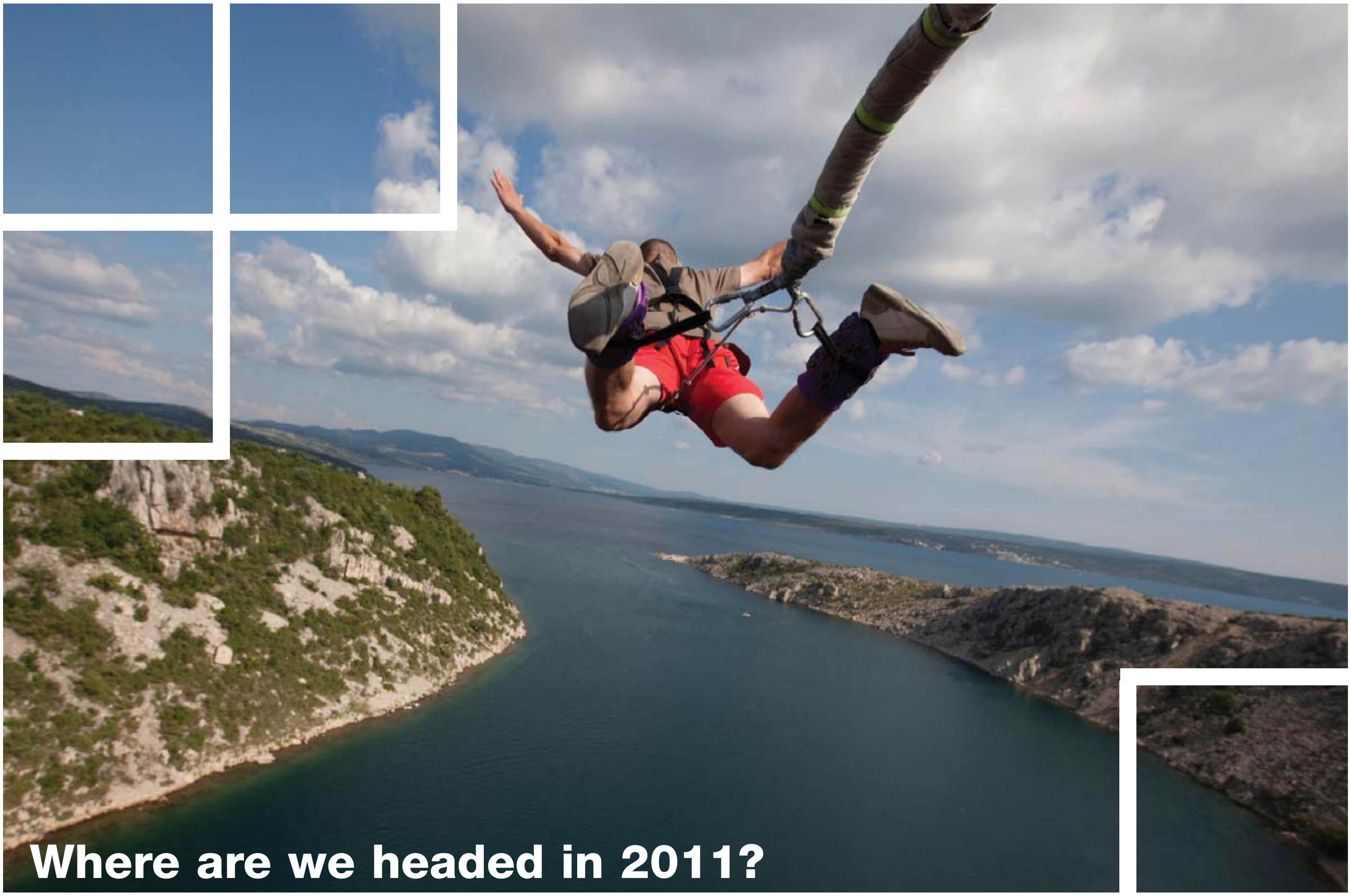

2010 Industrial & Office Market Review

Baltimore City, Baltimore County and Harford County, Maryland

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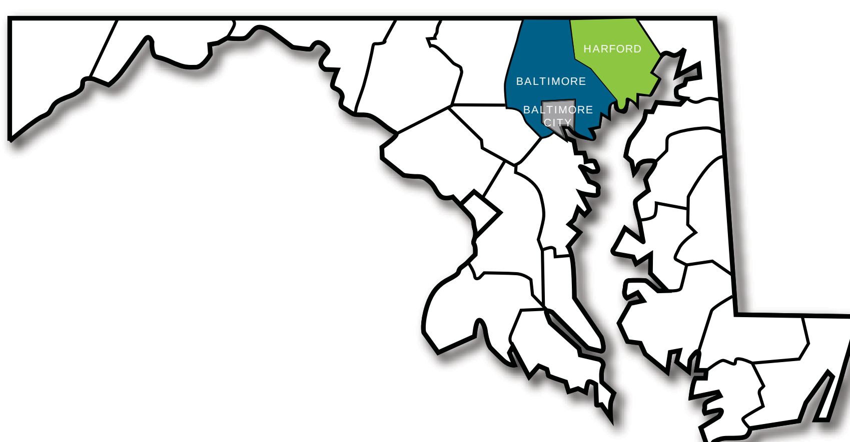

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2010 YEAR END REVIEW

IN THIS ISSUE

NAI KLNB

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

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

The first wave of new BRAC-related employees have already begun unpacking their collective moving boxes in the local region, with a strengthening and continuation of this job relocation trend expected to become more noticeable in the first quarter. "BRAC-time" has officially arrived and this news is being supported by positive movements in the cyber-security and healthcare sectors.

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

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

Government contractors needed to support BRAC-related initiatives, including those related to cyber-security command are beginning to make significant waves in the commercial real estate marketplace, with some requirements extending to the Town Center sections of Howard County. The healthcare sector is also flexing its muscle with hospitals and physician groups aggressively expanding due to changes in the national healthcare program and healthcare-related government contractors also experiencing significant growth.

The bottom line is a general feeling that the commercial real estate recovery has eased past the halfway point in 2010 and that the low-hanging clouds will part further and more rapidly as 2011 progresses. This is supported with reports that indicate:

• construction starts for new Class "A" office buildings -- separate from BRAC-related opportunities -- are few and far between, providing a catch-up opportunity for existing inventory levels. A lack of properly-zoned land is also proving to be a significant obstacle to this renewed activity.

• a steady uptick in the velocity of office and industrial leases started to occur in the midway point of 2010, as confidence began growing throughout all industry sectors.

• landlords spent the better part of 2010 stabilizing its tenant roster, as well as negotiating long-term leases with savvy companies that recognized the buyer's market environment. Neither landlord nor tenant seems to be holding the leverage as we enter the new year.

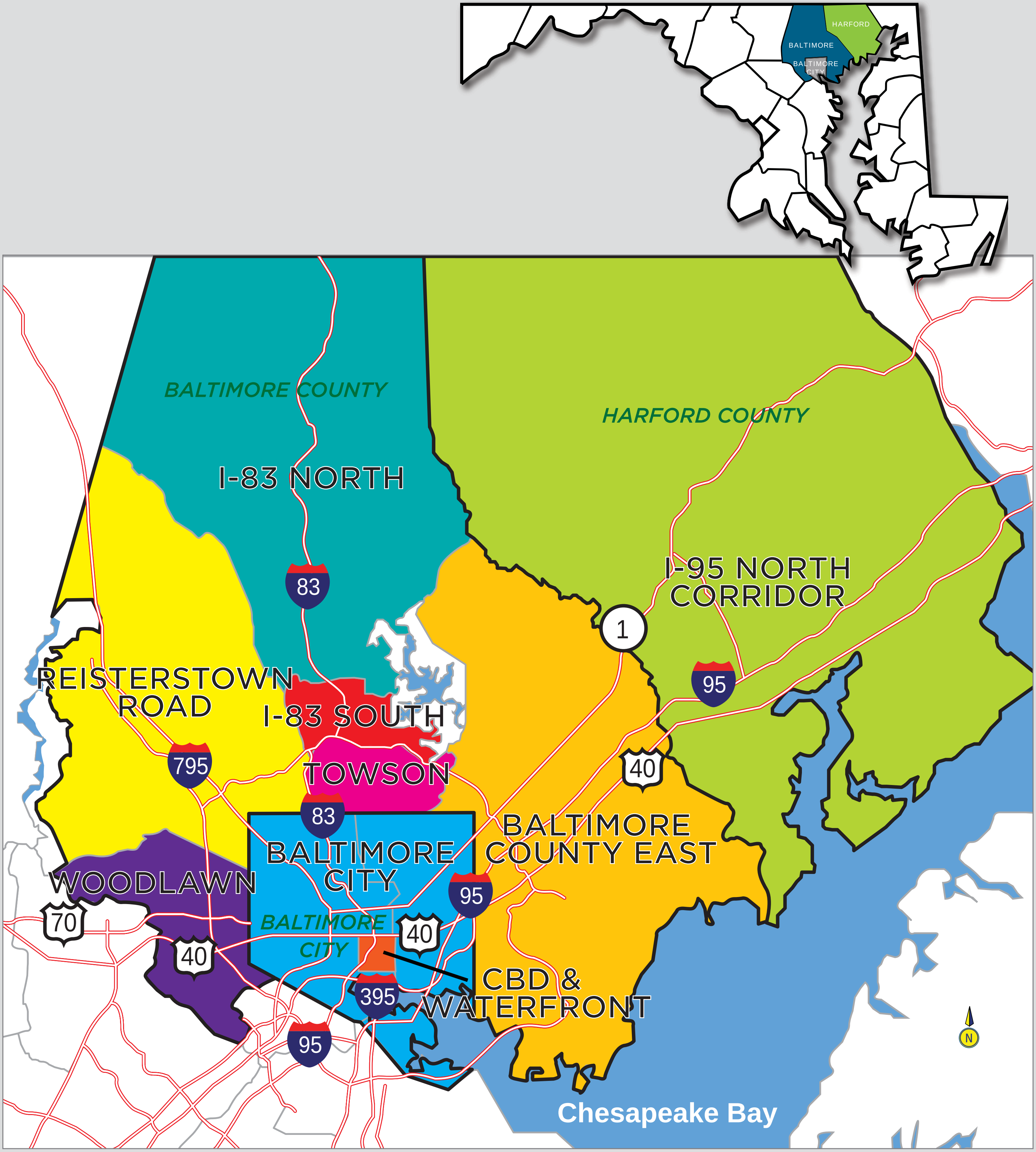
• distressed properties have not flooded the market with the fervor many predicted they would, keeping bottom-feeder investors on the sidelines and capital in its place.

• values of many commercial assets fell by as much as 30 to 50 percent and, with pricing approaching 2007 levels, investors are jumping back into the market. Interest rates have nowhere to go but up, and pricing is likely to fall commensurately with an increase in interest rates.

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

On our long and winding road to recovery, we are about to glide over the last speed bump with clear sailing ahead.

AREA MAP


HARFORD
BALTIMORE
BALTIMORE CITY
BALTIMORE COUNTY
HARFORD COUNTY
I-83 NORTH
I-95 NORTH CORRIDOR
REISTERSTOWN ROAD
I-83 SOUTH
TOWSON
BALTIMORE COUNTY EAST
BALTIMORE CITY
WOODLAWN
BALTIMORE CITY
CBD & WATERFRONT
Chesapeake Bay
N
83
83
1
95
795
40
95
70
40
40
395
95

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	59	13,351,454	2,049,771	15.1%	317,115	$24.45	460,912
Class B	310	10,916,365	1,451,528	13.3%	(9,749)	$17.50	88,955
Baltimore County -I-83 North/South							
Class A	49	4,622,705	622,486	12.9%	(46,051)	$23.39	0
Class B	50	2,345,372	251,390	9.9%	4,979	$20.50	0
Baltimore County - Towson							
Class A	21	2,130,360	252,417	11.7%	(42,000)	$23.20	0
Class B	130	3,994,926	345,584	8.6%	44,000	$18.77	0
Baltimore County - West							
Class A	34	3,637,658	358,690	9.5%	(10,055)	$20.30	0
Class B	221	6,707,549	810,246	10.4%	5,735	$17.87	93,000
Baltimore County - East							
Class A	10	500,572	60,834	12.2%	(7,600)	$22.67	45,000
Class B	232	2,639,667	331,237	12.5%	86,046	$20.08	0
Baltimore County - TOTALS							
Class A	173	24,242,749	3,344,198	13.8%	211,409	$22.80	505,912
Class B	943	26,603,879	3,189,985	12%	131,011	$18.94	181,955
Harford County							
Class A	8	581,551	98,119	16.9%	32,978	$25.54	422,700
Class B	259	2,456,577	176,944	7%	(1,863)	$20.43	167,400
INDUSTRIAL MARKET							
Baltimore City							
Bulk	106	10,902,000	827,000	7.4%	565,000	$3.80	0
Office/Warehouse	141	7,830,000	922,500	11.8%	(106,000)	$4.20	0
Flex	278	8,882,000	869,000	9.8%	(50,000)	$4.40	0
I-83 North/South							
Bulk	21	2,581,959	441,256	16.1%	42,725	$6.35	0
Office/Warehouse	34	3,007,613	491,283	15.9%	60,377	$6.50	0
Flex	75	3,893,579	560,210	13.8%	134,260	$7.80	0
Baltimore County - East							
Bulk	86	13,778,611	2,261,748	15.7%	468,511	$3.90	0
Office/Warehouse	110	9,969,508	1,498,748	13.8%	(14,408)	$4.35	0
Flex	143	9,936,293	1,537,012	15.4%	(30,285)	$5.65	0
Baltimore County - West							
Bulk	37	1,862,444	307,288	16.5%	43,956	$4.82	0
Office/Warehouse	42	1,958,350	413,403	21.1%	8,777	$7.35	0
Flex	117	4,164,736	698,892	15.6%	61,722	$7.17	0
Baltimore County - Southwest							
Bulk	46	4,756,790	707,318	14.3%	(69,437)	$4.94	0
Office/Warehouse	56	4,179,758	465,409	11.1%	(42,246)	$4.10	0
Flex	59	2,964,131	486,458	16.4%	(170,961)	$5.16	0
Baltimore County - TOTALS							
Bulk	296	33,881,804	4,544,610	13.4%	1,050,755	$4.76	0
Office/Warehouse	383	26,945,229	3,791,343	14.1%	(93,500)	$5.30	0
Flex	672	29,840,739	4,151,572	13.9%	(55,264)	6.04	0
Harford County							
Bulk	73	3,394,304	524,000	15.5%	(240,000)	$4.25	0
Office/Warehouse	46	3,269,000	349,000	10.7%	(45,150)	$5.00	0
Flex	27	1,188,000	69,000	5.8%	(24,000)	$7.50	0

OFFICE MARKET
Baltimore City - CBD & Waterfront

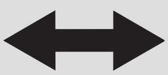
FORECAST

Vacancy Rate

Net Absorption

Construction

Asking Rents



STATISTICS

Building Type	Class A	Class B
Number of Buildings	59	310
New/Relet Vacant (SF)	2,049,771	1,451,528
Sublease Vacant (SF)	352,279	103,784
Total Vacant (SF)	2,402,050	1,555,312
Total Existing RBA (SF)	13,351,454	10,916,365
Vacancy Rate Direct %	15.1%	13.3%
Vacancy Rate Sublease %	2.6%	1.0%
Net Absorption (SF)	317,115	(9,749)
Average Rental Rate (Full Service)	$24.45	$17.50
2010 Completed Construction SF	460,912	88,955
2011 Planned Construction	0	0

MARKET OVERVIEW

Same song, different chorus for the office real estate market in downtown Baltimore in 2010. Even though the Baltimore region's economy is faring better than much of the rest of the country, the CBD/Waterfront submarket marked time for most of the year. The office vacancy rate in the city's central business district fell from 17.1% in the Class "A" office sector to 15.1% and stayed exactly the same at 13.3%. among Class "B" office product.

The average rent for top-tier real estate per square foot fell slightly to $24.45 at the end of the year. Some large deals were completed this year in the CBD including the news that Transamerica Insurance will take approximately 140,000 square feet of space 100 Light St. That building still remains physically vacant until law firm Ober Kaler and Transamerica occupy it in late 2011. Due to some of the large deals in existing and new construction, Class "A" experienced positive net absorption of more than 300,000 square feet of space for the year. Waterfront areas saw promising activity including the Offices at McHenry Row in Locust Point, in which 26,000 square feet of space among several new tenants was leased, and the project is now nearly three quarters leased. Eight of the top 40 office leases were in the CBD/Waterfront market this year. Tenants announcing they are vacating buildings remain a continuing headache for landlords, but some companies with intentions to stay are causing issues and concerns as well. Brokers and owners call this the "blend and extend" phenomenon. With landlords getting pinched from all sides and anxious to retain tenants at almost all costs, most are negotiating in good faith to preserve relationships with credit-worthy tenants. Office leasing remains a tenant's market in most areas. Uncertainty about jobs has continued to slow leasing activity.

In the CBD and Waterfront, the average asking rental rate has dropped slightly in the Class "A" product. This, in turn, is placing increased pressure on Class B product, though it has remained fairly steady.

- Net absorption: 317,115 square feet in Class "A", compared to 38,123 square feet during all of 2009.
- Sublease space: Decreased by 130,000 square feet. Sublease space is now just 2.6% of standing inventory Class "A" space and 1.0% of Class "B" space.
- Overall vacancy rate:14.0%, up from 13.7% one year ago.
- Direct vacancy rate: 13.2%, up from 12.9% one year ago.
- Investment sales:$145 million ($199/SF) through 3rd quarter 2010, compared to $103 million in the same period last year.

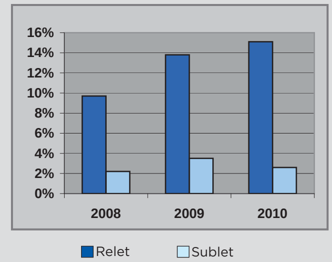
MARKET OUTLOOK

With no new construction immediately on the horizon in this submarket, vacancy may continue to drop, though likely at a steady but slow pace.

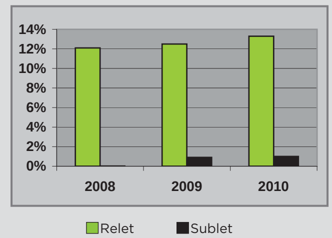
Stabilized office market conditions are expected in the CBD/Waterfront market in 2011. We expect market conditions to gradually improve during 2011, particularly with demand fueled from health care and the life-science industries.

We further expect vacancy levels to edge down slightly throughout the year, as the economy slowly improves and tenants relocate. We anticipate rents will remain the same or edge down slightly during 2011 as landlords fill vacant space in this overall elevated vacancy rate climate and slow job growth environment.

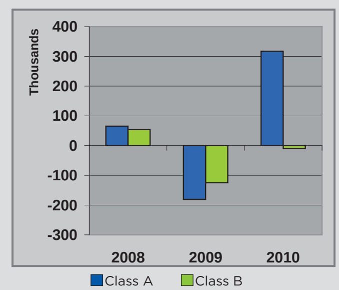
Class A Vacancy Rate



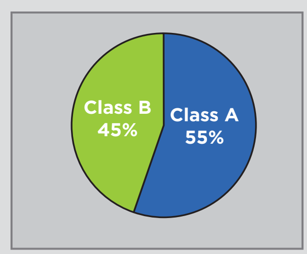
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Class
Transamerica Life Insurance	100 Light Street	140,526	A
Ober/Kaler	100 Light Street	92,778	A
Old Mutual Financial	1001 Fleet Street	57,470	A
US Department Veterans Affairs	209 W. Fayette Street	56,986	B

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Class	Buyer	Seller
333 Cassell Drive	101,386	$29,250,000	$288.50	A	Healthcare Trust	Centre Capitial

BUILDING SALES - USER

Address	Size	Price	Price PSF	Class	Buyer	Seller
3700 Fleet Street	31,758	$7,727,787	$243.33	B	Baltimore Medical	Highlandtown Developers

BUILDINGS DELIVERED IN 2010

Address	Size	Class	Asking Rent	Delivery Date	Owner/Developer
1300 Thames/Thames St. Wharf	125,515	A	N/A	5/2010	Harbor Point Development
301 Mason	100,000	A	N/A	4/2010	Johns Hopkins
3700 Fleet Street	60,758	B	Condos	3/2010	Baltimore Medical System
Offices at McHenry Row	75,000	A	$25.75 + utilities	11/2010	Mark Sapperstein

OFFICE MARKET
Baltimore County - I-83 North and South

FORECAST

Vacancy Rate

Net Absorption

Construction

Asking Rents

STATISTICS

Building Type	Class A	Class B
Number of Buildings	49	50
New/Relet Vacant (SF)	595,901	232,802
Sublease Vacant (SF)	26,585	18,588
Total Vacant (SF)	622,486	251,390
Total Existing RBA (SF)	4,622,705	2,345,372
Vacancy Rate Direct %	12.9%	9.9%
Vacancy Rate Sublease %	0.6%	0.8%
Net Absorption (SF)	(46,051)	4,979
Average Rental Rate (Full Service)	$23.39	$20.50
2010 Completed Construction SF	0	0
2011 Planned Construction	0	0

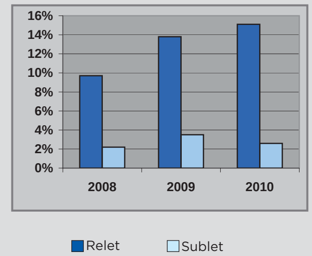
MARKET OVERVIEW

The Interstate 83 North and South Markets consists of both Class "A" and Class "B" office buildings located north of the I-695 Beltway, through Timonium, Hunt Valley and Sparks, in the Northern Baltimore County suburbs. Overall, the 2010 office leasing market improved slightly over the past year, primarily due to the lowering of the vacancy rate from 13.6% to 12.9%. Real estate professionals should not jump for joy just because the negative absorption of office space was lowered from approximately 80,000 square feet in 2009 to 47,000 square feet in 2010. A noticeable improvement this year included the significant increase in the size of lease transactions, which were non-existent in 2009. Bill Me Later, a subsidiary of eBay renewed and expanded its operations to 55,000 square feet at 9690 Deereco Road. Other tenants relocating large amounts of space were FILA, Hewitt, New York Life, and HMS. The investment sales side of the market in 2010 showed increased activity over previous years. Hopefully this will be a sign that the capital markets are loosening and money could be available for buyers. A point of concern is that four of the office investment sales listed in this report settled at prices below $100 per square foot. Mid-Atlantic's purchase of 2331 York Road at auction for under $59.00 per square foot for a 45% vacant building may have been the "buy" of the year.

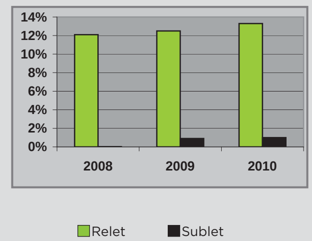
MARKET OUTLOOK

The economy during the past three years has been rough for both tenants and landlords. Property owners have seen the value of their real estate sink and most tenants have seen their businesses lower their income projections. The outlook for 2011 in the I-83 North and South markets will hopefully improve over 2010. At a time when lease opportunities are the most aggressive in years, tenants should be locking into long term leases in an effort to accept below market deals. However, many tenants still appear to be somewhat conservative in their expectations and feel content to renew their leases for short terms, maybe we will start seeing longer leases come in to play.

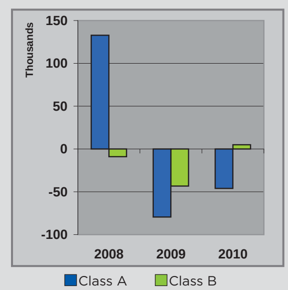
Class A Vacancy Rate



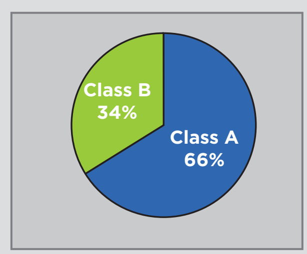
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Class
Bill Me Later (eBay)	9690 Deereco Road	55,000	A
Hewitt	10 North Park	31,945	A
FILA	930 Ridgebrook Road	21,043	A
New York Life	1954 Greenspring Drive	19,154	A
HMS	10 North Park		A

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Class	Buyer	Seller
10155 York Road	20,250	$1,885,031	$93.09	B	DLA Piper (US)	St. John Properties
11101 McCormick Road	24,232	$2,400,000	$99.04	B	Consolidated Equities	COPT
2331 York Road	20,415	$1,200,000	$58.78	B	MidAtlantic Properties	2331 York Associations LLC
1212 York Road	28,000	$2,750,000	$98.21	B	Corinthian Realty Partners	Kimco

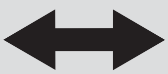
OFFICE MARKET
Baltimore County - Towson

FORECAST

Vacancy Rate

Net Absorption

Construction



Asking Rents

STATISTICS

Building Type	Class A	Class B
Number of Buildings	21	130
New/Relet Vacant (SF)	248,323	341,894
Sublease Vacant (SF)	4,094	3,690
Total Vacant (SF)	252,417	345,584
Total Existing RBA (SF)	2,130,360	3,994,926
Vacancy Rate Direct %	11.7%	8.6%
Vacancy Rate Sublease %	0.2%	0.1%
Net Absorption (SF)	(42,000)	44,000
Average Rental Rate (Full Service)	$23.20	$18.77
2010 Completed Construction SF	0	0
2011 Planned Construction	0	0

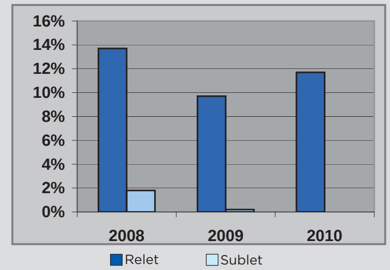
MARKET OVERVIEW

The Towson office market experienced no significant change from last year, as very few new lease transactions occurred within the Towson. A portion of the 90,000 square feet at Court Towers has been backfilled, but there is still approximately 60,000 square feet available within that project. A number of existing tenants have renewed within their subject properties and very few have expanded. Rental rates have remained stable, but landlords are offering aggressive improvement allowances and free rent due to the lack of prospects in the market. Various divisions of the government have leased space, such as the Social Security Administration, which is moving from 110 West Road to 28 Allegheny Avenue, and should occupy space towards the end of the first quarter 2011. The public defenders office is also in the marketplace, but has not landed. There is still adequate space in several Class "A" buildings such as Court Towers, Towson Commons, and 600 Washington Avenue. After nearly thirty years of developing, owning and managing The Exchange, Berkshire sold one of the beltways premier office buildings to Merritt Properties within days of year end.

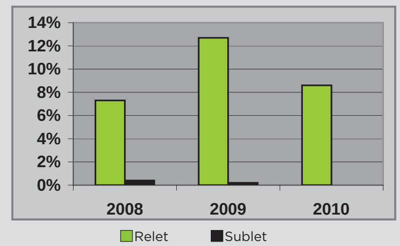
MARKET OUTLOOK

The most significant new project will be the redevelopment of the iconic Investment Building by Caves Valley Partners. Caves Valley Partners acquired the 210,000 square foot building in mid-2010 and will be completely refurbishing the building from the outside in. The developer will be converting the current lower level into an additional parking level, thereby increasing the parking ratio. The initial tenant will be Mile One Automotive and related entities, and there are several other pending prospects for the building. This will be one of the more exciting new projects in the Towson core in many years. The other development that is on everyone's radar screen is Towson Commons. It has been taken back by the lender and they are in the process of trying to sell or find a joint venture partner to redevelop the retail space and backfill some of the vacant office space.

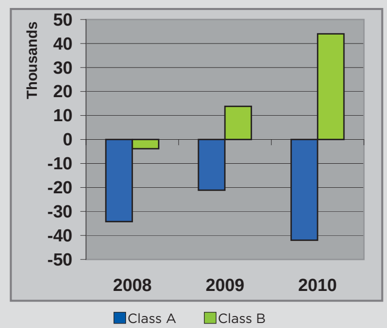
Class A Vacancy Rate



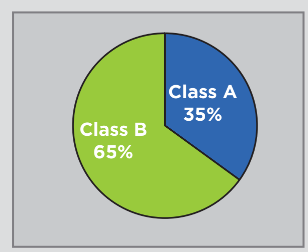
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Class
General Dynamics	849 Fairmount Avenue	13,202	A
Hodes, Pessin & Katz	901 Dulaney Valley Road	10,200	A
Medix School	109-111 Allegheny Avenue	10,200	B

BUILDING SALES - INVESTMENT

Address	Size	Price	Class	Buyer	Seller
1122 Kenilworth Drive (The Exchange)	88,257	$16,000,000	A	Merritt Properties	Berkshire

OFFICE MARKET
BALTIMORE COUNTY - WEST

FORECAST

Vacancy Rate ↑

Net Absorption ↑

Construction ↑

Asking Rents ↓

STATISTICS

Building Type	Class A	Class B
Number of Buildings	34	221
New/Relet Vacant (SF)	345,356	695,840
Sublease Vacant (SF)	13,334	114,406
Total Vacant (SF)	358,690	810,246
Total Existing RBA (SF)	3,637,658	6,707,549
Vacancy Rate Direct %	9.5%	10.4%
Vacancy Rate Sublease %	0.4%	1.7%
Net Absorption (SF)	(10,055)	5,735
Average Rental Rate (Full Service)	$20.30	$17.87
2010 Completed Construction SF	0	93,000
2011 Planned Construction	0	0

MARKET OVERVIEW

For the Baltimore County West submarkets of Woodlawn and the Reisterstown Road Corridor, 2010 showed few signs of relief from the continued global recession.

The bulk of tenants in the Woodlawn submarket continue to be the distribution and operations of numerous companies, government contractors such as Lockheed Martin Information Services and the federal government headquarters of the Center for Medicare and Medicaid Services and the Social Security Administration. While the U.S. General Services Administration (GSA) continues to maintain a presence in the Woodlawn office submarket, leasing an additional 83,435 square feet at 7210 Ambassador Road, it announced in 2010 its plans to relocate the Social Security Administration in 2014 from the Woodlawn submarket to 6100 Wabash Avenue in Northwest Baltimore. By awarding the long-term 20-year lease, GSA enabled the Chevy Chase developer, JBG, to proceed with the design and construction of its 538,000-square-foot office building.

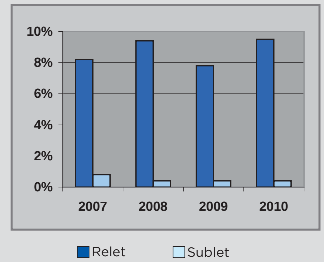
The live-work setting of the Reisterstown Road Corridor submarket continues to retain a variety of companies, primarily in the insurance, financial and medical and healthcare related fields because of its commercial office and flex/industrial development near a metro subway station and residential homes located around a Regional Mall. The Reisterstown Road Corridor submarket; however, could not retain Solo Cup, which officially announced plans to shut down its longtime Owings Mills manufacturing plant by mid-2012, eliminating 540 jobs.

Overall 2010 was a challenging year on the Baltimore County West submarkets with increasing vacancy rates and decreasing rental rates. Although an improvement over the prior year, new construction increased minimally with the delivery of only one building, the McDonogh Village & Professional Center, a 93,000 square foot Class B office with street-level retail condominium building.

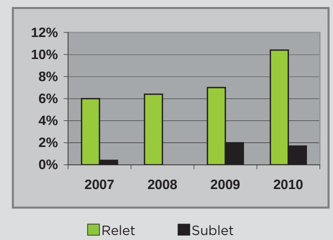
MARKET OUTLOOK

While 2010 showed a few glimmers of improvement, 2011 is not expected to bounce back to the peak market conditions of yesteryear. Rather 2011 will likely continue the trends experienced in 2010 with the greatest opportunity for improvement coming from the increased presence of GSA, government contractors and medical and healthcare related companies. A perfect example, announced in 2010, is the General Services Administration (GSA) signing a lease on behalf of the Centers for Medicare and Medicaid Services (CMS) for 74,216 square feet of office space at Windsor Station for 10 years. This lease includes the redevelopment of the former Actavis pharmaceutical building, which will convert this building into a new single-story 200,000 rentable square foot Class A office building with an additional eleven acres, available for future development. Also, on February 1 2011, GSA plans to occupy an additional 66,707 square feet at the Corporate Office Properties Trust (COPT) owned building at 7210 Ambassador Road in Windsor Mill.

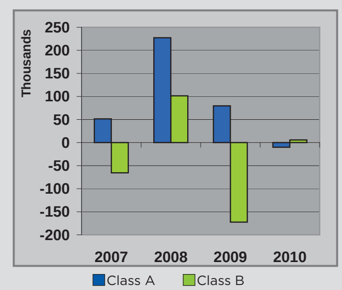
Class A Vacancy Rate



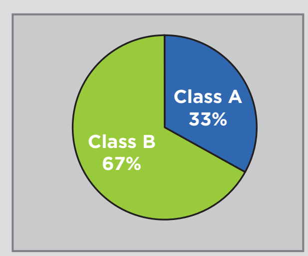
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Class
Computer Sciences Corporation	3120 Lord Baltimore Drive	69,807	B

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Class	Buyer	Seller
201 Milford Mill Road	13,500	$1,500,000	$111.11	B	Sachs Properties, LLC	Linden Terrace, LLC

BUILDING SALES - USER

Address	Size	Price	Price PSF	Class	Buyer	Seller
6665 Security Boulevard	30,802	$3,800,000	N/A portfolio sale	C	Morning Star	Auto Nation
6707 Whitestone Road	46,627	$3,100,000	$66.49	C	TAG Engineering	Atlantic Realty Companies

2010 BUILDINGS DELIVERED

Address	Size	Product	Price PSF	Delivery Date	Owner/Developer
8890 McDonogh Road	93,000	Office/Retail	$220 + $50 TI/$325 vanilla shell	August 2010	Mastercraft Communities

2011 PLANNED CONSTRUCTION

Address	RBA SF	Delivery Date	Price PSF	Owner/Developer
Painters Mill Road @ Metro Stop	977,500	TBD	Negotiable	David S. Brown Enterprises, LTD.

OFFICE MARKET
Baltimore County - East

FORECAST

Vacancy Rate

Net Absorption

Construction

Asking Rents

STATISTICS

Building Type	Class A	Class B
Number of Buildings	10	232
New/Relet Vacant (SF)	60,834	331,237
Sublease Vacant (SF)	0	0
Total Vacant (SF)	60,834	331,237
Total Existing RBA (SF)	500,572	2,639,667
Vacancy Rate Direct %	12.2%	12.5%
Vacancy Rate Sublease %	0.0%	0.0%
Net Absorption (SF)	(7,600)	86,046
Average Rental Rate	$22.67	$20.08
2010 Completed Construction SF	0	0
2011 Planned Construction	0	0

MARKET OVERVIEW

The Baltimore County East office market consists of two separate and distinct sub-markets. White Marsh continues to be the center for major areas of commerce and is profiled with retail, office, flex and residential real estate. This established office market has been holding steady for several years and in 2010 experienced significantly larger lease signings (as described below) than in 2009.

The Baltimore Crossroads @ 95 project, which is a mix of office, flex, industrial and retail real estate consists of newly constructed buildings on Route 43, east of I-95. Unfortunately, the severe recession these past years has prevented companies from moving to this submarket and no major leases of office or flex space were signed in 2010.

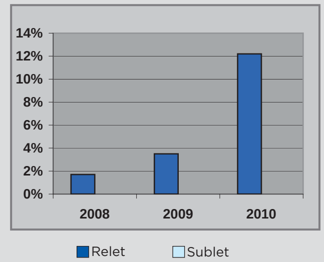
MARKET OUTLOOK

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 increases, there is available land supply to build millions of square feet of new product.

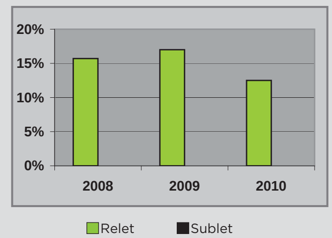
Easy access to I-95 makes this submarket a natural extension for BRAC related contractors that may spill over from developments closer to Aberdeen in Harford County.

Baltimore Crossroads will probably not construct any new office buildings in 2011 and will try to lease their existing inventory. Corporate Office Properties has plans to construct Nottingham Ridge, an 88 acre mixed-use community. However, unless a tenant pre-leases space, the development will start after 2011.

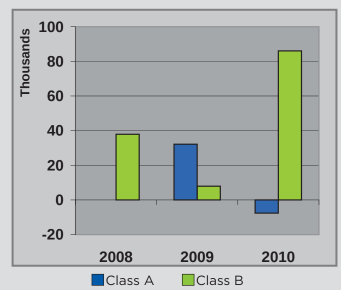
Class A Vacancy Rate



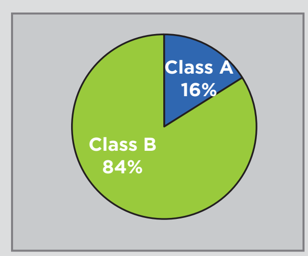
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Class
MedStar	8010,8020 Corporate Dr. & 8094 Sandpiper	94,000	A
Ikea (renewal)	9930 Franklin Square Drive	40,000	A
C&J Graphics	10001 Franklin Square Drive	40,000	B
Education Affiliates	5026 Campbell Blvd.	22,000	A
Delmarva	5355 Nottingham Drive	15,225	A
First Home Mortgage	5355 Nottingham Drive	13,366	A
CCBC	7106 Ridge Road	10,000	A

OFFICE MARKET
HARFORD COUNTY

FORECAST

Vacancy Rate

Net Absorption

Construction

Asking Rents

STATISTICS

Building Type	Class A	Class B
Number of Buildings	8	259
New/Relet Vacant (SF)	98,119	171,762
Sublease Vacant (SF)	0	5,182
Total Vacant (SF)	98,119	176,944
Total Existing RBA (SF)	581,551	2,456,577
Vacancy Rate Direct %	16.9%	7.0%
Vacancy Rate Sublease %	0%	0.2%
Net Absorption (SF)	32,978	(1,863)
Average Rental Rate (Full Service)	$25.54	$20.43
2010 Completed Construction SF	226,888	139,195
2011 Planned Construction	422,700	167,400

MARKET OVERVIEW

Long known as a rural agricultural area, Harford County has slowly evolved in to a self-supporting business community. Over the years residents to the south from Baltimore County slowly migrated north to find affordable housing and good schools districts The trade off was the commute out of the county for white collar office jobs. As the critical mass increased employers began to relocate satellite offices to the central Bel Air area following the trend of locating your place of business where your employees live. Subsequently there has been an increased demand for support businesses like retail and medical. The Upper Chesapeake Health Center has seen explosive growth over the past several years.

The other market driver is the demand for office space at Aberdeen Proving Ground (APG) to support the relocation of contractors for BRAC. Defense contractor heavy weights including Mitre Corp, Northop Grumman, General Dynamics, Boeing and SAIC have all absorbed office space on or close to APG. This is hopefully the beginning of a surge of business headed Harford Counties way.

MARKET OUTLOOK

While the rest of the nation is still held in the grips of a lagging recovery Harford County and in particular the area close to APG is experiencing a near record pace of office development. This insulated pocket is a welcome aberration and shows no signs of slowing in 2011.

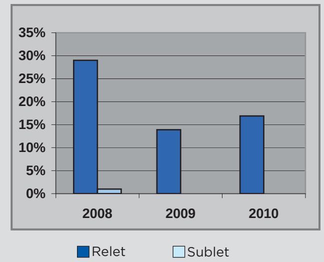
"Commercial real estate values for 2010 were relatively flat with very few market transactions. Looking forward into 2011, we expect values to continue to remain flat and buyers to be cautiously optimistic and look for quality, value-added properties. We expect the BRAC areas around Aberdeen Proving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

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

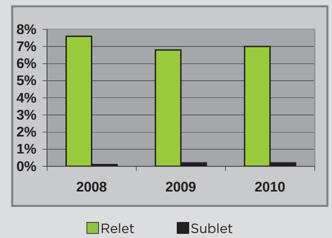
The gap between buyers and sellers is beginning to shrink and property owners are anxious to return to some type of normalcy in the coming years."

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

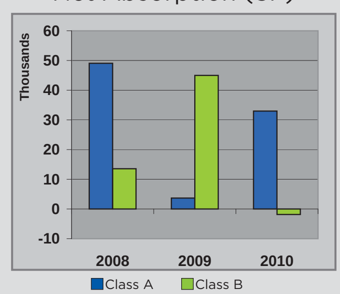
Class A Vacancy Rate



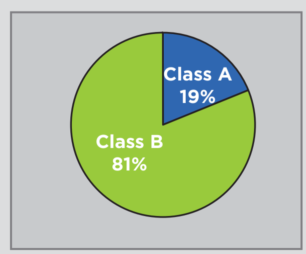
Class B Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Class
Mitre Corp.	209 Research Blvd.	78,200	A
SAIC	6210 Guardian Gateway	32,000	A
Northrup Grumman	210 Research Blvd.	27,500	A
General Dynamics	6245 Guardian Gateway	12,000	one story
BOEING	6245 Guardian Gateway	6,000	one story
Mantech	4096 Millenium Drive		A

2010 BUILDINGS DELIVERED

Address	Size	Product	Price PSF	Delivery Date	Owner/Developer
4696 Millenium Drive	125,000	A		April 2010	Manekin, LLC
210 Research Blvd.	85,000	A		4th Quarter 2010	COPT
6260 Guardian Gateway	75,000	A	$35 FS	4th Quarter 2010	St. John Properties
6280 Guardian Gateway	75,000	A	$35 FS	4th Quarter 2010	St. John Properties

2011 PLANNED CONSTRUCTION

Address	RBA SF	Delivery Date	Price PSF	Owner/Developer
6210,6200,6180 Guardian Gateway	180,000	Summer 2011	$35 FS	St. John Properties

INDUSTRIAL MARKET
BALTIMORE CITY

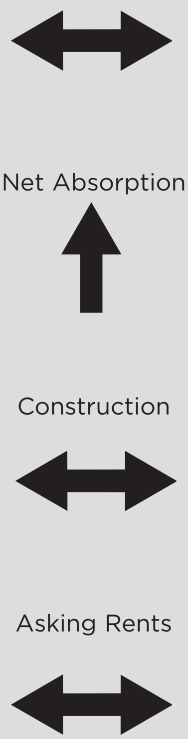
FORECAST

Vacancy Rate

Net Absorption

Construction

Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	106	141	278
New/Relet Vacant (SF)	802,000	874,500	869,000
Sublease Vacant (SF)	25,000	48,000	0
Total Vacant (SF)	827,000	922,500	869,000
Total Existing RBA (SF)	10,902,000	7,830,000	8,882,000
Vacancy Rate Direct %	7.4%	11.8%	9.8%
Vacancy Rate Sublease %	0.2%	0.6%	0%
Net Absorption (SF)	565,000	(106,000)	(50,000)
Average Rental Rate (NNN)	$3.80	$4.20	$4.40
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

MARKET OVERVIEW

Given that functional obsolescence has occurred in many Baltimore City buildings, NAI KLNB focuses on the roughly 27 million square feet of flex/industrial product that is relevant to the demands of the modern industrial user/investor. For 2010, Baltimore City's commercial real estate market struggled to maintain some of the momentum of year's past. Although bulk warehouse space made significant gains in terms of absorption and lower vacancy, other product lines did not fare as well. Vacancy levels for office warehouse and flex space increased by several percentage points over 2009, while net absorption moved into negative territory at over 150,000 square feet combined.

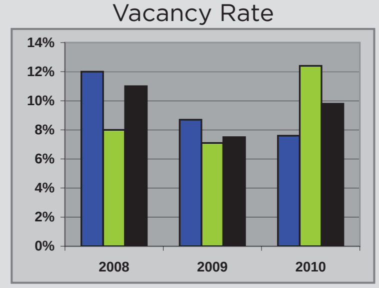
No meaningful speculative construction occurred this year and this continues to allow the market additional time to absorb its excess space and keep existing occupancy at reasonable levels. Tenants and buyers were mostly hesitant about taking on new or additional space in 2010, but those that moved forward with their plans found opportunities to upgrade or re-locate their businesses at very affordable prices. The City continues to revitalize both the East and West side of Baltimore and there remains a wide variety of highly functional warehouse alternatives for business to expand and grow into.

MARKET OUTLOOK

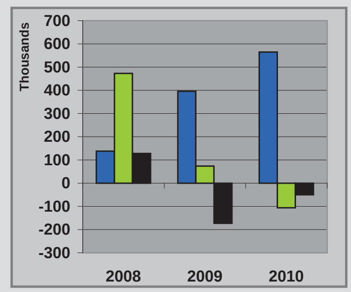
Similar to last year, we are approaching the 2011 industrial marketplace with caution. Although occupancy levels are somewhat stable, demand in the Baltimore City area has not yet returned to the kind of pre-recession levels that would encourage speculative construction. As is typical, the industrial market lags the rest of the general economy's recovery and we believe it may be the 3rd quarter of 2011 before any meaningful activity begins to occur. With the dollar remaining weak, U.S. exports should continue to increase, benefiting the Port of Baltimore and the real estate surrounding it. Recently, a large amount of warehouse space near the Port has become available through sublease (although still occupied) and we anticipate this portion of the City will continue to enjoy low vacancy rates. The major business drivers in the City remain its proximity to major highways, accessibility to Washington, D.C. and its expanding medical and educational community including Johns Hopkins, University of Maryland, and MICA.

There exists plenty of cash on the sideline waiting for industrial/office opportunities and this should heat up the investment sale market throughout the upcoming year. There is still a challenge in managing the demand of ever-higher returns by investors with the value expectations of sellers. User sales should begin to pick up steam towards the latter half of 2011, as this segment of the market begins to feel more confident in their business, prices begin to bottom out, and banks continue their policy of lending to owner-occupants. On the tenant side, landlords will need to continue their aggressiveness in order to attract the most credit worthy business to their properties. There is still the tenant expectation of low rent combined with tenant incentives and it will probably be early 4th quarter of 2011 before market demand and property availability come into balance.

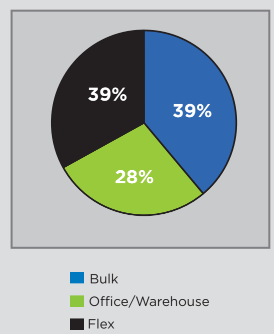
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Product
White Marsh Transport	3400 E. Biddle Street	157,000	Office/Warehouse
Wholesale Millwork	6300 Erdman Avenue	52,800	Bulk
Royal Transport	2100 Van Deman Street	44,700	Bulk

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Product	Buyer	Seller
6300 Beckley Street	323,000	$13,790,000	$42.66	Bulk	DCT Industrial Trust	LaSalle Investment Management
1901 62nd Street	82,000	$4,400,000	$53.66	Bulk	FRP	Harrison Rock, LLC
1600 S. Clinton Street	27,600	$750,000	$27.17	Flex	COPT	DMSC LLC

BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
6001 Chemical Road	65,000	$1,375,000	$21.15	Bulk	Stericycle Inc.	Chemical Road LP
1710 N. Ellwood Street	23,500	$744,190	$31.67	Office/Warehouse	Nino's Fresh Pizza	Thos. Somerville
1201 Bernard Drive	8,000	$467,500	$58.44	Flex	Bindu Enterprises	B. Hagan

LAND SALES - USER

Address	Size	Price	Price Per Acre	Product	Buyer	Seller
3601 Ft. Armistead Road	65 acres	$25,000,000	$385,000	Industrial	Constellation	D. Arthur Seibel
3900 Pulaski Highway	.26 acres	$65,000	$248,000	Industrial	Chaudry Hussein	Estate of J. Brancato

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	75
New/Relet Vacant (SF)	415,596	479,123	538,970
Sublease Vacant (SF)	25,660	12,160	21,240
Total Vacant (SF)	441,256	491,283	560,210
Total Existing RBA (SF)	2,581,959	3,007,613	3,893,579
Vacancy Rate Direct %	16.1%	15.9%	13.8%
Vacancy Rate Sublease %	1.0%	0.4%	0.3%
Net Absorption (SF)	42,725	60,377	134,260
Average Rental Rate (NNN)	$6.35	$6.50	$7.80
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

MARKET OVERVIEW

The Baltimore County I-83 North and South industrial market is a relatively small market sandwiched between the Baltimore Beltway and the northern Baltimore County line along I-83. Comprising of a total of 130 industrial buildings, this mature market attracts a variety of service companies catering to an ever growing residential base with a higher than average median income. The lack of lower wage type employees has driven many of the traditional manufacturing companies to other markets. Subsequently, many of the second generation manufacturing buildings have been subdivided in response to the smaller service type business requirements. The lack of land has resulted in some creative redevelopment and condominium projects. Those who do choose to locate into the market invariably pay higher rates and deal with certain functional obsolescences that come with older buildings. This in turn pushes many of the tenants to desire seek smaller supply/showroom type operations which rely on larger central distribution centers in other more traditional and affordable warehouse locations – forming the hub and spoke type distribution channels.

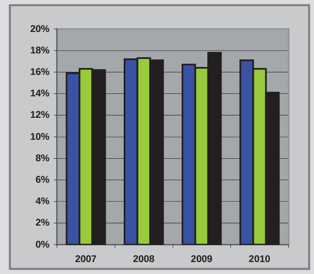
MARKET OUTLOOK

Like most areas in our region this market is struggling with the sluggish economy. While we have seen an uptick in activity, most is the result of renewals and often downsizing. New business opportunities have been few and far between. This market can be viewed as somewhat of an island - most businesses locate here because it is where their customers are. This has helped to prop up property values and correlating lease rates compared with some other markets in the region. Our prediction is that the economy will continue to limp along in early 2011 and experience slow growth in the later part of the year. We do not anticipate any further increases in vacancy rates or drop in rental rates.

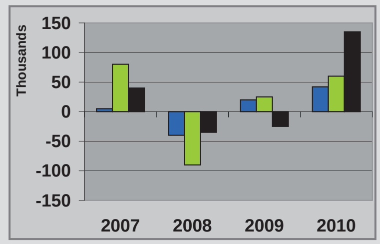
"Leasing activity and interest is increasing throughout the Baltimore-Washington corridor market, momentum is building and there are many signs that the market is slowly turning around. There is a better, more upbeat feeling that positive movements are occurring – more so than in the past couple of years.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

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

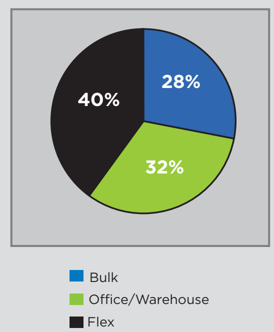
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Product	Class
Printing Corporation of America	15 W. Aylesbury Road	75,749	Office/Warehouse	B
Amtote	11200 Pepper Road	54,033	Office/Warehouse	B
McCormick	16 Stenterson Lane	34,646	Bulk	B
	10947 Golden West Drive	22,161	Office/Warehouse	B
Experiemntal Machine	10915 McCormick Road	20,240	Office/Warehouse	B
MDKlein	243 Cockeysville Road	14,930	Office/Warehouse	B
Eichorn Printing	10534 York Road	11,295	Flex	B
WAG F	11110 Pepper Road	10,400	Office/Warehouse	B
Diamond Detail	10604 Beaver Dam Road	6,680	Flex	B

BUILDING SALES - USER

Address	Size (SF)	Price	Price PSF	Product	Buyer	Seller
16 Stenerson Lane	9,937	$425,000	$42.77	Office/Warehouse	AMBC, LLC	

INDUSTRIAL MARKET
BALTIMORE COUNTY - WEST

FORECAST

Vacancy Rate ↓

Net Absorption ↑

Construction ↔

Asking Rents ↓

STATISTICS

	Bulk	Office/Warehouse	Flex
Number of Buildings	37	42	117
New/Relet Vacant (SF)	307,288	413,403	651,512
Sublease Vacant (SF)	0	0	47,380
Total Vacant (SF)	307,288	413,403	698,892
Total Existing RBA (SF)	1,862,444	1,958,350	4,164,736
Vacancy Rate Direct %	16.5%	21.1%	15.6%
Vacancy Rate Sublease %	0.0%	0.0%	1.1%
Net Absorption (SF)	43,956	8,777	61,722
Average Rental Rate (NNN)	$4.82	$7.35	$7.17
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

MARKET OVERVIEW

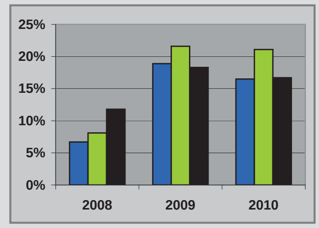
The Baltimore County West industrial market includes the areas of Owings Mills, Randallstown and Woodlawn, which are all easily accessible from the Baltimore Beltway. True industrial product represented by our bulk category and to some degree our office/warehouse category is fairly concentrated in the Woodlawn area of Baltimore County. Owings Mills and Randallstown are comprised almost entirely of flex product. The market is characterized with more than 8 million square feet of space, with flex product accounting for more than half of this total.

Woodlawn, in particular, is anchored by 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. The submarket experienced an uptick of approximately 115,000 square feet of positive absorption while slightly reducing the overall vacancy rate. This was encouraging news in comparison to the significant negative absorption (approximately 700,000 square feet) realized in 2009. Centers for Medicare and Medicaid Services (CMS) leased 74,216 square feet at 7205 Windsor Boulevard in Woodlawn. In addition, a few industrial building sales were completed to users in Woodlawn and Owings Mills. One noteworthy investment sale took place as Deer Park Business Center was sold by First Potomac Realty Trust to a joint venture buyer – Deer Park MZL. The property consists of four flex buildings totaling 170,762 square feet of space and the terms are listed below.

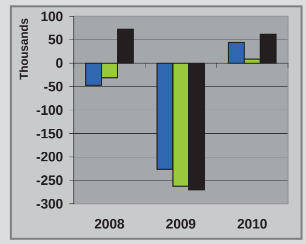
MARKET OUTLOOK

There were no new buildings delivered in 2010 and none are under construction or planned for 2011. As with most submarkets in the current economy, activity is predicted to be somewhat restrained. The focus in this submarket will be to build upon the positive absorption realized in 2010. It is expected to be a slow and steady climb back to normal vacancy levels in the coming years.

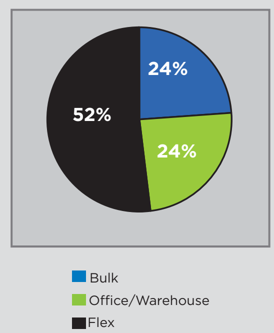
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Product	Submarket
GSA	7205 Windsor Boulevard	74,216	Warehouse	Woodlawn
DC Dental Supplies	2040 Lord Baltimore Drive	17,883	Warehouse	Woodlawn
Medifast	3600 Crondall Lane	17,022	Flex	Owings Mills
Sears Home Improvements	7200 Rutherford Road	14,400	Flex	Woodlawn
Pilgrim Shoes	6704 Whitestone Road	14,006	Flex	Woodlawn

BUILDING SALES - INVESTMENT

Address	Size	Price	Price PSF	Product	Buyer	Seller
Deer Park Business Center (4 buildings)	170,762	$8,200,000	$48	Flex	Deer Park MZL	FP Properties
1720 Whitehead Road	35,000	$1,600,000	$45	Warehouse	1720 Whitehead Investors	Great American Resorts
6 Gwynns Mill Court	4,785	$650,000	$135	Flex	ANH Properties	Robert Franz Trust

BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
800 Geipe Road	11,168	$1,600,000	$143	Flex	Kridler Properties	Louise Rahill

LAND SALES - USER

Address	Size	Price	Price Per Acre	Submarket	Buyer	Seller
6333 Baltimore National Pike	.65/acre	$1,060,000	$1,630,769	Catonsivlle	Patient First	Mr. Wash Car Wash

INDUSTRIAL MARKET
Baltimore County - East

FORECAST

Vacancy Rate ↓

Net Absorption ↑

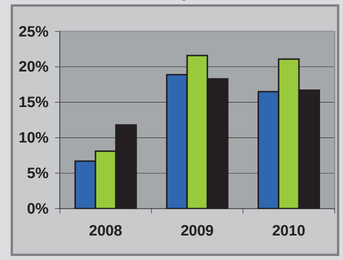
Construction ↔

Asking Rents ↓

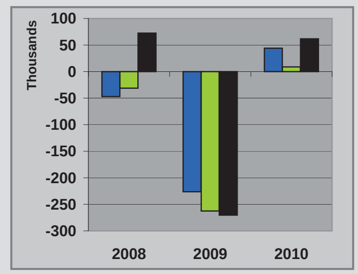
STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	86	110	143
New/Relet Vacant (SF)	2,167,987	1,371,512	1,533,892
Sublease Vacant (SF)	93,761	127,236	3,120
Total Vacant (SF)	2,261,748	1,498,748	1,537,012
Total Existing RBA (SF)	13,778,611	9,969,508	9,936,293
Vacancy Rate Direct %	15.7%	13.8%	15.4%
Vacancy Rate Sublease %	0.7%	1.3%	0.1%
Net Absorption (SF)	468,511	(14,408)	(30,285)
Average Rental Rate (NNN)	$3.90	$4.35	$5.65
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

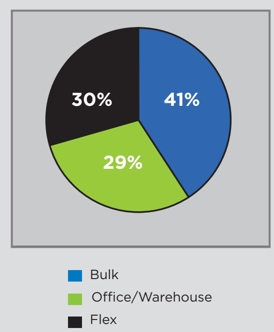
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



MARKET OVERVIEW

The Baltimore County East industrial sub-market includes the areas bounded by the Baltimore City / County Line to the West, the Chesapeake Bay to the South and Harford County and the Chesapeake Bay to the East and to the North. This area has traditionally been successful due to its proximity to and available product along the MD Rt. 40 and Interstate 95 North Corridor. Heavy Industrial sections of the submarket lie mostly to the Southeast and include the areas of Dundalk and North Point which provide easy access to the Port of Baltimore and the Interstate 695 Key Bridge, which is often used to reach across the Harbor for product that either will not fit or is not allowed through the tunnels. The White Marsh area is composed almost entirely of flex product, while Rosedale/Rossville offers a mix of flex, office/warehouse and bulk buildings.

The industrial sub-market is represented by more than 33.6 million square feet of space with bulk product accounting for forty-one percent. Office/ warehouse and flex product equally share the remaining twenty million square feet. The submarket saw significant positive absorption this year in both the bulk and office/warehouse sectors of over 580,000 square feet, but saw 33,000 square feet of negative absorption in the flex sector.

The Baltimore County East Industrial submarket is home to General Motors' Allison Transmission manufacturing plant which experienced both facility and production expansion this year. There was no marquee lease this year, although significant blocks of bulk warehouse were taken down at Bengies Road for over 110,000 square feet and over 144,000 square feet a few blocks away at Chesapeake Park Plaza. These deals were primarily driven by significant downward pressure on rates as a result of long-standing vacant spaces.

Though investment activity was hard to find in 2010, a handful of user sales closed. 11350 Pulaski Highway was a former RV sales showroom and service center of over 50,000 square feet contained on fifteen acres. It sold to Baltimore Gas & Electric, the local utility, for nearly $94 per square foot – a price that included over nineteen acres of land. Two user sales in the North point area went to a private club organization which took 25,000 square feet and the Baltimore County Public School System which took 41,000 square feet on nine acres for bus service and storage.

MARKET OUTLOOK

There were no building deliveries in 2010 and none are under construction or planned for 2011. Though continued economic stagnancy is expected to be the story once again in this submarket, slow and steady recovery is possible in 2011. Baltimore County East does enjoy the benefit of significant existing infrastructure and product availability for BRAC-related activity and contractors as the closest pocket of flex, office/warehouse and bulk product to Harford County and, more specifically, Aberdeen.

Significant blocks of vacant bulk space that drove part of 2010 no longer exists. There is potential for new construction of Bulk space, but none is expected to deliver in 2011. Large chunks of both flex and office/warehouse space exists in both White Marsh and Middle River along MD Route 43. A bright spot here will be for healthy companies working with the federal government looking to expand. For those looking to lease, the product is plentiful and in large part modern and functional. 2011 will be a great time to maintain costs while upgrading product.

NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Product
Ace	670 Chesapeake Park Plaza	144,000	Bulk
CDS Logistics	1225 Bengies Road	110,000	Bulk
Goodman Distribution	9103 Yellow Brick Road	25,000	Bulk
Legends LTD.	8901 Yellow Brick Road	20,000	Bulk
FRS Team by Cappy's	9621 Philadelphia Road	10,000	Office/Warehouse
First Class, Inc.	6917 Golden Ring Road	5,400	Office/Warehouse

BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
11350 Pulaski Highway	51,350	$4,800,000	$93.48	Office/Warehouse	BGE	Ramsey Boys, LLC
4242 North Point Road	41,400	$3,260,000	$78.74	Flex	Baltimore County Schools	PT O'Malley Lumber Co.
7721 Battle Grove Road	25,470	$1,080,000	$42.40	Flex	Independent Order of Oddfellows	St. John Properties

LAND SALES - INVESTMENT

Address	Size	Price	Price Per Acre	Buyer	Seller
5817 Allender Road	3.14 acres	$565,000	$180,000	Allender Road Enterprises LLC	Allied Trailer

INDUSTRIAL MARKET
BALTIMORE COUNTY - SOUTHWEST

FORECAST

Vacancy Rate ↓

Net Absorption ↑

Construction ↔

Asking Rents ↔

STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	46	56	59
New/Relet Vacant (SF)	678,818	465,409	486,458
Sublease Vacant (SF)	28,508	0	0
Total Vacant (SF)	707,318	465,409	486,458
Total Existing RBA (SF)	4,756,790	4,179,758	2,964,131
Vacancy Rate Direct %	14.3%	11.1%	16.4%
Vacancy Rate Sublease %	0.6%	0.0%	0.0%
Net Absorption (SF)	(69,437)	(42,246)	(170,961)
Average Rental Rate (NNN)	$4.94	$4.10	$5.16
2010 Completed Construction SF	0	0	0
2011 Planned Construction SF	0	0	0

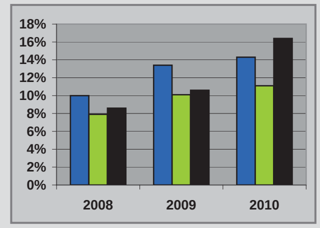
MARKET OVERVIEW

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. Occupants of facilities in the SBC distribute to both the Baltimore and Washington areas but tend to do the preponderance of their business in the Baltimore Metro region. With slightly less than 12 million square feet of industrial and flex space, 2010 was another tough year for this submarket. The overall vacancy rate climbed to just under 14% compared to approximately 11.5 % last year. Absorption was negative 282,644 square feet at year-end.

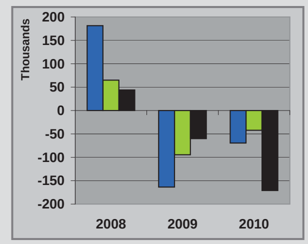
MARKET OUTLOOK

The SBC will continue to feel the effects of the recent economic slowdown, but with a lack of construction and / or planned projects in this submarket (and with leasing activity beginning to pick up), the market should begin to see signs of recovery in the first half of 2011. With over 1.6 million square feet of available product in the market, we expect to see landlords continue to be aggressive with their rental terms in an effort to fill their vacancies. With leasing activity beginning to increase in the second half of 2010, we expect the momentum to positively affect the SBC submarket. Enterprise Zone status and this sub-markets close to Baltimore, D.C., and I-95 should have this market well-positioned to see positive absorption in 2011.

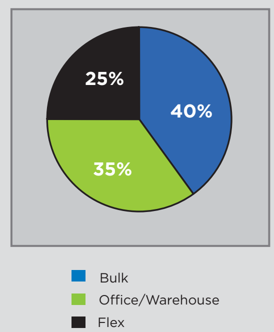
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Product	Class
Special Delivery	4715 Trident Court	80,000	Warehouse	B
Fandango	4601 Hollins Ferry Road	55,800	Warehouse	B
Yangtze	86-90 Alco Place	45,000	Warehouse	C
NB Handy	1200 E. Patapsco Avenue	29,900	Warehouse	B

BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
4665 Hollins Ferry Road	101,750	$4,300,000	$42	Warehouse	Alberlee Products	Mt. Royal Management

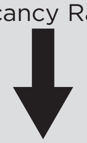
LAND SALES - USER

Address	Size	Price	Price Per Acre	Buyer	Seller
1705-1740 Twin Springs Road	9.6 Acres	$5,400,000	$562,500	Kaiser Permanente	Merritt Properties, LLC

INDUSTRIAL MARKET
Harford County

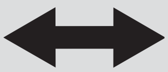
FORECAST

Vacancy Rate

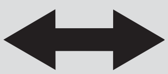


Net Absorption

Construction



Asking Rents



STATISTICS

Building Product	Bulk	Office/Warehouse	Flex
Number of Buildings	73	46	27
New/Relet Vacant (SF)	2,235,998	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 Harford County Industrial market has seen little change over the past twelve months. Vacancy rates on bulk type products have inched down a bit while the availability of lower ceiling office/warehouse and flex products has increased slightly.

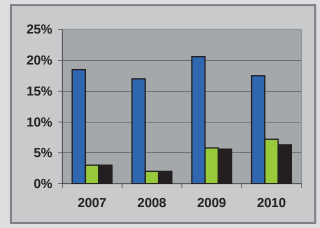
The big crush of business driven by the promise of BRAC has still not materialized. What activity there is has been solely focused on office tenants looking to be on Base or as close to the main gates as possible. The windfall of ancillary business due to big subcontractor contracts has yet to materialize. Several of the major office/industrial support companies (i.e. SAIC) are actively downsizing.

The transactions that have occurred are mainly renewals at reduced rates. Overall rental rates have decreased by 20 percent or more and landlords continue to be creative in an effort to keep their buildings full.

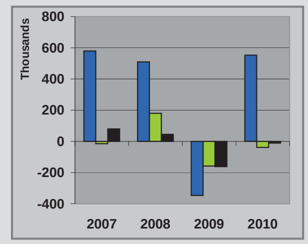
MARKET OUTLOOK

Much the same as our prediction last year, the recovery still looms on the horizon. Companies have stabilized and made their operations more efficient through a combination of layoffs, reduction of inventory, and in many cases cooperative landlords assisting by reducing rent. The approach is often “we will help you today but you will help us down the road by readjusting back up to market rates”. The lack of any new construction will cause vacancy rates to drop gradually once leasing momentum picks up.

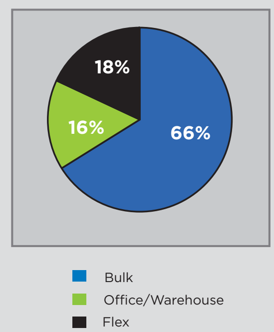
Vacancy Rate



Net Absorption (SF)



Market Inventory (%)



NOTABLE ACTIVITY

LEASING TRANSACTIONS

Tenant	Address	SF	Product	Class
Crown Cork	151 Bata Boulevard	140,000	Bulk	A
Aaron Rents	121 Bata Boulevard	100,000	Bulk	A
SAIC	1504 Quarry Drive	56,000	Bulk	A
Kroff Inc.	4605 Richylynn Drive	25,500	Bulk	B
Avon Protection System	1361 Brass Mill	16,200	Office/Warehouse	A

BUILDING SALES - USER

Address	Size	Price	Price PSF	Product	Buyer	Seller
1121 Belmar Drive	70,563	$2,562,500	$36	Bulk	Tilley Chemical	Vertis Communications

RESIDENTIAL LAND

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

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

Bankers not interested in lending on dirt

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

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

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

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

According to Mike Baldwin, owner of Baldwin Homes and developer of a 71-lot site near Fort Meade called the Preserve at Severn Run, sales are weak. Said Baldwin, “The sales really aren’t there yet, industry-wide, people [homebuilders] are selling, but not in the numbers you would expect.” Of his 71 lots, Baldwin has developed ten and sold one to an employee of Fort Meade. Even in a situation where BRAC is ramping up to be a huge driving force (a demand for 9800 homes by 2015), builders are still struggling. The problem being that potential Ft. Meade area homebuyers must still sell their homes in Northern Virginia, not an easy prospect in the current housing market.

Government regulations continue to make land development more difficult

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

What does 2011 hold for the residential land market?

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

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

INVESTMENT OVERVIEW

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

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

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

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

The commercial buildings that are most in demand are those that appeal to institutional investors like pension funds, real estate investment trusts, and overseas investors. Examples of these buildings include well-located shopping centers anchored by a premier grocery chain, large stable office buildings in downtown Washington DC or the most desirable inside-the-Beltway suburban submarkets, and high-quality multifamily assets. Capitalization rates are regularly below 7 percent – and in some cases even down to around 6 percent – for the best grocery-anchored centers and "core" office and multifamily assets have been known to trade at even lower yields.

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

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

While we have seen a busy sale season this year-end as the investment community returned from summer vacation and sellers have raced to get properties settled by the close of 2010, the much rumored increase in the capital gains tax rate has not materialized.

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

We are recommending to our owner-clients that they take advantage of current market conditions and identify quality, stabilized commercial assets to take to market. It is unclear whether this current seller-friendly climate is sustainable in light of the soft economy and possible inflation down the road.
Among the best candidate properties to bring to market today are stable retail, multifamily, and bulk industrial buildings. Owners not in the market to sell and with relatively low debt loads should take advantage of current market conditions to refinance. Financing at historic lows is available for quality assets with reasonable leverage.

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

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The NAI KLNB Team

In 2010, NAI KLNB reported volume of over $1 billion on 950 separate real estate transactions, and leased or sold more than 10 million square feet of industrial, office and retail space and over 35 acres in land. The full-service brokerage firm operates Maryland offices in Towson and Columbia, as well as Vienna and Brambleton, Virginia, and Washington, D.C. KLNB is the mid-Atlantic representative of NAI, a network of real estate service providers serving more than 200 markets worldwide KLNB represents NAI with a full range of brokerage, financial and investment services. In the Baltimore office and industrial market, the NAI KLNB team includes:

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Established in 1968, KLNB, Inc. is a full-service commercial real estate firm offering sales, leasing, development and real estate investment services. The company employs more than 76 real estate professionals, including 33 principals.

* denotes principal of firm

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