ARLINGTON ECONOMIC DEVELOPMENT
VACANCY UPDATE
“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

DC 11.0%  #1
LOUDOUN 13.6%
MONTGOMERY 14.9%
ALEXANDRIA 17.1%
FAIRFAX 17.4%
PR. GEORGE’S 19.8%
ARLINGTON 20.3%  #7
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

DRIVERS
- BRAC
- Sequestration
- GSA rent caps
- Space utilization rates
- Metro Silver Line
- Increased DC competition

SOURCE: CoStar; September 2016
RECENT OFFICE ACTIVITY

Avg. Net Absorption
60,000 SF/Quarter

VACANCY

NET ABSORPTION (SF)

22.00%
21.00%
20.00%
19.00%

21.3%

+ LABOR

+ LIDL
+ Capital News Corp
+ Salem Media

+ LIDL
+ CTR Shared Services
+ Arch Properties
+ 1776

+ Sands Capital
+ Basket

+ GW Medical
+ Eastern Foundry

20.3%

DIA

POSITIVE NET ABSORPTION
NEGATIVE NET ABSORPTION
VACANCY

2015 Q1 2015 Q2 2015 Q3 2015 Q4 2016 Q1 2016 Q2 2016 Q3

Avg. Net Absorption
60,000 SF/Quarter
NOTE: Assumes recent quarterly net absorption of 60,000 SF and delivery of projects currently under or near construction.
An additional 2.6M SF of GSA leases have expiration dates in the next five years.

HEADWINDS
- Sequestration 2.0
- GSA rent caps continue
- Space utilization rates
- Reston & Tysons
- SW Waterfront & NOMA

NOTE: Assumes recent quarterly net absorption of 60,000 SF and delivery of projects currently under or near construction.
RENTS BY JURISDICTION 1Q 2011

DC
$54.91

ARLINGTON
$45.43

ALEXANDRIA
$40.02

FAIRFAX
$32.29

MONTGOMERY
$35.84

LOUDOUN
$27.27

PG
$24.37

Vacancy Rate

8.0% 10.0% 12.0% 14.0% 16.0% 18.0% 20.0%

Average Class A Rent (Full Service)

$62.00

$57.00

$52.00

$47.00

$42.00

$37.00

$32.00

$27.00

$22.00

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.
Less than 10% Vacancy

18.7 M SF

18.3 M occupied

More than 10% Vacancy

22.0 M SF

7.5 M vacant

Occupied  Vacant
SIGNIFICANT DIFFERENCES EXIST AMONG HIGH-VACANCY BUILDINGS

Buildings w. More than 10% Vacancy

- 22.0 M SF
- 7.5 M vacant

Drilldown by Building Class and Age

- Class A
  - 4.8 M vacant
  - Avg. Yr. Built: 1992
- Class B/C
  - 2.7 M vacant
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 20th 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
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.