Yardi® Matrix

Baltimore's Rising Downtown

Multifamily Report Summer 2017

New Supply Tempers Rent Growth

Investors Focus on Suburbs, Value-Add

Developers Embrace Live-Work-Play

Market Analysis
Summer 2017

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New Supply Keeps Rent Growth Tepid

Spearheaded by the revival of its core and by the emergence of the Baltimore-Washington corridor as a strategic location, the metro's multifamily fundamentals have stabilized. Baltimore's economy is slowly diversifying and once again adding residents after a decades-long demographic drop. However, with rents up 1.2% in the year ending in June, progress is slow and Baltimore continues to underperform the nation as a whole.

Anchored by academic institutions, health-care facilities and research centers, Baltimore is generating white-collar jobs, while also losing positions in traditional working-class sectors, including manufacturing and trade, transportation and utilities. However, the city continues to draw developers and several large projects are under construction or on the drawing board. Alongside Sagamore's $6.5 billion Port Covington master-plan, the list includes the 3,100-acre TradePoint Atlantic, the 3 million-square-foot Harbor Point, the 500-foot-tall 414 Light St. residential high-rise and the multi-phase, $800 million Center/West redevelopment project.

Almost $750 million in assets traded in the first two quarters, marking a slight deceleration after three years of bullish investor activity. There were 8,238 units under construction as of June, 30% of which are slated to come online in the second half of 2017. As inventory growth remains solid, while population gains stay tepid, we expect a 1.4% rent increase for the year.

Recent Baltimore Transactions

The Seasons

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

Paragon at Columbia Overlook

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

The Beacon at Waugh Chapel

City: Gambrills, Md.
Buyer: PRP Real Estate Management
Purchase Price: $84 MM
Price per Unit: $280,705

Crosswinds at Rolling Road

City: Baltimore
Buyer: Morgan Properties
Purchase Price: $80 MM
Price per Unit: $98,422

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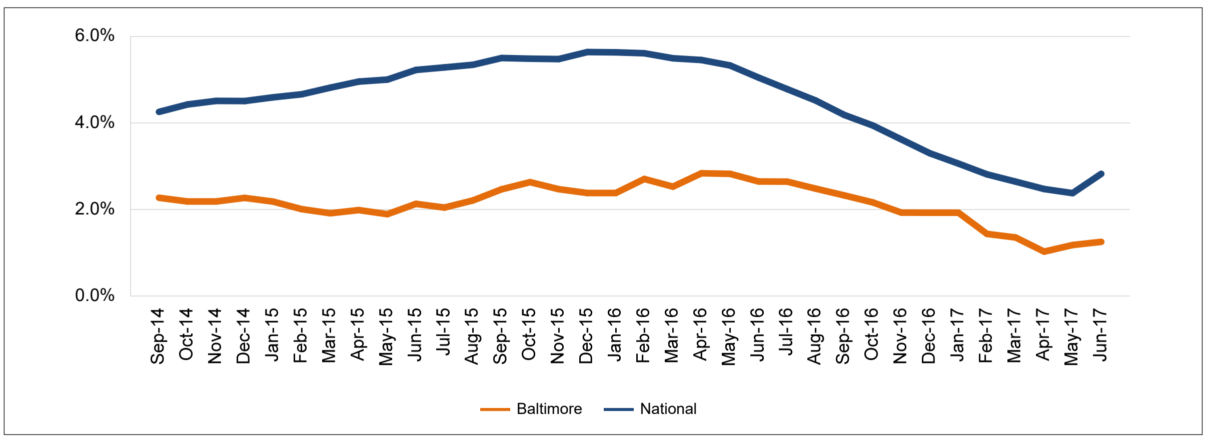
Rent Trends

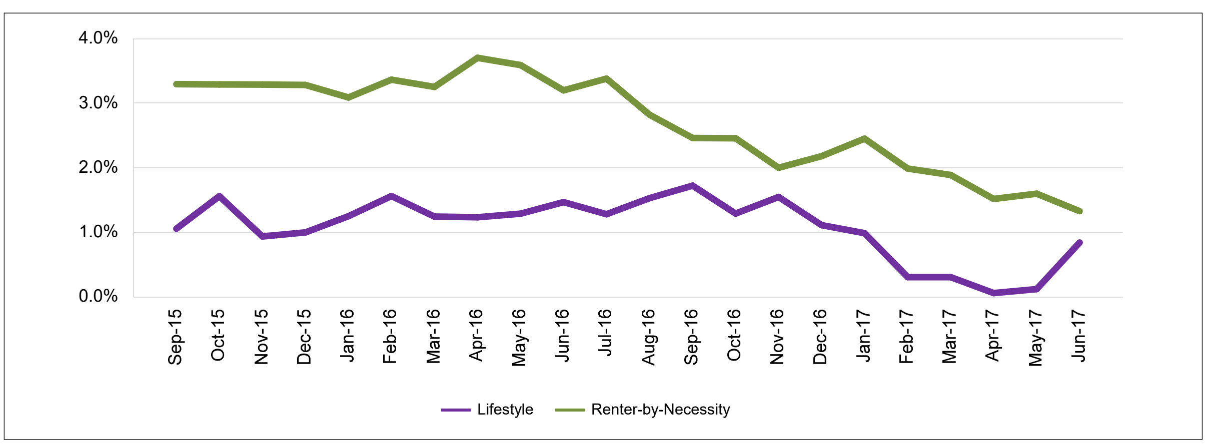
- Rents in Baltimore were up 1.2% year-over-year through June, 150 basis points below the U.S. growth rate. Reaching $1,297, the average rent was just $52 short of the national average.
- Rents in the working-class Renter-by-Necessity segment rose 1.3% year-over-year, to $1,144. Meanwhile, rents in the Lifestyle segment were up 0.8%, to $1,672. RBN has been leading growth since 2013, and the disconnect between new supply and demand has maintained that trend. Out of the 14,000 deliveries between 2013 and 2016, more than 85% were upscale units. While this has satisfied demand for live-work-play communities, it has also put pressure on blue-collar renters, pricing them out of several core submarkets.
- Growth was spotty, with rents in the most expensive core submarkets contracting or staying flat: Inner Harbor (-0.8%, $2,121), Waterloo (0.3%, $1,777) and Annapolis/Arnold (-0.5%, $1,627). On the other hand, rents in several high-density core submarkets are still rising faster than the metro's average, the list including Fells Point (2.7%) and Midtown (1.9%).
- At 94.9% as of June, the occupancy rate in stabilized properties fell 20 basis points in 12 months. As deliveries continue at a good rate, we expect rent growth to remain tepid, reaching 1.4% by the end of 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

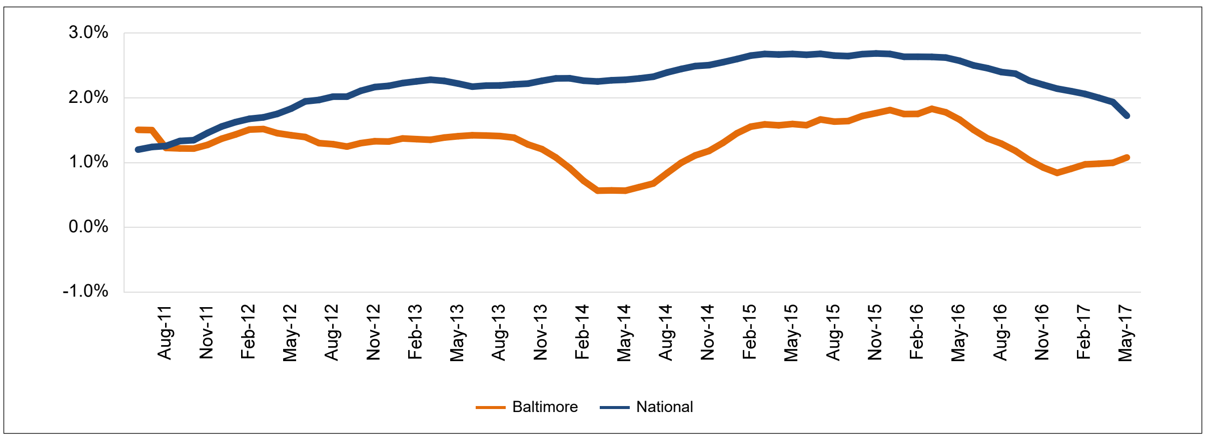
- Baltimore added 19,500 jobs in the 12 months ending in May, an employment growth rate of 1.0%, half the national rate. The metro's economy is slowly diversifying, but it is losing jobs in historically relevant sectors.

- The city continues to benefit from a deep talent pool, with education and health services (9,600 jobs) leading growth in a sector anchored by Johns Hopkins University, health-care facilities and research centers. Baltimore gained 9,500 jobs in the professional and business services sector, as well as 1,400 information jobs, a significant increase in white-collar positions.

- Baltimore's addition of highly skilled workers is also mirrored by a stable office market. The metro's positive net absorption nearly hit 1 million square feet for the first half of 2017, according to Cushman & Wakefield. At the same time, the office vacancy rate dropped to 12.8% in the second quarter, down 180 basis points in one year.

- Although Sagamore's $6.5 billion Port Covington project is behind schedule, the metro has many developments aiming to reshape the city. Center/West, a 3.2 million-square-foot mixed-use project slated to deliver 1,700 residential units, broke ground on its first phase. Caves Valley's delayed $350 million Towson Row project is back on track after redesign approvals. Meanwhile, the 3 million-square-foot Harbor Point, the 500-foot-tall 414 Light Street and the massive TradePoint Atlantic industrial park are all moving forward.

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	371	18.4%	9,600	2.7%
60	Professional and Business Services	369	18.3%	9,500	2.6%
90	Government	348	17.2%	3,100	0.9%
70	Leisure and Hospitality	197	9.8%	2,100	1.1%
50	Information	30	1.5%	1,400	4.9%
80	Other Services	87	4.3%	1,100	1.3%
15	Mining, Logging and Construction	112	5.5%	400	0.4%
30	Manufacturing	70	3.5%	-1,400	-2.0%
55	Financial Activities	116	5.7%	-2,000	-1.7%
40	Trade, Transportation and Utilities	319	15.8%	-4,300	-1.3%

Sources: YardiMatrix, Bureau of Labor Statistics

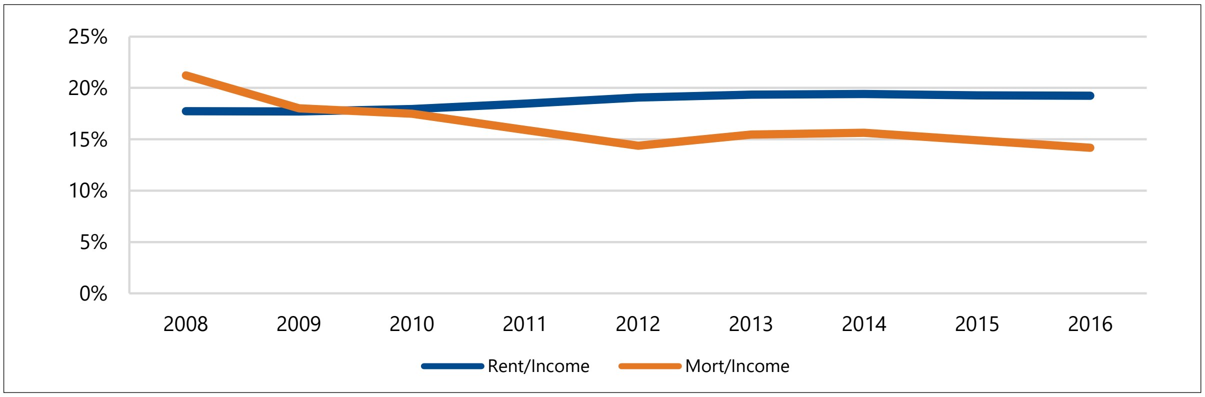
Demographics

Affordability

- Baltimore's median home price has steadily risen during the past six years, reaching $243,000 in 2016. However, the city remains relatively affordable when compared to nearby Washington, D.C. Renters priced out of the capital are relocating along the transit-oriented Washington-Baltimore corridor, trading longer commutes for lower housing costs.

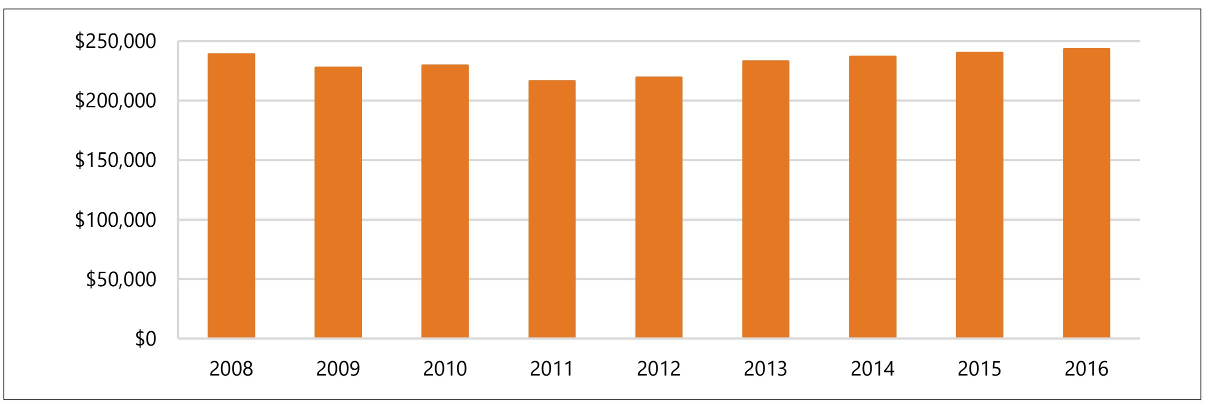
- With both rents and home prices rising steadily, owning remains more affordable than renting in Baltimore. The average mortgage payment is just 14% of the area's median income, while renting accounts for 19%, at an average of $1,297.

Baltimore Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Baltimore Median Home Price



Source: Moody's Analytics

Population

- Metro Baltimore added roughly 83,000 people between 2010 and 2016. That's a growth rate of 3.0%, 140 basis points below the U.S. average.

- The city added 5,000 residents in 2016, a 0.2% uptick.

Baltimore vs. National Population

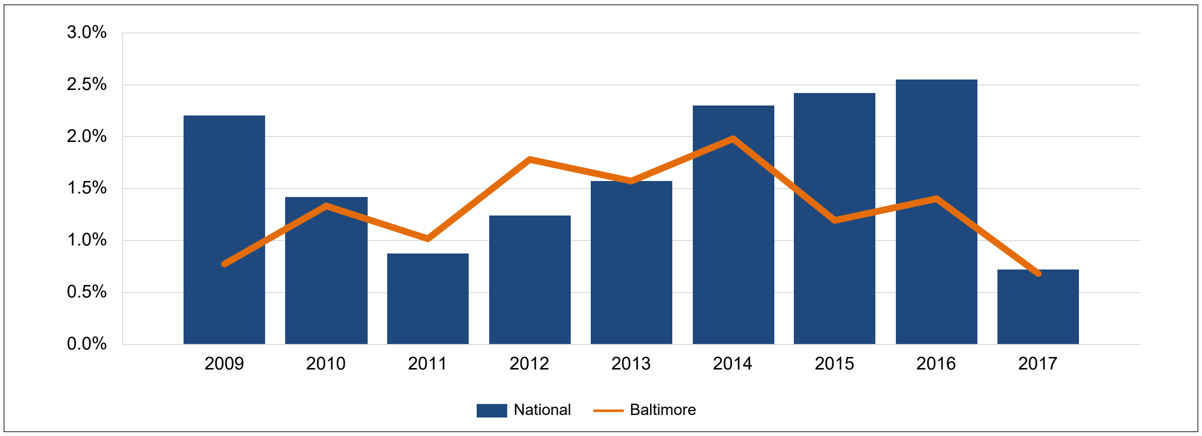
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Baltimore-Columbia-Towson, MD Metropolitan Statistical Area	2,755,622	2,771,765	2,784,254	2,793,837	2,798,886

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

Supply

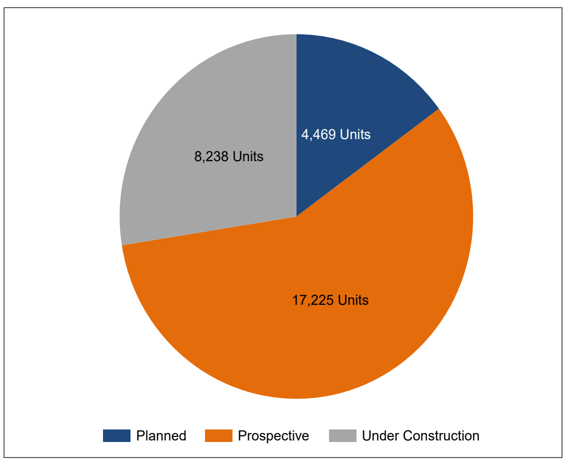
- Some 1,100 units came online in Baltimore in the first half of 2017. Between 2014 and 2016, during the city's development surge, Baltimore added roughly 9.500 units, about a third of which are located within three miles of downtown.
- Responding to a rising demand for live-work-play environments, developers continue to focus on walkable, upscale communities situated close to core employment clusters. There are 8,238 units under construction across the metro, almost half of which are in or close to the downtown. Inner Harbor (1,386 units) and Downtown Baltimore (1,089) are the only submarkets with more than 1,000 units underway.
- Population growth is tepid, but building momentum is not slowing down: There were 30,000 units in different stages of development as of June, 2,445 of which are slated to come online by year-end. This would put 2017's number of total deliveries at 3,600, above the previous two years but below the 2014 cycle high.
- Developers are betting on Baltimore's fundamentals in the long run. Many properties under construction, including the largest three—Residences at Annapolis Junction (416 units), 414 Light Street (394) in Inner Harbor and Overlook at Franklin Square (356) in Rossville—are scheduled for completion in 2018.

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



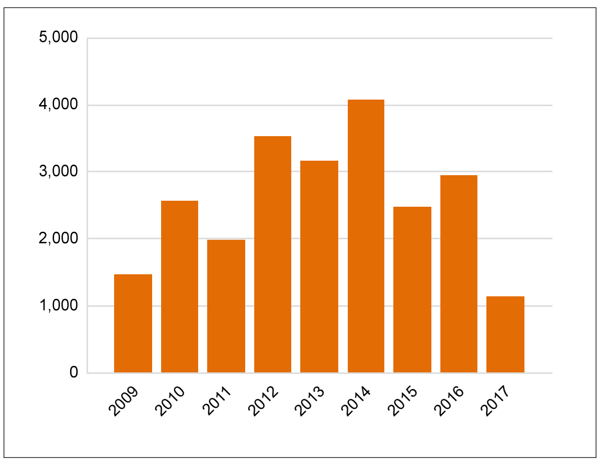
Source: YardiMatrix

Development Pipeline (as of June 2017)



Source: YardiMatrix

Baltimore Completions (as of June 2017)

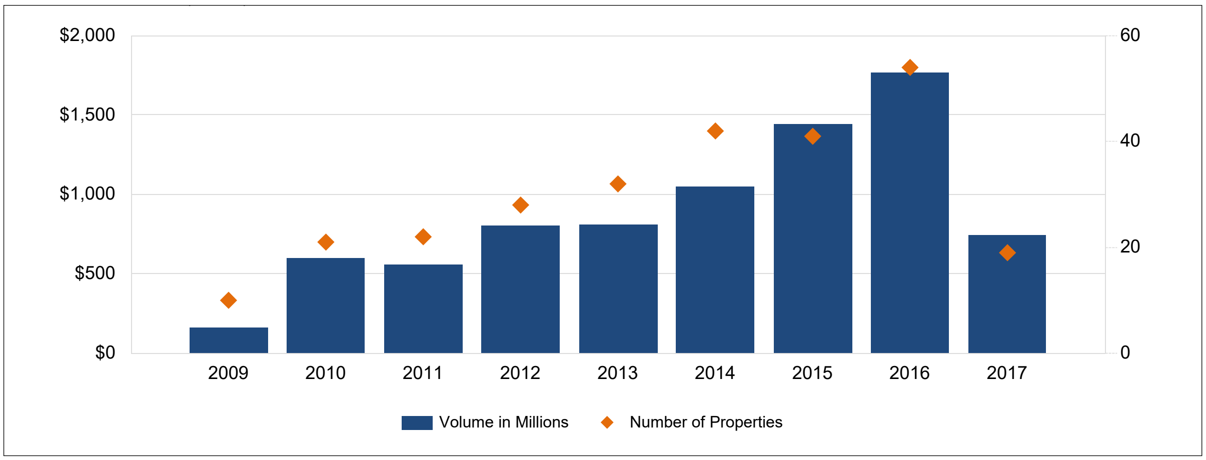


Source: YardiMatrix

Transactions

- Investor appetite remains high as $747 million in multifamily assets traded this year through June. This comes after a three-year bull run, when $4.3 billion in assets changed hands between 2014 and 2016.
- After peaking last year, per-unit prices dropped 10% in the first half of 2017, following nationwide trends. Investors are mainly pursuing value-add plans: Due to the city's working-class background, more than 75% of Baltimore's units fall within the Renter-by-Necessity category, offering investors many well-located Class B and C assets to choose from. According to CBRE, acquisition yields for suburban Baltimore value-add assets range between 5.5% and 8.0%, while the figure for urban Class A stabilized properties hovers around the 4.5% mark.
- Investors are focused on suburban areas, as well as on the Washington-Baltimore corridor, targeting transit-oriented communities which offer access to both cities.

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



Source: YardiMatrix

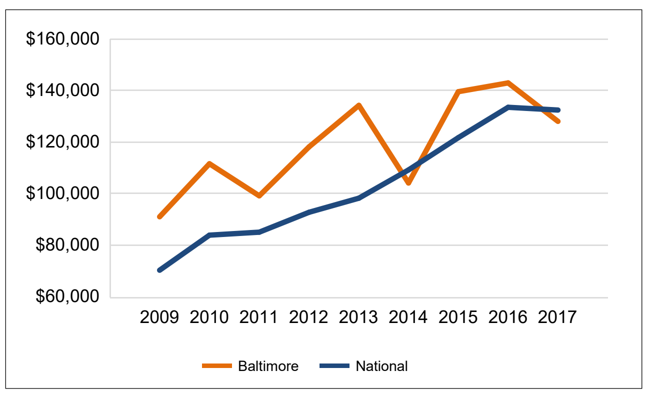
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Savage	318
Hebbville	247
Owing Mills	143
Oakland Mills	86
Odenton	84
Washington Hill/Little Italy	78
Lansdowne	73
Waterloo	60

Source: YardiMatrix

[1] From July 2016 to June 2017

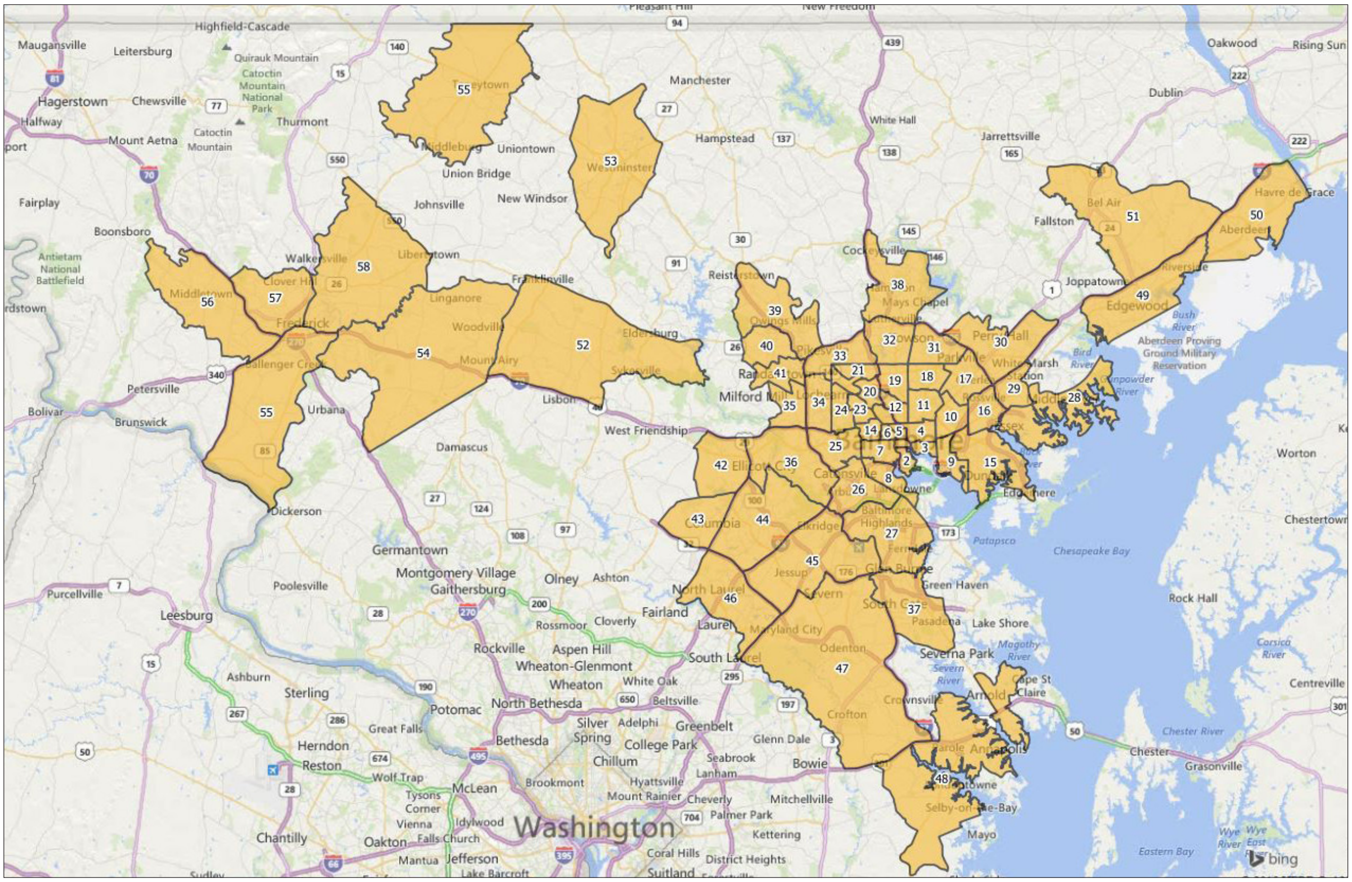
Baltimore vs. National Sales Price per Unit



Source: YardiMatrix

Photo by jwilkinson/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.