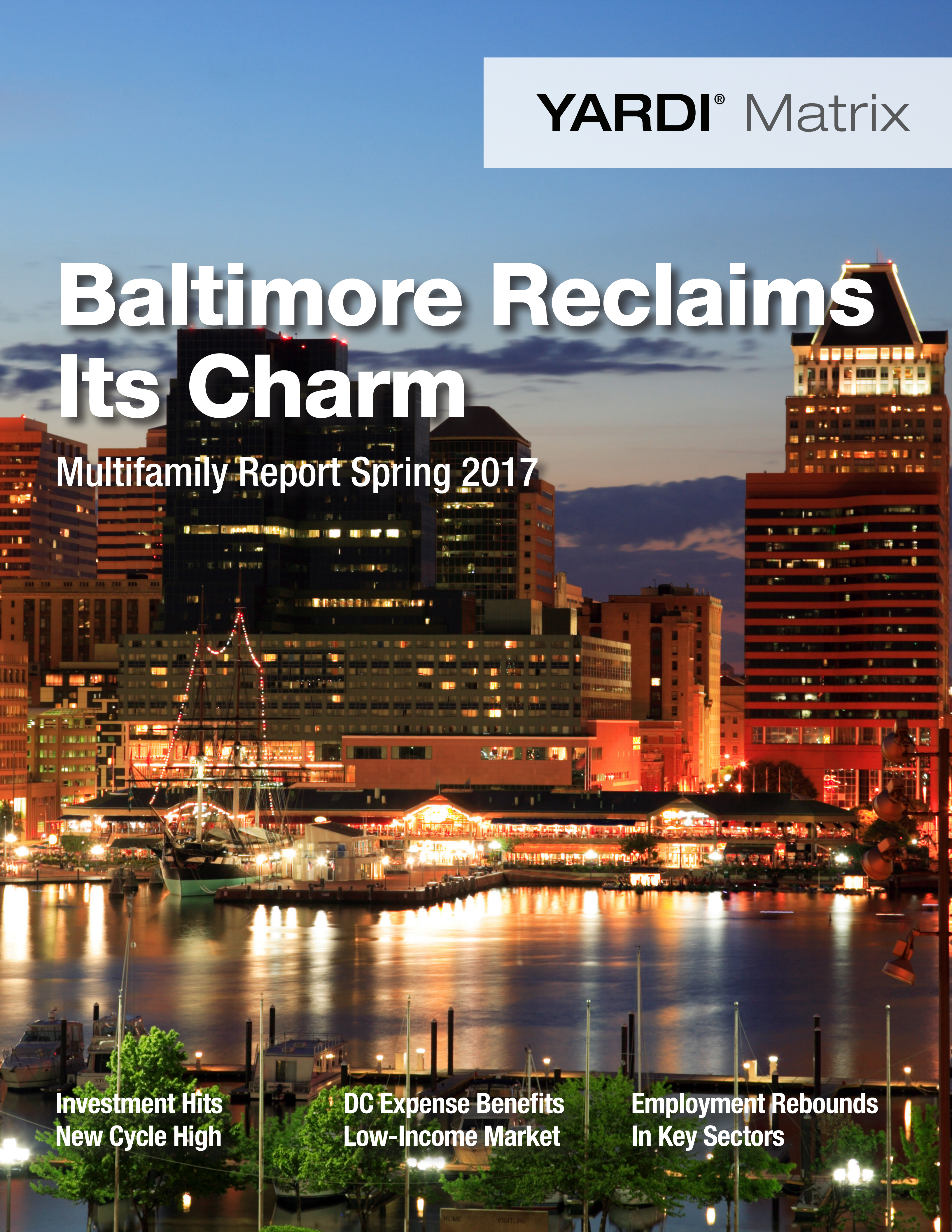
YARDI® Matrix



Baltimore Reclaims Its Charm

Multifamily Report Spring 2017

Investment Hits New Cycle High

DC Expense Benefits Low-Income Market

Employment Rebounds In Key Sectors

Market Analysis
Spring 2017

Contacts
Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author
Evelina Croitoru
Associate Editor

Young Professionals Drive Energy

Baltimore's multifamily market remains tepid, despite the continuing revival of downtown and surrounding areas. The metro is steadily overcoming decades of decline in blue-collar industries and population loss. It does, however, benefit from the proximity of Washington, D.C.'s less affordable market, where both renters and investors are slowly being priced out.

Demand has accelerated, due to employment rebounding in sectors such as education, health care, professional services and government. The largest increase in college-educated young professionals fueled substantial job migration, resulting in a shift from Washington, D.C., and other Mid-Atlantic employment hubs. In order to encourage growth, local authorities have committed to upgrading the infrastructure with new urban renewal projects. One is the $700 million Creating Opportunities for Renewal and Enterprise (CORE) initiative, which demolishes vacant city properties and replaces them with new developments.

Baltimore's recent job gains, along with its relatively affordable rental rates, should provide solid absorption in the coming months. As a result, development activity continues to be strong, as reflected by the 29,000 units in various phases of construction. The metro exceeded last year's transaction volume of $1.4 billion, marking a new cycle high. We expect continued moderate rent appreciation of 1.7% in 2017.

Recent Baltimore Transactions

The Seasons

City: Laurel, Md.
Buyer: GoldOller Real Estate Investments
Purchase Price: $187 MM
Price per Unit: $172,105

Sherwood Crossing

City: Elkridge, Md.
Buyer: TruAmerica Multifamily
Purchase Price: $119 MM
Price per Unit: $188,407

Red Run

City: Owings Mills, Md.
Buyer: McDowell Properties
Purchase Price: $91 MM
Price per Unit: $175,000

Paragon at Columbia Overlook

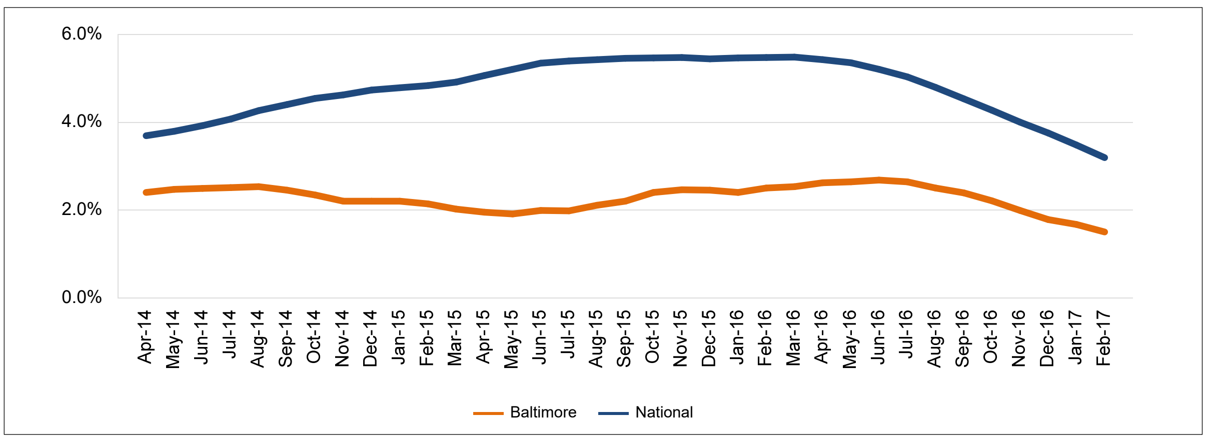
City: Elkridge, Md.
Buyer: Amy E. Wyss
Purchase Price: $86 MM
Price per Unit: $269,655

To Subscribe
Hollie Zepke
Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

Rent Trends

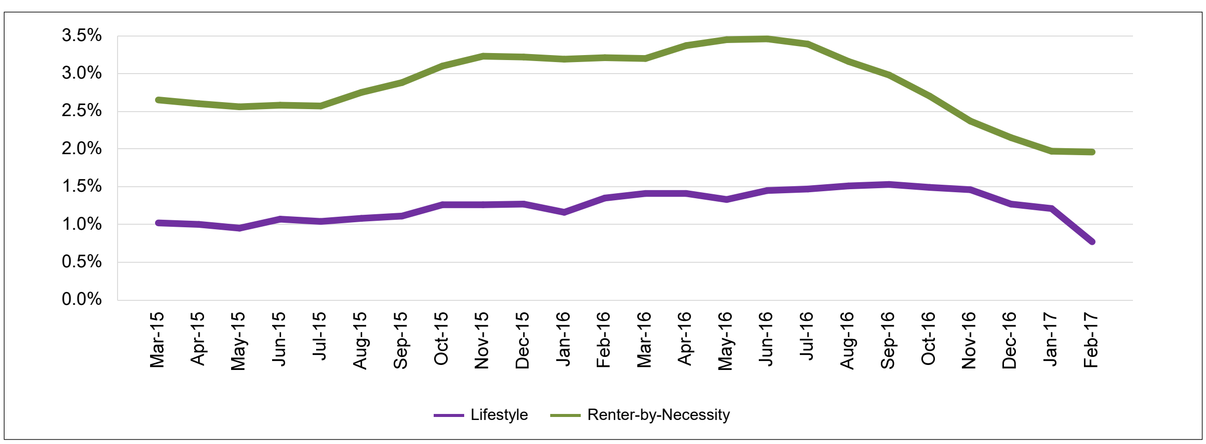
- Baltimore rents rose 1.5% year-over-year through February, lagging the 2.8% national growth rate. With the average rent at $1,261, slightly behind the national average rent of $1,306, the metro continues to be highly sought-after by residents looking to be in close proximity to Washington, D.C., albeit at lower costs.
- The Renter-by-Necessity segment expanded by 2% year-over-year, reaching an average of $1,129. After a modest increase in 2016, assets in the Lifestyle segment appreciated by 0.8%, reaching an average of $1,608.
- A recent surge in white-collar employment sectors and a spillover from nearby Washington, D.C., fueled demand, keeping occupancy rates in stabilized properties at 94.6%. As a result, absorption is expected to remain solid in the upcoming months.
- Downtown continues to be the most sought-after area, with Millennials driving demand in core submarkets. Upton (7.8%) leads the way, followed by Hamilton (7.4%) and Dundalk (6%). Rent gains have been spotty, but were highest in Point Breeze ($2,082), Murray Hill ($1,577) and Oakland Mills ($1,551). Because developers are responding promptly to demand in growing core submarkets, Yardi Matrix predicts rents will increase by 1.7% in 2017.

Baltimore vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Baltimore Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

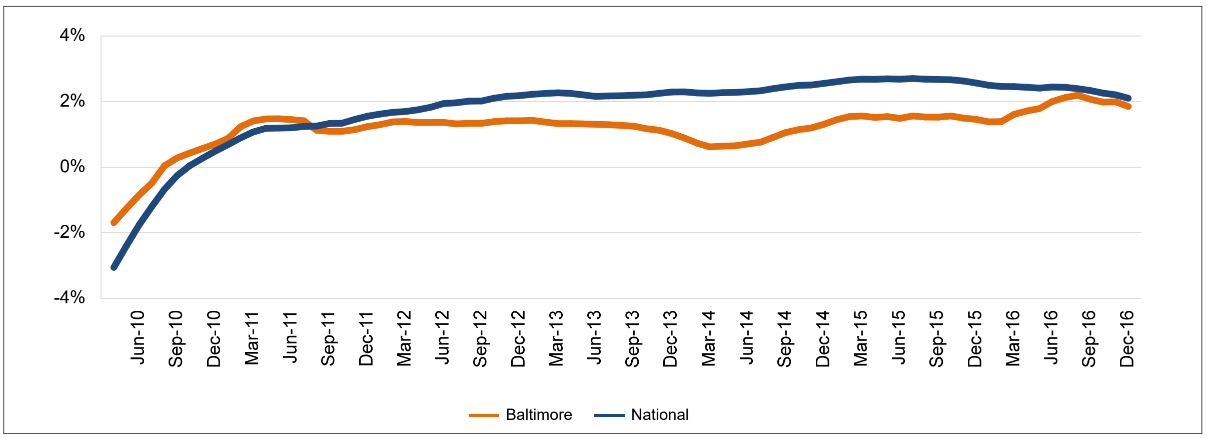


Source: YardiMatrix

Economic Snapshot

- Baltimore added 31,400 jobs in the 12 months ending in December. After outpacing the national average in 2015, employment rose only 1.8% year-over-year, slightly below the 2.1% national average.
- The education and health services sector contributed to the largest gains, adding 12,900 jobs, representing a 3.7% surge. The city's anchor institutions, such as Johns Hopkins Hospital and the University of Maryland, are Baltimore's key employers. They also attract mixed-use apartment developers. Recent urban renewal projects, primarily the $700 million plan to demolish vacant city properties and replace them with new construction, have attracted a well-educated population and major employers, including Under Armour and Excelon.
- Baltimore has emerged on the national scene as a viable investment option, and many developers with a long-term perspective have focused on the area. Sagamore's $5.5 billion Port Covington waterfront project, which will expand Under Armour's headquarters, will lead to the addition of thousands of jobs.
- Baltimore's robust office market is mirroring investors' growing appetite. Office market conditions are healthy, with the construction pipeline encompassing 1.9 million square feet.

Baltimore vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Baltimore Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	365	18.2%	12,900	3.7%
60	Professional and Business Services	359	17.9%	6,700	1.9%
90	Government	345	17.2%	6,500	1.9%
70	Leisure and Hospitality	193	9.6%	4,100	2.2%
80	Other Services	88	4.4%	2,000	2.3%
40	Trade, Transportation and Utilities	330	16.4%	200	0.1%
30	Manufacturing	73	3.6%	100	0.1%
50	Information	31	1.5%	100	0.3%
15	Mining, Logging and Construction	112	5.6%	-200	-0.2%
55	Financial Activities	116	5.8%	-1,000	-0.9%

Sources: YardiMatrix, Bureau of Labor Statistics

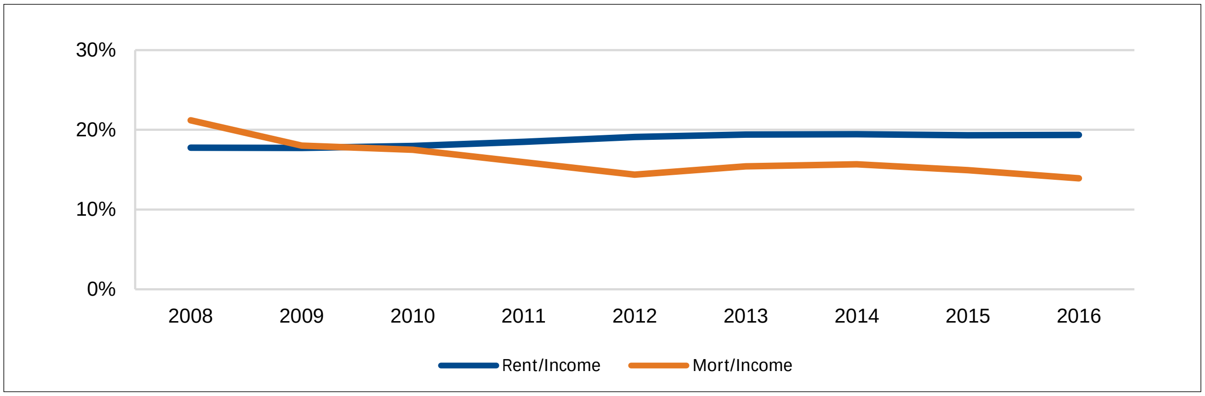
Demographics

Affordability

- Homeownership continues to be more affordable than renting, with rent accounting for 19% of median income, compared to 14% for the average mortgage. Despite the higher cost of renting, the metro's homeownership rate is hitting new lows.

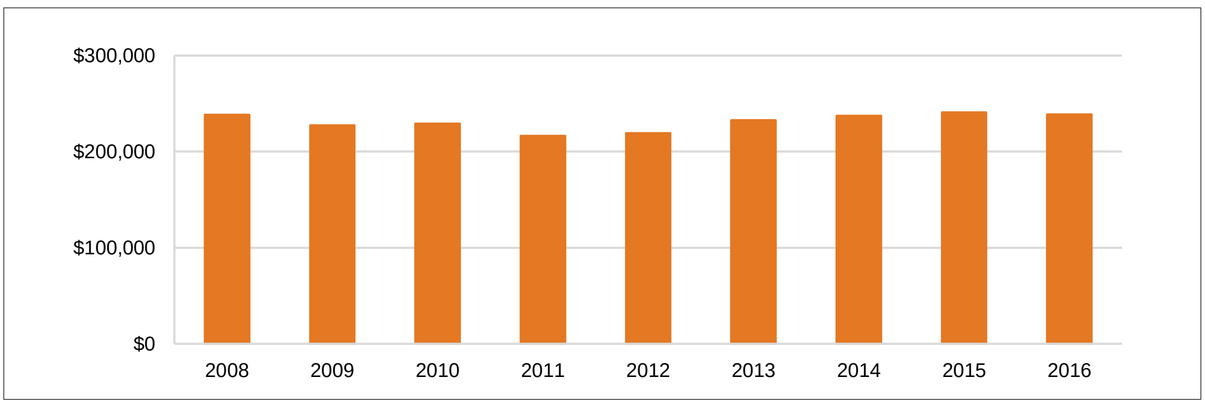
- With the median home price hovering at just below $240,000, Baltimore is more affordable than nearby Washington, where the average exceeds $400,000. However, the metro is a long way from solving its affordability issues. Financial incentives supposed to make way for low-income population have not been adopted by most developers.

Baltimore Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Baltimore Median Home Price



Source: Moody's Analytics

Population

- The metro added 10,554 residents in 2015, up 0.4%, or half the 0.8% national average.

- Residents being priced out of Washington, D.C., contributed to Baltimore's growth.

Baltimore vs. National Population

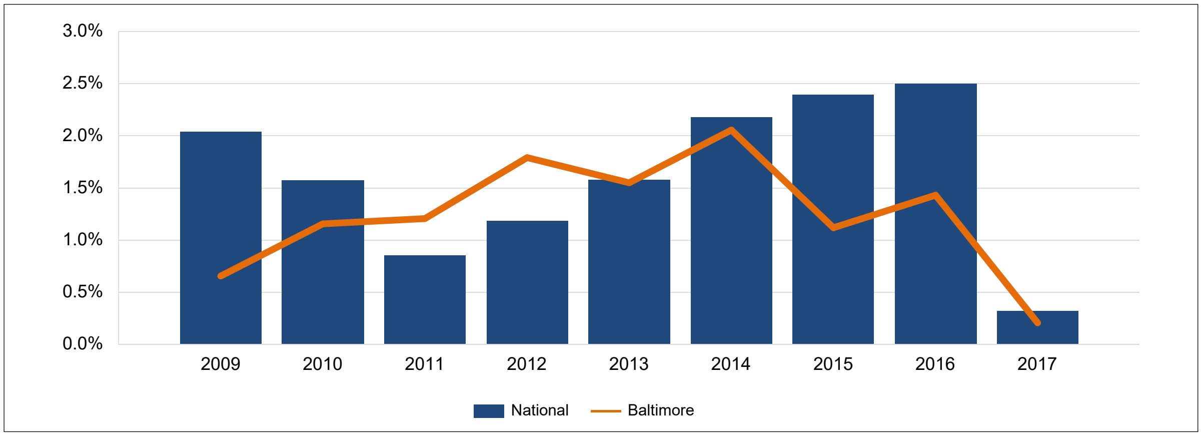
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Baltimore-Columbia-Towson, Md.	2,735,306	2,755,992	2,773,536	2,786,853	2,797,407

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

Supply

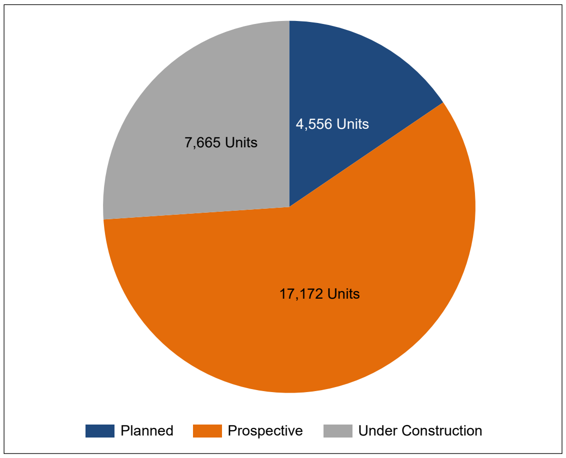
- About 3,000 units were completed in Baltimore in 2016, marking a sparse 1.4% increase in multifamily stock, far behind the 2.5% national growth rate. However, oncoming supply exceeded the number of deliveries in 2015 by nearly 1,000 units. Due to high development costs—almost as pricy as in metro D.C.—and far lower rents, developers prefer renovating existing assets, instead of developing new ones.
- More than 29,000 units are underway, and roughly a quarter of them are under construction. About half of the pipeline is prospective; whether it moves forward or not depends on demand and economic conditions.
- The recent influx of well-educated workers continues to seek live-work-play areas like Downtown and the Inner Harbor, which are leading the way with a total of 2,611 units in progress. Some of the largest projects slated to come online by 2018 include The Metropolitan Downtown Columbia Phase II (437 units), Residences at Annapolis Junction in Savage (416 units) and 414 Light in Inner Harbor (394 units).
- Affordability remains an issue for the metro's large low-income population, despite local officials' efforts to correct the historic patterns of housing segregation.

Baltimore vs. National Completions as a Percentage of Total Stock (as of February 2017)



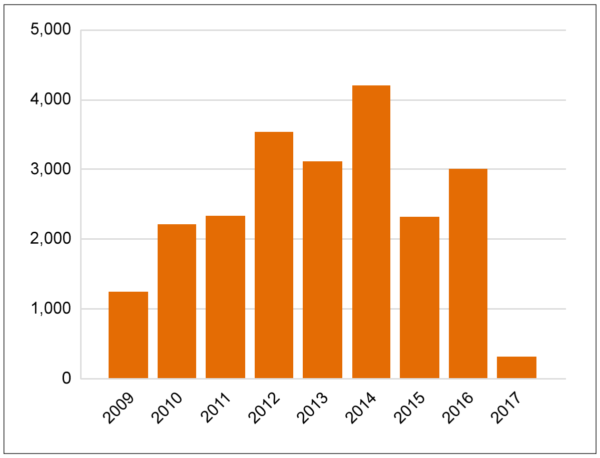
Source: YardiMatrix

Development Pipeline (as of February 2017)



Source: YardiMatrix

Baltimore Completions (as of February 2017)

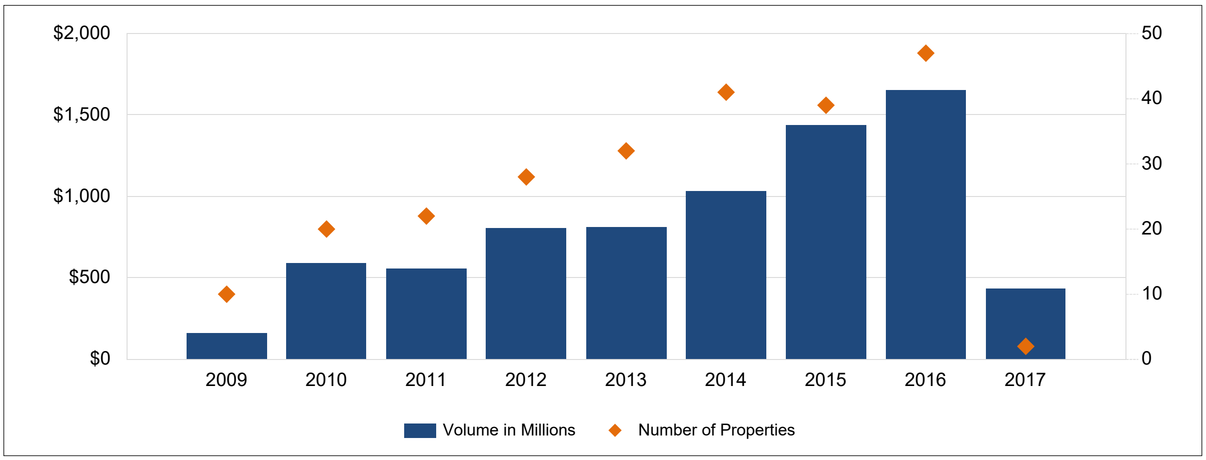


Source: YardiMatrix

Transactions

- More than $1.6 billion in multifamily properties changed hands in 2016, outpacing the cycle high of $1.4 billion reached in 2015. The appetite for apartment assets will most likely not slow down, as national investors get priced out of other East Coast core markets such as Washington, D.C., and New York.
- The average price per unit was $157,479, a slight downturn from last year's $167,983 peak. Activity shifted from the upscale Lifestyle segment, which has been predominant in the current economic cycle, to Renter-by-Necessity properties, which comprised more than half of the units traded in 2016.
- The Baltimore-Washington Corridor—which includes the Savage, Oakland Mills and Owings Mills submarkets—remains one of the most sought-after areas. The largest transaction in 2016 was Philadelphia-based GoldOller Real Estate's purchase of the 1,088-unit The Seasons in Laurel, Md., for $187 million.

Baltimore Sales Volume and Number of Properties Sold (as of February 2017)



Source: YardiMatrix

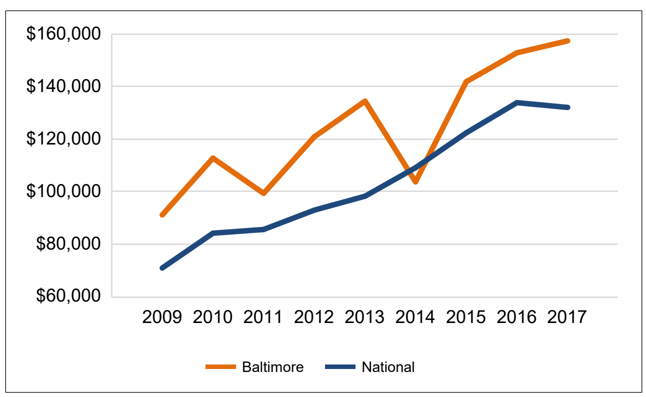
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Savage	350
Oakland Mills	253
Owings Mills	234
Ellicott City/Catonsville	102
Carney/Perry Hall	93
Waterloo	85
Odenton	85
Annapolis/Arnold	84

Source: YardiMatrix

[1] From March 2016 to February 2017

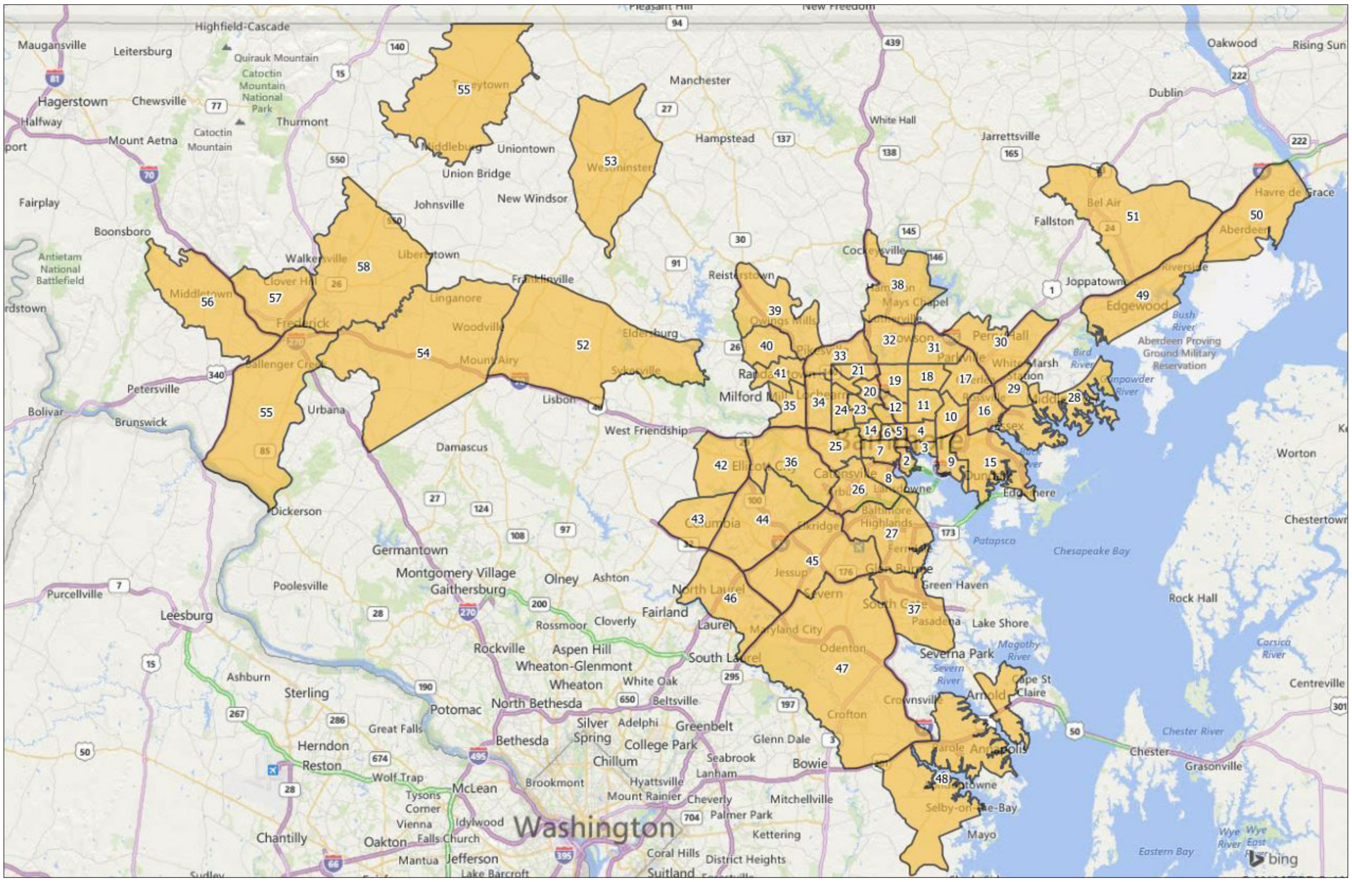
Baltimore vs. National Sales Price per Unit



Source: YardiMatrix

Image by Sean Pavone Photo/iStockphoto.com

Baltimore Submarkets



Area #	Submarket
1	Downtown Baltimore
2	Inner Harbor
3	Fells Point
4	Washington Hill/Litt
5	Mid Town
6	Upton
7	Poppleton
8	Cherry Hill/Morrell
9	Point Breeze
10	Orangeville
11	Waverly
12	Charles Village/Johns Hopkins
13	Druid Hill
14	Edmondson
15	Dundalk
16	Rosedale
17	Hamilton
18	Ramblewood
19	Roland Park
20	Pimlico

Area #	Submarket
21	Fallstaff
22	Mount Hope
23	Forest Park
24	Howard Park
25	Catonsville Manor
26	Lansdowne
27	Glen Burnie
28	Middle River
29	Rossville
30	Carney/Perry Hall
31	Towson
32	Murray Hill
33	Pikesville
34	Woodmoor
35	Hebbville
36	Ellicott City/Catons
37	South Gate
38	Hampton
39	Reisterstown
40	Owings Mills

Area #	Submarket
41	Randallstown
42	Valley Mede
43	Columbia
44	Oakland Mills
45	Waterloo
46	Savage
47	Odenton
48	Annapolis
49	Edgewood
50	Aberdeen
51	Bel Air
52	Eldersburg
53	Westminster
54	Linganore–Bartonsville
55	Taneytown
55	Frederick–South
56	Middletown
57	Frederick–North
58	Rivercrest–Ceresville

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 may 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 may 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, may 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.