YEAR END 2007 COMMENTARY

January 25, 2008

I have gotten the question a lot recently: **Have you been affected by the housing slowdown?** My answer is that we have NOT been affected, but the some of the same issues that are hurting the housing sector have come into play in the commercial field. The biggest obstacle today is the credit market. In my opinion, the credit market has not become bad or tough; it has simply reverted back to the standards that have existed for years or even decades. A lot of the price appreciation we experienced over the last few years was not created by increased operating efficiency or effectiveness; it was created by ever more aggressive underwriting enabled by ever more aggressive debt pricing. To put it another way, the buildings weren't making more money. Rather, the buyers were willing to accept a lower return as the interest rates came down.

What does all this mean going forward? I believe we are going to see 6 – 18 months of very low activity. It takes a while for market players, especially sellers, to wrap their arms, heads, and hearts around the new market realities. Keep in mind that while we are often talking about "institutions", "developers", "entrepreneurs", "businesspeople", etc., we are still talking about people. Most people, if they are told that something is suddenly not worth as much as they believed a few months earlier will simply hold on to that asset. The institutional asset manager does not want to admit that their underwriting was wrong or that they failed to see a change coming in the market. The individual owner will typically believe the market value will return shortly (in the same way many homeowners are having difficulty dealing with the new market pricing.) Once the psychological shock wears off, I think we will see the market return to normal. Assets with stable income will once again sell for a reasonable rate of return based on the riskiness of the cash flow. Vacant or value-added opportunities will go back to selling for a discount to compensate for the added risk.

As for the leasing market, that has traditionally, and will continue to, track the employment of the local area. Maryland has seen the beginning of an influx of jobs created by the base realignment. Our market, while not "sizzling hot" has not been bad. On a scale of 1 – 10, the consensus is that the current leasing market rates about a 6 or 7. From a national perspective, the employment figures will largely track the stock market. As the stock market goes up, companies have cheaper sources of funds (they can sell less shares to raise the same amount of money) and that encourages them to take on new projects, and, hence, hire people. Additionally, as the stock market increases, typically the cost of debt goes down for those same companies and the shareholders equity increases. Locally, I think we will see a very level next 6 – 12 months as the national economic condition is counter balanced by the jobs relocating to the area.

** All of this goes with the asterisk that if you gave me tomorrow's paper once, I would be living a very happy life in the islands somewhere.

On another note, 2008 has already been a year that has seen our company grow. We have added two senior directors and a director of marketing. To accommodate this growth, we have relocated our offices to the address below. Please make a note of the new contact information, including the new phone number. The email address remains the same.

As always, please let me know if I or anyone at AGM can be of assistance. Have a great 2008!

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