

This study was prepared under contract with Arlington County, Virginia, with financial support from the Office of Economic Adjustment, Department of Defense. The content reflects the views of Arlington County and does not necessarily reflect the views of the Office of Economic Adjustment.



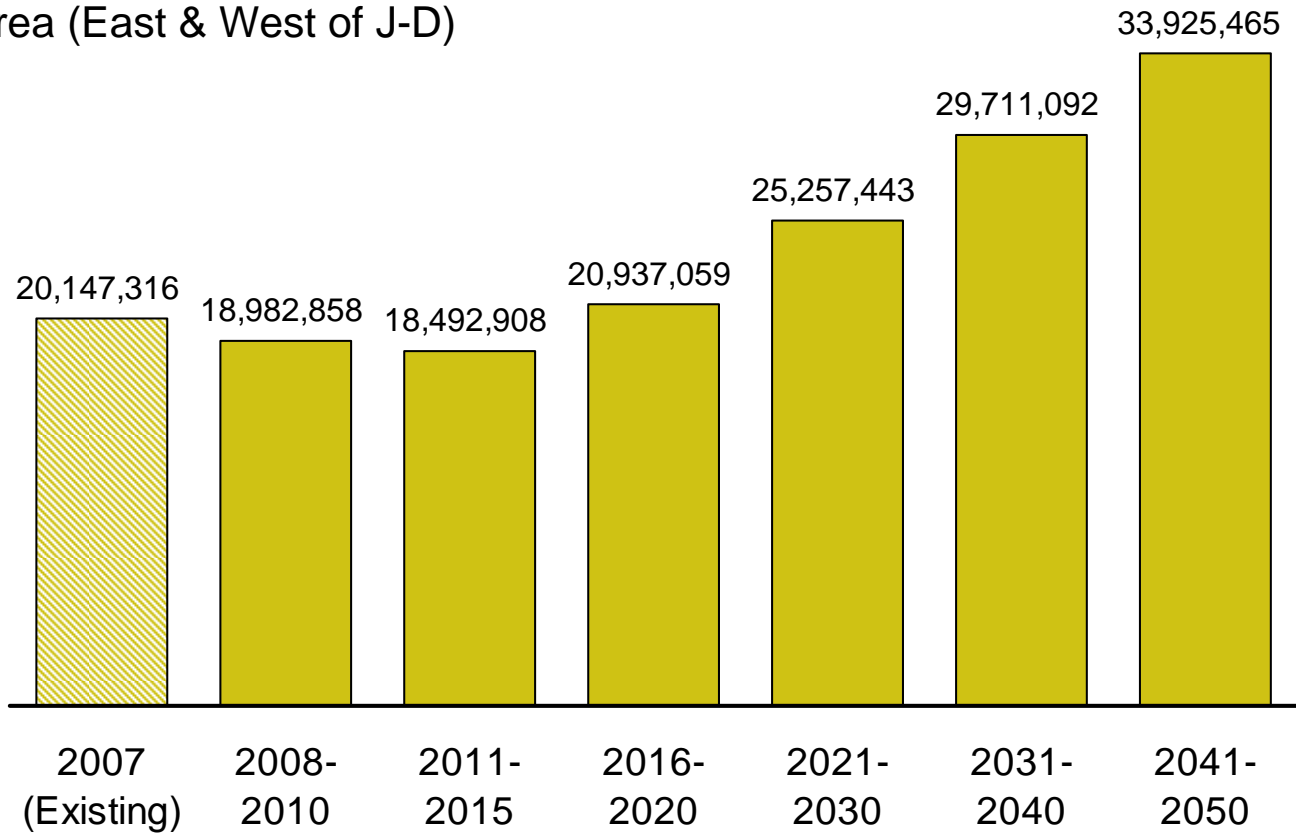
Findings on Future Land Use Mix in Crystal City

Arlington County Economic Development
May 22, 2007

RCLCO

TOTAL STUDY AREA WILL SUPPORT NEARLY 14 MILLION SQUARE FEET OF NET NEW OFFICE & RESIDENTIAL DEVELOPMENT BY 2050

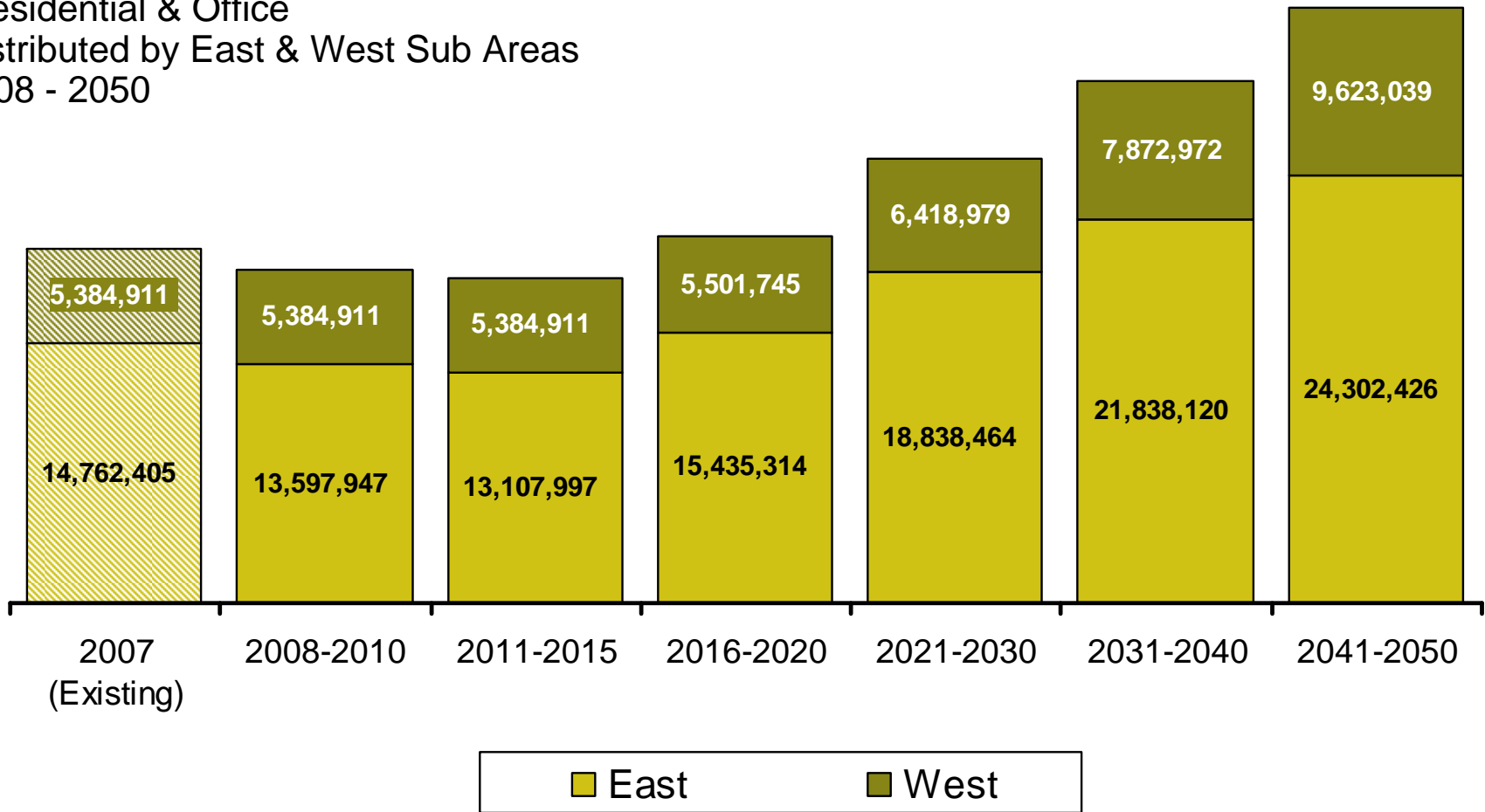
**Total Demanded Gross Square Feet
Residential & Office
Total Study Area (East & West of J-D)
2008 - 2050**



1 Footnote
SOURCE: Source

THE MAJORITY OF DEVELOPMENT ACTIVITY IS PROJECTED TO OCCUR ON THE EAST SIDE OF THE STUDY AREA

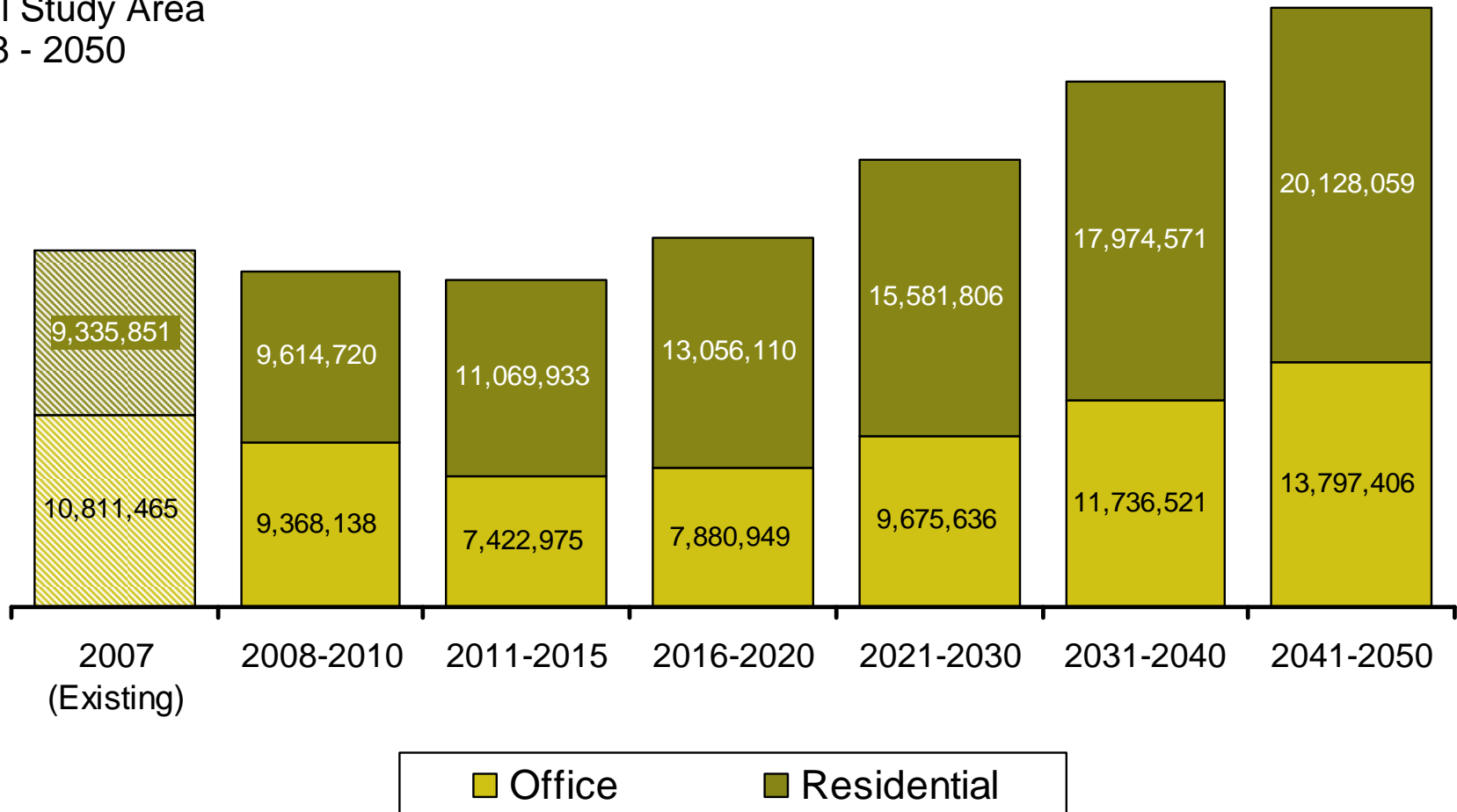
**Total Demanded Gross Square Feet
Residential & Office
Distributed by East & West Sub Areas
2008 - 2050**



SOURCE: RCLCO; Torti Gallas

RESIDENTIAL LAND USE WILL PLAY A MORE PROMINENT ROLE IN THE STUDY AREA MOVING FORWARD

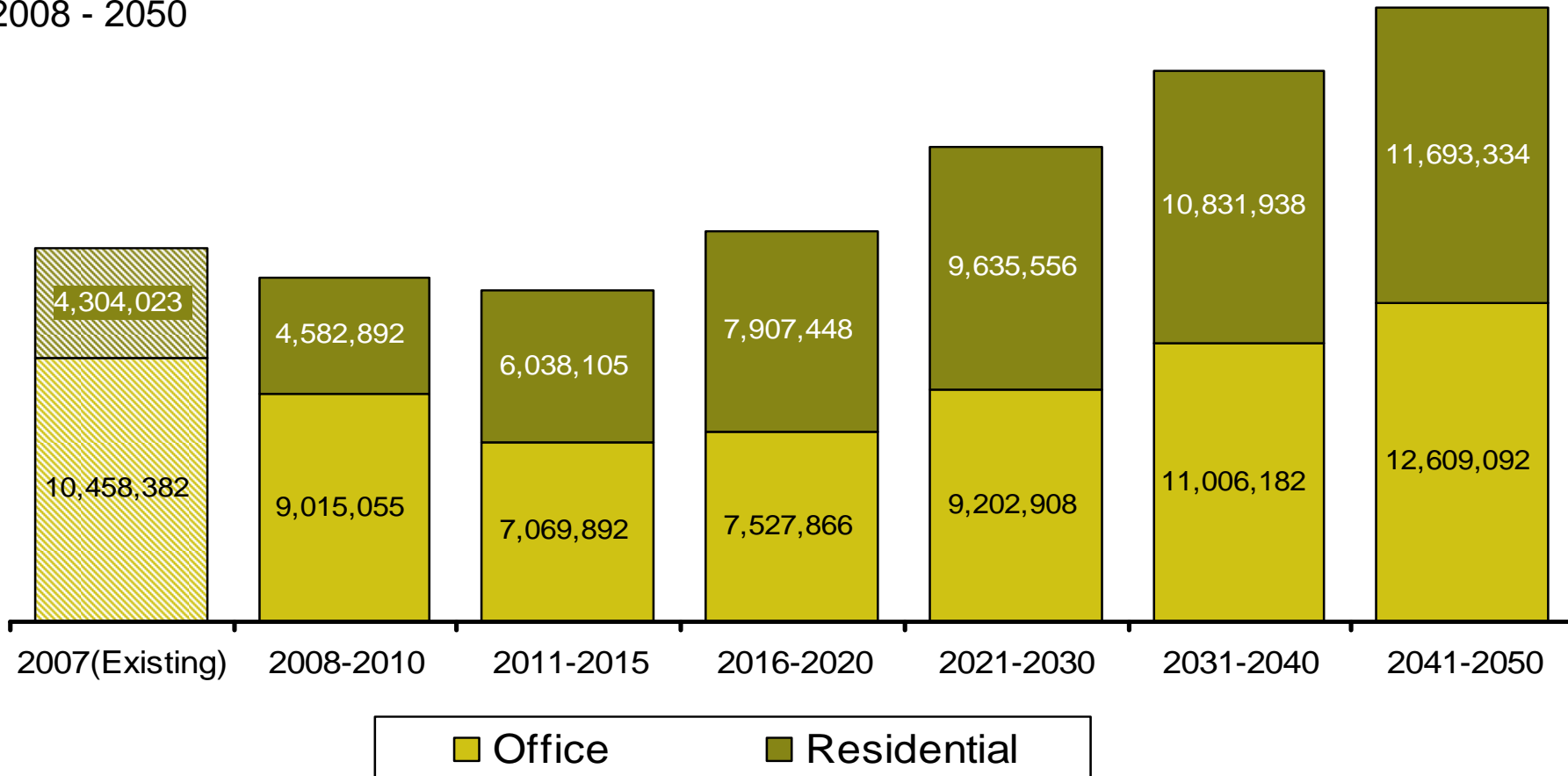
Total Demanded Gross Square Feet
 Distributed by Residential and Office
 Total Study Area
 2008 - 2050



SOURCE: RCLCO; Torti Gallas

THE MAJORITY OF OFFICE ACTIVITY WILL CONTINUE TO OCCUR IN THE EAST SUB AREA

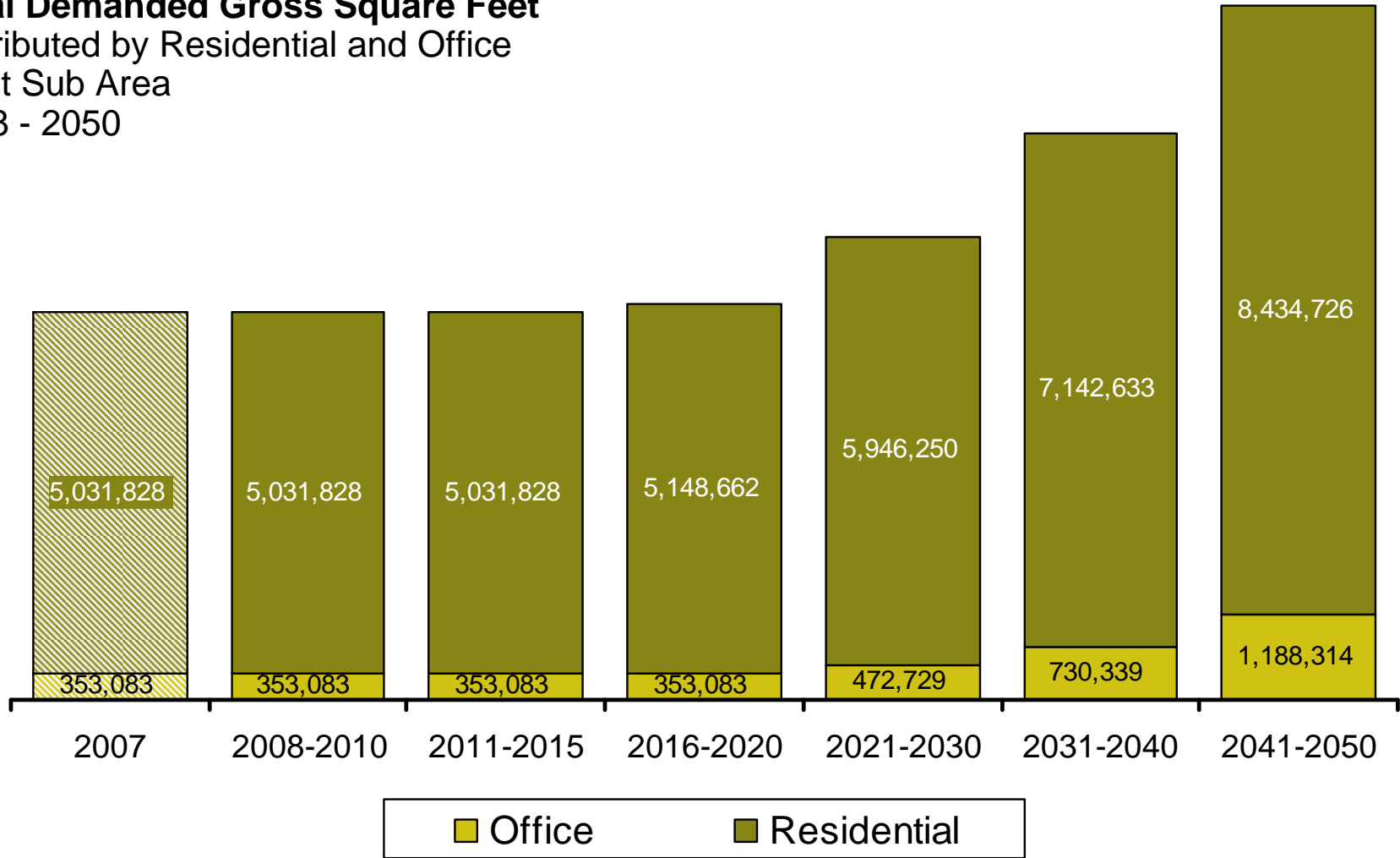
Total Demanded Gross Square Feet
 Distributed by Residential and Office
 East Sub Area
 2008 - 2050



SOURCE: RCLCO; Torti Gallas

WHILE THE WEST SUB AREA WILL BE PREDOMINANTLY CHARACTERIZED BY RESIDENTIAL DEVELOPMENT

Total Demanded Gross Square Feet
 Distributed by Residential and Office
 West Sub Area
 2008 - 2050



SOURCE: RCLCO; Torti Gallas



Office Demand

PROJECTED CRYSTAL CITY SUBMARKET OFFICE CONDITIONS

	2007	2008-2010	2011-2015	2016-2020	2021-2030	2031-2041	2041-2050
Class A Space							
Inventory	4,265,948	4,409,798	4,876,932	5,655,489	7,689,468	9,879,158	11,825,549
Occupied Space	3,141,830	3,772,765	4,234,099	5,231,624	7,376,223	9,591,865	11,538,256
Vacant Space	1,124,118	637,034	642,833	423,864	313,245	287,293	287,293
Vacancy Rate	26.4%	14.4%	13.2%	7.5%	4.1%	2.9%	2.4%
BRAC Vacancies			852,480				
Net Absorption		630,935	1,313,814	997,525	2,144,599	2,215,642	1,946,391
New Inventory		143,850	467,134	778,556	2,033,979	2,189,690	1,946,391
Cumulative New Inventory		143,850	610,984	1,389,541	3,423,520	5,613,210	7,559,601
% New SF in Potomac Yard		100%	60%	50%	25%	20%	10%
New Office Dev - Potomac Yard		143,850	280,280	389,278	508,495	437,938	194,639
Cumulative New Office Dev		143,850	424,131	813,409	1,321,904	1,759,842	1,954,481
% New SF East of J-D							
New Office Dev - East of J-D		0	186,854	389,278	1,423,785	1,532,783	1,362,474
Cumulative New Office Dev			186,854	576,132	1,999,917	3,532,700	4,895,174
% New SF West of J-D							
New Office Dev - West of J-D		0	0	0	101,699	218,969	389,278
Cumulative New Office Dev			0	0	101,699	320,668	709,946
% New SF In Study Area							
New Office Development		0	186,854	389,278	1,525,484	1,751,752	1,946,391
Cumulative New Development		0	186,854	576,132	2,101,616	3,853,368	5,799,759
Class B Space							
Inventory	5,559,754	5,559,754	5,559,754	5,559,754	5,559,754	5,559,754	5,559,754
Occupied Space	4,686,167	4,878,552	3,421,110	4,266,395	4,877,717	5,174,076	5,191,519
Vacant Space	873,587	681,202	2,138,644	1,293,359	682,037	385,678	368,235
Vacancy Rate	15.7%	12.3%	38.5%	23.3%	12.3%	6.9%	6.6%
BRAC Vacancies			2,344,320				
Net Absorption		192,385	886,878	845,285	611,322	296,360	17,442
Class C Space							
Inventory	1,480,844	1,480,844	1,480,844	1,480,844	1,480,844	1,480,844	1,480,844
Occupied Space	1,353,082	1,359,165	301,437	305,014	307,638	307,638	307,638
Vacant Space	127,762	121,679	1,179,407	1,175,830	1,173,206	1,173,206	1,173,206
Vacancy Rate	8.6%	8.2%	79.6%	79.4%	79.2%	79.2%	79.2%
BRAC Vacancies			1,065,600				
Net Absorption		6,083	7,871	3,578	2,624	0	0

PROJECTED CRYSTAL CITY OFFICE MARKET CONDITIONS (con't)

Crystal City Submarket

	2007	2008-2010	2011-2015	2016-2020	2021-2030	2031-2041	2041-2050
TOTAL INVENTORY	11,306,546	11,450,396	11,917,530	12,696,087	14,730,066	16,919,756	18,866,147
Class A	38%	39%	41%	45%	52%	58%	63%
Class B	49%	49%	47%	44%	38%	33%	29%
Class C	13%	13%	12%	12%	10%	9%	8%
Vulnerable Office SF ¹	1,277,476	581,135	3,067,070	1,940,847	1,063,733	577,195	413,773
Potential Residential Units ²	1,419	646	3,408	2,156	1,182	641	460
Revised Distribution (SF)	<i>Vulnerable Square Footage Assumed to be Removed from Office Inventory Moving Forward</i>						
Class A	4,265,948	4,409,798	4,876,932	5,655,489	7,689,468	9,879,158	11,825,549
Class B	4,857,142	5,240,130	3,872,865	3,872,865	3,872,865	3,872,865	3,872,865
Class C	905,980	1,219,333	100,662	100,662	100,662	100,662	100,662
TOTAL	10,029,070	10,869,261	8,850,460	9,629,017	11,662,995	13,852,686	15,799,077
Revised Distribution (%)							
Class A	43%	41%	55%	59%	66%	71%	75%
Class B	48%	48%	44%	40%	33%	28%	25%
Class C	9%	11%	1%	1%	1%	1%	1%
TOTAL	100%	100%	100%	100%	100%	100%	100%

OFFICE DEMAND METHODOLOGY

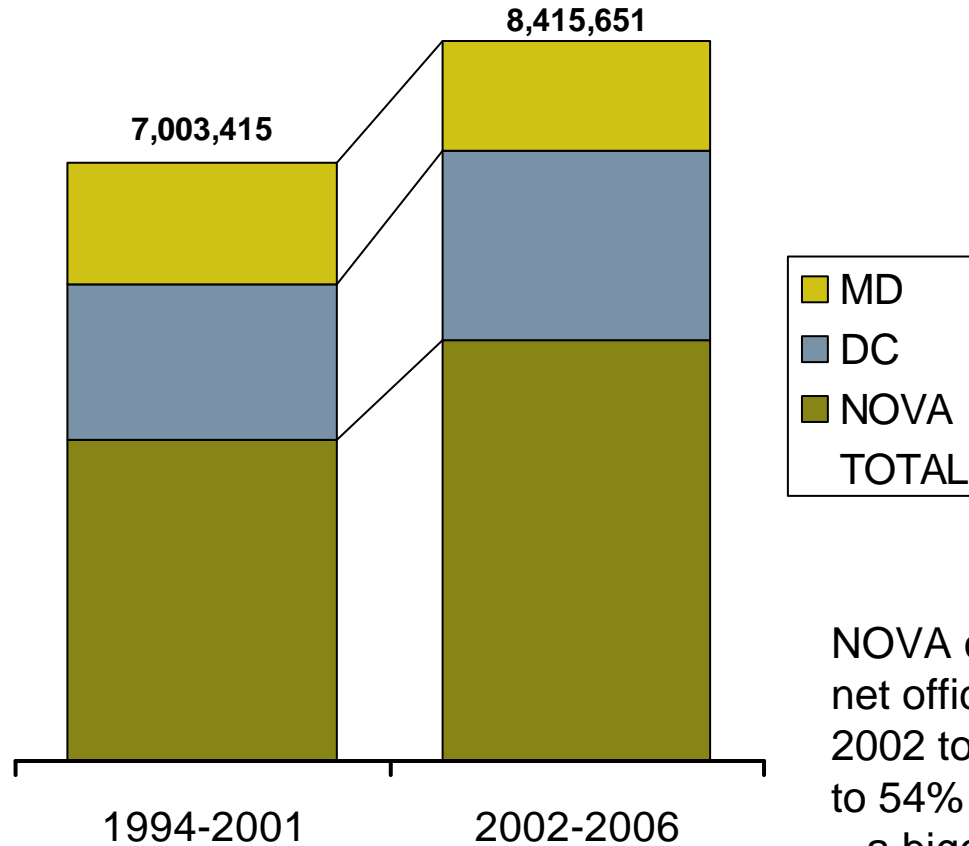
- ▶ Quantified and examined office market trends at a regional level for DC and Northern Virginia using historical and current CoStar data
- ▶ Estimated future office demand for the DC/NoVA region based on employment projections using COG and BLS data
- ▶ Identified key downtown and inner suburban office cores with the greatest influence on office market dynamics and those most likely to compete with Crystal City for future demand
- ▶ Projected likely allocation of future office space absorption across identified DC and NoVA inner cores, including Crystal City
 - Based on a number of metrics – existing share of space, available existing capacity, future development pipeline, and market appeal
- ▶ Approximated likely distribution of demand by class across new and existing space
 - Assumed that all new construction would result from demand for ‘high-end’ class A space
- ▶ Considered implications of BRAC move outs and backfilling of vacant space from net new absorption, and estimating future vacancy rates
- ▶ Determined demand potential for new class A space in the defined Crystal City study area through 2050, considering the likely distribution of demand across both sections of the study area and Potomac Yard

KEY ISSUES AND ASSUMPTIONS - OFFICE

- ▶ In order to develop new Class A office space, the Crystal City submarket will need to compete with existing and emerging, top-end Class A cores
 - CBD, East End, NoMA, Baseball District, Rosslyn-Ballston corridor, Alexandria/I-395, Tysons Corner
 - Included in our analysis the current planned space at Potomac Yards, which would be part of the Crystal City submarket, but competitive with new opportunities in the study area
- ▶ There is a finite amount of demand to be distributed across various cores well suited for development
 - While Crystal City provides a compelling location, absorption of new office space is limited by strong competitive pressures from other submarkets/cores
 - New Class A office development in the Crystal City study area is likely constrained in the near term by existing vacancies and the desire of tenants to backfill existing space
 - BRAC-related vacancies may be difficult to fully backfill, but may present opportunities for redevelopment or conversion
 - Our analysis of the future demand focused solely on net new absorption, and had not yet accounted for the ability to capture existing office demand from competitive submarkets – this is particularly important when considering the depth and pace of the demand for older, vacated space (both existing and due to BRAC movements)

NOVA HAS ATTRACTED AN INCREASING SHARE OF OFFICE SPACE IN A GROWING AND EVOLVING REGIONAL OFFICE MARKET

Average Net Office Absorption (All Building Classes)
By Regional Submarket
1994 – 2006

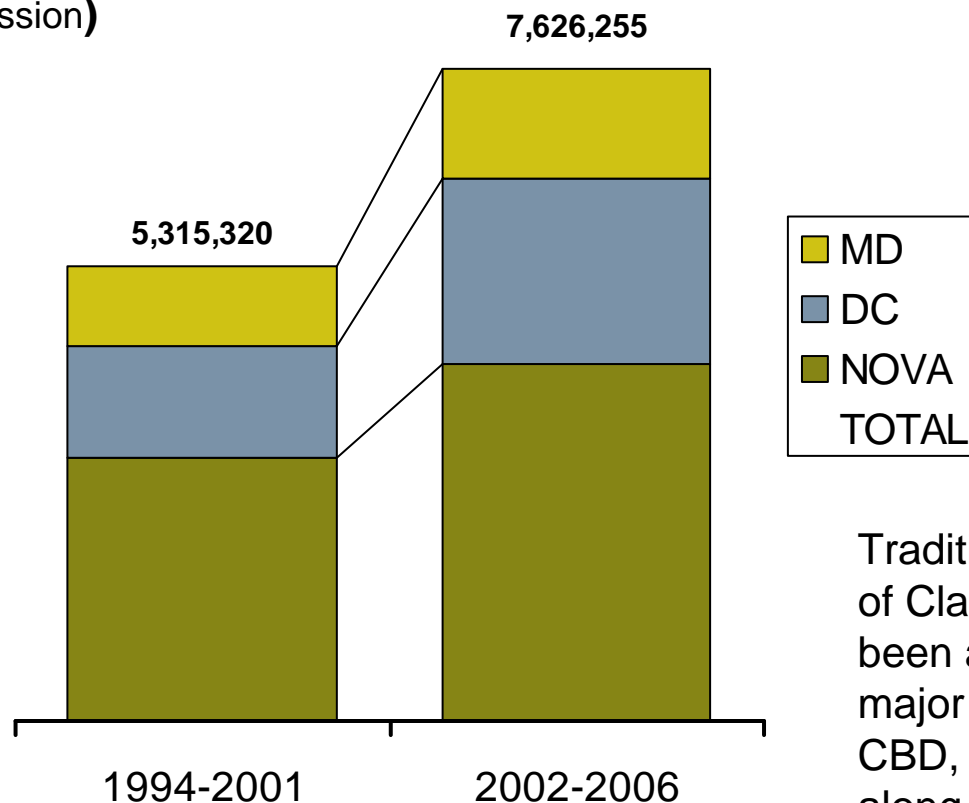


NOVA comprised 58% of net office absorption from 2002 to 2006, compared to 54% from 1994 to 2001 – a bigger share of a larger overall market

SOURCE: RCLCO, CoStar

DC OFFICE CORES AND NOVA SUBURBS ATTRACT THE MAJORITY OF REGIONAL CLASS A TENANTS

Average Annual Net Absorption - Class A Office
By Regional Submarket
1994 – 2006 (Pre-Post Recession)

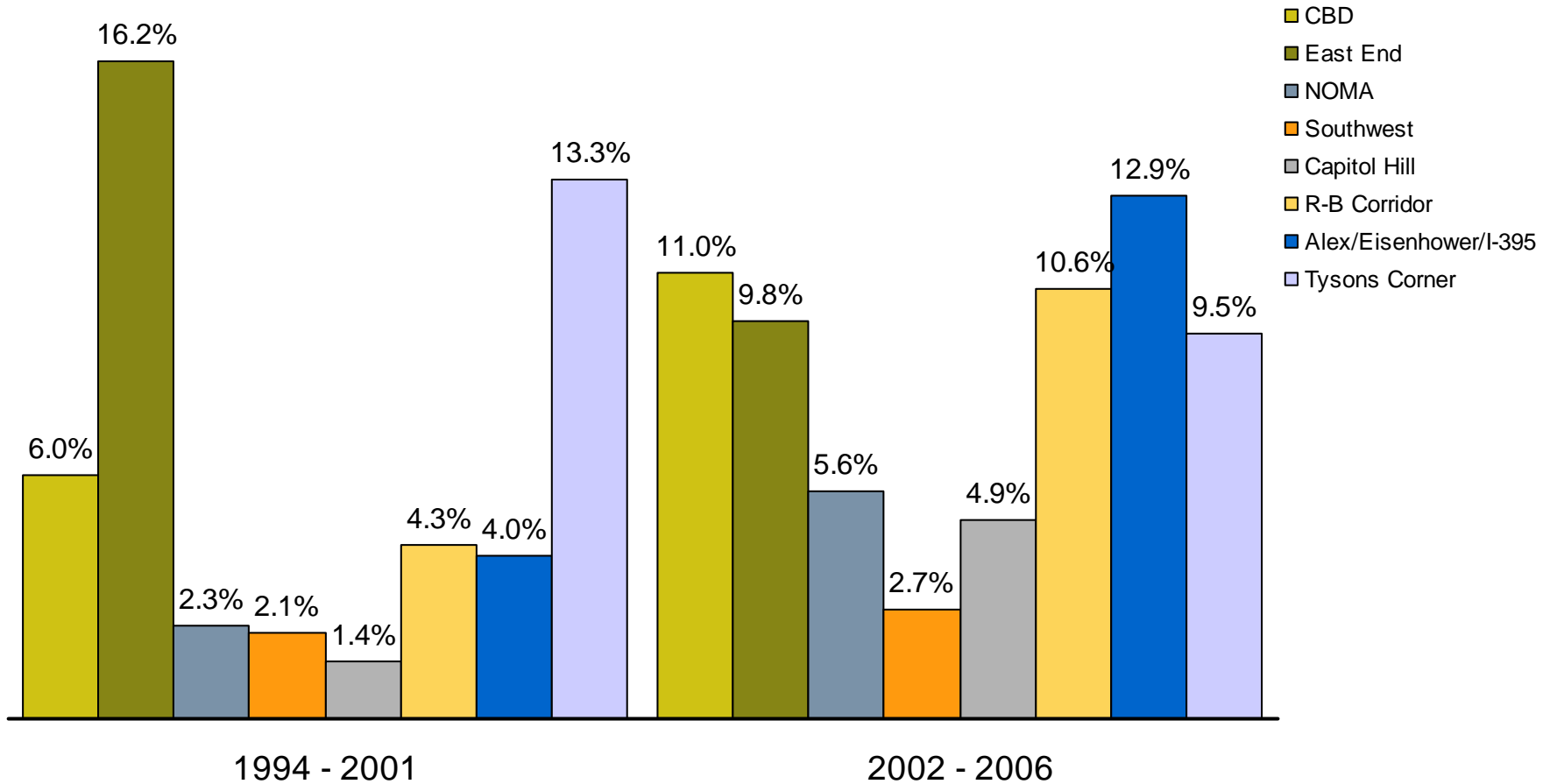


Traditionally, the majority of Class A space has been absorbed in the major office submarkets - CBD, East End, Ballston, along the Eisenhower Corridor, and in Tysons Corner

SOURCE: RCLCO, CoStar

DOWNTOWN OFFICE CORES AND HIGHLY ACCESSIBLE SUBURBAN CORES HAVE DOMINATED THE MARKET FOR CLASS A SPACE

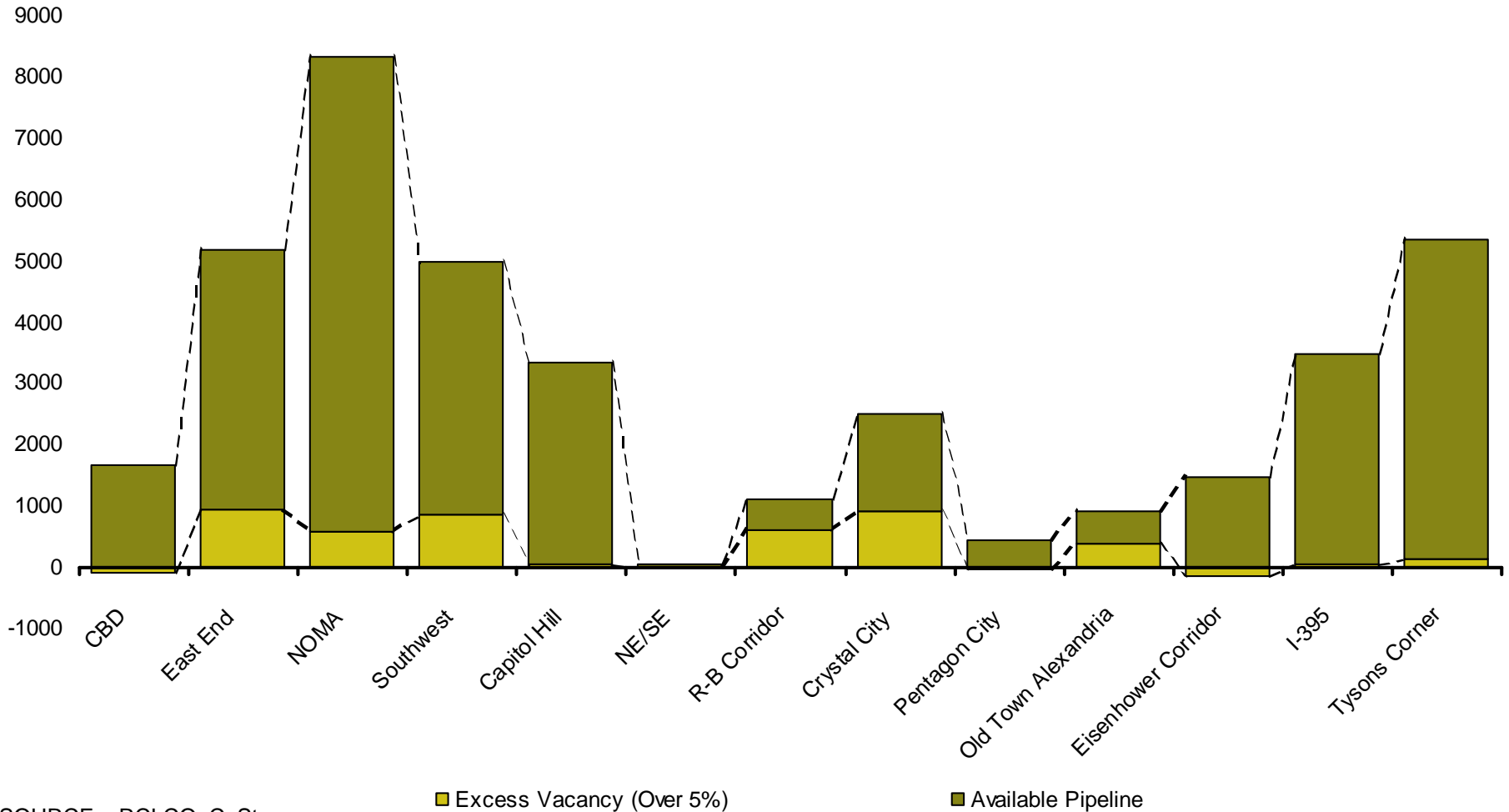
Share of Avg. Annual Net Absorption
Class A Office Space by Key NOVA/DC Submarket



SOURCE: RCLCO, CoStar

LARGELY CONCENTRATED IN ESTABLISHED CORES

Existing Office Capacity and Future Office Pipeline by Submarket
(in thousands of square feet)



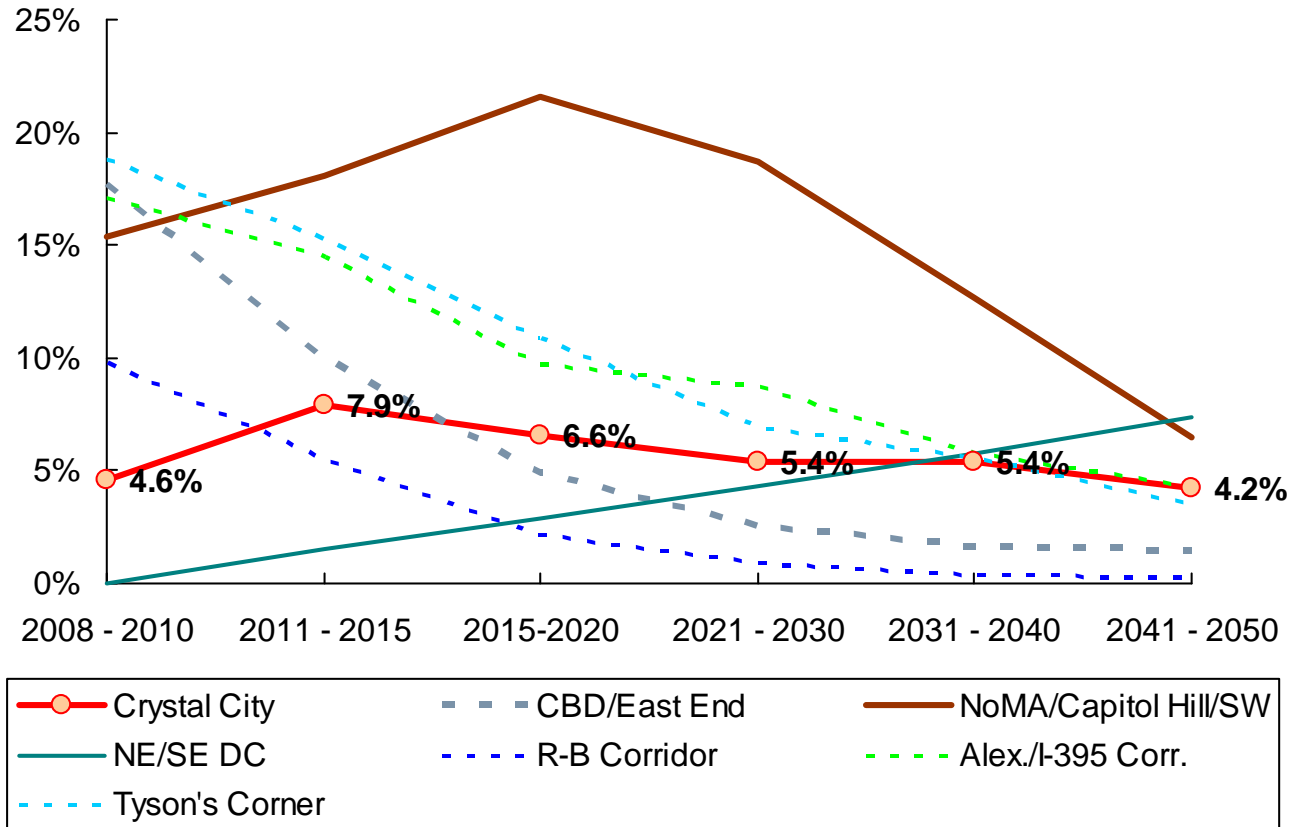
SOURCE: RCLCO, CoStar

■ Excess Vacancy (Over 5%)

■ Available Pipeline

CRYSTAL CITY'S SHARE OF DEMAND REFLECTS STRONG COMPETITION FROM DC CORES, BUT IS HIGHLY COMPETITIVE

Distribution of Projected Class A & B Net New Office Absorption
Key NOVA/DC Submarkets



SOURCE: RCLCO



Residential Demand

SUMMARY OF RESIDENTIAL DEMAND PROJECTIONS

Crystal City Submarket, 2006 - 2030

	2006 to 2010	2011 to 2015	2016 to 2020	2021 to 2030
NOVA HH Growth, COG Projections	115,516	101,523	79,646	132,154
COG Projections				
Urban NoVA Core Share	11.6%	13.4%	16.3%	10.6%
Urban NoVa Core Net New Households	13,384	13,615	12,965	14,057
Crystal City Submarket Capture	5.4%	4.0%	1.4%	2.5%
Crystal City Submarket, Net New Households ¹	721	540	177	354
Cumulative	721	1,261	1,438	1,792
% New Housing Units in Study Area	50.0%	65.0%	75.0%	90.0%
New Housing Units in Study Area	361	351	133	319
Cumulative	361	712	844	1,163
RCLCO Projections				
Urban Core Share	12.0%	15.0%	17.5%	12.0%
Urban Core Net New Households	13,862	15,228	13,938	15,858
% Multifamily	90%	95%	100%	100%
Urban Core Net New MF Households	12,476	14,467	13,938	15,858
Crystal City Submarket Capture	10.0%	15.0%	15.0%	15.0%
Crystal City Submarket, Net New Households	1,248	2,170	2,091	2,379
Cumulative	1,248	3,418	5,508	7,887
% New Housing Units in Study Area	20.0%	60.0%	85.0%	95.0%
New Housing Units in Study Area	250	1,302	1,777	2,260
Cumulative	250	1,552	3,329	5,588

SUMMARY OF RESIDENTIAL DEMAND METHODOLOGY

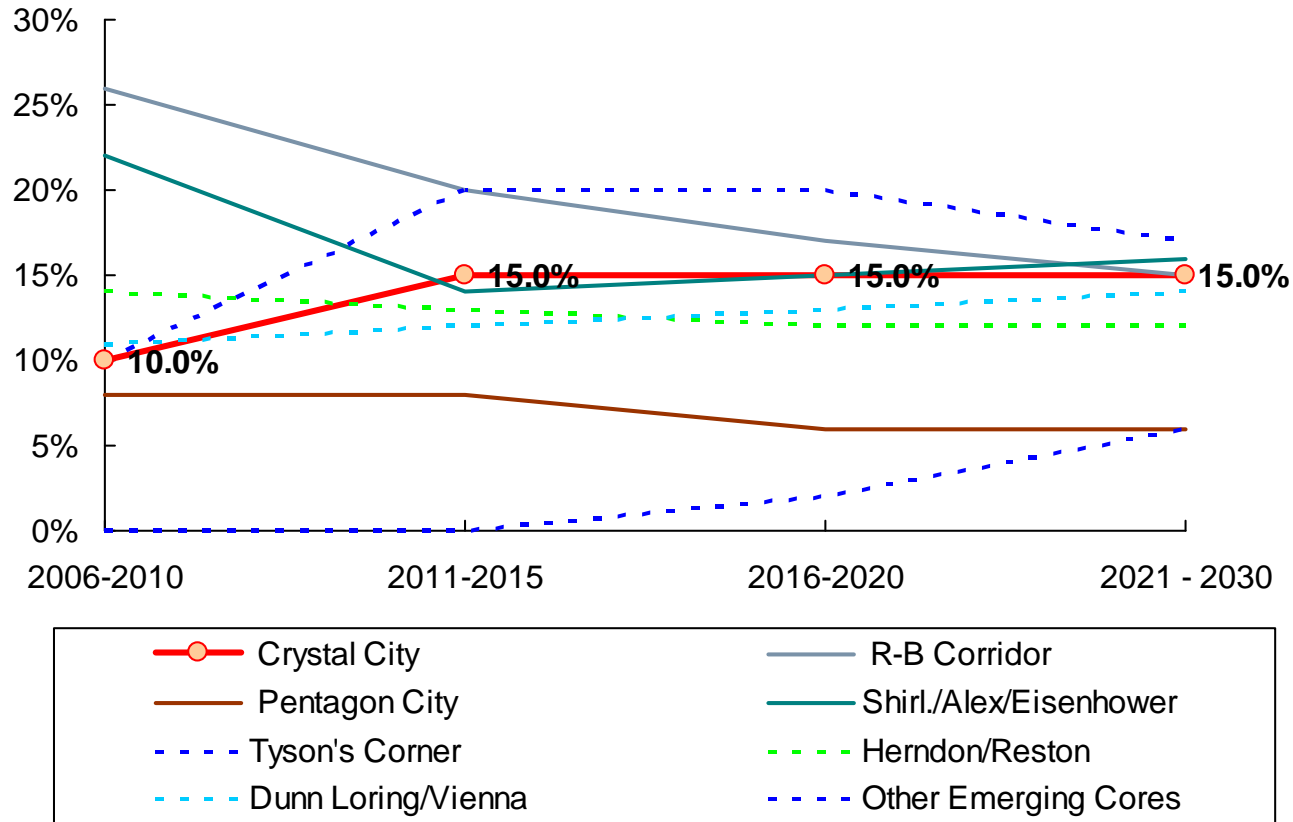
- ▶ Examined MWCOG household growth projections for Northern Virginia as well as key urban cores in the NoVA region most likely to compete with Crystal City for dense, multifamily residential demand in the future
 - Aggregated Arlington County, Alexandria, and parts of Fairfax County to create an “urban core” capturing a share of growth
- ▶ Adjusted COG growth assumptions in these areas, increasing the capture growth for the urban cores given the increasing propensity of households to reside in higher density areas
- ▶ Estimated Crystal City’s likely capture of future demand for high-density residential product within this urban core
 - Based on historical evidence, competitive forces, and locational attributes
- ▶ Determined share of new residential demand likely to be attracted to the study area for each 5 year time period, netting out those accommodated by residential offerings in the broader Crystal City core (most notably, Potomac Yard)
- ▶ Established share and corresponding volume of demand likely to be drawn to both components of the study area (both East and West of Jefferson Davis Highway)

KEY ISSUES AND ASSUMPTIONS - RESIDENTIAL

- ▶ COG projections underestimate household growth in the Crystal City core
 - These projections do not account for additional capacity generated by redevelopment efforts
 - Other competitive urban cores are oversupplied, built-out, or facing opposing community and political pressures and cannot satisfy projected demand
- ▶ Crystal City will have capacity for new residential development where several other competitive urban cores will not
- ▶ Crystal City is a potentially highly desirable residential location given it's urban character, base of employers, proximity to downtown and other employment, retail, and entertainment centers, and public transit access (including planned light rail)
- ▶ Considering Crystal City's competitive position, it is likely to capture more than it's projected share of new household growth
- ▶ The inclusion of areas both west and east of Jefferson Davis Parkway will open additional capacity conducive to attracting an increased amount of development activity sustainable over an extended period of time.

AS OTHER URBAN CORES BUILD-OUT CRYSTAL CITY SHOULD EMERGE AS A PROMINENT REGIONAL RESIDENTIAL CENTER

Distribution of RCLCO Projected Multifamily Residential Absorption
 Key NOVA Submarkets
 2006 - 2030

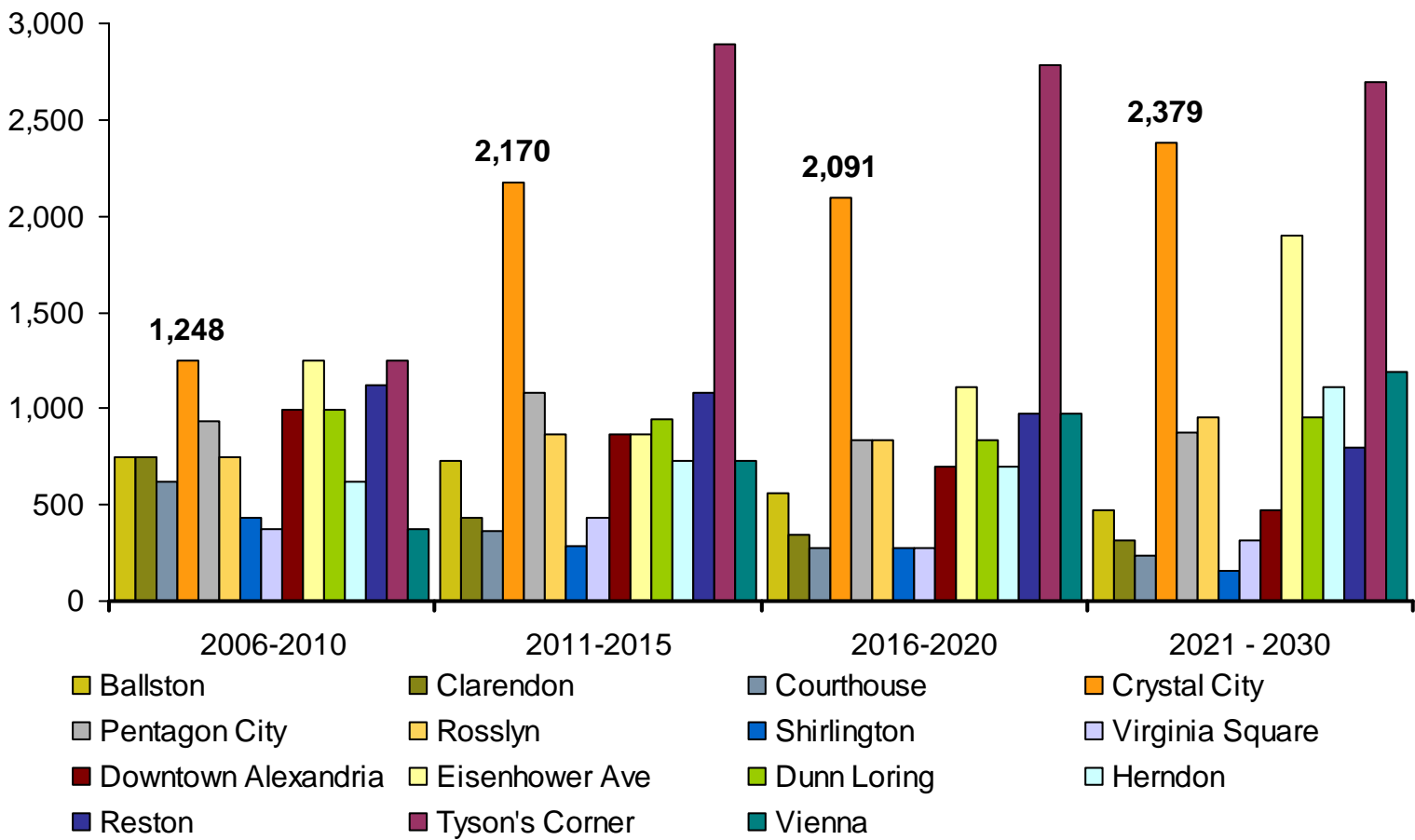


SOURCE: RCLCO

A REDEVELOPED CRYSTAL CITY AND AN URBANIZING TYSON'S CORNER ARE EXPECTED TO DOMINANT THE EVOLVING RESIDENTIAL LANDSCAPE

Estimated Future Absorption of New Multifamily Residential Units

Key NOVA Urban Cores
2006 - 2030

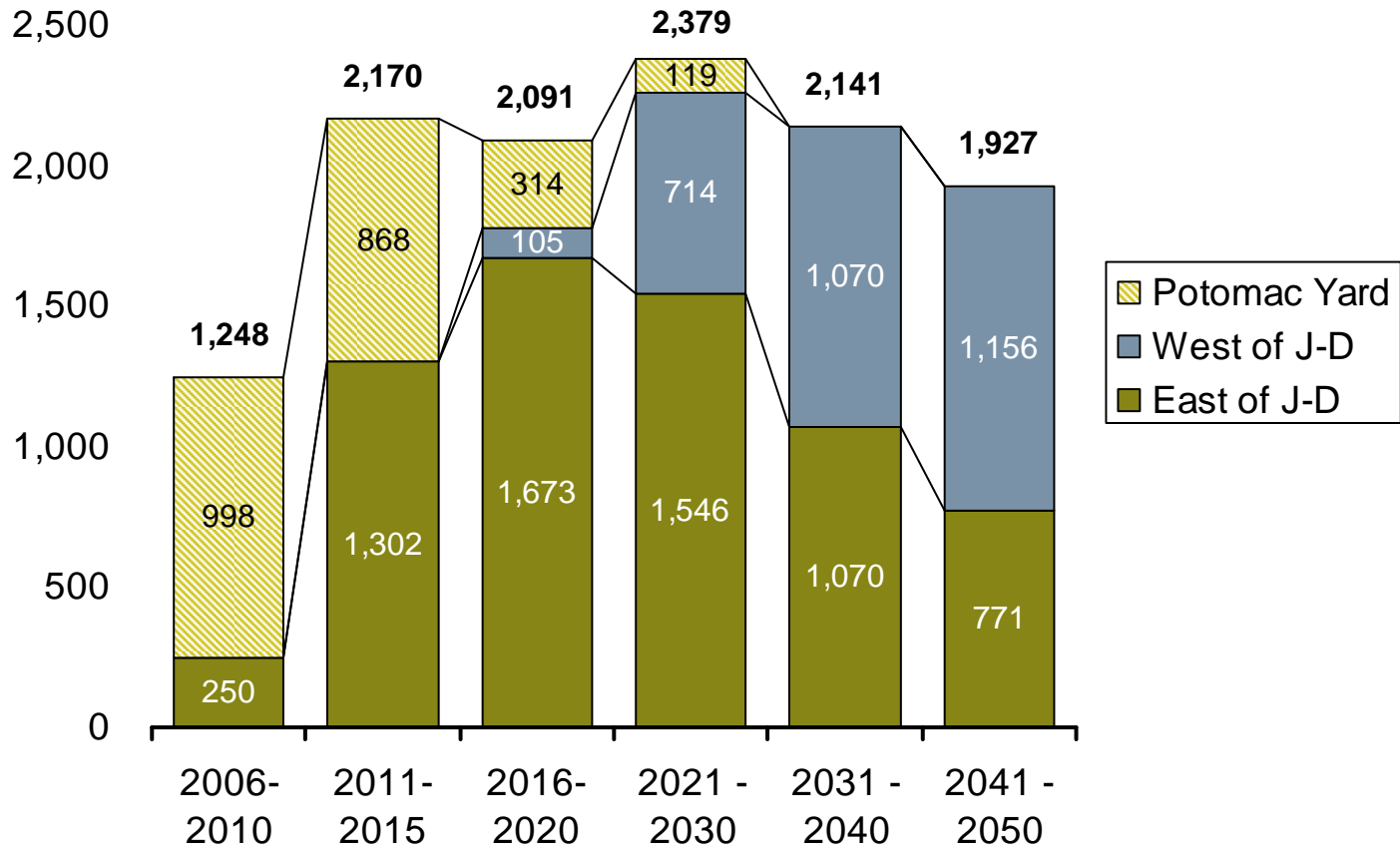


Crystal City's renewed capacity, proximity to the district, regional accessibility, employment concentration and urban character make it a highly desirable residential location, particularly as other regional options diminish

SOURCE: RCLCO

OF MULTIFAMILY ABSORPTION ADDING 9,656 UNITS BY 2050

Future Multifamily Absorption
Study Area and Potomac Yard
2006 - 2050

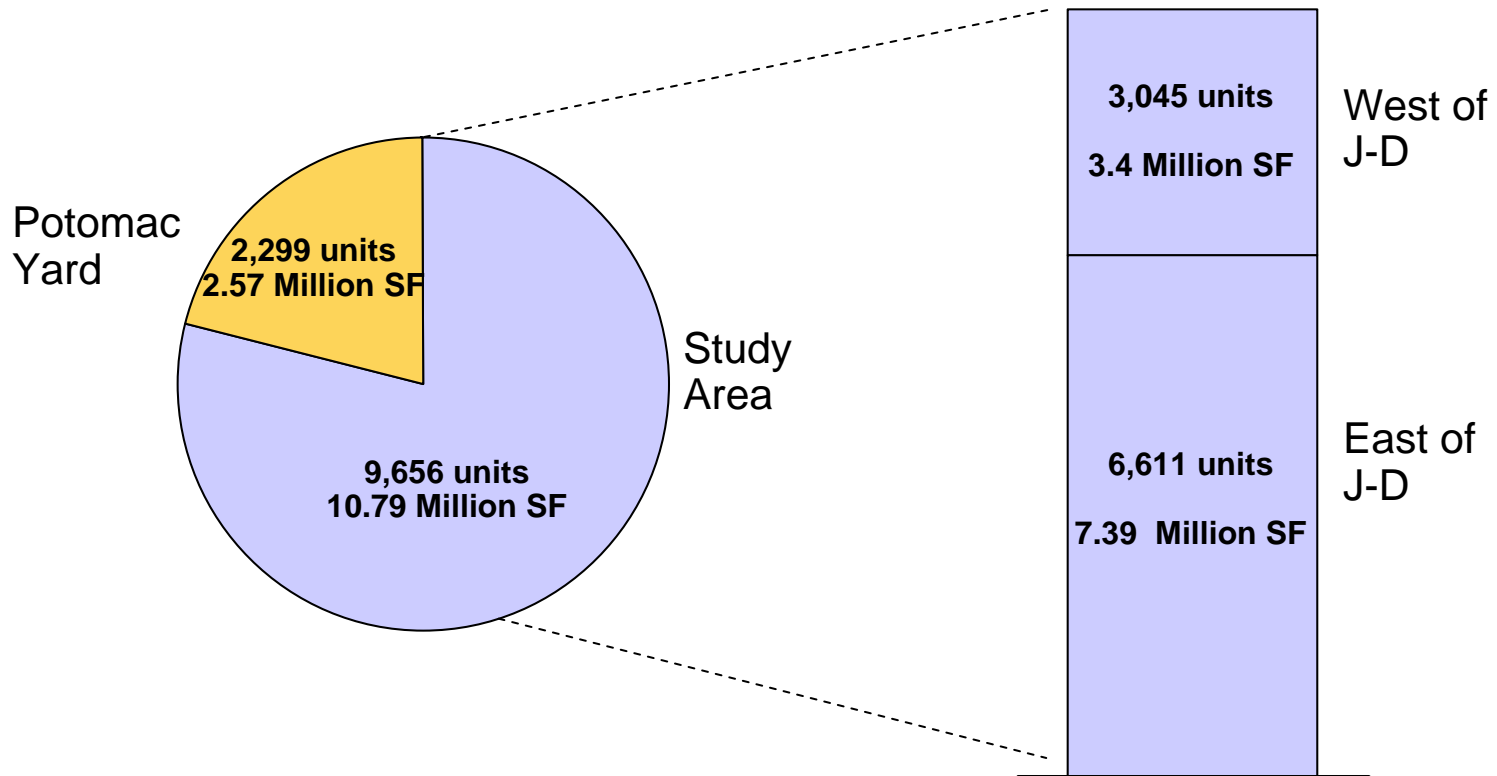


Redevelopment in the study area will occur more rapidly as Potomac Yard reaches capacity. Development incentives may be necessary to encourage the earliest residential activity to occur on the east side of Jefferson-Davis, given the residential character and numerous in-fill opportunities to the west.

1 Footnote
SOURCE: Source

THE 9,407 ANTICIPATED NET NEW UNITS TRANSLATE TO ~10.8 MILLION SF OF NEW RESIDENTIAL FOR THE STUDY AREA

Estimated New Residential Product in Crystal City Net New Units Present - 2050



SOURCE: RCLCO

CRITICAL ASSUMPTIONS

The conclusions and recommendations presented in this report are based on our analysis of the information available to us from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

Our conclusions and recommendations are based on certain assumptions about the future performance of the global, national, and/or local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing conclusions and making the appropriate recommendations. However, given the fluid and dynamic nature of the economy and real estate markets, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions and recommendations periodically to ensure that they stand the test of time.

We assume that, in the future, the economy and real estate markets will grow at a stable and moderate rate. However, history tells us that stable and moderate growth patterns are not sustainable over extended periods of time. Indeed, we find that the economy is cyclical and that the real estate markets are typically highly sensitive to business cycles. Our analysis does not necessarily take into account the potential impact of major economic "shocks" on the national and/or local economy and does not necessarily account for the potential benefits from a major "boom." Similarly, the analysis does not necessarily reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. The future is always difficult to predict, particularly given changing consumer and market psychology. Therefore, we recommend the close monitoring of the economy and the marketplace. The project and investment economics should be "stress tested" to ensure that potential fluctuations in the economy and real estate market conditions will not cause failure.

In addition, we assume that economic, employment, and household growth will occur more or less in accordance with current expectations, along with other forecasts of trends and demographic and economic patterns. Along these lines, we are not taking into account any major shifts in the level of consumer confidence; in the cost of development and construction; in tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth); or in the availability and/or cost of capital and mortgage financing for real estate developers, owners, and buyers. Should any of the above change, this analysis should probably be updated, with the conclusions and recommendations summarized herein reviewed accordingly (and possibly revised).

We also assume that competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand. Finally, we assume that major public works projects occur and are completed as planned.

GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.