



TMO NEWS

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WAITING FOR \$1,000 A SQUARE FOOT

By Jonathan O'Connell

Market Square, an office complex overlooking the U.S. Navy Memorial in Penn Quarter, became the talk of the town last week when it sold for \$615 million.

It wasn't the \$615 million that amazed so much, however, as much as another number: \$904. That was the price per square foot of the deal as announced -- an all-time high for Washington real estate.

The sale, to Wells REIT II, a real estate investment trust based in Atlanta, almost immediately prompted speculation about when a deal would break a threshold that for Washington's investors, managers and brokers carries the same weight as a .400 batting average in baseball or a four-minute mile in track and field: the \$1,000-per-square-foot mark.

Almost fully leased, Market Square is one of the only privately owned properties on Pennsylvania Avenue between the Capitol and the White House. By some measures the sale might not have broken the \$900-per-square-foot barrier but it nonetheless put D.C. close to the \$1,000 watershed. The four-digit line will be crossed eventually, but when? Here seven local real estate experts forecast when they anticipate the \$1,000 mark will arrive:

Bob Murphy, managing principal, MRP Realty

When it will happen: by the end of 2012.

Why: The 1910 Height Act limits density and there are very few sites left in downtown or the East End, which drives up rents. "The key with trophy properties is that they are not generally replaceable," Murphy said.

What it means: That investors want solid, income-producing properties that they can own long-term, "making them most attractive to core investors."

Bill Prutting, senior vice president, CB Richard Ellis



When it will happen: possibly in the next 12 months.

Why: The federal government's presence and job growth here combine to make the city economically stable, benefiting even non-trophy buildings. "Even though it's a Class B or an Class A, if it's a good location and [well leased], it will still price extremely well," he said.

What it means: With vacancy rates coming down, all the goodies that landlords have been offering to tenants the last couple of years -- such as a few months rent-free, help with move-in costs -- are going to be drying up. "The last 12 months have the shift going from a tenant's market to a landlord's market," Prutting said.

Mitchell N. Schear, president, Vornado/Charles E. Smith

When it will happen: Might see a couple in the next 12 to 24 months and more over the next two to five years.

Why: Many companies are chasing relatively few assets, and prices will go up more as rent growth begins to accelerate.

What it means: "Unique assets like Market Square and 1999 K St. are the best of the best -- 'safe' buys."

Doug Firstenberg, principal, StonebridgeCarras

When it will happen: more than a year from now.

Why: The \$1,000 mark requires leasing an entire building for at least \$55 per square foot, and Firstenberg says he is "not aware that any building has achieved this rent for all of its space."

What it means: Market Square's seller benefited from a focus on core assets combined with investors' interest to drive up prices. Firstenberg: "It is the investor view that Washington, D.C., is one of the best markets in the world, therefore attracting capital from all sources -- domestic, foreign, institutional and many others."

Andrew Florance, chief executive, CoStar Group

When it will happen: in the next 18 months, give or take a quarter.

Why: a limited supply of new office buildings being completed over the next three years combined with expected job growth and falling vacancy rates. If interest rates rise and other investments become more attractive, however, it might take many years.

What it means: Unlike other recently purchased buildings, which had long-term leases in place, Market Square has some expiring leases. "This deal was more about the future potential of the real estate. That is a sign of a return to optimism," Florance said.

Warren Dahlstrom, president, U.S. investment services group, Colliers International



When it will happen: either by the end of 2011 or not for another five years.

Why: A small building with an another “irreplaceable address” could do it, for instance 800 Connecticut Ave. NW, home of the Oval Room restaurant. Dahlstrom: “Assets with views of the White House will draw attention.”

What it means: Investors are frustrated with low returns on treasury bills, but what some buyers are missing is that the payback is not a sure thing. “That frustration distorts the potential of real estate returns, which quite falsely seem equally safe as risk-less treasury notes,” Dahlstrom said. “Some investors are dismissing operating risk.”

Michael Darby, principal, Monument Realty

When will it happen: potentially in the next 12 to 18 months.

Why: There is no reason to think Washington's status as a top office market is going to change.

What it means. Darby: “Market Square is a well-built office building with a Pennsylvania Avenue address and good credit tenants. Heck, I'd buy it if I had \$615 million sitting around.”