# *Liberty Tower*
# *Investment Proposal*

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**Final DRAFT**

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# INVESTMENT SUMMARY

| | |
|---|---|
| • Investment name: | Liberty Tower (Property) |
| • Property Type | Existing Class A 12 story office building |
| • Investment Type | Fee simple ownership in property |
| • Investment Amount | Purchase price $82,000,000<br>Closing cost 1,500,000<br>Initial Investment $83,500,000 |
| • Location | The site is on the east side of Liberty Road between 15th street and Clarendon Boulevard, within 200' of the Courthouse Metro Station (Orange Line) in Arlington, VA |
| • Developer | Holladay Property Services, Inc. ("Developer") |
| • Property Description | A 12 story, Class A office building containing 249,000 rsf of office space above grade, as well as underground garage |
| • Leasing Status | Approximately 77% leased to 8 tenants |
| • Forecasted Returns | The results of the analysis indicate that a return of 11.7% or greater has a 70% likelihood, with expected returns of 8.6% or greater and 12.9% or greater exhibiting likelihoods of 90% and 10% respectively. |
| • Operating Expenses | |

| | |
|---|---|
| Property Tax /SqFt | $ 3.75 sq.ft |
| Insurance | $ 0.15 sq.ft |
| Management Fee | $ 0.81 sq.ft |
| Maintenance/Repairs | $ 1.55 sq.ft |
| Janitorial/Cleaning Exp | $ 1.23 sq.ft |
| Utilities | $ 2.07 sq.ft |
| Security | $ 0.21 sq.ft |
| Other Admin Expenses | $ 0.62 sq.ft |
| Leasing/Promo Exp | $ 0.06 sq.ft |
| | **$ 10.45 sq.ft** |

# DESCRIPTION OF THE SITE

The following description of the subject site reflects information obtained from public records, an inspection of the site and a review of the site plans. A copy of the tax map and the FEMA-Flood Insurance Rate Map may be found in the Addenda.

| | |
|---|---|
| **Property Location:** | 1515 Liberty Road<br>Arlington County, Virginia |
| **Land Area:** | 1.34 - acres, or 58,461 square feet |
| **FAR:** | The site has an allowable FAR of 3.8x or 222,000 within the C-0 District. The existing building has a GBA of 204,784 according to tax records, however, the subject contains approximately 257,110 gross square feet of office and retail space in accordance with Arlington County Records (249,709 NRA). |
| **Shape:** | The site is irregular. |
| **Visibility/Access:** | The property has frontage along Wilson Boulevard, |
| **Topography:** | The site slopes upward slightly from east to west. |
| **Utilities:** | All necessary public utilities are available to the site, including: electricity, water/sewer service and telephone. |
| **Zoning:** | C-0, High Density Mixed Use |
| **Site Improvements:** | Theproperty site is largely occupied by the office building. Approximately half of it contains the 12-story building. A 5-level parking structure occupies the remaining site and is attached to the office structure. The remainder of the improvements include modest landscaping, concrete sidewalks with concrete curbs/gutters. |
| **Parking:** | 485 spaces, or 1.94 spaces per 1,000 square feet of NRA. |
| **Surrounding Land Uses:** | The property is situated in a commercial area developed with similar quality office properties. |
| **Easements:** | The analysts are not aware of any private deed restrictions or atypical easements that would impact the marketability or market value of the property. |

**Flood Plain:** The property can be identified on the FEMA Flood Insurance Rate Map 515520-010B, dated May 3, 1982. A review of this source suggests that the subject site lies in Zone C, which is outside of the 100-year flood plain.

**Conclusion:**

The property is located in the Clarendon/Courthouse submarket. The site has been developed with a high-rise office building. It appears to adequately support the existing improvements and the current use of the site is consistent with the surrounding development.

# RISK ANALYSIS

While risks are inherent in any real estate transaction, the analyst is confident that the high quality design and construction, the excellent location and the ability to acquire the property at a reasonable price should result in a satisfactory long-term investment. The primary risks associated with the purchase of the ongoing property are:

**Market Risk**

Arlington and the Washington DC Metro area enjoy a resilient and dynamic office market. However, the recent recession proved that no areas are immune from downturns in the economy. Vacancy rates accelerated, and rental rates are in steep decline. However, the property was able to maintain an occupancy rate in excess of 75%.

**Credit risk**

The credit risk is minimal due to the high quality of the building tenants. The property is approximately 77% leased to 8 tenants.

**Environmental Risk**

We have reviewed reports by ownership relating to environmental concerns or conditions of the property. The reports indicate that there are no environmental risks associated with the property. The final environmental assessment report will be completed and reviewed prior to closing.

**Physical Conditions/Functional Obsolescence**

As part of the due diligence efforts, ECK consultants were engaged to perform a survey consisting of a review of the physical conditions of the property including architectural, structural, mechanical, electrical systems and quality of construction. As of the time of the inspection, no conditions have been identified relating to any material issues of structural obsolescence relative to the ongoing, competitive operation of the property.

Many of the tenant spaces were personally inspected and in most cases the finishes are of high quality. Common area main lobbies are consistent with Class A office buildings in the area. The property's roof and mechanical rooms had been inspected as well, and found in  good condition. The mechanical equipment is very well maintained due in great part to appropriate staffing of engineers and high maintenance standards.

**Exit Strategy**

While the investor may choose to retain the property as a long term investment, current capitalization rates and leasing activity support a short term and a long term exit strategy. Given its high quality design and construction, and an exceptional location, the Liberty Tower should appeal to broad spectrum of institutional buyers.

# AREA ANALYSIS

## Introduction

The property is located in the Washington Metropolitan Statistical Area (MSA) which, as defined by the U.S Department of Commerce, includes the District of Columbia; Maryland Counties of Calvert, Charles, Frederick, Montgomery and Prince George's; The Virginia Counties of Arlington, Clark, Fairfax, Fauquier, Loudon, Prince William, Spotsylvania, Stafford and Warren Counties; and Virginia independent Cities of Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas, and Manassas Park, and Jefferson County, West Virginia.

The following is a map of the Washington MSA:

**Regional Economy**

Historically, the regional economy relies upon extensive government offices, military installations (and related government contracting), commercial business activity, associations/nonprofit organizations, and tourism. In the past decades, there has also been substantial expansion of technology related companies.

In the past, it was common to characterize the Washington area economy as being “recession proof”. This has been shown to be incorrect; however, the region has been cushioned from the full force of the national recession by an economic structure that is less cyclical, due to the underlying support of the Federal Government.

The Washington GRP’s (GRP- Gross Regional Product) growth rate of 2.5% in 2008 was higher than National GDP growth. Some economists predicted that without a major new driver, such as technology in the nineties, the Washington area economy may be constrained on the upside of the business cycle just as it has been protected on the down side. Nevertheless, GRP is expected to out perform GDP in the next 12 months.

The following chart compares regional and national economic growth:

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| **National GDP Growth** | 3.6% | 3.1% | 2.9% | 2.2% | 1.1% |
| **National Job Growth** | 1.0% | 1.7% | 1.4% | 1.1% | 0.01% |
| **Washington Area GRP Growth** | 4.4% | 4.0% | 3.8% | 3.3% | 2.5% |
| **Washington Area Job Growth** | 2.5% | 2.8% | 2.5% | 1.0% | 0.01% |

**Source: Dr. Stephen Fuller, Delta Associates; March 2010*

Job growth in the Washington area has been consistent but remained higher than the national job growth. However, with the economy in a downturn, the 2007 Washington area job growth of 1.0% was slightly less than the national job growth, and the 2008 growth of 0.01% is approximately equal to the national job growth rate.

Federal spending plays a large role in the region’s continued economic growth. Hence, these regional projections should be conservative in relation to the actual numbers. The following chart breaks down the Washington economy by industry and better illustrates the impact of Federal government on GRP.

The Washington area’s gross regional product (GRP) was $377.1 billion in 2008, an increase of 2.5 % from 2007. Total Federal spending in the Washington metro area was up in 2008 to $122 billion, a 3.0% increase from 2007. This reflects that roughly one-third of GRP is generated by the Federal Government, which is the region’s most important core industry. The following chart summarizes the other major industries in the region.

| Core Sectors of the Economy<br>Washington Metro Area | 2006 | | 2007 | |
|---|---|---|---|---|
| GRP in Billions | $ | % GRP | $ | % GRP |
| **Total Federal $s** | $ 116.5 | 32.7% | $ 118.2 | 32.1% |
| **Portion Procurement** | $ 54.5 | 15.3% | $ 54.8 | 14.9% |
| **Technology** | $ 54.3 | 15.2% | $ 56.7 | 15.4% |
| **Building Industry** | $ 21.4 | 6.0% | $ 22.0 | 6.0% |
| **International Business** | $ 17.8 | 5.0% | $ 18.0 | 4.9% |
| **Hospitality** | $ 7.4 | 2.1% | $ 7.5 | 2.0% |
| **Other** | $ 138.9 | 39.0% | $ 145.6 | 39.6% |
| **Total GRP** | $ 356.3 | 100% | $ 368.1 | 100% |

**Source: Dr. Stephen Fuller, Delta Associates; March 2010*

The Washington area's gross regional product (GRP) was $401.3 billion in 2008, an increase of 4.7% from revised 2007 figures. We expect GRP in the metro area to edge down 0.5% during 2009, once the numbers are finalized. This compares favorably to our projection of the national gross domestic product change of negative 2.5% in 2009.

We expect the Washington metro area economy to slowly recover during 2010. We believe the local economy hit bottom during the 1st half of 2009 and recovery is now underway. However, we expect the speed of recovery to be slow, as consumers and companies remain cautious. We expect consumer confidence will edge up moderately during 2010. Consumer confidence is currently very low and will remain challenged until healthy job growth resumes.
**Source: Dr. Stephen Fuller, Delta Associates; March 2010*

Over the past ten years, the inflation rates for these two economies have been relatively stable. Inflation as measured by the US Department of Labor's Consumer Price Index has remained around 3% for the past eight years, except for elevated rates in 2006 and 2007. The following chart shows recent trends in the CPI index for the Baltimore-Washington CMSA.

| Washington-Baltimore MSA | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2.5% | 3.3% | 1.8% | 3.3% | 2.2% | 3.6% | 4.1% | 4.9% | 1.0% | 3.0% |

*Source: BLS. Data reflects January of each year. Previous 12-month change*

**Employment**

The growing employment demands of the Washington-Baltimore region had been driving population growth in the region. According to an article in the Washington Business Journal (December, 2008) "the Washington area's jobs count in October rose by 37,500 over the same month last year, according to Department of Labor. While the local job pool grew, the national job count fell by 0.8% for the month compared."

The Government sector added the most jobs in the area, up 16,000 jobs. The public sector makes up more than one-fifth of all employment in the D.C. area, second only to professional and business services. That industry added 11,000 jobs or a gain of 1.6%, while dropping 1.7% nationally. Education and health services added 9,900 jobs in the area.

Still, the most recent data available indicates that unemployment is up sharply in the first half of 2009. In the Washington Metropolitan area, the civilian labor force is estimated by the Bureau of Labor Statistics (BLS) to be 3,001.938 persons (4/09). The unemployment rate as of April 2009 is 5.7% down from 6.1% in February. This was the highest monthly unemployment rate in the historical data published by the BLS, which dates back to January 1999. The following chart shows historical unemployment for the area:

| Historical unemployment rate | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|
| Washington, DC MSA | 3.4% | 4.0% | 3.9% | 3.7% | 3.5% | 3.1% | 3.0% | 3.8% |

The 2009 unemployment rate has nearly doubled from one year ago (3.0% April 2008), although it is still favorable compared to the rest of the nation (9.7%, May, 2009). In the District, the unemployment rate was 9.9% as of February 2009. In Maryland the rate was 6.7% and in Virginia the rate is 6.6%. According to local economists, the rise in local unemployment is a sign of the diversification of the local economy away from Federal employment. This lessens the protection from economic downturns that the region has historically enjoyed.

Over the past 20 years, the region has experienced job growth of approximately 55,000 jobs annually. However, these growth patterns have not always been consistent. BLS statistics suggest that the Washington region added approximately 71,200 payroll jobs in 2004, 62,500 in 2005, 49,900 in 2006 and 40,900 in 2007. Northern Virginia has been the recipient of most of the recent job growth. For example, the following chart illustrates a breakdown of regional job growth in 2006.

| Sub Area | Payroll Job Growth | % of Whole |
|---|---|---|
| Northern Virginia | 24,455 | 45% |
| Suburban Maryland | 19,960 | 40% |
| Washington DC | 7,485 | 15% |
| Totals | 49,900 | 100% |

*Source: BLS*

Between 2004 and 2006 job growth was above typical historic trends; however, the pace slowed in 2007 and is expected to fall below the 20 year average again in 2008. The following chart summarizes job growth and projections for the region from 2007-2009. This data is published by the George Mason University Center for Regional Analysis and Delta Associates.

| **Year** | **Job Growth** |
|---|---|
| 2007 | 40,900 |
| 2008 | 37,600 |
| 2009 | 39,000 |

*Source: Delta Associates*

Recently, the majority of new jobs being created during the past 12 months have been white-collar positions, including 42% that fall under the "professional and business" category. These are largely jobs linked to government contractors and recent increases in these services. Unemployment in the Washington PMSA was cited at 3.1% in April 2008, which is well under the regional averages. Northern Virginia has generally experienced the lowest unemployment, while the District tends to demonstrate the highest.

According to the Howard County web site, it is the planning assumption of the Task Force that growth at Fort Meade will include 22,000 new onsite jobs during the next 5-7 years. The job growth has four components: BRAC: 5,695 new work positions; NSA: 4,000 new work positions;
EUL: 10,000 new work positions; additional DOD growth: 2,000 new work positions;
*Source: http://www.co.ho.md.us/HCG_ExecutiveBRAC.htm*

The two areas gaining the most BRAC jobs are Fort Meade (approximately 5,800 on the base) and the Aberdeen Proving Ground (a net of just over 8,000 on base jobs expected). Contractor and support related employment associated with Aberdeen and Meade increase jobs by an additive factor estimated conservatively at a rate of around 1.5 to 2.0 per each government job. The National Naval Medical Center at Bethesda expects an increase of around 2,500 jobs, and the expanded hospital is also expected to nearly double its patient load through time. The Navy is in the process of briefing the surrounding community in regard to impact. Andrews Air Force Base employment will increase by around 600 jobs, with the potential for more as the Air Force resolves BRAC and potential non-BRAC related moves. Fort Detrick is gaining around 200 BRAC jobs, as well as many others associated with federal agencies located on the base.

A large percentage of the new positions at the Aberdeen Proving Ground are coming from federal and contractor organizations in New Jersey. Counties most impacted are Harford, Cecil, Baltimore and Baltimore City. Fort Meade will experience significant growth with the relocation of the Defense Information Systems Agency from Northern Virginia. In addition, National Security Agency and other growth already underway will exceed BRAC growth at Fort Meade. Most impacted counties, in this case, include Anne Arundel, Howard, Prince George's, Montgomery, Baltimore and Baltimore City. At both locations Public Private Partnering (Enhanced Use Lease) will add thousands of additional jobs located on the bases.
*Source: http://www.montgomerycountymd.gov/brctmpl.asp?url=/content/EXEC/BRAC/faq.asp*

The following list displays the top 15 private employers in the District of Columbia:

1 George Washington University
2 Georgetown University
3 Washington Hospital Center
4 Howard University
5 Fannie Mae
6 Children's National Medical Center
7 Georgetown University Hospital
8 Howard University Hospital
9 American University
10 Providence Hospital
11 The Washington Post
12 Catholic University of America
13 Marriott Hotel Services
14 Sibley Memorial Hospital
15 George Washington University Hospital
(Based on employment levels reported to the District's Unemployment Compensation Program as of September 2003. Ranked by size of workforce.)
*Source: DC Department of Employment Services*

## Household and Population Trends

Between 1990 and 2000, the regional population reportedly increased by 589,787, from 3,819,089 to 4,408,876. This represents a total increase in population of 15.44%, or 1.45% annually. The following charts illustrate trends in population growth, plus future projections through 2013.

| Jurisdiction | 1990 | 2000 | % Change 1990-2000 | 2008 | 2013 | % Change 2008-2013 |
|---|---|---|---|---|---|---|
| **District of Columbia** | **606,900** | **572,059** | **-5.74%** | **589,366** | **604,097** | **2.50%** |
| Arlington County | 170,936 | 189,453 | 10.83% | 203,828 | 212,404 | 4.21% |
| City of Alexandria | 111,183 | 128,283 | 15.38% | 137,947 | 143,917 | 4.33% |
| Montgomery County | 763,191 | 873,341 | 14.43% | 957,884 | 1,006,376 | 5.06% |
| Prince Georges County | 723,104 | 801,515 | 10.84% | 855,212 | 887,661 | 3.79% |
| Fairfax County | 818,505 | 969,749 | 18.48% | 1,035,674 | 1,076,165 | 3.91% |
| City of Fairfax | 19,701 | 21,498 | 9.12% | 22,741 | 23,498 | 3.33% |
| City of Falls Church | 9,578 | 10,377 | 8.34% | 10,871 | 11,221 | 3.22% |
| **Inner Suburbs** | **2,616,198** | **2,994,216** | **14.45%** | **3,224,157** | **3,361,242** | **4.25%** |
| Loudon County | 86,129 | 169,599 | 96.91% | 298,081 | 399,988 | 34.19% |
| Prince William County | 215,383 | 280,813 | 30.20% | 387,867 | 470,486 | 21.30% |
| Manassas City | 34,691 | 45,425 | 30.94% | 37,152 | 38,185 | 2.78% |
| Calvert County | 51,372 | 74,563 | 45.14% | 92,036 | 103,204 | 12.13% |
| Charles County | 101,154 | 120,546 | 19.17% | 145,720 | 161,394 | 10.76% |
| Frederick County | 45,723 | 59,209 | 29.50% | 232,104 | 254,274 | 9.55% |
| Stafford County | 61,236 | 92,446 | 50.97% | 128,624 | 153,315 | 19.20% |
| **Outer Suburbs** | **595,991** | **842,601** | **41.38%** | **1,321,584** | **1,580,846** | **19.62%** |
| **Regional Total** | **3,819,089** | **4,408,876** | **15.44%** | **5,135,107** | **5,546,185** | **8.01%** |

*Source: CCIM Site To Do Business*

The region experienced significant positive population growth over the past decade. On a regional basis, this trend is expected to continue for the next decade. The inner-lying suburbs and the District of Columbia are heavily developed. As a result of this, and outward shifts in the suburban employment centers, the outlying suburbs have experienced much stronger population growth. Despite the historic downward trend, current construction trends also suggest that the population should be increasing in the District and closer-in suburbs.

The following chart illustrates the distribution of households in the region.

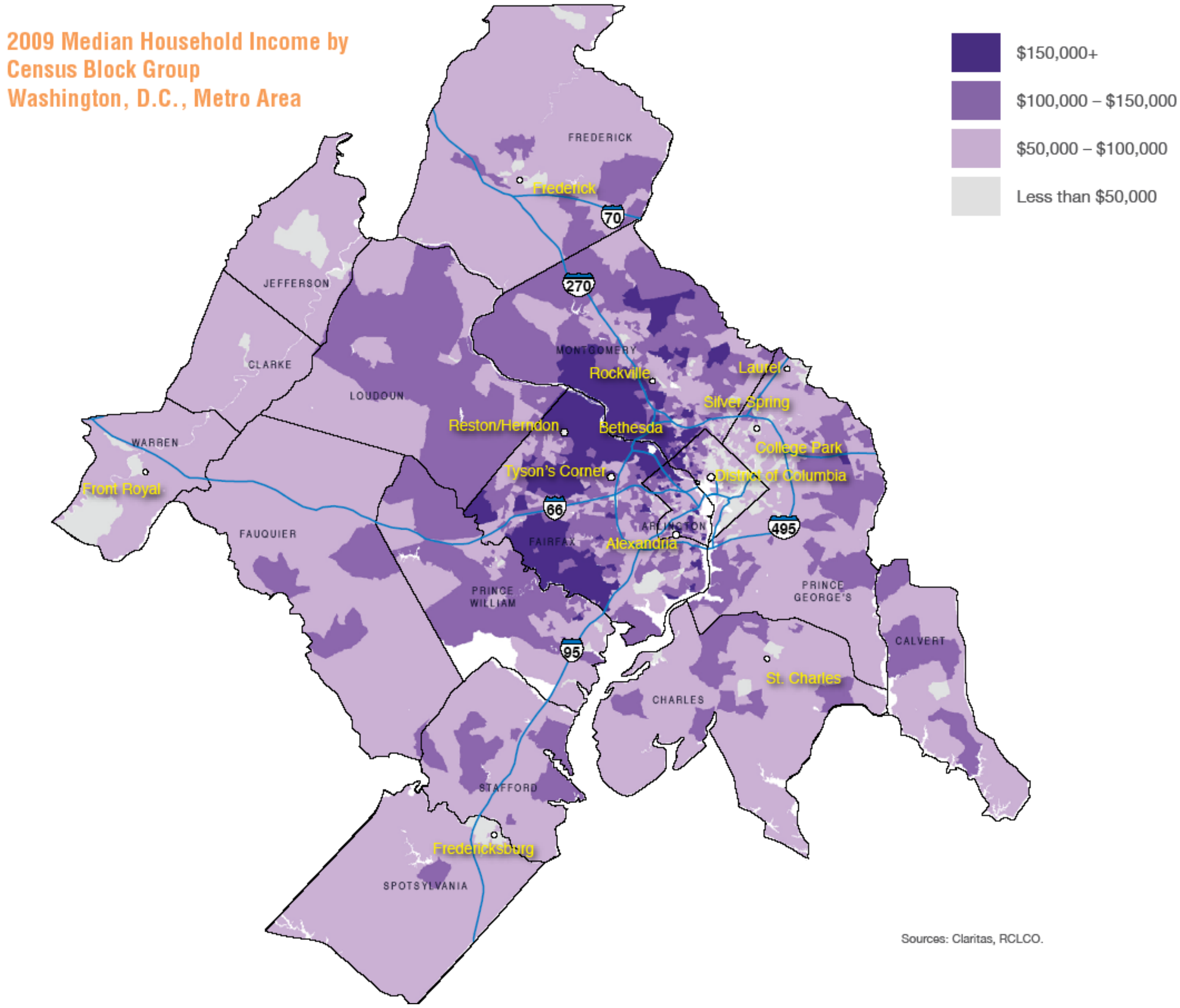
| Jurisdiction | 2000 | 2008 | Average Household Size | % Change 2000-2008 |
|---|---|---|---|---|
| **District of Columbia** | **248,338** | **260,214** | **2.13** | **4.78%** |
| Arlington County | 86,352 | 90,864 | 2.20 | 5.23% |
| City of Alexandria | 61,889 | 65,537 | 2.08 | 5.89% |
| Montgomery County | 324,656 | 352,899 | 2.69 | 8.73% |
| Prince Georges County | 286,610 | 304,383 | 2.75 | 6.20% |
| Fairfax County | 350,714 | 376,332 | 2.73 | 7.30% |
| City of Fairfax | 8,035 | 8,525 | 2.61 | 6.10% |
| City of Falls Church | 4,471 | 4,664 | 2.32 | 4.32% |
| **Inner Suburbs** | **1,122,636** | **1,203,204** | **2.48** | **7.18%** |
| Loudon County | 59,900 | 102,408 | 2.90 | 70.96% |
| Prince William County | 94,570 | 132,870 | 2.90 | 40.50% |
| Manassas City | 15,011 | 16,690 | 3.00 | 11.19% |
| Calvert County | 25,447 | 31,661 | 2.89 | 24.42% |
| Charles County | 41,668 | 51,293 | 2.81 | 23.10% |
| Frederick County | 22,097 | 840,653 | 2.70 | 280.44% |
| Stafford County | 30,187 | 42,150 | 3.01 | 39.63% |
| **Outer Suburbs** | **288,880** | **461,137** | **2.89** | **59.63%** |
| **Regional Total** | **1,659,854** | **1,924,555** | **2.50** | **15.95%** |

*Source: US Census*

The number of households is also increasing, along with the population. We observe that the regional average for household size is higher than that displayed by many closer-in suburbs and that of the District of Columbia. In most jurisdictions, the anticipated growth in households is growing at a slower pace than overall population growth. This is consistent with the national trend towards smaller household sizes.

The U.S. Department of Housing and Urban Development (HUD) defines area median income (AMI) for each metropolitan area. This indicator often is used to determine relative housing affordability for different income ranges and household sizes. The Washington, D.C., metro area has one of the highest median incomes in the country, with an AMI that hovers just above $100,000 for a family of four.

While the question of how to define workforce households remains heavily debated, for the purpose of this study we define workforce households as those with incomes between 60 and 100 percent of AMI adjusted for household size. Approximately 23 percent, or 467,000 of the Washington, D.C., metro area's 2 million households, fell in this income range in 2007, indicating that workforce housing is an issue relevant to a significant portion of the metro area's households. An additional 13 percent of the metro area's households earn between 100 and 120 percent of AMI, and while this report does not directly address the affordability needs of this group, the analysis also found a significant deficit of housing available to this group near employment centers.
*Source: Urban Land Institute*



2009 Median Household Income by
Census Block Group
Washington, D.C., Metro Area
$150,000+
$100,000 – $150,000
$50,000 – $100,000
Less than $50,000
FREDERICK
Frederick
70
270
JEFFERSON
CLARKE
LOUDOUN
MONTGOMERY
Rockville
Laurel
Silver Spring
Reston/Herndon
Bethesda
WARREN
College Park
Tyson's Corner
District of Columbia
Front Royal
66
ARLINGTON
495
FAUQUIER
FAIRFAX
Alexandria
PRINCE WILLIAM
PRINCE GEORGE'S
95
CALVERT
St. Charles
CHARLES
STAFFORD
Fredericksburg
SPOTSYLVANIA
Sources: Claritas, RCLCO.

# Transportation


The Washington Metropolitan Transit Authority operates an interconnected rail and bus service known as "Metro". Currently, the Metrorail system is 106 miles with 86 stations. Metro plans to expand its rail stations with an additional station on the Red Line in Northeast Washington at New York Avenue. Metro has recently added two new stations extending the Blue Line into central Prince George's County. These stations were completed at the end of 2004 and early 2005. Future plans include the extension of the Orange Line west, from Falls Church through Tyson's Corner and out the Dulles Toll Road Corridor.

In terms of a highway network, the Capital Beltway (I-495) is one of the most important factors driving development in the Washington area. It has tied the Maryland and Virginia suburbs together and significantly influenced real estate investment and development patterns. In addition to the Beltway, Washington is connected to I-95, the major north-south interstate highway that extends most of the length of the Atlantic Coast, and I-66, an east-west highway that begins in Washington, D.C. and connects westward to interstate highways in Virginia and West Virginia.

The region does have notorious problems with traffic congestion in certain areas. However, there have been several major investments in the infrastructure over the past few years, including massive improvements to the “mixing bowl” in Springfield, where I-95 and I-495 connect; and replacement of the Woodrow Wilson Bridge. In Maryland, the inter-county connector is under construction. This road would connect I-95, near the Prince George’s County line, with I-270 in Montgomery County. If completed, the long-debated project would alleviate much of the heavy traffic on I-495 on the north side of the Beltway.

The following table provides a summary of air passenger activity at the three airports in the region.

| Annual Passengers (In Millions) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **%Change 2002-2008** |
| Dulles | 17.2 | 17.0 | 22.9 | 27.0 | 23.0 | 24.7 | 23.9 | 39% |
| Reagan | 12.9 | 14.2 | 15.9 | 17.8 | 18.6 | 18.7 | 18.0 | 40% |
| BWI | 19.0 | 19.7 | 20.3 | 19.7 | 20.7 | 21.0 | 20.5 | 8% |
| Total | 49.1 | 50.9 | 59.1 | 64.5 | 62.3 | 64.4 | 62.4 | 27% |

*Source: JC Decaux North America*

While all three area airports experienced a decline in passengers over 2007, over 60 million passengers flew into and out of the Washington region’s three airports in 2008, a twenty-seven percent increase from 2002. Reagan National has experienced the most growth since 2002 of 40%, with Dulles International Airport close behind at 39%.

## Housing Trends

Area housing prices declined in 2008 and are expected to continue this trend in 2009. While the Washington Metro area is not nearly as depressed as many other parts of the nation, prices of virtually all property types in all areas of the region decreased in 2008. Sales volume has also dropped and is expected to decrease even further in 2009, with a market norm beginning to return late in 2009. It is forecast that average days on market will level off in the 90's range.

The following chart summarizes average price increases by type from 2007 to 2008, in the various jurisdictions in the region.

| AVERAGE HOME PRICE BY TYPE (2007-2008) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Detached | | | Attached | | | Condominium | | |
| Jurisdiction | 2007 | 2008 | % Change | 2007 | 2008 | % Change | 2007 | 2008 | % Change |
| **Washington, D.C.** | $949,960 | $922,791 | -3.0% | $581,180 | $549,821 | -5.40% | $406,425 | $411,094 | 1.15% |
| **Maryland** | | | | | | | | | |
| Anne Arundel County | $491,088 | $463,318 | -5.65% | $322,290 | $304,206 | -5.61% | $304,097 | $265,494 | -12.69% |
| Calvert County | $403,326 | $354,619 | -12.08% | $347,566 | $318,002 | -8.51% | $417,194 | $313,504 | -24.85% |
| Charles County | $403,813 | $342,806 | -15.11% | $267,704 | $237,061 | -11.45% | $217,555 | $213,990 | -1.64% |
| Frederick County | $420,387 | $361,811 | -13.93% | $279,733 | $235,858 | -15.68% | $236,843 | $203,780 | -13.96% |
| Howard County | $594,045 | $553,582 | -6.81% | $346,843 | $328,026 | -5.43% | $289,370 | $276,139 | -4.57% |
| Montgomery County | $721,068 | $647,080 | -10.26% | $406,392 | $342,649 | -15.69% | $333,155 | $317,701 | -4.64% |
| Prince George's County | $389,443 | $322,178 | -17.27% | $291,994 | $261,919 | -10.30% | $219,517 | $196,138 | -10.65% |
| St. Mary's County | $374,453 | $340,848 | -8.97% | $226,922 | $226,294 | -0.28% | $223,669 | $197,041 | -11.91% |
| **Virginia** | | | | | | | | | |
| Alexandria City | $772,820 | $741,354 | -4.07% | $595,720 | $557,437 | -6.43% | $340,238 | $311,853 | -8.34% |
| Arlington County | $804,352 | $736,674 | -8.41% | $650,368 | $541,621 | -16.72% | $404,591 | $392,948 | -2.88% |
| Fairfax County | $725,819 | $590,364 | -18.66% | $432,717 | $341,435 | -21.10% | $320,671 | $256,258 | -20.09% |
| Fairfax City | $594,920 | $494,764 | -16.84% | $496,868 | $439,208 | -11.60% | $273,994 | $205,618 | -24.96% |
| Falls Church City | $772,987 | $748,466 | -3.17% | $583,683 | $598,556 | 2.55% | $422,488 | $413,230 | -2.19% |
| Fauquier County | $524,955 | $380,249 | -27.57% | $274,899 | $214,642 | -21.92% | $347,696 | $200,091 | -42.45% |
| Loudon County | $645,806 | $519,474 | -19.56% | $391,104 | $301,749 | -22.85% | $297,044 | $207,445 | -30.16% |
| Manassas City | $392,408 | $261,444 | -33.37% | $258,006 | $124,773 | -51.64% | $228,626 | $133,800 | -41.48% |
| Manassas Park City | $337,754 | $185,892 | -44.96% | $286,718 | $168,360 | -41.28% | $260,338 | $165,915 | -36.27% |
| Prince William County | $465,672 | $312,248 | -32.95% | $313,210 | $192,520 | -38.53% | $270,527 | $207,891 | -23.15% |
| Source: MRIS, Reformatted by Joseph J. Blake and Associates | | | | | | | | | |

In the past few years, there has been strong demand for condominium units and single-family homes throughout the metropolitan area, especially in the revitalizing downtown areas and closer-in suburbs. As a result of the strong demand and low interest rates, prices increased steeply and the pace of new construction increased dramatically over most of the past 4-5 years. Since late Fall 2005, the housing market has softened significantly. Prices in many areas (particularly outlying suburbs) have fallen while closer in areas depreciated more modestly. However, there are exceptions and the extreme high-end condominium market appears to thrive while the broader market languishes.

In the face of extensive new construction over the past few years and decreasing economic conditions throughout the nation, the Washington Metro area housing market has experienced a significant cooling. The market's ability to experience less severe housing crises than the nation as a whole is based on the strength of the local economy. Continued increases in interest rates and/or stagnation in job growth patterns could result in additional downward pressure on pricing.

**Conclusion**

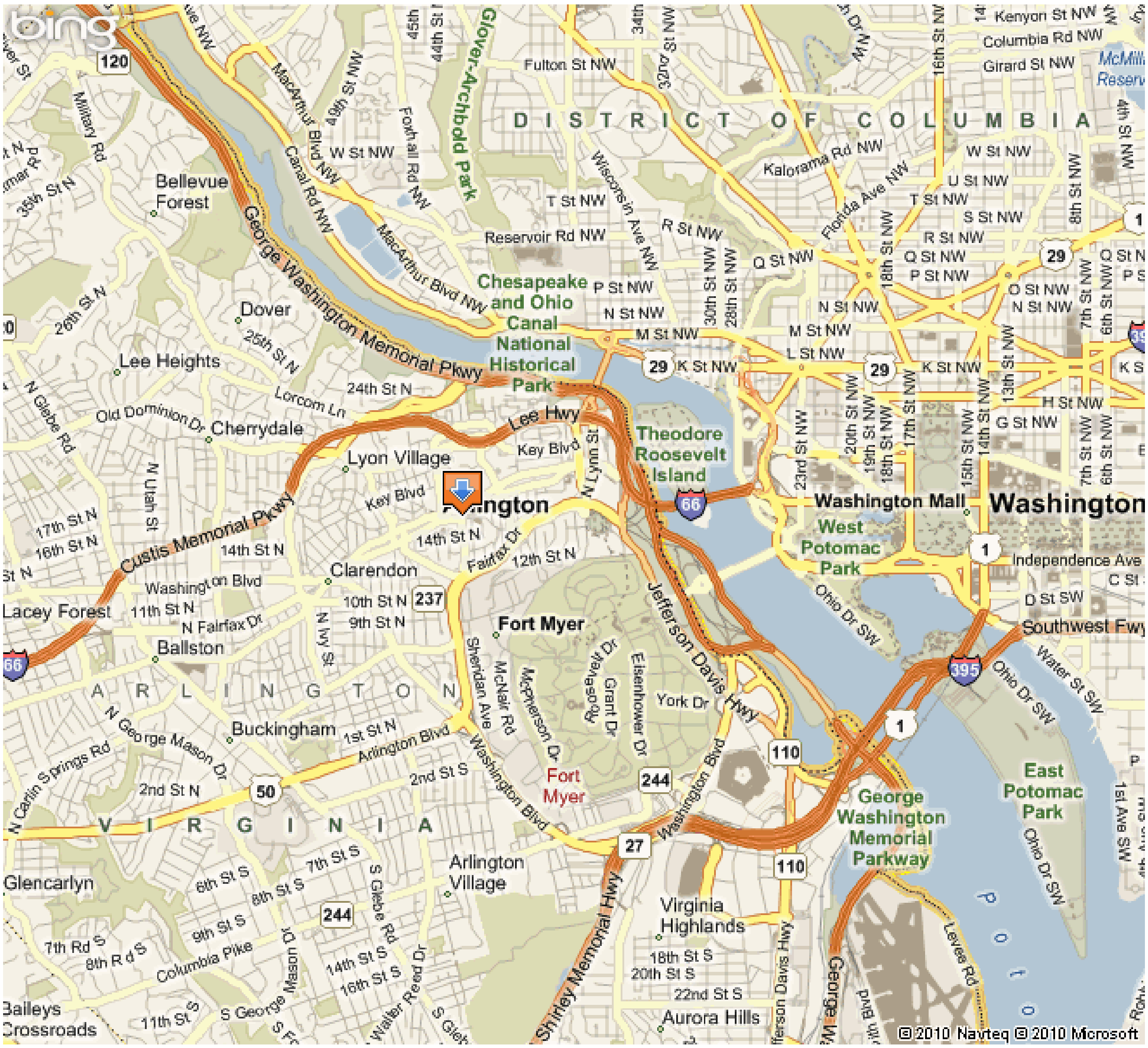
The Washington area economy was relatively resilient during the early part of this decade, while the national economy was decelerating at the end of its ten-year expansion and falling into recession. Despite annual fluctuations, the regional economy has continued to generate more net new jobs than any other metropolitan area of any size and has sustained the lowest unemployment rate of any major Metropolitan area.

Despite economic cooling on a national level and a flattening housing market locally, the Washington Region is expected to experience continued gains in job growth. This is one of the reasons institutional investors prefer this location, as continued job growth and related population growth can help shorten periodic downturns. Additionally, these factors help smooth-out periods of overbuilding among both office and residential sectors. Looking forward, government spending related to the new Homeland Security Agency, coupled with continued military spending from the wars in Afghanistan and Iraq should support continued short-term growth in the regional economy. One issue that needs to be addressed is the region's notorious traffic problems. Thus far, the transportation issues have not impeded economic or population growth; however, there are major issues to be addressed and financed, such as the Dulles Rail Extension.

In conclusion, the Washington Metropolitan area is a favored location for many institutional investors. There is still heavy technology employment in the region and the underlying stabilizing presence of the Federal Government creates a generally positive atmosphere for investor expectations. Continued job growth and good overall employment prospects continue to attract new employees, which in turn spur increased demand for office, retail and residential real estate. The long-term outlook for continued demand for office space and for the overall economic health of the region is positive.

# NEIGHBOURHOOD ANALYSIS

The neighborhood analysis is intended to provide a bridge between the area analysis and the study of the subject property. The goal of the neighborhood analysis is to define and examine the social, economic, governmental and environmental influences, which most directly influence the value of the subject property.



The property site is located within the Courthouse/Clarendon area of Arlington County, Virginia. Specifically, the property occupies the block of Wilson Boulevard, North Courthouse Road and North 15Th Street. The neighborhood consists primarily of high-rise office uses with first floor retail space, and multi-family residential development, as well as hotels, service stations, Arlington County Courthouse, freestanding commercial buildings, and parking facilities.

The neighborhood is identified as the Courthouse/Clarendon area of North Arlington County, generally bound by Interstate 66 to the north, Arlington Boulevard (Route 50) to the south, North Irving Street to the west and North Queens Lane to the East and it is situated approximately one mile West of Washington, D.C. This area is served by the Metro Rail subway system, which provides access to Washington to the East and Vienna, Virginia to the West. The Courthouse Metrorail station less than one block from the subject directly across Wilson Boulevard to the south.

Primary access routes to the subject neighborhood include: Wilson Boulevard, which provides access to the Theodore Roosevelt Memorial Bridge, Francis Scott Key Bridge, and Washington, D.C. to the east, and the City of Falls Church to the west. Other east/west transportation routes through the subject's neighborhood include Interstate 66 to the north and Route 50 to the south.

The property is located in the Clarendon/Courthouse area of Northern Virginia, a medium to high density mixed use area. Surrounding the property to the north and east are medium to high density residential developments. To the south and west is the core of the commercial development of the Courthouse neighborhood with a mixture of high-density office, residential and retail properties as well as the Arlington County Courthouse concentrated around the Courthouse Metrorail Station. In recent years, neighborhood development has consisted mostly of high to medium density residential. Two projects are currently under construction. The Residence Inn (Courthouse Plaza Hotel) a 176-room hotel with 9,455 square feet of ground floor retail space and Rhodes Hill Square, a 100+ units, four-story condominium development are nearing completion. A site for potential future development is the Courthouse Square and Landmark Block that has the potential for over 700,000 square feet of commercial development. The major office development in the subject's market place is occurring to the west along Wilson Boulevard in the Ballston area and to the east in the Rosslyn area, where several new Class A office properties have recently been delivered.

The economic trends that directly impact office properties in this market area are found on a regional level. Still, residents in the immediate neighborhood and surrounding suburbs would make-up a high percentage of prospective tenants. To gain a better understanding of the social and economic characteristics among residents in the subject's neighborhood, we considered statistical information pertaining to residents in a one, three and five mile radius from the subject property.

| Subject Property Demographics | | | |
|---|---|---|---|
| | **1 Mile** | **3 Mile** | **5 Mile** |
| 2000 Population | 30,140 | 224,178 | 604,625 |
| 2009 Population | 35,002 | 239,671 | 639,539 |
| 2014 Population (Projected) | 37,650 | 248,596 | 657,129 |
| Projected Change (2009-2014) | 7.57% | 3.72% | 2.75% |
| | | | |
| 2000 Households | 16,839 | 111,031 | 277,124 |
| 2009 Households | 18,853 | 118,505 | 293,521 |
| % Change 2000 - 2009 | 11.96% | 6.73% | 5.92% |
| | | | |
| 2009 Average Household Size | 1.86 | 2.02 | 2.18 |
| | | | |
| 2009 Per Capita Income | $56,672 | $53,939 | $46,583 |
| 2009 Median Household Income | $81,460 | $79,736 | $73,273 |
| 2009 Average Household Income | $104,287 | $107,602 | $100,204 |
| | | | |
| % Households < $25,000 | 9.9% | 12.1% | 15.3% |
| % Households $25,000 - $50,000 | 16.7% | 15.9% | 17.5% |
| %Households $50,000 - $75,000 | 18.0% | 18.5% | 18.2% |
| %Households $75,000 - $100,000 | 16.8% | 15.1% | 14.2% |
| %Households > $100,000 | 38.7% | 38.6% | 34.7% |

*Source: CCIM Site to do Business*

The subject's immediate neighborhood population is expected to grow at a moderate pace over the next 5 years with the percentage of households outpacing population growth. The average household size in the neighborhood is relatively low and income characteristics are considered affluent with the largest percentage of households earning greater than $100,000.

**Conclusion**

Overall, the Courthouse area is considered to be a strong neighborhood with good accessibility and close proximity to Washington, D.C. The Courthouse area has mixture of commercial and residential properties. Prospects for continued demand for office space in this market area are strong. Access patterns and orientation relative to surrounding communities are considered positive factors.

The subject property is well positioned in the market area. It is located among a mixture of similar office properties and other commercial land uses; in addition the project is one block from the Courthouse Metrorail Station. The improvements in the general area are in good to new condition, with only a small number of vacancies noted. Based upon these factors, prospects for the subject neighborhood are good.

# Market Analysis

The property consists of a Class A office building located in the Courthouse Area of Arlington County, Virginia. The following analysis gleans relevant statistical data pertaining to the supply-demand for office space in the region, throughout Northern Virginia and in the subject's market area. In this analysis, the analysts considered data compiled and confirmed in the course of completing this study. Additionally, market statistics published by Grubb-Ellis have been considered and statistics were extracted from a survey performed on the CoStar database.

**Regional Office Market Profile**

The Washington, D.C. metropolitan area office market is the second largest in the country, with a total inventory of approximately 350 million square feet of net rentable area. The following table displays the regional breakdown of supply and occupancy cited in the Grubb and Ellis survey, as of the Third Quarter 2009:

| All Building Classes | | | | |
|---|---|---|---|---|
| | **DC** | **No. VA** | **Sub. MD** | **Metro D.C.** |
| **Total Inventory (SF)** | 118,248,337 | 159,915,595 | 72,427,303 | 350,591,235 |
| **Space Available (SF)** | 12,712,123 | 23,466,800 | 11,168,145 | 47,347,068 |
| **Vacancy Rate** | 10.75% | 14.67% | 15.42% | 13.50% |
| **2009 YTD Net Absorption (SF)** | 134,349 | (446,749) | (590,623) | (903,023) |
| **Under Construction (SF)** | 6,026,225 | 3,819,455 | 357,450 | 10,203,130 |

*Source: Grubb and Ellis*

The Washington metropolitan region is one of the strongest office markets in the country, with over 350 million square feet of space, including 305 million square feet classified as A or B quality buildings. The region had demonstrated solid economics through 2007 and into 2008, with a strong performance marked by rising rents and a falling vacancy rates. However, the global credit crisis which began in part in August of 2007 and was fully realized in August of 2008 has had a severe and ongoing negative effect on all facets of the region's office market including leasing and investment sales. While the Washington Metropolitan area is experiencing considerable weakness, many accounts note that it is not performing as poorly as other top markets in the US.

Regionally, through the first three quarters of 2009, the area has had negative absorption of 903,023 square feet of space down from a positive 3,973,178 in 2007 and 1,763,790 in 2008, and is currently exhibiting a vacancy rate of 13.5%.

The following table summarizes the vacancy history of the various parts of the metro region.

**Metropolitan Area Direct Vacancy Rate**

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 3Q-09 |
|---|---|---|---|---|---|---|---|---|---|
| District of Columbia | 6.1% | 7.5% | 8.4% | 7.4% | 6.8% | 10.5% | 7.4% | 7.6% | 10.75% |
| **Northern Virginia** | **13.7%** | **17.9%** | **15.2%** | **13.3%** | **11.0%** | **13.1%** | **10.7%** | **13.2%** | **14.67%** |
| Suburban Maryland | 10.7% | 12.2% | 12.3% | 11.6% | 9.8% | 10.4% | 10.9% | 13.3% | 15.42% |
| Metro Area | 10.8% | 13.2% | 12.2% | 10.9% | 9.3% | 11.6% | 9.6% | 11.3% | 13.50% |

*Source: Grubb and Ellis*

As depicted, the District of Columbia is out performing the suburbs in terms of occupancy. The following table tracks regional net absorption in square feet of office space in the Washington Metropolitan area over the past several years.

**Metropolitan Area Net Absorption (SF)**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 3Q-09 |
|---|---|---|---|---|---|---|---|---|
| District of Columbia | 126,460 | 1,562,467 | 1,846,017 | 3,569,483 | 1,898,007 | 1,498,631 | 1,466,513 | 134,349 |
| **Northern Virginia** | **(824,752)** | **3,394,389** | **5,752,350** | **5,826,606** | **2,199,461** | **2,228,736** | **772,968** | **(446,749)** |
| Suburban Maryland | 607,686 | 675,859 | 1,099,179 | 1,059,617 | 225,638 | 245,811 | (477,699) | (590,623) |
| Overall Metro Area | (90,606) | 5,632,715 | 8,697,546 | 10,455,706 | 4,323,106 | 3,973,178 | 1,763,790 | (903,023) |

*Source: Grubb and Ellis*

In 1999-2000 the Metro area absorbed 10.6 million and 11.5 million square feet of office space, respectively. Due to speculative building, coupled with problems in the technology and telecommunications sectors, the metro area witnessed negative net absorption totaling over 2.2 million square feet during the period 2001-2002. Despite several million square feet of additional inventory, these trends were reversed between 2003 and 2005, as the region demonstrated strong positive space absorption of approximately 5.6 million square feet in 2003, 8.7 million in 2004 and 10.5 million in 2005. The 2006 figure indicates a moderate year for absorption and shows the first percentage decline in absorption since 2000 to 2001. As noted, the 2006 absorption is nearly 60% less than 2005 with absorption falling off an additional 8% to 3,973,178 in 2007. Absorption fell another 56% in 2008 subsequent to the initial credit crunch beginning in August of 2007 to the year-to-date net absorption of negative 903,023 SF subsequent to the September 2008 credit crisis. Year-to-date only, the District has exhibited marginally positive absorption.

The following table illustrates changes in rental rates over the several years on a regional basis:

**Metropolitan Area Rental Rate Trends (Asking Rents)**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | YTD 3Q-09 |
|---|---|---|---|---|---|---|---|---|
| **DC** | | | | | | | | |
| Class A | $41.14 | $43.87 | $43.78 | $44.33 | $48.73 | $51.85 | $53.79 | $55.76 |
| Class B | $33.58 | $33.42 | $34.71 | $35.56 | $38.23 | $41.93 | $43.22 | $42.07 |
| **Maryland** | | | | | | | | |
| Class A | $26.36 | $26.21 | $24.14 | $27.64 | $28.09 | $30.24 | $31.26 | $30.39 |
| Class B | $23.36 | $23.03 | $20.52 | $24.48 | $25.44 | $26.37 | $26.60 | $24.40 |
| **No. VA** | | | | | | | | |
| Class A | $27.98 | $26.21 | $28.74 | $30.50 | $31.19 | $34.38 | $34.65 | $32.93 |
| Class B | $25.01 | $23.03 | $25.04 | $26.95 | $27.73 | $29.34 | $29.49 | $26.89 |

*Source: CoStar*

Changes in rental rates in these various jurisdictions are generally consistent with the fluctuations in market-wide occupancy with the exception of the DC class A space which exhibits an increase not reflecting the significant concession packages which are prevalent. The data showed rapid rent increases between 2003 and 2007 slowing in 2008. Average rental rates have not shown declines yet as landlords have resisted cutting asking rents and offered increasing concessions instead. Current asking rates in the suburbs, clearly exhibit a softening of the market with asking rents generally down over the prior year.

### *Construction*

Regional trends on new office construction between 1993 and 2009 through September are summarized as follows:

| Year | Metro DC Total | Year | Metro DC Total |
|---|---|---|---|
| 1993 | 3,720,419 | 2001 | 14,506,427 |
| 1994 | 950,286 | 2002 | 11,336,195 |
| 1995 | 2,921,559 | 2003 | 6,006,552 |
| 1996 | 3,721,683 | 2004 | 6,398,508 |
| 1997 | 2,989,344 | 2005 | 7,135,259 |
| 1998 | 4,058,465 | 2006 | 11,385,387 |
| 1999 | 11,562,710 | 2007 | 14,916,786 |
| 2000 | 10,355,544 | 2008 | 11,323,351 |
| | | 2009 YTD | 9,805,751 |

*Source: CoStar*

For the region, deliveries since 2000 greatly outpaced the levels of the 1990's. Within the District, the CBD is primarily built-out, most of the development has occurred in the East End and Capitol Hill. Deliveries in 2006 through 2008 greatly exceeded the average over the past decade. The metro area has not experienced this volume of construction since 2002. Buildings completed in 2009 throughout the Washington Metropolitan area have a vacancy level of 77% as of September 2009.

**Rosslyn-Ballston Corridor Submarket Profile**

The subject is located in the Courthouse/Clarendon submarket, however; not including the subject, this geographic area only contains 3.4 million square feet of class A space in 20 buildings and 1.8 million square feet of class B space in 16 buildings. The total direct vacancy in the Courthouse/Clarendon submarket is approximately 12.2%. Including sublet space the vacancy in the Courthouse/Clarendon submarket is 14.2%. For better statistical analysis we have included the Rosslyn-Ballston corridor, which includes almost 15.1 million SF of class A space in 64 buildings and 6.3 million square feet of class B space in 55 buildings and 21.5 million square feet in total. The remaining portion of our market analysis will focus on the specific factors effecting supply and demand for buildings in using our own survey from the *CoStar Database* and through conversations with market participants

The following chart summarizes current information compiled from the CoStar database regarding all Class A and B inventory for the Rosslyn-Ballston corridor over the past 5 years:

| Period | # Bldgs | Total RBA | Total Vacant % | Total Net Absorption | # Delivered | RBA Delivered | Direct Average Rate |
|---|---|---|---|---|---|---|---|
| YTD 09 | 119 | 21,477,601 | 8.6% | -393,100 | 0 | 0 | $38.10 |
| 2008 | 118 | 21,476,142 | 8.0% | 629,734 | 1 | 633,000 | $37.28 |
| 2007 | 117 | 20,843,142 | 8.1% | 356,251 | 4 | 518,194 | $36.25 |
| 2006 | 113 | 20,324,948 | 6.5% | 186,290 | 3 | 534,647 | $33.96 |
| 2005 | 110 | 19,790,301 | 7.2% | 1,387,596 | 3 | 862,352 | $32.90 |
| 2004 | 107 | 18,927,949 | 9.8% | 980,842 | 1 | 33,000 | $31.56 |

There had been significant positive absorption of space in the last five years. Despite significant additions to supply, vacancy rates remained stable in 2007 and 2008 and asking rents have increased. Year to date 2009 has showed a significant decline in the Rosslyn-Ballston Corridor market characteristics. Absorption is negative for the first time in 5 years and vacancy is increasing. However, asking rates continue to increase despite rising vacancy. The increase in average asking rates may be attributed to the new deliveries in the corridor being Class A assets. Asking rents for premium space in the highest quality Class A buildings have recently run between $40/SF to as high as $58/SF full service while class B buildings are more likely to be leased under full service provisions at rates between $30/SF and $40/SF.

## Construction in the Submarket

In 2007 and 2008, 1,110,035 square feet were delivered in the Rosslyn-Ballston Corridor in 4 buildings. These two buildings delivered over 95% pre-leased.

| Location | SF | % Leased | Delivery | Asking Rent/SF |
|---|---|---|---|---|
| Waterview (Rosslyn) | 633,000 | 98% | 1st Q 2008 | $63.50 |
| The Regent (Ballston) | 247,436 | 75% | 4th Q 2007 | $44.00 |
| The Pheonix (Clarendon) | 52,553 | 71% | 4th Q 2007 | Office Condo |
| Two Liberty Center (Ballston) | 177,046 | 99% | 4th Q 2007 | $41.50 |
| **Total** | **1,110,035** | | | |

The following table outlines the projects under construction/renovation or proposed within the Rosslyn-Ballston Corridor. It should be noted those projects that are proposed are all likely to be kept on hold pending improved market conditions.

| Location | SF | Status | Delivery |
|---|---|---|---|
| Rosslyn Metro Building (Rosslyn) | 260,000 | Proposed | - |
| 1812 N Moore Street (Rosslyn) | 514,501* | Proposed | - |
| Central Place (Rosslyn) | 535,187 | Proposed | Breaks Gnd 2010 |
| 1500 Wilson Blvd (Rosslyn) | 625,000 | Proposed | - |
| 1716 Wilson Blvd (Rosslyn) | 126,939 | Proposed | Breaks Gnd 2010 |
| 3000 Wilson Blvd (Clarendon) | 107,386 | Under Construction | Oct 2010 |
| 3001 Washington Blvd (Courthouse) | 220,000 | Proposed | Breaks Gnd 2010 |
| 3003 Washington Blvd (Courthouse) | 80,000 | Proposed | - |
| Clarendon Center South (Clarendon) | 66,173* | Under Construction | Oct 2010 |
| 4040 Wilson (Ballston) | 312,660 | Proposed | Breaks Gnd 2010 |
| 650 N Glebe (Ballston) | 130,000 | Proposed | - |
| 800 N Glebe (Ballston) | 300,869 | Under Construction | June 2011 |
| 900 N Glebe (Ballston) | 144,000 | Under Construction | Oct 2010 |
| 675 N Randolf St (Ballston) | 352,750 | Proposed | Breaks Gnd 2009 |
| **Total** | **3,775,465** | | |

**Office Component*

## Courthouse/Clarendon Submarket

The subject is located in the Courthouse/Clarendon Submarket of Metropolitan Washington DC. This area is a high to medium density mixed use area with access to the CBD of Washington DC, the Pentagon and surrounding areas of Northern Virginia through public transportation and major transportation routes. The neighborhood is mostly built-out, therefore, new deliveries have required the demolition of existing structures. Currently there are two buildings under construction in the Courthouse \ Clarendon market area containing a total of 173,559 square feet of office space. In addition, there are two buildings containing approximately 300,000 square feet of office space that are proposed for the

Clarendon/Courthouse market area. However, with the slowdown in the economy these projects will likely be postponed or wait for significant preleasing to begin construction.

The subject is located in the Courthouse/Clarendon submarket, however; this geographic area only contains 3.4 million square feet of class A space in 20 buildings and 1.8 million square feet of class B space in 16 buildings. The total direct vacancy in the Courthouse/Clarendon submarket is approximately 10.1%. Including sublet space, the vacancy in the Courthouse/Clarendon submarket is 14.6%. Net absorption is positive 22,061 year to date and asking rental rates have increased steadily to a current rate of $38.44, up 5.9% since the 4th quarter of 2008.

There are two properties that are impacting vacancy in the submarket. Liberty Tower is currently 77% leased, however, with Tenant G looking for a sublease; the entire building is shown as available in CoStar. Also, 1310 N Courthouse Road was vacated for a complete rehabilitation in 2008. In accordance with the leasing broker, there are three pending leases that are going to be executed in the near future for over 85% of the building. The proposed tenants include FDIC, DOT and Home Land Security. Excluding these two properties, there are 34 office buildings containing a total of 4,655,773 square feet of space with a direct vacancy rate of 4.5% and a total vacancy of 6.3%. The average asking rate is $41.53/SF on a full service basis with a range from $23.00/SF (triple net) to as high as $47.00/SF (full service).

## Improved Sales Market

Over the past few years, the Washington Metropolitan area has been one of the preferred markets for institutional investors, especially with regard to office building acquisitions. The following chart summarizes recent sales of high quality institutional quality office properties in Northern Virginia, which might be suitable alternative investments to the subject property.

As illustrated, there is a wide array of unit pricing and investment parameters reflect the significant variances in location, physical characteristics and economic characteristics. These sales involve institutional grade sales that might attract a similar buyer to the subject property.

**Recent Sales Class A Recent Sales Class A and B Office buildings – Northern Virginia/Suburban Maryland**

| Identification | SD | YB | SF-NRA | $/NRA | % Lsd. | Ro |
|---|---|---|---|---|---|---|
| 4501 N Fairfax Dr., Arlington, VA | 10/09 | 2001 | 194,600 | $349.43 | 100% | 8.3% |
| 3150 Fairview Park | 9/09 | 2001 | 252,613 | $288.98 | 100% | 9.0% |
| Willow Oaks Corporate Ctr., Fairfax, VA | 8/09 | 1986, 89, 03 | 570,038 | $200.14 | 94% | 8.2% |
| The Hartford Bldg., 3101 Wilson Blvd., Arlington, VA | 6/09 | 2003 | 212,441 | $336.56 | 100% | 8.35% |
| 4807 Stonecroft Blvd., Chantilly, VA | 6/09 | 2008 | 111,469 | $260.16 | 100% | 9.0% |
| Market Sq. @ Shady Grove, Rockville, MD | 4/09 | 2004 | 228,020 | $190.77 | 100% | N/A |
| Fairmont Bldg. 7735 Old Georgetown Rd., Bethesda | 4/09 | 1964/1997 | 122,543 | $216.25 | 100% | 8.8%-9.0% |
| 8700 Centerville Rd., Centerville, VA | 3/09 | 1989 | 55,086 | $154.30 | 100% | 11.0% |
| 14550 & 14560 Avion Parkway, Chantilly, VA | 11/08 | 2002 | 143,011 | $290.18 | 100% | 7.3% |
| 801 N. Quincy St., Alexandria, VA | 10/08 | 2002 | 109,821 | $505.37 | 100% | 5.9%-6.0% |
| 1410, 1420 & 1430 Spring Hill Rd., McLean, VA | 6/08 | 1986-1990 | 489,239 | $312.95 | 82%-99% | 5.5% |
| 1310-1340 Braddock Place, Alexandria, VA | 6/08 | 1985 | 347,014 | $311.95 | 95.2% | 6.9% |
| 2800 Shirlington Rd., Arlington, VA | 3/08 | 1986 | 206,993 | $301.94 | 95% | 5.8% |
| 2051 Jamieson Ave., Alexandria, VA | 2/08 | 2004 | 136,273 | $482.82 | 100% | 6.3% |
| 2500 Wilson Blvd., Arlington, VA | 12/07 | 1986 | 102,000 | $338.24 | 0% | N/A |
| 3350 Commission Court, Woodbridge, Virginia | 12/07 | 2005 | 30,618 SF | $199.98 | 100% | 7.6% |
| One Monument Place, Fairfax, Virginia | 11/07 | 1990 | 221,538 SF | $274.22 | 93% | 5.34% |
| 21819-21839 Atlantic Boulevard, Sterling, VA | 11/07 | 2000 | 349,683 SF | $280.54 | 100% | -- |
| Lincoln Park I, Herndon, Virginia | 9/07 | 1999 | 201,376 SF | $312.23 | 100% | 6%-6.25% |
| 6201-6211 Centreville Rd., Centreville, Virginia | 8/07 | 1998 | 52,234 SF | $292.91 | 100% | 7.2% |
| 10700 Parkridge Blvd, Reston, VA | 7/07 | 1987 | 123,390 SF | $322.15 | 99% | 6.50% |
| Ashburn Farm Office Park, Ashburn, VA | 6/07 | 1999-2002 | 75,400 SF | $305.04 | 100% | 6.6% |
| Worldgate (4 Bldgs), Herndon, VA | 6/07 | 1999-2000 | 322,328 SF | $338.16 | 94% | 6.75% |

*Source: Real Capital Analytics*

The sales demonstrate a wide array of unit prices, between approximately $154 and $505 per square foot of rentable area. This is not surprising, as they vary dramatically in terms of location, physical characteristics and economic characteristics, furthermore, activity slowed significantly after September of 2008 when credit became scarce resulting in a significant decline in value.

## Office Land Sales

The following chart summarizes recent sales that are considered most directly comparable:

| Property Identification | Grantor: Grantee | Sale Date Sale Price | Acreage Lot SF FAR | Zoning | $/SF $-FAR | Comments |
|---|---|---|---|---|---|---|
| **Dulles Ctr. Blvd.** Sterling, VA | DTC Partners/National Rural Utilities Cooperative | 12/2008 $14,400,000 | 42.88 acres 1,867,853 450,000 | PD-OP | $7.71 $32.00 | This site was acquired for development to maximum density with the buyers headquarters building. The buyer will hold on to the Loudoun County site noted below for disposition at a later date. |
| **765 John Carlyle St.** Alexandria, VA | Alexandria,- Southern Properties: Carlyle Plaza LLC | 5/08 $17,000,000 | 4.57 acres 199,069 400,000 | CDD1 | $85.40 $42.50 | This site is located along Eisenhower Avenue in Alexandria and was acquired for class A office development with an anticipated delivery of 2010. |
| **3801 University Dr.** Fairfax, Virginia | Confidential David H. Miller | 4/2008 $1,100,000 | 1.51 acres 65,775 SF 25,000 FAR | C-2 | $16.72 $44.00 | This site was acquired for development with a 25,000 SF office condominium project. |
| **Loudoun County Pkwy.** Ashburn, Virginia | DTC Partners/National Rural Utilities Cooperative | 2/2008 $16,500,000 | 24 acres 1,045,440 SF 522,720 FAR | PDOP | $15.78 $31.57 | This site was acquired for development with the buyers headquarters building. |
| **Spring Hill Road 1580 Spring Hill Road** McLean, VA | Cherner Family: CARS DB1 LLC | 11/07 $97,000,000 | 7.84 acres 341,510 SF 1,195,285 GBA | C-7 | $284.03 $81.15 | This property is currently used as a car dealership. The site is within the comprehensive plan for metro expansion. |
| **4661 Kenmore Ave.** Alexandria, VA | Mosbacher Benenson: WRIT -MBA, LLC | 8/07 $3,750,000 | 0.80 acres 34,848 SF 70,000 FAR | OCH | $107.61 $53.57 | This site was improved by a restaurant and acquired for development with a 70,000 SF medical office. The buyer owns the adjacent medical building at 4660 Kenmore Ave. |
| **Jones Branch Drive** McLean, VA | RP MRP Tysons Gannett Co. | 4/07 $50,000,000 | 7.67 acres 334,157 SF 537,000 GBA | C-3 | $149.63 $93.11 | This sale represents excess land from the Gannet office campus. The buyer is the same developer as Crescent Overlook. The site has excellent visibility from I-495 and the Dulles Toll Road. |

*Source: Real Capital Analytics*

Given the long-standing zoning laws in these jurisdictions, market participants purchasing large office sites for short-term development will have a very good idea what can be constructed on their site, prior to contract. Because of this factor and the varying densities permitted in different commercial zones, the majority of large office or flex sites are priced on the basis of dollars/SF of floor area ($/SF-FAR). Sales of office sites in Northern Virginia are demonstrating a range between approximately $20-$50/SF-FAR in the more outlying suburbs and between $50-$90/SF-FAR for premium sites in closer in suburban locations.

**Conclusion:**

The property is located in a dense suburban, office market. There is proven demand for office property in the market area, which has been demonstrated by strong absorption patterns in the past several years. However, the recent economic downturn has reduced absorption softening rental rates.
The relatively limited recent additions in the subject submarket should result in better performance in the current downturn than some of the outer suburbs where overbuilding has increased current vacancy to 18% or more. While there are limited pending deliveries in the pipeline, the current conditions suggest that pricing and absorption of new space may be tempered for the next few years. The subject property is a high quality asset, which should compete favorably with similar offices in the submarket.

With regard to sale activity, demand for office properties throughout the region has been limited over the past 8-12 months due to limited credit. The lack of credit has exerted downward pressure on value as buyers are required to bring more cash to the transaction require a lower purchase price to achieve the expected return to equity, at the same time sellers that are not in distress have not come to accept this new economic reality and have generally not accepted offers which reflect the new economic parameters.

# TENANTS

The Liberty Tower is a Class A office building located on Liberty Road, in the Courthouse/Clarendon Submarket of Metropolitan Washington DC. There is proven demand for office property in the market area, which has been demonstrated by strong absorption patterns in the past several years. The net rentable area of the building equals 249,000 sq. ft. The property also includes a secure parking garage that can accommodate 485 vehicles.

The property has a prime exposure, flexible and efficient floor plates, convenient access to transportation, numerous on-site and nearby amenities, and on-site building management. It is within blocks of hotels, restaurants, banking and retail services. The property is approximately 77% leased to 9 tenants, with current occupancy of almost 192,000 sq. ft.

The following table lists the lease start and expiration dates for Liberty Tower tenants:

**Liberty Tower**
**Lease Start and Expiration Dates**

| Tenant Name | Lease Start Date | Lease End Date | Sq. Ft. | % of Total NRA | Annual Rental Income |
|---|---|---|---|---|---|
| Tenant A | 07/22/03 | 07/31/13 | 9,322 | 3.74% | $360,947.84 |
| Tenant B | 03/01/10 | 04/30/15 | 2,430 | 0.98% | $97,200.00 |
| Tenant C | 09/01/08 | 09/30/13 | 21,593 | 8.67% | $831,978.29 |
| Tenant D | 01/01/05 | 04/30/11 | 7,022 | 2.82% | $255,741.24 |
| Tenant E | 06/01/06 | 04/30/11 | 1,640 | 0.66% | $66,305.20 |
| Tenant F | 02/12/01 | 06/30/11 | 63,192 | 25.38% | $2,540,950.32 |
| Tenant G | 01/01/05 | 11/30/15 | 84,603 | 33.98% | $3,096,469.80 |
| Tenant H | 01/01/10 | 04/30/11 | 1,640 | 0.66% | $43,733.33 |
| Tenant I | 01/01/10 | 12/31/10 | Parking | | $469,999.92 |
| Tenant J | 05/14/09 | 05/31/14 | Antenna | | $6,955.56 |
| Tenant K * | 01/01/11 | 12/31/16 | 28,779 | 11.56% | $1,223,826.98 * |
| Tenant L* | 01/10/10 | 09/30/16 | 28,779 | 11.56% | $1,223,826.98 * |
| | | | 249,000 | | $10,217,935.45 |

* Forecast

## Marketing Strategy

Liberty Tower is considered one of the most prestigious Class A office developments in Arlington, VA. Typical users in the Class A market are looking for image and visibility, efficiency, service and upkeep, proximity to employee base and amenities, location and ease of transportation. Liberty Tower scores well in every category. Liberty Tower must focus on the competitive advantages to users to further maximize rental rates and beneficial lease terms. The efforts must be supported with the following strategies:

- Product Policy: Maintain Liberty Tower image as a Class A office building in the Courthouse/Clarendon Submarket of Metropolitan Washington DC. The project must maintain the current perception of excellence

- Pricing Policy: Pricing will be competitive with asking rents in the top tier competitive properties. Providing area brokers and users with upfront concession packages and aggressive terms to ensure tenants understand Liberty Tower will be competitive

- Advertising Policy: Advertizing will play an important role in the overall marketing plan. Specific advertizing media and methods of promotion will include:

    - Up-to date listing information in CoStar and Loopnet
    - Electronic brochure for e-mail marketing campaign
    - Marketing signs on property as necessary
    - Tri-fold brochures
    - Printed material
    - Mass mailers as needed
    - Broker events every quarter
    - Select broker lunches
    - Sponsor area Real Estate related events

### Conclusion

Courthouse/Clarendon Submarket of Metropolitan Washington DC historically had very low vacancy levels. Liberty Tower's competitive advantages, high credit tenants and capacity for leasing growth through existing tenants' expansion will continue to give the project an edge. In addition, the entire management and leasing staff as well as vendors involved during the leasing process are committed to providing prompt unsurpassed service. The effective marketing campaign should allow the property to reach 100 % occupancy within 12 to 18 months.

## Staking Plan – Liberty Tower

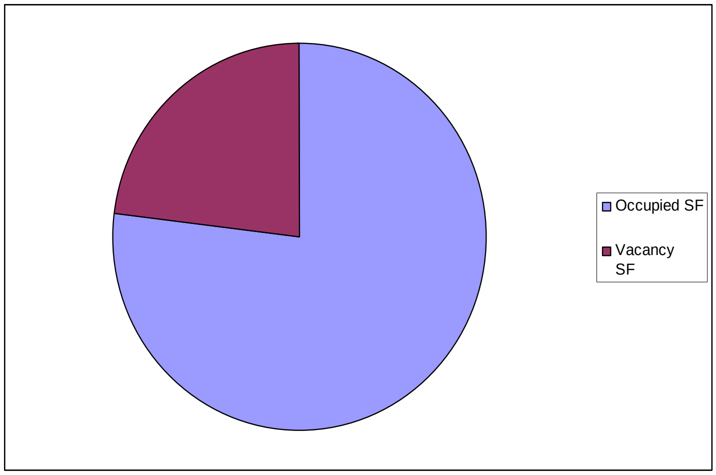
| Floor # | Square Footage | Tenants | | |
|---|---|---|---|---|
| 12 | 20,968 | Tenant G | | |
| 11 | 20,982 | Tenant G | | |
| 10 | 21,064 | Tenant G | | |
| 9 | 21,064 | Teant G | | |
| 8 | 21,064 | Tenant F | | |
| 7 | 21,064 | Tenant F | | |
| 6 | 21,064 | Tenant F | | |
| 5 | 21,064 | Vacant | | |
| 4 | 21,064 | Vacant | | |
| 3 | 21,064 | Vacant | Tenant D | Tenant E |
| 2 | 21,593 | Tenant C | | |
| 1 | 16,945 | Tenant A | Tenant B | Tenant H |

The staking plan includes only the office tenants; it does not include the Parking and Antenna leases. Also, for financial modeling purposes, the vacant space is divided into two spaces, but since 2 whole floors are vacant, in addition to the vacant space on 3rd floor, this will allow for subdivision of the vacant space to accommodate smaller tenants, and reduce the vacancy rate faster.

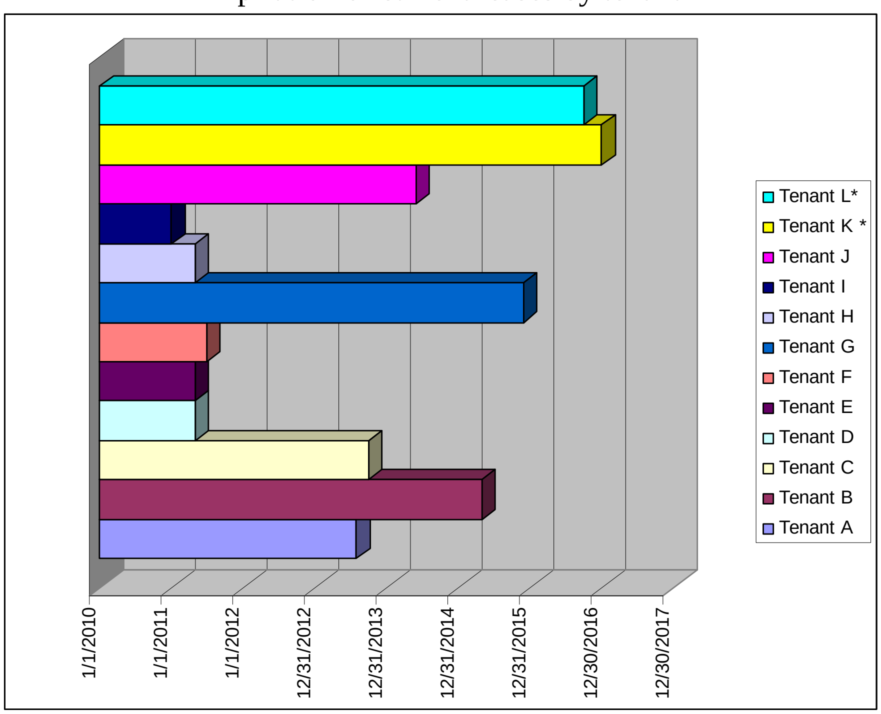
The following is an occupancy summary report:

## Occupancy Summary Report for Liberty Tower
### As of January 1, 2010

| Asset Name | Leased Count | Leased SF | Occupied Count | Occupied SF | Occupancy % | Vacancy Count | Vacancy SF | Suite Count | Total SF |
|---|---|---|---|---|---|---|---|---|---|
| Liberty Tower | 8 | 191,442 | 8 | 191,442 | 76.31% | 8 | 57,558 | 15 | 249,000 |




Expiration of current leases by tenant



# FINANCIAL ANALYSIS

This section represents the assumptions and results of the financial analysis for Liberty Tower

**Property Description**

The opportunity is to acquire a well located office building of the Courthouse/Clarendon Submarket of Metropolitan Washington DC. The property is a 12 story building, currently 77 % occupied with 8 office tenants, not including the parking garage and antenna lease tenant.

**Market Rent**

Current market rents are between $40.00 psf and $47.00 psf. Market rates are expected to grow at an accelerated rate of 3%.

**Vacancy**

Current vacancy rate is 23%, but with improvement of economy, property is expected to become 100% occupied over the next 12-18 months.

**Operating Expenses**

Operating expenses are assumed to escalate at 3% per year, with the exception of utilities, which is forecasted to escalate at 4% per year. Year 1 operating expenses are as follows:

| | |
|---|---|
| Property Tax /SqFt | $ 3.75 sq.ft |
| Insurance | $ 0.15 sq.ft |
| Management Fee | $ 0.81 sq.ft |
| Maintenance/Repairs | $ 1.55 sq.ft |
| Janitorial/Cleaning Exp | $ 1.23 sq.ft |
| Utilities | $ 2.07 sq.ft |
| Security | $ 0.21 sq.ft |
| Other Admin Expenses | $ 0.62 sq.ft |
| Leasing/Promotional Exp | $ 0.06 sq.ft |
| | $ 10.45 sq.ft |

**Lease Renewal Assumptions**

| | |
|---|---|
| Lease terms: | 5 years |
| Rental Rate: | $39.50 sq ft - $43.00 sq ft |
| Rent Changes: | 3% annual increase |
| New/Renew probabilities: | 30%/70% |
| Lease Rollover (New Tenants) | 6 months ( <less than 20,000 sq ft), 9 months (>20,000 sq. ft) |
| Lease Rollover Free Rent | None |
| Tenant Improvement Allowance | $50-$60 psf new, $12-$17 renew |
| Inflation Growth Rate | 3% |

| | | |
|---|---|---|
| **Market Rent Growth** | 2010 | 0% |
| | 2011 | 3% |
| | 2012 | 3% |
| | 2013 | 3% |
| | 2014 | 3% |
| | 2015 | 3% |
| | 2016 | 3% |
| | 2017 | 3% |

**Disposition Assumptions**

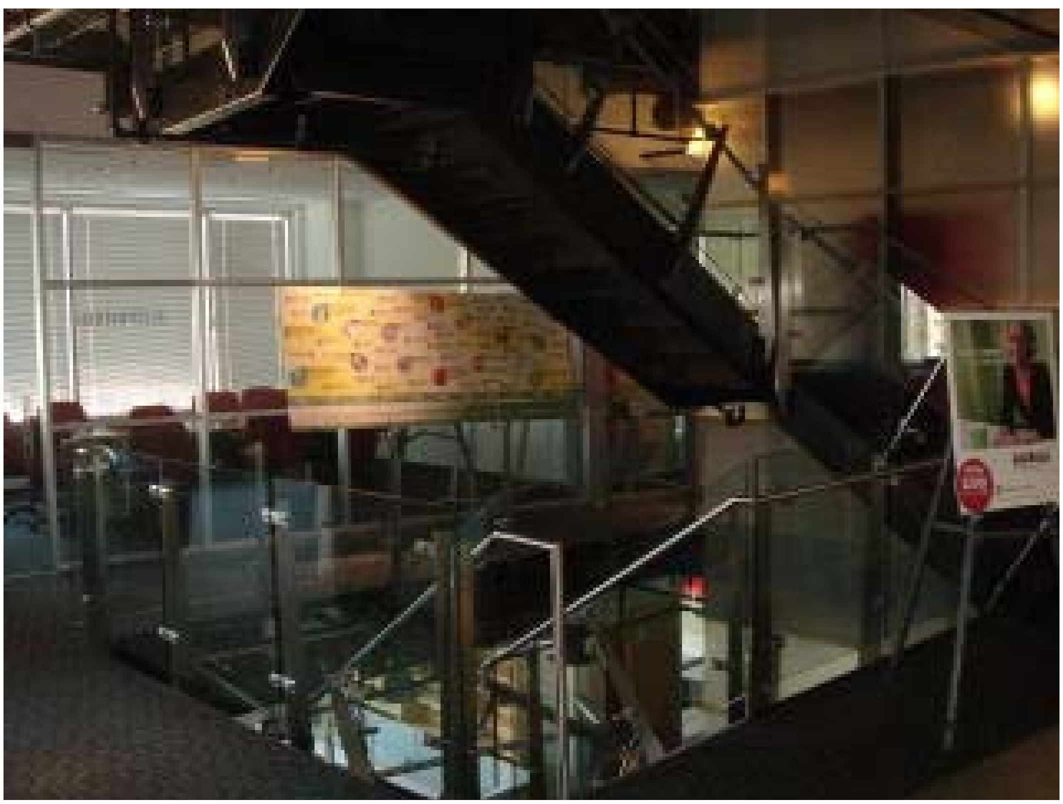
Given the location and the quality of the property, but still being conservative, we consider a 9% residual capitalization rate and a 2% cost of sale appropriate for the analysis. Also, the internal rate of return and the terminal capitalization rate used for the analysis are 9%

**Projected Financial Returns**

The analyst assumes that property will not have any leverage. These terms are consistent with the investment policy of the investor. Details of the financial analysis are shown in the table below:

| **LIBERTY TOWER SENSITIVITY ANALYSIS** | |
|---|---|
| Average Market Rental Rate | $42.00 |
| Year 1 NOI | 6,708,288 |
| Year 21 NOI | 12,092,785 |
| Terminal CAP rate | 9% |
| Projected Value Yr 20 | 117,284,327 |
| Holding Period | 20 years |
| IRR 10 Year Hold | 11.81% |
| IRR 20 Year Hold | 11.99% |

# Appendix A



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