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D.C. real estate market no longer leading the U.S.

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Sarah Krouse

After millions of square feet in government leases boosted the market in 2010, D.C. has fallen from its top spot and is no longer leading the national commercial real estate recovery, according to second-quarter data from **Jones Lang LaSalle Inc.**

Direct vacancy in the region in the second quarter was down to 12.8 percent from 13.1 percent in the first quarter, but the leasing pace has slowed markedly as federal spending — and leasing — cools and the private sector slowly crawls back into growth mode.

“The baton still has not been passed from the public sector to the private sector,” said John Sikaitis, director of research for the Americas at Jones Lang LaSalle.

Net new metro-area leases totaled just 418,838 square feet in the first half of 2011, far less than the 1.9 million square feet of new leasing in the same period of last year.

While D.C. ended 2010 and the first quarter of 2011 at the front of the recovery, it lost the top spot to San Francisco in the second quarter, Jones Lang LaSalle reports. New York also pulled ahead of D.C., leaving it neck and neck with Pittsburgh among rising markets, or those with rental growth.

Vacancy in the District proper fell from 10.8 percent in the first quarter to 10.2 percent at the end of the second quarter, and Virginia vacancy rates fell from 13.8 percent to 13.5 percent in that same period. Suburban Maryland’s vacancy rates, however, crept up from 15.1 percent in the first quarter to 15.7 percent in the second quarter.

Another sign that the private sector is still feeling a little sheepish: 74 percent of second-quarter leases larger than 10,000 square feet were renewals, Jones Lang LaSalle reports, perpetuating a trend that the market experienced during the recession.

Jones Lang LaSalle said private sector deals to watch during the remainder of the year include law firm **Covington and Burling LLP’s** search for 400,000 square feet and **The State Services Organization’s** hunt for 250,000 square feet. The two groups are currently at 1201 Pennsylvania Ave. NW and 400-444 N. Capitol St. NW, respectively.

Despite Washington’s tempered growth, the rest of the nation’s real estate markets are finally showing marked signs of post-recessionary thawing. The U.S. saw 11 million square feet of office space absorption in the second quarter — the highest level since the end of 2007.

KROUSE skrouse@bizjournals.com or 703.258.0827
Twitter.com/wbjsarah