MARKETBEAT

BALTIMORE OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD® Global Real Estate Solutions℠

3Q10

ECONOMY

According to the National Bureau of Economic Research (NBER), the U.S. economy continued to see a steady uptick in economic activity since the recession's end in June 2009. Economic growth attributable to rising capital and consumer spending dispelled concerns of a double-dip recession in the third quarter. Despite signs of job creation, consumer confidence remained wary as the national unemployment rate stood at 9.6% for August 2010. Maryland's preliminary August 2010 unemployment rate of 7.3%, 2.3 percentage points below the national unemployment rate, reflected the state's lesser impact from the recession due to government spending and strong educational and health care sectors.

Government spending remained the primary driver of economic activity for the Baltimore metropolitan area. Base Realignment and Closure (BRAC) related growth finally shed light as activity began to disperse outside the confines of Fort Meade and the Aberdeen Proving Ground (APG). Fort Meade is expected to increase its workforce to 48,000 workers by year-end, a 41.0% increase in employment from a year ago. By 2011, Fort Meade will house the National Security Agency (NSA), Defense Information Systems (DISA), Defense Media Activity, and Defense Adjudication. Separate from BRAC is the future establishment of the Fort Meade Cyber Command. The Fort Meade Cyber Command will act as a joint headquarters for the military's intelligence departments and require approximately 5.8 million square feet (sf) of space between 2015-2020. Growth resulting from the Fort Meade Cyber Command remains a moving target as government security provisions and contracting needs are largely ambiguous.

OVERVIEW

In the third quarter of 2010, the Baltimore office market was relatively quiet as activity was limited during the summer months. The Baltimore office market's overall vacancy rate increased less than half a percentage point from the second quarter to 13.8%. The CBD reached a historical 18.0% overall vacancy rate peak in the quarter as 100 Light Street remains physically vacant until Ober Kaler and Transamerica occupy the building in late 2011. Announced upon the third quarter's end, Transamerica will relocate from 1111 North Charles Street to 100 Light Street in a 140,526 square foot (sf), ten year lease. Although an increased number of tenants in the market exist, absorption in the CBD will remain relatively stable as leasing activity will primarily capture relocation of existing tenants within the market.

Non-CBD activity remains concentrated in Anne Arundel and Harford County due to BRAC and anticipated demand generated from the future Fort Meade Cyber Command. National Business Park, situated across from Fort Meade, delivered the hundred percent occupied 151,000-sf 308 Sentinel Drive in the third quarter. 324 Sentinel Drive broke ground in the quarter and is expected to deliver125,130 sf by early 2011 with a hundred percent occupancy. Asking rental rates for 308 and 324 Sentinel Drive at $35.00 to $36.00 per square foot (psf) are comparable to rates quoted at The GATE in Harford County and 1300 Thames Street in the Southeast submarket. The GATE near APG with asking rental rates of $34.00 psf, delivered the 31,280-sf 6245 Guardian Gateway with only 8,000 sf available for lease. Tight credit and unknown government and contractor security requirements have hindered construction as developers struggle to anticipate future tenant needs in a cost efficient manner.

OUTLOOK

In line with national trends, the CBD's overall and direct vacancy rates will hover above non-CBD submarkets rates as financial firms slowly recover and allocation of government- related activity rests in Anne Arundel and Harford County. Positive absorption is expected for Anne Arundel and Harford County in the fourth quarter as BRAC's operational deadline of September 2011 nears, particularly in the submarkets of BWI/Anne Arundel which surround Fort Meade and APG.

BEAT ON THE STREET

"Fostered primarily by continued growth in the publicly funded private sector, we are experiencing an increase in near term pipeline activity indicating an anticipated uptick in demand for the next two quarters. As a result, we expect vacancies to begin a decline particularly in the BWI and I-83 corridors."

– Tim Jackson, Senior Director

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.6%	2.7%	3.1%
CPI Growth	-0.3%	1.6%	1.6%
Regional			
Unemployment	7.4%	7.7%	7.7%
Employment Growth	-4.4%	-0.9%	1.6%

Source: Moody's | Economy.com

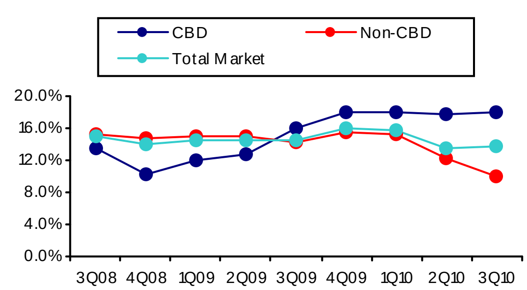
MARKET FORECAST

LEASING ACTIVITY is expected to increase in the fourth quarter as aggressive landlord concessions encourage tenant flight to quality.

DIRECT ABSORPTION in Anne Arundel and Harford County will remain positive due to BRAC's operational deadline of September 2011.

CONSTRUCTION pipeline will deliver over 700,000 sf of space in 2011 due to government-related demand.

OVERALL VACANCY RATE TRENDS



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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	18.0%	14.8%	258,604	0	0	(45,000)	(99,480)	$25.77
Midtown	1,817,984	24	3.0%	2.9%	35,835	0	0	24,536	25,448	$25.25
Northwest	1,222,609	12	5.2%	4.8%	0	0	0	8,814	5,988	N/A
Northeast	112,016	2	0.0%	0.0%	0	0	0	(14,673)	(14,673)	N/A
Southeast	4,549,199	42	17.9%	17.3%	92,145	75,000	378,412	154,429	241,926	$34.53
Southwest**	1,852,777	10	30.6%	29.9%	23,225	0	0	44,601	44,101	$42.00
Baltimore City	23,389,988	168	17.1%	14.9%	409,809	75,000	378,412	172,707	203,310	$28.91
Baltimore County East	891,544	20	16.0%	16.0%	0	0	0	30,119	30,119	$24.46
Towson	3,725,330	49	13.5%	13.2%	56,881	150,500	0	34,001	35,515	$23.58
Rt. 83 South	1,953,102	26	12.5%	12.4%	21,428	0	0	(56,158)	(52,437)	$25.15
Rt. 83 North	4,738,244	53	10.8%	9.9%	183,408	0	0	105,958	93,002	$24.21
Reisterstown Rd. Corr.	5,229,114	67	10.8%	10.5%	82,576	40,000	0	17,555	26,757	$20.79
Woodlawn/Catonsville	2,815,828	39	10.1%	10.0%	37,785	0	0	24,478	30,579	$25.36
Baltimore County	19,353,162	254	11.6%	11.2%	382,078	190,500	0	155,953	163,535	$23.88
Annapolis	2,478,149	42	7.8%	7.1%	49,393	0	0	35,559	52,079	$30.94
Rt. 2 North	202,611	5	11.5%	11.5%	7,376	0	0	(5,512)	(5,512)	N/A
Rt. 2 South	262,818	7	13.0%	13.0%	0	0	0	6,578	10,735	$25.75
BWI Anne Arundel	4,419,435	39	12.5%	12.3%	528,476	125,130	151,000	418,349	470,647	$28.75
BWI North Linthicum	2,617,230	32	9.8%	9.7%	72,492	0	0	(39,212)	(35,231)	$23.91
I-97/Crain Hwy.	503,978	11	3.3%	3.3%	0	29,600	0	4,635	4,635	$23.50
Anne Arundel County	10,484,221	136	10.3%	10.0%	657,737	154,730	151,000	420,397	497,353	$28.47
Columbia North	1,190,561	21	11.5%	11.4%	38,576	0	0	(17,890)	(698)	$23.58
Columbia South	6,788,107	90	12.7%	11.5%	334,400	313,500	0	(41,035)	(126,288)	$25.93
Town Center	2,052,433	25	15.7%	15.7%	103,736	0	0	17,380	42,927	$25.10
Ellicott City	206,770	5	2.9%	2.9%	1,364	0	0	4,386	4,386	$22.53
BWI Howard Co.	636,973	12	46.1%	46.1%	16,212	0	0	(21,461)	(14,361)	$25.51
Howard County	10,874,844	153	14.9%	14.1%	494,288	313,500	0	(58,620)	(94,034)	$25.29
Harford County	687,416	16	2.8%	2.8%	96,492	358,668	109,500	114,379	114,379	$34.00
Harford County	687,416	16	2.8%	2.8%	96,492	358,668	109,500	114,379	114,379	$34.00
CBD	13,835,403	78	18.0%	14.8%	258,604	0	0	(45,000)	(99,480)	$25.77
NON-CBD	50,954,228	649	10.0%	9.6%	1,781,800	1,092,398	638,912	849,816	984,023	$27.24
BALTIMORE TOTAL	64,789,631	727	13.8%	12.8%	2,040,404	1,092,398	638,912	804,816	884,543	$26.86

* Rental rates reflect $psf/year
**Revised

MARKET HIGHLIGHTS

SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
100 Light Street*	CBD	Transamerica	140,526	A
309 Sentinel Drive	BWI/Anne Arundel	Stanley	28,444	A
930 Ridgebrook Road	Rt. 83 North	FILA	24,563	A

SIGNIFICANT 3Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
308 Sentinel Drive	BWI/Anne Arundel	N/A	151,000	8/10
6245 Guardian Gate	Harford County	N/A	31,280	8/10
Fort Ave (The Offices at McHenry Row)*	Southeast	N/A	75,000	9/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
324 Sentinel Drive	BWI/Anne Arundel	N/A	125,130	1/11
4696 Millenium Drive	Harford County	ManTech International Corp.	125,000	3/11
6280 Guardian Gateway	Harford County	L-3 Communications Corp.	74,334	11/10

* Closed post production of statistics

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*The Market terms and definitions in this report are based on NAIOP standards.