

YEAR IN REVIEW

CENTER OF DC AND REGIONAL ECONOMY

DowntownDC in 2017 continued to be a premier regional employment, visitor and cultural and entertainment center, though it faced increasing competition.

The DowntownDC economy performed relatively well in 2017: employment reached a record level; the office market's operating performance was flat. Hotels achieved record revenues and operating performance with a revenue per available room night rate increase from \$196 in 2016 to \$207 in 2017.

Employment reached a record 188,300, DowntownDC's 21st consecutive record year, though 2017's growth rate was just 0.4% and has averaged less than 1% over the past five years. In comparison, 2017 employment growth in DC was 1%, in the suburbs, 1.6%, and in the nation, 1.8%. DowntownDC's low employment growth rate is directly related to the fact DowntownDC is 95% built out.

**DOWNTOWNDC HELPS THE
DISTRICT MAINTAIN ITS
24% SHARE OF REGIONAL
EMPLOYMENT**

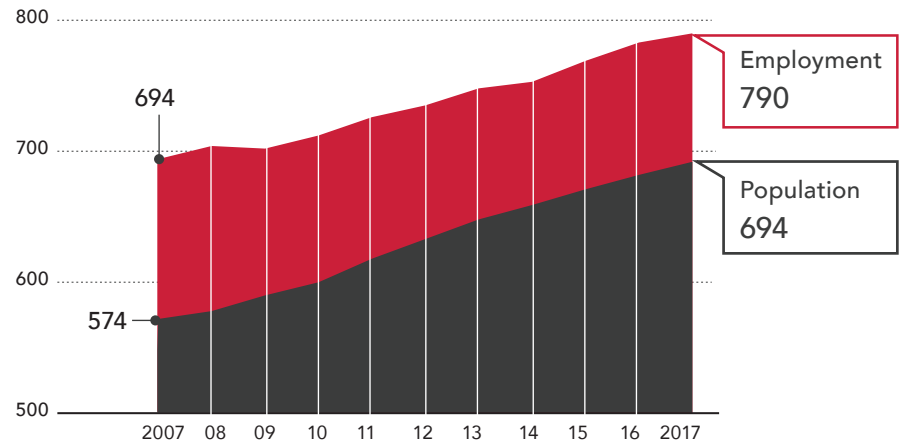




CityCenterDC

DC EMPLOYMENT AND POPULATION HISTORY

(thousands)



Source: U.S. Bureau of Labor Statistics for Employment and U.S. Census Bureau for Population

STRONG SECTOR PERFORMANCES, EXCEPT OFFICE MARKET

The hotel market set new records for performance and total revenues in 2017, helped considerably by the Presidential Inauguration and the Women's March in January. Monumental Sports & Entertainment's Capital One Arena and DowntownDC's 10 museums and eight performing arts venues welcomed 8.2 million patrons in 2017.

The DowntownDC apartment market in 2017 was also strong with rents at \$3.19 per SF, but slightly down from last year's high and slightly below the residential neighborhoods surrounding DowntownDC. Condominium prices rose modestly to a record average resale price of \$658 per SF, but remained below several other DC submarkets where resales averaged over \$700 per SF.

Eleven new restaurants opened in DowntownDC in 2017 and five restaurants closed for a net gain of six restaurants. This increased DowntownDC's total number of destination restaurants from 160 to 166.

Three new retailers opened in 2017 with no closings, bringing DowntownDC's number of total destination retailers to 86 with 888,000 SF of shopping space.

The office market continued its sideways movement in 2017 with an increase in asking rents accompanied by increases in landlord concessions (both free rent and tenant improvement allowances). This resulted in a marginal rise in effective rents from \$48.88 per SF in 2016 to \$49.28 per SF in 2017. Vacant office space reached a record 5.2 million SF

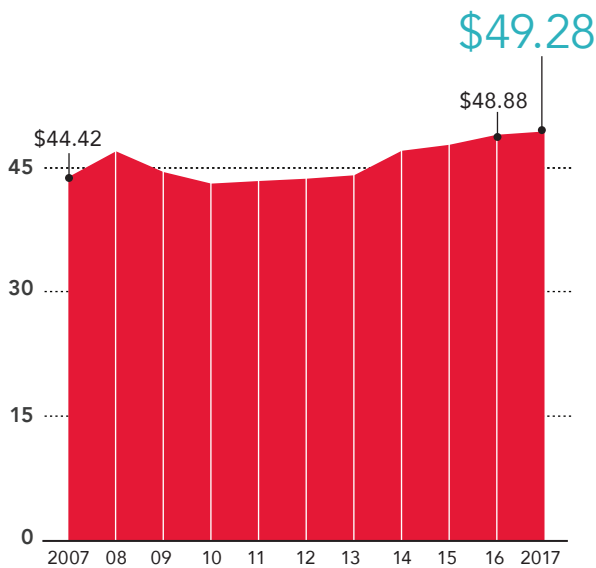
in 2017, with another vacant 8.2 million SF in the rest of the District. Comparatively, 28.4 million SF of vacant office space existed in Northern Virginia and 11.5 million SF of vacant space was in Suburban Maryland.

In 2018, the long-expected departure of federal agencies from DowntownDC began with the move of the Federal Election Commission's 330 employees and the Department of Justice's move of approximately 3,500 employees, both to NoMa.

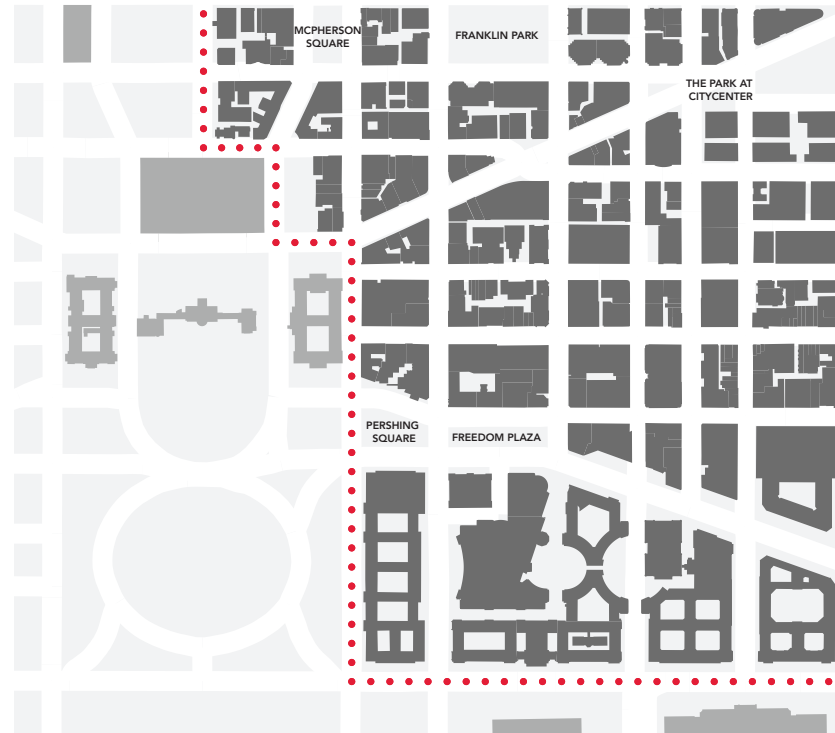
YELP'S DC OFFICE IS NOW LEASING ABOUT 52,000 SQUARE FEET IN TERRELL PLACE

Despite overall lackluster operating office performance, the January 2018 sale of 900 G Street set a record for both DowntownDC and District office sales with a price of \$1,273 per SF to a foreign buyer. Foreign buyers were responsible for 84% of 2017 DowntownDC office sales. From 2012-2017, foreign buyers accounted for 58% of DowntownDC office sales and 57% of DC office sales—higher than in any other U.S. city.

DOWNTOWNDC EFFECTIVE OFFICE RENT (\$ per SF)



Source: Delta Associates



STRONG INVESTOR INTEREST

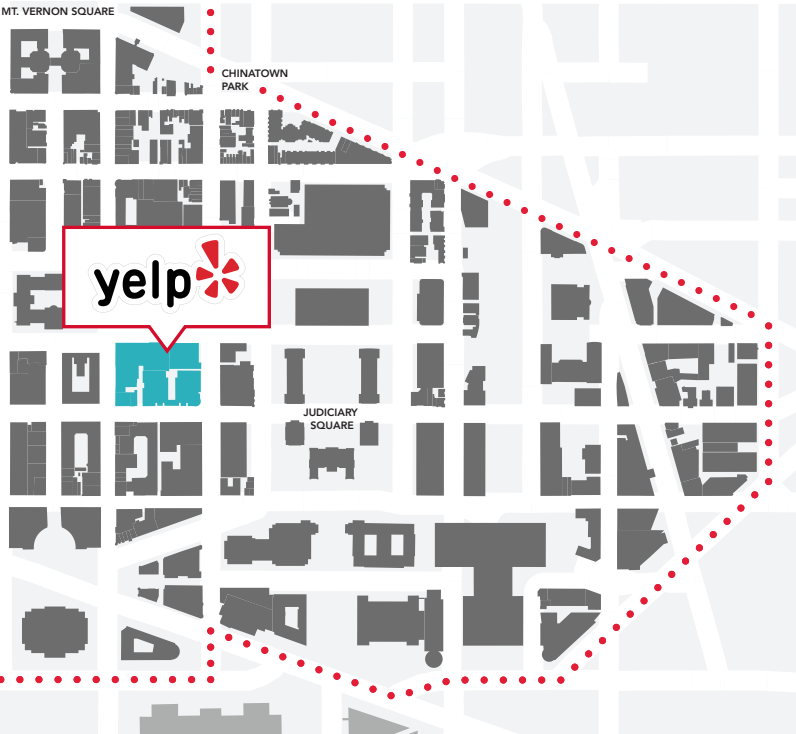
Investor interest in DowntownDC assets continued to be strong in 2017, evidenced by the new Fannie Mae headquarters at Carr Properties' Midtown Center, in Capital One's naming rights

agreement with Monumental Sports & Entertainment, at the Capitol Crossing project, in the DC government's investment of \$13.5 million to renovate Franklin Park, in Planet Word's investment of \$30

million to bring the Franklin School back to life, in Yelp's opening a regional office at 650 F Street NW, and in the opening of eleven new restaurants.

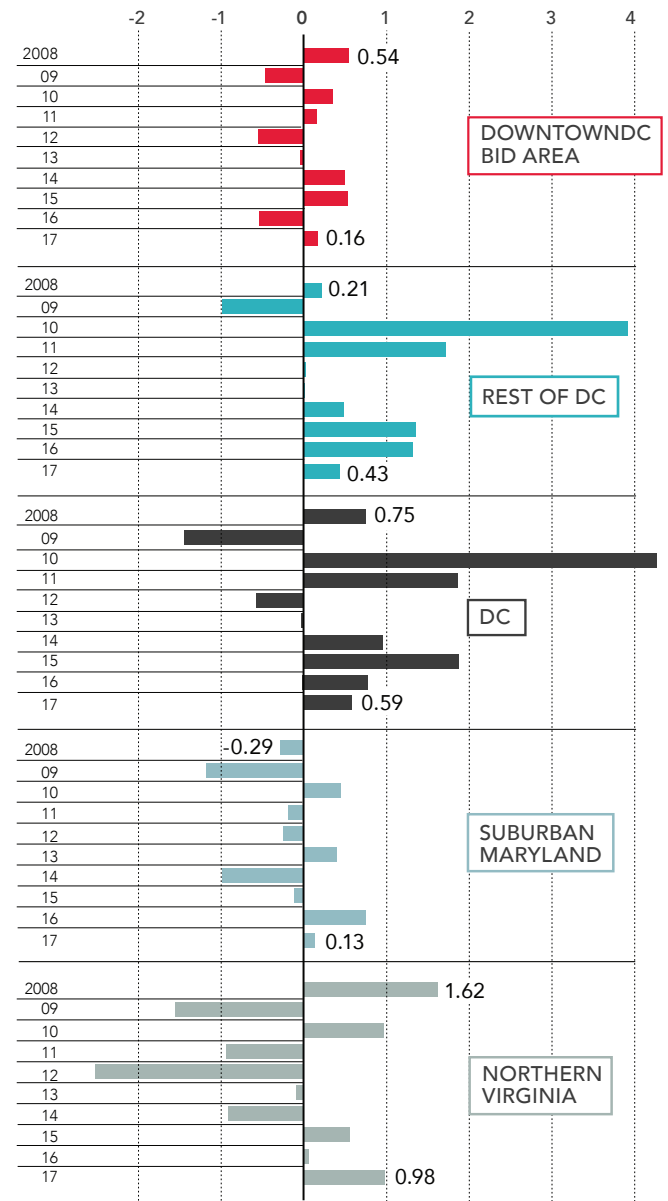


FOREIGN BUYERS
WERE RESPONSIBLE FOR
58% OF DOWNTOWNDC
OFFICE SALES
OVER THE PAST FIVE YEARS



REGIONAL OFFICE MARKET ABSORPTION

(millions of SF)

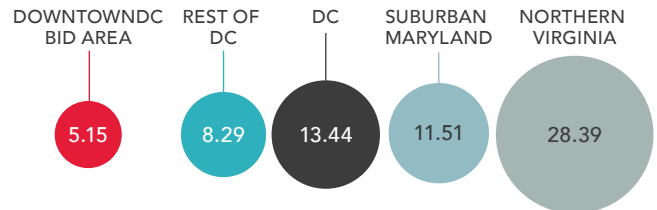


The DowntownDC BID uses Cushman & Wakefield's East End office market as the DowntownDC BID office market.

Data does not include owner-occupied buildings, one-story buildings, or buildings less than 25,000 SF.

2017 REGIONAL VACANT OFFICE SPACE

(millions of SF)



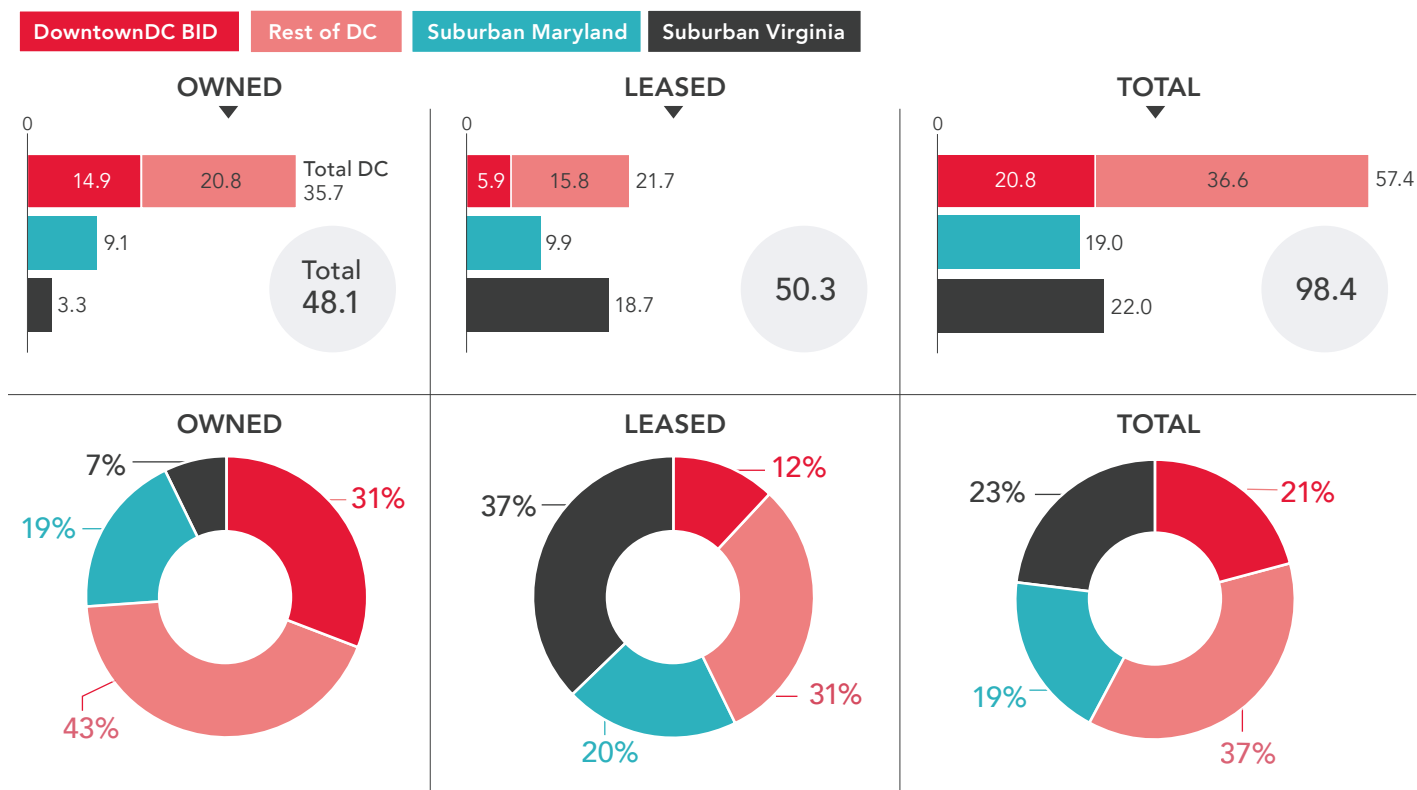
Source: Cushman & Wakefield

EFFECTIVE
OFFICE RENTS INCREASED
MARGINALLY BETWEEN 2016
AND 2017, **0.8%**

THE DOWNTOWNDC OFFICE MARKET IS CHALLENGED BY REGIONAL COMPETITION, THE FEDERAL GOVERNMENT AND PRIVATE SECTOR DENSIFICATION AND PURSUIT OF LOWER COST OFFICE SPACE.

GSA OFFICE SPACE

(millions of SF)



Source: U.S. General Services Administration

DOWNTOWNDC'S CONTRIBUTIONS TO THE CITY'S FINANCIAL STRENGTH

Like all large city downtowns, DowntownDC will generate a projected substantial positive net fiscal impact for the District's FY 2018 budget: \$797 million net fiscal impact for the District's

general fund budget of \$8.8 billion. DowntownDC generates 16.5% of the District's gross local revenue and receives 6.2% of gross local expenditures. This contribution is down slightly from FY 2017 due to the projected revenue declines from reducing the city's business income tax rate to 8.25% for FY 2018 from 9% in FY 2017. In FY 2019, DowntownDC's net fiscal impact is projected to grow to \$800 million despite the cost of new

dedicated funding for Metrorail and Metrobus service.

The housing demand created by the imbalance between DowntownDC's 188,300 jobs and 7,054 housing units is fueling residential growth in all of DC's emerging submarkets. New housing has not been developed in DowntownDC since 2013 with the opening of CityCenterDC's condominiums and apartments.



DOWNTOWNDC BID ECONOMIC INITIATIVES

The BID is partnering with the Golden Triangle BID and the DC government to create a pilot program to convert older office buildings to residential buildings. While conversions are happening elsewhere in the District and the region, the current economics in DowntownDC do not facilitate

this type of conversion without municipal assistance. Without this incentive, DowntownDC’s vacant office inventory will continue to grow and likely result in a decline of the District’s tax base as building values fall far enough to attract tenants on a cost basis or attract unsubsidized converters.

The Mather Studios (pictured above) was one of the city’s first residential conversion projects.

The BID is also working with its members, the District and federal governments to craft a DowntownDC retail strategy to make DowntownDC a regional shopping destination that benefits DowntownDC workers, visitors and residents as well as all District residents, and grows the city’s tax and employment base. The BID is also investing in consulting assistance to retain and attract office tenants.

DOWNTOWNDC’S NET FISCAL IMPACT

| | FY2017 | Estimated FY2018 | Estimated FY2019 |
|---|----------------------|----------------------|----------------------|
| BID Gross Local Tax and Other Revenues | \$1,319,167,220 | \$1,344,959,267 | \$1,394,279,429 |
| Estimated Fiscal Costs | \$511,849,855 | \$547,376,673 | \$593,784,817 |
| Net Fiscal Impact | \$807,317,365 | \$797,582,594 | \$800,494,612 |
| BID Revenue Share of Total DC Gross Local Revenue | 16.5% | 16.5% | 16.4% |
| BID Expenditures Share of Total DC Gross Local Expenditures | 6.3% | 6.2% | 6.5% |

Source: DowntownDC BID using Mayor Bowser’s March 31, 2018 Proposed Budget and Financial Plan