

2007 INDUSTRIAL & OFFICE MARKET REPORT

BALTIMORE/WASHINGTON, DC CORRIDOR



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2007 YEAR END REVIEW

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Cover - Annapolis, Maryland

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ABILITY OF BALTIMORE-WASHINGTON CORRIDOR MARKET TO NAVIGATE "THE THREE R's" WILL DETERMINE DIRECTION IN 2008

After several years of unprecedented growth, strong development activity and leasing success in the Baltimore-Washington Corridor marketplace, a feeling of uncertainty and unpredictability fills the air as the calendar turns to 2008. Real estate experts and regional economists still predict "good times" for this area, but the region's ability to navigate "the three R's" will ultimately determine the extent and direction of growth in the local non-residential market.

What will be the impact on the local economy and the real estate industry if a **R**ecession hits the country? Many say we are on a direct collision course with one. Past data and trends shows that the Baltimore-Washington region is typically the last to enter and the first to emerge from recessionary times, but few can accurately describe the depth or timing of this dip. The diversity of business types and proximity to the Nation's Capitol are the major reasons why this area should remain relatively unscathed during the next year.

What toll will the slowdown in the **R**esidential industry have on the commercial real estate sector in the short and long-term? Housing starts and sales have a wide-ranging ripple effect on the entire economy and typically represent an accurate barometer of consumer confidence. With another year of lackluster residential sales likely ahead, can the commercial and retail sectors continue to distance themselves from their real estate cousins?

When will BRAC (Base **R**ealignment and Closure) be felt in the local economy and when will the first influx of defense-oriented jobs and contracts enter the region? The entire State of Maryland has been gearing up for the expected 50,000 new jobs that are predicted to enter the region. When does all the fun begin and when will BRAC positively affect absorption rates locally?

Attention will be focused on the Anne Arundel County office market, as more than 500,000 square feet of speculative space will be delivered in 2008. The region's ability to absorb this inventory in a timely manner, while keeping rates steady or growing, is a key indicator that the entire region is closely monitoring.

Another dynamic issue that always stimulates discussion is the upcoming presidential election in 2008. The prospect of a change (or lack thereof) in the national administration always creates waves of uncertainty in the marketplace. The subprime lending debacle will also sort itself out in 2008 and we have already seen its impact in the lending market.

A county-by-county breakdown of the local real estate market is outlined below.

Anne Arundel County – Office

An entire spectrum of local, regional and national developers has targeted the County for the creation of new Class "A" office product, in anticipation of the demand created by the Base Realignment And Closure (BRAC) process.

2007 YEAR END REVIEW

In the Annapolis submarket, more than 155,000 square feet of space was delivered at Park Place in 2007 and additional space is on the horizon in 2008 at this project, as well as 185 Admiral Cochrane Drive, Annapolis Towne Centre at Parole and others. The market is healthy, but a significant amount of new product is coming on-line.

Anne Arundel County – Industrial

This product will ride the successful coattails of its Class “A” sibling – as driven by BRAC and ever-expanding medical, education and defense industries. Steadily increasing land prices, and the decision by owners to develop office versus industrial, will continue to keep new product supply levels low. One notable beneficiary is sure to be the new distribution facility that was delivered in late 2007 at Marley Neck Industrial Park thanks, in part, to its proximity to the Port of Baltimore and BWI Airport.

Howard County – Office

Although key industries – namely the financial, insurance and real estate sectors -- have been negatively impacted by national economic issues, the general health and outlook of this market remains promising. New job growth and the lowest unemployment rates in the state -- the most significant indicators -- continue to occur in Howard County. Several businesses announced major relocations to the County in the past year. Columbia Town Center, Maple Lawn and Columbia Gateway could become the right answer to many employers’ searches for new office locations.

Howard County – Industrial

The US Route 1 Corridor was the benefactor of most leasing successes, with approximately 520,000 square feet of space delivered and over 220,000 square feet of space absorbed. A large block of space is available at Gateway Commerce Center in Columbia, but users seem to be more interested in eastern Howard County and western Anne Arundel County.

Prince George’s County - Office

Bowie continues to be the location of choice among office users and a number of new Class “A” and flex buildings are on the rise, including the 160,000 square foot Melford Plaza II at Maryland Science & Technology Park. The pending arrival of the long-anticipated National Harbor project – including the Gaylord Hotel and Convention Center – should slide activity towards the southern portion of the County.

Prince George’s County – Industrial

Due to creative landlords, more than 700,000 square feet of obsolete warehouse product was removed from inventory in 2006. The strength of the market resides in new bulk properties and small bay industrial flex buildings, as companies doing business in downtown Washington are attracted to the County’s inventory, attractive leasing rates and transportation system.

Land – Commercial and Residential

The dramatic decline of the residential environment has severely and negatively impacted the appetite among home builders and land developers to acquire more acreage. With improvement not expected to occur until first or second quarter 2009, homebuilders are in a “hold” mode. The influx of expected home buyers as a result of BRAC may soften this landing. Land that is zoned or that can be re-zoned to accommodate commercial, office or hotel uses is still in high demand as readily developable parcels are in short supply. The substantial increase of land prices will soon make it feasible to redevelop older one-story industrial product into new product of all types.

Investment Environment

Interest among institutions still remains strong for well-located, quality real estate and escalated pricing reflects this demand. Less attractive assets, due to age, condition and/or location have seen interest or pricing wane to the point where sellers refuse to sell. Conduit lenders have become increasingly selective with their investment dollars and money is now more expensive to borrow. Many buyers have adopted a “wait and see” approach for the foreseeable future.

BALTIMORE-WASHINGTON CORRIDOR

Industrial Market Overview

COUNTIES & SUBMARKETS

MARKET	# OF BUILDINGS	RBA	TOTAL VACANT (SF)	VACANCY RATE %	NET ABSORPTION	RENTAL RATE PSF (AVERAGE)	CONSTRUCTION COMPLETIONS (SF)
HOWARD COUNTY							
Bulk	157	22,719,910	3,427,552	16.3%	-14,935	\$4.97	519,294
Office/Warehouse	197	9,476,758	1,055,725	11.2%	-214,559	\$7.70	0
Flex	131	5,345,862	458,242	8.5%	5,504	\$12.31	0
U.S. Route 1 Corridor							
Bulk	133	18,389,682	2,586,302	14.1%	558,381	\$5.43	519,294
Office/Warehouse	157	7,522,256	759,816	9.2%	-41,591	\$7.67	0
Flex	20	716,037	23,736	3.3%	40,244	\$9.55	0
Columbia							
Bulk	24	4,330,228	841,250	19.4%	-573,316	\$4.72	0
Office/Warehouse	40	2,393,368	295,909	12.4%	-172,968	\$9.47	0
Flex	111	4,609,325	434,206	9.4%	-34,740	\$12.50	0
ANNE ARUNDEL COUNTY							
Bulk	102	14,000,000	539,000	3.9%	1,239,000	\$5.50	0
Office/Warehouse	161	7,951,000	321,000	4%	312,000	\$6.75	0
Flex	215	6,227,000	579,400	8.6%	121,500	\$11.25	223,000
BWI							
Bulk	34	4,597,725	596,202	13%	272,208	\$5.36	300,498
Office/Warehouse	25	1,802,520	172,286	9.6%	141,702	\$6.28	0
Flex	74	3,146,059	383,956	12.2%	50,464	\$10.27	222,722
Marley Neck/Glen Burnie							
Bulk	32	5,869,223	163,900	2.8%	317,550	\$4.75	154,400
Office/Warehouse	33	1,369,000	56,388	4.1%	140,208	\$5.75	0
Flex	25	836,000	51,000	6.1%	9,000	\$9.75	0
Odenton							
Bulk	11	1,802,130	0	0%	0	\$4.75	0
Office/Warehouse	7	400,000	9,230	2.3%	5,000	\$6.75	0
Flex	15	783,000	19,125	2.4%	58,000	\$9.00	58,000
PRINCE GEORGE'S COUNTY							
Bulk	216	18,424,929	2,491,708	13.5%	163,689	\$6.70	261,137
Office/Warehouse	328	17,398,971	2,610,312	15%	12,470	\$6.23	0
Flex	565	19,823,304	1,602,166	8.1%	29,507	\$8.45	96,430
P.G. County Inner Beltway							
Bulk	145	10,842,309	1,076,341	9.9%	149,446	\$6.52	261,137
Office/Warehouse	174	8,060,787	963,916	12%	-28,411	\$5.58	0
Flex	317	8,506,546	436,514	5.1%	-29,313	\$8.08	0
P.G. County Outer Beltway							
Bulk	42	4,234,149	575,498	13.6%	61,956	\$7.18	0
Office/Warehouse	16	973,205	83,220	8.6%	73,372	\$8.24	0
Flex	61	3,471,665	287,666	8.3%	127,792	\$8.22	40,000
Northern P.G. County							
Bulk	36	2,842,583	235,932	8.3%	-13,295	\$8.95	0
Office/Warehouse	90	4,699,966	423,350	9.0%	-18,966	\$7.91	0
Flex	136	4,520,874	589,341	13.1%	11,717	\$9.56	56,430

BALTIMORE-WASHINGTON CORRIDOR

Office Market Overview

COUNTIES & SUBMARKETS

MARKET	# OF BUILDINGS	RBA	TOTAL VACANT (SF)	VACANCY RATE %	NET ABSORPTION	RENTAL RATE PSF (AVERAGE)	CONSTRUCTION COMPLETIONS (SF)
HOWARD COUNTY							
Class A	108	8,000,087	946,174	11.8%	505,953	\$25.62	219,803
Class B	182	5,850,500	624,978	10.7%	-45,158	\$22.00	0
Columbia North							
Class A	21	1,263,358	153,999	12.2%	15,249	\$24.87	111,349
Class B	24	642,638	127,142	19.7%	29,588	\$23.48	0
Columbia South							
Class A	58	4,743,632	684,850	14.4%	412,924	\$25.93	496,205
Class B	76	2,790,248	246,748	8.7%	-25,930	\$22.11	0
Columbia Town Center							
Class A	16	1,534,857	200,427	13.1%	58,065	\$25.99	0
Class B	22	855,247	93,404	10.9%	-21,660	\$20.82	0
ANNE ARUNDEL COUNTY							
Class A	98	7,154,705	851,591	11.9%	3,667	\$27.83	343,509
Class B	216	6,306,993	589,526	9.4%	-134,645	\$22.39	27,660
Annapolis							
Class A	34	1,756,244	227,265	13.0%	4,668	\$29.90	186,509
Class B	79	2,077,143	63,756	3.1%	8,686	\$26.38	16,100
BWI Corridor							
Class A	44	4,677,766	585,734	12.5%	17,076	\$27.46	157,100
Class B	48	2,402,684	480,987	20.0%	8,704	\$21.63	0

Office Building Criteria: Rentable building area equal to or greater than 10,000 gross square feet; multi-story and single story buildings. Vacancy rates are based on existing office space that is currently unoccupied; however, lease documentation may exist for all or a portion of such space.

“The appetite for warehouse and industrial space throughout the Baltimore/Washington, D.C. metropolitan region can be described as “steady” throughout 2007, with an absence of significant highs or lows during the twelve-month period. Healthy prospects for job and population growth will help insulate this region from potential downturns in the broader US economy. We see 2008 as a year of measured growth.”

Mark McConnell, Managing Director
First Industrial Realty Trust

HOWARD COUNTY

Industrial Submarket Map



HOWARD COUNTY

Industrial

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	157	197	131
New/Relet Vacant (SF)	3,180,999	879,602	408,003
Sublease Vacant (SF)	246,553	176,123	49,939
Total Vacant (SF)	3,427,552	1,055,725	458,242
Total Existing RBA (SF)	22,719,910	9,476,758	5,345,862
Vacancy Rate Direct %	14%	9.3%	7.6%
Vacancy Rate Sublease %	1.9%	1.9%	0.9%
Net Absorption (SF)	(14,935)	(214,559)	5,504
Average Rental Rate (NNN)	\$4.97	\$7.70	\$12.31
2007 Completed Construction SF	519,294	0	0
2008 Planned Construction SF	126,000	324,000	0

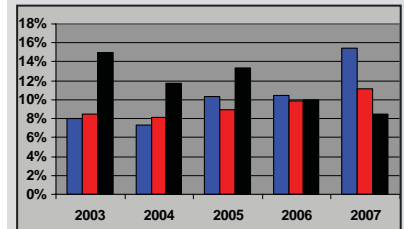
MARKET OVERVIEW

Fresh off the strength of 2006, leasing and sales activity continued its impressive momentum throughout the first three quarters of 2007 with a slow down detected in the fourth quarter due to the slowing of the overall national economy. With approximately 520,000 square feet of new industrial product delivered in Howard County, the net direct absorption was negative 223,990 square feet. Although all of the positive absorption occurred in the County's Route 1 Corridor, the negative absorption was attributed to the large amount of vacancy in 8700 Robert Fulton Drive in Columbia, which consists of approximately 700,000 square feet of high-ceiling warehouse space. The small absorption level can also be attributed to the relative lack of product in the Columbia market. Rental rates held steady throughout most of 2007 across all three industrial product types.

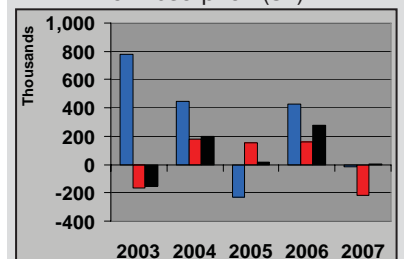
MARKET OUTLOOK

Overall, industrial activity for 2008 should be strong as vacancy outside Columbia remains low and should remain low with the lack of new product coming online due to continued land constraints. The market should expect moderate rental rate increases barring any unforeseen economic circumstances. Only 450,000 square feet of new speculative industrial product is planned for 2008 in Howard County.

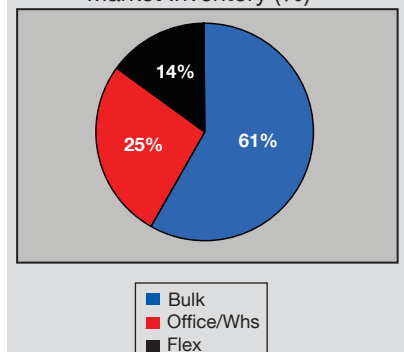
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Next Day Medical	8870 Greenwood Place	51,546	Bulk	Route 1
C-Systems International	7451 Coca Cola Drive	50,850	Office/Wchs	Route 1
Arbitron	7351 Coca Cola Drive	49,600	Bulk	Route 1
Vimco	8870 Greenwood Place	42,055	Bulk	Route 1
TW Perry	8840 Greenwood Place	42,000	Bulk	Route 1
Kitchen & Bath Expo Center	9327 US Route 1	37,600	Bulk	Route 1
Ann's House of Nuts	8250 Preston Court	33,532	Bulk	Route 1
Doe & Ingalls	8220 Patuxent Range Road	25,737	Bulk	Route 1

Howard County - Industrial

US RT 1 CORRIDOR

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	133	157	20
New/Relet Vacant (SF)	2,519,202	593,393	23,736
Sublease Vacant (SF)	67,100	166,423	0
Total Vacant (SF)	2,586,302	759,816	23,736
Total Existing RBA (SF)	18,389,682	7,522,256	716,037
Vacancy Rate Direct %	13.7%	7.9%	3.3%
Vacancy Rate Sublease %	0.4%	1.3%	0%
Net Absorption (SF)	558,381	(41,591)	40,244
Average Rental Rate (NNN)	\$5.43	\$7.67	\$9.55
2007 Completed Construction SF	519,294	0	0
2008 Planned Construction SF	126,000	144,481	0

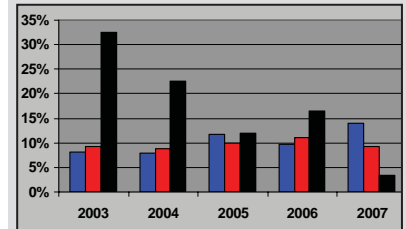
MARKET OVERVIEW

The US Route 1 Corridor held steady gains in absorption in 2007 and continues to be the strongest industrial market sector in the region. With approximately 520,000 square feet of space delivered and 500,000 square feet of direct absorption, the market remains extremely healthy moving into 2008. Land prices continue to escalate as a result of scarcity and only 270,000 square feet is currently being planned for completion. The majority of this new development will be in the CE zone along US Route 1 and will also include hotels, retail and residential mixed-use projects. Many of these developments are significantly underway as of year-end.

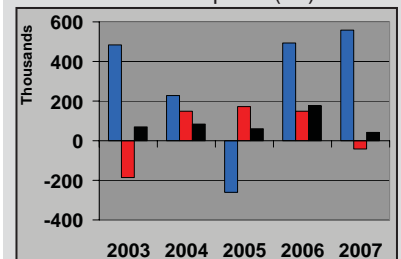
MARKET OUTLOOK

Trends that started in 2007 are continuing in 2008; the mixed-use development along US Route 1 bucked regional trends and is in full force. We expect vacancy to drop into single digits as the year progresses with slight rental escalations, barring any foreseen economic social constraints. All signs point to 2008 being another decent year for the Route 1 Corridor submarket.

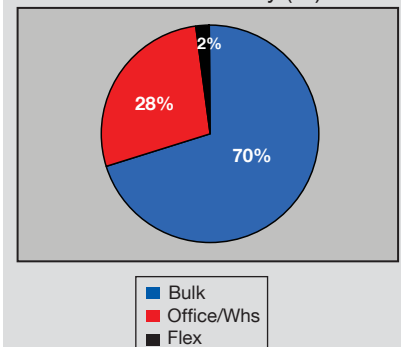
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Product	Buyer	Seller
GE Appliance Park (3 bldgs)	2,015,800	\$125,000,000	\$62.01	Bulk	RREEF	INVESCO
7595 Montevideo Road (C)	340,000	\$10,000,000	\$29.41	Bulk	Exeter Pro., Group	Montevideo Rty. Bus.Tst.
6740 Dorsey Road	120,186	\$10,000,000	\$83.20	Bulk	Spectrum 1 Dorsey LLC	Saval Food Service
8310 Sherwick Court	100,000	\$7,950,000	\$79.50	Bulk	AMB	Bavar Properties

SELECTED BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
Lark Brown (2 bldgs)	29,633	\$3,950,000	\$133.30	Flex	Sanford Kramer Plumbing	Lark Brown, LLC
7091 Dorsey Run Road	10,000	\$1,350,000	\$135.00	Whs	Aberdeen Realty Trust LLC	Yesrod, LLC
6905 San Tomas Road	73,025	\$4,600,000	\$62.99	Whs	VIF II Cel-Sci Partners, LLC	San Tomas Prp. LLC
6742 Dorsey Road	20,000	\$2,500,000	\$125.00	Whs	A&H LLC	Saval Food Services

Howard County - Industrial

COLUMBIA

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	24	40	111
New/Relet Vacant (SF)	661,797	286,209	384,267
Sublease Vacant (SF)	179,453	9,700	49,939
Total Vacant (SF)	841,250	295,909	434,206
Total Existing RBA (SF)	4,330,228	2,393,368	4,609,325
Vacancy Rate Direct %	15.3%	12.0%	8.3%
Vacancy Rate Sublease %	4.1%	0.4%	1.1%
Net Absorption (SF)	(573,316)	(172,968)	(34,740)
Average Rental Rate (NNN)	\$4.72	\$9.47	\$12.50
2007 Completed Construction SF	0	0	0
2008 Planned Construction SF	0	180,000	0

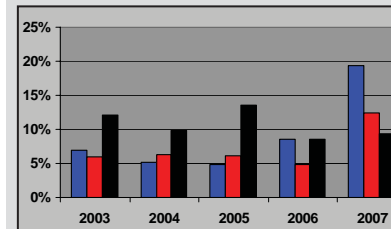
MARKET OVERVIEW

The Columbia industrial market has seen its bulk vacancy rate increase to 15.3% as a result of vacancy at 8700 Robert Fulton Drive, coupled with the absence of any new industrial product being built since the second quarter 2002. The industrial product in this submarket is clearly giving way to redevelopment of other retail and commercial office uses. New industrial development continues its trend of moving to the east into the Route 1 Corridor and Anne Arundel County markets.

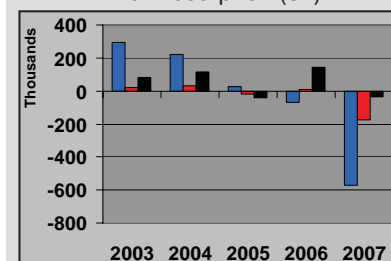
MARKET OUTLOOK

Industrial market activity in Columbia will remain flat as the majority of new development continues to be commercial uses such as hotels, service users, and office buildings. Developers and end-users view east Howard County and Anne Arundel County as their preferred location. What began as a trend in 2006 will continue in 2008 and into the unforeseeable future. Bucking this trend is a 110,000 square foot office/warehouse condominium project on Snowden River Parkway and a 70,000 square foot complex on Oakland Mills Road which are expected to be delivered towards the end of 2008. NAI KLNB has also seen older industrial projects being marketed for redevelopment opportunities and we expect this to continue next year.

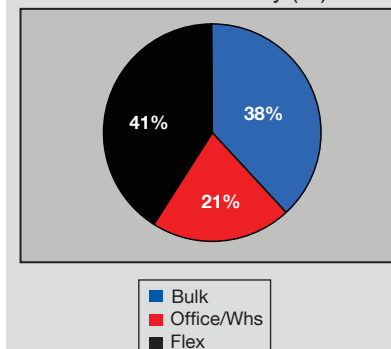
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



"REEF is marketing three warehouse/distribution buildings in Columbia, offering approximately two million square feet of combined space, and we are experiencing considerable interest and activity. The strong fundamentals of the Baltimore-Washington, D.C. region – specifically the transportation network and the general good health of the local economy – is contributing to a leasing pace that remains well ahead of the national benchmark. With few warehouse/distribution projects under construction, we are seeing pressure placed on existing demand – a trend we expect to continue throughout 2008."

Hamilton Loving, District Manager - REEF

HOWARD COUNTY

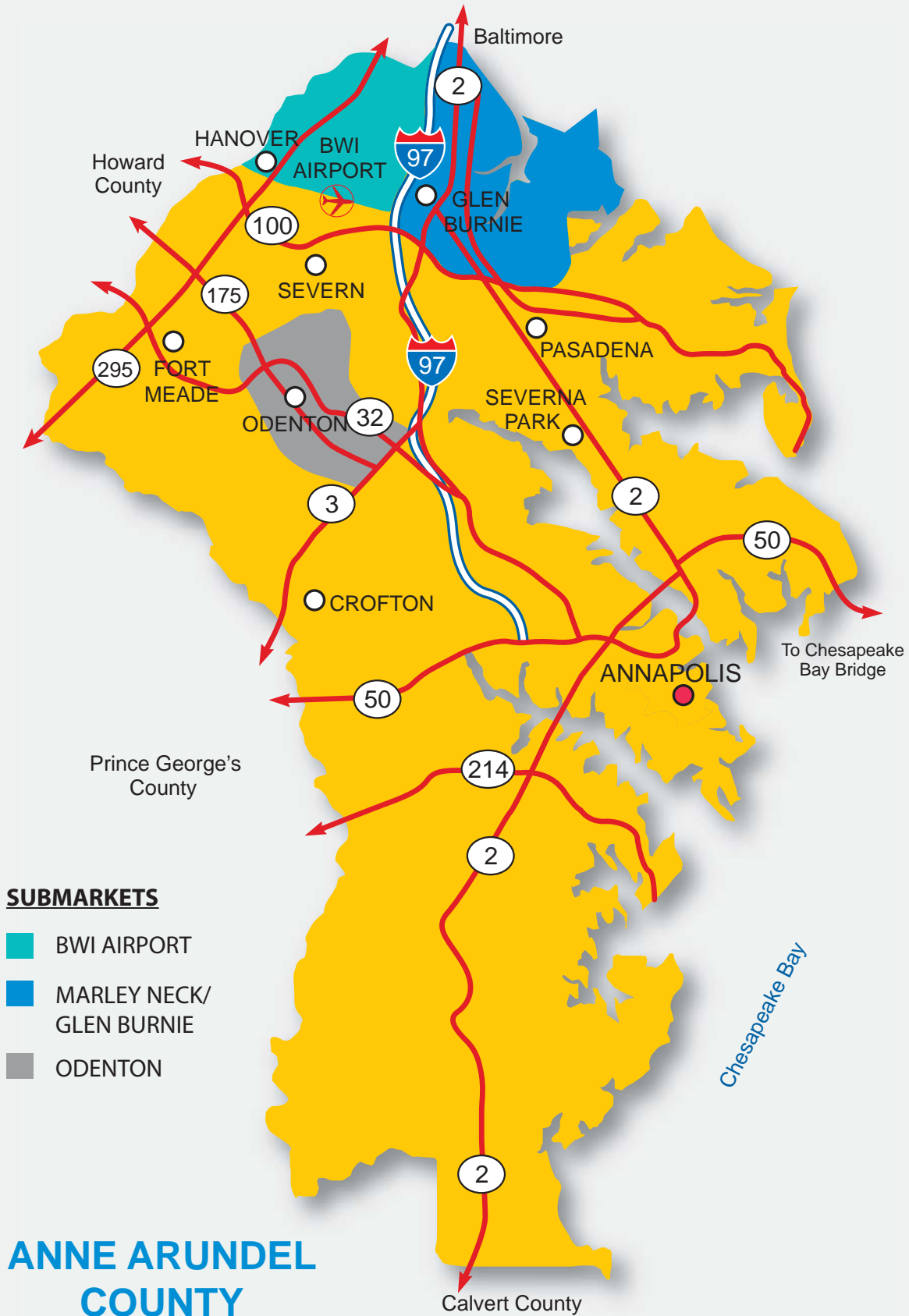
SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED INDUSTRIAL LAND SALES

Address	Size (Acres)	Price	Price/Acre	Submarket	Buyer	Seller
7381 Montevideo Road	6.17	\$2,400,000	\$393,442	Route 1	Cassens Land	Cherry Hill Construct.
Maier Road	1.78	\$700,000	\$393,258	Route 1	Nazario, Inc.	RJH Air Con. & Refrig.
8142 Washington Blvd.	7.0	\$3,140,480	\$448,640	Route 1	Mission Road Investors, LLC	F&C Corporation
8126 Washington Blvd.	1.75	\$328,571	\$187,755	Route 1	Mission Road Investors, LLC	Elizabeth Garrett
Southeast US Route 1	7.92	\$1,300,000	\$163,316	Route 1	TSC/Route 1 LLC	Equity Financial Corp.

ANNE ARUNDEL COUNTY

Industrial Submarket Map



ANNE ARUNDEL COUNTY

Industrial

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	102	161	215
New/Relet Vacant (SF)	374,000	321,000	539,000
Sublease Vacant (SF)	164,000	0	40,400
Total Vacant (SF)	539,000	321,000	579,400
Total Existing RBA (SF)	14,000,000	7,951,000	6,227,000
Vacancy Rate Direct %	2.7%	4%	8%
Vacancy Rate Sublease %	1.2%	0%	.6%
Net Absorption (SF)	1,239,000	312,000	121,500
Average Rental Rate (NNN)	\$5.50	\$6.75	\$11.25
2007 Completed Construction SF	0	0	223,000
2008 Planned Construction SF	610,000	0	79,000

MARKET OVERVIEW

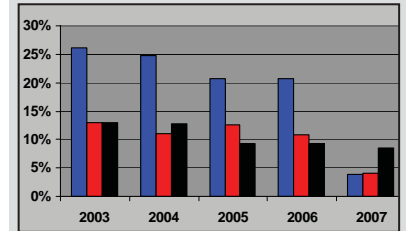
For the past twenty years, Anne Arundel County, located just 13 miles east of Washington, D.C. has been one of the fastest growing markets within the Baltimore metropolitan area. With a population of approximately 520,000, the County has the second highest median household effective buying income of all counties in the Baltimore metropolitan area. A diverse economic base, low unemployment (3.1%) and proximity to both Baltimore and Washington all contribute to its continued growth. The County's location in the mid Atlantic fuels the market, along with the presence of the BWI Airport, National Security Agency and the federal defense sector. Adding to this development infrastructure is the Base Realignment & Closure (BRAC) which is fueling prosperity in Anne Arundel County's western sections with over 5,600 incoming jobs and significant multipliers that put the total job growth at 33,000.

MARKET OUTLOOK

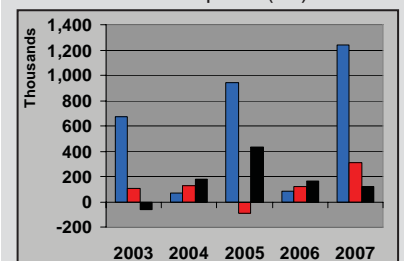
For 2008, Anne Arundel County should benefit from BRAC as one of the major drivers to its expanding commercial real estate base. In addition, service providers in the medical, defense, education and retail trades will expand into the area, providing steady growth. The economic impact of BRAC to the Fort Meade area is expected to reach \$5 billion as a result of the influx of people and jobs into the region and this will cause a positive ripple effect throughout the County. Even though the subprime fallout has not completely played itself out, we still believe that the sale and leasing of industrial and office product will stay strong in Anne Arundel County for the coming year. Developable commercial land continues to dwindle and sale demand still outpaces the supply of available property, keeping prices for all product types near record sale levels. In addition, lease rates for new speculative buildings will move up in order to support the rising cost of the land they are built on.

As job opportunities increase and as demand by businesses to be near areas such as Odenton, the BWI Airport and Fort Meade continues, we believe that absorption levels will stay in the positive range and vacancy rates will remain in single digits. As was the case last year, Anne Arundel County will remain a very good place to do business.

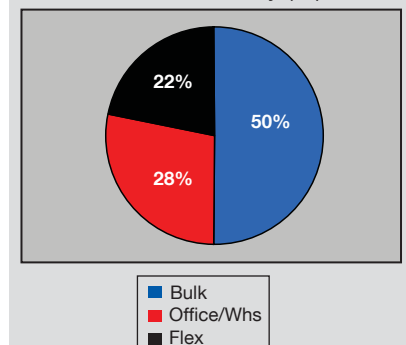
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Metro Logics	7629 Gambrills Cover Road	353,000	Bulk	Route 2 Corridor
Time Critical Freight	7463 New Ridge Road	146,000	Bulk	BWI/South
Terry's Tire Town	1790 Crossroads Drive	114,500	Bulk	BWI/South
Shaw Industrial	1405 Magellan Road	107,000	Bulk	BWI/South
Penny Saver Group, Inc.	1342 Charwood Road	80,250	Bulk	BWI/South
T. Rowe Price	709 Digital Drive	69,000	Flex	BWI/North
Archives One	7020 Dorsey Road	46,700	Office/Warehouse	BWI/South
Potomac Operations, Inc.	10305 Guilford Road	43,000	Office/Warehouse	Route 1 Corridor
Sunrise Safety Services	6711 Baymeadow Drive	25,600	Flex	Route 2 Corridor
DTI Associates	2409 Peppermill Drive	12,000	Flex	BWI/South

BWI AIRPORT

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	34	25	74
New/Relet Vacant (SF)	441,699	160,046	343,551
Sublease Vacant (SF)	154,503	12,240	40,405
Total Vacant (SF)	596,202	172,286	383,956
Total Existing RBA (SF)	4,597,725	1,802,520	3,146,059
Vacancy Rate Direct %	9.6%	8.9%	10.9%
Vacancy Rate Sublease %	3.4%	.7%	1.3%
Net Absorption (SF)	272,208	141,702	50,464
Average Rental Rate (NNN)	\$5.36	\$6.28	\$10.27
2007 Completed Construction SF	300,498	0	222,722
2008 Planned Construction SF	650,000	65,798	90,900

MARKET OVERVIEW

Even though it has been a roller coaster of a year for the commercial real estate industry and leasing has been slow, the region surrounding the BWI Thurgood Marshall Airport remains attractive and fundamentally sound. Preston Partners delivered a 176,000 square foot building in June of 2007 in Preston Gateway that attracted Shaw Flooring. Preston also has an additional park slated for delivery in 2008 that will include up to 650,000 square feet of new high bay warehouse buildings.

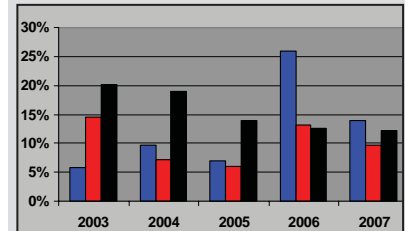
The market for office/flex space near the Airport is now over two million square feet and also experienced growth with the completion of nearly 160,000 square feet of new flex product at Arundel Overlook.

MARKET OUTLOOK

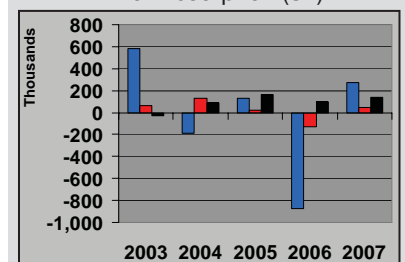
With the announcement last year that Fort Meade will benefit from the Base Realignment and Closure (BRAC), the BWI submarket as a whole remains on a slow growth path. As land constraints continue to tighten, developers and users alike are showing their belief in the area by continuing to pay record amounts for land.

Newly constructed flex buildings are gradually getting absorbed but activity has been described as slow. St. John Properties is planning to construct their remaining four buildings at Arundel Overlook as demand increases.

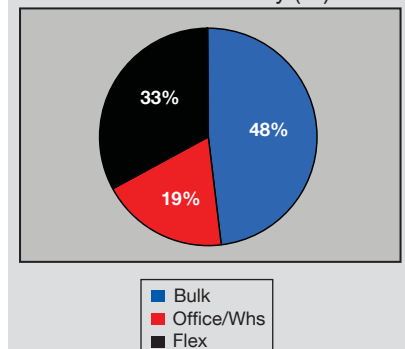
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Product	Buyer	Seller
6711 Dover Road	16,625	\$1,970,000	\$118.50	Flex	Horizon Land Co.	MD Composition
1010 Swan Creek	366,000	\$26,100,000	\$71.26	Bulk	AMB	TA Associates Realty
6611 Cabot Drive	161,300	\$11,494,000	\$71.26	Bulk	AMB	TA Associates Realty

SELECTED BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
6401 Chemical Road	35,000	\$2,100,000	\$60.00	Office/Whs	Carroll Ind. Fuel	Swiss N.A. Properties

Anne Arundel County - Industrial

MARLEY NECK/GLEN BURNIE

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	32	33	25
New/Relet Vacant (SF)	154,000	56,388	51,000
Sublease Vacant (SF)	9,900	0	0
Total Vacant (SF)	163,900	56,388	51,000
Total Existing RBA (SF)	5,869,223	1,369,000	836,000
Vacancy Rate Direct %	2.8%	4.1%	6.1%
Vacancy Rate Sublease %	0%	0%	0
Net Absorption (SF)	317,550	140,208	9,000
Average Rental Rate (NNN)	\$4.75	\$5.75	\$9.75
2007 Completed Construction SF	154,400	0	0
2008 Planned Construction SF	159,000	0	0

MARKET OVERVIEW

2007 was a positive year for this submarket, which presently contains approximately eight million square feet of industrial space. With minimal new construction occurring over the past twelve months, this area experienced substantial drops in vacancy rates across all product types. Common to the previous year, most gains have come from the increased leasing activity in both bulk warehouse product and office-warehouse product. In these segments, vacancy rates have dropped to approximately 3% and 4% respectively. In 2007, space with less than 18 foot clear ceilings (classified as flex) were a drag on the submarket, but even this segment saw a healthy decline in vacancy, dropping to 6.1%. Overall, positive net absorption was just shy of 500,000 square feet.

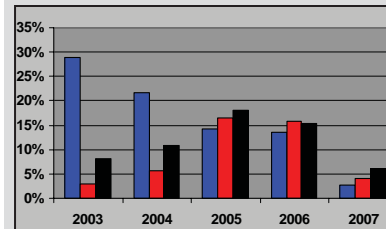
MARKET OUTLOOK

This submarket has expanded slowly, but steadily. As sites with closer proximity to Interstate 95 become more difficult to secure, the Marley Neck area will continue to be an attractive alternative for businesses in search of convenience to the Beltway and easy access to Baltimore and points south. High bay distribution product continues to offer lower pricing compared to similar properties in Howard County and this has sparked the only new bulk development project last year. It consists of a 159,000 square foot, 32 foot clear distribution facility set for delivery in the Marley Neck Industrial Park, with an asking price of \$5.65 per square foot, triple net.

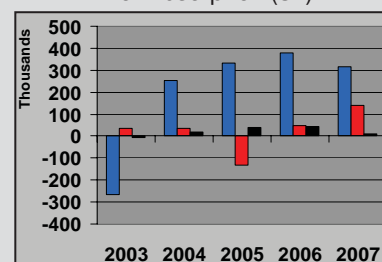
The only other large block of space currently being offered is a 221,000 square foot, 30 foot clear bulk warehouse. However, this property is fully occupied and is only being offered as a sublease for the remaining eight year term at \$3.75 per square foot, triple net.

At year-end 2007, there is only one industrial project planned for next year. This should keep warehouse availability relatively tight, along with the placement of upward pressure on both building sales and land values.

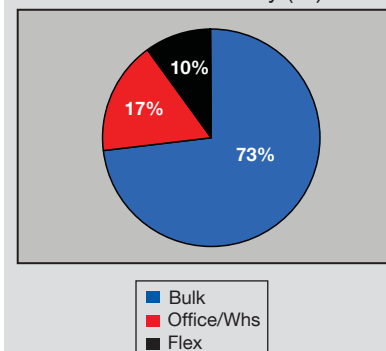
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LAND SALES - DEVELOPER

Address	Size	Price	Price/Acre	Submarket	Buyer	Seller
7482 Ridge Road	9.45 acres	\$3,640,000	\$385,185	BWI/South	CSG Ridge Road, LLC	BPG Land Partners
Hanover Road	8.0 acres	\$1,555,200	\$194,400	BWI/South	Preston Bruce	Louis Jones
Wright Road	6.85 acres	\$2,460,000	\$359,000	BWI/South	New Boston	Creek Properties, LLC

SELECTED LAND SALES - USER

Address	Size	Price	Price/Acre	Submarket	Buyer	Seller
Carbide Road	40.5 acres	\$1,000,000	\$24,714	Rte 2 Corridor	Baltimore Warehouse, Inc.	G. William Bishop
5635 Belle Grove Rd	5.43 acres	\$2,850,000	\$525,000	BWI North	Belle Grove MHP, LLC	Skull Mountain, LLC

ODENTON

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	11	7	15
New/Relet Vacant (SF)	0	9,230	19,125
Sublease Vacant (SF)	0	0	0
Total Vacant (SF)	0	9,230	19,125
Total Existing RBA (SF)	1,802,130	400,000	783,000
Vacancy Rate Direct %	0%	2.3%	2.4%
Vacancy Rate Sublease %	0%	0%	0%
Net Absorption (SF)	0	5,000	58,000
Average Rental Rate (NNN)	\$4.75	\$6.75	\$9.00
2007 Completed Construction SF	0	0	58,000
2008 Planned Construction	0	0	0

MARKET OVERVIEW

The Odenton industrial market has seen little change over the past year with only one new flex project, the 58,000 square foot Telegraph Road Business Center, delivered this year. With five leases at approximately \$9.00 per square foot, triple net, the project is 100% leased and occupied, and each tenant has approximately 10% of office finish.

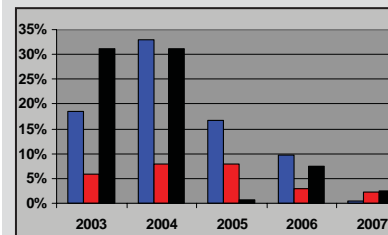
The former Nevamar site will be redeveloped sometime in the future but probably not until 2009 and the type of product that will be delivered is still undecided.

The Odenton industrial submarket is virtually full. The double digit vacancy rate has been whittled away over the past 18 months with only a small amount of new construction being delivered.

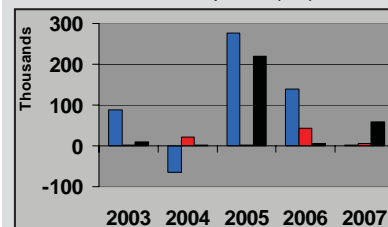
MARKET OUTLOOK

The industrial market for this area has no available space and no new industrial construction is planned for 2008. Most new development will be for office sites in order to make way for businesses expected from the implementation of the Base Realignment and Closure (BRAC) in the Fort Meade area.

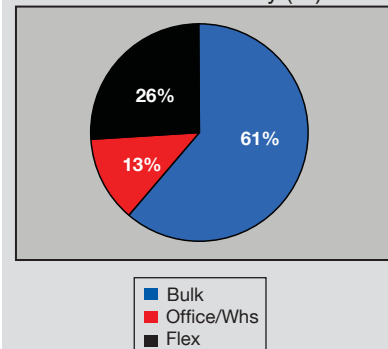
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

2008 PLANNED CONSTRUCTION

Address	SF	Product	Asking Rent PSF	Delivery Date	Owner/Developer
7495 Race Road	125,000	Office/Whs	\$7.00 - \$9.00 NNN	August 2008	Preston Partners
6934 Aviation Boulevard	45,780	Flex	Negotiable	February 2008	St. John Properties
7606-B Energy Parkway	32,800	Flex (Condo)	\$120.00	April 2008	Old Padonia LLC

BUILDINGS DELIVERED IN 2007

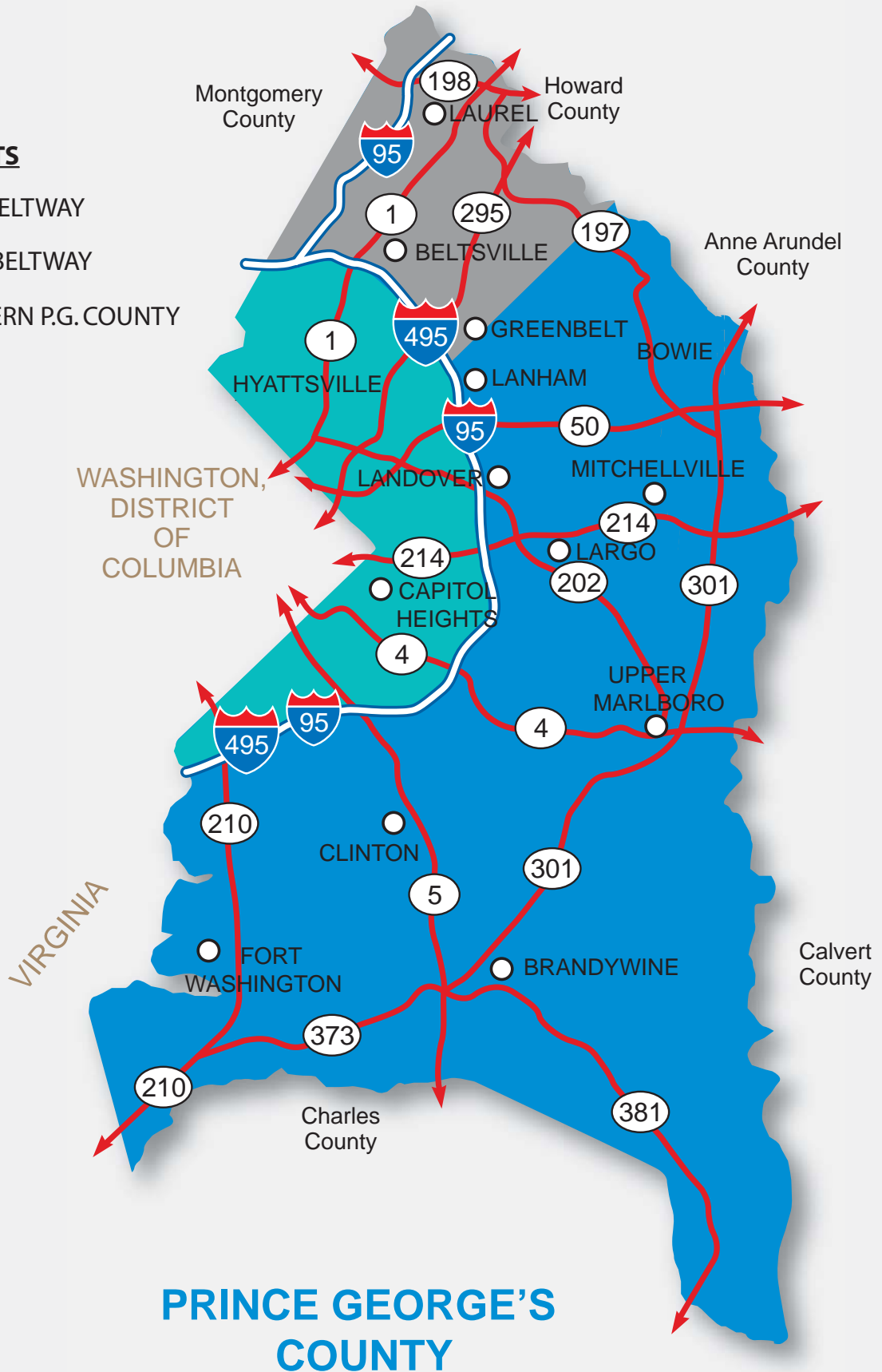
Address	SF	Product	Asking Rent PSF	Delivery Date	Owner/Developer
6070 Dorsey Road	300,498	Bulk	\$6.25 NNN	December 2007	Preston Partners
1021 Swan Creek Drive	154,400	Bulk	\$5.65 NNN	December 2007	Belts

PRINCE GEORGE'S COUNTY

Industrial Submarket Map

SUBMARKETS

- INNER BELTWAY
- OUTER BELTWAY
- NORTHERN P.G. COUNTY



PRINCE GEORGE'S
COUNTY

PRINCE GEORGE'S COUNTY

Industrial

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	216	328	565
New/Relet Vacant (SF)	2,432,958	2,576,622	1,484,067
Sublease Vacant (SF)	58,750	33,680	118,099
Total Vacant (SF)	2,491,708	2,610,312	1,602,166
Total Existing RBA (SF)	18,424,929	17,398,971	19,823,304
Vacancy Rate Direct %	13.2%	14.8%	7.5%
Vacancy Rate Sublease %	.3%	.2%	.6%
Net Absorption (SF)	163,689	12,470	29,507
Average Rental Rate (NNN)	\$6.70	\$6.23	\$8.45
2007 Completed Construction SF	261,137	0	96,430
2008 Planned Construction SF	1,046,507	68,000	147,380

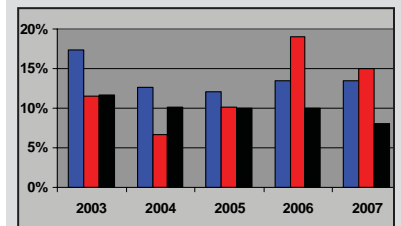
MARKET OVERVIEW

The challenge of repositioned older warehouse product has been met by owners who were creative enough to complete sale or lease transactions to remove these from the market. With six of these former obsolete or otherwise functionally-challenged buildings either leased or sold, more than 700,000 square feet is now off the available inventory ledger. The strength of the market continues to reside with the new bulk product, as these properties were successfully leased within a year of completed construction. Small bay industrial flex continues to be extremely active as small companies and contractors that are doing business in the District of Columbia area flock to Prince George's County due to abundant inventory and attractive rates. As an increasing number of tenants seek industrial property in Prince George's County, the tendency for existing tenants is to move towards the Outer Beltway areas, to distance themselves from Beltway congestion and seek more functional product. Meanwhile, in the tech-flex sector, the market has rebounded well through the expansion of this product into the industrial service section. We have also seen an increase in demand from the traditional tech sector through government contracts for Department of Defense, Homeland Security and NASA.

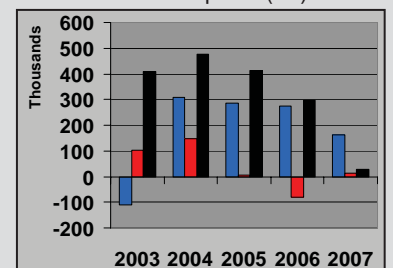
MARKET OUTLOOK

Older product has performed well as rental rates and sale prices have increased due to spirited demand and the high cost of construction. This activity has also caused rates to increase for new product as well. Much of the absorption has emanated from the private sector. However, the federal government and county government has also significantly contributed with several major leases that have absorbed more than half a million square feet of space. With the pending arrival of Peterson Company's National Harbor -- which includes the Gaylord Hotel and Convention Center -- there has been an influx of service companies and contractors working on that job that have also taken space in the industrial market. Also improving the economy in Prince George's County is the flow of business out of the District of Columbia as industrial property becomes converted to higher and better use. This domino effect has caused local companies to seek new quarters in nearby Prince George's County. Older properties will continue to do well as they provide low cost alternatives to new construction. Companies will continue to seek less congestion, better rentals and access to skilled labor in the Rt. 301 Corridor from Collington to Brandywine.

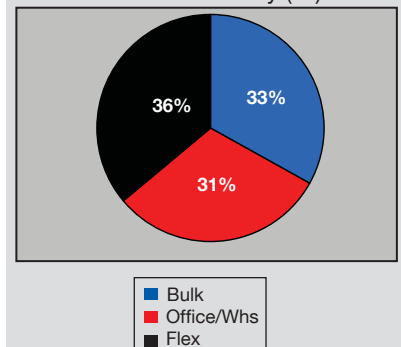
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
GSA Smithsonian	3400 Pennsy Drive	359,035	Office/Whs	Inner Beltway
US Post Office	3636 Pennsy Drive	83,000	Bulk	Inner Beltway
Merchants Metals	6100 Columbia Park Drive	70,750	Office/Whs	Inner Beltway
GSA/Government Contractor	Hampton Park Blvd., Building 6	56,843	Bulk	Inner Beltway
HD Supply	6100 Columbia Park Drive	42,000	Office/Whs	Inner Beltway
Exhibit Management Services	15800 Commerce Court	34,760	Bulk	Outer Beltway
World Vision	6201 Columbia Park Drive	26,429	Office/Whs	Inner Beltway
Mountainside Gourmet	8417 Edgeworth Drive	15,000	Office/Whs	Inner Beltway

Prince George's County - Industrial

INNER BELTWAY

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	145	174	317
New/Relet Vacant (SF)	1,076,341	963,916	436,514
Sublease Vacant (SF)	0	0	0
Total Vacant (SF)	1,076,341	963,916	436,514
Total Existing RBA (SF)	10,842,309	8,060,787	8,506,546
Vacancy Rate Direct %	9.9%	12%	5.1%
Vacancy Rate Sublease %	0%	0%	0%
Net Absorption (SF)	149,446	(28,411)	(29,313)
Average Rental Rate (NNN)	\$6.52	\$5.58	\$8.08
2007 Completed Construction SF	261,137	0	0
2008 Planned Construction SF	223,557	0	0

MARKET OVERVIEW

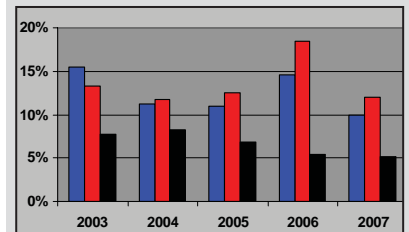
The Inner Beltway market comprises the largest amount of space as well as the oldest product in the county. After experiencing three years of stagnant vacancy, this market has performed well with a dramatic 30% drop in vacancy rate. All products have experienced success with bulk, office/warehouse and flex seeing gains in overall absorption. Much of this can be attributed to sales of older buildings to users as well as federal government and local government leasing activity.

MARKET OUTLOOK

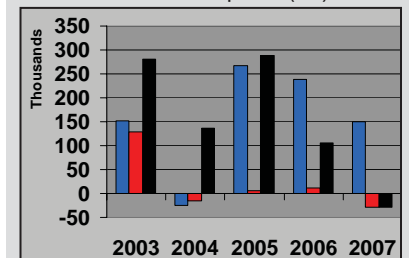
This market will continue to perform as older product provides a low cost alternative to the new product being built around the Beltway. A shining performer is the Steeple Chase project that consists of 110 acres to be built out with over 1 million square feet of industrial, office and retail. This property has distinguished itself with build-to-suits as well as speculative leasing. To date, 327,883 square feet has been leased or sold since the project delivered its first building in 2006.

As new construction continues, rental rates shall rise for both new and older product. Land constraints are starting to take their toll as zoned property sales have climbed -- in some cases to \$500,000 per acre for property close to Washington, D.C. All new bulk product is designed with 24' clear ceiling heights with several projects exceeding that to as much as 30' clear.

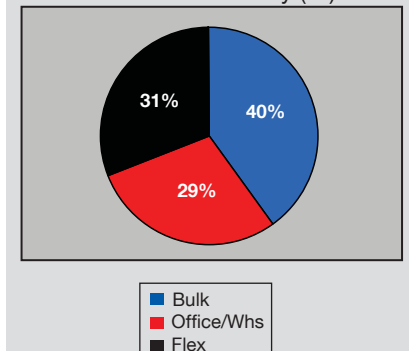
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



"First generation office product in P. G. County performed fairly well in 2007 although -- like most suburban markets in the region -- we expect to experience a softening pace in the coming year. Several large leases in excess of 90,000 square feet have been signed and, with few new buildings under construction, the vacancy level in first generation buildings has stabilized. Leasing activity in the industrial sector has been brisk and steady, trends that we anticipate continuing as land constraints have made it difficult to build new supply."

Andrew Eshelman, Principal - MGP Real Estate Mark

PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	Size SF	Price	Price PSF	Product	Buyer	Seller
15800-15850 Commerce Court	200,000	\$16,750,000	\$83.60	Bulk	MGP	Gingery Development
1739-1775 Brightseat Road	203,504	\$14,245,200	\$70.00	Office/Whs	Finmarc	Home Depot

SELECTED BUILDING SALES - USER

Address	Size SF	Price	Price PSF	Product	Buyer	Seller
Eastgate Business Park	202,850	\$11,372,370	\$101.00	Bulk	Capital Lighting	Eastgate Partners
1775 Brightseat Road	80,000	\$6,235,000	\$79.00	Office/Whs	Thompson Creek Windows	Finmarc
3001-3003 Kaverton Road	7,132	\$891,500	\$125.00	Flex	Trashmasters BDR	BTC Kaverton LLC

Prince George's County - Industrial

OUTER BELTWAY

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	42	16	61
New/Relet Vacant (SF)	557,498	83,220	239,987
Sublease Vacant (SF)	18,000	0	47,679
Total Vacant (SF)	575,498	83,220	287,666
Total Existing RBA (SF)	4,234,149	973,205	3,471,665
Vacancy Rate Direct %	13.2%	8.6%	6.9%
Vacancy Rate Sublease %	.4%	0	1.4%
Net Absorption (SF)	61,956	73,372	127,792
Average Rental Rate (NNN)	\$7.18	\$8.24	\$8.22
2007 Completed Construction SF	0	0	40,000
2008 Planned Construction SF	406,950	0	100,000

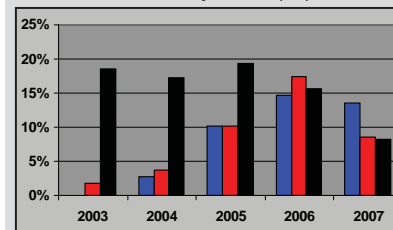
MARKET OVERVIEW

The Outer Beltway market in Prince George's County has experienced the most dramatic increase in new construction and leasing activity within the past year. This is due to the popularity of this location because of the access it provides to the suburban employment market. Bowie has experienced the most activity with the Melford at Maryland Science & Technology Park project where office construction has almost totally replaced flex/warehouse. This project has produced approximately 200,000 square feet of new space in 2007 -- all of which has been leased. In addition, the Collington Commerce Park on MD Route 301 in Upper Marlboro has seen dramatic activity as a result of new aggressive ownership at the Collington Business Center -- a 360,000 square foot flex and warehouse property that has experienced a 95% lease up during the year. This same ownership has acquired the Collington Trade Center, a 230,000 square foot property which is 50% leased and has major activity on the remaining space. Collington has become a more attractive location because of its proximity to Southern Prince George's and Charles County, where a large skilled labor pool resides. Key tenants in this market are regional distribution centers for Safeway, Thos. Somerville, DHP, Becton Industries, Rexal and Nordstrom, among others.

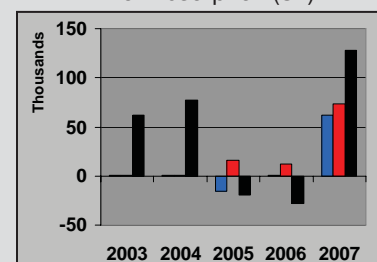
MARKET OUTLOOK

New construction outside the Beltway is focused primarily on the MD Route 4 corridor exchange where Eastgate Business Center is continuing its development of large industrial condominiums with plans to sell the product. In addition, a new project planned by Lincoln Properties at 8420 Westphalia Road, a 153,700 square foot, multi-tenant, bulk warehouse property, will be delivered in the 4th quarter 2008. It remains to be seen whether the condominium market will continue to be active as we head into a period of more conservative lending practices. We expect sale prices to level off as a result. Conversely, rents are more than likely to continue to rise as a result of new construction and overall demand in that market.

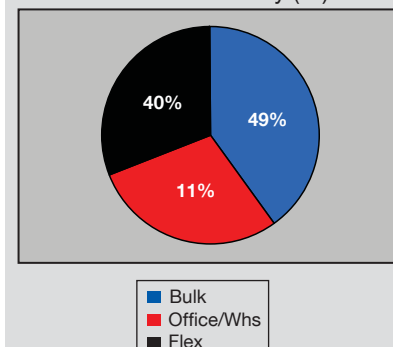
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LAND SALES

Address	Size	Price	Price/Acre	Product	Buyer	Seller
South Club Drive	1.89 acres	\$661,500	\$350,000	Industrial	Capital Meats	Preferred Real Estate
South Club Drive	4 acres	\$1,840,000	\$460,000	Industrial	RE Michael	Preferred Real Estate

Prince George's County - Industrial

NORTHERN P.G. COUNTY

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	36	90	136
New/Relet Vacant (SF)	195,182	407,660	518,921
Sublease Vacant (SF)	40,750	15,690	70,420
Total Vacant (SF)	235,932	423,350	589,341
Total Existing RBA (SF)	2,842,583	4,699,966	4,520,874
Vacancy Rate Direct %	6.9%	8.7%	11.5%
Vacancy Rate Sublease %	1.4%	.3%	1.6%
Net Absorption (SF)	(13,295)	(18,966)	11,717
Average Rental Rate (NNN)	\$8.95	\$7.91	\$9.56
2007 Completed Construction SF	0	0	56,430
2008 Planned Construction SF	400,000	68,000	47,380

MARKET OVERVIEW

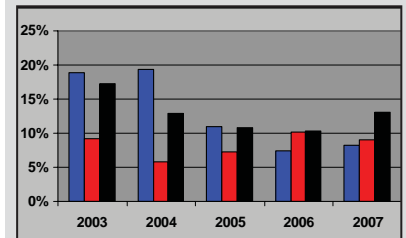
Tech product in this market makes up the majority of the space and the vacancy. This segment is still recovering from the tech slow down from previous years and is trying to transition into more industrial uses. With rental rates and common area maintenance typically higher than industrial tenants are willing to pay, it will take a while for this property to be fully absorbed. The anticipated arrival of BRAC and the expected increase in government contracts for defense and homeland security will make these properties likely candidates for those contractors.

The old industrial part of Beltsville remains attractive to companies seeking to locate adjacent to the Beltway and I-95 for access into Montgomery County, Northern Virginia and Baltimore. Vacancy increased in the bulk product sector due to competition with lower prices in Howard County and the Landover section of Prince George's County.

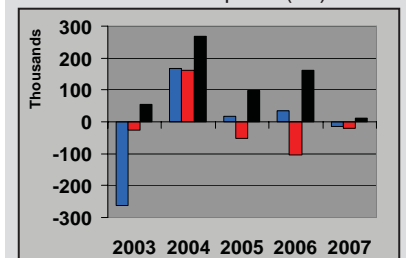
MARKET OUTLOOK

As expected, the new development at The Brick Yard by Jackson-Shaw and plans for further development by Konterra has created enough attention to attract major users to pre-lease or purchase properties under construction. The Brick Yard has landed four deals -- consisting of three sales and one major lease -- without having any other buildings above ground. Konterra continues to build the same tech-flex as it has been building, which has achieved some success, but has plans for major new construction.

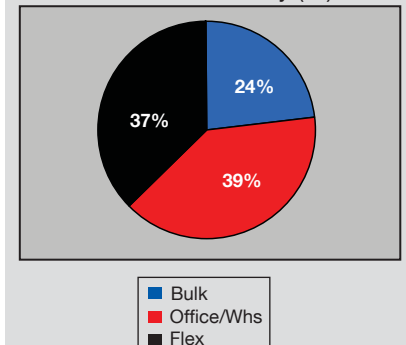
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

BUILDINGS DELIVERED IN 2007

Address	RBA SF	Delivery Date	Asking Rent PSF	Type	Owner/Developer
Steeplechase (G)	56,843	9/07	\$7.25	Bulk	ATAPCO
3301 Pennsy Drive	72,034	11/07	\$7.25	Bulk	MGP
Steeplechase (C)	132,260	7/07	\$7.15	Bulk	ATAPCO

2008 PLANNED CONSTRUCTION

Address	SF	Product	Asking Rent PSF	Delivery Date	Owner/Developer
Steeplechase (F1)	48,000	Bulk	\$7.95	Oct. 2008	ATAPCO
Steeplechase (A)	175,000	Bulk	\$7.50	Nov. 2008	ATAPCO
Eastgate Business Park	42,000	Bulk (Condo)	\$135.00	June 2008	Lincoln Property Co.
9801 Fallard Court	60,000	Bulk	\$7.25	Oct. 2008	Michael Companies

HOWARD COUNTY

Office Market

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	108	182
New/Relet Vacant (SF)	817,258	571,006
Sublease Vacant (SF)	128,916	53,972
Total Vacant (SF)	946,174	624,978
Total Existing RBA (SF)	8,000,087	5,850,500
Vacancy Rate Direct %	10.2%	9.8%
Vacancy Rate Sublease %	1.6%	.9%
Net Absorption YTD (SF)	505,953	(45,158)
Average Rental Rate (Full Service)	\$25.62	\$22.00
2007 Completed Construction SF	219,803	0
2008 Planned Construction SF	850,682	106,981

MARKET OVERVIEW

The Howard County office market has remained somewhat resilient over the past year with the most promising news of having the lowest unemployment rate (2.4%) in the state of Maryland. The financial, insurance and real estate sectors ("FIRE") have been impacted the most significantly by the credit crunch and housing slowdown.

Several significant announcements were made and a few groundbreakings were held in 2007. Merkle, a database marketing agency, relocated from Prince George's County to a new 120,000 square foot office building in the Columbia Gateway Business Community. The first building will accommodate 550 employees and further expansion is planned on an adjacent four-acre parcel to yield 70,000 square feet for an additional 350 employees.

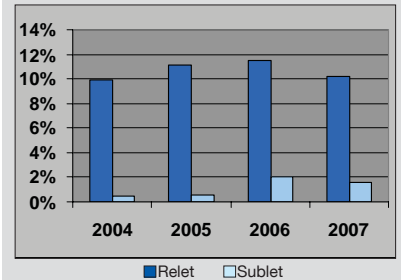
MARKET OUTLOOK

Howard County is well situated to weather any potential economic storm on the horizon. We expect a resurgence of leasing activity in markets in mixed-use environments such as Maple Lawn and Columbia Town Center where General Growth Properties has committed to an aggressive leasing campaign in its urban corporate environment with amenities such as The Mall in Columbia. As the credit crunch and housing market bottoms out, we expect an increase in absorption by the technology, government, and defense-related industries.

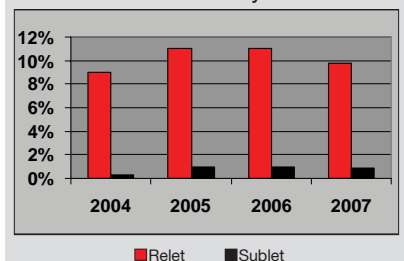
Rental rates will hold true, but we expect some landlord concessions to enter the marketplace based upon the client's credit worthiness and lease term. Construction costs should level off, which is directly related to the non-commercial sector slow down.

The office condominium marketplace will experience some softness due to interest rate fluctuations and the media bashing of the residential market spilling over to the commercial buyers. We believe the projects that have "A" locations and are priced correctly will experience the most activity.

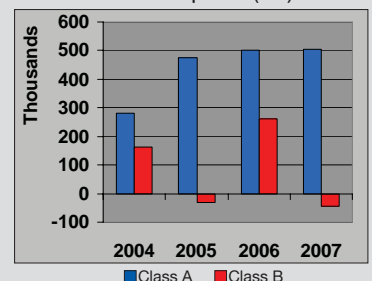
Class A Vacancy Rate



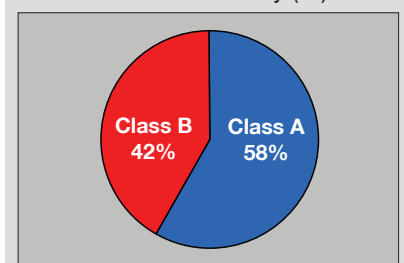
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF
United Health Care	6220 Old Dobbin Road	49,000
TCOM LP	7115 Thomas Edison Drive	42,150
Barton Cotton	9755 Patuxent Woods Drive	27,000
Advanced Technology & Research	6650 Eli Whitney Drive	25,410
Tecore, Inc.	7061 Columbia Gateway Drive	24,511
Peak Technologies, Inc.	10330 Old Columbia Road	21,768
Frequentis USA	9017 Red Branch Road	19,000
American Medical Directors Association	11000 Broken Land Parkway	10,151
Pangia Technologies, Inc.	8161 Maple Lawn	8,180
Boston Scientific	6711 Columbia Gateway Drive	7,653

Howard County - Office

COLUMBIA NORTH

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	21	24
New/Relet Vacant (SF)	103,711	121,124
Sublease Vacant (SF)	50,288	6,018
Total Vacant (SF)	153,999	127,142
Total Existing RBA (SF)	1,263,358	642,638
Vacancy Rate Direct %	8.2%	18.8%
Vacancy Rate Sublease %	4%	.9%
Net Absorption YTD (SF)	15,249	29,588
Average Rental Rate (Full Service)	\$24.87	\$23.48
2007 Completed Construction SF	111,349	0
2008 Planned Construction SF	78,771	0

MARKET OVERVIEW

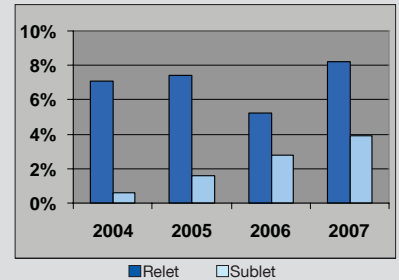
Columbia North remains a healthy market although vacancy rates have increased over 14% from 12% last year. Since this market is comparatively smaller in size than the other Howard County submarkets, delivery of office products and having one or two large vacancies greatly effect the vacancy rates. Merritt's Meadowridge 95, delivered in 2007, and both Knoll North and South account for 10% of the Columbia North market and 70% of the total available square footage.

MARKET OUTLOOK

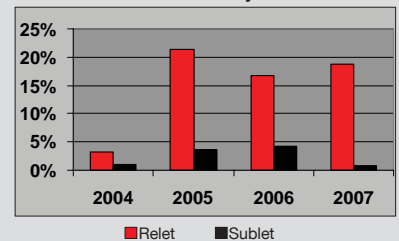
Land availability is tight in the Columbia North submarket, limiting the amount of office construction that will take place in the upcoming years. In 2008, there will only be one 78,771 square foot condo building delivered at 9256 Bendix Road and no other definitive office buildings are scheduled to be delivered in 2008.

Prospect activity is expected to keep pace along the Route 100 Corridor from Routes 29 and I-95. Although we expect sublease availability to increase as those affected by the residential slowdown to look to downsize, we anticipate overall vacancy in this submarket to remain constant.

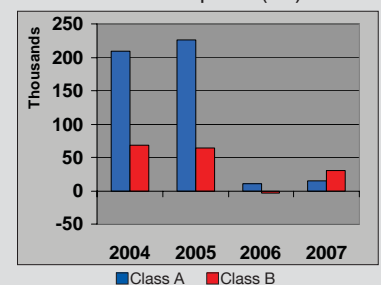
Class A Vacancy Rate



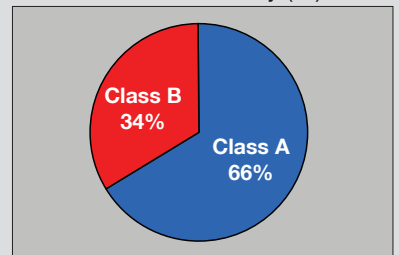
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

2008 PLANNED CONSTRUCTION

Address	RBA SF	Deliver Date	Asking Rent PSF	Owner/Developer
8160 Maple Lawn Boulevard	102,000	1st Qtr. 2009	TBD	Greenebaum and Rose

BUILDINGS DELIVERED IN 2007

Address	SF	Product	Asking Rent PSF	Delivery Date	Owner/Developer
7651 Montpelier Road	243,000	A	Fully Leased	October 2007	Montpelier, LLC
7021 Columbia Gateway Drive	106,212	A	\$29.50	October 2007	Orix RE
6581 Meadowridge Road	68,208	A	\$24.50	July 2007	Merritt Properties
6220 Old Dobbin Road	64,500	A	Fully Leased	April 2007	Liberty Property Trust
9520 Berger Road	50,818	A	Condo	June 2007	Meisel

Howard County - Office

COLUMBIA SOUTH

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	58	76
New/Relet Vacant (SF)	599,461	198,834
Sublease Vacant (SF)	85,389	227,652
Total Vacant (SF)	684,850	246,748
Total Existing RBA (SF)	4,743,632	2,790,248
Vacancy Rate Direct %	12.6%	7.1%
Vacancy Rate Sublease %	1.8%	1.6%
Net Absorption YTD (SF)	412,924	(25,930)
Average Rental Rate (Full Service)	\$25.93	\$22.11
2007 Completed Construction SF	496,205	0
2008 Planned Construction SF	473,000	0

MARKET OVERVIEW

Bound by Route 175 to the north, Route 108 to the west, the Montgomery/Prince George's County lines to the south and 1-95 to the east, the Columbia South submarket continues to flourish, due in part by the stability of attractive and quality business parks including Columbia Gateway, Columbia Corporate Park, Rivers, Patuxent Woods, Hillcroft and Maple Lawn.

Build-to-suit activity demonstrates the validity of the submarket. The Johns Hopkins University Applied Physics Laboratory is a 243,000 square foot building which delivered this year. Also, Merkle Marketing broke ground in 2007 on their 120,000 square foot build-to-suit to relocate its corporate headquarters to the Columbia Gateway Business Park in 2008.

Maple Lawn's 600 acre mixed use property has continued to mature, adding new office tenants as well as retail amenities within easy walking distance. The fourth office building is planned to break ground in 2008.

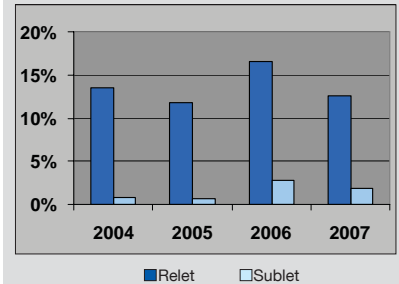
The influence of a strong labor pool, government and technology companies, a convenient and accessible location between Baltimore and Washington, and a close proximity to Fort Meade and BWI are all factors that contribute to the Columbia South submarket continuing to have strong development and leasing activity.

MARKET OUTLOOK

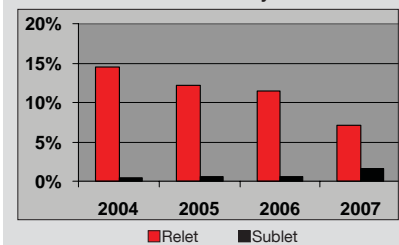
With the recent delivery of several new buildings to the submarket, the vacancy rate in the Columbia South submarket is slightly down from 13.0% in 2006 to 12.6% in 2007. Significant construction is under way in this submarket. For 2008, approximately 371,000 square feet of Class A space is under construction in Columbia Gateway. Full service equivalent rental rates are breaking the \$30 per square foot asking rate barrier.

Maple Lawn and Columbia Gateway will continue to produce quality new construction. Future growth and strength of this submarket is anticipated as contractors continue to prepare for BRAC.

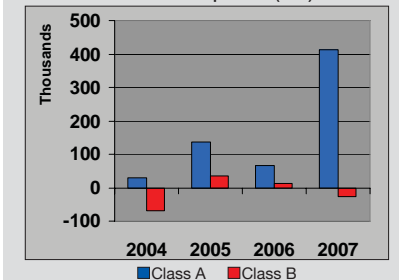
Class A Vacancy Rate



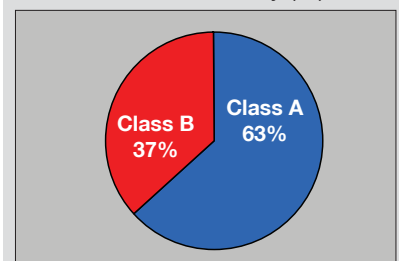
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	Size (SF)	Price	Price PSF	Buyer	Seller
Baltimore Suburbs (Balto., Ho., & AA Co.'s)	56 office bldgs. totalling 2.4 million sf	\$362,500,000	\$151.000	COPT	Nottingham Properties, Inc.
10840 Little Patuxent Pky	30,400	\$5,300,000	\$175.00	Stein Properties, Inc.	A & J Family Trust
5450 Knoll North Drive	66,315	\$10,500,000	\$158.00	Montecito Invest. Co.	ACC Col. Med. Campus
5500 Knoll North Drive	88,999	\$14,060,000	\$158.00	Montecito Invest. Co.	ACC Col. Med. Campus

SELECTED BUILDING SALES - USER

Address	Size (SF)	Price	Price PSF	Buyer	Seller
8815 Centre Park Drive	53,765	\$7,900,000	\$146.94	3 CP LLC	Three Center Park LLC
10100 Old Columbia Road	35,000	\$6,500,000	\$186.00	Fiducial	Manekin

COLUMBIA TOWN CENTER

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	16	22
New/Relet Vacant (SF)	187,260	93,404
Sublease Vacant (SF)	13,167	0
Total Vacant (SF)	200,427	93,404
Total Existing RBA (SF)	1,534,857	855,247
Vacancy Rate Direct %	12.2%	10.9%
Vacancy Rate Sublease %	.9%	0%
Net Absorption YTD (SF)	58,065	(21,660)
Average Rental Rate (Full Service)	\$25.99	\$20.82
2007 Completed Construction SF	0	0
2008 Planned Construction SF	0	0

MARKET OVERVIEW

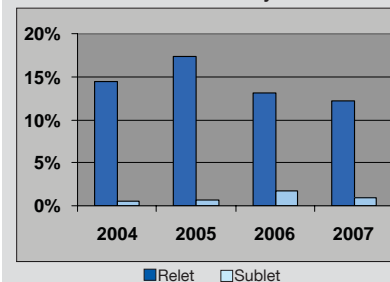
Columbia Town Center is poised for a resurgence of leasing activity in the coming year with a number of prime opportunities available. Located in an urban setting, this metropolitan area provides companies and their employees with quick access to Washington, D.C. and Baltimore by vehicle -- as well as The Mall in Columbia by foot. There has been a flight to quality over the past few years, but employers are realizing the value of free and generous parking, nearby amenities such as shopping, dining and banking for their employees, and a less congested work environment. Columbia Town Center continues to become a smart growth model as residential units are planned in the core.

MARKET OUTLOOK

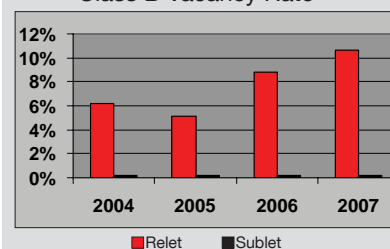
With the steady increase in gasoline prices, traffic congestion and a "work where you live" mantra, Columbia Town Center will become the sensible answer to many employers when considering their office space opportunities.

There is no new construction planned for 2008 and Columbia Town Center will experience stable rents throughout the year with positive absorption. The jewel of General Growth's portfolio is 70 Columbia Corporate Center and more than 125,000 square feet of space can be made available for a corporate user looking for a signature building. Signage rights adjacent to the Mall in Columbia are also part of the incentive package.

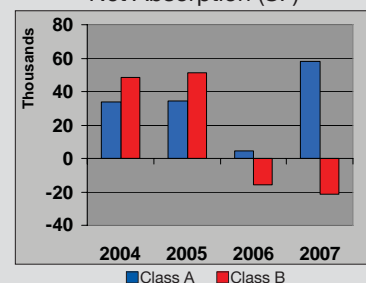
Class A Vacancy Rate



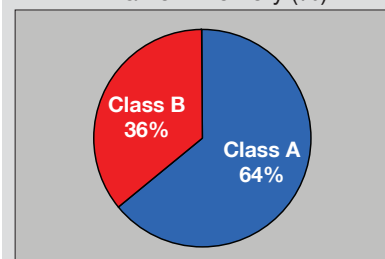
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED LAND SALES - INVESTMENT

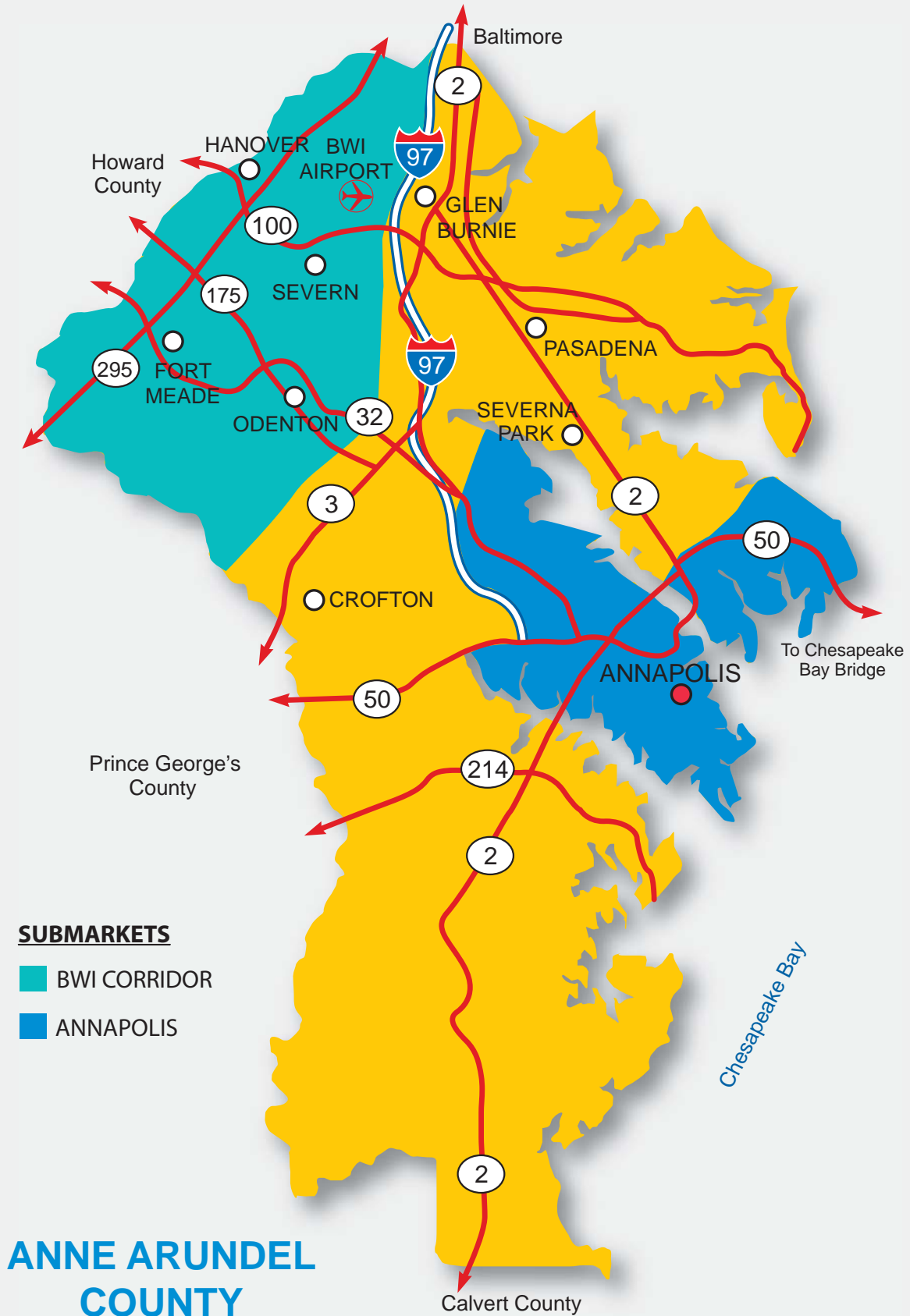
Address	Size (SF)	Price	Price PSF	Buyer	Seller
9075 & 9095 Sterling Drive	10.6 acres	\$5,650,000	\$533,000	Emerson Holdings, LLC	General Growth Properties

SELECTED LAND SALES - USER

Address	Size (SF)	Price	Price PSF	Buyer	Seller
Benjamin Franklin Drive	7.67 acres	\$4,300,240	\$560,657	Merkle	General Growth Properties

ANNE ARUNDEL COUNTY

Office Submarket Map



ANNE ARUNDEL COUNTY

Office Market

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	98	216
New/Relet Vacant (SF)	627,449	578,086
Sublease Vacant (SF)	224,142	11,440
Total Vacant (SF)	851,591	589,526
Total Existing RBA (SF)	7,154,705	6,306,993
Vacancy Rate Direct %	8.8%	9.2%
Vacancy Rate Sublease %	3.1%	.2%
Net Absorption YTD (SF)	3,667	(134,645)
Average Rental Rate (Full Service)	\$27.83	\$22.39
2007 Completed Construction SF	343,509	27,660
2008 Planned Construction SF	492,323	142,848

MARKET OVERVIEW

The Anne Arundel County office market saw an increase in vacancy rates and a decrease in absorption for 2007; however, the construction of new Class "A" buildings remained strong. Compared to 2006, vacancy rates have increased from a total of 9.6% to 11.9% for Class "A" and decreased from 14.3% to 9.4% for Class "B". Net absorption also took a downturn with nearly 250,000 square feet of Class "A" absorbed in 2006 compared to approximately 3,700 square feet last year. Class "B" declined dramatically from a positive net absorption of 105,000 square feet in 2006 to a negative 134,645 square feet in 2007. Office rents for both building classes remained relatively stable, staying within the \$28.00 per square foot range for Class "A" and \$22.00 per square foot range for Class "B". However, construction for the county stabilized with over 340,000 square feet of Class "A" space completed in 2007 as compared to 307,000 square feet completed in 2006.

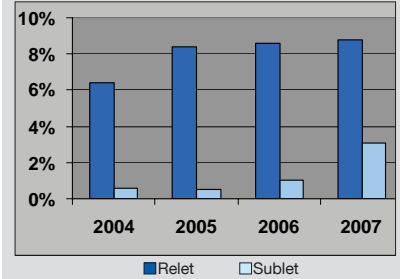
The following buildings were delivered this year: 302 Sentinel Drive (157,100 square feet), 222 Severn Avenue (16,102 square feet), 7 State Circle (14,282 square feet) and West Street - Park Place (156,125 square feet). The following Class "B" buildings were also delivered in 2007: 1302 Cronson Boulevard (13,000 square feet) and 308 Hospital Drive (14,660 square feet).

MARKET OUTLOOK

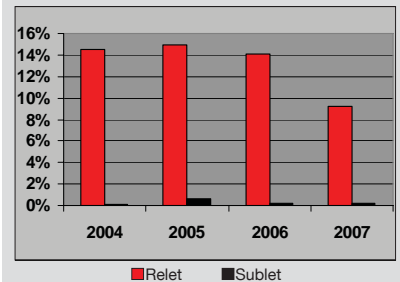
Regional and national office developers are betting that the demand for office space will increase throughout Northern Anne Arundel County. This optimism stems from the anticipation of the influx of defense-related users and the federal government due to the Base Realignment and Closure (BRAC) process in and around the Fort Meade area, as well as businesses coveting the region surrounding the BWI Airport. Construction of new Class "A" space will continue at its current pace with an expected delivery of more than 490,000 square feet planned for 2008. Several major developers will lead the way, such as Corporate Office Properties Trust (COPT), Konterra, Trammell Crow, Osprey, and Fortis Development.

Rental and vacancy rates will increase as this new product is delivered. The Anne Arundel County office market stands poised to make its supply of office space readily available to meet the demand that is expected to occur over the next several years when hundreds of government and contractor jobs begin moving here from out of state due to the implementation of BRAC. However, in the short term, prospective tenants will definitely have their choice of Class "A" office space when deciding where to locate and competition among landlords vying for tenants to fill their empty buildings may get intense until the BRAC movement goes into full swing.

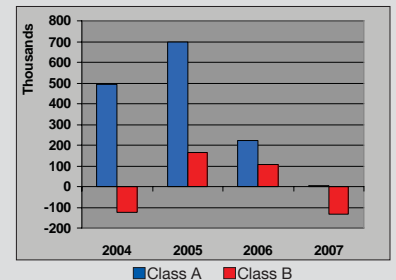
Class A Vacancy Rate



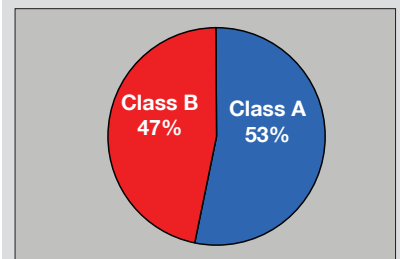
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF
Booz Allen Hamilton	134 National Business Parkway	70,113
Alion Science & Technology	306 Sentinel Drive	64,000
AT&T	7229 Parkway Drive	55,319
Boeing	131 National Business Parkway	50,000
Booz Allen Hamilton	304 Sentinel Drive	48,683
US Bureau of Prisons	302 Sentinel Drive	41,000
Scitor Corporation	302 Sentinel Drive	32,500
RE/MAX Legend Realtors	1350 Blair Drive	32,354
MRG/Founding Advisors	180 Admiral Cochrane Drive	31,525
Aetna	1302 Concourse Drive	19,975
General Dynamics	130 Admiral Cochrane Drive	17,140

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	34	79
New/Relet Vacant (SF)	199,357	62,216
Sublease Vacant (SF)	27,908	1,540
Total Vacant (SF)	227,265	63,756
Total Existing RBA (SF)	1,756,244	2,077,143
Vacancy Rate Direct %	11.4%	3.0%
Vacancy Rate Sublease %	1.6%	.1%
Net Absorption YTD (SF)	4,668	8,686
Average Rental Rate (Full Service)	\$29.90	\$26.38
2007 Completed Construction SF	186,509	16,100
2008 Planned Construction SF	300,000	0

MARKET OVERVIEW

The Annapolis office market was generally healthy in 2007, although vacancy did increase principally due to the delivery of Phase 1 at Park Place totaling 156,000 square feet of which 96,000 square feet remains available. Park Place signed several leases in the 4th quarter of 2006, yet did not sign any new leases in 2007.

Overall, the office market saw positive absorption of smaller office spaces. Office rents increased across the board in Annapolis from the mid \$20's in 2006 to the high \$20's and low \$30's for Class A and B buildings. Tenant improvement allowances were typically in the \$12 range for a 5 year lease on re-let space.

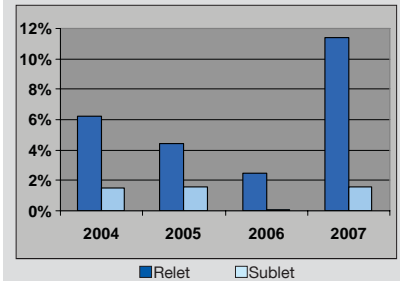
The renovation of the former Trumpy Building into 16,100 square feet of Class A office was a great success with the space 100% leased to Compass Marketing, Distinguished Properties, Nortek USA and others. The building achieved rental rates of \$35.50 per square foot, plus utilities.

MARKET OUTLOOK

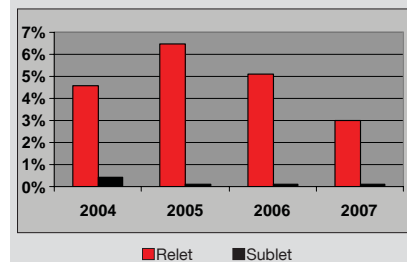
Vacancy in the Annapolis office market will increase in 2008 due to the delivery of both Phase 2 of Park Place (125,000 square feet) and the renovation and delivery of 185 Admiral Cochrane Drive (125,000 square feet) in the summer of 2008 along with Conte's new office building (50,000 square feet). Park Place and 185 Admiral Cochrane Drive are catering to larger tenants and both claim the activity level on space is good. Annapolis Exchange continues to suffer from tenant turnover with nearly 2/3 of the building that will either be vacant or available in 2008. Those four projects represent the significant vacancy in Annapolis for 2008. The balance of the market will have vacancy in the single digits.

New office projects are being announced by Liberty Property Trust (100,000 square feet) and the Bernstein Companies (50,000 square feet) for delivery in 2009. KLN B will commence marketing Liberty's project in the 1st quarter, 2008.

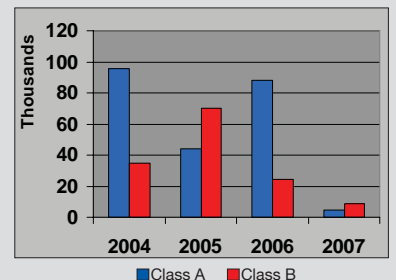
Class A Vacancy Rate



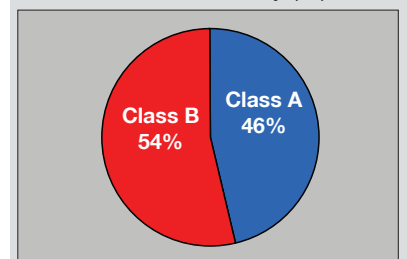
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED BUILDING SALES

Address	Size	Price	Price PSF	Buyer	Seller
981 Corporate Blvd.	33,026	\$7,000,000	\$212.00	Lewis Investment Company	CAG USA, Inc.
1919 West Street	27,500	\$4,100,000	\$149.00	Petrie Ross Venturew	Louis Hyatt, Inc.
2001-2003 & 2009-2011 Commerce Park Dr (2 bldgs)	104,000	\$19,250,000	\$185.10	First Potomac Realty Trust	ACP East, LLC
2510 Riva Road	67,842	\$8,500,000	\$125.29	GHP Office Realty	Verizon Maryland, Inc.
185 Admiral Cochran Dr	125,000	\$16,000,000	\$128.00	Douglas Developers Corp.	The Bernstein Cos.
201 Defense Highway	62,725	\$11,000,000	\$178.00	Belvedere Management Co.	Goren Brothers

BWI CORRIDOR

TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	44	48
New/Relet Vacant (SF)	388,632	473,587
Sublease Vacant (SF)	197,102	7,400
Total Vacant (SF)	585,734	480,987
Total Existing RBA (SF)	4,677,766	2,402,684
Vacancy Rate Direct %	8.3%	19.7%
Vacancy Rate Sublease %	4.2%	.3%
Net Absorption YTD (SF)	17,076	8,704
Average Rental Rate (Full Service)	\$27.46	\$21.63
2007 Completed Construction SF	157,100	0
2008 Planned Construction SF	359,323	0

MARKET OVERVIEW

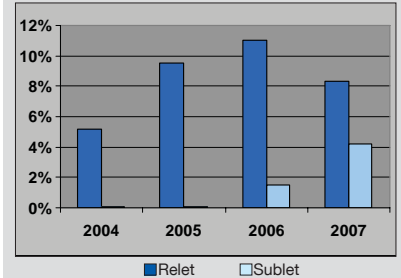
Absorption of new office space decreased and vacancy increased during a slowing 2007 office market environment. While overall occupancy and rental rates remain fairly strong, the number of major office lease transactions was clearly diminished from the dizzying heights witnessed in recent years in the Northern Anne Arundel County office market.

MARKET OUTLOOK

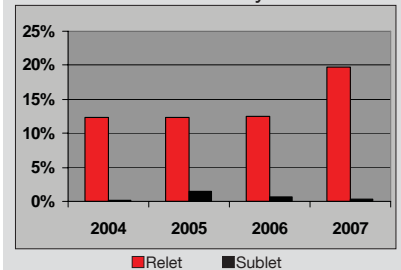
2008 appears to be a challenging year as the worsening national credit crisis takes its toll, adding additional uncertainty to an economy which has already slowed. The anticipation of the national election season at the end of the year will elongate the timing of real estate decisions. Coupled with significant planned new office space, reduced leasing velocity should create a very favorable environment for those tenants in the market actively searching for space.

With the anticipated implementation of BRAC, Odenton's proximity to Fort Meade, NSA, BWI Airport and Washington, DC, along with the rising cost of land has guided the developers toward office construction. Halle Enterprises plans to break ground in 2008 on the first of an eight building office campus called Odenton Town Center. Building #1 will be an eight story, Class A facility totalling 150,000 square feet. The rental rate is expected to be around \$30 per square foot, full service.

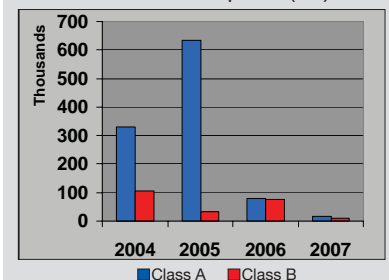
Class A Vacancy Rate



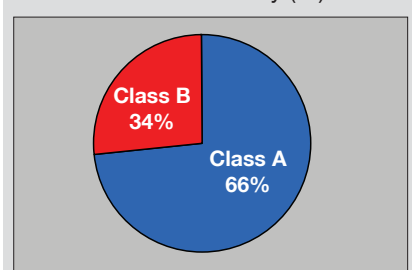
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT OFFICE ACTIVITY

2008 PLANNED CONSTRUCTION

Address	RBA SF	Delivery Date	Asking Rent PSF	Owner/Developer
1502 Annapolis Road	43,000	Sept 2008	\$35.00	Fortis Development
Aviation Boulevard (3 bldgs)	127,270	July 2008	\$16.75	J.J. Haines
7440 Milestone Parkway	150,000	July 2008	Negotiable	COPT
7671 Quarterfield Road	50,000	April 2008	\$26.50	Quarterfield 100,LLC
7030 Dorsey Road	65,300	July 2008	\$24.75	FRP Development Co.

RESIDENTIAL LAND



THE MARYLAND LAND MARKET - A TALE IN TWO PARTS

The appetite for residential land, whether raw or improved, has changed dramatically from its peak in 2005. At that period of time, most homebuilders were aggressively attempting to acquire as much buildable land as possible, regardless of the location. The mantra “build it anywhere and they will come” has faded into distant memory.

Today, the land acquisition departments of nearly every national homebuilder, such as Beazer, Pulte, TOUSA and KHovnarian Homes, have been decimated. In most cases, divisions that consisted of ten people just two years ago have been reduced to one or two people, as these publically traded companies looked to trim their sails and shed payroll. Those souls left have been charged with the task of holding tightly onto the rudder as we ride the storm of a failing housing market, now mixed with a credit crisis and a looming recession. The forecast for the next 18 months is simply to hold on tight.

The homebuilding industry continues to ride a long downward spiral that is not expected to reach the bottom until the first or second quarter 2009. It is predicted by the prognosticators that the housing recovery in Maryland and Northern Virginia won't begin to take shape until after a new president is sworn in. Housing recovery in our market is more likely to be the result of more homebuilders preparing for the expected influx of buyers moving into the market with the new job creation expected by BRAC at the military bases in Aberdeen Proving Ground in Harford County and Fort Meade in Anne Arundel County, then whose hat is hanging in the Oval Office.

Many national and some local homebuilders began dumping land option contracts eighteen months ago in an effort to stay buoyant during the pending troubled waters. The method that nearly every land developer and homebuilder structures their contract to purchase land is by using a unilateral option contract. Under this type of contract, the landowner must sell its land under these terms -- within this exact timeframe -- and for this price...should the homebuilder/developer ever decide to purchase it, that is.

These contracts have no specific performance language. Typically, the purchaser is only penalized with the loss of any deposit money posted and released to the seller and the release to the seller of any engineering worked completed on the subject property should the Optionee not go to settlement.

Nearly every homebuilder has dropped land that was in the early stages of the development process or restructured contracts that were ready for settlement.

Where once homebuilders wrote eight or even nine figure checks and bought entire platted subdivisions at record plat approval, today these same homebuilders are structuring deals where the landowner or developer assumes all of the risks. Homebuilders are now only purchasing finished lots from land developers, complete with all utilities, roads, sidewalks and landscaping installed under a lot takedown agreement of two or three lots each month with settlement based on a quarterly takedown. NVR, the market's largest buyer, even requires that they have contracts on the houses to be built in place, prior to them being required to purchase lots from their developer. Should the market not come back when expected -- or at the same level -- these contracts allow for the homebuilders to walk away from their obligation to purchase lots by simply forfeiting their deposit to the land developer.

While nearly every homebuilder has stopped looking for land, the same cannot be said for seasoned land developers who were able to hoard the substantial cash they made over the course of a five year run in a fantastic housing market. Today, free from homebuilders outbidding them for every farmer's field or parcel of woods, these pure land development firms are quietly meeting with landowners and signing up deals in preparation for when the sun shines brightly on the residential market once again. Today, these deals are being structured with minimum deposits, very long study periods and even longer settlement periods. In short, with no competition from homebuilders attempting to steal their deal from them, land development firms are not being overly aggressive with their contract terms and stand to reap sizable returns once the housing market rebounds.

NON-RESIDENTIAL LAND

Land that is zoned for office buildings or retail development or could be rezoned for such uses is still in great demand. With no slow down in the construction of office, hotel or retail projects in our market, and with an ever dwindling supply of key sites for these projects, land in this market segment is still commanding aggressive pricing and terms.

Land zoned for flex office/warehouse with utilities regularly commands \$350,000 per acre, while hotel sites are fetching more than \$1 million per acre. Recently, two hotel sites off Snowden River Parkway in Columbia traded at \$1.15 million per acre. Retail sites throughout the corridor have been selling for as much as \$1 million per acre. With nearly 12 million square feet of office space planned for the area outside of Fort Meade, every developer is looking over the I-295 Corridor for the location of their next office or retail project and are still willing to pay well for key sites.

INVESTMENT OVERVIEW

A dichotomy of sorts emerged in the last quarter of 2007 relating to the demand for commercial investment real estate in the Baltimore-Washington Corridor. The appetite from institutions for well-located, quality real estate – particularly Class “A” buildings in the most desirable business parks – remains strong and prices for this product have held steady or even increased. Relatively older or less well-located assets have seen demand from investors diminish, and yield expectations from prospective buyers of that real estate have risen commensurately.

Driving this dichotomy is the widely publicized credit crunch on Wall Street that have grabbed headlines and the attention of businesspeople and consumers alike. Fears of widespread default on residential mortgages have irrationally spilled over into the commercial side, despite leasing fundamentals – particularly in our region – that remain strong. As a result, Wall Street-based originators of debt slated for securitization – the lenders that have offered the most attractive terms available and have financed the majority of investment real estate that has changed hands in the past several years – have considerably less money available to lend.

These lenders – popularly referred to as “conduit lenders” – have become increasingly more selective about which properties they will finance, and their money has become much more expensive to borrow. Spreads -- the margin over treasuries at which these lenders set their interest rates -- have increased from a range of 95 to 110 basis points over the corresponding treasury before the crisis, up to a 200 to 250 basis point spread at year-end 2007. Complicating matters is the fact that the market is extremely volatile and pricing changes almost daily. The other major sources of financing for larger commercial real estate acquisitions – life insurance companies and banks – have always been relatively conservative; so it is not surprising that these lenders have not moved to meet the unmet demand for inexpensive financing.

Institutional buyers (real estate investment trusts, pension fund advisors, and the like) are not as reliant on this sort of financing and have continued to bid aggressively on a very selective basis, focusing on the most desirable assets in the market with almost as much relish as before the credit crisis. Capitalization rates well below 7 percent still are the norm for the most sought-after “core” office and industrial assets in the Baltimore Washington Corridor, despite a lending environment where borrowing is occurring at loan constants between 7.75 percent and 8 percent. In this range of pricing, where debt provides negative leverage (meaning financing lowers the cash-on-cash-return), financing-dependent private investors cannot compete with the institutional buyers.

Class “B” and “C” assets that cannot attract interest from institutional buyers are not changing hands as readily. There is market disequilibrium and many sellers have not adjusted their pricing expectations downward to meet the yield expectations of the private buyer that demands, at the very least, modest positive leverage from his debt. Practically speaking, at today’s interest rates, an investor needs to buy at a capitalization rate that is higher than 7.5% to 8.0% to garner positive leverage, and needs to do meaningfully better than that if the asset requires significant ongoing capital expenditures.

Owners that refinanced before the credit crunch with assumable financing – and secured record low rates and often an upfront interest-only lasting for several years– will benefit doubly when it comes time to sell. Buyers will be thrilled to assume current financing and will be able to rationalize higher prices than they could if that below-market-rate financing was not in place.

User-buyers are paying the highest prices in the marketplace today, as (a) interest rates still remain near historic lows and (b) these users are more focused on the overall cost of ownership versus that of leasing and ownership frequently wins out in that analysis today. Many an owner of late expends significant time, energy and expense filling a building with tenants to ready it for sale, only to later learn the unhappy irony that the building would be worth more empty (to an owner-occupant) than full (to an investor).

More than a few would-be buyers and sellers are taking a “wait and see” attitude, with sellers expecting that the market “froth” will subside, and prospective buyers boldly predicting greater crisis and opportunistic buying opportunities to come. Prudent sellers will price their assets appropriately and move to sell while rates remain low, rather than trying to “time the market.” Appropriately-priced and widely marketed assets still generate multiple offers from the investment community. Buyers looking for opportunistic buying opportunities are not yet finding them. There is little-to-no distress among owners of commercial real estate in the Corridor. Distress, where it exists, is nascent and primarily in the residential sector.

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In 2007, NAI KLNB reported volume of over \$1.3 billion on 934 separate real estate transactions, and leased or sold more than 10.1 million square feet of industrial, office and retail space and over 412 acres in land. The full-service brokerage firm operates Maryland offices in Towson and Columbia, as well as Vienna and Ashburn, Virginia and Washington, D.C. KLNB is the mid-Atlantic representative of NAI, a network of real estate service providers serving more than 200 markets worldwide. KLNB represents NAI with a full range of brokerage, financial and investment services. In the Baltimore-Washington Corridor and BWI Thurgood Marshall Airport office market, the NAI KLNB team includes:

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