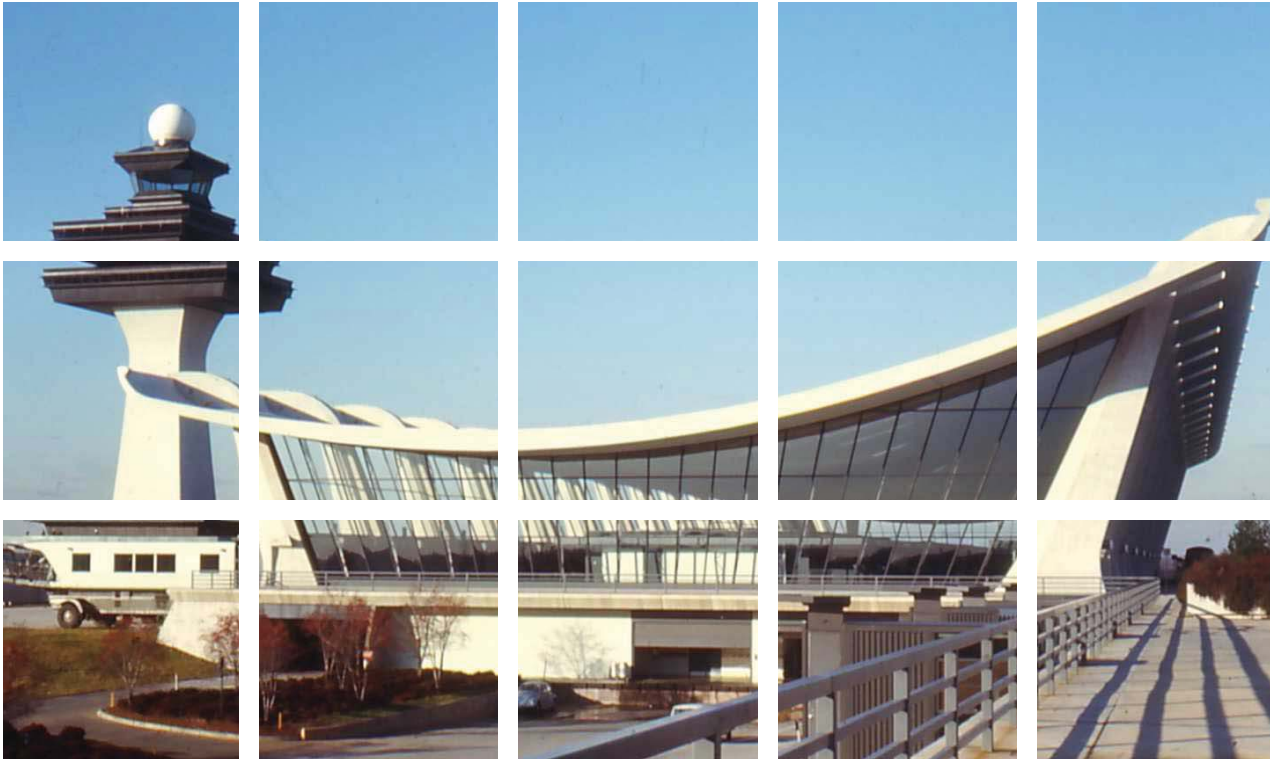


3<sup>rd</sup> Quarter 2008

# Dulles Flex/Industrial Market Update



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# Market Analysis 3<sup>rd</sup> Quarter 2008

## Industrial Trends

Vacancy Rate



## DULLES FLEX/INDUSTRIAL MARKET ANALYSIS

### Dulles Corridor

The Dulles Corridor is defined as the Dulles North and Dulles South submarkets with Dulles International Airport at its epicenter and Rt. 28 as its North/South connector. The industrial market in both Corridors' has been a bright spot in the Northern Virginia market over the past few years. It has enjoyed low vacancy rates, continued speculative construction, and stable rental rates. The recent economic downturn coupled with a sharp increase in speculative construction has begun to press market fundamentals. The impact is even more severe on the Dulles Corridor's flex market as weak demand and continued new speculative construction have exacerbated a struggling market sector. We see this trend continuing through 2009.

Net Absorption



Northern Virginia's other major industrial corridor, the I-95 Corridor, is a mature market with few land plays left for development. This fact has moved the bulk of Industrial development to the Dulles Corridor. Over the past three years we have seen on average approximately 800,000 SF per year of new construction, mostly in the Dulles North Corridor. 2008's pace will fall short of this mark, however, not by much. Asking shell rental rates for new construction are \$7.00 - \$7.75 NNN for Industrial and \$9.00 -10.00 NNN for flex. As market fundamentals have weakened with slowing deal velocity, and new construction now competing with quality 2nd generation product, it is becoming more difficult for Landlords to hold shell rates in the \$7.00 range.

Construction



New construction in the Dulles Corridor also caters to today's tenants with expanding facility demands. Many of them have been pushed out of the I-95 Corridor because of dated buildings with minimal truck courts, low clear height, and low parking ratios. New industrial construction is tilt-up, 24'-clear or more, with 110'-130' truck courts. These features accommodate the demand for more cubic storage and maneuverability for the 53' rigs of today.

Asking Rents

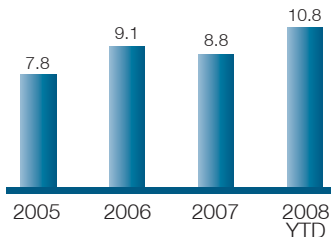


These facts have helped The Dulles Corridor's industrial market hold up well considering the construction activity. Recent economic and market uncertainty, however, has negatively impacted the sector with vacancies increasing to 11%. Landlords find themselves competing aggressively for quality deals creating a tenant's market for the first time in 5 years. This fact has begun to create rental rate compression of which we anticipate a bigger impact in the 4th Q 08' and heading into 09'. We see the market continuing these trends as additional speculative deliveries, primarily North Woods with 273,000 sf of bulk delivering 2nd Q 09', add

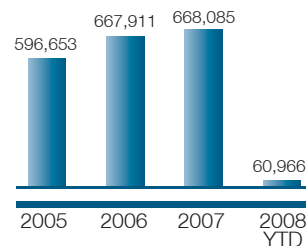
### DULLES INDUSTRIAL AGGREGATE ABSORPTION AND VACANCY REPORT

Year	BASE	New Construction	Net Absorption	Availability			Vacancy Rate			Average Rental Rate
				Direct	Sublet	Total	Direct	Sublet	Total	
2005	13,347,167	945,544	596,653	1,009,947	31,171	1,041,118	7.60%	0.20%	7.80%	\$8.29/nnn
2006	14,106,900	759,733	667,911	1,251,533	34,166	1,287,862	8.90%	0.20%	9.10%	\$8.43/nnn
2007	14,881,706	774,806	668,085	1,251,533	59,307	1,310,840	8.40%	0.40%	8.80%	\$8.35/nnn
2008 YTD	15,377,830	496,124	60,966	1,599,716	54,405	1,654,121	10.40%	0.40%	10.80%	\$8.68/nnn

Total Vacancy Rate in percent



Net Absorption



# Market Analysis 3<sup>rd</sup> Quarter 2008

## Flex Trends

Vacancy Rate



to supply levels. On a positive note, we continue to see a migration of larger prospects from both the I-95 corridor and other surrounding submarkets, to the Dulles Corridor. The Corridor will continue to be the focus of development as industrial land is virtually nonexistent in the I-95 Corridor and surrounding submarkets of Northern Virginia.

Net Absorption



New parks currently under construction with significant speculative deliveries include Dulles Summit, Beaumeade Corporate Park and Prologis Gateway Phase II. Each of these have seen their share of deals throughout 08' including NJ Sullivan (45,489 SF), Agility Logistics (20,953 SF), Crown Relocation (20,953 SF), CACI (150,000 SF), Graebel Van Lines (75,124 SF), MVM (79,050 SF), and Airbus (35,308 SF). While we remain cautious looking forward, we are optimistic with recent deals in the market. Should these deals come to fruition, absorption levels will be improved creating a more balanced market. Furthermore, we are not plagued by a significant manufacturing base that has deteriorated other industrial markets across the country. We also are buoyed by a stable population growth, the Federal Government, and the ever expanding catalyst: Dulles International Airport. Today's tenants consist primarily of distribution, 3PL's (third party logistics), service industries, moving & storage, and government contractors.

Construction



The majority of speculative flex construction continues to be concentrated in the Dulles North market, and it is being hit hardest by the continued market downturn. With over 900,000 sf of new deliveries between 2007 and 3rd Q 08' and net absorption of only 300,000 SF during the same period, vacancies in the Dulles North Corridor are 20%. The Dulles South submarket is more favorable at 11%. Negatively affecting both market vacancy levels, however, is the condo market. Investors and users who purchased these units are now realizing the affects of negative equity, and attempt to compete with the strong balance sheets of institutional and established local ownership. Their values have decreased considerably with the tightening of the credit markets and we predict a further deterioration of the condo sector. Well positioned flex product, however, will continue to see the majority of deals as tenants look for stability in ownership.

Asking Rents

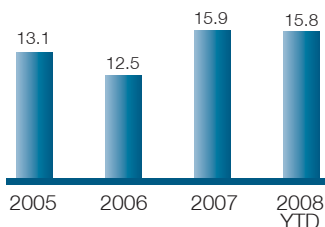


The health of the flex market will depend on the regions economic recovery, Federal spending, and population growth. A positive trend in each will help increase net absorption as service and government contractor businesses emerge, grow and expand. The regions technology industry is also in recovery, further helping the sector. Until vacancy levels return to equilibrium, Landlords must be aggressive in deal making; putting pressure on rental rates while increasing concessions.

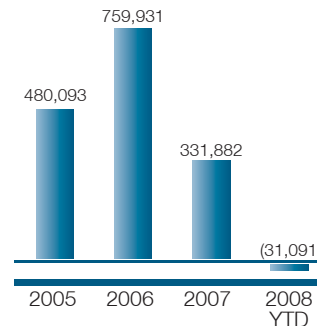
### DULLES FLEX AGGREGATE ABSORPTION AND VACANCY REPORT

Year	BASE	New Construction	Net Absorption	Availability			Vacancy Rate			Average Rental Rate
				Direct	Sublet	Total	Direct	Sublet	Total	
2005	13,920,150	562,170	480,093	1,770,308	55,201	1,825,509	12.70%	0.40%	13.10%	\$12.18/nnn
2006	14,581,139	660,989	759,931	1,747,771	69,281	1,817,052	12.00%	0.50%	12.50%	\$12.61/nnn
2007	15,428,901	847,762	331,882	2,409,486	41,794	2,451,280	15.60%	0.30%	15.90%	\$13.07/nnn
2008 YTD	15,668,810	239,909	(31,091)	2,325,088	154,090	2,479,178	14.80%	1.00%	15.80%	\$12.23/nnn

Total Vacancy Rate in percent



Net Absorption





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