Yardi® Matrix

Baltimore: Still a Safe Harbor

Multifamily Report Winter 2018

Investors Focus On Suburbs

Deliveries to Accelerate in 2018

Core Construction Surge Continues

Market Analysis

Winter 2018

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Investors Stay Bullish; Rent Growth Slows

Although fueled by demand for live-work-play communities and an ongoing urban development surge, Baltimore's multifamily market fundamentals continue to lag behind the national trend. Rents were up 1.2% year-over-year through October, at roughly half the U.S. average, and the expected 2018 wave of deliveries is slated to further soften the market.

Anchored by Johns Hopkins University and associated health-care providers, Baltimore's economy continues to slowly diversify while also losing positions in traditional sectors such as trade, transportation and utilities. Education and health services, together with professional and business services, generated 24,200 jobs in the year ending in September, reinforcing the city's status as an alternative to much more expensive nearby metros such as Washington, D.C., and New York City. Although trailing the nation in job formation, Baltimore benefits from several large-scale projects that are bound to boost the city's economy in the long run. The list includes the $6.5 billion Port Covington development, the 3,100-acre TradePoint Atlantic park and Beatty Development Group's portside Harbor Point.

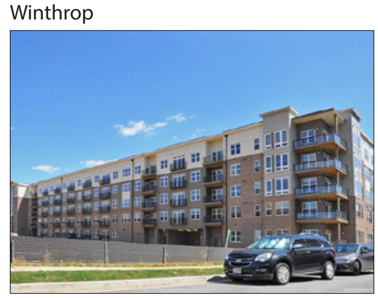
Investor interest is high: Roughly $1.4 billion in assets traded this year through October. Some 2,200 units came online in the first 10 months of 2017, and another 7,400 units are under construction, which continues to put pressure on occupancy levels and should keep rent growth tepid for the foreseeable future.

Recent Baltimore Transactions

The Seasons

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

Winthrop



City: Towson, Md.
Buyer: Bozzuto Group
Purchase Price: $84 MM
Price per Unit: $284,746

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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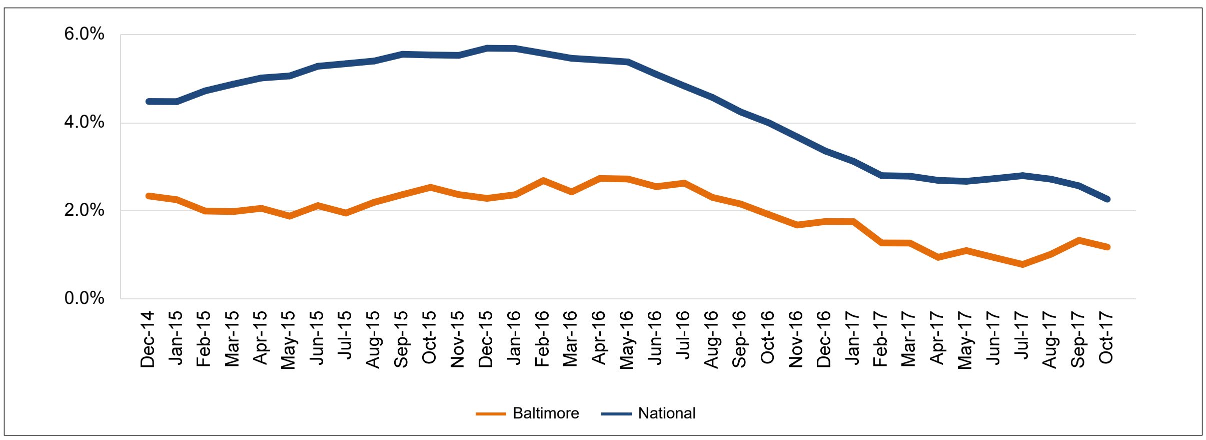
On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

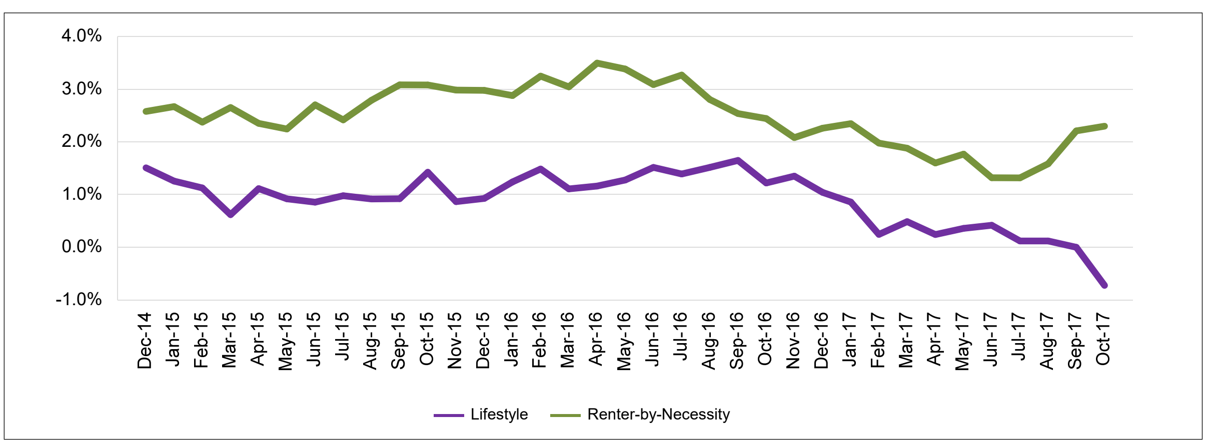
- Rents in Baltimore were up 1.2% year-over-year through October, trailing the U.S. rate by 110 basis points. At $1,297, the average rent was just $61 below the national figure but far below that of nearby Washington, D.C., where rent stood at $1,732.
- Baltimore rent growth is decelerating due to the upscale segment, as Lifestyle rents contracted 0.7%, to $1,646, marking the first drop since 2010. Meanwhile, working-class Renter-by-Necessity rents were up 2.3%, reaching $1,157. That increase id due to an ongoing disconnect, as developers continue to focus on upscale projects. Of the 20,000 units delivered since 2012, some 85% are upscale and only 8% are in fully affordable communities.
- As the urban construction surge continues, rents are dropping in several submarkets close to or within the urban core. The list includes Downtown Baltimore (-2.7%), which expanded its stock by 1,126 units since early 2015. Meanwhile, areas farther away from the city core with no construction activity continue to lead growth, such as Hamilton (4.3%), Carney/Perry Hall (3.6%) and Oakland Mills (3.4%).
- Baltimore's occupancy rate in stabilized properties was 95.0% as of September, down 10 basis points in 12 months. Deliveries remain high, but due in part to tepid job formation, rents are projected to grow 1.4% 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)

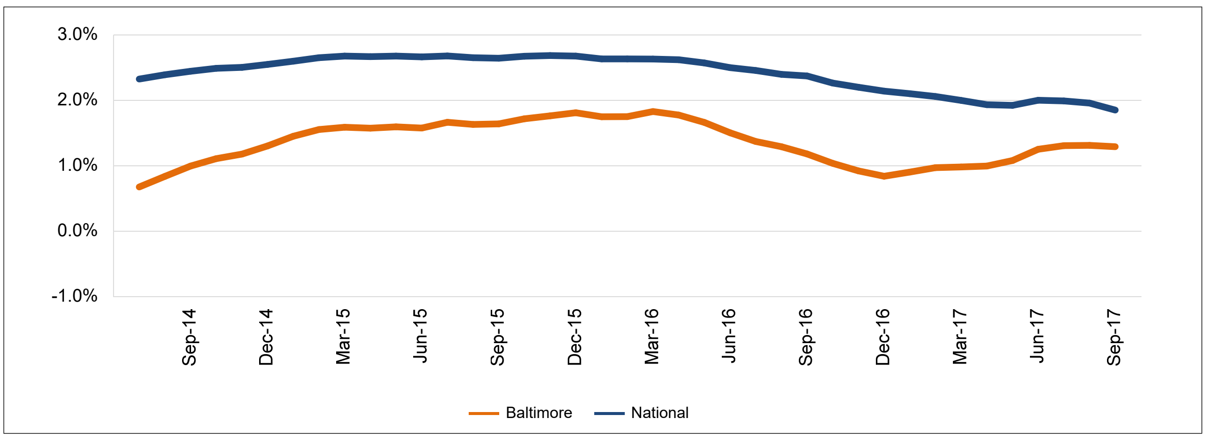


Source: YardiMatrix

Economic Snapshot

- Baltimore added 23,700 jobs in the 12 months ending in September for a 1.3% expansion, trailing the U.S. rate by 60 basis points. While slowly diversifying its economy, the city continues to lag behind the nation by steadily losing jobs in some of its signature sectors, scuh as manufacturing, as well as trade, transportation and utilities.
- Education and health services led growth, adding 14,000 positions. With Johns Hopkins University and associated medical institutions as its main anchors, Baltimore's economy remains on solid footing. As the metro benefits from its proximity to Washington, D.C., and its relative affordability, the professional and business services sector continues to expand, growing by 10,200 new positions in the 12 months ending in September.
- The influx of highly skilled workers is mirrored by the office market's steady performance: There were some 1.2 million square feet of office space under construction in Baltimore as of November and, according to Cushman & Wakefield, the office vacancy rate was 12.5% as of 2017's third quarter, down 160 basis points in one year.
- Baltimore's largest projects are moving forward—Goldman Sachs is injecting $233 million in the $6.5 billion Port Covington revitalization project; Amazon will build an 855,000-square-foot facility at TradePoint Atlantic; pre-leasing started in October at 1405 Point, the 289-unit residential component of the 3 million-square-foot Harbor Point mixed-use project.

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	375	18.5%	14,000	3.9%
60	Professional and Business Services	373	18.4%	10,200	2.8%
15	Mining, Logging and Construction	117	5.8%	4,700	4.2%
90	Government	341	16.9%	4,400	1.3%
70	Leisure and Hospitality	197	9.7%	2,600	1.3%
80	Other Services	87	4.3%	700	0.8%
30	Manufacturing	71	3.5%	-100	-0.1%
50	Information	30	1.5%	-400	-1.3%
55	Financial Activities	115	5.7%	-4,200	-3.5%
40	Trade, Transportation and Utilities	316	15.6%	-8,200	-2.5%

Sources: YardiMatrix, Bureau of Labor Statistics

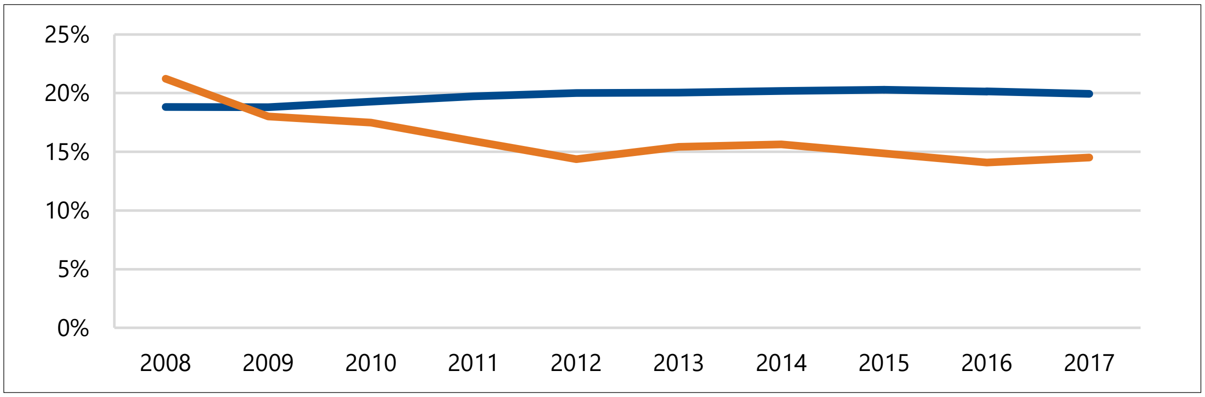
Demographics

Affordability

- Baltimore home prices continue to rise, climbing to $245,229 in the first half of 2017, after more than five years of upticks. Even so, the metro remains much more affordable than nearby Washington, D.C., where home prices topped $390,000 last year.

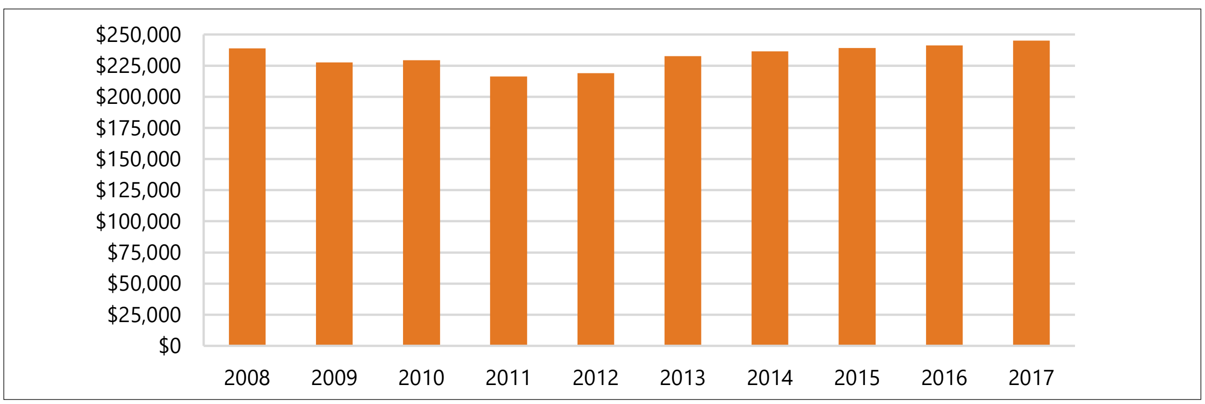
- Both home values and rents have slowly but steadily risen since the last downturn, but expanding incomes are keeping housing costs in check. Owning continues to be the more affordable option in Baltimore, as the average mortgage payment accounts for just 15% of the median income. At the same time, the average rent takes up as much as 20%, the same percentage since 2011.

Baltimore Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Baltimore Median Home Price



Source: Moody's Analytics

Population

- Baltimore added 43,200 people between 2012 and 2016. This marks a 1.6% expansion, 130 basis points below the U.S. growth rate.

- The metro grew by 5,049 residents in 2016 for a 0.2% uptick.

Baltimore vs. National Population

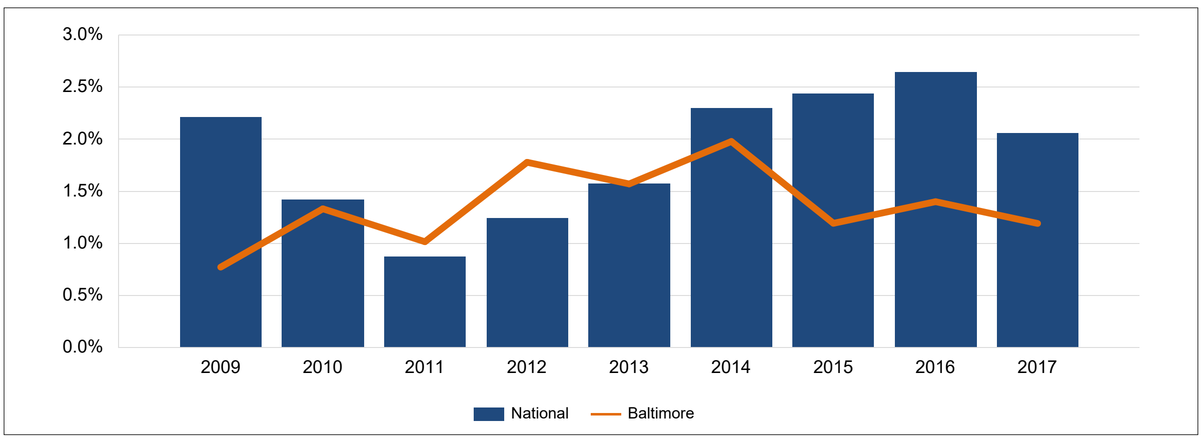
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Baltimore Metro	2,755,622	2,771,765	2,784,254	2,793,837	2,798,886

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

Supply

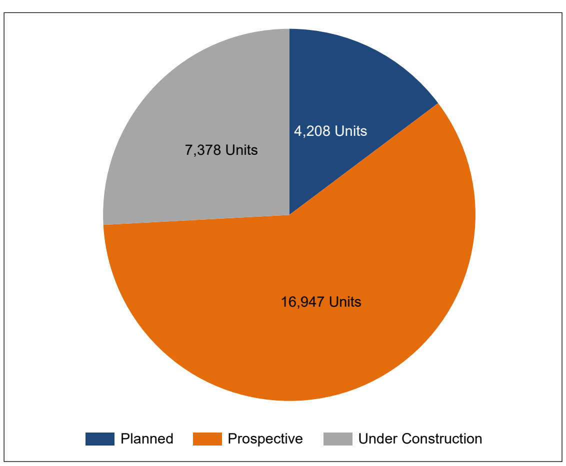
- Development activity remains high in Baltimore: Roughly 2,200 units came online this year through October. More than 16,000 units were delivered between 2012 and 2016, one-third of which are within three miles of downtown. Following nationwide trends, developers continue to focus on high-end assets: Of the 6,700 units completed since the beginning of 2016, roughly 90% are in upscale communities.
- There are 7,400 units underway in Baltimore, almost all of which are slated for delivery in 2018. As demand for communities in walkable areas remains high, the city core is driving development with Inner Harbor (1,317 units), Downtown Baltimore (1,089) and Fells Point (571) comprising almost half of total construction. Although there is little to no construction in many suburban areas, several submarkets stand out, including Savage (699), Columbia (437) and Odenton (368), all of them located between Baltimore and Washington, D.C. Adding up planned and prospective projects, the total Baltimore pipeline consists of 28,500 units.
- Questar's 414 Light Street is the largest community in the city core slated to come online in 2018. The 44-story tower topped out in November and is scheduled to deliver 394 luxury units to Inner Harbor. At 500 feet, the $160 million high-rise is now Maryland's tallest residential building.

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



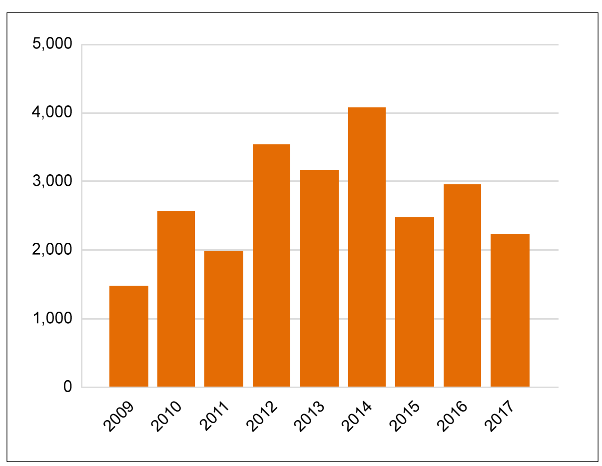
Source: YardiMatrix

Development Pipeline (as of October 2017)



Source: YardiMatrix

Baltimore Completions (as of October 2017)

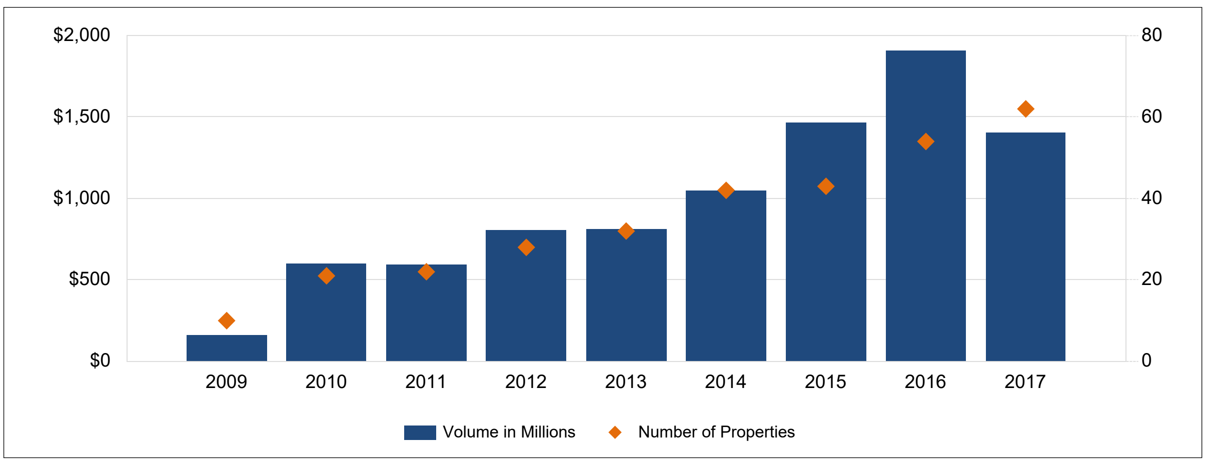


Source: YardiMatrix

Transactions

- Roughly $1.4 billion in multifamily assets traded in 2017 through October in Baltimore. This follows three years of accelerated activity, with $4.4 billion changing hands between 2014 and 2016.
- Per-unit prices dropped 8% in the first 10 months of 2017 to $137,580, just above the $135,622 U.S. average. Suburban properties continue to be in high demand, with just three submarkets—Hebbville, Savage and Odenton—accounting for almost half of the transaction volume for the year ending in October.
- Two buyers have stood out in 2017: Morgan Properties acquired the six-property, 1,984-unit Rolling Road portfolio from Harbor Group International for $247 million, or almost $125,000 per unit. In August, Enterprise Community Partners bought a 43-property, 4,153-unit Mid-Atlantic affordable housing portfolio from The Shelter Group for $330 million, or $79,460 per unit. Of the 43 assets, 24 are within metro Baltimore.

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



Source: YardiMatrix

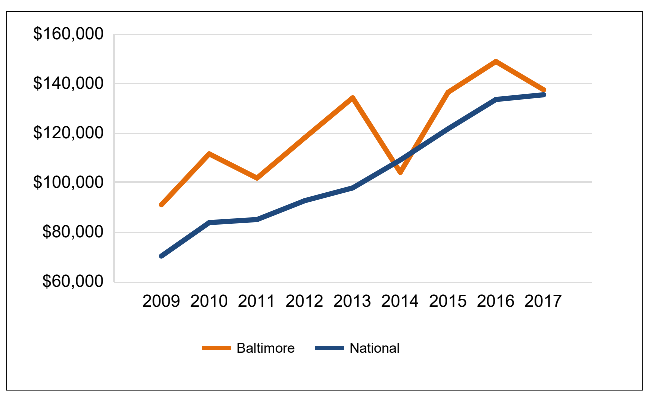
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Hebbville	327
Savage	288
Odenton	207
Columbia	98
Owings Mills	95
Murray Hill	84
Washington Hill/Little Italy	73
Waterloo	66

Source: YardiMatrix

[1] From November 2016 to October 2017

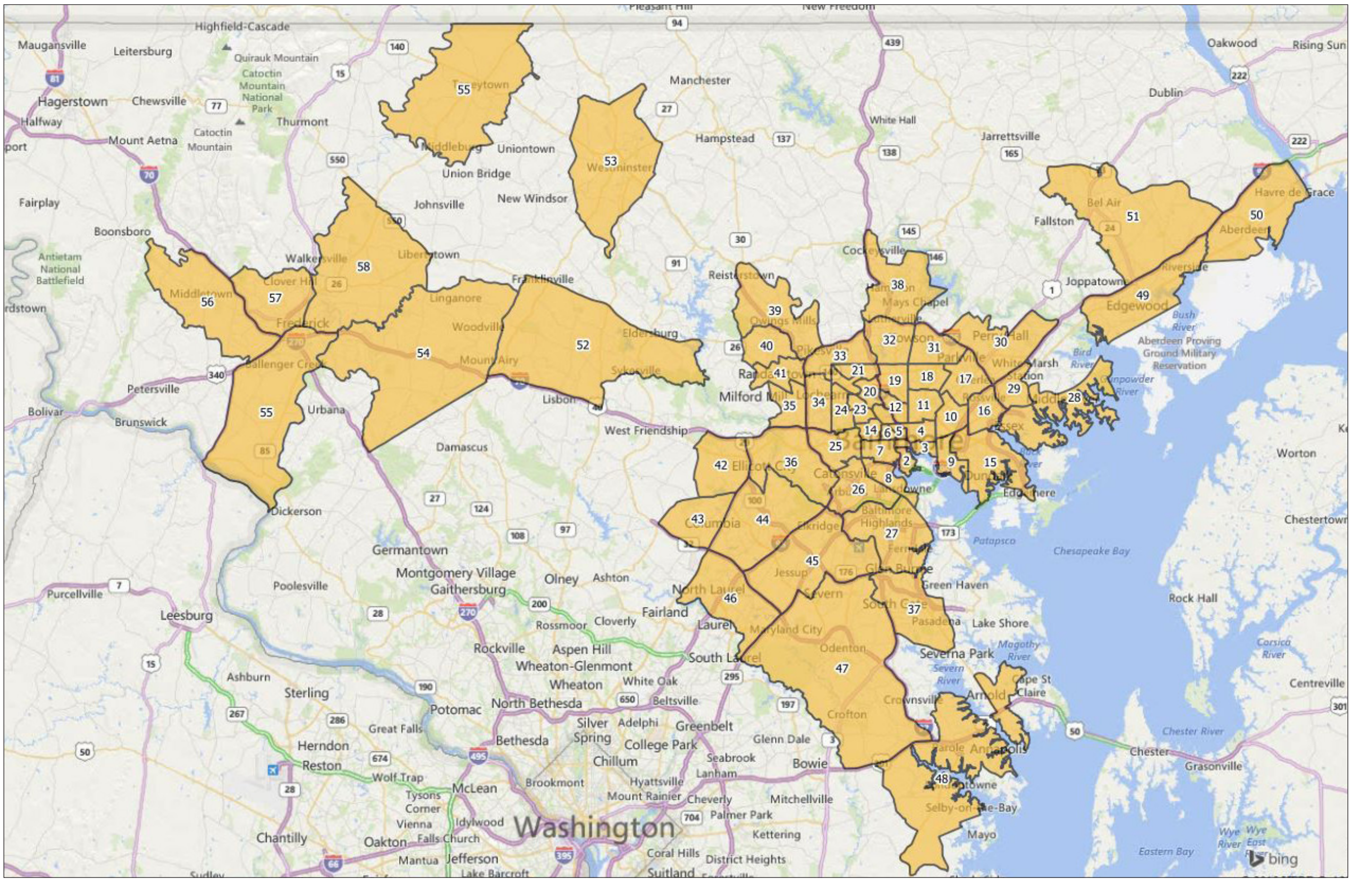
Baltimore vs. National Sales Price per Unit



Source: YardiMatrix

Photo by jwilkinson/iStockphoto.com

Baltimore Submarkets



Area #	Submarket
1	Downtown Baltimore
2	Inner Harbor
3	Fells Point
4	Washington Hill/Little Italty
5	Midtown
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.

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