CBQ
COMMERCIAL BROKER QUARTERLY

SUMMER 2007

INSIDE THIS ISSUE

The official newsletter of the Greater Washington Commercial Association of REALTORS®

COMMERCIAL PROPERTIES RAPIDLY TURNING GREEN

When it comes to commercial real estate, the popularity of going green isn't going anywhere anytime soon. A "green" building places a high priority on environmental efficiency and resource conservation, not only during construction, but also throughout the life-cycle of the building. The value of green building construction starts is expected to exceed $12 billion in 2007 alone. With growing concern over the dangers of climate change, many corporations view occupying green buildings as not only the right thing to do, but also a great way to show the public their company's concern for the environment.

CB Richard Ellis Group recently earned praise when it announced plans to work with the National

Resources Defense Council to introduce energy-saving measures at all its properties. By 2010, all of the 1.7 billion SF of office space the company manages around the world will be "carbon-neutral." These buildings will have virtually no net creation of greenhouse gases. In addition, the company recently registered its new Washington, DC office with the US Green Building Council's (USGBC) LEED® (Leadership in Energy and Environmental Design) for Commercial Interiors program, and expects to be awarded LEED Gold certification.

"Our decision is driven by our desire to do the right thing, but is also a direct result of a rapidly evolving marketplace," said Brett White, President and Chief Executive Officer of CB Richard

see TURNING GREEN, page 10

MARKET WRAP-UP Q2

Tonya L. Ginter, CCIM
Director of Research, GVA Advantis

Washington, DC Metropolitan Area market indicators describe a market that remains strong, despite some glimmers of a slowdown in activity. Although economic expansion in the Metro Area will occur at a more modest pace through the balance of 2007, Washington is still adding jobs at a steady pace and developers continue to move forward with speculative projects. The region anticipates further industry diversification, an expanding employment base and a continued increase in rental rates and office sales prices.

METROPOLITAN AREA SUMMARY

The office leasing market continued to move along at a slower pace, during the second quarter, resulting in stabilized vacancy rates through the first six months of the year. Vacancy rates ended the second quarter at 9.2 percent, up only slightly from a first quarter rate of 9.1 percent and a second quarter 2006 rate of 8.6 percent. An increased number of new, vacant buildings added to the market, minimal absorption of vacant space by new tenants, higher rents due to high construction costs, and a continued strength in investment sales characterized the office market in the Washington, DC Metropolitan Area during the second quarter of 2007.

see MARKET-WRAP UP, page 4

DIGEST BOX

Quote of the Quarter

...Green Design, and specifically LEED, is now at the forefront of revolutionary changes in the building industry. — *from this issue's Market Wrap-Up*

IN CASE YOU MISSED IT

The NATIONAL

ASSOCIATION OF REALTORS®' forward-looking index for the commercial real estate market rose slightly in the first quarter to the highest level on record. However, the rate of growth has decelerated over the past year.

The Commercial Leading Indicator for Brokerage Activity increased 0.2 percent to an index of 120.3 in the first quarter from a reading of 120.1 in the fourth quarter, and is 0.8 percent higher than the first quarter of 2006 when it stood at 119.3. NAR's track of the index dates back to 1990.

Lawrence Yun, NAR senior economist, said the index has risen for eight consecutive quarters but factors in its components are mixed.

"Rising industrial production, a rise in the REIT price index, growth in commercial jobs, rising income and gains in wholesale sales contributed to the rise in our leading indicator," he said. "On the other hand, deteriorating economic conditions have been a drag, specifically, a marked decline in durable goods shipments, a decline in return on commercial investment and an increase in the number of people filing for unemployment insurance."

The small net rise in NAR's index means net absorption of space in the industrial and office sectors should be fairly steady over the next six to nine months, with slightly higher completions of overall office, warehouse, retail and lodging structures.

The commercial leading indicator is a tool to assess market behavior in the major commercial real estate sectors. The index incorporates 13 variables — from job market data to industrial production — that reflect future commercial real estate activity. These factors are weighted to produce a single indicator of future market performance, which is designed to provide early signals of turning points between expansions and slowdowns in commercial real estate.

ALL SIGNS POINT TO...

▲ ▲

Sales | Leasing

District of Columbia

▲ ▬

Sales | Leasing

Suburban Maryland

▲ ▬

Sales | Leasing

Northern Virginia

For complete details, please turn to page 1 for our quarterly market wrap-up.

Office Sector Investment at Record Pace

With a sales transaction volume of over $157 billion in the first four months of 2007, the year is staring out with a bang. More than 60% of this transaction volume is from trades within the office sector. In April alone, more than $14 billion of the former Equity Office Properties' portfolio was spun off by the Blackstone Group.

The $157 billion transaction volume is significant when compared to previous years. In all of 2006, nearly $307 billion of real estate traded hands and nearly $268 billion in 2005. An ever-increasing sales volume goes hand-in-hand with rising per square foot prices and falling cap rates when examined over the last few years.

The Greater Washington Commercial Association of REALTORS® is a professional trade association representing more than 550 commercial real estate practitioners.
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LETTER FROM THE PRESIDENT

Marty Almquist

In mid-June, President Elect Tom Fulcher and I met with some of the senior brokers and managers from some of the top commercial brokerage firms to get their ideas and feedback on GWCAR's relevance in our day to day business lives and to get ideas of how GWCAR can do more.

It was an extremely productive meeting that underscored the importance of some of our existing programs, and presented some wonderful new ideas for the association to pursue in the coming months and years.

One topic that continually resurfaced in our discussion was GWCAR's Awards and the Awards event itself. We feel that the Awards, both as a networking event and also as an opportunity to recognize achievement in our industry by individuals and companies, is a major benefit to membership. Many different ideas were tossed around, including adding new awards and modifying the presentation program. As members of GWCAR yourselves, do you get a benefit from the Awards program? If so, the GWCAR staff would like to know what you'd like to see in the future. Did you attend the dinner this year? If not, let us know why. If you did attend, let us know what we can do to improve the evening.

One of the new ideas that surfaced was whether GWCAR should consider maintaining and distributing a complete list of all commercial brokers in the metropolitan area that members can use at any time. By making GWCAR the clearing house, individual firms would no longer need to spend the time and resources to update their lists, and GWCAR would always have the most up to date contacts to distribute information on its programs. GWCAR has already started collecting lists and plans to have a distribution system in place this fall.

Another issue that was considered at length was education. Throughout 2007, Tom and I have been exploring ways to increase the association's focus on commercial-specific education. In addition to providing the continuing education credits necessary for license renewal, GWCAR could become a "trainer" of sorts for the new brokers that join our business each year, many of whom do not get any formal training from their companies.

We had so many great ideas from this one meeting, that we're taking it on the road to Virginia and Maryland. We always welcome all member ideas and suggestions, and hope to continually evolve the association to meet your needs.

Marty Almquist
2007 GWCAR President
Cassidy & Pinkard Colliers

continued from page 1

The region's unemployment rate is 3.0 percent, according to the U.S. Bureau of Labor Statistics. Though job growth has slowed slightly in recent months, Washington is still adding jobs at a steady pace. Decreased government spending could be one contributing factor to the gradual slowing in job growth. Overall, however, Washington's desirable location, low unemployment and job growth make for great fundamentals.

Green Design, and specifically LEED (Leadership in Energy and Environmental Design) is now at the forefront of revolutionary changes in the building industry and has certainly gained momentum in the Washington, DC region over the last few months. LEED is the nationally accepted benchmark for the design, construction, and operation of high performance green buildings. In recent months, many agencies have incorporated LEED as a requirement for new construction in the Washington, DC region.

Tenants are taking a stronger interest in contributing to the environment, by relocating to green buildings. Banks are beginning to consider LEED in the valuation and appraisal of properties, and insurance companies are considering lower premiums for companies that own green buildings. Federal mandates for LEED space are now changing standards from nice to have to need to have.

In general, the market remains healthy, the pace of the market remains strong, and although some developers may be nervous, given the high levels of development activity, it's tough to complain about a market, where vacancy rates are below equilibrium.

THE DISTRICT OF COLUMBIA

Vacancy rates decreased slightly over the last quarter to 6.3 percent from a first quarter rate of 6.6 percent. The quarterly decrease in vacancy was attributable to the phased move of the Department of Transportation to their new headquarters at 1200 New Jersey Avenue, SE.

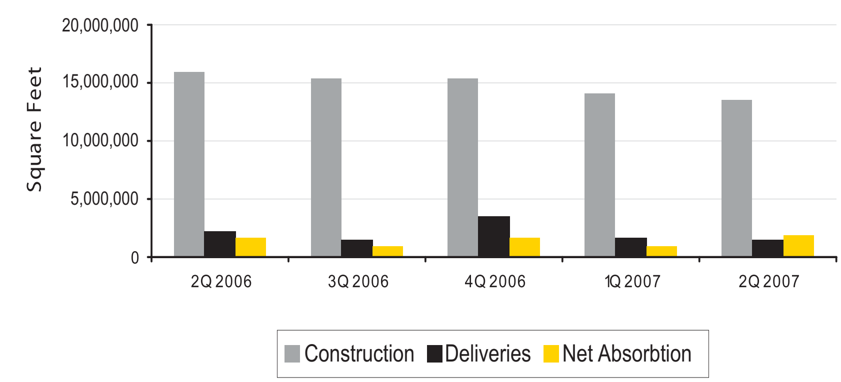
Rents have also increased through mid 2007, making it a good time for landlords and a challenging time for tenants looking for new space in Class "A" buildings in the District. Average rents in the District have increased to $44.97 per square foot from $42.74 per square foot, just twelve months ago. But, despite rising rates, the government continues to expand their office space and law firms are making no qualms about paying close to $70 per square foot for new office space.

Though the government and the law industry will always contribute to the largest percentage of leased space in the District, the tenant base has become more diverse in recent years, as companies like Parsons and the Bank-Fund Staff Federal Credit Union, who signed large transactions during the second quarter, are rapidly expanding in the downtown market. Tenants are also getting more creative with their leases and are increasingly looking to expand existing space in order to avoid the hassle of relocating.

While tenant demand will continue to center around the expansion of existing tenants, the District has seen a large increase in new leases signed over the last six months as well. It must also be noted that with the increased diversity among Washington, DC tenants, the demand for Class "B" space has picked up over the last year. Class "B" vacancy ended the second quarter at 5.7 percent as compared to the District's, Class "A" vacancy of 6.8 percent.

In the District, there are 5.6 million square feet

Washington, DC Metropolitan Area Office Market Quarterly Trends



METROPOLITAN AREA MARKET STATISTICS

Office Markets	No. of Bldgs	Rentable Inventory (SF)	Avail. Vacant Space (SF)	Direct Vacancy	Vacancy w/Sublet	Class A FS Rent	Class B FS Rent	YTD Net Absorption	*Under Construction	% UC Leased
District of Columbia	601	106,023,308	6,706,554	5.6%	6.3%	$45.69	$40.12	2,514,457	5,620,090	24.7%
Suburban Maryland	776	66,881,283	7,501,878	9.5%	11.2%	$28.32	$24.02	204,269	1,590,067	23.3%
Northern Virginia	1,291	140,253,894	14,691,098	9.1%	10.5%	$31.47	$27.73	342,067	6,381,992	30.4%
Metropolitan Area	2,668	313,158,485	28,899,530	8.0%	9.2%	$34.22	$29.85	3,060,793	13,592,149	27.2%

* Includes Under Renovation

under construction/renovation. Of this total, only 24.7 percent is preleased. Among second quarter ground breakings, the Class "A" office project at 700 Sixth Street broke ground in the East End and is set to deliver almost 300,000 square feet in the spring of 2009. The building will sit on a 28,000-square-foot parcel at Sixth and H streets in the District's Penn Quarter neighborhood. The building's designers are aiming for a minimum LEED Silver certification. With vacancy rates in the East End at 6.6 percent and minimum land available to develop new buildings, the new building will lease-up quickly. In fact, during the second quarter, the developer leased 90,000 square feet for 15 years to law firm Cadwalader, Wickersham & Taft.

Construction also began on 901 K Street, NW, a new 12-story office building being developed by Carr Properties in the East End. The building will total 253,116 square feet of Class "A" office space. Delivery is scheduled for the second quarter of 2009. The building is expected to achieve LEED Gold certification upon completion.

In the planning stages, The JBG Cos. plans to build a 280,000 square foot commercial structure at 1201 K Street, NW, tearing down an existing Sheraton hotel to make room for a high-end office building in which rents will hit $100 per square foot per year. Construction will not start until a tenant signs on, a lease that will determine whether the District tenant base is ready to pay top dollar for world-class architecture. Essentially, it comes down to which configuration - a hotel or high-end office - will deliver the highest returns. JBG wants to prelease at least half of the space before it closes the hotel. The best tenant fit will be the image conscious law firms or companies that prefer an energy efficient building and don't mind paying the extra $20 per square foot above the highest current prices.

In Capitol Hill, The American College of Surgeons is under contract with Boston Properties to buy the 20 F Street, NW development site. The sale is expected to close in the second quarter of 2008. Contingent on permits being granted, the American College of Surgeons will advance on the development of a 10-story, 165,000-square-foot office building. The College will occupy part of the building and offer additional space for lease or for sale as office condominiums. Completion is slated for late 2009.

Among second quarter leasing activity, Bank-Fund Staff Federal Credit Union (BFSFCU) leased 48,707 square feet at Farragut Center, a 241,695-square-foot office building in the Central Business District. BFSFCU signed a 10-year lease and will immediately occupy the sixth and seventh floors of the building. National Cooperative Bank (NCB), which had previously occupied the sixth and seventh floors, terminated its lease as part of the transaction. NCB is expanding to approximately 83,000 square feet at Crystal Park One in Arlington, Virginia. GVA Advantis represented BFSFCU.

Other second quarter lease signings included the Government of the District of Columbia's lease for 421,000 square feet in Southeast Washington, DC, to house its Metropolitan Police Department (MPD). Under terms of the 20-year deal, MPD will move its roughly 1,100 employees to the building at 225 Virginia Avenue, SE following renovations. MPD plans to take occupancy in late 2008 or early 2009. The five-story facility was constructed in 1958 and last renovated in 2000. It is within walking distance to Capitol Hill, the Washington Navy Yard and the Southeast Federal Center.

see MARKET-WRAP UP, page 6

continued from page 5

The pace of development in the District of Columbia has picked up speed with such rapidity over the last several months that vacant land is becoming a rarity, particularly in the Central Business District. As a result, many owners have made the decision to build their buildings higher, by adding new floors. However, there is a "Height Act" in the District, which restricts all buildings to a height of 130 feet.

The lack of land for new office developments in the Central Business District and the East End has driven developers to reconsider each parcel as they search for the most profitable use. In the Central Business District, owners are adding floors to existing buildings. In the East End, parking lots and hotels not near the convention center are making way for new commercial space. Cost of land is higher in the East End and Central Business District, if you can find it. Sites have become a scarce resource. Accordingly, it is getting harder and harder to build products in these markets.

With land in short supply, there are some that believe the height limit should be raised. But, with the law in place, developers are now building in areas of the District where they might not have gone, such as NoMa, Southeast, and Southwest. Tenants who move across the river can expect to save $20 to $30 per square foot vs. options in the CBD. So, there is room to spread out, but it's not without some renovation and revitalization efforts planned to support new office buildings.

Biotechnology Industry Organization's occupancy of 67,163 square feet at 1201 Maryland Avenue, SW, during the second quarter, is just one example of a tenant that relocated from the East End to a new building in Southwest, DC. As a result, the firm was able to move from a Class "B" building, built in 1968, to a shiny, new Class "A" building, built last year. Biotechnology Industry Organization moved from 1225 Eye Street, NW in April.

While the NoMa market has plenty of new space, it is still an uncertainty for tenants, despite big news during the second quarter that the US Equal Employment Opportunity Commission (EEOC) is expected to move to One NoMa Station; a huge coup for advocates and property owners in the North of Massachusetts area. The EEOC's 145,000 square foot headquarters in NoMa is exactly what the District needed, as it may be the start of an influx of other federal agencies, which have shunned the area for the most part, citing its lack of amenities. One NoMa Station is a 422,760 square foot office building converted from a former Union Station building. The building has been mostly vacant since it was completed in the first quarter of 2006. At some point, the District will run out of space and attention will turn to the Height Act, but for the time being, these once ignored markets in the outlying areas of the District will be reconsidered. Revitalization efforts will be what drives "the new DC."

SUBURBAN MARYLAND

In Suburban Maryland,vacancy rates also remained relatively stable during the second quarter, decreasing only slightly to 11.2 percent from a first quarter rate of 11.4 percent. However, rates have increased over the last twelve months from 10.2 percent. And, as was the trend in the District and Northern Virginia, rents increased to $26.08 per square foot from $25.04 per square foot, just twelve months ago. A dip in leasing activity and the relocation of a few tenants resulted in the steady increase in vacancy over the last twelve months. However, there is an extreme diversity among the submarkets throughout Suburban Maryland. While Bethesda/Chevy Chase and Silver Spring still maintain very healthy vacancy rates of 6.5 percent and 5.8 percent, respectively, North Rockville and North Bethesda/Potomac ended the second quarter at 13.3 percent and 9.9 percent. Ironically, all four markets are located in close proximity to each other in Montgomery County. Demand still remains extremely strong for Class "A" product in Suburban Maryland, with Class "A" vacancy ending the second quarter at 10.2 percent as compared to a Class "B" vacancy of 11.5 percent.

Despite stabilized vacancy rates, leasing activity was very healthy during the second quarter with two large transactions signed by CapitalSource Inc. and Hewlett Packard. CapitalSource Inc. pre-leased 161,000 square feet of office space at Wisconsin Place, a 1.1 million-square-foot mixed-use development in Chevy Chase, Maryland. The commercial finance firm, which conducts lending through several business units, signed a 15-year deal to occupy four full floors of an 11-story, 305,000-square foot office tower. The building is scheduled to deliver at the end of 2008, at which time CapitalSource will take occupancy. Site work began last year on the project, with the retail portion slated for completion early next year.

Hewlett-Packard (HP) signed a lease for a new regional headquarters at Bethesda's Rockledge Center, with plans to vacate in Gaithersburg, Greenbelt, and Reston in August. HP occupies 70,000 square feet in Greenbelt's Capital Office Park, though the company found the space too big and wants to sublease parts of it. The move, which reverses a decision by HP a year ago to consolidate in Reston, shifts hundreds of jobs to Montgomery County. The printing and computer giant signed a 10-year lease for 91,000 square feet at 6600 Rockledge Center, the former location of HMS Host.

The HP move is a major success for Montgomery County's biotech-heavy business community and a victory for economic development officials whose job it is to catch the attention of and retain high income professionals. One of the lures to Rockledge Center for HP was that they wanted to be in an office park near a Metro Station. A shuttle connects Rockledge Center to the Grosvenor/ Strathmore Metro station, which satisfied that need.

With the consistent increase in vacancy over the last twelve months, it cannot be ignored that of the 275,000 square feet that delivered during the second quarter, both buildings delivered entirely vacant. Furthermore, 1.6 million square feet is under construction, with a pre-lease rate of only 23.3 percent.

As was the case in the District and Northern Virginia, energy self-sufficiency

see MARKET-WRAP UP, page 8

continued from page 7

was the theme among newly planned development projects. For example, The Tower Cos. plans to seek approval for a 425,000-square-foot, two-building complex at Tower Oaks in September. The buildings likely will be designed to run on their own juices, for the most part, through the use of wind and solar power. Their hope is to exceed even the benchmarks set by the Leadership in Energy and Environmental Design (LEED) standards. The focus on reducing electricity use follows the initial success at the first Tower building, built in 2000. The building currently uses 43 percent less electricity than comparable structures.

In Prince George's County, the office market is exhibiting gradual signs of recovery as vacancy rates decreased to 16.1 percent from a first quarter vacancy rate of 17.2 percent. In accordance with decreasing vacancy rates, leasing activity picked up speed during the second quarter with lease signings by The Federal Emergency Management Association (FEMA) for 54,000 square feet, The Mitre Corporation for 30,940 square feet and Medix School South for 26,727 square feet. Also, Wintara, a technology company that works on government contracts, will move its corporate headquarters from Fort Washington to Oxon Hill. Wintara negotiated a lease at 6710 Oxon Hill Road, where it is expected to move this summer. The firm signed for 24,852 square feet for a ten year term.

Among second quarter deliveries in Prince George's County, Knollwood Development Corp. completed construction on the 87,933-square-foot, Class "A" building at 1401 Mercantile Lane in Largo, Maryland. The five-story building sits on the 93-acre Largo Park campus in proximity to the Largo metro station and new upscale housing and hotel developments.

In addition to the almost 600,000 square feet under construction in Prince George's County, there are also several projects in the planning stages. For example, in Fort Meade, 1.5 million to 2 million square feet of commercial space is planned. The Pentagon is reorganizing military bases around the country, hoping to use them more efficiently as it rolls out projects to generate cash by leasing federal land for private development. Fort Meade will help absorb some of the 22,000 federal and private-sector jobs that base reorganization is expected to bring to the area. The project will most likely break ground in 2008 and people will begin to move into the buildings in 2009. The project could take a decade to complete, depending on demands created by the BRAC process.

NORTHERN VIRGINIA

Like Suburban Maryland, vacancy rates have increased over the last twelve months in Northern Virginia. As of the end of the second quarter, vacancy rates increased to 10.5 percent from a second quarter 2006 rate of 9.4 percent. However, despite increasing vacancy rates, average rental rates ended the second quarter at $30.06 per square foot, up from $28.67 per square foot, just twelve months ago. Obvious reasons for the increase in rents are higher construction costs and higher building values due to higher land and building sales prices and increased operating expenses. And, the reason for the slight increase in vacancy: the addition of new space and a slight slowdown in demand.

With the unemployment rate at 2.5 percent in Northern Virginia and the continued increase in job growth, the market fundamentals remain healthy

SUBURBAN MARYLAND SUBMARKET STATISTICS

Office Markets	No. of Bldgs	Rentable Inventory (SF)	Avail. Vacant Space (SF)	Direct Vacancy	Vacancy w/Sublet	Class A FS Rent	Class B FS Rent	YTD Net Absorption	*Under Const	% UC Leased
Total Frederick Co./City	49	2,787,950	154,491	5.5%	5.5%	$24.42	$19.30	483,151	0	-
Total Montgomery County	500	47,220,207	4,628,929	7.9%	9.8%	$30.70	$25.79	(412,625)	1,051,305	6.8%
Total Prince George's Co.	227	16,873,126	2,718,458	14.5%	16.1%	$24.52	$19.58	133,743	538,762	55.5%
Suburban Maryland	776	66,881,283	7,501,878	9.5%	11.2%	$28.32	$24.02	204,269	1,590,067	23.3%

* Includes Under Renovation

and as a whole, the Northern Virginia office market continues to perform quite well. Demand slowed slightly in Northern Virginia over the last quarter, with vacancy rates hovering at 10.5 percent.

The majority of the leasing activity has centered around transactions below 25,000 square feet over the last six months, though leases signed by MPRI Inc. for 126,529 square feet and Frontier Systems for 95,383 square feet represented a couple of Northern Virginia's largest transactions signed during the second quarter.

While leases signed by the federal government and their contractors continue to encompass the largest percentage of leasing activity in Northern Virginia, other sectors such as professional services, financial services and health-related services have picked up speed. For example, The American Red Cross leased 60,000 square feet in Loudoun County and Comprehensive Health Services leased 44,800 square feet in Reston, during the second quarter of 2007.

Tenant renewals are more likely than ever, as evidenced by the USDA's renewal of 184,216 square feet in Alexandria, EMC Corporation's renewal of 91,000 square feet in Tysons Corner, and Integrated Coast Guard Systems' renewal of 64,450 square feet in Rosslyn. Furthermore, larger tenants with pending lease expirations are starting their space search much earlier. Users continue to seek quality space close to amenities, as supported by lower vacancy rates in Class "A" space (9.8 percent) as compared to Class "B" space (12.0 percent).

In Northern Virginia, the second quarter has already seen an increased demand for specialized space like laboratories and highly secure buildings. Northern Virginia, not known for a plethora of lab space that could attract a biotech community, may be seeing signs of a turnaround with new plots of lab-worthy land. Alexandria Real Estate Equities, a leading national lab property owner and developer, is in preliminary plans to market a new 20-acre stretch of research and development land near George Mason University at Innovation @ Prince William Technology Business Park. The developer is aiming for a single, sizable company to fill up its 20-acre plot, originally 40 acres before it sold 10 acres apiece to the neighboring George Mason University biocontainment lab and Virginia Department of Forensic Science lab, both poised to break ground soon.

At Prince William County's 50-acre Waterford Development plot, there is room for 1 million square feet of office and lab space. Meanwhile, Rockville-based Scheer Partners is helping to develop a 50-acre section of the Innovation Park for tech and biotech prospects. The local real estate firm also recently began marketing 35,000 square feet of empty office and lab space in a Chantilly office park building.

The only downside is that much of that lab space is, or likely will be, fit only for larger tenants, forcing biotech startups to keep hunting for smaller headquarters in Maryland. There will be a vibrant biotech community in Northern Virginia, but it won't look anything like Maryland. While there are a few tenants looking for larger blocks of lab space, the question remains as to whether the demand for large blocks of lab space are high enough to move forward with construction. A possible user, a European biotech contractor, is on the hunt for larger quarters for its Northern Virginia lab space, now located in Herndon. Eurofins Medinet Inc. plans to expand its Northern Virginia presence to as much as 35,000 square feet from its current 23,000 square feet.

With 6.4 million square feet under construction/renovation in Northern Virginia, preleasing levels remain at a minimum at 30.4 percent, despite a number of projects still in the planning stages. Most of the new projects are concentrated in the submarkets of Reston/Herndon and Route 28 South.

Among some of the most notable development projects in the planning stages are the redevelopment and revitalization projects planned for Crystal City. Bigger buildings, an underground theater and more retail are all being considered for the new Crystal City. Plans for revitalization were prompted by the age of Crystal City's buildings, many of which were built in the 1970s. But the move also was spurred by pending changes resulting from the military's base realignment and closure (BRAC). The shifting of thousands of military jobs by 2011 will result in 2.4 million square feet of vacancies in Crystal City. As a result, Crystal City is ramping up its efforts to revitalize the market, in order to appeal to a broader spectrum of tenants, specifically the private sector. Among the largest tenants to leave are the Defense Information Systems Agency and Missile Defense Agency, taking

see MARKET-WRAP UP, page 12

COMMERCIAL PROPERTIES RAPIDLY TURNING GREEN

continued from page 1

Ellis. “A large number of our clients—both property owners and occupiers—are already actively working to reduce energy costs and create greener space.”

That ambition matches the desire of corporations that, in recent years, have moved towards visibly marketing their environmental record. In late 2005, PNC Bank set a goal to have all of its branches LEED certified. Many other corporations, such as Target and Starbucks, have participated with USGBC on studies concerning environmental certification. According to REALTOR® Magazine, over 40% of the more than 300 U.S. real estate investment trusts are actively pursuing energy efficiency and green building initiatives.

One of the easiest and most visible ways for corporations to show their environmental efforts is through the LEED certification program. Although the approval process is sometimes complex, the branding of a building as LEED certified is so well-known, that it remains the most popular method of showing off an environmentally friendly property. More than 6% of commercial properties around the country are now LEED Certified, and that number will continue to grow.

The Half Street development from Monument Realty is one such property. The mixed-use development along the Anacostia Waterfront will be LEED Certified. As with many green projects, location will be a prominent feature in the environmentally efficient design. Due to the proximity to the Anacostia River, a courtyard shared by a hotel and two office buildings will function as a green roof for the primary purpose of capturing stormwater, bypassing the need for irrigation.

“It’s important to build conscientiously,” said Douglas Olson of Monument. “In our efforts toward certification, the design team and our LEED consultant, EMSI, have also incorporated energy-efficient lighting and water-conserving bath fixtures for both the commercial and residential components of the project."

The USGBC offers LEED certification based on a points system. A building project is graded on criteria in five categories (sustainable sites, water efficiency, energy and atmosphere, materials and resources, and indoor environmental quality) and earns points in each category. A maximum score is 69 points, but to be labeled as "LEED certified" a building needs to earn at least 26 points. A LEED building is given a rating of Certified, Silver, Gold, or Platinum, depending on the number of points it receives.

Not only private companies are seeking LEED certification, but also local governments. City-owned or publicly-funded building projects are now required to meet green building standards in cities such as San Francisco, Seattle, Dallas, New York, Austin, Chicago, Boston, and many others. But DC is going one step further.

DC set the pace last December when it became the first major US city to pass legislation requiring sustainability guidelines for privately-owned real estate. All buildings 50,000 SF or larger will be required to meet minimum LEED standards. The legislation will apply to all newly constructed and renovated projects starting in 2012.

Montgomery County, Maryland then followed suit with similar legislation earlier this year. The new County legislation will require non-residential properties to be LEED Silver certified (a minimum of 33 points) by 2008.

Meeting the goal of going green is getting easier. The number of LEED Accredited professionals who have a knowledge of and dedication to the green building process is growing. To date, more than 2,000 industry professionals, including engineers, architects, and consultants, are approved by the USGBC as LEED Accredited. Working with LEED professionals can make going green no more intensive than working on a non-green property.

"As we learn, and as green development becomes more mainstream, we think this will become more and more easy," said Greg Trimmer of the JBG Companies, which currently has 15 projects meeting green building standards, including 9 LEED registered buildings. "JBG began its commitment to Green Building over 4 years ago by embracing green roofs," said Trimmer. "Since then we have expanded that commitment by forming a 'green team' to act as a task force at the beginning of 2007."

While many in the industry worry about the potential cost, building green won't cause an economic hardship according to Ashley Katz of the USGBC. "You can build a Certified or Silver building for not a penny more than your average building," said Katz. "Gold or Platinum certification can cost 1 -5 % more in up front costs, but those will be recouped over the life cycle of the building."

According to Katz, many common characteristics of your average commercial property already earn it points toward certification. Something as simple as bicycle racks and changing or locker rooms to encourage commuter efficiency count towards certification. Other simple amenities encouraged by LEED include adding windows to reduce energy costs, individually controlled temperature capabilities in each office, and low-flow toilets and faucets.

"LEED gives points in a number of areas that relate to sustainable design but don't necessarily involve the building envelope or systems," said Robert Atkinson, an architect with Davis Carter Scott. "For example the system rewards projects that have access to public transit and don't require extending public infrastructure."

Atkinson notes the recent spike in interest in green properties. "Right now we have a number of LEED Gold and Silver projects on the boards for sites throughout the Metropolitan area. Even when we aren't seeking actual certification, we're encouraging our clients to include sustainable features in their buildings."

continued from page 10

a total of 9,000 employees with them.

While vacancy rates have increased in Arlington over the last year to 11.1 percent, leasing activity has remained fairly steady. For example, Frontier Systems leased 95,383 square feet in the Virginia Square submarket and Integrated Coast Guard Systems, a joint venture of Lockheed Martin and Northrop Grumman, renewed its lease for 64,658 square feet in Rosslyn, during the second quarter.

Among the five counties, Alexandria witnessed the largest decrease in vacancy during the second quarter, as vacancy rates dropped to a healthy 5.8 percent from 6.8 percent. Leasing activity was also healthy with the signing of MPRI Inc.; a training, simulation and government services company; for 126,529 square feet at 1320 Braddock Place and USDA's renewal of 184,216 square feet at 3101 Park Center Drive. Also, Catholic Charities USA leased 20,866 square feet at the TransPotomac Canal Center. The organization signed a 10-year deal and will move in during the fourth quarter.

Vacancy rates in Fairfax County remained relatively stable during the second quarter, increasing only slightly to 10.2 percent from a first quarter rate of 10.1 percent. Contributing to the slight increase in vacancy was the 550,591 square feet that delivered during the second quarter, only 24.1 percent of which was occupied by the end of the second quarter. Furthermore, 4.2 million square feet is under construction, only 13.9 percent of which has been pre-leased. Among recent ground breakings, Fairview Property Investments broke ground on 3120 Fairview Park Drive in Merrifield, an eight-story 182,845-squarefoot Class "A" office building.

There are also many projects still in the planning stages, despite the fact that vacancy rates have surpassed equilibrium. For example, demolition started May 14, 2007 on two office buildings that formerly housed the local offices of Unisys. The 1980s buildings, at 12010 Sunrise Valley Drive in Reston, will be torn down to make room for future office construction at Reston Crescent office park. The site has approval to build up to 1 million square feet of office space.

Vacancy rates in Loudoun County decreased slightly during the second quarter to 17.5 percent from a first quarter vacancy of 18.0 percent. Contributing to the decrease in vacancy was Orbital Sciences' move to 22,488 square feet at 46000 Manekin Plaza. The firm occupied the entire building in June. And, in May, Websurveyor occupied 20,591 square feet of sublet space at 45365 Vintage Park Plaza. Furthermore, Neumont University of Salt Lake City opened its second location in Northern Virginia. The school moved to 25,446 square feet at 21000 Atlantic Boulevard.

Like the rest of the Northern Virginia region, development activity has also been high in Loudoun County. Although there weren't any second quarter deliveries to note, there is 604,855 square feet under construction with a pre-lease rate of only 26.5 percent. Among recent ground breakings, the developers of Atlantic Corporate Park broke ground on 45600 and 45610 Woodland Road in Sterling. This will be the first office development in the county to pursue Leadership in Energy and Environmental Design Silver certification. Construction is expected to be completed in early 2008. Atlantic Corporate Park will have two 110,000-square-foot office buildings on a 1.5-acre parcel.

In Prince William County, vacancy rates also decreased to 16.4 percent from a first quarter rate of 17.2 percent. Contributing to the decrease in vacancy over the last quarter was SAIC's move to 50,000 square feet of sublet space at 10100 Battleview Parkway in Manassas.

When compared to the surrounding Northern Virginia counties, office development activity in Prince William County has been kept to a minimum. Only one building, totaling 23,600 square feet, is currently under construction. And, among recent deliveries, only 77,667 square feet delivered during the second quarter. There are a number of projects in the planning stages, however. For example, a Florida developer has preliminary approval for a 239,000 square foot complex on the Prince William Parkway near Dale City. The project, called English Oaks Commerce Center, will likely target professional service firms and government contractors. No timetable has been set for its construction, but the development would join a crowded field of large-scale office proposals that are on the books in Prince William.

Maryland Legislative Update: 2007 Commercial Legislation

Business Organization Filing Fees – HB 1053 – DEFEATED
Would have increased the annual report filing fee for Maryland business entities from $300 to $1,000.

Taxing the Transfer of the Controlling Interest in Business – HB 475/SB 616 – DEFEATED
Would have imposed transfer taxes on the transfer of a controlling interest in a business when more than 80% of the ownership of the business changes, and more than 80% of the assets of the business are comprised of real property.

Heritage Structure Rehabilitation Tax – HB 598/SB – PASSED
Makes several changes to the current Heritage Structure Rehabilitation Tax. The legislation clarifies that the award of credits for commercial projects will favor rehabilitation projects located in jurisdictions that have been historically underrepresented in the award of tax credits. The legislation also changes the maximum percentage of credits that can be granted within a single county from 50% to 75%. It extends the length of time that the initial credit certificate is valid from approximately 12-24 months to 30 months from the time the certificate is issued, and extends the sunset of the program from 2008 until 2010, but does not specify at what amount the credits will be funded. Effective July 1, 2007

Montgomery County Public Policy Update

County Council Considers Changes to Growth Policy; Recordation Tax Increase Among Proposals
On June 19 and 26, the Montgomery County Council held public hearings on recommendations from the Planning Board that would make various changes to the County's Growth Policy. Among those proposals are changes to school adequacy and transportation tests, increases in the impact tax rates and taxes as well as a proposal to **increase the Recordation Tax rate from $6.90 per $1000 to $11.20 per $1000.** Throughout the month of June GCAAR and GWCAR held meetings with Councilmembers as well as the County Executive to express concerns over the increase in the recordation tax. Below is a list of all the legislation that is related to the County's Growth Policy.

Resolution to approve Comprehensive amendment to County Growth Policy
Would revise the County Growth Policy, most notably by inserting a new Policy Area Mobility Review (PAMR) transportation test to effectively replace the former Policy Area Transportation Review (PATR) test that was repealed in 2003, and by revising the schools adequacy test.
http://www.montgomerycountymd.gov/content/council/pdf/agenda/col/2007/070524/20070524_21c.pdf

Resolution to amend impact tax rates
Would increase the rates of the transportation and school impact taxes.
http://www.montgomerycountymd.gov/content/council/pdf/agenda/col/2007/070524/20070524_21d.pdf

Bill 9-07, Growth Policy – Amendments
Would revise the timing of the Growth Policy adoption process, specifically the submission dates of the Planning staff and Planning Board drafts.
http://www.montgomerycountymd.gov/content/council/pdf/agenda/col/2007/070524/20070524_24.pdf

Bill 10-07, Impact Taxes – Amendments
Would update certain references and terminology in the County transportation impact tax law, and increase the rates of the school facilities payment that is charged to allow residential development to proceed when a school cluster's capacity is inadequate under the Growth Policy.
http://www.montgomerycountymd.gov/content/council/pdf/agenda/col/2007/070524/20070524_25.pdf

Bill 11-07, Recordation Tax Rate
Would increase the rate of the County recordation tax from $6.90 to $11.20 per $1,000 paid for a property.
http://www.montgomerycountymd.gov/content/council/pdf/agenda/col/2007/070524/20070524_26.pdf

DC Public Policy Update

More than 600 pieces of legislation were introduced in the first six months of 2007. Your comments and suggestions on any of these pieces of legislation would be greatly appreciated. Contact, Ed Krauze, Vice-President, Public Policy, ekrauze@gcaar.com.

B17-148, "Fiscal Year 2008 Budget Support Act of 2007"
Mayor Fenty's first budget passed the Council June 5. Some of the issues that were raised and debated:
http://www.dccouncil.washington.dc.us/images/00001/20070618155222.pdf

1) Recordation and Transfer Tax Increase to 1.7% - DEFEATED
The initial proposal included an increase in recordation and transfer taxes for both residential and commercial classes, but was modified to increase taxes on commercial properties only. This proposal passed the Committee on Housing and Urban Affairs and was again introduced in the Committee on Finance and Revenue. After much debate the proposal was defeated.

2) E-911 "fee" Increase - DEFEATED
Mayor Fenty's proposed "fee" increase was stricken from the Budget. GWCAR did not support or oppose, but questioned where $15 million of funding (from last year's recordation and transfer taxes increase) for the Office of Unifed Communcication went.

3) The Commercial Transactions Cost Recovery Fee – DEFEATED
Mayor Fenty proposed the creation of a "District of Columbia Transactional Legal Support Fund" funded by fees assessed by Attorney General for services rendered by the Attorney General in various forms of commercial transactions involving the city. WDCAR testified in opposition to this proposal.

4) Commercial Property Tax Relief
$11 million was set-aside in the FY 2008 budget for commercial property tax relief for small businesses. No specific plans have been established for this money as of yet.

5) NCRC & AWC Reorganization Act
The National Capital Revitalization Corporation and the Anacostia Waterfront Corporation were rolled together into one entity under the control of the Deputy Mayor for Economic Development. After this bill goes into effect, the Mayor's office will control both the schools and all of the economic development entities in the District.

B 17-34, "District of Columbia Spam Deterrence Act of 2007"
Legislation to prohibit a person or entity from transmitting commercial electronic mail with false identifying information or false misleading subject line information, transmitting of commercial electronic mail using a third party's Internet address, domain name or identity without the third party's consent while attempting to make it appear that the third party was the sender of the message, or transmitting unsolicited commercial electronic mail messages that fail to provide a mechanism to allow recipients to remove themselves, at no cost, from the e-mail list and to provide for civil relief and criminal penalties for violating this act. Hearing before the Committee on Public Services and Consumer Affairs is scheduled for September 19.
http://www.dccouncil.washington.dc.us/images/00001/20070126124954.pdf

B 17-43, "Green Building Amendment Act of 2007"
Legislation to increase minimum green building standards passed last fall 2006.
http://www.dccouncil.washington.dc.us/images/00001/20070116085504.pdf

B 17-86, "Nuisance Properties Abatement Reform and Real Property Classification Act of 2007"
Legislation to streamline the process by which a property is determined to be (or not be) a nuisance or vacant Class 3 property. A joint hearing took place May 24 before the Committee on Finance

see PUBLIC POLICY, page 16

continued from page 15

and Revenue and the Committee on Public Services and Consumer Affairs, with the goal of establishing a system that worked. Witnesses from the private sector, concerned citizens, and Government witnesses from Office of Tax and Revenue and DCRA testified. No mark up has been scheduled. A public roundtable was held on July 3 on "Vacant and Nuisance Property Administration and Enforcement" focusing on the process of identifying vacant and nuisance properties.
http://www.dccouncil.washington.dc.us/images/00001/20070207160603.pdf

B17-159, "Southeast Water and Sewer Improvement Special Assessment Authorization Act of 2007"
Legislation proposed by the Mayor to authorize a special assessment on properties located in Southeast (near the new stadium) that would specifically benefit by the improvements and upgrades to the water and sewer system. This bill passed second reading July 10.
http://www.dccouncil.washington.dc.us/images/00001/20070405153304.pdf

B17-197, "Paid Sick and Safe Days Act of 2007"
Legislation to require all employers in the District of Columbia to provide up to 10 days paid leave to employees for physical or mental illness, preventive medical care, family care, parental leave and absences associated with stalking, domestic violence or sexual abuse. This bill appears to be the first of its kind in the country.

The Committee on Workforce Development and Government Operations held a hearing on July 9. There was overwhelming support for this legislation from numerous groups. Only the DC Chamber of Commerce and the Consortium of Universities raised concerns about its implementation and the possible negative affects upon business.
http://www.dccouncil.washington.dc.us/images/00001/20070502095325.pdf

B17-199, "Enhanced Professional Security Amendment Act of 2007"
Legislation to enhance the standards for security officers in the District of Columbia by establishing minimum compensation requirements. The Committee on Public Safety and Judiciary held a hearing on July 5. AOBA and Security companies voiced their concerns, while SEIU, Jobs for Justice, and other labor related groups voiced their support.
http://www.dccouncil.washington.dc.us/images/00001/20070502100637.pdf

B17-208, "Capitol Riverfront Business Improvement District Amendment Act of 2007"
Legislation to approve the establishment of the Capitol Riverfront Business Improvement District. This bill passed second reading on July 10.
http://www.dccouncil.washington.dc.us/images/00001/20070518111143.pdf

B17-211, "Energy Efficiency Standards Act of 2007"
To establish minimum energy efficient standards for certain products sold or installed in the District of Columbia. This bill passed first reading July 10.
http://www.dccouncil.washington.dc.us/images/00001/20070518113158.pdf

Upcoming Issues

Commercial Linkage Fee Study
As part of its Comprehensive Housing Task Force Fund, the District Government has conducted a commercial linkage study. This study focused on a linkage fee (some say impact fee) for new commercial development projects to pay for increased affordable housing needs. Housing advocates argue with each new commercial development, there is an increased need for housing and specifically affordable housing. Therefore some commercial linkage or impact fee is necessary to provide for housing. Not surprisingly, the development community has greeted this idea very coolly.

At the moment, the government is claiming this study is just that a study, and is not going anywhere at this time. However, it is a potential issue on the horizon, which could move quickly.

Northern Virginia Public Policy Update

TRANSPORTATION

Northern Virginia Transportation Authority's Regional Taxes and Fees

On July 12, by the authority given to them by Virginia General Assembly this past spring, the Northern Virginia Transportation Authority enacted seven regional taxes and fees to address transportation issues in Northern Virginia. These regional taxes and fees scheduled to go into effect this January 1, 2008, are as follows:

- 40 cents per $100 increase in the real estate grantor's tax
- 5 percent sales tax on auto repairs
- 2 percent increase in the rental car tax
- 2 percent increase in the hotel/motel occupancy tax
- 1 percent initial vehicle registration fee (for new car purchases or those moving into the region)
- $10 increase in the vehicle safety inspection fee
- $10 regional auto registration fee

In an attempt to preemptively address potential legal challenges, the Authority also approved the filing of a bond validation suit in the Circuit Court of Arlington that is likely to be ultimately decided by the Virginia Supreme Court. There are a number of anti-tax groups, who believe the Northern Virginia Regional Authority is not representative of the people and is not constitutionally empowered to pass tax increases. The Loudon County Board of Supervisors is one of these groups and has voted to consider bringing a legal challenge.

If and when this court challenge is defeated and the legislation is allowed to move forward, the Northern Virginia Transportation Authority approved on July 12 a bond issuance that would cover the first round of transportation projects. Those projects are included in the Washington Post article: http://www.washingtonpost.com/wp-dyn/content/article/2007/06/25/AR2007062501682.html

Commercial Property Tax Increase

At the moment, there are no plans to increase the Commercial Property Tax Rates. However, as part of the General Assembly's transportation solution, there is legislative language that would allow local jurisdictions to increase revenues for transportation with local option revenues. These local options include:

- Annual commercial real estate tax rate increase of up to 25 cents per $100
- $10 local car registration fee
- Commercial/residential impact fee (amount to be determined)

Changes in Virginia BRAC Decisions

In July, the Army finally relented to the traffic concerns of adding 22,000 jobs to the relatively isolated Fort Belvoir area of southeastern Fairfax County. Ten-thousand of the originally planned 18,500 jobs going to Fort Belvoir's Engineering Proving Ground will now go to a site in Springfield, which is accessible by both VRE and METRO. Approximately 12,000 new jobs are still coming to Fort Belvoir, but more than two-thirds of those positions are for an agency with 24-hour operation with irregular shifts, which will have a minimum impact on rush hour traffic.

The traffic studies conducted to measure the impact of the original plan proved that nearly $500 million would have been required of state and local governments in order to improve roads and transit to and from the base. Without these improvements, an Army report predicted, "severe congestion lasting 3-4 hours."

As part of the new deal, the federal government has also agreed to oversee the completion of the southern segment of the Fairfax County Parkway, a major artery to Fort Belvoir.

REALTOUR 2007 RECAP

Realizing the Vision of Washington DC at RealTOUR

Comfortable shoes were not required to attend this year's RealTOUR event on June 7. Instead of a walking or bus tour, this year's event was a virtual tour held in the cool comfort of the Gallery Place Cinemas. A packed audience was treated to popcorn, stadium seating, and a preview of new and re-developed properties throughout the entire DC area.

The event started with historian Scott W. Berg giving an intriguing overview of the original layout of the city as designed by Pierre L'Enfant. From his amazing vision for an entire city, to his struggles to win over George Washington and secure financing, attendees realized that the challenges of development haven't changed all that much in 200 years.

With a new perspective on the past, the tour launched into the future, featuring multi-media presentations of developments across the city, from the Southeast/Southwest Waterfront, through Capitol Hill and NOMA, from the East End to the West End. If you missed this event, you can still see an abbreviated version of the PowerPoint presentation on gwcar.org.

A special thanks goes out to the RealTOUR sponsors and committee members who made this event possible. *See back page for photos.*

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member spotlight

Marc Bassin joined Jones Lang LaSalle as senior vice president.

Gerry Trainor of Transwestern was recently recognized as the firm's top producer nationally for 2006.

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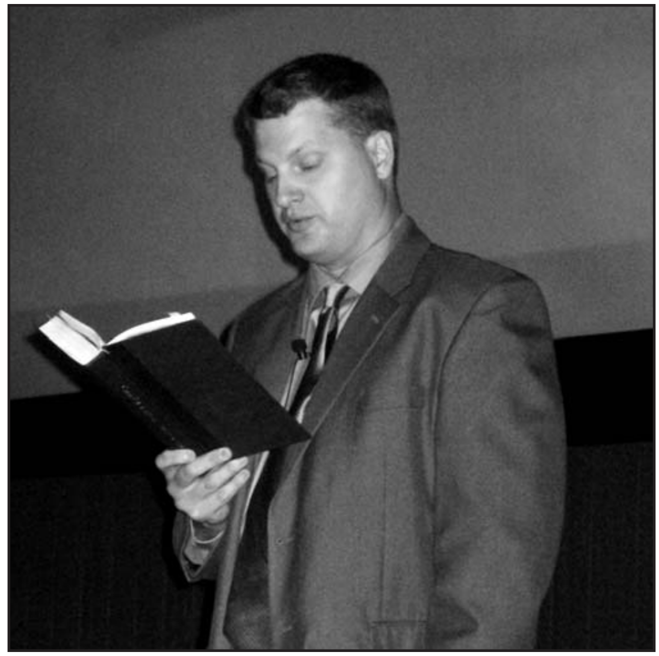
REALTOUR 2007 PHOTOS

A portion of the proceeds from RealTOUR was donated to the Perry School Community Services Center to help fund their summer camp programs. GWCAR President Marty Almquist (center) presented a check to Perry Center Executive Director Paul McElligott and Development Director Susan Baron.



During his presentation historian Scott W. Berg read excerpts from his book, *Grand Avenues: The Story of the French Visionary Who Designed Washington, DC.*

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