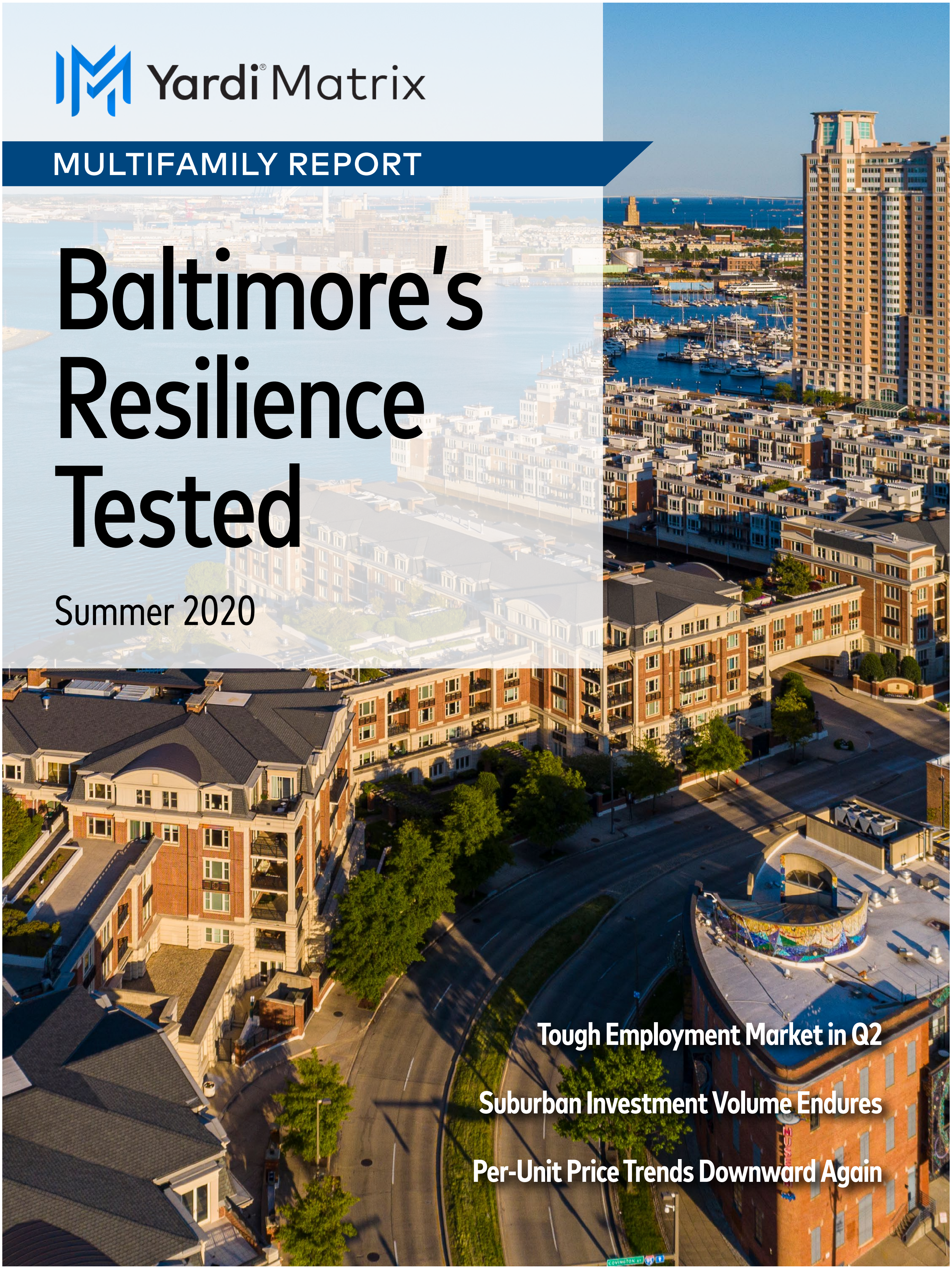
Yardi Matrix

MULTIFAMILY REPORT

Baltimore's Resilience Tested

Summer 2020



Tough Employment Market in Q2

Suburban Investment Volume Endures

Per-Unit Price Trends Downward Again

BALTIMORE MULTIFAMILY

Yardi Matrix

Multifamily Sector Faces Rocky Road Ahead

Bolstered by above-average economic growth in the pre-pandemic era, Baltimore's multifamily market was better-equipped to deal with the challenges brought by the coronavirus outbreak. As of June, rents were stagnant on a trailing three-month basis, with the overall average at $1,374, but still well below the U.S. figure of $1,457. And thanks to Maryland's eviction moratorium, the occupancy rate declined by only 80 basis points year-over-year through May, on par with the national average change.

The metro's employment pool shrunk by 238,300 positions in the 12 months ending in May. By mid-July, more than 1 million Marylanders had filed for unemployment benefits, with Gov. Larry Hogan noting the state had processed a total of $4.3 billion in state and federal unemployment benefits since the start of the pandemic.

While construction was deemed essential during the state's stay-at-home order, it's unclear how underway projects will be affected. Some 3,200 of the total 4,075 units under development as of June were expected to come online by as early as year-end, which would mark a significant increase in completions from last year's 1,957 units. Meanwhile, investment volume over the first two quarters remained virtually unchanged from the same period in 2019, at $477.5 million.

Market Analysis | Summer 2020

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Recent Baltimore Transactions

The Munsey

City: Baltimore
Buyer: PMC Property Group
Purchase Price: $22 MM
Price per Unit: $150,684

Oakleigh

City: Parkville, Md.
Buyer: AJH Management
Purchase Price: $26 MM
Price per Unit: $136,387

Jefferson Chase Condominiums

City: Frederick, Md.
Buyer: Winmar Construction
Purchase Price: $11 MM
Price per Unit: $201,923

Green Acres

City: Baltimore
Buyer: Schweb Partners
Purchase Price: $14 MM
Price per Unit: $74,725

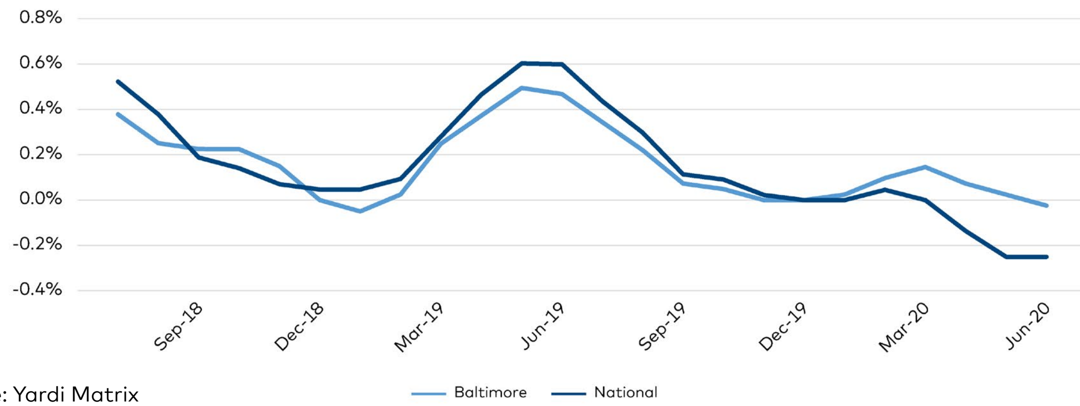
RENT TRENDS

- Baltimore rents stagnated on a trailing three-month basis through June, to an overall average of $1,374, while the U.S. figure dropped 30 basis points. The Renter-by-Necessity segment led growth, with rates up by 0.1% to $1,221, while Lifestyle totals decreased 20 basis points to $1,719 during the same period. Rents will likely continue to struggle, as the metro's development activity has picked up the pace in recent quarters and new supply is expected to surpass demand.

- To protect tenants that were laid off or furloughed as a result of the COVID-19 pandemic, Gov. Hogan barred evictions during Maryland's state of emergency in March, and later extended the order to July 25. Additionally, residents received some $30 million in eviction prevention assistance. As a result, Baltimore's occupancy rate stood at 94.3% in June, down 80 basis points year-over-year and 10 basis points under the national average. But according to a study by the Aspen Institute, as many as 330,000 Marylanders face the risk of eviction by the end of this year.

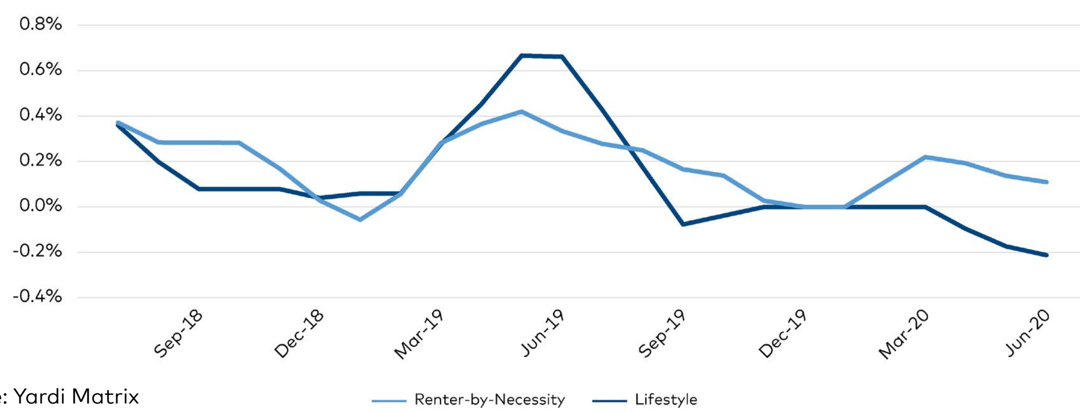
- Two suburban submarkets led rent growth—Middle River (8.6% year-over-year through June) and Rosedale (7.9%). Gains were uneven across the map, with seven of the top 10 submarkets for rent growth located within city limits. However, rents there were still as much as 37% below the metro's average: Hamilton (7.6% to $1,051), Oldtown (6.1% to $1,034) and Waverly (5.4% to $862).

Baltimore vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Baltimore Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Metro Baltimore lost almost 240,000 jobs in the 12 months ending in May. The unemployment rate rose from 3.5% in March to 10.1% in April, as Maryland saw at least 37,000 new jobless claims each week as a result of the pandemic. As the stay-at-home order expired, the unemployment rate dropped 60 basis points, according to May estimates.

- Baltimore's decision to cancel all special events through the end of August—combined with other measures meant to prevent the spread of the virus—placed a heavy burden on leisure and hospitality jobs. The sector led job losses, with 89,200 positions cut or a 44.1% decline. Apart from construction jobs—deemed essential during the lockdown—all major employment sectors saw significant decreases.

- The city is set to hire more than 300 individuals who recently lost their jobs due to COVID-19, as part of its new contact-tracing effort, a $12 million public-private partnership dubbed Baltimore Health Corps. Baltimore has partnered with the Johns Hopkins Bloomberg School of Public Health to train workers.

Baltimore Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	116	6.4%
30	Manufacturing	74	4.1%
50	Information	25	1.4%
55	Financial Activities	110	6.1%
90	Government	326	18.1%
80	Other Services	57	3.2%
60	Professional and Business Services	359	19.9%
40	Trade, Transportation and Utilities	286	15.9%
65	Education and Health Services	336	18.6%
70	Leisure and Hospitality	113	6.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Following a decade-long upward trend, Baltimore lost 2,736 residents in 2019, for a 0.1% decline.

- Within the city limits, population has been trending downward for decades. That decline accelerated last year, when the city lost almost 9,000 people, or 1.5% of its population.

Baltimore vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Baltimore Metro	2,794,294	2,798,587	2,802,789	2,800,053

Sources: U.S. Census, Moody's Analytics

SUPPLY

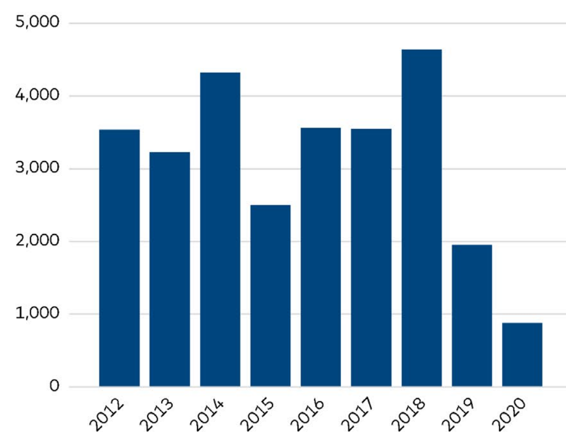
- Developers were working on a total of 4,075 units in Baltimore as of June. While almost 3,200 apartments were slated to come online by year-end, the coronavirus pandemic could create significant delays for some projects. Another 26,000 units were in the planning and permitting stages, but there may be some delayed starts given current conditions.

- After reaching a cycle peak of 4,639 units in 2018, completions declined last year by more than 50%, to 1,957 units. Over the first two quarters of 2020, developers completed five projects totaling almost 1,200 apartments, but deliveries dropped 15% compared to the same interval of last year.

- The bulk of development activity remained concentrated in suburban areas, where a total of 2,342 units were underway as of June, comprising 57.5% of total units under construction. Following eight years of virtually no major deliveries in the Towson-Southwest submarket, developers had 498 underway, comprising 16.1% of existing stock.

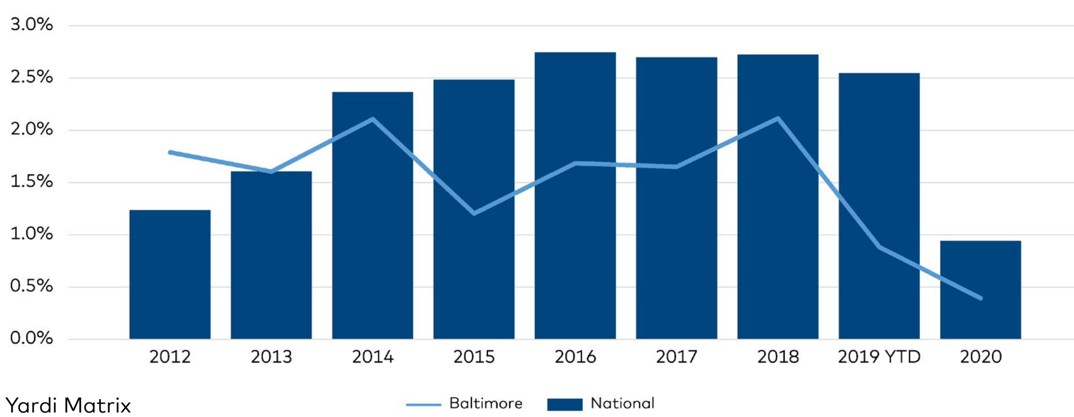
- AvalonBay Communities is developing the 437-unit Avalon Foundry Row, the largest project underway in the metro. At full build-out, the project, which is slated for completion by the end of next year, will be the submarket's seventh-largest multifamily community. Additionally, the developer is also working on a 380-unit project in the Little Italy submarket.

Baltimore Completions (as of June 2020)



Source: Yardi Matrix

Baltimore vs. National Completions as a Percentage of Total Stock (as of June 2020)

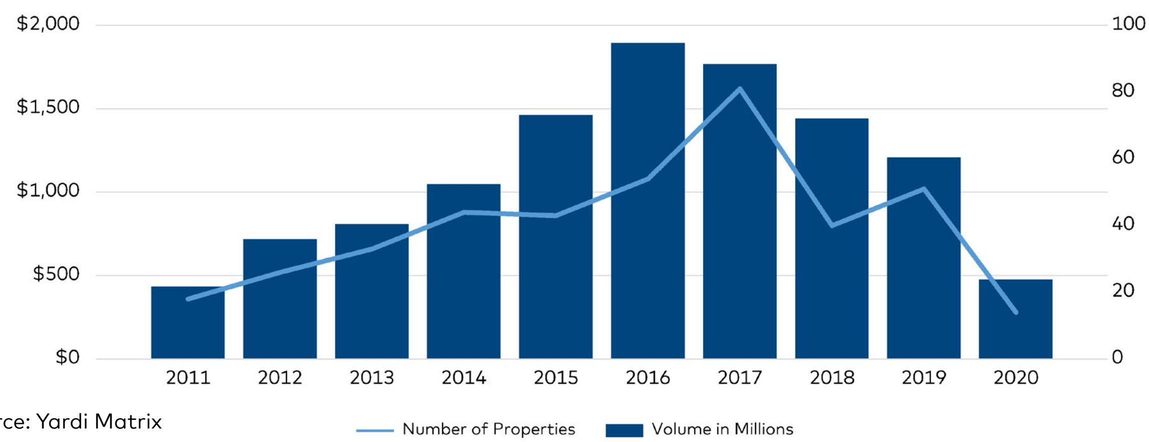


Source: Yardi Matrix

TRANSACTIONS

- Baltimore's transaction volume totaled $478 million year-to-date through June, on par with 2019's figure. However, after rising last year by 8.9%, per-unit prices declined by 16% to $144,433. That's nearly $20,000 below the national average rate.
- A total of 3,386 units changed ownership year-to-date through June, marking a 66.2% decline compared to the 10,018 apartments sold in the first half of last year. Of the 14 properties that have traded so far in 2020, 13 were in the Renter-by-Necessity category, while only one was a Lifestyle asset.
- Investment amounted to $1.2 billion in the 12 months ending in June. Buyers were heavily focused on suburban submarkets, where transaction volume reached $1 billion. Eight of the top 10 submarkets by deal volume were located outside Baltimore's city limits.

Baltimore Sales Volume and Number of Properties Sold (as of June 2020)



Source: Yardi Matrix

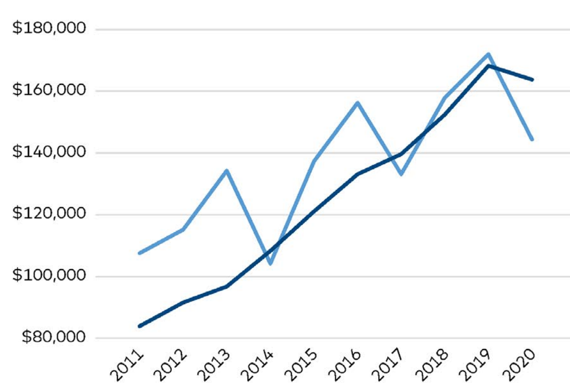
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Columbia	208
Parkville	140
Laurel	111
Frederick-West	86
Elkridge	73
Cheswolde	72
Odenton	61

Source: Yardi Matrix

[1] From July 2019 to June 2020

Baltimore vs. National Sales Price per Unit



Source: Yardi Matrix

A Baltimore Developer's Take on the Pandemic's Impact

By Evelyn Jozsa

As the effects of the coronavirus outbreak continue to burden the U.S. economy, multifamily owners are also bracing for unprecedented challenges. Baltimore-based Klein Enterprises has a diversified portfolio encompassing several asset types, including residential, office/flex and retail properties. President Daniel Klein discusses how the multifamily business is impacted when it comes to stabilized assets, projects underway and properties in the lease-up process.

Tell us about your strategy to overcome COVID-19-induced difficulties.

It's hard to imagine that any multifamily owners are immune to the economic impact. As it relates to stabilized assets, several of our properties have started to show a reduction in rent payments and we imagine this will continue to rise. On the development side, we're working through closing a large construction financing deal in northern New Jersey and we're moving ahead with the planned loan closing and construction, while we are fully aware that the timing could change at any moment.

On the leasing side, we've employed virtual tours and have a fully accessible—albeit mostly remote—workforce who can address issues as they arise. We're constantly in touch with all our property managers and leasing teams to address the shifting landscape.

What is the current status of your Baltimore project, The Woodberry?

We were fortunate that we completed most of the construction before the impact. We're working through the final stages of certain inspections that may be delayed due to the shutdown, and then shifting our focus to the impact on lease-up. That said, we've implemented virtual leasing and we are updating our marketing strategies. We are working through the final stages of building as effectively as possible, recognizing that construction remains an essential business here in Maryland.

How is Klein Enterprises responding to the crisis?

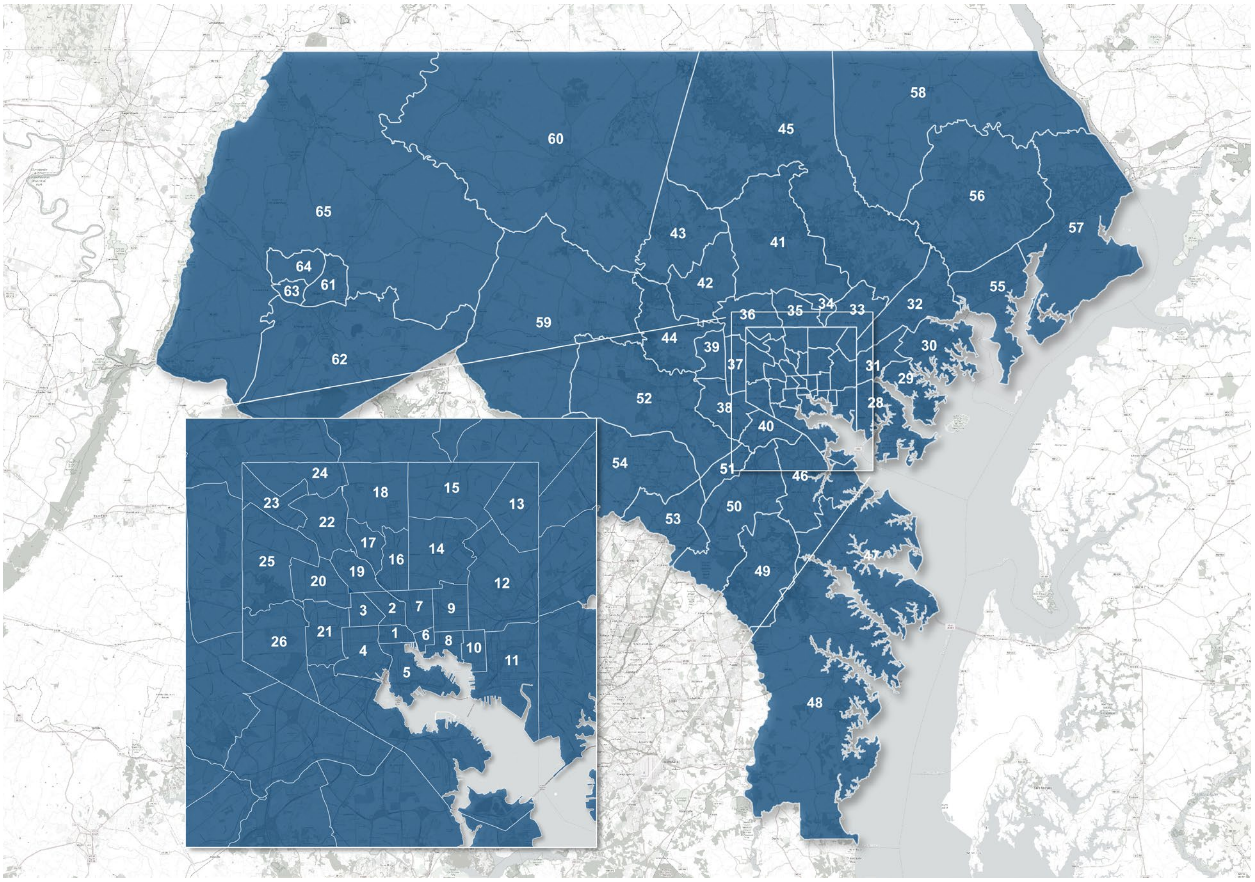
On the health/safety side, we were early adopters of social distancing—choosing to work remotely before the public mandates and formal closures. On the economic side, we immediately set up a crisis management team consisting of our executive team, as well as directors of property management and leasing. We're addressing everyone's requests to the extent possible and are simultaneously working through arrangements with lenders to pass through relief to tenants.

How do you expect the pandemic to impact the metro's multifamily landscape in the long term?

This crisis will undoubtedly increase delinquencies on existing projects and the lease-up of recently constructed projects, but we're confident that those with strong lender relationships and a long-standing record of high-quality resident service will weather the storm.

(Read the complete interview on multihousingnews.com.)

BALTIMORE SUBMARKETS



Area No.	Submarket
1	Baltimore–Downtown
2	Baltimore–Midtown
3	Baltimore–Upton
4	Baltimore–Poppleton
5	Baltimore–South
6	Baltimore–Little Italy
7	Baltimore–Oldtown
8	Baltimore–Fells Point
9	Baltimore–Middle East-Washington Hill
10	Baltimore–Brewers Hill
11	Baltimore–Southeast
12	Baltimore–Herring Run Park
13	Baltimore–Hamilton
14	Baltimore–Waverly
15	Baltimore–Northeast
16	Baltimore–Johns Hopkins
17	Baltimore–Hampden
18	Baltimore–Roland Park
19	Baltimore–Reservoir Hill
20	Baltimore–Mondawmin
21	Baltimore–Edmondson
22	Baltimore–Pimlico

Area No.	Submarket
23	Baltimore–Glen-Fallstaff
24	Baltimore–Cheswolde
25	Baltimore–Northwest
26	Baltimore–West
27	Baltimore–Morrell Park-Cherry Hill
28	Dundalk
29	Essex
30	Middle River
31	Rosedale
32	Nottingham
33	Parkville
34	Towson–Northeast
35	Towson–Southwest
36	Pikesville
37	Gwynn Oak
38	Catonsville
39	Windsor Mill
40	Halethorpe
41	Cockeysville
42	Owings Mills
43	Reisterstown
44	Randallstown

Area No.	Submarket
45	Northern Baltimore County
46	Glen Burnie
47	Pasadena–Arnold
48	Annapolis
49	Odenton
50	Hanover–Severn
51	Elkridge
52	Ellicott City
53	Laurel
54	Columbia
55	Edgewood
56	Bel-Air
57	Aberdeen
58	Northern Harford County
59	Sykesville–Mount Airy
60	Westminster
61	Frederick–East
62	Frederick–South
63	Frederick–West
64	Frederick–North
65	Outlying Frederick County

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also June span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which June barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, June extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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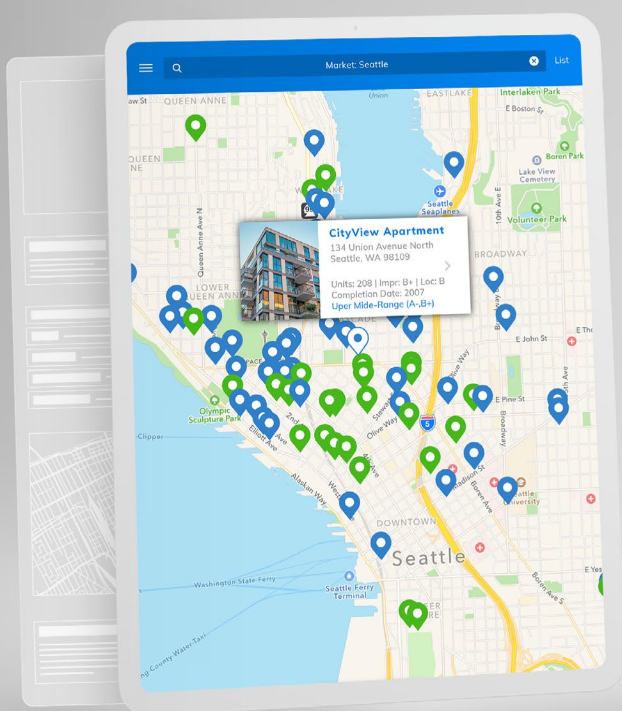

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