

2010 INDUSTRIAL & OFFICE MARKET REPORT

BALTIMORE/WASHINGTON, DC CORRIDOR



FOCUSING ON THE FUTURE

It's the way our services work together
that sets us apart.

NAI KLNB

Commercial Real Estate Services, Worldwide.

Global Solutions. Local Expertise.

Serving the Mid-Atlantic Region Since 1968



2010 YEAR END REVIEW

IN THIS ISSUE:

2010 YEAR END REVIEW	2
INDUSTRIAL MARKET OVERVIEW	4
OFFICE MARKET OVERVIEW	5
INDUSTRIAL REPORT	
HOWARD COUNTY MAP	6
Howard County	7
U.S. Route 1 Corridor	8
Columbia	9
ANNE ARUNDEL COUNTY MAP	10
Anne Arundel County	11
BWI	12
Marley Neck/Glen Burnie	13
Odenton	14
PRINCE GEORGE'S COUNTY MAP	15
Prince George's County	16
Inner Beltway	17
Outer Beltway	18
Northern Prince George's County	19
OFFICE REPORT	
HOWARD COUNTY MAP	20
Howard County	21
Columbia North	22
Columbia South	23
Columbia Town Center	24
ANNE ARUNDEL COUNTY MAP	25
Anne Arundel County	26
Annapolis	27
BWI Corridor	28
RESIDENTIAL LAND	29
INVESTMENT OVERVIEW	30
PARAGON, SIOR, CCIM & NAI KLNB SERVICES	31
THE NAI KLNB TEAM	32

REAL ESTATE RECOVERY SLIDES PAST HALFWAY POINT WITH CONTINUED MOMENTUM TIED TO JOB GROWTH

Since 2005, the powerful and far-reaching tentacles of the Base Realignment and Closure (BRAC) process was touted as the “knight in shining armor” that would fuel a sustained economic recovery in the Maryland/Washington, D.C. and Northern Virginia marketplace with the dramatic influx of new jobs and the related complementary need for commercial office and retail space, residential housing and public facilities support. State-wide economic development officials and the commercial real estate community, combined with economic and policy prognosticators, pointed to 2011 as the year when the full “BRAC Effect” would be finally realized with the “recession” quickly changing over to the “recovery.”

The first wave of new BRAC-related employees has already begun relocating to the local region, with a strengthening of this job relocation trend expected to become more noticeable in the first quarter. “BRAC-time” has officially arrived and this news is being supported by positive movements in both the cyber-security and healthcare sectors.

A sustainable and significant recovery can only be achieved by gains in the regional labor market, and there is good news to report on that front. National surveys place Washington, D.C. in the number three position among 53 major metro markets in the United States for job growth, with the Baltimore metropolitan region following closely at number four. BRAC remains the linchpin of this expected activity.

Maryland state officials are projecting the growth of more than one-half million new households and an increase in population exceeding one million people during the period from 2005 through 2030, with BRAC accounting for approximately 15% of this growth. Figures for the generation of new jobs related to BRAC reside between 40,000 and 60,000, with the majority expected to be in and around Aberdeen Proving Ground, Fort George G. Meade, Andrews Air Force Base, and the National Naval Medical Center in Bethesda.

Government contractors are beginning to make significant waves in the commercial real estate marketplace, with some requirements extending to the Town Center sections of Howard County. The healthcare sector is also flexing its muscle with hospitals and

NAI KLNB

Commercial Real Estate Services, Worldwide.



2010 YEAR END REVIEW

physician groups aggressively expanding due to changes in the national healthcare program. Healthcare-related government contractors are also experiencing significant growth.

The bottom line is a general feeling that the commercial real estate recovery has eased past the halfway point in 2010 and will continue as 2011 progresses. This is supported with reports that indicate:

- construction starts for new Class “A” office buildings -- separate from BRAC-related opportunities -- are few and far between, providing a catch-up opportunity for existing inventory levels. A lack of properly-zoned land is also proving to be a significant obstacle to this renewed activity.
- the velocity of office and industrial leases started to increase at the midway point of 2010 and confidence began growing throughout all industry sectors.
- landlords spent the better part of 2010 stabilizing their tenant roster, as well as negotiating long-term leases with savvy companies that recognized the buyer’s market environment.
- distressed properties have not flooded the market to the degree many predicted they would, keeping bottom-feeder investors on the sidelines and capital in its place.
- values of many commercial assets fell by as much as 30 to 50 percent due to vacancies and refinancing problems and investors are jumping back into the market. Interest rates have nowhere to go but up, and pricing is likely to fall with an increase in interest rates.

One significant and over-riding constant remains in the Baltimore-Washington, D.C. commercial real estate marketplace. We are in an enviable position given our proximity to the nation’s capital, the BRAC effect that is just beginning to make a positive difference, and the continuing prospects for new job growth.

“Leasing activity and interest is increasing throughout the Baltimore-Washington Corridor market, momentum is building and there are many signs that the market is slowly turning around. There is a better, more upbeat feeling that positive movements are occurring – more so than in the past couple of years. We are working hard to maintain relationships with existing tenants and lease projects that have been built over the past four or five years. Fewer tenants are now asking for rent relief, which is symptomatic of a gradual recovery.”

Rob Bavar, Vice President
Bavar Properties Group
President of NAIOP-Maryland

BALTIMORE-WASHINGTON CORRIDOR

2010 Industrial Market Overview

COUNTIES & SUBMARKETS

MARKET	# OF BUILDINGS	RBA	TOTAL VACANT (SF)	DIRECT VACANCY RATE %	ABSORPTION	RENTAL RATE PSF (AVERAGE)	CONSTRUCTION COMPLETIONS (SF)
HOWARD COUNTY							
Total Bulk	160	22,869,910	3,953,993	17.0%	187,952	\$4.46	0
Total Office/Warehouse	199	9,543,343	1,469,770	14.7%	(161,375)	\$6.22	0
Total Flex	133	5,395,536	600,034	10.7%	(39,441)	\$9.13	82,240
U.S. Route 1 Corridor							
Bulk	136	18,539,682	2,793,730	14.8%	(72,594)	\$4.45	0
Office/Warehouse	157	7,083,340	1,034,350	13.7%	(200,326)	\$6.15	0
Flex	20	703,370	87,370	11.6%	(22,580)	\$8.05	0
Columbia							
Bulk	24	4,330,228	1,160,263	26.8%	260,546	\$4.55	0
Office/Warehouse	42	2,459,953	435,420	17.7%	38,951	\$6.38	0
Flex	113	4,691,565	512,664	10.6%	(16,861)	\$10.80	82,240
ANNE ARUNDEL COUNTY							
Total Bulk	107	14,455,000	1,550,000	10.4%	(98,440)	\$5.00	0
Total Office/Warehouse	90	5,140,000	635,000	12.3%	(56,000)	\$6.00	0
Total Flex	229	9,550,000	1,392,000	14.2%	(266,000)	\$8.50	0
BWI							
Bulk	39	5,200,495	684,700	12.8%	(11,788)	\$5.41	0
Office/Warehouse	31	1,982,074	389,484	19.7%	(64,749)	\$6.60	0
Flex	72	3,120,552	378,042	11.5%	40,464	\$9.06	0
Marley Neck/Glen Burnie							
Bulk	33	5,433,000	243,900	4.3%	(16,800)	\$3.95	0
Office/Warehouse	25	1,126,000	127,000	11.3%	(10,100)	\$4.75	0
Flex	41	1,456,000	158,000	10.0%	(81,000)	\$5.45	0
Odenton							
Bulk	14	3,037,000	825,000	27.1%	(120,000)	\$3.50	0
Office/Warehouse	4	175,000	40,000	22.8%	(6,000)	\$7.50	0
Flex	10	557,400	20,000	3.5%	(4,000)	\$9.50	0
PRINCE GEORGE'S COUNTY							
Total Bulk	236	20,182,938	3,093,807	13.8%	325,302	\$6.46	0
Total Office/Warehouse	346	18,258,505	2,657,043	13.8%	51,733	\$6.15	0
Total Flex	584	20,713,206	3,185,365	14.7%	(54,884)	\$7.41	78,240
P.G. County Inner Beltway							
Bulk	131	10,816,256	1,373,167	12.1%	(49,559)	\$6.13	0
Office/Warehouse	200	10,213,918	1,795,804	16.7%	158,354	\$5.53	0
Flex	306	9,883,143	1,447,944	14.1%	14,583	\$6.03	0
P.G. County Outer Beltway							
Bulk	44	4,356,074	495,341	10.4%	317,519	\$7.76	0
Office/Warehouse	20	1,122,216	100,900	9.0%	(50,600)	\$7.51	0
Flex	70	3,934,968	730,471	16.1%	(44,609)	\$8.85	78,240
Northern P.G. County							
Bulk	46	3,338,010	601,722	11.9%	54,824	\$7.90	0
Office/Warehouse	93	4,757,518	652,285	12.3%	(90,069)	\$5.93	0
Flex	140	4,436,886	842,486	18.4%	(22,098)	\$6.38	0

BALTIMORE-WASHINGTON CORRIDOR

2010 Office Market Overview

COUNTIES & SUBMARKETS

MARKET	# OF BUILDINGS	RBA	TOTAL VACANT (SF)	DIRECT VACANCY RATE %	ABSORPTION	RENTAL RATE PSF (AVERAGE)	CONSTRUCTION COMPLETIONS (SF)
HOWARD COUNTY							
Total Class A	65	6,761,508	1,053,902	14.5%	44,790	\$25.42	313,500
Total Class B	228	8,304,156	1,101,293	13.2%	25,264	\$20.81	106,375
Columbia North							
Class A	11	767,874	179,450	23.4%	(48,666)	\$25.33	0
Class B	60	2,211,022	467,717	21.2%	95,874	\$21.63	72,000
Columbia South							
Class A	37	4,192,042	875,752	19.1%	35,887	\$25.69	313,500
Class B	99	4,271,439	495,431	11.2%	(70,611)	\$20.63	34,375
Columbia Town Center							
Class A	15	1,686,882	244,919	14.5%	59,993	\$24.80	0
Class B	20	854,466	136,135	15.7%	4,982	\$21.06	0
ANNE ARUNDEL COUNTY							
Total Class A	90	8,171,044	1,377,785	16.2%	339,110	\$29.50	385,130
Total Class B	245	7,196,880	1,096,861	15.2%	(30,171)	\$22.50	29,600
Annapolis							
Class A	34	2,287,408	424,799	17.7%	17,369	\$30.25	40,000
Class B	89	2,043,576	138,715	6.6%	(16,800)	\$23.53	0
BWI Corridor							
Class A	44	5,359,252	896,164	16.1%	295,586	\$27.87	345,130
Class B	55	2,782,582	663,000	23.8%	43,909	\$22.12	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.

“Commercial real estate values for 2010 were relatively flat with very few market transactions. Looking forward into 2011, we expect values to continue to remain flat and buyers to be cautiously optimistic and look for quality, value-added properties. We expect the BRAC areas around Aberdeen Proving Ground and Fort Meade to lead the way and be the bright spot for the region.

However, we are concerned about the sluggish economy and the amount of non-performing properties currently or soon to be held by financial and other lending institutions that could potentially be released into the market and further depress values. We will have to wait and see after the first half of the year.

The gap between buyers and sellers is beginning to shrink and property owners are anxious to return to some type of normalcy in the coming years.”

Christopher J. Rosata, MAI
Principal
White & Rosata, LLC

HOWARD COUNTY

Industrial Submarket Map



HOWARD COUNTY

HOWARD COUNTY

Industrial



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	160	199	133
New/Relet Vacant (SF)	3,905,127	1,403,402	578,572
Sublease Vacant (SF)	48,866	66,368	21,462
Total Vacant (SF)	3,953,993	1,469,770	600,034
Total Existing RBA (SF)	22,869,910	9,543,343	5,395,536
Vacancy Rate Direct %	17%	14.7%	10.7%
Vacancy Rate Sublease %	0.2%	.07%	.04%
Net Absorption (SF)	187,952	(161,375)	(39,441)
Average Rental Rate (NNN)	\$4.46	\$6.22	\$9.13
2010 Completed Construction SF	0	0	82,240
2011 Planned Construction SF	0	0	0

MARKET OVERVIEW

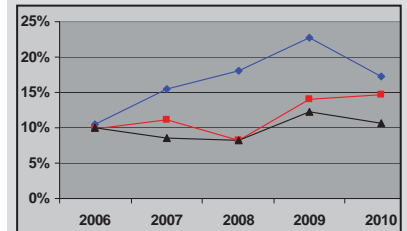
The Howard County market began very flat in 2010, but toward the beginning of the third quarter there were indications that the year would end on a very positive note. Overall, the majority of leasing activity continued to be for smaller suites (those units under 10,000 square feet) in 2010. As it relates to bulk product, there was only one new lease of over 100,000 square feet in 2009 and there were four in 2010. Several submarkets within the Baltimore-Washington Corridor have seen the first signs of positive absorption since 2008. It was refreshing to see many corporations expand as well as several companies relocate to this region.

Many agree that the market "bottomed out" during the middle of 2010 and companies that secured leases were able to do so at very attractive terms. In addition, those that purchased their own facilities were able to get the best of both worlds: low building prices and low interest rates. The current interest rates may be the lowest that we will see over the next several decades.

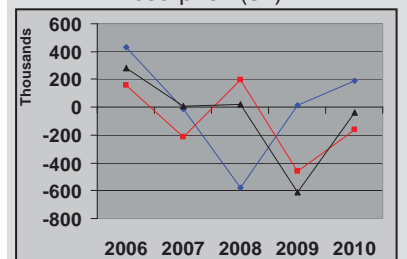
MARKET FORECAST

Howard County will continue to remain an extremely attractive location due to its proximity to I-95 and its convenience to both the Baltimore and Washington, DC markets. The County should also experience significant job growth and continued development along the MD Route 32 Corridor due to the defense industry and BRAC. However, there is some concern the current road infrastructure is inadequate and could lead to some traffic congestion. Our expectation is that vacancy rates will continue to trend slightly downward through 2011. For A and B+ facilities, rents should stabilize with some rent growth expected during 2011. Building prices should also see slight increases in pricing in 2011 unless there are some severe functional issues which could lead to redevelopment particularly in the US Route 1 and Columbia markets.

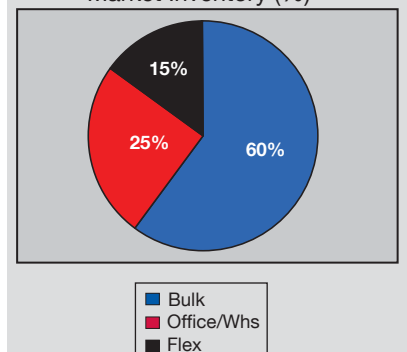
Vacancy Rate (%)



Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Victory Packaging	7605 Dorsey Run Road	193,800	Bulk	Route 1
Dade Paper & Bag Company	7605 Dorsey Run Road	127,000	Bulk	Route 1
Potomac Wholesale	7825 Rappahannock Drive	120,000	Off/Wrhs	Route 1
Westar Industries	8700 Robert Fulton Drive	100,000	Bulk	Columbia South
Planet Aid	6730 Santa Barbara Court	52,500	Bulk	Route 1
Bechtel	9200 Berger Road	45,900	Flex	Columbia South
Bon Secours Health System	8990 Route 108	32,550	Flex	Columbia North

Howard County - Industrial

US RT 1 CORRIDOR



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	136	157	20
New/Relet Vacant (SF)	2,744,864	967,982	81,850
Sublease Vacant (SF)	48,866	66,368	5,520
Total Vacant (SF)	2,793,730	1,034,350	87,370
Total Existing RBA (SF)	18,539,682	7,083,390	703,370
Vacancy Rate Direct %	14.8%	13.7%	11.6%
Vacancy Rate Sublease %	.03%	1.0%	0.8%
Net Absorption (SF)	(72,594)	(200,326)	(22,580)
Average Rental Rate (NNN)	\$4.45	\$6.15	\$8.05
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

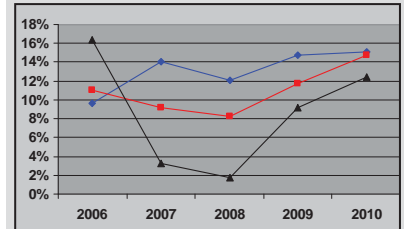
MARKET OVERVIEW

Historically one of the strongest submarkets in the entire Baltimore Washington Corridor, the economic downturn negatively affected the Route 1 Corridor in 2010 as it did in 2009. This market is dominated by office/warehouse product and vacancy rose to 14.7%, the highest vacancy since the early 1990's. Both bulk and flex product also experienced higher vacancy rates as well. Combined, all three product types saw negative absorption of 295,000 square feet of space compared to the almost 900,000 square feet of negative absorption witnessed in 2009. Aging building characteristics and functionality also contributed to the high vacancy rate.

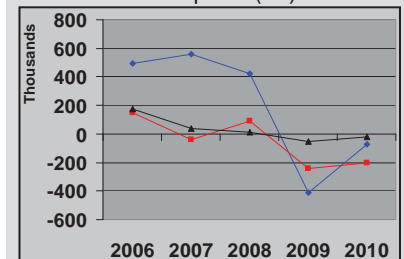
MARKET FORECAST

The good news is the US Route 1 submarket saw positive absorption in the Class A market, leaving minimal Class A leasing opportunities. Thus, we should see a decreasing vacancy throughout this sector in 2011 as tenants' options for newer buildings decrease and land constraints limit new development. This will have a positive impact on the current low rental rates, which are the lowest since the early 1990's. With many landlords extremely aggressive, we still should continue to see a fair share of tenant incentives throughout 2011.

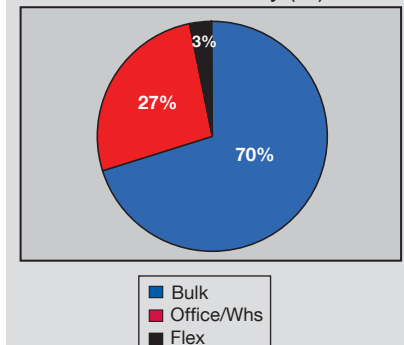
Vacancy Rate (%)



Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	SF	Price	Price PSF	Product	Buyer	Seller
8700 Larkin Road, 8263 Patuxent Range Rd, & 8265 Patuxent Range Rd	190,560 SF, 164,700 SF, & 73,840 SF (429,100 SF Total)	\$16,900,000 (3 Buildings)	\$39.38	Bulk Bulk Off/Whs	Colony Realty Partners	INVESCO
8730 Greenwood Place	121,528 SF	\$4,500,000	\$37.03	Bulk	Atapco Prop.	Morgan Stanley

SELECTED LAND SALES - USER

Address	Acres	Price	Price/AC	Submarket	Buyer	Seller
Meadowridge @ I-95	39.12 Acres	\$8,950,000	\$228,783	Route 1	Sheppard Pratt	H&H Rock Co.'s

Howard County - Industrial

COLUMBIA



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	24	42	113
New/Relet Vacant (SF)	1,160,263	435,420	496,722
Sublease Vacant (SF)	0	0	15,942
Total Vacant (SF)	1,160,263	435,420	512,664
Total Existing RBA (SF)	4,330,228	2,459,953	4,691,565
Vacancy Rate Direct %	26.8%	17.7%	10.6%
Vacancy Rate Sublease %	0.0%	0.0%	0.3%
Net Absorption (SF)	260,546	38,951	(16,861)
Average Rental Rate (NNN)	\$4.55	\$6.38	\$10.80
2010 Completed Construction SF	0	0	82,240
2011 Planned Construction SF	0	0	0

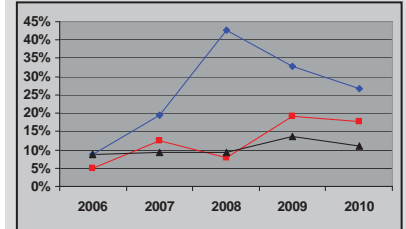
MARKET OVERVIEW

After experiencing 357,000 square feet of negative absorption in 2009, the best news for 2010 is positive net absorption of 282,000 square feet. Historically, this is not a very large number; however, after the last few years, it is a welcome change. The volume of transactions is also changing for the better. There have been actual new leases and not any type of downsizing consolidation or "blend and extend" renewal activity. While there continues to be a very large vacancy rate for bulk product, the office/warehouse and flex markets vacancy rates have decreased by just under three basis points in each classification. We have seen other types of businesses be proactive in the marketplace to lease or purchase additional space. This is contrary to 2009 where the majority of market activity seemed to be defense, government and health care related. Since vacancy rates are still historically high, landlords continue to provide leasing incentives as they did in 2008 and 2009, and should expect more of the same for the immediate future.

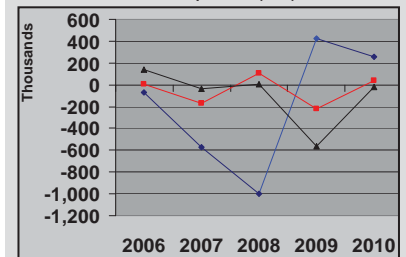
MARKET FORECAST

Columbia has seen its fair share of BRAC-related uses in the Columbia South submarket. This should continue as more jobs pour into the Fort Meade region throughout 2011 and 2012. Columbia continues to "dig out" from record high vacancy and negative absorption. We believe that trend will continue well into 2011 but at a slow and steady pace. Through 2010, we have already seen more building sales than we did in 2009 and the market seems to have found its "bottom" with most users taking advantage of this historical situation.

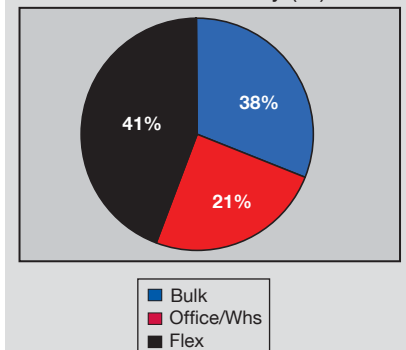
Vacancy Rate (%)



Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

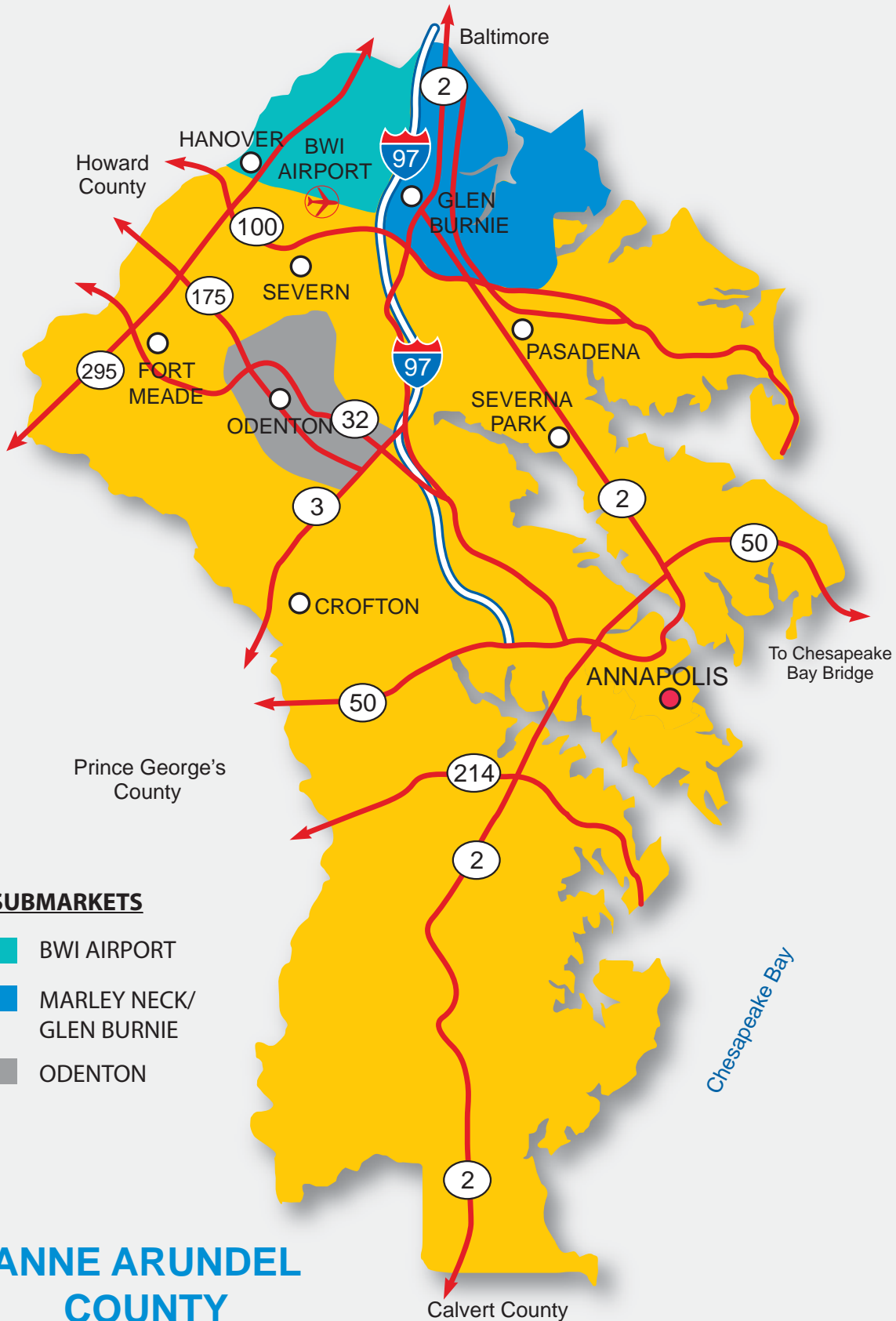
SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - USER

Address	SF	Price	Price PSF	Product	Buyer	Seller
8305 Stayton Drive	94,517	\$6,300,000	\$66.65	Bulk	Eastland Food Corp	Joseph J. Hock, Inc.
6822 Oak Hall Lane	39,000	\$3,700,000	\$92.50	Ofc/Wchs	Lund Trading	Hannon Siebel
8901 Herrmann Drive	12,160	\$1,989,000	\$163.57	Flex	Merchandise Newspaper	J&S 8901 Herrmann, LLC
7375 Washington Blvd	9,200	\$440,000	\$47.83	Flex	7273 Washington Blvd, LLC	SGS Associates, LLC
10545 Guilford Road	3,900	\$375,000	\$96.15	Ofc/Wchs Condo	Mid-Atlantic Lighting	Patricia Ann L. Smith
7410 Coca Cola Drive	3,883	\$532,000	\$137.01	Ofc/Wchs Condo	Mark Gagnier	Mid Atlantic Beauty

ANNE ARUNDEL COUNTY

Industrial Submarket Map



ANNE ARUNDEL COUNTY

Industrial



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	107	90	229
New/Relet Vacant (SF)	1,507,000	635,000	1,360,000
Sublease Vacant (SF)	43,000	0	32,000
Total Vacant (SF)	1,550,000	635,000	1,392,000
Total Existing RBA (SF)	14,455,000	5,140,000	9,550,000
Vacancy Rate Direct %	10.4%	12.3%	14.2%
Vacancy Rate Sublease %	0.3%	0%	0.3%
Net Absorption (SF)	(98,440)	(56,000)	(266,000)
Average Rental Rate (NNN)	\$5.00	\$6.00	\$8.50
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

MARKET OVERVIEW

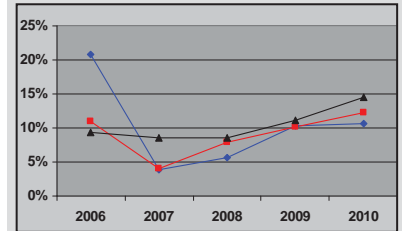
Anne Arundel County felt the effects of a challenging commercial real estate environment throughout 2010. The County experienced an increase in its overall vacancy rate up from 10% at the end of 2009 to 12% by the end of 2010 and net absorption was a net negative 203,000 square feet. There was some positive news as several large companies that located to Anne Arundel County, including Pacific Trade International and Delsey Luggage with each taking more than 100,000 square feet of industrial space. In addition, the unemployment rate, which reached a new high of 7.8% in the first quarter of 2010, was down significantly by the end of the year to 6.6%.

Anne Arundel County remains one of the strongest real estate markets within the Baltimore Metropolitan area due to a diverse economic base, excellent transportation network and proximity to both Baltimore and Washington. Although the County was not immune to the weak economy, it remained the leader in the state for defense contract awards and the Base Realignment & Closure (BRAC) process 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 closer to the 33,000 figure.

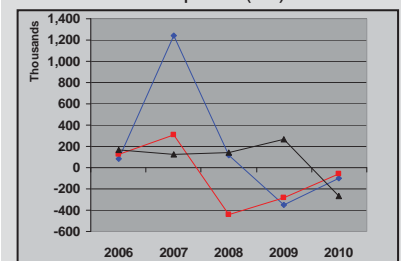
MARKET FORECAST

We remain cautiously optimistic about the County's commercial real estate prospects for 2011. There has been very little industrial construction over the past several years and we anticipate heightened demand for existing product as the economy recovers and consumer confidence returns. Further, the BRAC process is slowly beginning to take root around the greater Ft. Meade area, helping expand the medical, technical and security fields in particular. Even with the County's traditional economic drivers, we expect it will still be late third quarter before velocity picks up and supply and demand for industrial real estate reach a more balanced level. With minimal speculative development, we anticipate rents will stabilize and vacancy rates should slightly decrease by the end of 2011.

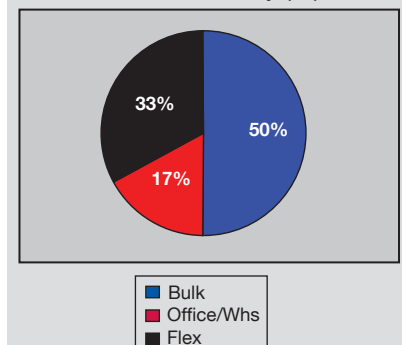
Vacancy Rate (%)



Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Delsey Luggage	6090 Dorsey Road	186,000	Bulk	BWI Airport
Pea Pod	1020 Airport 100 Way	165,199	Bulk	BWI Airport
Pacific Trade International	6720 Baymeadow Drive	117,000	Bulk	Route 2 Corridor
Powercon	1731 Midway Road	85,000	Bulk	Odenton
Mantech	1405 Magellan Road	43,140	Bulk	BWI Airport
Barrott Distribution Systems	7453 Candlewood Road	36,800	Bulk	BWI Airport
Canteen	7458 Candlewood Road	29,700	Bulk	BWI Airport
Giant Food	7458 Candlewood Road	25,000	Bulk	BWI Airport

Anne Arundel County - Industrial

BWI AIRPORT



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	39	31	72
New/Relet Vacant (SF)	664,200	389,484	358,697
Sublease Vacant (SF)	20,500	0	19,345
Total Vacant (SF)	684,700	389,484	378,042
Total Existing RBA (SF)	5,200,495	1,982,074	3,120,552
Vacancy Rate Direct %	12.8%	19.7%	11.5%
Vacancy Rate Sublease %	0.4%	0.0%	0.6%
Net Absorption (SF)	(11,788)	(64,749)	40,464
Average Rental Rate (NNN)	\$5.41	\$6.60	\$9.06
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

MARKET OVERVIEW

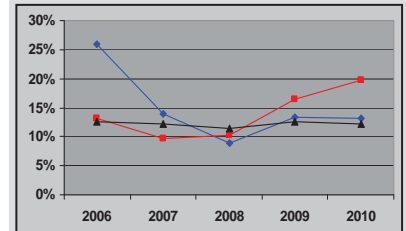
The lingering impact from the deep recession over the past two years has continued to take its toll on the commercial real estate market. Vacancy rates have continued to rise and property owners have continued to make rent concessions. Rental rates in Class B and C buildings have continued to decline and are at a twenty year low. While new, larger Class A warehouse rental rates have been affected, they are still commanding high rental rates. The third quarter economic activity maintained a moderate, positive momentum. The local industry has a weak, but hopeful, outlook moving into 2011.

MARKET FORECAST

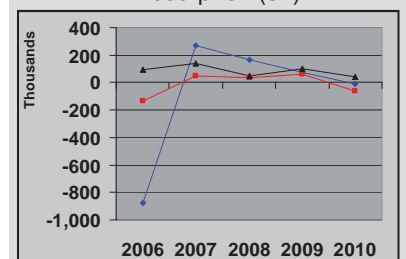
When interest rates rise, real estate prices historically fall. The winners in 2011 will be the cash investors that have been patiently waiting on the sidelines for the prices to hit rock bottom.

The bright side of 2011 is the job market. It is expected to make a turn for the better which will create a need for tenants to expand into office and warehouse space. Rental rates are expected to stay flat for the first quarter of 2011 with landlords still offering concessions to secure tenants.

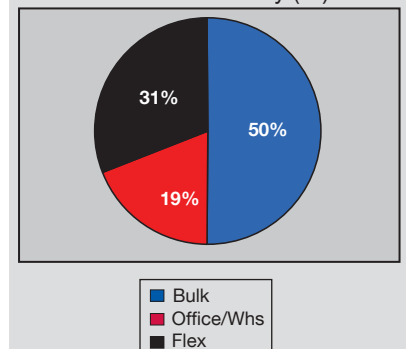
Vacancy Rate (%)



Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	SF	Price	Price PSF	Product	Buyer	Seller
7621 Energy Parkway	222,600	\$11,550,000	\$52.00	Bulk	High St. Equity Advisors	iStar Financial Inc.
1040-41 Swan Creek Dr	512,000-2 Bldgs	\$23,500,000	\$46.00	Bulk	AMB	Marley Neck 3R LLC
7480 Candlewood Road	33,384	\$1,970,000	\$59.00	Flex	Cap. Investments Corp.	7480 Candlewood Rd, LLC

SELECTED BUILDING SALES - USER

Address	SF	Price	Price PSF	Product	Buyer	Seller
25 Thomas Avenue	14,600	\$1,000,000	\$68.50	Flex	Nova Services	Phillips Bros.
5625 McLean Way	5,625	\$600,000	\$107.00	Flex	Marcalex LLC	Melvin C. Long
1446 Ritchie Highway	18,000	\$1,550,000	\$86.00	Bulk	Whitsend LLC	Thomas O'Rourke

Anne Arundel County - Industrial

MARLEY NECK/GLEN BURNIE



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	33	25	41
New/Relet Vacant (SF)	234,000	127,000	145,000
Sublease Vacant (SF)	9,900	0	13,000
Total Vacant (SF)	243,900	127,000	158,000
Total Existing RBA (SF)	5,433,000	1,126,000	1,456,000
Vacancy Rate Direct %	4.3%	11.3%	10%
Vacancy Rate Sublease %	0.2%	0%	.9%
Net Absorption (SF)	(16,800)	(10,100)	(81,000)
Average Rental Rate (NNN)	\$3.95	\$4.75	\$5.45
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

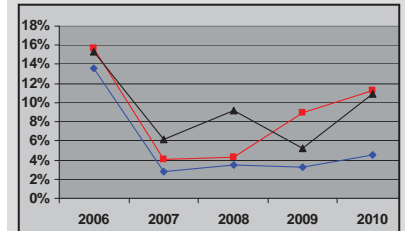
MARKET OVERVIEW

The Marley Neck/Glen Burnie area has historically been the low cost alternative location to the Route 1/Interstate 95 corridor for those companies still needing convenience to the I-695 Beltway, as well as easy access to Baltimore, and points south. This marketplace was generally stable for 2010 and, similar to the previous year, there was no new speculative construction which helped keep supply and demand for industrial space in balance. Although absorption was mostly in negative territory for the majority of the year, vacancy rates for all types of product were manageable, primarily fluctuating between 10% and 11%. Bulk warehouse performed best, with occupancy rates staying above 95% for the majority of the year. Larger tenant deal activity included the takedown of 51,000 square feet at 7354 Baltimore Annapolis Boulevard and a 125,000 square foot lease at 6600 Cabot Drive by Reliable-Churchill.

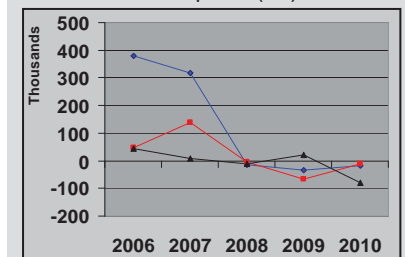
MARKET FORECAST

We believe the Marley Neck/Glen Burnie submarket will continue to remain relatively stable over the next 12 months. This area still boasts among the highest occupancy levels in the Baltimore Metro area, with only 6% vacancy spread across all product types. Its largest block of vacant space was absorbed in 2010 and with no new speculative construction on the horizon, this submarket could see a firming up of rental rates for bulk warehouse. Overall, we expect this area to see the same cautious activity as the rest of the Anne Arundel County market and it should remain the low cost alternative to the I-95 corridor, allowing vacancy rates to remain in balance and rental rates to stabilize as the economy continues its road to recovery into 2011.

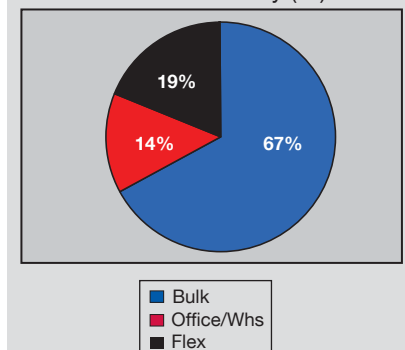
Vacancy Rate (%)



Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SELECTED LAND SALES - INVESTMENT

Address	Size	Price	Price/Acre	Product	Buyer	Seller
7519 Railroad Ave	5.07	\$810,000	\$159,763	Lumber Yard	Traffic Systems, Inc	Abernathy
8213 Brock Bridge Rd	4.37	\$750,000	\$171,624	Storage Yard	Allied Environments	Grimmon, Inc
517 Glenbrook Rd	1.12	\$800,000	\$714,384	Lumber Yard	SEF, LLC	517 Glenbrook Rd, LLC

SIGNIFICANT INDUSTRIAL ACTIVITY

Anne Arundel County - Industrial

ODENTON



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	14	4	10
New/Relet Vacant (SF)	825,000	40,000	20,000
Sublease Vacant (SF)	0	0	0
Total Vacant (SF)	825,000	40,000	20,000
Total Existing RBA (SF)	3,037,000	175,000	557,400
Vacancy Rate Direct %	27.1%	22.8%	3.5%
Vacancy Rate Sublease %	0%	0%	0%
Net Absorption (SF)	(120,000)	(6,000)	(4,000)
Average Rental Rate (NNN)	\$3.50	\$7.50	\$9.50
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

MARKET OVERVIEW

As a result of the US Military's implementation of the 2005 Base Realignment and Closure (BRAC) expansion at Fort Meade, the Odenton submarket is in the process of experiencing tremendous growth over the next two years. Over 5,700 personnel are expected to arrive on the base as a result of BRAC and the multiplier effect of the on-base positions translates to 9,000 off-base jobs by 2015. The economic result of this growth has led to several speculative mixed-use projects being planned for development within Odenton Town Center. The three largest are:

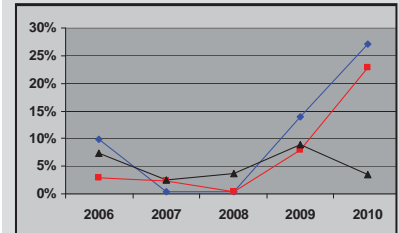
	Office	Residential	Retail
Halle	2,950,000 sf	525,000 sf	75,000 sf
Stonebridge Carras	200,000 sf	150,000 sf	200,000 sf
National Business Park	2,800,000 sf	NA	9,000 sf

The industrial market has experienced an increase in the amount of space available for lease resulting in high vacancy rates for both bulk and office/warehouse product. Fortunately, the industrial market is not overbuilt and should recover over the next year.

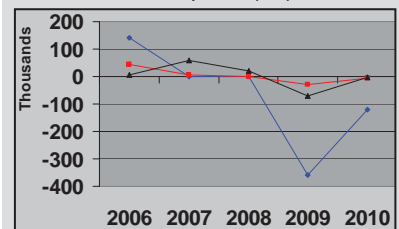
MARKET FORECAST

The economic impact of BRAC will bode well for the Odenton submarket. As thousands of people are expected to move to this area, this region will experience an increase in the supply of jobs, demand for housing, and absorption of office and flex space. There are no plans for new construction of industrial space within this submarket as most new development will be for office/flex product. The office market will see an increase in vacancy rates as new product is delivered in the immediate future. However, as large defense-related office users descend to Fort Meade and Odenton Town Center, this space will be quickly absorbed.

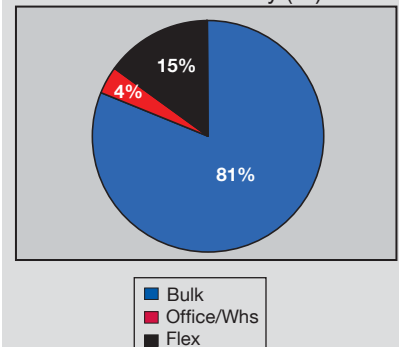
Vacancy Rate (%)



Absorption (SF)

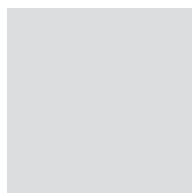


Market Inventory (%)



"We anticipate moving forward next year with the construction of our new speculative office product at the Ft. Meade Technology Center, in conjunction with our Enhanced Use Lease (EUL) Program. Steady and strong demand for Class "A" office space continues in the Corridor, as driven by various federal agencies that require a presence within or near the Fort. Our region is experiencing the largest demand for new space, compared with any other sector in the country, and we envision growth continuing for at least the next 5-7 years."

Greg Crum
Principal
Trammell Crow



ANNE ARUNDEL COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

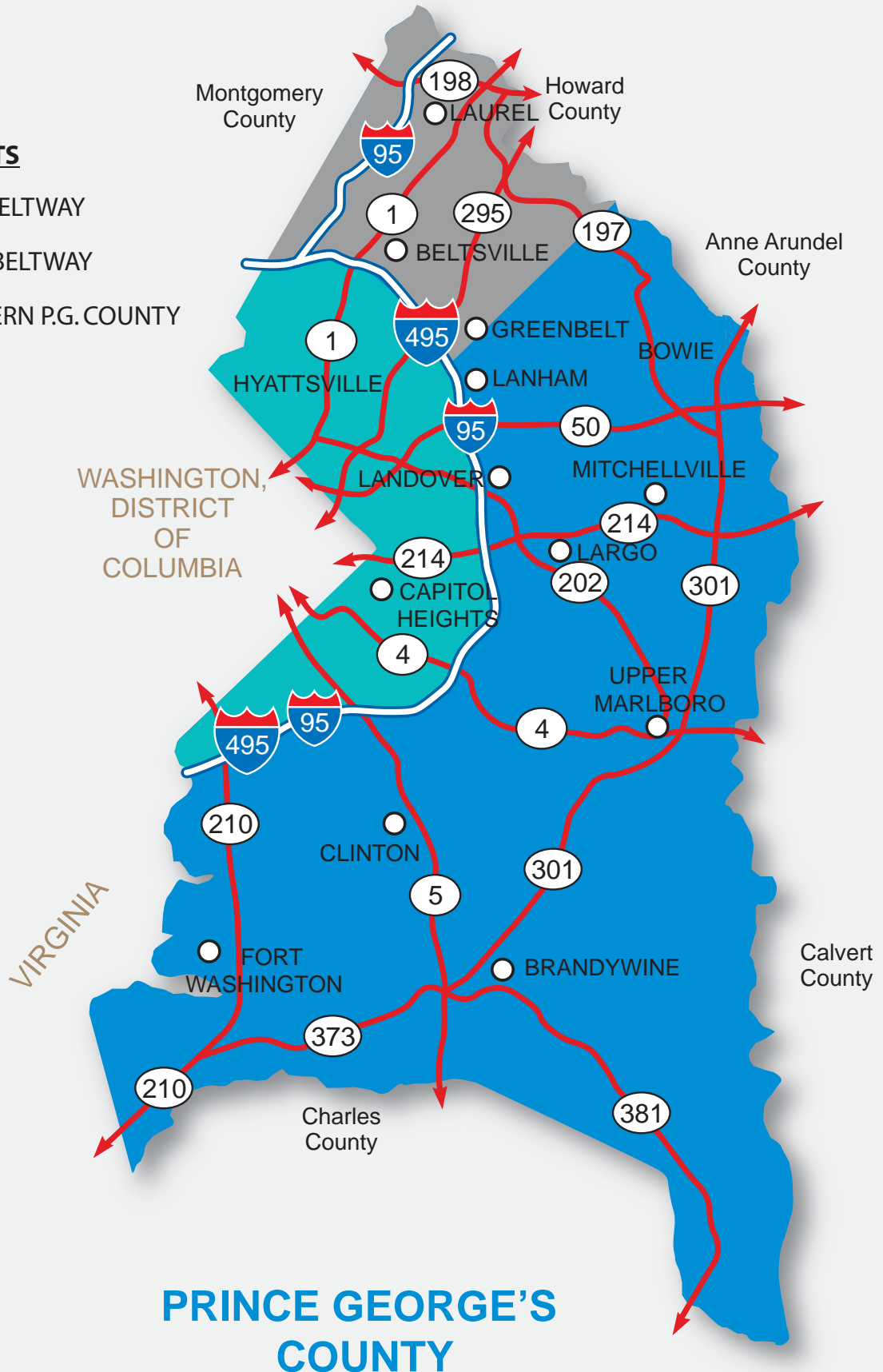
There were no industrial buildings delivered in 2010 and none planned for 2011 delivery.

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



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	236	346	584
New/Relet Vacant (SF)	2,787,243	2,521,029	3,049,754
Sublease Vacant (SF)	306,564	136,014	135,605
Total Vacant (SF)	3,093,807	2,657,043	3,185,365
Total Existing RBA (SF)	20,182,938	18,258,505	20,713,206
Vacancy Rate Direct %	13.8%	13.8%	14.7%
Vacancy Rate Sublease %	1.5%	0.7%	0.7%
Net Absorption (SF)	325,302	51,733	(54,884)
Average Rental Rate (NNN)	\$6.46	\$6.15	\$7.41
2010 Completed Construction SF	0	0	78,240
2011 Planned Construction SF	116,350	0	0

MARKET OVERVIEW

The two year trend of increased vacancy came to a halt as overall vacancy was reduced in all sectors except flex, which remained flat.

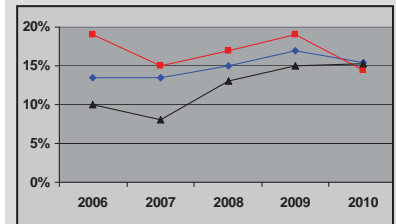
Lower asking rents with free rent and other concessions, along with hardly any new construction, led to positive absorption. Even with space removed from the market, developers are not encouraged to initiate any new "spec" development due to falling rents. During 2010, most new product dropped rates to compete with the generally older office/warehouse sector. Expanding tenants have done well to capture these bargains in long term leases. Savvy tenants have capitalized as well by negotiating lease extensions to re-cast their current lease at lower market rates.

Sales of user buildings remained active, but at a much reduced price compared to pre-2008 prices. There were many buildings on the market at asking prices still at pre-recession levels. A few of these that did finally sell sold at a discount which generally amounted to approximately 25%. 3100 Kaverton Road is an example that went on the market for \$100 per square foot and eventually settled for \$77 per square foot nine months later. Sales of portfolio properties were non-existent, but three 100% leased buildings at Steeplechase went on the market for sale in November. We expect more activity from investors for these new, institutional quality, bulk buildings. There was one major distressed sale during the year, 6304 Sheriff Road (former Giant Food), a 539,691 square foot, Class B warehouse which sold for \$12.60 per square foot. It is being repositioned as Wolf Commerce Center and will be offered as a multi-tenant warehouse.

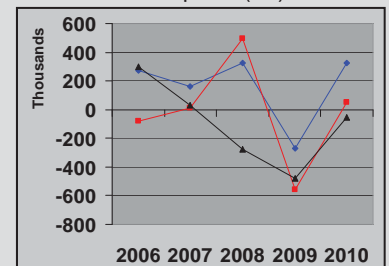
MARKET FORECAST

The economy will start to work its way out of the current recession, but at an even and deliberate pace. The Washington, DC economy is still the healthiest in the country, but with glum economic news elsewhere. However, the ongoing political issues of taxes, healthcare, immigration, and unemployment will cause existing companies to remain cautious and uncertain about growing their business.

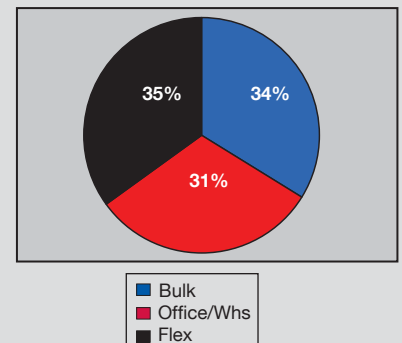
Vacancy Rate (%)



Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
US Electric Services	6500 Sheriff Road	120,448	Office/Whs	Outer Beltway
Vocus, Inc.	12051 Indian Creek Court	93,000	Bulk	Northern PG
Extra Space Storage	6300 Walker Mill Road	89,450	Office/Whs	Inner Beltway
Soccerdome PG, LLC	8400 Ardwick Ardmore Road	54,000	Bulk	Outer Beltway
Zip Mailing	6304 Sheriff Road	48,000	Office/Whs	Outer Beltway
Thompson Creek Manufacturing	5000 Philadelphia Way	46,700	Office/Whs	Outer Beltway
FF&E Logistics	6501 Virginia Manor Road	31,950	Bulk	Northern PG
Revolution Foods	6201 Columbia Park Road	23,297	Office/Whs	Outer Beltway

Prince George's County - Industrial

INNER BELTWAY



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	131	200	306
New/Relet Vacant (SF)	1,314,065	1,726,187	1,390,842
Sublease Vacant (SF)	59,102	69,617	57,102
Total Vacant (SF)	1,373,167	1,795,804	1,447,944
Total Existing RBA (SF)	10,816,256	10,213,918	9,883,143
Vacancy Rate Direct %	12.1%	16.7%	14.1%
Vacancy Rate Sublease %	0.5%	0.7%	0.6%
Net Absorption (SF)	(49,559)	158,354	14,583
Average Rental Rate (NNN)	\$6.13	\$5.53	\$6.03
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

MARKET OVERVIEW

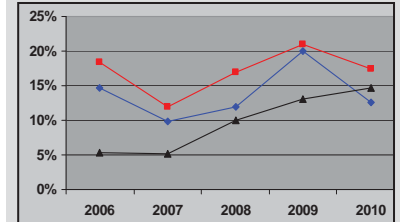
As anticipated, there was sluggish activity in all areas of this older market located inside the Beltway. No new product was delivered in 2010 and one major warehouse project, Giant Food (539,691 square feet), sold at a distressed sale as previously mentioned. With the lack of new inventory, absorption increased and vacancy decreased, driven by lower rental rates and the viability of the District of Columbia economy. Some companies expanded, taking advantage of lower rates for Class B and Class A product. Hockstein, a local carpet and flooring distributor, expanded from 15,000 square feet of Class B space and took 25,000 square feet of Class A, 24' tilt-up space at Hampton Central at lower rates than they were previously paying. Projects closer to Washington, DC have done well with food industry tenants wanting direct access into DC off of the Route 50 / New York Avenue Corridor. Gold Crust Baking Co., a Virginia bakery, is an example of this. Their purchase from PacTrust of a 89,408 square foot warehouse for \$6,800,000 is also a demonstration of the cross-state migration we have anticipated for industrial users looking for well located and more functional product at reduced prices.

MARKET FORECAST

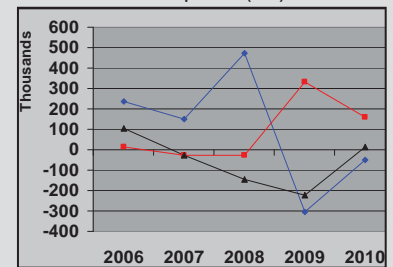
Now that the first phase of Steeplechase is fully leased, ATAPCO, the owners, placed the portfolio of three industrial buildings totaling 249,794 square feet on the market for sale. The sale closed in early 2011 with two buildings selling to INVESCO for \$110 per square foot and the third building selling back to the existing tenant at \$165 per square foot. Both transactions were high water marks for this type of product.

We do not expect much, if any, new speculative development without pre-leasing.

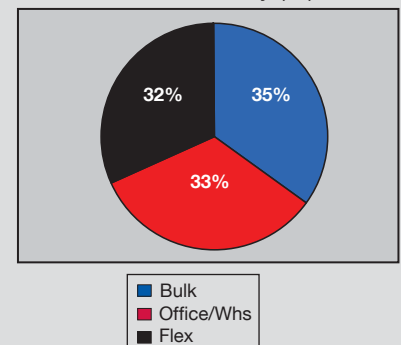
Vacancy Rate (%)



Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

SELECTED BUILDING SALES

Address	SF	Price	Price PSF	Product	Buyer	Seller
1101 Hampton Park Boulevard & 1100 Hampton Park Boulevard	132,260] 56,843]	\$25,000,000] (2 Buildings)]	\$110.00	Bulk	INVESCO	ATAPCO
1032 Hampton Park Boulevard	60,691	\$10,000,000	\$165.00	Bulk	Restaurant Depot	ATAPCO
6200 Columbia Park Road	89,408	\$6,800,000	\$76.00	Bulk	Gold Crust Baking Co.	Pacific Realty Assoc. LP
9800 Martin Luther King Hwy	80,000	\$5,450,000	\$69.00	Bulk	U-Haul	First Ind. Realty Trust

Prince George's County - Industrial

OUTER BELTWAY



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	44	20	70
New/Relet Vacant (SF)	453,630	100,900	634,660
Sublease Vacant (SF)	41,711	0	95,811
Total Vacant (SF)	495,341	100,900	730,471
Total Existing RBA (SF)	4,356,074	1,122,216	3,934,968
Vacancy Rate Direct %	10.4%	9%	16.1%
Vacancy Rate Sublease %	1%	0%	2.4%
Net Absorption (SF)	317,519	(50,600)	(44,609)
Average Rental Rate (NNN)	\$7.76	\$7.51	\$8.85
2010 Completed Construction SF	0	0	78,240
2011 Planned Construction SF	116,350	0	0

MARKET OVERVIEW

With buildings that were delivered in 2008 and 2009 still sitting vacant, coupled with a plethora of direct and sublease space available, landlords dropped rental rates and were again aggressive with concessions. This trend, as in previous years, led to deals taking more time than most landlords would have hoped. The market also saw its share of tenants touring just to leverage proposals against their existing lease rates. These tenants typically ended up renewing at a less expensive rate than what was in their existing lease. Tenants that were in need of new space also had the luxury of ample sublease space available. One long term sublease deal of note is Thompson Creek Manufacturing taking 46,700 square feet in Lanham.

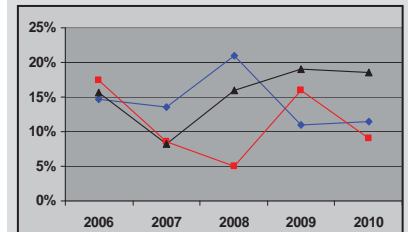
Washington Business Park saw more deal velocity in 2010 than any other section of this market. Most of the tenants were on the smaller side in Lanham such as Caribbean Cargo D.C., LLC taking 5,680 square feet and Action Delivery Logistics for 6,127 square feet. As for building sales, 9800 Martin Luther King Jr. Highway, an 80,000 square foot industrial building, was sold for \$68.00 per square foot to AMERCO Real Estate Company.

The Trade Zone Industrial Park in Upper Marlboro did not see much activity in 2010, but in the last quarter activity picked up and there has been an influx of smaller tenants touring this submarket, which leads us to believe that we are beginning to see some signs of recovery. Panatoni did not deliver any buildings in the Trade Zone Industrial Park in 2010 and does not plan to in 2011, unless a build-to-suit arises. Bowie saw its flex/industrial vacancy rate rise to 15% in 2010; however, a portion of that percentage was due to St. John Properties delivering two 39,000 square feet of new flex product.

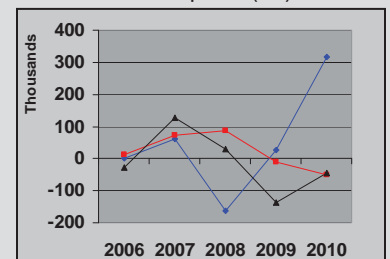
MARKET FORECAST

We are optimistic that the construction activity we are seeing by St. John Properties' new flex buildings in Bowie and the Chesapeake Real Estate Group's new bulk buildings at Eastgate are an indication that the market has begun to stabilize. As a whole, this market has hit bottom and should start to rebound considering that there was an overall increase in absorption. Bulk, flex, and office/warehouse vacancy rates shall remain steady in 2011 and rental rates will remain flat.

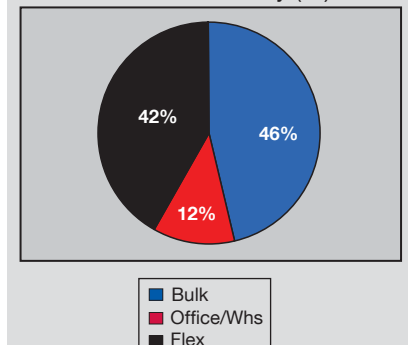
Vacancy Rate (%)



Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

BUILDINGS DELIVERED IN 2010

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

SIGNIFICANT INDUSTRIAL ACTIVITY

Prince George's County - Industrial

NORTHERN P.G. COUNTY



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	46	93	140
New/Relet Vacant (SF)	395,971	585,888	818,086
Sublease Vacant (SF)	205,751	66,397	24,400
Total Vacant (SF)	601,722	652,285	842,486
Total Existing RBA (SF)	3,338,010	4,757,518	4,436,886
Vacancy Rate Direct %	11.9%	12.3%	18.4%
Vacancy Rate Sublease %	6.2%	1.4%	0.5%
Net Absorption (SF)	54,824	(90,069)	(22,098)
Average Rental Rate (NNN)	\$7.90	\$5.93	\$6.38
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

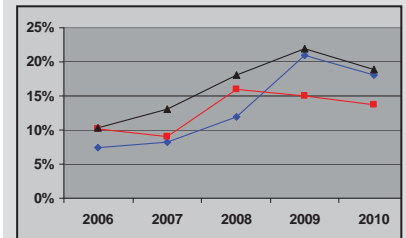
MARKET OVERVIEW

Northern Prince George's County showed improvement in 2010. Net absorption was positive for bulk product and was not nearly as high as the previous year for office/warehouse and flex. This can be linked to the vacancy rates dropping across all three building product sectors in Northern Prince George's County. The largest percentage of vacancy is still in the tech/flex product, which saw a large sale in the final month of 2010; WRIT sold its remaining 7 properties totaling 306,573 square feet in Beltsville to Cabot Real Estate of Boston, Massachusetts for \$23,025,000. Beltsville saw new, Class A, bulk buildings sell in The Brickyard this year; however, there were still users looking at older Class C product to purchase. On The Go Hosiery purchased 10320 Southard Drive for approximately \$107 per square foot. Landlords, like in every other portion of the county, were renewing tenants for shorter terms to keep their building's vacancy rate down and attempting to keep cash flow positive.

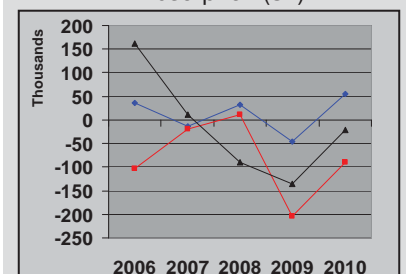
MARKET FORECAST

Vacancy rates in this market decreased from last year and this trend should continue into 2011. Class A and B product will start to see the signs of recovery throughout 2011. Landlords will look to stabilize assets and continue to attempt to close leases, yet tenants will see concessions decrease. However, older Class C buildings will continue with leasing struggles throughout 2011. Currently, there is no new construction slated for 2011 in this submarket, but the Intercounty Connector (ICC), an 18-mile long, east-west highway that connects Interstate 270 in Montgomery County with Interstate 95 and Route 1 in Prince George's County, will make this submarket more attractive.

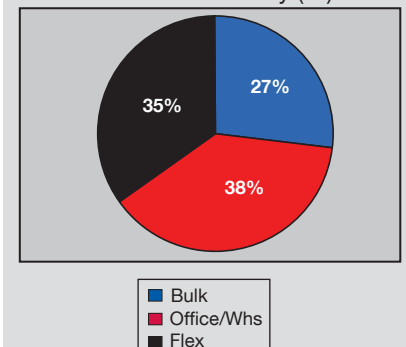
Vacancy Rate (%)



Absorption (SF)



Market Inventory (%)



PRINCE GEORGE'S COUNTY

SIGNIFICANT INDUSTRIAL ACTIVITY

2011 PLANNED CONSTRUCTION

Address	SF	Product	Price	Delivery Date	Owner/Developer
Eastgate Bus. Park, Bldg 3	47,600	Bulk	\$945,000/condo	2011	Chesapeake R.E. Group
Eastgate Bus. Park, Bldg 6	68,750	Bulk	\$945,000/condo	2011	Chesapeake R.E. Group

SELECTED LAND SALES

Address	Acres	Price	Price/Acre	Buyer	Seller
9161 Alaking Court	1.21	\$2,307,693	\$1,884,000	Navy Federal Credit Union HQ	Ritchie Interchange, Inc.
7700 Matapeak Bus. Drive	21.60	\$1,026,300	\$47,512.13	Faison & Associates, LLC	Resun Modspace, Inc.
4711 Lydell Road	1.90	\$480,000	\$252,631.58	Civil Construction	Reginal Tymus
8850 Walker Mill Road	1.28	\$410,000	\$320,213.50	Hampton Walker Mill, LLC	Ly-mar, LLC
Eastgate Business Park	7.95	\$1,850,000	\$232,704.40	TSI Exterior Walls, LLC	Chesapeake R.E. Group

HOWARD COUNTY

Office Submarket Map



HOWARD COUNTY

HOWARD COUNTY

Office Market



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	65	228
New/Relet Vacant (SF)	979,096	1,099,156
Sublease Vacant (SF)	74,806	2,137
Total Vacant (SF)	1,053,902	1,101,293
Total Existing RBA (SF)	6,761,508	8,304,156
Vacancy Rate Direct %	14.5%	13.2%
Vacancy Rate Sublease %	1.1%	0.0%
Net Absorption YTD (SF)	44,790	25,264
Average Rental Rate (Full Service)	\$25.42	\$20.81
2010 Completed Construction SF	313,500	106,375
2011 Planned Construction SF	188,050	32,000

MARKET OVERVIEW

The overall sentiment countywide was, "things are appearing to be a little brighter." Although at the end of the day, it's all about job growth. Howard County continues to do very well compared to other jurisdictions.

MARKET FORECAST

Howard County will continue to lure companies looking to position themselves within the Washington-Baltimore Corridor and take advantage of the highly educated workforce, strong school system and reasonably affordable housing stock.

Landlords will continue to be aggressive next year to retain existing tenants, but the recast of lease rates will not be as drastic as the past two years. We will gradually see the pendulum shift ever so slowly to the landlords side for well located office space near or next to strong economic demand drivers.

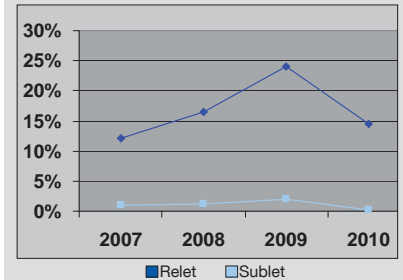
Owner/users of real estate will have opportunities to purchase office condos as this sector has lagged the past year. Interest rates remain low and, once companies feel more confident in their business model, we'll see them looking to buy and/or lease.

There will be some opportunities, but not many for the savvy investor. Properties that are well located with a strong tenant base will continue to drive prices upward and cap rates to be compressed.

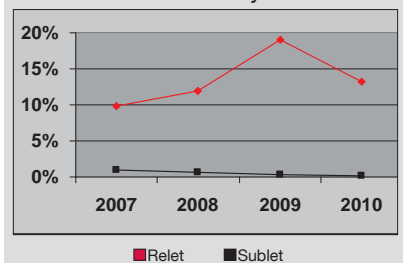
We are fortunate to be located within a well sought after marketplace with high barriers to entry. We certainly have seen the worse; however, the question will be, "How long do we bounce around at the bottom?"

Hopefully, signs of a new dawn are approaching with General Growth Properties' emergence from bankruptcy, BRAC activity gaining momentum and the expectance of Cyber Security Command. 2011 will look and feel a lot like 2010, whereas the year will be better than the previous.

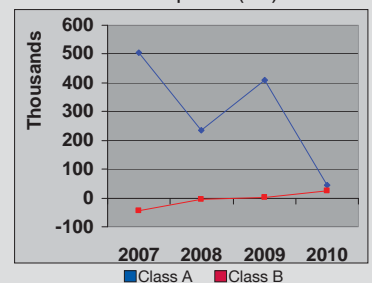
Class A Vacancy Rate



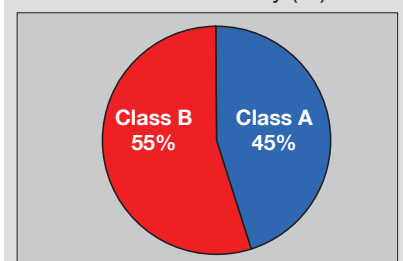
Class B Vacancy Rate



Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Class
Martek	6480 Dobbin Road	86,367	Flex
Sourcefire	9770 Patuxent Woods Drive	58,000	B
Kaiser Permanente	Maple Lawn	42,620	A
ADG Creative	7151 Columbia Gateway Drive	27,709	B
Pepsi	7095 Samuel Morse Drive	19,540	B
Nucletron Corporation	8671 Robert Fulton Drive	12,701	A
MXenergy	10010 Junction Drive	9,889	B
Red Arch Solutions	10215 Wincopin Circle	9,868	A
PhoenixTS	10420 Little Patuxent Parkway	7,997	B
ACGI/Association Consulting Group, Inc.	11000 Broken Land Parkway	7,578	A

Howard County - Office

COLUMBIA NORTH



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	11	60
New/Relet Vacant (SF)	179,450	467,717
Sublease Vacant (SF)	0	0
Total Vacant (SF)	179,450	467,717
Total Existing RBA (SF)	767,874	2,211,022
Vacancy Rate Direct %	23.4%	21.2%
Vacancy Rate Sublease %	0.0%	0.0%
Net Absorption YTD (SF)	(48,666)	95,874
Average Rental Rate (Full Service)	\$25.33	\$21.63
2010 Completed Construction SF	0	72,000
2011 Planned Construction SF	0	68,779

MARKET OVERVIEW

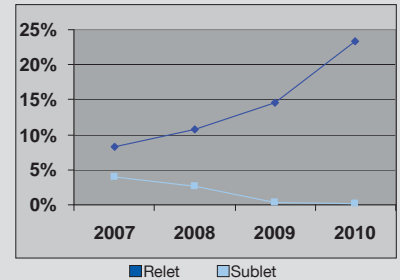
2010 remains a tenant's market. The Columbia North submarket continues to lag as tenants move to nearby quality product and locations in Columbia Gateway, Columbia Town Center and Maple Lawn.

Exeter Property Group renovated the former Baltimore Aircoil office building totaling approximately 55,000 square feet. This Class B building will be a low cost alternative boasting at \$13 per square foot, plus electric and char, and a parking ratio 7:1,000. This could be ideal for state and local agencies looking for inexpensive office space with good access.

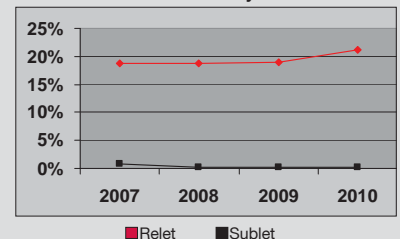
MARKET FORECAST

The market will experience slow growth, but there should not be any major announcements of company closings or major layoffs. As cyber security and BRAC gets traction, it will be interesting to see if Columbia North will benefit from other desirable markets where those demand drivers are located. We expect some positive absorption and steady rental rates.

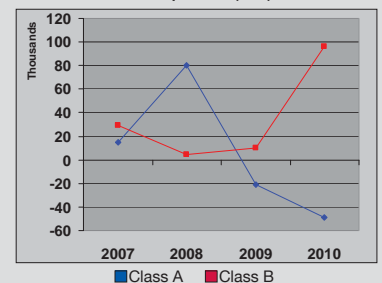
Class A Vacancy Rate



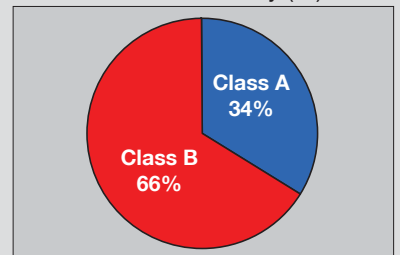
Class B Vacancy Rate



Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

2011 PLANNED CONSTRUCTION

Address	SF	Delivery Date	Asking Rent PSF	Owner/Developer
9055 Sterling Drive	153,500	Oct 2011	TBD	James F. Knott
8160 Maple Lawn Boulevard	110,000	Aug 2011	\$32.50	Greenebaum & Rose
Dorsey Run Road @ Henkels Lane, Bldg F	78,050	Aug 2011 breaks ground	TBD	Petrie Ross

BUILDINGS DELIVERED IN 2010

Address	SF	Product	Delivery Date	Asking Rent PSF	Owner/Developer
9161 Sterling Drive	153,000	A	Sept 2010	Pre-leased	James F. Knott
9070 Sterling Drive	160,000	A	Oct 2010	\$32.50 + Electric	Emory Properties
7595 Montevideo Road	55,950	B	2010 (Renov)	\$13 + Electric/Char	Exeter Property
11711 East Market Place	34,375	B	Aug 2010	Owner Occupied	B/W Conference Center
6010 Meadow Center Drive	16,000	B	June 2010	\$30.00 NNN	Waverly

Howard County - Office

COLUMBIA SOUTH



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	37	99
New/Relet Vacant (SF)	800,946	476,662
Sublease Vacant (SF)	74,806	18,769
Total Vacant (SF)	875,752	495,431
Total Existing RBA (SF)	4,192,042	4,271,439
Vacancy Rate Direct %	19.1%	11.2%
Vacancy Rate Sublease %	1.8%	0.4%
Net Absorption YTD (SF)	35,887	(70,611)
Average Rental Rate (Full Service)	\$25.69	\$20.63
2010 Completed Construction SF	313,500	34,375
2011 Planned Construction SF	263,500	0

MARKET OVERVIEW

Bound by MD Route 175 to the north, MD 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 2010.

The Columbia South submarket was quiet in 2010. Vacancy rates rose slightly due to several deliveries in the marketplace and landlords are actively competing with each other for any tenant prospects in the submarket.

We witnessed the better buildings leasing up quicker, but not necessarily at the rate that landlords wish to achieve. This will leave 2011 with very few good quality options in the marketplace. As new buildings are constructed with a substantial delta between new building asking rates and Class B/relet building rates, asking rents will increase overall.

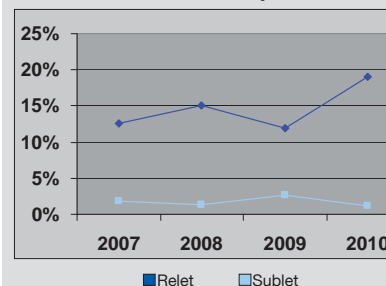
The government has appeared ready to lease space in Emerson Business Park. They signed a lease for 153,000 square feet in the James F. Knott building to be delivered this Fall with occupancy scheduled for 2011. Knott is very bullish on this market; two years ago they purchased 32 acres in the park and they plan to break ground in 2011 on another building that will deliver in October.

There are numerous opportunities for users to purchase small buildings in the marketplace that are otherwise struggling with vacancies. With historic low interest rates, banks are also lending money for user sales.

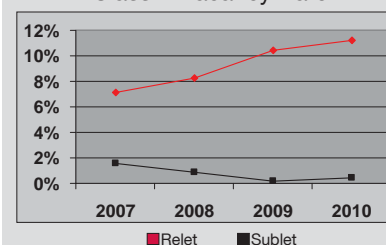
MARKET FORECAST

We see the number of quality options substantially decreasing in 2011. New construction starting in 2011 will boost asking rents for the entire marketplace. Class "B" relet landlords will need to improve their space to remain competitive and attract users. For example, a user looking for 5,000 square feet would have 11 Class "A" options and 20 Class "B" options. A landlord will need to do something to differentiate their building.

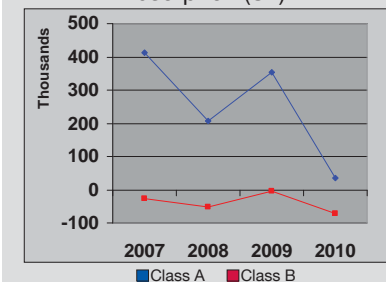
Class A Vacancy Rate



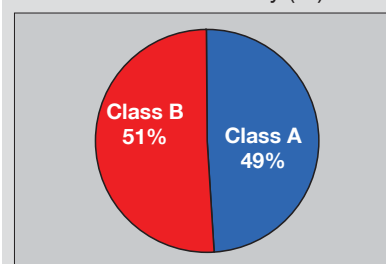
Class B Vacancy Rate



Absorption (SF)



Market Inventory (%)



HOWARD COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED BUILDING SALES - INVESTMENT

Address	SF	Price	Price PSF	Buyer	Seller
6841 Benjamin Franklin Dr	200,573	38,684	\$192.87	Principal R. E. Investors LLC	Trammell Crow Company

SELECTED BUILDING SALES - USER

Address	SF	Price	Price PSF	Buyer	Seller
8901 Hermann Drive	12,100	\$1,989,000	\$164.00	J&S 8901 Hermann LLC	8901 Hermann, LLC

SELECTED LAND SALES

Address	Size	Price	Price/Acre	Buyer	Seller
Meadowridge Road @ I-95	39 Acres	\$9,000,000	\$230,000	Sheppard Pratt Health System	Mark Levy/H&H Rock

Howard County - Office

COLUMBIA TOWN CENTER



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	15	20
New/Relet Vacant (SF)	244,919	133,998
Sublease Vacant (SF)	0	2,137
Total Vacant (SF)	244,919	136,135
Total Existing RBA (SF)	1,686,882	854,466
Vacancy Rate Direct %	14.5%	15.7%
Vacancy Rate Sublease %	0.0%	0.3%
Net Absorption YTD (SF)	59,993	4,982
Average Rental Rate (Full Service)	\$24.80	\$21.06
2010 Completed Construction SF	0	0
2011 Planned Construction SF	0	0

MARKET OVERVIEW

Interest and excitement concerning Columbia Town Center resurfaced in 2010. After almost 5 years, the Howard County Council this past February, unanimously approved legislation for a 30-year master plan that will allow as much as 13 million square feet of new retail, commercial, residential, hotel and cultural development space, including 4.3 million square feet of commercial office space to Columbia's Downtown core.

Last November, General Growth Properties (GGP) emerged from Chapter 11 bankruptcy and a spin off company, The Howard Hughes Corporation (HHC), was formed. HHC is the town's master developer and now owns the lakefront properties, including the old Rouse Headquarters building. HHC is moving forward on an array of studies and plans that could ignite construction on the master plan starting in 2012.

Town Center has continued to reduce its vacancy level. Attractive leasing incentives, including free or reduced rent and generous tenant improvement allowances, are being offered based on sound fundamentals of strong credit and long lease terms. Tenants that have been sitting on the sidelines have taken advantage of the aggressive lease terms to upgrade their office space requirement.

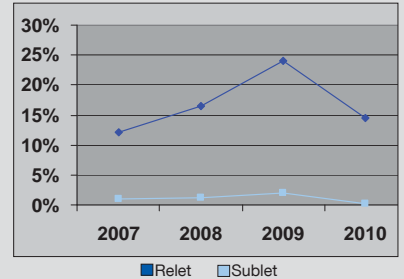
Town Center has already seen evidence of BRAC and cyber-security initiatives as there as been leasing activity of more than 25,000 square feet from these users in 2010.

MARKET FORECAST

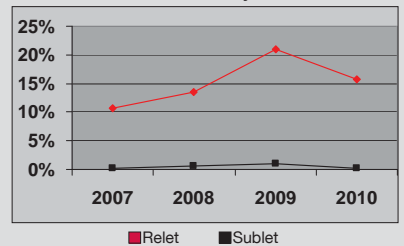
We anticipate rental rates to be level and we expect continued leasing incentives. With all of the amenities that companies are looking for and with the large vacancies in the Howard County market being absorbed, Columbia Town Center will only continue to be an opportunity.

We are looking forward to the continued Cyber-Security Command at Fort Meade and BRAC process to bring thousands of new jobs and people to the area. We expect there is going to be a lot of demand for space in this submarket.

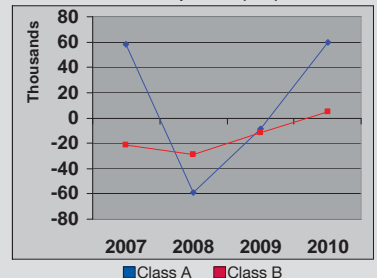
Class A Vacancy Rate



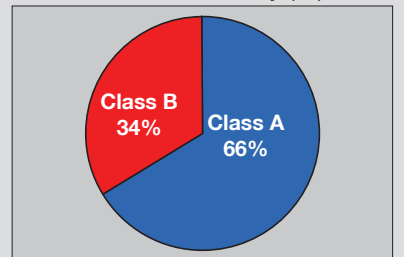
Class B Vacancy Rate



Absorption (SF)



Market Inventory (%)



"BRAC-related leasing made a strong and significant impact on our Columbia Town Center portfolio in 2010, as the tentacles from Ft. Meade stretched throughout the Howard County region and into our sub-market. Our team was extremely encouraged by BRAC-generated activity as interest surpassed our initial expectations. Cyber-command and cyber-security related companies were at the forefront of these requirements. We are still dealing with several companies in a right-sizing mode, given the current economic climate, although this volume is decreasing."

Dave Shapiro, Vice President, Leasing, General Growth Properties

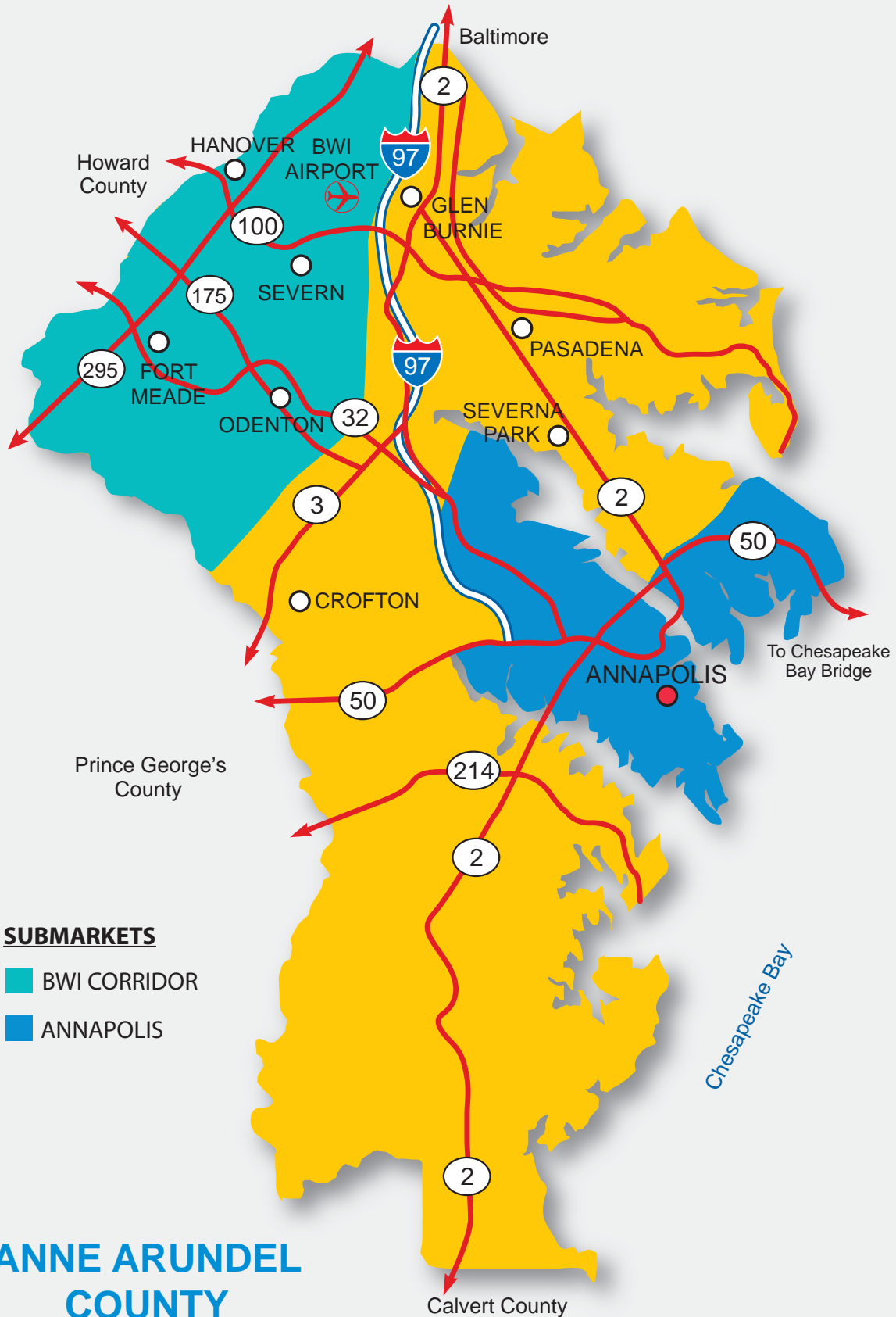
HOWARD COUNTY

LEED CERTIFIED BUILDINGS

Address	Class	SF	LEED Description	Address	Class	SF	LEED Description
6841 Benjamin Franklin Dr	A	300,573	Gold	6085 Marshalee Dr	A	81,728	Silver
10710 Charter Drive	A	163,814	Silver	6095 Marshalee Dr	A	81,728	Silver
6721 Columbia Gateway Dr	A	131,451	Silver	8840 Stanford Blvd	A	93,903	Gold

ANNE ARUNDEL COUNTY

Office Submarket Map



ANNE ARUNDEL COUNTY

Office Market



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	90	245
New/Relet Vacant (SF)	1,324,241	1,091,882
Sublease Vacant (SF)	53,544	4,979
Total Vacant (SF)	1,377,785	1,096,861
Total Existing RBA (SF)	8,171,044	7,196,880
Vacancy Rate Direct %	16.2%	15.2%
Vacancy Rate Sublease %	0.7%	0.1%
Net Absorption YTD (SF)	339,110	(30,171)
Average Rental Rate (Full Service)	\$29.50	\$22.50
2010 Completed Construction SF	385,130	29,600
2011 Planned Construction SF	474,800	68,753

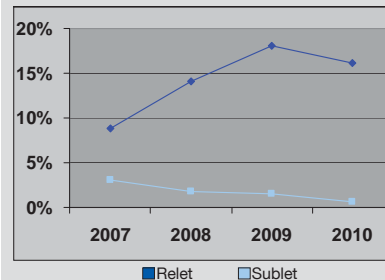
MARKET OVERVIEW

The Anne Arundel County Class A office market experienced a slight decrease in the vacancy rate, absorption and the amount of construction in 2010. Compared to 2009, vacancy rates have decreased from a total (new/relet and sublease space) of 19.2% to 16.9% for Class "A" space and increased from 11.2% to 15.3% for Class "B" product. Net absorption also took a downturn with approximately 339,110 square feet of Class "A" space absorbed in 2010, compared to approximately 423,410 square feet last year. Class "B" increased from a negative net absorption of approximately 61,854 square feet in 2009 to a negative 30,171 square feet in 2010. Average full service, office rents for both building classes remained flat staying within the \$29.50 per square foot range for Class "A" and in the \$22.50 per square foot range for Class "B". The amount of construction decreased with nearly 385,130 square feet of Class A space completed in 2010 compared to 767,875 in 2009.

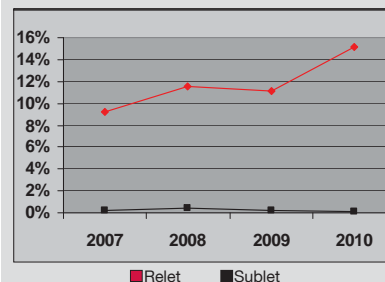
MARKET FORECAST

Due to its proximity to Baltimore and Washington, DC, Anne Arundel County is poised to continue having one of the strongest economies in the state. There are several developments which should continue to support the upturn of the real estate market in this region: record low interest rates, the impact of the military's Base Realignment and Closure (BRAC) at Fort Meade, the potential for increased revenue and jobs due to the passing of the slots bill at Arundel Mills, and an agreement between the Halle Co. and the County Council that it will spend nearly \$15 million on the construction of Odenton Town Center Boulevard, which would connect MD Routes 175 and 32, and also provide for the necessary water and sewer upgrades to this area. The real estate market will also see continued development of new mixed-use projects such as the Arundel Preserve, Odenton Health and Technology Center, and the National Business Park. As these office buildings are delivered in the marketplace, Anne Arundel County will see an increase in its office vacancy rate. However, with the arrival of defense-related users and the federal government expected within the next couple of years, we anticipate that vacancy rates will decrease, absorption of space will increase, and rental rates will remain level as landlords vie for these tenants.

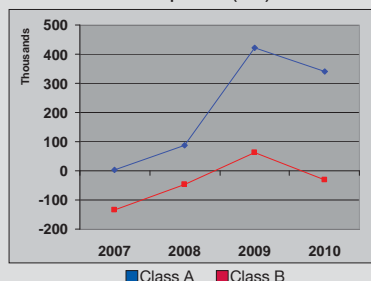
Class A Vacancy Rate



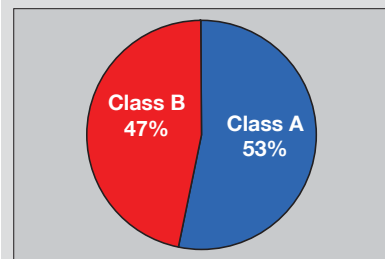
Class B Vacancy Rate



Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

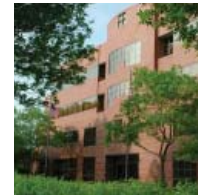
SIGNIFICANT OFFICE ACTIVITY

SELECTED LEASING TRANSACTIONS

Tenant	Address	SF	Class
CGI	300 Sentinel Drive	39,400	A
Northrop Grumman	2691 Technology Drive	26,149	A
ITT	7556 Teague Road	22,575	A
The Orthopedic & Sports Medicine Center	2000 Medical Parkway	21,000	A
United States Government	130 Admiral Cochrane Drive	17,200	A
Asian Relief	180 Admiral Cochrane Drive	8,030	A
Wells Fargo	2661 Riva Road	7,500	A
UBS Securities	3 Park Place	7,360	A

Anne Arundel County - Office

ANNAPOLIS



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	34	89
New/Relet Vacant (SF)	404,575	133,947
Sublease Vacant (SF)	20,224	4,768
Total Vacant (SF)	424,799	138,715
Total Existing RBA (SF)	2,287,408	2,043,576
Vacancy Rate Direct %	17.7%	6.6%
Vacancy Rate Sublease %	0.9%	0.1%
Net Absorption YTD (SF)	17,369	(16,800)
Average Rental Rate (Full Service)	\$30.25	\$23.53
2010 Completed Construction SF	40,000	0
2011 Planned Construction SF	0	0

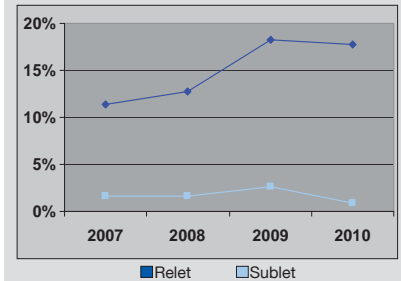
MARKET OVERVIEW

The 2010 Annapolis office market made some headway, however, there was not a great deal to get excited about in terms of leasing velocity or lease transactions. A fair number of vacancies that remained in 2009 did not lease in 2010. 2510 Riva Road, a six story office building totaling 70,000 square feet, awaits renovation after Verizon vacated the building in 2009; it remains vacant. Douglas Jemal Development's building at 185 Admiral Cochrane Drive (130,000 square feet) also remains vacant, however, they are expecting their first tenant (FBI) to take approximately 10,000 square feet. Annapolis Town Centre's office condominium building (46,000 square feet) completed several condominium sales in 2010 in the \$350 per square foot range. Park Place did not attract any new tenants other than UBS Securities at 3 Park Place who leased 7,360 rentable square feet, leaving 29,923 rentable square feet available and 12,665 rentable square feet at 1 Park Place. Pharmathene is placing their space totaling 21,800 rentable square feet on the market for sublease at 1 Park Place. Market demand continues to be primarily tenants in the 2,000 to 5,000 rentable square foot range.

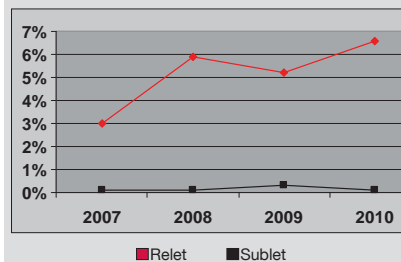
MARKET FORECAST

Other than the larger space offerings discussed, the existing Annapolis office inventory is predominantly smaller suites (2,000 – 5,000 square feet) and remains relatively healthy. Leasing velocity was slightly better than 2009. Given that a large amount of the market vacancy resides in a handful of properties, Annapolis continues to fare better than other submarkets in Maryland.

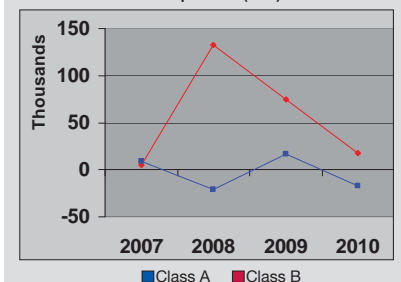
Class A Vacancy Rate



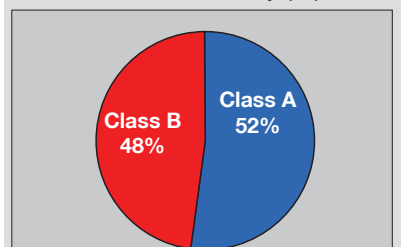
Class B Vacancy Rate



Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

SIGNIFICANT OFFICE ACTIVITY

SELECTED BUILDING SALES

Address	SF	Price	Price PSF	Buyer	Seller
175 Admiral Cochrane Drive	56,000	\$10,000,000	\$180.00	108 Forbes St, LLC	KC Admiral II, LLC
108 Forbes Street	14,884	\$3,750,000	\$252.63	Joan Cantero-Lakhanpal, MD	108 Forbes St, LLC
555 Benfield Rd & 313 Center Dr	7,900/960	\$1,100,000	\$124.00	A.A. Co. Assoc. of Realtors	Garden Equities
139 Old Solomons Island Road	6,532	\$1,325,000	\$202.85	Small Ones Properties, Inc.	Beerfoote Associates
1906 Towne Centre Blvd (condo)	3,290	\$1,151,500	\$350.00	Include Software Corporation	Greenburg Gibbons

SELECTED LAND SALES

Address	Size (Acres)	Purchase Price	Price Per Acre	Buyer	Seller
316 Sentinel Drive	9.80	\$4,304,200	\$439,204.08	Npb 316, LLC	COPT
6750 McLean Way	2.71	\$350,000	\$129,151.29	Innovative Floor Systems, Inc.	Oxford Realty Advisors

Anne Arundel County - Office

BWI CORRIDOR



FORECAST

Vacancy Rate



Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	44	55
New/Relet Vacant (SF)	860,573	660,989
Sublease Vacant (SF)	35,591	2,011
Total Vacant (SF)	896,164	663,000
Total Existing RBA (SF)	5,359,252	2,782,582
Vacancy Rate Direct %	16.1%	23.8%
Vacancy Rate Sublease %	0.7%	0.1%
Net Absorption YTD (SF)	295,586	43,909
Average Rental Rate (Full Service)	\$27.87	\$22.12
2010 Completed Construction SF	345,130	0
2011 Planned Construction SF	410,800	68,753

MARKET OVERVIEW

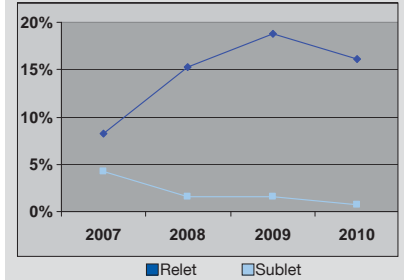
The BWI Corridor office market remains one of the most active in the region due to its proximity to economic drivers as BWI Thurgood Marshall Airport and Ft. Meade. Class "A" absorption was slightly lower than last year, but rental rates increased as flight to quality continues. Class "B" on the other hand has experienced positive absorption, but clearly has not seen the velocity of tenants as the "A" market. Several defense and technology companies leased significant space such as ManTech International 43,000 square feet, Northrop Grumman 26,000 square feet, CGI 28,500 square feet, ITT 23,000 square feet and Lockheed Martin 46,700 square feet just to name a few.

Class "A" vacancy decreased to 16% compared to 18.8% in 2009 and Class "B" increased from 19.4% in 2009 to 23.8%.

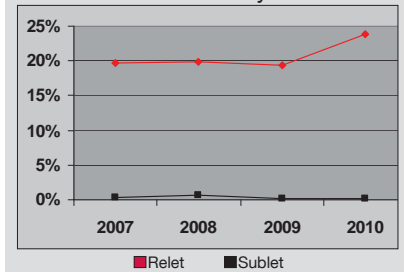
MARKET FORECAST

Due to the demand drivers in the Corridor submarket, the Class "B" market should benefit from the lack of Class "A" product. As BRAC and cyber security gains further traction, the market should have an impressive year which, in turn, may trigger new development.

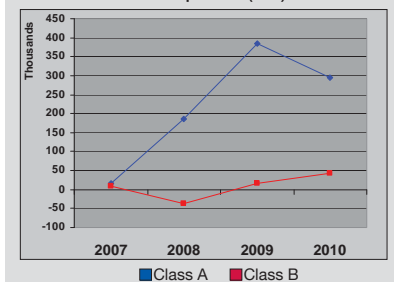
Class A Vacancy Rate



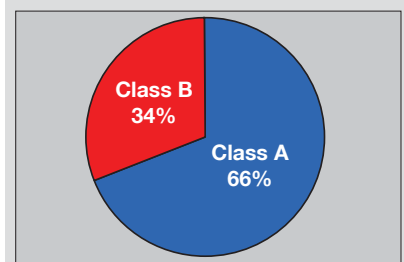
Class B Vacancy Rate



Absorption (SF)



Market Inventory (%)



ANNE ARUNDEL COUNTY

BUILDINGS COMPLETED IN 2010

Address	RBA SF	Delivery Date	Asking Rent PSF	Class	Owner/Dev.
129 Lubrano Drive	40,000	Nov 2010	\$30.00	A	Contee Investments, LLC
7234 Parkway Drive	60,000	April 2010	Fully Leased	A	IUPAT
308 Sentinel Drive	160,000	Aug 2010	Fully Leased	A	COPT
324 Sentinel Way	125,130	May 2010	Fully Leased	A	COPT
8684 Veterans Highway	29,600	Dec 2010	\$22.00 NNN	B	AAC Professional Fire Fighters

2011 PLANNED CONSTRUCTION

Address	RBA SF	Delivery Date	Asking Rent PSF	Class	Owner/Dev.
1150 Annapolis Road	64,000	Nov 2011	\$23.00	A	AJ Properties
7799 Arundel Mills Road	175,000	Aug 2011	\$27.95	A	Chesapeake RE Group
2288 Blue Water Boulevard	68,753	April 2011	\$25.00	B	Halle Enterprises
2510 Riva Road (Renovations)	72,382	Jan 2011	\$29.00	A	MCBH, LLC
8193 Dorsey Run Road	125,000	Sept 2011	Negotiable	A	Konterra LP
430 National Business Parkway	110,000	July 2011	Negotiable	A	COPT

SIGNIFICANT OFFICE ACTIVITY

RESIDENTIAL LAND



2010 Showed Early Signs of a Resurgent Housing Market – Albeit Fraught with Complications

The crash that wiped out the residential land market beginning in 2006 continues to plague both landowners and the homebuilding industry throughout Maryland. The reasons included the frozen lending market, sputtering demand for new homes and more government regulations which has kept demand down for development land over the last year. Deals were being made in 2010 almost exclusively by national homebuilders such as Ryland, Ryan, and Lennar, who were able to utilize their own cash to purchase distressed landholdings from banks and struggling land or lot owners.

Bankers not interested in lending on dirt

Within the industry there were a number of banks that were known for lending to developers – namely Bay National, Bradford Bank, K Bank, Suburban, and Ideal Bank. Over the last two years (2009 and 2010), these once-premier lenders failed and were taken over by the FDIC, while Mercantile Bank and Trust was acquired by PNC, a bank that has made no secrets about not wanting to be in the land business. The bank failures were caused by lenders lending to developers prior to the change in market conditions. After loans were approved, it became apparent that developers had over paid for land, were unable to find a market for the lots they had created, and were now cash strapped and could no longer afford to pay on loans for land they were unable to sell.

Today, with banks having foreclosed on dozens of partially-completed subdivisions, there are almost no local lenders making land loans to investors, developers, or homebuilders. If a bank can be cajoled into making a loan, it will impose a substantially higher interest rate than in previous years, requiring the buyer to come out-of-pocket for sixty percent of the purchase price. Bankers were busy this year, selling foreclosed subdivision opportunities for pennies on the dollar in an effort to remove these non-performing assets off their balance sheet.

The lack of borrowing capacity in the marketplace has left smaller homebuilders and land developers sitting on the sidelines or scrambling to find equity partners in order to stay relevant in the marketplace. Many smaller land developers and homebuilders have ceased operations, facing the reality that without access to cash, they can no longer buy or build.

As a result of the demise of many smaller builders and developers, national homebuilders have driven down the price they will pay for lots, and they have limited development to those areas where they see opportunity as a result of BRAC (the largest driver of new jobs in the state) and have focused their building efforts on homes selling below \$500,000. This means that Anne Arundel, Baltimore, Harford, Howard, and Montgomery counties are seeing interest from homebuilders, but very little interest exists for land opportunities elsewhere in the state.

According to Mike Baldwin, owner of Baldwin Homes and developer of a 71-lot site near Fort Meade called the Preserve at Severn Run, sales are weak. Said Baldwin, “The sales really aren’t there yet. Industry-wide, people [homebuilders] are selling, but not in the numbers you would expect.” Of his 71 lots, Baldwin has developed ten and sold one to an employee of Fort Meade. Even in a situation where BRAC is ramping up to be a huge driving force (a demand for 9,800 homes by 2015), builders are still struggling. The problem is that potential Ft. Meade area homebuyers must still sell their existing homes, not an easy prospect in the current housing market.

Government regulations continue to make land development more difficult

May 4, 2010, marked the beginning of the state’s new storm water management regulations. The new regulations, interpreted and enforced on a county level, are designed to protect the Chesapeake Bay by decreasing unfiltered run off into the bay. The new regulations have caused serious heartburn to area land planners, developers, and government officials: not only have the regulations increased development costs substantially, they have also decreased lot yield and extended the time required for subdivision approval. Additionally, county planning and zoning directors are not speaking with a unified voice when it comes to interpreting the regulations, making it difficult for developers to design their projects. Although a good thing for the bay, the regulations limit the land area available for development as more land will need to be set aside for storm water management practices, such as coastal plains outfalls, bio-retention facilities, and ground water recharge areas. The state’s attempts to improve the bay through stringent new storm water regulations are just one more obstacle to a vigorous recovery in the housing market.

What does 2011 hold for the residential land market?

Assuming that the unemployment rate does not increase and consumer confidence does not further decrease over the next year, homebuilding in the region will probably remain flat in those areas not directly impacted by the job influx to the Aberdeen Proving Ground and Ft. Meade. Landowners who own land in secondary markets will not see an increase in value from the current values. Landowners in tertiary markets, like Maryland’s Eastern Shore or the area north of Hagerstown, will find no interest from buyers. Those landowners who own land in the primary market area impacted by BRAC and whose land is capable of being serviced by public utilities will probably see an increase in their land values as homebuilders fight for the few remaining parcels of land in the path of progress.

The only certainty is that the land development process continues to become more challenging as buyers navigate ever increasing-regulations, scarcity of development parcels, a shortage of lenders, and consumers unsure if now is the time to purchase that dream house.

INVESTMENT OVERVIEW



The mood among investors in 2008 and 2009 was extremely pessimistic, and most investors expected widespread foreclosures and a high volume of distressed sales. This sell-off never materialized. Lenders for the most part modified loans to avoid foreclosure wherever possible.

From the beginning of 2008 to the end of 2009, the values of many commercial assets fell as much as 30 to 50 percent. Now in the middle of 2010, investors are jumping back into the market and paying prices approaching 2007 levels again. This at the very least shows a lack of hindsight. The smartest investors are selling into this market strength. Interest rates have nowhere to go but up, and pricing is likely to fall commensurately with an increase in interest rates.

These falling yield expectations (or in the parlance of the industry, “cap rate compression”) are being driven both by an incremental increase in confidence among investors and by interest rates that have fallen to historic lows. With interest rates as low as they are, investors earn almost no return by hanging onto cash. There seems to be a consensus that we are either at or near a bottom in our region as it relates to commercial real estate leasing market fundamentals and this is increasing confidence among buyers as well.

Particularly in our region, the demand feeds upon itself, driving prices further up. There are so few opportunities available to buy high quality assets in our region that when these assets do become available, there is a literal bidding war of the sort that is driving yields down to pre-recession levels. This is partly because the greater Washington-Baltimore area is widely viewed as one that is somewhat insulated from economic downturn because of the presence of the federal government. Washington, DC, is in even greater favor thanks to the tremendous stimulus spending now occurring.

The commercial buildings that are most in demand are those that appeal to institutional investors like pension funds, real estate investment trusts, and overseas investors. Examples of these buildings include well-located shopping centers anchored by a premier grocery chain, large stable office buildings in downtown Washington, DC, or the most desirable inside-the-Beltway suburban submarkets, and high quality multifamily assets. Capitalization rates are regularly below seven percent – and even in some cases even down to around six percent – for the best grocery anchored centers and

“core” office and multifamily assets have been known to trade at even lower yields.

We are also seeing high demand for single tenant net leased retail, with the highest demand for well located stores with “bulletproof” credit tenants like Walgreens. Small, multi-tenanted, retail strip centers are also extremely desirable and when priced appropriately are generating bidding wars.

The demand for “non-core” assets that are attractive to institutional buyers is much thinner, but pricing for these assets is still meaningfully better than it was in 2008 and 2009.

While we have seen a busy sale season this year-end as the investment community returned from summer vacation and sellers have raced to get properties settled by year-end, the much rumored increase in the capital gains tax rate has not materialized.

Pricing has increased so dramatically that sophisticated owners are looking through their portfolios for “non-fit” assets to sell. The tough question with no easy answer for these prospective sellers is, “what to do with the cash.” There are selected asset categories where there is opportunity for an opportunistic investor to take advantage of interesting contrarian buying opportunities. For instance, office assets in suburban locations are garnering less attention. The office vacancy percentage in many suburban markets is reaching the mid to high teens, and a smart investor can make very attractive buys of partially leased office buildings, and then create value through leasing vacant space in those buildings.

We are recommending to our owner-clients that they take advantage of current market conditions and identify quality, stabilized commercial assets to take to market. It is unclear whether this current seller-friendly climate is sustainable in light of the soft economy and possible inflation down the road.

Among the best candidate properties to bring to market today are stable retail, multifamily, and bulk industrial buildings. Owners not in the market to sell and with relatively low debt loads should take advantage of current market conditions to refinance. Financing at historic lows is available for quality assets with reasonable leverage.

Investors looking to buy should focus on taking calculated vacancy risk and buying assets that can be bought at a significant discount to replacement cost.

Build on the power of our network.™



OUR SERVICES

Brokerage Services

- Tenant/Landlord Representation
- Buyer/Seller Representation
- Sales/Leasing/Subleasing
- Portfolio Marketing
- Market Reports & Opinions of Value
- Site Selection Analysis
- Market Research/Mapping/Demos

Management Services

- Property & Asset Management

Lease Consulting Services

- Lease Auditing/Compliance
- Lease Abstracting
- Lease Databases & Administration
- Lease Consulting

Financial & Investment Services

- Investment Acquisitions & Sales
- Mortgage Brokerage
- Structured Lease Finance
- 1031 Exchange Services

On-Line Services

- REALTrac™ Online
 - Transaction Management
- NAIDirect.com
 - Surplus Property Hosting/Marketing
 - Market Research & News
 - Demographic/Mapping Services
- LoopNet®
- CoStar Property®
- Builder Info Tools™

PARAGON

commercial property management

Paragon Commercial Property Management, a subsidiary of KLNB, LLC, is a full-service provider of commercial real estate property and asset management services.

Paragon takes a strong “hands on” philosophy to managing its properties. Engineers inspect each building regularly and meet constantly with its tenants and vendors. Paragon is building an organization based on a reputation for superior service and invites you to contact any of the tenants or building owners that it serves.

Paragon employs six roving maintenance engineers who perform a multitude of services including all basic mechanical, electrical, plumbing and janitorial work. As a result, in many circumstances we are able to provide owners faster and less-expensive service than if a contractor had been called.

Paragon can deliver the following variety of services:

- Property and asset management for commercial office, retail, industrial and corporate facilities projects.
- Assume complete day-to-day management of your facilities.
- Provide on-site management and technical personnel.
- Provide 24-hour on-call service.
- Maintain a comprehensive database for service calls.
- Maintain comprehensive budget information.
- Produce accurate and timely monthly reports.
- Maintain monthly operating expense summaries and variance reports.
- Set-up a program whereby all invoices related to a project are segregated.
- Develop a comprehensive summary of all equipment and systems located at your property.
- Produce a comprehensive operational manual.
- Design a complete preventive maintenance program summarized in an annual operational calendar.
- Provide a comprehensive lease administration program.

For additional information please go to: www.paragoncpm.com



The SOCIETY OF INDUSTRIAL AND OFFICE REALTORS® is one of the leading professional commercial and industrial real estate associations. With more than 3,000 members in more than 580 cities in 26 countries, SIOR represents today's most knowledgeable, experienced, and successful commercial real estate brokerage specialists. SIOR is dedicated to the practice and maintenance of the highest professional and ethical standards. SIOR maintains a commitment to business and industry by providing outstanding professional services, publications, and educational programs.



The CCIM movement began more than 40 years ago with commercial real estate practitioners who wanted to elevate their business practices through focused education and networking opportunities. Still today, education and networking remain the cornerstones of the CCIM designation and the reason for its success. The CCIM Institute confers the CCIM designation and is an affiliate of the National Association of REALTORS® (NAR). With more than 19,000 members in 33 countries and 61 chapters worldwide, the CCIM Institute has emerged as a truly global organization.

THE NAI KLNB TEAM COLUMBIA, MD

www.klnb.com

In 2010, NAI KLNB reported volume of over \$1 billion on 950 separate real estate transactions, and leased or sold more than 10 million square feet of industrial, office and retail space and over 35 acres in land. 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:

Robert Z. Smith*
Industrial
443.574.1411
bsmith@klnb.com



J. Allan Riorda, SIOR*
Industrial
443.574.1400
ariorda@klnb.com



Craig P. Morrell, SIOR*
Office/Industrial
443.574.1425
cmorrell@klnb.com



James V. Caronna, SIOR*
Industrial
443.632.2070
jcaronna@klnb.com



John T. Boote, SIOR*
Office/Industrial
443.574.1414
jboote@klnb.com



David J. Fritz, CCIM, SIOR*
Office
443.574.1410
dfritz@klnb.com



Stephen J. Ferrandi*
Land Sales
443.574.1430
sferrandi@klnb.com



Charles A. Breitenother
Office
443.574.1422
cbreitenother@klnb.com



Alan M. Coppola
Industrial
443.574.1404
acoppola@klnb.com



Jonathan M. Green
Office/Industrial
443.574.1420
jgreen@klnb.com




Robert M. Hooper
Office/Industrial
443.574.1424
rhooper@klnb.com



Kate E. Jordan
Office/Industrial
443.574.1429
kjordan@klnb.com




Michele D. Kornbluth
Office
443.574.1403
mkornbluth@klnb.com




Christopher B. Kubler, CCIM
Investment Sales
443.574.1415
ckubler@klnb.com




Kate M. Mirabile
Marketing Specialist
443.574.1406
kmirabile@klnb.com



Michael P. Moran
Office/Industrial
443.574.1402
mmoran@klnb.com



M. Carol Mox
Executive Brokerage Assistant
443.574.1405
cmox@klnb.com



Gil A. Neuman
Investment Sales
443.574.1428
gneuman@klnb.com



Kelly L. Shinnick
Graphic Designer
443.574.1431
kshinnick@klnb.com



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 33 principals.

* denotes principal of firm

B/W CORRIDOR OFFICE

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

VIRGINIA OFFICE I

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

VIRGINIA OFFICE II

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

BALTIMORE/TOWSON OFFICE

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

WASHINGTON, DC OFFICE

5225 Wisconsin Ave., N.W.
Suite 600
Washington, DC 20015
Tel: (202) 375.7500
Fax: (202) 237.9850

PARAGON COMMERCIAL PROPERTY MANAGEMENT

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

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



Commercial Real Estate Services, Worldwide.
Global Solutions. Local Expertise.

While we have no reason to doubt the accuracy of any of the information supplied, we cannot, and do not, guarantee its accuracy. All information should be independently verified prior to a purchase or lease of the property. We are not responsible for errors, omissions, misuse, or misinterpretation of information contained herein & make no warranty of any kind, express or implied, with respect to the property or any other matters.

