

# 2007 OFFICE & INDUSTRIAL MARKET REPORT

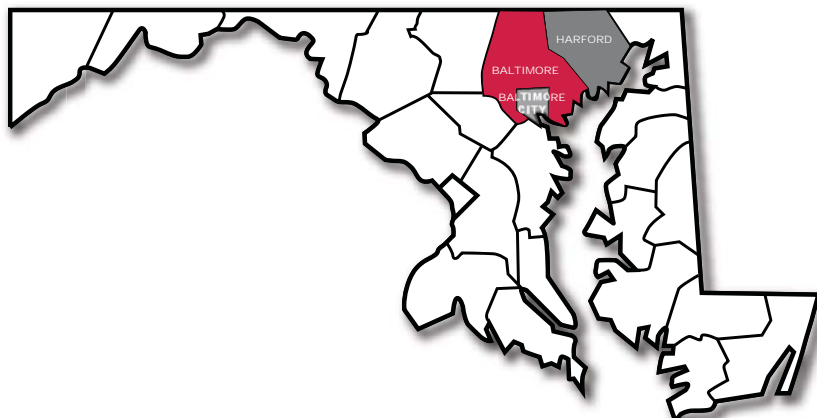
BALTIMORE CITY, BALTIMORE COUNTY AND HARFORD COUNTY, MARYLAND



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**NAI KLNB**

Commercial Real Estate Services, Worldwide.  
A division of KLNB, founded in 1968.



# 2007 YEAR END REVIEW

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On the cover: "A major waterfront renaissance." Constructed in 1923, the B & O Railroad grain terminal was the biggest and fastest grain elevator in the world, rising 290 feet into the air. Under re-construction the property is known as Silo Point consisting of over 200 luxury condominiums on the waterfront in Locust Point and is being developed by Mark Sapperstein and Pat Turner.

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## **SLOW AND STEADY WINS THE SPACE RACE. SLOWDOWN IN CONSTRUCTION PROVIDES OPPORTUNITY TO BACKFILL VACANCIES.**

Timing is usually everything. With a relative slowdown in new construction activities slated for the Baltimore metropolitan region, 2008 represents the perfect opportunity for the market to collectively "catch its breath" and work to backfill existing inventory. This represents mostly good news for developers and investors of commercial real estate in the region as the national and local economy enters a period of uncertainty on a number of levels.

While 2007 saw market balanced vacancy levels and vibrant leasing and sales activity across most product sectors over the past twelve months, the pace of this activity will be decidedly slowed in the coming year. The steady rising cost for tenant improvements is creating another challenge in the market and may encourage certain companies to renew rather than relocate.

2008 is foreseen as a "steady as she goes" year, with the consumer credit crisis, precipitous drop of the residential housing market and looming presidential election creating a "moving forward with caution" environment. Positive signs in the local market include the impending effect of the 2005 Base Closure and Realignment (BRAC) process, the continued addition of new jobs and the general excellent health of the local economy.

Significant inventory is slated for 2009 delivery, particularly along the eastern side of Baltimore. It will be important to generate leasing momentum in the coming year to set the tone for this additional product.

### **BALTIMORE CITY OFFICE**

The Baltimore City office market in 2007 saw continued growth in new development, particularly along or near the harbor, continuing the expansion of the Class A office market beyond the traditional Central Business District (CBD) boundaries of Baltimore City. More development is in the works or on the drawing board from the CBD to Locust Point and through Canton. The west side of the CBD may also see long-promised new development with the combination of Baltimore City incentives, the University of Maryland, Baltimore as an anchor and additional new high-rise residential development.

### **BALTIMORE CITY INDUSTRIAL**

The landscape is changing considerably with nearly four million square feet of warehouse, manufacturing and distribution space in the works that will affect the current 7% vacancy level. Cautious optimism exists in the marketplace to satisfy the demand of this ambitious supply, although short-term growing pains should result in a more prosperous and attractive environment.

### **I-83 INDUSTRIAL**

Market conditions are sluggish for this product type and no significant change is expected in the immediate future. End-users are finding other locations throughout the region as more attractive alternatives. Some functionally-obsolete manufacturing buildings are finding new life as condominium units.

### **I-83 NORTH OFFICE**

This submarket bears watching as it is typically among the most volatile in the Baltimore Metropolitan Region, with wild vacancy swings directly related to the health of the national economy. Several buildings are undergoing renovations to become LEED-certified and will be completed in the coming year.

### **I-83 SOUTH OFFICE**

This submarket has been relatively stable the past ten years and should remain so in 2008. There is no construction planned in this highly mature market.

# 2007 YEAR END REVIEW

## **REISTERSTOWN ROAD CORRIDOR OFFICE**

The delivery of new office space on Greenspring Avenue negatively affected vacancy rates, but all eyes are on Metro Centre at Owings Mills, which will add nearly one million square feet of office space in 2009. Major financial services companies demonstrated their confidence in the market with announced plans of major expansions and job additions.

## **REISTERSTOWN ROAD INDUSTRIAL**

The absence of new construction activities has kept overall vacancy rates in the 7% range for flex and warehouse space. This trend is likely to change in 2008 with the planned delivery of new product situated along the Red Run Boulevard corridor.

## **TOWSON OFFICE**

The Towson market has not seen any significant change in quite some time. This market is very mature and, with the exception of Fairmount III, has not seen construction in many years.

## **WOODLAWN OFFICE**

Located on the west side of the beltway with excellent access to I-695, I-70, I-795 and I-95, the Woodlawn market will remain a strategic location for many companies focused on distribution or accessibility to Baltimore and DC, while maintaining the economic advantage of lower lease rates. Furthermore, federal government agencies, such as GSA, CMS and SSA, and government contractors, such as Lockheed Martin and Kaiser Permanente, will continue to support the market. Nonetheless, new construction is at a standstill. Vacancy rates are slightly higher than previous years, and rental rates continue to increase slightly. Overall, leasing activity is down significantly and expected to follow the future trend of our national economy.

## **BALTIMORE COUNTY EAST OFFICE**

The Baltimore County East office market will be remembered for one deal in 2007, and not too much else. In January 2007, Corporate Office Properties Trust (COPT) purchased Nottingham Properties and its 1.6 million square feet of office and flex buildings. This acquisition established COPT as the majority owner of office product in the submarket. Aside from this transaction, 2007 was a lackluster year for leasing and development for this submarket.

## **I-95 CORRIDOR INDUSTRIAL**

Vacancy rates of all product types in the industrial sector have skyrocketed due to the new Route 43 expansion. With an ample supply of space available, tenants could see aggressive deals due to a lackluster economy.

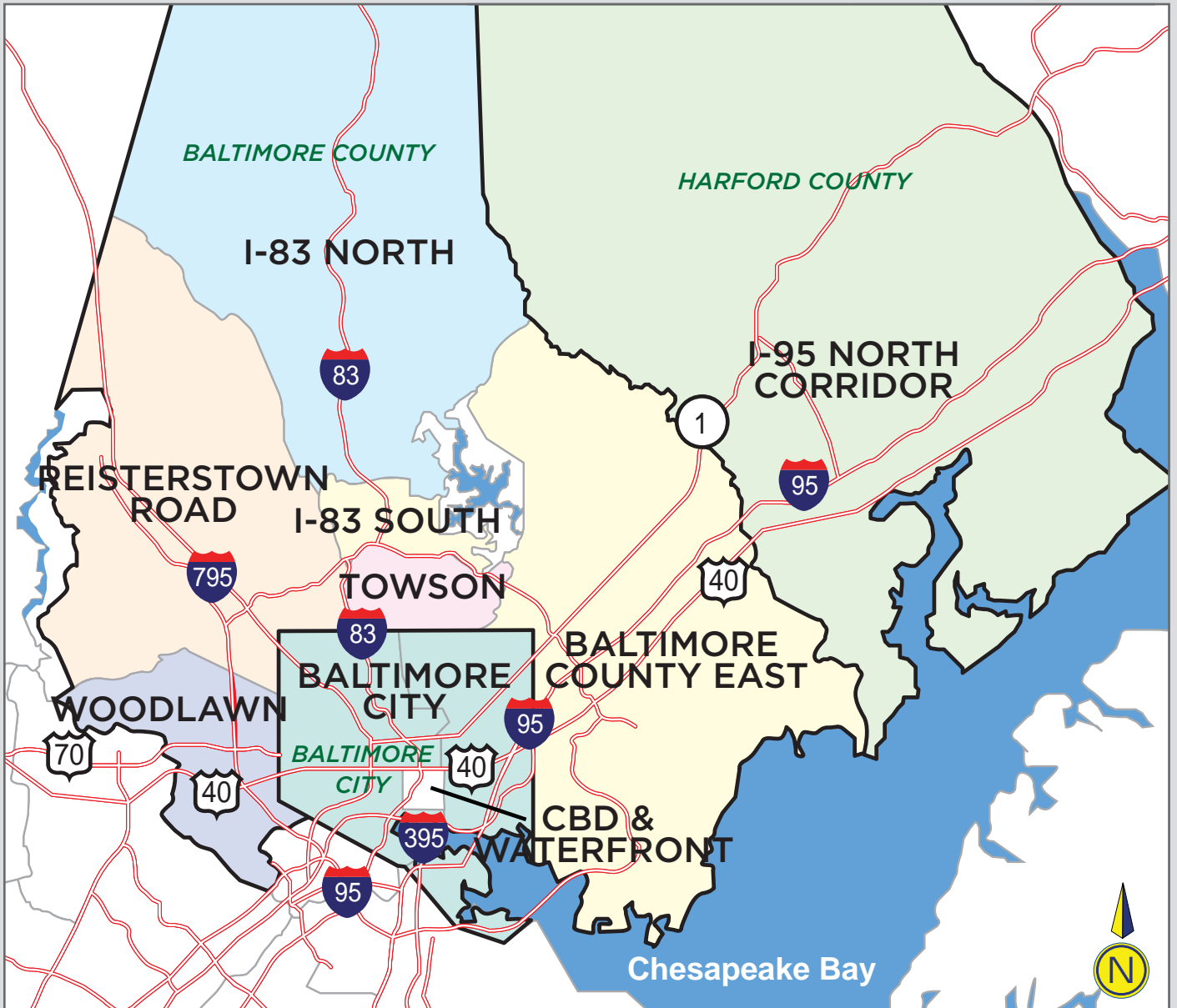
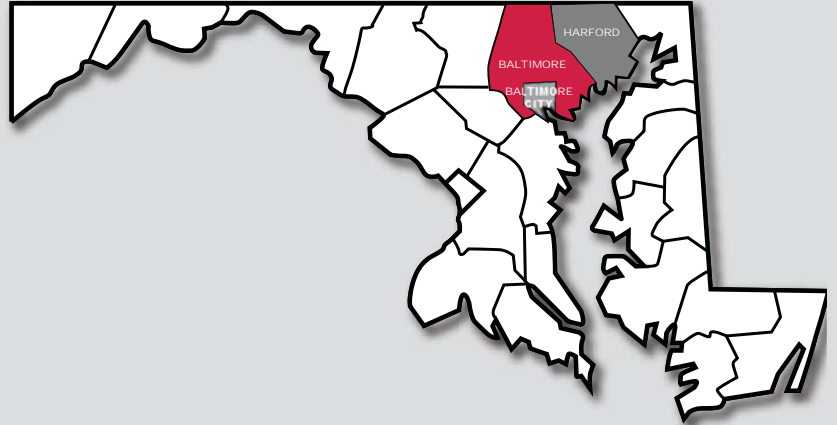
## **LAND-COMMERCIAL AND RESIDENTIAL**

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

## **INVESTMENT ENVIRONMENT**

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

# BALTIMORE CITY, BALTIMORE COUNTY AND HARFORD COUNTY



# MARKET OVERVIEW

| MARKET                            | # OF BUILDINGS | RBA        | TOTAL VACANT (SF) | VACANCY RATE DIRECT% | NET ABSORPTION | RENTAL RATE PSF (AVERAGE) | CONSTRUCTION COMPLETIONS (SF) |
|-----------------------------------|----------------|------------|-------------------|----------------------|----------------|---------------------------|-------------------------------|
| <b>OFFICE MARKET</b>              |                |            |                   |                      |                |                           |                               |
| <b>Baltimore County</b>           |                |            |                   |                      |                |                           |                               |
| Class A                           | 153            | 12,472,122 | 1,429,182         | 11.5%                | 59,636         | \$22.35                   | 247,856                       |
| Class B                           | 490            | 13,187,713 | 1,421,150         | 10.8%                | (17,117)       | \$18.75                   | 185,100                       |
| <b>Baltimore City</b>             |                |            |                   |                      |                |                           |                               |
| Class A                           | 60             | 11,078,266 | 1,122,732         | 9.4%                 | 303,919        | \$26.00                   | 170,000                       |
| Class B                           | 173            | 9,317,904  | 1,237,000         | 12.9%                | (116,043)      | \$18.50                   | 0                             |
| <b>I-83 North</b>                 |                |            |                   |                      |                |                           |                               |
| Class A                           | 35             | 2,968,589  | 533,001           | 15%                  | (47,721)       | \$21.93                   | 0                             |
| Class B                           | 72             | 2,400,756  | 240,597           | 9.5%                 | 1,165          | \$18.50                   | 0                             |
| <b>I-83 South</b>                 |                |            |                   |                      |                |                           |                               |
| Class A                           | 17             | 1,542,163  | 90,463            | 5.9%                 | (5,741)        | \$22.46                   | 0                             |
| Class B                           | 45             | 1,160,934  | 97,885            | 6.6%                 | (4,060)        | \$20.45                   | 0                             |
| <b>Towson</b>                     |                |            |                   |                      |                |                           |                               |
| Class A                           | 20             | 1,794,692  | 210,922           | 10.6%                | (7,088)        | \$23.81                   | 0                             |
| Class B                           | 96             | 3,407,025  | 434,390           | 12.1%                | (13,454)       | \$18.11                   | 0                             |
| <b>Reisterstown Road Corridor</b> |                |            |                   |                      |                |                           |                               |
| Class A                           | 43             | 3,880,670  | 400,454           | 9.7%                 | 80,349         | \$21.42                   | 137,000                       |
| Class B                           | 94             | 2,219,333  | 199,880           | 8%                   | (21,098)       | \$18.39                   | 0                             |
| <b>Baltimore County East</b>      |                |            |                   |                      |                |                           |                               |
| Class A                           | 21             | 958,810    | 159,489           | 16.6%                | 5,779          | \$23.13                   | 0                             |
| Class B                           | 93             | 1,318,447  | 228,833           | 16.5%                | (63,400)       | \$19.49                   | 87,600                        |
| <b>Woodlawn</b>                   |                |            |                   |                      |                |                           |                               |
| Class A                           | 13             | 1,308,413  | 86,017            | 6.6%                 | 2,564          | \$16.76                   | 0                             |
| Class B                           | 34             | 1,696,840  | 121,467           | 7.0%                 | 15,292         | \$16.59                   | 0                             |
| <b>INDUSTRIAL MARKET</b>          |                |            |                   |                      |                |                           |                               |
| <b>Baltimore County</b>           |                |            |                   |                      |                |                           |                               |
| Bulk                              | 133            | 17,918,817 | 3,864,639         | 21.6%                | 713,159        | \$5.40                    | 931,636                       |
| Office/Warehouse                  | 302            | 20,831,186 | 3,217,044         | 15.4%                | (129,360)      | \$8.00                    | 112,200                       |
| Flex                              | 333            | 14,033,923 | 3,142,875         | 22.4%                | 12,960         | \$8.50                    | 32,990                        |
| <b>Baltimore City</b>             |                |            |                   |                      |                |                           |                               |
| Bulk                              | 100            | 12,334,000 | 1,027,500         | 7%                   | (88,054)       | \$4.15                    | 504,000                       |
| Office/Warehouse                  | 134            | 7,675,000  | 635,000           | 5.9%                 | (455,625)      | \$5.40                    | 0                             |
| Flex                              | 38             | 1,416,000  | 85,000            | 6%                   | (188,990)      | \$5.00                    | 0                             |
| <b>I-83 North/South</b>           |                |            |                   |                      |                |                           |                               |
| Office/Warehouse                  | 156            | 8,066,349  | 970,168           | 11.9%                | 157,892        | \$6.45                    | 0                             |
| Flex                              | 79             | 4,796,124  | 487,528           | 9.9%                 | 124,953        | \$9.37                    | 0                             |
| <b>Reisterstown Road Corridor</b> |                |            |                   |                      |                |                           |                               |
| Office/Warehouse                  | 53             | 3,607,966  | 119,756           | 3.3%                 | (38,796)       | \$9.35                    | 0                             |
| Flex                              | 63             | 2,455,070  | 323,983           | 13.1%                | (58,847)       | \$11.44                   | 43,200                        |
| <b>I-95 North Corridor</b>        |                |            |                   |                      |                |                           |                               |
| Bulk                              | 56             | 13,031,746 | 3,364,432         | 23.3%                | 317,293        | \$4.81                    | 891,967                       |
| Office/Warehouse                  | 48             | 3,511,543  | 668,242           | 19%                  | 109,997        | \$6.42                    | 344,100                       |
| Flex                              | 75             | 2,883,731  | 271,512           | 9.4%                 | 22,953         | \$10.87                   | 32,990                        |

# Baltimore City - Office CBD & WATERFRONT

## TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

| Building Type                      | Class A    | Class B   |
|------------------------------------|------------|-----------|
| Number of Buildings                | 60         | 173       |
| New/Relet Vacant (SF)              | 1,045,887  | 1,205,450 |
| Sublease Vacant (SF)               | 76,645     | 31,550    |
| Total Vacant (SF)                  | 1,122,532  | 1,237,000 |
| Total Existing RBA (SF)            | 11,078,266 | 9,317,904 |
| Vacancy Rate Direct %              | 9.4%       | 12.9%     |
| Vacancy Rate Sublease %            | 0.6%       | 0.2%      |
| Net Absorption (SF)                | 303,919    | (116,043) |
| Average Rental Rate (Full Service) | \$26.00    | \$18.50   |
| 2007 Completed Construction SF     | 170,000    | 0         |
| 2008 Planned Construction          | 919,642    | 0         |

## MARKET OVERVIEW

The Baltimore City office market in 2007 experienced more growth in new development, particularly along or near the harbor, continuing the effective expansion of the Class A office market beyond the traditional CBD boundaries in Baltimore City. Construction was completed on Inner Harbor East's Parcel B, which includes two new limited service hotels, a movie theater, office building, parking garage, apartments, condominiums, and lifestyle oriented retail. The office component totals 170,000 square feet. Planning continues for a \$230 million Four Seasons Hotel and Resort.

The planned \$100 million Canton Crossing project completed its first office building at 476,000 square foot, anchored by First Mariner Bank. Tenants, including Thompson Prometric and Care First, have moved into the 17-story tower.

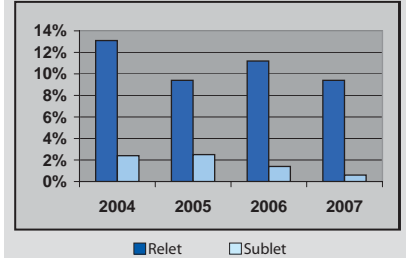
Tenants moving out of large blocks of space in 2007 included M&T Bank from 173,468 square feet at 25 S. Charles St., while tenants moving into large blocks of space in 2007 included Catholic Relief Services into 139,200 square feet at the former Stewart's Building.

## MARKET OUTLOOK

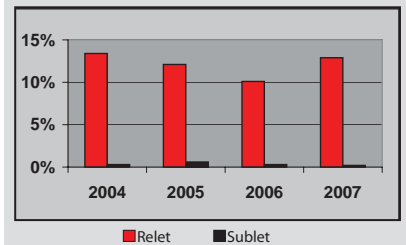
The CBD and the Waterfront will continue to experience growth in 2008. Mercy Hospital completed its \$30 million expansion, which includes a 120,000 square foot medical office building and 800-car parking garage.

Since 1982, more than \$570 million in public and private money has been invested in the redevelopment of 225 acres located north and west of the Inner Harbor renewal areas of the western CBD. Future years should see continuing momentum as the City awarded development rights to the 400 block of West Baltimore Street to a developer that is proposing to build a \$15 million 100,000 square foot office building, with 13,000 square feet of street-level retail space. The University of Maryland at Baltimore ("UMAB") completed construction of a 120,000 square foot biotechnology building, the first of 720,000 square feet planned for a new UMAB biotech park that will include research lab/office space, biotech incubator, parking, pedestrian walkways and green space. The City has awarded development rights for the Superblock site: the next major redevelopment opportunity on the West Side. The selected developers are proposing a mix of housing, retail and office space. As shown on the cover of this report, the Archer Daniel Midlands grain elevator is undergoing a conversion to high end residential condominiums. The mixed use project, titled Silo Point and developed by Mark Sapperstein and Pat Turner is due to deliver in 2008.

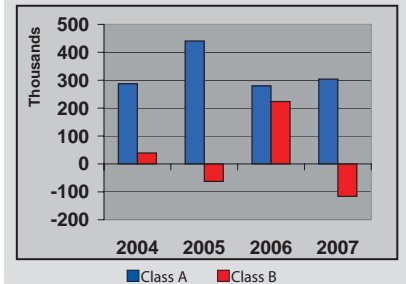
Class A Vacancy Rate (%)



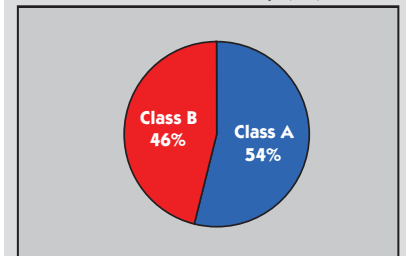
Class B Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

| Tenant                                      | Address             | SF      | Class |
|---|---------------------|---------|-------|
| Venable LLP                                 | 750 E. Pratt Street | 141,735 | A     |
| MD Dept. of Business & Economic Development | 401 E. Pratt Street | 79,450  | B     |
| Under Armour                                | 1020 Hull Street    | 64,252  | A     |

### BUILDING SALES - INVESTMENT

| Address                 | Size    | Price        | Price PSF | Class | Buyer                 | Seller                        |
|-------------------------|---------|--------------|-----------|-------|-----------------------|-------------------------------|
| 500 E. Pratt Street     | 279,713 | \$73,000,000 | \$263.00  | A     | IPC US REIT           | Multi-Employer Property Trust |
| 120 E. Baltimore Street | 325,978 | \$62,750,000 | \$92.50   | A     | Franklin Street Props | LaSalle                       |
| 2 N. Charles Street     | 220,500 | \$20,400,000 | \$92.50   | B     | ARC Wheeler           | Baltimore & Charles LLC       |
| 1 N. Charles Street     | 291,600 | \$16,040,000 | \$55.00   | B     | Buccini/Pollin        | 1 North Charles LLC           |

# Baltimore County - Office

## I-83 NORTH

### TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



### STATISTICS

| Building Type                      | Class A   | Class B   |
|------------------------------------|-----------|-----------|
| Number of Buildings                | 35        | 72        |
| New/Relet Vacant (SF)              | 445,753   | 228,760   |
| Sublease Vacant (SF)               | 87,248    | 11,837    |
| Total Vacant (SF)                  | 533,001   | 240,597   |
| Total Existing RBA (SF)            | 2,968,589 | 2,400,756 |
| Vacancy Rate Direct %              | 15%       | 9.5%      |
| Vacancy Rate Sublease %            | 2.9%      | 0.5%      |
| Net Absorption (SF)                | (47,721)  | 1,165     |
| Average Rental Rate (Full Service) | \$21.93   | \$18.05   |
| 2007 Completed Construction SF     | 0         | 0         |
| 2008 Planned Construction          | 120,000   | 0         |

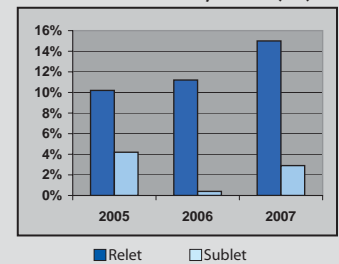
### MARKET OVERVIEW

Hunt Valley makes up the market generally referred to as the I-83 North Corridor and is home to many Fortune 500 regional offices. If there is one market in Baltimore County that is considered volatile, it is Hunt Valley. When the economy runs well, Hunt Valley tends to be active and experiences low vacancy rates. When corporate America downsizes, Hunt Valley is most affected and drives vacancies upward. In 2007, the vacancy swung upward almost four percentage points to 15%. There is not much available land remaining for new development, so KCI Technologies secured a lease for 120,000 square feet of space in Sparks, which is under construction and due to delivery in 2008.

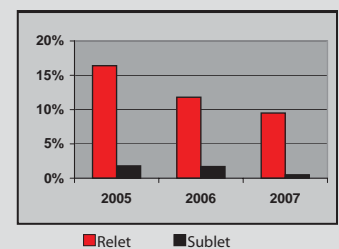
### MARKET OUTLOOK

This market remains attractive to companies since corporate executives live in the nearby Hunt Valley residential communities. For this reason, Hunt Valley will always be an attractive place to work. However, if the sub-prime lending debacle of 2007 continues, companies could slow their expansion plans and Hunt Valley might experience higher vacancies in 2008. Merritt Properties' Schilling Green and George Bunting's 217 International Circle are both older buildings being completely renovated as LEED-certified green buildings. The buildings are due to be completed in 2008 and will have some of the highest rental rates seen in this market.

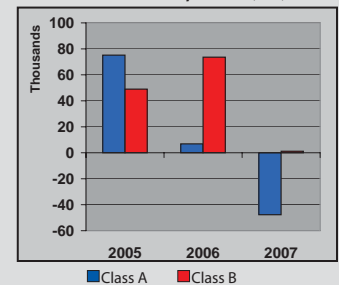
### Class A Vacancy Rate (%)



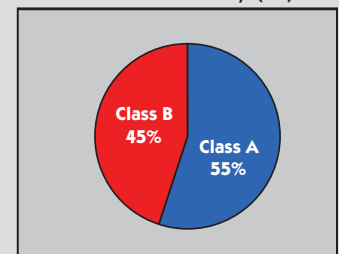
### Class B Vacancy Rate (%)



### Net Absorption (SF)



### Market Inventory (%)



### NOTABLE ACTIVITY

#### LEASING TRANSACTIONS

| Tenant             | Address                  | SF      | Class |
|--------------------|--------------------------|---------|-------|
| KCI Technologies   | Ridgebrook Road          | 120,000 | A     |
| PSA Financial      | One Hunt Valley          | 43,000  | A     |
| The Agency, LLC    | 950 Ridgebrook           | 21,904  | A     |
| Morgan Stanley     | 303 International Circle | 17,667  | A     |
| Willis of Maryland | 307 International Circle | 16,756  | A     |
| Lifoam Industries  | 235 Schilling Circle     | 15,000  | B     |
| COAXIS             | 307 International Circle | 13,000  | A     |

# Baltimore County - Office

## I-83 SOUTH

### TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



### STATISTICS

| Building Type                      | Class A   | Class B   |
|------------------------------------|-----------|-----------|
| Number of Buildings                | 17        | 45        |
| New/Relet Vacant (SF)              | 90,463    | 87,269    |
| Sublease Vacant (SF)               | 0         | 10,616    |
| Total Vacant (SF)                  | 90,463    | 97,885    |
| Total Existing RBA (SF)            | 1,542,163 | 1,160,934 |
| Vacancy Rate Direct %              | 5.9%      | 6.6%      |
| Vacancy Rate Sublease %            | 0%        | 0.4%      |
| Net Absorption (SF)                | (5,741)   | (4,060)   |
| Average Rental Rate (Full Service) | \$22.46   | \$20.45   |
| 2007 Completed Construction SF     | 0         | 0         |
| 2008 Planned Construction          | 0         | 0         |

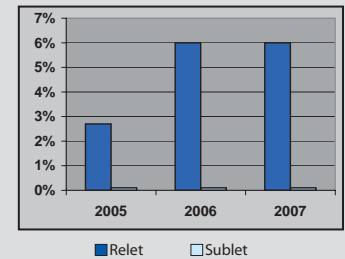
### MARKET OVERVIEW

The I-83 South market consists primarily of the Timonium region and is a mix of sales and service tenants typically desiring access to I-83 and I-695. This market boasts among the lowest vacancy rates in Baltimore County and has not experienced new development activities in many years. The major Class "A" office buildings do not have large blocks of space available, so prospects are forced to look to other markets (such as neighboring Hunt Valley to the north) to find space. Existing tenants tend to renew their leases in order to stay in this highly-desirable market. An example occurred this year with Tescos Technologies with the renewal of their 95,000 square foot office lease at 375 West Padonia Road.

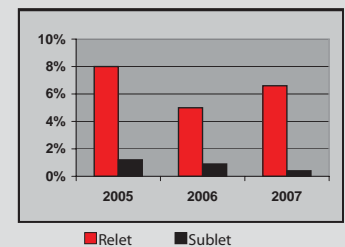
### MARKET OUTLOOK

If the economy heads south in 2008, vacancy rates may creep north in this market. However, large blocks of space that become available in this market are typically leased quickly; therefore major changes to the I-83 South Market are not expected to occur in 2008. However, PSA Financial will make available a 25,000 square foot block of space at Galleria Tower due to their move to Hunt Valley.

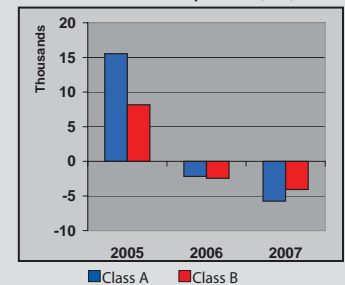
### Class A Vacancy Rate (%)



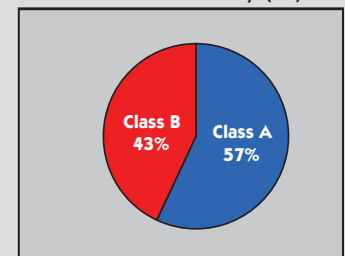
### Class B Vacancy Rate (%)



### Net Absorption (SF)



### Market Inventory (%)



### NOTABLE ACTIVITY

#### LEASING TRANSACTIONS

| Tenant                        | Address                | SF     | Class |
|-------------------------------|------------------------|--------|-------|
| Tesco Technologies (Renewal)  | 375 West Padonia Road  | 95,000 | B     |
| AAI Corporation (Renewal)     | 10150 York Road        | 64,529 | B     |
| Associated Catholic Charities | 1966 Greenspring Drive | 27,351 | A     |
| ROI                           | 1920 Greenspring Drive | 19,848 | A     |

# Baltimore County - Office

## TOWSON

### TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



### STATISTICS

| Building Type                      | Class A   | Class B   |
|------------------------------------|-----------|-----------|
| Number of Buildings                | 20        | 96        |
| New/Relet Vacant (SF)              | 190,462   | 413,930   |
| Sublease Vacant (SF)               | 20,460    | 20,460    |
| Total Vacant (SF)                  | 210,922   | 434,390   |
| Total Existing RBA (SF)            | 1,794,692 | 3,407,025 |
| Vacancy Rate Direct %              | 10.6%     | 12.1%     |
| Vacancy Rate Sublease %            | 1.1%      | 0.5%      |
| Net Absorption (SF)                | (7,088)   | (13,454)  |
| Average Rental Rate (Full Service) | \$23.81   | \$18.11   |
| 2007 Completed Construction SF     | 0         | 0         |
| 2008 Planned Construction          | 0         | 0         |

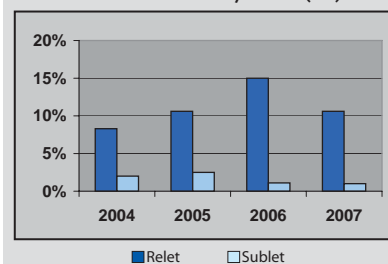
### MARKET OVERVIEW

The Towson market has not seen any significant change in quite some time. The Class "A" buildings that make up the core of Towson will have some larger than normal vacancies in 2008. Towson Commons will be undergoing some planned renovations and is considering adding approximately 25,000 rentable square feet of office space. Their plans could change if the market does not improve shortly. With several large tenants vacating Court Towers, there will be some attractive large suites available.

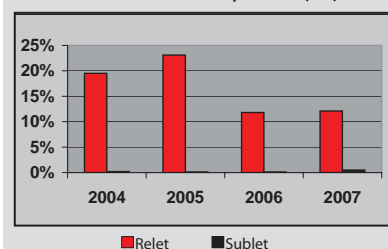
### MARKET OUTLOOK

With no new buildings planned, 2008 will provide a chance for some of the older Class "A" buildings to catch their breath and fill vacancies. We do not foresee the rental rates in the core of Towson moving up. However, the buildings along the I-695 Beltway could see increases in rental rates as vacancies are leased.

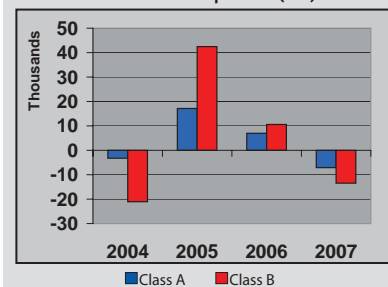
Class A Vacancy Rate (%)



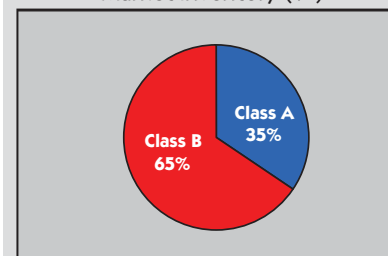
Class B Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



### NOTABLE ACTIVITY

#### LEASING TRANSACTIONS

| Tenant                      | Address               | SF     | Class |
|-----------------------------|-----------------------|--------|-------|
| Credit Space X-pert, Inc.   | 849 Fairmont Avenue   | 13,200 | A     |
| Whiteford, Taylor & Preston | Towson Commons        | 10,000 | A     |
| Benefit Design Group        | 600 Washington Avenue | 6,200  | A     |

# Baltimore County - Office

## REISTERSTOWN ROAD CORRIDOR

### TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



### STATISTICS

| Building Type                      | Class A   | Class B   |
|------------------------------------|-----------|-----------|
| Number of Buildings                | 43        | 94        |
| New/Relet Vacant (SF)              | 377,910   | 178,370   |
| Sublease Vacant (SF)               | 22,544    | 21,512    |
| Total Vacant (SF)                  | 400,454   | 199,882   |
| Total Existing RBA (SF)            | 3,880,670 | 2,219,333 |
| Vacancy Rate Direct %              | 9.7%      | 8.0%      |
| Vacancy Rate Sublease %            | 0.6%      | 1.0%      |
| Net Absorption (SF)                | 80,349    | (21,098)  |
| Average Rental Rate (Full Service) | \$21.42   | \$18.39   |
| 2007 Completed Construction SF     | 137,000   | 0         |
| 2008 Planned Construction          | 257,000   | 371,737   |

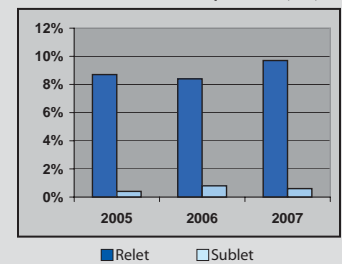
### MARKET OVERVIEW

The Reisterstown Road corridor vacancy rate for Class "A" buildings slightly increased in 2007. The increase was partially due to the delivery of new buildings at Quarry Lake at Greenspring by Obrecht Properties, as well as the continued delivery of speculative Class "A" and Class "B" product in Owings Mills by David S. Brown Enterprises. Overall, vacancy has remained steady in the 8% to 9% range over the course of the past several years. Metro Centre at Owings Mills is slated to deliver 300,000 square feet of new retail space and nearly one million square feet of office space in 2009.

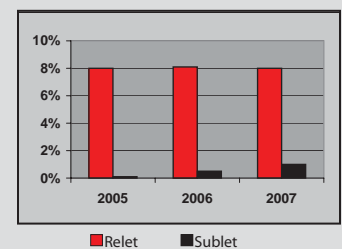
### MARKET OUTLOOK

The submarket will continue to be a desirable option for those companies seeking to move to northern Baltimore County. Owings Mills Town Center remains the epicenter of this submarket, attracting a variety of businesses, most significantly from the financial services sector. A number of Owings Mills companies have made recent job creation announcements. Global Payments, Senior Life Insurance, Legg Mason and Smith Barney have all unveiled ambitious plans to remain and expand their employment base in Owings Mills. T. Rowe Price anticipates spending \$185 million to construct two large office buildings that will accommodate 1,400 new employees. The expansion would boost T. Rowe Price's Owings Mills workforce to more than 4,000 and make it the county's largest private employer.

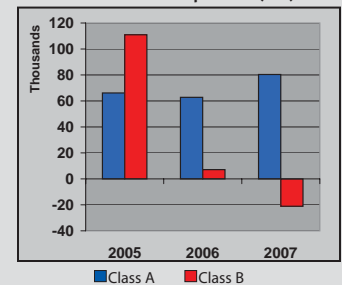
Class A Vacancy Rate (%)



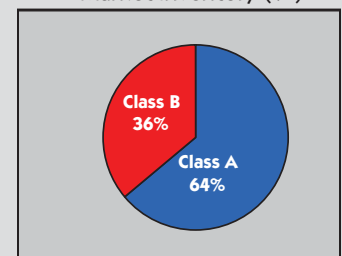
Class B Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



### NOTABLE ACTIVITY

#### LEASING TRANSACTIONS

| Tenant                    | Address                  | SF     | CLASS |
|---------------------------|--------------------------|--------|-------|
| Campbell & Company        | 2850 Quarry Lake Drive   | 77,000 | A     |
| Citigroup                 | 700 Red Brook Boulevard  | 30,000 | A     |
| Hertzbach & Company, P.A. | 800 Red Brook Boulevard  | 30,000 | A     |
| Land America              | 11155 Dolfield Boulevard | 20,400 | B     |
| H & R Retail              | 2800 Quarry Lake Drive   | 8,930  | A     |

#### BUILDING SALES - INVESTMENT

| Address                     | Size    | Price        | Price PSF | Class | Buyer                                   | Seller        |
|-----------------------------|---------|--------------|-----------|-------|---|---------------|
| 1829/1838 Reisterstown Road | 208,860 | \$49,000,000 | \$234.61  | A     | Washington Real Estate Investment Trust | WH-1 Land, LP |

# Baltimore County - Office

## BALTIMORE COUNTY EAST

### TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



### STATISTICS

| Building Type                      | Class A | Class B   |
|------------------------------------|---------|-----------|
| Number of Buildings                | 21      | 93        |
| New/Relet Vacant (SF)              | 159,489 | 217,511   |
| Sublease Vacant (SF)               | 0       | 11,322    |
| Total Vacant (SF)                  | 159,489 | 228,833   |
| Total Existing RBA (SF)            | 958,810 | 1,318,447 |
| Vacancy Rate Direct %              | 16.6%   | 16.5%     |
| Vacancy Rate Sublease %            | 0%      | 0.9%      |
| Net Absorption (SF)                | 5,779   | (63,400)  |
| Average Rental Rate (Full Service) | \$23.13 | \$19.49   |
| 2007 Completed Construction SF     | 0       | 87,600    |
| 2008 Planned Construction          | 18,000  | 0         |

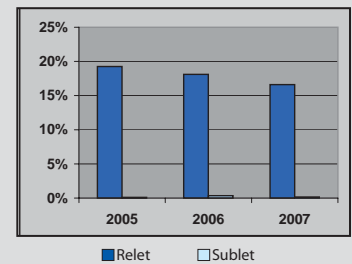
### MARKET OVERVIEW

The Baltimore County East office market was quiet for most of 2007 with very little absorption and delivery of new product. The largest lease of the year was signed early in 2007 when the CoStar Group expanded into this market by leasing 32,341 square feet in White Marsh. The other highlight of 2007 occurred early in the year as well with the acquisition of Nottingham Properties by Corporate Office Properties Trust (COPT). This acquisition included 36 buildings totaling 1.6 million square feet on 175 acres within the White Marsh area. Of these properties, 15 were Class "A" and "B" office buildings totaling approximately 825,000 square feet. The total acquisition was completed at \$363 million or approximately \$138.00 per square foot (on average). COPT now controls 72% of the Class "A" office within this submarket and approximately 1 million square feet of Class "B" office and flex/office space. Another factor affecting this submarket is the introduction of Baltimore Crossroads @95 which is located just east of White Marsh and the extended Maryland Route 43. This new 1,000 acre project has a variety of mid-bay industrial buildings, single story flex, as well as 93,000 square feet of new single-story office being developed by St. John Properties. Currently, St. John Properties has an additional 360,000 square feet of one-story building planned for the site, a retail center and multi-story office.

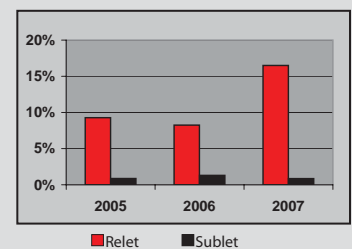
### MARKET OUTLOOK

Projections for 2008 are consistent with the trends of 2007. Negative absorption is projected with the delivery of new buildings to a submarket that has very little velocity. Late in 2008, some positive impact of the 2005 Base Closure and Realignment Commission is anticipated as a result of the submarket's proximity to the Aberdeen Proving Grounds, a military installation gaining jobs resulting from BRAC 2005. This pending growth may benefit COPT and prove the acquisition of the Nottingham Properties portfolio to be a strategic move to gain market share in the path of base realignment. Overall, this submarket's mix of retail, office, flex, and industrial is founded on the easy access to I-95 and its proximity to major East Coast cities. In the long run, this submarket has the fundamental characteristics of a thriving suburban submarket and should live up to the expectations of investors.

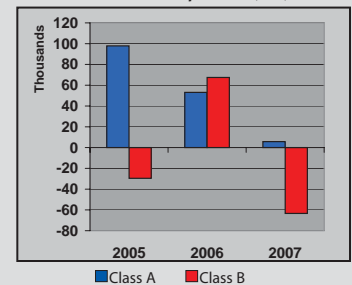
### Class A Vacancy Rate (%)



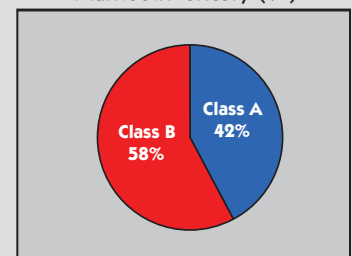
### Class B Vacancy Rate (%)



### Net Absorption (SF)



### Market Inventory (%)



### NOTABLE ACTIVITY

#### LEASING TRANSACTIONS

| Tenant       | Address              | SF     | Class |
|--------------|----------------------|--------|-------|
| Costar Group | 8140 Corporate Drive | 32,341 | A     |

#### 2008 PLANNED CONSTRUCTION

| Address          | SF     | Delivery Date | Asking Rent PSF | Owner/Developer |
|------------------|--------|---------------|-----------------|-----------------|
| 9705 Belair Road | 18,000 | 9/2008        | \$16.00 NNN     | Ruocco Inc.     |

#### BUILDING SALES - INVESTMENT

| Seller                          | Size      | Price PSF | Class | Buyer                             |
|---------------------------------|-----------|-----------|-------|-----------------------------------|
| Nottingham Properties Portfolio | 1,642,933 | \$138.00  | A & B | Corporate Office Properties Trust |

# Baltimore County - Office Woodlawn

## TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

| Building Type                      | Class A   | Class B   |
|------------------------------------|-----------|-----------|
| Number of Buildings                | 13        | 34        |
| New/Relet Vacant (SF)              | 86,017    | 118,587   |
| Sublease Vacant (SF)               | 0         | 2,880     |
| Total Vacant (SF)                  | 86,017    | 121,467   |
| Total Existing RBA (SF)            | 1,308,413 | 1,696,840 |
| Vacancy Rate Direct %              | 6.6%      | 7.0%      |
| Vacancy Rate Sublease %            | 0%        | 0.2%      |
| Net Absorption (SF)                | 2,564     | 15,292    |
| Average Rental Rate (Full Service) | \$16.72   | \$16.59   |
| 2007 Completed Construction SF     | 0         | 0         |
| 2008 Planned Construction          | 0         | 0         |

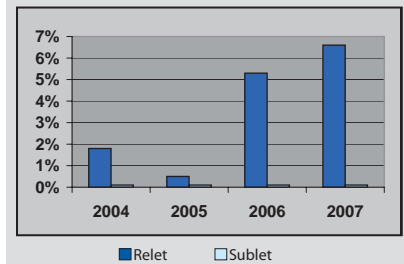
## MARKET OVERVIEW

Located on the western side of the I-695 Baltimore Beltway and bound by Route 70 to the south, Liberty Road to the north, N. Rolling Road to the west and the Baltimore County/Baltimore City line to the east, the Woodlawn Office Submarket has excellent access to the I-695 Beltway, I-70, 795 and I-95. Despite its accessibility, the Woodlawn submarket tends to have slightly lower lease rates compared to other major Baltimore submarkets because the majority of office buildings in Woodlawn were built in the 1980's. In the past decade, however, there has been a fair amount of new construction and renovation to aged office buildings in the area. These locations are securing higher rental rates than the older product. Woodlawn remains a hub for many large government entities, including the General Services Administration (GSA), the Center for Medicare and Medicaid Services (CMS), the Social Security Administration (SSA), and several large developer/landlords, including David S. Brown Enterprises, LTD, Corporate Office Properties Trust (COPT), Merritt Properties, LLC and St. John Properties Inc., which in 2006 built its new two-story Headquarters in Woodlawn. Large companies like Lockheed Martin and Kaiser Permanente also continue to maintain a presence in Woodlawn.

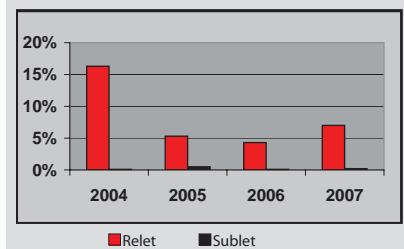
## MARKET OUTLOOK

The lack of new construction prevented vacancy rates from increasing too dramatically. Leasing is slow and expected to continue to be influenced by the national economy and issues surrounding the credit lending industry. Nonetheless, rental rates continue to increase slightly. New development in the submarket may be spurred by the purchase of the Icelandic Pharmaceutical Company. Preston Partners is planning new construction on 11 acres of land it has available on Windsor Mill Road.

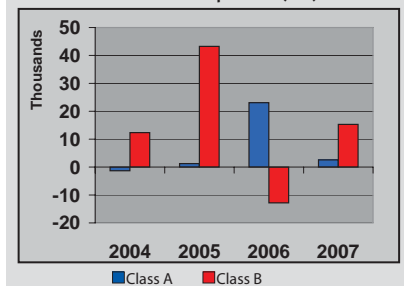
## Class A Vacancy Rate (%)



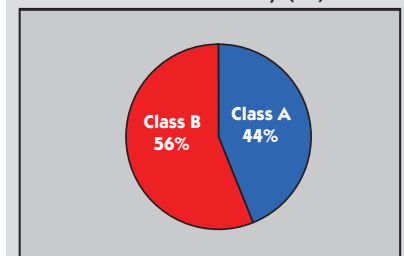
## Class B Vacancy Rate (%)



## Net Absorption (SF)



## Market Inventory (%)



## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

| Tenant                                      | Address                   | SF     | Class |
|---|---------------------------|--------|-------|
| Tanager, Inc.                               | 3102 Lord Baltimore Drive | 10,253 | B     |
| Home Builders Association of Maryland, Inc. | 7127 Ambassador Road      | 7,235  | B     |

### BUILDING SALES - INVESTMENT

| Address                | Size    | Price        | Price PSF | Buyer                      | Seller                    |
|------------------------|---------|--------------|-----------|----------------------------|---------------------------|
| 7205 Windsor Mill Road | 251,000 | \$13,500,000 | \$53.78   | Preston Capital Management | Actavis Mid Atlantic, LLC |

# Baltimore City - Industrial

## TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

| Building Product               | Bulk       | Office/Warehouse | Flex      |
|--------------------------------|------------|------------------|-----------|
| Number of Buildings            | 100        | 134              | 38        |
| New/Relet Vacant (SF)          | 865,000    | 455,000          | 85,000    |
| Sublease Vacant (SF)           | 162,500    | 180,000          | 0         |
| Total Vacant (SF)              | 1,027,500  | 635,000          | 85,000    |
| Total Existing RBA (SF)        | 12,334,000 | 7,675,000        | 1,416,000 |
| Vacancy Rate Direct %          | 8%         | 8.2%             | 8.5%      |
| Vacancy Rate Sublease %        | 1.3%       | 2.3%             | N/A       |
| Net Absorption (SF)            | (88,054)   | (455,625)        | (188,990) |
| Average Rental Rate (NNN)      | \$4.15     | \$5.40           | \$5.00    |
| 2007 Completed Construction SF | 504,000    | 0                | 0         |
| 2008 Planned Construction SF   | 650,000    | 0                | 0         |

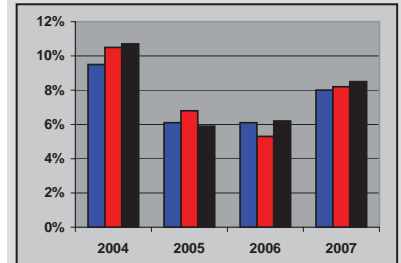
## MARKET OVERVIEW

For 2007, Baltimore continued to evolve as a city in transition from an industrial perspective. For the first time in many years, a multitude of new projects are being developed in Baltimore. Duke Realty purchased the former 185 acre GM plant located on Broening Highway with the intent of developing 3 million square feet of industrial space. Developer H & H Rock will create mid-bay office/warehouse product totaling up to 600,000 square feet at Hollander Ridge. With plans to revitalize the west side of the city, including the Westport project of Turner Development, and the continued renovation and redevelopment of Montgomery Park, Baltimore City can now offer a variety of efficient warehouse alternatives for business to expand and grow. Although vacancy rates have increased slightly over the past year, overall occupancy still exceeds 90%.

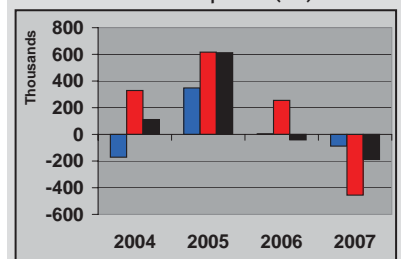
## MARKET OUTLOOK

Investment sales remain strong, although there is general upward pressure on yields. More buyers are becoming "value added" players, looking for ways to creatively increase returns versus purchasing product at low cap rates. On the leasing side, the 4th quarter of 2007 performed reasonably well, with vacancy levels ending in the 7% range for the City industrial market. Although the recent spurt of new development will likely increase vacancy rates for the short term, this modern construction will offer businesses the chance to relocate or expand into product competitive with surrounding areas. The growing vacancy and lease rate pains that Baltimore will feel in 2008 will help set the table for a more stable and prosperous city of the future. As shown on the cover of this report, the former ADM grain elevator is a former waterfront Industrial site. The site is undergoing a massive conversion to high-end residential condominiums known as Silo Point which delivers in 2008.

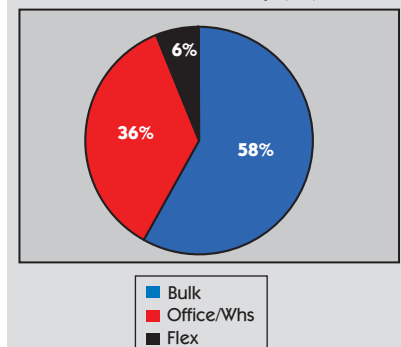
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

| Tenant               | Address             | SF     | Product     |
|----------------------|---------------------|--------|-------------|
| American Slate       | 6300 Erdman Avenue  | 52,800 | Bulk        |
| P.W. Feats           | 1915 Annapolis Road | 40,000 | Office/W/hs |
| Eastside Performance | 6777 Moravia Drive  | 31,320 | Office/W/hs |

### BUILDING SALES - INVESTMENT

| Address               | Size    | Price       | Price PSF | Product   | Buyer              | Seller                                |
|-----------------------|---------|-------------|-----------|-----------|--------------------|---------------------------------------|
| 101 W. Dickman Street | 134,000 | \$8,225,000 | \$61.39   | Warehouse | Pat Turner         | Center of Aquatic Life & Conservation |
| 6519 Quad Avenue      | 61,374  | \$2,300,000 | \$37.48   | Warehouse | Maryland Core Inc. | Plunkett Webster                      |

# Baltimore County - Industrial

## I-83 NORTH/SOUTH

### TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



### STATISTICS

| Building Type                  | Office/Warehouse | Flex      |
|--------------------------------|------------------|-----------|
| Number of Buildings            | 156              | 79        |
| New/Relet Vacant (SF)          | 958,868          | 479,828   |
| Sublease Vacant (SF)           | 11,300           | 7,700     |
| Total Vacant (SF)              | 970,168          | 487,528   |
| Total Existing RBA (SF)        | 8,066,349        | 4,796,124 |
| Vacancy Rate Direct %          | 11.9%            | 9.9%      |
| Vacancy Rate Sublease %        | 0.1%             | 0.1%      |
| Net Absorption (SF)            | 157,892          | 124,953   |
| Average Rental Rate (NNN)      | \$6.45           | \$9.37    |
| 2007 Completed Construction SF | 0                | 0         |
| 2008 Planned Construction      | 0                | 0         |

### MARKET OVERVIEW

The I-83 corridor market encompasses the Towson area at I-695 and heads north through the Hunt Valley Business Community. Once home to a host of national manufacturing companies with marquee names like McCormick & Company, Black and Decker, AAI, Noxell and Procter Gamble, many of these blue-collar jobs have been transferred to other markets to make way for the current wave of development. We have seen an evolution and wholesale shift of the real estate market from the previously dominant manufacturing base into a service and office market configuration.

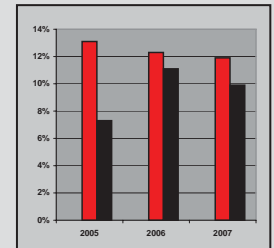
The lack of available land, combined with the demographics of the local work force, has driven up the value of real estate to a point that the business model for manufacturing does not work well along I-83. Gone are the days of new construction with such features as high bay warehouses with loading docks. New projects in today's environment are designed to accommodate the office and flex sector which typically attracts smaller tenants with a greater need for office and showroom components in their real estate.

There has been a trend to redevelop older, functionally-obsolete manufacturing buildings into small individual condominiums with the "sum of the parts being far greater than the original whole." Most requirements in the I-83 market tend to range between 5,000 and 15,000 square feet of space.

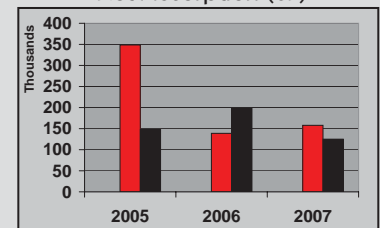
### MARKET OUTLOOK

A general sluggish industrial/flex market will continue for the foreseeable future. While vacancy rates have decreased, many of the traditional manufacturing type companies have pushed growth into other markets better suited for manufacturing and distribution, further eroding the industrial base. The overall shift and the resulting decrease in demand for industrial space offsets the traditional lower vacancy rates associated with a market lacking in any planned new construction.

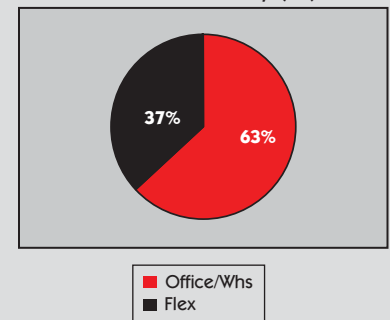
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



### NOTABLE ACTIVITY

#### LEASING TRANSACTIONS

| Tenant                   | Address            | SF     | Product   |
|--------------------------|--------------------|--------|-----------|
| A & S Trucking           | 103 Beaver Court   | 40,000 | Warehouse |
| LH Cranston              | 11111 Pepper Road  | 29,315 | Flex      |
| Universal Packaging      | 16 Stenersen Lane  | 21,260 | Warehouse |
| Poulet NA                | 11110 Pepper Road  | 10,827 | Warehouse |
| Chesapeake Manufacturing | 330 Clubhouse Lane | 10,200 | Warehouse |
| Care Stone International | 112 Lakefront      | 4,875  | Flex      |

# Baltimore County - Industrial

## REISTERSTOWN ROAD CORRIDOR

### TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



### STATISTICS

| Building Type                  | Office/Warehouse | Flex      |
|--------------------------------|------------------|-----------|
| Number of Buildings            | 53               | 63        |
| New/Relet Vacant (SF)          | 119,756          | 320,833   |
| Sublease Vacant (SF)           | 0                | 3,150     |
| Total Vacant (SF)              | 119,756          | 323,983   |
| Total Existing RBA (SF)        | 3,607,966        | 2,455,070 |
| Vacancy Rate Direct %          | 3.3%             | 13.1%     |
| Vacancy Rate Sublease %        | 0                | 0.1%      |
| Net Absorption (SF)            | (38,796)         | (58,847)  |
| Average Rental Rate (NNN)      | \$9.35           | \$11.44   |
| 2007 Completed Construction SF | 0                | 43,200    |
| 2008 Planned Construction      | 0                | 58,493    |

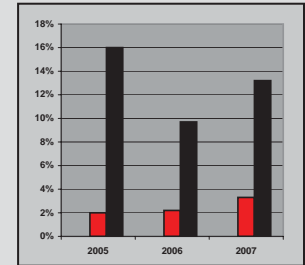
### MARKET OVERVIEW

The Reisterstown Road corridor delivered one new 43,000 square foot flex building in 2007 that is currently 50% occupied. There has not been any new warehouse construction in several years due to a lack of available land and prices in excess of \$400,000 per acre. Most of the vacancy rate is driven by flex product and the current warehouse vacancy is at 3%. The lack of available warehouse space keeps rental rates at a premium.

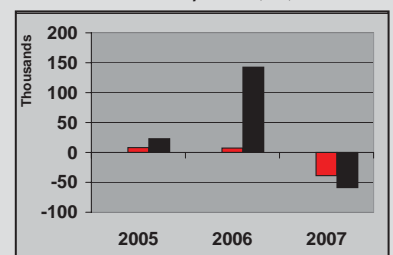
### MARKET OUTLOOK

Warehouse vacancy will remain low for the foreseeable future. St. John Properties plans to deliver several flex buildings at Dolfield Business Park. This development, as well as the increased tenancy in the Red Run Boulevard corridor, has created the need to build the Dolfield Interchange along I-795 in order to relieve traffic congestion.

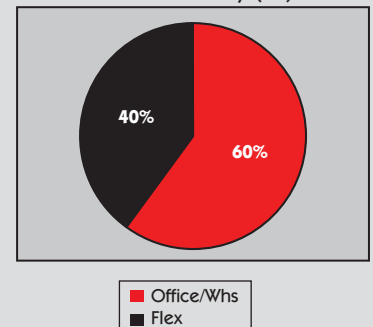
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



### NOTABLE ACTIVITY

#### LEASING TRANSACTIONS

| Tenant                 | Address                 | SF     | Product     |
|------------------------|-------------------------|--------|-------------|
| Elias Wilf Corporation | 11201 Dolfield          | 20,483 | Office/Whse |
| Medifast               | 11460 Cronridge Drive   | 16,844 | Flex        |
| Club Symmery           | 11460 Cronridge Drive   | 16,231 | Flex        |
| CareFirst              | 10711 Red Run Boulevard | 12,600 | Flex        |

# Baltimore/ Harford Counties - Industrial

## I-95 NORTH CORRIDOR

### TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



### STATISTICS

| Building Product               | Bulk       | Office/Warehouse | Flex      |
|--------------------------------|------------|------------------|-----------|
| Number of Buildings            | 56         | 48               | 75        |
| New/Relet Vacant (SF)          | 3,040,010  | 631,341          | 304,766   |
| Sublease Vacant (SF)           | 324,422    | 36,901           | 66,726    |
| Total Vacant (SF)              | 3,364,432  | 668,242          | 271,512   |
| Total Existing RBA (SF)        | 13,031,746 | 3,511,543        | 2,883,731 |
| Vacancy Rate Direct %          | 23.3%      | 19%              | 9.4%      |
| Vacancy Rate Sublease %        | 2.5%       | 1.1%             | 2.3%      |
| Net Absorption (SF)            | 317,293    | 109,997          | 22,953    |
| Average Rental Rate (NNN)      | \$4.81     | \$6.42           | \$10.87   |
| 2007 Completed Construction SF | 891,967    | 344,100          | 32,990    |
| 2008 Planned Construction SF   | 300,000±   | 390,000±         | 100,000±  |

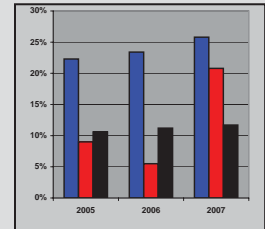
### MARKET OVERVIEW

New construction along the new Route 43 expansion drove the market in 2007. St. John Properties, Chesapeake Real Estate Group and First Industrial delivered nearly 700,000 square feet of bulk, mid-bay and flex speculative development. Harford County experienced stagnant development; however, Restoration Hardware's new 600,000+ square foot lease at Trimble Road helped to drive vacancy rates downward. The anticipation of BRAC has created an optimistic outlook for the I-95 North Corridor, however, it is likely that this activity will not arrive until 2009-2010.

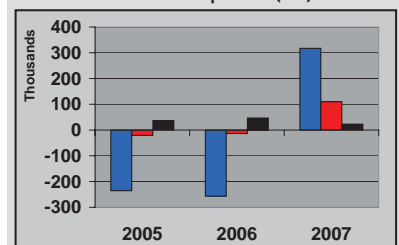
### MARKET OUTLOOK

New construction has helped to push rental rates higher; however, the market should adjust and trend downward with a slowing economy and landlords competing for fewer tenants.

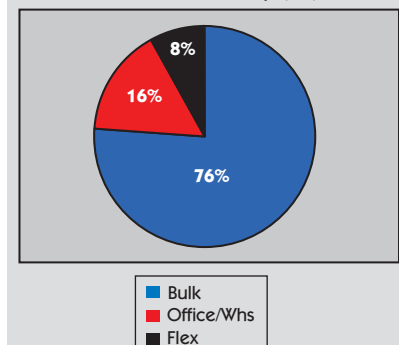
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



### NOTABLE ACTIVITY

#### LEASING TRANSACTIONS

| Tenant                    | Address           | SF      | Product          |
|---------------------------|-------------------|---------|------------------|
| Restoration Hardware      | 1701 Trimble Road | 602,250 | Bulk             |
| Winner Distribution       | 7001 Quad Avenue  | 302,000 | Bulk             |
| Motion Industries (Renew) | Marshfield        | 62,670  | Bulk             |
| BGE Home                  | Crossroads        | 55,000  | Office/Warehouse |
| Public Warehouse (Renew)  | Marshfield        | 42,403  | Bulk             |
| Alcore                    | Lakeside          | 41,000  | Office/Warehouse |

## THE MARYLAND LAND MARKET - A TALE IN TWO PARTS

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

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

Many national and some local homebuilders began dumping land option contracts eighteen months ago in an effort to stay buoyant during the pending troubled waters. Nearly every homebuilder has dropped land that was in the early stages of the development process or restructured contracts that were ready for settlement.

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

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

## NON-RESIDENTIAL LAND

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

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

# INVESTMENT OVERVIEW

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

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

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

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

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

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

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

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

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