Yardi® Matrix

Steady Baltimore

Multifamily Report Summer 2019

Rent Growth Inches Up

Development, Transactions Cool Down

Professional, Business Services Sustain Demand

Market Analysis

Summer 2019

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Absorption Keeps Up the Pace

Riding the wave of employment gains in high-paying industries, Baltimore's multifamily market is recording strengthened fundamentals as the year's second half advances. The average rent in the metro was up 2.8% year-over-year through July, marking a visible improvement from one year prior, when rates in the Lifestyle sector were contracting, although it trails the U.S. figure. And while 2018 marked another development-cycle high, absorption remained healthy and the occupancy rate in stabilized properties inched up 40 basis points over 12 months, reaching 95.0% as of June.

Baltimore gained 11,700 jobs for a 0.8% uptick, roughly half the U.S. rate of growth, with professional and business services and education and health services offsetting losses across several other sectors. Although the metro's employment market is spotty, several multi-phase, multibillion-dollar projects are moving forward, including Howard Hughes' Merriweather District in Columbia, Sagamore's $5.5 billion Port Covington and the roughly 3,100-acre Tradepoint Atlantic redevelopment in Sparrows Point.

Both development and transactions shifted down a gear in the first half of 2019, with 704 units delivered and less than $400 million in assets trading through July. With overall supply and demand close to a stable balance, we expect rent growth to remain tepid for the year, below the U.S. average.

Recent Baltimore Transactions

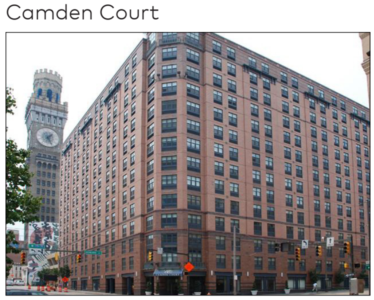
Rodgers Forge

City: Baltimore
Buyer: UDR
Purchase Price: $86 MM
Price per Unit: $173,038

The Reserve at Ballenger Creek

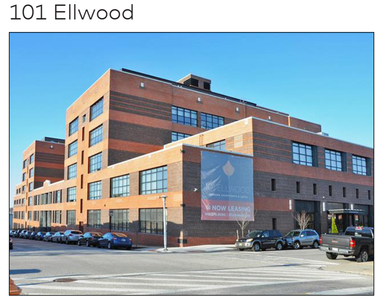
City: Frederick, Md.
Buyer: Hamilton Zanze & Co.
Purchase Price: $39 MM
Price per Unit: $188,725

Camden Court



City: Baltimore
Buyer: Tryko Partners
Purchase Price: $35 MM
Price per Unit: $158,371

101 Ellwood



City: Baltimore
Buyer: Waypoint Residential
Purchase Price: $27 MM
Price per Unit: $189,286

On the cover: Photo by Vito Palmisano/iStockphoto.com

Rent Trends

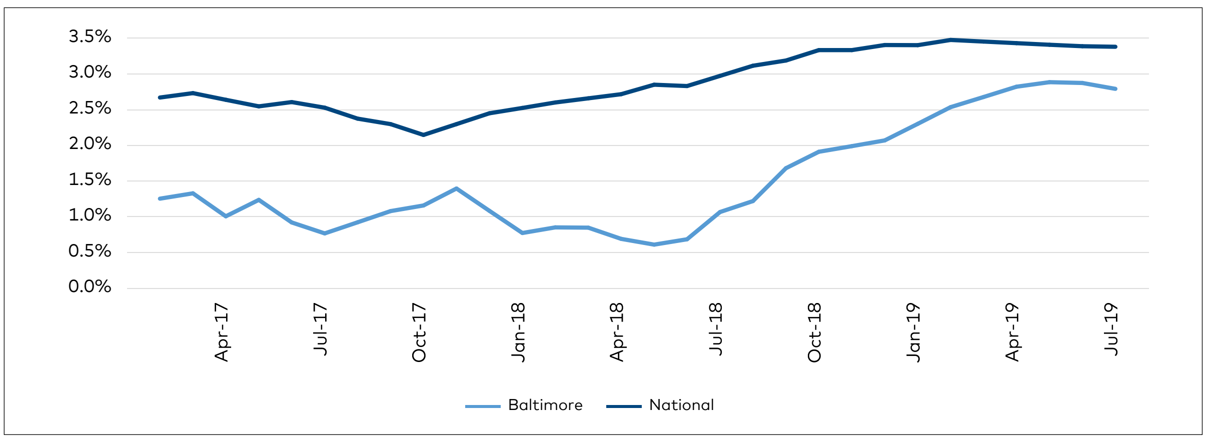
- Baltimore rents were up 2.8% year-over-year through July, 60 basis points behind the U.S. rate of growth. After hovering below the 1.0% mark during the first half of 2018, rent growth has steadily picked up steam, largely due to rising upscale demand. The average overall Baltimore rent reached $1,363 in July, roughly $100 below the national figure.

- Bucking historic and national trends, Lifestyle rents led growth, with the average advancing 3.2%, to $1,732. Meanwhile, rents in the significantly larger working-class Renter-by-Necessity segment were up 2.4%, reaching $1,203. After recording negative growth just 12 months prior, rents in upscale communities got a strong boost from the accelerated addition of professional and business services jobs over the past 12 months, one of Baltimore's strongest demand drivers in the past four quarters.

- Rent growth is spotty across the map, with expensive, high-supply core submarkets continuing to underperform. The list includes Fells Point (-2.2% to $2,116), Midtown (-1.2% to $1,446), Johns Hopkins (-0.3% to $1,532) and Downtown (-1.2% to $1,421).

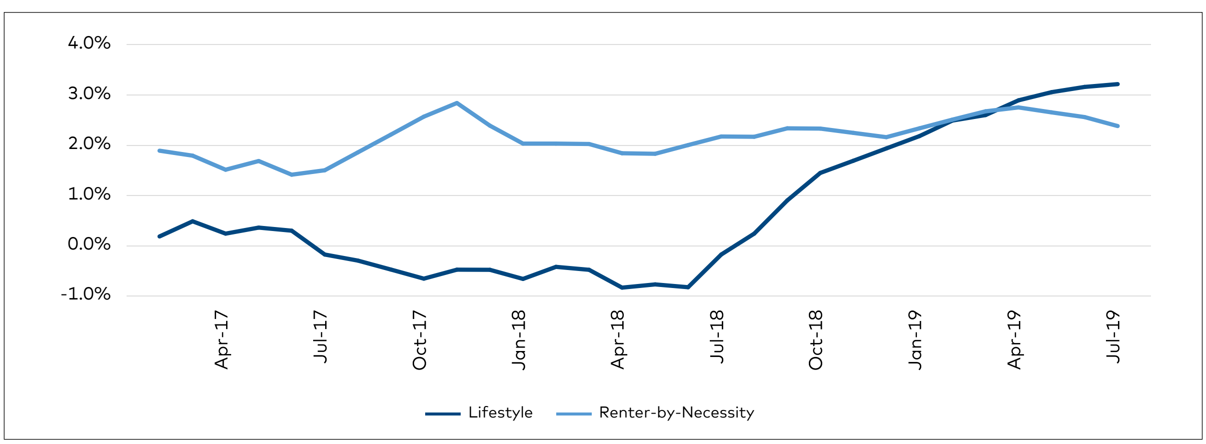
- With supply and demand in relative balance and considering the slow pace of demographic expansion, we expect Baltimore rent growth to remain tepid for the rest of 2019, below the U.S. average rate.

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

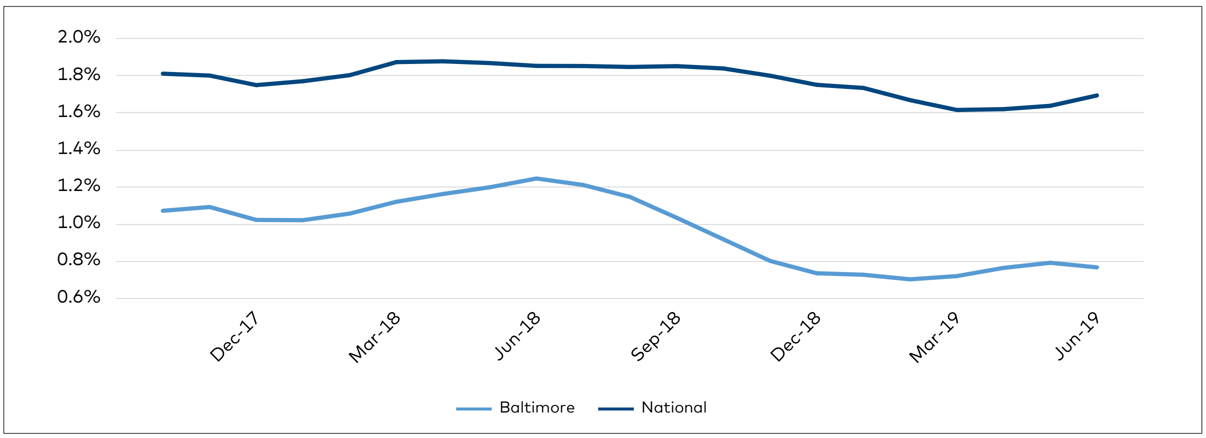
Economic Snapshot

- Metro Baltimore gained 11,700 jobs in the 12 months ending in June, which marked a 0.8% expansion, trailing the 1.7% U.S. figure. Professional and business services and education and health services added 14,400 positions, offsetting significant losses across several sectors. Although the employment market is a mixed bag overall, the metro is adding high-paying positions at a fast pace, a trend that is likely to create further housing demand.

- After bleeding jobs for decades, Baltimore's manufacturing sector is slowly finding its footing, having gained 3,000 positions in the 12 months ending in June, for a 4.0% expansion. The ongoing redevelopment of the 3,100-acre Sparrows Point, a former staple of the metro's manufacturing prowess and currently one of the country's largest brownfield sites, is likely to offer the sector a significant boost in the near future, while also fueling the area's logistics sector.

- Baltimore is also ripe for further growth in the tech sector. In CBRE's latest U.S. Tech Talent report, the metro ranked 14th out of 50, ahead of Portland, Ore., San Diego, Phoenix and Los Angeles. Baltimore's addition of high-paying jobs is also mirrored by the office pipeline: According to Yardi Matrix data, the metro added more than 6 million square feet of office space over the past five years and had an additional 1.3 million square feet underway as of late-August.

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 (000)	Current Employment % Share	Year Change Employment	Year Change %
60	Professional and Business Services	380	18.6%	10,000	2.7%
65	Education and Health Services	378	18.5%	4,400	1.2%
30	Manufacturing	78	3.8%	3,000	4.0%
70	Leisure and Hospitality	208	10.2%	100	0.0%
50	Information	30	1.5%	-400	-1.3%
90	Government	336	16.4%	-600	-0.2%
55	Financial Activities	117	5.7%	-700	-0.6%
80	Other Services	77	3.8%	-1,100	-1.4%
15	Mining, Logging and Construction	116	5.7%	-1,100	-0.9%
40	Trade, Transportation and Utilities	323	15.8%	-1,900	-0.6%

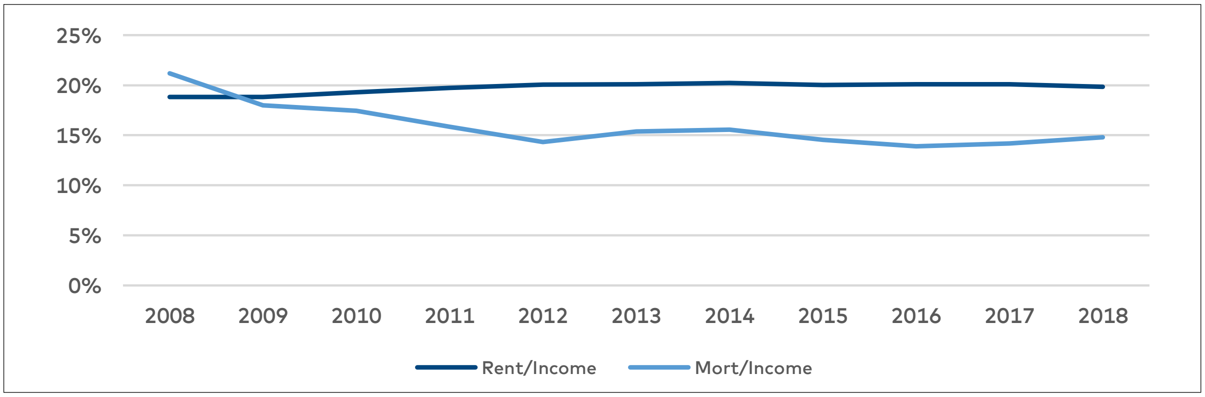
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

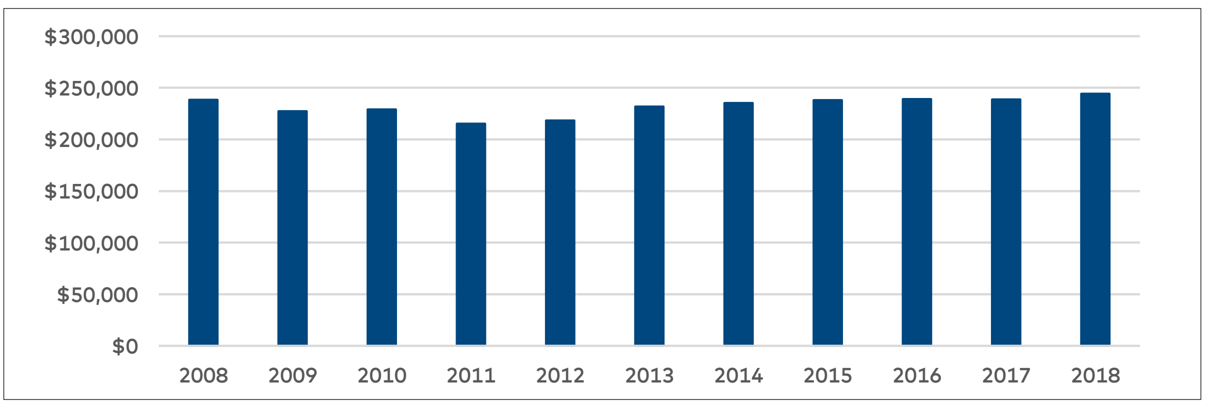
- Baltimore's median home price climbed to $244,099 in 2018, up 2.2% since the previous year. The metro remains relatively affordable, especially for a coastal market: Last year, the average rent accounted for 20% of the area median income, while the average mortgage payment equated to 15%.
- Although relatively affordable overall, Baltimore is no stranger to the nationwide housing issue unfolding in recent years. According to Freddie Mac research, the amount of multifamily rental units considered affordable to very low-income households in metro Baltimore shrank by 14.1% between 2010 and 2017.

Baltimore Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Baltimore Median Home Price



Source: Moody's Analytics

Population

- Metro Baltimore added 92,672 residents between 2010 and 2017, which marked a 3.4% demographic expansion.
- The metro gained more than 7,000 people in 2017 alone, a 0.3% uptick.

Baltimore vs. National Population

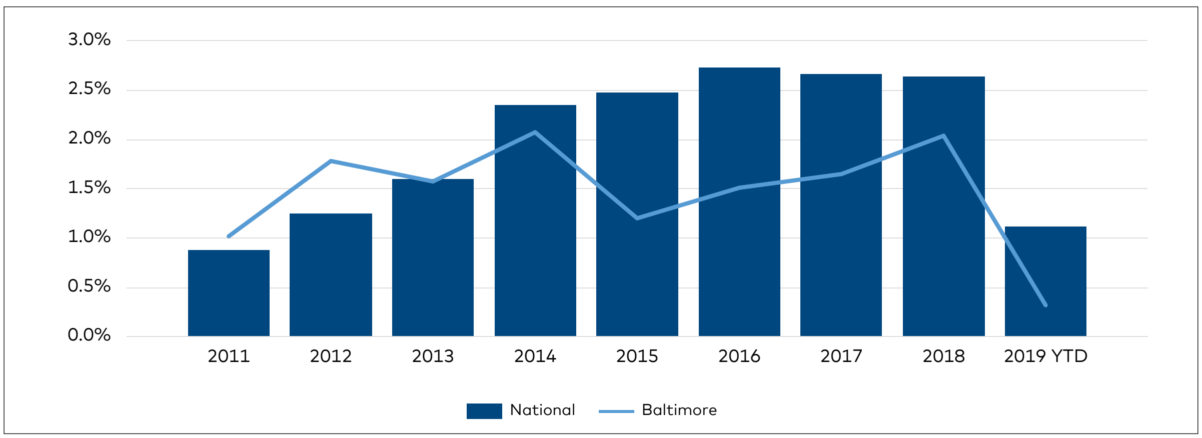
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Baltimore Metro	2,771,586	2,784,424	2,795,036	2,801,028	2,808,175

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

Supply

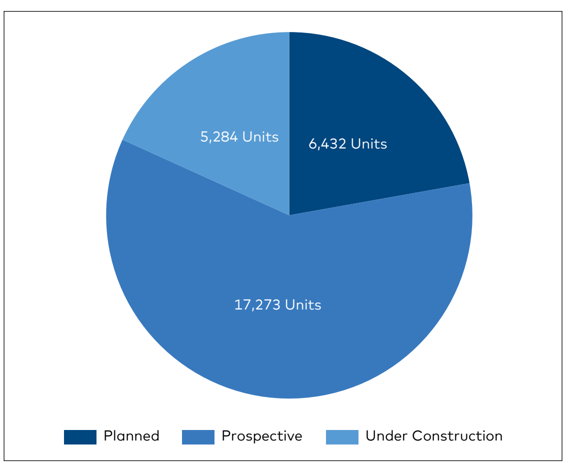
- Completions shifted down a gear in the first half of 2019, with only three properties totaling 704 units coming online in the metro through July. However, Baltimore had an additional 5,284 units underway as of mid-year, nearly 1,700 of which are slated for completion before January 2020. The metro also had 23,705 apartments in the planning and permitting stages as of July.
- This year's slower pace comes on the heels of a strong 2018, when 4,474 apartments were delivered, for a new cycle high. A total of nearly 12,000 units came online across the metro since the beginning of 2016, a surge that was partially supported by the ongoing revival of the market's core. Of the 60 properties that came online in the last three years and a half, 27 are located within 3 miles of downtown Baltimore.
- Core Baltimore submarkets continue to lead the pipeline, with Little Italy (655 units underway) and Downtown (640 units) at the top of the list. Even so, development in the suburbs remains significant, as nearly half of all units underway as of July were in projects outside Baltimore's city limits.

Baltimore vs. National Completions as a Percentage of Total Stock (as of July 2019)



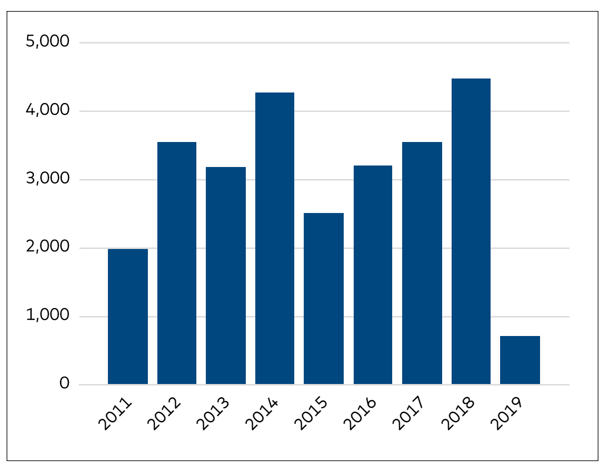
Source: YardiMatrix

Development Pipeline (as of July 2019)



Source: YardiMatrix

Baltimore Completions (as of July 2019)

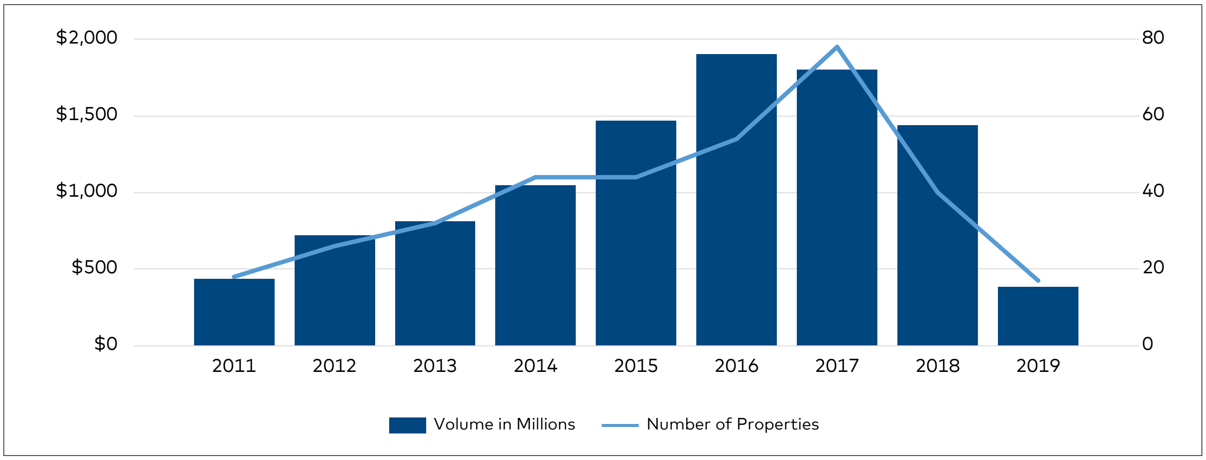


Source: YardiMatrix

Transactions

- After peaking at almost $2 billion in 2016, Baltimore transaction volumes decreased steadily, with only $385 million in multifamily assets trading this year through July. Nonetheless, per-unit prices remained virtually on par with the national average: For the first seven months of 2019, the metro's average price per unit was $157,703, just $150 above the U.S. figure.
- The suburbs continued to dominate the market. Of the $1.2 billion in assets transacted in the 12 months ending in July, only 14 properties—worth a combined $293 million—traded within city limits.
- New Jersey-based Geller Associates was one of the metro's most active buyers in the 12 months ending in July. The company acquired four Class C properties totaling 618 units for nearly $50 million, or about $80,000 per unit.

Baltimore Sales Volume and Number of Properties Sold (as of July 2019)



Source: YardiMatrix

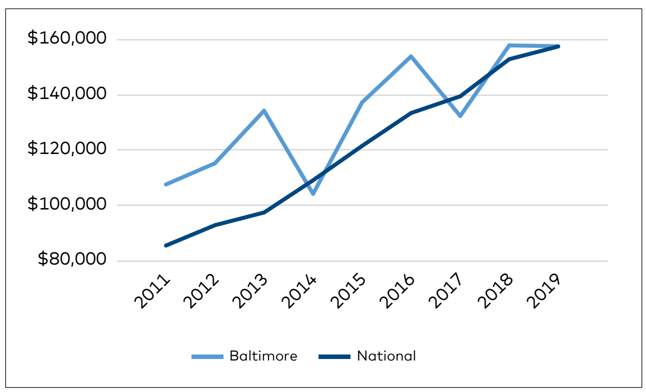
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Towson–Northeast	233
Annapolis	131
Frederick–South	95
Owings Mills	89
Towson–Southwest	86
Hanover–Severn	83
Windsor Mill	51
Columbia	49

Source: YardiMatrix

[1] From August 2018 to July 2019

Baltimore vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Maryland Apartments Change Hands

Newmark Knight Frank facilitated a $61.8 million acquisition loan for the sale of Concord Park at Russett, a 335-unit community in Laurel.

Harbor East, Bozzuto Group Open Luxury High-Rise

Dubbed Liberty Harbor East, the 22-story community is situated on the site of a former Bethlehem Steel shipyard.

$1B Redevelopment Breaks Ground In Baltimore

The city's housing authority started the first phase of a six-year plan that will create 1,345 new residential units, as well as a variety of community resources and services.

Light Street Warehouse Becomes Apartments

The Mid-Atlantic Multifamily Group of Transwestern Commercial Services has been named the exclusive advisor for the adaptive-reuse project.

Locust Point Luxury Asset Lands Refi

Hunt Real Estate Capital arranged the Fannie Mae financing for a partnership between local developer Mark Sapperstein and Kinsley Equities.

Avanath Buys Maryland Senior Community

Delivered in 2006, the 102-unit Victoria Park at Edgewater in Anne Arundel County traded for a little over $11.3 million.

Executive Insight

Brought to you by:

Brightview Senior Living's CEO on Markets, the Urban Push

By Joe Gose

Since opening its first community 20 years ago, Brightview Senior Living has established itself as a leading developer and operator of independent and assisted living and dementia-care facilities across eight Mid-Atlantic and Northeast states. The company, based in Baltimore, will open its 40th community by the end of 2019 and intends to continue opening three to five new communities annually.

Marilynn Duker, CEO of Brightview, discusses the challenges and fundamentals of markets where the company has an established presence, as well as ways of attracting residents.

Tell us how Brightview began and why senior living appeals to you.

Senior living is really an operating business that happens to have real estate as a platform, so it's much different than other real estate asset classes. Arnie Richman, who had built and ran a large nursing home company, joined us in the 1990s and brought the operating experience, and we had the development platform.

While we have grown significantly over the last 20 years, getting to scale wasn't a big goal. Instead, it has always been about providing a high-quality experience to our residents.

What are the biggest challenges you face?

Just as people are our greatest strength and differentiator, finding qualified employees in a tight labor market poses the biggest challenge. As we've scaled to eight states, we have more than 300 department heads and directors hiring housekeepers, resident care assistants, dining room staff and other frontline associates who work with residents every day. As we've grown, we've focused on ensuring that all of those 300 people truly live and breathe Brightview's culture and can assess whether a candidate has what it takes to be successful.

Brightview's portfolio extends from Virginia to Massachusetts. How would you characterize these markets?

They are marked by high density and high wealth, and they have high barriers to entry—there's not a lot of land and it's very hard to get zoning and entitlements approved. It makes supply somewhat more predictable than if we were building in, say, Texas or Atlanta.

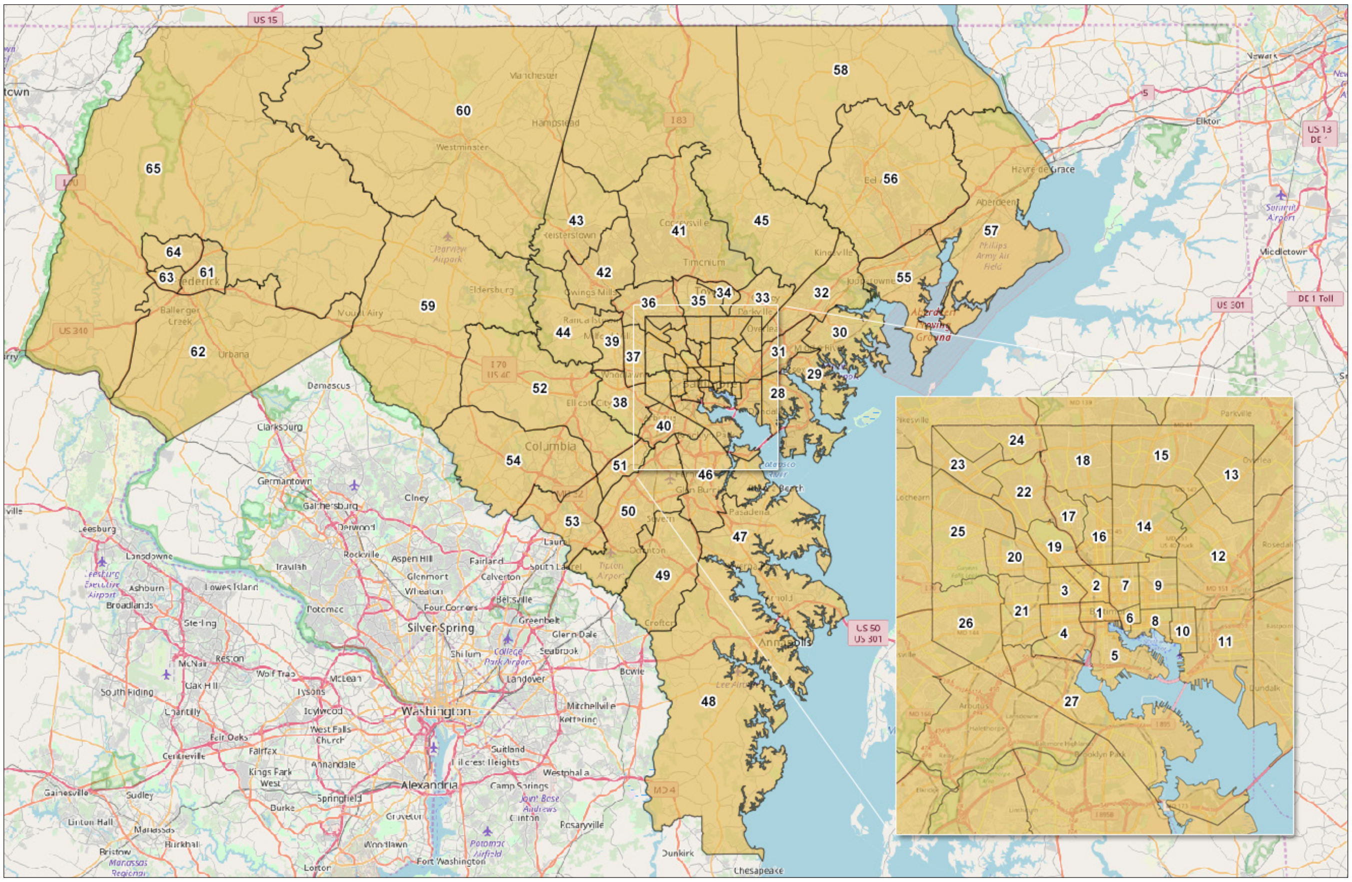
But both national and regional players understand why these are good markets, and we have seen an increasing amount of supply in the last couple of years.

How do you market to potential residents?

Ten years ago, somebody would drive by a community, see our sign and call us—that was our biggest source of leads. Now people do research on the internet. We've invested a lot to drive traffic to our website, including videos featuring leadership and associates that are designed to give prospects a good sense of who we are. As a result, we've seen a dramatic increase in the number of quality internet leads.

(Read the complete interview on multihousingnews.com)

Baltimore Submarkets



Area #	Submarket
1	Baltimore–Downtown
2	Baltimore–Midtown
3	Baltimore–Upton
4	Baltimore–Poppleton
5	Baltimore–South
6	Baltimore–Little Italy
7	Baltimore–Oldtown
8	Baltimore–Fells Point
9	Baltimore–Middle East-Washington Hill
10	Baltimore–Brewers Hill
11	Baltimore–Southeast
12	Baltimore–Herring Run Park
13	Baltimore–Hamilton
14	Baltimore–Waverly
15	Baltimore–Northeast
16	Baltimore–Johns Hopkins
17	Baltimore–Hampden
18	Baltimore–Roland Park
19	Baltimore–Reservoir Hill
20	Baltimore–Mondawmin
21	Baltimore–Edmondson
22	Baltimore–Pimlico

Area #	Submarket
23	Baltimore–Glen-Fallstaff
24	Baltimore–Cheswolde
25	Baltimore–Northwest
26	Baltimore–West
27	Baltimore–Morrell Park-Cherry Hill
28	Dundalk
29	Essex
30	Middle River
31	Rosedale
32	Nottingham
33	Parkville
34	Towson–Northeast
35	Towson–Southwest
36	Pikesville
37	Gwynn Oak
38	Catonsville
39	Windsor Mill
40	Halethorpe
41	Cockeysville
42	Owings Mills
43	Reisterstown
44	Randallstown

Area #	Submarket
45	Northern Baltimore County
46	Glen Burnie
47	Pasadena–Arnold
48	Annapolis
49	Odenton
50	Hanover–Severn
51	Elkridge
52	Ellicott City
53	Laurel
54	Columbia
55	Edgewood
56	Bel-Air
57	Aberdeen
58	Northern Harford County
59	Sykesville–Mount Airy
60	Westminster
61	Frederick–East
62	Frederick–South
63	Frederick–West
64	Frederick–North
65	Outlying Frederick County

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.

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