

WASHINGTON, DC REGIONAL QUARTERLY OVERVIEW

Metropolitan Washington, DC Office Market

The Metropolitan Washington, DC office market consists of approximately 371 million square feet of office space which spans the District of Columbia, Northern Virginia, and Suburban Maryland. Although the commercial real estate market in Washington, DC tends to weather economic cycles better than most of the country due to the support of the national government and historically low unemployment, the area is not immune to struggles. As the national credit crisis and the uncertainty in the global financial systems reached elevated levels of concern this past quarter, the Washington region witnessed a slow down in capital investment with new developments having to work harder for financing and significantly fewer sales transactions taking place. New leasing activity has also stalled as few tenants were willing to assume the expense of moving or the risk of adding additional space.

According to the *Washington Business Journal*, which surveyed top real estate executives, the weakening economy is likely to continue to adversely affect the real estate market in the short term with stabilization expected in 2010.

Vacancy Rate

Direct vacancy rates in the Washington, DC metropolitan office market continued on an upward trend and increased from 9.0% at the end of second quarter

to 9.1% for the third quarter of 2008. When taking into consideration sublet space, the area's total vacancy rate also increased during the third quarter from 10.2% to 10.3%. The District's direct vacancy rate remained unchanged from the previous quarter at 6.5%. The direct rate in Northern Virginia increased from 10.0% to 10.4% while the Suburban Maryland direct rate also jumped over the past quarter from 10.2% to 10.5%. Total vacancy experienced similar movement in Northern Virginia with an increase from 11.2% to 11.7% and in Suburban Maryland with a jump from 11.8% to 12.0% while the total vacancy rate in the District decreased slightly from 7.4% to 7.2%.

Absorption

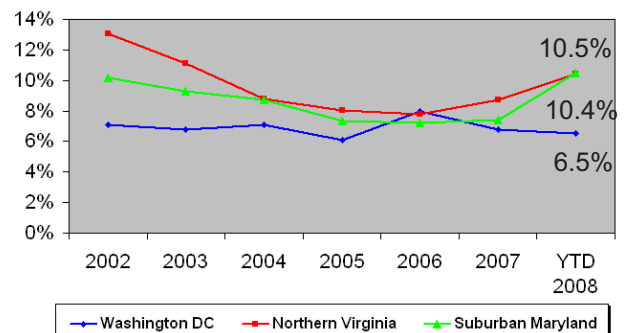
In 2008, the Washington, DC metropolitan area has experienced 1.58 million square feet of direct net absorption and 1.29 million square feet of total net absorption. At the close of the third quarter, the 2008 year-to-date total net absorption in Northern Virginia was 337,090 square feet while the District realized 1.47 million square feet over the same period. On the other hand, Suburban Maryland has experienced negative 442,542 square feet of total net absorption during the first three quarters of 2008 with a majority of the loss occurring in Prince George's County.

3Q 08 DIRECT VACANCY

DC	6.5%	—
NOVA	10.4%	▲
MD	10.5%	▲

*Arrows indicate change from previous quarter

DIRECT VACANCY HISTORICAL CHART

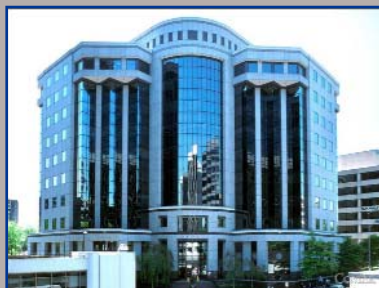


2008 YTD TOTAL NET ABSORPTION

DC	1.47 MIL SF
NOVA	337,090 SF
MD	(442,542) SF

**3Q 08 UNDER
CONSTRUCTION**

DC	7.6 MIL SF
NOVA	2.85 MIL SF
MD	1.9 MIL SF



**3Q 08
DELIVERIES**

DC	323,870 SF
NOVA	817,638 SF
MD	326,146 SF

Construction

At the close of the third quarter 2008, sixty (62) office buildings (26 in DC, 22 in VA, and 14 in MD) in the metropolitan region were under construction totaling 12.35 million square feet. Twelve (12) buildings delivered during the third quarter 2008 (1 in DC, 7 in VA, and 4 in MD) adding approximately 1.47 million square feet of new supply to the region. A majority of the deliveries have occurred in Northern Virginia, which has already delivered 4.61 million square feet of new construction with an additional 721,266 square feet scheduled to deliver in the remainder of 2008.

Government

The third quarter of 2008 was very slow on the GSA leasing front. Aside from some smaller renewals in the suburbs, the most interesting leases were completed at 1717 H Street, in the former Corporate Executive Board space, where both the Veterans Administration and the Department of Homeland Security took a bit over 50,000 square feet each. This was new growth for GSA, a trend we can only hope will carry over into the fourth quarter.

Notable Investment Sales Transactions

When compared to the first half of 2008, the volume of sales transactions fell off significantly in the third quarter. Sales activity in the DC area is expected to be flat for the remainder of 2008 and into 2009 as financing is expensive and hard to come by and many buyers appear ready to wait on the sidelines believing that sales prices have the potential to fall further.

Address	Submarket	Price	Buyer	Seller	Class	Occupancy
666 11th St, NW	East End	\$41Million \$372 psf	J Street Development	Leonard Doggett Enterprises	B	90%
1620 L St, NW	CBD	\$60.5 Million \$369 psf	John Buck Company	TIAA/ Blackstone	A	97%
Symphony Woods Office Center 5950 Symphony Woods Rd	Columbia Town Center	\$15.6 Million \$166 psf	Washington Capitol Partners	Liberty Property Trust	A	94%
Bethesda Office Center 4520 East-West Hwy	Bethesda/ Chevy Chase	\$71.55 Million \$410 psf	AEW	UBS	A	100%

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*975 F St, NW
Seyfarth Shaw
Subleased 76,789 SF*

3Q 08 HIGHLIGHTS

Total Vacancy Rate:
7.2%

**2008 YTD
Direct Net Absorption:**
1.47 Million SF

**2008 YTD
Total Net Absorption:**
1.47 Million SF

**2008 YTD Gross
Leasing Activity:**
5.8 Million SF

Average Rental Rate:
\$48.65 psf FS

Under Construction:
7.7 Million SF

Pre-leased:
29 %

2008 YTD Deliveries:
1.25 Million SF

WASHINGTON, DC QUARTERLY OVERVIEW

Market Summary

The Washington, D.C. office market consists of 729 buildings over 25,000 square feet for a total of 124.8 million square feet. Direct vacancy in the District at the end of the third quarter was 6.5%, unchanged from the second quarter's mark. During the third quarter, Washington witnessed 320,101 square feet of direct net absorption, down from the previous quarter's 949,497 square feet of absorption. At the end of the third quarter, average asking rental rates were \$48.65 psf Full Service up slightly from the \$48.43 psf Full Service recorded in previous quarter. Direct leasing activity decreased during the third quarter to 1.62 million square feet from 1.83 million square feet leased during the second quarter. The largest lease of the past quarter was Seyfarth Shaw subletting 76,789 square feet at 975 F St, NW in the East End. The District witnessed the delivery of one (1) new building during the third quarter, adding approximately 323,000 square feet to the market.

Vacancy Rate

In the District, direct vacancy remained stable at 6.5%, and direct vacancy with sublet space decreased slightly over the past quarter, from 7.4% to 7.2% at the end of the third quarter 2008. Within the District, the CBD remains the tightest submarket with a direct vacancy rate of 4.9% and a total vacancy rate of 6.0%. Class B space in the CBD and East End reached a low of 4.6% vacant for direct space and 5.3% for its total vacancy rate.

WASHINGTON DIRECT VACANCY RATES	CBD - 4.9%	East End - 6.7%
	CBD/EE Class A- 6.7%	CBD/EE Class B- 4.6%
	SW/Cap Hill/NoMa - 8.6%	West End/Georgetown - 11.0%

Absorption and Gross Leasing

Direct absorption decreased during the third quarter 2008 to 320,101 square feet, and net sublet absorption was 182,159 square feet resulting in 502,260 square feet of total net absorption for the quarter. This number is down from the 850,465 square feet of total net absorption during the second quarter of 2008. The 182,159 square feet of sublet absorption is the first positive absorption of sublet space since the third quarter of 2007. The District is now on pace to reach approximately 2 million square feet of positive net absorption for 2008. Direct leasing activity was 1.34 million square feet and total leasing activity was 1.62 million square feet. This represents a 205,959 square foot decrease in total leasing activity from last quarter but keeps the District on pace to reach nearly 8 million square feet of leasing activity in 2008.



1620 L St, NW
Sold for \$60.5 Million
(\$369 psf)

Construction

At the end of the third quarter 2008, 7.7 million square feet of office space was under construction in 26 buildings and 29% of that space was pre-leased. An additional 2.8 million square feet is currently under going some form of renovation (lobby, common areas, rest rooms, etc.). During the third quarter of 2008, the District witnessed the delivery of one building totaling approximately 323,000 square feet.

WASHINGTON NEW OFFICE DELIVERIES

77 K St, NE (323,000 SF, 0% Leased)



3Q 08 SIGNIFICANT LEASE TRANSACTIONS

- ◆ SAIC ~
74,171 SF
1120 Vermont Ave, NW
*Renewal
- ◆ Secret Service ~
70,000 SF
1100 L St, NW
*Renewal
- ◆ RTKL ~
61,352 SF
2101 L St, NW

Potential Space Available

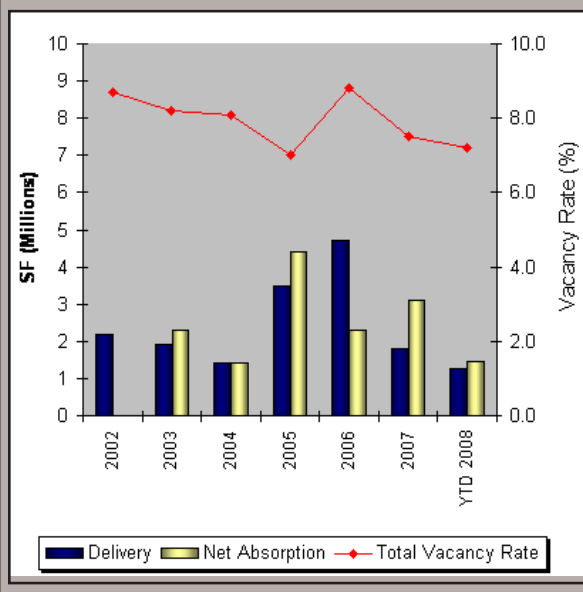
In addition, to the 8.5 million square feet immediately available in the city (of which 792,255 square feet is sublet space), an additional 9.1 million square feet is being marketed as potentially available in the next 24 months, totaling 17,733,793 square feet available in the next 24 months. This includes pending lease expirations, new construction, buildings under renovation, and proposed buildings, which have not yet begun construction.

Outlook

For those tenants who ignored the childhood admonition that “procrastination is the grave in which opportunity is buried,” a decision to postpone making a lease commitment in 2007 and 2008 may result in a very favorable lease in

2009. Even though the vacancy rate dropped in the third quarter, leasing activity remains slow and landlords are becoming more aggressive. Armed with the knowledge that there will be over 5 million square feet of new deliveries in 2009, combined with the specter of a slowing economy, the operative phrase for most landlords is “tenant retention”. In the investment sales area, the troubled financial system and the slowing economy also had a significant impact on activity. The District only recorded four notable investment sales transactions during the third quarter but in the same period witnessed a similar number of dropped contracts – a first in the downtown market. Nevertheless, we remain optimistic. For all the reasons that we have cited in previous reports - an expanding Federal Government presence, long term supply constraints (2009 deliveries notwithstanding), a private sector tenant base that historically has not expanded as fast in good times nor contracted as much in bad times as in other markets - we expect short term imbalances to be corrected more quickly here than in other markets. In the near term, however, it will be a tenant’s market and landlords will need to aggressively compete to attract the attention of tenants with expiring leases.

DC HISTORICAL STATS 2002 - 2008 YTD



77 K St, NE
Delivered September, 2008
323,000 SF Available for Lease

NORTHERN VIRGINIA QUARTERLY OVERVIEW

Summary

The Northern Virginia office market, which combines Arlington, Alexandria, Fairfax, and Loudoun counties for a total of 167.9 million square feet of rentable space, continued to witness a sluggish leasing market during the third quarter 2008 as overall vacancy rates increased with significant jumps in markets outside the Beltway. Although the Washington region is considered one of the strongest commercial real estate markets in the country, the Northern Virginia office market is witnessing the effects of a financing drought and deteriorating economy.

At the end of the third quarter 2008, 265 office buildings in Northern Virginia were marketing contiguous blocks of space 20,000 square feet or greater. This represented a 6% increase from the 250 buildings hosting the same amount of space available at the end of second quarter. The number of large blocks of space available in the range of 50,000- 99,999 square feet also increased over the past quarter from 62 to 65 building while the number of buildings advertising 100,000 square feet of contiguous space or greater decreased from 66 to 61 buildings. As for major leases signed this quarter, there were seven (7) completed in excess of 100,000 square feet, surpassing the four (4) transactions finalized for over 100,000 square feet in the second quarter of 2008. Although there seemed to be a recent surge of buildings available for sale, the investment sales market in Northern Virginia witnessed no (0) major office transactions during the third quarter compared to the eight (8) transactions in second quarter totaling approximately \$535 million. Investment sales are likely to continue to stall until the gap between ask and bid prices diminishes or the market appears to have reached the bottom where investors are confident that they are going to find the best deal.

Vacancy Rate

The direct vacancy rate for Northern Virginia increased from 10.0% to 10.4% over the past quarter and has increased 20% since year-end 2007. Total vacancy rate, which includes sublet space available, also jumped over the past quarter from 11.2% to 11.7% and has increased 18% since year-end 2007.

N. VIRGINIA DIRECT VACANCY RATES	Alexandria - 4.9%	Reston/Herndon - 14.3%
	Merrifield - 11.3%	Rt. 28 South- 17.3%
	R-B Corridor - 4.4%	Tysons Corner - 9.3%

Absorption

At the close of the third quarter, the total net absorption in Northern Virginia for 2008 was 337,090 square feet. Significant negative absorption occurred during the third quarter, this decrease in absorption can be largely attributed to substantial tenants vacating space, such as: Sprint moving out of 2000 & 2002 Edmond Halley Drive for a combined total of negative 288,363 square feet of absorption in Reston.



2530 Crystal Drive
DoD ~ Renewed 524,867 SF

3Q 08 HIGHLIGHTS

Total Vacancy Rate:
11.7%

**2008 YTD
Direct Net Absorption:**
539,786 SF

**2008 YTD
Total Net Absorption:**
337,090 SF

**2008 YTD Gross
Leasing Activity:**
10.2 Million SF

Average Rental Rate:
\$31.86 psf FS

Under Construction:
2.85 Million SF

Pre-leased:
18%

2008 YTD Deliveries:
4.61 Million SF



3120 Fairview Park Drive
Delivered 183,353 sf
in Merrifield

**3Q 08 SIGNIFICANT
LEASE TRANSACTIONS**

- ◆ DoD ~ 524,867 SF
2530 Crystal Dr
- ◆ Time Warner ~
238,235 SF
13820 Sunrise Valley Dr
- ◆ CACI ~ 159,987 SF
14370 Newbrook Dr
- ◆ Boeing ~ 159,664 SF
13651 McLearn Dr



Meadow Point
134,740 SF Available for Lease

Construction

Construction in Northern Virginia can be broken down into two noticeably different scenarios: inside the beltway and outside the beltway, 70% of the projects currently under construction are located in submarkets located outside of Northern Virginia's symbolic dividing line at I-495. At the close of the third quarter, 22 buildings were under construction in Northern Virginia for a total of 2.85 million square feet, of which 18% is pre-leased. Six (6) new buildings broke ground during the third quarter compared to five (5) in second quarter 2008. Seven (7) buildings delivered this past quarter totaling 817,638 square feet, of which 2% was pre-leased. The third quarter deliveries included: 45600-45610 Atlantic Corporate Park in Rt 28 North, 3120 Fairview Park Drive in Merrifield, 1 Dulles Corridor in Reston, and 14797-14801 Murdock Street in Rt 28 South, and Eisenhower Center III in the Eisenhower Ave submarket.

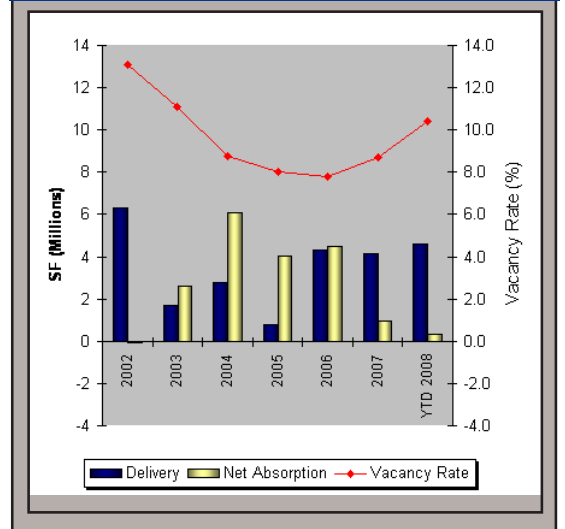
Potential Available Space

In addition to the 20.4 million square feet, which is listed as available immediately, 10.3 million square feet is being marketed as potentially available in the next 24 months. This includes pending lease expirations, new construction, and buildings under renovation.

Outlook

During the third quarter of 2008, commercial real estate was caught in the crosshairs of the nation's challenging financial conditions. The direct vacancy rate in Northern Virginia exceeded 10% during the third quarter and hit its highest level since 2003. With the additional space available, active tenants in most Northern Virginia submarkets are finding themselves with an abundance of options waiting on landlords to make their best offer. Throughout 2008, the majority of tenants with large requirements have found the most economical decision to be renewing in their current locations with a few notable exceptions this quarter. CACI International plans to consolidate a couple of locations signing leases for 159,987 square feet and 60,000 square feet at two new buildings located at the Commonwealth Centre in Route 28 South. Time Warner also signed a new lease and will occupy 238,235 square feet at the recently delivered South Lake at Dulles Corner. In both cases, the tenants are consolidating which will leave their former space available and contribute future negative absorption in these submarkets. Although Northern Virginia's unemployment rate remains healthier than the national average, jobless rates in Virginia hit an eleven year high at 4.6% in September 2008, which could possibly contribute to further leasing conservatism for tenants in the area. Amidst the increasing vacancy rates and falling demand, face rents have held relatively steady in 2008 as landlords are offering significant higher tenant improvements and rental concession packages, especially in submarkets outside the Beltway where leasing conditions are softer. Overall, the current economics of the country are making the commercial real estate industry a tenant driven market.

**NOVA HISTORICAL STATS
2002 - 2008 YTD**



SUBURBAN MARYLAND QUARTERLY OVERVIEW

Summary

The Suburban Maryland office market (Montgomery and Prince George's County) consists of 830 office buildings totaling 78.5 million square feet. Since the end of the second quarter 2008, the direct vacancy rate increased slightly by 0.3% to 10.5% and total vacancy rate increased by 0.2% to 12%. Direct net absorption was 17,735 square feet for the third quarter, compared with last quarter which was 43,099 square feet. Total net absorption over the past quarter was 14,401 square feet. Overall rental rates are averaging \$28.12 per square foot Full Service and Class A rental rates are averaging \$30.72 per square foot Full Service. There are currently 114 existing office buildings marketing contiguous blocks of space 20,000 square feet or greater. One of the largest leases of the second quarter took place in the North Rockville submarket when Aronson & Company leased 75,000 square feet at 805 King Farm Blvd, a Class-A office building built in 2008. WMATA leased 40,000 square feet in the College Park submarket at 6505 Belcrest Road, a 288,954 square foot Class A office building built in 1963 and renovated in 1996.

Vacancy Rate

Direct vacancy for the third quarter increased to 10.5% compared to the same time last year at 8.5%. When sublet space is taken into account, the vacancy rate increased to 12% compared to 10.1% one year ago. Class A direct vacancy also increased to 11.5% from the previous year's rate of 9.0%. The Class A total vacancy rate for this quarter was 13.1%.

Absorption

Third quarter's net absorption for direct space is 17,735 square feet, compared to negative 282,996 square feet in third quarter 2007 due to 407,606 square feet of substantially low preleased deliveries. When taking sublet space into account, the third quarter's total net absorption was 14,401 square feet compared to negative 342,568 square feet for third quarter 2007. The two major submarkets in suburban Maryland both containing over 10 million square feet of office space are North Rockville and Bethesda/Chevy Chase whose year-to-date net absorption are 19,225 square feet & 73,507 square feet, respectively.

MARYLAND	7300 Hanover Road (42,300 SF, 74% Leased) - Greenbelt
NEW OFFICE	1300 Caraway Court (25,000 SF, 65% Leased) - Landover/Largo
DELIVERIES	2000 Tower Oaks (199,093 SF, 36% Leased) - Rockville



*4520 East-West Hwy
Bethesda Office Center
174,448 SF
Purchased by AEW
\$410.47 psf*

3Q 08 HIGHLIGHTS

Total Vacancy Rate:
12%

**2008 YTD
Direct Net Absorption:**
(347,746) SF

**2008 YTD
Total Net Absorption:**
(442,542) SF

**2008 YTD Gross
Leasing Activity:**
3.06 Million SF

Average Rental Rate:
\$28.70 psf FS

Under Construction:
1.93 Million SF

Pre-leased:
29%

2008 YTD Deliveries:
984,934 SF



10401 Fernwood Rd
North Bethesda/Potomac
98% Leased

3Q 08 SIGNIFICANT LEASE TRANSACTIONS

- ◆ Prince George's County Board of Education ~
190,000 SF
8903-8905
Presidential Pky
- ◆ Aronson & Company ~
75,000 SF
805 King Farm Rd
- ◆ WMATA ~
40,000 SF
6505 Belcrest Rd

Construction

Fourteen (14) office buildings were under construction at the close of the third quarter for a total of 1,928,789 square feet. Four buildings delivered a total of 326,146 square feet during the third quarter as opposed to the 24 buildings totaling 2,393,881 square feet under construction and the delivery of 407,606 square feet in third quarter of 2007. 2000 Tower Oaks Blvd, delivered 199,093 square feet in August 2008. This Class A office building developed by The Tower Companies delivered 36% pre-leased with \$49.00 per square foot Full Service asking rates. 7300 Hanover Road-Greenbelt Ambulatory Center, a 42,300 square foot Class A building located in the Greenbelt submarket, delivered in September 2008. Manekin, LLC delivered this building 74% leased, and it is currently listed for sale with a \$275 per square foot asking rate.

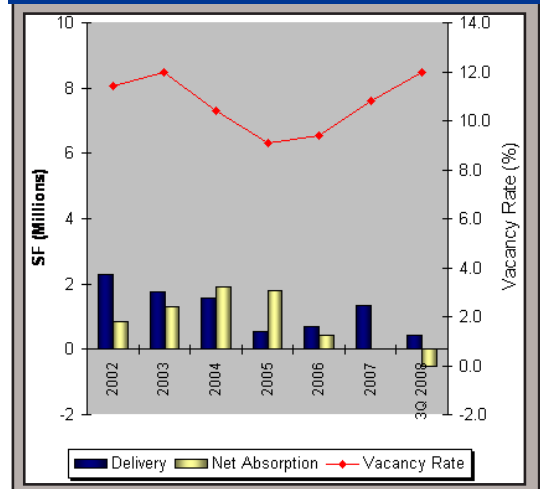
Potential Available Space

In addition to the 8.7 million square feet immediately available in Suburban Maryland, an additional 14.9 million square feet is being marketed as potentially available over the next 24 months. This includes pending lease expirations, new construction and buildings under renovation.

Outlook

The foundation for the suburban Maryland commercial real estate industry remained somewhat steady throughout the third quarter relative to the previous two. As inventory will be growing in the near future with a wave of 14 buildings currently under construction and several ground breakings planned, Suburban Maryland looks to deliver over 2.5 million square feet of office space over the next two years. In 2008, the number of square feet delivered remained consistent while the number of direct deals has decreased by 27% and the number of square feet leased has decreased 49% from the third quarter of 2007. Many businesses have been looking to reduce unnecessary expenses, such as moving costs, resulting in a steady trend of short term renewals in the region. As a result, vacancy rates have increased slightly and will continue to do so over the next couple of years until the trend of recent short term renewals expire, and unemployment begins to drop as a result of the economy stabilizing. The national election will also have its effect on the local markets in Suburban Maryland, some more specific than others such as: North Bethesda and Rockville, due to a push of Federal spending in either healthcare and biotech industries or national defense. Pushed by its history of having solid and established business districts with good access to the surrounding area and a high level of commerce with quality buildings, Montgomery County, especially the North Rockville and Bethesda/Chevy Chase Submarkets, lead the Suburban Maryland office market in absorption activity and vacancy rates. Although average direct rental rates have climbed \$1.13 since the third quarter of 2007, demand has trailed off in the last couple of quarters. Based on strong market indicators, such as stable vacancy rates, positive absorption, and steady construction activity, the Suburban Maryland office market should temporarily remain on this course, consistent with the other metropolitan DC markets, before rebounding strongly in conjunction with the national economy.

MD HISTORICAL STATS 2002 - 2008 YTD



Lincoln 495
8420 Westphalia Rd
153,700 SF Available for Lease