

MARKETBEAT

BALTIMORE OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



1Q10

ECONOMY

Maryland has fared relatively well over the last two years with billions in federal spending on military defense, anti-terrorism, spying, cyber-security, homeland security and medical research insulating the region against some of the worst economic trauma. Much of the federal funding has been aimed at the Baltimore/Washington Corridor which is a significant economic engine for the region, comprising 45% of Maryland's population, 45% of Maryland's jobs and 43% of all Maryland's businesses. As a region, the Corridor surpasses 45 states and the District of Columbia in terms of attracting federal procurements.

Hiring unrelated to federal stimulus remains suppressed although layoffs in the region have slowed significantly. Until businesses respond to improving profitability by expanding their operations and growing their payrolls, the office market will remain subdued with limited opportunity for growth. The horizon for some BRAC move-ins has been extended and this will further reduce the office growth that was expected to begin in 2010.

OVERVIEW

The overall vacancy rate at the end of the first quarter remained unchanged from the fourth quarter of 2009, hovering around 15.8%. This is up from 14.7% at the end of first quarter 2009. The construction pipeline continues to empty with three projects being added to the inventory: 209 Research Blvd. (78,220 sf), 3700 Fleet St. (60,000 sf), and 1029 E. Baltimore St. (28,197 sf). There remains 1.2 million square feet (msf) under construction and expected to deliver before year-end. Direct rental rates for all classes of office product are the lowest since third quarter 2006, averaging \$22.76 per square foot (psf).

Investment sales remained virtually non-existent in the first quarter; however, it is expected that a number of distressed assets will come to market in 2010, prompting an increase in sales volume. Prices, already down 30% - 40% from their peak in October 2007, may decline another 10% or more in order to meet buyers' expectations.

FORECAST

Regional employment growth is expected in health care services, educational services, professional and science sectors and government. Areas that will continue to suffer include manufacturing, financial services, real estate and the construction trade. It is expected that employment growth in the area will remain flat in 2010, exhibit a 1.5% growth in 2011 and a 3.1% increase in 2012. Large loan volumes will be maturing in 2010 and how banks and lending institutions respond to requests for extension and modification of maturing loans will largely determine the landscape for commercial real estate in 2010. There will be very little incentive for new development except for BRAC-related opportunities, because of poor prospects for near-term job growth.

BEAT ON THE STREET



"Despite the continuing mixed signals in the national economy, we believe Maryland's economy may have touched bottom and begun the slow climb back. Recent tenant activity shows a slight, but demonstrable rise in demand, particularly in suburban markets. While rents are still under siege, we can see a gradual pull back in incentives and stabilization of inventories."

-David Baird, Senior Managing Director/Branch Manager

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	2.8%	3.7%
CPI Growth	-0.3%	1.9%	2.1%
Regional			
Unemployment	7.4%	7.5%	7.5%
Employment Growth	-0.4%	0.5%	1.5%

Source: Moody's | Economy.com

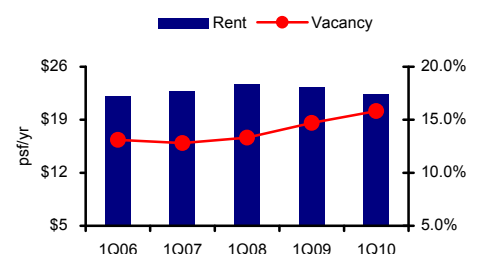
MARKET FORECAST

LEASING ACTIVITY will remain subdued, sublease space will decrease and tenants will look for early renewals. ➡

DIRECT ABSORPTION will be weak and geographically driven with the Corridor and Harford Co. seeing the most activity. ➡

CONSTRUCTION will remain static as the pipeline empties and little new inventory will be proposed. ➡

OVERALL RENTAL VS. VACANCY RATES



MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
CBD	14,546,107	81	17.9%	15.0%	23,387	0	0	30,773	(3,793)	\$26.56
Midtown	1,817,984	24	4.4%	4.3%	4,491	0	0	(872)	40	\$24.57
Northwest	1,747,193	13	31.6%	31.3%	0	0	0	7,684	3,833	n/a
Northeast	407,016	3	33.6%	33.6%	0	0	0	(14,673)	(14,673)	\$27.25
Southeast	4,279,980	41	15.6%	13.0%	17,582	453,412	0	(6,073)	(275)	\$24.16
Southwest	1,852,777	10	32.8%	32.1%	1,696	0	0	3,839	3,339	\$26.55
Baltimore City	24,651,057	172	18.9%	16.6%	47,156	453,412	0	20,678	(11,529)	\$25.82
Baltimore County East	896,344	20	16.7%	16.7%	0	40,200	0	(9,350)	(9,350)	\$23.38
Towson	4,171,773	53	12.1%	11.7%	8,018	0	0	38,363	40,395	\$23.25
Rt. 83 South	2,013,102	27	8.9%	8.9%	0	0	0	23,712	28,648	\$23.90
Rt. 83 North	4,864,016	56	11.7%	10.7%	40,890	0	0	58,571	41,940	\$23.31
Reisterstown Rd. Corr.	5,269,114	68	10.4%	10.1%	25,016	0	0	41,487	50,138	\$19.46
Woodlawn/Catonsville	2,834,430	39	10.0%	9.6%	26,482	0	0	40,550	37,743	\$16.26
Baltimore County	20,048,779	263	11.1%	10.7%	100,406	40,200	0	193,333	189,514	\$21.59
Annapolis	2,613,991	44	10.6%	9.7%	17,706	40,000	0	44,190	55,235	\$33.53
Rt. 2 North	306,652	7	13.2%	13.2%	4,676	0	0	8,554	8,554	\$25.90
Rt. 2 South	334,818	9	15.0%	13.7%	0	0	0	6,578	6,578	\$23.80
BWI Anne Arundel	4,675,090	42	28.3%	27.1%	125,000	160,000	0	2,302	2,302	\$27.92
BWI North Linthicum	2,672,293	33	11.0%	10.8%	13,100	0	0	(17,835)	(17,835)	\$27.40
I-97/Crain Hwy.	503,979	11	3.7%	3.7%	0	80,600	0	2,635	2,635	\$22.30
Anne Arundel County	11,106,823	146	18.0%	17.2%	160,482	280,600	0	46,424	57,469	\$26.81
Columbia North	1,525,248	26	18.4%	18.1%	2,853	0	0	(14,641)	328	\$23.40
Columbia South	6,904,048	93	12.4%	10.5%	103,808	204,818	0	(40,620)	(18,134)	\$24.93
Town Center	2,093,821	26	16.3%	15.5%	8,566	0	0	27,265	36,439	\$25.09
Ellicott City	357,970	9	5.4%	5.4%	1,364	0	0	3,843	3,843	\$22.67
BWI Howard Co.	636,010	12	50.2%	49.1%	3,112	0	0	39,691	(20,309)	\$24.64
Howard County	11,517,097	166	15.8%	14.4%	119,703	204,818	0	15,538	2,167	\$24.15
Harford County	656,136	15	6.5%	6.5%	36,849	264,948	78,220	60,042	60,042	\$24.47
Harford County	656,136	15	6.5%	6.5%	2,652	264,948	78,220	60,042	60,042	\$24.47
CBD	14,546,107	81	17.9%	15.0%	23,387	0	0	30,773	(3,793)	\$26.56
NON-CBD	53,433,785	681	15.2%	14.4%	441,209	1,243,978	78,220	305,242	301,456	\$24.49
BALTIMORE TOTAL	67,979,892	762	15.8%	14.5%	464,596	1,243,978	78,220	336,015	297,663	\$24.57

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
National Business Park	BWI Anne Arundel	Federal Government	125,000	A
210 Research Blvd.	Harford County	Northrop Grumman	27,472	A
20 Wight Ave.	Rt. 83 North	HMS Insurance	25,000	A

SIGNIFICANT 1Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
N/A				

SIGNIFICANT 1Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
209 Research Blvd.	Harford County	MITRE Corp.	78,220	2/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
130 Thames St.	Southeast	Morgan Stanley	278,412	5/10
308 Sentinel Dr.	BWI Anne Arundel	N/A	160,000	8/10



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*Market terms & definitions based on BOMA and NAIOP standards.

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