

COMMERCIAL REAL ESTATE

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	82.67	6.53	7.9%	\$41.97	2,671,520	45.7
	Capitol Hill/Southwest	24.63	2.17	8.8	\$43.79	3,289,918	54.6
	Georgetown/Uptown	13.72	0.71	5.2	\$31.96	192,556	23.5
	Northeast/Southeast	0.72	0.11	15.2	\$32.81	63,000	4.8
MARYLAND	Bethesda/Chevy Chase	11.51	1.16	10.0%	\$29.07	412,000	92.5
	I-270 Corridor	37.61	4.06	10.8	\$25.69	164,880	16.6
	Southeastern Montgomery County	11.76	0.71	6.0	\$23.12	0	0
	Eastern Prince George's County	1.26	0.04	3.0	\$27.91	0	0
	Northern Prince George's County	17.09	2.07	12.1	\$21.44	64,900	97.3
	Southern Prince George's County	3.67	0.29	7.8	\$25.67	0	0
	Frederick County	5.28	0.56	10.6	\$23.00	137,000	7.5
	Columbia/Ellicott City	12.17	1.38	11.3	\$22.30	873,372	40.5
	BWI	6.30	0.35	5.6	\$23.94	579,135	45.2
	Southern Anne Arundel County	6.20	0.63	10.0	\$23.65	159,400	52.5
VIRGINIA	Alexandria/I-395	34.91	4.28	12.3%	\$30.75	1,009,457	54.6
	Dulles Corridor	43.32	5.39	12.5	\$24.63	1,785,672	40.9
	Greater Fairfax County	53.69	5.54	10.3	\$26.19	645,714	19.5
	Leesburg/Route 7	3.24	0.10	3.0	\$27.04	1,418,817	76.7
	Manassas/Route 29/I-66	2.94	0.22	7.5	\$22.59	294,053	19.5
	Rosslyn/Ballston Corridor	20.06	1.41	7.0	\$32.22	820,434	62.3
	Woodbridge/I-95	1.83	0.11	5.9	\$21.86	0	17.5

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, Capitol 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

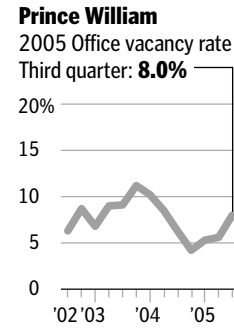
SOURCE: CoStar Group Inc.

THE WASHINGTON POST

Prince William County

Office rents in Prince William County hit a record high in the third quarter.

The average asking rent rose to \$23.21 per square foot in the third quarter from \$20.32 a year earlier, according to CoStar Group, a Bethesda research firm.



"That's a simple, and pure, supply and demand result," said Larry FitzGerald, a senior vice president at Grubb & Ellis Co.

The county's office vacancy rate was 8 percent in the third quarter, up from 5.6 percent in the second quarter and 6.3 percent a year earlier.

The vacancy rate has been under 10 percent for six quarters.

There was only 192,600 square feet of new construction underway in Prince William in the third quarter. That included the 52,000-square-foot Quantic Center in Dumfries, part of a planned business park that would include a hotel and retail stores.

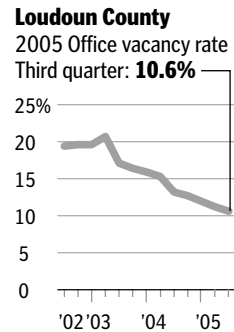
But, FitzGerald predicted, "in the fourth quarter of '05 and into '06 we're going to see the reappearance of tower cranes and new construction" by companies looking to tap into Prince William's educated workforce.

— Bill Brubaker

Loudoun County

There is still plenty of vacant office space in Loudoun County. Not nearly as much as a year or two ago, though.

The office vacancy rate dropped to 10.6 percent in the third quarter, down from 13.2 percent a year ago and 17.1 percent two years ago.



"Loudoun has become an increasingly attractive market" to government contractors and service professionals such as doctors, said Alexander "Sandy" Paul, a vice president of Delta Associates, an Alexandria-based real estate consulting firm.

Though 26 buildings were under construction in the third quarter, few office projects were completed in the quarter, FitzGerald said. "So the demand for office space has been eating up the existing inventory," he said.

Buildings under construction total almost 1.7 million square feet. But a single project — the Howard Hughes Medical Institute's Janelia Farm Research Campus on Route 7, east of Leesburg — accounts for 750,000 square feet.

Loudoun office rents edged down to \$23.63 a square foot in the third quarter from \$23.89 in the second quarter but were up from \$21.57 in the third quarter a year ago.

"With demand starting to increase and a constrained supply, you're going to see rates spike up, at least temporarily, until some new office buildings are delivered," FitzGerald said.

— Bill Brubaker

Prince George's County

The vacancy rate in Prince George's County dropped to 10.9 percent during the third quarter from 11.9 percent a year earlier, and asking rents rose to \$22.28 a square foot from \$19.36.

Prince George's officials and local developers have been promoting the county's small commercial real estate market to companies throughout the Washington region.

Prince George's, with 21.8 million square feet, is one of the smallest office markets in the Washington region.

Prince George's County Economic Development Corp. officials have begun to invite real estate brokers who work in other counties to breakfasts at commercial real estate parks to introduce them to the growing market.

The strategy for growing the county's office market is to attract large federal contractors and agencies, local developers said. For example, the National Oceanic and Atmospheric Administration is building a weather prediction center in the M Square office park, a 130-acre research park adjacent to the University of Maryland in College Park.

Dean Morehouse, president of MTM Builder/Developer Inc. in Upper Marlboro, said he has seen the Prince George's commercial real estate market become more active. His company has been converting space that had been used for both offices and warehouses into solely office space. An additional 345,500 square feet of space is under construction in Prince George's.

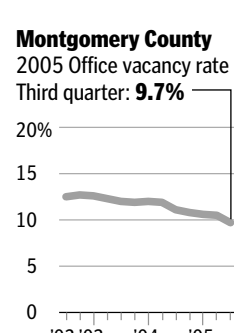
"We are generally bullish," he said. "There are more small users than large users, and currently we are working with Prince George's County to attract more employment-based larger users."

— Krissah Williams

Montgomery County

The vacancy rate in Montgomery County continued to decline. In the third quarter it was 9.7 percent, compared with 10.5 percent in the second quarter and 11.1 percent a year earlier.

"We're finally down below double digits," said Robert Liss, senior vice president of Trammel Crow Co. "That's a good sign for this market."



The net space absorbed fell to 469,000 square feet from more than 1 million square feet a year earlier — largely because no new projects came on the market. In last year's third quarter, six projects, totaling 720,516 square feet, were delivered. The county has four new projects, totaling 546,880 square feet, under construction.

"Developers are just not going to build a lot speculative projects in the county," said Larry Thau, managing director of the Bethesda office of CB Richard Ellis. "They don't want to oversupply the marketplace."

Thau said the county has slower growth than in the District, where big law firms continue to grow, and Northern Virginia, where defense contractors are growing quickly.

"Defense contractors tend to be more active in the real estate market than peaceful contractors, which is what we have a lot of here," Thau said.

— Michael S. Rosenwald

Howard County

The office vacancy rate in Howard County remained steady at 11.2 percent in the third quarter,

compared with 11.1 percent a year ago. But tenants vacated more space than they leased.

The county's net absorption, meaning the amount of space leased minus the amount of space made vacant, was a negative 89,235 square feet in the quarter compared with a positive 239,125 square feet a year earlier.

The dip may disguise the county's vibrant office market, said Owen J. Rouse Jr., senior vice president and director of brokerage services at Manekin LLC, a commercial real estate company in Columbia.

As businesses in the area expand, many are leaving behind their space for re-lease. In some cases, they are leaving old buildings with inefficient layouts for new, pricier ones that can fit more people into less space, he said.

"As they give up space, you're probably going to have in-migration to equalize the vacancy," Rouse said. "There are people back-filling the space but not as quickly as it's being given up."

Asking rent was \$22 per square foot in the quarter, up from \$20.67 a year earlier.

In years to come, developers who track the county say the largest addition of office space outside of Columbia will be at the 500-acre Maple Lawn Farms development near Fulton, where developer Stewart Greenebaum expects to offer 2 million square feet of commercial space within the next decade.

— Dina ElBoghady

The District

The vacancy rate for office space in the District during the third quarter dipped to 7.8 percent, compared with 8.3 percent a year earlier. The asking price was \$41.14 per square foot, up from \$39.93 a year earlier.

Leasing activity was strong, with 638,716 square feet of office space taken off the market, compared with 426,507 square feet a year earlier. Among major deals completed during the quarter: Law firm Bingham McCutchen leased 68,000 square feet at 2020 K St. NW, and consulting firm Bates White & LLC leased 62,421 square feet at 1300 I St. NW, according to real estate brokerage CB Richard Ellis.

The pace of construction picked up during the quarter, with 23 buildings in the works, representing 6.2 million square feet, up from 16 buildings a year earlier. Buildings that are scheduled to come on line by the end of the year include Station Place II, a 320,000-square-foot property at 600 Second St. NE.

Pre-leasing is "really strong," said Margaret R. Donkerbrook, director of marketing for CB Richard Ellis. Of nearly 5 million square feet scheduled to be delivered next year, as much as 64 percent of that space has already been leased, she said.

While some brokers are predicting a slowdown in sales of properties as long-term interest rates climb, the District remains one of the strongest markets for foreign investors, according to a recent report by Delta Associates, the research unit of Transwestern Commercial Services.

Buildings that recently traded owners include 1425 New York Ave. NW, which was bought by Republic Properties for \$155 million. Glenborough Re-

alty Trust acquired 50 F St. NW on Capitol Hill for \$70 million. And ING Clarion Partners bought 900 17th St. NW for \$59 million.

— Annys Shin

Arlington/Alexandria

The Pentagon's plans to move thousands of workers out of leased space in these close-in communities, vacating nearly 3 million square feet in Arlington's Crystal City alone, have created jitters about the future. But right now, these remain healthy markets.

The vacancy rate in the third quarter was 10.7 percent, down from 11.3 percent in the second quarter but up from 10.2 percent a year earlier. Asking rates ticked upward, to \$31.33 a square foot from \$30.66 a year earlier.

Even before the Pentagon's recommendation and its approval by a base closing commission, Charles E. Smith Cos., the biggest property owner in Crystal City, was working to reposition the area for corporate and nonprofit businesses.

Over the past year, restaurants have opened on the 23rd Street strip. An advertising campaign sponsored by the company promotes Crystal City as exciting and hip.

"We still have to see if non-government related tenants are going to buy into that or not," said Lawson Wilder, senior managing director with Julien J. Studley Inc., a commercial real estate firm focused on tenant representation.

Jim Hunter, a senior vice president at Cassidy & Pinkard, added: "A lot of firms who wouldn't have considered Crystal City are now going there. Would you have ever thought that the Bureau of National Affairs would have moved to Crystal City?"

Publisher BNA Inc., enticed with the help of \$1 million from the state of Virginia, is moving its offices from the District.

— Elissa Silverman

Fairfax County

Fairfax County's commercial real estate market remained buoyant, and asking rates have continued to climb.

In the third quarter, the average rate rose to \$25.45 per square foot, up from \$25.28 in the previous quarter and \$23.36 a year earlier.

One factor pushing up rents is the paucity of new construction. One new office building opened in the quarter, adding 37,530 square feet to the county's inventory.

In the third quarter, the vacancy rate dropped to 10.7 percent from 14.3 percent a year earlier.

"Vacancy rates in Tysons Corner will continue to head downward because of a lack of supply," said Dominic Orfitelli, senior vice president with CB Richard Ellis.

Industry experts expect Fairfax's commercial real estate market to remain robust. "Most of the institutional investors that are acquiring assets in Tysons Corner are being very aggressive with their assumptions," Orfitelli said.

— Elissa Silverman