



COMMERCIAL BROKER QUARTERLY

WINTER

2007

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

INSTALLATION OF 2007 GWCAR OFFICERS

On December 5, 2006, the officers and directors for the Greater Washington Commercial and the Washington DC Associations of REALTORS® were officially installed into their positions. Marty Almquist, GWCAR's 2007 President, highlighted the following initiatives for the year:

- Serve members and create new ways to be of value
- Increase involvement throughout membership, especially in Maryland and Virginia
- Continue to grow our membership and improve the financial picture of the association
- Continue to grow charitable giving

- Play an active role in all three jurisdictions to ensure a healthy environment for commercial real estate

Marty was installed by Renee Miller, NAR Regional Vice President for Region III.



As her first order of business, Marty and incoming WDCAR President Dominic Turano presented a \$5,000 donation to Rob Hartmann of the Children's Unit of the National Rehabilitation Hospital. The donation helped fund all sorts of activities to bring some holiday cheer to patients and their families.

MARKET WRAP-UP

WASHINGTON, DC: *Where Optimism Still Reigns*

Courtesy of Cushman & Wakefield

OVERVIEW

Two thousand and six was another year of surprising strength for the Washington, DC region. With a benevolent local economy, the commercial leasing market remained one of the most vibrant in the nation. By year-end, the office market reported an overall vacancy rate below market equilibrium (10%), and rental rates were at all-time highs. Likewise, soaring demand for industrial and retail properties continued to fuel higher occupancies and rental rates for these

sectors across the region. The for-sale housing market moved out of the limelight, after a phenomenal run for the past nine years, and the area's job market was healthy. Consequently, the apartment sector continued to be energized by a swelling number of renters so that occupancies continued to escalate, boosting rental rates. All told, the market saw another round of buying frenzy for all types of commercial real estate.

WASHINGTON, DC

Just when it seemed that 2005 was the best year since 2001, the District of Columbia's office market topped itself yet again, ending 2006 with an even sturdier set of fundamentals. All

see Market Wrap-up, page 5

DIGEST BOX

Quote of the Quarter

...the market saw another round of buying frenzy for all types of commercial real estate.

— from Cushman & Wakefield's Market Wrap-Up

Washington DC has lost the top spot on the Association of Foreign Investors in Real Estate rankings of the top markets in the US. New York took over the top spot among US markets as DC slipped to second in their survey. The Washington DC market also fell to the fourth spot on the global market, behind London, New York, and Paris. Last year, DC was rated as the second best global market.

But the DC market is the strongest in the country going into the future according Chicago-based commercial real estate company Grubb & Ellis, which chose 10 US office markets that it expects will perform well in 2007 through 2011 and will prove to be good investment opportunities. Markets were ranked and then scored against 16 property, economic, and demographic variables. Washington DC scored the highest in their research, narrowly edging out Los Angeles. The DC market was only one of two non-west coast markets to make the list, and the only east coast market in the top seven.

Insurance reform is high on the agenda for the 2007 Congress, which is very good news to many commercial agents who have had to work around a lack of property and casualty coverage. NAR supports Congressional legislation that would preempt states from overriding federal regulations of insurance carriers, make it easier for insurance brokers to offer lines of coverage, and establish a national catastrophe backstop to help ensure continued availability. NAR is currently analyzing insurance problems in the Gulf Coast region and will then use those findings to help establish its position on many insurance issues, including terrorism insurance.

ALL SIGNS POINT TO...



District of Columbia



Suburban Maryland



Northern Virginia

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

DC and Montgomery City Council

have passed bills that would make it mandatory for certain new developments to go green. If implanted, Washington DC would become the first major city in the US to have such a regulation. In Montgomery County, the legislation would apply to any building more 10,000 square feet. In the District, only six buildings currently meet the green standards of Leadership Energy and Environmental Design (LEED), whose green standards are used in many states. But Maryland's green standards are defined by a different group, the Green Building Initiative.

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MESSAGE FROM THE PRESIDENT



Marty Almquist

The New Year is shaping up to be as busy as ever! As the commercial market continues to boom in and around DC, your association is hard at work identifying and improving the services that make your membership a great value.

Throughout 2007, GWCAR will focus on four areas integral to your membership benefits package: education; networking; public relations; and legislative issues. There are four major events each year which offer educational and networking opportunities. From the State of the Market in February, to the Awards Dinner in April, the RealTOUR in June, to the Golf Outing in October, GWCAR provides opportunities for you to interact with others in the commercial real estate community in a variety of ways.

Legislatively we have some interesting challenges this year. First, there is a new mayor in town, and many freshman members on the DC Council to get to know. We still have some long-time friends on the Council, including Jack Evans who has introduced a bill that would cap commercial property tax assessments at a 10% increase from year to year, but there is a great deal of uncertainty in how the new Council will vote on this and other issues. Montgomery County also has a new leader, with Ike Leggett taking over the County Executive seat. There has already been a proposed building moratorium on the table in the county. We will continue to monitor these types of proposals closely and will act on defeating onerous regulations. Virginia has had less legislative turnover this year, but continues to face tremendous transportation issues and potential changes in the November elections.

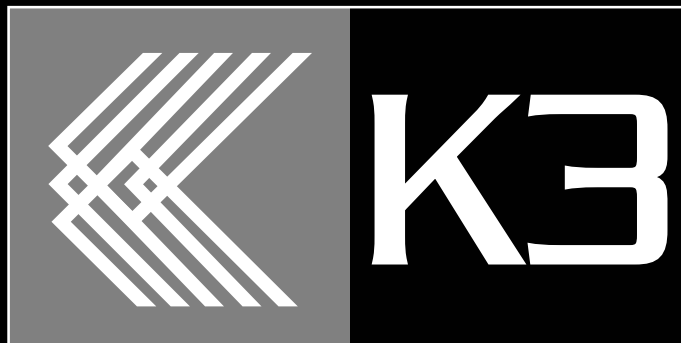
This year I also hope to see us working closely with other related organizations to further promote and support our industry. Take a look at the list of GWCAR Board members for 2007 on the opposite page, and let them know what GWCAR member service you would find valuable and interesting as a real estate professional. Tell your colleagues who may not have discovered us just yet: It's not too late to join the association for 2007 and reap the benefits of the best membership value around!

Marty Almquist
2007 GWCAR President
Equity Office Properties



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MARKET WRAP-UP — FOURTH QUARTER 2006

continued from page 1

submarkets experienced single-digit vacancies so that the overall vacancy rate of 7.3% is near its five-year low of 7.0%. Another sign of strength is ever increasing rental rates for all building classes, which set a new record every quarter in 2006. By year-end, the average asking rent was up \$1.50 per square foot (psf) from 2005 to \$43.83 psf. The strongest gain was for class B and C properties, with average rents jumping in every submarket by over 10% to \$43.19

psf and 2% to \$37.10 psf, respectively, from the previous year. As a result, some tenants in lower-grade properties locked in new leases ahead of schedule to avoid future increases. One such example is law firm Sughrue, Mion PLLC which opted to renew its 95,399-square foot (sf) lease at 2100

Pennsylvania Avenue through 2016. The Urban Institute, a non-profit organization, also decided to remain at its current office in 2100 M Street through 2010 after initially exploring other available options. Meanwhile, the average asking rent for class A properties stabilized at \$47.63 psf – just shy of the all-time high of \$47.88 psf. Rents for new premium space were even driving upward of the mid-\$60s psf in the East End and low to mid-\$50s elsewhere.

The strong performance of this market continues to benefit from a healthy tenant demand, anchored by a job growth that remains enviable. Tenant demand is coming from traditional bulwarks – the government, law firms, and non-profit groups – which have also been responsible for the surge in large transactions. In 2006, three government agencies signed leases close to half a million square feet each – the District government (500,000 sf), Department of Justice (465,513 sf), and U.S. Immigration and

gross rent in the mid-\$50s. That followed notable leases signed in comparable class A buildings by law firm Jenner & Block and global consulting firm FTI Consulting, Inc., with rents in the mid to upper \$60s.

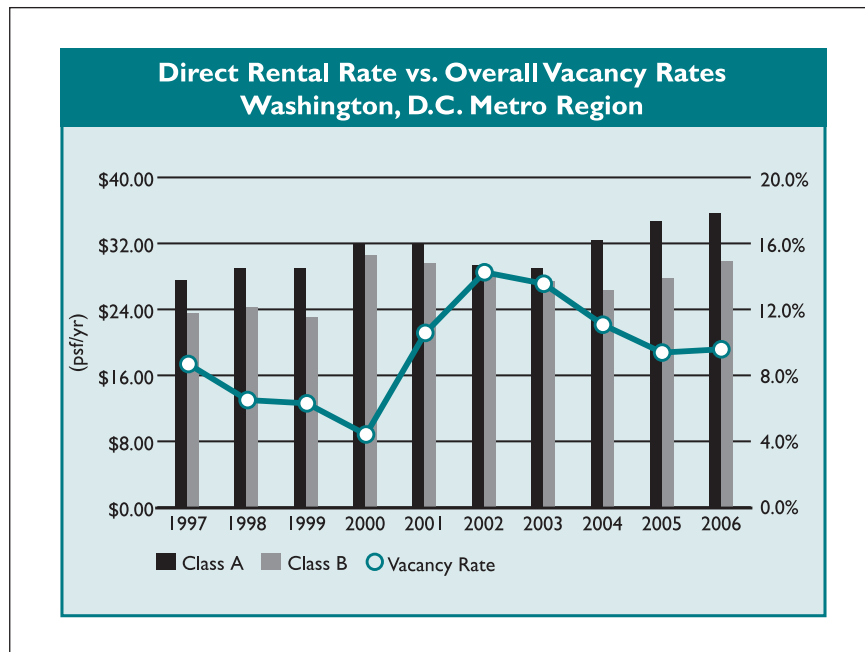
Furthermore, the District continues to benefit from a steady growth of private sector tenants. In the second quarter of the year, law firm Jones Day renewed and expanded its lease, which jump-started the construction of 260,000 sf class A building at 300

New Jersey Avenue in Capitol Hill. The plan is to connect the new building to its existing offices at 51 Louisiana Avenue. Another example is the 67,163-sf lease (up from 40,000 sf) of Biotechnology Industry Organization at 1201 Maryland Avenue in Southwest. The company's decision to relocate its headquarters was to

accommodate the growing workforce of this trade firm.

Much of the attention continues to focus on the robust office development that has dominated the District's landscape since 2000. Last year saw a record level of completions in the District, yet absorption remained so strong that only 1.4 msf were available

see Market Wrap-up, page 6



Customs Enforcement Agency (403,897 sf). As a result, leases over 50,000 sf totaled 3.0 million square feet (msf) compared to 1.6 msf in 2005. There also seemed to be a strong appetite for high-end new spaces, with private-sector tenants pre-leasing close to 500,000 sf in 2006 and paying top rents for them. In the fourth quarter of 2006, the law firm Cooley Godward signed a lease for 54,000 sf at 777 6th Street with

MARKET WRAP-UP — FOURTH QUARTER 2006

continued from page 5

out of the 4.3 msf of new space that delivered during the year. The most noteworthy completion was that of the 1.4-msf headquarters of the Department of Transportation in the fourth quarter. While the development pipeline shrunk to 3.7 msf by year-end 2006, developers remain confident and are ready to invest in an additional 3.7 msf of new projects in the next two years.

NORTHERN VIRGINIA

After experiencing three consecutive years of exceptional growth in market fundamentals, the Northern Virginia office market stabilized in 2006. The overall vacancy rate hovered close to market equilibrium (10.0%) throughout the year. As expected, the close-in markets reported the

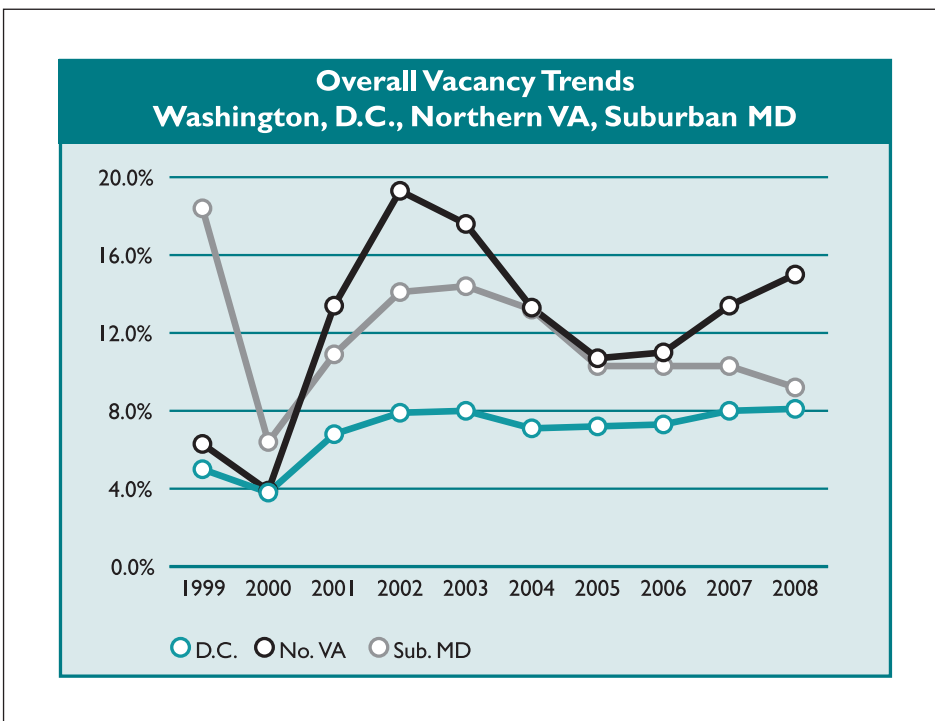
vacant space to these markets during the year, those vacancy rates represent an increase of 1.0 and 2.0 percentage points, respectively, from 2005. Meanwhile, markets outside the Beltway continued to improve. Compared to 2005, vacancies slid by 0.2 percentage points to 11.4% in Fairfax County and 4.5 percentage points to 27.0% in Loudoun County. As overall vacancies remained tight, rental rates continued to strengthen across all submarkets. The average class A rental rate hit an all-time high of \$32.84 psf, with new projects commanding up to mid-\$40s. Rents for class B and C space also racked up advances of \$1.00 psf to \$28.01 psf and \$0.50 psf to \$24.72 psf, respectively.

However, signs of a slowdown are evident in 2006 activity. Tenant

2005 and 7.6 msf in 2006. In addition, large transactions have continuously dwindled; only 1.6 msf of new leases over 50,000 sf were executed in 2006 compared to 3.6 msf in 2005 and 6.7 msf in 2004. As a result, overall absorption has slipped from its highs of 6.8 msf in 2004 to 4.9 msf in 2005 and posted 1.2 msf in 2006.

This moderation is in line with the area's employment trends, which slowed over the course of 2005 and more substantially in 2006. Part of the slowdown was due to slower growth in defense spending. This has resulted in a weaker expansion of employment in professional and business services, both sectors of which have been among the main drivers of growth in the past three years. As a result of slower demand, some large blocks of space being returned have yet to be backfilled. Examples include spaces vacated by the Environmental Protection Agency at 1901 South Bell in Crystal City and global engineering and manufacturing company ITT at 1761 Business Center Drive in Reston. Even so, demand remains healthy enough to help counter any drag from the proliferation of new office projects. Approximately 2.5 msf came online in 2006, and yet, nearly half was already absorbed upon delivery.

Tenant demand was fueled by the usual suspects: the federal government and its contracting agencies. Both have leased large blocks of space close to half a million square feet each in 2006, and have shown a real preference for top-grade space. Notably, contractors have been snapping up brand-new buildings in the Route 28 South and Reston/



lowest vacancies – 7.5% for the City of Alexandria and 10.1% for Arlington County. Due to the addition of over 430,000 sf of new

demand eased off its torrid pace. The volume of new leases has steadily declined after peaking at 12.6 msf in 2004 to 8.8 msf in

MARKET WRAP-UP — FOURTH QUARTER 2006

Herndon markets, while government agencies involved in the fight against terrorism have been leasing class B properties that are being redeveloped into larger, state-of-the-art facilities. Among the most notable leases involved the FBI, CIA, DFI International, Northrop Grumman, and APPTIS, each of which leased over 100,000 sf in 2006.

SUBURBAN MARYLAND

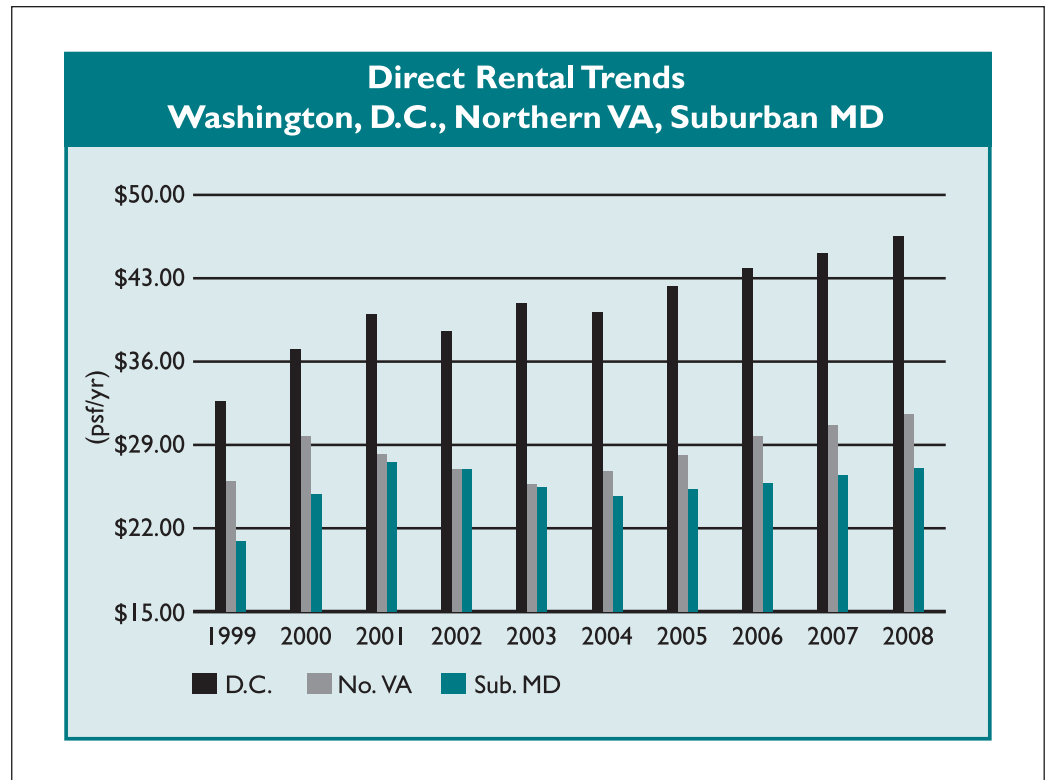
The Suburban Maryland office market ended 2006 with another solid and stable performance. Overall vacancy remained tight at 10.0% throughout the year, with some markets in Montgomery County already having begun to feel the strain. In Bethesda/Chevy Chase and Silver Spring where vacancies are the lowest, there were no available large blocks of space over 100,000 square feet (sf) at the end of the year. However, large blocks of new space are expected to come online in both these submarkets in the next two years. The overall vacancy rate in nearby Prince George's County ended 2006 at 14.7%, slightly higher than 2005 levels. Despite the increase in vacancy rates, stable occupancy sparked higher rental rates, which at the close of the year were at three-year highs. The average asking rental rate rose by \$1.00 per square foot (psf) to \$27.87 psf in Montgomery County and \$22.37 psf in Prince George's County. Rents for lower-grade space grew most rapidly from 2005 to 2006, rising over 7.0% to \$27.16 psf in Montgomery County for class B and \$21.76 psf in

Prince George's County. Class C space rent grew 8% to \$22.80 psf and 28% to \$16.32 psf from 2005 for both counties, respectively. Class A rents remained close to their all-time highs at \$28.22 psf with trophy rents in the high \$30s to low-\$40s.

Steady improvement in tenant demand was the main pillar supporting this strength. The volume of new leases rose to 3.4 msf in 2006, while overall absorption was 519,759 sf. Such resurgence in demand is indicative of healthy job creation in the office-using sectors, which added nearly 7,000 net new jobs in 2006. It is not a surprise then that the unemployment rate of 2.9% was, once again, one of the lowest in the nation. Moreover, the area continued to benefit from an expansion in a broad swath of industries. This is evident in a number of leases that were signed

throughout the year. The U.S. Nuclear Regulatory Commission, which is headquartered at One and Two White Flint North, leased over 66,000 sf at 6003 Executive Boulevard in Rockville to house its growing workforce. Another notable example was financial services firm American Capital Strategies that leased 38,170 sf at Bethesda Place II in the first quarter due to an expanding workforce.

Another factor that helped buttress the area's strong office market is construction activity, which has been tame since 2003. In 2006, only five projects totaling 679,888 sf were completed, with 335,820 sf available upon delivery, including 5425 Wisconsin in Chevy Chase – which had over 90,000 sf for sublease upon delivery in the second quarter – close to being fully leased by year's end.



COMMUNITY INVOLVEMENT CONTRIBUTIONS IN 2006

Northern Virginia Family Services

February 2006: Proceeds from the 2006 State of the Market event benefited NVFS.

Cystic Fibrosis Foundation, Washington DC

March 2006: Proceeds from the 2006 GWCAR Annual Awards Dinner benefited CFF on behalf of Brendan McCarthy Award winner Christopher Sowick.

DC Special Olympics

June 2006: Proceeds from the 2006 RealTOUR event helped GWCAR become a Silver Sponsor (\$3,500) for the DC Summer Games.

Juvenile Diabetes Research

June 2006: With a donation of \$2,500, GWCAR was a Gold Donor level for the 2006 JDRF Real Estate Games.

The Trevor "Birdie" Davis Water Safety Foundation

July 2006: To support this new Foundation founded by colleague Brad Davis after the accidental drowning of his 26-month old son, GWCAR made a direct donation to the Foundation.

Jubilee Housing

October 2006: Proceeds from the 2006 Golf Outing benefited Jubilee Housing. Donation totaled \$2,500.

National Rehabilitation Hospital Children's Unit

December 2006: GWCAR and the Washington DC Association of REALTORS® each contributed \$2,500 at their combined Board of Directors installations for a total contribution of \$5,000 to bring holiday cheer to children in the hospital.

Contributions totaled over \$15,000 for the year!



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member spotlight

Dave Bevirt has joined Jones Lang LaSalle as Managing Director.

Rob Brunton joined Studley as an Associate Director.

J. Russell Canard was named Vice President at Cresa Partners in Bethesda.

Brett Diamond has been named Senior Vice President at Grubb & Ellis.

Stephen Goldstein of Studley has been promoted to Vice Chairman of US operations.

Alexander Inglese was named as Senior Director at Opus East.

Peter Marcin joined Cushman & Wakefield as a Managing Senior Director.

Kevin McGloon and Ken Smondrowski have joined Grubb & Ellis in their Bethesda office.

Mark Minich was promoted to Executive Vice President at Cushman & Wakefield.

Andy Shulman has been named as an Assistant Vice President at McShea & Co.



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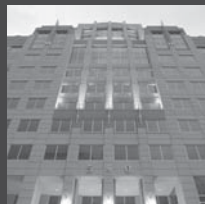
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NEW GROWTH DEBATE

On Monday, December 4, 2006, the 4 newly elected County Councilmembers along with 5 incumbents were sworn into office, as was newly elected County Executive Isiah "Ike" Leggett. The inauguration ceremonies were held at the Strathmore Music Center where everyone was on their best behavior and pledged to work together over the next 4 years. County Executive Leggett gave a very eloquent speech where he stressed the fact that many of our county's problems are the results of our successes. He highlighted his concerns with growth but never mentioned anything about stopping growth. Instead he talked about a more balanced approach to growth without stopping progress in the county.

However, the new County Council seems to be leaning more towards a limited growth approach throughout the county and not a balanced one. On December 5, 2006 the new County Council held its first new session. As expected they elected Councilmember Marilyn Praisner as the Council President and Councilmember Mike Knapp as the Vice President. They also announced the new committee assignments and chair of those committees. Then the council began discussing the introduction of a resolution regarding growth. The resolution would require the Planning Board to study the County's growth policy issues. GWCAR does not question the need for a top to bottom review of the County's growth policies that are already in place. In fact we commend Councilmember Praisner for taking the initiative to start this discussion. We are concerned that after several comments from some Councilmembers we will end up instead with a complete moratorium or halt on all new construction. There are many projects that are already approved in the pipeline to be built over the next several years but there is no guarantee that just because

continued on page 10

GROWTH DEBATE, *continued from page 9*

projects are approved they will actually get built. We are concerned that if new residential and commercial construction is limited for even 6 months it will have a drastic impact on housing prices.

REALTORS® recognize that their communities' quality of life suffers in an environment of unfettered growth. But solving the fast growth's ills isn't as simple as putting on the brakes. As communities struggle to reconcile needed development with land preservation efforts, they must account for the rights of private property owners. A moratorium on any development will have a significant impact on everyone's private property rights. Further, allowing a building moratorium can also have a significant impact on property values including existing sales within the county on both commercial and residential property. Because a moratorium prevents all construction during the time in which the moratorium is effective, the value of affected property during this time is greatly reduced. Placing a moratorium on construction would be unfair to long-term residents wishing to sell or develop their property in the near future. Residents or businesses that wish to sell or develop their property during the time in which a moratorium is in place will likely receive a lower price or would be prohibited from developing it.

As REALTORS® we believe that a balanced approach to growth is in the best interests of all the County's residents. A complete growth moratorium will do more harm than good. County revenue and income could suffer from a decrease in fees and taxes being received. Although a moratorium is temporary, the impact on County revenues can be long term due to the loss of economic development and business opportunities that will locate elsewhere. GWCAR looks forward to working with all the Councilmembers and having a healthy discussion about growth.

Zoning Text Amendment (ZTA) 06-22, Amendment to include real estate office as a permitted use in the C-1 and C-2 Zones

This ZTA was sponsored by Councilmember Praisner in order to allow real estate offices to be permitted in the C-1 and C-2 commercial zones. These zones are areas like strip malls where some real estate offices are already located. However, apparently according to the zoning ordinance it is actually not permitted. Therefore, Councilmember Praisner worked to change this to allow real estate offices outright in these locations. The ZTA passed unanimously on October 10 and went into effect on October 30. http://www.montgomerycountymd.gov/content/council/pdf/res/061010/20061010res_15-87.pdf

DC PUBLIC POLICY UPDATE

Council Committees for Council Period 17

On January 3, the Council in its

first official meeting approved Committee assignments for Council Period 17. Most notable about the re-organization of the Council is that all of the current Councilmembers will chair a committee, thus creating 10 council committees. (Ward 4 and Ward 7 Councilmembers at the moment are not scheduled to receive chairmanships of committees this period once they are elected.)

Also notable is the elimination of the Council's Committee on Education. Given the importance of the issue (and as many as 8 councilmembers desire to chair or be on the education committee) Chairman Gray moved all education matters to the Committee of the Whole where all Councilmembers are members and eligible to participate.

Committee of the Whole (COW)

Vincent C. Gray, *Chairperson*
All Members

Committee on Economic Development

Kwame R. Brown, *Chairperson*
Jack Evans
Carol Schwartz
Ward 4 Councilmember
Ward 7 Councilmember

Committee on Finance and Revenue

Jack Evans, *Chairperson*
David A. Catania
Marion Barry
David A. Catania
Jim Graham
Kwame R. Brown

Committee on Health

David A. Catania, *Chairperson*
Phil Mendelson
Jim Graham
Marion Barry
Harry Thomas, Jr.

Committee on Housing and Urban Affairs

Marion Barry, *Chairperson*
Phil Mendelson
Tommy Wells
Ward 4 Councilmember
Ward 7 Councilmember

Committee on Human Services

Tommy Wells, *Chairperson*
Marion Barry
Carol Schwartz
Phil Mendelson
Harry Thomas, Jr.

Committee on Libraries, Parks and Recreation

Harry Thomas, Jr., *Chairperson*
Carol Schwartz
David A. Catania
Phil Mendelson
Tommy Wells

Committee on the Public Safety and Judiciary

Phil Mendelson, *Chairperson*
Jack Evans
Mary Cheh
Ward 4 Councilmember
Ward 7 Councilmember

Committee on Public Services and Consumer Affairs

Mary Cheh, *Chairperson*
Jim Graham
Marion Barry
Kwame R. Brown
Tommy Wells

Committee on Public Works and the Environment

Jim Graham, *Chairperson*
Kwame R. Brown
Mary Cheh

Ward 4 Councilmember
Ward 7 Councilmember

Committee on Workforce Development and Government Operations

Carol Schwartz, *Chairperson*
Marion Barry
Kwame R. Brown
Harry Thomas, Jr.
Mary Cheh

NEW COUNCIL PERIOD 17 INTRODUCTIONS

Close to 50 pieces of legislation were introduced at the first legislative meeting. Here are two of the more interesting that affect the commercial real estate business:

Commercial Real Property Tax Credit of 2007

Evans's second piece of proposed legislation would establish a 10% property tax cap on increases on commercial properties. At present, there is no cap on the amount of increase in property taxes for commercial property. Evans commented on the fact that because of the nature of the lease, the increase in commercial property tax increases are passed through to and paid by small business tenants who eventually go out of business because they can no longer afford the increased taxes on the commercial property where they reside.

However, Evans also acknowledged the other side of this legislation, potentially decreased revenues for the District. Evans commented that the huge increase in commercial property tax over the last few years has filled the District's coffers, but questioned whether the District spending increases should continue to feed off of these commercial property taxes.

AWC-NCRC Reorganization Act of 2007

Jack Evans and David Catania co-introduced legislation to reorganize the AWC (Anacostia Waterfront Corporation) and NCRC (National Capital Revitalization Corporation). This bill would effectively abolish AWC and NCRC and transfer all its assets back to the Mayor and his Office of Economic Development.

VIRGINIA PUBLIC POLICY UPDATE - Reception with Congressman Tom Davis

On November 6, GWCAR Board Member Chris Sowick and GWCAR Lobbyist Ed Krauze attended a fundraiser for Congressman Tom Davis. Transportation, Northern Virginia development, and other timely issues were discussed with not only the Congressman but with his wife, Virginia State Senator Jean Marie Devolites-Davis.

Thanks to Chris for taking the time to represent GWCAR's and making our presence known.



GWCAR Board Member Chris Sowick and Congressman Tom Davis

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Considered the Greater Washington Commercial Association of REALTORS® premier event of the year, this is the association's opportunity to honor the top commercial brokers, owners, and developers in the metropolitan area. Winners of the REALTOR® of the Year and Brendan McCarthy Memorial Award for service to the community will be recognized. A portion of the proceeds from this event will be donated to a charity selected by the winner of the Brendan McCarthy Award.

- RSVP online at gwcar.org
- Award applications due February 23, 5 pm.
- For application forms and criteria, visit gwcar.org.

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*If you or your firm is interested in sponsoring this event, please contact **Charmaine Flanagan**, Director of Meetings and Events, at **301.590.8787** or cflanagan@gcaar.com*



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