

2009 INDUSTRIAL & OFFICE MARKET REPORT

BALTIMORE/WASHINGTON, DC CORRIDOR



WHAT'S AROUND THE BEND IN 2010?

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2009 YEAR END REVIEW

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HEALTHY JOB PROSPECTS EXPECTED TO FUEL A GENTLE REAL ESTATE RECOVERY IN 2010

With the Baltimore-Washington, D.C. commercial real estate industry inexorably connected to the health of the regional labor market, 2010 is shaping up to be a year of "continuing recovery" if the predicted string of job hirings in various industries comes to fruition. After absorbing nearly two years of corporate downsizing, the combination of "The BRAC Effect," the loosening of capital markets and nearly non-existent new construction activity are combining to create a "light at the end of the tunnel" scenario in the central Maryland area.

Forbes Magazine rated Washington, D.C. #2 and Baltimore #7 in a study that examined predicted job growth in major cities throughout the United States. In the words of United States Congressman Dutch Ruppersberger - stated at a December ground breaking ceremony - the old real estate adage "location, location, location" has been replaced with the mantra of "jobs, jobs, jobs."

After hearing state and county economic development representatives tout the wide-ranging benefits stemming from the Base Realignment and Closure (BRAC) process for the past three years, we can now see tangible ramifications of the BRAC effect before our eyes. Defense contractors are beginning to lease full buildings or sign impressive leases at projects strategically positioned near Aberdeen Proving Ground and Fort Meade, and positive residual effects can be felt throughout the residential, retail and consumer products arenas. It is generally accepted that Maryland could receive \$6 to \$10 billion in military construction around federal bases, and more than 25,000 new jobs could filter into the state.

Adding to this momentum is the beginning of federal government stimulus money "moving through the system" which is manifested in the solicitation for large new blocks of office space in the Baltimore-Washington Corridor. The State of Maryland estimates that stimulus funding for schools and health care has created or retained the equivalent of nearly 15,000 jobs in 2009. The commercial real estate recovery will be hastened by this federal government procurement.

Since the third quarter 2008 stock market collapse, the lack of available capital or appetite for undue financial risk has put the brakes on many commercial real estate transactions and construction projects. And, although overall real estate values have plummeted in the 20% to 30% range, investors are interested in mostly "distressed" properties that are not saddled with overwhelming vacancies or obsolescence. Lending, in general, is more sensible these days with loans completed at much lower levels of leverage.

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2009 YEAR END REVIEW

New construction starts – with the exception of pre-leased, office or industrial buildings surrounding army bases – have all but grinded to a halt, which has kept vacancy levels fairly constant and allowed time for the market to steady itself and catch its collective breath. The flurry of fourth quarter groundbreakings has been restricted to BRAC-related activity and we do not foresee speculative development activities elsewhere in the market. This restraint will help reduce overall vacancy and stimulate rental rates.

The philosophy of most landlords entering 2009 was of tenant retention. Tenants in the market recognized that the scales have been tipped in their favor and took full advantage of rental reductions and concessions. With the supply of commercial space producing double digit vacancy levels in most markets, landlords will continue their creativity and flexibility.

Jobs are typically the first casualty of any economic downturn as companies look to pare down fixed expenses in concert with dropping sales volumes. As the nation slowly works its way out of a recessionary environment, the addition of jobs is not made with the same level of urgency.

In the coming years, the Baltimore-Washington, D.C. region is in an enviable spot in terms of job creation and relocation in the coming years due to BRAC and its proximity to our nation's capital, a position that bodes extremely well for the continued recovery of the commercial real estate market.

“The economy began its recovery in the third quarter of 2009, perhaps as early as June. This recovery will be characterized by below-trend growth in 2010 (GDP at 2.2% for the year), high unemployment (likely to remain double digit until at least the 4th quarter), slow job growth, constrained consumer spending, and slowly increasing levels of business investment. The key to the recovery will be renewed residential construction spending. This should ramp up beginning in the 2nd quarter. The new homes inventory has dropped below normal and pent up demand continues to grow. As the residential sector accelerates, demand for manufacturing goods (building supplies and products) and retail sales (furniture and home furnishings) will also improve helping to spread the economic benefits of construction spending across all sectors of the economy. 2010 will be a year of transition from an economy whose growth depends on public stimuli to one in which private sector spending drives its growth. This transition to private sector spending (and earning) will set up 2011 for a GDP growth rate that accelerates over the year to 3.8% by year's end. With non-residential construction spending expected to increase in 2011 (after declining in 2010) combining with strong continuing gains in residential construction spending, the building industry will be a major force behind the economy's projected strong performance in 2011 and 2012.”

Stephen S. Fuller, Ph.D.
George Mason University

“We expect 2010 to get off to a slow start in the construction industry, with a recovery emerging halfway through the year. The inability to secure project financing is the major reason for the sluggishness in the regional marketplace. The positive news over the past year has been the funding of government projects including libraries, community centers and police stations.”

Joseph Rode, Executive Vice President
The Mullan Contracting Company

BALTIMORE-WASHINGTON CORRIDOR

2009 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							
Total Bulk	160	22,869,910	4,141,945	16.5%	15,610	\$4.82	24,000
Total Office/Warehouse	199	9,543,343	1,308,395	12.7%	(463,229)	\$6.80	66,585
Total Flex	131	5,313,295	603,401	9.4%	(613,750)	\$9.91	0
U.S. Route 1 Corridor							
Bulk	136	18,539,682	2,721,136	14.1%	(407,932)	\$4.90	24,000
Office/Warehouse	157	7,083,390	834,024	10.4%	(244,364)	\$6.32	0
Flex	20	703,971	64,790	8.4%	(52,290)	\$7.96	0
Columbia							
Bulk	24	4,330,228	1,420,809	27.1%	423,542	\$4.50	0
Office/Warehouse	42	2,459,953	474,371	19.4%	(218,865)	\$7.05	66,585
Flex	111	4,609,325	538,611	11.6%	(561,460)	\$11.78	0
ANNE ARUNDEL COUNTY							
Total Bulk	105	14,247,000	1,482,000	8.8%	(353,000)	\$5.50	108,000
Total Office/Warehouse	86	5,140,000	521,000	9.7%	(281,000)	\$8.00	0
Total Flex	225	9,442,000	1,064,000	10.7%	263,000	\$9.30	5,600
BWI							
Bulk	38	5,124,948	684,011	12.4%	73,618	\$5.65	108,000
Office/Warehouse	29	1,978,039	323,865	14.1%	59,545	\$7.10	0
Flex	73	3,134,076	390,977	11.3%	98,655	\$9.42	0
Marley Neck/Glen Burnie							
Bulk	33	5,877,000	190,000	1.1%	(34,000)	\$4.80	0
Office/Warehouse	25	1,126,000	100,000	8.9%	(66,000)	\$5.75	0
Flex	41	1,456,000	76,000	5.2%	21,000	\$6.50	5,600
Odenton							
Bulk	12	2,500,000	350,000	14%	(360,000)	\$4.50	0
Office/Warehouse	7	400,000	32,000	8%	(30,000)	\$5.50	0
Flex	16	823,000	74,000	9%	(70,000)	\$9.25	0
PRINCE GEORGE'S COUNTY							
Total Bulk	202	17,871,980	3,022,806	16%	(267,066)	\$6.11	129,777
Total Office/Warehouse	337	17,654,307	3,256,678	18%	(560,609)	\$5.84	0
Total Flex	574	19,918,920	2,918,546	14%	(482,459)	\$6.85	0
P.G. County Inner Beltway							
Bulk	151	12,568,971	2,365,322	19%	(305,483)	\$6.37	0
Office/Warehouse	186	8,367,121	1,706,378	20%	332,035	\$5.62	0
Flex	323	8,684,569	1,125,073	13%	(223,132)	\$6.96	0
P.G. County Outer Beltway							
Bulk	47	4,416,074	480,775	11%	25,499	\$5.56	0
Office/Warehouse	18	1,006,980	165,500	16%	(10,646)	\$7.56	0
Flex	69	3,838,446	713,563	16%	(138,169)	\$9.37	0
Northern P.G. County							
Bulk	46	3,382,391	688,176	17%	(46,737)	\$6.80	129,777
Office/Warehouse	92	4,735,684	681,899	14%	(203,701)	\$6.23	0
Flex	135	4,341,409	943,296	21%	(135,096)	\$6.73	0

BALTIMORE-WASHINGTON CORRIDOR

2009 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							
Total Class A	111	8,725,960	2,001,167	23%	409,947	\$23.66	176,451
Total Class B	192	6,163,976	1,172,419	19%	3,011	\$20.61	13,019
Columbia North							
Class A	22	1,354,822	200,455	14.5%	(20,7420)	\$23.66	0
Class B	22	596,138	112,837	18.9%	9,749	\$24.47	0
Columbia South							
Class A	63	5,378,137	783,707	11.9%	354,799	\$22.93	131,451
Class B	82	2,990,684	315,571	10.4%	(1,224)	\$19.26	0
Columbia Town Center							
Class A	15	1,535,255	404,754	24%	(8,295)	\$24.65	0
Class B	23	927,952	194,941	21%	(11,725)	\$22.29	0
ANNE ARUNDEL COUNTY							
Total Class A	105	8,430,745	1,652,441	18.1%	423,410	\$27.87	767,875
Total Class B	238	6,862,063	765,879	11.1%	61,854	\$23.30	45,556
Annapolis							
Class A	33	2,054,263	428,861	18.3%	74,216	\$30.18	68,000
Class B	88	2,278,549	124,598	5.2%	16,644	\$23.55	0
BWI Corridor							
Class A	50	5,456,894	1,115,360	18.8%	384,361	\$26.70	669,875
Class B	51	2,494,880	483,021	19.4%	15,952	\$22.59	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.

“2009 was a year that required a higher level of dedication to maintain a static performance of our portfolio. We were fortunate to have relatively few tenant workouts and sign several new development projects to be completed in 2010. We are well positioned for growth in 2010 provided the opportunities are present. We believe 2010 will start much like 2009 ended but see the potential for improvement. Projects founded on solid basic fundamentals waiting to be developed are out there to match with our available capital. The challenge in 2010 will be finding those opportunities, making the match and working with banks positioned to lend. We believe there are those opportunities for us to execute on in 2010 as well as capitalize on tenant expansion needs in market sectors less affected by the past and present economic conditions. We have several promising lease deals in our pipeline going into 2010 and are cautiously optimistic for a consistent deal flow for the remaining 2010.”

Timothy Kinsley, Vice President of Development
Kinsley Properties

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	160	199	131
New/Relet Vacant (SF)	3,782,847	1,214,236	503,443
Sublease Vacant (SF)	359,098	94,159	99,958
Total Vacant (SF)	4,141,945	1,308,395	603,401
Total Existing RBA (SF)	22,869,910	9,543,343	5,313,295
Vacancy Rate Direct %	16.5%	12.7%	9.4%
Vacancy Rate Sublease %	6.3%	1.3%	2.8%
Net Absorption (SF)	15,610	(463,229)	(613,750)
Average Rental Rate (NNN)	\$4.82	\$6.80	\$9.91
2009 Completed Construction SF	24,000	66,585	0
2010 Planned Construction SF	0	0	0

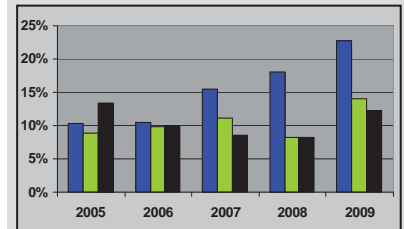
MARKET OVERVIEW

2009 continued to be very flat for any type of commercial real estate activity in Howard County and that theme will probably continue for the first half of 2010. However, there was respectable leasing activity for smaller facilities (under 10,000 square feet) during 2009 while only one new lease of over 100,000 square feet was completed during the year in Howard County. The continued theme of larger corporations not willing to make any move or increase expenses continued throughout the year. For those tenants with renewals coming due, landlords were extremely negotiable and continue to be. In 2006 and 2007, most landlords would not have considered any renewal term of less than three years while in 2008 and 2009, they were happy to extend tenants for any additional term they could get. Accurately defining "market rents" has been very elusive as many lease transactions are negotiated based upon the individual parties' requirements without giving much consideration to recent comparables.

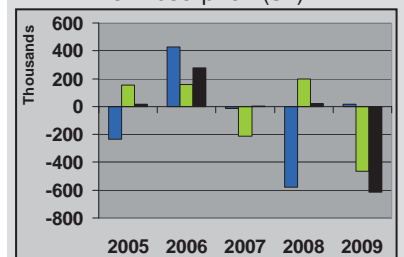
MARKET OUTLOOK

Over the long term, Howard County will remain a very attractive location for corporations servicing the Baltimore-Washington region due to its central proximity to both markets and excellent road network. The Route 32 Corridor should also see an increase in leasing activity due to its close proximity to Fort Meade. However, we do not expect vacancy levels to begin decreasing until the end of 2010 while rents should continue to decrease slightly or remain flat.

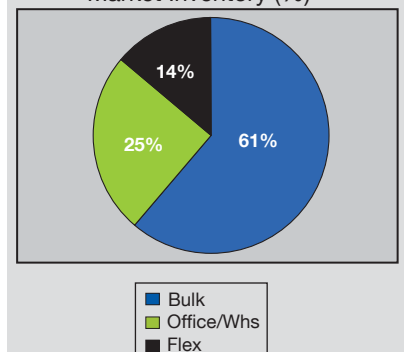
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Feld Entertainment	8241 Sandy Court	74,430	Bulk	Route 1
Hohmann & Barnard	7077 Oakland Mills Road	67,000	Bulk	Columbia South
Eaton/Cutler Hammer	7451 Coca Cola Drive	50,850	Office/Wrhs	Route 1
Convergence	7361 Coca Cola Drive	44,000	Office/Wrhs	Route 1
National Floors Direct	7111 Troy Hill Drive	40,250	Bulk	Route 1
APEX Express	8125 Stayton Drive	35,000	Bulk	Route 1
Coleman Moving & Storage	8220 Patuxent Range Road	34,947	Bulk	Route 1
AEX	6730 Santa Barbara Court	27,300	Bulk	Route 1
AMI Installations	8750 Larkin Road	27,055	Bulk	Route 1

Howard County - Industrial

US RT 1 CORRIDOR



TRENDS

Vacancy Rate
↑

Net Absorption
↓

Construction
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Asking Rents
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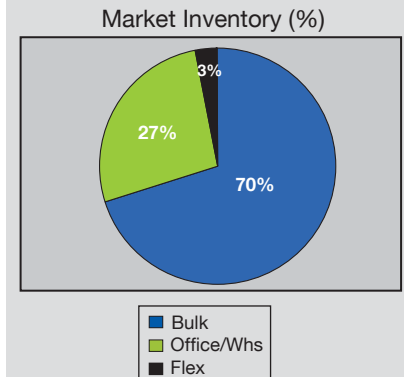
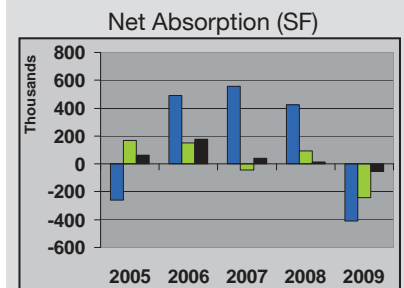
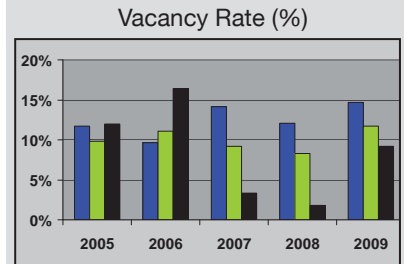
STATISTICS			
Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	136	157	20
New/Relet Vacant (SF)	2,607,383	739,865	59,270
Sublease Vacant (SF)	113,753	94,159	5,520
Total Vacant (SF)	2,721,136	834,024	64,790
Total Existing RBA (SF)	18,539,682	7,083,390	703,971
Vacancy Rate Direct %	14.1%	10.4%	8.4%
Vacancy Rate Sublease %	0.6%	1.3%	0.8%
Net Absorption (SF)	(407,932)	(244,364)	(52,290)
Average Rental Rate (NNN)	\$4.90	\$6.32	\$7.96
2009 Completed Construction SF	24,000	0	0
2010 Planned Construction SF	0	0	0

MARKET OVERVIEW

While the U.S. Route 1 Corridor has always been one of the strongest submarkets in the entire Baltimore-Washington Corridor, the economic downturn certainly has negatively affected it. After years of consistent rental rate growth as well as moderate vacancy, this area has seen its highest vacancy to date in 2009. This, coupled with negative absorption of approximately 700,000 square feet, has greatly contributed to the pendulum swinging in favor of tenants. Even though land constraints continue and no new buildings are planned for this submarket for 2010, it will take a solid year or two to return to single digit vacancies and positive absorption. As is with Columbia, we have seen more tenants out touring the market searching for space than in the two previous quarters combined.

MARKET OUTLOOK

Given the recent flurry of activity and the approximately two year inventory of available space, we believe there is nowhere to go but up. Early 2010 will be the most opportune time for tenants to secure advantageous terms and lock them in for the future. Many landlords are experiencing an exorbitant amount of vacancy in their projects for the first time in recent memory and are offering significant market incentives to lure tenants. Tenants seeking to purchase existing buildings believe the opportunity to strike will be in 2010 as pricing becomes more affordable and financing remains available at attractive terms especially for owner-occupied buildings.



HOWARD COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	SF	Price	Price PSF	Product	Buyer	Seller
6671 Santa Barbara Road	116,750 3 bldgs total	\$10,538,875	\$63.00	3 Class A Office/Whs Bldgs	Hill Management	WRIT
9050 Red Branch Road	89,898	\$4,500,000	\$50.00	Office/Whs Bldg	Red Branch 9050/Eric Levitt	Liberty Property Trust
6675 Business Parkway	141,600	\$8,700,000	\$61.44	Class A Whs Bldg	Cabot	MEPT/New Tower Trust Company

SELECTED LAND SALES - USER

Address	Acres	Price	Price/AC	Submarket	Buyer	Seller
Washington Blvd & Rt. 100	2.91	\$1,900,000	\$652,920.96	BWI - Ho Co	EZ Storage Corp	Costello Construction

Howard County - Industrial

COLUMBIA



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	24	42	111
New/Relet Vacant (SF)	1,175,464	474,371	444,173
Sublease Vacant (SF)	245,345	0	94,438
Total Vacant (SF)	1,420,809	474,371	538,611
Total Existing RBA (SF)	4,330,228	2,459,953	4,609,325
Vacancy Rate Direct %	27.1%	19.4%	11.6%
Vacancy Rate Sublease %	5.7%	0	2.0%
Net Absorption (SF)	423,542	(218,865)	(561,460)
Average Rental Rate (NNN)	\$4.50	\$7.05	\$11.78
2009 Completed Construction SF	0	66,585	0
2010 Planned Construction SF	0	0	0

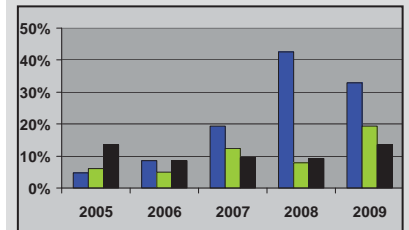
MARKET OVERVIEW

In 2008, Columbia had negative absorption of approximately 1 million square feet and at one point during 2009 had a vacancy of 38%. 2009 saw one large lease of approximately 434,000 square feet which brought vacancy down to 27.1%. That lease was IDX Corporation which relocated 125 employees to Howard County from Anne Arundel County. A few smaller leases have taken place in the bulk market and there continues to be well over a million square feet available. In the other two market segments, we saw major increases in both the vacancy rate of the office/warehouse and flex product as well as almost 800,000 square feet of negative absorption in a 7 million square foot submarket. These are historically high numbers which have forced landlords to make severe leasing concessions in order to both attract and retain tenants.

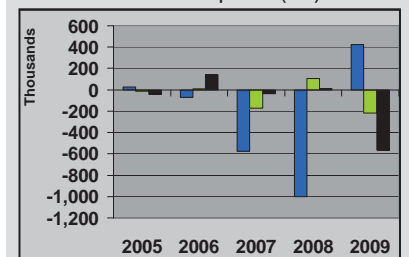
MARKET OUTLOOK

Columbia will continue to be impacted by the economic downturn through 2010. With the current high vacancy across all three product lines, it will take the market approximately 12 to 18 months to have any significant absorption which would then positively affect rental rates. Thus, we see a continued softening of the market as those properties that have been vacant will remain so with only the most aggressive landlords securing an increase in tenancy. On a positive note, we have seen more tenant activity in the 4th quarter of 2009 than we did in the previous three quarters. Tenants feel we have "hit bottom" and now is the time to secure a dramatic rent reduction or relocate to a more modern facility.

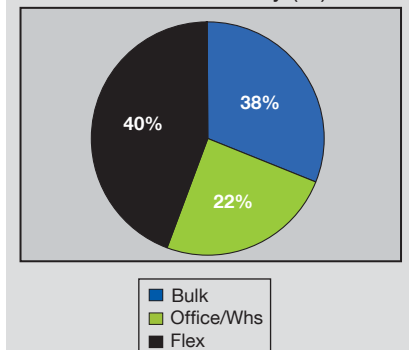
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



"Howard Bank, because of its focus on small and medium sized businesses, has a window on both tenant needs as well as landlord opportunities in a challenging marketplace. Landlords with the capital and creative capacity to work with rather than against tenants in temporarily changed circumstances have generated more operating income than those who are only focused on short term rental rates. A mutual focus on long term relationships is often leading to long term commitments - thus stabilizing occupancy ratios. Howard Bank takes a similarly long term view of its relationships - whether they are initiated by the working capital needs of a tenant or the refinancing needs of a landlord. We are continuing to work with real estate professionals especially in Howard and Anne Arundel counties seeking to take advantage of a better valued property market." **Mary Ann Scully, President and CEO, Howard Bank**

HOWARD COUNTY

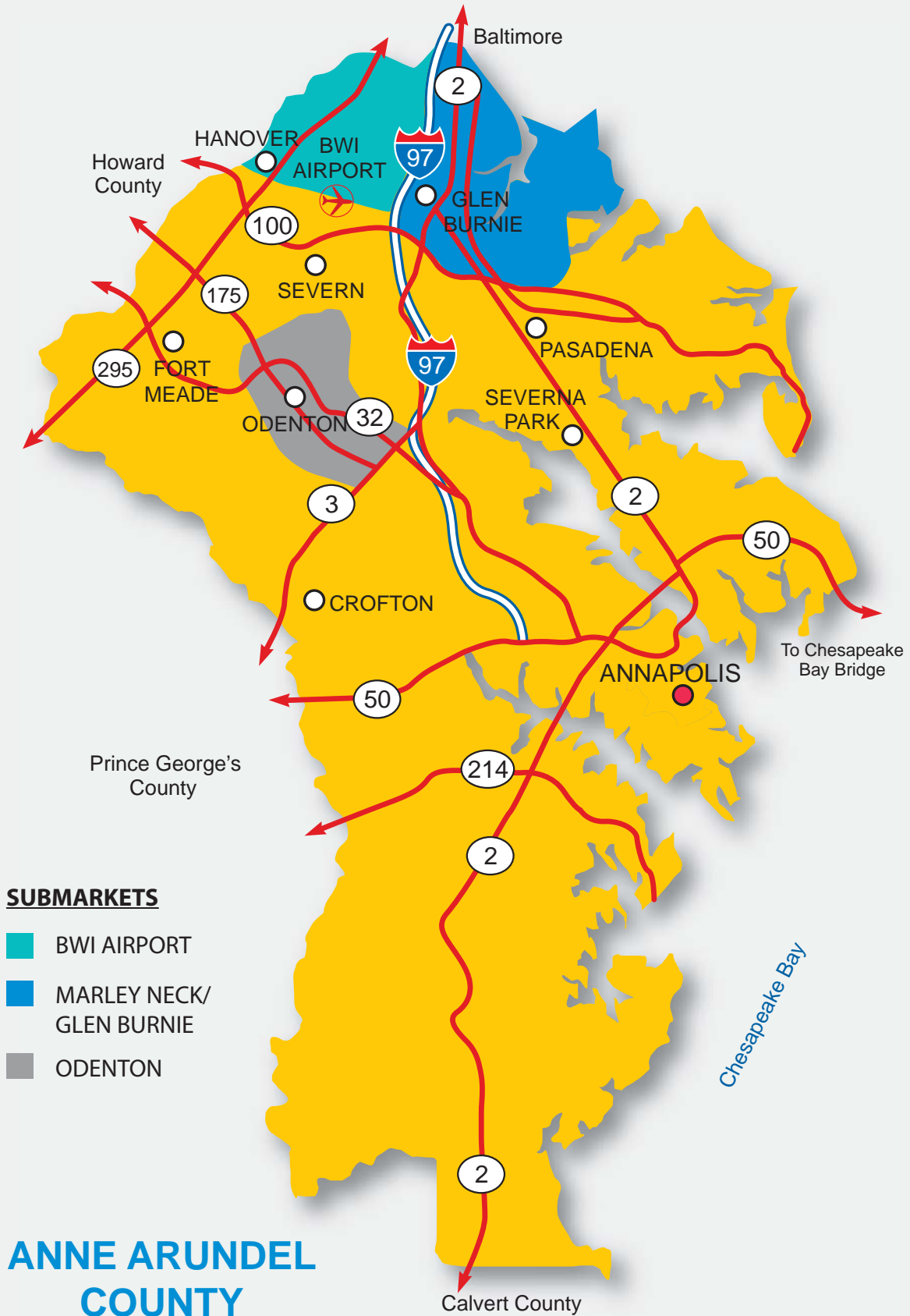
SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - USER

Address	SF	Price	Price PSF	Product	Buyer	Seller
6670 Amberton Drive	84,520	\$4,375,000	\$51.76	Class B Whs Bldg	Intelligent Decisions	WRIT
6351 South Hanover Dr	31,576	\$5,083,000	\$160.98	Class B Truck Terminal on 10.53 Ac	A. Duie Pyle, Inc	New Penn Motor Express
9505 Berger Road	112,060	\$5,456,000	\$48.69	Class C Whs Bldg	George Peverly, III	Havtech Mgmt., LLC
8835 Columbia 100 Pky	1,500	\$375,000	\$250.00	Class B Flex Condo	Warbay Ventures	Estate of Charles E Chlan
5725 Santa Barbara Ct	5,478	\$775,000	\$137.50	Class B Whs Condo	Corrigan Sports	Thomas Moran Cos. LLC
6695 Business Parkway	115,000	\$7,075,000	\$61.50	Class A Ind. Mfg.	Agam Group	R.R. Donnelly & Sons

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	105	86	225
New/Relet Vacant (SF)	1,258,000	501,000	1,014,000
Sublease Vacant (SF)	224,000	19,800	50,000
Total Vacant (SF)	1,482,000	521,000	1,064,000
Total Existing RBA (SF)	14,247,000	5,140,000	9,442,000
Vacancy Rate Direct %	8.8%	9.7%	10.7%
Vacancy Rate Sublease %	1.6%	0.4%	0.5%
Net Absorption (SF)	(353,000)	(281,000)	263,000
Average Rental Rate (NNN)	\$5.50	\$8.00	\$9.30
2009 Completed Construction SF	108,000	0	5,600
2010 Planned Construction SF	120,000	0	45,000

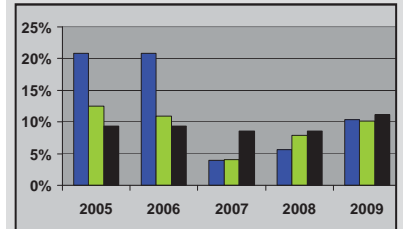
MARKET OVERVIEW

Although the economic slowdown has impacted Anne Arundel County, its commercial real estate market has held up surprisingly well. The county's 28 million square foot market has a 10% vacancy rate and, although it experienced negative absorption of just over 371,000 square feet in 2009, the two years prior to that totaled over 1.7 million square feet of positive absorption. Anne Arundel has traditionally been one of the fastest growing markets within the Baltimore metropolitan area due to a diverse economic base, lower than the national average unemployment (6.7%) and proximity to both Baltimore and Washington, D.C. Although the county has felt the force of a struggling economy, it is somewhat insulated due to its integration with the federal government, including the National Security Agency and Homeland Defense agencies which represent a \$1 billion informatics market. In addition, the Base Realignment and Closure process (BRAC) is expected to grow Anne Arundel County's western sections with more than 5,600 incoming jobs and significant multipliers that put the total job growth at 33,000.

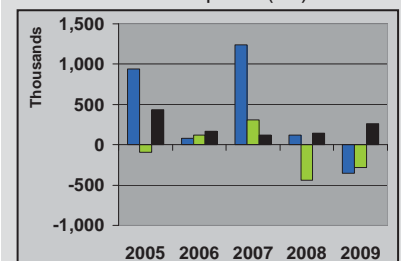
MARKET OUTLOOK

We anticipate that a variety of factors will influence the progress of the county in 2010. Anne Arundel will continue to benefit from its federal government influence, as activity surrounding BRAC, BWI Airport, and the medical, technical and security fields continue its expansion trend. The county has an excellent transportation network, including a major airport, primary highway connectors, and an accessible train network. Even with those varied economic drivers, we expect a sluggish and insecure real estate market over the next 12 months. In addition, those industries that do not depend directly on the government will remain cautious of expansion for the near term. With minimal commercial development planned for next year, negative net absorption should decrease from last year's levels. However, rents will likely stagnate and vacancy rates should remain level until the market begins to rebound sometime in the latter half of 2010.

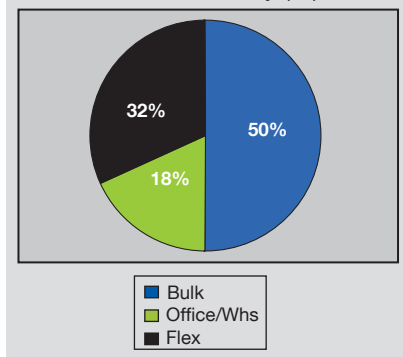
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
HD Supply	1020 Airport 100 Way	158,000	Bulk	BWI
Micro Systems, Inc.	1025 Airport 100 Way	87,600	Bulk	BWI
Clearwave LLC	1731 Midway Road	19,200	Bulk	Odenton
Conestoga Tile Distributors	810 Oregon Avenue	16,360	Office/Whs	BWI
DRD Pool Services	681 Hollins Ferry Road	2,520	Flex	BWI

Anne Arundel County - Industrial

BWI AIRPORT



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	38	29	73
New/Relet Vacant (SF)	633,511	278,425	353,521
Sublease Vacant (SF)	50,500	45,440	37,456
Total Vacant (SF)	684,011	323,865	390,977
Total Existing RBA (SF)	5,124,948	1,978,039	3,134,076
Vacancy Rate Direct %	12.4%	14.1%	11.3%
Vacancy Rate Sublease %	1.0%	2.3%	1.2%
Net Absorption (SF)	73,618	59,545	98,655
Average Rental Rate (NNN)	\$5.65	\$7.10	\$9.42
2009 Completed Construction SF	108,000	0	0

MARKET OVERVIEW

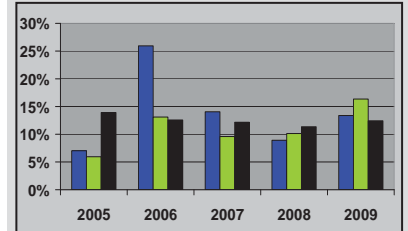
The slowdown in the BWI Airport region during the third quarter of 2008 remained the theme throughout 2009. This year, in the bulk and flex sectors of the airport, it was about less, not more, and making the best out of a bad economic and credit situation. Landlords were forced to lower their asking rents in order to stay competitive for the few creditworthy tenants that were in the market. The best thing to say about 2009 is that it's over.

MARKET OUTLOOK

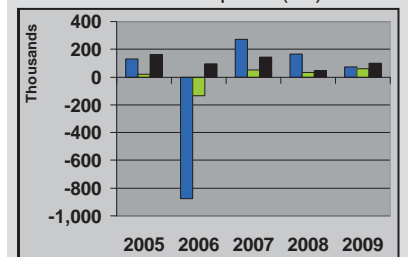
Peering into the future is tricky in the best of times and during these days of uncertain economic times, it can seem more unclear than ever. The BWI Corridor remains an attractive and fundamentally sound business environment. However, most real estate investors have been "cut off" from obtaining favorable financing and have been sidelined. Those with cash are waiting for sellers' inflated expectations to decline to the buyers' reality.

The financially secure users in the market will have excellent opportunities to obtain financing from leading institutions and purchase suitable buildings for their company's needs at or below replacement cost. Likewise, creditworthy tenants will also have opportunities to take advantage of the soft rental market in 2010. Looking forward into 2010, the most endangered species in the BWI region could be the construction crane. The credit crunch has caused that bird to become basically extinct.

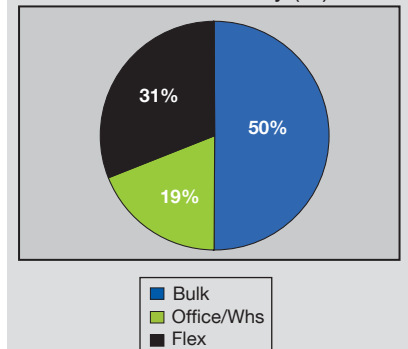
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



"The trend of corporate down-sizing has taken its toll on the commercial real estate market in 2009, as any positive leasing momentum has been all but offset by organizations giving back space or engaging in subleasing activities. We are starting to see pockets of improvement in projects surrounding the US Army bases and believe the increasing demand will spill over to our Corridor-area business communities."

Rick Williamson, Senior Vice President, Leasing
St. John Properties, Inc.

ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

None Recorded For 2009

SELECTED BUILDING SALES - USER

Address	SF	Price	Price PSF	Product	Buyer	Seller
8316 Lokus Road	10,529	\$625,000	\$59.36	Office/Whs	Whitehurst Inv.	R. & B. Beatty
800 Central Avenue	21,050	\$2,920,000	\$138.72	Flex	Goodwill	TW Perry LLC
5501 Belle Grove Road	18,700	\$2,400,000	\$128.34	Flex	Whiting Turner	Bond Transfer

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	33	25	41
New/Relet Vacant (SF)	62,000	100,000	76,000
Sublease Vacant (SF)	128,000	0	0
Total Vacant (SF)	190,000	100,000	76,000
Total Existing RBA (SF)	5,877,000	1,126,000	1,456,000
Vacancy Rate Direct %	1.1%	8.9%	5.2%
Vacancy Rate Sublease %	2.2%	0%	0%
Net Absorption (SF)	(34,000)	(66,000)	21,000
Average Rental Rate (NNN)	\$4.80	\$5.75	\$6.50
2009 Completed Construction SF	0	0	5,600
2010 Planned Construction SF	0	0	0

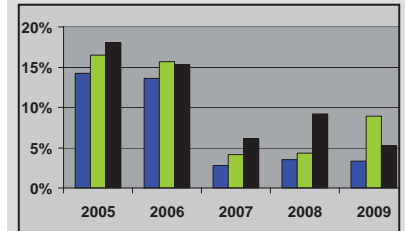
MARKET OVERVIEW

The Marley Neck-Glen Burnie area was relatively quiet in 2009. This market saw no new speculative construction over the past twelve months and this kept the submarket stabilized with relatively low vacancy rates and minimal negative absorption in two of the three product categories. The flex market experienced a positive absorption rate of 21,000 square feet. Bulk warehouse product dominates this submarket which has attracted distribution operations from several large corporations, including Under Armour and Nissan North America.

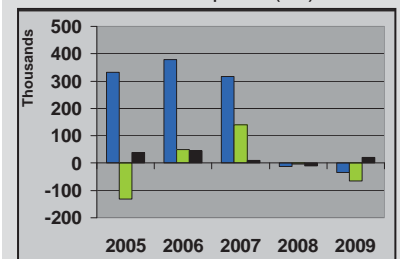
MARKET OUTLOOK

This is a submarket that we believe will remain "status quo" for the majority of 2010. 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/ Interstate 95 Corridor to those still wanting convenience to the Baltimore Beltway, as well as easy access to Baltimore and points south. There are only two large blocks of space available in this submarket: a vacant 128,000 square foot, 22'+ clear, manufacturing facility in Glen Burnie for \$3.25 per square foot, NNN, and a still occupied 221,000 square foot, 30' clear, air conditioned warehouse in Marley Neck at \$4.92 per square foot, NNN. We expect this submarket to continue to see the same cautious activity as the rest of the overall Anne Arundel County market and expect it should remain the low cost alternative to the Interstate 95 Corridor. This situation should allow vacancy rates to remain in balance with the limited demand in 2010.

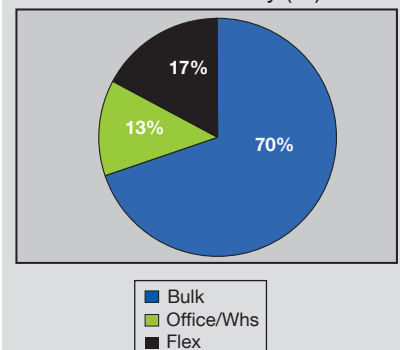
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LAND SALES - INVESTMENT

Address	Acres	Price	Price/Acre	Submarket	Buyer	Seller
Faulkner & Dorsey Road	2.17	\$375,000	\$172,800	BWI	NA	MD Dept. of Trans.

SELECTED LAND SALES - USER

Address	Acres	Price	Price/Acre	Submarket	Buyer	Seller
7155 Hanover Park Drive	4.5	\$1,730,000	\$382,000	BWI	H&S Bakery	Carder II, LLC

Anne Arundel County - Industrial

ODENTON



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	12	7	16
New/Relet Vacant (SF)	0	0	0
Sublease Vacant (SF)	0	0	0
Total Vacant (SF)	350,000	32,000	74,000
Total Existing RBA (SF)	2,500,000	400,000	823,000
Vacancy Rate Direct %	14%	8%	9%
Vacancy Rate Sublease %	0	0	0
Net Absorption (SF)	(360,000)	(30,000)	(70,000)
Average Rental Rate (NNN)	\$4.50	\$5.50	\$9.25
2009 Completed Construction SF	0	0	0
2010 Planned Construction SF	0	0	0

MARKET OVERVIEW

The Odenton market has experienced much of the same commercial real estate ills as the rest of country over last 12-18 months. Vacancy and rents have decreased as the amount of available space has risen. Fortunately, the Odenton market is not over-built and rental rates should not decline as much as other harder hit markets.

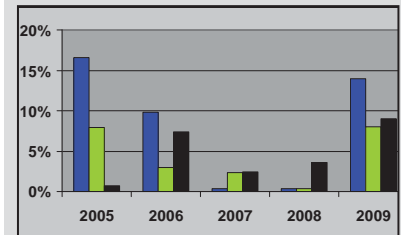
MARKET OUTLOOK

Odenton is strategically located next to Fort Meade which will be growing by approximately 10,000 new positions due to the US Military's Base Realignment and Closure (BRAC) program. The new positions extrapolate to 30,000 – 40,000 people coming to the area. Many people agree that this will have a major impact on housing, jobs and absorption of office space. BRAC will be fully implemented by September 2012, which bodes well for Odenton's near and long term outlook.

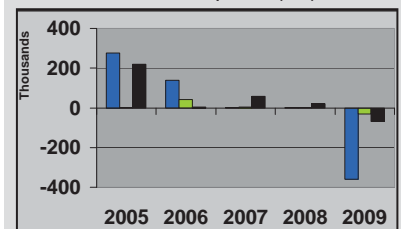
One group that is poised to benefit from the growth due to BRAC is Capitol CREAG, LLC, a Washington DC development company. Capitol CREAG is in partnership with Halle Companies to build The Odenton Town Center, a 3,500,000 square foot office campus project. They will have excellent opportunities to capture large defense-related office users who will be flocking to the Fort Meade area.

Slots are also close to becoming a reality just north of Odenton near the Arundel Mills Mall. Slots opening in the area will increase the traffic which will lead to additional commercial growth along with redevelopment.

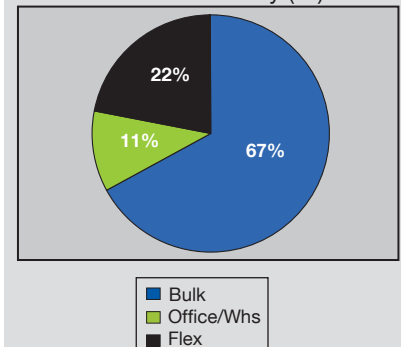
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



“Corporate Office Properties Trust is starting to experience the full effect of the BRAC realignments – specifically around Aberdeen Proving Ground and Fort Meade, but also throughout the central Maryland real estate marketplace. Both the government and the defense information technology sectors will be the significant drivers for the absorption of commercial real estate in 2010 and continuing for the foreseeable future. COPT continues to develop speculative product to keep pace with this expected demand.” **Rand Griffin, President and CEO, Corporate Office Properties Trust**

ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

2010 PLANNED CONSTRUCTION

Address	SF	Product	Asking Rent PSF	Delivery Date	Owner/Developer
980 Mercantile Drive	45,120	Flex	Negotiable	3rd Qtr 2010	St. John Properties
7460 New Ridge Road	120,000	Flex	Negotiable	4th Qtr 2010	Cabot

BUILDINGS DELIVERED IN 2009

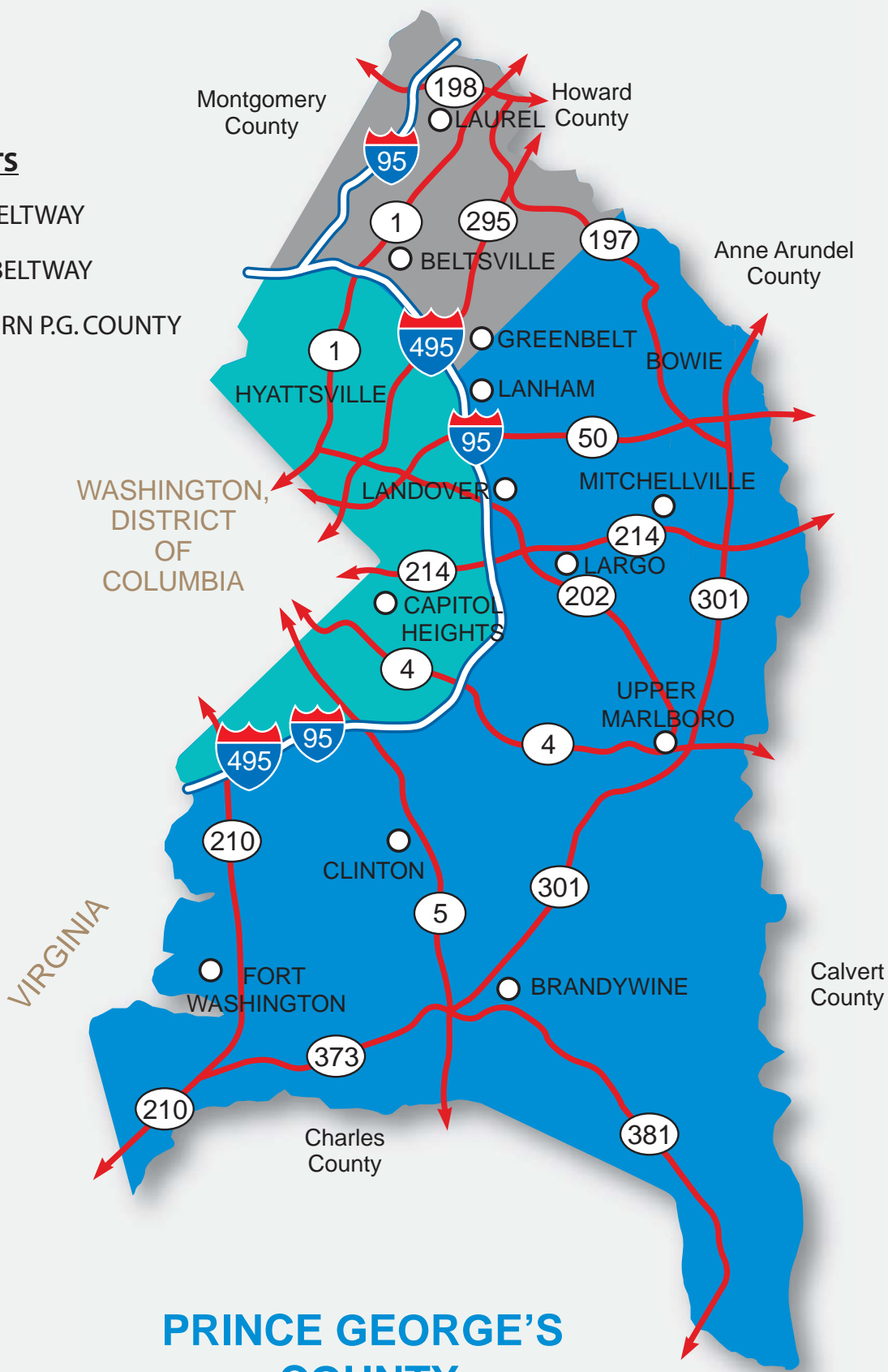
Address	SF	Product	Asking Rent PSF	Owner/Developer
1300 Mercedes Drive	108,000	Bulk	NA	Chesapeake RE Group
512 Shaw Court	7,500	Flex	\$10.00	Shaw Commerce Center, LLC
8221 B & A Boulevard	5,600	Flex	Leased	Ritu Properties

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	202	337	574
New/Relet Vacant (SF)	2,854,430	3,165,069	2,774,219
Sublease Vacant (SF)	168,376	91,609	144,327
Total Vacant (SF)	3,022,806	3,256,678	2,918,546
Total Existing RBA (SF)	17,871,980	17,654,307	19,918,920
Vacancy Rate Direct %	16%	18%	14%
Vacancy Rate Sublease %	1%	1%	1%
Net Absorption (SF)	(267,066)	(560,609)	(482,459)
Average Rental Rate (NNN)	\$6.11	\$5.84	\$6.85
2009 Completed Construction SF	129,777	0	0
2010 Planned Construction SF	90,000	0	80,000

MARKET OVERVIEW

For the second year in a row, overall industrial vacancy in Prince George's County increased. The year ended with overall vacancy at 14.5%, nearly two points higher than 2008. The largest increase in vacancy for 2009 was in the bulk category where the newest and most functional buildings are grouped. Across the board, newer buildings seem to suffer the most in a down economy due to their inability to be flexible with their rental rates and compete with older, cheaper office/warehouses. Generally, new construction has stopped. The few projects that were completed in 2008 remained vacant through 2009 showing a lack of performance that has discouraged developers from proceeding with new projects in the pipeline.

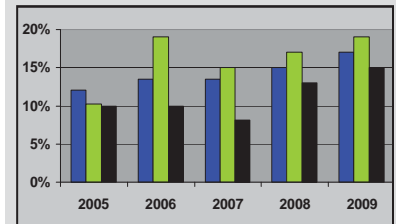
Very few, if any, portfolio sales have occurred during 2009. Predominant sales for the year included user purchases and foreclosure sales. On the positive side, pricing for user sales has been somewhat diminished but not the "fire-sale" prices that have occurred with other vacant foreclosed properties. Investors have been shying away from any property with vacancy that isn't under distress. For those properties that are distressed, the buyers are those who have both patience and the financial resources to undertake the risk to acquire and rehabilitate the facilities.

MARKET OUTLOOK

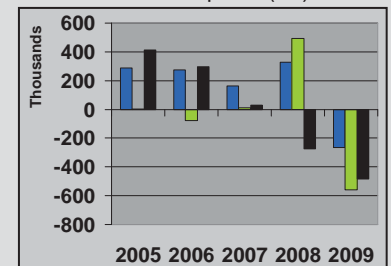
As the economic recession continues through 2010, we expect to see sellers' expectations finally meeting reality and either they remove the properties from the market or will entertain lower offers than the asking price. Banks and financial institutions are discussing "getting back into the market" so users seeking to purchase should be able to find a resource to accomplish these transactions.

We expect that 2010 will continue with the trend of lower rental rates as institutional owners become more aggressive and mark down values in order to accomplish these transactions. In addition, foreclosure sales, when transitioned back into the leasing market, will be at lower eye popping rates. At the same time, there will be pressure on property taxes and CAM charges to adjust according to the reduced value of the properties. We see that as the greatest area of tenant negotiations. Savvy landlords who are able to control their costs and adjust their taxes will be more competitive at landing the next wave of deals.

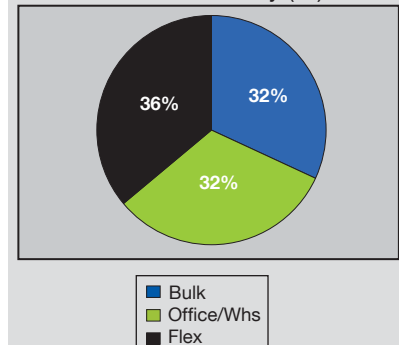
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Impact Allen Office Products	6700-6800 Distribution Drive	60,574	Bulk	North
Gaylord National, LLC	1101 Hampton Park Boulevard	39,400	Bulk	Inside
Antenna Research Associates	11850 Baltimore Avenue	36,787	Flex	North
Iron Mountain	3636 Pennsy Drive	27,294	Bulk	Inside
RMP	2270 Beaver Road	25,000	Bulk	Inside
General Insulation	6200 Columbia Park Drive	18,000	Bulk	Inside
Christ Embassy	1601 McCormick Drive	13,000	Flex	Outside

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	151	186	323
New/Relet Vacant (SF)	2,013,336	1,640,325	1,114,273
Sublease Vacant (SF)	103,446	66,053	10,800
Total Vacant (SF)	2,365,322	1,706,378	1,125,073
Total Existing RBA (SF)	12,568,971	8,367,121	8,684,569
Vacancy Rate Direct %	19%	20%	13%
Vacancy Rate Sublease %	1%	1%	0%
Net Absorption (SF)	(305,483)	332,035	(223,132)
Average Rental Rate (NNN)	\$6.37	\$5.62	\$6.96
2009 Completed Construction SF	0	0	0
2010 Planned Construction SF	90,000	0	0

MARKET OVERVIEW

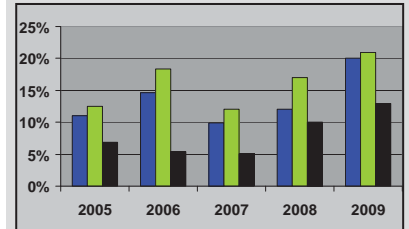
The Inner Beltway contains very diverse properties in Prince George's County from the very new state-of-the-art bulk buildings to the oldest dysfunctional, single user, office/warehouse. The older properties are in a constant state of adaptive re-use where developers purchase them vacant, make physical adjustments, and create a more usable product. The year 2009 saw adaptive re-use in a different form. Instead of physical renovations, we have had adaptive re-ownership, i.e. many older buildings in an attempt to find a market have offered themselves for sale in a condominium regime. There has been some success such as Beaver Road, where ATAPCO has made several sales in a 174,000 square foot building, formally occupied by Parsons Paper.

Asking rents have appeared to be about the same as last year with leases being done at about 10% reduction. Last year, we reported on the sublease space available by Creative Touch Interiors at Steeplechase. One year later, the space still remains on the market, which is an example of how sluggish the market has been. Vacancy has reached an all time high in this submarket area.

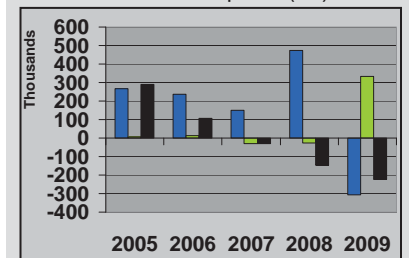
MARKET OUTLOOK

We expect asking rental rates to decrease as actual deals become heavily negotiated between landlords and tenants due to many vacant properties. Sales of condominiums will continue at reduced prices, except for new construction which will need to be written down in order to locate buyers. Typical buyers will still be required to have 20% equity unless they can qualify for SBA financing and there will be no "spec" development. Steeplechase has several buildings ready for construction; however, at this point, they are more likely to find a user buyer than they would a tenant. Last year, we reported that developers would be creative and offer equity shares to joint venture partners as a way to stimulate activity. To date, no buildings have traded using that technique. Early 2010 looks to be slower from a sales standpoint and only an up tick in leasing activity will lead to a better 2010.

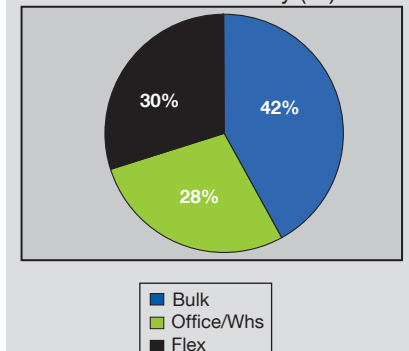
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - USER

Address	SF	Price	Price PSF	Product	Buyer	Seller
2270 Beaver Road	78,482	\$5,493,740	\$70.00	Bulk/Condo	Metropolitan Archives	Atapco
13335 Mid Atlantic Boulevard	42,638	\$5,036,800	\$118.00	Bulk	6623 Mid Atlantic, LLC	Jackson Shaw
13380 Mid Atlantic Boulevard	35,746	\$4,290,000	\$120.00	Bulk	13370 Mid Atlantic, LLC	Jackson Shaw
13300 Mid Atlantic Boulevard	24,440	\$3,625,000	\$148.32	Bulk	Redac, LLC	Jackson Shaw
4000 Penn Belt Place	24,000	\$1,750,000	\$72.92	Office/Whs	James Belliveau	District Lithograph

PROJECT SALE - INVESTOR

Address	SF	Price	Price PSF	Product	Buyer	Seller
6404 Sherriff Road	528,647	\$6,800,000	\$12.86	Office/Whs	HSP Ventures, LLC	Archon

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	47	18	69
New/Relet Vacant (SF)	480,775	165,500	596,568
Sublease Vacant (SF)	0	0	116,377
Total Vacant (SF)	480,775	165,500	713,563
Total Existing RBA (SF)	4,416,074	1,006,980	3,838,446
Vacancy Rate Direct %	11%	16%	16%
Vacancy Rate Sublease %	0%	0%	3%
Net Absorption (SF)	25,499	(10,646)	(138,169)
Average Rental Rate (NNN)	\$5.56	\$7.56	\$9.37
2009 Completed Construction SF	0	0	0
2010 Planned Construction SF	0	0	78,240

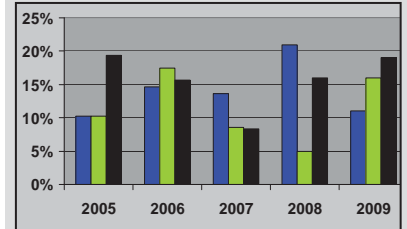
MARKET OVERVIEW

Leasing in this area was similar to the rest of the county in 2010. Leasing prospects that were in the market had numerous options and the tenants were able to dictate what type of terms they received. There are buildings that delivered in late 2008 and early in 2009 that are still vacant. As a result, rental rates have dropped and landlords have been aggressive with concessions to gain the interest of tenants touring the marketplace. Regarding renewals, tenants have become knowledgeable of the market and understand that they can test the marketplace. Tenants are presenting their current landlords with a plethora of other leasing options at lower rates in an effort to strike a better rental rate on their renewal. Vacancy rates have risen in this section of the county despite several completed larger transactions. One of note would be the HH Greg deal in Brandywine. HH Greg leased 393,440 square feet in the Circuit City warehouse at a reduced rate for seven (7) years. Collington Business Center in Upper Marlboro did not see an excess of large leases but there was a steady flow of smaller tenants leasing space in this market in the 3,000 to 5,000 square foot range. The site that Panattoni purchased and cleared for development located on Prince George's Boulevard in Collington does not look like it will be delivering any buildings in 2010, unless a build-to-suit opportunity presents itself. Bowie has seen its share of rising vacancy as well. Maryland Science and Technology Center has approximately 43,000 square feet of vacant space and plans to deliver two new flex buildings in 2010 totaling 80,000 square feet. The 153,700 square foot Lincoln 495 building remains vacant and Eastgate has building permits for two buildings totaling 100,000 square feet but will not break ground without a prospective tenant. Washington Business Park remains strong with the exception of the 84,000 square foot building still vacant at 4900 Philadelphia Way.

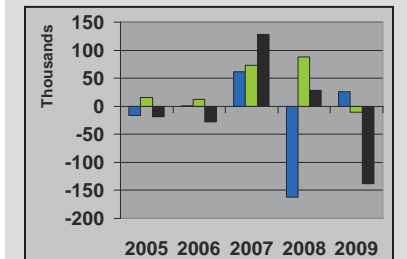
MARKET OUTLOOK

The only construction planned for this market are two flex buildings totaling 78,240 SF being developed by St. John Properties at Maryland Science and Technology Center. We expect this market to continue in its current state and hit bottom sometime towards the latter part of 2010. Vacancy rates will continue to rise and rental rates will continue to drop. This will still be a tenant's market with landlords offering concessions such as free rent to attract deals to their buildings. Landlords are looking for immediate occupancy and will do almost whatever is necessary in order to fill their vacancy.

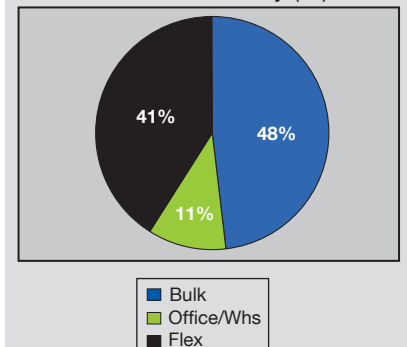
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

BUILDINGS DELIVERED IN 2009

Address	SF	Delivery Date	Asking Rent PSF	Type	Owner/Developer
7806 Braygreen Road	28,800	June 2009	Negotiable	Flex	Demarc, LLC
13200 Mid Atlantic Boulevard	121,732	January 2009	\$6.95, NNN	Bulk	Jackson Shaw
13300 Mid Atlantic Boulevard	24,440	January 2009	Sale	Flex	Redac, LLC
13335 Mid Atlantic Boulevard	42,638	February 2009	Sale	Flex	Freestate Electrical
13340 Mid Atlantic Boulevard	21,953	March 2009	Negotiable	Flex	Jackson Shaw
13380 Mid Atlantic Boulevard	35,746	April 2009	Sale	Flex	13370 Mid Atlantic LLC

SIGNIFICANT INDUSTRIAL ACTIVITY

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	46	92	135
New/Relet Vacant (SF)	569,500	656,343	900,146
Sublease Vacant (SF)	118,676	25,556	43,150
Total Vacant (SF)	688,176	681,899	943,296
Total Existing RBA (SF)	3,382,391	4,735,684	4,341,409
Vacancy Rate Direct %	17%	14%	21%
Vacancy Rate Sublease %	4%	1%	1%
Net Absorption (SF)	(46,737)	(203,701)	(135,096)
Average Rental Rate (NNN)	\$6.80	\$6.23	\$6.73
2009 Completed Construction SF	129,777	0	0
2010 Planned Construction SF	0	0	0

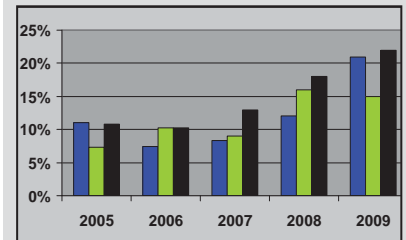
MARKET OVERVIEW

Northern Prince George's County had a typical performance in 2009 given the current economic climate. The influx of new buildings, coupled with older buildings becoming aggressive on pricing, gained the attention of tenants looking to make a move in this market. There were a few larger leases done in the market, which include George Allen leasing 60,574 square feet on Distribution Drive and Antenna Research Associates leasing 36,787 square feet on Baltimore Avenue. However, even with leases of this size being completed in this section of the county, Northern Prince George's County still has a large amount of vacant space available. Most of that space falls under the flex/tech category with a vacancy rate of approximately 21%. Over all, when leases were done in this market, more space became available just as quickly.

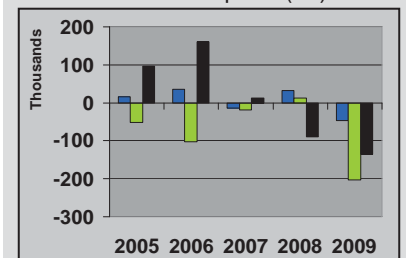
MARKET OUTLOOK

Like everywhere else in the county, the vacancy rates in this market will rise in 2010 and rental rates will drop. Landlords will continue to be aggressive to make deals and concessions to gain the interest of tenants touring the marketplace. There are no plans for new construction in this market unless a build-to-suit deal is completed. The silver lining in this market is the Intercounty Connector (ICC) completion in the near future and this market will become increasingly popular once this thruway is completed. The tenant who can move to Prince George's County from Montgomery County in search of similar buildings with lower rates will be on the move.

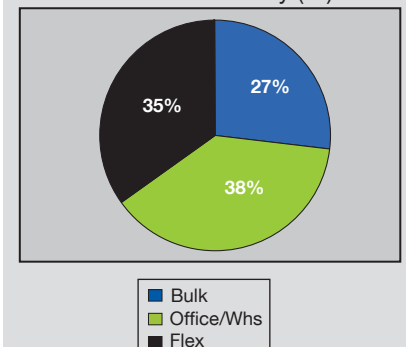
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



"We've made a sizable commitment in the DC industrial market with the acquisition of the former Giant grocery warehouse. We feel our plan to redevelop and reposition this 500,000 SF asset to be the "low cost provider" of quality warehouse space will meet the needs of a soon-to-be expanding market."

Mark McConnell, Regional Director
Previdi Redevelopment Equities, LLC

PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

2010 PLANNED CONSTRUCTION

Address	SF	Product	Asking Rent PSF	Delivery Date	Owner/Developer
5001 Howerton Way	39,120	Flex	Negotiable	June 2010	St. John Properties
5021 Howerton Way	39,120	Flex	Negotiable	June 2010	St. John Properties

SELECTED LAND SALES

Address	Acres	Price	Price/Acre	Buyer	Seller
Waterfront Street	15	\$11,000,000	\$653,400.00	DNH Holdings LLC	Nat'l Harbor Waterfront, LLC
1201 Claybrick Road	11.12	\$1,655,924	\$148,914.03	Maryland Stone Inc	American Resource Mgmt Grp
4501 Boston Way	2.90	\$1,000,000	\$344,827.59	AR2 Southgate LLC	Fr Southgate Develop. LLC
11210 Somerset Ave	2.60	\$2,239,350	\$861,288.26	Gary E Shipp	HSR Properties, LLC
9617 Annapolis Road	0.25	\$150,000	\$592,183.18	TMC 450, LLC	Alfonso Proctor Living Trust

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	111	192
New/Relet Vacant (SF)	1,621,098	1,157,670
Sublease Vacant (SF)	368,561	14,749
Total Vacant (SF)	2,001,167	1,172,419
Total Existing RBA (SF)	8,725,960	6,163,976
Vacancy Rate Direct %	23%	19%
Vacancy Rate Sublease %	4%	0%
Net Absorption YTD (SF)	409,947	3,011
Average Rental Rate (Full Service)	\$23.66	\$20.61
2009 Completed Construction SF	176,451	13,019
2010 Planned Construction SF	282,868	73,000

MARKET OVERVIEW

The media has claimed that the next shoe to drop is the commercial real estate market; however, we noticed the laces of those shoes coming untied in 2006 and 2007. In 2006-2007, there was a market frenzy for capital investment in commercial real estate. Cap rates were dropping and bidding wars abounded for investment properties. Recently, rental rates have not grown and now properties that were purchased at the peak of the frenzy are now experiencing a 20% - 40% loss in value.

Both Class A and Class B properties have experienced an increase in vacancies and a reduced rent during the last twelve months. 2009 continued to be a tenant's market, with attractive deal offerings from landlords featuring reduced rent and rent abatement.

With the velocity from the Federal Spending Program to BRAC at Fort Meade and Aberdeen, the BWI Corridor is somewhat insulated. It has been said we are lucky to be in this market as compared to other markets in the U.S. With Howard County's educated workforce and close proximity to the aforementioned economic drivers, the county will continue to be in demand for customers looking to serve both the District of Columbia and Baltimore markets.

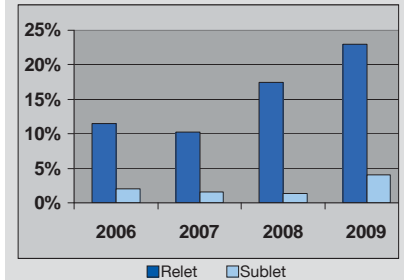
MARKET OUTLOOK

Other than 9070 Sterling Drive (160,000 SF) located in Emerson, with delivery expected in summer of 2010, we don't expect any new construction starts until the 4th Quarter of 2010. If there were to be an earlier commencement, it would be user-driven or government/defense-related.

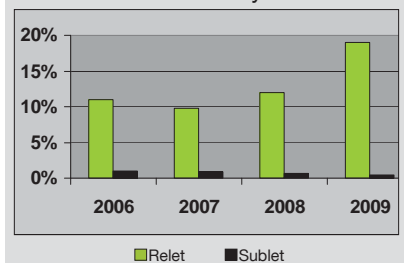
We hope the office condo market improves as interest rates remain low for owner-occupied commercial real estate. Similar to the first time Home Buyer's Credit, 504 SBA financing is very attractive and those incentives will expire in the first half of 2010 unless Congress extends the program.

We expect the market to continue to be a tenant's market during the first half of the year. With the overhang of office space, there is plenty of product to keep us busy for the foreseeable future.

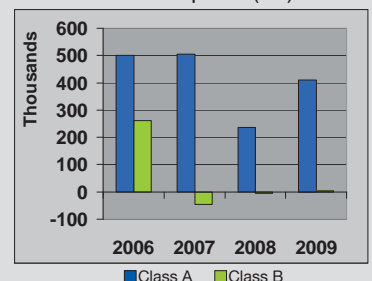
Class A Vacancy Rate



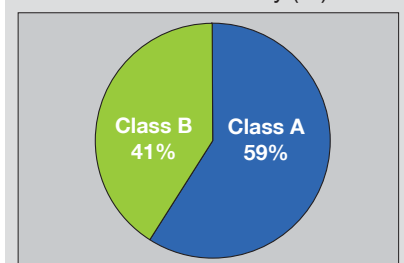
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Class
SAIC	6841 Benjamin Franklin Boulevard	171,000	A
Integral Systems, Inc.	6721 Columbia Gateway Drive	131,451	A
Century Business Services	7160 Columbia Gateway Drive	41,790	A
Affiliated Computer Services, Inc.	6800 Deerpath Road	34,000	A
CBIZ	9755 Patuxent Woods Drive	32,016	A
Washington Division of URS Corporation	9755 Patuxent Woods Drive	27,218	A
EG&G	9755 Patuxent Woods Drive	25,881	A
Energy Solutions	6350 Stevens Forest Road	19,000	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	22	22
New/Relet Vacant (SF)	195,942	112,837
Sublease Vacant (SF)	4,513	0
Total Vacant (SF)	200,455	112,837
Total Existing RBA (SF)	1,354,822	596,138
Vacancy Rate Direct %	14.5%	18.9%
Vacancy Rate Sublease %	0.3%	0.0%
Net Absorption YTD (SF)	(20,742)	9,749
Average Rental Rate (Full Service)	\$23.66	\$24.47
2009 Completed Construction SF	0	0
2010 Planned Construction SF	0	0

MARKET OVERVIEW

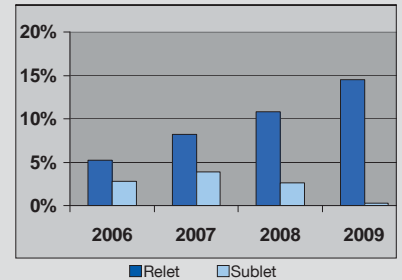
The Columbia North office submarket is defined as the office buildings between Routes 175 and 100 and Interstate 95 and Route 29. Relatively small in comparison to other Maryland submarkets, it is a desirable location for many developers and landlords because of its accessibility, barriers to entry and land constraints. Tenants find the submarket appealing because it is a convenient location between Baltimore and Washington and has excellent highway access via Route 100. A strong labor pool from government and technology companies also contributes to the Columbia North submarket continued stability.

New construction was practically halted in 2009 in the Columbia North submarket due to the poor economy and lack of available land. The majority of tenants whose leases expired in 2009 negotiated favorable lease renewal terms with their existing landlords. The tenants that ventured into the market in search of space to relocate their office found favorable rates and incentives from highly motivated landlords.

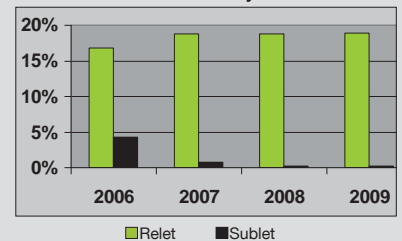
MARKET OUTLOOK

The depressed economy of 2009 is expected to continue into 2010 and contribute to decreased absorption and increasing vacancy of the Columbia North office submarket. The need by landlords for new tenants is expected to continue as well as the 2009 trend of decreased rental rates and increased concessions in an attempt to induce tenants to lease office space. Despite the fact that a lack of new Class A buildings delivered to the market will limit tenants' options, it is expected that companies seeking office space in 2010 will continue to have tremendous opportunities.

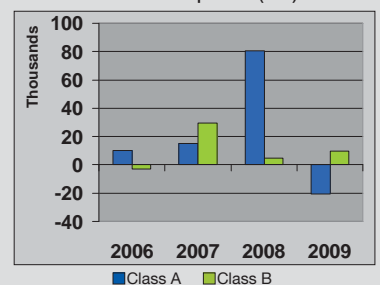
Class A Vacancy Rate



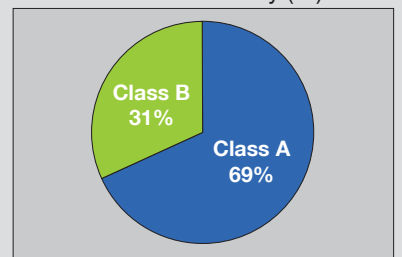
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

2010 PLANNED CONSTRUCTION

Address	SF	Deliver Date	Asking Rent PSF	Owner/Developer
6010-6030 Meadow Center Drive (3 bldgs)	48,000	Feb. 2010 - Dec. 2010	\$16.50, NNN	Waverly Real Estate
W. Market Place	44,818	March 2010	Negotiable	St. John Properties
Dorsey Run @ Henkels Lane	78,050	June 2010	Negotiable	W.F. Chesley
9070 Sterling Drive	160,000	August 2010	Negotiable	Emory Properties
7761 Waterloo Road	25,000	August 2010	Negotiable	Envir. Design Resource Ctr.

BUILDINGS DELIVERED IN 2009

Address	Product	SF	Delivery Date	Asking Rent PSF	Owner/Developer
6721 Columbia Gateway	A	131,451	May 2009	\$30.00 + Utilities	COPT
8894 Stanford Boulevard (condo)	B	45,000	November 2009	\$275.00 - Sale Price	Baxley Realty
6755 Business Parkway (condo)	B	13,019	May 2009	\$285.00 - Sale Price	Innovate, LLC

Howard County - Office

COLUMBIA SOUTH



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	63	82
New/Relet Vacant (SF)	637,944	310,573
Sublease Vacant (SF)	145,763	4,998
Total Vacant (SF)	783,707	315,571
Total Existing RBA (SF)	5,378,137	2,990,684
Vacancy Rate Direct %	11.9%	10.4%
Vacancy Rate Sublease %	2.7%	0.2%
Net Absorption YTD (SF)	354,799	(1,224)
Average Rental Rate (Full Service)	\$22.93	\$19.26
2009 Completed Construction SF	131,451	0
2010 Planned Construction SF	205,000	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 increased office net absorption and decreased deliveries in 2009.

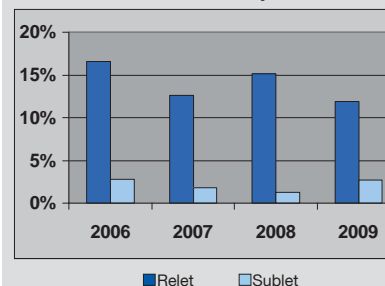
The Columbia South submarket is holding its own in uncertain times. Solid, positive absorption for the Class A segment occurred in 2009. New and expanding businesses, such as SAIC, leasing 171,520 square feet in Columbia Gateway Park, as well as a relocation from Prince George's County by Integral Systems occupying 131,000 square feet in Columbia Gateway Park. In addition, a government-related use has fenced and occupied 120,000 square feet at 8935 and 8955 Stephen Road in Emerson Business Park.

The sublease market has been in check during 2009. Sublease rates have been relatively stable in the 1% - 3% range. The sublease market has affected key leases this year. For example, Integral Systems placed 50,000 square feet of its space on the sublease market. A government contract that was to be performed out of that space has been relocated to another state. The US Food Service sublease space has created opportunities for companies who would like to lease space in 9755 Patuxent Woods Drive. For example, URS Corporation has expanded and relocated into the building, leasing 27,218 square feet. CBIZ has signed a lease in the building and will be moving next year into 32,016 square feet.

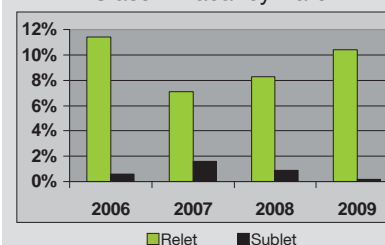
MARKET OUTLOOK

We see landlords continuing to be aggressive to attract companies into their buildings and to retain any and all existing tenants. Without significant subleases on the market, rental rates will hold steady throughout 2010 as well as declining vacancy rates. No large companies have announced any relocation to this submarket which would greatly enhance positive absorption for 2010.

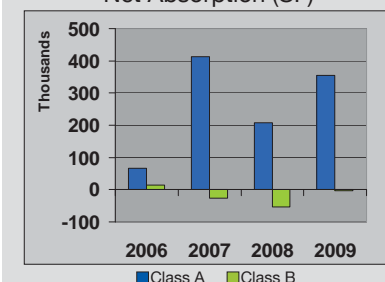
Class A Vacancy Rate



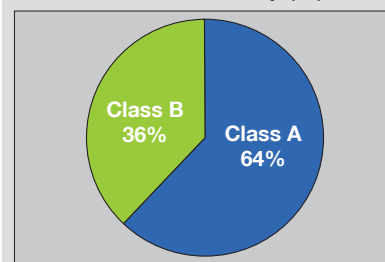
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	SF	Price	Price PSF	Buyer	Seller
10741 Little Patuxent Pky	12,000	\$1,550,000	\$129.17	Patuxent Parkway, LLC	Mary Bell Grempler

SELECTED BUILDING SALES - USER

Address	SF	Price	Price PSF	Buyer	Seller
7450 Coca Cola Drive	12,374	\$2,405,000	\$104.36	Agency Insurance Co.	CSG Partners, LLC

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	23
New/Relet Vacant (SF)	366,836	189,062
Sublease Vacant (SF)	37,918	5,879
Total Vacant (SF)	404,754	194,941
Total Existing RBA (SF)	1,535,255	927,952
Vacancy Rate Direct %	24%	21.0%
Vacancy Rate Sublease %	2%	1%
Net Absorption YTD (SF)	(8,295)	(11,725)
Average Rental Rate (Full Service)	\$24.65	\$22.29
2009 Completed Construction SF	0	0
2010 Planned Construction SF	0	0

MARKET OVERVIEW

Although the majority of the 2009 leasing year was at a standstill, we experienced signs of life beginning in August and lasting through the 4th Quarter. The business community was paralyzed by the overall sentiment in the U.S. economy, but some companies are realizing this may be the bottom and leasing incentives are plentiful. We reported last year that economic drivers such as the Cyber Security Initiative have spawned some demand with two new leases in Town Center. One such tenant who has expanded by 4,000 square feet within their first year of occupancy bringing their total commitment to just over 10,000 square feet.

We would only hope, as we near the BRAC relocation in 2011, that an increasingly number of companies in the defense sector will get an early start to lock in their requirements and Columbia Town Center will offer the ideal amenity-based location for their employees.

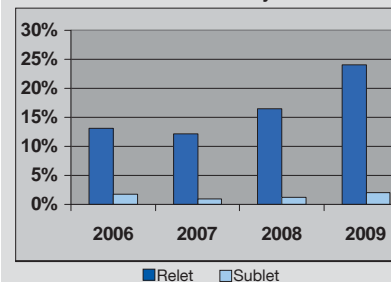
General Growth Properties (GGP), who owns 50% of Columbia Town Center, has continued to reduce their vacancy by being proactive to the brokerage and business community. Similar to other publicly traded companies, they are a solvent company with a liquidity problem as the capital markets start showing signs of thawing. GGP has increased their leasing presence in the marketplace by reacting to the needs of the customer and making sound real estate transactions. Attractive leasing incentives and generous tenant improvement allowances are being offered based on sound fundamentals of strong credit and long term leases.

Published reports state that GGP is righting the ship in this perfect storm and may emerge from Chapter 11 bankruptcy in summer 2010.

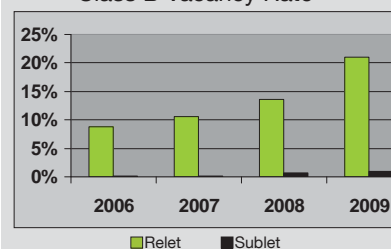
MARKET OUTLOOK

We expect rental rates to be level with increased leasing incentives, and we perceive 2010 to be the light at the end of the tunnel. Columbia Town Center, with all of the amenities companies are looking for, will continue to shrink its vacancy rate as companies become more confident in their business lines and realize the opportunities are plentiful.

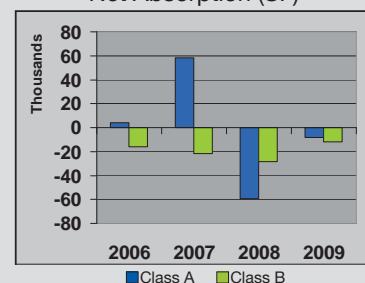
Class A Vacancy Rate



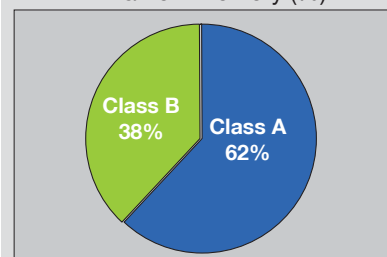
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)

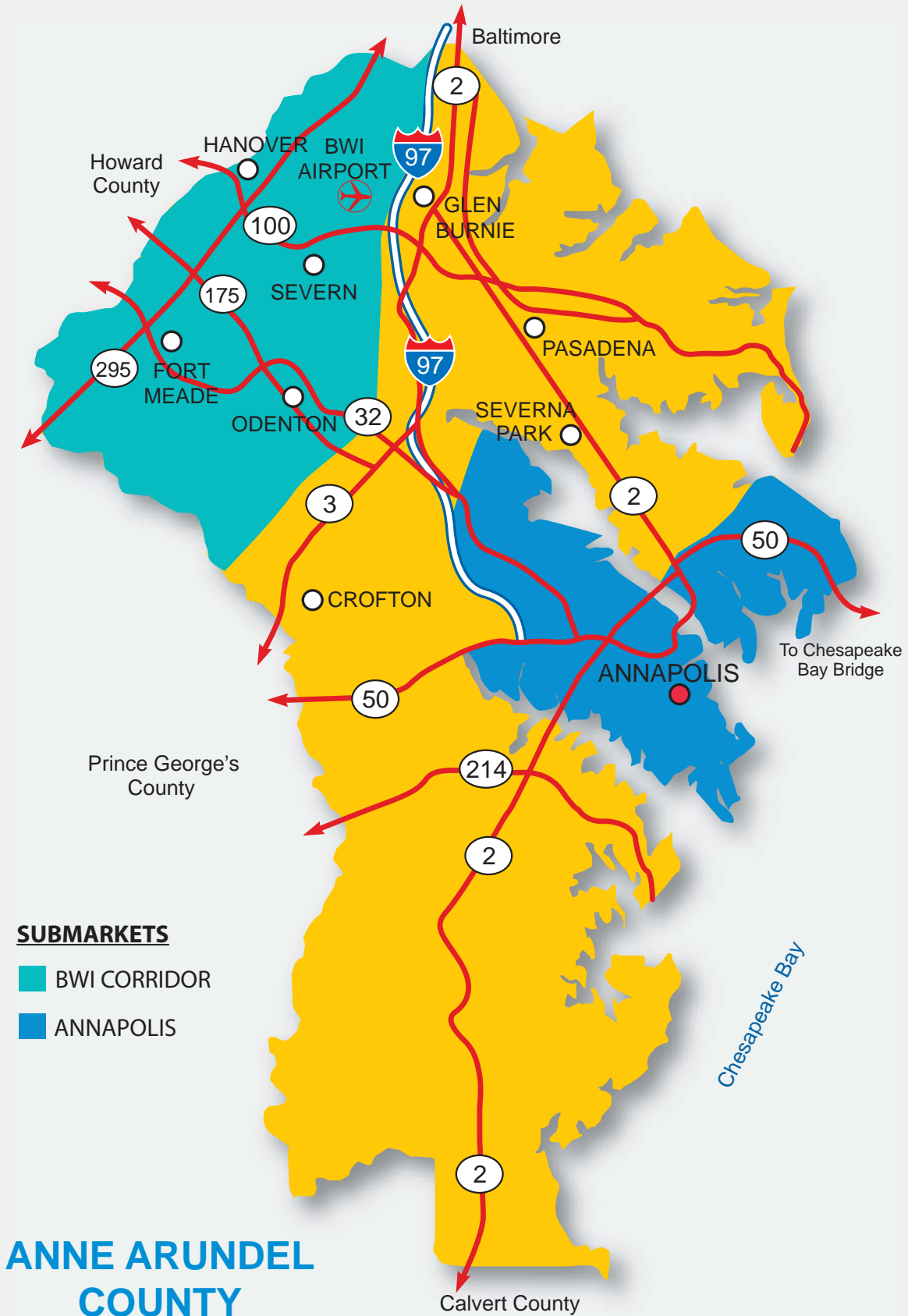


“The economic climate of the financial marketplace in 2009 was tepid at best. Lenders and borrowers – much like buyers and sellers of real estate properties – had difficulty agreeing to pricing and lenders have become much more conservative than the previous two - three years. The Baltimore-Washington market is faring better than others around the country thanks to dominating forces such as the Federal Government, R&D activities and nationally-recognized medical institutions. We are cautiously optimistic about 2010 and the pipeline appears to be looking more favorable than last year.”

Joe Burke
Executive Vice President
NorthMarq Capital

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	105	238
New/Relet Vacant (SF)	1,529,658	760,378
Sublease Vacant (SF)	122,783	5,501
Total Vacant (SF)	1,652,441	765,879
Total Existing RBA (SF)	8,430,745	6,862,063
Vacancy Rate Direct %	18.1%	11.1%
Vacancy Rate Sublease %	1.5%	.1%
Net Absorption YTD (SF)	423,410	61,854
Average Rental Rate (Full Service)	\$27.87	\$23.30
2009 Completed Construction SF	767,875	45,556
2010 Planned Construction SF	369,000	29,600

MARKET OVERVIEW

The Anne Arundel County office market experienced an increase in vacancy rates and absorption, coupled with a decrease in construction for 2009. Compared to 2008, vacancy rates have increased from a total of 16.2% to 19.6% for Class "A" space and decreased from 11.9% to 11.2% for Class "B" product. Net absorption also took an upturn with approximately 423,000 square feet of Class "A" space absorbed in 2009, compared to approximately 88,000 square feet last year. Class "B" increased from a negative net absorption of approximately 46,000 square feet in 2008 to a positive 62,000 square feet in 2009.

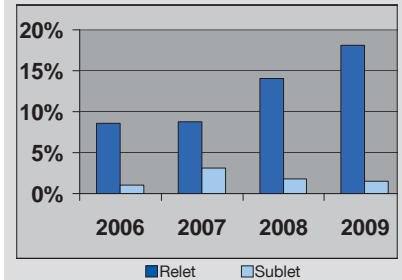
Average office rents for both building classes decreased slightly, staying within the \$27.80 per square foot range for Class "A" and in the \$23.00 per square foot range for Class "B". However, construction has remained strong with nearly 800,000 square feet completed in 2009.

MARKET OUTLOOK

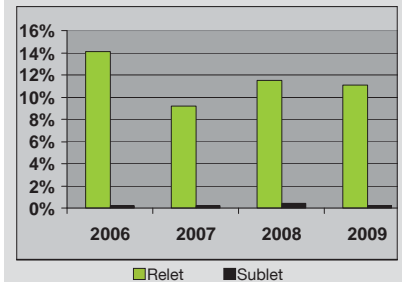
Most economists believe the worst of the economic crisis is behind us; therefore, the recovery of the market remains the focal point for the upcoming year. According to the Maryland Department of Labor, Anne Arundel County has seen its unemployment rate increase from 5.1% last year to 6.7% (November 2009); this is still substantially lower than the US unemployment rate of 9.4%. This rate should level off as the economy continues to improve with the expected arrival of more than 5,600 defense-related users and the federal government over the next two years due to the implementation of the military's Base Realignment and Closure Act (BRAC) in and around the Fort Meade area.

With the supply of office space producing double digit vacancy rates, landlords vying for tenants to fill their empty spaces will continue to offer very creative rental rents, terms and concessions. New Class "A" office product will continue to be delivered in the county for 2010 but not at such a feverish pace as in years past. Due to its proximity to Baltimore and Washington, DC, Anne Arundel County continues to have one of the strongest economies in the state and is ranked as one of the top counties for job growth

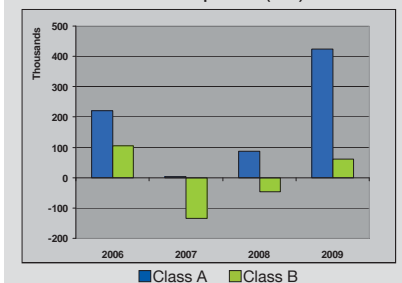
Class A Vacancy Rate



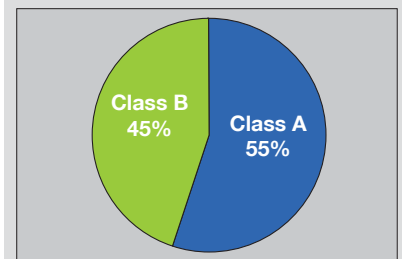
Class B Vacancy Rate



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
Baltimore Washington Medical Center	7556 Teague Road	60,000	A
Chesapeake Science Point Public Charter School	7321 Parkway Drive	41,393	B
AmeriGroup	7550 Teague Road	25,000	A
Anne Arundel Hospital	201 Defense Highway	17,695	A
Alion	201 Defense Highway	17,577	A
Sleep Solutions, Inc.	801 Cromwell Park Drive	16,185	A
Johns Hopkins Community Physicians	7671 Quarterfield Road	10,200	A
FBI	185 Admiral Cochrane Highway	10,000	A
Maryland Primary Care Physicians	7556 Teague Road	9,074	A

Anne Arundel County - Office ANNAPOLIS



TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	33	88
New/Relet Vacant (SF)	376,061	118,250
Sublease Vacant (SF)	52,800	6,348
Total Vacant (SF)	428,861	124,598
Total Existing RBA (SF)	2,054,263	2,278,549
Vacancy Rate Direct %	18.3%	5.2%
Vacancy Rate Sublease %	2.6%	.3%
Net Absorption YTD (SF)	74,216	16,644
Average Rental Rate (Full Service)	\$30.18	\$23.55
2009 Completed Construction SF	240,000	0
2010 Planned Construction SF	0	0

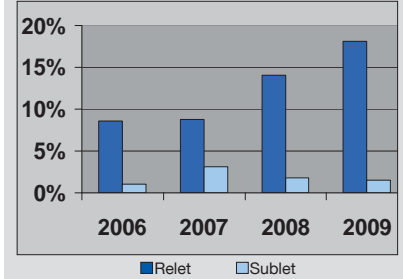
MARKET OVERVIEW

The 2009 Annapolis office market was highlighted by the delivery of Anne Arundel Hospital's new 240,000 square foot, medical office building at the hospital campus on Jennifer Road. Approximately 70% of the space is leased and vacancies have increased in area buildings where medical tenants have relocated to the new building on the hospital campus. Also notable was Verizon vacating the entirety of 2510 Riva Road which totals 70,000 square feet. This six story office building was owner-occupied for years until it was acquired by GHP in a sale leaseback and then re-sold to a partnership of MCB Real Estate, LLC, and The Hampshire Company in June 2007. The building is undergoing substantial renovations and will be available for lease in its entirety in late summer 2010. Douglas Jemal Development's building at 185 Admiral Cochrane Drive (130,000 s.f.) is rumored to be announcing their first tenant (FBI) taking approximately 10,000 square feet. Annapolis Town Centre's office condominium building (46,000 s.f.) did not complete a sale in 2009 and remains 100% available asking \$425 per square foot with a \$25 per square foot work letter. Park Place is closer to being leased with just 29,000 square feet of office space remaining at the project which totaled 276,000 square feet.

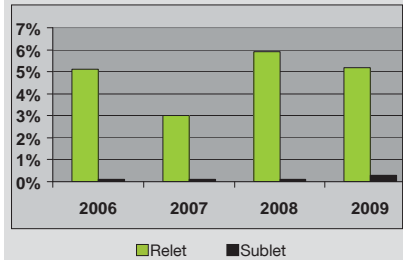
MARKET OUTLOOK

Other than the larger space offerings discussed above, the existing Annapolis office inventory, predominantly smaller suite availability (2,000-5,000 s.f.), is relatively healthy. Leasing velocity was slower in 2009; however, some absorption did occur and market rents in Annapolis continue to fare better than in other submarkets in Maryland.

Class A Vacancy Rate



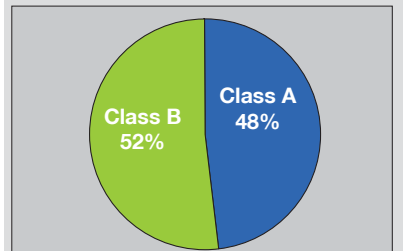
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED BUILDING SALES

Address	SF	Price	Price PSF	Buyer	Seller
1550 W. Nursery Road	156,215	\$38,000,000	\$243.25	COPT	Opus East
1333 Ashton Raod	36,087	\$4,330,440	\$120.00	Solvern Innovations	Northwest Airlines, Inc.

2010 PLANNED CONSTRUCTION

Address	SF	Delivery Date	Asking Rent PSF	Class	Owner/Developer
308 Sentinal Drive	155,000	August 2010	Negotiable	A	COPT
8684 Veterans Highway	29,600	August 2010	\$25.00	B	A.A. Co. Prof. Fire Fighters
7713 Arundel Mills Boulevard	174,000	October 2010	\$30.00	A	AP Parcel 4 Lot 3, 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	50	51
New/Relet Vacant (SF)	1,028,081	483,010
Sublease Vacant (SF)	87,279	2,011
Total Vacant (SF)	1,115,360	483,021
Total Existing RBA (SF)	5,456,894	2,494,880
Vacancy Rate Direct %	18.8%	19.4%
Vacancy Rate Sublease %	1.6%	.1%
Net Absorption YTD (SF)	384,361	15,952
Average Rental Rate (Full Service)	\$26.70	\$22.59
2009 Completed Construction SF	669,875	0
2010 Planned Construction SF	329,000	0

MARKET OVERVIEW

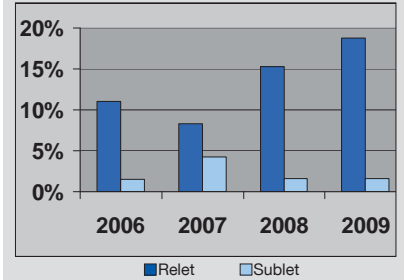
The BWI Corridor office market remains resilient. Even with nearly 700,000 square feet of space delivered in 2009 for the BWI Corridor submarket, net absorption for new Class "A" office space saw a positive increase from 185,000 square feet in 2008 to 390,000 square feet in 2009. Much of this absorption was attributed to several companies leasing large blocks of space (Northrop Grumman – 160,000 square feet, The MITRE Corporation – 73,000 square feet, and the Baltimore Washington Medical Center – 60,000 square feet).

However, total vacancy rates for Class "A" office space saw an increase from 16.9% in 2008 to 20.4% in 2009. The Class "B" total vacancy rate for this submarket compared to last year decreased from 20.5% to 19.5% in 2009. Due to the presence of BWI Thurgood Marshall Airport, the National Security Agency and the growing federal defense sector within the BWI Corridor submarket, this region will remain strong.

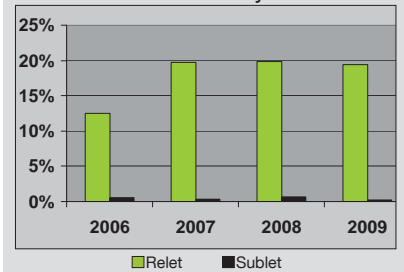
MARKET OUTLOOK

2010 will continue to be a challenging year for businesses and the commercial real estate market as the economy continues to slowly recover from last year's financial crisis. Recovery of the BWI Corridor commercial real estate market will be tied to the level of job growth within the region. Companies will need to move off the sidelines to boost capital spending, hiring and production and, in turn, make real estate decisions. Industries such as defense, security, and health care will remain strong in this submarket. With BRAC-related businesses expected to move into the Fort Meade area within the next two years, the BWI submarket remains poised for a steady recovery. Even though the velocity of deals remains weak, activity does exist as those tenants in the marketplace look to take advantage of the current conditions and concessions being offered by landlords. Rental rates will continue to drop in price relative to the high vacancy rates or until this office inventory is absorbed.

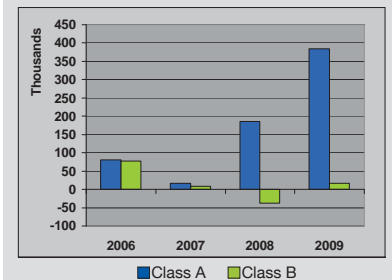
Class A Vacancy Rate



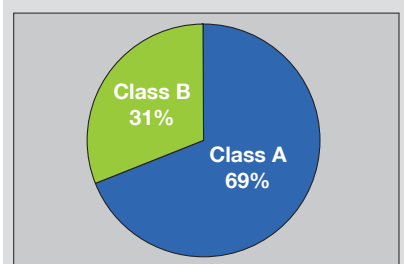
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

BUILDINGS COMPLETED IN 2009

Address	SF	Class
1550 W. Nursery Road	156,215	A
7035 Ridge Road (A)	87,830	A
7037 Ridge Road (B)	87,830	A
8221 Ritchie Highway	30,000	A
300 Sentinel Drive	188,000	A
7556 Teague Road	150,000	A
1906 Towne Center Boulevard	68,000	A

SIGNIFICANT OFFICE ACTIVITY

Address	SF	Class
1117-1119 MD Route 3	14,400	B
606 Melvin Avenue	21,156	B
1449 Whitehall Road	10,000	B

RESIDENTIAL LAND



If one wanted to devise the perfect scenario of how to discourage a business person from entering into the land development business, studying the events of this year would be a great start. This was a very strange year to be involved in any aspect of real estate development or land brokerage for five major reasons.

1 Most area home builders simply were not buying raw unimproved land at any price. A few home builders, most aggressively NVR, owners of the Ryan and NV brands were actively purchased finished lots from developers under a take down schedule that allowed for settlement only after individual lots were already under contract to their home buyer customers thereby minimizing any risk to NVR.

While the rumor had been in the air since the beginning of 2009 that most national home builders were running out of their supply of building lots – we actually saw very few settlements of finished building lots this year. The major problem being a disconnect between the perceived value sought by the land developer or lender and the value based on the final house price proformed by the home builder. Since home builders have only been trying to sell their new houses on price – lower lot values have been dictating the marketplace. The rule of the thumb for area builders is to price single family detached homes in the sub \$550,000 arena with attached single family homes being marketed in the sub \$350,000 in order to achieve a sustainable selling pace of at least two closings a month. This reduction in the sales price has brought the value of land down from a high of 40 percent of the base price of the house to a more modest 25 – 28 percent of the base price of the house. Those land transactions that did close were based on these more modest values.

2 With so many land developers and smaller home builders in financial trouble – there was little need to pay retail. The few deals that were completed were made by smaller home builders or developers minutes away from ceasing operations and finding themselves forced to liquidate their holdings of land and lots for pennies on the dollar to larger firms who had hoarded cash during the good old days. Several major land development and home building firms have filed for bankruptcy protection – either total liquidation or restructuring over the last few years including Gemcraft Homes, WCI, Caruso Homes, Altieri Homes, Dale Thompson Builders, Richland Homes. Nearly all of these firms found themselves in financial trouble by owning too much overpriced land in a market where securing funding to develop and build homes was being severely constrained.

3 Favorite lenders to the land development community also tasted the bitterness of a horrible housing market this year as land loans by the dozens were defaulted on by their once courted after borrowers. Four local lenders, once favorites to borrowers for land acquisition and development financing, Bradford Bank, Suburban Bank, Provident and Wachovia

have been merged into even larger financial behemoths who no longer care about long term personal relationship banking. This lack of personal relationship banking has caused many good credit worthy customers to find that their lines of credit used to finance their day-to-day operations as either a land developer or home builder have been severed by a bank that no longer wants the exposure to the volatility of the housing marketplace. This year alone, more firms involved in all aspects of the building and development industry have suffered from the inability to borrow money. Access to capital is the lifeblood of the real estate industry and the inability to borrow has caused massive layoffs as projects are scrubbed, acquisitions can no longer be funded, and projects under construction are halted.

4 The Appraiser – Most people never realized the true power that their friendly neighborhood appraiser had over their business until this year. After months or even years of hard fought negotiations have been completed on the value of a given property, and only weeks away from settlement, most lenders order an appraisal of the property. In years past, with the ever increasing value of land, lots or buildings, this was simply a formality that builders and developers dealt with as a nuisance. Today, with the value of land decreasing and lenders wanting to protect themselves, the appraised value of the property is many times far less than the contract amount. This has led to many deals forced to be renegotiated to a lesser value in order to qualify for the loan, if the lender will lend on the property at all.

5 More Out-of-Pocket Expense – Just a few years ago, the average real estate investor in land could finance 80 percent of a deal with a simple phone call. Today, that same investor needs to plead for a loan with 50 percent down as lenders no longer see real estate land loans as benefiting them with so many lots being marked down in value. This extra out-of-pocket expense has kept many buyers of land on the sidelines as they simply don't have the personal funds to fund their project. This has also opened up opportunities to those firms that used the funds from overseas investors, local high net-worth individuals who are self funding, to step into the ring when so many others can't afford admission to the big top.

So what does 2010 hold? Simply, more of the same. I do not see any reason to believe that the land acquisition or development marketplace will change dramatically within the next year. In fact, I think we will need to suffer through this downturn for another two years. I don't believe that the real estate marketplace will bounce back until consumer confidence returns. Why would the average consumer who already has a roof over their head venture out into the new home marketplace if they have any doubts about their future employment? The market returns when the average consumer can say that they don't know anyone who has been recently laid off. Until that time occurs, I think that we will suffer through the downturn a bit longer.

INVESTMENT OVERVIEW



THE WORST OF THE CMBS FALLOUT IS YET TO COME

It was securitized commercial mortgage lending (those loans widely referred to as “conduit” or “CMBS” loans) that helped fuel the dramatic appreciation in commercial real estate through 2007. That lending market collapsed in 2008 and along with that collapse has come a 20 to 30 percent or greater fall in real estate values and an 80 to 90 percent drop in volume of commercial real estate sales.

When borrowers default on their CMBS loan, the trouble is sorted out by a third party called a “special servicer.” There are five major special servicers that handle the bulk of these troubled loans nationwide. These companies quietly report that they are overwhelmed with the volume of new incoming loans. Special servicers will eventually modify many of these loans but a portion of them, particularly those with significant vacancy, will be foreclosed and disposed of at significant losses.

The bulk of these troubled conduit loans were originated in 2005 through the first part of 2008. Many of these loans had five year terms and as such are coming due between 2010 and 2012. These are also loans that were originated at very high levels of leverage and at historically high prices so they are very susceptible to default. There are already over 3,000 loans worth \$50 billion in special servicing and that number will continue to grow dramatically in 2010.

INVESTORS ARE LOOKING FOR BARGAINS

Most buyers active in the market today are looking for a “distress story” and without that story it is hard to generate interest in an asset among buyers. Investors waiting on the sidelines for “distressed” opportunities in our region for the most part have been disappointed. The few troubled assets to hit the market have had for the most part significant vacancy. Where there is significant cash flow, lenders are modifying terms to make non-performing loans viable and, extending maturity dates on loans that have come due. Owing to the insulating presence of the federal government, leasing fundamentals in the Washington-Baltimore region have held up better than in other parts of the country, making loan modification more practical than foreclosure in most cases.

Few owners of stable cash flowing buildings are selling unless they must sell. Values are down 20 percent to 30 percent off of their peak. As such, the typical owner that bought a stable cash flowing building between 2005 and 2007 and financed the asset with 80 percent conduit debt has no equity in their property and non recourse debt. For an owner in this position, there is little motivation to sell, and at the first sign of trouble (for example, the loss of a major tenant) these owners are looking to their lender for a loan modification. Where there is cash flow, lenders are often granting these modifications rather than face the prospect of taking back a property.

DEBT IS SCARCE AND COSTLIER

The primary lending sources today are local banks. These banks are lending for the most part to investors with whom they have strong existing banking relationships. These banks are also more willing to lend on smaller assets than larger ones, so smaller assets are transacting more frequently in the market today.

It is also a smaller pool of healthy banks that are doing the lending. In the market peak, banks were muscled out of the business of originating loans on cash flowing buildings by conduit lenders. As such, the bulk of loans banks have originated over the past several years were on land for development. These sorts of loans are defaulting at a rapid clip, in fact more rapidly than those loans on cash flowing buildings. The value of land for development has dropped precipitously; often these large tracts of land are worth pennies on the dollar. Many smaller banks with these loans on their balance sheets have failed and many more local banks will fail in 2010.

User purchases of buildings for occupancy are among the most frequent transactions occurring in this climate. User financing remains attractive and SBA financing is widely available at 90 percent leverage and very attractive terms. Users are acquiring buildings at prices 20 to 30 percent below pricing at the market peak. For an owner carrying an empty building in this environment, a user-buyer can be a savior as that user can rationalize a much higher price than an investor.

Lending is much more sensible today. Bank lenders are making loans at much lower levels of leverage than conduit lenders did in the heyday of securitized lending. Bank lenders are also often requiring at least some personal recourse. In this more restrictive lending environment, concluding sales transactions requires creativity on the part of all parties. Seller-held financing and lease-purchase arrangements are two such vehicles NAI KLNB’s clients have employed to successfully conclude sale transactions recently.

CALLING A BOTTOM BY YEAR END

Banks and special servicers – the largest net sellers of commercial real estate today – report they are seeing widespread erosion of values in all markets and across all product types. NAI KLNB expects this trend to continue through 2010 where we (with cautious optimism) hope to call a “bottom” to the market by the end of the year.

Commercial real estate recoveries tend to lag behind both residential real estate recoveries and broader economic recoveries. Several economists have just called the end of the recession in our region, which we believe signals “light at the end of the tunnel” for our industry’s malaise.

We expect the volume of sales to increase significantly this coming year. Expect to see more frequent capitulation on the part of sellers of real estate. Lenders are likely to continue to be the largest net sellers of commercial real estate in 2010.

Federal government stimulus money is only now “moving through the system” to the point where we are just starting to see the new federal solicitations for large new blocks of space. Much of this procurement will take several months if not years to complete but should help speed the commercial real estate recovery in our market.

When the recovery in values comes, expect it to be a gradual one. We are not likely to see a return to 2007’s peak pricing in the very near future.

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commercial property management

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THE NAI KLNB TEAM COLUMBIA, MD

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Over the past four years, KLNB, Inc. has averaged over \$1.1 billion in annual transaction volume. The full-service brokerage firm operates Maryland offices in Towson and Columbia, as well as Vienna and Brambleton, 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:

<p>Robert Z. Smith* Industrial 443.574.1411 bsmith@klnb.com</p> 	<p>J. Allan Riorda, SIOR* Industrial 443.574.1400 ariorda@klnb.com</p> 	<p>Craig P. Morrell, SIOR* Office/Industrial 443.574.1425 cmorrell@klnb.com</p> 	<p>James V. Caronna, SIOR* Industrial 443.632.2070 jcaronna@klnb.com</p> 	<p>John T. Boote, SIOR* Office/Industrial 443.574.1414 jboote@klnb.com</p> 	<p>David J. Fritz, CCIM, SIOR* Office 443.574.1410 dfritz@klnb.com</p> 
<p>Stephen J. Ferrandi* Land Sales 443.574.1430 sferrandi@klnb.com</p> 	<p>Brad J. Berzins Office/Industrial 443.574.1401 bberzins@klnb.com</p> 	<p>Charles A. Breitenother Office 443.574.1422 cbreitenother@klnb.com</p> 	<p>Alan M. Coppola Industrial 443.574.1404 acoppola@klnb.com</p> 	<p>Timothy Gardner Office/Industrial 443.574.1433 tgardner@klnb.com</p> 	<p>Jonathan M. Green Office/Industrial 443.574.1420 jgreen@klnb.com</p> 
<p>Robert M. Hooper Office/Industrial 443.574.1424 rhooper@klnb.com</p> 	<p>Kate E. Jordan Office/Industrial 443.574.1429 kjordan@klnb.com</p> 	<p>Michele D. Kornbluth Office 443.574.1403 mkornbluth@klnb.com</p> 	<p>Christopher B. Kubler, CCIM Investment Sales 443.574.1415 ckubler@klnb.com</p> 	<p>Kate M. Mirabile Marketing Specialist 443.574.1406 kmirabile@klnb.com</p> 	<p>Michael P. Moran Office/Industrial 443.574.1402 mmoran@klnb.com</p> 
<p>M. Carol Mox Brokerage Assistant 443.574.1405 cmox@klnb.com</p> 	<p>Gil A. Neuman Investment Sales 443.574.1428 gneuman@klnb.com</p> 	<p>Established in 1968, KLNB, Inc. is a full-service commercial real estate firm offering sales, leasing, development, property management and real estate investment services. The company employs more than 76 real estate professionals, including 34 principals.</p>			

* denotes principal of firm



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B/W CORRIDOR OFFICE

6011 University Boulevard
Suite 350
Ellicott City, Maryland 21043
Tel: (410) 290.1110 / (301) 621.5114
Fax: (410) 290.0723

WASHINGTON, DC OFFICE

5225 Wisconsin Ave., N.W.
Suite 404
Washington, DC 20015
Tel: (202) 375.7500
Fax: (202) 237.9850

VIRGINIA OFFICE I

8027 Leesburg Pike
Suite 300
Vienna, Virginia 22182
Tel: (703) 288.4000
Fax: (703) 288.2999

PARAGON COMMERCIAL PROPERTY MANAGEMENT

60 West Street
Suite 204
Annapolis, Maryland 21401
Tel: (410) 280.1450
Fax: (410) 280.1451

VIRGINIA OFFICE II

42395 Ryan Road
Suite 200
Brambleton, Virginia 20148
Tel: (703) 722.2700
Fax: (703) 722.2730

1916 Wilson Boulevard
Suite 306
Arlington, VA 22201
Tel: (703) 812.0334
Fax: (703) 812.9002

BALTIMORE/TOWSON OFFICE

100 West Road
Suite 505
Baltimore, Maryland 21204
Tel: (410) 321.0100
Fax: (410) 321.0129

