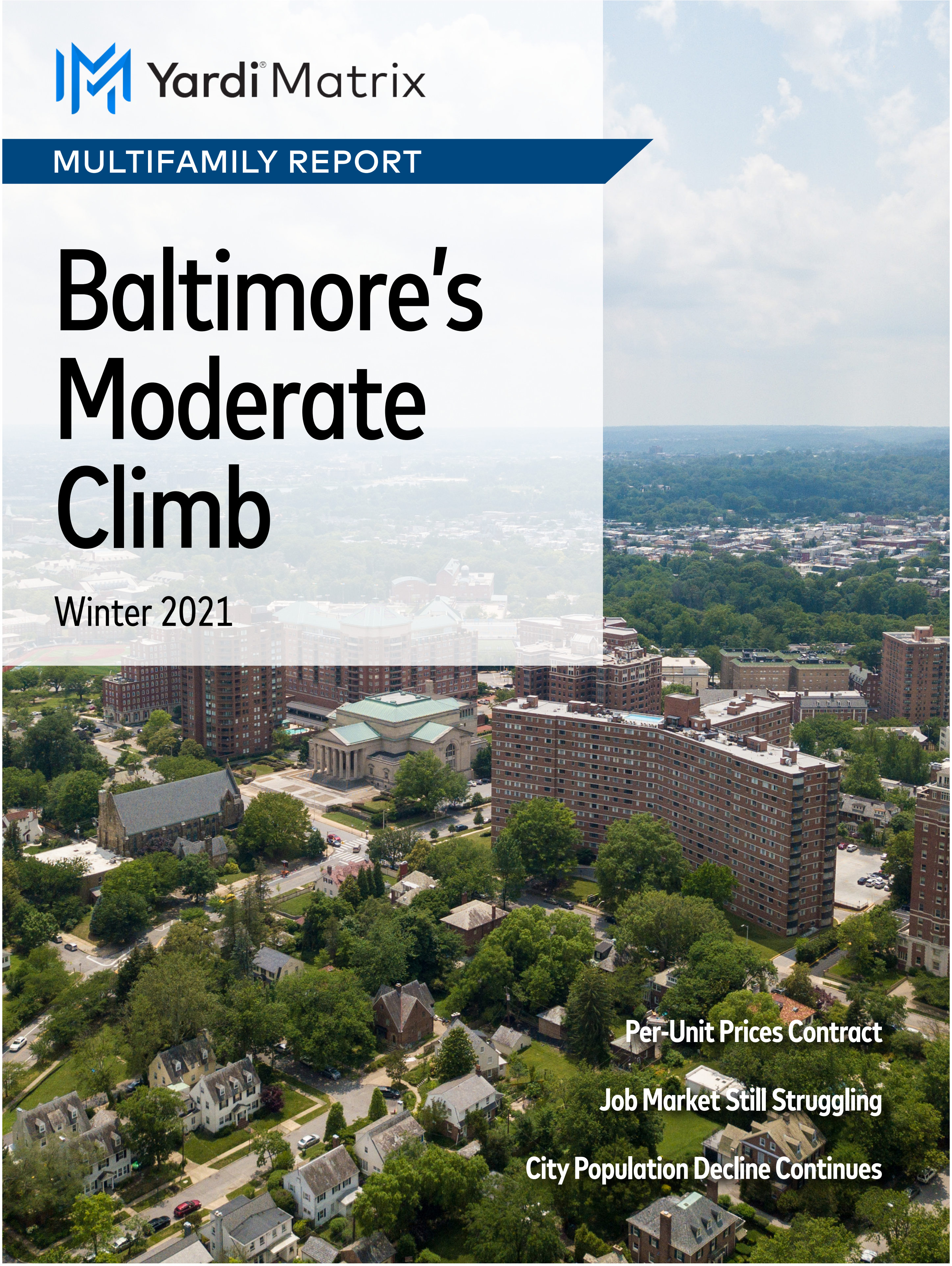
Yardi Matrix

MULTIFAMILY REPORT

Baltimore's Moderate Climb

Winter 2021



Per-Unit Prices Contract

Job Market Still Struggling

City Population Decline Continues

Yardi Matrix

Charm City's Slightly Rocky 2020

With the help of consistent gains in the last two quarters of 2020, Baltimore's multifamily market primarily ended the year and started 2021 on a strong note. As of January, rents were up 0.4% on a trailing three-month basis, with the overall average at $1,426. However, that's still below the national average of $1,466. The metro's occupancy rate in stabilized assets increased 60 basis points to 95.3%, 80 basis points above the national overall rate.

The metro's employment pool contracted by 97,500 positions in 2020—down 6.6% year-over-year—according to preliminary Bureau of Labor Statistics data, with the bulk of sectors reporting declines. The number of unemployment claims throughout Maryland decreased by about 500 during the final week of January, to 30,517. More than 2,500 of those were from Baltimore City, with a total of 5,203 from Baltimore County.

Some 3,200 units came online in Baltimore in 2020, up by a quarter compared to 2019. Developers were also working on almost 4,000 units across the metro as of January, equal to 1.4% of existing stock. Meanwhile, investment volume declined 10.4% last year to $1.1 billion, compared to the same interval the previous year.

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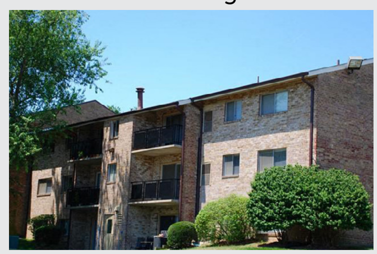
Recent Baltimore Transactions

The Courts of Avalon

City: Pikesville, Md.
Buyer: The Shidler Group
Purchase Price: $74 MM
Price per Unit: $284,883

Gatewater Landing



City: Glen Burnie, Md.
Buyer: GY Properties
Purchase Price: $46 MM
Price per Unit: $175,665

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

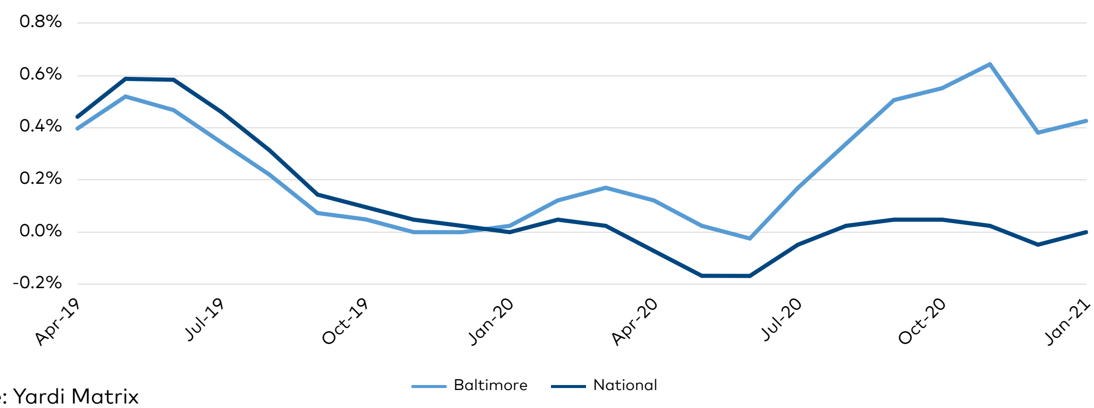
- Baltimore rents rose 0.4% to $1,426 on a trailing three-month basis through January. The nationwide average remained flat as of January, at $1,466. While the ongoing economic climate has dented demand in most major markets, the metro outperformed national trends.

- Both Renter-by-Necessity and Lifestyle rates increased 0.4%, to averages of $1,268 and $1,771, respectively. Meanwhile, occupancy trends were on a positive trend, up 60 basis points year-over-year as of December. Positive occupancy trends were consistent across quality segments, up 60 basis points year-over-year for both Renter-by-Necessity assets and Lifestyle assets.

- Suburban submarkets continued to dominate rent growth in metro Baltimore, as eight of the top 10 submarkets for gains were located outside city limits, with only one submarket reporting an above-average figure. However, in Upton, the average rates rose 10.9% year-over-year through January to $943. In Middle River, rents were up 9.5% to $1,279.

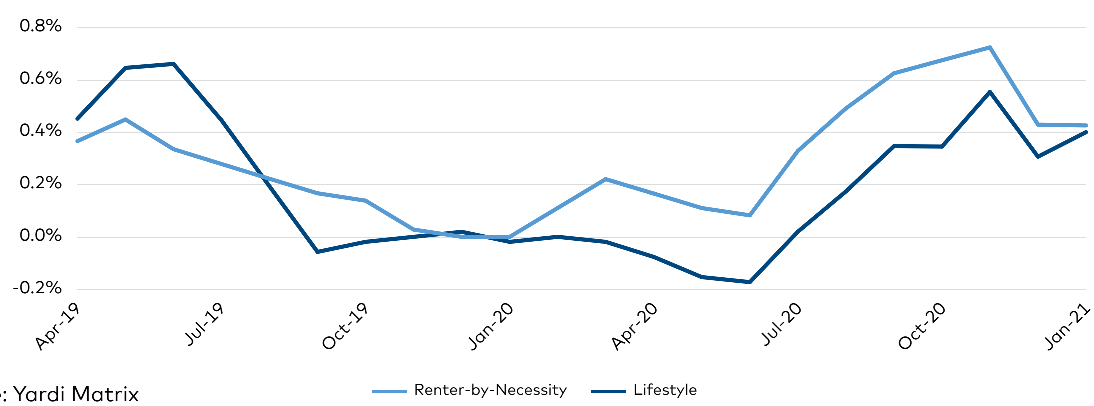
- Meanwhile, submarkets that overperformed in pre-pandemic times were hit hardest. All five submarkets that witnessed declines in their average rents were located within the city, with Little Italy continuing to lead losses. Average prices there nosedived 12.3% to $1,924, followed by midtown Baltimore, where rates dropped 3.5% to $1,382, and Fells Point, where rents declined 3.1% to $2,060.

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 97,500 jobs in 2020, according to preliminary data from the Bureau of Labor Statistics, marking a 6.6% nosedive. After reaching a record 10.1% in April—as Maryland went into lockdown to prevent the spread of COVID-19—the unemployment rate steadily improved to 5.6% as of December estimates. While that's 90 basis points below the national average of 6.5%, it's still a 260-basis-point uptick year-over-year.

- Except for the construction sector—which was designated as essential during the lockdown and rose by 1.4% or 1,600 positions—all employment sectors contracted in the 12 months ending in November. The most-impacted sectors, information and leisure and hospitality, saw double-digit declines as high as 16.3% and a total of 31,500 positions. Meanwhile, losses for the other sectors ranged from 6% for government and 0.9% for manufacturing.

- After imposing tighter restrictions in November, Maryland Gov. Larry Hogan decided to ease some restaurant and bar regulations at the beginning of February, as virus transmission rates improved. While indoor dining will continue to be capped at 50% capacity, restaurants and bars had their permitted hours of operation expanded.

Baltimore Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	120	6.1%
30	Manufacturing	78	4.0%
55	Financial Activities	115	5.9%
80	Other Services	73	3.7%
50	Information	24	1.2%
40	Trade, Transportation and Utilities	324	16.5%
60	Professional and Business Services	379	19.3%
65	Education and Health Services	361	18.4%
90	Government	321	16.4%
70	Leisure and Hospitality	165	8.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Following a decadelong upward trend, Baltimore witnessed a 0.1% drop in 2019, losing 2,736 residents.

- Within city limits, trends have been on a downward trajectory for decades. That decline accelerated in 2019, 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

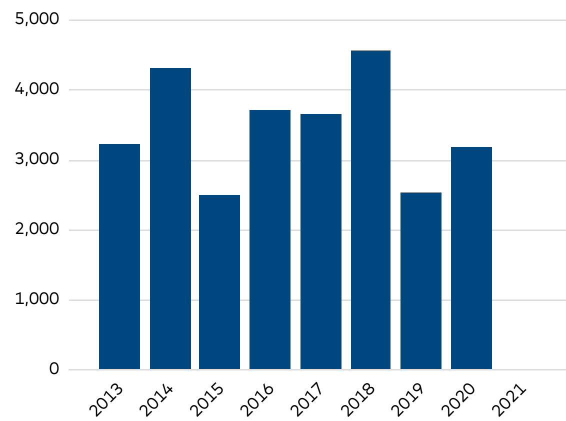
SUPPLY

- Developers were working on 3,960 units across Baltimore as of January, representing 1.4% of existing stock and 80 basis points below the national average of 2.2%. Some 2,623 units are forecast to come online by year-end, but some delays could occur, depending on the development of the ongoing health crisis. Additionally, some 23,000 units were in the planning and permitting stages.

- Since Maryland classified residential development as essential during its stay-at-home order, completions in 2020 rose 25.7% from the previous year to 3,186 units. The Howard Hughes Corp. delivered the partially affordable, 382-unit Juniper, the Columbia submarket's fourth-largest residential asset and its largest completion in more than a decade. The company is also planning a nine-story, 509-unit community, as part of its transformation of downtown Columbia's Lakefront district.

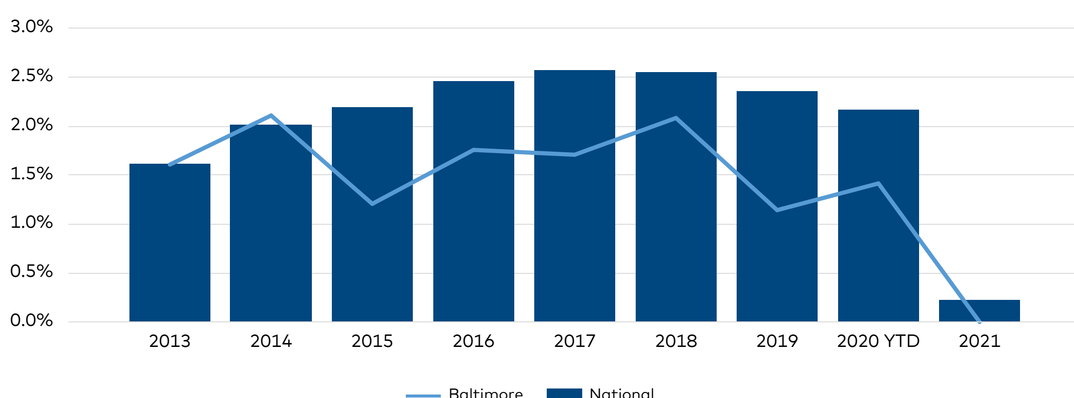
- Following four years with virtually no significant deliveries, construction activity picked up steam in the Owings Mills submarket over the past two years. This year, two communities totaling nearly 600 units are expected to come online, equal to 6.2% of existing stock. AvalonBay Communities is working on the upcoming 437-unit Avalon Foundry Row, while a private developer is working on the 157-unit, second phase of The View at Mill Run.

Baltimore Completions (as of January 2021)



Source: Yardi Matrix

Baltimore vs. National Completions as a Percentage of Total Stock (as of January 2021)

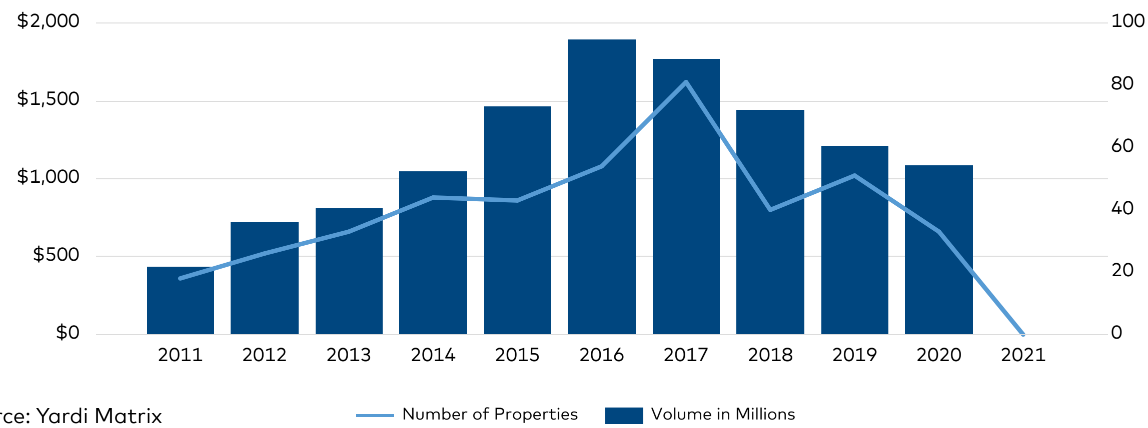


Source: Yardi Matrix

TRANSACTIONS

- Transaction volume in metro Baltimore dropped 10.4% in 2020 from the previous year, to an investment total of $1.1 billion, the lowest level in five years. Meanwhile, ongoing economic volatility caused by the current health crisis resulted in a 32.1% decline in sales volume nationwide.
- After the average per-unit price rose 8.9% to $172,031 in 2019, it contracted 9.8% last year to $155,251. Of the 30 properties that traded in the 12 months ending in January, 29 were in the Renter-by-Necessity category, with only one Lifestyle asset involved in a transaction.
- Investment amounted to $1 billion in the 12 months ending in January. With three of the top five largest deals, transactions in the Parkville submarket totaled $327 million, equal to almost a third of all multifamily sales in metro Baltimore.

Baltimore Sales Volume and Number of Properties Sold (as of January 2021)



Source: Yardi Matrix

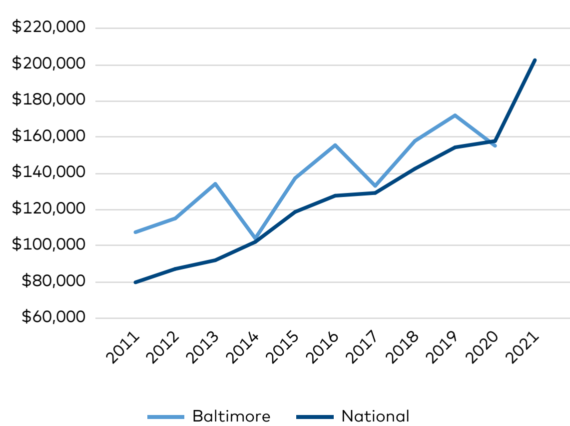
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Parkville	327
Westminster	83
Ellicott City	81
Pikesville	74
Elkridge	73
Dundalk	49
Glen Burnie	56

Source: Yardi Matrix

[1] From Feb 2020 to Jan 2021

Baltimore vs. National Sales Price per Unit



Source: Yardi Matrix

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Overcoming Economic Challenges in the Mid-Atlantic

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 health crisis. However, the pandemic has changed market dynamics and accelerated trends across the region. Continental Realty Corp. Vice President of Acquisitions Ari Abramson talks about the impact of the outbreak in the region and provides insights into the company's strategy to navigate crises and economic shocks.

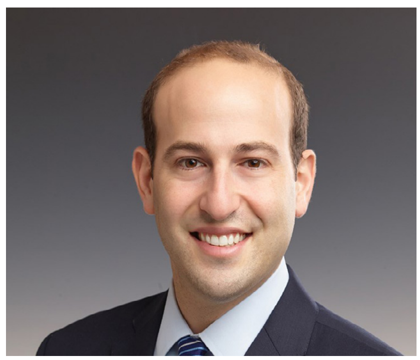
How has the pandemic impacted the mid-Atlantic multifamily market?

With limited visibility to determine valuations, multifamily owners exercised investment restraint and focused their energies on current operations. Transactions also slowed because the bid-ask spread between potential buyers and sellers remained wide.

The mid-Atlantic's durable and risk-averse employment bases, anchored by the life sciences, medical, education and technology sectors in and around the Baltimore/ Washington, D.C., corridor, provided the necessary support to the regional economy. Moreover, government employment bolstered the region's overall stability.

Which areas of the region are best equipped to overcome 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. We are focused on the surrounding metros of Washington, D.C., including Tysons, Arlington and Reston, along with Southern Maryland submarkets including Bethesda and Silver Spring. In Baltimore, suburban submarkets include Towson, Columbia, Owings Mills and Annapolis.

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

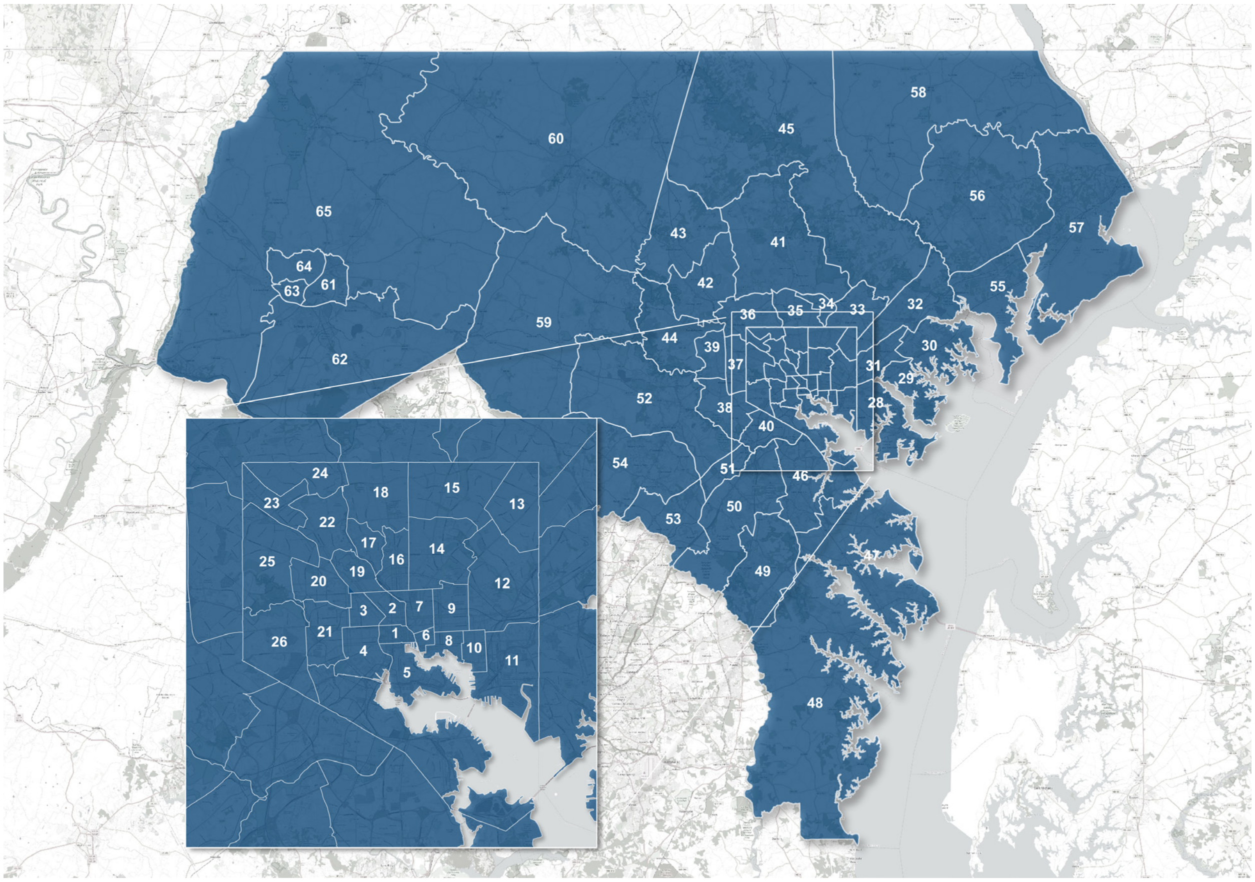
The metro has seen an increase in homeownership, which has pulled residents who are typically renters by choice out of the Class A+ product. We have seen the Class A+ segment lower rates to maintain occupancy or to complete a slow lease-up. This creates a trickle-down effect that applies downward pressure on the Class B segment to adjust rents accordingly. Overall, Class A- and B+ segments continue to be most resilient in the current marketplace due to price points and steadier performance in the early stages of recovery.

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

In 2021, investor demand will continue to be strong and valuations will hold, in part due to low interest rates and ample agency financing. However, the COVID-19 pandemic disrupted cash flows, changed consumer habits and delayed asset-level strategies. This may provide opportunities to acquire properties that can later be repositioned. Our strategy will be to target opportunities with a blueprint for value enhancements and increased economic occupancy.

(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 December 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 December 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, December 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.

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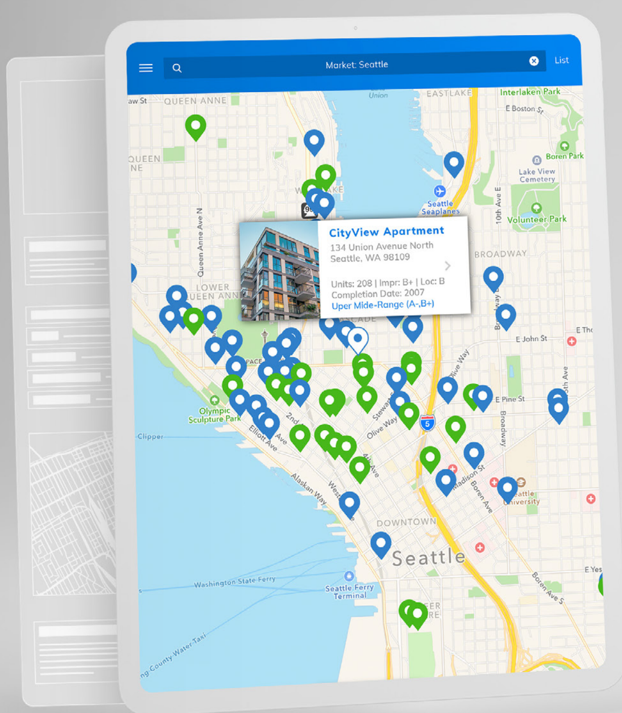

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