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Overview

The preliminary August estimate for the District unemployment rate was 10.9%, almost a full percentage point higher than last year. Year-over-year, there were approximately 2,300 fewer jobs in the District, mostly in the government sector.

Recently released data from the Bureau of Economic Analysis (BEA) underscored the market highs of 2010. The D.C. Metro was ranked the third fastest-growing metropolitan area economy, with GDP increasing by a healthy 3.6%. Given the current slowdown in the economy, this magnitude of growth will not be sustained in 2011.

Activity Remains Flat

New leasing activity for the year is off by 17.5% from last year's record-breaking levels, totaling 4.0 million square feet. Renewals remain king, currently accounting for 45% of total square footage leased. The largest transaction was a long-term renewal for 204,314 square feet (sf) by CareFirst BlueCross BlueShield at 840 First St. NE in Capitol Hill/NoMa. The U.S. Customs and Border Protection was active in the market, renewing 129,000 sf at 1331 Pennsylvania Ave. NW and expanding into 96,000 sf at 90 K St. NE.

Absorption remained positive, but has slackened from prior quarters. The Non-core markets of Southwest and Capitol Hill/NoMa have witnessed the largest increases in occupancy levels, comprising 68% combined of the 1.9 msf absorbed in the District to date. Much of that absorption took place in the first and second quarters, however, as several large government tenants moved into space previously leased.

Two speculative projects were completed during the quarter: 733 Tenth St. NW in the East End delivered near 85% leased, while 1015 Half St. SE delivered with no tenants in place, adding nearly 400,000

sf of vacant space to the Capitol Riverfront submarket.

Investment Market Stalls

Only two notable investment sales closed during the quarter, although several more are under contract. Principal Real Estate Investors, LLC purchased Capitol Plaza (1200 First St. NE) for \$149.5 million, approximately \$512 per square foot (psf); and 1301 and 1317 Connecticut Ave. NW sold to Shorestein Realty Services for \$26.7 million, over \$400 psf.

While capital remains plentiful for cores assets in gateway cities like Washington, some investors are holding off on purchasing decisions as the economic recovery has become increasingly precarious. Still, multiple bids are commonplace and properties recently put on the market such as the Homer Building are expected to garner much interest and elevated prices.

Outlook

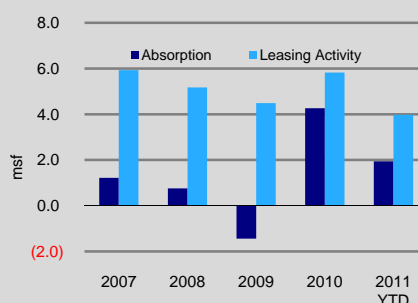
Between the political gridlock in Washington and the recent setback in the global economy, businesses and consumers alike remain paralyzed – unwilling to make decisions which could foster growth in national, regional and local economies.

Employment forecasts for the District vary from limited job creation to slight job losses in 2012. While 2011 has been a year for market corrections from last year's record-breaking activity levels, 2012 may well be marked by below-average levels of activity and an uptick in vacancies. However, pockets of strength in certain submarkets and property types, growth among some businesses (healthcare-related, technology, even some small law firms), and no speculative construction deliveries for the next 12 months will keep market statistics out of recessionary territory.

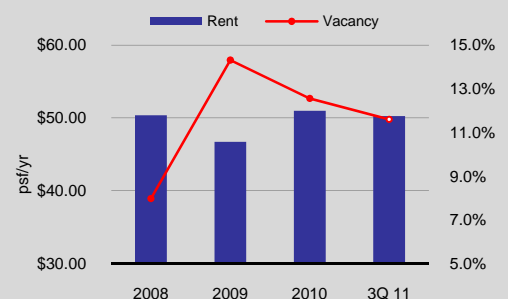
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	13.3%	11.6%	-1.7 pp	▲
Direct Asking Rents	\$51.66	\$51.31	-0.7%	◀▶
YTD Leasing Activity (sf)	4,825,238	3,979,705	-17.5%	◀▶

Absorption vs. Leasing Activity



Overall Rental vs. Vacancy Rates



Market/Submarket Statistics

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction / Renovation	YTD Construction / Renovation Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
Capitol Hill / NoMa	11,856,422	10.3%	10.0%	747,985	606,368	320,966	570,763	567,048	\$49.44	\$55.35
East End	36,272,937	10.2%	9.1%	971,519	462,507	169,038	77,685	224,196	\$53.70	\$63.55
CBD	31,981,656	12.2%	10.4%	920,822	879,714	430,900	51,975	59,738	\$49.31	\$59.61
West End / Georgetown	5,226,557	10.2%	8.9%	80,167	0	0	58,003	75,664	\$44.26	\$58.42
Uptown	3,531,201	9.2%	6.6%	49,654	0	0	94,535	62,102	\$39.43	\$43.11
Southwest	11,115,786	15.6%	15.5%	1,050,401	0	0	733,825	744,668	\$53.51	\$54.43
Capitol Riverfront	4,674,326	14.7%	14.7%	159,157	0	391,923	192,028	206,541	\$44.81	\$48.50
WASHINGTON, DC	104,658,885	11.6%	10.4%	3,979,705	1,948,589	1,312,827	1,778,814	1,939,957	\$50.26	\$59.33

* Rental rates reflect asking \$psf/year.

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
840 1st Street NW	Capitol Hill / NoMa	CareFirst BlueCross BlueShield*	204,314	B
1331 Pennsylvania Avenue NW	East End	U.S. Customs and Border Protection*	129,000	B
90 K Street NE	Capitol Hill / NoMa	U.S. Customs and Border Protection	96,000	A
815 Connecticut Avenue NW	CBD	Baker & McKenzie*	72,107	B
733 10th Street NW	East End	Cassidy & Associates	71,210	A
375 E Street SW	Southwest	Department of Health and Human Services*	58,143	A
1850 K Street NW	CBD	Milbank, Tweed, Hadley & McCloy LLP**	53,860	B

* Renewal – not included in Leasing Activity Statistics

** Renewal and Expansion - Renewal not included in Leasing Activity Statistics

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
1200 1st Street NE	Capitol Hill / NoMa	Principal Real Estate Investors LLC	291,838	\$149,500,000
1301 & 1371 Connecticut Avenue NW	CBD	Shorenstein Realty Services	65,241	\$26,734,000

SIGNIFICANT CONSTRUCTION/RENOVATION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1015 Half Street SE	Capitol Riverfront	N/A	391,923	3Q11
733 10th Street NW	East End	Cassidy & Associates (CMGRP)	169,038	3Q11

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
810 & 850 10th Street NW	East End	N/A	462,507	4Q13
1000 Connecticut Avenue NW	CBD	Arent Fox	374,145	3Q12



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