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Advance-Release Press Information Enclosed

A Report on the Washington Metro Area Mid-Year 2010

July 2, 2010

Economic Highlights:

The Washington metro area economy is recovering faster than other large metro areas. The Federal government continues to bolster local economic growth, adding the largest share of total new jobs, at 16,000, during the past 12 months. This growth, coupled with an estimated increase in Federal procurement to total \$84.0 billion in 2010, a 7.0% increase from 2009, will sustain the metro area through the balance of 2010.

Payroll employment increased 5,800 in the Washington metro area over the 12 months ending April 2010. This represents a rise of 0.2%, compared to the national decline of 1.0% during this period. With 3.0 million payroll jobs, the Washington metro area ranks the fourth largest job base among metro areas, behind New York, the LA Basin and Chicago. The Washington area unemployment rate was 5.9% at April 2010, up from 5.5% one year ago. This compares to the national rate of 9.9% in April 2010. The national rate declined to 9.7% in May 2010.

The Washington area's gross regional product (GRP) was \$405.5 billion in 2009 in current year dollars, a decrease of 0.5% in 2009 from revised 2008 figures. This reflects a slight recession for the Washington metro area during 2009.

We expect the Washington metro area economy to slowly recover during the balance of 2010 – adding new jobs methodically. Although we believe the local economy is in recovery, we expect the speed to be slow, as consumers and companies remain cautious. We expect consumer confidence will edge up moderately this year. As jobs continue to be added to the local area during the balance of the year, consumers will increasingly become more optimistic. As consumers feel more confident, retail sales will start to pick up on both essential and non-essential items.

Office Highlights:

The Washington metro area office market experienced mixed, but on balance encouraging, signals during the 2nd quarter of 2010. Prospects for improvement are good, with a declining construction pipeline and job growth gaining momentum. Overall, the metro area remains one of the top performing markets in the nation.

Mid-Year 2010 Market Highlights:

- **Net absorption:** 2.4 million SF in the 2nd quarter, compared to 630,000 SF in 2009.
- **Sublease space:** Decreased by 176,000 SF. Sublease space represents 1.3% of the standing inventory compared to 3.4% at the peak of 2002.
- **Overall vacancy rate:** 12.8%, down from 13.2% in the 1st quarter, but up from 12.1% one year ago. Fourth lowest rate in the nation.
- **Direct vacancy rate:** 11.5%, up from 10.6% last year at this time.
- **Pipeline (U/C and U/R):** 4.6 million SF, down from 10.5 million SF one year ago.
- **Pipeline pre-lease rate:** 51%, compared to 32% a year ago.
- **Average Effective Rents:** Down 4.2% during the 1st half of 2010, compared to a decline of 6.9% in 2009.
- **Investment sales:** \$887 million during the 1st half of 2010, inclusive of partial interest sales. Average sale price: \$329/SF.

The Washington metro area market should remain one of the best performing office markets in the nation. We believe the recession bottomed out locally during the first half of 2009 and a recovery is underway. Recovery will be slow during the balance of 2010. Overall, the long-term outlook for the metro area remains positive, driven by the continued activity of the Federal government. We expect the Washington metro office market to remain among the best performers in the nation.



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A Report on the Baltimore Metro Area Mid-Year 2010

July 2, 2010

Economic Highlights:

The recovery of the Baltimore metro area economy has been slow through mid-year 2010. We expect conditions to improve modestly during the balance of 2010, as stimulus funding continues to feed the area through 2011. Coupled with a solid core economic base and a boost from BRAC, this area will recover ahead of most metro areas and remain stable in the long-term.

The Baltimore metro area cut 10,200 payroll positions during the 12 months ending April 2010. This represents a decline of 0.8%, compared to the national decline of 1.0% during this period. With 1.3 million payroll jobs, the Baltimore area ranks the second largest job base among comparable metros, slightly behind St. Louis. The Baltimore area unemployment rate was 7.2% in April 2010, up from 6.8% one year prior. Among comparable metros, Baltimore holds the lowest unemployment rate and compares favorably to the national rate of 9.9% in April 2010. The national rate decreased to 9.7% in May 2010.

The Federal/State Government sector represented 18.8% of the Baltimore metro area's gross regional product (GRP) during 2009. The Financial Activities sector closely follows, representing 17.3% of the GRP. Baltimore's GRP in 2009 totaled approximately \$131.7 billion, a decline of 1.0%, from \$133.3 billion in 2008. This compares to a 2.4% decline nationally.

We expect the Baltimore metro economy to recover at a slow pace during the balance of 2010. We believe the recession ended during mid-2009 in Baltimore and the local economy is currently on a slow path to recovery.

Office Highlights:

The Baltimore metro area office market experienced improving conditions during the 2nd quarter of 2010. Absorption turned positive during the past three months due to pre-leased deliveries and a large user purchase. Although the vacancy rate edged down during the quarter, the rate remains elevated due to weak demand from hesitant tenants. Offsetting some of the weak demand, BRAC has spurred leasing activity from contractors – generating a handful of developers to break ground on new office space this quarter. Rents declined during the 1st half of 2010, as property owners with available space struggle to obtain tenants. Although the Baltimore metro area should experience sluggish conditions in the near-term, the market should stabilize quicker than many other metro areas due to the expanding health care industry and the onslaught of BRAC relocations to the area.

Mid-Year 2010 Market Highlights:

- **Net absorption:** 742,000 SF in the 2nd quarter, compared to 91,000 SF during 2009.
- **Sublease space:** decreased by 28,000 SF. Sublease space is 0.9% of standing inventory.
- **Overall vacancy rate:** 14.0%, down from 14.5% in the 1st quarter, but up from 12.8% one year ago.
- **Direct vacancy rate:** 13.1%, up from 12.1% one year ago.
- **Pipeline (U/C and U/R):** 1.1 million SF, down from 1.7 million SF one year ago.
- **Pipeline pre-lease rate:** 31%, down from 48% one year ago.
- **Rents:** down 2.9% during the 1st half of 2010, compared to a decline of 5.2% in 2009.
- **Investment sales:** \$135 million during the 1st half of 2010. Average sales price: \$202/SF.

We expect the Baltimore area office market to remain sluggish during the balance of 2010, with improvements late in the year. BRAC and the life-science industries should fuel demand in the near-term – offsetting the reduced demand by hesitant tenants. In the long term, the Baltimore metro area is well positioned for steady future growth, as the health and life-science industries fuel demand in the area. BRAC relocations will give a boost to the area during the 2010-2011 period.