



# ARLINGTON ECONOMIC DEVELOPMENT VACANCY UPDATE

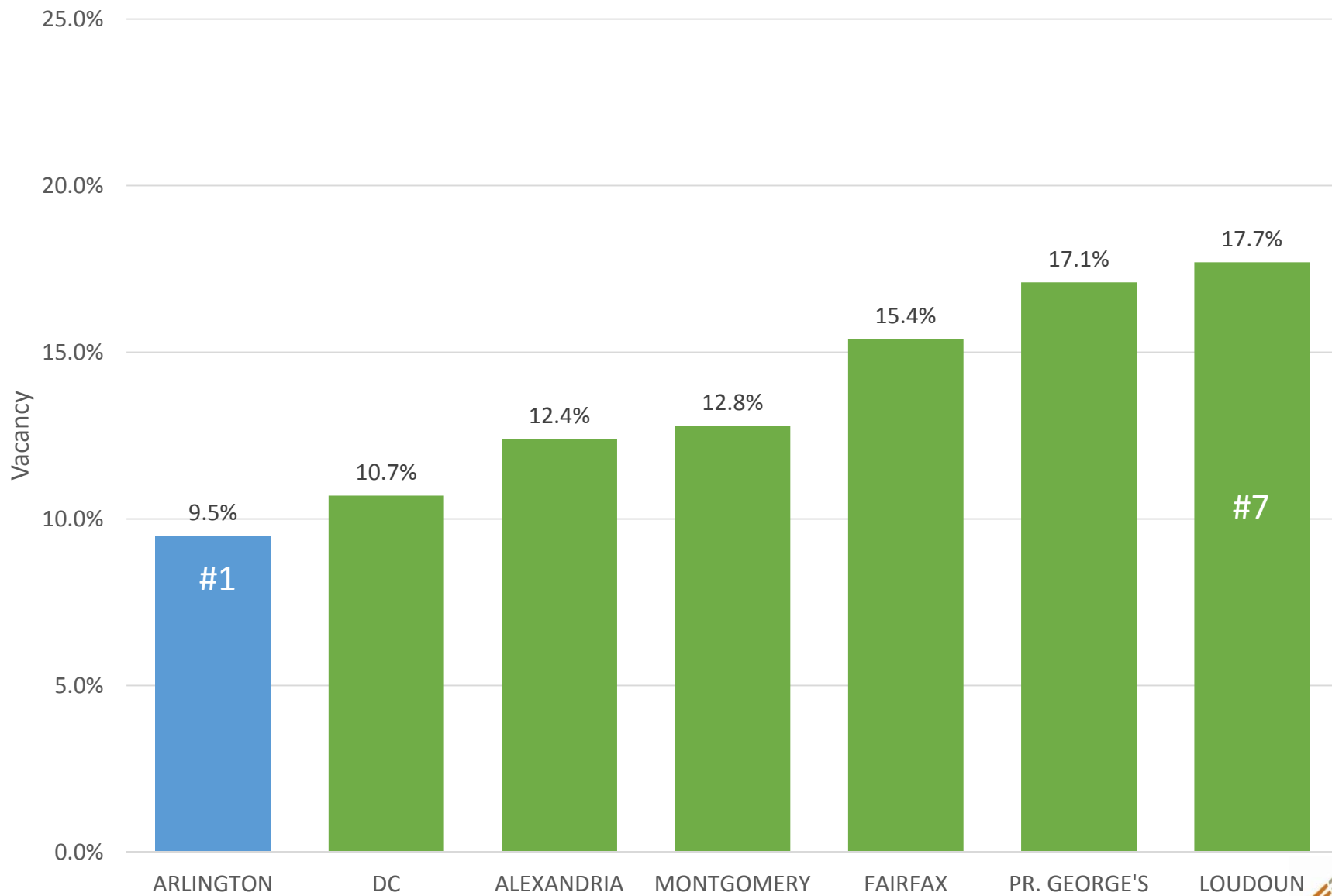


# THE NEW NORMAL

“From 1980 to 2010, the average yearly net absorption in the region was approximately 4.2 million square feet per year. From 2011-2015, that absorption number dropped to **(minus 85,000)** square feet per year.”

Matt Klein, Akridge  
ULI Washington  
Advisory Board Summary  
September 28, 2016

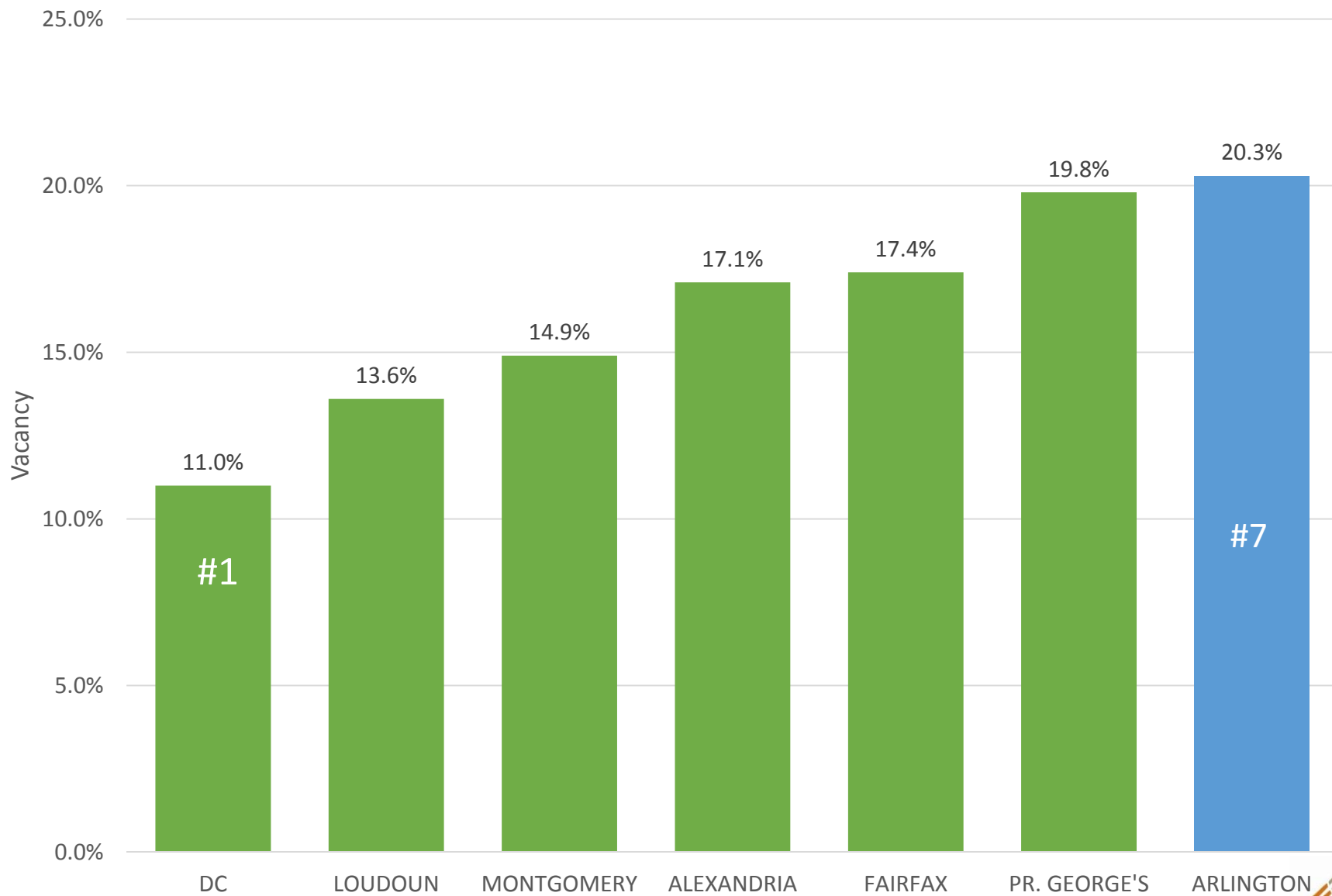
# VACANCY BY JURISDICTION Q1 2011



SOURCE: CoStar; October 2016



# VACANCY BY JURISDICTION Q3 2016

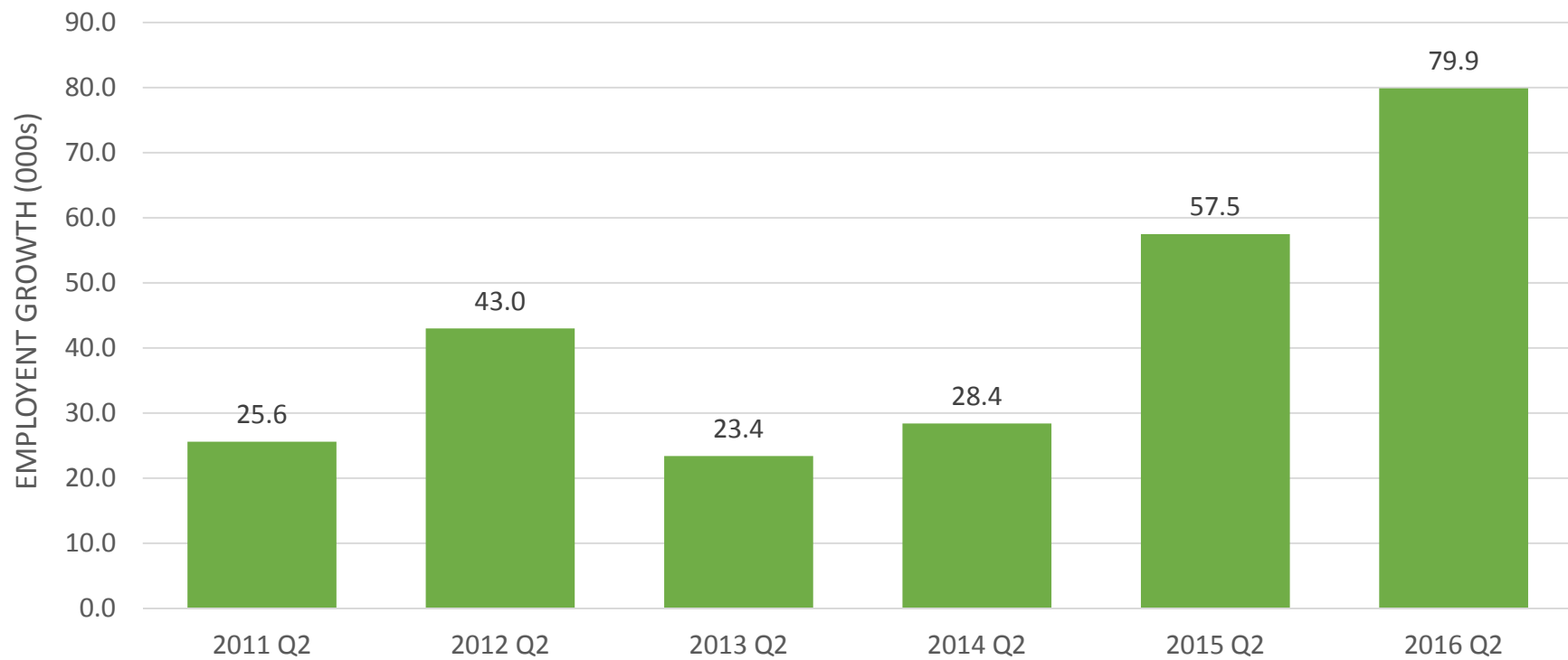


SOURCE: CoStar; October 2016



# VACANCY PERSISTS DESPITE EMPLOYMENT GAINS

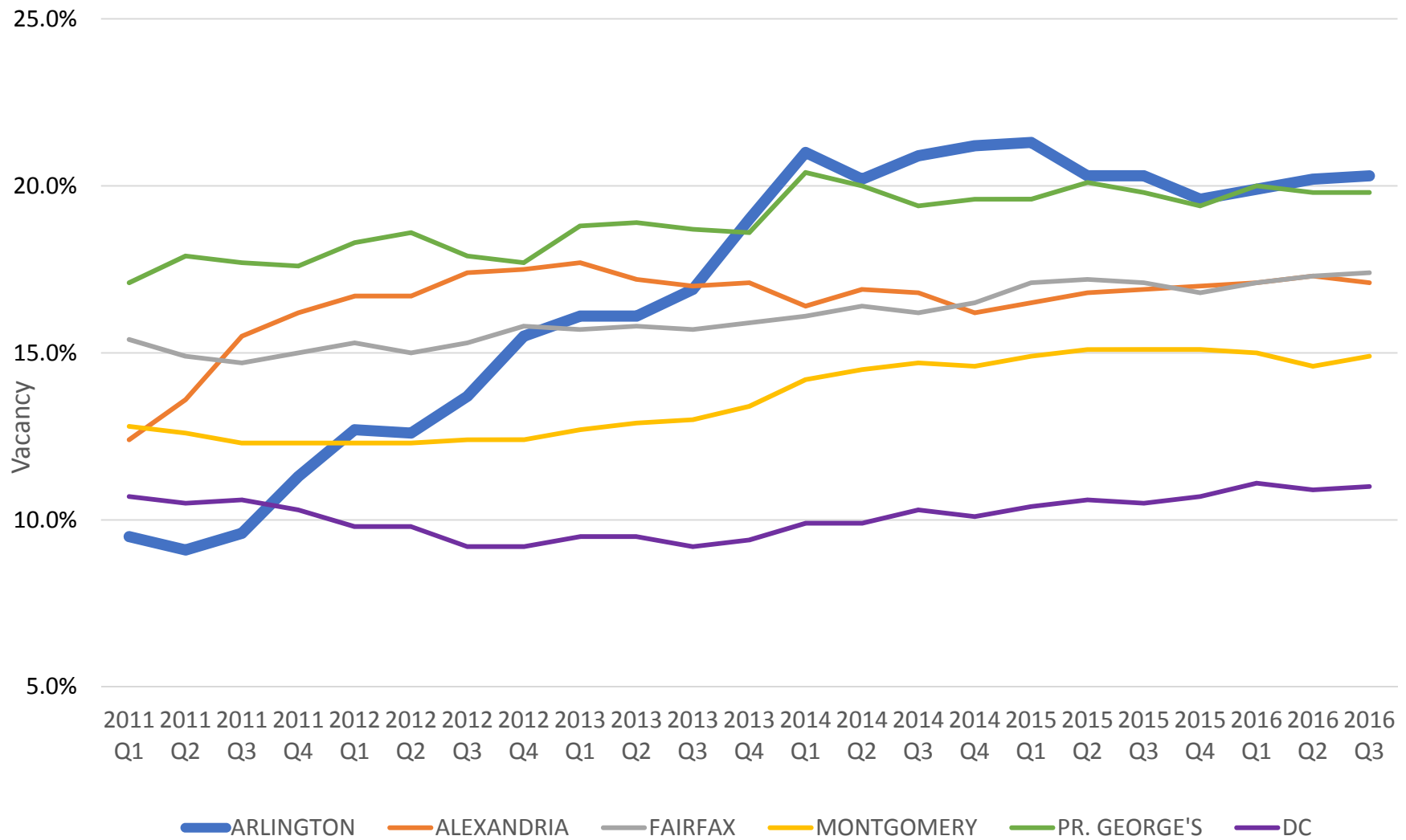
YOY EMPLOYMENT GROWTH  
WASHINGTON-ARLINGTON-ALEXANDRIA METRO AREA  
2Q 2011 – 2Q 2016



SOURCE: Bureau of Labor Statistics



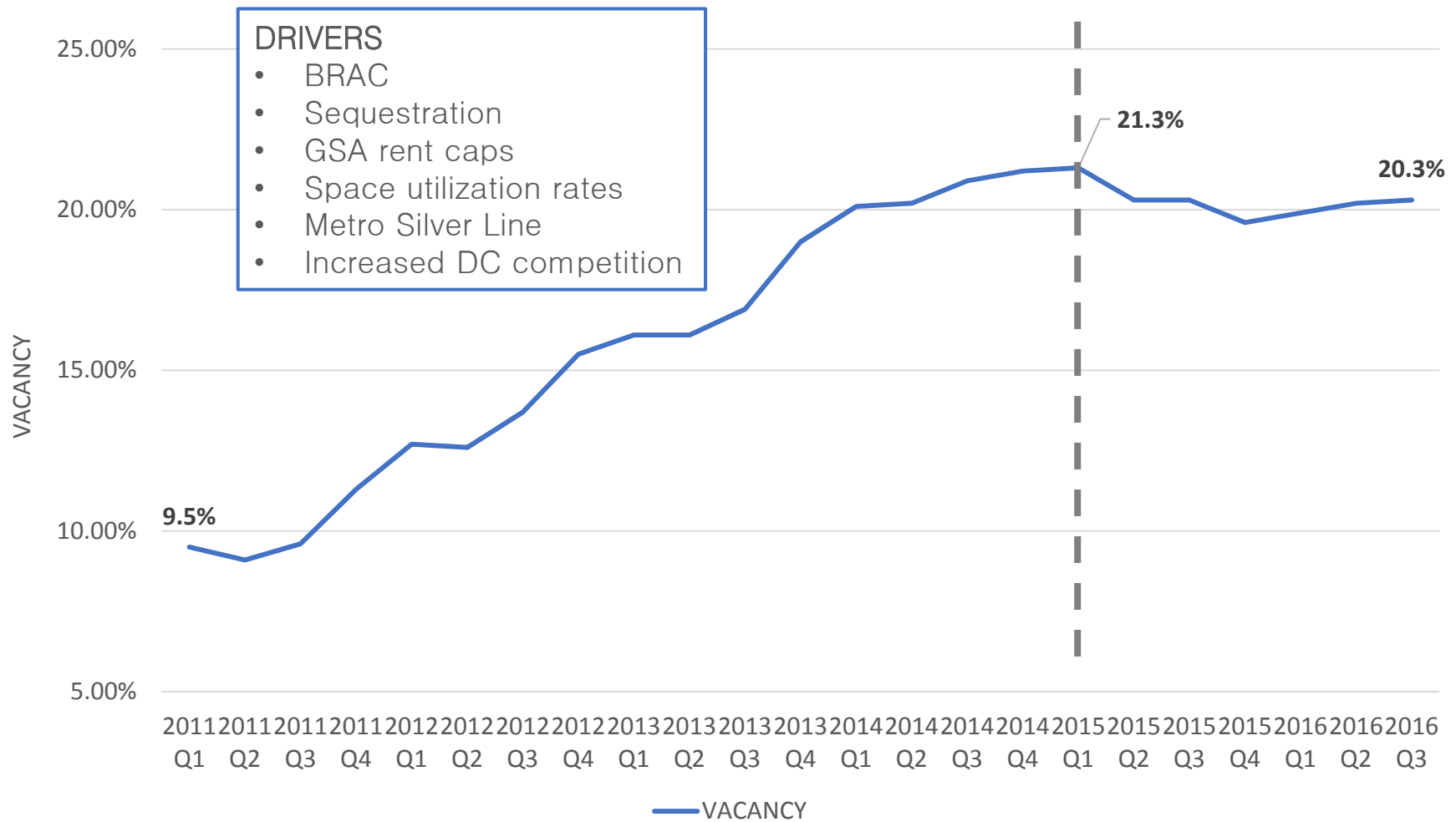
# VACANCY IS A REGIONAL ISSUE



SOURCE: CoStar; October 2016



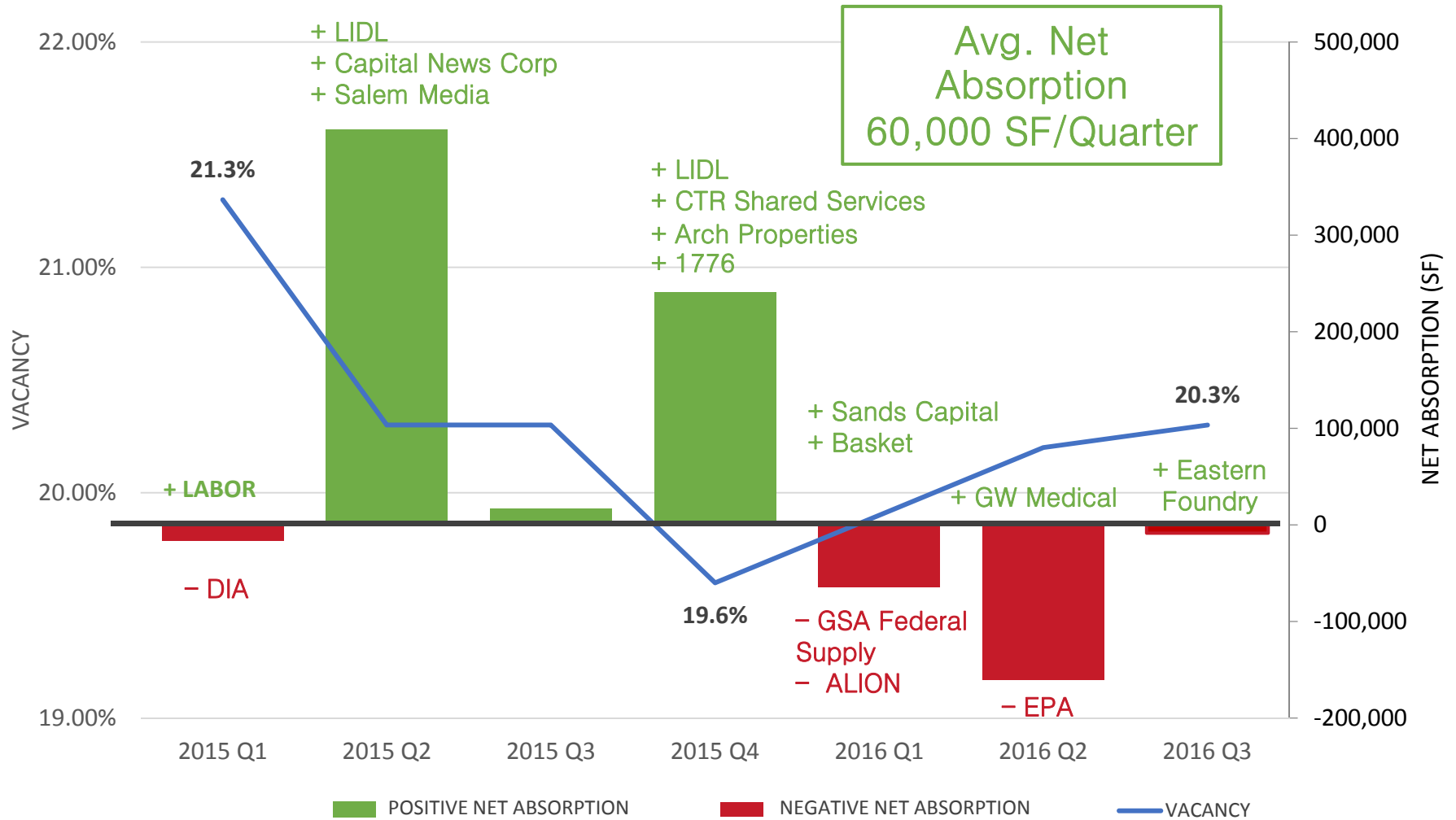
# OFFICE VACANCY TO DATE



SOURCE: CoStar; September 2016

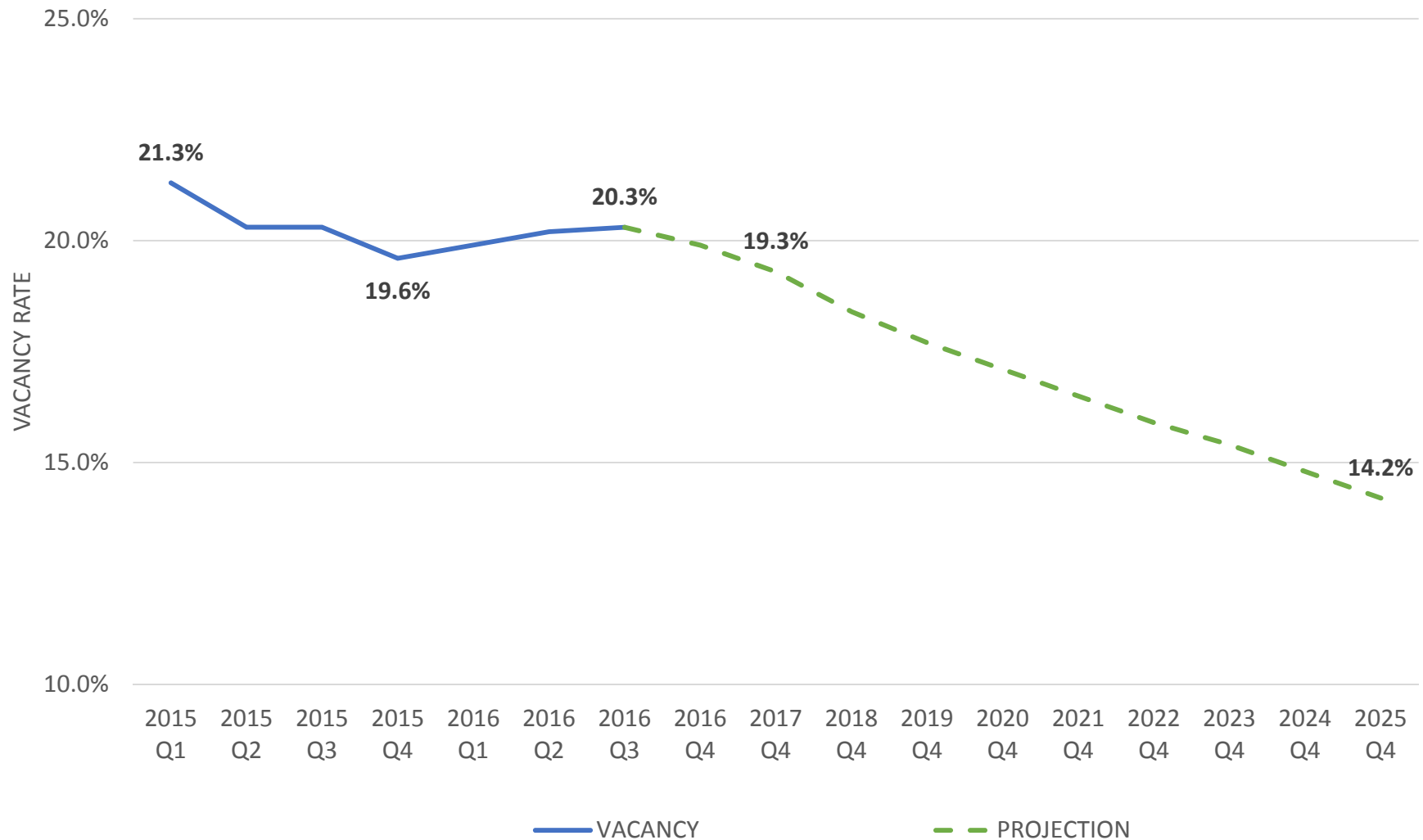


# RECENT OFFICE ACTIVITY





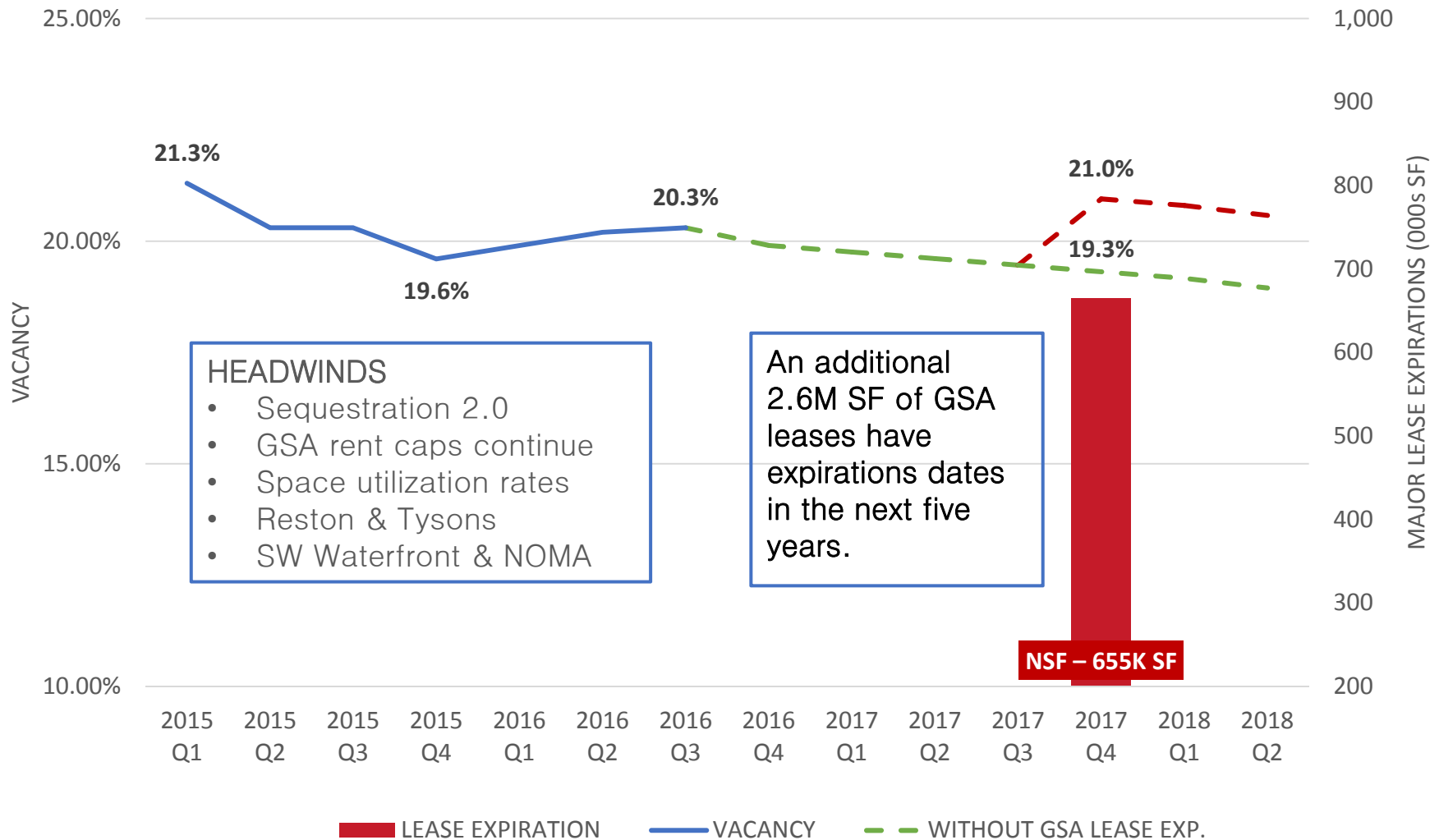
# PROJECTION – CONTINUED TREND



NOTE: Assumes recent quarterly net absorption of 60,000 SF and delivery of projects currently under or near construction.



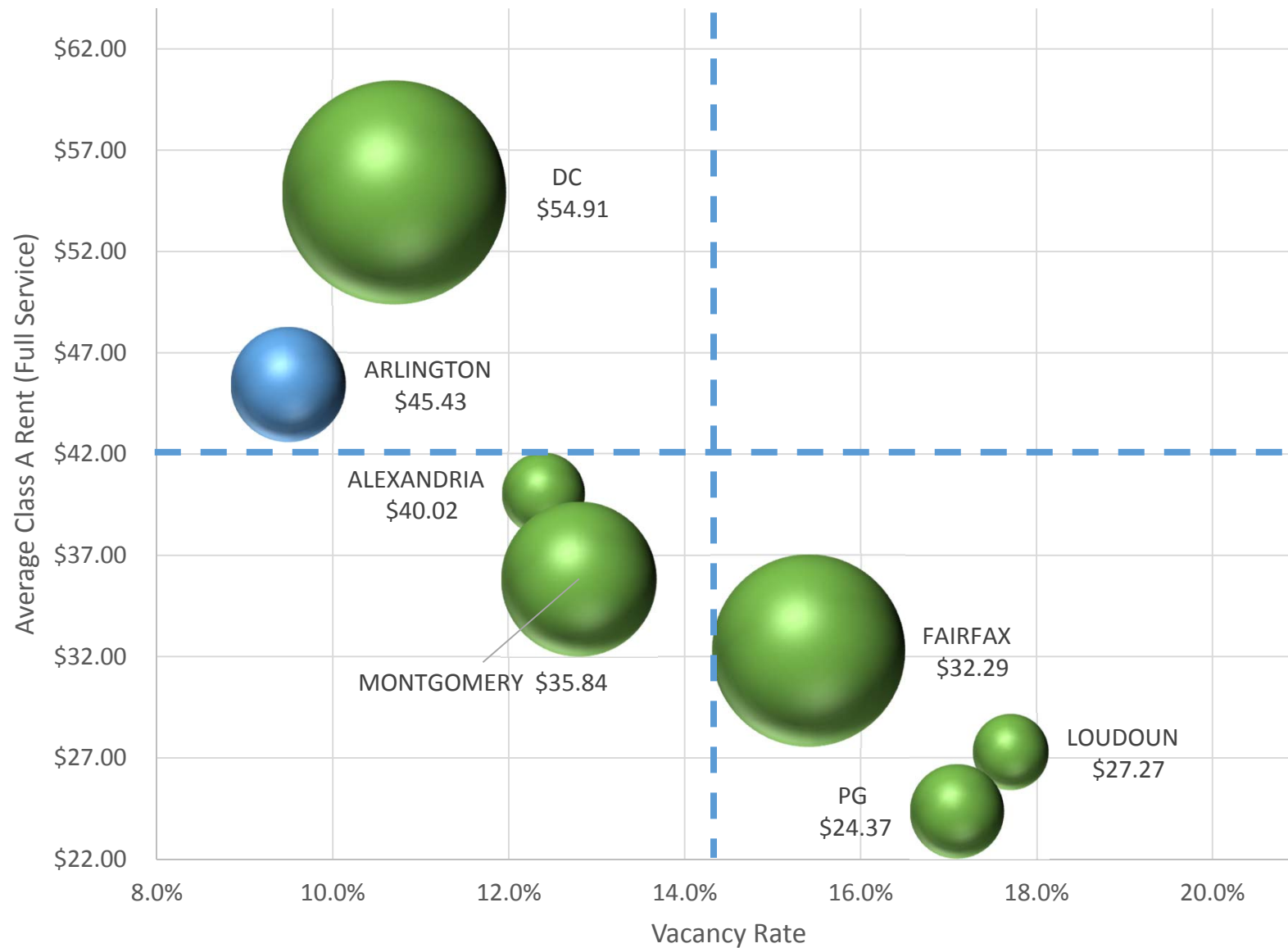
# PROJECTION W/ NSF LEASE EXPIRATION



NOTE: Assumes recent quarterly net absorption of 60,000 SF and delivery of projects currently under or near construction.



# RENTS BY JURISDICTION 1Q 2011

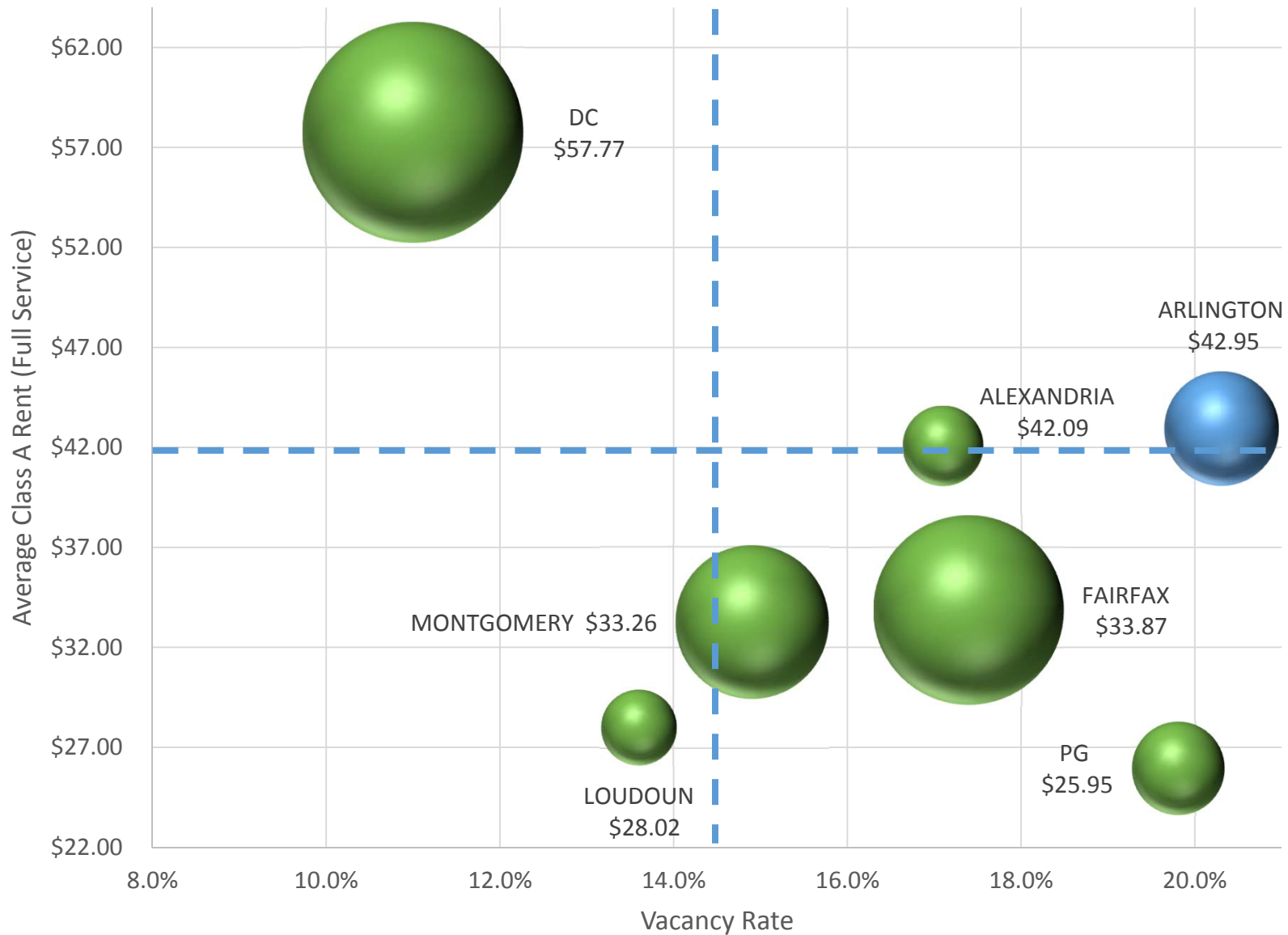


SOURCE: CoStar; October 2016

NOTE: Sphere size depicts total RBA; Rents for buildings built after 2005 or renovated after 2010.



# RENTS BY JURISDICTION 3Q 2016



SOURCE: CoStar; October 2016

NOTE: Sphere size depicts total RBA; Rents for buildings built after 2005 or renovated after 2010.



# BUILDINGS WITH MORE THAN 10% VACANCY MAKE UP 95% OF VACANT SPACE

Less than 10%  
Vacancy

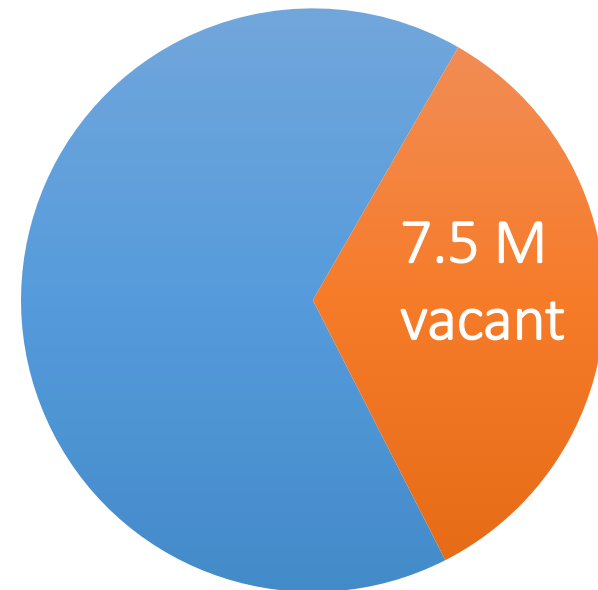
18.7 M SF



■ Occupied ■ Vacant

More than 10%  
Vacancy

22.0 M SF

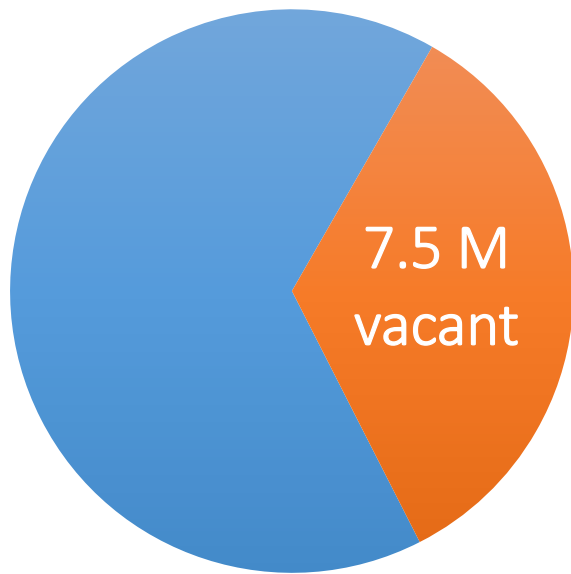


■ Occupied ■ Vacant

# SIGNIFICANT DIFFERENCES EXIST AMONG HIGH-VACANCY BUILDINGS

Buildings w. More than 10% Vacancy

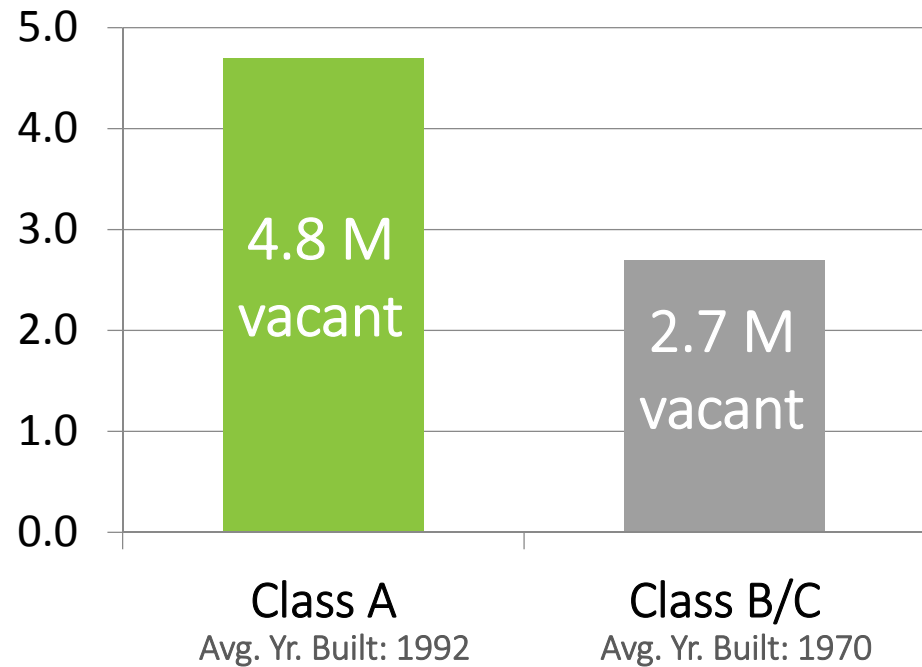
22.0 M SF



■ Occupied ■ Vacant

Drilldown by Building Class and Age

7.5 M SF



# OFFICE CONVERSIONS IN THE U.S.

- “Boardroom to bedroom” trend driven by increased demand for urban living and pronounced change in the way companies use office space.
- In the past 10 years:
  - 44 office buildings converted in **Los Angeles**;
  - 27 office buildings converted in **Philadelphia**; and
  - Continued activity in **New York** and **Chicago**.
- **Baltimore** and **Dallas** have used tax credit programs to encourage conversion.

# COMPARABLE PROJECTS IN ARLINGTON



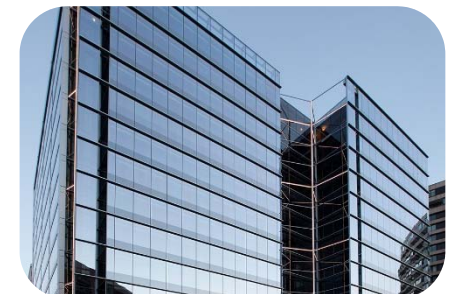
220 20<sup>th</sup> Street



WeWork/WeLive



400 Army Navy Dr.



1400 Crystal Dr.\*

Impediments to office conversions in the Washington DC office market:

1. Large floor plates resulting in more costly retrofitting
2. Low ceilings and unappealing building exterior compared to lofts or flats
3. Office use perceived best option on value per square foot

Key conditions for office conversions to work:

1. Encouragement and partnership from the public sector
2. So-called “optimal obsolescence” – otherwise must tear down
3. Market demand for multifamily and co-living arrangements



# LOOKING AHEAD/ IMPLICATIONS

If put to another use the 2.7 million square feet of antiquated space...

...would equate to a 5% reduction in the office vacancy rate.

Leaving 2 million square feet to make up through business development...

...to reach a 10% office vacancy rate.