

Suburban Maryland



In Short

- The Federal Government continued to drive leasing activity accounting for two of the largest leases signed during the quarter
- LCOR, Inc. broke ground on the build-to-suit for the Nuclear Regulatory Commission at North Bethesda Center
- Annual net absorption turned positive at 71,633 SF
- Vacancy fell to 14.4% from 14.6% over the quarter
- Year-to-date investment sales volume was \$150 million at the end of the second quarter—on pace to meet last year's total

ANNUAL CHANGE

Vacancy	↑
Absorption	↓
SF Under Construction	↓
Pre-leasing Rate	↑
Rental Rates	↓

Vacancy & Absorption

While the national office market continued to suffer from rising vacancy, negative absorption and falling rental rates, the beginnings of a recovery emerged in Suburban Maryland. Overall vacancy fell to 14.4% from 14.6%, and at 71,633 square feet year-to-date net absorption moved into positive territory. Montgomery County, where vacancy has fallen by 30 basis points this year, is responsible for all the positive momentum in Suburban Maryland. Montgomery County has especially benefitted from strong federal government leasing activity in the past two quarters. Federal agencies signed the two largest leases of the quarter; both are located in Montgomery County and both represent growth to the market. In Prince George's County, vacancy has inched up to 19.3% from 19.1% over the past six months and net absorption was negative by 140,000 square feet. Frederick County started the year off with a drop in vacancy which was erased in the second quarter. Vacancy is now 16.7%—one percentage point higher than at the end of 2009.

Leasing Activity

After an exceptionally quiet first quarter, leasing activity picked up across Suburban Maryland. A number of midsize to large leases were completed and the list of tenants in the market expanded. Tenants seem to be growing more confident and anxious not to miss an opportunity to trade up to nicer space and/or lock in a deal while market conditions still favor them.

2ND QUARTER TOP LEASES

TENANT	ADDRESS	SF
GSA—FDA	12420 Parklawn Drive	93,000
GSA—HHS	7501 Wisconsin Avenue	70,500
IBM	6710 Rockledge Drive	58,260
CW Financial Services	7501 Wisconsin Avenue	46,260
Broadsoft Communications	9737 Washingtonian Blvd.	29,947
GSA—VA	7485 New Technology Way	26,175
Mayatech Corporation	1100 Wayne Avenue	24,487
Hillcrest Laboratories	15245 Shady Grove Road	21,244
Convergence Wealth Adv.	12505 Park Potomac Avenue	20,000
Snyder Cohn	11200 Rockville Pike	19,105

*Highlighted deals completed by McShea

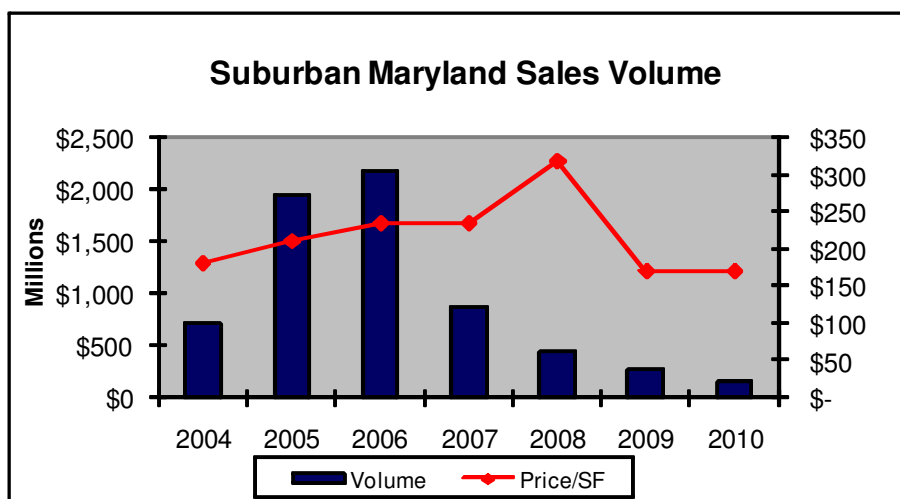


Development Activity

Two build-to-suits broke ground during the second quarter; a 360,000 square foot building for the Nuclear Regulatory Commission at North Bethesda Center and a 115,000 square foot building for Banner Life Insurance Company at Urbana Corporate Center. These projects join the 330,000 square foot build-to-suit for SAIC in Frederick at Riverside Research Park as the only major new development under construction in Suburban Maryland. Later this year, The JBG Companies, is projected to begin work on a two building, 575,000 square foot headquarters for the National Cancer Institute at the Shady Grove Life Sciences Center. No other major groundbreakings are expected to take place this year.

Investment Sales

After making purchases in the first quarter, PS Business Parks and BioMed Realty Trust showed their confidence in Suburban Maryland by picking up some more property in the second quarter. PS Business Parks bought five office and flex buildings along Parklawn Drive and Coakley Circle for \$23.4 million while BioMed Realty Trust purchased one office and two medical R&D buildings on Medical Center Drive for \$53 million in a sale/leaseback transaction. Year-to-date sales volume through the second quarter was



\$150 million and the average price per square foot was \$170. These figures show that the market is on track to match last year's volume at about the same price per square foot.

2ND QUARTER INVESTMENT SALES

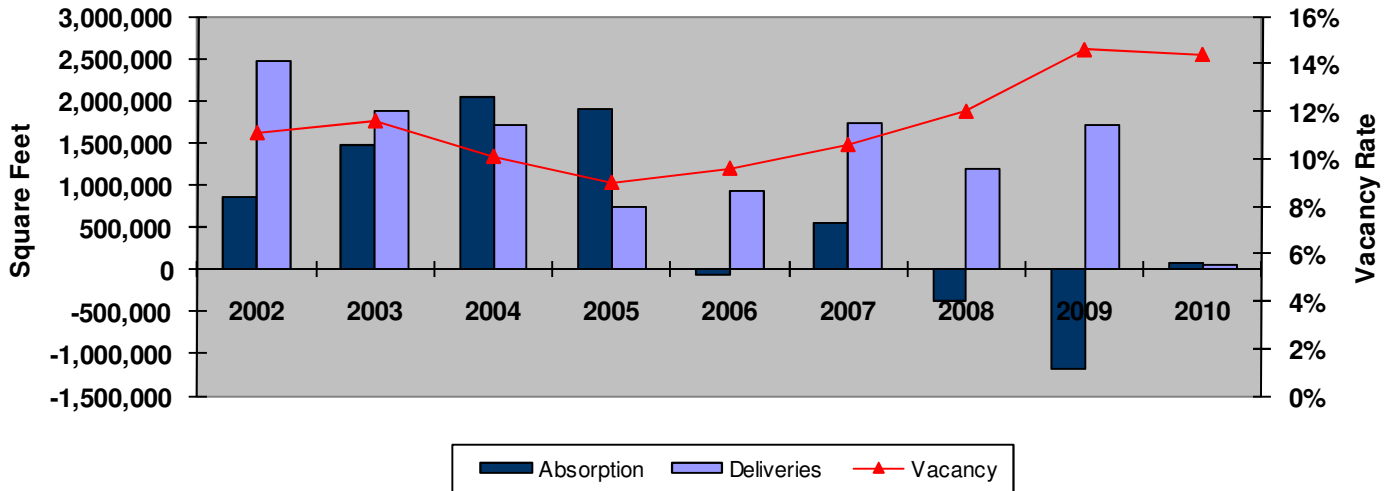
ADDRESS	PRICE (PER SF)	BUYER	SELLER
9704-9714 Medical Center Dr. (3)	\$243	BioMed Realty Trust	J. Craig Ventner Institute
11820 Parklawn Drive (5)	\$99	PS Business Parks	WRIT

Asking Rates and Concessions

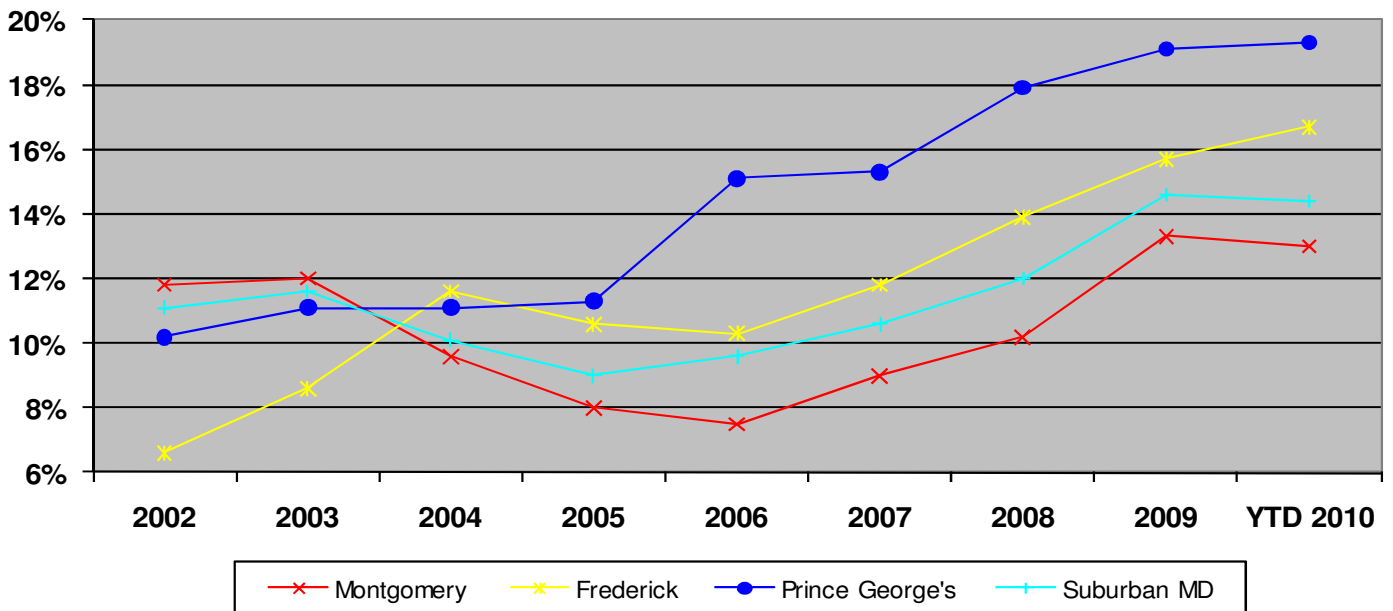
Average asking rates throughout the Suburban Maryland market were generally stable during the second quarter. Most landlords have reached as low as they are willing to go on asking rates but will still offer ample concessions to attract tenants. In Montgomery and Prince George's Counties, average asking rates are less than one percent lower for the year. In Frederick County asking rates for office space have risen by approximately one percent since the end of 2009 primarily as a result of higher quality space being marketed. In Montgomery County, a significant amount of sublease space was leased in the second quarter, which may alleviate some of the negative pressure on asking rates in coming months. While demand seems to be stabilizing, it has not yet reached a level that would allow landlords to start raising asking rates. Tenants will remain in the driver's seat until landlords are sure that demand is sustainable.



Suburban Maryland Office Class A & B Absorption, Deliveries & Vacancy



Suburban MD Historical Vacancy





**SECOND QUARTER 2010
VACANCY ANALYSIS**

	# of Bldgs	Total RSF	Direct Vacant	Sublet Vacant	Total 2Q10	2009	2008	2007	2006	2005
Bethesda	165	10.94	697	337	9.5%	9.1%	6.1%	6.2%	5.9%	8.6%
N. Bethesda	97	9.80	1,362	94	14.9%	15.0%	12.1%	9.1%	8.8%	11.0%
Rockville	110	7.73	1,102	20	14.5%	17.5%	11.9%	7.8%	4.8%	6.4%
N. Rockville	127	11.59	1,667	165	15.8%	16.0%	11.7%	12.9%	11.8%	11.0%
Gaithersburg	126	5.20	706	10	13.8%	16.7%	18.0%	17.4%	9.5%	8.2%
Germantown	48	2.71	377	51	15.8%	16.5%	15.1%	9.0%	10.4%	12.1%
Silver Spring	140	9.36	732	86	8.7%	8.6%	6.8%	4.7%	3.5%	2.6%
Montgomery Co.	902	60.64	6,908	960	13.0%	13.3%	10.2%	9.0%	7.4%	8.1%
Prince George's	462	21.41	4,015	108	19.3%	19.1%	17.9%	15.3%	13.3%	11.0%
Frederick Co.*	702	14.12	2,303	51	16.7%	15.7%	13.9%	11.8%	11.5%	11.1%
Suburban MD	1,615	88.60	11,712	1,09	14.4%	14.6%	12.0%	10.6%	9.1%	9.0%

*Frederick Co. includes flex space

(In Thousands)

ABSORPTION (in thousands)

DEVELOPMENT

	YTD 2010	2009	2008	2007	2006	2005	5 YR Average	YTD Delivered	SF. U.C.	Percent Preleased
Bethesda	(183)	(51)	188	(4)	435	327	228	-	-	-
N. Bethesda	59	(297)	11	(67)	(18)	238	64	-	362,000	1
Rockville	198	(66)	54	(153)	197	225	163	-	-	-
N. Rockville	9	(62)	(33)	292	114	20	246	-	-	-
Gaithersburg	155	72	(143)	279	0	143	(74)	-	-	-
Germantown	9	(152)	(33)	167	(28)	222	102	-	20,000	0%
Silver Spring	33	(31)	(259)	(36)	(30)	391	73	50,000	-	94%
Montgomery Co.	238	(676)	(216)	71	670	1,565	803	50,000	382,000	65%
Prince George's	(139)	(537)	(247)	(44)	(340)	451	(18)	0	-	0%
Frederick Co.	(42)	(32)	(79)	547	243	587	31	72,600	445,000	84%
Suburban MD	72	(1,186)	(382)	574	753	2,089	1,006	122,600	827,000	94%

AVERAGE ASKING RATES

	YTD 2010	2009	2008	2007	2006	2005	YTD Change
Bethesda	\$34.81	\$36.20	\$35.89	\$34.98	\$31.03	\$29.12	-4.0%
N. Bethesda	\$30.35	\$32.05	\$31.98	\$31.09	\$29.30	\$28.36	-5.6%
Rockville	\$29.75	\$30.61	\$32.03	\$33.26	\$29.97	\$26.46	-2.9%
N. Rockville	\$27.94	\$27.62	\$27.45	\$28.19	\$27.08	\$25.05	1.1%
Gaithersburg	\$23.81	\$23.07	\$23.45	\$23.69	\$23.71	\$21.26	3.1%
Germantown	\$26.18	\$25.63	\$26.55	\$27.25	\$23.64	\$23.35	2.1%
Silver Spring	\$27.61	\$28.02	\$29.43	\$27.97	\$25.27	\$25.11	-1.5%
Montgomery Co.	\$29.08	\$29.32	\$29.65	\$29.49	\$27.63	\$25.93	-0.8%
Prince George's	\$20.74	\$20.86	\$22.40	\$22.27	\$22.16	\$20.36	-0.6%
Frederick Co.*	\$23.53	\$23.23	\$10.46	\$11.79	\$11.72	\$10.39	1.3%
Suburban MD	\$26.18	\$26.64	\$26.98	\$26.57	\$25.68	\$24.16	-1.8%

100 Lakeforest Boulevard, Suite 500 · Gaithersburg, MD 20877 · (301) 948-9870 · www.mcsheaco.com

Disclaimer: The information contained in this report was obtained from sources deemed to be reliable, but no warranty or representation, is made to the accuracy thereof. This information is provided subject to correction of errors and omissions.