

Build on the power of our network.™

1st Quarter 2008
Dulles Flex/Industrial Market Update



While we have no reason to doubt the accuracy of any of the information supplied, we cannot, and do not, guarantee its accuracy. All information should be independently verified prior to a purchase or lease of the property. We are not responsible for errors, omissions, misuse, or misinterpretation of information contained herein & make no warranty of any kind, express or implied, with respect to the property or any other matters.



Commercial Real Estate Services, Worldwide.
A division of KLNB, founded in 1968.

Marc Tasker, CCIM, SIOR
571.382.2062

Kevin Goeller, CCIM, SIOR
571.382.2061

NAI KLNB
8027 Leesburg Pike
Suite 300
Vienna, VA 22182
tel 571 382 2100
fax 703 288 2999
www.naiklnb.com



Commercial Real Estate Services, Worldwide.
A division of KLNB, founded in 1968.

NAI KLNB
8027 Leesburg Pike
Suite 300
Vienna, VA 22182
tel 571 382 2100
fax 703 288 2999
www.naiklnb.com

Market Analysis 1st Quarter 2008

Industrial Trends



DULLES FLEX/INDUSTRIAL MARKET ANALYSIS

Dulles Corridor

The Dulles Corridor is defined as the Dulles North and South submarkets with Dulles International Airport at its epicenter and Rt. 28 as its North/South connector. The industrial market in both Corridors' has been a bright spot in the Northern Virginia market over the past few years. It has enjoyed low vacancy rates, continued speculative construction, and stable rental rates. The Dulles Corridor flex market, however, has weakening fundamentals as new speculative construction has outpaced absorption. We see this trend continuing through 2008.

Net Absorption



Northern Virginia's other major industrial corridor, the I-95 Corridor, is a mature market with few land plays left for development. This fact has led to the bulk of Industrial development being concentrated in the Dulles Corridor. Over the past three years we have seen on average approximately 800,000 SF per year of new construction, mostly in the Dulles North Corridor. Shell rental rates for new construction are \$6.75 - \$7.50 NNN for Industrial and \$9.00 -10.00 NNN for flex. 2007 saw a substantial increase in speculative flex construction with over 800,000 SF of new deliveries. This consisted of both condominium projects as well as for lease product within established parks. Again, the bulk of this construction took place in the Dulles North corridor accounting for over 650,000 SF of new product.

Construction



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

Asking Rents



The Dulles Corridor's industrial market has fared well, considering the construction activity, with vacancies decreasing slightly to around 8.8% and relet rental rates averaging \$8.48 NNN. We see the industrial market

Market Analysis 1st Quarter 2008

Flex Trends

Vacancy Rate



continuing these trends with a continued migration of larger prospects from both the I-95 corridor and surrounding submarkets, to the Dulles Corridor. The Corridor will continue to be the focus of development with at least 400,000 SF of new construction per year. New parks currently under construction include Dulles Summit, Beaumeade Corporate Park and Prologis Gateway Phase III. We may see an increase in vacancies as these projects deliver; although, deal volume suggests continued strong absorption levels. Recent significant transactions include NJ Sullivan (45,489 SF), CACI (150,000 SF), Graebel Van Lines (75,124 SF), Fitness Resources (47,040 SF), and Airbus (35,308 SF). This could be hampered, however, should the economy continue its threatened recessionary trends. The success of the market is in large part due to the lack of a significant manufacturing base that has plagued other industrial markets across the country, the stable population growth, the Federal Government, and the ever expanding catalyst: Dulles International Airport. Today's tenants consist primarily of distribution, 3PL's (third party logistics), service industries, moving & storage, and government contractors.

Net Absorption



The majority of speculative flex construction was concentrated in the Dulles North market, and it is being hit hardest by the recent market downturn. With almost 700,000 sf of new deliveries between 2007 and 1st Q 08' and net absorption of only 135,000 SF during the same period, vacancies in the Dulles North Corridor are pushing 20%. The Dulles South submarket is more favorable at 11%. Negatively affecting both market vacancy levels, however, is the condo market. Investors and users who purchased these units are now realizing the affects of negative equity in trying to compete with the strong balance sheets of institutional and established local ownership. Their values have decreased considerably with the tightening of the credit markets and we predict a further deterioration of the condo sector. Well positioned flex product, however, will continue to see the majority of deals as tenants look to stability in ownership.

Construction



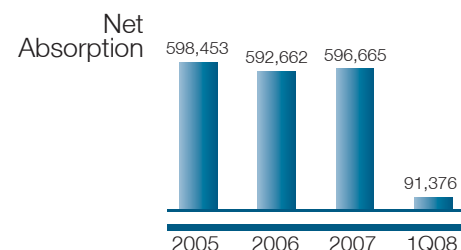
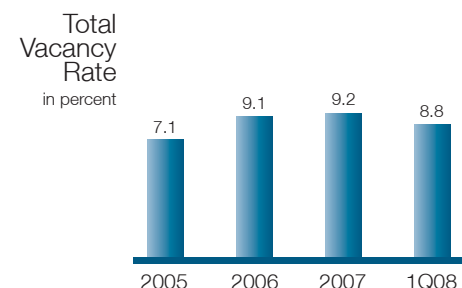
The health of the flex market will depend on the regions economic recovery, Federal spending, and population growth. A positive trend in each will help increase net absorption as service and government contractor businesses emerge, grow and expand. The regions technology industry is also in recovery,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

Asking Rents



DULLES INDUSTRIAL AGGREGATE ABSORPTION AND VACANRY REPORT

Year	BASE	New Construction	Net Absorption	Availability			Vacancy Rate			Average Rental Rate
				Direct	Sublet	Total	Direct	Sublet	Total	
2005	12,824,551	945,544	598,453	877,147	31,171	908,318	6.80%	0.20%	7.10%	\$8.46/nnn
2006	13,584,385	759,834	592,662	1,196,296	34,166	1,230,462	8.80%	0.30%	9.10%	\$8.40/nnn
2007	14,360,191	724,306	596,665	1,266,553	59,307	1,325,860	8.80%	0.40%	9.20%	\$8.42/nnn
2008 1Q	14,360,191	-	91,376	1,187,944	73,020	1,260,964	8.30%	0.50%	8.80%	\$8.48/nnn



DULLES FLEX AGGREGATE ABSORPTION AND VACANRY REPORT

Year	BASE	New Construction	Net Absorption	Availability			Vacancy Rate			Average Rental Rate
				Direct	Sublet	Total	Direct	Sublet	Total	
2005	13,890,663	484,710	452,641	1,893,308	55,201	1,948,509	13.60%	0.40%	14.00%	\$11.83/nnn
2006	14,551,652	542,989	838,931	1,791,771	69,281	1,861,052	12.30%	0.50%	12.80%	\$12.61/nnn
2007	15,357,281	805,629	315,516	2,427,719	41,794	2,469,513	15.80%	0.30%	16.10%	\$12.92/nnn
2008 1Q	15,401,281	44,000	(140,293)	2,387,578	83,396	2,470,974	15.50%	0.50%	16.00%	\$12.36/nnn

