MARKETBEAT

BALTIMORE OFFICE REPORT

4Q10

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

ECONOMY

The US economy in 2010 continued to slowly recover from the impacts of the Great Recession which lasted from December 2007 to June 2009, according to the National Bureau of Economic Research (NBER). Government spending remained the primary driver for economic recovery as impacts of the $787 billion dollar American Recovery and Reinvestment Act of 2009 (ARRA) extended various employment tax credits and pumped massive funds into infrastructure, health care and education projects. Despite the avoidance of a double-dip recession and pent up demand for labor, ARRA was not able to stimulate rapid job creation growth due to tight credit and lack of confidence in the market within the private sector. The national unemployment rate stood at 9.8% in November 2010, a 0.2 percentage point decline from January 2010. Maryland continued to be shielded from the impacts of recession due to stimulus and military spending as its preliminary unemployment rate posted at 7.4%, 2.4 percentage points below the national unemployment rate.

OVERVIEW

Signs of economic recovery were evident in 2010 for the Baltimore office market as government spending fueled office space demand to satisfy Base Realignment Act Closure (BRAC) and health care reform related activity. The overall vacancy rate returned to year-end 2008 levels at 14.0% and decreased two percentage points from the fourth quarter of 2009 to the fourth quarter of 2010. The decline in the overall vacancy rate was most evident in Baltimore's Non-CBD submarkets. Due to controlled supply and nearing of BRAC's operational deadline of September 2011, Harford County's overall vacancy rate decreased over four percentage points from second quarter of 2007 to year-end 2010 at 6.2%. Class B office space performed better than class A space as occupancy rates stood at 87.2% and 83.3%, respectively, at year-end 2010.

Impacted significantly by the economic downturn, the Baltimore CBD began to see an uptick in activity in the second half of 2010. The overall vacancy rate for the CBD increased 0.3 of a percentage point to 18.2% from the first quarter to fourth quarter of 2010. In the second half of 2010, Ober Kaler and Transamerica executed the largest 2010 CBD leases totaling 235,734 square feet (sf) in 100 Light Street with an occupancy date of late 2011. Relocating from 1111 North Charles Street, Transamerica will occupy 140,526 sf on floors 27 through 35 in 100 Light Street. Ober Kaler will occupy 94,213 sf in 100 Light Street once it vacates its premises at 120 East Baltimore Street in 2011. Considering all things constant, Ober Kaler's and Transamerica's move-ins will decrease both the CBD overall and direct vacancy rate one percentage point in 2011. Overall tenant activity remained strong at years-end as tenants sought desirable class A rents of $23.50 to $27.50 psf along Pratt Street. Rents are expected to flat line in 2011 and renewals will continue to be negotiated three to four years in advance as the CBD tackles a 20.1% class A overall vacancy rate.

Beneficiary of BRAC and health care activity, Baltimore's Non-CBD overall vacancy rate posted at 12.8% at year-end 2010. Its overall vacancy rate decreased 2.7 percentage points since the fourth quarter of 2009 due to health care activity in Baltimore County and military activity in Anne Arundel, Harford and Howard County. In the fourth quarter, GSA executed on behalf of the Center for Medicare and Medicaid Services (CMS) a 74,000-sf lease at 7205 Windsor Boulevard and 66,707-sf lease at 7210 Ambassador Road in Baltimore County. The new 538,000-sf Social Security Administration (SSA) center at 6100 Wabash Avenue is expected to deliver by 2014.

BRAC driven activity in Anne Arundel, Harford and Howard County remained key in 2010 as tenant and government relocations began to pick up momentum. Fort Meade will house the following agencies in 2011: National Security Agency (NSA), Defense Information Systems (DISA), Defense Media Activity and Defense Adjunction. Starting in January 2011, approximately 555 workers per month will be moved to Fort Meade for the relocation of DISA alone. In Harford County, Aberdeen Proving Ground (APG) will absorb agencies like U.S. Army Test and Evaluation Command (ATEC) and support communications operations of Army Team C4ISR by late 2011. Rental rates range from $32.00 to $37.50 psf with $40.00 to $45.00 in tenant improvements near Fort Meade and APG. Supply of class A office space near Fort Meade and APG will remain tight until the construction pipeline delivers 770,000 sf in 2011.

OUTLOOK

The Baltimore office market is slated for positive recovery in 2011 as vacancy rates have stabilized, construction activity remains controlled and tenants continue to be active in the market. Absorption will be limited in the CBD as tenant move-ins will generally reflect relocation within the submarket. 2011 activity in Anne Arundel, Harford and Howard County will yield positive absorption but lack of existing space may be problematic in Harford County until 452,100 sf delivers in late 2011.

BEAT ON THE STREET

"Leasing activity continues to show positive results in the fourth quarter with vacancy rates slightly decreasing in most markets for the first time in three years."

-Hayes Merkert, Senior Director

ECONOMIC INDICATORS

National	2009	2010	2011F
GDP Growth	-2.6%	2.8%	2.8%
CPI Growth	-0.3%	1.6%	1.5%
Regional			
Unemployment	7.4%	7.9%	8.4%
Employment Growth	-4.4%	-1.6%	0.7%

Source: Moody's | Economy.com

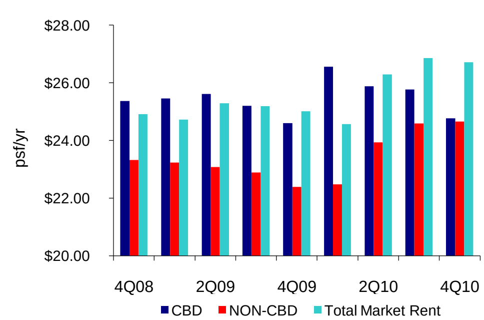
MARKET FORECAST

LEASING ACTIVITY will increase in 2011, especially in Anne Arundel, Harford and Howard County.

DIRECT ABSORPTION for the Baltimore office market in 2011 is expected to be positive as credit loosens and BRAC related tenant move-ins occur by year-end 2011.

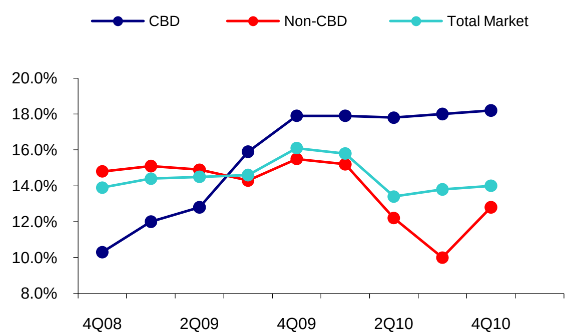
CONSTRUCTION activity in 2011 will continue to be driven by military and health care spending to support activity at Fort Meade, APG and the Woodlawn/Catonsville submarket.

DIRECT CLASS A RENTAL RATES



CBD

OVERALL VACANCY RATE TRENDS

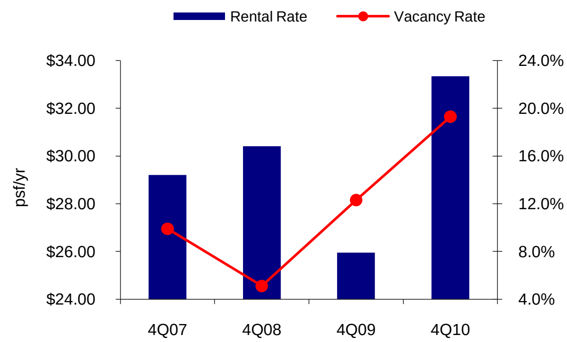


- The CBD overall vacancy rate remained steady at 18.2% at the end of 2010, an uptick of less than half of a percentage point from the first quarter of 2010. Since year-end 2008, the CBD overall vacancy rate increased eight percentage points due to significant blocks of vacant space exceeding 50,000 sf in 100 Light Street, 1 South Street, and 2 Hopkins Place.

- Since the third quarter of 2009, the Non-CBD overall vacancy rate stands lower than the CBD's rate due to increased activity related to BRAC and the health care industry. The Non-CBD overall vacancy rate stood five percentage points lower than the CBD overall vacancy rate at 12.8% in the fourth quarter of 2010.

BALTIMORE CITY SOUTHEAST

DIRECT WTD RENTAL RATE CLASS A VS DIRECT VACANCY RATE CLASS A

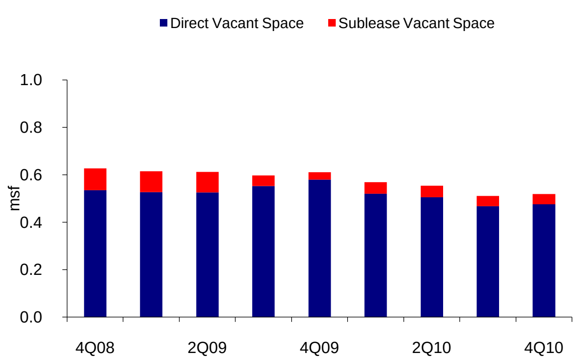


- Class A direct rental rates in the Southeast submarket increased 14.2% over the last three years due to the second quarter of 2010 delivery of 1300 Thames Street. The 278,412-sf 1300 Thames Street holds 125,515 sf of direct vacant space available for lease at $37.00 psf.

- The direct vacancy rate for class A buildings in the Southeast submarket peaked at 19.3% in the end of 2010. A total of 375,677 of direct vacant space remained in 100 International Drive, 1000 Lancaster Drive, and 1300 Thames Street in the fourth quarter of 2010.

ROUTE 83 NORTH

VACANT SPACE TRENDS OVERALL VS SUBLEASE

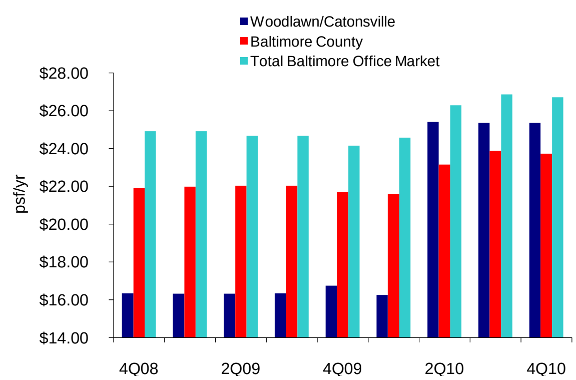


- Overall vacant space in the Route 83 North submarket declined 17.0% from year-end 2008 to fourth quarter of 2010 with a total of 519,050 sf. The largest lease transactions of 2010 included the 32,043-sf HMS Insurance Associates, Inc lease at 20 Wight Avenue and Fila's lease at 930 Ridgebrook Road for 24,563 sf.

- Sublease vacant space decreased approximately 47,000 sf over the last two years in the Route 83 North submarket. In the fourth quarter of 2010, 120 Sparks Valley Road and 307 International Circle held 17,373 sf and 17,320 sf of sublease vacant space, respectively.

WOODLAWN/CATONSVILLE

DIRECT WTD RENTAL RATE CLASS A TRENDS

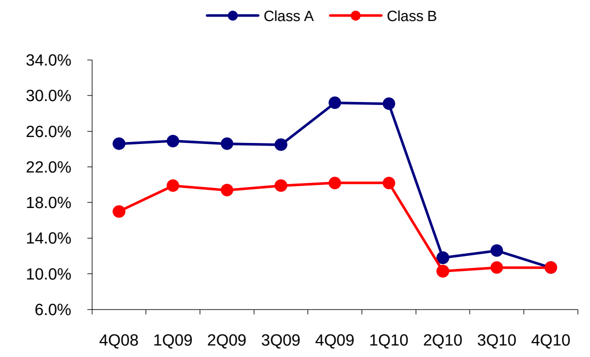


- Direct rental rates for class A product in the Woodlawn/Catonsville submarket stabilized at $25.36 psf in year-end 2010. 5520 Research Park Drive, part of the UMBC Research and Technology Park, held 45,890 sf of available space at $26.50 psf.

- In 2010, the direct rental rate for Woodlawn/Catonsville stood $1.50-$2.00 higher than the direct rental rate for Baltimore County. Woodlawn/Catonsville direct rental rates, however, are $1.00-$1.50 below the direct rental rate of the total Baltimore office market.

BWI ANNE ARUNDEL

OVERALL VACANCY RATES CLASS A VS CLASS B

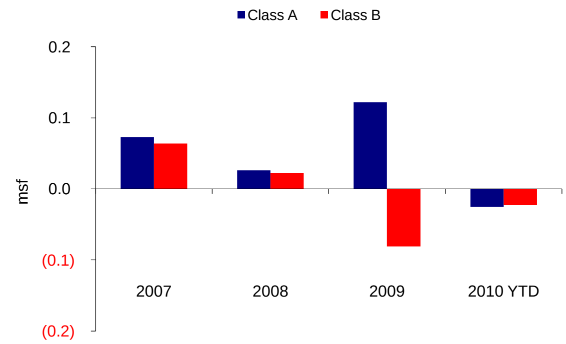


- The overall vacancy rate for class A buildings in the BWI Anne Arundel submarket decreased fourteen percentage points since year-end 2008 due to BRAC driven demand for space near Fort Meade. Office space in closest proximity to Fort Meade is limited as the largest block of direct vacant space available is 23,671 sf at 300 Sentinel Drive.

- Similar to the class A overall vacancy rate trend, the class B overall vacancy rate declined seven percentage points since the fourth quarter of 2008. Class B vacant space remained a viable alternative and option for small government contractors and business support service firms relocating to the BWI Anne Arundel submarket to service Fort Meade.

BWI NORTH LINTHICUM

DIRECT ABSORPTION CLASS A VS CLASS B

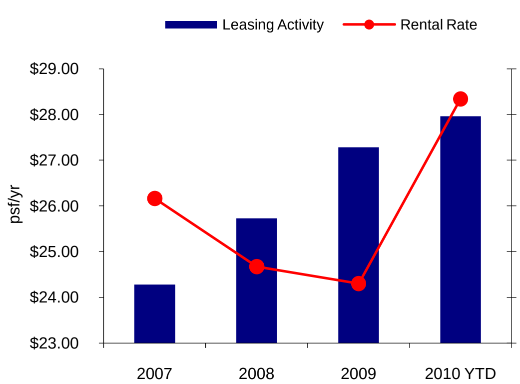


- Direct absorption in 2010 for the BWI North Linthicum submarket posted negative for both class A and class B product at -25,045 sf and -23,686 sf, respectively. A total of 12,536 sf of class A direct vacant space at $25.50 psf existed in 971 Corporate Boulevard at year-end 2010 due to an undisclosed tenant move-out.

- Since the year-end of 2007, class B office space in the BWI North Linthicum submarket experienced an average negative absorption of -29,000 sf per year. Due to slow leasing and tenants in the market activity, direct absorption for class B space in the submarket will remain largely unchanged in 2011.

COLUMBIA SOUTH

CLASS A MARKET TRENDS

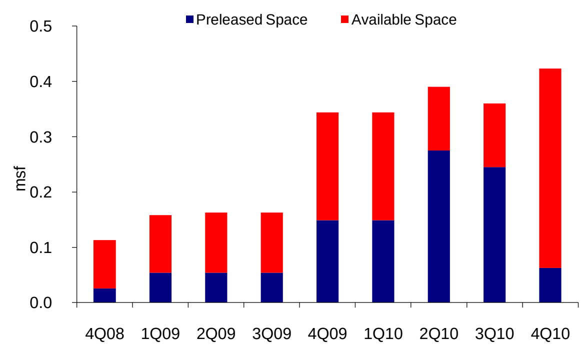


- Class A direct rental rates increased 6.5% in the last three years to $28.34 psf at years-end 2010. Delivered in the fourth quarter of 2010, the 160,000-sf 9070 Sterling Drive quoted the highest direct asking rental rate for the Columbia South submarket at $35.25 psf.

- A beneficiary of BRAC activity, leasing activity in Columbia South submarket stood steady in 2010. From year-end 2008 to year-end 2010, class A leasing activity increased approximately 368,000 sf due to GSA's 153,500 sf lease execution at 9161 Sterling Drive.

HARFORD COUNTY

SPACE IN PROJECTS UNDER CONSTRUCTION



- Harford County continued to experience historically limited pre-lease activity as a result of tight credit and slow tenant movement. Due to limited supply near APG, activity at The GATE was an exception to this trend as 6260 and 6280 Guardian Gateway delivered fully leased at year-end 2010 to Raytheon Company and L-3 Communications, respectively.

- A total of 452,100 sf of office space remained in the construction pipeline in the fourth quarter of 2010. Prelease activity was weak as only one project, 4696 Millennium Drive, has secured a major tenant of ManTech International Corporation.

MARKETBEAT

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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	13,835,403	78	18.2%	15.1%	420,866	0	0	(95,362)	(127,206)	$24.77
Midtown	1,817,984	24	2.9%	2.9%	38,978	0	0	24,790	26,817	$25.25
Northwest	1,222,609	12	3.6%	3.6%	0	0	0	7,504	8,529	N/A
Northeast	112,016	2	0.0%	0.0%	0	0	0	0	0	N/A
Southeast	4,624,199	43	17.6%	16.9%	114,225	0	453,412	155,916	243,413	$33.35
Southwest	1,852,777	10	29.7%	28.8%	23,225	0	0	65,601	61,166	$40.00
Baltimore City	**23,464,988**	**169**	**17.0%**	**14.9%**	**597,294**	**0**	**453,412**	**158,449**	**212,719**	**$27.91**
Baltimore County East	891,544	20	16.2%	16.2%	10,738	0	0	28,714	28,714	$24.86
Towson	3,725,330	49	13.4%	13.1%	60,420	150,500	0	37,552	41,528	$23.56
Rt. 83 South	1,953,102	26	11.1%	11.1%	41,363	0	0	(29,864)	(26,143)	$25.10
Rt. 83 North	4,748,567	53	10.9%	10.0%	181,525	0	0	98,390	85,434	$24.27
Reisterstown Rd. Corr.	5,229,114	67	11.0%	10.9%	78,054	0	0	(2,802)	13,487	$20.38
Woodlawn/Catonsville	3,099,263	40	10.9%	10.9%	226,340	0	0	169,971	260,502	$25.36
Baltimore County	**19,646,920**	**255**	**11.7%**	**11.3%**	**598,440**	**150,500**	**0**	**301,961**	**403,522**	**$23.73**
Annapolis	2,478,149	42	8.1%	7.3%	49,393	0	0	29,633	46,153	$28.91
Rt. 2 North	202,611	5	9.4%	9.4%	12,476	0	0	(1,197)	(1,197)	N/A
Rt. 2 South	262,818	7	12.9%	12.9%	0	0	0	6,810	10,967	$25.75
BWI Anne Arundel	4,544,565	40	10.7%	10.5%	693,295	220,000	276,130	484,913	537,211	$28.75
BWI North Linthicum	2,617,230	32	10.3%	10.1%	55,341	0	0	(48,731)	(49,341)	$24.00
I-97/Crain Hwy.	503,978	11	3.3%	3.3%	0	0	0	4,635	4,635	$23.50
Anne Arundel County	**10,609,351**	**137**	**9.7%**	**9.4%**	**810,505**	**220,000**	**276,130**	**476,063**	**548,428**	**$27.98**
Columbia North	1,190,561	21	10.3%	10.3%	87,743	0	0	(4,918)	14,126	$23.58
Columbia South	7,101,607	92	15.4%	14.4%	567,423	105,000	313,500	(122,436)	(102,506)	$28.34
Town Center	2,052,433	25	15.0%	15.0%	114,725	0	0	31,473	57,020	$24.86
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	46.3%	46.3%	26,322	0	0	(22,639)	(15,539)	$25.51
Howard County	**11,188,344**	**155**	**16.3%**	**15.6%**	**797,577**	**105,000**	**313,500**	**(114,134)**	**(42,513)**	**$26.74**
Harford County	921,084	19	6.2%	6.2%	126,886	452,100	343,168	76,462	76,462	$34.50
Harford County	**921,084**	**19**	**6.2%**	**6.2%**	**126,886**	**452,100**	**343,168**	**76,462**	**76,462**	**$34.50**
CBD	**13,835,403**	**78**	**18.2%**	**15.1%**	**420,866**	**0**	**0**	**(95,362)**	**(127,206)**	**$24.77**
NON-CBD	**51,995,284**	**657**	**12.8%**	**12.4%**	**2,509,836**	**927,600****	**1,386,210****	**994,163**	**1,325,824**	**$27.32**
BALTIMORE TOTAL	**65,830,687**	**735**	**14.0%**	**13.0%**	**2,930,702**	**927,600****	**1,386,210****	**898,801**	**1,198,618**	**$26.71**

*Asking rental rates reflect $psf/year

**Revised

MARKET HIGHLIGHTS

SIGNIFICANT 2010 LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
100 Light Street	CBD	Transamerica	140,526	A
308 Sentinel Drive	BWI/Anne Arundel	Booz Allen Hamilton	90,000	A
7205 Windsor Boulevard	Woodlawn/Catonsville	Center for Medicare and Medicaid Services (CMS)	74,000	A
7210 Ambassador Road	Woodlawn/Catonsville	Center for Medicare and Medicaid Services (CMS)	66,707	B

SIGNIFICANT 2010 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
1122 Kenilworth Drive*	Towson	Merritt Properties	88,292	$16,000,000

SIGNIFICANT 2010 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
9070 Sterling Drive	Columbia South	N/A	160,000	11/10
210 Research Blvd	Harford County	N/A	85,000	11/10
1500 Whetstone Way	Southeast	N/A	75,000	10/10
6260 Guardian Gateway	Harford County	Raytheon Company	74,334	12/10
6280 Guardian Gateway	Harford County	L-3 Communications	74,334	12/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
4696 Millennium Drive	Harford County	ManTech International Corporation	125,000	4/11
206 Research Boulevard	Harford County	N/A	127,500	4/11
430 National Business Park	BWI/Anne Arundel	N/A	110,000	6/11

*Closed post production of statistics

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