



FOURTH QUARTER | 2014

MacKenzie Market Report

Office Market

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BALTIMORE OFFICE OVERVIEW

FOURTH QUARTER | 2014



Maryland Now among Nation's Slower Growing States

Presented by Anirban Basu, Sage Policy Group

There was a time when Marylanders could feel quite good about their economy. Even during the most recent economic downturn and its immediate sloppy aftermath, Marylanders could take some comfort knowing that the state's economy was somewhat insulated from the worst possible economic outcomes by a still expanding federal government. Unfortunately, that no longer appears to be the case.

Between June and September of 2014, the Free State shed 8,700 jobs, the worst quarterly performance since the third quarter of 2009. Over the past year, Maryland ranked 46th in terms of percentage job growth, 45th if one excludes the District of Columbia. Government, manufacturing and information have all shed more than 2,000 positions over the past year. There is good news, however. The state's nonfarm employment growth has been reasonably steady and solid for the past two months. Maryland added 3,800 net new jobs in November after adding 2,800 jobs in October. Employment dynamics are particularly encouraging for the office market. Professional/ business services and financial services, the two employment subsectors most closely linked to the office market, were among the region's best performers, adding 6,400 and 3,100 jobs over the past year, respectively.

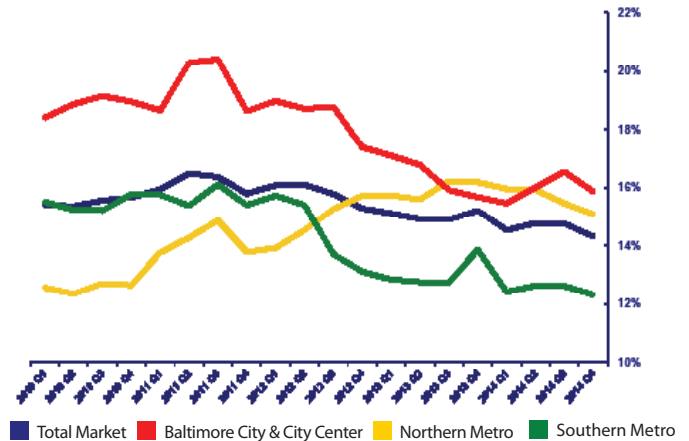
The Baltimore metropolitan area is once again the only region of the state experiencing decent job growth. According to the Bureau of Labor Statistics, the Baltimore region added 14,500 jobs between November 2013 and November 2014. This implies that the balance of the State lost 2,400 jobs over that period. Baltimore's metropolitan job growth has been led by professional and business services (+6,800 jobs; +3.1 percent), leisure and hospitality (+3,700 net jobs; +3.0 percent), construction (+2,800 jobs; +3.7 percent), and trade, utilities, & distribution (+1,800 jobs; +0.7 percent).

Given the Baltimore region's decent employment dynamics, it is unsurprising that the area's office market finished the year on a positive note. During the fourth quarter of 2014, regional net absorption totaled 333,921 square feet (sf). Baltimore City (all markets) recorded 148,780 sf of net absorption. This represents a stark turnaround from the third quarter when Baltimore City net absorbed -96,728 sf. Asking rent remained unchanged at \$20.47.

Of the 185,151 square feet net absorbed by the suburban Baltimore office market during the third quarter, Columbia represented +125,286 sf. Columbia had a good year, net absorbing roughly 370,000 sf for the year. Direct vacancy in suburban Baltimore fell from 14.02 percent to 13.68 percent during the fourth quarter of 2014, with asking rent rising 8 cents to \$21.47 per square foot.

For several years, the regional economy has had to weather various episodes ranging from recession, to sequestration and federal government shutdown. Now the region faces prospects of significant reductions in State government spending, which will both directly and indirectly impact the regional office market. Though the marketplace is likely to continue to recover in 2015, the pace of recovery is unlikely to be particularly brisk.

Historical Vacancy Rates



QUICK STATS

14.31%
VACANCY RATE

333,921
ABSORPTION

\$22.03
AVG. RENTAL RATE

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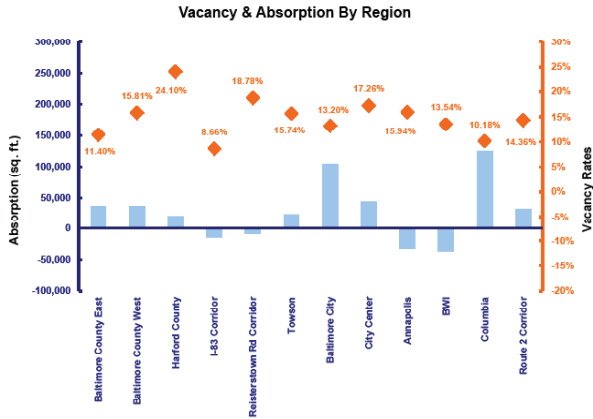
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ABSORPTION/VACANCY RATES

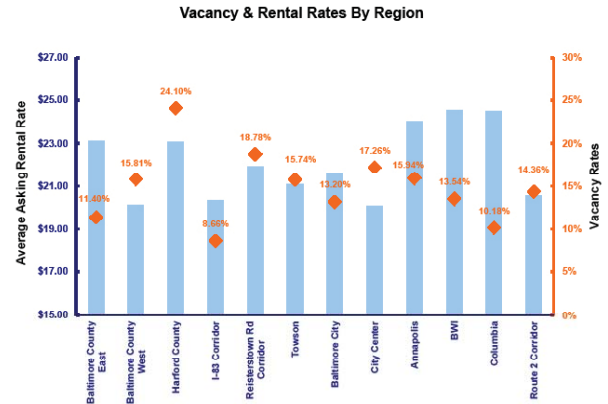
Vacancy Rates %
Absorption Rates



Strong activity in the Baltimore City, Baltimore County East, Baltimore County West and Route 2 Corridor submarkets helped push the overall vacancy for the Baltimore market down 0.43 percent from the first quarter. Large absorptions in Baltimore City (104,673 sf) and Columbia (125,286 sf) further helped drive vacancy rates down, closing the 2014 year to date absorption total at 698,724 sf, more than 285,646 sf over the same period one year ago.

RENTAL RATE/VACANCY RATES

Vacancy Rates %
Rental Rates



Average rental rates remained virtually unchanged in the Baltimore region as slight shifts in the Baltimore City and City Center market negated minimal advances made by the Northern and Southern Metro markets. Annapolis, BWI, and Columbia submarkets in the Southern Metro market continue to have the highest average asking rental rates at \$24.01, \$24.57, and \$24.50 psf respectively.

HIGHLIGHTS

- Prominent Baltimore Real Estate law firm Abramoff Neuberger LLP leased 9,360 square feet (sf) at 2850 Quarry Lake Drive in Baltimore.
- OneMain Financial will join the tenant mix in Harbor East. The firm signed a milestone 110,000 sf lease at the Legg Mason tower for its new headquarters location. Previously, the firm occupied more than 300,000 sf at 300 St. Paul Street
- Real estate firm RE/MAX Advantage Realty signed a 13,683 sf lease at 6021 University Boulevard. The firm relocated approximately 120 employees to the four-story 107,000 square foot Class "A" building located in Ellicott City, in December.
- Computer giant Microsoft has leased approximately 17,000 sf at 6518 Meadowridge Road in Elkridge.

- Micros Systems' purchase of its own building at 7031 Columbia Gateway Drive, was, at \$59.5 million, the biggest office sale of the quarter.
- Columbia Medical Campus welcomed three new tenants totaling 9,400 sf to the property on Knoll North Drive. They are; Podiatry Associates (5,302 sf at 5500 Knoll North Drive), Cranial Technologies (2,405 sf), and Capital Digestive Care (1700 sf) at 5450 Knoll North Drive.
- 49 Old Solomon's Island Road in Annapolis's newest tenant is the state's Child Care Administration. The government entity has signed a 10 year lease for 3,004 sf starting in March 2015.
- Presidio has signed a two-part deal for space in Maple Lawn, leasing approximately 19,000 feet of flex space at 11850 West Marketplace, and 14,000 feet of office space at 8161 Maple Lawn Boulevard.



Number of Buildings	1,225
Market Size	76,422,311 sf

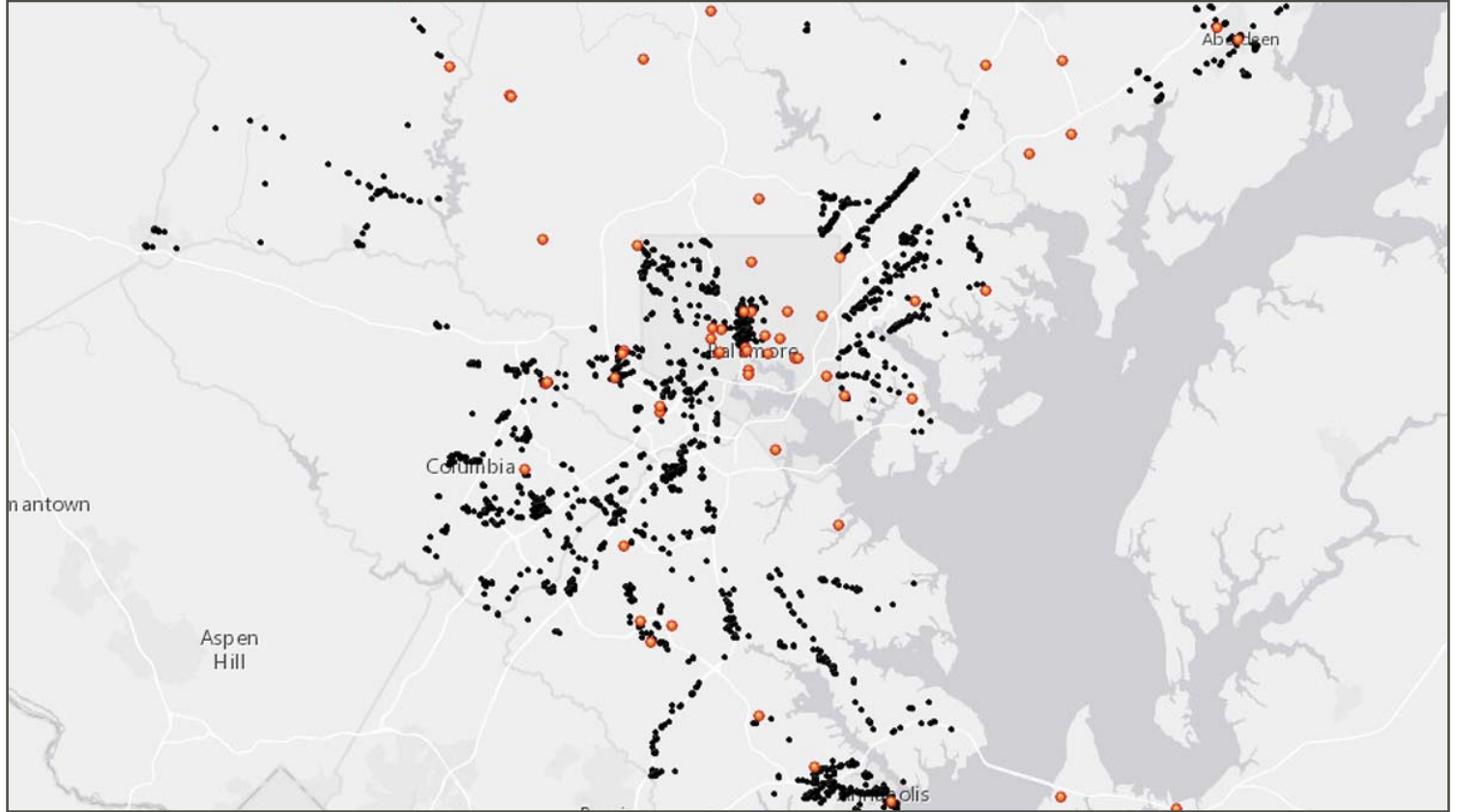
Criteria: MacKenzie tracks buildings that meet the following requirements and identifies these buildings as true reflectors of commercial real estate activity within the Baltimore Metropolitan Statistical Market (MSA). Office: Buildings 15,000 square feet (sf) in size and greater in the Metro areas within 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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Notable Transactions

Lease

Location	Submarket	Tenant	Amount Leased SF
Legg Mason Towson	City Center	OneMain Financial	110,000 sf
3700 Koppers Street	Baltimore City East	Basys, Inc.	25,879 sf
8161 Maple Lawn Boulevard	Columbia	Presidio	14,000 sf

Sale

Location	Submarket	Price	PSF	Building Size SF
6586 Meadowridge Road	Columbia	\$3,100,000	\$430.56 psf	7,200 sf
4B North Avenue	Harford County	\$601,260	\$220.16 psf	2,731 sf
301 International Circle	I-83 Corridor	\$6,200,000	\$211.79 psf	29,274 sf

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MacKenzie Market Report

Office Submarkets

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ANNAPOLIS

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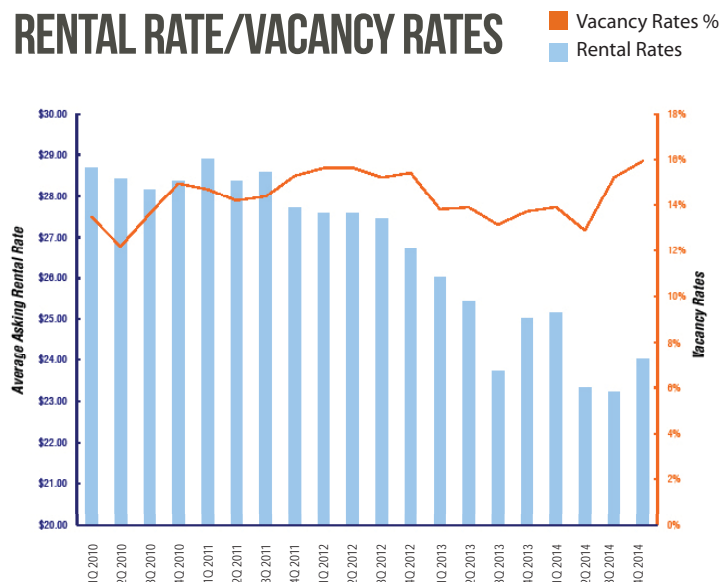


Among the largest of the Baltimore Metropolitan Statistical Area's submarkets, the Annapolis market continues to recover from losses sustained in the third quarter of 2014. Strong leasing activity in the fourth quarter is expected to reverse this rise in direct vacancy as tenants take occupancy of newly leased space in early/mid 2015.

"Though not reflected in the numbers, we're seeing a lot of activity in tenants increasing their footprint carefully and in small increments or simply exploring the area for the perfect opportunity. Also, not calculated in our numbers is rise in owner-user purchases, over the course of the year, adding to the overall health of the Annapolis market - and make no mistake, the Annapolis market is strong."

- Justin Mullen
Vice President

RENTAL RATE/VACANCY RATES



QUICK STATS

15.94%
VACANCY RATE

Direct vacancy rose a noticeably from the third quarter to the fourth - a 0.72 percent increase from 15.22 percent to 15.94 percent - now the highest within the Southern Metro region.

-32,790
ABSORPTION

The Annapolis submarket suffered a second consecutive quarter of negative absorption. The submarket took an approximate 90,000 square foot (sf) hit in the third quarter of 2014 causing the negation of gains made in the first and second quarters to close the year to date total at -95,381 sf of absorption.

\$24.01
AVG. RENTAL RATE

Average rental rates remain strong, climbing \$0.78 per square foot (psf) from the third quarter's average of \$23.24 psf to close 2014 at \$24.01 psf.



Number of Buildings	137
Market Size	4,006,963 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.

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BALTIMORE CITY*

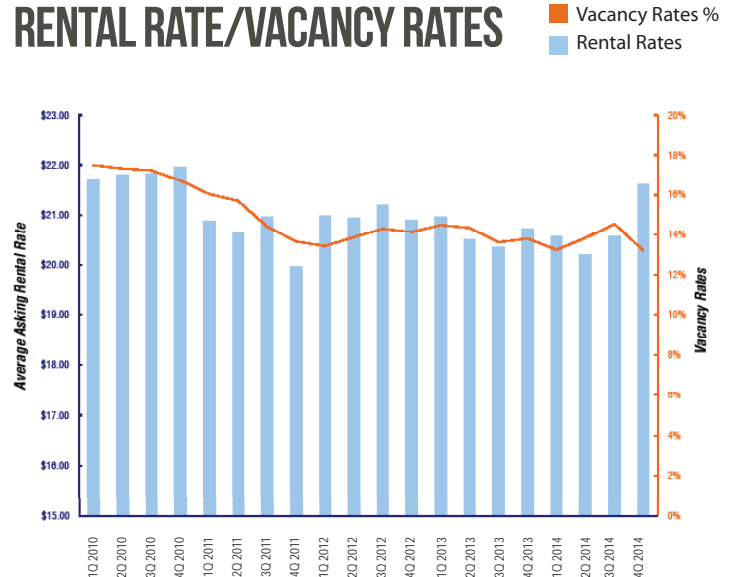
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"The success of projects such as McHenry Row in Locust Point and Brewer's Hill in Baltimore City East supports the trend towards smaller mixed-use projects outside of the City Center. In 2015, we will see a similar mixed use project, Stadium Square, break ground in Federal Hill. The mixed-use development is expected to bring approximately 300,000 square feet of office, 70,000 square feet of retail, and 2,000 parking spaces to the Southside of the submarket which is virtually devoid of large blocks of available space."

- Matthew Curran
Real Estate Advisor

RENTAL RATE/VACANCY RATES



QUICK STATS

13.20%
VACANCY RATE

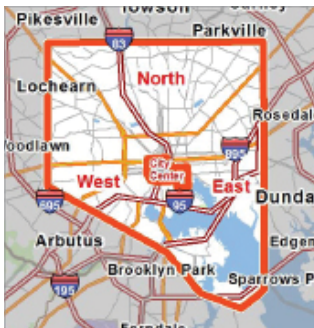
With the exception of a slight 0.48 percent increase in direct vacancy in the South (from 1.66 percent in the third quarter 2014 to 2.14 percent), Baltimore City's submarkets saw reductions to close the year; Midtown (12.19 percent), North (11.40 percent), East (7.88 percent), and West (26.46 percent).

104,673
ABSORPTION

Strong absorption in the North (19,634 sf), East (53,684 sf), and West (26,179 sf) submarkets created a 142,355 sf increase from the third quarter to close the year to date absorption for 2014 at a total 102,405 sf.

\$21.62
AVG. RENTAL RATE

Strong absorption in the East forced vacancy rates down 2.52 percent, boosting average rental rates to rise \$3.33 per square foot (psf) from the third quarter of close 2014 at an average of \$21.94 psf. The remaining submarkets also saw slight gains to end 2014 on a positive note; Midtown (\$17.76 psf), North (\$25.02 psf), South (\$20.72 psf), and West (\$21.10 psf).



Number of Buildings	100
Market Size	7,596,028 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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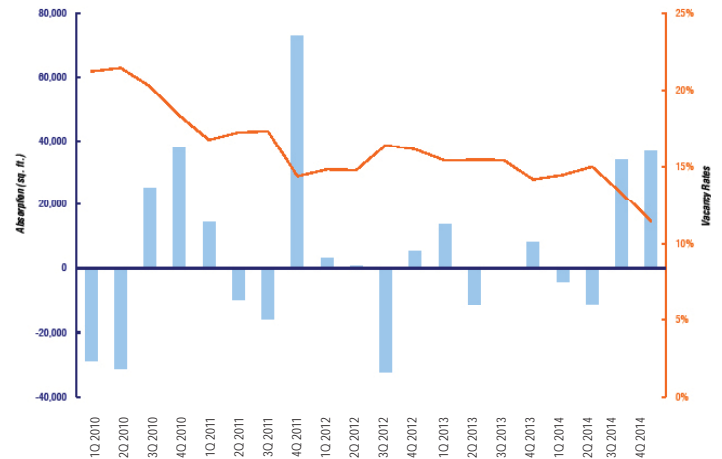
Driven by corporate office parks, the Baltimore County East submarket continues to recover from a bout of stagnation in the 2009/2010 to healthy recovery with rates steadily decreasing over the course of 2014.

"Activity throughout office parks flanking White Marsh Mall continue to drive activity in the Baltimore County East submarkets. MedStar's lease on Franklin Square Drive, along with an yet unidentified new addition to COPT's Corporate Drive portfolio, boast well for the overall vacancy rate. Overall, a good year for a quiet submarket and if the multiple tenants currently "kicking the tires" sign leases in early 2015, the area could see vacancy rates below 10 percent by early 2016."

- Meghan Roy
Vice President

ABSORPTION/VACANCY RATES

Vacancy Rates %
Absorption Rates



QUICK STATS

11.40%
VACANCY RATE

The direct vacancy rate for the Baltimore County East submarket saw 1.86 percent decline from the third quarter of 2014 (13.27 percent) to the fourth quarter (11.40 percent).

36,778
ABSORPTION

Absorption for the area rose a slight 2,741 square feet (sf) from the third quarter of 2014's 34,037 sf allowing the submarket to recover losses in the first and second quarters of 2014 to close the year with a total of 55,828 sf of absorption for the area.

\$23.11
AVG. RENTAL RATE

Average rental rates for the East continued their recovery from the third quarter of the 2013's average of \$19.58 per square foot (psf) rising an additional \$0.38 psf from \$22.73 psf in the third quarter to close the year at \$23.11 psf.



Number of Buildings	56
Market Size	1,972,903 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

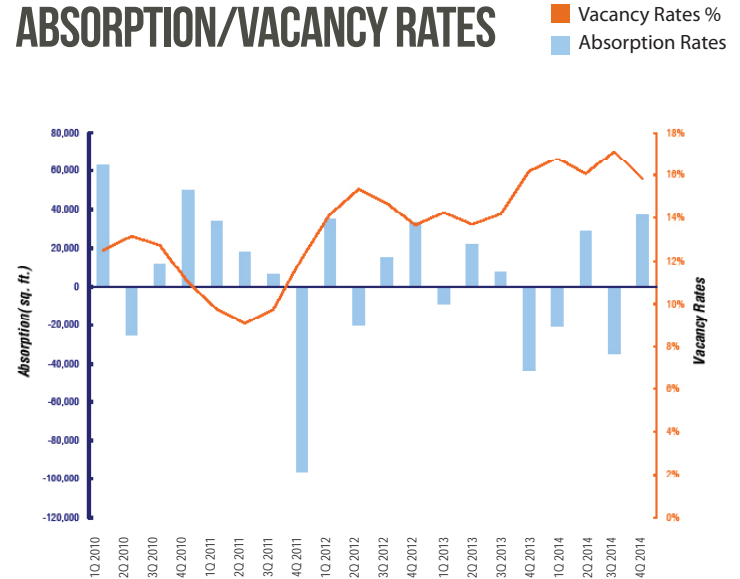
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"The Baltimore County West submarket showed a reduction in direct vacancy from 17.1 percent in the third quarter of 2014 to 15.8 percent in the fourth. Additionally, and resultant, is a positive absorption of 37,047 square feet. The submarket is showing the effects of decreased vacancy in other areas of the market; BWI, Columbia, Baltimore City, Reisterstown Road. As space there tightens it inevitably creates a greater need in this submarket. Given current market conditions and the lack of new development in the pipeline for the submarket, it is anticipated that the vacancy should continue to drop towards the 14.24 percent historic low experienced in the third quarter of 2013."

- Christopher Bennett
Executive Vice President/Principal

ABSORPTION/VACANCY RATES



QUICK STATS

15.81%
VACANCY RATE

The Baltimore County West submarket experienced a 1.33 percent decline in vacancy from the third quarter of 2014's 17.14 percent to close the year at 15.81 percent; slightly below the fourth quarter of 2013's 16.16 percent.

37,047
ABSORPTION

The Baltimore County West submarket enjoyed a boost in the fourth quarter absorbing approximately 71,827 square feet (sf) from the third quarter of 2014's -34,780 sf to a positive 37,047 sf. The submarket closed with a year to date absorption at 10,514 sf.

\$20.13
AVG. RENTAL RATE

The average rental rate for the submarket remained largely unchanged rising \$0.27 per square foot (psf) from the third quarter's average of \$19.86.



Number of Buildings	68
Market Size	3,196,012 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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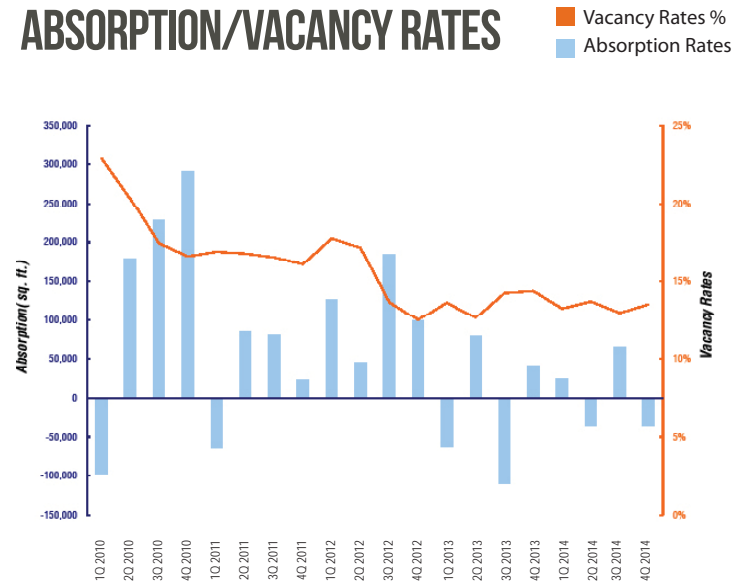
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Overall activity within the BWI submarket continues to be driven by government contractors and technology firms. Over the course of 2014, the area saw the consolidations of several notable firms (L3, Ciena, CACI) to large Class A+ and A business parks near the airport bringing the year-to-date absorption to a slight 16,847 square feet (sf).

The area currently has more than 325,000 sf of new construction active in the pipeline including approximately 240,000 sf at Corporate Office Properties Trust's Arundel Preserve project on Milestone Parkway. The addition of the new projects will make the BWI submarket the third largest submarket in the Baltimore Metropolitan Statistical Area (MSA) behind City Center in Downtown Baltimore (14,487,012 sf) and Columbia (12,238,640 sf).

ABSORPTION/VACANCY RATES



QUICK STATS

13.54%
VACANCY RATE

Direct vacancy within the BWI submarket rose approximately 0.56 percent from the third quarter's 12.98 percent.

-35.825
ABSORPTION

Several notable tech firms finalized consolidation moves adding approximately 91,535 sf back to the market. Fortunately, strong leasing activity in the third quarter helped reduce its impact as tenants took occupancy of roughly 55,706 sf of space.

\$24.57
AVG. RENTAL RATE

Regularly commanding among the highest average rental rates in the Baltimore MSA, the rate for BWI inched forward \$0.07 per square foot (psf) from the third quarter's average of \$24.49 to \$24.57 psf to close out the 2014.



Number of Buildings	108
Market Size	8,722,429 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, D.C., growing total office inventory to nearly 9 million sf (msf) of office space.

CITY CENTER

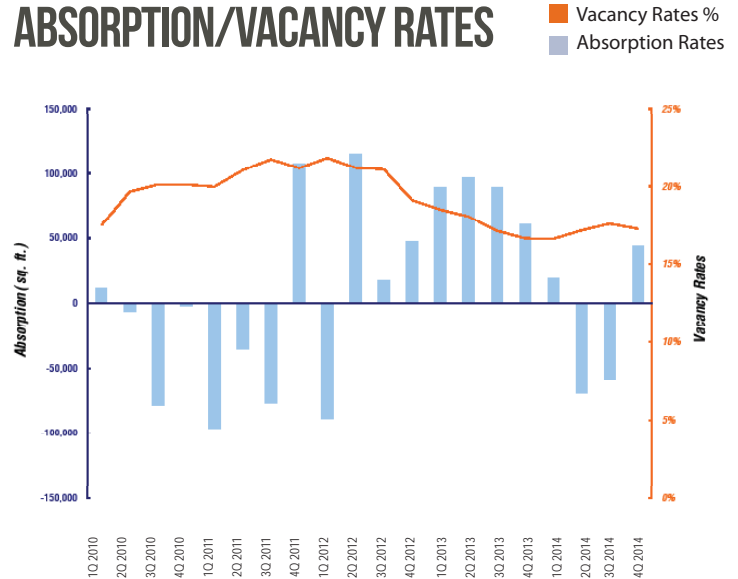
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"City Center trends that we've seen over the last year continue; obsolete Class B/C buildings are still being converted to multi-family, office tenants are taking advantage of a sluggish market to "move up" from class B to class A space, and large blocks of space in quality buildings are disappearing, even though the vacancy rates have risen ever so slightly over 2013. Two things to watch in 2015; when Exelon relocates to Harbor Point, how much space is made available, and secondly, what will happen with State Center? A terminated State Center could have a tremendous impact on City Center vacancies in 2015 and beyond."

- Mark Deering
Senior Vice President/Principal

ABSORPTION/VACANCY RATES



QUICK STATS

17.26%
VACANCY RATE

Direct vacancy rates for both Class A+ and B+ product dipped approximately a full percentage point to 7.66 percent and 15.08 percent respectively. Unfortunately, the activity was negated by a rise in Class A and B direct vacancy of nearly the same amount dropping the overall direct vacancy a slight 0.33 percent from 17.59 percent in the third quarter to 17.26 percent in the fourth.

44.107
ABSORPTION

Strong absorption activity in Class A+ and B+ buildings, 48,878 square feet (sf) and 42,325 sf respectively, helped diminish losses in Class A (-17,128 sf) and Class B (-29,968 sf) buildings bring the total year-to-date absorption for the submarket to a -65,137 sf.

\$20.07
AVG. RENTAL RATE

Average rental rates for Class A+ space continues to be the highest in the Baltimore Metro region commanding approximately \$28.37 per square foot (psf). Average for the rest of the submarket: Class A (\$23.55 psf), Class B+ (\$18.23 psf) and Class B (\$16.39 psf).



Number of Buildings	78
Market Size	14,487,012 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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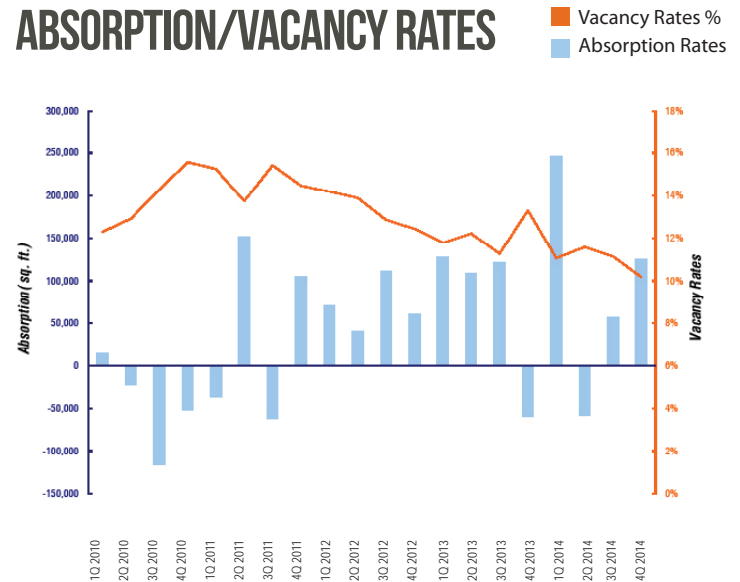


"Already one of the strongest regional submarkets, Columbia planners and developers are on a mission to revitalize and refresh. This quarter saw the release of Howard Hughes' Columbia Crescent land plan at Merriweather, the Columbia Market Study, and Hughes' acquisition and plan to redevelop portions of Columbia Corporate Center."

Rents continue a steady incline especially in areas like Town Center, Maple Lawn, and Columbia Gateway. Fueled by large tenant commitments like Cisco's 100,000 SF regional consolidation at Maple Lawn and QSSI's 120,000 SF anchor lease at Costello's Little Patuxent Square set to deliver in May, this submarket is drawing national attention."

- Bethany Hobbs
Real Estate Advisor

ABSORPTION/VACANCY RATES



QUICK STATS

10.18%
VACANCY RATE

The largest of the submarkets, Columbia's direct vacancy rate is currently the lowest rate in the Southern Metro area and the second lowest (behind I-83 Corridor) in the region. The rate dropped nearly a full percentage point from the third quarter's 11.14 percent to 10.18 percent in the fourth - more than three percent lower than the same period one year ago.

125,286
ABSORPTION

Lead by strong leasing activity by an unnamed government contractor at Sterling Drivel, the submarket saw an additional 68,453 square feet of positive absorption over the third quarter's 56,833 sf to bring the total absorption for 2014 to 370,184 sf.

\$24.50
AVG. RENTAL RATE

Average rental rates for the Columbia market remain relatively unchanged for a fifth consecutive quarter, averaging \$24.50 per square foot. This average deviates approximately \$0.25 in either direction indicating a stable rate.



Number of Buildings	227
Market Size	13,238,640 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).

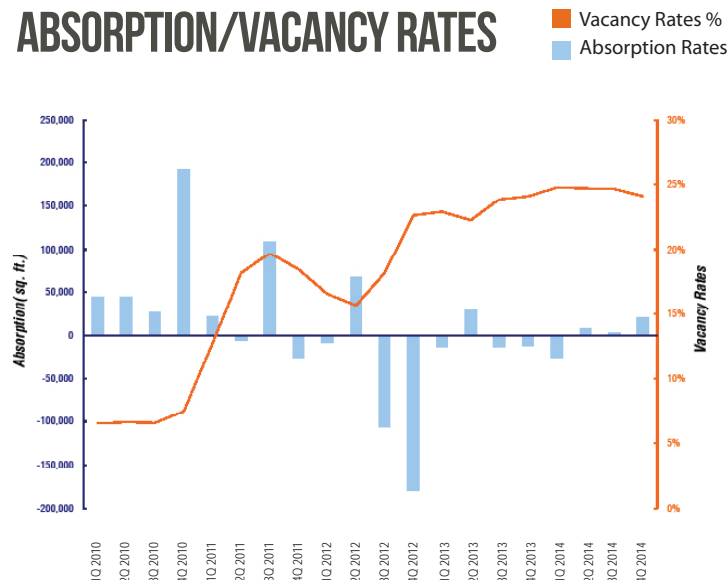


Among the geographically largest submarkets in the Baltimore Metropolitan Statistical Area (MSA), Harford County's office market is driven heavily by defense contractors with ties to Aberdeen Proving Ground and small to medium sized local entrepreneurs.

"Harford County has been stable over the last 4-5 years thanks in part to BRAC, which brought businesses (though not as many as expected). More recently, the overall population throughout the submarket has increased driving an uptick in activity in the service industry. Coupled with new government leadership and an upturn in the economy, Harford County is poised to take advantage of its location along the I-95 corridor and the demand for new service businesses. 2015 should be a good year for business and real estate in Harford."

- Beetle Smith
Senior Vice President

ABSORPTION/VACANCY RATES



QUICK STATS

24.10%
VACANCY RATE

Strong leasing activity by local entrepreneurs and service providers helped dip Harford County's struggling direct vacancy from 0.56 percent from 24.66 percent in the third quarter of 2014 to 24.10 percent in the fourth.

20,502
ABSORPTION

Strong activity off of Lewis Lane and at Box Hill Corporate Center added positive absorption to close out 2014 in the black. The area's year to date absorption totaled 6,378 square feet (sf) up from the fourth quarter of 2013's -11,376 sf.

\$23.06
AVG. RENTAL RATE

Boasting the highest average rental rates within the Northern Metro Markets, Harford County's average rental rate inched slightly from the third quarter's \$22.88 to \$23.06 in the fourth quarter.



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

FOURTH QUARTER | 2014

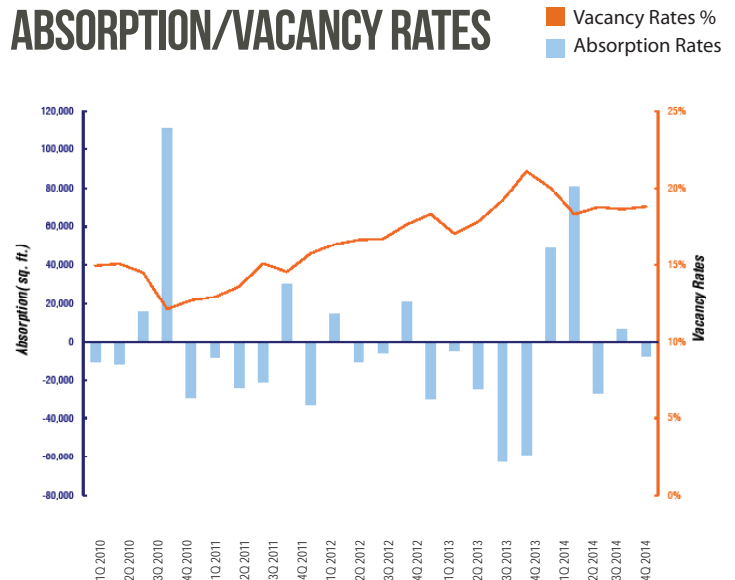


The I-83 Corridor remains the healthiest of the submarkets within the Baltimore Metropolitan Statistical Area (MSA) - a title the area has held since the third quarter of 2011. A mix of office parks surrounding by flex space and small converted dwellings, the is easily accessible by Interstate 83 for which it is named.

"I-83 Corridor didn't raise any eyebrows in the fourth quarter. I would expect the market to sustain it's reliability throughout 2015. Rental rates are healthy and becoming healthier, and the differentiation between Classes A, B, and C rents are becoming more noticeable. Expect large portfolios to perform well and look for the vacancy rate to remain below 10 percent."

- Matthew Mueller
Vice President

ABSORPTION/VACANCY RATES



QUICK STATS

8.66%
VACANCY RATE

Direct vacancy within the I-83 Corridor remained under the 10 percent market that many industry professionals deem "healthy" for a second consecutive quarter and well below neighboring submarkets the Reisterstown Road Corridor and Towson (15).

-13,990
ABSORPTION

Activity within the I-83 Corridor stalled during the fourth quarter losing approximately 13,990 square feet (sf) of space. Total absorption for 2014 was a positive 174,918 sf due to strong activity in the first quarter.

\$20.34
AVG. RENTAL RATE

Average rental rates rose \$0.64 per square foot (psf) in the fourth quarter; up from \$19.70 psf in the third quarter to \$20.34 in fourth returning to their previously reliable \$20.00 psf to \$22.00 psf range that the area has enjoyed for the last two years.



Number of Buildings	131
Market Size	7,702,580 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

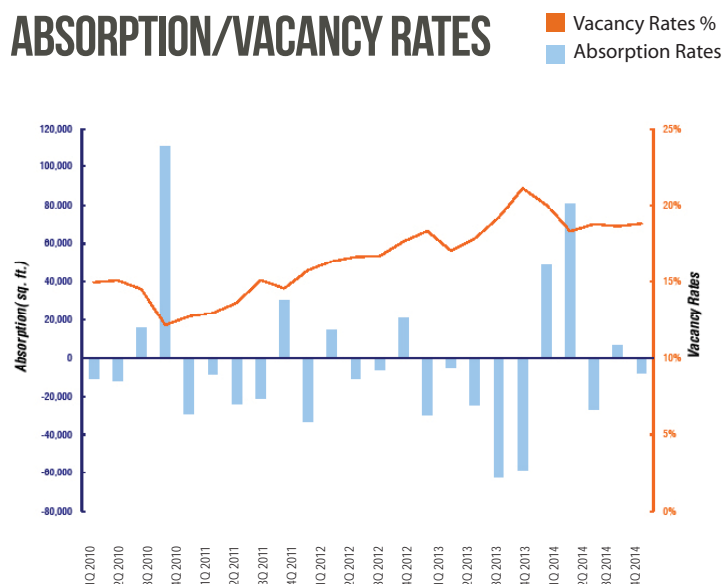
FOURTH QUARTER | 2014



"Unlike Baltimore County as whole, which saw a positive net absorption of office space, the Reisterstown Road Corridor saw a slight decrease in occupancy. However, this was not a major blow as the corridor saw positive absorption rate for the 2014 year as a whole. Much of the Class A and medical space are seeing low vacancy, while many of the B and C class buildings are struggling to find and maintain tenants. Many of the tenants currently in the market seem to be small to mid-sized users, which could explain why large chunks of space were not leased during the last quarter. That being said, 2014 was an overall success for the once struggling market, and the new construction at Metro Centre and Foundry will bring more A class office space and tenants into the market in 2015."

- Henson Ford
Landlord Representative

ABSORPTION/VACANCY RATES



QUICK STATS

18.78%
VACANCY RATE

The direct vacancy rate for the Reisterstown Road Corridor inched a slight .17 percent in the fourth quarter from 18.61 percent to close the year at 18.78 percent though still 1.25 percent lower from the same period one year ago.

-8,075
ABSORPTION

The Corridor lost approximately 14,900 square feet (sf) from the third quarter of 2014 to fourth quarter though, overall, the area enjoyed a positive 53,241 sf annual gain for 2014.

\$21.97
AVG. RENTAL RATE

Average rental rates for the Reisterstown Road Corridor have shifted downward approximately \$0.57 per square foot (psf) from an average of \$22.53 in the third quarter 2014 to \$21.97 psf in the fourth quarter.



Number of Buildings	84
Market Size	4,650,535 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

FOURTH QUARTER | 2014



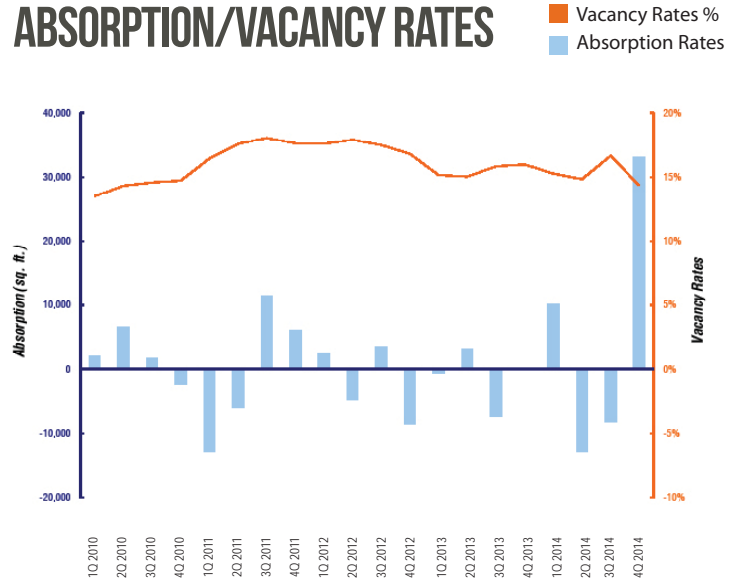
Driven by small tenants and locally owned firms, activity throughout the Route 2 Corridor rarely makes any large shifts creating a stabilized environment and quieter alternative to higher priced neighboring submarkets Annapolis and BWI.

"Ever consistent, the Route 2 Corridor continues to be among the most stable areas within the Baltimore region. However, as activity picks up in the Annapolis and BWI submarkets and available space opportunities tighten, Route 2 offers a cost effective alternative that provides the easy access to BWI airport and Downtown Baltimore that attracts prospects to the eastside of the region. "

- Trish Gottesman

Research & Communications Director

ABSORPTION/VACANCY RATES



QUICK STATS

14.36%
VACANCY RATE

The Route 2 Corridor showed signs of life thanks in part to the addition of 1005 Brandon Shores Road to tracking. The building added 51,000 square feet (sf) of rentable space to the market of which, approximately 25,000 sf has been leased by Constellation Energy. Overall, the submarket's direct vacancy rate dipped 0.36 percent from the third quarter of 2014 to settle at 14.36 percent.

33,160
ABSORPTION

The Route 2 Corridor experienced it's most active quarter since the fourth quarter of 2008. In addition to the Constellation absorption, activity at Quarterfield Center and along Veterans Highway also added to the area's positive momentum.

\$20.57
AVG. RENTAL RATE

The average rental rate for the submarket remained largely unchanged, as it has for most of 2013, dropping a slight \$0.36 per square foot (psf) from the third quarter's \$20.93 psf to \$20.57 psf.



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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"Currently, the Towson marketplace continues to be driven by the retail sector. The new movie theatre complex is drawing large crowds with several restaurants (Bonefish Grill) opening in the last few months. Wells Fargo Bank has relocated to the corner of York & Pennsylvania Avenues and Howard Bank opened a new branch also on Pennsylvania Avenue.

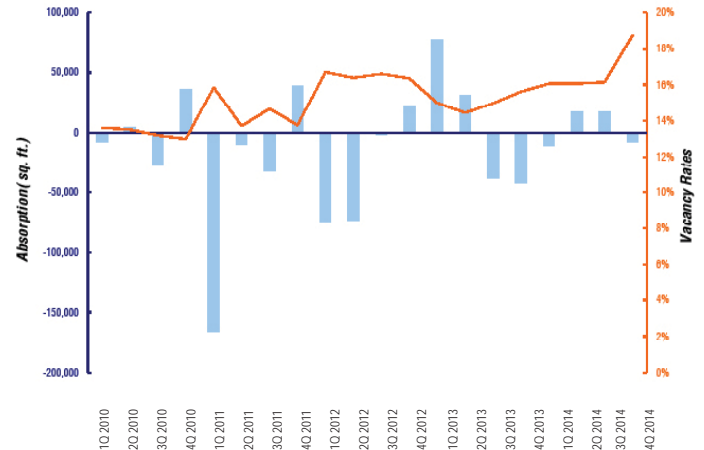
The office market feels like it is lagging behind the retail sector with rents remaining flat and very few new tenants entering the market. Buildings outside the Towson core are doing much better thanks to free parking and less congestions. Caves Valley Partners should be releasing their final plans for its Towson Row project before the end of January. I believe the long term picture for the overall Towson market looks promising with residential properties selling fast, Towson University growing, and the retail market prospering."

- Bill Whitty

Senior Vice President/Principal

ABSORPTION/VACANCY RATES

Vacancy Rates %
Absorption Rates



QUICK STATS

15.74%
VACANCY RATE

Towson's direct vacancy rate dropped slightly from 16.15 percent in the third quarter of 2014 to 15.74 percent to close out the year.

23,048
ABSORPTION

The absorption for the submarket added an additional 23,048 square feet (sf), or approximately 17,000 sf from the third quarter of 2014, and totaled roughly 46,778 sf over the course of 2014. Fourth quarter activity was driven by small and medium sized tenants taking on Bosley Avenue and West Road flanking the Baltimore Beltway.

\$21.09
AVG. RENTAL RATE

Average rental rates in Towson remain largely unchanged from the fourth quarter of 2013's \$21.06 per square foot (psf), indicating a relatively stable rate for the submarket. The rate is approximately \$1.00 psf less than the average rate for the Baltimore Metro area which stands at \$22.03 psf for the fourth quarter.



Number of Buildings	89
Market Size	5,703,924 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.



FOURTH QUARTER | 2014

MacKenzie Market Report

Retail Market

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BALTIMORE RETAIL OVERVIEW

FOURTH QUARTER | 2014



Retail in Baltimore – Food is on the Rise and Fast Casual will continue to grow

Presented by Ginny Vernick, MacKenzie Commercial Real Estate Services, LLC

Trending locally in Baltimore is a focus on quick serve food restaurants. Move over Five Guys and Checkers as the burger community is getting bigger. Burgers are making a return as evidenced by a bevy of fast casual burger operators popping up in the market including Shake Shack, Burger Joint, Steak n Shake, Smashburger, and Caliburger all have plans to open multiple locations in 2015. These crowd pleasers also please landlords by being part of an industry that saw over \$35 billion in sales in 2013 and a projected ten percent increase by the end of 2014. Next year industry experts see this remarkable growth continuing with made to order pizza restaurant innovators joining the group such as Blaze Pizza, PizzaRev and Uncle Maddies.

Story telling becomes part of the business as restaurants understand their patron's desire for a degree of accountability and interest. Buying local and supporting organic farming is an important element to today's discerning food lover who craves authenticity. Breweries are also adding interest and stepping up the competition for choice by offering micro brews designed to draw in a younger crowd looking for something different.

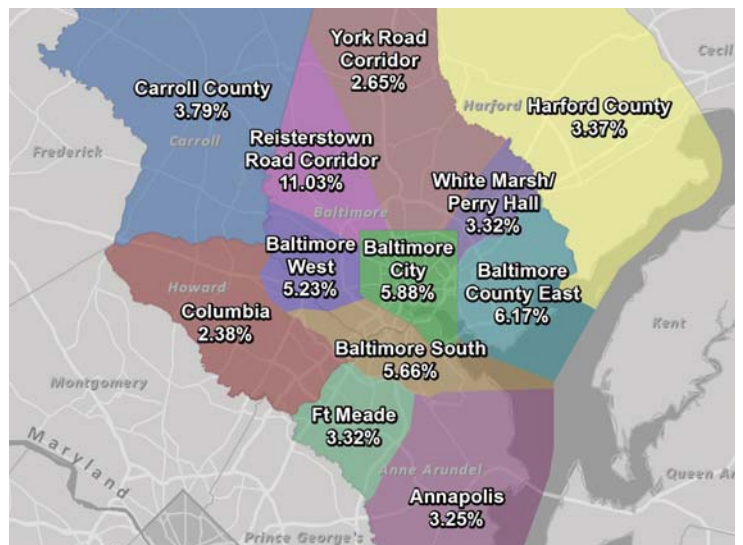
Also on the rise in Baltimore are oyster restaurants which are expanding in the form of traditional bricks and mortar (Ryleighs in Federal Hill), and roving food trucks and pop up shucking teams (Dylan's Oyster Cellar) at local festivals and events.

2014 saw a renewed interest in French foods in the Baltimore area and some are saying it could mean a possible trend for 2015 as Patisserie Poupon opens a second location, Café Poupon, and Le Garage gains popularity with its hard to beat frites shop serving potatoes, sauces, and beer.

Holiday Sales Projected to be good according to ICSC

As reported by ICSC, those confessing to being behind on their holiday shopping in November were considered to be good indicators for a strong December sales projection. Increased November sales of 4.4 percent above those of the previous year and adjusted on a seasonal basis indicate an overall positive outlook for 2014 holiday sales. Shoppers are still flocking to the shopping malls in search of gifts for those on their holiday lists and contributing to an increase seen in the sale of store categories typically found in shopping centers.

Total shopping center estimated holiday sales are estimated at \$488 billion.



QUICK STATS

4.57%
VACANCY RATE

Overall vacancy rate for the Baltimore Metropolitan Statistical Area (MSA) remains tight with multiple submarkets well under 10 percent - the rate considered by industry professionals as "healthy". The lone submarket over 10 percent remains the Reisterstown Road Corridor (11.03 percent) - a rate that is expected to remain as new retailers wait for premium locations under construction to deliver.

226,347
ABSORPTION

Strong absorption numbers, helped in part by holiday retailers taking short-term or "pop-up" locations, helped nudge the vacancy rate lower. Overall absorption has remained steady through 2014.

\$18.80
AVG. RENTAL RATE

Average rental rates remained statistically unchanged from the third quarter of 2014 to the fourth quarter having hovered between \$18.00 and \$19.00 per square foot (psf) throughout 2014. As expected, popular lifestyle centers in the Annapolis and Columbia submarkets have helped the area maintain averages above \$20.00 psf.

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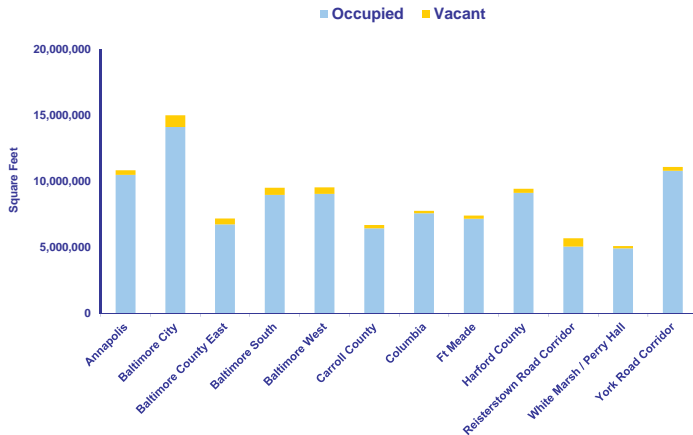
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BALTIMORE RETAIL OVERVIEW

FOURTH QUARTER | 2014

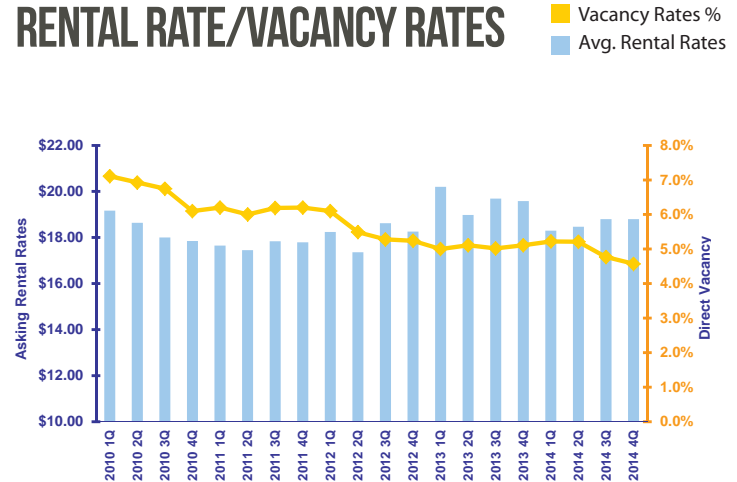


ABSORPTION/VACANCY RATES



The Columbia and York Road Corridor submarkets continue to drive traffic in the region with both areas enjoying vacancy rates below three percent. Annapolis, Carroll County, Fort Meade, Harford County, and the White Marsh/Perry Hall submarkets also show favorable rates under five percent. On the other end of the spectrum, the Reisterstown Road Corridor remains virtually flat with little change to its 11 percent vacancy rate.

RENTAL RATE/VACANCY RATES



The average rental rate for the MSA remains relatively steady for a fourth consecutive quarter. Baltimore City and Baltimore County East continue to experience rates below \$15.00 per square foot (psf). As expected, average rental rates in the submarkets along the Interstate 95 Corridor enjoy higher averages thanks in part to population density created by close proximity to both Baltimore and Washington, D.C.

HIGHLIGHTS

- Howard County's first Sonic Drive-In opened at 10160 Baltimore National Pike in Ellicott City. One of several locations throughout Greater Baltimore, fast-food restaurant is known for fare including its "Super Sonic " burgers, shakes and slushes as well as its drive-in dining experiences.
- CrossFit Harford has joined the tenant roster, signing a 3,600 sf deal in Joppa's Fashion Court.
- Goldfish Swim School was announced as the first tenant at Snowden River South. The swim school signed a deal for 10,200 square feet in the first building of a three-spec building lifestyle center at 9305 Snowden River Parkway, in Columbia.
- 1030 Light Street in Federal Hill will welcome Himalayan Bistro in Spring 2015. Construction on the new concept is already underway. Chef Danny Lamichhane's menu features fine Nepalese and Indian cuisine.
- The former Office Depot space at 815 E. Pratt St. in Little Italy will be transformed into a new Kaiser Permanente medical center in 2015. The 19,000 sf downtown Baltimore location has been described as a "multimillion-dollar project" and will house nine provider offices and 17 exam rooms.
- Developer Terra Nova Ventures' Whitehall Cotton Mill on Clipper Mill Road in Hampden is gaining momentum. The property received approval more than a year ago to move forward with redevelopment of the historic property to include apartments, offices, a restaurant, and an open marketplace similar to Baltimore's iconic Belvedere Square.
- The Time Group's 15,000 square foot open marketplace, Mount Vernon Marketplace, is gaining momentum. The group announced Annapolis' Ceremony Coffee Roasters has signed a lease for a 3,000 square foot retail space at the \$30,000,000 historic renovation. Located at 520 Park Avenue in Baltimore's Mount Vernon neighborhood, the project and its shoppes are expected to open in late spring 2015.
- The personal training studio Red Run Fitness LLC has signed a 3,000 SF lease with Merritt Properties at 10711 Red Run Boulevard in Owings Mills for a fitness center.
- National pharmacy retailer CVS made headlines early in the quarter when it announced its tenancy at 400 E. Pratt Street in the heart of Downtown Baltimore. The building has been under facade and mezzanine construction and is expected to add an additional 8,000 square feet of enclosed promenade retail space when it delivers in 2015.

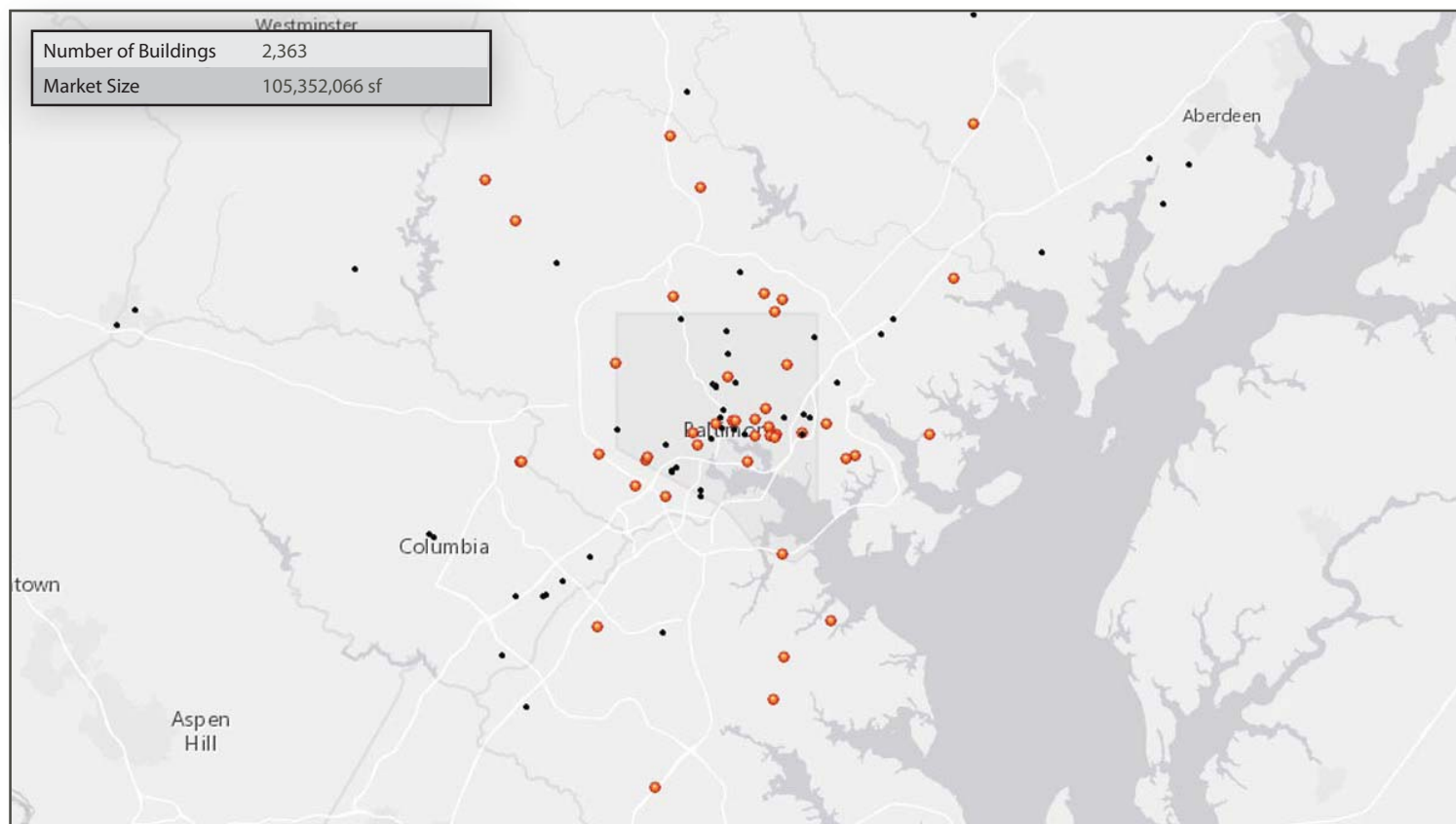
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BALTIMORE RETAIL OVERVIEW

FOURTH QUARTER | 2014



Notable Transactions

Lease

Location	Submarket	Tenant	Amount Leased SF
6901 Security Boulevard	Baltimore County West	Price Busters	30,000 sf
400 E. Pratt Street	City Center	CVS	9,600 sf
2021 Pulaski Highway	Harford County	Dentist	4,200 sf
1809 Reisterstown Road	Reisterstown Road Corridor	About Faces Day Spa	4,000 sf

Sale

Location	Submarket	Price	PSF	Building Size SF
5211 York Road	Baltimore City	\$1,950,100	\$634.80	3,074 sf
7655 Arundel Mills Boulevard	Fort Meade	\$2,900,000	\$426.35	6,802 sf

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FOURTH QUARTER | 2014

MacKenzie Market Report

Industrial Market

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BALTIMORE INDUSTRIAL OVERVIEW

FOURTH QUARTER | 2014



Regional Industrial Market Ends 2014 on a Strong Note

Presented by Anirban Basu, Sage Policy Group, Inc.

Both Warehouse and Flex Markets Sustain Momentum into the New Year

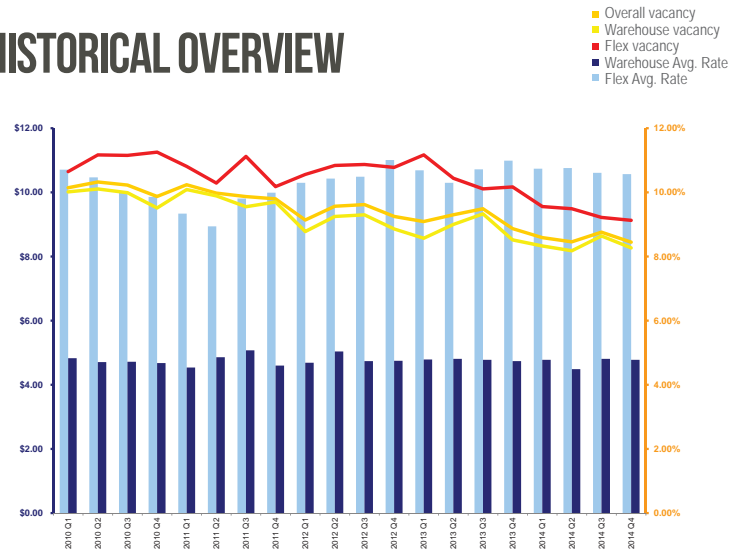
The Baltimore region's industrial market remains vibrant as various economic actors continue to leverage the region's strategic location and intermodal transportation infrastructure. Net absorption in the regional warehouse segment totaled 1.2 million square feet (msf) during the fourth quarter, with the Baltimore City market amassing 604,530 square feet (sf) of positive net absorption.

In previous years, the Harford/Cecil market had dominated regional net absorption, but that has changed, with Baltimore City's industrial sites increasing making their mark. That said, the Harford/Cecil market continues to progress in conjunction with other sub-markets. The Harford/Cecil and Annapolis markets net absorbed 297,000 and 205,000 sf, respectively, during 2014's final quarter. The BW Corridor chipped in another 125,000 sf of positive net absorption.

Regional direct vacancy fell from 8.52 percent a year ago to 8.27 percent over the past four quarters. However, despite impressive and consistent positive net absorption and steadily declining vacancy, warehouse asking rent has actually slipped over the past year, from \$4.74 per square foot (psf) to \$4.68 psf more recently. This is likely a reflection of shifting uses and also the market power of a number of rapidly expanding users of space.

The pace of improvement in the regional flex market stalled during the fourth quarter of 2014, net absorbing -2,594 sf. However, year-to-date, the market has net absorbed more than half a million square feet. The Harford/Cecil market leads the way, with net absorption of 171,054 sf over the past year. Currently, Harford/Cecil's availability stands at 12 percent, slightly less than regional average availability of 13.3 percent. The BW Corridor has net absorbed more than 130,000 sf over the past year, while Baltimore City has net absorbed more than 82,000 sf. As with the warehouse market, asking rent has slipped, from \$10.99 psf a year ago to \$10.74 psf today.

HISTORICAL OVERVIEW



QUICK STATS - FLEX

9.13%
VACANCY RATE

-2,594
ABSORPTION

\$10.57
AVG. RENTAL RATE

QUICK STATS - WAREHOUSE

8.29%
VACANCY RATE

1,194,579
ABSORPTION

\$4.12
AVG. RENTAL RATE

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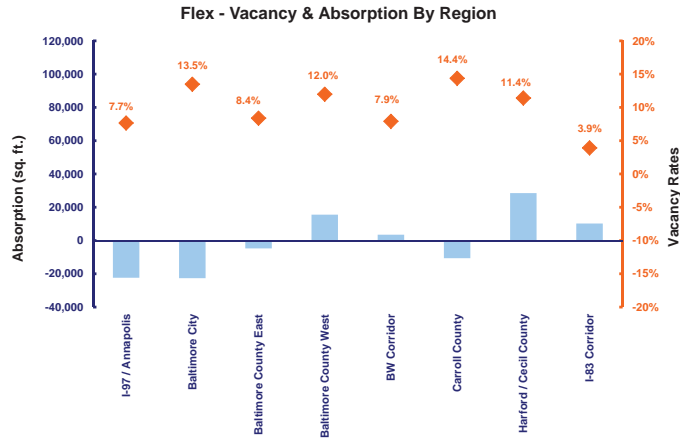
BALTIMORE INDUSTRIAL OVERVIEW

FOURTH QUARTER | 2014



ABSORPTION/VACANCY RATES

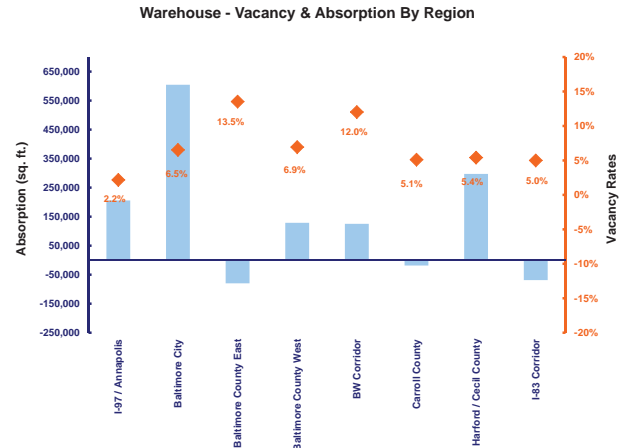
Vacancy Rates %
Absorption Rates



Activity within the flex market was remarkably quiet throughout the fourth quarter with the largest changes coming from the Baltimore City and Harford County/Cecil markets which experienced a 22,614 sf decrease and a 28,500 sf increase in absorption respectively. Both the Arbutus and Harford/Cecil County markets continue to improve; the submarkets saw nearly a 7 percent and 5.7 percent decrease in vacancy from the same period one year ago. This strong reduction in vacancy, spearheaded by Harford/Cecil which absorbed approximately 171,000 sf over the course of 2014, is the result of the region absorbing more than 500,000 of space in 2014. Rental rates for the region remained steady with strong quarterly gains in Baltimore County East and Harford/Cecil to increase the overall average rental rate for the region up \$0.17 from \$10.57 psf in the third quarter to \$10.74 psf in the fourth.

ABSORPTION/VACANCY RATES

Vacancy Rates %
Absorption Rates



Warehouse activity for the Baltimore region dipped a slight 0.36 percent from the third quarter's 8.66 percent to 8.27 percent in the fourth quarter of 2014 due to strong numbers in the Baltimore City (604,530 sf), Harford/Cecil (297,198 sf) and Annapolis (205,737 sf) markets as major tenants such as Sephora and Amazon took occupancy of new locations. The Baltimore County West submarket saw the greatest quarterly reduction in vacancy, 4.31 percent drop from third quarter's 8.25 percent to 3.94 percent in the fourth quarter as the area absorbed approximately 75,000 sf of warehouse space. Rental rates remained statistically unchanged over the quarter and are slightly less than the fourth quarter of 2013's \$4.74 psf at \$4.68 psf.

HIGHLIGHTS

- In addition to signing a lease for 14,000 sf of office space at 8161 Maple Lawn Boulevard in Fulton, Maryland, network provider Presidio has signed an additional lease for 19,000 sf of flex space in the project's industrial area at 11850 West Marketplace.
- Virginia based trucking company NCD Virginia has leased 32,000 sf at 2201 Eagle St. in Baltimore, Maryland. The 90,000 sf industrial building was renovated in 1990 and features 11 loading docks, three drive-in bays and a 24-foot max clear height.
- Slated to deliver the first quarter of 2015, developer Chesapeake Real Estate Group broke ground on a speculative 100,685 sf warehouse and distribution facility at 11501 Pocomoke Court in Middle River, Maryland. The project is expected to feature 28-foot clear heights, 21 rear loading docks, two drive-in doors, a 125-foot truck court, and an adjacent 125-space surface parking lot. This is the sixth project built

within Baltimore Crossroads @I-95 for Chesapeake.

- 8242 Sandy Court in Jessup, Maryland will welcome Samaritan's Purse, a non-profit organization, to 55,000 sf. Built in 1981, the 171,800 sf building will assist the organization with it Operation Christmas Child project, which gathers and ships gifts to children around the world.
- Cabinet and woodworking distributor Wurth Wood Group signed a 78,000 sf lease extension at their location at 6660 Santa Barbara Road in Elkridge, Maryland. The 162,000 sf warehouse facility is located in Baltimore's BW Corridor Industrial submarket.
- International cash distribution firm Loomis Armored U.S. will relocate from its current location in Rosedale, Maryland to 4979 Mercantile Road.

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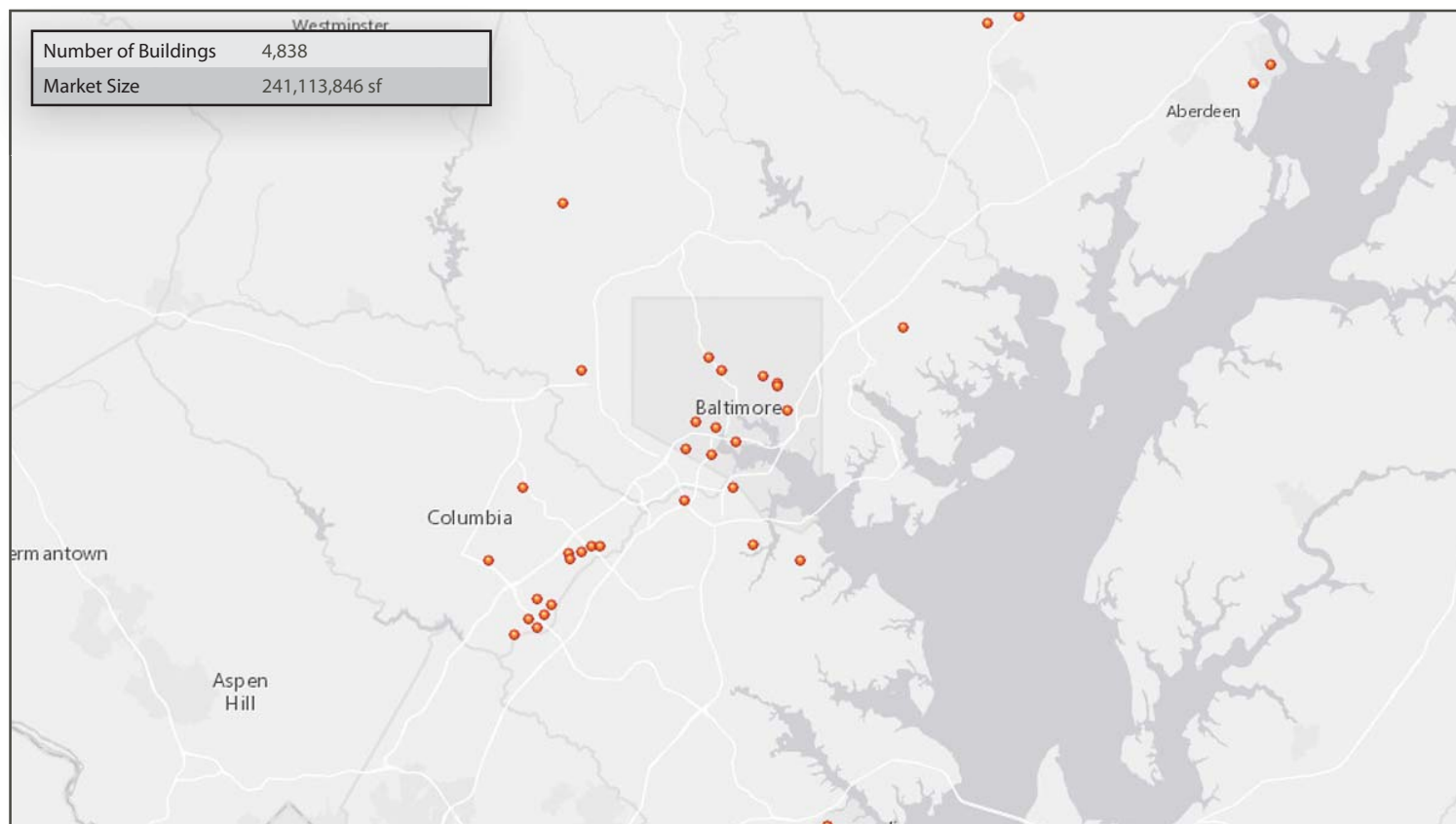


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BALTIMORE INDUSTRIAL OVERVIEW

FOURTH QUARTER | 2014



Notable Transactions

Lease

Location	Submarket	Tenant	Amount Leased SF
4309-4401 Erdman Avenue	Baltimore City	Columbia Container	68,000 sf
7077-7081 Oakland Mills Road	Columbia	Event EQ	45,600 sf
8909 McGraw Court	Columbia	US Recycle Group	28,500 sf
8951-8933 Yellow Brick Road	Baltimore County East	JPK & Associates	12,800 sf

Sale

Location	Submarket	Price	PSF	Building Size SF
8235 Patuxent Range Road	BW Corridor	\$26,700,000	\$110.46 psf	241,709 sf
8576 Old Dorsey Run Road	BW Corridor	\$5,500,000	\$1,044.38 psf	5,264 sf

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