

Baltimore's Sinuous Road

March 2022

2021's Low Deliveries Avert Oversupply

Demographic Decline Continues

Rent Growth Lags Nation

BALTIMORE MULTIFAMILY



Deliveries Bottom Out, Deal Volume Hits Peak

Confronted with a stagnating demographic trend and an aging population, Baltimore's rental market continued to slowly move forward in its recovery. Through January, Baltimore rates rose only 0.1% on a trailing three-month basis and 12.3% on a year-over-year basis. Rents averaged \$1,611, \$7 above the national figure.

As of December, the metro's unemployment rate was 3.8%—the lowest level reported since the beginning of the health crisis—according to preliminary Bureau of Labor Statistics data. Baltimore added 59,000 jobs in the 12 months ending in November, with professional and business services leading employment growth. Johns Hopkins, the University of Maryland and the Social Security Administration are among the largest employers in the metro and have significantly contributed to the metro's economic stability over the past couple of years. The logistics sector is also posting exceptional performance. To support the expected growth in cargo flow, a \$466 million reconstruction of the Howard Street Tunnel is now underway.

Total sales doubled last year in Baltimore and hit \$3 billion, as several high-profile assets in the metro changed ownership. On the flip side, multifamily completions reached a record low, with only 1,730 units coming online in 2021. With deliveries slowing, Baltimore will likely see above-average rent growth in 2022.

Market Analysis | March 2022

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Recent Baltimore Transactions

The Quarters at Towson Town Center



City: Towson, Md.
Buyer: UDR
Purchase Price: \$124 MM
Price per Unit: \$287,209

Hanover Cross Street



City: Baltimore
Buyer: Galium Capital
Purchase Price: \$93 MM
Price per Unit: \$309,365

The Hills at Kenilworth



City: Towson, Md.
Buyer: OliveTree Group
Purchase Price: \$62 MM
Price per Unit: \$161,880

Eagle Rock at Towson

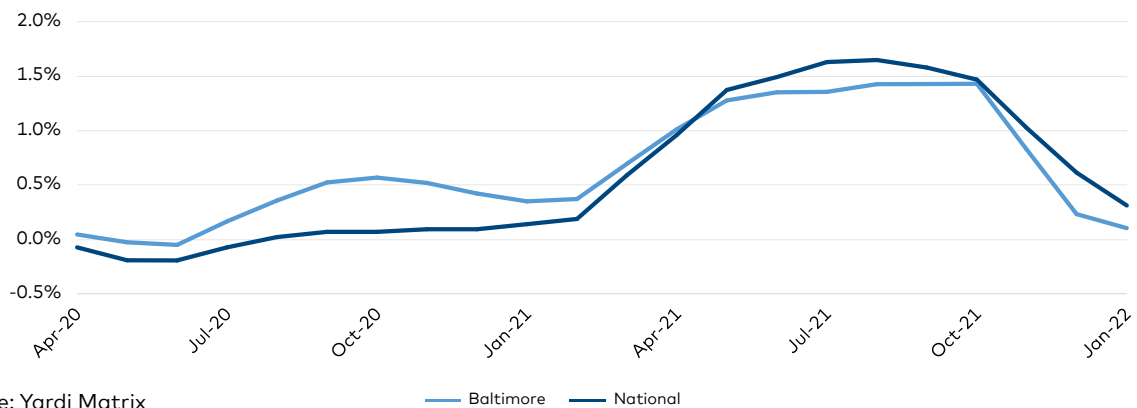


City: Towson, Md.
Buyer: Eagle Rock Properties
Purchase Price: \$53 MM
Price per Unit: \$315,208

RENT TRENDS

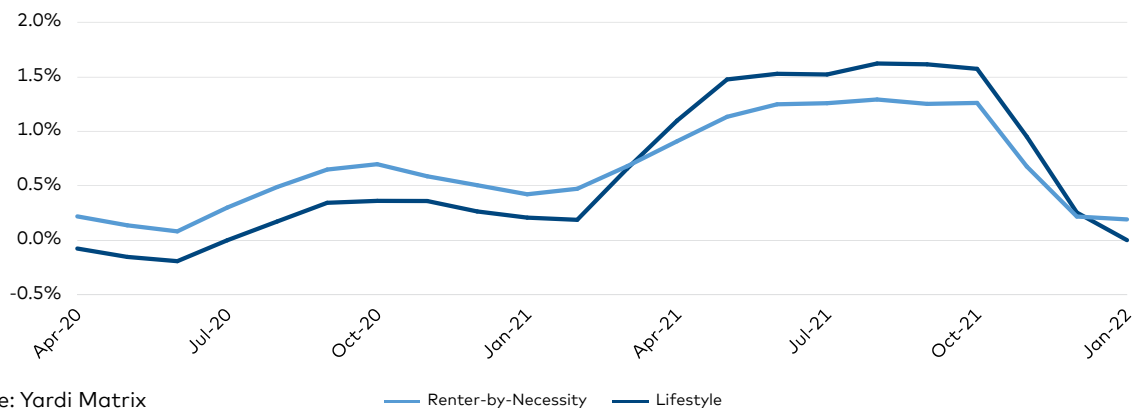
- ▶ Baltimore rents increased by only 0.1% on a trailing three-month basis through January, lagging the U.S. rate by 20 basis points. Rent gains began decelerating in November, after stagnating at 1.4% for five consecutive months. However, the average Baltimore rent was \$1,611, slightly above the \$1,604 national figure.
- ▶ The working-class Renter-by-Necessity segment led rent expansion, growing 0.2% on a T3 basis to \$1,418. Meanwhile, rates in the upscale Lifestyle segment averaged \$2,010, with rent growth stalling.
- ▶ Although rental demand slowed in the Greater Baltimore area, the 96.6% occupancy rate in stabilized multifamily properties was 50 basis points above the national rate in December.
- ▶ Urban core submarkets were the most coveted, with three waterfront areas performing best in terms of rent growth in the 12 months ending in January: Fells Point (23.0% to \$2,463), Brewers Hill (22.6% to \$2,260) and Baltimore-South (19.6% to \$2,389). The three submarkets were also the most expensive in the metro.
- ▶ In the single-family rental sector, rent growth also dwindled, with rates decreasing to \$2,346 in January. That marked a 2.6% month-over-month decline. But despite the contraction, the average stayed well above the \$1,948 national figure, which recorded a 0.5% month-over-month improvement.

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's unemployment rate was 3.8% in December, according to preliminary BLS data, the lowest level reported since the beginning of the health crisis and 10 basis points less than the national figure.
- ▶ The metro added 59,000 jobs in the 12 months ending in November, recording a 4.3% increase. Professional and business services led employment growth, with the sector adding 24,000 jobs, a 6.6% expansion. Leisure and hospitality regained 12,200 positions, an 8.5% improvement. Information and financial activities were the only two sectors to shed jobs, contracting by a combined 3,400 positions.
- ▶ Many of Baltimore's main employers, such as Johns Hopkins, University of Maryland and the Social Security Administration, are active in health care, biotech and research, which have been providing well-paying jobs over the past few years. The Port of Baltimore has seen increased cargo flow lately, as congestion at West Coast ports prompted importers to seek alternate solutions, leading to increased employment in the logistics sector. A \$466 million reconstruction of the 126-year-old Howard Street Tunnel that runs through Baltimore is now underway. When complete, the expansion will facilitate double-stack freight transportation on the CSX Interstate 95 rail corridor.

Baltimore Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	389	19.6%
70	Leisure and Hospitality	155	7.8%
40	Trade, Transportation and Utilities	334	16.9%
65	Education and Health Services	365	18.4%
90	Government	338	17.1%
80	Other Services	70	3.5%
15	Mining, Logging and Construction	115	5.8%
30	Manufacturing	78	3.9%
50	Information	26	1.3%
55	Financial Activities	110	5.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Baltimore's population growth stalled in 2020, partly due to a declining demographic trend and restrictions. Meanwhile, other Mid-Atlantic metros outperformed the 0.4% U.S. growth rate. Washington, D.C., saw a 0.7% demographic expansion, while Richmond hit 0.9%.

Baltimore vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Baltimore	2,798,587	2,802,789	2,800,053	2,800,189

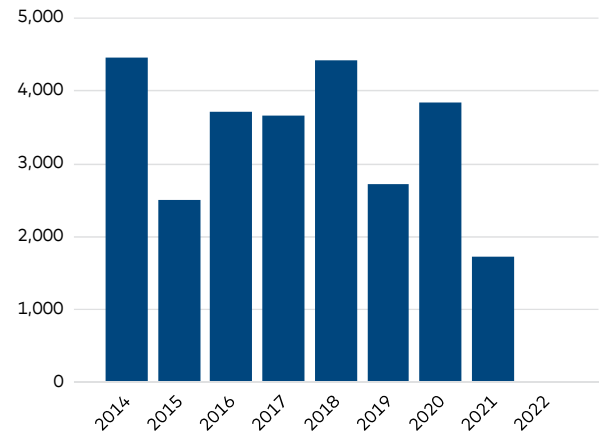
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Baltimore had 4,661 units under construction as of January, 82.1% of which are targeting the Lifestyle segment. An additional 30,900 units were in the planning and permitting stages.
- ▶ Only 1,730 apartments came online in 2021 in the metro. This followed the decade's third-best year for deliveries, when developers completed 3,851 units. The record low in new apartment deliveries last year helped Baltimore avoid an oversupply issue.
- ▶ In 2021, developers broke ground on 2,964 units across 13 projects, a significant uptick from the 1,260 units across 11 projects that work started on in 2020.
- ▶ As of January, construction activity was concentrated in three urban submarkets: Baltimore-South (785 units underway), Baltimore-Brewers Hill (649 units) and Baltimore-Oldtown (490 units). Greystar's first development in the metro is also the largest project currently under construction. Slated to add 500 units to the Brewers Hill submarket's multifamily inventory, The Collective at Canton is part of 28 Walker Development's Collective at Canton master plan, a 12-acre mixed-use project.

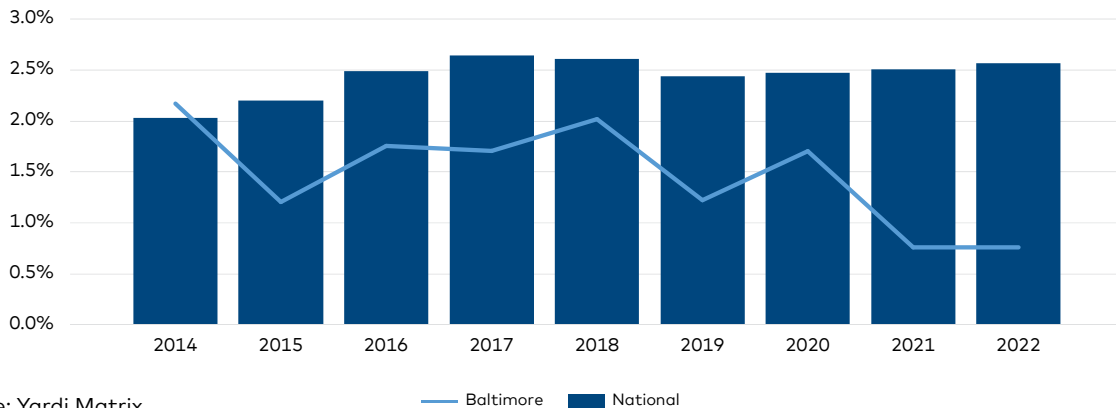
- ▶ Baltimore's historic retail core, known as Market Center, has been undergoing a revitalization process in the past few years. As part of the rejuvenation, several commercial spaces were transformed into apartments. Poverni Sheik Group recently completed the conversion of five vacant buildings on Howard Street into 41 apartments, while Zahlco Development intends to renovate and expand the former Mayfair Theatre into 93 rental units, in addition to retail and art space.

Baltimore Completions (as of January 2022)



Source: Yardi Matrix

Baltimore vs. National Completions as a Percentage of Total Stock (as of January 2022)

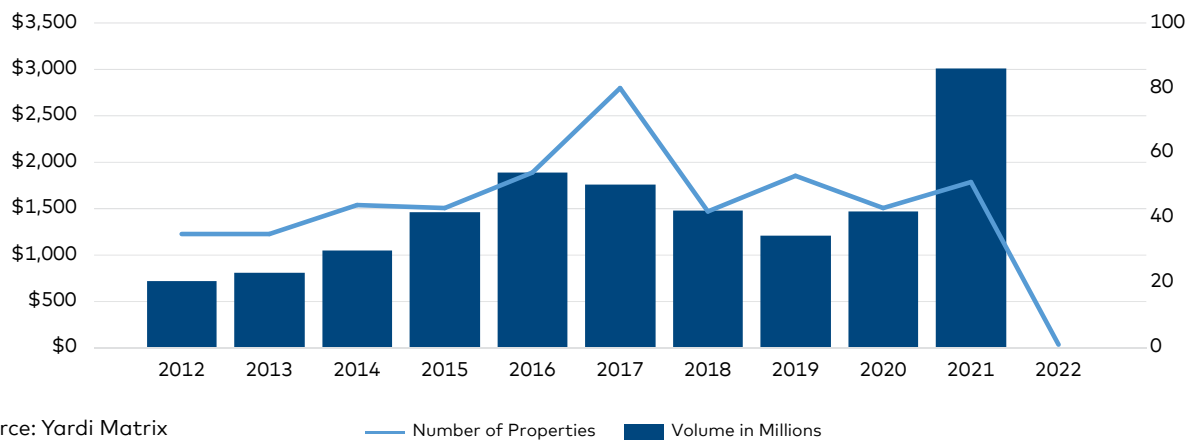


Source: Yardi Matrix

TRANSACTIONS

- ▶ Baltimore multifamily sales reached \$3 billion last year, which was double the average investment volume for the previous seven years. Fueled by low interest rates and a slowdown in new construction, the market has reached new highs. However, moderating rent growth, coupled with looming interest-rate increases, are likely to curb investors' appetite in 2022.
- ▶ Last year, the per-unit price averaged \$191,628, a 21.8% increase compared to 2020 and roughly on par with the national figure.
- ▶ In the 12 months ending in January, investors focused on suburban areas. Accounting for one-fifth of the top 20 largest transactions in the metro, Odenton ranked first for investment volume (\$402 million), followed by Towson-Northeast (\$295 million) and Owings Mills (\$293 million). AJH Management's \$190 million purchase of the 1,212-unit The Commons at White Marsh from Kushner Cos. was the largest deal of 2021.

Baltimore Sales Volume and Number of Properties Sold (as of January 2022)



Source: Yardi Matrix

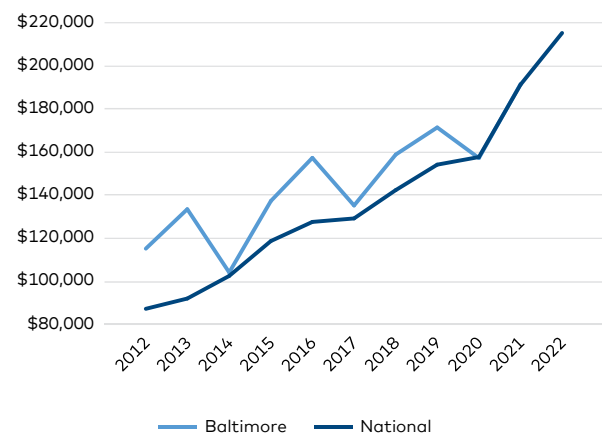
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Odenton	402
Towson—Northeast	295
Owings Mills	293
Middle River	289
Baltimore—South	203
Ellicott City	169
Annapolis	154

Source: Yardi Matrix

¹ From February 2021 to January 2022

Baltimore vs. National Sales Price per Unit



Source: Yardi Matrix



Why Investors Remain Bullish on the Mid-Atlantic Market

By Adriana Marinescu

The Mid-Atlantic multifamily market had a strong performance throughout 2021, fueled by constant demand and robust economic activity. While some metros performed better than others, the whole region saw betterment across the board, with investment levels especially rising in the last quarter. CBRE's Mid-Atlantic Executive Vice President Michael Muldowney and the company's Southern Virginia Vice President Peyton Cox share their thoughts.

Baltimore saw significant migration from expensive coastal markets. In your opinion, what attracted people to this particular metro?

Muldowney: Baltimore's booming industrial, shipping and logistics sectors were large drivers behind the 69,500 new jobs that were added to the metro in 2021. In addition, Feds, Meds and Eds are constant drivers, and resilient to exogenous forces such as the COVID-19 pandemic or financial downturns.

Besides the more prominent metros, were there any smaller cities in high demand?

Cox: Charlottesville and Williamsburg, Va. These are both smaller markets with strong university and tourism offerings that are attractive to empty nesters and Millennials.

Please tell us a few details about your investment activity across the Mid-Atlantic last year. Were there any notable transactions?



Michael Muldowney (left), Peyton Cox (right)

Muldowney: In 2021 alone, the team completed \$5.2 billion of sales transactions, including six prominent portfolio sales. One of the team's more notable and high-profile transactions of 2021 included the sale of the Barcroft Apartments, a 1,334-unit multifamily community in Arlington, Va., which is one of Arlington County's largest affordable housing complexes. Jair Lynch acquired the property which is now set to be preserved for 99 years with the help of \$310 million in loans from Amazon.com Inc. and Arlington County.

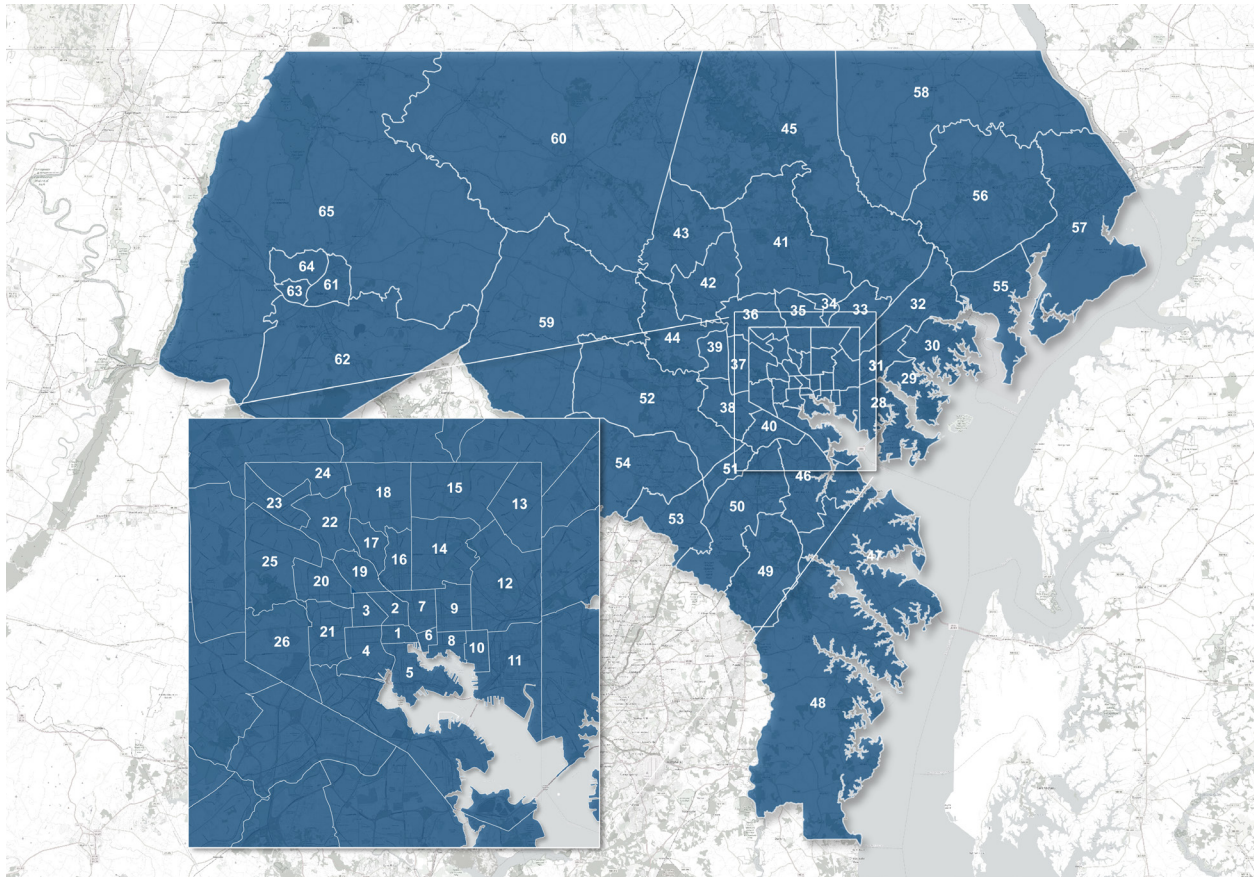
How do you expect the Mid-Atlantic multifamily investment market to evolve in 2022?

Muldowney: Construction costs escalate and climb throughout the year, in excess of 10-15 percent, which will put stress on the ability to make deals in the majority of markets. With the rise in costs, as rent growth subsides, the result is a decline of new starts in the range of 15 percent for the year.

The ongoing economic recovery, job creation, wage growth, household formation, and the eventual reoccupation of workplaces will support multifamily demand in 2022. Strong occupancy and rent growth have attracted rising investor activity in the Mid-Atlantic from a variety of capital sources including both debt and equity, leading to a record volume of sales transactions in 2021. Rent collections and emergency renter relief policies will remain a factor that affects lender underwriting and investment activity going forward.

(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.

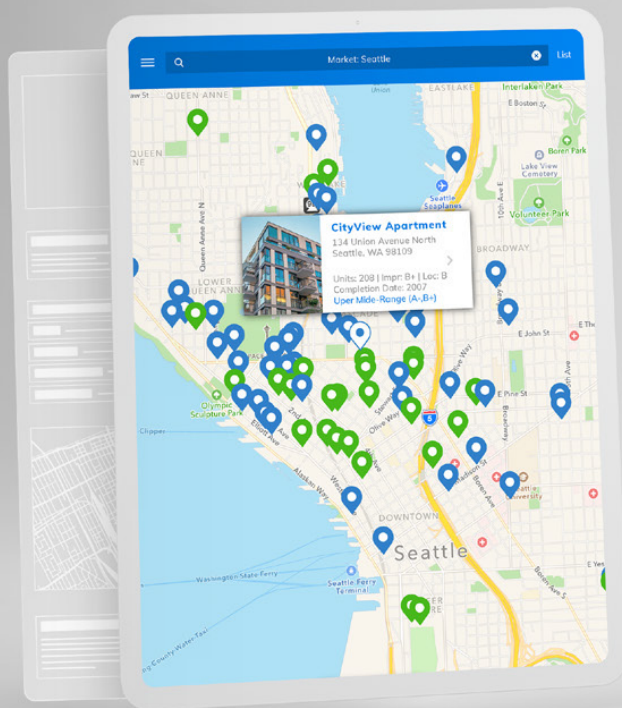
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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