



THIRD QUARTER | 2010

# MacKenzie Market Report

Office Submarkets

# Overview



## Market Outlook

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The National Bureau of Economic Research recently proclaimed that the recession that began in December of 2007 ended in June of 2009. In other words, the U.S. economy has now been in recovery for five quarters, and one would hope that the ongoing economic expansion would be fully evident in data characterizing local office market performance by now.

But, the third quarter represented a half-step back for the local office market as vacancy rates remained virtually unchanged, and net absorption turned negative. Region-wide, vacancy with sublet rose to 16.6 percent during the third quarter, up fractionally from the corresponding second quarter statistic and down just a bit from the same quarter one year prior.

The highest total vacancy rate continues to be in City Center, which endured 23 percent vacancy during the third quarter. Vacancy in the balance of the city is also greater than 20 percent. The lowest vacancy rate is in the northern metropolitan area (13.1 percent), with the highlight being Harford County, which now boasts a total vacancy rate below 7 percent.

Direct vacancy during the third quarter was up just three-hundredths of a percentage point from a year ago and 20 basis points from the second quarter. The good news is that the

marketplace is no longer deteriorating rapidly and signs of stability have become apparent. The bad news is that stability is no longer satisfactory. What owners and investors seek is outright improvement, but the third quarter failed to satiate that desire.

Net absorption during the third quarter totaled roughly -91,000 sf, much of which was explained by City Center, which suffered negative absorption approaching 80,000 sf. The only submarket experiencing positive net absorption was the BRAC and cyber-security fueled corridor that includes the BWI district, which experienced positive net absorption approaching 230,000 sf. Net absorption was -116,000 sf in Columbia and -45,000 sf in Annapolis, however.

Though the City's office market generally lags in terms of recovery, the City gave the region its most noteworthy transaction during the third quarter as Transamerica leased more than 140,000 sf at 100 Light Street, one of the city's most symbolically important structures. Another financial services firm, Old Mutual Financial Network, leased more than 57,000 sf at 1001 Fleet Street. The most significant purchase took place at 6841 Benjamin Franklin Drive in Columbia, where a 200,573 sf building sold for \$38.7 million, which translates into \$193 per square foot (psf). ■

## Quick Stats

Number of Buildings	1,229
Market Size	74,368,220 sf

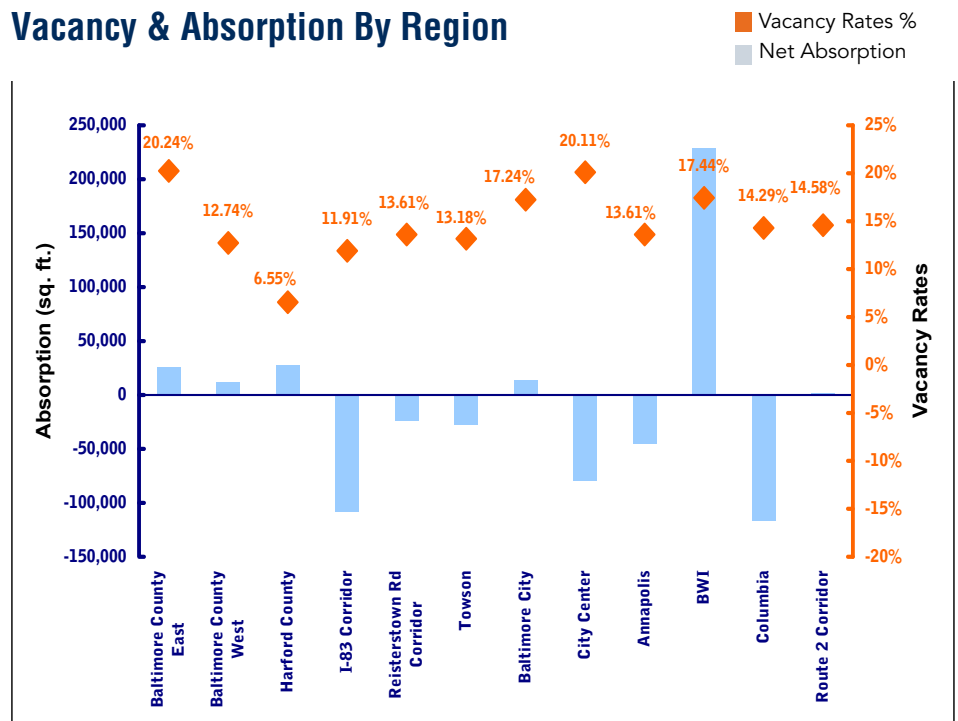
	CHANGE SINCE LAST		
	CURRENT	6 MO	YR
Direct Vacancy	15.55%	▲	▲
Vacancy W/ Sublet	16.57%	▲	▼
Net Absorption	-90,930	▼	▼
Avg. Asking Rate	\$22.76	▼	▲

## Quarter Highlights

- BRAC continues to fuel activity in the Fort Meade region. This includes tenants such as CACI, which moved into more than 15,000 sf at 7272 Park Circle Drive and G2, Inc., which moved into nearly 26,000 sf at 302 Sentinel Drive.
- Although vacancy crept up slightly in City Center, encouraging signs this quarter include Transamerica's 140,526 sf lease at 100 Light Street and the renewal of Old Mutual Financial Network (57,470 sf) at 1001 Fleet Street.
- Baltimore's Harbor East area continues to enjoy healthy growth as 100 International Drive (Legg Mason Building) absorbed two new tenants this quarter. RSM McGladry moved into 38,536 sf and Johns Hopkins University Carey School occupied its 81,855 sf sublease.

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## Vacancy & Absorption By Region



Above: Absorption in most of the market was flat this quarter, with the notable exception of BWI, which saw a huge BRAC induced gain.

# Overview

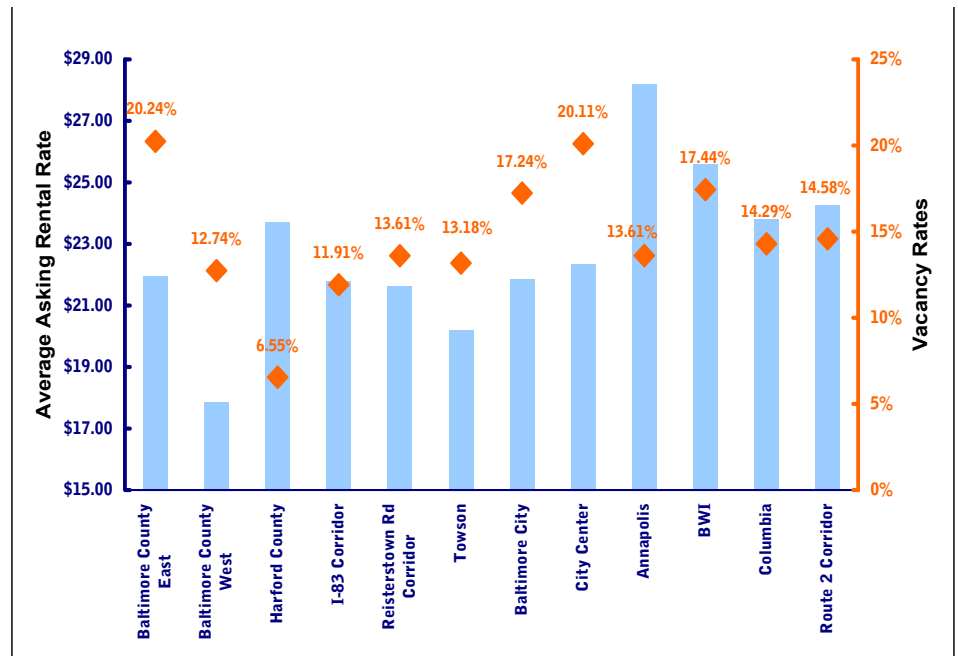


## Quarter Highlights

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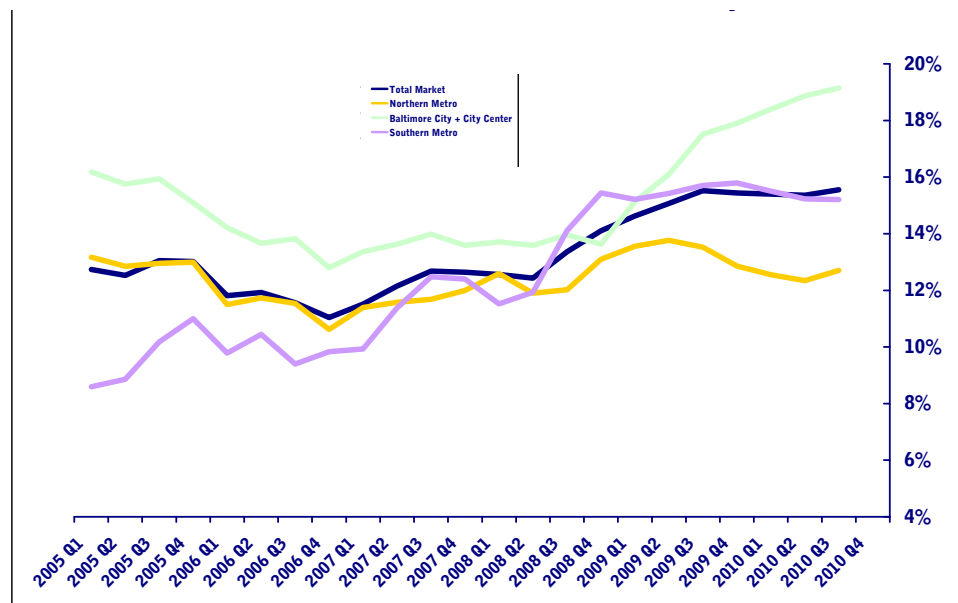
- Harford County continues to feel the pressure of BRAC activity which has driven that county's vacancy rate to the lowest in the Baltimore market. During the third quarter, 6245 Guardian Gateway was delivered at the GATE and is nearly fully leased. New tenants this quarter include General Dynamics (10,000 sf) and Harford Community College (2,325 sf).
- The Community College of Baltimore County (CCBC) moved into 10,000 sf at the Ridge Professional Center (7106 Ridge Road), across from its Essex Campus.
- The Windemere Group moved out of 20,173 sf in the Annapolis Corporate Center (445 Defense Highway).
- Howard County Government is in the process of vacating 8930 Stanford Boulevard in Columbia, which served as temporary space while its main offices were renovated. When complete, 154,394 sf will be available space in Columbia Corporate Park.
- The Foundation Fighting Blindness, Inc. moved into 20,908 sf at 7168 Columbia Gateway Drive.
- The Towson submarket saw very little activity this quarter except for Mile One's 34,500 sf lease at 1 Investment Place. Verizon vacated 40,000 sf, and General Dynamics moved into 13,202 sf of subleased space at 849 Fairmount Avenue.
- Highlands Corporate Park, in the northern region of the I-83 Corridor submarket, welcomed MobileXUSA and FILA to 930 Ridgebrook Road. They assumed 10,237 sf and 21,043 sf respectively.

## Vacancy & Rental Rates By Region



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

## Historical Vacancy Rates



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



## Notable Transactions

\*(r) Renewal

\*\*(sub) Sublease

### Lease

Location	Submarket	Tenant	Amount Leased SF
100 Light St	City Center	Transamerica Life Insurance Company	140,526
1001 Fleet St	City Center	Old Mutual Financial Network	57,470 (r)
7065 Samuel Morse Dr	Columbia	Northrop Grumman Corporation	56,145 (r)
1 Investment Pl	Towson	Mile One	34,500
930 Ridgebrook Rd	I-83 Corridor	FILA	21,043

### Sale

Location	Submarket	Price	PSF	Building Size SF
6841 Benjamin Franklin Dr	Columbia	\$38,684,708	\$192.87	200,573
40 W Chesapeake Ave	Towson	\$28,500,000	\$76.16	52,232
6707 Whitestone	Baltimore County West	\$3,100,000	\$66.49	46,627

\* All information furnished regarding property for sale, rent, exchange or financing is from sources deemed reliable. No representation is made as to the accuracy thereof and all such information is submitted subject to errors, omissions, or changes in conditions, prior sale, lease or withdrawal without notice. All information should be verified to the satisfaction of the person relying thereon. Portions of the base statistics are from CoStar Property data. Data as of 9/2010.

