

Suburban Maryland



In Short

- The Nuclear Regulatory Commission signed the largest lease of the 4th quarter when it preleased a 362,000 square foot building at North Bethesda Center.
- 13 building sales totaling \$198 million were completed in 2009.
- 15 buildings encompassing 1.9 million square feet delivered in 2009 and were 51% leased at year's end.
- Overall vacancy is 14.6% - up from 13.6% over the quarter and 12% at the end of 2008.
- Unemployment rose by 42 -45% across Suburban MD in 2009.

ANNUAL CHANGE

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

Vacancy & Absorption

“Optimism Tempered with Realism” was the headline of a recent *Washington Post* article about the Redskins but it is just as easily applied to the Suburban Maryland commercial real estate market. 2009 was another challenging year; vacancy rose to 14.6% from 12% and absorption fell to negative 1.3 million square feet. All of the Counties in Suburban MD (Prince George’s, Montgomery and Frederick) experienced rising vacancy ranging from a 1.2 percentage point increase in Prince George’s County to a 3.1 percentage point increase in Montgomery County. In Frederick County, negative net absorption was limited to roughly 30,000 while Prince George’s and Montgomery Counties returned approximately 540,000 and 675,000 square feet to the market respectively. Despite these gloomy figures, 2010 promises to be a better year. There is no speculative construction in the pipeline to push vacancy rates higher and economists expect the 24,500 net jobs lost regionally in 2009 to be fully replaced.

Leasing Activity

The federal government dominated leasing activity in 2009, accounting for six of the year’s top ten leases. The federal government and its contractors are expected to continue to be prominent players in the leasing market in 2010. Hopefully, as the recovery solidifies private employers will gain enough confidence to begin adding employees and office space to house them.

2009 TOP LEASES

TENANT	ADDRESS	SF
HHS	5600 Fishers Lane	801,550
NRC	North Bethesda Center	362,000
Montgomery County	100 Edison Park Drive	341,962
NIH	6116 Executive Boulevard	151,558
BAE	520 Gaither Road	139,120
NOAA	5200 Auth Road	137,000
Digital Receiver Technology	20250 Century Boulevard	129,000
DOT	2250 Century Boulevard	129,000
Lockheed Martin	14400 Sweitzer Lane	120,904
Banner Life Insurance Co.	Urbana Corporate Park	115,000

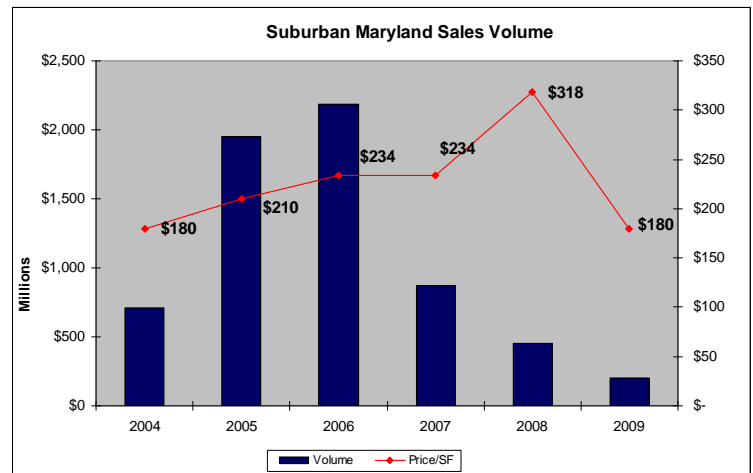


Development Activity

Roughly 1.7 million square feet of new office space was completed during 2009. This space remained 62% vacant at year end despite a couple of notable transactions for newly delivered space in the second half of the year (i.e. GXS at 9801 Washingtonian Boulevard and BAE at Redland Corporate Park). The majority of the newly delivered space (77%) and the associated vacancy is located in Montgomery County particularly along the I-270 Corridor. The pipeline of new space under construction dwindled as 2009 progressed and is now just 771,762 square feet. In the first half of 2010, a couple of build-to-suits will break ground including the new 362,000 square foot project for NRC at North Bethesda Center and the 125,000 square foot building in Urbana for Banner Life Insurance Company. It is unlikely that any sizable speculative construction will commence in 2010 given the current level of demand and the difficult financing market.

Building Sales

Thirteen building sales totaling \$198 million took place in 2010 compared to seventeen sales totaling \$450 million in 2008. The largest sale involved One Choke Cherry Road, which JBG bought back from Morgan Stanley for \$191 per square foot (it sold the same building to Morgan Stanley in 2005 for \$241 per square foot). Much of the year's sale activity was comprised of small to midsize user sales of buildings measuring less than 50,000 square feet. These sales account for seven of the thirteen transactions completed in 2009.



2009 LARGEST BUILDING SALES

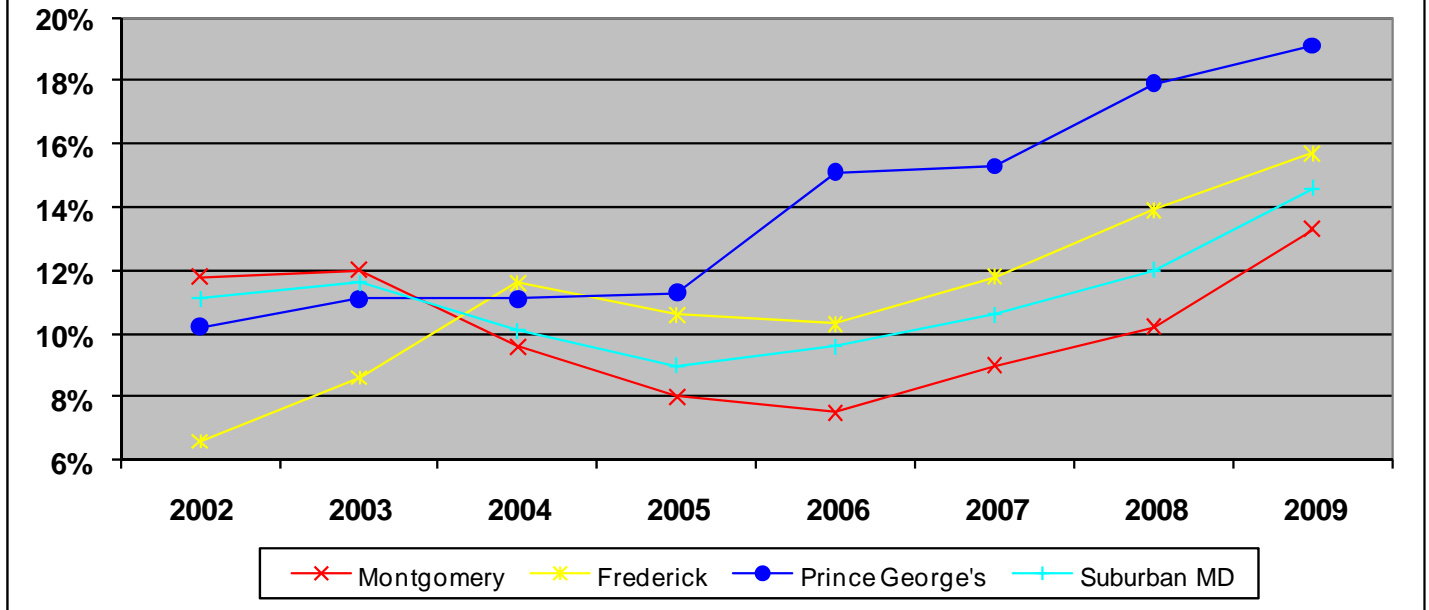
ADDRESS	PRICE (PER SF)	BUYER	SELLER
One Choke Cherry Road	\$43,500,000 (\$191)	JBG	Morgan Stanley
655 & 675 Watkins Mill Road	\$42,800,000 (214)	Kaiser Permanente	Monument Realty
Cloverleaf Center	\$25,500,000 (\$147)	First Potomac Realty Trust	MEPT/New Tower Trust Co.
Montrose Office Park	\$22,500,000 (\$166)	3202, LLC	The Realty Associates Fund VI, LP

Asking Rates and Concessions

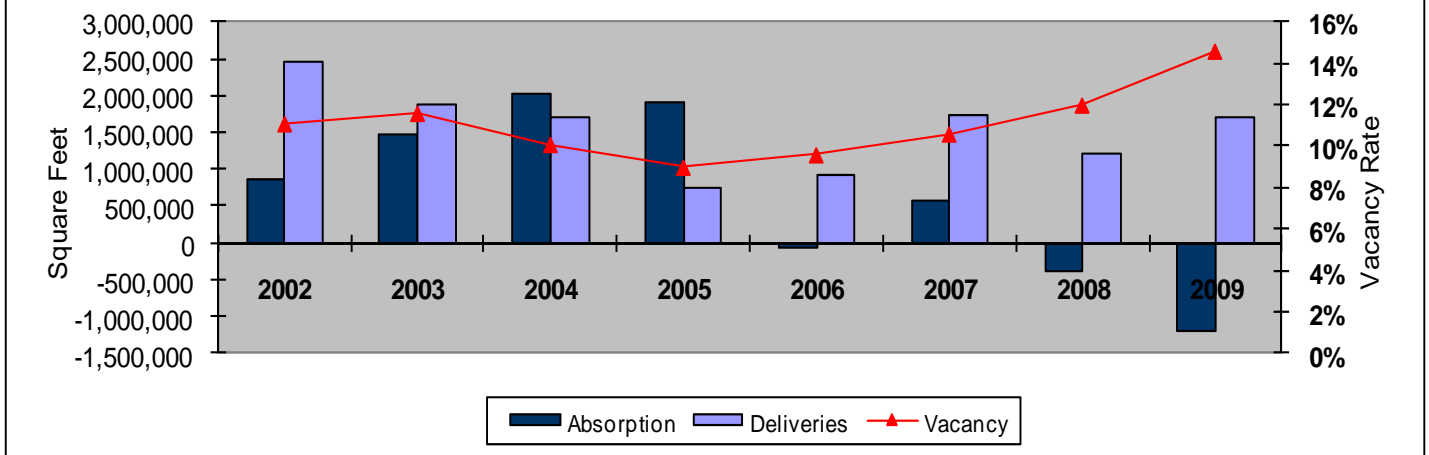
“Ask and ye shall receive” seems to be the motto for tenants in the market in Suburban Maryland. Concessions have ballooned throughout the year justifying those landlords that decided to “go ugly early” to secure tenants. Technically, asking rates across Suburban MD are down by 1.13% for the year led by Prince George’s County where rates are down by 6.9%, although effective rents have fallen more sharply. Some combination of free rent, lower escalations and generous tenant build-outs have become ubiquitous and available for even small tenants. However, there is a limit to how far landlords can go, and the market has likely reached that point. Asking rates will remain at their current levels or a little lower until a sustainable increase in demand is achieved.



Suburban MD Historical Vacancy



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





**FOURTH QUARTER 2009
VACANCY ANALYSIS**

	# of Bldgs	Total RSF	Direct Vacant	Sublet Vacant	Total 4Q09	2008	2007	2006	2005	2004
Bethesda	163	10.90	642	351	9.1%	6.1%	6.2%	5.9%	8.6%	11.5%
N. Bethesda	96	9.80	1,329	138	15.0%	12.1%	9.1%	8.8%	11.0%	10.9%
Rockville	112	7.80	1,311	52	17.5%	11.9%	7.8%	4.8%	6.4%	9.7%
N. Rockville	125	11.48	1,472	368	16.0%	11.7%	12.9%	11.8%	11.0%	10.4%
Gaithersburg	126	5.19	858	12	16.7%	18.0%	17.4%	9.5%	8.2%	11.2%
Germantown	46	2.63	384	49	16.5%	15.1%	9.0%	10.4%	12.1%	13.3%
Silver Spring	121	8.88	574	94	7.5%	6.8%	4.7%	3.5%	2.6%	6.1%
Montgomery Co.	865	60.00	6,790	1,163	13.3%	10.2%	9.0%	7.4%	8.1%	9.8%
Prince George's	452	21.10	3,887	144	19.1%	17.9%	15.3%	13.3%	11.0%	11.4%
Frederick Co.*	680	13.90	2,043	63	15.1%	13.9%	11.8%	11.5%	11.1%	10.9%
Suburban MD	1,579	87.59	11,431	1,331	14.6%	12.0%	10.6%	9.1%	9.0%	10.3%

*Frederick Co. includes flex space (In Thousands)

ABSORPTION (in thousands)

DEVELOPMENT

	ABSORPTION (in thousands)							DEVELOPMENT		
	2009	2008	2007	2006	2005	2004	5 YR Average	YTD Delivered	SF. U.C.	Percent Preleased
Bethesda	(51)	188	(4)	435	327	195	228	295,000	-	91%
N. Bethesda	(297)	11	(67)	(18)	238	23	64	-	-	-
Rockville	(66)	54	(153)	197	225	490	163	267,000	144,970	29%
N. Rockville	(62)	(33)	292	114	20	835	246	540,661	-	27%
Gaithersburg	72	(143)	279	0	143	(92)	(74)	-	-	-
Germantown	(152)	(33)	167	(28)	222	182	102	-	-	-
Silver Spring	(31)	(259)	(36)	(30)	391	298	73	55,116	50,000	43%
Montgomery Co.	(676)	(216)	71	670	1,565	1,923	803	1,157,777	194,970	47%
Prince George's	(537)	(247)	(44)	(340)	451	92	(18)	151,892	391,762	60%
Frederick Co.	(32)	(79)	547	243	587	125	31	220,250	370,600	89%
Suburban MD	(1,186)	(382)	574	753	2,089	2,000	1,006	1,529,919	957,332	80%

AVERAGE ASKING RATES

	AVERAGE ASKING RATES							Annual Change
	2009	2008	2007	2006	2005	2004		
Bethesda	\$36.20	\$35.89	\$34.98	\$31.03	\$29.12	\$26.68	-2.9%	
N. Bethesda	\$32.05	\$31.98	\$31.09	\$29.30	\$28.36	\$27.12	0.2%	
Rockville	\$30.61	\$32.03	\$33.26	\$29.97	\$26.46	\$26.60	-5.1%	
N. Rockville	\$27.62	\$27.45	\$28.19	\$27.08	\$25.05	\$24.24	1.1%	
Gaithersburg	\$23.07	\$23.45	\$23.69	\$23.71	\$21.26	\$22.61	-0.5%	
Germantown	\$25.63	\$26.55	\$27.25	\$23.64	\$23.35	\$22.49	-3.6%	
Silver Spring	\$28.02	\$29.43	\$27.97	\$25.27	\$25.11	\$24.55	-5.2%	
Montgomery Co.	\$29.32	\$29.65	\$29.49	\$27.63	\$25.93	\$25.88	-0.4%	
Prince George's	\$20.86	\$22.40	\$22.27	\$22.16	\$20.36	\$19.69	-7.4%	
Frederick Co.*	\$23.23	\$10.46	\$11.79	\$11.72	\$10.39	\$9.59	0.6%	
Suburban MD	\$26.64	\$26.98	\$26.57	\$25.68	\$24.16	\$23.75	-1.3%	

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