

WASHINGTON, DC REGIONAL QUARTERLY OVERVIEW

1Q 10 DIRECT VACANCY

DC	10.6%	▬
NOVA	11.9%	▲
MD	13.3%	▲

*Arrows indicate change from previous quarter



The Executive Building
1030 15th St.

2010 YTD TOTAL NET ABSORPTION

DC	212,502 SF
NOVA	(167,651) SF
MD	81,066 SF

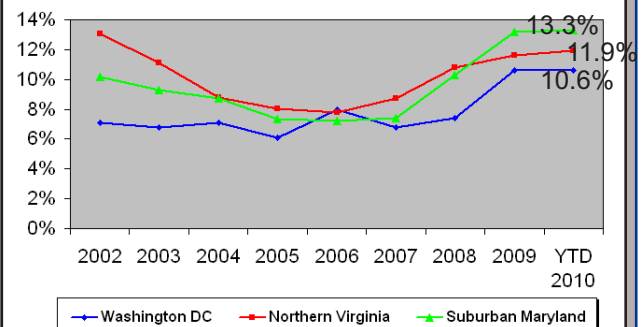
Metropolitan Washington, DC Office Market

The first quarter 2010 statistics reveal that the Metropolitan Washington, DC office market, which consists of approximately 390 million square feet of office space and spans the District of Columbia, Northern Virginia, and Suburban Maryland, continues to weather the effects of a historic national recession. The Washington, DC area's unemployment rate increased to 12% in January from 11.9% the previous month. Maryland's rate climbed to 7.5% from 7.4% and in Virginia it rose to 6.9% from 6.8%. At the same time, the U.S. rate dropped to 9.7% from 10%. Financial struggles and job cuts continue to affect the demand for office space as tenants continue to offer space on the market for sublease, or consolidation. Although Washington DC is struggling with the rest of the nation, there are positive indicators out there as well. Sales of commercial real estate picked up in all the major sub-markets in and around Washington DC after a year of record low activity.

Vacancy Rate

The direct vacancy rate in the Washington, DC metropolitan office market increased for the ninth consecutive quarter to end the first quarter of 2010 at 11.93%, which represents a 0.13% increase from the fourth quarter 2009. The area's total vacancy rate also increased over the past quarter from 13.2% to 13.4%. During the first quarter 2010, the direct vacancy rates only slightly increased across Maryland and Virginia markets with Suburban Maryland rising from 13.2% to 13.3% and Northern Virginia's rate rising from 11.6% to 11.9%. The District managed to stay the same at 10.6%, which is a positive sign relative to the past few years of consistent increase in this area. The total vacancy rates experienced a similar trend over the past quarter. The District stayed the same at 11.8% and Northern Virginia bumped up slightly from 13.0% to 13.4%. Suburban Maryland saw an increase from 14.9% to 15.0% primarily because of tenants vacating or downsizing their space.

DIRECT VACANCY HISTORICAL CHART



Absorption

The Washington, DC metropolitan area experienced approximately negative 95,811 square feet of direct net absorption over the course of the first quarter 2010. Kicking off this year, the District registered 212,502 square feet of total net absorption and Suburban Maryland witnessed 81,066 square feet while Northern Virginia recorded negative 167,651 square feet of direct net absorption.

Construction

In the first quarter of 2010, fifteen office buildings (10 in DC, 4 in VA, and 1 in MD) in the metropolitan region were under construction totaling 6.06 million square feet. Eight buildings delivered dur-

1Q 10 UNDER
CONSTRUCTION

DC	3.76 MIL SF
NOVA	2.03 MIL SF
MD	268,762 SF



*Ridgetop III at
Loudoun Tech Center
21575 Ridgetop Circle*

*Neustar leased the entire
building ~ 91,754 SF*

1Q 10
DELIVERIES

DC	250,814 SF
NOVA	651,144 SF
MD	173,000 SF

ing the first quarter 2010 (2 in DC, 4 in VA, and 2 in MD) adding approximately 1,074,958 square feet of new office supply to the region. The deliveries that have occurred in the area are continuing to affect the overall vacancy rates in the market as leasing activity remains moderate, aside from GSA. As this space is absorbed and deliveries and buildings under construction begin to decrease over the next 12-18 months the market will look for vacancy rates to begin to decline.

Government

After the incredible volume of leasing GSA completed in the 4th quarter of 2009, it was not surprising that things slowed down a bit in the first quarter of 2010. Slowed down, but not shut off – there was the 180,000 SF new lease for the FBI at Patriots Plaza II, and a 100,000 SF lease extension with the IRS at 1750 K Street. However good things are still to come in 2010, by the looks of the open procurements currently underway – headed by the 1.2 million SF procurement for Homeland Security, 750,000 SF requirement for the DOD Medical Command in Northern Virginia, 600,000 SF replacement lease for NASA in DC, 523,000 SF requirement for Defense Intelligence in Northern Virginia, the 288,000 SF VA Swing Space procurement in DC, and a 150,000 SF warehouse requirement for the Archives. There is no doubt this will be another very strong year of leasing by GSA in the DC Metro area.

Sales in the Market

A key word for the start of 2010 in the commercial sales market is velocity. Sales of commercial real estate picked up in all the major sub-markets in and around Washington, D.C. after a year of record low activity. In particular, the sales of core assets with location, quality, credit and stability seemed to price and execute with a high level of success. Among these core purchases, there was an uptick in the number of corporations buying on their own behalf as a way to secure attractive office space for their future needs. Additionally, the commercial markets are seeing a rapid increase in offerings in relation to sub-performing assets. These types of assets do not have as high of a percentage of execution but offer bargain pricing for well below replacement cost. There is only one logical conclusion from this increased activity and that is more offerings in the near future of both core and sub-performing assets and hopefully a few in-between.

Notable Investment Sales Transactions

Address	Submarket	Price	Buyer	Seller	Class	% Leased
1331 L Street, NW	East End, DC	\$41.3 Million \$243.46 psf	Costar Group, Inc.	Mortgage Bankers Assoc. of America	A	50%
3072 Centreville Road	Herndon, VA	\$10.5 Million \$109 psf	Dominion Power	Goldman Sachs	A	0%
9201-9231 Corporate Blvd	Rockville, MD	\$60 Million \$171.24 psf	PS Business Parks, Inc	BlackRock, Inc.	A,A,A	80%

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*1750 & 1776 K St, NW
Wiley Rein renewed for
approximately 309,000 SF*

DC HIGHLIGHTS

Direct Vacancy Rate:
10.6%

**2010
Direct Net Absorption:**
191,464 SF

**2010
Total Net Absorption:**
212,502 SF

**2010
Gross Leasing Activity:**
2.15 Million SF

**Average Direct Rental
Rate:**
\$49.05 psf FS

Under Construction:
3.7 Million SF

Pre-leased:
62%

2010 Deliveries:
250,814 SF

WASHINGTON, DC QUARTERLY OVERVIEW

Market Summary

The Washington, D.C. office market consists of 774 buildings over 25,000 square feet for a total of approximately 133 million square feet. The District is at a point in time where it is trying to absorb the tremendous amount of new construction that delivered over that past few years. The GSA has been incredibly active over the past few quarters, signing long term leases at extremely favorable rates, and taking down full buildings one at a time. The private sector saw several large leases occurring during the first quarter after a very slow 2009, a trend that will continue over the next few quarters. The law firm of Fried Frank signed at 801 17th Street, Wiley Rein renewed at 17th and K Street, and Sutherlind Asbill signed at 700 6th St, NW. Two new buildings delivered during the quarter. The American College of Surgeons building at 20 F St, NW completed construction with merely 20% of the space leased or occupied by ownership. The office condominium project at 111 K St, NE delivered 88,000 sf to the market place with only 30% of the project sold.

Vacancy Rate

In the District, the direct vacancy rate remained at 10.6% unchanged from the fourth quarter's rate, and when taking sublet space into consideration, the total vacancy rate also remained at 11.8%. At the end of the fourth quarter the CBD/East End Class B submarket had a direct vacancy rate of 5.9% and a total vacancy rate of 6.9%. Vacancy rates in Southwest remain elevated due to the delivery of Constitution Center at 400 7th St, SW in the fall. The 1.4 million sf building has had zero leasing activity since it delivered vacant.

WASHINGTON DIRECT VACANCY RATES	CBD - 7.8%	East End - 8.3%
	CBD/EE Class A - 9.5%	CBD/EE Class B - 5.9%
	Cap Hill/NoMa - 15.6%	West End/Georgetown - 11.3%
	Southwest - 24.7%	Capitol Riverfront - 14.2%

Absorption and Gross Leasing

During the first quarter 2010, the District's office market witnessed 191,464 square feet of direct absorption. When considering net sublet absorption, which was 23,038 square feet, the total net absorption for the first quarter was 212,502 square feet. This is the fourth straight quarter in which the District witnessed positive absorption after significant losses to start 2009. The direct leasing activity for the past quarter was 1,974,509 square feet, and total leasing activity was 2,144,391 sf. The GSA Headquarters, FBI, and the SEC all signed large leases during the quarter. They have focused on the emerging markets in Washington such as NoMa and the Capital Riverfront while keeping their eye on home base, the Southwest submarket. The private sector portion of the market place has become increasingly soft due to the influx of new space although the slow down in development seems to have arrived. Smaller tenants still have plenty of options to choose from while those in the market for large blocks of space continue to diminish. The private sector did witness several large leases occur during the first quarter after a very slow 2009.



WASHINGTON
NEW OFFICE
DELIVERIES



20 F Street, NW
162,268 SF
(20% LEASED)



111 K Street, NE
88,546 SF
(30% SOLD)

1331 L St, NW
CoStar Group Purchased for
\$41.25 Million (\$243 psf)

1Q 2010 SIGNIFICANT
LEASE TRANSACTIONS

- ◆ Wiley Rein
1750 & 1776 K St, NW
309,000
Renewal
- ◆ GSA - FBI
180,000 SF
375 E St, SW
New Lease
- ◆ Fried Frank
102,000 SF
801 17th St, NW
New Lease



624 9th St, NW
MRP Realty Purchased for
\$21 Million or \$224 psf

Construction

At the end of the first quarter 2010, ten (10) office buildings were under construction for a total of 4.2 million square feet, of which 62% was pre-leased. An additional 1.0 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 two (2) new buildings for a total of 250,814 square feet. Of the remaining projects under construction only three are located in the Primary Business District and those are currently 49% preleased. Of the remaining construction projects in the NoMa, Southwest and Southeast submarkets, 54% have been preleased, primarily by the GSA or District of Columbia Government.

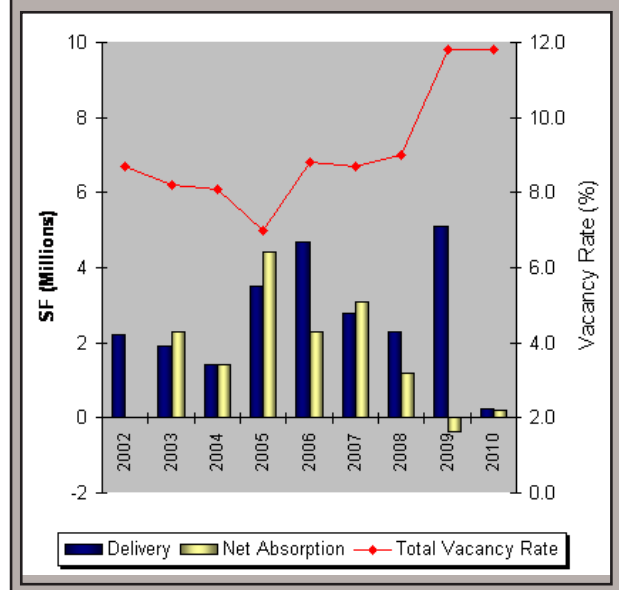
Potential Space Available

In addition to the 11.8 million square feet available immediately in the city (of which 1.7 million square feet is sublet space), an additional 9.5 million square feet is being marketed as potentially available in the next 24 months, totaling 21.3 million square feet available. This includes pending lease expirations, new construction, buildings under renovation, and proposed buildings, which have not yet begun construction.

Outlook

While we would like to be able to identify changes in several key indicators that would allow us to say there were significant changes in market conditions between the fourth quarter 2009 and the first quarter 2010, we are unable to do so. For the most part not much has changed in the downtown market during the past 90 days, with the possible exception that more owners are talking about placing buildings on the market for sale in the near future based upon the belief that cap rates may have begun to decline.

DC HISTORICAL STATS
2002 - 2009





Three Ballston Plaza
Sold for \$121.25 Million
(\$399 psf)

VA HIGHLIGHTS

Total Vacancy Rate:
13.4%

**2010 YTD
Direct Net Absorption:**
(341,765) SF

**2010 YTD
Total Net Absorption:**
(167,651) SF

**2010 YTD
Gross Leasing Activity:**
2.06 Million SF

Average Rental Rate:
\$29.88 psf FS

Under Construction:
2.05 Million SF

U/C Pre-leased:
91%

2010 YTD Deliveries:
651,154 SF

NORTHERN VIRGINIA QUARTERLY OVERVIEW

Summary

The Northern Virginia office market, which consists of 175 million square feet of inventory in Arlington, Alexandria, Fairfax, and Loudoun counties, continues to bear the effects in the wake of the recent national recession. During the first quarter 2010, the market witnessed a decrease in leasing activity and rental rates, as well as an increase in vacancy rates when compared with previous quarters. However, statistics illustrate that through the end of this quarter, the large blocks of sublet space that hit the market in 2009 have been almost entirely absorbed. The driving force towards recovery in the market has undoubtedly been the federal government. While law firms and other private sector tenants are maintaining or reducing their space, federal tenants have expanded aggressively with the upturn in federal employment. The unemployment rate in Northern Virginia continues to show signs of improvement and is down to 4% in Arlington, 4.6% in Fairfax and Loudoun, and 4.8% in Alexandria. At the end of the first quarter 2010, 288 office buildings were marketing contiguous blocks of space 20,000 sf or greater – down from 293 buildings at the end of the fourth quarter 2009. The number of large blocks of space available in the range of 50,000-99,999 square feet decreased over the past quarter from 80 to 75, while the number of buildings marketing 100,000 square feet of contiguous space or greater remained the same from the previous quarter equal to 53 buildings. There were two (2) leases inked in excess of 100,000 square feet at the end of the first quarter 2010, a considerable decrease from the five (5) leases of the same size signed in the previous quarter. However, there were eight (8) buildings sold during the most recent quarter as compared with two (2) that sold in the fourth quarter 2009, the most notable being AEW's acquisition of the 304,166 sf Three Ballston Plaza at 1100 North Glebe Road which Cornerstone Realty Advisors sold for \$121,250,000 at \$399 psf. With the many buildings sold this past quarter and many properties for sale in the market, we may be seeing evidence of property values bottoming out - a sign of encouragement for the future.

Vacancy Rate

The direct vacancy rate in the Northern Virginia office market rose from 11.6% to 11.9% over the past quarter and has increased 10.2% since year-end 2008. The total vacancy rate, which combines sublet space with direct space available, increased from 13% to 13.4%, and has increased 9.8% since year-end 2008.

N. VIRGINIA DIRECT VACANCY RATES	Alexandria - 11.7%	Reston/Herndon - 13%	Crystal City - 10.8%
	Fairfax - 14.9%	Merrifield - 13.2%	Rt. 28 North - 14.6%
	R-B Corridor - 5.3%	Tysons Corner - 13%	Rt. 28 South - 16.8%

Absorption

The trend of positive net absorption witnessed by the Northern Virginia office market during the past two quarters did not persist in the first quarter 2010 as the market experienced 341,765 square feet of direct negative net absorption. This is a result of 651,154 square feet delivering with only 16% being pre-leased combined with the fact that many tenants are downsizing their existing space, or relocating to smaller sites. As was the case in the fourth quarter 2009, over 175,000 square feet of sublet space was absorbed this quarter resulting in a total net absorption of negative 167,651 square feet. With only a few buildings scheduled to deliver in the upcoming quarters, we should see positive growth in net absorption.



National Gateway I & II
Delivered 409,744 SF
in the Crystal City
Submarket

**1Q 10 SIGNIFICANT
LEASE TRANSACTIONS**

- ◆ Microstrategy ~
141,792 SF
1850 Towers Crescent
Plaza
- ◆ Booz Allen Hamilton ~
112,078 SF
Dulles Overlook
- ◆ Neustar ~
91,754 SF
21575 Ridgetop Circle
- ◆ Mitre ~
79,694 SF
Polk Building



Clarendon Center North & South
Office Future Availability~
Up to 205,348 SF

Construction

At the close of the first quarter 2010, there were four (4) buildings under construction in Northern Virginia for a total of 2.05 million square feet, 91% of which was pre-leased. Three of the four buildings are scheduled to deliver in 2010, although they account for only 357,777 square feet. Because of stringent credit markets, most development projects will either remain idle, or will not break ground unless there is a significant amount of pre-leasing activity.

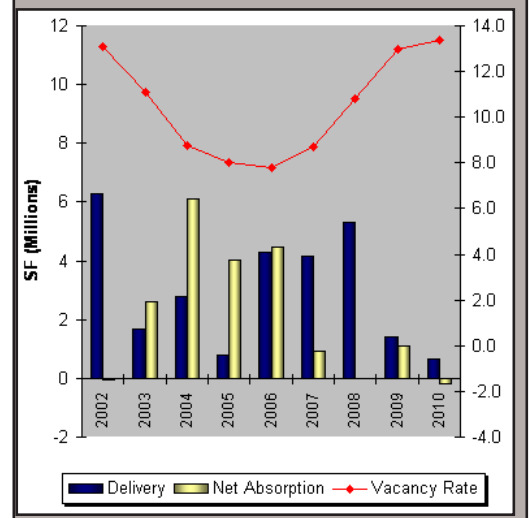
Four (4) buildings delivered this quarter for a total of 651,144 square feet, of which 16% was pre-leased. National Gateway I & II at 3500 & 3550 S Clark Drive delivered 409,744 square feet to the Crystal City submarket, and have yet to sign a lease. 1602 Village Market Boulevard at Village Leesburg in the Loudoun submarket delivered 121,000 square feet, 10% of which was pre-leased. Edmonson Plaza at 1701 Duke Street delivered 120,400 square to the Old Town Alexandria submarket and is now 75% leased.

Outlook

Although the Northern Virginia office market has fared extremely well in comparison to other markets around the country, there are still challenges it must endure. Vacancy rates increased in virtually all submarkets within Northern Virginia in the first quarter 2010. Only the Reston/Herndon and Route 28 North submarkets witnessed a decrease in vacancy rates. The top three leases this quarter occurred outside of the beltway with Microstrategy signing a 141,792 square foot lease at 1850 Towers Crescent Plaza, Booz Allen Hamilton signing for 112,078 square feet at Dulles Overlook located at 575 Herndon Parkway, and Neustar signing at Ridgetop III - 21575 Ridgetop Circle for 91,754 square feet.

Despite the hardships resulting from the economic downturn, the Northern Virginia office market remains one of the more resilient markets in the country. Government activity has certainly helped keep the area afloat, and there are signs that would lead one to believe that a recovery is in the making. Northern Virginia has witnessed a total of eight (8) building sales within the first quarter 2010, compared to a total of 10 in all of 2009. This may be an indication that property values have either reached, or are close to reaching bottom. The Washington D.C. area has shed fewer jobs than any other metropolitan area in the country. Rapid population growth in Virginia has created a demand for jobs; this will ultimately result in an upturn in employment. Loudoun County is the fifth fastest growing county in the nation, with a rise of almost 78% within the past decade, and Alexandria and Arlington County have both seen growth of almost 7% within the past two years. Recovery cannot be expected to occur immediately, however there are enough signs that point to improvement for the future.

**NOVA HISTORICAL STATS 2002
- 2010 YTD**



SUBURBAN MARYLAND QUARTERLY OVERVIEW

Summary

The Suburban Maryland office market consists of 859 office buildings totaling approximately 81.27 million square feet located in Montgomery and Prince George's Counties. During the first quarter 2010, the direct vacancy rate in the Suburban Maryland office market increased over the last year by 2.1% to 13.3%, and the total vacancy rate increased by 2.2% to 15%. Over the first quarter, Suburban Maryland witnessed 54,490 square feet of direct net absorption. When considering sublet space, total net absorption over the past quarter was 81,066 square feet. The direct asking rental rates in the office market decreased slightly in the first quarter to \$26.38 per square foot Full Service as the Class-A rates remained consistent only dropping a couple cents to \$29.23 per square foot Full Service. By principle, rental rates are inversely proportionate to vacancy rates as this proves to be true over the past year. There are currently 84 existing office buildings marketing contiguous blocks of space 30,000 square feet or greater in the Suburban Maryland market. One of the largest leases signed during the first quarter was in the Rockville submarket where the FDA signed a new lease of 93,000 square feet at 12420 Parklawn Drive. GSA also signed a significant lease of 55,116 square feet at 10001 New Hampshire Avenue in the North Silver Spring/Rt. 29 submarket.

Vacancy Rate

Direct vacancy in Suburban Maryland over the first quarter increased to 13.3%. When sublet space is taken into account, the total vacancy rate increased to 15.0%. Following this upward trend, the direct vacancy rate for Class A buildings also increased over the past year from 12.3% to 14.5%, while the Class A total vacancy rate closed the first quarter at 17.1% increasing from 14.2% a year ago. There was a total of 173,000 square feet (2 buildings) of significantly pre-leased new office space delivered to the market in the first quarter of 2010.

MARYLAND NEW OFFICE DELIVERIES

5850 University Research Ct (123,000 SF, 100% Leased)- College Park

Absorption

During the first quarter of 2010, direct net absorption in the Suburban Maryland office market was 54,490 square feet. When taking sublet space into account, the market's first quarter total net absorption was 81,066 square feet. This is a positive sign of stronger market fundamentals, relative to the recent past; resulting in fewer companies returning space or leaving the market all together during the first quarter. Sublet absorption in the first quarter was 26,576 square feet. This is a good indicator that represents a decline of space being put back on the market and other companies beginning to absorb the significant amount of space that had been put up for sublease over 2009 in Suburban Maryland. The two major submarkets in Suburban Maryland, North Rockville and Bethesda/Chevy Chase, each host over 10 million square feet of office space and have produced 268,841 square feet and negative 444,824 square feet, respectively, of total net absorption in the first quarter of 2010. CoStar and Hagner Orthopedic Group have vacated the majority of the 290,318 square foot 2 Bethesda Metro Center, and Chevy Chase Bank has put a significant amount of its space back on the market greatly contributing to the negative absorption number of the Bethesda/Chevy Chase submarket.



**6401 Golden Triangle Dr -
Triangle Centre**

83,020 SF

28,112 SF AVAILABLE FOR LEASE

MD HIGHLIGHTS

Total Vacancy Rate:
15.0%

**2010 YTD
Direct Net Absorption:**
54,490 SF

**2010 YTD
Total Net Absorption:**
81,066 SF

**2010
Gross Leasing Activity:**
806,109 SF

Average Rental Rate:
\$26.38 psf FS

Under Construction:
268,272 SF

Pre-leased:
98%

2010 Deliveries:
173,000 SF

SUBURBAN MARYLAND QUARTERLY OVERVIEW

1ST QUARTER 2010

A portion of the American Capital Strategies' significant amount of sublease space that had been put back on the market in late 2009 has been backfilled by DiamondRock, who took 9,600 square feet at 3 Bethesda Metro Center, and Beech Street Capital, who took 19,000 square feet at 7600 Wisconsin Avenue.

Construction

At the close of the first quarter, one (1) office building was under construction in Suburban Maryland. Scheduled to deliver in April of 2010, 5830 University Research Court, a Class-A building owned by Opus East and developed by Corporate Office Properties Trust, consists of 268,762 square feet and is fully leased to the National Oceanic and Atmospheric Administration.

Potential Available Space

In addition to the 12.2 million square feet available immediately in Suburban Maryland, 8 million square feet are being marketed as potentially available over the next 24 months. Montgomery County approved a new Commercial/Residential Zone category that will allow for greater height and density in exchange for public benefits with a provision that requires developers to have a maximum amount of parking spaces depending on its proximity to public transportation. Several large government contracts are expected to be allocated to Suburban Maryland companies which could impact the market over the next 2 years.

Outlook

The Suburban Maryland commercial real estate market began to slowly turn the corner over the past quarter. Signs that fundamentals have begun to strengthen are indicated through several solid marks of building sales, absorption and significantly preleased deliveries. All of these categories can significantly help drive the market in a positive direction. Although vacancy rates climbed slightly, stronger absorption numbers and a decrease in vacant space delivered to the market have provided the start to an unyielding foundation and encouraging signs that the market will begin to stabilize and strengthen over the next couple of years. These trends could help open the door for new developments, new businesses to the market and the expansion of existing businesses. As the greater Washington commercial real estate market remains consistently one of the strongest markets in the country, this area has become one of the most attractive destinations of foreign investment in real estate; which has been witnessed over the past year with a significant contribution coming from German investors. The strong, consistent trends and numbers this overall market produces year-in and year-out have been identified as the motivation for this movement. The government has announced that they plan to create around 30,000 jobs in the near future through stimulus spending with the greater DC area identified as benefiting greatly from this. The Suburban Maryland market is expected to realize this spending through large GSA contracts awarded to construction firms working on government agency headquarters in the area as well as other R&D and defense contracts with Suburban Maryland firms. The vacant office inventory in Suburban Maryland is likely to improve over the next couple of years through few building deliveries and gradually sustained growth demonstrated in the previous quarter. With the increased activity and progress witnessed in the previous quarter, the Suburban Maryland market should continue to rebound exponentially and with a stronger foundation built for prosperity for years to come.



6201 Columbia Park Rd.
Landover/Largo Ind Submarket
24,675 SF Available for Lease

1Q '10 SIGNIFICANT LEASE TRANSACTIONS

- ◆ FDA ~
93,000 SF
12420 Parklawn Dr.
- ◆ International
Baccalaureate ~
33,000 SF
7501 Wisconsin Ave.
- ◆ GSA~
55,116 SF
10001 New
Hampshire Ave.



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

MD HISTORICAL STATS 2002 - 2010

