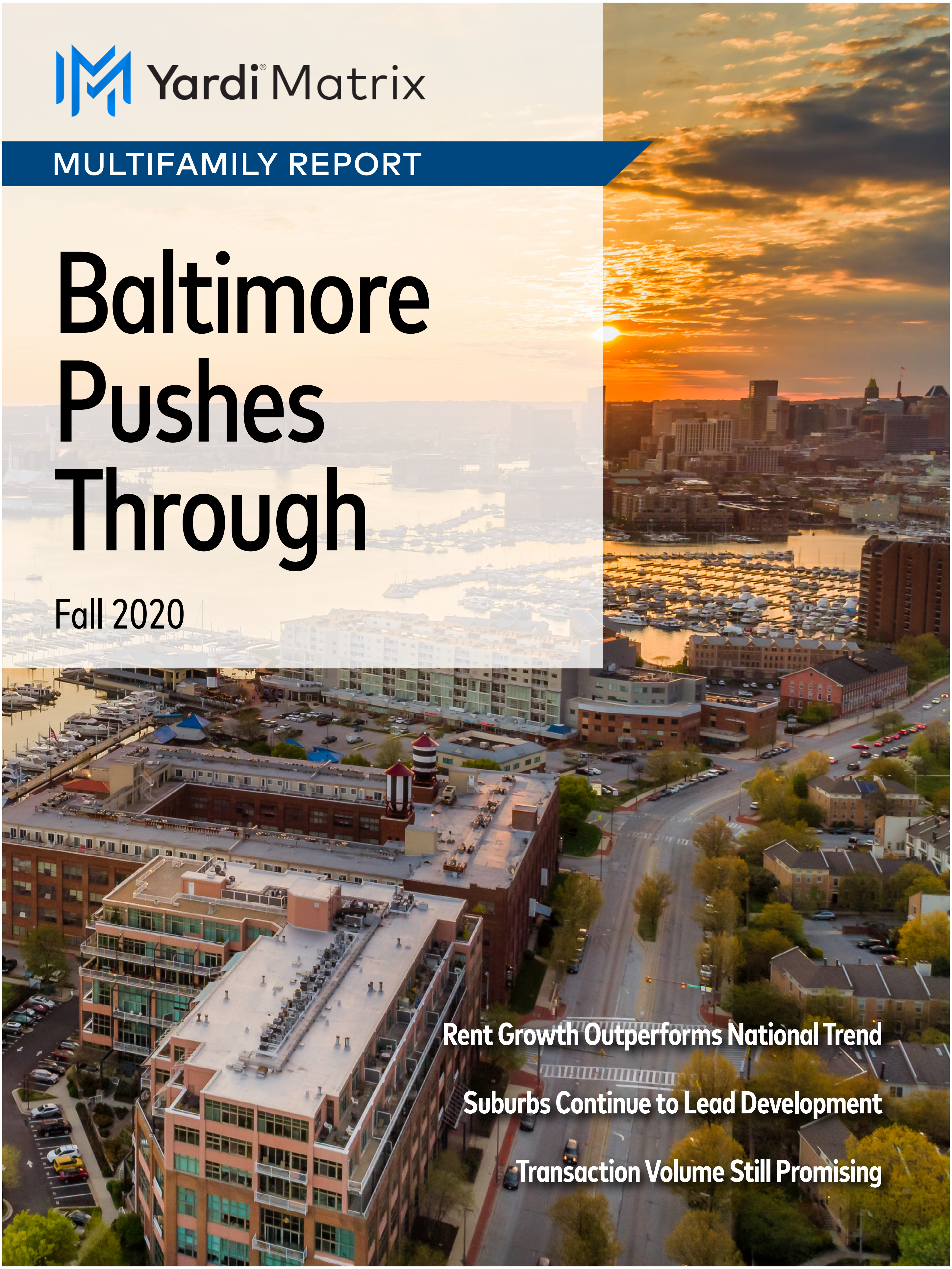
MULTIFAMILY REPORT

Baltimore Pushes Through

Fall 2020



Rent Growth Outperforms National Trend

Suburbs Continue to Lead Development

Transaction Volume Still Promising

BALTIMORE MULTIFAMILY

Yardi Matrix

Slow but Steady Gains Keep Market Afloat

Thanks to some consistent gains through the second half of the cycle, Baltimore's multifamily market has only witnessed moderate impacts from the ongoing economic volatility, with fundamentals remaining relatively healthy—at least compared to larger coastal markets. As of October, rents were up 0.6% on a trailing three-month basis, with the overall average at $1,406, still below the national average of $1,464. The metro's occupancy rate in stabilized assets rose 0.2% over 12 months, to 94.9% in September, 40 basis points above the national average.

Baltimore's employment pool contracted by 115,100 positions in the 12 months ending in September, down 8.6% year-over-year, with almost all sectors recording declines. In the city of Baltimore alone, more than 150,000 people filed for unemployment benefits, with the number of new claims declining in early November. In Maryland, the total number of jobless claims nearly surpassed 900,000 in October.

More than 1,900 units came online over the first 10 months of 2020, a 0.5% increase from the same period last year. Developers were working on a total of 3,712 units as of October, equal to 1.7% of existing inventory. What's more, investment volume year-to-date through October actually rose 0.6% to $925.3 million, compared to the same interval last year.

Market Analysis | Fall 2020

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Recent Baltimore Transactions

Perry Hall

City: Perry Hall, Md.
Buyer: AJH Management
Purchase Price: $96 MM
Price per Unit: $136,647

Ridge Gardens

City: Parkville, Md.
Buyer: Chelsea Management
Purchase Price: $90 MM
Price per Unit: $149,242

Ridgeview at Wakefield Valley

City: Westminster, Md.
Buyer: Yitzchak Scheinerman
Purchase Price: $45 MM
Price per Unit: $221,235

Alta at Regency Crest

City: Ellicott City, Md.
Buyer: Livingston Street Capital
Purchase Price: $42 MM
Price per Unit: $281,666

RENT TRENDS

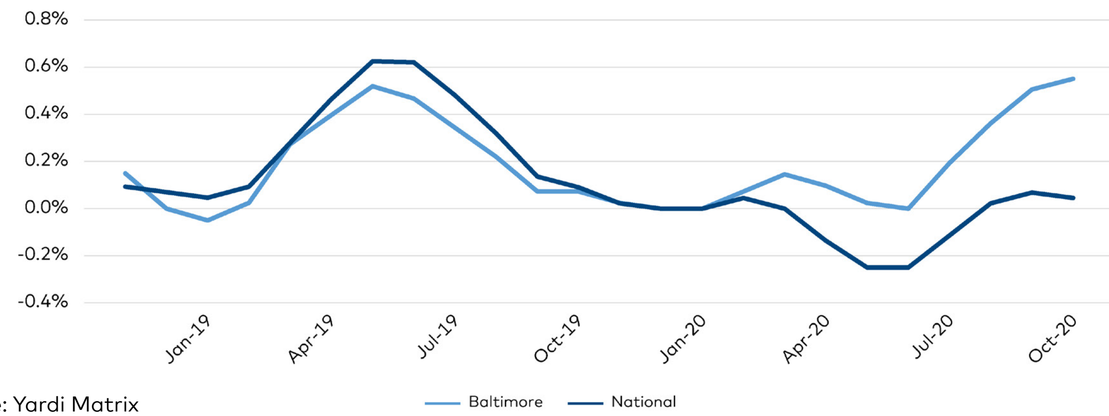
- Baltimore rents increased 0.6% to $1,406 on a trailing three-month (T3) basis through October. Renter-by-Necessity rates rose 0.7% to $1,253, while Lifestyle rents were up 0.4% to $1,746. While ongoing economic volatility has negatively impacted demand, the metro overperformed during the third quarter. The national average remained flat on a T3 basis as of October, at $1,464.

- The Renter-by-Necessity segment led rent gains, up 0.7% to $1,253, while the Lifestyle segment also saw some improvement—up 0.4% to $1,746.

- Suburban submarkets with below-average rates and smaller inventories continued to lead growth in the Baltimore metro. Three submarkets saw their rates increase by more than 10% year-over-year through October. In Middle River, average rents rose 12.5% to $1,270, with Rosedale rates up 10.5% to $1,318, still below the metro average. However, expansion was uneven across the metro, with eight of the Top 10 submarkets for rent gains located outside city limits.

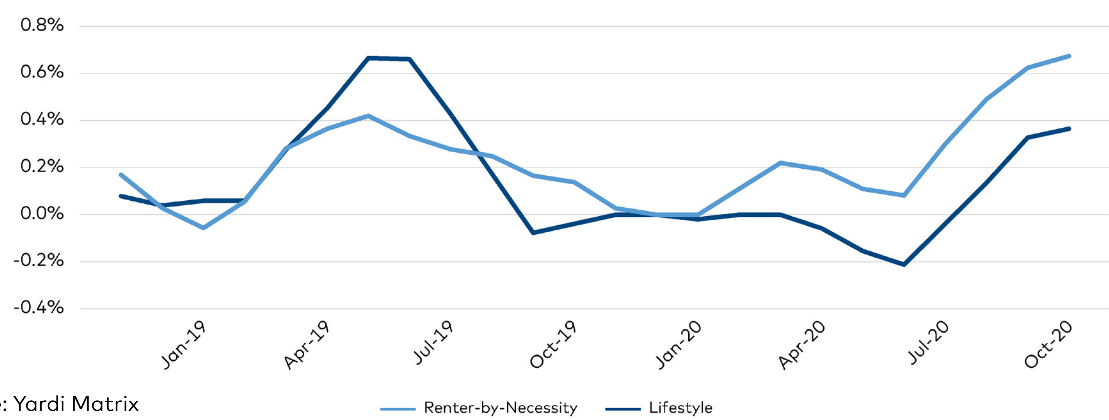
- Meanwhile, the bulk of Baltimore City submarkets witnessed rent reductions, as economic uncertainty this year had a disproportionate impact on submarkets with above-average rates and newer inventory. In Little Italy, average prices nose-dived 14.8% to $1,895, while in southeast Baltimore, rates in Fells Point were down 4.4% to $2,029.

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

- Baltimore lost 115,100 jobs in the 12 months ending in September, marking an 8.6% decline year-over-year, compared to a 9.3% nationwide drop. As the statewide stay-at-home order came to an end, the unemployment rate improved steadily to 6.5%, according to September estimates. That's still a 320-basis-point increase year-over-year.

- Apart from the construction sector—which was deemed essential during the lockdown and saw a 2.1% increase and added 2,500 jobs—all employment sectors contracted in the 12 months through September. As Baltimore decided to cancel or postpone all special events at the onset of the pandemic, leisure and hospitality led contractions with 33,300 positions or a 17% drop. For other sectors, losses ranged from 16.4% for information to 2.5% for manufacturing.

- Following an increase in coronavirus cases, tighter restrictions went into effect at the beginning of November in multiple Maryland counties—including Baltimore and Harford—as well as Baltimore City. These regulations could exacerbate economic uncertainty.

Baltimore Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	120	6.3%
30	Manufacturing	77	4.0%
55	Financial Activities	113	5.9%
50	Information	24	1.3%
80	Other Services	71	3.7%
40	Trade, Transportation and Utilities	311	16.3%
60	Professional and Business Services	368	19.3%
90	Government	315	16.5%
65	Education and Health Services	348	18.2%
70	Leisure and Hospitality	163	8.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- After a decade-long upward trend, Baltimore saw a 0.1% decline last year, losing 2,736 residents.

- Within city limits, population has been trending downward for decades. That decline accelerated last year, with almost 9,000 residents lost, equal to a 1.5% drop.

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

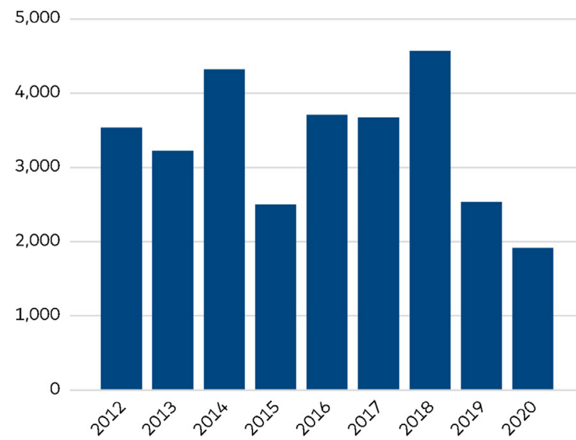
- Developers were working on a total of 3,712 units across Baltimore as of October, comprising 1.7% of existing stock. More than 2,500 of the units underway were slated for delivery as early as year-end. However, the ongoing health crisis and resulting economic uncertainty are likely to result in some delays. Additionally, more than 28,000 units were in the planning and permitting stages.

- Since Maryland's stay-at-home order included residential construction companies among those allowed to remain open, completions over the first 10 months of 2020 rose 0.5% to 1,915 units, compared to the same interval of 2019. In the Pimlico submarket, Klein Enterprises completed the 284-unit The Woodberry, which accounts for 14.6% of the submarket's inventory.

- The bulk of construction activity in Maryland remained concentrated in suburban areas, where more than 2,000 units were underway as of October, accounting for 58.6% of total units under development.

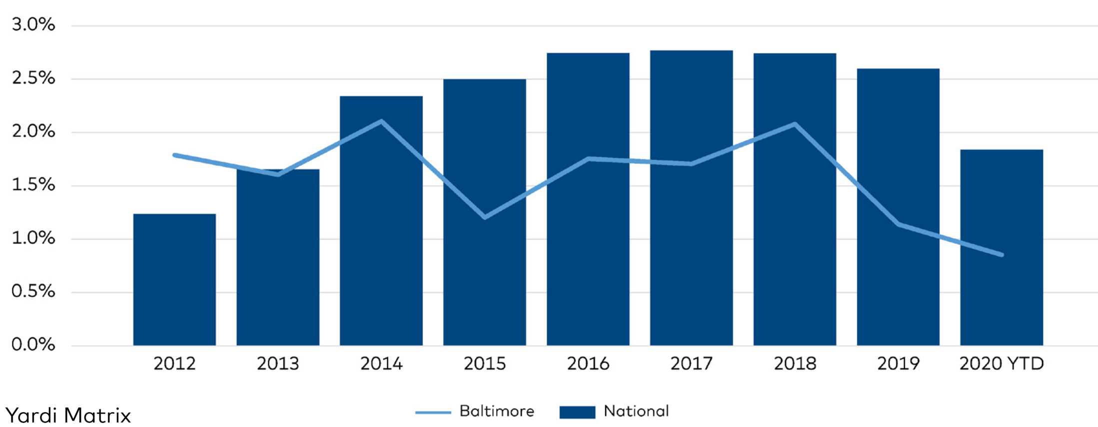
- In Owings Mills, AvalonBay Communities is working on the 437-unit Avalon Foundry Row, the metro's largest project underway, comprising 4.6% of the suburban submarket's stock. The upcoming community is slated for completion as early as the end of next year. And in the Little Italy submarket, the company is also developing the 380-unit Avalon 555 President with the help of a $6.9 million construction loan from Rosedale Federal Savings & Loan Association.

Baltimore Completions (as of October 2020)



Source: Yardi Matrix

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

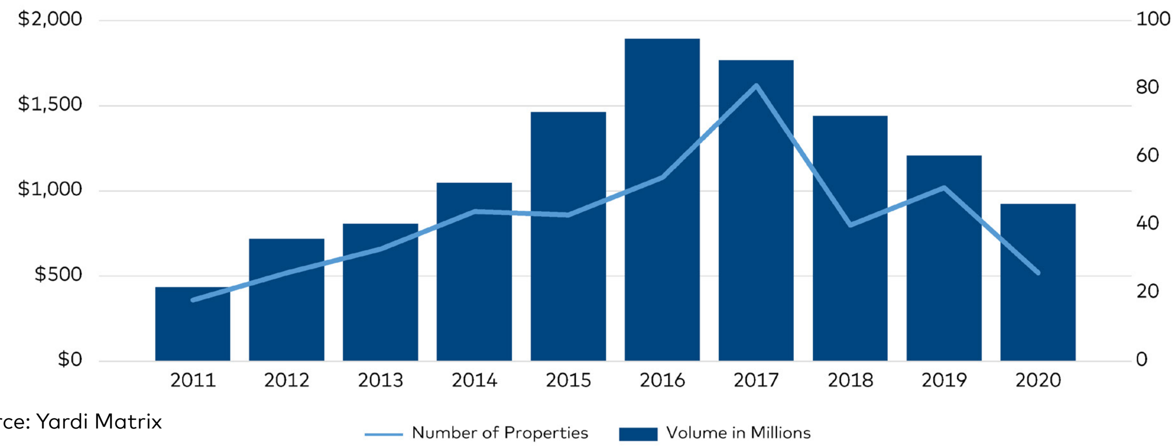


Source: Yardi Matrix

TRANSACTIONS

- Transaction volume totaled $925 million in Baltimore through the first 10 months of 2020. In contrast with nationwide trends, where significant declines in transactions have come about due to economic uncertainty, sales totals were almost on par with 2019's $920 million total through the same interval.
- Following an 8.9% increase to $172,031 last year, the metro's average per-unit price contracted 12.7% to $150,167. The decline was also a result of deal composition. Of the 26 properties that traded year-to-date through October, 20 were in the Renter-by-Necessity segment, while only six were Lifestyle assets.
- Investment amounted to $1.2 billion in the 12 months ending in October. Buyers were primarily focused on suburban areas, where transaction volume reached $1.1 billion. All of the Top 10 submarkets by investment volume were located outside Baltimore's city limits.

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



Source: Yardi Matrix

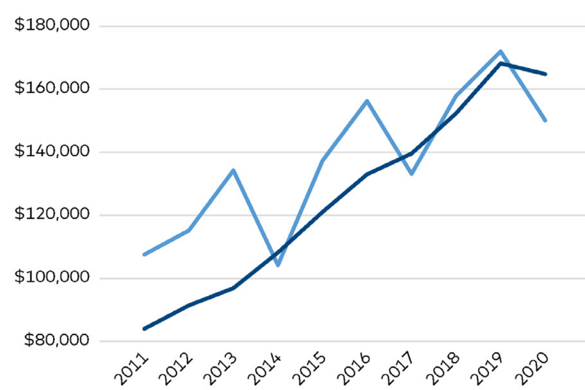
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Parkville	326
Columbia	208
Frederick-West	86
Westminster	83
Ellicott City	81
Elkridge	73
Owings Mills	56

Source: Yardi Matrix

[1] From April 2019 to March 2020

Baltimore vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

Brought to you by:

How the Mid-Atlantic Region Is Overcoming Economic Difficulties

By Evelyn Jozsa

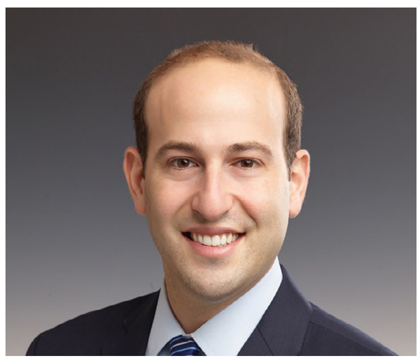
Thanks to its diverse employment composition, the mid-Atlantic region is well-positioned to deal with the challenges brought on by the coronavirus outbreak. However, the pandemic has changed market dynamics and accelerated trends across the region. Continental Realty Corp. Vice President of Acquisitions Ari Abramson talks about these trends and provides insights into the company's strategy to successfully navigate crises and economic shocks.

How has the Baltimore multifamily market dealt with the economic fallout so far?

Retention of residents has been a primary operational focus during the COVID-19 pandemic. Despite lower in-person traffic counts than our norms, leasing volumes have exceeded historical levels. Since April, our occupancy has either remained steady or surpassed benchmark averages, as we experienced higher-than-historical resident retention at lease expiration.

How do rents in Baltimore compare to rents in other markets across the region?

Despite a spike in unemployment across the metro, Baltimore multifamily has performed in line with comparable metros in the mid-Atlantic, with flat-to-moderate rent growth. Rents may stagnate or struggle as the development activity in downtown Baltimore, Owings Mills and Towson has picked up, and new supply may surpass demand in the short term.



Which areas are best equipped to overcome the pandemic-induced economic hardships?

Suburban submarkets surrounding our region's major metros that offer urban living features such as walkability to outdoor recreation or a town center are expected to recover faster than traditional dense, urban submarkets. In Baltimore, suburban submarkets include Towson, Columbia, Owings Mills and Annapolis.

The effects of the COVID-19 pandemic have accelerated the market trends that Continental Realty has been tracking for some time, including migration to the suburbs and the appeal of larger unit sizes.

What effects has the coronavirus outbreak had on your operations and portfolio in the region?

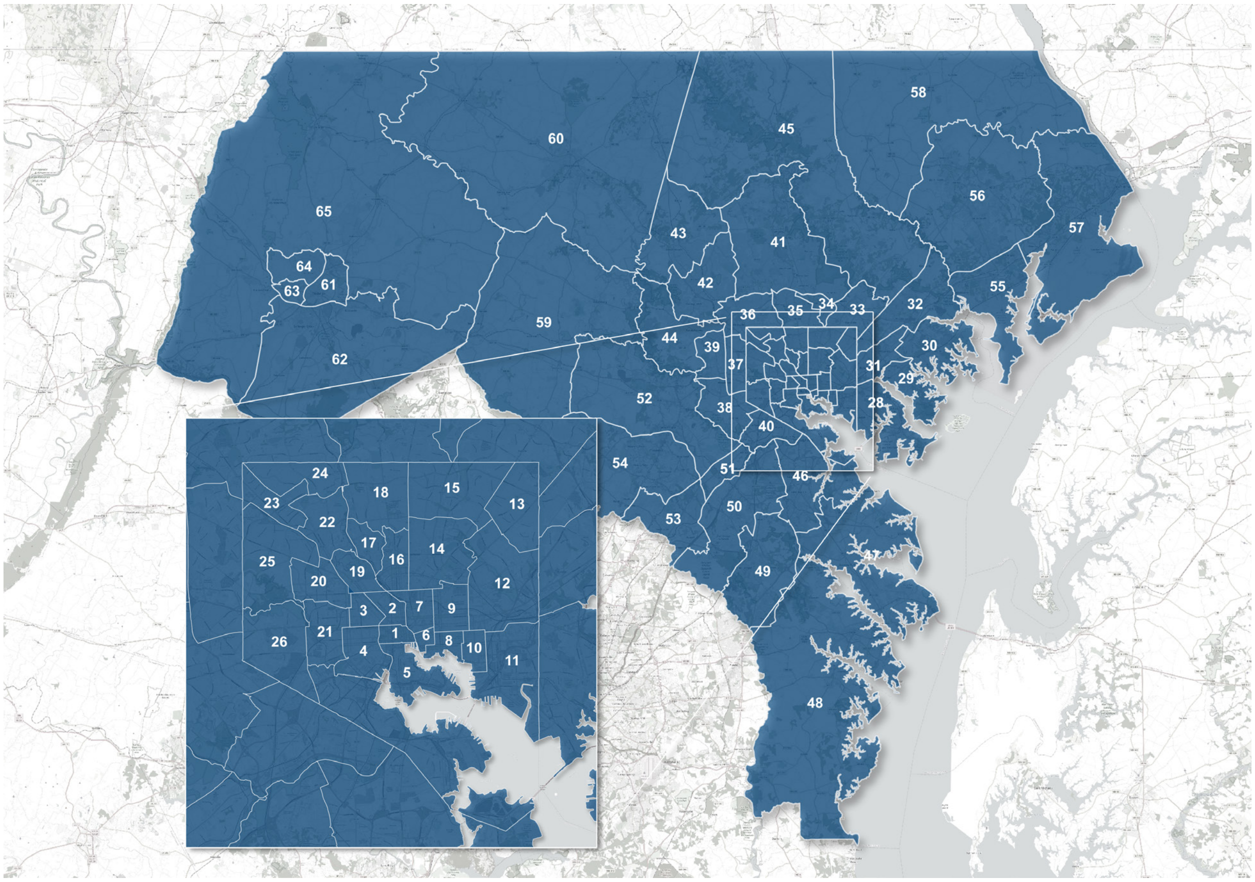
Our company was founded in 1960, and over the past 60 years leadership has successfully navigated eight recessionary periods and multiple economic shocks. We have thoughtfully assessed our resources, carefully reviewed our objectives and lined up the physical, financial and human assets needed to weather the pandemic and the associated economic crisis.

What are your predictions for the region's multifamily market?

In 2021, investor demand for multifamily will continue to be strong and valuations will hold, in part due to low interest rates and ample agency financing. However, the pandemic disrupted cash flows, changed consumer habits and delayed asset-level strategies.

(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 October 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 October 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, October 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.