



Washington, DC

Tenant's Guide ■ North American Markets ■ First Quarter 2012

Overview

Despite employment growth in the office-using sectors of the regional economy, demand for office space has fallen over the last four quarters. The largest contributor to falling demand was the relocation of Department of Defense personnel from leased space to military facilities. This, coupled with tenants more efficiently using space and Congress effectively keeping the Federal Government out of the leasing market, has caused net absorption to fall.

Leasing activity was below historical levels during the quarter. In total, 934,907 square feet was leased. This is the lowest level of activity in the last ten years. Additionally, the bulk of this quarter's leasing activity was from renewals or consolidations into more efficiently laid out space. This has been the case over much of the last 12 months, resulting in less new demand for office space.

Market Trends

- Over the last year, a number of buildings have been taken off-line and have undergone significant renovation. At the end of the quarter, there were 36 buildings totaling 8.7 million square feet of space under construction. Of these, seven buildings totaling 4.4 million square feet were renovations. This has pulled a lot of available space off the market.
- In contrast, tenants vacated 610,882 square feet of space during the quarter after returning 728,822 square feet last year.
- The vacancy rate has increased over the last four quarters despite a reduction in the number of big blocks of space. This time last year, there were 97 blocks of space over 100,000 square feet available. Currently, there are 87 blocks available even after ten new office buildings have been delivered.

Tenant's Perspective

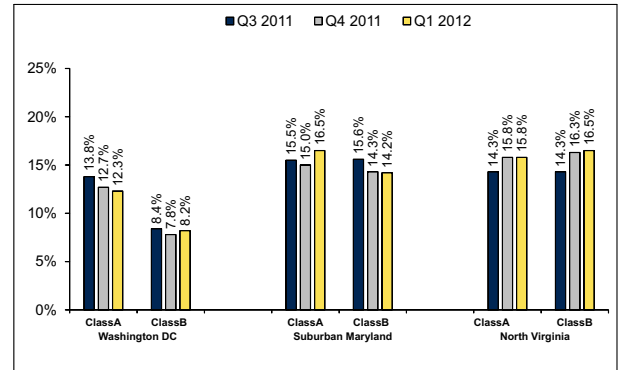
Tenants currently in the market are finding excellent opportunities to lock in favorable rates with excellent landlord concessions in desirable locations and product. This is especially true for tenants in need of 50,000 square feet of space or less.

These ideal leasing conditions are only expected to last until mid-2013. After the election, there will be a clear mandate on the Federal Government's spending priorities. This will allow the government contracting and lobbying industries to gain better clarity on their real estate needs. With this and the expected reengagement of the GSA with the leasing market, demand for office space will grow returning to more historical levels.

Major Transactions

Tenant/Buyer	Size	Type	Submarket
GSA - State Dept.	463,151	Direct	CBD
GSA - SBA	237,848	Renewal	Southwest
State Services Org.	237,848	Renewal	Capitol Hill
Gibson, Dunn & Crutcher	204,705	Ren/Exp	CBD
Center for Naval Analyses	179,309	Prelease	Clarendon/Courthouse
TheraCom	152,004	Renewal	N Rockville
comScore, Inc.	95,622	Renewal	Reston
GSA - Dept. of Labor	91,428	Renewal	Rosslyn
M.C. Dean	78,896	New	Rt. 28 N
Lockheed Martin	71,504	Renewal	Rt. 28 S

Vacancy Rate



Average Rental Rates

Washington DC	Q3 2011	Q4 2011	Q1 2012
Class A Office	\$54.46	\$54.71	\$55.01
Class B Office	\$42.60	\$42.07	\$42.74
Northern VA	Q3 2011	Q4 2011	Q1 2012
Class A Office	\$33.10	\$32.64	\$34.49
Class B Office	\$28.22	\$27.69	\$28.99
Suburban MD	Q3 2011	Q4 2011	Q1 2012
Class A Office	\$29.66	\$29.79	\$29.41
Class B Office	\$23.50	\$23.29	\$21.61

