Northern Virginia & Washington DC Office & Industrial Market Report

2009 Year End & 2010 Market Outlook

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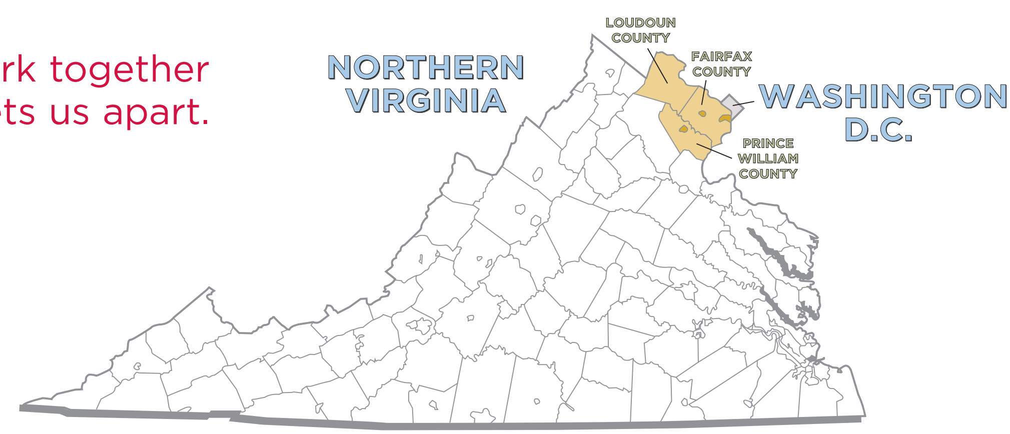

NAI KLNB

Commercial Real Estate Services, Worldwide.

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2009 Year End Review

IN THIS ISSUE:

NAI KLNB
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As 2009 came to a close, the Washington DC and Northern Virginia real estate markets appear to have weathered the recession, leaving the worst behind us. Job losses have slowed dramatically in the region over the last half of the year, from what seemed like a precipitous freefall that plagued the first 6 months of 2009. As the country begins to crawl out of the recession, the Washington DC region, which was relatively strong to begin with, emerges as the strongest real estate market in the country, mainly due to the Federal Government. With the help of the Federal Government and their continued expansion and leasing practices, rising vacancy rates across the region seem to finally be stabilizing.

While the region remained stable compared to other major cities across the nation, the Washington DC and Northern Virginia real estate markets certainly felt the effects of the recession. Uncertainty and doubt were at the forefront of business decisions, which manifested itself in the growing vacancy and unemployment rates, as well as the influx of renewals and sublease space that spread throughout the market. The region saw vacancy rates rise, rental rates fall, and landlord concessions increase across all submarkets. Downtown DC and other “inside the beltway” counties such as Arlington and Alexandria were less affected than the more suburban markets in Fairfax, Loudoun, and Prince William counties. In 2009, leasing power swung fully in the tenants’ favor, as desperate landlords were forced to lower their rental rates and offer free rent and attractive tenant improvement packages for new tenants, as well as old tenants.

As the credit market remains weak, developers and buyers across the region are continuing to have difficulty securing purchase and construction loans, resulting in minimal building sales and groundbreakings for any type of product in all submarkets. New speculative development, which had been rampant in years past, came to a standstill. With minimal new construction, prospective tenants in need of new space will begin to move into some of the already existing buildings, which will help bring the vacancy rates down and should help stabilize falling rental rates.

Investment sales were scarce in 2009, with the primary in-demand assets being urban, class-A office buildings with a strong, well-credited tenancy. There was very little demand for Suburban office and flex/industrial properties. As the credit crunch continued throughout 2009, debt financing was extremely hard to come by for even the strongest suitors, making cash buyers the biggest players in the market. Another reason for the minimal building sales was the strong price disparity between asking and bid prices that plagued the market. Building owners had a hard time coming to grips with the rising cap rates and falling values that had taken over the market, causing most owners to opt to hold onto their assets and wait for a brighter future when a true market price had been set. However, despite the weak national and regional investment sales market, the Washington DC region has emerged as the #1 market for foreign investors, which should continue into 2010.

As we progress into 2010, we can expect to see the market pick up some speed, but at a slow pace. Unemployment in the region appears to have bottomed out, which will allow well-capitalized companies who weathered the recession to begin hiring and expanding once again. With minimal new ground-breakings and new developments planned for 2010, vacancy rates should stop rising in most submarkets and begin coming down in the second half of 2010. Rental rates should remain generally stable due to the rise in demand for space, allowing the region to begin its return to the strong market fundamentals the area enjoyed before the recession. The future for investment sales will take longer to rebound than the leasing market, but as the credit market loosens we can expect to see more buyers in the market. However, with more loans scheduled to come due in 2010 and 2011, coupled with the difficulty of re-financing these over-valued assets, we should also see the amount of foreclosures to begin to increase. With the Federal Government still active and anchored in the region, and with foreign investors actively looking at opportunities in the area, the Washington DC and Northern Virginia market should expect to start its road to recovery in 2010.

Northern Virginia
Market Overview

OFFICE MARKET OVERVIEW | COUNTIES & SUBMARKETS

MARKET	# OF BUILDINGS	RBA	TOTAL VACANT (SF)	DIRECT VACANCY RATE %	NET ABSORPTION	RENTAL RATE PSF (AVERAGE)	CONSTRUCTION COMPLETIONS (SF)
CRYSTAL CITY/PENTAGON CITY							
Class A	16	4,953,385	511,059	9.86%	421,448	$35.21	0
Class B	24	6,787,079	315,093	3.98%	192,528	$36.75	0
I-395 CORRIDOR							
Class A	23	5,594,928	918,473	15.87%	48,584	$30.40	0
Class B	51	2,845,081	115,108	3.17%	43,615	$27.62	30,000
EISENHOWER AVENUE CORRIDOR							
Class A	12	3,350,436	332,837	9.63%	51,616	$37.45	67,093
Class B	15	1,715,079	39,112	2.28%	1,716	$26.71	0
OLD TOWN ALEXANDRIA							
Class A	46	4,624,618	692,484	11.81%	(348,754)	$36.87	0
Class B	113	3,842,916	314,118	7.21%	(51,191)	$28.22	0
ROSSLYN/BALLSTON CORRIDOR							
Class A	65	15,193,694	950,913	3.51%	(120,581)	$40.18	0
Class B	50	6,308,616	421,763	6.38%	(77,398)	$35.96	0
TYSONS CORNER							
Class A	82	17,916,609	2,149,394	10.15%	(271,075)	$32.84	295,000
Class B	99	9,700,594	1,914,407	18.93%	(26,950)	$25.81	0
RESTON							
Class A	101	14,738,107	2,332,250	13.52%	349,686	$28.69	235,436
Class B	89	3,962,471	556,789	13.05%	68,837	$23.32	0
HERNDON							
Class A	61	9,321,705	1,498,728	13.42%	140,019	$29.67	0
Class B	71	2,669,431	397,834	14.19%	(14,044)	$22.78	0
ROUTE 28 NORTH							
Class A	49	5,442,221	936,446	15.60%	484,953	$26.13	0
Class B	78	3,471,902	515,499	14.24%	31,488	$22.06	0
ROUTE 28 SOUTH							
Class A	74	9,897,540	1,857,892	18.11%	304,593	$27.69	159,500
Class B	77	3,347,230	544,587	14.61%	(222,359)	$22.49	0
LEESBURG/ROUTE 7 CORRIDOR							
Class A	38	3,343,291	826,874	24.65%	145,426	$27.60	367,500
Class B	80	2,814,813	285,470	9.21%	(49,468)	$24,89	30,900
PRINCE WILLIAM COUNTY							
Class A	28	1,660,845	490,743	28.69%	100,915	$25.10	59,411
Class B	174	5,313,286	697,292	12.75%	177,377	$21.41	59,411
OVERALL DC							
Class A	316	83,690,104	10,662,869	11.27%	291,563	$52.11	3,725,463
Class B	438	43,266,486	2,660,749	5.34%	(607,156)	$41.47	0
CBD							
Class A	98	21,830,923	2,599,180	9.60%	291,536	$53.33	830,876
Class B	144	17,994,753	853,954	4.17%	(257,514)	$43.50	0
East End							
Class A	120	33,385,516	3,182,596	7.76%	(134,365)	$55.30	810,843
Class B	99	10,130,554	831,925	7.01%	(79,830)	$43.72	0

Office Building Criteria: *Rentable building area equal to or greater than 10,000 gross square feet; multi-story and single story buildings.*
Vacancy rates are based on existing office space that is currently unoccupied; however, lease documentation may exist for all or a portion of such space.

Northern Virginia
Market Overview

OFFICE MARKET OVERVIEW (cont.) | COUNTIES & SUBMARKETS

MARKET	# OF BUILDINGS	RBA	TOTAL VACANT (SF)	DIRECT VACANCY RATE %	NET ABSORPTION	RENTAL RATE PSF (AVERAGE)	CONSTRUCTION COMPLETIONS (SF)
OVERALL DC (cont.)							
Capitol Hill-NoMA-SE-NE							
Class A	35	11,055,911	1,233,469	10.67%	91,580	$49.67	1,110,572
Class B	61	4,082,875	210,971	4.48%	(155,900)	$36.11	0
SW-Capitol Riverfront							
Class A	31	11,428,640	2,824,048	24.60%	149,241	$49.85	973,172
Class B	15	3,888,667	125,222	3.22%	71,500	$40.50	0
Georgetown-West End							
Class A	23	3,964,364	646,005	14.48%	(98,075)	$43.73	0
Class B	44	2,377,336	235,216	8.43%	(3,772)	$40.49	0
Uptown							
Class A	12	2,222,454	177,571	7.94%	(62,654)	$40.72	0
Class B	107	6,248,855	403,391	5.45%	(159,438)	$33.77	0

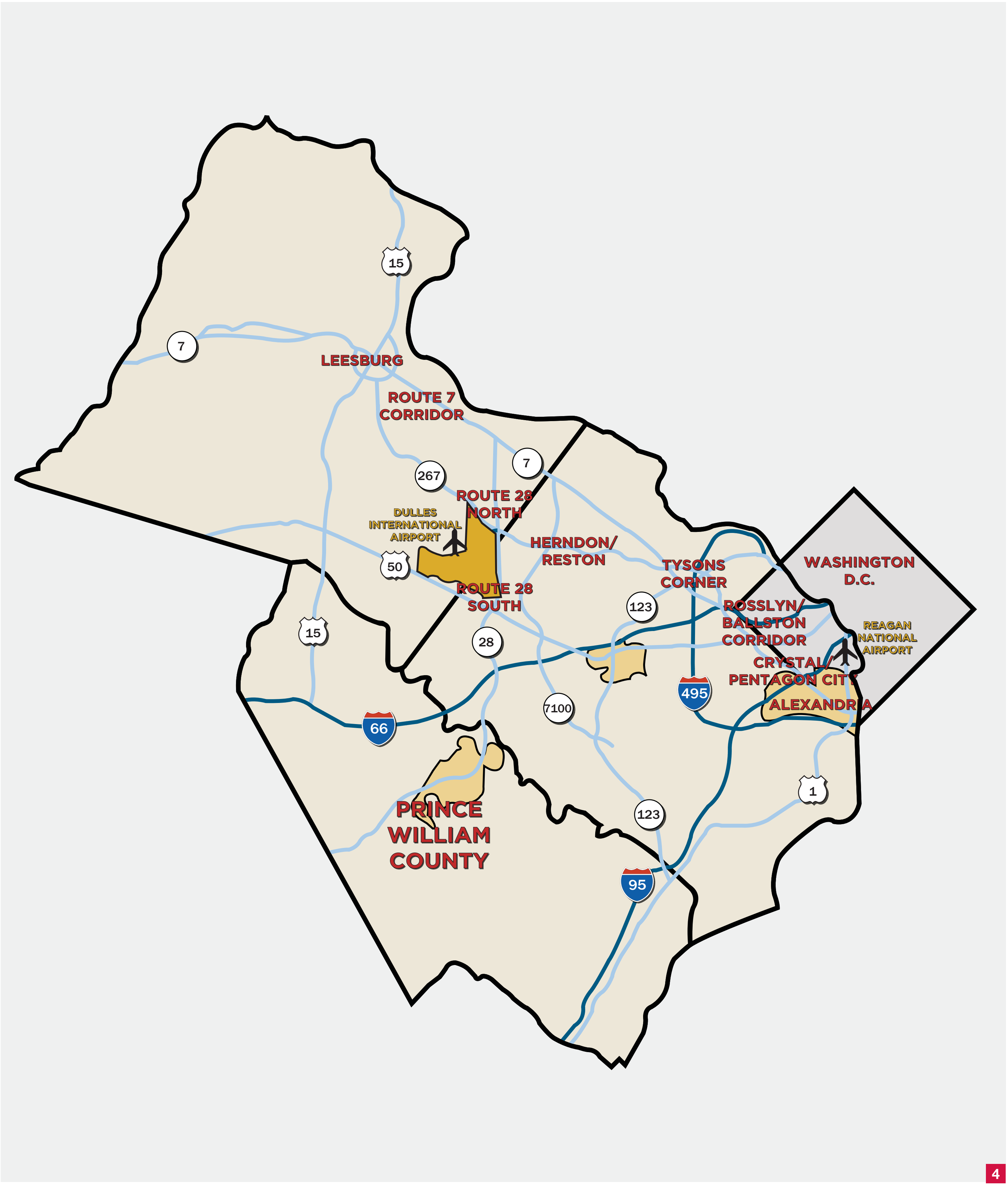
Office Building Criteria: *Rentable building area equal to or greater than 10,000 gross square feet; multi-story and single story buildings.*
Vacancy rates are based on existing office space that is currently unoccupied; however, lease documentation may exist for all or a portion of such space.

INDUSTRIAL/FLEX MARKET OVERVIEW | COUNTIES & SUBMARKETS

MARKET	# OF BUILDINGS	RBA	TOTAL VACANT (SF)	DIRECT VACANCY RATE %	NET ABSORPTION	RENTAL RATE PSF (AVERAGE)	CONSTRUCTION COMPLETIONS (SF)
ROUTE 28							
Industrial	293	16,428,145	2,319,885	14.12%	113,155	$8.05	502,515
Flex	284	16,361,682	3,077,748	18.81%	(82,046)	$10.45	390,940
Route 28 North							
Industrial	216	11,401,011	1,602,086	14.06%	167,744	$8.14	502,515
Flex	155	9,392,082	1,941,733	20.67%	235,692	$10.47	390,940
Route 28 South							
Industrial	77	5,027,134	717,199	12.62%	(54,589)	$8.01	0
Flex	129	6,969,600	1,136,015	14.03%	(317,738)	$10.99	0
I-95 CORRIDOR							
Industrial	375	18,111,938	1,403,068	6.08%	(323,162)	$9.54	0
Flex	145	7,283,556	819,025	10.89%	(141,659)	$13.86	0
I-395 Corridor							
Industrial	76	3,538,165	174,688	4.86%	12,761	$11.40	0
Flex	18	643,627	153,416	22.14%	(92,301)	$14.87	0
Eisenhower Avenue							
Industrial	24	806,331	32,046	3.97%	(5,500)	$9.00	0
Flex	7	173,095	28,218	16.30%	(22,503)	$14.00	0
Springfield							
Industrial	100	7,378,309	408,277	2.95%	(82,065)	$9.46	0
Flex	44	2,164,742	148,513	6.79%	46,981	$9.71	0
Newington							
Industrial	175	6,389,133	788,057	10.63%	(248,358)	$9.05	0
Flex	76	4,302,092	488,878	11.06%	(73,836)	$14.52	0
PRINCE WILLIAM COUNTY							
Industrial	329	13,453,021	1,229,190	8.17%	(344,103)	$8.04	23,370
Flex	130	5,870,129	958,290	15.63%	61,277	$11.20	100,000

Area Map

Office Submarket Map



Rosslyn/Ballston Corridor
Office

TRENDS

Vacancy Rate

Net Absorption

Construction

Asking Rents

MARKET OVERVIEW

Lying on the banks of the Potomac, the Rosslyn/Ballston ("RB") Corridor is located within a short distance from the District of Columbia and the Pentagon. This proximity combined with the accessibility to the Metro's Orange and Blue Lines, explains this market's strong ties with the federal government and associated government contractors. The RB Corridor continues to be a vibrant area with high rise office and residential buildings, most within walking distance to a Metro station, and continues to attract new retail and young professionals.

The RB Corridor comprises the markets of Rosslyn, Courthouse, Virginia Square, Clarendon and Ballston and has an existing competitive office inventory of 22.9 million square feet. The vacancy rate of 6.5%, is the lowest vacancy rate in Northern Virginia. Some class "A" newly constructed buildings have asking rents that have inched into the low $40s PSF, however most of the buildings will lease for $33.00 - $38.00 PSF full service.

JBG recently broke ground on a 7 story, 144,000 SF Class "A" office building in Ballston, at the intersection of Wilson Blvd and Glebe Rd. Virginia Tech's Research Institute will be the lead tenant when the building delivers in the 4th quarter, 2010. B.F. Saul Company is also constructing 2 Class "A" office buildings in the Clarendon submarket. The 105,000 SF 3030 Clarendon Blvd, and the 107,000 SF 3000 Wilson Blvd are both expected to deliver in the 4th quarter 2010, and asking rents are currently at $46.00 PSF full service. The Shooshan Company has also begun developing a site in Ballston at 675 N. Randolph Street, called "Founders Square" that will relocate 800 workers of the "Defense Advanced Research Projects Agency" (DARPA) to this site in 2012.

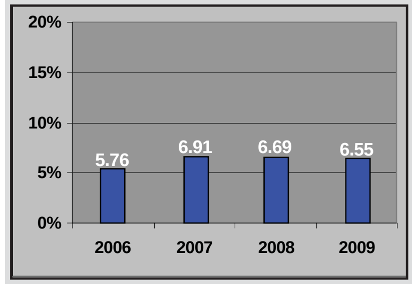
MARKET OUTLOOK

Due to the sluggish economy and 3 large buildings delivering in 2010, expect the RB Corridor vacancy rates to creep up a bit higher, but rental rates should remain constant over the next 12 months. The RB Corridor will continue to be one of, if not the most healthy markets in the DC Metro area.

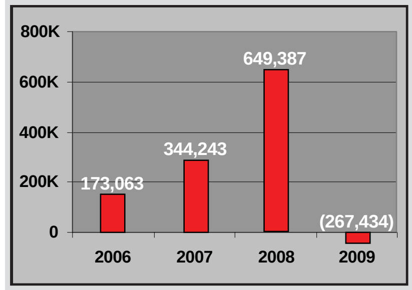
STATISTICS

Market Size	22,829,781
Overall Vacant Space (SF)	1,495,019
Overall Vacancy	6.55%
Sublease Vacancy	1.92%
Gross Direct Rental Rate	$37.87
2009 Absorption	(267,434)
Construction Completions	295,000
Under Construction	513,616

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

Founders Square - 675 N Randolph Street
Tenant: DARPA
Submarket: Ballston
Square Feet: 355,524
Lease Type: Pre-Lease
Signed 3rd Quarter 2009

3100 Clarendon Boulevard
Tenant: Defense Intelligence Agency
Submarket: Clarendon/Courthouse
Square Feet: 221,084
Lease Type: Renewal
Signed 3rd Quarter 2009

Waterview - 1919 N Lynn Street
Tenant: Deloitte
Submarket: Rosslyn
Square Feet: 166,736
Lease Type: Sublease
Signed 2nd Quarter 2009

Quincy Street Station - 4001 N Fairfax Drive
Tenant: SAIC
Submarket: Ballston
Square Feet: 154,518
Lease Type: Renewal
Signed 1st Quarter 2009

Sequoia Plaza - 2100 Washington Boulevard
Tenant: Arlington County
Submarket: Clarendon/Courthouse
Square Feet: 144,720
Lease Type: New
Signed 2nd Quarter 2009

1310 N Courthouse Road
Tenant: FDIC
Submarket: Clarendon/Courthouse
Square Feet: 107,325
Lease Type: New
Signed 3rd Quarter 2009

Arlington Plaza - 2000 N 15th Street
Tenant: BAE Systems
Submarket: Rosslyn
Square Feet: 109,125
Lease Type: New
Signed 2nd Quarter 2009

1310 N Courthouse Road
Tenant: Department of Homeland Security
Submarket: Clarendon/Courthouse
Square Feet: 71,550
Lease Type: New
Signed 4th Quarter 2009

Ballston Tower - 371 N Glebe Road
Tenant: Avalon Bay Communities
Submarket: Ballston
Square Feet: 50,306
Lease Type: Sublease
Signed 3rd Quarter 2009

Sale Transactions

The Hartford Building - 3101 Wilson Boulevard
Buyer: MRP Realty
Building Type: Class A - Office
Building Size: 212,441 SF
Sale Price: $71,500,000 or $336.56 PSF
Cap Rate: 8.25%
Submarket: Clarendon/Courthouse
Sale Date: June 2009

4501 N Fairfax Drive
Buyer: Manulife Financial
Building Type: Class A - Office
Building Size: 194,600 SF
Sale Price: $68,000,000 or $349.43 PSF
Submarket: Ballston
Sale Date: October 2009

Crystal City/Pentagon City
Office

TRENDS

Vacancy Rate

Net Absorption

Construction

Asking Rents

MARKET OVERVIEW

Located west of Ronald Reagan Washington National Airport between the George Washington Memorial Parkway and Jefferson Davis Highway, the Crystal City/Pentagon City submarket, contains 12.8 million SF of office space. Built in the 1960s and 1970s, Crystal City had become outdated compared with newer, sleeker office buildings in the area. It's a landscape of concrete, monolithic office buildings, hotels and apartment towers with an extensive tunnel system linking underground shops and restaurants. The office space in Crystal City has long been dominated by government agencies and their contractors because of its proximity to the Pentagon and Reagan National Airport.

However, in the wake of the Department of Defense's recommendation of the Base Realignment and Closure Commission (BRACC), and the phased departure of the Patent and Trademark Office (PTO) to Alexandria, Crystal City has been working hard to reposition the submarket to target the private sector. Charles E. Smith Commercial Realty, a division of Vornado Realty Trust and the largest landlord in Crystal City, have offered significant incentives to lure new tenants to the area. Their efforts seem to be paying off, as many District users have now accepted Crystal City as an urban, transient-friendly location with large amounts of new retail and residential development that has delivered in the past few years.

Vacancy rates for all Classes of office space in Crystal City / Pentagon City are at 7.49%, while rental rates average in the $33.00 - $38.00 PSF range.

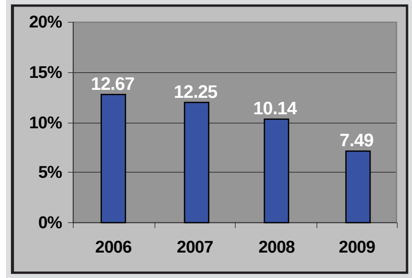
MARKET OUTLOOK

With a few buildings currently under construction, and lack of strong leasing activity, expect vacancy rates to rise slightly in Crystal City. Asking rents have fallen throughout the Washington DC Metro area for the past 12 months, including downtown Washington. While the "close-in" markets such as Arlington and Alexandria have not seen as big of a drop in rates, expect rents in Crystal City/Pentagon City to decrease by 5 - 10%, as Landlords will have to be more aggressive and offer more concessions on renewals and new leases throughout 2010.

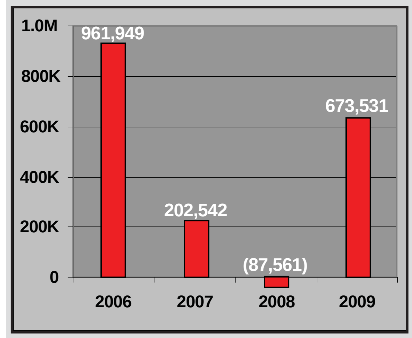
STATISTICS

Market Size	12,839,193
Overall Vacant Space (SF)	961,426
Overall Vacancy	7.49%
Sublease Vacancy	0.53%
Gross Direct Rental Rate	$35.59
2009 Absorption	673,531
Construction Completions	0
Under Construction	409,744

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

Crystal Gateway 3 - 1215 S Clark Street
Tenant: The Boeing Company
Submarket: Crystal City
Square Feet: 249,997
Lease Type: Renewal
Signed 1st Quarter 2009

Crystal Square 2 - 1550 Crystal Drive
Tenant: Lockheed Martin
Submarket: Crystal City
Square Feet: 85,475
Lease Type: Renewal
Signed 2nd Quarter 2009

Crystal Park Two - 2121 Crystal Drive
Tenant: GSA
Submarket: Crystal City
Square Feet: 59,357
Lease Type: New
Signed 2nd Quarter 2009

Century One at Gateway Center - 2450 Crystal Drive
Tenant: GSA
Submarket: Crystal City
Square Feet: 45,802
Lease Type: New
Signed 2nd Quarter 2009

Crystal Square 4 - 241 18th Street S
Tenant: GSA
Submarket: Crystal City
Square Feet: 44,696
Lease Type: New
Signed 2nd Quarter 2009

Crystal Park Five - 2451 Crystal Drive
Tenant: GSA
Submarket: Crystal City
Square Feet: 39,230
Lease Type: New
Signed 3rd Quarter 2009

Potomac Gateway North - 2800 Crystal Drive
Tenant: Department of Defense
Submarket: Crystal City
Square Feet: 38,248
Lease Type: New
Signed 3rd Quarter 2009

Jefferson Plaza II - 1421 Jefferson Davis Highway
Tenant: GSA
Submarket: Crystal City
Square Feet: 37,660
Lease Type: Renewal
Signed 4th Quarter 2009

Jefferson Plaza II - 1421 Jefferson Davis Highway
Tenant: Department of Homeland Security
Submarket: Crystal City
Square Feet: 37,660
Lease Type: New
Signed 3rd Quarter 2009

Two Potomac Yard - North - 2733 Crystal Drive
Tenant: Army Corps of Engineers
Submarket: Crystal City
Square Feet: 33,940
Lease Type: New
Signed 1st Quarter 2009

Two Potomac Yard - North - 2733 Crystal Drive
Tenant: Thales North America, Inc.
Submarket: Crystal City
Square Feet: 31,688
Lease Type: New
Signed 1st Quarter 2009

Crystal Square 2 - 1550 Crystal Drive
Tenant: Computer Sciences Corporation
Submarket: Crystal City
Square Feet: 28,674
Lease Type: Renewal
Signed 3rd Quarter 2009

ALEXANDRIA
Office

TRENDS

VACANCY RATE ↑

NET ABSORPTION ↓

CONSTRUCTION ↓

ASKING RENTS ↓

MARKET OVERVIEW

Located between Washington, DC and the Capital Beltway, the City of Alexandria's regional access and "inside the Beltway" location have been essential to its emergence as a center for national association headquarters, corporations and law firms. In fact, Alexandria is the 4th largest concentration of associations and non-profits in the country. The relocation of the Patent & Trademark Office (PTO) in 2003 near the King St Metro has also been a major catalyst for growth for the City of Alexandria.

Minutes from Capitol Hill, Alexandria's office locations offer better travel times to the Hill than do most downtown DC offices. Alexandria is virtually minutes from anywhere in the metropolitan area via the Capital Beltway, Interstates 95 and 395, U.S. Route 1 and the George Washington Parkway. In addition, its 3 METRO stations also make it very attractive to businesses and working professionals.

Alexandria's 3 combined submarkets (Old Town, Eisenhower Ave Corridor, and the I-395 Corridor) have an existing inventory of 25.6 Million SF of office space, with rents ranging in the low 20s PSF for some of the older class "C" buildings in the I-395 Corridor, to the low $40s PSF near the PTO buildings in the Carlyle development. However, most of the buildings in Old Town have asking rates in the $26.00 - $33.00 PSF range.

One major construction project underway is the US Army's purchase of 16 acres of land from Duke Realty in late 2008, which will eventually become an appendage of Ft. Belvoir. Ground breaking was in late March 2009, and the Army plans to build 2 large office towers, totaling approximately 1.7 Million SF of office space, and bringing over 6,400 military/government jobs to the site. By law, the project needs to be completed by September 2011.

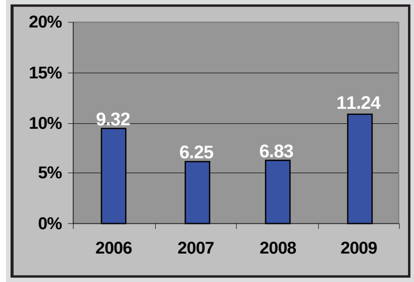
MARKET OUTLOOK

Due to strong fundamentals mentioned above, Alexandria has been, and should remain one of the healthiest submarkets in the DC Metro area despite the economic downturn in 2008 - 2009. However due to the struggling economy, and lack of demand for new office space, expect vacancy rates to rise slightly, and asking rents to decrease by 5 – 7% in 2010.

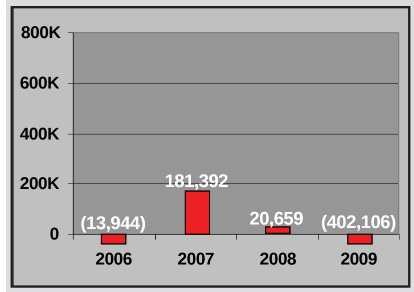
STATISTICS

Market Size	9,061,960
Overall Vacant Space (SF)	1,018,260
Overall Vacancy	11.24%
Sublease Vacancy	2.02%
Gross Direct Rental Rate	$33.19
2009 Absorption	(402,106)
Construction Completions	0
Under Construction	368,429

VACANCY RATE (%)



ABSORPTION (SF)



SIGNIFICANT ACTIVITY

Lease Transactions

Atrium Building - 277 S Washington Street
Tenant: Oliff & Berridge, PLC
Submarket: Old Town Alexandria
Square Feet: 86,448
Lease Type: Renewal
Signed 4th Quarter 2009

TransPotomac Canal Center - 99 Canal Center Plaza
Tenant: STG International, Inc.
Submarket: Old Town Alexandria
Square Feet: 22,301
Lease Type: New
Signed 1st Quarter 2009

Crescent at Carlyle - 1940 Duke Street
Tenant: Regus
Submarket: Old Town Alexandria
Square Feet: 21,359
Lease Type: Renewal
Signed 2nd Quarter 2009

King Street Station - 1725 Duke Street
Tenant: The Shaw Group
Submarket: Old Town Alexandria
Square Feet: 21,308
Lease Type: Renewal
Signed 4th Quarter 2009

South Potomac Yard - 1100 N Fayette Street
Tenant: DC Metro Church
Submarket: Old Town Alexandria
Square Feet: 18,094
Lease Type: New
Signed 4th Quarter 2009

King Street Exchange - 1631-1633 Prince Street
Tenant: Washington Speakers Bureau
Submarket: Old Town Alexandria
Square Feet: 16,508
Lease Type: Renewal
Signed 3rd Quarter 2009

Waterfront II - 209 Madison Street
Tenant: Marketing General, Inc.
Submarket: Old Town Alexandria
Square Feet: 15,776
Lease Type: New
Signed 1st Quarter 2009

Edmonson Plaza - 1701 Duke Street
Tenant: Burgess Group
Submarket: Old Town Alexandria
Square Feet: 15,293
Lease Type: Pre-Lease
Signed 2nd Quarter 2009

Tysons Corner
Office

Trends

Vacancy Rate

Net Absorption

Construction

Asking Rents

Market Overview

The Tysons Corner Area is one of the most vibrant and largest office markets in the United States. Although it is a suburban office market, its 28.2 million square feet in size is greater than many central business districts. Geographically, it encompasses much of the towns of McLean and Vienna, Virginia. The Tysons Corner Area is attractive due to its proximity to its affluent residential areas in Fairfax County as well as the short drive to Washington, D.C. and Suburban Maryland. The area is home to major corporations, government contractors, accounting and consulting firms and software and technology companies.

Traffic congestion is a major complaint about the Tysons Corner Area. Remedies are in process such as the construction of the Capital Beltway's "Hot Lanes"; a 14 mile toll road that will be less congested and move faster than the existing highway. The scheduled opening of the Hot Lanes is 2013.

The Metro Rail is under construction through Tysons Corner towards Dulles Airport with an estimated completion date of 2013. There will be four rail stations that serve the Tysons Corner Area, as well as others further west.

During 2009, the Tysons Corner Office Market was hit hard by the downturn of the economy; similar to the rest of the region and United States. Companies downsized, renegotiated their leases or closed their doors. It was a period that tested building owners in the market. In many instances the choices for owners were to renegotiate the current tenants' leases for a lower rate or to lose them as a tenant. Many owners chose to work with tenants and weather the economic storm together.

A majority of the lease transactions were small; ranging in size from 1,000 square feet to 6,000 square feet. These small tenants were taking advantage of the soft market conditions by negotiating significant free rent, higher tenant build out allowances and shorter lease terms. Many of the tenants consisted of government contractors who were awarded federal contracts. These tenants required "as built" spaces for a term that coincided with their contracts; typically two to three years. Rental rates for office spaces were very competitive. Most rates ranged from $22.00 to $25.00 per square foot due to the sublease space that anxious sublandlords were willing to unload for a bargain. The overall average rental rate in Tysons Corner dropped from $30.79 per square foot in 2008 to a year end 2009 rate of $28.31 per square foot.

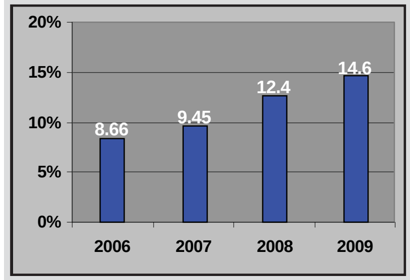
There were a few large transactions in the Tysons Corner Office Market. Hilton Worldwide relocated its corporate headquarters from California to 7930 Jones Branch Drive in Tysons Corner. Hilton occupies 118,321 square feet in the new building. NJVC signed a short term renewal of 82,442 square feet at 8614 Westwood Center Drive. Other major tenants in the market such as Dulles Transit Partners, Freddie Mac and AT&T Government Solutions renewed their leases in Tysons Corner.

Many owners did not want to lose major tenants such as the ones listed above. A typical scenario for a prospective tenant in the market during 2009 was their solicitation of offers from building owners who in turn would make

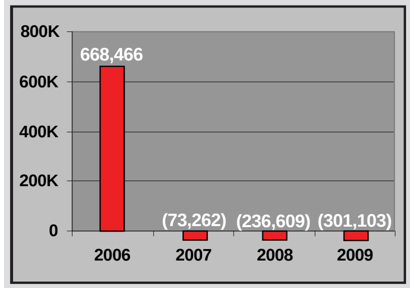
Statistics

Market Size	28,060,990
Overall Vacant Space (SF)	4,097,391
Overall Vacancy	14.6%
Sublease Vacancy	1.55%
Gross Direct Rental Rate	$28.78
2009 Absorption	(301,103)
Construction Completions	295,000
Under Construction	0

Vacancy Rate (%)



Absorption (SF)



Tysons Corner (cont.)
Office

TRENDS

Vacancy Rate

Net Absorption

Construction

Asking Rents

aggressive offers. The prospect returns to their current Landlord and uses the offers as negotiating tools. In the current environment, most landlords will improve the deal to entice the credit tenant to stay in their building. It is significantly cheaper for building owners to negotiate an aggressive rate for an existing tenant as opposed to losing the tenant and paying the marketing, transaction and build out costs of a new tenant. In addition, the lost income during vacancy and the uncertainty of finding a new tenant can be a financial strain on the property owner.

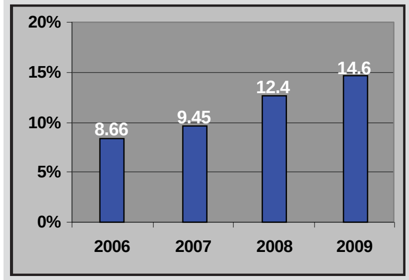
The Tysons Corner Office Market consists of 28,170,915 square feet of office space. The available space in the market is 20.5% or 4,366,519 square feet. Although the market remained active with approximately two million square feet of space leased, there were enough tenants that left the market to create a negative, net absorption of 292,388 square feet for the year 2009.

MARKET OUTLOOK

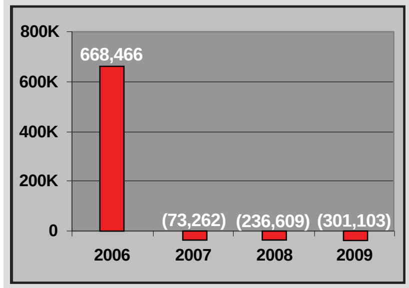
Only 225,000 square feet of new office space is scheduled for delivery during 2010. With no new projects in the immediate pipeline, it appears that any positive absorption will help reduce the vacancy in the future.

Economic trends indicate that the United States is through the worst of this recent recession. The Tysons Corner Office Market is poised to rebound with large blocks of available space for companies who are seeking space in the market. With major companies remaining in the area, the influx of government contractors and the recent relocation of Hilton Worldwide, it is our opinion that the market will begin a positive trend by year end, 2010. The recent announcement of Northup Grumman relocating its headquarters to the Washington, D.C. area brings an air of optimism to the Northern Virginia Area. With its excellent proximity to Washington, D.C. and its potential improvement of the traffic situation, Tysons Corner is always a strong candidate for major corporations.

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

Fairfax Building - Westpark - 8000 Jones Branch Drive
Tenant: Freddie Mac
Submarket: Tysons Corner
Square Feet: 202,840
Lease Type: Renewal
Signed 2nd Quarter 2009

Park Place II - 7930 Jones Branch Drive
Tenant: Hilton Hotels
Submarket: Tysons Corner
Square Feet: 118,231
Lease Type: New
Signed 1st Quarter 2009

Plaza Nineteen Hundred - 1900 Gallows Road
Tenant: AT&T Government Solutions
Submarket: Tysons Corner
Square Feet: 105,172
Lease Type: Renewal
Signed 1st Quarter 2009

The Concourse - 1595 Spring Hill Road
Tenant: Dulles Transit Partners
Submarket: Tysons Corner
Square Feet: 51,864
Lease Type: Renewal
Signed 3rd Quarter 2009

Terrace Building - Westpark - 7902 Westpark Drive
Tenant: Customink, LLC
Submarket: Tysons Corner
Square Feet: 46,080
Lease Type: New
Signed 4th Quarter 2009

8270 Greensboro Drive
Tenant: Cardinal Bank
Submarket: Tysons Corner
Square Feet: 45,607
Lease Type: Renewal/Expansion
Signed 3rd Quarter 2009

Westwood Corporate Center - 8619 Westwood Center Drive
Tenant: LISCR
Submarket: Tysons Corner
Square Feet: 33,275
Lease Type: New
Signed 3rd Quarter 2009

1660 International Drive
Tenant: Palantir
Submarket: Tysons Corner
Square Feet: 25,598
Lease Type: New
Signed 3rd Quarter 2009

Fairfax Square - 8075 Leesburg Pike
Tenant: EDS
Submarket: Tysons Corner
Square Feet: 24,604
Lease Type: Expansion
Signed 3rd Quarter 2009

Greensboro Park - 8180 Greensboro Drive
Tenant: Folio FN
Submarket: Tysons Corner
Square Feet: 23,482
Lease Type: Renewal
Signed 2nd Quarter 2009

Corporate Office Center at Tysons II - 1750 Tysons Boulevard
Tenant: Iridium Satellite
Submarket: Tysons Corner
Square Feet: 21,573
Lease Type: Renewal
Signed 2nd Quarter 2009

Greensboro Corporate Center - 8405 Greensboro Drive
Tenant: Care Rehab
Submarket: Tysons Corner
Square Feet: 21,465
Lease Type: New
Signed 4th Quarter 2009

1934 Old Gallows Road
Tenant: Cherry, Bekaert, and Holland
Submarket: Tysons Corner
Square Feet: 20,698
Lease Type: Expansion
Signed 1st Quarter 2009

1953 Gallows Road
Tenant: SAIC
Submarket: Tysons Corner
Square Feet: 20,593
Lease Type: New
Signed 1st Quarter 2009

Tyson Frederick Building - 1950 Old Gallows Road
Tenant: Telarix
Submarket: Tysons Corner
Square Feet: 17,865
Lease Type: New
Signed 3rd Quarter 2009

RESTON/HERNDON
Office

TRENDS

VACANCY RATE

NET ABSORPTION

CONSTRUCTION

ASKING RENTS

MARKET OVERVIEW

The Reston/Herndon market has grown over the last four years to exceed its neighbor, the greater Tysons Corner market, by about 4 million square feet. The submarket has shown continuous growth as a result of its close proximity to Dulles Airport, future Metrorail service, and a highly educated employment base. A variety of quality speculative office buildings with strong supporting retail components have attracted emerging new companies, Fortune 500 companies and international companies in searching for a US base of operations. Reston Town Center anchors a lifestyle center of activity that benefits the surrounding residential and business communities with a taste of downtown Washington, DC.

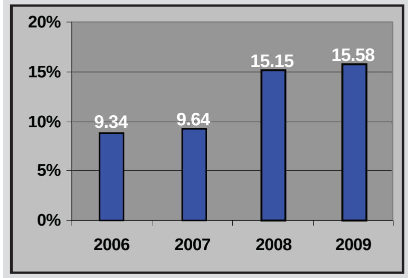
STATISTICS

Market Size	31,245,745
Overall Vacant Space (SF)	4,868,785
Overall Vacancy	15.58%
Sublease Vacancy	2.14%
Gross Direct Rental Rate	$27.76
2009 Absorption	532,114
Construction Completions	235,436
Under Construction	0

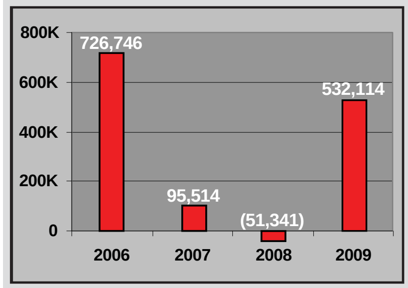
MARKET OUTLOOK

As the vacancy rate for the corridor has spiked dramatically in the last 18 months, the current economic conditions have tabled most all speculative commercial development for the near future. Should the economy begin to rebound in 2010 with the current amount of large tenants looking for space in the area, the Reston/Herndon submarkets should see vacancy rates begin to come back down. Limited available land sites left for purchase and development will attract some interest in looking at redevelopment sites along the Dulles Toll Road and near future Metrorail stops, which are slated for completion by 2016. The 2009 year end vacancy rate of 15.58% will continue to lower rents and increase landlord concessions for tenants in need of new space in the near future. However, the lack of new construction will begin to stabilize the downward rent spiral. This combined with tenant demand for beneficial economical lease deals should help reduce the vacancy rate. Raw land and existing building acquisitions will continue to be sparse, occurring primarily with all cash buyers with little or no debt financing. The investment sales market of existing office buildings should see a slight increase in 2010 as the credit crunch loosens up and the bid/ask disparity that plagued 2009 come closer together establishing new market prices. However, the large players like institutional, and REIT owners will be very prudent in their acquisition and disposition of commercial real estate over the next 24 months.

VACANCY RATE (%)



ABSORPTION (SF)



SIGNIFICANT ACTIVITY

Lease Transactions

Presidents Park - 2525 Network Place
Tenant: BAE Systems
Submarket: Herndon
Square Feet: 156,667
Lease Type: Renewal/Expansion
Signed 1st Quarter 2009

Reston Eastpointe - 11091 Sunset Hills Road
Tenant: QinetiQ North America
Submarket: Reston
Square Feet: 121,157
Lease Type: New
Signed 2nd Quarter 2009

Parkridge Center - 10803-10805 Parkridge Boulevard
Tenant: GSA
Submarket: Reston
Square Feet: 110,560
Lease Type: Renewal/Expansion
Signed 1st Quarter 2009

Dulles Overlook - 575 Herndon Parkway
Tenant: Booz Allen Hamilton
Submarket: Herndon
Square Feet: 110,000
Lease Type: New
Signed 4th Quarter 2009

11111 Sunset Hills Road
Tenant: GCI, Inc.
Submarket: Reston
Square Feet: 85,588
Lease Type: New
Signed 3rd Quarter 2009

Monument III @ Worldgate - 12930 Worldgate Drive
Tenant: ITT Corporation
Submarket: Herndon
Square Feet: 84,810
Lease Type: New
Signed 2nd Quarter 2009

Worldgate II - 12851 Worldgate Drive
Tenant: Navy Federal Credit Union
Submarket: Herndon
Square Feet: 80,582
Lease Type: Renewal
Signed 4th Quarter 2009

Two Reston Crescent - 12018 Sunrise Valley Drive
Tenant: LaFarge North America
Submarket: Reston
Square Feet: 63,324
Lease Type: New
Signed 3rd Quarter 2009

Sale Transactions

Sallie Mae Complex - 12061 Bluemont Way
Buyer: Rockwood Capital
Building Type: Class A - Office
Building Size: 243,000
Sale Price: $68,000,000 or $279.84 PSF
Submarket: Reston
Sale Date: November 2009

Monument III @ Worldgate - 12930 Worldgate Drive
Buyer: MRP Realty
Building Type: Class A - Office
Building Size: 193,138
Sale Price: $51,000,000 or $264.06 PSF
Cap Rate: 8.30%
Submarket: Herndon
Sale Date: December 2009

Lake Fairfax Business Center - 1761 Business Center Drive
Buyer: Pragmatics, Inc.
Building Type: Class A - Office
Building Size: 95,479
Sale Price: $10,693,648 or $112.00 PSF
Submarket: Reston
Sale Date: December 2009

Route 28 North
Office

TRENDS

Vacancy Rate

Net Absorption

Construction

Asking Rents

MARKET OVERVIEW

The Dulles north corridor (submarket) is defined as those properties located north of The Dulles International Airport extending up state route 28 to state route seven on the northern side. This market has now grown from the excesses of the Reston/Herndon locale and affords today's tenants with a more economic alternative should they not seek the highly sought after Toll Road frontage. Government contracting, information technology and the various service industries supply the majority of the office space occupying this corridor.

The Dulles North office submarket has 135 office buildings containing 9 million SF of inventory. In 2009 there was no additional construction due to the economic downturn of 2008. Prior to this time period this submarket typically delivered 400,000 SF of new product and absorbed 200,000 SF annually. As a result of no new construction coupled with the Raytheon lease of AOL's former headquarters, we absorbed more than 528,000 SF. This brought the vacancy rate from 21.5% to 16.1%.

RREEF finished construction on 2 class A buildings (220,000) as part of the "power center" with Lowes, Sam's Club, Best Buy and Ethan Allen in 2008 which may be nearing occupancy sometime in 2010. Occupancy of those buildings coupled with the filling of some large holes in Loudoun Tech Center and Loudoun Gateway could have a significant positive impact on vacancy in 2010. Provided the discipline of holding back on new construction continues for this submarket, rental rates should slow their decline and stabilize for the next few years.

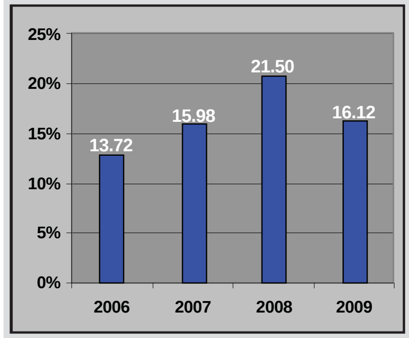
MARKET OUTLOOK

Net absorption for this submarket has been 200,000 SF per year. With 1.6 million SF available in a submarket of 9.1 million SF, we have 3 years of supply overhang (assuming 10% vacancy as "equilibrium"). The "future/ proposed" plans include an additional 9.5 million SF of supply. It is unclear when these developments will get underway, but we believe it is safe to assume no further development other than "build to suits" through 2010 and into 2011. We also forecast a further decline in the rental rates through 2010, with a stabilizing in 2011 at 10% lower than today.

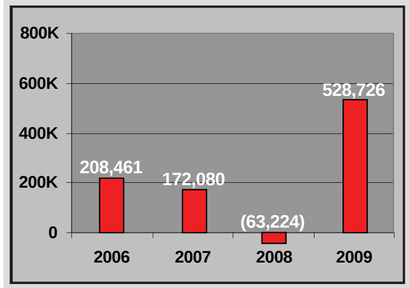
STATISTICS

Market Size	9,043,498
Overall Vacant Space (SF)	1,457,697
Overall Vacancy	16,12%
Sublease Vacancy	1.20%
Gross Direct Rental Rate	$24.48
2009 Absorption	528,726
Construction Completions	0
Under Construction	0

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

22260 Pacific Boulevard
Tenant: Raytheon Company
Submarket: Route 28 North
Square Feet: 184,838
Lease Type: New
Signed 2nd Quarter 2009

22110 Pacific Boulevard
Tenant: Raytheon Company
Submarket: Route 28 North
Square Feet: 179,940
Lease Type: New
Signed 2nd Quarter 2009

22265 Pacific Boulevard
Tenant: Raytheon Company
Submarket: Route 28 North
Square Feet: 175,021
Lease Type: New
Signed 2nd Quarter 2009

22270 Pacific Boulevard
Tenant: Raytheon Company
Submarket: Route 28 North
Square Feet: 133,053
Lease Type: New
Signed 2nd Quarter 2009

Merritt X @ Loudon Tech Center - 46000 Center Oak Plaza
Tenant: NeuStar, Inc.
Submarket: Route 28 North
Square Feet: 60,178
Lease Type: Renewal
Signed 2nd Quarter 2009

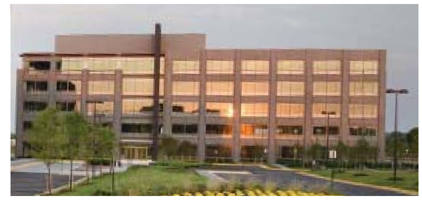
Corporate Campus - Loudon Tech Center - 21660 Ridgetop Circle
Tenant: Textron Systems, Inc.
Submarket: Route 28 North
Square Feet: 30,563
Lease Type: New
Signed 2nd Quarter 2009

Loudon Gateway IV - 22980 Indian Creek Drive
Tenant: Evolvent
Submarket: Route 28 North
Square Feet: 26,043
Lease Type: New
Signed 3rd Quarter 2009

Sale Transactions

Broad Run Building E - 22340 Dresden Street
Buyer: Verisign
Building Type: Class B - Office
Building Size: 126,934 SF
Sale Price: $26,250,000 or $206.80 PSF
Submarket: Route 28 North
Sale Date: November 2009

Route 28 South
Office



TRENDS

Vacancy Rate

Net Absorption

Construction

Asking Rents

MARKET OVERVIEW

The Dulles south corridor (submarket) is defined as those properties located south of The Dulles International Airport Toll Road extending down state Route 28 to Westfields (north of I-66 and south of state Rt 50). This market has continued to evolve from a flex market to a class-A office market. As a result of the Federal Government and the NRO in Westfields a mature development has emerged in Westfields and the surrounding areas. Companies that need to be closely associated to branches of the Government have found their home not far from Dulles, and their residential home is located in close proximity as well. Just like Dulles North contractors, information technology and the various service industries supply the majority of the office space occupying this corridor.

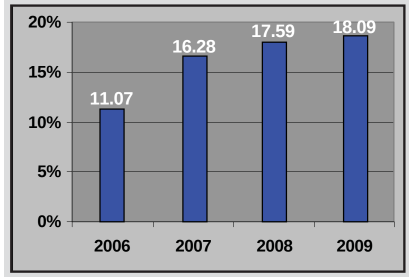
The Dulles South office submarket has 156 office buildings containing 13.3 million SF of inventory. In 2009 there were 2 new buildings completed (156,000 SF) and a net absorbtion of 82,000 SF. Prior to the economic meltdown, this submarket typically delivered 1 million SF and absorbed nearly 700,000 SF on average. Headed by the lack of construction, the drop in net absorption increased the vacancy rate slightly to 18%. This is up from 2008 at 17.6% and 2007 at 16.3%.

Large vacancies in Westfields (1,000,000 SF) and some newer buildings at McLearen Rd. (300,000 SF) may be nearing occupancy sometime in 2010. These lease ups will be necessary to improve market fundamentals in 2010. Even with the lack of new construction continuing for this submarket, rental rates most likely will continue their decline through 2010. As Landlords aggressively compete for deals.

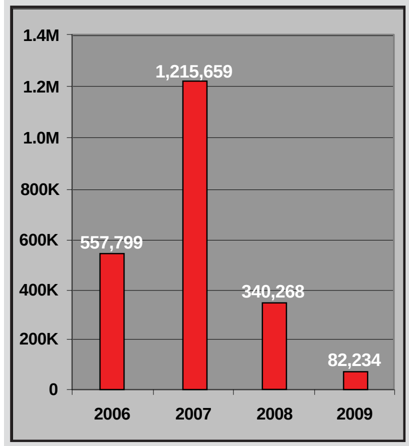
STATISTICS

Market Size	13,334,776
Overall Vacant Space (SF)	2,412,712
Overall Vacancy	18.09%
Sublease Vacancy	0.90%
Gross Direct Rental Rate	$26.80
2009 Absorption	82,234
Construction Completions	159,500
Under Construction	0

Vacancy Rate (%)



Absorption (SF)



MARKET OUTLOOK

Net absorption for this submarket has been averaging 700,000 SF per year. With 2.4 million SF available in a submarket of 13.3 million SF, we have 2 years of supply overhang (assuming 10% vacancy as "equilibrium"). The "future/proposed" plans include an additional 13 million SF of supply. As with the Route 28 North submarket it is unclear when these developments will get underway. We believe it is safe to assume no further development other than "build to suits" through 2010 and into 2011. We also can forecast a further decline in the rental rates through 2010, with a stabilizing in 2011 at 10% lower than today.

Significant Activity

Lease Transactions

McLearen Center - 13857 McLearen Road
Tenant: General Dynamics
Submarket: Route 28 South
Square Feet: 130,477
Lease Type: New
Signed 4th Quarter 2009

2900 Towerview - 2900 Towerview Road
Tenant: Qwest Communications
Submarket: Route 28 South
Square Feet: 66,666
Lease Type: New
Signed 1st Quarter 2009

Meadow Point - Westfields - 14151 Park Meadow Drive
Tenant: American Systems Corp.
Submarket: Route 28 South
Square Feet: 55,886
Lease Type: New
Signed 2nd Quarter 2009

Independence Center 2 - Westfields - 15040 Conference Center Drive
Tenant: Technology Management Associates
Submarket: Route 28 South
Square Feet: 48,641
Lease Type: New
Signed 1st Quarter 2009

Independence Center - Westfields - 15036 Conference Center Drive
Tenant: Northrup Grumman
Submarket: Route 28 South
Square Feet: 45,054
Lease Type: New
Signed 4th Quarter 2009

Enterprise Building - 4100 Lafayette Center Drive
Tenant: Harris Corporation
Submarket: Route 28 South
Square Feet: 27,670
Lease Type: Renewal
Signed 1st Quarter 2009

Trinity Centre 2 - 5860 Trinity Parkway
Tenant: Camber Corporation
Submarket: Route 28 South
Square Feet: 26,169
Lease Type: New
Signed 2nd Quarter 2009

Sale Transactions

Westfields - 4807 Stonecroft Boulevard
Buyer: Franklin Street Properties Group
Building Type: Class A - Office
Building Size: 111,469 SF
Sale Price: $29,000,000 or $260.16 PSF
Cap Rate: 9.01%
Submarket: Route 28 South
Sale Date: June 2009

Leesburg/Route 7 Corridor
Office

TRENDS

Vacancy Rate ↑

Net Absorption ↓

Construction ↓

Asking Rents ↓

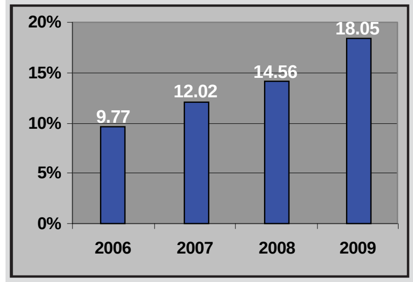
MARKET OVERVIEW

The Route Seven corridor is defined as those properties aligned along State Route Seven from the Fairfax/Loudoun County boundary westward to Leesburg Virginia. The federal government, local and regional commerce, the service industry, and information technology, provide the tenants for the entire corridor. The majority of this corridor is made up of class A office space. In 2008 this corridor constructed six new buildings totaling 373,000 square feet producing an overhang of 660,000 square feet. In 2009 eight new buildings were constructed for 231,000 square feet thereby increasing the overhang to 854,000 square feet. This coupled with existing vacancy us in a 1.1 Million SF surplus at year end. Within the last 3 years there has also been a wave of office condominium construction which has added additional damage to the lease up of these empty buildings. Considering this corridor absorbs approximate 200,000 square feet per year, these numbers are troubling. To compound the situation in addition to the number of vacant completed class A office buildings and empty condos, we still have a number of projects whose infrastructure is complete or nearing completion. These include “Lexington Seven” whose infrastructure is complete, “Village at Leesburg” a live-work-play development nearing completion with Wegmans and the accompanying retail environment, and “One Loudoun Center” which includes a life sciences business park, located at the Loudoun County Parkway interchange (under development). One Loudoun Center alone could add an additional 3 million square feet of commercial space, of which 2 million SF will be class A office.

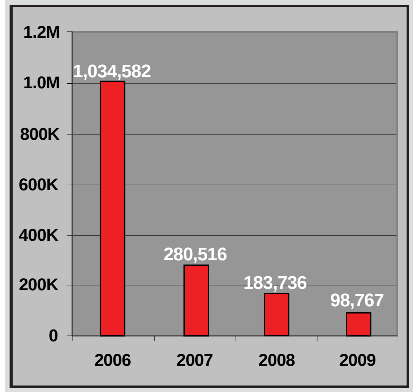
STATISTICS

Market Size	6,266,436
Overall Vacant Space (SF)	1,131,360
Overall Vacancy	18.05%
Sublease Vacancy	0.47%
Gross Direct Rental Rate	$26.87
2009 Absorption	98,767
Construction Completions	230,966
Under Construction	0

Vacancy Rate (%)



Absorption (SF)



MARKET OUTLOOK

The good news is we have the federal government. The bad news is we are all impacted by the economic downturn. With an existing overhang of 1.1 million SF beginning 2010, we expect continuing high vacancy into 2011. Averaging only 200,000 SF per year of absorption, that alone gives us a 5 year supply. Couple this with the Village at Leesburg (250,000), Lexington Seven (600,000), One Loudoun Center (2,000,000) and Kincora (4,000,000); we have planned supply to last another 2 economic cycles (16 years) at least.

With this amount of square feet existing and coming on line we suspect this market will have negative rent growth of at least 5% per year for the next 4 years. Following that we anticipate rates will flatten and stay that way for an additional year or so before exhibiting any kind of rent growth.

Significant Activity

Lease Transactions

National Association of Letter Carriers Building - 20547 Waverly Court
Tenant: National Association of Letter Carriers
Submarket: Route 7 Corridor
Square Feet: 88,432
Lease Type: Renewal
Signed 4th Quarter 2009

6 Pidgeon Hill Drive
Submarket: Route 7 Corridor
Square Feet: 3,255
Lease Type: New
Signed 3rd Quarter 2009

21351 Gentry Drive
Submarket: Route 7 Corridor
Square Feet: 1,487
Lease Type: New
Signed 1st Quarter 2009

22630 Davis Drive
Submarket: Route 7 Corridor
Square Feet: 5,161
Lease Type: New
Signed 1st Quarter 2009

20130 Lakeview Plaza
Submarket: Route 7 Corridor
Square Feet: 7,441
Lease Type: New
Signed 1st Quarter 2009

44965 Aviation Drive
Submarket: Route 7 Corridor
Square Feet: 2,810
Lease Type: New
Signed 2nd Quarter 2009

21700 Atlantic Boulevard
Submarket: Route 7 Corridor
Square Feet: 11,003
Lease Type: New
Signed 4th Quarter 2009

Lakeview Building B - 20135 Lakeview Center Plaza
Tenant: Curtis Wright Corp.
Submarket: Route 7 Corridor
Square Feet: 30,999
Lease Type: New
Signed 2nd Quarter 2009

Corporate Campus Building C - 21660 Ridgetop Circle
Tenant: Textron Inc.
Submarket: Route 7 Corridor
Square Feet: 30,563
Lease Type: New
Signed 2nd Quarter 2009

Belmont Executive Center Building A - 19775 Belmont Executive Plaza
Tenant: Melbourne
Submarket: Route 7 Corridor
Square Feet: 7,885
Lease Type: New
Signed 2nd Quarter 2009

Prince William County
Office

TRENDS

Vacancy Rate ↑

Net Absorption ↓

Construction ↓

Asking Rents ↓

MARKET OVERVIEW

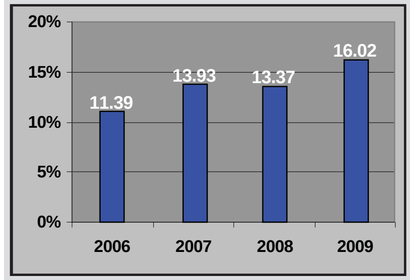
Prince William County's office market consists of the Western Prince William market (Manassas Rt. 29/I-66 Corridors) and the Eastern Prince William Market (Woodbridge/ Dumfries Corridor). The two markets are connected via the Prince William County Parkway and the Rt. 234 Bypass and served by I-66 in the West and I-95 in the East. The combined markets have an inventory of approximately 5.15 Million SF with rental rates ranging from $18.00 - $23.00 for relet and $22.00 - $27.00 for new construction. The County has been hit hard by the recession as residential foreclosures flooded the market and housing values declined sharply. This has resulted in the construction and supporting service sectors seeing a drastic increase in unemployment, ultimately leading to a severe reduction in demand for office space.

Several bright spots can be seen in the County, however. Activity can be seen in Southeastern Prince William as DOD contractors have continued to position themselves for BRAC contracts requiring access to Quantico and Fort Belvoir. BAE Systems, EG&G, MTC Technologies, SAIC, Stanley Associates and Progeny Systems are just a few of the government contractors that have opened office in the past several years. However, while BRAC promised a sudden boom in office absorption, the reality has been a slow yet steady influx. Western Prince William has continued to solidify itself as a leader in forensics and life sciences. Already having the FBI Northern Virginia Resident Agency and Covance Laboratories as occupants, Innovation Park has strengthened this reputation with the completion of the State of Virginia's new 114,000 SF forensic lab, and the ground breaking of George Mason's 53,000 SF Biomedical Research Laboratory.

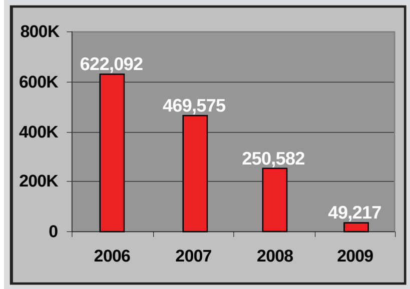
STATISTICS

STATISTICS	
Market Size	7,538,288
Overall Vacant Space (SF)	1,207,622
Overall Vacancy	16.02%
Sublease Vacancy	0.45%
Gross Direct Rental Rate	$22.76
2009 Absorption	49,217
Construction Completions	249,411
Under Construction	32,400

Vacancy Rate (%)



Absorption (SF)



MARKET OUTLOOK

Even though speculative development ground to a near halt early in the year, vacancy rates have risen to 17.8% on the back of a growing tide of available relet space. Landlords have slowly adapted to the new leasing atmosphere becoming extremely competitive in the hopes of filling vacant space, thereby compressing rental rates. On a positive note the housing market has shown signs of stabilizing in the County and consumer confidence is slowly starting to return, leaving many to believe that job growth could return this year.

Significant Activity

Lease Transactions

14349 Gidean Drive
Tenant: Stratford University
Submarket: Woodbridge
Square Feet: 42,252
Lease Type: New
Signed February 1, 2009

3700 Fetter Park Drive
Tenant: Defense Contractor Service Engineering Group
Submarket: Dumfries
Square Feet: 25,000
Lease Type: New
Signed June 1, 2009

Synergy Center - 8700 Centreville Road
Tenant: Synergy One Federal Credit Union
Submarket: Manassas
Square Feet: 24,047
Lease Type: Renewal
Signed 1st Quarter 2009

18354 Quantico Gateway Drive
Tenant: The United Mine Workers of America
Submarket: Dumfries
Square Feet: 21,672
Lease Type: New
Signed September 15, 2009

Heritage Hunt Corporate Park - 13575 Heathcote Boulevard
Tenant: Dewberry & Davis
Submarket: Route 29/I-66 Corridor
Square Feet: 12,655
Lease Type: New
Signed 4th Quarter 2009

Sale Transactions

7000 Infantry Ridge Road
Buyer: LNR Partners
Building Size: 28,323 SF on 8.2 Acres
Sale Price: $5,100,000 or $180 PSF
Submarket: Manassas
Sale Date: October 21, 2009
Comments: Property is 50% occupied

14370 Lee Highway
Buyer: Undisclosed
Building Type: Class B - Medical Office
Building Size: 15,287 SF
Sale Price: $3,100,000
Cap Rate: 7.1%
Submarket: Gainesville
Sale Date: May 1, 2009
Comments: Building is 100% leased

Synergy Center - 8700 Centreville Road
Buyer: W.S. Jenks & Son
Building Size: 55,086
Sale Price: $8,500,000 or $154.30 PSF
Cap Rate: 11%
Submarket: Manassas
Sale Date: March 10, 2009

Downtown Washington, DC
Office

TRENDS

Vacancy Rate

Net Absorption

Construction

Asking Rents

MARKET OVERVIEW

Washington, DC has one of the most successful downtowns in the United States, and certainly one of the most unique. Statistically it's huge - only New York and Chicago have more office space, and it's always busting at the seams. The height limit has created a situation where there can never be enough supply to meet the demand. Combine that with the stabilizing force of the Federal Government and Downtown Washington routinely ranks as one of, if not the healthiest markets in the country.

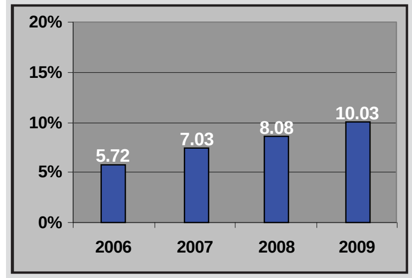
The "East End" (bounded by 15th Street on the West and N. Capitol Street on the East) is Washington, DC's largest submarket with 46.5 million SF, followed by the "Central Business District", (Bounded by 16th Street on the East and 22nd Street on the West) with 43.8 million SF. Also included in these market statistics is the "West End" with approximately 4 million SF. Proximity to the White House and other federal institutions draws many tenants to this area, including numerous lobbying firms, law firms and associations. Access to the metro rail system has also been a boon to the area as more workers look to ease their commutes by relying on mass transit. The CBD's strong tenant base has drawn scores of retail establishments and restaurants, amenities that less developed submarkets are unable to match.

An emerging trend in Washington, DC is Leadership in Environmental and Engineering Design ("LEED") buildings. Driven by a DC law passed in 2007, and tenant demand for LEED buildings, Washington DC is leading the way for the rest of the Country to have all new construction office buildings, as well as any major renovations of office buildings over 50,000 SF to meet certain LEED standards. With 1.7 million SF of buildings currently under construction, the majority of those building are in fact being built to LEED standards.

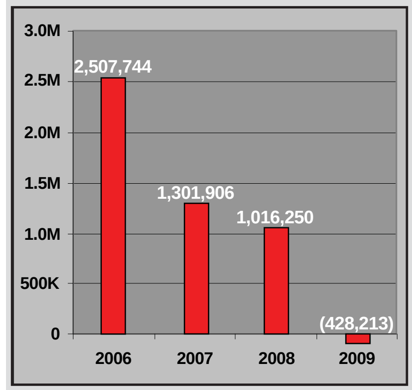
STATISTICS

Market Size	137,949,981
Overall Vacant Space (SF)	13,835,572
Overall Vacancy	10.03%
Sublease Vacancy	1.17%
Gross Direct Rental Rate	$48.78
2009 Absorption	(428,213)
Construction Completions	5,194,994
Under Construction	4,253,312

Vacancy Rate (%)



Absorption (SF)



MARKET OUTLOOK

With a total of approximately 94 million SF of office space, Downtown Washington, DC still remains a healthy market with a vacancy rate of 10.7%, (which is up from 7.3% in the 3rd quarter of 2008), and average rental rates for all classes of space at $48.82 PSF full service. Due to the recovering economy, and high unemployment numbers, office demand throughout the country has weakened, so expect vacancy rates to rise slightly, while rents decrease +/- 5%. Due to the presence of the Federal Government, strong tenant base, an abundance of amenities and numerous Metro rail stations, DC will continue to be one of the healthiest markets in the Country in 2010 despite the economic downturn.

Significant Activity

Lease Transactions

Patriots Plaza III - 355 E Street SW
Tenant: Department of Agriculture
Submarket: Southwest
Square Feet: 332,665
Lease Type: New
Signed 4th Quarter 2009

Constitution Square - 1275 First Street NE
Tenant: Department of Justice
Submarket: NoMA
Square Feet: 288,255
Lease Type: New
Signed 4th Quarter 2009

Station Place III - 700 2nd Street NE
Tenant: Kaiser Permanente
Submarket: NoMA
Square Feet: 209,476
Lease Type: New
Signed 3rd Quarter 2009

Capitol Plaza - 1200 1st Street NE
Tenant: DC Public Schools
Submarket: NoMA
Square Feet: 199,822
Lease Type: New
Signed 3rd Quarter 2009

Sale Transactions

1999 K Street NW
Buyer: Deka Immoblien Investment
Building Type: Class A - Office
Building Size: 250,345
Sale Price: $207,751,142 or $829.86 PSF
Cap Rate: 6.35%
Submarket: CBD
Sale Date: September 2009

1615 L Street NW
Buyer: Spitzer Engineering
Building Type: Class A - Office
Building Size: 414,915 SF
Sale Price: 180,000,000 or $433.82 PSF
Cap Rate: 6.05%
Submarket: CBD
Sale Date: March 2009

Potomac Center North - 500 12th Street SW
Buyer: INVESCO
Building Type: Class A - Office
Building Size: 497,196 SF
Sale Price: $153,650,000 or $309.03 PSF
Cap Rate: 8.50%
Submarket: Southwest
Sale Date: August 2009

1099 New York Avenue NW
Buyer: Credit Suisse Securities
Building Type: Class A - Office
Building Size: 174,705
Sale Price: $90,500,000 or $518.02 PSF
Submarket: East End
Sale Date: September 2009

Area Map
Industrial/Flex Submarket Map

I-95 Corridor
Industrial

TRENDS

Vacancy Rate ↑

Net Absorption ↔

Construction ↓

Asking Rents ↓

MARKET OVERVIEW

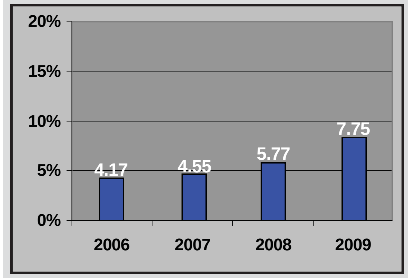
The I-95 Corridor Industrial cluster extends from I-395 west toward Route 1 and from the Capital Beltway along I-95 south through Newington, Virginia. The I-95 Corridor encompasses the submarkets of the I-395 Corridor, Eisenhower Avenue, Springfield, and Newington. The Corridor is characterized by older buildings, with no new development in the past 3 years, and no new proposed industrial developments in the pipeline. The area boasts 520 flex and industrial buildings with a total of 25,395,494 square feet of rentable building area and has maintained that size for more than three years. Tenants that call the I-95 Corridor home are attracted to the stability of the market and the proximity to the Beltway and I-95. While the Route 28 Corridor has seen vacancy rates jump dramatically due to overdevelopment and rampant speculative building, the vacancy rates in the I-95 Corridor have remained generally stable over the past year. Because of the steady vacancy rate and tenancy, I-95 industrial buildings have historically been able to command higher rents than the suburban markets despite the national economic downturn. The I-395 Corridor and Eisenhower Avenue submarkets have been able to maintain stronger market fundamentals due to their proximity to Washington DC and Old Town Alexandria while Springfield and Newington have been hit slightly harder by the recession.

The overriding market trend of the I-95 Corridor flex and industrial markets has been that new activity and the volume of transactions remains slow due to economic conditions. We have basically seen two tactics on the part of tenants, first a healthy percentage of the “tenants in the market” are existing tenants with lease expirations coming due in the next 6 - 18 months. Based on current conditions within their business or at the recommendation of their real estate agent, these tenants are looking to reposition their lease liability either through renegotiation of their current long-term lease or to negotiate an early renewal, effectively extending their lease term but reducing their current rental rates. Second, tenants whose leases are expiring are renewing with shorter terms while they wait for the economy to shake out.

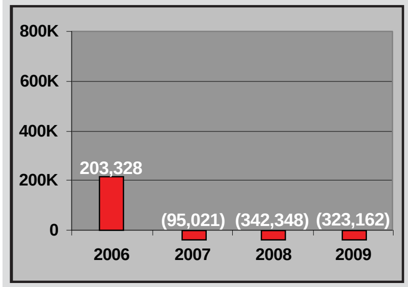
STATISTICS

Market Size	18,111,938
Overall Vacant Space (SF)	1,403,068
Overall Vacancy	7.75%
Sublease Vacancy	1.67%
Gross Direct Rental Rate	$9.54
2009 Absorption	(323,162)
Construction Completions	0
Under Construction	0

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

Plaza 500 - 6295 Edsall Road
Tenant: GSA
Submarket: Springfield
Square Feet: 70,946
Lease Type: Renewal
Signed 3rd Quarter 2009

Shirley Industrial Park - 5617 Industrial Drive
Tenant: Mr. Floor
Submarket: Springfield
Square Feet: 64,748
Lease Type: New
Signed 3rd Quarter 2009

Fleet Industrial Park - 6676-6684 Fleet Drive
Tenant: Advance Auto Stores
Submarket: Springfield
Square Feet: 35,635
Lease Type: New
Signed 3rd Quarter 2009

Fleet Distribution Center - 6303 Gravel Avenue
Tenant: 7-11, Inc.
Submarket: Springfield
Square Feet: 34,313
Lease Type: Renewal
Signed 2nd Quarter 2009

Interstate Plaza - 5775 General Washington Drive
Tenant: Meridian Imaging Solutions
Submarket: Springfield
Square Feet: 34,222
Lease Type: New
Signed 1st Quarter 2009

Sale Transactions

Fleet Industrial Park (8 Properties)
Buyer: Velsor Properties
Building Type: Industrial
Building Size: 489,704
Sale Price: $39,000,000 or $79.64 PSF
Submarket: Springfield
Sale Date: May 2009

Eisenhower Industrial Center (3 Properties)
Buyer: Velsor Properties
Building Type: Industrial
Building Size: 205,554
Sale Price: $16,500,000 or $80.27 PSF
Submarket: I-395 Corridor
Sale Date: November 2009

Shirley Edsal Industrial Park - 6440 General Green Way
Buyer: VDOT
Building Type: Industrial
Building Size: 28,290
Sale Price: $5,000,000 or $172.89 PSF
Submarket: Springfield
Sale Date: June 2009

I-95 Corridor
Flex

TRENDS

Vacancy Rate

Net Absorption

Construction

Asking Rents

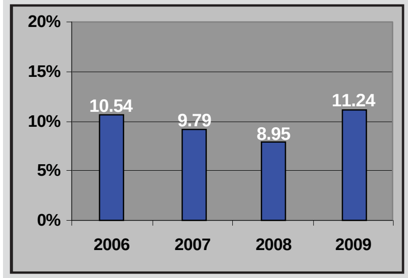
MARKET OVERVIEW

As the statistics show, the I-95 Corridor flex and industrial markets have weathering the storm, particularly compared to other national markets, and even some of the local submarkets. Vacancy rates while increasing to rates we have not seen in years, remain well below competing submarkets. With no new buildings coming online, we can expect the I-95 area to enter 2010 on stable ground. As the region hopes to pull itself out of the economic downturn in the next few quarters, we should begin to see market demand increase, which should drop vacancy rates while maintaining average rents for both flex and industrial properties. Faced with the lack of deal velocity and the possibility of further vacancy, many landlords have reluctantly renegotiated and/or renewed leases at lower rental rates than previously existed in order to retain their tenants and keep vacancy to a minimum. As we proceed into 2010, the tenant will continue to have the advantage when negotiating leases. Should the economy continue its recovery helped by government stimulus and BRAC activities, we may begin to see an increase in deal velocity improving market fundamentals.

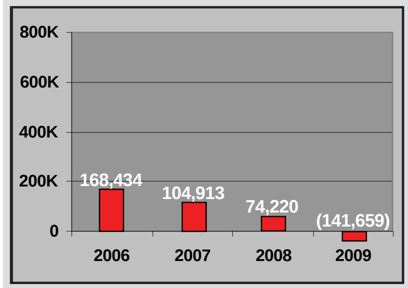
STATISTICS

Market Size	7,283,556
Overall Vacant Space (SF)	819,025
Overall Vacancy	11.24%
Sublease Vacancy	0.35%
Gross Direct Rental Rate	$13.86
2009 Absorption	(141,659)
Construction Completions	0
Under Construction	0

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

Clermont Interchange Center - 4600 Eisenhower Avenue
Tenant: ASAP Mailing and Fulfillment Center, Inc.
Submarket: I-395 Corridor
Square Feet: 32,000
Lease Type: Renewal
Signed 3rd Quarter 2009

Clermont Interchange Center - 4604 Eisenhower Avenue
Tenant: Green Recycling Network
Submarket: I-395 Corridor
Square Feet: 32,000
Lease Type: Renewal
Signed 2nd Quarter 2009

Alexandria Corporate Park - 6315 Bren Mar Drive
Tenant: Federal Protective Services
Submarket: Springfield
Square Feet: 25,000
Lease Type: New
Signed 3rd Quarter 2009

Clermont Interchange Center - 4602 Eisenhower Avenue
Tenant: DC Foam Recycle Center
Submarket: I-395 Corridor
Square Feet: 16,000
Lease Type: Renewal
Signed 2nd Quarter 2009

Sale Transactions

4600-4604 Eisenhower Avenue (3 Properties)
Buyer: Jetro Cash & Carry
Building Type: Flex
Building Size: 88,840
Sale Price: $13,250,000 or $149.14 PSF
Submarket: I-395 Corridor
Sale Date: October 2009

Shirley Edsal Industrial Park - 5740 General Washington Drive
Buyer: Basim Mansour
Building Type: Flex
Building Size: 18,496
Sale Price: $4,200,000 or $227.08 PSF
Submarket: Springfield
Sale Date: July 2009

Route 28 North
Industrial

TRENDS

Vacancy Rate ↑

Net Absorption ↓

Construction ↓

Asking Rents ↓

MARKET OVERVIEW

The Dulles North Corridor is defined as those properties north of Dulles International Airport extending up Rt. 28 to Rt. 7 in Loudoun County. With the Federal Government, local and regional commerce, and most importantly, Dulles International Airport as the economic engine, the market consists of a variety of tenants including government contractors, 3PL's, fulfillment centers, local and regional distribution hubs, and a variety of service corporations. The industrial market, at just over 11.5 Million square feet, had been a bright spot in the Northern Virginia market over the past few years. It had enjoyed low vacancy rates, continued speculative construction, and stable rental rate increases. The current economic recession coupled with a sharp increase in speculative construction has reversed those gains and led to deteriorating market fundamentals. The impact is even more severe on the Dulles North Corridor's flex market as weak demand and continued speculative deliveries have exacerbated a struggling market sector. We see this trend continuing through mid to late 2010.

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 650,000 SF per year of new construction, mostly in the Dulles North Corridor. 2009's pace fell short of this mark, which, along with virtually no new deliveries scheduled for 2010, should help slow the velocity of rising vacancy rates. Asking shell rental rates for new construction are $7.00 - $7.75 NNN for Industrial. 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 these shell rates above the $7.00 range.

Current economic and market uncertainty, has negatively impacted the industrial sector with vacancy rates jumping to 11.6%, a three basis point increase from year end 2008. With a majority of users opting to renew their leases to save on moving costs, Landlords find themselves competing aggressively for quality deals, creating an industrial market with tenants squarely in the driver's seat for the first time in 5 years. These factors have led to continued rental rate compression and an increase in rental concessions. Rental abatement from 4 - 6 months has become very common for strong credit worthy tenants.

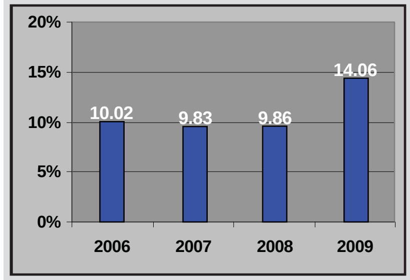
MARKET OUTLOOK

With only 166,000 SF of net absorption for the year, we see the market continuing these trends, however, the lack of new construction starts will help begin the stabilization process. Furthermore, 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. This will position the Dulles North Industrial market favorably when the economy begins to turn the corner.

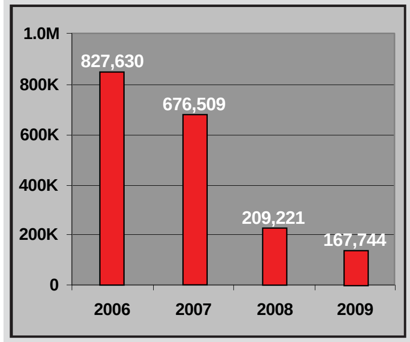
STATISTICS

Market Size	11,401,011
Overall Vacant Space (SF)	1,602,686
Overall Vacancy	14.06%
Sublease Vacancy	0.45%
Gross Direct Rental Rate	$8.14
2009 Absorption	167,744
Construction Completions	502,515
Under Construction	17,800

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

Post Office Building - 22520 Randolph Drive
Tenant: USPS
Submarket: Route 28 North
Square Feet: 138,920
Lease Type: Renewal

Dulles Distribution Center - 45070 Old Ox Road
Tenant: Guernsey Office Products
Submarket: Route 28 North
Square Feet: 71,800
Lease Type: New

ProLogis Park - 45055 Underwood Lane
Tenant: Tessada & Associates, Inc.
Submarket: Route 28 North
Square Feet: 71,564
Lease Type: New

TransDulles Centre - 22626 Sally Ride Drive
Tenant: Rockwell Collins
Submarket: Route 28 North
Square Feet: 43,120
Lease Type: Renewal

Significant Activity (cont.)

Lease Transactions (cont.)

Oakbrook Commerce Center - 45685 Oakbrook Court
Tenant: Northern Virginia Volleyball Association
Submarket: Route 28 North
Square Feet: 41,630
Lease Type: New
Signed 3rd Quarter 2009

Northwoods - 22920 Ladbrook Drive
Tenant: Kuehne & Nagel, Inc.
Submarket: Route 28 North
Square Feet: 30,523
Lease Type: Pre-Lease
Signed 3rd Quarter 2009

TransDulles Centre - 22815 Glenn Road
Tenant: EIT Electronic Instrument & Technology
Submarket: Route 28 North
Square Feet: 27,044
Lease Type: New
Signed 3rd Quarter 2009

Airport Commerce Center - 22712 Commerce Center Court
Tenant: Simplex Grinnell
Submarket: Route 28 North
Square Feet: 23,787
Lease Type: Renewal
Signed 2nd Quarter 2009

Route 28 North
Flex

TRENDS

Vacancy Rate

Net Absorption

Construction

Asking Rents

MARKET OVERVIEW

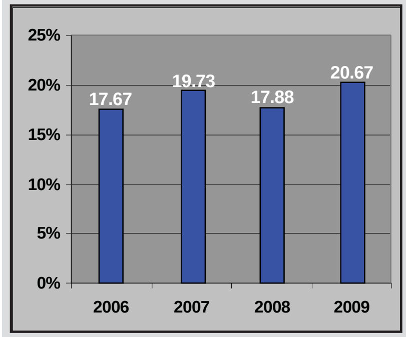
As was the case in the Industrial market, the majority of speculative flex construction was concentrated in the Dulles North market, and it continues to be hit hardest by the prolonged market downturn. With over 600,000 square feet of new deliveries in the past 18 months, leasing velocity and net absorption of 220,000 square feet, have been too low in contrast maintaining the 20% vacancy rate. With over 1.9 Million square feet of vacancy out of a 9.8 Million square foot inventory one can see the severity of the situation. There is ample supply to meet tenant demand based on current absorption trends for the foreseeable future.

Deal velocity, while picking up modestly recently, consists of Tenant's who are pushing the envelope looking for aggressive deals. 25 - 40% of the time they have no intention of moving but instead use the aggressive market deals offered by competing landlords to get better concessions from their existing landlord. While asking relet rates range from $9.00 - $14.00 NNN depending on the level of finish and quality of the park, actual deals are significantly less with considerable TI packages and rental abatement. These amounts vary based on the lease term and credit of the tenant with 6 months or more of abatement common for stronger tenants. Further impacting the sector 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 even further deterioration as this product finds its way back in the hands of lenders. Well positioned flex product, however, will continue to see the majority of deals as tenants look for stability in ownership.

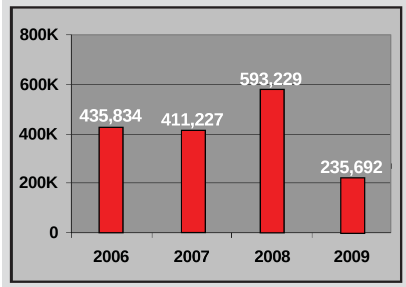
STATISTICS

Market Size	9,392,082
Overall Vacant Space (SF)	1,941,733
Overall Vacancy	20.67%
Sublease Vacancy	1.16%
Gross Direct Rental Rate	$10.47
2009 Absorption	235,692
Construction Completions	390,940
Under Construction	0

Vacancy Rate (%)



Absorption (SF)



MARKET OUTLOOK

The health of the flex market and speed to recovery will depend on the regions economic recovery, Federal and Technology spending, and population and/or employment growth. Landlord's have finally reigned in their development with no speculative starts on the horizon. This coupled with positive trends in each of our market drivers will help increase net absorption as service and government contractor businesses emerge, grow and expand. However, until those trends turn positive we will continue to see deteriorating fundamentals dominated by the tenant. Landlords must be aggressive in deal making; putting continued downward pressure on rental rates while increasing concessions.

Significant Activity

Lease Transactions

Dulles North Corporate Park - 45472 Holiday Drive
Tenant: SAIC
Submarket: Route 28 North
Square Feet: 47,000
Lease Type: Renewal
Signed 3rd Quarter 2009

Northwoods - 23031 Ladbrook Drive
Tenant: Niitek
Submarket: Route 28 North
Square Feet: 43,802
Lease Type: New
Signed 2nd Quarter 2009

Loudon Tech Center - 45980 Center Oak Plaza
Tenant: NeuStar, Inc.
Submarket: Route 28 North
Square Feet: 40,440
Lease Type: Renewal
Signed 2nd Quarter 2009

TransDulles Centre - 22635 Davis Drive
Tenant: Rockwell Collins
Submarket: Route 28 North
Square Feet: 30,000
Lease Type: New
Signed 3rd Quarter 2009

Corporate Campus at Ashburn - 21635 Red Rum Drive
Tenant: Pryme Technologies
Submarket: Route 28 North
Square Feet: 26,192
Lease Type: Expansion
Signed 2nd Quarter 2009

Sale Transactions

Corporate Campus at Ashburn - 21625, 21631, 21635 Red Rum Drive
Buyer: First Potomac Realty Trust
Building Type: Flex
Building Size: 192,234
Sale Price: $14,000,000 or $72.83 PSF
Submarket: Route 28 North
Sale Date: December 2009

Route 28 South
Industrial

TRENDS

Vacancy Rate

Net Absorption

Construction

Asking Rents

MARKET OVERVIEW

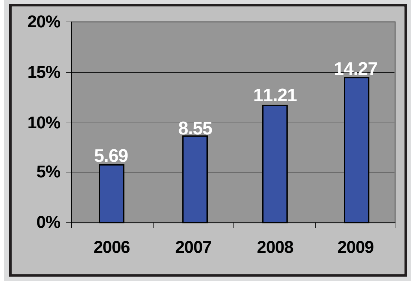
The Route 28 South Corridor is defined as the area directly south of Dulles Airport and primarily located in Chantilly, Virginia. It is a unique submarket that maintains edifices of all product type including flex, industrial, and office, with historically strong demand for all categories. Known as a submarket that has maintained low vacancy rates and stable rental rates, the current economic downturn has caught up with the Route 28 Corridor, for both flex and industrial buildings.

With a total rentable building area of 5,027,134 square feet, the industrial market has been on a steady decline in the Route 28 Corridor. Vacancy rates have increased significantly since 2006 and jumped dramatically in the last 2 years, going from 8.55% in 2007, up to 14.27% by the end of the 4th quarter of 2009. Net absorption for industrial properties has been negative since 2006 as well, with the end-of-year 2009 net absorption of a negative 54,589 square feet, faring slightly better than years past. Despite the dramatic rise in vacancy, the Route 28 South industrial market has been able to maintain fairly stable rental rates throughout the downturn, with the 2009 average asking rental rate being $8.01 NNN per square foot, down slightly from the 2008 average of $8.40 NNN per square foot. Fortunately, there has been no new construction in the past 2 years and no new development in the pipeline, which should help stabilize the vacancy rates in the future.

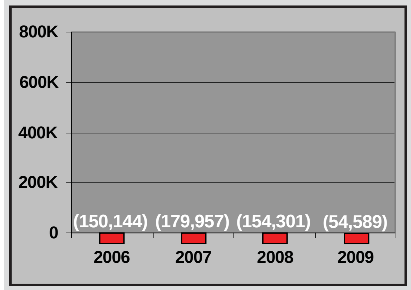
STATISTICS

Market Size	5,027,134
Overall Vacant Space (SF)	717,199
Overall Vacancy	14.27%
Sublease Vacancy	1.65%
Gross Direct Rental Rate	$8.01
2009 Absorption	(54,589)
Construction Completions	0
Under Construction	0

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

Westfax Business Center - 4104 Westfax Drive
Tenant: Amazon.com
Submarket: Route 28 South
Square Feet: 95,000
Lease Type: Renewal
Signed 3rd Quarter 2009

Chantilly Distribution Center - 3920 Stonecroft Boulevard
Tenant: NB Handy Company
Submarket: Route 28 South
Square Feet: 55,322
Lease Type: New
Signed 4th Quarter 2009

Southgate Business Center - 14801 Willard Avenue
Tenant: American Office
Submarket: Route 28 South
Square Feet: 41,453
Lease Type: Renewal
Signed 3rd Quarter 2009

Chantilly Distribution Center - 3920 Stonecroft Boulevard
Tenant: CB Floors
Submarket: Route 28 South
Square Feet: 25,000
Lease Type: Sublease
Signed 1st Quarter 2009

Route 28 South
Flex

TRENDS

Vacancy Rate ↑

Net Absorption ↓

Construction ↓

Asking Rents ↓

MARKET OVERVIEW

Much like the industrial market, the flex market in the Route 28 South submarket has seen better days. Vacancy rates at the end of the 4th quarter of 2009 remain on the rise, with vacancy at 16.30%, up from 10.61% at the end of 2008. The 2009 year end absorption for the submarket is much lower than subsequent years, with a negative 317,738 square feet leading to the rapid increase in vacancy rate. With rising vacancy rates plaguing the Route 28 South flex market, rental rates have been falling to combat the problem. The average asking rental rate for flex space at the end of the 4th quarter 2009 was $10.99 NNN per square foot, down significantly from the 2007 average rental rate of $13.17 NNN per square foot. As with the industrial market, there has been no new development in the last few years with no construction in the pipeline, which should help stabilize the market as we progress into 2010.

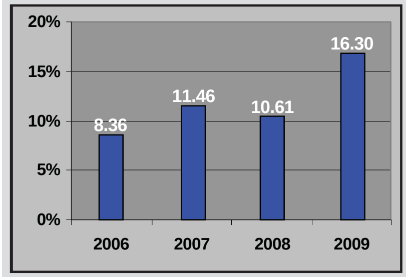
STATISTICS

Market Size	6,969,600
Overall Vacant Space (SF)	1,136,015
Overall Vacancy	16.30%
Sublease Vacancy	2.27%
Gross Direct Rental Rate	$10.99
2009 Absorption	(317,738)
Construction Completions	0
Under Construction	0

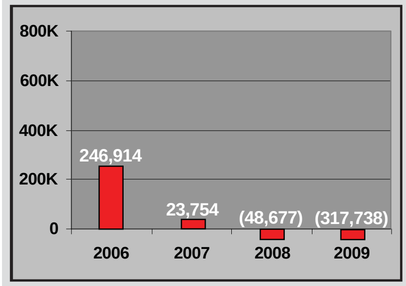
MARKET OUTLOOK

As the current economic downturn continues to impact the flex and industrial markets across the country, the ever resilient Washington region and more specifically the Route 28 South submarket have not been immune to its effects. Landlords are forced to offer strong concession packages to prospective new tenants as well as current tenants looking to move elsewhere, putting the tenant squarely in the driver's seat. As we enter 2010 we can expect continuing increases in vacancy rates coupled with a further compression of rental rates. However, with no new space being built in the foreseeable future and a market in recovery, the Route 28 South submarket should begin to stabilize and reverse deteriorating fundamentals.

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

Lafayette Business Center - 4151 Lafayette Center Drive
Tenant: The Teaching Company
Submarket: Route 28 South
Square Feet: 28,592
Lease Type: Renewal
Signed 1st Quarter 2009

Dulles Corporate Center - 14140 Parke-Long Court
Tenant: The History Factory Company
Submarket: Route 28 North
Square Feet: 26,831
Lease Type: Renewal
Signed 2nd Quarter 2009

PS Business Parks - 4115 Pleasant Valley Road
Tenant: Innovative Technologies, Inc.
Submarket: Route 28 South
Square Feet: 17,199
Lease Type: Renewal
Signed 4th Quarter 2009

Avion Business Park - 3725 Concorde Parkway
Tenant: National Captioning Institute, Inc.
Submarket: Route 28 South
Square Feet: 15,871
Lease Type: New
Signed 2nd Quarter 2009

Sullyfield Commerce Center - 14320 Sullyfield Circle
Tenant: Northrup Grumman
Submarket: Route 28 South
Square Feet: 15,729
Lease Type: Renewal
Signed 4th Quarter 2009

Prince William County
Industrial

TRENDS

Vacancy Rate ↑

Net Absorption ↓

Construction ↓

Asking Rents ↓

MARKET OVERVIEW

Prince William County's flex and industrial market consists of both the Woodbridge Corridor and the Manassas/ Rt. 29/I-66 Corridors. It is served by I-95 the Prince William County Parkway and I-66 providing access to the Capital Beltway to the East and I-81 to the West. In addition, the recent completion of the Rt. 234 bypass provides a more direct route between the corridors and I-95. It has approximately 11 million square feet of industrial inventory with vacancies pushing 10%, a significant increase from the 2008 year end 7.3%. Its flex market is much smaller with an inventory just shy of 4.5 million SF with vacancies falling one basis point from a high of 20% to 19% at year end.

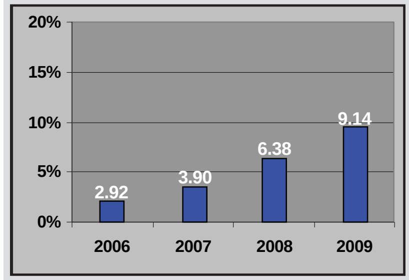
The market is fueled by prospects searching for a lower cost alternative to the Dulles and I-95 Corridors without going west to Winchester or further South to Stafford and Fredericksburg. The significant rise in vacancy from a low of 3% in the 1st Q of 2007 to today's 10% can be attributed to the recession's impact on its primary tenant base. A significant portion of the market was fueled by local businesses ridding the growth in both commercial and residential construction. As the economic downturn hit hard, the County had a disproportionate impact as these businesses suffered far greater than the national and regional players. The Rt. 29/I-66 submarket, the markets largest submarket making up 6.8 Million SF of inventory, has taken the brunt of the downturn with vacancies including sublet at over 13%. This submarket saw the majority of user driven and speculative construction during the bubble and has since been hit the hardest when it burst.

Rental rates range from $6.00 - $9.00 NNN depending on a number of factors: the level of office finish, clear height, truck courts, parking, outside storage capacity, and age of the buildings. It is our belief that rental rates will continue to compress as Landlord's are being forced to increase concessions and compete for a limited number of deals. In addition, we expect to see distressed assets begin to hit the market adding to further competition.
The market experienced its 3rd consecutive year of negative absorption at (257,000) SF; over (200,000) SF of which came from the Rt. 29 - I-66 Corridor. While market fundamentals will remain weak through 2010, we are cautiously optimistic for a modest rebound as a number of large transactions are beginning to percolate. Should a few of these hit in the County, their size will have a significant impact on improving fundamentals.

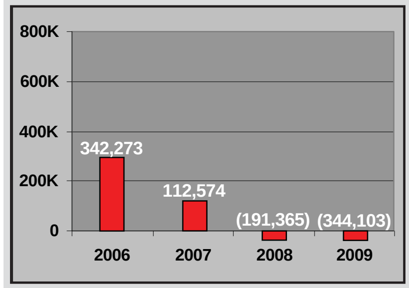
STATISTICS

Market Size	13,453,021
Overall Vacant Space (SF)	1,229,190
Overall Vacancy	9.14%
Sublease Vacancy	0.97%
Gross Direct Rental Rate (NNN)	$8.04
2009 Absorption	(344,103)
Construction Completions	23,370
Under Construction	117,600

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

13708 Dabney Road
Tenant: Professional Recovery
Submarket: Woodbridge
Square Feet: 24,698
Lease Type: New
Signed 3rd Quarter 2009

Featherstone Industrial Park - 14869 Persistence Drive
Tenant: Panel Systems
Submarket: Woodbridge
Square Feet: 20,000
Lease Type: New
Signed 1st Quarter 2009

Featherstone Industrial Park - 14962 Farm Creek Drive
Tenant: S & F Iron Works, LLC
Submarket: Woodbridge
Square Feet: 18,082
Lease Type: Renewal
Signed 4th Quarter 2008

Sale Transactions

Northern/Southern Industrial - 7891 Notes Drive
Buyer: Roof Center, Inc.
Building Type: Industrial
Building Size: 53,492 SF
Sale Price: $1,914,364 or $35.79 PSF
Submarket: Route 29/I-66 Corridor
Sale Date: April 2009

111430 Balls Ford Road
Buyer: J R Manassas LLC
Building Type: Industrial
Building Size: 16,802 SF
Sale Price: $1,800,000 or $107.13 PSF
Submarket: Route 29/I-66 Corridor
Sale Date: May 2009

Prince William County
Flex

TRENDS

Vacancy Rate

Net Absorption

Construction

Asking Rents

MARKET OVERVIEW

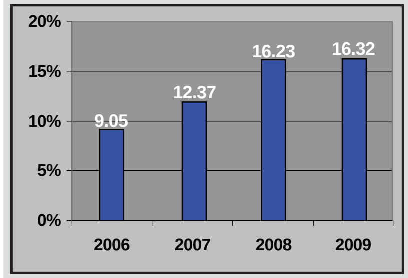
At over half the size of the industrial market, Prince William County's flex market has seen continued weakness in market fundamentals. Deal velocity is minimal with only 137,000 SF of net absorption and decreasing rental rates averaging $11.00 NNN. Vacancy rates at roughly 19% and increased competition for deals will compress rates further into 2010.

The market is supported by Quantico and Fort Belvoir to the East and Innovation @ Prince William, the counties 1,500 acre business and technology park anchored by George Mason University's life science campus, to the West. These catalysts help to foster growth in the region thereby increasing demand for R&D, lab, and general office space; all functions easily accommodated in the flex product. Furthermore, as the effects of BRAC continue to take hold and George Mason expands its campus, we expect an increase in demand from government contractors, technology, and life science corporations. With the lack of any new deliveries and the potential for a rebound mid to late 2010, the County should continue to see positive net absorption making a dent in the current vacancy. The market may be further helped, however, with the tight credit market pushing would be purchasers of office and flex condos into the lease market. A soft economy also causes tenants to seek more economic lease alternatives to traditional office. The flex market helps to fill that demand and with increased concessions and decreasing rental rates, it should begin to see the benefits of such throughout the year.

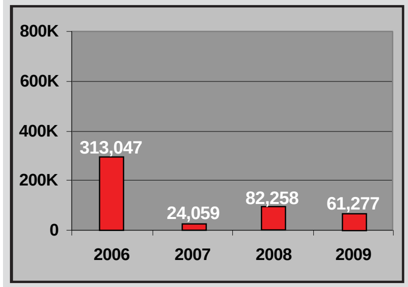
STATISTICS

Market Size	5,870,129
Overall Vacant Space (SF)	958,290
Overall Vacancy	16.32%
Sublease Vacancy	0.70%
Gross Direct Rental Rate	$11.20
2009 Absorption	61,277
Construction Completions	0
Under Construction	373,500

Vacancy Rate (%)



Absorption (SF)



Significant Activity

Lease Transactions

General Dynamics Building - 14041 Worth Avenue
Tenant: General Dynamics
Submarket: Woodbridge
Square Feet: 184,204
Lease Type: Renewal
Signed 1st Quarter 2009

Gateway Business Center - 7699 Limestone Drive
Tenant: NCS Technologies
Submarket: Route 29/I-66 Corridor
Square Feet: 43,854
Lease Type: New
Signed 2nd Quarter 2009

Gateway Centre Manassas - 7301 Gateway Court
Tenant: SET Corporation
Submarket: Route 29/I-66 Corridor
Square Feet: 23,050
Lease Type: New
Signed 4th Quarter 2008

Prince William Gateway - 6957-6997 Gateway Court
Tenant: CACI International
Submarket: Route 29/I-66 Corridor
Square Feet: 21,800
Lease Type: Renewal
Signed 2nd Quarter 2009

Prosperity Park - 7645 Limestone Drive
Tenant: United States Postal Service
Submarket: Route 29/I-66 Corridor
Square Feet: 16,500
Lease Type: New
Signed 4th Quarter 2008

Gateway Business Center - 7689 Limestone Drive
Tenant: NCS Technologies
Submarket: Route 29/I-66 Corridor
Square Feet: 10,805
Lease Type: New
Signed 2nd Quarter 2009

Gateway Business Center - 7669 Limestone Drive
Tenant: NCS Technologies
Submarket: Route 29/I-66 Corridor
Square Feet: 15,708
Lease Type: New
Signed 2nd Quarter 2009

Sale Transactions

12051 Tac Court
Buyer: Tac Court Property LLC
Building Type: Flex
Building Size: 15,000 SF
Sale Price: $2,850,000 or $190.00 PSF
Submarket: Route 29/I-66 Corridor
Sale Date: August 2009

Investment Overview

This year saw a dramatic drop in the number of investment sales, the result, primarily due to the collapse of the commercial mortgage backed securities (CMBS) market. Up until 2008, roughly 70 percent of commercial real estate acquisitions were financed by these CMBS lenders which originated loans, packaged them into pools, and then sold bonds backed by these pools. CMBS lenders originated nearly $137 billion worth of debt through the first six months of 2007 alone. In 2009 the CMBS market had dried up.

In the fourth quarter of 2007, precipitated by the residential mortgage meltdown, investors became hysterical about anything related to mortgages. Despite the fact that commercial real estate leasing fundamentals remained sound, these CMBS bonds stopped selling and, as a result, CMBS loans could no longer be originated. The volume of CMBS loans originated dropped by more than 90 percent.

In 2009 insurance companies and some local banks have been the sole providers of capital in the commercial markets. With many more financing opportunities to choose from than in the past, these lenders can afford to be very selective. As such, the majority of new loans are being made on high quality, well-located real estate. Terms of these loans have been tightened considerably: rock-bottom floating rate loans along with fixed-rate, interest-only loans are largely a thing of the past. Where CMBS lenders regularly offered 80 percent leverage with no personal recourse, 60 to 65 percent leverage is the norm today. Amortizations in the 20 to 25-year range are now more typical than 30-year loans.

This dramatic change in loan terms and pricing has driven up loan constants -- the annual cost of servicing a loan expressed as a percentage – by as much as 200 to 300 basis points. Further, yields on alternative investments such as corporate bonds are rising in this recessionary climate – into double digits in many cases. All this has pushed today's yield expectations on suburban office and industrial real estate up 50 to 300 basis points from just one year earlier. This change in yield expectations occurred much more quickly than in previous down cycles as the contracting debt market corresponded with – or rather effectively helped initiate – the recession that began in early 2008.

Today, many owners of commercial real estate that are taking buildings to market are doing so because they must, either because of near-term debt maturity or some other need for cash. So far, there are few owners in the Washington-Baltimore area that "must sell" and, as such, the volume of investment sales in our region is down 37% year-over-year. Roughly half of the commercial real estate investment sales that occurred in 2008 involved the buyer assuming (typically CMBS) financing that was already in place. This fact highlights the dramatic drop in new loan origination.

Leasing fundamentals in the Washington-Baltimore area have weakened but, thanks to the insulating presence of an expanding Federal government and tremendous land constraints, our region should see comparatively less weakening in demand for space.

Investors expecting "fire sale" pricing in our region are being disappointed thus far. Buyers depending on large amounts of leverage are on the sidelines. This leaves institutional investors and other low leverage buyers purchasing high quality real estate at more attractive capitalization rates than they could in 2007, thanks to the less competitive environment. Older real estate, in less than favorable locations, is seeing the biggest spike in capitalization rates.

As more high leverage loans become due in 2009, and owners fail to refinance, more forced selling will occur. Owners with attractive assumable financing in place, or those willing to consider seller-held financing, have the best opportunity as sellers to achieve pricing not too far from 2007 highs. Expect seller-held financing to expand considerably in 2010, particularly to facilitate the sale of less than institutional quality real estate.

While it is a dangerous game to call the "bottom" of the real estate market, we believe that we have entered a "buyer's market" witnessed only once or twice in a lifetime. The savviest investors will focus on buying now, in markets that show dramatic historic rent growth and have weathered previous downturns relatively well.

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* denotes principal of firm

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