

COMMERCIAL REAL ESTATE REPORT | *The Region*

Metro Area | *The CoStar Office Market Watch*

	Submarket	Market size (millions of square feet)	Space available (millions of square feet)	Vacancy rate	Asking rent (per square foot)	Under construction (square feet)	Percent leased
DISTRICT	Downtown	81.5	7.19	8.8%	\$41.54	2,427,237	71.3
	Capitol Hill/Southwest	23.7	1.56	6.6	\$43.70	3,608,134	48.5
	Georgetown/Uptown	13.5	0.67	4.9	\$29.47	278,556	32.0
	Northeast/Southeast	0.6	0.05	8.9	\$28.74	0	0
MARYLAND	Bethesda/Chevy Chase	11.5	1.39	12.1%	\$28.28	412,000	94.0
	I-270 Corridor	37.4	4.25	11.4	\$25.27	73,740	77.0
	Southeastern Montgomery County	11.8	0.86	7.3	\$23.66	0	0
	Eastern Prince George's County	1.3	0.06	4.7	\$27.40	130,650	0
	Northern Prince George's County	16.7	2.12	12.7	\$20.12	64,900	100.0
	Southern Prince George's County	3.4	0.35	10.2	\$15.70	0	0
	Frederick County	4.7	0.48	10.4	\$21.79	290,000	86.6
	Columbia/Ellicott City	11.5	1.13	9.8	\$22.03	726,099	40.7
	BWI	6.3	0.42	6.7	\$21.27	499,200	61.7
	Southern Anne Arundel County	6.1	0.63	10.3	\$23.69	124,140	66.6
VIRGINIA	Alexandria/I-395	34.5	4.17	12.1%	\$30.99	1,265,688	69.7
	Dulles Corridor	43.3	6.03	13.9	\$23.93	717,377	37.7
	Greater Fairfax County	53.4	6.51	12.2	\$25.28	318,714	57.0
	Leesburg/Route 7	3.1	0.13	4.0	\$28.20	969,534	81.0
	Manassas/Route 29/I-66	2.8	0.17	6.1	\$22.57	122,000	27.2
	Rosslyn-Ballston Corridor	19.8	1.87	9.5	\$32.34	1,332,275	43.5
	Woodbridge/I-95	1.7	0.07	3.7	\$20.91	30,618	72.2

Terminology: **Space available** includes direct and sublet; **rent** is average asking rent; **vacancy rate** includes sublet for existing properties; **space** includes all classes; **construction** includes projects currently under construction and/or renovation. It does not include pipe-line development. Figures only reflect non-owner-occupied construction. **All numbers are rounded up.**

Submarket definitions: **Alexandria/I-395:** Old Town, Pentagon City, Crystal City, Eisenhower Avenue; **Dulles Corridor:** Great Falls, Herndon, Reston, Route 28 Corridor; **I-270 Corridor:** Gaithersburg, Germantown, I-270 Corridor North, North Bethesda, Potomac, North Rockville, Rockville; **Southeastern Montgomery County:** Kensington, Wheaton, Silver Spring, Route 29; **Eastern Prince George's County:** Bowie, Upper Marlboro area; **Northern Prince George's**

County: Beltsville, Calverton, College Park, Greenbelt, Landover, Largo, Lanham, Laurel, Capital Heights; **Southern Prince George's County:** Oxon Hill, Fort Washington, Pennsylvania Avenue, Branch Avenue; **Southern Anne Arundel County:** Annapolis, Crain Highway Corridor, Southern Anne Arundel County; **Downtown:** East End, West End, Central Business District. **Note:** Data as of end of first quarter 2005

SOURCE: CoStar Group Inc.

THE WASHINGTON POST

Market Remains Strong Despite More Available Space

High Vacancy Rates Bring Volatility to Region, With Some Areas Doing Better Than Others

Montgomery County

The commercial real estate market in Montgomery County is growing.

The market's size grew by more than 1 million square feet in the first quarter from the same period a year earlier, to just over 62 million square feet. First-quarter vacancy rates dropped to 10.6 percent from 11.69 percent. Still, the rental asking price per square foot fell slightly to \$25.64 from \$26.27, according to CoStar Group, a Bethesda research firm.

"This is nothing like what's happening in Virginia," said Lawrence E. Thau, a managing director at CB Richard Ellis in Bethesda. "But this is the first real positive surge we've had in a good eight to 12 months in this county."

The strongest activity has come in Silver Spring, Bethesda, North Bethesda, Rockville, and even Germantown.

"Twelve months ago, you had very little activity," said Brendan Cassidy, senior vice president of Cassidy & Pinkard. "But now a lot of people are looking at space. Businesses are finally growing again. They need space. And they have some good options."

Cassidy said the strong activity in northern parts of the county is not surprising, given demographic shifts in the number of families moving there to escape high residential real estate costs closer to the Capital Beltway.

Thau and Cassidy said the county has also benefited from companies wanting to be near the residential and commercial redevelopment in Silver Spring.

"Silver Spring is now everything that everyone thought it was going to be — the entertainment, the hotels, the residential is all there now," Thau said.

— Michael S. Rosenwald

Prince George's County

The vacancy rate in Prince George's County edged up slightly in the first quarter, to 11.8 percent from 11.42 percent a year earlier, as the market size increased more than 300,000 square feet to 21.4 million. Average asking rent per square foot went from \$19.29 to \$20.06.

Despite the increase in vacancies, developers and brokers say they have seen the market pick up in the past few months. The vacancy rate dropped from 12.6 percent in the fourth quarter of 2004.

"I think the numbers suggest P.G. County is starting to heat up," said Jeffrey D. Ludwig, a vice president at NAI Michael Cos., a Lanham developer. "Since the beginning of this year we've definitely seen an increase in government contractors looking at existing space."

At \$20.06 per square foot, the asking price is about \$11 less than rents in Arlington County and Alexandria, which lie across the construction-clogged Woodrow Wilson Bridge.

While Ludwig recently signed a deal for 6,000 square feet at \$26.50 per foot in Largo, Lawrence E. Thau, a managing director at CB Richard Ellis in Bethesda, predicts most rents will stay near \$20 for the next few quarters, perhaps with a slight uptick.

There is less than 200,000 square feet of building

construction underway in Prince George's County. There are plans to build 120,000 square feet in two new buildings at Englewood Business Park.

— Michael S. Rosenwald

Howard County

The office vacancy rate in Howard County fell to 9.6 percent in the first quarter from 12.9 percent a year earlier, while construction in the county picked up substantially.

The drop was driven in part by federal contractors that wanted to settle near Fort Meade and the National Security Agency, just over the border in Anne Arundel County.

"In the last six months, we've probably added eight defense contractors" at Columbia Gateway, the county's largest office park, said Randall M. Griffin, president and chief executive of Corporate Office Properties Trust in Columbia. Griffin said his company owns about 50 percent of the office park and has 97 percent of its property there leased.

Cole Schnorf, senior vice president and director of development at Manekin LLC in Columbia, said there was little new office space on the market between the first quarters of 2004 and 2005, but the supply should grow.

The number of square feet under construction more than tripled to 744,686 from 219,660. The average asking price was \$21.18 a square foot, compared with \$20.20 a year earlier.

New construction is taking place all over the county, said Richard W. Story, chief executive of the Howard County Economic Development Authority. "One of the things we celebrate is diversity in terms of locations and tenants," Story said. "There are not a whole lot of eggs in one basket."

— Dina ElBoghady

District

The District's office market, among the strongest in the nation for the past five years, kept rolling in the first quarter, as the vacancy rate dipped to 7.9 percent from 8.2 percent a year earlier and tenants absorbed 1.3 million square feet, more than all of last year.

Some forecasters worried that the millions of square feet of space being delivered this year from a building boom in the District would drive up vacancy rates. That fear appeared not to be realized so far this year.

Strong demand for space, brokers said, is being driven by law firms, the federal government, and trade associations and media organizations, sometimes triggering more development. For example, DLA Piper Rudnick Gray Cary signed a lease for 230,000 square feet in a new building that Boston Properties is to construct at the corner of Ninth and E streets NW.

The average asking price was \$40.79 a square foot, up from \$39.88 a year ago. In prime locations, brokers said, rents in excess of \$60 have become common.

"The market just seems to be getting stronger as the year goes on," said John D. Lesinski, managing director of Grubb & Ellis's Washington office.

With the market strong, speculative construction is

underway. Republic Properties has two large spec projects launched, on Massachusetts Avenue NW near Union Station and in Southwest. Monument Realty, which has one empty spec building complete at 1100 13th St. NW, has begun work on another nearby on 15th Street NW.

— Neil Irwin

Arlington County and Alexandria

The office market in Arlington County and Alexandria improved steadily in the first three months of the year. Vacancy was 10.7 percent, essentially flat from a year ago but down from 11.2 percent at the end of 2004. Tenants absorbed 363,012 square feet of space in the first quarter, a healthy pace.

The steady improvement, brokers said, reflects demand from tenants who want convenient access to the District but require lower rents and easier proximity to Virginia bedroom communities.

The biggest empty space in Arlington is in Crystal City, where the U.S. Patent and Trademark Office vacated space to move to a newly opened complex in Alexandria. Charles E. Smith Commercial Realty is renovating the space in Crystal City and trying to enliven the streets in the neighborhood of huge boxy buildings with new restaurants and shopping.

A few miles away in Rosslyn, new development is on the way. JBG Cos. is building Waterview, a 1 million square foot Class A office building with the Corporate Executive Board, now based in the District, as the lead tenant. And Westfield Realty is seeking approval to build a 39-story skyscraper in Rosslyn.

Brokers say big blocks of space are now hard to find throughout the Rosslyn-Ballston corridor. "Large tenants who want space on the Metro in the R-B corridor need to plan ahead more than ever," said David Houck, a senior vice president of brokerage Staubach Co.

— Neil Irwin

Loudoun County

For office hunters, there is lots of space available in Loudoun County, but there are some positive signs for landlords, too: The office vacancy rate dropped from 16.1 percent in the first quarter of 2004 to 11.5 percent in the first quarter of this year, driving up rents.

"The market in Loudoun is making significant progress," said Sandy Paul, a vice president of Delta Associates, an Alexandria-based real estate consulting firm. "According to my numbers, 95 percent of the office space that's been delivered since early 2003 has been leased. That shows the strength of market conditions." Much of the space has been leased by Internet and telecommunications-related businesses, he said.

Office rents are on the move, too, rising from an asking price of \$21.13 a square foot to \$22.33 over the past year.

"There's not an excessive amount of new supply," Paul said. "In fact, a large portion of the space under construction is the Howard Hughes Medical Center, and that's spoken for. So that's going to push rents higher."

The center's 750,000-square-foot Janelia Farm Research Campus in Ashburn is the largest commercial real estate project in Loudoun by far. It's scheduled to open next year.

— Bill Brubaker

Prince William County

Vacancy rates in Prince William County fell to 4.8 percent in the first quarter, down sharply from 10.8 percent during the same period a year ago, as more companies opened offices where their workers live.

"As congestion and traffic is getting worse, businesses are coming now closer to their labor pool," said Larry FitzGerald, senior vice president of Grubb & Ellis in Tysons Corner.

Many of the tenants leasing offices in the county are service providers such as doctors, dentists and lawyers who do not need large space. So the deals signed in the last quarter were for small- and medium-sized spaces, FitzGerald said.

With vacancy rates under 5 percent, "the market is fairly tight in Prince William right now," said Jay Norman of Norman Realty of Manassas.

Prince William County, with 3.2 million square feet of space, is the smallest office market in the Washington region. Since the office market is so small, a few leases can skew the market, FitzGerald said.

A little more space is on the way, with 192,103 square feet under construction.

Office buildings are being constructed near the Quantico Marine Corps base and in fast-growing Gainesville.

Asking prices rose to \$22.64 a square foot, compared with \$18.15 a year earlier.

— Jenalia Moreno

Fairfax County

Government contractors continue to set up shop in Fairfax County, driving the office vacancy rate down to 12.4 percent in the first quarter of the year from 17.8 percent during the same period in 2004.

It was the fourth straight quarter that the vacancy rate declined, according to CoStar Group.

"The big reason Fairfax County has absorbed so much space is the continuing demand of the defense contractors," said Andy Klaff, senior vice president at Grubb & Ellis in Vienna. "That continues to fuel a lot of the growth and much of it along the Dulles corridor."

However, not as many private-sector companies are leasing office space, in part because there are fewer large blocks of property to meet their needs, said Malcolm C. Schweiker, senior vice president at CB Richard Ellis in Tysons Corner.

New buildings are being added to the market, with 1.3 million square feet of office space under construction in the first quarter. The county has 94.6 million square feet of office space, making it the second largest market in the area after the District.

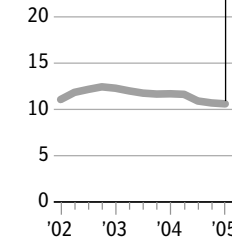
Meanwhile, the asking price for rental office space has increased to \$24.79 per square foot in the first quarter of 2005 from \$23.04 a year earlier.

— Jenalia Moreno

Montgomery County

2005 Office vacancy rate

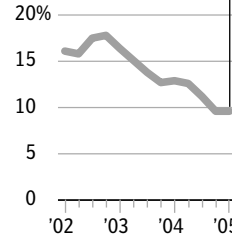
First quarter: **10.6%**



Howard County

2005 Office vacancy rate

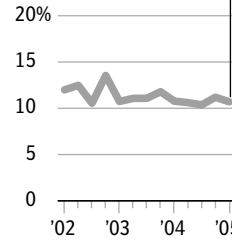
First quarter: **9.6%**



Arlington/Alexandria

2005 Office vacancy rate

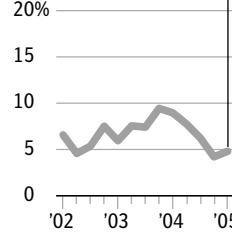
First quarter: **10.7%**



Prince William

2005 Office vacancy rate

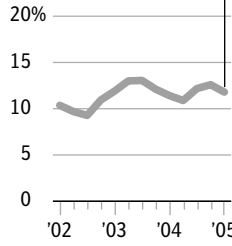
First quarter: **4.8%**



Prince George's County

2005 Office vacancy rate

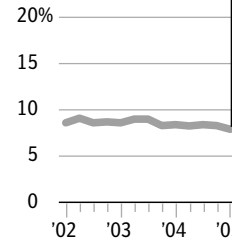
First quarter: **11.8%**



District

2005 Office vacancy rate

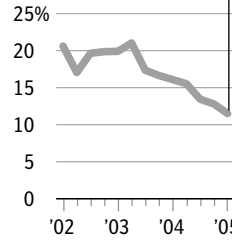
First quarter: **7.9%**



Loudoun County

2005 Office vacancy rate

First quarter: **11.5%**



Fairfax County

2005 Office vacancy rate

First quarter: **12.4%**

