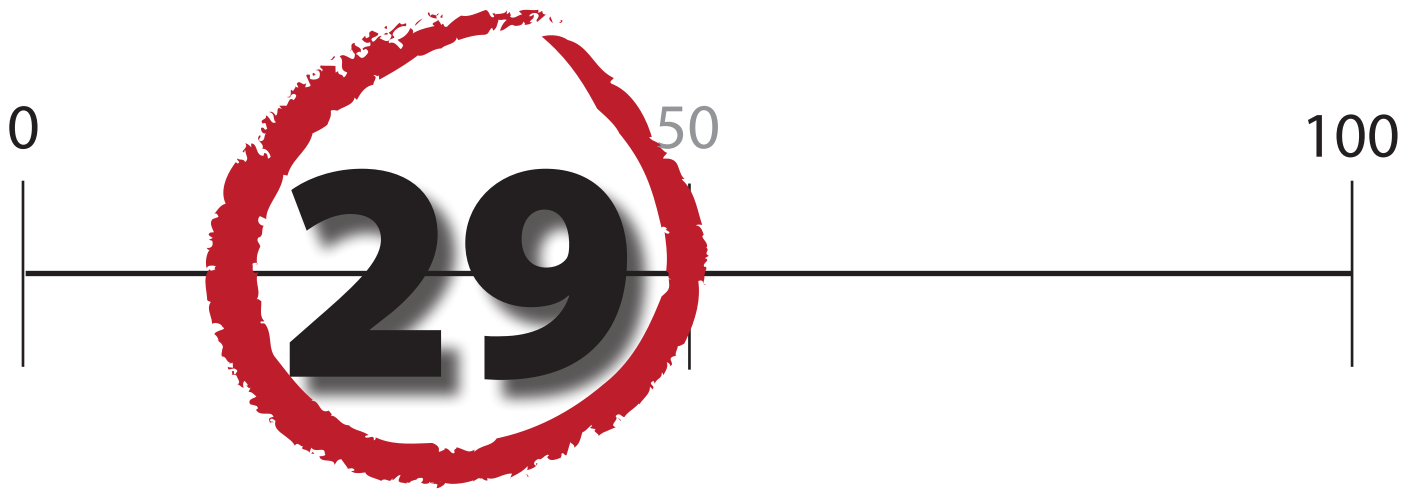
Metro DC
Architectural Confidence Index



We are pleased to provide you with the summary results of the third edition, Q4 2009 Metro DC Architectural Confidence Index. The inspiration for the ACI came from a roundtable discussion of the Real Estate Community's thought leaders with the intent to index past, current, and projected Architectural Confidence across a variety of local market segments.

The ACI Survey was sent to the area's senior leaders in the Architectural Community and was met again with an overwhelming response. 75% of the respondents were Partners/Owners, many of whom are with firms that have over 25 architects on staff.

The ACI is based on a 100 point scale, with 50 representing a neutral confidence level. Above 50 represents a positive confidence level while below 50 represents a negative confidence level.

The ACI index for Q4 2009 stands at 29 on a 100 point scale – **a drop of 5 points from Q3 2009**. Whereas in Q3 2009 73% of the firms surveyed experienced a decrease in billings from Q3 2008 to Q3 2009, 57% of firms reported Q4 2009 billings declining from Q4 2008 levels. Over 60% of those firms had decreased billings in excess of 10%.

In the Q3 2009 survey, only 31% of local firms anticipated Q4 2009 billings to increase. Fortunately, a greater number of firm's billings increased - 51% of the firms represented in the survey experienced increased billings. 22% saw billings decrease and 27% of local firm's billings remained about the same. Comparing Q1 2010 to Q4 2009, less than half of the local firms (45%) expect billings to increase.

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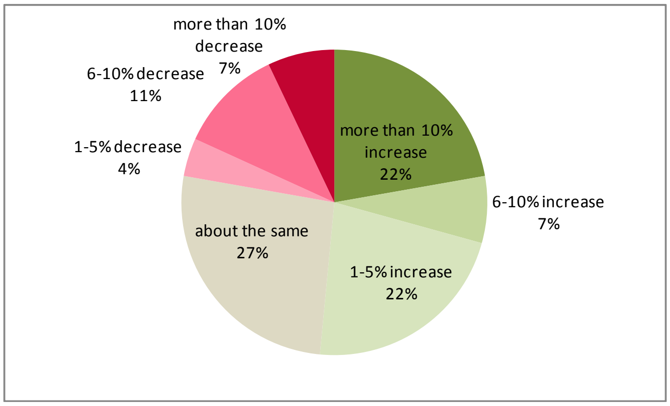
Compared to Previous Quarter.



Compared to Q3 2009, Q4 2009 billings increased for the first time since the inception of the ACI for 51% of local firms while billings remained about the same for 27% and decreased for 22% of local firms. The market segments that appeared to contribute most to increased billings from Q3 to Q4 2009 were Education (Private Colleges and Universities), Office Buildings, and again Tenant Interiors. Furthermore, a look at all previous ACI results demonstrates that the Healthcare market is a steady contributor to local firm's billings.

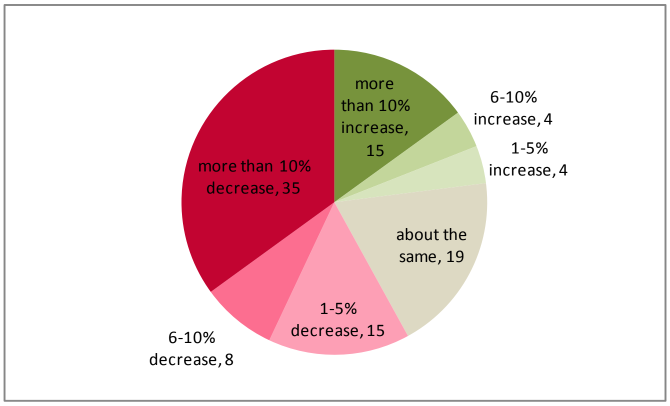
Of note, survey respondents saw a short-lived up-tick in the Multifamily Residential market in Q3 2009; that appears to have quickly changed. As one respondent put it, "We have no residential projects for the first time in 33 years" and yet another, "Construction costs have leveled, Government Interiors have increased, **Multifamily however has practically dropped.**"

> "We see signs that the worst is over; however, it will remain difficult for the next 12-18 months but will gradually improve over time."

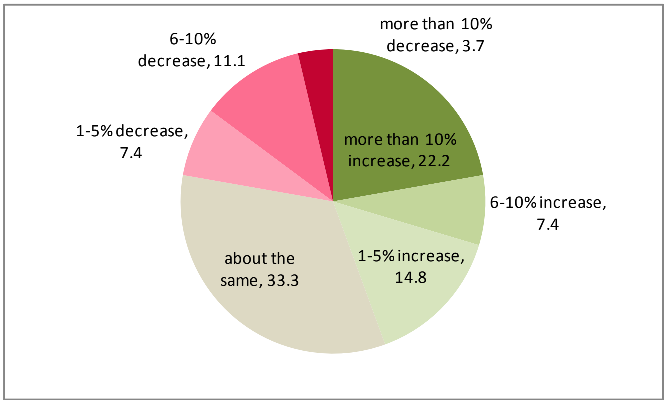
Compared to Last Year.

Compared to 2008's Q4 billings, 58% of area firms saw a reduction in billings, with over 60% of firms experiencing a greater than 10% decrease. The most frequently cited reason for the decrease in billings: lack of available financing for new projects and length of time clients are taking to make real estate related decisions.

Not surprisingly, the decline in Commercial Office Buildings remains the biggest factor in decreased billings from Q4 2008. Summed up precisely by one survey respondent, "This market is beginning to force change on those who did not see its trends and anticipate them. It's much later in the cycle then in earlier recessions."



Looking Forward.



In general, 2009 construction pricing was down by between 15 – 25% from 2008. We asked survey respondents to address this question: If construction pricing for a particular project came in below the client's budget, what percentage of clients chose to modify their program and add scope to spend their allotted budget?

Almost 100% of the respondents indicated that their clients chose to modify their program to add scope. 73% of the clients that chose to modify their program spent up to 50% of the gap between their budget and the original pricing they received; 26% spent 50% or more of the gap. In summary, most of the clients represented by the respondent firms took advantage of the decrease in construction pricing to adjust their program in a positive way, receiving more value for their dollar.

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Observations.

Overall, the outlook for Q1 2010 remains negative at 21 points off neutral. Area firms are making adjustments to shift resources from non-performing markets to performing markets. This is not without cost though. As some firms look to the Federal Government as a potential source of work, they are experiencing tremendous competition, indicating that pre-bid conferences for Federal work are "standing room only" and "it is not uncommon to see15 – 30 firms at a pre-bid meeting for one government project." Furthermore, local firms indicated that competition on Federal projects is putting downward pressure on fees and tightening up margins.

An overwhelming number of comments were received in response to this survey, and most indicated a common sentiment. Firms look at this period as a time to improve the quality of their service offerings in regards to staffing, client relations, and design solutions. Additionally, area firms are investing in improved technology, training for staff, and are reinvigorating their mission while finding new ways to gain market share.

Comments from Survey.

- This market is beginning to force change on those who did not see it's trends and anticipate them. It's much later in the cycle then in earlier recessions.
- Fed continues to dominate the market. Resurgence in commercial construction will be needed in the near term to meet demand. Danger is loss of stimulus projects before private lending and projects return to full strength.
- Projects we have won are very slow to start.
- Expect Federal sector to taper down, our institutional work seems to be holding its own. Stimulus work is winding down on the design side and I expect this to have a negative impact on architectural billings next quarter.
- There is a pulse again but a lack of confidence in the near term (2 year) future so everyone is cautious about hiring and spending.
- Very slow until the banks lend money to private developers.
- Construction cost have leveled, government interiors have increased, multifamily however has practically dropped
- We see signs that the worst is over. It will remain difficult for the next 12-18 months but will gradually improve over time.
- University work has been maintained at a very low volume.
- The government sector is very busy and continues to show great promise.
- Institutional work growing but other markets stagnate due to lack of financing.

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