MARKETBEAT

BALTIMORE OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD®
Global Real Estate Solutions℠

2Q10

ECONOMY

Government stimulus funds and the BRAC initiative remain important drivers of employment for the Baltimore region. Maryland received over $4.3 billion in stimulus funds since the inception of the program, with the majority of funding coming from the Department of Health and Human Services and the Department of Education. According to Recovery.gov, 6,728 jobs were created by the stimulus program.

The Baltimore metropolitan area unemployment rate declined by 1.4 percentage points from the beginning of the year, ending April at 7.2%. Since January, government employment has added 10,000 jobs to Maryland. In addition to the government sector, the professional and business services sector experienced an uptick in employment from the beginning of the year.

OVERVIEW

Increased momentum in the market tightened vacancy rates in non-CBD areas. Anne Arundel, Harford and Howard counties saw their overall vacancy rates decline from the beginning of the year. Notable shifts that contributed to the decline included Stanley's move to 30,000 square feet (sf) at 300 Sentinel Drive and MITRE Corporation's move to 54,335 sf at 209 Research Boulevard. The CBD overall vacancy rate experienced an increase of less than one percentage point to 17.1%, due to the delivery of 1300 Thames Street which added 125,000 sf of vacant space to the market.

Year-to-date leasing activity registered at 1.2 million square feet (msf). The majority of the second quarter's leasing activity was centered around the CBD, BWI/Anne Arundel and Route 83 Corridor North submarkets. Leases signed in class A buildings amounted to nearly 73.0% of transactions, supporting the emerging trend that tenants are gravitating towards higher-quality space.

The Baltimore market's class A average direct asking rental rate, at $26.29 per square foot (psf), was over $6.00 psf more than the average class B rate. At $31.46 psf and $17.24 psf, respectively, the Harford and Route 2 North submarkets reported the highest and lowest direct asking rental rates.

Nearly 1.2 million square feet (msf) remains under construction in the Baltimore area, with most of the new pipeline situated in the non-CBD markets. Only two projects delivered during the second quarter: 1300 Thames Street (278,412 sf) and 301 Mason Lord Drive (100,000 sf). Before the close of 2010, an additional 868,343 sf is expected to deliver.

FORECAST

Market momentum should continue to pick up in the second half of the year. Shrinking vacancy rates and positive absorption point to a slow recovery. There are reportedly five tenants seeking over 50,000 sf each in the CBD. Additionally, job requirements from BRAC and government contractors will remain an important part of future leasing activity in the Baltimore metropolitan market.

BEAT ON THE STREET

"I think we have made it through to the other side of this down cycle and I do not foresee any further deterioration in the commercial real estate market at this point. If demand picks up, we will all be smiling at this time next year."

-Courtenay Jenkins, Senior Director

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	7.4%	8.4%	8.2%
Employment Growth	-4.4%	-1.6%	1.7%

Source: Moody's | Economy.com

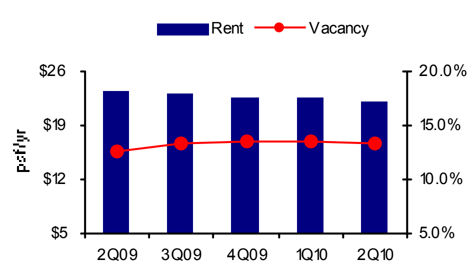
MARKET FORECAST

LEASING ACTIVITY will remain slow but steady. Renewals will decrease as tenants take advantage of discounted rents for quality space.

DIRECT ABSORPTION will remain positive and high for Anne Arundel and Harford Counties.

CONSTRUCTION will finish for most of the pipeline before the year ends, but expect no new groundbreakings until the market stabilizes.

OVERALL RENTAL VS. VACANCY RATES



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BALTIMORE OFFICE REPORT 2Q10

MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	YTD UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
CBD	13,835,403	78	17.8%	14.6%	162,645	76,204	0	(15,296)	(69,709)	$25.88
Midtown	1,817,984	24	3.7%	3.6%	4,491	0	0	11,941	12,853	$25.00
Northwest	1,222,609	12	6.3%	5.8%	996	0	0	21,296	17,445	N/A
Northeast	112,016	2	0.0%	0.0%	0	0	0	(14,673)	(14,673)	N/A
Southeast	4,549,199	42	17.8%	15.4%	51,766	75,000	378,412	236,898	248,094	$32.70
Southwest	1,852,777	10	31.4%	30.7%	8,996	0	0	30,659	30,159	$38.00
Baltimore City	23,389,988	168	17.1%	14.6%	228,894	151,204	378,412	270,825	224,169	$28.11
Baltimore County East	891,544	20	15.3%	15.3%	10,738	0	0	36,260	36,260	$23.31
Towson	3,725,330	49	13.2%	12.8%	20,285	172,500	0	49,275	49,781	$23.41
Rt. 83 South	1,953,102	26	10.3%	10.2%	21,428	0	0	(13,211)	(9,490)	$25.07
Rt. 83 North	4,747,526	53	11.7%	10.6%	162,173	0	0	68,013	51,382	$24.11
Reisterstown Rd. Corr.	5,229,114	67	10.8%	10.5%	37,944	0	0	14,508	23,710	$18.75
Woodlawn/Catonsville	2,815,828	39	9.2%	8.8%	35,211	0	0	58,860	56,249	$25.40
Baltimore County	19,362,444	254	11.4%	10.9%	287,779	172,500	0	213,705	207,892	$23.15
Annapolis	2,478,149	42	6.7%	5.8%	36,305	40,000	0	67,500	79,955	$30.37
Rt. 2 North	202,611	5	10.3%	10.3%	2,577	0	0	(3,022)	(3,022)	N/A
Rt. 2 South	302,818	8	11.3%	11.3%	2,443	0	0	6,578	10,735	$15.15
BWI Anne Arundel	4,268,435	38	11.6%	10.9%	461,842	160,000	0	453,317	480,615	$28.56
BWI North Linthicum	2,617,230	32	10.0%	9.9%	38,114	0	0	(44,388)	(40,407)	$25.04
I-97/Crain Hwy.	503,978	11	3.7%	3.7%	0	29,600	0	2,635	2,635	$23.50
Anne Arundel County	10,373,221	136	9.6%	9.1%	541,281	229,600	0	482,620	530,511	$28.22
Columbia North	1,190,561	21	10.5%	10.3%	7,941	0	0	(5,630)	11,562	$21.62
Columbia South	6,788,107	90	11.3%	9.7%	164,250	160,000	0	78,893	(30,592)	$25.18
Town Center	2,052,433	25	14.5%	14.1%	17,524	0	0	50,690	67,164	$24.99
Ellicott City	206,770	5	3.3%	3.3%	3,000	0	0	3,663	3,663	$23.18
BWI Howard Co.	636,973	12	40.4%	39.3%	9,622	0	0	21,947	21,947	$25.19
Howard County	10,874,844	153	13.3%	12.2%	202,337	160,000	0	149,563	73,744	$24.80
Harford County	656,136	15	2.2%	2.2%	9,874	435,743	78,220	88,303	88,303	$34.00
Harford County	656,136	15	2.2%	2.2%	9,874	435,743	78,220	88,303	88,303	$34.00
CBD	13,835,403	78	17.8%	14.6%	162,645	76,204	0	(15,296)	(69,709)	$25.88
NON-CBD	50,821,230	648	12.2%	11.4%	1,107,520	1,072,843	456,632	1,220,312	1,194,328	$23.66
BALTIMORE TOTAL	64,656,633	726	13.4%	12.1%	1,270,165	1,149,047	456,632	1,205,016	1,124,619	$26.29

* Rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
100 Light Street	CBD	Ober Kaler	92,778	A
9770 Patuxent Woods Drive	Columbia South	Source Fire, Inc.	58,000	B
20 Wight Avenue	Rt. 83 North	HMS Insurance Associates, Inc.	32,043	A

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
1 Investment Place	Towson	Caves Valley Partners Damian O'Doherty	172,500	$4,000,000

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1300 Thames Street	Southeast	Morgan Stanley	278,412	5/10
301 Mason Lord Drive	Southeast	N/A	100,000	4/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
308 Sentinel Drive	BWI Anne Arundel	N/A	160,000	8/10
9070 Sterling Drive	Columbia South	N/A	160,000	8/10
Fort Ave (The Offices at McHenry Row)	Baltimore Southeast	N/A	75,000	9/10

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