an overview of the
Baltimore/Washington
commercial real estate market

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SQUARE FEET

First Quarter 2008

Compass Headings for 2008

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This year there is a lot of "static" as we try and hone in on the right compass headings given the current dynamics of other capital markets that affect real estate. Wall Street, Main Street and election year uncertainties, homebuilder woes and a cutback in retail expansion seem to be the most newsworthy items of the day.

2008 will prove to be a challenging year as companies (tenants) strive to make the right choices: expand or contract slightly? Move to less expensive quarters? Landlords face similar uncertainties: pricing of new space to the market, go/no-go decisions on land acquisition and of course the uncertainty in the capital markets. The signals for professional investors are equally unclear: wait for re-pricing by the market and sit on the sidelines, or chase the market and get the capital invested?

Our predictions:

Office
Construction costs have tempered and the run up in land prices have leveled. Office rent growth has not yet caught up with past increases in land and construction costs. The new wave of buildings scheduled for delivery over the next 18 months will fight for the top tier tenant with development economics mandating a need for the highest rents to date. The overall economic uncertainty will postpone decision making by tenants, or require landlords to offer (perhaps briefly) significant concessions to attract tenants.

Industrial
Limited land availability both in terms of size, feasibility and entitlements will continue to place moderate upward pressure on rents. Our generally healthy local economy will buoy the stability of those tenants that service it; companies more national in scope will see a moderation of their growth plans.

Retail
Look for a flight to quality markets as retailers try to balance growth with the realities of a consumer-driven economy. Smaller tenants without a cycle-tested business model will be in for a tough year.

Investment
With the silence in the debt markets, those with cash are king. Buyers that do not use debt of any kind have removed an uncertainty from their acquisition process and are more likely to prevail. CAP rate compression has moderated and Class "A" underwriting of Class "B" assets has ceased. The Baltimore-Washington corridor continues to be a great place to own real estate.

Office
ANNE ARUNDEL COUNTY

MARKET OVERVIEW

The Anne Arundel County office market continues to maintain a single-digit vacancy rate. Looking back to the first quarter of 2007, the county vacancy rate increased by 0.8% to 8.7%. Anne Arundel is one of only three counties in the Baltimore/Washington market to maintain a vacancy rate in the single digits. Rental rates in the County were stable in 2007, despite a lack of significant leasing activity. All classes of office rentals averaged $25.32 psf, while Class “A” rates average $27.52 psf.

On a more concentrated scale, Annapolis once again maintained its history of low vacancy, with a rate of 5.8%. The Annapolis market history shows that any surges in vacancy have been short lived. Annapolis commands the highest rental rates of up to $32.50 for Class “A” office space and is currently one of the tightest major submarkets in the Baltimore area.

Overall, 2007 net absorption for Anne Arundel office was a low 31,000 sf. This number is far from the ten-year average of 500,000 sf. The lack of significant leasing activity has opened the door to some leasing concessions, such as a period of free rent, increased tenant improvement allowances and moving subsidies.

Anne Arundel County Office

Submarket	Buildings	Total SF	Available	Vacancy	Avg. Rental
BWI	86	7,051,001	774,428	12.0%	$24.03
Annapolis	71	3,516,864	204,958	5.8%	$29.33
Rt 2 North	26	1,088,785	80,492	7.4%	$19.68
I-97 / Crain Hwy	21	753,332	22,149	2.9%	$24.31
Others	18	568,224	41,608	7.0%	$28.64
Totals	222	12,978,206	1,123,635	8.7%	$25.32

TENANTS LANDED

- Baltimore Washington Medical Center: 7556 Teague Rd, 60,000 sf
- T. Rowe Price: 709 Digital Dr, 69,240 sf
- Cingular: 7229 Parkway Dr, 55,319 sf
- USGS: 6835 Deerpath Rd, 38,000 sf
- Erickson Retirement Communities: 705 Digital Dr, 36,120 sf
- IBM: 304 National Business Park, 32,486 sf
- US Bureau of Prisons: 304 National Business Park, 32,000 sf
- General Dynamics: 130 Admiral Cochrane Dr, 17,140 sf

GROWTH

Anne Arundel County has experienced significant development over recent years largely due to continuing ease of transportation. BWI is among the fastest growing airports in North America and amenities, such as the Arundel Mills outlet mall, Westfield's Annapolis mall and numerous hotels around BWI and Annapolis, continue to grow in the area. The dynamics of this County have attracted a strong and diverse tenant base.

Anne Arundel is currently preparing for the major migration of the Defense Information Systems Agency (DISA) and its related defense contractors. Road and other transportation improvements, housing, public utility supply and schools are among the areas of concentration. The State of Maryland and Anne Arundel County are looking to the federal government for financial assistance with these high magnitude tasks. Recently, more than $280 million was set aside by the state government to help cope with the pending issues that are expected with this significant government agency relocation.

> “Anne Arundel County is one of only three counties in the Baltimore / Washington market to maintain a vacancy rate in the single digits.”

HISTORY

Defense industry cutbacks of the early 1990’s had a major impact on Anne Arundel's economy. The National Security Agency and Westinghouse, both large local employers, underwent sizable consolidation. Westinghouse's defense division employed 18,000 locally in the 1980’s, but after cutbacks and the purchase by Northrop Grumman in 1996, the division now employs 7,500. The BWI submarket, where NSA and Westinghouse were major tenants, has since recovered from vacancy rates as high as 25% in the early ‘90's. The current BWI vacancy rate continues to hover around 12% as the result of new construction and slow leasing activity.

Anne Arundel County

CONSTRUCTION

Anne Arundel County is poised for an unprecedented office space explosion over the next 10 years. Even with the slightly higher vacancy rate, developers are busy at the drafting boards creating their next Class "A" office building. Although most developers explain that their developments are market driven, many anticipate that the relocation of DISA defense contractors may absorb as much as 3.9 million sf of office space within close proximity of the new DISA headquarters at Ft. Meade.

LOOKING TO THE FUTURE

The DISA relocation is a bit of a cat and mouse game. The event will happen, but what will the numbers actually be? DISA tells the area to prepare for an influx of over 5,500 government jobs to hit the market in 2010-2011. Contractor jobs may total 16,500 for a potential combined total of 22,000 jobs to the market. The preparation of housing, retail amenities, schools and the transportation networks are among the top challenging priorities for all involved from the State to County levels, and most assuredly, the developers.

The office, retail and residential developers are busy in their preparations to have product ready and gain their piece of the pie. Developers project a 2009 - 2011 delivery of some 3.6 million sf. These numbers should assure that defense contractors and other tenants in the market will have a healthy supply of Class "A" office product from which to choose. It is possible that by 2010 a defense contractor in need of 100,000 sf of Class "A" office could have a minimum of a half-dozen buildings competing for their business. The first wave of BRAC related office construction should fill the immediate needs. The future of those office developments is bright. Once the immediate BRAC storm has passed, Anne Arundel County may be poised for a steady, healthy growth pattern. The NSA has been a long time economic driver for the Anne Arundel County economy and is anticipating direct and indirect growth to be 1,500 jobs per year. With the addition of DISA as another major economic driver, Anne Arundel County residents and businesses will enjoy the economic boost for many years.

BWI / FT. MEADE AREA OFFICE (PROPOSED)

- Odenton Town Center, 3.5 million sf
- Annapolis Junction Business Park, 2.3 million sf
- Fort Meade Technology Center, 2 million sf
- Arundel Preserve, 1.8 million sf
- National Business Park Phase 3, 1.5 million sf
- National Business Park Phase 2, 850,000 sf
- BWI Town Center South, 700,000 sf
- Merritt at BWI, 600,000 sf
- Preston Commons, 500,000 sf
- Parkside Office Phase I, 438,000 sf
- Liberty Ridge, 375,000 sf
- Station Ridge, 350,000 sf
- Candlewood Corporate Center, 343,000 sf
- Dorchester View, 225,000 sf
- BWI Hilton Office Park, 200,000 sf
- Arundel Mills Corporate Park, 150,000 sf
- Parkway Woods, 127,000 sf
- Aviation Business Park, 120,000 sf

ANNAPOLIS AREA OFFICE (PROPOSED)

- Annapolis Technology Gateway, 550,000 sf
- 185 Admiral Cochrane Dr, 132,000 sf
- Park Place, 125,000 sf
- Parole Town Center, 90,000 sf

TRENDS

Green buildings are changing the landscape of Anne Arundel County. Besides the benefits to the developer, such as branding, reputation and corporate social responsibility, there are numerous advantages for the tenant: lower utility costs, reduced emissions from construction materials and increased worker productivity will offset the slight increase in the rental rate. A building that qualifies for a Leadership in Energy and Environmental Design (LEED) certification accelerates the permitting process and expedites the time to market. Green design and LEED certification help to market the acceptance of slightly higher rents. Many Fortune 1000 tenants are now placing LEED certified buildings at the forefront of their office searches.

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MANEKIN
Full Service Real Estate

Office

Baltimore County North

The vacancy rate (vacant and available) from Towson to Hunt Valley/ Sparks currently stands at 11.5%, which is an increase from 10.9% in September 2007. Compared to this time last year, the vacant and available vacancy rate has increased by 1.1%. Space directly available for lease accounts for 10.1% of the total vacancy while subleased space adds an additional 1.4%

Baltimore County Office North	
Market Size	**12,296,968 sf**
Vacancy Rate	**11.5 %**
Rental Rate	**$15.00 - $29.50**
# of Buildings	**187**

With the exception of Class "A" Hunt Valley space, all submarkets and building classifications experienced increased vacancy. The largest increase occurred in the Towson "A" market which elevated from 10.9% to 16%. This increase can in large part be attributed to increased vacancies at 100 West Road and 1 W. Pennsylvania Avenue. The Towson "B" market increased nominally from 10.1% to 10.8%.

The healthiest of submarkets in Northern Baltimore County, Lutherville/ Timonium, did increase its vacant and vacant available rates. As a result of small increases of available spaces in several buildings, Lutherville/ Timonium "A" space increased its vacancy to 7% from 5%. With a limited total amount of a space in this submarket, new available space can quickly impact vacancy rates. The Lutherville/ Timonium "B" sector increased vacancy by 0.3% for a total vacancy of 9.7% with no dramatic vacancy changes in any building.

As previously mentioned, the Hunt Valley "A" market reported the only decrease in vacancy since our last reporting period. Vacancy reduced from 17.6% to 14.7%. Leasing at 200 International Circle (64,000 sf) and 307 International Circle (23,000 sf) were significant contributing factors to the decrease. Hunt Valley "B" space increased from 9.2% to 10.2%. Increased availabilities in Executive Plazas at 11350 McCormick Road were one of the contributing causes to this rise in vacancy.

SALES CLOSED

- Dulaney Center I & II in Towson reportedly sold for $53.2 million or $173 psf in November of 2007. Dulaney Center consists of two mid-rise office buildings totaling approximately 307,000 sf and a parking structure

TENANTS LANDED

- Zenimax: 200 International Cir, 42,000 sf
- PSA Financial: 11311 McCormick Rd, 42,000 sf
- AAI Corporation: 14600 York Rd, 30,000 sf

TENANTS LOOKING

- GE Capital, 30,000 sf
- University of Maryland, 25,000 sf
- Hospice of Baltimore, 20,000 sf
- Office Suites, 20,000 sf
- DeVry University, 20,000 sf

TRENDS

We believe that market conditions in Baltimore County north will face challenges in 2008 due to economic uneasiness and uncertainty. Mortgage and mortgage-related companies vacating space could strain vacancy levels, but to what extent is difficult to predict. Instances of these types of companies closing offices have already been reported. In addition to the potential of spaces coming back to the market, Hunt Valley “A” will deliver 108,000 sf of new office space in June or July at 230 Schilling Circle, which will impact vacancy. The introduction of Schilling will be buoyed somewhat by the pending relocation of PSA Financial (42,000 sf) to 11311 McCormick Road. Also towards the end of the year, 10 North Park Drive will be re-introduced to the market when its largest tenant, KCI Technologies, relocates to its newly constructed building on Ridgebrook Road. We believe that activity for new prospective tenants will be slower, as tenants may elect to remain in their current locations at least for the short term.

“The Hunt Valley “A” market reported the only decrease in vacancy since our last reporting period.”

BALTIMORE COUNTY

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Office / Flex
Baltimore County West

Market conditions on the west side were relatively stagnant during 2007 with vacancy and rental rates generally unchanged and absorption flat.

Baltimore County Office/Flex West	
Market Size	**8,500,000 sf**
Vacancy Rate	**13.6 %**
Avg Rental Rate	**$15.00 - $25.00**
# of Buildings	**166**

As of the first quarter of 2008, the combined vacancy rate for flex and office product in the Baltimore County West submarket is 13.6% for direct deals, and 14.8% (including spaces available) for sub-lease. There is a wide range of product type within the sub-market, from single story flex re-let to new Class "A" office. With regard to the former for example, flex space at Meadows Business Park can be leased for $10.00 psf NNN; whereas newer Class "A" office space at Quarry Lake is leasing from just under $30.00 psf, net of utilities. Towards year end there was an increase in the vacancy rate for Class "A" product. 100 Painters Mill Road, considered to be the best product in Owings Mills, saw an increase in its vacancy rate from 3% in the first quarter of 2007 to 9% at year end. Moreover, General Growth's building at 10461 Mill Run experienced the same trend.

The above notwithstanding, there is even more Class "A" office product becoming available in Owings Mills with two new buildings being offered. The first, at 600 Red Brook, consists of 180,000 sf and the second, at 10925 Boulevard Circle, consists of 60,000 sf. The former is quoted $23.50 psf and the latter $20.00 psf, both net of utilities. Both will be delivered vacant.

SALES OFFERED

- 5601 Metro Dr, $130 psf, 100,000 sf, sale/lease back
- 12400 Owings Mills Blvd, $85 psf, 41,150 sf
- 9800 Reisterstown Rd, $160 psf, 43,750 sf (contract hard; zoning change pending)
- 1726 Whitehead Rd, $124 psf, 37,873 sf

TENANTS LANDED

- LifeBridge: 2700 Quarry Lake Dr, 10,000 sf
- Customer Value Partners: 7275 Windsor Blvd, 14,000 sf
- National City Mortgage: 2800 Quarry Lake Dr, 9,000 sf
- MRI Sales Consultants: 8 Reservoir Cir, 2,100 sf

TENANTS LOOKING

- ADP: 110,000 sf, renewal pending on Red Run Blvd
- CSC/Lockheed: bidding on contract

Closed sales in 2007 have been few and far between; however two deals are currently under contract. United Cerebral Palsy's land at the intersection of Red Run Boulevard and Owings Mills Boulevard is under contract and scheduled to close within sixty days. The asking price is $2.3 million for five (5) acres, with several offers at or above the marketed price. Also in Owings Mills, two of General Growth's office buildings, consisting of just under 400,000 sf and 100% leased to CareFirst, are under contract while the Buyer completes their due diligence.

"If defense contractors grow in the area, the lack of large contiguous spaces... will force tenants towards newer vacant space in Owings Mills."

TRENDS

Future trends for the west side are predicated on activities exhibited in the fourth quarter of 2007, which include downsizing and renegotiating existing transactions. Several mortgage companies have down-sized or closed. Legg Mason will ultimately be among those decreasing its Owings Mills presence once its new facility at the Inner Harbor East is available. One bright note is that if defense contractors grow in the area, the lack of large contiguous spaces in the Rutherford Business Park area (traditionally their preferred location for proximity to CMS), will force tenants towards newer vacant space in Owings Mills.

BALTIMORE COUNTY

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Office
BALTIMORE CITY

CLASS "A"
The Baltimore City Class "A" Office Market has enjoyed stability over the last three years. If anything, there has been a measurable decrease in vacancy. As compared to the fourth quarter 2006 vacancy rate of 17.8%, the fourth quarter 2007 vacancy rate declined to 16.5% and has decreased another 1% to 15.5% since year end. Class "A" leasing activity continued on a steady course during 2007. The new projects of Harbor East and the new and established buildings of the Pratt Street Corridor continue to thrive. From our direct experience at Manekin, LLC, 2007 marked noticeable increases in new tenants to the market as well as closed transactions in Class "A" product.

Baltimore City Class "A"	
Market Size	**9,427,000 sf**
Vacancy Rate	**15.5 %**
Rental Rate	**$21.00 - $31.00 FS**
# of Buildings	**31**

The thirty-one Class "A" buildings in Baltimore City include all tiers of Class "A" product regardless of floor plate, age, or parking accommodations. Located primarily in the CBD and Harbor East, the class can be subdivided into a "premium group," incorporating newer buildings with views of Baltimore's Inner Harbor, larger floor plates and high density parking ratios. Asking rents for premium Class "A" range from $25.00 to $31.00, as opposed to $19.00 to $25.00 for the general Class "A."

As may be expected, the stability and slight improvement in vacancy over the last three years has created very little change in asking rates across all tiers of product. The stability is due in part to upward pressure from the Class "B" Office Market, which significantly diminished in size over the last three years because of conversion to residential condominiums, apartments and hotels. The Class "B" market had traditionally been a very inexpensive alternative for tenants in lower tier Class "A" product. With the alternative gone, tenants are no longer able to trade in to upper tier Class "B" product at significantly reduced rates as was long enjoyed.

SALES CLOSED
- 120 E. Baltimore St, $183 psf, 343,500 sf
- 2 N. Charles St, $93 psf, 220,500

SALES OFFERED
- 20 S. Charles St, 115,000 sf

TENANTS LANDED
- Morgan Stanley: Thames Pier, 156,000 sf
- MD Dept of Economic Development: 401 E. Pratt St, 79,450 sf
- Protiviti: 1 E. Pratt St, 21,150 sf

TRENDS
Although the Class "A" CBD Market has enjoyed stability over the last few years, the recent move of CareFirst and eventual move of Legg Mason and several other large tenants east of the Harbor will begin to soften rental rates.

"Recent...and eventual move[s] of...large tenants east of the Harbor will begin to soften rental rates."

Landlords as well as tenants in the CBD are beginning to pay attention to the several large blocks currently available and that this is the "tip of the iceberg." Unless significant CBD leasing activity occurs within the next twelve months, the vacancies of a few major tenants could put in excess of 650,000 sf of Class "A" office space back on the market by Summer 2009. The additional space has the potential to send vacancy rates into the low to mid twenties (20%-23%).

We recently noticed that many tenants in the 7,000 sf range and above are beginning to seriously investigate the office market as much as 24 months prior to the expiration of their current leases. These early looks will put pressure on their existing landlords to renew them early, exchanging a reduction in rate for an extension in term.

Expect many of the lower tier Class "A" Office buildings to once again break below the $20.00 mark in an effort to stabilize their rent rolls for the next few years. Reduced rates in the lower tier, quality, Class "A" will likely cause more tenants to trade into this product, softening rental rates from top to bottom.


BALTIMORE CITY

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Baltimore City

CLASS “B”

Forty-six buildings totaling 5.4 million sf comprise our Class “B" market survey. There are 1,061,269 sf of vacant space in this tier of product, which reflects a 19.6% vacancy. Although a relatively high vacancy figure, vacancy rates in this class have been in excess of 25% at times over the last ten years. This continually improving vacancy statistic is the result of the conversion of many physically obsolete Class "B" buildings to residential/ hospitality uses over the past few years.

Baltimore City Class “B”	
Market Size	**5,400,000 sf**
Vacancy Rate	**19.6 %**
Rental Rate	**$13.00 - $18.50**
# of Buildings	**46**

The last two years have seen continued erosion of the vacancy rate and steady increase in rental rates. As buildings became available for trade they were seen as conversion targets. The more serviceable office buildings will remain as office product. Several buildings in this class are either for sale, have been purchased, or are under contract.

These sales and conversions will result in the following:

- Energy from new, committed ownership to the area
- Continued erosion of the Class "B" office supply
- Charles, St. Paul and Calvert Street redevelopment
- New retail amenities

All of these factors combine to drive up rental rates, which in turn enhances the value of well managed and maintained Class "B" office product.

The Class "B" market is typified by buildings constructed before the mid 1970's and has some or many of the following conditions:

- Limited or no parking
- Small/inefficient floor plates
- Outdated/inefficient HVAC systems
- Limited capital for improvements
- Location issues
- External/internal deferred maintenance

CONVERSIONS

- The Munsey Bldg: 7 N. Calvert St, Residential
- YMCA Bldg: 300 N. Charles St, Residential
- USF&G Bldg: 20 S. Calvert St, Hampton Inn Suites
- 16 S. Calvert St, Marriott SpringHill Suites
- The Keyser Bldg: 207 E. Redwood St, Hospitality/Hotel (TBD)
- 100 St. Paul St, Office Condominiums

CONVERSIONS (CONTINUED)

- The Jefferson Bldg: 2 E. Fayette St, 50,000 sf, Residential
- The Title Bldg: 110 St. Paul St, 44,000 sf, Hotel
- 301 N. Charles St, 76,000 sf, Residential

SALES OFFERED

- Radio One/Jewelers Bldg: 100 St. Paul St, 60,000 sf

“The last two years have seen continued erosion of the vacancy rate and steady increase in rental rates.”

Rental rates for Class "B" office product are between $13.00 psf to $18.50 psf. The most common rates in this niche will be between $14.00-$16.00 psf. The $17.00-$18.50 psf rates will exist rarely and in only a handful of buildings such as 201 N. Charles Street and 2 N. Charles Street. Both of these buildings have strong institutional ownership and have been redeveloped and well maintained over the last 15 years.

TENANT BASE

The typical Class "B" user in the CBD ranges between 1,000 sf - 5,000 sf. The majority of these tenants, however, do not normally exceed 2,500 sf. The typical user is a small law, accounting, financial management, or architectural firm. Occasionally larger firms will take advantage of the price savings when larger blocks of space become available.

TRENDS

As with the Class "A" Office Market, we see the next six to twenty-four months as a critical period in the Class "B" Office Market. Those factors that created upward pressure over the past twenty-four months, may work in reverse and create vacancy and rental rate deterioration that flows from top to bottom. It will be an important time for Landlords, starting now, to make certain that tenant retention is a priority. This may come at a cost, exchanging rental rate for term, but will keep buildings at current occupancy to weather the questionable times ahead.

Columbia Office / Flex
HOWARD COUNTY

OFFICE

Columbia is strategically located in the Baltimore-Washington Corridor, with excellent access and one of the fastest growing jurisdictions in the region. The Rouse Company (now General Growth Properties) originally designed Columbia as a planned community in the 1960's; commercial space took hold in the 1970's. Today, this submarket is comprised of 12.4 million sf of office space.

Howard County Office (Columbia)	
Market Size	**12,387,034 sf**
Vacancy Rate	**12.1 %**
Avg Rental Rate	**$23.00 - $30.00**
# of Buildings	**262**

Columbia's office market has been showing a slow increase in vacancy from 11% one year ago to the current factor of 12.1%. Columbia South registers the lowest vacancy rate of 12%, while Columbia North is at 19%. Town Center maintains a 13% vacancy.

Across the market, net absorption for 2007 was below the 500,000 sf ten-year annual average with only 366,000 sf. This vacancy has triggered some concessionary factors for lease deals. Tenants are now finding lease packages that include increased tenant improvement allowances, some free rent and moving allowances.

OFFICE DEVELOPMENT
2007 showed an additional 500,000 sf of new space added to the market with another 500,000 sf under construction. Columbia now has a three-year supply of new and existing office space available.

SALES CLOSED

- 8815 Centre Park Dr, $147 psf, 53,765 sf
- 6798 Oak Hall Ln, $149 psf, 33,474 sf
- 6325 Woodside Ct, $134 psf, 38,914 sf

TENANTS LANDED

- Boston Scientific: 6711 Columbia Gateway Dr, 7,653 sf
- Carday Associates: 7130 Columbia Gateway Dr, 10,980 sf
- American Medical Directors Assn: 70 Corporate Ctr, 19,824 sf
- Delmarva Foundation: 6940 Columbia Gateway Dr, 14,659 sf
- Peak Technologies: 10330 Old Columbia Rd, 21,768 sf
- Barton Cotton: 8755 Patuxent Woods Dr, 33,522 sf

RENTAL RATES
Asking rents for office space increased slightly during the past year, averaging $24.38 psf, full service for all office, while Class "A" rates average $25.92 psf. The highest rate of $29.50 psf is found in Columbia Gateway. The overall rental increase is due to higher land and construction costs. Many landlords are now changing their rents from full service to a plus electric form. Electric utility costs have become a volatile factor for rents due to significant increases in the past few years. Another factor for rising rental rates can be attributed to the emergence of Leadership in Energy and Environmental Design (LEED) certified green buildings. The cost associated with this type of environmentally favorable construction adds 2% - 6% to total construction costs. Howard County now requires LEED construction for new office buildings 50,000 sf and greater.

"While some developers are taking a cautionary view... others are forging ahead with the belief that this historically stable market will continue to grow and prosper in the next few years."

TRENDS
While some developers are taking a cautionary view toward the Columbia office market, others are forging ahead with the belief that this historically stable market will continue to grow and prosper in the next few years. The Base Realignment and Closure (BRAC) at Ft. Meade will add 21,000 new jobs to the area in the next few years with the relocation of the Defense Information Systems Agency (DISA). Howard County expects to have 1 million sf of office space absorbed through this process. The bulk of office absorption from DISA contractors, however, will occur in adjacent Anne Arundel County. Columbia's location between Baltimore and Washington and its appealing amenities should help ensure healthy long-term performance.

Howard County

FLEX

The days of new flex development in the Columbia market are behind us. As commercially zoned land in the county becomes scarcer and pricing continues to escalate, the economics no longer accommodate new development of this product type. Land prices are beginning to approach $600,000 per acre, which dictates that land be developed as multi-story office, hotels and retail.

Howard County "A" Flex (Columbia)	
Market Size	**7,569,607 sf**
Vacancy Rate	**8 %**
Avg Rental Rate	**$11.00 - $14.50**
# of Buildings	**139**

Although flex development may be held at bay, demand is in full throttle. Large blocks of flex space continue to be absorbed and at the time of this report, only nine blocks of space greater than 25,000 sf were available for lease in Columbia. Current market activity strongly suggests that this number will shrink before this report reaches your desk.

The Columbia flex market, consisting of 7,569,607 sf, clearly benefits from the current market conditions. Price conscious tenants continue to absorb new space and expand existing locations, while multi-story office product lags. Steady deal velocity is evidenced by General Growth's activity in the Rivers market, BECO's recent flurry of deals in Columbia Gateway and COPT's backfill of the Gateway flex recently given back by American Home Mortgage as a result of the sub-prime debacle. The defense sector has also contributed to the market absorption, with companies such as General Dynamics and L-3 taking down significant chunks of flex space. Existing companies continue to expand and the entrance of additional companies to the market, such as Capitol Office Solutions, further compresses vacancy rates.

TENANTS LOOKING

- Capitol Office Solutions, 50,000 sf
- Geosyntec, 15,000 sf

TENANTS LANDED

- General Dynamics: 7090 Columbia Gateway Dr, 22,000 sf
- Tide Water Engineering: 7161 Columbia Gateway Dr, 14,000 sf
- Crickett Communications: 7100 Columbia Gateway Dr, 14,000 sf
- United Healthcare (Renew): 10200 Old Columbia Rd, 28,601 sf
- Data Direct Networks, Inc. (Renew): 8320 Guilford Rd, 28,217 sf
- L-3: 7142 Columbia Gateway Dr, 42,000 sf

SALES OFFERED

- 9002 Red Branch Rd, $166 psf, 22,770 sf
- 10975 Guilford Rd, $150 psf, 32,000 sf
- 9199 Red Branch Rd, unpriced, 36,203 sf

SALES CLOSED

- 6798 Oak Hall Ln, $149 psf, 33,474 sf
- 8150 and 8160 Lark Brown Rd, $133 psf, 29,633 sf (2 prop)

"The Columbia flex market... clearly benefits from the current market conditions."

TRENDS

Owners of flex properties in the county will see their returns get stronger and stronger over time, as the demand will outpace limited supply. We anticipate that rents ranging from $11.00 NNN for older products to $14.50 NNN in the Columbia Gateway Business Park will experience increases of 5% +/- as tenants renew in 2008 and 2009, as opposed to 3% escalations last year.

HOWARD COUNTY

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HARFORD COUNTY

The commercial real estate market in Harford County has softened with respect to activity between the last quarter of 2007 and the beginning of 2008 due to a supply and demand imbalance. With vacancy rates in the flex market hovering at 5% and no new product on the near horizon, tenants have to either opt for northern Baltimore County or Cecil County to fulfill a flex requirement. The bulk industrial market has essentially been the same of late, with a number of large deals earlier in 2007.

Harford County Office	
Market Size	**2,930,575 sf**
Vacancy Rate	**9.5 %**
Rental Rate	**$13.00 - $18.00 NNN**
# of Buildings	**244**

Harford County Flex	
Market Size	**1,755,357 sf**
Vacancy Rate	**5.0 %**
Rental Rate	**$8.85 NNN**
# of Buildings	**73**

Harford County Industrial	
Market Size	**16,454,257 sf**
Vacancy Rate	**14.5 %**
Rental Rate	**$4.60 NNN**
# of Buildings	**137**

The recurring theme that will continue in every *Square Feet* publication for the next three years is BRAC and its effects upon the market. Currently, those effects are starting to be felt in the office sector as a number of defense contractors begin to seek space for the first time in Harford County. The CECOM unit that will ultimately relocate from Fort Monmouth, NJ brings with it contractors that seek to put the first flag in the ground in Harford County. Manekin's delivery of the third of four buildings at Water's Edge is timely; 40,000 sf is already committed and there is significant activity on the 60,000 sf balance.

TENANTS LOOKING

- CACI, 60,000 sf R&D requirement for early 2009 occupancy

SALES CLOSED

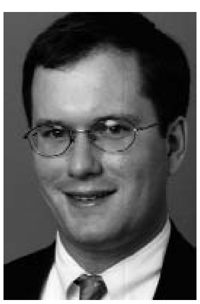
- 100 Walter Ward Blvd, $172 psf, 10,403 sf

TENANTS LANDED

- Cowan Systems: 1007 Old Philadelphia Rd, 125,700 sf
- BMAR: 4694 Millennium Dr, 20,000 sf
- Upper Chesapeake Health: 2027 Pulaski Hwy, 12,030 sf
- Camber Corp: 1369 Brass Mill Rd, 5,400 sf

Corporate Office Properties Trust has announced its plan to break ground in the summer of 2008 with a 3-story, 80,000 sf office building to kick off the project at Northgate Business Park. Ultimately COPT has planned 765,000 +/- total sf. Included in the square footage is a small service retail component of approximately 30,000 sf. This project is highly anticipated in Harford County as COPT has a proven track record of success with the defense industry.

Other big news is the G.A.T.E. project by OPUS. Plans are to deliver a 3-story, 81,000 sf office building and a 60,000 sf R&D building in the summer of 2009. It is anticipated that CACI will occupy the 60,000 sf R&D building, completing the first phase of the R&D project. The mid-rise building will provide an alternative for defense contractors requiring the added security of an on-base location.



HARFORD COUNTY

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Between COPT, OPUS and Manekin, product availability should be sufficient to handle demand for the foreseeable future. Manekin has already built a critical mass occupied by defense contractors and is set to deliver building four at Water's Edge, a 5-story 125,000 sf building slated for delivery in summer, 2009.

"[BRAC] effects are starting to be felt in the office sector."

It can't be said enough what a boon BRAC is for Maryland and Harford County in particular. One of the greatest benefits to the county is the upgrade of the Route 40 corridor, thanks to the development of office parks in anticipation of the BRAC relocation. The added migration of people to the County will also provide an expected boost to the residential and retail markets.

INVESTMENT MARKET

Like a bunch of kids on the side of the swimming pool, no one wants to jump in the cold water first. Many real estate investors, REITs, individuals and the advisory community have taken a *wait and see* approach to 2008 real estate investment.

Many deals from the second half of 2007 remain unsold due to less favorable debt structure and the inability of sellers to revise pricing expectations. Some deals that did not trade in the third and fourth quarters of 2007 may trade at a discount in 2008, or may be recapitalized by current ownership.

Pricing for most assets has become increasingly difficult. Whether CAP rates lifted due to decreased LTV and more stringent lending standards is difficult to say. Deal velocity is down in the eight months since the sub-prime crisis revised lending standards. Without comparable sale CAP rates, buyers determine value by solving for purchase price based on yield requirements, available financing and net income. While pricing is uncertain for value-add opportunities, trophy assets remain un-phased by the current economic landscape. Investors are willing to acquire these core assets based on historic and projected rent growth.

We may be back to valuation based on reasonable yield thresholds.

Leveraged buyers have seen interest rates and equity requirements increase. Although index rates are down, spreads have increased drastically faster and further than the benefit provided by the index decrease. Balance sheet lenders and life companies are not able to make up for the liquidity lost from the CMBS lenders. There have been rumors of a few CMBS lenders back in the market and if their programs are expanded, we may see a more liquid debt market and increased real estate investment in the third and fourth quarters of 2008.

But wait, you say, what about 1031 and all cash buyers? True, 1031 buyers are likely to bid assets up to greater value, but remember the group on the side of the pool. There are not as many sellers, there are not as many 1031's, and no one wants to take the leap.

SALES OFFERED

- Rivers Corporate Center (9 assets), Columbia 280,387 sf, Under Contract
- Sieling Industrial Portfolio (2 assets), Columbia, 220,861 sf, Under Contract
- Suburban Maryland Portfolio (5 diversified assets), Prince George's County and Laurel, 325,653 sf

SALES CLOSED

- 6798 Oak Hall Lane, Columbia (user bldg/condo conversion), 33,474 sf, $149 psf
- 6901 Ritchie Hwy, Glen Burnie (redevelopment), 4.15 acres

SALES PULLED FROM MARKET

- Hillside I & II, Columbia (suburban office), 85,698 sf

"The credit debacle of August 2007 is having a prolonged effect on both buyer and seller psyche."

The credit debacle of August 2007 is having a prolonged effect on both buyer and seller psyche. There is a reduced level of debt capital available for acquiring deals and sentiment needs to change before there is any meaningful increase in transaction velocity.

FORECAST

The first deals scheduled to close in early 2008 will create some momentum and spark life back into the market. Un-levered or low-levered investors will soon return and investment funds will have to deploy their assets. Although fund managers are wary of commercial real estate investment, history will not be re-written. Risk adjusted returns on real estate still remain greater than other investment options; allocations have not been shifted out of real estate.

There will be a great opportunity to acquire the right asset at the right price, but just like you don't want to be the first one to jump in, you also don't want to be the last one standing on the poolside.

INVESTMENT SALES

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Private Practice Ownership of Medical Office Buildings

by Ted Swingle, tswingle@manekin.com, 410-423-2013

Large private practices are increasingly looking for ways to boost profitability by way of out-patient facility ownership. However, bucking the trend of satellite medical office buildings master-leased or owned by a hospital system can be a difficult endeavor. There are many considerations which must be scrutinized by both doctors wishing to take this approach and developers wishing to cater to it.

Manekin is currently constructing the **Greenbelt Ambulatory Care Center**, a 42,300 sf medical office building scheduled for delivery in May 2008. Sixty percent (60%) of the space was pre-committed by orthopedic and pain care specialists prior to construction commencement.

Manekin Healthcare Partners is dedicated to being the premier provider of real estate solutions to the healthcare industry.

FUELING THE TREND

Facility fee reimbursements serve as a major source of income for hospitals, while practitioners are compensated by a comparatively lower professional fee in return for providing the healthcare services. Aside from skyrocketing insurance premiums, the dilemma many doctors face is that professional fees are on a downtrend and Medicare is expected to further cut back on professional fee reimbursements. As a result, more and more private practices are seeking to own their own facility with the notion that they can be reimbursed on both a professional fee and facility fee, as well as capture income and appreciation associated with owning a real estate asset. Established mega-practice groups that own and occupy all or substantially all of the facility are the most viable candidates for this concept. Financial strength gained in large numbers will help curb infrastructure and technology costs and serve to enhance the financial performance of the real estate asset.

BALANCING ACT

Physicians are charged with providing quality healthcare services. Managing real estate does not fall within this scope of work. The ability to better control overhead expenses is a benefit; however building maintenance, property taxes, property insurance and lease-up costs should not be an everyday concern. When doctors use hospital facilities, they receive the benefit of access to hospital nurses, surgery rooms, office space, equipment, billing and administrative resources. Practitioners must quantify the opportunity cost of facility ownership by determining which resources can be developed in-house and which can be contracted through third-party vendors.

Regulatory issues are also a driving force behind these choices in operational and ownership structure. The Stark Laws were enacted by the federal government to prohibit self-referrals and kick-backs received for steering patients to a facility owned by the referring physician. Developers looking to build medical office buildings should familiarize themselves with the Stark Laws and the Maryland self-referral statute.

Private practice groups are very careful not alienate their primary referral base (hospitals). With the continuous advancement in technology and treatment, off-campus surgery centers have become increasingly popular. Various surgical sub-specialties no longer have to be parked on campus or next door to a hospital. The life cycle of a private healthcare practice can reach a mature stage where production no longer mandates hospital sponsorship and if done properly, these physician groups can increase their long-term earnings potential by owning the real estate which houses their practice. Nevertheless, both developers and healthcare providers must be mindful of the regulatory compliance issues arising from facility ownership and how these issues impact the feasibility of off-campus medical office buildings.