Aggressive FY 2016 budget proposal amps up spending and bypasses sequestration
President Obama’s ambitious FY 2016 budget request is driven in part by an improving national economy and shrinking deficits

Source: JLL, Office of Management and Budget
January starts off 2015 strong with 257,000 new jobs, while revisions push November to highest monthly gain yet

Source: JLL, Bureau of Labor Statistics
Private sector businesses and consumer spending have boosted GDP growth, helping raise tax revenues.

Source: JLL Research, Bureau of Economic Analysis
Consumer confidence has climbed to an 8-year high, with continued increases in spending (thus more taxes) likely to occur in FY 2016
The gap between federal spending and revenue has narrowed since 2009, helped further by an 18.0% year-over-year increase in corporate tax revenue.

Source: JLL, Office of Management and Budget
Timeline and window of opportunity: Congress will debate spending initiatives until April 15, 2015

<table>
<thead>
<tr>
<th>Event</th>
<th>Date/Time</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>President’s request</td>
<td>February 2, 2015</td>
<td>Legally mandated to be submitted by the first Monday in February, however, 2015 was the first deadline met since 2010.</td>
</tr>
<tr>
<td>Congressional hearings</td>
<td>ongoing</td>
<td>Agency officials testify before appropriations committees</td>
</tr>
<tr>
<td>Budget resolution</td>
<td>April 15, 2015</td>
<td>House and Senate Budget Committees produce a “blueprint” for spending initiatives</td>
</tr>
<tr>
<td>Appropriations bills</td>
<td>May 2015+</td>
<td>Subcommittee members and staff draft formal spending bills</td>
</tr>
<tr>
<td>Fiscal year begins</td>
<td>October 1, 2015</td>
<td>If spending bills are not finalized, a continuing resolution is enacted and the House and Senate try to reconcile bills.</td>
</tr>
</tbody>
</table>

Source: JLL Research, Conference Board
Healthcare and scientific research
The National Institutes of Health (NIH) budget would rise 3.3% under President’s FY 2016 budget, bringing a $1.0 billion increase for new biomedical research.
NIH investment in detail

The NIH invests nearly $31 billion annually in medical research for the American people.

More than 80.0 percent of the NIH's funding is awarded through almost 50,000 competitive grants to more than 300,000 researchers at more than 2,500 universities, medical schools, and other research institutions.

BRAIN received $46 million from NIH in 2015 and this year the request increased almost $70 million to $135 million.

Source: JLL Research, NIH
The majority of the NIH budget consists of grants pushed out into the marketplace

Source: JLL Research, NIH
The next major initiative: Precision Medicine Initiative (PMI)

$130 million to the NIH

$5 million to the ONC

$10 million to the FDA

$70 million to the NCI

$215 million total for PMI

Source: NIH, JLL Research, whitehouse.gov
The Centers for Disease Control and Prevention (CDC) would receive $7.0 billion, an 2.1% increase from 2015 levels

Emerging and Zoonotic Infectious Diseases had one of the biggest jumps in the CDC from $404M to $699M – a 73.0% increase
The FY 2016 budget proposal included $4.9 billion for the Food and Drug Administration (FDA) – a 9.0% rise over 2015

The FDA’s food safety efforts saw one of the largest increases – **$109 million** – this is part of an ongoing reorganization to decrease foodborne illness

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inspection Modernization and Training</td>
<td>$25 million</td>
</tr>
<tr>
<td>National Integrated Food Safety System</td>
<td>$32 million</td>
</tr>
<tr>
<td>Education and Technical Assistance for Industry</td>
<td>$11.5 million</td>
</tr>
<tr>
<td>Technical Staffing and Guidance Development at FDA</td>
<td>$4 million</td>
</tr>
<tr>
<td>New Import Safety Systems</td>
<td>$25.5 million</td>
</tr>
<tr>
<td>Risk Analytics and Evaluation</td>
<td>$4.5 million</td>
</tr>
<tr>
<td>Necessary infrastructure costs</td>
<td>$7 million</td>
</tr>
</tbody>
</table>

Source: NIH, JLL Research, whitehouse.gov
In 2006, President George W. Bush proposed a 10-year doubling of the National Science Foundation (NSF) budget; President Obama trying to deliver in 2016 budget.
A 5.2% budget increase from 2015

NSF would also receive a 9.2% boost in its management account to continue planning for its 2017 move to a new headquarters building in Alexandria

Each year, NSF receives about 48,000 proposals, and through its competitive merit review process, awards about 11,000 grants that engage the talents of about 300,000 researchers, postdoctoral fellows, trainees, teachers and students.

National Science Foundation in numbers

Each year, NSF receives about 48,000 proposals, and through its competitive merit review process, awards about 11,000 grants that engage the talents of about 300,000 researchers, postdoctoral fellows, trainees, teachers and students.

Source: NSF, JLL Research
Defense and cybersecurity
Defense is falling to its lowest share of the federal budget in history.

Source: Bloomberg Government, JLL Research
DoD procurement spending up 15.1% in FY 2016 request vs. FY 2015 enacted

Source: Bloomberg Government, JLL Research, Department of Defense
7.7% increase in overall DoD budget for FY 2016 request (to $534 billion)

Source: Bloomberg Government, JLL Research, Department of Defense
Overseas Contingency Operations budget includes $51 billion for fight against ISIS, but is down compared to the peak years of wars in Afghanistan and Iraq.
The Air Force budget is up 11.7 percent over enacted 2015 budget

Source: Bloomberg Government, JLL Research, Department of Defense
Cybersecurity funding jumps to $14 billion, benefiting Cyber Command and NSA at Fort Meade

The 2016 federal budget authorizes $816 million in construction spending at Fort Meade for the National Security Agency. Plans call for a new operations facility totaling 898,382 square feet, housing approximately 3,000 personnel.

Source: JLL Research, Office of the Under Secretary of Defense (Comptroller)
DHS cybersecurity budget increases with focus on enhancing federal network security

Spending for network security deployment rose 27.0 percent to expand EINSTEIN 3, an intrusion detection system that forms a vital part of U.S. Government network defenses.

Source: JLL Research, Homeland Security Congressional Budget Justification FY 2016
Restores weapons programs funding, especially for the Air Force

Source: Bloomberg Government, JLL Research, Department of Defense
Military personnel spending as a percentage of budget is down across the services, while procurement is up.
Military construction budget is up 27.3% following years of base closures

Source: Bloomberg Government, JLL Research, Department of Defense
FY 2016 budget includes several large construction projects for cybersecurity related efforts

Total Authorization Request for FY 2016 (thousands of dollars)

- $816,077
- $441,988
- $227,294
- $90,000

- Cyber Command HQ Operations Building at Fort Meade, MD
- Civilian Cyber Campus (Washington DC Region)
- Army Cyber Command/Joint Forces Headquarters at Fort Gordon, GA
- NSA Operations Facility at Fort Meade, MD

Source: JLL Research, Office of the Under Secretary of Defense (Comptroller)
Financial and regulatory
Continued support for Wall Street Reform implementation across agencies

FY 2016 appropriations: $1.7 billion $322 million
Change from FY 2015: + 15.0 percent + 29.0 percent

To focus on:
• Making home, auto and short-term consumer loan terms fairer and easier to understand
• Improving visibility for investors into the shadowy corners and complex instruments of financial markets
• Increasing financial firms’ planning for and resilience to future financial downturns

Source: Office of Management Budget, JLL Research
Implementation of a financial fee on large, highly-leveraged financial institutions

7 basis-point fee \[\rightarrow\] $112 billion

On liabilities of large U.S. financial firms (i.e. the roughly 100 firms with assets over $50 billion)

Example: $300 billion in liabilities * 0.0007 = $210 million fee

Revenue generated per year

Source: Office of Management Budget, JLL Research
Energy
The budget proposed $1.03 billion for the Nuclear Regulatory Commission (NRC), a decrease of $27.3 million from the FY 2015 submission, a 2.6% drop.

The FY 2015 budget funded 3,881.8 FTEs.

The budget accounts for a reduction of 140.8 full-time equivalent (FTE) employees.

The FY 2016 budget funds 3,741 FTEs.

Source: NRC, JLL Research
The proposed budget increased 5.4% increase overall to $5.3 billion for the Department of Energy’s (DOE) Office of Science

<table>
<thead>
<tr>
<th>Department of Energy’s (DOE’s) Office of Science by the numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>22,000 Researchers</td>
</tr>
<tr>
<td>17 National laboratories</td>
</tr>
<tr>
<td>$5.3 billion DOE’s Office of Science budget for 2016</td>
</tr>
<tr>
<td>$10.7 billion DOE’s science and energy total proposed budget</td>
</tr>
<tr>
<td>300 University connections</td>
</tr>
</tbody>
</table>

Source: DOE, JLL Research
Part of the DOE, the National Nuclear Security Administration (NNSA), had a proposed budget request for $12.6 billion, 10.5% above the 2015 level.

<table>
<thead>
<tr>
<th>National Nuclear Security Administration</th>
<th>Budget Request</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weapons Activities</td>
<td>$8.8 billion</td>
</tr>
<tr>
<td>Defense Nuclear Nonproliferation</td>
<td>$1.9 billion</td>
</tr>
<tr>
<td>Naval Reactors</td>
<td>$1.4 billion</td>
</tr>
<tr>
<td>Federal Salaries and Expenses</td>
<td>$403 million</td>
</tr>
<tr>
<td>Total, NNSA</td>
<td>$12.6 billion</td>
</tr>
</tbody>
</table>
Government employment and agency budgets
Federal employment has declined pretty steadily over the past 25+ years besides the defense buildup of the 1980s, post-9/11 and the stimulus years.

Since 1985, the federal government has shed an average of 8,500 jobs per year.

The Postal Service has accounted for significant job cuts

The Postal Service has seen its workforce decline by 0.7 percent annually since 1985, however 2.2 percent annually since employment peaked in 1999.

Defense employment has also declined

The Defense Department has seen its workforce decline by 1.0 percent annually since 1985, however 2.0 percent annually since employment peaked in 2011.

Federal hospitals have seen its workforce increase by 0.9 percent annually since 1985 and grown by 3.6 percent annually since 2006.
All other federal government employment is quite constant

All other federal government employment has seen its workforce remain quite constant, growing at 0.1 percent annually besides big uptick in Stimulus years.

Total budget authority increased, on average, by 6.0 percent each year since 1976

Source: JLL Research, whitehouse.gov
Budget authority: Legislative Branch

1980 saw the largest budget increase, while 1996 saw the largest cut. The Legislative Branch is projected to see its budget rise steadily through 2020.

4.4% Long-term average annual growth
0.2% 6-year average annual growth (under Obama)
-1.9% 3-year average annual growth
4.8% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
The boom years for the Judicial branch were in 1977, and the late 1980’s-early 1990’s. Growth since has eased to 5.1 percent.

8.4% Long-term average annual growth
1.9% 6-year average annual growth (under Obama)
0.4% 3-year average annual growth
5.2% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Department of Agriculture

2009 saw the second largest increase in funding, up 37.5 percent from 2008, largely due to higher food stamps/nutrition assistance and crop insurance.

6.4% Long-term average annual growth
9.8% 6-year average annual growth (under Obama)
3.9% 3-year average annual growth
1.7% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
2009 saw the largest increase, up 168.3 percent mainly due to the 2010 Census. 2000 saw a 60.8 percent jump, also due to the census. Excluding Census years budget growth averaged 1.3 percent since 1978.

16.5% Long-term average annual growth  
21.6% 6-year average annual growth (under Obama)  
22.2% 3-year average annual growth  
27.1% 2013-2014 YOY change
Post 9/11 saw a surge in military spending growing by an average of 11.9% through 2008. From 2009 through 2020 the budget is slated to cut 1.2 percent a year (on average).

5.2% Long-term average annual growth
-1.9% 6-year average annual growth (under Obama)
-4.7% 3-year average annual growth
1.8% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Department of Education

No Child Left Behind, implemented in 2002 saw the Education budget grow by an average of 21.0 percent each year, spiking in 2006 (due to a jump in Federal Family Education Loans) and 2009 (Stimulus). However money was short-lived and by 2014 the budget was back to the 2002 level.

7.6% Long-term average annual growth
9.8% 6-year average annual growth (under Obama)
13.4% 3-year average annual growth
39.8% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Department of Energy

- 8.2% Long-term average annual growth
- 21.9% 6-year average annual growth (under Obama)
- -0.6% 3-year average annual growth
- 4.5% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Department of Health & Human Services

Representing 85.0% of the HHS budget, Medicare and Medicaid continue to drive spending growth.

8.9% Long-term average annual growth
5.1% 6-year average annual growth (under Obama)
2.7% 3-year average annual growth
10.0% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Department of Homeland Security

Customs and Border Patrol, FEMA, USCG, and the TSA represent 69% of the budget. Border and port security, Aviation, immigration security and biodefense continue to drive spending.

13.7% Long-term average annual growth
-0.4% 6-year average annual growth (under Obama)
5.5% 3-year average annual growth
-28.7% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Hoping to bounce back after Sequestration, HUD garnered a 10.3% budget increase for 2016 to restore more than 67,000 housing vouchers to the poor that were eliminated and allocate $500 million for a new housing program to help communities devastated by natural disasters.

4.9% Long-term average annual growth
3.1% 6-year average annual growth (under Obama)
5.5% 3-year average annual growth
-38.1% 2013-2014 YOY change
Budget authority: Department of Interior

4.6% Long-term average annual growth
3.3% 6-year average annual growth (under Obama)
-1.0% 3-year average annual growth
1.2% 2013-2014 YOY change
The 2016 DOJ budget requested additional funds for immigration enforcement, police reforms and cybersecurity initiatives.

8.2% Long-term average annual growth
4.4% 6-year average annual growth (under Obama)
4.5% 3-year average annual growth
16.5% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Department of Labor

Stimulus funding peaked the DOL budget, while drawing criticism for the Green Jobs add campaign during that period. By 2015 the budget will be only slightly above the 2007 level. Hoping to gain traction by 2016, DOL requested increased funds to invest in worker training.

6.5% Long-term average annual growth
13.4% 6-year average annual growth (under Obama)
-24.4% 3-year average annual growth
-32.2% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Department of State

In ten years the Department of State budget has nearly tripled. Turmoil abroad in the Middle East, Russia and Central America are the main focus of 2016 discretionary spending.

9.2% Long-term average annual growth
4.1% 6-year average annual growth (under Obama)
2.3% 3-year average annual growth
-3.4% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Department of Transportation

- 6.6% Long-term average annual growth
- 4.6% 6-year average annual growth (under Obama)
- 1.2% 3-year average annual growth
- -13.9% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
7.6% Long-term average annual growth
-3.5% 6-year average annual growth (under Obama)
-3.4% 3-year average annual growth
0.5% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Department of Veterans Affairs

5.9% Long-term average annual growth
11.5% 6-year average annual growth (under Obama)
10.8% 3-year average annual growth
21.8% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Other Defense Civil Programs

6.2% Long-term average annual growth
7.5% 6-year average annual growth (under Obama)
9.9% 3-year average annual growth
-0.1% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Environmental Protection Agency

- 12.7% Long-term average annual growth
- 10.9% 6-year average annual growth (under Obama)
- 4.1% 3-year average annual growth
- 8.5% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Executive Office of the President

69.0% Long-term average annual growth
5.4% 6-year average annual growth (under Obama)
-0.5% 3-year average annual growth
3.6% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
The 2016 budget proposes $200 million for the GSA to carry out office space consolidations. In addition, $57 million to implement the proposed Civilian Property Realignment Act. If passed, this proposal generate an estimated $1.2 billion.

912.6% Long-term average annual growth
156.5% 6-year average annual growth (under Obama)
-76.2% 3-year average annual growth
-253.9% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: International Assistance Programs

- 22.6% Long-term average annual growth
- 40.1% 6-year average annual growth (under Obama)
- 74.7% 3-year average annual growth
- 159.7% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: NASA

4.7% Long-term average annual growth
0.5% 6-year average annual growth (under Obama)
-1.4% 3-year average annual growth
4.6% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: National Science Foundation

6.8% Long-term average annual growth
5.4% 6-year average annual growth (under Obama)
1.9% 3-year average annual growth
4.3% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Office of Personnel Management

- 6.4% Long-term average annual growth
- 5.4% 6-year average annual growth (under Obama)
- 4.2% 3-year average annual growth
- 3.2% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Small Business Administration

One of the few agencies to see significant cuts in the 2016 budget.

-9.1% Long-term average annual growth
5.1% 6-year average annual growth (under Obama)
-66.8% 3-year average annual growth
-85.4% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Social Security Administration (On-Budget)

- 12.7% Long-term average annual growth
- 16.8% 6-year average annual growth (under Obama)
- -14.5% 3-year average annual growth
- -23.2% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Social Security Administration (Off-Budget)

- 6.7% Long-term average annual growth
- 5.8% 6-year average annual growth (under Obama)
- 9.8% 3-year average annual growth
- 8.9% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Other Independent Agencies (On-Budget)

12.5% Long-term average annual growth
5.8% 6-year average annual growth (under Obama)
10.3% 3-year average annual growth
4.6% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
Budget authority: Other Independent Agencies (Off-Budget)

33.9% Long-term average annual growth
-3.2% 6-year average annual growth (under Obama)
126.4% 3-year average annual growth
N/A% 2013-2014 YOY change

Source: JLL Research, whitehouse.gov
The national debt has more than doubled since the beginning of the financial crisis in late 2007.

Largest one-year change: +$1.9 trillion, 2010

Budget Control Act, 2011: +$900 billion

Budget Control Act, 2012: +$1.2 trillion

Unchanged for 5 years, 1997-2001

$5.95 trillion

National debt presents a challenge to future levels of federal spending

Source: Office of Management Budget, JLL Research
Real estate impact and outlook
GSA requests an additional $450.0 million from the Federal Building Fund in the FY 2016 budget request – will it be appropriated?
GSA’s budget request from the Federal Building Fund increased 12.3 percent, but spending on leased space decreased 1.5 percent.

Source: JLL Research
Spending increases modernize aging facilities to aid consolidation efforts

Source: JLL Research
Repairs and alternations investment geared to reducing the GSA’s leased footprint

<table>
<thead>
<tr>
<th>Location</th>
<th>Request</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bennett Federal Building</td>
<td>Salt Lake City</td>
<td>$7,758,000</td>
</tr>
<tr>
<td>Weaver Federal Building</td>
<td>Washington, DC</td>
<td>$15,800,000</td>
</tr>
<tr>
<td>Green Federal Building</td>
<td>Philadelphia, PA</td>
<td>$45,000,000</td>
</tr>
<tr>
<td>Javits Building</td>
<td>New York, NY</td>
<td>$96,344,000</td>
</tr>
<tr>
<td>Hoover Federal Building</td>
<td>Washington, DC</td>
<td>$150,900,000</td>
</tr>
<tr>
<td>Schwartz Federal Building</td>
<td>San Diego, CA</td>
<td>$60,845,000</td>
</tr>
<tr>
<td>Phillip Burton Federal Building</td>
<td>San Francisco, CA</td>
<td>$27,270,000</td>
</tr>
</tbody>
</table>

$32.6 million annual reduction in leased costs

Source: JLL Research
Federal enclaves have struggled with stubbornly high vacancy due to 3-year lack of government growth

Source: JLL Research
Our point of view: the President’s budget request should instill some cautious optimism in Washington, DC

1. Political compromise will be essential to ensuring the budget request becomes a reality
   • Central to the proposed spending increases under the President’s budget request is a lift of spending caps under sequestration. Spending caps are law under the Budget Control Act, thus to lift the caps, Congress and the President will need to work together adopt a new law outside the normal budget process.

2. Contractors will remain handcuffed throughout the budget process
   • The President’s budget request alone will do little to spur demand for office space among contractors and federal agencies. Only bipartisan political action and increased appropriations will spur growth in those industries.

3. The private sector will continue to boost the economy and CRE market despite any continued challenges on the political front.
   • Rapid growth among private sector businesses, particularly technology, media and healthcare groups, will offset any protracted stagnancy within the federal government.

Source: JLL Research