

**YEAR-END 2006 REPORT:  
THE WASHINGTON/BALTIMORE  
OFFICE MARKET**

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## ***SPECIAL REPORTS***

### **TrendLines 2007: Trends in Washington Commercial Real Estate**

This report is the tenth in our annual series on the Washington market. Its purposes are to distill the trends of 2006 and to shed light on pivotal forces and issues that we believe will affect the region's economy and real estate in the period ahead. The report details trends and opportunities, discusses what is happening in the national and regional economies, and provides an update on the office, flex/industrial, multifamily, and retail markets. It also addresses the outlook for investment sales.

This report will be released in February 2007 and sells for \$45.

### **Washington Area Retail Outlook**

In this semi-annual report, Delta provides a quantitative and qualitative assessment of the Washington area retail market, with a focus on grocery-anchored shopping centers. Information is included on vacancy rates, rents, investment sales, projects of interest, and key trends in the retail market. The report is co-sponsored by

The Rappaport Companies, and is available free of charge via e-mail.

The latest issue of this report was released in December 2006. Call or e-mail Delta to subscribe.

### **The National Office Market: Recent Trends and Forecast**

This annual report reviews the state of the national economy, current office market conditions, and our forecast of market performance through this expansion cycle. We also take a look at the investment climate. Markets highlighted in this report include: Atlanta, Austin, Boston, Chicago, Dallas/Ft. Worth, Denver, Houston, Los Angeles, New York, Orange County, Phoenix, San Francisco Bay Area, South Florida, and Washington.

This report was updated in September 2006 and is available for \$300.

### **The National Distribution Market: Current Conditions and Forecast**

This annual report reviews the current condition of the national distribution market and forecasts the likely performance over the next several years. How much distribution space is being absorbed? What is the vacancy rate and how low will it get? Are rents rising? How strong will rent escalation be in the period ahead? Markets covered in this report include: Atlanta, Austin, Boston, Charlotte, Chicago, Dallas/Ft. Worth, Denver, Detroit, Houston, LA Basin, New York/Northern New Jersey, Philadelphia, Phoenix, San Antonio, San Francisco Bay Area, Seattle, South Florida, and Washington/Baltimore.

This report was updated in June 2006 and is available for \$300.

### **Condo Conversion: Boom or Bubble Waiting to Burst?**

This report reviews the status of the national residential condominium market, and analyzes which metro markets are headed for a "soft landing" and which are headed for a "hard landing."

This report was released in February 2006 and is available free of charge on Delta's website.

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## ***ANNOUNCEMENTS***

### ***10<sup>th</sup> Annual Washington TrendLines Event is Thursday, February 8, 2007***

Save the date and plan on attending the 10<sup>th</sup> annual **TrendLines: Trends in Washington Commercial Real Estate**. The event will be held on Thursday, February 8, 2007, beginning at 5 PM at the Ronald Reagan Building and International Trade Center. As in prior years, Gregory Leisch will present an overview of the national and regional economy and commercial real estate market, and our TrendSetters of the Year will be presented with awards.

The event is by invitation only. For more information, please contact: [Christine.Masney@Transwestern.net](mailto:Christine.Masney@Transwestern.net).

### ***Condominium Report Expanded to Include Philadelphia***

We are pleased to announce that Delta's quarterly condominium report was expanded to include the Philadelphia metro area starting with the Year-End 2006 issue. We will be making additional changes to the condominium report in 2007 to provide our subscribers with even more information on this important product type.

### ***Delta's New Website is Online***

Delta Associates' new website is online. More market information is available, including many free reports covering various real estate product types. In 2007, we plan to introduce additional functionality, including the ability for our subscribers to download their reports via the Web.

Please visit us at [DeltaAssociates.com](http://DeltaAssociates.com).

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## DELTA ASSOCIATES' WASHINGTON/BALTIMORE PUBLICATIONS

### APARTMENT MARKET REPORTS

Class A Rental Apt. & Condo: Mid-Atlantic (Washington, Baltimore, Philadelphia & Southern NJ)  
Class B: Greater Washington Metropolitan Area

#### **YEAR-END (Fourth Quarter) REPORT: Issued each January. Contents include:**

- \* Report on the national & regional economies and the multifamily industry: Delta Associates' narrative review of the year and prognosis for the coming year vis-à-vis the national, regional and local economies, implications for apartment sector and trends in rents, vacancy and absorption.
- State of the apartment market report: in-depth narrative analysis supplemented with illustrative graphs.
- Statistical reports: organized by area, our reports review:
  - **key market indicators** such as year-end statistics and comparison since 1989 for each of 30 Class A and 31 Class B submarkets and regional total for (a) rent levels, (b) vacancy and (c) absorption of units at actively marketing projects.
  - **pipeline** information (Class A), i.e. projects under construction, projects likely to be delivered within 36 months, and longer-term planned projects.
  - **renovation** information (Class B) such as a comprehensive list of properties in renovation, including budget and timetable.
  - **building sales** - a thorough listing and analysis for the year with comparison of prices to prior years. Land sales are included in the Class A report.
- Condo market report (Class A / Washington & Baltimore area only): pipeline, pricing, and absorption experience.
- \* Experience report (Class A): Statistical portrait of the local industry's experience with operating expenses, replacement reserves, and hard and soft development costs.
- \* Market Maker report: Annual survey results of those who "make the market" on subjects of: capitalization rates, investment posture, thoughts on the economy and more.
- \* Players report (Class A): Listing of significant developers active in the market.

#### **QUARTERLY REPORTS (First Quarter, Mid-Year and Third Quarter): Issued in April, July and October. Contents include:**

Items 1 through 4 from year-end report, updated each quarter.

### **WASHINGTON/BALTIMORE OFFICE MARKET REPORT**

#### **YEAR-END (Fourth Quarter) REPORT: Issued each January. Contents include:**

- \* Economic Overview: Delta Associates' narrative review of the year and prognosis for the coming year vis-à-vis the national and metro area economy, implications for office market sector and trends in rents, vacancy, absorption, job growth, unemployment, core industry performance, capital markets and other factors. Insights also provided by Dr. Stephen Fuller, one of the nation's leading economists. Illustrative graphs and charts throughout these sections.
- \* Market Maker Report: Annual survey results of those who "make the market" on subjects of: capitalization rates, investment posture, thoughts on the economy and more.
- Metro Area Office Market Report: In-depth narrative analysis supplemented with illustrative graphs. Section data includes: overview, absorption, vacancy, construction, rents, investment sales, investment returns, land sales, development economics, and outlook. Tables on deliveries, vacancy rates projected two years out, development economics and operating expenses.
- Substate area Reports: Similar to #3 above. Also includes major submarket activity and "by submarket" data as follows: summary of office market indicators for all space and Class A space only (details total rentable SF, total available SF, vacancy rates for the past four years, current SF under construction, and net absorption for the past four years), rental rate analysis, and summaries of building and land sales.
- Miscellaneous information on methodology, definitions of terms and submarkets, and metro area maps showing submarkets.

#### **QUARTERLY REPORTS (First Quarter, Mid-Year and Third Quarter): Issued in April, July and October. Contents include:**

Items 1, 3, 4 and 5 from year-end report, updated each quarter.

### **WASHINGTON/BALTIMORE FLEX/INDUSTRIAL REPORT**

#### **YEAR-END (Fourth Quarter) REPORT: Issued each January. Contents include:**

- \* Economic Overview: Delta Associates' narrative review of the year and prognosis for the coming year vis-à-vis the national and metro area economy, implications for industrial market sector and trends in rents, vacancy, absorption, job growth, unemployment, core industry performance, capital markets and other factors. Insights also provided by Dr. Stephen Fuller, one of the nation's leading economists. Illustrative graphs and charts throughout these sections.
- \* Market Maker Report: Annual survey results of those who "make the market" on subjects of: capitalization rates, investment posture, thoughts on the economy and more.
- Metro Area Flex/Industrial Market Report: In-depth narrative analysis supplemented with illustrative graphs. Section data includes: overview, absorption, vacancy, construction, rents, investment sales, land sales, and outlook. Tables on deliveries, vacancy rates projected one year out, and investment sales.
- Substate area Reports: Similar to #3 above. Also includes major submarket activity and "by submarket" data as follows: summary of flex/industrial market indicators for all space (details total rentable SF, total available SF, vacancy rates for the past four years, vacancy rate with sublet space included, current SF under construction, and net absorption for the past four years), rental rate analysis, and summaries of building and land sales.
- Miscellaneous information on methodology, definitions of terms and submarkets, and metro area maps showing submarkets.

#### **MID-YEAR REPORTS (Issued in July). Contents include:** Items 1, 3, 4 and 5 from year-end report, updated mid-year.

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# THE NATIONAL ECONOMY YEAR-END 2006

## Mixed Signals Suggest Tempered But Continued Growth in 2007

***The economy is giving us mixed signals of late:***

- While the services sector remains healthy, the manufacturing sector is contracting.
- While job creation has been substantial, the rate of growth is decelerating.
- Oil prices have been declining lately, but the tenuous situation in Iraq threatens to push them higher at any time.
- The correction in the residential real estate market is taking liquidity out of the economy, while the rise in the stock market has replaced it.
- Wages have been rising, but only modestly, and consumer debt remains massive.

***Despite these mixed signals, we see enough momentum in the economy to avoid a recession in 2007. In fact, we expect:***

- GDP growth of 2.1% - 2.3%
- Payroll job growth of 1.0 - 1.2 million
- A housing market comparable to 2003
- Neutral to accommodating policy from the Federal Reserve

***If this is the case, then 2008 could be a more robust performer than 2007.***

Of course, geopolitical concerns remain significant, and could derail these expectations.

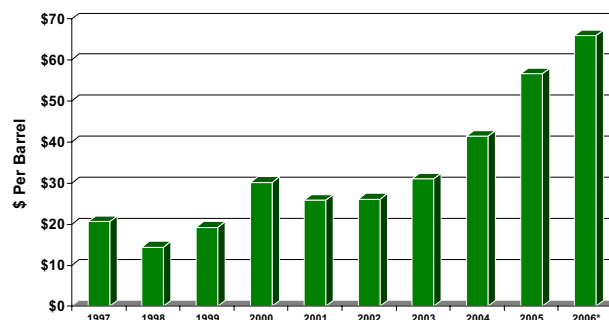
**Construction costs** remain a problem for developers, as many new projects are unlikely to achieve the rents needed to generate an adequate return on cost. Steel prices have been problematic for developers, with costs up 9.6% over the last 12 months, far outstripping the average inflation rate. Cement prices have risen 6.0% during the past year. High costs are being driven by demand for raw materials from China and a shortage of qualified labor at home. High construction costs and gradually softening job growth may combine to reduce commercial development in 2007. How will

interest rates and underwriting standards affect this equation?

**Oil prices** declined gradually during the past several months, but remain high by historical standards. The cost of fuel has cut into discretionary spending. Oil prices spiked to \$70/barrel in September 2005 following Hurricane Katrina before retreating a bit, then rose again, and then declined once more. The overall trend remains clear, however, as shown in the graph following: prices have more than doubled in the past three years. The average price for the 12 months ending in October was \$65.91/barrel.



### Oil Prices

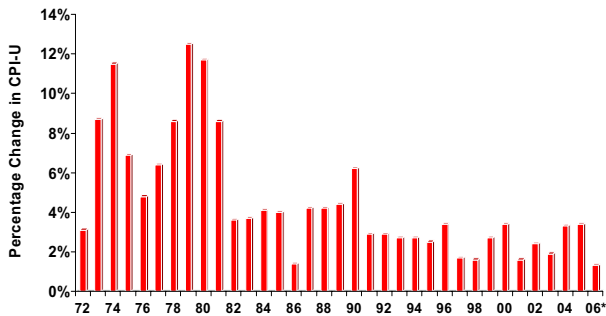


Source: GAsSearch; December 2006. Note: 12 month averages of WTI NYMEX prices. \*12 months ending in October 2006.

**Inflation** has been reined in by the Fed – at least for the time being. Prices were up just 1.3% during the 12 months ending in October. Raising short-term interest rates has kept inflation for core goods and services under control, but fuel prices are rising much faster than prices for most other products. Wage inflation has moderated in the past few months; wages were up just 2.3% in the third quarter on an annualized basis.



## U.S. Inflation



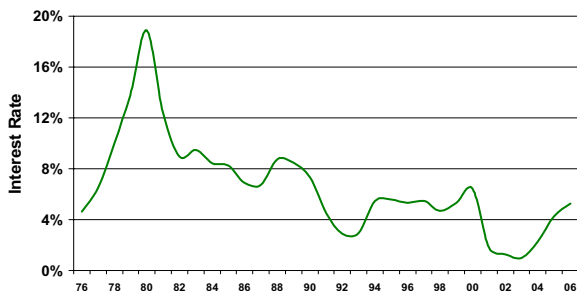
\*12-month percentage change through October 2006.

Source: Bureau of Labor Statistics; December 2006.

**Interest Rates.** The Fed raised short-term interest rates to 5.25% as of late June (but has kept the rate unchanged since then) in an effort to stave off higher inflation. The central bank may raise rates again in the winter if consumer confidence rises and the economic outlook is bright, but could cut rates if inflation remains under control and job growth looks weak.



## Federal Funds Rate

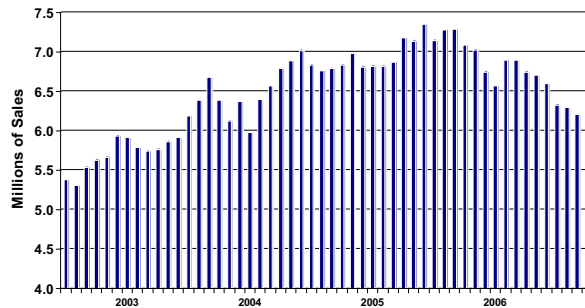


Source: Federal Reserve Board; December 2006.

**Housing.** Although U.S. housing is better described as hundreds of different local markets rather than a single national market, the overall housing picture certainly has softened this year. Existing homes sold at an annualized volume of 6.24 million units through October 2006. Mortgage rates remain low – around 6.11% for a 30-year fixed loan at mid-December – which is helping to keep some buyers in the market, especially in areas of high job growth, such as Los Angeles, Washington, and New York. Still, many potential buyers are taking more time to make a decision than they were a year ago, when delays meant losing out on a home.



## Existing Home Sales



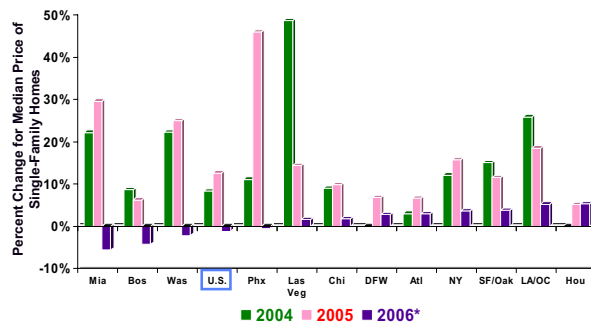
Note: Through October 2006; annualized.

Source: National Association of Realtors; December 2006.

Home prices have cooled but remain high by historical standards. Nationally, home prices declined 1.2% during the 12 months ending in September. Only two major markets, Los Angeles and Houston, experienced growth of at least 5% during that period. Some overheated metro markets – notably Miami – have slowed due to the prevalence of interest-only loans and adjustable rate mortgages in combination with excessive supply. The two strongest markets over the past 12 months, Los Angeles and Houston, also are among the leading metro areas in job creation.



## Annual Escalation of Existing Home Sale Prices



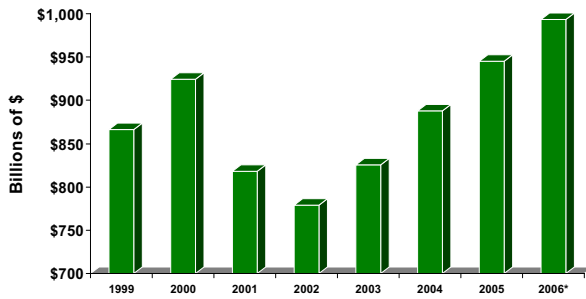
\*12-month percentage change through September 2006.

Source: National Association of Realtors; December 2006.

**Business spending** on high-tech equipment and software continues to increase. Spending in this category is well above the previous peak period in 2000, and was over \$992 billion for the first three quarters of 2006, annualized. As a result, professional services companies are hiring at a steady pace to fulfill demand.



## Capital Investment In Equipment and Software



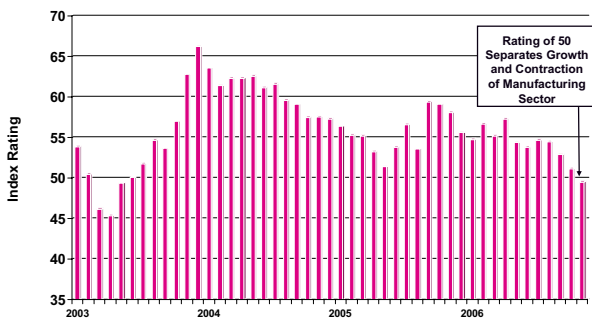
Note: Figures are seasonally adjusted. Jan.-Sep. 2006 annualized.

Source: Bureau of Economic Analysis; December 2006.

**Manufacturing.** Production in the Manufacturing sector declined in November after 41 consecutive months of growth. This index stands in contrast to growth in the services sector, and makes forecasting national economic performance in 2007 quite a challenge. Some of the slowdown in manufacturing is due to less demand for homebuilding equipment, as residential construction starts are well off last year's pace.



## Purchasing Managers' Index



Note: Through November 2006.

Source: Institute for Supply Management; December 2006.

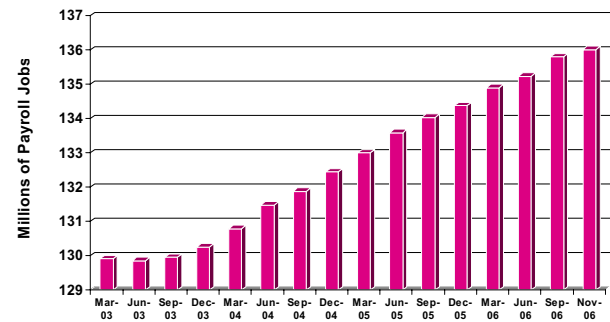
**Payroll jobs** rose by 1.8 million over the 12 months ending in November 2006, compared to an increase of 2.0 million during the previous 12 months. The pace of job growth remains healthy, but it has slowed. The growth of well-paying jobs remains high: over the 24 months ending November 2006, the Professional/Business Services sector accounted for 24% of new jobs, while Education/Health accounted for 22%. The Education/Health sector is likely to remain a force for economic growth during the rest of the current business cycle. Even though some

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professional services fields may see slowing growth in the near-term, such as government contracting, the well-educated service workforce should exert growing dominance over manufacturing and other fields in terms of job creation.



## U.S. Payroll Jobs

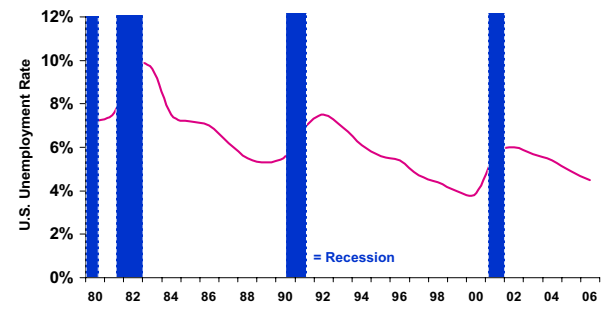


Source: Bureau of Labor Statistics; December 2006.

The U.S. **unemployment rate** is 4.5% as of November 2006. The unemployment rate held between 4.4% and 4.8% throughout 2006.



## U.S. Unemployment Rate



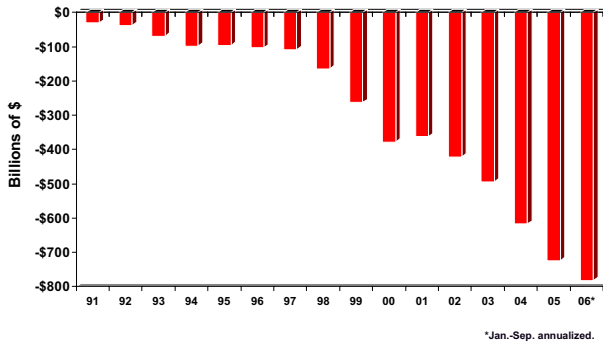
Note: Through November 2006; seasonally adjusted.

Source: Bureau of Labor Statistics; December 2006.

The **trade deficit** continues to expand year-over-year, and now totals \$782 billion (for the January to September period, annualized). The **federal budget deficit**, which recently had been projected to moderate slightly, likely will rise in 2006 as a result of spending on the War in Iraq. The budget deficit for 2005 was \$318 billion; the current estimate for 2006 by the CBO suggests a deficit of \$336 billion. Most economists feel we must rein in our budget and trade deficits in order to assure long-term economic health.



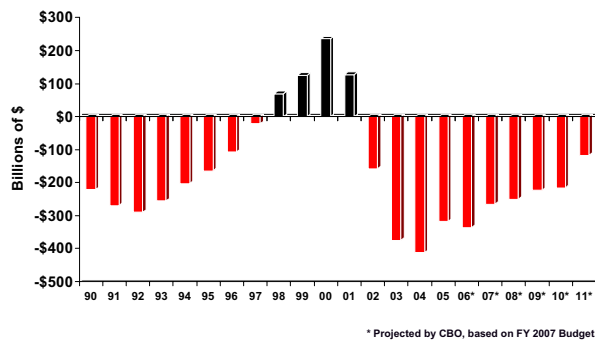
## U.S. Trade Deficit



Source: U.S. Census Bureau, Bureau of Economic Analysis; December 2006.



## Federal Budget Deficit

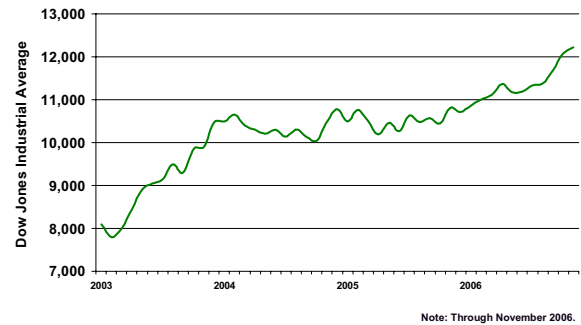


Source: OMB, CBO; December 2006.

**Stock Market.** Since the Dow Jones Industrial Average first closed above the 12,000 level on October 19, it has finished a trading session under that level just once (on November 3). Will steady corporate profits and job growth keep it above 12,000 for good? And if so, will renewed interest in stocks lure investors away from real estate? We believe the progress the stock market has been making will siphon some capital from real estate; investment sales volume should decline modestly in 2007. However, the large amount of cash that has been earmarked by institutions for real estate purchases is likely to keep that investment class healthy in 2007, even if the stock market continues to offer attractive returns.



## Dow Jones Industrial Average

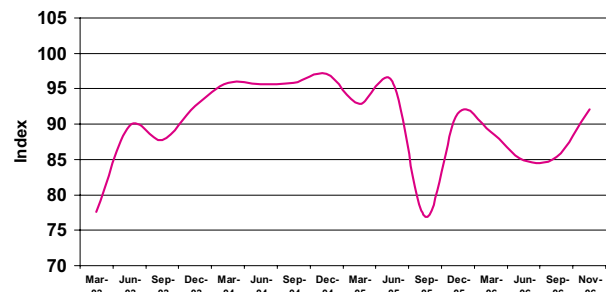


Source: Dow Jones, Yahoo! Finance; December 2006.

**Consumer sentiment** has been flat overall in 2006, although it has experienced some dramatic swings, largely corresponding to the price of fuel. The University of Michigan's monthly index of consumer sentiment ticked up from 91.5 to 92.1 during the January to November period. Geopolitical events and the rate of inflation are likely to shape consumer sentiment in the year ahead.



## Consumer Sentiment

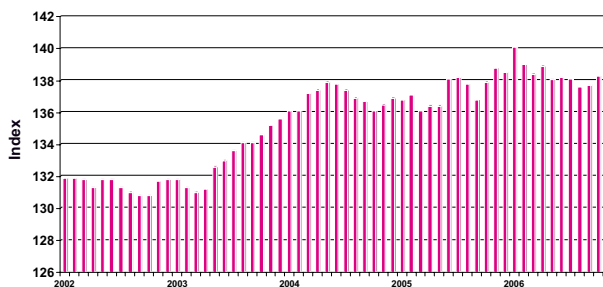


Source: University of Michigan, Federal Reserve Bank of St. Louis; December 2006.

**The leading economic indicators index** ticked up in October, although it remains at about the level where it finished 2005. The index of leading indicators was 138.3 in October. Over the last 12 months the index has been flat, suggesting that the national economic expansion will be very gradual in the early part of 2007.



## Leading Economic Indicators Index



Note: Through October 2006. 1996 = 100

Source: The Conference Board; December 2006.

### Economic Outlook

***We expect the U.S. economy will expand during 2007, although fluctuating consumer confidence and a slowdown in residential construction should restrain GDP growth.***

The policies of the Federal Reserve should keep inflation manageable. The key factors affecting national economic performance are likely to be fuel prices, the housing market, and geopolitical events.

Wachovia Bank economists estimate **U.S. GDP growth** for 2006 at 3.2%, and expect 2.1% growth in 2007, and 3.4% growth in 2008. We agree with this trend. Given current Fed policies, recent job growth trends, and the unstable situation in Iraq, 2007 GDP growth is likely to take a step back, with 2008 being a better year for the U.S. economy.

### National Payroll Job Growth Summary

U.S. payroll job growth remains healthy, adding 1.8 million positions over the 12 months ending November 2006. Those gains represent a growth rate of 1.3%. The pace of job growth slowed in 2006.

	Job <u>Change</u>	% <u>Change</u>
2006*	1,787,000	1.3%
2005	2,035,000	1.5%
2004	1,431,000	1.1%
2003	-349,000	-0.3%
2002	-1,490,000	-1.1%
2001	40,000	0.0%

\*Change for 12 months ending in November 2006; others are comparisons of annual averages.

12-MONTH PAYROLL EMPLOYMENT CHANGE THROUGH OCTOBER 2006					
METRO AREA	JOB CHANGE		METRO AREA	JOB CHANGE	
	#	%		#	%
Phoenix	94,500	5.2%	Minneapolis-St. Paul	36,500	2.1%
LA Basin			Philadelphia	30,900	1.1%
Los Angeles/Long Beach/Glendale	35,600	0.9%	Tampa-St. Pete	27,200	2.1%
Riverside/San Bernardino/Ontario	28,000	2.3%	Salt Lake City	26,500	4.4%
Orange County (Santa Ana/Anaheim/Irvine)	15,600	1.0%	Portland (OR)	22,900	2.3%
Subtotal LA Basin	79,200	1.2%	Denver-Boulder	22,200	1.6%
Houston	72,700	3.1%	Raleigh-Durham	20,900	4.4%
Dallas/Ft. Worth	65,700	2.3%	Nashville	18,200	2.4%
Washington, DC	65,100	2.2%	Austin	18,100	2.6%
New York	60,300	0.7%	Boston (Metropolitan NECTA)	17,900	0.7%
New Orleans	49,700	12.6%	San Diego	17,100	1.3%
Chicago	48,800	1.1%	Sacramento	15,900	1.8%
Atlanta	48,700	2.1%	San Antonio	15,600	2.0%
Seattle	48,600	2.9%	Charlotte	12,200	1.5%
South Florida			Jacksonville	11,600	1.9%
Fort Lauderdale	19,900	2.6%	Baltimore	10,300	0.8%
West Palm Beach/Boca Raton	18,400	3.2%	Oklahoma City	9,600	1.7%
Miami/Miami Beach/Kendall	8,900	0.8%	Cincinnati	9,300	0.9%
Subtotal South Florida	47,200	2.0%	Pittsburgh	5,600	0.5%
San Francisco Bay Area			Kansas City	5,200	0.5%
San Francisco/San Mateo/Redwood City	17,300	1.8%	Memphis	5,200	0.8%
Oakland/Fremont/Hayward	16,700	1.6%	Columbus	4,500	0.5%
San Jose/Sunnyvale/Santa Clara	9,100	1.0%	Indianapolis	3,500	0.4%
Subtotal Bay Area	43,100	1.5%	St. Louis	2,500	0.2%
Las Vegas	42,700	4.8%	Cleveland	(1,000)	-0.1%
Orlando	37,200	3.5%	Detroit (Detroit/Warren/Livonia)	(27,400)	-1.3%

Source: Bureau of Labor Statistics, Delta Associates; December 2006.

# THE WASHINGTON AREA ECONOMY YEAR-END 2006

## Economic Growth Slowing; Metro Area Performance Remains Above-Average

Prepared with the invaluable assistance of Dr. Stephen Fuller

**Washington metro area economic conditions remain above-average at year-end 2006**, as employment continues to expand and unemployment is below 3% at October 2006. However, conditions are starting to taper from the robust growth experienced in 2004 and 2005, as the effects of reduced Federal government procurement spending growth are felt by area businesses.

Overall, the Washington area economy continued to expand in 2006, but at a decelerating pace. Growth in 2007 will be largely shaped by how much procurement spending the metro area receives.

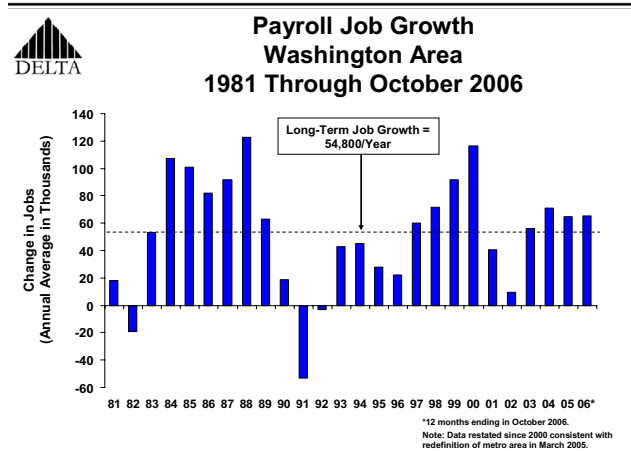
<b>Key Economic Indicators <sup>1</sup> Washington Metro Area</b>	
	<b>At October 2006</b>
"Payroll" Employment	3,019,700
12-Month Job Growth	65,100
Unemployment Rate	2.9%
Coincident Index <sup>2/</sup>	119.4
Leading Index <sup>2/</sup>	110.9

1/ BLS redefined the Washington metro area in March 2005. Current data is not precisely comparable with data reported previously.  
2/ At September 2006.

Source: Bureau of Labor Statistics, GMU-CRA; December 2006.

### Job Growth

Payroll employment gains in the Washington metro area totaled 65,100 net new positions during the 12 months ending October 2006, a 2.2% increase. Although job growth has been above 65,000 for most of 2006, we anticipate job growth, when the numbers are finalized by the Bureau of Labor Statistics, will be near our original projection of 65,500 new positions for 2006.



Source: Bureau of Labor Statistics; December 2006.

Phoenix, LA Basin, Houston and Dallas/Ft. Worth lead the nation in employment gains for the past 12 months, as these areas are experiencing growth similar to that achieved by the Washington metro area in 2004 and 2005. Regardless, the Washington metro area continues to experience above-average job growth, at 19% above the long-term average of 54,800.



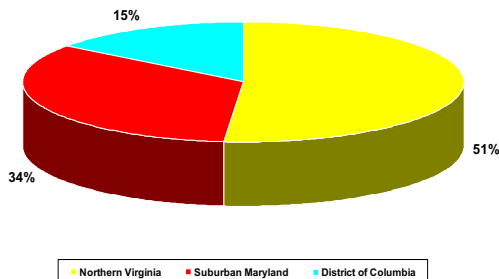
Northern Virginia created 51% of all new payroll jobs in the Washington metro area in the last 12 months. Suburban Maryland created 34% and the District of Columbia created 15%.

Although Northern Virginia captures the majority of jobs created in the metro area, Suburban Maryland has made notable employment gains this year. Employment in Suburban Maryland has increased by 2.0% since the start of 2006, compared to 1.8% in Northern Virginia. In all of 2005, employment increased by 3.6% in Northern Virginia and by only 0.9% in Suburban Maryland.

The reduced growth rate of Federal government procurement spending is beginning to affect the Northern Virginia economy, as many large government contractors are located there. In addition, with the shift in Congress providing Democrats more leverage, procurement funding priorities are expected to change.



**Payroll Job Growth by Substate Area  
12 Months Ending October 2006**



Source: Bureau of Labor Statistics; December 2006.

### Job Growth by Sector

For the 12 months ending October 2006, the top three sectors leading job growth in the Washington metro area are Professional and Business Services, Education/Health, and Retail Trade.

The **Professional and Business Services** sector gained 30,100 jobs during the last 12 months, a growth rate that is 27% above the 10-year average. 63% of these jobs were created in Northern Virginia, as contractors, who contributed notably to this sector, continue to feed off the growth experienced in 2004 and 2005.

The **Education/Health** sector gained 9,300 new jobs in the previous 12 months, 11% above the 10-year average. Northern Virginia and Suburban Maryland shared almost equally in job creation for this sector, creating 39% and 37% of these new positions, respectively.

The **Retail Trade** sector gained 7,900 new jobs in the previous 12 months. Given the robust commercial development in Northern Virginia, it is not surprising that 67% of the retail jobs were created in this substate area.

In the 12 months ending October 2006, the number of Federal government jobs in the metro area decreased by 2,200, while the number of Professional and Business Services sector jobs, which hosts a large portion of contractor companies, increased by 30,100. A shift is occurring, as employees are exiting government service for more pay as a contractor.

Employment growth in the construction sector has eased to 2,300 new jobs in the last 12 months, caused by a cooling housing market. The reduced employment growth in this sector contrasts with the above-average growth experienced in 2004 and 2005, with 9,200 and 9,500 jobs, respectively.

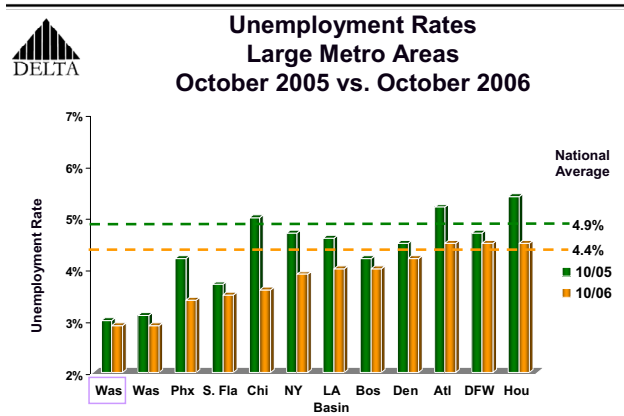
<b>Trends in Employment by Major Sector Washington Metro Area (In 000's of Payroll Jobs)</b>				
	<b>October 2005</b>	<b>October 2006</b>	<b>12-Month Growth</b>	<b>10-Yr. Avg.</b>
Prof./Bus. Svs.	653.5	683.6	30.1	23.7
Edu./Health	315.8	325.1	9.3	8.4
Retail Trade	272.6	280.5	7.9	3.2
Leisure/Hosp.	251.3	257.3	6.0	5.5
Other	167.1	171.9	4.8	4.2
Financial	162.4	165.2	2.8	3.3
Constr./Mining	193.2	195.5	2.3	7.0
Government	636.5	637.6	1.1	5.6
Information	99.2	99.7	0.5	1.1
Transport/Util.	65.9	66.4	0.5	0.4
Whole. Trade	72.6	72.7	0.1	1.3
Manufacturing	64.5	64.2	-0.3	-0.5
<b>Total</b>	<b>2954.6</b>	<b>3019.7</b>	<b>65.1</b>	<b>63.2</b>

Source: Bureau of Labor Statistics; December 2006.

## Unemployment Rate

The Washington area unemployment rate was 2.9% in October, down from 3.0% 12 months prior. The current rate is the lowest in the nation among major metro areas and compares favorably to the national rate of 4.4% in October.

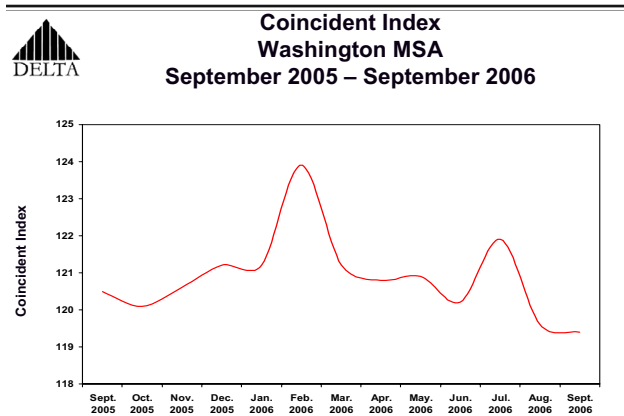
With above-average job growth and low unemployment, a limited labor pool remains a concern.



Source: Bureau of Labor Statistics; December 2006.

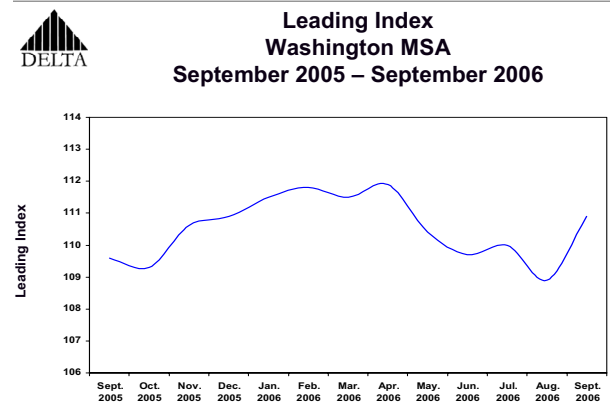
## Coincident and Leading Indices

The Washington Coincident Index, which represents the current state of the metropolitan area economy, decreased to 119.4 in September 2006, from its high of 123.9 in February 2006. This suggests the regional economy has peaked for this cycle.



Source: GMU Center for Regional Analysis; December 2006.

The Washington Leading Index, which forecasts area economic performance, decreased to 110.9 in September 2006, from its peak of 111.9 in the spring of 2006. This is an added indicator that the regional economy is cooling.



Source: GMU Center for Regional Analysis; December 2006.

According to the George Mason University – Center for Regional Analysis, the metro area remains in an economic slowdown as consumer spending has lightened given the surge in oil costs earlier this year and a softened housing market.

Although consumers' view of the current economy has softened, expectations of future conditions brightened in September, as oil prices have begun to decline and building permits increased – suggesting an increase in residential building in 2007.

Overall, federal procurement spending in 2007 will have the greatest impact on conditions, as this is the mainstay of economic performance in the metro area. Regardless, with continued job growth and above-average income, the economy is expected to remain solid in 2007.

## Region's Core Industries

The Washington area's gross regional product (GRP) was \$334.8 billion in 2006, an increase of 4.0% compared to 2005. And over one-third of it was generated by the Federal government – the region's most important core industry.



**Core Sectors of the Economy  
Washington Metro Area**

	2005		2006	
	\$	%GRP	\$	%GRP
<u>GRP in Billions</u>				
Total Federal \$s	\$112.0	34.8%	\$116.5	34.8%
Portion Procurement	\$52.4	16.3%	\$54.5	16.3%
Technology	\$51.2	15.9%	\$54.3	16.2%
Building Industry	\$20.3	6.3%	\$21.4	6.4%
Int'l Business	\$17.3	5.4%	\$17.9	5.3%
Hospitality	\$7.2	2.2%	\$7.5	2.2%
Other/Multiple Sectors	<u>\$113.9</u>	<u>35.4%</u>	<u>\$117.4</u>	<u>35.1%</u>
Total GRP	\$321.9	100.0%	\$334.8	100.0%

Note: 2005 figures are actuals; 2006 figures are estimates.  
Procurement figures do not include US Postal Service and FAA purchases.

Sources: Dr. Stephen Fuller, Delta Associates; December 2006.

Total Federal spending in the Washington metro area was up in 2005 to \$112.0 billion, a 3.7% increase from 2004. Federal procurement was up only 2.5%, from \$51.1 billion in 2004.

Although procurement spending in the metro area remains solid, spending eased significantly during 2005, after growing by 19.0% in 2004 and 16.9% in 2003. Growth is expected to remain minimal in 2006, once the numbers are finalized. As procurement spending growth eases, so will job growth, given that roughly 7,000 new jobs are created per \$1 billion in additional Federal contract spending.

Federal Procurement Spending Growth Washington Metro Area	
Fiscal Year	% Change
2000 - 2001:	9.8%
2001 - 2002:	14.9%
2002 - 2003:	16.9%
2003 - 2004:	19.0%
2004 - 2005:	2.5%

Note: Figures do not include US Postal Service and FAA purchases.

Source: GMU Center for Regional Analysis; December 2006.

**Federal Spending and a New Congress**

Federal procurement spending could shift in the near-term, as the recent change in Congress has provided Democrats better leverage. Political analysts are forecasting future budget battles. With defense spending, one of the largest line items, on the radar for change, analysts believe Democrats will attempt to shift (rather than reduce) spending given the 2008 elections are fast approaching.

According to *Money* magazine, Democrats are expected to shift Federal procurement spending away from the Defense Department's weapons projects and toward Homeland Security with priority funding to protect ports and transportation systems.

If defense procurement spending ebbs, the Northern Virginia economy could take a hit, as several defense contractors are located in this substate area. With renewed focus on Homeland Security spending, which includes protecting against bioterrorism, Suburban Maryland could benefit, as this substate area hosts many health related contractors.

**Weekly Wage Growth**

Residents in Arlington, VA hold the highest average weekly wage in the Washington metro area, according to statistics recently released from the Bureau of Labor Statistics. At the 1<sup>st</sup> quarter of 2006, the most current data available, Arlington residents earned an average of \$1,402 weekly. The District and Fairfax, VA follow in 2<sup>nd</sup> place and 3<sup>rd</sup> place, respectively.

Loudoun County, VA experienced the largest weekly wage growth, as wages grew by 11.4% from the 1<sup>st</sup> quarter of 2005 to the 1<sup>st</sup> quarter of 2006. This growth rate ranks Loudoun in 22<sup>nd</sup> place out of the nation's 326 largest counties surveyed. Regardless, all counties in the metro area experienced solid wage growth, with all but the District at or above the national growth rate of 8.1%.

Average Weekly Wage Washington Metro Area Q1 2006		
	Q1 2006	12 Month % Change
Arlington, VA	\$1,402	8.2%
District of Columbia	\$1,371	7.3%
Fairfax, VA	\$1,314	11.3%
Montgomery, MD	\$1,133	8.8%
Loudoun, VA	\$1,114	11.4%
Alexandria City, VA	\$1,054	8.9%
Prince Georges, MD	\$865	8.5%
Frederick, MD	\$788	9.0%
Prince William, VA	\$717	9.6%
United States	\$838	8.1%

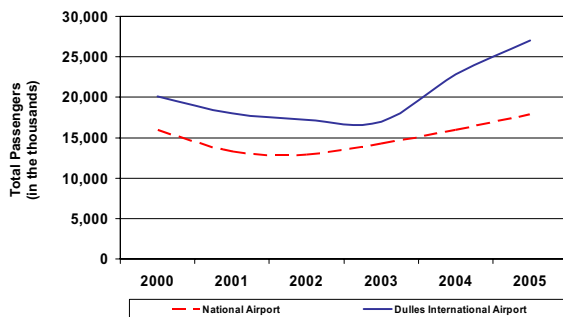
Source: Bureau of Labor Statistics; December 2006.

## Increase in Airport Passengers Spurs Improvements

The Washington National and Dulles International Airports both experienced declines in passengers after 9/11. However, since the airline industry has regained its footing, these airports have experienced growth in airport travel. Passenger travel at Dulles increased 35% in 2004 and 18% in 2005. At National, the passenger count grew by 12% in both 2004 and 2005.



**Airport Passenger Travel  
Washington Metro Area Airports  
2000 – 2005**



Source: Washington Airport Authority, Delta Associates; December 2006.

With growth in tourists, jobs and population, the number of passengers traveling through both area airports is expected to climb.

The \$3.4 billion in improvements underway is expected to alleviate capacity and security issues. In addition to the newly constructed passenger walkways and parking garages, which added 8,500 new spots, the following are examples of airport projects:

- Airport train system (to open 2009): an underground system to transport passengers to and from the main terminal to each concourse.
- A fourth runway (to open 2008): this additional runway will also provide an opportunity for a fifth runway in the future.
- Additional gates (to open 2008): will provide 12 additional aircraft gates to Concourse B.
- New control tower (to open 2007).
- Expanded security clearance area.

## Limit on Development

The population in the Washington metro area has increased by 9.9% since 2000 and is expected to grow further by 7.9% over the next five years. With population growth sparking commercial and residential development in the metro area, a few counties want to regain control by limiting development in order to adequately plan for the future.

The Loudoun County Board of Supervisors recently approved a plan that limits the number of new homes that can be built in the western section of the county. The board settled on allowing 18,000 new homes. Although the number is a reduction compared to what the board originally intended, it is above the previous zoning regulation of 10,000 new homes. Since 2000, population has grown by 56%, making this county the fastest growing county in the metro area. Residents are split on the board's decision, as some want to control growth and others want to see growth expand to the western part of the county in order to benefit from increased housing prices spurred by the new development.

The Prince William County Board of Supervisors passed a one-year block on residential projects, to start January 1<sup>st</sup> of 2007. This will prevent any approval of rezoning requests for new homes until the close of 2007. As the second fastest growing county in the metro area, at a 26% growth rate since 2000, the county wants to ensure the pace of growth does not outpace services and infrastructure given traffic congestion has become a major concern of Northern Virginia residents.

Montgomery County hopes to pass a moratorium at the start of 2007, which will prohibit large residential and commercial projects, except for previously approved developments and projects near Metro stations. The county would like to review current zoning regulations and consider future plans to prohibit development unless it is supported by the necessary infrastructure.

Overall, the impact of these regulations will be seen in the near-term, as each county attempts to review growth and plan for future needs.

## Technology Growth

According to *Washington Technology*, seven of the top ten fastest growing technology government contractors in the nation are located in the Washington metro area. Of these seven, four are located in Northern Virginia and three in Suburban Maryland.

Fastest Growing Technology Government Contractors Top Ten 2006		
Company	Location	Growth Rate
Merlin International	Greenwood Vill., CO	233%
DKW Communications	Silver Spring, MD	213%
Guident Technologies	Herndon, VA	148%
Gestalt LLC	Fairfax, VA	147%
Telesis Corporation	Rockville, MD	144%
G&B Solutions	McLean, VA	138%
SBI Technologies Corp.	Columbia, MD	129%
Binary Consulting	Bethesda, MD	125%
Int. Software Solutions	CO Springs, CO	124%
Platinum Solutions	Reston, VA	116%

Source: Washington Technology; December 2006.

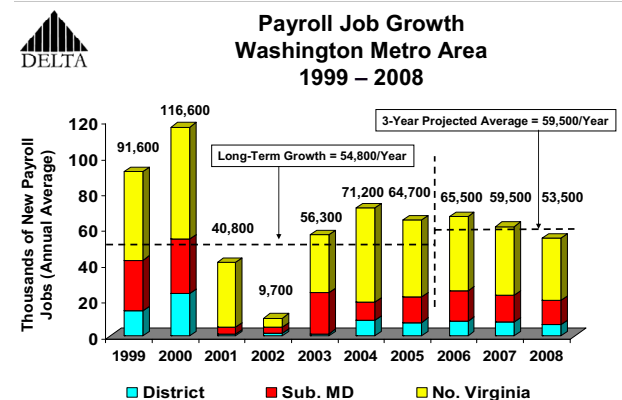
The technology sector is expected to expand further in the Washington metro area, as 20% of local technology companies plan to add jobs in the near-term, according to Robert Half Technology.

## Washington Area Outlook

*The Washington metro area economy should continue to experience growth in 2007, but at a reduced pace compared to the past three years, as the economy transitions from a hyper-growth to a solid-growth period in the economic cycle.*

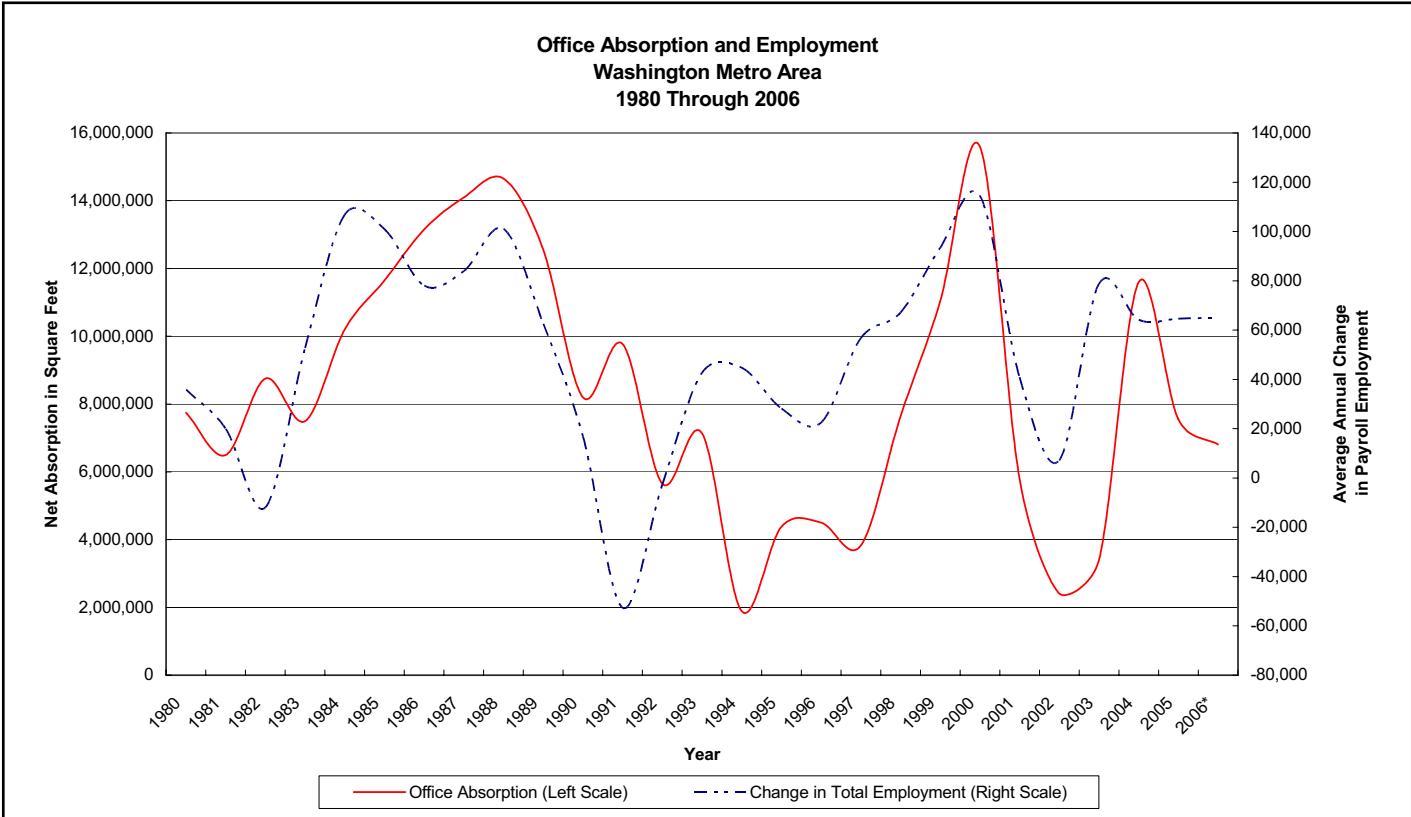
The Professional and Business Services sector should continue to lead job growth, as Federal procurement dollars continue to be funneled to area businesses – even as growth in that sector eases. Although the shift in Congress should not reduce procurement spending, as the 2008 election is near, how the spending is delegated in the near-term could transfer some of the spending from Northern Virginia's defense contractors to Suburban Maryland's health contractors. The Education/Health sector is expected to grow, as the baby boomer generation is aging and utilizing more health resources. Despite consumer hesitation, retail should continue to produce jobs, as oil prices are easing and area residents have adequate disposable income.

In consultation with Dr. Stephen Fuller of George Mason University, ***we project that 65,500 new payroll jobs will be created in the Washington area in 2006 when the numbers are finalized, 20% above the long-term average for the region.*** In 2007 and 2008 job growth is expected to average 56,500 new jobs per annum – closer to the long-term average of 54,800.



Note: Data restated since 2000 consistent with redefinition of metro area in March 2005

Source: Dr. Stephen Fuller and Delta Associates; December 2006.



\*12-month job growth through October 2006.

Source: Bureau of Labor Statistics, Delta Associates; December 2006.



# THE BALTIMORE AREA ECONOMY YEAR-END 2006

## Sound Economic Conditions; Medical/Education Sector Generated \$18.7 Billion in 2006

**Economic conditions in the Baltimore metro area remain solid**, as unemployment is low and employment continues to grow. Although job growth was below-average for the last 12 months, we believe this is a slight falter that will be remedied once the 2006 numbers are finalized. Overall, the Baltimore metro area is a stable economic generator that is expected to progress.

<b>Key Economic Indicators<sup>1</sup> Baltimore Metro Area</b>	
	<b>At October 2006</b>
"Payroll" Employment	1,312,700
Unemployment Rate	3.9%
12-Month job growth	10,300
2005 job growth <sup>2/</sup>	20,300
2004 job growth <sup>2/</sup>	14,000

1/ BLS redefined the Baltimore metro area in March 2005. Current data is not precisely comparable with data reported previously.  
2/ Average annual, based on new definition of metropolitan area; see glossary for definitions of types of job growth.

Source: Bureau of Labor Statistics; December 2006.

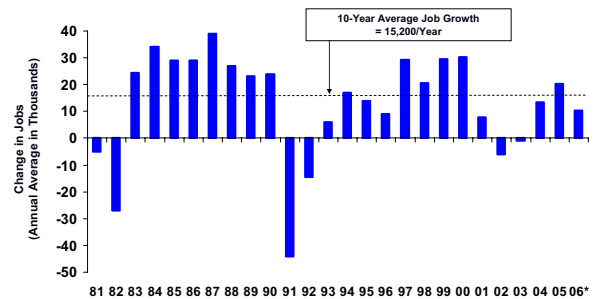
### Job Growth

The Baltimore metro area added 10,300 new payroll positions during the last 12 months ending October 2006. Job growth eased in July and August in the metro area, lowering the 12 month job growth ending in October. Regardless, we believe the bump experienced this summer will not significantly impact the final 2006 job growth total, as employment has picked up this fall. We project, once the numbers are finalized, total job growth will be approximately 17,100, which is above the long-term average of 15,200.

The Baltimore suburbs added 12,100 new positions during the last 12 months, while Baltimore City lost 1,800 payroll jobs.



**Payroll Job Growth  
Baltimore Metro Area  
1981 Through October 2006**



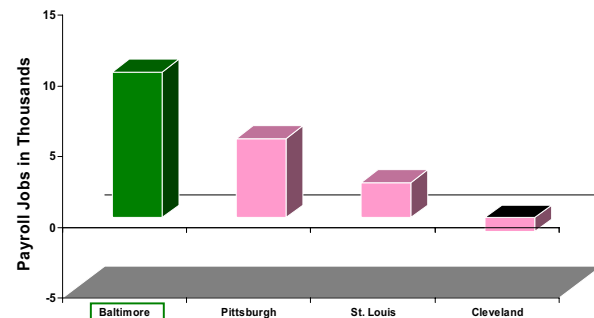
Source: Bureau of Labor Statistics; December 2006.

\*12 months ending in October 2006.  
Note: Data restated since 2000 consistent with redefinition of metro area in March 2005.

The Baltimore area, a rust-belt-like city with a successful track record of revitalization efforts, is a frontrunner compared to its peer group. The chart below depicts this comparison.



**Payroll Job Growth  
Comparable Metro Areas  
12 Months Ending October 2006**



Source: Bureau of Labor Statistics; December 2006.

## Job Growth by Sector

Over the past 12 months, the top three sectors leading job growth in the Baltimore metro area were the Education/Health, Leisure/Hospitality, and Government sectors.

The **Education/Health** sector created 4,600 payroll jobs over the last year in the Baltimore area. The Education/Health sector remains the leader in job growth, as this sector comprised 45% of net new jobs.

The **Leisure/Hospitality** sector created 4,200 new payroll jobs over the last 12 months, which is well above the 10-year average of 1,600 jobs. 82% of these new jobs were created in the Baltimore suburbs.

The **Government** sector gained 1,700 jobs during the last 12 months, with 97% of these jobs created by local governments.

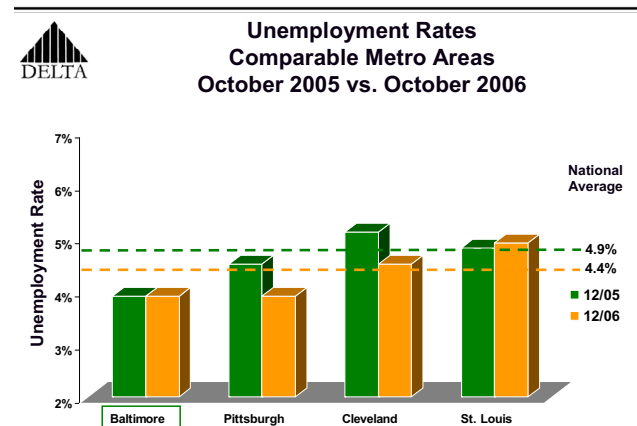
The Education/Health sector is expected to remain the leader in job creation for the metro area, with the Leisure/Hospitality sector following closely behind. The Professional and Business Services sector should regain its footing when the 2006 numbers are finalized, and continue to grow as the sector is expected to gain positions from the BRAC decision transferring jobs to this area over the next few years.

<b>Trends in Employment by Major Sector Baltimore Metro Area (In 000's of Payroll Jobs)</b>				
	October 2005	October 2006	12-Month Growth	10-Yr. Avg.
Edu./Health	212.7	217.3	4.6	4.0
Leisure/Hosp.	114.6	118.8	4.2	1.6
Government	222.8	224.5	1.7	0.8
Retail Trade	145.0	146.5	1.5	0.8
Financial	82.3	83.1	0.8	0.8
Transport/Util.	44.7	45.4	0.7	0.2
Constr./Mining	84.9	85.4	0.5	2.2
Whole. Trade	55.5	55.4	-0.1	0.8
Prof/Bus Svcs.	188.0	187.7	-0.3	5.8
Other	55.3	55.0	-0.3	0.9
Information	21.3	20.4	-0.9	0.2
Manufacturing	75.3	73.2	-2.1	-2.9
<b>Total</b>	<b>1302.4</b>	<b>1312.7</b>	<b>10.3</b>	<b>15.2</b>

Source: Bureau of Labor Statistics; December 2006.

## Unemployment Rate

**The Baltimore area unemployment rate was 3.9% in October 2006**, unchanged from 12 months prior. The current rate shares the lowest rate with Pittsburgh among peer cities and compares favorably to the national rate of 4.4% in October.



Source: Bureau of Labor Statistics; December 2006.

<b>Unemployment Rate by Region October 2006</b>	
Baltimore City	6.3%
Baltimore Suburbs	3.3%
Baltimore Metro Area	3.9%

Source: Bureau of Labor Statistics; December 2006.

## The Baltimore Region's Core Industries

**The medical and academic fields represent 15.5% of the Baltimore metro area's gross regional product (GRP).** The defense industry and the Federal government trail just behind, at 12.9% of GRP. Trade/distribution, technology, and tourism round out Baltimore's core industries. Baltimore's GRP exceeds \$120 billion.



**Core Industries  
Baltimore Area  
2006**

Core Industries	\$(Bil.)	% GRP*
Medical/Education	\$18.7	15.5%
Defense/Fed. Gov't.	\$15.6	12.9%
Trade/Distribution	\$11.4	9.5%
Technology	\$ 9.4	7.8%
Tourism/Conventions	\$ 6.2	5.2%
<b>Total Core Industries:</b>	<b>\$61.4</b>	<b>50.9%</b>
All Other:	\$59.3	49.1%
<b>Total GRP*:</b>	<b>\$120.6</b>	<b>100.0%</b>

\*GRP = Gross Regional Product

Source: U.S. Conference of Mayors, Delta Associates; December 2006.

**Marathon as an Economic Generator**

The Baltimore Running Festival, a weekend long event, attracted nearly 12,000 runners and their friends and family to the Baltimore area. According to the *Baltimore Business Journal*, 40% of participants traveled from outside the area, which generated revenue for area businesses.

According to RESI, a research and consulting firm, the 2006 weekend festival generated roughly \$14.8 million in revenue, compared to \$13 million in 2005. The previous five marathons have generated \$55 million in revenue for Baltimore. The firm estimates that visitors stayed for 2.5 days and spent roughly \$178 per day while in town for the event.

**Weekly Wage Growth**

Residents in Baltimore City average \$951 in wages per week, the highest wage of the Baltimore metro area counties surveyed by the Bureau of Labor Statistics. Howard and Anne Arundel follow in 2<sup>nd</sup> and 3<sup>rd</sup> place. All counties average weekly wages higher than the national wage of \$838.

Harford County experienced the largest weekly wage growth, in the metro area, as wages grew by 10.7% from the 1<sup>st</sup> quarter of 2005 to the 1<sup>st</sup> quarter of 2006. This growth rate ranks Harford County in 29<sup>th</sup> place out of the nation's 326 largest counties surveyed.

<b>Average Weekly Wage Baltimore Metro Area Q1 2006</b>		
	<b>Q1 2006</b>	<b>12 Month % Change</b>
Baltimore City, MD	\$951	6.4%
Howard, MD	\$948	9.1%
Anne Arundel, MD	\$863	8.0%
Baltimore, MD	\$851	6.5%
Harford, MD	\$775	10.7%
United States	\$838	8.1%

Source: Bureau of Labor Statistics; December 2006.

**O'Malley and Maryland's Biotech Sector**

Martin O'Malley's Maryland gubernatorial campaign strategy focused on the advancement of biotech in the state. Given the competition from several other states entering the biotech industry, O'Malley promised to keep Maryland competitive by creating a state biotech authority, providing \$100 million over five years in state funding, according to the *Baltimore Business Journal*.

According to the Journal, authority members from Federal agencies, universities and biotech companies will coordinate with other companies and agencies to draft a plan that will attract resourceful and important biotech players to the state.

Although O'Malley's plan is a step in the right direction, particularly for Baltimore, which houses two biotech players in Johns Hopkins University and the University of Maryland, budget concerns loom over the possibility of this plan coming to fruition.

Johns Hopkins University, located on the east side of downtown Baltimore, is developing two million SF of biotech research space on an 80-acre site located near the school, which will also include housing and retail. The biotech space is expected to hold 30 to 50 biotech companies to work with the university. By the 2015 delivery date, the \$1 billion project is expected to generate close to 6,000 new jobs for area residents.

The University of Maryland Baltimore's 10-acre biotech park, located on the west side of Baltimore, will host 1.2 million SF of office and lab space when completed. The university hopes to expand Maryland's bioscience industry, create 2,500 jobs, and generate \$300 million in capital investment.

Given the efforts of two prominent Baltimore universities to advance the industry in the area, attention from the new state administration is expected to make these centers significant economic generators for the metro area and players in the revitalization of the east and west sides of Baltimore city.

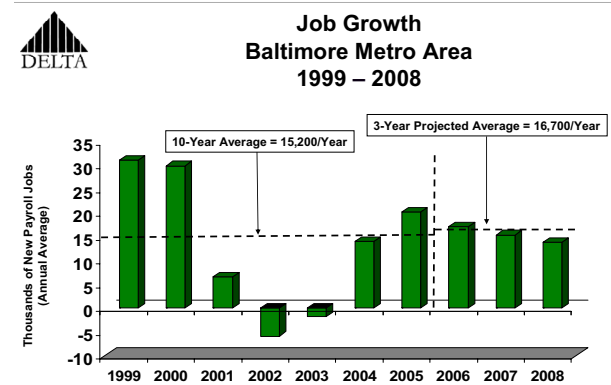
### **Baltimore Area Outlook**

***The Baltimore area economy is expected to grow in 2007.*** However, growth is expected to decelerate, as the economy slows from the strong expansion experienced in 2005 and 2006.

The Education/Health sector should remain a top producer of metro area jobs, as Johns Hopkins University and University of Maryland, Baltimore are economic powerhouses in the metro area and more baby boomers are taking advantage of health care as they continue to age.

Job growth in the Leisure/Hospitality sector should remain solid, as Baltimore continues to attract tourists due to the city's tourism marketing strategies. Although the impacts of BRAC have been slow to progress, construction jobs should pick up in the near term as counties prepare for growth. Expansion in the Professional and Business Services sector is expected to follow as employees and their families move to area bases and surrounding communities.

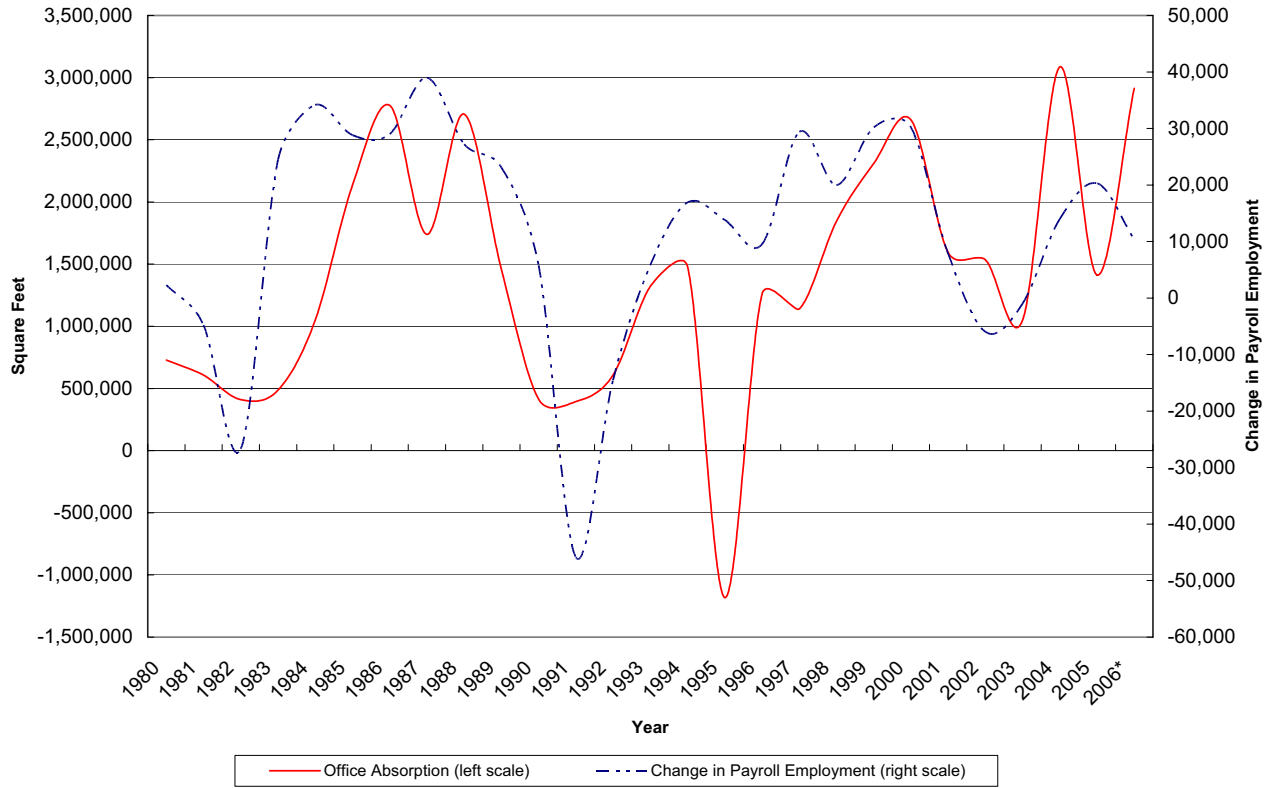
***Job growth should total 17,100 net new jobs in 2006*** and then regress near the region's long-term average, with 15,400 net new jobs in 2007, and 13,900 in 2008.



Note: Data restated since 2000 consistent with redefinition of metro area in March 2005.

Source: Delta Associates; December 2006.

**Office Absorption and Employment  
Baltimore Metro Area  
1980 Through 2006**



\*12-month job growth through October 2006.

Source: Bureau of Labor Statistics, Delta Associates; December 2006.



# THE WASHINGTON REGION MARKET MAKER SURVEY RESULTS AT YEAR-END 2006

Delta Associates conducts a survey at the end of each year of those who make the real estate market in the Washington region. The results of that survey are reported below, as they are instructive as to where development and investment dollars will flow in the coming year as well as investor expectations of economic and market conditions in the period ahead.

## Investment Worthiness: Edging Down

**The average investment worthiness score edged down to 6.4 in 2006, from 6.5 in 2005, and 6.6 in 2004.** Although the investment worthiness score has ticked down since 2004, the average score for each of the past three years remains considerably higher than the average score of 5.8 experienced in 2002, the lowest point in the cycle. Notably, each of the property types scored tightly, within the 6.2 to 6.8 range, confirming that all commercial property types in the Washington area are investment worthy, as job growth and property performance are solid.

## **Most preferred property types:**

- High-rise apartments
- Class A suburban garden apartments
- Industrial/distribution facilities

## **Lower-preference property types:**

- Class A Suburban office
- Class B Suburban office
- Hotels

**The District remains one of the top two office investment markets in the nation,** along with Midtown Manhattan, due to its low vacancy rates and the stable nature of its tenant base. Average cap rates on all office property types have declined in the last year as a result of still-low interest rates. Overall office scores remain higher than office scores in 2003.

<b>INVESTMENT WORTHINESS INDEX WASHINGTON COMMERCIAL REAL ESTATE AT YEAR-END 2006 (For score: 10 = most worthy; 0 = least worthy)</b>					
Product Type	Score 2006	Rank 2006	Rank 2005	Rank 2004	Rank 2003
<b>Office: Suburban – Class A</b>	<b>6.2</b>	<b>10</b>	<b>3</b>	<b>3</b>	<b>5</b>
<b>Office: Suburban – Class B</b>	<b>6.2</b>	<b>9</b>	<b>5</b>	<b>6</b>	<b>7</b>
<b>Office: CBD – Class A</b>	<b>6.4</b>	<b>5</b>	<b>10</b>	<b>8</b>	<b>4</b>
<b>Office: CBD – Class B</b>	<b>6.4</b>	<b>6</b>	<b>8</b>	<b>7</b>	<b>3</b>
Industrial/Distribution: Class A	6.5	3	2	2	2
Shopping Center: Grocery Anchored – Class A	6.4	7	9	1	1
Apartments: Suburban Garden – Class A	6.5	2	6	4	9
Apartments: Suburban Garden – Class B	6.5	4	7	9	6
Apartments: High-Rise – Class A	6.8	1	4	5	8
Hotels: Suburban – Class A	6.2	8	1	10	10

Source: Delta Associates' annual Market Maker Survey of industry leaders in the region, October 2006.

**Capitalization Rates:**  
**Cyclical Decline is Easing**

**Cap rates declined by 33 basis points for all product types in 2006**, compared to a 99 basis point decline in 2005, and a 59 basis point decline in 2004. Cap rate decline began in 2002 due to low interest rates and cash flooding into real estate in the face of weaker equity markets. Since the peak in 2001, the average cap rate for all property types has declined by 326 basis points. Cap rates for all product types declined in 2006, as strong demand for Washington area assets boosted prices. Although hotels experienced the largest cap rate decline, this does not suggest they are a heavily favored asset in this market, as they have the highest average cap rate of any product type, at 7.17% according to hotel developers/investors.

Product Type	Basis Point Change in Cap Rate 10/05-10/06
Hotels	-50
<b>Office</b>	<b>-46</b>
Industrial/Distribution	-39
Apartments	-17
Shopping Center	-5

**The Regional Economy:**  
**Most Expect Comparable Business Conditions in 2007**

**58% of respondents believe 2007 business conditions will be about the same as conditions in 2006.** Respondents expecting business conditions to be better over the next year increased slightly to 23%, compared to 16% in 2005. This tick up could be due to a handful of respondents expecting returns to rise in 2007, as prices for commercial assets should moderate. 19% of those surveyed believe that conditions next year will be worse, a decline from 24% in 2005.

**55% of respondents believe market conditions will improve over the next few years, while 45% believe conditions will decline.** Among those who believe that business conditions will improve, the most common response was that things would pick up starting in the 2<sup>nd</sup> quarter of 2007. Among those who believe that conditions will decline, the most commonly noted starting point was the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2007.

CAP RATES IN USE AT YEAR-END 2006 BY THOSE LOOKING TO ACQUIRE ASSETS		
Product Type	All Respondents	Developers of This Property Type
Apts.: High-Rise – Class A	5.29%	5.22%
Apts.: Suburban Garden – Class A	5.47%	5.45%
<b>Office: CBD – Class A</b>	<b>5.72%</b>	<b>5.69%</b>
Apts.: Suburban Garden – Class B	5.99%	5.97%
Shop. Ctr.: Groc. Anchor – Class A	6.38%	6.46%
<b>Office: CBD – Class B</b>	<b>6.40%</b>	<b>6.36%</b>
<b>Office: Suburban – Class A</b>	<b>6.48%</b>	<b>6.50%</b>
Industrial/Distribution: Class A	6.76%	6.80%
Hotels: Suburban – Class A	6.96%	7.17%
<b>Office: Suburban – Class B</b>	<b>7.02%</b>	<b>7.05%</b>

Note: Buyer's cap rate, based on prior 12 months NOI, before reserves.  
Source: Annual survey by Delta Associates, conducted October 2006, of the region's leading commercial real estate players.

# THE WASHINGTON METRO AREA OFFICE MARKET: AN OVERVIEW AT YEAR-END 2006

## Absorption Below Long-Term Average; Conditions Starting to Shift; Vacancy and Rents Rising

*Washington area office market performance was steady during the 4<sup>th</sup> quarter of 2006*, but closed the year off pace compared to 2004 and 2005. Absorption for 2006 was shy of hitting the long-term average by 1.5 million SF. A surge of deliveries over the past 12 months boosted the absorption total, while new leases fell behind the pace of the past two years. Despite lighter demand, rents rose. Construction activity remains high, but is showing signs of easing, as overbuilding is a concern given modest pre-lease rates on pipeline projects. Overall, despite some softening, the metro area office market remains one of the top performing markets in the nation.

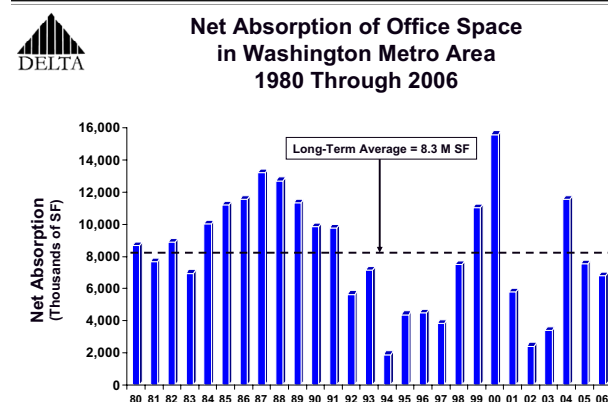
### 2006 Washington area market highlights:

- **Net absorption:** 6.8 million SF, compared to 7.6 million SF in 2005.
- **Sublease space:** Decreased by 526,000 SF. Sublease space represents 1.0% of the standing inventory.
- **Overall vacancy rate:** 8.5%, up from 7.9% one year ago.
- **Direct vacancy rate:** 7.5%, up from 6.7% one year ago.
- **Space under construction:** 16.8 million SF, down from 17.7 million SF one year ago.
- 35% of space U/C or U/R is **pre-leased**, compared to 49% a year ago.
- **Rents:** Increased by 2.7% in 2006.
- **Investment sales:** \$10.3 billion, inclusive of one significant portfolio sale. Average sale price: \$319/SF.

### Net Absorption: Below Average

*Net absorption of office space totaled 2.3 million SF during the 4<sup>th</sup> quarter of 2006*, compared to 2.6 million SF in the 3<sup>rd</sup> quarter. In 2006 net absorption totaled 6.8 million SF, which is below the long-term average of 8.3 million SF per year. In all of 2005, 7.6 million SF was absorbed.

Although demand picked up during the 2<sup>nd</sup> half of the year, it was not enough to push absorption past the long-term average. Absorption this year was driven primarily by pre-leased deliveries, as 13.4 million SF delivered at 59% leased.

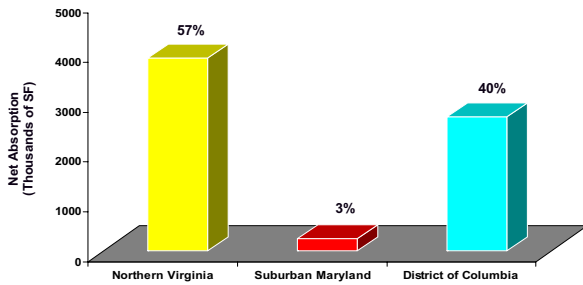


Source: Delta Associates; December 2006.

Northern Virginia and the District experienced strong absorption, with the District exceeding its long-term average absorption level. However, the absorption was fueled by pre-leased deliveries. Suburban Maryland experienced soft absorption this year, as demand was light and tenants vacated large blocks of space.



### Net Absorption of Office Space Washington Metro Area 2006



Source: Delta Associates; December 2006.

**Sublease space decreased by 62,000 SF in the 4<sup>th</sup> quarter of 2006**, compared to decreasing by 320,000 SF in the 3<sup>rd</sup> quarter. In 2006 sublease space decreased by 526,000 SF, compared to decreasing by 1.1 million SF in all of 2005. Sublease space represents just 1.0% of standing inventory.

Net Absorption of Office Space And Change in Sublease Space 2005 versus 2006 (000s of SF)				
Market	Direct Space Net Absorption		Sublease Space Absorbed or (Returned)	
	2005	2006	2005	2006
NOVA	4,586	3,875	879	450
Sub MD	1,365	240	231	(55)
District	1,559	2,695	(15)	131
<b>Total</b>	<b>7,550</b>	<b>6,810</b>	<b>1,095</b>	<b>526</b>

Source: Delta Associates; December 2006.

**Net absorption of Class A space totaled 4.2 million SF in the 4<sup>th</sup> quarter**, compared to 2.0 million SF in the 3<sup>rd</sup> quarter. In 2006 Class A absorption totaled 7.8 million SF, compared to 6.4 million SF in all of 2005.

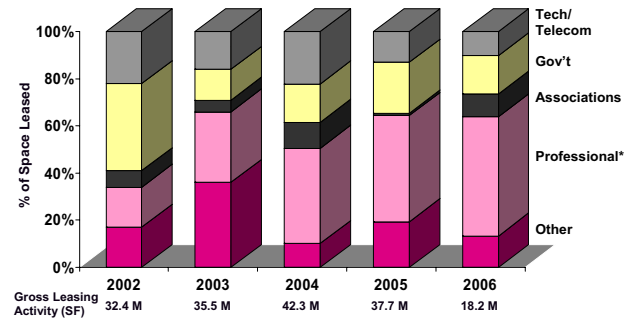
### Leasing: Down in 2006

**Leasing activity was light in 2006, as demand for office space eased.** In 2006 18.2 million gross SF was inked, compared to 37.7 million SF in 2005 and 42.3 million SF in 2004. All substate areas contributed to the light leasing activity.

For historical perspective, the following chart reflects the distribution of activity by type of tenant from 2002-2006.



### Office Leasing Activity by Sector Washington Metro Area 2002 – 2006



Source: CoStar, Delta Associates; December 2006.

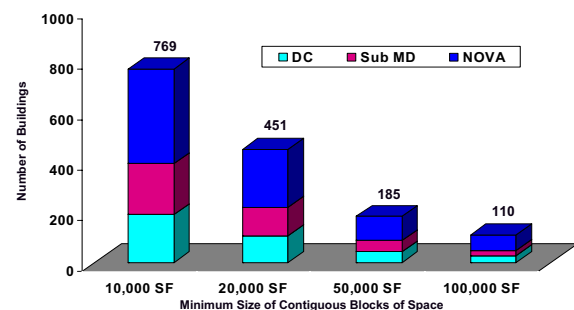
\*Legal, Financial, Business Services

There are 110 blocks of available space greater than 100,000 SF throughout the Washington area, of which Northern Virginia has the most at 61 and Suburban Maryland has the fewest at 21. The largest block of space in the metro area is 606,000 SF at 5001 Eisenhower Avenue, which is under renovation to conform to security guidelines and plans to deliver by July 2007.

There are 769 contiguous blocks of available space that are 10,000 SF or greater; the most, at 49%, are located in Northern Virginia. The following chart depicts the breakdown of contiguous available space by block size.



### Buildings with Contiguous Blocks of Available Office Space in the Washington Metro Area December 2006

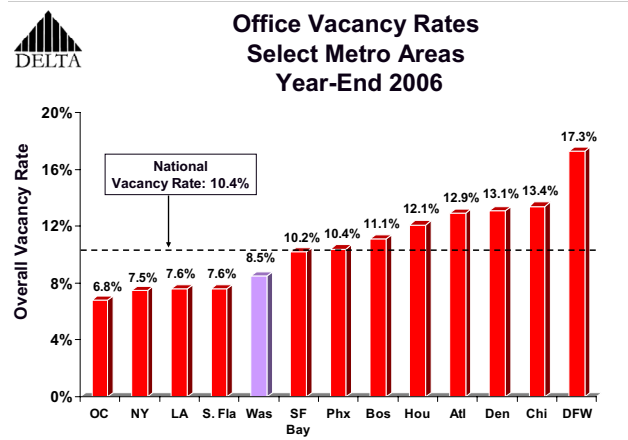


Note: Includes buildings under construction or renovation.  
Source: Delta Associates' analysis of CoStar data; December 2006.

## Vacancy Rate: Edged Up in 2006

The Washington area's overall vacancy rate edged to 8.5% at the end of the 4<sup>th</sup> quarter of 2006, from 8.1% at the end of the 3<sup>rd</sup> quarter, and 7.9% one year ago.

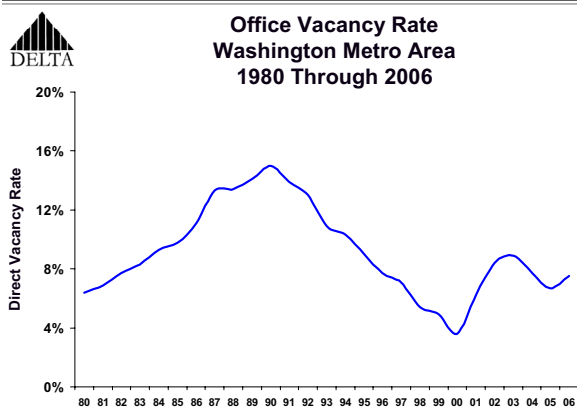
Washington has the fifth-lowest overall vacancy rate among large metro areas in the United States, as shown in the following chart. Orange County, California, has the lowest overall vacancy rate in the nation, at 6.8%.



Source: CoStar, Delta Associates; December 2006.

The Washington metro area direct vacancy rate was 7.5% at December 2006, up from 7.0% at September, and 6.7% from one year ago.

The sublease vacancy rate declined 10 basis points during the 4<sup>th</sup> quarter of 2006, after remaining unchanged during the 3<sup>rd</sup> quarter. In all of 2006 sublease vacancy declined 20 basis points, compared to declining 30 basis points in 2005.



Source: CoStar, Delta Associates; December 2006.

	12/05	12/06
Vacancy Rate		
Direct	6.7%	7.5%
Sublet	1.2%	1.0%
Vacant Space (Millions of SF)		
Direct	23.2	27.0
Sublet	4.2	3.7

Source: CoStar, Delta Associates; December 2006.

The Washington area overall Class A vacancy rate ticked up to 8.6%, from 8.5% at September 2006 and 8.2% one year ago. The Washington area direct Class A vacancy rate is 7.3% at December 2006.

## Construction: Modest Pre-Lease Rates

There is 16.8 million SF of office space under construction or renovation in the Washington metro area at December 2006, down from 18.4 million SF three months prior and 17.7 million SF one year ago.

Construction should begin to ease, after starts for the year surged beyond the 2005 level. With high construction and energy costs, coupled with easing demand, new projects, especially suburban, are getting difficult to justify.

Market	December 2004	December 2005	December 2006
NOVA	4.5	8.2	9.5
Sub MD	0.9	1.7	2.7
District	6.2	7.8	4.6
<b>Total</b>	<b>11.6</b>	<b>17.7</b>	<b>16.8</b>

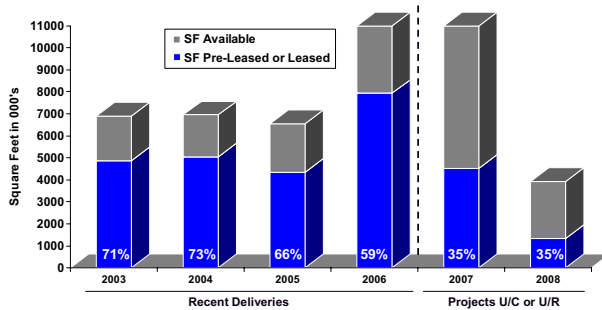
Source: CoStar, Delta Associates; December 2006.

35% of the space under construction is pre-leased at year-end 2006, down from 41% in September 2006, and 49% a year ago.

Since 2004 pre-lease rates on recent deliveries in the Washington metro area have declined. Projects set to deliver during 2007 and 2008 are both 35% pre-leased. With modest demand and several projects in the pipeline with sub-par pre-lease rates, overbuilding is becoming a concern as landlords might have some difficulty leasing space in 2007 and 2008.



**Leasing on Recent Deliveries and Projects U/C or U/R  
Washington Metro Area  
2003 – 2008**



Note: Recent deliveries are based on % leased upon delivery.  
Source: CoStar, Delta Associates; December 2006.

**Construction began on 4.3 million SF of office space in the Washington metro area during the 4<sup>th</sup> quarter**, compared to 3.7 million SF during the 3<sup>rd</sup> quarter. Starts in Suburban Maryland declined this quarter, while Northern Virginia and the District picked up additional projects, with Reston/Herndon starting 1.3 million SF and the East End starting 725,000 SF. In 2006 groundbreakings totaled 14.7 million SF, exceeding the 12.9 million SF started in 2005.

**5.3 million SF of office space was delivered in the Washington metro area during the 4<sup>th</sup> quarter of 2006**, including renovations, at 60% leased. In all of 2006, 13.4 million SF delivered at 59% leased upon delivery, which exceeds the 2005 delivery total of 6.6 million SF, delivered at 66% leased.

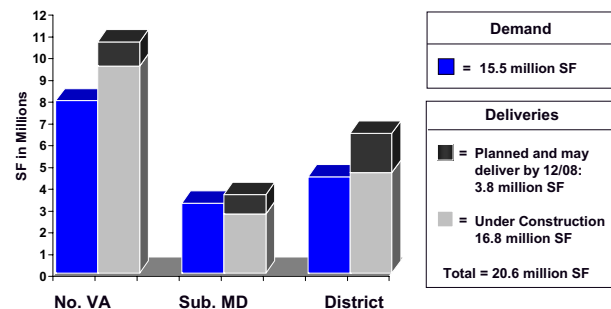
**Supply vs. Demand: Vacancy to Edge Up**

**We project the overall vacancy rate to rise over the next two years**, from 8.5% today to approximately 9.4% at December 2008. Metro-wide, we project new supply will outpace demand by 5.1 million SF over the next two years.

Vacancy is expected to rise in each sub-state area, as 2006 construction starts surged, reducing the average pre-lease rate. Also, the 2006 absorption total is below the long-term average by 1.5 million SF. Demand should remain steady in 2007, but given the amount of space under construction, vacancy is very likely to rise over the next two years.



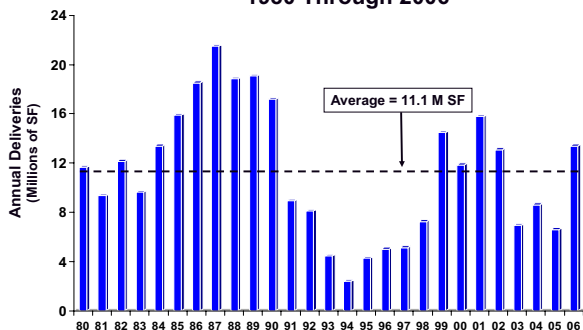
**Office Space Demand and Deliveries  
Washington Metro Area  
24 Months Ending 12/08**



Source: Delta Associates; December 2006.



**Office Space Deliveries  
Washington Metro Area  
1980 Through 2006**



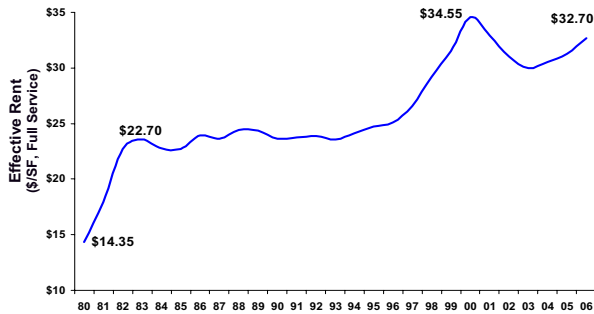
Note: Delivery totals include renovations.  
Source: CoStar, Delta Associates; December 2006.

**Rents: Rose 2.7% in 2006**

**Office rents rose 2.7% in the Washington metro area in 2006**, compared to rising 2.5% in 2005. Although metro area demand experienced a modest year compared to 2005, vacancy remained low enough for landlords to push rents. Given a surge in deliveries this year, coupled with high development costs, developers were pinned into asking for high rents, which helped push the average rent up this year.



**Average Class A Office Rents  
in Washington Metro Area  
1980 Through 2006**



Source: CoStar, Delta Associates; December 2006.

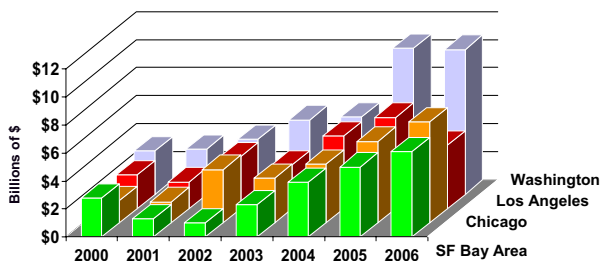
**We expect rents to rise around 2.5% metro-wide in 2007.** Rent growth should ease next year as the demand for space has tapered off its peak levels of 2004 and 2005, making higher asking rents harder to justify.

**Investment Sales: Solid Performance**

**Sales volume totaled \$2.4 billion on 43 notable transactions in the Washington metro area during the 4<sup>th</sup> quarter,** compared to \$2.5 billion on 46 notable transactions during the 3<sup>rd</sup> quarter. For all of 2006, sales volume totaled \$10.3 billion on 165 transactions, which is just below the \$10.4 billion achieved on 172 transactions in all of 2005. The 2005 and 2006 totals include portfolio sales of \$960 million and \$635 million, respectively. Overall, the Washington area remains one of the top investment markets compared to other large U.S. metros, attracting investors large and small, foreign and domestic.



**Comparative Investment Sales Volume  
Office Buildings  
2000 Through 2006**



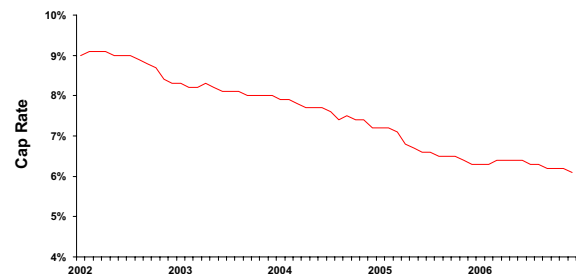
Source: Real Capital Analytics, Delta Associates; December 2006.

**Sales prices averaged \$319/SF in the Washington area during 2006.** For all of 2005, sales prices averaged \$307/SF. Competition to own assets in the Washington area has led to skyrocketing prices, although prices should likely have peaked this year for the current cycle.

**The average cap rate for office assets in the Washington metro area is 6.1%.** Cap rates declined in 2005 with torrid competition for assets. In the District, cap rates for core assets have fallen to 5.9%. We expect cap rates to rise gradually over the next two years, as interest rates likely rise, equity markets siphon off some capital, and demand for this asset class eases.



**Cap Rates for Core Office Assets  
Washington Metro Area  
2002 Through 2006**



Source: Real Capital Analytics, Delta Associates; December 2006.

**Investment Returns:  
Washington Ahead of Nation**

**Total returns (cash flow plus appreciation) realized in the Washington office market were 20.52% for the 12 months ending September 2006.** This compares to the national rate of 18.42%. Returns declined for both Washington and national assets as market conditions are showing signs of change. Washington's CBD returns were weaker compared to the suburbs by 97 basis points. Property values have significantly increased in the District, causing current returns to ease. Asset values in the suburbs have increased at a less amplified pace, particularly in Suburban Maryland where investment activity ramped up in 2006.

We expect the Washington area to remain among the premier investment markets in the nation in 2007, although returns from other markets should continue to close the gap as those cities move forward in the expansion cycle. Income returns should remain strong, but capital appreciation could plateau with current pricing already at elevated levels.

<b>NCREIF Return Index<sup>1</sup> Office Properties</b>	
Metro Area	12-Month Total Return at 3 <sup>rd</sup> Quarter 2006 <sup>1</sup>
New York	23.63%
Los Angeles	20.55%
<b>Washington</b>	<b>20.52%</b>
Wash. CBD	20.08%
Wash. Suburbs	21.05%
San Francisco	18.61%
<b>National Average</b>	<b>18.42%</b>
Boston	18.23%
Houston	16.34%
Dallas	14.79%
Atlanta	14.00%
Chicago	13.35%

<sup>1</sup>NCREIF compiles return based on its members' \$85.3 billion office portfolios. The index includes both current income and capital appreciation returns.

Source: Delta Associates, based on data in NCREIF's 3<sup>rd</sup> Quarter 2006 *Real Estate Performance Report*.

### **Land Sales: Surged in 2006**

***We recorded eight notable land sales totaling \$99.0 million in the metro area during the 4<sup>th</sup> quarter, compared to two totaling \$14.5 million during the 3<sup>rd</sup> quarter. Land sales totaled \$341.7 million in 2006 on 22 transactions, which surpassed the 2005 total of \$185.5 million for 16 notable deals.***

Interest in land surged in 2006, as developers are attempting to complete projects before property performance slows.

### **The Washington Metro Area Office Market Outlook**

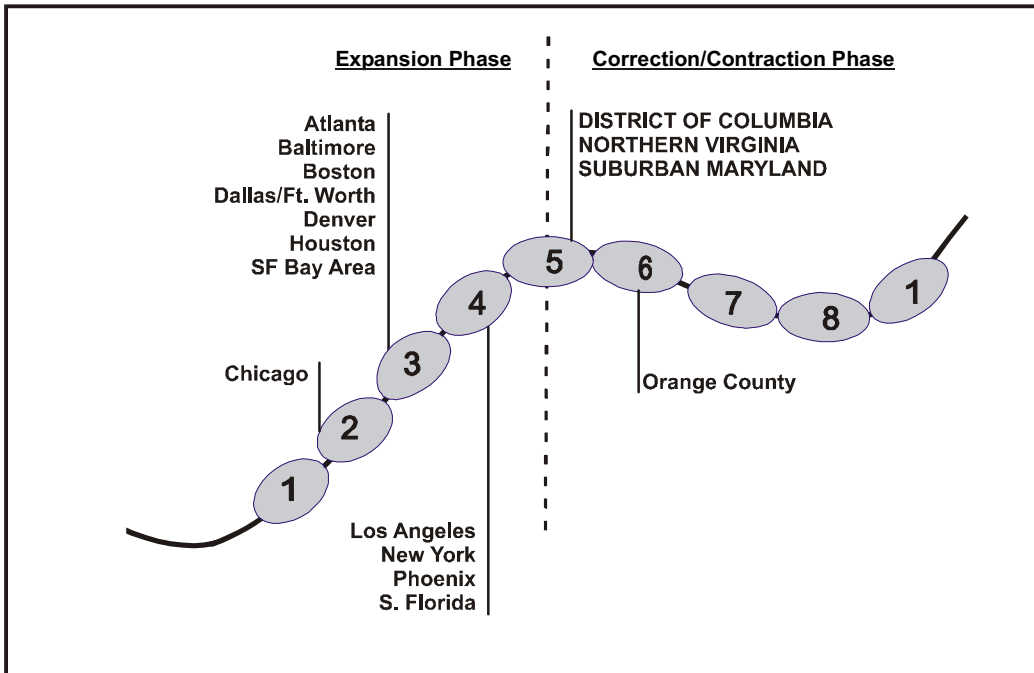
***The Washington metro area office market should continue to experience steady performance in 2007, as above-average job growth is expected. Demand should remain steady, but will remain below the levels of the past three years. The surge in construction, coupled with the light leasing activity should alert developers to be judicious about starting spec projects. In the long-run, construction starts should ease, allowing the metro office market to catch up to the new supply.***

Given that demand has been light relative to job growth, vacancy is projected to rise over the next two years, as projects deliver with sub-par pre-lease rates. Regardless, the predicted vacancy rate still will be below today's national vacancy rate of 10.4%. The Washington area office market remains healthy.

#### **Market Outlook:**

- **Job Growth:** 59,500 new payroll positions in 2007.
- **Overall Vacancy:** Expected to increase from 8.5% to 9.4% over the next two years – still below the national average.
- **Leasing Activity:** Should remain steady in 2007, but off its peak of 2004 and 2005 levels.
- **Construction:** Should ease in all sub-state areas, as construction costs are high and demand has slowed.
- **Rents:** Expected to rise about 2.5% in 2007.
- **Investment Sales:** Activity should remain solid, but off the peak of 2005-2006 as investors remain interested in area assets for their stable tenant base.

## Office Market Position Index Year-End 2006



### 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

<b>Substate Positions/Comments</b>	
The District:	Vacancy up; rents rising; demand easing
Northern Virginia:	Below average absorption; soft leasing activity; vacancy up
Suburban Maryland:	Light demand; vacancy up; rent growth modest

Source: Delta Associates; December 2006.

**TABLE 1  
OFFICE BUILDING DELIVERIES  
WASHINGTON METROPOLITAN AREA  
2006**

Market Area	NRSF Delivered			NRSF Available	NRSF Leased at Delivery	
	New Construction	Renovation	Total	At Delivery	Sq. Ft.	%
<b>Northern Virginia:</b>	<b>5,275,521</b>	<b>950,093</b>	<b>6,225,614</b>	<b>3,199,107</b>	<b>3,026,507</b>	<b>48.6%</b>
Compared to Northern Virginia - 2005:	2,845,980	57,756	2,903,736	835,639	2,068,097	71.2%
<b>Suburban Maryland:</b>	<b>969,154</b>	<b>159,117</b>	<b>1,128,271</b>	<b>418,923</b>	<b>709,348</b>	<b>62.9%</b>
Compared to Suburban Maryland - 2005:	557,455	577,467	1,134,922	342,041	792,881	69.9%
<b>District of Columbia:</b>	<b>4,645,318</b>	<b>1,430,194</b>	<b>6,075,512</b>	<b>1,883,683</b>	<b>4,191,829</b>	<b>69.0%</b>
Compared to District of Columbia - 2005:	2,468,626	75,515	2,544,141	1,041,762	1,502,379	59.1%
<b>Total - Washington Metro Area:</b>	<b>10,889,993</b>	<b>2,539,404</b>	<b>13,429,397</b>	<b>5,501,713</b>	<b>7,927,684</b>	<b>59.0%</b>
Compared To Washington Metro Area - 2005:	5,872,061	710,738	6,582,799	2,219,442	4,363,357	66.3%

Source: CoStar, Delta Associates; December 2006.

Delta Associates, the research affiliate of Transwestern, is headquartered at:

500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.

**TABLE 2**  
**PROJECTED VACANCY RATES IN TWO YEARS**  
**WASHINGTON METRO AREA OFFICE MARKET**  
**AS OF DECEMBER 2006**  
**(Millions of SF)**

	Northern Virginia	Suburban Maryland	The District	Metro Area Total
<b>Inventory</b>				
Inventory at 12/06	160.5	80.4	119.3	360.2
Pipeline Thru 12/08 <sup>1</sup>	<u>10.6</u>	<u>3.6</u>	<u>6.4</u>	<u>20.6</u>
Inventory at 12/08	171.1	84.0	125.7	380.8
<b>Supply vs. Demand</b>				
Avail Space (w/sublet) at 12/06	14.6	7.8	8.2	30.6
New Supply Thru 12/08	<u>10.6</u>	<u>3.6</u>	<u>6.4</u>	<u>20.6</u>
Avail Space (w/sublet) Thru 12/08	25.2	11.4	14.6	51.2
Total Demand Thru 12/08 <sup>2</sup>	<u>7.9</u>	<u>3.2</u>	<u>4.4</u>	<u>15.5</u>
Avail Space (w/sublet) at 12/08	17.3	8.2	10.2	35.7
<b>Vacancy</b>				
Vacancy with Sublet at 12/06	9.1%	9.7%	6.9%	8.5%
Vacancy with Sublet at 12/08	10.1%	9.8%	8.1%	9.4%

1/ Office buildings currently under construction and those planned that may deliver by December 2008.

2/ Projected total demand is derived from two types of demand:

1) Underlying demand -- driven by new job growth.

2) Variable demand -- driven by market conditions and may add to or subtract from total.

For example: A firm's decision to lease more space than currently needed to accommodate growth -- or conversely, a firm may be contracting and returning space to the market.

Source: Delta Associates; December 2006.

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**TABLE 3**  
**INVESTMENT SALES OF OFFICE PROPERTIES**  
**WASHINGTON METRO AREA**  
**2000 THROUGH 2006**

	2000		2001		2002		2003		2004		2005		2006	
	Number	% of Region	Number	% of Region	Number	% of Region	Number	% of Region	Number	% of Region	Number	% of Region	Number	% of Region
<b>Northern Virginia</b>														
# of Transactions	54	49%	27	24%	35	38%	37	34%	53	34%	81	33%	73	37%
Total Sales (in millions)	\$1,524		\$753		\$1,465		\$1,821		\$1,887		\$3,476		\$3,790	
Avg. Price/S.F.	\$169		\$165		\$191		\$221		\$213		\$254		\$277	
<b>Suburban Maryland</b>														
# of Transactions	12	9%	28	18%	21	16%	22	13%	20	11%	40	14%	47	19%
Total Sales (in millions)	\$269		\$585		\$616		\$709		\$595		\$1,422		\$1,908	
Avg. Price/S.F.	\$126		\$148		\$157		\$132		\$171		\$202		\$253	
<b>District of Columbia</b>														
# of Transactions	26	40%	37	54%	30	46%	47	53%	43	55%	50	44%	44	38%
Total Sales (in millions)	\$1,239		\$1,701		\$1,770		\$2,826		\$3,029		\$4,576		\$3,964	
Avg. Price/S.F.	\$248		\$256		\$288		\$316		\$333		\$430		\$438	
<b>Portfolio Transactions</b>														
# of Transactions	1	2%	1	4%	0	0%	0	0%	0	0%	1	9%	1	6%
Total Sales (in millions)	\$55		\$132		\$0		\$0		\$0		\$960		\$635	
<b>Washington Metro Total</b>														
# of Transactions	93	100%	93	100%	86	100%	106	100%	116	100%	172	100%	165	100%
Total Sales (in millions)	\$3,087		\$3,171		\$3,852		\$5,356		\$5,511		\$10,434		\$10,297	
Avg. Price/S.F.	\$190		\$201		\$211		\$237		\$257		\$307		\$319	

Note: A portfolio sale is when the vast majority (or all) of the Washington/Baltimore area office properties held by an investor, investment company, or financial institution is sold to another investor, investment company, or financial institution in one transaction. A multi-property sale does not necessarily qualify as a portfolio sale.

Source: Delta Associates; December 2006.

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**TABLE 4**  
**INVESTMENT SALES OF OFFICE PORTFOLIOS**  
**WASHINGTON METRO AREA**  
**2000 THROUGH 2006**

<b>Washington Area Office Portfolio Sales: 2006</b>			
Buyer	Seller	Number of Properties	Price
Duke Realty <sup>1</sup>	Mark Winkler Co.	12	\$634,900,000
<b>Total:</b>		<b>12</b>	<b>\$634,900,000</b>

1/ Duke Realty purchased 12 office buildings, 14 industrial buildings, and 166 acres of developable land. This sale includes only the 12 office properties.

<b>Washington Area Office Portfolio Sales: 2005</b>			
Buyer	Seller	Number of Properties	Price
Beacon Capital Partners	Westfield Realty	10	\$960,000,000
<b>Total:</b>		<b>10</b>	<b>\$960,000,000</b>

<b>Washington Area Office Portfolio Sales: 2004</b>			
Buyer	Seller	Number of Properties	Price
NA	NA	0	\$0
<b>Total:</b>		<b>0</b>	<b>\$0</b>

<b>Washington Area Office Portfolio Sales: 2003</b>			
Buyer	Seller	Number of Properties	Price
NA	NA	0	\$0
<b>Total:</b>		<b>0</b>	<b>\$0</b>

<b>Washington Area Office Portfolio Sales: 2002</b>			
Buyer	Seller	Number of Properties	Price
NA	NA	0	\$0
<b>Total:</b>		<b>0</b>	<b>\$0</b>

<b>Washington Area Office Portfolio Sales: 2001</b>			
Buyer	Seller	Number of Properties	Price
Prentiss Properties <sup>2</sup>	Brandywine Realty	6	\$132,000,000
<b>Total:</b>		<b>6</b>	<b>\$132,000,000</b>

2/ Transaction was actually a portfolio trade.

<b>Washington Area Office Portfolio Sales: 2000</b>			
Buyer	Seller	Number of Properties	Price
The Rubenstein Company	Commonwealth Atlantic	3	\$54,500,000
<b>Total:</b>		<b>3</b>	<b>\$54,500,000</b>

Note: A portfolio sale is when the vast majority (or all) of the Washington/Baltimore area office properties held by an investor, investment company, or financial institution is sold to another investor, investment company, or financial institution in one transaction. A multi-property sale does not necessarily qualify as a portfolio sale.

Source: Delta Associates; December 2006.

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**TABLE 5**  
**PROTOTYPICAL DEVELOPMENT ECONOMICS**  
**OFFICE BUILDING**  
**WASHINGTON METROPOLITAN AREA**  
**YEAR-END 2006**  
**(Per Rentable Square Foot)**

	Suburban Office	Downtown Office
	(Low-Rise and High-Rise)	(High-Rise)
<b>A. Hard Costs</b>	\$191	\$231
<b>B. Soft Costs</b>	\$67	\$85
<b>C. Sub-Total, Development Costs (Excluding Land)</b>	\$258	\$316
<b>D. Land Costs (Per FAR)</b>	\$49	\$130
<b>E. Total, All-In Development Costs</b>	\$307	\$446
<b>F. Required Rents (GFS) Needed to Support New Development*</b>	\$40	\$56
<b>* Pro Forma Rent Calculations</b>		
A. Cash on Cost Return Requirement (%)	8.7%	7.9%
B. Cash on Cost Return Requirement (\$)	\$26.71	\$35.23
C. Op. Exp. (Including Reserves of Approx. \$0.25)	<u>\$11.43</u>	<u>\$17.93</u>
D. Sum of B & C	\$38.14	\$53.16
E. Divided By Occupancy Rate	<u>95%</u>	<u>95%</u>
F. Equals Required Gross Full Service Rent	\$40.15	\$55.96
<b>Approximate Rent Required per Rentable SF:</b>	<b>\$40</b>	<b>\$56</b>

Source: Based on Delta Associates' November 2006 Market Maker survey of area developers and owner/operators.

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**TABLE 6**  
**OPERATING EXPENSE EXPERIENCE**  
**WASHINGTON METROPOLITAN AREA OFFICE SPACE**  
**YEAR-END 2006**  
**(per NRSF, excluding reserves)**

<u>Suburban Office</u> Class A	<u>CBD Office</u> Class A
<b>\$11.43</b>	<b>\$17.93</b>
Source: CoStar; Delta Associates; December 2006.	

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# THE NORTHERN VIRGINIA OFFICE MARKET YEAR-END 2006

## 2006 Absorption Below Long-Term Average; Vacancy and Rents Rise

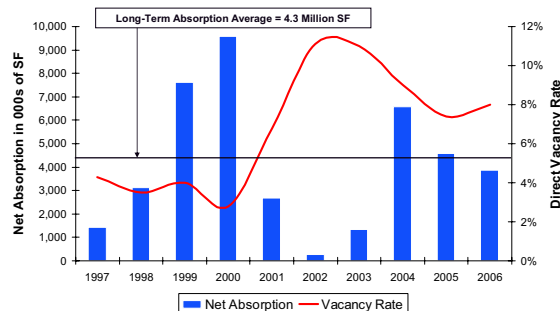
*The Northern Virginia office market hinted at shifting market conditions during the 4<sup>th</sup> quarter of 2006, as vacancy rose due to easing demand. Despite conditions, rents rose at a healthy pace. Projects in the pipeline remain at high levels, as pre-lease rates continue to tick down. Construction starts reached astounding levels this year, particularly in Reston/Herndon, which bears watching as conditions evolve next year.*

### 2006 Northern Virginia market highlights:

- **Net absorption:** 3.9 million SF, compared to 4.6 million SF in 2005.
- **Sublease space:** Declined 450,000 SF. Sublease space is just 1.1% of inventory.
- **Overall vacancy rate:** 9.1%, up from 8.9% one year ago.
- **Direct vacancy rate:** 8.0%, up from 7.4% one year ago.
- **Space under construction:** 9.5 million SF, compared to 8.2 million SF one year ago.
- 32% of space U/C or U/R is **pre-leased**, compared to 51% a year ago.
- **Rents:** Up approximately 3.7% in 2006.
- **Investment sales:** \$3.8 billion on 73 transactions. Average sales price: \$277/SF.



**Net Absorption and Direct Vacancy Rate  
Northern Virginia  
1997 Through 2006**



Source: Vacancy – Delta Associates' analysis of CoStar Data,  
Net Absorption – Delta Associates; December 2006.

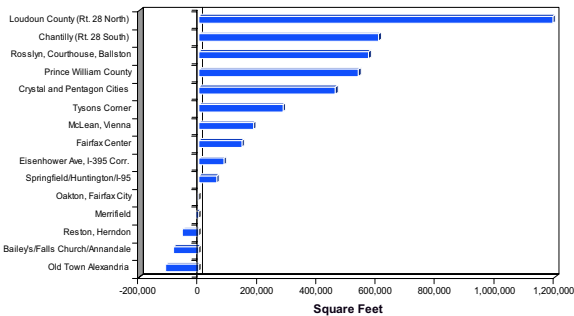
### Net Absorption: Pushed by Deliveries

*Net absorption totaled 1.8 million SF in Northern Virginia during the 4<sup>th</sup> quarter of 2006, compared to 1.7 million SF during the 3<sup>rd</sup> quarter. Absorption totaled 3.9 million SF in 2006, which is below the 4.3 million SF long-term average, as leasing activity was light over the past 12 months. Notably, the absorption total in 2006 was boosted due to several pre-leased projects delivering.*

Loudoun County experienced 1.2 million SF of net absorption in 2006, which is attributed to 1.4 million SF delivering at 78% leased upon coming online. Old Town Alexandria was unable to recover from tenants vacating large blocks of space this year, as net absorption remained negative. An example includes Public Broadcasting Service, which vacated 145,000 SF in Old Town and relocated to Crystal City during the 1<sup>st</sup> quarter.



### Net Absorption of Office Space Northern Virginia Submarkets 2006



Source: Delta Associates; December 2006.

**Net absorption of Class A space totaled 1.6 million SF in the 4<sup>th</sup> quarter of 2006**, compared to 1.3 million SF in the 3<sup>rd</sup> quarter. In 2006 net absorption totaled 2.9 million SF, compared to 3.6 million SF of Class A space absorbed in all of 2005. Class A space accounts for 75% of net absorption in Northern Virginia in 2006.

### Leasing: Modest Activity

**Leasing slowed in 2006, as demand for space lightened in Northern Virginia** (absorption was driven chiefly by deliveries this year). In 2006 10.0 million gross SF of lease deals were inked, compared to 17.2 million SF in 2005 and 22.9 million SF in 2004.

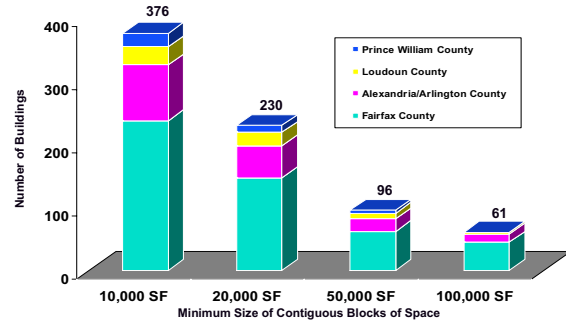
The leasing activity in 2006 was boosted by Tysons Corner, RCB Corridor, and Reston/Herndon, all experiencing notable gross leasing activity this year. The most notable lease deal of year was Northrop Grumman Corporation's lease of 167,000 SF at 15010 Conference Center Drive and sublease of 242,000 SF at 2340 Dulles Corner Boulevard.

The ease in Federal procurement spending is beginning to impact market conditions in Northern Virginia, as contractors are the mainstay of Northern Virginia's leasing activity. Conditions could be impacted further if the new Congress attempts to shift a portion of the funding away from the Defense Department to the Department of Homeland Security.

There are 376 blocks of space available over 10,000 SF in Northern Virginia at year-end 2006, up from 357 blocks at 3<sup>rd</sup> quarter. Fairfax County hosts 63% of these blocks. The largest block of space is 606,000 SF at 5001 Eisenhower Avenue, which is under renovation to adhere to security guidelines and should deliver by July 2007.



### Buildings with Contiguous Blocks of Available Office Space in Northern Virginia December 2006



Note: Includes buildings under construction or renovation.  
Source: Delta Associates' analysis of CoStar data; December 2006.

### Vacancy: Edged Up in 2006

**Northern Virginia's overall vacancy rate climbed to 9.1% at the end of the 4<sup>th</sup> quarter of 2006**, from 8.7% at the end of the 3<sup>rd</sup> quarter and 8.9% one year ago.

**The direct vacancy rate in Northern Virginia was 8.0% at December 2006**, up from 7.6% three months prior, and 7.4% one year ago.

**Sublease space increased by 133,000 SF during the 4<sup>th</sup> quarter**, after declining by 143,000 SF during the 3<sup>rd</sup> quarter. In 2006 sublease space declined by 450,000 SF. Currently, sublease space represents only 1.1% of Northern Virginia's standing inventory.

Vacancy Rates and Vacant Space (All Classes) Northern Virginia 12/05 and 12/06		
	12/05	12/06
Vacancy Rate		
Direct	7.4%	8.0%
Sublet	1.5%	1.1%
Vacant Space (Millions of SF)		
Direct	11.5	12.8
Sublet	2.2	1.8

Source: CoStar, Delta Associates; December 2006.

The overall Class A vacancy rate in Northern Virginia increased to 9.6%, from 8.8% the quarter prior, and 9.1% one year ago. The direct vacancy rate for Class A space is 8.2% at December 2006.

McLean/Vienna and Tysons Corner have made progress over the last 12 months, as overall vacancy has declined by 770 and 110 basis points, respectively. The overall vacancy in McLean/Vienna has declined due to a handful of notable lease deals, such as the FBI's lease of 165,000 SF at 801 Follin Lane. Tysons Corner experienced a decline due to Northrop Grumman taking 129,000 SF at 1505 Farm Credit Drive and KSI Services inking 81,000 SF at 1751 Pinnacle Drive.

Change in Overall Vacancy Selected Submarkets in Northern Virginia December 2005 to December 2006	
Submarket	Basis Point Change
McLean, Vienna	-770
Tysons Corner	-110
Old Town Alexandria	+300
Prince William County	+460

Source: CoStar, Delta Associates; December 2006.

### Construction: Down at Q4

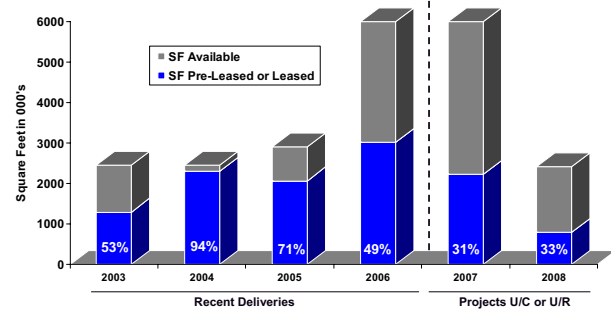
There is 9.5 million SF of office space under construction or renovation at December 2006, compared to 9.9 million SF at September 2006, and 8.2 million SF one year ago.

32% of the space under construction is pre-leased at December 2006, compared to 36% in September 2006, and 51% one year ago.

Projects set to deliver in 2007 and 2008 are currently 31% and 33% pre-leased respectively. Pre-lease rates on recent deliveries have ticked down over the years, with 2006 projects delivering at 49% pre-leased. With construction starts not showing signs of easing and light leasing activity, developers should exert caution in breaking ground.



Leasing on Recent Deliveries and Projects U/C or U/R  
Northern Virginia  
2003 – 2008



Note: Recent deliveries are based on % leased upon delivery.  
Source: CoStar, Delta Associates; December 2006.

Reston/Herndon leads in the amount of space under construction or renovation at year-end 2006. This submarket has 14 projects in the pipeline, totaling 2.7 million SF at only 9.5% pre-leased. Boston Properties has three buildings under construction at Reston Town Center, which will add 620,000 SF of office space when completed. Two of these projects are fully vacant and one is 48% leased. Although gross leasing activity was solid in Reston/Herndon this year, developers should be cautious about moving forward on future projects in this submarket as new supply is expected to outpace demand over the next 24 months.

Office Space U/C or U/R in Northern Virginia December 2006		
	SF	% Pre-leased
Reston, Herndon	2,736,000	9.5%
Chantilly (Rt. 28 South)	1,717,000	25.5%
Loudoun County (Rt. 28 North)	1,499,000	57.8%
Rosslyn, Courthouse, Ballston	1,132,000	81.8%
Eisenhower Ave, I-395 Corr.	1,081,000	13.0%
Prince William County	648,000	42.7%
Tysons Corner	313,000	0.0%
Merrifield	184,000	0.2%
Bailey's/Falls Church/Annandale	85,000	64.0%
Oakton, Fairfax City	74,000	81.4%
<b>Total</b>	<b>9,469,000</b>	<b>31.9%</b>

Source: CoStar, Delta Associates; December 2006.

2.6 million SF of office space broke ground during the 4<sup>th</sup> quarter, compared to 2.5 million SF the quarter prior. Reston/Herndon accounted for the majority of construction starts in the 4<sup>th</sup> quarter, with 1.3 million SF. 2006 construction starts totaled 8.8 million SF, which exceeds the 6.7 million SF started in 2005.

Despite light demand this year, developers continue to break ground on spec projects hoping to enter the market as property performance remains favorable. However, even with anticipated job growth, demand is not expected to keep pace with new supply over the next two years in Northern Virginia.

<b>Northern Virginia Office Construction Starts 2000 Through 2006 (Millions of SF)</b>			
	Total Starts	SF Pre-Leased	Spec SF
2000	9.9	3.6	6.3
2001	3.2	1.2	2.0
2002	4.1	2.7	1.4
2003	3.7	3.1	0.6
2004	3.0	1.8	1.2
2005	6.7	3.4	3.3
2006	8.8	2.8	6.0
<b>Total:</b>	<b>39.4</b>	<b>18.6</b>	<b>20.8</b>
<b>Avg. Per Qtr.:</b>	<b>1.4</b>	<b>0.7</b>	<b>0.7</b>

Source: CoStar, Delta Associates; December 2006.

**Office deliveries totaled 2.6 million SF during the 4<sup>th</sup> quarter of 2006**, at 47% leased, compared to 1.4 million SF during the 3<sup>rd</sup> quarter of 2006 at 55% leased. For the year, 6.2 million SF delivered at 49% leased, which exceeds the 2005 delivery total of 2.9 million SF, which was 71% pre-leased upon delivery.

### **Supply v. Demand: Vacancy to Edge Up**

**We project the overall Northern Virginia vacancy rate will edge up, from 9.1% to 10.1% at December 2008.** We expect new supply to outpace demand by 2.7 million SF over the next two years. Despite job growth, demand has been modest this year, and we anticipate this trend will continue.

### **Rents: Up 3.7% in 2006**

**Northern Virginia office rents increased 3.7% in 2006**, after rising by 4% in 2005. Notably, Tysons Corner and the RCB Corridor experienced promising rent growth as 2006 leasing activity was stronger in these submarkets.

Rent growth eased this year compared to 2005 as leasing activity in Northern Virginia ebbed and numerous projects are in the pipeline at modest pre-lease rates. Regardless of the light demand landlords continued to push up rents, particularly in Reston/Herndon where several spec projects are under construction, in hopes of locking in higher rates before rent growth tapers. **Given current market conditions, rents should rise by 3.0% to 4.0% in 2007.**

<b>Effective Rent Changes Selected Submarkets in Northern Virginia December 2005 to December 2006</b>	
<b>Submarket</b>	<b>Rent Change</b>
Reston/Herndon	5.9%
Tysons Corner	5.7%
McLean/Vienna	5.1%
Crystal City/Pentagon City	4.1%
Chantilly/Rt. 28 South	3.9%
RCB Corridor	3.8%

Source: Delta Associates; December 2006.

### **Investment Sales: Outpace 2005**

**Investment sales volume totaled \$1.0 billion on 25 transactions in the 4<sup>th</sup> quarter of 2006**, compared to the same amount on 16 transactions in the 3<sup>rd</sup> quarter. For the year sales volume totaled \$3.8 billion, which surpassed the 2005 record volume of \$3.5 billion.

Northern Virginia accounted for 37% of the 2006 metro area sales volume. Although Duke Realty's portfolio purchase, which was focused in Northern Virginia, was not included in this share, the Peterson Companies' sale of Fair Lakes was included. Notably, the sale to Shorenstein Properties, of nine buildings for \$366.9 million, boosted the total sales volume. The Peterson sale is not listed as a portfolio sale because the firm has not exited the Washington area office market.

Investment sales in Northern Virginia should remain solid in 2007, as market fundamentals remain favorable. However, softening demand for this asset class and rising stock market could reduce volume over the next 12 months.

**Sale prices averaged \$277/SF in Northern Virginia** – a 9.1% increase from \$254/SF in 2005. Prices are expected to soften over the next 12 months as property performance shows signs of softer demand.

Selected Investment Sales Northern Virginia 4 <sup>th</sup> Quarter 2006	
Address/Submarket	Price/Buyer
4201 Wilson Boulevard RCB Corridor	\$197.2 million (\$355/SF) Dweck Management
2251 Corporate Park Drive Reston/Herndon	\$59 million (\$373/SF) Brandywine Realty Trust
8111 Gatehouse Road Merrifield	\$43.6 million (\$158/SF) 8111 Gatehouse Investors

Source: RCA, CoStar, Delta Associates; December 2006.

### **Land Sales: Outpace 2005**

**Land sales totaled \$14.8 million in Northern Virginia during the 4<sup>th</sup> quarter of 2006.** For the year land sales volume totaled \$116.7 million, with a handful of parcels located in Reston/Herndon. Fifield Companies purchased 7.9 acres of land in Reston/Herndon for \$13.4 million (\$38/FAR SF). We anticipate land sales will moderate in 2007 given decreasing demand and rising construction costs, making it more difficult for developers to achieve the necessary rents in order to make deals work.

### **Northern Virginia Outlook**

**The Northern Virginia office market should perform well in 2007**, as jobs continue to be created at a healthy pace. However, the impact of easing Federal procurement spending growth will be felt in 2007 and 2008 as contractors, a driver of Northern Virginia lease deals, require less space. Overbuilding bears watching as many projects broke ground this year and are expected to deliver over the next 12 to 18 months. With current sub-par pre-lease rates, occupying this space next year is expected to be a challenge given the current conditions. **Despite softening conditions, the Northern Virginia office market remains one of the strongest in the U.S.**

#### **Market Outlook:**

- **Job Growth:** 38,500 new payroll positions in 2007.
- **Overall Vacancy:** Expected to increase from 9.1% today to 10.1% at December 2008.
- **Leasing Activity:** Should continue to slow, as Federal procurement spending growth eases and funding priorities shift.
- **Construction:** Expected to decline in 2007.
- **Rents:** Expected to rise by approximately 3% to 4% in 2007.
- **Investment Sales:** Investors should remain interested in Northern Virginia assets, but volume will ease compared to 2005 and 2006.

**Significant Lease Transactions in Northern Virginia  
2006**

<b>Tenant</b>	<b>Address</b>	<b>Submarket</b>	<b>SF</b>
Northrop Grumman Corporation (Sublease)	2340 Dulles Corner Boulevard	Reston/Herndon	242,000
Northrop Grumman Corporation	15010 Conference Center Drive	Route 28 Corridor South	167,000
The Federal Bureau of Investigation	801 Follin Lane	McLean/Vienna	165,000
Conservation International	2011 Crystal Drive	Crystal City/Pentagon City	87,000
Verizon Global Networks, Inc. (Renewal)	1880 Campus Commons Drive	Reston/Herndon	86,000
KSI Services, Inc	1751 Pinnacle Drive	Tysons Corner	82,000
GSA (Renewal)	1901 S. Bell Street	Crystal City/Pentagon City	78,000
GSA	4601 N. Fairfax Drive	RCB Corridor	77,000
National Cooperative Bank	2011 Crystal Drive	Crystal City/Pentagon City	76,000
CH2M Hill	15000 Conference Center Drive	Route 28 Corridor South	73,000
Department of Defense	2011 Crystal Drive	Crystal City/Pentagon City	71,000
ManTech International (Renewal)	14119 Sullyfield Circle	Route 28 Corridor South	68,000
Lockheed Martin	13530 Dulles Technology Drive	Reston/Herndon	66,000
U.S. Customs	12825 Worldgate Drive	Reston/Herndon	60,000
Solers, Inc. (Renewal)	1611 N. Kent Street	RCB Corridor	56,000
Smithsonian	2011 Crystal Drive	Crystal City/Pentagon City	52,000
Carfax	5860 Trinity Parkway	Route 28 Corridor South	50,000
Freddie Mac (Renewal)	21550 Beaumeade Circle	Route 28 Corridor North	49,000
Plateau Systems	4401 Wilson Boulevard	RCB Corridor	48,000
Mobile Satellite Ventures LP (Renewal)	10800-10802 Parkridge Boulevard	Reston/Herndon	38,000
TelAc Teleservices Group (Renewal)	1820 N. Fort Myer Drive	RCB Corridor	36,000
Educap (Sublease)	21680 Ridgetop Circle	Route 28 Corridor North	36,000
Family Health International	4401 Wilson Boulevard	RCB Corridor	35,000
Southland Industries	22340 Dresden Street	Route 28 Corridor North	34,000
Mobile Satellite Ventures LP (Expansion)	10800-10802 Parkridge Boulevard	Reston/Herndon	32,000
Food Marketing Institute	2345 Crystal Drive	Crystal City/Pentagon City	31,000
Reznick Group	8405 Leesburg Pike	Bailey's/Falls Church/Annandale	30,000
SAIC	12100 Sunset Hills Road	Reston/Herndon	30,000
Grant Thornton	2010 Corporate Ridge Road	Tysons Corner	29,000
Tangible Software (Sublease)	8201 Greensboro Drive	Tysons Corner	29,000
General Dynamics Adv. Info. Sys. (Renewal)	1400 Key Boulevard	RCB Corridor	28,000
SAIC	14668 Lee Road	Route 28 Corridor South	28,000
IBM (Sublease)	12902 Federal Systems Park Drive	Fairfax Center	28,000
K12, Inc.	2300 Corporate Park Drive	Reston/Herndon	28,000
City of Alexandria	1900 N. Beauregard Street	Eisenhower Ave Corridor	27,000
GSA	1550 Crystal Drive	Crystal City/Pentagon City	27,000
Chenega	5911 Kingstowne Village Parkway	Springfield/Huntington/Lorton	27,000
GSA (Expansion)	1901 S. Bell Street	Crystal City/Pentagon City	26,000
Alliance Bank	14200 Park Meadow Drive	Rt. 28 South/Chantilly	26,000
BAE Systems	1410 Spring Hill Road	Tysons Corner	25,000

Note: May not include all large renewals.

Source: CoStar, Arlington Newsletter, Fairfax Newsletter, Loudoun Newsletter, *Washington Business Journal*, Delta Associates; December 2006.

**TABLE 7**  
**OFFICE BUILDING DELIVERIES**  
**NORTHERN VIRGINIA**  
**2006**

Submarket	NRSF Delivered			NRSF Available	NRSF Leased at Delivery	
	New Construction	Renovation	Total	At Delivery	Sq. Ft.	%
<b>Rosslyn-Ballston Corridor:</b>	779,275	30,000	809,275	320,009	489,266	60.5%
<b>Crystal City/Pentagon City:</b>	629,159	503,938	1,133,097	691,964	441,133	38.9%
<b>Old Town:</b>	206,960	27,111	234,071	212,186	21,885	9.3%
<b>Eisenhower Avenue/I-395 Corridor:</b>	128,000	0	128,000	0	128,000	100.0%
<b>Springfield/Huntington/I-95:</b>	176,485	20,412	196,897	185,481	11,416	5.8%
<b>Reston/Herndon:</b>	86,300	0	86,300	20,072	66,228	76.7%
<b>Tysons Corner:</b>	0	168,013	168,013	168,013	0	0.0%
<b>McLean/Vienna:</b>	15,000	52,653	67,653	35,278	32,375	47.9%
<b>Oakton/Fairfax City:</b>	40,789	0	40,789	40,789	0	0.0%
<b>Fairfax Center:</b>	200,000	0	200,000	198,000	2,000	1.0%
<b>Route 28 South/Chantilly:</b>	858,901	147,966	1,006,867	601,813	405,054	40.2%
<b>Loudoun County:</b>	1,432,034	0	1,432,034	315,961	1,116,073	77.9%
<b>Prince William County:</b>	722,618	0	722,618	409,541	313,077	43.3%
<b>Total - Northern Virginia:</b>	<b>5,275,521</b>	<b>950,093</b>	<b>6,225,614</b>	<b>3,199,107</b>	<b>3,026,507</b>	<b>48.6%</b>
Compared to Northern Virginia - 2005:	2,845,980	57,756	2,903,736	835,639	2,068,097	71.2%

Source: CoStar, Delta Associates; December 2006.

Delta Associates, the research affiliate of Transwestern, is headquartered at:  
500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.

**TABLE 8  
SUMMARY OF OFFICE MARKET INDICATORS - ALL SPACE  
NORTHERN VIRGINIA  
2003 THROUGH 2006**

Submarket	Year-End 2006		Direct Vacancy Rate at End of:				Vacancy at End of 2006 w/ Sublet	SF Under Constr. or Renovation at Dec-06	Net Absorption (SF)				
	Total Rentable SF All Bldgs. <sup>1/</sup>	SF Avail. Immediately All Bldgs. <sup>2/</sup>	2003	2004	2005	2006			2003	2004	2005	Q4 2006	2006
			2003	2004	2005	2006			2003	2004	2005	Q4 2006	All of 2006
Rosslyn, Courthouse, Ballston	20,809,225	1,227,744	9.4%	6.4%	5.1%	5.9%	1,131,950	238,000	605,000	1,061,000	471,000	573,000	
Crystal and Pentagon Cities <sup>3/</sup>	13,373,386	1,671,673	8.4%	8.2%	11.8%	12.5%	-	88,000	26,000	(459,000)	(100,000)	461,000	
Old Town Alexandria	8,268,663	686,299	6.6%	8.1%	5.0%	8.3%	-	286,000	(249,000)	146,000	80,000	(111,000)	
Eisenhower Ave. I-395 Corr.	8,273,727	314,402	9.0%	4.8%	3.4%	3.8%	1,081,470	23,000	1,936,000	570,000	(74,000)	85,000	
Springfield/Huntington/I-95	5,288,865	523,598	8.0%	4.4%	8.0%	9.9%	-	248,000	179,000	(179,000)	48,000	62,000	
Bailey's Falls Church/Annandale	5,663,640	475,746	11.4%	8.3%	6.9%	8.4%	85,000	158,000	220,000	79,000	(68,000)	(85,000)	
Merrifield	8,678,012	216,950	11.7%	8.0%	2.4%	2.5%	184,000	199,000	392,000	486,000	95,000	(9,000)	
Reston, Herndon	26,616,525	2,422,104	14.7%	11.5%	8.6%	9.1%	2,736,343	286,000	1,302,000	803,000	106,000	284,000	
Tysons Corner	25,836,947	2,118,630	12.2%	11.7%	9.3%	8.2%	312,897	(249,000)	509,000	902,000	78,000	186,000	
McLean, Vienna	2,370,748	104,313	10.6%	11.1%	11.7%	4.4%	-	11,000	4,000	(14,000)	3,000	-	
Oakton, Fairfax City	4,239,382	233,166	5.6%	3.9%	4.5%	5.5%	73,676	(62,000)	71,000	(25,000)	18,000	(3,000)	
Fairfax Center	6,445,385	322,269	10.0%	4.2%	4.3%	5.0%	-	(294,000)	362,000	(6,000)	26,000	146,000	
Chantilly (Rt. 28 South)	9,848,998	1,034,145	11.7%	7.1%	8.7%	10.5%	1,716,579	39,000	520,000	461,000	164,000	607,000	
Loudoun County (Rt. 28 North)	11,054,118	1,094,358	13.3%	10.8%	8.9%	9.9%	1,498,524	242,000	375,000	533,000	750,000	1,194,000	
Prince William County	3,768,568	384,394	7.0%	4.0%	6.6%	10.2%	648,318	138,000	313,000	228,000	165,000	539,000	
<b>TOTAL - Northern Virginia</b>	<b>160,536,189</b>	<b>12,829,790</b>	<b>11.0%</b>	<b>9.0%</b>	<b>7.4%</b>	<b>8.0%</b>	<b>9,468,757</b>	<b>1,351,000</b>	<b>6,565,000</b>	<b>4,586,000</b>	<b>1,762,000</b>	<b>3,875,000</b>	
Vacancy Rate with Sublet Space			13.9%	11.1%	8.9%	9.1%							

1/ Includes buildings 15,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government.

2/ Does not include sublet space.

3/ 2121 Crystal Drive completed renovations and has been restored to the inventory.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2006.

Delta Associates, the research affiliate of Transwestern, is headquartered at:

500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.

**TABLE 9  
SUMMARY OF OFFICE MARKET INDICATORS - CLASS A<sup>1/</sup>  
NORTHERN VIRGINIA  
2003 THROUGH 2006**

Submarket	Year-End 2006						Net Absorption (SF)				
	Total Rentable SF <sup>2/</sup>	SF Available Immediately <sup>3/</sup>	Direct Vacancy Rate	Vacancy Rate with Sublet Space	SF Under Construction or Renovation		2003	2004	2005	Q4 2006	All of 2006
Rosslyn, Courthouse, Ballston Crystal and Pentagon Cities <sup>4/</sup>	12,480,758	624,038	5.0%	6.0%	810,046	250,000	477,000	955,000	464,000	869,000	
Old Town Alexandria	4,718,531	972,017	20.6%	20.9%	-	(49,000)	171,000	(642,000)	55,000	377,000	
Eisenhower Ave, I-395 Corr.	3,877,971	422,699	10.9%	13.8%	-	246,000	(15,000)	30,000	104,000	(43,000)	
Springfield/Huntington/I-95	5,323,122	143,724	2.7%	3.3%	475,472	45,000	1,962,000	527,000	(32,000)	101,000	
Bailey's/Falls Church/Annandale	2,490,721	343,719	13.8%	14.1%	-	255,000	140,000	(136,000)	75,000	122,000	
Merrifield	1,748,993	208,130	11.9%	12.2%	85,000	46,000	74,000	52,000	3,000	(107,000)	
Reston, Herndon	4,878,889	146,367	3.0%	3.7%	184,000	190,000	283,000	503,000	39,000	(24,000)	
Tysons Corner	20,907,504	1,693,508	8.1%	9.7%	2,736,343	427,000	1,172,000	917,000	125,000	(111,000)	
McLean, Vienna	15,076,138	964,873	6.4%	8.1%	312,897	3,000	325,000	561,000	15,000	166,000	
Oakton, Fairfax City	578,200	2,891	0.5%	0.8%	-	(3,000)	(7,000)	(3,000)	(2,000)	13,000	
Fairfax Center	1,369,415	67,101	4.9%	5.3%	52,000	(27,000)	51,000	3,000	(29,000)	(22,000)	
Charlity (Rt. 28 South)	5,198,766	301,528	5.8%	7.4%	-	(65,000)	160,000	(20,000)	16,000	89,000	
Loudoun County (Rt. 28 North)	8,308,496	1,013,637	12.2%	13.4%	1,514,869	13,000	447,000	382,000	94,000	416,000	
Prince William County	7,738,103	804,763	10.4%	11.9%	1,268,296	94,000	600,000	352,000	686,000	971,000	
TOTAL - Northern Virginia	1,009,883	165,621	16.4%	20.9%	275,014	21,000	46,000	85,000	12,000	103,000	
	95,705,490	7,874,616	8.2%	9.6%	7,713,937	1,446,000	5,886,000	3,566,000	1,625,000	2,919,000	

<sup>1/</sup> Class A is defined as buildings greater than 50,000 SF and built after 1984.

<sup>2/</sup> Includes buildings 50,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government.

<sup>3/</sup> Does not include sublet space.

<sup>4/</sup> 2121 Crystal Drive completed renovations and has been restored to the inventory.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2006.

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**TABLE 10**  
**RENT RATE ANALYSIS BASED ON A SELECTED SAMPLE OF ACTUAL LEASE TRANSACTIONS**  
**ALL CLASSES OF OFFICE BUILDINGS**  
**NORTHERN VIRGINIA OFFICE SUBMARKETS**  
**2003 THROUGH 2006**

Submarket	Average Face Rent (\$'s/SF, GFS) For:			Average Effective Rent (\$'s/SF, GFS) For:			% Change 12/05 - 12/06	Avg. TI Package (\$/SF) 2006		
	2003	2004	2005	2006	2003	2004			2005	2006
Rosslyn, Cthse, Ballston	\$30.50	\$30.60	\$31.65	\$32.85	\$30.20	\$30.35	\$31.50	\$32.70	3.8%	\$28.00
Crystal/Pentagon Cities	\$31.10	\$32.10	\$30.90	\$32.20	\$30.90	\$31.90	\$30.70	\$31.95	4.1%	\$25.00
Old Town Alexandria	\$27.30	\$28.10	\$28.80	\$29.30	\$27.15	\$27.95	\$28.65	\$29.15	1.7%	\$26.00
Eisenhower Ave, I-395 Corr.	\$23.35	\$23.85	\$23.50	\$24.20	\$23.05	\$23.55	\$23.35	\$24.05	3.0%	\$19.00
I-395, Springfield, Lorton	\$22.10	\$22.55	\$23.00	\$23.50	\$21.85	\$22.30	\$22.75	\$23.25	2.2%	\$20.00
Bailey's/Falls Church/Annan.	\$23.70	\$23.50	\$24.20	\$24.70	\$23.60	\$23.30	\$24.10	\$24.60	2.1%	\$15.00
Merrifield	\$27.40	\$27.15	\$28.30	\$29.15	\$27.20	\$26.95	\$28.10	\$28.95	3.0%	\$24.00
Reston, Herndon	\$22.75	\$23.40	\$24.50	\$26.00	\$22.05	\$22.60	\$23.85	\$25.25	5.9%	\$27.00
Tysons Corner	\$25.80	\$25.45	\$26.80	\$28.35	\$25.05	\$24.75	\$26.10	\$27.60	5.7%	\$25.00
McLean, Vienna	\$24.20	\$23.75	\$23.80	\$25.00	\$23.90	\$23.45	\$23.50	\$24.70	5.1%	\$20.00
Oakton, Fairfax City	\$21.85	\$22.70	\$22.70	\$23.40	\$21.55	\$22.40	\$22.30	\$23.00	3.1%	\$22.00
Fairfax Center	\$23.20	\$23.20	\$23.70	\$24.60	\$22.80	\$22.80	\$23.30	\$24.20	3.9%	\$20.00
Chantilly/Rt. 28 South	\$22.20	\$22.25	\$23.10	\$24.05	\$21.90	\$21.95	\$22.80	\$23.70	3.9%	\$22.00
Loudoun County/Rt. 28 North	\$21.70	\$21.65	\$22.40	\$23.25	\$21.45	\$21.40	\$22.10	\$22.95	3.8%	\$19.00
Prince William County	\$18.70	\$19.20	\$19.60	\$20.40	\$18.50	\$19.00	\$19.50	\$20.25	3.8%	\$13.00

Note: We report rent rate trends on a semi-annual basis, so as to assure sufficient data exists to make informed observations on these trends.

Source: Proprietary database of actual lease transactions from Transwestern and Delta Associates, CoStar, December 2006.

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**TABLE 11**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**TYSONS CORNER**  
**1997 THROUGH 2006**

Average Price 2006 (4 Sales):	\$213,650,000	729,000 SF	\$293.07
Average Cap Rate 2006:			6.50%
Average Class A Price 2006 (2 Sales):	\$150,100,000	473,000 SF	\$317.34
Average Class A Cap Rate 2006:			6.50%
Average Price 2005 (17 Sales):	\$841,560,000	3,447,000 SF	\$244.14
Average Cap Rate 2005:			7.30%
Average Class A Price 2005 (7 Sales):	\$468,236,000	1,592,000 SF	\$294.07
Average Class A Cap Rate 2005:			6.00%
Average Price 2004 (7 Sales):	\$217,680,000	1,228,000 SF	\$177.31
Average Cap Rate 2004:			8.50%
Average Class A Price 2004 (5 Sales):	\$186,930,000	1,004,000 SF	\$186.22
Average Class A Cap Rate 2004:			6.80%
Average Price 2003 (2 Sales):	\$43,570,000	218,000 SF	\$199.73
Average Cap Rate 2003:			NA
Average Class A Price 2003 (2 Sales):	\$43,570,000	218,000 SF	\$199.73
Average Class A Cap Rate 2003:			NA
Average Price 2002 (3 Sales):	\$185,400,000	969,000 SF	\$191.29
Average Cap Rate 2002:			NA
Average Class A Price 2002 (1 Sale):	\$144,000,000	570,000 SF	\$252.63
Average Class A Cap Rate 2002:			NA
Average Price 2001 (2 Sales):	\$100,000,000	570,000 SF	\$175.44
Average Cap Rate 2001:			9.90%
Average Class A Price 2001 (1 Sale):	\$33,000,000	137,000 SF	\$240.88
Average Class A Cap Rate 2001:			NA
Average Price 2000 (11 Sales):	\$433,250,000	2,474,000 SF	\$174.87
Average Cap Rate 2000:			10.50%
Average Class A Price 2000 (5 Sales):	\$286,350,000	1,369,000 SF	\$209.17
Average Class A Cap Rate 2000:			8.70%
Average Price 1999 (8 Sales):	\$317,670,000	1,798,000 SF	\$176.66
Average Cap Rate 1999:			10.00%
Average Class A Price 1999 (5 Sales):	\$257,010,000	1,370,000 SF	\$187.60
Average Class A Cap Rate 1999:			9.00%
Average Price 1998 (7 Sales):	\$183,200,000	1,112,000 SF	\$164.75
Average Cap Rate 1998:			9.70%
Average Class A Price 1998 (2 Sales):	\$77,200,000	436,000 SF	\$177.20
Average Class A Cap Rate 1998:			7.40%
Average Price 1997 (11 Sales):	\$261,250,000	1,977,000 SF	\$132.17
Average Cap Rate 1997:			9.80%
Average Class A Price 1997 (5 Sales):	\$206,400,000	1,317,000 SF	\$156.75
Average Class A Cap Rate 1997:			8.70%

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, Fairfax Newsletter, Washington Business Journal, Delta Associates; December 2006.

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**TABLE 12**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**RESTON/HERNDON**  
**1997 THROUGH 2006**

Average Price 2006 (22 Sales):	\$1,044,090,000	3,669,000 SF	\$284.57
Average Cap Rate 2006:			7.20%
Average Class A Price 2006 (20 Sales):	\$1,022,590,000	3,568,000 SF	\$286.60
Average Class A Cap Rate 2006:			7.10%
Average Price 2005 (18 Sales):	\$626,450,000	2,744,000 SF	\$228.26
Average Cap Rate 2005:			7.20%
Average Class A Price 2005 (11 Sales):	\$420,370,000	1,682,000 SF	\$249.88
Average Class A Cap Rate 2005:			6.80%
Average Price 2004 (15 Sales):	\$479,040,000	2,493,000 SF	\$192.15
Average Cap Rate 2004:			7.60%
Average Class A Price 2004 (13 Sales):	\$465,490,000	2,413,000 SF	\$192.94
Average Class A Cap Rate 2004:			7.80%
Average Price 2003 (11 Sales):	\$673,440,000	3,558,000 SF	\$189.25
Average Cap Rate 2003:			9.10%
Average Class A Price 2003 (10 Sales):	\$663,820,000	3,503,000 SF	\$189.48
Average Class A Cap Rate 2003:			9.10%
Average Price 2002 (7 Sales):	\$267,580,000	1,556,000 SF	\$172.01
Average Cap Rate 2002:			9.60%
Average Class A Price 2002 (6 Sales):	\$258,780,000	1,506,000 SF	\$171.80
Average Class A Cap Rate 2002:			9.60%
Average Price 2001 (4 Sales):	\$59,810,000	386,000 SF	\$154.95
Average Cap Rate 2001:			9.50%
Average Class A Price 2001 (2 Sales):	\$34,430,000	178,000 SF	\$193.43
Average Class A Cap Rate 2001:			NA
Average Price 2000 (14 Sales):	\$503,000,000	2,637,000 SF	\$190.82
Average Cap Rate 2000:			9.20%
Average Class A Price 2000 (9 Sales):	\$445,720,000	2,239,000 SF	\$199.07
Average Class A Cap Rate 2000:			9.10%
Average Price 1999 (6 Sales):	\$56,750,000	394,000 SF	\$143.57
Average Cap Rate 1999:			10.00%
Average Class A Price 1999 (1 Sale):	\$19,000,000	108,000 SF	\$175.93
Average Class A Cap Rate 1999:			9.10%
Average Price 1998 (5 Sales):	\$141,550,000	894,000 SF	\$158.41
Average Cap Rate 1998:			8.90%
Average Class A Price 1998 (5 Sales):	\$141,550,000	894,000 SF	\$158.41
Average Class A Cap Rate 1998:			8.90%
Average Price 1997 (4 Sales):	\$52,925,000	523,000 SF	\$101.24
Average Cap Rate 1997:			10.30%
Average Class A Price 1997 (2 Sales):	\$20,825,000	172,000 SF	\$120.73
Average Class A Cap Rate 1997:			NA

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, Fairfax Newsletter, Washington Business Journal, Delta Associates; December 2006.

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**TABLE 13**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**FAIRFAX CENTER**  
**1997 THROUGH 2006**

Average Price 2006 (8 Sales):	\$631,530,000	2,296,000 SF	\$275.06
Average Cap Rate 2006:			6.40%
Average Class A Price 2006 (6 Sales):	\$603,700,000	2,118,000 SF	\$285.03
Average Class A Cap Rate 2006:			6.40%
Average Price 2005 (3 Sales):	\$143,820,000	567,000 SF	\$253.56
Average Cap Rate 2005:			8.00%
Average Class A Price 2005 (3 Sales):	\$143,870,000	567,000 SF	\$253.56
Average Class A Cap Rate 2005:			8.00%
Average Price 2004 (5 Sales):	\$67,100,000	468,000 SF	\$143.24
Average Cap Rate 2004:			8.50%
Average Class A Price 2004 (2 Sales):	\$23,500,000	135,000 SF	\$174.32
Average Class A Cap Rate 2004:			NA
Average Price 2003 (3 Sales):	\$108,850,000	606,000 SF	\$179.54
Average Cap Rate 2003:			9.00%
Average Class A Price 2003 (2 Sales):	\$93,900,000	503,000 SF	\$186.57
Average Class A Cap Rate 2003:			NA
Average Price 2002 (2 Sales):	\$83,200,000	424,000 SF	\$196.25
Average Cap Rate 2002:			NA
Average Class A Price 2002 (1 Sale):	\$55,000,000	253,000 SF	\$217.39
Average Class A Cap Rate 2002:			NA
Average Price 2001 (3 Sales):	\$71,500,000	472,000 SF	\$151.46
Average Cap Rate 2001:			10.00%
Average Class A Price 2001 (2 Sales):	\$54,000,000	322,000 SF	\$167.70
Average Class A Cap Rate 2001:			10.00%
Average Price 2000 (2 Sales):	\$32,700,000	197,000 SF	\$166.07
Average Cap Rate 2000:			9.80%
Average Class A Price 2000 (1 Sale):	\$25,000,000	139,000 SF	\$179.86
Average Class A Cap Rate 2000:			9.80%
Average Price 1999 (1 Sale):	\$34,500,000	224,000 SF	\$153.71
Average Cap Rate 1999:			NA
Average Class A Price 1999 (1 Sale):	\$34,500,000	224,000 SF	\$154.02
Average Class A Cap Rate 1999:			NA
Average Price 1998 (3 Sales):	\$55,180,000	479,000 SF	\$115.24
Average Cap Rate 1998:			9.70%
Average Class A Price 1998 (2 Sales):	\$42,600,000	309,000 SF	\$137.86
Average Class A Cap Rate 1998:			9.30%
Average Price 1997 (8 Sales):	\$136,710,000	1,155,000 SF	\$118.36
Average Cap Rate 1997:			9.50%
Average Class A Price 1997 (4 Sales):	\$113,480,000	903,000 SF	\$125.65
Average Class A Cap Rate 1997:			9.00%

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, Fairfax Newsletter, Washington Business Journal, Delta Associates; December 2006.

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**TABLE 14**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**CHANTILLY/RT. 28 SOUTH**  
**1997 THROUGH 2006**

Average Price 2006 (2 Sales):	\$85,710,000	239,000	\$358.62
Average Cap Rate 2006:			NA
Average Class A Price 2006 (2 Sales):	\$85,710,000	239,000	\$358.62
Average Class A Cap Rate 2006:			NA
Average Price 2005 (8 Sales):	\$313,700,000	1,506,000 SF	\$208.24
Average Cap Rate 2005:			7.30%
Average Class A Price 2005 (6 Sales):	\$287,700,000	1,312,000 SF	\$219.34
Average Class A Cap Rate 2005:			7.30%
Average Price 2004 (3 Sales):	\$81,200,000	411,000 SF	\$197.66
Average Cap Rate 2004:			NA
Average Class A Price 2004 (3 Sales):	\$81,200,000	411,000 SF	\$197.66
Average Class A Cap Rate 2004:			NA
Average Price 2003 (2 Sales):	\$72,380,000	433,000 SF	\$167.17
Average Cap Rate 2003:			NA
Average Class A Price 2003 (2 Sales):	\$72,380,000	433,000 SF	\$167.17
Average Class A Cap Rate 2003:			NA
Average Price 2002 (2 Sales):	\$78,100,000	580,000 SF	\$134.40
Average Cap Rate 2002:			NA
Average Class A Price 2002 (2 Sales):	\$78,100,000	580,000 SF	\$134.40
Average Class A Cap Rate 2002:			NA
Average Price 2001 (2 Sales):	\$70,500,000	550,000 SF	\$128.15
Average Cap Rate 2001:			8.20%
Average Class A Price 2001 (2 Sales):	\$70,500,000	550,000 SF	\$128.15
Average Class A Cap Rate 2001:			8.20%
Average Price 2000 (7 Sales):	\$84,280,000	594,000 SF	\$141.62
Average Cap Rate 2000:			11.20%
Average Class A Price 2000 (4 Sales):	\$70,180,000	461,000 SF	\$152.23
Average Class A Cap Rate 2000:			10.60%
Average Price 1999 (2 Sales):	\$51,600,000	314,000 SF	\$164.33
Average Cap Rate 1999:			8.60%
Average Class A Price 1999 (2 Sales):	\$51,600,000	314,000 SF	\$164.33
Average Class A Cap Rate 1999:			8.60%
Average Price 1998 (3 Sales):	\$52,450,000	344,000 SF	\$152.29
Average Cap Rate 1998:			8.30%
Average Class A Price 1998 (3 Sales):	\$52,450,000	344,000 SF	\$152.29
Average Class A Cap Rate 1998:			8.30%
Average Price 1997 (4 Sales):	\$57,400,000	496,000 SF	\$115.71
Average Cap Rate 1997:			9.70%
Average Class A Price 1997 (2 Sales):	\$45,500,000	351,000 SF	\$129.63
Average Class A Cap Rate 1997:			NA

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, Fairfax Newsletter, Washington Business Journal, Delta Associates; December 2006.

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**TABLE 15**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**BALANCE OF FAIRFAX COUNTY**  
**1997 THROUGH 2006**

Average Price 2006 (15 Sales):	\$658,210,000	2,864,229 SF	\$229.80
Average Cap Rate 2006:			7.70%
Average Class A Price 2006 (5 Sales):	\$334,500,000	1,099,000 SF	\$304.37
Average Class A Cap Rate 2006:			6.50%

Average Price 2005 (13 Sales):	\$429,490,000	1,598,000 SF	\$268.74
Average Cap Rate 2005:			6.70%
Average Class A Price 2005 (5 Sales):	\$206,900,000	749,000 SF	\$276.38
Average Class A Cap Rate 2005:			7.70%

Average Price 2004 (6 Sales):	\$159,230,000	653,000 SF	\$244.02
Average Cap Rate 2004:			8.10%
Average Class A Price 2004 (1 Sale):	\$92,800,000	253,000 SF	\$367.36
Average Class A Cap Rate 2004:			6.50%

Average Price 2003 (6 Sales):	\$177,850,000	839,000 SF	\$212.07
Average Cap Rate 2003:			8.20%
Average Class A Price 2003 (4 Sales):	\$160,300,000	747,000 SF	\$214.60
Average Class A Cap Rate 2003:			8.20%

Average Price 2002 (5 Sales):	\$68,230,000	484,000 SF	\$141.03
Average Cap Rate 2002:			NA
Average Class A Price 2002 (3 Sales):	\$41,077,000	319,000 SF	\$128.85
Average Class A Cap Rate 2002:			NA

Average Price 2001 (3 Sales):	\$60,980,000	445,000 SF	\$136.90
Average Cap Rate 2001:			NA
Average Class A Price 2001 (1 Sale):	\$8,960,000	60,000 SF	\$149.33
Average Class A Cap Rate 2001:			NA

Average Price 2000 (8 Sales):	\$157,990,000	1,136,000 SF	\$139.27
Average Cap Rate 2000:			10.70%
Average Class A Price 2000 (4 Sales):	\$114,800,000	787,000 SF	\$150.64
Average Class A Cap Rate 2000:			10.70%

Average Price 1999 (8 Sales):	\$93,750,000	699,000 SF	\$134.10
Average Cap Rate 1999:			NA
Average Class A Price 1999 (3 Sales):	\$58,040,000	379,000 SF	\$152.84
Average Class A Cap Rate 1999:			NA

Average Price 1998 (4 Sales):	\$125,750,000	745,000 SF	\$168.90
Average Cap Rate 1998:			12.50%
Average Class A Price 1998 (2 Sales):	\$107,600,000	554,000 SF	\$194.06
Average Class A Cap Rate 1998:			NA

Average Price 1997 (10 Sales):	\$137,266,000	1,432,000 SF	\$95.83
Average Cap Rate 1997:			9.30%
Average Class A Price 1997 (1 Sale):	\$12,341,000	135,000 SF	\$91.72
Average Class A Cap Rate 1997:			NA

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, Fairfax Newsletter, Washington Business Journal, Delta Associates; December 2006.

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**TABLE 16**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**ARLINGTON COUNTY**  
**1997 THROUGH 2006**

Average Price 2006 (11 Sales):	\$908,940,000	2,737,000 SF	\$332.09
Average Cap Rate 2006:			6.50%
Average Class A Price 2006 (5 Sales):	\$623,820,000	1,637,000 SF	\$381.08
Average Class A Cap Rate 2006:			6.30%
Average Price 2005 (11 Sales):	\$801,340,000	2,248,000 SF	\$356.54
Average Cap Rate 2005:			6.70%
Average Class A Price 2005 (8 Sales):	\$700,090,000	1,850,000 SF	\$378.51
Average Class A Cap Rate 2005:			6.70%
Average Price 2004 (8 Sales):	\$564,320,000	1,835,000 SF	\$307.62
Average Cap Rate 2004:			7.70%
Average Class A Price 2004 (6 Sales):	\$436,930,000	1,194,000 SF	\$366.06
Average Class A Cap Rate 2004:			7.70%
Average Price 2003 (8 Sales):	\$630,030,000	2,118,000 SF	\$297.49
Average Cap Rate 2003:			8.00%
Average Class A Price 2003 (7 Sales):	\$575,530,000	1,865,000 SF	\$308.56
Average Class A Cap Rate 2003:			8.00%
Average Price 2002 (8 Sales):	\$530,600,000	2,283,000 SF	\$232.41
Average Cap Rate 2002:			NA
Average Class A Price 2002 (5 Sales):	\$363,460,000	1,446,000 SF	\$251.33
Average Class A Cap Rate 2002:			NA
Average Price 2001 (4 Sales):	\$137,790,000	644,000 SF	\$213.86
Average Cap Rate 2001:			9.50%
Average Class A Price 2001 (3 Sales):	\$115,390,000	535,000 SF	\$215.68
Average Class A Cap Rate 2001:			9.50%
Average Price 2000 (1 Sale):	\$57,750,000	298,000 SF	\$193.89
Average Cap Rate 2000:			NA
Average Class A Price 2000 (1 Sale):	\$57,750,000	298,000 SF	\$193.79
Average Class A Cap Rate 2000:			NA
Average Price 1999 (3 Sales):	\$225,000,000	970,000 SF	\$221.52
Average Cap Rate 1999:			8.90%
Average Class A Price 1999 (1 Sale):	\$156,000,000	543,000 SF	\$287.29
Average Class A Cap Rate 1999:			8.70%
Average Price 1998 (10 Sales):	\$572,310,000	3,056,000 SF	\$187.28
Average Cap Rate 1998:			10.40%
Average Class A Price 1998 (5 Sales):	\$260,850,000	1,222,000 SF	\$213.64
Average Class A Cap Rate 1998:			9.70%
Average Price 1997 (9 Sales):	\$263,445,000	1,608,000 SF	\$163.79
Average Cap Rate 1997:			8.50%
Average Class A Price 1997 (3 Sales):	\$133,755,000	645,000 SF	\$207.37
Average Class A Cap Rate 1997:			7.90%

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, Arlington Newsletter, Washington Business Journal, Delta Associates; December 2006.

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**TABLE 17**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**ALEXANDRIA**  
**1997 THROUGH 2006**

Average Price 2006 (4 Sales):	\$178,880,000	767,690	SF	\$233.01
Average Cap Rate 2006:				7.30%
Average Class A Price 2006 (1 Sale):	\$135,000,000	570,000	SF	\$236.84
Average Class A Cap Rate 2006:				6.40%
Average Price 2005 (4 Sales):	\$98,778,000	614,000	SF	\$160.88
Average Cap Rate 2005:				NA
Average Class A Price 2005 (0 Sales):				NA
Average Class A Cap Rate 2005:				NA
Average Price 2004 (9 Sales):	\$318,870,000	1,780,000	SF	\$179.11
Average Cap Rate 2004:				6.90%
Average Class A Price 2004 (4 Sales):	\$173,030,000	665,000	SF	\$260.23
Average Class A Cap Rate 2004:				6.90%
Average Price 2003 (3 Sales):	\$101,220,000	352,000	SF	\$287.63
Average Cap Rate 2003:				6.30%
Average Class A Price 2003: (2 Sales)	\$94,630,000	320,000	SF	\$295.80
Average Class A Cap Rate 2003:				6.30%
Average Price 2002 (4 Sales):	\$202,650,000	925,000	SF	\$218.98
Average Cap Rate 2002:				NA
Average Class A Price 2002 (3 Sales):	\$191,560,000	848,000	SF	\$225.82
Average Class A Cap Rate 2002:				NA
Average Price 2001 (5 Sales):	\$150,020,000	780,000	SF	\$192.32
Average Cap Rate 2001:				9.60%
Average Class A Price 2001 (2 Sales):	\$120,000,000	587,000	SF	\$204.43
Average Class A Cap Rate 2001:				NA
Average Price 2000 (8 Sales):	\$169,810,000	1,221,000	SF	\$139.11
Average Cap Rate 2000:				10.00%
Average Class A Price 2000 (2 Sales):	\$63,460,000	367,000	SF	\$172.92
Average Class A Cap Rate 2000:				9.70%
Average Price 1998 (2 Sales):	\$14,840,000	117,000	SF	\$126.56
Average Cap Rate 1998:				10.00%
Average Price 1997 (6 Sales):	\$65,980,000	471,000	SF	\$139.97
Average Cap Rate 1997:				11.10%
Average Class A Price 1997 (4 Sales):	\$58,230,000	380,000	SF	\$153.08
Average Class A Cap Rate 1997:				10.40%

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, Washington Business Journal, Delta Associates; December 2006.

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**TABLE 18**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**LOUDOUN COUNTY/PRINCE WILLIAM COUNTY**  
**1997 THROUGH 2006**

Average Price 2006 (7 Sales):	\$68,843,000	401,200 SF	\$171.59
Average Cap Rate 2006:			NA
Average Class A Price 2006 (3 Sales):	\$37,400,000	240,000 SF	\$155.83
Average Class A Cap Rate 2006:			NA
Average Price 2005 (7 Sales):	\$221,050,000	978,051 SF	\$226.01
Average Cap Rate 2005:			8.30%
Average Class A Price 2005 (6 Sales):	\$210,550,000	884,680 SF	\$238.00
Average Class A Cap Rate 2005:			8.90%
Average Price 2004 (0 Sales):			NA
Average Cap Rate 2004:			NA
Average Class A Price 2004 (0 Sales):			NA
Average Class A Cap Rate 2004:			NA
Average Price 2003 (2 Sales):	\$14,050,000	126,000 SF	\$111.15
Average Cap Rate 2003:			10.00%
Average Class A Price 2003 (0 Sales):			NA
Average Class A Cap Rate 2003:			NA
Average Price 2002 (4 Sales):	\$49,420,000	438,000 SF	\$112.64
Average Cap Rate 2002:			NA
Average Class A Price 2002 (1 Sale):	\$27,500,000	205,000 SF	\$134.19
Average Class A Cap Rate 2002:			NA
Average Price 2001 (4 Sales):	\$102,100,000	711,000 SF	\$143.44
Average Cap Rate 2001:			NA
Average Class A Price 2001 (2 Sales):	\$86,000,000	516,000 SF	\$166.67
Average Class A Cap Rate 2001:			NA
Average Price 2000 (4 Sales):	\$91,100,000	570,000 SF	\$159.82
Average Cap Rate 2000:			9.80%
Average Class A Price 2000 (4 Sales):	\$91,100,000	570,000 SF	\$159.82
Average Class A Cap Rate 2000:			9.80%
Average Price 1998 (4 Sales):	\$49,950,000	451,000 SF	\$110.75
Average Cap Rate 1998:			8.90%
Average Class A Price 1998 (4 Sales):	\$49,950,000	451,000 SF	\$110.75
Average Class A Cap Rate 1998:			8.90%
Average Price 1997 (1 Sale):			\$53.02

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, Loudoun Newsletter, Prince William Newsletter, Washington Business Journal, Delta Associates; December 2006.

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**TABLE 19  
OFFICE LAND SALES  
NORTHERN VIRGINIA  
2000 THROUGH 2006**

Address	Acres	Gross FAR SF	Sale Price	Land Price Per SF	Price Per FAR SF <sup>1</sup>
<b>2006 Sales</b>					
Arlington County Total/Average: <sup>2</sup>	2.4	282,738	\$26,760,000	\$260.31	\$94.65
Fairfax County Total/Average:	53.0	1,177,297	\$69,195,000	\$29.98	\$41.15
Loudoun County Total/Average:	74.0	NA	\$19,159,500	\$5.94	NA
Prince William County Total/Average:	1.4	NA	\$1,550,000	\$24.71	NA
<b>2006 Northern Virginia Total/Average:</b>	<b>130.8</b>	<b>1,460,035</b>	<b>\$116,664,500</b>	<b>\$20.48</b>	<b>\$51.51</b>
<b>2005 Sales</b>					
Alexandria City Total/Average:	1.3	NA	\$12,751,000	\$234.18	NA
Arlington County Total/Average:	25.0	1,936,000	\$57,914,000	\$53.18	\$27.74
Fairfax County Total/Average:	17.2	NA	\$20,155,000	\$26.96	NA
Loudoun County Total/Average:	70.6	NA	\$8,550,000	\$2.78	NA
Prince William County Total/Average:	41.5	NA	\$2,500,000	\$1.38	NA
<b>2005 Northern Virginia Total/Average: <sup>3</sup></b>	<b>155.5</b>	<b>1,936,000</b>	<b>\$101,870,000</b>	<b>\$15.04</b>	<b>\$27.74</b>
<b>2004 Sales</b>					
Alexandria City Total/Average:	2.3	NA	\$21,430,000	\$213.90	NA
Arlington County Total/Average:	10.7	NA	\$24,930,000	\$53.49	NA
Loudoun County Total/Average:	17.6	NA	\$5,190,000	\$6.78	NA
Fairfax County Total/Average:	27.8	NA	\$27,150,000	\$22.42	NA
<b>2004 Northern Virginia Total/Average:</b>	<b>58.4</b>	<b>NA</b>	<b>\$78,700,000</b>	<b>\$30.94</b>	<b>NA</b>
<b>2003 Sales</b>					
Alexandria City Total/Average:	NA	NA	\$6,500,000	NA	NA
Fairfax County Total/Average:	43.7	NA	\$131,500,000	\$51.11	NA
Loudoun County Total/Average:	11.1	NA	\$2,000,000	\$4.14	NA
Prince William County Total/Average:	46.0	NA	\$6,850,000	\$3.41	NA
<b>2003 Northern Virginia Total/Average:</b>	<b>100.9</b>	<b>NA</b>	<b>\$146,840,000</b>	<b>\$24.17</b>	<b>NA</b>
<b>2002 Sales</b>					
Alexandria City Total/Average:	76.5	2,500,000	\$92,500,000	\$27.76	\$37.00
Fairfax County Total/Average: <sup>4</sup>	103.3	NA	\$107,076,000	\$16.66	NA
Loudoun County Total/Average:	41.4	NA	\$12,750,000	\$7.08	NA
<b>2002 Northern Virginia Total/Average:</b>	<b>221.1</b>	<b>NA<sup>4</sup></b>	<b>\$212,326,000<sup>4</sup></b>	<b>\$18.71<sup>4</sup></b>	<b>NA<sup>4</sup></b>
<b>2001 Sales</b>					
Arlington County Total/Average:	2.1	389,000	\$13,090,000	\$142.05	\$33.65
Fairfax County Total/Average:	159.2	NA	\$88,240,000	\$22.27	NA
Loudoun County Total/Average:	19.5	NA	\$5,220,000	\$6.16	NA
<b>2001 Northern Virginia Total/Average:</b>	<b>180.8</b>	<b>NA</b>	<b>\$106,550,000</b>	<b>\$21.71</b>	<b>NA</b>
<b>2000 Sales</b>					
Alexandria City Total/Average:	1.2	NA	\$2,900,000	\$55.48	NA
Arlington County Total/Average:	2.7	351,000	\$11,850,000	\$100.76	\$33.76
Fairfax County Total/Average:	356.6	7,957,000	\$146,910,000	\$16.71	\$23.59
Loudoun County Total/Average:	516.7	3,590,000	\$107,930,000	\$4.80	\$18.47
PW County Total/Average:	9.6	81,000	\$1,350,000	\$3.23	\$9.63
<b>2000 Northern Virginia Total/Average:</b>	<b>886.8</b>	<b>11,979,000</b>	<b>\$261,590,000</b>	<b>\$5.37</b>	<b>\$19.63</b>

1/ Based on planned FAR if known.

2/ Sale includes multiple uses.

3/ Total FAR and FAR/SF figures apply to the three properties for which proposed FAR is known.

4/ Includes a parcel overlooking the Dulles Toll Road.

Note: Excludes from averages parcels for which complete data is unavailable or which would cause a disproportionate effect.

Source: CoStar, Arlington Newsletter, Fairfax Newsletter, Loudoun Newsletter, Prince William Newsletter, Delta Associates; December 2006.

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# THE SUBURBAN MARYLAND OFFICE MARKET YEAR-END 2006

## Steady Rent Growth Even With Weak Absorption; Investment Sales Beat 2005 Record

### **Suburban Maryland's office market closed out 2006 with mixed signal:**

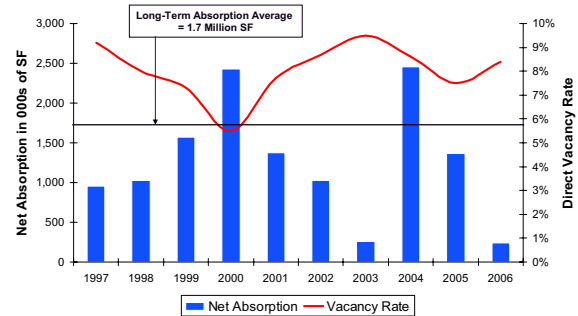
- Absorption was weak due to tenants vacating large blocks of space, especially in Prince George's County.
- Vacancy edged up, yet remains at a healthy level by national standards.
- Pre-leasing remains strong, yet construction volume has skyrocketed.
- Rents rose modestly despite these conditions.
- Strong investor interest drove sales volumes to record levels.

### **2006 Suburban Maryland market highlights:**

- **Net absorption:** 240,000 SF, compared to 1.4 million SF in 2005.
- **Overall vacancy rate:** 9.7%, up from 8.7% one year ago.
- **Direct vacancy rate:** 8.4%, up from 7.5% one year ago.
- **Sublease space:** Increased by 55,000 SF. Sublease space is just 1.3% of standing inventory.
- **Space under construction:** 2.7 million SF, up from 1.7 million SF one year ago.
- 41% of space U/C or U/R is **pre-leased**, compared to 43% one year ago.
- **Rents:** Rose 1.7% in 2006.
- **Investment sales:** \$1.9 billion on 47 transactions, compared to \$1.4 billion in 2005. Average sales price: \$253/SF.



**Net Absorption and Direct Vacancy Rate  
Suburban Maryland  
1997 Through 2006**



Source: Vacancy – Delta Associates' analysis of CoStar Data,  
Net Absorption – Delta Associates; December 2006.

### **Net Absorption: Soft in 2006**

**Net absorption totaled negative 24,000 SF during the 4<sup>th</sup> quarter of 2006**, compared to negative 21,000 SF during the 3<sup>rd</sup> quarter. In 2006, positive 240,000 SF was absorbed, compared to 1.4 million in all of 2005.

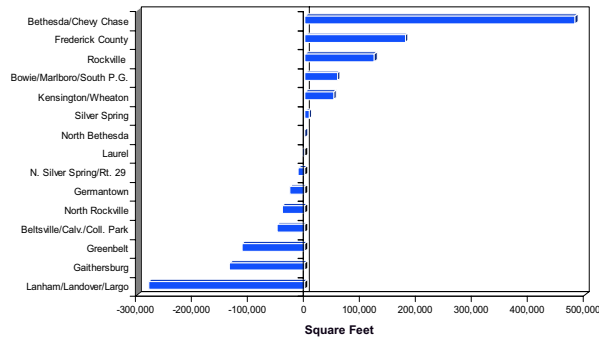
Bethesda/Chevy Chase was the leader in absorption in 2006, as Chevy Chase Center, a 412,000 SF building, delivered at 98% leased. Negative net absorption was experienced in Lanham/Landover/Largo this year, as Giant Food vacated 192,000 SF of office space at its former headquarters. Tenants vacating space, particularly in Prince George's County, and light demand this year impacted the total 2006 net absorption.

<b>Significant Move-Outs Prince George's County 2006</b>		
<b>Tenants</b>	<b>Address</b>	<b>SF Vacated</b>
Giant Food	6400 Sheriff Rd	192,000 SF
Aetna	1301 McCormick Dr	138,000 SF
FEMA	6505 Belcrest Rd	120,000 SF
GSA	4350 East-West Hwy	107,000 SF

Source: CoStar, Delta Associates; December 2006.



### Net Absorption of Office Space Suburban Maryland Submarkets 2006



Source: Delta Associates; December 2006.

**Net absorption of Class A space totaled positive 88,000 SF in the 4<sup>th</sup> quarter of 2006**, compared to positive 221,000 SF in the 3<sup>rd</sup> quarter. In 2006 net absorption totaled positive 542,000 SF for Class A space, compared to 827,000 SF in 2005.

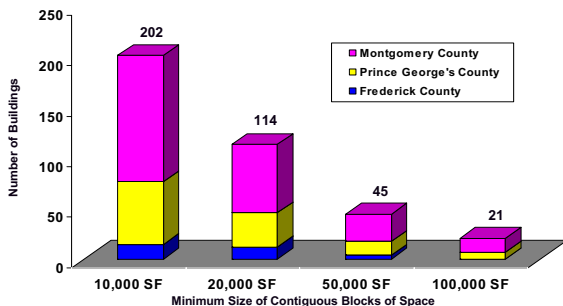
### Leasing: Light in 2006

**Leasing activity slowed during 2006 compared to previous years.** In 2006 4.4 million gross SF was inked, compared to 8.0 million SF in 2005 and 7.6 million SF in 2004. Montgomery County accounted for 68% of the total SF leased in Suburban Maryland during 2006. Prince George's County accounted for 25%.

There are 202 blocks of space available over 10,000 SF, with Montgomery County home to 62% of these blocks. The largest block of vacant available space is 342,000 SF at 100 Edison Park Drive in Gaithersburg.



### Buildings with Contiguous Blocks of Available Office Space in Suburban Maryland December 2006



Note: Includes buildings under construction or renovation.  
Source: Delta Associates' analysis of CoStar data; December 2006.

### Vacancy: Up in 2006

**The Suburban Maryland overall office vacancy rate ticked up to 9.7% at the end of 2006**, from 9.6% at the end of the 3<sup>rd</sup> quarter and 8.7% one year ago.

**The Suburban Maryland direct vacancy rate rose to 8.4% at December 2006**, from 8.2% three months prior, and 7.5% one year ago.

**Approximately 117,000 SF of sublet space was removed from the market during the 4<sup>th</sup> quarter**, compared to 76,000 SF returned during the 3<sup>rd</sup> quarter. In 2006 55,000 SF was returned to the market, compared to 231,000 SF removed in 2005. Sublease space is just 1.3% of Suburban Maryland's standing inventory at December 2006.

**The overall Class A vacancy rate is 8.8%**, unchanged from 3<sup>rd</sup> quarter, and up from 7.7% one year ago. Suburban Maryland's direct Class A vacancy rate is 7.0%.

Vacancy Rates and Vacant Space (All Classes) Suburban Maryland 12/05 and 12/06		
	12/05	12/06
Vacancy Rate		
Direct	7.5%	8.4%
Sublet	1.2%	1.3%
Vacant Space (Millions of SF)		
Direct	6.0	6.7
Sublet	0.9	1.0

Source: CoStar, Delta Associates; December 2006.

### Construction Up, Pre-Leasing Steady

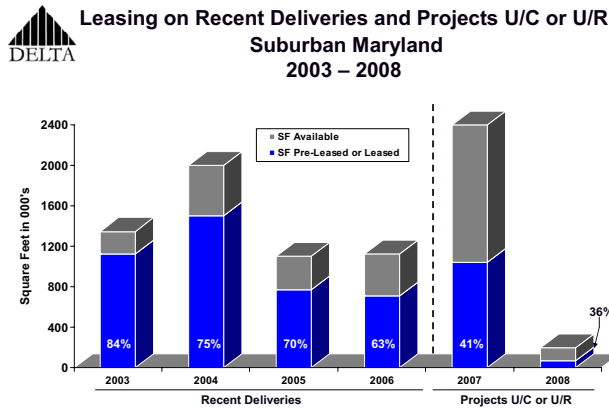
**There is 2.7 million SF of office space under construction or renovation in Suburban Maryland at December 2006**, compared to 2.6 million SF at September 2006 and 1.7 million SF one year ago.

**41% of space under construction at December 2006 is pre-leased**, compared to 39% the quarter prior and 43% one year ago.

**Projects set to deliver in 2007 and 2008 are currently 41% and 36% pre-leased, respectively.** The low lease rate for projects delivering in 2007 is partly due to Bowie Corporate Center and Monument Corporate Center I; at 131,000 SF and 200,000 SF respectively. Both projects are vacant. With numerous projects currently in the pipeline and light demand, market conditions bear watching.

**Office groundbreakings totaled 463,000 SF during the 4<sup>th</sup> quarter of 2006,** compared to 645,000 SF during the 3<sup>rd</sup> quarter. In 2006 2.5 million SF entered the construction pipeline, outpacing the 2.0 million SF started in all of 2005.

**Deliveries totaled 165,000 SF during the 4<sup>th</sup> quarter of 2006,** compared to 452,000 SF during the 3<sup>rd</sup> quarter. Projects delivering during the 4<sup>th</sup> quarter were 32% pre-leased at delivery. In 2006 1.1 million SF delivered at 63% pre-leased, compared to the same amount delivering in all of 2005 at 70% pre-leased upon delivery.



Note: Recent deliveries are based on % leased upon delivery.  
Source: CoStar, Delta Associates; December 2006.

### Supply v. Demand: Vacancy to Edge Up

**We project the overall office vacancy rate in Suburban Maryland will edge up to 9.8% at December 2008, from 9.7% today.** We expect new supply to outpace demand by 400,000 SF, as Suburban Maryland adds 3.6 million SF to the inventory over the next 24 months.

College Park remains the leader in space under construction. The NOAA Building and Metropolitan Office Center are expected to deliver 269,000 SF and 225,000 SF, respectively, in this submarket by September 2007.

### Rents: Rose 1.7% in 2006

**Suburban Maryland office rents rose by 1.7% in 2006,** after rising by 1.0% in 2005.

**Rents should increase at a moderate pace in Suburban Maryland in 2007.** However, given the slow leasing activity and inflated pipeline with modest pre-lease rates, rent increases will likely be held to just 2.0% next year.

Office Space U/C or U/R in Suburban Maryland December 2006		
Submarket	SF	% Pre-Leased
Beltsville/Calv./Coll. Park	668,000	58.0%
Frederick County	613,000	62.8%
Rockville	383,000	43.4%
Gaithersburg	303,000	18.3%
North Rockville	220,000	0.0%
North Bethesda	187,000	2.3%
Bowie/Marlboro/South P.G.	131,000	0.0%
Lanham/Landover/Largo	88,000	0.0%
Germantown	58,000	100.0%
Silver Spring	54,000	45.1%
Laurel	39,000	87.3%
<b>Total</b>	<b>2,744,000</b>	<b>40.6%</b>

Source: CoStar, Delta Associates; December 2006.

Effective Rent Changes Selected Submarkets in Suburban Maryland December 2005 to December 2006	
Submarket	Rent Change
Bethesda/Chevy Chase	+3.0%
Silver Spring	+2.7%
Rockville	+2.2%

Source: Delta Associates; December 2006.

## **Investment Sales: Exceed 2005 Volume**

**Investment sales volume totaled \$100 million in the 4<sup>th</sup> quarter of 2006**, compared to \$600 million in the 3<sup>rd</sup> quarter. In 2006 sales volume totaled \$1.9 billion on 47 transactions, exceeding the 2005 sales volume of \$1.4 billion. However, the 2006 total is boosted by the 2<sup>nd</sup> quarter sale of the Human Genome Sciences building in North Rockville for \$425 million.

Suburban Maryland sales transactions account for 19% of the Washington metro area's volume, up from only 14% of the volume during 2005. Investors have sought assets in Suburban Maryland because fundamentals in this sub-state area have enduring appeal: consistent and robust job growth, high barriers to entry, high quality tenants, rapid appreciation, among other features.

<b>Selected Investment Sales Suburban Maryland 4<sup>th</sup> Quarter 2006</b>	
<b>Address/Submarket</b>	<b>Price/Buyer</b>
401 N. Washington Street Rockville	\$38.9 million (\$156/SF) Colony Capital
6100 Executive Boulevard North Bethesda	\$35.2 million (\$284/SF) Stephen A. Goldberg & Co.
1616 McCormick Drive Landover	\$26.0 million (\$119/SF) MTM Developers

Source: Real Capital Analytics, Delta Associates; December 2006.

**Sales prices averaged \$253/SF on 47 transactions in 2006**, up 25% from the average sales price of \$202/SF in 2005. The average price/SF was inflated by the major sale of the Human Genome Sciences building for \$447/SF and 15005 Shady Grove Road for \$450/SF.

## **Land Sales: Surged in 2006**

**Notable land sales totaled \$11.7 million (\$9.35/SF) in 2006**, compared to \$1.2 million in 2005. Prince George's County took the majority share of land sales, with five of the six deals this year. Notably, MTM Developers purchased

6.9 acres at 1616 McCormick Drive for \$2 million (\$6.70/SF). The land parcel was purchased in addition to the office building at this location, for a total sale of \$28 million.

As demand shows signs of tapering in this sub-state area and construction costs are at a record high, the number of developers seeking developable parcels will ease.

## **Suburban Maryland Outlook**

**Suburban market conditions are expected to be steady over the next year.** Demand should pick up steam in 2007 given the pause in leasing activity experienced this year. Tenants could begin to favor space in Suburban Maryland, as rents increased modestly compared to other substate areas in the metro. With Federal funding priorities expected to shift towards health-related contractors, Suburban Maryland should benefit as many of these companies are located in this substate area. Given a surge of groundbreakings and current leasing conditions, developers should be selective with development projects. **Overall, we anticipate Suburban Maryland should continue on a stable and steady development path**, as the two-year outlook remains favorable compared to other substate areas.

### **Market Outlook:**

- **Job Growth:** 15,000 new payroll positions in 2007.
- **Overall Vacancy:** Expected to tick up to 9.8% over the next 24 months, from 9.7% today.
- **Leasing Activity:** Lease deals should be steady in 2007, with the pace accelerating modestly.
- **Construction:** Should taper off given light leasing activity in 2006.
- **Rents:** Should rise by 2.0% over the next 12 months.
- **Investment Sales:** Activity should ease compared to the 2006 volume.

**Significant Lease Transactions in Suburban Maryland  
2006**

<b>Tenant</b>	<b>Address</b>	<b>Submarket</b>	<b>SF</b>
Development Alternatives, Inc.	7600 Wisconsin Avenue	Bethesda/Chevy Chase	95,000
GSA	11700 Beltsville Drive	Beltsville	62,000
Giant Food	8301 Professional Place	Lanham/Landover/Largo	54,000
Lockheed Martin Missiles (Renewal)	7474 Greenway Center Drive	Greenbelt	49,000
Elsevier, Inc.	5635 Fishers Lane	Rockville	42,000
Excel Schools	6251 Ammendale Road	Beltsville/Calverton/College Park	41,000
Pacific Institute of Research & Evaluation	11720 Beltsville Drive	Beltsville/Calverton/College Park	40,000
Lennar Homes	16701 Melford Boulevard	Bowie/Marlboro/South PG	39,000
Discovery Communications	4330-4340 East-West Highway	Bethesda/Chevy Chase	34,000
Montgomery County Government (Renewal)	110 N. Washington Street	Rockville	31,000
Technology Service Corporation (Renewal)	962 Wayne Avenue	Silver Spring	31,000
County Board of Education	2096 Gaither Road	North Rockville	30,000
Association for Financial Professionals	4520 East-West Highway	Bethesda/Chevy Chase	28,000
Aggregate Industries	7529 Standish Place	North Rockville	25,000
Goodman & Company	111 Rockville Pike	Rockville	24,000
McDonald's Corporation	6903 Rockledge Drive	North Bethesda/Potomac	23,000
Emergent BioSolutions	2273 Research Boulevard	North Rockville	23,000
Energy Enterprise Solutions	20440 Century Boulevard	Germantown	23,000
Avad	15880 Gaither Drive	North Rockville	22,000
BDO Seidman, L.L.P.	7101 Wisconsin Avenue	Bethesda/Chevy Chase	22,000
AEPCO, Inc.	555 Quince Orchard Road	Gaithersburg/Germantown	21,000
AdNet Systems	7315 Mission Drive	Greenbelt	20,000
Montgomery College	40 W. Gude Drive	Rockville	20,000
GSA	7201 Wisconsin Avenue	Bethesda/Chevy Chase	19,000
Preferred Offices	4800 Hampden Lane	Bethesda/Chevy Chase	19,000
Western Services	7196 Crestwood Boulevard	Frederick County	18,000
L-3 Titan	1201 Seven Locks Road	Rockville	18,000
Ferris, Baker, & Watts, Inc. (Renewal)	8403 Colesville Road	Silver Spring	18,000
Educational Services, Inc.	4350 East-West Highway	Bethesda/Chevy Chase	17,000
McShea & Company, Inc.	100 Lakeforest Boulevard	Gaithersburg	17,000
Lockheed Martin Corporation	7833 Walker Drive	Greenbelt	17,000

Note: May not include all large renewals.

Source: *Washington Business Journal, Montgomery Newsletter, Prince George's Newsletter, CoStar, Delta Associates*; December 2006.

**TABLE 20**  
**OFFICE BUILDING DELIVERIES**  
**SUBURBAN MARYLAND**  
**2006**

Submarket	NRSF Delivered			NRSF Available	NRSF Leased at Delivery	
	New Construction	Renovation	Total	At Delivery	Sq. Ft.	%
<b>Bethesda/Chevy Chase:</b>	<b>412,000</b>	<b>0</b>	<b>412,000</b>	<b>6,180</b>	<b>405,820</b>	<b>98.5%</b>
<b>North Bethesda/Potomac:</b>	<b>0</b>	<b>109,926</b>	<b>109,926</b>	<b>59,041</b>	<b>50,885</b>	<b>46.3%</b>
<b>Rockville:</b>	<b>0</b>	<b>49,191</b>	<b>49,191</b>	<b>22,923</b>	<b>26,268</b>	<b>53.4%</b>
<b>North Rockville:</b>	<b>108,754</b>	<b>0</b>	<b>108,754</b>	<b>67,210</b>	<b>41,544</b>	<b>38.2%</b>
<b>Gaithersburg:</b>	<b>20,000</b>	<b>0</b>	<b>20,000</b>	<b>10,520</b>	<b>9,480</b>	<b>47.4%</b>
<b>Laurel:</b>	<b>64,900</b>	<b>0</b>	<b>64,900</b>	<b>0</b>	<b>64,900</b>	<b>100.0%</b>
<b>Frederick County:</b>	<b>193,500</b>	<b>0</b>	<b>193,500</b>	<b>103,049</b>	<b>90,451</b>	<b>46.7%</b>
<b>Bowie:</b>	<b>170,000</b>	<b>0</b>	<b>170,000</b>	<b>150,000</b>	<b>20,000</b>	<b>11.8%</b>
<b>Total - Suburban Maryland:</b>	<b>969,154</b>	<b>159,117</b>	<b>1,128,271</b>	<b>418,923</b>	<b>709,348</b>	<b>62.9%</b>
Compared to Suburban Maryland - 2005:	557,455	577,467	1,134,922	342,041	792,881	69.9%

Source: CoStar, Delta Associates; December 2006.

Delta Associates, the research affiliate of Transwestern, is headquartered at:  
500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.



**TABLE 22**  
**SUMMARY OF OFFICE MARKET INDICATORS - CLASS A<sup>1/</sup>**  
**SUBURBAN MARYLAND**  
**2003 THROUGH 2006**

Submarket	Year-End 2006					Net Absorption (SF)				
	Total Rentable SF <sup>2/</sup>	SF Available Immediately <sup>3/</sup>	Direct Vacancy Rate	Vacancy Rate with Sublet Space	SF Under Construction or Renovation	2003	2004	2005	Q4 2006	All of 2006
Bethesda/Chevy Chase	4,879,211	136,618	2.8%	4.8%	-	(8,000)	22,000	9,000	(20,000)	508,000
North Bethesda	4,017,299	120,519	3.0%	5.7%	187,000	(28,000)	28,000	(28,000)	(8,000)	76,000
Rockville	2,643,108	124,226	4.7%	4.8%	292,543	(23,000)	327,000	(5,000)	24,000	116,000
North Rockville	7,246,420	608,699	8.4%	11.4%	220,000	216,000	745,000	270,000	14,000	(43,000)
Gaithersburg	1,289,124	117,310	9.1%	9.1%	200,000	41,000	240,000	19,000	4,000	(77,000)
Germantown	1,526,282	170,944	11.2%	12.5%	58,000	(232,000)	251,000	24,000	8,000	46,000
Kensington/Wheaton	65,000	-	0.0%	0.0%	-	-	32,000	13,000	-	19,000
Silver Spring	3,538,215	45,997	1.3%	2.7%	-	581,000	354,000	106,000	4,000	(4,000)
N. Silver Spring/Rt. 29	1,538,904	30,778	2.0%	2.7%	-	(13,000)	24,000	6,000	(17,000)	(2,000)
<b>TOTAL - Montgomery County</b>	<b>26,743,563</b>	<b>1,355,091</b>	<b>5.1%</b>	<b>7.0%</b>	<b>957,543</b>	<b>534,000</b>	<b>2,023,000</b>	<b>414,000</b>	<b>9,000</b>	<b>639,000</b>
Beltsville/Calverton/College Park	1,898,946	235,469	12.4%	12.6%	-	91,000	14,000	4,000	63,000	(15,000)
Laurel	971,968	101,085	10.4%	10.4%	-	18,000	(14,000)	3,000	(54,000)	19,000
Greenbelt	1,412,715	129,970	9.2%	16.0%	-	(145,000)	104,000	188,000	16,000	(49,000)
Lanham/Landover/Largo	1,961,864	347,250	17.7%	18.5%	87,933	(98,000)	67,000	26,000	39,000	(188,000)
Bowie/Mariboro/South P.G.	1,363,279	171,773	12.6%	12.6%	130,650	(85,000)	18,000	21,000	(29,000)	57,000
<b>TOTAL - Prince George's County</b>	<b>7,608,772</b>	<b>985,547</b>	<b>13.0%</b>	<b>14.5%</b>	<b>218,583</b>	<b>(219,000)</b>	<b>189,000</b>	<b>242,000</b>	<b>35,000</b>	<b>(176,000)</b>
Frederick County	1,989,854	220,874	11.1%	11.1%	373,000	(44,000)	(59,000)	171,000	44,000	79,000
<b>TOTAL - Suburban Maryland</b>	<b>36,342,189</b>	<b>2,561,512</b>	<b>7.0%</b>	<b>8.8%</b>	<b>1,549,126</b>	<b>271,000</b>	<b>2,153,000</b>	<b>827,000</b>	<b>88,000</b>	<b>542,000</b>

1/ Class A is defined as buildings greater than 50,000 SF and built after 1984.

2/ Includes buildings 50,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government.

3/ Does not include sublet space.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2006.  
Delta Associates, the research affiliate of Transwestern, is headquartered at:

500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.

**TABLE 23**  
**RENT RATE ANALYSIS BASED ON A SELECTED SAMPLE OF ACTUAL LEASE TRANSACTIONS**  
**ALL CLASSES OF OFFICE BUILDINGS**  
**SUBURBAN MARYLAND OFFICE SUBMARKETS**  
**2003 THROUGH 2006**

Submarket	Average Face Rent (\$/s/SF, GFS) For:			Average Effective Rent (\$/s/SF, GFS) For:			% Change 12/05 - 12/06	Avg. TI Package (\$/SF) 2006		
	2003	2004	2005	2006	2003	2004			2005	2006
<b><u>Montgomery County</u></b>										
Bethesda/Chevy Chase	\$30.20	\$29.70	\$30.20	\$31.15	\$29.75	\$29.20	\$29.60	\$30.50	3.0%	\$27.00
North Bethesda	\$28.20	\$27.80	\$30.00	\$30.25	\$27.80	\$27.40	\$27.50	\$27.85	1.3%	\$20.00
Rockville	\$28.20	\$27.80	\$27.45	\$28.05	\$27.90	\$27.55	\$27.35	\$27.95	2.2%	\$22.00
North Rockville	\$25.90	\$25.60	\$26.20	\$26.60	\$25.75	\$25.45	\$26.00	\$26.40	1.5%	\$22.00
Gaithersburg/Germantown	\$23.10	\$22.70	\$22.45	\$22.75	\$22.80	\$22.45	\$22.35	\$22.65	1.3%	\$16.00
Silver Spring	\$23.70	\$23.95	\$23.95	\$24.60	\$23.50	\$23.85	\$23.85	\$24.50	2.7%	\$19.00
<b><u>Prince George's County</u></b>										
Beltville/Calverton/College Park	\$20.40	\$20.65	\$20.80	\$21.05	\$20.25	\$20.50	\$20.70	\$20.95	1.2%	\$12.00
Laurel	\$18.70	\$18.10	\$18.35	\$18.60	\$18.55	\$18.00	\$18.25	\$18.50	1.4%	\$6.00
Greenbelt	\$20.50	\$21.05	\$21.10	\$21.20	\$20.30	\$20.85	\$21.00	\$21.10	0.5%	\$7.00
Lanham/Landover/Largo	\$19.05	\$19.40	\$19.70	\$19.85	\$18.95	\$19.25	\$19.50	\$19.65	0.8%	\$10.00

Note: We report rent rate trends on a semi-annual basis, so as to assure sufficient data exists to make informed observations on these trends.

Source: Proprietary database of actual lease transactions from Transwestern and Delta Associates, CoStar; December 2006.

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500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.

**TABLE 24**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**MONTGOMERY COUNTY**  
**1997 THROUGH 2006**

Average Price 2006: (36 Sales)	\$1,608,110,000	5,688,000 SF	\$282.72
Average Cap Rate 2006:			6.60%
Average Class A Price 2006: (16 Sales)	\$1,198,990,000	3,400,000 SF	\$352.64
Average Class A Cap Rate 2006:			6.60%
Average Price 2005: (28 Sales)	\$1,064,350,000	4,888,000 SF	\$217.73
Average Cap Rate 2005:			6.80%
Average Class A Price 2005: (10 Sales)	\$594,630,000	2,457,000 SF	\$242.00
Average Class A Cap Rate 2005:			7.20%
Average Price 2004 (15 Sales):	\$446,460,000	2,292,000 SF	\$194.83
Average Cap Rate 2004:			8.50%
Average Class A Price 2004: (7 Sales)	\$341,500,000	1,359,000 SF	\$251.38
Average Class A Cap Rate 2004:			8.60%
Average Price 2003 (13 Sales):	\$566,630,000	3,966,000 SF	\$142.87
Average Cap Rate 2003:			7.70%
Average Class A Price 2003: (2 Sales)	\$390,900,000	2,861,000 SF	\$136.62
Average Class A Cap Rate 2003:			7.70%
Average Price 2002 (16 Sales):	\$566,310,000	3,433,000 SF	\$164.94
Average Cap Rate 2002:			10.10%
Average Class A Price 2002: (5 Sales)	\$202,640,000	1,160,000 SF	\$174.71
Average Class A Cap Rate 2002:			9.40%
Average Price 2001 (25 Sales):	\$530,650,000	3,473,000 SF	\$152.86
Average Cap Rate 2001:			10.40%
Average Class A Price 2001: (2 Sales)	\$123,590,000	790,000 SF	\$156.44
Average Class A Cap Rate 2001:			8.90%
Average Price 2000 (8 Sales):	\$213,930,000	1,543,000 SF	\$138.62
Average Cap Rate 2000:			10.30%
Average Class A Price 2000: (1 Sale)	\$59,500,000	310,000 SF	\$191.94
Average Class A Cap Rate 2000:			9.20%
Average Price 1999 (21 Sales):	\$397,490,000	2,835,000 SF	\$140.21
Average Cap Rate 1999:			10.00%
Average Class A Price 1999: (3 Sales)	\$124,890,000	631,000 SF	\$197.92
Average Class A Cap Rate 1999:			9.40%
Average Price 1998 (20 Sales):	\$386,440,000	2,953,000 SF	\$130.85
Average Cap Rate 1998:			9.10%
Average Class A Price 1998: (6 Sales)	\$227,130,000	1,509,000 SF	\$150.51
Average Class A Cap Rate 1998:			8.20%
Average Price 1997 (27 Sales):	\$565,440,000	5,133,000 SF	\$110.16
Average Cap Rate 1997:			10.00%
Average Class A Price 1997: (4 Sales)	\$137,350,000	1,091,000 SF	\$129.03
Average Class A Cap Rate 1997:			9.50%

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, Washington Business Journal, Montgomery Newsletter, Delta Associates; December 2006.

Delta Associates, the research affiliate of Transwestern, is headquartered at:  
500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.

**TABLE 25**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**PRINCE GEORGE'S COUNTY**  
**1997 THROUGH 2006**

Average Price 2006: (11 Sales)	\$300,080,000	1,851,000 SF	\$162.12
Average Cap Rate 2006:			7.50%
Average Class A Price 2006: (7 Sales)	\$269,500,000	1,665,000 SF	\$161.86
Average Class A Cap Rate 2006:			7.50%
Average Price 2005: (12 Sales)	\$357,640,000	2,139,000 SF	\$167.15
Average Cap Rate 2005:			9.90%
Average Class A Price 2005: (4 Sales)	\$92,020,000	464,000 SF	\$198.28
Average Class A Cap Rate 2005:			NA
Average Price 2004 (5 Sales):	\$148,550,000	1,188,000 SF	\$125.00
Average Cap Rate 2004:			9.00%
Average Class A Price 2004: (2 Sales)	\$50,200,000	260,000 SF	\$193.06
Average Class A Cap Rate 2004:			NA
Average Price 2003 (9 Sales):	\$141,930,000	1,403,000 SF	\$101.16
Average Cap Rate 2003:			10.00%
Average Class A Price 2003: (4 Sales)	\$59,290,000	521,000 SF	\$113.86
Average Class A Cap Rate 2003:			NA
Average Price 2002 (5 Sales):	\$50,150,000	483,000 SF	\$103.76
Average Cap Rate 2002:			10.20%
Average Class A Price 2002: (0 Sales)			NA
Average Class A Cap Rate 2002:			NA
Average Price 2001 (3 Sales):	\$54,100,000	470,000 SF	\$114.92
Average Cap Rate 2001:			NA
Average Class A Price 2001: (1 Sale)	\$17,620,000	126,000 SF	\$139.84
Average Class A Cap Rate 2001:			NA
Average Price 2000 (4 Sales):	\$52,350,000	596,000 SF	\$87.84
Average Cap Rate 2000:			13.10%
Average Class A Price 2000: (3 Sales)	\$31,350,000	308,000 SF	\$101.79
Average Class A Cap Rate 2000:			NA
Average Price 1999 (2 Sales):	\$7,770,000	114,000 SF	\$67.76
Average Cap Rate 1999:			13.70%
Average Class A Price 1999: (0 Sales)			NA
Average Class A Cap Rate 1999:			NA
Average Price 1998 (6 Sales):	\$41,280,000	547,000 SF	\$75.37
Average Cap Rate 1998:			9.90%
Average Class A Price 1998: (1 Sale)	\$13,450,000	123,000 SF	\$109.55
Average Class A Cap Rate 1998:			NA
Average Price 1997 (6 Sales):	\$94,200,000	1,187,000 SF	\$79.39
Average Cap Rate 1997:			11.20%
Average Class A Price 1997: (3 Sales)	\$20,020,000	213,000 SF	\$93.83
Average Class A Cap Rate 1997:			10.00%

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, Washington Business Journal, Prince George's Newsletter, Delta Associates; December 2006.

Delta Associates, the research affiliate of Transwestern, is headquartered at:  
500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.

**TABLE 26  
OFFICE LAND SALES  
SUBURBAN MARYLAND  
2000 THROUGH 2006**

Address	Acres	Gross FAR SF	Sale Price	Land Price Per SF	Price Per FAR SF <sup>1</sup>
<b>2006 Sales</b>					
Montgomery County Totals/Averages:	1.4	25,000	\$975,000	\$16.34	\$39.00
Prince George's County Total/Average:	27.3	191,178	\$10,680,000	\$9.00	\$38.60
<b>2006 Suburban Maryland Total/Average:</b>	<b>28.6</b>	<b>216,178</b>	<b>\$11,655,000</b>	<b>\$9.35</b>	<b>\$38.64</b>
<b>2005 Sales</b>					
Montgomery County Totals/Averages:	2.0	NA	\$1,237,655	\$14.00	NA
<b>2005 Suburban Maryland Total/Average:</b>	<b>2.0</b>	<b>NA</b>	<b>\$1,237,655</b>	<b>\$14.00</b>	<b>NA</b>
<b>2004 Sales</b>					
Montgomery County Totals/Averages:	46.2	NA	\$67,930,000	\$32.02	NA
<b>2004 Suburban Maryland Total/Average:</b>	<b>46.2</b>	<b>NA</b>	<b>\$67,930,000</b>	<b>\$32.02</b>	<b>NA</b>
<b>2003 Sales</b>					
Montgomery County Totals/Averages:	7.1	NA	\$12,960,000	\$41.85	NA
Prince George's County Total/Average:	4.3	82,000	NA	NA	NA
<b>2003 Suburban Maryland Total/Average:</b>	<b>11.4</b>	<b>82,000</b>	<b>\$12,960,000</b>	<b>\$41.85</b>	<b>NA</b>
<b>2002 Sales</b>					
Montgomery County Totals/Averages:	38.3	1,334,000	\$35,490,000	\$26.38	\$16.31
Prince George's County Total/Average:	0.0	NA	\$0	NA	NA
<b>2002 Suburban Maryland Total/Average:</b>	<b>38.3</b>	<b>1,334,000</b>	<b>\$35,486,000</b>	<b>\$26.38</b>	<b>\$16.31</b>
<b>2001 Sales</b>					
Montgomery County Totals/Averages:	91.6	NA	\$39,280,000	\$13.11	NA
Prince George's Co. Totals/Averages:	101.8	NA	\$42,980,000	\$8.90	NA
<b>2001 Suburban Maryland Total/Average:</b>	<b>193.41</b>	<b>NA</b>	<b>\$82,260,000</b>	<b>\$10.28</b>	<b>NA</b>
<b>2000 Sales</b>					
Montgomery County Totals/Averages:	82.3	828,000	\$22,450,000	\$8.39	\$22.23
Prince George's Co. Totals/Averages:	21.8	194,000	\$8,160,000	\$8.59	\$10.05
<b>2000 Suburban Maryland Total/Average:</b>	<b>104.1</b>	<b>1,022,000</b>	<b>\$30,610,000</b>	<b>\$8.45</b>	<b>\$18.96</b>
1/ Based on planned FAR if known.					
Note: Excludes from averages parcels for which complete data is unavailable or which would cause a disproportionate effect.					
Source: CoStar, Prince George's Newsletter, Montgomery Newsletter, Delta Associates; December 2006.					
Delta Associates, the research affiliate of Transwestern, is headquartered at:					
500 Montgomery Street, Suite 600, Alexandria, VA 22314. Phone: 703-836-5700; DeltaAssociates.com.					

# THE DISTRICT OF COLUMBIA OFFICE MARKET YEAR-END 2006

## Construction Pipeline Eases; Absorption And Rent Growth Strong; Yet Vacancy Ticks Up While Remaining Lowest Among CBDs in The U.S.

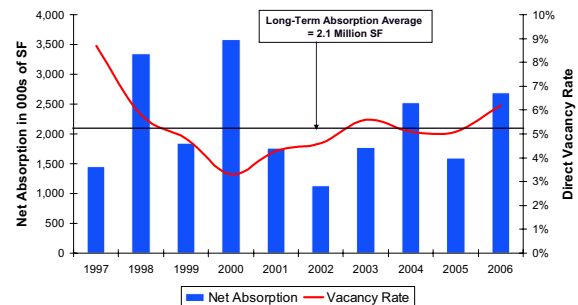
The District's office market experienced above-average absorption in 2006, due to the delivery of several large pre-leased projects. Vacancy is showing signs of rising, yet rents continued to increase at a steady pace this year, justified by a still low vacancy rate. Construction is showing signs of easing.

### 2006 District of Columbia market highlights:

- **Net absorption:** 2.7 million SF, compared to 1.6 million SF in 2005 and a long term average of 2.1 million SF.
- **Overall vacancy rate:** 6.9%, up from 6.0% one year ago.
- **Direct vacancy rate:** 6.2%, up from 5.1% one year ago.
- **Sublease space:** Decreased by 131,000 SF. Sublease space represents just 0.7% of the inventory.
- **Space under construction:** 4.6 million SF, down from 7.8 million SF one year ago.
- 38% of space U/C or U/R is **pre-leased**, compared to 50% one year ago.
- **Rents:** Rose 4.1% in 2006.
- **Investment sales:** \$4.0 billion, compared to \$4.6 billion in 2005. Average sales price: \$438/SF.



**Net Absorption and Direct Vacancy Rate  
District of Columbia  
1997 Through 2006**



Source: Vacancy – Delta Associates' analysis of CoStar Data, Net Absorption – Delta Associates; December 2006.

### Net Absorption: Above-Average

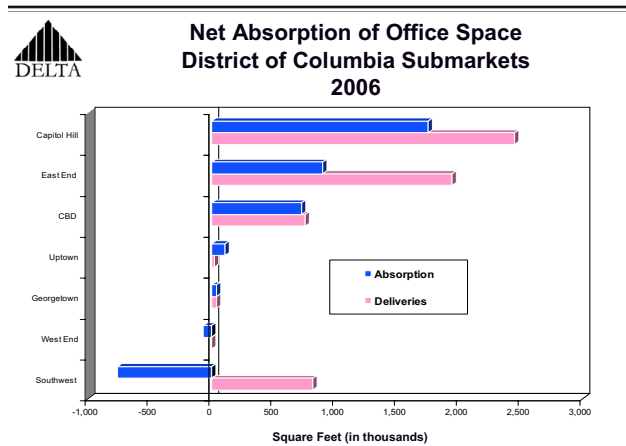
*The District absorbed 588,000 SF during the 4<sup>th</sup> quarter of 2006, compared to 945,000 SF during the 3<sup>rd</sup> quarter. In 2006, net absorption totaled 2.7 million SF, compared to 1.6 million SF in all of 2005. Absorption in 2006 is 29% above the long-term average of 2.1 million SF.*

Although absorption was strong this year, it was boosted by pre-leased deliveries, where several of the leases were signed prior to 2006. The most significant delivery was the Southeast Federal Center, which delivered 1.4 million SF, fully leased to the U.S. Department of Transportation.

Selected Deliveries Contributing to Absorption 2006			
Yr. Signed	Address	RBA	Leased
2003	1875 Penn Ave., NW	282,000	100%
2003	950 F St., NW	282,000	73%
2003	1601 K Street, NW	215,000	84%
2005	600 Maryland Ave., SW	302,000	95%
2002	SE Federal Center	1,350,000	100%

Source: CoStar, Delta Associates; December 2006.

The Capitol Hill and East End submarkets experienced strong absorption in 2006, as each area delivered large pre-leased projects, boosting net absorption.



Source: Delta Associates; December 2006.

Note: Deliveries includes renovations.

**Sublease space represents just 0.7% of the District's standing inventory.** Sublease space availability declined by 78,000 SF during the 4<sup>th</sup> quarter of 2006, after declining by 253,000 SF in the 3<sup>rd</sup> quarter. In 2006, 131,000 SF of sublease space was removed from the market.

**Net absorption of Class A space totaled 4.4 million SF in 2006,** compared to 2.0 million SF in 2005. Class A absorption outpaced All Space (A, B, and C space) absorption, as several Class A projects delivered in 2006 and tenants vacated Class B/C space and moved into A space. Notably, the Department of Transportation vacated its headquarters at Constitution Center, a Class C building in Southwest, and relocated to Class A space on Capitol Hill.

### Leasing: Light Compared to 2005

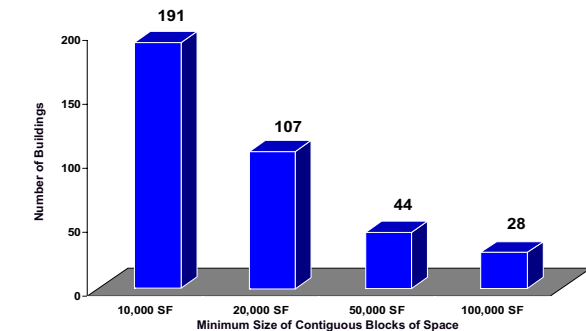
**Leasing activity in 2006 slowed compared to previous years.** In 2006 7.9 million gross SF of lease deals were inked, compared to 12.1 million SF in 2005 and 11.8 million SF in 2004. The majority of lease deals were signed for space in the East End and CBD submarkets, accounting for 77% of all space leased in 2006.

Although absorption has been strong this year, the total has not been pushed by leasing activity, but rather by pre-leased deliveries where the deal was inked before 2006.

A handful of large lease deals were inked in 2006. Notably, the Department of Justice signed 482,000 SF at the 450 5th Street, NW. The Immigration and Customs Enforcement took 403,000 SF at 500 12th Street, SW.

There are 191 blocks of available contiguous space over 10,000 SF, of which East End has 71 and the CBD has 62. There are few large blocks of space, as 28 blocks over 100,000 SF remain. The largest block of vacant space is 545,000 SF at 2100 2nd Street, SW, as the US Coast Guard plans to vacate its space in 2008.

### Buildings with Contiguous Blocks of Available Office Space in the District of Columbia December 2006



Note: Includes buildings under construction or renovation.  
Source: Delta Associates' analysis of CoStar data; December 2006.

### Vacancy: Up from 2005

**The District's overall vacancy increased to 6.9% at the end of the 4<sup>th</sup> quarter,** from 6.2% at the end of the 3<sup>rd</sup> quarter, and 6.0% one year ago.

**The direct vacancy rate in the District was 6.2% at December 2006,** up from 5.4% three months prior, and 5.1% one year ago.

**The District's overall Class A vacancy rate decreased to 6.8% at the end of the 4<sup>th</sup> quarter,** from 7.6% at the end of the 3<sup>rd</sup> quarter. The Class A direct vacancy rate was 5.7% at December, down from 6.6% the quarter prior.

Vacancy Rates and Vacant Space (All Classes) The District 12/05 to 12/06		
	12/05	12/06
Vacancy Rate		
Direct	5.0%	6.2%
Sublet	0.9%	0.7%
Vacant Space (Millions of SF)		
Direct	5.8	7.4
Sublet	1.0	0.9

Source: CoStar, Delta Associates; December 2006.

## Construction and Pre-Leasing Down

**There is 4.6 million SF of office space under construction or renovation in the District at year-end 2006**, compared to 5.9 million SF three months prior and 7.8 million SF one year ago.

**38% of space under construction or renovation in December 2006 is pre-leased**, compared to 51% in September 2006 and 50% one year ago.

**Projects set to deliver in 2007 and 2008 are currently 38% and 37% pre-leased, respectively.** Overbuilding in the District remains a concern, as we project new supply to outpace demand in this market over the next two years. Developers should be selective about future ground-breakings, as the pre-lease rate on current pipeline projects is sub-par.

The East End and Capitol Hill continue to contribute significantly to the total space under construction and renovation in the District. Notably, Columbia Center at 1152 15th Street, NW has 390,000 SF under construction and should deliver by fall 2007. Capitol Plaza I, located at 1200 1st Street, NE is expected to deliver 292,000 SF in the Capitol Hill submarket in early 2007.

Space under construction or renovation is expected to increase in the Southwest submarket during the 1<sup>st</sup> quarter of 2007, as 400 7<sup>th</sup> Street, SW, a 1,400,000 SF building, is expected to undergo renovations as the Department of Transportation has vacated its space.

Office Space U/C or U/R The District December 2006		
Submarket	SF	% Pre-leased
East End	2,838,000	47.1%
Capitol Hill	765,000	5.0%
Southwest	571,000	59.3%
CBD	236,000	0.0%
Georgetown	132,000	2.0%
Uptown	18,000	100.0%
<b>Total:</b>	<b>4,560,000</b>	<b>38.1%</b>

Source: CoStar, Delta Associates, December 2006.

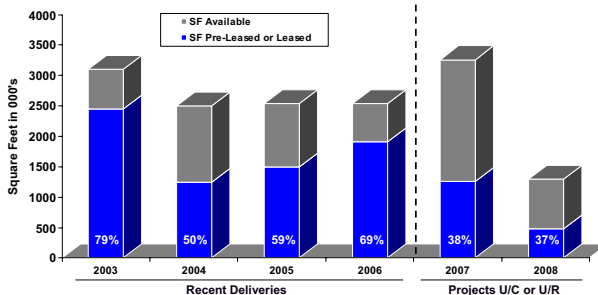
**Construction began on 1.2 million SF in the District during the 4<sup>th</sup> quarter**, up from 575,000 SF during the 3<sup>rd</sup> quarter. The surge over the last three months is partly due to the East End starting 725,000 SF. In 2006 3.4 million SF broke ground, compared to 4.2 million SF in 2005.

**2.5 million SF of office space, including renovations, delivered in the District during the 4<sup>th</sup> quarter of 2006**, at 75% pre-leased. In all of 2006, deliveries totaled 6.1 million SF, at 69% pre-leased.

## Supply v. Demand: Vacancy to Rise

**We project overall vacancy will increase in the District from 6.9% today to 8.1% over the next 24 months**, as new supply outpaces demand by 2.0 million SF over the next two years. It should be noted, however, that the vacancy rate at two years out will still be low compared to other downtown areas in the nation.

 **Leasing on Recent Deliveries and Projects U/C or U/R**  
District of Columbia  
2003 – 2008



Note: Recent deliveries are based on % leased upon delivery.  
Source: CoStar, Delta Associates; December 2006.

## **Rents: Up 4.1% in 2006**

**Office rents increased approximately 4.1% in Downtown Washington during 2006**, compared to 2.5% in 2005. Rents increased in 2006, as leases for new space caused the average rental rate to rise. Rents are expected to rise by 2.5% to 3.5% in 2007 and 2008, although vacancy is anticipated to rise.

Class A rents grew by 4.5%, as new space with high rental rates dominated the market this year. Rents for Class B space climbed 4.1% due to renovations in this product and an increase in demand from tenants looking to upgrade from Class C. Although demand was light for Class C product, landlords increased rents 3.3%, as renovations of older stock have reduced the Class C inventory, increasing demand from tenants looking for affordable downtown space.

<b>Effective Rent Changes by Class of Space Downtown Washington December 2005 to December 2006</b>	
<b>Class of Space</b>	<b>Rent Change</b>
Class A	+4.5%
Class B	+4.1%
Class C	+3.3%

Source: Delta Associates; December 2006.

## **Investment Sales: Strong**

**Investment sales volume totaled \$1.3 billion on 11 transactions during the 4<sup>th</sup> quarter.** In 2006 sales totaled \$4.0 billion on 44 transactions, compared to \$4.6 billion on 50 transactions in 2005. District sales in 2006 accounted for 38% of the Washington metro area's volume.

<b>Selected Investment Sales The District 4<sup>th</sup> Quarter 2006</b>	
<b>Address/Submarket</b>	<b>Price/Buyer</b>
1201 New York Avenue, NW East End	\$215 million (\$520/SF) Fidelity Investments
550 12th Street, SW Southwest	\$190 million (\$434/SF) GE Asset Management
799 Ninth Street, NW East End	\$128 million (\$634/SF) AEW Capital

Source: Real Capital Analytics, December 2006.

**YTD average sale price was \$438/SF**, up slightly from \$430/SF in 2005. Class A prices averaged \$510/SF YTD on 18 recorded transactions.

**Cap rates remain around 6.0% for core assets, as they were for most of 2006.** Cap rates declined in 2005 from around 7.0% in 2004, as investor interest in District assets pushed prices to very high levels. We believe that cap rates may rise gradually over the next two years, as interest rates rise and alternative investments become more attractive.

**Sales volume, although strong for 2006, declined slightly compared to the year prior.** Although assets in the District remain in demand, the lighter activity suggests that assets in the District are priced at a level not deemed attractive by as many investors, who are now turning investment dollars to other geographies. We anticipate that 2005 was the peak year for investment sales in the District.

## **Land Sales: Solid**

**Sales volume for developable land totaled \$213 million in 2006**, compared to \$82 million in 2005. Land sales increased in 2006, as landowners attempted to sell at a high price before demand for development eases.

The most notable land sale of 2006 was the purchase of 34,000 SF of land at 77 K Street, NE for \$30 million (\$871/SF). The buyer, 77 K Street Tower, LLC, plans to build a 322,000 SF office building on this Capitol Hill site, at \$93/FAR SF.

Land purchases should ease in 2007, as we believe the peak of development has passed for this cycle.

## **District of Columbia Outlook**

***The District's office market is expected to experience healthy conditions in 2007, as vacancy, although expected to rise, is anticipated to remain low compared to other office markets. Although construction is easing, overbuilding remains a concern, as demand has lightened and pre-lease rates on pipeline projects are modest. Rents should react to these conditions and only rise by 3.0% as landlords compete to fill vacant space. Class A should continue to dominate the market with tenant demand to upgrade. However, demand for this space could falter if rent rates are pushed passed budget limits. Overall, the outlook for the District remains positive, as this substate area currently retains one of the lowest vacancy rates and the most premier space options for tenants.***

## **Market Outlook:**

- **Job Growth:** 7,500 new payroll positions in 2007.
- **Overall Vacancy:** Expected to increase from 6.9% today to 8.1% over the next two years.
- **Leasing Activity:** Expected to remain steady, however it should remain light compared to 2004 and 2005.
- **Construction:** Should ease.
- **Rents:** Expected to rise by 3.0% in 2007.
- **Investment Sales:** Sales volume should ease in 2007, as high prices are limiting potential returns compared to other investment options.

<b>Significant Lease Transactions in the District 2006</b>			
<b>Tenant</b>	<b>Address</b>	<b>Submarket</b>	<b>SF</b>
Department of Justice (Renewal)	601 D Street, NW	East End	520,000
Department of Justice	450 5th Street, NW	East End	482,000
Immigration and Customs Enforcement	500 12th Street, SW	Southwest	403,000
GSA (Renewal)	425 Eye Street, NW	East End	389,000
Dow, Lohnes & Albertson L.L.C. (Renewal)	1200 New Hampshire Avenue, NW	CBD	147,000
GSA	395 E Street, SW	Southwest	144,000
American Bankers Association (Renewal)	1120 Connecticut Avenue, NW	CBD	141,000
March & McLennan Cos.	1255 23rd Street, NW	East End	140,000
Orrick, Herrington & Sutcliffe	1152 15th Street, NW	East End	136,000
DC Government	1125 15th Street, NW	East End	122,000
Fulbright & Jaworski (Renewal)	801 Pennsylvania Avenue, NW	East End	109,000
FTI Consulting	1101 K Street, NW	East End	95,000
Springs & Hollingsworth (Expansion)	1350 Eye Street, NW	East End	90,000
FEMA	395 E Street, SW	Southwest	77,000
United States Surface Transportation Board	395 E Street, SW	Southwest	77,000
WPP Group, Inc. (Renewal)	1110 Vermont Avenue, NW	East End	77,000
Associated Press	1100 13th Street NW	East End	75,000
Academy for Educational Development	1875 Connecticut Avenue, NW	Uptown	70,000
Bingham McCutchen, LLP (Expansion)	2020 K Street, NW	CBD	68,000
Federal Protective Services	1900 Half Street, SW	Southwest	65,000
GSA	616 H Street, NW	East End	54,000
Office of the Comptroller of the Currency	395 E Street, SW	Southwest	50,000
Independent Community Bankers	1615 L Street, NW	CBD	39,000
NCQA	1100 13th Street, NW	East End	37,000
West Elm	1025 F Street, NW	East End	36,000
B'nai B'rith International	2020 K Street, NW	CBD	35,000
Department of Homeland Security	111 Massachusetts Avenue, NW	Capitol Hill	33,000
GSA	950 L'Enfant Plaza, SW	Southwest	33,000
Preferred Offices	1701 Pennsylvania Avenue, NW	CBD	33,000
Banner & Witcoff, Ltd.	1100 13th Street, NW	East End	32,000
Sidley, Austin, Brown & Wood, LLP (Sublease)	1501 K Street, NW	East End	32,000
Powers Pyles Sutter & Verville PC	1501 M Street, NW	East End	31,000
Qorvis Communications	1201 Connecticut Avenue, NW	CBD	31,000
Distilled Spirits Council of the United States (Renewal)	1250 Eye Street, NW	East End	30,000
United Nations Foundation	1800 Massachusetts Avenue, NW	CBD	30,000
America's Community Bankers (Renewal)	900 19th Street, NW	CBD	29,000
Mayer Brown, Maw & Rowe	1120 20th Street, NW	CBD	28,000
GSA	1990 K Street, NW	CBD	26,000
Madison Marquette	2001 Pennsylvania Avenue, NW	CBD	26,000
Revolution Health Care	1250 Connecticut Avenue, NW	CBD	26,000
Advanced Medical Technology	801 Pennsylvania Avenue, NW	East End	25,000
Health & Human Services	395 E Street, SW	Southwest	25,000

Note: May not include all large renewals.

Source: *Washington Business Journal*, *DC Newsletter*, CoStar, Delta Associates; December 2006.

**TABLE 27**  
**OFFICE BUILDING DELIVERIES**  
**DISTRICT OF COLUMBIA**  
**2006**

Submarket	NRSF Delivered			NRSF Available	NRSF Leased at Delivery	
	New Construction	Renovation	Total	At Delivery	Sq. Ft.	%
<b>CBD:</b>	550,245	205,220	755,465	90,830	664,635	88.0%
<b>East End:</b>	1,144,546	796,574	1,941,120	703,302	1,237,818	63.8%
<b>Capitol Hill:</b>	2,091,427	408,400	2,499,827	640,265	1,859,562	74.4%
<b>Southwest:</b>	818,600	0	818,600	444,066	374,534	45.8%
<b>Georgetown:</b>	40,500	0	40,500	0	40,500	100.0%
<b>Uptown:</b>	0	20,000	20,000	5,220	14,780	73.9%
<b>Total - District of Columbia:</b>	<b>4,645,318</b>	<b>1,430,194</b>	<b>6,075,512</b>	<b>1,883,683</b>	<b>4,191,829</b>	<b>69.0%</b>
Compared to District of Columbia - 2005:	2,468,626	75,515	2,544,141	1,041,762	1,502,379	59.1%

Source: CoStar, Delta Associates; December 2006.

Delta Associates, the research affiliate of Transwestern, is headquartered at:  
500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.

**TABLE 28**  
**SUMMARY OF OFFICE MARKET INDICATORS - ALL SPACE**  
**THE DISTRICT OF COLUMBIA**  
**2003 THROUGH 2006**

Submarket	Year-End 2006		Direct Vacancy Rate at End of:				Vacancy at End of 2006 w/ Sublet	SF Under Constr. or Renovation at Dec-06	Net Absorption (SF)				
	Total Rentable SF All Bldgs. <sup>1/</sup>	SF Avail. Immediately All Bldgs. <sup>2/</sup>	2003	2004	2005	2006			2003	2004	2005	Q4 2006	All of 2006
			5.5%	4.6%	4.1%	3.0%			934,000	439,000	357,000	215,000	730,000
CBD <sup>3/</sup>	38,564,947	1,156,948	6.9%	7.1%	5.6%	6.3%	(139,000)	1,673,000	446,000	173,000	899,000		
East End <sup>4/</sup>	38,088,862	2,399,598	3.5%	3.7%	2.8%	4.7%	764,997	65,000	742,000	1,327,000	1,748,000		
Capitol Hill	14,981,550	704,133	6.5%	4.3%	11.1%	20.4%	571,334	221,000	27,000	(1,134,000)	(764,000)		
Southwest	12,741,051	2,599,174	3.4%	2.2%	4.3%	4.2%	132,056	36,000	(61,000)	45,000	42,000		
Georgetown	2,964,995	124,530	2.9%	3.3%	3.0%	4.8%	-	(15,000)	11,000	(30,000)	(67,000)		
West End	3,700,894	177,643	5.1%	3.8%	4.1%	2.8%	(81,000)	106,000	77,000	(8,000)	107,000		
Uptown	8,210,990	229,908	5.6%	5.1%	5.1%	6.2%	1,779,000	2,525,000	1,599,000	588,000	2,695,000		
TOTAL - District	119,253,289	7,391,934	7.1%	6.0%	6.0%	6.9%	4,560,439	2,525,000	1,599,000	588,000	2,695,000		
Vacancy Rate with Sublet Space			7.1%	6.0%	6.0%	6.9%							

<sup>1/</sup> Includes buildings 15,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government.

<sup>2/</sup> Does not include sublet space.

<sup>3/</sup> 801 17th Street, NW was demolished and has been removed from the inventory.

<sup>4/</sup> 425 Eye Street, NW has been removed from the inventory while it undergoes renovation.

Source: Inventory and Vacancy from analysis of CoStar data. Net Absorption computed by Delta Associates; December 2006.

Delta Associates, the research affiliate of Transwestern, is headquartered at:

500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.

**TABLE 29  
SUMMARY OF OFFICE MARKET INDICATORS - CLASS A<sup>1/</sup>  
THE DISTRICT OF COLUMBIA  
2003 THROUGH 2006**

Submarket	Year-End 2006						Net Absorption (SF)				
	Total Rentable SF <sup>2/</sup>	SF Available Immediately <sup>3/</sup>	Direct Vacancy Rate	Vacancy Rate with Sublet Space	SF Under Construction or Renovation		2003	2004	2005	Q4 2006	All of 2006
CBD	8,654,824	164,442	1.9%	3.4%	236,000	942,000	254,000	650,000	86,000	645,000	
East End	21,517,596	1,506,232	7.0%	8.2%	2,396,187	121,000	1,317,000	687,000	703,000	738,000	
Capitol Hill	8,842,540	300,646	3.4%	4.0%	726,997	670,000	233,000	730,000	1,342,000	1,906,000	
Southwest	5,129,989	743,848	14.5%	14.6%	232,334	4,000	4,000	4,000	313,000	903,000	
Georgetown	735,802	15,452	2.1%	2.9%	132,056	15,000	7,000	(68,000)	36,000	52,000	
West End	1,335,283	21,365	1.6%	4.9%	-	(4,000)	4,000	4,000	-	4,000	
Uptown	2,530,175	40,483	1.6%	1.9%	-	(1,000)	37,000	29,000	(5,000)	116,000	
<b>TOTAL - District</b>	<b>48,746,209</b>	<b>2,792,467</b>	<b>5.7%</b>	<b>6.8%</b>	<b>3,723,574</b>	<b>1,747,000</b>	<b>1,856,000</b>	<b>2,036,000</b>	<b>2,475,000</b>	<b>4,364,000</b>	

<sup>1/</sup> Class A is defined as buildings greater than 50,000 SF and built after 1984.

<sup>2/</sup> Includes buildings 50,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government.

<sup>3/</sup> Does not include sublet space.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2006.

Delta Associates, the research affiliate of Transwestern, is headquartered at:

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**TABLE 30**  
**RENT RATE ANALYSIS BASED ON A SELECTED SAMPLE OF ACTUAL LEASE TRANSACTIONS**  
**CLASS A, B AND C SPACE IN DOWNTOWN WASHINGTON, DC**  
**2003 THROUGH 2006**

Space Class	Average Face Rent (\$'s/SF, GFS) For:			Average Effective Rent (\$'s/SF, GFS) For:			% Change 12/05 - 12/06	Avg. TI Package (\$/SF) 2006	
	2003	2004	2005	2006	2003	2004			2005
Class A	\$41.00	\$42.10	\$43.35	\$45.30	\$40.60	\$41.15	\$42.25	\$44.15	\$54.00
Class B	\$33.10	\$34.05	\$35.00	\$36.40	\$32.80	\$33.50	\$34.30	\$35.70	\$26.00
Class C	\$25.75	\$26.25	\$27.60	\$28.50	\$25.55	\$26.00	\$27.00	\$27.90	\$14.00

Note: We report rent rate trends on a semi-annual basis, so as to assure sufficient data exists to make informed observations on these trends.

Source: Proprietary database of actual lease transactions from Transwestern and Delta Associates, CoStar; December, 2006.

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**TABLE 31**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**DISTRICT OF COLUMBIA**  
**1997 THROUGH 2006**

Average Price 2006: (44 Sales)	\$3,964,320,000	9,048,000 SF	\$438.14
Average Cap Rate 2006:			5.90%
Average Class A Price 2006: (18 Sales)	\$2,779,910,000	5,450,000 SF	\$510.08
Average Class A Cap Rate 2006:			5.80%
Average Price 2005: (50 Sales)	\$4,575,540,000	10,629,000 SF	\$430.49
Average Cap Rate 2005:			6.00%
Average Class A Price 2005: (15 Sales)	\$2,582,190,000	4,999,000 SF	\$516.58
Average Class A Cap Rate 2005:			5.90%
Average Price 2004 (43 Sales):	\$3,028,730,000	9,108,000 SF	\$332.54
Average Cap Rate 2004:			7.40%
Average Class A Price 2004: (19 Sales)	\$1,818,250,000	4,870,000 SF	\$372.25
Average Class A Cap Rate 2004:			7.00%
Average Price 2003 (47 Sales):	\$2,826,050,000	8,934,000 SF	\$316.34
Average Cap Rate 2003:			7.80%
Average Class A Price 2003: (15 Sales)	\$1,393,770,000	3,861,000 SF	\$361.02
Average Class A Cap Rate 2003:			7.30%
Average Price 2002 (30 Sales):	\$1,770,330,000	6,142,000 SF	\$288.22
Average Cap Rate 2002:			8.60%
Average Class A Price 2002: (9 Sales)	\$911,900,000	2,614,000 SF	\$348.84
Average Class A Cap Rate 2002:			8.70%
Average Price 2001 (37 Sales):	\$1,700,750,000	6,652,000 SF	\$255.64
Average Cap Rate 2001:			9.10%
Average Class A Price 2001: (9 Sales)	\$782,330,000	2,309,000 SF	\$338.82
Average Class A Cap Rate 2001:			8.50%
Average Price 2000 (26 Sales):	\$1,238,570,000	5,000,000 SF	\$247.78
Average Cap Rate 2000:			9.20%
Average Class A Price 2000: (6 Sales)	\$592,100,000	1,725,000 SF	\$343.25
Average Class A Cap Rate 2000:			8.90%
Average Price 1999 (25 Sales):	\$1,037,950,000	4,684,000 SF	\$221.59
Average Cap Rate 1999:			9.20%
Average Class A Price 1999: (7 Sales)	\$518,560,000	1,987,000 SF	\$261.04
Average Class A Cap Rate 1999:			8.00%
Average Price 1998 (38 Sales):	\$1,687,210,000	7,577,000 SF	\$222.69
Average 1998 Cap Rate:			9.80%
Average Class A Price 1998: (9 Sales)	\$901,870,000	2,920,000 SF	\$308.86
Average 1998 Class A Cap Rate:			8.60%
Average Price 1997 (23 Sales):	\$699,230,000	4,022,000 SF	\$173.85
Average 1997 Cap Rate:			10.00%
Average Class A Price 1997: (4 Sales)	\$178,800,000	728,000 SF SF	\$245.55
Average 1997 Class A Cap Rate:			8.80%

Notes: Average sale prices are weighted. Excludes portfolio sales, which are reported in Table 4.

Source: CoStar, Real Capital Analytics, DC Newsletter, Washington Business Journal, Delta Associates; December 2006.

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**TABLE 32**  
**OFFICE LAND SALES**  
**WASHINGTON, D.C.**  
**2000 THROUGH 2006**

Address	Size (SF)	Gross FAR SF	Sale Price	Land Price Per SF	Price Per FAR SF <sup>1</sup>
2006 Total/Average:	452,090	2,522,000	\$213,350,000	\$471.92	\$60.23
2005 Total/Average:	189,476	1,129,084	\$82,370,953	\$434.73	\$72.95
2004 Total/Average: <sup>2</sup>	195,353	1,214,000	\$132,290,000	\$677.17	\$108.97
2003 Total/Average:	NA	1,388,000	\$43,000,000	NA	\$30.98
2002 Total/Average:	150,960	93,000	\$6,000,000	\$726.30	\$64.52
2001 Total/Average:	281,248	1,665,000	\$61,350,000	\$218.13	\$36.85
2000 Total/Average:	214,331	1,316,000	\$71,490,000	\$333.55	\$50.71
1/ Based on planned FAR if known.					
2/ Includes estimates for land prices.					
Note: Excludes from averages parcels for which complete data is unavailable or which would cause a disproportionate effect.					
Source: CoStar, Washington Business Journal, DC Newsletter, Delta Associates; December 2006.					

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# THE BALTIMORE AREA OFFICE MARKET YEAR-END 2006

## Booming Absorption; Vacancy Down; Rents Up; Construction Starts Exceed 2005 Total

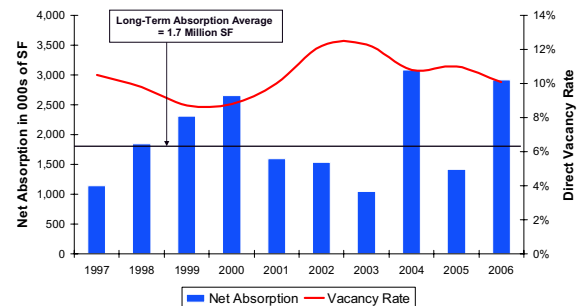
*The Baltimore metro area office market experienced healthy conditions during the 4<sup>th</sup> quarter of 2006.* Vacancy declined over the past 12 months. Although the above-average absorption in 2006 was pushed by pre-leased deliveries, leasing activity was solid and added to the year's total. Rents increased modestly this year, after experiencing minimal growth in 2005.

### 2006 Baltimore area market highlights:

- **Net absorption:** 2.9 million SF, compared to 1.4 million SF in 2005 and a 1.7 million SF long-term average.
- **Sublease space:** Decreased by 61,000 SF. Sublease space is just 1.0% of standing inventory.
- **Overall vacancy rate:** 11.1%, down from 12.0% one year ago.
- **Direct vacancy rate:** 10.1%, down from 11.0% one year ago.
- **Space under construction:** 3.1 million SF, compared to 2.9 million SF one year ago.
- 39% of space U/C or U/R is **pre-leased**, compared to 46% one year ago.
- **Rents:** Increased by 2.4% in 2006.
- **Investment sales:** \$528 million on 19 transactions. Average sale price: \$121/SF.



**Net Absorption and Direct Vacancy Rate  
Baltimore Area  
1997 Through 2006**



Source: Vacancy – Delta Associates' analysis of CoStar Data,  
Net Absorption – Delta Associates; December 2006.

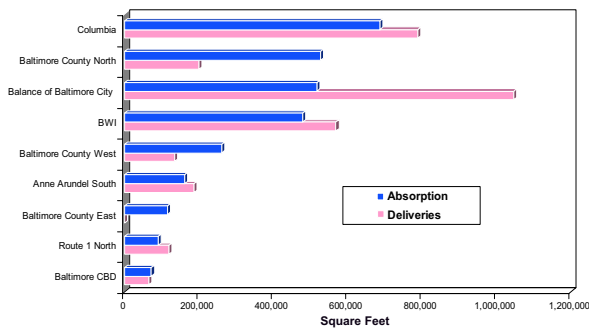
### Absorption: Above Average

*The Baltimore metro area experienced 39,000 SF of net absorption during the 4<sup>th</sup> quarter of 2006,* compared to 1.3 million SF in the 3<sup>rd</sup> quarter. In 2006, net absorption totaled 2.9 million SF, which exceeded the 2005 total of 1.4 million SF. The strong positive absorption in 2006 is due in part to pre-leased deliveries.

Columbia, Baltimore County North and the Balance of Baltimore City (the non-CBD area) all experienced strong absorption in 2006. Deliveries accounted for absorption in Columbia and the Balance of Baltimore City. Baltimore County North experienced several small lease deals that pushed absorption.



### Net Absorption and Deliveries Baltimore Area Submarkets 2006



Source: Delta Associates; December 2006.

**21,000 SF of sublease space was returned to the market during the 4<sup>th</sup> quarter of 2006**, after 122,000 SF was removed during the 3<sup>rd</sup> quarter. In 2006 sublease space declined by 61,000 SF, compared to an increase of 17,000 SF in all of 2005. Currently, sublease space represents just 1.0% of standing inventory in the Baltimore area.

**Class A net absorption totaled 1.6 million SF in 2006**, compared to 1.3 million SF in 2005. Class A space accounted for 56% of net absorption in the Baltimore area in 2006.

### Leasing Activity: Steady in 2006

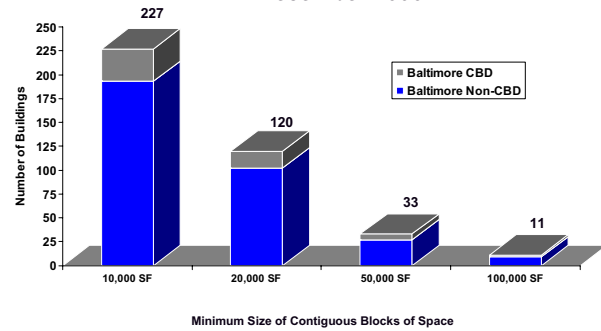
**Leasing activity in the Baltimore area was steady in 2006**, as small to moderate-sized leases were inked. The most notable lease deal of the year was CareFirst of Maryland's lease of 88,000 SF at Canton Crossing, a recently delivered project.

In 2006 4.5 million SF of gross lease deals were inked, compared to 5.7 million SF in 2005 and 7.7 million SF in 2004. Although absorption was strong this year, the total has been assisted by pre-leased deliveries.

There are 227 contiguous blocks of available space greater than 10,000 SF in the Baltimore area, of which only 34 blocks are located in the CBD. Few options are available for large tenants, as there are only 11 buildings with contiguous blocks of available office space greater than 100,000 SF. The largest block of space is 388,000 SF located at 1800 Washington Boulevard.



### Buildings with Contiguous Blocks of Available Office Space in the Baltimore Area December 2006



Note: Includes buildings under construction or renovation.  
Source: Delta Associates' analysis of CoStar data; December 2006.

### Vacancy: Down in 2006

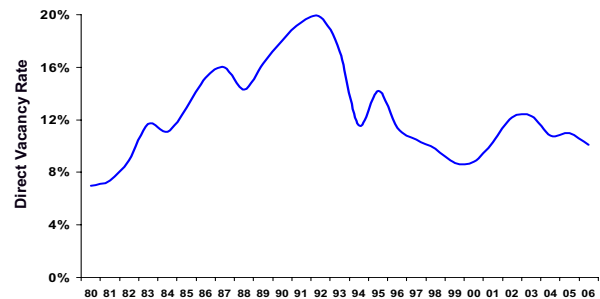
**The overall vacancy rate increased to 11.1% at the end of the 4<sup>th</sup> quarter of 2006**, from 10.8% at the end of the 3<sup>rd</sup> quarter, but is down from 12.0% one year ago.

**The direct vacancy rate was 10.1% at December 2006**, up from 9.9% at September, but is down from 11.0% one year ago.

Vacancy has fluctuated over the past several years, and is now starting to show signs of steadily declining, as Baltimore's economy is healthy and is generating demand.



### Office Vacancy Rates Baltimore Area 1980 Through 2006



Source: CoStar, Delta Associates; December 2006.

**The overall Class A vacancy rate was 10.5% at the end of the 4<sup>th</sup> quarter of 2006**, down slightly from 10.6% the quarter prior, and is unchanged from one year ago. The direct Class A vacancy rate is 9.1% at December 2006.

Vacancy Rates and Vacant Space (All Classes) Baltimore Area 12/05 to 12/06		
	12/05	12/06
Vacancy Rate		
Direct	11.0%	10.1%
Sublet	1.0%	1.0%
Vacant Space (Millions of SF)		
Direct	8.7	8.3
Sublet	0.8	0.8

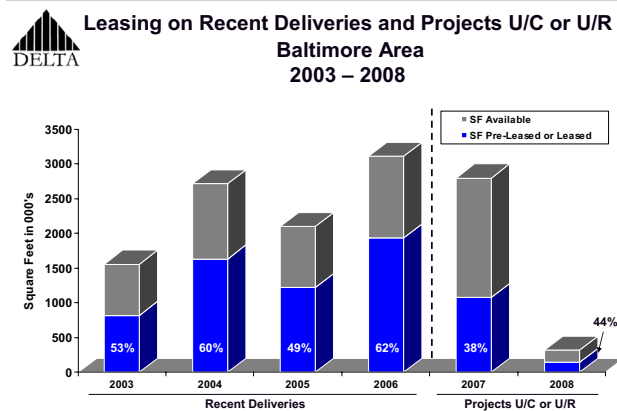
Source: CoStar, Delta Associates; December 2006.

## Construction: Up at Q4

**There is 3.1 million SF of office space under construction at December 2006**, up from 2.9 million SF at September 2006 and 2.9 million SF one year ago.

**39% of space under construction is pre-leased**, compared to 41% three months ago and 46% a year ago.

**Projects set to deliver during the remainder of 2007 and 2008 are currently 38% and 44% pre-leased, respectively.** Since 2003, the pre-lease rate on recently delivered space has fluctuated. Given demand for space, projects due to deliver in 2007 should lease up at a solid pace.



Note: Recent deliveries are based on % leased upon delivery.  
Source: CoStar, Delta Associates; December 2006.

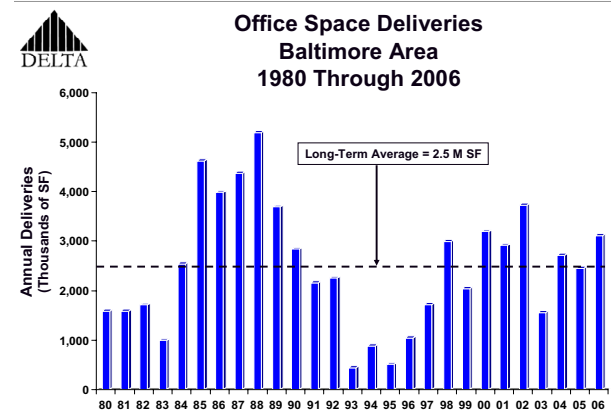
The Balance of Baltimore City (non-CBD) and Columbia submarkets are the leaders in the amount of space currently under construction or renovation, with 761,000 SF and 734,000 SF, respectively.

Office Space U/C and U/R Baltimore Area December 2006		
Submarket	SF	% Pre-leased
Balance of Baltimore City	761,000	38.8%
Columbia	734,000	59.9%
Baltimore County West	525,000	10.1%
Baltimore County North	440,000	34.8%
Anne Arundel South	321,000	49.7%
BWI	212,000	33.1%
Route 1 North	89,000	11.5%
Baltimore County East	40,000	100.0%
<b>Total</b>	<b>3,122,000</b>	<b>39.1%</b>

Source: CoStar, Delta Associates; December 2006.

**Construction began on 860,000 SF during the 4<sup>th</sup> quarter of 2006**, compared to 726,000 SF during the 3<sup>rd</sup> quarter. In 2006 3.6 million SF broke ground, which exceeds the 2.8 million SF started in all of 2005. Baltimore County West and Baltimore County North experienced the most construction starts during the 4<sup>th</sup> quarter, with 278,000 SF and 299,000 SF breaking ground, respectively. However, for the year, Columbia and the Balance of Baltimore City had the most construction starts, at nearly 900,000 SF each.

**Deliveries totaled 301,000 SF in the Baltimore area during the 4<sup>th</sup> quarter of 2006**, at 61% leased upon coming online. For the year 3.1 million SF delivered at 62% leased, surpassing the 2.5 million SF delivered in all of 2005.



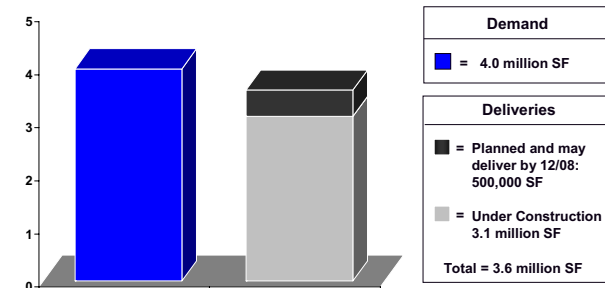
Note: Delivery totals include renovations.  
Source: CoStar, Delta Associates; December 2006.

## Supply v. Demand: Vacancy to Decline

We project the Baltimore area's overall vacancy rate will decrease over the next two years, from 11.1% today to 10.2% in December 2008. Although vacancy should be above 10% 24 months out, we expect demand to outpace new supply by 400,000 SF.

Demand is expected to remain healthy in the Baltimore area, as the Education/Health sector continues to expand.

### Office Space Demand and Deliveries Baltimore Area 24 Months Ending 12/08



Source: Delta Associates; December 2006.

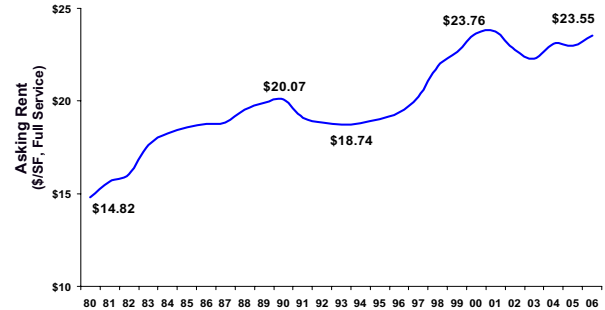
## Rents: Up 2.4% in 2006

Class A office rents increased by 0.4% in the Baltimore area during the 4<sup>th</sup> quarter of 2006. Rents have increased by 2.4% in 2006, after remaining flat in 2005. Rent growth has been sparked by steady demand in the Baltimore area, after sluggish growth in 2005.

Demand for space is expected to remain steady in 2007. Rents in the Baltimore area should increase by 2% to 3% in 2007, with few large blocks of space available.



### Average Class A Office Rents Baltimore Area 1980 Through 2006



Source: CoStar, Delta Associates; December 2006.

### Class A Asking Rent Changes Selected Submarkets in the Baltimore Area December 2005 to December 2006

Submarket	Rent Change
Columbia	+3.2%
BWI	+3.1%
Baltimore CBD	-0.4%

Source: CoStar; Delta Associates; December 2006.

## Investment Sales: Solid

Investment sales volume totaled \$70 million on five transactions during the 4<sup>th</sup> quarter of 2006, compared to \$179 million during the 3<sup>rd</sup> quarter on four transactions. Sales volume in all of 2006 totaled \$528 million, just shy of the \$539 million achieved in 2005.

The most notable sale of the year was 120 E Baltimore Street for \$70 million (\$214/SF). Investors who feel shut out of the Washington market due to extraordinarily high prices may be focusing on nearby Baltimore as this area is undergoing a renaissance and is boasting strengthening fundamentals at lower price points.

YTD average sales price in the Baltimore area was \$121/SF, compared to \$154/SF for 2005 sales. This year's average has been depressed by the sale of older stock.

## The Baltimore Area Outlook

***The Baltimore area office market should continue to advance in 2007.*** Although job growth is expected to ease over the next 12 months, demand for space should remain steady. Construction/renovation levels should ease in the near-term, but remain high as Baltimore continues to revitalize its space. Over the next few years, Baltimore is expected to transform further, as the impacts of BRAC should start to unfold as employees and families transfer to the area. ***Overall, the Baltimore metro area is well positioned for future growth,*** as growth in the education and health fields should generate demand for office space.

## **Market Outlook:**

- **Job Growth:** 15,400 new payroll positions in 2007.
- **Overall Vacancy:** Expected to decline from 11.1% today, to 10.2% at December 2008.
- **Leasing Activity:** Tenant demand should remain steady, particularly in the Education/Health sector.
- **Construction:** Should ease in 2007 and 2008.
- **Rents:** Class A rents to rise by 2% to 3% in 2007.
- **Investment Sales:** Activity should ease, as 2005 likely was the peak year for this cycle.

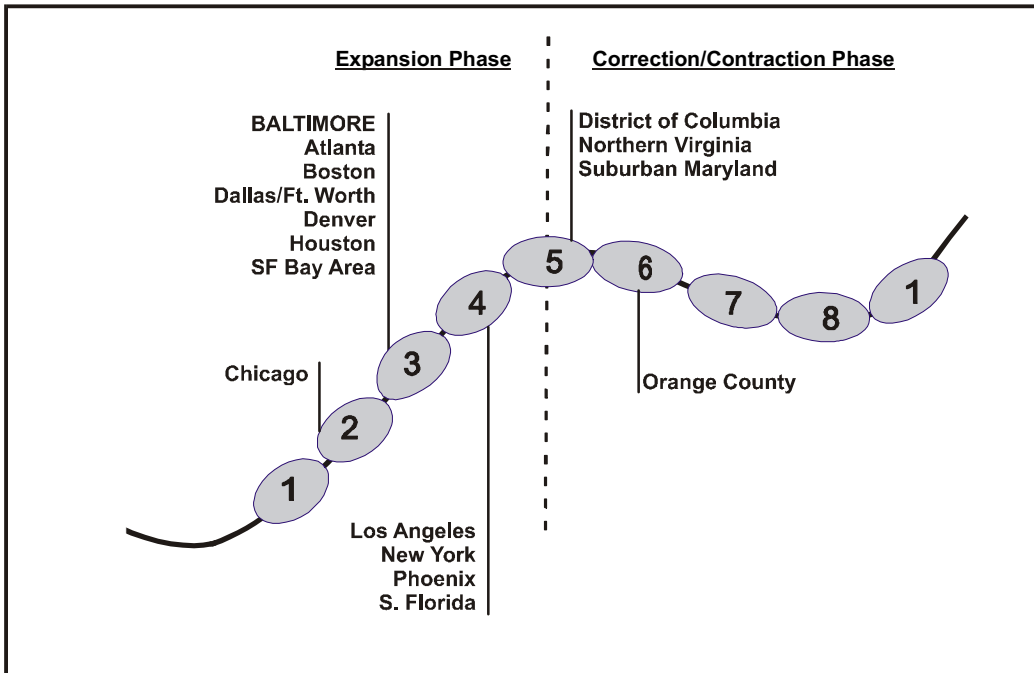
**Selected Lease Transactions in the Baltimore Area  
2006**

<b>Tenant</b>	<b>Address</b>	<b>Submarket</b>	<b>SF</b>
CareFirst of Maryland, Inc.	1501 S. Clinton Street	Baltimore City (non-CBD)	88,000
Stifel Nicolaus & Co. (Sublease)	1 South Street	CBD Baltimore	76,000
Broadwing Corporation (Renewal)	7015 Albert Einstein Drive	Columbia	61,000
Wells Fargo	7080 Samuel Morse Drive	Columbia	56,000
Castle Point Mortgage	6800 Deerpath Road	Route 1 North	47,000
Raytheon Solipsys (Sublease)	8170 Maple Lawn Boulevard	Columbia	45,000
Windmere Corporation	9160 Guilford Boulevard	Columbia	36,000
Susquehanna Bank	307 International Circle	Route 83 Corridor North	34,000
United Way	100 S Charles Street	CBD Baltimore	34,000
MRG/Founding Advisors	180 Admiral Cochrane Drive	Annapolis	32,000
New Day Financial, LLC	8171 Maple Lawn Boulevard	Columbia	30,000
SunTrust Leasing Corporation	300 E. Joppa Road	Baltimore County North	28,000
BenefitMall	501 Fairmount Avenue	Baltimore County North	23,000
Polaris Development Company (Expansion)	7272 Park Circle Drive	BWI/Anne Arundel	22,000
Jackson Group, Inc.	7710 Montpelier Road	Columbia	19,000
City of Annapolis	123 Main Street	Annapolis	18,000
Dakota Imaging	10620 Guilford Road	Route 1 North	18,000
MMI Direct (Sublease)	120 Sparks Valley Road	Baltimore County North	17,000
Willis of Maryland, Inc.	307 International Circle	Route 83 Corridor North	17,000
Pandora Jewelry, LLC	8681 Robert Fulton Drive	Columbia	16,000
Strategic Applications & Technology, Inc. (Sublease)	7070 Samuel Morse Drive	Columbia	16,000
Baltimore Examiner	400 E. Pratt Street	CBD Baltimore	16,000
Retirement Living TV, LLC	8825 Stanford Boulevard	Columbia	15,000
Re/Max Advantage Realty (Renewal)	8815 Centre Park Drive	Columbia	14,000
Coverall Cleaning Concepts	8860 Columbia 100 Parkway	Columbia	14,000
Duratek, Inc.	8170 Maple Lawn Boulevard	Columbia	14,000
University Physicians	250 W. Pratt Street	CBD Baltimore	11,000
Segal, McCambridge, Singer, and Mahoney (Sublease)	1 N. Charles Street	CBD Baltimore	11,000
Wachovia Securities	250 W. Pratt Street	Baltimore CBD	10,000
Encore Health	7150 Columbia Gateway Drive	Columbia	10,000
Vetcentric.com, Inc. (Renewal)	839 Bestgate Road	Annapolis	10,000
Robert Half International, Inc.	500 E. Pratt Street	CBD Baltimore	10,000
SensorCom, Inc.	West Street @ Taylor Avenue	Annapolis	10,000

Note: May not include all large renewals.

Source: *Baltimore Business Journal*, CoStar, Delta Associates; December 2006.

## Office Market Position Index Year-End 2006



### 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

### **Baltimore Office Market Position/Comments**

Above-average absorption; construction rising; vacancy down

Source: Delta Associates; December 2006.

**TABLE 33**  
**OFFICE BUILDING DELIVERIES**  
**BALTIMORE METROPOLITAN AREA**  
**2006**

Submarket	NRSF Delivered			NRSF Available	NRSF Leased at Delivery	
	New Construction	Renovation	Total	At Delivery	Sq. Ft.	%
<b>Baltimore County West:</b>	135,210	0	135,210	75,234	59,976	44.4%
<b>Baltimore County North:</b>	199,812	0	199,812	66,180	133,632	66.9%
<b>Baltimore CBD:</b>	0	64,450	64,450	0	64,450	100.0%
<b>Baltimore City (Non-CBD):</b>	476,000	569,518	1,045,518	248,430	797,088	76.2%
<b>Columbia:</b>	787,629	0	787,629	395,084	392,545	49.8%
<b>Route 1:</b>	119,073	0	119,073	38,997	80,076	67.2%
<b>BWI:</b>	568,301	0	568,301	255,071	313,230	55.1%
<b>Anne Arundel South:</b>	186,193	0	186,193	88,569	97,624	52.4%
<b>Total - Baltimore Metro Area:</b>	<b>2,472,218</b>	<b>633,968</b>	<b>3,106,186</b>	<b>1,167,565</b>	<b>1,938,621</b>	<b>62.4%</b>
Compared to Baltimore Metro Area - 2005:	1,687,658	765,877	2,453,535	1,260,723	1,192,812	48.6%

Source: CoStar, Delta Associates; December 2006.

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**TABLE 34**  
**PROJECTED VACANCY RATE IN TWO YEARS**  
**BALTIMORE METRO AREA OFFICE MARKET**  
**AS OF DECEMBER 2006**  
**(Millions of SF)**

<b>Inventory</b>	
Inventory at 12/06	82.2
Pipeline Thru 12/08 <sup>1</sup>	<u>3.6</u>
Inventory at 12/08	85.8
<b>Supply vs. Demand</b>	
Avail Space (w/sublet) at 12/06	9.1
New Supply Thru 12/08	<u>3.6</u>
Avail Space (w/sublet) Thru 12/08	12.7
Total Demand Thru 12/08 <sup>2</sup>	<u>4.0</u>
Avail Space (w/sublet) at 12/08	8.7
<b>Vacancy</b>	
Vacancy with Sublet at 12/06	11.1%
Vacancy with Sublet at 12/08	10.2%
<p>1/ Office buildings currently under construction and planned that may deliver by December 2008.</p> <p>2/ Projected total demand is derived from two types of demand:            1) Underlying demand -- driven by new job growth.            2) Variable demand -- driven by market conditions and may add to or subtract from total. For example: A firm's decision to lease more space than currently needed to accommodate growth -- or conversely, a firm may be contracting and returning space to the market.</p> <p>Source: Delta Associates; December 2006.</p>	

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 500 Montgomery Street, Suite 600, Alexandria, VA 22314. Phone: 703-836-5700; DeltaAssociates.com.

**TABLE 35  
SUMMARY OF OFFICE MARKET INDICATORS - ALL SPACE  
BALTIMORE METROPOLITAN AREA  
2003 THROUGH 2006**

	Year-End 2006		Direct Vacancy Rate at End of:				Vacancy at End of 2006 w/ Sublet	SF Under Constr. or Renovation at Dec-06	Net Absorption (SF)				
	Total Rentable SF All Bldgs. <sup>1/</sup>	SF Avail. Immediately All Bldgs. <sup>2/</sup>	2003	2004	2005	2006			2003	2004	2005	Q4 2006	All of 2006
Baltimore County West	9,854,684	670,119	10.5%	8.9%	8.2%	6.8%	450,000	530,000	232,000	77,000	262,000		
Baltimore County North	14,641,348	1,449,493	11.1%	12.7%	12.3%	9.9%	38,000	101,000	249,000	(88,000)	527,000		
Baltimore County East	1,905,241	266,734	14.2%	14.7%	20.1%	14.0%	(9,000)	27,000	83,000	27,000	116,000		
Baltimore CBD	17,891,713	1,896,522	13.0%	12.5%	11.0%	10.6%	(98,000)	316,000	268,000	(125,000)	72,000		
Balance of Baltimore City	13,269,861	1,685,272	16.5%	15.0%	13.5%	12.7%	150,000	359,000	192,000	13,000	518,000		
Columbia	11,282,051	1,139,487	9.9%	7.0%	9.9%	10.1%	320,000	446,000	291,000	9,000	687,000		
Route 1 North	858,200	101,268	27.5%	6.9%	9.9%	11.8%	(109,000)	152,000	(22,000)	38,000	91,000		
BWI	7,368,166	559,981	11.8%	5.8%	6.9%	7.6%	35,000	856,000	325,000	-	478,000		
Anne Arundel South	5,095,603	535,038	8.5%	5.1%	10.4%	10.5%	272,000	299,000	(206,000)	88,000	162,000		
<b>TOTAL - Balt. Area</b>	<b>82,166,867</b>	<b>8,303,913</b>	<b>12.3%</b>	<b>10.8%</b>	<b>11.0%</b>	<b>10.1%</b>	<b>1,049,000</b>	<b>3,086,000</b>	<b>1,412,000</b>	<b>39,000</b>	<b>2,913,000</b>		
Vacancy Rate with Sublet Space			14.0%	11.8%	12.0%	11.1%							

1/ Includes buildings 15,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government.

2/ Does not include sublet space.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2006.  
Delta Associates, the research affiliate of Transwestern, is headquartered at:  
500 Montgomery Street, Suite 600, Alexandria, VA 22314; 703-836-5700; DeltaAssociates.com.

**TABLE 36**  
**SUMMARY OF OFFICE MARKET INDICATORS - CLASS A <sup>1/</sup>**  
**BALTIMORE METROPOLITAN AREA**  
**2003 THROUGH 2006**

	Year-End 2006						Net Absorption (SF)				
	Total Rentable SF- <sup>2/</sup>	SF Available Immediately <sup>3/</sup>	Direct Vacancy Rate	Vacancy Rate with Sublet Space	SF Under Construction or Renovation		2003	2004	2005	Q4 2006	All of 2006
Baltimore County West	4,651,810	344,234	7.4%	8.3%	505,850	289,000	363,000	142,000	62,000	131,000	
Baltimore County North	5,724,457	452,232	7.9%	8.0%	210,666	92,000	218,000	83,000	86,000	338,000	
Baltimore County East	480,543	64,393	13.4%	13.4%	-	19,000	(17,000)	55,000	3,000	38,000	
Baltimore CBD	8,604,903	980,959	11.4%	14.4%	-	(133,000)	366,000	318,000	17,000	(77,000)	
Balance of Baltimore City	2,997,957	305,792	10.2%	11.4%	695,000	110,000	271,000	-	(57,000)	243,000	
Columbia	5,714,269	577,141	10.1%	11.3%	633,858	211,000	336,000	463,000	110,000	412,000	
Route 1 North	358,578	72,433	20.2%	20.8%	68,208	15,000	8,000	(21,000)	(27,000)	44,000	
BWI	4,477,922	308,977	6.9%	8.2%	157,100	(34,000)	463,000	226,000	9,000	444,000	
Anne Arundel South	1,357,584	17,649	1.3%	1.3%	304,834	230,000	97,000	35,000	(5,000)	52,000	
TOTAL - Balt. Area	34,368,023	3,123,808	9.1%	10.5%	2,575,516	799,000	2,105,000	1,301,000	198,000	1,625,000	

<sup>1/</sup> Class A is defined as buildings greater than 50,000 SF and built after 1984, except for Baltimore CBD, which includes those buildings that are defined as Class A by CoStar and are 50,000 SF or greater.

<sup>2/</sup> Does not include buildings under construction or buildings owned by the government.

<sup>3/</sup> Does not include sublet space.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2006.

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**TABLE 37**  
**RENT RATE ANALYSIS OF CLASS A OFFICE BUILDINGS**  
**BALTIMORE AREA**  
**2003 THROUGH 2006**

<b><u>Submarket</u></b>	<b>Average Asking Rent (\$'s/SF, GFS) Per Annum:</b>				<b><u>% Change</u></b> <b><u>12/05 - 12/06</u></b>
	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	
Annapolis	\$22.60	\$23.55	\$24.20	\$24.90	2.9%
Baltimore CBD	\$24.75	\$24.75	\$24.70	\$24.60	-0.4%
Columbia	\$22.70	\$23.20	\$23.25	\$24.00	3.2%
Baltimore County West	\$19.45	\$19.90	\$19.65	\$20.25	3.1%
Baltimore County North	\$20.70	\$21.05	\$21.25	\$21.90	3.1%
Baltimore County East	\$22.00	\$21.80	\$21.80	\$22.30	2.3%
BWI	\$24.20	\$24.65	\$25.40	\$26.20	3.1%

Note: We report rent rate trends on a semi-annual basis, so as to assure sufficient data exists to make informed observations on these trends.

Source: Proprietary database of actual lease transactions from Transwestern and Delta Associates, CoStar; December 2006.

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**TABLE 38**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**BALTIMORE CBD/BALTIMORE CITY**  
**1997 THROUGH 2006**

Average Price 2006 (11 Sales):	\$247,044,794	2,101,736 SF	\$117.54
Average Cap Rate 2006:			6.90%
Average Class A Price 2006 (3 Sales):	\$95,690,000	658,000 SF	\$145.43
Average Class A Cap Rate 2006:			6.40%
Average Price 2005 (5 Sales):	\$325,870,000	1,694,000 SF	\$192.39
Average Cap Rate 2005:			6.50%
Average Class A Price 2005 (2 Sales):	\$259,300,000	1,003,000 SF	\$258.59
Average Class A Cap Rate 2005:			6.50%
Average Price 2004 (4 Sales):	\$102,390,000	1,279,000 SF	\$80.08
Average Cap Rate 2004:			9.30%
Average Class A Price 2004 (1 Sale):	\$40,000,000	231,000 SF	\$172.95
Average Class A Cap Rate 2004:			9.00%
Average Price 2003 (5 Sales):	\$228,200,000	1,985,000 SF	\$114.96
Average Cap Rate 2003:			10.20%
Average Class A Price 2003 (4 Sales):	\$190,200,000	1,555,000 SF	\$122.32
Average Class A Cap Rate 2003:			10.20%
Average Price 2002 (1 Sale):	\$21,500,000	101,000 SF	\$212.06
Average Cap Rate 2002:			NA
Average Class A Price 2002 (1 Sale):	\$21,500,000	101,000 SF	\$212.06
Average Class A Cap Rate 2002:			NA
Average Price 2001 (2 Sales):	\$39,590,000	481,000 SF	\$82.30
Average Cap Rate 2001:			9.90%
Average Class A Price 2001 (0 Sales):			NA
Average Class A Cap Rate 2001:			NA
Average Price 2000 (1 Sale):	\$12,600,000	101,000 SF	\$124.12
Average Cap Rate 2000:			NA
Average Class A Price 2000 (0 Sales):			NA
Average Class A Cap Rate 2000:			NA
Average Price 1999 (2 Sales):	\$38,000,000	317,000 SF	\$119.77
Average Cap Rate 1999:			9.00%
Average Class A Price 1999 (0 Sales):			NA
Average Class A Cap Rate 1999:			NA
Average Price 1998 (5 Sales):	\$320,000,000	2,177,000 SF	\$147.01
Average Cap Rate 1998:			NA
Average Class A Price 1998: (4 Sales):	\$259,000,000	1,643,000 SF	\$157.66
Average Class A Cap Rate 1998:			NA
Average Price 1997 (5 Sales):	\$171,540,000	1,139,000 SF	\$150.65
Average Cap Rate 1997:			9.40%
Average Class A Price 1997: (3 Sales):	\$166,540,000	976,000 SF	\$170.70
Average Class A Cap Rate 1997:			9.40%

Notes: Average sale prices are weighted.

Source: CoStar, Real Capital Analytics, Baltimore Business Journal, Delta Associates; December 2006.

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**TABLE 39**  
**SUMMARY OF SIGNIFICANT OFFICE BUILDING SALES**  
**BALTIMORE SUBURBS**  
**1997 THROUGH 2006**

Average Price 2006: (8 Sales)	\$280,570,000	2,259,000 SF	\$124.20
Average Cap Rate 2006:			7.30%
Average Class A Price 2006: (4 Sales)	\$34,510,000	188,000 SF	\$183.56
Average Class A Cap Rate 2006:			7.30%
Average Price 2005: (15 Sales)	\$212,910,000	1,519,000 SF	\$140.20
Average Cap Rate 2005:			NA
Average Class A Price 2005: (4 Sales)	\$73,560,000	481,010 SF	\$152.92
Average Class A Cap Rate 2005:			NA
Average Price 2004 (4 Sales):	\$82,350,000	582,000 SF	\$141.54
Average Cap Rate 2004:			7.50%
Average Class A Price 2004: (1 Sale)	\$42,000,000	220,000 SF	\$190.91
Average Class A Cap Rate 2004:			7.50%
Average Price 2003 (8 Sales):	\$136,990,000	1,162,000 SF	\$117.88
Average Cap Rate 2003:			NA
Average Class A Price 2003: (3 Sales)	\$66,000,000	515,000 SF	\$128.03
Average Class A Cap Rate 2003:			NA
Average Price 2002 (7 Sales):	\$44,880,000	482,000 SF	\$93.15
Average Cap Rate 2002:			8.70%
Average Class A Price 2002: (1 Sale)	\$7,300,000	54,000 SF	\$136.16
Average Class A Cap Rate 2002:			9.80%
Average Price 2001 (10 Sales):	\$97,450,000	851,000 SF	\$114.49
Average Cap Rate 2001:			9.90%
Average Class A Price 2001: (5 Sales)	\$76,310,000	601,000 SF	\$126.97
Average Class A Cap Rate 2001:			10.10%
Average Price 2000 (4 Sales):	\$47,210,000	394,000 SF	\$119.97
Average Cap Rate 2000:			NA
Average Class A Price 2000: (2 Sales)	\$35,000,000	283,000 SF	\$247.35
Average Class A Cap Rate 2000:			NA
Average Price 1999 (11 Sales):	\$107,040,000	943,000 SF	\$113.37
Average Cap Rate 1999:			9.60%
Average Class A Price 1999: (6 Sales)	\$78,590,000	648,000 SF	\$121.28
Average Class A Cap Rate 1999:			9.60%
Average Price 1998 (14 Sales):	\$186,430,000	1,912,000 SF	\$97.50
Average Cap Rate 1998:			9.80%
Average Class A Price 1998: (4 Sales)	\$57,150,000	409,000 SF	\$139.60
Average Class A Cap Rate 1998:			9.80%
Average Price 1997 (11 Sales):	\$97,460,000	1,314,000 SF	\$74.17
Average Cap Rate 1997:			9.90%
Average Class A Price 1997: (7 Sales)	\$83,530,000	965,000 SF	\$86.55
Average Class A Cap Rate 1997:			9.30%

Notes: Average sale prices are weighted.

Source: CoStar, Real Capital Analytics, Howard/Arundel Newsletter, Baltimore Business Journal, Delta Associates; December 2006.

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## METHODOLOGY AND GLOSSARY

- **Inventory:** CoStar's inventory at third quarter 1996 is believed representative of the regional inventory at that time. Delta Associates makes changes to the inventory when buildings are delivered, or when buildings are removed due to substantial renovations or demolitions.
- **Vacancy:** Only space immediately available, per CoStar, is used and not space coming available. Sublet space availability is not counted.
- **Net Absorption** is defined as the change in occupied, standing inventory from one period to the next. Net absorption figures are calculated as follows:
  1. Prior period inventory plus deliveries minus removals for renovation/demolition equals current inventory
  2. Using direct vacancy rate we compute occupied square footage
  3. Subtract prior period occupied square footage from current period occupied square footage
  4. Equals Net Absorption

If a building is under construction, and a large lease is signed for future occupancy, this transaction is counted as net absorption **only when the building is delivered.**
- **Capitalization Rates:** Capitalization rates are intended to represent a property's annual net income (at the time of its sale) divided by its sale price. However, because the rates are drawn from various sources and are presented as averages, they may not reflect an individual user's typical interpretation and should not be used as the basis for investment decisions.
- **Portfolio Sale:** When the vast majority (or all) of the Washington/Baltimore area office properties held by an investor, investment company, or financial institution is sold to another investor, investment company, or financial institution in one transaction. A multi-property sale does not necessarily qualify as a portfolio sale.
- **Job Growth Measures**
  - Average Annual Job Growth:** A comparison of the average employment level for one calendar year with the average for another year. All employment totals for the 12 months in one year are summed and divided by 12 to give an average employment for that year and that average is compared to the same result for another year.
  - Twelve-Month Over-the-Year Job Growth:** The same-month change over a year; e.g., the difference from August 2005 to August 2006. It is the change for a one-year period for a given month. This measure does not require any adjustment for seasonality, since August of one year has similar seasonal behavior to August of the next year.



# OFFICE SUBMARKET DEFINITIONS WASHINGTON/BALTIMORE REGION

## Northern Virginia

### Arlington County

- R-C-B Corridor: The area from Rosslyn to Ballston, including Clarendon/Courthouse and Virginia Square
- Crystal and Pentagon Cities

### Alexandria City

- Old Town Alexandria: The area from the Potomac River to King Street Metro
- Eisenhower Ave, I-395 Corridor (Alexandria Portion)

### Fairfax County (Excludes Great Falls)

- I-395/Springfield/Lorton: The area bounded by Burke on the west, Lorton and Mt. Vernon on the south, and Alexandria City on the east and north
- Bailey's Crossroads, Falls Church, Annandale

- Merrifield: Includes Fairview Park and the area along Gallows Road from Dunn Loring Metro stop on the north to the Gallows/Beltway interchange on the south
- Reston/Herndon
- Tysons Corner
- McLean/Vienna
- Oakton, Fairfax City: An area that centers on I-66/Route 123
- Fairfax Center: An area that centers on I-66/Fairfax County Parkway
- Chantilly, includes Centreville

### Loudoun County

- Route 28 Corridor North: The entirety of Loudoun County east of and including Leesburg

### Prince William County

- Prince William County: The entirety of the County west of U.S. Route 1

## District of Columbia

- CBD: generally defined as the area west of 15th Street, east of 22nd Street, south of P Street and north of Constitution Avenue
- Capitol Hill: The area west of 8th Street SE, east of 3rd Street NW, south of P Street and north of The Anacostia River
- East End: The area west of 3rd Street, east of 15th Street, south of P Street and north of Constitution Avenue
- Georgetown: The area west of Rock Creek, north and east of the Potomac River and south of P Street.
- Southwest: The entire southwest quadrant of DC bounded by South Capitol Street to the east, 14th Street to the west, Independence Avenue to the north and the Anacostia River to the south
- Uptown: The area north of Downtown (P Street) to the Maryland border
- West End: The area east of Rock Creek, west of 22nd Street, north of Constitution Avenue and south of N Street

## **Suburban Maryland**

### Montgomery County

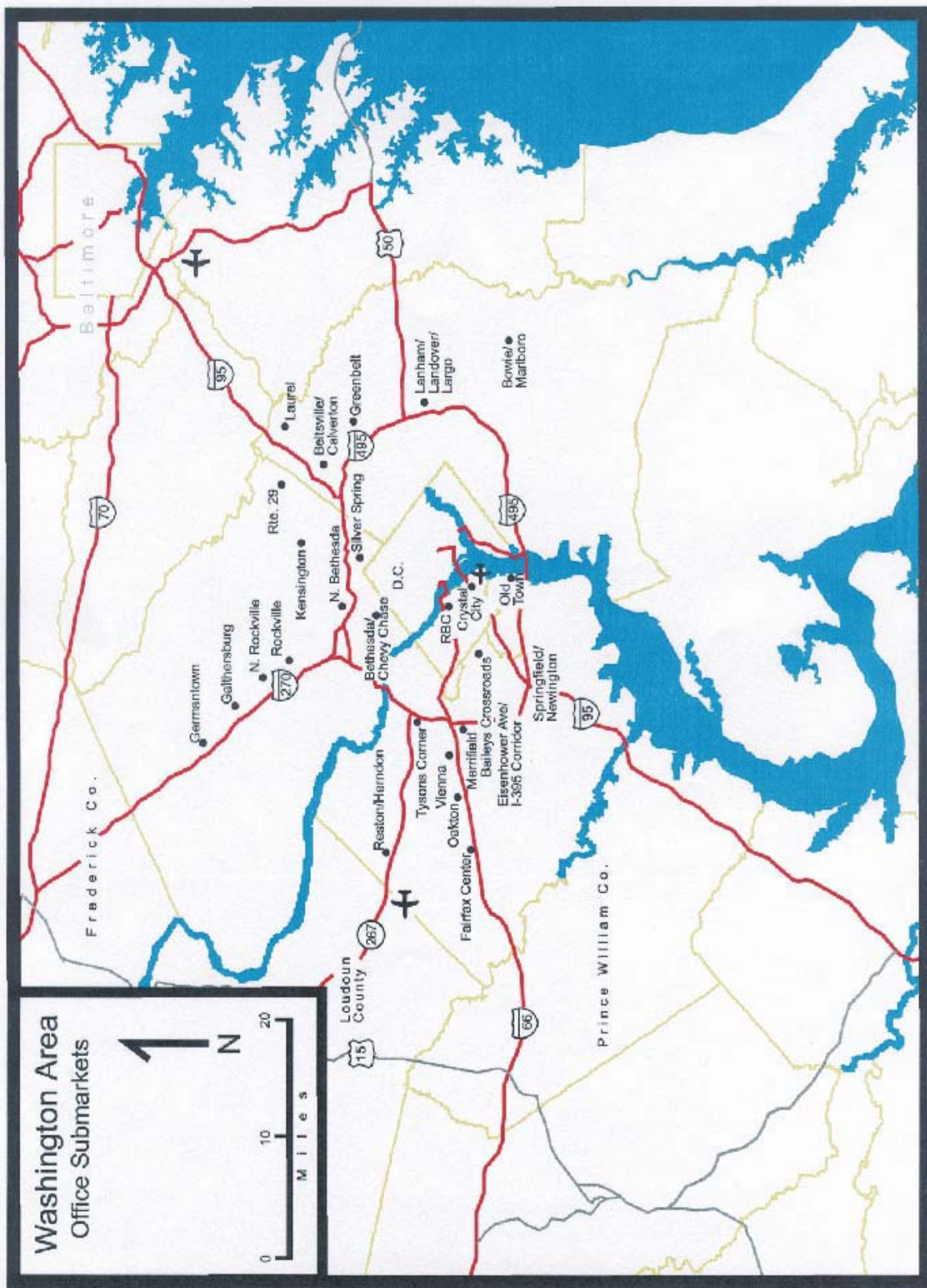
- Bethesda/Chevy Chase
- N. Bethesda
- Rockville
- N. Rockville
- Gaithersburg
- Germantown
- Kensington/Wheaton
- Silver Spring
- N. Silver Spring/Rt. 29

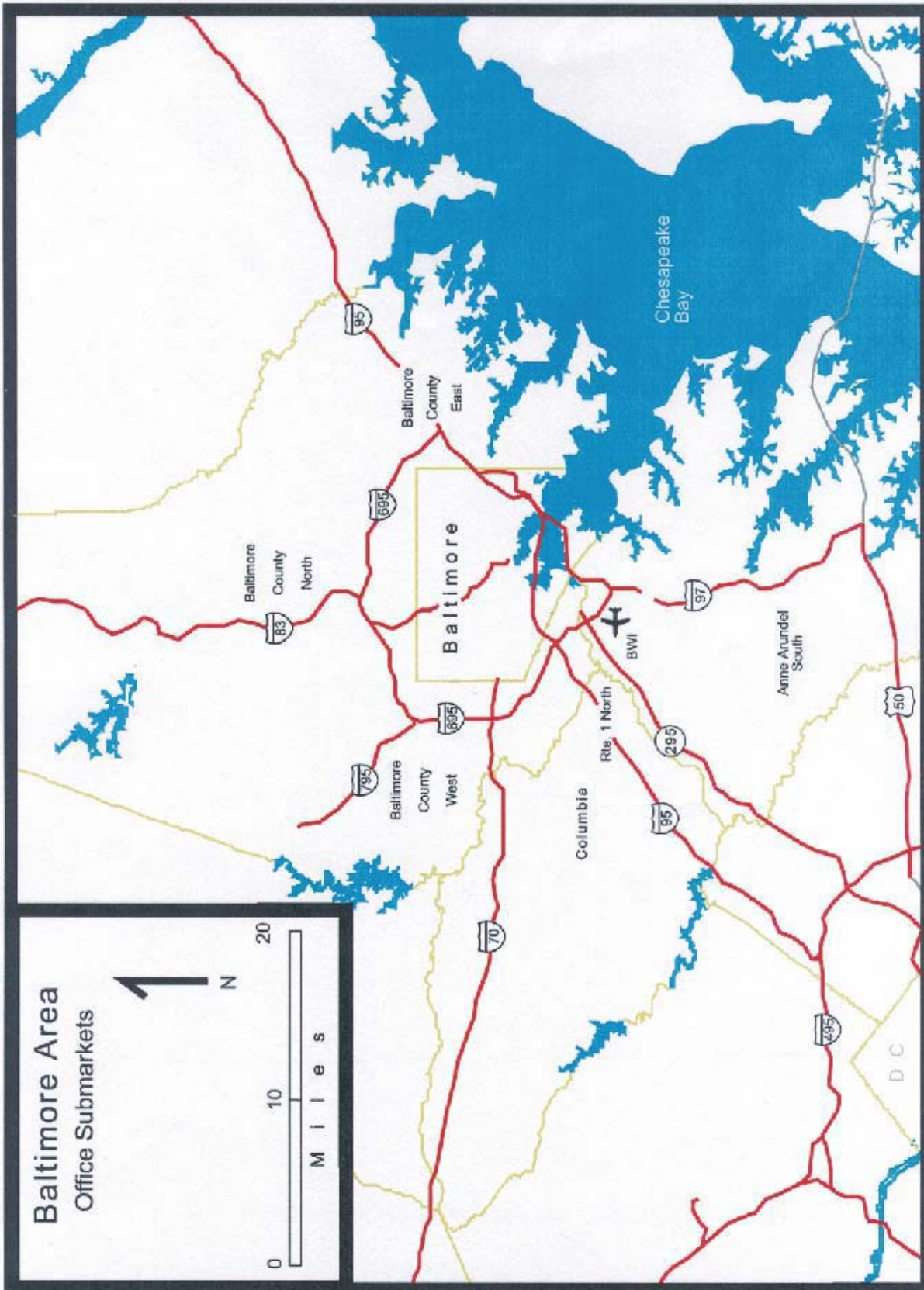
### Prince George's County

- Beltsville/Calverton, College Park: An area that includes Takoma Park
- Laurel
- Greenbelt
- Lanham, Landover/Largo/Capital Heights
- Upper Marlboro/Branch Avenue/Oxon Hill: An area that includes the Pennsylvania Ave. Corridor

## **Baltimore Area**

- Baltimore County West: An area that includes Arbutus, Catonsville, Reisterstown Road, Woodlawn and Owings Mills
- Baltimore County North: An area generally bounded by Reisterstown Road on the west and I-83 and Towson on the east
- Baltimore County East: The area of Baltimore County east of Towson
- Baltimore CBD: An area bounded by the Inner Harbor on the south, Johns Hopkins Medical Center on the west, I-83 on the east and Franklin Street on the north
- Balance of Baltimore City: An area that includes all of Baltimore City, excluding the CBD as defined above
- Columbia: An area that can be characterized as most of north and east Howard County including Ellicott City
- Route 1 North: Route 1 Corridor, BWI/Howard
- BWI: Includes BWI/Linthicum, BWI/Anne Arundel, Route 2 Corridor North
- Anne Arundel South: Includes Annapolis, I-97/Crain Highway Corridor, Route 2 Corridor South





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