ASSOCIATIONS IN THE WASHINGTON METROPOLITAN AREA:

AN OVERVIEW OF THEIR IMPACT ON THE REAL ESTATE MARKET AND AN UNDERSTANDING OF THEIR REAL ESTATE NEEDS

Prepared On:

November 3, 2003

Prepared By:

DELTA ASSOCIATES
320 King Street, Suite 250
Alexandria, Virginia 22314
(703) 836-5700

Sponsored By:

TRANSWESTERN COMMERCIAL SERVICES
NONPROFIT SERVICES DIVISION

Northern Virginia Office	Downtown Washington Office
8614 Westwood Ctr. Drive, Suite 800	1667 K Street, NW, Suite 300
Vienna, VA 22182	Washington, DC 20006
(703) 749-9404	(202) 775-7026

Delta Associates, the research affiliate of Transwestern Commercial Services, is a firm of experienced professionals offering appraisal, consulting and data services to the commercial real estate industry for over 20 years. The firm's practice is organized in three related areas:

1. **Appraisal** and valuation services for commercial real estate assets, loans secured by same, and real estate companies and fractional interests in them.
2. **Consulting, research and advisory services** for commercial real estate projects, including market studies, market entry strategies, asset performance enhancement studies, pre-acquisition due diligence, and financial and fiscal impact analyses.
3. **Subscription Data** for select metro regions for office, industrial and apartment markets.

For further information about Delta Associates and to see all of our publications, please browse our web site at: www.DeltaAssociates.com

Headquarters:
320 King Street
Suite 250
Alexandria, VA 22314
(703) 836-5700

Mid-Continent Office:
5001 Spring Valley Road
Suite 600W
Dallas, TX 75244
(972) 774-2520

Nationally known for excellence and a singular commitment to creating value, Transwestern Commercial Services has enjoyed a strong reputation for 25 years. Transwestern enjoys superior quality market research and analysis through its research affiliate, Delta Associates. Transwestern is able to leverage Delta's market research experience with the knowledge of its personnel to produce unparalleled real-time market data. Transwestern's market knowledge and insight provides its clients a superior edge.

With 1,100 team members and operations in 18 metro areas, Transwestern is one of the largest privately held real estate firms in the United States. Transwestern offers select corporate users and property owners a full range of services including strategy and planning, site selection, occupancy management, acquisition/ disposition, financing, facilities evaluation, research/ valuation, and portfolio management. For more in-depth economic and market analysis, or to find out how Transwestern can enhance your real estate bottom line, please call:

Northern Virginia Office
Allen McBride
8614 Westwood Ctr. Dr.
Suite 800
Vienna, VA 22182
703/749-9404

Downtown DC Office
Julie Van Devender
1667 K Street, NW
Suite 300
Washington, DC 20005
202/775-7026

Atlanta	*Detroit*	*Salt Lake City*
Austin	*Houston*	*San Antonio*
Baltimore	*Los Angeles*	*San Diego*
Chicago	*New Orleans*	*San Fran Bay Area*
Dallas	*Orange County*	*Tulsa*
Denver	*Phoenix*	*Washington, DC*

ANNOUNCEMENTS

CONDOMINIUM MARKET NOW COVERED IN CLASS A APARTMENT MARKET PUBLICATION

Beginning with the mid-year 2003 report, Delta Associates covers the condominium market as part of its Class A apartment market publication. Our readers will find our same thoughtful analysis and attention to detail in this new section, at no additional charge.

OUTLOOKS ARE AVAILABLE IN SEVEN MARKETS

Delta Associates now offers concise, newsletter-style data on office and industrial markets in seven markets around the country: Chicago, Dallas-Ft. Worth, Denver, Houston, Los Angeles/Orange County, Phoenix, and the San Francisco Bay Area.

For only $125 per market per quarter, you now can obtain current market data and analysis at less than half the cost of other reports with less content. Our quarterly *Outlooks* are available one at a time or on an annual subscription basis.

To order an *Outlook* or receive a free sample, please see www.DeltaAssociates.com or call our publications representative at 703-836-5700.

SPECIAL REPORTS

2003 Update: Northern Virginia Federal Contractor Ramp-Up Study

A look back at the explosive growth in Federal procurement spending in Northern Virginia from 2001-02.
This report available now for $195.

National Office Market Forecast

A look ahead at the next expansion cycle and how the office market in 15 select metro areas will likely perform.
Forecasts job growth, net absorption, average vacancy rate and average annual rent growth through 2010.
This report available now for $200.

To order your own copy of these studies, please see www.DeltaAssociates.com or call our publications representative at 703-836-5700.

TABLE OF CONTENTS

Transwestern Commercial Services: NonProfit Services Division

Allen McBride	***Senior Vice President***
Julie Van Devender	***Vice President***

Delta Associates: Consulting Services Team

Gregory H. Leisch, CRE	***Chief Executive***
David Lennhoff, MAI	***President, Appraisal Divison***
David Weisel	***President, Consulting Division***
Scott Price	***National Research Director***
Alexander Paul	***Mid-Atlantic Research Director***
Brian Mistysyn	***Vice President***

DELTA ASSOCIATES
A TRANSWESTERN COMPANY

Memorandum

To: Clients of Delta Associates and Transwestern Commercial Services

Date: November 3, 2003

RE: **Associations in the Washington Metropolitan Area:**
An Overview of Their Impact on the Real Estate Market
And An Understanding of Their Real Estate Needs

This memo and the attached appendices present the results of our analysis undertaken in connection with the research project referenced above. The primary purpose of our work is to examine the real estate needs of Associations in the Washington area.

The key questions we have addressed include the following:

1. How large a presence do Associations have in the Washington area, and how much space do they occupy?
2. How does an Association's strategic mission impact its real estate decisions?
3. What are the key considerations Association executives face when deciding whether to lease or purchase office space?
4. What factors may affect an Association's ability to own its headquarters?
5. What special considerations affect Associations' real estate decisions, as compared to the decisions of for-profit organizations?

We present our key findings below, followed by supporting data and analysis. Our findings are based on both quantitative analysis and qualitative considerations. The quantitative analysis is derived from employment and real estate data for Associations in the Washington area. The qualitative considerations are driven by our interviews of real estate and Association professionals as well as a search of the relevant literature.

SUMMARY OF FINDINGS

There are 3,401 Associations headquartered in the Washington metropolitan area– more Associations than in any other U.S. metropolitan region. Of these, 56% are located in the District of Columbia, 29% in Northern Virginia, and 15% in Suburban Maryland. The Associations headquartered in the Washington area represent 34% of the approximately 10,000 office-using Associations in the U.S. As many Associations are headquartered in the Washington area as in New York and Chicago combined.

Taken together, the top five Associations headquartered in the Washington metro area boast 60 million members:

1) American Association of Retired Persons (AARP)
2) National Geographic Society
3) Humane Society of the United States
4) National 4-H Council Youth Development
5) National Right to Life Committee

See Table A-8 for a listing of the region's top 25 associations.

Associations employ approximately 98,100 people in the Washington metropolitan area.[1] Association employment in the Washington area is growing at a 2.8% annual rate, compared to the national rate of 2.6%.

Associations occupy 24.9 million SF of office space in the Washington metropolitan area. Groups in the District of Columbia account for 14.8 million SF (59%) of this total, while groups in Northern Virginia account for 7.1 million SF (29%) and Associations in Suburban Maryland account for 3.0 million SF (12%). Associations in the Washington region occupy approximately 276 SF of office space per employee – higher than the overall rate for office-users in the Washington area.

Approximately 86% of Associations in the Washington metropolitan area lease office space, while 14% own their headquarters space. About 10% of Associations do not occupy commercial office space; these are typically small organizations working out of private residences.

Two characteristics define many Associations, particularly with regard to how they manage their real estate facilities: risk-aversion and cost-consciousness. Although these traits do not define every Association in every context, the general approach of Associations toward real estate matters is to ensure that basic needs are met without risking reserves or the wrath of membership. Associations are constrained not only by budget, but also by the need to maintain an image of modesty. Spending extravagantly on a well-appointed conference room for the board of directors may not sit well with membership, particularly if those members are paying dues to fund the facility.

[1] Our figure is slightly less than the Bureau of Labor Statistics' total of 111,300 employees. The BLS data includes all types of civic, professional, religious, and grantmaking organizations. Our definition of Associations is limited to 501(c)(3) and 501(c)(6) organizations. Essentially, these are charitable groups, industry-based organizations, and trade unions. We are not including PTAs, some foundations, youth sports leagues, and other non-office-using Associations.

The decision whether to lease or own space is a driving force behind Associations' real estate choices. An Association's stage of maturity, reserves, desire for prestige, need for additional (or less) space, and mission all affect this important real estate decision. Once a decision has been made to purchase a property, other important decisions await, such as whether to use the property as an investment vehicle, tax consequences, and where the Association will buy.

Conventional mortgages and industrial revenue bonds (IRBs) are the most popular financing mechanisms Associations use when buying a property. Because of the current low interest rate environment, conventional mortgages are becoming more popular, and Associations are avoiding the paperwork involved with IRBs. Joint-ownership and fundraising also are financing approaches many Associations consider.

Many Associations rely on real estate professionals to avoid common mistakes, such as underestimating build-out costs, starting the search for space too late, and not consulting a real estate attorney. Tax consequences of real estate decisions also can be a major stumbling block. Typically, the executive director and board members of an Association do not have the necessary real estate experience to relocate effectively without professional advice. Brokers, real estate attorneys, architects, relocation analysts, and professional fundraisers all may play a role in advising an Association regarding real estate matters.

DEFINITION OF ASSOCIATION

Our research for this report is confined to organizations that meet the IRS requirements for tax-exempt status under Internal Revenue Code sections 501(c)(3) and 501(c)(6). These Associations typically use office space.

Organizations that meet 501(c)(3) criteria are those that are charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, or preventing cruelty to children or animals.

Organizations that meet 501(c)(6) criteria are business leagues. The IRS defines a business league as an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Trade associations and professional associations are business leagues. To be a tax-exempt organization, a business league's activities must be devoted to improving business conditions of one or more lines of business as distinguished from performing particular services for individual persons.

Social clubs and social welfare organizations may be tax-exempt, but are not classified as 501(c)(3) or 501(c)(6) organizations.

Generally, these Associations are exempt from federal income taxation. However, they are required to pay tax on income from business practices unrelated to their mission (unrelated business income tax, or UBIT). We touch on this issue more in-depth later in this report as it pertains to income from real estate investments.

DATA ANALYSIS: OVERVIEW OF THE WASHINGTON METROPOLITAN AREA ASSOCIATION SECTOR

The Washington area has the highest concentration of Association headquarters in the United States. With 3,401 Associations based in the Washington area, it has as many as the second- and third-place regions (New York and Chicago) combined. See Table A-1.

Within the Washington region, the District of Columbia has the highest concentration of Associations, with 1,890 (56% of the 3,401 total). Northern Virginia has 999 Associations (29%), while Suburban Maryland has 512 (15%). See Table A-3. Within the suburbs, Old Town Alexandria is the clear choice of Associations, with 300 so located, followed by the Rosslyn-Ballston Corridor with 171, Bethesda/Chevy Chase with 160, and Reston/Herndon with 105. See Table A-6.

Associations occupy 24.9 million SF of office space in the Washington metropolitan area. They inhabit 14.8 million SF of office space in the District of Columbia, 7.1 million SF in Northern Virginia, and 3.0 million SF in Suburban Maryland. Associations occupy approximately 276 SF per employee, which is considerably higher than the private-sector estimate of about 220 SF per employee. Approximately 10% of the area's Associations operate out of home offices or other types of non-conventional office space. See Table A-4.

District-based Associations occupy almost three times as much space on a per-Association basis as those in the suburbs – suggesting that larger Associations tend to prefer a District headquarters location, while smaller Associations prefer the suburbs. In the District, Associations occupy, on average, 13,100 SF of office space. In Northern Virginia, Associations occupy an average of 4,500 SF, while Suburban Maryland Associations occupy an average of 4,800 SF. Metro-wide, Associations occupy, on average, 9,700 SF, with 29 employees per location. See Table A-5.

The District of Columbia's Central Business District (CBD) is the most popular office submarket with Associations; it is home to 1,148 Associations. Old Town Alexandria is second in the region, with 300. Of the top ten office submarkets for Washington area Associations, five are District submarkets, four are in Northern Virginia, and just one is in Suburban Maryland. See Table A-6.

Association employment is rising at 2.8% per annum in the Washington area, faster than the 2.6% national rate. We estimate that Association employment has risen from 74,300 paid workers in 1993 to 98,100 today. Associations are a major part of the Washington area labor force – comprising 3.5% of all Washington area employment – and consequently are a significant component of the regional office market. See Table A-9.

About 86% of the Associations occupying commercial office space in the Washington area lease their space, while 14% own their space. This trend may shift toward ownership as office condominium developers target the non-profit market. See Table A-11.

Associations typically prefer Class A or B space over Class C space, as a survey of Association headquarters facilities shows an even split between Class A and B accommodations. See Tables B-2 and B-3. Data on recent Association lease transactions indicates that Class B space has become increasingly more popular among Associations over the past five years in the District of Columbia – a trend suggesting that increasing office rents have caused some Associations to move from Class A space to Class B due to cost issues.

We project that the Association sector will absorb approximately 700,000 SF of office space per annum from 2004-06 in the Washington metropolitan area – accounting for 10% or more of regional demand. This projection compares to a historical absorption by Associations of about 600,000 SF per year from 1993 to 2003. See Tables A-10 and A-13.

ASSOCIATIONS' STRATEGIC MISSIONS AND IMPACT ON REAL ESTATE DECISIONS

The mission of an Association affects its real estate decision-making. For purposes of this research, as a supplement to our ongoing Association practice, we interviewed fifteen executives with significant experience dealing with Association-related real estate matters. These professionals provided added depth and breadth of insight into how the mission of an Association is aided or compromised by complex space decisions. The benefit of all this experience is reflected following.

For-profit companies are focused on the bottom line; they seek the greatest return on investment from their limited resources. The mission of an Association, however – whether charitable, religious, civic, or educational – revolves around the long-term benefits to a community, or to the Association's members. Key real estate functions, such as maintenance of a property or payment of a mortgage, are non-discretionary. Because they must take precedence over member programs and services in times of financial difficulty, they may usurp resources that normally would go toward those programs and services and compromise the mission of the organization.

Well-run Associations have learned how to balance the pursuit of mission with scarce resources. Some Associations deal with real estate on a daily basis as part of their mission, particularly business leagues in which real estate ownership is a prerequisite. In certain cases, the executives of these leagues have significant real estate experience, and have been able to leverage that knowledge for the benefit of the Association. Specifically, the Association has purchased real estate at fair market value (or below market value), leased space the Association does not need, and used that rental income to lower dues for members.

An Association's mission often impacts its real estate decisions. Example: a science-related Association, an organization that owns its own headquarters in Alexandria but is interested in being closer to an important research facility in Reston. A move to Reston – particularly at a time when the office market in the Dulles Corridor is soft – could save the Association money and reduce the commuting time of many employees. Medical-related Associations have shown similar interest in congregating in Suburban Maryland, particularly the Bethesda area, due to the presence of NIH. In these cases, Associations' missions have impacted their real estate preferences.

Similarly, relocating can support an Association's mission through a change in employee morale. In one example, a marketing group – an Association whose members trade on their design skills – was located in a relatively bland, dated office building. The organization relocated to more upbeat space in Alexandria that better matched its mission. The move boosted employee morale, and the organization was better positioned to represent its members.

The match between an organization's mission and the stock of office inventory in a particular area can be a determining factor in choosing a location. For example, Alexandria (particularly the Old Town portion of the city) has become the home to the fourth-largest concentration of Associations in the United States. A total of 380 Associations exist within the city limits of Alexandria (with 300 located in Old Town) – more Associations than anywhere else in the U.S., save for New York, Washington, and Chicago. Alexandria's stock of small office properties – perfect for owner-occupiers – and its charming history, stores, and restaurants, plus its proximity to the nation's capital, have made it an ideal location for many small organizations, with missions centering on membership services. Building sizes are limited throughout most of Alexandria, so the inventory (and work environment) is not likely to change drastically in the near future. By contrast, larger organizations that are looking to locate near Washington but do not need the prestige of a District address may look to Arlington, which maximizes FAR and has several large office buildings under construction and others that have delivered recently. Finally, Associations that have missions centered on lobbying for particular legislation or member benefits may be inclined to pay higher rents for space near Capitol Hill, or at minimum locate within the District for the prestige of a D.C. address. In many cases, Associations that are headquartered in Virginia will maintain small satellite offices in the District to accommodate their lobbying operations.

THE "LEASE VS. OWN" DECISION

The decision whether to lease or own space is a driving force behind Associations' real estate choices. An Association's stage of maturity, risk tolerance, desire for prestige, financial flexibility, and timeline all affect this important real estate decision.

The Life Cycle of Associations

The life cycle of an Association is a critical factor in choosing whether to lease or buy office space. Organizations that have reached maturity – in terms of their mission and their financial status – are usually better positioned to own their office space than those not as well-established. The ability to use reserves to purchase a building and to commit to one location for a long period of time typically come once an Association has established itself as an important instrument for its members, and those members' dues have given the Association a financial cushion. An example of an Association that is well-established and owns well-located office space is the United Brotherhood of Carpenters, at 101 Constitution Avenue. Its building is the closest private-sector office space to the U.S. Capitol. As such, this trade union not only has made a home for itself at a premier location, but it has also turned its facility into a valuable investment.

An Association in the early stages of development – with few reserves, a mission in its nascent stage, or short-term legislative objectives – is better positioned to lease than to own space. Examples abound, but a particularly good one is the group of technology-related Associations located throughout Northern Virginia. Many of these Associations lease space; as technology changes, they may become more or less relevant, and consequently need more or less office space. An expert we spoke with, an executive with a District-based health research Association, noted that her organization leases space because at 13 years old, it is not yet mature enough to make an informed long-term investment in a headquarters facility. Each Association has its own timeline and should make its own careful analysis of where it falls in the organizational life cycle.

Risk Tolerance

Associations that have a higher level of risk tolerance are better positioned to lease space than those with less ability to take on risk. Rental rates fluctuate over time, and Associations must be able to pay the rent without being displaced should the rent rise via escalation clauses or at expiration. Associations that are more risk-tolerant also can take advantage of lower rents by moving to cheaper space when it becomes available.

Associations with less taste for risk tend to consider purchasing office space – if they have the cash available to buy a building. Owning is a more stable situation, providing amortized mortgage payments and greater control over operating expenses. But the benefits of leasing space – including being nimble enough to take advantage of changing rental rates – no longer apply.

Headquarters Legacy

Owning a headquarters building – particularly one with prominent signage – creates an important image for an Association. The headquarters building also acts as an ongoing asset, a valuable line-item on the organization's balance sheet. But is that image, and that asset, something the Association can afford?

If the membership of an Association visits the headquarters often, or if a prestigious, well-known building would make lobbying and hosting major events easier, ownership of a long-term headquarters location is favorable. One example of a trade group that purchased its headquarters building is the Motion Picture Association of America (MPAA), the well-financed lobbying arm of the movie industry. The MPAA customized its facility at 888 16th Street, NW, just two blocks from the White House, to include a theater on the lower level, further supporting its mission.

However, if an Association does not demand prestige, signage, or special facilities, or cannot afford the down payment or financing schedule required to purchase space, leasing may be the better option.

Thrift Mentality

The "thrift mentality" of an Association can lead it toward headquarters ownership, since the general assumption is that owning is less expensive than leasing. But what is the Association's timeline? Ownership results depend on interest rates, down payment, length of ownership, and property appreciation rates.

The perceived value of non-discretionary funds also should be considered. If an Association's funds are discretionary (i.e., can be used by executives without the membership's earmark or approval), the Association's leadership may not wish to tie up those funds in a non-liquid asset like a headquarters facility. However, if the funds that will be put toward a building purchase are non-discretionary – such as funds raised in a capital campaign with the express purpose of buying a property – then the perceived value to the Association of those inflexible funds is less. In such a case, an Association may figure that the purchase of a property is less costly than leasing even over a shorter timeline, say six or seven years.

Real estate professionals experienced in advising Associations indicate that in most cases where Associations seek to buy a headquarters facility, the impetus lies in the inflexible nature of non-discretionary funds. That is, Associations raise money for a headquarters purchase, and so they are committed to that end. In a minority of cases, the motivation is image-related, or linked to the drive for a headquarters legacy, as detailed above.

Leasing Timeline

An organization's timeline has a significant impact on its decision whether to lease or buy. For an Association seeking a small amount of space (say, 10,000 SF), a one-year minimum timeframe still is necessary to ensure it is not forced into taking space that does not meet all of its needs. For larger requirements, 18 months to two years is the recommended minimum. The following timeline establishes the basic intervals for each step of the leasing process for a small requirement. ***For a larger requirement, Association tenants should begin the steps six to twelve months earlier than noted below.***

Leasing Timeline for Associations (Small Requirement of <10,000 SF)	
12-18 Months Out	Develop Strategic Plan and Meet with Broker
10-12 Months Out	Begin Survey, Tour Market, Review Proposals
6 Months Out	Negotiate Final Lease Terms
4 Months Out	Procure Construction Documentation
3 Months Out	Build-Out and Move-In

If a tenant does not allow sufficient time, it may have to stay past its previous lease termination, incurring significant penalties at as much as twice its normal rent. It is much safer for a tenant to break a lease early, in which case, depending on market conditions, the Association's new landlord may be willing to pay the final month(s) on its prior lease.

The table below summarizes the factors that Association tenants should consider when deciding whether leasing or buying is the best course of action.

The "Lease vs. Own" Decision Matrix: Factors Associations Should Consider		
Factor	**Status**	**Course of Action**
Life Cycle Stage	Early; Recently Formed Mature; Established Over Several Years	Lease Own
Risk Tolerance	Higher Lower	Lease Own
Headquarters Legacy	Less Important to Membership More Important to Membership	Lease Own
"Thrift Mentality"	Want to Save Money Short-Term Want to Save Money Long-Term	Lease Own
Timeline	Shorter Horizon Longer Horizon	Lease Own
Relocation Plans	Imminent Distant/None	Lease Own

Special Consideration: Relocation

If an Association determines its objectives could best be accomplished by relocating, either because of the cost savings available or because of a change in how its mission is defined, numerous additional factors come into play. The relocation question complicates the "lease vs. own" decision, particularly if the organization already owns space and may need to sell or rent out its current headquarters.

Associations that are considering relocating within the Washington metropolitan area must account for where adequate and appropriate space will be available, whether they need or want to be close to Capitol Hill or executive branches of government, where similarly-minded Associations are located, jurisdictional tax considerations, staff preferences, and more.

Relocation Considerations for Associations Moving Within or To the Washington Area	
Space Needs (Amount)	Does the Association need more space for growth? Less for consolidation?
Space Needs (Type and Cost)	Prestigious space in the District? Cheaper space in the suburbs?
Location Within the Metro Area (Often Based on Mission)	Near Capitol Hill? Near K Street? Near medical facilities? Near technology firms? Near Pentagon? Near Metrorail station? Near CEO housing?
Tax Issues	How will property tax burden affect expenses? Exempt in certain jurisdictions from property or sales taxes? Business licensing tax laws?
Effect on Staff	Will relocating affect commuting times of staff? What is the impact on morale?

For Associations considering facility ownership, property tax abatements are reportedly less difficult for Associations to obtain in the District of Columbia than in Maryland or Virginia (where an act of legislation is required to exempt an Association from property taxes). However, if a property tax abatement cannot be obtained, it is worth considering that commercial property tax rates are significantly higher in the District as compared to Virginia and Maryland.

Associations that are considering relocating from the Washington metropolitan area to elsewhere must consider many of the same issues facing groups considering an "in-town" move, plus additional potential problems: finding a qualified labor force, dealing with changes in labor costs, and remaining in a location convenient to key personnel.

Additional Relocation Considerations When Leaving the Washington Area	
Labor Force	Will qualified and experienced Association staff be available if the current staff does not move with the organization?
Labor Costs	Will the new hires be less expensive than the current staff? Does that include severance payments and the administrative costs of turnover?
Convenience	Is the new location convenient for the executives or board of directors? Is it proximate to key constituents or lobbying targets?

The experienced staff pool found in the Washington area can be very hard to replace elsewhere. In addition, many Associations like to be around other Associations – to share resources, experiences, and for the feel of community and shared mission.

These other costs associated with relocation should not be overlooked:

- Supervision of selections, design, and build-out,
- Supervision and organization of the move,
- Professional services, such as attorneys, architects, space planners, and interior designers,
- Build-out costs not paid by the landlord,
- Furniture and fixtures,
- Office equipment (including computers and telephone system),
- Telephone and computer installation,
- Moving and storage costs, and
- Stationery and announcements.

This list is illustrative rather than comprehensive. Numerous other factors play a role in the relocation decision, such as intangible factors like productivity costs and quality of life concerns. Clearly, Association executives should leave sufficient time to prepare for any move, and should seek professional real estate and relocation advice.

Often, Associations considering an out-of-town move reconsider the idea once a full-scale analysis of the one-time costs associated with staff termination, re-hiring, training, and other costs is developed. See Appendix C for further elaboration on issues to consider with a long-distance relocation.

CONSIDERATIONS FOR HEADQUARTERS OWNERSHIP

Associations tend to own their headquarters facilities more often than organizations in the for-profit sector. Well-run for-profit firms are focused on the bottom line, and are likely to accrue a greater return on investment through other means than by purchasing (and someday selling) owner-occupied office space. Associations, particularly those with long-term objectives, want to show permanence. The greater return on investment is not their goal; they will purchase their headquarters space if doing so serves their mission and provides a sense of stability for employees and members.

Legal and real estate professionals that specialize in advisory services to non-profits indicate that Associations consider facility ownership far more frequently than for-profit firms. If an Association chooses to purchase its headquarters, it should consider several factors: prestige, space needs, cost (the purchase price and operating expenses), location, use of the property as an investment vehicle, tax issues, and financing arrangements.

The Prestige Factor: Benefits and Drawbacks

For most for-profit firms, prestigious, well-appointed office space is a wonderful fringe benefit; for some, such as law firms, it is a virtual necessity. In the case of Associations, the non-profit nature of the business and the constraints imposing by constituent responsibilities make prestigious space less desirable, or even unwanted.

In contrast to well-appointed space, a prestigious location may be not only desirable, but necessary. An Association that depends on proximity to Capitol Hill for advocacy, or to executive branch agencies, may require a District address. Certain trade unions may want a K Street or Connecticut Avenue address, or at a minimum may want a District mailing address so as to satisfy membership that it is aware of key happenings in Washington.

Space Needs: Flexibility to Grow vs. Ability to Leave

Purchasing a building with more space than it currently occupies allows an Association room to grow. But that flexibility to grow is offset by a loss of flexibility in another area: the ability to leave when its mission or objectives change, or when cheaper space becomes available for lease. In addition, professionals we interviewed indicate that lenders are generally less willing to extend credit to an Association seeking to purchase or develop a property with more space than it will occupy immediately. Consultation with real estate professionals can be helpful in determining whether such an acquisition is prudent.

Cost: The Purchase Price and Operating Expenses

Most non-profits seek cost certainty. Knowing what expenses will be – not just month-to-month but year-to-year – is critical when trying to run an organization with limited revenue streams. The certainty of a steady mortgage is helpful to Association executives, as compared to a lease with a pending expiration or variable rate escalation clauses.

Often, Associations, like other owner-occupiers, pay a premium over what an investor would pay when purchasing a building. Associations are willing to pay this premium because 1) the finite supply of small office buildings ideally suited to non-profits may compel an Association to pay a higher price, and 2) because owner-occupiers mitigate vacancy risk by using a building to house their own staff and operation (in comparison to the higher building vacancy risk that would be taken on by a speculative investor). See Table B-5.

In exceptional cases, however, Associations have been able to buy properties at market rate, or even below-market rate, due to exceptional real estate savvy. For example, a retail-related Association we interviewed sold its previous headquarters property in Old Town Alexandria and purchased a larger building in the same neighborhood for a price per square foot 20% lower than the price achieved on the property it sold. In this case, the real estate savvy of the Association's board, which is partly due to the retail industry's exposure to real estate matters, helped the Association garner significant savings through its headquarters facility transactions.

In general, operating costs are more stable when the building is owner occupied; rather than depending on the building's off-site owner or a management company to control costs, the owner-occupier can monitor and regulate cost on its own.

Location: Proximity to Supporting Institutions

While location always is critical, it becomes an even more important decision once an organization takes on the responsibilities of ownership. Ownership restricts the ability to be nimble; thus, proximity to supporting institutions becomes ever more important.

Working with a local economic development authority, or a regional consortium such as the Northern Virginia Economic Development Coalition, is a good step toward making an informed decision about the benefits of various locations under consideration. Economic development authorities can provide information on real estate options near key resources, such as the National Institutes of Health for health-related Associations. They also can provide information about the tax benefits or drawbacks that differ from one jurisdiction to another.

Use of the Property as an Investment Vehicle

By purchasing a property, an Association may be able to use its headquarters not only as a base of operations, but also as an investment vehicle. If an Association has sufficient cash with which to purchase more space that it needs at the present time, it can have the option to expand its staff as necessary and, in the interim, to lease excess space to tenants.

However, entering the landlord business is not without potential pitfalls. Often, Associations make poor landlords because their focus is on their mission and serving their membership, not on building maintenance and keeping their tenants happy. Additionally, non-profits that lease space to unrelated firms may be subject to unrelated business income tax (UBIT), as discussed below. While certain exemptions from UBIT may be available, they take the Association's focus away from its mission.

Legal complications can stymie the use of a headquarters property as an investment vehicle. Depending on the organization's structure, the assets of individual members or directors may be subject to seizure should the Association default on its obligations. An executive we interviewed said that his Association, a health-related organization in Suburban Maryland, circumvented this risk by creating a separate corporation to own and operate the headquarters building. This legal structure protects the members' personal assets. The Association provided a loan to the corporation to purchase the building the Association now occupies, and the corporation has been able to pass revenue through to the non-profit side of the entity. Clearly, investment, real estate, and legal professionals should be brought in to guide such a transaction. Still, the concept of headquarters as investment vehicle has tremendous upside. For example, one Association executive we interviewed said that his group expects that by 2006, the income from the leasing of its surplus space will fully cover all debt service on its mortgage and all cash expenses of its building. With such a financial weight lifted, the Association should have the option to reduce membership dues or increase services.

Tax Issues Related to Ownership

The primary tax issue related to an Association's ownership of property is unrelated business income tax (UBIT). Non-profits must pay tax on gross income exceeding $1,000 from unrelated business activities. The IRS describes unrelated business as an activity that meets these three requirements:

1. It is a trade or business,
2. It is regularly carried on, and
3. It is not substantially related to the furtherance of the exempt purpose of the organization.

There are exclusions and modifications to the UBIT parameters, but most Associations that lease excess space to tenants will be subject to UBIT. The Association should perform a detailed cost-benefit analysis of its balance sheet to determine whether the revenue from leasing out space more than offsets the taxes, administration, and headaches involved in being a landlord. Associations should consult with their tax preparers or financial consultants for assistance in planning an ownership/leasing strategy. In the following section, we review tax abatements for which Associations may be eligible.

Financing Arrangements

Associations seeking financing for the purchase of a property have numerous options available to them, but the most common are industrial revenue bonds (IRBs) and conventional mortgages. For the purchase of smaller buildings (less than 10,000 SF), conventional mortgages typically are used, with the notes held by Citibank, Bank of America, or other major financial institutions. Associations often prefer long-term, fixed-rate loans for their predictable nature and stable repayment structure.

For the purchase of larger properties, many Associations choose the IRB route, underwritten by a major bank. Because IRBs have more up-front costs, the financial benefit to the Association must be significant to make the process worthwhile. Additionally, the current low interest rate environment has encouraged larger organizations to consider conventional mortgages despite the tax-exempt debt of IRBs. Also, if the Association is unprepared when the bond is called, it may have a difficult time finding the money to pay its debts.

Typically, bonds are strictly between the lending company and the Association; an economic development authority may facilitate the process, but takes no liability. IRBs generally are reserved for 501(c)(3) organizations and the financing must be for capital costs, not costs to which the organization already has a restricted endowment otherwise dedicated.

The District of Columbia, through the facilitation of the DC Marketing Center, offers sizeable IRB funding packages to 501(c)(3) organizations for facility acquisition and development projects, except in cases where part of the facility is intended to be leased.

Considerations for Associations Seeking Financing for a Headquarters Purchase	
IRB lends itself to:	-Experienced professionals -Larger organizations with greater financial reserves -Larger space requirements -Transaction facilitated by an economic development authority
Conventional mortgage lends itself to:	-Less experienced professionals -Smaller organizations with less time to plan and fewer reserves -Smaller space requirements -Less guidance from government agencies

Other financing arrangements include joint ownership. In this scenario, Associations with similar missions pool resources to buy a facility and share space, particularly boardrooms, conference rooms, and other common space like lobbies and cafeterias. In the District of Columbia, human rights groups and educational Associations recently have made joint-ownership headquarters purchases at 1640 Rhode Island Ave., NW, and 1307 New York Ave., NW.

Associations also may choose to solicit member contributions to finance the purchase of a property. The Charles B. Wang International Children's Building on Prince St. in Alexandria is an example of a building that was purchased through such a campaign; the building is named after one of the primary building fund contributors. This 50,000 SF building was purchased by the National Center for Missing and Exploited Children in 1998.

Although some Associations have exceedingly generous members or outside benefactors, financing rarely is accomplished entirely through fundraising activities. However, a fundraising consultant may be brought in to determine whether fundraising for a headquarters is a viable option. Fundraising could supplement an alternative financing approach as a way of avoiding the use of reserves.

Creative approaches to financing can benefit Associations greatly. In an illustrative example of a creative financing strategy, a Northern Virginia trade Association sold its property to another non-profit as part of a relocation. The trade Association held the note on a loan to the buyer, which served as a low-risk, revenue-generating proposition. Should the buyer default, the trade Association would take back ownership of the property. This type of creative approach can generate a financial cushion for non-profits that may allow a reduction of membership dues or an increase in services to members.

SPECIAL CONSIDERATIONS

In addition to the key issues addressed above, five special considerations can have a significant impact on an Association's approach to real estate matters.

Interior Architectural Preferences

Architects specializing in interior space design for non-profits indicate that Associations share some common office design preferences. Associations tend to prefer private office arrangements over cubicle options, as conversation privacy is typically a high priority. Furthermore, since staff compensation is often lower in Associations than in private firms, offering employees private offices serves as a means of compensation.

Because a majority of Associations in the Washington area have a low staff count, space planning trends are often avoided in lieu of a traditional office with conference room. In addition, Associations typically avoid space arrangements that might be considered too ostentatious by members.

In a few cases, Associations have utilized creative solutions to share facility resources among organizations proximate to one another. Multiple associations located in proximity to one another have formally arranged to share meeting space and conference centers in order to make such resources available at a lower cost.

Tax Abatements

In the District of Columbia, 501(c)(3) and 501(c)(6) non-profits may apply for property tax abatements if they are engaged in programs that benefit the District. The District has a 12-test process of an Association's mission and performance that may take 6-12 months to complete. Associations typically save $2 to $4 per SF on their annual District taxes after being certified for the tax abatement.

Because federal and local tax code already exempts non-profits from many taxes, tax abatement programs have not proven particularly adept at attracting Associations. Still, communities have found the economic impact of Association employees important. Alexandria, a small city that is home to a disproportionate number of Associations, counts on the consumer spending of Association employees to boost its revenue from sales taxes. Additionally, the revenue generated from meetings and conventions is significant. Virginia as a whole has proven adept at attracting Associations that do not need the prestige of a District address, as Virginia's real estate and business licensing tax laws are more customer-friendly than D.C.'s.

Internal Real Estate Experience

Smaller Associations tend not to have significant real estate experience in-house, although such experience varies with the maturity and purpose of the Association. Recently, boards of directors have come to realize the benefits of bringing professional real estate advice to their major space decisions. As the dollars at stake grow, that professional expertise is even more critical to overcome a steep learning curve. Experienced brokers will work with Association executives to set up a strategic plan and timeline for action. Rather than touring space immediately, Associations can work with a broker to establish criteria for each step of the real estate process. Following a sound plan is likely to create leverage for the Association and result in a positive outcome.

Common Mistakes Associations Make

We find Associations are prone to certain mistakes during their search for office space. The impact of these mistakes can be ameliorated by obtaining professional advice, and by allowing substantial time for planning and decision-making. These mistakes include:

- Underestimating build-out costs,
- Allowing too little time for the actual move, which can be traumatic,
- Failing to establish phone service (or other utilities) at a new location,
- Overlooking important clauses in the lease,
- Not negotiating the "best possible deal" in a lease or purchase transaction,
- Failing to use an experienced real estate attorney,
- Errors in market analysis, and
- Decision-making by inexperienced internal teams.

Office Condominiums

Partly due to the limited supply of small office buildings available for non-profits seeking cost certainty through facility acquisition, office condominiums are becoming a popular trend in the Washington area. The office project at 1430 K St., NW, developed by the John Akridge Company, could be a pioneering effort in this regard. It is a 74,000 SF redevelopment that is being target marketed to non-profits. Each 6,500 SF floor is offered for sale to small users. Akridge is considering the same approach with its mixed-use development at Gallery Place, marketing the 200,000 SF of office space as office condos. Demand for office condo space is on the rise; Associations' benefactors, who may not be willing to donate for day-to-day expenses such as rent, are often more inclined to make a one-time cash payment to help buy a building or suite. Office condos may include parking spots, available for purchase and which can be conveyed to future owner-occupiers.

One other special consideration is the state of the office market in which the Association is seeking space. A thorough understanding of market conditions can help set expectations and determine strategy. We have included an overview of the Washington area office market in Appendix D.

REAL ESTATE PROFESSIONALS ENGAGED BY ASSOCIATIONS

Often, Associations are generally not equipped to handle real estate matters internally. They are focused on their strategic mission, and are expected by membership to devote resources toward those objectives. With some exceptions, such as Associations of retail stores that have significant real estate holdings as part of their core business, Associations should engage experienced professionals to handle their space needs. Brokers, real estate attorneys, architects, relocation analysts, and fundraisers all may play a role in finding an Association its office space.

Brokers

The broker should be the "marine" of the operation, the first external real estate professional involved in the search for new space. Brokers should be able to recommend relocation ideas. They also should be able to recommend construction teams, lawyers who specialize in real estate matters, architects, and other appropriate professionals. While sale/leasebacks and tenant purchase options are not commonly used by Associations, a broker can facilitate complicated transactions. Brokers also can review and negotiate lease provisions to ensure the Association is protected financially. Since some buildings only lease to non-profits, brokers may be familiar with below-market asking rents, and can find an Association the best deal available.

Real Estate Attorneys

While many Associations have in-house counsel, those attorneys may not have experience dealing with real estate issues. A specialist can review a lease or purchase agreement before it is signed, protecting the Association and its members. Real estate attorneys often have experience dealing with zoning authorities, and can facilitate the permitting process that is required before new construction can occur.

Real estate attorneys also can work with in-house lawyers to ensure that the Association maximizes the benefit from its tax-exempt status. This expertise is crucial in the detail-oriented process of defining which income streams are subject to UBIT, and in facilitating industrial revenue bond (IRB) financing for a real estate acquisition or development project.

Architects

Architects are a critical element of any plan to build new office space from the ground-up, but also may be consulted on space design questions, such as how to build-out leased space in the most efficient layout. Architects also can spot problem areas with unimproved land that may cause construction delays.

Because some Associations share space with like-minded firms, architects can facilitate the process of which space will be shared and how, ensuring that each Association in the arrangement is satisfied.

Relocation Analysts

Relocation analysts can provide important advice on the value of a move. They can perform cost-benefit analyses on a potential relocation, answers to the “lease vs. own” question, and information on market rates.

Professional Fundraisers

A professional fundraiser can help an Association raise the capital necessary for an acquisition or the construction of a new facility. Typically, fundraisers are approached after initial concepts of what the Association wants and needs have been addressed. While fundraising rarely is the primary source of capital for a headquarters purchase, a capital campaign may supplement other resources. A professional fundraiser can plan strategy and take some of the burden off Association employees who must attend to their day-to-day responsibilities.

A major fundraising effort usually takes two to three years or more, but that timeline does not always preclude the purchase of a building in less time; often, pledges are made but are paid out much later, and bridge loans fill the gap.

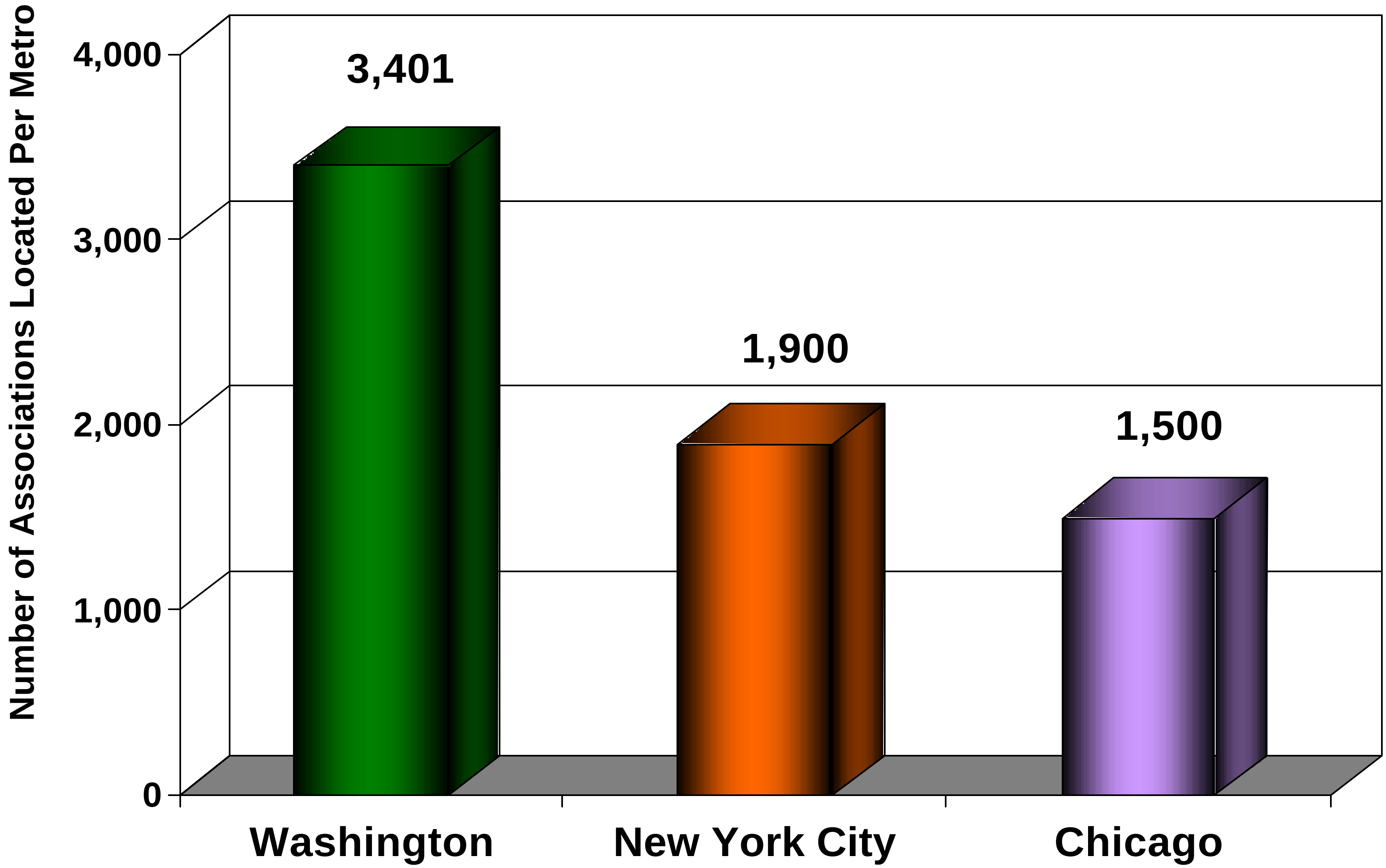
APPENDICES

Appendix A:

Overview of the Washington Metropolitan Area Association Sector

TABLE A-1

Comparison: U.S. Metro Areas with Largest Association Presences November 2003



Source: Delta Associates' analysis of Leadership Directories & Marketing Source data, American Society of Association Executives (ASAE), November 2003.

TABLE A-2

U.S. METRO AREAS WITH LARGEST CONCENTRATIONS OF ASSOCIATIONS NOVEMBER 2003

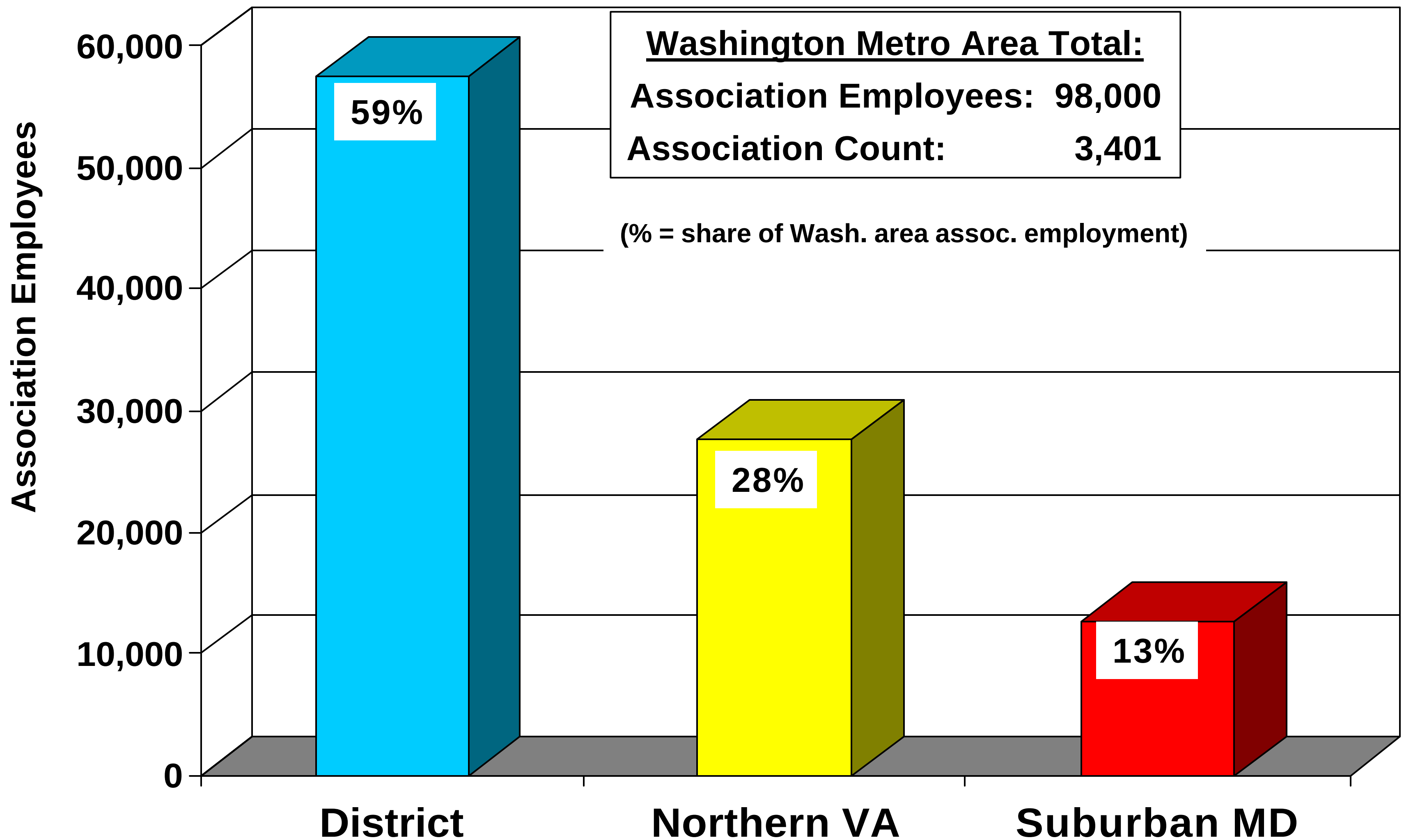
Metropolitan Area	Association Count 1/
1. Washington, DC	3,401
2. New York, NY	1,900
3. Chicago, IL	1,500
4. Denver, CO	380
5. Austin, TX	350
6. Los Angeles, CA	290
7. San Francisco, CA	280
8. Columbus, OH	280
9. Sacramento, CA	270
10. Indianapolis, IN	240

1/ Estimated counts based on American Society of Association Executives (ASAE) data and an analysis of available association directory databases.

Source: American Society of Association Executives, Delta Associates' Analysis of Leadership Directories and Marketing Source data, November 2003.

TABLE A-3

Association Presence by Sub-state Area
Washington Metropolitan Area
November 2003

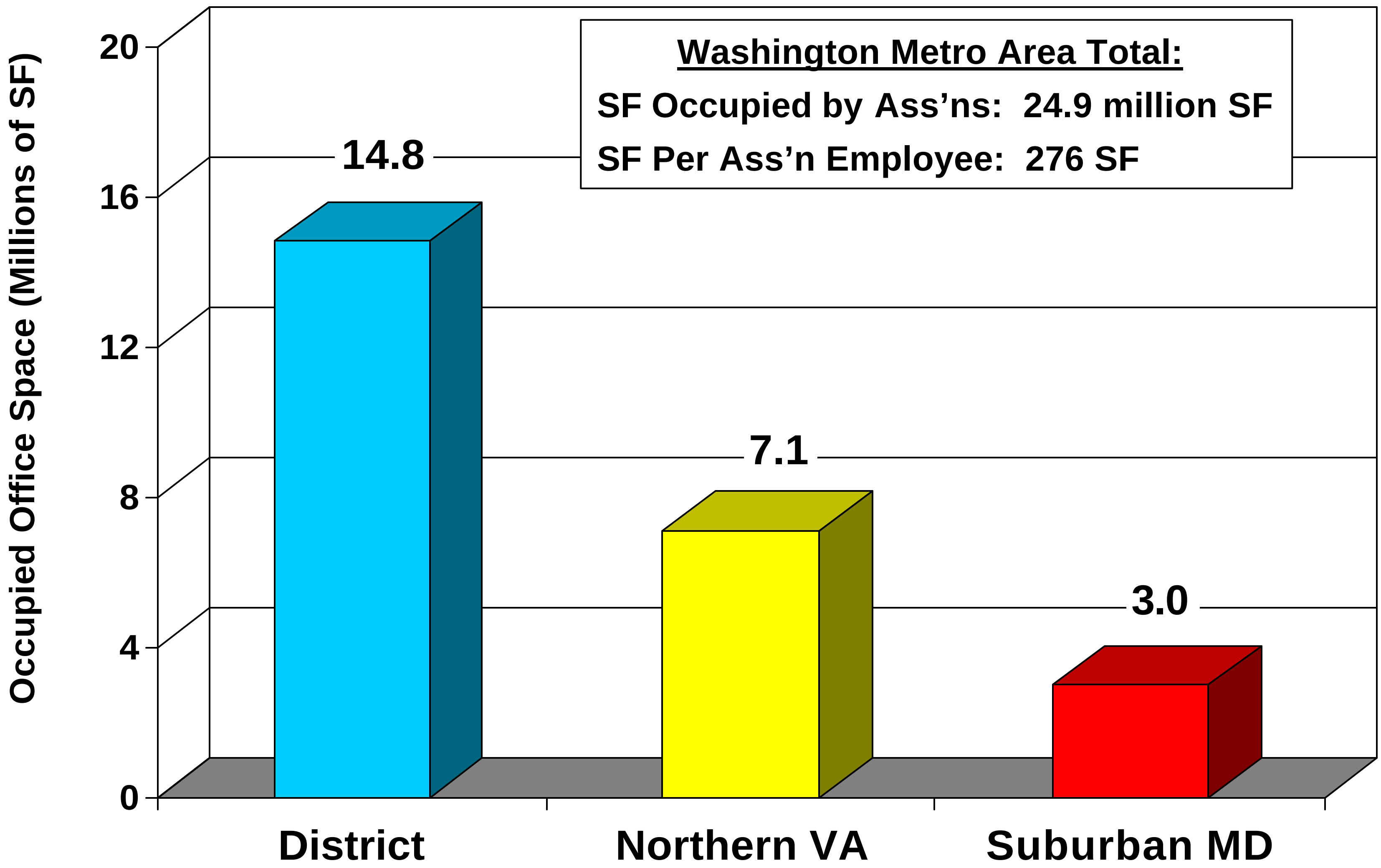


# of Associations:	1,890	999	512

Source: Delta Associates' analysis of Leadership Directories & Marketing Source data, November 2003.

TABLE A-4

Total Office Space Occupied by Associations *
Washington Metropolitan Area
November 2003

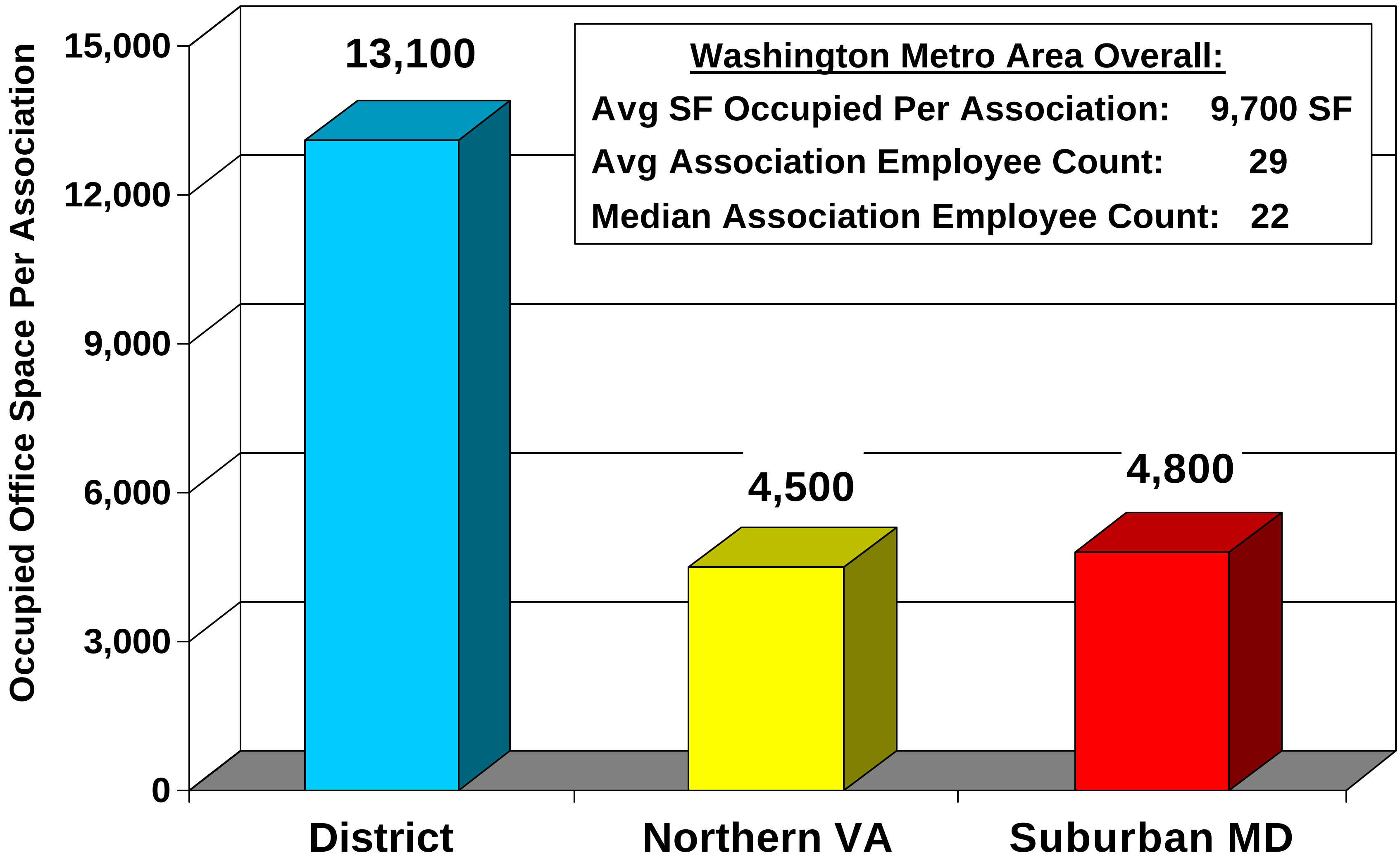


* An estimated 10% of the metro area's associations operate out of home offices or other types of non-conventional office space. These associations are excluded from the office-using inventory.

Source: Delta Associates' analysis of Leadership Directories & Marketing Source data, November 2003.

TABLE A-5

Association Office Space Profile *
Washington Metropolitan Area
November 2003

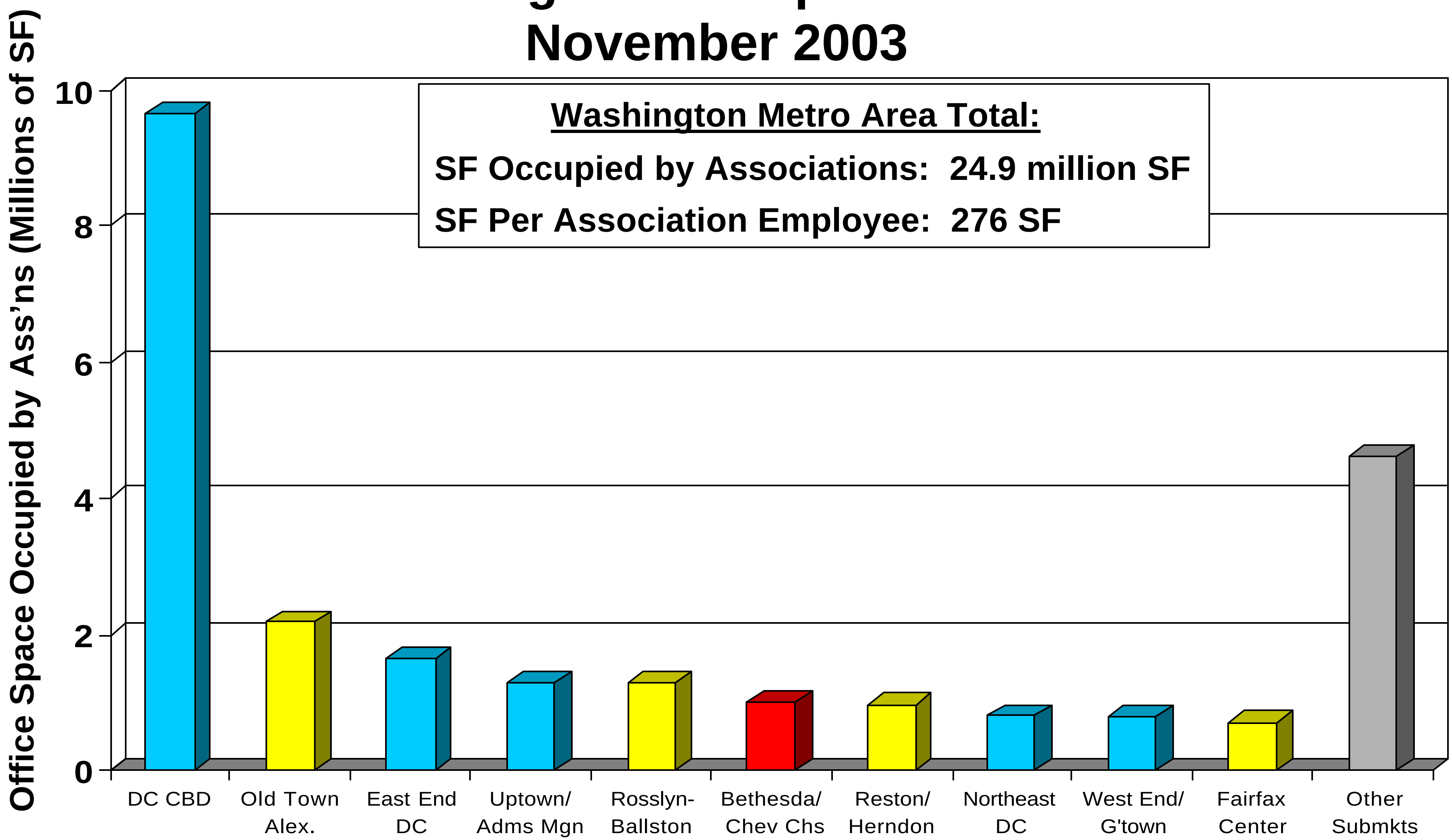


* Average SF per association developed using random sample of 50 associations. An estimated 10% of the metro area's associations operate out of home offices or other types of non-conventional office space. These associations are excluded from the office-using inventory.

Source: Delta Associates' analysis of Leadership Directories & Marketing Source data, CoStar, November 2003.

TABLE A-6

Top Ten Association Office Submarkets *
Washington Metropolitan Area
November 2003



	DC CBD	Old Town Alex.	East End DC	Uptown/ Adms Mgn	Rosslyn- Ballston	Bethesda/ Chev Chs	Reston/ Herndon	Northeast DC	West End/ G'town	Fairfax Center	Other Submkts
Association Count Per Submarket:	**1,148**	**300**	**224**	**155**	**171**	**160**	**105**	**115**	**123**	**85**	**815**

Source: Delta Associates' analysis of Leadership Directories & Marketing Source data, November 2003.

TABLE A-7

TOP TWENTY ASSOCIATION OFFICE SUBMARKETS
WASHINGTON METROPOLITAN AREA
NOVEMBER 2003

	Submarket	Number of Associations	Association Employees	Office Space 1/ Occup. By Ass'ns
1.	Washington DC CBD	1,148	36,600	9,655,000
2.	Old Town Alexandria	300	8,000	2,176,000
3.	East End	224	6,400	1,635,000
4.	RBC	171	4,900	1,277,000
5.	Bethesda/Chevy Chase	160	4,000	988,000
6.	Uptown/Adams Morgan	155	5,200	1,286,000
7.	West End/Georgetown	123	3,300	790,000
8.	Northeast	115	3,200	814,000
9.	Reston/Herndon	105	3,600	962,000
10.	Fairfax Center	85	2,800	705,000
11.	Silver Spring	80	1,700	409,000
12.	Rockville	73	2,100	506,000
13.	Bailey's/Falls Church/Annandale	70	1,800	427,000
14.	Capitol Hill	65	1,400	288,000
15.	Springfield/395 Corridor	53	1,300	279,000
16.	Tysons Corner	49	1,700	443,000
17.	Columbia	45	900	233,000
18.	McLean/Vienna	43	900	201,000
19.	Loudoun	34	800	170,000
20.	Beltsville/Calverton/College Park	28	1,300	310,000
	Other Submarkets	275	6,200	1,355,000
	Metro Area Total	**3,401**	**98,100**	**24,909,000**

1/ Office space inventory excludes space occupied by Associations operating out of a house or other non-conventional space arrangement. Space inventory estimated using employee count for office-based Associations.

Source: Delta Associates' Analysis of Leadership Directories and Marketing Source data, November 2003.

TABLE A-8

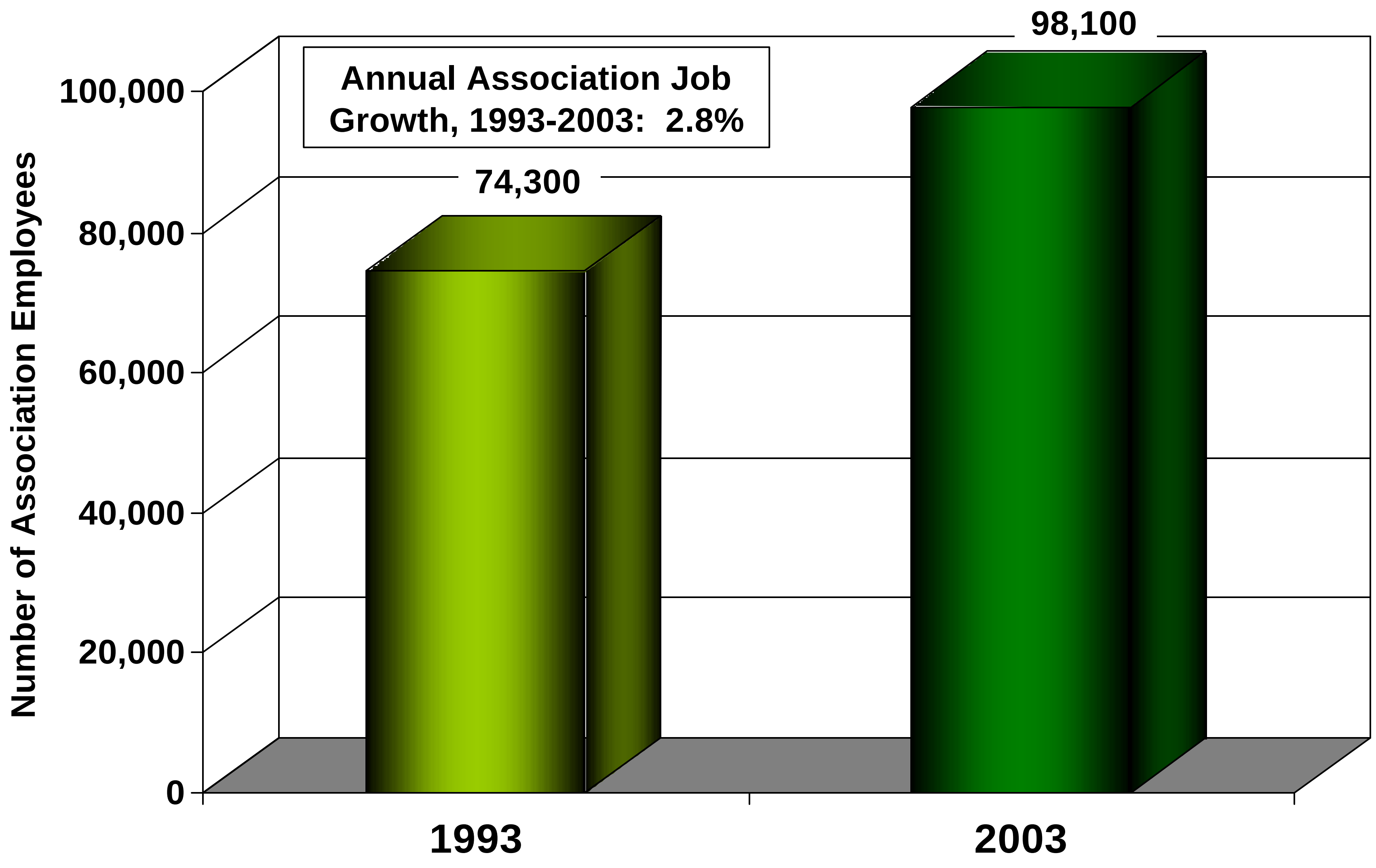
TOP 25 ASSOCIATIONS BASED IN THE WASHINGTON METRO AREA
RANKED BY TOTAL MEMBERSHIP
NOVEMBER 2003

Rank	Association Name	Member Count	Annual Revenue	Annual Budget	Headquarters	Year Founded
1.	American Association of Retired Persons (AARP)	34 Million	$412 Million	$445 Million	Washington, DC	1958
2.	National Geographic Society	10.8 Million	$540 Million	$500 Million	Washington, DC	1888
3.	Humane Society of the United States	7.3 Million	$52 Million	$50 Million	Washington, DC	1954
4.	National 4-H Council Youth Development	6.5 Million	$49.4 Million	$44.1 Million	Chevy Chase, MD	1976
5.	National Right to Life Committee	6 Million	N/A	N/A	Washington, DC	1973
6.	National Wildlife Federation	4 Million	$106 Million	$102 Million	Vienna, VA	1936
7.	Seniors Coalition	3.7 Million	$7.6 Million	$7.6 Million	Springfield, VA	1990
8.	National Rifle Association	2.8 Million	N/A	$130 Million	Fairfax, VA	1871
9.	National Education Association	2.5 Million	$210 Million	$210 Million	Washington, DC	1857
10.	U.S. English	1.5 Million	$15 Million	$1.3 Million	Washington, DC	1983
(t) 11.	Special Olympic International	1.2 Million	N/A	$8.5 Million	Washington, DC	1968
(t) 11.	World Wildlife Fund	1.2 Million	N/A	$60 Million	Washington, DC	1961
13.	Nature Conservancy	1.1 Million	$696,000	N/A	Arlington, VA	1951
14.	Center for Science in the Public Interest	1 Million	$19 Million	$17 Million	Washington, DC	1971
15.	United Seniors Association	650,000	N/A	$12 Million	Washington, DC	1991
16.	Citizens Against Government Waste	600,000	$5.9 Million	$5.8 Million	Washington, DC	1984
17.	Concerned Women for America	559,000	$11.7 Million	N/A	Washington, DC	1979
18.	Sixty-Plus Association	550,000	$7 Million	N/A	Arlington, VA	1992
19.	Boat Owners Association of the United States	510,000	N/A	N/A	Alexandria, VA	1966
(t) 20.	Greenpeace U.S.A.	500,000	$27 Million	$37 Million	Washington, DC	1971
(t) 20.	Nat'l Abortion & Reprod. Rights Action League (NARAL)	500,000	N/A	N/A	Washington, DC	1984
(t) 20.	U.S. Public Interest Research Group	500,000	N/A	N/A	Washington, DC	1983
(t) 20.	National Council of Senior Citizens	500,000	N/A	N/A	Silver Spring, MD	1961
24.	National Federation of Retired Federal Employees	430,000	$10.5 Million	$7 Million	Alexandria, VA	1921
25.	Family Research Council	400,000	N/A	$14.5 Million	Washington, DC	1980

Source: Washington Business Journal's Book of Lists 2001,
Delta Associates, November 2003.

TABLE A-9

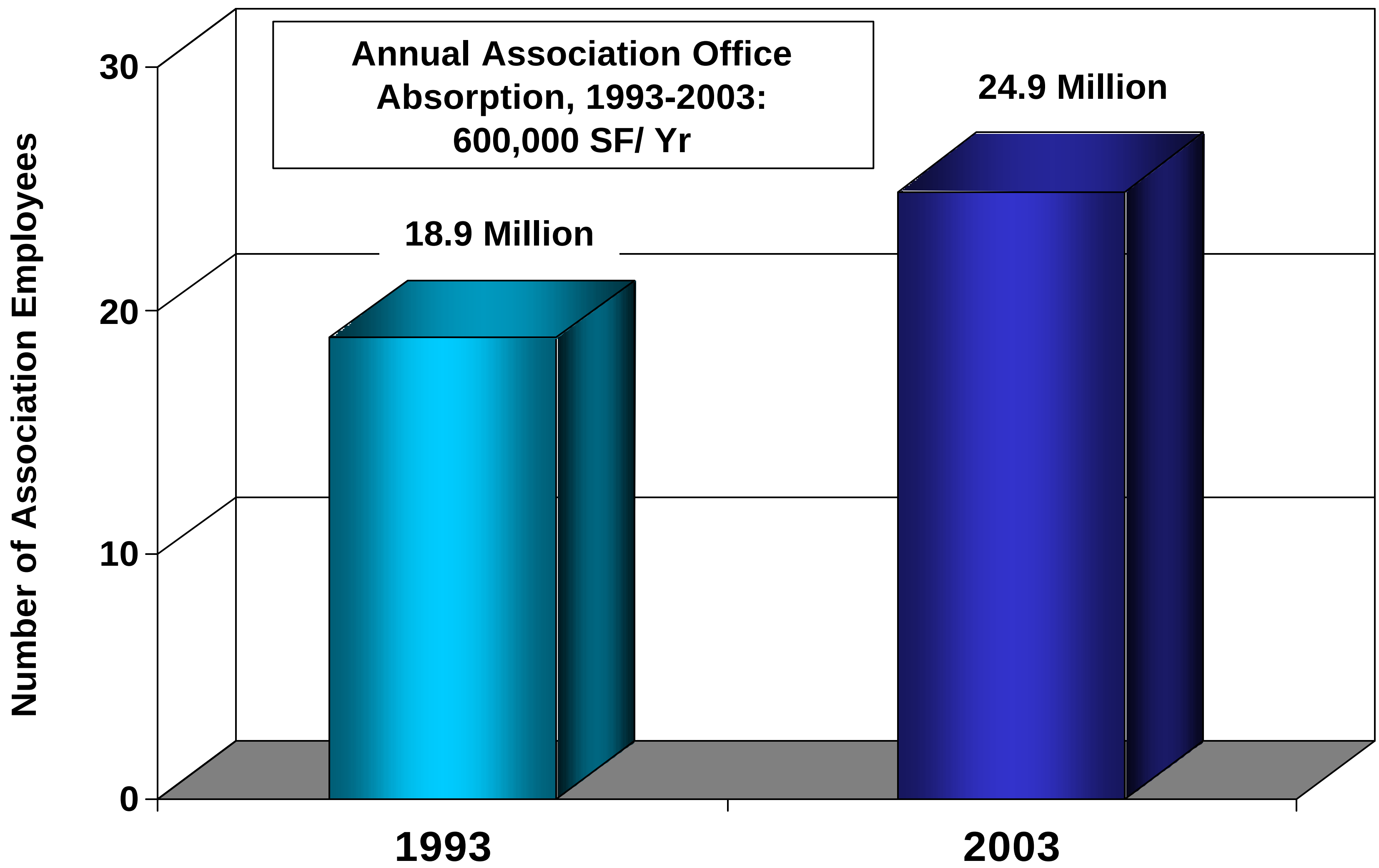
Growth in Association Employment
Washington Metropolitan Area
1993 - 2003



Source: Delta Associates' analysis of Leadership Directories & Marketing Source data, Bureau of Labor Statistics, November 2003.

TABLE A-10

Association Office Space Absorption
Washington Metropolitan Area
1993 - 2003



Source: Delta Associates' analysis of Leadership Directories
& Marketing Source data, November 2003.

TABLE A-11

Association Space Profile by Tenure
Washington Metropolitan Area
November 2003

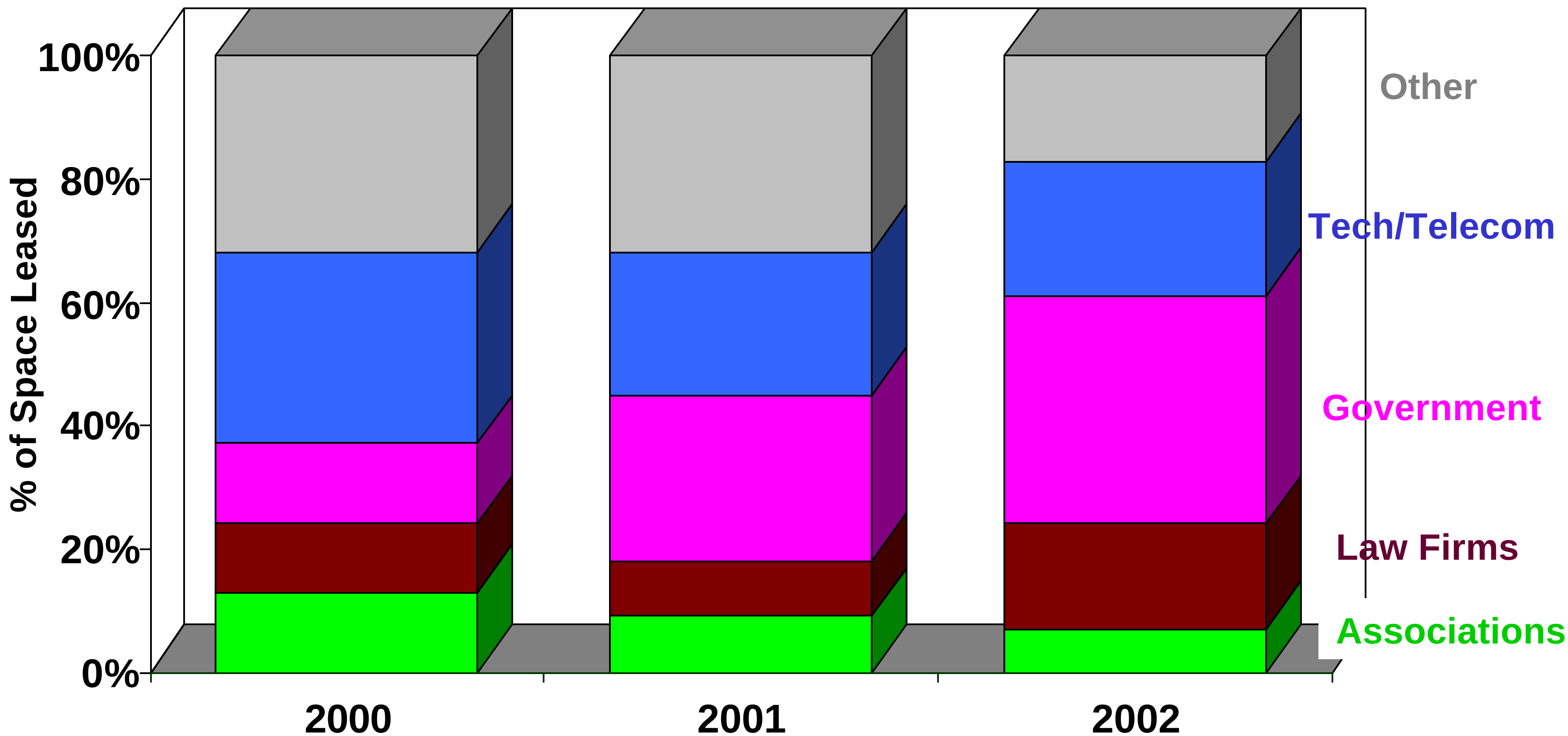
Measure	Space Scenario 1/	
	Lease Space	Owner-Occupier
Average Space Occupied Per Association:	8,900 SF	28,000 SF
Median Space Occupied Per Association:	4,400 SF	16,100 SF
Average Employees Per Association:	26	82
Overall % of Associations Leasing/Owning: 2/	86%	14%

1/ Excludes situations where Associations operate out of home offices or other non-conventional office arrangement.
2/ Based on random sample of 50 Washington area associations.

Source: Delta Associates' analysis of Leadership Directories & Marketing Source data, Bureau of Labor Statistics, CoStar, November 2003.

TABLE A-12

Office Leasing by Sector
Washington Metropolitan Area
2000 - 2002



	2000	2001	2002
Total Market Gross Leasing Activity (SF)	48.1 Mill.	40.6 Mill.	32.8 Mill.
Associations' Share:	10%	8%	7%

Source: Delta Associates, November 2003.

TABLE A-13

Projected Association Office Absorption
Washington Metropolitan Area
2004 - 2006

Office Space Occupied by Associations, November 2003:		24.9 million SF
Annual Association Job Growth in DC Area, 1993 – 2003:	x	2.8% per annum 1/
Projected Ass'n Office Absorption Per Annum, 2004-2006:		700,000 SF

1/ Based on BLS historical job data.

Source: Delta Associates, Bureau of Labor Statistics, November 2003.

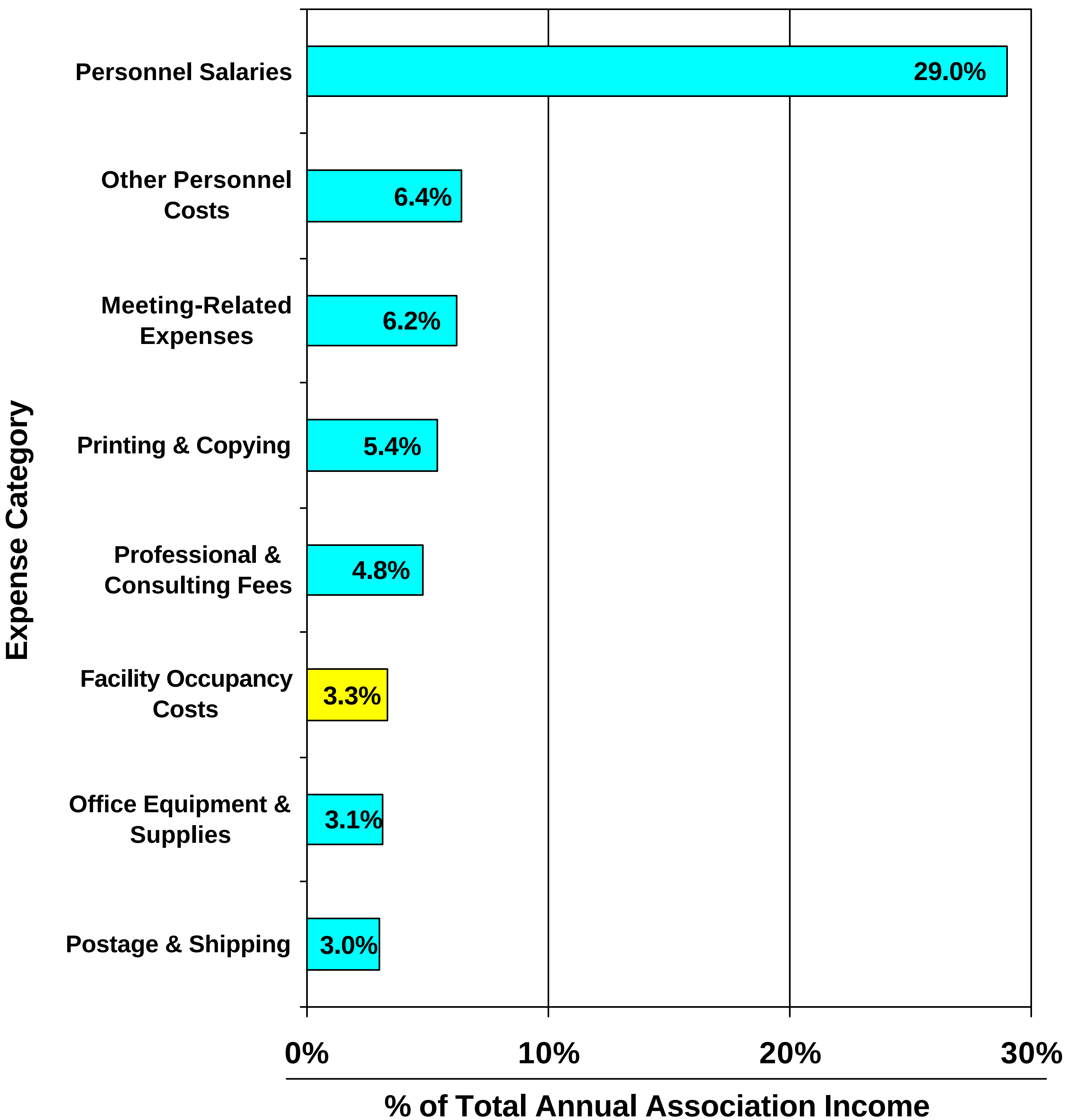
A -14

<u>Appendix B:</u>

Data on Associations' Facilities-Related Preferences

TABLE B-1

Association Occupancy Expenses as a Percentage of Total Income *
November 2003



* Average percentage reported among 93 survey respondents, based on 1997 data. Note that figures are percentages of association income, not expenses.

Source: American Society of Association Executives,
Delta Associates, November 2003.

DA23252
AppxB1-OccupancyExp

TABLE B-2

HEADQUARTERS LOCATION: CLASS OF OFFICE SPACE
TOP 25 ASSOCIATIONS RANKED BY TOTAL MEMBERSHIP 1/
WASHINGTON METRO AREA
NOVEMBER 2003

Class of Space	# of Top 25 Associations	% of Top 25 Associations	Avg SF Occupied Per Space Class
Class A Space	10	40%	69,800
Class B Space	10	40%	20,000
Class C Space	3	12%	15,500
Undetermined	2	8%	N/A
Total/Average	**25**	**100%**	**44,400**

1/ See Table A-7 for list of top 25 associations in the Washington area.

Source: CoStar,
Delta Associates, November 2003.

TABLE B-3

HEADQUARTERS LOCATION: CLASS OF OFFICE SPACE
RANDOM SAMPLE OF 50 ASSOCIATIONS
WASHINGTON METRO AREA
NOVEMBER 2003

Class of Space	# of Top 25 Associations	% of Top 25 Associations	Avg SF Occupied Per Space Class
Class A Space	16	32%	12,800
Class B Space	16	32%	6,800
Class C Space	4	8%	2,700
Undetermined	14	28%	N/A
Total/Average	**50**	**100%**	**9,700**

Source: CoStar,
Delta Associates, November 2003.

TABLE B-4

PERCENTAGE OF ASSOCIATIONS BY SPACE ARRANGEMENT FOR HEADQUARTERS FACILITIES ALL U.S. ASSOCIATIONS NOVEMBER 2003

Space Arrangement	% of Associations
Owns & Occupies 100% of Building	21%
Owns & Occupies Less Than 100% of Bldg	13%
Leases Entire Building	2%
Leases Space in Building	59%
Other	5%
Total	**100%**

Source: American Society of Association Executives, Delta Associates, November 2003.

TABLE B-5

MARKET-MAKER SURVEY:
PREMIUM PAID BY OWNER OCCUPIER FOR AN OFFICE BUILDING
COMPARED TO TYPICAL INVESTMENT PURCHASER
NOVEMBER 2003

Survey Respondent	Respondent Description	Respondent's Comments	Estimate of Premium Paid By User Owners Over Investors
1. Respondent #1	Office Property Transaction Broker	Owner occupants don't have to deal with re-leasing or down time in most cases and can therefore be a bit more aggressive.	10% - 20%
2. Respondent #2	Office Property Transaction Broker	--	20% - 30%
3. Respondent #3	Office Property Transaction Broker	The premium depends on how well the building fits the buyer-occupant	Up to 25%
4. Respondent #4	Office Property Transaction Broker	At a minimum, the premium is 10% because of the intangible "prestige" derived from ownership, avoidance of vacancy risk and broker's fees, and other factors. If the building is vacant, the theoretical premium is much higher.	At least 10%
5. Respondent #5	Flex/Office Property Transaction Broker	Owner-occupiers tend to be willing to pay more due to lower risk of building vacancy.	About 10%
Average of 5 Respondents:		--	**10% - 30%**

Source: Delta Associates, November 2003.

DA23252
AppxB2-B9-SpaceUtiliz, B5-MarketMaker

TABLE B-6

SIGNIFICANT LEASES SIGNED BY ASSOCIATIONS
ALEXANDRIA, VIRGINIA
1996-2003

Lease Transaction	Address	SF Leased	Annual Rental Rate/SF	Escalations	Tenant Imprvmnts/SF	Class of Space	Submarket	Commencement Date	Length of Lease (Months)
Comp 1	1600 Duke Street	6,702	$27.00	3.0%	$25.00	A	Old Town Alexandria	April 1, 2003	84
Comp 2	500 Montgomery Street	4,884	$26.00	3.0%	$28.00	A	Old Town Alexandria	February 1, 2003	88
Comp 3	500 Montgomery Street	3,054	$26.00	3.0%	$25.00	A	Old Town Alexandria	February 1, 2003	84
Comp 4	500 Montgomery Street	13,676	$26.50	3.0%	$25.00	A	Old Town Alexandria	September 2, 2002	120
Comp 5	625 N. Washington Street	13,543	$19.00	3.0%	NA	A	Old Town Alexandria	September 1, 2002	40
Comp 6	330 John Carlyle Street	12,290	$31.00	3.0%	$30.00	A	Old Town Alexandria	June 2, 2002	99
Comp 7	603 King Street	2,700	$20.00	3.5%	$5.00	B	Old Town Alexandria	June 2, 2002	120
Comp 8	675 N. Washington St	13,000	$29.00	2.5%	$35.00	A	Old Town Alexandria	June 2, 2002	120
Comp 9	1101 King Street	8,500	$25.00	NA	NA	A	Old Town Alexandria	March 1, 2002	60
Comp 10	1729 King Street	5,997	$26.80	2.5%	$10.00	B	Old Town Alexandria	February 1, 2002	60
Comp 11	211 N. Union Street	7,087	$27.95	4.0%	NA	A	Old Town Alexandria	December 15, 2001	27
Comp 12	4401 Ford Avenue	10,168	$24.50	3.0%	$28.00	A	I-395 Corridor	August 1, 2001	36
Comp 13	225 Reinekers Lane	6,737	$30.25	3.0%	$27.00	A	Old Town Alexandria	June 12, 2001	120
Comp 14	330 John Carlyle Street	10,527	$30.00	2.5%	As-Is	A	Old Town Alexandria	June 1, 2001	120
Comp 15	1700 Diagonal Road	13,476	$26.75	3.8%	$4.50	A	Old Town Alexandria	December 1, 2000	120
Comp 16	4501 Ford Avenue	1,788	$25.00	3.0%	$15.00	A	I-395 Corridor	October 1, 2000	60
Comp 17	1800 Diagonal Road	5,744	$26.50	NA	NA	A	Old Town Alexandria	September 15, 2000	120
Comp 18	635 Slaters Lane	3,307	$17.00	NA	NA	A	Old Town Alexandria	June 1, 2000	48
Comp 19	44 Canal Center	27,384	$26.50	2.5%	$7.00	A	Old Town Alexandria	December 1, 1999	132
Comp 20	277 South Washington St	14,181	$25.50	2.5%	$25.00	A	Old Town Alexandria	July 1, 1999	132
Comp 21	635 Slaters Lane	3,353	$18.51	NA	NA	A	Old Town Alexandria	October 30, 1998	NA
Comp 22	635 Slaters Lane	6,228	$21.33	3.0%	NA	A	Old Town Alexandria	November 1, 1997	50
Comp 23	201 N. Union Street	8,627	$21.75	2.5%	$18.00	A	Old Town Alexandria	January 1, 1996	130
Average:	--	**8,824**	**$25.12**	**3.0%**	**$20.50**	--	--	--	**90**

Source: Delta Associates, November 2003.

DA23252
AppxB2-B9-SpaceUtiliz B6-Alex Leases

TABLE B-7

SIGNIFICANT LEASES SIGNED BY ASSOCIATIONS
CENTRAL BUSINESS DISTRICT, WASHINGTON, DC
1996-2003

Lease Transaction	Address	SF Leased	Annual Rental Rate/SF	Escalations	Tenant Imprvmnts/SF	Class of Space	Commencement Date	Length of Lease (Months)
Comp 1	1750 H Street, NW	47,042	$33.00	NA	NA	A	May 6, 2003	121
Comp 2	1850 M Street, NW	10,190	$22.00	3.0%	NA	A	May 1, 2003	39
Comp 3	1750 H Street, NW	6,980	$31.50	NA	NA	A	March 7, 2003	24
Comp 4	1100 17th Street, NW	11,174	$35.00	NA	NA	B	March 6, 2003	60
Comp 5	2000 M Street, NW	8,691	$29.00	2.5%	$25.00	B	February 1, 2003	180
Comp 6	1701 K Street, NW	5,115	$32.50	2.5%	$20.00	B	December 1, 2002	76
Comp 7	1620 L Street, NW	12,800	$34.25	2.3%	$35.00	A	October 12, 2002	NA
Comp 8	1776 Massachusetts Ave, NW	11,382	$33.00	2.5%	NA	B	October 1, 2002	120
Comp 9	1725 Eye Street, NW	29,007	$39.00	3.0%	$50.00	A	September 7, 2002	120
Comp 10	1025 Connecticut Avenue, NW	8,185	$36.00	4.0%	$12.00	B	September 1, 2002	84
Comp 11	1776 Massachusetts Ave, NW	5,835	$33.50	2.5%	$30.00	B	May 1, 2002	120
Comp 12	1203 19th Street, NW	5,704	$37.50	2.5%	$45.00	B	March 1, 2002	120
Comp 13	1725 K Street, NW	15,673	$28.75	2.0%	$7.50	B	January 1, 2002	84
Comp 14	1828 L Street, NW	8,400	$29.25	2.0%	$5.00	B	November 1, 2001	120
Comp 15	734 15th Street, NW	6,057	$29.00	2.0%	$30.00	B	July 15, 2001	96
Comp 16	1828 L Street, NW	21,821	$32.50	2.5%	$35.00	B	February 1, 2001	120
Comp 17	1615 L Street, NW	27,824	$38.50	2.3%	$25.00	A	December 1, 2000	120
Comp 18	2000 L Street, NW	7,079	$33.00	2.5%	$20.00	A	October 1, 2000	108
Comp 19	1500 K Street, NW	5,588	$33.00	5.0%	As-Is	A	September 1, 2000	24
Comp 20	1275 K Street, NW	18,485	$34.50	2.0%	$35.00	A	May 1, 2000	120
Comp 21	1717 K Street, NW	17,801	$27.94	3.5%	$17.00	B	May 1, 2000	120
Comp 22	1776 Massachusetts Ave, NW	6,574	$27.75	2.5%	$25.00	B	April 1, 2000	60
Comp 23	1707 L Street, NW	6,115	$23.50	2.0%	$5.00	B	February 1, 2000	120
Comp 24	1726 M Street, NW	6,128	$25.00	2.0%	$25.00	B	January 1, 2000	120
Comp 25	1707 H Street, NW	5,400	$24.00	2.0%	$12.00	B	January 1, 2000	96
Comp 26	1025 Connecticut Ave, NW	12,511	$33.00	3.8%	$35.00	B	November 1, 1999	127
Comp 27	1800 K Street, NW	13,000	$30.48	NA	As-Is	B	September 1, 1999	12
Comp 28	1800 K Street, NW	23,369	$34.50	2.0%	$40.00	B	August 15, 1999	148
Comp 29	1129 20th Street, NW	14,000	$24.50	2.0%	$30.00	B	December 1, 1998	120
Comp 30	1030 15th Street, NW	8,307	$24.25	1.8%	$30.00	B	August 15, 1998	122
Comp 31	1140 Connecticut Ave, NW	5,921	$26.25	2.3%	$4.00	B	June 1, 1998	60
Comp 32	1828 L Street, NW	12,574	$25.00	2.0%	$25.00	B	May 1, 1998	120
Comp 33	2000 L Street, NW	14,142	$27.75	2.5%	$33.00	A	February 1, 1998	120
Comp 34	1200 18th Street, NW	14,000	$24.25	0.0%	$30.00	B	January 1, 1997	120
Comp 35	1233 20th Street, NW	7,111	$24.00	NA	$5.00	B	January 1, 1997	60
Average:	**--**	**12,571**	**$30.20**	**2.4%**	**$24.66**	**--**	**--**	**99**

Source: Delta Associates, November 2003.

DA23252
AppxB2-B9-SpaceUtiliz B7-CBD Leases

TABLE B-8

SIGNIFICANT LEASES SIGNED BY ASSOCIATIONS
BETHESDA, MARYLAND
1996-2003

Lease Transaction	Address	SF Leased	Annual Rental Rate/SF	Escalations	Tenant Imprvmnts/SF	Class of Space	Commencement Date	Length of Lease (Months)
Comp 1	6700 Rockledge Drive	7,152	$30.00	5.0%	NA	A	March 24, 2003	27
Comp 2	6400 Goldsboro Road	9,836	$25.91	5.0%	As-Is	B	September 24, 2002	25
Comp 3	7200 Wisconsin Avenue	15,494	$31.00	2.5%	NA	A	June 1, 2002	120
Comp 4	Two Wiscosin Circle	3,018	$34.00	3.0%	$8.00	A	February 1, 2002	48
Comp 5	4520 East West Highway	1,688	$35.00	3.0%	$8.00	A	September 18, 2001	60
Comp 6	4733 Bethesda Avenue	1,874	$31.00	4.0%	As-Is	B	May 1, 2001	48
Comp 7	4600 East-West Highway	4,800	$29.60	3.0%	$3.00	B	April 1, 1999	60
Comp 8	8120 Woodmont Avenue	2,014	$15.50	4.0%	NA	B	January 1, 1997	60
Comp 9	5454 Wisconsin Avenue	1,991	$19.00	2.5%	NA	B	November 1, 1996	84
Comp 10	7101 Wisconsin Avenue	8,422	$20.00	2.5%	$23.00	B	August 1, 1996	64
Comp 11	5272 River Road	1,660	$17.00	3.0%	$13.00	B	April 1, 1996	63
Average:	--	**5,268**	**$26.18**	**3.6%**	**$11.00**	--	--	**60**

Source: Delta Associates, November 2003.

Appendix C:

Special Topic: Factors to Consider in a Relocation

CONSIDERATIONS IN RELOCATING AN ASSOCIATION OUTSIDE THE WASHINGTON METRO AREA

What are the likely implications of relocation for the Association's ability to fulfill its mission?

While each case varies, typically an Association is likely to lose at least 80% of its employees should it relocate to another metro area. If the employees really are an organization's most important assets, the long-term implications for an Association of losing 80% of its staff could be grim, because of the lost investment in human resources and the lost institutional memory and collective staff knowledge. The impacts are likely to be especially difficult for an Association as compared to a for-profit enterprise, since Associations are knowledge-based, people-driven, and heavily dependent on the ongoing relationships and common goals that develop between members and staff.

Are there productivity differences that the Association might experience, and how long will it take to recover full productivity?

There is always a price to pay in a relocation, and the first thing that suffers (and sometimes the longest to recover) is productivity. Mass terminations and relocations are likely to produce a number of negative outcomes that can affect productivity and teamwork, such as the following:

- Productivity is likely to be impacted dramatically by the disruptions caused by departing employees and new hires.
- Employees who are leaving often stop producing weeks before their last day on the payroll.
- If a team environment exists, a disruption of cohesiveness can affect productivity and efficiency and cause a loss of focus.
- Departing employees often miss work for interviews and tend to come in late and leave early. They are also likely to use company time to look for jobs.
- Departing employees mentor less and may discourage others by complaining before they go.
- If the team leader is the departing employee, the "time to productivity" for the new leader is likely to be long.
- As many as one in three replacement hires may not work out. Misfits would have be monitored for weeks, then warned, and finally replaced. The delay itself is costly, and the cost of going through the hiring process again is significant.
- Employees leaving hard-to-hire jobs may not be replaceable, or there may be a long delay in finding equivalent new employees.
- During the gap between an employee termination and the hiring of a replacement, there must be "fill-in help" which could mean hiring temps or overtime costs.
- A new hire could have extra start-up costs, for example, maybe a higher salary, a "sign-on bonus" and/or relocation expenses.

In addition, it is likely that more management time and effort will be required, due to the extra work involved in terminating and hiring staff and the individual attention needed by both departing employees and new hires. Error rates will probably increase, because of higher dissatisfaction among the departing employees and the inexperience of new staff members.

The amount of time needed to fill vacant positions can add tremendously to lost productivity and total cost. Studies have shown that the average "time to hire" is about 60 days for exempt employees and 45 days for non-exempt, but filling 80% (or more) of an Association's positions will be much more difficult and stressful than typical hiring patterns. In addition, training costs will add up both in terms of the lost investment in training resources expended on former employees and the lost productivity among new employees who need training.

How much money can an Association expect to save – and over what time frame – should it relocate?

Each relocation is different. The cost savings – if any – vary with the occupancy costs of leasing/owning in the new market, compensation costs, restaffing and other personnel costs, moving costs, and more. Also, savings may be offset by the intangible costs noted earlier.

With this in mind, a mid-size Association (100-250 employees) that chooses to depart the Washington metro area for a mid-size/mid-cost market (such as Dallas, Houston, Indianapolis, Phoenix) can expect a time-frame of 10 years or more before it re-coups its move-related costs and begins to experience true savings. Since the rule of thumb on whether a relocation is worthwhile is a 3.5 year recoup period, this explains why major Associations do not often relocate – the barriers to doing so, both financial and intangible – are high.

EXHIBIT C-2

Relocating Outside the Washington Area: Cost Considerations

RELOCATION EXPENSE PAYBACK FORMULA

Relocation Expense Payback Period, In Years = **One-Time Costs Associated w/ Relocation** [1/] / (**Annual Facility Occupancy Cost Savings** + **Annual Staff Compensation Cost Savings**)

Desirable Payback Period: 3 to 4 Years

CASE STUDY: PROPOSED RELOCATION FROM NORTH BETHESDA TO NASHVILLE [2/]

Relocation Expense Payback Period, In Years =

One-Time Costs Per Employee:

Termination Costs:	$30,000
Re-Staffing Costs:	$50,000
Sr. Staff Relocation:	$3,000
Total:	**$83,000**

divided by

(**Annual Occup. Cost Svgs Per Employee:** $3,000 + **Annual Compens. Cost Svgs. Per Empl.:** $5000)

= **10.4 Years**

(much higher than target payback period)

1/ Includes severance pay, accrued vacation, employee outplacement, advertising, search firm fees, training, lost productivity, dual staffing, dual facilities, costs for senior staff relocation, and other considerations.

2/ This case study summary presents the results of an in-depth relocation analysis Delta Associates recently prepared for an Association client considering relocation to a midwestern city.

Source: Delta Associates, November 2003.

Appendix D:

Washington Metropolitan Area Office Market Outlook

THE WASHINGTON METRO AREA OFFICE MARKET: AN OVERVIEW AT 3RD QUARTER 2003

While Rent Erosion Persists in Some Areas, Region Remains Best In Nation; Investment Sales Continue to Boom

The Washington area office market posted largely positive results in the 3rd quarter, as activity picked up across the region. Metro-wide, net absorption was positive, overall vacancy declined, and investment sales continued to boom. Nevertheless, rent erosion continued in some areas, and landlord conditions remain on the distant horizon. Overall, the Washington area office market is improving and remains the best in the nation.

Third quarter 2003 market highlights:

- **Net absorption:** Positive 568,000 SF in the 3rd quarter of 2003. 2.5 million SF absorption year-to-date – already exceeds all of 2002.
- **Sublet space:** Declined by 2.0 million SF in the 3rd quarter. The cycle of sublet returns has ended, but its impact on rents persists.
- **Direct vacancy rate:** 8.9%, up from 8.7% in June and from 8.1% a year ago. Northern Virginia and Suburban Maryland experienced declines in vacancy in the 3rd quarter, while vacancy in the District rose.
- **Vacancy rate with sublet space:** 11.2%, down from 11.7% in June and from 11.4% a year ago.
- **Space under construction:** 12.4 million SF, down from 15.0 million SF a year ago. Space U/C is 61% **pre-leased,** down from 72% a year ago.
- **Rents:** Mixed in Northern Virginia and Suburban Maryland, down about 3% in the District.
- **Investment sales:** Continue to roll, with $3.4 billion on 79 transactions YTD. Average sale price: $239/SF.

Net Absorption: Positive in Q3 in NoVa and DC, Negative in Suburban Maryland

Net absorption of office space totaled positive 568,000 SF in the 3rd quarter of 2003 in the Washington metro area, compared to positive 2.1 million SF in the 2nd quarter. Northern Virginia and the District experienced positive net absorption in the 3rd quarter, while Suburban Maryland was in negative territory. YTD, the metro area is at positive 2.5 million SF. For year-to-date totals by substate area, see the following chart:

Net Absorption of Office Space
And Change in Sublet Space
2002 versus 2003 YTD
(000s of SF)

	Direct Space Net Absorption		Sublet Space Absorbed or (Returned)	
Market	2002	2003 YTD	2002	2003 YTD
NOVA	259	722	805	1,855
Sub MD	1,023	261	(194)	199
District	1,129	1,495	(135)	503
Total	**2,411**	**2,478**	**476**	**2,557**

Sublease space declined (was absorbed) by 2.0 million SF in the Washington area in the 3rd quarter of 2003, compared to a decline of 286,000 SF in the 2nd quarter. The cycle of sublet returns has ended, but the impact on rents likely will continue into 2004.

Net absorption of Class A space totaled 779,000 SF in the 3rd quarter, compared to 1.1 million SF in the 2nd quarter of 2003. For the year, 2.6 million SF of Class A space has been absorbed – the same amount as in the January-September period last year.

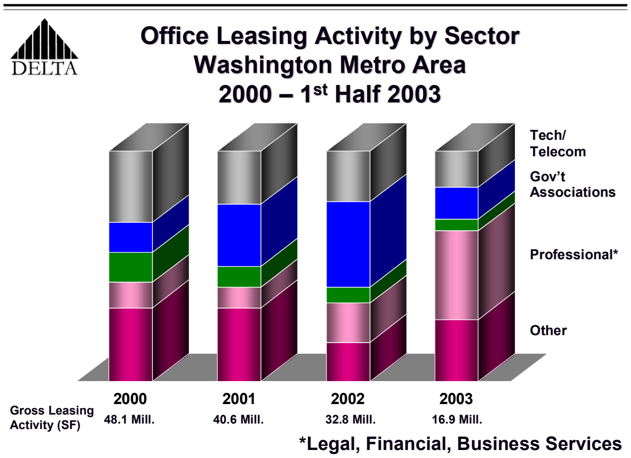
Leasing: Law Firms Make an Impact

Law firms were active in the 3rd quarter, particularly in the District. Despite recent layoffs, firms are adding space to prepare for the next expansion phase, which seems to be on the horizon.

Among the law firms signing 3rd quarter lease deals in the District:

- Dickstein Shapiro 417,000 SF
- Powell Goldstein 85,000 SF
- Keller & Heckerman 80,000 SF
- Cohen, Milstein 41,000 SF

While all of the above deals were in the District, law firms also have taken significant amounts of space in Northern Virginia in 2003.



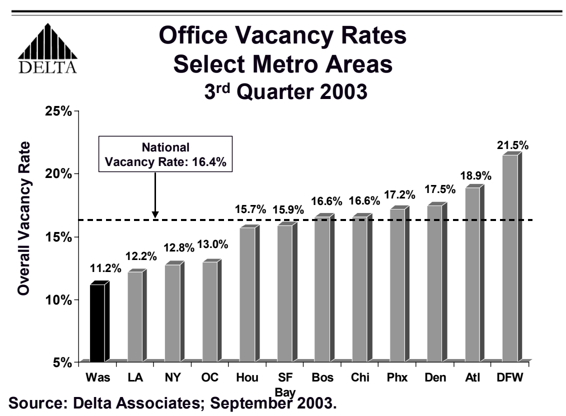
Direct Vacancy Up Overall; Suburbs Declining While District Rising

The Washington metro area direct vacancy rate rose to 8.9% in the 3rd quarter, from 8.7% in June and from 8.1% a year ago. The current level of vacancy is similar to where it was six months ago.

The Washington area vacancy rate, including sublet space, is 11.2%, down from 11.7% in June and from 11.4% a year ago. The spread above direct vacancy contracted 70 basis points in the 3rd quarter of 2003.

Vacancy Rates and Vacant Space (All Classes) Washington Metro Area 9/02 and 9/03		
	9/02	9/03
	Vacancy Rate	
Direct	8.1%	8.9%
Sublet	3.3%	2.3%
	Vacant Space (Millions of SF)	
Direct	26.4	29.6
Sublet	10.6	7.7

The Washington metro area has the lowest vacancy rate of any metro area in the U.S., as depicted below.



The Washington metro area direct Class A vacancy rate at September 2003 is 10.1%, up from 9.7% in June and from 9.2% a year ago.

The Washington metro area Class A vacancy rate, including sublet space, is 13.4% at September 2003.

Construction Up; Pre-Leasing Steady

There is 12.4 million SF of office space under construction in the Washington metro area at September 2003, compared to 11.1 million SF in June and 15.0 million SF a year ago.

Office Space Under Construction (Millions of SF)			
Market	9/01	9/02	9/03
NOVA	8.7	6.4	5.6
Sub MD	3.9	2.1	1.5
District	5.8	6.5	5.3
Total	**18.4**	**15.0**	**12.4**

61% of the space under construction at September 2003 is pre-leased, compared to 56% in June and 72% a year ago. Pre-leasing has remained fairly consistent as developers have not been building full-spec properties.

Construction began on 3.0 million SF of office space in the Washington metro area in the 3rd quarter of 2003, compared to 1.5 million SF in the 2nd quarter. YTD, 5.5 million SF of construction has begun. Perhaps surprisingly, the most has been in Northern Virginia, with 2.3 million SF of groundbreakings YTD. Developers believe that the turnaround has begun in that market.

4.9 million SF of office space was delivered in the Washington metro area in the first nine months of 2003, compared to 7.8 million SF in the same period in 2002. Space delivered YTD was 71% leased upon delivery, compared to 60% for the same period last year.

Supply vs. Demand: Vacancy to Remain Stable Metro-Wide With Declines in the Suburbs and Increases in The District

We project the vacancy rate, including sublet space, to remain in the 11% range two years from now; it is at 11.2% today. Vacancy should decline in Northern Virginia and Suburban Maryland, and rise slightly in the District over the next 24 months.

Rents: Mixed in Northern Virginia and Suburban Maryland; Down in the District

In the 3rd quarter of 2003, office rents were mixed in Northern Virginia and Suburban Maryland and down in the District. Rents now are equivalent to those experienced in 1998/9. Within substate areas, performance is mixed, as some submarkets struggle and others show signs of recovery. While Tysons Corner and Reston/Herndon continue to experience rent erosion, the R-B Corridor and the East End saw rents tick up in the 3rd quarter. While the "inside vs. outside the Beltway" phenomenon may be subsiding, rents on properties close to or in the District likely will outpace more suburban properties in the near-term.

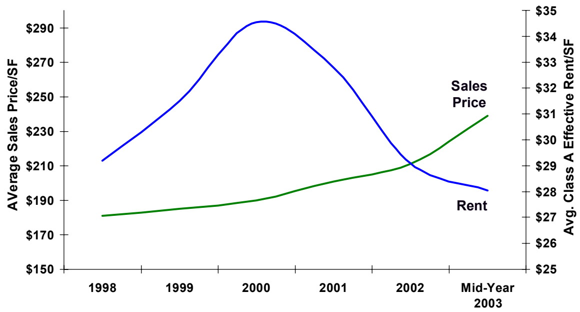
Overall, we expect rents to remain fairly flat for the balance of 2003 and most of 2004, as vacancy remains elevated. As the regional economy strengthens, demand will rise and rents will resume a growth curve, likely in late 2004 or early 2005.

Investment Sales: Q3 Volume Is Strong; Prices Rising in 2003

Investment sales continued to roll in the 3rd quarter of 2003, with volume of $1.3 billion. YTD, sales volume totals $3.4 billion – 21% ahead of the January-September 2002 period. The Washington market remains a very attractive option for institutional and overseas investors because of the stable nature of its tenant base.

The average sales price is up 6% over the mid-year 2003 average – to $239/SF. The strong investor interest in this area is a testament to the long-term strength of the Washington office market and the power of the Federal Government as a stabilizing influence on the regional economy. However, as the equity markets rebound, intense investor interest in Washington office properties may diminish somewhat.

Average Investment Sales Price/SF
Compared to Average Class A Rent/SF
Washington Metro Area
1998 Through 3rd Quarter 2003



Source: Delta Associates; September 2003.

Investment Returns: Higher

Total returns (cash flow plus appreciation) realized in the Washington office market – at 11.22% for the 12 months ending June 2003 – were the best in the nation. Returns rose from three months earlier, when they were at 10.71%. Returns in the Washington area outpaced the national average, which was 3.74%, during the last 12 months. Washington's CBD returns are much stronger than those in the suburbs – by 672 basis points.

NCREIF Return Index[1]
Office Properties

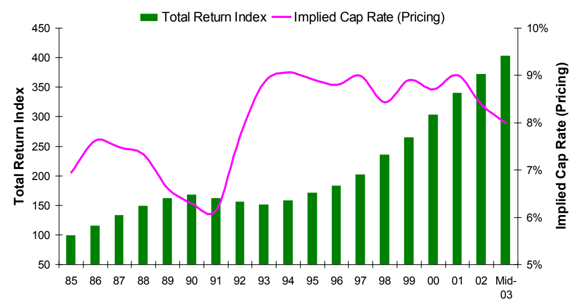
Metro Area	12-Month Total Return at 2nd Quarter 2003[1]
Washington	**11.22%**
Wash. CBD	14.38%
Wash. Suburbs	7.66%
New York	9.47%
Los Angeles	6.92%
Houston	5.39%
National Average	**3.74%**
Chicago	3.49%
Dallas	0.53%
Atlanta	0.08%
Boston	(0.01)%
San Francisco	(3.85)%

[1] NCREIF compiles return based on its members' $49.7 billion office portfolios. The index includes both current income and capital appreciation returns.

Source: Delta Associates, based on data in NCREIF 2nd Quarter 2003 "Real Estate Performance Report"; September 2003.

Returns on office assets have continued to rise in metro Washington so far in this cycle as opposed to the last cycle, when they tailed off. And with interest rates remaining low, cap rates for institutional grade assets have held below average. In some submarkets, Class A cap rates have dropped as low as 7.6%. Cap rates likely will begin to rise soon, as equity markets rebound and demand for this asset class softens slightly.

Return vs. Pricing
Washington Metro Office Market
1985 Through Mid-Year 2003



Source: NCREIF, Delta Associates; September 2003.

Land Sales: Limited Activity

Land sales volume totaled $30.3 million in the 3rd quarter, with only two notable sales, both occurring in Fairfax County. Developers are not actively seeking to bank land at this point in the cycle, although that may change as conditions improve next year.

The Washington Metro Area Office Market Outlook

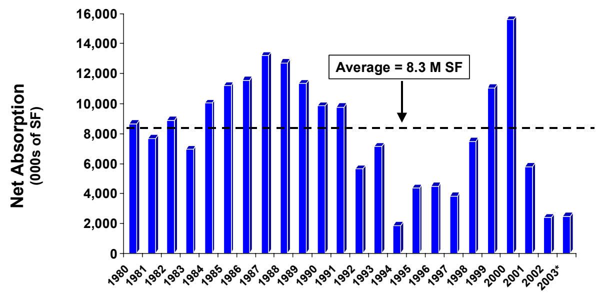
The Washington metro area office market likely will remain stable through the balance of 2003 and into 2004, before picking up momentum. For now, moderate demand likely will keep rents steady through mid-year 2004. Sales volume may decline slightly as investors look to reacquaint themselves with rebounding equities markets and the rush to real estate ebbs. However, market fundamentals should remain very strong when compared to other metro areas.

For the long-term, the outlook for the Washington office market remains among the strongest in the U.S. due to the impact of the Federal Government and a stable regional economy. We expect a landlord market to begin to re-appear by 2006-07.

WASHINGTON METRO AREA OFFICE MARKET DATA
3RD QUARTER 2003

DELTA

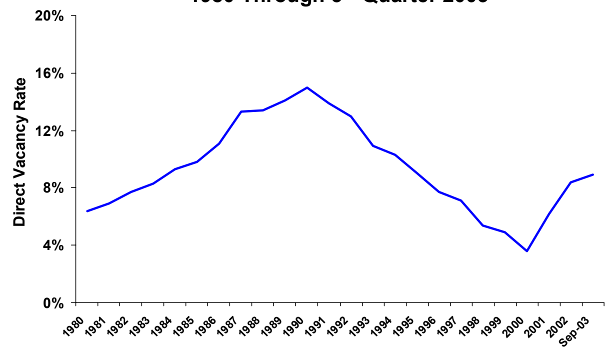
Net Absorption of Office Space
in Washington Metro Area
1980 Through 3rd Quarter 2003



Source: Delta Associates;September 2003. *Through September 2003

DELTA

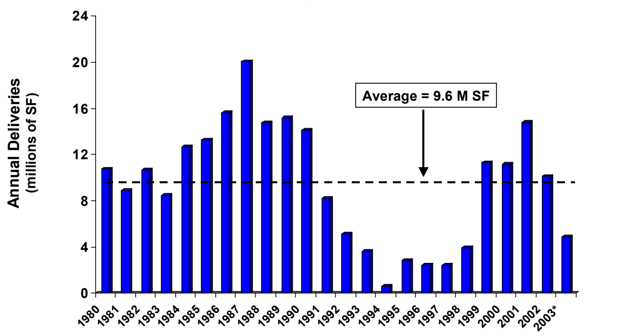
Office Vacancy Rates
in Washington Metro Area
1980 Through 3rd Quarter 2003



Source: Delta Associates' analysis of CoStar data; September 2003.

DELTA

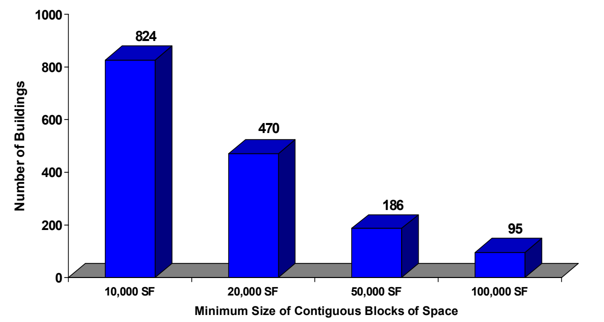
New Office Space Deliveries
in Washington Metro Area
1980 Through 3rd Quarter 2003



Source: CoStar, Delta Associates; September 2003. *Through September 2003

DELTA

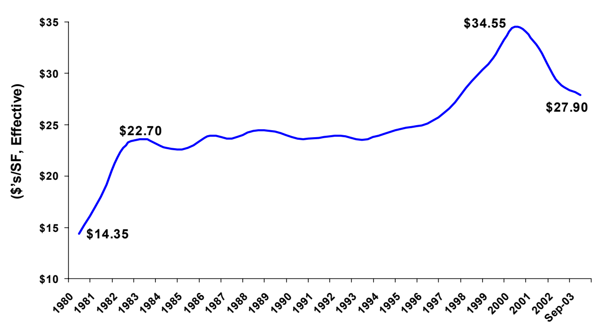
Buildings with Contiguous Blocks of Available Office Space in the Washington Metro Area
September 2003



Source: Delta Associates' analysis of CoStar data; September 2003.

DELTA

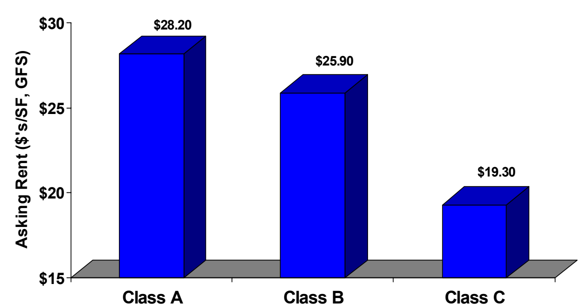
Average Class A Office Rents
in Washington Metro Area
1980 Through 3rd Quarter 2003



Source: Delta Associates; September 2003.

DELTA

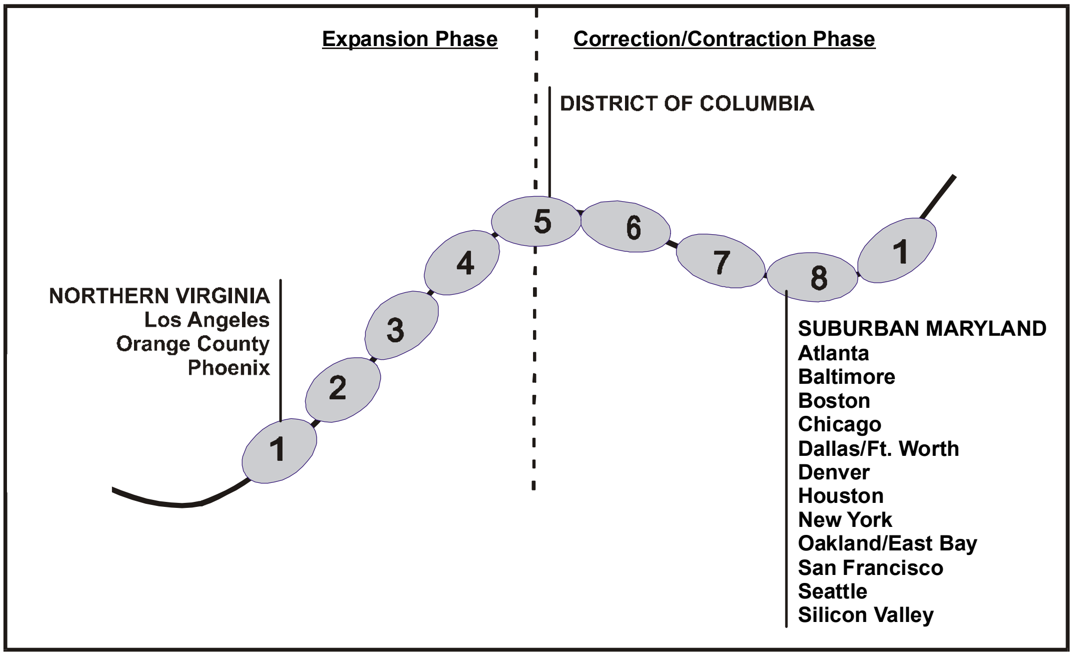
Average Office Rents
in Washington Metro Area
September 2003



Source: Delta Associates' analysis of CoStar data; September 2003.

EXHIBIT D-1

Office Market Position Index
3rd Quarter 2003



Position Indicators

1. Absorption flat to slightly positive, vacancy beginning to decrease, rents relatively stable, spec construction not justified
2. Absorption increasing, vacancy declining, rents rising, positioning for spec construction
3. Absorption strong, vacancy declining, rents rising, spec construction
4. Absorption strong, vacancy low and nearing bottom, rents up strong, spec construction
5. Absorption light, vacancy stable or rising, rents up only slightly if not flat, minimal new spec construction
6. Absorption flat/negative, vacancy rising, rents flat to declining, no or minimal new spec construction
7. Absorption negative, vacancy rising, rents dropping, no new spec construction
8. Absorption relatively flat, vacancy and rents stabilizing, no new spec construction

Washington Office Sub-State Positions/Comments	
The District:	Market on Hold: May Skip Contraction Phase
Northern Virginia:	Market Beginning New Expansion Phase
Suburban Maryland:	Stabilization Point, as Market Idles

Source: Delta Associates, September 2003.

TABLE D-2

PROJECTED VACANCY RATES - TWO YEARS OUT
WASHINGTON METRO AREA OFFICE MARKET
AS OF SEPTEMBER 2003

(Millions of SF)

	Northern Virginia	Suburban Maryland	The District	Metro Area Total
Inventory				
Inventory at 9/03	147.1	76.9	109.3	333.3
Pipeline Thru 9/05[1]	5.1	1.9	5.5	12.5
Inventory at 9/05	152.2	78.8	114.8	345.8
Supply vs. Demand				
Avail Space (w/sublet) at 9/03	21.2	8.9	7.3	37.4
New Supply Thru 9/05	5.1	1.9	5.5	12.5
Avail Space (w/sublet) Thru 9/05	26.3	10.8	12.8	49.9
Total Demand Thru 9/05[2]	6.4	2.5	3.4	12.3
Avail Space (w/sublet) at 9/05	19.9	8.3	9.4	37.6
Vacancy				
Vacancy with Sublet at 9/03	14.4%	11.6%	6.7%	11.2%
Vacancy with Sublet at 9/05	13.1%	10.6%	8.2%	10.9%

1/ Office buildings currently under construction and those planned that may deliver by September 2005.

2/ Projected total demand is derived from 3 types of demand:
1) Underlying demand -- driven by new job growth.
2) Variable demand -- driven by market conditions and may add or detract from total. For example: A firm's decision to lease more space than currently needed to accommodate growth -- or conversely, a firm may be returning space to the market.
3) Carryover demand -- that which was previously committed to in new buildings now delivering.

Source: Delta Associates,
November 2003.

TABLE D-3

PROJECTED CHANGES IN EFFECTIVE RENTS
TWO YEARS OUT
WASHINGTON METRO AREA OFFICE MARKET

Year	Northern Virginia	Suburban Maryland	District of Columbia
2003	-1.1%	-0.6%	0.8%
2004	0.0%	0.0%	0.0%
2005	1.0%	1.0%	0.0%

Source: Delta Associates,
November 2003.

TABLE D-4

AVAILABLE BLOCKS OF SPACE
WASHINGTON METRO AREA OFFICE MARKET
AS OF SEPTEMBER 2003

Block Size	Northern Virginia	Suburban Maryland	District of Columbia	Metro Area Total
10,000 SF or Greater	429	203	192	824
20,000 SF or Greater	255	115	100	470
50,000 SF or Greater	98	41	47	186
100,000 SF or Greater	53	15	27	95

Source: CoStar, Delta Associates,
November 2003.

TABLE D-5

OFFICE BUILDING DELIVERIES
WASHINGTON METROPOLITAN AREA
JANUARY THROUGH SEPTEMBER 2003

Market Area	NRSF Delivered New Construction	NRSF Delivered Renovation	NRSF Delivered Total	NRSF Available At Delivery	NRSF Leased at Delivery Sq. Ft.	NRSF Leased at Delivery %
Northern Virginia:	**1,245,598**	**0**	**1,245,598**	**648,269**	**597,329**	**48.0%**
Compared to Northern VA, Jan. - Sept. 2002:	4,545,789	291,693	4,837,482	2,398,849	2,438,633	50.4%
Suburban Maryland:	**1,249,235**	**0**	**1,249,235**	**147,483**	**1,101,752**	**88.2%**
Compared to Suburban MD, Jan. - Sept. 2002:	1,407,818	77,014	1,484,832	272,210	1,212,623	81.7%
District of Columbia:	**1,873,419**	**524,000**	**2,397,419**	**618,226**	**1,779,193**	**74.2%**
Compared to D.C., Jan. - Sept. 2002:	1,344,253	175,210	1,519,463	489,171	1,030,292	67.8%
Washington Metro Total:	**4,368,252**	**524,000**	**4,892,252**	**1,413,978**	**3,478,274**	**71.1%**
Compared To Wash Metro Total, Jan. - Sept. 2(	7,297,860	543,917	7,841,777	3,160,230	4,681,548	59.7%

Source: Delta Associates,
November 2003.

DA23252
AppxD3-Tablesd5-Deliveries