

# StudleyReport

STUDLEY OFFICE MARKET AND SPACEDATA REPORT

WASHINGTON  
DC

## MARKET HIGHLIGHTS

### AVAILABILITY RATES FALL

Washington's Class A availability rate (15.3%) dipped by 0.8 pp for the quarter. The rate also decreased in Suburban Maryland (-0.6 pp to 18.2%). In contrast, Northern Virginia's rate inched up by 0.1 pp to 17.4%.

### CLASS A RENTS INCH UP

In the District, Class A asking rents, \$53.84, increased quarter-on-quarter by 1.3%. Class A asking rents in Northern Virginia, \$30.06, ticked up by 0.1%. Suburban Maryland's Class A rate, \$27.45, also rose by 0.1%.

### LEASING UP IN THE DISTRICT AND MARYLAND

Class A trailing four-quarter leasing in the District, 5.0 msf, grew by 18.9% for the quarter. Suburban Maryland's Class A activity, 2.5 msf, increased by 0.5%. Class A volume in Northern Virginia, however, decreased by 12.7% to 6.0 msf.

### FEWER LARGE BLOCKS

The number of large contiguous blocks of space (100,000 sf or more) in the District decreased to 27 from 46 last quarter. In Northern Virginia, the number of blocks fell to 51 from 53 during the prior quarter. The number of blocks in Suburban Maryland dropped to 21, down from 23 in the prior quarter.

## Broad-Based Demand Propels DC Leasing Activity

Although there are lingering questions about the economy, the Washington office market maintained a healthy level of leasing activity in the second quarter as several large tenants made the decision to relocate.

Large tenants in the federal government, the city government and the private and nonprofit sectors all benefited from rental rates that remained at relative low levels in the city. The U.S. Department of Veterans Affairs, D.C. Department of Health and the law firm of Perkins Coie all signed deals that took advantage of the market while it lingers in its tenant-favorable stasis.

Such transactions are a sign of renewed confidence among tenants. Companies and government entities are leveraging their strong credit ratings to secure new space that will allow them to update their operations to take advantage of advances in technology and design changes that improve the way work is conducted.

Tenants' preference for relocating is a fairly new shift. Just two quarters ago, the major storyline was early lease restructures that would allow tenants to stay in place and manage real estate costs by making the most conservative decision. Now, six months into 2010, more than half of the second quarter's largest transactions were relocations.

Although the market has seen companies regain some confidence in the economy, there are signs of the lasting effects of this downturn. Prospective tenants are asking more pointed questions about their landlords' financial statements. Companies are examining long-term expenses and delving into the efficiencies of work.

Smaller tenants are also looking at changes in the size of their employee base and efficiencies in the design of their workspace as they weigh the potential of renovating the space they occupy versus moving to a new space over a weekend.

There were also positive signs in the second quarter for landlords. Tishman Speyer successfully recapitalized its 28-building Washington-area portfolio, which alleviated an uncertainty about the company. Also, Skanska, a new developer to the region, is demonstrating its faith in the city by putting up a speculative 170,000-sf building at 733 10th Street, N.W.

### WASHINGTON, DC TRANSACTION BAROMETER

	Under 50,000 sf	One Qtr Change	Over 50,000 sf	One Qtr Change
<b>Average Term:</b>	7-10 yrs	◀▶	10-15 yrs	◀▶
<b>Concessions:</b>				
Free Rent	3-10 months	◀▶	0-15 months	◀▶
Tenant Improvements	\$55.00-\$75.00/sf	◀▶	\$70.00-\$100.00/sf	◀▶
Other	Renewals	▲	Renewals	◀▶

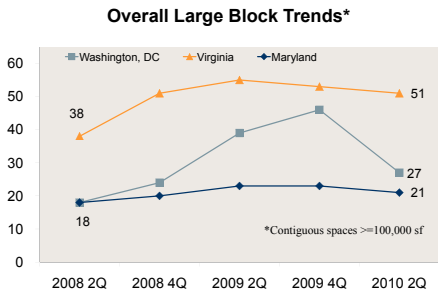
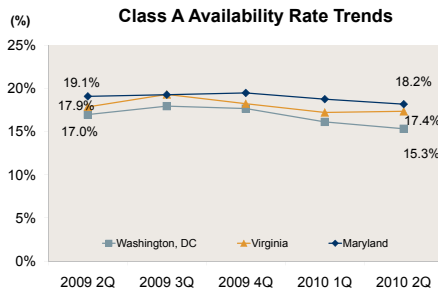
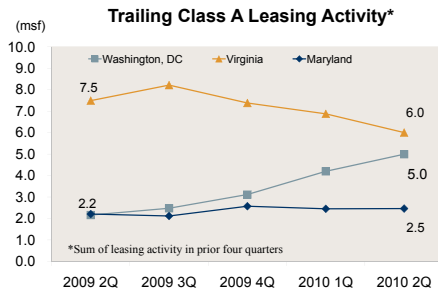
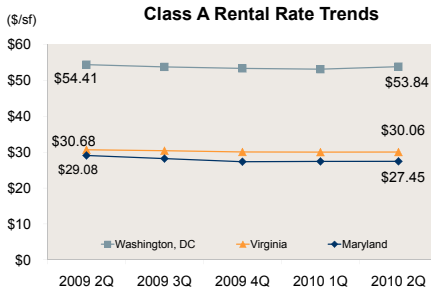
**Outlook:** Lease concessions were largely unchanged from the first quarter as the city's office market remains in the favor of tenants with strong credit.

### NORTHERN VIRGINIA TRANSACTION BAROMETER

	Under 50,000 sf	One Qtr Change	Over 50,000 sf	One Qtr Change
<b>Average Term:</b>	5-10 yrs	◀▶	10-15 yrs	◀▶
<b>Concessions:</b>				
Free Rent	0-9 months	◀▶	4-12 months	◀▶
Tenant Improvements	\$20.00-\$60.00/sf	◀▶	\$40.00-\$80.00/sf	◀▶
Other	Renewals	▲	Renewals	◀▶

**Outlook:** Leasing in newly delivered buildings remained strong as tenants took advantage of the down market, upgrading to new Class A space at lower rents and leaving behind second-generation space.

▲ Up ▼ Down ◀▶ Unchanged



## Northern Virginia Experiences Modest Demand

Market fundamentals continued to stabilize across Northern Virginia during the first half of 2010. Steady demand, diminishing large blocks of quality space, reduced sublet inventory and virtually non-existent construction activity all contributed to the market's ongoing recovery. Leasing in newly delivered buildings remained strong as tenants took advantage of the down market, upgrading to new Class A space at lower rents and leaving behind second-generation space. However, despite easing in credit markets, demand remained tempered as tenants continued to evaluate their ability to maintain long-term growth in this current economy.

Overall leasing activity was modest and consisted primarily of lease expiration-driven renewals and smaller private-sector relocation transactions. SAIC signed the quarter's largest lease, committing to 110,449 sf at 6909 Metro Park Drive, a new 156,000-sf Class A building in Alexandria that delivered last year. Government demand was tepid and was not as robust as in previous years. USAID leased 84,958 sf at 2733 Crystal Drive in Crystal City and other GSA agencies signed leases in the 20,000- to 50,000-sf range. Nevertheless, there were some bright spots in the region's office market. Private-sector demand related to defense, information technology and education materialized outside the Beltway, with firms taking several medium-sized blocks of space. As a result, areas outside the Beltway experienced a slight decline in availability rates over the quarter. Landlord concessions – although still high by historical standards – leveled off as free rent and tenant improvement allowances remained constant over the past year.

## Slow Activity in Suburban Maryland

After a quiet first quarter, Suburban Maryland show signs of life during the second quarter. Favorable tenant conditions over the last year – lower rents and large incentive packages – have taken effect, generating a slight up-tick in leasing activity. As in Northern Virginia, top-rated buildings experienced good demand as firms took advantage of depressed rents to trade up for higher-quality space. Meanwhile, low-rise and Class B and C buildings continued to struggle and recovery remains distant. Government agencies and biotech firms accounted for the region's top lease transactions. At 9704 Medical Center Drive in North Rockville, the J. Craig Venter Institute renewed its lease for 124,000 sf. Additionally, the Department of Health and Human Services committed to 70,000 sf at 7501 Wisconsin Avenue in Bethesda. Just one building broke ground over the quarter and five buildings totaling 753,000 sf are currently under construction.

## Submarket Highlights

The NoMa submarket in Washington was the beneficiary of two large leases related to the D.C. government in the second quarter. The D.C. Department of Health signed a 10-year renewal for 148,000 sf at 899 North Capitol Street, N.E., which will be renovated in phases to accommodate DOH. Also, the University of the District of Columbia agreed to take 88,200 sf at 801 North Capitol Street, N.E. to establish a community college.

Recognized as a secondary market for many years, Springfield has emerged as one of the most attractive areas in Northern Virginia. Fort Belvoir, a major military installation, is expected to see an influx of new jobs in the near term as private-sector contractors move to the area to be in close proximity to their government clients. Many government contractors

## MAJOR TRANSACTIONS

Tenant	Sq Feet	Address	Market Area
GSA-Department of Veterans Affairs*	285,434	425 Eye St NW	East End
DC Department of Health	148,000	899 N Capitol St NE	NoMa
Carlyle Group	129,724	1001 Pennsylvania Ave NW	East End
J. Craig Venter Institute	124,000	9704 Medical Center Dr	Montgomery County
SAIC	110,449	6909 Metro Park Dr	Fairfax County
University of the District of Columbia	88,200	801 N Capitol St NE	NoMa
USAID	84,958	2733 Crystal Dr	Alexandria
GSA-Department of Health and Human Services	70,000	7501 Wisconsin Ave	Montgomery County
McNeil Technologies	64,669	6564 Loisdale Ct	Fairfax County
Perkins Coie*	56,294	700 13th St NW	East End
Fleishman-Hillard	53,296	1615 L St NW	CBD
Westwood College	47,716	4420 N Fairfax Dr	Arlington County
CW Financial Services LLC	46,260	7501 Wisconsin Ave	Montgomery County
Omniplex World Services*	41,120	14151 Park Meadow Dr	Fairfax County
Mortgage Bankers Association	37,250	1717 Rhode Island Ave NW	CBD
National Assn of Child Care Resource & Referral Agencies	36,068	1515 N Courthouse Rd	Arlington County
<b>Sum of Top 15 Leases</b>	<b>1,423,438</b>	<b>Sum of 2nd Quarter Leasing Activity</b>	<b>5.9 MSF</b>

\*Studley Deals

have relocated from Arlington to Springfield, causing a surge in leasing activity over the past 12 months. Healthy activity caused the availability rate to decline to 8.6% as the rental rate increased to \$27.55 psf. Notable leases of the quarter included those signed by SAIC (110,449 sf), McNeil Technologies (64,669 sf) and Lockheed Martin (12,665 sf). Additionally, major national developers such as Corporate Office Properties Trust and Boston Properties established a significant presence in anticipation of the 14,000 BRAC employees moving to the area by September 2011.

Following a very difficult start to the year, Bethesda showed modest improvement during the second quarter. Several firms vacated blocks of space over the past few quarters, causing the availability rate to rise to 9.7%. However, this has provided opportunities for expanding firms to take advantage of the current market. Aside from the Department of Health and Human Services lease, activity came from CW Financial Services (46,260 sf) at 7501 Wisconsin Avenue, UBC (16,799 sf), EDF Inc. (16,327 sf) and Handler and Levine (12,488 sf) at 4520 East-West Highway. Despite softening market conditions, Bethesda will eventually recover and continue to be a highly sought-after area because of its great location, amenities and affluent demographic base.

### Looking Forward

As long as the economic forecast is blurry, the office market in the District will remain decidedly in the tenant's favor. Landlords continue to scramble to refinance mortgage debt coming due and salivate at the prospect of signing creditworthy tenants. As more tenants make decisions years before their lease expirations, we expect the market to get tighter but the number of large blocks of space that will become available is difficult to determine as the game of musical chairs continues for the foreseeable future.

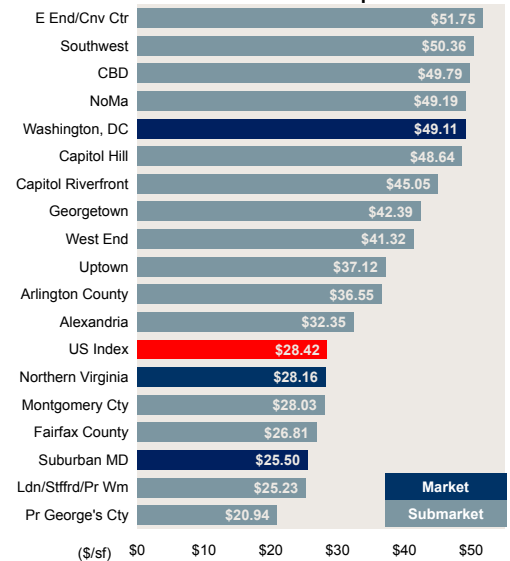
The Northern Virginia office market will continue to recover for the remainder of 2010. Market fundamentals for Class A space will improve as tenants transition out of older space into newly developed space at discounted rates. The pace of new development slowed significantly, helping demand to catch up with supply and leading to a more balanced market. Even with steady demand and limited new supply coming on line, challenges exist for the region. However, the long-term outlook remains optimistic as the Northern Virginia office market is expected to recover much quicker than other regions around the country.

The remainder of 2010 is expected to be another period of great opportunities for tenants and end-users in the Washington area who can take advantage of lower rates, higher lease concessions and diminished property values. Moreover, some landlords may continue to face difficulties in restructuring their existing debt until 2011. The possibility of additional commercial loan foreclosures should allow tenants to maintain the upper hand for the near term.

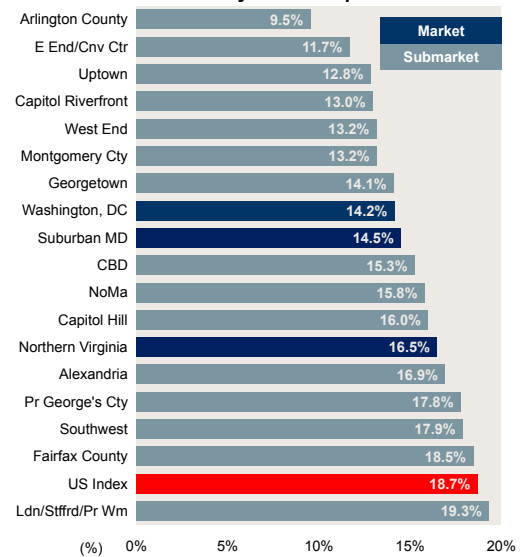
### ABOUT OUR FIRM

**Studley** is the only global tenant advisory firm with a pure tenant representative delivery platform. Founded in 1954, Studley pioneered this conflict-free business model. Today, with 19 offices nationwide and an international presence through its London office and AOS Studley throughout Europe, Studley provides strategic real estate consulting services to top-tier corporations, law firms, nonprofits, government agencies and institutions of higher education. Information about Studley is available at [www.studley.com](http://www.studley.com).

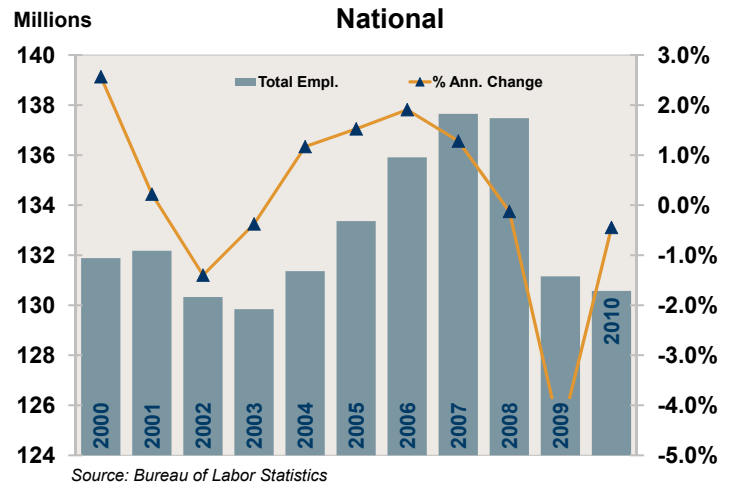
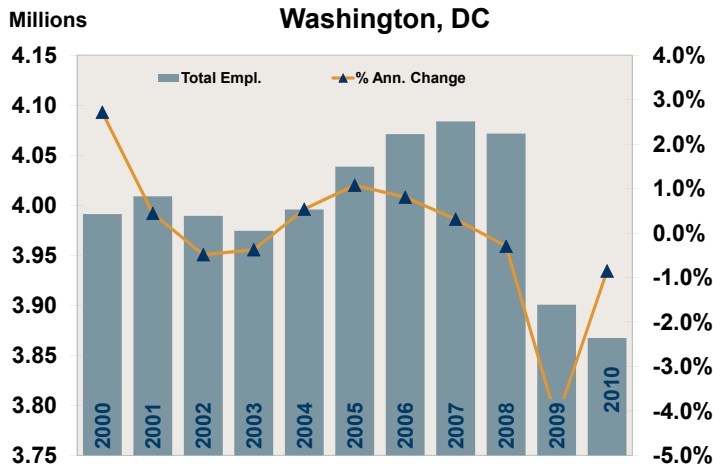
### Overall Rental Rate Comparison



### Availability Rate Comparison



### EMPLOYMENT TRENDS



**MARKET SNAPSHOT: 2Q 2010**

	SUBMARKET	LEASING ACTIVITY			AVAILABLE SF				AVAILABILITY RATE				ASKING RENTS PER SF			
		Inventory SF (1,000's)	Last 12 Mos	5 Yr Average	This Qtr	% Change from Last Qtr	Last Qtr	1 Yr Ago	This Qtr	pp Change from Last Qtr <sup>(1)</sup>	Last Qtr	1 Yr Ago	This Qtr	% Change from Last Qtr	Last Qtr	1 Yr Ago
	<b>Capitol Hill</b>	5,158	178	339	825	0.9%	817	505	16.0%	0.1%	15.8%	9.8%	\$48.64	-4.6%	\$50.99	\$52.81
	Capitol Hill - Class A	1,594	98	241	267	4.2%	256	306	16.7%	0.7%	16.1%	19.2%	\$66.41	3.2%	\$64.36	\$63.42
	<b>Capitol Riverfront</b>	4,929	178	N/A	639	-35.7%	993	777	13.0%	-7.2%	20.1%	15.8%	\$45.05	-0.2%	\$45.13	\$44.09
	Capitol Riverfront	3,674	177	N/A	549	-39.2%	903	687	14.9%	-9.6%	24.6%	18.7%	\$45.05	0.1%	\$45.70	\$44.09
	<b>NoMa</b>	10,877	1,156	N/A	1,719	-21.1%	2,180	2,796	15.8%	-4.2%	20.0%	25.7%	\$49.19	-1.7%	\$50.01	\$53.37
	NoMa - Class A	9,008	913	N/A	1,094	-18.4%	1,340	1,977	12.1%	-2.7%	14.9%	21.9%	\$51.84	-2.0%	\$52.92	\$54.92
	<b>East End/Convention Center</b>	40,219	2,382	2,227	4,701	-3.1%	4,849	4,940	11.7%	-0.4%	12.1%	12.3%	\$51.75	2.8%	\$50.33	\$51.81
	East End/Convention Center - Class A	27,133	1,678	1,466	3,089	0.1%	3,087	3,278	11.4%	0.0%	11.4%	12.1%	\$57.50	3.2%	\$55.73	\$55.81
	<b>Central Business District</b>	37,387	2,600	2,419	5,703	8.1%	5,276	4,511	15.3%	1.1%	14.1%	12.1%	\$49.79	0.6%	\$49.50	\$49.69
	Central Business District - Class A	13,817	861	760	2,701	10.9%	2,435	2,055	19.6%	1.9%	17.6%	14.9%	\$56.51	0.9%	\$56.01	\$57.44
	<b>West End</b>	3,430	287	107	452	7.8%	419	552	13.2%	0.9%	12.2%	16.1%	\$41.32	-0.9%	\$41.71	\$45.14
	West End - Class A	2,213	165	72	373	8.1%	345	372	16.8%	1.3%	15.6%	16.8%	\$41.41	-1.0%	\$41.84	\$45.35
	<b>Georgetown</b>	2,743	70	153	387	-10.1%	5,158	336	14.1%	-1.6%	15.7%	12.2%	\$42.39	0.2%	\$42.29	\$42.32
	Georgetown - Class A	1,190	31	79	239	-12.2%	273	206	20.1%	-2.8%	22.9%	17.3%	\$45.47	0.6%	\$45.17	\$45.97
	<b>Southwest</b>	12,547	1,020	396	2,245	-1.7%	2,284	2,652	17.9%	-0.3%	18.2%	22.2%	\$50.36	0.4%	\$50.17	\$48.31
	Southwest - Class A	8,813	1,004	301	2,012	-9.8%	2,232	2,472	22.8%	-2.5%	25.3%	30.2%	\$50.48	0.2%	\$50.39	\$50.24
	<b>Uptown</b>	5,659	143	204	727	1.4%	717	621	12.8%	0.2%	12.7%	11.0%	\$37.12	0.2%	\$37.06	\$37.34
	Uptown - Class A	602	66	27	104	5.1%	9,008	92	17.2%	0.8%	16.4%	15.3%	\$43.43	-0.7%	\$43.72	\$41.81
	<b>Fairfax County</b>	98,184	4,718	6,232	18,132	0.8%	17,987	17,686	18.5%	0.1%	18.3%	18.0%	\$26.81	-0.3%	\$26.90	\$27.61
	Fairfax County - Class A	58,155	2,986	3,939	11,280	-0.3%	11,309	11,087	19.4%	0.0%	19.4%	19.1%	\$29.16	0.3%	\$29.06	\$29.76
	<b>Alexandria</b>	15,495	494	698	2,623	3.6%	3,430	2,317	16.9%	0.6%	16.3%	15.0%	\$32.35	1.1%	\$31.99	\$30.97
	Alexandria - Class A	7,868	126	344	1,163	6.1%	1,096	983	14.8%	0.9%	13.9%	12.5%	\$35.40	1.6%	\$34.85	\$33.69
	<b>Arlington County</b>	35,313	2,885	2,864	3,367	0.2%	3,362	3,966	9.5%	0.0%	9.5%	11.2%	\$36.55	-0.6%	\$36.77	\$35.76
	Arlington County - Class A	20,501	2,325	1,921	1,675	-4.5%	1,753	2,234	8.2%	-0.4%	8.6%	10.9%	\$37.94	0.0%	\$37.94	\$37.62
	<b>Loudoun/Stafford/Prince William</b>	15,737	956	754	3,042	1.2%	3,006	3,484	19.3%	0.2%	19.1%	22.1%	\$25.23	-2.6%	\$25.90	\$26.44
	Loudoun/Stafford/Prince William - Class A	6,761	467	379	2,071	8.6%	1,907	2,356	30.6%	2.4%	28.2%	34.9%	\$26.58	-1.8%	\$27.08	\$27.62
	<b>Montgomery County</b>	57,221	2,131	1,656	7,545	-3.3%	7,803	8,206	13.2%	-0.5%	13.6%	14.3%	\$28.03	0.8%	\$27.81	\$29.14
	Montgomery County - Class A	29,263	2,067	1,569	4,641	-4.5%	4,858	5,161	15.9%	-0.7%	16.6%	17.6%	\$30.82	1.2%	\$30.45	\$32.08
	<b>Prince George's County</b>	23,078	330	731	4,102	-0.2%	4,111	3,790	17.8%	0.0%	17.8%	16.4%	\$20.94	-1.5%	\$21.26	\$21.74
	Prince George's County - Class A	10,952	351	530	2,668	-0.6%	2,684	2,511	24.4%	-0.1%	24.5%	22.9%	\$21.56	-2.4%	\$22.08	\$22.73
	<b>WASHINGTON, D.C. TOTAL</b>	122,949	8,012	6,126	17,398	-3.2%	17,966	17,690	14.2%	-0.5%	14.6%	14.5%	\$49.11	0.6%	\$48.80	\$49.64
	WASHINGTON D.C. TOTAL - Class A	68,043	4,993	3,240	10,428	-4.9%	10,969	11,445	15.3%	-0.8%	16.1%	17.0%	\$53.84	1.3%	\$53.15	\$54.41
	<b>NORTHERN VIRGINIA TOTAL</b>	164,729	9,054	10,564	27,163	1.0%	26,887	27,453	16.5%	0.2%	16.3%	16.7%	\$28.16	-0.7%	\$28.35	\$28.80
	NORTHERN VIRGINIA TOTAL - Class A	93,285	6,001	6,597	16,189	0.8%	16,065	16,660	17.4%	0.1%	17.2%	17.9%	\$30.06	0.1%	\$30.03	\$30.68
	<b>SUBURBAN MARYLAND TOTAL</b>	80,299	4,880	4,461	11,647	-2.2%	11,914	11,996	14.5%	-0.3%	14.8%	14.9%	\$25.50	0.0%	\$25.49	\$26.78
	SUBURBAN MARYLAND TOTAL - Class A	40,215	2,462	2,316	7,309	-3.1%	7,542	7,672	18.2%	-0.6%	18.8%	19.1%	\$27.45	0.1%	\$27.44	\$29.08
	<b>GREATER WASHINGTON, D.C. TOTAL</b>	367,977	21,946	20,948	56,208	-1.0%	56,766	57,139	15.3%	-0.2%	15.4%	15.6%	\$34.08	-0.4%	\$34.23	\$34.08
	GREATER WASHINGTON D.C. TOTAL - Class A	201,543	13,456	11,965	33,926	-1.9%	34,575	35,778	16.8%	-0.3%	17.2%	17.8%	\$37.09	0.4%	\$36.94	\$36.87

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<sup>(1)</sup> Percentage point change for availability rates.  
 Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents p/sf.  
 Statistics are calculated using both direct and sublease information.  
 The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.  
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