

# Market Insights

OFFICE MARKET | FIRST QUARTER | 2009



## MARKET INDICATORS

FIRST QUARTER 2009

	CHANGE FROM Q4 2008	CHANGE FROM Q1 2008
NET ABSORPTION	↑	↓
DELIVERIES	↑	↑
VACANCY	↑	↑
ASKING RATES	↔	↔

## DC OFFICE MARKET

FIRST QUARTER 2009

	Q1 09	Q4 08
NET ABSORPTION	174K	86K
DELIVERIES	908K	216K
VACANCY	8.3%	7.8%
ASKING RATES	\$47.54	\$47.89
GROUNDBREAKINGS	0	0

## Washington, DC

### Market Activity

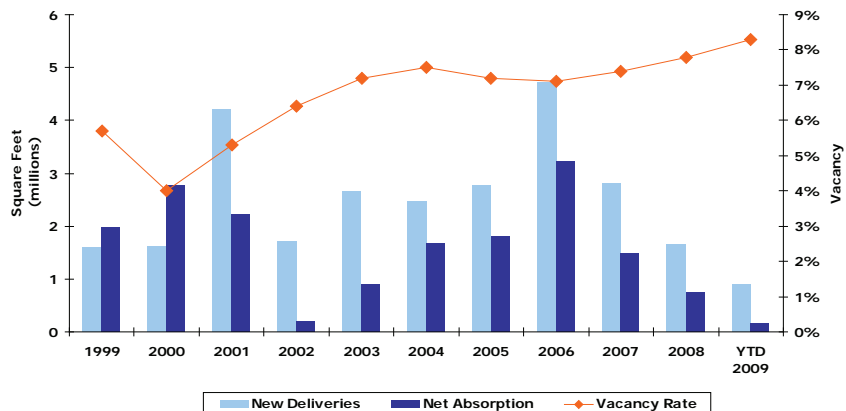
Facing unprecedented economic conditions, the Washington, DC office market proved to be recession-resilient yet again in the first quarter of 2009. The demand for office space increased quarter over quarter as District tenants absorbed over 170,000 square feet. Although this absorption level is less than half of the District's 10-year quarterly pace of 420,000 square feet, it is healthy relative to the nation which returned 16.3 million square feet to the market in 2008. Despite positive absorption, vacancy increased 50 basis points to 8.3 percent due to four new deliveries totaling 908,000 square feet, 57 percent vacant. Average asking rents remained flat over the year at \$47.50 per square foot, but aggressive tenant incentive packages in the \$60 to \$80 per square foot range coupled with six to nine months of free rent were common. The largest nonrenewal deal of the quarter was signed by the law firm of Hunton & Williams, which inked a 190,000 square foot prelease in the CBD. Other notable market activity was a 21 percent increase in sublet space compared to last quarter due to numerous tenants, mainly law firms, trying to increase office space efficiency. The expanded role of the Federal Government in the financial crisis continues to translate into increased demand for office space. At this writing, Federal tenants associated with the financial markets have expanded into approximately 300,000 square feet in the District, an expansion that we expect to be the first of multiple.

### Market Outlook

According to January employment data, the Washington, DC economy is on pace to add 10,800 jobs in 2009, an increase from its 10-year average of 8,400 jobs, with the majority of this growth related to the increase in Federal spending. Thus, the economic fundamentals in DC remain resilient which bodes well for the future demand of office space. Looking forward, over 4.2 million square feet is set to deliver in the remaining months of 2009, 66 percent vacant. The majority of this space, 63 percent, is delivering to the non-core markets of Capitol Hill/NoMa and Southwest/Southeast. Therefore, expect vacancy rates to possibly eclipse the 10 percent mark by year-end. Overall, the District's economy will continue to benefit from the Federal Government's involvement in the financial crisis, mainly from the American Recovery and Reinvestment Act of 2009, which by our estimates will generate at least 10 million square feet of demand in the DC region by 2012.

### Washington, DC Office Market

Deliveries - Net Absorption - Vacancy  
First Quarter 2009



**TABLE I**  
**OFFICE AVAILABILITY, VACANCY, AND NET ABSORPTION, FIRST QUARTER 2009**

	Total Inventory	New Space Available	Relet Space Available	Sublet Space Available	Total Space Available	Vacancy Rate (%)	New Space Absorption	Relet Space Absorption	Sublet Space Absorption	Total Absorption
<b>CBD</b>	36,747,534	880,912	2,136,242	533,185	3,550,339	9.7%	281,336	(43,806)	(15,901)	221,629
<b>East End</b>	38,230,665	649,098	1,828,225	371,076	2,848,399	7.5%	103,962	(62,682)	(165,639)	(124,359)
<b>West End/ Georgetown</b>	6,715,182	0	751,365	41,811	793,176	11.8%	2,718	30,231	13,324	46,273
<b>Capitol Hill/ NoMa</b>	13,069,992	745,174	142,650	23,481	911,305	7.0%	0	(76,653)	(5,552)	(82,205)
<b>Southwest/ Southeast</b>	12,898,348	813,481	167,652	11,736	992,869	7.7%	127,406	2,846	1,144	131,396
<b>Uptown</b>	6,538,236	0	296,658	56,104	352,762	5.4%	0	(16,759)	(1,648)	(18,407)
<b>TOTAL</b>	<b>114,199,957</b>	<b>3,088,665</b>	<b>5,322,792</b>	<b>1,037,393</b>	<b>9,448,850</b>	<b>8.3%</b>	<b>515,422</b>	<b>(166,822)</b>	<b>(174,273)</b>	<b>174,327</b>

**TABLE 2  
TRAILING 12-MONTH DATA**

	Total Inventory				Vacancy Rate (%)				Total Absorption			
	2nd Qtr 2008	3rd Qtr 2008	4th Qtr 2008	1st Qtr 2009	2nd Qtr 2008	3rd Qtr 2008	4th Qtr 2008	1st Qtr 2009	2nd Qtr 2008	3rd Qtr 2008	4th Qtr 2008	1st Qtr 2009
<b>CBD</b>	36,374,167	36,239,690	36,315,147	36,747,534	8.6%	8.2%	8.8%	9.7%	173,922	31,815	(190,577)	221,629
<b>East End</b>	38,094,091	38,094,091	38,230,665	38,230,665	7.4%	7.2%	7.3%	7.5%	166,939	60,419	81,463	(124,359)
<b>West End/ Georgetown</b>	6,715,182	6,715,182	6,715,182	6,715,182	12.9%	12.4%	12.5%	11.8%	(34,014)	28,929	(5,379)	46,273
<b>Capitol Hill NoMa</b>	12,746,122	13,069,992	13,069,992	13,069,992	5.4%	7.7%	6.3%	7.0%	7,535	8,452	121,539	(82,205)
<b>Southwest/ Southeast</b>	12,653,822	12,653,822	12,653,822	12,898,348	8.8%	7.9%	7.2%	7.7%	16,981	77,097	76,965	131,396
<b>Uptown</b>	6,538,236	6,538,236	6,538,236	6,538,236	4.8%	5.3%	5.1%	5.4%	(49,673)	(32,343)	2,555	(18,407)
<b>TOTAL</b>	<b>113,121,620</b>	<b>113,311,013</b>	<b>113,523,044</b>	<b>114,199,957</b>	<b>7.9%</b>	<b>7.8%</b>	<b>7.8%</b>	<b>8.3%</b>	<b>281,690</b>	<b>174,369</b>	<b>86,566</b>	<b>174,327</b>

**TABLE 3**  
HISTORICAL YEAR-END DATA

	Total Inventory			Vacancy Rate (%)			Total Annual Absorption					
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
<b>CBD</b>	36,256,233	36,031,932	36,315,147	36,747,534	6.7%	7.2%	8.8%	9.7%	670,760	258,908	(205,080)	221,629
<b>East End</b>	36,624,601	37,398,628	38,230,665	38,230,665	8.0%	6.7%	7.3%	7.5%	1,014,774	1,093,528	527,073	(124,359)
<b>West End/ Georgetown</b>	6,692,743	6,710,123	6,715,182	6,715,182	8.4%	11.7%	12.5%	11.8%	(107,286)	(237,290)	(65,626)	46,273
<b>Capitol Hill/ NoMa</b>	12,538,317	12,841,195	13,069,992	13,069,992	5.4%	6.2%	6.3%	7.0%	712,269	186,623	195,043	(82,205)
<b>Southwest/ Southeast</b>	12,511,303	12,992,822	12,653,822	12,898,348	7.5%	10.1%	7.2%	7.7%	915,543	133,152	360,263	131,396
<b>Uptown</b>	6,727,936	6,538,236	6,538,236	6,538,236	5.1%	4.4%	5.1%	5.4%	7,312	54,444	(56,524)	(18,407)
<b>TOTAL</b>	<b>111,351,133</b>	<b>112,512,936</b>	<b>113,523,044</b>	<b>114,199,957</b>	<b>7.1%</b>	<b>7.4%</b>	<b>7.8%</b>	<b>8.3%</b>	<b>3,213,372</b>	<b>1,489,365</b>	<b>755,149</b>	<b>174,327</b>

**TABLE 4**

METRO WASHINGTON OFFICE MARKET SUMMARY: 1ST QUARTER 2009

	Total Inventory	Total Space Available	Vacancy Rate (%)	Total Absorption
Washington, DC	114,199,957	9,448,850	8.3%	174,327
Northern Virginia	150,300,153	20,189,602	13.4%	(555,576)
Suburban Maryland	73,811,891	10,094,965	13.7%	(435,895)
<b>Regional Totals</b>	<b>338,312,001</b>	<b>39,733,417</b>	<b>11.7%</b>	<b>(817,144)</b>

**TABLE 5**

METRO WASHINGTON EMPLOYMENT DATA

	Labor Force (2/2008)	Labor Force (2/2009)	Jobs Added	Percent Change
Washington, DC	693,700	702,700	9,000	1.3%
Northern Virginia	1,300,100	1,286,500	-13,600	-1.0%
Suburban Maryland	959,300	953,000	-6,300	-0.7%
<b>Regional Totals</b>	<b>2,953,100</b>	<b>2,942,200</b>	<b>-10,900</b>	<b>-0.4%</b>

SOURCE: U.S. Bureau of Labor Statistics (Not seasonally adjusted.)  
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