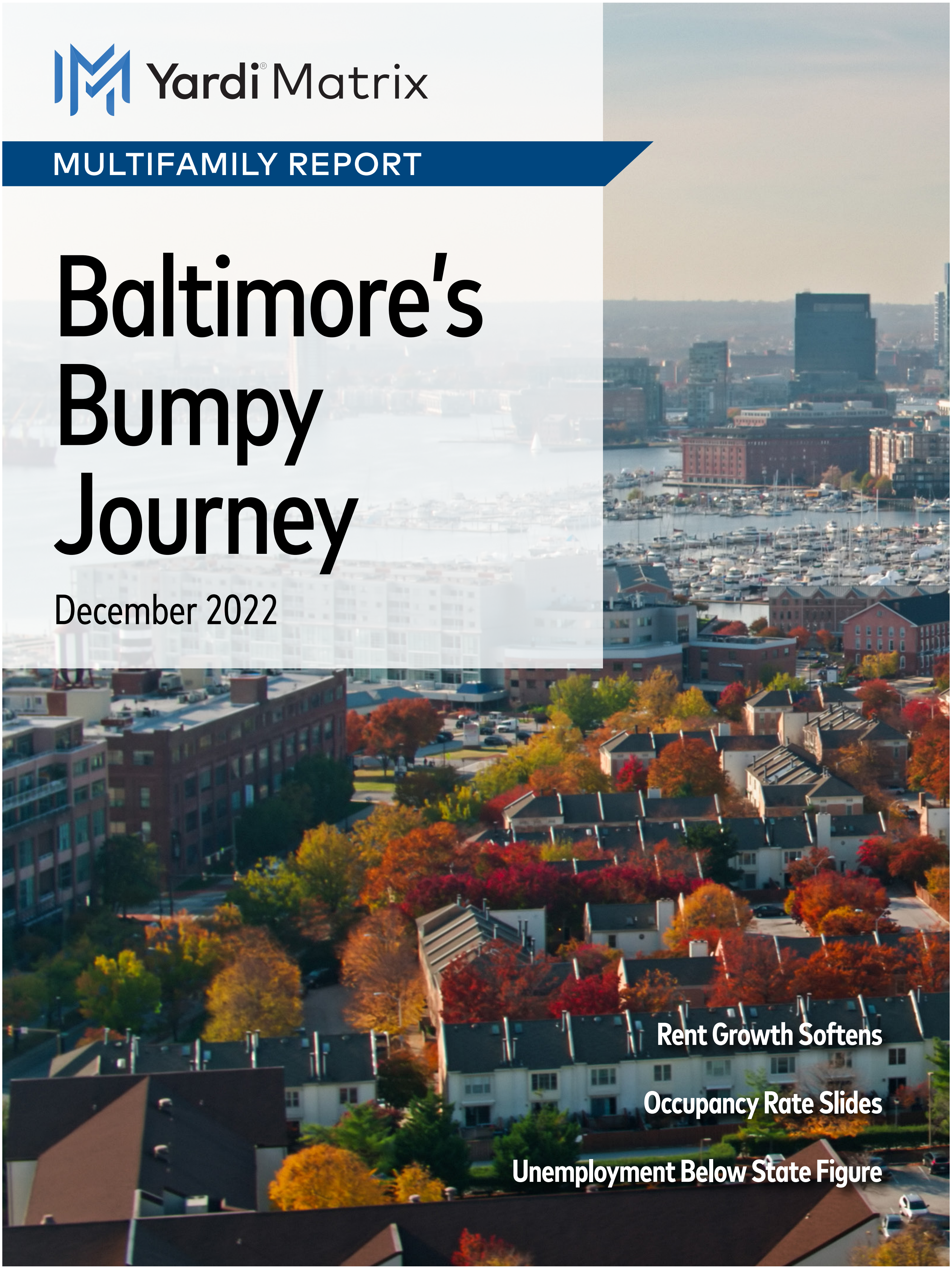
Yardi Matrix

MULTIFAMILY REPORT

Baltimore's Bumpy Journey

December 2022



Rent Growth Softens

Occupancy Rate Slides

Unemployment Below State Figure

BALTIMORE MULTIFAMILY

Yardi Matrix

Construction Starts Dip, Development Moderates

Amid negative demographics and ebbing demand, Baltimore's rental market continued its moderate performance. Rent growth softened to 0.3% on a trailing three-month basis through October, to $1,687, while the average occupancy rate in stabilized assets slid 90 basis points year-over-year through September, to 95.7%.

Metro Baltimore added 58,500 jobs in the 12 months ending in August, accounting for 3.5% employment growth in a year, but trailing the U.S. rate by 80 basis points. Gains were led by leisure and hospitality with 15,200 jobs, followed by trade, transportation and utilities with 13,400 positions. Of all sectors, only financial activities lost jobs (-1,600). According to preliminary Bureau of Labor Statistics data, the unemployment rate stood at 3.7% in September, which placed Baltimore behind other major Mid-Atlantic metros such as Washington, D.C., (3.0%) and Richmond (2.8%), but ahead of the state (4.0%).

Development activity moderated across the metro. Only 1,544 units came online this year through October, and developers had just 4,233 units underway. Construction starts also took a nose-dive: After breaking ground on 2,367 apartments in the first 10 months of 2021, developers started work on only 751 units in the same interval of this year. Meanwhile, transaction activity continued to gain momentum. With $2.4 billion in multifamily assets changing hands, sales were on par with last year's volume.

Market Analysis | December 2022

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Recent Baltimore Transactions

Echelon at Odenton

City: Odenton, Md.
Buyer: Hamilton Zanze & Co.
Purchase Price: $102 MM
Price per Unit: $419,803

Allegiant at Owings Mills

City: Owings Mills, Md.
Buyer: Carter Multifamily
Purchase Price: $93 MM
Price per Unit: $286,574

Quiet Waters Landing

City: Annapolis, Md.
Buyer: MCB Real Estate
Purchase Price: $92 MM
Price per Unit: $234,615

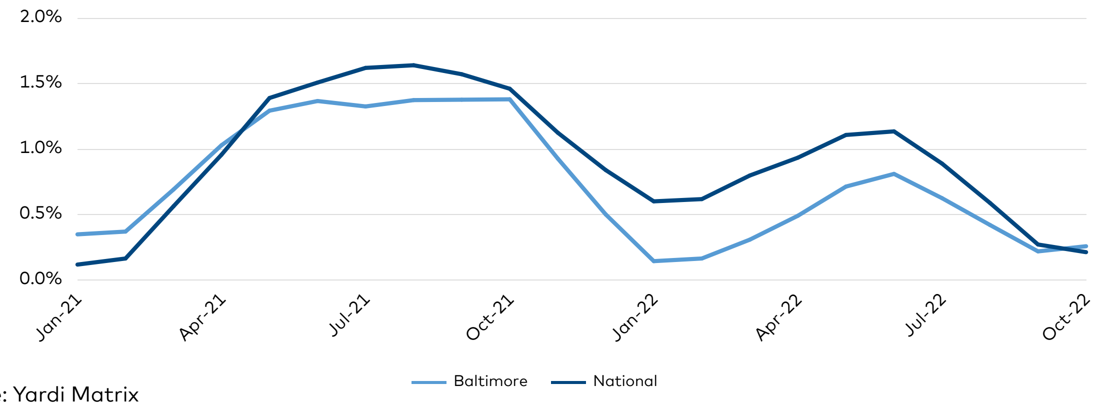
Versailles

City: Towson, Md.
Buyer: Livingston Street Capital
Purchase Price: $63 MM
Price per Unit: $298,810

RENT TRENDS

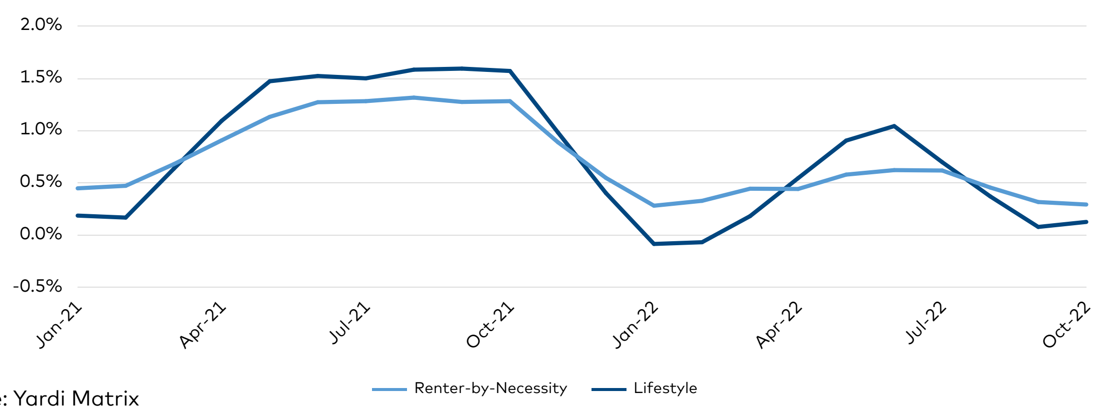
- Baltimore rents rose 0.3% on a trailing three-month (T3) basis through October, 10 basis points over the U.S. figure. Gains decelerated across the country, with the year-over-year improvement rate falling to just 8.2%. In Baltimore, rent development was 4.7%—the lowest level since the beginning of 2021—driven by the working-class Renter-by-Necessity segment. The average rate clocked in at $1,687, $40 below the national figure.
- Amid weakening demand and waning affordability, national lease renewals fell to 60.2% in September, from the peak of 68.0% in the fourth quarter of 2021. Baltimore (66.9%) was among the metros with the highest lease-renewal rates, topped only by Philadelphia (73.8%) and Kansas City (67.9%).
- The occupancy rate in stabilized properties was down 90 basis points year-over-year through September, to 95.7%, which was on par with the U.S. rate. Going forward, a shortage of for-sale housing and a slowing pace of multifamily deliveries will likely keep rental demand elevated and occupancy near national averages.
- In the 12 months ending in October, rent growth was most pronounced in Frederick, a city that is easily accessible through Interstate 70. Frederick-West (16.5% to $1,754) and Frederick-East (12.4% to $1,897) were the most coveted submarkets. However, urban core areas such as Little Italy ($2,607) and Fells Point ($2,494) remained the most expensive in the metro. Ten other submarkets posted average rents above the $2,000 threshold.

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

- Unemployment in Baltimore was 3.7% as of September, with the rate trending downward since June, when it hit 4.6%. The metro outperformed the state, where the rate has been hovering around 4.0% since April.
- The job market expanded by 58,500 positions, or 3.5%, in the 12 months ending in August, with employment growth led by leisure and hospitality (15,200 jobs), followed by trade, transportation and utilities (13,400 jobs) and professional and business services (12,100 jobs). Financial activities was the only sector that contracted, shedding 1,600 jobs. Layoffs are expected to continue in pockets, as the economy enters a downturn. Investment management firm T. Rowe Price announced it would cut 2% of its global workforce, a move that will also impact employees at its Baltimore headquarters.
- Several waterfront areas across the city are being repurposed. Baltimore Peninsula, the 235-acre, $5.5 billion Port Covington mixed-use redevelopment project along the Southeast Baltimore waterfront, is the largest urban revitalization project in the country. Developers and investors MAG Partners, MacFarlane Partners, Sagamore Ventures and Urban Investment Group are nearing completion of the first phase of construction, which includes more than 1 million square feet of office, retail and residential space.

Baltimore Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	187	9.3%
40	Trade, Transportation and Utilities	335	16.6%
60	Professional and Business Services	392	19.4%
15	Mining, Logging and Construction	120	5.9%
30	Manufacturing	84	4.2%
80	Other Services	75	3.7%
90	Government	332	16.5%
65	Education and Health Services	352	17.4%
50	Information	29	1.4%
55	Financial Activities	113	5.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro's population contracted by 0.1% last year, while the U.S. population grew by 0.1%.
- In the decade ending in 2021, Baltimore's demographic expansion was 3.0%, the slowest among major Mid-Atlantic metros, compared to Richmond (9.4%) and Washington, D.C. (8.1%).

Baltimore vs. National Population

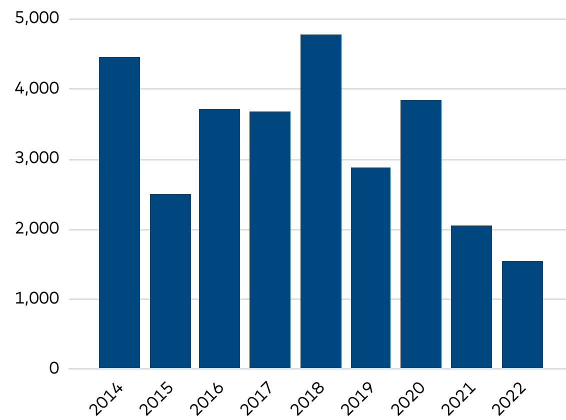
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Baltimore	2,802,908	2,803,903	2,841,691	2,838,327

Source: U.S. Census

SUPPLY

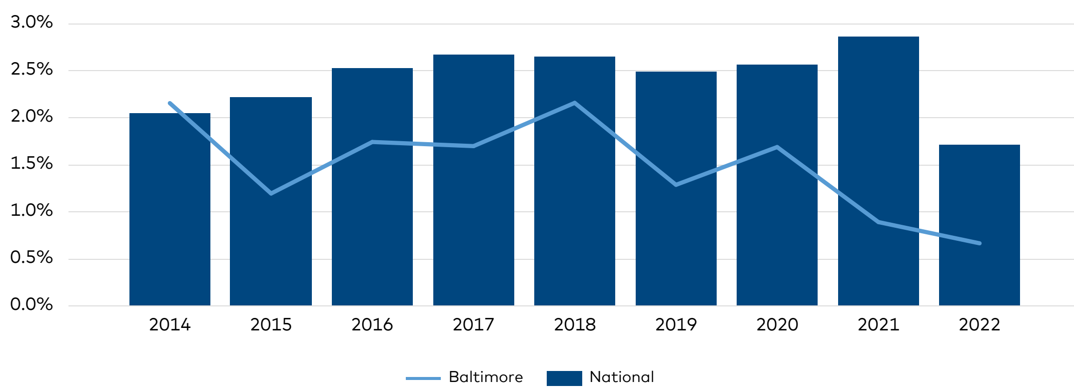
- There were only 4,233 units under construction in Baltimore as of October, with one-fifth of them in fully affordable projects. Another 34,300 units were in the planning and permitting stages, but it remains to be seen how many of them will break ground as the elevated cost of construction continues to curb development.
- Since 2020, completions have been on a downward trajectory in the metro, as rising interest rates and supply-chain disruptions forced developers to slow the pace of construction. As of October, only 1,544 units had come online, below the 1,862 units delivered in the first 10 months of 2021.
- Construction starts have also plummeted. After breaking ground on 2,367 units in 2021 through October, developers started work on only 751 apartments in the same interval of this year.
- Urban Baltimore continues to see the most construction activity, accounting for two-thirds of the units underway. Brewers Hill led the way with 649 units, followed by South (456 units) and Edmondson (379 units). Columbia (472 units under construction) and Annapolis (328 units) were among the most coveted suburban areas.
- The Collective at Canton was the largest project underway as of October. The 500-unit development marks Greystar's first multifamily foray in Baltimore and is part of 28 Walker Development's Collective at Canton master plan. The 12-acre mixed-use project near Canton Waterfront Park is also set to include 60,000 square feet of retail space and 100,000 square feet of Class A office space.

Baltimore Completions (as of October2022)



Source: Yardi Matrix

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

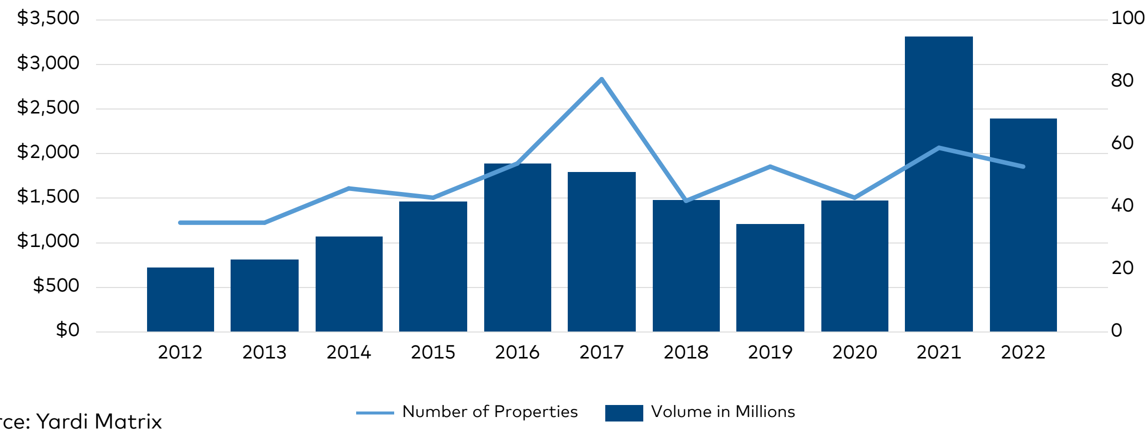


Source: Yardi Matrix

TRANSACTIONS

- Baltimore investors traded $2.4 billion in multifamily assets in 2022 through October, on par with the 2021 volume for the same period. Even though investors are typically very active near the end of the year, it is unlikely that the overall 2022 transaction volume will surpass last year's $3.3 billion record, considering the slowing economy and rapidly increasing in interest rates.
- The per-unit price clocked in at $205,443, marking a 5.6% increase from the 2021 figure. However, Baltimore remained fairly affordable compared to both Washington, D.C., ($237,261) and the $215,939 U.S. average.
- Suburban areas such as Odenton ($318 million), Towson-Northeast ($295 million) and Ellicott City ($291 million) were the most coveted in the 12 months ending in October, as buyers kept seeking value-add plays. Renaissance Management Group paid $210 million for the 858-unit Renaissance Hills at Ellicott, marking the largest transaction in the metro.

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



Source: Yardi Matrix

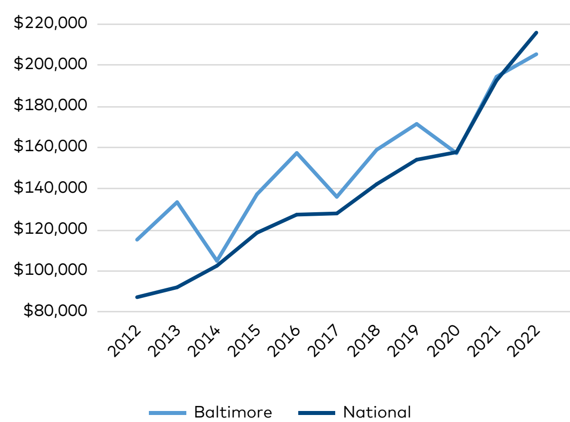
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Odenton	318
Towson-Northeast	295
Ellicott City	291
Parkville	290
Laurel	234
Glen Burnie	226
Baltimore-South	202

Source: Yardi Matrix

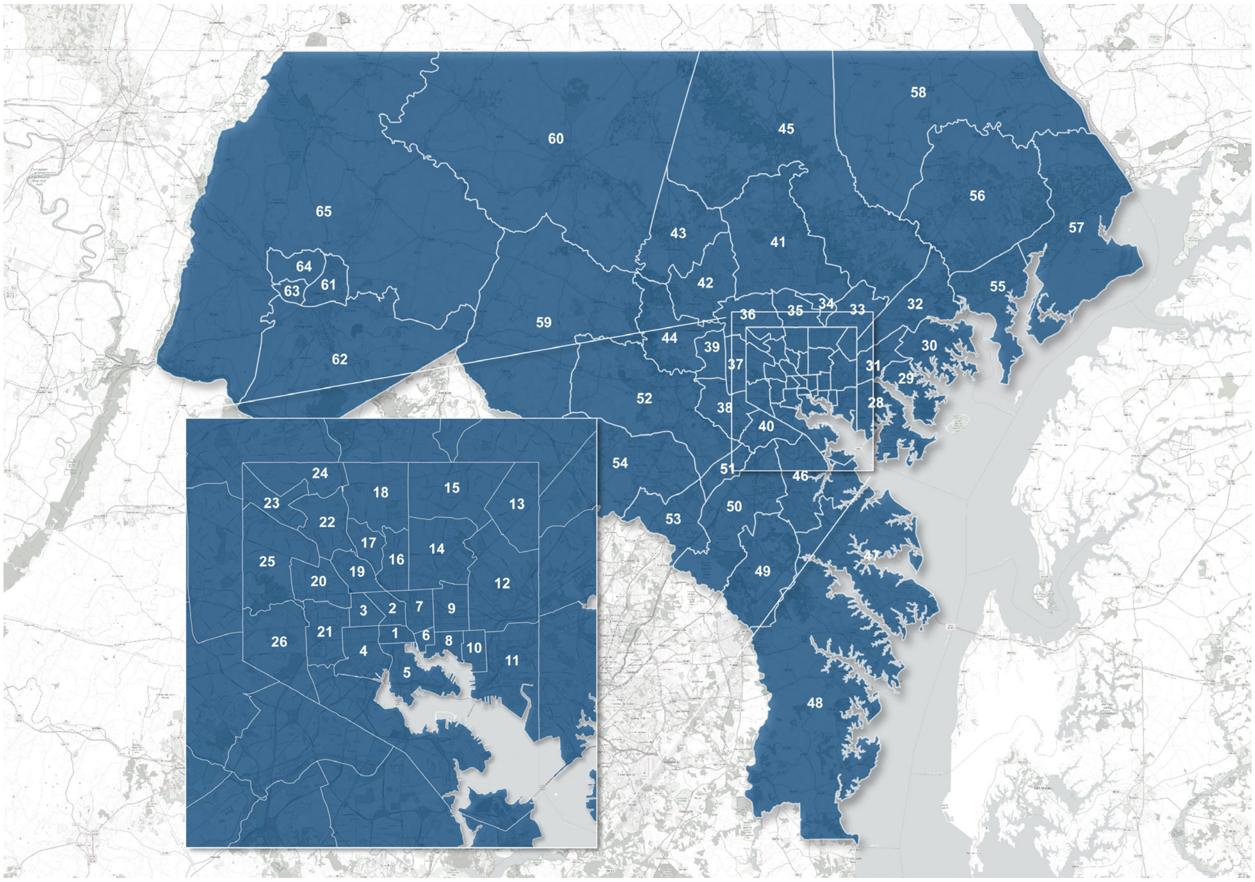
[1] From November 2021 to October 2022

Baltimore vs. National Sales Price per Unit



Source: Yardi Matrix

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 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 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, 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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Yardi Matrix

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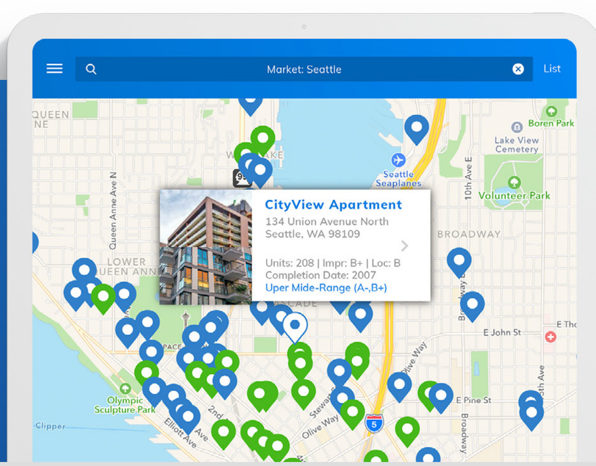
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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