

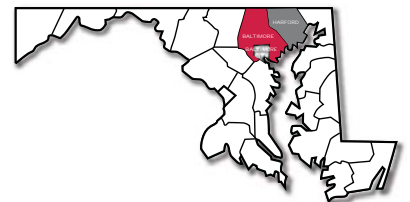
Navigating Uncharted Waters

2009 OFFICE & INDUSTRIAL MARKET REVIEW & FORECAST

BALTIMORE CITY, BALTIMORE COUNTY AND HARFORD COUNTY, MARYLAND



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



2009 YEAR END REVIEW

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HEALTHY JOB PROSPECTS EXPECTED TO FUEL REAL ESTATE RECOVERY IN 2010

"Baltimore County, consistent with the entire State of Maryland, continues to be buffered from the worse effects of the national recession, going into the downturn later, experiencing it shallower, and already showing signs of emerging faster than the rest of the nation. Our proximity to federal government resources and facilities, strong knowledge economy based workforce, and the reality of regional BRAC expansion in 2010 should show measurable positive results in commercial real estate markets in Baltimore County by the second half of 2010."

"As we move toward full economic recovery, the health of the commercial real estate market in 2010 will be in large part dependent on access to capital. When lenders free-up capital and return to previous lending requirements the market will rebound quickly."

*Mr. David S. Iannucci, Executive Director
Baltimore County Economic Development*

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



Joe Burke
Northmarq Capital



With the Baltimore-Washington, D.C. commercial real estate industry inexorably connected to the health of the regional labor market, 2010 could show signs of improvement over last year if the predicted string of job hirings in various industries comes to fruition.

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

After hearing state and county economic development representatives tout the wide-ranging benefits stemming from the Base Realignment And Closure (BRAC) process for the past three years, we can now see tangible ramifications of the BRAC effect before our eyes. Defense contractors are beginning to lease full-buildings or sign impressive leases at projects strategically positioned near Aberdeen Proving Ground and Ft. Meade, and

"For years, St. John Properties has enjoyed the luxury of a portfolio that was 95% leased, although we have fallen below that figure in 2009. The correlation of job growth and the health of the commercial real estate market is very real, and we see positive trends developing – particularly around Aberdeen Proving Ground which is a bright spot. Through the downturn, we have never stopped building, including 200,000 square feet of space underway in Glen Burnie and more than 210,000 square feet soon to start in Carroll County."



Jerry Wit, Senior Vice President,
Marketing and Leasing
St. John Properties, Inc.



2009 YEAR END REVIEW

positive residual effects can be felt throughout the residential, retail and consumer products arenas. It is generally accepted that Maryland could receive \$6 to \$10 billion in military construction around federal bases, and more than 25,000 new jobs could filter into the state.

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

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

"Howard Bank, because of its focus on small and medium sized businesses, has a window on both tenant needs as well as landlord opportunities in a challenging marketplace. Landlords with the capital and creative capacity to work with tenants in temporarily changed circumstances have generated more operating income than have those who are only focused on short term rental rates. A mutual focus on long term relationships is often leading to long term commitments - thus stabilizing occupancy ratios. Howard Bank takes a similarly long term view of its relationships."



Mary Ann Scully, President and CEO
Howard Bank



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

The philosophy of most landlords entering 2009 was of tenant retention rather than attraction and savvy companies – recognizing that the scales have been tipped in their favor – took full advantage of rental reductions and concessions. With the supply of office space producing double digit vacancy levels in some spots, landlords will need to continue their creativity and resourcefulness.

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

All things considered, the Baltimore-Washington, D.C. region is in an enviable – if not one-of-a-kind – spot in terms of job creation and transfer in the coming years due to BRAC and its proximity to our nation's capital, a position that bodes extremely well for the continued recovery of the commercial real estate market.

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

Joseph Rode, Executive Vice President
The Mullan Contracting Company



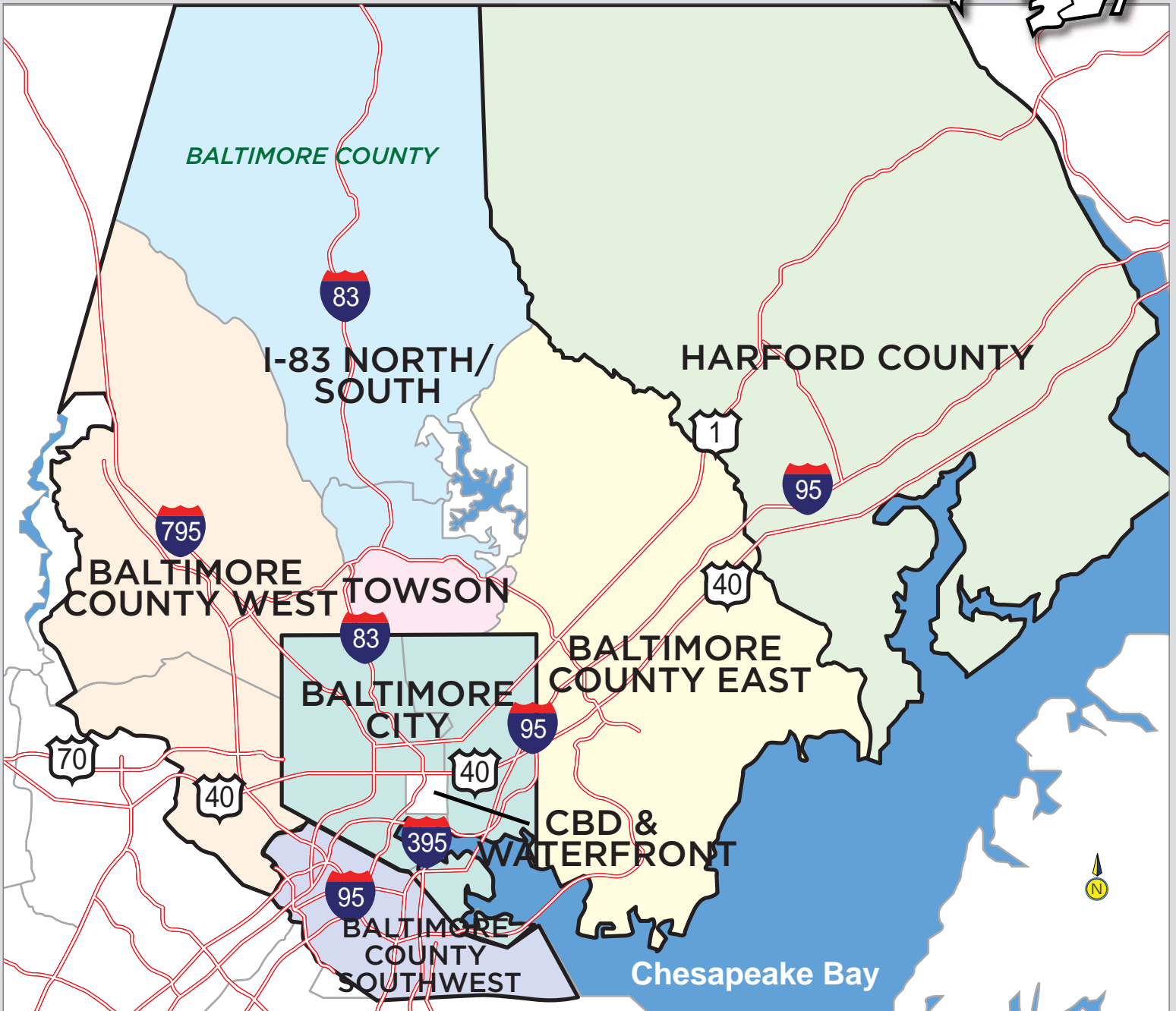
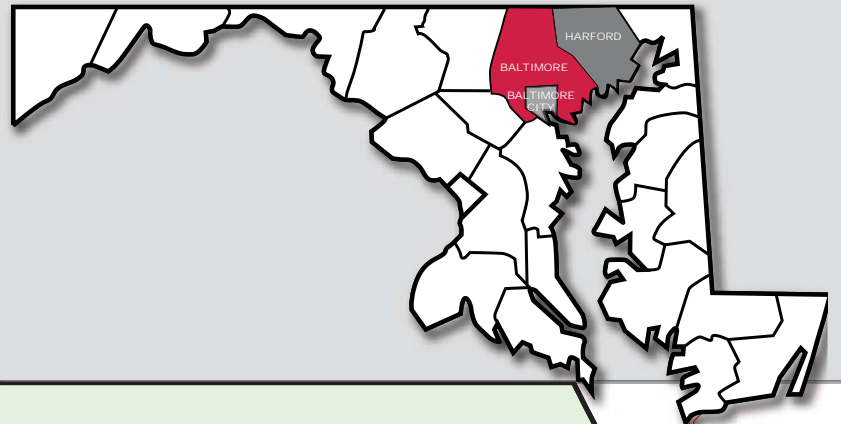
"Corporate Office Properties Trust is starting to experience the full effect of the BRAC realignments – specifically around Aberdeen Proving Ground and Fort Meade, but also throughout the central Maryland real estate marketplace. Both the government and the defense information technology sectors will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



Rand Griffin, President and CEO
Corporate Office Properties Trust



AREA MAP



MARKET OVERVIEW

MARKET	# OF BUILDINGS	RBA	TOTAL VACANT (SF)	VACANCY RATE DIRECT%	NET ABSORPTION	RENTAL RATE PSF (AVERAGE)	CONSTRUCTION COMPLETIONS (SF)
OFFICE MARKET							
Baltimore City							
Class A	62	13,468,085	2,305,857	17.1%	38,123	\$25.77	719,309
Class B	326	11,000,583	1,465,424	13.3%	(114,848)	\$17.60	0
Baltimore County -I-83 North/South							
Class A	57	4,909,552	608,175	11.6%	(7,905)	\$24.07	175,000
Class B	40	2,018,336	192,821	8.7%	(10,981)	\$19.81	0
Baltimore County - Towson							
Class A	22	2,166,360	214,450	9.7%	21,148	\$23.02	0
Class B	150	4,472,700	590,938	12.9%	13,804	\$18.76	0
Baltimore County - West							
Class A	53	5,313,839	436,467	7.8%	79,673	\$20.80	0
Class B	202	5,775,494	517,778	7.0%	(172,459)	\$17.87	0
Baltimore County - East							
Class A	23	1,043,845	184,317	17.7%	36,364	\$25.23	45,000
Class B	218	2,039,661	229,763	11.3%	77,904	\$19.53	0
Baltimore County - TOTALS							
Class A	155	13,433,596	1,443,409	10.7%	129,280	\$23.28	220,000
Class B	610	14,306,191	1,531,300	10.7%	(91,732)	\$18.99	0
Harford County							
Class A	11	584,869	45,885	7.8%	114,933	\$25.44	57,446
Class B	258	2,251,718	180,160	8%	19,188	\$21.48	13,000
INDUSTRIAL MARKET							
Baltimore City							
Bulk	102	10,453,000	943,500	8.7%	396,000	\$4.00	0
Office/Warehouse	134	7,004,000	547,000	7.1%	73,550	\$4.25	0
Flex	270	8,872,000	669,000	7.5%	(173,000)	\$4.50	0
I-83 North/South							
Bulk	21	2,581,959	417,163	15.2%	15,217	\$7.35	0
Office/Warehouse	34	3,007,613	479,245	15.5%	26,826	\$5.55	0
Flex	74	3,782,789	653,792	17.0%	(24,365)	\$9.25	0
Baltimore County - East							
Bulk	85	13,636,785	3,047,363	21%	369,453	\$4.63	0
Office/Warehouse	105	9,436,814	2,023,143	20%	292,867	\$5.50	0
Flex	156	9,839,267	1,822,320	19%	152,352	\$7.50	0
Baltimore County - West							
Bulk	37	1,910,267	391,244	20.5%	(248,456)	\$6.16	0
Office/Warehouse	41	1,929,843	456,540	23.7%	(317,600)	\$7.12	0
Flex	117	4,231,079	788,305	16.7%	(235,508)	\$7.81	0
Baltimore County - Southwest							
Bulk	33	3,394,000	524,000	15.5%	(240,000)	\$4.25	0
Office/Warehouse	39	3,269,000	349,000	10.7%	(45,150)	\$5.00	0
Flex	33	1,188,000	69,000	5.8%	(24,000)	\$7.50	0
Baltimore County - TOTALS							
Bulk	176	21,523,011	4,379,770	20.3%	618,056	\$6.50	279,474
Office/Warehouse	219	22,404,624	3,307,928	14.8%	331,900	\$6.73	290,000
Flex	380	19,041,135	4,121,737	21.6%	588,247	\$8.06	32,700
Harford County							
Bulk	20	14,016,304	2,886,531	20.6%	(346,912)	\$4.34	0
Office/Warehouse	41	3,381,056	193,345	5.7%	(158,270)	\$4.57	0
Flex	71	3,758,298	208,510	5.6%	(161,990)	\$5.47	0

OFFICE MARKET BALTIMORE CITY - CBD & WATERFRONT

FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	62	326
New/Relet Vacant (SF)	1,825,666	1,435,569
Sublease Vacant (SF)	480,191	29,855
Total Vacant (SF)	2,305,857	1,465,424
Total Existing RBA (SF)	13,468,085	11,000,583
Vacancy Rate Direct %	17.1%	13.3%
Vacancy Rate Sublease %	3.6%	0.3%
Net Absorption (SF)	38,123	(114,848)
Average Rental Rate (Full Service)	\$25.77	\$17.60
2009 Completed Construction SF	719,309	0
2010 Planned Construction	333,933	0

MARKET OVERVIEW

The Baltimore region's economy is faring better than much of the rest of the country and, given the state of the economy in 2009, the CBD/waterfront submarket performed as well or better than many submarkets in the region, especially considering the new product added to inventory. The office vacancy rate in the city's central business district climbed to 13.6% from 9.6%.

The decrease in overall tenant demand allowed companies to command lease deals that were at least 10% to 15% below the asking price. As a result, landlords began offering free rent and more money for tenant improvements to attract tenants. Despite the available incentives, many tenants remain frozen in leasing decisions as they wait for an improving economic climate.

Rents overall have declined 14.2% among Class "A" office as property owners with available space struggle to obtain tenants. Class "B" rents overall declined in the range of 7 - 10%, which has allowed some tenants to "trade up" into better space.

2009 Market Highlights:

- Net absorption: Class "A" saw a slight positive absorption this year and in 2008, while Class "B" remained in negative territory for the past three years

- Sublease space: increased by approximately 200,000 square feet in Class "A" and only 9,000 square feet in Class "B." Sublease space is 2.1% of standing inventory overall

- Overall vacancy rate: 15.4%, up from 12.4% one year ago

- Direct vacancy rate: 13.3%, up from 11.6% one year ago

In the largest sale transaction of the year, Corporate Office Properties Trust (COPT) paid \$125 million to acquire Canton Crossing. Approximately \$104 million of that figure was invested into the 17-story, 474,000 square-foot First Mariner Tower. The non-tower portion of the investment includes the acquisition of four waterfront development lots that have been approved by the city for 500,000 square feet of office space, 150,000 square feet of retail space, a 450-room hotel and a marina, a power plant that was owned by Constellation Energy Group Inc., a parking lot and former owner Ed Hale's development rights for the entire site. COPT indicates it will most likely not build the hotel and retail elements planned for the 55-acre waterfront site, although it does plan to build 500,000 square feet of office space on the waterfront.

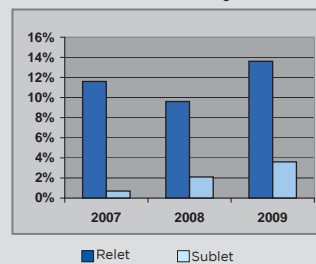
MARKET OUTLOOK

- Under construction pipeline: 334,000 square feet, down from 720,000 square feet one year ago
- Pre-lease rates for new construction: 36% down from 54% one year ago

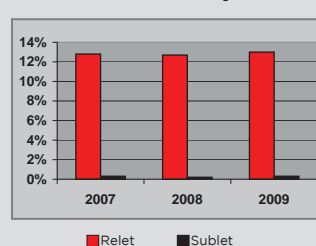
City owners are counting on spillover from the influx of BRAC tenants to the north and south of the city and more particularly continued growth in health care. As is true for the entire region, there will need to be sustained economic growth before many employers have enough confidence to expand the job force and create new demand for space.

The Baltimore CBD/waterfront area is poised for slowing conditions in the near-term -- perhaps bottoming -- but with bumps yet to come with maturing debt over the next four years. Changes in employment levels is what drives office demand and dismal numbers from the Bureau of Labor Statistics places the unemployment rate at the highest level in 38 years. Baltimore City's unemployment rate stands at 10.8%, just above the 10.2 national rate, but Baltimore's office vacancy rate is 10th-lowest in the nation, a promising sign of the viability of the region's commercial market.

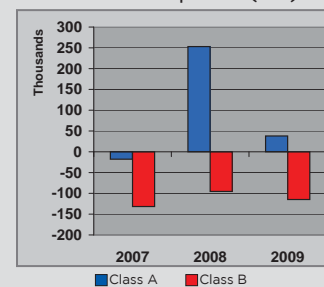
Class A Vacancy Rate



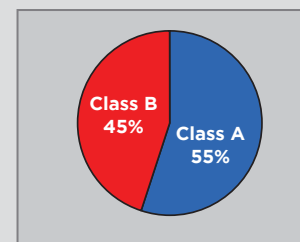
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Class
Johns Hopkins Carey School of Business	100 International Drive	80,469	A
University Physicians Inc.	250 W. Pratt Street	25,830	A
XL Health	Camden Yards	18,100	A
Gross, Mendelsohn & Assoc.	36 S. Charles Street	18,061	A
Baltimore Health Care Access	201 E. Baltimore Street	15,100	B

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Class	Buyer	Seller
1501 S. Clinton Street	476,910	\$78,900,000	\$166.00	A	COPT	Canton Crossing Tower LLC
4201 Patterson Avenue	84,674	\$8,002,000	\$95.00	B	Gov't Props Income Trust LLC	Hub Properties Trust

BUILDING SALES - USER

Address	Size	Price	Price PSF	Class	Buyer	Seller
2521 N. Charles Street	16,640	\$1,190,000	\$71.00	C	Baltimore City Healthy Start	MRK Services LLP
1515 W. Mount Royal Avenue	20,000	\$1,860,000	\$93.00	C	MICA	1515 Mount Royal Associates

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	57	40
New/Relet Vacant (SF)	571,670	175,195
Sublease Vacant (SF)	36,505	17,626
Total Vacant (SF)	608,175	192,821
Total Existing RBA (SF)	4,909,552	2,018,336
Vacancy Rate Direct %	11.6%	8.7%
Vacancy Rate Sublease %	0.7%	0.9%
Net Absorption (SF)	(7,905)	(10,981)
Average Rental Rate (Full Service)	\$24.07	\$19.81
2009 Completed Construction SF	175,000	0
2010 Planned Construction	0	0

MARKET OVERVIEW

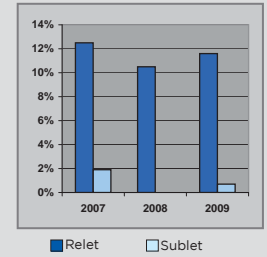
The I-83 North and South Markets consist of Class "A" and Class "B" buildings located north of the I-695 Beltway through Timonium, Hunt Valley and Sparks in the Northern Baltimore county suburbs. Considering the state of the economy, it is surprising to see that the increase in vacancy of Class "A" buildings from 2008 to 2009 was not higher than the 1.1% as reported. Hunt Valley is home to many Fortune 500 regional offices and this market typically experiences significant vacancies due to corporate downsizing during depressed economic times. Another contributing factor to explain this phenomenon may be due to the limited amount of construction completed in 2009.

KCI Technologies leased 120,000 square feet of space at its new Sparks headquarters at 926 Ridgebrook, but left 90,000 square feet available at 10 North Park. Fundamental moved its 94,000 square foot operations across the courtyard at the prestigious Tower Point at the Highlands.

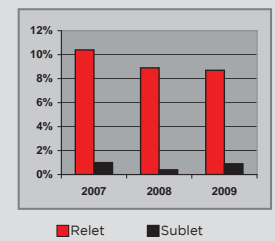
MARKET OUTLOOK

There may not be a better time to be a tenant in the market for office space than in 2010. Landlords that have current tenants with leases expiring within two years should try to secure longer term leases before their tenants "go to the market." Some economists feel we are out of the recession but commercial real estate professionals know that we could be experiencing significant problems well beyond 2010.

Class A Vacancy Rate



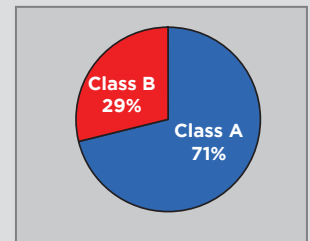
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



LEASING TRANSACTIONS

Tenant	Address	SF	Class
Fundamental	920 Ridgebrook Road	94,000	A
Altradius Trade Credit	230 Schilling Circle	20,000	A
Moblix USA	930 Ridgebrook Road	18,000	A
State Auto Financial	10 North Park	17,000	A
New Enterprise Associates	1954 Greenspring Drive	15,000	A
SMS Holdings	11011 McCormick Road	14,000	A

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Class	Buyer	Seller
113 Old Padonia Road	10,296	\$1,595,000	\$154.91	B	Suburban Sales	Callan Palmer & Associates

BUILDING SALES - USER

Address	Size	Price	Price PSF	Class	Buyer	Seller
1831 York Road	2,660	\$650,000	\$244.36	C	Serjoi, LLC	CRFX, Inc.

BUILDINGS DELIVERED IN 2009

Address	Size	Class	Price PSF	Delivery Date	Owner/Developer
926 Ridgebrook Road	120,000	A	N/A	1st Quarter 2009	KCI Technology/Cignal
55 Schilling Road	55,000	A	\$25.00	November 2009	Mackenzie
10 North Park (Rehab)	96,000	A	\$21.50	November 2009	Liberty Property Trust

NOTABLE ACTIVITY

OFFICE MARKET BALTIMORE COUNTY - TOWSON

FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	22	150
New/Relet Vacant (SF)	209,152	577,893
Sublease Vacant (SF)	5,298	13,045
Total Vacant (SF)	214,450	590,938
Total Existing RBA (SF)	2,166,360	4,472,700
Vacancy Rate Direct %	9.7%	12.9%
Vacancy Rate Sublease %	0.2%	0.3%
Net Absorption (SF)	21,148	13,804
Average Rental Rate (Full Service)	\$23.02	\$18.76
2009 Completed Construction SF	0	0
2010 Planned Construction	0	0

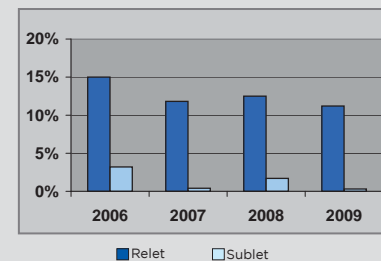
MARKET OVERVIEW

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. Some of the 90,000 square feet of space that became available in Court Towers at 210 West Pennsylvania Avenue has been leased with the largest block of approximately 29,000 square feet leased to Venable. Publishers Circulation Fulfillment leased 17,000 square feet at 502 Washington Avenue, and there have been several other smaller lease transactions absorbing some the vacancy within the Towson Marketplace. 100 West Road has back filled a large portion of their vacancy with tenants such as Comcast Spotlight, and Robert W. Baird & Co. There is no question that it is a tenant's market with most landlords becoming more aggressive in their rental rates, tenant improvements, and incentives, such as free rent and in some cases subsidized parking expenses.

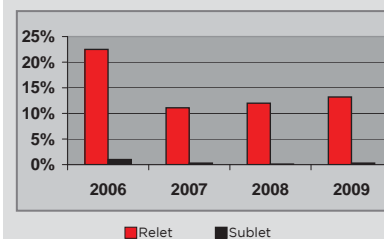
MARKET OUTLOOK

As we move into 2010 we are still not seeing as many users in the marketplace. The few deals that are being completed are typically taking longer as both landlord and tenants have unrealistic expectations. The few prospects that are in the market are finding very attractive terms being offered by most owners. If the prospect is sound financially, they are being offered anywhere from four (4) to ten (10) months of free rent and higher tenant improvement incentives. The longer the lease (i.e. 7-10 years), the more free rent prospective tenants will receive. In the first week of 2010 an 8,000 square foot prospective tenant was offered 14 months of free rent based on a ten (10) year lease term.

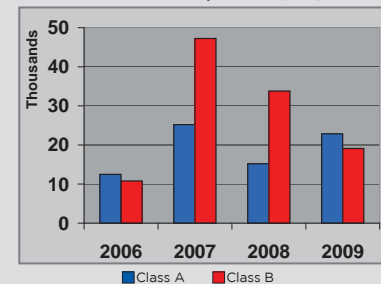
Class A Vacancy Rate



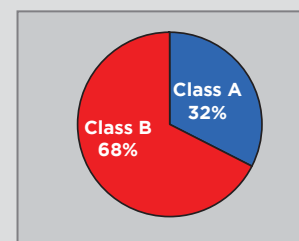
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Class
Publishers Circulation Fulfillment	502 Washington Avenue	17,619	B
Bally Total Fitness	300 E. Joppa Road	37,783	B
Venable	210 W. Pennsylvania Avenue	29,000	A
Carefirst of Maryland	1501 S. Clinton Street	28,889	A

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Class	Buyer	Seller
600 Washington Avenue	63,991	\$8,094,362	\$126	A	Towson LLC	Allegheny '76 LP
1107 Kenilworth Drive	21,144	\$1,911,000	\$90.38	B-C	Kun & Eun LLC	Kenilworth LLC

BUILDING SALES - USER

Address	Size	Price	Price PSF	Class	Buyer	Seller
505 Baltimore Avenue	4,390	\$900,000	\$59.99	C	505 Baltimore Ave. LLC	Friends Research Institute, Inc.

OFFICE MARKET BALTIMORE COUNTY WEST

FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	53	202
New/Relet Vacant (SF)	417,046	404,221
Sublease Vacant (SF)	19,421	113,557
Total Vacant (SF)	436,467	517,778
Total Existing RBA (SF)	5,313,839	5,775,494
Vacancy Rate Direct %	7.8%	7.0%
Vacancy Rate Sublease %	0.4%	2.0%
Net Absorption (SF)	79,673	(172,459)
Average Rental Rate (Full Service)	\$20.80	\$17.87
2009 Completed Construction SF	0	0
2010 Planned Construction	47,000	93,000

MARKET OVERVIEW

The continued downturn of our nation's economy produced similar results in the Baltimore County West submarkets of Woodlawn and the Reisterstown Road Corridor, as compared to other Maryland office submarkets.

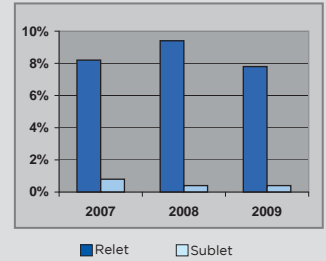
Due to its close proximity to Interstate 95 and competitively low office rental rates, Woodlawn continues to be an ideal location for the distribution and operations of numerous companies. Absorption and rental rates both decreased in 2009, however, vacancy rates remained steady, primarily due to the lack of new construction in the submarket. 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 submarket.

The Reisterstown Road corridor experienced similar effects from the poor 2009 economy. The lack of new construction in the submarket kept vacancy rates similar to 2008, while office space absorption and rental rates both decreased. The Reisterstown Road corridor's functional live-work setting, including commercial office and flex/industrial development near a metro subway station and residential homes located around a Regional Mall, continues to be a desirable location for a variety of companies such as Baltimore Life Companies, ADP, and Carefirst BlueCross Blueshield, the financial services operations of T. Rowe Price, Legg Mason, Toyota Financial Services and manufacturing companies such as Solo Cup, Baltimore Spice Company, and Quest International. The field of bioscience also continues to contribute to the submarket's economy. Two notable transactions in 2009 for this area were Farmers Financial Solutions lease of 123,000 square feet of Class "A" office space at 600 Red Brook Boulevard and Carefirst's lease renewal of 104,000 square feet of Class "B" office space at 10802 Red Run Boulevard.

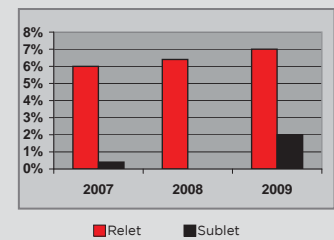
MARKET OUTLOOK

Continuing the trend of 2009, the depressed economy is expected to contribute to decreased absorption of the commercial office market and continued vacancy throughout 2010 in the Woodlawn and the Reisterstown Road Corridor submarkets. The lack of new Class "A" buildings delivered to the market will limit tenants' options. However, Landlords' needs for new tenants are expected to continue the 2009 trends of decreased rental rates and increased concessions from Landlords in an attempt to incentivize tenants to lease their office space. Thus, it is expected that companies seeking office space in the Baltimore County West Submarket will have tremendous opportunities.

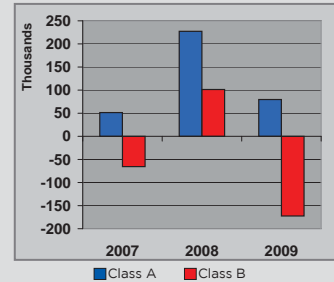
Class A Vacancy Rate



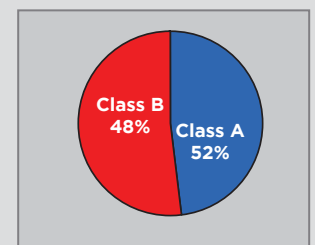
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Class
Farmers Financial Solutions	600 Red Brook Boulevard	123,039	A
Clinical Trials & Surveys	10065 Red Run Boulevard	17,045	A
Schnabel Engineering	1502 Woodlawn Drive	6,251	B
Carefirst BC/BS (*renewal)	10802 Red Run Boulevard	104,000	B

BUILDING SALES - USER

Address	Size	Price	Price PSF	Class	Buyer	Seller
10453 Mill Run Circle	110,137	\$14,800,000	\$134.38	A	ADP Owings Mills LLP	Highwoods DLF 98/29, LP

2010 PLANNED CONSTRUCTION

Address	Size	Delivery Date	Owner/Developer
8890 McDonogh Road	93,000	2nd Quarter	Mastercraft Communities
5415 Old Court Road	47,000	2nd Quarter	Carlson Lane/Obrecht Properties

OFFICE MARKET BALTIMORE COUNTY EAST

FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	23	218
New/Relet Vacant (SF)	184,317	229,763
Sublease Vacant (SF)	0	0
Total Vacant (SF)	184,317	229,763
Total Existing RBA (SF)	1,043,845	2,039,661
Vacancy Rate Direct %	17.7%	11.3%
Vacancy Rate Sublease %	0.0%	0.0%
Net Absorption (SF)	36,364	77,904
Average Rental Rate	\$25.23	\$19.53
2009 Completed Construction SF	45,000	0
2010 Planned Construction	40,200	0

MARKET OVERVIEW

The Baltimore County East office market is the smallest office submarket in Baltimore County. The most active segment is in the White Marsh area, particularly with the addition and continuing build-out of Baltimore Crossroads. Also, office space in this market competes with flex space somewhat more than in some other markets in the metropolitan area.

Currently, there is 414,080 sf of Class A and B space and no space for sublease in the market. Over the past three years vacancy in the market has actually been holding steady in Class A product and even decreasing in Class B product while over the past three years sublease space has gone from the modest 1.6% in 2007 to zero in each of the next two years. This minimal change in overall availability indicates a pretty strong balance in supply and demand.

Leases tend to be small in the submarket, with the largest in 2009 signed by a relatively new technology company and a renewal by a national insurance company.

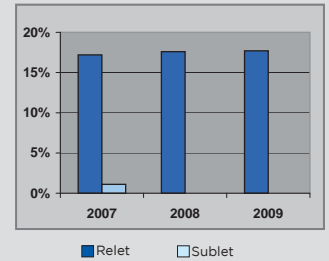
MARKET OUTLOOK

This submarket has hopes to benefit from the coming BRAC expansion in Aberdeen, just to the north up I-95. This development has been on the horizon for a few years now and the actual moves are about to take place. Once that occurs, this submarket has more available land for development than most any other submarket in Baltimore County, so if demand appears there is available land supply to build out millions of square feet of new product.

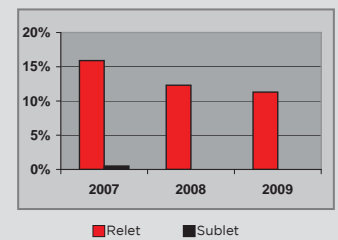
Easy access to I-95 makes this submarket a natural extension for BRAC related contractors that may spillover from development closer to Aberdeen in Harford County.

In addition to the new construction at the Baltimore Crossroads, Corporate Office Properties Trust will commence construction of Nottingham Ridge, an 88 acre mixed-use community.

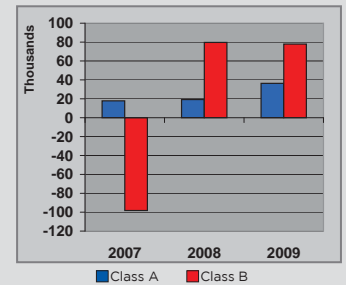
Class A Vacancy Rate



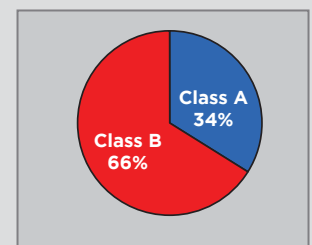
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



LEASING TRANSACTIONS

Tenant	Address	SF	Class
Social Solutions	425 Williams Court	17,915	A
Mutual of Omaha	8140 Corporate Drive	4,256	A
Life Bridge Ministries	8359 Pulaski Highway	4,200	B
Regal Decision Systems	8015 Corporate Drive	3,403	B
FMC of Porter Dialysis	7939 Honeygo Boulevard	3,306	B

BUILDING SALES - USER

Address	Size	Price	Price PSF	Class	Buyer	Seller
9625-9627 Philadelphia Road	32,990	\$3,000,000	\$90.94	B	Mars Supermarket	Atlantic Builders Group, Inc.
1012 North Point Road	18,700	\$1,259,000	\$67.33	B	Key Point Health	1012 North Point Inc.
6740 Holabird Avenue	12,000	\$630,000	\$52.50	B	Seventh Day Adventist	Verizon Maryland, Inc.

NOTABLE ACTIVITY

OFFICE MARKET HARFORD COUNTY

FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	11	258
New/Relet Vacant (SF)	45,885	180,160
Sublease Vacant (SF)	0	0
Total Vacant (SF)	45,885	180,160
Total Existing RBA (SF)	584,869	2,251,718
Vacancy Rate Direct %	7.8%	8.0%
Vacancy Rate Sublease %	0%	0%
Net Absorption (SF)	114,933	19,188
Average Rental Rate (Full Service)	\$25.44	\$21.48
2009 Completed Construction SF	57,446	13,000
2010 Planned Construction	0	0

MARKET OVERVIEW

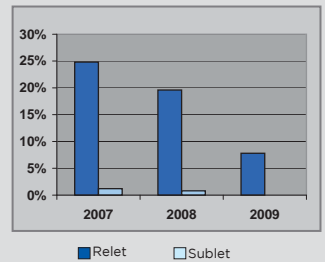
The Harford County office market can be broken down into two general sectors -- the the greater Bel Air area and the emerging City of Aberdeen/Aberdeen Proving Ground (APG) market. Over the past several years, development activity has been focused on mid-level related projects supporting the ever expanding Upper Chesapeake Health Center in Bel Air. In 2009, activity shifted towards the Aberdeen area in response to the much anticipated explosive growth created by BRAC.

The State of Maryland has ramped up its efforts to fund infrastructure projects across the area. New construction is being fast-tracked in hopes of keeping up with this demand. The most immediate need appears to be office space both inside and just outside the main APG gates. The Raytheon Company and L-3 Communications both committed to separate 75,000 square foot office buildings currently under construction by St. John Properties. In addition, Corporate Office Properties Trust is busy with their first 80,000 square foot building in the North Gate Business Park. When fully developed, these two projects will infuse more than 3.4 million square feet into the market.

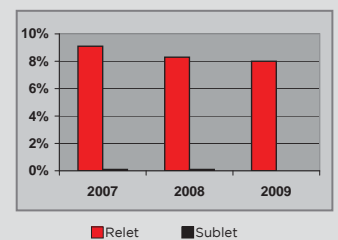
MARKET OUTLOOK

For the foreseeable future there will continue to be a gold rush mentality to support the BRAC movement. As availability in projects closest to the gates get either absorbed or begins to lag behind, further demand will be forced out to secondary projects which are located further away from APG. This area stands out as an extremely bright spot in an otherwise slow economy, and we anticipate activity to remain strong for the next several years.

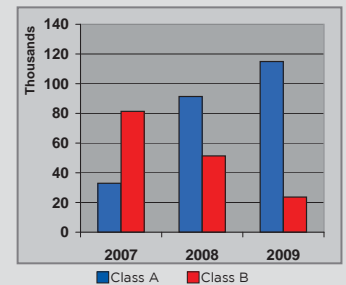
Class A Vacancy Rate



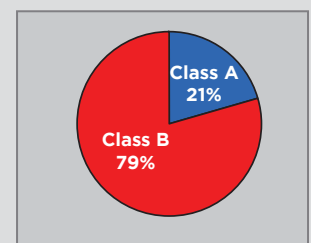
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Class
Booz Allen Hamilton	4694 Millennium Drive	34,680	A
Computer Sciences Corp.	4694 Millennium Drive	20,444	A
SAIC	3103 Emmorton Road	8,000	B
Upper Bay Counseling	626 Revolution Street	7,456	B
Chesapeake Urology	111 Plumtree Road	7,446	A
Telcordia Tech	103 Bata Boulevard	5,686	A
Bowhead Tech	103 Bata Boulevard	4,814	A
Amedisys Home Health	19 Newport Drive	3,300	B

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Class	Buyer	Seller
1212 Churchville Road	7,000	\$750,000	\$107.14	B	C&G Commercial	BBT LLC
2019 Emmorton Road	6,230	\$2,400,000	\$385	B	Eastern Shore LLC	2019 Emmorton LLC
101 Bata Boulevard	7,016	\$1,200,000	\$171.04	C	Eastern Shore LLC	101 Bata LLC

INDUSTRIAL MARKET BALTIMORE CITY

FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	102	134	270
New/Relet Vacant (SF)	905,000	499,000	669,000
Sublease Vacant (SF)	38,500	48,000	0
Total Vacant (SF)	943,500	547,000	669,000
Total Existing RBA (SF)	10,453,000	7,004,000	8,872,000
Vacancy Rate Direct %	8.7%	7.1%	7.5%
Vacancy Rate Sublease %	0.4%	0.7%	0%
Net Absorption (SF)	396,000	73,550	(173,000)
Average Rental Rate (NNN)	\$4.00	\$4.25	\$4.50
2009 Completed Construction SF	0	0	0
2010 Planned Construction SF	0	0	0

MARKET OVERVIEW

Although Baltimore City contains nearly 50 million square feet of industrial/flex product, many of these buildings have reached their functional limitations. NAI KLNB estimates that closer to 26 million square feet are relevant to the demands of the modern industrial user or investor. For 2009, Baltimore City's commercial real estate market showed some positive gains compared to last year, despite the economic slowdown that has impacted almost every part of the region. Vacancy levels have decreased by a full percentage point to 7.8%, while net absorption moved into positive territory at over 330,000 square feet. Virtually no speculative construction occurred in 2009 which has allowed the market additional time to absorb its excess space and keep existing occupancy at reasonable levels.

At Hollander 95 in east Baltimore, 82,000 square feet of mid-bay warehouse delivered in 4th quarter 2008 is now approaching 50% occupancy. With further plans to revitalize the west side of the city, 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 into, including one of the largest contiguous blocks of warehouse space containing 325,000 square feet: Waterview.

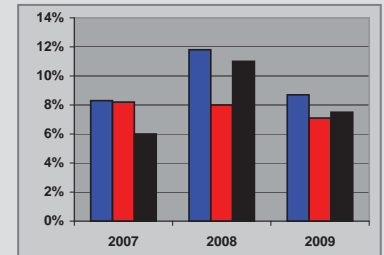
MARKET OUTLOOK

Although the national economy is beginning to show signs of life compared with a year ago, we are approaching 2010 with caution. The industrial market is typically the last to feel the effects of a recession and also the last to emerge from it. We predict 4th quarter 2010 as a possible time for activity to pick up enough for developers (and their banks) to feel confident enough to begin speculative construction in the City. With the weak dollar, U.S. exports should begin to increase, benefitting the Port of Baltimore and hence, the real estate surrounding it. There is very little industrial warehouse available near the Port, and slow but steady rising demand should keep that portion of the City at/or below the City to maintain high occupancy levels.

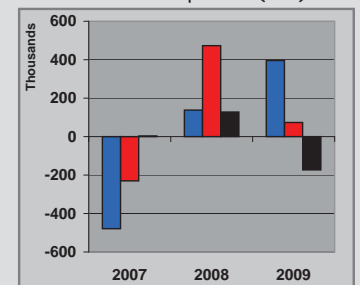
The investment sale market will remain soft as investors seek higher rates of return to offset the higher amounts of cash needed for deals. User sales should begin to accelerate towards the second half of 2010 as this segment of the market begins to feel more confident in the economy, prices begin to bottom out, and banks continue their policy of lending to owner/occupants.

On the lease side, tenants will continue to expect free rent and place downward pressure on rental rates. Although vacancy rates are in balance, landlords will need to remain aggressive towards landing tenants in their buildings.

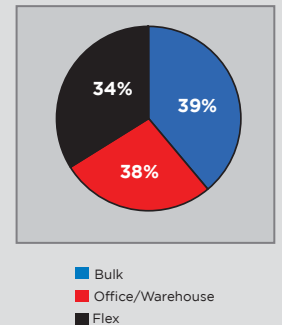
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Computer Donation Management	500 Northpoint Road	100,700	Office/Warehouse	East Baltimore
Price Modern	1101 DeSoto Road	92,000	Office/Warehouse	East Baltimore
Transcare Corp.	1125 DeSoto Road	15,375	Flex	

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Product	Buyer	Seller
1900 Bayard Street	43,500	\$750,000	\$17.24	Flex	HSR Properties	Bayard Properties LLC
3400 E. Biddle Street	157,352	\$2,000,000	\$12.71	Office/Warehouse	3400 Biddle St. LLC	Weyerhaeuser NR
1321 Western Avenue	34,272	\$1,848,000	\$53.95	Flex	Trussworks LLC	Winchester Homes

BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
2800 Wegworth Lane	39,000	\$2,050,000	\$52.56	Office/Warehouse	Joe Corbi's Pizza	NFZ Products
2630 Georgetown Road	7,500	\$625,000	\$84.46	Flex	Rubin Properties LLC	Harrison Wood Floors
4215 Eastern Avenue	33,200	\$1,300,000	\$39.16	Office/Warehouse	Alliance Enterprises	Hermon Properties Inc.

LAND SALES - INVESTMENT

Address	Size	Price	Price Per Acre	Buyer	Seller
1301 Covington Street	2.3 acres	\$665,000	\$289,130	H. Lochner	E. Gittings St. LLC

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	21	34	74
New/Relet Vacant (SF)	391,503	467,085	641,637
Sublease Vacant (SF)	25,660	12,160	12,160
Total Vacant (SF)	417,163	479,245	653,792
Total Existing RBA (SF)	2,581,959	3,007,613	3,782,789
Vacancy Rate Direct %	15.2%	15.5%	17.0%
Vacancy Rate Sublease %	1.0%	0.4%	0.3%
Net Absorption (SF)	15,217	26,826	(24,365)
Average Rental Rate (NNN)	\$7.35	\$5.55	\$9.25
2009 Completed Construction SF	0	0	0
2010 Planned Construction SF	0	0	0

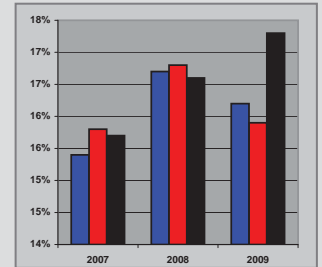
MARKET OVERVIEW

Once a mecca for manufacturing and distribution, the I-83 corridor has seen most of its mainstay companies relocate to areas more conducive to basic business practices – including the availability of labor, excellent transportation routes and affordable real estate. Many of these functionally obsolete facilities have been converted to multi-tenant properties looking to attract service oriented companies. In addition, other properties have been scrapped and replaced with multi-story office structures, hotels and retail uses. Due to our current economic woes, these transformations have been put on hold for the foreseeable future.

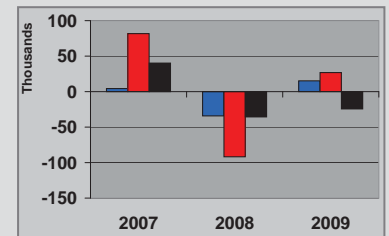
MARKET OUTLOOK

On par with much of the region, activity within the I-83 Industrial corridor will remain flat. Sale prices for smaller industrial condominiums have fallen by nearly 50% and it will take years to rise to the level that existed in mid 2007. Investment sales have all but completely disappeared. The lack of any new construction in recent years – coupled with the redevelopment of so many older buildings has caused the size of the actual inventory to decrease and has helped keep rates from plummeting as in other submarkets. If a company needs to be in the market it will have to pay for it.

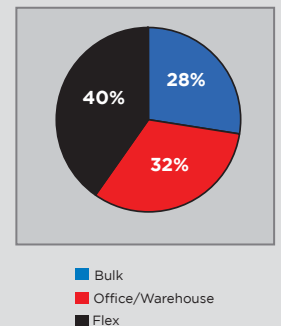
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Extra Space Storage (*renewal)	1 Beaver Court	52,437	Bulk	North
Gamers Factory	10945 McCormick Road	3,900	Office/Warehouse	North
Shawan Builders	Williamson Lane U-3	3,000	Flex	North
Zoll Studio of Art	15 W. Aylesbury Road	4,000	Flex	North
BP Packaging	10720 Gilroy Road	33,340	Flex	North
System Source (* renewal)	330 Clubhouse Lane	42,750	Office/Warehouse	North

BUILDING SALES - USER

Address	Size (SF)	Price	Price PSF	Class	Buyer	Seller
16 Stenerson Lane	10,000	\$950,000	\$95.00	B	Thunderhead	16 Stenerson LLC
1 Beaver Court	105,437	\$5,200,000	\$49.32	B	1 Beaver Court, LLC	MD Industrial Trust

LAND SALES - INVESTMENT

Address	Size	Price	Price Per Acre	Class	Buyer	Seller
330 Clubhouse Lane	71,578	\$7,130,000	\$99.61	B	Clubhouse Road LLC	First Industrial

NOTABLE ACTIVITY

INDUSTRIAL MARKET BALTIMORE COUNTY - WEST

FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

	Bulk	Office/Warehouse	Flex
Number of Buildings	37	41	117
New/Relet Vacant (SF)	391,244	456,540	704,612
Sublease Vacant (SF)	0	0	83,693
Total Vacant (SF)	391,244	456,540	788,305
Total Existing RBA (SF)	1,910,267	1,929,843	4,231,079
Vacancy Rate Direct %	20.5%	23.7%	16.7%
Vacancy Rate Sublease %	0.0%	0.0%	2.0%
Net Absorption (SF)	(248,456)	(317,600)	(235,508)
Average Rental Rate (NNN)	\$6.16	\$7.12	\$7.81
2009 Completed Construction SF	0	0	0
2010 Planned Construction SF	0	0	0

MARKET OVERVIEW

The Baltimore County west industrial market includes the areas of Owings Mills, Randallstown and Woodlawn, which are all easily accessible from the Baltimore Beltway. True industrial product represented by our bulk category and to some degree our office/warehouse category is fairly concentrated in the Woodlawn area of Baltimore County. Owings Mills is comprised almost entirely of flex product in the industrial sector and Randallstown is home to far less product generally, but is served by flex product as well. The market is represented by over 8 million square feet, with flex product accounting for more than half of this total. The submarket saw significant negative absorption this year of more than 800,000 square feet.

Woodlawn, in particular, is buoyed by maintaining the headquarters for the Social Security Administration (SSA) and the Healthcare Finance Administration (HCFA) which are strong federal installations that require significant support from private contractors.

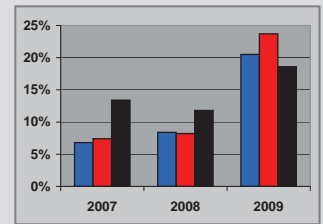
There was no marquee lease this year, although there was some activity in both the flex and office / warehouse sectors. In addition, a few flex building sales were completed to users in Woodlawn and Owings Mills. EMJAY Engineering bought the 22,000 square foot 1724 Whitehead Road as expansion and storage space just a block north of its headquarters building for \$72 per square foot. This is further evidence that many small businesses remain healthy and are well capitalized.

MARKET OUTLOOK

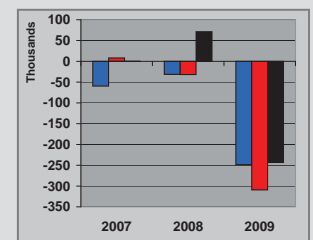
There were no new building deliveries in 2009 and none are under construction or planned for 2010. Continued economic stagnancy is expected to be the story once again in this submarket as in many others. Woodlawn does enjoy the benefit of SSA and HCFA which draws neighbors like Lockheed Martin and Northrop Grumman.

The focus in these areas for 2010 will be to chip away at more than 1.5 million square feet of vacancy. A bright spot will be for healthy companies working with the federal government and looking to expand as the product is plentiful and, in large part, modern and functional.

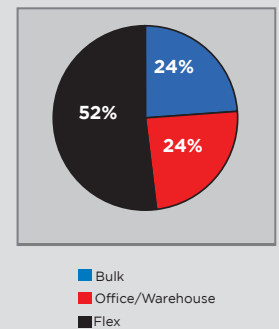
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
Key Marketing Group	3600 Crondall Lane	4,600	Flex	Owings Mills
Mattress Clearance Warehouse	6704 Whitestone Road	7,012	Flex	Woodlawn
Plexicoat America	1708 Whitehead Road	3,709	Warehouse	Woodlawn
Frank Gumpert Printing	2010 Lord Baltimore Drive	9,230	Warehouse	Woodlawn
BK Truland	2607 North Rolling Road	18,594	Warehouse	Woodlawn
Lockheed Martin	1506 Woodlawn Drive	41,000	Flex	Woodlawn

BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
1724 Whitehead Road	22,192	\$1,610,000	\$72.55	Flex	Zachary Enterprises, LLC	Hunter Building, LLC
8 Music Fair Road	31,744	\$3,500,000	\$110.26	Flex	Saja LLC	M.R. Associates

LAND SALES - INVESTMENT

Address	Size (acres)	Price	Price Per Acre	Submarket	Buyer	Seller
Johnnycake Road	26.34	\$5,000,000	\$189,829	Woodlawn	Security Blvd Ventures LLC	Barbara Palacorolla
6301 Seton Ridge Drive	3.37	\$1,725,000	\$511,869	Woodlawn	Ryland Group Inc.	Seton Liberty LLC

INDUSTRIAL MARKET BALTIMORE COUNTY - EAST

FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	85	105	156
New/Relet Vacant (SF)	2,926,802	1,891,627	1,822,329
Sublease Vacant (SF)	120,561	131,516	0
Total Vacant (SF)	3,047,363	2,023,143	1,822,320
Total Existing RBA (SF)	13,636,785	9,436,814	9,839,267
Vacancy Rate Direct %	21%	20%	19%
Vacancy Rate Sublease %	1%	1%	0%
Net Absorption (SF)	369,453	292,867	152,352
Average Rental Rate (NNN)	\$4.63	\$5.50	\$7.50
2009 Completed Construction SF	0	0	0
2010 Planned Construction SF	0	0	0

MARKET OVERVIEW

The Baltimore County east industrial market consists of two distinct areas. For starters, in the region hugging the MD Rt. 40/Pulaski Highway corridor northeast toward Harford County, there are areas peppered with space of mostly 1960s through 1980s vintage. Along the MD Rt. 43 corridor, which connects Eastern Boulevard at Martin State Airport to I-695 at Parkville there exists new and modern construction of flex, office/warehouse and big box industrial product delivered in 2008. Unfortunately, most of that new construction sits vacant amidst plentiful land awaiting additional new development.

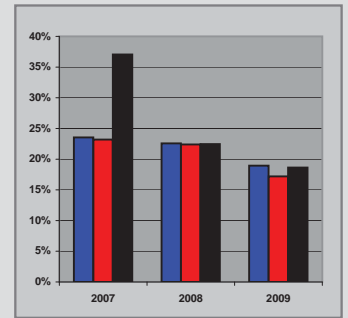
The North Point peninsula accessed by I-695 southeast of the Baltimore tunnel is occupied mostly by heavy industrial buildings and land that remains fairly healthy as a result of its proximity to the port and the scarcity of MH IM zoning – the heaviest available in Baltimore County. Industries that deal in metals, welding, recycling, trucking, crane service, sea container storage and repair and manufacturing occupy this corridor efficiently served by North Point Boulevard, with several access points to I-695.

MARKET OUTLOOK

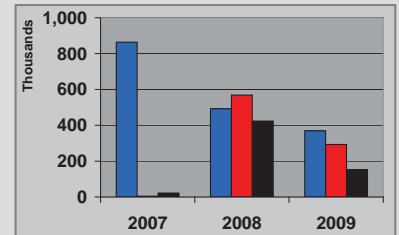
Although this submarket showed a decrease in vacancy rates this year, absorption is down significantly. With no new speculative building deliveries and none planned for 2010, Baltimore County East Industrial should have the opportunity to see a downtick in vacancy rates and an uptick in absorption. This will require significant concessions on the part of developers sitting on both turnover space, as well as new product that is approaching two years of vacancy. Users will continue to demand free rent and significant tenant improvement allowances. Additionally, downward pressure on rent is expected to continue.

The North Point peninsula should remain strong through 2010. With nearly seven million square feet of vacancy, this submarket is well prepared to accept the wave of Base Realignment and Closure (BRAC) activity that has been promised for the last several years and is beginning to trickle into Harford County.

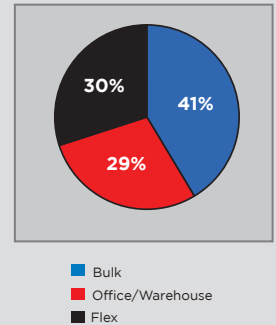
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Product
Parcorini Metals	7700 Rolling Mill Road	134,783	Bulk
Parcorini Metals	7700 Rolling Mill Road	86,000	Bulk
Case Mason (*renewal)	9101 Yellow Brick Road	135,600	Bulk
DAP, Inc. (*renewal)	8410 Kelso Drive	168,554	Bulk
Boise Cascade (*renewal)	7700 Rolling Mill Road	204,253	Bulk
Mid-Atlantic Port Services	1225 Bengies Road	63,000	Bulk
Chesapeake Crab Cakes & More (*renewal)	8805-8837 Kelso Drive	43,500	Office/Warehouse

BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
8149 Norris Lane	16,050	\$2,300,000	\$143.00	Warehouse	The Baltimore Rigging Company	Atlantic Concrete Products
9625-9627 Philadelphia Road	33,000	\$3,000,000	\$90.94	Flex	9627 Philadelphia Road LLC	9627 LLC
8912 Yellow Brick Road	13,200	\$1,200,000	\$90.91	Flex	Edward J Ivy Descendents Trust	Joseph Stonik & Betty Ruth Stonik
7656 Canton Center Drive	81,365	\$1,975,000	\$24.27	Bulk	Overseas Distributors	Five-B Joint Venture LLP

INDUSTRIAL MARKET BALTIMORE COUNTY - SOUTHWEST

FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	33	39	33
New/Relet Vacant (SF)	524,000	349,000	69,000
Sublease Vacant (SF)	0	19,800	0
Total Vacant (SF)	524,000	349,000	69,000
Total Existing RBA (SF)	3,394,000	3,269,000	1,188,000
Vacancy Rate Direct %	15.5%	10.7%	5.8%
Vacancy Rate Sublease %	0.0%	0.0%	0.0%
Net Absorption (SF)	(240,000)	(45,150)	(24,000)
Average Rental Rate (NNN)	\$4.25	\$5.00	\$7.50
2009 Completed Construction SF	0	0	0
2010 Planned Construction SF	0	0	0

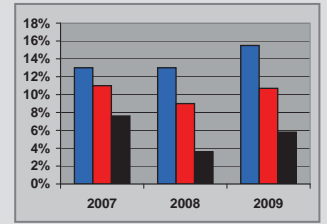
MARKET OVERVIEW

The Southwest Baltimore County (SBC) market is the area beginning just south of MD Rt. 40, MD 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 695. With slightly more than 7.5 million square feet of industrial and flex space, 2009 was not particularly kind to this submarket. The overall vacancy climbed to 12.1% compared to just 7% at the beginning of 2008 and absorption approached negative 300,000 square feet by year-end. Occupants of facilities in the SBC often distribute to both the Baltimore and Washington areas but tend to do the preponderance of their business in the Baltimore metro region.

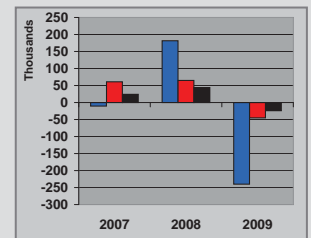
MARKET OUTLOOK

The SBC will continue to be impacted by the economic slowdown over the next twelve months. Flex product should remain relatively stable, given the limited amount of available square footage found in this area. Office/warehouse and bulk product dominates this submarket and, while there is no new speculative construction planned, it will take time to absorb the roughly 900,000 square feet of buildings available. We anticipate the commercial real estate market to gain momentum in the latter half of 2010 and. As demand begins to rise, factors such as Enterprise Zone status and proximity to I-95 and the D.C. metroplex should increase demand for product in this submarket.

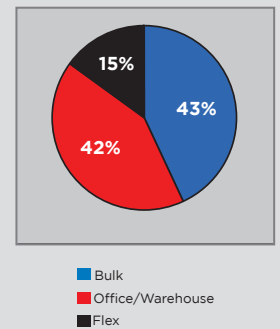
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Product
Vend Central	3901 Vero Road	28,500	Bulk
MyOffice Products, Inc.	3600 Commerce Drive	5,400	Office/Warehouse
Turkey Creek Trading	1-208 Azar Court	25,000	Office/Warehouse
MD Truck Tire Services	4615 Hollins Ferry Road	15,075	Bulk

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Product	Buyer	Seller
5101 Washington Boulevard	61,270	\$7,250,000	\$118.33	Office/Warehouse	Estes	USF Holland Realty

INDUSTRIAL MARKET HARFORD COUNTY

FORECAST

Vacancy Rate



Net Absorption



Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	20	41	71
New/Relet Vacant (SF)	2,635,395	193,345	208,510
Sublease Vacant (SF)	251,133	3,000	0
Total Vacant (SF)	2,886,531	196,345	208,510
Total Existing RBA (SF)	14,016,304	3,381,056	3,758,298
Vacancy Rate Direct %	20.6%	5.7%	5.6%
Vacancy Rate Sublease %	1.8%	0.1%	0%
Net Absorption (SF)	(346,912)	(158,270)	(161,990)
Average Rental Rate (NNN)	\$4.34	\$4.57	\$5.47
2009 Completed Construction SF	0	0	0
2010 Planned Construction SF	0	0	0

MARKET OVERVIEW

The Harford County Industrial market has established itself as an affordable location for companies distributing product throughout the Mid-Atlantic and Northeast regions. The primary road network consists of I-95, which runs straight through the county and provides excellent access to markets both to the north and the south. The majority of construction over the past ten years has been for high bay distribution-type facilities. In an effort to meet the growing demand related to the BRAC movement, there is a shift towards manufacturing, flex and single story office type designs.

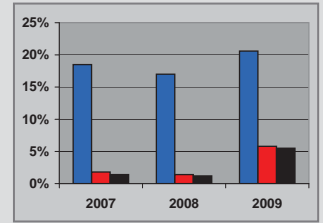
A typical tenant may have up to fifty percent office/lab/production area which requires infrastructure changes including increased electrical demands and higher parking ratios. We are seeing what can best be described as an evolution to a hybrid in the traditional industrial design.

MARKET OUTLOOK

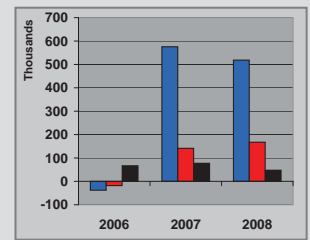
Vacancies in the bulk category of industrial properties are at record high levels -- greater than 20%. Owners will be attempting to "buy" deals offerings special incentives, bringing effective rental rates down to levels that we have not seen in nearly 20 years. We anticipate this unfortunate trend to continue for the foreseeable future. The silver lining may be that the lack of any new construction should help to reverse the plummeting rates, as activity eventually gobbles up inventory.

The real activity will be the spillover demand from companies supporting the BRAC movement. While the momentum has been painfully slow to start, we are beginning to feel the initial surges. Activity in the office/warehouse and flex segments will continue to be the least affected by the current weak global markets.

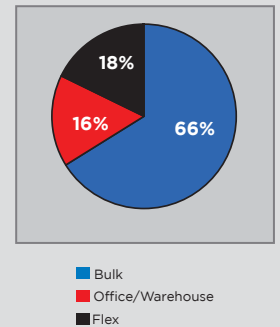
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



LEASING TRANSACTIONS

Tenant	Address	SF	Class
Sun Products	1900 Clark Road	502,768	A
McCormick & Co.	1315 Brass Mill Road	252,900	B
Trilogy Machinery	4601 Richlynn Drive	49,800	A
Motile Robotics	1809 Fashion Court	11,700	A
Control Systems	1613 Robin Circle	9,000	C
Party Palace Rental	1615 Robin Circle	9,000	B
Performance Dance	1809 Fashion Court	7,500	A
Bio Medical Recovery	1613 Robin Circle	4,500	C
Blue Water Sign	343 Granary Road	4,500	B

BUILDING SALES - USER

Address	Size	Price	Price PSF	Class	Buyer	Seller
320 Pulaski Highway	9,375	\$1,250,000	\$133.33	B	MPM LLC	320 Pulaski LLC
111 Industry Lane	6,000	\$660,000	\$110.00	C	Muhlers LLC	J. Griggs
908 Pulaski Highway	4,800	\$576,000	\$120.00	B	Marquis LLC	908 Pulaski LLC

NOTABLE ACTIVITY

LAND OVERVIEW

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

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

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

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

CAPITAL MARKETS – Favorite lenders to the land development community also tasted the bitterness of a horrible housing market this year as land loans by the dozens were defaulted on. Two local lenders; Bradford Bank and Suburban Bank were taken over by the federal government. Provident and Wachovia merged into larger financial behemoths and may not focus on long term personal relationship banking. This lack of personal relationship banking has caused many, credit worthy customers to find that their lines of credit used to finance their day-to-day operations have been severed by a bank that no longer wants the exposure to the volatility of the housing marketplace.

This year alone, more firms involved in all aspects of the building and development industry have suffered from the inability to borrow money. Access to capital is the lifeblood of the real estate industry and the inability to borrow has caused massive layoffs as projects are scrubbed, acquisitions can no longer be funded and projects under construction are halted.

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

MORE MONEY OUT OF POCKET – Just a few years ago, the average real estate investor in land could finance 80 percent of a deal with simply a phone call. Today, that same investor needs to plead for a loan with 50 percent down as lenders no longer see real estate land loans as benefiting them. This extra out-of-pocket expense has kept many buyers of land on the sidelines as they simply don't have the personal funds for their project. This has opened up opportunities to firms that use funds from overseas investors and local high net-worth individuals, to step into the ring when so many others can't afford to get into the market.

SO WHAT DOES 2010 HOLD? Simply, more of the same. We don't believe that the land acquisition or development marketplace will change dramatically within the next year or two. We don't believe that the real estate marketplace bounces back until consumer confidence and stability in the job market returns. Why would the average homeowner venture out into the new home marketplace if they have any doubts about their future employment? The market returns when the average consumer can say that they don't know anyone who has been recently laid off. Until that time occurs, we will suffer through the downturn a bit longer.

INVESTMENT OVERVIEW

THE WORST OF THE CMBS FALLOUT IS YET TO COME

It was securitized commercial mortgage lending (those loans widely referred to as “conduit” or “CMBS” loans) that helped fuel the dramatic appreciation in commercial real estate through 2007. That lending market collapsed in 2008 bringing with it a twenty to thirty percent or greater fall in real estate values and an eighty to ninety percent drop in volume of commercial real estate sales.

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

The bulk of these troubled conduit loans were originated in 2005 through the first part of 2008. Many of these loans had five year terms and as such are coming due between 2010 and 2012. These are also loans that were originated at very high levels of leverage and at historically high prices so they very susceptible to default.

There are already over 3,000 loans worth \$50 billion in special servicing and that number will continue to grow dramatically in 2010.

INVESTORS ARE LOOKING FOR BARGAINS

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

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

DEBT IS SCARCE AND COSTLY

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

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

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

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

CALLING A BOTTOM BY YEAR END

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

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

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

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

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

THE NAI KLNB TEAM

Over the past four years, KLNB has averaged over \$1.1 billion in annual transaction volume. 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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