MARKETBEAT

WASHINGTON, D.C. OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

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4Q07

THE YEAR IN REVIEW

2007 was another year for the District of Columbia's real estate record books. Despite the credit market turmoil and persistent worries about the economy, the DC market posted six-year low vacancies, record rents, record construction pipeline and record sales volume. Vacancy rates hovered at 6.0% for direct space and 7.1% for overall space throughout 2007. Virtually all submarkets continued to show strength, with the core markets – the Central Business District (CBD) and East End – fueling much of the momentum. Not surprising, rent increases showed no let-up throughout the year, rising by an average of $1.00 per square foot (psf) every quarter. As a result, rental rates for all building classes set new highs each quarter, ending the year at $52.48 psf for class A, $50.45 psf for class B, and $40.22 psf for class C. By comparison, rental rates in 2006 were $47.63 psf for class A, $43.19 psf for class B, and $37.10 psf for class C. Asking rents for space in new buildings also jumped to the high $50 triple net, after lingering in the mid-$50 triple net range over the past twelve months. Some properties in the CBD and East End continue to lease at record prices as the vacancy rate for trophy space shrank to 2.1% by year-end. Law firms Mayer Brown and Bryan Cave, both of which signed the largest leases in the fourth quarter, paid in the low-$50s triple net for their new local headquarters, currently under construction at 1999 K Street in the CBD and 1155 F Street in the East End, respectively.

The largest spike in rental rates was most pronounced for low-grade space in the CBD and was a by-product of The Blackstone Group's buying spree in 2006 through the first half of 2007. Notably, nearly half of the class B and C space marketed by year-end in the CBD belongs to New-York based Tishman Speyer and Boston-based Beacon Capital Partners. Both have shelled out over $1.0 billion to acquire massive portfolios divested by The Blackstone Group, with Tishman Speyer taking over the Carr America properties and Beacon Capital Partners acquiring the portfolio of Equity Office Properties (EOP). A comparison of lease rates pre- and post-acquisition revealed that both companies have bumped up rents by 10% to 20% since acquiring those portfolios in the first half of 2007.

Strong economic fundamentals are the foundation of this ongoing strength in the District office market. Job growth was buoyant in 2007 and has been the main engine driving tenant demand. While demand has moderated from its heated pace in 2006, it is not off substantially from the historic norm. The volume of new leases totaled 5.9 million square feet (msf) this year, compared to 8.4 msf in 2006 and the ten-year average of 6.5 msf. Significant office leases were still signed even when chaos broke out in the credit markets last summer, with six transactions over 50,000 square feet (sf) executed since September. Law firms continued to drive activity, particularly for top-tier space, leasing nearly 1.0 msf of class A space. The District Government was also active during the year, signing a 500,000-sf lease that jump-started the construction of the Waterside Mall in Southwest and renewing its lease for 111,400 sf at 717 14th Street, NW.

The uninterrupted seven-year boom in new office development also demonstrates the District's vibrancy. Eight buildings with 2.0 msf of rentable space came online in 2007. At the same time the District saw 16 speculative projects totaling 4.2 msf get underway, and two projects with a rentable square feet 1.6 msf undergo redevelopment this year. As a result, the pipeline of new construction and renovation surged to 8.0 msf, the highest level ever recorded in the District. Furthermore, no slowdown is yet apparent.

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BEAT ON THE STREET

Audrey Z. Cramer, Vice Chairman

"Washington continues to be a market of stability. Our rental rates are lower than other world capitals, but unlike other major cities, our market is not dependent on financial institutions for employment stability. Washington class A buildings, particularly in the central core areas, will continue to be attractive to tenants at record rental rates."

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)	3.2%	3.2%	3.3%
Employment Growth (Regional)	1.8%	1.9%	1.2%

Source: Moody's | Economy.com

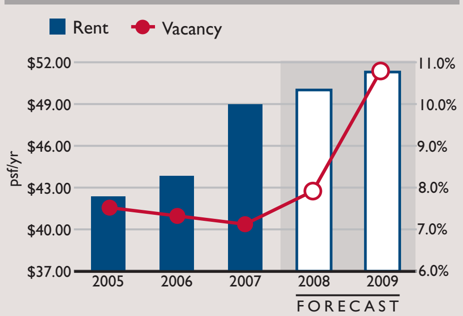
MARKET FORECAST

LEASING ACTIVITY should remain stable in 2008 and match levels in 2007 due to having federal government and law firms as its stalwart tenants. However, as credit tightens expect transactions to stray further away from its ten-year annual average of 6.9 msf.

DIRECT ABSORPTION should remain steady in 2008 as the federal government continues to seek space in the market and law firms with growth options such as Hunton & William, are still looking for space in excess of 100,000 sf.

CONSTRUCTION: The development pipeline is at 8.0 msf – the highest level ever. With a declining pipeline through 2010, expect new deliveries to subside and return to less than 1.0 msf of annual deliveries.

OVERALL RENT VS. VACANCY



Four projects are set to break ground in 2008: 1000 Connecticut Avenue, 800 17th Street (PNC Financial Services Group's new headquarters), Washington Gateway and Constitution Square.

Even with the dramatic slowdown in investment activity in the third quarter, 2007 proved to be another record-breaking year in sales volume for the District. That is because sales totaling $5.5 billion in the first half of the year were characterized by monumental transactions: (1) Tishman Speyer-The Blackstone Group/Carr America, (2) The Blackstone Group-EOP, (3) Beacon Capital Partners-The Blackstone Group and (4) JP Morgan Chase-Columbia Equity Trust. Notably, all the acquisitions and dispositions in the first half of the year accounted for at least $4.4 billion, already surpassing the previous record of $4.3 billion tallied for all of 2006. After plummeting in the third quarter, sales modestly rebounded to nearly $860 million in the fourth quarter; consequently, sales volume for the year totaled $6.8 billion. Contributing to this activity was the role of foreign investors. The weaker dollar is making U.S. office properties attractive to foreign buyers. Until recently, foreign buyers accounted for a relatively small share of investment activity; in the fourth quarter, foreign acquisition accounted for nearly 40% of all transactions.

OUTLOOK

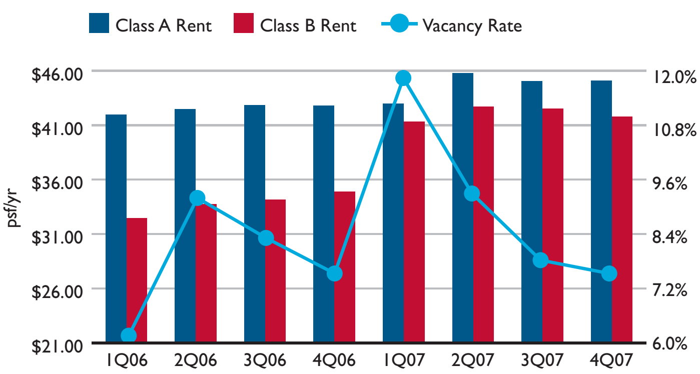
The outlook for the District office market remains favorable, though it faces several challenges going forward. There is mounting concern surrounding business spending and job growth. U.S. corporate profits are being hammered by the economic downdraft, which could make it harder for companies to justify capital outlays and thus make them less willing to hire or retain workers. Moreover, long-standing worries about the weakness of many U.S. housing markets, high energy prices and the ongoing credit squeeze conditions continue to spur fears of economic recession. All this could weigh on hiring decisions and provide correspondingly less impetus to job growth in the region. On the supply side, the volume of new space delivering will be large. On average, Cushman & Wakefield expects 3.5 msf to be completed every year through 2010, with the share of construction measurably higher in areas where demand has yet to increase.

Though there are clouds on the horizon, there are some silver linings for several reasons. The District is not highly exposed to the financial markets; the area could thus still be insulated from a downturn tied to turmoil in financial markets. The presence of the federal government will remain a source of stability and is expected to be a catalyst for growth over the next 6-12 months. Cushman & Wakefield estimates that aside from the Department of Justice's requirement for nearly 500,000 sf, other government agencies have an immediate need for close to 500,000 sf to accommodate the 2,500 jobs they will create in 2008. Moreover, there are scant indications of any major tenant pullback in the market. In fact, other traditional demand drivers such as law firms are currently negotiating leases that include provisions for expansion. Based on C&W's monthly tenants-in-the-market survey, law firms currently have an active requirement of 1.3 msf in 2008, of which 300,000 sf represents net new growth. The District's fiscal position, which currently remains very solid, will also be a mainstay, with the forecast calling for continued budget surplus through 2010. The District's Chief Financial Officer estimated a surplus of $5.1 million for fiscal year 2007, $5.2 million in 2008, $5.4 million for 2009, and $5.7 million in 2010. Such surplus growth, while declining, should help offset any gap in the budget and limit potential public sector employment cutbacks arising from a decline in revenues.

All in all, Cushman & Wakefield remains optimistic about the near-term prospects for the District of Columbia office market even as employment forecast calls for a modest job expansion of 1.0% over the next two years. This should be enough to support a respectable absorption of 1.6 msf per year through 2009, but will fall short of projected new supply. As a result, expect a gradual uptrend in the vacancy rate, which could even rise above market equilibrium (10.0%) by 2010. However, the increase in vacancy will be concentrated outside the central core, where over 7.0 msf (or 60% of new speculative projects) are slated to be added. The lack of amenities and infrastructure in these emerging markets could be a deterrent to luring the private sector tenant base that is typical of the CBD and East End submarkets. But the lower rental rates in these submarkets compared to the rest of the District could appeal to the public sector. Rents still have room to grow, but any increases will not match the heady spikes of 2007. At best, we expect rents to increase by 2% to 3% over the next two years. The lack of new and high-quality space will continue to push up rates more aggressively for trophy properties. The close-in suburbs may benefit from the continued ratcheting up of rental rates in the downtown core. Non-profit groups and associations may be the most likely candidates to take this flight.

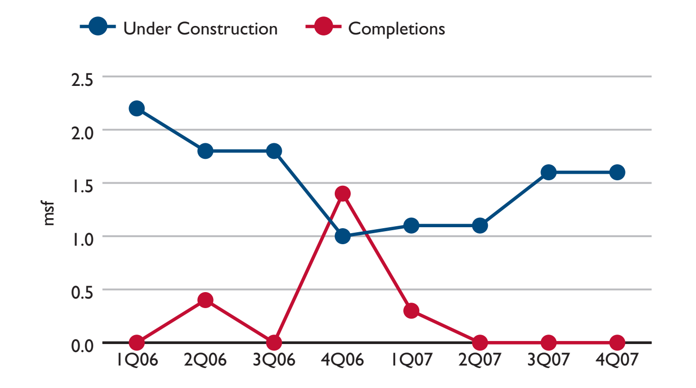
CAPITOL HILL/NOMA

CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



- The largest sale of the year was completed in the fourth quarter as JP Morgan sold the two buildings at Union Square to CIM for $262 million or $445 psf. JP Morgan purchased the portfolio originally from Akridge in 2005.
- There are currently four buildings under construction in the submarket, three of which are in NoMa. Currently, these projects are without any pre-leasing but market speculation points to the Department of Justice's requirement (up to 500,000 sf) being awarded to a NoMa site.

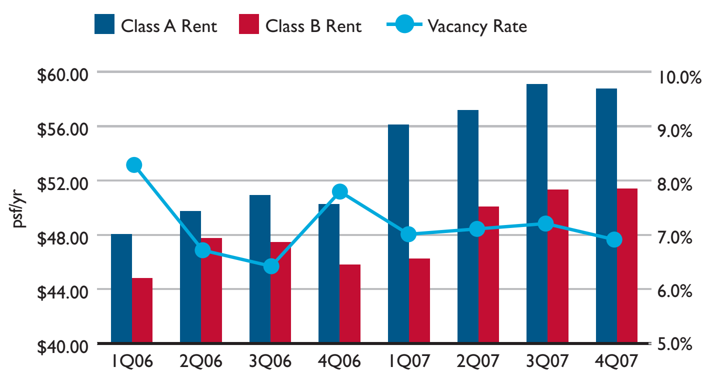
SF UNDER CONSTRUCTION VS. COMPLETION



- Direct absorption for 2007 in the submarket finished on a stronger note, with 337,957 sf of net absorption. Leasing activity was also healthy as the final 2007 numbers showed 372,065 sf of total leases.
- The outlook for 2008 remains positive as building owners in the submarket are hopeful that the two looming large requirements of NPR and the Department of Justice might both be awarded in the first quarter to the NoMa district.

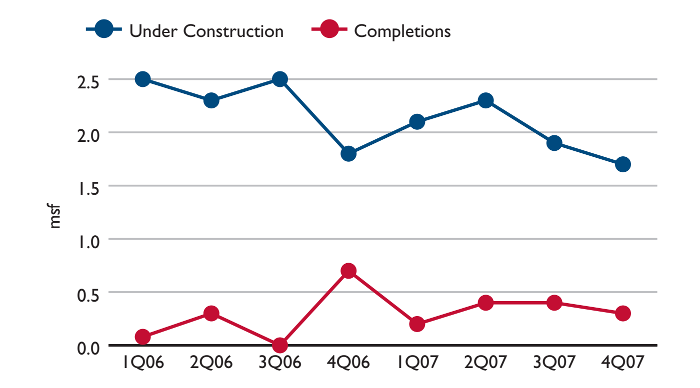
EAST END

CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



- In 2007, 1.26 msf delivered with 910,367 sf pre-leased. The majority of the tenancy is by notable law firms such as Piper Rudnick, Orrick Herrington, Cooley Godward, Dewey Ballantine and Duane Morris.
- Absorption remained strong in 2007 in the East End, accounting for 66.0% of all direct absorption for the District with 1.1 msf. This positive absorption was fully comprised of class A growth.

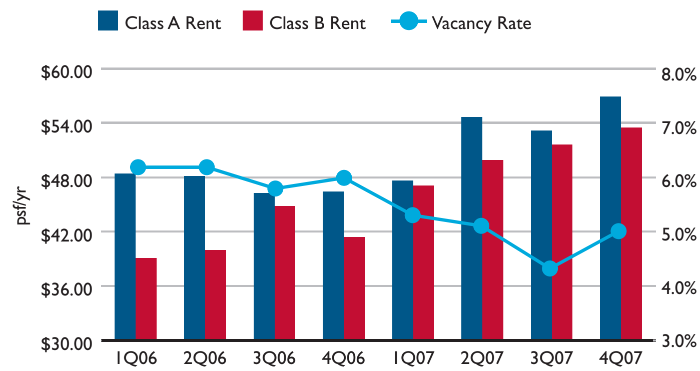
SF UNDER CONSTRUCTION VS. COMPLETION



- The two highest leasing rates for the year were at 1101 New York Avenue where British Petroleum paid $52 triple net in the first quarter, and Bryan Cave paid $51 triple net at 1155 F Street in the fourth quarter. Operating expenses now range from $22.00 to $26.00 psf in the East End.
- With Shook Hardy aiming to finalize a 60,000 sf lease at 1155 F Street and Pew Charitable Trust looks to ink a 90,000 sf lease at 901 E Street by mid-year, 2008 is off to a good start.

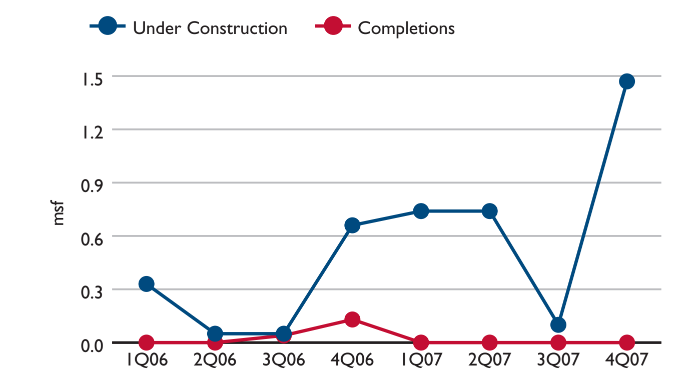
CENTRAL BUSINESS DISTRICT (CBD)

CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



- The CBD continued to flex the strong market fundamentals it has illustrated in 2007. Vacancy remained close to historic lows with 3.6% direct vacancy and 5.0% overall vacancy for all classes.
- Leasing activity finished 2007 with 2.0 msf leased. The largest lease of the fourth quarter – in fact of the year – was by Mayer Brown, which pre-leased the entire 243,000 sf at 1999 K Street, which will be completed in April of 2009.

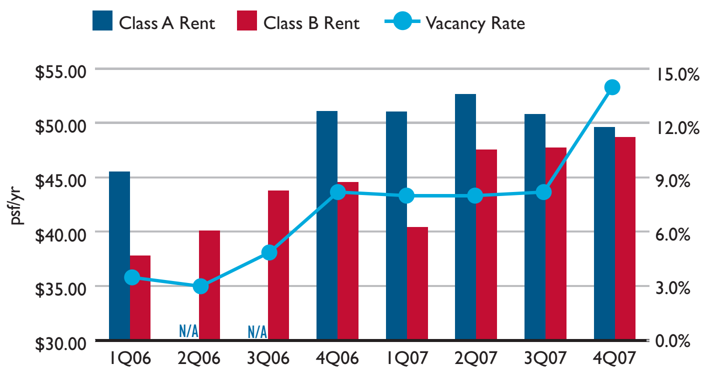
SF UNDER CONSTRUCTION VS. COMPLETIONS



- Rental rates for all class types in the CBD continue to climb. For 2007, classes A and B both registered rates over the $50 psf mark, $56.92 psf and $53.50 psf, respectively. Renovated property and new construction rental rates range from $60 psf to $75 psf.
- There are currently seven projects under construction or renovation totaling 1.1 msf of which 22.1% is preleased to Mayer Brown at 1999 K Street. Expect the pipeline to increase by 710,000 sf in the first half of 2008.

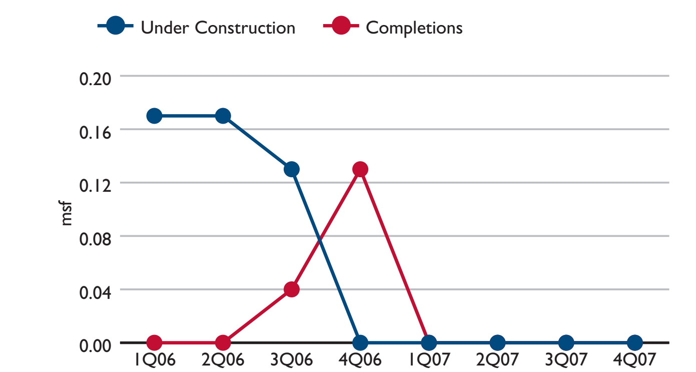
WEST END/GEORGETOWN

CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



- The largest sale of the year in the West End was between Prudential Real Estate Investors and DCD America for the asset 2300 M Street. The asset traded for $66.1 million at a 5.5% capitalization rate.
- Leasing activity was up 24% from 2006 with 282,646 sf. The Harbourside project at 2900 K Street leased its first tenant in the third quarter: the law firm Wallace King signed for 20,145 sf.

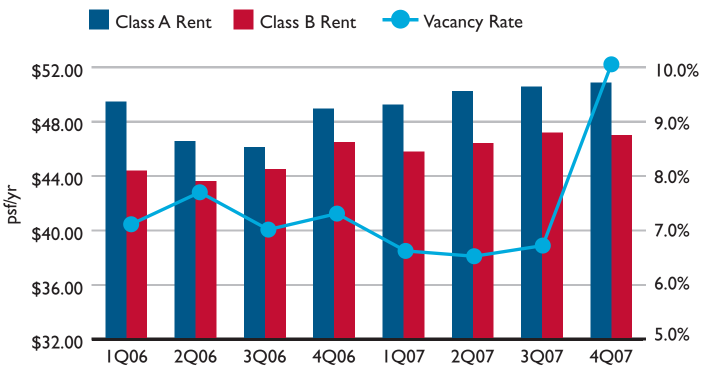
SF UNDER CONSTRUCTION VS. COMPLETIONS



- The vacancy rate climbed slightly in 2007 to end the year at 10.7%. With Katten Muchin signing a 70,000-sf lease at 2900 K Street late in the year, expect overall and class A vacancy rates to see a significant decline in 2008.
- With "zero" projects under construction or planned through 2010, the outlook for the West End/Georgetown remains stable for 2008. Expect vacancy rates to stay in the single-digits for class A space while direct average asking rental rates grow moderately through 2010.

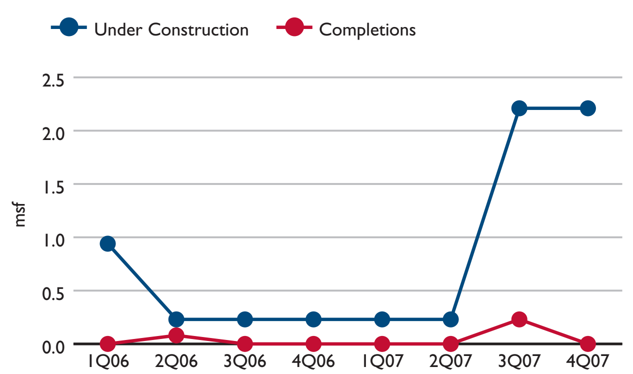
SOUTHWEST

CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



- While activity having slowed in the fourth quarter, the submarket still ended 2007 with 252,795 sf of direct absorption for the year. Even with positive growth for the year, the third quarter delivery of 425 3rd Street added 225,473 sf to the submarket and kept the vacancy rate just above 10% for the year.
- The outlook remains firm as a steady flow of government activity continues to absorb space. Building owners intend to attract private sector consultants who need to be in close proximity to the Immigration and Customs Enforcement (I.C.E.).

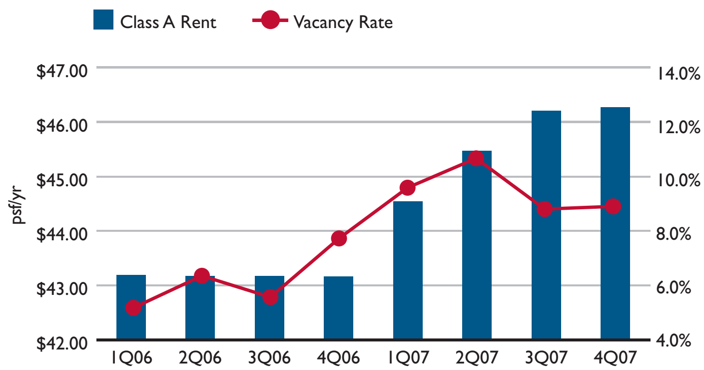
SF UNDER CONSTRUCTION VS. COMPLETIONS



- In Southwest, two projects broke ground in the fourth quarter at the Waterside Mall (401 M Street, SW). Both of these buildings have been pre-leased by the DC Government for the entire 500,000 sf that will deliver in 2009.
- The former Nassif building is now being re-branded Constitution Center as it goes through a full renovation; this project will redeliver 1.5 msf to the submarket in 2010.

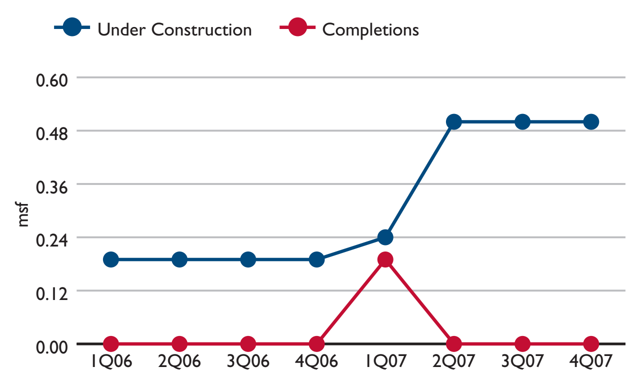
BALL PARK/NAVY YARD

CLASS A & B RENTAL RATES VS. OVERALL VACANCY RATE



- The vacancy rate for direct and overall space ended 2007 at 7.7% and 8.9% respectively. With the two projects under construction slated to be completed between the end of 2008 and beginning of 2009, the vacancy rate should continue to decrease.
- The largest new lease of 2007 in the Ball Park/Navy Yard submarket was Parson Corporation at 100 M Street; however, the largest lease transaction was completed at Maritime Plaza where Computer Sciences Corporation (CSC) renewed their lease for 125,000 sf.

SF UNDER CONSTRUCTION VS. COMPLETIONS



- There are currently two projects under construction in the Ball Park area totaling 500,877 sf. The two projects are Monument Realty's 55 M Street and Opus East's 100 M Street which is 34% pre-leased.
- One building delivered in the market this year. Lerner's 20 M Street delivered 190,000 sf in the first quarter and is hoping to attract tenants in 2008 building off the excitement of the Nationals Stadium.

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**
Capitol Hill/NoMa	9,564,136	38	7.5%	7.3%	372,065	1,449,646	291,838	354,612	$45.12
East End	33,912,944	144	6.9%	6.0%	2,304,924	1,738,176	1,256,123	1,067,902	$58.76
CBD	30,679,379	182	5.0%	3.6%	1,920,609	1,235,082	0	(140,609)	$56.92
West End/Georgetown	5,212,003	34	14.1%	10.7%	282,646	0	0	(285,921)	$49.61
Uptown	3,528,736	31	5.6%	3.3%	152,685	0	0	(55,419)	$41.40
Southwest	9,511,032	31	10.2%	10.1%	750,302	1,206,606	225,473	254,787	$50.88
Ball Park/Navy Yard	2,699,551	7	8.9%	7.7%	146,197	500,877	190,000	23,243	$46.27
TOTAL	95,107,781	467	7.1%	6.0%	5,929,428	6,130,387	1,963,434	1,218,595	$52.48

* Asking rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2007 NEW LEASE TRANSACTIONS

Building	*Submarket*	*Tenant*	*Square Feet*	*Building Class*
401 M Street, SW	Southwest	DC Government	500,000	A
1999 K Street, NW	CBD	Mayer Brown	243,000	A
131 M Street, NW	Capitol Hill/NoMa	Equal Employment Opportunity Commission (EEOC)	144,000	B
2000 Pennsylvania Avenue, NW	CBD	Cleary Gottleib Steen & Hamilton	143,489	A
700 Sixth Street, NW	East End	Cadwalader, Wickersham, Taft	91,000	A

SIGNIFICANT 2007 SALE TRANSACTIONS*

Building	*Submarket*	*Buyer*	*Square Feet*	*Purchase Price*
1200 New Hampshire, NW	CBD	DCD America	278,257	$163,946,242
2100 M Street, NW	CBD	Hines	306,663	$152,500,000
1401 Eye Street, NW	East End	Shorenstein	227,809	$150,000,000
777 6th Street, NW	East End	American Association for Justice	192,000	$123,000,000
2001 Pennsylvania Avenue, NW	CBD	Louis Dreyfus	171,520	$111,000,000

SIGNIFICANT 2007 CONSTRUCTION COMPLETIONS

Building	*Submarket*	*Major Tenant*	*Square Feet*	*Completion Date*
1152 15th Street, NW	East End	Orrick, Herrington	385,000	10/07
2101 L Street, NW	CBD	Greenberg Traurig	372,422	12/07
505 9th Street, NW	East End	DLA Piper US LLP	317,599	10/07
1200 1st Street, NE	Capitol Hill/NoMa	N/A	291,838	1/07
20 M Street, SE	Navy Yard/Ball Park	N/A	190,000	3/07

SIGNIFICANT PROJECTS UNDER CONSTRUCTION**

Building	*Submarket*	*Major Tenant*	*Square Feet*	*Completion Date*
400 7th Street, SW	Southwest	N/A	1,500,000	4/10
700 2nd Street, NE	Capitol Hill/NoMa	N/A	508,313	10/09
355 E Street, SW	Southwest	N/A	383,877	9/09
1100 1st Street, NE	Capitol Hill/NoMa	N/A	345,871	4/09
77 K Street, NE	Capitol Hill/NoMa	N/A	335,462	9/08

* Single asset transactions only ** Includes projects under renovation

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