

Q2:11

Transwestern Outlook BALTIMORE



Office Market Conditions Muted; Market Awaits Boost from BRAC

Office market conditions in the Baltimore metro area remained quiet at mid-year 2011, as vacancy inched down and net absorption was modest. Asking rents showed no growth during the 1st half, as gains in some submarkets during the past six months were offset by declines in others. We expect leasing to pick up pace during the balance of 2011, as the BRAC move deadline approaches. This will burn off available space around Fort Meade in Anne Arundel County and Aberdeen Proving Ground in Harford County.

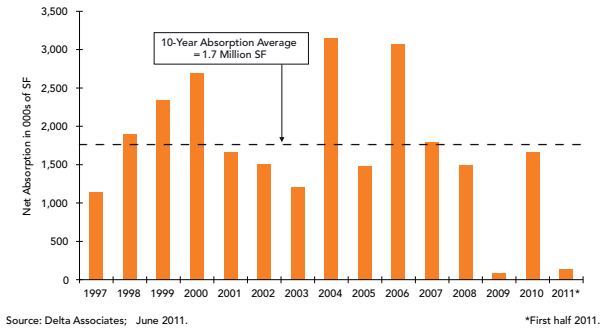
The Baltimore metro area should experience improving conditions in the near-term, followed by expansion thereafter as the impact of BRAC benefits the area during the balance of 2011 and 2012 combined with the solid, continuing performance of the area's health care industry.

Second Quarter 2011 Market Highlights:

- **Net absorption:** 142,000 SF during the 1st half, compared to 649,000 SF in the 1st half of 2010.
- **Sublease space:** decreased by 251,000 SF during the 1st half. Sublease space is now just 0.4% of standing inventory.
- **Overall vacancy rate:** 13.7%, down from 14.0% one year ago.
- **Direct vacancy rate:** 13.3%, up from 13.1% one year ago.
- **Pipeline (U/C and U/R):** 1.3 million SF, up from 1.1 million SF one year ago.
- **Pipeline pre-lease rate:** 21%, compared to 31% one year ago.
- **Rents:** flat, compared to a decline of 3.8% in 2010.
- **Investment sales:** \$156 million (\$168/SF) during the 1st half, compared to \$135 million (\$202/SF) in the 1st half of 2010.

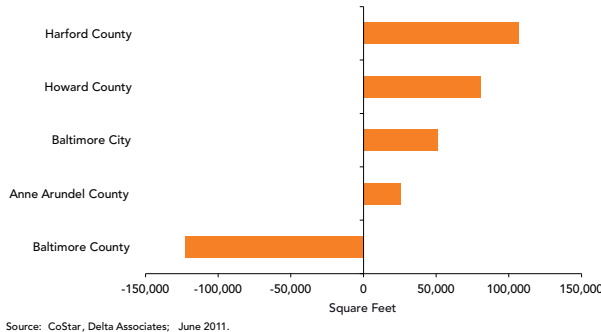
OFFICE NET ABSORPTION

Baltimore Metro Area | 1997 Through First Half 2011



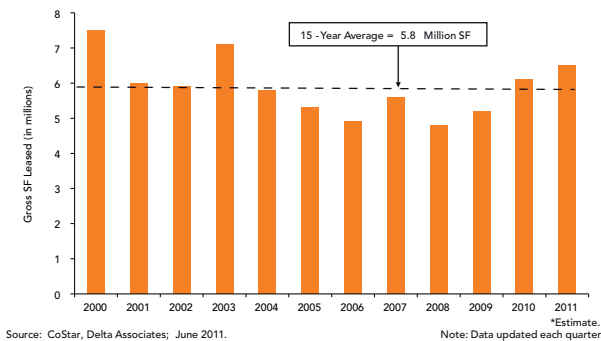
OFFICE NET ABSORPTION

Baltimore Metro Area | First Half 2011



GROSS LEASING ACTIVITY

Baltimore Metro Area | 2000 Through 2011



NET ABSORPTION

Net absorption in the Baltimore metro totaled positive 163,000 SF during the 2nd quarter of 2011, compared to negative 22,000 SF during the 1st quarter. During the 1st half of 2011, net absorption totaled 142,000 SF, compared to 649,000 SF during the 1st half of 2010. Net absorption totaled 1.7 million SF during all of 2010, compared to the 10-year annual average absorption of 1.7 million SF.

Net absorption turned the corner to positive territory during the 2nd quarter due to a handful of notable lease deals. For instance:

- Miles and Stockbridge leased 120,000 SF at 100 Light Street in the Baltimore CBD.
- PNC Bank leased 119,000 SF at 1 E. Pratt Street in the Baltimore CBD.

Sublease space decreased 45,000 SF during the 2nd quarter of 2011, after declining 206,000 SF during the 1st quarter. Currently, sublease space represents just 0.4% of standing inventory in the Baltimore metro area.

Class A net absorption totaled 256,000 SF during the 2nd quarter of 2011, compared to 71,000 SF during the 1st quarter. During the 1st half of 2011, Class A net absorption totaled 326,000 SF, compared to 620,000 SF during the 1st half of 2010. During 2010, Class A net absorption totaled 1.5 million SF.

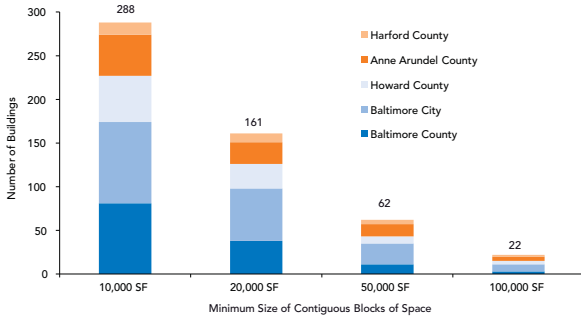
GROSS LEASING ACTIVITY

We estimate gross leasing activity for existing space in the Baltimore area will total approximately 6.5 million SF in 2011, above the 15-year average of 5.8 million SF. The most notable lease deal of the 2nd quarter of 2011 was Miles and Stockbridge leasing 120,000 SF at 100 Light Street in the Baltimore CBD. Also notable, PNC Bank leased 119,000 SF at 1 E. Pratt Street in the Baltimore CBD.

We expect leasing to pick up pace modestly during the balance of 2011, as market conditions improve and the government and its contractors look for space to house the estimated 25,000 jobs, due to the Base Realignment and Closure (BRAC) plan, coming to the region by September 2011.

BUILDINGS WITH CONTIGUOUS BLOCKS OF AVAILABLE SPACE

Baltimore Metro Area | June 2011



Note: Includes buildings under construction or renovation.
Source: Delta Associates' analysis of CoStar data; June 2011.

BLOCKS OF AVAILABLE SPACE OVER 100,000 SF TOP FIVE BUILDINGS

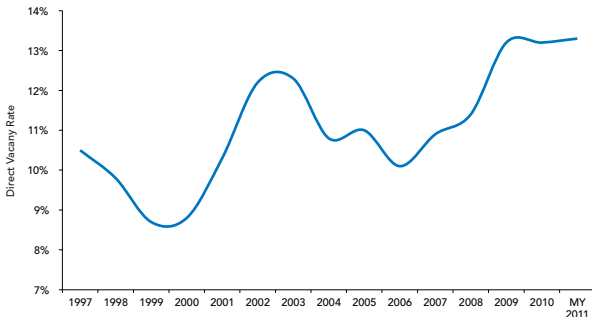
Baltimore Metro Area | June 2011

Address	SF	Submarket
1800 Washington Blvd	353,000	Baltimore City
225 N. Calvert St.	305,000	CBD Baltimore
1300 E. Joppa Rd	166,000	Baltimore County North
9070 Sterling Dr	160,000	Columbia
9055 Sterling Dr	153,000	Columbia

Source: CoStar, Delta Associates; June 2011.

OFFICE VACANCY RATES

Baltimore Metro Area | 1997 Through Mid Year 2011



Source: CoStar, Delta Associates; June 2011.

There are 288 buildings with contiguous blocks of available space greater than 10,000 SF in the Baltimore metro area at June 2011, up from 286 buildings one year ago. Few options are available for large tenants, as there are only 22 buildings with contiguous blocks of available office space greater than 100,000 SF. This figure remains low, but is up from 16 buildings one year ago.

The largest block of space is 353,000 SF at 1800 Washington Boulevard in the Baltimore City (non-CBD) submarket. The next largest space is 305,000 SF at 225 N. Calvert Street. Bank of America vacated this space during the 2nd quarter of 2009.

VACANCY

The overall vacancy rate is 13.7% at June 2011, down from 13.8% three months prior, and 14.0% one year ago. The direct vacancy rate is 13.3%, down from 13.4% the quarter prior, but is up from 13.1% one year ago.

The overall Class A vacancy rate is 13.1% at June 2011, unchanged from three months prior, but is down from 14.0% one year ago. The direct Class A vacancy rate is 12.5%, down from 12.9% the quarter prior and 12.8% one year ago.

Baltimore County has the lowest direct vacancy rate at 11.3% at June 2011, below the Baltimore metro average of 13.3%. Harford County was the leader in lowest vacancy rate, but lost ground during the 1st half as a handful of projects delivered vacant – which drove up the vacancy rate in this submarket. We expect Harford County to make a fast turnaround, as this submarket will expand in the near-term due to the BRAC plan.

VACANCY RATES AND VACANT SPACE (ALL CLASSES)

Baltimore Metro Area | June 2010 vs. June 2011

	June 2010	June 2011
Vacancy Rate		
Direct	13.1%	13.3%
Sublet	0.9%	0.4%
Vacant Space (Millions of SF)		
Direct	12.2	12.6
Sublet	0.9	0.4

Source: CoStar, Delta Associates; June 2011.

NET OFFICE ABSORPTION AND VACANCY BY SUBMARKET

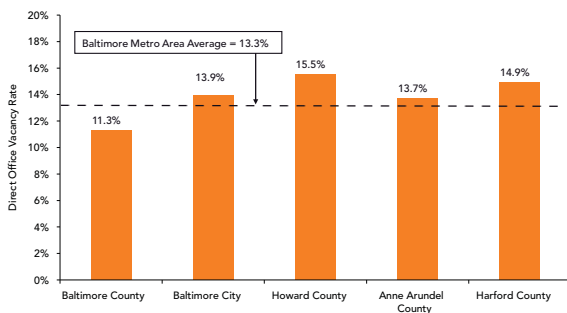
Baltimore Metro Area

Submarket	Inventory (SF) at 1 st Qtr 2011	2008	Net Absorption (SF)			Vacancy at 1 st Quarter 2011	
			2009	2010	Q1 2011	Direct	w/Sublet
Balt County W.	10,611,476	140,000	104,000	106,000	54,000	8.7%	8.9%
Balt County N.	15,028,812	60,000	33,000	(75,000)	(195,000)	12.5%	12.9%
Balt County E.	2,205,631	62,000	51,000	81,000	18,000	15.3%	15.4%
Balt CBD	17,891,713	36,000	(693,000)	89,000	36,000	13.6%	14.5%
Bal. of Balt City	15,070,003	62,000	145,000	760,000	15,000	14.2%	14.4%
Columbia	13,138,758	170,000	331,000	(99,000)	39,000	14.5%	14.7%
Route 1 North	1,145,773	88,000	(92,000)	30,000	42,000	26.9%	26.9%
BWI	10,810,129	541,000	166,000	522,000	(32,000)	15.9%	16.2%
Anne Arundel S.	5,823,039	212,000	(60,000)	(57,000)	58,000	9.5%	9.8%
Harford County	2,789,857	125,000	106,000	304,000	107,000	14.9%	15.3%
Total:	94,515,191	1,496,000	91,000	1,661,000	142,000	13.3%	13.7%

Source: CoStar, Delta Associates; June 2011.

DIRECT OFFICE VACANCY RATE

Baltimore Metro Area | June 2011



Source: CoStar, Delta Associates; June 2011.

CONSTRUCTION

There is 1.3 million SF under construction or renovation at June 2011, up from 1.1 million SF one year ago. Projects in the pipeline are 21% pre-leased at June 2011, compared to 31% one year ago. The current pre-lease rate is below the 10-year average pre-lease rate of 35%.

Harford County is the leader of pipeline projects at June 2011. A total of six projects totaling 527,000 SF are under construction at 21% pre-leased.

There were four office groundbreakings in the Baltimore area during the 1st half of 2011. Construction starts totaled 469,000 SF during the past six months, compared to 564,000 SF during 2010.

Two office projects broke ground during the 2nd quarter of 2011. Merritt Properties started on 69,000 SF at 6514 Meadowridge Road in the Columbia submarket and 125,000 SF started at 8193 Dorsey Run Road in the BWI submarket.

Deliveries totaled 144,000 SF in the Baltimore metro area during the 2nd quarter of 2011, compared to 192,000 SF during the 1st quarter. Deliveries totaled 336,000 SF at 9% pre-leased during the 1st half of 2011, compared to 632,000 SF at 49% pre-leased during the 1st half of 2010. Developers delivered 1.9 million SF during all of 2010, coming on line at 61% pre-leased.

OFFICE SPACE U/C OR U/R

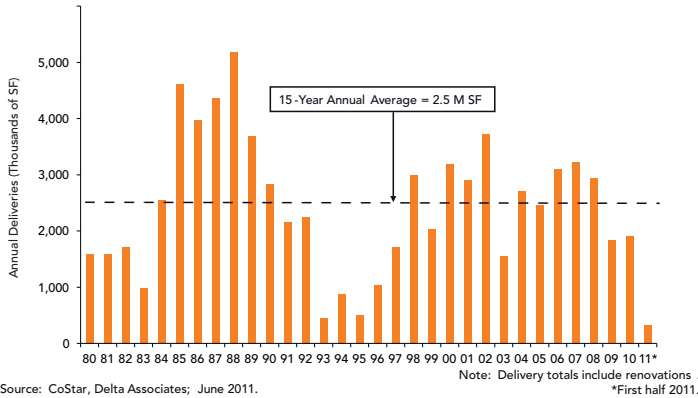
Baltimore Metro Area | June 2011

Submarket	SF	% Pre-Leased
Harford County	527,000	21%
Columbia	332,000	0%
BWI	235,000	14%
Baltimore County North	196,000	53%
Baltimore County West	40,000	75%
Total	1,330,000	21%

Source: CoStar, Delta Associates; June 2011.

OFFICE SPACE DELIVERIES

Baltimore Metro Area | 1980 Through 2011



Source: CoStar, Delta Associates; June 2011.

PROJECTED SUPPLY VS. DEMAND

We project the Baltimore metro area’s overall vacancy rate will tick down from 13.7% today to 12.7% by June 2013. We expect demand to outpace new supply by 700,000 SF.

We project vacancy in the Baltimore metro area to decline over the next two years, as the Base Realignment and Closure (BRAC) process concludes and demand rises. It is estimated that BRAC will bring 25,000 military jobs to the Baltimore area by September 2011, which will continue to lure contractors. We believe leasing due to BRAC will increase as the September 2011 deadline gets closer.

In addition, construction levels in the Baltimore metro area were kept relatively in-check during the downturn, compared to other metro areas – preventing drastic oversupply.

CLASS A ASKING RENT CHANGES

Selected Submarkets in the Baltimore Area | Dec. 2010 - June 2011

Submarket	Rent Change
Harford County	+3.2%
Baltimore CBD	+1.7%
BWI	-2.5%
Columbia	-3.5%

Source: CoStar, Delta Associates; June 2010.

RENTS

Class A office asking rents were flat during the 1st half of 2011, compared to declining 3.8% during 2010. Asking rent gains in some submarkets during the past six months were offset by declines in others.

Despite the flat rents at mid-year 2011, we anticipate asking rents will edge down during the balance of the year – averaging 0.5% to 1.5% for 2011, as vacancy remains elevated. Rents should start to rise during 2012, at around 2.5% to 3.5% driven by rising demand.

INVESTMENT SALES

We recorded investment sales of \$19 million during the 2nd quarter of 2011, compared to \$137 million during the 1st quarter. During the 1st half of 2011, sales volume totaled \$156 million (\$168/SF), compared to \$135 million (\$202/SF) in the 1st half of 2010. Sales volume totaled \$183 million (\$198/SF) during all of 2010.

Notably, First Potomac Realty Trust, a company that is sweeping up assets around the region, purchased 10320 Little Patuxent Parkway for \$11.0 million (\$69/SF) during the 1st quarter. First Potomac Realty purchased the asset from Mercantile Real Estate Advisors, who purchased the asset in 2007 for \$20 million (\$125/SF).

THE BALTIMORE AREA OFFICE MARKET OUTLOOK

We expect improving office market conditions in the Baltimore area during the balance of 2011 and beyond, as BRAC and the life-science industries fuel demand.

We expect vacancy to edge down to 12.7% by June 2013, as the economy improves and tenants relocate here due to the BRAC plan. We anticipate rents will moderate slightly during 2011 by an average of 0.5% to 1.5%, as vacancy remains elevated. However, rents should regain traction during 2012 – growing

FLEX/INDUSTRIAL NET ABSORPTION

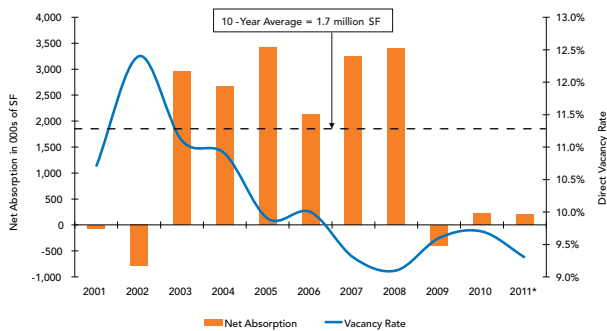
Baltimore Metro Area | First Half 2011

Submarket	SF Absorbed
Harford County	298,000
Baltimore County East	(123,000)
Baltimore County North	63,000
Baltimore County West	56,000
Columbia	68,000
Route 1 North	56,000
BWI	(253,000)
Anne Arundel South	4,000
Baltimore City	34,000
Total:	(205,000)

Source: Delta Associates; June 2011.

FLEX/INDUSTRIAL NET ABSORPTION AND DIRECT VACANCY

Baltimore Metro Area | 2001 Through Mid Year 2011



Source: CoStar, Delta Associates; June 2011.

*Net absorption through the 1st half of 2011.

2.5% to 3.5%. Better buildings in stronger submarkets will outperform this market-wide average.

The Baltimore metro area is well positioned for steady future growth, as the health and life-science industries fuel demand in the area. BRAC relocations will give a boost to the area during the 2011/2012 period.

Flex/Industrial Market Soft

The Baltimore metro area flex/industrial market experienced sluggish conditions during the 1st half of 2011, as advances in leasing activity were offset by tenants vacating large blocks of space. Despite these conditions, asking rents edged up 0.7%, as property owners are showing greater confidence in future flex/industrial market demand. Developers broke ground on four projects during the past six months, after a quiet 2010. We believe the Baltimore metro area flex/industrial market is well positioned for long-term steady growth, as demand is fueled by BRAC and tenants needing space close to major interstates and the Port of Baltimore.

Flex/industrial net absorption totaled positive 205,000 SF in the Baltimore metro area during the 1st half of 2011, compared to 225,000 SF during 2010. This compares to the 10-year annual absorption average of 1.7 million SF per annum.

Bulk warehouse experienced negative net absorption during the 1st half of 2011, as demand could not keep pace with tenants vacating space. For example:

- Computer Sciences Corporation vacated 237,000 SF at 8411 Kelso Drive in the Baltimore County East submarket.
- Danaher Corporation vacated 164,000 SF at 7200 Standard Drive in the BWI submarket.
- Kuehne + Nagel vacated 158,000 SF at 1804 Fashion Court in Harford County.
- Delsey Luggage vacated 84,000 SF at 6725 Business Parkway and 108,000 SF at 6735 Business Parkway in the Route 1 North submarket.

FLEX/INDUSTRIAL NET ABSORPTION U/C OR U/R

Baltimore Metro Area | First Half 2011

Submarket	SF Absorbed
Baltimore County West	212,000
Baltimore County North	-
Baltimore County East	502,000
Baltimore City	-
Columbia	-
Route 1 North	-
BWI	-
Harford County	-
Anne Arundel South	-
Total:	(714,000)

Source: Delta Associates; June 2011.

AVERAGE ASKING RENTS PER SF

(Warehouse – Industrial Gross;

Flex/R&D – NNN)

Baltimore Metro Area

Product Type	Year-End 2010	Mid-Year 2011	% Change
Bulk Warehouse	\$4.67	\$4.65	-0.4%
Flex/Warehouse	\$5.51	\$5.58	1.3%
Flex/R&D	\$10.75	\$10.86	1.0%

Source: Delta Associates; June 2011.

The flex/warehouse and flex/R&D property types experienced positive net absorption during the 1st half of 2011, as tenants actively leased space. For instance:

- Metals & Residues Processing Co. leased 45,000 SF of flex/R&D space at 260 Schilling Circle in the Baltimore County North submarket.
- Lynden Polaris leased 37,000 SF of flex/warehouse space at 6675 Amber-ton Drive in the BWI submarket.
- Goodman Distribution leased 29,000 SF of flex/warehouse space at 7595 Washington Boulevard in the Route 1 Corridor.
- Baseball Factory leased 22,000 SF at 9212 Berger Road in the Colum-bia submarket.

The Baltimore metro area's overall flex/industrial vacancy rate ticked down to 9.8% at mid-year 2011, from 10.1% at year-end 2010, and is down from 10.3% one year ago. The direct vacancy rate was 9.3% at June 2011, down from 9.7% at December 2010, and from 9.7% one year ago.

There is 714,000 SF of flex/industrial space under construction or renovation in the Baltimore area at June 2011, compared to 150,000 SF one year ago. Projects in the construction pipeline are currently 0% pre-leased as of June 2011, compared to 0% pre-leased one year ago. We project the low pre-lease rate on pipeline projects will have little impact on vacancy over the next 12 months, as the amount under construction remains modest.

Flex/industrial asking rents in the Baltimore metro area remained relatively flat in the 1st half of 2011 – edging up 0.7%, after declining 4.6% during 2010. Bulk Warehouse experienced a 0.4% decline in asking rents during the 1st half of 2011, compared to flex/warehouse rising 1.3% and Flex/R&D increasing 1.0%.

Flex/industrial market conditions in the Baltimore metro area are starting to improve. This trend should continue during the balance of 2011 and into 2012. As leasing activity increases, particularly due to the anticipated demand from BRAC, we project the overall vacancy rate to decline to 9.4% by mid-year 2012. Rents should continue to climb during the balance of 2011 – rising 1.0% to 2.0% for the year, as the economy improves and leasing activity picks up pace.

The Baltimore metro area flex/industrial market was resilient during the recent downturn, due in large part to healthy demand for bulk warehouse space. This area will remain a prime market for flex/industrial tenants given its access to major interstates and the Port of Baltimore.

Outlook is published quarterly by Delta Associates, the Research Affiliate of Transwestern Commercial Services, the Washington/Baltimore metropolitan area's largest full service real estate firm. Every effort has been made to ensure accuracy; however, Transwestern Commercial Services is not responsible for any errors or omissions.

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