

Baltimore Strikes A Balance

Multifamily Report Spring 2018



**Rent Growth
Tempers**

**Development
Targets Downtown**

**Investors Compete
For Class C Assets**

Market Analysis

Spring 2018

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

Adriana Pop

Senior Associate Editor

Downtown's Revival Continues

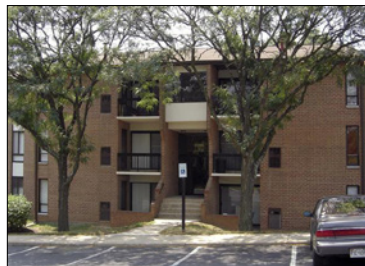
Multifamily demand in Baltimore is slowly picking up, buoyed by steady hiring and population gains, as well as rising incomes. Rent growth was moderate for most of 2017, and with a wave of new stock coming online, occupancy ticked down to 94.2% as of February 2018.

Employment growth was strongest in education and health services, anchored by landmark institutions such as Johns Hopkins Hospital and the University of Maryland Medical System. New legislation passed by the Maryland General Assembly could bring free tuition to thousands of low- and middle-income community college students, further expanding higher education in the city and creating a better educated labor pool. This dynamic would make Baltimore more attractive to employers, while continuing to fuel tech and STEM job growth. Office-using employment is also boosting demand for space across the metro: The 28-story One Light building is the first new office tower to rise in the CBD in over a decade.

Multifamily transaction volume in 2017 nearly matched the previous year's cycle high of \$1.9 billion. Developers are also active, especially in the downtown area, which had the highest number of units underway as of March. Absorption is expected to keep up with the spate of new supply, generating modest rent growth of 1.5% in 2018.

Recent Baltimore Transactions

Carriage Hill Village



City: Randallstown, Md.
Buyer: Morgan Properties
Purchase Price: \$95 MM
Price per Unit: \$117,556

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
Purchase Price: \$84 MM
Price per Unit: \$280,705

Gwynn Oaks Landing

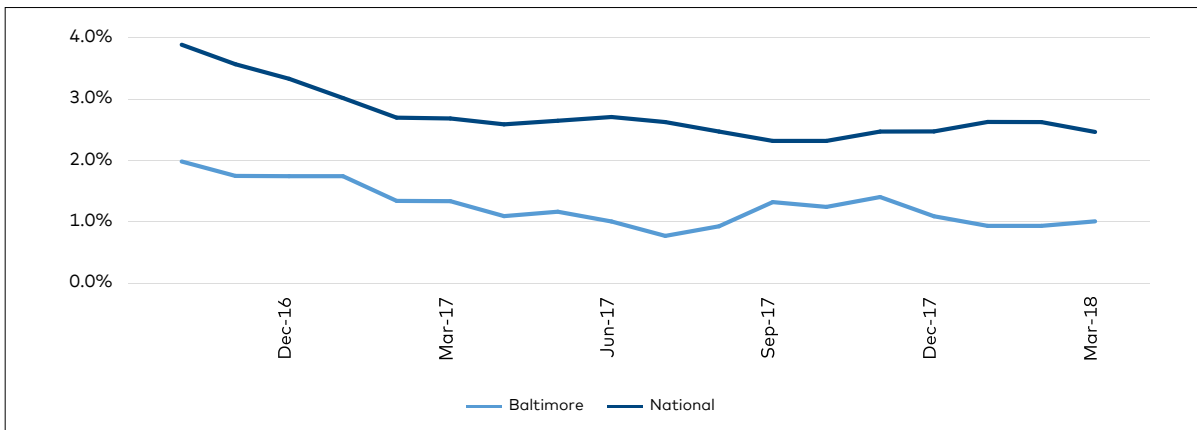


City: Gwynn Oak, Md.
Buyer: Morgan Properties
Purchase Price: \$78 MM
Price per Unit: \$88,418

Rent Trends

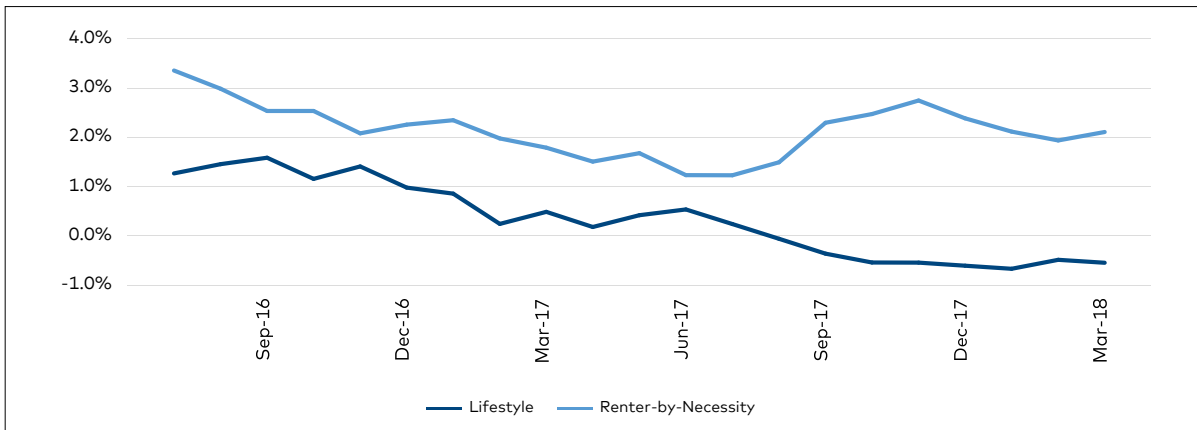
- Rents rose 1.0% year-over-year through March, trailing the 2.5% national rate. The metro's average rent stood at \$1,300, below the \$1,371 national figure. Rent growth in Baltimore has been decelerating since spring 2016, mirroring the U.S. trend. Amid a significant number of new deliveries, occupancy in stabilized properties declined to 94.2% as of February, down from 95.0% in 12 months.
- Rents in the working-class Renter-by-Necessity segment rose 2.1% to \$1,161, while Lifestyle rates fell 0.5%, to \$1,640. Steady job gains, along with the spillover effect from Washington, D.C.'s expensive housing market, have been sustaining demand for workforce rentals in Baltimore. Furthermore, developers are focusing on more profitable high-end apartments—a nationwide trend—maintaining high competition for the existing stock of lower-priced rentals. Absorption of luxury units is expected to stay positive, especially downtown, where the median household income has increased by 44% since 2012.
- Submarkets recording the highest rent growth were also among the metro's least expensive: Edmondson (11.8%), Druid Hill (6.1%) and Forest Park (6.0%). Rents also increased in Rosedale (11.6%) and Middletown (8.6%) and decreased in Downtown (-4.3%) and Inner Harbor (-5.1%), which saw the highest number of deliveries year over year as of March. Rates also dropped significantly in Upton (-9.2%) and Point Breeze (-5.2%). We expect rent growth to maintain a moderate pace of 1.5% in 2018.

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)

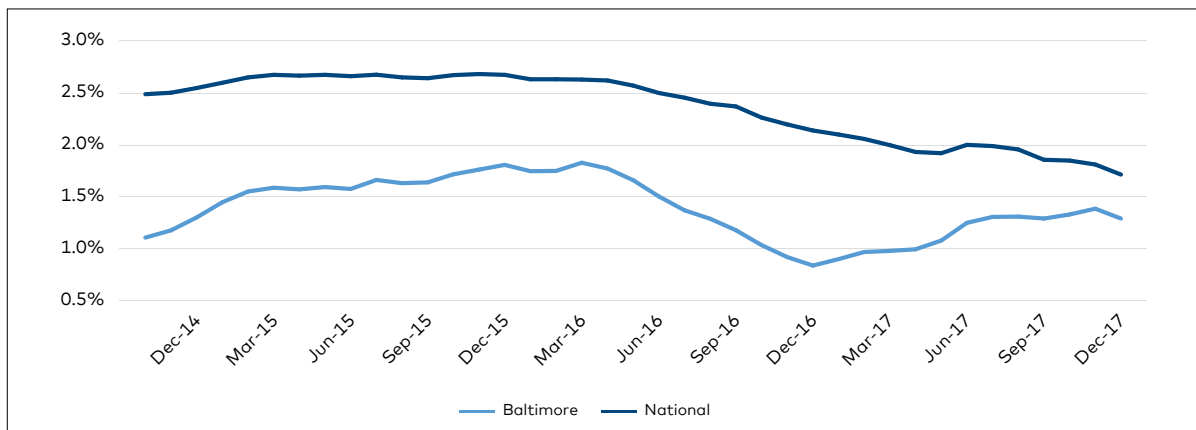


Source: YardiMatrix

Economic Snapshot

- Baltimore added 18,500 jobs in 2017 for a 1.3% increase, trailing the 1.7% national average. The unemployment rate ticked upward to 4.6% as of January, marking the first year-over-year increase since 2013, but outpacing Maryland's 4.1% average.
- Growth was highest in education and health services, which added 8,300 jobs. Higher education may soon get a boost in Baltimore, as thousands of low- and middle-income community college students could get free tuition under new legislation passed by the Maryland General Assembly.
- Government contractors for federal intelligence agencies have been the primary drivers of local tech job growth recently. The sector's expansion is set to continue, led by thriving firms such as Verizon, R2i, Fearless Solutions, Jellyfish and Exit10. Baltimore also ranks among the top 10 metros in the nation for share of bachelor's degrees earned in STEM fields, according to U.S. Census Bureau data.
- Office-using employment fuels demand for new space across the metro, which had a development pipeline of almost 1.4 million square feet as of April, according to Yardi Matrix data. The 28-story One Light building is the first new office tower to rise in the CBD in more than a decade. Morgan Stanley, M&T Bank, Johns Hopkins Center for Communications and Vitreon also signed large leases.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	382	18.8%	8,300	2.2%
60	Professional and Business Services	367	18.1%	8,100	2.3%
15	Mining, Logging and Construction	117	5.8%	4,400	3.9%
90	Government	350	17.2%	3,700	1.1%
30	Manufacturing	72	3.5%	1,100	1.6%
80	Other Services	86	4.2%	200	0.2%
70	Leisure and Hospitality	188	9.3%	-300	-0.2%
50	Information	30	1.5%	-600	-2.0%
55	Financial Activities	115	5.7%	-2,700	-2.3%
40	Trade, Transportation and Utilities	327	16.1%	-3,700	-1.1%

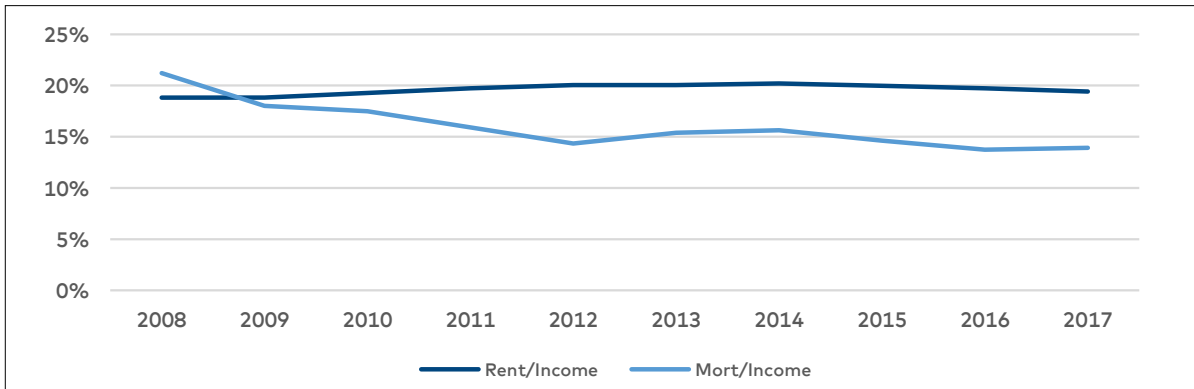
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

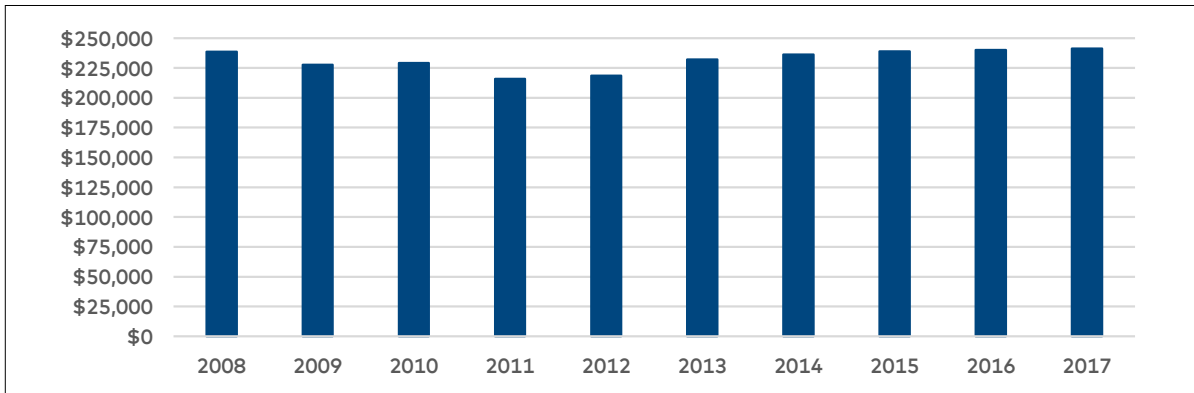
- The median home price in Baltimore rose to \$241,417 in 2017—a post-recession high. The average rent accounted for 19% of the area's median income, while the average mortgage payment remained more affordable, comprising just 14% of income.
- Compared to other East Coast metros, Baltimore's housing market remains relatively affordable. On average, rents are significantly cheaper than in Washington, D.C., New York and Boston. Homeownership is also cheaper, about one third less expensive than in D.C.

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 gained more than 7,100 residents in 2017, a 0.3% increase, well below the 0.7% national rate.
- Baltimore added 36,589 residents between 2013 and 2017, up 1.3%, but below the 3.0% U.S. growth rate.

Baltimore vs. National Population

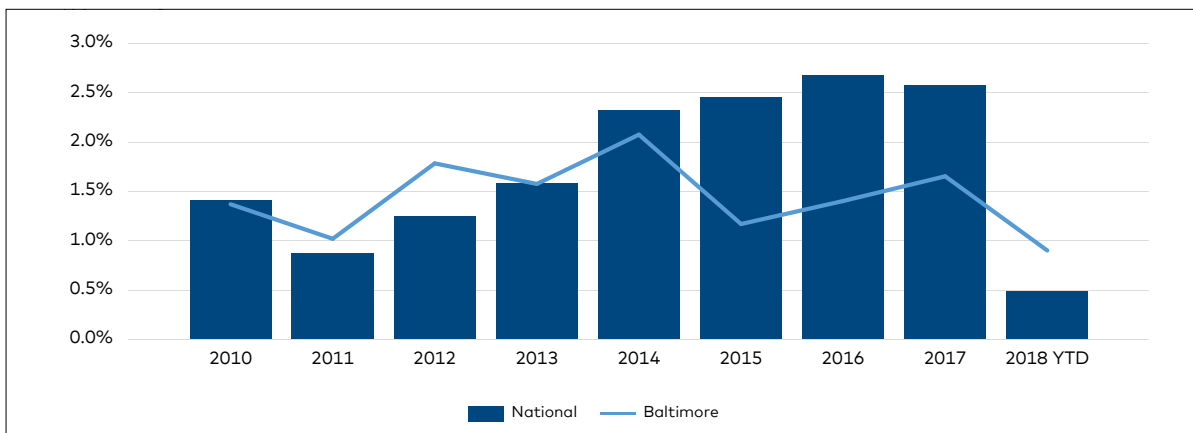
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Baltimore Metro	2,771,586	2,784,424	2,795,036	2,801,028	2,808,175

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

Supply

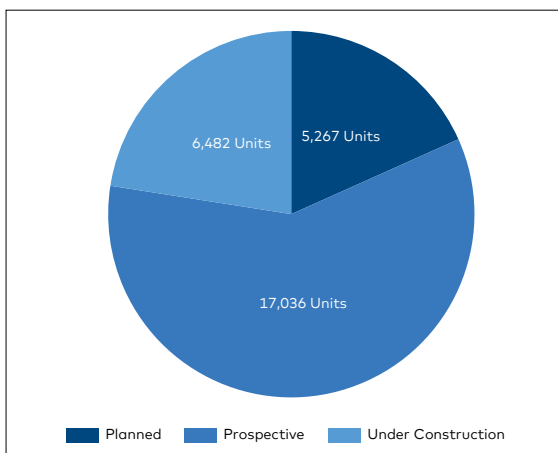
- Almost 2,000 units came online during the first quarter of 2018, in addition to 3,547 deliveries in 2017. Developers focused on a mix of high-end conversions and ground-up projects.
- More than 6,400 units were under construction as of March, while another 22,300 were in the planning and permitting stages. By the end of 2018, Yardi Matrix expects the total number of completions to reach 4,844 units, representing 2.3% of total stock, in line with the national figure.
- Developers are targeting downtown, which had 905 units underway, followed by nearby Inner Harbor (670 units) and Fells Point (571 units). Demand is expected to keep up, according to the Downtown Partnership's Housing Demand Study: Outlook 2022, which predicts that downtown is poised to absorb 7,000 rental and for-sale units over the next five years. The study estimates that new units will cater to young singles and couples—comprising almost 70% of the potential market—as well as empty nesters and retirees (20.5%) and traditional and non-traditional families (10.3%). The 414 Light Street high-rise, slated to open this summer, ranks as the metro's largest multifamily project. The 44-story tower will bring 394 units to Inner Harbor and is set to become the state's tallest residential building.

Baltimore vs. National Completions as a Percentage of Total Stock (as of March 2018)



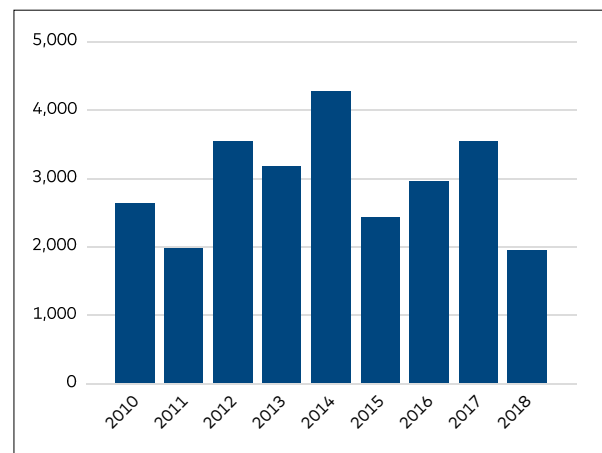
Source: YardiMatrix

Development Pipeline (as of March 2018)



Source: YardiMatrix

Baltimore Completions (as of March 2018)

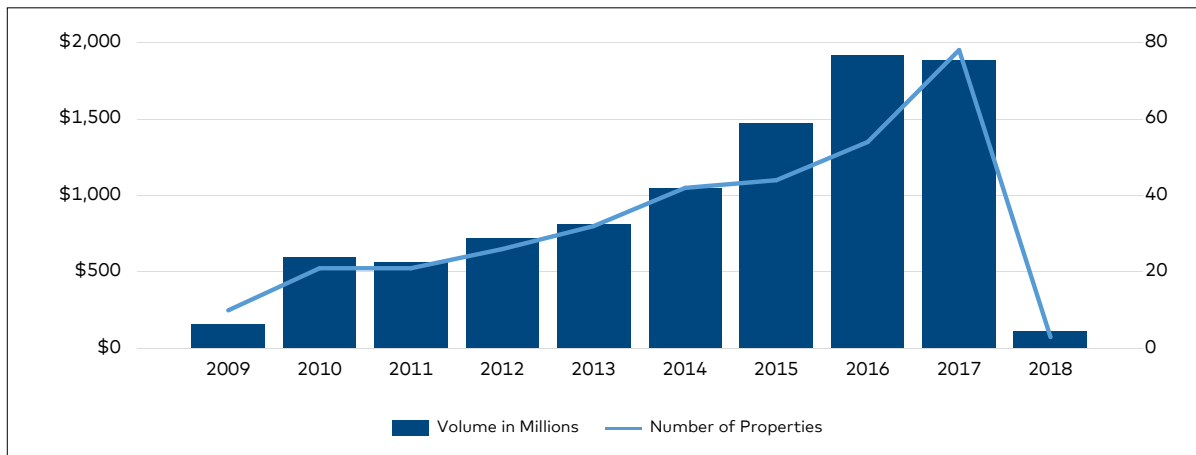


Source: YardiMatrix

Transactions

- Two Lifestyle assets and one Renter-by-Necessity property changed hands for a combined \$115 million in the first quarter of 2018, at an average per-unit price of \$197,326, marking a post-recession high. In 2017, the metro's transaction volume reached nearly \$1.9 billion, at an average per-unit price of \$131,302, slightly below the \$139,003 national figure.
- A significant number of local and out-of-state buyers targeted Class C assets, mostly suburban, which offer acquisition yields of up to 6.5% for stabilized properties and 8.0% for value-add communities.
- Morgan Properties' \$95 million acquisition of the 806-unit Carriage Hill Village in Randallstown, Md., ranked as the metro's largest multifamily transaction in the year ending in March. The community is located close to the University of Maryland Medical System, a community college and several schools.

Baltimore Sales Volume and Number of Properties Sold (as of February 2018)



Source: YardiMatrix

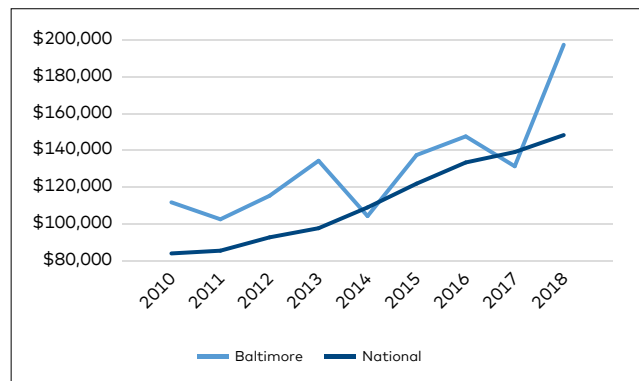
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Odenton	207
Columbia	166
Frederick-North	146
Murray Hill	128
Owings Mills	98
Randallstown	95
Woodmoor	78
Annapolis/Arnold	76

Source: YardiMatrix

¹ From March 2017 to February 2018

Baltimore vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



CAPREIT Debuts
Luxury Baltimore Community



Harbor Goup Sells
\$25M MD Community



C&W Arranges \$70M Loan
For Baltimore Office Property

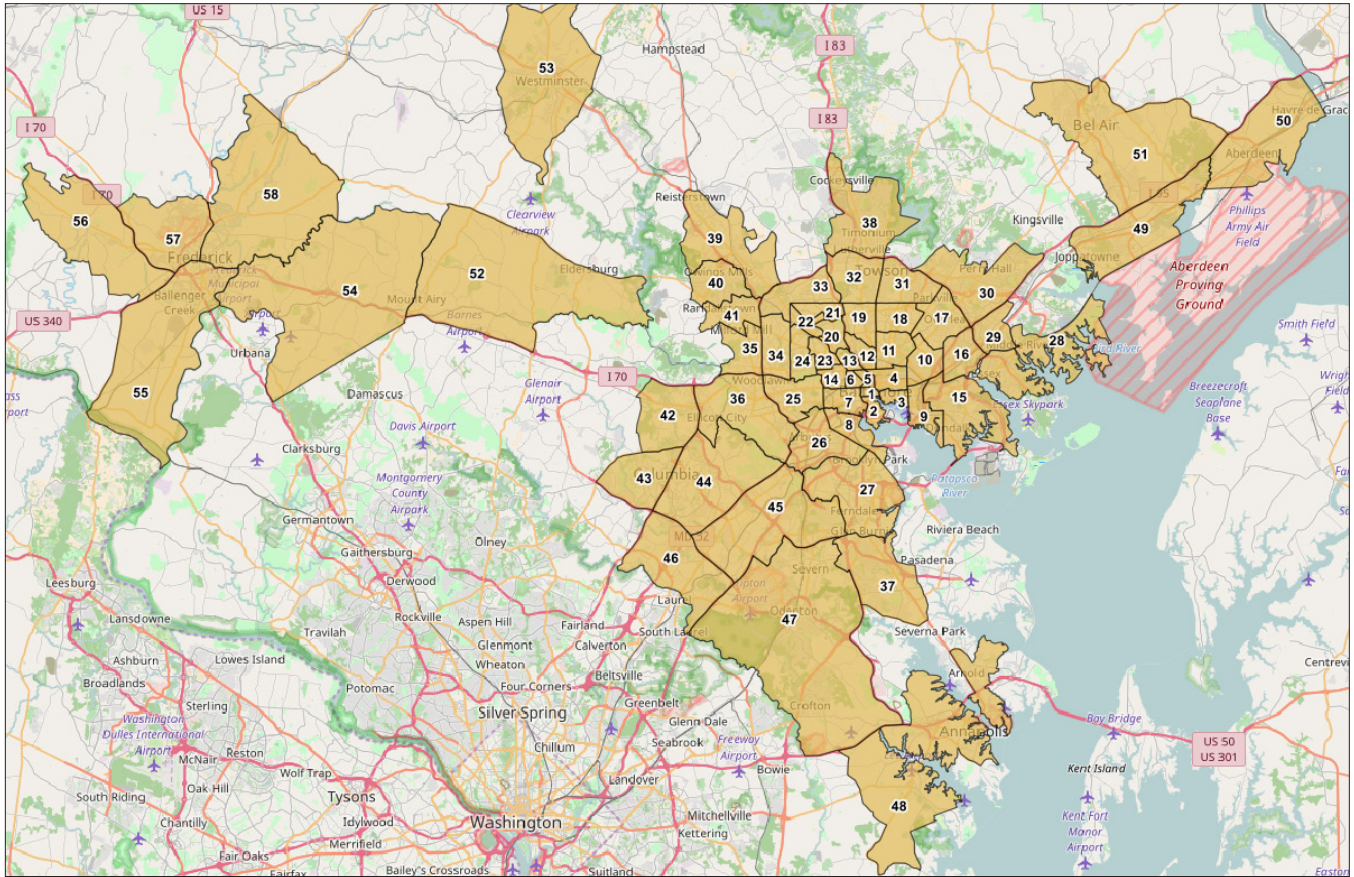


Baltimore-Area
Storage Facility
Breaks Ground

Get the latest Baltimore real estate news at



Baltimore Submarkets



Area #	Submarket
1	Downtown Baltimore
2	Inner Harbor
3	Fells Point
4	Washington Hill/Little Italy
5	Mid Town
6	Upton
7	Poppleton
8	Cherry Hill/Morrell
9	Point Breeze
10	Orangeville
11	Waverly
12	Charles Village/John
13	Druid Hill
14	Edmondson
15	Dundalk
16	Rosedale
17	Hamilton
18	Ramblewood/Morgan He
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	Hebbsville
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	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.

Fogelman drives deals with Yardi® Matrix



"Yardi Matrix is a major contributor to our profitable investments and informed property management."

Mark Fogelman
President
Fogelman Properties

800.866.1144
YardiMatrix.com



Energized for Tomorrow

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2018 Yardi Systems, Inc. All Rights Reserved.