MARKETBEAT

BALTIMORE OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

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4Q09

ECONOMY

At year-end, the Baltimore office market is beginning to show some signs of rebirth but the overall sense is still one of malaise. Office buildings and retail shopping centers remain exceptionally vulnerable as employment continues to fall and discretionary consumer spending remains weak. In Maryland, certain industries including defense, information technology and biosciences are being helped out of the recession by government spending and the military's BRAC program. But the economic uncertainty that froze spending and ravaged corporate revenue is lagging and that is helping to keep unemployment levels high, currently at 7.4%

The metro area has transitioned from a manufacturing to a knowledge-based economy and the drivers of growth have been quality of life, higher education, the downtown resurgence, health care, merging DC and Baltimore markets, a strategic Northeast location, BRAC and a geographically well-connected infrastructure.

OVERVIEW

Office fundamentals continue to weaken due to a broader economic slowdown. Net absorption of office space has fallen considerably as businesses have grown cautious regarding space requirements. The overall vacancy rate rose to 16.2 % in the fourth quarter from 14.4% at the end of the first quarter. Absorption in the fourth quarter was negative and it appears the area is headed for an extended period of anemic demand. Vacancy rates will likely understate the extent of oversupply in the market. There is a great deal of leased but vacant space available for sublet and there is a significant amount of underutilized space. Many businesses could boost hiring significantly without leasing any additional space.

The financial storm of 2008 and the painful recession that followed still dominate the investment landscape: most buyers are still waiting for fire-sale-style deals. There were 20 office sales in 2009, 24 in 2008. Buyers are paying almost 22% less per square foot (psf) than a year ago, $184.90 psf in 2008, $160.15 psf in 2009. Total sales volume in 2009 was $456.9 million while 2008 saw $662.7 million.

FORECAST

2010 will likely be a transitional year rather than a turning point in the recovery process: pent-up negative net absorption will continue to plague the market and undermine rents as companies step up consolidation; rents will decrease by 10%-15%; there will be several more quarters of negative absorption but less dramatic than seen in 2009; tenants will continue to hoard capital and shy away from long-term lease commitments. As landlords struggle to maintain tenants and attract new ones, they must face the reality that many businesses are engaged in a flight to value and quality. Lower rents and added incentives permit them to sign leases in space that may have been out of financial reach in other times.

BEAT ON THE STREET

"As we enter 2010, there is a sense of optimism among industry professionals that we may finally see signs of recovery by year-end. However, the Baltimore office market has held up reasonably well throughout the downturn relative to other office markets, in large measure because of its proximity to Washington, D.C. and its strong government and health care industries."

–Richard Thomas, Associate

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%
Regional			
Unemployment	5.8%	7.4%	7.0%
Employment Growth	1.0%	-0.4%	0.5%

Source: Moody's | Economy.com

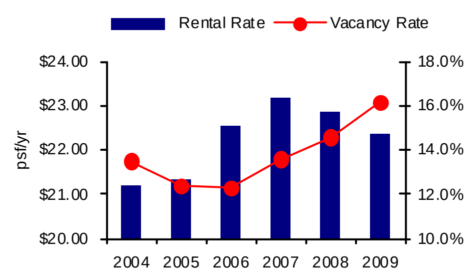
MARKET FORECAST

LEASING ACTIVITY is expected to remain weak through mid-2010 with BRAC activity kicking in by year-end.

DIRECT ABSORPTION is expected to remain anemic through most of 2010, potentially increasing by year-end.

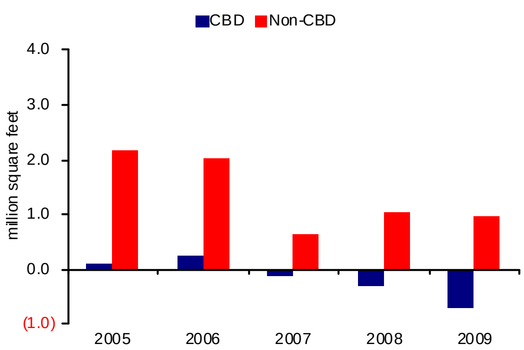
CONSTRUCTION: A constrained pipeline will empty and no new build-to-suits will occur until late in 2010.

OVERALL RENTAL VS. VACANCY RATES



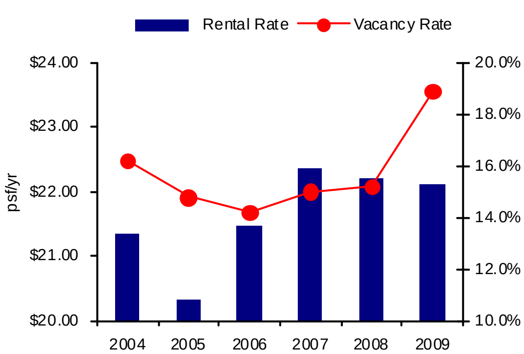
BALTIMORE CITY

Overall Absorption CBD vs. Non-CBD



- The CBD was hit hard by corporate defections to other parts of the city as well as downsizing due to bank mergers. The Southeast submarket was the benefactor of some of the corporate defections while the Northwest submarket reeled under the 400,000 sf departure of Zurich Insurance.
- Columbia South and BWI Howard submarkets saw strong absorption throughout most of 2009 and Baltimore County showed positive absorption three of the four quarters.

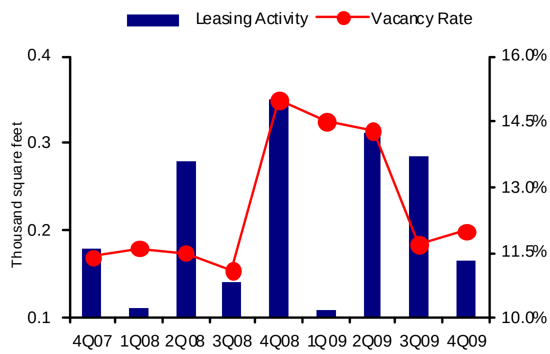
Overall Rental vs. Vacancy Rates



- As vacancy rose steeply during 2009, overall rental rates showed considerably less fluctuation. With some geographical exceptions, rental rates fell only about 3% during the year.
- Baltimore City experienced negative absorption all four quarters this year while the Southeast remained a bright spot with positive absorption throughout 2009.

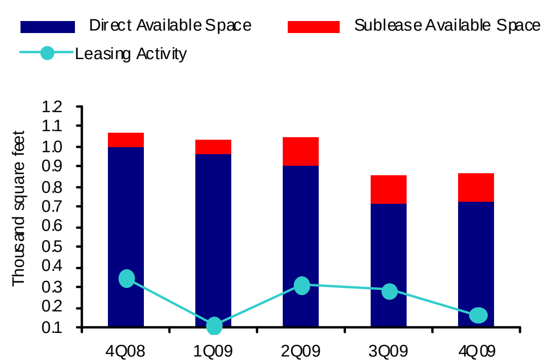
COLUMBIA SOUTH

Overall Leasing Activity vs. Vacancy Rates



- Leasing activity totaled more than 500,000 sf in 2009 and positive absorption occurred in the first three quarters. The submarket's proximity to Fort Meade and the BRAC activity there is expected to ensure strong leasing fundamentals over the next three years.
- The Baltimore/Washington Corridor remains the most active in the metro area for both leasing and new development.

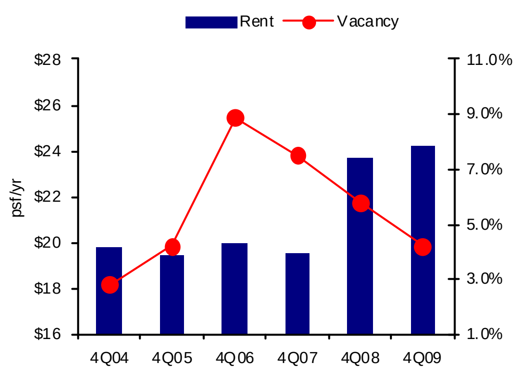
Available Space Trends vs. Leasing Activity



- Non-residential construction has pulled back significantly, as many commercial projects have been delayed or cancelled. Columbia South saw 131,151 sf delivered in 2009, nearly 500,000 sf delivered in 2008.
- Occupancy rates rose from 85.5% in the first quarter to 88.2% at the end of the fourth quarter.

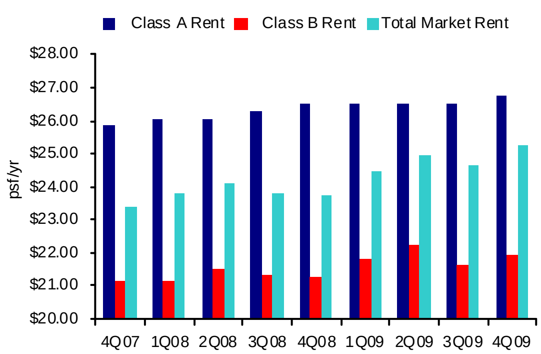
HARFORD COUNTY

Overall Rental vs. Vacancy Rates



- St. John Properties and Corporate Office Properties Trust recently broke ground on new developments around Aberdeen Proving Ground, both seeking to meet the increased need for contractor space around the Army base.
- Absorption has been meager, but positive, over the last seven quarters as the expected influx of new BRAC jobs has been slow to materialize.

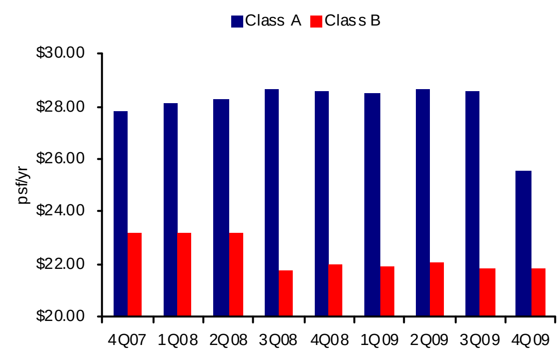
Direct Rental Rate Trends



- Total market rental rates have seen a 5% fluctuation over the last two years, from $23.73 psf to $25.27 psf with escalations in three of the last four quarters.
- Two of the most significant transactions in Harford County were Raytheon's 80,000-sf build-to-suit and L-3 Communications 74,334-sf lease, both capitalizing on proximity to APG.

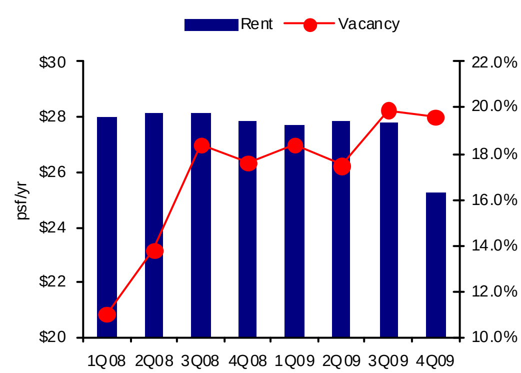
BWI/ANNE ARUNDEL

Direct Rental Rates Class A vs. Class B



- This submarket and the Southeast submarket have seen the most new construction delivered in 2009 and asking rents are the highest in the metro area.
- Because of its proximity to Fort Meade, the office market is expected to heat up over the next two years as BRAC implementation gains traction.

Overall Rental vs. Vacancy Rates



- After seven quarters of scant fluctuation in rent, the fourth quarter saw a nearly 10% drop in overall rental rates to $25.53 psf.
- There will likely be no new construction advanced until the current overhang can be reduced. Much of the proposed development is centered around BRAC and the horizon for move-ins at Fort Meade has been extended by the Army.

MARKETBEAT

BALTIMORE OFFICE REPORT 4Q09

MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
CBD	14,546,107	81	17.9%	15.2%	293,231	0	0	(1,101,832)	$24.60
Midtown	1,845,690	25	4.3%	4.2%	31,219	0	0	8,897	$24.30
Northwest	1,747,193	13	31.9%	31.7%	9,479	0	0	(465,250)	n/a
Northeast	407,016	3	30.0%	30.0%	14,910	0	0	31,210	$27.25
Southeast	4,279,980	41	15.6%	12.9%	146,634	546,609	666,218	427,310	$25.95
Southwest	1,852,777	10	33.0%	32.4%	10,800	0	0	6,726	$26.80
Baltimore City	**24,678,763**	**173**	**18.8%**	**16.7%**	**506,273**	**546,609**	**666,218**	**(1,092,939)**	**$25.78**
Baltimore County East	896,344	20	15.6%	15.6%	41,878	40,200	45,000	(13,995)	$22.40
Towson	4,171,774	53	13.0%	12.6%	103,649	0	0	154,873	$22.80
Rt 83 South	2,058,102	28	10.1%	9.9%	64,137	0	0	499	$23.27
Rt.83 North	4,819,016	55	12.7%	12.0%	107,721	0	53,798	16,326	$22.25
Reisterstown Rd. Corr.	5,269,114	68	11.3%	10.8%	147,528	93,000	0	40,699	$22.75
Woodlawn/Catonsville	2,675,295	36	12.0%	11.7%	42,221	47,000	0	90,792	$16.75
Baltimore County	**19,889,645**	**260**	**12.2%**	**11.7%**	**507,134**	**180,200**	**98,798**	**289,194**	**$21.70**
Annapolis	2,613,991	44	12.7%	11.4%	82,965	40,000	0	60,848	$32.60
Rt. 2 North	306,652	7	16.0%	16.0%	22,685	0	0	25,172	$25.90
Rt. 2 South	334,818	9	16.9%	15.7%	6,670	0	35,000	12,981	$24.56
BWI Anne Arundel	4,675,090	42	28.3%	19.3%	336,209	329,000	513,660	4,013	$25.53
BWI North Linthicum	2,672,293	33	10.3%	10.1%	5,273	0	156,215	(77,796)	$26.00
I-97/Crain Hwy.	503,978	11	4.2%	4.2%	25,922	29,800	0	(6,738)	$24.00
Anne Arundel County	**11,106,822**	**146**	**18.6%**	**17.6%**	**479,724**	**398,800**	**704,875**	**18,480**	**$26.43**
Columbia North	1,525,248	26	18.4%	17.2%	132,558	0	0	(7,180)	$25.00
Columbia South	6,980,998	94	12.0%	10.7%	544,007	249,818	131,451	445,221	$24.50
Town Center	2,093,821	26	18.1%	16.8%	115,267	0	0	(6,233)	$24.48
Ellicott City	357,970	9	6.5%	6.5%	10,127	0	0	32,969	$22.55
BWI Howard County	636,010	12	47.0%	45.9%	50,796	0	54,722	138,478	$22.40
Howard County	**11,594,047**	**167**	**15.7%**	**14.4%**	**852,755**	**249,818**	**186,173**	**603,255**	**$23.79**
Harford County	577,916	14	4.2%	4.2%	83,866	343,168	0	13,398	$22.75
Harford County	**577,916**	**14**	**4.2%**	**4.2%**	**83,866**	**343,168**	**0**	**13,398**	**$22.75**
CBD	**14,546,107**	**81**	**17.9%**	**15.2%**	**293,231**	**0**	**0**	**(1,101,832)**	**$24.60**
NON-CBD	**53,301,086**	**679**	**15.5%**	**14.8%**	**2,136,521**	**1,718,595**	**1,656,064**	**933,220**	**$24.15**
BALTIMORE TOTAL	**67,847,193**	**760**	**16.1%**	**14.9%**	**2,429,752**	**1,718,595**	**1,656,064**	**(168,612)**	**$25.01**

* Rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
6841 Benjamin Franklin Dr.	Columbia South	SAIC	171,000	A
600 Red Brook Blvd.	Reisterstown Rd Corr.	Zurich Insurance	132,000	A

SIGNIFICANT 2009 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
10453-10455 Mill Run Cir.	Reisterstown Rd Corr.	AVG Partners	389,933	$88,500,000
1501 S. Clinton St.	Southeast	COPT CC Tower LLC	476,910	$78,969,104

SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
100 International Dr.	Southeast	Legg Mason	590,109	8/09
300 Sentinel Dr.	BWI/AA	MITRE Corp.	188,000	8/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1300 Thames St.	Southeast	Morgan Stanley	278,412	04/2010
7797 Arundel Mills Blvd.	BWI/AA	N/A	175,800	10/2010

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