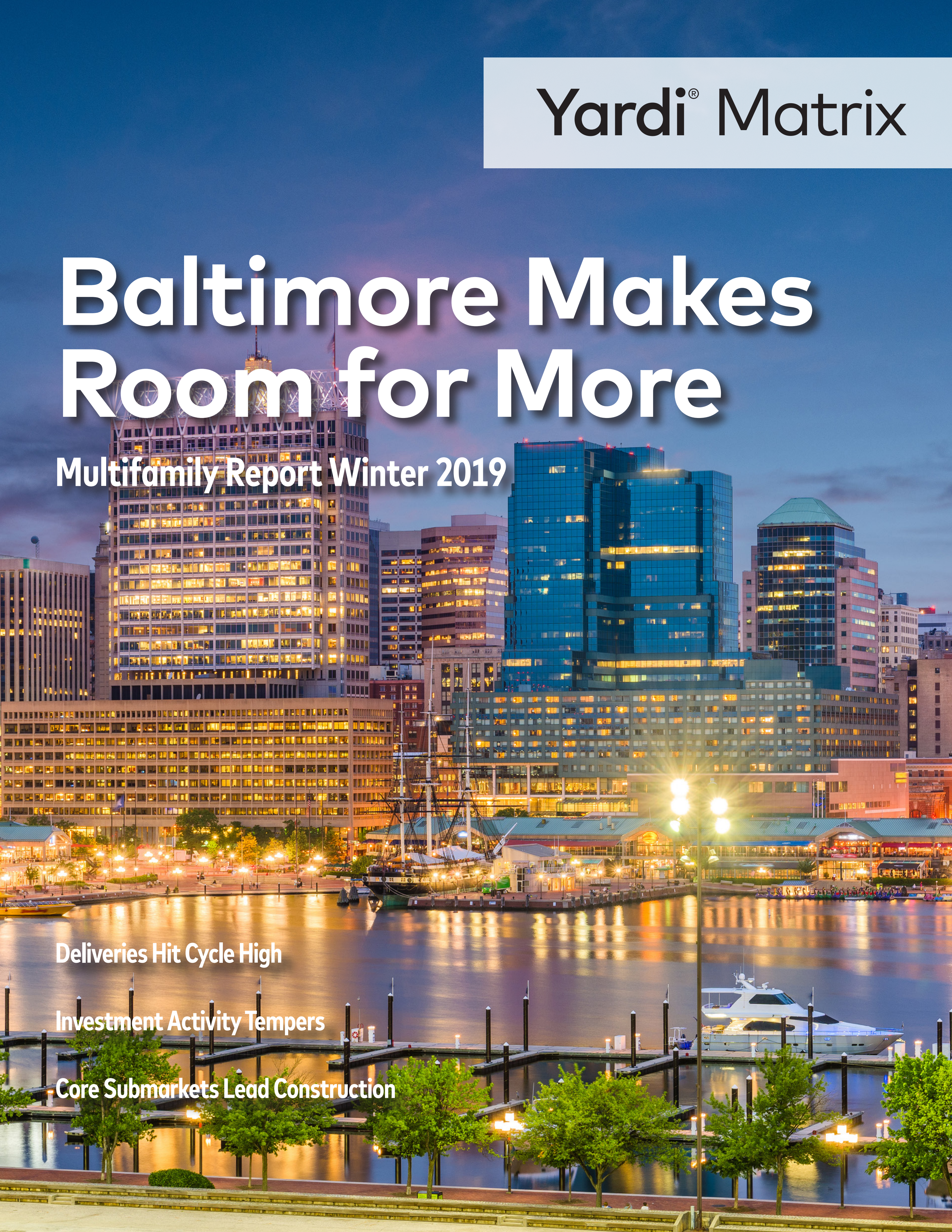
Yardi® Matrix

Baltimore Makes Room for More

Multifamily Report Winter 2019



Deliveries Hit Cycle High

Investment Activity Tempers

Core Submarkets Lead Construction

Market Analysis
Winter 2019

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Accelerating Job Growth Fuels Demand

Boosted by the resurgence of its core, Baltimore remained a relatively stable multifamily market in 2018, albeit underperforming against national averages. Although development hit another cycle peak last year, occupancy in stabilized assets dropped just 10 basis points over 12 months, to 94.4% as of November, showing that Baltimore can still absorb moderate levels of stock expansion.

Employment gains picked up in the second half of 2018, fueling rental demand and helping rent growth rebound in upscale assets. The metro added 38,900 jobs in the 12 months ending in October, with professional and business services generating 16,600 positions. Port Covington and Tradepoint Atlantic, Baltimore's flagship developments, are both moving forward, pointing to developer confidence and further economic expansion.

Investment shifted down a gear in 2018, with only $1.2 billion in multifamily assets changing hands, about $600 million less than in 2017. Baltimore had 5,200 units underway as of December, roughly half of them expected to come online in 2019. With completions slated to meet demand generated by job formation trends and demographic expansion, rent growth is bound to remain tepid in the foreseeable future. We expect the average Baltimore rental rate to advance 1.3% in 2019.

Recent Baltimore Transactions

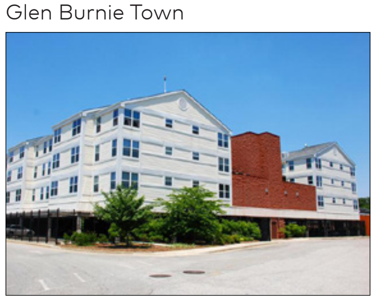
Avalon Arundel Crossing

City: Linthicum, Md.
Buyer: AvalonBay Communities
Purchase Price: $83 MM
Price per Unit: $267,742

Canal Courts and Lanvale Towers

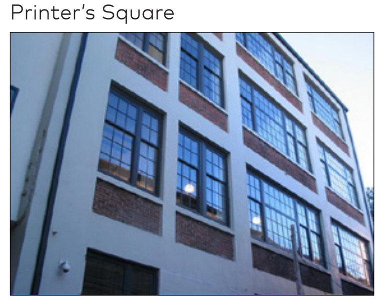
City: Baltimore
Buyer: Lincoln Avenue Capital
Purchase Price: $14 MM
Price per Unit: $43,644

Glen Burnie Town



City: Glen Burnie, Md.
Buyer: Promark Partners
Purchase Price: $7 MM
Price per Unit: $133,519

Printer's Square

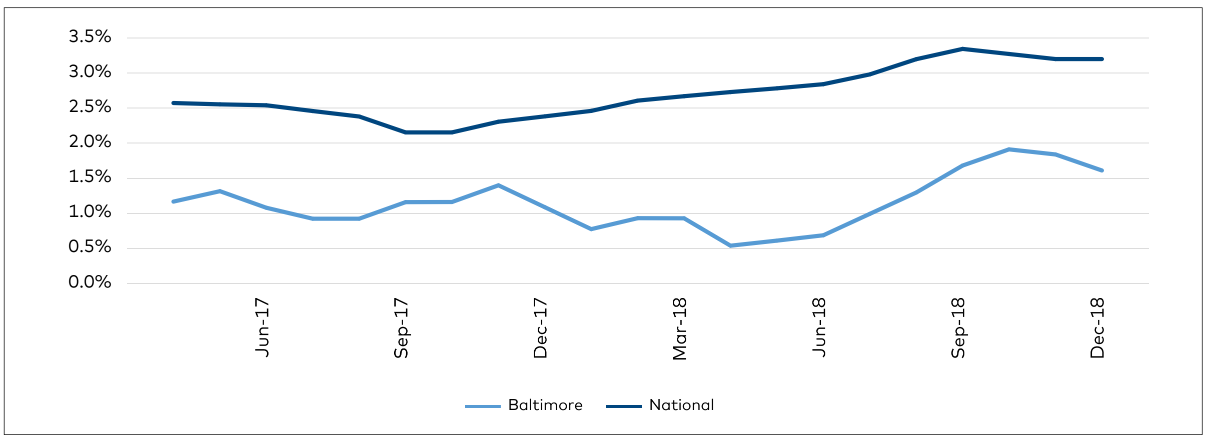


City: Baltimore
Buyer: BCI Management
Purchase Price: $6 MM
Price per Unit: $103,629

Rent Trends

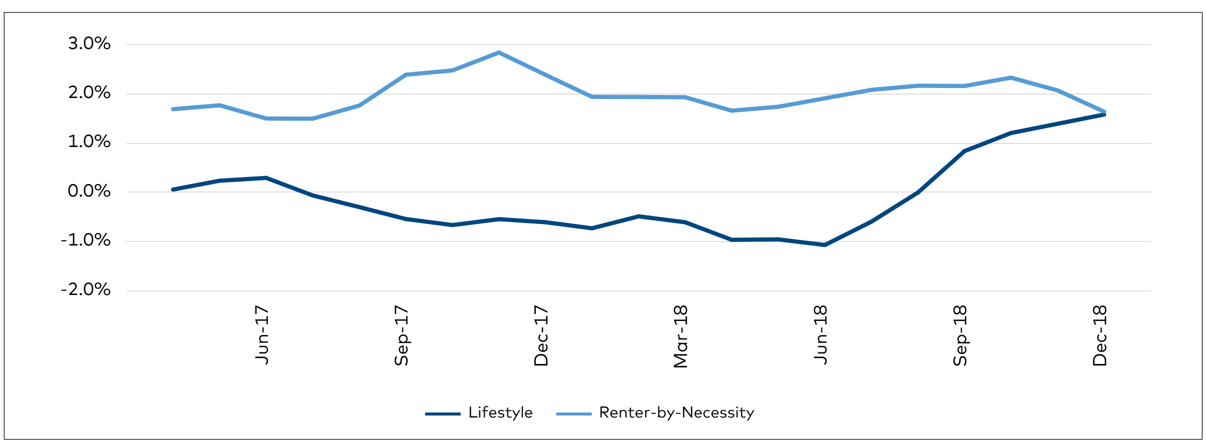
- With supply and demand in relative balance, Baltimore rents were up just 1.6% last year, 160 basis points below the U.S. rate of growth. At $1,324 as of December, the average rent in the metro was just $95 short of the national figure.
- Rents in the working-class Renter-by-Necessity segment advanced 1.6%, reaching $1,176 at the end of the year. Meanwhile, growth in the Lifestyle segment rebounded over 12 months from -0.7% to 1.6% as of December, reaching $1,668. The recovery was partially due to the rapid addition of high-paying jobs, mainly in the professional and business services sector, a fact that has greatly boosted upscale demand.
- Rates advanced across most of the map, with non-core submarkets registering some of the strongest hikes: Howard Park (7.4%), Pimlico (6.4%), Frederick–South (6.3%) and Westminster (5.9%). Meanwhile, rents are contracting or remaining flat in core submarkets with substantial pipelines: Point Breeze (-2.2%), Fells Point (-2.0), the Inner Harbor (-0.4%) and Downtown Baltimore (0.1%).
- With moderate job growth and a still-consistent pipeline, supply and demand are likely to remain in lockstep for the foreseeable future, keeping rent growth tepid. We expect Baltimore rents to advance 1.3% in 2019.

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)

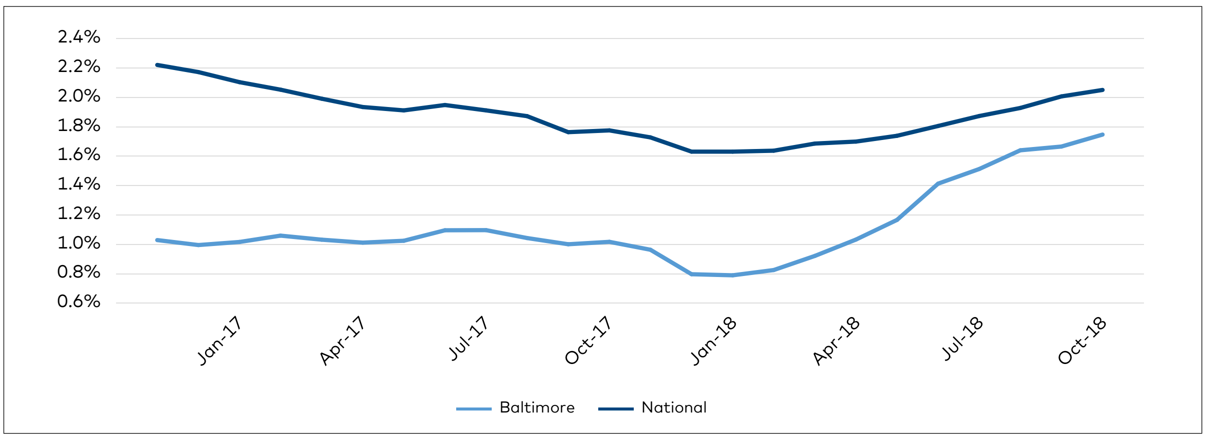


Source: YardiMatrix

Economic Snapshot

- Baltimore gained 38,900 jobs in the 12 months ending in October 2018 for a 1.8% expansion. Mainly due to the rapid addition of professional and business services positions in the second half of 2018, the spread between the Baltimore and the U.S. rate of growth has been closing in, from 80 basis points as of January 2018 to just 30 basis points in October.
- Continuing to be anchored by Johns Hopkins University and associated health-care providers, the metro is steadily diversifying its economy and adding jobs nearly across the board. Professional and business services led growth by far, having added 16,600 positions. Leisure and hospitality and education and health services followed, contributing a total of 16,300 jobs.
- Large-scale projects are slated to reshape vast areas of Baltimore, generating jobs and rental demand along the way. The 3,200-acre Tradepoint Atlantic project in Sparrows Point is moving forward, with the developer recently securing a $78 million infrastructure grant from Baltimore County Council. Meanwhile, the first phase of Sagamore's 18 million-square-foot Port Covington redevelopment project is scheduled to break ground this year, with an expected 2020 completion date. Port Covington is also expected to become a cybersecurity hub, with three companies in the field—DataTribe, AllegisCyber and Evergreen Advisors—inking deals for office space there.

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	%
60	Professional and Business Services	379	18.6%	16,600	4.6%
70	Leisure and Hospitality	199	9.7%	8,700	4.6%
65	Education and Health Services	383	18.8%	7,600	2.0%
90	Government	343	16.8%	4,900	1.4%
80	Other Services	79	3.9%	3,600	4.8%
40	Trade, Transportation and Utilities	326	16.0%	1,600	0.5%
30	Manufacturing	74	3.6%	1,200	1.6%
15	Mining, Logging and Construction	116	5.7%	900	0.8%
50	Information	30	1.5%	-300	-1.0%
55	Financial Activities	115	5.6%	-5,900	-4.9%

Sources: YardiMatrix, Bureau of Labor Statistics

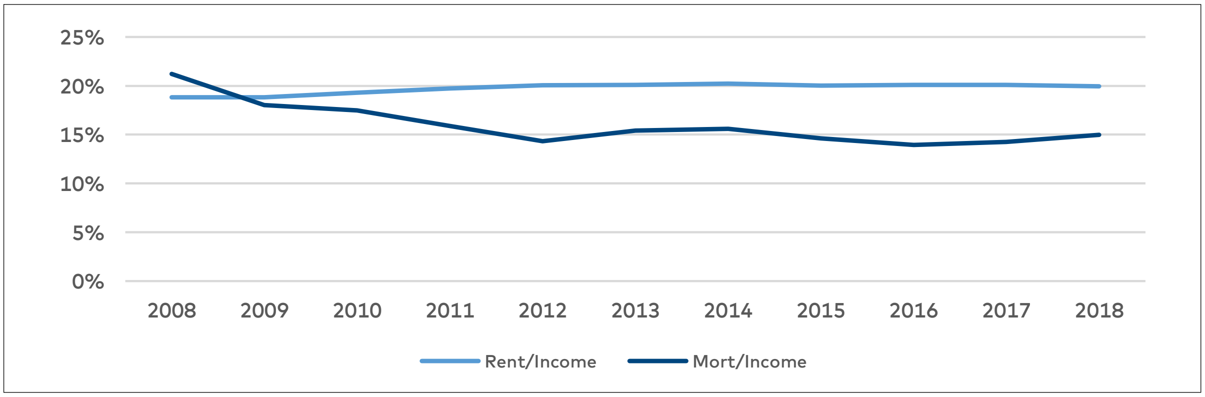
Demographics

Affordability

- The median home price in Baltimore reached $245,799 last year, marking a 2.6% uptick over the 2017 figure. Values have risen moderately since 2011, and Baltimore remains relatively affordable, especially when compared to nearby Washington, D.C., or other large East Coast metros.

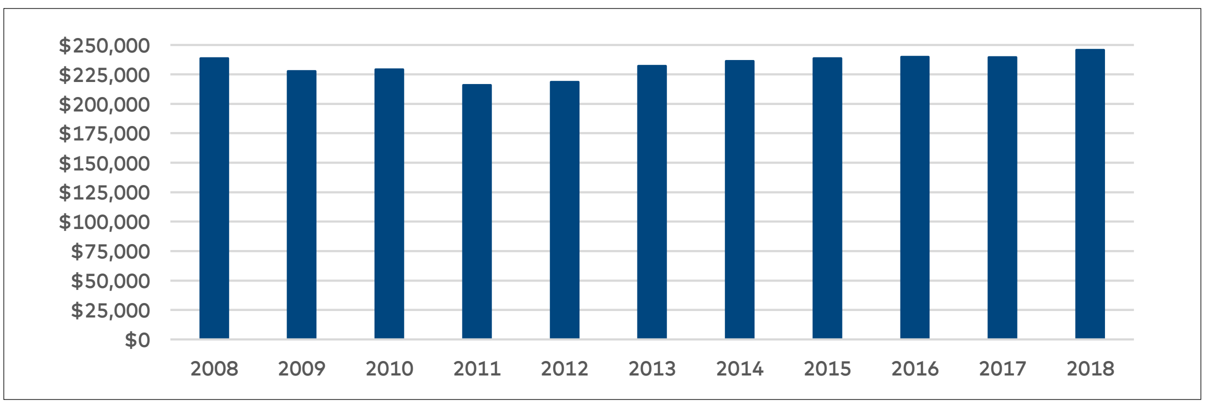
- Owning remains more affordable than renting in Baltimore. The average mortgage payment accounted for roughly 15% of the area's median income, while the average rent encompassed as much as 20% last year.

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 7,147 residents in 2017 for a 0.3% uptick, almost half the 0.7% U.S. figure.

- Baltimore gained more than 90,000 people between 2010 and 2017 for a 3.4% rate of growth.

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

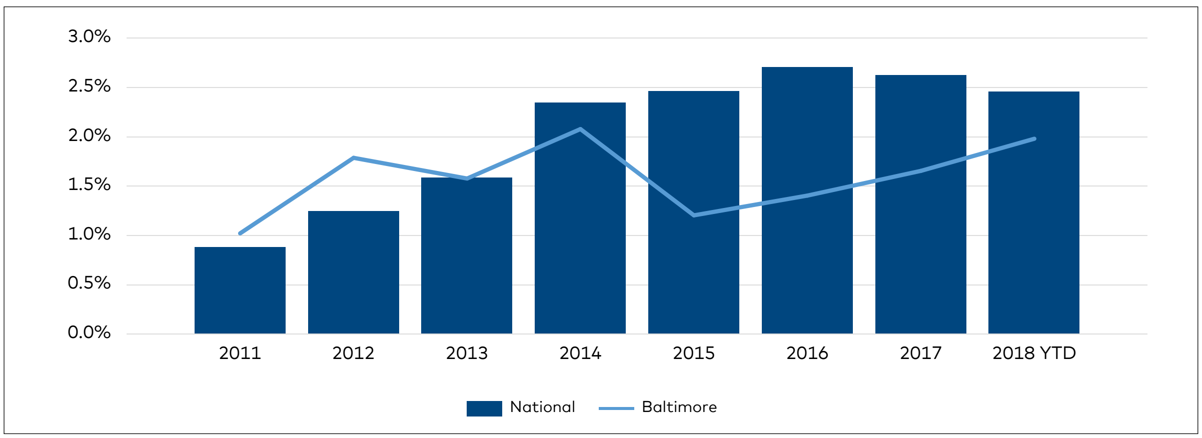
- Baltimore added 4,333 units in 2018, a new cycle high. Last year's deliveries accounted for 2.0% of total stock, 50 basis points below the U.S. average. Of Baltimore's 2018 completions, five communities adding 542 units were fully affordable, with all other properties being Class A/B+.

- The metro's construction surge continues, with 5,200 units underway as of December and another 28,000 units in the planning and permitting stages. Considering project delays and the lingering shortage of construction workers, we expect 2,550 units to come online in Baltimore in 2019.

- Developers are betting on growth in the longer run, continuing to target core submarkets. Projects in Fells Point (937 units underway), the Inner Harbor (672 units), Downtown Baltimore (559 units) and Point Breeze (371 units) accounted for half of the metro's total pipeline at the end of 2018.

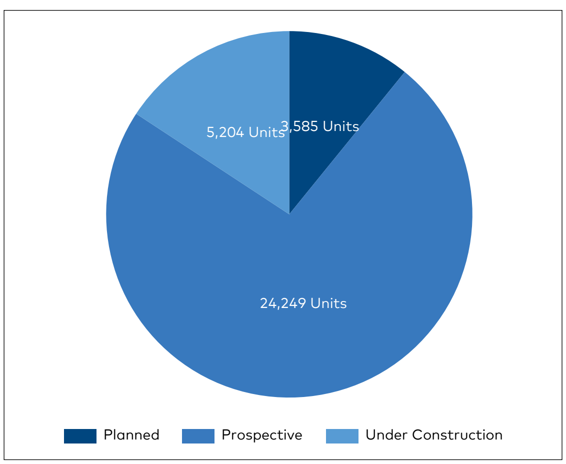
- The largest community slated for delivery in 2019 is Questar's upscale tower at 414 Light St. in the Inner Harbor. Residents are already moving into the high-rise's first floors and the project is set for full completion by the end of the year.

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



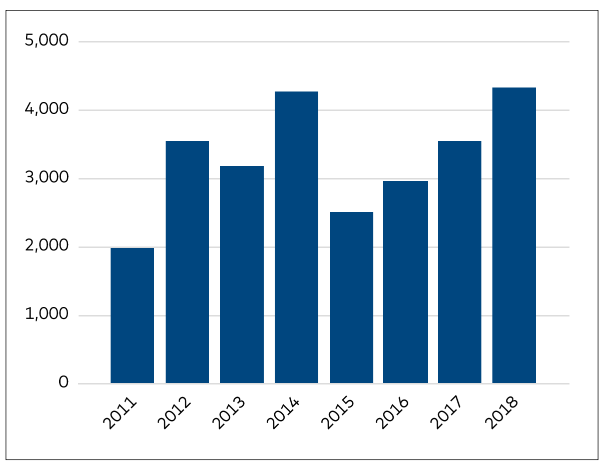
Source: YardiMatrix

Development Pipeline (as of December 2018)



Source: YardiMatrix

Baltimore Completions (as of December 2018)

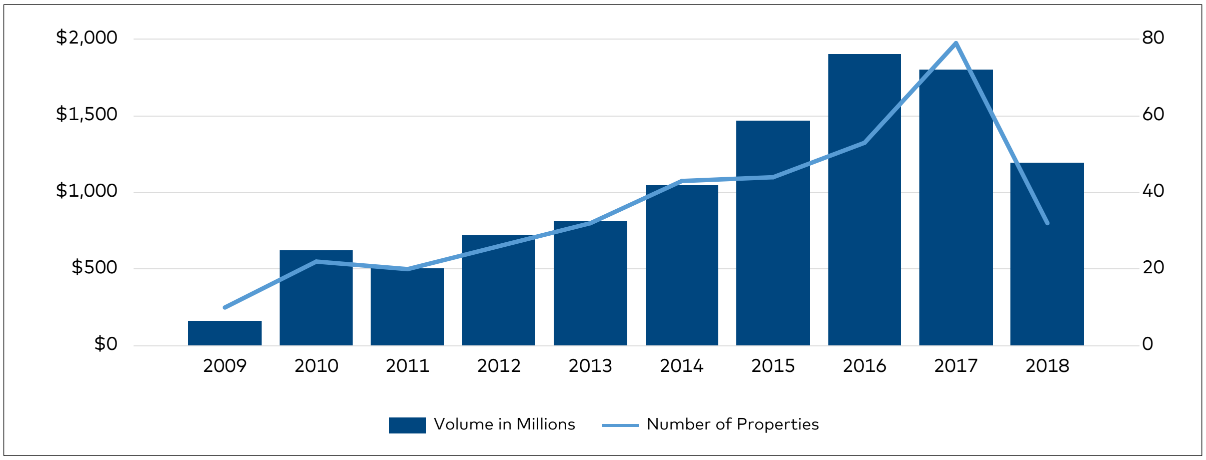


Source: YardiMatrix

Transactions

- Roughly $1.2 billion in multifamily assets traded last year in Baltimore, a significant drop from 2017's $1.8 billion. Out-of-state investors continued to be active and yields remained stable, ranging from the 4.0%-5.0% band for Class A assets, to roughly 8.0% for Class C value-add properties.
- The average Baltimore unit traded for roughly $165,000 last year, up a strong 25% over 2017 and outperforming the $153,765 U.S. average.
- Investors mostly focused on suburban value-add plans, with only one-third of the 7,735 units trading in 2018 being located within Baltimore's city limits. Northern suburbs and submarkets close to the Washington-Baltimore corridor topped the list last year: Murray Hill ($144 million), Towson ($133 million), Reisterstown ($110 million), Odenton ($94 million) and Glen Burnie ($90 million).

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



Source: YardiMatrix

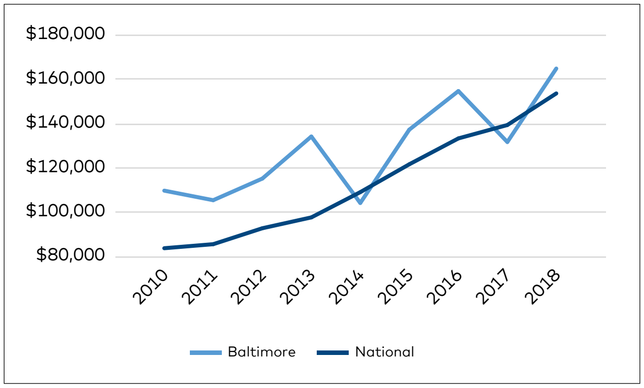
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Murray Hill	144
Towson	133
Reisterstown	110
Odenton	94
Glen Burnie	90
Annapolis	89
Frederick–South	64
Middletown	56

Source: YardiMatrix

[1] From January 2018 to December 2018

Baltimore vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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NKF Closes $76M Sale of Luxury MD Property

Built in 2016, the 236-unit The James is situated in Annapolis, one of the region's most desirable rental markets.

Promark Buys Baltimore-Area Community

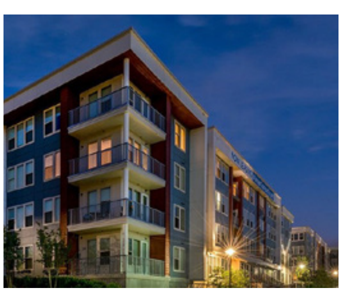
The firm acquired the 54-unit Class B community in Glen Burnie for more than $7 million, using a $6.1 million acquisition loan.

Lincoln Avenue Enters Baltimore Market

The buyer financed the roughly $14 million purchase of the fully affordable community with a $14 million acquisition and development loan.

First Phase of Center/West Development Opens

Once completed, the $800 million project is expected to include 2,853 apartment units across approximately 30 buildings.



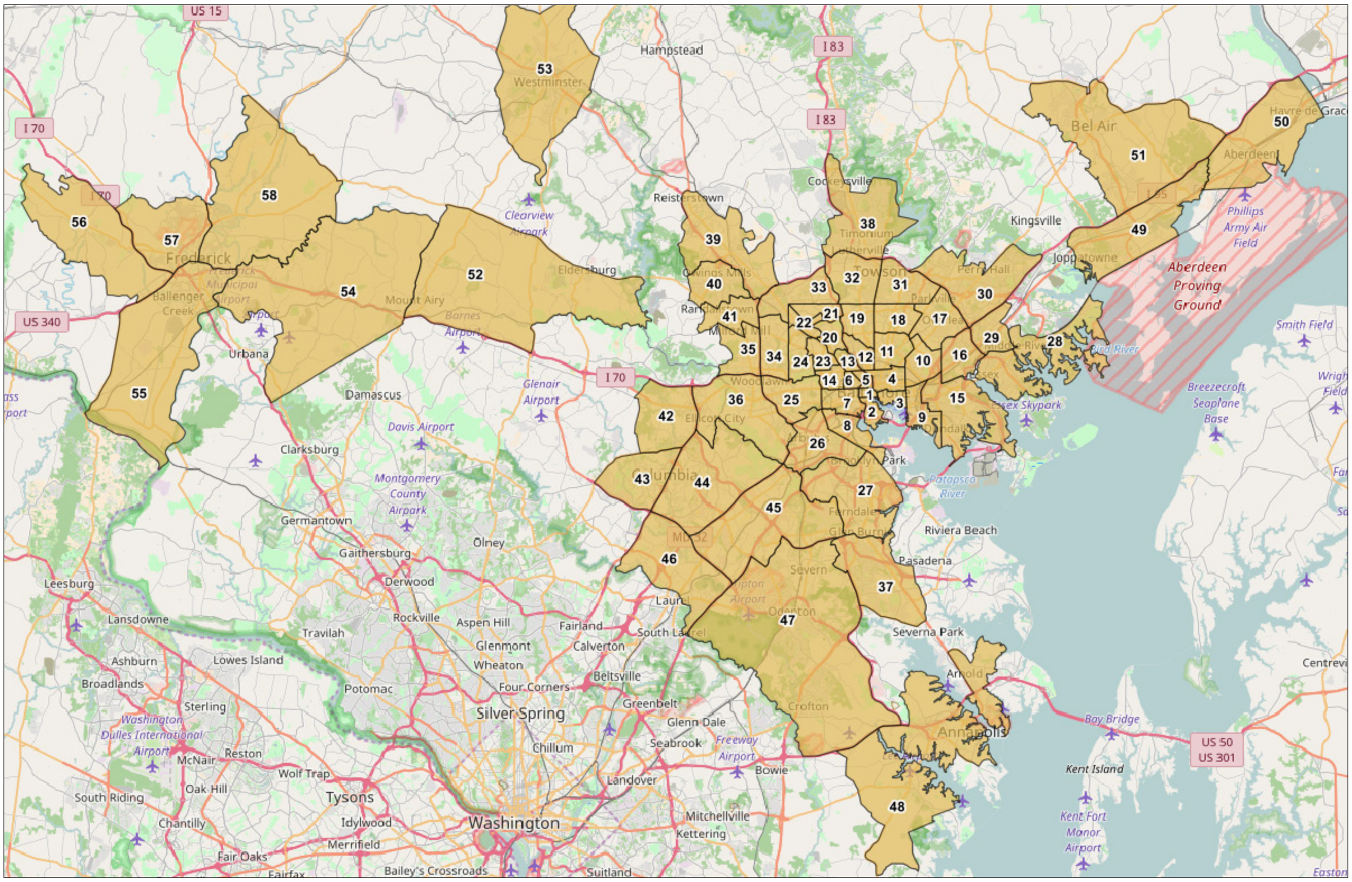
AvalonBay Acquires $83M Suburban Luxury Asset

A joint venture of Trammell Crow and an affiliate of Western & Southern Financial Group sold the Linthicum community.

Sage Management Adds 687 Units In Maryland

The company paid $113 million for the two properties, which will be owner-managed and are slated for upgrades.

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	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	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.