

1Q 09 DIRECT VACANCY

DC	7.8%	▲
NOVA	11.1%	▲
MD	11.4%	▲

*Arrows indicate change from previous quarter

WASHINGTON, DC REGIONAL QUARTERLY OVERVIEW

Metropolitan Washington, DC Office Market

At the close of the first quarter 2009, the U.S. Dept of Labor reported discouraging employment numbers announcing that the national unemployment rate had reached a 25-year high of 8.5% and 663,000 jobs were lost in March. The shrinking job market combined with a lack of consumer and business confidence has impacted the fundamentals of the commercial real estate market resulting in negative absorption, inflated vacancy rates, and diminished rental rates. The Metropolitan Washington, DC office market, which consists of approximately 378 million square feet of office space and spans the District of Columbia, Northern Virginia, and Suburban Maryland, seems to have treaded softly by in 2008 but has showed signs of struggle in this first quarter of 2009. Although the direct vacancy rate reached over 10% as the local market continues to deliver new office space in the midst of economic contraction and weakened tenant demand, there is optimism that the federal government's stimulus spending could offset a portion of the private sector decline. GSA has identified several construction and energy-efficient modernization projects slated for federal office buildings, many of which are located in and around the nation's capital. The Washington, DC region is largely considered to be one of the last markets to subside into this recession and is expected to be one of the first to recover.

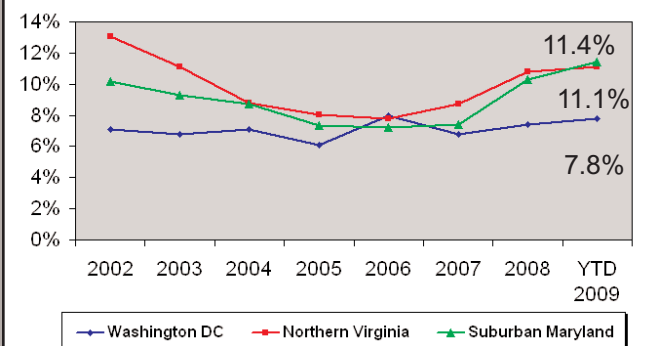
Vacancy Rate

The direct vacancy rate in the Washington, DC metropolitan office market crossed the double-digit milestone and ended the first quarter at 10.1%, which represented a 7.4% increase from the fourth quarter 2008 and a 31% jump from the year-end 2007 rate. When taking into consideration the substantial amount of sublet space added to the market, the area's total vacancy rate also increased over the past quarter from 10.6% to 11.5%. During the first quarter 2009, the direct vacancy rates increased in each market with the District's rate increasing from 7.4% to 7.8%, Northern Virginia's rate rising from 10.8% to 11.1%, and the rate in Suburban Maryland escalating from 10.3% to 11.4%. The total vacancy rates experienced a similar upward trend over the past quarter in the District with an increase from 8.2% to 8.9%, in Northern Virginia with a rise from 12.2% to 12.7%, and in Suburban Maryland with an upsurge from 11.9% to 13.0%.

Absorption

The Washington, DC metropolitan area experienced approximately 226,538 square feet of positive direct net absorption during the first quarter of 2009. However, many businesses have been compelled

DIRECT VACANCY HISTORICAL CHART



2009 YTD TOTAL NET ABSORPTION

DC	(682,088) SF
NOVA	322,834 SF
MD	(28,137) SF

1Q 09 UNDER
CONSTRUCTION

DC	6.87 MIL SF
NOVA	1.98 MIL SF
MD	1.65 MIL SF

to reduce staff and cut real estate expenses, a significant amount of sublease space became available over the past quarter resulting in negative 387,391 square feet of total net absorption. For the first quarter 2009, the District registered negative 682,088 square feet of total net absorption and Suburban Maryland witnessed negative 28,137 square feet while Northern Virginia recorded positive 322,834 square feet of total net absorption due in large part to a few sizeable tenants starting to occupy space for which leases were signed during 2008.

Construction

At the close of the first quarter 2009, forty-three (43) office buildings (21 in DC, 12 in VA, and 10 in MD) in the metropolitan region were under construction totaling 10.50 million square feet. Six (6) buildings have delivered in 2009 (1 in DC, 4 in VA, and 1 in MD) adding approximately 684,768 square feet of new office supply to the region. A vast majority of the area's developments are located within the District, which currently hosts over 6.87 million square feet of space under construction. With extremely tight credit markets and favorable financing terms becoming impossible to obtain, very few new construction projects are expected to get underway in 2009.

Government

With the new administration coming in and the stimulus bill signed, there is a lot of hope that the Federal Government will 'bail out' the local commercial real estate market as well. We're off to a good start as the Federal Reserve leased 80,000 square feet at International Square, and GSA leased 70,000 square feet for TARP at 1801 L Street, with rumors that more leases are in the works there. Also, the Capitol Hill North submarket added some new GSA tenants over the past quarter: 50,000 square feet signed for the IRS at 1200 First Street and 25,000 square feet signed for Homeland Security at 131 M Street.



Notable Investment Sales Transactions

Address	Submarket	Price	Buyer	Seller	Class	Occupancy
1615 L Street, NW	CBD, DC	\$180.0 Million \$435 psf	Bernie Spitzer	Broadway Partners	A	93%
1300 Connecticut Avenue, NW	CBD, DC	\$63.6 Million \$505 psf	Dividend Capital Total Realty Trust	ING Clarion	A	98%
801 Eye Street & 800 K Street, NW	East End, DC	\$265.0 Million \$350 psf	JBG	Benkowski/Akridge	A	90%
Boxwoods - 1856 Old Reston Avenue	Reston, VA	\$16.09 Million \$401 psf	Army & Air Force Mutual Aid Assoc	Gregor, LLC	B	76%

1Q 09
DELIVERIES

DC	244,812 SF
NOVA	284,956 SF
MD	155,000 SF

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*810 First St, NE
DC Water & Sewer
Renewed for 110,000 SF*

1Q 09 HIGHLIGHTS

Total Vacancy Rate:
8.9%

**2009 YTD
Direct Net Absorption:**
(248,709) SF

**2009 YTD
Total Net Absorption:**
(682,088) SF

**2009 YTD
Gross Leasing Activity:**
1.2 Million SF

**Average Direct Rental
Rate:**
\$48.79 psf FS

Under Construction:
6.87 Million SF

Pre-leased:
33%

2009 YTD Deliveries:
244,812 SF

WASHINGTON, DC QUARTERLY OVERVIEW

Market Summary

The Washington, D.C. office market consists of 751 buildings over 25,000 square feet for a total of approximately 127.8 million square feet. The direct vacancy rate in the District's office market increased over the past quarter ending the first quarter 2009 at 7.8%. The uptick in the vacancy rate was also coupled with negative 248,709 square feet of direct net absorption, which was actually an improvement from the previous quarter's negative 491,051 square feet of direct net absorption. As the commercial real estate market continues to battle the effects of a distressed economy and inflated levels of unemployment, leasing activity in the District fell far below the average of about 2.0 million square feet leased per quarter with only 1.3 million square feet of leases signed during the first quarter. The largest lease occurring in the District over the past quarter was an 110,000 square foot renewal signed by the DC Water & Sewer at 810 1st Street, NE in the Capitol Hill North submarket. The District witnessed the delivery of one (1) new building during the first quarter, adding approximately 245,000 square feet to the office inventory.

Vacancy Rate

In the District, the direct vacancy rate increased to 7.8% from the year-end 2008 rate of 7.4%, and when including sublet space, the total vacancy rate also increased over the past quarter to 8.9% from the year-end 2008 rate of 8.2%. Within the District's office market, Southwest was the tightest submarket with a direct vacancy rate of 7.3% and a total vacancy rate of 7.4%. In addition, Class B space in the CBD and East End reached a low of 6.5% vacant for direct space and 7.9% for total vacancy.

WASHINGTON DIRECT VACANCY RATES	CBD - 7.4%	East End - 7.6%
	CBD/EE Class A - 7.6%	CBD/EE Class B - 6.5%
	Cap Hill/NoMa - 8.1%	West End/Georgetown - 11.7%
	Southwest - 7.3%	Capitol Riverfront - 11.9%

Absorption and Gross Leasing

During the first quarter 2009, the District's office market witnessed negative 248,709 square feet of direct absorption, and when considering net sublet absorption, which was negative 433,379 square feet, the total net absorption for the first quarter was negative 682,088 square feet. Negative sublet absorption occurred as many tenants either moved out of space that they had been subleasing or tenants downsized and listed vacant sublet blocks of space as available. This quarter's total net absorption number was up slightly from the negative 656,386 square feet of total net absorption realized during the fourth quarter of 2008. The direct leasing activity for the past quarter was 1.1 million square feet, and total leasing activity was 1.3 million



1615 L Street, NW
Sold for \$180 Million
(\$435 psf)

1Q 09 SIGNIFICANT
LEASE TRANSACTIONS

- ◆ Investment Company Institute ~
73,139 SF
1401 H St, NW
- ◆ DC Bar ~
52,000 SF
1101 K St, NW
- ◆ American Association of Railroads ~
33,619 SF
425 3rd St, SW



801 17th St, NW
Delivered First Quarter 2009
244,812 SF

square feet, which represented an approximate 1.35 million square foot decrease in total leasing activity from the previous quarter.

Construction

At the end of the first quarter 2009, twenty-one (21) office buildings were under construction for a total of 6.9 million square feet, of which 24% was pre-leased. An additional 2.5 million square feet has been removed from total inventory as buildings are undergoing some form of major renovation (lobby, common areas, rest rooms, etc.). During the first quarter of 2009, the District witnessed the delivery of one (1) new building for a total of 244,812 square feet.

WASHINGTON
NEW OFFICE
DELIVERIES

801 17th St, NW - 244,812 SF

Potential Space Available

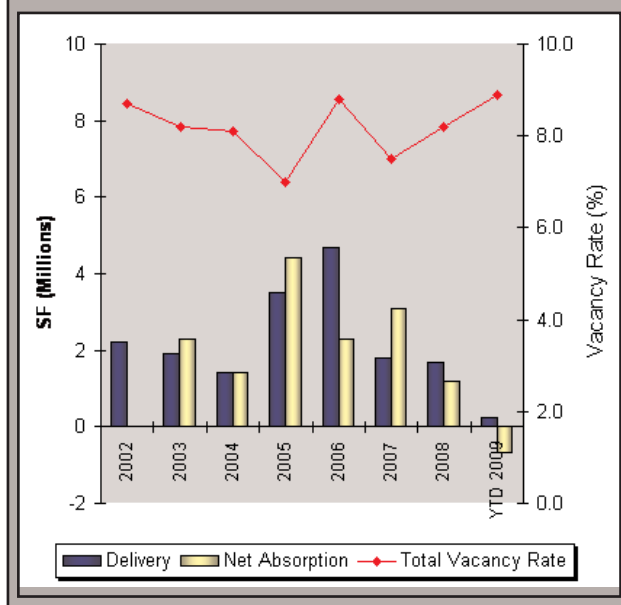
In addition, to the 11 million square feet available immediately in the city (of which 1.3 million square feet is sublet space), an additional 11.7 million square feet is being marketed as potentially available in the next 24 months, totaling 22.7 million square feet available in the next 24 months. This includes pending lease expirations, new construction, buildings under renovation, and proposed buildings, which have not yet begun construction.

Outlook

You have heard the same thing at every real estate seminar this year. Tenant demand is soft, space is abundant, and there is downward pressure on rents. We do not expect these fundamentals to change in the near future. As tenants reevaluate growth expectations and look for ways to reduce expenses, renewals continue to be a favored alternative to moving – when tenants get around to making a decision. One result of the current market conditions is the extension of the time it takes to get a lease signed. Tenants, knowing that a short term extension is an option that most landlords

will accept, do not have the same sense of urgency to make a decision as landlords. There is an additional 4.5 million square feet of office space scheduled for delivery in the downtown market during the balance of 2009, of which approximately 3.1 million square feet have not been leased. We are hopeful that the worst of the downsizing in the legal and association communities has passed, but, with the exception of GSA, it is difficult to identify an industry group that expects to grow during the next twelve months.

DC HISTORICAL STATS
2002 - 2009 YTD



NORTHERN VIRGINIA QUARTERLY OVERVIEW

Summary

During the first quarter 2009, the Northern Virginia office market, which combines Arlington, Alexandria, Fairfax, and Loudoun counties for a total of 170.7 million square feet of rentable space, continued to endure the effects of a struggling national economy and high unemployment numbers. Vacancy rates increased in the overall Northern Virginia market and in almost every submarket as many companies lacked business confidence and chose to make conservative real estate decisions. In addition to the weak tenant demand, there has been a noticeable lack of investment activity with most property owners turning from acquisition mode to survival mode.

At the end of the first quarter, 285 office buildings in Northern Virginia were marketing contiguous blocks of space 20,000 square feet or greater. This represented a 3% increase from the 276 buildings hosting the same amount of space available at the year-end 2008. The number of large blocks of space available in the range of 50,000 - 99,999 square feet decreased over the past quarter from 65 to 61 buildings, while the number of buildings advertising 100,000 square feet of contiguous space or greater increased from 62 to 63 buildings. As for major leases signed this past quarter, there were six (6) completed in excess of 100,000 square feet, an increase from five (5) transactions finalized for over 100,000 square feet during the fourth quarter of 2008. There were three (3) office sale transactions during the first quarter, which matches the total number of sales during the fourth quarter 2008.

Vacancy Rate

The direct vacancy rate in the Northern Virginia office market increased from 10.8% to 11.1% over the past quarter and has increased 28% since year-end 2007. The total vacancy rate, which includes sublet space available, also jumped over the past quarter from 12.2% to 12.7% and has increased 28% since year-end 2007.

N. VIRGINIA DIRECT VACANCY RATES	Alexandria - 9.5%	Reston/Herndon - 14.6%
	Merrifield - 11.5%	Rt. 28 South- 16.6%
	R-B Corridor - 6.1%	Tysons Corner - 10.7%

Absorption

Over the first quarter 2009, the Northern Virginia market witnessed 494,627 square feet of positive direct net absorption, much of which can be attributed to tenants who signed leases in the second half of 2008 and have recently moved into their new space. When also considering the significant amount of sublet space becoming vacant, the area's total net absorption decreased to 322,834 square feet for the first quarter.



*Pacific Corporate Park
Raytheon leased
600,000 SF*

1Q 09 HIGHLIGHTS

Total Vacancy Rate:
12.7%

**2009 YTD
Direct Net Absorption:**
494,627 SF

**2009 YTD
Total Net Absorption:**
322,834 SF

**2009 YTD
Gross Leasing Activity:**
3.09 Million SF

Average Rental Rate:
\$30.80 psf FS

Under Construction:
1.98 Million SF

Pre-leased:
27%

2009 YTD Deliveries:
284,956 SF



45370 Steeplechase Rd
*Delivered 41,888 sf
in Rt 28 North*

**1Q 09 SIGNIFICANT
LEASE TRANSACTIONS**

- ◆ Raytheon ~
600,000 SF
Pacific Corporate Park
- ◆ BAE Systems ~
156,667 SF
Presidents Park 3
- ◆ SAIC ~
154,518 SF
Quincy Street Station
- ◆ Hilton Hotels ~
118,231 SF
7930 Jones Branch Dr



Meadow Point
132,897 SF Available for Lease

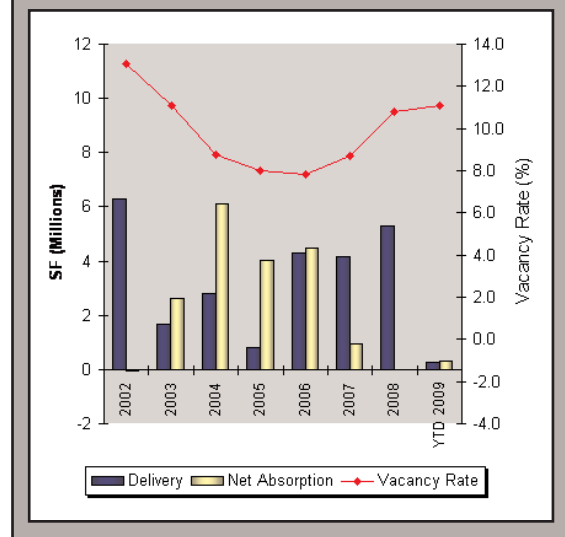
Construction

At the close of the first quarter 2009, twelve (12) buildings were under construction in Northern Virginia for a total of 1.98 million square feet, of which 27% was pre-leased. There was one (1) new construction start in Northern Virginia during the first quarter, Kettler, Carlyle Group broke ground on 156,829 square foot building located at 1602 Village Market Blvd and is scheduled to deliver during the 1st quarter 2010. Developers are likely deterred from breaking ground by the decrease in tenant demand and the frozen credit markets. Four (4) buildings delivered during the first quarter for a total 284,956 square feet, of which 17% was pre-leased. The first quarter deliveries included: Lakeview Buildings A & B located at 20130 & 20135 Lakeview Center Plaza in Route 7 Corridor, Orbital Science Campus located at 45370 Steeplechase Rd in Route 28 North, and Lorton Professional Center located at 9010 Lorton Station Blvd in the Springfield/Burke submarket.

Outlook

During the first quarter of 2009, the commercial real estate market continued to produce less than average results as the region's unemployment numbers crept upwards and many companies have gone out of business or been forced to downsize their staff and/or space requirements. During the 1st quarter, 53 blocks of sublease space, 10,000 square feet or greater, were added to the market. In the past, the Northern Virginia region has been largely insulated from the national economic struggles because it has been a beneficiary of the local federal spending, but this recession has begun to impact the area. As companies lose employees or are compelled to downsize to more efficient space, large blocks of sublease space are becoming available often at below market rates throughout Northern Virginia. It has largely become a tenant's market with many landlords desperate to retain current tenants in order to preserve the property's revenue stream. In some cases, landlords are offering lower rates than tenants are currently paying, large concession packages, and free rent. Lease negotiations have also become prolonged as some tenants speculate about the building ownership's financing leading a few tenants to ask for concession packages to be placed in escrow accounts. As a result of attractive offers, the first quarter of 2009 witnessed many tenants choosing to renew at their current locations with one notable exception: Hilton Hotels plans to relocate their headquarters from California to Fairfax County and signed a lease for 118,231 square feet at the newly delivered Park Place II in Tysons Corner. Even though the current economic conditions are tough, Northern Virginia is likely to recover more quickly than other regions around the country with the new government's stimulus packages and federal spending planned over the next few months. Furthermore, with the absence of financing for development projects putting a standstill on new office supply, the added federal job growth is anticipated to decrease some of the region's vacancy.

**NOVA HISTORICAL STATS
2002 - 2009 YTD**



SUBURBAN MARYLAND QUARTERLY OVERVIEW

Summary

The Suburban Maryland office market consists of 835 office buildings totaling approximately 79.04 million square feet located in Montgomery and Prince George's counties. During the first quarter 2009, the direct vacancy rate in the Suburban Maryland office market increased by 0.9% to 11.4%, and the total vacancy rate increased by 1% to 13.0%. Over the same time period, Suburban Maryland witnessed negative 19,380 square feet of direct net absorption, which falls slightly below last quarter's number of 5,371 square feet. When also considering sublet space, total net absorption over the past quarter was negative 28,137 square feet. With vacancy rates creeping upwards and the market producing negative absorption, the direct asking rental rates in the office market decreased slightly ending the first quarter at \$28.00 per square foot Full Service overall and \$30.76 per square foot Full Service for Class A space. There are currently 85 existing office buildings marketing contiguous blocks of space 20,000 square feet or greater in the Suburban Maryland market. One of the largest leases signed during the first quarter was in the North Rockville submarket where United Healthcare Services leased 52,453 square feet at 800 King Farm B. Schinnerer & Company also signed a significant lease by renewing 55,000 square feet at 2 Wisconsin Circle in the Bethesda/Chevy Chase submarket.

Vacancy Rate

Direct vacancy in Suburban Maryland over the first quarter increased to 11.4%, which represented a significant jump when compared to 9.6% recorded at the same time last year. When sublet space is taken into account, the total vacancy rate increased to 13.0% compared to 11.1% recorded one year ago. Following the upward trend, the direct vacancy rate for Class A buildings also increased over the past year from 10.5% to 12.7%, while the Class A total vacancy rate closed the first quarter at 14.5%.

Absorption

Net absorption for direct space in the Suburban Maryland office market during the first quarter 2009 was negative 19,380 square feet, a substantial improvement when compared to negative the 405,633 square feet witnessed in first quarter 2008. When taking sublet space into account, the area's first quarter total net absorption was negative 28,137 square feet, which was also an upgrade when compared to negative 390,602 square feet recorded during the first quarter 2008. The two major submarkets in Suburban Maryland, North Rockville and Bethesda/Chevy Chase, both containing over 10 million square feet of office space and have produced, respectively, 60,574 square feet and negative 137,970 square feet of total net absorption for 2009.



*5404 Wisconsin Ave
Wisconsin Place - 295,000 SF
Delivering 5 /2009
Microsoft Leased
160,700 SF*

1Q 09 HIGHLIGHTS

Total Vacancy Rate:
13.0%

**2009 YTD
Direct Net Absorption:**
(19,380) SF

**2009 YTD
Total Net Absorption:**
(28,137) SF

**2009 YTD
Gross Leasing Activity:**
675,194 SF

Average Rental Rate:
\$28.00 psf FS

Under Construction:
1.65 Million SF

Pre-leased:
42%

2009 YTD Deliveries:
155,000 SF

**MARYLAND
NEW OFFICE
DELIVERIES**

16901 Melford Boulevard (155,000 SF, 0% Leased)- Bowie



7220 Wisconsin Ave
Bethesda/Chevy Chase
16,500 SF Available for Lease

1Q 09 SIGNIFICANT
LEASE TRANSACTIONS

- ◆ United Healthcare Services ~
52,453 SF
800 King Farm Blvd
- ◆ International Computer Solutions~
13,807 SF
15201 Diamondback Dr
- ◆ Areva ~
11,275 SF
7475 Wisconsin Ave



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

Construction

At the close of the first quarter, ten (10) office buildings were under construction in Suburban Maryland for a total of 1.65 million square feet. One (1) new building delivered during the first quarter at 16901 Melford Boulevard adding a total of 155,000 square feet to the office inventory. This project was a Class A office building in Bowie, Maryland, owned by St. John Properties and delivered 0% pre-leased in January 2009.

Potential Available Space

In addition to the 10.2 million square feet available immediately in Suburban Maryland, an additional 7 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 Suburban Maryland commercial real estate market struggled with productivity over the first quarter as several tenants consolidated space or went bankrupt resulting in negative net absorption. Although there was a noticeable absence of substantial leasing activity, the numbers produced in the Suburban Maryland market are considered stable when compared to many other areas across the country struggling with vacancy rates approaching 20-25%.

The number of square feet delivered in Suburban Maryland in 2008 was slightly below average limiting the amount of new space being added to the market and helping to ease the negative effect of minimal tenant demand. With ten (10) buildings currently under construction and few, if any, scheduled to break ground in 2009, the office inventory in Suburban Maryland is likely to grow only moderately over next two years. Even with construction and development constraints on the supply, slow leasing activity over the past two quarters has resulted in fewer new deals signed and a consistent increase in the area's vacancy rates. As many businesses have attempted to reduce expenses, such as moving costs or paying for unused square footage, the Suburban Maryland market has witnessed a steady trend of short term renewals and office consolidations. Landlords have also become increasingly concerned about vacancies in their portfolios and have been inclined to offer higher tenant improvement allowances and more free rent to attract new or keep existing tenants. As the government's new budget programs become realized over the next few years, Suburban Maryland expects to benefit from a wave of federal spending on healthcare, biotechnology, and national defense. This effect will be seen particularly in the markets of North Bethesda and Rockville, which are home to several government contractors who support these industries. Even through a tough economic period, Montgomery County, especially the North Rockville submarket, which is driven by high levels of commerce, good access to the surrounding areas and an elevated quality of newer buildings, was able to outshine markets across the nation with steady absorption and reasonable vacancy rates.

MD HISTORICAL STATS
2002 - 2009 YTD

