

Market Analysis

Third Quarter 2018

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern

Director of Research and
Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Chris Nebenzahl

Senior Analyst
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200

Veronica Grecu

Senior Real Estate Market Analyst
Veronica.Grecu@Yardi.com
(306) 955-1855 x7583

Author

Timea-Erika Papp

Associate Editor
Timea-Erika.Papp@Yardi.com

Aggregated and anonymized
expense and lease expiration
data is available to Yardi Matrix
subscribers. Please contact us
for details!

For more information please contact:

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Demand Catches Up to Supply



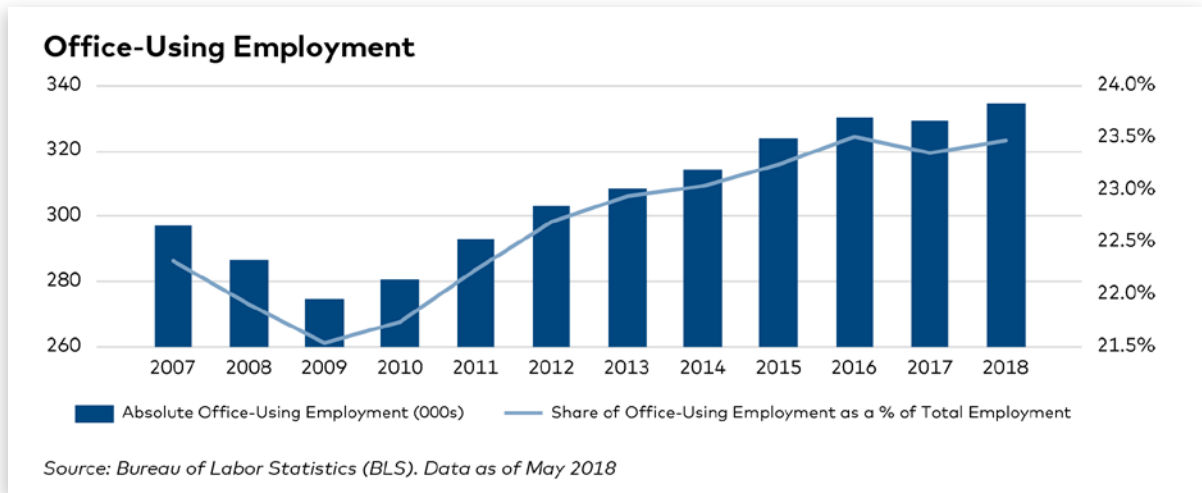
Baltimore's office market is making a steady—albeit modest—recovery, in line with national trends. **Healthy demand** has the vacancy rate slowly dropping, and rents are rising incrementally. Demand for space is led by segments that include finance, government and cybersecurity.

Some **27,600 new jobs** were added in the metro in the 12 months ending in May, with 9,500 of that in education and health services—proof that the health-care sector is a major contributor to Baltimore's employment strength. Another 6,800 jobs were added in the professional and business services sector, even as companies within the metro struggle to fill open positions.

The demand for modern, amenitized space has been fueled by a **robust development pipeline**. Projects that are aimed at transforming the metro into a holistic live-work-play environment include The Howard Hughes Corp.'s \$1 billion redevelopment of the Merriweather district and McHenry Row, a mixed-use project in the Locust Row submarket by developer Mark Sapperstein that will encompass office, residential, hospitality and retail. The development will be built on a 20-acre site in South Baltimore. All told, more than **1 million square feet is under development**, coming on the heels of 2.1 million square feet delivered in 2016 and 2017.

ECONOMIC SNAPSHOT

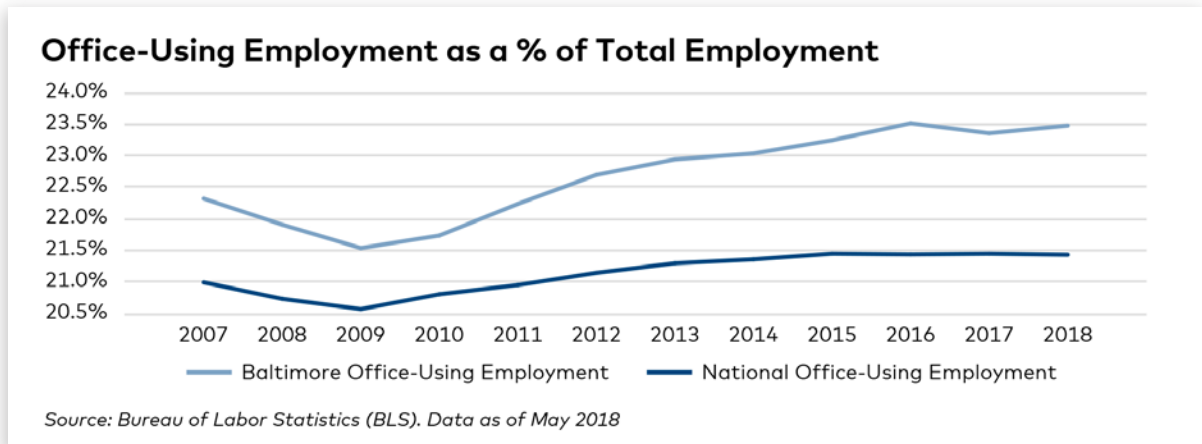
Baltimore had **334,700 office-using jobs** at the end of May, equal to 23.5% of the metro's total labor pool and above the national share of 21.4%. The metro has struggled to attract talent over the long term. There is some growth in the **cybersecurity sector**, as a state grant awarded to SANS Institute aims to launch a program for local cybersecurity workforce advancement.



Employment Growth by Sector as of May 2018 (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	18.2%	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	3.6%	0	0.0%
55	Financial Activities	116	5.7%	-500	-0.4%
90	Government	341	16.8%	-600	-0.2%
50	Information	30	1.5%	-600	-2.0%

Source: Bureau of Labor Statistics (BLS). Data as of May 2018



LEASING | Vacancy

- Baltimore's office vacancy rate was **13.1% as of June**, with more than 7.5 million square feet available for lease. Class A properties were 12.8% vacant as of June, almost on par with Class B assets' vacancy rate of 12.9%. Baltimore's office inventory is dominated by **suburban office space**, more than half of which consists of Class B product.
- Some 2.1 million square feet of space was added to the inventory in 2016 and 2017. Pre-leasing has been limited in assets that were recently completed or are under construction. Most existing tenants have opted for lease renewals.
- Leasing activity has been curtailed by the metro's difficulty in attracting talent, and some employers are struggling to fill open positions. In an effort to fix the talent pool issue, the Maryland Department of Labor, Licensing and Regulation awarded Bethesda-based SANS Institute a \$500,000 grant to launch a local **cybersecurity workforce development program**. Major employers include internet technology companies, government agencies and **cybersecurity firms**.
- Jessup had one of the **lowest vacancy rates** at 4.9%. The suburban submarket has an inventory of roughly 4.7 million square feet, and more than 80% of that is Class A space. Home to the National Business Park—a 3.7 million-square-foot office campus—Jessup houses government agencies (National Security Agency, U.S. Department of Defense) and companies serving federal clients (Booz Allen Hamilton, Raytheon).
- The **Central Business District's** vacancy of 21.3% was among the highest in the metro at the end of June. Relatively few new leases have been signed in the submarket in recent quarters.

Vacancy by Building Class

Top Submarkets	Vacancy Rate (%)
Class A Combined Office	12.8%
Class B Office	12.9%

Source: Yardi® Matrix. Data as of June 2018
Note: Vacancy including sublease

Vacancy by Location Class

Location Class	Vacancy Rate (%)
Urban-Secondary	5.1%
Suburban-Primary	10.9%
Urban-Primary	11.8%
Suburban-Secondary	12.6%
CBD-Primary	20.8%

Source: Yardi® Matrix. Data as of June 2018
Note: Vacancy including sublease

Vacancy by Submarket

Top Submarkets	Vacancy Rate (%)
Northwest Baltimore	2.3%
Odenton-Crofton	2.7%
Midtown	3.0%
Jessup	4.9%
Woodlawn	4.9%

Source: Yardi® Matrix. Data as of June 2018
Note: Vacancy including sublease

LEASING | Listings

- Class A office space in Baltimore was listed at an average asking price of \$30.54 per square foot as of June, while Class B space was listed for significantly less, at \$23.93 per square foot.
- Southwest Baltimore was the **most expensive submarket**, commanding an average of \$75.56 per square foot. Almost 80% of the office inventory in this submarket is Class B space.
- The suburbs are a good option for companies looking to lease **less expensive Class A space**. For example, more than 80% of Jessup's office inventory is made up of Class A assets and the average asking price in this submarket was \$38.23 per square foot as of June.
- The **CBD** draws in tenants thanks to its core location. The submarket's inventory is dominated by Class A space, which was listed at an average asking rate of \$25.97 per square foot as of June.
- **Columbia** is one of the most coveted submarkets in the metro, with asking rates averaging \$33.44 per square foot for Class A space and \$24.60 for Class B space. The suburban submarket provides an expansive inventory of quality space consisting of mostly Class B product.
- Asking prices averaged \$18.41 per square foot in Frederick, one of the **most affordable suburban areas**. The submarket has a total office stock of nearly 3.7 million square feet.

Available Properties

Top Submarkets	Square Feet Available	Properties Available
Baltimore CBD	2,108,200	38
Columbia	952,214	78
Harford County	661,886	15
Route 83 Corridor	543,074	43
Baltimore Washington International	456,685	37
Total Market	7,516,420	448

Source: Yardi® Matrix. Data as of June 2018

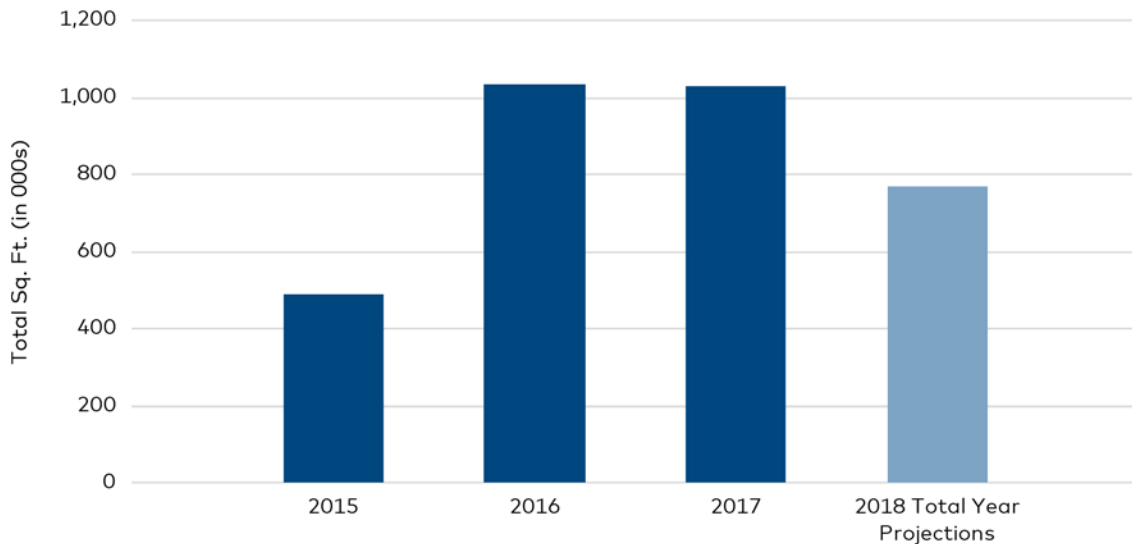
Major Tenants

The Howard Hughes Corp.'s \$1 billion redevelopment plan in downtown Baltimore is drawing in companies looking for a **live-work-play** experience. Crown Castle, a wireless infrastructure provider, agreed to lease space at One Merriweather, a 200,000-square-foot building constructed in 2017. Cybersecurity company Tenable plans to relocate its headquarters to Merriweather Tower, a 350,000-square-foot property that was started earlier this year. Workplace design firm MOI is set to move its headquarters to McHenry Row III, a five-story building under construction within McHenry Row development, a 20-acre mixed-use project in South Baltimore.

SUPPLY

- Baltimore's supply pipeline is driven by solid demand for space. There were no new additions to inventory in the first half of 2018, but more than **1 million square feet** of space was **under construction** as of June that will add 3.4% to total stock when completed. Nearly 770,000 square feet of that is slated for delivery by the end of 2018. Another 9.3 million square feet of space is in preconstruction stages.
- Construction activity has been steady over the past four years—except for 2015, when only 490,000 square feet was delivered. Nine properties totaling more than 1 million square feet came online in 2017, boosting supply and **outpacing demand**. Columbia saw the most development activity in 2017, when some 480,000 square feet of space reached completion.
- One of the largest projects underway is McCormick's new headquarters building, a 339,000-square-foot redevelopment in Hunt Valley. McCormick plans to consolidate its Baltimore locations into the new campus developed by Greenfield Partners.

Office Completions (Square Feet)



Source: Yardi® Matrix. Data as of June 2018

Construction Activity

Top Submarkets	Square Feet Under Construction
Route 83 Corridor	339,000
Baltimore CBD	234,495
Towson	150,000
Annapolis	128,317
Baltimore	118,614
Washington International	
Total Market	1,146,542

Source: Yardi® Matrix. Data as of June 2018

Construction Distribution

Top Submarkets	% of Inventory
East Baltimore County	6.4%
Route 83 Corridor	5.9%
Annapolis	5.1%
Towson	4.6%
Baltimore	3.2%
Washington International	
Total Market	1.6%

Source: Yardi® Matrix. Data as of June 2018

INVESTMENT TRANSACTIONS

- Total transaction volume amounted to **\$527.4 million** in the 12 months ending in June, with \$238 million in the first half of the year. Compared to previous one-year periods, investment activity slightly cooled down, and the trend is likely to continue through 2018.
- Office space traded for an average of **\$172 per square foot** in the metro in the year ending in June.
- In the past four quarters, transaction volume was led by the **Baltimore CBD**, where more than 1.3 million square feet traded for a combined \$207.9 million, or roughly \$153 per square foot. Columbia is also a coveted core submarket. Fifteen buildings totaling 815,700 square feet traded here for more than \$107 million.
- Circa-2000s properties have attracted the most investor interest since 2014, commanding \$964.2 million. Buildings constructed in the 1980s traded for \$617.7 million. Older assets built in the 1970s also appealed to investors, changing hands for a combined \$466.2 million.
- Banyan Street Capital paid \$80.1 million (\$212 per square foot) for One East Pratt in the **largest transaction** closed in the past four quarters. Vanbarton Group was the seller of the 377,799-square-foot property located in the CBD.
- In another major transaction, Morning Calm Management acquired the 279,712-square-foot building at 500 E. Pratt St. from TIER REIT for \$60 million, or \$215 per square foot.

Transaction Volume

Top Submarkets	Total Transaction Square Feet	Total Transaction Volume (000s)
Baltimore CBD	1,740,019	\$207,900
Columbia	815,700	\$107,875
Towson	546,876	\$46,550
Southeast Baltimore	195,694	\$42,915
East Baltimore County	412,323	\$38,500
Total Market	4,751,751	\$527,367

Source: Yardi® Matrix. Data as of June 2018

Average Price

Top Submarkets	Avg. Price Per Square Foot
Southeast Baltimore	\$219.30
Midtown	\$208.28
Columbia	\$152.84
Baltimore CBD	\$152.61
Route 83 Corridor	\$151.12

Source: Yardi® Matrix. Data as of June 2018

Investment Activity

Top Buyers	Total Transaction Square Feet	Total Transaction Volume (000s)
Banyan Street Capital	377,799	\$80,100
Morning Calm Management	279,712	\$60,000
CSG Partners	570,280	\$48,100
Angelo, Gordon & Company	195,694	\$42,915
Fernau LeBlanc Investment Partners	412,323	\$38,500

Source: Yardi® Matrix. Data as of June 2018

NEWS IN THE METRO

Brought to you by:



Greenberg Gibbons Builds \$350M Mixed-Use Project

Towson Row will bring 1.2 million square feet of residential units, office space, retail accommodations, as well as student housing and a hotel to downtown Towson, Md.



Hertz Investment Snags Baltimore's Wells Fargo Tower

Natixis provided \$29.3 million in financing, used for the purchase of the asset and to fund tenant improvements and leasing commissions associated with the lease-up of the building.



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

Acting on behalf of Banyan Street Capital, the commercial real estate services firm orchestrated financing for One East Pratt, a 355,000-square-foot downtown building.



Finmarc Continues Suburban MD Shopping Spree

The company acquired a 110,000-square-foot flex/office portfolio in Columbia, Md., shortly after purchasing another, similar portfolio from the same seller in late 2017.



Warfield Cos. Buys, Rebrands Historic Complex

The property comprises 12 buildings—three have been renovated and leased. The new owner will add a residential component and rename the complex Warfield at Historic Sykesville.

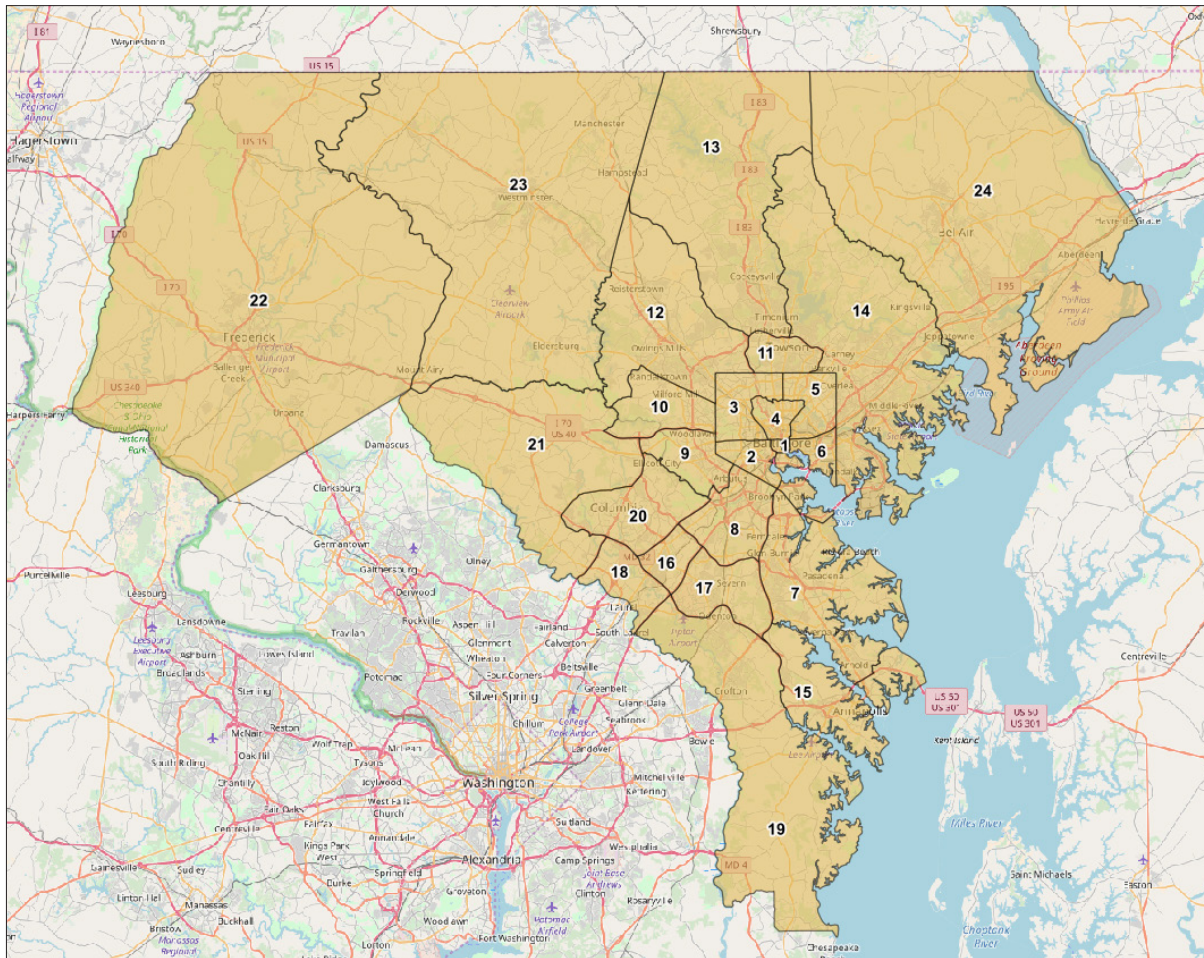


Lee & Associates Hires New Investment VP

Working out of the company's Columbia, Md., office, Brian Streilein will focus on mid-market commercial office, industrial and flex office investment property sales.

Log on to CPExecutive.com to get the latest metro-specific news.

Yardi Matrix Office Submarkets—Metropolitan Baltimore



Area #	Submarket
1	Baltimore CBD
2	Southwest Baltimore
3	Northwest Baltimore
4	Midtown
5	Northeast Baltimore
6	Southeast Baltimore
7	Route 2 Corridor
8	Baltimore Washington International
9	Catonsville
10	Woodlawn
11	Towson
12	Reisterstown Road Corridor

Area #	Submarket
13	Route 83 Corridor
14	East Baltimore County
15	Annapolis
16	Jessup
17	Severn—Fort Meade
18	Laurel
19	Odenton—Crofton
20	Columbia
21	Howard County
22	Frederick
23	Carroll County
24	Harford County

OFFICE REPORT DEFINITIONS AND METHODOLOGY

- Office using employment is defined as all jobs within the Professional and Business Services, Financial Activities and Information sectors.
- Rents shown in the listing section are reported on a Full Service (FSG) basis. Yardi Matrix subscribers have access to both listed rents and FSG equivalent rents.
- Class A and A+/Trophy buildings are combined for reporting purposes.
- Yardi Matrix tracks properties with 50,000 square feet or more.

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.