

Office Market Trends Northern Virginia

Third Quarter 2011



Market Posts Subdued, but Positive, Quarter

Summary

Despite challenging economic conditions, and although the amount of available sublease space increased by 172,000 square feet, the 161.8 million-square-foot Northern Virginia office market recorded positive absorption of 625,000 square feet in the third quarter of 2011, which led to a 30 basis point decline in vacancy to 14.3 percent. Not surprisingly at this point in the recovery cycle, most of the demand occurred in Class A properties, as tenants took advantage of lower rental rates to upgrade from Class B space. Total absorption for the year stands at positive 684,000 square feet.

Net Absorption, Leasing, and Vacancy Rates

The market's positive third quarter absorption was due largely to Northrop Grumman moving into nearly 330,000 square feet at 2980 Fairview Park Drive in Merrifield, as it relocated its headquarters from California. This helped the Merrifield/Falls Church submarket's vacancy rate to fall by 430 basis points to 11.8 percent. In Reston, vacancy dropped by 120 basis points to 19.5 percent, due in part to VeriSign and DLA Piper occupying roughly 121,000 square feet, combined. As expected because of BRAC moves, the Crystal City/Pentagon City submarket saw the start of negative net absorption in the third quarter, but the number was relatively low at negative 29,000 square feet, causing vacancy to increase by only 20 basis points to 7.5 percent.

Notable third quarter leases include NJVC taking 123,000 square feet at 14295 Park Meadow Drive and Integrity Applications Incorporated (IAI) signing for 71,000 square feet at 15020 Conference Center Drive, both in the Route 28 South submarket.

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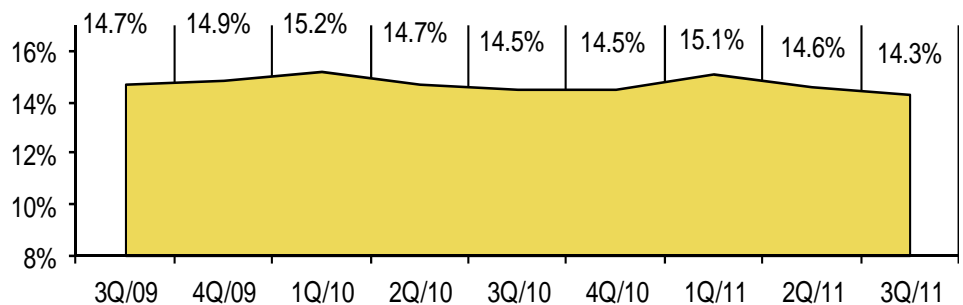
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Northern Virginia Office Market Trends

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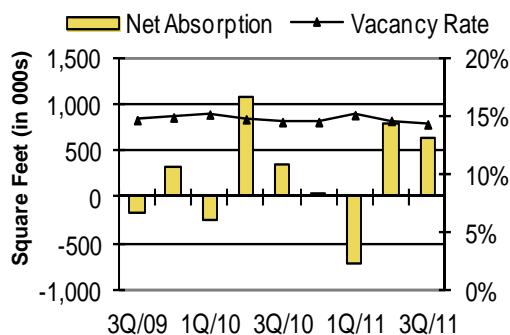


Northern Virginia Vacancy Rate

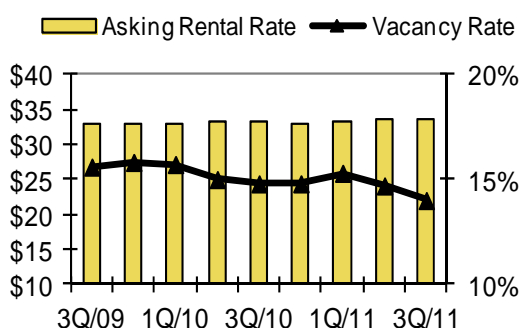
All Classes of Space

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Net Absorption vs. Vacancy
Northern Virginia



Class A Rents and Vacancy
Northern Virginia

In Herndon, Paragon Systems committed to 37,000 square feet at 13655 Dulles Technology Drive. LightSquared took 24,000 square feet of additional space at 10800-10802 Parkridge Boulevard in Reston, and MicroStrategy also expanded by 24,000 square feet at 1850 Towers Crescent Plaza in Tysons Corner.

Rental Rates

Northern Virginia's Class A and Class B average asking rental rates increased slightly over the third quarter, and the overall average asking rent edged up by \$0.24 to \$30.81 per square foot, full service. Ten of the 17 submarkets also saw increased overall average asking rents. Reston's rate rose the most (\$0.58) to \$29.31 per square foot, full service.

Class A leases signed during the quarter were executed in the range of \$23.75 to \$47.50 per square foot, full service. Third quarter lease executions of note include: Jones Lang LaSalle signing for 24,000 square feet at 1850 Towers Crescent Plaza in Tysons Corner for 10 years at \$47.50 per square foot, full service with \$70.00 per square foot in tenant improvements and 2.5 percent escalations; and Amerigroup Virginia, Inc. committing to 11,000 square feet at 2600 Park Tower Drive in Merrifield for five years at \$32.00 per square foot, full service with 2.75 percent escalations and three months of free rent.

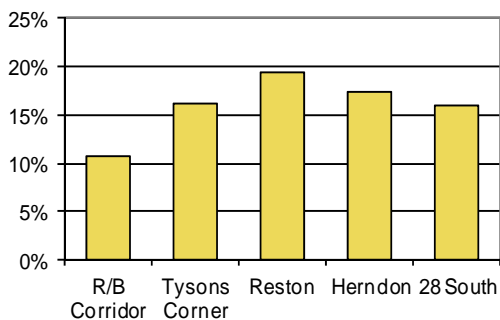
Construction

Two buildings totaling 140,000 square feet were delivered in the third quarter: 12731 Marblestone Drive in Woodbridge and 20701 Cooperative Way, which is 100 percent occupied by the National Rural Utilities Cooperative Finance Corporation, in the Route 28 North submarket.

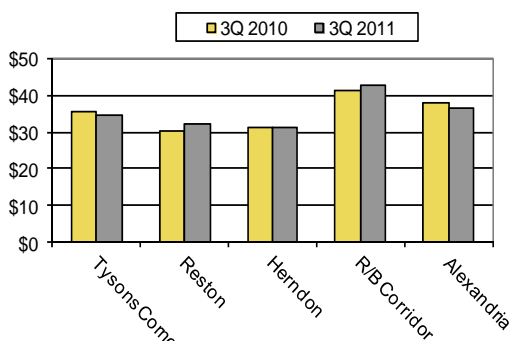
Construction began on the 476,000-square-foot 1775 Tysons Boulevard, which is being built on a speculative basis. It is slated to be delivered in the fourth quarter of 2013. An additional 2.1 million square feet was already in the construction pipeline, including 331,000 square feet at 6361 Walker Lane, in the I-95 Corridor, which is expected to come online in the fourth quarter.

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Select Submarket Vacancy Rates
Northern Virginia



Class A Average Asking Rents by Submarket
Northern Virginia

Outlook

Even with two consecutive quarters of positive absorption, the Northern Virginia office market could soften going forward, and 2012 may look much like 2011. With the “Super Committee” not meeting its deadline to find a preliminary solution for harnessing federal debt, the half-trillion in additional cuts demanded by sequester would lead to a hollow force incapable of sustaining the missions it is assigned. This, combined with an upcoming presidential election and expected contraction in government spending, particularly as it relates to defense contracts, may impact absorption in the future. With Northern Virginia so heavily concentrated on this employment sector, the unemployment rate might remain elevated, with weak job growth expected to be the norm for an extended period. Despite deals that are still to be executed, these factors are combining to create uncertainty and a “wait-and-see” attitude among tenants, meaning that the market may not truly recover until 2013.

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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Market Statistics

By Submarket (All Classes)	Total SF	Vacant SF	Vacant %	Net Absorption (SF)		Under Const. SF	Average Asking Rent (PSF / FS)	
				Current Qtr	Year To Date		Class A	Class B
Alexandria	12,433,210	1,898,031	15.3%	20,627	(226,690)	-	\$36.43	\$30.59
Crystal City/Pentagon City	12,765,521	963,535	7.5%	(29,178)	37,306	-	\$42.17	\$35.71
Gainesville/Haymarket	282,522	78,577	27.8%	1,700	1,700	-	\$27.49	\$24.37
Herndon	11,863,736	2,059,125	17.4%	53,039	512,101	-	\$31.31	\$23.58
I-395 Corridor	9,782,291	965,380	9.9%	(79,521)	(27,892)	-	\$31.37	\$30.12
I-95 Corridor	4,042,343	398,414	9.9%	38,857	(26,093)	665,582	\$40.31	\$25.24
Manassas	2,725,173	343,018	12.6%	(7,537)	26,980	45,000	\$22.21	\$22.04
Merrifield/Falls Church	9,522,524	1,128,068	11.8%	404,244	445,367	94,873	\$33.75	\$29.75
Reston	17,069,579	3,329,932	19.5%	209,094	(112,373)	-	\$32.19	\$24.31
Rosslyn/Ballston Corridor	21,128,613	2,291,384	10.8%	(109,768)	(738,418)	1,263,963	\$42.83	\$36.91
Rt. 28 North	5,162,090	884,596	17.1%	135,878	124,383	-	\$25.60	\$23.25
Rt. 28 South	10,050,438	1,597,449	15.9%	33,237	144,860	-	\$27.62	\$23.47
Rt. 50/I-66 - Fairfax Ctr.	10,747,877	1,785,659	16.6%	(16,984)	118,599	-	\$28.57	\$27.23
Rt. 7 Corridor	4,927,753	674,314	13.7%	19,978	86,621	-	\$27.05	\$22.22
Tysons Corner	27,343,473	4,416,253	16.2%	(66,256)	26,681	476,000	\$34.78	\$28.32
Western Loudoun Co.	727,788	152,000	20.9%	4,031	138,447	-	\$27.11	-
Woodbridge	1,239,364	149,691	12.1%	13,763	152,736	-	\$24.61	\$21.34
Totals	161,814,295	23,115,426	14.3%	625,204	684,315	2,545,418	\$33.70	\$27.93

By Class (All Submarkets)	Total SF	Vacant SF	Vacant %	Current Qtr	Year To Date	Under Const. SF	Available for Sublease (SF)	
							CBD	Suburban
Class A	93,133,106	13,068,555	14.0%	738,904	1,010,120	2,545,418	-	2,662,180
Class B	43,945,207	6,924,422	15.8%	69,314	(247,882)	-	-	1,229,995
Class C	24,735,982	3,122,449	12.6%	(183,014)	(77,923)	-	-	299,277
Totals	161,814,295	23,115,426	14.3%	625,204	684,315	2,545,418	-	4,191,452

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Trailing Data

	Total Square Feet			Total Buildings			Vacancy Rate			Average Asking Rent (\$)			Net Absorption (SF)			
	Year End			Year End			Year End (%)			Year End (PSF / FS)			Year End			
Submarket	2009	2010	3Q11	2009	2010	3Q11	2009	2010	3Q11	2009	2010	3Q11	2009	2010	3Q11	3Q11 (YTD)
Alexandria	12,336,890	12,433,210	12,433,210	135	136	136	14.7%	13.4%	15.3%	\$34.96	\$33.87	\$34.32	-293,633	184,766	20,627	-226,690
Crystal City/ Pentagon City	12,584,377	12,765,521	12,765,521	46	47	47	9.9	7.8	7.5	35.88	38.69	38.83	620,988	340,295	-29,178	37,306
Rosslyn/ Ballston	20,813,009	20,984,613	21,128,613	113	115	116	8.3	6.7	10.8	37.95	39.17	39.52	56,469	489,263	-109,768	-738,418
I-395 Corridor	9,782,291	9,782,291	9,782,291	92	92	92	8.9	9.6	9.9	28.18	28.65	29.99	37,136	-65,454	-79,521	-27,892
I-95 Corridor	4,022,101	4,042,343	4,042,343	59	59	59	9.6	9.2	9.9	28.99	27.62	29.99	59,314	34,015	38,857	-26,093
Merrifield/ Falls Church	9,522,524	9,522,524	9,522,524	94	94	94	15.8	16.5	11.8	32.66	30.99	29.83	162,082	-71,882	404,244	445,367
Tysons Corner	27,343,473	27,343,473	27,343,473	195	195	195	15.1	16.3	16.2	30.29	30.13	30.21	-405,380	-345,333	-66,256	26,681
Route 50/I-66	10,747,877	10,747,877	10,747,877	115	115	115	16.2	17.7	16.6	26.22	26.99	26.47	-391,958	-139,050	-16,984	118,599
Reston	17,069,578	17,069,579	17,069,579	148	148	148	17.9	18.3	19.5	29.52	28.01	29.31	267,672	-70,439	209,094	-112,373
Herndon	11,855,058	11,863,736	11,863,736	99	99	99	23.8	21.7	17.4	28.92	29.41	29.02	-306,972	246,839	53,039	512,101
Route 28 South	9,621,475	10,050,438	10,050,438	90	91	91	18.2	17.3	15.9	26.41	25.96	26.34	-193,965	335,133	33,237	144,860
Route 28 North	5,038,683	5,042,090	5,162,090	51	51	52	19.0	17.6	17.1	26.00	24.71	24.36	236,136	74,348	135,878	124,383
Route 7	4,927,753	4,927,753	4,927,753	68	68	68	17.7	15.4	13.7	26.18	25.04	24.51	-11,227	108,688	19,978	86,621
Western Loudoun	727,788	727,788	727,788	14	14	14	34.6	39.9	20.9	26.48	26.05	26.26	-16,944	-38,978	4,031	138,447
Gainesville/ Haymarket	282,522	282,522	282,522	8	8	8	29.9	28.4	27.8	24.86	24.75	24.70	-11,769	4,263	1,700	1,700
Manassas	2,808,501	2,725,173	2,725,173	57	56	56	14.3	13.6	12.6	22.36	23.47	21.60	109,028	-27,786	-7,537	26,980
Woodbridge	1,160,330	1,192,730	1,239,364	28	29	31	21.6	21.5	12.1	22.93	23.40	23.15	-27,478	27,405	13,763	152,736
TOTALS	160,644,230	161,503,661	161,814,295	1,412	1,417	1,421	14.9	14.5	14.3	30.10	30.04	30.81	-110,501	1,086,093	625,204	684,315