

Q2:11

Transwestern Outlook NORTHERN VIRGINIA



Flat Office Net Absorption – Leasing Activity Offset by Tenant Move-Outs; Rents Rise within Close-in Submarkets

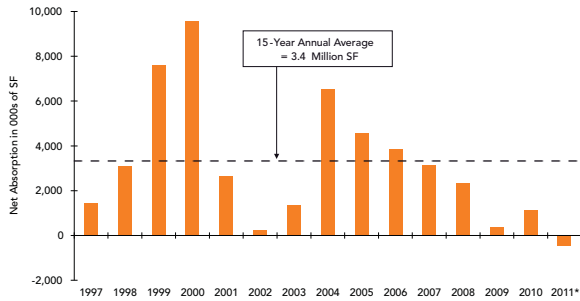
Office market conditions in Northern Virginia were flat during the 2nd quarter of 2011, as steady leasing activity was offset by tenants vacating space. We expect conditions to improve during the balance of the year, as Northern Virginia adds 19,300 new jobs to its economy during 2011 – spurring demand for office space. The elevated vacancy rate put pressure on rents during the 1st half, as effective rents declined 1.1%. The decline in rent has eased compared to 2010, as concession packages are stabilizing. Landlords are increasing asking rents – but with little relief on effective rents as concession packages remain elevated. Overall, Northern Virginia is poised for steady growth in the near-term, with vacancy to decline during the next 24 months and rents to gain meaningful traction thereafter.

Second Quarter 2011 Market Highlights:

- **Net absorption:** Negative 461,000 SF during the 1st half, compared to positive 110,000 SF during the 1st half of 2010.
- **Overall vacancy rate:** 13.6%, down from 13.8% one year ago.
- **Direct vacancy rate:** 12.5%, up from 12.4% one year ago.
- **Sublease space:** Increased by 101,000 SF during the 1st half. Sublease space represents just 1.1% of the inventory.
- **Pipeline (U/C and U/R):** 1.9 million SF, up from 837,000 SF one year ago.
- **Pipeline pre-lease rate:** 36%, down from 71% a year ago.
- **Rents:** Down 1.1%, compared to declining 5.8% in 2010.
- **Investment sales:** \$856 million (\$285/SF) during the 1st half, compared to \$219 million (\$251/SF) during the 1st half of 2010.

OFFICE NET ABSORPTION

Northern Virginia | 1997 Through First Half 2011

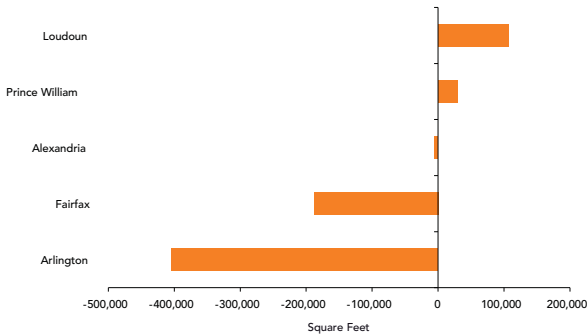


Source: Delta Associates; June 2011.

*First half 2011.

NET ABSORPTION OF OFFICE SPACE

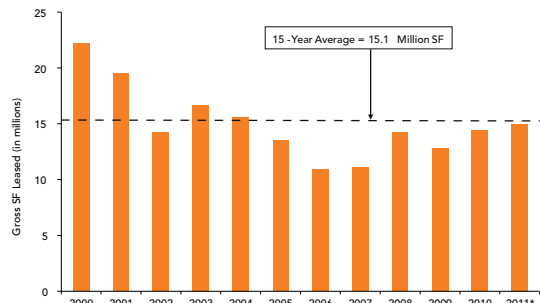
Northern Virginia Counties | First Half 2011



Source: Delta Associates; June 2011.

GROSS LEASING ACTIVITY

Northern Virginia | 2000 Through 2011



Source: CoStar, Delta Associates; June 2011.

*Estimate. Note: Data updated each quarter.

NET ABSORPTION

Net absorption totaled negative 461,000 SF during the 1st half of 2011, compared to positive 110,000 SF during the 1st half of 2010. Net absorption totaled 1.1 million SF during all of 2010. This compares to the long-term average of 3.4 million SF per annum.

Absorption was weak in Northern Virginia during the 1st half, as demand could not keep pace with tenants vacating space. For example:

- Verizon vacated 300,000 SF at 1320 N. Courthouse Road in the RCB Corridor.
- American Chemistry Council vacated 147,000 SF at 1300 Wilson Boulevard in the RCB Corridor.
- Arlington County Health/Human Services vacated 134,000 SF at 3033 Wilson Boulevard in the RCB Corridor.
- Booz Allen vacated 154,000 SF at 8251 Greensboro Drive in Tysons Corner.

Net absorption of Class A space totaled positive 196,000 SF during the 1st half of 2011, compared to negative 30,000 SF during the 1st half of 2010. Class A net absorption totaled positive 851,000 SF during all of 2010.

GROSS LEASING ACTIVITY

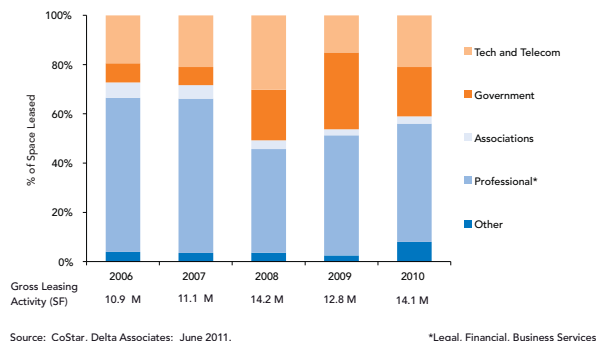
We estimate gross leasing activity will total 15.0 million SF in Northern Virginia during 2011, inclusive of renewals – just below the 15-year average of 15.1 million SF per annum. The most notable deal of the 2nd quarter of 2011 was the U.S. Securities and Exchange Commission leasing 147,000 SF at 6432 General Green Way in Springfield.

Although the Government inked a handful of notable deals during 2010, the share of SF leased (inclusive of renewals) eased to 20% of all lease deals inked in Northern Virginia, compared to 31% during 2009 and 21% during 2008. Leasing from the professional sector was 48% during 2010, compared to 49% in 2009 and 42% in 2008. Notably, the Tech/Telecom sector was 21% during 2010, compared to 15% during 2009, and 30% during 2008.

We expect the share of private sector leasing to pick up pace during the

OFFICE LEASING ACTIVITY BY SECTOR

Northern Virginia | 2006 Through 2010



balance of 2011, as companies with the budget and need should continue to take large blocks of Class A space in a quality location off the market as discounts on rent are offered.

Although GSA leasing will be muted compared to 2010, we expect Dodd Frank legislation will increase government demand for space, despite austerity measures, as the FDIC implements 44 regulations in addition to new or enhanced enforcement authorities. This could benefit Northern Virginia, as the FDIC is located in the RCB Corridor.

There are 535 buildings with blocks of space available over 10,000 SF in Northern Virginia at June 2011, up from 503 buildings one year ago. Fairfax County hosts 60% of these blocks.

There are 59 buildings with blocks of space available over 100,000 SF in Northern Virginia at June 2011, up from 54 buildings one year ago. Notably, Fairfax County has 38 of these blocks. Tenants have fewer options of large blocks of space in Arlington/Alexandria, as only 16 such blocks are available as of June 2011.

The largest block of space is 606,000 SF of renovated space at 5001 Eisenhower Avenue. The next largest block is 537,000 SF at 1812 N. Moore Street in the RCB Corridor. This spec project is currently under construction and plans to deliver by summer 2013.

VACANCY

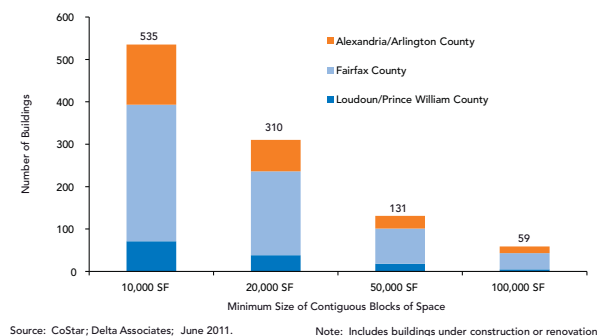
Northern Virginia's overall vacancy rate is 13.6% at June 2011, unchanged from three months prior, but is down from 13.8% one year ago. The direct vacancy rate is 12.5%, unchanged from the quarter prior, but is up from 12.4% one year ago.

Available sublease space increased 41,000 SF during the 2nd quarter of 2011, after rising 60,000 SF during the 1st quarter. Available sublease space declined 922,000 SF during 2010. Currently, sublease space represents just 1.1% of Northern Virginia's standing inventory.

The overall Class A vacancy rate in Northern Virginia decreased to 13.8% at June 2011, from 14.2% three months prior, and 14.6% one year ago. The direct vacancy rate for Class A space is 12.5%, down from 12.8% the quarter prior, and down from 12.8% one year ago.

BUILDINGS WITH CONTIGUOUS BLOCKS OF AVAILABLE SPACE

Northern Virginia | June 2011



BLOCKS OF AVAILABLE SPACE OVER 100,000 SF TOP FIVE BUILDINGS

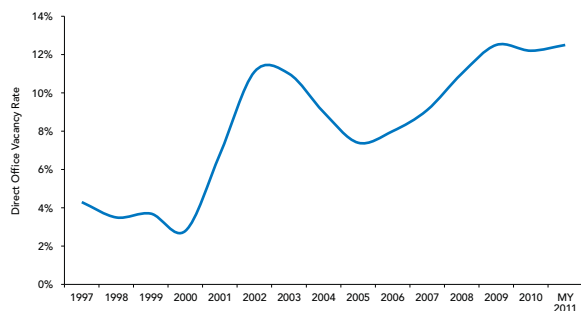
Northern Virginia | March 2011

Submarket	SF	Submarket
5001 Eisenhower Ave	606,000	I-395 Corridor
1812 N. Moore Street	537,000	RCB Corridor
5275 Leesburg Pike	426,000	I-395 Corridor
251 18th Street S	302,000	Crystal/Pentagon City
800 N. Glebe Rd	301,000	RCB Corridor

Source: CoStar, Delta Associates; June 2011.

DIRECT OFFICE VACANCY RATE

Northern Virginia | 1997 Through Mid Year 2011



Source: CoStar, Delta Associates; June 2011.

VACANCY RATES AND VACANT SPACE (ALL CLASSES)

Northern Virginia | March 2010 vs. March 2011

	June 2010	June 2011
Vacancy Rate		
Direct	12.4%	12.5%
Sublet	1.4%	1.1%
Vacant Space (Millions of SF)		
Direct	22.0	22.3
Sublet	2.5	2.0

Source: CoStar, Delta Associates; March 2011.

The outer suburbs of Loudoun and Prince William Counties hold the highest direct vacancy rates in Northern Virginia, at 18.0% and 14.4%, respectively. Only Arlington and Alexandria hold vacancy rates below the Northern Virginia average of 12.5%.

CONSTRUCTION

There is 1.9 million SF of office space under construction or renovation in Northern Virginia at June 2011, up from 837,000 SF one year ago. 36% of the space under construction is pre-leased at June 2011, compared to 71% one year ago. The current pre-lease rate is below the 10-year average pre-lease rate of 50%.

The RCB Corridor has the greatest amount of space under construction at June 2011. This submarket has 1.3 million SF in the pipeline at a 27% pre-lease rate.

Developers are currently queuing office projects for the next round of development – particularly in the RCB Corridor. For instance:

- Penzance Company is planning a 277,000 SF office project at 3001 Washington Boulevard.

NET OFFICE ABSORPTION AND VACANCY BY SUBMARKET

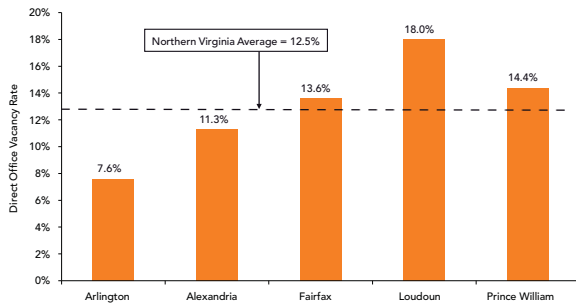
Northern Virginia

Submarket	Inventory (SF) at 2 nd Qtr 2011	2008	Net Absorption (SF)			Vacancy at 2 nd Quarter 2011	
			2009	2010	First Half 2011	Direct	w/Sublet
R-B Corridor	22,350,864	978,000	88,000	246,000	(377,000)	7.3%	9.0%
Crystal/Pent City	13,985,364	598,000	357,000	196,000	(28,000)	8.2%	8.6%
Old Town Alex	8,389,063	(50,000)	(222,000)	25,000	(42,000)	10.5%	12.1%
Eis. Ave/I-395	9,350,185	259,000	11,000	(47,000)	37,000	12.1%	13.0%
Springfield/Burke	5,636,357	136,000	(6,000)	(73,000)	79,000	10.6%	10.9%
Bailey's/Falls Church	5,823,890	35,000	(100,000)	87,000	23,000	8.4%	9.2%
Merrifield	9,159,712	(542,000)	179,000	307,000	(82,000)	10.5%	11.8%
Reston/Herndon	30,043,733	356,000	(97,000)	120,000	(30,000)	14.5%	15.5%
Tysons Corner	26,455,645	(487,000)	(319,000)	(238,000)	79,000	13.7%	15.2%
McLean/Vienna	2,370,748	(5,000)	4,000	(24,000)	(138,000)	11.6%	11.7%
Oakton/Fairfax Cty	4,407,197	(27,000)	(100,000)	(48,000)	(13,000)	12.8%	13.4%
Fairfax Ctr	6,445,385	(122,000)	(116,000)	(232,000)	(39,000)	17.0%	19.1%
28 South/Chantilly	13,339,015	788,000	92,000	815,000	(67,000)	16.1%	17.2%
Loudoun Cnty	13,313,707	121,000	371,000	(93,000)	107,000	18.0%	18.6%
Prince William Cnty	6,997,963	295,000	218,000	90,000	30,000	14.4%	14.9%
Northern Virginia:	178,068,828	2,333,000	360,000	1,131,000	(461,000)	12.5%	13.6%

Source: CoStar, Delta Associates; June 2011.

DIRECT OFFICE VACANCY RATE

Northern Virginia | June 2011



Source: CoStar, Delta Associates; June 2011.

OFFICE SPACE UNDER CONSTRUCTION OR RENOVATION

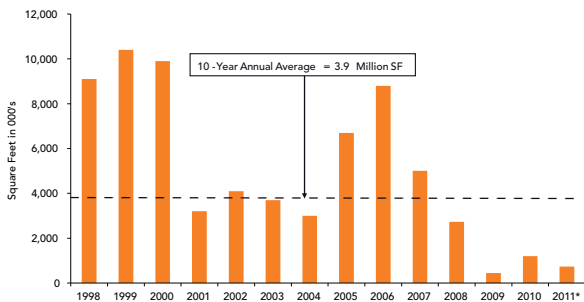
Northern Virginia | June 2011

Submarket	SF	% Pre-Leased
Rosslyn, Courthouse, Ballston	1,318,000	27%
Springfield/Huntington/I-95	426,000	41%
Loudoun County	120,000	100%
Prince William County	69,000	75%
Total:	1,932,000	36%

Source: CoStar, Delta Associates; March 2011.

OFFICE CONSTRUCTION STARTS

Northern Virginia | 1998 Through 2011



Source: CoStar, Delta Associates; June 2011.

*First half 2011.

- Otter Equities is planning a 166,000 SF office project at 2311 Wilson Boulevard.
- JBG plans to redevelop two dated office projects at Rosslyn Gateway. The developer plans to replace the two office buildings at 1901 and 1911 Fort Myer Drive with three new buildings. One of the buildings would be a hotel and condominium project, according to the Arlington Newsletter. The second building would be a 510,000 SF office building and the third would be a 200,000 SF residential project.

Under a plan to consolidate operations, Boeing plans to break ground on two office buildings in Crystal City by the end of 2011. The plan calls for two office buildings, totaling 456,000 SF, which will be connected by an atrium. The office complex will house 500 of its employees.

Developers started on 734,000 SF during the 1st half of 2011, compared to 448,000 SF during the 1st half of 2010. A total of 1.2 million SF broke ground during 2010, compared to the 10-year annual average of 3.9 million SF.

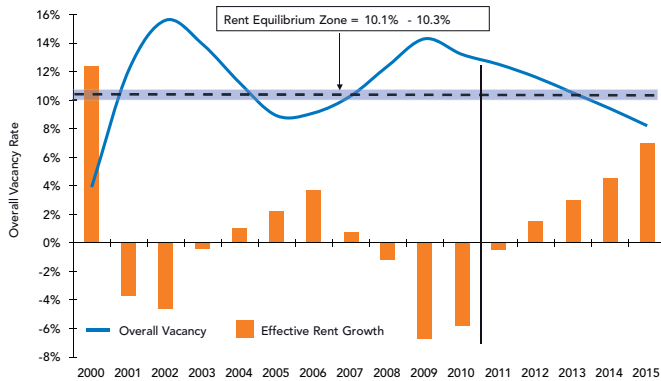
Monday Properties broke ground on 538,000 SF at 1812 N. Moore Street in the RCB Corridor during the 1st quarter. The company started construction with \$30 million of its own cash and no financing in place despite not signing a lease. However, construction might halt after garage construction is complete, as the company waits for a signed tenant. Skanska also started a spec project in the RCB Corridor during the 1st quarter. The company broke ground on 127,000 SF at 1776 Wilson Boulevard.

Although breaking ground on spec projects at this point in the cycle is not warranted in most Northern Virginia submarkets, we believe the risk is lowered in select well-positioned submarkets – such as Springfield and the RCB Corridor. We expect limited spec groundbreakings in most Northern Virginia submarkets during the balance of 2011, as direct vacancy remains elevated in many submarkets.

Two projects delivered in Northern Virginia during the 1st half of 2011. JBG delivered 144,000 SF at 900 N. Glebe Road. This project delivered 94% pre-leased to Virginia Tech. Town Center Properties delivered 26,000 SF at 14605 Potomac Branch Drive in Prince William County. This project delivered at 62% leased. A total of 787,000 SF delivered 79% leased during 2010.

OVERALL VACANCY RATE VS. EFFECTIVE RENT CHANGE

Northern Virginia | June 2011



Source: CoStar, Delta Associates; June 2011.

SELECTED INVESTMENT SALES

Northern Virginia | First Quarter 2011

Address/Submarket	Price/Buyer
1300 North 17th Street RCB Corridor	\$200 million (\$515/SF) Tishman Speyer
3101 Wilson Boulevard RCB Corridor	\$113 million (\$531/SF) Heitman Capital
3150 Fairview Park Drive Merrifield	\$90 million (\$356/SF) ING Clairion

Source: Delta Associates; June 2011.

PROJECTED SUPPLY V. DEMAND

We project the overall Northern Virginia vacancy rate will decline, from 13.6% today to 12.0% by June 2013. We expect demand to outpace new supply by 2.5 million SF over the next two years, as job growth picks up pace.

We expect leasing will pick up pace during the balance of 2011, as the regional and national economies recover and jobs are added to the Northern Virginia market. This will help to lower the vacancy rate.

Although some government contractors will vacate space under the 2005 BRAC decision during 2011 and 2012, we believe this will have a limited impact on net absorption as many property owners are planning to take advantage of these newly vacated Class B and C buildings and renovate them to Class A. For instance, Lowe Enterprises plans to renovate 1411 Jefferson Davis Highway in Crystal City (where a notable number of move-outs will occur due to BRAC) after the National Guard vacates 263,000 SF. In fact, the Crystal City 40-year revitalization plan states property owners will demolish or renovate 35 to 40 buildings in response to the large blocks of space vacated due to BRAC. This will effectively take these vacant buildings out of the inventory during this time period – limiting the impact on net absorption.

RENTS

Northern Virginia effective office rents declined 1.1% during the 1st half of 2011, compared to a decline of 5.8% during all of 2010. Although asking rents are starting to edge up, concession packages remain generous enough to drag down effective rents.

Rent deterioration is ebbing. Property owners provided generous concession packages during 2010 in order to attract and keep tenants, as demand was light from private sector tenants and the amount of available space was elevated. Concession package offerings are starting to stabilize and should come down during the balance of 2011, as demand picks up pace.

The window of opportunity for tenants to secure lowered rents on quality Class A space in the closer to the core submarkets

is closing. This opportunity has already closed within the RCB Corridor, Crystal/Pentagon Cities, and Old Town Alexandria as effective rents are now on an upward trend.

We expect rent growth to remain stalled in Northern Virginia until 2012. As the vacancy rate gets closer to the rent equilibrium zone during 2012 and 2013, a zone where rents tend to neither rise nor fall, landlords will be eager to push rents up and limit concessions. We expect rents to ebb slightly during 2011 by 0.5% to 1.5%, as a handful of blocks of space come on the market due to the military vacating under the BRAC plan. We expect rents to increase 1.0% to 2.0% during 2012 despite vacancy remaining somewhat elevated. Better buildings in stronger submarkets will outperform these market-wide averages. Thereafter in 2013 market-wide rents should escalate at or above the long-term average.

INVESTMENT SALES

Investment sales volume totaled \$483 million during the 2nd quarter of 2011, compared to \$373 million during the 1st quarter. During the 1st half of 2011, sales totaled \$856 million, compared to \$219 million during the 1st half of 2010. Sales volume totaled \$1.2 billion during all of 2010.

The average sale price was \$285/SF in Northern Virginia during the 1st half of 2011, compared to \$253/SF during 2010.

Notably, Tishman Speyer purchased 1300 North 17th Street for \$200 million (\$515/SF) in the RCB Corridor during the 2nd quarter. Heitman Capital Management purchased 3101 Wilson Boulevard in the RCB Corridor for \$113 million (\$531/SF) during the 1st quarter.

LAND SALES

There were two notable office land sales during the 1st half of 2011, totaling \$7.2 million. This compares to two notable office land sales during all of 2010, totaling \$24.2 million.

Falcon Nest purchased 21.6 acres in the Westfields Corporate Center in the Chantilly submarket during the 2nd quarter 2011. The price per FAR SF was \$11.50. The developer plans to construct a 400,000 SF office project.

Washington Property Company purchased a 9.4 acre parcel at Stonegate III in the Chantilly submarket during the 1st quarter 2011. The price per FAR SF was \$18.10. The site is already approved for a 144,000 SF office building.

We expect land sales in Northern Virginia to gradually pick up pace during the balance 2011 and 2012. Although the development climate should remain soft this year in most submarkets, developers will be looking to purchase land – planning for the next round of development and delivering during 2013 and beyond when the market transitions back to landlord favor.

NORTHERN VIRGINIA OFFICE MARKET OUTLOOK

The Northern Virginia office market will experience steadily improving conditions during the balance of 2011, as approximately 19,300 new jobs are added to this substate area.

Non-government tenants are starting to grab large blocks of space where discounts are offered, often moving up to Class A space due to discounted rents. The number of tenants seeking space will increase during the balance of the year as the economy improves. GSA has also been active in removing blocks of space from the market and should continue to do so with anticipated lease announcements. Although GSA leasing will be muted compared to 2010, we expect Dodd Frank legislation will increase government demand for space, despite austerity measures, as the FDIC implements 44 regulations in addition to new or enhanced enforcement authorities. This could benefit Northern Virginia, as the FDIC is located in the RCB Corridor.

We expect vacancy to decline over the next two years to 12.0% by June 2013, as Northern Virginia's pipeline has been reduced over the past three years and demand is picking up pace. Although we expect vacancy to decline over the next 24 months, vacancy will remain elevated at June 2013 when compared to the cyclical low of 8.9% during 2005.

Given an elevated vacancy rate, we expect rents to remain under modest pressure during 2011 market-wide, edging down by 0.5% to 1.5%. Although rents are expected to decline this year, the rate of reduction is moderating as demand is picking up pace and property owners are increasing asking rents. Effective rents remain under pressure, as concession packages, although stabilizing, are elevated. By 2012 rents should begin their cyclical increase – sooner in select submarkets with superior supply/demand fundamentals.

The Northern Virginia office market remains a strong player in the intermediate and long-run due to a low pipeline combined with a concentration of Federal contractors. Northern Virginia also should continue to attract some District tenants with its competitive buildings at lower rents, especially at Metro-served locations.

Flex/Industrial Net Absorption Flat During 1st Half – Stagnation Will be Short-Lived; Data Center Demand to Boost Northern Virginia Market

The Northern Virginia flex/industrial market experienced sluggish conditions during the 1st half of 2011, as net absorption was flat and vacancy edged up. These conditions should be short-lived, as we expect demand for data center space to increase.

Rents edged down 0.7% during the past six months, as vacancy remains elevated. We expect rents to gain modest traction during the 2nd half of 2011, as the vacancy rate gradually declines. The rise during the 2nd half of 2011 should produce flat rent growth for 2011.

The Northern Virginia flex/industrial market has started its cyclical recovery – despite the short lull experienced during the 1st half of 2011. Overall, the Northern Virginia flex/industrial market remains relatively healthy, as vacancy is lower than the rate for the Washington metro.

Mid Year 2011 Market Highlights:

- **Net absorption:** 69,000 SF, compared to 874,000 SF during all of 2010.
- **Sublease space:** Increased by 29,000 SF. Sublease space represents just 0.7% of the standing inventory.
- **Overall vacancy rate:** 11.6%, down from 12.0% one year ago.
- **Direct vacancy rate:** 10.9%, down from 11.3% one year ago.
- **Pipeline (U/C and U/R):** 403,000 SF, down slightly from 491,000 SF one year ago.
- **Pipeline pre-lease rate:** 50%, compared to 61% a year ago.
- **Rents:** Down 0.7%, compared to declining 1.0% in all of 2010.
- **Investment sales:** \$8.4 million (\$104/SF), compared to \$270.6 million (\$222/SF) in all of 2010.

NET ABSORPTION OF FLEX/INDUSTRIAL SPACE

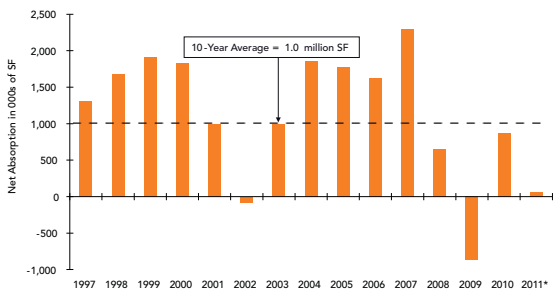
Northern Virginia | First Half 2011

Submarket	All Space	Built 1988-2011
Beltway (I-495)	39,000	-
I-95/395 Corridor	(79,000)	59,000
Reston/Herndon	(37,000)	-
Dulles Corridor/Rt. 28	565,000	375,000
Prince William Co.	(419,000)	(265,000)
No. Virginia Total	69,000	169,000

Source: Delta Associates; June 2011.

FLEX/INDUSTRIAL NET ABSORPTION

Northern Virginia | 1997 Through First Half 2011

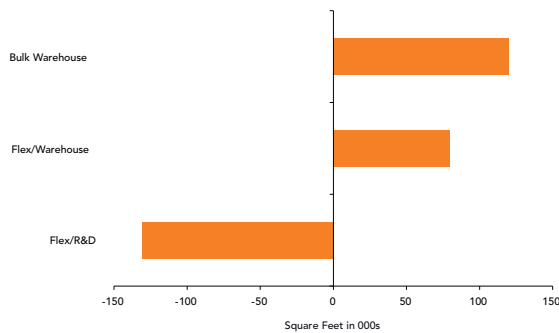


Source: Delta Associates; June 2011.

*First half 2011.

NET ABSORPTION & DELIVERIES BY PRODUCT TYPE

Northern Virginia | First Half 2011



Source: Delta Associates; June 2011.

NET ABSORPTION

Net absorption of flex/industrial space in Northern Virginia totaled positive 69,000 SF during the 1st half of 2011, compared to negative 170,000 SF during the 1st half of 2010. During 2010, net absorption totaled 874,000 SF, compared to the 10-year average of 1.0 million SF.

Bulk warehouse and flex/warehouse space produced positive net absorption during the 1st half of 2011, as pre-leased deliveries came on-line and tenants inked large leases, such as:

- Qwest Communications leased 63,000 SF of flex/warehouse space at 2900 Towerview Road in the Dulles Corridor.
- 10450 Furnace Road, a 57,000 SF bulk warehouse project in the I-95 Corridor, delivered fully leased to GSA.
- Chantilly BioPharma leased 50,000 SF of flex/warehouse space at 3725 Concorde Parkway in the Dulles Corridor.

Tenants vacating flex/R&D space dragged down net absorption during the past six months. For instance:

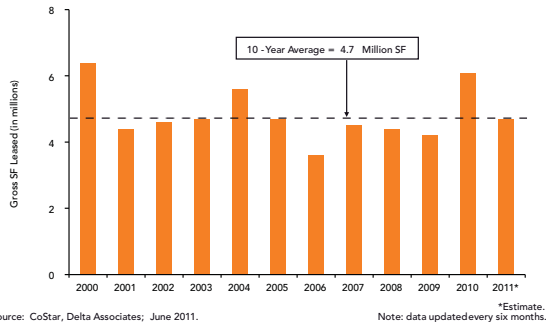
- Wireless Matrix vacated 25,000 SF at 12369 Sunrise Valley Drive in the Reston/Herndon submarket.
- Next Generation Energy Corp. vacated 33,000 SF at 7644 Dynatech Court in the I-95 Corridor.

The Dulles Corridor was the Northern Virginia leader in net absorption during the 1st half of 2011, with 565,000 SF. This strong absorption was due in part to pre-leased deliveries coming on-line. Three projects, totaling 254,000 SF, delivered during the 1st half at 63% pre-leased.

Prince William County experienced the weakest absorption, with negative 419,000 SF, as tenants vacated space. For example, Atlantic Coast Portable Storage vacated 62,000 SF of bulk warehouse space at 14241 John Marshall Highway and Tridex Associates vacated 44,000 SF of flex/warehouse space at 15010 Farm Creek Drive.

GROSS LEASING ACTIVITY

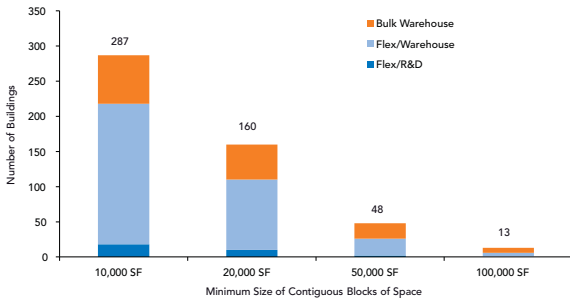
Northern Virginia | 2000 Through First Half 2011



Source: CoStar, Delta Associates; June 2011.

BUILDINGS WITH CONTIGUOUS BLOCKS OF AVAILABLE SPACE

Northern Virginia | June 2011



Note: Includes buildings under construction or renovation.
Source: CoStar, Delta Associates; June 2011.

Net absorption of newer flex/industrial space (built after 1987) totaled 169,000 SF during the 1st half of 2011, compared to 111,000 SF during the 1st half of 2010. Net absorption of newer space totaled positive 1.2 million SF during all of 2010.

Available sublease space increased 29,000 SF in Northern Virginia during the 1st half of 2011, compared to decreasing 294,000 SF during all of 2010. Sublease space represents just 0.7% of the standing inventory.

GROSS LEASING ACTIVITY

We estimate gross leasing activity will total 4.7 million SF during 2011, on par with the 10-year average of 4.7 million SF. The most notable deal of the 1st half was Qwest Communications leasing 63,000 SF of flex/warehouse space at 2900 Towerview Road in the Dulles Corridor.

There are 287 buildings with contiguous blocks of available space over 10,000 SF at mid-year 2011, down from 313 buildings one year ago. There are few blocks of space over 100,000 SF. The largest such block of space is 550,000 SF in a flex/warehouse building located at 6801 Industrial Road in the Springfield submarket.

VACANCY

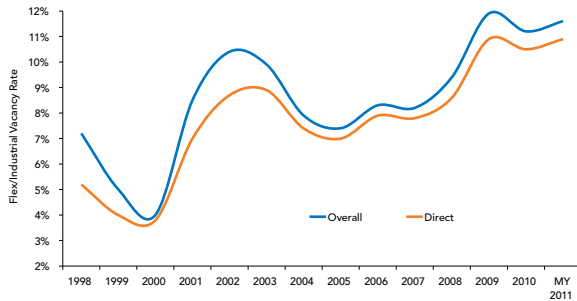
Northern Virginia's overall flex/industrial vacancy rate climbed to 11.6% at mid-year 2011, from 11.2% at year-end 2010, but is down from 12.0% one year ago. The direct flex/industrial vacancy rate is 10.9% at June 2011, up from 10.5% at December 2010, but down from 11.3% one year ago.

Flex/industrial vacancy had been on the rise since year-end 2005. Vacancy dipped at year-end 2010, as positive absorption resumed. However, at mid-year 2011, vacancy edged up again, as demand could not keep pace with tenants vacating space. We believe this is just a hiccup and vacancy should continue its decent during the next 12 months.

Northern Virginia's overall flex/industrial vacancy rate in newer space is 15.4% at mid-year 2011, up from 14.7% at year-end 2010, but down from 16.8% one year ago. The direct vacancy rate in newer space is 14.6% at June 2011.

FLEX/INDUSTRIAL VACANCY RATE

Northern Virginia | 1998 Through Mid Year 2011



Source: CoStar, Delta Associates; June 2011.

FLEX/INDUSTRIAL SPACE UNDER CONSTRUCTION

Northern Virginia | June 2011

Submarket	SF	% Pre-leased
Dulles Corridor	285,000	71%
Prince William Co.	118,000	0%
No. Virginia Total	403,000	50%

Source: CoStar, Delta Associates; June 2011.

AVERAGE ASKING RENTS

NoVa Flex/Industrial Space (NNN/SF/Annum)

Product Type	Year-End 2010	Mid-Year 2011	% Change
Bulk Warehouse	\$7.25	\$7.20	-0.7%
Flex/Warehouse	\$7.90	\$7.80	-1.3%
Flex/R&D	\$12.75	\$12.65	-0.8%

Source: CoStar, Delta Associates; June 2011.

CONSTRUCTION

There is 403,000 SF of flex/industrial space under construction or renovation in Northern Virginia at mid-year 2011, down from 491,000 SF one year ago. Projects under construction are currently 50% pre-leased, compared to 61% one year ago.

The Dulles Corridor is the leader in pipeline projects at mid-year 2011, with 285,000 SF under construction at 71% pre-leased. The pre-lease rate is boosted by 22640 Davis Drive, which has 178,000 SF under construction fully pre-leased to Rockwell Collins. New Boston Fund plans to deliver this project by year-end 2011.

There were no flex/industrial construction starts during the 1st half of 2011, compared to seven projects during 2010. Approximately 621,000 SF started during 2010. We expect construction starts to rise during the 2nd half of 2011 and into 2012, particularly on data centers. For example:

- Sabey Data Centers plans to break ground by late summer 2011 on a 490,000 SF data center, called Intergate.Ashburn, on 38 acres along Harry Byrd Highway in the Dulles Corridor.
- Digital Realty Trust plans to break ground in the near-term on a 300,000 SF data center on 39 acres located along Shellhorn Road in the Dulles Corridor.
- DuPont Fabros Technology plans to break ground in the near-term on a 250,000 SF data center within the Ashburn Corporate Center in the Dulles Corridor.

Northern Virginia is the 2nd largest data center hub on the East Coast next to New York. As more people and companies utilize the internet, the infrastructure that supports the internet needs to increase. This in turn increases the demand for data centers. Demand for data centers will continue to grow, as Northern Virginia is a hub for high-tech businesses that serve the Federal government and private businesses.

Flex/industrial deliveries totaled 436,000 SF in Northern Virginia during the 1st half of 2011, compared to 655,000 SF during all of 2010. Projects delivered at 50% leased or sold upon delivery during the past six months, compared to 72% during 2010.

SUPPLY V. DEMAND

We project the overall Northern Virginia flex/industrial vacancy rate will decline to 10.6% by mid-year 2012 from 11.6% today. We expect demand to outpace new supply by 800,000 SF over the next 12 months – as demand regains traction due to economic recovery and leasing picks up pace, particularly at data centers.

RENTS

Flex/industrial rents softened in Northern Virginia, declining 0.7%, during the 1st half of 2011, compared to declining 1.0% during all of 2010. Each product type experienced a decline in rent. Flex/warehouse space experienced the greatest decline at 1.3% during the past six months, as this product type has 6.2 million SF of direct space available – more than any other product type.

We expect rents to gain modest traction during the 2nd half of 2011 as the vacancy rate gradually declines. The rise during the 2nd half of 2011 should produce flat rent growth for calendar year 2011. Better buildings in better submarkets will outperform these market-wide averages.

INVESTMENT SALES

Investment sales volume in Northern Virginia totaled \$8.4 million during the 1st half of 2011, compared to \$270.6 million during all of 2010. Sales prices averaged \$104/SF during the 1st half of 2011, compared to \$222/SF during all of 2010. The average sales price declined during the 1st half due to limited transaction volume.

LAND SALES

There were two notable flex/industrial land sales during the 1st half of 2011, compared to no transactions during all of 2010.

Digital Realty Trust Inc. purchased 39 acres for \$17.3 million during the past six months. The company plans to construct a 300,000 SF data center. The company continues to purchase land for data center development, as it believes there is a shortage of megawatt supply in Northern Virginia.

Sabey Data Centers purchased 38 acres for \$16.9 million. The company plans to break ground by late summer 2011 on a 490,000 SF data center, called Intergate.Ashburn along Harry Byrd Highway in the Dulles Corridor.

Land sale activity should rise during the balance of 2011 and into 2012, as market conditions improve and developers look to cash in on the booming data center market in Northern Virginia.

NORTHERN VIRGINIA FLEX/INDUSTRIAL MARKET OUTLOOK

The Northern Virginia flex/industrial market should steadily recover during the balance of 2011, as we expect 19,300 jobs will be added to the substate area's economy during 2011.

We expect vacancy to decline over the next year to 10.6% by June 2012, as demand picks up pace – particularly for data centers. Asking rents should stabilize during 2011 – picking up steam during the 2nd half of 2011. Overall, we expect Northern Virginia's flex/industrial market to continue its recovery and remain desirable in the long-run due to its location along I-95 and proximity to Dulles Airport.

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