

MARKETBEAT

SUBURBAN MARYLAND OFFICE REPORT

THE YEAR IN REVIEW

The Suburban Maryland office market ended 2007 with solid momentum. Montgomery County was the main catalyst behind the area's strength and most of the submarkets were in equilibrium, posting single-digit vacancies through most of 2007. Bethesda continued to be a stand-out, with its vacancy rate falling steadily to a six-year low of 5.7%. This area continues to benefit from rising rents in the District; the availability of more affordable, high-quality space continues to lure tenants into the area. Publishing company Teaching Strategies – a D.C.-based tenant – moved to Bethesda in the fourth quarter. Health care company Bosley is another example; the firm will be relocating from 900 17th Street in Washington, D.C. to downtown Bethesda in the spring of 2008. At the same time, construction has been restrained. Only one project is currently underway at 5404 Wisconsin Avenue, of which 125,000 square feet (sf) is available. As such, the vacancy rate shrank throughout the year. In fact, there is a dearth of top-tier space; only 78,727 sf of trophy space is available at Simon Property Group's at 5425 Wisconsin Avenue in Chevy Chase. Additionally, Prince George's County continued to make small strides towards recovery. Most markets reported vacancy declines since the third quarter so that the overall vacancy rate for the entire Prince George's County submarket trended down to 15.0% by year-end after peaking at 16.0% in the second quarter.

Rental rates have been accelerating since the start of the year. In Montgomery County, rental rates have shot up from the first quarter by nearly \$3.00 per square foot (psf) to \$30.29 psf for all building classes and \$4.00 psf to \$33.02 psf for class A at year end. In Bethesda and North Bethesda, rate increases were higher, rising between \$5.00 psf and \$7.00 psf for top-grade space. Simon Property Group's building in Chevy Chase is a case in point. In the fourth quarter, the Travel Channel television network subleased over 30,000 square feet (sf) in the mid-\$40s. By comparison, leases executed in that class A facility 12 months prior were in the low \$40s. Rents for new projects continue to command a premium – ranging from the mid \$30s to high \$40s – as construction costs remain on the rise. Global consulting firm Booz Allen Hamilton, which signed the largest lease in Rockville, paid in the high \$30s for its 30,000-sf lease at The Preserve @Tower Oaks which is slated to deliver in the first quarter of 2008. Similarly, areas in Prince George's County are seeing moderate rent growth across the board. On average, rental rates are up \$1.00 psf since the start of the year to \$23.67 psf for all classes and \$26.27 psf for class A at year end.

This steady improvement in Suburban Maryland is being supported by a strong labor market. Stable job gains in the office-using sector have helped keep the unemployment rate in Bethesda-Gaithersburg-Frederick, MD steady at 2.9% in 2007, an enviable rate compared to the national unemployment rate of 4.6%. Such a favorable economic backdrop continues to foster healthy tenant demand. Notably, the volume of new leases completed in both Montgomery and Prince George's Counties was up slightly, rising from 3.4 msf in 2006 to 3.6 msf in 2007. Recent gains are also fairly well dispersed as reflected in large transactions completed in the fourth quarter. Information technology firm JBS International Inc. signed a ten-year, 50,779-sf lease in Rockwall II at 5515

BEAT ON THE STREET



Andrew Masters,
Executive Director

"Demand has continued to outpace supply in lower Montgomery County. The dearth of quality class A space, particularly within walking distance of the metro, spurs employers to move north in search of expansion needs at a cost consideration. Calendar year 2008 and beyond will see significant pre-leasing commitments as a result of this phenomenon."

ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth (National)	2.9%	2.2%	2.2%
CPI Growth (National)	3.2%	2.8%	2.5%
Unemployment (Regional)	2.9%	2.9%	3.0%
Employment Growth (Regional)	1.3%	1.3%	1.3%

Source: Moody's | Economy.com

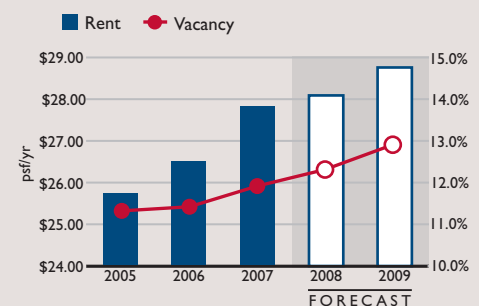
MARKET FORECAST

LEASING ACTIVITY: Expect leasing activity in 2008 to remain comparable to levels in 2007 of 3.6 msf – which is close to its ten-year average of 3.7 msf. However, with slowing job growth projected nationally, new transactions may decline 10.0% to 25.0% in 2008. ↔

RENTAL RATES: After growing close to more than 5.0% in 2007 from 2006 levels, expect rental rates growth to inch up moderately in 2008, at about 1.0% to 2.0% maximum increase expected. ↑

CONSTRUCTION: The development pipeline surged in 2007 to 2.4 msf – highest level in a decade. However, with new fees legislated by the M-NCPPC in the fall of 2007, expect new project starts to slow in 2008 due to stringent rules in place for project approvals. ↓

OVERALL RENT VS. VACANCY



Security Lane in the North Bethesda submarket. Prince George's County also received a shot in the arm in November when Comcast Corporation leased 92,108 sf at 1301 McCormick Drive in Landover. The facility will serve as a regional call center and is scheduled to be operational in 2008. The firm plans to hire 600 new full-time employees at the center by 2010.

The persistent strength of its office market spurred new construction activity in Montgomery County in the fourth quarter. Despite tighter credit conditions, seven projects totaling 1.3 msf moved forward and commenced construction: Wisconsin Place in Bethesda, 12505 Park Potomac Avenue in Rockville, 520-530 Gaither Road in North Rockville, Town Center Blvd@ I-270 in Gaithersburg, Milestone Center Court in Germantown, and 10001 New Hampshire Avenue in North Silver Spring. As a result, the construction pipeline in Montgomery County has surged to its highest level since 2001, with eleven projects totaling 1.9 msf under way, of which 1.6 msf are available. However, building activity in the County could slow in the near term. In November 2007, the Montgomery County Council approved legislation that will raise taxes on new development. Meanwhile, only three projects with 388,762 sf of rentable space are under construction in Prince George's County.

Sales volume continued to wane in the fourth quarter reflecting pricing concerns. Notably, the gap between what buyers are willing to pay and sellers are prepared to accept continues to widen and is creating an impasse. Consequently, only two buildings (6720 Rockledge Drive in North Bethesda and 30 West Watkins Mill Road in Gaithersburg) changed hands in the fourth quarter, and two are under contract (6730 Rockledge Drive in North Bethesda and 7200 Wisconsin Avenue in Bethesda/Chevy Chase). Even though total transactions for the year of \$977.0 million were down 25% from 2006, 2007 was the fourth best year on record.

OUTLOOK

The outlook for the Suburban Maryland office remains positive, even though local economic conditions are likely to slow in response to the broad slowing in macroeconomic conditions and emerging fiscal problems in Montgomery County. Cushman & Wakefield believes that several factors are in place to support this

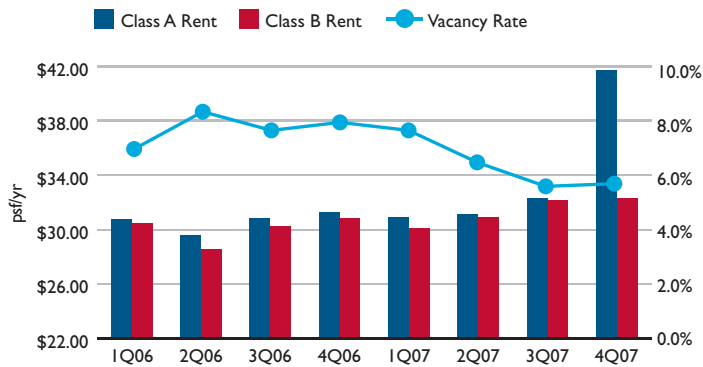
favorable outlook. First, the area boasts a wide array of industries, led by the professional and business services sector and federal agencies that are less susceptible to financial and housing market weakness, and are expected to continue to create jobs in the area. Cushman & Wakefield estimates that the private sector has an active requirement of at least 500,000 sf in 2008, of which 20% represents net new growth. Moreover, government agencies are expected to return to the market after sitting on the sidelines in 2007, with a requirement of 1.0 msf through 2009. Likewise, the availability of high quality space at reasonable rates (relative to the District) will remain a positive driver for the area. All of this should provide a stable foundation for demand over the next two years.

Second, new development has been consistently prudent in this area so that this market has not had the glut of space seen in other areas. This is nowhere more evident than in the overall vacancy rate, which has averaged 10% in Montgomery County and 11% for the entire Suburban Maryland over the past ten years. While new supply has been at an all-time high in Montgomery County, the volume is well within the reach of absorption. Hence, we expect Montgomery County to maintain its positive momentum over the next two years, with strong demand for close-in markets including Bethesda, North Bethesda, Rockville, and Silver Spring. This should continue to tighten up class A/A+ vacancies in the County, and thus keep overall vacancies within market equilibrium (10%) as well as fuel higher rents. With its ultra-low vacancies, Bethesda/Chevy Chase is expected to outperform the other submarkets. Trophy buildings in this market are expected to achieve rents in the low to mid-\$50s in the short term and continue to rise to the high \$50s in 2008.

The National Harbor project in Prince George's County is well under way, and set to open in 2008. This 7.3-msf mixed-used development, comprising millions of square feet of convention, office, hotel, retail and residential space, will be a positive long-term driver for Prince George's County. According to Gaylord National, it has already sold more than 1.0 million room nights (over the next decade and beyond), filling the 2,000-room hotel to 60.0% capacity next year when it opens, 55.0% in 2009 and 35.0% in 2010.

BETHESDA/CHEVY CHASE

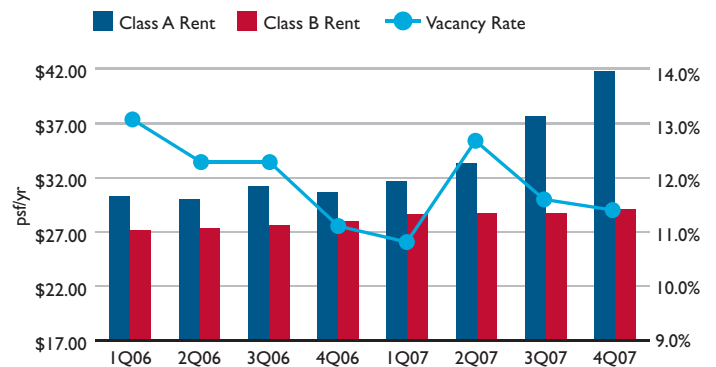
CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



- Bethesda/Chevy Chase continues to be the "it" submarket of Suburban Maryland. Class A vacancy levels are virtually non-existent, as direct vacancy at the end of the year was 0.9% and overall vacancy, 3.5%.
- The supply constraint on the market along with heavy demand for Bethesda/Chevy Chase tenancy has kept asking rental rates above the \$40 psf mark with trophy space commanding in the high \$40's to low \$50's psf full service.

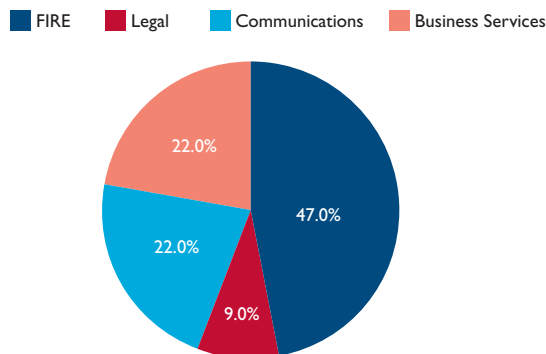
NORTH BETHESDA

CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



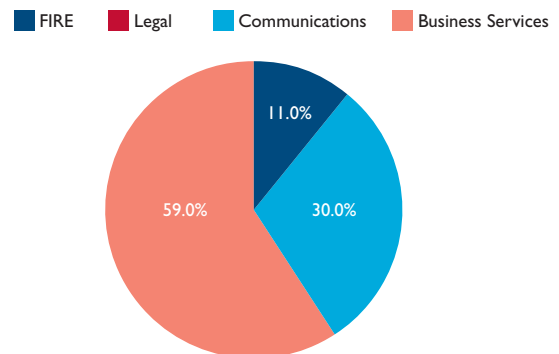
- Leasing activity for the year was just shy of 500,000 sf with significant leases in the fourth quarter being signed at 6903 Rockledge Drive by Sybase for 23,471 sf and SRA International at 10401 Fernwood Road for 20,020 sf.
- Average asking rental rates for all classes and class A have risen to \$33.03 psf and \$38.40 psf, respectively. This is mainly due to the delivery earlier in the year of the fully vacant 6720 Rockledge Drive (182,770 sf) that is asking \$38.00 psf full service.

2007 LEASING ACTIVITY BY INDUSTRY



- The largest lease of the fourth quarter was signed by the Travel Channel at 5425 Wisconsin Avenue for 30,612 sf. MPEG and Bosley also signed leases that quarter at the same address for 8,898 sf and 5,800 sf, respectively. The terms of these subleases run through April 30, 2019.
- While there have not been any significant investment sales activity in the submarket this year, JBG currently has 7200 Wisconsin Avenue (Artery Plaza) under contract for \$140 million and intends on closing the beginning of the first quarter of 2008.

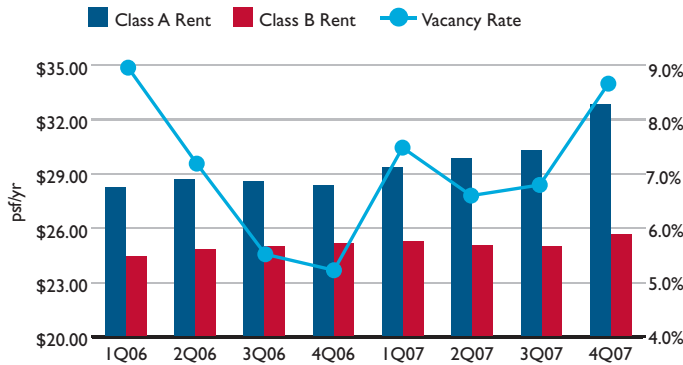
2007 LEASING ACTIVITY BY INDUSTRY



- The largest sale of the year was at Democracy Center where Prudential Real Estate Investors bought the three building complex from Boston Properties for \$280.5 million.
- Currently, there is one building under construction in the submarket, 6730 Rockledge Drive (240,000 sf), which is phase two at Opus Center. This building is set to deliver at the end of 2008 and upon completion will be purchased by Piedmont Properties.

ROCKVILLE

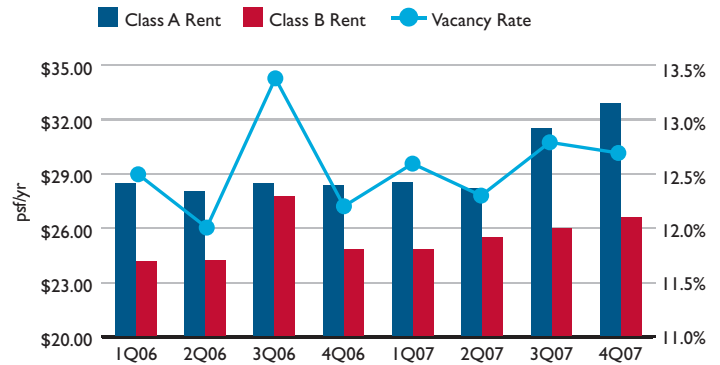
CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



- There are currently four projects under construction in Rockville totaling 707,571 sf. Currently, 23% of these projects are pre-leased. Three of the projects anticipate being completed by 2008 with the newest project, Foulger-Pratt's Park Potomac E building, to deliver summer of 2009.
- Average asking rental rates continue to climb in Rockville. In the fourth quarter, 21 Church Street delivered 93,450 sf at the Rockville Town Center, asking \$37.50 psf. This fully vacant building contributed in pushing overall rental rates to \$30.69 psf and those for class A to \$32.80 psf.

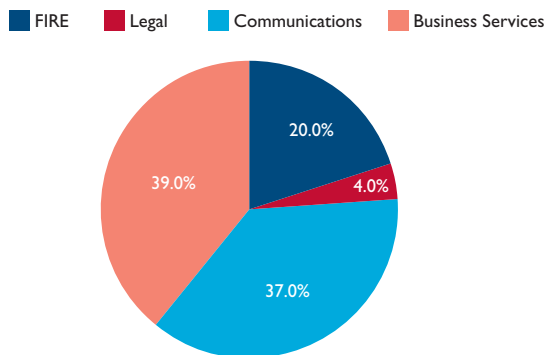
NORTH ROCKVILLE

CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



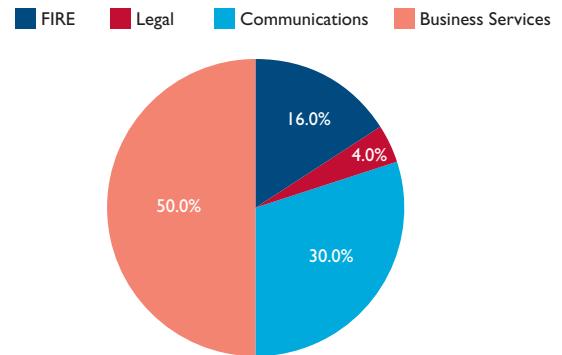
- The construction wave continues in North Rockville as Perseus Realty broke ground on buildings II and III at the Redlands Center in the fourth quarter. The two buildings total 357,510 sf and are targeted to deliver second quarter of 2009.
- The proposed project pipeline has Washington Property Company breaking ground in the first quarter of 2008 at 9700-9730 Washingtonian Boulevard, adding 193,130 sf to the pipeline. Asking rents for new projects in North Rockville are expected to reach \$36.00 psf – \$40.00 psf.

2007 LEASING ACTIVITY BY INDUSTRY



- Leasing activity ended 2007 with 260,552 sf of leases, 170,843 sf of which was in class A properties. The largest lease of the fourth quarter was the pre-lease by Booz Allen Hamilton at Boston Properties' One Preserve Parkway for 30,804 sf.
- As space in Bethesda continues to shrink, the outlook for Rockville remains positive as it should be primed to absorb the inevitable northern tenant migration.

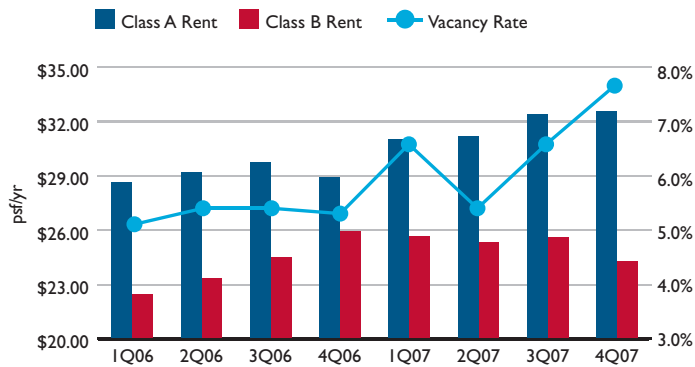
2007 LEASING ACTIVITY BY INDUSTRY



- The vacancy rate at the end of 2007 was 11.3% for all classes and 9.0% for class A. These figures represent an increase from third quarter levels due to the delivery of the fully vacant 805 King Farm Boulevard for 220,002 sf. This building traded to America's Capital Partners in the third quarter of 2007.
- The outlook for the beginning of 2008 remains soft but activity in this submarket should pick up as tenants who are now being forced to pay mid to high \$40's in Bethesda see North Rockville as a viable cost alternative.

SILVER SPRING

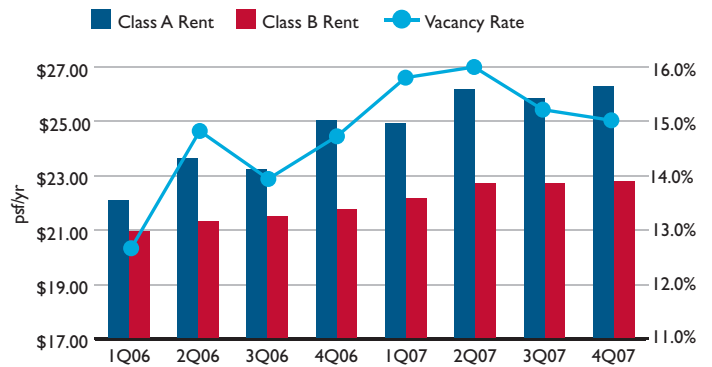
CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



- A large block of space in this supply-constrained market will return in the first quarter of 2008. Johnson, Bassin, Shaw, currently residing at 8630 Fenton Street, will vacate a block of approximately 50,000 sf as it moves to North Bethesda.
- While vacancy for all classes has risen, the class A market remained very tight with a 2.6% vacancy rate for prime space. This constraint on the market has continued to drive rental rates up for quality space as the average asking rental rate for class A space finished 2007 at \$32.57 psf, up 5% from the beginning of the year.

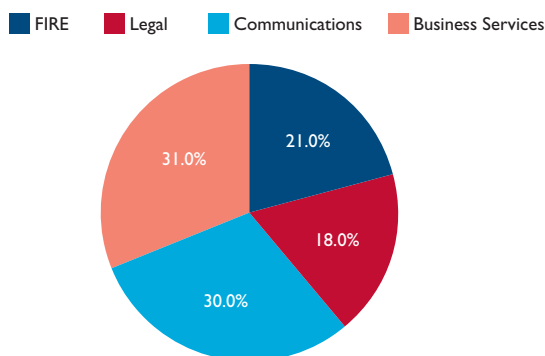
PRINCE GEORGE'S COUNTY

CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



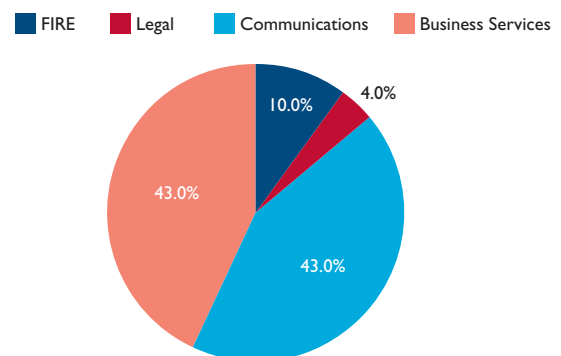
- Rental rates continued their gradual climb, finishing 2007 at \$23.67 psf, up \$1.30 psf from 2006. The market experiencing the greatest jump was Beltsville/College Park, in large part due to the delivery of 5825 University Research Court that is asking \$28.00 psf full service.
- The outlook for the county remains stable as tenants with large requirements, such as Verizon – which is searching for 200,000 sf – should help backfill vacant large blocks on the market.

2007 LEASING ACTIVITY BY INDUSTRY



- Silver Spring has one proposed building in the pipeline that is permit and site plan approved, scheduled to be developed at 8651 Georgia Avenue. Wilco owns the site and, intends to build a 170,000-sf office building that is slated to break ground by late 2008 to early 2009.
- With no projects currently under construction and none proposed that could be completed through 2009, any quality space returned to the market in the coming year should be quickly absorbed.

2007 LEASING ACTIVITY BY INDUSTRY



- Leasing activity in 2007 totaled just over 1.0 msf, the highest total level of activity since 2000. The largest lease of the fourth quarter occurred at 1301 McCormick Drive where Comcast signed for 92,000 sf for its future call center space.
- While no buildings traded in the fourth quarter, a sizeable two-building portfolio at the Maryland Trade Center did trade in the third quarter. Cambridge Properties purchased 7500 and 7474 Greenway Center Drive for \$58.3 million from Washington Real Estate Investment Trust.

MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg. Class A Gross Rental Rate*
Bethesda/Chevy Chase	8,911,573	71	5.7%	3.9%	796,998	280,000	0	45,288	\$41.74
North Bethesda	8,098,814	61	11.4%	9.9%	483,445	240,000	182,770	34,933	\$38.40
Rockville	6,030,390	59	8.7%	8.1%	260,552	707,571	93,450	(152,722)	\$32.80
North Rockville	9,167,642	93	12.7%	11.3%	618,732	357,510	220,002	84,591	\$32.88
Gaithersburg	3,703,819	48	28.4%	18.2%	122,582	91,592	199,998	(357,664)	\$28.73
Germantown	1,881,003	27	6.8%	3.9%	75,848	156,638	0	36,423	\$25.75
Silver Spring	4,818,288	43	7.7%	5.2%	203,505	0	0	(186,848)	\$32.57
North Silver Spring	1,073,411	21	9.8%	9.6%	45,786	51,716	27,606	(7,529)	\$25.00
Montgomery County	43,684,940	423	10.9%	8.7%	2,607,448	1,885,027	723,826	(503,528)	\$33.02
Beltsville/College Park	4,613,616	97	15.5%	15.2%	319,352	268,762	174,000	40,091	\$27.26
Laurel	939,031	16	6.1%	3.9%	36,323	0	0	(4,802)	\$19.00
Greenbelt	2,636,615	29	17.5%	14.4%	179,095	0	0	(45,353)	\$25.75
Landover/Lanham	3,150,767	55	13.4%	12.3%	337,203		83,117	139,597	\$26.62
Bowie	635,546	10	21.2%	20.4%	90,094		40,800	55,080	\$30.70
Oxon Hill/Suiotland	1,715,639	40	15.3%	15.3%	41,512	120,000	0	(7,258)	\$21.79
Prince Georges's County	13,691,214	247	15.0%	13.9%	1,003,579	388,762	297,917	177,355	\$26.27
TOTAL	57,376,154	670	11.9%	9.9%	3,611,027	2,273,789	1,021,743	(326,173)	\$31.26

* Asking rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2007 NEW LEASE TRANSACTIONS

Building	Submarket	Tenant	Square Feet	Building Class
5404 Wisconsin Avenue	Bethesda/Chevy Chase	CapitalSource	160,634	A
5700 Rivertech Court	Beltsville/College Park	Raytheon	98,674	A
1301 McCormick Drive	Landover/Lanham	Comcast	92,108	A

SIGNIFICANT 2007 SALE TRANSACTIONS

Building	Submarket	Buyer	Square Feet	Purchase Price
Democracy Center	North Bethesda	Prudential Real Estate Investors	688,493	\$280,500,000
Maryland Trade Center I & II	Greenbelt	Cambridge Properties	342,000	\$58,300,000
6720 Rockledge Drive	North Bethesda	Piedmont Properties	185,945	\$70,400,000

SIGNIFICANT 2007 CONSTRUCTION COMPLETIONS

Building	Submarket	Major Tenant	Square Feet	Completion Date
805 King Farm Boulevard	North Rockville	N/A	220,002	7/07
655 Watkins Mill Road	Gaithersburg	N/A	199,998	7/07
5825 University Research Court	Beltsville/College Park	N/A	120,000	10/07

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

Building	Submarket	Major Tenant	Square Feet	Completion Date
5404 Wisconsin Avenue	Bethesda/Chevy Chase	CapitalSource	280,000	5/09
6730 Rockledge Drive	North Bethesda	N/A	240,000	12/08
12505 Park Potomac Ave	Rockville	Shulman, Rogers, Gandel, Porly	174,690	7/09



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