MARKETBEAT

SUBURBAN MARYLAND OFFICE REPORT

3Q11

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

WWW.CUSHWAKE.COM/KNOWLEDGE

Overview

Unemployment rates in Suburban Maryland remain well below the national average of 9.1%. The preliminary August unemployment rate in Montgomery County retained its place as the lowest in the state at 5.4%, with Prince George's County at 7.5%, essentially unchanged from its average level throughout 2010.

Health Agencies Spur Activity

While government leasing in the Washington, D.C. Metro Area has all but come to a standstill, two deals which had been in the works for some time finally closed in Montgomery County. After re-evaluating bids as directed by the Government Accountability Office (GAO), the GSA stood by its original choice in keeping the Department of Health and Human Services (HHS) in its current Rockville location. The 935,386-square foot (sf) renewal represented a slight downsizing in occupancy by HHS. The National Institute of Allergy and Infectious Diseases (NIAID) signed a lease for just under 500,000 sf for a build-to-suit project, also on Fishers Lane in Rockville. NIAID occupancy is slated for 2014.

In terms of new leasing, Suburban Maryland had its healthiest quarter since the second quarter of 2008, bringing the year-to-date total to 1.9 msf; about a 9% decline from last year's level. In addition to the afore-mentioned GSA leases, Choice Hotels International inked a 130,000-sf lease for a build-to-suit headquarters building in Rockville, after calling Silver Spring home for more than 40 years.

Overall absorption remained negative in Suburban Maryland as the increased activity has not yet registered in occupancy levels. The continued flight to quality was evidenced in class A absorption in Montgomery County, which was positive at about a quarter of a million square feet to date.

Investment Market Begins to Cool

As is occurring throughout the Metro area, sales volumes have already bested 2010 levels, and in Maryland's case, are 58% higher than all of last year, with $417 million worth of transactions closed. However, within the past 60 days, buyers' expectations have fallen, particularly in the suburban markets. While pricing has not yet declined, buyers' underwriting assumptions have been lowered to account for the slowdown in the office leasing market, resultant lack of rent growth and overall economic malaise.

Brookfield Properties' purchase of 3 Bethesda Metro Center represented the largest per square foot sale in the market in more than two years. The 368,400-sf class A property traded for $150.1 million, or $407 per square foot (psf), and is nearly fully leased, demonstrating that stable, core, amenity-rich properties near transit are still commanding top dollar.

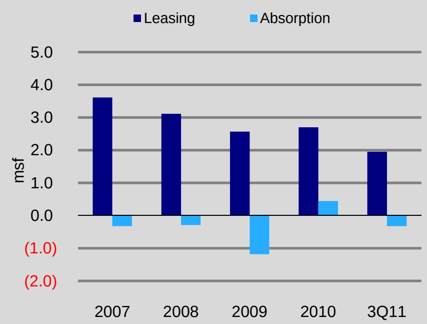
Outlook

Lack of job growth, volatile financial markets, the continued European debt crisis and a gridlocked U.S. government are all playing into businesses' and consumers' confidence. There is considerable reluctance to move forward with economic decisions on any level, especially one as costly as real estate. Thus, the outlook for the office market has been tempered. While Cushman & Wakefield does not expect to see the magnitude of retrenchment witnessed in 2009, we do expect a pause in the recent, and much-needed, office market recovery, possibly lasting through the November 2012 election. Still, some businesses will continue to grow, including those related to the healthcare field, technology, and contractors who have Department of Homeland Security (DHS) or Central Intelligence Agency (CIA) work. Healthy submarkets like Bethesda/Chevy Chase, central Rockville and downtown Silver Spring will continue to attract small- to mid-sized tenants who will make occupancy decisions now, for 2012.

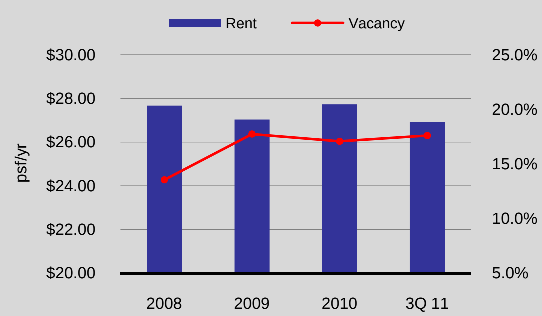
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	17.6%	17.6%	0.0 pp	▼
Direct Asking Rents	$28.42	$27.07	-4.8%	◄►
YTD Leasing Activity (sf)	2,148,294	1,949,557	-9.3%	▲

Leasing Activity vs Absorption



Overall Rental vs. Vacancy Rates



Market/Submarket Statistics

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
Rockville	6,623,949	14.0%	13.4%	792,090	177,237	0	39,916	52,016	$31.87	$36.53
Silver Spring	4,789,986	12.4%	11.3%	113,652	0	0	4,913	29,733	$26.78	$28.96
North Rockville	8,681,777	19.6%	18.0%	346,176	0	0	(24,919)	2,854	$28.31	$31.65
Germantown	1,747,131	16.8%	15.4%	96,673	0	0	43,087	48,350	$23.02	$30.52
Bethesda/Chevy Chase	8,300,204	11.7%	9.5%	276,603	0	0	(140,596)	(126,666)	$33.13	$42.28
North Bethesda	7,821,446	17.6%	16.8%	130,123	358,440	0	6,392	(18,676)	$31.13	$33.71
Gaithersburg	2,187,123	23.2%	22.0%	13,102	0	0	20,306	2,561	$23.29	$24.40
North Silver Spring	1,055,127	15.8%	14.1%	7,030	0	0	4,230	3,546	$21.31	$24.00
MONTGOMERY	**41,206,743**	**15.9%**	**14.5%**	**1,775,449**	**535,677**	**0**	**(46,671)**	**(6,282)**	**$29.13**	**$32.71**
Beltsville/College Park	4,149,978	17.6%	17.6%	5,255	268,762	0	(84,642)	(84,642)	$21.70	$24.13
Laurel	972,061	16.0%	15.9%	8,957	0	0	(10,283)	(10,283)	$19.26	$18.75
Greenbelt	2,837,971	27.7%	26.7%	68,121	0	0	(133,134)	(151,250)	$21.33	$22.53
Landover/Latham	3,002,065	25.3%	24.4%	79,573	0	0	(58,993)	(64,046)	$21.82	$22.96
Bowie	780,082	25.8%	21.8%	2,700	0	0	37,181	37,181	$27.51	$30.74
Oxon Hill/Suitland	1,932,496	25.0%	24.2%	9,502	0	0	(44,076)	(42,801)	$24.20	$24.19
PRINCE GEORGE'S COUNTY	**13,674,653**	**22.8%**	**22.1%**	**174,108**	**268,762**	**0**	**(293,947)**	**(315,841)**	**$22.30**	**$24.24**
SUBURBAN MARYLAND TOTAL	**54,881,396**	**17.6%**	**16.4%**	**1,949,557**	**804,439**	**0**	**(340,618)**	**(322,123)**	**$26.93**	**$30.47**

* Rental rates reflect asking $psf/year.

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
5600 Fishers Lane	Rockville	GSA - Health & Human Services*	935,386	B
5601 Fishers Lane	Rockville	GSA - National Institute of Allergy and Infectious Diseases	496,000	A
121 Rockville Pike	Rockville	Choice Hotels International	130,000	A

* Renewal – not included in leasing activity statistics

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
3 Bethesda Metro Center	Bethesda/Chevy Chase	Brookfield Properties	368,400	$150,100,000
15245 Shady Grove Road	North Rockville	Meritage Properties	192,219	$32,036,000
8301 Professional Place	Landover/Lanham	Persimmon Capital Partners	137,000	$23,290,000

SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
North Bethesda Center Bldg 1	North Bethesda	GSA - Nuclear Regulatory Commission	358,440	4Q12
M Square	Beltsville/College Park	GSA - National Oceanic & Atmospheric Administration	268,762	3Q12
Rockville Metro Plaza	Rockville	Choice Hotels International	177,237	2Q13

Cushman & Wakefield of Maryland, Inc.
7475 Wisconsin Avenue, Suite 325, Bethesda, MD 20814 (301) 654-9700
www.cushmanwakefield.com