



MACKENZIE

COMMERCIAL REAL ESTATE SERVICES, LLC



MARKET REPORT



OFFICE MARKET

**3RD QUARTER
2015**



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BALTIMORE

LUTHERVILLE

ANNAPOLIS

BEL AIR

COLUMBIA

BALTIMORE OFFICE OVERVIEW

THIRD QUARTER | 2015



Office Market Loses a Bit of Steam During Q3:2015

Presented by Anirban Basu, Sage Policy Group

The 3rd Quarter was certainly an interesting one for Baltimore, if one that was, thankfully, not as interesting as the 2nd Quarter. Every piece of data characterizing activity in the City and regional has special significance as people work to discern the economic impact of April's unrest. For now, the data and messages remain mixed.

After net absorbing more than 97,500 sf of space during the 2nd Quarter of 2015, City Center net absorbed 63,487 sf during the third. That was enough to drive City Center's direct vacancy rate lower, however, to 15.3%, down from 18.2% a year ago. Asking rents have expanded as the market has tightened, rising from \$20.80/sf a year ago to \$21.68/sf more recently.

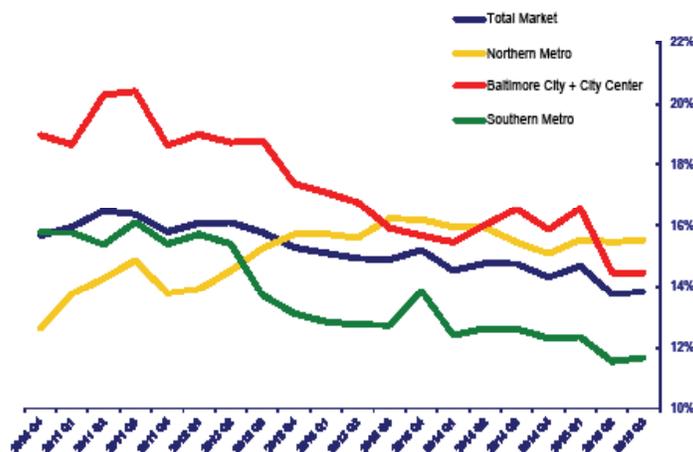
Superstar companies, or at least those that can afford the highest rents, had been driving the City's office market forward. During the 2nd Quarter, net absorption in the City's Class A+ market exceeded 100,000 sf, but absorption slowed to 11,173 sf one quarter later. The City's Class B and B+ markets actually led the way in terms of net absorption. In total, Baltimore City and City Center net absorbed 29,125 sf during the 3rd Quarter, leaving the citywide direct office vacancy rate at 14.5%.

The suburbs weren't much better. The Southern Metro sub-region, which includes markets like BWI and Columbia, net absorbed roughly negative 20,054 sf, with Columbia net absorbing a negative 78,517 sf. Vacancy with sublet continues to hover around 10% in Columbia. Potential lessees of space had to deal with federal government shutdown fears during the 3rd Quarter, which may have forestalled leasing activity.

The Northern Metro sub-region led the way in terms of consuming additional space, net absorbing roughly 164,061 sf. Two submarkets stood out – Towson (70,516 sf) and the Reisterstown Road Corridor (64,630 sf). The I-83 Corridor chipped in another 30,556 sf of net absorption, and now boasts a direct vacancy rate below 9%, the lowest of any suburban submarket in the Baltimore metropolitan area. At 22.75%, the highest direct vacancy rate can be found in Harford County.

One might have expected better performance from the regional office market given data characterizing broader economic performance. The Baltimore region has been adding jobs more quickly than the balance of the country recently, helped in large measure by the stabilization of the local housing market and large-scale hiring among certain newcomers to the region. Much of the job growth has come in non-office space using contexts, including in-medical clinics, entertainment venues, and distribution centers. Still, the office market is clearly improving, with the regional asking rate rising from \$22.04/sf during the 3rd Quarter of 2014 to \$22.76/sf one year later.

HISTORICAL VACANCY RATES



QUICK STATS

13.82%
VACANCY RATE

173,132
ABSORPTION

\$22.76
AVG. RENTAL RATE

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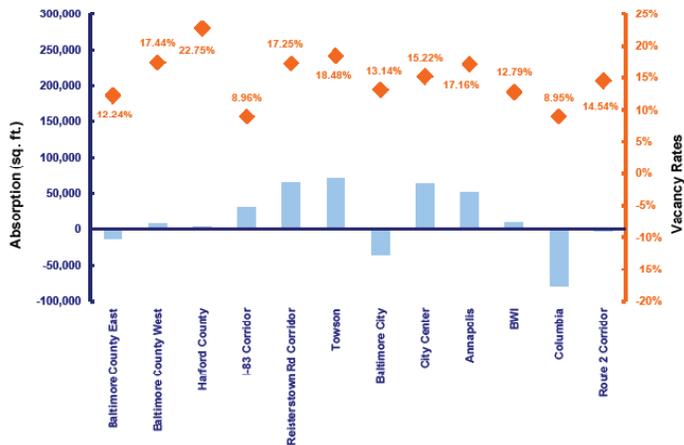
BALTIMORE OFFICE OVERVIEW

THIRD QUARTER | 2015



ABSORPTION/VACANCY RATES

■ Vacancy Rates %
■ Absorption Rates



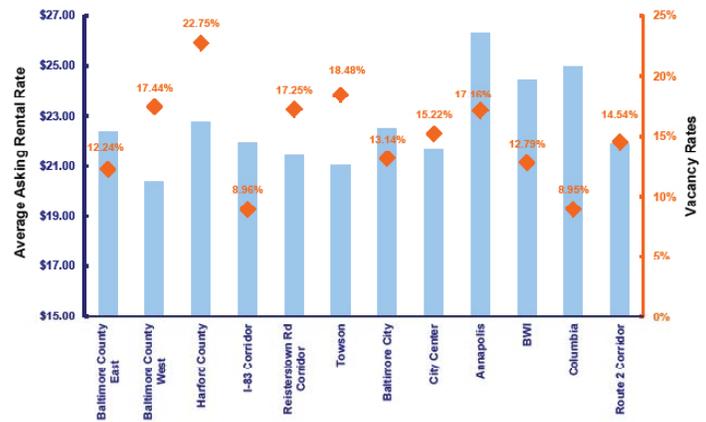
Vacancy for the Baltimore Metropolitan Office Market remained stable from the 2nd Quarter to the 3rd Quarter, increasing by a mere 0.09% for an average rate of 13.85%. The Southern Metro submarkets fared the best with an average vacancy rate of 11.68%, Columbia leading that area at 8.95% vacant. City Center continues to see a "flight to quality" movement as Class A+ vacancy hits a low of 5.11% and Class A remains elevated at 24.66%. The same can be said for Class B+ and B product, with vacancies of 11.74% and 27.23%, respectively. Absorption for the office market was a positive 173,132 sf. This brings the year-to-date total absorbed to 568,251 sf.

HIGHLIGHTS

- Mueller Associates, an award-winning mechanical, electrical, and plumbing engineering firm, signed a 13,000 sf lease for a new office at Airport Square's first floor at 1306 Concourse Drive in Linthicum, MD.
- 300 St. Paul Place, a 22-story building located in downtown Baltimore sold to Philadelphia-based property management group PMC Property Group for an undisclosed amount. Plans call for apartment conversion.
- Owings Mills Transit and David S. Brown Enterprises began construction on a 200,000 sf mixed-use office and retail building at 10200 Grand Central Avenue at Metro Center.
- Corporate Office Properties Trust completed the acquisition of 100 Light Street and its 560-space structured parking garage, 30 Light Street in downtown Baltimore for \$121.0 million.
- West Quest Technology Park, comprised of two office buildings at 1580 West Nursery Road in Linthicum, MD sold. The properties are

RENTAL RATE/VACANCY RATES

■ Vacancy Rates %
■ Rental Rates



Like vacancy, overall average rental rates were steady for the Baltimore Metropolitan Office Market, increasing slightly by \$0.26/sf from the 2nd Quarter rate of \$22.50/sf to \$22.76/sf. City Center Class A+ continues to command the highest rental rate, even after decreasing by \$1.53/sf from the 2nd Quarter, for a 3rd Quarter rate of \$27.93/sf; the lowest, City Center Class B at \$16.89/sf. Only three other submarkets fall at \$25.00/sf or more: Baltimore City North (\$27.00/sf), Annapolis (\$26.31/sf), and Columbia (\$25.00/sf). Compared to the same quarter last year, vacancy rates for the entire office market have decreased by 0.90% and average rental rates have increased by \$0.67/sf.

100% leased to Northrop Grumman and total 315,350 sf.

- The Maryland State Dental Association will set up shop at 8901 Herrmann Drive in Columbia. The group bought the 12,240 sf building for its new headquarters, paying \$1.94 million (\$158/sf).
- Bay Bank leased 20,427 sf at 7151 Columbia Gateway Drive, which includes its new headquarters and a branch bank operation.
- Anne Arundel Health Systems signed a lease for 17,577 sf at 201 Defense Highway in Annapolis, which amounts to a doubling of its space there.
- F & M Development purchased 7202 Rutherford Road in Windsor Mill from BTR Capital Group for \$3.19 million, or about \$127/sf. The property currently serves as the new headquarters for the National Center on Institutions and Alternatives (NCIA) Youth in Transition School.

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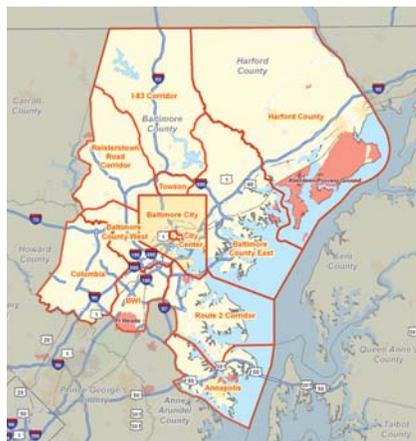
NOTABLE TRANSACTIONS

Lease

Location	Submarket	Tenant	Amount Leased SF
201 Defense Highway	Annapolis	Anne Arundel Health Systems	17,577 sf
9515 Deereco Road	I-83 Corridor	Big Huge Games	15,833 sf
10221 Wincopin Circle	Columbia	Cognosante	10,782 sf
10400 Little Patuxent Parkway	Columbia	Intergraph	10,303 sf
180 Admiral Cochrane Drive	Annapolis	Environmental Resource Management	9,451 sf
2304-2310 N Charles Street	Baltimore City Midtown	JR Healthcare Associates	8,000 sf
999 Corporate Boulevard	BWI	Teksystems, Inc.	7,520 sf
210 W. Pennsylvania Avenue	Towson	Mentzer Media Services	5,500 sf

Sale

Location	Submarket	Price	PSF	Building Size SF
100 Light Street	City Center	\$121,000,000.00	\$149.23	549,273 sf
300 St. Paul Place	City Center	\$20,042,533.00	\$63.71	314,589 sf
1314 Bedford Avenue	Reisterstown Rd Corridor	\$4,450,000.00	\$111.67	26,654 sf
5820 York Road	Baltimore City North	\$2,450,000.00	\$98.15	24,963 sf
5310 Old Court Road	Reisterstown Rd Corridor	\$1,800,000.00	\$82.69	21,769 sf
100 Ridgely Avenue	Annapolis	\$425,000.00	\$340.54	1,248 sf
5044 Dorsey Hall Drive	Columbia	\$230,000.00	\$191.67	11,000 sf



Number of Buildings 1,199
Market Size 74,670,440 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 leased exclusively to medical tenants.

Contact: Katy Hayes, Marketing Director | 410.494.6649 | khayes@mackenziecommercial.com

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