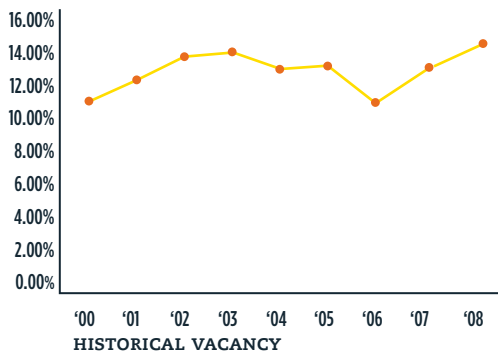


## OFFICE HIGHLIGHTS

The Baltimore Metropolitan Office market is centrally located along the Mid-Atlantic coast, and is 45 minutes north of Washington, DC. The market is divided into three smaller regions known as the City Center/Baltimore City, the Southern Metro region and the Northern Metro region. Together these markets contain 71,031,196 square feet (sf) of competitive office space.

Direct vacancy climbed to 14.10% in 2008, compared to 12.64% at the end of 2007. As in 2007, the Southern Metro region experienced the highest amount of new development with nearly 1.4 million square feet (msf) coming online, contributing to its significant rise in vacancy from 12.40% (2007) to 15.44% (2008). In addition to a struggling economy, the rising vacancy rate for the Baltimore Metropolitan Office market was influenced by 2,256,280 sf of new space completed in 2008. Only 21.34% (473,819 sf) of this space was pre-leased.

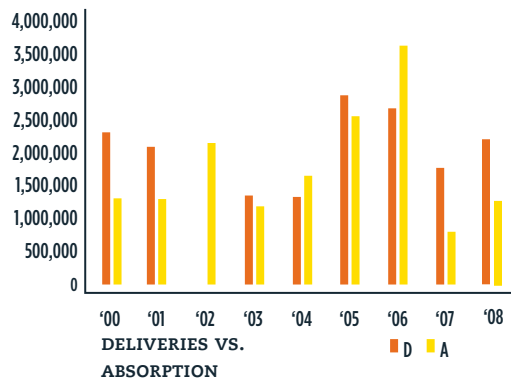
The decline in pre-leasing, coupled with an unprecedented freeze in the credit market, has halted spec building. New construction has experienced a sharp decline from over 4 msf in 2007 to nearly half that amount—2.6 msf in 2008. This reduced supply of space in the market should help offset the trend of rising vacancy rates in the months to come.



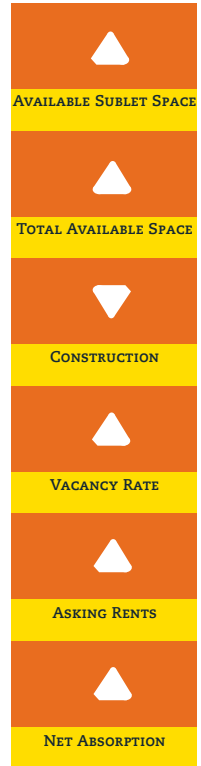
Net absorption remained positive showing 119,774 sf of growth during the quarter and ending 2008 with a total gain of 1,240,438 sf. Most of this absorption (95,091 sf) occurred in the Northern Metro region as a result of new construction with significant pre-leasing.

Interestingly, average asking rates across the market rose modestly from \$22.83 per square foot (psf) to \$23.25 psf. This is likely the result of new product coming on line, as well as the difference in perceived value of space between landlord and tenant in our shifting economy. Because the environment has clearly shifted to a tenant market, landlords are more determined to retain tenants and have offered more creative incentives, including increased tenant improvement dollars. Early lease renegotiations have also spiked.

Despite current challenges, the Baltimore Metropolitan Office market is positioned well and relatively insulated by its proximity to Washington, DC. Growth stemming from BRAC and anticipated federal government funding for infrastructure, biotechnology, and green initiatives are anticipated to provide new opportunities in 2009.



## OVERVIEW 4TH Q



## NOTABLE OFFICE TRANSACTIONS | leasing

LOCATION	SUBMARKET	TENANT	AMOUNT LEASED (SF)
300 SENTINEL DR	BWI	MITRE CORPORATION	73,000
10451 MILL RUN CIR	REISTERSTOWN RD COR	N/A	51,660
MONTGOMERY PARK	BALTIMORE CITY W.	XL HEALTH	40,000
302 SENTINEL DR	BWI	N/A	32,500
7151 COLUMBIA GATEWAY DR	COLUMBIA	CARROLLTON BANK	20,427
MCHENRY ROW	BALTIMORE CITY E.	KCI TECHNOLOGIES	16,000



**BALTIMORE OFFICE SUBMARKET**

**NOTABLE OFFICE TRANSACTIONS | sales**

LOCATION	SUBMARKET	PRICE	PSF	BUILDING SIZE (SF)
20 S. CHARLES ST	CITY CENTER	\$9,200,000	\$75.83	121,322
4930 CAMPBELL BLVD	BALTIMORE CO E.	\$5,860,000	\$63.19	92,732

## OFFICE HIGHLIGHTS (CONTINUED)

### City Center

Baltimore's City Center comprises 13,777,109 sf of rentable building space. Direct office vacancy for year-end 2008 is 11.75%. Over a two-year period (2006-2008) the vacancy rate has increased 7%. This increase is significantly lower than the Northern and Southern Metro markets where vacancy increases have reached double-digit percentages. A 59% drop in leasing activity from 2007 illustrates the severity of the current economic conditions.

In 2008, the market absorbed 209,368 sf of space. This positive absorption is directly attributable to the addition of 502 South Sharp Street to the City Center inventory<sup>1</sup>. Apart from the addition of this 250,000 sf, which is currently occupied, net absorption was only 5,291 sf.

The story has remained unchanged throughout 2008. Landlords are increasingly aggressive with concessions to retain occupancy and remain competitive. Tenants are cautious, leveraging the "upper hand" they have in negotiations, when necessary, by seeking deals that are economically beneficial to their present and future space requirements.

Tightening of the capital markets and the downturn in the housing market has halted progress for two major projects along the Inner Harbor. The first is the former News American site at 300 East Pratt Street, which was acquired by Urban America LP and Baltimore developer Doracon LLC in 2006. Plans for the \$250 million project included a five-star hotel, 300 condominiums, and 40,000 sf of retail space. The second project is the former McCormick Spice site at 414 Light Street. The \$500 million project proposed by Arc Wheeler, LLC is also a mixed-use project that includes a 59-story office tower and hotel, with street-level retail. To date, both projects remain parking lots.

New construction in the City Center has been underway at both Harbor East and Harbor Point. The "Legg Mason" Tower at 701 Aliceanna Street (579,230 sf) in Harbor East will be the future headquarters of Legg Mason, a global asset management firm. Joining Legg Mason is Hogan & Hartson, an international law firm. Both companies will be vacating space within the City Center at 100 Light Street (Legg Mason) and 111 South Calvert Street (Hogan & Hartson). Morgan Stanley will be the lead tenant at the Harbor Point project where they will occupy 156,000 sf.

### Baltimore City

Baltimore City is made up of four submarkets that surround the City Center: BALTIMORE MID-TOWN, BALTIMORE CITY NORTH, BALTIMORE CITY EAST, and BALTIMORE CITY WEST. Together they total 7,758,888 sf with the majority of space located between Fells Point and Canton on Baltimore City's east side.

## TOTALS

182
BUILDINGS
21,535,997
MARKET SIZE (SF)
13.63%
DIRECT VACANCY
15.05%
VACANCY W/ SUBLET
22,542
NET ABSORPTION (SF)
\$22.12
ASKING RENT



## CITY CENTER STATISTICS

SUBMARKET	BUILDING	MARKET SIZE (SF)	DIRECT VACANCY	VACANCY w/ sublet	NET ABSORPTION (SF)	ASKING RATE
CITY CENTER CLASS A+	14	4,107,453	7.10%	8.32%	5,336	\$29.22
CITY CENTER CLASS A	12	3,006,461	14.27%	14.92%	6,505	\$22.91
CITY CENTER CLASS B+	16	3,173,958	11.21%	16.16%	-9,824	\$20.63
CITY CENTER CLASS B	34	3,489,237	15.56%	16.18%	7,629	\$18.03
<b>CITY CENTER TOTAL</b>	<b>76</b>	<b>13,777,109</b>	<b>11.75%</b>	<b>13.56%</b>	<b>9,646</b>	<b>\$22.25</b>

<sup>1</sup> Only multi-tenant buildings are included in the market inventory. The Federal Reserve Bank, which fully occupies 502 South Sharp Street, recently made 103,281 sf available for new tenants, earning it multi-tenant status.



**Baltimore City - continued**

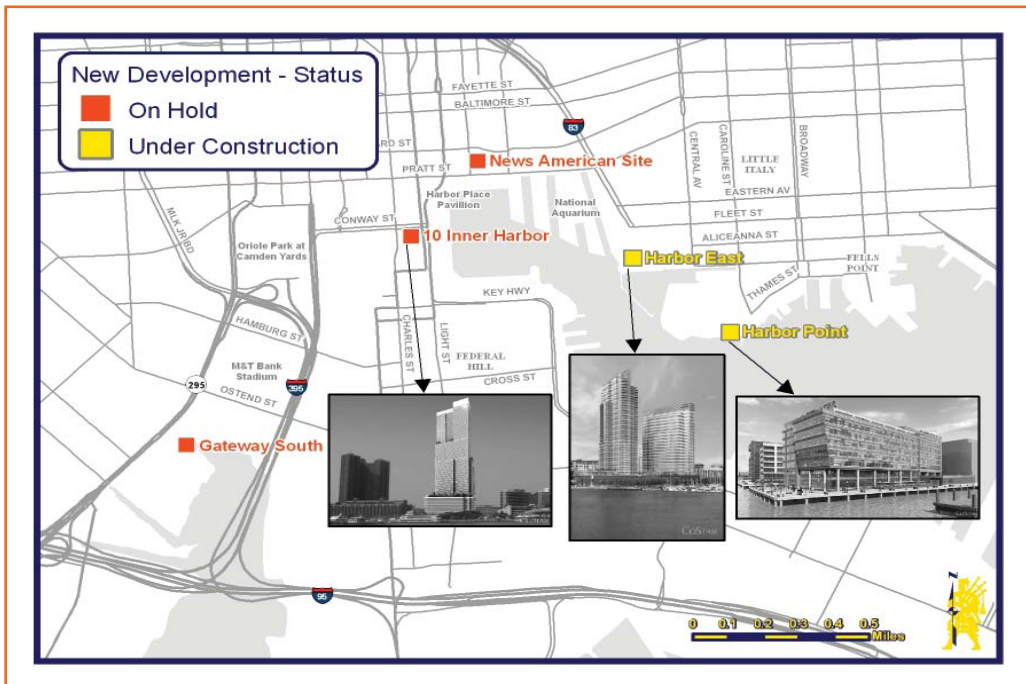
The submarket is uniquely distinguished as the only area that experienced a reduction in direct vacancy during 2008; it dropped to 16.96% which is 1.57% lower than 2007. Rental rates are \$21.70 psf, increasing from the 2007 rate of \$21.21 psf. Leasing activity totaled 367,876 sf in 2008 with 45% occurring in the Baltimore City East submarket. Transactions including The Becker Group's lease of 25,000 sf in Brewer's Hill, and the expansions of CareFirst BlueCross BlueShield and First Mariner Bank in Canton Crossing, contributed to the substantial activity in this submarket.

Notable transactions in Baltimore City include XL Health, a company that provides disease management and support services for patients and doctors, which leased 40,000 sf in Montgomery Park and the expansion of KCI Technologies, an engineering firm headquartered in Hunt Valley, Maryland. KCI, which has three facilities in Maryland, leased 16,000 sf at McHenry Row in Federal Hill, making them the first office tenant to sign

on in the new mixed-use project. The McHenry Row project has been stalled pending resolution of financing issues. Construction is anticipated to resume in January 2009. In addition to KCI Technologies, tenants committed to the project include Harris Teeter (60,000 sf), Greene Turtle Restaurant, PNC and Provident Banks, and Dunkin Donuts.

Zurich Financial, an insurance-based financial services provider located on Keswick Road, is also considering new locations throughout the Baltimore Market. The company, which occupies 265,000 sf, is downsizing but the Baltimore Development Corporation (BDC) is proposing financial incentives to retain the company as a Baltimore City tenant.

Several projects are on hold in the Baltimore City market due to increasingly stringent lending policies. The tight credit market has stalled the progress of several projects including Gateway South, a \$200 million mixed-use redevelopment near M&T Bank Stadium.



**BALTIMORE CITY OFFICE STATISTICS**

SUBMARKET	BUILDING	MARKET SIZE (SF)	DIRECT VACANCY	VACANCY w/ sublet	NET ABSORPTION (SF)	ASKING RATE
MIDTOWN	25	1,179,957	5.41%	5.41%	-3,990	\$18.79
NORTH	24	1,396,881	6.14%	6.78%	-4,840	\$24.11
EAST	40	3,002,308	14.26%	15.19%	13,687	\$23.56
WEST	17	2,179,742	33.88%	34.81%	8,039	\$19.51
<b>SUBTOTAL</b>	<b>106</b>	<b>7,758,888</b>	<b>16.96%</b>	<b>17.70%</b>	<b>12,896</b>	<b>\$21.70</b>

## OFFICE HIGHLIGHTS (CONTINUED)

### Suburban

The Baltimore Metropolitan suburban office markets are divided into the Northern and Southern regions. The Northern region extends from White Marsh in the Baltimore County East submarket to Owings Mills located in the Baltimore County West submarket and north to Harford County. The Southern region covers Annapolis to the east, Columbia to the west, BWI Airport to the north, and the Route 2 Corridor to the south. Total office inventory consists of 49,495,199 sf of office space.

Continuing the trend that occurred during 2007, completed construction added another 2 msf of new space to the suburban market. Unlike 2007, when 41% of new space was pre-leased, only 16% of 2008's new space is pre-leased. Coupled with an uncertain economic climate, this surge of new space has resulted in a 2.09% increase in direct vacancy during the past year with end-of-year direct vacancy being 14.30%. Asking rental rates remained relatively flat with only a \$0.58 increase across both regions.

### Southern Metro

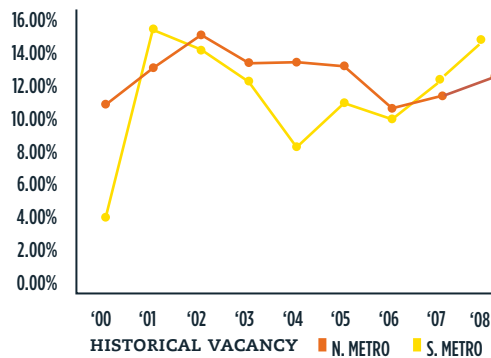
Vacancy rates in this region have been climbing steadily over the last two years, increasing 57% from 9.83% in 2006 to 15.44% in 2008. 4.6 msf of new space, combined with an impaired economy directly impacting demand, resulted in a continued increase in vacancy. Although higher vacancy would typically cause rental rates to decline, the addition of new inventory to the market caused average asking rental rates to increase from \$23.14 psf to \$25.01 psf.

The Annapolis submarket reached double-digit vacancy at year-end 2008 hitting 11.63%. Celebrated for having the lowest vacancy rate in the Baltimore market, Annapolis has not seen this level of vacancy since the 1st quarter 2004.

Annapolis was not immune to the increase in supply this year. The addition of a second building at 3 Park Place (108,800 sf) and two smaller buildings in the market created an increase of 216,800 sf to the Annapolis inventory. Average asking rental rates remain the highest in this region at \$29.96 psf.

## TOTALS

998
<b>BUILDINGS</b>
49,495,199
<b>MARKET SIZE (SF)</b>
14.30%
<b>DIRECT VACANCY</b>
15.17%
<b>VACANCY W/ SUBLET</b>
97,232
<b>NET ABSORPTION (SF)</b>
\$23.66
<b>ASKING RENT</b>



## SUBURBAN OFFICE STATISTICS | southern metro

SUBMARKET	BUILDING	MARKET SIZE (SF)	DIRECT VACANCY	VACANCY w/ sublet	NET ABSORPTION (SF)	ASKING RATE
ANNAPOLIS	126	3,683,343	11.63%	12.68%	-2,699	\$29.96
BWI	100	7,554,652	19.52%	20.88%	6,477	\$24.72
COLUMBIA	221	12,567,831	14.41%	15.80%	-54,313	\$23.59
ROUTE 2 CORRIDOR	51	1,716,661	13.18%	13.33%	52,676	\$25.38
<b>S. METRO TOTAL</b>	<b>498</b>	<b>25,522,487</b>	<b>15.44%</b>	<b>16.69%</b>	<b>2,141</b>	<b>\$25.01</b>



## OFFICE HIGHLIGHTS (CONTINUED)

### Northern Metro

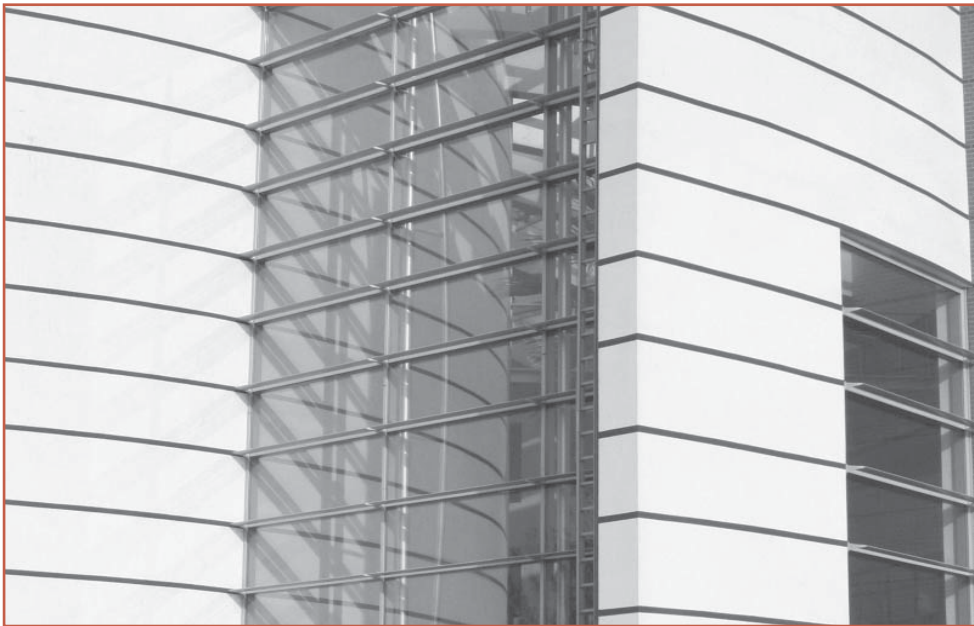
The Northern Metro region experienced only a 1.1% increase during the year with a total direct vacancy of 13.1%. Absorption increased 65% from 2007 to 2008 with the year ending at 251,158 sf. A minimum rise in average asking rental rates from \$21.26 psf (2007) to \$21.83 psf (2008) is reflective of new product being added to the market.

The bulk of the absorption in this market is found in Harford County where a new medical office building at 540 Upper Chesapeake Drive in Bel Air was recently completed. The building added 85,000 sf to the market and is 50% leased.

The Harford County submarket also has a large share of new construction in the region with 305,446 sf of space underway. Two buildings

that are part of the first phase of the North Gate Business Park at APG, a project being developed by Corporate Office Properties Trust, have broken ground. In addition, a third building for The Gate project, developed by Opus East LLC, broke ground and is scheduled for delivery in the 4th quarter 2009.

The I-83 Corridor has one building under construction at 55 Schilling Road. Located in Schilling Place at Hunt Valley, a 500,000 sf corporate campus, the new 53,878 sf building will provide the only available space in this fully leased complex. 55 Schilling Road will include many "GREEN" features offering office users class A office space with environmentally-friendly and energy-efficient amenities.



## SUBURBAN OFFICE STATISTICS | northern metro

SUBMARKET	BUILDING	MARKET SIZE (SF)	DIRECT VACANCY	VACANCY w/ sublet	NET ABSORPTION (SF)	ASKING RATE
BALTIMORE COUNTY E.	54	1,912,501	20.49%	20.49%	-34,091	\$24.26
BALTIMORE COUNTY W.	63	2,782,141	13.86%	13.97%	62,574	\$19.31
HARFORD COUNTY	96	2,353,835	8.06%	8.37%	69,481	\$23.44
I-83 CORRIDOR	121	7,257,733	11.88%	12.00%	-9,536	\$22.57
TOWSON	89	5,282,949	13.86%	14.93%	-11,456	\$20.69
REISTERSTOWN RD COR	77	4,383,553	13.21%	14.00%	18,119	\$22.74
<b>N. METRO TOTAL</b>	<b>500</b>	<b>23,972,712</b>	<b>13.10%</b>	<b>13.56%</b>	<b>95,091</b>	<b>\$21.83</b>