

An aerial photograph of Baltimore, Maryland, taken at sunset. The sky is a mix of orange, yellow, and blue. The city is densely packed with buildings of various heights and styles, including brick buildings and a prominent white building with a red roof. A street with cars is visible on the right side of the image.

Yardi® Matrix

# Baltimore's Construction Surge

Multifamily Report Summer 2018

Investment Volume Drops

Job Gains Fuel Rental Demand

Development Set to Hit Cycle Peak

## Market Analysis

Summer 2018

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## Keeping Up With Supply

Baltimore's pool of educated talent has helped maintain a relatively stable multifamily demand level, despite the large volume of new supply. As the development boom continues, with 5,800 units under construction, consistent job gains in high-earning sectors should stimulate absorption.

In fact, professional and business services produced 6,800 more jobs year-over-year, second only to education and health services, with 9,500. Construction (6,300) recorded the highest year-over-year jump (5.6%), due to record development levels, including both multifamily and office projects, especially in Baltimore's downtown area. The economy continues to be driven by top universities, along with a thriving IT sector.

However, new multifamily product is almost exclusively upscale, which is putting increased pressure on renters looking for housing in the Renter-by-Necessity segment. With low-income housing also impacted by the continued supply imbalance, local authorities in August agreed to fund the two-year-old Affordable Housing Trust Fund. Rent growth is bound to remain tepid in Baltimore, as we expect a 1.7% rise for the whole of 2018.

## Recent Baltimore Transactions

### Kingscrest



City: Frederick, Md.  
Buyer: Hamilton Zanze & Co.  
Purchase Price: \$64 MM  
Price per Unit: \$159,035

### Orchard Meadows at North Ridge



City: Ellicott City, Md.  
Buyer: Morgan Properties  
Purchase Price: \$51 MM  
Price per Unit: \$210,417

### The Social North Charles



City: Baltimore  
Buyer: FPA Multifamily  
Purchase Price: \$47 MM  
Price per Unit: \$203,664

### Versailles

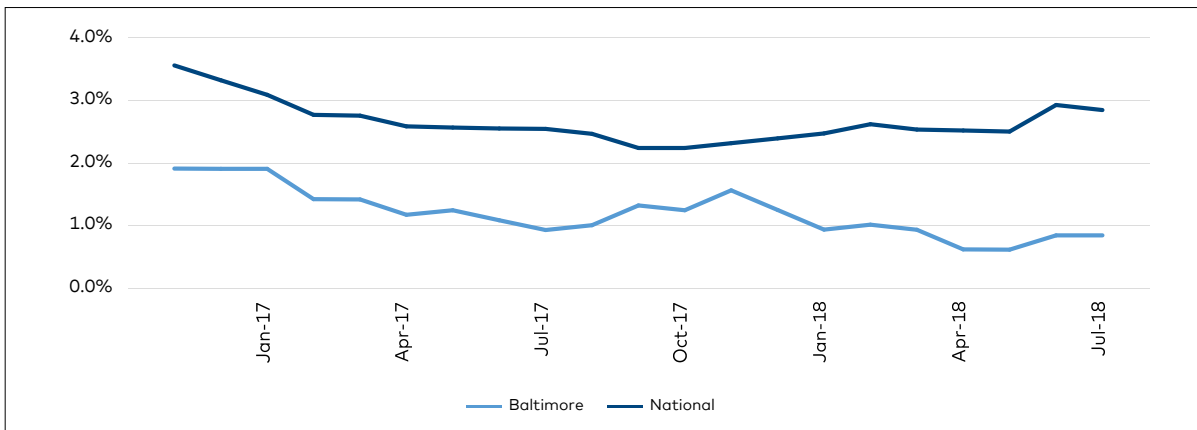


City: Towson, Md.  
Buyer: Ross Development  
Purchase Price: \$44 MM  
Price per Unit: \$207,381

## Rent Trends

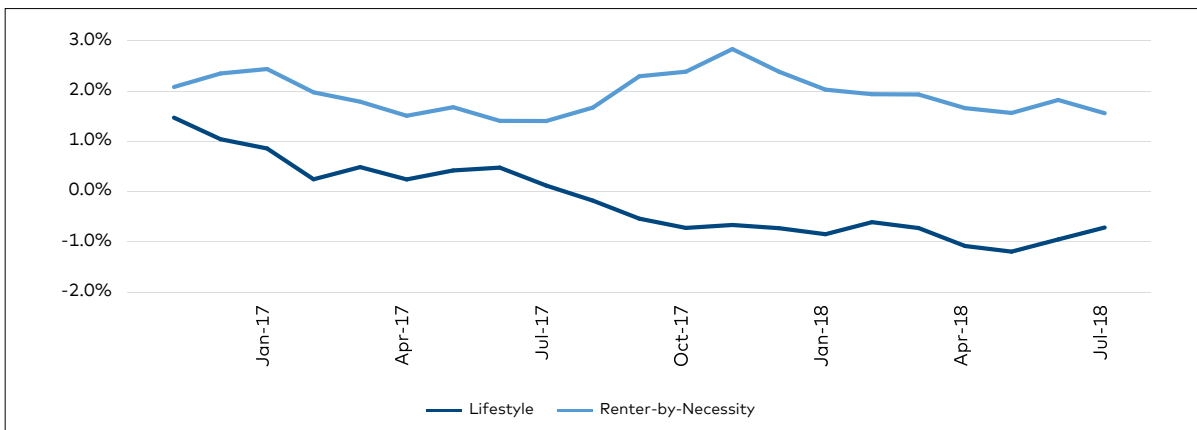
- Rents rose 0.8% in the 12 months ending in July, lagging the 2.8% national average. Due to a prolonged construction boom, rent growth in Baltimore has significantly slowed since 2016. The trend dropped to a low in 2018, when the rate hit the 1.0% mark in February. The average rent in the metro stood at \$1,316 in July, trailing the \$1,409 national figure.
- Rents in the working-class Renter-by-Necessity segment rose 1.6% to \$1,171. New supply is almost exclusively high-end, which led to a 0.7% drop in Lifestyle rates, to \$1,663. As more Millennials consider moving to suburban areas once they decide to settle down, demand should continue to fuel rent growth in the metro's outer submarkets. The highest rent increases in the 12 months ending in July were recorded in Edmonson (7.3%), Rivercrest-Ceresville (7.2%), Hamilton (4.4%), Rosedale (4.2%) and Forest Park (3.7%).
- Demand remains relatively healthy in Baltimore's core submarkets, as university graduates attracted by high-paying jobs are looking for modern, well-amenitized units. Apartments located in Baltimore's thriving live-work-play waterfront command the highest rents. Fells Point (\$2,133), the Inner Harbor (\$2,088) and Point Breeze (\$2,024) top the list. Healthy demand and job gains in white-collar sectors should help Baltimore rent growth reach 1.7% 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)

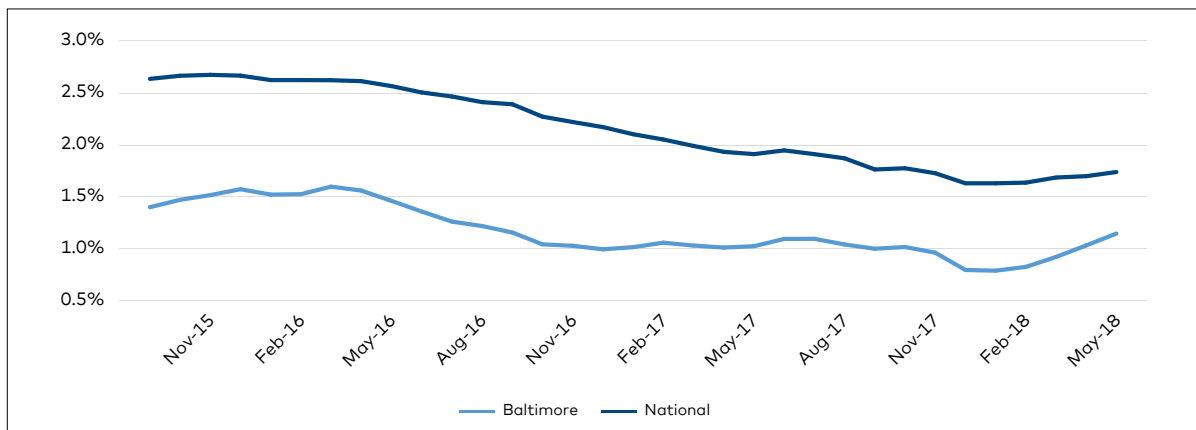


Source: YardiMatrix

## Economic Snapshot

- The metro added 27,600 jobs in the 12 months ending in May, for a 1.2% expansion, trailing the national rate of 1.7%. Gains picked up in the second quarter, after a period of slow growth at the beginning of the year. According to the Bureau of Labor Statistics, the metro's unemployment rate was 4.6% as of June, above the 4.2% national average.
- Employment growth was strongest in education and health services, which added 9,500 jobs in the 12 months ending in May, followed by professional and business services (6,800) and construction (6,300). The metro's universities are not only top-performing educational institutions but also economic drivers. Johns Hopkins University is among the country's top 10 universities, according to the latest classification made by the Center for World University Rankings, as well as Baltimore's largest employer. University System of Maryland research shows that 80 percent of the students attending a USM school remain in the state, contributing to the metro's economic growth and development.
- Baltimore's thriving IT sector, based on a high concentration of government contractors, continues to spark office development. According to Yardi Matrix, the metro's office pipeline totaled 2.1 million square feet as of September. WeWork announced plans to occupy two floors in the 12-story, 330,000-square-foot Wills Wharf building, now underway in the Inner Harbor, by 2020.

### 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	373	18.4%	9,500	2.6%
60	Professional and Business Services	370	18.3%	6,800	1.9%
15	Mining, Logging and Construction	118	5.8%	6,300	5.6%
40	Trade, Transportation and Utilities	327	16.1%	5,400	1.7%
80	Other Services	77	3.8%	800	1.0%
70	Leisure and Hospitality	200	9.9%	500	0.3%
30	Manufacturing	74	3.7%	-	0.0%
55	Financial Activities	116	5.7%	-500	-0.4%
50	Information	30	1.5%	-600	-2.0%
90	Government	341	16.8%	-600	-0.2%

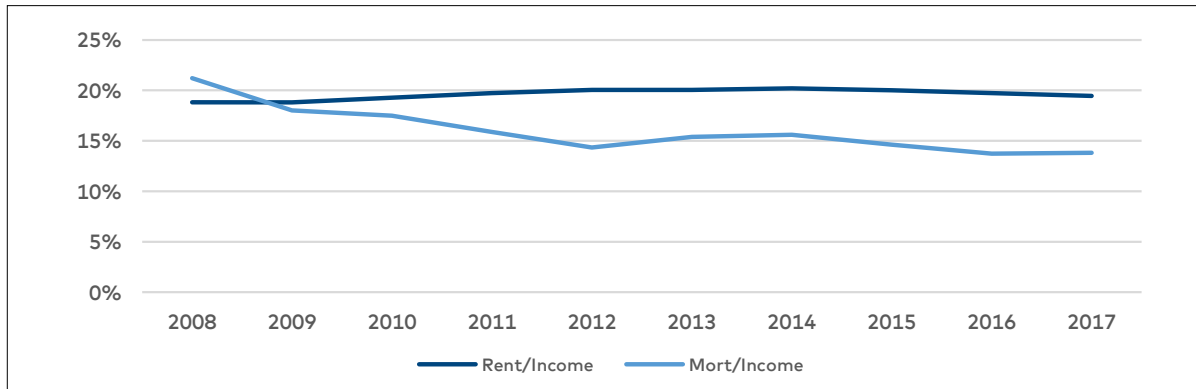
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

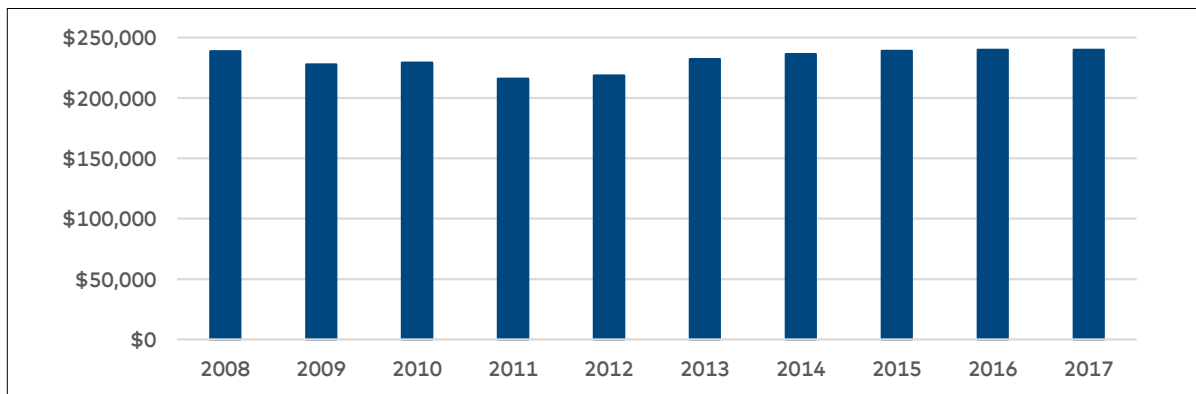
- Since the recession, the median home price in Baltimore has seen little fluctuation. In 2017, the median home value was \$239,751, nearly equal to the \$239,984 cycle peak of 2016. Since 2009, owning a home in the metro has been more affordable than renting. The average mortgage payment accounted for 14% of the median income last year, compared to 19% for the average rent.
- In August, local authorities agreed to long-delayed funding of an Affordable Housing Trust Fund. The city will spend \$20 million annually, collected through two new excise taxes on real estate transactions exceeding \$1 million. The goal is to rehabilitate and build 4,100 affordable units over the next decade.

### 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 roughly 52,000 residents over the last five years, but the growth rate has slowed.
- Baltimore's population increased by less than 0.3% in 2017, trailing the 0.7% U.S. growth rate.

### Baltimore vs. National Population

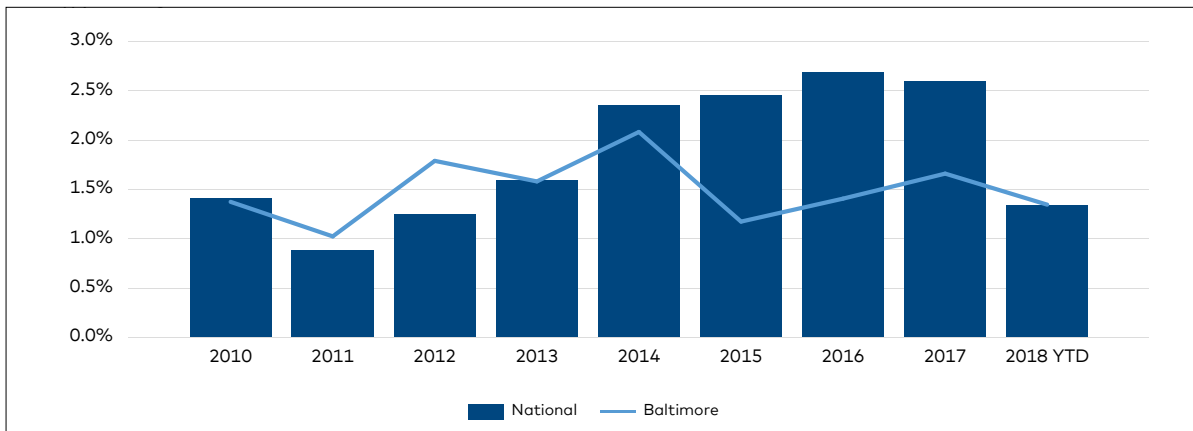
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Baltimore Metro	2,771,586	2,784,424	2,795,036	2,801,028	2,808,175

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

## Supply

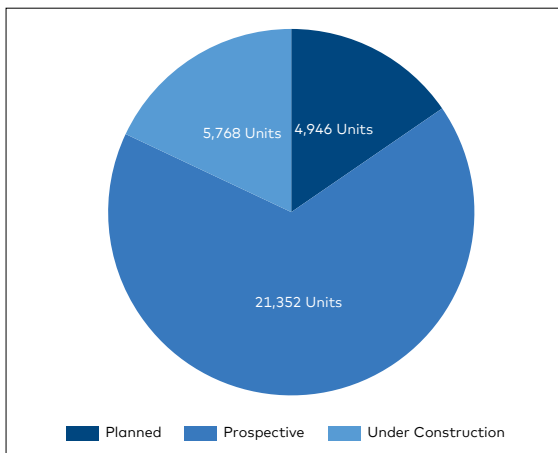
- The pace of development remains accelerated in the metro, with roughly 2,900 units completed year-to-date through July, out of the nearly 4,700 apartments forecasted to come online in 2018, an expected cycle peak. Due to the growing housing inventory, occupancy in stabilized properties dropped to 94.6% as of July, down 30 basis points over 12 months.
- Steady job gains and moderate rent growth are fueling housing demand, particularly in Baltimore's downtown area, where more than 900 apartments were under construction as of July. A total of 5,800 units were underway in the metro, but with a net absorption of nearly 3,400 apartments for the 12 months ending in July, and a healthy employment market, risks of oversupply are minimal.
- Developers are focusing on well-located luxury product, as roughly 80% of all units delivered in the first seven months of 2018 were in Class A properties. New construction is concentrated in the metro's central area and along the waterfront, with the Inner Harbor emerging as a trendy live-work-play district. Baltimore's top submarket for new development is Downtown Baltimore (905 units underway), followed by the Inner Harbor (670), Fells Point (662), Towson (571) and Glen Burnie (430).

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



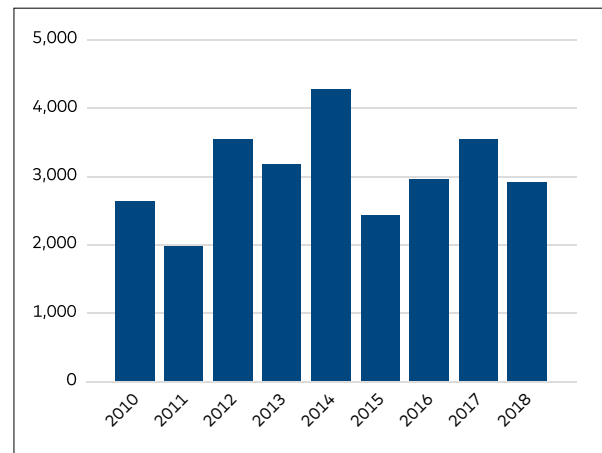
Source: YardiMatrix

**Development Pipeline** (as of July 2018)



Source: YardiMatrix

**Baltimore Completions** (as of July 2018)

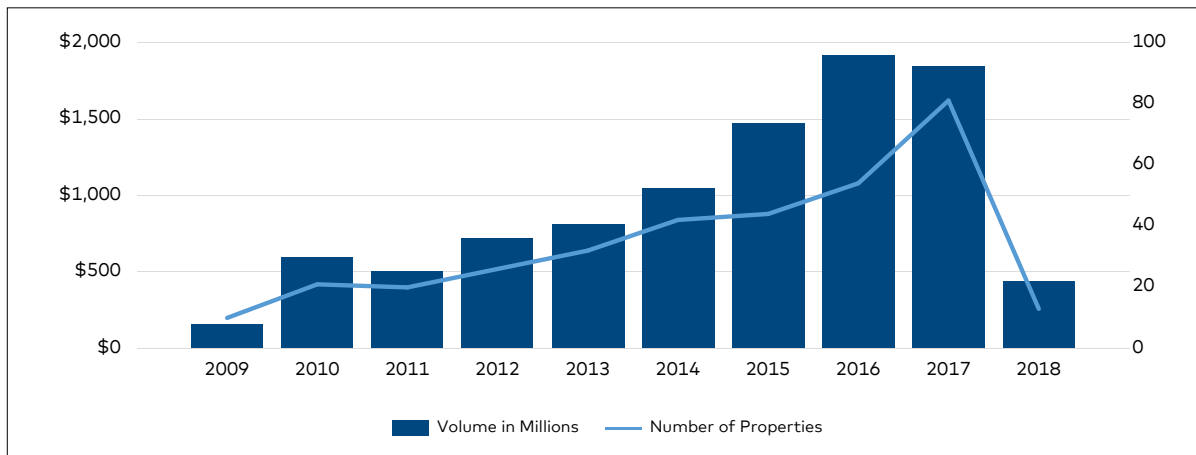


Source: YardiMatrix

## Transactions

- Transaction volume in Baltimore contracted, with only 13 multifamily properties trading in the first half of 2018, for a total of \$441 million. Investment activity slowed down after peaking in 2016 (54 properties sold for more than \$1.9 billion) and 2017 (81 assets traded for more than \$1.8 billion). Declining rent growth and record per-unit prices—the average value for the first seven months reached \$169,241—represented the background for the decrease.
- Investors focused on outer submarkets, where acquisition yields are in the 5.5% range for high-end properties and between 6.0% and 8.0% for Class B and C assets. Frederick (\$182 million), Columbia (\$166 million), Murray Hill (\$128 million), Annapolis/Arnold (\$109 million) and Owings Mills (\$98 million) topped the highest-grossing submarkets list for the 12 months ending in June. Fairstead’s acquisition of the 144-unit Woodside Garden in Annapolis marked this year’s highest price per unit—\$229,167.

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



Source: YardiMatrix

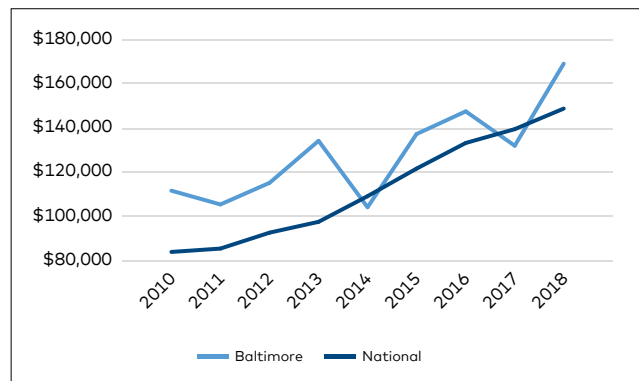
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Columbia	166
Murray Hill	128
Frederick-North	118
Annapolis/Arnold	109
Owings Mills	98
Randallstown	95
Woodmoor	78
Odenton	73

Source: YardiMatrix

<sup>1</sup> From July 2017 to June 2018

**Baltimore vs. National Sales Price per Unit**



Source: YardiMatrix

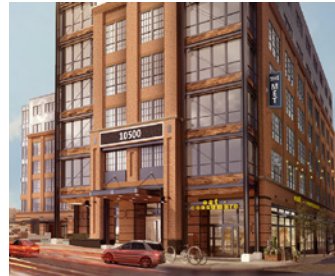
## News in The Metro

Brought to you by:



### MD Multifamily Buyer Lands \$34M Financing

The first mortgage bridge loan provided by Hunt Real Estate Capital financed the acquisition and planned renovation of a 208-unit community in Pikesville, Md.



### Baltimore-Area Luxury Property Breaks Ground

The 114-apartment community is part of the of the Metro Centre at Owings Mills mixed-use development, which will include a total of 1,700 residential units.



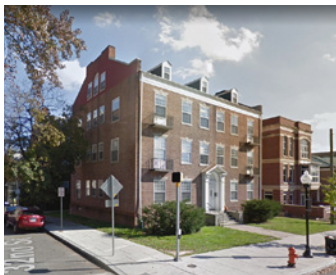
### Broadtree Acquires \$138M Portfolio

The company purchased 1901 S. Charles and 2 E. Wells in Baltimore, as well as The Overlook in Camp Hill, Pa. After closing, the value of Broadtree's property base amounted to nearly \$350 million.



### Baltimore-Area Community Changes Hands for \$8M

Built in 1946, the 93-unit property includes 12 garages. The new owner plans to continue the interior renovation of the apartments and make improvements to the amenities.



### SVN Brokers MD Student Housing Sale

The 48-bed community, dubbed The Allston, features a mix of studio and one- to three-bedroom units that serve students attending Johns Hopkins University. The 18,400-square-foot property was built in 1900.



### JV Buys 240-Unit Baltimore-Area Community for \$50M

Morgan Properties and Core Real Estate Partners have acquired Orchard Meadows in Ellicott City as a value-add investment. The community will undergo more than \$2 million in upgrades.

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### Downtown Baltimore's Luxurious Metamorphosis

Baltimore's downtown is going through a massive transformation, with developers reimagining the city's skyline by converting old office buildings into residential towers. Due to the metro's strict historic preservation laws, most of these changes result in assets that integrate the city's past and present. In the last few years, thousands of new units have come online in the city's urban core area, catering to residents who prefer to walk or bike to work.

Donald Fry, president & CEO of the Greater Baltimore Committee, an organization that includes more than 500 businesses, nonprofits and educational and civic institutions, spoke with Associate Editor Laura Calugar about this conversion trend.

#### *How have developers managed to maintain the unique features of historic buildings while converting them to residential projects?*

In Baltimore, we value our history and our historic architecture, and developers are finding both to be very valuable in attracting renters looking for a truly urban and upscale lifestyle. Many developers have found inventive ways to showcase these authentic historical details in their projects—whether it's highlighting original mosaics and Art Deco details or incorporating old bank vaults into the design of new apartments. These types of features are what make the apartment buildings truly unique. They're beautiful, spark attention and conversation and tie the city's future to its past.

#### *What can you tell us about the demand for luxury apartments in downtown Baltimore?*

There has been a dramatic increase in demand for apartments in downtown Baltimore during the past several years. Market trends point to



demand continuing to grow. About 5,200 new apartments and condos came on the market between 2012 and 2017, according to data from the Downtown Partnership of Baltimore. The group estimates there is demand for about 1,400 additional units per year over the next five years.

#### *What kind of renters are attracted to these luxury apartments?*

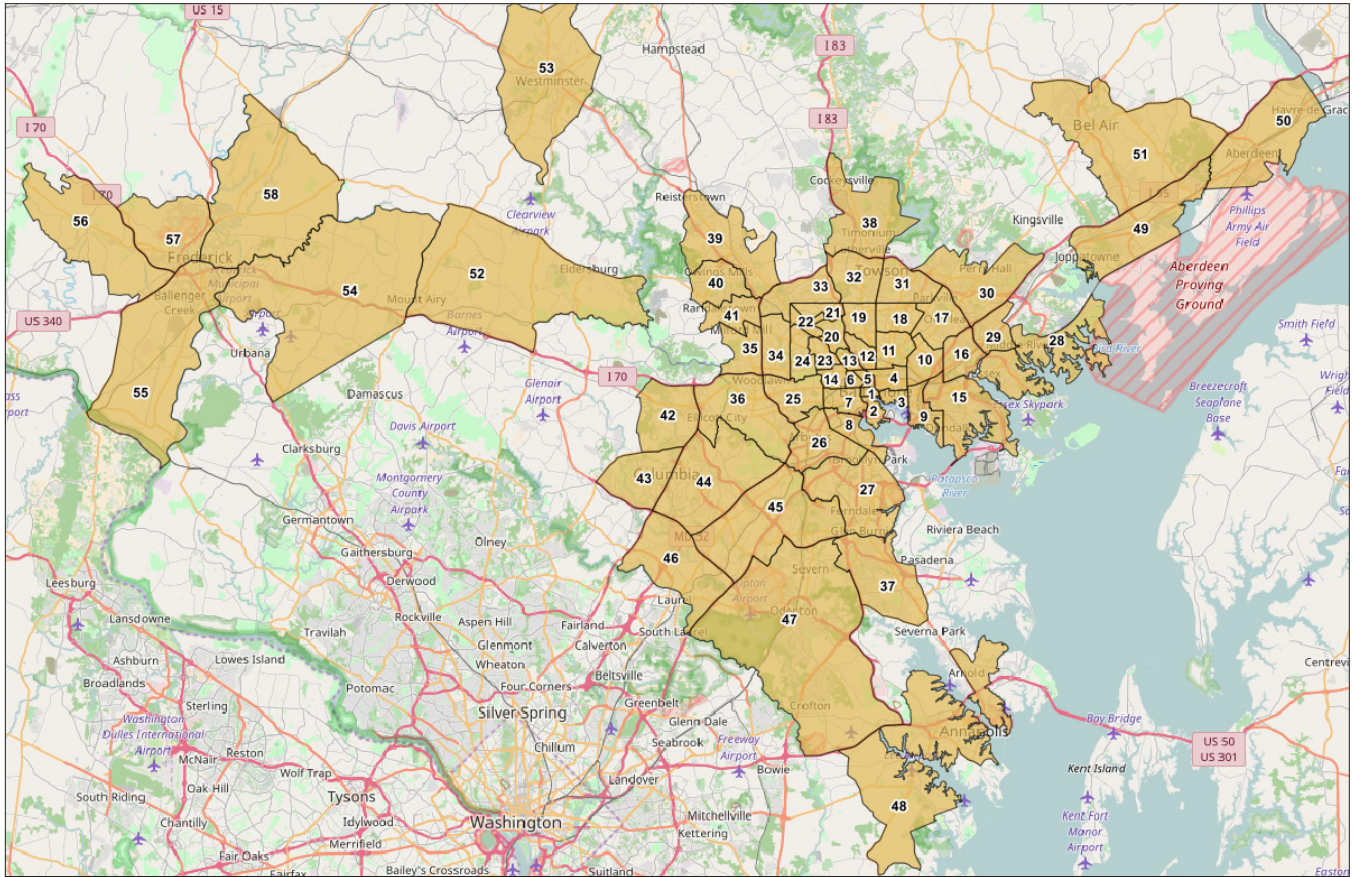
Professionals, Millennials and empty nesters are moving into downtown Baltimore. Many renters walk to work in nearby office buildings. Others commute by car and bike or by public transportation to offices slightly further away. There is a

significant number of renters who work in Washington, D.C., and take the MARC commuter train each day. There has also been an influx of students, including medical students from University of Maryland, Johns Hopkins University and law students from University of Baltimore, choosing to rent downtown. Families with young children are also moving into these apartments, drawn in part by the proximity to museums, restaurants, the Inner Harbor and other fun attractions.

#### *Where do you think Baltimore will stand five years from now, if its downtown area continues to develop at this rapid pace?*

Baltimore will continue to see the downtown area attract retail shops, restaurants and other businesses to cater to the apartment renters' needs. Over the past few years, there have been numerous initiatives to make the area safe and attractive for pedestrians and bike riders. That will grow in the coming years, as the apartments fill up with renters who want to walk and bike the city.

## 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	Hebville
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

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## 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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