

Q2:11

Transwestern Outlook

SUBURBAN MARYLAND



Office Market Conditions Sluggish As Tenants Vacate Old Space for New; Investment Activity Gains Steam

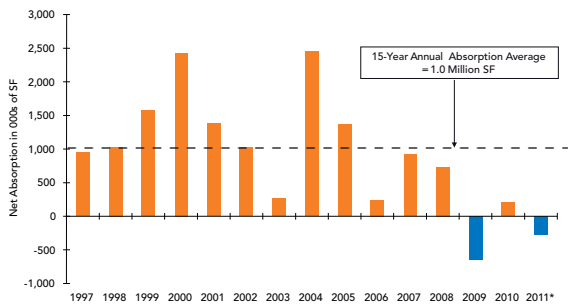
The Suburban Maryland office market experienced sluggish conditions during the 1st half of 2011, as absorption was negative and overall vacancy edged up 20 basis points from year-end 2010. Although a handful of notable lease deals occurred during the past six months, it was not enough to keep pace with tenants vacating space. Tenants are vacating older space – relocating to newer buildings, which is having no impact on net absorption. Rents retracted during the 1st half, as concessions remain elevated. With asking rents ticking up and concession packages starting to stabilize, the change in effective rents this year should be minimal. Overall, Suburban Maryland is poised to experience long-term steady growth due to its tenant composition, particularly its focus on health care and as host to key government agencies.

Second Quarter 2011 Market Highlights:

- **Net absorption:** negative 274,000 SF during the 1st half, compared to negative 255,000 SF in the 1st half of 2010 and positive 204,000 SF during all of 2010.
- **Overall vacancy rate:** 14.3%, down from 14.7% one year ago.
- **Direct vacancy rate:** 13.5%, unchanged from one year ago.
- **Sublease space:** Decreased by 176,000 SF during the 1st half. Sublease space is 0.8% of standing inventory.
- **Pipeline (U/C and U/R):** 1.2 million SF, up from 547,000 SF one year ago.
- **Pipeline pre-lease rate:** 100%, compared to 70% one year ago.
- **Rents:** Down 1.4% during the 1st half, compared to declining 8.1% in 2010.
- **Investment sales:** \$280 million (\$236/SF) during the 1st half of 2011, compared to \$190 million (\$229/SF) in the 1st half of 2010.

OFFICE NET ABSORPTION

Suburban Maryland | 1997 Through First Half 2011

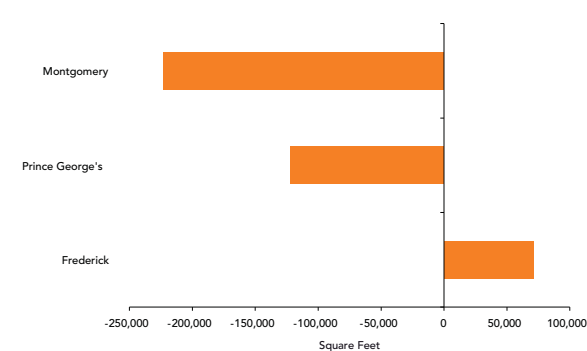


Source: Delta Associates; June 2011.

*First half 2011.

NET ABSORPTION OF OFFICE SPACE

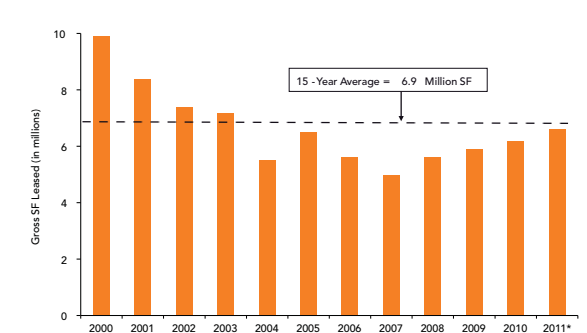
Suburban Maryland Counties | First Half 2011



Source: CoStar, Delta Associates; June 2011.

GROSS LEASING ACTIVITY

Suburban Maryland | 2000 - 2011



Source: CoStar, Delta Associates; June 2011.

*Annualized estimate. Note: Data updated each quarter.

NET ABSORPTION

Net absorption totaled negative 145,000 SF in Suburban Maryland during the 2nd quarter of 2011, compared to negative 129,000 SF in the 1st quarter. For the 1st half of 2011, net absorption totaled negative 274,000 SF, compared to negative 255,000 SF during the 1st half of 2010. Net absorption totaled positive 204,000 SF during all of 2010. This compares to the 15-year annual average of positive 1.0 million SF.

Market conditions remained soft in Suburban Maryland during the 1st half of 2011, as demand could not keep pace with tenants vacating space.

- BAE Systems vacated 263,000 SF at 13900 Connecticut Avenue in Kensington/Wheaton.
- IBM reduced 118,000 SF at 6710 Rockledge in the North Bethesda submarket.
- RCN Telecom Services vacated 20,000 SF at 10003 Derekwood Lane in the Lanham/Landover/Largo submarket.

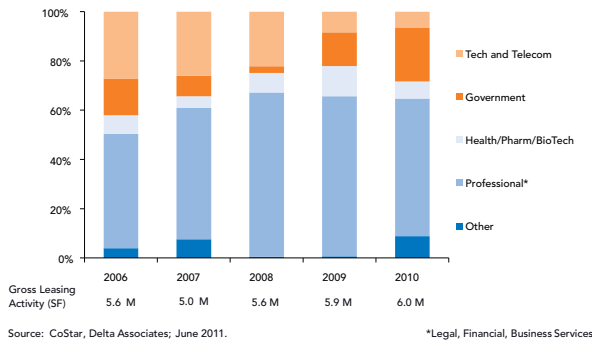
Net absorption of Class A space totaled positive 152,000 SF during the 2nd quarter of 2011, compared to negative 164,000 SF during the 1st quarter. During the 1st half of 2011, net absorption totaled negative 11,000 SF, compared to negative 190,000 SF during the 1st half of 2010. Class A net absorption totaled positive 210,000 SF during all of 2010.

Tenants with cash and demand for office space are taking the opportunity while rental rates remain low to upgrade to Class A space. For instance:

- Banner Life moved from Class B space at 1701 Research Boulevard in Rockville to newly constructed Class A space at 3275 Bennett Creek Avenue in Frederick during the 2nd quarter. The 105,000 SF of vacated space at 1701 Research Boulevard has been purchased by BioMed Realty Trust, with plans to renovate the space – converting it from office to flex/R&D.
- URS Corporation will be relocating later this year from Class B space at 200 Orchard Ridge Drive in Gaithersburg to Class A space at 12420 Milestone Center Drive in Germantown. The 104,000 SF of vacated space at 200 Orchard Ridge Drive will not be vacant for long, as Med-Immune purchased this asset late 2010 and plans to occupy the space.

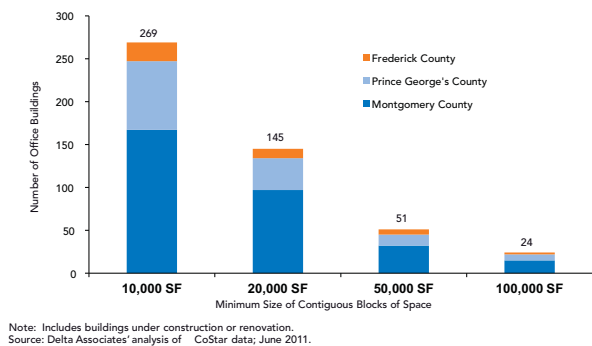
OFFICE LEASING ACTIVITY BY SECTOR

Suburban Maryland | 2006-2010



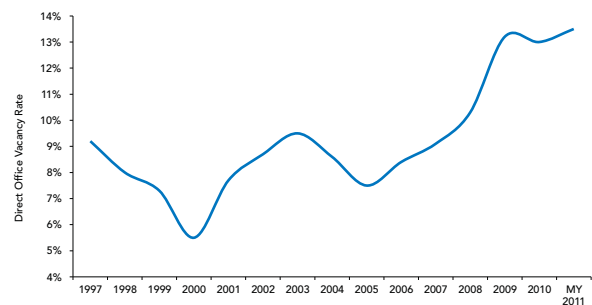
BUILDINGS WITH CONTIGUOUS BLOCKS OF AVAILABLE SPACE

Suburban Maryland | June 2011



DIRECT OFFICE VACANCY RATE

Suburban Maryland | 1997 Through Mid Year 2011



GROSS LEASING ACTIVITY

We estimate gross leasing activity will total 6.6 million SF during 2011 – just below the 15-year average of 6.9 million SF per annum. The most notable deal of the 2nd quarter of 2011 was ICF Macro taking 97,000 SF at 530 Gaither Road in North Rockville.

GSA has re-opened the lease solicitation for the 1.2 million SF Department of Homeland Security (DHS) lease – which could extend the delivery of the project until December 2015. GSA is seeking this space in Southern Prince George's County, Crystal/Pentagon City, and emerging submarkets within the District. The deal could fall flat, however, as budget pressures mount.

Under a separate solicitation, the National Institute of Allergy and Infectious Diseases is looking for 491,000 SF along the I-270 Corridor in Montgomery County. Another large lease could come from Fannie Mae, which is rumored to be in the market for 250,000 SF to 300,000 SF along the I-270 Corridor.

Financial Investment Regulatory Authority (FINRA) is expanding in Suburban Maryland, as it recently purchased a 3.8-acre parcel at 9501 Key West Avenue in Rockville with plans for a 105,000 SF office building. Of note, this land transaction is not noted in our land sales table, as it is considered a user purchase. FINRA signed a 36,000 SF lease at 15200 Omega Drive in North Rockville during the 2nd quarter and has demand for additional space, as it plans to relocate employees from the District as regulatory work increases, according to the Montgomery Newsletter.

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

Suburban Maryland | March 2011

Address	SF	Submarket
13900 Connecticut Ave	263,000	Kensington/Wheaton
5280 Corporate Dr	220,000	Frederick
6720-B Rockledge Dr	196,000	N. Bethesda
6400 Sheriff Rd	192,000	Landover/Largo
6560 Rock Spring Dr	180,000	N. Bethesda

Source: CoStar, Delta Associates; June 2011.

VACANCY RATES AND VACANT SPACE (ALL CLASSES)

Suburban Maryland | March 2010 vs. March 2011

	June 2010	June 2011
Vacancy Rate		
Direct	13.5%	13.5%
Sublet	1.2%	0.8%
Vacant Space (Millions of SF)		
Direct	11.9	12.0
Sublet	1.0	0.7

Source: CoStar, Delta Associates; June 2011.

Government leasing activity increased to 22% of all lease deals inked in Suburban Maryland during 2010, compared to 14% during 2009 and 3% during 2008. Conversely, leasing from professional businesses edged down to 56% in 2010, from 65% in 2009, and 67% in 2008. We expect the share of government leasing to remain elevated during 2011, as this substate area awaits a possible award from GSA – totaling approximately 1.2 million SF.

There are 269 buildings with blocks of space available over 10,000 SF at June 2011, up from 258 one year ago. There are 24 buildings with blocks of space available over 100,000 SF, unchanged from one year ago.

The largest block of space is 263,000 SF at 13900 Connecticut Avenue in the Kensington/Wheaton submarket. BEA Systems recently vacated this space, relocating to Redland Corporate Center in North Rockville.

NET OFFICE ABSORPTION AND VACANCY BY SUBMARKET

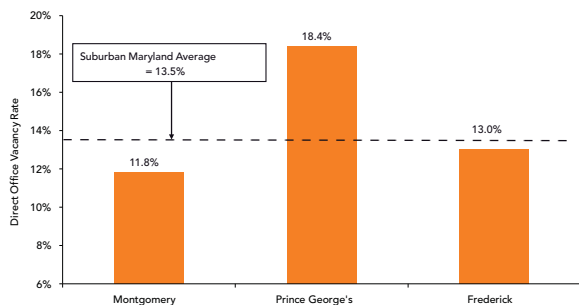
Suburban Maryland

Submarket	Inventory (SF) 2 nd Qtr 2011	2008	Net Absorption (SF)			2 nd Quarter 2011 Vacancy	
			2009	2010	First Half 2011	Direct	w/Sublet
Bethesda/CC	11,293,448	121,000	(43,000)	(79,000)	(11,000)	7.6%	9.2%
N. Bethesda	10,326,658	(78,000)	(248,000)	217,000	(124,000)	12.7%	13.2%
Rockville	8,588,860	144,000	(28,000)	103,000	86,000	13.3%	13.8%
N. Rockville	11,820,950	292,000	65,000	(106,000)	71,000	13.1%	14.9%
Gaithersburg	5,281,815	87,000	(85,000)	148,000	(37,000)	13.7%	14.4%
Germantown	2,455,685	(36,000)	(26,000)	39,000	49,000	12.0%	13.5%
Kensing./Wheaton	1,406,234	(37,000)	(33,000)	(7,000)	(217,000)	24.1%	24.9%
Silver Spring	6,903,910	(76,000)	(50,000)	(228,000)	(7,000)	11.6%	12.6%
N. S. Spring/Rt. 29	2,980,145	(35,000)	22,000	42,000	(33,000)	6.1%	7.0%
Total: Mont. Cnty.	61,057,705	382,000	(426,000)	129,000	(223,000)	11.8%	12.9%
Beltsville/ Coll. Prk.	5,304,784	10,000	(41,000)	(95,000)	5,000	17.1%	17.1%
Laurel	2,509,823	25,000	(44,000)	(8,000)	(10,000)	13.2%	13.7%
Greenbelt	3,016,041	(154,000)	(42,000)	60,000	(60,000)	22.3%	22.5%
Lanham/Landover	4,951,020	(123,000)	(134,000)	(10,000)	(45,000)	22.4%	22.8%
South P.G.	5,832,217	187,000	(86,000)	111,000	(12,000)	16.4%	17.0%
Total P.G. Cnty.	21,613,885	(55,000)	(347,000)	58,000	(122,000)	18.4%	18.7%
Frederick Cnty.	5,952,641	197,000	124,000	17,000	71,000	13.0%	13.2%
Total: Sub MD	88,624,231	524,000	(649,000)	204,000	(274,000)	13.5%	14.3%

Source: CoStar, Delta Associates; June 2011.

DIRECT OFFICE VACANCY RATES

Suburban Maryland | June 2011



Source: CoStar, Delta Associates; June 2011.

OFFICE SPACE UNDER CONSTRUCTION OR UNDER RENOVATION

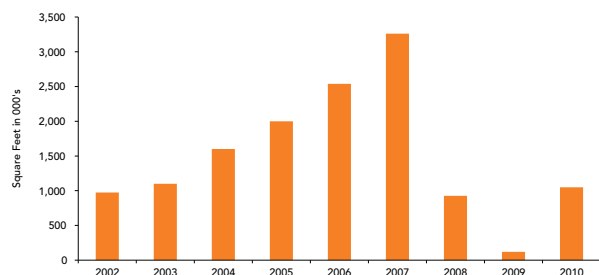
Suburban Maryland | June 2011

Submarket	SF	% Pre-Leased
North Bethesda	358,000	100%
North Rockville	575,000	100%
Beltville/Calv./Coll. Park	269,000	100%
Frederick County	115,000	100%
Total:	1,202,000	100%

Source: CoStar, Delta Associates; June 2011.

OFFICE CONSTRUCTION STARTS

Suburban Maryland | 2002 - 2010



Source: CoStar, Delta Associates; June 2011.

VACANCY

The Suburban Maryland overall office vacancy rate is 14.3% at mid-year 2011, up from 14.1% at the end of the 1st quarter of 2011, but down from 14.7% one year ago. The Suburban Maryland direct vacancy rate is 13.5% at June 2011, up from 13.2% three months prior, but unchanged from one year ago.

Sublease space decreased 62,000 SF during the 2nd quarter of 2011, compared to declining 114,000 SF during the 1st quarter. During the 1st half of 2011, sublease space decreased 176,000 SF, compared to declining 316,000 SF during the 1st half of 2010. Sublease space declined 436,000 SF during 2010. Sublease space is 0.8% of Suburban Maryland's standing inventory at June 2011.

The overall Class A vacancy rate is 14.8% at June 2011, down from 15.0% at March 2011, and 16.3% one year ago. Suburban Maryland's direct Class A vacancy rate is 13.6%, down from 13.7% the quarter prior, and 14.3% one year ago.

Montgomery holds the lowest direct vacancy rate, at 11.8%, in Suburban Maryland as of June 2011. Prince George's County has a vacancy rate of 18.4%, above the Suburban Maryland average of 13.5%. The vacancy rate in Montgomery County is aided by Bethesda/Chevy Chase, a sought-after submarket close to the District core, with a 7.6% direct vacancy rate at June 2011.

CONSTRUCTION

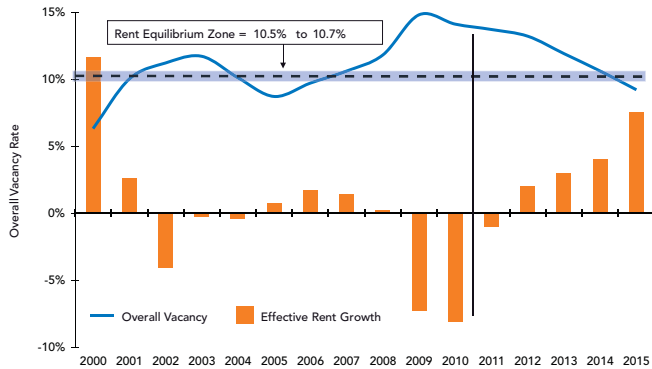
There is 1.2 million SF of office space under construction or renovation in Suburban Maryland at June 2011, compared to 547,000 SF one year ago. 100% of space under construction at June 2011 is pre-leased, a rise from 70% one year ago. The current pre-lease rate is above the 10-year average pre-lease rate of 57%.

Government projects are boosting the pre-lease rate in Suburban Maryland. LCOR has a 358,000 SF project underway in North Bethesda, which is fully leased to the U.S. Nuclear Regulatory Commission (NRC). JBG recently started on 575,000 SF in North Rockville, which will be fully occupied by the National Cancer Institute.

There were no notable groundbreakings during the 1st half of 2011. However, a handful of projects are expected to break ground in the near-term.

OVERALL VACANCY RATE VS. EFFECTIVE RENT CHANGES

Suburban Maryland



Source: CoStar, Delta Associates; June 2011.

SELECTED INVESTMENT SALES

Suburban Maryland | First Quarter 2011

Address/Submarket	Price/Buyer
9801 Washington Blvd. Gaithersburg	\$90.0 million (\$286/SF) CBRE Investors
520-530 Gaither Rd N. Rockville	\$84.3 million (\$243/SF) First Potomac Realty Trust
540 Gaither Rd N. Rockville	\$35.2 million (\$263/SF) Federal Partners

Source: Delta Associates; June 2011.

After a ceremonial groundbreaking in early June, Trammell Crow is expected to officially start construction in the near-term on Building Five along Milestone Center Drive in the Germantown submarket. The company is constructing the 164,000 SF office space for Digital Receiver Technology/Boeing.

With slow market conditions, for the next 24 months new development projects would appear warranted only for very special projects at superior locations or with a sizable pre-lease in place.

One project delivered during the 2nd quarter of 2011. Banner Life delivered 115,000 SF of space at 3275 Bennett Creek Avenue in Frederick. The company is occupying this project. Two projects, totaling 143,000 SF delivered during the 1st quarter of 2011. A total of 258,000 SF delivered at 48% leased upon delivery during the 1st half of 2011, compared to no projects delivering during the 1st half of 2010.

PROJECTED SUPPLY V. DEMAND

We project the overall office vacancy rate in Suburban Maryland will edge down from 14.3% today to 13.2% during the next 24 months.

We expect vacancy to edge down over the next two years, as Suburban Maryland has already experienced a swift rise in vacancy due to projects delivering to market from 2007-2009 and the current pipeline has declined, with pre-leasing rising to 100% as of June 2011. Vacancy will decline only modestly over the next two years, as we expect demand to pick up slowly as the economy recovers and more jobs are added to the Suburban Maryland market. However, we expect greater leasing to occur during the balance of 2011, as pent-up demand emerges to the market. Pre-leased deliveries will bolster absorption in 2012-2013.

RENTS

Suburban Maryland office effective rents declined 1.4% during the 1st half of 2011, compared to declining 8.1% during all of 2010.

Rent deterioration is ebbing. Property owners provided generous concession packages during 2010 in order to attract and keep tenants, as demand was light from private sector tenants and the amount of available space was elevated. Concession package offerings are stabilizing.

We expect region-wide effective rents to decline by 1.0% to 2.0% in 2011, as concession packages, although stabilizing, remain elevated. We expect rent growth to remain stalled in Suburban Maryland until 2012. As the vacancy rate gets closer to the rent equilibrium zone during 2012 and 2013, a zone where rents tend to neither rise nor fall, landlords will be eager to push rents up and limit concessions. We expect rents to increase 1.5% to 2.5% during 2012 despite vacancy remaining somewhat elevated. Thereafter, rents will escalate at or above the long term rate of increase.

INVESTMENT SALES

Sales volume totaled \$150 million during the 2nd quarter of 2011, compared to \$130 million during the 1st quarter. During the 1st half of 2011, sales volume totaled \$280 million, compared to \$190 million during the 1st half of 2010. This compares to \$306 million during all of 2010. Sale prices averaged \$236/SF for transactions that closed during the past six months, compared to \$184/SF for transactions closing during all of 2010.

Notably, CBRE Investors purchased One Washingtonian Center at 9801 Washingtonian Boulevard for \$90.0 million (\$286/SF) during the 2nd quarter of 2011.

We expect investors to seek assets in Suburban Maryland over the long-term because of steady and predictable performance due to a superior tenant base.

LAND SALES

There were no notable office land sales to developers during the 1st half of 2011, after no deals closed during 2010. The FINRA land transaction is excluded, as it is considered a user purchase.

We expect land sales in Suburban Maryland to gradually pick up pace during the balance 2011 and 2012. Although the development climate should remain soft this year, developers

will be looking to purchase land – planning for the next round of development and delivering during 2013/2014 when the market transitions back to landlord favor.

SUBURBAN MARYLAND OFFICE MARKET OUTLOOK

We expect the Suburban Maryland office market to experience slowly recovering conditions during the balance of 2011. Leasing activity should pick up pace over the next six months, as the economy improves and more blocks of space are removed from the market.

Government leasing should continue to drive the market in the near-term, as two notable GSA deals are anticipated to be inked. GSA has a 1.2 million SF requirement out for the Department of Homeland Security (DHS). Of note, the deal could fall flat, however, as budget pressures mount. Another deal could come from the National Institute of Allergy and Infectious Diseases as the agency searches for 491,000 SF along the I-270 Corridor in Montgomery County. Private sector activity should pick up pace, albeit modestly, as this sector utilizes shadow space first before leasing new space.

We expect vacancy to decline modestly over the next two years to 13.2%. However, vacancy will remain elevated when compared to the cyclical low of 8.7% during 2005.

We expect rents to decline by 1.0% to 2.0% in 2011, as concession packages remain elevated. As the vacancy rate gets closer to the rent equilibrium zone during 2012 and 2013, a zone where rents tend to neither rise nor fall, landlords will be eager to push rents up and limit concessions. We expect rents to increase 1.5% to 2.5% during 2012 despite vacancy remaining somewhat elevated. Thereafter we expect rents to increase at or above their long--term rate of increase.

Overall, we anticipate Suburban Maryland will experience improving market conditions in the near-term and is well poised for steady, long-term growth – as health, life sciences and energy are of growing importance.

NET ABSORPTION OF FLEX/INDUSTRIAL SPACE

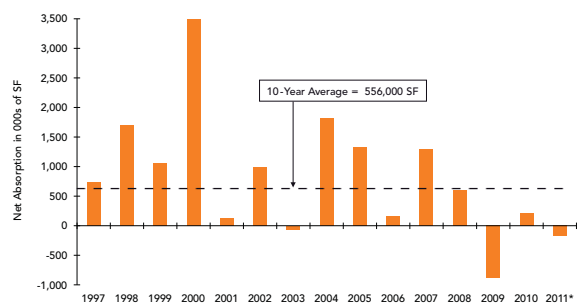
Suburban Maryland | First Half 2011

Submarket	SF	Built 1988-11
Prince George's Co.	79,000	21,000
Montgomery Co.	(54,000)	(35,000)
Frederick Co.	(199,000)	(126,000)
Suburban MD Total:	(175,000)	(141,000)

Source: Delta Associates; June 2011.

FLEX/INDUSTRIAL NET ABSORPTION

Suburban Maryland | 1997 Through First Half 2011



Source: Delta Associates; June 2011.

*First half 2011.

Flex/Industrial Market Conditions Stall – Weakness Will be Short-Lived; Advances in Biotechnology Initiative to Boost Demand

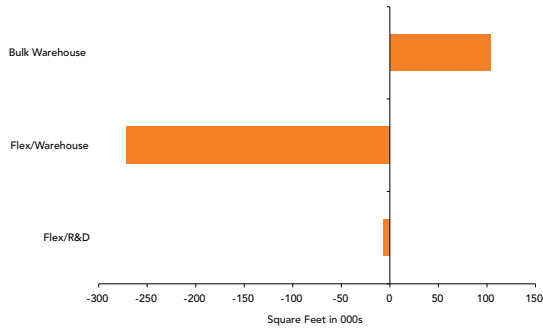
The Suburban Maryland flex/industrial market experienced muted conditions during the 1st half of 2011, as net absorption and vacancy flattened. Demand during the past six months was offset by tenants vacating space. This placed pressure on rents, causing them to decline 0.2% during the 1st half. These conditions should be short-lived, as we expect demand for space to pick up pace during the next 12 months. Overall, the Suburban Maryland flex/industrial market is positioned for steady recovery during the balance of 2011 and into 2012.

Mid Year 2011 Market Highlights

- **Net absorption:** Negative 175,000 SF during the 1st half, compared to positive 205,000 SF in all of 2010.
- **Sublease space:** Decreased by 15,000 SF during the 1st half. Sublease space is 0.9% of standing inventory.
- **Overall vacancy rate:** 12.2%, down from 12.5% one year ago.
- **Direct vacancy rate:** 11.3%, down from 11.5% one year ago.
- **Pipeline (U/C and U/R):** 512,000 SF, up from 102,000 SF one year ago.
- **Pipeline pre-lease rate:** 70%, compared to 0% a year ago.
- **Rents:** Down 0.2%, compared to declining 2.9% during all of 2010.
- **Investment sales:** \$67.1 million (\$78/SF), compared to \$209.1 million (\$88/SF) in all of 2010.

NET ABSORPTION & DELIVERIES BY PRODUCT TYPE

Suburban Maryland | First Half 2011



Source: CoStar, Delta Associates; June 2011.

NET ABSORPTION OF FLEX/INDUSTRIAL SPACE

Suburban Maryland | First Half 2011

Submarket	All Space	Built 1988-11
Prince George's Co.	79,000	21,000
Montgomery Co.	(54,000)	(35,000)
Frederick Co.	(199,000)	(126,000)
Sub. Md. Total	(175,000)	(141,000)

Source: Delta Associates; June 2011

NET ABSORPTION

Net absorption of flex/industrial space in Suburban Maryland totaled negative 175,000 SF during the 1st half of 2011, compared to positive 205,000 SF during all of 2010. This compares to the 10-year annual absorption average of 556,000 SF per annum.

Bulk warehouse space experienced positive net absorption during the 1st half of 2011 due to healthy leasing activity. However, net absorption for flex/warehouse and flex/R&D space was negative as demand could not keep pace with tenants vacating space. For instance:

- Thales Communications vacated 36,000 SF of flex/warehouse space at 22616 Gateway Center Drive in Montgomery County.
- Calico Industries vacated 25,000 SF of flex/warehouse space at 4721 Boston Way in Prince George's County.
- National Parts of Maryland vacated 22,000 SF of flex/warehouse space at 5700-5712 Lafayette Place in Prince George's County.

Prince George's County experienced positive net absorption during the 1st half of 2011, as tenants inked a handful of deals. These notable leases include:

- A&M Supply leased 102,000 SF at 9821 Fallard Court.
- GSA leased 44,000 SF at 1220 Caraway Court.

Chesapeake Math and Information Technology Academy leased 35,000 SF at 6100 Frost Place.

Available sublease space decreased 15,000 SF during the 1st half of 2011, after decreasing 11,000 SF during 2010. Sublease space is 0.9% of the standing inventory.

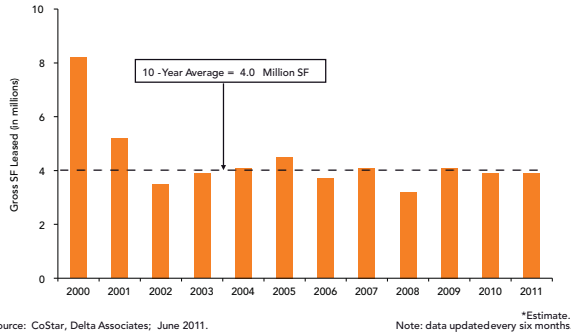
Net absorption of newer space (built after 1987) totaled negative 141,000 SF in Suburban Maryland during the 1st half of 2011, compared to positive 395,000 SF during all of 2010.

GROSS LEASING ACTIVITY

We estimate gross leasing activity will total 3.9 million SF in 2011, just below with the 10-year average of 4.0 million SF per annum.

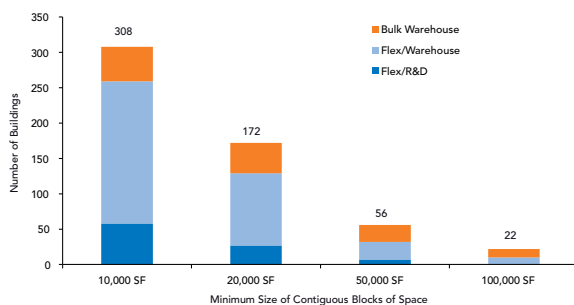
GROSS LEASING ACTIVITY

Suburban Maryland | 2000 – 2011



BUILDINGS WITH CONTIGUOUS BLOCKS OF AVAILABLE SPACE

Suburban Maryland | June 2011



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

The most notable deal of the 1st half of 2011 was A&M Supply leasing 102,000 SF at 9821 Fallard Court in Prince George's County.

There are 308 buildings with contiguous blocks of available space over 10,000 SF, down from 315 one year ago. Prince George's County is home to 56% of these blocks. The largest block is 412,000 SF of flex/warehouse space located at 6304 Sheriff Road (Building A) in Landover.

VACANCY

Suburban Maryland's overall flex/industrial vacancy rate was 12.2% at mid-year 2011, unchanged from year-end 2010, but down from 12.5% one year ago.

The direct vacancy rate is 11.3% at June 2011, up from 11.2% at December 2010, but down from 11.5% one year ago.

Flex/industrial vacancy had been on a steady rise since year-end 2007. Vacancy dipped down at year-end 2010. However, at mid-year 2011, vacancy flattened, as demand could not keep pace with tenants vacating space. We believe this is just a hiccup and vacancy should continue its descent over the next 12 months.

Suburban Maryland's overall flex/industrial vacancy rate in newer space is 13.3% at mid-year 2011, up from 13.2% at year-end 2010, but down from 14.2% one year ago. The direct vacancy rate in newer product is 11.7% at June 2011.

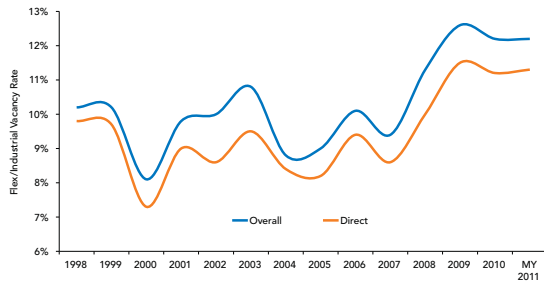
CONSTRUCTION

There is 512,000 SF of flex/industrial space under construction or renovation in Suburban Maryland at mid-year 2011, up from 102,000 SF one year ago. Projects under construction are currently 70% pre-leased. The pre-lease rate is boosted by the National Cancer Institute Facility, which is a fully leased 330,000 SF flex/warehouse building, located at 8560 Progress Drive in Frederick.

Two projects broke ground during the 1st half of 2011, compared to five projects during all of 2010. A total of 142,000 SF started construction during the past six months. Both projects are for bulk warehouse space and located in Prince George's County.

FLEX/INDUSTRIAL VACANCY RATE

Suburban Maryland | 1998 Through Mid Year 2011



Source: CoStar, Delta Associates; June 2011.

FLEX/INDUSTRIAL SPACE UNDER CONSTRUCTION

Suburban Maryland | June 2011

Submarket	SF	% Pre-Leased
Prince George's County	142,000	0%
Montgomery County	0	N/A
Frederick County	370,000	97%
Sub. MD. Total	512,000	70%

Source: CoStar, Delta Associates; June 2011

One notable project could break ground in the near-term. The Tasly Group, a biopharmaceutical company based in China, plans to construct a 430,000 SF R&D facility at the Shady Grove Life Sciences Center in Montgomery County. Governor O'Malley, under the BIO 2020 Initiative, has committed \$1.1 billion to support Maryland's life-science industry over a 10-year period. The Governor's budget for FY 2011 includes \$43 million for this initiative.

We anticipate spec groundbreakings to remain limited during 2011 due to more modest market activity and tight lending.

One flex/industrial project delivered in Suburban Maryland during the 1st half of 2011. A 24,000 SF flex/warehouse project delivered at 7651 Matapeake Business Drive during the past six months in Prince George's County. This project has yet to secure a tenant. During 2010, 78,000 SF of flex/industrial space delivered at 0% leased upon delivery.

SUPPLY V. DEMAND

We project Suburban Maryland's overall flex/industrial vacancy rate will edge down to 11.8% at June 2012, from 12.2% today. Tenants are taking advantage of lowered rents. We expect this trend to continue during the balance of 2011, as 13,600 jobs are added to the Suburban Maryland economy this year. We expect demand to outpace new supply by 300,000 SF over the next 12 months.

RENTS

Flex/industrial asking rents declined 0.2% during the 1st half of 2011, compared to declining 2.9% during all of 2010. Flex/warehouse product experienced the greatest rent decline during the past six months at 1.6%, as this product type has over 6.7 million SF of direct available space on the market.

Suburban Maryland rents should continue to decline at a reduced pace during the balance of 2011, as market conditions stabilize. Although we project vacancy to edge down 40 basis points over the next year, rents should edge down by 0.5% to 1.5% during 2011, as the vacancy rate remains elevated.

AVERAGE ASKING RENTS

Sub. Md. Flex/Industrial Space (NNN/SF/Annum)

Product Type	Year-End 2010	Mid-Year 2011	% Change
Bulk Warehouse	\$6.30	\$6.40	1.6%
Flex/Warehouse	\$6.20	\$6.10	-1.6%
Flex/R&D	\$11.60	\$11.55	-0.4%

Source: CoStar, Delta Associates; June 2011.

INVESTMENT SALES

There were nine notable investment sales in Suburban Maryland during the 1st half of 2011. Sales volume totaled \$67.1 million during the past six months, compared to \$209.1 million during all of 2010. Suburban Maryland accounted for 19% of total sales volume for flex/industrial product in the Washington/Baltimore region during the 1st half of 2011.

Sales prices averaged \$78/SF during the 1st half of 2011, down from \$88/SF during 2010. The average sales price declined during the 1st half due to limited transaction volume, which consisted of older product.

Notably, Industrial Income Trust purchased 1049 Prince Georges Boulevard, a 235,000 SF bulk warehouse asset, in Prince George's County. The asset sold for \$19.3 million (\$82/SF).

After a string of flex/R&D transactions during 2010, there were none during the 1st half of 2011. We expect flex/R&D sales to pick up pace during the balance of 2011 and into 2012 as interest in the life science market picks up under the BIO 2020 Initiative. We anticipate those with cash will continue to take advantage of purchasing quality assets at a discount – particularly for attractive flex/R&D assets. The window is closing for buying on the cheap.

LAND SALES

There were no notable flex/industrial land sales in Suburban Maryland during the 1st half of 2011, after no notable deals closed during all of 2010. Land sale activity should rise during the balance of 2011 and into 2012, as market conditions are slowly improving and credit is becoming more available.

SUBURBAN MARYLAND FLEX/INDUSTRIAL MARKET OUTLOOK

The Suburban Maryland flex/industrial market should improve slowly during the balance of 2011, as 13,600 new jobs are added to the economy this year. We project vacancy will edge down to 11.8% by June 2012, from 12.2% today. Although we project vacancy to edge down during the next year, vacancy will remain elevated, putting downward pressure on rents. Rents should edge down by 0.5% to 1.5% this year. Overall, Suburban Maryland's flex/industrial market is well positioned for long-term, stable growth. We anticipate growth in the flex/R&D market as biotechnology advances in the state.

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.

Transwestern Outlook

REGIONAL HEADQUARTERS

6700 Rockledge Drive
Suite 400A
Bethesda, MD 20817
301.896.9000

WASHINGTON, DC

1700 K Street, NW
Suite 600
Washington, DC 20006
202.775.7000

NORTHERN VIRGINIA

8614 Westwood Center Drive
Suite 800
Vienna, VA 22182
703.821.0040

BALTIMORE-WASHINGTON CORRIDOR

8820 Columbia 100 Parkway
Suite 310
Columbia, MD 21045
301.621.8800

www.transwestern.net



DELTA ASSOCIATES

500 Montgomery Street
Suite 600
Alexandria, VA 22314
703.836.5700

www.DeltaAssociates.com

