Jones Lang LaSalle

Real value in a changing world

Federal Perspective

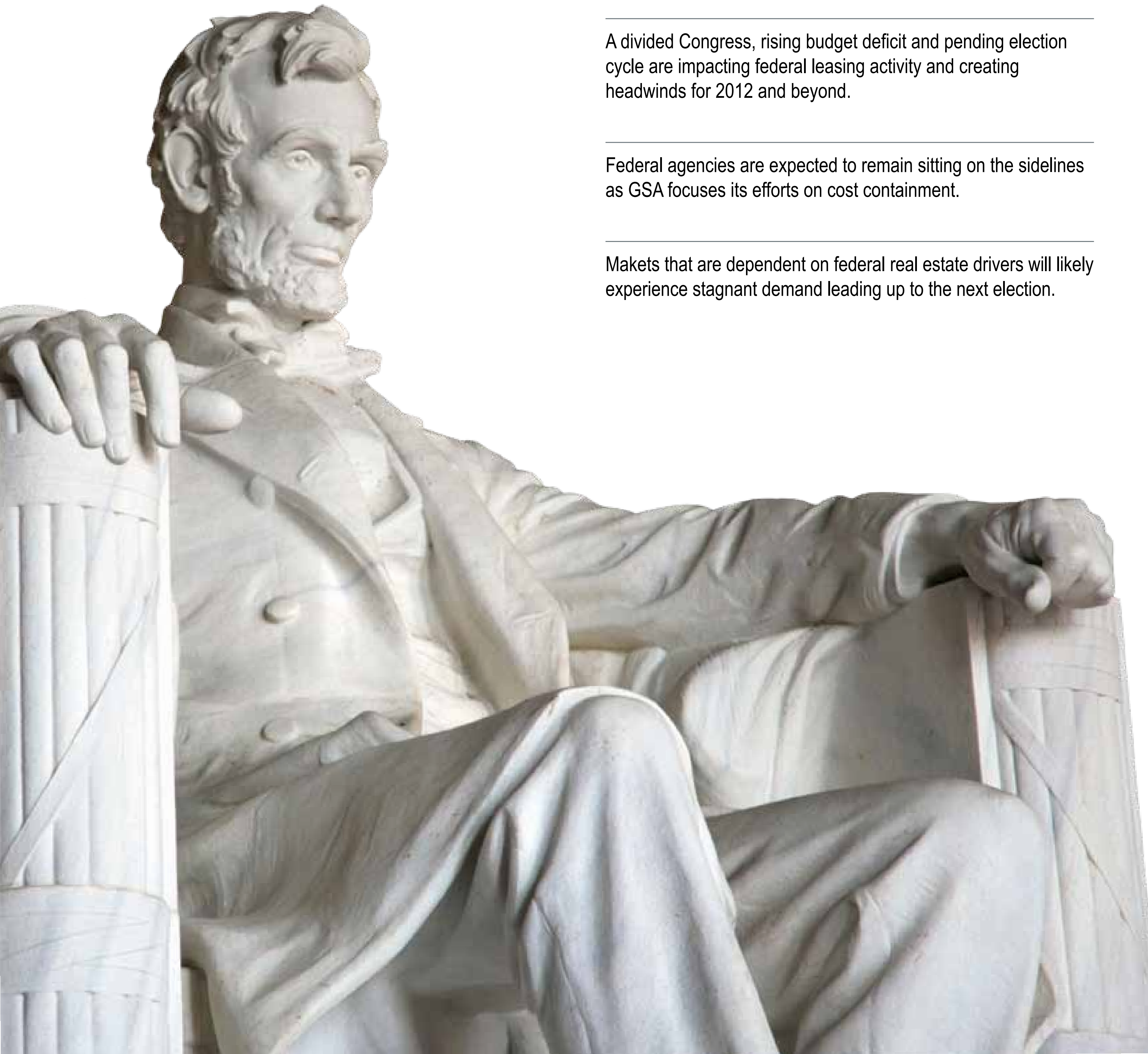
United States • 2012

Government gridlock stalling economic growth

A divided Congress, rising budget deficit and pending election cycle are impacting federal leasing activity and creating headwinds for 2012 and beyond.

Federal agencies are expected to remain sitting on the sidelines as GSA focuses its efforts on cost containment.

Makets that are dependent on federal real estate drivers will likely experience stagnant demand leading up to the next election.



In light of the current political environment, GSA is refocusing its efforts on creating efficiencies and cutting costs. Renewals and consolidations are expected to grow in prevalence as agencies evaluate their space decisions with increased caution.

Jones Lang LaSalle Government Investor Services

Jones Lang LaSalle's Government Investor Services (GIS) team is the most experienced government real estate advisory practice in the country. Backed by the strength of Jones Lang LaSalle's global full-service platform, GIS is dedicated to serving the complex and intersecting needs of private sector landlords and government agencies. Our wide-ranging experience, coupled with Jones Lang LaSalle's extensive service offerings, makes GIS exceptionally qualified to handle your government real estate needs of any size, in any locality.


32.3 years
Average length of GSA tenancy

National overview

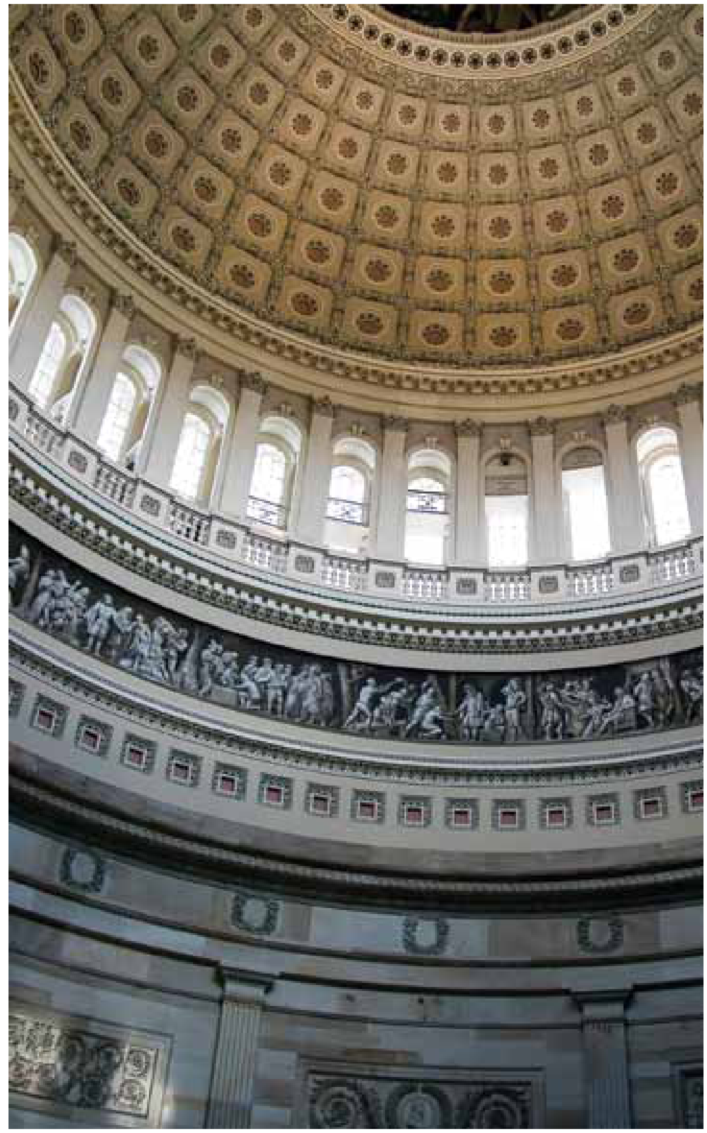
A divided Congress, rising budget deficit and pending election cycle all impacted federal leasing activity profoundly during 2011. Headwinds arising from budget uncertainty and a gridlocked government altered priorities within the General Services Administration (GSA). The government slowed its pace of leasing and growth of federally-leased space stalled as the GSA refocused its efforts on creating efficiencies and cutting costs. Renewals and consolidations grew in prevalence and headline risks associated with government build-to-suits drew federal users to existing buildings. Without clear guidance on agency budgets – and an uncertain future in terms of government leadership – federal tenants are likely to maintain their “wait-and-see” approach to real estate decisions in 2012 and likely beyond.

Political gridlock

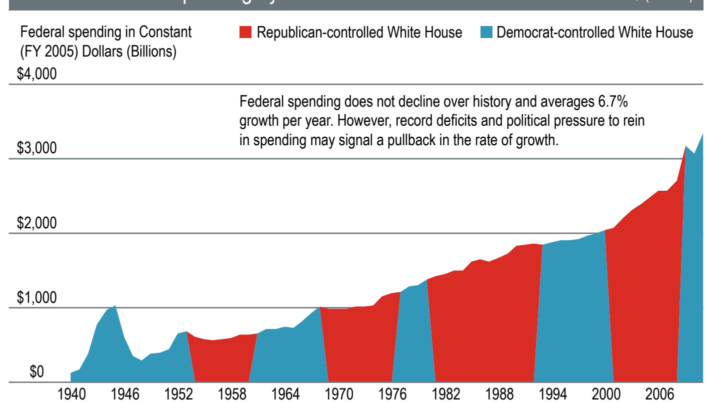
The alignment of all branches of government in 2009 and early 2010 enabled sweeping growth of federally leased space. An array of stimulus and recovery programs and new oversight and regulatory measures fueled expansions across a variety of federal agencies. The midterm elections, however, ushered in a divided Congress intent on stalling new spending initiatives or overturning elements of the Obama Administration’s agenda.

Given the S&P downgrade of U.S. sovereign debt and an outpouring of political resistance to new spending, 2012 will be a defining year for the federal government. Growth within the GSA’s massive 194.0 million square foot national leased portfolio helped fuel the commercial real estate market’s recovery in 2010. However, historic levels of expansion collided with a strong and vocal push for austerity in 2011 and 2012 is shaping up to be a year of continued government gridlock.

Without alignment between Congress and the Presidency, new spending initiatives are likely to face intense pressure. Republicans have called for billions in cuts to non-defense discretionary spending, aiming to revert the national budget closer to the pre-stimulus levels of 2008. Federal spending, which has averaged 6.7 percent annual growth over the past 60 years, is expected to plateau in 2012 given the current climate.



Historical federal spending by Presidential Administration $ (billions)



Source: whitehouse.gov, Jones Lang LaSalle

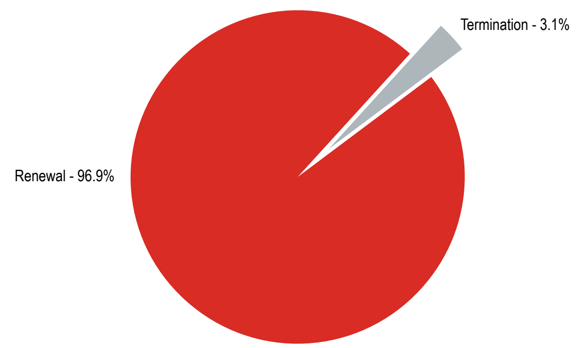
National overview

Leasing authority

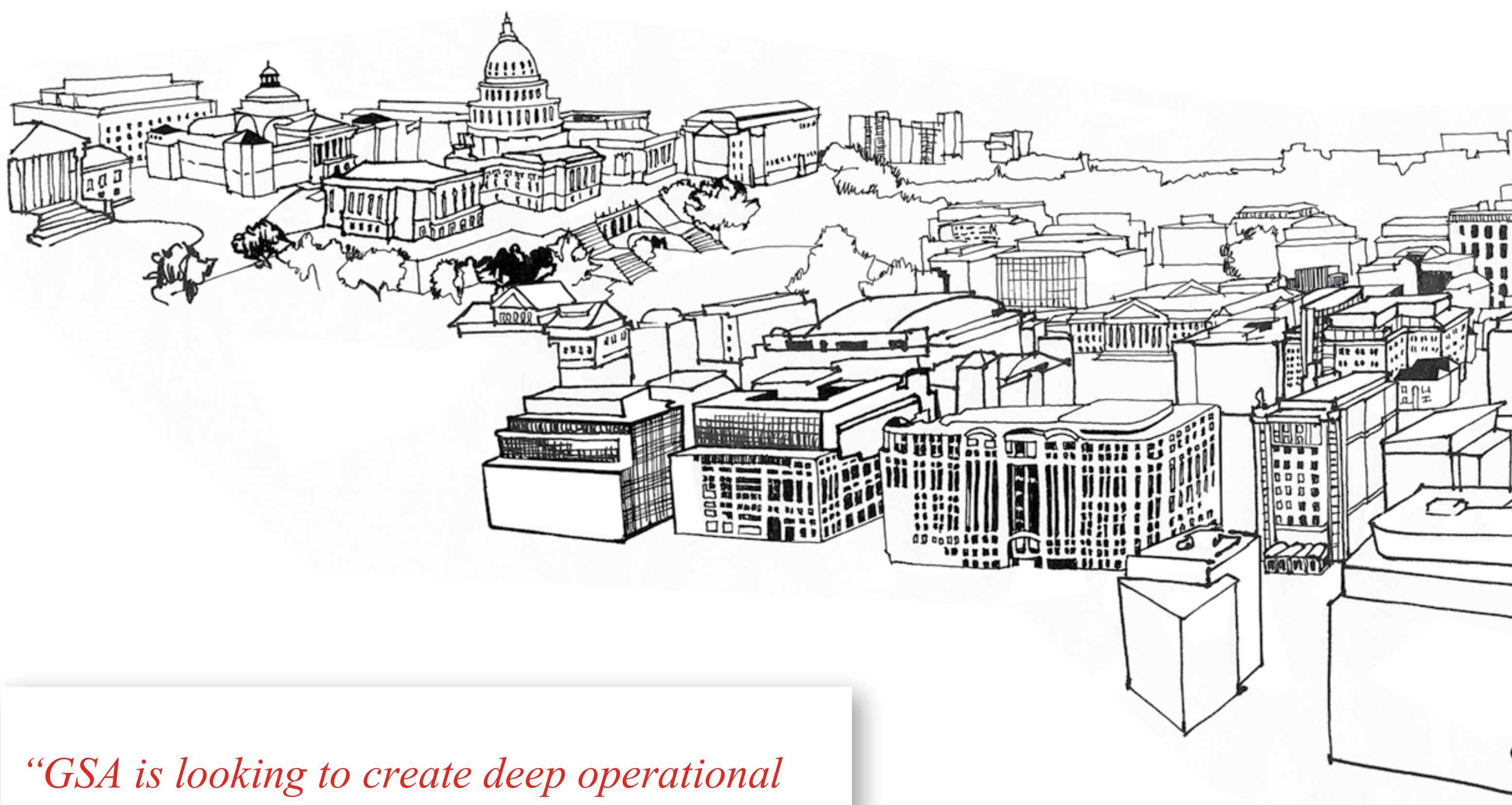
The push for austerity in Congress has increased the level of scrutiny federal agencies face over their leasing decisions. Congressional inquiries into the Security and Exchange Commission's lease at Constitution Center in Washington, DC – and the subsequent voluntary relinquishment of independent leasing authority by the agency – serves as a stark reminder of the new political landscape.

As a result of the increased pressure to slow spending, many large federal deals in the pipeline have been delayed and some cancelled. Recent expansions and new requirements have been limited to favored agencies, particularly groups tied to financial regulation and healthcare. Also problematic for the leased office market is the associated falloff in demand from government contractors, which are becoming increasingly defensive in their leasing postures.

GSA lease renewal probability



Source: GSA lease rollover data as of November 2011



"GSA is looking to create deep operational efficiencies... and no new buildings are in our [immediate] future."

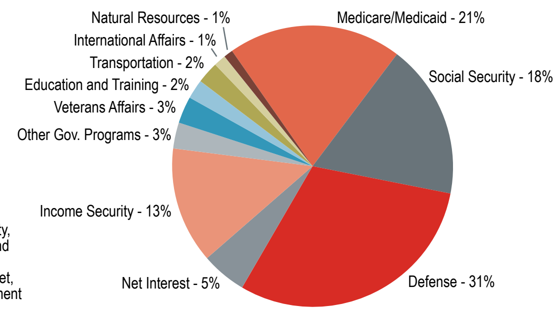
— GSA Administrator Martha Johnson

Looking ahead

Although deficit reduction measures may curtail the rate of growth in federal spending over the short term, stable levels of spending in the intermediate term and continued growth over the long term appears likely given past performance and precedent.

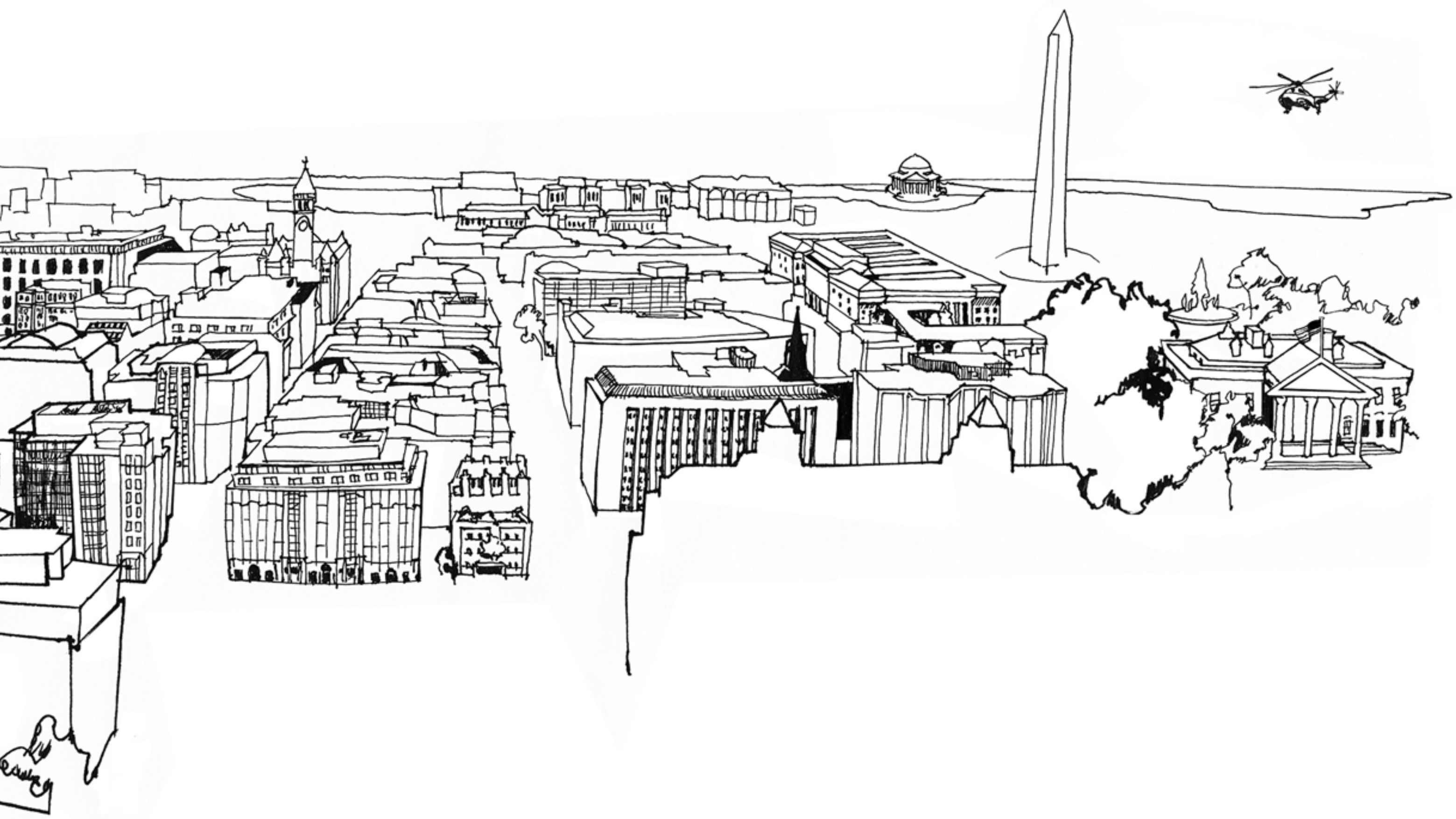
Moreover, federal agency budgets represent a small portion of the government's $3.5 trillion annual budget. Entitlement spending dominates overall expenditures, with Social Security, Medicare, Medicaid and other Mandatory Spending comprising well over half of all spending (55.0 percent). Agency budgets are small by comparison. For the federal government to be truly effective in reducing the deficit longer-term, spending cuts must address entitlement spending rather than agency budgets.

If federal spending cuts are made, the real money is not in agency budgets, rather in entitlement programs



Entitlement spending dominates the federal budget. Social Security, Medicare/Medicaid and Defense accounts for two thirds of the budget, leaving other government functions small by comparison.

Source: Budget of the United States Government, Office of Management and Budget (2011 Estimate)



GSA concentrations

GSA leased inventory > 1.5 M > 750 K > 400 K

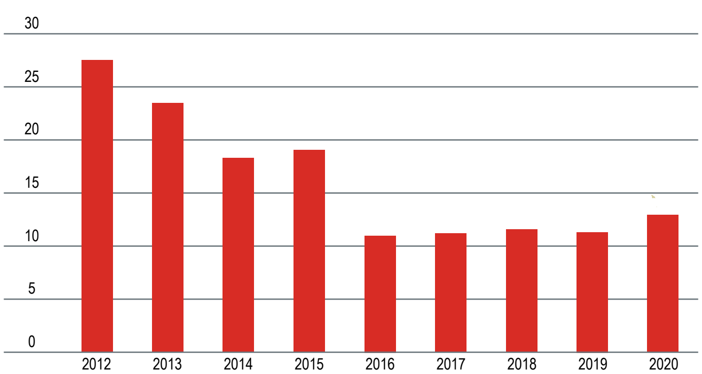
San Francisco
15.7% vacant
$41.56 p.s.f.

Limited large contiguous blocks have given some landlords leverage, especially in the CBD.

Los Angeles
18.0% vacant
$31.40 p.s.f.

A delayed economic recovery is expected to limit leasing activity until mid-to-late 2013.

National GSA lease expirations by year s.f. (millions)



Source: GSA property database, Jones Lang LaSalle

Chicago
19.9% vacant
$26.90 p.s.f.

Prevailing sentiment is that near-term market conditions will remain slower than average.

New York
10.3% vacant
$54.40 p.s.f.

Instability within the financial sector is limiting near-term job growth and depressing leasing activity.

Philadelphia
15.3% vacant
$24.38 p.s.f.

Limited large contiguous blocks of vacant space have given some landlords leverage, especially in the CBD.

Washington, DC
14.1% vacant
$35.07 p.s.f.

Federal government expansion has abated and tenants are becoming more defensive, opting primarily for renewals, consolidations or contractions as they wait out the election cycle.

Atlanta
21.6% vacant
$20.00 p.s.f.

High vacancy and wavering confidence should translate into a prolonged tenant-favorable environment.

Houston
17.9% vacant
$25.60 p.s.f.

Job growth within the energy sector is fueling net absorption and reducing available space.

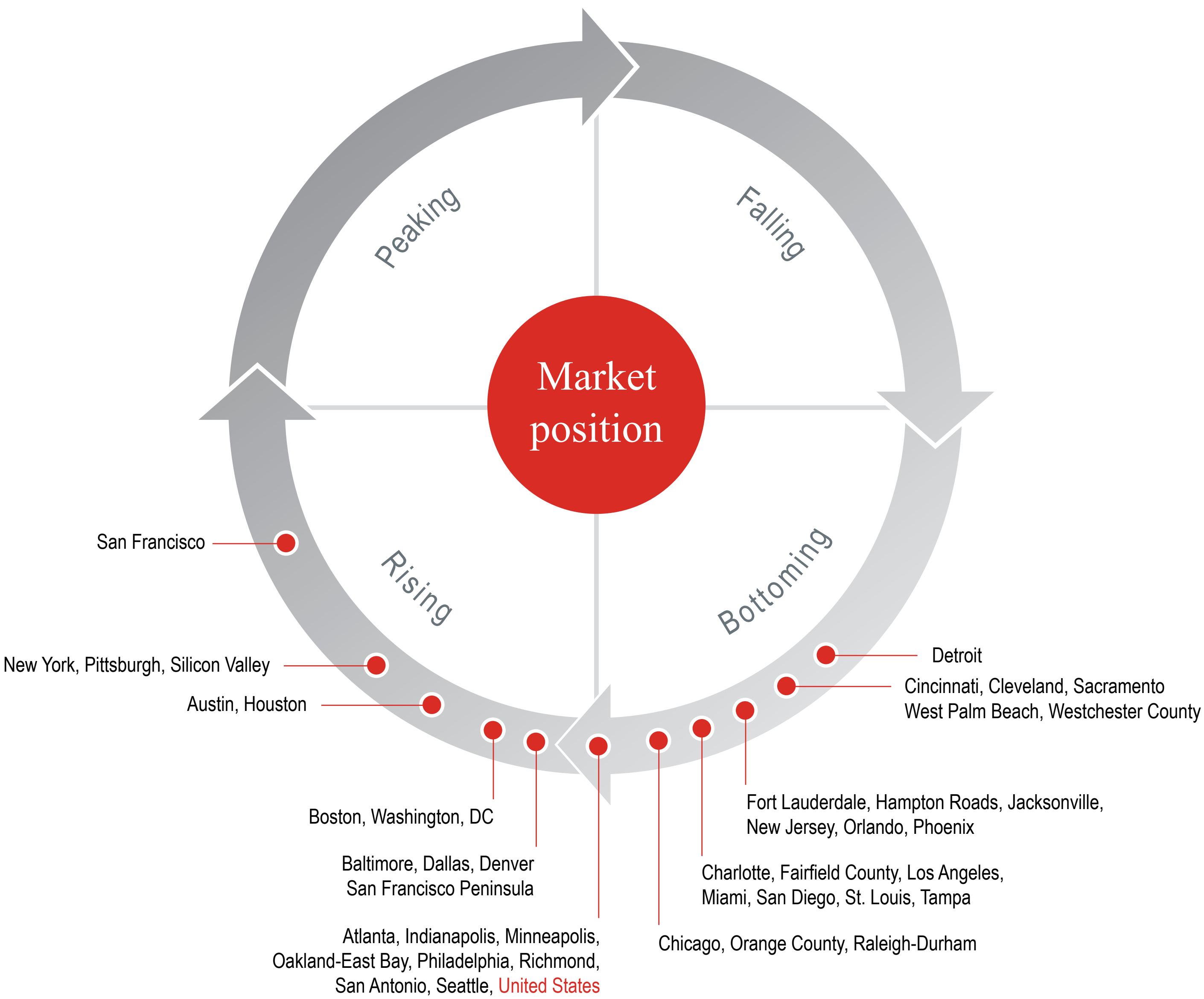
Miami
21.1% vacant
$31.52 p.s.f.

Tenants continue to enjoy a wide selection of choices available at competitive pricing.

United States property clock

Most U.S. office markets remain in stagnant position

This diagram illustrates Jones Lang LaSalle's estimate of each prime office market's position within its individual rental cycle. Markets can move around the clock at different speeds and directions. The position is not necessarily representative of investment or development market prospects. The 6:00 position on the clock represents what is broadly viewed as the bottom of the market.



Source: Jones Lang LaSalle

Political milestones

Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb

December 23, 2011

Deadline for both houses to vote on the Super Committee bill.

January 15, 2012

If the Super Committee is unable to agree upon cuts, or Congress rejects the bill, across-the-board cuts will be enacted.

January-February 2012

The President gives the State of the Union address, outlining new priorities and reiterating existing ones and submits a budget request supporting these policy initiatives to Congress.

July-August 2012

After debate and discussion over the summer session, the House and the Senate will pass spending bills. The President will sign or veto the bill after the House and Senate bills are merged.

November 2, 2012

Presidential and Congressional elections occur.

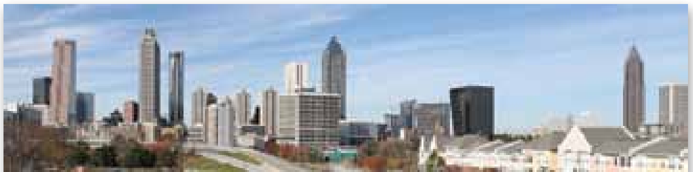
January 20, 2013

If the presidency changes hands, the weeks after the inauguration and the formation of the President's Cabinet will shape how the federal government addresses agency budgets for next fiscal year.

January-February 2013

The President gives the State of the Union address and submits a budget request to Congress shortly afterward.

United States market profiles



Atlanta

The Atlanta federal real estate market is anchored by the Centers for Disease Control and Prevention headquarters. The area also features a large Federal Aviation Administration and Transportation Security Administration presence due to its proximity to one of the world's busiest transportation hubs, Atlanta Hartsfield–Jackson International Airport.

In one of the federal government's largest moves within the Atlanta market in 2011, the Securities and Exchange Commission vacated Buckhead's One Live Oak Center as part of a long-term lease for 58,369 square feet at Atlantic Plaza One, a 34-story, 648,141-square-foot LEED Silver building. The agency had spent 20 years at One Live Oak Center before its June 2011 lease expiration led the agency to commit to its three-floor lease at Atlantic Plaza One.

Total federal market presence	5,891,515 r.s.f. | 75 leases
Federal leases executed in the past 24 months	975,925 r.s.f | 10 leases
Federal leases expiring in the next 24 months	1,077,127 r.s.f | 28 leases

Boston

The Boston economy remains among the nation's strongest, led by its strong concentration of healthcare, education, science and technology tenants. Boston's federal office market contains several specialty single-tenant buildings from agencies such as the Federal Bureau of Investigation, Securities & Exchange Commission, Social Security Administration and General Services Administration.

Rents in the Boston market have remained stable in 2011 with the most in-demand spaces and submarkets seeing some appreciation. However, many secondary and Class B submarkets experienced rental declines. Leasing activity and absorption is expected to remain flat over the near term, however, a diverse industry base and lack of new construction will likely cushion the market after this anticipated slow growth period.

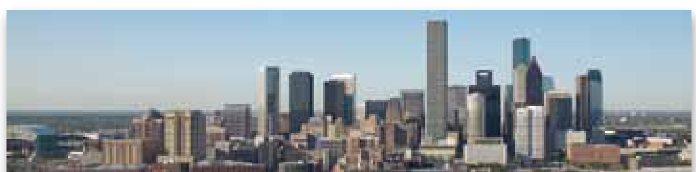
Total federal market presence	472,479 r.s.f. | 21 leases
Federal leases executed in the past 24 months	48,835 r.s.f. | 6 leases
Federal leases expiring in the next 24 months	214,128 r.s.f. | 8 leases

Charlotte

The federal government leases 755,304 square feet of space across 31 properties in Charlotte. There are several properties in Charlotte in which the federal government is essentially the lone occupant, including the federal courthouse at 401 W. Trade Street (111,686 square feet), 1901 Cross Beam Drive (26,271 square feet), 6125 and 6130 Tyvola Centre Drive (74,621 square feet combined) and 3310 Green Park Circle (15,000 square feet).

The completion of a new $45 million, 171,000 square foot build-to-suit for the Federal Bureau of Investigation highlighted recent government-related activity in Charlotte. A joint venture of USAA Real Estate and Highwoods Properties developed the facility for the FBI to serve as its new field office in the region, replacing its previous 65,000 square foot facility at 400 S. Tryon Street.

Total federal market presence	755,316 r.s.f. | 31 leases
Federal leases executed in the past 24 months	9,429 r.s.f. | 1 lease
Federal leases expiring in the next 24 months	305,679 r.s.f. | 16 leases

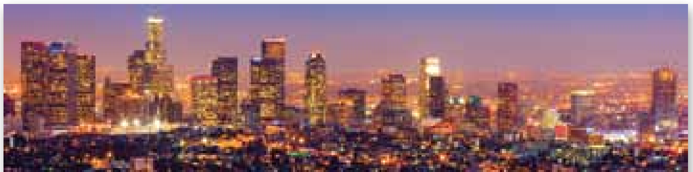


Houston

The Houston office market contains a variety of government leases, concentrated mostly in the Central Business District. The largest federal occupiers include the Social Security Administration, Immigration and Naturalization Services and Customs and Border Protection. The largest federal lease is held by the Drug Enforcement Agency at 1433 West Loop S. The lease is 132,995 square feet and expires in May 2012.

Houston's job growth during the economic recovery has been among the nation's strongest. The market has been responsible for approximately one out of every 20 jobs created in the U.S. during the recovery, with the majority of this job growth concentrated in high-paying industries such as the oil and gas sector. This economic growth has driven tightening in the office market, placing it among the strongest in the nation and increasingly favorable to landlords.

Total federal market presence	1,318,810 r.s.f. | 63 leases
Federal leases executed in the past 24 months	206,571 r.s.f. | 11 leases
Federal leases expiring in the next 24 months	490,454 r.s.f. | 23 leases



Los Angeles

The federal leased office market in Los Angeles is centered downtown and is driven by the Social Security Administration, Bureau of Alcohol, Tobacco and Firearms and the Department of Housing & Urban Development. The Army Corps of Engineers currently holds the largest federally-occupied space with a 155,367 square foot lease at 915 Wilshire Boulevard.

A major lease expiration by Department of Housing & Urban Development at 611 W. 6th Street – totaling 92,104 square feet – is set to occur in March 2013. HUD's lease rollover comes admid a fairly substantial slowdown in tenant demand in Los Angeles, which has resulted in total vacancy rates nearly doubling over the past four years relative to levels experienced in 2007.

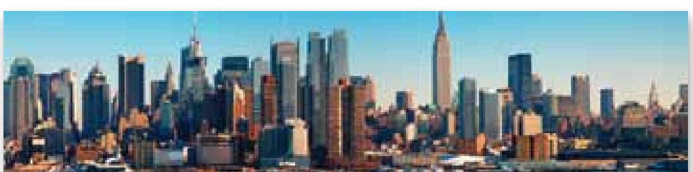
Total federal market presence	2,706,278 r.s.f. | 159 leases
Federal leases executed in the past 24 months	562,136 r.s.f. | 30 lesaes
Federal leases expiring in the next 24 months	1,054,664 r.s.f. | 67 leases

Miami

Miami continued to lag the economic recovery in 2011, with job cuts in the government sector partially responsible for an unemployment rate well above the national average. The federal real estate market in Miami is defined by two main concentrations of federal users: general government agencies and groups focused specifically on border enforcement. The Internal Revenue Service, Department of Justice and Social Security Administration are examples of general government agencies found in Miami, many of which also maintain a large presence in most other major gateway cities across the country. These groups represent over 644,000 square feet of real estate in South Florida.

The Port of Miami is among the largest cargo and passenger entry points in the United States, and with over 4.0 million visitors travelling through the port in 2010, this high-traffic environment also fuels demand for border enforcement agencies such as Customs and Border Protection, Immigration and Customs Enforcement and the Drug Enforcement Agency.

Total federal market presence	3,073,332 r.s.f. | 65 leases
Federal leases executed in the past 24 months	595,161 r.s.f. | 8 leases
Federal leases expiring in the next 24 months	1,016,397 r.s.f. | 13 leases



New York

New York's geographical significance as a major transit hub for both domestic and international travel makes it a prime location for a variety of federal agencies. Proximity to major corporate headquarters also drives demand by government users and the market contains several specialty single-tenant buildings for agencies such as the Department of Homeland Security, Drug Enforcement Agency, Federal Bureau of Investigation and Internal Revenue Service.

The federal government has entered lease negotiations to take as much as 500,000 square feet of prime real estate in the rebuilt World Trade Center development. Other new construction in New York is expected to be limited in the near term, raising the possibility of upward pressure on rents over the intermediate term, especially in highly-desirable submarkets like Midtown Manhattan.

Total federal market presence	4,628,967 r.s.f. | 138 leases
Federal leases executed in the past 24 months	332,160 r.s.f. | 16 leases
Federal leases expiring in the next 24 months	1,779,224 r.s.f. | 70 leases

Philadelphia

The Philadelphia office market contains government leases of a variety of sizes, concentrated mostly around Market Street and Independence Hall. The Internal Revenue Service holds the largest lease in Philadelphia with 862,682 square feet at 2970 Market Street, a retrofitted Postal Service building in the Market Street West submarket. The IRS lease is set to expire in 2030.

Since peaking at 17.5 percent in the third quarter of 2010, total vacancy in Philadelphia has progressively decreased to 15.3 percent, reflecting the market's continually tightening fundamentals. In this time period, the CBD has seen considerable velocity in Market Street West and University City, with each enclave experiencing total vacancy declines in excess of 230 basis points.

Total federal market presence	3,353,578 r.s.f. | 71 leases
Federal leases executed in the past 24 months	1,049,842 r.s.f. | 11 leases
Federal leases expiring in the next 24 months	1,028,421 r.s.f. | 21 leases

▲ Up ▼ Down ◆ No change

United States key economic indicators	12-month forecast	
Gross domestic product	2.5%	◆
Unemployment rate	9.0%	◆
Employment	131,516,000	▲
Employment 12 mo. % change	1.2%	▲
P&B services 12 mo. % change	3.4%	▲
Financial 12 mo. % change	-0.1%	◆
Information 12 mo. % change	-1.5%	▲
Federal gov't 12 mo. % change	-1.2%	◆
Consumer price index	3.9%	▲

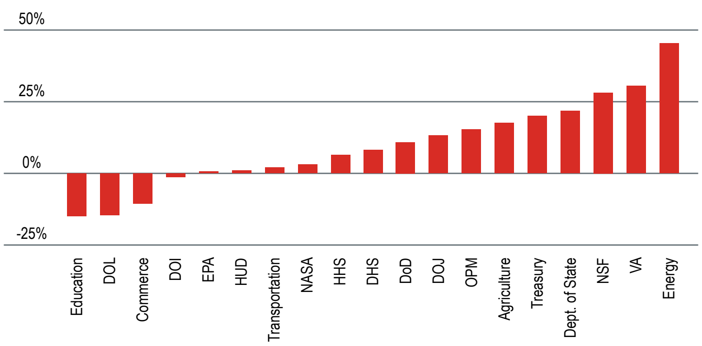
Data as of November 201

▲ Up ▼ Down ◆ No change

Metro DC key economic indicators	12-month forecast	
Gross metro product	2.1%	◆
Unemployment rate	6.1%	◆
Employment	2,969,100	▲
Employment 12 mo. % change	0.3%	▲
P&B services 12 mo. % change	1.8%	▲
Financial 12 mo. % change	3.5%	◆
Information 12 mo. % change	-2.0%	▲
Federal gov't 12 mo. % change	-0.1%	◆
Consumer price index	3.4%	▲

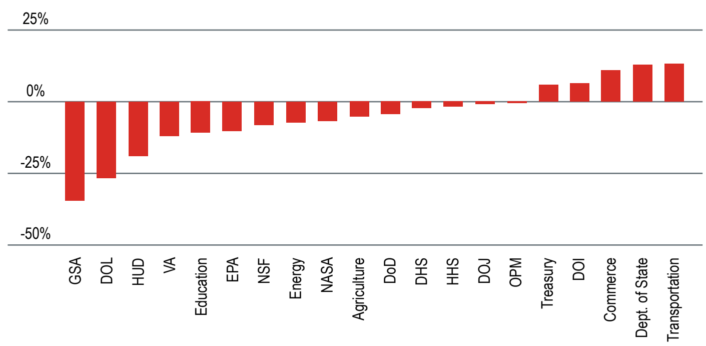
Data as of November 201

Federal budget change from 2010 to 2011



Source: US Office of Management and Budget

Federal budget change from 2011 to 2012



Source: US Office of Management and Budget

Proposed elements of Civilian Property Realignment Act

- Consolidate the footprint of federal buildings and facilities
- Maximize the utilization rate of federal buildings and facilities
- Reduce the reliance on leased space
- Sell or redevelop high-value, underutilized assets
- Facilitate and expedite the sale or disposal of unneeded civilian properties
- Assist federal agencies in achieving the government's sustainability goals

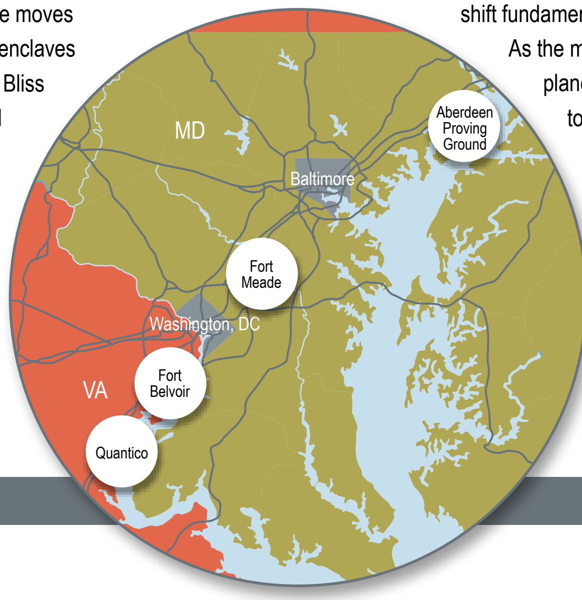
"Agencies should take immediate steps to make better use of remaining real property assets as measured by utilization and occupancy rates... and produce no less than $3 billion in cost savings from the sale of assets and reduced operating, maintenance and energy expenses."

— President Barack Obama

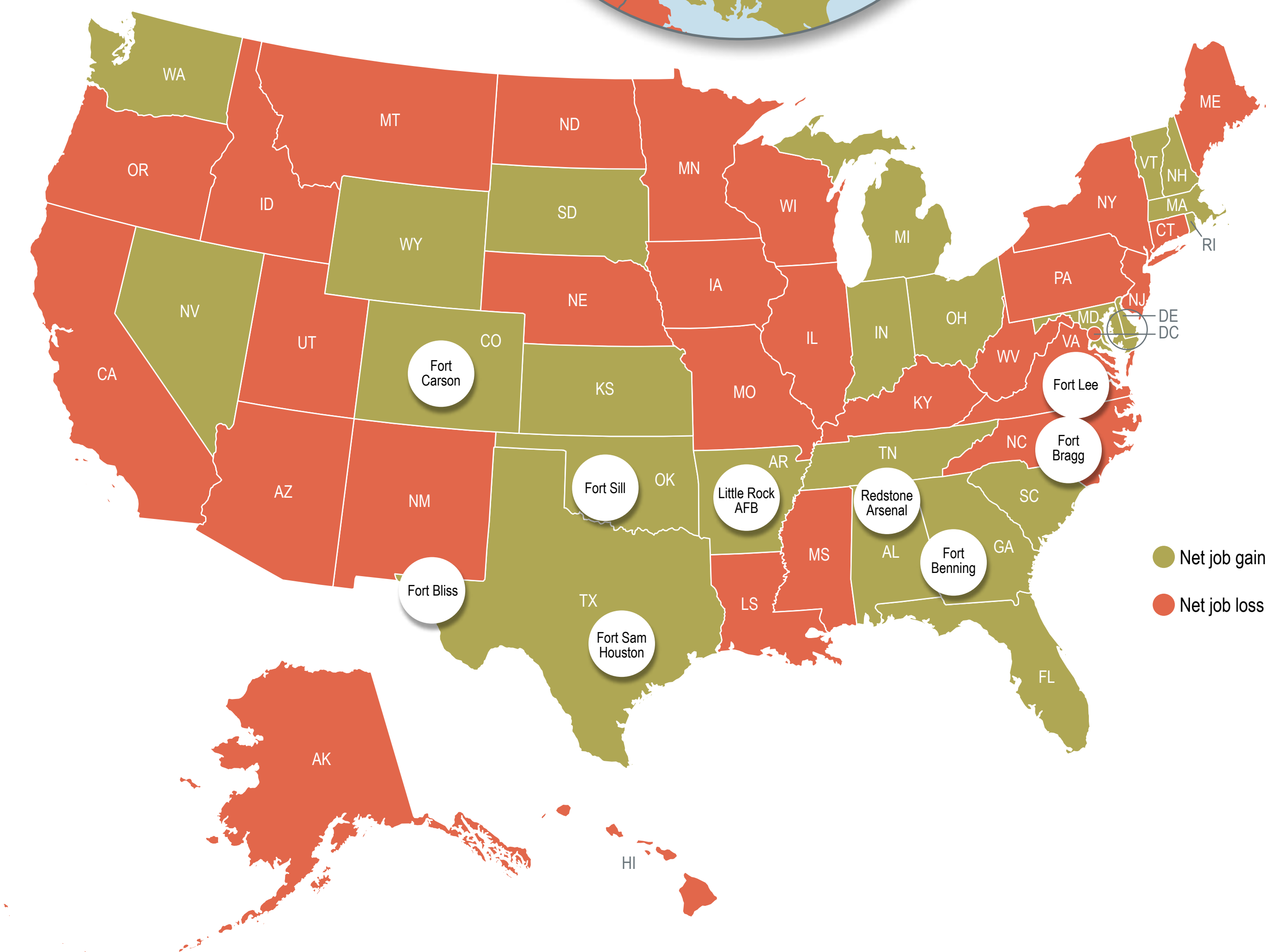
Base realignment and closure (BRAC)

Base Realignment and Closure (BRAC) measures are beginning to alter the landscape of Department of Defense real estate holdings across the country. In Metro DC, some areas like Fort Belvoir, Fort Meade and Aberdeen Proving Ground have already seen meaningful changes, with on-base moves generating significant government contractor demand in the enclaves surrounding each base. Nationally, installations such as Fort Bliss (Texas), Fort Benning (Georgia), Fort Carson (Colorado) and Redstone Arsenal (Alabama) are large receiving zones for new BRAC-related jobs.

Speaking more broadly to the dynamics within the Department of Defense, as the war in Iraq winds down, and operations in Afghanistan also subside, the DoD should have more capacity in terms of how it allocates funds domestically. The wars in Iraq and Afghanistan have cost the U.S. government over $1.2 trillion, diverting funds that could have otherwise supported growth initiatives across federal agencies or paid down the current debt levels. Defense spending, which constitutes approximately 20.0 percent of the federal budget, will shift fundamentally over the next several years. As the military pares back its orders of planes, ships and heavy artillery related to active combat, it is expected to reallocate funds to more high-tech research and development projects. These changes are likely to benefit the Metro DC region, which possesses the highest concentration of satellite reconnaissance, cyber-security and other high-tech military programs.



BRAC-related job shifts



Base realignment and closure (BRAC)

Aberdeen Proving Ground

As a major recipient of the BRAC process, the position of Aberdeen Proving Ground (APG) as a major hub for the Army's research and development of new technologies has been cemented. In total, the plan brings more than 6,500 personnel to the base and more than $1 billion in new construction to accommodate the new workers. The largest group to arrive at the base is the Army Team C4ISR that focuses on command, control, communications, computers, intelligence and surveillance and reconnaissance. To house the C4ISR team, the army constructed a 13-building complex with more than 2.5 million square feet of space. In late September, the new headquarters delivered for the U.S. Army Test and Evaluation Center (ATEC), the second largest group relocating to APG. The 141,453-square-foot building will support the 610 personnel relocating from the Crystal City/Pentagon area of Northern Virginia. The BRAC process has had a major impact on the surrounding area where the office market has more than doubled in the past year in anticipation of a contractor tail of as many as 27,000 jobs. Those contractor relocations have failed to materialize so far, however, as vacancies have spiked to well above 30 percent. Despite the delay in absorption of office space surrounding APG, BRAC will deliver substantial long-term economic benefits for Harford County and enhance the safety of the county's federal workforce.

Fort Belvoir

The federal landscape near Fort Belvoir has been heavily impacted by BRAC over the last two years, as several large agencies have relocated to the area. The largest of which was the National Geospatial Intelligence Agency (NGA) which consolidated its operations in DC, Maryland and Virginia to a new 2.4 million square foot facility on the Engineering Proving Ground in 2011. The facility will house 8,500 personnel, which includes 4,400 NGA staff and 4,100 associated contractors. The headquarters command center for the Missile Defense Agency consolidated approximately 300 executive leadership positions from facilities throughout the Metro DC region to Fort Belvoir's South Post. The U.S. Army Program Executive Office Enterprise Information Systems (PEO EIS) relocated from Fort Monmouth, N.J. to Fort Belvoir's South Post, bringing 460 personnel to a newly renovated 75,000 square foot building. The Fort Belvoir Community Hospital was built in 2011, doubling the size and staff of the old Fort Belvoir DeWitt Army Community Hospital. The new facility will be 1.3 million square feet and will accommodate a staff of 3,200 people.

There will be large-scale consequences from the relocation of approximately 11,900 new federal and civilian jobs to the Fort Belvoir Area. The first of which is the impact upon the surrounding office market in Springfield, which had minimal levels of available Class A inventory. New construction will define this market over the next several years as land owners look to accommodate a new wave of defense contractors who will be seeking close proximity to the NGA. Major traffic and infrastructure upgrades are planned, including the Fairfax County Parkway extension through the Engineering Proving Ground and Interstate 95, as well as new access ramps to the Engineering Proving Ground and new traffic patterns within the base at Fort Belvoir.

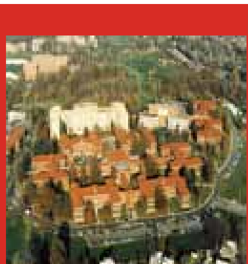
Fort Meade

The final construction related to BRAC at Fort Meade was completed during the summer of 2011 as the area braced for the arrival of 5,700 new workers. The employment base at Fort Meade now stands at 56,000, making it the fifth-largest employment center in Maryland. The largest organization to relocate to Fort Meade is the Defense Information Systems Agency (DISA), with a total of 4,300 workers and a new 1.1 million square foot headquarters. DISA relocated from Arlington, Va., where they had been located since the agency's inception. As part of BRAC, the Defense Media Activity also brought 600 employees and sparked construction of a new 185,000 square foot facility. Looking past BRAC, Fort Meade stands to benefit immensely from the emerging fields of cyber security and information assurance. The National Security Agency is set to expand their presence at Fort Meade by nearly doubling the footprint of their cyber command center. The 5.8 million square foot expansion will cost between $4 and $5 billion and will take up to 20 years to complete. To accommodate private sector jobs that will relocate eventually to the Fort Meade area, the Army has designated an area near base's gate as an Enhanced Use Lease (EUL) zone. The EUL is anticipated to accommodate as many as 10,000 new jobs in a 10-building, 1.7 million square-foot office park. BRAC and the emergence of Fort Meade as the epicenter for cyber security is expected to continue driving development through the coming years, with projections calling for up to 26,800 new jobs by 2015.

Quantico

BRAC has had a material impact on the Quantico area as several Military Defense Investigative Agencies (MDIA) have relocated to the Marine Corps Base, and will ultimately result in a net gain of 2,767 jobs to the area. The agencies relocating under the MDIA umbrella are: Defense Security Service (from Alexandria, Virginia), elements of Defense Intelligence Agency (from Arlington, Virginia), Naval Criminal Investigate Agency (from Southeast Washington, DC), Army Criminal Investigation Command (from Fort Belvoir) and the Air Force Office of Special Investigations (from Andrews Air Force Base). All of these agencies will be housed in a new 700,000 square foot, $312 million facility that is part of a 100 acre compound.

The relocation of the MDIA agencies will create future office demand as defense contractors working on contracts related to MDIA will seek close proximity to their new facility. The office market around Quantico is still developing, and is mostly defined by small-medium sized buildings of less than 100,000 square feet. The lack of congressional funding and awards has hindered recent activity in the Quantico area, resulting in little occupancy growth. Additionally, many of the contracts are typically only one year in length with follow-on awards, making it difficult for tenants to expand on a long term basis.



St. Elizabeth's

The massive consolidation of the Department of Homeland Security to the former St. Elizabeth's Hospital site in Southeast DC continues to face headwinds as the federal government searches for ways to cut back on spending. The consolidation requirement totals 4.5 million square feet and plans call for three phases of construction, eventually housing the headquarters for the Department of Homeland Security, including the Coast Guard, Federal Emergency Management Agency, Transportation Security Administration, Customs and Border Protection and Immigration and Customs Enforcement.

As of the fourth quarter of 2011, Congress had not been meeting the budget requests for construction financing. Government leasing faced multi-million dollar budget reductions and funding issues raised serious doubts about whether the project would be finished, scaled back or substantially delayed. Currently the Department of Homeland Security has approximately 100 leases throughout the metro area and potential delays to the project will likely cause the agency to extend current leases. Project costs total roughly $3.4 billion, and so far Congress has invested just a third of the total cost

Metro DC GSA leased inventory analysis

▲ Up ▼ Down ◆ No change

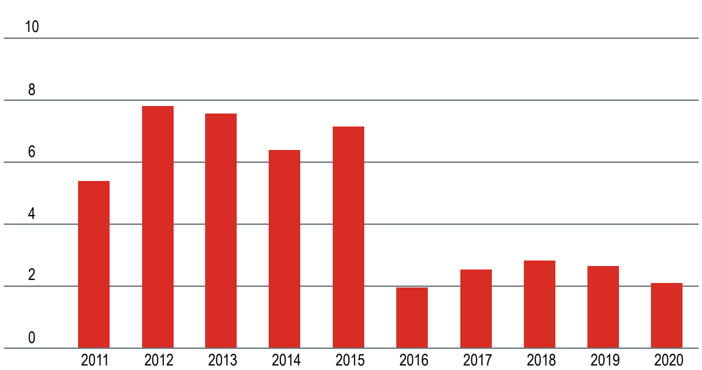
Region	2011 total GSA leased inventory*	Trailing 12-month change	Forecasted 12-month change	Average GSA rent $ p.s.f.	Trailing 12-month change	Forecasted 12-month change
Northern Virginia	19,788,167	▲	▼	$33.25	▲	◆
Arlington	10,495,158	▲	▼	$36,10	▲	◆
Alexandria	4,875,725	▲	▼	$30.34	▲	◆
VA Outside Beltway	4,417,284	▼	◆	$29.69	▲	◆
Prince William	295,625	◆	◆	$24.95	◆	◆
Fairfax and Falls Church	3,770,950	▼	◆	$30.32	▲	◆
Loudoun	350,709	▲	◆	$26,88	▲	◆
Suburban Maryland	12,642,490	▲	◆	$28.34	▲	◆
Montgomery	7,546,603	▲	◆	$30.72	▲	◆
Prince George's	4,030,954	▼	◆	$24.45	▼	◆
Frederick	575,069	▲	◆	$25.84	▲	◆
Anne Arundel/Howard	489,864	▲	▲	$26.54	▲	◆
Washington, DC	23,844,883	▲	◆	$40.74	◆	◆
NoMa/Capitol Hill	3,638,902	▲	▲	$38.47	◆	▲
CBD	4,639,588	▲	▼	$42.42	▲	◆
East End	8,448,821	▲	▼	$42.90	▲	◆
Southwest	5,321,139	▲	▲	$40.68	▼	◆
Southeast	1,362,420	◆	▲	$33.71	◆	▲
Uptown and periphery	434,013	◆	◆	$22.65	◆	◆
DC Metro Market	56,275,540			$35.32		

Source: GSA property database, Jones Lang LaSalle

Excludes federal leased space by agencies with independent leasing authority

Metro DC region GSA lease expirations by year

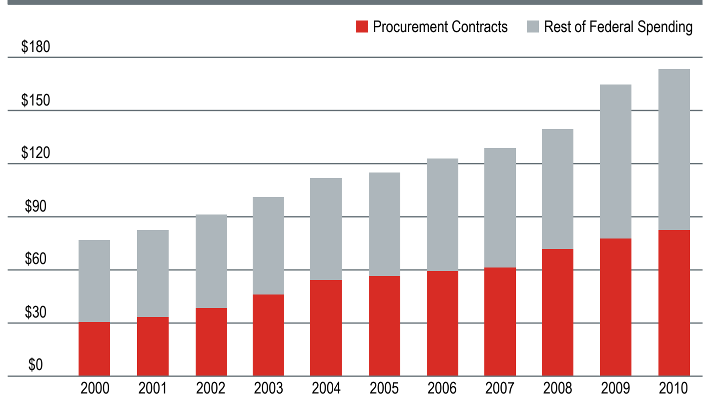
s.f. (millions)



Source: GSA property database, Jones Lang LaSalle

Federal spending to Metro DC

$ (billions)



Source: US Census Bureau - Consolidated Federal Funds Report

Mid-Atlantic region overview

Washington, DC

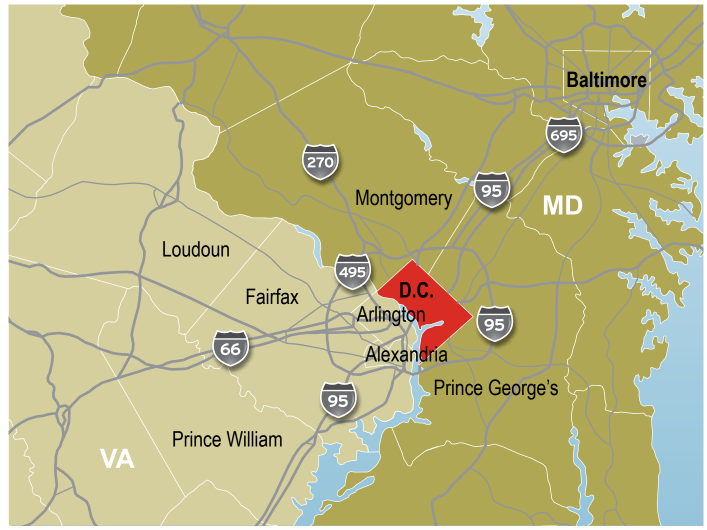
Consolidations and renewals were the predominant trend in leasing activity in Washington, DC throughout 2011 as cost-cutting measures emerged as a growing priority for the federal government. The budget for federal real estate was cut as the government faced a mounting deficit. Real estate assets were targeted for disposition, and although few properties making the list threatened to have any meaningful impact on the office market, the measures underscored the government's intention to seek more efficiency in its portfolio, rightsize and shed excess space.

As leasing activity cooled, consolidations and renewals accounted for over 80.0 percent of all transaction activity. The largest lease of the year was a consolidation signed by the Office of the Comptroller of the Currency (OCC), which will combine operations from three locations in Southwest, while integrating with the Office of Thrift Supervision (OTS). OCC leased 600,000 square feet of space at Constitution Center as part of a disposition of excess space by the Securities and Exchange Commission (SEC). Similarly, the Federal Housing and Finance Agency (FHFA) will also consolidate several offices in the CBD. FHFA leased 335,000 square feet of space alongside OCC at Constitution Center.

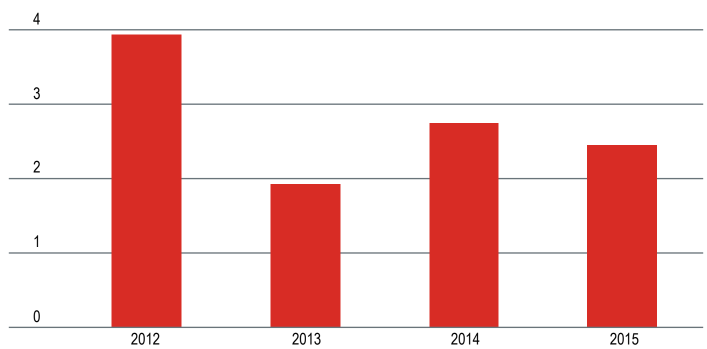
Most other major agencies elected to stay in place – such as NASA, which renewed their 597,253 square foot lease at 300 E Street, SW. Unlike 2010, when the government fueled rampant growth throughout the market, federal agencies clearly took a back seat in respect to leasing activity in 2011. With few examples of growth, a stark change was evident across the city, especially in the emerging markets of NoMa and Southwest, where federal agencies contributed to over 3.0 million square feet of growth in 2010.

Over the long term, the Washington, DC office market will slowly see holes materialize in certain core locations as agencies vacate outdated product for newer space in the District's emerging markets. In addition, several large requirements that were in the market a year ago have been put on hold or cut back due to lack of funding. During the interim, more short-term renewals are likely as agencies adopt a "wait-and-see" approach to making real estate decisions.

While the federal government is not expected to significantly shrink its occupancy in the District, continued consolidations and budget cuts should prevent any meaningful growth over the next 12 to 24 months. Once clarity is established following the 2012 election cycle, and political gridlock in Congress begins to ease, the Washington, DC market should once again be poised to capitalize on its large federal occupancy.

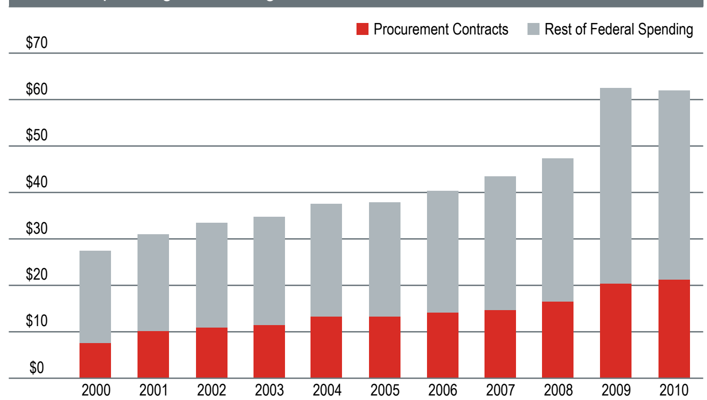


Washington, DC lease expirations s.f. (millions)



Source: General Services Administration

Federal spending to Washington, DC $ (billions)



Source: US Census Bureau - Consolidated Federal Funds Report

Mid-Atlantic region overview

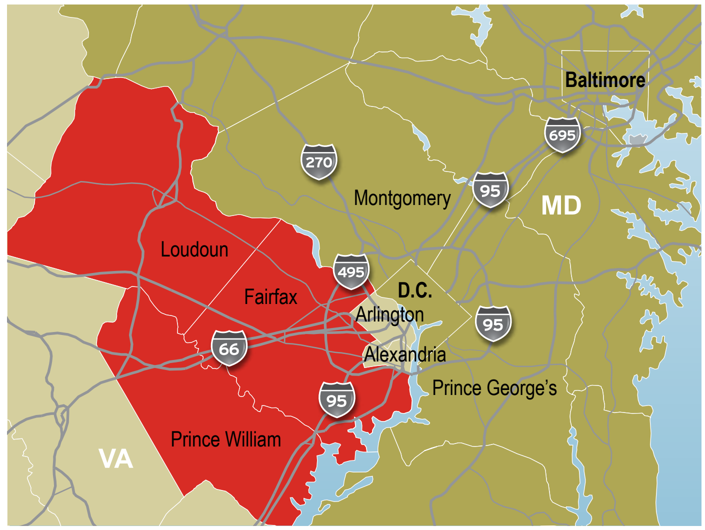
Northern Virginia - Outside the Beltway

Northern Virginia experienced significant fluctuations in government leased space in submarkets Outside the Beltway during 2011. Department of Defense relocations due to BRAC fueled churn throughout the region, with Springfield reaping gains and other regional enclaves encountering large move-outs. The Defense Information Agency (DIA), which vacated 395,800 square feet at 5275 Leesburg Pike to relocate operations to Fort Meade in Maryland created, one of the largest vacancies. Despite this loss – which had been planned for several years – the Outside the Beltway markets continued to have a large presence of government entities. Included among the large federal tenancies in Fairfax, Prince William and Loudoun Counties were the Central Intelligence Agency (CIA), National Reconnaissance Office (NRO), Federal Bureau of Investigation (FBI), National Geospatial Intelligence Agency (NGA) and Department of Defense Joint Medical Command (TRICARE). Each of these entities supported a vast number of contractors and administrative staff that contributed to the stability of the overall market.

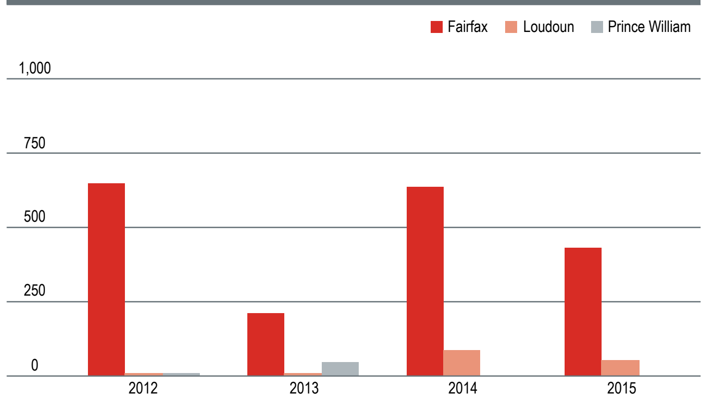
There were several significant federal leases signed in 2011, the largest of which was the FBI leasing a combined 182,035 square feet at Mission Ridge in Chantilly. The FBI will be relocating from several locations within the market as well as expanding to accommodate growth among its cyber-security operations. Additionally, the Defense Logistics Agency signed a lease of 70,056 square feet at 8111 Gatehouse Road in Falls Church. They will be relocating several groups from their headquarters in Fort Belvoir.

Looking ahead, Springfield will be the epicenter of future federal activity in the market following the relocation of the NGA to the Engineering Proving Ground, a move that will be completed in 2012. The NGA will be occupying a brand new 2.4 million square foot facility that will house 8,500 staff including both federal employees and contractors. Additionally, the headquarters command center for the Missile Defense Agency will relocate to Fort Belvoir, along with three major programs within the U.S. Army Program Executive Office Enterprise Information Systems, and various other Department of Defense agencies from throughout the Metro DC region. These relocations will likely spark a new wave of tenant demand from associated defense contractors that will reshape the Springfield area over the next decade. New construction has already begun at 7770 Backlick Road, which is adjacent to NGA's new facility, in response to the uptick in demand, while several other new office projects remain in the pipeline.

The Outside the Beltway markets will remain attractive to federal tenants who require setbacks and secure building specifications that can be hard to obtain in more urbanized areas of Metro DC. Additionally, land values and building rents are at a significant discount from areas Inside the Beltway, making Outside the Beltway a more competitive marketplace for federal tenants who must seek cost efficiency.

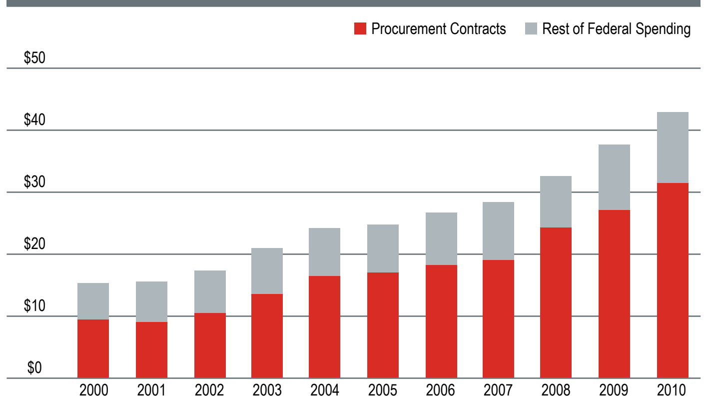


Northern Virginia (Outside the Beltway) lease expirations s.f. ('000)



Source: General Services Administration

Federal spending to Fairfax County, City of Falls Church, Loudoun County and Prince William County $ (billions)



Source: US Census Bureau - Consolidated Federal Funds Report

Mid-Atlantic region overview

Northern Virginia - Inside the Beltway

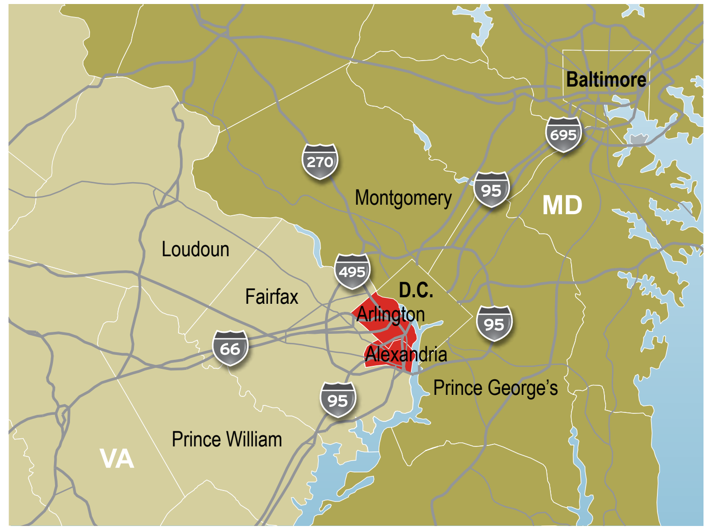
Inside the Beltway markets in Arlington and Alexandria experienced an increase in federally leased space in 2011 as these markets continued to anchor Northern Virginia's federal presence. The State Department fueled recent market activity, signing a renewal of 176,000 square feet and expanding by 66,000 square feet at 1800 N. Kent Street. Additionally, the State Department renewed the entirety of 1400 Wilson Boulevard, a 108,296 square foot Class B building in Rosslyn. Driven by proximity to its headquarters in Foggy Bottom, the State Department maintained a significant presence in Rosslyn. At the end of 2011, the agency occupied over 1.3 million square feet in the submarket.

Additionally, the Federal Deposit Insurance Corporation (FDIC) recently expanded by 72,000 square feet at 1310 N. Courthouse Road in Arlington, increasing their total leased space in the building to 197,854 square feet. FDIC greatly expanded its footprint locally following new regulations and stabilization measures implemented over the last several years in response to the financial crisis.

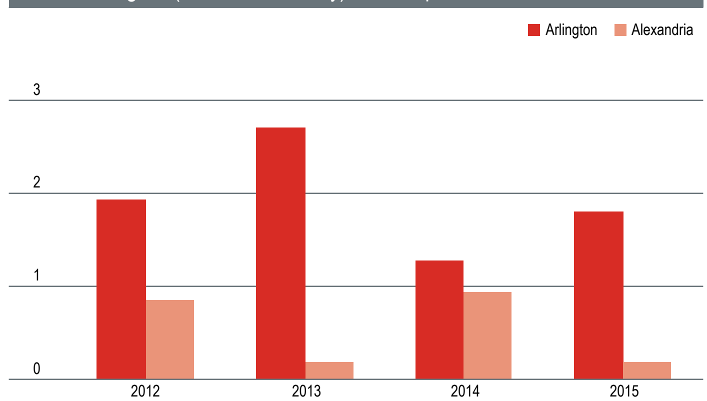
The federal market Inside the Beltway remained strong despite looming BRAC initiatives. Over the next five years BRAC threatens to shift roughly 18,000 employees from leased space Inside the Beltway to more secure space in outlying markets. The relocations will be most severe in Arlington, which is scheduled to lose 17,000 employees, while Alexandria is scheduled to lose roughly 1,000 federal employees. Alexandria's loss would have been more severe, but they were able to secure the Washington Headquarters Service's consolidation and relocation which will eventually result in a gain of 6,400 employees for Alexandria once the facility is fully occupied.

While these relocations are sure to have a significant impact on these markets, over 90.0 percent of the leased space to be vacated to due BRAC is in Class B and C inventory. Much of this space is in desperate need of upgrades and renovations, while in some cases full redevelopment is planned. The next few years could serve as a transformational period for the market, as landlords seek to revitalize older assets and develop more retail as a way to reshape neighborhoods into more dynamic mixed-use environments.

Inside the Beltway markets will continue to maintain a strong federal presence in years to come in spite of BRAC given their Metrorail proximity and large base of federal agencies. Large tenancies in the area include the National Science Foundation, Department of State, Federal Deposit Insurance Corporation, Drug Enforcement Agency, Transportation Security Administration, Environmental Protection Agency and Patent & Trademark Office. Ballston will be an area of focus over the next 12 months as construction of DARPA's new headquarters continues at Founders Square and the National Science Foundation evaluates its space options in light of a pending lease expiration in 2013.

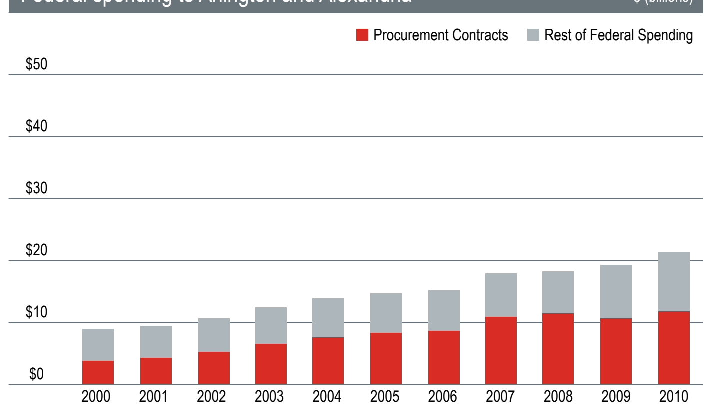


Northern Virginia (Inside the Beltway) lease expirations s.f. (millions)



Source: General Services Administration

Federal spending to Arlington and Alexandria $ (billions)



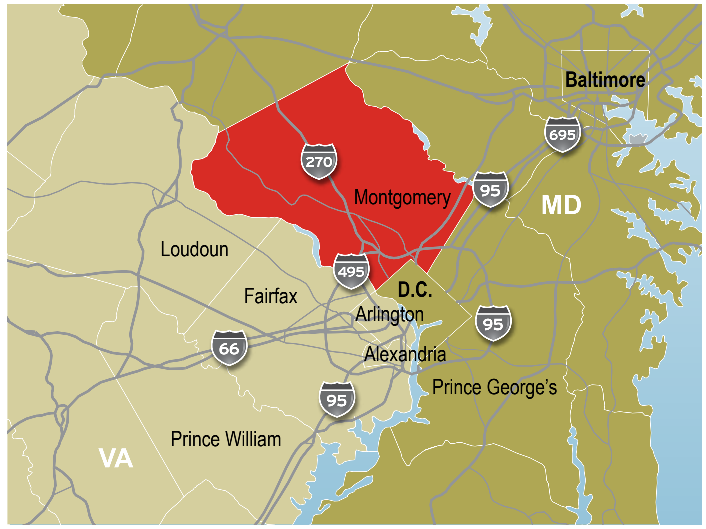
Source: US Census Bureau - Consolidated Federal Funds Report

Mid-Atlantic region overview

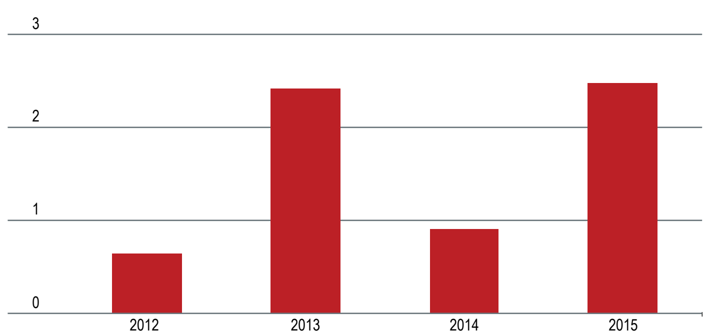
Montgomery County

The federal landscape in Montgomery County was dominated by questions related to the Department of Health and Human Services' headquarters requirement. Controversy swirled around the 935,386 square foot requirement from the moment, late in the first quarter of 2011, when the announcement was made that the HHS would be remaining in the incumbent location: 5600 Fishers Lane in Rockville. Competing developers at the King Farm, Largo Metro, and Metroview sites all protested the decision. Complicating the matter somewhat was the fact that a lease had not actually been signed by the time the original announcement was made. The protests led to a Government Accountability Office investigation which ruled that the GSA had to reevaluate its decision to renew at the incumbent location. GSA, however, citing an existing amenity base, among other factors, elected to keep HHS at 5600 Fishers Lane. A lease was signed in the third quarter with JBG who promised significant renovations to the over 40-year-old building which was last renovated in 1992.

The other large federal requirement to garner significant attention in 2011 was the National Institute of Allergy and Infectious Diseases, which publically sought a consolidation option for nearly 500,000 square feet. Their deal, finally signed in the third quarter of 2011, surprised many in Suburban Maryland with its low face rate of $31.75 per square foot for new construction and gave JBG its second big federal win in Maryland for the year. Departing Rock Spring Park in 2014 to the tune of 490,998 square feet, NIAID will launch a build-to-suit at 5601 Fishers Lane – the site immediately adjacent to the newly-renewed HHS headquarters. The move, while dealing a stunning blow to already-challenged Rock Spring Park, will help solidify the federal government's presence along Rockville Pike. The renewal of HHS, the Nuclear Regulatory Commission's expansion into their new building in late 2012, and the upcoming move of NIAID in 2014 will all help offset the National Cancer Institute's move up I-270 in 2013 and the Food & Drug Administration's gradual departure for their White Oak campus.

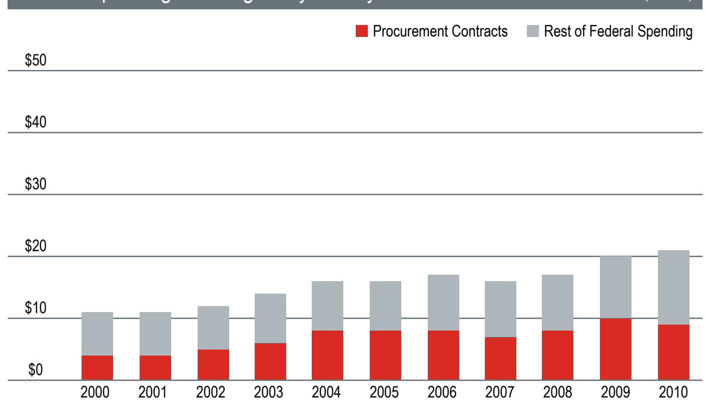


Montgomery County lease expirations s.f. (millions)



Source: General Services Administration

Federal spending to Montgomery County $ (billions)



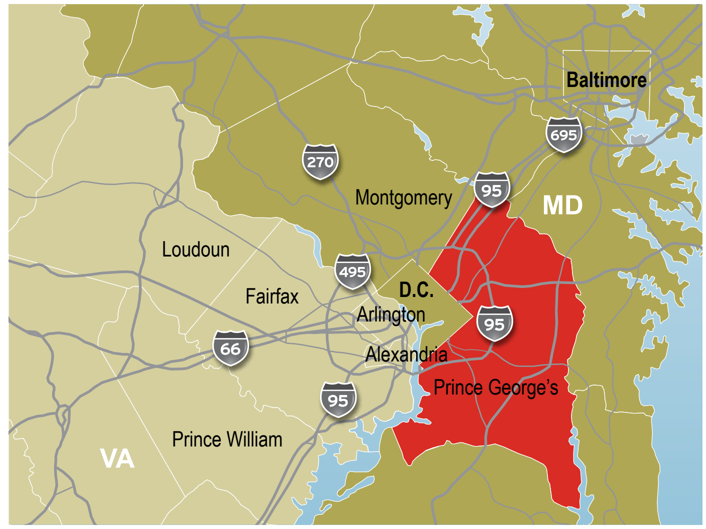
Source: US Census Bureau - Consolidated Federal Funds Report

Mid-Atlantic region overview

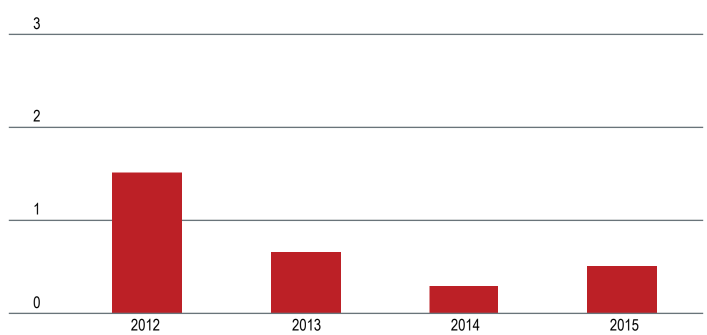
Prince George's County

Prince George's County continued to languish in terms of its ability to attract federal tenancies in 2011. The most noteworthy setback was the loss of the Department of Health and Human Services site to Montgomery County – a project the county vigorously pursued. While the protest by at least one of the Prince George's County sites is likely to continue despite the signed lease in Rockville, it appeared unlikely that a further appeal would grant the county the nearly 1.0 million square feet of federal leasing it had hoped for. Federal activity was otherwise tepid, with a NASA expansion in the first quarter and CDC starting to tour the market in advance of its lease expiration at Prince George's Metro Center.

Longer term, the county appeared interested in pursuing the FBI requirement that would eventually take them out of their downtown home at the Hoover Building. This requirement, however, is still a long way from signing a lease and in the meantime, Prince George's County continues to struggle to compete with neighboring Montgomery County for federal office leasing. Two bright spots for the future include the approval of a new $50 million economic development fund routed through the County Executive's office and an eager WMATA that would like to foster greater transit-oriented development along much of its undeveloped, metro-proximate land in Prince George's County.

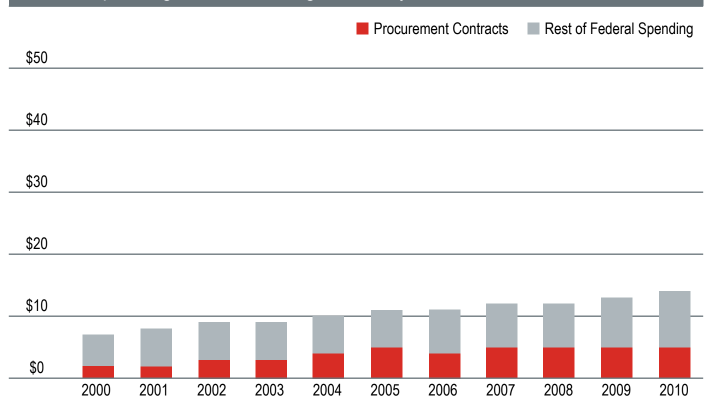


Prince George's County lease expirations s.f. (millions)



Source: General Services Administration

Federal spending to Prince George's County $ (billions)



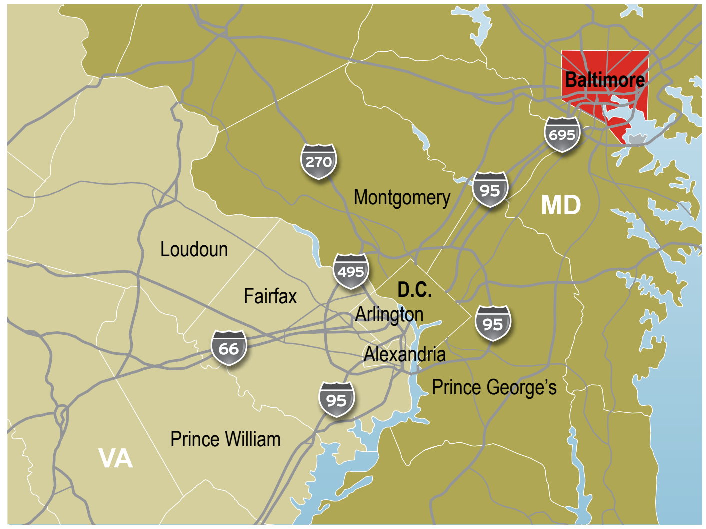
Source: US Census Bureau - Consolidated Federal Funds Report

Mid-Atlantic region overview

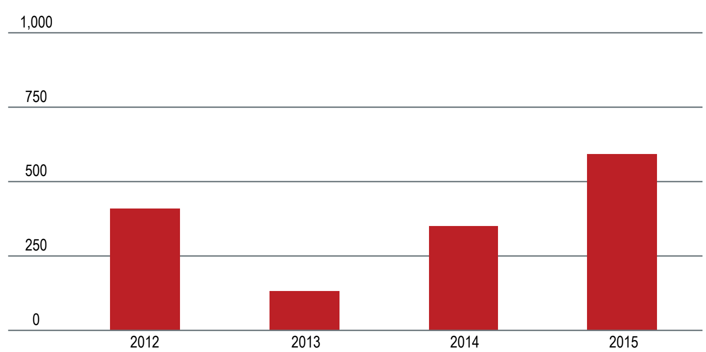
Baltimore

The BRAC process along with the Social Security Administration (SSA) drove federal employment and leasing activity in the Baltimore region during 2011. Early in the year, the developer for SSA's new office complex in Baltimore, JBG, secured funding for the construction of the new 538,000 square-foot build-to-suit property across from the Reisterstown Plaza Metro station. Valued at $428 million, the 20-year lease agreement is the largest single office lease deal ever for Baltimore and will shift 1,500 federal employees to the northwest section of the city. The agency plans to vacate their current facility, a 30-year-old complex totaling 1.0 million square feet in downtown Baltimore, upon the completion of the new campus in 2014. In a separate deal from the agency's relocation to Northwest Baltimore, the SSA chose Frederick County over Woodlawn for a new National Support Center. The Baltimore area lost the new center, along with up to 250 new jobs, to the suburbs of Washington, DC reportedly due to "a combination of favorable infrastructure and operating costs."

BRAC activity at Fort Meade and Aberdeen Proving Ground continued to be a primary driver of economic growth in the metro area as the two sites added over 12,000 jobs. At Aberdeen Proving Ground alone, the government has spent more than $1.0 billion on new construction to accommodate incoming workers. The relocation and consolidation of military personnel has spurred development near the bases, particularly in Harford County, where supply has more than doubled in the past year. In Anne Arundel County near Fort Meade, developers and local officials are anticipating growth beyond BRAC as the area becomes the epicenter for cyber-security efforts. A trail of government contractors is expected to descend upon Fort Meade and Aberdeen Proving Ground over the coming years, providing solid demand for office space in those submarkets.

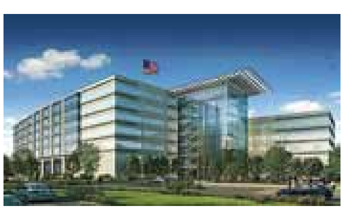


Baltimore lease expirations s.f. ('000)



Source: General Services Administration

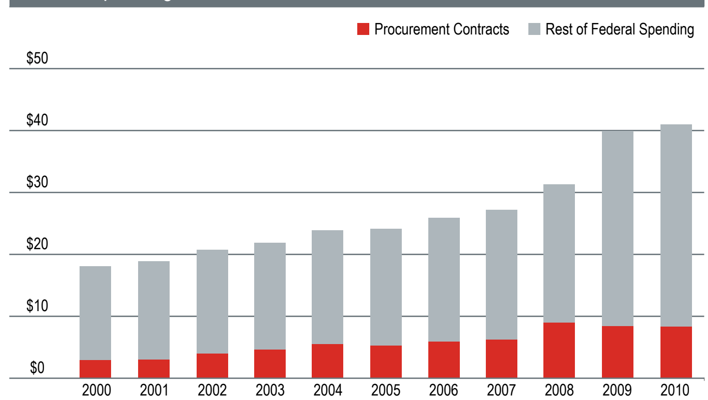
Closed deals - Baltimore



6100 Wabash Avenue, Baltimore, MD

In the largest single office lease deal in Baltimore, the Social Security Administration (SSA) signed a 20-year lease agreement with the developer JBG Companies for a 538,000 square-foot campus across from the Reisterstown Plaza Metro station in Northwest Baltimore. JBG will develop the $150 million build-to-suit office facility with an anticipated delivery date of early 2014. The deal, reportedly valued at $428 million, will shift 1,600 employees and leave SSA's current location consisting of approximately one million square feet in the Metro West Complex in downtown Baltimore vacant.

Federal spending to Baltimore $ (billions)



Source: US Census Bureau - Consolidated Federal Funds Report

Closed deals - Washington, DC

Office of the Comptroller of the Currency at 400 7th Street, SW

In the largest lease of the year in Washington, DC the Office of the Comptroller of the Currency (OCC) leased 600,000 square feet at Constitution Center (400 7th Street, SW) in Southwest. The federal agency assumed a portion of space originally leased by the Securities & Exchange Commission. The OCC is already located in three buildings in the Southwest market (250 E Street, SW, 400 Virginia Avenue, SW and 395 E Street, SW), occupying roughly 450,000 square feet. The new leases at Constitution Center will consolidate those three locations while integrating with the Office of Thrift Supervision, which will move from the federally-owned 1700 G Street, NW in the CBD.

NASA at 300 E Street, SW

NASA signed a 15-year renewal at 300 E Street, SW. The lease totaled 597,253 square feet, the second largest federal deal in 2011. Also known as Two Independence Square, the 2002 delivery is fully occupied by NASA.

Federal Housing Finance Agency at 400 7th Street, SW

The Federal Housing and Finance Agency (FHFA) will consolidate two of its offices located in the CBD, while integrating with the former Office of Federal Housing Enterprise Oversight, the Federal Housing Finance Board and Department of Housing and Urban Development as part of a 335,000 square foot lease at Constitution Center. FHFA currently occupies space at 1625 Eye Street, NW, 1750 Pennsylvania Avenue and 1700 G Street, NW. Constitution Center is now fully leased, following a renovation that was completed in 2007. Prior to the renovation, the building was the former home to the Department of Transportation.

Department of Education at 830 1st Street, NE

In a 247,337 square foot renewal, the Department of Education will be staying at 830 1st Street, NE for the next 15 years. Built in 2001, 830 1st Street, NE is a 247,337 square foot building located in the NoMa market. The Department of Education occupies the entire building.

Closed deals - Northern Virginia

FBI at Mission Ridge, Chantilly, VA

After years of planning, the Federal Bureau of Investigation leased a total of 182,035 square feet in Westfields. The agency leased the entire 15030 Conference Center Drive building (156,276 square feet) and 25,759 square feet in the adjacent 15020 Conference Center Drive. The two buildings were built in 2007 and are known as Mission Ridge. This deal represented the first lease for either building. The group that will occupy the space, known as Special Technologies and Application Office (STAO), was reportedly drawn to the space for several reasons, such as security features including setbacks and blast resistant construction and floor plates that allowed for efficient and flexible space planning The FBI's STAO group will be relocating from several nearby buildings within Westfields, which is located adjacent to the National Reconnaissance Office, a major driver of demand in the area

State Department at 1800 N. Kent Street, Arlington, VA

The Department of State renewed by 176,000 square feet and expanded by another 66,000 square feet for a total of 242,000 square feet at 1800 N. Kent Street in Rosslyn. The 10-year lease made Department of State the full-building user of this Class B office building that was built in 1969. The Department of State has a large presence in Rosslyn, leasing in excess of 1.3 million square feet throughout the submarket. This is due to Rosslyn's close proximity to the Department of State headquarters facility in the Foggy Bottom, which is located just across the Potomac River from Washington, DC.

State Department at 1440 Wilson Boulevard, Arlington, VA

In addition to its renewal with expansion at 1800 N. Kent Street, the Department of State also renewed 108,296 square feet at 1400 Wilson Boulevard, also in Rosslyn. They will continue as the sole occupier for another 10 years in this 108,296 square foot Class B building that was built in 1965 and renovated in 1993. The Department of State has invested several million dollars into the building over the last decade, another sign of how important their presence in Rosslyn is to the agency's long-term goals.

Defense Logistics Agency at 8111 Gatehouse Road, Merrifield, VA

The Defense Logistics Agency signed a lease of 70,056 square feet at 8111 Gatehouse Road in Merrifield. This 281,730 square foot Class B building was formerly occupied by the American Red Cross, which vacated the building in early 2008. The Defense Logistics Agency relocated several groups from their headquarters facility at Fort Belvoir, Virginia. Ironically, Fort Belvoir was a major receiver of BRAC related relocations in 2011 including the National Geospatial Intelligence Agency and the Missile Defense Agency. The Defense Logistics Agency is the Department of Defense's largest logistics combat support agency.

Closed deals - Suburban Maryland

HHS at 5600 Fishers Lane, Rockville, MD

The Department of Health and Human Services renewed for 935,386 square feet at 5600 Fishers Lane in the Rockville Pike Corridor, a 1,332,482 square foot building owned by a joint-venture of JBG and Cammeby's. This deal was long in the making, surviving a second GSA evaluation process mandated by a Government Accountability Office Ruling brought on by protests from competing developers in the wake of the initial renewal announcement. JBG promised the tenant extensive renovations to turn what is otherwise a functionally-obsolete building (built in 1970, last renovated in 1992) into an asset competitive with new development.

NIAID at 5601 Fishers Lane, Rockville, MD

The National Institute of Allergy and Infectious Diseases signed a new lease for 490,998 square feet in the Rockville Pike Corridor at a yet-to-be-built site adjacent to the Department of Health and Human Services. Chevy Chase-based JBG promises to deliver the building, which will provide a consolidation option for the agency currently spread across three buildings, in 2014. The building will be fully-leased to NIAID and closely adheres to the language in the original SFO. The deal terms (which yielded a $29.25 effective rent across the 15 year term) raised eyebrows in the marketplace and, more importantly, allowed JBG to outcompete existing options on price basis alone.

HHS at 12501 Ardennes Avenue, Rockville, MD

The Department of Health and Human Services leased 70,701 square feet of space in the previously-vacant 12501 Ardennes Avenue during the first quarter. This 140,774 square foot building, located along the Rockville Pike submarket, delivered vacant in 2009, but was squarely targeted at federal tenants. The second half of the building is still vacant but, at the beginning of the fourth quarter of 2011, was rumored to be at lease signing with the GSA on behalf of HHS.

National Institute on Aging, Bethesda, MD

The National Institute on Aging signed a renewal for 45,076 square feet at 7201 Wisconsin Avenue, located in the Bethesda CBD, in the first quarter of 2011. The 149,074 square foot building was renovated in 2004 and remains almost fully leased. This was the last of the spate of federal leasing in downtown Bethesda which began in the second quarter of 2010 with the takedown of the first healthcare reform-related space at 7501 Wisconsin Avenue and followed by further leasing at 7700 Wisconsin Avenue in support of the same mission. While these high-profile deals stole the headlines, straightforward renewals like this one will likely comprise the majority of Bethesda-CBD federal activity in the next 18-24 months.

Top 10 market predictions

1. Partisan politics and political gridlock will continue, resulting in few meaningful policy implementations until late 2012 or beyond.

2. The environment of big government ideas stridently delivered will continue, with goals directed toward selling excess real estate via "Civilian BRAC" and increasing GSA space efficiency.

3. The Washington, DC market will see a slowdown in leasing velocity but will remain one of the top-performing markets in the world.

4. Lobbying efforts will remain critical for the private sector, as regulatory measures and federal spending initiatives will continue to affect corporations across the largest industries of the economy.

5. The trend of net new private sector headquarters relocations will continue in the Metro DC region as corporations seek proximity to power.

6. Investors will continue to view Washington, DC real estate as a safe haven as compared to most other locations across the world due to the continued stability of the federal government.

7. Easy cuts (operating budgets, contracts, hiring) will be the norm within the federal government.

8. Difficult cuts (staff reduction, program elimination) will not occur.

9. Implementation of major policy changes will be almost impossible until tension in the divided Congress is eased, with the first potential inflection point occurring after the next Presidential election in late 2012.

10. Passage of the next federal budget will be the key "needle-moving" event in terms of assessing the future direction of the market, not the ancillary "tinkering" associated with small-scale federal real estate programs.

▲ Up ▼ Down ◆ No change

Many agency budgets projected to grow throughout 2012	
Department of State	▲
Federal Reserve	▲
Department of Transportation	▲
Treasury Department	▲
Department of Health & Human Services (HHS)	▲
Federal Housing Finance Agency (FHFA)	▲
Federal Deposit Insurance Company (FDIC)	▲
Department of Defense	◆
Department of Homeland Security (DHS)	◆
Department of Justice (DOJ)	◆
Department of Education	▼
Department of Labor	▼
General Services Administration	▼
Environmental Protection Agency (EPA)	▼

Without clear guidance on agency budgets – and an uncertain future in terms of government leadership – federal tenants are likely to maintain their "wait-and-see" approach to real estate decisions in 2012 and likely beyond.

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Real value in a changing world

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About Jones Lang LaSalle

Jones Lang LaSalle (NYSE:JLL) is a financial and professional services firm specializing in real estate. The firm offers integrated services delivered by expert teams worldwide to clients seeking increased value by owning, occupying or investing in real estate. With 2010 global revenue of more than $2.9 billion, Jones Lang LaSalle serves clients in 70 countries from more than 1,000 locations worldwide, including 200 corporate offices. The firm is an industry leader in property and corporate facility management services, with a portfolio of approximately 1.8 billion square feet worldwide. LaSalle Investment Management, the company's investment management business, is one of the world's largest and most diverse in real estate with $45.3 billion of assets under management.

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