

Washington-Baltimore ViewPoint



The Impact of the American Recovery and Reinvestment Act on the Washington-Baltimore Region

By Marianne Swearingen
 Research Manager, Washington-Baltimore Region

SUMMARY The Washington-Baltimore region is poised to gain from the federal government’s ARRA of 2009 through funding for local transportation, real estate and health sciences research.

The private sector in the United States faced extreme peril in 2008 as financial institutions and other industries faced severe declines. As a result, the federal government stepped in to pick up where the private sector left off. In February 2009, President Obama signed into law the American Recovery and Reinvestment Act (ARRA) in the largest effort ever to stimulate the U.S. economy reeling from rising unemployment, increasing residential mortgage defaults and financial uncertainty.

The \$787 billion fund was put forward by Congress and the President with the promise of unprecedented transparency and accountability. Of the total, \$575 billion is new government spending and \$212 billion is tax relief. The main objectives included job preservation and creation, infrastructure investment, energy efficiency and science, assistance to unemployed and state and local fiscal stabilization. A major goal is to save and creating 3.5 million jobs between 2009 and 2011. Table 1 shows the breakdown of the total funding by category.

With so much money in play, the billion-dollar question is how will the stimulus funding affect the Baltimore Washington region in general and the commercial real estate market in specific. Impacts from the stimulus on the local Washington-Baltimore economy are already being identified and quantified, while many are still unknown.

Table 1

	Spending Allocations (\$M)
State Fiscal Stabilization Fund	\$53,600
Energy and Water Development	\$50,775
Transportation	\$48,055
Department of Education	\$45,433
Agriculture, Rural Development, Food and Drug Administration	\$26,431
Department of Health and Human Services	\$21,533
Department of Commerce, Justice, Science	\$15,810
Housing and Urban Development	\$12,996
Interior, Environment	\$10,545
Financial Services, General Government	\$ 6,707
Department of Defense	\$ 4,531
Department of Labor	\$ 4,305
Military Construction, Veterans Affairs	\$ 4,246
Homeland Security	\$ 2,744

The Commonwealth of Virginia, the District of Columbia and the state of Maryland have already allocated funding for specific projects and agencies on the county and state levels. As a result of these efforts, the short and long-term outlooks for the region are optimistic.

The stimulus will also bring new opportunities to the local real estate community in the Washington-Baltimore region. Whether it is through new construction or architectural jobs or the renovation of government-owned properties, the entire real estate community will benefit from the efforts. This is anticipated to help reignite leasing of office and industrial properties, as well as provide consumers with additional disposable income to shop at retail centers and malls.

TRANSPARENCY

One promise from the ARRA is the ability to track funds from the federal government to the local project. The first entity responsible for ensuring transparency is an Inspector General (IG) for each agency that ensures every project is legal and meets established requirements. Each IG must report on findings to include costs, major actions taken thus far and actions planned for the near term. The second entity is the Government Accountability Office (GAO), which will oversee the \$280 billion to be distributed by state and local governments. It will focus on 16 states and the District of Columbia (but does not include Virginia or Maryland), accounting for 65% of the U.S. population and 66% of the intergovernmental assistance available.

The projects to receive funding from ARRA are to be "shovel ready" and will begin as soon as funding is allocated and received. Each agency, state and locality will hold an open period for project submission and then select projects that meet the specific criteria for that agency. Recipient projects across the country are to begin reporting to the government on October 10, 2009 and will have quarterly updates due each quarter thereafter. On June 8, 2009, President Obama promised to release funds previously allocated for later release to be accessible sooner to create or save 600,000 jobs by the end of the summer.

TRANSPORTATION

As recently as 2008, the Washington, DC Metropolitan Area was ranked as the most congested city in the country by Forbes Magazine. The number of automobiles and trucks traversing the region daily has caused significant wear and tear on the area's roads and bridges, many of which are over 50 years old. The local jurisdictions are constantly negotiating with state and federal officials about funds for improvements as the population and number of cars on the roads increases. The dedicated funding from ARRA has been seen as a major benefit for the region.

The U.S. Secretary of Transportation received up to \$1.5 billion to distribute in grants for transportation infrastructure projects across the country through the ARRA. Identified transit projects in nine states will receive a total of \$742.5 million. The 11 projects in Table 2 were already entered into multi-year commitments with the Federal Transit Administration.

Of these funds, a certain portion has been dedicated to areas with an urbanized population over 200,000. Through the Federal Highway Administration, Virginia will receive \$694.5 million in highway funding, of which \$118 million will be dedicated to the three major metropolitan areas of Richmond, Hampton Roads and suburban Washington, DC. Maryland will receive \$431.0 million and the District of Columbia will receive \$123.5 million in highway infrastructure investment from the federal highway administration. Maryland officials believe its funding will create 12,000 new jobs. The total funding for the region is in Table 3.

Table 2

State	Project	Allocated Funding (\$M)
Arizona	Phoenix – Central Phoenix/East Valley Light Rail	\$ 36.0
California	Los Angeles – Metro Gold Line Eastside Extension	\$ 66.7
Colorado	Denver – West Corridor Light Rail Transit	\$ 40.0
New York	New York – Long Island Rail Road East Side Access	\$195.4
New York	New York – Second Avenue Subway Phase I	\$ 78.9
Oregon	Portland – South Corridor I-205/Portland Mall LRT	\$ 32.0
Oregon	Springfield – Pioneer Parkway EmX BRT	\$ 2.9
Texas	Dallas – Northwest/Southeast Light Rail Transit	\$ 78.4
Utah	Salt Lake City – Mid Jordan Light Rail Transit	\$ 90.9
Virginia	Northern Virginia – Dulles Corridor Metrorail Expansion to Wiehle Avenue	\$ 77.3
Washington	Seattle – University Link Light Rail Transit Extension	\$ 44.0

Table 3

Allocation (\$M)	Urbanized Area
\$37.1	District of Columbia
\$50.7	Maryland (Baltimore)
\$38.4	Maryland (suburban DC)
\$52.7	Virginia (suburban DC)
\$178.9	Total

Local Projects

Maryland started the first road project with federal funding in the country when it began a repaving project in Silver Spring. Platforms will be fixed and a new railcar testing facility will be built for Metrorail in the DC area with its \$230 million allocation; the Washington Metropolitan Area Transportation Authority has identified other projects in the system should it receive further funding. Future projects are expected to include the HOT lanes project in Northern Virginia and road infrastructure improvements and

creation related to the Base Realignment and Closure (BRAC) of 2005 in Maryland and Virginia.

What does this mean to commercial real estate?

The commercial real estate industry has begun to see an impact from the transportation-related stimulus activities. Government contractors are actively touring office buildings in the Capitol Riverfront submarket of Washington, DC, home to the headquarters of the U.S. Department of Transportation, for new growth related to stimulus-funded contracts. These tours are noteworthy as the submarket has seen limited interest over the first six months of the year as a result of the national and local economic recessions.

In the Baltimore region, industrial property has seen a pick up in stimulus-related activity. Users are looking for undeveloped, industrial-zoned land for purchase with the capability to store materials as well as to build property specific to their needs. Many of the companies searching the market are distributors of materials or industrial-focused, environmental sustainability firms.

SELECTED FEDERAL AGENCIES

GSA and Real Estate

The federal government's General Services Administration (GSA) was allocated \$5.5 billion in Recovery Act funds around the country for renovations to federally-owned properties. For this plan, \$4.5 billion will go towards conversion to high-performing green buildings, \$750 million towards courthouse and federal building renovations, \$300 million to fuel-efficient vehicles, and \$300 million to renovation and construction of land ports of entry. Figure 1 summarizes the breakdown of funding for GSA initiatives.

The buildings chosen in the plan had to meet two criteria: ability to put people back to work quickly and transformation into green buildings. Federal buildings located within the Washington-Baltimore region will receive a total of \$1.2 billion in their plan. The largest project on the list includes \$450 million towards the new Department of Homeland Security headquarters to be located on the site of the old St. Elizabeth's Hospital in Washington, DC. Infrastructure,

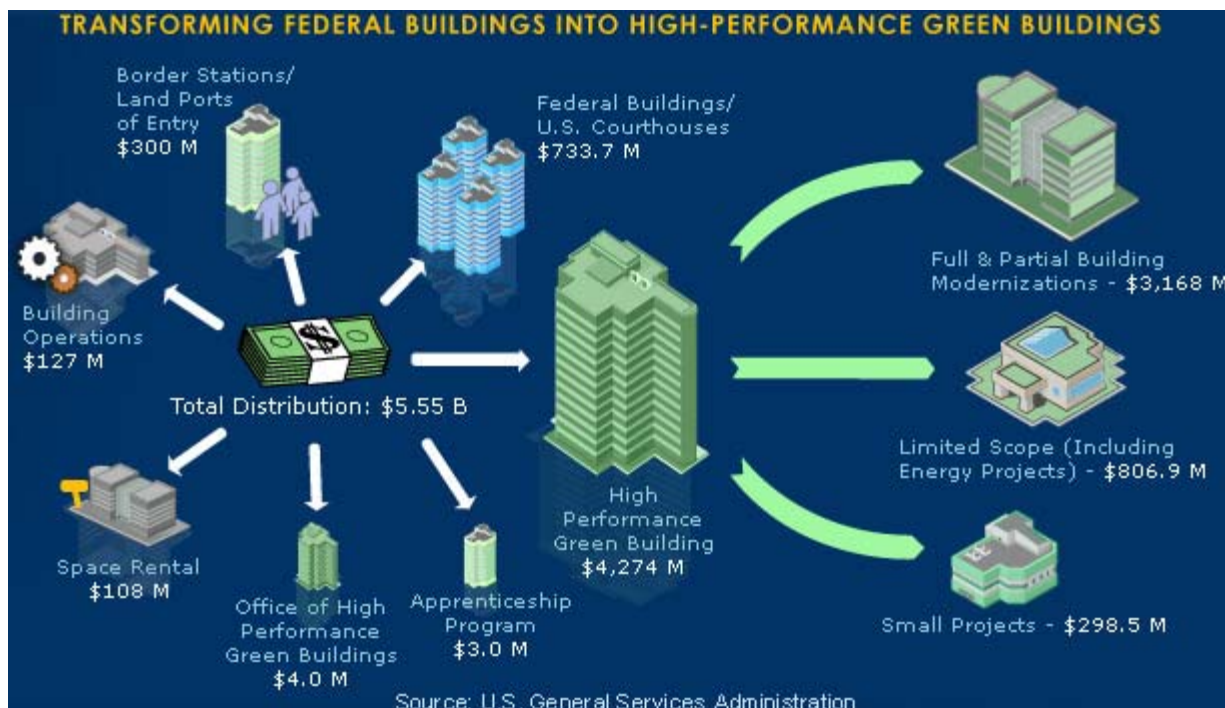
development and site acquisition are the components of the funding. The full list of local projects receiving funding can be seen in Appendix A.

The National Park Service

The National Park Service (NPS) announced April 22 that almost 800 projects totaling \$750 million can be completed across the country with funding from ARRA. This includes \$38 million in projects on the National Mall located in the District of Columbia. Other local projects will include:

- \$30.5M to repair Lincoln Memorial Reflecting Pool
- \$7.3M to repair District of Columbia War Memorial
- \$585,000 to rehabilitate trails in Rock Creek Park
- \$415,000 to rehabilitate trails and remove exotic plants on the George Washington Memorial Parkway
- \$108,000 to preserve historic headstones at Antietam National Battlefield
- \$56,000 to repair and replace fire hydrants at Catoctin Mountain Park

Figure 1



Small Business Administration

As a result of the stimulus package, the Small Business Administration has published an interim ruling for a temporary program that would provide loans to small businesses in financial predicaments. The interest-free loan would be given to viable businesses with immediate hardships to pay principle and interest payments on qualifying loans. This will help prevent some small businesses from closing and otherwise laying off employees.

Health and Human Services

The Office of the Inspector General of HHS, with a large complex in Rockville, Maryland, will receive \$17 million until September 30, 2012. An additional \$50 million has been allocated to improve information technology security at HHS. Over \$1.1 billion was set aside for comparative effectiveness research. The total amount includes \$300 million for the Agency for Healthcare Research and Quality, \$400 million for the National Institutes of Health (NIH) and \$400 million to be allocated at the discretion of the Secretary of HHS.

National Institutes of Health (NIH)

ARRA provides a total of \$10 billion for NIH in Bethesda, Maryland. The Office of the Director of NIH will be allocated \$8.2 billion. Of this amount, \$7.4 billion is designated for transfer to Institutes and Centers and to the Common Fund. With more than \$200 million in challenge grants, NIH received over 20,000 applications by the end of May 2009. These applicants included research universities and companies in the Washington-Baltimore region. Each of the projects receiving stimulus grants must spend the money within two years to help the economy.

What does this mean for commercial real estate?

The GSA's construction and renovation of over 21.5 million square feet of space will come on the heels of the completion of 56.0 million square feet of privately built office buildings between 2005 and 2010 in the Washington-Baltimore region. Construction and renovation on the federal buildings will likely begin in 2010 and could last approximately three years, by

which time it is believed the private sector will have rebounded and new construction projects will commence.

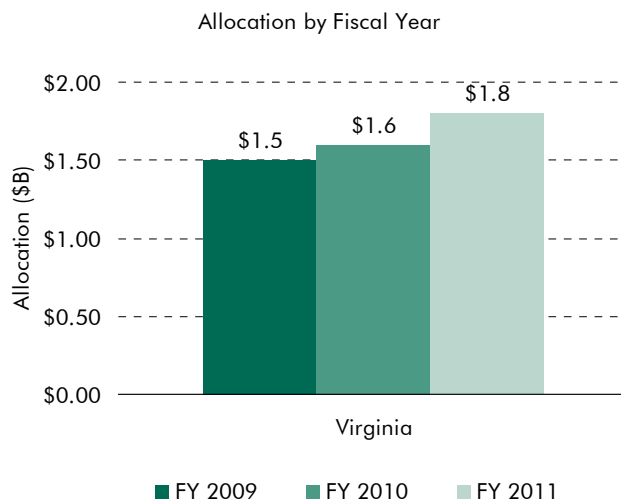
As NIH and HHS award grants and contracts to universities and private companies, the majority tend to be for new projects that will encompass employment growth and a need for more lab and/or office space. The state of Maryland is well positioned to see local benefit from those grants due to the highly rated research institutions at Johns Hopkins University and the University of Maryland, Baltimore. Each of these institutions submitted hundreds of applications for various projects.

LOCAL JURISDICTIONS

Commonwealth of Virginia

Over \$4.9 billion of ARRA allocations was dedicated to the Commonwealth of Virginia with an estimate of jobs created/saved over the next two years to be 93,000. The General Assembly voted on April 8, 2009 to distribute the funds over three fiscal years, as seen in Figure 2.

Figure 2



Of the statewide grants, 63%, or \$3.1 billion, are on a local or regional level and 37% are for statewide projects. Figure 3 shows that, as of May 15, 2009, \$1.3 billion had already been allocated for various local/regional programs.

The five areas in which the Governor, state agency and governing board have discretionary powers are: highways and bridges, clean water revolving fund, drinking water fund, transit capital grants-rural, and state energy programs. The commonwealth received over 9,000 project applications from across the state between February 10 and March 6, 2009. The submitted projects were then sent to the appropriate Cabinet Secretary for review and evaluation. The various agencies released their lists of potentially and fully approved projects in April and May of 2009.

District of Columbia

With an estimate of jobs created/saved over the next two years to be 12,000, over \$945 million of ARRA allocations has been dedicated to the District of Columbia. As part of its effort to ensure transparency and appropriate allocations, the District created a system of 12 work groups as seen in Figure 4. Over \$436.6 million has been allocated for education, justice, environmental and other projects in the District.

State of Maryland

Over \$4.0 billion of ARRA allocations was dedicated to the state of Maryland with an estimate of 66,000 jobs created/saved over the next two years. Within 24 hours of the President's signing, the state announced the first phase of projects totaling over \$610 million for transportation. Those projects were expected to support 17,500 jobs and included replacement buses for rural routes, MARC station upgrades, and the purchase of an additional 100 hybrid buses. The purchase of the hybrid buses is part of Maryland's effort to turn its entire Maryland Transit Administration bus fleet to hybrids by 2014.

CONCLUSION

The Baltimore-Washington region stands to benefit once the full allocation of funds and identifying of projects is completed. Employment growth, one of the

main goals of ARRA, will translate into additional leasing and investment by firms across all industries.

Maryland will likely be one of the big winners as it is home to a significant number of medical and life sciences research institutions. Over the past several years, federal government funding for scientific and medical research has been limited due to defense-related costs. The ARRA aims to change that by boosting grants and allocations to medical research, which will positively influence the health sciences and related industries in Maryland.

Virginia will see major benefits from the transportation funding, which will allow the state and local counties to move forward on projects previously cut in highly congested Northern Virginia. This will have a direct effect on the impact from BRAC, which is seeing a shift of over 20,000 jobs within the market and will rely heavily on the area's transportation network.

The GSA's focus on capital improvements to building infrastructure, as well as its focus on adding sustainability technology and improving efficiency, will be a boom to the real estate industry - either in the form of leasing short-term swing space in Washington, DC's privately owned office or industrial buildings, or in employing members of the industry to perform the renovations, etc. As the economy improves, the jobs saved and created in the industry will maintain its stability.

FOR MORE INFORMATION PLEASE CONTACT:

John Germano
Executive Managing Director
Washington-Baltimore Region
750 9th Street, NW, Suite 900
Washington, DC 20001
202.783.8200
john.germano@cbre.com

Ernie Jarvis
Managing Director
Washington, DC Office
750 9th Street, NW, Suite 900
Washington, DC 20001
202.783.8200
ernie.jarvis@cbre.com

Brad Flickinger
Managing Director
Tysons Corner Office/Bethesda Office
8270 Greensboro Drive, Suite 1000
McLean, VA 22102
703.821.6900
brad.flickinger@cbre.com

Mary Jo Eaton
Managing Director
Asset Services/Baltimore Office
750 9th Street, NW, Suite 900
Washington, DC 20001
202.783.8200
maryjo.eaton@cbre.com

Marianne Swearingen
Research Manager
Washington-Baltimore Region
750 9th Street, NW, Suite 900
Washington, DC 20001
202.783.8200
marianne.swearingen@cbre.com

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Appendix A

GSA Stimulus Projects for Washington-Baltimore Region

High Performance Green Buildings Limited Scope (Including Energy Projects)

State	Project	Allocated Funding (\$M)
DC	Theodore Roosevelt Building	\$23,551
DC	Wilbur J Cohen Building	\$16,701
DC	Reagan ITC and Garage	\$16,161
DC	Tax Court	\$8,083
DC	EPA East and West and Connecting Wing	\$4,564
DC	Lyndon B Johnson Federal Building	\$4,162
DC	Robert C Weaver Building	\$3,663
DC	Elijah Barrett Prettyman Courthouse	\$3,662
DC	601 4 th St, NW	\$2,150
DC	Howard T National Courts	\$2,070
DC	Winder Building	\$1,865
DC	U.S. Secret Service Headquarters	\$1,601
DC	IRS Building	\$1,506
DC	Veterans Administration	\$1,499
DC	Ariel Rios Federal Building	\$1,337
DC	GSA – Regional Office Building	\$592
MD	CMS HQ Complex (Woodlawn)	\$23,723
MD	Lanham-New Carrollton Federal Building	\$1,647
VA	Franconia Warehouse	\$9,512
VA	Martin V.B. Bostetter Courthouse	\$1,699
VA	Advanced Systems Center	\$690

Appendix A (Continued)

GSA Stimulus Projects for Washington-Baltimore Region

High Performance Green Buildings Modernizations – Full & Partial

State	Project	Allocated Funding (\$M)
DC	Herbert Hoover Building (Phase II and III)	\$225,638
DC	1800 F St, NW Building (Phase I)	\$161,293
DC	Lafayette (Phase I)	\$128,827
DC	Mary Switzer (Phase II)	\$68,241
DC	Department of Interior Building (Phase IV)	\$63,450
DC	Truman Building 1	\$14,735

Federal Buildings and U.S. Courthouses

State	Project	Allocated Funding (\$M)
DC	St. Elizabeth's West Campus Infrastructure	\$223,453
DC	DHS Consolidation and Development of St. Elizabeth's Campus	\$222,547
DC	St. Elizabeth's West Campus Site Acquisition	\$4,000

Total Stimulus to Washington-Baltimore Region		\$1,242,622
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