

# MarketView District of Columbia Office

## Quick Stats

	Current	Change from last	
		Yr.	Qtr.
Vacancy	9.7%	↓	↓
Lease Rates	\$51.19 FS	↑	↑
YTD Net Absorption*	4.3 MSF	↑	↓
YTD Completions	2.9 MSF	↓	↓

\* The arrows are trend indicators over the specified time period and do not represent a positive or negative value (e.g., absorption could be negative, but still represent a positive trend over a specified period).

## Hot Topics

- The 2010 record-high net absorption total of 4.3 MSF was 78.0% driven by the federal government and 22.0% by the private sector.
- Following an aggressive four-year development cycle, the DC office market did not experience any new development breaking ground in the past three quarters.
- With only a handful of buildings in the pipeline and large blocks of space becoming scarce, developers are considering building speculatively on several sites over the next six-to-12 month period.

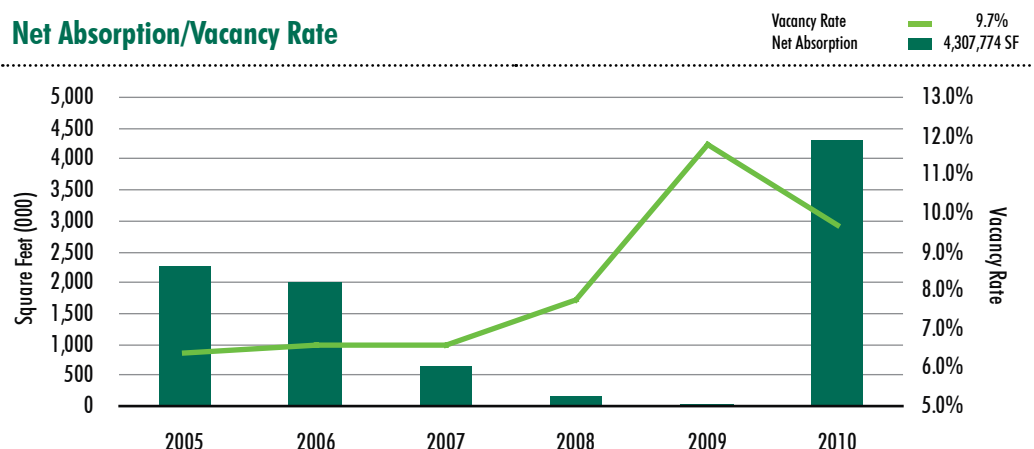
Demand in the Washington, DC office market totaled more than one half million square feet during the final quarter of 2010, bringing the year-to-date total to an all-time record high of 4.3 million square feet. As a result, the overall vacancy rate fell from 11.8% one year ago to 9.7% at year-end 2010. The overall rate also represents a drop of 2.3 percentage points from the five-year peak of 12.0% reached in the first quarter of 2010, a decline of 19.2% or the largest decline of any market in the country, behind New York, during the same period. The federal government led the economic recovery fueling half of the 541,023 square feet absorbed during the quarter and driving 78.0% of the year's growth. Meanwhile, private-sector leasing accounted for the other half of the quarter's net gains and 22.0% of the year's total. Many government and private-sector transactions were pending at the close of 2010 and, as a result, leasing activity fell over the quarter, yet remained higher than the previous year.

The overall health of private-sector tenants has improved. Driven by this improvement, tenants were more likely to relocate as they took advantage of elevated market

concessions, despite the declining concessions across the board since 2009's peak. The market appears to be moving in the path of recovery with the recent resurgence of private sector demand in the CBD and East End submarkets. The outlying submarkets, including NOMA, Capitol Riverfront and Southwest, have been the recipients of an expanding federal budget and government requirements, which led to falling vacancy rates over the year of 0.6, 6.5 and 13.0 percentage points, respectively. Available space in the outlying submarkets will decline if transactions underway close as anticipated, likely leading to an even lower vacancy rate in the upcoming quarters.

With less new supply coming online through 2012 and with continued GSA leasing, it is anticipated that the overall vacancy rate will continue to decline for the next couple of quarters and then begin to stabilize in late 2011. Speculative development will likely ensue in the upcoming six-to-12-month period as the overall vacancy rate drops. This supply-constrained environment will likely trigger asking rents to rise moderately in 2011 and then accelerate by 2012 and beyond.

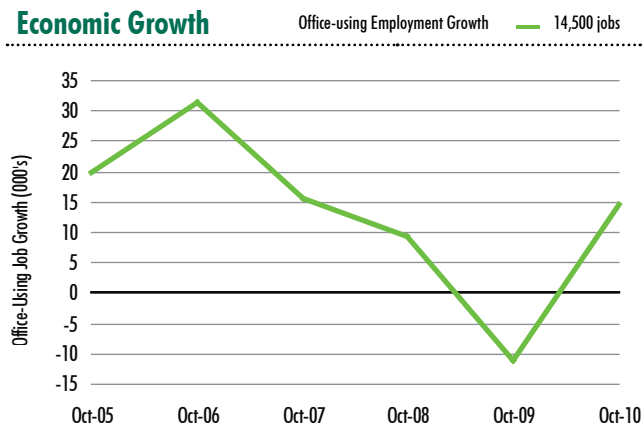
## Net Absorption/Vacancy Rate



## Market Statistics

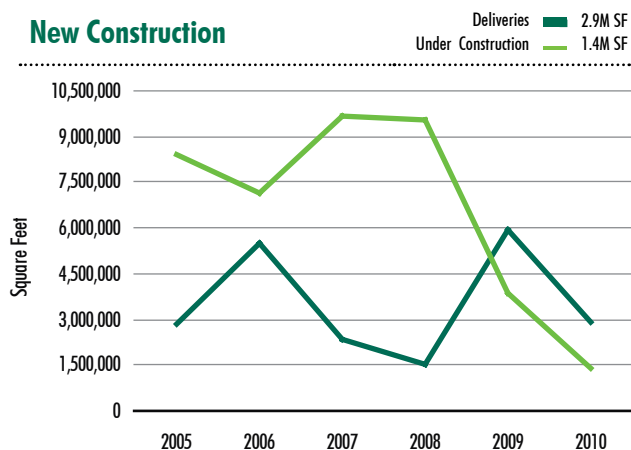
Submarket	Inventory SF	Vacancy Rate %	4Q Net Absorption SF	YTD Net Absorption SF	Under Construction SF	Average Asking Lease Rate (\$ SF/YR)
Capitol Hill	4,828,601	11.3%	55,290	179,305	-	\$59.58
Capitol Riverfront	3,354,422	9.5%	4,572	189,009	414,029	\$47.66
CBD	38,631,963	10.5%	171,759	243,978	827,045	\$53.20
East End	42,086,957	8.8%	(13,713)	627,524	169,038	\$52.24
Georgetown	2,711,117	12.0%	24,046	47,779	-	\$45.22
NOMA	9,105,447	14.5%	190,014	935,839	-	\$47.63
Southwest	12,603,834	7.6%	105,601	2,081,043	-	\$51.30
Uptown	7,125,821	8.2%	(65,407)	118,601	-	\$35.40
West End	3,611,011	7.6%	23,861	118,601	-	\$43.87
<b>District of Columbia Total</b>	<b>124,059,173</b>	<b>9.7%</b>	<b>541,023</b>	<b>4,307,774</b>	<b>1,410,112</b>	<b>\$51.19</b>

### Economic Growth



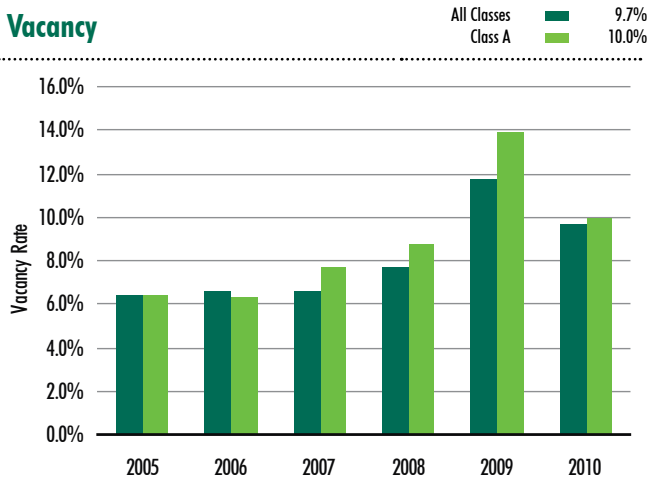
Washington, DC is regarded as one of the strongest employment areas in the country. In the twelve months ending October 2010, office-using employment grew by 1.0%, or 14,500 jobs. This was an increase in the growth rate experienced during the twelve months between October 2008 and October 2009 of negative 0.8%, or 10,900 jobs shed. Not surprisingly, it was the Information, Financial Activities and Other Services sectors that offset gains made by the Government and Professional & Business Services sectors. Specifically, the Information, Financial Activities and Other Services sectors each contracted by shedding a total of 3,000, 2,300 and 2,300 jobs, respectively, while the Government and Professional & Business Services sectors grew by adding a total of 10,900 and 11,200 jobs, respectively, year-over-year.

### New Construction



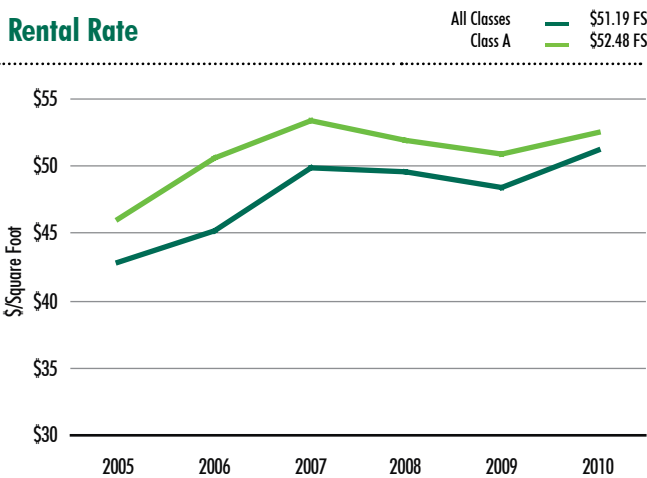
Following an aggressive four-year development cycle, the Washington, DC office market did not experience any new development breaking ground in the past three quarters—while owners are still awaiting lead tenants and financing, in many cases. Furthermore, no product delivered during the final quarter of 2010, the first time since the third quarter of 2005. The only construction activity during 2010 was the recommencement of 1015 Half Street, SE, which is scheduled to deliver 414,029 square feet in early 2011. Including the Half Street project, only three projects are expected to deliver in 2011 (totaling one million square feet) and one project to deliver in 2012 totaling 394,145 square feet. With only a handful of buildings in the pipeline and large blocks of space becoming scarce, developers are considering going spec on several sites over the next six-to-12-month period for delivery in the 2013—2014 timeframe.

### Vacancy



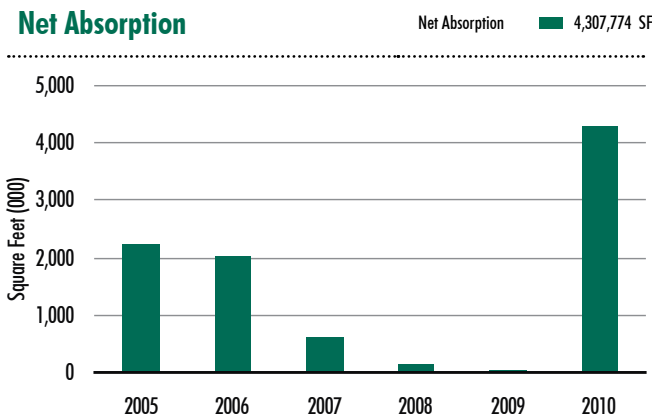
The overall vacancy rate dropped 2.1 percentage points over the past year to 9.7% during the fourth quarter of 2010. Once at a 6.0% trough in 2001, the vacancy rate progressively doubled to a 12.0% peak in the first quarter of 2010. Increased demand from GSA in the NOMA and Southwest submarkets during the year accounted for the majority of the drop in vacancy. With no significant additions of sublet space in the Washington, DC office market, sublet available space has steadily declined from the peak reached one year ago of 2.9 million square feet. Not surprisingly, the largest decline in vacancy over the quarter was experienced in the NOMA submarket, which fell by 2.9 percentage points from 17.4% to 14.5%.

### Rental Rate



Direct asking rental rates ended the fourth quarter of 2010 at \$51.19 per square foot on a full service basis, a \$0.07 rise from the previous quarter and \$2.71 from the previous year. Rent concessions and tenant improvement allowances remain elevated, yet lower than last year as the pendulum is slowly moving away from tenants back towards landlords. The District's Class A asking rate averaged \$52.48, up from the previous quarter's \$52.18 and last year's \$50.89. Meanwhile, Trophy full service asking rents fell by \$0.88 over the quarter as more expensive space was leased in Capitol Hill and East End. As space options decrease, rents are expected to moderately increase in 2011.

### Net Absorption



Net growth from the government and private sectors fueled fourth quarter's net absorption total of 541,023 square feet, bringing the year-to-date total to 4.3 million square feet. The top non-renewal leases signed during the final quarter were government deals in NOMA and Southwest, accounting for 50.5% of fourth quarter's total. These included the GSA – Department of Veterans Affairs' transactions to take 122,756 square feet at 1100 First Street, NE; and 52,886 square feet at 90 K Street, NE; the GSA – U.S. Immigration and Customs Enforcement (ICE) lease to take 52,400 square feet at 1201 Maryland Avenue, SW; and the GSA – Federal Bureau of Investigation (FBI) transaction to lease 45,034 square feet at 375 E Street, SW. Growth from the private sector remained stable, accounting for the 268,000-square-foot balance. With several large lease transactions awaiting final signatures at year-end 2010, net absorption in the first half of 2011 will likely remain elevated, however not at levels experienced during 2010.

## MarketView District of Columbia

### Top Lease Transactions

Size (SF)	Tenant	Address
97,984	Baker & Hostetler LLP**	1050 Connecticut Avenue, NW
71,914	GSA - Federal Emergency Management Agency (FEMA)**	395 E Street, SW
65,873	Kilpatrick & Stockton LLP**	607 14th Street, NW
61,739	GSA - Veterans Affairs*	1100 First Street, NE
61,017	GSA - Veterans Affairs*	1100 First Street, NE

\*New

\*\*Renewal

### Asking Lease Rate

Average of Asking Lease Rates for each property weighted by the associated Available Space. Includes Direct Available Space unless otherwise indicated.

### Completions

Rentable Building Area completed during the period.

### Market Coverage

'Existing' (Completed) competitive properties.

### Net Absorption

The change in Occupied SF during the period for all 'Existing' properties.

### Base Inventory, Base or Building Square Feet

The sum of the Rentable Building Area for all competitive properties.

### Occupied Square Feet

Rentable Building Area less Vacant Space.

### Under Construction

Buildings which have begun construction as evidenced by site excavation or foundation work, and is on-going.

### Available Space

Space being marketed to potential occupants, in Rentable SF (direct and sublease combined, unless otherwise indicated).

### Availability Rate

Available space as a percentage of the Base Inventory or Building SF.

### Vacant Space

Available Space that is physically vacant, in Rentable SF.

### Vacancy Rate

Vacant space as a percentage of the Base Inventory or Building SF.

### Submarket Map



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