

# 2008 OFFICE & INDUSTRIAL MARKET REPORT

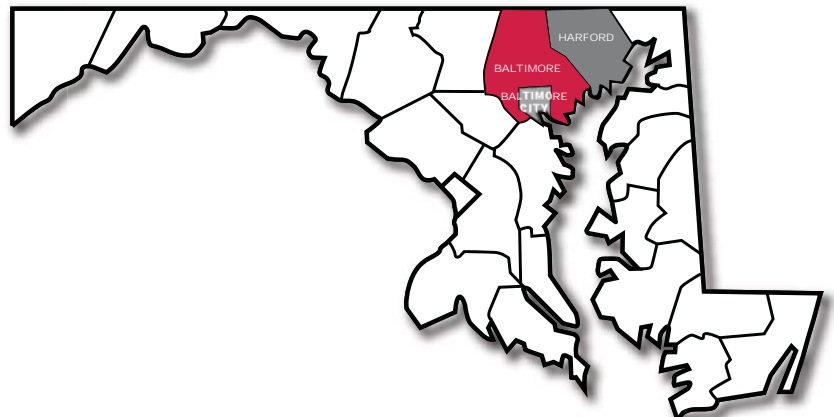
BALTIMORE CITY, BALTIMORE COUNTY AND HARFORD COUNTY, MARYLAND



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

**NAI** KLNB

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



# 2008 YEAR END REVIEW

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**On the cover:** Does this picture represent the end of economic prosperity in 2008 by a covering of clouds? Or does the sun piercing through the clouds indicate a sign of opportunity for the commercial real estate market in 2009?

# NAI KLN B

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## PERFECT STORM OF NEGATIVE ECONOMIC FACTORS LEADS TO “BACK TO BASICS” APPROACH FOR BALTIMORE-AREA AND HARFORD COUNTY REGIONS

Regional real estate professionals and economic forecasters alike recognized the dark clouds rising around our economic environment, but few could have predicted the “perfect storm” of factors that gathered together this summer to collectively make a host of industries pause, and re-evaluate the way they perform business. Like a tornado cutting a swath through a small mid-western town, damage was swift and impossible to stop, with ramifications ranging from lost net worth to wounded psyches.

As the nation welcomes a new administration, businesses are gathering up the pieces, evaluating short and long-term repairs and, in most cases, tentatively moving forward with a cautiously optimistic approach. In turn - and in response to current market conditions - the Baltimore City, Baltimore County and Harford County commercial real estate marketplace have adopted “things could be worse” and “back to basics” themes.

Only recently did our government concede that the country is in the throes of a recession but, from a local real estate standpoint, there are very few similarities from the latest significant downturn faced in 1990. Our local market of nearly 20 years ago featured an excessive oversupply of product inventory, combined with a lack of prospective end-users. By comparison, our current environment features healthier vacancy rates, sparse few new construction projects underway, generally acceptable demand among new prospects and diversified industry sectors. The major wrench in the system is the continued difficulty in the capital market pipeline that companies require to grow their businesses.

Our experience and consensus belief at NAI KLN B is that users are still active in the regional marketplace and that overall conditions are not as bad as “they say.” Continued and frenzied reports by the media touting the freezing of the capital markets has served to fan the fire and these “negative attitudes and perceptions” have started to taken a life of their own.

So, here’s the good news the way we see it. As in every real estate cycle, there are excellent opportunities for the savvy tenant and investor. In many instances, prices for commercial real estate assets have dropped below replacement costs and deals are presently available in the local marketplace. Office, medical and warehouse condominiums have become a viable and attractive option. Supply is plentiful and developers are anxious to move inventory, representing an ideal option to for businesses interested in managing expenses or building equity.

Landlords are anxious to maintain the tenants they have so, for tenants in the mid-point of their leases, this is an opportune time to negotiate a longer-term deal and “lock in” present day rental rates.

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

Continued job growth, the un-siphoning of the capital markets and an uptick in the stock market would serve to facilitate the brightening of the regional and national economic skies. The coming year should serve to be a prelude for “better things to come” in 2010.

A complete breakdown of the local real estate market follows.

### Baltimore City – Office

Downtown leasing momentum is slowing in concert with the national economy. Businesses in the Central Business District are putting major moves and office expansions on hold, while preferring to sign short-term leases. Significant projects underway include Harbor Point, Port Covington and Westport Waterfront. The Offices @ McHenry Row are due to commence construction in January 2009.

# 2008 YEAR END REVIEW

## **Baltimore County Office – I-83 North and South**

Vacancy rates did not change significantly in 2008, as the Hunt Valley and Loveton markets have been somewhat immune from difficulties encountered in other sections of the County. A lack of new construction has aided this stability. Several large corporate downsizing activities and consolidations have the potential of adding a healthy amount of sublease space on the market in 2009.

## **Baltimore County Office – Towson**

Court Towers at 210 West Pennsylvania Avenue and Towson Commons have combined to place more than 100,000 square feet of space into the available inventory. With fewer prospects looking for space, this has become a tenant's market, with free rent and heavier tenant improvement allowances added into deals.

## **Baltimore County Office – West**

Vacancy levels for Class "A" space climbed nearly two points to just under 10%, while the Class "B" remained about the same. The proximity of the Social Security Administration and the Center for Medicare and Medicaid Services in Woodlawn should help draw tenants to this submarket. Overall, we see tremendous opportunities for tenants as landlords increase their aggressiveness to make deals.

## **Baltimore County Office – East**

Class "A" and Class "B" vacancy levels each increased by approximately 1%, while new construction amounted to less than 40,000 square feet. Corporate Office Properties Trust is the new heavyweight in town, controlling approximately 37% of the market, and new product is rising quickly at Baltimore Crossroads @95. In 2009, we expect to see inter-market churn as tenants look to upgrade their spaces.

## **Baltimore County Industrial – I-83 North and South**

The dwindling supply of industrial properties has continued to push values upward, with "user sales" being the highest, often eclipsing replacement costs. Vacancy rates have continued their trend downward, while rental rates for older second generation space are often higher than that of new construction in other areas – which reflect basic supply vs. demand principles.

## **Baltimore County Industrial - East**

FRP Development, Chesapeake Real Estate Group and St. John Properties have combined to deliver more than 250,000 square feet of office and flex product to this market at Baltimore Crossroads @ 95. Tenant activity is expected to slow in the coming year which, in turn, may depress rental rates. Expected BRAC activity in the third and fourth quarters may translate to some positive leasing news.

## **Baltimore County Industrial - West**

Nearly 130,000 square feet of flex space was absorbed in 2008, representing a 2% drop in vacancy, the majority of this activity occurred in the first half of the year. The slowing pace is expected to continue into 2009, as activity will be restrained. No new construction is on the horizon. .

## **Baltimore County Industrial - Southwest**

This market has been somewhat resilient to the overall market slowdown led by leasing successes at Hollins End, which attracted Federal Express and Service Express. A third, Bakery Express, absorbed 120,000 square feet of space. We anticipate a stable market in the coming year.

## **Harford County - Industrial**

More than 800,000 square feet of combined space was leased by AGCO, Frito-Lay and Proctor and Gamble, while approximately 330,000 square feet of new space was added to the market. The vacancy for flex product is approximately 1% and mid-bay warehouse/office vacancy is running around 5%. The bulk warehouse will fare worse in 2009, on the heels of a spectacular 2008.

## **Harford County - Office**

This market is in the midst of an office space boom, as more than six million square feet of space is on the drawing board in anticipation of requirements related to BRAC, with developed centers both inside and outside the gates of Aberdeen Proving Ground. Vacancy rates edged up slightly and net absorption was average, but better times lie ahead.

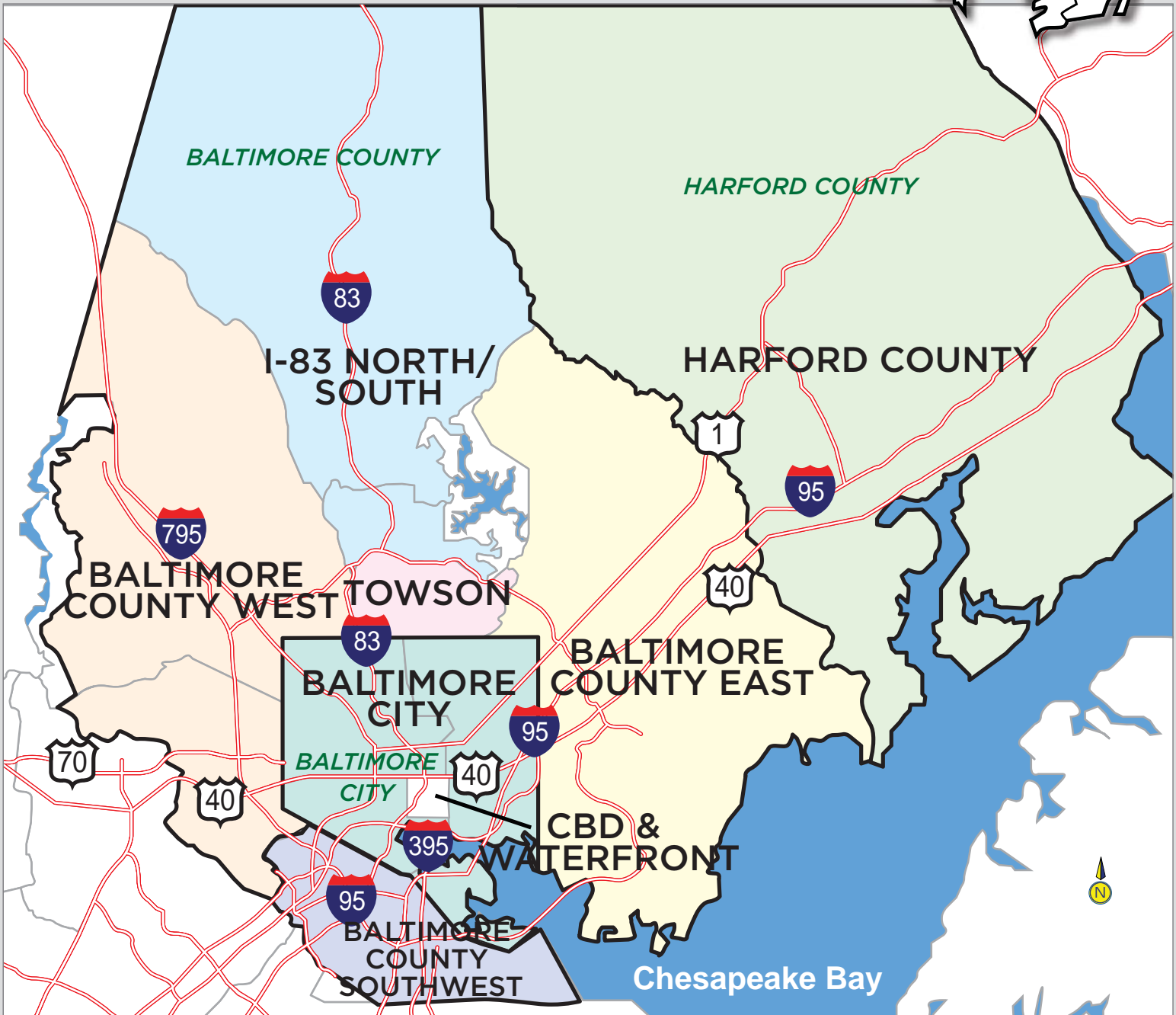
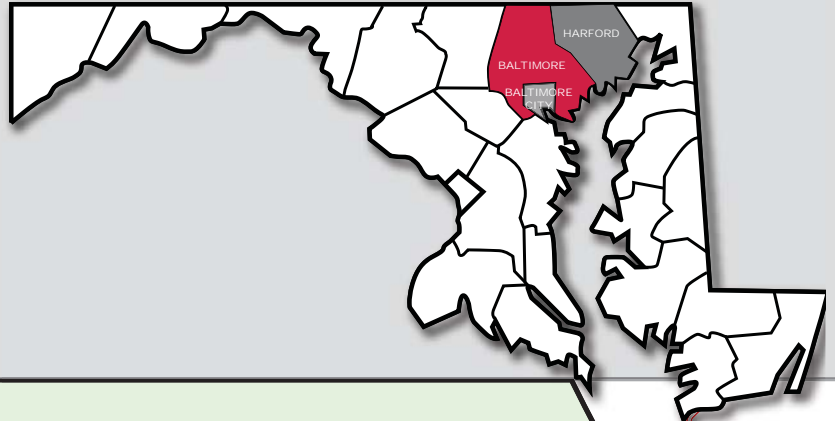
## **Residential Land**

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

## **Investment Sales**

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

# AREA MAP



# 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 City</b>							
Class A	63	12,189,781	1,307,925	10.1%	199,831	\$24.75	0
Class B	314	9,692,273	1,213,120	12.3%	(124,570)	\$18.70	0
<b>Baltimore County - I-83 North/South</b>							
Class A	51	4,354,847	528,209	12.1%	53,307	\$23.35	0
Class B	54	3,205,132	365,486	11.2%	(19,507)	\$19.75	15,000
<b>Baltimore County - Towson</b>							
Class A	21	1,876,664	283,307	13.2%	15,804	\$22.88	0
Class B	129	4,000,335	425,153	10.4%	12,230	\$18.55	0
<b>Baltimore County - West</b>							
Class A	56	5,367,247	545,679	9.6%	54,075	\$21.26	257,000
Class B	144	3,780,815	403,752	10.4%	(11,815)	\$18.05	15,100
<b>Baltimore County - East</b>							
Class A	23	1,008,349	184,681	18.3%	30,906	\$23.97	38,000
Class B	183	1,576,286	223,784	13.8%	27,484	\$19.66	
<b>Baltimore County - TOTALS</b>							
Class A	151	12,607,107	1,541,876	12.2%	154,092	\$22.87	295,000
Class B	510	12,562,568	1,418,175	11.3%	8,392	\$19.01	30,100
<b>Harford County</b>							
Class A	15	714,972	115,519	15.6%	100,336	\$24.09	85,000
Class B	239	2,112,078	171,278	8%	76,604	\$22.63	52,009
<b>INDUSTRIAL MARKET</b>							
<b>Baltimore City</b>							
Bulk	93	9,981,000	1,223,000	11.8%	(138,000)	\$4.15	427,000
Office/Warehouse	177	10,734,000	874,000	8.0%	(473,000)	\$4.40	0
Flex	45	1,474,000	253,750	11.0%	(127,000)	\$4.75	0
<b>I-83 North/South</b>							
Bulk	13	1,973,140	199,700	8.3%	61,000	\$7.50	0
Office/Warehouse	50	4,217,000	701,700	15.7%	11,025	\$8.08	0
Flex	70	3,056,940	306,080	9.9%	73,200	\$9.43	0
<b>Baltimore County - East</b>							
Bulk	78	13,023,262	2,794,011	20.8%	330,000	\$4.65	69,474
Office/Warehouse	142	11,717,671	1,978,182	15.6%	299,800	\$4.47	0
Flex	116	7,180,683	1,651,892	21.4%	341,409	\$4.27	0
<b>Baltimore County - West</b>							
Bulk	23	1,402,541	52,600	3.8%	45,556	\$8.61	0
Office/Warehouse	67	3,112,953	254,745	7.7%	(32,900)	\$8.40	0
Flex	113	4,251,406	319,783	6.8%	129,638	\$9.30	32,700
<b>Baltimore County - Southwest</b>							
Bulk	29	3,365,000	425,500	12.6%	181,500	\$5.25	210,000
Office/Warehouse	48	3,357,000	289,000	8.6%	65,000	\$5.95	290,000
Flex	31	1,115,000	40,500	3.6%	44,000	\$9.25	0
<b>Baltimore County - TOTALS</b>							
Bulk	143	19,763,943	3,471,811	17.6%	618,056	\$6.50	279,474
Office/Warehouse	307	22,404,624	3,233,627	14.4%	331,900	\$6.73	290,000
Flex	330	15,604,029	2,318,255	14.9%	588,247	\$8.06	32,700
<b>Harford County</b>							
Bulk	52	12,203,414	1,924,206	15.8%	518,302	\$4.60	333,000
Office/Warehouse	62	4,092,027	70,225	1.6%	167,540	\$6.74	0
Flex	56	2,604,207	24,475	0.4%	47,500	\$11.32	21,000

# OFFICE MARKET BALTIMORE CITY - CBD & WATERFRONT

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Type	Class A	Class B
Number of Buildings	63	314
New/Relet Vacant (SF)	1,228,857	1,188,843
Sublease Vacant (SF)	79,068	24,277
Total Vacant (SF)	1,307,925	1,213,120
Total Existing RBA (SF)	12,189,781	9,692,273
Vacancy Rate Direct %	10.1%	12.3%
Vacancy Rate Sublease %	0.6%	0.3%
Net Absorption (SF)	199,831	(124,570)
Average Rental Rate (Full Service)	\$24.75	\$18.70
2008 Completed Construction SF	0	0
2009 Planned Construction	654,230	0

## MARKET OVERVIEW

The Baltimore City CBD and Waterfront submarket continued to experience infrastructure growth with the prospect of more proposed expansion. However, businesses in Baltimore are putting big moves and office expansions on hold in the middle of national economic turmoil, while getting short-term extensions on their leases and waiting it out. Leasing momentum is slowing with the economy.

Office sales volume was down substantially over the year, with only one large office deal completed. Combined sales in the submarket only reached \$21.8 million versus a total of \$393 million in 2007, helped by four particularly large building sales.

Class A vacancy moved up, while Class B stayed flat. Rents remained relatively stable, though concessions were more frequently offered.

Bank of America announced at the end of the year that they would be moving about 200 employees out of the CBD at 225 N. Calvert to a Hunt Valley location in Baltimore County. They could also move another 100 employees to another existing location in the CBD at 100 S. Charles Street.

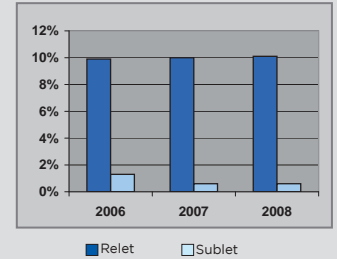
## MARKET OUTLOOK

In 2009, big corporate moves downtown will include money manager Legg Mason's planned move from 100 Light St. to Harbor East and the move of the Maryland Department of Business and Economic Development from E. Redwood St. to the World Trade Center. Legg Mason is scheduled to move its headquarters to a new, 579,230-square-foot building at Harbor East, slated to be completed in Fall 2009. Hogan & Hartson, a law firm, has also pre-leased space at this site bringing occupancy to over 70%.

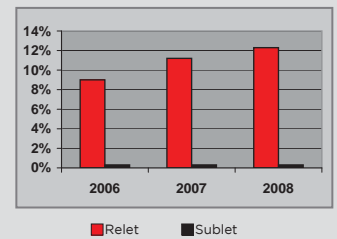
Other waterfront proposed projects include:

Westport Waterfront, by Turner Development, will feature up to 3 million square feet of office, 1,000 residential units and a 500-room hotel. The development will be accessible via the Light Rail and MARC Train. Construction is slated to begin mid-2009. Port Covington, by Finmarc (with a joint venture partner), will likely host up to 6 million square feet of office, retail and multifamily housing. Harbor Point, a partnership between Struever Bros. Eccles & Rouse and H&S Properties, will create the final mixed-use component of the Harbor East project, which will contain 1.8 million square feet of office, retail and residential space. McHenry Row is a mixed use development including 80,000 square feet of office space due to be completed 4th quarter 2009.

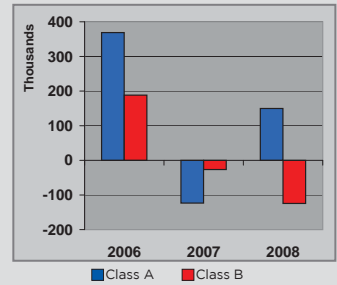
Class A Vacancy Rate



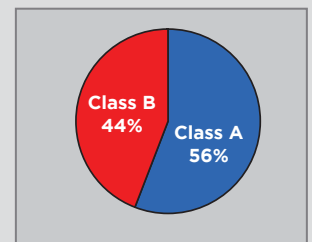
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

Tenant	Address	SF	Class
Maryland Insurance Administration	200 St Paul Place	75,450	A
KPMG	1 E. Pratt Street	33,578	A
The Becker Group	3600-3700 O'Donnell Street	50,017	A

### BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Class	Buyer	Seller
20 S. Charles	121,438	\$9,197,892	\$75.74	B	CSG Partners	Asset Capital Corporation

# OFFICE MARKET I-83 NORTH AND SOUTH

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Type	Class A	Class B
Number of Buildings	51	54
New/Relet Vacant (SF)	526,897	357,486
Sublease Vacant (SF)	1,312	8,000
Total Vacant (SF)	528,209	365,486
Total Existing RBA (SF)	4,354,847	3,205,132
Vacancy Rate Direct %	12.1%	11.2%
Vacancy Rate Sublease %	0%	0.2%
Net Absorption (SF)	53,307	(19,507)
Average Rental Rate (Full Service)	\$23.35	\$19.75
2008 Completed Construction SF	0	15,000
2009 Planned Construction	175,000	0

## MARKET OVERVIEW

This year, NAI KLN combined two submarkets consisting of I-83 North (Hunt Valley) and I-83 South (Timonium/Lutherville) to form one larger and more comprehensive market. Although the regions have varying tenant profiles, companies tend to consider both markets when searching for new office space. The vacancy rates in 2008 have not changed significantly, which is a sign that the economy has not negatively impacted Hunt Valley to date. In previous years, a troubled economy has played havoc with this market that consists of many regional offices of America's Fortune 500.

Merritt Properties completed its state-of-the-art Schilling Green at 230 Schilling Circle. This beautiful glass Leadership in Environmental and Energy Design (LEED) constructed building represents a complete rehab of the former MCI building. G.E. Capital leased 30,000 square feet of this 115,000 square foot building.

Corporate Office Properties Trust maintains the largest portfolio of Class A office buildings in the Baltimore region and John Hermann is their Vice President overseeing the leasing of its Northern Baltimore County operations.

*Mr. Hermann stated "2008 was a very good year for COPT's Hunt Valley and Timonium portfolio. In addition to strong renewal statistics, COPT signed 23 new leases consisting of 191,000 square feet of office space. This activity created 110,000 square feet of net absorption within our portfolio and increases our occupancy rate from 80.4% at the end of 2007 to approximately 90% in the first quarter of 2009".*

## MARKET OUTLOOK

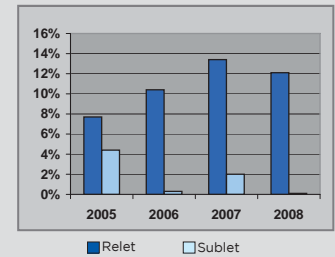
Even though the vacancy rate in the I-83 North and South markets remained relatively stable in 2008, there are economic warning signs that may result in increases next year.

Although Bank of America may be backfilling space in their existing Hunt Valley operations center in 2009, due to the closing of its Baltimore City facility, this regional headquarters market could see unexpected space come back on the market. In previous economic recessions, Hunt Valley has been adversely affected the most significantly in Baltimore County and we expect similar conditions this time around.

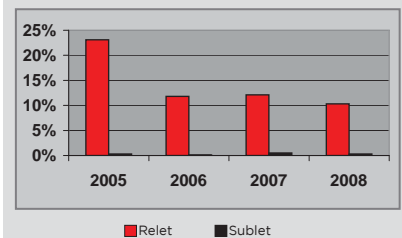
Liberty Property Trust is bracing itself at 10 North Park Drive as it loses KCI Technologies which placed 96,000 square feet on the market.

No major construction projects are planned in 2009, so vacancy rates should be largely unaffected by the amount of sublease space that may come on the market.

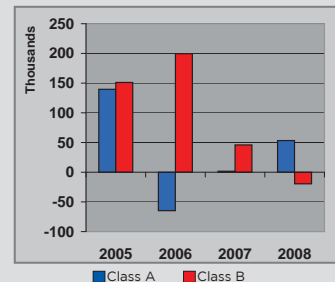
## Class A Vacancy Rate



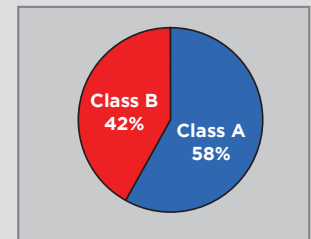
## Class B Vacancy Rate



## Net Absorption (SF)



## Market Inventory (%)



## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

Tenant	Address	SF	Class
G.E. Capital	230 Schilling Circle	29,690	A
Bill Me Later	101 Schilling Circle	28,766	B
Hirsch Financial	4 N. Park Drive	26,000	A
AAI	14600 York Road	23,312	B
Gilchrest Hospice	11311 McCormick Road	22,231	A
Alcatel - Lucent	11311 McCormick Road	16,822	A

### BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Class	Buyer	Seller
2205 York Road	24,046	\$ 3,100,000	\$128.42	B	Mid Atlantic Properties	Brown Stone Capital

# OFFICE MARKET BALTIMORE COUNTY - TOWSON

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Type	Class A	Class B
Number of Buildings	21	129
New/Relet Vacant (SF)	246,297	414,816
Sublease Vacant (SF)	37,010	10,337
Total Vacant (SF)	283,307	425,153
Total Existing RBA (SF)	1,876,664	4,000,335
Vacancy Rate Direct %	13.2%	10.4%
Vacancy Rate Sublease %	2.0%	0.3%
Net Absorption (SF)	15,804	12,230
Average Rental Rate (Full Service)	\$22.88	\$18.55
2008 Completed Construction SF	0	0
2009 Planned Construction	0	0

## MARKET OVERVIEW

The Towson marketplace is defined as the area located to the south of the Baltimore Beltway, with I-83 to its west, Perring Parkway to its east, and the Baltimore County/Baltimore City line to its south. Within the Towson marketplace, we have witnessed more significant changes in the Towson core, as compared to any other section of the market. Approximately 90,000 square feet of space became available at Court Towers at 210 West Pennsylvania Avenue during 2008, and Towson Commons will have an entire floor available, consisting of approximately 25,000 square feet. Combined, this is the most amount of Class "A" space that has been on the market for a number of years.

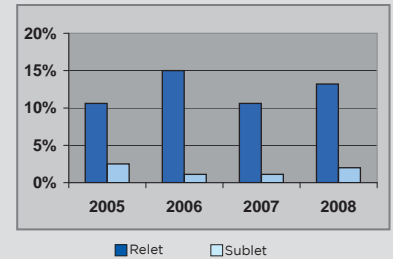
It is rumored that Court Towers landed Venable, which is negotiating to lease approximately 29,000 square feet of space, although that relocation will then free up Venable's current location at 210 Allegheny Avenue – representing approximately 25,000 square feet. 100 West Road has started to make some positive progress back-filling square footage that became available in 2007, by leasing 20,000 square feet during 2008. With fewer prospects out looking, we have shifted to a "tenant's market" and are seeing free rent come back into the negotiations, along with heavier tenant improvement allowances. With the current state of the economy, most landlords will be doing everything they can to retain their current tenants, and we expect them to be aggressive in trying to secure the few prospects that are in the marketplace.

## MARKET OUTLOOK

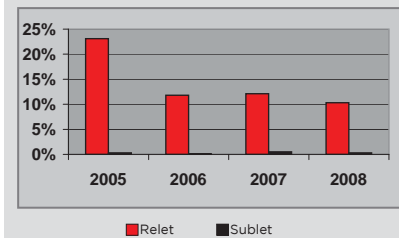
Without any new construction planned in 2009, and with the current high vacancy rate of Class "A" buildings in the core of Towson, we do not anticipate seeing rental rates increasing in the near future.

The former Investment Building (approximately 180,000 square feet) is on the market for sale and depending on the buyer and the intended use, it could bring more availability to the heart of Towson.

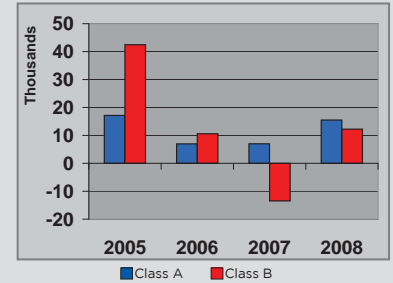
Class A Vacancy Rate



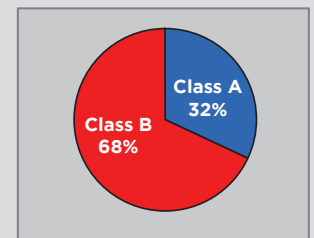
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

Tenant	Address	SF	Class
Venable	210 Pennsylvania Avenue	29,000	A
Service Corporation	100 West Road	5,900	A
Robert W. Baird	100 West Road	13,000	A

### BUILDING SALES - USER

Address	Size	Price	Price PSF	Class	Buyer	Seller
31 Allegheny Avenue	11,500	\$1,560,000	\$135	B-C	Troia	

# OFFICE MARKET BALTIMORE COUNTY WEST

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Type	Class A	Class B
Number of Buildings	56	144
New/Relet Vacant (SF)	517,151	392,997
Sublease Vacant (SF)	28,528	10,755
Total Vacant (SF)	545,679	403,752
Total Existing RBA (SF)	5,367,247	3,780,815
Vacancy Rate Direct %	9.6%	10.4%
Vacancy Rate Sublease %	0.5%	0.3%
Net Absorption (SF)	54,075	(11,815)
Average Rental Rate (Full Service)	\$21.26	\$18.05
2008 Completed Construction SF	257,000	15,100
2009 Planned Construction	45,000	161,970

## MARKET OVERVIEW

The Baltimore County West submarkets of Woodlawn and the Reisterstown Road Corridor experienced similar trends to other Maryland submarkets.

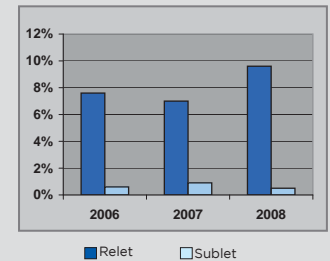
Despite Woodlawn's central location on the western side of the Baltimore Beltway, which provides a functional access point for the distribution and operations of numerous companies, vacancy rates for 2008 increased from 2007 and leasing and sales were slow, especially in the fourth quarter. A notable transaction for 2008 was Sojourner Christian Academy signing one of the largest leases in the Woodlawn submarket in 2008 with 30,000 square feet at the Gwynn Oak Building. Government contractors such as Lockheed Martin Information Services and the federal government headquarters of the Social Security Administration and the Center for Medicare and Medicaid Services continue to be the major contributors to the financial stability of the office space in the submarket.

The downturn in the economy also affected the Reisterstown Road Corridor with vacancy rates increasing in 2008, compared to 2007. Moreover, despite the submarket's functional live-work community with a metro subway station and residential homes located around a Regional Mall and commercial office and flex/industrial development, commercial office sales and leasing slowed heavily in third and fourth quarters of 2008. The largest sale for the submarket in 2008 was the multi-building sale of Owings Mills Corporate Center Buildings Three and Four, which are 272,271 square feet and 117,659 square feet, respectively, and sold for approximately \$95 million (\$243.00/square foot), cumulatively, in April. The economic stability of the submarket is provided primarily by the company headquarters of Solo Cup, Baltimore Life Companies, ADP, and Carefirst BlueCross Blueshield, the financial services operations of T. Rowe Price, Legg Mason, Baltimore Life Companies, Toyota Financial Services and, lastly, the manufacturing companies i.e. Solo Cup, Baltimore Spice Company, and Quest International. A growing bioscience cluster also contributes to the submarket's economy.

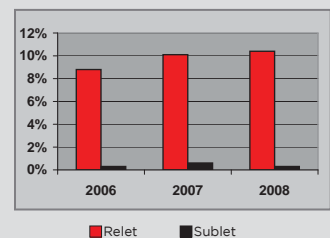
## MARKET OUTLOOK

The impact of our country's national recession is expected to contribute to slowed commercial office market growth and continued vacancy throughout 2009 in the Woodlawn and the Reisterstown Road Corridor submarkets. Subsequently, the demand for new tenants from Landlords should provide tremendous opportunities for companies planning to lease or purchase office space with Landlords aggressively negotiating deals for slow and/or financially distressed properties and buildings.

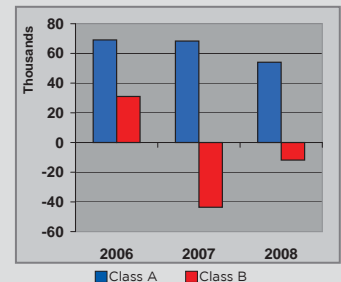
Class A Vacancy Rate



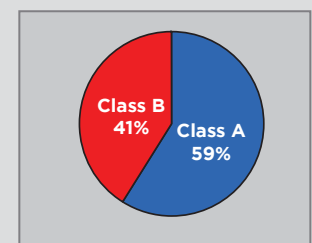
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

Tenant	Address	SF	Class
Sojourner Christian Academy	1710 Gwynn Oak Avenue	30,000	B
TAI Engineering	11155 Dolfield Boulevard	15,100	B
CGI Technologies	3110 Lord Baltimore Drive	11,060	A
20/20 Company LLC	7275 Windsor Boulevard	9,732	A
Media Star Promotions	2800 Quarry Lake Drive	6,415	A

### BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Class	Buyer	Seller
10453 Mill Run Circle	117,659	\$28,295,043	\$240	A	Bel Calvert LLC	Four Owings Mills Corporate Center Land LP
10455 Mill Run Circle	272,271	\$66,719,768	\$245	A	Bel Carroll LLC	Three Owings Mills Corporate Center Land LP

# OFFICE MARKET BALTIMORE COUNTY EAST

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Type	Class A	Class B
Number of Buildings	23	183
New/Relet Vacant (SF)	184,681	218,004
Sublease Vacant (SF)	0	5,780
Total Vacant (SF)	184,681	223,784
Total Existing RBA (SF)	1,008,349	1,576,286
Vacancy Rate Direct %	18.3%	13.8%
Vacancy Rate Sublease %	0.0%	0.4%
Net Absorption (SF)	30,906	27,484
Average Rental Rate	\$23.97	\$19.66
2008 Completed Construction SF	38,000	0
2009 Planned Construction	0	0

## MARKET OVERVIEW

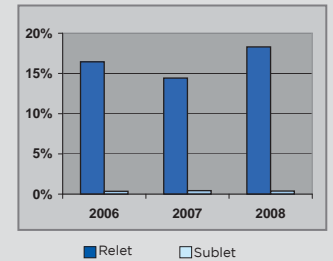
Eastern Baltimore County's office market during most of 2008 can be described as uneventful by most measures. Class A and Class B vacancy rates each increased by 1% while new construction was limited to 38,000 square feet. Office condo sales slowed in this market, however, pricing has been consistent with previous years.

This market has been redefined over the last year due to the presence of Corporate Office Properties Trust (COPT) which now controls approximately a 37% share of the East Baltimore County office market. Also impacting the East Baltimore County Office landscape is the expansion along MD Route 43 and St. John Properties commitment to deliver new single and multi-story product on the east side of I-95. Currently, development activity is limited to 104,400 square feet of space divided between a 45,000 square foot office condo project and the pre-leased St. John Properties building at 11655 Crossroads Circle.

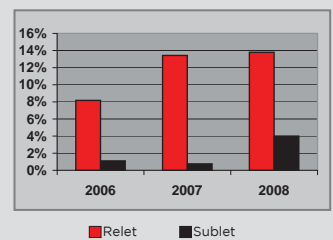
## MARKET OUTLOOK

Inter-market churn can be expected as tenants look to upgrade their space. Vacancy rates should remain close to the current level or rise slightly. The stability of this market can be attributed to the convenient location, access to major commuter routes, and plentiful retail amenities. The tenant base of this market is composed of small to medium-sized businesses and regional offices of larger corporations. Provided these larger corporations are able to weather the current financial storm, fallout from the global financial crisis should not drastically affect the market.

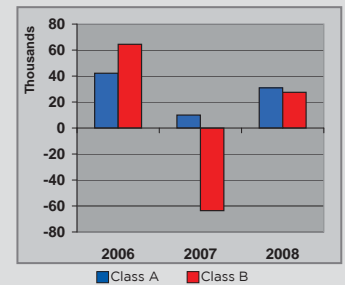
Class A Vacancy Rate



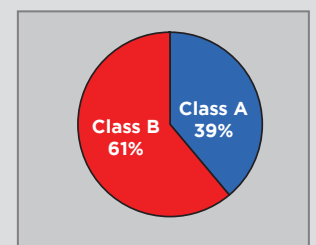
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



## BUILDING SALES

Address	Size (SF)	Price	Price PSF	Type
5430 Campbell Boulevard	2,621	\$642,145	\$245.00	Condo
5430 Campbell Boulevard	2,179	\$614,215	\$281.00	Condo
5430 Campbell Boulevard	1,949	\$448,000	\$230.00	Condo
5430 Campbell Boulevard	1,685	\$474,974	\$281.88	Condo
5430 Campbell Boulevard	1,666	\$469,620	\$281.11	Condo
5430 Campbell Boulevard	1,389	\$391,350	\$281.75	Condo
5430 Campbell Boulevard	1,331	\$398,120	\$291.11	Condo
5430 Campbell Boulevard	1,132	\$261,200	\$230.00	Condo
5430 Campbell Boulevard	1,092	\$307,720	\$281.79	Condo
7902 Belair Road	7,720	\$830,000	\$107.51	Investment
7110 Belair Road	10,600	\$1,200,000	\$115.09	User

## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

Tenant	Address	SF	Class
Flextronics	405 Williams Court	11,032	B
American Access Care of Baltimore	9940 Franklin Square Drive	5,404	A
Concrete General	7001 Golden Ring Road	4,006	B
Honeygo Pediatrics	8114 Sandpiper Circle	3,541	A
Advanced Radiology	8114 Sandpiper Circle	2,897	A
Psychbill, Inc.	7939 Honeygo Boulevard	2,848	B

# OFFICE MARKET HARFORD COUNTY

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Type	Class A	Class B
Number of Buildings	15	239
New/Relet Vacant (SF)	111,559	169,828
Sublease Vacant (SF)	3,960	1,450
Total Vacant (SF)	115,519	171,278
Total Existing RBA (SF)	714,972	2,112,078
Vacancy Rate Direct %	15.6%	8.0%
Vacancy Rate Sublease %	0.6%	0.1%
Net Absorption (SF)	100,336	76,604
Average Rental Rate (Full Service)	\$24.09	\$22.63
2008 Completed Construction SF	85,000	52,009
2009 Planned Construction	304,446	0

## MARKET OVERVIEW

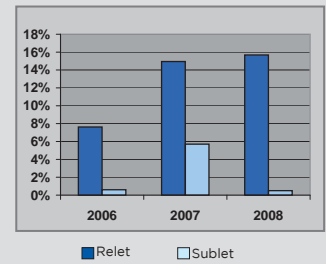
2008 was a fairly typical year in the Harford County office market. Leasing activity was highlighted by several prominent medical deals at 111 Plumtree Road and 540 Upper Chesapeake Drive and Booz Allan Hamilton's expansion within their current building at Water's Edge. Vacancy rates edged up slightly, net absorption was average, and sales transactions were similar to 2007.

## MARKET OUTLOOK

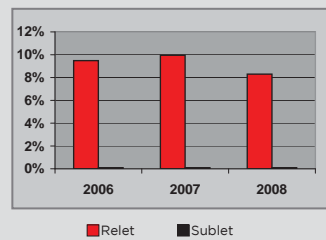
The Harford County office market is in the midst of yet another boom in development. Unlike the previous years of massive residential growth, the next few years will transform this nondescript three million square foot office market into a dynamic nine million square foot hub of new multi-story business parks. This projected growth compares to the size of Baltimore County's I-83 office market (7.5 million square feet) and the Owings Mills & Woodlawn office markets of Western Baltimore County (9.2 million square feet). This new development precedes the effects of the Defense Department's 2005 Base Realignment and Closure Act. As a result of BRAC 2005, Aberdeen Proving Grounds is forecasted to bring a net gain of 9,500 new base related jobs by September 2011.

The new development of office and R&D facilities to service the needs as a result of BRAC 2005 is spread across on and off base locations. Currently, the only on-base location is being developed by OPUS East, "The GATE" which is able to deliver two to three million square feet of office and R&D space through the US Army's Enhanced Use program. New developments outside the gates of Aberdeen Proving Grounds include COPT's North Gate Business Park (765,000 square feet), the James Run Business Center (1,080,000 square feet) and the Box Hill Corporate Center (976,000 square feet). Timing of these projects vary as BRAC related jobs have just now begun to transition to Aberdeen, however most developers are anticipating the majority of the growth to occur in late 2010 and 2011.

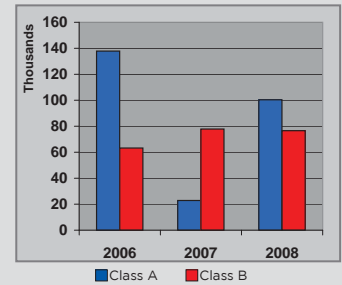
Class A Vacancy Rate



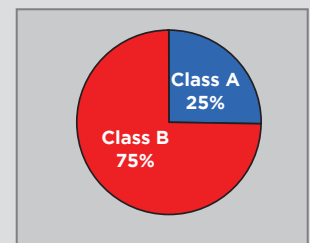
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

Tenant	Address	SF	Class
Upper Chesapeake Medical Center	540 Upper Chesapeake Drive	31,831	A
Orthopedic Associates	111 Plumtree Road	11,000	A
American Radiology	111 Plumtree Road	11,000	A

### NEW CONSTRUCTION

Address	SF	Delivery Date
111 Plumtree Road	33,000	2009

### PLANNED CONSTRUCTION

Address	RBA (SF)	Status
The GATE (OPUS East)	2-3million	Under Construction
James Run Business Park	1,080,000	Proposed
Box Hill	976,000	Proposed Expansion
North Gate Business Park (COPT)	765,000	Under Construction

# INDUSTRIAL MARKET BALTIMORE CITY

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	93	177	45
New/Relet Vacant (SF)	1,179,000	822,000	157,750
Sublease Vacant (SF)	43,575	52,000	96,000
Total Vacant (SF)	1,223,000	874,000	253,750
Total Existing RBA (SF)	9,981,000	10,734,000	1,474,000
Vacancy Rate Direct %	11.8%	8%	11%
Vacancy Rate Sublease %	0.4%	0.5%	7%
Net Absorption (SF)	(138,000)	(473,000)	(127,000)
Average Rental Rate (NNN)	\$4.15	\$4.40	\$4.75
2008 Completed Construction SF	427,000	0	0
2009 Planned Construction SF	0	0	0

## MARKET OVERVIEW

Although Baltimore City contains nearly 50 million square feet of industrial and flex product, many of these buildings have reached an age that is compromising their functional abilities. NAI KLNB research estimates that closer to 22 million square feet of space is currently relevant to the demands of the modern industrial user/investor. Our group's statistical data on these findings are reported within.

Throughout 2008, Baltimore continued its gradual industrial evolution, as several new speculative developments were completed in the city. Duke Realty Corporation delivered two bulk warehouse buildings totaling approximately 460,000 square feet at their Chesapeake Commerce Park project (185 acres that was formerly the General Motors plant on Broening Highway). Over the past year, approximately 300,000 square feet has been leased to tenants that include Johns Hopkins Medical, Agility Project Logistics and Berry Plastics Corporation. Upon final build-out, the Park will eventually contain three million square feet of modern warehouse, manufacturing and distribution space.

At Hollander 95 Business Park in East Baltimore, 82,000 square feet of mid-bay warehouse has been delivered in the fourth quarter. To date, two tenants have leased space that will fill close to 40% of this building. Approximately 52,000 square feet remains in the first of what will be several new warehouse flex buildings totaling up to 600,000 square feet.

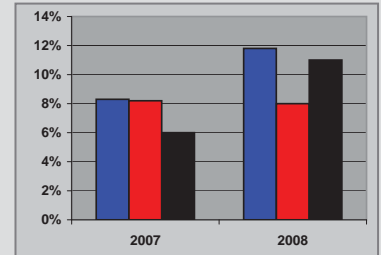
With further plans to revitalize the west side, coupled with the continued renovation and redevelopment of Montgomery Park, Baltimore City can now offer a variety of efficient warehouse alternatives for business to expand into and grow. The combination of new product and a slowing economy have caused vacancy rates to increase to 10.25% overall, but the movement towards modern product has been long overdue and should help retain and expand the City's industrial base in the long term.

## MARKET OUTLOOK

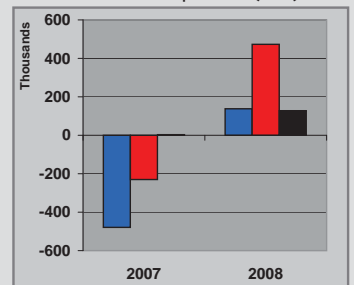
While NAI KLNB perceives the market as relatively healthy, there is overall concern about the gradual slowing of the economy. Consumer confidence and spending is trending down, and the struggles of the manufacturing, housing, credit and auto industries are expected to continue for the near term. Many analysts predict the national economy to gain momentum by mid-year 2009. The key interest rate at 1% -- combined with the \$700 billion government bailout package -- should help stimulate the markets.

In Baltimore, the investment sale market will see a demand for higher rates of return, as investors look to reduce their risk in an already nervous market. The current mindset of a buyer is to wait another month, in hopes that the price will continue to come down. On the leasing side, 2008 has seen a jump in vacancy by 4% over the previous year, so it is likely landlords will become more aggressive, and begin offering free rent and larger tenant improvement packages in an effort to capture tenants in 2009. Certainly the recent spurt of new development in the City has contributed to the increase in vacancy rates for the short term. As referenced in last year's report, this modern construction will offer businesses the chance to relocate or expand which, in turn, will ultimately help set the table for a more stable and prosperous Baltimore City of the future.

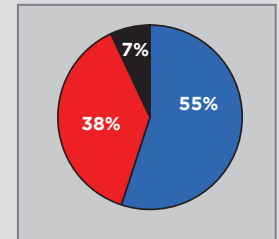
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



■ Bulk  
■ Office/Warehouse  
■ Flex

## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Berry Plastics	5003 Holabird Avenue	183,055	Bulk	East Baltimore
Agility Project Logistics	5901 Holabird Avenue	58,800	Bulk	East Baltimore

### BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Product	Buyer	Seller
5601 Metro Drive	100,000	\$12,500,000	\$125	Flex	5601 Metro Dr., LLC	Polk Audio

### BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
3501 Duncanwood Lane	40,000	\$1,850,000	\$46.25	Flex	Tidewater Direct	Reilly Foods

### LAND SALES - USER

Address	Size	Price	Price Per Acre	Submarket	Buyer	Seller
4851 Holabird Avenue	13.4 acres	\$5,700,000	\$425,000	East	Merchants Terminal	Duke Realty Corp.

### BUILDINGS DELIVERED IN 2008

Address	RBA SF	Delivery Date	Asking Rent PSF	Type	Owner/Developer
1901 62nd Street	82,800	12/2008	\$6.50 NNN	Office/Warehouse	H&H Rock
5501 Holabird Avenue	344,000	3/2008	\$5.50 NNN	Bulk	Duke Realty

# INDUSTRIAL MARKET BALTIMORE COUNTY - I-83 NORTH AND SOUTH

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	13	50	70
New/Relet Vacant (SF)	163,400	662,800	301,380
Sublease Vacant (SF)	36,300	38,900	4,700
Total Vacant (SF)	199,700	701,700	306,080
Total Existing RBA (SF)	1,973,140	4,217,100	3,056,940
Vacancy Rate Direct %	8.3%	15.7%	9.9%
Vacancy Rate Sublease %	1.9%	0.9%	0.1%
Net Absorption (SF)	61,000	11,025	73,200
Average Rental Rate (NNN)	\$7.50	\$8.08	\$9.43
2008 Completed Construction SF	0	0	0
2009 Planned Construction SF	0	0	0

## MARKET OVERVIEW

Within the boundary of Towson and Hunt Valley, the I-83 Industrial Market contains approximately 133 properties. This includes a mix of owner-occupied buildings as well as speculative development. Once home to several large manufacturing companies, this area continues to evolve through redevelopment and demographic changes into more of a service-oriented business environment.

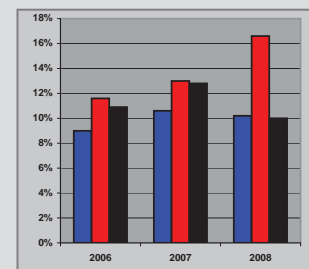
The dwindling supply of industrial properties has continued to push values upward, with user sales being the highest, often eclipsing replacement costs. This, combined with the lack of an hourly work force, has driven the manufacturing jobs into southern Pennsylvania and east into Baltimore and Harford Counties.

Vacancy rates have continued their trend downward, while rental rates for older second generation space are often higher than that of new construction in other areas supporting the basic principle of supply versus demand.

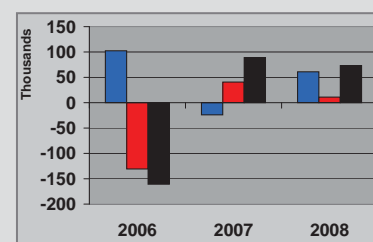
## MARKET OUTLOOK

The I-83 industrial market has not been immune to the global economic woes. Property transfers, while active in the last 18 months, have halted to a standstill. Layoffs, downsizing, and bankruptcies will certainly increase current vacancy rates and work to drive down rental rates. On the bright side, it is an ideal time for healthy companies working within a renewal cycle of an existing lease to obtain long term favorable rates with concessions. For buyers, interest rates are heading to record lows as more product becomes available, creating opportunity.

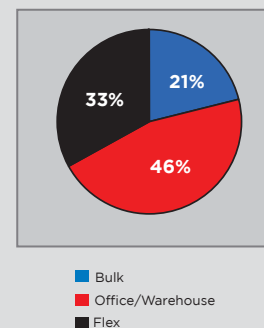
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



## LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
AAI	Clubhouse Lane	19,000	Warehouse	Hunt Valley
Trellis Services	Lakefront Drive	16,200	Flex	Hunt Valley
Great Finds Design	Greenspring Drive	12,500	Flex	Timonium

## BUILDING SALES - INVESTMENT

Address	Size (SF)	Price	Price PSF	Product	Buyer	Seller
Golden West Road	72,278	\$6,800,000	\$94.15	Office/Warehouse	Golden West LLC	FR Golden LLC

## BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
16 Stenersen Lane	30,000	\$1,800,000	\$60.00	Warehouse	Unit 2 Stenersen LLC	Rosen Bros.

## NOTABLE ACTIVITY

# INDUSTRIAL MARKET BALTIMORE COUNTY - WEST

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

	Bulk	Office/Warehouse	Flex
Number of Buildings	23	67	113
New/Relet Vacant (SF)	52,600	240,245	287,691
Sublease Vacant (SF)	0	14,500	32,092
Total Vacant (SF)	52,600	254,745	319,783
Total Existing RBA (SF)	1,402,541	3,112,953	4,251,406
Vacancy Rate Direct %	3.8%	7.7%	6.8%
Vacancy Rate Sublease %	0.0%	0.5%	0.8%
Net Absorption (SF)	45,556	(32,900)	129,638
Average Rental Rate (NNN)	\$8.61	\$8.40	\$9.30
2008 Completed Construction SF	0	0	32,700
2009 Planned Construction SF	0	0	0

## MARKET OVERVIEW

The west industrial markets of Owings Mills, Randallstown and Woodlawn saw average absorption in the first half of the year and minimal activity amid slowing conditions in the third and fourth quarters of 2008.

Owings Mills and Randallstown contain the majority of flex product in the industrial category, while Woodlawn has a wider assortment of product, though generally an older vintage.

Flex product represents close to 50% of the Baltimore County West industrial inventory and made a significant impact with almost 130,000 square feet of absorption and a 2% drop in flex vacancy. However, most of the absorption took place in the first half of 2008 and is viewed as a temporary surge with expectation levels guarded in anticipation of a slowed economy.

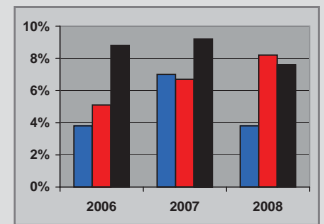
St. John Properties delivered one new 32,700 square foot flex building in Owings Mills which represented the only new construction in the submarket for the year. The largest lease of the year was in Woodlawn to VANNS Spices for 24,191 square feet in a 1960s era, low ceiling warehouse located in Meadows Business Park. The largest vacancy in the market is for 242,000 square feet in Rutherford Business Center. The former drug manufacturing building was purchased in 2007 for potential redevelopment of the 11.6 acre site.

In 2008, the largest sale in the market was the purchase of 7253 Ambassador Road, a 38,930 square feet flex building for \$131 per square foot. The building is fully leased to Advanced Radiology and the sale transaction was institutional between two REITs.

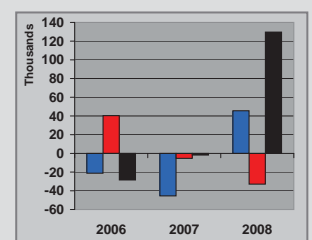
## MARKET OUTLOOK

For 2009, we see the market remaining steady with similar conditions to those in the last half of 2008. As with all submarkets in the current economy, activity is predicted to be restrained. No buildings are currently under construction and none of the potential redevelopments or new construction seems likely in the coming year for anything other than perhaps small user buildings. Under normal circumstances, this would help fill current vacancies but, with the predicted lack of business growth, we can only predict a stagnant condition for this submarket in the coming year.

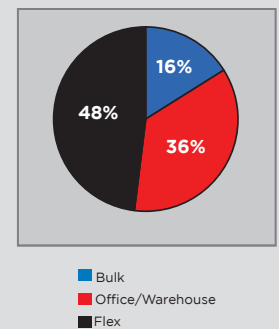
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
VANNS Spices Ltd.	1716 Whitehead Road	24,191	Flex	Woodlawn
XP Laser Sports	12400 Owings Mills Boulevard	22,178	Bulk	Owings Mills
Airversent	11460 Cronridge Drive	15,522	Flex	Owings Mills
Jump Zone	12400 Owings Mills Boulevard	12,822	Bulk	Owings Mills

### BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Product	Buyer	Seller
7253 Ambassador Road	38,930	\$5,100,000	\$131	Flex	7253 Ambassador Road LLC	7253 Ambassador Road LLC

### BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
1726 Whitehead Road	37,873	\$3,700,000	\$98	Flex	Schoolhouse Finance LLC	Hunter Building LLC

# INDUSTRIAL MARKET BALTIMORE COUNTY - EAST

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	78	142	116
New/Relet Vacant (SF)	2,703,110	1,832,375	1,537,922
Sublease Vacant (SF)	36,901	17,500	0
Total Vacant (SF)	2,794,011	1,978,182	1,651,892
Total Existing RBA (SF)	13,023,262	11,717,671	7,180,683
Vacancy Rate Direct %	20.8%	15.6%	21.4%
Vacancy Rate Sublease %	0.3%	0.1%	0%
Net Absorption (SF)	330,000	299,800	341,409
Average Rental Rate (NNN)	\$4.65	\$4.47	\$4.27
2008 Completed Construction SF	69,474	0	0
2009 Planned Construction SF	0	0	0

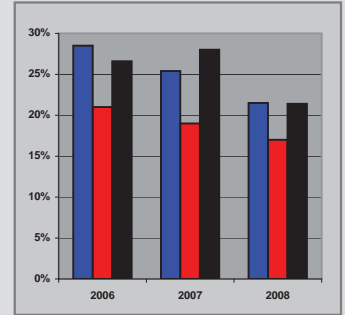
## MARKET OVERVIEW

MD Route 43 continues to drive a significant amount of activity in the Baltimore County East Industrial submarket. FRP and Chesapeake Real Estate Group both delivered new office/warehouse products in this corridor and St. John Properties continues to develop both office and flex product – including two build-to-suits. Among these three players, over 250,000 square feet of office/warehouse and flex product was delivered on the MD Route 43 extension. User sales have spotted the landscape along the MD Route 40 corridor. Yellow Brick Road and Kelso Drive remain healthy areas for owners/users (both small and large). With a glut of new product on the market, original shell rates have compressed somewhat. Proximity to I-95 and MD Route 40 allow this market to remain healthy and trade at a decent value.

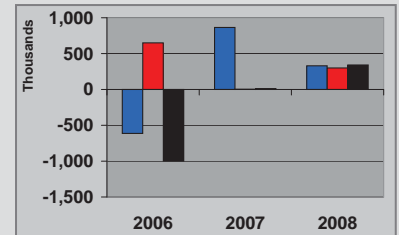
## MARKET OUTLOOK

A continued downward trend in the national economy will likely suspend some activity in this market and may further depress rental rates. The first real round of BRAC activity should begin to trickle south into the Baltimore County East submarket by the third and fourth quarters of 2009 – ceasing some of the negative absorption due mostly to new construction delivered in 2007 and 2008.

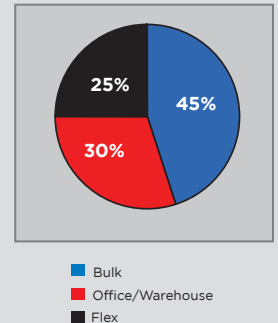
Vacancy Rate (%)



Net Absorption (SF)



Market Inventory (%)



## LEASING TRANSACTIONS

Tenant	Address	SF
Carpet Consultants	Tangier Road	12,500

## BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF
8801 Citation Road	156,979	\$10,040,000	\$64.00
8900 Yellow Brick Road	60,000	\$ 4,700,000	\$78.53
917 Middle River Road	38,025	\$ 3,300,000	\$86.79

## BUILDING SALES - USER

Address	Size	Price	Price PSF
1401 Tangier Road	41,508	\$4,800,000	\$115.00
8837 Yellow Brick Road	18,000	\$2,000,000	\$111.11

## BUILDINGS DELIVERED - 2008

Address	Size	Delivery Date	Asking Rent PSF
1500 Crossroads Circle	69,474	11/2008	\$6.50 NNN
1405 Tangier Road	76,928	6/2008	\$6.50 NNN

## NOTABLE ACTIVITY

Product	Submarket
Office/Warehouse	White Marsh

Product	Buyer
Bulk	TA Associates
Office/Warehouse	TA Associates
Bulk	Rugby Realty

Seller
The Lightstone Group
First Industrial
Lauman's Home Furnishings

Product	Buyer
Office/Warehouse	Pevco Systems
Flex	Green Contracting

Seller
CREG/Prudential
Yellow Brick, LLC

Type	Owner/Developer
Office/Warehouse	FRP
Office/Warehouse	Chesapeake

# INDUSTRIAL MARKET BALTIMORE COUNTY - SOUTHWEST

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	29	48	31
New/Relet Vacant (SF)	425,500	289,000	40,500
Sublease Vacant (SF)	0	0	0
Total Vacant (SF)	425,500	289,000	40,500
Total Existing RBA (SF)	3,365,000	3,357,000	1,115,000
Vacancy Rate Direct %	12.6%	8.6%	3.6%
Vacancy Rate Sublease %	0.0%	0.0%	0.0%
Net Absorption (SF)	181,500	65,000	44,000
Average Rental Rate (NNN)	\$5.25	\$5.95	\$9.25
2008 Completed Construction SF	210,000	290,000	0
2009 Planned Construction SF	0	125,000	0

## MARKET OVERVIEW

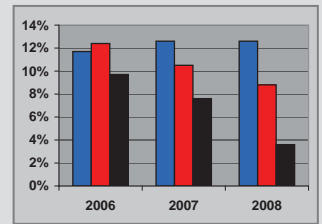
The Southwest Baltimore County (SBC) market comprises the area beginning just south of MD Route 40, with MD Route 295 to the east and south, and Interstate 95 to the west. SBC contains a diverse mix of industrial buildings ranging from older non-functional buildings inside the Beltway to modern industrial buildings built near I-95 and I-695. This market contains an industrial and flex base of approximately 7.6 million square feet of space among 108 buildings. Occupants of facilities in the SBC often distribute to both the Baltimore and Washington, D.C. areas, but tend to do the majority of their business in the Baltimore metropolitan region. This area has the highest percentage of manufacturing businesses in the combined Baltimore-Washington Corridor.

During the mid 1990s, vacancy rates soared to more than 25% in specific parts of Baltimore County. Subsequently, at the end of 1996, a portion of southwest Baltimore County was designated as a state Enterprise Zone. This designation has provided an impetus for labor-intensive firms to locate in older buildings located within a twenty square mile area bounded roughly by the Baltimore City line on the North, Wilkens Avenue on the West, Hollins Ferry Road on the East, and the Harbor Tunnel Thruway to the South. With the help of this Enterprise Zone status – as well as the rediscovery of this strategic location -- vacancy rates have stabilized, resulting in occupancy rates that now average more than 92%.

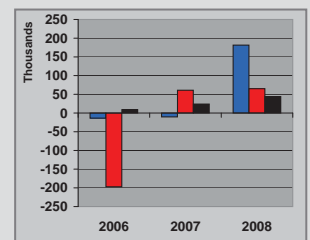
## MARKET OUTLOOK

Southwest Baltimore County has been relatively resilient to the general economic slowdown. Major new developments include Hollins End, a complete redevelopment of the 47 acre, 700,000 square foot, former Superfresh distribution facility. To date, the park has met with success, as Service Express leased 100,000 square feet of office/warehouse in the first half of 2008 and Federal Express will occupy a build-to-suit of 125,000 square feet in 2009. In addition, Bakery Express has consolidated its operations into a joint venture project with Merritt Properties, absorbing 120,000 square feet of a total 210,000 square foot development. Although the economy will delay some tenant decisions for the next several quarters -- causing an increase in vacancy levels -- we optimistically anticipate this area to remain stable, given limited new development and the Enterprise Zone benefits found in parts of this submarket.

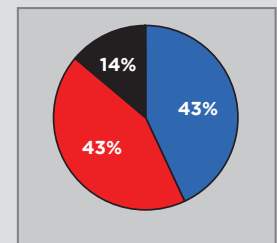
## Vacancy Rate (%)



## Net Absorption (SF)



## Market Inventory (%)



■ Bulk  
■ Office/Warehouse  
■ Flex

## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Service Express	4801 Hollins Ferry Road	100,000	Office/Warehouse	Southwest
Bakery Express	4711 Hollins Ferry Road	120,000	Bulk	Southwest

### BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Product	Buyer	Seller
4615 Hollins Ferry Road	121,675	\$7,200,000	\$59.17	Bulk	T/A Associates	Mullan Pavillions

### BUILDING DELIVERED - 2008

Address	RBA SF	Delivery Date	Asking Rent PSF	Type	Owner/Developer
4801 Hollins Ferry Road	290,000	4/2008	\$6.25 NNN	Office/Warehouse	Preston Partners

### PLANNED CONSTRUCTION - 2009

Address	SF	Product	Asking Rent PSF	Delivery Date	Owner/Developer
4801 Hollins Ferry Road	125,000	Office/Warehouse	N/A	2nd quarter 2009	Preston Partners

# INDUSTRIAL MARKET HARFORD COUNTY

## FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



## STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	52	62	56
New/Relet Vacant (SF)	1,924,206	64,225	9,475
Sublease Vacant (SF)	0	6,000	15,000
Total Vacant (SF)	1,924,206	70,225	24,475
Total Existing RBA (SF)	12,203,414	4,092,027	2,604,207
Vacancy Rate Direct %	15.8%	1.6%	0.4%
Vacancy Rate Sublease %	0.0%	0.1%	0.6%
Net Absorption (SF)	518,302	167,540	47,500
Average Rental Rate (NNN)	\$4.60	\$6.74	\$11.32
2008 Completed Construction SF	333,000	0	21,000
2009 Planned Construction SF	676,000	0	0

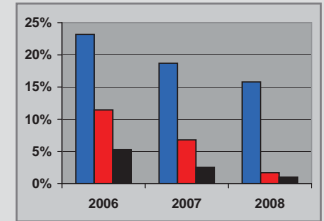
## MARKET OVERVIEW

Harford County's Industrial market during 2008 was buoyed by three notable transactions which accounted for over 800,000 square feet of new leasing. Procter and Gamble leased 538,000 square feet at 4608 Appliance Drive and has an option to expand into the remaining 262,000 square feet. AGCO leased the entire building of 105,000 at 1704 Trimble Road in Edgewood and Prime Source leased the entire 205,030 square feet at 600 Hickory Drive in Aberdeen. New deliveries were limited to 149,000 square feet in FRP's Lakeside Development and 184,000 square feet in the Cranberry Run Business Center.

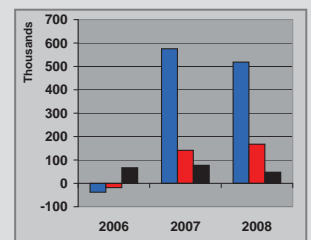
## MARKET OUTLOOK

Projections for 2009 vary by product type. Vacancy in flex buildings has nowhere to go but up from a notable low of sub 1% over the 2nd half of 2008. Mid-bay warehouse / office rates are showing signs of rising toward the end of 2008 with several tenants listing space for sublease, however, with limited product existing and little to none in the development pipeline vacancy should stay within a few points of 5%. Bulk space within the market will continue to be slow to lease in light of historical absorption within the market and financial pressure attributed to a struggling economy.

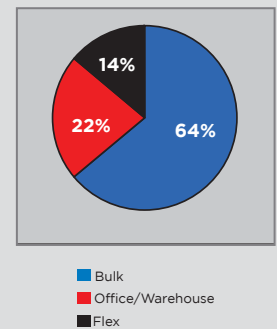
## Vacancy Rate (%)



## Net Absorption (SF)



## Market Inventory (%)



## NOTABLE ACTIVITY

### LEASING TRANSACTIONS

Tenant	Address	SF	Product
Proctor and Gamble	4608 Appliance Drive	538,000	Bulk
Prime Source	600 Hickory Drive	205,030	Bulk
AGCO	1704 Trimble Road	105,000	Bulk
R4	2204 Lakeside Boulevard	21,125	Office/Warehouse
Aireco Inc.	2204 Lakeside Boulevard	9,100	Office/Warehouse

# LAND OVERVIEW

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

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

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

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

## **Foreclosures & Impact Fees**

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

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

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

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

# INVESTMENT OVERVIEW

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

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

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

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

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

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

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

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

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

# THE NAI KLNB TEAM

In 2008, NAI KLNB reported volume of over \$1.1 billion from 903 separate real estate transactions, and leased or sold more than 9.3 million square feet of industrial, office and retail space and over 263 acres in land. This full-service brokerage firm operates offices in Towson and Columbia, Maryland, as well as, Vienna and Ashburn, Virginia and Washington, DC. KLNB is the mid-Atlantic representative of NAI Global, a managed 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 office and industrial market, the NAI KLNB team includes:

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