MARKETBEAT

SUBURBAN MARYLAND OFFICE REPORT

CUSHMAN & WAKEFIELD®
Global Real Estate Solutions℠

1Q09

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ECONOMY

Latest economic data continue to show the severe toll the U.S. recession, now in its second year, is having on the labor market. Employers are squeezed by cutbacks in consumer and business spending and continue to trim their work forces. In Montgomery and Prince George's Counties, the rise in joblessness over the past 12 months is the largest since monthly data began being collected in 1990. The unemployment rates for Montgomery and Prince George's Counties are now at their highest level ever, at 4.6% and 6.4%, respectively, though still much lower than the national average. All office-using sectors have experienced a contraction with the exception of the federal government which continued to hire in both Counties.

OVERVIEW

Current economic pressures are increasingly weighing on the Suburban Maryland office market. Leasing activity posted a decline in the first quarter of this year. As a result, the overall vacancy rate for Montgomery County increased from 12.1% at year-end 2008 to 12.8% in the first quarter of 2009 and remained high at 17.8% for Prince George's County. Still, this compares favorably to other suburban markets nationwide. Nationally, the average vacancy rate is up 1.0 to 2.0 percentage points since the end of 2008. However, rental rates continued their downward trend. Based on transactions signed in the last three months, effective rents in both Montgomery and Prince George's Counties were down by 10.0% to 20.0% from their peak rates in 2008. Meanwhile, the ongoing credit market freeze has caused investors to pause; there was not one notable sale transaction over $5.0 million during the first quarter.

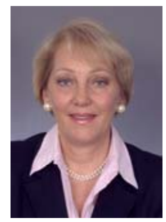
Montgomery County is feeling the effects of the financial turmoil more acutely than other markets in the Washington, D.C. region. This is not surprising since the County is home to a number of financial institutions that maintain a large local presence such as CapitalSource, American Capital Strategies, Chevy Chase (soon to become Capital One Bank), and Fannie Mae. While layoffs in the financial industry certainly account for some of the space on the market, there are additional factors. Some companies are abandoning plans to move into new headquarters while others are disposing of real estate gained through acquisitions. Some of these companies have already offered over 150,000 square feet (sf) for sublease and another 200,000 to 300,000 sf are scheduled to hit the market in the next 6 to 9 months.

However, not all the news is negative. Non-financial office-using sectors have held up relatively well despite some modest rightsizing, helping put a floor on the decline in absorption. Further, the area reported some new activity during the quarter. The International Baccalaureate Organization, a non-profit education foundation, is relocating its U.S. offices from New York to Montgomery County. The company has an initial requirement of 15,000 sf to 20,000 sf, which could potentially expand up to 40,000 sf. Government contractor, BAE Systems, is also in negotiations to lease over 100,000 sf currently under construction at 530 Gaither Road in North Rockville. In addition, some firms are able to secure financing despite the inhospitable credit markets, including deals for Metro Executive Park I & II in Rockville and 5850 University Research Court in College Park.

FORECAST

The best-case scenario is that the government relief efforts will prove successful in instigating an economic turnaround by the end of this year. Even so, the unemployment rate is expected to keep climbing and remain elevated well into 2011. Still, some positive developments could allow both Montgomery and Prince George's Counties to stage a recovery more quickly than other suburban markets. *First*, there are large tenants such as the NRC (360,000 sf) that remain active within the marketplace. *Second,* the rising availability of attractively-priced sublease options in prime locations – particularly in Bethesda/Montgomery County – is likely to draw some of the traditional users (e.g., small to mid-size associations) based in D.C. that are looking to cut costs. *Third*, the surge in federal spending stands to benefit Suburban Maryland. The $787-billion stimulus package provides for additional financing that could feed growth of the area's major government tenants such as the NIH, NASA, NIST, and NOAA. Moreover, the House cleared the omnibus appropriations bill that boosts the budget for these key science agencies; this is in addition to the approved defense appropriations bill that contained significant increases in spending through 2010 that augurs well for government contractors in both Montgomery and Prince George's Counties. *Lastly*, there is no severe supply buildup. While the completion of 1.5 million square feet (msf) through the remainder of the year is likely to add a full percentage point to availabilities, the vacancy rate remains well below the national average. In addition, after this summer, there will be a two-year window before any added deliveries.

BEAT ON THE STREET



"2009 looks to be a favorable year for tenants. Sizable deals are being made with effective rental rates 10%-20% off the rental rates of last fall. Further, with many tenants looking to rein in use and occupancy costs, most tenants are focused on renewal unless relocation options offer a considerable cost savings measure."

– Jean Wirsching, Senior Director

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
Regional*			
Unemployment	3.8%	6.2%	6.9%
Employment Growth	0.0%	-2.0%	0.6%

Source: Moodys|Economy.com
*Includes Montgomery and Prince George's Counties

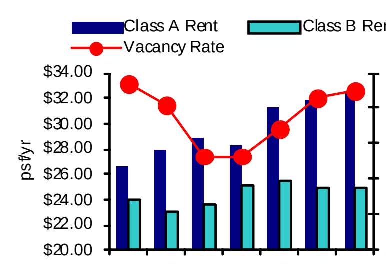
MARKET FORECAST

LEASING ACTIVITY will continue to bump along at least through mid-year, but could get a boost from massive federal spending plans this year.

CONSTRUCTION deliveries will total 1.7 msf for all of 2009, the highest level since 2002, and subsequently cease. No new project is likely to commence construction until credit markets return to normal functioning and office market fundamentals bounce back.

RENTAL RATES are expected to continue moderating as landlords step up concession packages in both Montgomery and Prince George's Counties.

OVERALL RENTAL VS. VACANCY RATES



MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	YTD UNDER CONSTRUCTION/ RENOVATION	YTD CONSTRUCTION COMPLETIONS*	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Bethesda/Chevy Chase	8,004,941	60	6.7%	4.4%	46,638	295,263	0	(40,166)	$45.90
North Bethesda	7,821,446	54	16.5%	15.0%	46,306	0	0	(182,207)	$40.02
Rockville	6,401,021	60	13.0%	12.1%	23,926	295,928	93,000	(26,697)	$34.90
North Rockville	8,610,460	84	9.9%	8.9%	40,054	539,800	0	(51,803)	$30.39
Gaithersburg	3,438,421	43	28.0%	17.2%	0	0	0	(10,186)	$28.49
Germantown	1,823,431	24	13.7%	13.3%	15,239	0	0	17,884	$30.94
Silver Spring	4,789,986	42	9.4%	7.6%	29,015	0	0	(21,046)	$33.11
North Silver Spring	1,125,127	22	16.8%	13.6%	14,962	0	0	3,760	$25.00
Montgomery County	42,014,833	389	12.8%	10.5%	216,140	1,130,991	93,000	(310,461)	$34.05
Beltsville/College Park	4,082,228	68	14.8%	13.9%	20,842	388,762	0	11,746	$27.14
Laurel	985,661	19	5.6%	3.5%	0	0	0	(1,506)	$22.00
Greenbelt	2,723,271	30	24.8%	21.7%	23,001	0	0	(37,737)	$26.42
Landover/Lanham/Largo	3,098,041	64	20.2%	16.9%	11,768	0	0	(71,628)	$24.80
Bowie	780,082	12	24.9%	24.2%	1,270	0	155,000	1,245	$28.50
Oxon Hill/Suitland	1,921,992	46	13.5%	12.8%	23,484	0	0	207,490	$31.83
Prince George's County	13,591,275	239	17.8%	15.8%	80,365	388,762	155,000	109,610	$27.15
Suburban Maryland	55,606,108	628	14.0%	11.8%	296,505	1,519,753	248,000	(200,851)	$32.46

* Rental rates reflect $psf/year
** Include renovations

MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
15200 Omega Drive	North Rockville	Risk Metrics	27,671	A
11300 Rockville Pike	North Bethesda	KAI	22,365	B
8719 Colesville Road	Silver Spring	Vietnam Veterans of America	16,956	C
120 Waterfront Street	Oxon Hill/Suitland	School Nutrition Association	15,265	A

SIGNIFICANT 1Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
*No sales recorded over $10 M				

SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET*	COMPLETION DATE
16901 Melford Boulevard	Bowie	N/A	155,000	2/09
12420 Parklawn Drive	Rockville	N/A	93,000	3/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET*	COMPLETION DATE
520 - 530 Gaither Road	North Rockville	N/A	346,670	6/09
5404 Wisconsin Avenue	Bethesda/Chevy Chase	Microsoft, CapitalSource	295,263	5/09
River Road @ Haiig Court	Beltsville/College Park	National Oceanic & Atmospheric	268,762	5/09

* Estimated Office Rentable Square Feet

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*Market terms & definitions based on BOMA and NAIOP standards.

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