Office Market Trends Washington, D.C.

Grubb & Ellis Research
Fourth Quarter 2009

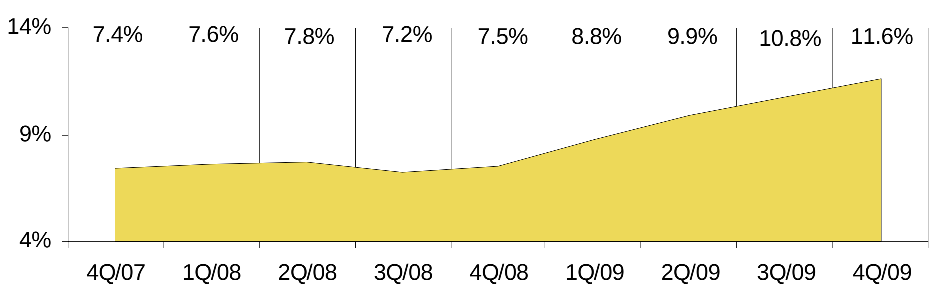
District Begins to See Signs of Stabilization

Contents

Executive Summary

By the end of the fourth quarter of 2009, the District of Columbia's office market inventory stood at nearly 120 million square feet. Vacancy rose for the fifth straight quarter as new deliveries continued to outpace net absorption. The market's overall vacancy rate, inclusive of sublease space, increased 80 basis points from the third quarter to 11.6 percent at year-end. Despite some Class B tenants upgrading to higher-end buildings, the historically tight Class B market's vacancy remained low at 7 percent for the quarter. The District's net absorption was actually positive, at 489,755 square feet, with the federal government accounting for much of the demand. The overall average asking rental rate dipped from $50.91 per square foot, in the third quarter, to $49.77 per square foot at year-end. The Class A average asking rate also dropped, from $55.76 to $54.31 per square foot in the fourth quarter, indicating landlords' willingness to lower face rents, while still offering generous concession packages to attract tenants in an over-supplied Class A market.

In the fourth quarter, available sublease space increased by 131,377 square feet, putting the year-end total at 2.89 million square feet, which represents 15 percent of all available space. However, the amount of new sublease space coming to market declined for the third consecutive quarter. The list of significant leases completed in the fourth quarter is dominated by the federal government and transactions include: GSA's lease of 330,000 square feet for the U.S. Department of Agriculture (USDA) at Patriots Plaza in Southwest, the GSA's swing space prelease of 288,255 square feet at



Washington, D.C. Vacancy Rate

All Classes of Space

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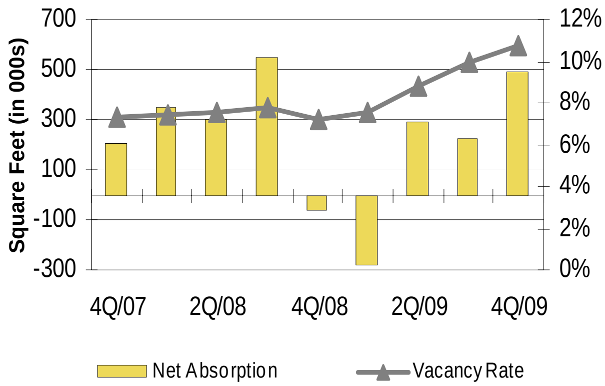
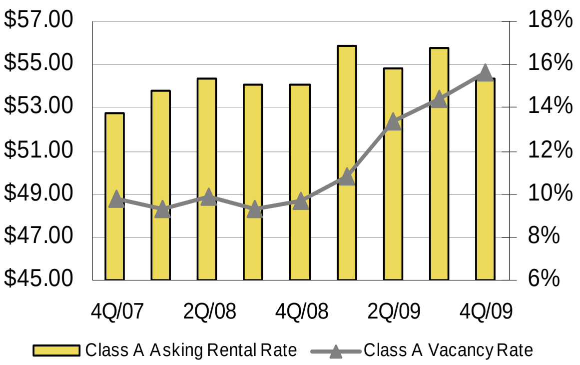


Net Absorption vs. Vacancy

Washington, D.C.



Class A Rents and Vacancy

Washington, D.C.

Constitution Square and the Department of Justice's renewal of 168,000 square feet at 1400 New York Avenue, N.W. In addition to these government leases, law firm Troutman Sanders signed a 120,000-square-foot renewal/expansion at 401 9th Street, N.W.

Submarket Overview

The District's non-core markets, NoMa and Southwest/Southeast, felt the positive impact of federal government spending in the fourth quarter. USDA's 330,000-square-foot lease at 355 E Street, S.W., added to positive net absorption, bringing the total to 400,000 square feet for the quarter in the submarket. In NoMa, GSA will be moving several of its functions to 1275 1st Street, N.E., the second office phase of the Constitution Square complex being developed by StonebridgeCarras, LLC. GSA will occupy over 288,000 square feet, effectively preleasing 75 percent of the building. For all building Classes, average asking rental rates increased in both submarkets, from $48.92 to $49.14 per square foot in Southwest/Southeast and from $49.37 to $49.98 per square foot in NoMa. Vacancy increased by 700 basis points in Southwest/Southeast to land at 19.6 percent, due to the fourth quarter delivery of 375 E Street, S.W., and 400 7th Street, S.W., totaling 1.7 million square feet of vacant space. Both properties stand a good chance of landing federal tenants in the months ahead because of their location, LEED certification and levels of security.

With USDA's upcoming consolidation at Patriots Plaza, it will vacate space at several buildings, including 1800 M Street in the Central Business District (CBD). This move-out contributed to the submarket experiencing 146,000 square feet of negative net absorption for the fourth quarter. Class A vacancy rose to 16.1 percent as the submarket continued to battle the large volume of recently delivered space, in addition to a high level of available sublease space. The East End, the District's other core downtown submarket, fared much better during the fourth quarter. Although rental rates dipped slightly, overall vacancy actually decreased from 9.2 percent in the third quarter to 8.8 percent. The submarket also saw 156,288 square feet of positive net absorption, thanks in large part to a number of small to mid-sized tenants occupying space before the end of the year.

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Office Market Trends Fourth Quarter 2009

Construction

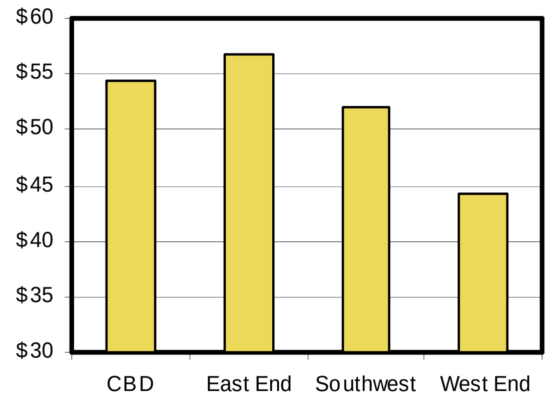
For all of 2009, over 6 million square feet of new office space was delivered in the District, including 1.7 million square feet of new space in the fourth quarter. The new deliveries for the quarter, located in the Southwest submarket, comprise two buildings: 375 E Street, S.W., the second phase of Trammell Crow's 1 million-square-foot Patriots Plaza development, and 400 7th Street, S.W., David Nassif Associates' 1.4 million-square-foot complete building renovation project, commonly known as Constitution Center. Both buildings were delivered without a lead tenant. After 2009's year-end deliveries, 4.3 million square feet remains under construction for delivery through 2010 and 2011, of which roughly 50 percent has been preleased.

Class A and B Average
Asking Rental Rates

Washington, D.C.

Rental Rates

While new deliveries boosted average asking Class A rental rates throughout the year, the fourth quarter saw market conditions force many landlords to become more aggressive with respect to both rental rates and concessions. In the CBD and East End, the overall average asking rental rates fell from $52.25 to $50.02 per square foot and from $54.01 to $53.05 per square foot, respectively. The District's Class B rental rate dropped for the fourth straight quarter from an average of $42.07 at the end of third quarter to $41.76 per square foot at year-end.



Class A Weighted Average
Asking Rents
Select Submarkets

Forecast

• Tenants will remain in a favorable bargaining position and landlords will be generous with concessions into the first half of 2010.

• The federal government will be the driving force in the new year, but expect to see an uptick in private sector leasing.

• Speculative construction projects set to deliver in 2010 will likely force vacancy rates upward, but new supply will begin to dwindle, starting in 2011.

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Office Market Trends Fourth Quarter 2009

Fourth Quarter 2009 Office Market Snapshot

By Submarket (All Classes)	Total SF	Vacant SF	Vacant %	Net Absorption Current Qtr	Net Absorption Year To Date	Under Const. SF	Asking Rent Class A	Asking Rent Class B
Central Business District	37,641,234	4,315,570	11.5%	(146,047)	(134,120)	759,145	$54.49	$42.89
East End	39,158,465	3,441,403	8.8%	156,288	(194,738)	370,000	$56.78	$42.58
Georgetown	2,891,274	389,861	13.5%	(32,124)	(78,411)	-	$51.18	$40.02
NoMa	8,032,657	1,612,030	20.1%	185,428	212,580	1,461,651	$53.92	$36.47
Southwest	15,796,643	3,092,357	19.6%	399,403	579,029	980,000	$52.10	$46.11
Union Station	4,401,256	218,961	5.0%	(5,081)	84,919	301,800	$62.41	$43.91
Uptown	7,914,902	484,569	6.1%	(13,704)	(140,695)	-	$39.37	$36.88
West End	4,134,635	390,346	9.4%	(54,408)	295,540	430,900	$44.28	$40.82
Totals	**119,971,066**	**13,945,097**	**11.6%**	**489,755**	**624,104**	**4,303,496**	**$54.31**	**$41.76**

By Class (All Submarkets)	Total SF	Vacant SF	Vacant %	Net Absorption Current Qtr	Net Absorption Year To Date	Under Const. SF	Available for Sublease CBD	Available for Sublease Suburban
Class A	66,420,314	10,333,927	15.6%	718,746	1,460,255	4,303,496	1,944,779	-
Class B	45,226,185	3,178,564	7.0%	(218,652)	(859,531)	-	905,645	-
Class C	8,324,567	432,606	5.2%	(10,339)	23,380	-	44,575	-
Totals	**119,971,066**	**13,945,097**	**11.6%**	**489,755**	**624,104**	**4,303,496**	**2,894,999**	**0**

Office Market Terms and Definitions

Inventory: Office inventory includes all multi-tenant and single tenant, including owner occupied, buildings measuring at least 20,000 square feet. Government-owned and medical buildings are not included.

Construction Type: Speculative ("spec") construction is designed to attract tenants likely to be in the market when the project is leasing. Build-to-suit construction is designed for a specific tenant.

Office Building Classifications: Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported as full service where all costs of operation are paid by the landlord up to a base year or expense stop.

Average Weighted Asking Rent: An average market rent where the asking rent for each building in the market is weighted by the amount of available space in the building.

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