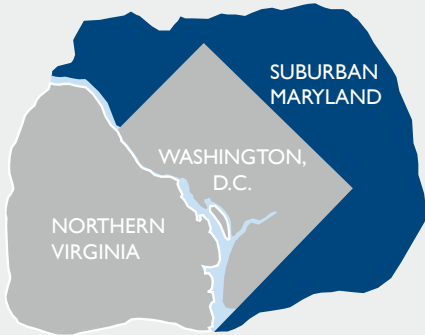


Market Insights

OFFICE MARKET | SECOND QUARTER | 2008



MARKET INDICATORS

	CHANGE FROM Q1 2008	CHANGE FROM Q2 2007
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NET ABSORPTION	↑	↓
DELIVERIES	↓	↓
VACANCY	↑	↑
ASKING RATES	↓	↑

MD OFFICE MARKET SECOND QUARTER 2008

	Q2 08	Q1 08
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NET ABSORPTION	-154K	-424K
DELIVERIES	60K	260K
VACANCY	12.1%	11.9%
ASKING RATES	\$26.25	\$26.65
GROUNDBREAKINGS	0	367K

Suburban Maryland

Market Activity

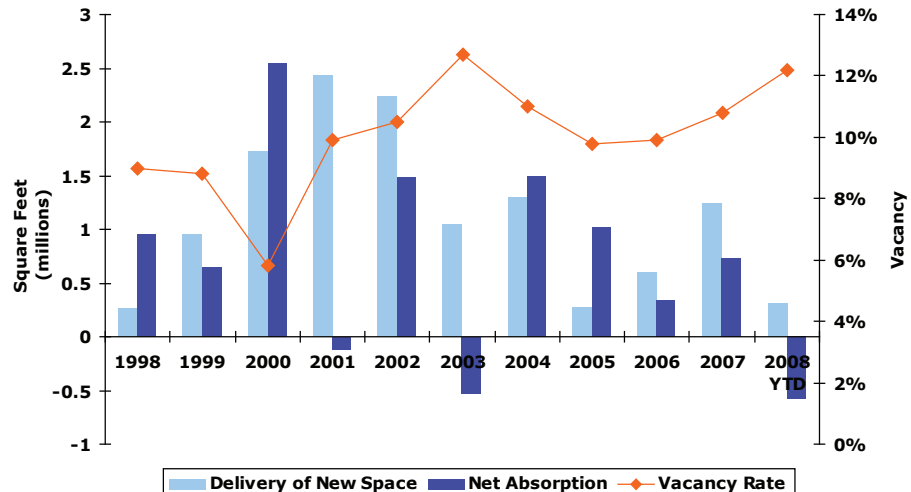
Much like the rest of the country, suburban Maryland experienced another quarter of slower market activity with renewal activity gaining popularity. In the second quarter of 2008, net absorption registered at negative 154,000 square feet and vacancy rose 20 basis points from last quarter to 12.1 percent. Similar to the first quarter, Prince George's County had a significant increase in vacancy (190 basis points) due primarily to Merkle and FEMA moving out of nearly 232,000 square feet. In addition, 60,000 square feet of vacant space delivered to the county. Montgomery County fared relatively well in the second quarter, as vacancy fell from 10.2 percent to 9.8 percent. Moreover, the strength was nearly across the board, with North Bethesda, North Rockville, Gaithersburg/Germantown, and Silver Spring all reporting a downward shift in vacancy. There were no groundbreaking in suburban Maryland in the second quarter, a positive sign that supply is adjusting to falling demand. Currently, there is 1.3 million square feet scheduled to deliver by the end of the year, 17 percent pre-leased, with the bulk of the space (996,000 square feet) being constructed in Montgomery County. The lack of leasing in newly constructed buildings suggests the pendulum will continue to swing towards a tenant's market.

Outlook

With national economic growth sluggish, companies have been reluctant to increase corporate expenditures. As a result, the market has seen a drop in demand for office space and an increase in renewals. As of the second quarter, net absorption totaled negative 578,000 square feet in suburban Maryland, compared to a positive 194,000 square feet recorded this same time a year ago. Despite the downward trend, suburban Maryland is on pace to add 4,600 jobs in 2008. Although this has not yet translated into positive absorption, it does suggest that the long-term fundamentals that drive demand for office space remain positive. Nevertheless, given the 1.3 million square feet of mostly empty office space set to deliver, and a business sector that is in "wait and see" mode, expect vacancy rates to rise by at least 50-100 basis points by the end of 2008.

Suburban Maryland Office Market

Deliveries - Net Absorption - Vacancy
Second Quarter 2008



**TABLE I
OFFICE AVAILABILITY, VACANCY, AND NET ABSORPTION**

	Total Inventory	New Space Available	Relet Space Available	Sublet Space Available	Total Space Available	Vacancy Rate (%)	New Space Absorption	Relet Space Absorption	Sublet Space Absorption	Total Absorption
Bethesda/ Chevy Chase	10,655,862	3,828	465,676	224,563	694,067	6.5%	0	90,549	(57,826)	32,723
North Bethesda	9,594,028	182,770	603,782	141,782	928,334	9.7%	0	46,750	1,224	47,974
Rockville	7,729,039	141,888	524,449	77,378	743,715	9.6%	0	(53,880)	(18,020)	(71,900)
North Rockville	11,056,367	207,628	852,281	187,387	1,247,296	11.3%	110,337	37,815	(4,080)	144,072
Gaithersburg/ Germantown	7,487,545	216,177	770,884	184,276	1,171,337	15.6%	683	24,773	(2,807)	22,649
Silver Spring	8,047,653	1,200	517,856	71,125	590,181	7.3%	0	(4,873)	11,985	7,112
Montgomery County	54,570,494	753,491	3,734,928	886,511	5,374,930	9.8%	111,020	141,133	(69,523)	182,630
Northern	10,180,117	75,000	1,603,178	181,565	1,859,743	18.3%	0	(141,786)	(6,070)	(147,856)
Central	5,690,870	77,857	944,306	62,745	1,084,908	19.1%	8,498	(185,110)	(3,332)	(179,944)
Southern	2,909,389	117,000	436,742	14,779	568,521	19.5%	3,000	(8,823)	(3,259)	(9,082)
Prince George's County	18,780,376	269,857	2,984,226	259,089	3,513,172	18.7%	11,498	(335,720)	(12,660)	(336,882)
Suburban Maryland	73,350,870	1,023,348	6,719,154	1,145,600	8,888,102	12.1%	122,518	(194,586)	(82,184)	(154,252)

**TABLE 2
TRAILING 12-MONTH DATA**

	Total Inventory				Vacancy Rate (%)				Total Absorption			
	3rd Qtr 2007	4th Qtr 2007	1st Qtr 2008	2nd Qtr 2008	3rd Qtr 2007	4th Qtr 2007	1st Qtr 2008	2nd Qtr 2008	3rd Qtr 2007	4th Qtr 2007	1st Qtr 2008	2nd Qtr 2008
Bethesda/ Chevy Chase	10,671,725	10,671,725	10,655,862	10,655,862	6.2%	6.4%	6.6%	6.5%	68,855	(26,544)	(5,785)	32,723
North Bethesda	9,583,842	9,583,842	9,638,842	9,594,028	9.6%	9.7%	10.6%	9.7%	75,115	(1,269)	(86,367)	47,974
Rockville	7,772,981	7,764,300	7,729,039	7,729,039	7.2%	7.6%	8.8%	9.6%	87,541	(25,925)	92,996	(71,900)
North Rockville	10,854,541	10,995,867	11,056,367	11,056,367	13.4%	12.5%	12.6%	11.3%	131,609	178,209	48,254	144,072
Gaithersburg/ Germantown	7,407,945	7,407,945	7,487,545	7,487,545	14.7%	15.0%	15.8%	15.6%	52,720	(27,791)	(70,805)	22,649
Silver Spring	7,998,508	8,032,508	8,032,508	8,047,653	6.1%	6.8%	7.5%	7.3%	(10,308)	(1,328)	(46,446)	7,112
Montgomery County	54,289,542	54,456,187	54,600,163	54,570,494	9.5%	9.6%	10.2%	9.8%	405,532	95,352	(68,153)	182,630
Northern	9,950,123	10,060,117	10,185,120	10,180,117	13.5%	14.7%	16.8%	18.3%	74,815	(5,160)	(161,079)	(147,856)
Central	5,701,440	5,689,590	5,689,590	5,690,870	14.5%	13.0%	16.4%	19.1%	38,841	109,090	(192,201)	(179,944)
Southern	2,791,389	2,791,389	2,849,389	2,909,389	13.5%	15.4%	17.5%	19.5%	(107,072)	(73,099)	(2,201)	(9,082)
Prince George's County	18,442,952	18,541,096	18,724,099	18,780,376	13.8%	14.3%	16.8%	18.7%	6,584	30,831	(355,481)	(336,882)
Suburban Maryland	72,732,494	72,997,283	73,324,262	73,350,870	10.6%	10.8%	11.9%	12.1%	412,116	126,183	(423,634)	(154,252)

TABLE 3
HISTORICAL YEAR-END DATA

	Total Inventory			Vacancy Rate (%)			Total Annual Absorption					
	2005	2006	2007	YTD 2008	2005	2006	2007	YTD 2008	2005	2006	2007	YTD 2008
Bethesda/Chesley Chase	10,634,839	10,773,866	10,671,725	10,655,862	8.4%	7.7%	6.4%	6.5%	310,934	290,172	208,016	26,938
North Bethesda	9,376,667	9,367,916	9,583,842	9,594,028	9.9%	8.8%	9.7%	9.7%	130,434	91,910	82,567	(38,393)
Rockville	7,770,406	7,758,513	7,764,300	7,729,039	7.9%	6.4%	7.6%	9.6%	141,052	83,514	(25,861)	21,096
North Rockville	10,373,644	10,571,368	10,995,867	11,056,367	9.8%	11.1%	12.5%	11.3%	258,277	(38,886)	215,933	192,326
Gaithersburg/Germantown	7,239,133	7,180,202	7,407,945	7,487,545	12.7%	13.5%	15.0%	15.6%	(32,906)	(76,891)	96,603	(48,156)
Silver Spring	8,395,342	8,251,996	8,032,508	8,047,653	5.1%	4.6%	6.8%	7.3%	179,056	(5,006)	(108,554)	(39,334)
Montgomery County	53,790,031	53,903,861	54,456,187	54,570,494	8.8%	8.7%	9.6%	9.8%	986,847	344,813	468,704	114,477
Northern	9,997,926	9,974,168	10,060,117	10,180,117	13.8%	14.6%	14.7%	18.3%	173,923	(123,760)	163,033	(308,935)
Central	5,386,750	5,633,615	5,689,590	5,690,870	11.1%	12.4%	13.0%	19.1%	(188,500)	179,294	247,273	(372,145)
Southern	2,852,946	2,818,410	2,791,389	2,909,389	9.9%	12.6%	15.4%	19.5%	47,658	(60,927)	(146,852)	(11,283)
Prince George's County	18,237,622	18,426,193	18,541,096	18,780,376	12.4%	13.7%	14.3%	18.7%	33,081	(5,393)	263,454	(692,363)
Suburban Maryland	72,027,653	72,330,054	72,997,283	73,350,870	9.7%	9.9%	10.8%	12.1%	1,019,928	339,420	732,158	(577,886)

TABLE 4
METRO WASHINGTON OFFICE MARKET SUMMARY: 2ND QUARTER 2008

	Total Inventory	Total Space Available	Vacancy Rate (%)	Total Absorption
Washington, DC	113,121,620	8,910,387	7.9%	281,690
Northern Virginia	149,161,418	18,131,328	12.2%	90,437
Suburban Maryland	73,350,870	8,888,102	12.1%	(154,252)
Regional Totals	335,633,908	35,929,817	10.7%	217,875

TABLE 5
METRO WASHINGTON EMPLOYMENT DATA

	Labor Force (5/2007)	Labor Force (5/2008)	Jobs Added	Percent Change
Washington, DC	692,400	702,900	10,500	1.5%
Northern Virginia	1,317,600	1,326,600	9,000	0.7%
Suburban Maryland	978,100	979,300	1,200	0.1%
Regional Totals	2,988,100	3,008,800	20,700*	0.7%

SOURCE: U.S. Bureau of Labor Statistics (Not seasonally adjusted.)

*Number differs from GMU Center for Regional Analysis due to metro geographies sampling.