

2008 INDUSTRIAL & OFFICE MARKET REPORT

BALTIMORE/WASHINGTON, DC CORRIDOR



BACK TO BASICS IN 2009

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2008 YEAR END REVIEW

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PERFECT STORM OF NEGATIVE ECONOMIC FACTORS LEADS TO "BACK TO BASICS" APPROACH FOR BALTIMORE-WASHINGTON CORRIDOR MARKET

Regional real estate professionals and economic forecasters alike recognized the dark clouds rising around our economic environment, but few could have predicted the "perfect storm" of factors that gathered in 2008 to collectively make a host of industries pause and re-evaluate the way they perform business, and adapt to an economic environment different than most have seen before.

While many types of industries have suffered during 2008 and will continue to suffer in 2009 and 2010, the Baltimore Washington Corridor has, relatively speaking, experienced only minor pain. Leasing activity in all product types and sectors has been soft, but, at year end 2008, the combined vacancy in the flex, office/warehouse, and bulk warehouse categories was only 13.0% compared to 13.8% in December 2003, 15.5% in December 2002, and the all time high of 16.5% in June 1994. The office market is similarly strong with only the investment market suffering dramatically in 2008.

The office, flex, and industrial markets are not overbuilt as land constraints minimized overbuilding. Currently, only land priced for office use is readily available. The Corridor is a diverse economy with a unique and growing federal government presence, a port, major bio-science and health-related industries, a significant distribution industry, and four of the nation's wealthiest suburban counties, all factors which mitigate the impacts of a depressed-related sector and a decrease in credit to businesses.

Rents remained stable in older buildings while new buildings with their higher cost basis gave concessions during the past year. Tenants bargained hard in 2008 and will be more aggressive in 2009. Landlords are anxious to keep existing tenants so, with little new growth projected, concessions will increase for tenants whose leases expire in 2009-2010, especially if building owners need to refinance in that time frame. However, the consensus belief at NAI KLNB is that while tenants are not expanding as frequently as before, they are not disappearing either. Overall, things are not as bad as "they say."

2009 is shaping up to be a "steady as she goes" commercial real estate market in the Baltimore-Washington Corridor. Developers would do well to adopt a "back to basics" approach driven by conservative and measured construction starts, a strong focus on the maintenance of current rent rolls and the pursuit of new leasing to stable companies with proven business plans.

Continued job growth from BRAC, other government spending, a revival of the capital markets, and an uptick in the stock market would facilitate brightening the national and regional economic skies. The coming year should serve to be a prelude for "better things to come" in 2010.

A county-by-county breakdown of the local real estate market is outlined as follows:



2008 YEAR END REVIEW

Howard County – Industrial

Significant vacancies arose along Snowden River Parkway and Robert Fulton Drive, as Sears, AlphaPharma and Rhee Brothers shifted to eastern Howard and Cecil Counties, as well as to out-of-state. Rental rates trended slightly downward as vacancy rates moved higher. New inventory is expected on Oakland Mills Road and Snowden River Parkway. Redevelopment and repositioning efforts are expected to increase in response to the functional obsolescence of product and the perceived attractiveness of other markets for industrial uses.

Anne Arundel County – Industrial

Stability was the key word in the Marley Neck-Glen Burnie and Odenton markets. Two blocks of space, totaling approximately 350,000 square feet, are available in the Marley Neck-Glen Burnie region, an area typically viewed as the area's low-cost alternative. More than 500,000 square feet of older industrial space is being repositioned for redevelopment as mixed-use office and retail in Odenton. More opportunities will be available in the office category, as opposed to industrial, in the Odenton region.

Prince George's County – Industrial

Melford Plaza II, the 145,000 square foot mirror image of Melford Plaza at St. John Properties' Maryland Science and Technology Center is nearing completion, representing one of the only speculative office developments in the County. Smaller-sized deals have been the norm rather than the exception and we expect to see a significant increase in landlord concessions to compete with neighboring counties.

Promising activity and leasing success occurred throughout a multitude of sections around the county, although overall absorption suffered due to the 350,000 square feet of space placed back on the market by Circuit City and Mattress Discounters at year end. Collington Trade Center, Steeplechase, Washington Business Park and The Brickyard enjoyed major leasing "wins." The industrial condominium sales market virtually dried up during 2008.

Howard County – Office

Several small commercial office buildings and condominium projects were delivered or broke ground in 2008. Migration of office users from Prince George's County continued in 2008. Watch for creative deal-making on behalf of landlords including "turnkey" improvements and reduced rent. Landlords are looking to keep existing tenants and to persuade good prospects to lease space in their buildings. Major leases were signed at Emerson and at Columbia Gateway.

Anne Arundel County – Office

New product delivered at Park Place (Phase II) and Annapolis Town Centre at Parole, coupled with the renovation of the former Alion building and new spaces available at One Annapolis Exchange, have served to tick the county vacancy level upwards. More than 450,000 square feet of new space was delivered in 2008 in the BWI Airport submarket, although net absorption was only 200,000 square feet. More than 500,000 square feet of space is expected to deliver in 2009, thanks to Liberty Property Trust, and The Bernstein Companies, COPT and Opus East.

Residential Land

Residential land pricing reached a peak in 2005 and has now dropped by more than 50% in most parts of the mid-Atlantic, and nearly 75% in some tertiary markets. A number of homebuilders have been forced into bankruptcy or gone out of business, with the remaining ones in reduced moderation. There are no positive signs of a residential rebound in 2009. Most of the activity will be focused on re-negotiating land or lot purchase contracts. Industrial land prices have decreased by 5%-10%. Office land prices have gone down 15% - 20%.

Investment Sales

The residential mortgage meltdown of late 2007 set the stage for a difficult investment sales environment in 2008, precipitated by the virtual collapse of the commercial mortgage backed securities market. The expected "fire sale" pricing of assets has not come to fruition, keeping thirsty buyers on the sidelines. In 2009, we envision the emergence of a "buyer's market," only where sellers have not been able to refinance.

BALTIMORE-WASHINGTON CORRIDOR

Industrial Market Overview

COUNTIES & SUBMARKETS

MARKET	# OF BUILDINGS	RBA	TOTAL VACANT (SF)	DIRECT VACANCY RATE %	NET ABSORPTION	RENTAL RATE PSF (AVERAGE)	CONSTRUCTION COMPLETIONS (SF)
HOWARD COUNTY							
Bulk	158	22,845,910	4,133,555	17.7%	(580,003)	\$5.15	126,000
Office/Warehouse	197	9,476,758	778,581	8.2%	197,616	\$7.42	70,000
Flex	131	5,313,296	438,325	7.4%	22,017	\$12.12	0
U.S. Route 1 Corridor							
Bulk	134	18,515,682	2,289,204	12.1%	423,098	\$5.22	126,000
Office/Warehouse	157	7,083,390	589,660	7.1%	91,428	\$6.91	0
Flex	20	703,971	12,500	1.8%	13,636	\$8.77	0
Columbia							
Bulk	24	4,330,228	1,844,351	38.7%	(1,003,101)	\$4.82	0
Office/Warehouse	40	2,393,368	188,921	7.6%	106,988	\$7.84	70,000
Flex	111	4,609,325	425,825	8.2%	8,381	\$12.73	0
ANNE ARUNDEL COUNTY							
Bulk	107	14,680,000	826,000	4.0%	118,000	\$5.75	40,000
Office/Warehouse	164	8,270,000	652,000	7.6%	(442,000)	\$7.25	0
Flex	220	6,337,000	542,000	7.5%	142,000	\$10.50	148,258
BWI							
Bulk	36	4,956,875	442,393	8.5%	168,000	\$5.86	0
Office/Warehouse	27	1,872,699	191,944	7.8%	35,044	\$6.12	0
Flex	75	3,166,736	360,702	8.8%	45,433	\$7.51	148,258
Marley Neck/Glen Burnie							
Bulk	32	5,870,000	203,000	.5%	(13,200)	\$5.00	0
Office/Warehouse	34	1,372,000	59,000	3.6%	(2,500)	\$6.25	0
Flex	28	912,000	84,000	9.2%	(8,250)	\$7.50	0
Odenton							
Bulk	13	2,500,000	0	0%	0	NA	0
Office/Warehouse	7	400,000	0	0%	0	NA	0
Flex	16	823,000	29,750	3.6%	20,000	\$9.50	40,000
PRINCE GEORGE'S COUNTY							
Bulk	199	17,756,971	2,726,863	12%	327,936	\$6.45	668,971
Office/Warehouse	329	17,450,551	2,844,561	16%	493,954	\$5.70	30,260
Flex	574	20,197,853	2,608,126	12%	(273,906)	\$6.70	63,300
P.G. County Inner Beltway							
Bulk	149	11,719,819	1,425,612	11%	473,277	\$6.45	60,065
Office/Warehouse	179	8,165,560	1,407,249	16%	(26,735)	\$5.51	0
Flex	322	8,627,045	849,445	10%	(145,233)	\$7.07	0
P.G. County Outer Beltway							
Bulk	46	4,400,903	920,509	12%	(161,716)	\$6.70	457,700
Office/Warehouse	17	991,809	47,954	5%	87,646	\$8.36	30,260
Flex	68	3,780,895	590,595	12%	28,665	\$10.51	63,300
Northern P.G. County							
Bulk	37	2,935,649	374,170	10%	32,656	\$7.28	151,206
Office/Warehouse	90	4,712,628	736,006	15%	12,063	\$6.03	0
Flex	135	4,526,132	848,722	18%	(88,888)	\$6.86	0

BALTIMORE-WASHINGTON CORRIDOR

Office Market Overview

COUNTIES & SUBMARKETS

MARKET	# OF BUILDINGS	RBA	TOTAL VACANT (SF)	DIRECT VACANCY RATE %	NET ABSORPTION	RENTAL RATE PSF (AVERAGE)	CONSTRUCTION COMPLETIONS (SF)
HOWARD COUNTY							
Class A	121	8,827,000	1,663,900	17.5%	236,540	\$25.32	788,000
Class B	186	6,053,300	726,130	12%	(5,000)	\$22.40	83,600
Columbia North							
Class A	23	1,390,563	186,162	10.8%	80,563	\$24.08	70,427
Class B	24	642,638	122,586	18.8%	4,556	\$23.79	0
Columbia South							
Class A	62	5,169,019	848,984	15.1%	206,990	\$26.19	440,273
Class B	79	2,968,105	284,764	8.3%	(52,893)	\$21.67	0
Columbia Town Center							
Class A	15	1,491,874	263,641	16.5%	(59,274)	\$25.25	0
Class B	22	894,826	127,633	13.6%	(28,656)	\$22.54	0
ANNE ARUNDEL COUNTY							
Class A	108	7,973,064	1,291,303	14.4%	87,907	\$28.38	832,547
Class B	223	6,779,514	805,446	11.5%	(45,921)	\$23.17	66,165
Annapolis							
Class A	37	2,064,813	297,782	12.8%	132,449	\$31.35	281,000
Class B	85	2,239,675	131,958	5.9%	(20,783)	\$26.34	0
BWI Corridor							
Class A	47	4,951,791	838,501	15.3%	185,587	\$27.29	453,977
Class B	50	2,604,078	534,384	19.8%	(36,808)	\$22.43	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.

“Velsor owns a Maryland portfolio of flex and industrial buildings from Capitol Heights to Columbia, measuring 832,860 square feet. Over all, we have seen a steady stream of tenants who have been either renewing or signing new leases over the past year. All deals have been shorter in lease term and the decision-making process for the tenant has lengthened substantially. Despite the challenging market conditions, there still appears to be tenant demand.

Specifically, tenant demand and rents have been strongest in the Capitol Heights submarket. Due to its location our Beltsville property has remained in demand with higher rents. Laurel continues its upgrade, as we wait for the redevelopment of Laurel Mall and the surrounding neighborhood. Our industrial property in Jessup remains fully occupied. Columbia has been mixed, with our buildings at McGaw Court and Dobbin Road performing well while other properties in Columbia continue their slow lease up.”

Lawrence D. Horowitz, Chief Executive Officer
Peter R. Horowitz, President
Velsor Properties LLC

HOWARD COUNTY

Industrial Submarket Map



HOWARD COUNTY

HOWARD COUNTY

Industrial



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	158	197	131
New/Relet Vacant (SF)	3,923,102	683,618	390,286
Sublease Vacant (SF)	210,453	94,963	48,039
Total Vacant (SF)	4,133,555	778,581	438,325
Total Existing RBA (SF)	22,845,910	9,476,758	5,313,296
Vacancy Rate Direct %	17.7%	8.2%	7.4%
Vacancy Rate Sublease %	.01%	.01%	.01%
Net Absorption (SF)	(580,003)	197,616	22,017
Average Rental Rate (NNN)	\$5.15	\$7.42	\$12.12
2008 Completed Construction SF	126,000	70,000	0
2009 Planned Construction SF	0	182,000	0

MARKET OVERVIEW

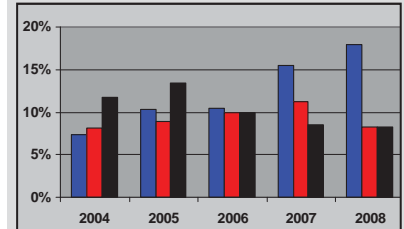
Sales and leasing activity saw a significant slowdown toward the end of 2007, and this steady decline continued throughout 2008. Howard County saw a significant increase in negative absorption in 2008 as 5,350,461 square feet became available, pushing the net direct absorption to negative 359,570 square feet. While some of these vacancies are larger "user" buildings which we would expect to be sold or repositioned for a non-industrial use, the majority of the vacancy along Snowden River Parkway, such as the former GE facility, should remain high throughout 2009, as national economic issues find their way into Howard County.

Fortunately, Howard County's unemployment rate was only 3.6% as compared to the State's rate of 5.1% through November 2008.

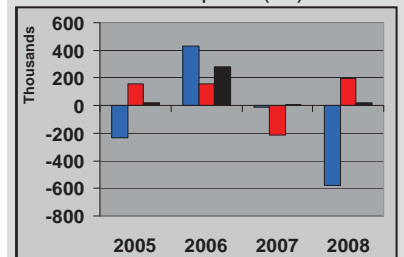
MARKET OUTLOOK

Overall, industrial activity for 2009 should be average, at best, as Columbia slowly chips away at the enormous vacancy along Snowden River Parkway. While there is no significant new product coming on-line in Howard County, in the past the county has been the last to enter recessions and the first to see economic recovery. The eastern portion of the county will also benefit from BRAC activity over the next 3-5 years.

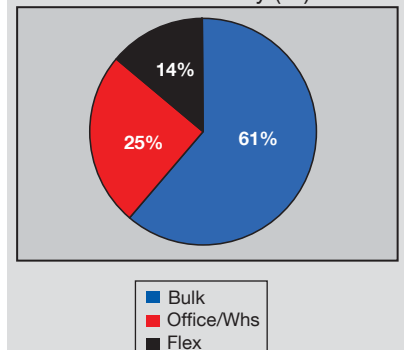
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Bunzl	7461 Coca Cola Drive	131,000	Bulk	Route 1
Sleepy's	8700 Robert Fulton Drive	119,850	Bulk	Route 1
Lagasse	7461 Coca Cola Drive	111,360	Bulk	Route 1
National Delivery	8700 Robert Fulton Drive	102,000	Bulk	Columbia South
TGI Installers	6930 San Tomas Road	65,100	Bulk	Route 1
Bechtel	9200 Berger Road	45,700	Bulk	Columbia South
Thyssenkrupp	8155 Stayton Drive	39,000	Bulk	Route 1
Lift Off Distribution LLC	8730 Greenwood Place	32,069	Bulk	Route 1
Culligan	6930 San Tomas Road	25,551	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	134	157	20
New/Relet Vacant (SF)	2,249,204	502,599	12,500
Sublease Vacant (SF)	40,000	87,061	0
Total Vacant (SF)	2,289,204	589,660	12,500
Total Existing RBA (SF)	18,515,682	7,083,390	703,971
Vacancy Rate Direct %	12.1%	7.1%	1.8%
Vacancy Rate Sublease %	.03%	1.2%	0%
Net Absorption (SF)	423,098	91,428	13,636
Average Rental Rate (NNN)	\$5.22	\$6.91	\$8.77
2008 Completed Construction SF	126,000	0	0
2009 Planned Construction SF	0	72,000	0

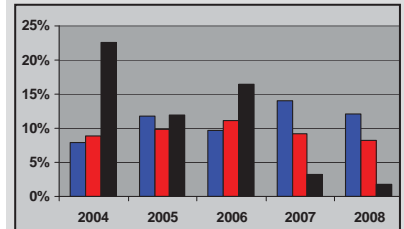
MARKET OVERVIEW

The US Route 1 Corridor had a moderate gain in absorption in 2008 and will continue to be among the strongest industrial submarkets in the region going forward in 2009. The market had a direct absorption of 528,162 and the market remains relatively healthy with an 11.4% vacancy. Land continues to be scarce in this submarket and only 72,000 square feet is currently planned for completion in 2009. The other development in the Route 1 Corridor will be the continuation of the many mixed-use residential/retail projects that are currently underway.

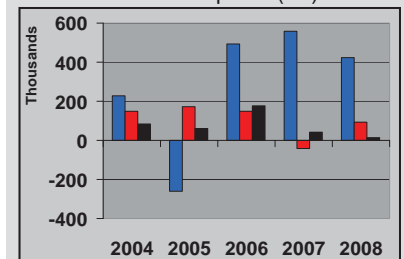
MARKET OUTLOOK

Since the Route 1 Corridor traditionally consists of smaller office/warehouse units, we expect vacancies to remain constant in 2009. However, we may see between a 3% - 5% drop in rental rates and an increase in rental concessions similar to what we have seen in other markets. 2009 will be a steady but slow leasing and sales market. The US Route 1 Corridor should be in a favorable position to weather the economic downturn in 2009 as it has similarly done so in others, mainly due to its close proximity to I-95 and more modern product.

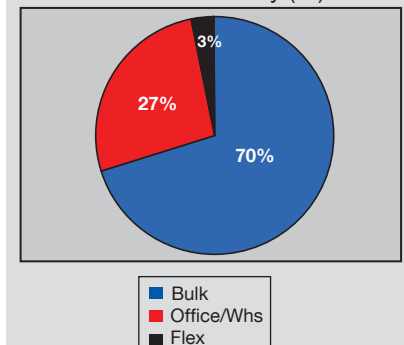
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Product	Buyer	Seller
8909 McGaw Ct (2 Buildings)	221,000	\$18,000,000	\$81.45	Off/Whs	Velsor Properties	SMC Carrollton Station LP
8235 Patuxent Range Road	107,000	\$6,540,000	\$61.12	Bulk	Patuxent 8235, LLC	Owens Corning Roofing
9005 Red Branch Road	50,096	\$3,800,000	\$75.85	Flex	Wharf Rat LLC	Oakland Ridge LLC
Guilford Road (6 Buildings)	306,362	\$42,262,557	\$137.95	Flex	First Potomac	GGP
9025 Junction Drive	61,821	\$4,225,000	\$68.34	Off/Whs	Merritt	Sun Chemicals
Old Columbia/Guilford Rd (9 Bldgs.)	280,082	\$44,200,000	\$158.00	Flex	Oekos Mgmt. Corp.	Security Development LLC
7605 Dorsey Run Road	612,900	\$40,451,400	\$66.00	Bulk	Exeter Prop. Group	CalEast

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)	1,673,898	181,019	377,786
Sublease Vacant (SF)	170,453	7,902	48,039
Total Vacant (SF)	1,844,351	188,921	425,825
Total Existing RBA (SF)	4,330,228	2,393,368	4,609,325
Vacancy Rate Direct %	38.7%	7.6%	8.2%
Vacancy Rate Sublease %	3.9%	0.3%	1.0%
Net Absorption (SF)	(1,003,101)	106,988	8,381
Average Rental Rate (NNN)	\$4.82	\$7.84	\$12.73
2008 Completed Construction SF	0	70,000	0
2009 Planned Construction SF	0	110,000	0

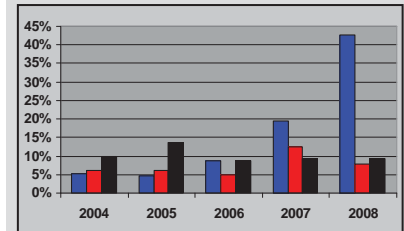
MARKET OVERVIEW

The Columbia industrial market has seen its bulk vacancy rate increase substantially mainly due to the exit of Sears on Snowden River Parkway, which relocated to a distribution center in northern Pennsylvania. Sears vacated approximately 1.1 million square feet of space in a 4.3 million square foot market. Additionally, a 47,885 vacancy on Berger Road, a 170,000 square foot building on Gerwig Lane -- as well as half of the 700,000 square feet at 8700 Robert Fulton Drive -- are all presently available. This product will be slow to absorb in 2009 as economic issues continue to hamper leasing. Furthermore, a few of these buildings suffer from some functional obsolescence while newer Class A industrial buildings are available in eastern Howard and western Anne Arundel Counties.

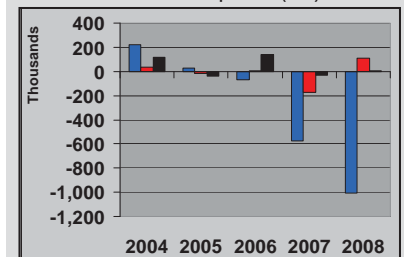
MARKET OUTLOOK

Industrial market activity in Columbia will remain slow as these vacancies vie for tenants in a difficult market. Industrial rental rates have remained flat and some have decreased 5% to 10% in the last months of 2008; a trend that we predict to continue into 2009. As of this writing, no new industrial development is scheduled for Columbia, with the exception of a 70,000 square foot, two building complex on Oakland Mills Road that is currently being completed. In addition, we expect the 110,000 square foot office/warehouse condominium project on Snowden River Parkway to initiate construction in 2009. The trend to redevelop older industrial product will continue as additional hotels, supermarkets and other commercial uses spring up along Snowden River Parkway, which had been a traditional industrial corridor in the past.

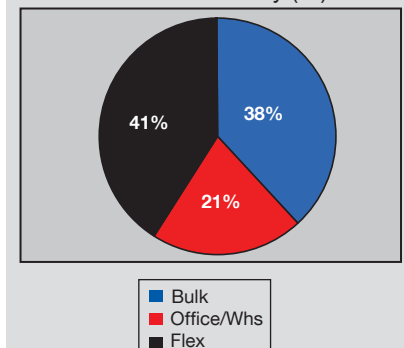
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



"Merritt Properties remains cautiously optimistic about the commercial real estate environment in the Baltimore-Washington market, as we continue to sign leases and overall activity remains healthy. Across our portfolio, both occupancy levels and the tenant base remains stable as we enter 2009. The strength of the overall local marketplace next year depends primarily on the ability of existing tenants to pay their contracted rent. If the market experiences low default rates -- which is currently the case -- then we can maintain current rental levels, even with weaker leasing activity, coupled with little or no new building construction."

Robb Merritt, Merritt Properties

HOWARD COUNTY

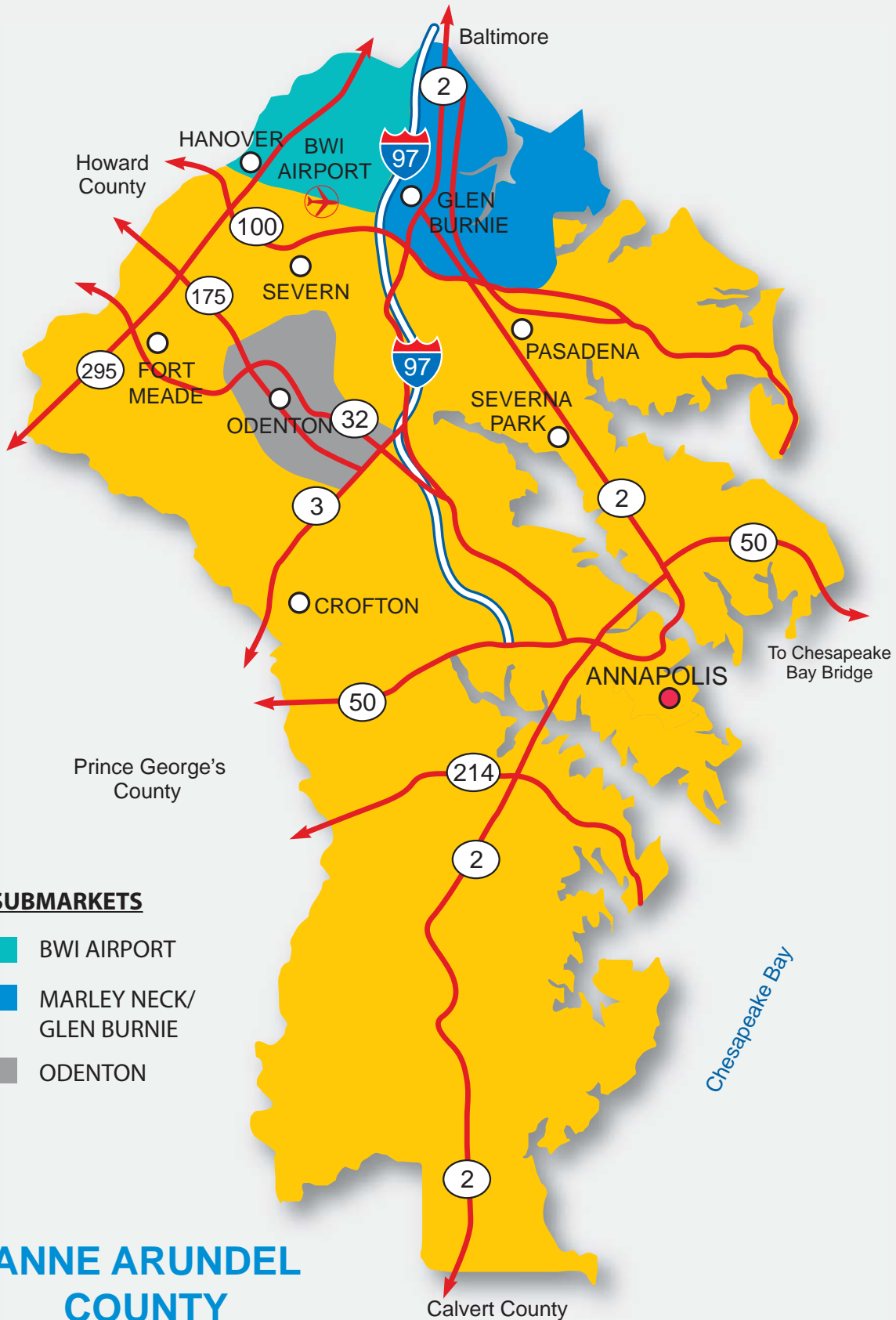
SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
7461 Coca Cola Drive	215,066	\$18,028,982	\$83.83	Bulk	Rhee Bros, Inc.	Crossroads Venture
7410 Coca Cola Drive	3,883	\$680,000	\$175.12	Flex Condo	Painful Pleasures	Ruel Nicole LLC
7081 Dorsey Run Road	9,896	\$1,185,000	\$119.75	Ind. Condo	Const. App. of MD	BD Yesrud, LLC
8005 Dorsey Run Road	10,560	\$1,536,000	\$145.45	Off/Whs	Perry Moving	Dorsey Run Rd, LP
9002 Red Branch Road	22,770	\$3,535,000	\$155.00	Flex	Buy the Book, LLC	Trader's Library
10975 Guilford Road	15,962	\$2,234,680	\$140.00	Off/Whs Condo	Veterinary Solutions	Hills-Carnes Engin.

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	107	164	220
New/Relet Vacant (SF)	585,000	625,000	475,000
Sublease Vacant (SF)	241,000	27,000	67,000
Total Vacant (SF)	826,000	652,000	542,000
Total Existing RBA (SF)	14,680,000	8,270,000	6,337,000
Vacancy Rate Direct %	4.0%	7.6%	7.5%
Vacancy Rate Sublease %	1.6%	0.3%	1.1%
Net Absorption (SF)	118,000	(442,000)	142,000
Average Rental Rate (NNN)	\$5.75	\$7.25	\$10.50
2008 Completed Construction SF	40,000	0	148,258
2009 Planned Construction SF	752,000	0	45,120

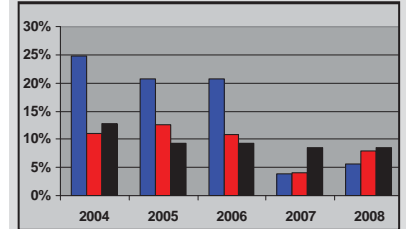
MARKET OVERVIEW

Anne Arundel County has been somewhat resilient in the face of the recent economic downturn. The County's 29 million square foot market has an overall 7% vacancy rate and, although it experienced negative absorption of close to 290,000 square feet in 2008, the two years prior totaled more than three million square feet of positive absorption. Anne Arundel County has traditionally been one of the fastest growing markets within the Baltimore metropolitan area due to a diverse economic base, low unemployment (4.5%) and proximity to both Baltimore and Washington, D.C. Although the County has felt the impact of a slowing economy, it is somewhat insulated due to its integration with the federal government, including the National Security Agency and Homeland Defense agencies representing a \$1 billion informatics market. In addition, the Base Realignment & Closure process (BRAC) will help grow Anne Arundel County's western sections with more than 5,600 incoming jobs and significant multipliers that will place the total job growth at more than 33,000 workers.

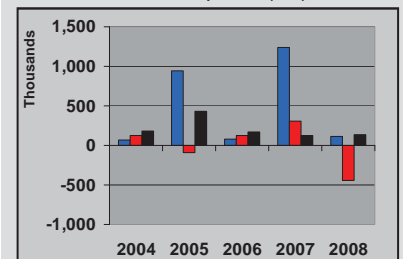
MARKET OUTLOOK

The County will continue to benefit from its federal government influence, as activity surrounding BRAC, the BWI Airport, and the medical, technical and security fields expand. Given its varied economic drivers and its proximity within the Baltimore-Washington Corridor, Anne Arundel County is still an excellent place to conduct business. That said, the downturn in the economy cannot be ignored among those industries that do not depend directly on the government and they will remain cautious of expansion for the near term. If developers make good on their promise to deliver more than 1.5 million square feet of speculative space to this market, we anticipate net absorption levels to decrease from last year's levels, rental rates to flatten and vacancy rates to tick upward until the economy begins to rebound sometime in the latter half of 2009.

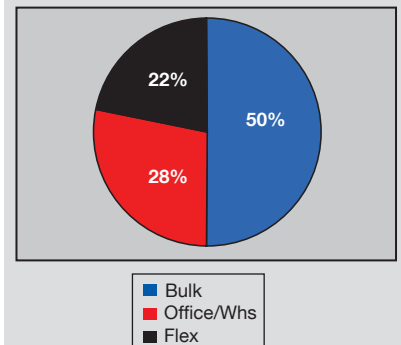
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Frank Parsons Paper Company	1300 Mercedes Drive	183,000	Bulk	BWI
Danaher Corp.	7200 Standard Drive	164,216	Bulk	BWI
Nissan North America, Inc.	6611 Cabot Drive	125,241	Bulk	Marley Neck
TCI Tire Centers	Airport Commons	35,597	Bulk	BWI
Potomac Business Solutions	7270 Park Circle Drive	20,000	Bulk	BWI
Dalmation Corporation	812 Oregon Avenue	16,500	Off/Whs	BWI
Artforms Designers LLC	8152 Telegraph Road	13,260	Off/Whs	Odenton
Canada Dry	709 E. Ordnance Road	14,000	Off/Whs	Rte 2 Corridor
Sunrise Safety Services	6711 Baymeadow Drive	25,600	Flex	Rte 2 Corridor
National Imaging Systems	152 Blades Lane	11,000	Office/Whs	Rte 2 Corridor

Anne Arundel County - Industrial

BWI AIRPORT



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	36	27	75
New/Relet Vacant (SF)	421,893	146,504	279,793
Sublease Vacant (SF)	20,500	45,440	80,909
Total Vacant (SF)	442,393	191,944	360,702
Total Existing RBA (SF)	4,956,875	1,872,699	3,166,736
Vacancy Rate Direct %	8.5%	7.8%	8.8%
Vacancy Rate Sublease %	.4%	2.4%	2.6%
Net Absorption (SF)	168,000	35,044	45,433
Average Rental Rate (NNN)	\$5.86	\$6.12	\$7.51
2008 Completed Construction SF	0	0	148,258
2009 Planned Construction SF	0	0	40,000

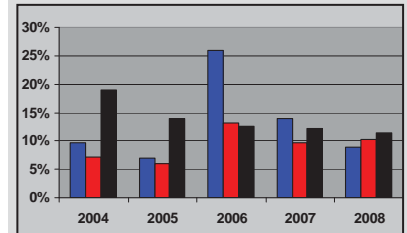
MARKET OVERVIEW

The BWI Region witnessed positive momentum in the bulk sector in the first quarter with the announcement of the Frank Parsons' 183,000 square foot office / warehouse transaction at 1300 Mercedes Drive. The flex product (defined as 16 foot clear ceiling heights), also experienced steady deal flow in the first and second quarters. The amount of transactions started to slow at the beginning of the third quarter and was described as extremely slow in the fourth quarter.

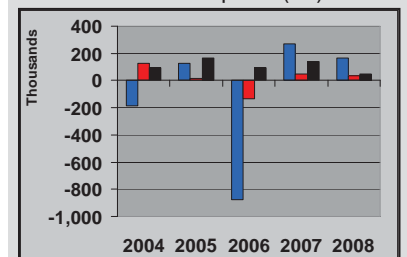
MARKET OUTLOOK

Peering into the future is tricky in the best of times and during these days of uncertain economic times, it can be more unclear than ever. The BWI Corridor remains an attractive and fundamentally sound business environment. The warehouse and flex developers have basically halted any speculative development for 2009 with the exception of St. John Properties. Property owners and tenants in this region are all moving very cautiously. St. John Properties, who currently owns approximately 3.5 million square feet of flex product in the BWI region and land holdings that can accommodate up to an additional 700,000 square feet of flex product, is limiting its construction in 2009 to two buildings (45,000 s.f. and 42,120 s.f.) in Arundel Overlook that were started in 2008. This will give the market the opportunity to absorb existing inventory. The tenants and users in the market who operate sound businesses will have opportunities to purchase buildings at or near the replacement cost or strike lease deals as lease rates continue to trend downward during a portion of 2009. The combination of these factors will allow the market to absorb the existing vacancies.

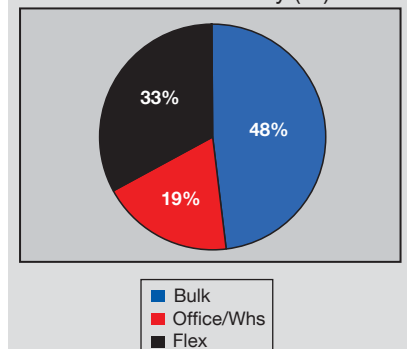
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



"The financing market continues to be turbulent with conduits gone from the market for the foreseeable future and a number of life companies on the sidelines at the time of this writing. Spreads for commercial real estate loans are inordinately high as these loans must compete internally against high grade corporate bonds that can be yielding 500+ spreads. The good news is the majority of life companies still have money to lend for commercial real estate projects and, if and when the market settles down, loan rates should become more "affordable" though still at significantly higher spreads than what borrowers have become accustomed to over the past 5 to 6 years. The record low Treasury yields have offset the spread increase somewhat though lenders use of floor rates can limit this benefit." Joseph T. Burke II, NorthMarq Capital

ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - DEVELOPER

Address	Size	Price	Price PSF	Product	Buyer	Seller
8335 Telegraph Road	110,000	\$2,500,000	\$22.73	Whs	Stonebridge Carras	Saurabh Naik
8305 Telegraph Rd	250,000	\$5,150,000	\$20.60	Whs	Stonebridge Carras	Formica Corp.

SELECTED BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
2408 Pepper Mill Drive	20,000	\$2,660,000	\$133.00	Flex	MCO Comp. Supplies	E&B Chou
701 Wedeman Avenue	12,384	\$1,386,000	\$112.00	Flex	Enterprise Leasing	Albrecht Trust
7500 Energy Court	7,995	\$800,000	\$100.00	Flex	John Shanahan	George Stone
7355 Green Acres	4,000	\$1,100,000	\$275.00	Flex	Tri Acres Venture	Gorugo RE Ventures
7038 Aviation Blvd	4,500	\$1,035,000	\$230.00	Flex	7038 Aviation LLC	Aviation Holdings

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	34	28
New/Relet Vacant (SF)	28,100	49,000	84,000
Sublease Vacant (SF)	175,000	10,000	0
Total Vacant (SF)	203,100	59,000	84,000
Total Existing RBA (SF)	5,870,000	1,372,000	912,000
Vacancy Rate Direct %	0.5%	3.6%	9.2%
Vacancy Rate Sublease %	3%	0.7%	0%
Net Absorption (SF)	(13,200)	(2,500)	(8,250)
Average Rental Rate (NNN)	\$5.00	\$6.25	\$7.50
2008 Completed Construction SF	0	0	0
2009 Planned Construction SF	0	0	0

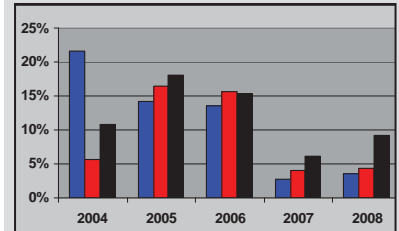
MARKET OVERVIEW

The Marley Neck-Glen Burnie area experienced a healthy year despite the economic slow down that plagued the last half of 2008. This market of approximately eight million square feet of industrial space saw no new speculative construction over the past twelve months which kept the submarket stabilized with very low vacancy rates and minimal negative absorption. There are several growing tenants that occupy large space, including Under Armour and Belts Warehouse Services. In addition, Nissan North America took 125,000 square feet of space along Cabot Drive which helped to further steady this submarket. Although there was a slight rise in flex vacancy compared to 2007, both the bulk and office/warehouse product have limited availability, with occupancy rates exceeding over 99% and 96%, respectively.

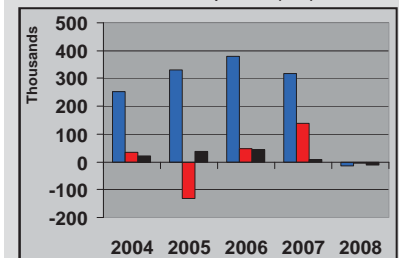
MARKET OUTLOOK

This is a submarket that we believe will remain status quo for the majority of 2009. With a few notable exceptions, there is very little product available in the area. Typically, the Marley Neck-Glen Burnie area has been the low cost alternative location to the Route 1 and I-95 corridors to those companies that seek convenience to the Beltway, as well as easy access to Baltimore and points south. Currently, there are only two large blocks of space available in this submarket and they are both subleases – a vacant 128,000 square foot, 22'+ clear, manufacturing facility in Glen Burnie that is leasing for \$3.25 per square foot and a still occupied 221,000 square foot, 30' clear, air conditioned warehouse in Marley Neck priced at \$4.92 per square foot. With the economy sputtering, this less costly submarket could become an even more attractive choice, but limited availability should keep vacancy rates near historical lows.

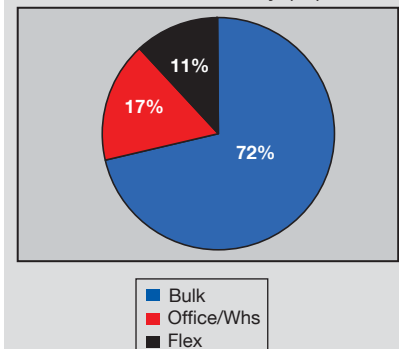
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LAND SALES - DEVELOPER

Address	Size	Price	Price/Acre	Submarket	Buyer	Seller
3243 New Laurel Rd	50 acres	\$4,800,000	\$96,000	BWI	Greenberg Gibbons	Multiple
7050 Ridge Rd	3.4 acres	\$886,600	\$260,000	BWI	Merritt	Harman, LCC
6750 McLean Way	2.71 acres	\$450,000	\$117,000	Rte 2 Corridor	Corridor Reznick	Robert & Steve, LLC
1200 Old Elk.Landing Rd	3.0 acres	\$1,100,000	\$366,666	BWI	C&M Investments	Fred Arnold

SELECTED LAND SALES - USER

Address	Size	Price	Price/Acre	Submarket	Buyer	Seller
E. Ordnance Rd	7 acres	\$1,200,000	\$170,500	Rte 2 Corridor	E. Stewart Mitchell	Joe DeVoy
133 Stahls Point Rd	3.2 acres	\$374,400	\$117,000	Rte 2 Corridor	Bill Blanchet	Caleb Gould
7106 Faulkner Road	6.72 acres	\$2,200,000	\$327,380	BWI	7106 Faulkner Rd, LLC	2 Dudes, LLC

Anne Arundel County - Industrial

ODENTON



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	13	7	16
New/Relet Vacant (SF)	0	0	29,750
Sublease Vacant (SF)	0	0	0
Total Vacant (SF)	0	0	29,750
Total Existing RBA (SF)	2,500,000	400,000	823,000
Vacancy Rate Direct %	0%	0%	3.6%
Vacancy Rate Sublease %	0%	0%	0%
Net Absorption (SF)	0	0	20,000
Average Rental Rate (NNN)	N/A	N/A	\$9.50
2008 Completed Construction SF	0	0	40,000
2009 Planned Construction	0	0	0

MARKET OVERVIEW

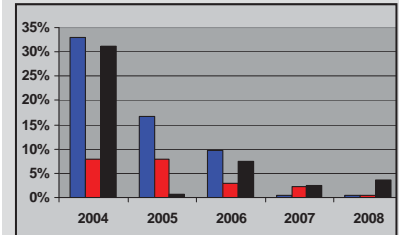
The Odenton industrial market remained flat in 2008. Bulk vacancy rate remained at 0% for 2008 and office/warehouse vacancy rate for 2008 was 0% as compared to 2.3% in 2007. Flex vacancy rate saw an increase to 3.6% for 2008 as compared to 2.4% in 2007. Only one new speculative building, a 40,000 square foot office/warehouse project located at 8266 Lokus Road, was constructed and it is currently 50% vacant.

MARKET OUTLOOK

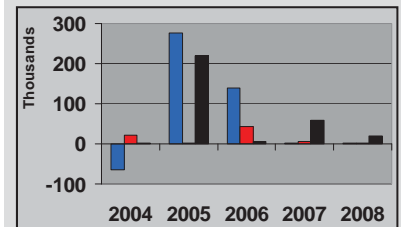
The future of the Odenton commercial market continues to point towards office and mixed-use development. There is a miniscule 175,000 square feet of existing office space in Odenton, however, a considerable 3.8 million square feet of proposed office space is on the drawing board. Nearly 3.5 million square feet of this will be in the Odenton Town Center, which is a 128 acre mixed-use project. Additionally, 560,000 square feet of existing industrial space is being positioned for redevelopment as a mixed office and retail use.

The Odenton industrial market has most probably peaked and will only see minimal industrial development into the foreseeable future. All eyes will be on Fort Meade and the opportunities for office expansion as a result of BRAC (Base Realignment and Closure) over the next several years.

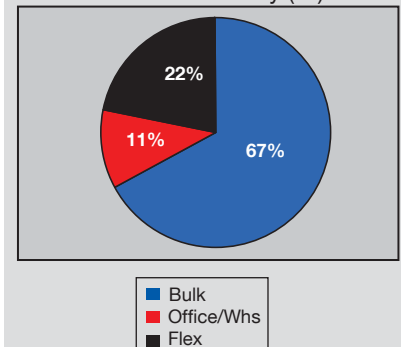
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



"The real estate market as we know it will cease to exist. It will go back to a long term asset with slow but methodical increases in value. The idea of cashing in part of the appreciation up front with developer fees, etc. and a reconciliation of those fees with an addition jump in value through a short hold of 4 to 7 years is not on the horizon."

David H. deVilliers, Jr., President
FRP Development Corp.

ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

2009 PLANNED CONSTRUCTION

Address	SF	Product	Asking Rent PSF	Delivery Date	Owner/Developer
1348 Charwood Road	60,400	Bulk	\$8.75	March 2009	Preston Partners
980 Mercantile Drive	45,120	Flex	\$9.00	October 2009	St. John Properties

BUILDINGS DELIVERED IN 2008

Address	SF	Product	Asking Rent PSF	Owner/Developer
6934 Aviation Blvd	39,000	Flex	\$9.00 Neg.	St. John Properties
701 Digital Drive	66,358	Flex	\$9.00 Neg.	St. John Properties
681 Hollins Ferry Road	36,120	Flex	\$9.00 Neg.	St. John Properties
8266 Lokus Road	40,000	Bulk	\$9.00 Neg.	Covington Properties
7495 Race Road	125,000	Bulk	\$6.95 - \$8.75	Preston Partners

PRINCE GEORGE'S COUNTY

Industrial



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	199	329	574
New/Relet Vacant (SF)	2,218,868	2,742,512	2,344,113
Sublease Vacant (SF)	507,995	102,049	230,299
Total Vacant (SF)	2,726,863	2,844,561	2,608,126
Total Existing RBA (SF)	17,756,971	17,450,551	20,197,853
Vacancy Rate Direct %	12%	16%	12%
Vacancy Rate Sublease %	3%	1%	1%
Net Absorption (SF)	327,936	493,954	(273,906)
Average Rental Rate (NNN)	\$6.45	\$5.70	\$6.70
2008 Completed Construction SF	668,971	30,260	63,300
2009 Planned Construction SF	300,150	0	20,000

MARKET OVERVIEW

Prince George's County vacancy saw an increase overall in 2008 from single digits at the end of 2007 and topping out at approximately 13% in the third quarter of 2008. This figure is the highest it has been since the first quarter 2004, before settling back to 12.5%. The negative absorption for the third quarter 2008 was the worst since second quarter 2006 which was approximately negative 660,002 square feet. However, that was followed by 500,000 square feet of positive absorption in 2008. For the first time in three years, there was an increase in vacancy of bulk product with new sublet space contributing a substantial portion to it.

The only significant portfolio sale, which occurred in the first half of the year, was the Ron Cohen-owned Southgate at Washington Business Park portfolio for \$68 million and priced at a 6.8 % cap rate. Since then, cap rates have risen, investors have become scarce due to financing issues, increased equity requirements and REIT's stock devaluations. User sales remained strong with sales occurring at asking or close to asking prices. Industrial condos have slowed down as financing restraints choked off any capabilities from small businesses.

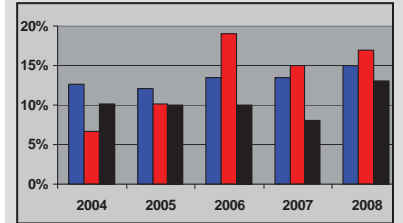
MARKET OUTLOOK

Looking ahead at 2009, we believe real estate sales and leasing will gradually suffer. Beginning the year, many small buyers were already out of the market due to a tightening of credit and the end of subprime lending. As stock prices drop and the banks became destabilized, the "double whammy" effect dried up capital for investment. In turn, the cash buyers -- seeing the economy slow down -- are trying to figure out where the bottom is or will be. The sellers, to date, have been unwilling to reduce their asking price.

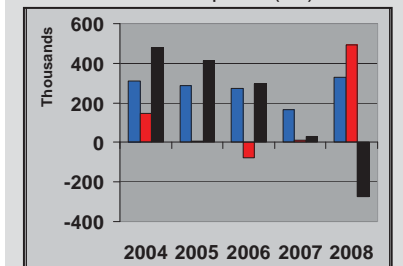
It is expected that more sublet space will re-enter the market and will be priced at lower rates to move more quickly, which will put pressure on existing relet space and renewals. Therefore, property values, sales prices and the county tax base will be reduced.

The Washington, DC region has a long history of being somewhat recession proof, so the expected negative effect will be less and arrive later than elsewhere. Prince George's County is still well located on the Beltway with great access to the District of Columbia, as well as the mid-Atlantic region so private companies doing business with the federal government will still want to locate their distribution operation in the county. With some luck -- and if the economy experiences a quick turnaround -- the region and P.G. County may suffer very little.

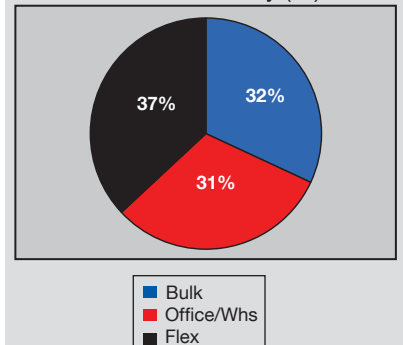
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
DPI	15850 Commerce Court	96,485	Bulk	Outer Beltway
Party Rental Ltd.	13210 Mid Atlantic Blvd.	82,362	Bulk	Northern P.G. Co.
Goodman Manufacturing	1101 Hampton Park Blvd.	29,740	Bulk	Inner Beltway
JCI	1101 Hampton Park Blvd.	29,383	Bulk	Inner Beltway
Cornerstone Equipment Mgmt.	1739 Brightseat Road	23,600	Off/Warehouse	Inner Beltway
Diakon	6403 Ammendale Road	21,250	Bulk	Northern P.G. Co.
Dade Paper	9200 Hampton Overlook	21,243	Off/Warehouse	Inner Beltway
Techno Sciences	5801 Ammendale Road	19,500	Off/Warehouse	Northern Beltway
United Sheet Metal	1739 Brightseat Road	18,120	Off/Warehouse	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	149	179	322
New/Relet Vacant (SF)	1,298,119	1,345,828	830,466
Sublease Vacant (SF)	127,493	61,421	18,979
Total Vacant (SF)	1,425,612	1,407,249	849,445
Total Existing RBA (SF)	11,719,819	8,165,560	8,627,045
Vacancy Rate Direct %	11%	16%	10%
Vacancy Rate Sublease %	1%	1%	0%
Net Absorption (SF)	473,277	(26,735)	(145,233)
Average Rental Rate (NNN)	\$6.45	\$5.51	\$7.07
2008 Completed Construction SF	60,065	0	0
2009 Planned Construction SF	0	0	0

MARKET OVERVIEW

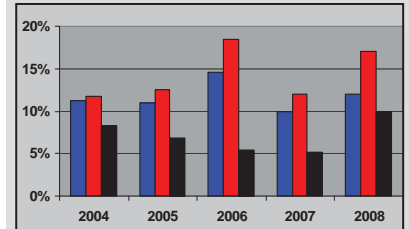
This segment of the market experienced an increase in rental rate growth for the first half of 2008. The popularity of Steeplechase, with its state-of-the-art warehouse construction, and its location within the Beltway directly off a Capital Beltway interchange, helped the developer of the project, ATAPCO, deliver 190,000 square feet of bulk in 2007 and lease 150,000 square feet while achieving base rents in the \$7.00 per square foot, NNN range in 2008. This, in turn, was to the benefit of other owners in the area, as they were able to increase their leases to the mid \$6.00 per square foot, NNN.

But, as the year progressed, a combination of newly completed construction and a drop in available deals has led to a softening of rates. At the end of 2008, the dynamics are further compounded by the addition of sublease space; the most significant to date is the 37,600 square foot space that is being given up by Creative Touch Interiors, a Steeplechase tenant of less than one year. It is being offered on the market in the mid-\$5.00 per square foot range. As we head into 2009, we expect more sublet space to enter the market. Industrial condominium sales virtually ceased in 2008, which continued the trend coming out of the financial market's subprime collapse in 2007.

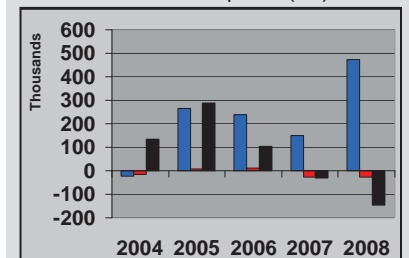
MARKET OUTLOOK

We expect there to be bargains in this submarket. Those with readily available funds will be scooping up these attractively-priced projects as the institutional investor and REITs are forced to the sidelines because of a lack of equity or conservative expectations on returns. The empty properties will fall first as the risk going into a soft leasing market will dictate lower prices to make up for the inherent risk. Cap rates are already on the rise as expectations for renewal rents will be lower. Even with its success, the Steeplechase project, which is holding or has pending building permits for 128,557 square feet of new construction will sit tight and not build on spec. The older properties will continue to trade between users, but market conditions and tight credit will dictate lower prices. Some creative developers building on new vacant property will get creative and offer equity shares of joint venture partnerships as a way for users to gain ownership positions in their properties. This makes the transition to ownership less cumbersome from every aspect including design, development, financing and property management.

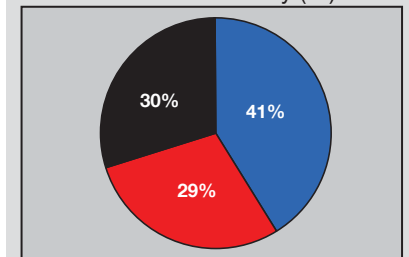
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	Size SF	Price	Price PSF	Product	Buyer	Seller
6100 Columbia Park Road	149,746	\$11,174,800	\$74.63	Bulk	WRIT	FR Cal Col. Park LLC
4260 Forbes Road	54,692	\$9,700,000	\$177.36	Flex	BECO	Forbes Blvd., LLC
Washington Bus. Park (9 bldgs)	565,991	\$68,000,000	\$120.14	Flex	BECO	5000 Philadel. Way, LLC

SELECTED BUILDING SALES - USER

Address	Size SF	Price	Price PSF	Product	Buyer	Seller
501 Prince George's Blvd.	91,556	\$5,500,000	\$60.07	Bulk	Linemark Printing	Finmarc, LLC
400 Commerce Drive	79,650	\$6,350,000	\$79.72	Bulk	Ace Relocations	Chipman
10700 Hanna Street	47,770	\$4,400,000	\$92.10	Off/Wchs	Kscho LLC	KAMB LTD

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	46	17	68
New/Relet Vacant (SF)	527,069	47,954	455,484
Sublease Vacant (SF)	393,440	0	134,611
Total Vacant (SF)	920,509	47,954	590,595
Total Existing RBA (SF)	4,400,903	991,809	3,780,895
Vacancy Rate Direct %	12%	5%	12%
Vacancy Rate Sublease %	9%	0%	4%
Net Absorption (SF)	(161,716)	87,646	28,665
Average Rental Rate (NNN)	\$6.70	\$8.36	\$10.51
2008 Completed Construction SF	457,700	30,260	63,300
2009 Planned Construction SF	300,150	0	20,000

MARKET OVERVIEW

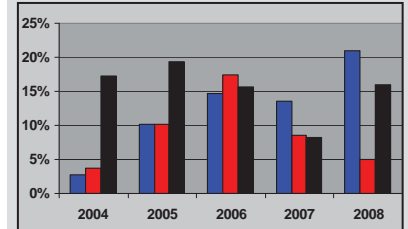
Leasing in this market has performed well except for one glaring area. Brandywine, which has already had substantial vacancy due to the availability of the 250,000 square foot warehouse/showroom at Regency Furniture, must now add 350,000 square feet of sublease space by the financially troubled Circuit City. Despite this influx of product, there is much success elsewhere. Bowie remains strong with the St. John Properties' Melford project adding 36,000 square feet of flex space and leasing all of it by the end of the year, leaving only a 12% vacancy in their 250,000 square foot flex portfolio. Collington in Upper Marlboro has a strong year with Collington Trade Center, a 200,000 square foot newly constructed project, leasing 140,000 square feet in two deals. Just 14,000 square feet remains for lease. In addition, the former Oceaneering building on 501 Prince George's Boulevard has been sold, removing another 90,000 square feet from the market. Along the Beltway, Washington Business Park remains strong although they will lose a major long-time tenant to Howard County, putting 90,000 square feet of flex space back on the market. This product will likely get broken up due to its appeal to smaller tenants. At MD Route 4 and the Capital Beltway, Lincoln 495 has delivered 153,700 square feet of new 28' clear, bulk warehouse which is still vacant. Eastgate has held off on building 156,765 square feet of proposed space while waiting for a lead tenant.

MARKET OUTLOOK

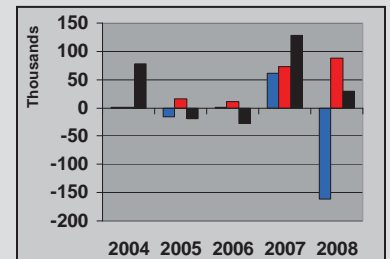
Along with Eastgate's planned build out, the Panattoni Development Company has cleared land in preparation of building up to 200,000 square feet of bulk space and another 150,000 to 200,000 square feet of flex in Collington. This is dependent on securing a lead tenant. Should one not reveal itself by spring, the developer may proceed on a speculative basis. With the economic realities of today and the \$7.00 per square foot, triple net, asking rent, it is doubtful that we will see this construction in the immediate future.

We expect more vacancy within the existing inventory so speculative development will all but cease in the market. The notable exception is the ongoing build-out at Melford by St. John Properties, which still has another 80,000 square feet of flex in the pipeline. As a result of the slowing economy and the reduction of activity, we expect a softening of rental rates and an increase in concessions in the form of free rent. Existing re-let space will have increased competition, with an expected larger inventory of discounted sublease space, as major corporations shed unwanted excess warehouse and flex space.

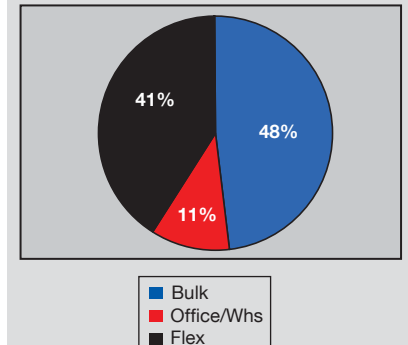
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LAND SALES

Address	Size	Price	Price/Acre	Submarket	Buyer	Seller
1230 Prince George's Blvd	51.45 acres	\$6,300,000	\$122,449	Outer Beltway	Panatonni Dev. Corp.	Marlo Furniture
6300 Sheriff Road	7.42 acres	\$2,500,000	\$336,786.52	Inner Beltway	Enterprise Leasing	PREI Landover Dev.

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	37	90	135
New/Relet Vacant (SF)	307,486	695,378	830,472
Sublease Vacant (SF)	66,684	40,628	15,750
Total Vacant (SF)	374,170	736,006	848,722
Total Existing RBA (SF)	2,935,649	4,712,628	4,526,132
Vacancy Rate Direct %	10%	15%	18%
Vacancy Rate Sublease %	2%	1%	0%
Net Absorption (SF)	32,656	12,063	(88,888)
Average Rental Rate (NNN)	\$7.28	\$6.03	\$6.86
2008 Completed Construction SF	151,206	0	0
2009 Planned Construction SF	0	0	0

MARKET OVERVIEW

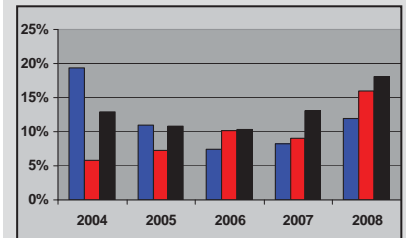
The development of The Brickyard has brought new buildings and new tenants into this market, and the continued talk of the ICC (Intercounty Connector) has kept this market desirable. However, this market has seen a slow down in the fourth quarter of this year. The largest percentage of vacancy is still in the tech/flex product. With growing concerns of the current recession, many prospective tenants are looking to stay in their existing spaces or give a portion of space back instead of moving. Landlords are also renewing tenants on shorter terms to keep their building's vacancy rate from climbing while trying to bridge the gap to a better economy. With next year's economic outcome questionable, you will see landlords getting creative to make deals.

Tenants have become more concerned with rental rates which have made the older section of Beltsville attractive. With some older buildings offering cheaper rates, there is still activity in this section of the market.

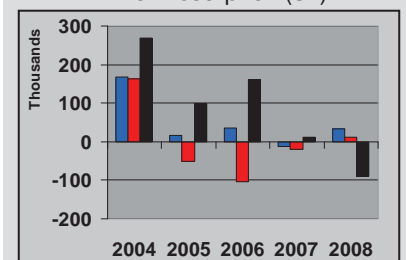
MARKET OUTLOOK

As expected, the vacancy rates in this submarket have increased from last year. As this trend continues into 2009, our expectation is for the rental rates to begin to drop. New construction that was slated to start in 2009 will be put on hold until market activity warrants building or build-to-suit deals arise.

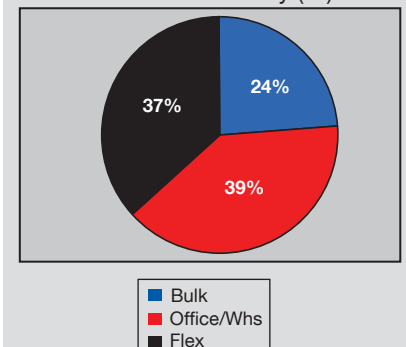
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

BUILDINGS DELIVERED IN 2008

Address	RBA SF	Delivery Date	Asking Rent PSF	Type	Owner/Developer
13261 Mid-Atlantic Blvd.	50,133	May 2008	\$7.25 NNN	Bulk	Jackson-Shaw
13195 Mid-Atlantic Blvd.	101,073	May 2008	\$7.25 NNN	Bulk	Jackson-Shaw
8420 Westphalia Road	153,700	June 2008	\$6.95 NNN	Bulk	Lincoln Property Co.
7001 Muirkirk Meadows Drive	18,300	June 2008	Negotiable	Flex	Konterra

2009 PLANNED CONSTRUCTION

Address	SF	Product	Asking Rent PSF	Delivery Date	Owner/Developer
Steeplechase	95,000	Bulk	\$6.95 NNN	September 2009	ATAPCO
Eastgate (sale or lease)	110,000	Bulk	\$6.00 NNN	October 2009	Osprey

HOWARD COUNTY

Office Submarket Map



HOWARD COUNTY

HOWARD COUNTY

Office Market



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	121	186
New/Relet Vacant (SF)	1,151,290	681,770
Sublease Vacant (SF)	115,890	44,350
Total Vacant (SF)	1,663,900	726,130
Total Existing RBA (SF)	8,827,000	6,053,300
Vacancy Rate Direct %	17.5%	12%
Vacancy Rate Sublease %	1.3%	0.7%
Net Absorption YTD (SF)	236,540	(5,000)
Average Rental Rate (Full Service)	\$25.32	\$22.40
2008 Completed Construction SF	788,000	83,600
2009 Planned Construction SF	147,000	0

MARKET OVERVIEW

Little did we realize how severe and far reaching the subprime crisis would have impacted the United States and local economic climate. Although Howard County has felt the least amount of impact -- as compared to other local jurisdictions -- the financial, insurance and real estate industries have been most adversely affected. Both Class "A" and "B" office properties have experienced increased vacancies and sublet options as these industry sectors have either returned space to the market or have vaporized in totality.

We believe Howard County contains valuable real estate and will continue to be an attractive business location during any market cycle. Businesses desire locations near a highly educated workforce and wish to be equidistant to Washington, DC and Baltimore. However, 2008 was a tenant's market, and we anticipate this will last well into 2009 and early 2010. We expect more attractive deal offerings from landlords featuring turnkey improvements, reduced rent, rental abatement and owners becoming very aggressive to renew their tenants in 2009.

MARKET OUTLOOK

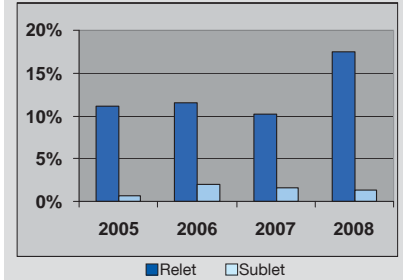
We expect to see very little new construction for 2009 with the exception of Baxley Development's 40,000 square foot office condominium known as Stanford Overlook at 8894 Stanford Boulevard. In addition, Maple Lawn will work to pre-lease their proposed 107,000 square foot building at 8160 Maple Lawn Boulevard.

2009 may be the year for businesses to take a "wait and see" approach as to what the new administration in the White House shall bring and for the capital markets to thaw and help companies expand.

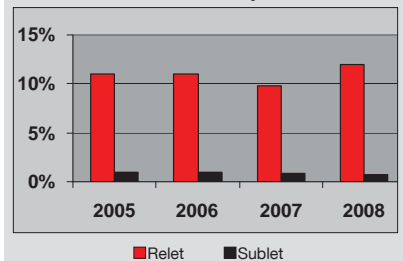
We anticipate seeing growth in the following industries: healthcare, legal, accounting, and defense/information technology services. The legal and accounting industries, we predict, will be the front runners as they will be assisting some businesses seeking bankruptcy protection and/or reorganizing their companies in 2009.

We do not anticipate any new speculative construction in 2009 as the present inventory needs to achieve at least a 10% vacancy to entice lenders and developers its safe to dip their toes back into the market and deliver new product.

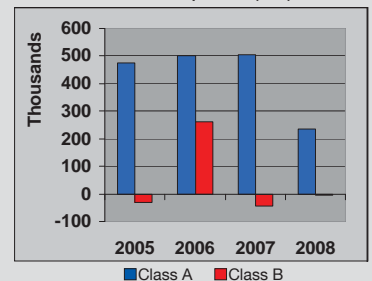
Class A Vacancy Rate



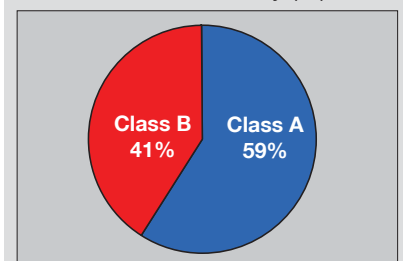
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Class
Integral Systems	6721 Columbia Gateway Drive	131,000	A
Howard County Government	8930 Stanford Boulevard	100,000	B
MPRI / L3 Communications	7142 Columbia Gateway Drive	47,668	A
Capitol Office Solutions	9065 Guilford Road	46,781	B
Carrollton Bank	7151 Columbia Gateway Drive	20,427	B
Aegis Mobile	7070 Samuel Morse Drive	17,162	A
Geo Syntec Consultants	10220 Old Columbia Road	17,243	B
Tide Water, Inc.	7161 Columbia Gateway Drive	14,000	B
KCI Engineering	8161 Maple Lawn Drive	10,741	A
Amica	6711 Columbia Gateway Drive	10,214	A

SIGNIFICANT OFFICE ACTIVITY

Howard County - Office

COLUMBIA NORTH



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	23	24
New/Relet Vacant (SF)	149,828	120,980
Sublease Vacant (SF)	36,334	1,606
Total Vacant (SF)	186,162	122,586
Total Existing RBA (SF)	1,380,563	642,638
Vacancy Rate Direct %	10.8%	18.8%
Vacancy Rate Sublease %	2.6%	0.2%
Net Absorption YTD (SF)	80,563	4,556
Average Rental Rate (Full Service)	\$24.08	\$23.79
2008 Completed Construction SF	70,427	0
2009 Planned Construction SF	32,000	48,000

MARKET OVERVIEW

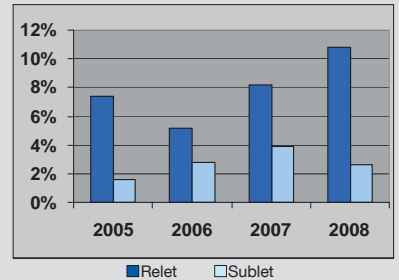
The Columbia North submarket is smaller than other submarkets in Howard County.

Waverly Real Estate Group has planned to break ground on Meadowridge Professional Center, a three story office building totaling approximately 25,000 square feet of space, with expected delivery in late 2009. As of this writing, there are no signed leases. Because this submarket is small, when there is a large vacancy driven by some of the mortgage companies in the market, these numbers spike drastically. However, we are optimistic about the market as land constraints and barriers to entry remain very high. With its proximity to MD Routes 100, 175 and 29, we expect this submarket to improve in 2009.

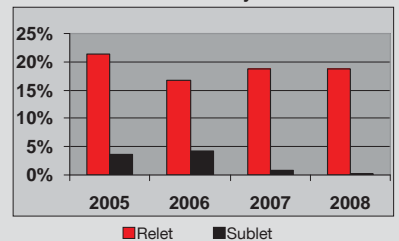
MARKET OUTLOOK

The Columbia North submarket should be the first of the Howard County submarkets to turn around. The market is mature with high barriers to entry which should bode well for vacancy and rental rates. However, tenants will still benefit in 2009 as landlords hope to fill their voids and retain tenants.

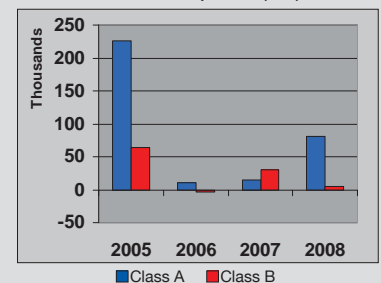
Class A Vacancy Rate



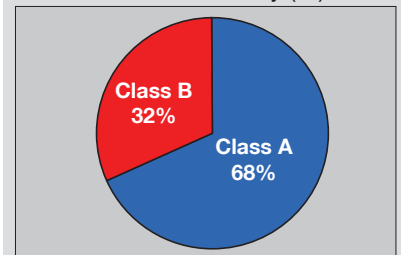
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

2009 PLANNED CONSTRUCTION

Address	RBA SF	Deliver Date	Asking Rent PSF	Owner/Developer
Columbia Gateway @ Samuel Morse	110,000	TBD	Negotiable	COPT
6721 Columbia Gateway Drive	130,000	February 2009	Pre-Leased	COPT
8160 Maple Lawn Drive	106,587	TBD	Negotiable	Greenebaum and Rose
9070 Sterling Drive	160,000	TBD	Negotiable	Emory Properties

BUILDINGS DELIVERED IN 2008

Address	SF	Product	Asking Rent PSF	Delivery Date	Owner/Developer
9256 Bendix Road	70,427	Office/Condo	\$285.00	January 2008	Brasher
6811 Benjamin Franklin Drive	56,700	A	\$28.50 + Utilities	March 2008	Abrahms Development
6841 Benjamin Franklin Drive	200,573	A	\$30.00 + Utilities	November 2008	Col. Gateway Assoc. LLC
7001 Columbia Gateway Drive	120,000	A	Build to Suit	June 2008	Manekin & Merkle

Howard County - Office

COLUMBIA SOUTH



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	62	79
New/Relet Vacant (SF)	828,430	255,966
Sublease Vacant (SF)	65,554	28,798
Total Vacant (SF)	893,984	284,764
Total Existing RBA (SF)	5,169,019	2,968,105
Vacancy Rate Direct %	15.1%	8.3%
Vacancy Rate Sublease %	1.3%	1%
Net Absorption YTD (SF)	206,990	(52,893)
Average Rental Rate (Full Service)	\$26.19	\$21.67
2008 Completed Construction SF	440,273	0
2009 Planned Construction SF	107,000	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 I-95 to the east, the Columbia South submarket experienced decreased office net absorption, and deliveries in 2008.

Corporate relocation activity demonstrates the validity and the desirability of this submarket. Merkle Marketing, relocating from Prince George's County, moved into their 120,000 square foot build-to-suit building. They also plan for growth by buying additional land. Integral Systems, another Prince George's county corporate headquarters relocation, signed a lease for 130,000 square feet in a speculative building this year for 2009 occupancy. Both transactions were in the Columbia Gateway Park.

Maple Lawn, a 600 acre, mixed-use property, remains steady. With approximately 95% of its office space leased, Maple Lawn continues to add new office tenants and retail amenities, including, KCI (10,600 square feet - March 2009 occupancy), Harris Teeter (July 2009 delivery) and Loonies Pub (March 2009 occupancy). The fourth office building is planned to break ground in 2009.

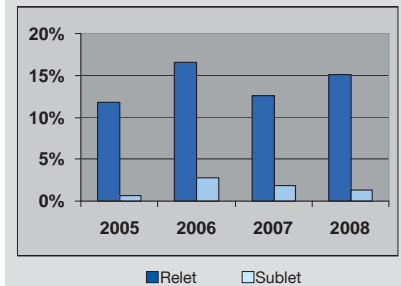
The influence of a strong labor pool, government and technology companies and a convenient and accessible location between Baltimore and Washington, near Fort Meade and BWI are all factors that contribute to Columbia South's continued steadiness relative to other commercial real estate submarkets.

MARKET OUTLOOK

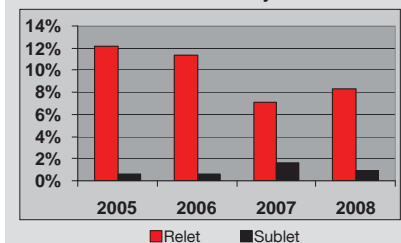
With the recent delivery of several new buildings to the submarket, the vacancy rate, including sublet space, in the Columbia South submarket is slightly up from 14.4% in 2007 to 16.4% in 2008 in Class A product. For the first time, in 2008, full service equivalent rental rates are breaking the \$30 per square foot asking rate barrier.

Local users of office space have a neutral attitude regarding the local economy - neither optimistic nor pessimistic. The local economy is sound, not over built, close to Washington, DC, and expecting a large influx to all aspects of the local economy in several years due to BRAC.

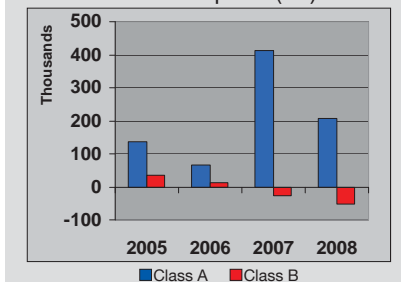
Class A Vacancy Rate



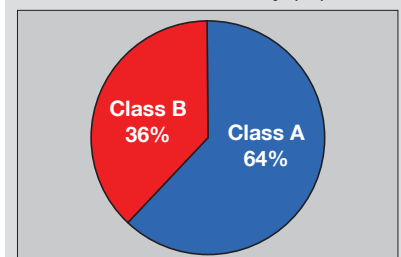
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	Size (SF)	Price	Price PSF	Buyer	Seller
9801-9861 Brokenland Pky	215,000	\$33,300,000	\$155.00	The Gold Star Group	Principal Financial
2850 N. Ridge Road	38,933	\$5,250,000	\$135.00	Rockledge Realty	North Ridge Holdings

SELECTED BUILDING SALES - USER

Address	Size (SF)	Price	Price PSF	Buyer	Seller
9002 Red Branch Road	22,770	\$3,500,000	\$147.00	GIS Online Solutions	Trader's Library
7001 Columbia Gateway Dr	120,000	\$38,000,000	\$316.00	Merkle, Inc.	Manekin
5950 Symphony Woods Rd	93,850	\$15,600,000	\$166.22	Wash. Capital Partners	Liberty Property Trust

Howard County - Office

COLUMBIA TOWN CENTER



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	15	22
New/Relet Vacant (SF)	245,712	121,735
Sublease Vacant (SF)	17,929	5,898
Total Vacant (SF)	263,641	127,633
Total Existing RBA (SF)	1,491,874	894,826
Vacancy Rate Direct %	16.5%	13.6%
Vacancy Rate Sublease %	1.2%	0.7%
Net Absorption YTD (SF)	(59,274)	(28,656)
Average Rental Rate (Full Service)	\$25.25	\$22.54
2008 Completed Construction SF	0	0
2009 Planned Construction SF	0	0

MARKET OVERVIEW

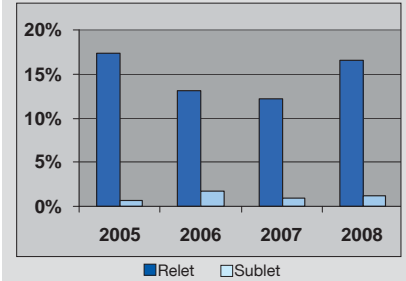
There have been many businesses during 2008 that have vacated or downsized due to the economic conditions, thereby, affecting the Columbia Town Center submarket. One large user that greatly impacts this market's vacancy is the now bankrupt Fieldstone Mortgage, who occupied 128,000 square feet at 70 Corporate Center. This block of availability is by far the largest in Town Center and accounts for over 26% of this submarket's vacancy. Although many tenants have taken a wait and see approach, several leases were completed in both the A and B category. Several tenants seized upon the opportunity to relocate in Town Center to secure attractive business terms and to be adjacent to The Mall in Columbia. Our first signs of BRAC activity were noticed by a couple of defense contractors demanding a satellite office to serve both markets as well as easy access to Ft. Meade. We are hopeful this will spawn further activity from this sector in the coming year.

General Growth Properties (GGP) continues to respond in a positive manner to the market despite the negative media reports. We are cautiously optimistic that GGP will restructure their debt situation and continue business as usual.

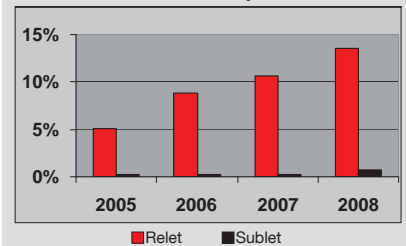
MARKET OUTLOOK

We expect rents to remain steady and landlord incentives to continue for the first half of the year. We also expect vacancies to remain steady for the first half of the year and then decrease slightly. After the first half of the year, the GGP news will be old news and economic conditions should be better. Therefore, business owners will be more confident to relocate and Town Center will reap some rewards in terms of attracting tenants to the submarket.

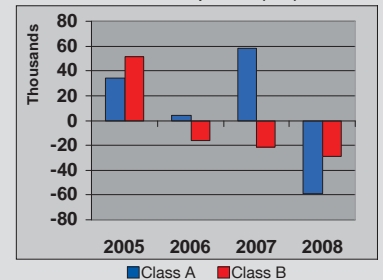
Class A Vacancy Rate



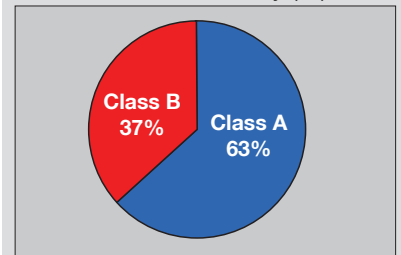
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

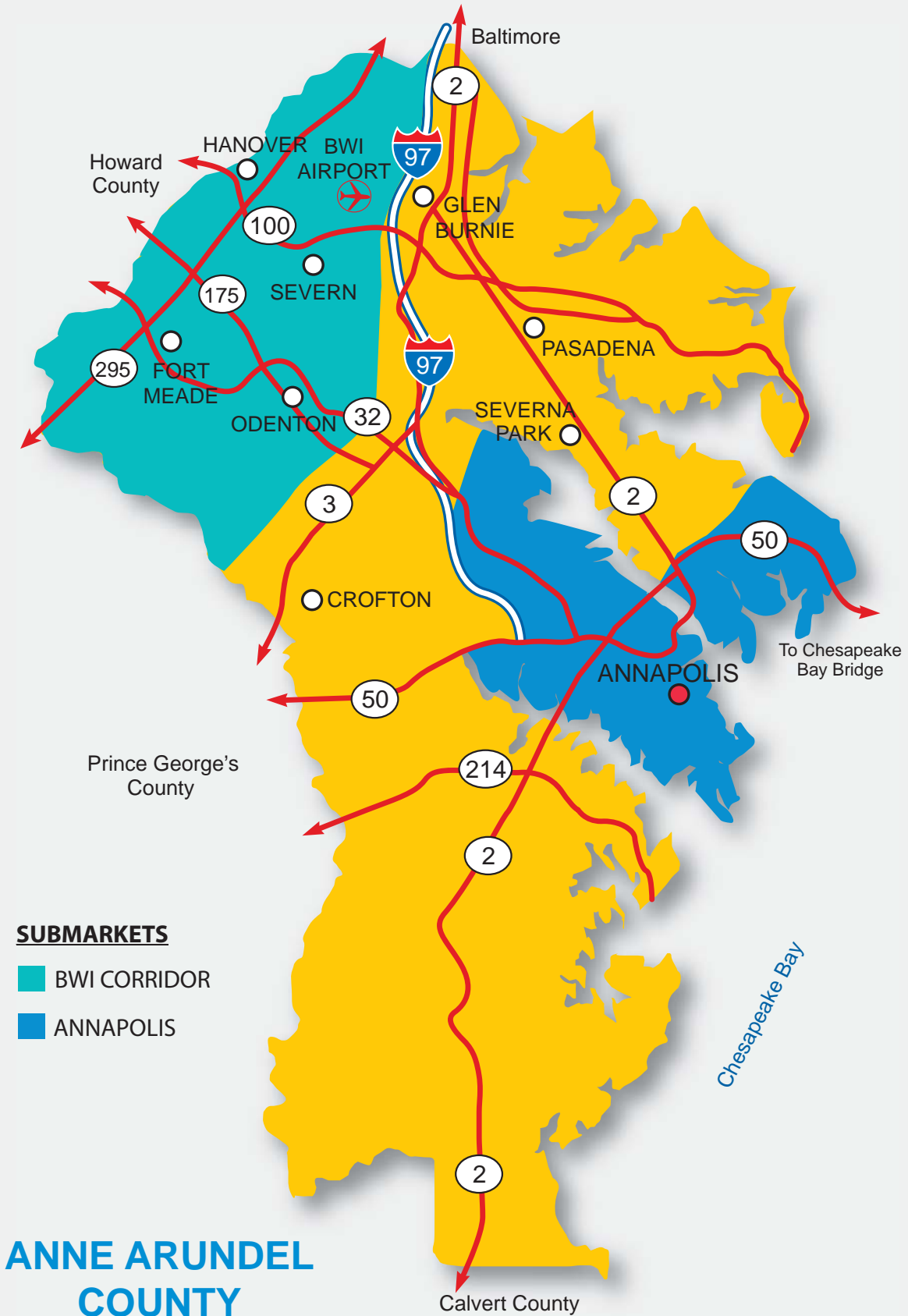
SIGNIFICANT OFFICE ACTIVITY

SELECTED LAND SALES - INVESTMENT

Address	Size (SF)	Price	Price Per Acre	Buyer	Seller
10164 Baltimore Nat'l Pike	2.73 acres	\$5,168,000	\$1,900,000	Security Development	84 Lumber
Elkridge (3 properties)	6.13 acres	\$1,050,000	\$171,288	Montevideo Rock, LLC	Landlord 27, LLC
7136 Montevideo Road	1.47 acres	\$750,000	\$510,200	Montevideo Rock, LLC	Richard W. Smith
Route 1 & 32	8.06 acres	\$1,300,000	\$161,370	TSC & Route 32, LLC	Equity Financial Corp.
5 Warwick Way	5.56 acres	\$4,970,000	\$893,884	Waverly Woods Dev. Corp.	Bonnie Branch Corp.
Sterling Dr & Stephens Rd	39.1 acres	\$13,250,000	\$338,875	James F. Knott Dev.	GGP

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	108	223
New/Relet Vacant (SF)	1,145,821	781,096
Sublease Vacant (SF)	145,482	24,350
Total Vacant (SF)	1,291,303	805,446
Total Existing RBA (SF)	7,973,064	6,779,514
Vacancy Rate Direct %	14.4%	11.5%
Vacancy Rate Sublease %	1.8%	.4%
Net Absorption YTD (SF)	87,907	(45,921)
Average Rental Rate (Full Service)	\$28.38	\$23.17
2008 Completed Construction SF	832,547	66,165
2009 Planned Construction SF	520,755	0

MARKET OVERVIEW

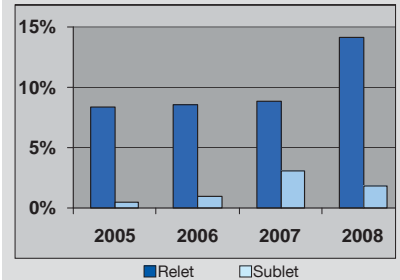
The Anne Arundel County office market experienced an increase in vacancy rates, absorption, and construction for 2008. Compared to 2007, vacancy rates have increased from a total of 11.9% to 16.2% for Class "A" space and from 9.4% to 11.9% for Class "B" product. Net absorption also took an upturn with approximately 90,000 square feet of Class "A" space absorbed in 2008, compared to approximately 4,000 square feet last year. Class "B" increased from a negative net absorption of approximately 135,000 square feet in 2007 to a negative 46,000 square feet in 2008. Office rents for both building classes remained relatively stable, staying within the \$28.00 per square foot range for Class "A" and in the \$23.00 per square foot range for Class "B". However, construction has remained strong with nearly 900,000 square feet completed in 2008.

One of the hottest issues for Anne Arundel County has been the proposed increased cost of impact fees. The amount of the fee is based upon the impact of a homebuilder or commercial developer's project to the county's cost of additional schools, roads and public safety. The County Council voted to delay the increase in fees until 2011 in hopes that BRAC will begin to have a positive impact on the area and the overall economic climate will have stabilized.

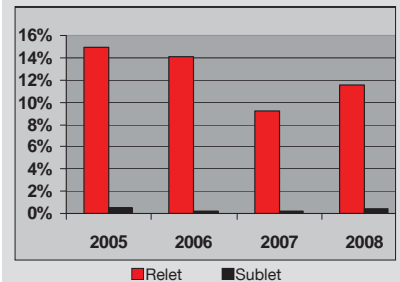
MARKET OUTLOOK

Due to the uncertain rebound of the economy, most businesses for 2009 are going to be cautious in their spending and hiring practices. According to the Maryland Department of Labor, Anne Arundel County's unemployment rate has seen a steady increase from last year at 2.9% to 4.5% (Nov. 2008) – this, however, is still lower than the U.S. unemployment rate of 6.8%. On the bright side, job growth is expected to improve the county's overall business climate with the expected arrival of more than 5,600 defense-related users and the federal government over the next several years due to the implementation of military's Base Realignment and Closure Act (BRAC). In anticipation of this influx, construction for this county remains strong with over 520,000 square feet of office space planned for delivery in 2009. Rental and vacancy rates will increase as this new product is delivered. By and large, the Anne Arundel County office market should fare well as compared to other jurisdictions during this period of economic upheaval.

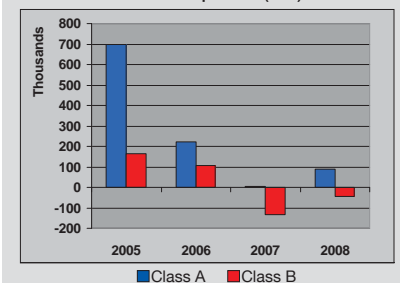
Class A Vacancy Rate



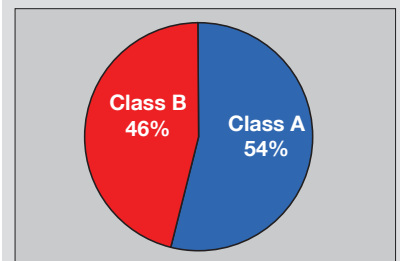
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

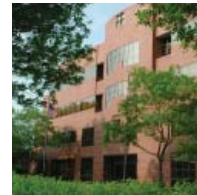
SIGNIFICANT OFFICE ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Class
Northrop Grumman	1550 West Nursery Road	160,000	A
The MITRE Corporation	300 Sentinel Drive	73,000	A
Booz Allen Hamilton, Inc.	900 Elkridge Landing Road	63,601	B
Proteus Technologies	133 National Business Parkway	25,900	A
ProObject	7467 Ridge Road	23,060	A
ITT Corporation	141 National Business Parkway	21,664	A
Eccleston & Wolf PC	7240 Parkway Drive	18,134	A
General Dynamics	130 Admiral Cochrane Drive	17,140	A
Bignell Watkins Hasser Architects PA	3 Park Place	15,000	A
Office Suites Plus	1997 Annapolis Exchange	14,332	A
Merrill Lynch	West Street at Taylor Avenue	13,351	A

Anne Arundel County - Office

ANNAPOLIS



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	37	85
New/Relet Vacant (SF)	265,226	131,438
Sublease Vacant (SF)	32,556	520
Total Vacant (SF)	297,782	131,958
Total Existing RBA (SF)	2,064,813	2,239,675
Vacancy Rate Direct %	12.8%	5.9%
Vacancy Rate Sublease %	1.6%	0%
Net Absorption YTD (SF)	132,449	(20,783)
Average Rental Rate (Full Service)	\$31.35	\$26.34
2008 Completed Construction SF	281,000	0
2009 Planned Construction SF	0	0

MARKET OVERVIEW

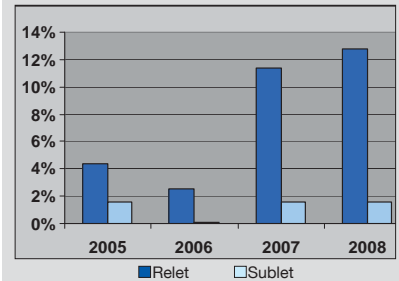
The Annapolis office market remained relatively healthy in 2008 despite increasing vacancy due to the delivery in August of the Phase II office building (108,000 rentable square feet) at Park Place and the renovation of the former Alion building (185 Admiral Cochrane Drive) by Douglas Jemal Development (125,000 rentable square feet). Additionally, One Annapolis Exchange suffered some vacancy early in the year as several large tenants left the Annapolis market. Park Place was successful in leasing the balance of the Phase I building (156,125 rentable square feet) this year and sold the newly constructed Phase II office building to United Association for \$275 per square foot in shell condition in July. United Association will occupy two floors and has two additional floors (45,692 rentable square feet) for lease. Douglas Jemal Development completed the re-skinning of the building and gutted the building to re-position the building to accept tenants on a shell basis. The Parkway building (200 Harry S Truman Parkway) was acquired by the Maryland Association of Realtors (MAR) in July for \$246 per square foot.

The most recent delivery of Class "A" office space occurred at Annapolis Town Centre at Parole by Greenberg Gibbons Commercial. The building (48,000 rentable square feet) started the year as a condominium offering with asking prices of \$450 to \$550 per square foot. The owners decided to switch to leasing the space at an offering rental of \$37.50 per square feet, plus utilities, with a \$45 workletter from a cold dark shell.

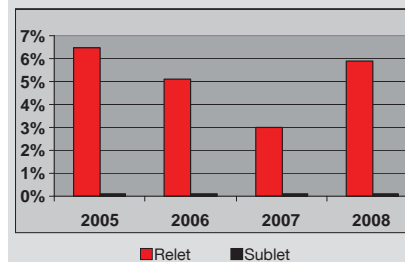
MARKET OUTLOOK

Other than the larger space offerings, the existing Annapolis office inventory is predominantly smaller suites (2,000 – 5,000 square feet) which is typical of the Annapolis market. Leasing velocity has slowed and we have seen an increase in the number of sublease availabilities due to the economic slowdown. However, it has not had a significant impact on rental rates as of yet. Landlords are offering more tenant improvement dollars to "turnkey" deals, yet rental rates have largely remained intact. We expect that the Annapolis market will show positive absorption in 2009, albeit to a lesser extent than in 2008.

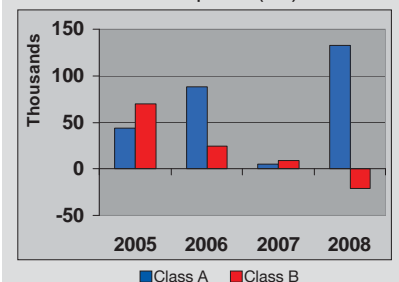
Class A Vacancy Rate



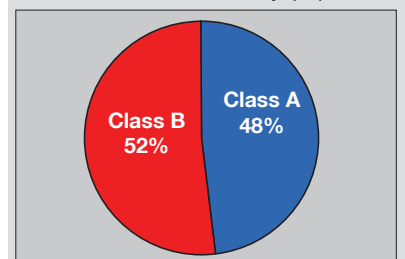
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED BUILDING SALES

Address	Size	Price	Price PSF	Buyer	Seller
200 Harry S. Truman Parkway	51,971	\$12,800,000	\$246.29	MD Association of Realtors	Sun Life Assurance Co.
1580 A & B West Nursery Road	315,000	\$97,600,000	\$309.84	Wells REIT II	West*Terra, LP
1000 Stewart Avenue	55,731	\$10,000,000	\$179.43	SC Glen Burnie Funding Co.	Suntrust Bank

2009 PLANNED CONSTRUCTION

Address	RBA SF	Delivery Date	Asking Rent PSF	Class	Owner/Developer
1550 W. Nursery Road	160,000	3rd Qtr. 2009	Pre-Leased	A	Opus East, LLC
300 Sentinel Drive	185,000	June 2009	\$30.00	A	COPT
7556 Teague Road	153,000	March 2009	\$25.00	A	Arundel HGR, LLC

Anne Arundel County - Office BWI CORRIDOR



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	47	50
New/Relet Vacant (SF)	757,741	516,073
Sublease Vacant (SF)	80,760	18,311
Total Vacant (SF)	838,501	534,384
Total Existing RBA (SF)	4,951,791	2,604,078
Vacancy Rate Direct %	15.3%	19.8%
Vacancy Rate Sublease %	1.6%	.7%
Net Absorption YTD (SF)	185,587	(36,808)
Average Rental Rate (Full Service)	\$27.29	\$22.43
2008 Completed Construction SF	453,977	0
2009 Planned Construction SF	498,000	0

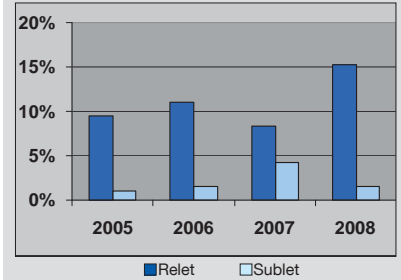
MARKET OVERVIEW

The BWI Corridor office market is performing remarkably well. Even with more than 450,000 square feet of space delivered in 2008, net absorption for new Class "A" office space saw an increase from approximately 27,000 square feet in 2007 to 185,000 square feet this past year. Total vacancy rates for Class "A" office space also saw a decrease from 18.8% in 2007 to 16.9% in 2008. The Class "B" total vacancy rate for this submarket compared to last year remained flat at 20.5%. Although these vacancy rates appear to be on the "high" side, this submarket is holding its own. The location of the BWI Corridor submarket in relation to Anne Arundel County and the surrounding region remains a major selling point with the presence of BWI Thurgood Marshall Airport, the National Security Agency and the growing federal defense sector.

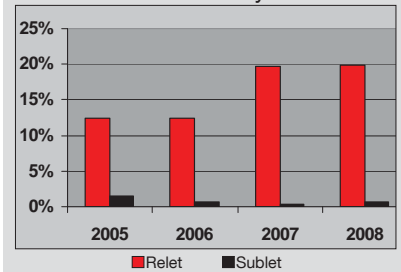
MARKET OUTLOOK

As the nation contends with a new administration, unprecedented debt, tightened credit markets and the declining value of homes and retirement accounts, 2009 may be a challenging year for businesses and, in turn, the commercial real estate market. However, the BWI Corridor may not be dramatically affected by this national economic situation. Construction will remain strong in this area with approximately 498,000 square feet of Class "A" space expected to be delivered in 2009 by Corporate Office Properties Trust, Opus East and Arundel HGR. This construction is in anticipation of Northrop Grumman occupying 160,000 square feet at 1550 West Nursery Road and due to BRAC-related businesses expected to move into the Fort Meade area within the next few years, which will supply significant job growth. Until then, this excess office space may work to the advantage of prospective tenants as landlords compete to acquire tenants for their vacant buildings. Vacancy rates will remain in the double digits until this inventory is absorbed and rental rates are expected to increase as this new product is delivered.

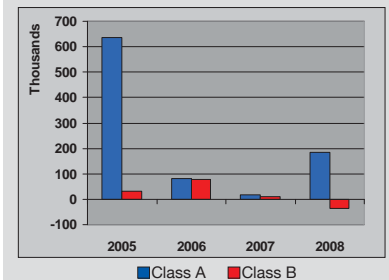
Class A Vacancy Rate



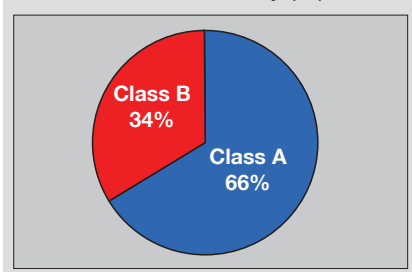
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

BUILDINGS COMPLETED IN 2008

Address	RBA SF	Class
6956 Aviation Boulevard	54,335	A
6958 Aviation Boulevard	35,553	A
6960 Aviation Boulevard	31,089	A
7030 Dorsey Road	63,000	A
8210 Dorsey Run Road	120,00	A
810 Landmark Drive	51,000	A
7740 Milestone Parkway	150,000	A
3 Park Place	108,800	A

SIGNIFICANT OFFICE ACTIVITY

Address	RBA SF	Class
7671 Quarterfield Road	50,000	A
8221 Ritchie Highway	30,000	A
1166 Route 2	80,000	A
1906 Towne Center Blvd	68,000	A
331 Gambrills Road	24,000	B
53 Old Solomons Island Road	17,500	B
2566 Riva Road	14,665	B
1449 Whitehall Road	10,000	B

RESIDENTIAL LAND



The residential land market is presently a dismal place with no positive signs of a rebound for 2009. Land values that soared to mountainous peaks in 2005 have dropped by more than 50% in most parts of the mid-Atlantic, and nearly 75% in some tertiary markets. While nearly every homebuilder is suffering, several local homebuilders such as Altieri Homes and Richland Homes have been forced into bankruptcy and out of business. The list of firms attempting to restructure themselves while in bankruptcy includes Caruso Homes, TOUSA and WCI Communities, while nearly every other builder is attempting to restructure their debts privately.

The tightened lending market has forced many homebuilders to walk from land and lot deals in which they had already invested six or seven figures in released deposits, feasibility studies, legal and engineering fees. All but the public builders find themselves unable to borrow funds to settle on the property, unable to finance the infrastructure without pouring in serious cash from their own funds and unable to sell houses at the pro forma prices required to justify the original land purchase. Public companies, for the most part, have remained on the sidelines in 2008.

This economic mess has forced those homebuilders in the market to conduct multiple rounds of layoffs. This poses the question: with so many good people hitting the bricks in search of new employment, has the recession caused a “brain and experience drain” that will continue to negatively effect the housing business when the residential homebuilding market does rebound?

Most of the activity in the residential land marketplace during the past year was concentrated on re-negotiating land or lot purchase contracts down to reflect a change in the marketplace. The most significant residential land sale in the marketplace was 88 acres located at the intersection of Ridge Road and MD Route 175, directly across from Ft. Meade that KLN-BLAND brokered representing the seller. In order to address the uncertainties of the market, a sales formula based on the complexities of the transaction was used to give the seller upside, should the economy rebound, while still giving the buyer safety that they are not overpaying in a down market. The ultimate purchase price will not be known until settlement, which is projected to be 2012.

Foreclosures & Impact Fees

These frustrating terms are constantly on the minds of everyone in the development community. As foreclosures of homes built just three to five years ago continue to rise, they are forcing down the values currently under construction. The residential values of the Prince George's County market have been slashed as foreclosures in this county continue to multiply. Prince George's County holds the unwanted title as the county with the highest foreclosure rates in the state.

Montgomery and Harford Counties have experienced an increase in foreclosures but their condition is nothing like that of Prince George's. Officials say lenders have filed 40,000 notices of intent to foreclose since April in the state.

RealtyTrac, a company that tracks U.S. foreclosure listings, reports that about 35 percent of the foreclosures in Maryland during the third quarter were in Prince George's County. Another 14 percent were in Montgomery County and 11 percent were in Baltimore County.

Impact Fees: One of the most significant issues in land development this year was the passage of the new impact fee schedule for Anne Arundel County. Although originally threatened to be as high as \$40,000 for a five-bedroom house, the final version of the legislation was negotiated down with help from the HBAM and NAIOP to a schedule that will increase the amount of the fee over three years and will go into effect on January 1, 2009. As of January 1, 2009 the total fee for a 3,000 to 3,399 square foot home would be \$2,272. This increases to \$4,546 on January 1, 2010 and more than doubles on January 1, 2011 to \$11,363.

Not much is expected in the new year other than attempting to simply stay in business.

INVESTMENT OVERVIEW



This year saw a dramatic drop in the number of investment sales, the result, primarily due to the collapse of the commercial mortgage backed securities (CMBS) market. Up until 2008, roughly 70 percent of commercial real estate acquisitions were financed by these CMBS lenders which originated loans, packaged them into pools, and then sold bonds backed by these pools. CMBS lenders originated nearly \$137 billion worth of debt through the first six months of 2007 alone.

In the fourth quarter of 2007, precipitated by the residential mortgage meltdown, investors became hysterical about anything related to mortgages. Despite the fact that commercial real estate leasing fundamentals remained sound, these CMBS bonds stopped selling and, as a result, CMBS loans could no longer be originated. The volume of CMBS loans originated dropped by more than 90 percent.

Picking up the slack in financing commercial real estate properties today are life insurance companies and local and regional banks. With many more financing opportunities to choose from than in the past, these lenders can afford to be very selective. As such, the majority of new loans are being made on high quality, well-located real estate. Terms of these loans have been tightened considerably: rock-bottom floating rate loans along with fixed-rate, interest-only loans are largely a thing of the past. Where CMBS lenders regularly offered 80 percent leverage with no personal recourse, 60 to 65 percent leverage is the norm today. Amortizations in the 20 to 25-year range are now more typical than 30-year loans.

This dramatic change in loan terms and pricing has driven up loan constants -- the annual cost of servicing a loan expressed as a percentage -- by as much as 200 to 300 basis points. Further, yields on alternative investments such as corporate bonds are rising in this recessionary climate -- into double digits in many cases. All this has pushed today's yield expectations on suburban office and industrial real estate up 50 to 300 basis points from just one year earlier. This change in yield expectations occurred much more quickly than in previous down cycles as the contracting debt market corresponded with -- or rather effectively helped initiate -- the recession that began in early 2008.

Today, many owners of commercial real estate that are taking buildings to market are doing so because they must, either because of near-term debt maturity or some other need for cash. So far, there are few owners in the Washington-Baltimore area that "must sell" and, as such, the volume of investment sales in our region is down 37% year-over-year. Roughly half of the commercial real estate investment sales that occurred in 2008 involved the buyer assuming (typically CMBS) financing that was already in place. This fact highlights the dramatic drop in new loan origination.

Leasing fundamentals in the Washington-Baltimore area have weakened but, thanks to the insulating presence of an expanding Federal government and tremendous land constraints, our region should see comparatively less weakening in demand for space.

Investors expecting "fire sale" pricing in our region are being disappointed thus far. Buyers depending on large amounts of leverage are on the sidelines. This leaves institutional investors and other low leverage buyers purchasing high quality real estate at more attractive capitalization rates than they could in 2007, thanks to the less competitive environment. Older real estate, in less than favorable locations, is seeing the biggest spike in capitalization rates.

As more high leverage loans become due in 2009, and owners fail to refinance, more forced selling will occur. Owners with attractive assumable financing in place, or those willing to consider seller-held financing, have the best opportunity to sell and achieve pricing not too far from 2007 highs. Expect seller-held financing to expand considerably in 2009, particularly to facilitate the sale of less than institutional quality real estate.

While it is a dangerous game to call the "bottom" of the real estate market, we believe that we are in a sort of a "buyer's market" witnessed only once or twice in a lifetime. The savviest investors will focus on buying now, in markets that show dramatic historic rent growth and have weathered previous downturns relatively well. Industrial, multifamily and downtown Washington DC office buildings should fare better than retail and suburban office product.

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