



FIRST QUARTER | 2015

MacKenzie Market Report

Office Market

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BALTIMORE OFFICE OVERVIEW

FIRST QUARTER | 2015



Baltimore Office Market Recovery Stalls

Absorption Slips, Asking Rents Stagnant

Presented by Anirban Basu, Sage Policy Group

Since the Great Recession ended, the pace of recovery in Baltimore's office market can be characterized with one word: grinding. But it has been a recovery. Net absorption has been generally positive with quarter to quarter and office vacancy rates edging lower.

If macroeconomic data characterizing regional performance are to be believed, the pace of office market recovery should be accelerating. According to the Bureau of Labor Statistics (BLS), Maryland added just 5,700 nonfarm jobs between February 2013 and February 2014. Over the following twelve-month period, the state added 46,000 jobs. In the Baltimore metropolitan area, the pace of job creation accelerated from 1,600 jobs added between February 2013 and February 2014 to 26,200 jobs added from February 2014 to February 2015.

The improvement in performance can be observed in the professional and business services segment, a heavy user of office space. Between February 2013 and February 2014, this segment of Maryland's economy added 2,300 positions. Over the following year, BLS reports this segment added 10,000 positions on net. While these data are subject to revisions and have unquestionably been impacted by meteorological forces, there are other indications of improving economic performance in the Free State.

Little of this improvement is reflected in the latest office market statistics. According to MacKenzie Commercial Real Estate Services' data, the Baltimore metropolitan area office suffered negative net absorption of 45,177 sf during the first quarter of 2015. Direct vacancy, which stood at 14.5 percent a year ago, now stands at 14.3 percent. Vacancy with sublet fell to 14.7 percent in first quarter.

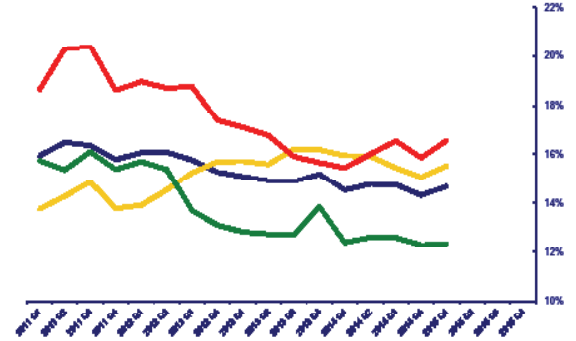
Northern Metro statistics are most closely associated with a lack of progress in terms of office market recovery. During the first three months of the year, the Northern Metro area recorded negative net absorption exceeding 60,000 square feet. Baltimore City also performed poorly with negative net absorption nearing 6,000 square feet.

The most significant exception was City Center Class A+ space, which continues to experience positive net absorption and where asking rents are up by roughly \$2.70 per square foot over the past year.

In suburban markets, the most significant amount of positive net absorption occurred in the BWI submarket, which net absorbed nearly 75,000 square feet during 2015's initial quarter. Asking rent around BWI continues to edge higher. The opposite is true in Columbia. Asking rent is slightly below the year-ago level in Columbia, with the market sustaining more than 50,000 square feet of negative net absorption over the past quarter.

For now the regional economic outlook remains positive. Development activity has picked up in most real estate segments. One presumes that eventually, the ongoing economic recovery will translate into better office market dynamics.

Historical Vacancy Rates



QUICK STATS

14.31%
VACANCY RATE

-50,969
ABSORPTION

\$22.29
AVG. RENTAL RATE

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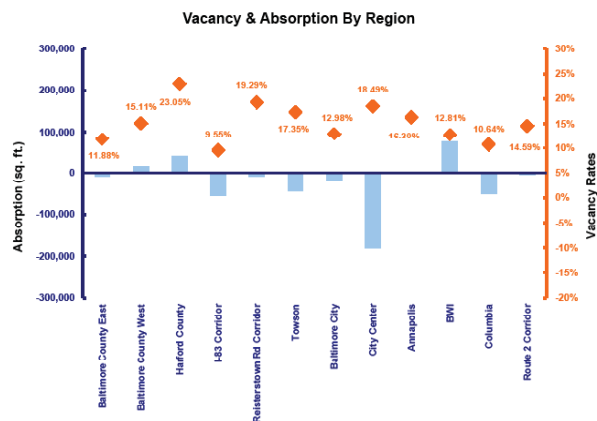
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ABSORPTION/VACANCY RATES

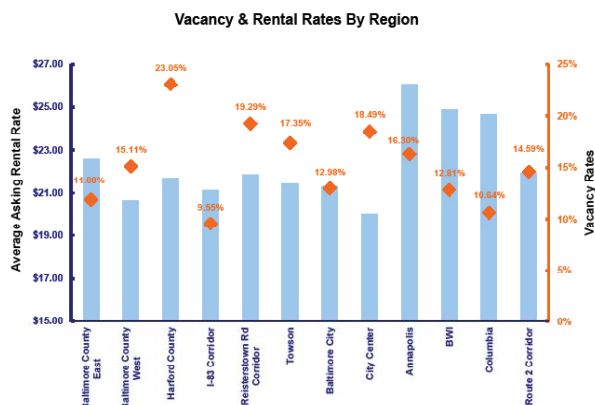
Vacancy Rates %
Absorption Rates



Steady activity throughout the market during the first quarter of 2015 kept vacancy rates at 14.31%, unchanged from the fourth quarter 2014 rate. Modest absorptions in BWI, City Center A+, and the Harford County submarkets were offset by the negative absorption in the overall Northern Metro, finishing the quarter at -50,969 square feet. This is drastically less than the positive 333,921 square feet the overall market witnessed during the fourth quarter 2014.

RENTAL RATE/VACANCY RATES

Vacancy Rates %
Rental Rates



Average rental rates for the Baltimore Office market remained relatively unchanged, increasing overall by only \$0.26. Submarkets that experienced the strongest increases in rental rates included Baltimore City South (\$1.09), Annapolis (\$2.05), and the Route 2 Corridor (\$1.36). Remaining submarkets fluctuated on average by \$0.38 in either direction. The Southern Metro (Annapolis, BWI, Columbia, and Route 2 Corridor) continues to have the highest average rental rate, \$24.82.

HIGHLIGHTS

- iJet consolidated from three locations to one, 32,000 sf of space at 185 Admiral Cochrane Drive
- Inovalon vacated 50,000 sf at 180 Admiral Cochrane Drive and moved operations to Bowie, MD
- St. John Properties delivered three new buildings totaling more than 123,000 sf in Annapolis; two flex buildings and one office building
- University of Maryland Faculty Physicians signed a lease for 34,500 sf at 5900 Waterloo Crossing in Columbia
- 999 Corporate Boulevard was purchased at auction by developer Heritage Properties
- 250 W. Pratt Street sold to Columbia-based COPT

- Pittsburgh-based PWA Real Estate purchased 300 E. Lombard
- Columbia Crescent in Town Center reached the halfway point toward approval for the market's first 15- to 20-story buildings in Town Center
- Insurance, Inc. leased 11,000 sf at BECO Towers
- Caves Valley Partners started demolition for its Towson Row Project; Whole Foods Market signed as lead tenant
- Columbia Association signed a lease for 32,000 sf at 6310 Hillside Court, their new headquarter location
- General Dynamics signed a lease for 40,000 sf at 400 Hickory Drive, Aberdeen



Number of Buildings	1,221
Market Size	76,064,239 sf

Criteria: MacKenzie tracks buildings that meet the following requirements and identifies these buildings as true reflectors of commercial real estate activity within the Baltimore Metropolitan Statistical Market (MSA). Office: Buildings 15,000 square feet (sf) in size and greater in the Metro areas within Anne Arundel County, Baltimore City, Baltimore County, and Howard County, buildings 20,000 sf in size and greater within Baltimore's City Center, buildings 10,000 sf in size and greater in the Metro areas within Harford County, and buildings 5,000 sf in size and greater within Annapolis city limits. MacKenzie does not track owner occupied buildings or buildings lease exclusively to medical tenants.

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MacKenzie Market Report

Office Submarkets

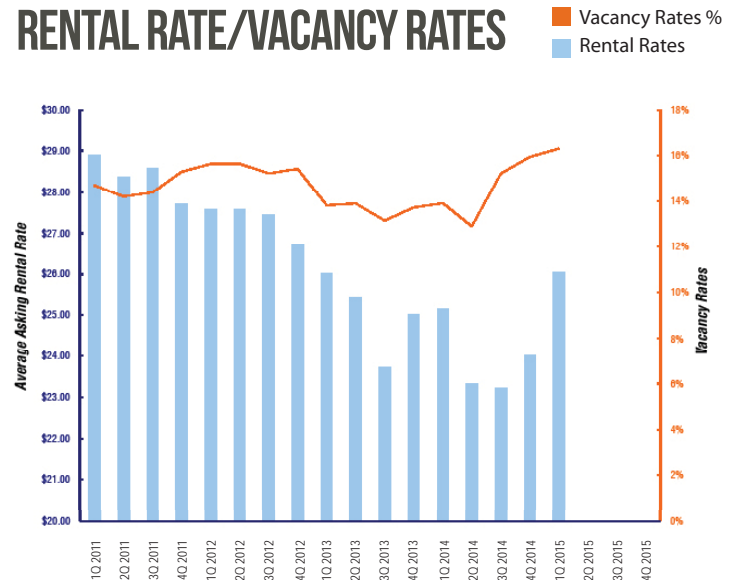
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"The Annapolis submarket continues to perform well above the other Baltimore Metropolitan submarkets. This quarter we saw an increased amount of leasing activity that brought an influx of financial service firms, mortgage, real estate, technology companies, and fast casual restaurants to the area with Class A rents continuing to climb north of \$30.00. Activity of note: iJet consolidated from three locations to one, 32,000 sf at 185 Admiral Cochrane Drive, Inovalon moved to Bowie vacating in excess of 50,000 sf at 180 Admiral Cochrane Drive, and St. John Properties will be delivering three new buildings totaling more than 123,170 sf – two, one-story flex and one, two-story office building."

- Trish Farrell
Vice President

RENTAL RATE/VACANCY RATES



QUICK STATS

16.3%
VACANCY RATE

Two sizeable vacancies on Admiral Cochrane Drive and West Road nudged the overall vacancy rate 0.36 percent higher from the 4th Quarter of 2014's average of 15.94 percent; the highest level in more than a decade. The losses offset strong gains at 185 Admiral Cochrane Drive, Braverton Road and Harry S. Truman Parkway.

-2,845
ABSORPTION

Leasing activity throughout the submarket will offset losses this quarter as tenants such as Plan B, Global Vision Group, and Living Oceans take occupancy of their space in the 2nd and 3rd Quarters of 2015.

\$26.06
AVG. RENTAL RATE

Average rental rates for the submarket leapt approximately \$2.05 per square foot over the quarter to regain top placement within the Baltimore submarkets. The area has enjoyed average rental rates in the mid to high \$20's since 2007.



Number of Buildings	135
Market Size	3,929,615 sf

Overview: The State Capital of Maryland and the county seat of Anne Arundel County, Annapolis is situated on the Severn River. The office submarket is bounded by I-97 to the east, South River to the south, and includes the Route 50/301 corridor on both sides of the Severn River. Designated a "Central City" by the United States Department of Housing and Urban Development, the submarket is driven by a combination of government and tourism. This diverse blend of businesses is evidenced by the area's landscape which is comprised of an equal mix of historically significant buildings dating to the late 1600s and newer mixed-use lifestyle centers that have emerged over the last decade. Over the last ten years, the United States Naval Academy along with the area's tourism and maritime industries have drawn the attention of firms looking for a more relaxed lifestyle for their employees. Steady growth in multiple sectors including healthcare, intelligence, and defense industries continue to drive market activity. Close proximity to major markets, the area is within 30 miles of both Baltimore and Washington, DC, has also proved beneficial in expanding the submarket's boundaries.

BALTIMORE CITY*

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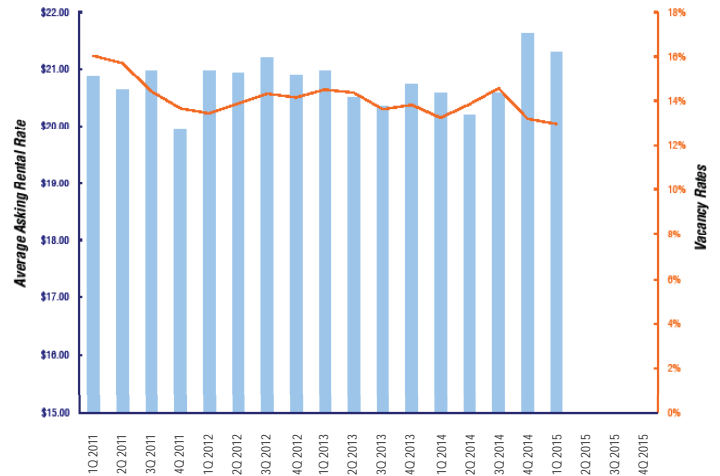


"There was little leasing activity in the Baltimore City Market for the 1st Quarter of 2015 resulting in a negative 20,290 square foot absorption rate for the quarter. Projects such as the Rotunda expansion in the Baltimore City North submarket and Stadium Square in the Baltimore City South submarket continue the trend towards the "live work" developments in non-traditional office markets. Activity levels in the office market picked up during the 1st Quarter which should result in a positive net absorption by year-end 2015."

- Jim Grieves
Vice President

RENTAL RATE/VACANCY RATES

Vacancy Rates %
Rental Rates



QUICK STATS

12.98%
VACANCY RATE

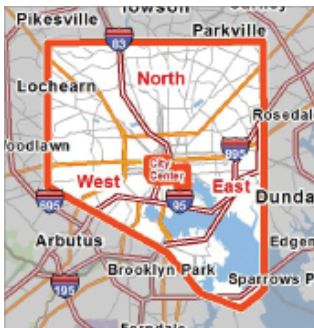
With exception to the Westside of Baltimore City, the average vacancy rate stands at 25.81%, overall vacancy within the City remains healthy with rates near or below 10%; East (8.62%), Midtown (10.78%), North (10.94%), and South (3.01%).

-20,290
ABSORPTION

Positive activity in the Midtown (11,321 sf) and West (12,460 sf) markets were offset by minor losses in the East (-11,627 sf), North (-24,021 sf), and South (-8,423 sf) markets.

\$21.29
AVG. RENTAL RATE

Average asking rental rates throughout the submarket remained steady over the quarter and approximately \$0.71 psf higher over the same period one year ago with the exception of the South market which saw a staggering \$9.51 psf drop from the 1st Quarter of 2014's average of \$31.33 psf.



Number of Buildings	99
Market Size	1,019,387 sf

Overview: Baltimore City is located 38 miles north of Washington, DC and 95 miles south of Philadelphia. This submarket is divided into four main areas: Midtown, which is bounded by Centre Street to the south, I-83 to the east, Martin Luther King Jr. Boulevard to the west, and North Avenue to the north; Baltimore City North, which encompasses the remaining area north of Route 40; and Baltimore City East and Baltimore City West, which are south of Route 40 and separated by Hanover Street which runs north-south. Ranking 20th in population for U.S. Cities, Baltimore City is home to the world-renowned Johns Hopkins Hospital and School of Medicine and sports apparel giant Under Armour. Coupled with major investments by The University of Maryland Medical System in cooperation with the City, all are in the process of redefining Baltimore City's broader landscape. Further private redevelopments in Baltimore City's historic Midtown and North submarket buildings have also garnered interest as the City seeks to increase its residential population by attracting a highly educated and mobile workforce that seeks a live/work/play lifestyle. In response, growth in Baltimore's biotech parks and entrepreneurial incubators are helping Baltimore emerge as a technology hub.

*NOTE: The Baltimore City submarket does not include the City's central business district, which is a distinctly different submarket called City Center.

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BALTIMORE COUNTY EAST

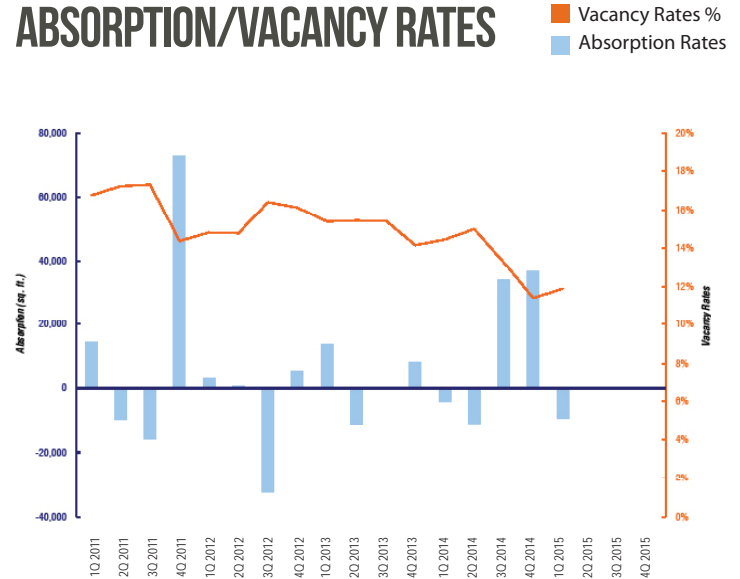
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"After several quarters of slow and steady growth, the Baltimore County East market experienced a slight uptick in overall vacancy and slight decrease in asking rental rates during the 1st Quarter of 2015. This could serve as an indication that the market has leveled out. Keep a lookout for medical-driven tenants including mainstay MedStar and also several other regional hospitals and smaller independent practices making a play for the market. Small and independent businesses continue to occupy space as has been the norm for the Baltimore County East market. With the recent addition of many new landlords, most recently Hill Management and Legum Development, increased competition has been created for what was once a one-landlord market. Landlords are becoming more aggressive in attracting tenants to their buildings."

- Meghan Roy
Vice President

ABSORPTION/VACANCY RATES



QUICK STATS

11.88%
VACANCY RATE

Slightly down from the 4th Quarter 2014 rate of 11.40%, in the past year the market has experienced a decrease of 2.57% from the 1st Quarter of 2014 rate of 14.45%. The Baltimore County East submarket currently enjoys a healthy 11.88% vacancy rate.

-9,292
ABSORPTION

Positive activity at St. Johns Properties Williams Court was offset by losses along Joppa Road as a large chunk of space came available at 4111 E. Joppa Road. Strong leasing activity driven by Franklin Square Hospital was seen at Ridge Road and Franklin Square Drive.

\$22.60
AVG. RENTAL RATE

Average rental rates decreased slightly from last quarter's \$23.11 average; however, rates remain above the \$21.10 quoted this quarter last year.



Number of Buildings	56
Market Size	1,972,453 sf

Overview: The Eastern Baltimore County submarket is home to a diverse business community, including some of the region's largest manufacturers such as GM Power Train, Middle River Aircraft Systems, Lockheed Martin, Signode, and ISG Sparrows Point. An integrated transportation network links Dundalk, Essex, Middle River, and Rosedale to I-95, I-695, Baltimore/Washington Thurgood Marshall International Airport, and Martin State Airport. MARC commuter rail is available in Middle River. Anchored by White Marsh, a planned 2,000 acre mixed-use community adjacent to I-95, and close proximity to Aberdeen Proving Ground, the U.S. Army's oldest military proving ground, has helped the Baltimore County East submarket grow substantially over the last decade as more than \$800 million in private, state, and county investment in infrastructure, parks, schools, and housing has encouraged employment-intensive development throughout the submarket. Notable investments in new office, flex, and industrial opportunities by regional developer Corporate Office Properties Trust (COPT) and Franklin Square Hospital are expected to add an approximate 700,000 sf of additional office space to the submarket in the coming years.

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BALTIMORE COUNTY WEST

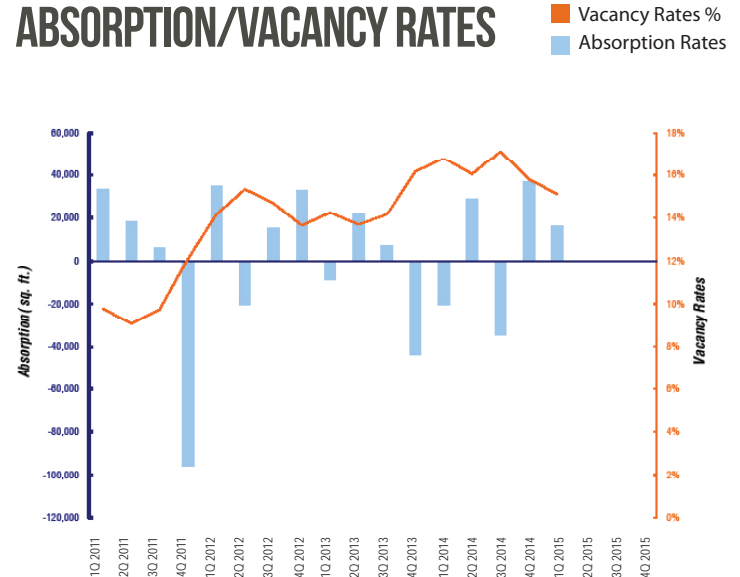
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"Positive and steady activity continued into the 1st Quarter of 2015 for the Baltimore County West submarket. The trend seen during the 3rd and 4th Quarters of 2014, activity spilling over from surrounding submarkets, or rather "trickle down real estate", continued: BWI, Columbia, Baltimore City, and the strongest being Reisterstown Road. The strength of the Reisterstown Road submarket should begin fueling leasing activity for the Woodlawn portion of the Baltimore County West submarket, decreasing vacancy and driving rental rates upward."

- Katy Hayes
Marketing Director

ABSORPTION/VACANCY RATES



QUICK STATS

15.11%
VACANCY RATE

The Baltimore County West submarket continues to experience slight decline in vacancy, down 0.7% from last quarter and 1.68% since first quarter 2014.

16,336
ABSORPTION

Baltimore County West experienced another quarter of positive absorption, 16,336 sf. Contributing factors included strong leasing activity at 2811 and 3100 Lord Baltimore Drive and 700 Geipe Road.

\$20.65
AVG. RENTAL RATE

For eight consecutive quarters, average rental rates for the Baltimore County West submarket have hovered around the \$20.00 mark. This quarter they increased slightly by \$0.52 per square foot from the 4th Quarter's average of \$20.13.



Number of Buildings	68
Market Size	3,200,099 sf

Overview: Baltimore County West is comprised of three unincorporated, census designated communities: Woodlawn, Catonsville, and Arbutus/Halethorpe. The submarket is adjacent to Baltimore City, and bordered by Howard County to the west, and Anne Arundel County to the south. I-70 and I-695 provide easy access to Towson, the Baltimore/Washington Thurgood Marshall International Airport, and Frederick and Montgomery Counties. Home to the headquarters of the Social Security Administration (SSA) as well as The Centers for Medicare and Medicaid Services, two of the largest employers in the State of Maryland, the Woodlawn submarket is driven heavily by government related activity. The area is often informally referred to as Security, Maryland, due to the importance of the SSA's headquarters as well as nearby Security Boulevard (Maryland Route 122) and Security Square Mall. Woodlawn has been designated an Enterprise Zone by the State of Maryland Business and Economic Development.

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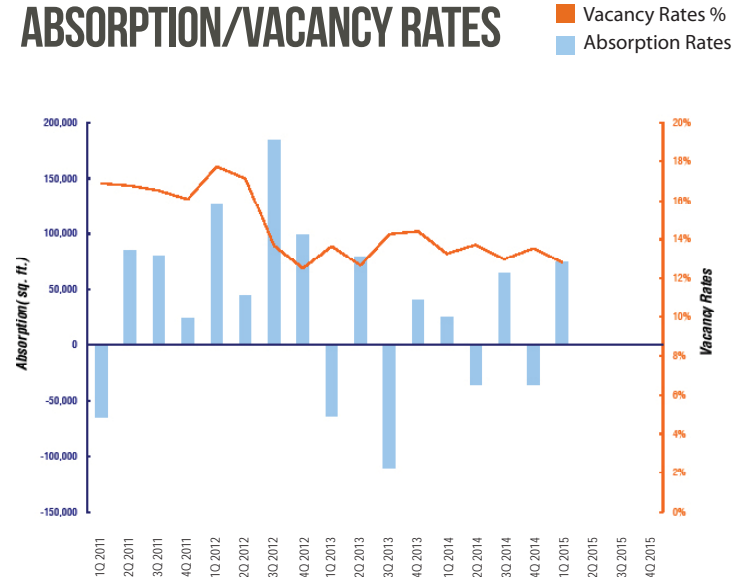
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"The vacancy rate in the BWI submarket dropped slightly in the 1st Quarter after a relatively flat 2014. Activity is driven by the federal government, Fort Meade, NSA, Cyber Command, and its defense/cyber contractors and technology firms. New construction continues in the proximity of Arundel Mills (Arundel Preserve), and Fort Meade, but just to the north, Airport Square continues to languish. 999 Corporate Boulevard was purchased at auction by venerable Baltimore County developer Heritage Properties, and it is anticipated that the new perspective should improve the vacancy rates of at least that building. Further, it was recently announced that Columbia Property Trust will be selling the headquarters buildings for Northrup Grumman's Electronics Systems Sector in Airport Square. Only time will tell if the draw of a credit tenant will overcome weak statistics in that portion of the submarket."

- Chris Bennett
Executive Vice President/Principal

ABSORPTION/VACANCY RATES



QUICK STATS

12.81%
VACANCY RATE

Vacancy rates for the BWI submarket experienced a slight decrease of 0.73% from the 4th Quarter's 13.54%.

74,566
ABSORPTION

Strong leasing activity at Ridge Road, International Drive, and Deerpath Road locations resulted in a positive absorption of 74,566 sf for the 1st Quarter 2015.

\$24.91
AVG. RENTAL RATE

Among the highest in the Baltimore region, BWI's average rental rates continue to stand around the mid-twenties, increasing this quarter by \$0.23 from the 4th Quarter's \$24.57.



Number of Buildings	110
Market Size	8,813,685 sf

Overview: Located in northern Anne Arundel County, just south of Baltimore, the BWI Office submarket surrounds Baltimore/Washington International Thurgood Marshall Airport and includes Glen Burnie, Linthicum, Hanover, and several smaller business districts. The area, which is home to the National Security Agency and Fort George Meade, is supported by a diverse set of economic drivers including world class private sector employers, telecommunications, health care, retail and distribution operations, and a rapidly expanding information and defense industry including eight of the top 10 defense contractors in the nation. Over the past 30 years, the BWI submarket has transformed as technology and intelligence communities take advantage of the submarket's close proximity to Fort Meade and major metropolitan markets in Baltimore and Washington, DC, growing total office inventory to nearly 9 million sf (msf) of office space.

CITY CENTER

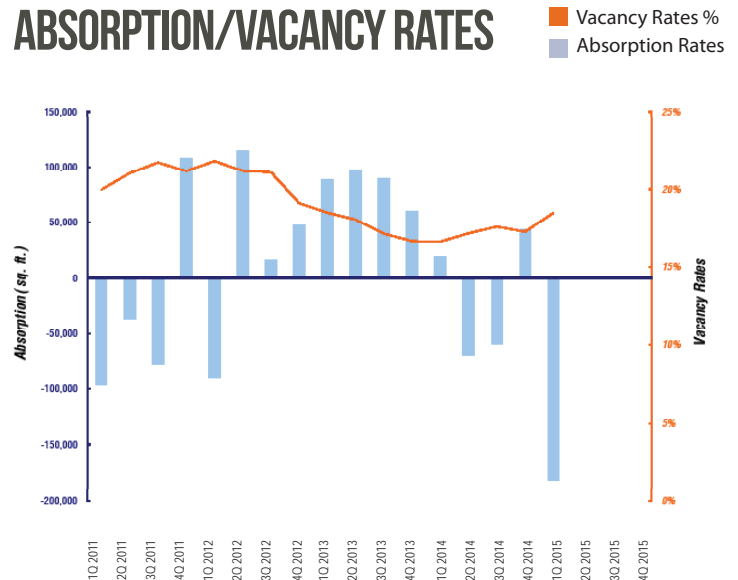
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"There was major sale activity in the 1st Quarter of 2015 as two A class buildings are now under new ownership. 250 W. Pratt Street sold to Columbia-based Corporate Office Properties Trust and Pittsburgh-based PWA Real Estate bought 300 E. Lombard Street. While we saw overall vacancy reduce slightly in the 1st Quarter reaching 16.59%, flight to quality buildings continues and has kept A+ buildings in the City Center at a healthy 7.22% vacant. Keep an eye out for the 1 Light Street project as M&T Bank plans to relocate into 155,000 sf of office space at the mixed-use development."

- Matt Curran
Real Estate Advisor

ABSORPTION/VACANCY RATES



QUICK STATS

16.59%
VACANCY RATE

Direct vacancy for the City Center submarket remained relatively unchanged, dropping 0.67% from the 4th Quarter 2014 rate of 17.26%.

14,498
ABSORPTION

Strong absorption activity in Class A+ buildings, 22,087 sf, helped diminish minor losses in Class B and B+ to finish the quarter on a positive note.

\$20.25
AVG. RENTAL RATE

Average rental rates for Class A+ space continues to be the highest in the Baltimore region commanding approximately \$28.27 per square foot. Average for the rest of the submarket remained steady from last quarter, deviating only an average of \$0.11 either direction: Class A (\$23.28), Class B+ (\$18.19), and Class B (\$16.41)



Number of Buildings	77
Market Size	14,120,860 sf

Overview: As the downtown district of Baltimore City, the City Center submarket is defined by Broadway Street to the east, Martin Luther King Jr. Boulevard to the west, Centre Street to the north, and Cross Street to the south. City Center is Baltimore's dense Central Business District and easily accessible to both I-95 and 295. Baltimore's City Center continues to expand eastward along the water's edge to include Harbor East and the hotly debated Harbor Point. Total office inventory is nearly 14.5 million square feet (msf). Drawn to City Center for its water views and amenities including Oriole Park at Camden Yards, M&T Bank Stadium, as well as easy access to a variety of ethnic restaurants, shops, and residences, Baltimore's City Center is a diverse mix of old and new. In 2011, The Downtown Partnership unveiled an ambitious proposal to transform the Central Business District's landscape to include \$100 million in new parks and public plazas adding up to revitalization of Baltimore's urban core. Major projects for the Inner Harbor, Charles Center, and west side are expected to generate new opportunities and encourage private growth.

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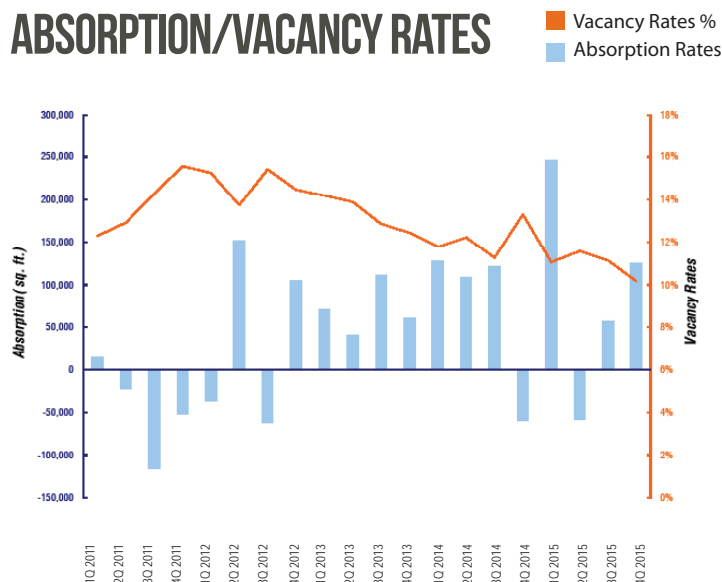
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"Columbia continues to benefit by offering a high quality product, easy access from all directions, excellent amenities, and quality of life. Overall, activity is good with major absorption at Maple Lawn, new projects under way in Town Center, and steady leasing across all product types. Columbia Crescent in Town Center is creating a buzz as it reaches the halfway point toward approval for the market's first 15- to 20-story buildings in Town Center. Local authorities are supporting a major repositioning of this market as a national corporate destination which bodes well for long-term growth and stability across product lines."

- Bethany Hobbs
Real Estate Advisor

ABSORPTION/VACANCY RATES



QUICK STATS

10.64%
VACANCY RATE

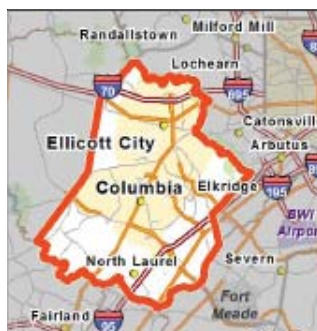
The largest of the submarkets, Columbia's direct vacancy remains the lowest in the Southern Metro, even with a slight increase this past quarter of 0.46%.

-50.615
ABSORPTION

After a year of decreasing vacancy and rising rents, the Columbia submarket recently saw a few exits. These were mostly small and mid-sized firms of which a significant number were government contractors. This includes all contractors, not just defense which is well represented in the area.

\$24.66
AVG. RENTAL RATE

Continuing competition with neighboring Annapolis and BWI submarkets for the top billing spot in the Southern Metro, Columbia's average rental rate remained relatively unchanged, inching slightly from the 4th Quarter amount of \$24.50.



Number of Buildings	228
Market Size	13,385,839 sf

Overview: Located between Baltimore and Washington, DC in Howard County, Columbia offers convenient access to Annapolis, the Chesapeake Bay, and three international and regional airports. Commuter and bus services and the MARC commuter rail system are available to residents and businesses. Routinely recognized by national news organizations for its highly educated labor pool, the Columbia submarket boasts one of the largest concentrations of corporate, political, and financial centers outside of Washington, DC. Its long history of diversity and abundance of premier retail and recreational amenities has helped the Columbia market remain the largest within the Baltimore Metropolitan Statistical Area (MSA).

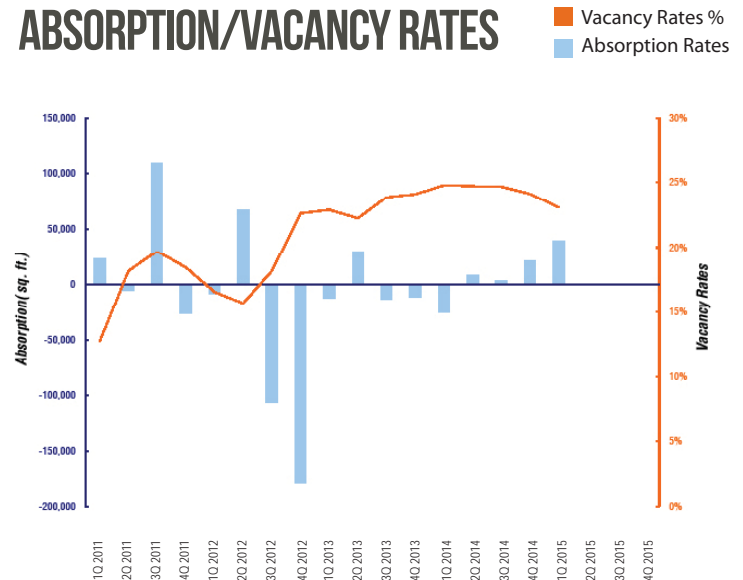




"It is most accurate to analyze Harford County by dividing into two markets: Aberdeen and the Route 24 Corridor. The high vacancy noted below continues to be a direct result from the lack of activity in Aberdeen due to BRAC which never reached its full potential that we were all lead to believe would materialize. Class A office buildings that were built on spec remain vacant or at best, partially filled. The Route 24 Corridor on the other hand has been active with office and industrial/warehouse activity more than steady, producing a vacancy rate of 15% which is more in line with the total metro area."

- Beetle Smith
Vice President

ABSORPTION/VACANCY RATES



QUICK STATS

23.05%
VACANCY RATE

Having decreased slightly more than a full percentage point since the 4th Quarter 2014, high vacancy rates continue as office buildings in the Aberdeen area remain vacant or only partially filled from the lack of BRAC activity once predicted for the area.

38,936
ABSORPTION

Steady activity within the market lends to a second consecutive quarter of positive absorption. Contributing deals included BRAC related activity at Guardian Gateway and Millennium Drive and leases at both 98 and 129 Industry Lane.

\$21.69
AVG. RENTAL RATE

A decrease of \$1.37 from the 4th Quarter 2014 amount of \$23.06 removes Harford County from first place for highest rental rate in the Northern Metro markets, falling third to Baltimore County East and Reisterstown Road Corridor respectively.



Number of Buildings	106
Market Size	3,690,255 sf

Overview: Harford County is located along the I-95 Corridor just 23 miles north of Baltimore. Harford's major business districts fall within the County's Development Envelope and include Bel Air, the county seat, Aberdeen, Havre de Grace, Riverside, Joppa, and Edgewood. I-95, U.S. Route 1, U.S. Route 40, and Maryland 24, traverse the County providing easy access to its more than 20 business parks including Box Hill Corporate Center, Water's Edge Corporate Campus, The GATE at Aberdeen Proving Ground, North Gate Business Park, and the HEAT Center. The U.S. Army's Aberdeen Proving Ground (APG) is an economic generator for the region and the County's largest employer with more than 13,000 employees. As a result of the recent military Base Realignment and Closure (BRAC) process, APG is the fastest growing area in Harford County.

I-83 CORRIDOR

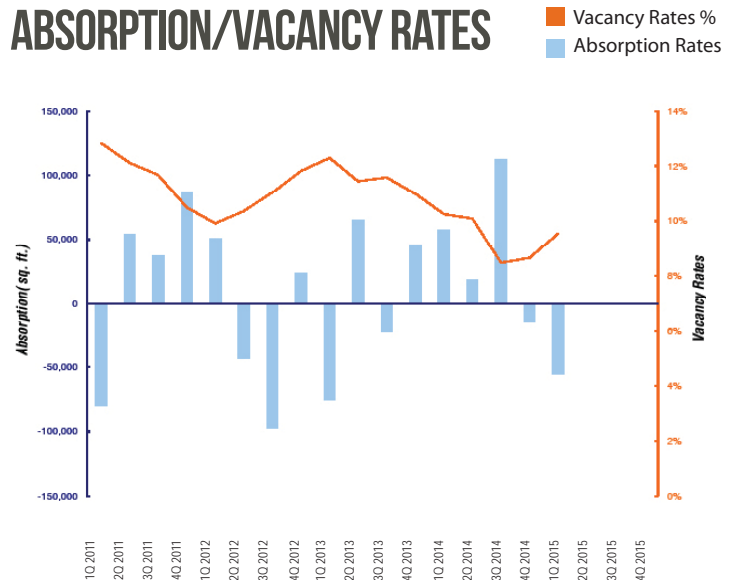
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"The I-83 Corridor remained strong through the last quarter and the expectation is that it will perform well all year with rents ticking upward. There is new development and redevelopment activity in the northernmost areas of the corridor, with US Lacrosse developing their new headquarters, Kelly Insurance opening the doors to their new facility, and development interest on both Wight Avenue and Shawan Road with larger users in the market. Rents will remain strong and vacancy will likely continue to decline to follow the trend of the last three years."

- Matt Mueller
Vice President

ABSORPTION/VACANCY RATES



QUICK STATS

9.55%
VACANCY RATE

Direct vacancy within the I-83 Corridor increased almost one full percentage point from the 4th Quarter 2014 rate of 8.66%. With this increase, industry professionals continue to view the I-83 Corridor as "healthy," having remained under the 10% mark for a third consecutive quarter and consistently lower vacancy rates than neighboring Northern Metro submarkets.

-55,014
ABSORPTION

The submarket witnessed a negative 55,014 absorption due in part to a large retail tenant vacating a C class office space in Timonium.

\$21.13
AVG. RENTAL RATE

Rental rates for the I-83 Corridor increased by \$0.79 from the 4th Quarter 2014 to \$21.13, a rate slightly less than the Northern Metro average of \$21.43.



Number of Buildings	131
Market Size	7,714,781 sf

Overview: The I-83 Corridor, which includes the business districts of Timonium, Hunt Valley, Loveton, and Sparks, encompasses the majority of Northern Baltimore County and stretches from Pennsylvania to Towson. Excellent infrastructure connects the Corridor to Baltimore City by way of Interstate 83 and Maryland Route 45, more commonly known as York Road. In addition, the light-rail system offers easy access to Baltimore City, Washington, DC, and the Baltimore/Washington Thurgood Marshall International Airport. Arguably one of the most diverse submarkets, the I-83 Corridor is a blend of office, flex, and retail properties, dotted open land, and industrial landmarks. Attracted by numerous amenities including ease of access via Interstate 83, close proximity to Towson, and life-style epicenter Hunt Valley Towne Center, businesses in the Corridor are a blend of technology, professional services, and corporate and regional headquarter locations.

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REISTERSTOWN ROAD CORRIDOR

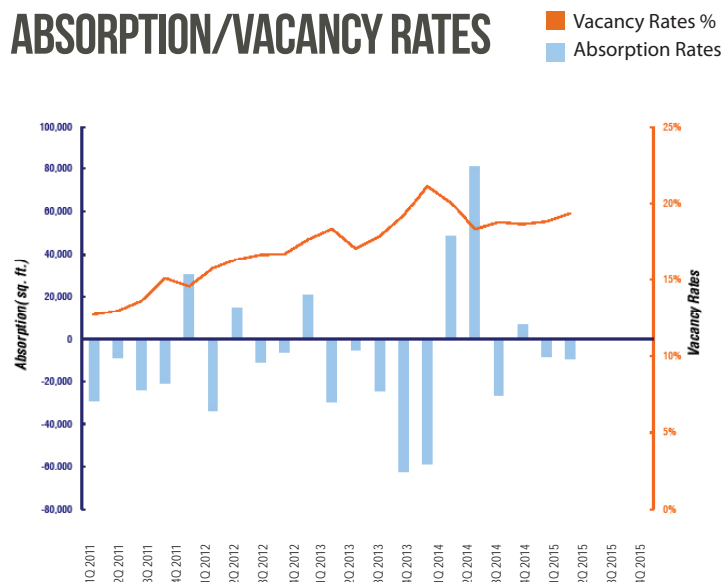
FIRST QUARTER | 2015



"The Reisterstown submarket experienced a slight regression in the 1st Quarter of 2015, however, the outlook for the year remains positive. This submarket saw an influx of larger users completing longer term leases which should help reduce the submarket's vacancy rates and drive up asking prices throughout the remainder of the year. This can be highlighted by the 11,000 sf leased by Insurance Inc. at BECO Towers, and the 40,000 sf office being leased at the new Foundry Row. The newly added retail and housing at Metro Center and Foundry Row continues to fuel excitement for the Reisterstown Road Corridor for 2015 and beyond."

- Henson Ford
Real Estate Advisor

ABSORPTION/VACANCY RATES



QUICK STATS

19.29%
VACANCY RATE

Vacancy rates for the 1st Quarter of 2015 increased slightly, up 0.51% from the 4th Quarter 2014 rate of 18.78%. Despite this increase, the outlook for the market remains positive.

-9,061
ABSORPTION

Positive activity in the Reisterstown Road submarket due to an increase of large users was offset slightly resulting in a negative absorption for the quarter of -9,061 sf.

\$21.84
AVG. RENTAL RATE

Rental rates decreased by only \$0.13 from the 4th Quarter 2014 to 1st Quarter 2015. This is the third consecutive quarter that rental rates have decreased.



Number of Buildings	85
Market Size	4,643,309 sf

Overview: The Reisterstown Road Corridor submarket is bounded by Greenspring Avenue to the east, Liberty Road to the west, the junction of Butler Road, Hanover Pike and Reisterstown Road to the north, and the Baltimore City line to the south. It includes Pikesville, Owings Mills Town Center, McDonogh/Garrison, Historic Reisterstown, and the Red Run Boulevard corridor. The Reisterstown Road Corridor is an assorted stretch of retail, flex, and office properties connecting Baltimore City to the rolling hills of Northern Baltimore County via Interstate 795 and Reisterstown Road. The submarket is currently seeing revitalization as more than \$1 billion in improvements pour into the area. Most notably, Metro Centre at Owings Mills, a 47 acre, pedestrian-friendly development surrounding the Metro subway station, is under construction having Phase I of its master plan nearing completion. Designated by the State of Maryland as a transit-oriented development project, the project includes offices, shops, restaurants, a new public library, and a satellite campus for the Community College of Baltimore County.

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ROUTE 2 CORRIDOR

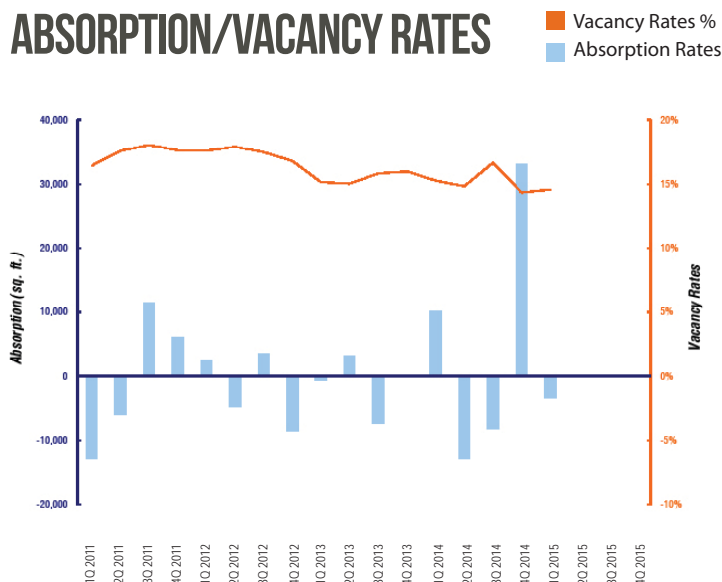
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"Many areas of Anne Arundel County are experiencing a gradual recovery; however, the Route 2 Corridor continues to lag the market. The Route 2 market is driven by local businesses and while those businesses have seen a rebound in the overall economy, they have also become more efficient (at least temporarily) allowing them to provide their services with less employees and therefore less office space. Most activity is driven by tenants looking for quality of buildings and aggressiveness of deal terms. Retail, single-family, multi-family, and senior living will continue to outpace office development in this corridor for the foreseeable future."

- Justin Mullen
Vice President

ABSORPTION/VACANCY RATES



QUICK STATS

14.59%
VACANCY RATE

Direct vacancy for the Route 2 Corridor remained relatively unchanged, dropping only 0.23% from the 4th Quarter 2014 rate of 14.5%.

-3,407
ABSORPTION

After strong activity during the 4th Quarter 2014 (33,160 sf), the Route 2 Corridor experienced a minor loss of -3,407 sf.

\$21.93
AVG. RENTAL RATE

The average rental rate for the Route 2 Corridor increased by \$1.36 from the 4th Quarter 2014 rate of \$20.57.



Number of Buildings	41
Market Size	1,455,030 sf

Overview: Located in northeast Anne Arundel County, the Route 2 Corridor stretches from Severna Park to Pasadena, and includes the business districts of Glen Burnie and Arnold. Route 2 (or Ritchie Highway) connects Annapolis and the Baltimore Beltway offering access to other points in Anne Arundel County. In addition, Route 50, which extends from the southern part of the market (Severna Park), makes travel to Washington, DC an easy drive. The smallest of the Baltimore submarkets, the Route 2 Corridor submarket of Anne Arundel County provides an assortment of office and retail facilities which cater to their local clientele. From the urbanized northern reaches of Glen Burnie, which is home to the monstrous MVA facility and other structures typical of an urban area, to the small strip centers that serve wealthy suburbanites in "South County", the Route 2 Corridor is a microcosm of our region. The larger buildings in the north that were once populated by the "nationals" have all seen a retrenchment, while the smaller "mom and pop" tenants along Route 2, are slugging it out as they compete for allegiance from their loyal neighbors.

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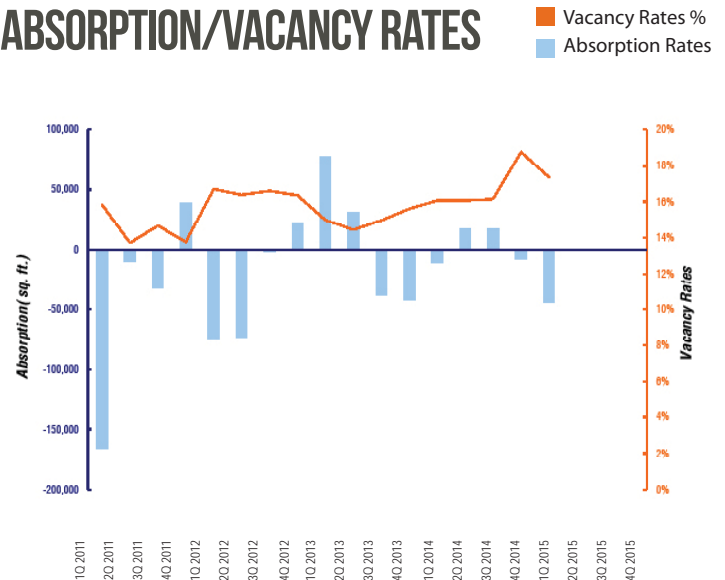
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"The Towson commercial market has experienced gravity in the retail and residential sectors. The Towson Square project opened the Bonefish Grill and On The Border restaurants and the Bozzuto residential project off Burke Avenue continues to sell through at a very steady pace. Caves Valley Partners has started demolition for its Towson Row project and has signed Whole Foods Market as its lead tenant. Office leasing in the Towson core continues to creep along with no pipeline of office tenants to speak of. I am hopeful the Towson Row project will inject life into the overall Towson office market."

- Bill Whitty
Senior Vice President/Principal

ABSORPTION/VACANCY RATES



QUICK STATS

17.35%
VACANCY RATE

Vacancy rates for the Towson submarket experienced an increase of 1.61% from the 4th Quarter 2014 rate of 15.74%.

-44,781
ABSORPTION

The Towson submarket experienced a 1st Quarter of negative absorption, approximately 44,781 square feet, contributing to the 1.61% vacancy rate increase.

\$21.42
AVG. RENTAL RATE

Average rental rates for Towson remained largely unchanged, increasing by \$0.33 from the 4th Quarter of 2014's \$21.09 per square foot.



Number of Buildings	85
Market Size	5,286,189 sf

Overview: Towson, the county seat of Baltimore County, is located directly north of Baltimore City, inside the beltway, east of I-83, and along York Road. It is home to two universities, Goucher College and Towson University, as well as three regional hospitals, Greater Baltimore Medical Center (GBMC), St. Joseph Medical Center, and The Sheppard Pratt Health System. Steady growth of business and development continues to stimulate Towson's local economy. Known for its four-story Towson Town Center shopping mall, downtown Towson continues to revitalize its retail, restaurants, residential, and office buildings with a private investment of roughly \$500 million. Currently, more than \$85 million in development projects continue to thrive as projects like Towson Square, with the construction of new restaurants, new 8,500-seat Cinemark Theater, and parking garage, show significant progress along the Towson skyline.



FIRST QUARTER | 2015

MacKenzie Market Report

Retail Market

BALTIMORE RETAIL OVERVIEW

FIRST QUARTER | 2015



QUICK STATS

4.70%
VACANCY RATE

-155,621sf
ABSORPTION

\$18.75
AVG. RENTAL RATE

Overall vacancy rates for the Baltimore Metropolitan Statistical Area (MSA) increased slightly from the 4th Quarter 2014 rate of 4.57% yet remain lower than the 1st Quarter 2014 which was 5.22%. Markets with the lowest vacancy include the York Road Corridor at 2.39%, Columbia at 2.4%, and White Marsh/Perry Hall at 2.95%. The highest submarket, Reisterstown Road Corridor at 10.04%.

Positive absorptions of more than 50,000 sf in Harford County and Baltimore County West were offset by the negative absorption of 147,515 sf in Baltimore City. This resulted in an overall negative absorption of 155,621 sf for the MSA.

Overall rental rates for the 1st Quarter of 2015 for the MSA remain relatively steady, decreasing by only \$0.5 since the 3rd Quarter of 2014. This rate is a slight increase from the 1st Quarter of 2014 when average rental rates were \$18.47/sf. The highest submarket remains Columbia at \$24.48/sf; the lowest, Baltimore County East at \$14.13/sf.

Notable Transactions

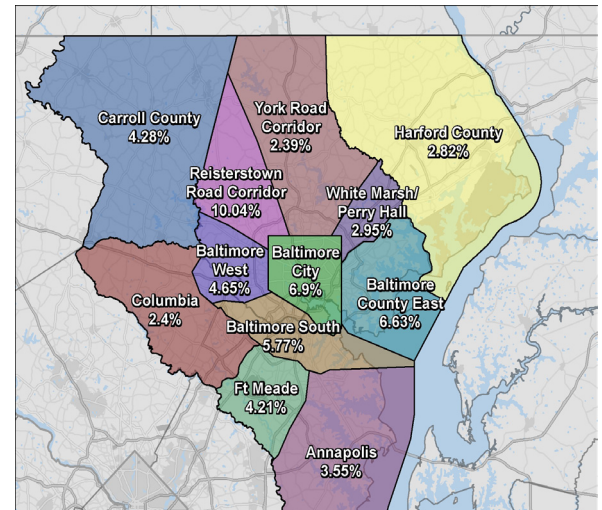
Lease

Location	Submarket	Tenant	Amount Leased SF
2601 Port Covington Drive	Baltimore City	Under Armour	130,595 sf
100 S. Charles Street	City Center	Planet Fitness	14,591 sf
225 Brierhill Road	Harford	Bamboo Garden	6,140 sf
2630 Greenspring Avenue	York Road Corridor	18 8	1,743 sf

Sale

Location	Submarket	Price	PSF	Building Size SF
2473 Solomon's Island Road - Maritime Autowash	Annapolis	\$3,000,000	\$1,079.53	2,779 sf
812 Geipe Road - Supreme Carwash	Baltimore County West	\$2,580,000	\$537.50	4,800 sf
16 Market Place	Annapolis	\$875,000	\$546.88	1,600 sf

Historical Vacancy Rates



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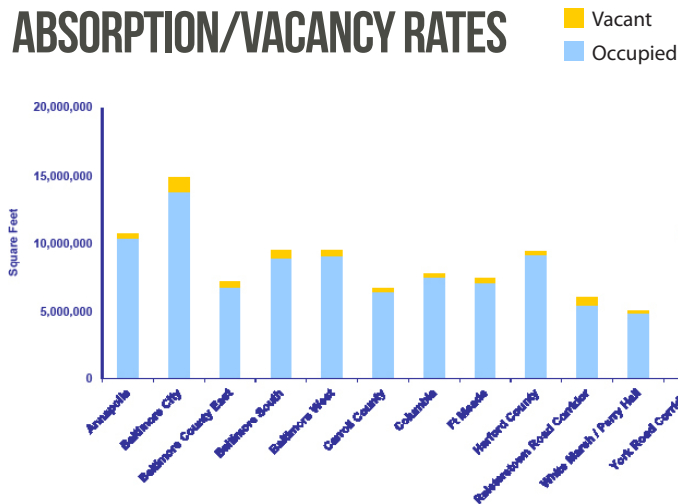
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BALTIMORE RETAIL OVERVIEW

FIRST QUARTER | 2015

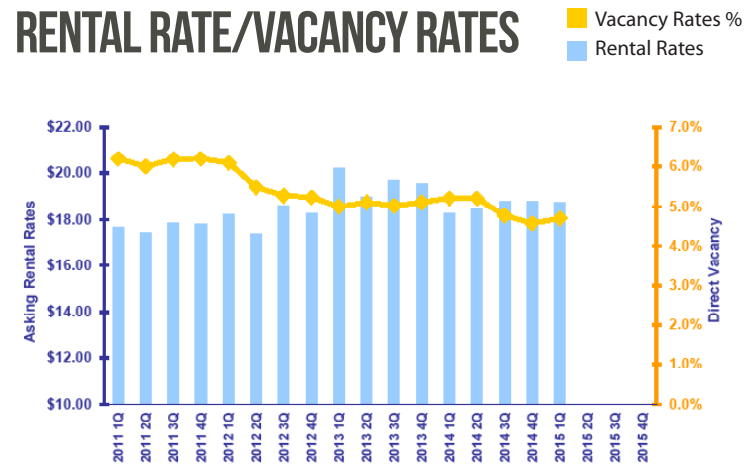


ABSORPTION/VACANCY RATES



The Baltimore County West and Harford County submarkets each absorbed approximately 52,000 sf of space in the first quarter as the rest of the market shed roughly 325,000 sf in total. The Reisterstown Road Corridor has the highest vacancy, though be industry standards this is considered a healthy rate, at 10.04%. Baltimore City, the next highest vacancy in the region stands at 6.90 percent.

RENTAL RATE/VACANCY RATES



Rental Rates remain steady at \$18.75 per square foot (psf). Submarkets enjoying average rental rates above \$20.00 psf include Annapolis (\$22.31/sf), Columbia (\$24.48/sf), Ft. Meade (\$21.82/sf), and the Reisterstown Road Corridor (\$20.90/sf). Contributing to these higher ranges are the growing numbers of large-scale lifestyle projects like Metro Centre at Owings Mills, Foundry Row, and Downtown Columbia that are currently under development.

HIGHLIGHTS

- Baltimore-based outlet shopping center developer, Paragon Outlet Partners purchased 50 acres in White Marsh, Maryland from Corporate Office Properties Trust for \$18.6 million for the future site of a 568,000 sf open-air outlet shopping center to be known as Paragon Outlets Baltimore. Developed in two phases, the project will feature approximately 425,000 sf of retail space with the second phase to deliver the remaining 143,000 sf at yet unreleased date.
- Urban Bar-B-Que Company, has announced its intention to open seven locations throughout the Maryland and Washington, D.C. marketplace. The locally owned fast food concept recently signed a lease for its first inaugural location in 2,400 sf at 802 Pinnacle Drive within BWI Technology Park II in Linthicum and is expected to open later this Spring.
- St. John Properties, Inc. announced the opening of two health-care related tenants Magothy Beach Plaza. WiseCare Urgent Care Center

(2700 square feet of space) and Pivot Physical Therapy (2940 square feet of space) have leased 2,700 sf and 2,940 sf respectively at the 28,675 sf neighborhood shopping center in Pasadena.

- Seawall Development Company has announced that Johns Hopkins Community Physicians will become the anchor office tenant their Remington Row project. The firm has leased 30,000 sf of office space in the building planned for the 2700 block of Remington Avenue.
- Pie Five Pizza Co. has signed a lease a 2,058 sf space in the Governor Plaza shopping center at 6600 Governor Ritchie Highway. Previously a RadioShack the quick-serve pizza shop is aiming to have the new location open by the first week of June.
- The Mariner family, owners of the new Victoria Gastro Pub in Columbia, Maryland, will open a second location in Clarksville. The family-owned restaurant group will look to open a larger concept titled Food Plenty later this spring with the intent to open in early 2016.

Number of Buildings 2,378

Market Size 105,383,143 sf

Criteria: The Baltimore Retail Market resemble a "hub and spoke" configuration, with many of the submarkets following the major roads in and out of Baltimore City. The region is broken down into twelve submarkets; Annapolis, Baltimore City, Baltimore County East, Baltimore County South, Baltimore County West, Carroll County, Columbia, Fort Meade, Harford County (including Cecil County) the Reisterstown Road Corridor, White Marsh/Perry Hall (Baltimore County East), and the York Road Corridor.

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BALTIMORE INDUSTRIAL OVERVIEW

FIRST QUARTER | 2015



Regional Industrial Market Carries Momentum into 2015

Both Warehouse and Flex Markets Begin 2015 on Positive Note

Presented by Anirban Basu, Sage Policy Group

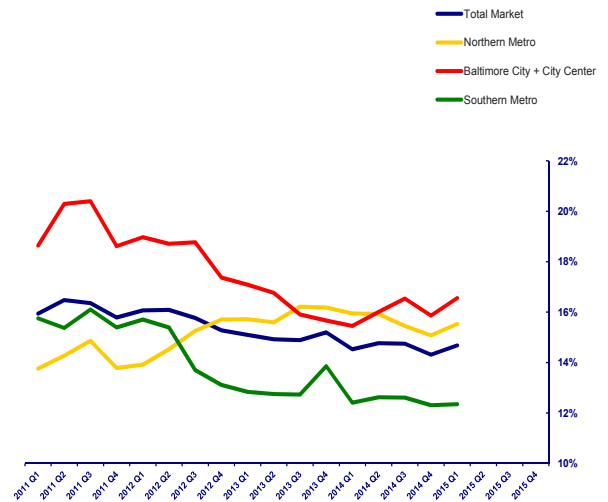
The Baltimore regional industrial market maintained its momentum during 2015's initial quarter. Once again, net absorption in the warehouse segment topped one million square feet. The flex market absorbed more than 45,000 square feet after slipping during 2014's final quarter.

Though many who read these reports are largely focused on real estate transactional volume and development activity, the importance of space used to inventory and distribute merchandise stretches well beyond real estate commissions and net operating income. Leveraging the Port of Baltimore and the balance of the region's intermodal transportation network is key to reducing unemployment, increasing incomes and rendering Baltimore a more prosperous and cosmopolitan community.

Baltimore City paced the regional warehouse market by absorbing more than 1.2 million square feet. The implication is that the balance of the region sustained negative net absorption, including in the Harford/Cecil market, which over the past several years has represented the region's strongest sub-market. The Harford/Cecil warehouse market suffered negative net absorption of 262,198 square feet during the quarter. The BW Corridor experienced negative 46,899 square feet of net absorption. The regional warehouse vacancy rate stands at 8.54 percent, up from 8.33 percent at the same time last year.

Flex market performance was a mirror image of warehouse market dynamics. Harford/Cecil led the area's flex segment with positive net absorption of 28,140 square feet, while Baltimore City's net absorption totaled negative 23,247 square feet. Regional direct vacancy stands at 9.0 percent, down from 9.6 percent a year ago and 9.1 percent during last year's final three months. Asking rent has actually dipped in the regional flex market over the past quarter and year, and presently stands at \$10.62 per square foot. Asking rents have been roughly flat in most submarkets, with Annapolis representing a prominent exception. There, asking rent is up by nearly \$1.50/square foot from a year ago.

Historical Vacancy Rates



QUICK STATS - FLEX

9.01%
VACANCY RATE

45,102
ABSORPTION

\$10.62
AVG. RENTAL RATE

QUICK STATS - WAREHOUSE

8.54%
VACANCY RATE

987,223
ABSORPTION

\$4.78
AVG. RENTAL RATE

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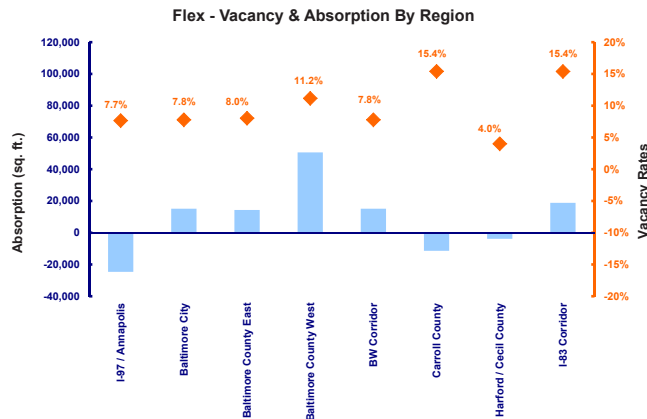
BALTIMORE INDUSTRIAL OVERVIEW

FIRST QUARTER | 2015



ABSORPTION | VACANCY RATES

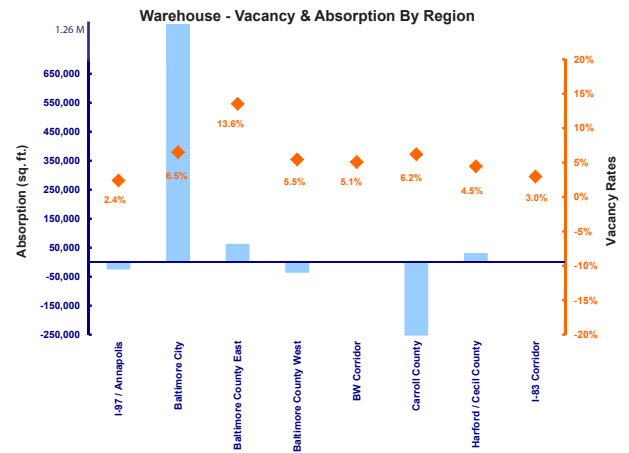
Vacancy Rates %
Absorption Rates



Activity within the flex market started the year relatively stable with modest improvement. Direct vacancy rate for the flex market was down slightly, 9.01% (compared to the 4th Quarter 2014 rate of 9.13%). The I-83 Corridor remains the lowest in terms of vacancy, reporting an average rate of 4%. Absorption for the flex market finished the quarter on a positive note, 45,102 sf, an increase of 42,508 sf from the 4th Quarter 2014. All submarkets experienced minor decreases in rental rates except for the I-97/Annapolis and the Harford/Cecil which had slight increases of \$0.81 and \$0.07 respectively. On average, the flex market finished with an average rental rate of \$10.62.

ABSORPTION | VACANCY RATES

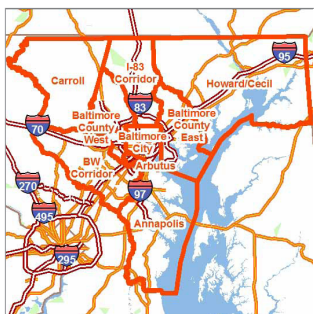
Vacancy Rates %
Absorption Rates



Warehouse activity for the region saw slight increases in overall vacancy and rental rates during the first quarter. Vacancy increased from 8.27% to 8.54% and asking rents increased by a minimal \$0.10, \$4.68 to \$4.78. Baltimore County East has the lowest average rental rate, \$3.92/sf, while the I-83 market holds the highest, \$8.44/sf. Absorption was down slightly from the 4th Quarter; however, still strong finishing the 1st Quarter with a positive 987,223 square feet. The Baltimore City submarket outpaced all others in terms of absorption, absorbing more than 1.2 million square feet. This was offset by the negative net absorption of 262,198 sf suffered by the Harford/Cecil market, a market that is typically the region's strongest

HIGHLIGHTS

- Transportation and logistics company Pro Transport Inc. will relocate its current operations at 11600 Crossroads Circle to new construction at 11630 Crossroads Circle in the Baltimore Crossroads @ 95 project. The firm will fully occupy the 51,120 sf flex office building.
- American Tire Distributors will also relocate to the Baltimore Crossroads @95 campus in Middle River, Maryland. The independent tire supplier, will occupy 138,240 sf of distribution and warehouse space at 11503 Pocomoke Court when the project delivers in fall 2015.
- WestNet Inc., a distributor of medical supplies, has signed a 14,875 sf lease at Merritt's facility on West Patapasco Avenue.
- Maryland Twisters, an internationally ranked cheerleading club signed a lease for 31,250 sf at 7460 New Ridge Road in Hanover, Maryland.
- Terreno Realty purchased 9070 Junction Drive in Annapolis, a 115,000 sf warehouse building for \$10.4 million.



Number of Buildings	4,853
Market Size	242,699,698 sf

Criteria: MacKenzie tracks buildings that meet the following requirements and identifies these buildings as true reflectors of commercial real estate activity within the Baltimore Metropolitan Statistical Market (MSA). Office: Buildings 15,000 square feet (sf) in size and greater in the Metro areas within Anne Arundel County, Baltimore City, Baltimore County, and Howard County, buildings 20,000 sf in size and greater within Baltimore's City Center, buildings 10,000 sf in size and greater in the Metro areas within Harford County, and buildings 5,000 sf in size and greater within Annapolis city limits. MacKenzie does not track owner occupied buildings or buildings lease exclusively to medical tenants.

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