



# Washington, DC

Tenant's Guide ▪ North American Markets ▪ Fourth Quarter 2011

## Overview

At year-end 2011, the Metropolitan Washington, DC area continued to feel the absence of federal dollars bolstering the economy. With legislative gridlock on Capitol Hill, the flow of money into the area's economy slowed, and the requests for office space by federal agencies continue to stack up. This has led to increased business uncertainty from nearly all office-using industries in the Metro Area. As a result, new employment decreased dramatically since the same period last year, adding 3,800 new jobs in 2011 compared to 14,100 jobs in 2011. In total, the office-using sectors of the economy grew by 0.2%, nearly half the national growth rate of 0.4%.

Tenants in the market are being conservative with the amount of space they lease, often renewing rather than carrying the cost of moving or committing to too much new space. Of the 50 leases over 20,000 square feet that were executed this quarter, 72.6% of the space was renewed. Nearly a third of the remaining leases required tenants to leave behind more space than they moved into, resulting in less demand for office space.

## Market Trends

- While leasing activity pointed towards slower demand for office space, net absorption was strong during the fourth quarter of 2011. In total, 1.5 million square feet was occupied, bringing the yearly total to 2.1 million square feet. Most of this was derived from smaller tenants occupying their spaces or from preleasing in new construction that delivered.
- The construction pipeline continued to expand during the fourth quarter. In total, six buildings totaling 1.2 million square feet broke ground bringing the total under construction to 8.0 million square feet. Of all the buildings under development, 13 buildings totaling 3.9 million square feet were being constructed on a built-to-suit basis.

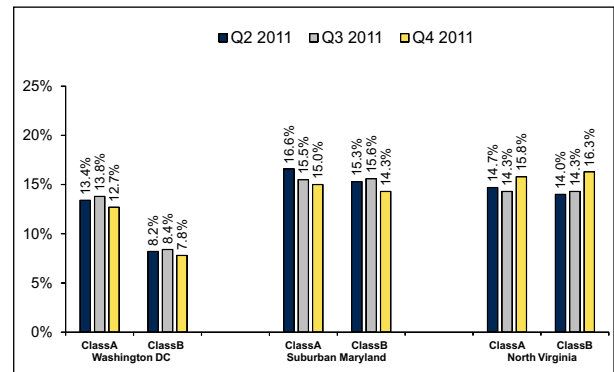
## Tenant's Perspective

In some areas, landlords are finding increased competition for the tenants that are in the market; those tenants that have a good idea of their space needs are therefore getting excellent lease terms. For tenants who need flexibility in the amount of space they occupy (while the economy sorts itself out), landlords have been agreeing to more right of first offers, right of first refusals and fixed expansion options on adjacent spaces. Termination options, however, continue to be far and few between.

## Major Transactions

Tenant/Buyer	Size	Type	Submarket
HHS	1,332,482	Renewal	Rockville
NOAA	1,006,993	Renewal	Silver Spring
Bechtel	200,000	Direct	Reston
McKenna, Long & Aldridge	172,070	Renewal	CBD
NJVC	124,399	New	Rt. 28 South
Steme, Kessler, Goldstein & Fox	117,711	Ren/Exp	East End
Customs and Border Protection	105,000	Renewal	East End
Meso Scale Diagnostic	104,764	Direct	North Rockville
General Dynamics	104,764	Prelease	Springfield/Burke
Fairfax County HHS	100,059	Direct	Annandale

## Vacancy Rate



## Average Rental Rates

Washington DC	Q2 2011	Q3 2011	Q4 2011
Class A Office	\$54.52	\$54.46	\$54.71
Class B Office	\$42.28	\$42.60	\$42.07
Northern VA	Q2 2011	Q3 2011	Q4 2011
Class A Office	\$34.00	\$33.10	\$32.64
Class B Office	\$28.51	\$28.22	\$27.69
Suburban MD	Q2 2011	Q3 2011	Q4 2011
Class A Office	\$29.59	\$29.66	\$29.79
Class B Office	\$23.67	\$23.50	\$23.29

