



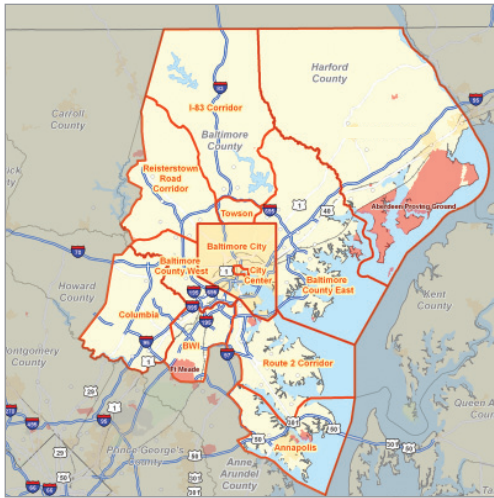
MID-YEAR | 2010

# MacKenzie Market Report

Office Submarkets

MACKENZIE

# Overview



## Quick Stats

Number of Buildings	1,222
Market Size	74,153,824 sf
<b>CHANGE SINCE LAST</b>	
	<b>CURRENT    6 MO    YR</b>
Direct Vacancy	15.35%    ▼    ▲
Vacancy W/ Sublet	16.55%    ▼    ▲
Net Absorption	315,757    ▼    ▲
Avg. Asking Rate	\$22.81    ▼    ▼

## Quarter Highlights

- The influence of BRAC on the region is very apparent with a large number of deals occurring in both the BWI Submarket and Harford County. In the south, these include ITT (22,575 sf) which will focus on information technology training and several defense contractors who are moving into National Business Park. In the north, these include MITRE (54,335 sf), SAIC (13,300 sf), and Mantech (5,914 sf) as well as new office space being leased by Harford County Office of Economic Development which seeks to forge stronger ties to more than 60 organizations at Aberdeen Proving Ground.
- In City Center, the shift from the traditional core toward Harbor East continues. New buildings at 100 International Drive (Legg Mason) and 1300 Thames Street (Morgan Stanley) are leading this transition.

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## Market Outlook

By: Anirban Basu, Sage Policy Group

Undoubtedly, many stakeholders in the Baltimore area commercial real estate market are disappointed that significant improvement in the marketplace remains elusive. After all, the economy has been in recovery since last summer and the Baltimore area has been adding jobs since March 2010. With all the discussion regarding base realignment and cyber-security, one suspects that expectations have been raised.

Though it is true that market conditions have barely improved, at least they are not deteriorating. The direct vacancy rate in the Baltimore area office market stood at 15.3 percent during the second quarter of 2010, a fractional improvement from the 15.4 percent level at year-end 2009.

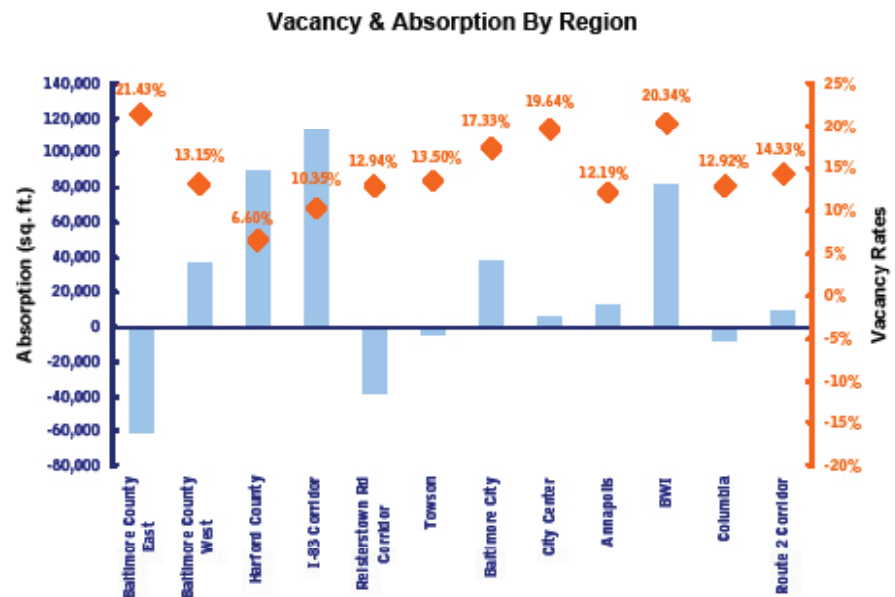
At 12.3 percent, the northern portion of the metropolitan area, which includes Towson, the I-83 Corridor, Harford County, and a handful of other submarkets, boasts the lowest direct vacancy rate (vacancy with sublet is 12.7 percent). Six months ago, direct vacancy in the north stood at nearly 12.9 percent. The northern portion of the metropolitan area was also responsible for fully 50 percent of net office space absorption during the first half of 2010 and is therefore easily enjoying the most vigorous market recovery to date. It may also

be worth noting that of the MacKenzie-defined regions, the northern metropolitan area is associated with the lowest average asking rents.

The submarket associated with the least vigorous office market recovery is Baltimore's City Center. At the end of 2009, direct vacancy in the CBD stood at 18.1 percent. As of the second quarter of 2010, direct vacancy was approaching 20 percent and vacancy with sublet was in excess of 23 percent. Net office space absorption was positive, but minuscule, at 5,334 square feet (sf) year-to-date. That compares unfavorably with +43,700 sf in the remaining portions of Baltimore City, +94,790 sf in the southern metropolitan area (e.g., BWI, Columbia, Annapolis) and +137,081 sf in the northern metro area. ■

## Vacancy & Absorption By Region

■ Vacancy Rates %  
■ Net Absorption



Above: Most areas experienced some degree of positive absorption. The effects of BRAC are evident in both the Harford County and BWI submarkets.

# Overview



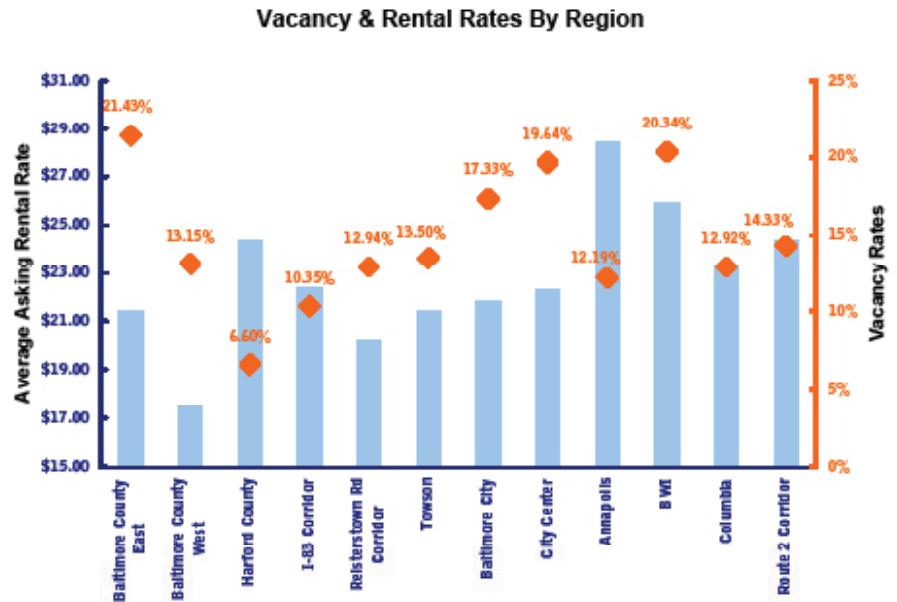
## Quarter Highlights

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- The Centers for Medicare and Medicaid expects to add 200 jobs this year to handle additional responsibilities created by the national health care reform. The federal agency has already issued an RFP looking for an additional 130,000 sf, which will provide a healthy boost to the Baltimore County West submarket in the months ahead.
- Baltimore County East is grappling with the effects of downsizing and consolidations. As part of its consolidation efforts, MedStar Health vacated nearly 11,000 sf at 8140 Corporate Drive and ADP downsized by 5,581 sf at 8094 Sandpiper Circle.
- Activity in the I-83 Corridor has been driven by the financial sector during the first half of 2010. 10 North Park Drive welcomed two new tenants: State Auto Financial Corporation (21,000 sf) and Hewitt Associates (31,945 sf). New York Life Insurance Company moved into 1954 Greenspring Drive, occupying 19,154 sf, First Home Mortgage moved into 9,064 sf at 375 West Padonia Road, and PSA Financial Center moved into 7,959 sf at 11311 McCormick Road.
- With many developers hesitant to build speculatively, a number of build-to-suit opportunities are being explored by larger users in areas such as Sparks (Ridgebrook Road and Loveton Circle) and Hunt Valley (Schilling Circle and Wight Avenue), in the I-83 Corridor.
- The Reisterstown Road Corridor will be transformed over the next several years, as two very large users move out of the area: Solo Cup announced plans to close its Owings Mills manufacturing facility in two years and eliminate 540 jobs, ending an operation that has been in Baltimore County for more than eight decades. The 18.7 acre site with 2 million square feet (msf) of manufacturing and distribution space is currently being marketed for sale, and may take years to be redeveloped. Biopharmaceutical company Shire plans to close its Owings Mills plant by the end of the year and lay off 260 workers. This 26 acre site is also for sale and may be a candidate for redevelopment as it is unlikely a pharmaceutical company will acquire the property and take advantage of the specialized improvements.

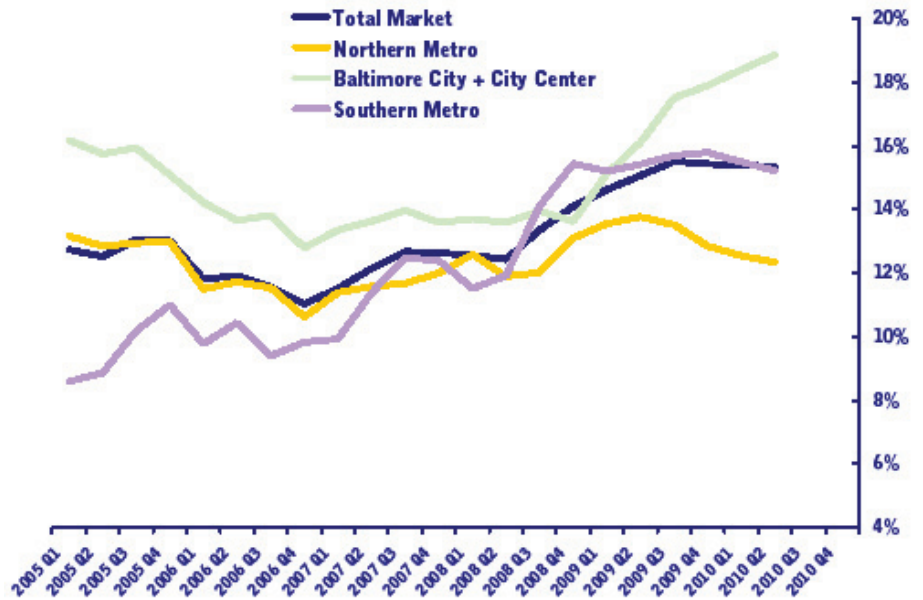
## Vacancy & Rental Rates By Region

■ Vacancy Rates %  
■ Rental Rates



Above: Despite a decline in rents for many areas, Baltimore's Southern Metro Market continues to maintain higher rents than the rest of the region.

## Historical Vacancy Rates



Above: After dropping to five year lows in late 2006 and rising steadily since, Total Market vacancy is showing some signs of stabilizing. Baltimore City's vacancy is rising to unprecedented levels, while the Northern Metro Market, which has a limited supply of inventory, is feeling the benefits of BRAC.



## Notable Transactions

### Lease

\*(r) Renewal

\*\*(sub) Sublease

Location	Submarket	Tenant	Amount Leased SF
100 Light St	City Center	Ober/Kaler	92,778
3120 Lord Baltimore Dr	Baltimore County West	Computer Sciences Corporation	69,807 (r)
209 W. Fayette St	City Center	US Department of Veterans Affairs	63,824
4696 Millennium Dr	Harford County	ManTech International Corporation	63,000
10 E. Baltimore St	City Center	Maryland Worker's Compensation Commission	52,360 (r)
7229 Parkway Dr	BWI	Computer Sciences Corporation	42,681 (r) (exp)
11350 McCormick Rd	I-83 Corridor	Practice Management Partners, Inc.	33,427 (r)
10 N. Park Dr	I-83 Corridor	Hewitt Associates	31,945
855 N. Wolfe St	Baltimore City North	The Lieber Institute for Brain Development	30,000
210 Research Blvd	Harford County	Northrop Grumman	27,472
2691 Technology Dr	BWI	Northrop Grumman	26,149
7556 Teague Rd	BWI	ITT	22,575

### Sale

Location	Submarket	Price	PSF	Building Size SF
175 Admiral Cochrane Dr	Annapolis	\$10,000,000	\$178.72	55,954
333 Cassell Dr	Baltimore City East	\$29,250,000	\$288.50	101,386
3910 Keswick Rd	Baltimore City North	\$14,795,000	\$32.02	462,000
700 Geipe Rd	Baltimore County West	\$10,400,000	\$129.53	80,293
108 Forbes St	Annapolis	\$3,750,000	\$252.63	14,844

\* All information furnished regarding property for sale, rent, exchange or financing is from sources deemed reliable. No representation is made as to the accuracy thereof and all such information is submitted subject to errors, omissions, or changes in conditions, prior sale, lease or withdrawal without notice. All information should be verified to the satisfaction of the person relying thereon. Portions of the base statistics are from CoStar Property data. Data as of 6/2010.

