactions was $357.6 million at $236/SF. This compares to 13 sales totaling $187.3 million at $116/SF in the second quarter, and 14 sales totaling $238.0 million at $179/SF in the third quarter of 2016.

The most notable office sales in Suburban Maryland during the third quarter of 2017 were a pair of transactions in Bethesda:

- The Donohoe Companies and USAA Real Estate jointly acquired the recently renovated office building at 7101 Wisconsin Ave. Allstate and Brandywine Realty Trust received $105.7 million in exchange for the building which traded at $474/SF. Donohoe is the building's largest tenant after leasing 45,000 SF for its headquarters in early 2016.
- Further north, MRP Realty and Rockpoint Group divested the 357,000 SF Montgomery Tower building at 4550 Montgomery Ave. The building traded to French investor AXA for $140 million at $392/SF. The property was the sole remaining portion of the Bethesda Crossing complex owned by the MRP/Rockpoint JV after the sale of 7315 Wisconsin Ave to JP Morgan Asset Management in spring of 2015 for $150 million. The JV had originally purchased the entire 710,000 SF property for $205 million in 2013 and promptly invested $30 million in renovations.

SUBURBAN MARYLAND OUTLOOK

Growth in the Suburban Maryland office market has been unexpectedly sluggish so far in 2017, especially in comparison to its metro area peers. Three quarters into the year, absorption has yet to turn positive, although it did come close in the third quarter. That said, market weakness does not appear to be uniform across Suburban Maryland, and larger submarkets dominated by traditional office parks seem to be holding the entire market back. We expect improvement in the final quarter of 2017 and in 2018 as demand for office space has steadily grown thanks to the renewed local economy. While construction activity has begun to pick up somewhat over the past year or so, much of the space is pre-leased which shouldn't lead to major increases in the vacancy rate in the period ahead, unlike Northern Virginia and the District.

Leasing activity in both the public and private sectors has made a comeback from a period of nearly total stagnation as recently as a year ago. The life sciences sector in Montgomery County and the tech sector in Prince George's County are valuable economic growth prospects for Suburban Maryland moving forward, and landowners should focus on catering to these underserved industries.

Looking ahead, most new office development in Suburban Maryland will be concentrated in mixed-use districts and/or around transit stations. The Purple Line light rail line, which will link several employment hubs in Montgomery and Prince George's counties, is already spurring development activity, particularly at the ends of the line in Bethesda (see sidebar) and New Carrollton, although it is still years away from completion. It is unlikely that many – if any – office developments planned for single-use office parks in outer submarkets will be built within the next few years. Many developers have already begun reprogramming these projects for other uses.

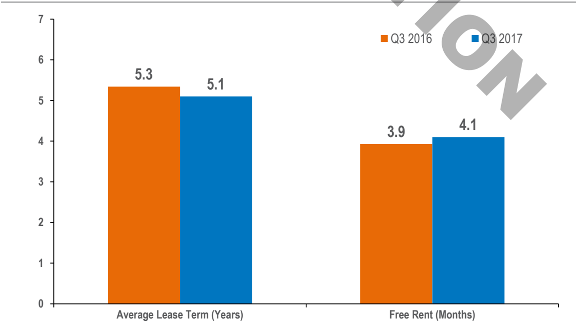
The specter of severe federal budget cuts hangs heavily over the Suburban Maryland office market, where the federal government has a large presence. While the largest federal agencies in the substate area—such as the FDA, NIH, NASA, Census Bureau, and IRS—are located on government-owned property, the federal government is still a large tenant of privately-owned space. However, much of the space occupied by the federal government is tied up in leases with expirations many years down the road, as well as the overall lethargic movement of the federal government in general, will limit any immediate effects on the office market.

OFFICE RENTS PER SF Suburban Maryland | Sept 2016 vs. Sept 2017	
SEPTEMBER 2016	SEPTEMBER 2017
AVERAGE FACE RENT	
$28.53	$28.86
AVERAGE EFFECTIVE RENT	
$23.44	$23.78

Source: REIS, Delta Associates; September 2017.

LEASE TERMS & CONCESSIONS

Suburban Maryland | Q3 2016 VS. Q3 2017



Source: REIS, Delta Associates; September 2017.

> *While construction activity has begun to pick up somewhat over the past year or so, much of the space is pre-leased which shouldn't lead to major increases in the vacancy rate in the period ahead.*

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TABLE 15
OFFICE MARKET INDICATORS - ALL SPACE
Suburban Maryland | 2014 Through Q3 2017

SUBMARKET	RENTABLE BUILDING AREA (SF)	VACANT AVAILABLE (SF)	DIRECT VACANCY RATE AT END OF:				NET ABSORPTION (SF)			
	Q3 2017	Q3 2017	2014	2015	2016	Q3 2017	2014	2015	2016	Q3 2017
MONTGOMERY COUNTY										
Bethesda/Chevy Chase	9,484,078	1,115,900	9.6%	9.4%	11.1%	11.8%	197,000	18,000	(158,000)	(18,000)
Rockville Pike	10,690,726	1,265,000	7.5%	9.2%	9.6%	11.8%	340,000	(93,000)	(41,000)	41,000
I-270/Rockville	24,121,510	3,480,000	13.4%	13.1%	13.2%	14.4%	(423,000)	54,000	70,000	(108,000)
Gaithersburg/Germantown	6,513,926	736,000	12.8%	11.7%	9.6%	11.3%	(10,000)	71,000	132,000	(33,000)
Kensington/Wheaton	1,374,239	151,000	9.7%	10.0%	9.5%	11.0%	(4,000)	(3,000)	7,000	(1,000)
Silver Spring	6,283,736	709,000	10.6%	12.2%	12.0%	11.3%	4,000	(109,000)	14,000	0
N. Silver Spring/Rte. 29	2,517,068	333,000	15.2%	13.8%	12.6%	13.2%	(52,000)	35,000	30,000	(13,000)
Montgomery County Total	**60,985,283**	**7,789,900**	**11.4%**	**11.6%**	**11.6%**	**12.8%**	**52,000**	**(27,000)**	**54,000**	**(132,000)**
PRINCE GEORGE'S COUNTY										
Beltsville/College Park	3,642,454	733,000	17.0%	15.2%	14.7%	20.1%	(105,000)	66,000	16,000	51,000
Laurel/Calverton	3,316,551	268,000	8.4%	8.6%	7.7%	8.1%	16,000	(8,000)	32,000	(3,000)
Greenbelt	3,124,664	1,196,000	37.5%	38.7%	38.3%	38.3%	(55,000)	(41,000)	14,000	(18,000)
Lanham/Landover/Largo	5,236,473	1,047,000	21.9%	20.7%	21.9%	20.0%	(110,000)	147,000	(67,000)	9,000
Bowie/U. Marlboro/S. Pr. George's	4,054,711	615,000	14.6%	14.5%	14.8%	15.2%	30,000	2,000	(14,000)	1,000
Prince George's County Total	**19,374,853**	**3,859,000**	**19.7%**	**19.2%**	**19.3%**	**19.9%**	**(224,000)**	**166,000**	**(19,000)**	**40,000**
FREDERICK COUNTY										
Frederick County Total	**5,642,389**	**401,000**	**8.3%**	**7.4%**	**8.3%**	**7.1%**	**30,000**	**47,000**	**(11,000)**	**81,000**
Suburban Maryland Total	**86,002,525**	**12,049,900**	**13.1%**	**13.0%**	**13.2%**	**14.0%**	**(142,000)**	**186,000**	**24,000**	**(11,000)**

Source: REIS, Delta Associates; September 2017.

TABLE 16
OFFICE MARKET INDICATORS - CLASS A
Suburban Maryland | 2014 Through Q3 2017

SUBMARKET	RENTABLE BUILDING AREA (SF) Q3 2017	VACANT AVAILABLE (SF) Q3 2017	DIRECT VACANCY RATE Q3 2017	NET ABSORPTION (SF) 2014	2015	2016	Q3 2017
MONTGOMERY COUNTY							
Bethesda/Chevy Chase	5,296,400	418,000	7.9%	380,000	(12,000)	(129,000)	(53,000)
Rockville Pike	6,472,800	965,000	14.9%	333,000	(69,000)	(37,000)	41,000
I-270/Rockville	11,964,000	2,394,000	20.0%	(391,000)	51,000	120,000	(108,000)
Gaithersburg/Germantown	2,269,000	268,000	11.8%	(84,000)	68,000	168,000	(14,000)
Silver Spring	1,821,000	261,000	14.3%	15,000	(10,000)	(18,000)	3,000
Montgomery County Total	**27,823,200**	**4,306,000**	**15.5%**	**253,000**	**28,000**	**104,000**	**(131,000)**
PRINCE GEORGE'S COUNTY							
Beltsville	965,000	181,000	18.8%	8,000	21,000	(55,000)	2,000
Greenbelt	1,464,000	568,000	38.8%	(17,000)	137,000	24,000	19,000
Landover/Largo	1,587,322	70,000	4.4%	(137,000)	119,000	(30,000)	15,000
Prince George's County Total	**4,016,322**	**819,000**	**20.4%**	**(146,000)**	**277,000**	**(61,000)**	**36,000**
Suburban Maryland Total	**31,839,522**	**5,125,000**	**16.1%**	**107,000**	**305,000**	**43,000**	**(95,000)**

Source: REIS, Delta Associates; September 2017.

TABLE 17
OFFICE DEVELOPMENT PIPELINE
Suburban Maryland | Q3 2017

SUBMARKET	UNDER CONSTRUCTION (SF)	PLANNED (SF)	PROPOSED (SF)	DELIVERED (SF)[1]
MONTGOMERY COUNTY				
Bethesda/Chevy Chase	663,090	1,383,290	1,323,000	-
Rockville Pike	-	1,453,750	1,669,492	-
I-270/Rockville	-	340,000	1,420,165	-
Gaithersburg/Germantown	-	303,000	2,220,000	-
Kensington/Wheaton	265,000	-	-	-
Silver Spring	121,724	200,000	-	-
N. Silver Spring/Rte. 29	-	-	-	-
Montgomery County Total	**1,049,814**	**3,680,040**	**6,632,657**	**-**
PRINCE GEORGE'S COUNTY				
Beltsville/College Park	-	352,035	1,215,000	-
Laurel/Calverton	-	3,932,000	-	-
Greenbelt	-	-	50,000	-
Lanham/Landover/Largo	176,000	900,000	306,000	-
Bowie/U. Marlboro/S. Pr. George's	-	1,515,924	1,580,000	-
Prince George's County Total	**176,000**	**6,699,959**	**3,151,000**	**-**
FREDERICK COUNTY				
Frederick County Total	**-**	**1,160,206**	**1,732,100**	**47,727**
Suburban Maryland Total	**1,225,814**	**11,540,205**	**11,515,757**	**47,727**

[1]Buildings partially or fully delivered during the quarter.

Source: REIS, Delta Associates; September 2017.

TABLE 18
RENT RATE ANALYSIS - ALL CLASSES OF BUILDINGS
Suburban Maryland | 2015 Through Q3 2017

	AVERAGE FACE RENT ($/SF, GFS) FOR:			AVERAGE EFFECTIVE RENT ($/SF, GFS) FOR:			12-MONTH	AVG. TI PACKAGE ($/SF)	
SUBMARKET	Q4 2015	Q4 2016	Q3 2017	Q4 2015	Q4 2016	Q3 2017	% CHANGE	Q4 2016	Q3 2017
MONTGOMERY COUNTY									
Bethesda/Chevy Chase	$38.45	$38.81	$38.55	$30.42	$30.68	$30.47	-0.9%	$31.21	$33.87
Rockville Pike	$30.72	$30.82	$30.37	$26.09	$26.20	$25.73	-1.9%	$32.23	$37.13
I-270/Rockville	$31.86	$32.19	$32.44	$26.96	$27.29	$27.49	1.3%	$37.25	$40.91
Gaithersburg/Germantown	$23.61	$24.48	$24.41	$17.68	$18.39	$18.28	1.4%	$34.98	$40.03
Kensington/Wheaton	$26.33	$27.30	$26.90	$21.54	$22.50	$22.13	-2.0%	$25.05	$28.99
Silver Spring	$28.17	$28.91	$28.95	$23.47	$24.14	$24.18	0.2%	$30.33	$36.00
N. Silver Spring/Rte. 29	$24.62	$24.81	$24.55	$20.29	$20.49	$20.33	-1.3%	$33.91	$38.61
Montgomery County Total	**$30.78**	**$31.53**	**$31.46**	**$25.46**	**$26.12**	**$26.05**	**0.5%**	**$34.32**	**$38.43**
PRINCE GEORGE'S COUNTY									
Beltsville/College Park	$23.98	$23.38	$23.98	$19.32	$19.42	$20.08	3.3%	$34.37	$40.48
Laurel/Calverton	$20.38	$20.51	$20.38	$16.67	$16.81	$16.70	-0.6%	$29.30	$35.48
Greenbelt	$24.73	$24.86	$24.73	$18.99	$19.22	$19.17	-0.7%	$35.77	$40.87
Lanham/Landover/Largo	$25.36	$24.97	$25.36	$19.98	$20.47	$21.01	3.2%	$30.69	$37.45
Bowie/U. Marlboro/S. Pr. George's	$26.00	$25.71	$26.00	$21.99	$22.16	$22.31	1.3%	$29.89	$35.81
Prince George's County Total	**$24.12**	**$24.53**	**$24.66**	**$19.63**	**$19.95**	**$20.17**	**1.3%**	**$32.60**	**$38.69**
FREDERICK COUNTY									
Frederick County Total	**$18.29**	**$18.47**	**$18.76**	**$14.00**	**$14.12**	**$14.31**	**0.9%**	**$20.81**	**$20.81**
Suburban Maryland Average	**$28.09**	**$28.65**	**$28.86**	**$23.08**	**$23.57**	**$23.78**	**1.4%**	**$33.40**	**$38.18**
Suburban Maryland Class A Average	**$31.90**	**$32.80**	**$32.94**						

Source: REIS, Delta Associates; September 2017.

TABLE 19
LEASING METRICS
Suburban Maryland | Q3 2017

SUBMARKET	FREE RENT (MOS)	LEASE TERM (YRS)	TENANT IMPROVEMENTS	OPERATING EXPENSES
Bethesda/Chevy Chase	5.00	5.40	$33.87	$15.65
Rockville Pike	3.60	6.50	$37.13	$11.96
I-270/Rockville	5.70	6.20	$40.91	$15.75
Gaithersburg/Germantown	2.70	3.40	$40.03	$11.59
Kensington/Wheaton	1.40	3.60	$28.99	$8.89
Silver Spring	3.60	2.60	$36.00	$11.42
N. Silver Spring/Rt. 29	2.60	5.40	$38.61	$8.21
Beltsville/College Park	2.12	4.42	$40.48	$9.75
Laurel/Calverton	2.60	4.40	$35.48	$8.35
Greenbelt	4.60	4.60	$40.87	$14.55
Lanham/Landover/Largo	3.04	4.47	$37.45	$13.00
Bowie/U. Marlboro/S. Pr. George's	2.46	4.42	$35.81	$9.16
Frederick County	3.50	4.00	$28.47	$8.11
Suburban Maryland Average	**4.10**	**5.10**	**$38.18**	**$13.06**

Note: Tenant Improvements and Operating Expenses are per SF.

Source: REIS, Delta Associates; September 2017.

THE DISTRICT OF COLUMBIA OFFICE MARKET

DC Office Market Improving, But New Construction Activity Could Cause Imbalance

Tenant demand continues to power the District of Columbia's office market forward, but bevy of construction activity is pushing the market in the opposite direction. Net absorption of office space in the District of Columbia in the third quarter of 2017 dipped moderately negative following two consecutive quarters of positive absorption. Twenty-eight thousand SF of office space was returned to the market during the quarter compared to the 199,000 SF of space taken off the market in the second quarter. While overall absorption in the District was negative, the thriving Class A segment saw 87,000 SF of positive absorption during the third quarter, adding to gains from prior quarters. Office vacancy in the District of Columbia held steady during the third quarter at 6.8%, while the District's Class A vacancy rate decreased 10 basis points to 9.3%.

Tenants continued to be relatively active in the District's office market in the third quarter of 2017. In particular, the local tech sector has accounted for a growing share of office leasing activity in the District, and the third quarter exemplified that fact. Tech giants Facebook and Yelp both signed major leases in the District during the quarter, coincidentally in the same East End building at 575 Seventh St., NW (Terrell Place). Major leases were also signed at the region's largest mixed-use/office projects: The Wharf and Capitol Crossing. The District has continued to outperform its suburban peers during the office market recovery, with strong demand driving relatively robust absorption. However, the pipeline of office projects under construction has reached its highest level in years, which will cause upwards pressure on vacancy as product delivers to market.

In the near-term, the District of Columbia's office market is in a solid position for continued growth. With regional job growth still very strong and the ongoing national economic expansion, we expect absorption to be positive for 2017. In contrast to 2015 and 2016, when the Class A market almost single-handedly led the market recovery, we expect to see more gains in the Class B market in the near future, as the city's tech sector grows

> *The local tech sector has accounted for a growing share of leasing activity, and the third quarter exemplified that, as both Facebook and Yelp both signed major leases in the District.*

OFFICE MARKET HIGHLIGHTS
District of Columbia

NET ABSORPTION
Negative 28,000 SF in third quarter 2017, down from positive 199,000 in the second quarter

DIRECT VACANCY RATE
= Direct vacancy rate: 6.8% at the end of third quarter 2017, unchanged from second quarter and up from 6.7% one year prior

PIPELINE (UC)
5.8 million SF

EFFECTIVE RENTS
Up 2.2% since third quarter 2016

INVESTMENT SALES
$657 million ($523/SF) in Q3 2017, compared to $1.2 billion ($602/SF) in Q3 2016

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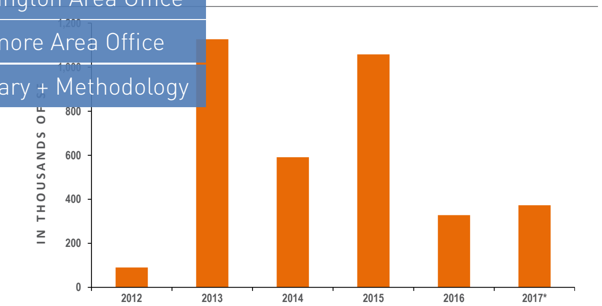
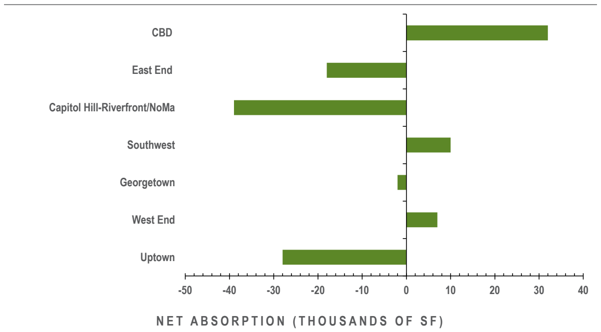
OFFICE NET ABSORPTION



*12 months ending September 2017
Source: Delta Associates; September 2017.

OFFICE NET ABSORPTION

District of Columbia | Q3 2017



Source: Delta Associates; September 2017.

and existing supply is demolished or converted to Class A. At the same time, we do expect some softening in the Class A market as new supply comes online.

NET ABSORPTION

Net absorption of office space in the District of Columbia in the third quarter of 2017 dipped moderately negative following two consecutive quarters of positive absorption. Twenty-eight thousand SF of office space was returned to the market during the quarter compared to the 199,000 SF of space taken off the market in the second quarter. The Southwest and West End submarkets all recorded positive, but moderate absorption, while the East End, Capitol Hill-Riverfront/NoMa, Georgetown, and Uptown submarkets were all in the red. Year-to-date, the District has recorded 526,000 SF of positive absorption.

While overall absorption in the District was negative, the thriving Class A segment saw 87,000 SF of positive absorption during the third quarter, adding to gains from prior quarters. The East End again led the District in Class A absorption with 76,000 SF of space absorbed, while the Southwest submarket saw the greatest amount of negative Class A absorption with -69,000 SF. Total Class A absorption in the District year-to-date stands at 606,000 SF as of the end of the third quarter.

LEASING ACTIVITY

Tenants continued to be relatively active in the District's office market in the third quarter of 2017. In particular, the local tech sector has accounted for a growing share of office leases in the District, and the third quarter exemplified that fact. Tech giants Facebook and Yelp both signed major leases in the District during the quarter, coincidentally in the same East End building at 575 Seventh St., NW (Terrell Place).

Yelp's 52,000 SF lease was notable as it established the firm's first presence in the Washington metro area. The company expects to create 500 new positions at the location in the coming years, and has expansion options for future growth. Facebook's move into 73,000 SF will be a relocation from nearby 1299 Pennsylvania Ave., NW, roughly tripling its space in the process. Amazon is another possible tenant that could be making the move to the District with its massive HQ2 plans. The District government has said that they will aggressively pursue a bid for the eight-million SF campus.

Elsewhere in the District, Cornerstone Government Affairs signed for 15,000 SF at 800 Maine Ave., SW, which was just the latest in a string of office leases at Hoffman-Madison Waterfront's massive mixed-use project, District Wharf (see sidebar). The District's other mega project, Capitol Crossing, secured its first office tenant. The American Petroleum Institute (API) will occupy 75,000 SF at the 406,000 SF building located at 200 Massachusetts Ave., NW. The Capitol Crossing project includes five office buildings bringing a total of 2.2 million SF to the East End submarket. 200 Massachusetts Ave. will be the first to deliver in 2018, followed by 250 Massachusetts Ave. in 2019, and the remaining buildings in 2020.

The future of leasing activity from the District's largest office tenant, GSA, remains unclear as President Trump has made pledges to reduce the size of the federal government. However, the expanding private sector has buoyed the local office market in recent years. The flight-to-quality trend should continue to drive strong demand for Class A and trophy space, while Class B/C owners should continue to see strong demand from value-conscious tenants.

DISTRICT WHARF DELIVERS

One of the largest mixed-use development projects on the East Coast is delivering in the District's Southwest submarket in October 2017. The first phase of District Wharf is a $1.4 billion, 2.2 million SF project with three hotels, three office buildings, four multifamily buildings, a music venue, and over 200,000 SF of restaurants and shops all located along the Washington Channel. The project's developers, PN Hoffman and Madison Marquette, had to overcome a long series of obstacles to get the project to completion including multiple zoning and site plan approvals from the District, a lawsuit, securing financing, and an evaporation of demand during the Great Recession. Now, as the massive project is finally opening to the public, the developers are already gearing up for Phase II, which is expected to cost an additional $1.1 billion and bring another 1.1 million SF of mixed-use space spread across five parcels.

To the right is a summary of the office buildings delivering at District Wharf:

PHASE I: PIER 4

The unique Pier 4 office building literally sits on top of the water on a pier extending 260 feet into the Washington Channel. The LEED Gold building offers 12-foot ceilings, private terraces and panoramic views of the water.

Size:	28,000 SF
Height:	three stories

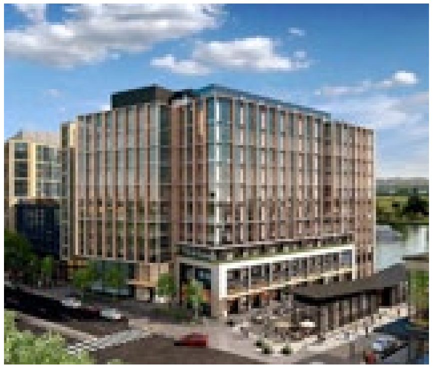
Signed Tenants:
Entertainment Cruises (11,500 SF)

PHASE I: 800 MAINE AVENUE

800 Maine is a Class A building centrally located in District Wharf's first phase and is already majority leased.

Size:	220,000 SF
Height:	11 stories

Signed Tenants:
American Psychiatric Association (63,000 SF); MakeOffices (45,000 SF); Van Scoyoc Associates (21,000 SF); and Cornerstone Government Affairs (15,000 SF)



PHASE I: 1000 MAINE AVENUE

1000 Maine is District Wharf's trophy building and is the nearest to the 14th Street bridge offering tenants excellent visibility. The building also offers a two-story lobby, 10-foot ceilings, and a rooftop terrace.

Size:	250,000 SF
Height:	10 stories

Signed Tenants:
WGL/Washington Gas (70,000 SF); and Fish & Richardson PC (60,000 SF)

PHASE II: PARCELS 6-7

Size:	488,000 SF
Height:	10 stories

PHASE II: PARCEL 10

Size:	60,000 SF
Height:	four stories

VACANCY RATE

Office vacancy in the District of Columbia held steady during the third quarter, with the overall direct vacancy rate (including owner-occupied space) currently standing at 6.8% as of September 2017, unchanged from the second quarter of 2017, and up 10 basis points from a year prior. Georgetown continues to have the District's lowest vacancy rate at 3.8%. The CBD, the District's largest submarket, maintains the next lowest vacancy rate at 4.3%. The Capitol Hill-Riverfront/NoMa submarket has the District's highest vacancy rate at 11.5%, and is the only submarket with a double-digit vacancy rate.

The District's Class A direct vacancy rate decreased 10 basis points to 9.3% during the third quarter of 2017 from 9.4% in the second quarter. The submarket with the highest Class A vacancy rate is Capitol Hill-Riverfront/NoMa at 12.4%, while Georgetown—which has a relatively small inventory of Class A space—has the lowest, at 6.1%.

The District's office market is further along in its recovery than its suburban peers and is now well below its cyclical peak vacancy. Looking ahead, we expect vacancy rates for both the overall market and Class A space to fluctuate somewhat through the end of 2017, before trending upwards in future periods as new product delivers to the market.

PIPELINE

There is 5.8 million SF of office space under construction in the District of Columbia as of September 2017, compared to 5.5 million in September 2016. The Capitol Hill-Riverfront/NoMa and East End submarkets have the most new office space under construction or renovation, with a combined total of 3.9 million SF. The CBD has 1.2 million SF of space under construction, mostly renovated product.

There was one major office delivery in the District of Columbia during the third quarter of 2017:

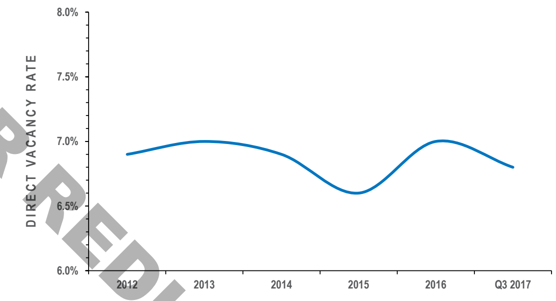
- Tishman Speyer completed the full renovation of its 234,600 SF building at 2000 K Street. The building was originally built in 1986 and has now been updated to trophy quality with the addition of a glass curtain façade, new lobby, rooftop terrace, and four additional stories with nine-foot ceilings.

As of September 2017, there is 5.3 million SF of planned office space in the District of Columbia. For a project to qualify as planned, a general timeline for groundbreaking has been established, size and location are determined, and the project is in one of the phases of the planning process: site plan review, design review, environmental compliance review, zoning, etc. As with other asset types in the District, the Capitol Hill-Riverfront/NoMa submarket leads the way in planned office projects by a wide margin with 3.3 million SF. This submarket alone currently makes up roughly 43% of the planned office space in the District.

Proposed office developments in the District as of September 2017 total 11.4 million SF of space. These are long-term projects and are very unlikely to be completed within the next two years. The Capitol

OFFICE VACANCY RATE

District of Columbia



Note: Vacancy rate include single-tenant/owner-occupied and multi-tenant buildings.
Source: Delta Associates; September 2017.

VACANCY RATES AND VACANT SPACE (ALL CLASSES) District of Columbia | Sept 2016 vs Sept 2017		
	SEPTEMBER 2016	SEPTEMBER 2017
VACANCY RATE		
Direct	6.7%	6.8%
VACANT SPACE (MILLIONS OF SF)		
Direct	9.5	9.7

Source: REIS, Delta Associates; September 2017.

Hill-Riverfront/NoMa submarket has 6.9 million SF of proposed space, representing more than half of all proposed office space in the District. The emerging Capitol Riverfront and NoMa neighborhoods have available land for development, access to Metrorail, and a growing collection of neighborhood amenities. However, the timing of proposed projects in this submarket will depend heavily on the performance of new developments that are currently under construction and set to come online in the next couple of years.

EFFECTIVE RENTS

The average effective rent for all classes of office space in the District increased to $45.62 per SF in the second quarter of 2017, up 2.0% from $44.72 per SF one year prior. Rents should continue to grow over the next year as the District's office market continues to tighten. Better buildings in stronger submarkets will continue to outperform the District's overall average.

INVESTMENT SALES

Office investment sales activity in the District has cooled down a bit over the past year after a frenzied 2016. During the third quarter, there were five transactions for individual office buildings, totaling $657 million. This is compared to $778 million across eight transactions in the second quarter of 2017, and $1.2 billion across 10 transactions during the third quarter of 2016. Average prices in the third quarter of 2017 were $523 per SF, versus $690 per SF in the second quarter and $602 per SF a year ago.

The most notable office building sales in the District during the third quarter of 2017 were two foreign buyers, matching the typical buyer profile in the District's pricey core office market:

- In the CBD, Japanese investor Unizo Holdings purchased the 266,000 SF building at 1111 19th St., NW from Clarion Partners. The building traded for $203 million at $763/SF, and is 91% occupied with Blackboard Inc. being the newest anchor tenant. Unizo has been particularly active in the District's office market as of late, with multiple additions to their local portfolio, including the acquisition of 425 3rd St., SW (Capitol View) earlier this year.
- In the Southwest submarket, a group of Korean investors purchased Two Independence Square at 300 E St., SW from Piedmont REIT. The sale price for the 605,900 SF building was $360 million at $593/SF. The building is fully leased by GSA and serves as the headquarters for NASA.

We expect investment sales volume and prices in the District to level out in the coming quarters. There will continue to be occasional trades of well-positioned buildings crossing the $1,000/SF barrier, with foreign investors continuing to be attracted to the office market thanks to its strong fundamentals.

DISTRICT OF COLUMBIA OUTLOOK

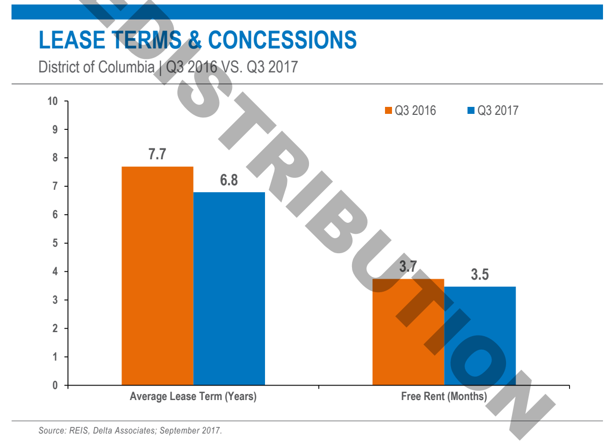
The District has continued to outperform its suburban peers during the office market recovery, with strong demand driving relatively robust absorption. However, vacancy remains elevated as the pipeline of office projects under construction has reached its highest level in years. The fact that so many of the projects coming to market are being built speculatively indicates the high level of confidence developers and their financial partners have in the market.

Unfortunately, the District has the most to lose if the drastic federal budget cuts proposed by the Trump administration come to fruition. However, much of the space occupied by the federal government is tied up in

OFFICE RENTS PER SF
District of Columbia | Sept 2016 vs Sept 2017

SEPTEMBER 2016	SEPTEMBER 2017
AVERAGE FACE RENT	
$53.49	$54.40
AVERAGE EFFECTIVE RENT	
$44.96	$45.73

Source: REIS, Delta Associates; September 2017.



leases with expirations many years down the road, as well as the overall lethargic movement of the federal government in general, will limit any immediate effects on the office market.

In the near-term, the District of Columbia's office market is in a solid position. While a stubborn office vacancy rate continues to be an issue, particularly in the face of a sizeable amount of oncoming supply, we expect positive movement in the District's office market through the end of 2017. With regional job growth still very strong and the ongoing national economic expansion, we expect absorption to be positive for 2017. We expect rent growth in the District of Columbia in 2017 to again be between 2.0% and 2.3%.

In contrast to 2015 and 2016, when the Class A market almost single-handedly led the market recovery, we expect to see more gains in the Class B market in the near future, as the city's tech sector grows and existing supply is demolished or converted to Class A. At the same time, we do expect some softening in the Class A market as new supply comes online. We expect concession packages in the District, already the highest in the Washington metro area, to remain relatively high in the near future, as these new deliveries compete for tenants.

> *With regional job growth still very strong and the national economic expansion finally gaining serious traction, we expect absorption to be positive at least through 2017.*

TABLE 20
OFFICE MARKET INDICATORS - ALL SPACE
District of Columbia | 2014 Through Q3 2017

	RENTABLE BUILDING AREA (SF)	VACANT AVAILABLE (SF)	DIRECT VACANCY RATE AT END OF:				NET ABSORPTION (SF)			
SUBMARKET	Q3 2017	Q3 2017	2014	2015	2016	Q3 2017	2014	2015	2016	Q3 2017
CBD	46,266,640	2,000,000	4.7%	4.0%	3.8%	4.3%	455,000	288,000	271,000	32,000
East End	45,176,348	3,413,000	6.8%	7.6%	8.2%	7.6%	314,000	181,000	(277,000)	(18,000)
Capitol Hill-Riverfront/NoMa	20,033,956	2,309,000	13.1%	11.7%	13.1%	11.5%	(265,000)	258,000	364,000	(39,000)
Southwest	11,849,103	922,000	8.5%	8.1%	7.6%	7.8%	(5,000)	50,000	60,000	10,000
Georgetown	2,814,546	107,000	7.8%	5.0%	3.9%	3.8%	38,000	81,000	31,000	(2,000)
West End	4,634,020	428,000	5.4%	4.7%	7.8%	9.2%	34,000	28,000	(141,000)	7,000
Uptown	11,546,221	512,000	4.7%	4.7%	4.5%	4.4%	20,000	172,000	20,000	(18,000)
District of Columbia Total	**142,320,834**	**9,691,000**	**6.9%**	**6.6%**	**7.0%**	**6.8%**	**591,000**	**1,058,000**	**328,000**	**(28,000)**

Source: REIS, Delta Associates; September 2017.

TABLE 21
OFFICE MARKET INDICATORS - CLASS A
District of Columbia | 2014 Through Q3 2017

	RENTABLE BUILDING AREA (SF)	VACANT AVAILABLE (SF)	DIRECT VACANCY RATE	NET ABSORPTION (SF)			
SUBMARKET	Q3 2017	Q3 2017	Q3 2017	2014	2015	2016	Q3 2017
CBD	14,378,000	923,000	6.4%	494,000	114,000	228,000	58,000
East End	24,099,500	2,194,000	9.1%	428,000	147,000	(433,000)	76,000
Capitol Hill-Riverfront/NoMa	15,408,963	1,910,000	12.4%	555,000	102,000	499,000	(14,000)
Southwest	6,119,000	570,000	9.3%	42,000	123,000	73,000	(69,000)
Georgetown	827,000	29,000	3.5%	8,000	31,000	11,000	3,000
West End	1,958,000	240,000	12.3%	8,000	(60,000)	(116,000)	33,000
Uptown	1,572,000	96,000	6.1%	(26,000)	134,000	34,000	0
District of Columbia Total	**64,362,463**	**5,962,000**	**9.3%**	**1,509,000**	**591,000**	**296,000**	**87,000**

Source: REIS, Delta Associates; September 2017.

TABLE 22
OFFICE DEVELOPMENT PIPELINE
District of Columbia | Q3 2017

SUBMARKET	UNDER CONSTRUCTION (SF)	PLANNED (SF)	PROPOSED (SF)	DELIVERED (SF)[1]
CBD	1,213,000	840,133	254,000	234,576
East End	1,853,000	1,158,000	679,000	-
Capitol Hill-Riverfront/NoMa	2,067,000	2,302,251	6,854,245	-
Southwest	676,303	828,770	3,626,500	-
Georgetown	-	-	-	-
West End	-	-	-	-
Uptown	-	185,000	-	-
District of Columbia Total	**5,809,303**	**5,314,154**	**11,413,745**	**234,576**

[1]Buildings partially or fully delivered during the quarter.

Source: REIS, Delta Associates; September 2017.

TABLE 23
RENT RATE ANALYSIS - ALL CLASSES OF BUILDINGS
District of Columbia | 2015 Through Q3 2017

	AVERAGE FACE RENT ($/SF, GFS) FOR:			AVERAGE EFFECTIVE RENT ($/SF, GFS) FOR:			12-MONTH	AVG. TI PACKAGE ($/SF)	
SUBMARKET	Q4 2015	Q4 2016	Q3 2017	Q4 2015	Q4 2016	Q3 2017	% CHANGE	Q4 2016	Q3 2017
CBD	$51.38	$52.69	$52.93	$43.31	$44.51	$44.72	1.2%	$58.07	$69.90
East End	$56.65	$58.46	$58.83	$47.37	$48.94	$49.32	1.2%	$59.85	$68.83
Capitol Hill-Riverfront/NoMa	$51.74	$52.30	$52.06	$43.34	$43.81	$43.63	0.1%	$52.39	$59.44
Southwest	$50.95	$51.82	$53.00	$44.35	$45.05	$46.00	2.4%	$64.85	$78.57
Georgetown	$45.77	$45.48	$46.65	$38.56	$38.53	$39.64	4.0%	$46.87	$57.72
West End	$50.34	$51.00	$59.55	$40.69	$41.22	$48.17	17.2%	$37.21	$42.11
Uptown	$38.52	$40.69	$41.07	$31.70	$33.57	$33.91	1.3%	$43.85	$54.93
District of Columbia Average	**$52.50**	**$53.90**	**$54.40**	**$44.11**	**$45.28**	**$45.73**	**2.2%**	**$56.26**	**$65.70**
District of Columbia Class A Average	**$56.69**	**$58.05**	**$58.55**						

Source: REIS, Delta Associates; September 2017.

TABLE 24
LEASING METRICS
District of Columbia | Q3 2017

SUBMARKET	FREE RENT (MOS)	LEASE TERM (YRS)	TENANT IMPROVEMENTS	OPERATING EXPENSES
CBD	2.50	5.00	$69.90	$23.01
East End	3.80	6.10	$68.83	$22.33
Capitol Hill-Riverfront/NoMa	4.00	9.00	$59.44	$20.10
Southwest	4.10	9.70	$78.57	$22.01
Georgetown	2.30	4.00	$57.72	$16.41
West End	1.80	5.80	$42.11	$22.07
Uptown	3.10	4.60	$54.93	$20.00
District of Columbia Average	**3.47**	**6.79**	**$65.70**	**$21.71**

Note: Tenant Improvements and Operating Expenses are per SF.

Source: REIS, Delta Associates; September 2017.

3 STATE OF THE BALTIMORE AREA OFFICE MARKET

THE BALTIMORE AREA OFFICE MARKET

Q3

Growth Continues But at a Restrained Pace

The Baltimore office market continues to march forward, but at a more leisurely pace than a year ago, as vacant office space delivering to the market offsets much of the positive gains. Areawide net absorption totaled 39,000 SF of for all classes of office space during the third quarter. However, Class A absorption dipped negative, ending the quarter at negative 105,000 SF. The direct vacancy rate for all classes of office space in the Baltimore metro area (including both single-tenant and multi-tenant properties) is 10.7% as of September 2017, up 10 basis points from the second quarter of 2017 and up 30 basis points from the third quarter of 2016. The direct Class A vacancy rate is 13.4% as of September 2017, up 50 basis points from the second quarter of 2017, and up 20 basis points from September 2016.

The third quarter brought a number of major leases to the Baltimore metro area, particularly in Baltimore City. During the quarter, M&T Bank signed a lease for 155,000 SF at 1 Light Street in Downtown Baltimore which is currently under construction. In addition, Medifast Inc. announced that it will move its headquarters into 51,000 SF at 100 International Dr. in Central Baltimore's booming Harbor East district.

Rent growth in the Baltimore metro area has been sluggish so far in 2017. The average effective rent for all classes of office space in the Baltimore metro area as of September 2017 is $19.96/SF. This is a negligible change from the $19.95 average effective rent at September 2016. Despite the apparent slowdown in office market growth, we continue to expect improvement in the period ahead, contingent on continued expansion of the regional economy. Strong job growth in the Professional/Business Services, Education/Health, and Financial Activities sectors will continue to strengthen demand for office space. Investment sales activity is strong and indicates a high level of investor interest in the market. Rent growth remains sluggish, but should begin to accelerate as the office market tightens.

> *Leasing activity has steadily increased in Baltimore City, as many firms have chosen to relocate from the suburbs to the city.*

OFFICE MARKET HIGHLIGHTS
Baltimore Metro ARea

NET ABSORPTION
▲ 39,000 SF in third quarter 2017, up from negative 120,000 SF in the second quarter of 2017

DIRECT VACANCY RATE
▲ 10.7% as of the third quarter of 2017, up 10 basis points from 10.6% in the second quarter 2017 and up 30 basis points from one year prior

UNDER CONSTRUCTION
1.4 million SF

EFFECTIVE RENTS
= Unchanged since third quarter 2016

INVESTMENT SALES
▼ $190 million ($128/SF) in third quarter of 2017, compared to $295 million ($217/SF) in third quarter of 2016

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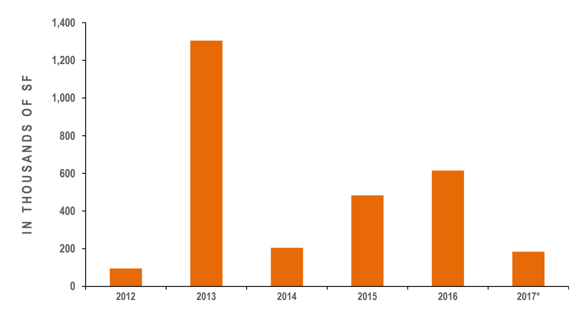
NET ABSORPTION

Net absorption in the Baltimore metro area was back in the black in the third quarter after falling negative for the first time in over a year during the second quarter. There was a total of 39,000 SF of positive absorption for all classes of office space during the quarter. The Baltimore North/Towson/Hunt Valley submarket accounted for the vast majority of positive absorption with 90,000 SF. The Baltimore West/Owings Mills submarket saw the most negative absorption with -25.000 SF. Total net absorption of office space in the Baltimore metro area year-to-date currently stands at positive 98,000 SF.

OFFICE NET ABSORPTION

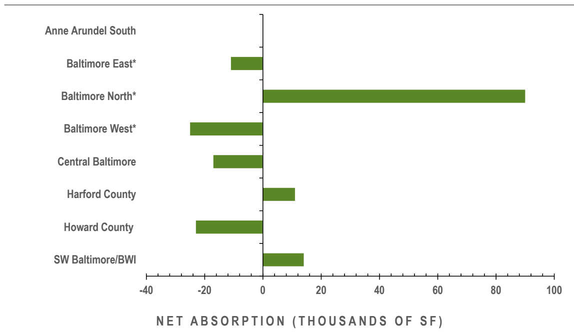
Baltimore Metro Area



*12 months ending September 2017
Source: Delta Associates; September 2017.

OFFICE NET ABSORPTION

Baltimore Metro Area | Q3 2017



* Includes portions of Baltimore City and County
Source: Delta Associates; September 2017.

While overall absorption in the Baltimore metro turned positive during the third quarter, Class A absorption flipped the other direction, totaling negative 105,000 SF. The Baltimore East/White Marsh submarket saw the most space given back during the quarter at negative 62,000 SF. Harford County recorded the greatest amount of positive absorption at 19,000 SF. Total Class A absorption year-to-date stands at negative 130,000 SF as of the end of the third quarter.

LEASING ACTIVITY

The third quarter brought a number of major leases to the Baltimore metro area, particularly in Baltimore City. Notable lease transactions during the quarter include:

- After years of rumors and speculation, M&T Bank officially announced that it had signed a lease for a new Mid-Atlantic headquarters at 1 Light Street in Downtown Baltimore. The bank will occupy 155,000 SF in the 28-story, 780,000 SF tower which includes 275,800 SF of office space below 280 apartment units. The lease is for 15 years with two five-year renewal-options.
- Medifast Inc. announced that it will move its headquarters into 51,000 SF at 100 International Dr. in Central Baltimore's booming Harbor East district. Medifast will relocate from Baltimore County, in just the latest in a string of suburbs-to-city moves. Earlier this year, Howard Community Bank announced that it would move its headquarters to the Canton neighborhood in Baltimore after merging with First Mariner Bank.
- One firm that chose to remain in the suburbs is RMF Engineering, which renewed its lease for 27,900 SF at 5520 Research Park in the University of Maryland Baltimore County's bwTech research park.

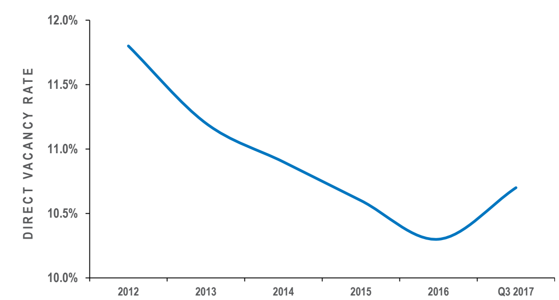
We expect leasing activity in the Baltimore metro area to pick up through the remainder of 2017. The Central Baltimore submarket has led the region's office market growth during the recovery cycle, as many firms have chosen to relocate from the suburbs to downtown Baltimore over the past few years. The West Baltimore submarket has seen marked growth in the past couple of years, mostly driven by "eds and meds" tenants. Howard County, specifically the Columbia area, is also poised for growth in the coming years as developers construct more walkable mixed-use development to replace and complement the single-use office parks that have long dominated the Baltimore suburbs.

VACANCY RATE

The direct vacancy rate for all classes of office space in the Baltimore metro area (including both single-tenant and multi-tenant properties) is 10.7% as of September 2017, up 10 basis points from the second quarter of 2017 and up 30 basis points from the third quarter of 2016. The Central Baltimore submarket has the Baltimore region's lowest vacancy rate at 8.2%. The submarket with the highest vacancy as of the end of September 2017 is Baltimore East/White Marsh, at 21.0%.

OFFICE VACANCY RATE

Baltimore Metro Area



Note: Vacancy rate include single-tenant/owner-occupied and multi-tenant buildings.
Source: Delta Associates; September 2017.

The direct Class A vacancy rate is 13.4% as of September 2017, up 50 basis points from the second quarter of 2017, and up 20 basis points from September 2016. The Anne Arundel South submarket has the lowest Class A vacancy rate at 7.9%, followed closely by Baltimore North/Towson/Hunt Valley at 8.0%. The Harford County submarket has the highest Class A vacancy rate in the Baltimore area at 29.7%.

The Baltimore area's office vacancy rate has increased in every quarter in 2017 so far as a spate of new buildings delivered to market. We believe that this is a temporary trend, as deliveries are projected to slow down in future quarters and the local economy drives demand for office space. The tightening of the office market in the Central Baltimore submarket could spur additional construction activity in the period ahead.

PIPELINE

As of the end of the second quarter of 2017, there were nine buildings under construction in the Baltimore metro area with a total of 1.4 million SF of office space. Construction activity in metro Baltimore has remained modest over the past few years, which until recently has contributed to a decline in vacancy. In Central Baltimore, there is 312,000 SF currently under construction. The bulk of the space is located in the mixed-use apartment/office tower at 1 Light Street. The building will include 275,000 SF of office space below 280 apartment units. An additional 60,000 SF of office space is under construction

VACANCY RATES AND VACANT SPACE (ALL CLASSES)
Baltimore Metro Area | Sept 2016 vs Sept 2017

	SEPTEMBER 2016	SEPTEMBER 2017
VACANCY RATE		
Direct	10.4%	10.7%
VACANT SPACE (MILLIONS OF SF)		
Direct	10.1	10.3

Source: Delta Associates; September 2017.

at the second phase of the mixed-use Stadium Square development in South Baltimore.

A number of office buildings around the Baltimore metro area have delivered in recent months, brining an additional 598,000 SF to market. Below are some of the most notable projects:

- 10200 Grand Central Ave. delivered at David S. Brown's Metro Centre at Owings Mills mixed-use development in the Baltimore West/Owings Mills submarket. The 192,000 SF building sits immediately adjacent to the Owings Mills Metro Subway station and is surrounded by retail, apartments, and a library.
- In the Baltimore North/Towson/Hunt Valley submarket, Johnson, Mirmiran & Thompson, Inc. (JMT) celebrated the opening of their 105,000 SF headquarters at 40 Wight Ave.
- The 72,000 SF office building at 145 W. Ostend St. delivered in the Central Baltimore submarket's South Baltimore district. The building is part of Caves Valley Partners' mixed-use Stadium Square project, which is being developed in partnership with The Hanover Co.
- The 158,000 SF office component of Little Patuxent Square in Columbia delivered to market 75% pre-leased by health services company Optum. The project is just one of a number of new office projects in the Howard County submarket.

As of September 2017, there is 8.2 million SF of planned office space in the Baltimore metropolitan area. The Central Baltimore submarket has the greatest amount of planned space at approximately 1.8 million SF. For a building to qualify as planned, the size and location are determined, and the project is in one of many phases of the planning process: site plan review, design review, environmental compliance review, zoning, etc.

A mixed-use office/hotel building, Wills Wharf in Beatty Development's Harbor Point project, which will bring 225,000 SF to the market, is scheduled to break ground later this year. In South Baltimore, 28 Walker Development is preparing to break ground on an office component as part of the third phase of the McHenry Row mixed-use development. The entire 60,000 SF building is already pre-leased according to the Baltimore Business Journal, demonstrating the strength of the market.

Proposed projects are defined as those for which plans have been announced (either formally or informally), but their sponsors have not submitted any plans for review. As of September 2017, 16.0 million SF of new office projects have been proposed in the Baltimore metro area. Of this amount, about 5.8 million SF is located in the Anne Arundel South submarket, 2.4 million SF in the SW Baltimore/BWI submarket, 2.2 million SF in Central Baltimore, and 1.6 million SF in Harford County.

A common theme among new office construction projects, not only in the Baltimore area but nationwide, is location in mixed-use districts. Developers have clearly picked up on tenants' preferences to be located in live-work-play environments in order to attract the best workers. As a result, nearly all of the recently delivered and under construction projects in the metro area meet this requirement.

OFFICE RENTS PER SF Baltimore Metro Area | Sept 2016 vs Sept 2017	
SEPTEMBER 2016	SEPTEMBER 2017
AVERAGE FACE RENT	
$24.21	$24.38
AVERAGE EFFECTIVE RENT	
$19.95	$19.96

Source: REIS, Delta Associates; September 2017.

PROJECTED SUPPLY VS. DEMAND

We project that sustained economic growth will help push the Baltimore metro area's direct vacancy rate down, from 10.7% in September 2017 to 9.6% in September 2019. The anticipated decline in vacancy will be a result of rising demand and limited construction. We expect net new demand through 2018 to be led by employment growth in the Financial Activities, Professional/Business Services, and Education/Health Services sectors, which are the Baltimore metro area's core employment sectors.

> We project that sustained economic growth will help push the Baltimore metro area's direct vacancy rate down further, from 10.7% in September 2017 to 9.6% in September 2019.

EFFECTIVE RENTS

The average effective rent for all classes of office space in the Baltimore metro area as of September 2017 is $19.96/SF. This is a negligible change from the $19.95 average effective rent at September 2016. Rent growth has been relatively slow in the Baltimore metro area during the recovery, especially in light of the strong improvement in other office market metrics. We expect that owners will be more aggressive in increasing asking rents in the near future as the market continues to tighten. Tenant improvement allowances will remain elevated during this cycle, though, as owners compete to attract desirable tenants to their properties.

LEASING METRICS

As of September 2017, the average free rent period in the Baltimore area is 2.7 months. The Anne Arundel South submarket currently has the highest average free rent, at 3.6 months. The average tenant improvement package in the Baltimore metro area is $22.98/SF, with tenant allowances in the Baltimore East/White Marsh submarket averaging $33.83/SF – the highest in the metro area. The average new lease term as of the third quarter is 3.3 years. Average operating expenses in the Baltimore metro area are $11.54/SF and are highest in the Central Baltimore submarket at $15.17/SF.

INVESTMENT SALES

As in the Washington metro, office investment sales in the Baltimore metro have cooled since the beginning of the year. There were 18 investment sale transactions in the metro area in the third quarter of 2017 valued at a total of $190.7 million. This is compared to nine sales in the third quarter of 2016 valued at $295.1 million. The average sale price per SF in the third quarter of 2017 was $128 per SF, compared to $218 per SF in the third quarter of 2016.

CRE investors have been busy buying up most of the prime office properties in Central Baltimore over the last couple of years. Below is a list of the most recent major sales, with 120 E. Baltimore St. added from the third quarter:

MAJOR OFFICE INVESTEMENT SALES TRANSACTIONS
Baltimore, Maryland | 2015-2017

PROPERTY	DATE	SALES PRICE (MILLIONS)	$/SF
250 W. Pratt St	Q2 2015	$63.1	$171
100 S. Charles St	Q2 2015	$12.0	$75
100 Light St	Q3 2015	$121.0	$220
100 S. Charles St	Q4 2015	$45.0	$90
1 South St	Q4 2015	$64.3	$134
100 Bioscience Dr	Q4 2015	$180.3	$360
100 East Pratt St	Q1 2016	$187.0	$282
100 International Dr	Q1 2017	$300.0	$489
120 E Baltimore St	Q3 2017	$328.0	$101

Source: RCA, Delta Associates; September 2017.

The continued high sales volume, particularly for Class A product, suggests increasing investor confidence in the Baltimore area office market, especially as vacancy tightens. Baltimore is an appealing market for investors priced out of New York, Washington, Boston, and other primary markets that are looking to invest in a nearby market with lower entry costs and upside potential.

THE BALTIMORE AREA OFFICE MARKET OUTLOOK

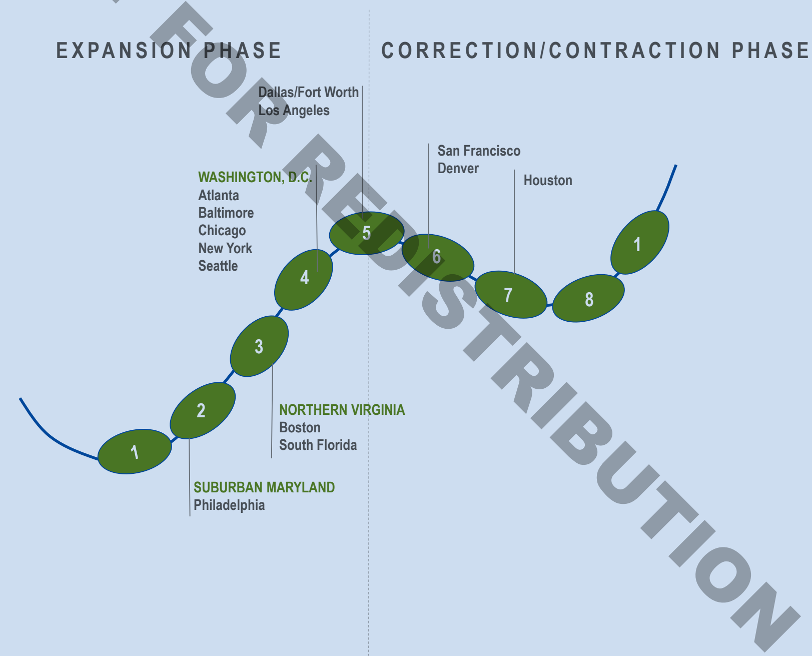
Despite the apparent slowdown in absorption and increase in vacancy, we continue to expect growth for the Baltimore office market in the period ahead, contingent on the continued expansion of the regional economy. Strong job growth in the Professional/Business Services, Education/Health, and Financial Activities sectors will continue to strengthen demand for office space. Investment sales activity is strong and indicates a high level of investor interest in the market. Rent growth remains sluggish, but should begin to accelerate as the office market tightens.

Tenants are increasingly attracted to the Central Baltimore submarket where they can secure quality space at reasonable rents in an increasingly attractive urban environment. Baltimore is a strong market for “eds and meds” tenants anchored by institutions such as Johns Hopkins University, Johns Hopkins Hospital, Johns Hopkins Bayview Campus, the University of Maryland Baltimore, the University of Maryland Medical Center, and the UM BioPark,. The strong foundation of anchor institutions and low cost of living make the city one of the nation’s top markets for tech startups and millennial graduates. Around 10 new tech incubators, makerspaces, and co-working spaces have opened in Baltimore City over the past year alone, according to the Baltimore Business Journal. Most recently, Obrecht Commercial Estate opened a 23,000 SF co-working space in the city’s rapidly growing Brewers Hill neighborhood.

> *Despite the apparent slowdown in absorption and increase in vacancy, we continue to expect growth for the Baltimore office market in the period ahead.*

OFFICE MARKET POSITION INDEX

THIRD QUARTER 2017



POSITION INDICATORS

1. Absorption flat to slightly positive, vacancy beginning to decrease, rents relatively stable, spec construction not justified
2. Absorption increasing, vacancy declining, rents rising, positioning for spec construction
3. Absorption strong, vacancy declining, rents rising, spec construction
4. Absorption strong, vacancy low and nearing bottom, rents up strong, spec construction
5. Absorption light, vacancy stable or rising, rents up only slightly if not flat, minimal new spec construction
6. Absorption flat/negative, vacancy rising, rents flat to declining, no or minimal new spec construction
7. Absorption negative, vacancy rising, rents dropping, no new spec construction
8. Absorption relatively flat, vacancy and rents stabilizing, no new spec construction

POSITIONS/COMMENTS
Absorption consistently positive; vacancy flat; rent growth modest; construction activity growing

Source: Delta Associates, September 2017.

TABLE 25
OFFICE MARKET INDICATORS - ALL SPACE
Baltimore Metro Area | 2014 Through Q3 2017

	RENTABLE BUILDING AREA (SF)	VACANT AVAILABLE (SF)	DIRECT VACANCY RATE AT END OF:				NET ABSORPTION (SF)			
SUBMARKET	Q3 2017	Q3 2017	2014	2015	2016	Q3 2017	2014	2015	2016	Q3 2017
Baltimore West/Owings Mills	6,606,227	1,134,000	19.1%	17.0%	15.1%	17.2%	30,000	135,000	162,000	(25,000)
Baltimore North/Towson/Hunt Valley	12,106,868	1,568,000	13.7%	13.6%	13.6%	13.0%	(51,000)	21,000	0	90,000
Baltimore East/White Marsh	1,859,084	391,000	27.2%	26.7%	22.8%	21.0%	5,000	(24,000)	108,000	(11,000)
Central Baltimore	37,336,397	3,053,000	8.5%	8.1%	8.2%	8.2%	267,000	176,000	178,000	(17,000)
Howard County	16,399,532	1,916,000	10.5%	10.8%	10.1%	11.7%	40,000	31,000	125,000	(23,000)
SW Baltimore/BWI	9,898,253	907,000	10.0%	9.4%	9.1%	9.2%	(105,000)	52,000	33,000	14,000
Anne Arundel South	8,478,000	934,000	9.7%	10.2%	10.5%	11.0%	11,000	66,000	(25,000)	0
Harford County	3,896,767	401,000	12.0%	11.3%	11.1%	10.3%	8,000	26,000	34,000	11,000
Baltimore Metro Area Total	**96,581,128**	**10,304,000**	**10.9%**	**10.6%**	**10.3%**	**10.7%**	**205,000**	**483,000**	**615,000**	**39,000**

Source: REIS, Delta Associates; September 2017.

TABLE 26
OFFICE MARKET INDICATORS - CLASS A
Baltimore Metro Area | 2014 Through Q3 2017

	RENTABLE BUILDING AREA (SF)	VACANT AVAILABLE (SF)	DIRECT VACANCY RATE	NET ABSORPTION (SF)			
	Q3 2017	Q3 2017	Q3 2017	2014	2015	2016	Q3 2017
Baltimore West/Owings Mills	2,719,200	287,000	10.6%	119,000	30,000	53,000	(39,000)
Baltimore North/Towson/Hunt Valley	4,245,000	341,000	8.0%	0	(64,000)	60,000	(9,000)
Baltimore East/White Marsh	1,388,790	276,000	19.9%	(2,000)	(6,000)	53,000	(62,000)
Central Baltimore	9,750,000	1,506,000	15.4%	199,000	233,000	282,000	(10,000)
Howard County	5,775,200	909,000	15.7%	341,000	(131,000)	104,000	9,000
SW Baltimore/BWI	1,684,000	248,000	14.7%	(17,000)	38,000	3,000	(20,000)
Anne Arundel South	5,424,000	427,000	7.9%	5,000	119,000	(28,000)	7,000
Harford County	1,034,340	307,000	29.7%	87,000	38,000	46,000	19,000
Baltimore Metro Area Total	**32,020,530**	**4,301,000**	**13.4%**	**732,000**	**257,000**	**573,000**	**(105,000)**

Source: REIS, Delta Associates; September 2017.

TABLE 27
OFFICE DEVELOPMENT PIPELINE
Baltimore Metropolitan Area | Q3 2017

SUBMARKET	UNDER CONSTRUCTION (SF)	PLANNED (SF)	PROPOSED (SF)	DELIVERED (SF)[1]
Baltimore West/Owings Mills	-	936,143	370,000	190,000
Baltimore North/Towson/Hunt Valley	320,000	242,700	497,500	130,000
Baltimore East/White Marsh	-	808,660	1,870,000	-
Central Baltimore	312,000	1,824,000	2,193,000	72,000
Howard County	424,756	298,687	1,288,000	158,000
SW Baltimore/BWI	-	1,542,078	2,435,248	-
Anne Arundel South	13,000	2,092,000	5,798,690	-
Harford County	-	474,050	1,555,000	48,000
Baltimore Metro Area Total	**1,069,756**	**8,218,318**	**16,007,438**	**598,000**

[1] Buildings partially or fully delivered during the quarter.

Source: REIS, Delta Associates; September 2017.

TABLE 28
MAJOR OFFICE LEASING ACTIVITY
Baltimore Metro Area | Q3 2017

SUBMARKET	PROPERTY ADDRESS	TENANT	PROPERTY OWNER	TYPE	SIZE (SF)
SW Baltimore/BWI	849 International Dr., Linthicum	MD/Total Human Services Information Network	N/A	New	16,000
Central Baltimore	100 International Dr., Baltimore	Medifast Inc.	H&S Properties Development Corp.	New	51,000
Central Baltimore	1 Light St., Baltimore	M&T Bank	Madison Marquette	New	155,000
SW Baltimore/BWI	5520 Research Park Drive, Catonsville	RMF Engineering	University of Maryland Baltimore County	Renewal	27,900
Central Baltimore	McHenry Row, Baltimore	Gross Mendelsohn	28 Walker Development	new	23,000

Source: County Newsletters, Washington/Baltimore Business Journals, Bisnow, Delta Associates, September 2017.

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TABLE 29
RENT RATE ANALYSIS - ALL CLASSES OF BUILDINGS
Baltimore Metro Area | 2015 Through Q3 2017

	AVERAGE FACE RENT ($/SF, GFS) FOR:				AVERAGE EFFECTIVE RENT ($/SF, GFS) FOR:				12-MONTH	AVG. TI PACKAGE ($/SF)		
SUBMARKET	Q4 2014	Q4 2015	Q4 2016	Q3 2017	YE 2013	Q4 2015	Q4 2016	Q3 2017	% CHANGE	Q4 2015	Q4 2016	Q3 2017
Baltimore West/Owings Mills	$21.08	$21.84	$21.65	$21.65	$18.05	$18.79	$18.65	$18.65	-0.1%	$14.81	$12.49	$12.49
Baltimore North/Towson/Hunt Valley	$21.99	$22.04	$22.13	$22.13	$17.45	$17.54	$17.63	$17.63	-0.2%	$13.38	$22.14	$22.14
Baltimore East/White Marsh	$24.09	$25.59	$25.95	$25.95	$20.01	$21.33	$21.73	$21.73	0.1%	$26.08	$30.94	$30.94
Central Baltimore	$23.36	$23.75	$24.62	$24.62	$18.56	$18.89	$19.57	$19.57	0.2%	$17.94	$19.77	$19.77
Howard County	$25.30	$25.33	$25.50	$25.50	$19.78	$19.82	$19.99	$19.99	-0.1%	$17.79	$21.29	$21.29
SW Baltimore/BWI	$22.63	$23.07	$23.17	$23.17	$17.90	$18.29	$18.38	$18.38	-0.2%	$19.94	$28.25	$28.25
Anne Arundel South	$27.55	$27.49	$27.53	$27.53	$22.98	$22.92	$22.94	$22.94	0.0%	$10.43	$15.62	$15.62
Harford County	$22.03	$22.91	$23.34	$23.34	$18.67	$19.47	$19.81	$19.81	0.4%	$13.69	$20.13	$20.13
Baltimore Metro Area Average	**$23.43**	**$23.86**	**$24.20**	**$24.20**	**$19.30**	**$19.75**	**$19.96**	**$19.96**	**0.0%**	**$16.61**	**$20.70**	**$20.70**
Baltimore Metro Area Class A Average	**$26.37**	**$26.86**	**$27.32**	**$27.48**								

Source: REIS, Delta Associates; September 2017.

TABLE 30
LEASING METRICS
Baltimore Metropolitan Area | Q3 2017

SUBMARKET	FREE RENT (MOS)	LEASE TERM (YRS)	TENANT IMPROVEMENTS	OPERATING EXPENSES
Baltimore West/Owings Mills	2.00	1.90	23.58	11.01
Baltimore North/Towson/Hunt Valley	2.00	3.00	16.84	10.93
Baltimore East/White Marsh	1.60	1.90	33.83	9.75
Central Baltimore	3.40	4.30	24.04	15.17
Howard County	3.10	3.50	23.60	10.16
SW Baltimore/BWI	1.00	2.70	32.90	8.78
Anne Arundel South	3.60	3.30	13.57	9.66
Harford County	1.80	2.60	23.15	6.73
Baltimore Metro Area Average	**2.65**	**3.30**	**$22.98**	**$11.54**

Note: Tenant Improvements and Operating Expenses are per SF.

Source: REIS, Delta Associates; September 2017.

TABLE 31
PROJECTED OFFICE VACANCY
Baltimore Metro Area By Substate | September 2017
(Millions of SF)

INVENTORY	
Inventory at 9/2017	96.6
Pipeline Through 9/2019	1.4
Inventory at 9/2019	97.0
SUPPLY VS. DEMAND	
Direct Available Space at 9/2017	10.3
New Supply Through 9/2019	1.4
Direct Available Space Through 9/2019	11.7
Total Demand Through 9/2019	2.4
Direct Available Space at 9/2019	9.3
VACANCY	
Direct Vacancy at 9/2017	10.7%
Direct Vacancy at 9/2019	9.6%

Projected total demand is derived from two types of demand:
1) Underlying demand -- driven by new job growth.
2) Variable demand -- driven by market conditions and may add to or subtract from total.
For example: A firm's decision to lease more space than currently needed to accommodate growth -- or conversely, a firm may be contracting and returning space to the market.

Source: Delta Associates; September 2017.

TABLE 32
OFFICE INVESTMENT SALES
Baltimore Metro Area | 2010 Through Q3 2017

	Transactions	Total Sales[1]	Average Price/SF
YTD 2017	64	$1,055	$160
Q3 2017	18	$191	$128
2016	42	$925	$172
2015	45	$1,038	$175
2014	33	$583	$167
2013	25	$392	$137
2012	16	$201	$112
2011	8	$199	$167
2010	6	$183	$198

[1] Total sales in millions of dollars.

Source: Real Capital Analytics, Delta Associates; September 2017.

4 EXPLANATION OF GEOGRAPHIC COVERAGE AND METHODOLOGY

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METHODOLOGY AND GLOSSARY

Inventory

Delta Associates' overall inventory is compiled using tax records from local government agencies and includes owner-occupied and single tenant buildings as well as multi-tenant properties. Delta Associates makes changes to the inventory when buildings are delivered or demolished. It does not include buildings under construction or buildings owned by the government.

Class A

REIS's Class A inventory is deemed representative of the Class A market at this time. Class A is defined as properties that tend to be the best in the market, have above-average design, construction and finish, minimal or no deferred maintenance, superior locations, achieve the highest rents, and have tenants of strong credit quality.

Vacancy

Only space immediately available (i.e. within 30 days), per REIS, is used and not space coming available. Vacancy rates reflect directly vacant space (available from the owner, not via sublease).

Net Absorption

Defined as the change in occupied, standing inventory from one period to the next. Net absorption figures are calculated as follows:

1. Prior period inventory plus deliveries minus removals for demolition equals current inventory
2. Using direct vacancy rate we compute occupied square footage
3. Subtract prior period occupied square footage from current period occupied square footage
4. Equals net absorption

If a building is under construction, and a large lease is signed for future occupancy, this transaction is counted as net absorption **only when the building is delivered.** Positive absorption may occur even when vacancy is increasing due to the delivery of pre-leased space.

Effective Full Service Rent Rates

Rent rates are analyzed on an effective basis, i.e., after concessions, though asking rents also are reported. TI amortization is not removed from the effective rental rates, but average TI packages in each submarket are reported.

Capitalization Rates

Capitalization rates are intended to represent a property's annual net income (at the time of its sale) divided by its sale price. However, because the rates are drawn from various sources and are presented as averages, they may not reflect an individual user's typical interpretation and should not be used as the basis for investment decisions.

Portfolio Sale

When the vast majority (or all) of the Washington/ Baltimore area office properties held by an investor, investment company, or financial institution is sold to another investor, investment company, or financial institution in one transaction. A multi-property sale does not necessarily qualify as a portfolio sale.

Planned Projects

To qualify, a ground-break date is established, size and location is determined and the project is in one of many phases of the planning process: site plan review, design review, environmental compliance review, zoning, etc.

Proposed Projects

To qualify, the developer has proposed to build a project (either formally or informally) but has not submitted any plans for review.

Free Rent

The average number of months of free rent granted by the owner per lease term.

Lease Term

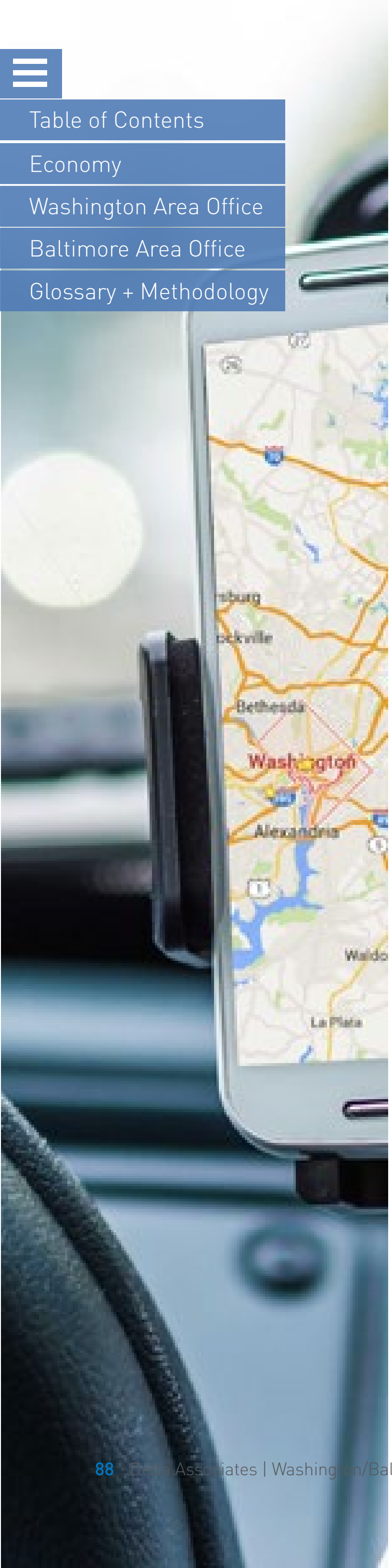
The average term currently being quoted for new leases (in years).

Operating Expenses

The average annual cost per square foot of operating buildings, including property taxes, energy, janitorial service, insurance, general building maintenance, management and leasing fees, and other expenses.

Tenant Improvements

The average value granted to a new tenant by an owner for work done on previously occupied space (expressed as dollars per square foot per lease term).



OFFICE SUBMARKET DEFINITIONS

WASHINGTON/BALTIMORE REGION

Northern Virginia

ARLINGTON COUNTY

- **Rosslyn/Courthouse/Ballston:** The corridor from Rosslyn to Ballston, including Clarendon/Courthouse and Virginia Square.
- **Crystal City/Pentagon City**

ALEXANDRIA CITY

- **Old Town Alexandria**: The area bounded by Alexandria City on the north, Capital Beltway on the south, North Henry Street and South Patrick Street on the west, and the Potomac River to the east.
- **Eisenhower Ave/I-395 Corridor (Alexandria Portion)**

FAIRFAX COUNTY

- **Springfield/I-95:** The area bounded by Burke on the west, Lorton and Mt. Vernon on the south, and Alexandria City/State Hwy 611 on the east and north.
- **Bailey's/Falls Church/Annandale**
- **Reston/Herndon**
- **Tysons/Vienna/Merrifield**
- **McLean**
- **Fairfax City/Oakton:** An area that centers on I-66/Route 123.
- **Fairfax Center:** An area that centers on I-66/Fairfax County Parkway.
- **Chantilly/Rte. 28 South**

LOUDOUN COUNTY

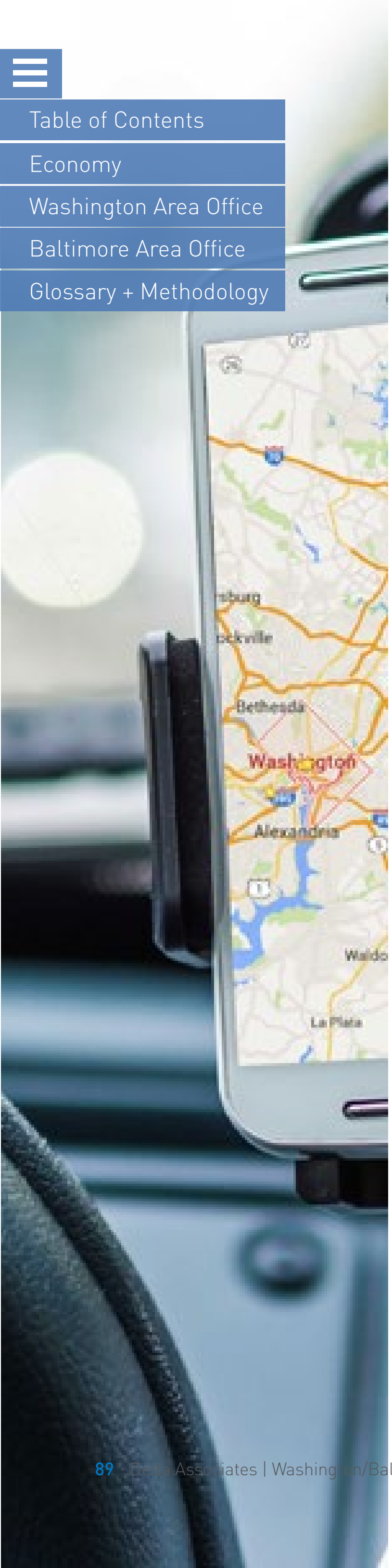
- **Loudoun County: :** The entirety of Loudoun County east of and including Leesburg, bounded by Route 267 on the south.

PRINCE WILLIAM COUNTY

- **Prince William County:** Manassas/Gainesville and Woodbridge.

District of Columbia

- **CBD:** Generally defined as the area west of 15th Street, east of 22nd Street, south of P Street and north of Constitution Avenue.
- **East End:** The area west of 5th Street NW, east of 15th Street, south of P Street and north of Constitution Avenue.
- **Capitol Hill-Riverfront/NoMa:** The area west of 11th Street NE, east of 5th Street NW, south of Florida Ave., and north of the Anacostia River.
- **Southwest:** The entire Southwest quadrant of DC bounded by South Capitol Street to the east, 14th Street to the west, Independence Avenue to the north and the Anacostia River to the south.
- **Georgetown:** The area west of Rock Creek, north and east of the Potomac River and south of P Street NW.
- **West End:** The area east of Rock Creek, west of 22nd Street NW, north of Constitution Avenue NW and south of N Street NW.
- **Uptown:** The area north of P Street NW and west of Georgia Avenue to the Maryland border.



OFFICE SUBMARKET DEFINITIONS

WASHINGTON/BALTIMORE REGION

Suburban Maryland

MONTGOMERY COUNTY

- **Bethesda/Chevy Chase**
- **Rockville Pike**
- **I-270/Rockville**
- **Gaithersburg/Germantown**
- **Kensington/Wheaton**
- **Silver Spring**
- **N. Silver Spring/Rte. 29**

PRINCE GEORGE'S COUNTY

- **Beltsville/College Park:** An area that includes Takoma Park.
- **Laurel/Calverton**
- **Greenbelt**
- **Lanham/Landover/Largo**
- **Bowie/U. Marlboro/S. Pr. George's:** An area that includes the Pennsylvania Avenue Corridor.

FREDERICK COUNTY

- **Frederick County:** The entirety of Frederick County.

Baltimore Area

- **Baltimore West/Owings Mills:** An area that includes Arbutus, Catonsville, Reisterstown Road, Woodlawn and Owings Mills.
- **Baltimore North/Towson/Hunt Valley:** An area generally bounded by Reisterstown Road on the west and Towson on the east.
- **Baltimore East/White Marsh:** The area of Baltimore City and County east of Central Baltimore and Towson.
- **Central Baltimore:** An area bounded by the Inner Harbor on the south, South Monroe Street on the west, Edison Hwy on the east and East 33rd Street on the north.
- **Howard County:** Columbia (an area that can be characterized as most of north and east Howard County including Ellicott City and Route 1 North.)
- **SW Baltimore/BWI:** Includes the BWI/Southwest Baltimore area.
- **Anne Arundel South:** Primarily the Annapolis, I-97/Crain Highway Corridor, and Route 2 Corridor South areas.
- **Harford County:** An area that includes Aberdeen, Abingdon, Bel Air, and Joppa.

JOB GROWTH MEASURES

Average Annual Job Growth

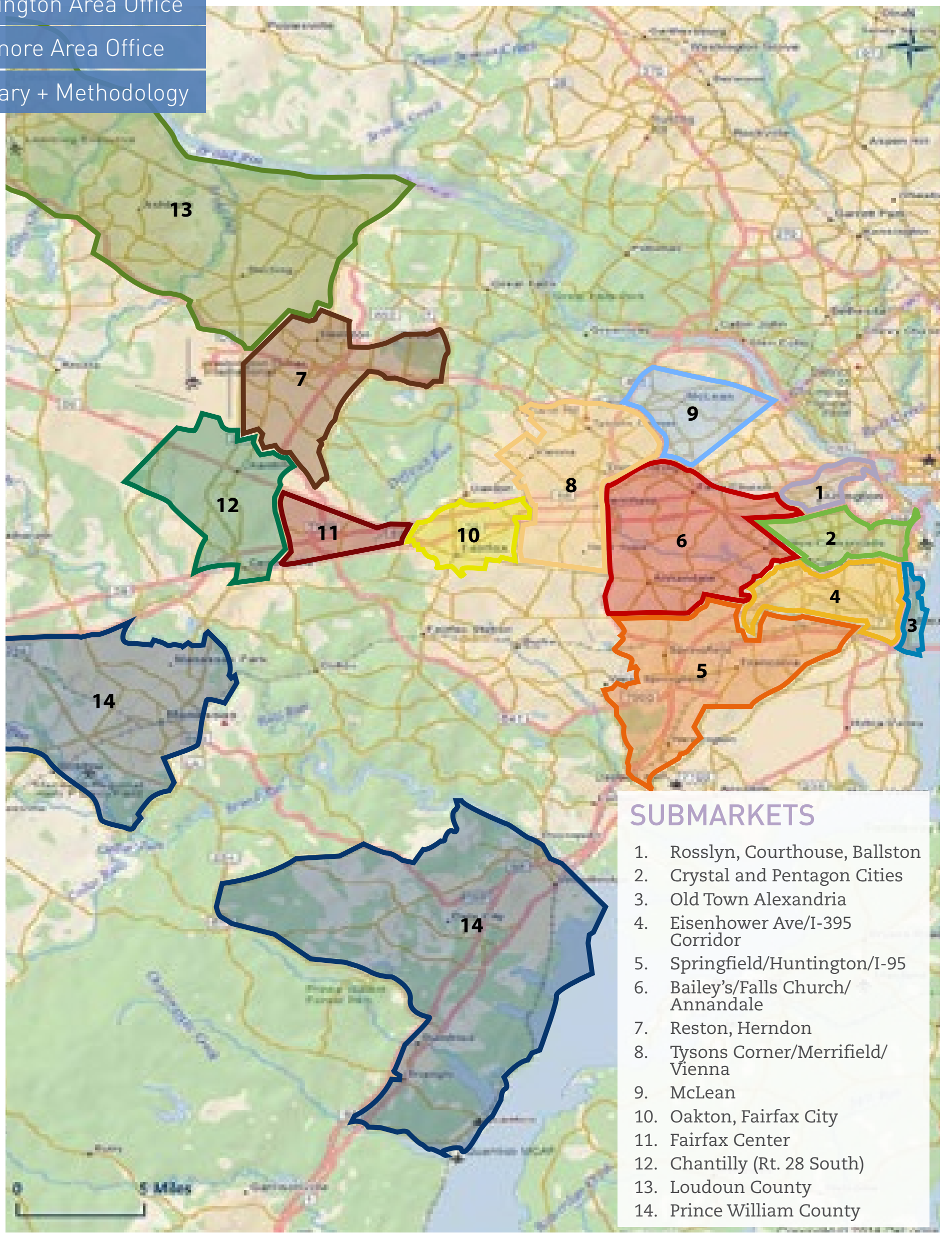
A comparison of the average employment level for one calendar year with the average for another year. All employment totals for the 12 months in one year are summed and divided by 12 to give an average employment for that year and that average is compared to the same result for another year.

Twelve-Month Over-the-Year Job Growth

The same-month change over a year; e.g., the difference from March 2014 to March 2015. It is the change for a one-year period for a given month. This measure does not require any adjustment for seasonality, since March of one year has similar seasonal behavior to March of the next year.

NORTHERN VIRGINIA

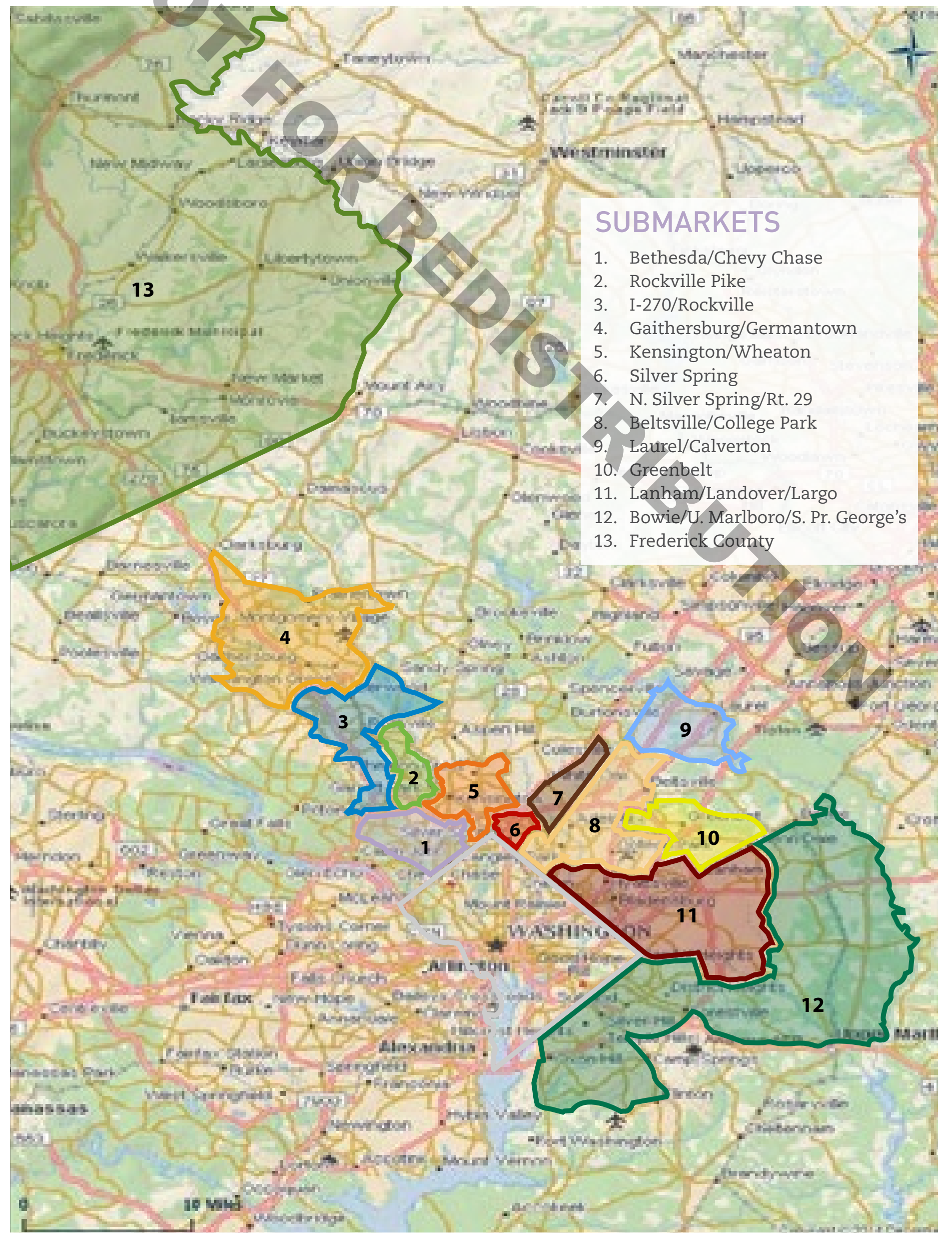
Office Submarkets



Source: ESRI, Delorme, Delta Associates; September 2017.

SUBURBAN MARYLAND

Office Submarkets



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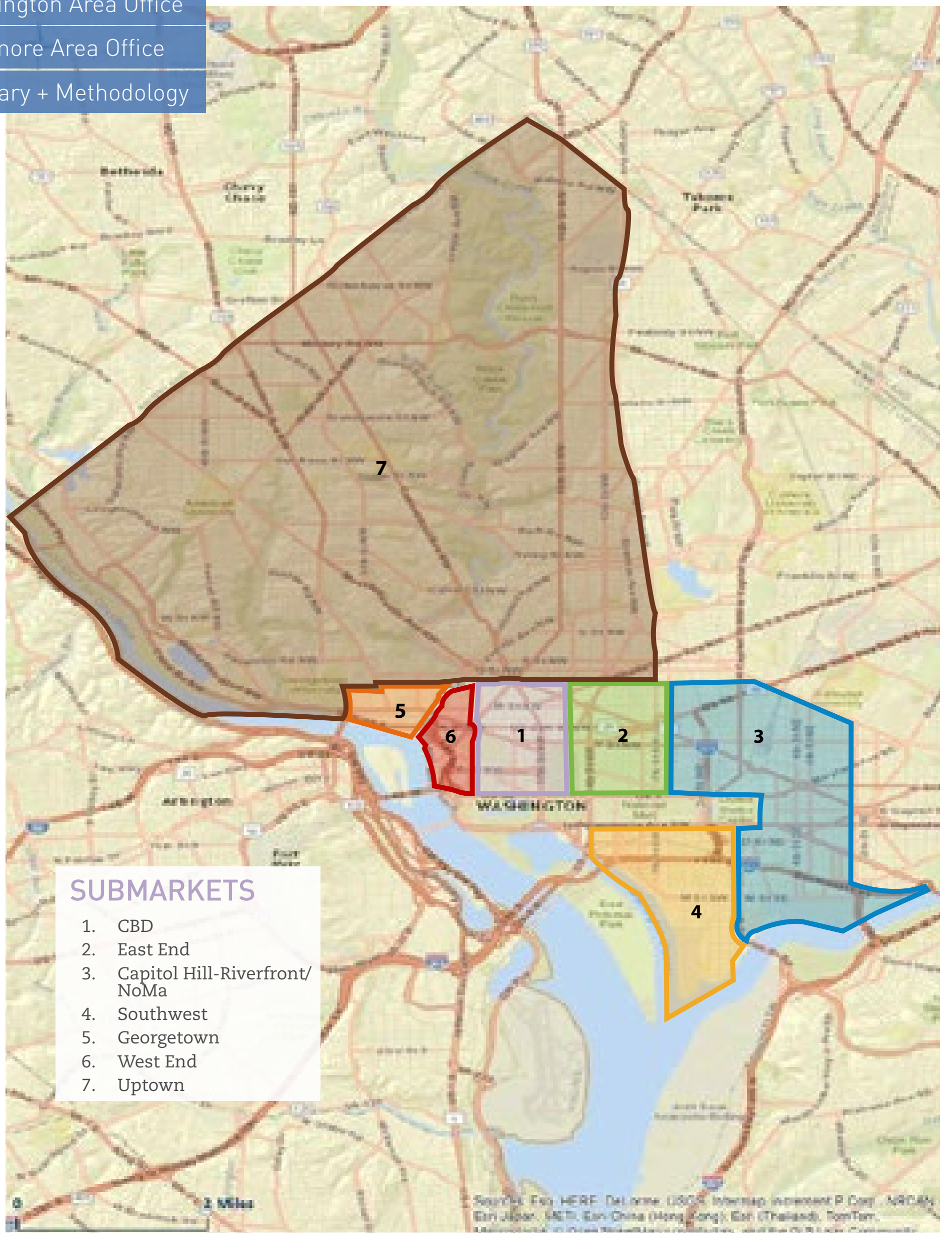
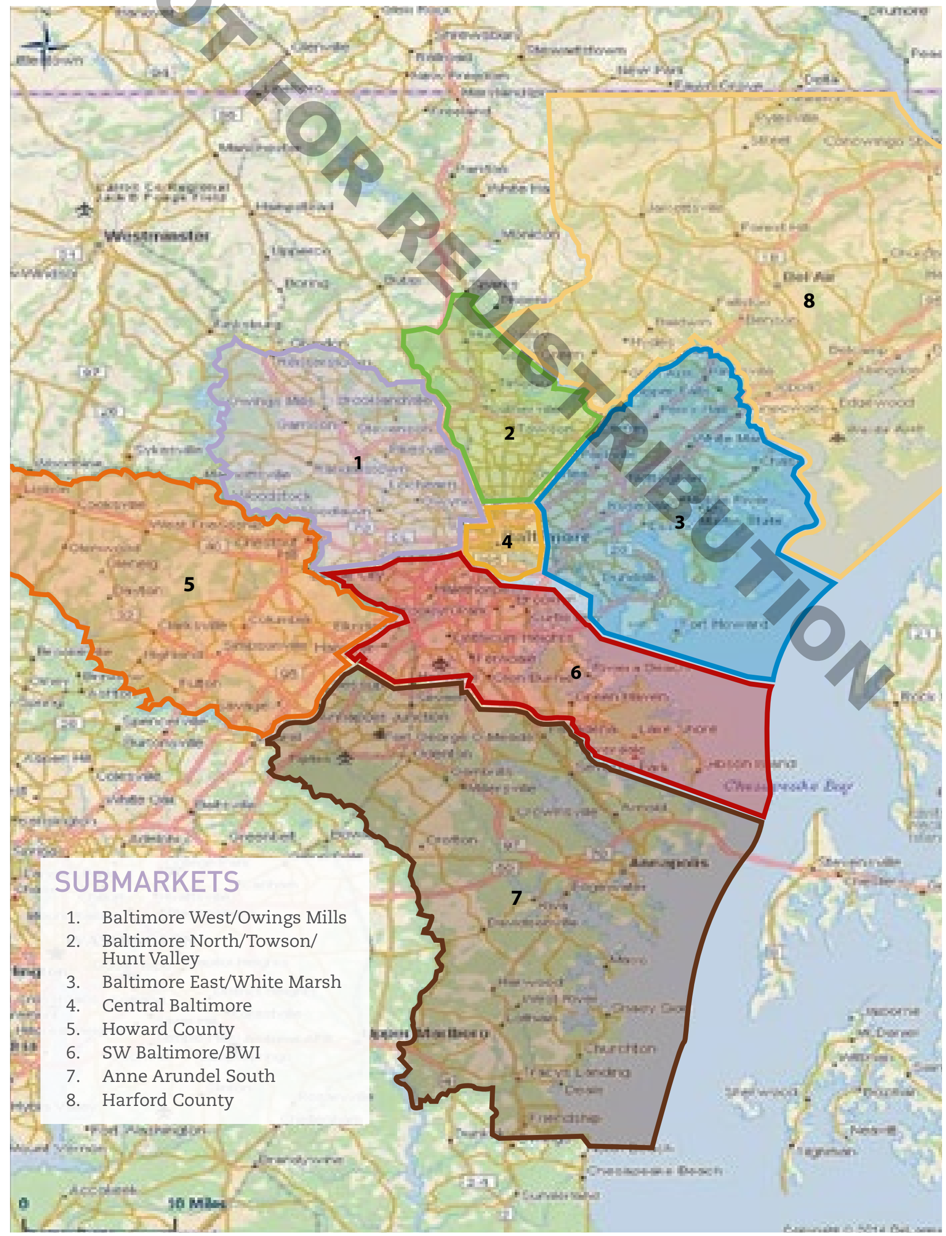


Source: ESRI, Delorme, Delta Associates; September 2017.

BALTIMORE
Office Submarkets



Source: ESRI, Delorme, Delta Associates; September 2017.

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