

Office

The office market paused during the 2nd quarter of 2012, as vacancy was essentially unchanged and net absorption was modest. Although net absorption was positive during the 2nd quarter, it was not enough to offset the losses experienced during the 1st quarter. Given these conditions, concession packages remain elevated as property owners compete for the limited pool of tenants in the market. This, coupled with shorter lease terms, has put pressure on effective rents. Effective rents declined 1.4% during the past six months.

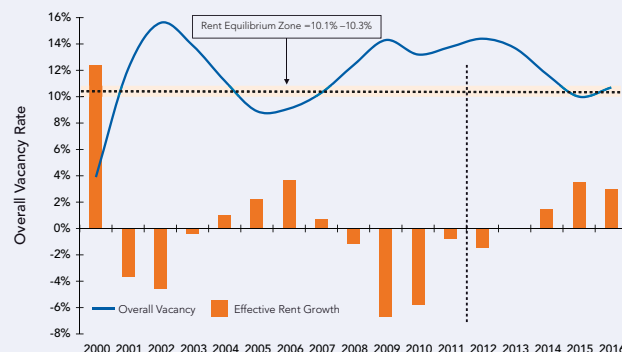
Notwithstanding this tepid start to 2012, we expect market conditions to improve gradually and for market momentum to be in evidence by 2014. However, progress will be slow to materialize, as concern over the Defense budget looms, causing many tenants to pause leasing activity. Overall, Northern Virginia is poised for steady growth in the intermediate-term, with modest vacancy declines during the next 24 months. Rents are likely to decline 1.0% to 2.0% during 2012, as concession packages remain elevated. We do not expect meaningful growth until 2014/2015 when the market transitions to landlord favor.

SECOND QUARTER 2012 MARKET HIGHLIGHTS

- **NET ABSORPTION:** Negative 1.1 million SF in the 1st half of 2012, compared to negative 461,000 SF during the 1st half of 2011.
- **OVERALL VACANCY RATE:** 14.4%, up from 13.6% one year ago.
- **DIRECT VACANCY RATE:** 13.2%, up from 12.5% one year ago.
- **DIRECT STABILIZED VACANCY RATE:** 11.6%
- **SUBLEASE SPACE:** Decreased by 277,000 SF during the 1st half of 2012. Sublease space represents just 1.2% of the inventory.
- **PIPELINE (U/C AND U/R):** 2.6 million SF, up from 1.9 million SF one year ago.
- **PIPELINE PRE-LEASE RATE:** 25%, down from 36% a year ago.
- **EFFECTIVE RENTS:** Down 1.5% during the 1st half of 2012, compared to declining 0.8% in all of 2011.
- **INVESTMENT SALES:** \$404 million (\$266/SF) the 1st half of 2012, compared to \$856 million (\$285/SF) during the 1st half of 2011.

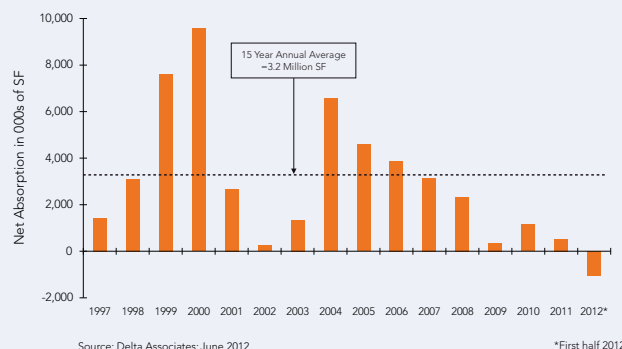
OVERALL VACANCY RATE VS.
EFFECTIVE RENT CHANGE

Northern Virginia | First Half 2012



OFFICE NET ABSORPTION

Northern Virginia | First Half 2012



OFFICE SPACE UNDER CONSTRUCTION OR RENOVATION

Northern Virginia | June 2012

	SF	% Pre-Leased
Rosslyn, Courthouse, Ballston	986,000	24%
Tysons Corner	476,000	0%
Springfield/Huntington/I-95	351,000	29%
Crystal City/Pentagon City	308,000	0%
Reston/Herndon	257,000	100%
Rt. 28 South/Chantilly	104,000	0%
Merrifield	72,000	8%
Prince William County	45,000	81%
Loudoun County	26,000	100%
Total	2,625,000	25%

Source: Delta Associates Analysis of CoStar data; June 2012

Industrial

The Northern Virginia flex/industrial market experienced improving conditions during the 1st half of 2012, as net absorption was strong and the vacancy rate and construction pipeline declined. Given improving market conditions, rents climbed 1.5% during the past six months. Although tenants remain cautious due to uncertainty in the Federal budgeting process, we expect market conditions to continue to improve during the balance of 2012, as some tenants position for long-term growth.

Investors are targeting flex/industrial assets in Northern Virginia, as sales volume for the past six months is on pace to match the volume achieved during 2011. We expect thirst for these assets to continue, as conditions continue to improve.

Overall, the Northern Virginia flex/industrial market remains relatively healthy, as vacancy is lower than the rate for the Washington metro.

MID-YEAR 2012 MARKET HIGHLIGHTS

- **NET ABSORPTION:** 722,000 SF during the 1st half of 2012, compared to 69,000 SF during the 1st half of 2011. This compares favorably to a long term annual average absorption of 1.0 million SF.
- **SUBLEASE SPACE:** Decreased by 4,000 SF. Sublease space represents just 0.6% of the standing inventory.
- **OVERALL VACANCY RATE:** 10.5%, down from 11.6% one year ago.
- **DIRECT VACANCY RATE:** 9.9%, down from 10.9% one year ago.
- **PIPELINE (U/C AND U/R):** 303,000 SF, down from 403,000 SF one year ago.
- **PIPELINE PRE-LEASE RATE:** 100%, compared to 50% a year ago.
- **RENTS:** Up 1.5% during the 1st half of 2012, compared to rising 0.7% in 2011.
- **INVESTMENT SALES:** \$114 million (\$99/SF) during the 1st half of 2012, compared to \$8 million (\$104/SF) during the 1st half of 2011.

FLEX/INDUSTRIAL SPACE UNDER CONSTRUCTION

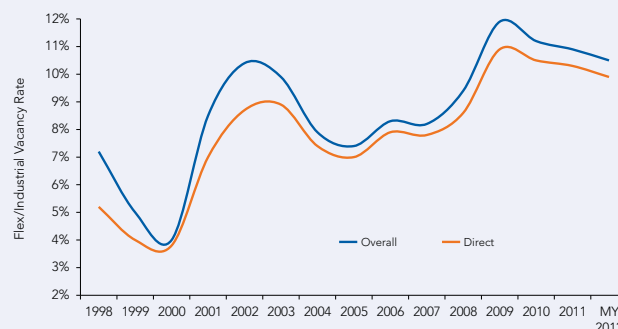
Northern Virginia | June 2012

Submarket	SF	% Pre-Leased
I-95/395 Corridor	112,500	100%
Dulles Corridor	190,000	100%
No. Virginia Total	302,500	100%

Source: Delta Associates Analysis of CoStar data; June 2012

FLEX/INDUSTRIAL VACANCY RATE

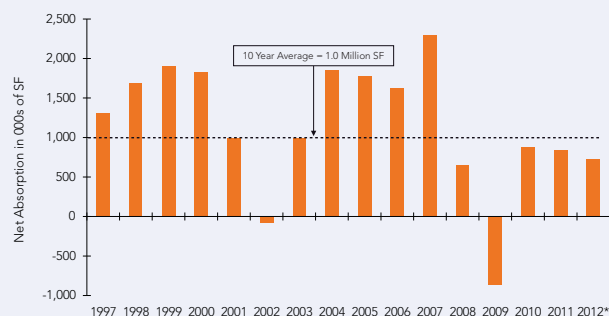
Northern Virginia | First Half 2012



Source: CoStar, Delta Associates; June 2012.

FLEX/INDUSTRIAL NET ABSORPTION

Northern Virginia | First Half 2012



Source: Delta Associates; June 2012.

*First half 2012.

FOR MORE INFORMATION PLEASE CONTACT:

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