

Jobs Situation

Baltimore suffered through the recession with increasing unemployment. The good news is that Baltimore's unemployment rate has stayed well below the U.S. average (see Chart 1.) The potential drag from the global recession was reduced by Baltimore's proximity to Greater Washington which skirted much of the downdraft of the recession. A prime example of the spillover effect from Washington is the expansion of the U.S. military's cybersecurity effort which will be run out of the National Security Agency's headquarters at Fort Meade. The Baltimore metro area was also a major winner in the latest reconfiguration of military bases (BRAC). However, anecdotal reports indicate that the positive push from BRAC has so far been less than expected. Marlin Steel will be expanding its presence in the area.

Chart 1
Job Growth, (% change year ago)
& Unemployment Rate, (% , SA)

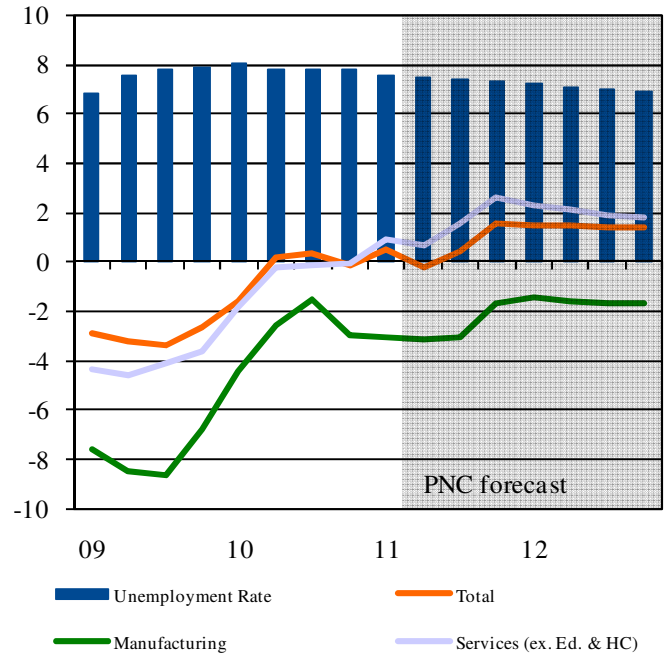
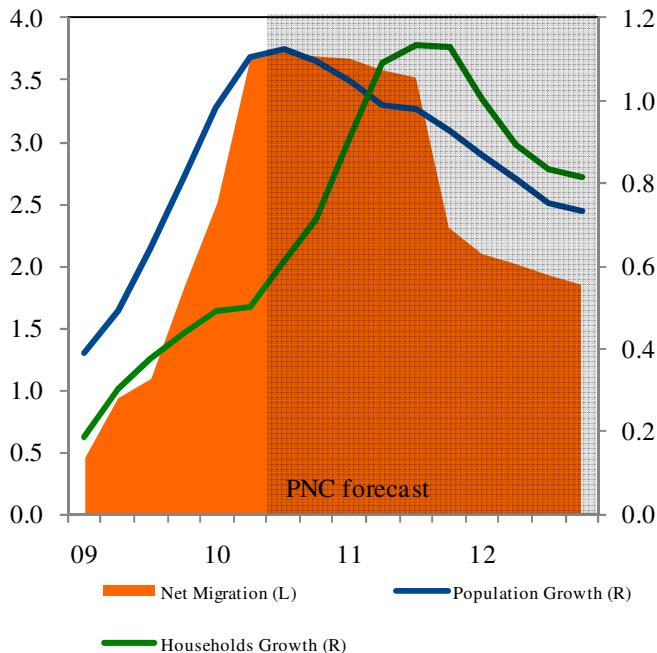


Chart 2
Demographic Growth, (% change, year ago)
& Net Migration, (Ths., SA)



Demographics

With the expected influx of more than 11,000 new military personnel and their families, the Baltimore metro area will see increasing population growth in the years ahead (see Chart 2.) The larger military presence will require more private service sector jobs and more state and local government jobs, but will not necessarily require more manufacturing jobs. Baltimore's net migration trend will be positive through 2011. Baltimore's stronger population growth will in turn reinforce the Greater Washington economy. Eastern Maryland's population density and strategic position on the eastern seaboard makes it a key transportation hub for both commercial cargo and for people. Transportation related projects from new rail lines to new port facilities will add dynamism to the area's economy.

Housing

With ongoing demographic momentum, home sales in the Baltimore area are set to stabilize through the second half of 2011 and increase through 2012 (see Chart 3.) Stronger sales will support a return to stronger prices as well in 2012 and beyond. House prices in Baltimore have been softer than in Washington, but higher prices in the Washington area will push home buyers northward as economic conditions improve throughout the region. Home construction will warm up as builder confidence returns and demand re-engages with population growth. In-migration of young households will favor the construction of multi-family units with easy connections to transportation nodes.

Chart 3
Home Sales (Ths., SAAR)
& Price Growth, (% change year ago)

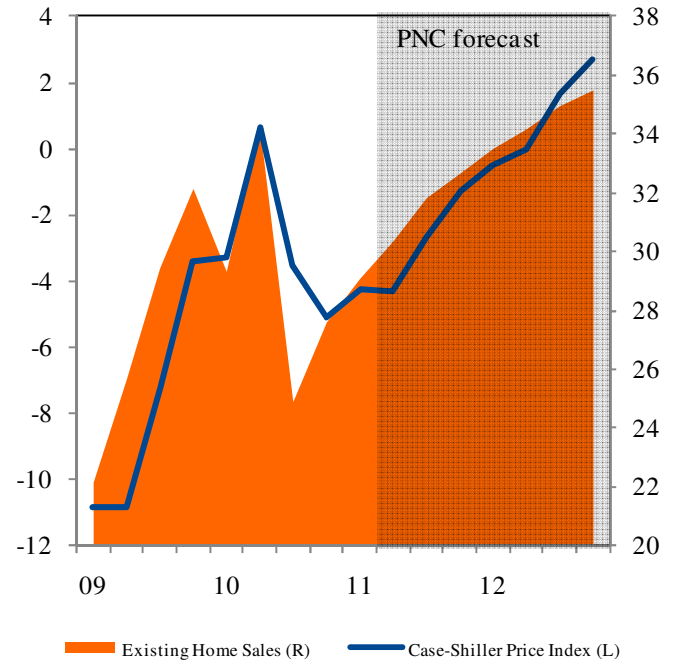
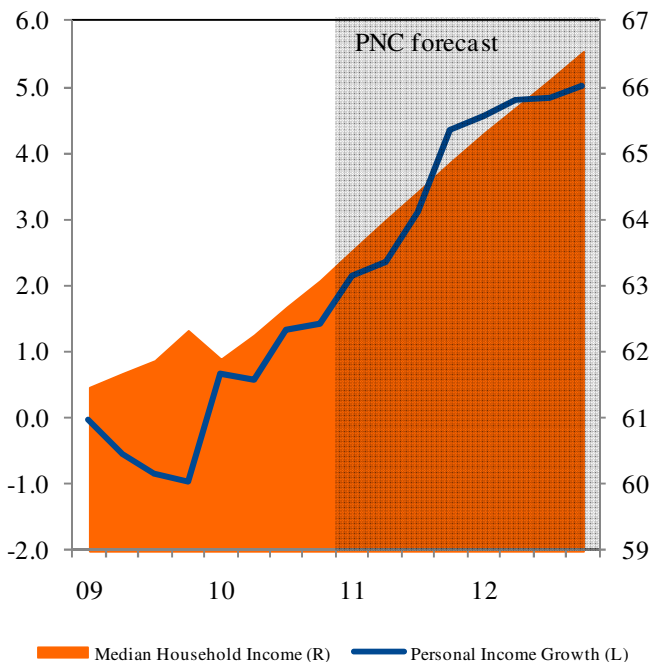


Chart 4
Income Growth (% change year ago)
& Median Household Income (Ths. \$, SA)



Income

With firmer economic conditions in 2011 and 2012, income growth in the Baltimore area will get back on track (see Chart 4.) Stronger personal income growth in 2011 will support retail spending gains even as households retain a higher post-recession saving rate. There is a great deal of consumer pent-up demand that is waiting to be unleashed with the support of consistent income growth and improving confidence. Baltimore remains a more affordable alternative to Washington for those willing to commute. And so strong economic growth in the DC area will translate into firmer income growth for Baltimore. Likewise with house prices. Cargo traffic through the Port of Baltimore is setting records. The planned expansion of port facilities will also contribute to job and income growth.



Baltimore Market Outlook

Outlook Summary

Baltimore's economy was hurt by the recession more than neighboring Washington, but now, as Greater Washington accelerates, Baltimore will see positive spillover effects. Also, Baltimore will see increased population growth as a result of a significant increase in military personnel that is slated to be complete by the end of 2011.

Residential real estate conditions will improve through 2012 as sales firm up, foreclosures decline and price growth returns. The sizeable influx of military personnel will put the most pressure on middle- to lower-income housing, but all tiers of the market will see improving conditions. Although nonresidential real estate conditions are currently weak, improving job creation and increasing business and investor confidence will help. On balance, building activity is likely to remain subdued through 2011.

Over the long term Baltimore will continue to benefit from the spillover from Greater Washington. Baltimore offers lower-cost locations that are accessible by a well-developed transportation network.

Forecast Table

	U.S.			Baltimore		
	2010	2011F	2012F	2010	2011F	2012F
Employment Growth, (% change)	-0.7	1.2	1.8	-0.3	0.6	1.4
Unemployment Rate, (%)	9.6	8.7	8.0	7.9	7.4	7.1
Personal Income Growth, (% change)	3.1	4.9	4.9	1.0	3.0	4.8
Median Household Income, (Ths. \$)	50.5	51.8	53.3	62.5	64.2	65.9
House Prices**, (% change)	0.1	-3.8	0.7	-2.8	-3.2	1.0
Single-Family Permits* (% change)	6.6	-5.3	17.6	16.0	20.5	32.2
Multifamily Permits* (% change)	1.7	23.1	17.7	0.9	-39.3	42.4

*U.S. starts, F = PNC forecast, **Case-Shiller House Price Index

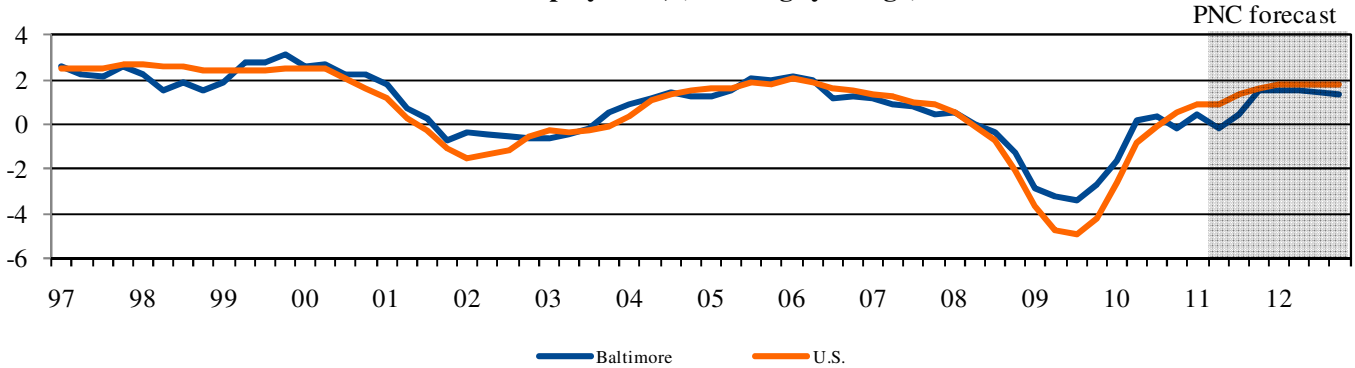
	U.S.		Baltimore	
	2002-2007†	2007-2012†	2002-2007†	2007-2012†
Employment Growth, (% change)	1.1	-0.6	1.0	-0.3
Unemployment Rate, (%)	5.3	7.7	4.4	6.4
Personal Income Growth, (% change)	5.6	3.0	5.5	2.4
Median Household Income, (Ths. \$)	45.8	51.0	56.6	63.1
House Prices**, (% change)	7.7	-6.3	12.1	-4.2
Single-Family Permits* (% change)	-5.3	-12.7	-12.6	3.7
Multifamily Permits* (% change)	-2.5	-11.6	-2.7	4.2

*U.S. starts, †per annum, **Case-Shiller House Price Index

Data sources for all exhibits: Bureau of Census; Labor Department; National Association of Realtors; National Association of Home Builders; FHFA; Moody's Analytics; The PNC Financial Services Group

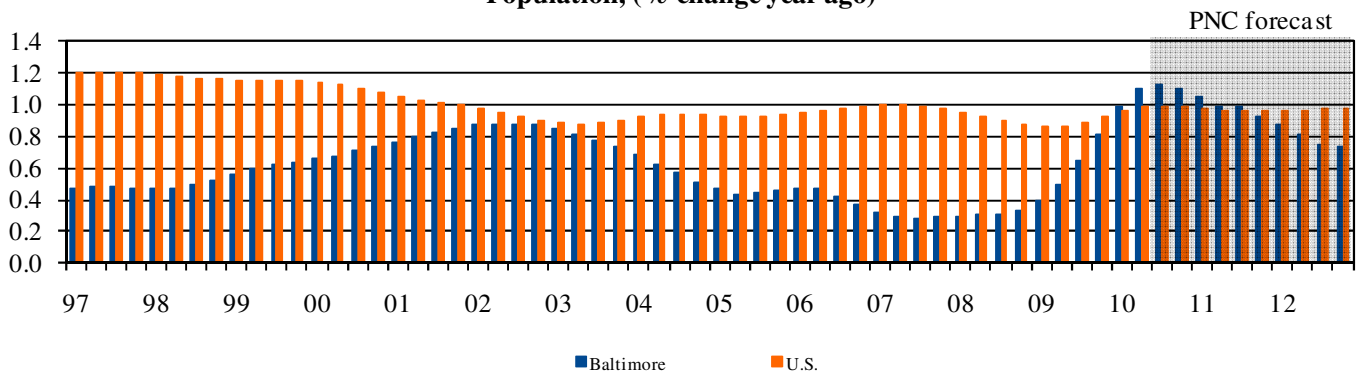
Long-Run Employment Trends

Chart 5
Total Employment, (% change year ago)



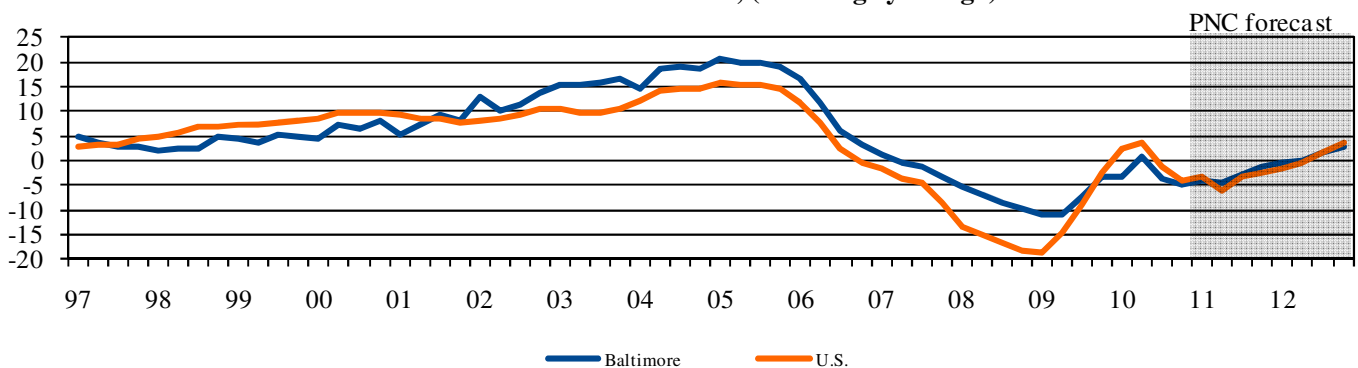
Long Run-Demographic Trends

Chart 6
Population, (% change year ago)



Long-Run House Price Trends

Chart 7
Case-Shiller House Price Index, (% change year ago)



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