Transwestern Outlook

Q3:09 BALTIMORE

Counting on BRAC and Health Care for the Future; Present Office Market Conditions Soften Further

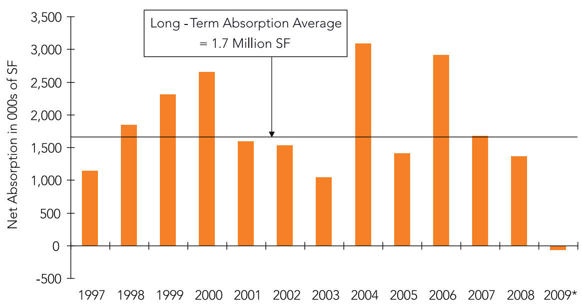
The Baltimore metro area experienced moderating market conditions during the 3rd quarter of 2009. Vacancy is elevated, as it increased 150 basis points during the past year. Tenants remain frozen in leasing decisions, as they wait for an improving economic climate. Although construction levels have declined since last year, Archon Group and COPT have broken ground on spec projects, banking on tenants relocating to the area under the BRAC decision. Rents have declined 2.5% YTD through the 3rd quarter, as property owners with available space struggle to obtain tenants. However, this has allowed some tenants to trade up into better space. Although the Baltimore metro area is poised for slowing conditions in the near-term, the market should stabilize quicker than many other metro areas due to the expanding health care industry here.

Third Quarter 2009 Market Highlights:

- **Net absorption:** negative 18,000 SF, compared to the quarterly average of 350,000 SF during 2008
- **Sublease space:** increased by 112,000 SF. Sublease space is 0.8% of standing inventory
- **Overall vacancy rate:** 13.7%, up from 12.0% one year ago
- **Direct vacancy rate:** 12.9%, up from 11.3% one year ago
- **Pipeline (U/C and U/R):** 1.1 million SF, down from 3.3 million SF one year ago
- **Pipeline pre-lease rate:** 36%, down from 44% one year ago
- **Rents:** down 2.5% YTD 2009, compared to a decline of 0.5% in 2008
- **Investment sales:** $103 million YTD. Average sales price: $209/SF

OFFICE NET ABSORPTION

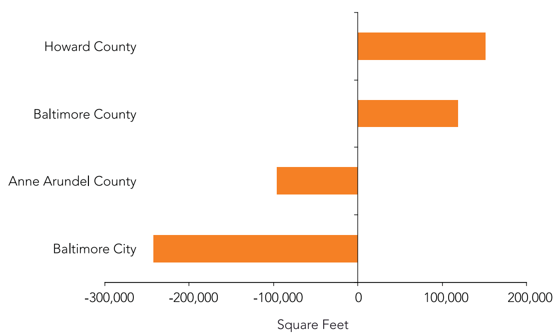
Baltimore Metro Area | 1997 Through Third Quarter 2009



Source: Delta Associates; September 2009. *Through 3rd quarter 2009.

OFFICE NET ABSORPTION

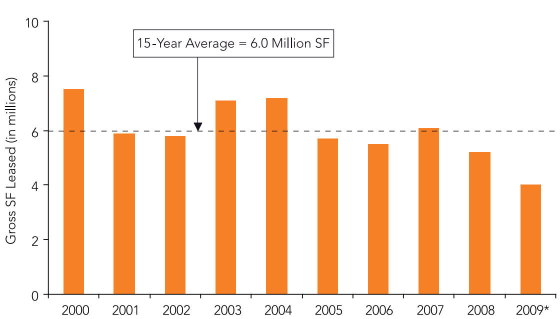
Baltimore Metro Area | January 2009 – September 2009



Source: CoStar, Delta Associates; September 2009.

GROSS LEASING ACTIVITY

Baltimore Metro Area | 2000 Through 2009



Source: CoStar, Delta Associates; September 2009. *Estimate. Note: Data updated each quarter.

NET ABSORPTION

The Baltimore metro area absorbed negative 18,000 SF during the 3rd quarter of 2009, compared to positive 37,000 SF during the 2nd quarter. This compares to the long-term quarterly average of 425,000 SF. YTD 2009 absorption totaled negative 68,000 SF, compared to positive 1.4 million SF in 2008, which was just shy of the long-term average of 1.7 million SF.

The Balance of Baltimore City submarket experienced positive 413,000 SF of net absorption during the 3rd quarter. Absorption was boosted in this submarket due to H & S Properties Development Corporation delivering 579,000 SF at 100 International Drive. This space delivered 65% leased in part to Legg Mason.

Despite this gain, the Baltimore metro area experienced slight negative absorption during the past three months, as tenants vacating space hampered any gains. For instance, Fundamental Administrative Services vacated 72,000 SF at 930 Ridgebrook Road in the Baltimore County North submarket and Legg Mason vacated 234,000 SF at 100 Light Street in the Baltimore CBD heading to its new HQ at 100 International Drive.

Sublease space increased 112,000 SF during the 3rd quarter of 2009, after rising 176,000 SF during the 2nd quarter. For the year, sublease space increased 215,000 SF, compared to declining 150,000 SF during 2008. Currently, sublease space represents just 0.8% of standing inventory in the Baltimore metro area.

Class A net absorption totaled 194,000 SF during the 3rd quarter of 2009, compared to 546,000 SF during the 2nd quarter. This compares to the quarterly average of positive 428,000 SF achieved during 2008. YTD absorption annualized totals 670,000 SF, compared to the 1.8 million SF absorbed during 2008.

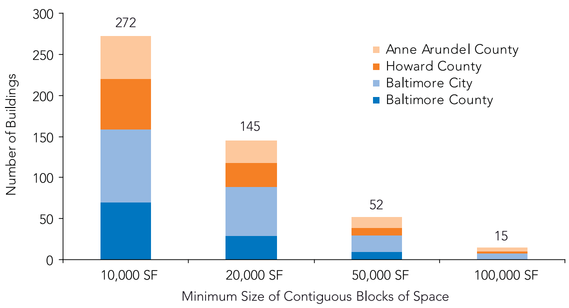
GROSS LEASING

We estimate gross leasing activity for existing space in the Baltimore area will total approximately 4.0 million SF in 2009, when the numbers are finalized, which is below the 15-year average of 6.0 million SF.

The most notable lease deal of the 3rd quarter was Finiti renewing 57,000 SF at 7090 Samuel Morse Drive in Columbia. The top three lease transactions during the 3rd quarter were all renewals. The most notable deal of the year so far is SAIC taking 172,000 SF at 6841 Benjamin Franklin Drive in the Columbia submarket.

BUILDINGS WITH CONTIGUOUS BLOCKS OF AVAILABLE SPACE

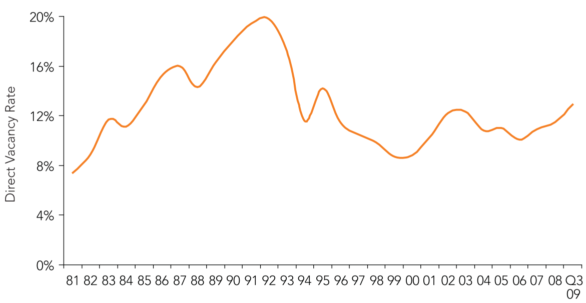
Baltimore Metro Area | September 2009



Note: Includes buildings under construction or renovation.
Source: Delta Associates' analysis of CoStar data; September 2009.

OFFICE VACANCY RATES

Baltimore Metro Area | 1981 Through Third Quarter 2009



Source: CoStar, Delta Associates; September 2009.

VACANCY RATES AND VACANT SPACE (ALL CLASSES)

Baltimore Area | Sept. 2008 - Sept. 2009

	September 2008	September 2009
	Vacancy Rate	
Direct	11.3%	12.9%
Sublet	0.7%	0.8%
	Vacant Space (Millions of SF)	
Direct	9.9	11.6
Sublet	0.6	0.8

Source: CoStar, Delta Associates; September 2009.

We anticipate leasing activity from companies looking to trade up in the near-term. For instance, Atradius Trade Credit Insurance signed a lease in June 2009 for 21,000 SF of renovated space at 230 Shilling Avenue. This company traded its flex space at 5026 Campbell Boulevard. With moderating market conditions, companies looking to lease space have the opportunity to secure better space at a reduced rate.

We expect leasing to be sluggish during the 4th quarter of 2009, but to pick up pace moderately in 2010, as market conditions improve and the government and its contractors look for space to house the estimated 25,000 jobs, due to the Base Realignment and Closure (BRAC) decision, coming to the region by 2011.

Maryland recently secured an additional $460 million in funding to assist the area in preparation for the influx of jobs. The money will be used for the construction of buildings to house the incoming jobs.

There are 272 buildings with contiguous blocks of available space greater than 10,000 SF in the Baltimore metro area at September 2009, up from 248 buildings one year ago. Few options are available for large tenants, as there are only 15 buildings with contiguous blocks of available office space greater than 100,000 SF. This figure remains low but has been edging up.

The largest block of space is 404,000 SF at 1800 Washington Boulevard in the Baltimore City (non-CBD) submarket. The next largest space is 387,000 SF at 225 N. Calvert Street in the Baltimore CBD. Bank of America vacated this space during the 2nd quarter to move a portion of the employees to its regional headquarters at 100 S. Charles Street in the Baltimore CBD and another portion to 11333 McCormick Road in Baltimore County North.

VACANCY

The overall vacancy rate increased to 13.7% at the end of the 3rd quarter of 2009, from 12.8% at mid-year, and 12.0% one year ago.

The direct vacancy rate was 12.9% at September 2009, up from 12.1% three months prior, and 11.3% one year ago.

The overall Class A vacancy rate increased to 14.4% at the end of the 3rd quarter of 2009, up from 12.3% at mid-year, and 12.7% one year ago. The direct Class A vacancy rate is 12.7% at September 2009.

NET OFFICE ABSORPTION AND VACANCY BY SUBMARKET

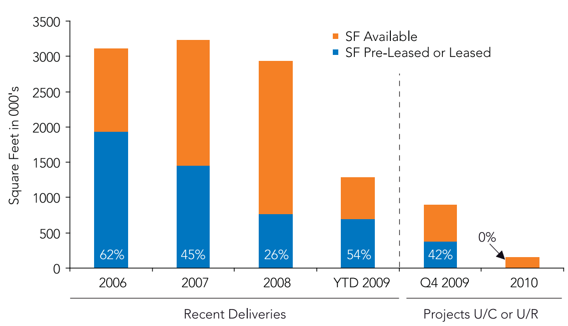
Baltimore Area

Submarket	Inventory (SF) 3rd Qtr 2009	Net Absorption (SF) 2006	2007	2008	YTD 2009	3rd Quarter 2009 Vacancy Direct	w/Sublet
Balt. County W.	10,447,476	262,000	99,000	140,000	51,000	9.3%	9.5%
Balt. County N.	14,975,014	527,000	136,000	60,000	15,000	10.5%	10.8%
Balt. County E.	2,165,431	116,000	18,000	62,000	53,000	18.2%	18.2%
Balt. CBD	17,891,713	72,000	18,000	36,000	(711,000)	14.4%	16.2%
Bal. of Balt. City	14,544,091	518,000	363,000	62,000	469,000	14.2%	14.9%
Columbia	12,729,883	687,000	649,000	170,000	228,000	12.1%	13.0%
Route 1 North	1,145,773	91,000	12,000	88,000	(77,000)	31.9%	32.7%
BWI	9,957,454	478,000	131,000	541,000	(42,000)	15.7%	16.8%
Anne Arundel S.	5,783,039	162,000	255,000	212,000	(54,000)	8.8%	9.5%
Total:	**89,639,874**	**2,913,000**	**1,681,000**	**1,371,000**	**(68,000)**	**12.9%**	**13.7%**

Source: CoStar, Delta Associates; September 2009.

LEASING ON RECENT DELIVERIES AND PROJECTS U/C OR U/R

Baltimore Metro Area | 2006 – 2010



Source: CoStar, Delta Associates; September 2009. Note: Recent deliveries are based on % leased upon delivery.

CONSTRUCTION

There is 1.1 million SF under construction or renovation at September 2009, down from 3.3 million SF one year ago.

Projects set to deliver during the 4th quarter of 2009 and 2010 are 42% and 0% pre-leased, respectively. This averages to a 36% pre-lease rate at September 2009, compared to 44% one year ago. The pre-lease rate is similar to the 10-year average pre-lease rate of 34%.

The BWI submarket is the leader of pipeline projects at September 2009. A total of four projects total 490,000 SF in this submarket with a pre-lease rate of 33%. However, only one project has any pre-leasing. Opus East started construction last year on 160,000 SF at 1550 W. Nursery Road. This project is fully leased to Northrop Grumman. Given the bankruptcy of the company, Citizens Bank has reclaimed the property from Opus East. Despite this, Manekin was hired to complete the construction by the start of 2010.

There was one office groundbreaking in the Baltimore area during the 3rd quarter of 2009, after one project started during the 2nd quarter. YTD 2009 construction starts total 429,000 SF, compared to 2.2 million SF during 2008.

Corporate Office Properties Trust broke ground during the 3rd quarter on 308 Sentinel Drive, a 155,000 SF project, in the National Business Park in the BWI/Anne Arundel submarket. With many projects sidelined due to tightened credit, this $35 million project moved forward as credit was secured before the downturn.

Although the project is starting without a tenant in place, COPT expects to sign a contractor relocating to the area under the BRAC decision given its close location to Ft. Meade.

OFFICE SPACE U/C OR U/R

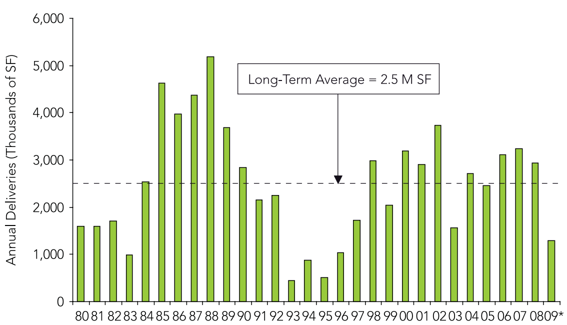
Baltimore Metro Area | September 2009

Submarket	SF	% Pre-leased
BWI	490,000	33%
Balance of Baltimore Cty.	343,000	55%
Baltimore County North	99,000	0%
Columbia	45,000	22%
Baltimore County West	45,000	0%
Baltimore CBD	34,000	73%
Total	**901,000**	**36%**

Source: CoStar, Delta Associates; September 2009.

OFFICE SPACE DELIVERIES

Baltimore Area | 1980 Through Third Quarter 2009



Note: Delivery totals include renovations.
Source: CoStar, Delta Associates; September 2009.

*Through 3rd quarter 2009.

Developers are planning to build over 2.0 million SF of office space near Ft. Meade, primarily in response to BRAC. However, given light demand and tight lending, developers have not been able to break ground because lenders are refraining from loaning money to spec projects.

Starting a spec construction project at this point in the cycle could be a risky decision. However, starting a project now will pace delivery at a time when the BRAC relocations are due and when market conditions are expected to improve.

Deliveries totaled 767,000 SF delivered during the 3rd quarter of 2009, compared to 386,000 SF during the 2nd quarter. Product that delivered during the past three months came on-line at 59% leased. YTD a total of 1.3 million SF has delivered at 54% leased. During 2008, deliveries totaled 2.9 million SF at 26% leased upon delivery.

Notably, 100 International Drive, a 579,000 SF building, delivered 65% leased to Legg Mason during the 3rd quarter. Legg Mason vacated 100 Light Street – leaving approximately 234,000 SF for building owner Lexington Realty Trust to lease. However, the owner is investing $40 million to renovate the building to attract new tenants.

PROJECTED SUPPLY VS. DEMAND

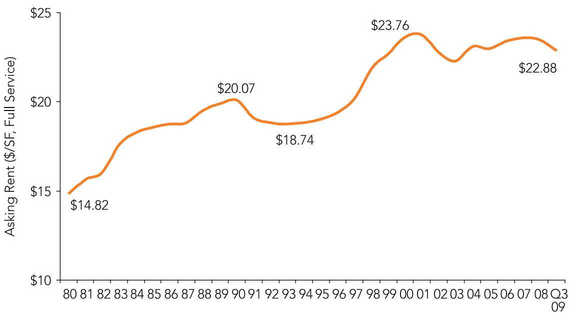
We project the Baltimore metro area's overall vacancy rate will tick down from 13.7% today, to 12.8% by September 2011. Although the Baltimore metro area is experiencing job cuts, as 36,900 positions were eliminated during the 12 months ending July 2009, we expect vacancy to edge down during the next two years for three reasons.

The first reason is due to the Education/Health sector, a core industry, which continues to add jobs and is expected to add more jobs in the near-term. The bulk of the jobs lost during the past year were in the construction and retail sector, which are non-office-using positions.

The second reason is that the construction pipeline has been significantly reduced, which means Baltimore has already experienced a rise in vacancy due to projects delivering to market. In addition, the pre-leasing on the projects to deliver over the next two years is at 36% – on par with the 10-year average pre-lease rate of 34%.

AVERAGE CLASS A OFFICE RENTS

Baltimore Area | 1980 Through Third Quarter 2009



Source: CoStar, Delta Associates; September 2009.

Lastly, the Base Realignment and Closure (BRAC) process is to conclude by September 2011. It is estimated that BRAC will bring 25,000 military jobs to the Baltimore area, which will lure contractors. We believe leasing due to BRAC will increase as the September 2011 deadline gets closer.

Vacancy likely will continue to rise during the 4th quarter of 2009, but should decline enough in 2010 and 2011 to be lower in 24 months than it is today.

RENTS

Class A office rents edged down 2.5% YTD 2009, after declining 0.5% during 2008. The average Class A rent for the Baltimore metro area is $22.88/SF, down from $23.47/SF at year-end 2008.

Given the current economic climate, most property owners cannot raise rents. We anticipate rents will edge down during 2009 and 2010 by an average of 3.0% to 5.0% per annum.

INVESTMENT SALES

There was one investment sale during the 3rd quarter of 2009. The Brick Companies purchased 600 Washington Avenue for $8.1 million ($126/SF). YTD investment sales total $103 million on three transactions, compared to $363 million sales on ten transactions in 2008.

THE BALTIMORE AREA OFFICE MARKET OUTLOOK

We expect the Baltimore area office market to experience soft conditions during the 4th quarter of 2009, with modest improvement in 2010. We project job losses of 25,000 in 2009, mainly in the Construction and Retail sectors, which are non-office-using. Growth should continue in the Education/Health sector, as stimulus funding spurs activity in this core industry.

We expect vacancy to rise during the last three months of 2009, as tenants refrain from leasing new space until improving conditions are felt. We believe vacancy will start to edge down during 2010 and be below today's vacancy rate by September 2011, as the economy improves and tenants relocate here due to the BRAC decision.

Although planned office projects around the growing military bases have declined due to the difficulty in obtaining financing, a handful of projects have started construction. We believe construction volume will rise, particularly around Ft. Meade and Aberdeen Proving Ground during 2010, as banks regain confidence in lending. We anticipate rents will edge down during 2009 and 2010 by an average of 3.0% to 5.0% per annum.

In the long term, the Baltimore metro area is well positioned for steady future growth, as the health and life-science industries fuel demand in the area.

NET ABSORPTION OF FLEX/INDUSTRIAL SPACE

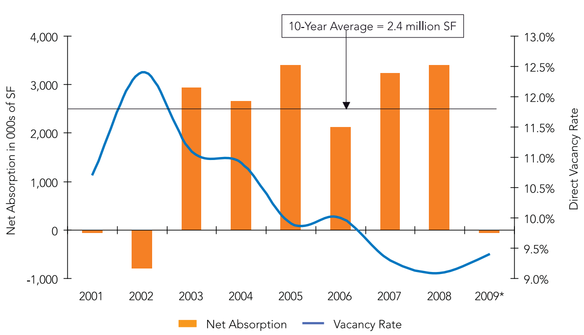
Baltimore Metro Area | January – September 2009

Submarket	SF Absorbed
Baltimore County West	(221,000)
Baltimore County North	47,000
Baltimore County East	443,000
Baltimore City	80,000
Columbia	177,000
Route 1 North	(476,000)
BWI	(201,000)
Harford County	78,000
Anne Arundel South	8,000
Total	**(65,000)**

Source: CoStar, Delta Associates; September 2009.

FLEX/INDUSTRIAL NET ABSORPTION AND DIRECT VACANCY

Baltimore Metro Area | 2001 Through Third Quarter 2009



Source: Vacancy – Delta Associates' analysis of CoStar Data, Net Absorption – Delta Associates; September 2009.

*Direct vacancy at September 2009; Net absorption through September 2009.

Tenants Vacating Space Weakens Flex/ Industrial Absorption

The Baltimore area's flex/industrial market experienced soft conditions during the 3rd quarter of 2009. Net absorption of flex/industrial space totaled negative 877,000 SF during the 3rd quarter of 2009, compared to positive 766,000 SF during the 2nd quarter. YTD net absorption totaled negative 65,000 SF. During 2008, net absorption totaled 3.4 million SF, compared to the 10-year annual absorption average of 2.4 million SF.

Absorption was weak during the 3rd quarter of 2009 due in part to Restoration Hardware vacating 602,000 SF at 1701 Trimble Road in Harford County. However, leasing activity has buoyed YTD absorption as Sun Products Corporation leased 503,000 SF at 1900 Clark Road in Harford County and IDX leased 434,000 SF at 8901 Snowden River Parkway in the Columbia submarket during the 1st half of the year.

The Baltimore area's overall flex/industrial vacancy rate ticked up to 10.2% at the end of the 3rd quarter of 2009, from 9.6% at mid-year and 9.8% one year ago. The direct vacancy rate was 9.4% at September 2009, up from 8.9% three months prior and 9.2% one year ago. The current sublease vacancy rate is 0.8%.

There is 132,000 SF of flex/industrial space under construction or renovation in the Baltimore area at September 2009, compared to 2.0 million SF one year ago. This space is 4% pre-leased, compared to 21% one year ago.

FLEX/INDUSTRIAL – UC OR U/R

Baltimore Metro Area | September 2009

Submarket	SF Absorbed
Baltimore County West	-
Baltimore County North	-
Baltimore County East	-
Baltimore City	-
Columbia	-
Route 1 North	-
BWI	108,000
Harford County	24,000
Anne Arundel South	-
Total: Baltimore Area	**132,000**

Source: CoStar, Delta Associates; September 2009.

Flex/industrial rents declined 2.3% YTD 2009, after edging up 0.9% in 2008. We expect rents to moderate during the balance of 2009 and into 2010, as tenants refrain from leasing space. However, rents could edge up late in 2010, as leasing activity picks up pace and construction levels remain low.

Flex/industrial market conditions in the Baltimore metro area should remain fairly steady during the balance of 2009 and into 2010. Given current conditions, we project the overall vacancy rate to edge up through 2010. However, any increase in vacancy should be limited due to a reduced pipeline. We believe rents will continue to decline, as tenants refrain from leasing new space until improving conditions are felt. Regardless of softening conditions, the Baltimore metro area flex/industrial market has been resilient. This is a prime market for flex/industrial tenants given its access to major interstates and the Pot of Baltimore.

Transwestern Outlook

REGIONAL HEADQUARTERS
6700 Rockledge Drive
Suite 400A
Bethesda, MD 20817
301.896.9000

WASHINGTON, DC
1667 K Street, NW
Suite 300
Washington, DC 20006
202.775.7000

NORTHERN VIRGINIA
8614 Westwood Center Drive
Suite 800
Vienna, VA 22182
703.821.0040

BALTIMORE-WASHINGTON CORRIDOR
6700 Alexander Bell Drive
Suite 350
Columbia, MD 21046
301.621.8800

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