MACKENZIE
COMMERCIAL REAL ESTATE SERVICES, LLC

BALTIMORE METROPOLITAN AREA MARKET REPORT

OFFICE | INDUSTRIAL | RETAIL | CAPITAL MARKETS | ECONOMY

1ST QUARTER
2017

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DOWNTOWN BALTIMORE

Contributed by The Downtown Partnership of Baltimore
Kirby Fowler, President | www.godowntownbaltimore.com

GoDowntownBaltimore.com

This quarter, MacKenzie reached out to their industry partner, The Downtown Partnership of Baltimore, for an update on what is happening in Maryland's largest business center, cultural district, and fastest growing neighborhoods. Kirby Fowler, President of the Partnership, provided the following excerpt from their recently published state of the market report.

In March 2017, the Downtown Partnership of Baltimore released its most recent State of Downtown Report, reviewing the health of the residential, employment, retail, and hospitality sectors in 2016. The Report underscores how Downtown Baltimore is continuing to thrive. It is the economic engine for the city and region, generating extraordinary returns far beyond its small footprint.

The geographic area of the Report's data collection has a one-mile radius with the epicenter at Pratt and Light Streets. It encompasses parts of multiple Downtown neighborhoods, including: Charles Center, Preston Gardens, the Bromo Arts District, Jonestown, Federal Hill, Harbor East, Harbor Point, Sharp-Leadenhall, and Pigtown. The area is barely 4% of Baltimore's total geography but contains 29% of all the city's businesses and 35% of its jobs. Furthermore, Downtown neighborhoods contribute 75% of Baltimore's parking tax revenue ($22.2 million), 16% of its income tax revenue ($44.5 million), 85% of the hotel tax revenue ($29.3 million), and just over 17% of its real property tax revenue ($122.2 million).

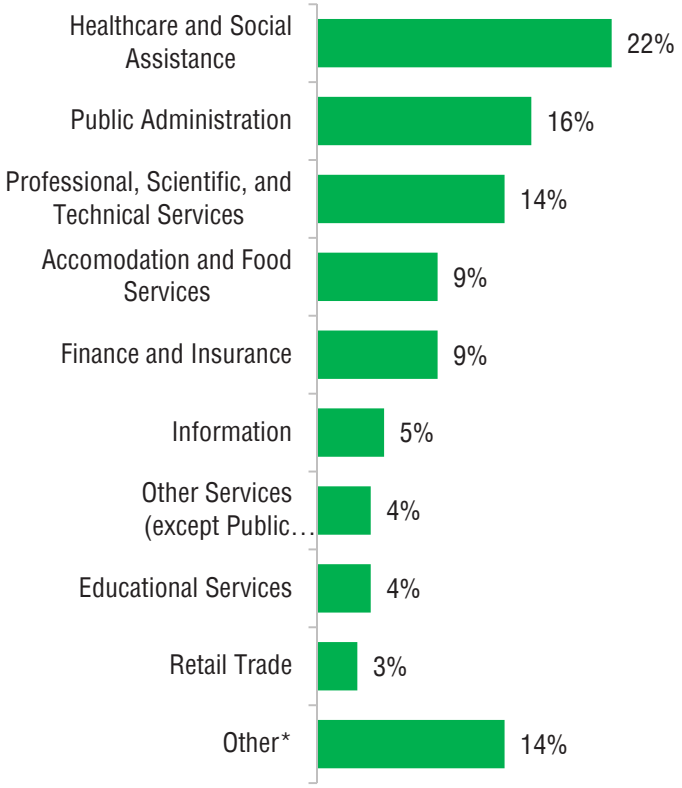
In 2016, major projects came to life, like the completion of the Under Armour Performance Center Powered by FX Studios, at 10 Light; the blink-and-you'll-miss-it construction of 414 Light Street and 500 Park Avenue; and the opening of Harbor Point's first phase. Look around the next time you leave the office or walk to your favorite deli at lunch. The sidewalks and bike paths are filled with commuters, new restaurants are popping up every week, and 'For Lease' signs are coming down as our tech industry blossoms and new employers seek to give their staff the best work/life balance available.

Report highlights include:

- The total number of jobs in Downtown increased last year, from roughly 119,000 in 2015 to over 122,000 in 2016 - ranking Downtown Baltimore 14th in the country in the number of employees in a downtown area.
- The number of residents also increased year over year, now totaling 42,861 and ranking Downtown Baltimore 10th in the country — ahead of such cities as Denver, Miami, Houston, Atlanta, Charlotte, and Pittsburgh.
- Last year, the office occupancy rate in Downtown held steady at 84%, which is impressive considering the new inventory that came on-line in Harbor Point. Downtown continues to see intense activity along the Pratt Street corridor and in Harbor East, which remained the two strongest office sub-markets.
- Rental housing occupancy dropped modestly to 91.3% in 2016, as two major residential projects were delivered. As these large projects continue their strong leasing activity, the overall Downtown occupancy number is expected to even out to its typical 94–95%. The most noteworthy delivery of 2016 was Mulberry at Park, 68 spacious units of affordable housing in the heart of Downtown.
- The sale of million-dollar condos created a big jump in Downtown average sale prices last year. With luxury homes at the Ritz Carlton currently for sale and the Four Seasons residences primed to come on the market, Downtown will continue to see a rise in sale price figures.

To view full State of the Market Report, visit www.godowntownbaltimore.com

Employment by Industry Sector



**Consists of the following sectors: Arts, Entertainment & Recreation; Administrative; Real Estate; Manufacturing; Utilities; Transportation; Construction, and other services. Each of these categories consisted of less than 2% of the total employment. Source: Claritas*

CAPITAL OUTLOOK

Contributed by William E. Goetschius, VP, MacKenzie Capital, LLC

We are excited and positive about the prospects for the real estate equity and debt capital markets this year. Uncertainty breeds opportunity in the capital markets. Regulatory requirement reform, interest rate increases, plenty of capital looking for a home, and generally strong CRE fundamentals are all in the mix for 2017.

FED RATE INCREASES: THE GLASS IS HALF FULL

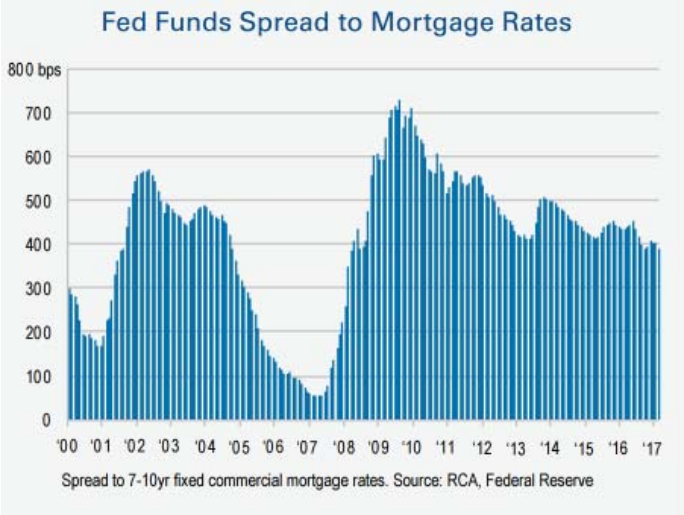
In light of a generally improving economy and prospect of inflation, the Fed has stated its intention to raise rates – twice as of this writing and forecasted for at least once more this year. This will have an impact on pricing, and perhaps later, on cap rates which will directly impact value and leverage. That said, much of the Fed's rate increases have already been priced into the bond market and global economic uncertainty has incentivized investors to eagerly buy safe US treasuries, which has flattened the long-term yield curve. To make up for this, lenders have increased spreads over treasuries to account for inflation risk and the potential for cap rates to rise along with inflation, as they have historically. We see this trend continuing, however the wide variety of lenders actively looking for deals in this market will avail entrepreneurial borrowers of the leverage, structure, and terms they need from sources they wouldn't immediately expect. We will watch this closely in the months to come.

A CAPITAL CORNUCOPIA

Despite the Fed increases, borrowers remain in the driver's seat in this environment. There are plenty of financing options (and structures) from a variety of sources that are eager to do deals. Debt funds which offer flexibility on leverage, pricing, and structure that certain traditional lenders cannot, are active now, as are life companies, more and more of which are hunting for creative ways to increase their returns. We see lenders of all types looking to do more deals in healthier secondary markets, like the Baltimore region where they can get a better yield on their buck for the risk. Borrowers should bring an open mind, a strong backbone, and realistic pricing expectations.

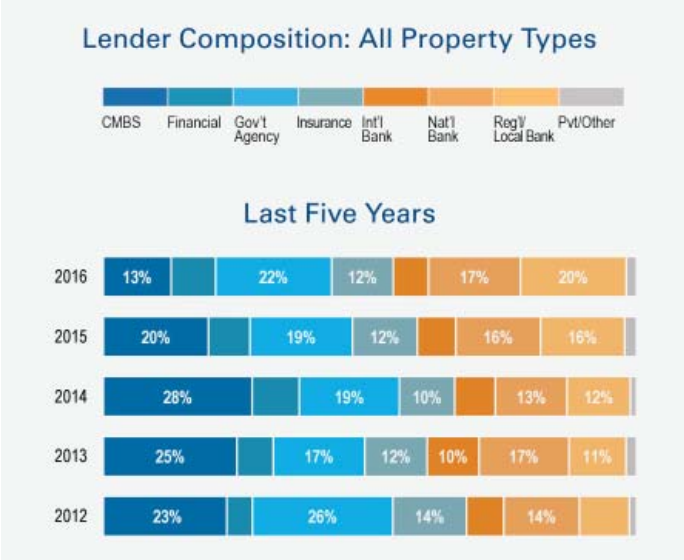
REGULATORY REFORM: HOW'S IT GONNA BE?

With a pro-business federal administration and congress, the positive outcomes for carried interest tax reform and a repeal of Dodd-Frank, with its onerous risk retention rules, are getting closer to reality. If risk retention rules are repealed, we see lenders being much more aggressive on leverage and amenable to cash-out refis than they had been under the prior regulatory regime. With $10 billion to $17 billion of CMBS coming due each month until June of this year, repealing these rules could have a major and positive impact on the CMBS lending market. Since many of the loans coming due this year were initially signed at the top of the previous real estate cycle, they are not able to be refinanced through CMBS securitizations at today's tougher underwriting standards. Repealing these rules will give borrowers more options and allow lenders to be even more flexible.



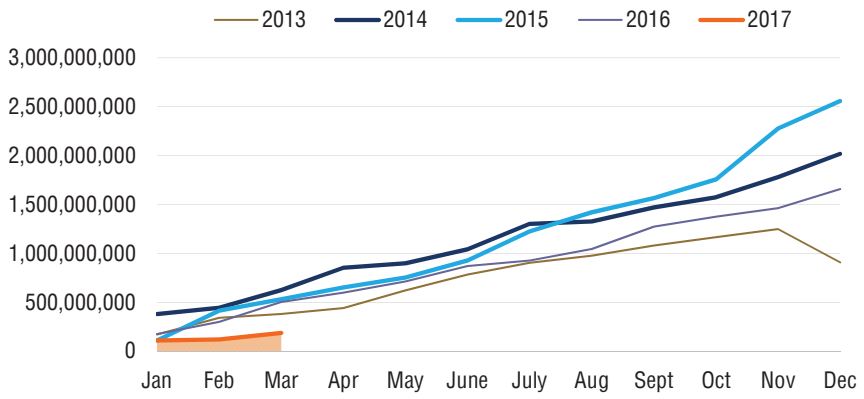
2016 Lender Summary

	Avg Loan Size ($m)	Avg LTV	Avg Cap	Avg Occ
CMBS	12.8	60.9%	7.0%	92.6%
Int'l Bank	20.6	67.8%	5.9%	95.1%
Nat'l Bank	11.6	68.7%	5.7%	96.6%
Reg'l/Local Bank	5.9	71.3%	6.3%	96.7%
Financial	18.3	76.5%	5.8%	90.3%
Insurance	22.2	64.8%	6.2%	96.0%
Grand Total	11.2	68.5%	6.3%	94.8%



INVESTMENT SALES

HISTORICAL MONTHLY VOLUME ($)



8.2% AVERAGE CAP RATES

$317M SALES VOLUME

$162 AVERAGE PRICE PSF

OFFICE PROPERTIES

Office investment sales volume was approximately $278 million. The average square feet sold in a property was 62,274 sf. The average price per square foot was $190; for investment sales this was around $94 over the past year (median was $130). Cap rates averaged 10%.

Pricing Analysis

	Price($ per sf) | Quartile Distribution*					Cap Rate (Yield) | Quartile Distribution*				
	Bottom	Bottom 25%	Median	Top 25%	Top	Bottom	Bottom 25%	Median	Top 25%	Top
Baltimore Metro Area	6	101	130	185	333					
Benchmark	6	98	160	261	1,768	8.6%	7.4%	6.8%	5.9%	3.4%

RETAIL PROPERTIES

Retail investment sales volume was approximately $38 million. The average square feet sold in a property was 13,231 sf. The average price per square foot was $112; for investment sales this was around $140 over the past year (median was $197). Cap rates averaged 7.7%.

Pricing Analysis

	Price($ per sf) | Quartile Distribution*					Cap Rate (Yield) | Quartile Distribution*				
	Bottom	Bottom 25%	Median	Top 25%	Top	Bottom	Bottom 25%	Median	Top 25%	Top
Baltimore Metro Area	26	130	197	355	979	8.8%	6.6%	6.5%	5.7%	4.8%
Benchmark	5	121	218	396	11,633	12.2%	7.5%	6.6%	5.8%	2.2%

INDUSTRIAL PROPERTIES

Industrial investment sales volume was approximately $55 million. The average square feet sold in a property was 590,440 sf. The average price per square foot was $108; for investment sales this was around $115 over the past year (median was $77). Cap rates averaged 7.1%.

Pricing Analysis

	Price($ per sf) | Quartile Distribution*					Cap Rate (Yield) | Quartile Distribution*				
	Bottom	Bottom 25%	Median	Top 25%	Top	Bottom	Bottom 25%	Median	Top 25%	Top
Baltimore Metro Area	18	53	77	117	533					
Benchmark	4	48	73	107	922	10.0%	7.3%	6.8%	6.2%	2.8%

* Quartile distributions are 12-month rolling totals. Sales totals are a combination of data received from research, CoStar, and Real Capital Analytics. Graphs and some data are from Real Capital Analytics, dated Mar 27, 2017.

ON THE HORIZON | UPCOMING PROJECTS

Selected sampling of current construction and proposed projects.

Downtown Ellicott City | Columbia
Tea on the Tiber, a Victorian tea room on Main Street, just officially reopened late-February. So far, over 50 businesses have successfully reopened in the several months after the flash flood in July 2016, and several more are expected to reopen this spring. The flood impacted 90 businesses overall and caused millions in damage.

Eastgate 95 Industrial Park | Harford County
Construction has begun on the first phase of a possible 2.5 million sf Class A warehouse and distribution space in Perryman. They held a ground breaking ceremony earlier this year. The plans call for three buildings that will cover a 243-acre site between Amtrak and the Aberdeen Proving Ground. Phase 1 calls for development of 1100 Woodley Road, a 656,800 sf Class A distribution center scheduled to deliver Fall 2017. Future plans include development of 1500 Woodley Road (a 1,027,500 sf distribution center) and 1000 Woodley Road (a 624,500 sf facility). Eventually they may expand 1100 Woodley to over 1.5 million sf and connect Woodley Road to Route 715.

Guinness Brewery | Baltimore County West
Guinness has announced that it will open a brewery in southwest Baltimore County, which will be the first to open in the US in 63 years. The site is 5001 Washington Boulevard and will include a beer packaging center, warehouse, and tasting taproom. Construction is currently slated for the spring with a potential opening late 2017.

Liberty Harbor East | Harbor East
A $170 million mixed-use project is under construction (started late 2016). The development will include a 50,000 sf Whole Foods market which will anchor the street level retail.

Loyola Northway | Reisterstown Road Corridor
New construction plans were announced just off of Reisterstown Road near Loyola Northway. Plans are to build an 80-unit senior housing development complete with ground-level retail.

Madison Park North | Baltimore City West
Madison Park North Apartments in Reservoir Hill are in the process of being demolished. In their place will be 300 - 500 new apartments and 73,000 sf of retail space. This space is being developed by MCB Real Estate and MLR Partners. Developers hope to also dedicate 30,000 sf to medical offices including a possible community health center. The office space will include co-working office space, and space for tech companies. Once existing apartments are demolished, developers expect construction to begin within two years.

MedStar Renovations | I-83 Corridor
MedStar Health recently consolidated several of its offices into the 48,000 sf 2118 Greenspring Drive which is currently being renovated and is scheduled to open in August 2017. Renovations will add 8,000 sf to the second and third floors and will cost roughly $10 million.

Construction Continues to Show Promise for 2017

Joe Versey, VP of Business Development for MacKenzie Contracting

2016 was a strong year for construction and all signs point to 2017 being no different. A few years ago finding work was a challenge, now it seems the work is plentiful but finding people to do it has brought a whole new set of challenges. The trades are struggling to keep up with demand and with so little influx into the industry and many retiring, finding good help has become very difficult. While local industry organizations such as Building Congress & Exchange are working with high schools to expose more young people to the industry, and Associated Builders and Contractors have their apprenticeship program as well as Project Jumpstart, we continue to see a decline in construction jobs being filled. With a rise in material costs, coupled with labor demands and a modest increase in margins, you could see a spike in construction costs should the current trends continue. Despite these internal struggles, the continued demand of mixed-use, multi-family, healthcare, office and retail construction positions the industry at its strongest since the recession. Retail construction has been the real surprise; while online shopping has spiked tremendously in recent years, bricks and mortar retailers have adapted through diversifying to the needs of consumers.

Sagamore Spirit Distillery, Port Covington

Liberty Harbor East

DEVELOPMENTS CONT'D.

Offices at Power Plant Live! | City Center
The Cordish Companies announced that they will double their downtown co-working space in the upcoming year at Spark in The Offices at Power Plant Live!. They currently have 30,000 sf and are adding (opening late Spring) over 18 offices, two conference centers, and event space on another floor. The Cordish Companies have also announced their next renovations for the first-floor lobby that will include a formal welcome area, an event space, and possibly a gym as well.

Port 95 Industrial Park | Southeast Baltimore
Chesapeake Real Estate Group LLC is building 550,000 sf of warehouse and distribution space across two buildings at the Port 95 Industrial Park. One building of 415,000 sf broke ground in February, while the other 140,000 sf building plans to begin construction in the Spring and both should be complete by Fall 2017.

Port Covington | Harbor East
Sagamore Development Co., LLC has purchased two more land areas in South Baltimore as part of the Port Covington redevelopment. They purchased 101 W. Cromwell Street for $3.32 million, and 2400 Clarkson Street for $1.3 million. Both properties were initially owned by the National Aquarium. Space will be used for a public park at Port Covington and parking garage space, respectively. Currently, Sagamore has said the development is a 15 - 20 year project. Sagamore Spirit Distillery is scheduled to open late April and will be one of the first completed projects in Port Covington. Ground is expected to be broken in late 2017 or early 2018 on the initial phase of the 266-acre project.

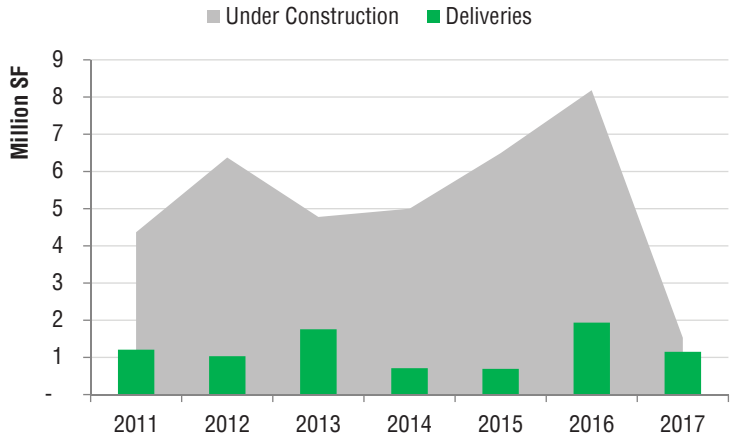
Principio Business Park | Cecil County
Principio Business Park, along Route 40 in Cecil County, is in the final stages of a 1.15 million sf fulfillment center (Principio Commerce Center I) for Amazon. Amazon hopes to move in by the end of 2017. In the same plaza, they have begun construction on a 800,000 sf regional headquarters and warehouse for Lidl (a German grocer company).

Shops at Canton Crossing Phase II | Baltimore City East
In the process of development for phase II, which will include a 90,000 sf addition to the existing shopping center. Construction is estimated to start in November. Nordstrom Rack is one of the first stores that already agreed to lease space.

Towson Row | Towson
Caves Valley Partners are still developing Towson Row and plan to build a mixed-use community with 200,000 sf of office space, 100,000 sf of retail, a hotel and student housing, anchored by Whole Foods. However Towson Row has hit a temporary setback with the discovery of a layer of rock beneath the land - forcing them to develop more space above-ground rather than underground. Whole Foods is expected to open in 2018.

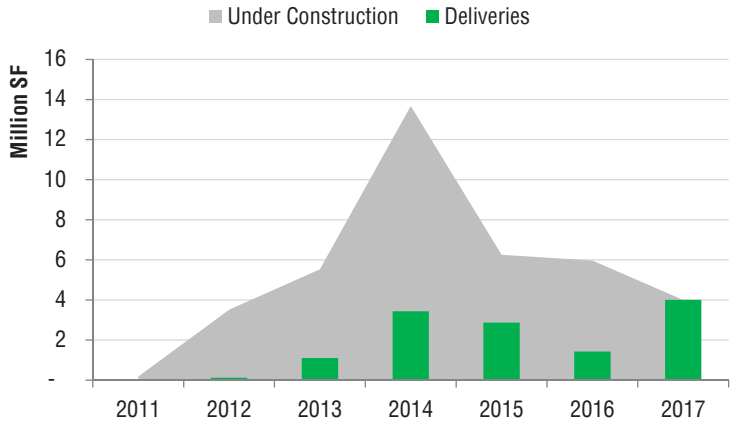
Office Properties Under Construction*

Currently Under Construction (QTD): 1,526,870 sf
Delivered (QTD): 449,079 sf



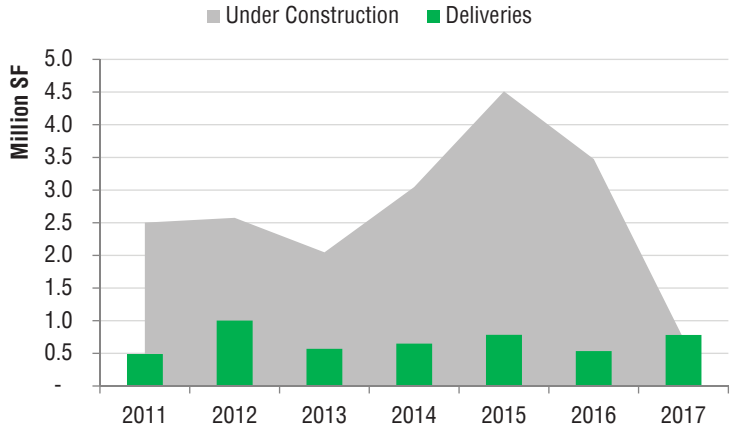
Industrial Properties Under Construction*

Currently Under Construction (QTD): 3,998,284 sf
Delivered (QTD): 350,550 sf



Retail Properties Under Construction*

Currently Under Construction (QTD): 726,780 sf
Delivered (QTD): 466,878 sf



Includes forecasted deliveries for later quarters in 2017

THE NUMBERS

	DIRECT VACANCY			ABSORPTION		ASKING RENTAL RATES*		
SUBMARKET	2017 Q1	Quarter Change	Annual Change	Qtr Net	YTD	2017 Q1	Quarter Change	Annual Change
Baltimore City East	8.8%	+1.8%	-0.2%	-41,784	-41,784	$25.84	+$1.90	+$5.46
Baltimore City Midtown	9.1%	+0.2%	+0.2%	-13,513	-13,513	$20.54	+$2.99	+$0.53
Baltimore City North	9.6%	-1.2%	-1.8%	32,486	32,486	$26.19	-$0.99	-$0.64
Baltimore City South	2.1%	-0.4%	-4.1%	4,675	4,675	$23.20	+$1.54	+$0.42
Baltimore City West	27.4%	-1.0%	+0.4%	10,321	10,321	$23.75	+$0.00	+$7.42
Baltimore City	**12.5%**	**+2.0%**	**+1.9%**	**-7,815**	**-7,815**	**$24.23**	**+$0.34**	**+$4.31**
City Center A	30.1%	+1.6%	+2.0%	-44,874	-44,874	$23.30	-$0.55	-$0.07
City Center A+	6.0%	-0.4%	+1.0%	22,264	22,264	$30.41	+$0.75	+$1.19
City Center B	21.8%	-0.4%	+2.9%	-261	-261	$18.38	-$0.25	+$0.75
City Center B+	19.8%	-1.0%	+7.8%	19,071	19,071	$22.86	-$0.04	+$1.57
City Center	**16.7%**	**+0.1%**	**+3.1%**	**-3,800**	**-3,800**	**$23.08**	**-$0.04**	**+$1.02**
Baltimore + CBD	**15.0%**	**+0.9%**	**+2.6%**	**-11,615**	**-11,615**	**$23.47**	**+$0.13**	**+$2.00**
Baltimore County East	14.3%	+2.2%	-0.1%	-45,207	-45,207	$21.78	-$0.21	+$0.06
Baltimore County West	13.8%	+0.3%	-2.8%	-8,322	-8,322	$20.44	-$0.00	-$0.66
Harford County	21.2%	-0.5%	-2.7%	14,475	14,475	$22.74	-$0.16	-$0.28
I-83 Corridor	9.2%	+1.6%	-0.5%	-14	-14	$20.93	-$0.43	-$1.17
Reisterstown Rd Corridor	17.6%	-1.5%	-0.8%	39,094	39,094	$21.74	+$0.55	-$0.12
Towson	15.2%	-1.0%	-1.9%	45,333	45,333	$21.39	+$0.02	+$0.79
Northern Metro	**14.5%**	**+0.3%**	**-0.8%**	**45,359**	**45,359**	**$21.58**	**-$0.01**	**-$0.22**
Annapolis	13.9%	-0.2%	-2.6%	7,435	7,435	$27.84	+$0.91	+$0.93
BWI	15.3%	+0.1%	+2.3%	44,373	44,373	$25.28	+$0.01	+$1.08
Columbia	8.8%	+0.0%	+0.0%	27,049	27,049	$25.31	+$0.00	-$0.11
Route 2 Corridor	13.1%	+0.0%	-0.7%	5,024	5,024	$22.90	+$0.00	+$1.77
Southern Metro	**11.8%**	**-0.1%**	**+0.4%**	**83,881**	**83,881**	**$25.57**	**+$0.18**	**+$0.54**
Totals	**13.7%**	**+0.4%**	**+0.6%**	**117,625**	**117,625**	**$23.42**	**+$0.08**	**+$0.75**

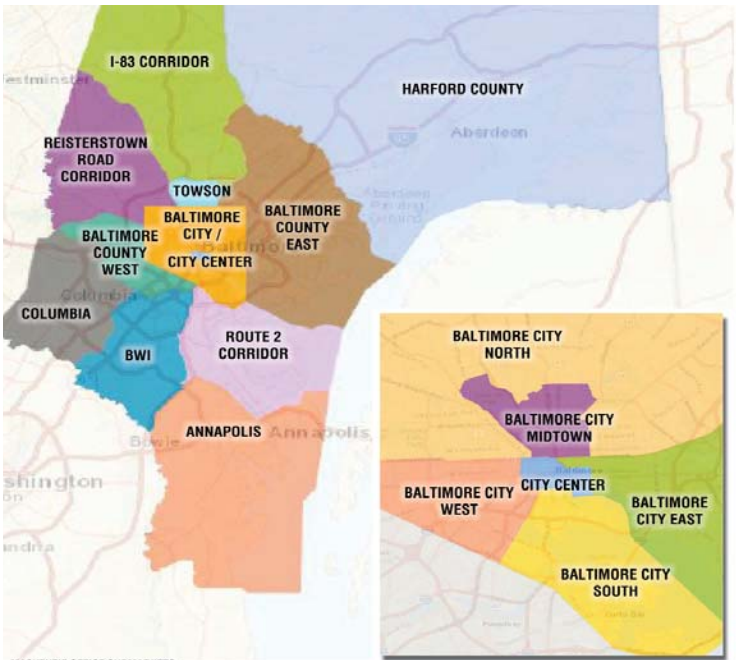
**Rental rates are weighted average.*

13.7%
VACANCY RATE

117,625
YTD ABSORPTION

$23.42
AVG. RENTAL RATE

SUBMARKET SNAPSHOTS



DOWNTOWN

Baltimore City | *Mark Deering, Senior Vice President/Principal*
Activity during winter months is historically slower than the rest of the year. Therefore, the Baltimore City submarket's slow start to 2017 is no exception. And the reasons, perhaps there is a hangover from the 2016 elections? And will the Trump effect have a positive impact on Baltimore City? Only time will tell. It is encouraging that Baltimore added more jobs in 2016 than anytime the past 8 years. We anticipate an uptick in both activity and net absorption in 2017.

City Center | *Terri Harrington, Senior Vice President*
While 1st Quarter leasing resulted in no real notable activity, investors were busy as their focus turned to the office inventory north of Pratt Street. Several buildings could soon be under new ownership as the result of auction, sale, or foreclosure. Some of the more notable buildings now in play are 1 North Charles Street (known to many as the Blaustein Building), 200 St. Paul Place (St. Paul Plaza), and 25 S. Charles (M & T Bank Tower). 7 St. Paul and 111 Market Place closed in the 1st Quarter along with 10 E. Baltimore Street. For tenants it is mostly business as usual as new ownership has generally retained the current management in an effort to make the transitions seamless.

NORTHERN METRO

Baltimore County East | *Henson Ford, Real Estate Advisor*
After a year of steady improvement, Baltimore County East experienced an increase in vacancy this quarter of 2.2%. One transaction of note that contributed to this increase was the relocation of Comcast to Baltimore City. All other activity remains dominated by medical uses and tenants needing 5,000 sf or more, though we are seeing smaller users looking into Class B office/flex space. COPT's offerings began to go under contract bringing a hope that new ownership energy results in an increased interest and leasing. Retail offerings along Campbell Boulevard continue to deliver bringing additional traffic and visibility while at nearby White Marsh Mall, retailers continue to close their doors. Look for unconventional uses to backfill some of this available retail space.

Baltimore County West | *Matt Mueller, Vice President*
Activity remained flat from year-end through the 1st Quarter with numbers barely adjusting, noting a vacancy increase of a mere 0.3%. While numbers won't be effected this quarter, Knott's SPEC project situated at 2270 Rolling Run Drive has had significant success, recently signing two tenants and bringing the project to a commitment of 68%. One was a government contractor, the other, tech firm Apprio. These deals are continued evidence that interest and activity in this submarket remains dominated by the federal entities situated there and the firms that serve them.

Harford County | *Beetle Smith, Senior Vice President*
The Aberdeen area of Harford County continues to struggle with a high vacancy rate for office. The bright spot is that there is serious talk of another BRAC and increased defense spending, both of which could be good for Aberdeen Proving Ground and thus Aberdeen as a whole. The rest of Harford County continues to move along at a steady, medium pace. All types of small businesses seem to be in the market, not just the medical users who have been leading the way. We are seeing accountants, insurance agents, financial advisors, and more looking to upgrade their space, or to own.

I-83 Corridor | *Joe Bradley, Senior Vice President/Principal*
Of the suburban office markets in the metro area, only Columbia surpasses the I-83 corridor; and, just barely (.05%). Quality product, quality tenant base, abundant amenities in every direction, and dynamite accessibility - this is what draws companies and quality employees. JMT moved into a "just delivered" 130,000 sf Class A building on Wight Avenue, which is directly adjacent to the HMS building at 20 Wight Avenue. There are few opportunities for companies to find blocks on contiguous space in excess of 15,000 square feet. I am predicting that the submarket's vacancy rate will further tighten in the months to come.

Reisterstown Road Corridor | *Meghan Roy, Vice President*
While this submarket's latest retail attraction, Foundry Row, continues to breathe new life into the area's retail offerings, the office market is starting to feel the positive effects with vacancy decreasing by more than 1.5% this quarter and rental rates edging higher. The majority of deals this quarter were smaller in nature, less than 3,000 sf. Two worth noting were expansions from existing tenants; Direct Travel moving from Painters Mill to 11620 Red Run Boulevard and BOC which grew their footprint at BECO Towers. Projects to watch this year continue to be Foundry Row, Metro Center, and the redevelopment of Owings Mills Mall.

Towson | *Bill Whitty, Senior Vice President/Principal*
Towson's commercial market is showing signs of increased activity as we finish the 1st Quarter. Several new tenants from outside of Towson's core are relocating to the core for a more live, work, play atmosphere. Showings in the 1st Quarter increased as well, with new buildings on the market for sale. I believe the new offerings of the Towson housing market coming on line will spur increased activity in the Downtown portion which will eventually benefit commercial leasing. Reliable sources are also speculating that the developer of the Towson Row project is in negotiations to sell to another local developer with the announcement coming in April.

SOUTHERN METRO

Annapolis | *John Gallagher, Real Estate Advisor*
The Annapolis office submarket continues to see a surge in activity from both small and large tenants (more than 10,000 sf) resulting in declining vacancies and increased rental rates through the 1st Quarter. The rise in asking rents (now highest in the Baltimore region) can be attributed to the large vacancies within a small number of buildings being filled. Looking ahead this year, St. John Properties' ongoing construction and proposed projects at Harry S. Truman Parkway (more than 100,000 sf), coupled with FTI Consulting (50,000± sf) leaving the market in the 3rd Quarter will create an increase in supply and vacancy. Despite the expected rise in interest rates, we continue to see increased buyer/investor interest – good opportunity for sellers.

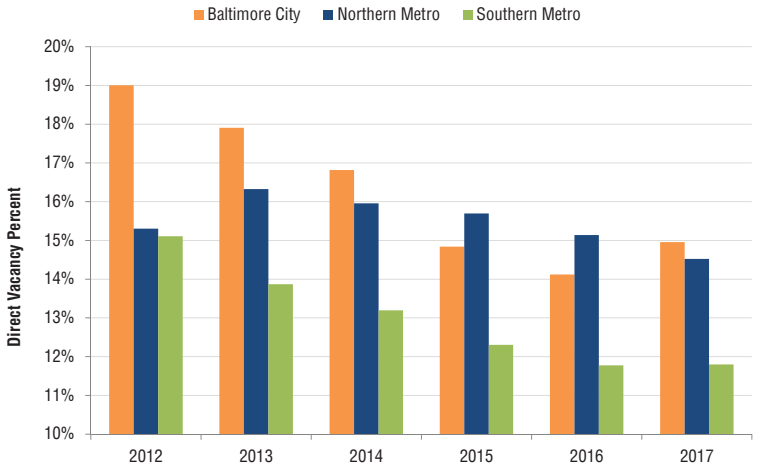
BWI | *Bethany Hobbs, Real Estate Advisor*
The BWI submarket fared well during the 1st Quarter. With some older product languishing vacant for quite some time, new energy spurred by area ownership changes and significant renovation has resulted in promising activity. Several flex and industrial deals of at least 13,000 sf to 51,000 sf were signed during the quarter in Linthicum, Elkridge, and Savage. Office leases are being signed in Linthicum including one for 40,000 sf, and we are seeing notable office and retail activity in the revitalizing Odenton area. Land has also changed hands in this submarket with future development almost guaranteed. It remains to be seen if this activity is a fluke or a trend.

Columbia | *Allison Perry, Real Estate Advisor*
Ending 2016 strong and with a reputation as a healthy and stable real estate environment, the Columbia submarket continued to prove during the 1st Quarter that this will not change any time soon. Vacancies in the area continue to decrease as Columbia becomes an increasingly popular destination for businesses and residents alike due to its revitalization by major developers in the area, and its geographical stance being equidistant from Baltimore and the Nation's capital. The recent massive overhaul of development and redevelopment throughout the Columbia submarket, especially in the downtown vicinity, is redefining the Class A product. This is evident in projects such as Howard Hughes Corporation's Merriweather District and David Costello's Little Patuxent Square where lease rates set the new standard starting in the high $30.00/sf.

Route 2 Corridor | *Chris Bennett, Executive Vice President/Principal*
A once lagging submarket to surrounding Anne Arundel County hot spots, the Route 2 Corridor has enjoyed an impressive increase in activity over the past 18 months. While the majority of this activity has been fueled by smaller to mid-sized firms and requirements, it's steady nonetheless. Vacancy rates continue to decrease with rental rates increasing, up $1.77/sf from this same quarter last year. Offering a quality alternative to surrounding submarkets, it is expected that this new found reputation as a stable market will continue through 2017.

Photo: Little Patuxent Square is the new standard for Class A office space in Columbia, MD. Part of a newly developed Live, Work, Play environment, the project offers 28,000 sf of office space.

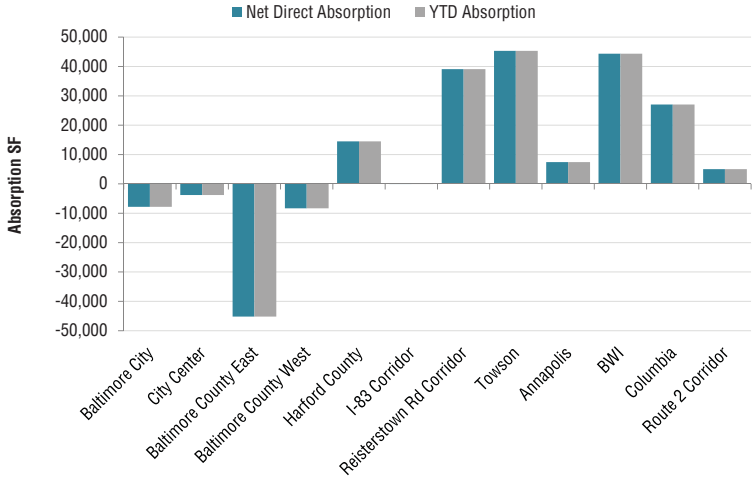
DIRECT VACANCY



Overall Vacancy Increases Slightly

Changes in average vacancy were evenly split between increases and decreases across the Baltimore Metropolitan Area, ending the 1st Quarter with an average vacancy of 13.7%. This represents a slight increase for the 4th Quarter rate of 13.3%. Most notable changes were witnessed in the Baltimore County East submarket and Baltimore City's East segment, which experienced gains of 2.2% and 1.8%, respectively. The Reisterstown Road Corridor average vacancy noted the largest decrease in vacancy, 1.5%. Over the past year, the most notable change has been within the City Center Submarket showing an increase of 3.1%, most notably among B and B+ product.

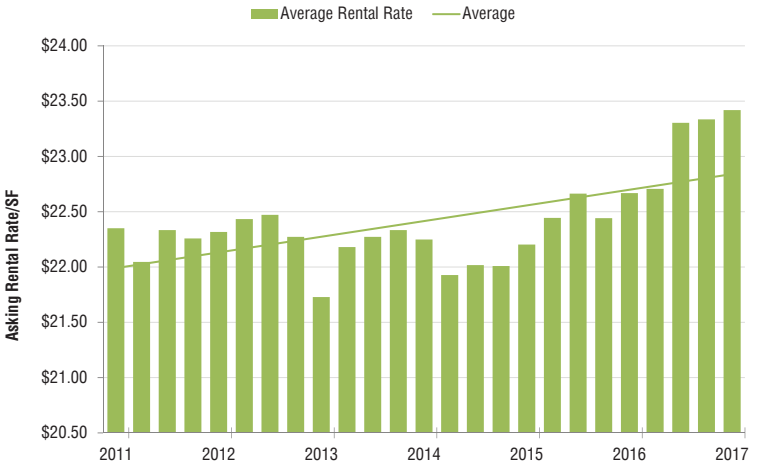
ABSORPTION



Absorption Starts the Year Positive

The trend of positive absorption continued from year-end 2016 throughout the 1st Quarter with activity resulting in a positive absorption of 117,625 sf. The Southern Metro carried most of this, absorbing 83,881 sf. Both Baltimore City and City Center experienced negative absorption this quarter, 7,815 sf and 3,800 sf, respectively. Within these areas, City Center A product and Baltimore City East had the largest negative absorptions of just over 40,000 sf each. After quarters of little to no activity, the Towson submarket started the year with a positive 45,333 sf absorption, the largest among all submarkets within the Baltimore Metro area.

ASKING RENTAL RATES



Rental Rates Hold Steady

Average Baltimore Metropolitan Area rental rates for the 1st Quarter held steady from year-end, increasing by a mere $0.08/sf. Looking at individual submarkets, Baltimore City's segments had the most notable changes with the South, East, and Midtown all increasing by more than $1.50/sf. The Northern Metro remained virtually unchanged, decreasing by $0.01/sf for an average rate of $21.58. The Southern Metro continues to hold top billing with an average rental rate of $25.57/sf, carried by Annapolis at $27.84/sf. City Center's Class A+ product remains the leader with an average rate of $30.41/sf. The best deal in town, City Center B product at $18.38/sf.

NEWS HIGHLIGHTS

- Chesapeake Real Estate Group LLC and Thompson Creek Window Company acquired a six-story 122,000 sf Class A building at 4200 Parliament Place. The project was 33% leased at the time of the sale; Thompson Creek plans to move its corporate headquarters into 22,000 sf of the building in 2017
- Physician Enterprises, LLC signed a new lease for 20,000 sf at the new (still under construction) development at Waterside Village @ Marlboro Avenue and Easton Parkway in Easton.
- Rockfon took an additional 50,000 sf of space when they signed a lease at 6650 Business Parkway. This is in addition to their space at Route 100 Business Park.
- ACGI drastically expanded their space in 11000 Broken Land Parkway from 7,500 sf to 19,000 sf with their renewal.
- The MPB Group leased 5,121 sf of office space at 6440 Dobbin Road in the Columbia Business Center.
- Pratt Street Capital, LLC purchased a 100% leased two-building portfolio, Crystal Heights Office Center in Columbia for $8.5 million.
- The Wells Fargo tower at 7 St. Paul Street sold at auction in February for $15 million by Alex Cooper Auctioneers. Sold "as is," the building is 378,010 sf and Wells Fargo occupies 95,000 sf.
- The W.R. Grace Building located at 10 E. Baltimore Street was sold at $7.5 million (approximately $46/sf) through auction at the beginning of this year. The property is around 168,000 sf and was 65% leased at the time of sale.
- The Candler Building at 111 Market Place sold for around $60 million to American Real Estate Partners of Herndon in the beginning of February. The building was 73% leased at the time of sale. The buyer plans to invest $8 million in renovation plans.
- The Natalie M. LaPrade Medical Cannabis Commission is entering into a 10-year lease for 10,900 sf in Linthicum at 849 International Drive. This is a relocation from their former space at 4201 Patterson Avenue.
- The Howard Hughes Corporation purchased two additional downtown Columbia offices: The American City Building on Little Patuxent Parkway for $16 million, and One Mall North (located near the Mall in Columbia) for $22.5 million.
- The Fuel Fund of Maryland has announced they will be relocating its offices to the Montgomery Park Business Center in South Baltimore at 1800 Washington Boulevard.

NOTABLE TRANSACTIONS

Lease

Location	Submarket	Tenant	Amount Leased SF
991 Corporate Boulevard	BWI	Enlighten IT (Subsidiary of MacAulay Brown)	30,000 sf
6708 Alexander Bell Drive	Columbia	Mettler-Toledo AutoChem, Inc.	29,525 sf
3465 Box Hill Corporate Center Drive	Harford County	Mountain Christian Church	19,611 sf
10461 Mill Run Circle	Reisterstown Road Corridor	Board of Certification International	5,183 sf

Sale

Location	Submarket	Price	PSF	Building Size
100 International Drive	City Center	$165,119,296	$269.36/sf	613,006 sf
10005 Old Columbia Road	Columbia	$6,449,803	$249.59/sf	25,842 sf
716 Giddings Avenue	Annapolis	$4,200,000	$238.09/sf	17,640 sf
22 West Road	Towson	$2,700,000	$88.64/sf	30,640 sf

2017: RETAILERS MAKE-OR-BREAK MOMENT

CJ Koluch, Real Estate Advisor, MacKenzie Retail, LLC

Without question, 2017 continues to position itself as a year of tremendous transition for the retail market. For many retailers, this is their make-or-break moment. Who can keep up?

Amazon, the (Not-so) Sleeping Giant

Amazon continues to send shockwaves throughout the entire retail sector, forcing traditional brick and mortar powerhouses to immediately adapt, become nimble, and join the digital age of e-commerce for the modern consumer. Convenience continues to be the name of the game for Amazon. Joining Wal-Mart, Kroger, and others, Amazon has begun beta-testing an AmazonFresh grocery pickup service in the Seattle area. Customers can order their groceries online and pick up in as little as 15 minutes. These AmazonFresh locations, essentially fulfillment centers with about eight parking stalls, will be rolled out from coast-to-coast.

The Grocery Wars

With German-supermarket Lidl expected to open its long-awaited first US locations along the East Coast this summer, rival Aldi plans to invest $1.6 billion to remodel and modernize their 1,300-plus locations across the US to compete. Looking to add to its current inventory of 10,000 stores in 27 countries, Lidl has become much more aggressive in securing locations after displaying flexibility in long-term leasing rather than site purchases. With 21,000 sf of retail space, their US locations are 35% larger than European counterparts, serving a wider array of items. We will soon discover Lidl's identity as they look to redefine the modern supermarket.

The Malls of the Future

The e-commerce revolution has already led to the demise of JC Penney, Sears, HH Gregg, Macy's, Gander Mountain, and more. This list continues to rise. How will this affect malls when they lose a long-standing anchor tenant? Recent studies have shown that over the last year, department store retailers have closed 85 million square feet of property, the most since 2008.

What will malls become? From every challenge emerges opportunity. Across the country, the advent of a mixed-use transformation has taken shape. In many instances, the traditional indoor mall is the backdrop a creative development group needs to create a total residential, commercial, and cultural symbiotic relationship. Through these transformations, the malls and communities of the future will surface.

Looking Forward

As with all things, market turbulence is cyclical, but this is undoubtedly an era of change. Companies who embrace this change and innovate will thrive. These very retailers who succeed will manage to streamline their operations while the market finds equilibrium. As traditional and non-traditional retailers continue to compete for the same customer, a new retail experience will be created - bridging the gap between convenience and customer interaction.

RETAIL SNAPSHOT | 1ST QUARTER 2017

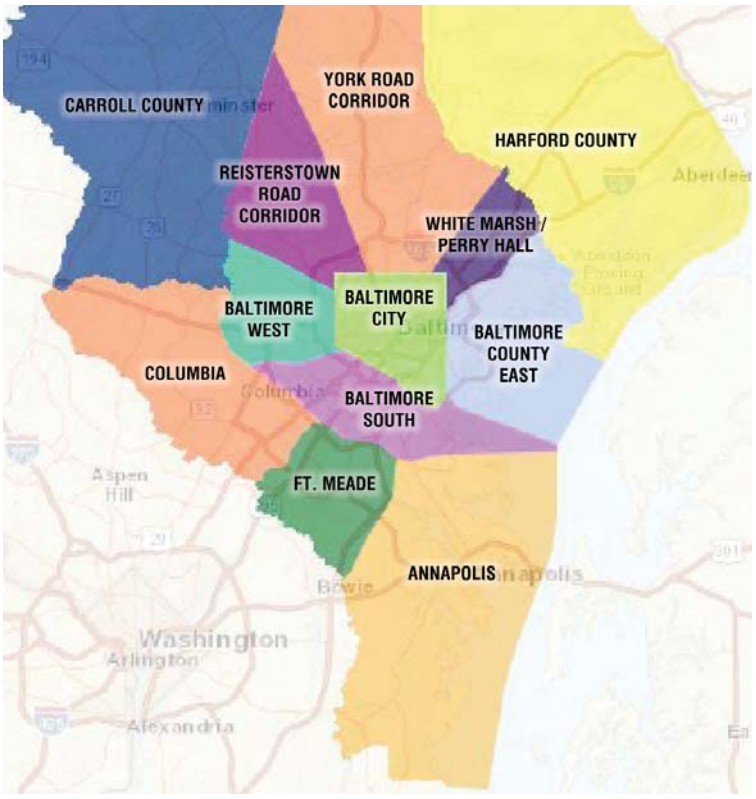
3.8%
VACANCY RATE

557,288
YTD ABSORPTION

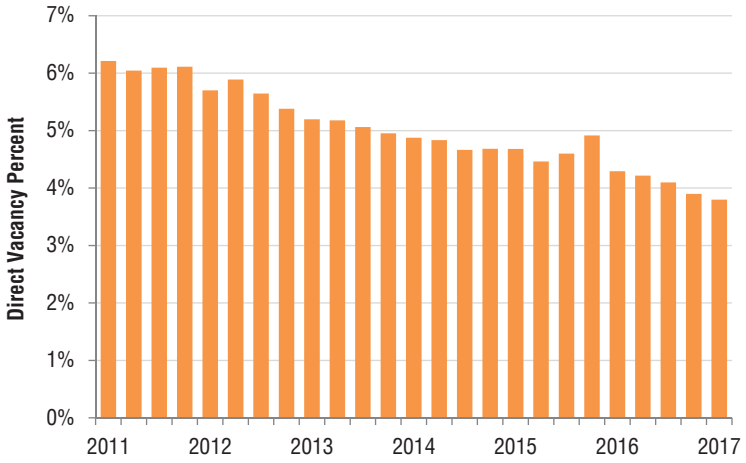
$18.63
AVG. RENTAL RATE

THE NUMBERS

Submarket	Bldgs	Market Size SF	Total Vacant SF	Total Vacancy	Absorption Current	Absorption YTD	Available SF %	Average Asking Rent
Annapolis	806	13,431,596	273,046	2.0%	43,410	43,410	432,761	$24.07
Baltimore City	3,402	26,623,989	923,974	3.5%	38,737	38,737	1,416,863	$15.05
Baltimore County East	694	9,575,970	599,274	6.3%	97,940	97,940	914,467	$14.43
Baltimore South	636	10,749,177	824,393	7.7%	-77,434	-77,434	924,136	$17.59
Baltimore West	605	10,612,811	264,970	2.5%	37,522	37,522	719,151	$18.96
Carroll County	512	8,110,709	392,412	4.8%	26,979	26,979	457,865	$16.74
Columbia	419	9,061,264	282,260	3.1%	-21,000	-21,000	360,170	$29.47
Ft. Meade	365	8,060,567	195,856	2.4%	58,796	58,796	292,326	$21.12
Harford County	846	12,009,039	481,817	4.0%	16,072	16,072	616,464	$20.82
Reisterstown Road Corridor	361	6,676,904	331,747	5.0%	287,202	287,202	455,726	$19.91
White Marsh / Perry Hall	356	6,276,536	243,264	3.9%	2,430	2,430	316,316	$18.61
York Road Corridor	691	12,830,536	278,734	2.2%	46,634	46,634	665,860	$20.99
Market Totals	**9,693**	**134,019,098**	**5,091,747**	**3.8%**	**557,288**	**557,288**	**7,572,105**	**$18.63**



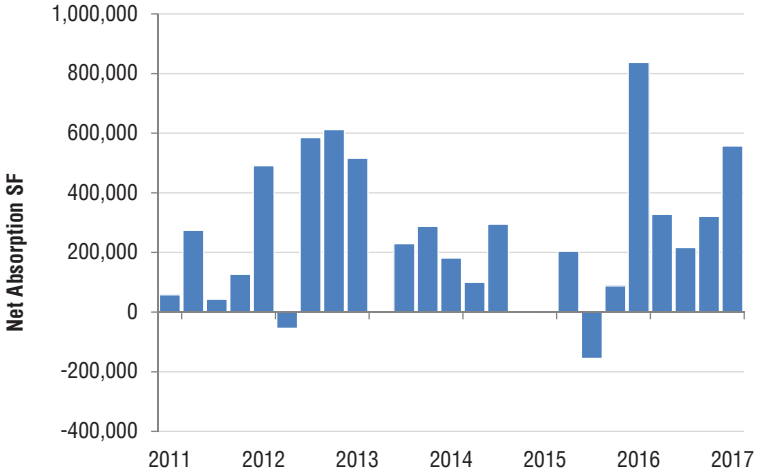
DIRECT VACANCY



Vacancy Remains Consistent into New Year

Average vacancy for the Baltimore retail market remained virtually unchanged from year-end though the 1st Quarter, dropping by a mere 0.1% for a rate of 3.8%. Most notable changes were witnessed in the Reisterstown Road Corridor and Baltimore County East submarkets, Reisterstown increasing by 1.4% for a rate of 5%, while Baltimore County East decreased by nearly 1% ending at 6.3%. The tightest submarket this quarter was Annapolis, followed by the York Road Corridor with rates of 2.0% and 2.2%, respectively. Baltimore South has the highest vacancy at 7.7%.

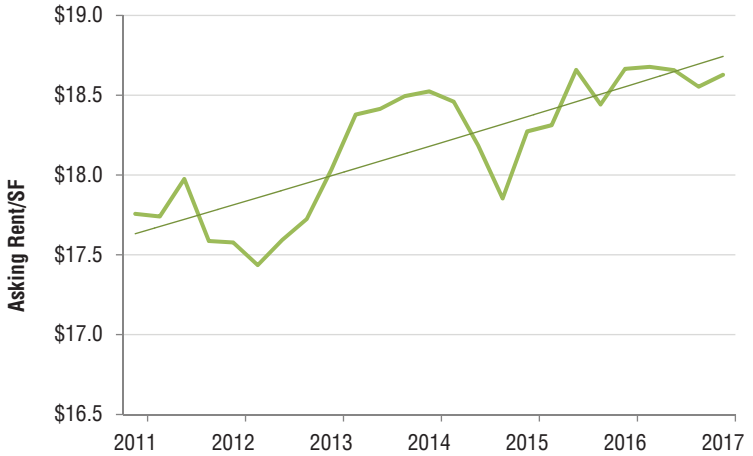
ABSORPTION



Absorption Starts the Year On a Positive Note

The Baltimore Metropolitan market's retail offerings started the new year with a strong, positive absorption of more than 500,000 sf. Most of this absorption was the bustling activity within the Reisterstown Road Corridor that had a positive 287,000 sf absorption. According to CoStar, most of this was centered around the official delivery of Foundry Row as noted in their system. Baltimore County East also fared well during the 1st Quarter, absorbing more than 97,000 sf of space. Only two submarkets experienced negative numbers, Baltimore South and Columbia at 77,434 sf and 21,000 sf, respectively.

ASKING RENTAL RATES



Rental Rates Increase…Slightly

Average rental rates for retail product in the Baltimore Metropolitan area increased by $0.07/sf during the 1st Quarter for a rate of $18.63/sf. Retail space in the Columbia submarket commanded the highest this quarter at $29.47/sf, followed by Annapolis at $24.07/sf. Looking at individual submarkets, the most notable changes were in Annapolis which saw a decrease of $2.02/sf from the 4th Quarter 2016 and Harford County where rates increased by $1.69/sf. Baltimore County East remains the best deal in town for retail space with an average rental rate of $14.43/sf.

NEWS HIGHLIGHTS

- Howard Bank is opening a 2,500 sf branch at Remington Row
- Ledo Pizza (2,500 sf) and Urban-Bar-B-Que (1,800 sf) announced plans to open this spring/summer at the Jefferson Square project near Johns Hopkins Hospital.
- Clark Burger announced the opening of a second location in Little Italy at 415 S. Central Avenue; expected to open spring 2017.
- Trader Joe's, The Quiet Storm, ZenLife, and Amaryllis are opening (or have opened) at The Shops at Kenilworth this spring as part of the $20 million redevelopment of the center.
- Fleet Street Kitchen in Harbor East has been replaced by Tagliata, an Italian restaurant by Atlas Restaurant Group. It plans to open summer 2017.
- Three new retailers signed leases at Foundry Row: Sarku Japan (1,930 sf), Bonchon Chicken (3,060 sf), and Sunset Raw Juice Bar (1,482 sf). These restaurants are expected to open by summer 2017.
- Share Kitchen has taken space inside the former Phillips Seafood plant at McHenry Row in Locust Point. They hope to open Share Kitchen this spring and it will offer room for food trucks, events, classes and dinners. The space is 3,000 sf and rent will cost around $1,200/month for food truck operators.
- Starbucks, Dynamic Dental Care LLC, and Salons by JC, have signed leases for the newly redeveloped Wilde Lake Village Center in Columbia. The redevelopment consists of 7.4 acres and cost around $18 million. It includes 41,000 sf of retail space, 20,000 sf of restaurant space, and 30,000 sf of office space.
- Chipotle Mexican Grill opened in January at 711 Harford Road in the Parkville Shopping Center. By the end of 2017, Chipotle plans to open five more locations in Maryland including Linthicum Heights, Towson Commons, and downtown Annapolis near the Naval Academy. For the Fall, they're looking at Glen Burnie and another Forestville location.
- Marley Station Mall in Glen Burnie sold to G.L. Harris (Texas-based investor) for $22.7 million. The mall had a 2% vacancy rate at the time of the sale. The developer currently owns at least three other older shopping centers across the country. There is almost 840,000 sf of retail space in Marley Station.

NOTABLE TRANSACTIONS

Lease

Location	Submarket	Tenant	Amount Leased SF
13501 Boston Street	Baltimore City	Nordstrom Rack	32,500 sf
1320 Liberty Road	Carroll County	Aldi	22,000 sf
6080 Falls Road	York Road Corridor	Vision Iconique	2,486 sf
10300 Little Patuxent Parkway	Columbia	Artisans Fine Jewelry	1,487 sf

Sale

Location	Submarket	Price	PSF	Building Size
Cromwell Field Shopping Center	Route 2 Corridor	$18,425,000 [1]	$79.01/sf	233,194 sf
9621 Belair Road	Baltimore County East	$5,440,560 [2]	$369.80/sf	14,712 sf
6225 Columbia Crossing Circle	Columbia	$5,100,000	$203.43/sf	25,070 sf
6080 Marshalee Drive	Columbia	$4,150,000 [2]	$416.25/sf	9,970 sf

(1) Portfolio Sales; (2) Investment Sales

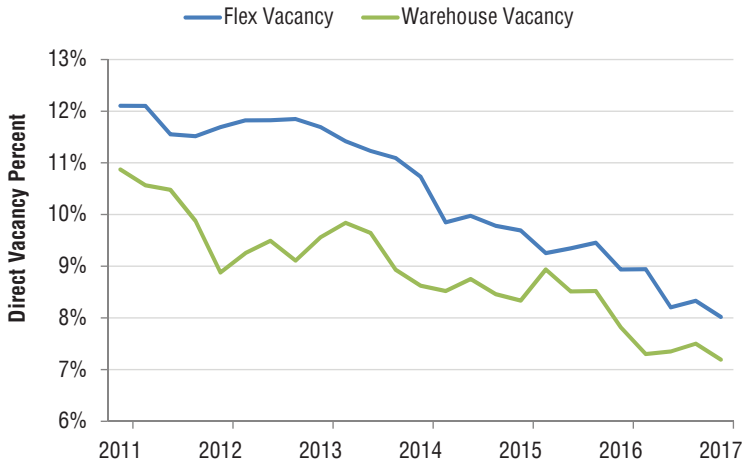
THE NUMBERS

	Submarket	Bldgs	Market Size SF	Total Vacant SF	Total Vacancy	Absorption Current	Absorption YTD	Available SF %	Average Asking Rent
FLEX INDUSTRIAL MARKET	Annapolis/Route 2 Corridor	172	5,112,751	416,891	8.2%	5,969	5,969	10.65%	$12.66
	Arbutus	58	2,213,488	222,195	10.0%	5,964	5,964	13.84%	$8.55
	Baltimore City	129	4,169,588	321,611	7.7%	78,236	78,236	15.94%	$8.64
	Baltimore County East	115	3,789,194	259,747	6.9%	2,713	2,713	10.47%	$10.99
	BW Corridor	332	14,892,718	1,324,377	8.9%	63,391	63,391	14.40%	$13.84
	Carroll County	53	1,167,065	105,310	9.0%	7,896	7,896	13.07%	$8.92
	Harford/Cecil	135	3,030,634	219,983	7.3%	-511	-511	9.19%	$12.82
	I-83 Corridor	108	4,960,540	195,375	3.9%	-19,156	-19,156	6.11%	$11.46
	Reisterstown Rd Corridor	86	3,138,254	350,738	11.2%	4,509	4,509	17.23%	$9.58
	Woodlawn/Catonsville	53	2,520,949	191,956	7.6%	6,404	6,404	14.64%	$8.68
	Totals	**1,241**	**44,995,181**	**3,608,183**	**8.0%**	**155,415**	**155,415**	**12.67%**	**$11.59**
WAREHOUSE INDUSTRIAL MARKET	Annapolis/Route 2 Corridor	198	8,999,368	104,784	1.2%	33,880	33,880	6.25%	$5.75
	Arbutus	103	7,759,782	838,603	10.8%	64,102	64,102	21.01%	$3.94
	Baltimore City	1,092	40,282,138	1,946,996	4.8%	412,680	412,680	8.50%	$4.70
	Baltimore County East	332	20,226,886	3,055,563	15.1%	196,883	196,883	13.37%	$5.05
	BW Corridor	562	44,019,899	4,110,447	9.3%	211,169	211,169	11.91%	$5.70
	Carroll County	154	7,032,392	464,555	6.6%	-41,600	-41,600	7.14%	$5.45
	Harford/Cecil	335	32,837,006	1,450,766	4.4%	-42,303	-42,303	5.76%	$4.60
	I-83 Corridor	83	4,382,081	104,954	2.4%	3,600	3,600	4.11%	$9.02
	Reisterstown Rd Corridor	54	1,505,998	21,232	1.4%	6,658	6,658	4.77%	$8.30
	Woodlawn/Catonsville	48	1,287,509	12,000	0.9%	0	0	1.43%	$7.54
	Totals	**2,961**	**168,333,059**	**12,109,900**	**7.2%**	**845,069**	**845,069**	**9.64%**	**$5.12**
	Industrial Market Totals	**4,202**	**213,328,240**	**15,718,083**	**7.4%**	**1,000,484**	**1,000,484**	**10.28%**	**$6.80**

HIGHLIGHTS

- Amazon.com has announced a new 1.2 million sf fulfillment center in Cecil County. This will be their third Maryland facility.
- H&S Bakery has completed its $15 million expansion in Fells Point, adding 34,000 sf to the building at 600 S. Bond Street bringing the size of the entire facility to 119,000 sf.
- Clark Construction signed a deal for 51,000 sf at 8870 Greenwood Place from Prologis.
- Maryland Port Administration received approval to acquire the Point Breeze Business Center (103 acres). They will retain 70 acres for $56 million. The site will be used for storing shipping containers and roll-on/roll-off cargo such as automobiles. The port administration also plans to demolish the business center and use the space for container storage.
- Freshly announced plans for opening a distribution center in 171,000 sf at 8704 Bollman Place. Freshly will be subleasing the space from Coastal Sunbelt. They plan to open this summer.
- Fully, a standing workstation company, recently opened a 100,000 sf distribution center and showroom at 10001 Franklin Square Drive in White Marsh. This will be their first East Coast location.
- Iron World, a distributor of steel fences and gates, is expanding its manufacturing operations in Howard County, investing $1 million to streamline their processes and include exterior upgrades and storage space.
- Industrial Property Trust (IPT) purchased 1904 Park 100 Drive (120,000 sf) at $12.9 million, and 7495 Race Road (125,000 sf) at $13.45 million. 1904 Park 100 Drive was 100% leased, and 7495 Race Road was 94% leased at the time of sale.

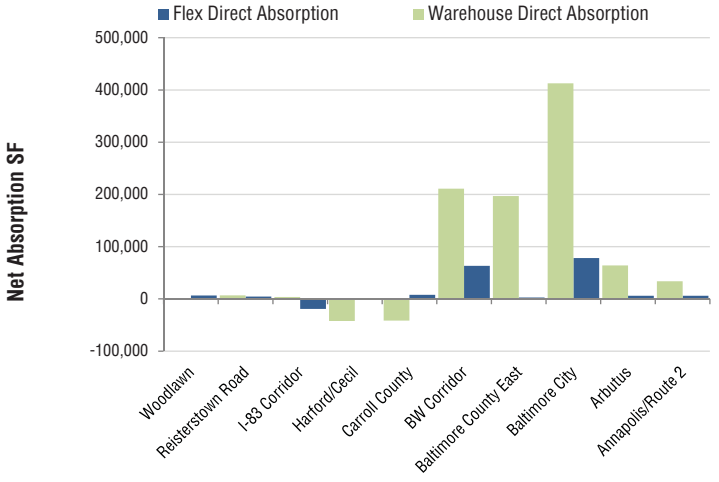
DIRECT VACANCY



Vacancy Remains Consistent Into New Year

Average vacancy rates for both flex and warehouse product remained consistent from year-end through the 1st Quarter, both decreasing by only 0.3%. With regards to flex, the largest change was in Baltimore City which experienced a decrease of 1.9% for an average vacancy rate of 7.7%. The top performing warehouse submarket was Baltimore County East with a decrease in vacancy just over 1% for a quarterly rate of 15.1%; however, despite this decrease, the area still has the most available space within the warehouse segment. The tightest flex submarket is I-83 Corridor with a rate of 3.9%. Warehouse vacancies in Annapolis, Reisterstown Road, and the I-83 Corridor all fall below 3%.

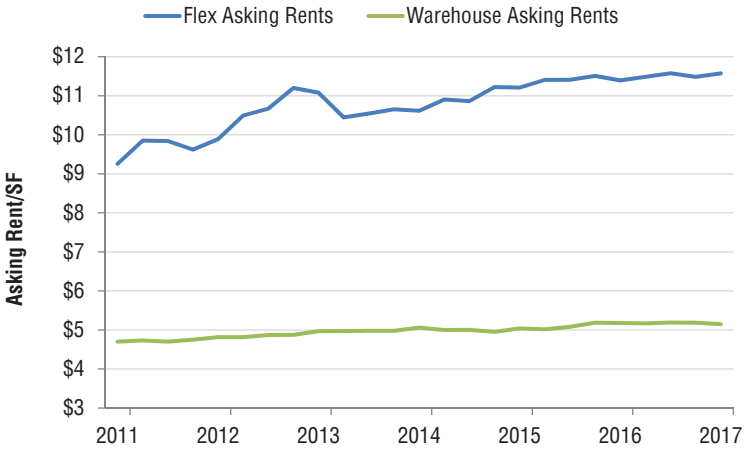
YTD ABSORPTION



Warehouse Absorption Leads 1st Quarter

The flex and warehouse markets experienced a strong 1st Quarter absorption, 1,000,484 sf with warehouse contributing the majority of this number, 845,069 sf. Baltimore City and the BW Corridor submarkets stood out in both the flex and warehouse segments with leading absorption numbers. For flex, the City absorbed 78,236 sf and BW Corridor, 63,391 sf; for warehouse, Baltimore City totals were more than 400,000 sf with the Corridor hitting over 200,000 sf. Warehouse product in both Carroll County and Harford/Cecil Counties experienced negative absorptions, both giving back more than 41,000 sf to the markets.

ASKING RENTAL RATES



Slow and Steady Increases

Average rental rates for the flex and warehouse markets were $11.59/sf and $5.12/sf, respectively. These numbers have remained steady for the past year, both increasing by only $0.20/sf. Baltimore County East flex product saw the most change, an increase of $1.00/sf for an average of $10.99/sf. The best flex deal can be found in Arbutus, followed by Baltimore City with rates of $8.55/sf and $8.64/sf, respectively. Warehouse remains most expensive along the I-83 Corridor at $9.02/sf. This is however, a decrease of $1.50/sf from the 4th Quarter 2016. Arbutus and Baltimore City are also a great deal in terms of warehouse space with average rental rates of $3.94/sf and $4.70/sf, respectively.

NOTABLE TRANSACTIONS

Lease

Location	Submarket	Tenant	Amount Leased SF
6650 Business Parkway	BW Corridor	Rockfon	50,000 sf
8261 Preston Court	BW Corridor	EMDM, Inc.	13,601 sf
7090 Columbia Gateway Drive	BW Corridor	Autani, LLC	10,054 sf
11515 Cronridge Drive	Reisterstown Road Corridor	CDF Services Inc.	2,760 sf

Sale

Location	Submarket	Price	PSF	Building Size
9055-9108 Guilford & 6956-6960 Aviation Blvd	BW Corridor	$59,500,000 [1]	$138.40/sf	429,911 sf
209 Chinquapin Round Road	Annapolis	$5,550,000	$168.90/sf	32,860 sf
1800-1818 S Hanover Street	Baltimore City	$4,500,000 [2]	$195.81/sf	22,982 sf
7450 Montevideo Road	BW Corridor	$2,650,000 [2]	$106.26/sf	24,940 sf

(1) Portfolio sale; (2) Investment sale

REPORT CRITERIA

OFFICE:

Buildings 15,000 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 includes all class types, but does not track owner occupied buildings or buildings leased exclusively to medical tenants. The office market is separated into the following submarkets: Annapolis, Baltimore City, BWI, Baltimore County East, Baltimore County West, City Center, Columbia, Harford County, I-83 Corridor, Reisterstown Corridor, Route 2 Corridor, and Towson.

INDUSTRIAL:

Flex buildings and some single story office buildings that are greater than 5,000 sf, single story warehouse buildings that are greater than or equal to 5,000 sf, and some multi-story warehouse buildings in Baltimore City. MacKenzie does not track owner occupied buildings. We have classified the properties into 10 submarkets for industrial identified as the following: Annapolis, Arbutus, Baltimore County East, Baltimore City, BW Corridor, Carroll, Harford/Cecil, I-83 Corridor, Reisterstown Road Corridor, and Woodlawn/Catonsville. Flex buildings are limited to properties 5,000 sf and greater, while warehouse buildings are limited to single-story properties. Data does not include under construction or proposed projects.

RETAIL:

Retail buildings greater than or equal to 2,000 sf in Baltimore City and surrounding counties of Baltimore, Howard, Carroll, Harford, Cecil and Anne Arundel. The Baltimore Retail Market resembles 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.