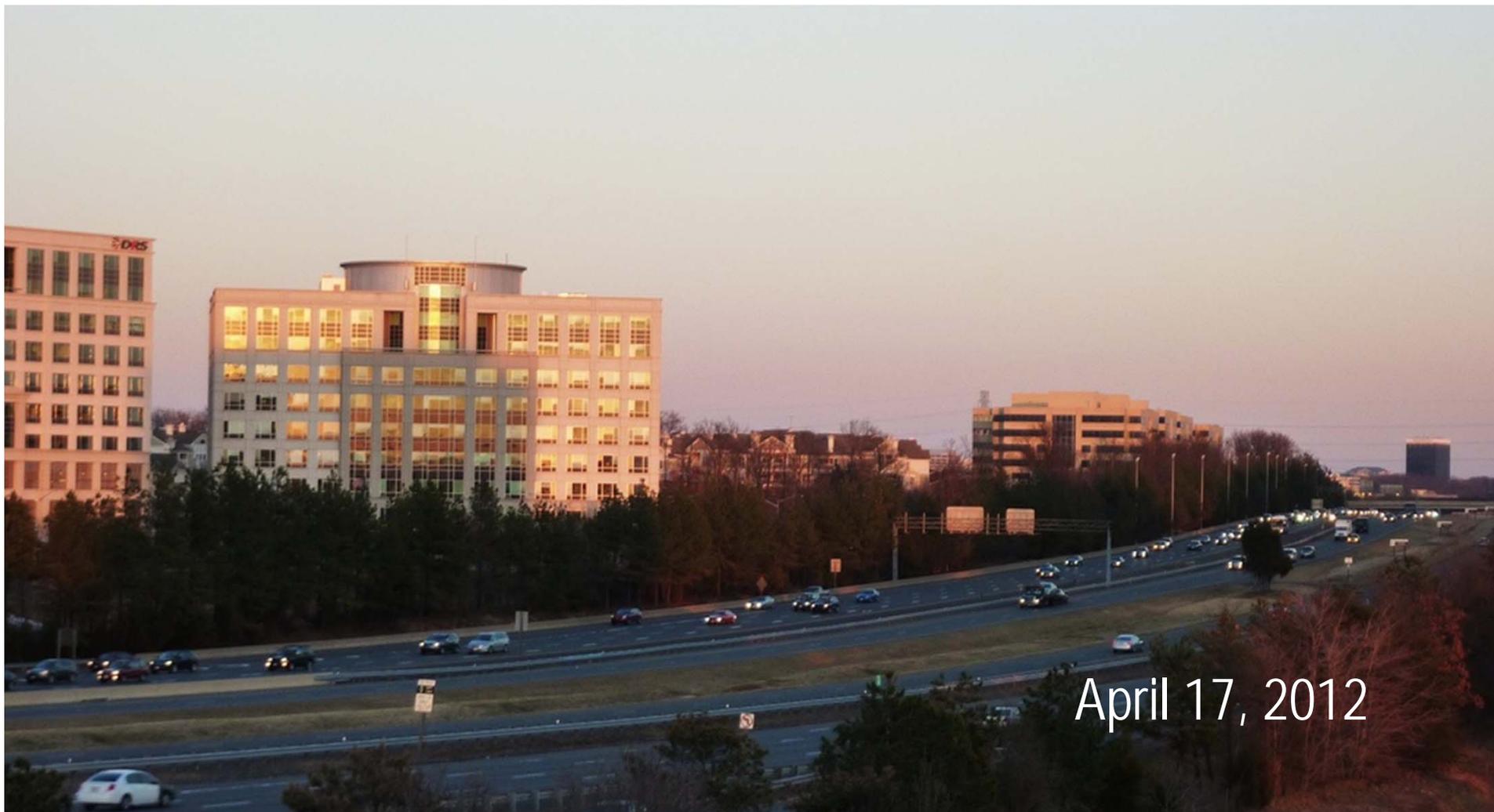




*Real value in a changing world*

# Fairfax County

# *State of the Market*



April 17, 2012

# Tonight's presenters from Jones Lang LaSalle



Harry Klaff  
Managing Director

Northern Virginia Brokerage

*M.B.A. Loyola University  
B.A. Vanderbilt University*



Scott Homa  
Research Director

Mid Atlantic Market

*B.S. Georgetown University*

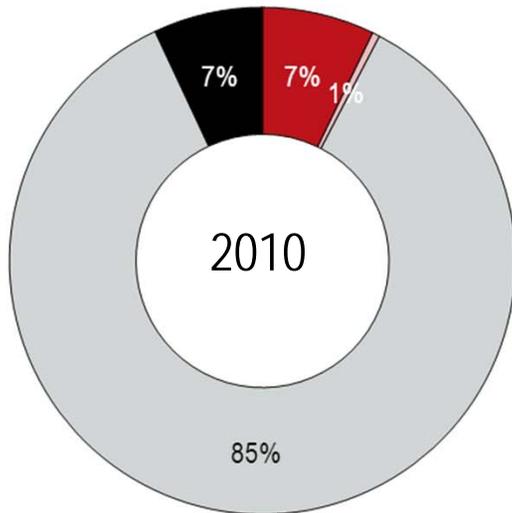
## Agenda

- Regional economic overview
- Regional office market overview
- Local office market overview
- Demographics review
- Analysis, predictions and outlook

# How the national office market has changed over the past 36 months – Metro DC goes from *first* to *last*

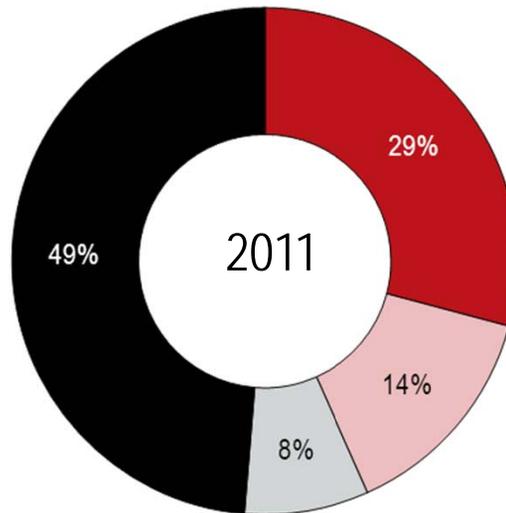
Net absorption as a percent of inventory

■ Tech markets   ■ Energy markets   ■ NYC/DC   ■ Rest of U.S.

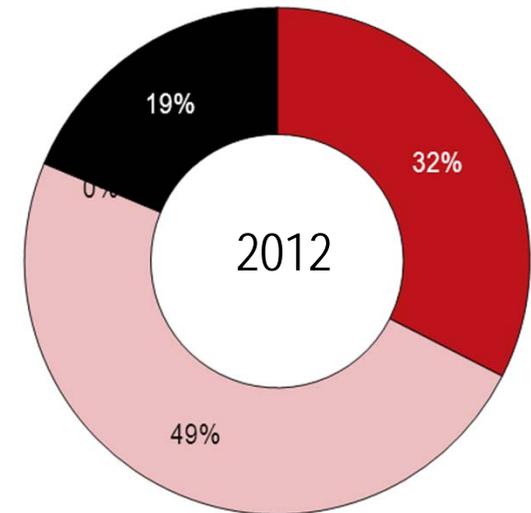


Metro DC:

+7,336,206 SF



+871,427 SF



-1,466,482 SF

Source: Jones Lang LaSalle

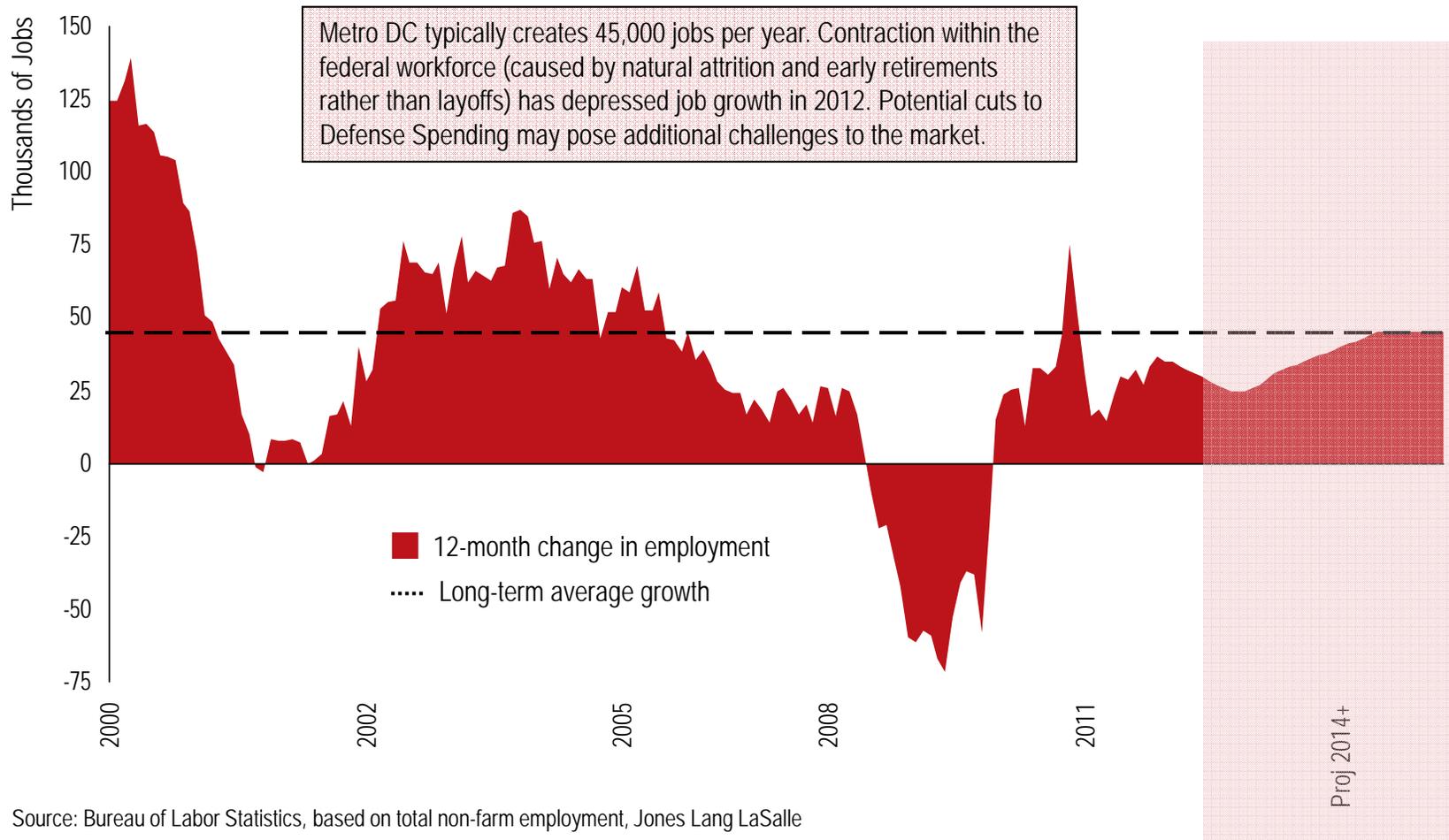
# Key issues impacting the Metro DC office market

- Rising federal budget deficits
- Drive for space efficiency
- Divided Congress
- Election cycle

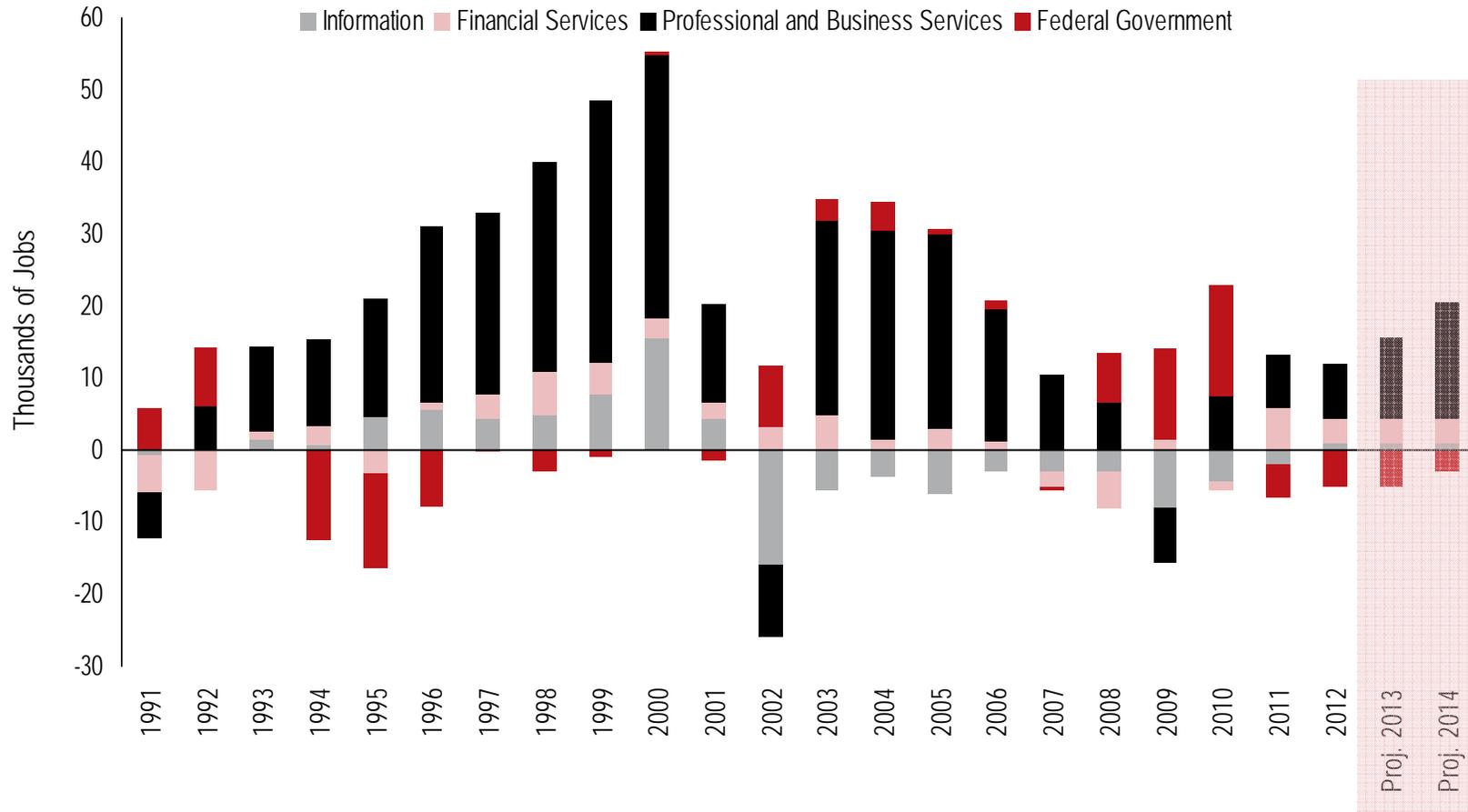


Source: Jones Lang LaSalle

# Projected job growth: a near-term dip is likely before a reversion back to long-term averages



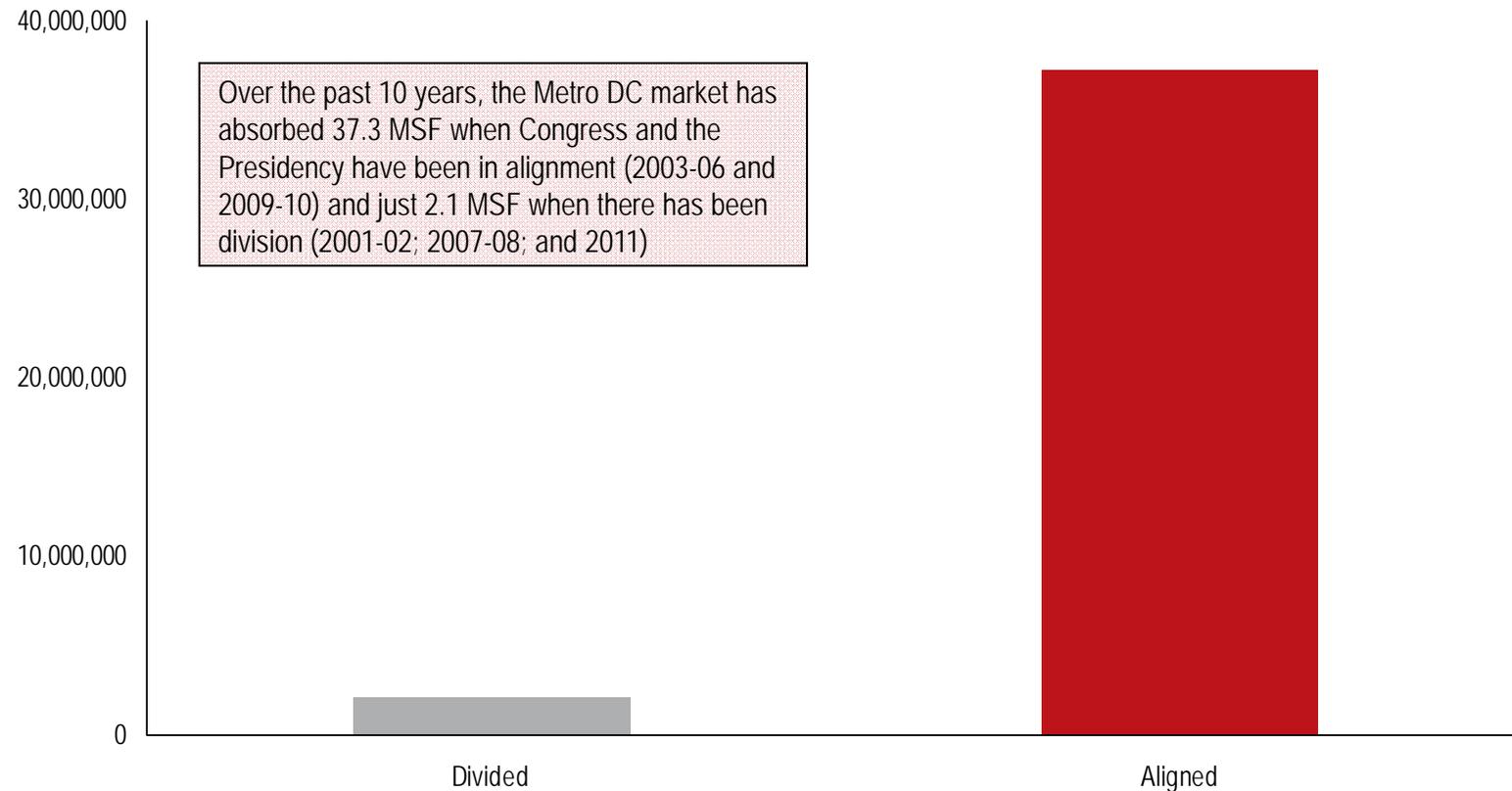
# Slowdown in Metro DC job growth largely due to contraction in federal government workforce



Source: Bureau of Labor Statistics, Jones Lang LaSalle

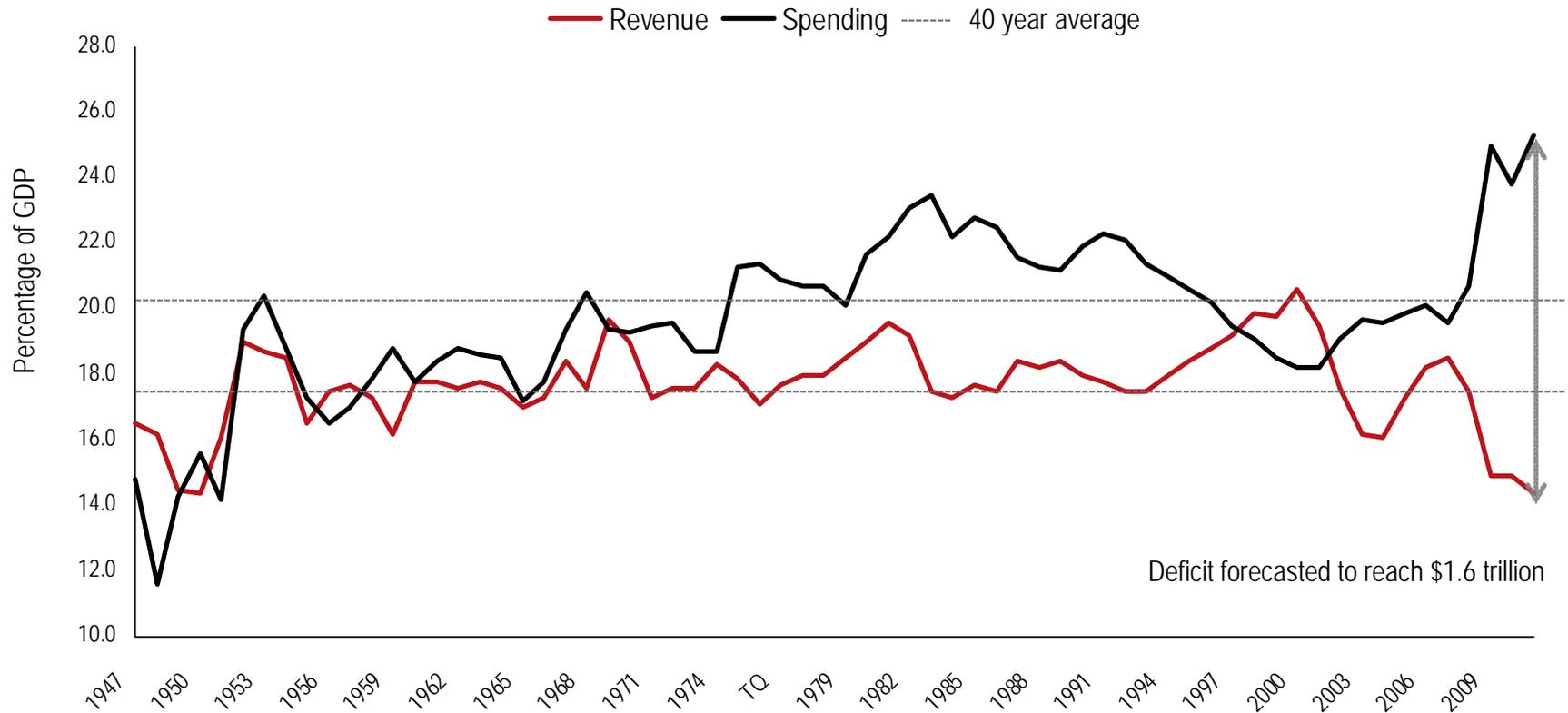
# Metro DC office market performance is highly correlated with alignment of Congress and Presidency

Aggregate net absorption (SF)



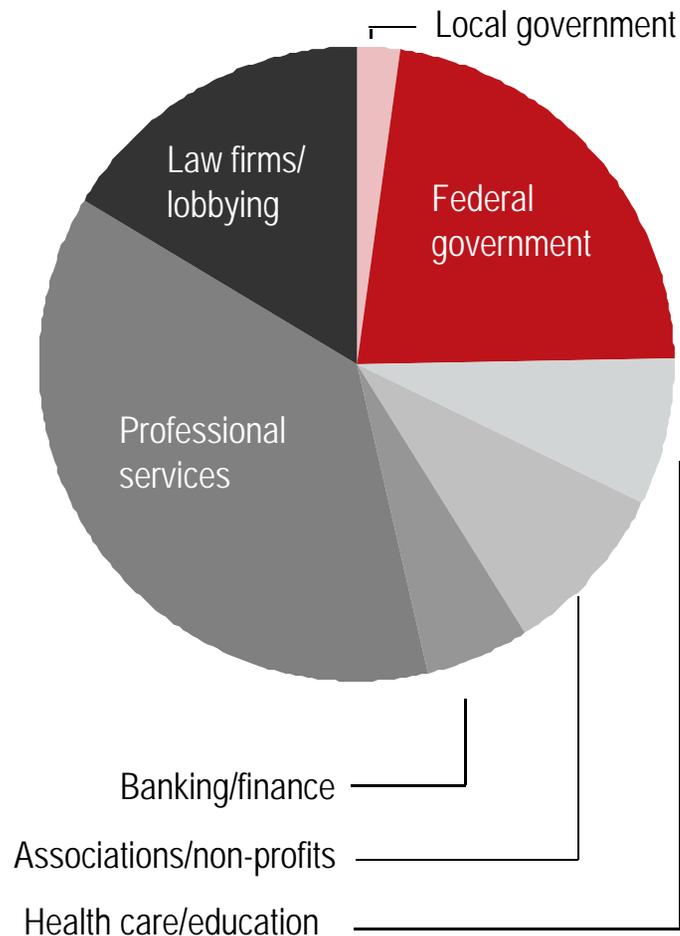
Source: Jones Lang LaSalle

# Will things be different this time? Federal spending and national debt has become a leading political issue



Source: Office of Management and Budget

# Metro DC tenant base is diversified in nature, but heavily tied to the activities of the federal government



Office tenant base by industry/sector	Percent
Law firms/lobbying	16.4%
Professional services	37.3%
Banking/finance	5.2%
Associations/non-profits	8.8%
Health care/education *	7.5%
Local government	2.1%
Federal leased*	22.7%
<b>* Historically non-cyclical industries</b>	<b>30.2%</b>
<b>Total</b>	<b>100%</b>

Source: Jones Lang LaSalle tenant database

# Concentration of industries creating leading/lagging submarkets, with growth in *non-traditional* segments

Industry	Employment base	Most affected office markets to date
Defense contractors	Rightsizing	Fairfax County, Arlington
Federal government	Rightsizing	DC, Northern Virginia, Suburban Maryland
Law firms	Rightsizing	CBD, East End, West End
Media	Rightsizing	Loudoun County, Silver Spring
Non-profit / association	Rightsizing	Alexandria, DC
Aerospace	Rightsizing	Loudoun County, Route 28 South
Retail / hospitality	Rightsizing	Bethesda/Chevy Chase, Georgetown, Tysons Corner
Financial services	Stable	Bethesda/Chevy Chase, Fairfax Center, Tysons Corner
Telecom	Stable	Reston-Herndon
Biotech / pharmaceutical	Stable	I-270 Corridor
Consulting	Stable	Rosslyn-Ballston, Tysons Corner
Accounting / Insurance	Stable	CBD, East End, Tysons Corner
Lobbying / government affairs	Growing (rate of expansion slowing)	Capitol Hill, CBD, East End
Green energy	Growing	Rosslyn-Ballston
Social media	Growing	East End

Source: Jones Lang LaSalle

# In Fairfax County, challenging headlines have surfaced, although glimmers of hope also remain

Bowing to the pressure of reduced government spending, Booz Allen announces plans to cut workforce

*Contractors remain in limbo during debates over automatic Defense cuts*

Bechtel moving 625 jobs to Fairfax

Government to expand cybersecurity network

Accenture announces downsizing and relocation out of Reston Town Center

*Companies shunning suburban offices for urban locations*

*NGA contractors growing presence in Northern Virginia*

*Acentia moves headquarters to Fairfax County*

Source: Jones Lang LaSalle

# Government contractors voicing concerns about future levels of federal spending; in their own words...

"Looking forward, *defense spending levels are becoming increasingly difficult to predict* ... significant changes in spending could have *long-term consequences* for our size and structure" – *Raytheon*

"*We depend heavily on a single customer*, the U.S. Government, for a substantial portion of our business and we *cannot predict* the extent to which funding for programs will be reduced as part of the budget approved by Congress" – *Northrop Grumman*

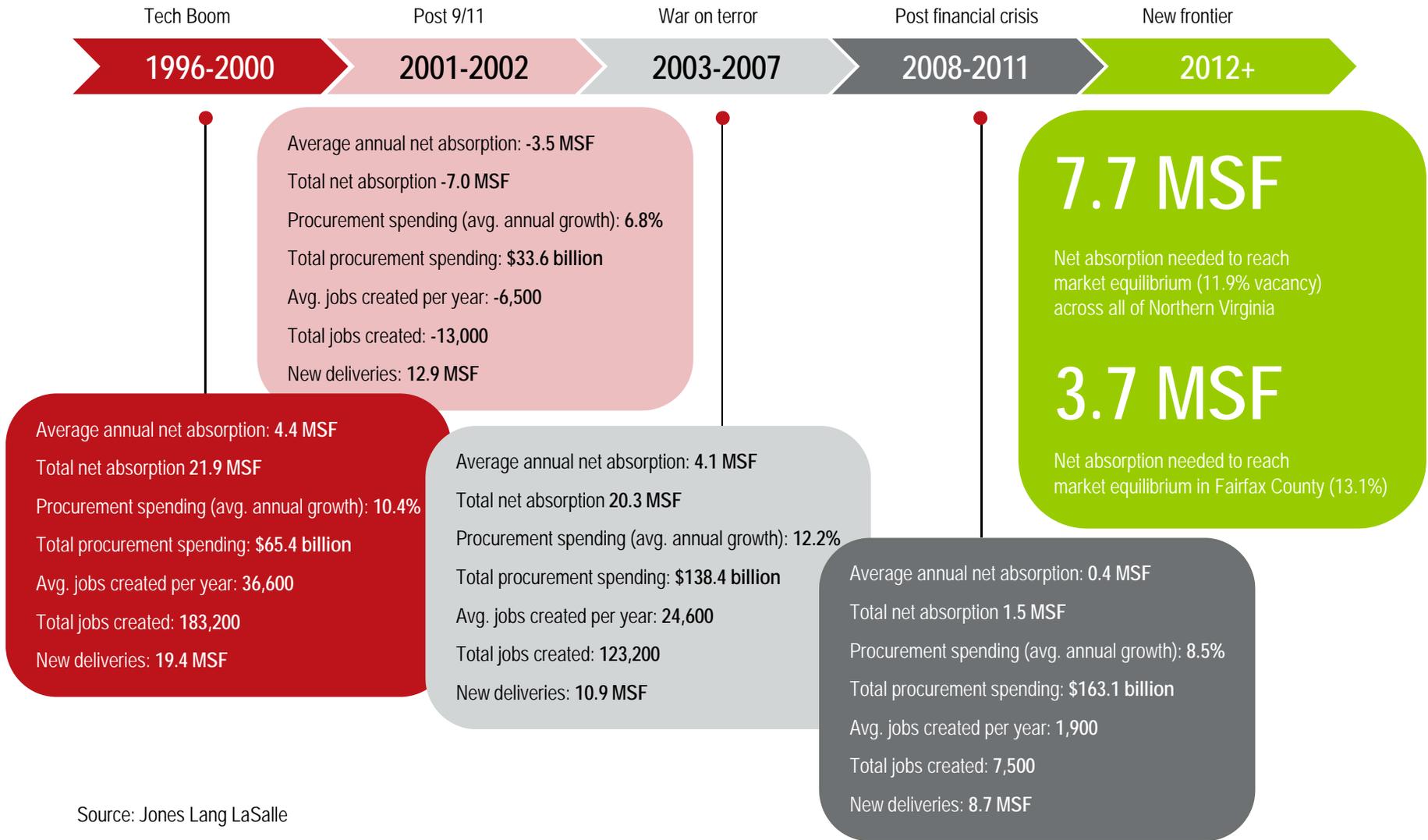
"We expect that the U.S. DoD will continue to *emphasize cost-cutting and other efficiency initiatives* in its procurement processes... our business could be adversely affected by changing acquisition priorities of the U.S. government, particularly the Department of Defense's increased emphasis on affordability" – *Boeing*

"The possibility remains that one or more of *our programs could be reduced, extended or terminated as a result of the Administration's continuing assessment of priorities*" – *Lockheed Martin*

"Current levels of deficit spending are likely unsustainable... *we expect the overall defense budget will decline* over a five-year period beginning in fiscal 2012" – *Northrop Grumman*

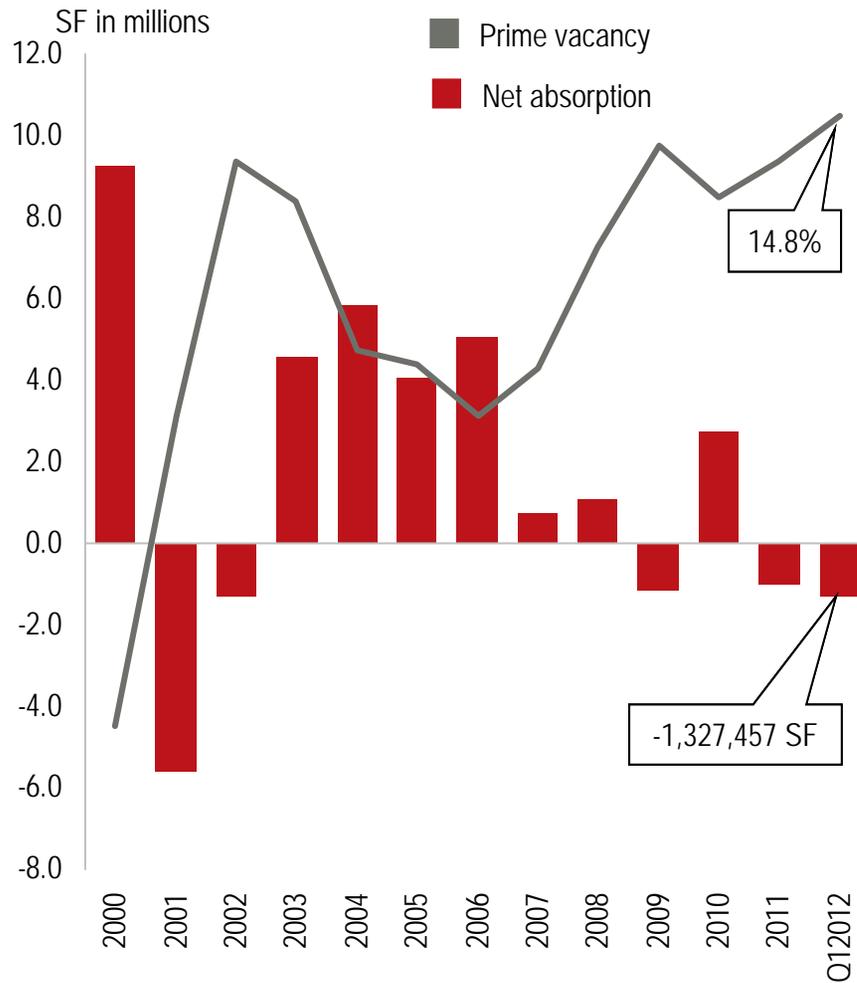
Source: Lockheed Martin, Northrop Grumman, Boeing and Raytheon 10K annual reports

# Northern Virginia – a 15 year look back and look ahead



Source: Jones Lang LaSalle

# Northern Virginia market dynamics



## Market Statistics

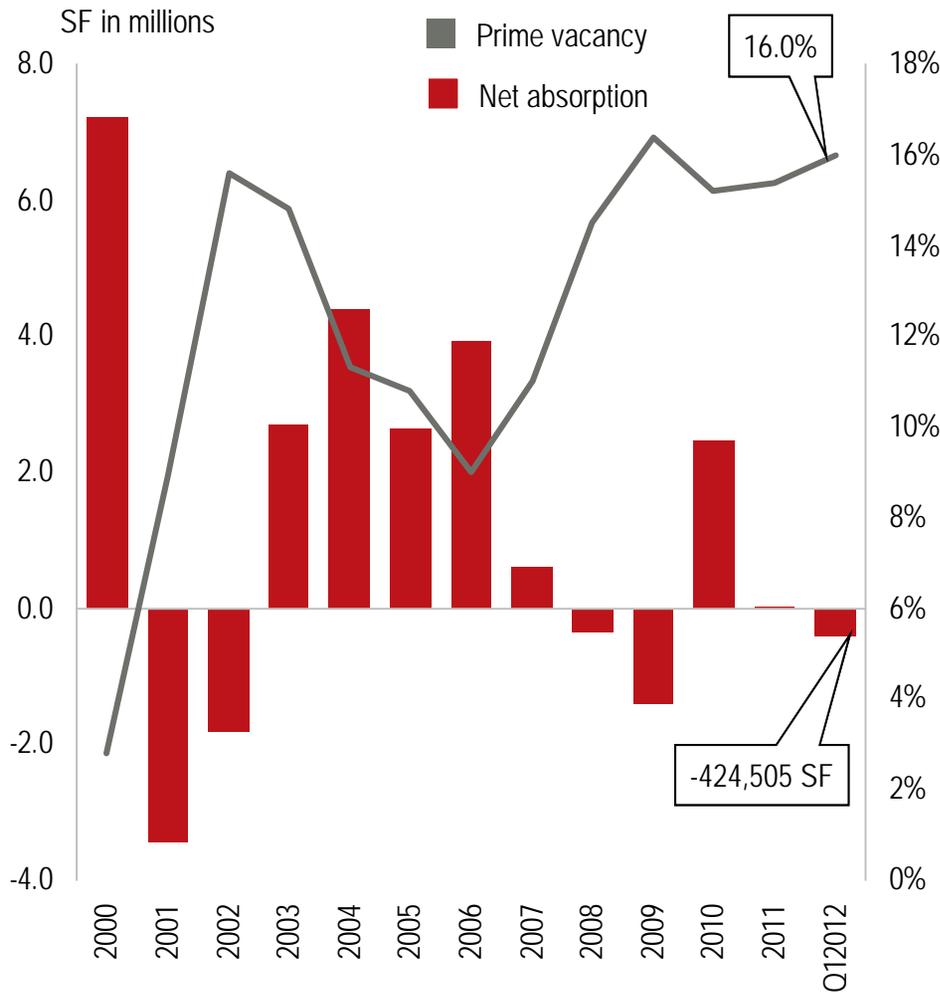
- 147.4 MSF market (1,164 buildings)
- 14.8% prime vacancy rate
- 16.4% total vacancy rate
- Class A: 14.1% prime; \$33.27 PSF
- Class B: 16.5% prime; \$29.60 PSF
- Construction: 2,283,626 SF (23.2% preleased)

## Market Trends

- Uncertainty surrounding scope of future budget cuts making it difficult for contractors to plan ahead
- Rents remain flat
- Nat'l Geospatial in Springfield and TRICARE in Merrifield creating new contractor hubs in region
- Tenant rightsizing and government austerity will limit net absorption through 2012
- How will changes in DoD budget impact region?

Source: Jones Lang LaSalle

# Outside the Beltway market dynamics



Source: Jones Lang LaSalle

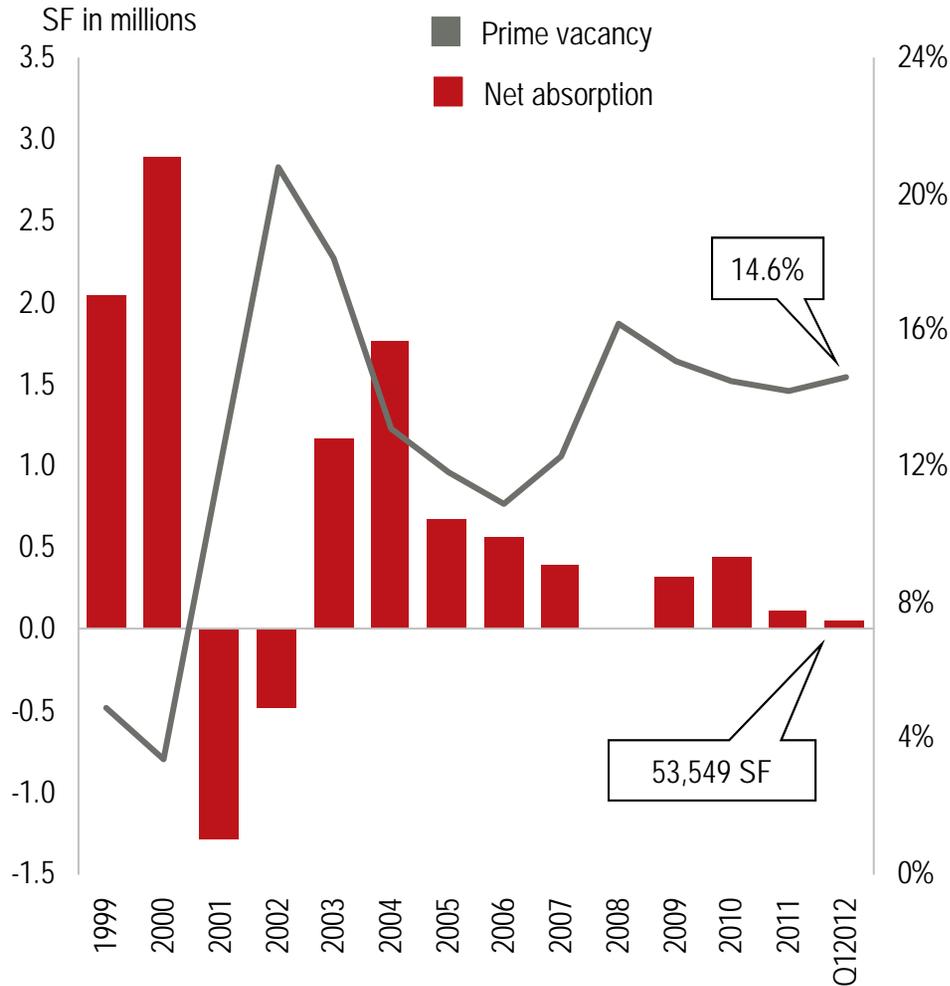
## Market statistics

- 99.9 MSF market
- 16.0% prime vacancy rate
- 17.5% total vacancy rate
- Class A: 15.2% prime; \$27.48 PSF
- Class B: 17.9% prime; \$23.48 PSF
- Construction: 1,313,365 SF (23.6% preleased)

## Market trends

- Commodity Class A market still oversaturated with vacancy; Class A direct asking rents likely to remain flat until vacancy rates fall
- Tenant demand flat in Tysons Corner, Toll Road and Route 28 Corridor
- Springfield and Merrifield remain an anomaly with NGA/TRICARE driving robust tenant demand and spurring a wave of new development

# Reston-Herndon market dynamics



Source: Jones Lang LaSalle

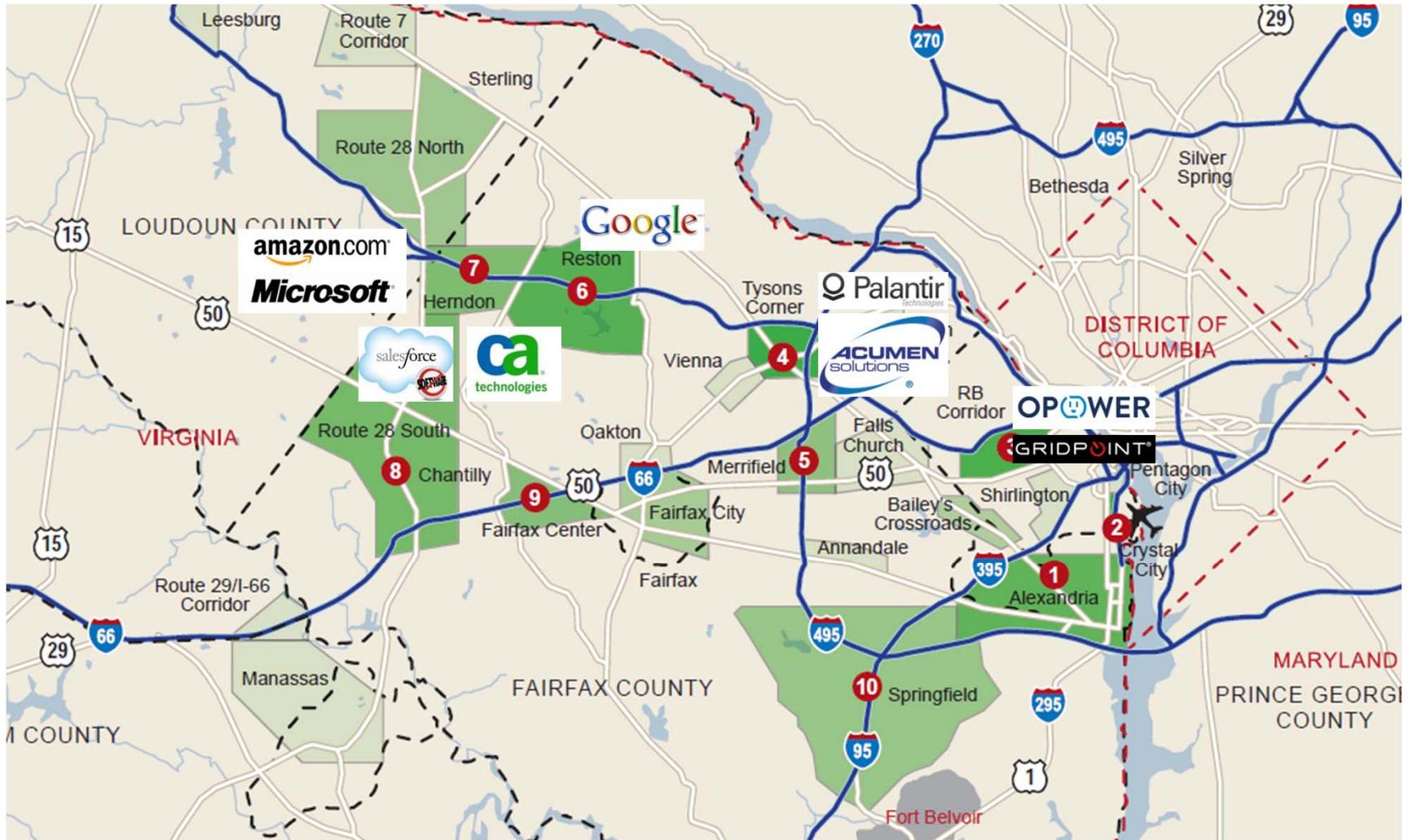
## Market statistics

- 26.7 MSF market (230 buildings)
- 14.6% prime vacancy rate
- 15.9% total vacancy rate
- Class A: 11.0% prime; \$31.20 PSF
- Class B: 22.0% prime; \$26.42 PSF
- Construction: 337,800 SF (0% preleased)

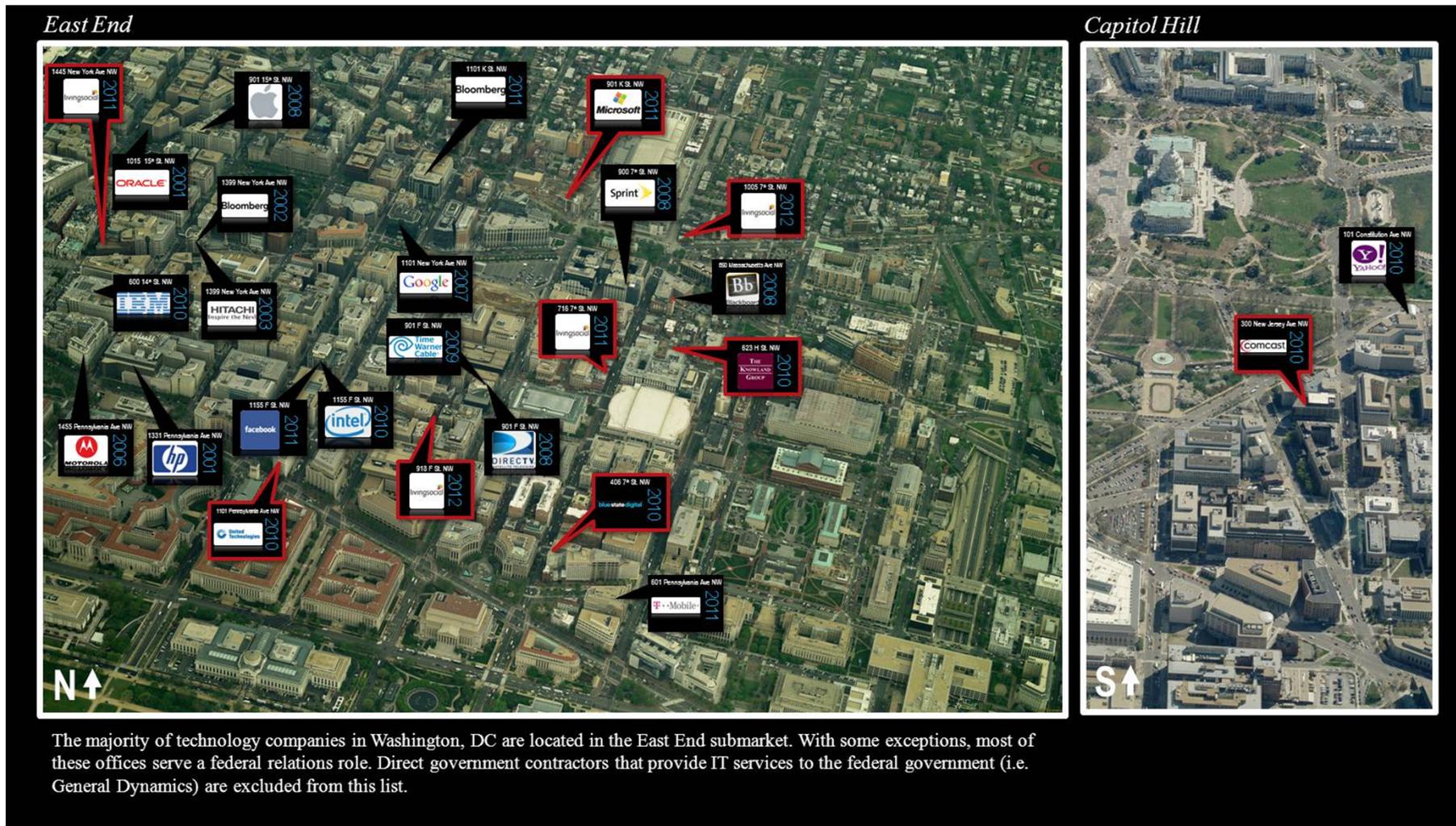
## Market trends

- Oversupply in Commodity Class A sector keeping concessions high and rates flat
- Overall demand remains weak, federal budget clarity and job growth needed for sustained growth
- Average asking rents have stabilized after reaching bottom in late 2009/early 2010, should remain flat in 2012

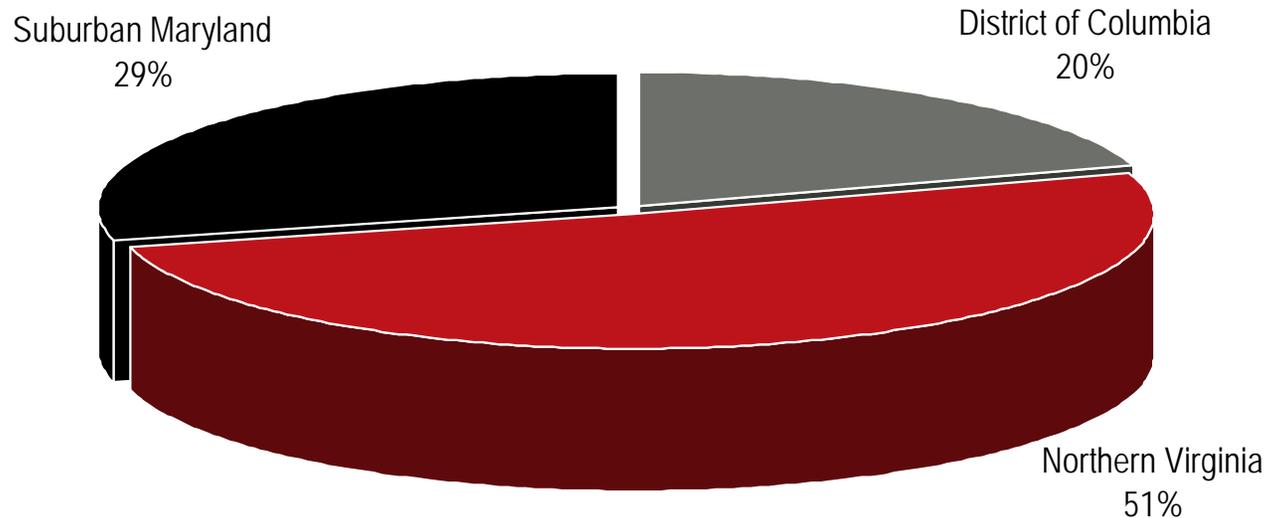
# Northern Virginia Tech Landscape



# DC technology clients – a sample of national names



# Northern Virginia historically leads Metro DC job growth, but the District's share is rising



- Over half of all Metro DC job growth over the past 48 months has been concentrated within Northern Virginia. However, workforce demographic trends and a slowdown in the defense contractor segment is gradually increasing Downtown DC's share of gains at the expense of submarkets located Outside the Beltway.
- Unemployment rates by jurisdiction vary considerably (3.7% Arlington County; 4.5% Alexandria; 4.3% Fairfax County; 5.5% Montgomery County; 7.5% PG County; 11.3% Washington, DC)

Source: Bureau of Labor Statistics, Jones Lang LaSalle

# Current multifamily market dynamics

## Rent vs. own composition – Fairfax County

- 69.4% own
- 28.3% rent
- 2.3% vacant

## Northern Virginia market – 36 month pipeline statistics

- 15 year historical average: 7,132 units
- 36 month pipeline as of 12/2011: 13,253 units
  - Fairfax County: 4,322 units (1/3 of NoVa pipeline)
- Development Trends:
  - Mixed-use
  - Metro-centric
  - Strong amenity base



Market statistics	Northern Virginia	Suburban Maryland	Washington, D.C.	Washington Metro Area
Annual Effective Rent Growth, Since December 2010:	2.4%	1.1%	4.3%	2.1%
Annualized Five-Year Effective Rent Growth, Since December 2006:	3.5%	3.2%	3.7%	3.6%
Average Effective Rent Per Unit as of December 2011:	\$1,686	\$1,525	\$2,347	\$1,685
Vacancy:	3.7%	4.2%	3.1%	3.8%
Concessions as a % of Face Rent (Class A High-Rise):	3.5%	3.6%	2.9%	3.3%
Total Market-Rate Units Surveyed:	88,664	60,202	14,426	163,292

Source: Jones Lang LaSalle



# 77%

of Generation Y reports wanting to live in an urban core, not in the suburbs where they grew up. They want to be close to each other, to services, to places to meet, and to work and they would rather walk than drive.

-ULI "Housing in America" Report

# Common characteristics of successful development in the Metro DC region

Quality retail and great restaurants

*Mixed use*

*Walkable environment*

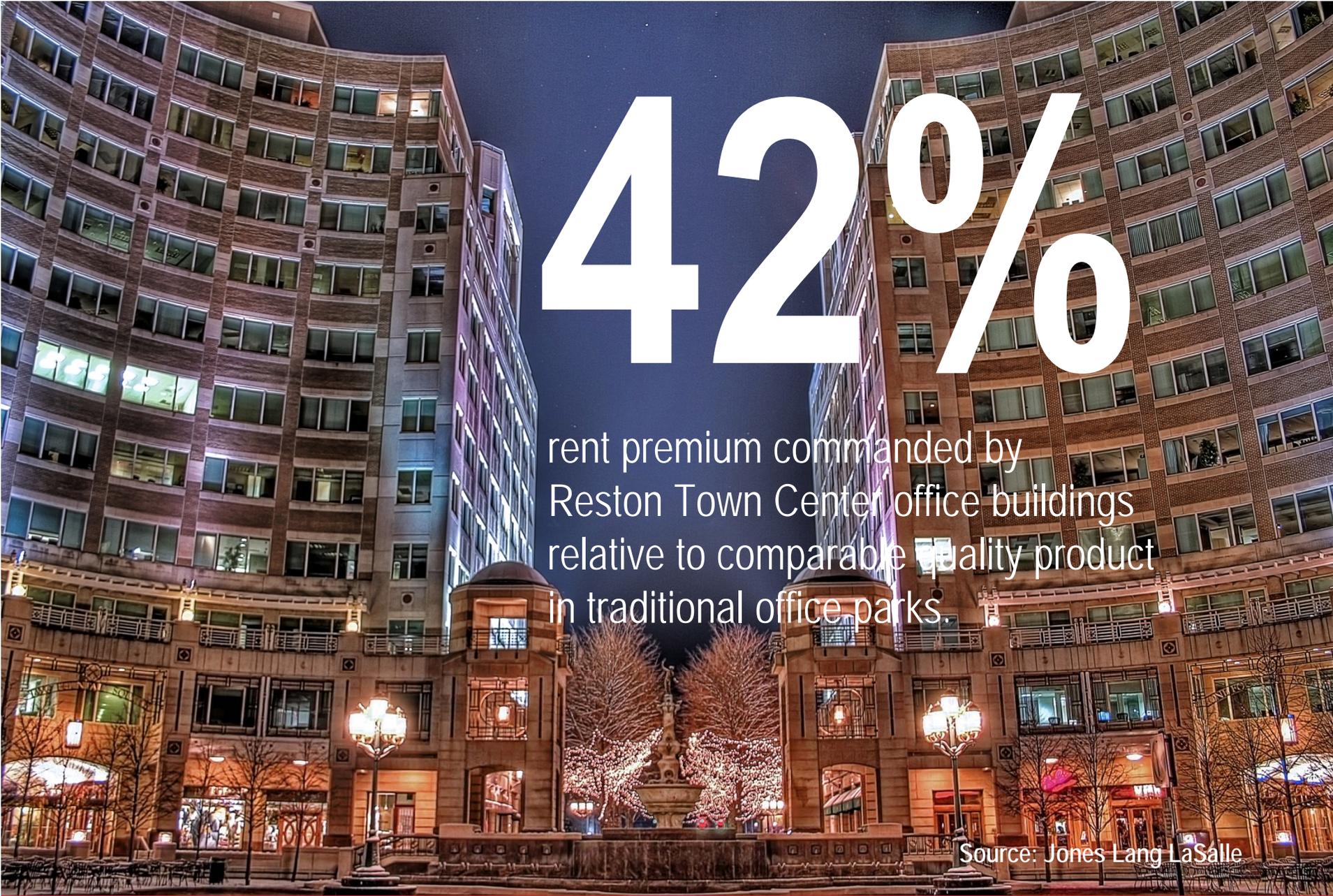
Appropriate levels of parking

Low crime

*Sense of place*

24/7 atmosphere





# 42%

rent premium commanded by  
Reston Town Center office buildings  
relative to comparable quality product  
in traditional office parks.

Source: Jones Lang LaSalle



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# Fairfax County demographic snapshot

"I'm 40 years old."

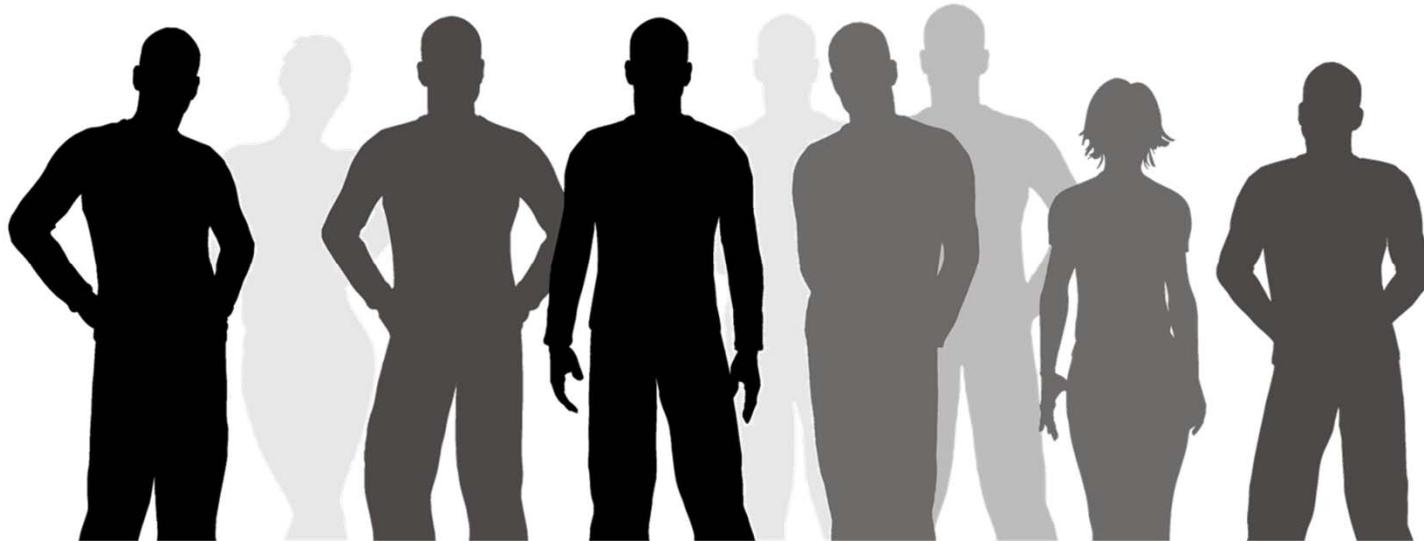
"My household spends \$34,917  
a year on retail purchases."

"More than half of our households earn  
over \$100,000 every year."

"96% of us have access to vehicles; 21% of  
our households have three or more vehicles."

"We graduate college at a rate twice  
the national average."

"25% percent of my college-educated neighbors have also earned an advanced degree."



The future: stagnancy within gov't and contractors will push growth to *non-traditional* industry segments

Technology



Media



Health/Education



GEORGETOWN UNIVERSITY

JOHNS HOPKINS  
UNIVERSITY



Source: Jones Lang LaSalle



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