

Yardi® Matrix

MULTIFAMILY REPORT

Moderation Is Key In Baltimore

Winter 2020



Deliveries Mark Cycle Low

Rent Growth Decelerates Slightly

High-Paying Sectors Sustain Demand

BALTIMORE MULTIFAMILY

Yardi® Matrix

Downtown Resurgence Powers Charm City

Baltimore's emerging economic opportunities, bolstered by its downtown revitalization, continued to boost the metro's multifamily market. Rent growth was relatively steady last year but remained 110 basis points below the 3.0% national average, partially kept in check by a dwindling pipeline. Meanwhile, the occupancy rate in stabilized properties went up 10 basis points in the 12 months ending in November, to 94.7%.

The metro gained 28,400 jobs for a 1.0% uptick, below the 1.8% national rate. Professional and business services led expansion, adding 11,900 jobs in the 12 months ending in November, while education and health services and leisure and hospitality gained almost the same number of positions combined. These three sectors—which offset some losses across other industries—will likely continue to grow in the foreseeable future, with support from a highly educated and skilled talent pool and from several projects currently underway. The list of major developments includes the multibillion-dollar Port Covington mixed-use project and the 3,100-acre Tradepoint Atlantic, slated to reach full development in 2025.

Investment and development softened in 2019. Less than \$1 billion in multifamily assets traded last year for an average per-unit price of \$165,708. Meanwhile, developers added only 1,833 units, with an additional 5,028 apartments underway as of January.

Market Analysis | Winter 2020

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

Ron Brock, Jr.

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

Author

Anca Gagiuc

Associate Editor

On the cover: Photo by Sean Pavone/iStockphoto.com

Recent Baltimore Transactions

Concord Park at Russett



City: Laurel, Md.
Buyer: Starwood Capital Group
Purchase Price: \$87 MM
Price per Unit: \$258,806

209@Pickwick



City: Baltimore
Buyer: Quest Management Group
Purchase Price: \$72 MM
Price per Unit: \$109,832

322 Baldwin



City: Odenton, Md.
Buyer: The Duffie Cos.
Purchase Price: \$61 MM
Price per Unit: \$288,679

Berkshires at Town Center

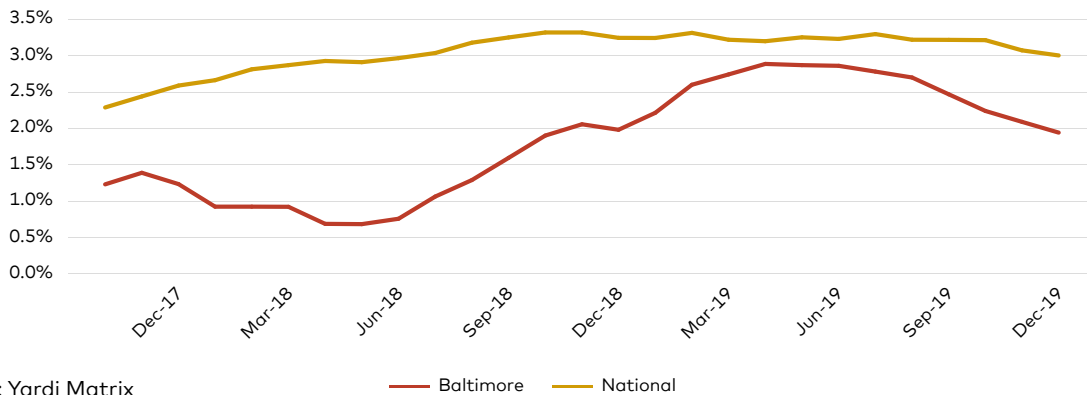


City: Towson, Md.
Buyer: AJH Management
Purchase Price: \$40 MM
Price per Unit: \$198,492

RENT TRENDS

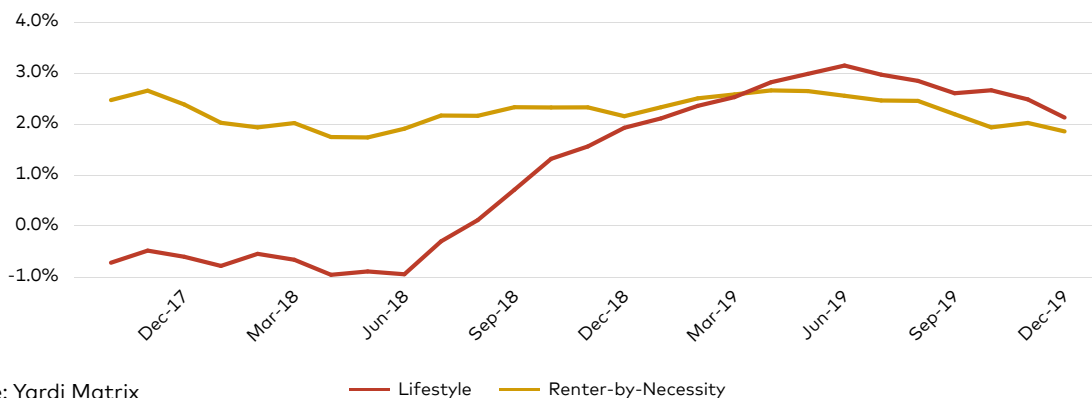
- ▶ Baltimore rents rose 1.9% last year, 110 basis points behind the national figure. While staying in the 2.0% to 3.0% band throughout 2019, the metro's year-over-year rent growth decelerated slightly over the past two quarters. The average Baltimore rent stood at \$1,363 in December, \$111 below the national figure.
- ▶ Rents in the upscale Lifestyle segment led growth for most of 2019, favored by the consistent addition of high-paying jobs, mainly in the professional and business services sector. The average rent was up 2.1% last year, reaching \$1,723. Meanwhile, rates in the working-class Renter-by-Necessity segment advanced 1.9% to \$1,204.
- ▶ Growth was uneven across the map, with suburban submarkets registering some of the largest gains, including Frederick–North (7.9% to \$1,508), Frederick–South (7.6% to \$1,530), Aberdeen (5.8% to \$1,348) and Pikesville (4.9% to \$1,463). Rents contracted slightly within or close to the city core: Midtown (-1.9% to \$1,419), Brewers Hill (-1.7% to \$1,916), Fells Point (-1.6% to \$2,103), Johns Hopkins (-1.4% to \$1,515) and Downtown (-1.4% to \$1,453). These five submarkets alone added 3,294 new units to the city's stock over the past five years.
- ▶ In the context of decelerating development last year, the occupancy rate in stabilized properties inched up 10 basis points over 12 months, to 94.7% as of November.

Baltimore vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

Baltimore Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

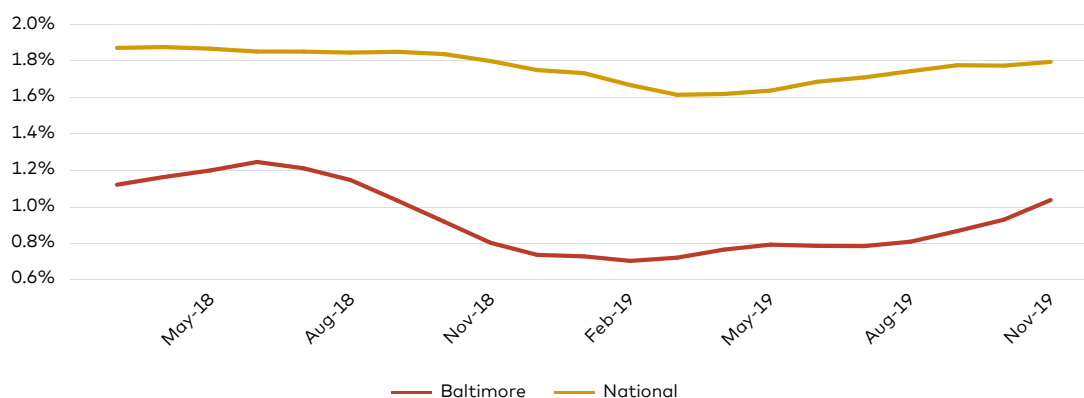
ECONOMIC SNAPSHOT

- ▶ Metro Baltimore gained 28,400 jobs in the 12 months ending in November, marking a 1.0% expansion, nearly 80 basis points below the national figure. The unemployment rate stood at 3.3% in October, outperforming the national average by 30 basis points.
- ▶ Employment growth was spotty, led by the professional and business services sector, which gained 11,900 positions. Education and health services and leisure and hospitality rounded out the podium, adding 12,700 positions combined. Many of these gains translated into new high-paying positions, supported by Baltimore's highly educated talent pool and by demographic

expansion fueled by immigration. This, in turn, is creating additional rental demand, especially at the upper end of the quality spectrum.

- ▶ Baltimore has several multi-phase, multibillion-dollar projects underway this year including Sagamore Development Co.'s 235-acre Port Covington redevelopment project, which includes 18 million square feet of new, mixed-use space—slated to open by 2021. The project targets cybersecurity and life sciences tenants, capitalizing on the state's highly specialized workforce.

Baltimore vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	%
60	Professional and Business Services	384	18.6%	11,900	3.2%
65	Education and Health Services	389	18.9%	6,600	1.7%
70	Leisure and Hospitality	196	9.5%	6,100	3.2%
15	Mining, Logging and Construction	119	5.8%	2,300	2.0%
40	Trade, Transportation and Utilities	332	16.1%	2,200	0.7%
90	Government	343	16.7%	1,900	0.6%
55	Financial Activities	116	5.6%	-	0.0%
30	Manufacturing	76	3.7%	-300	-0.4%
50	Information	29	1.4%	-500	-1.7%
80	Other Services	76	3.7%	-1,800	-2.3%

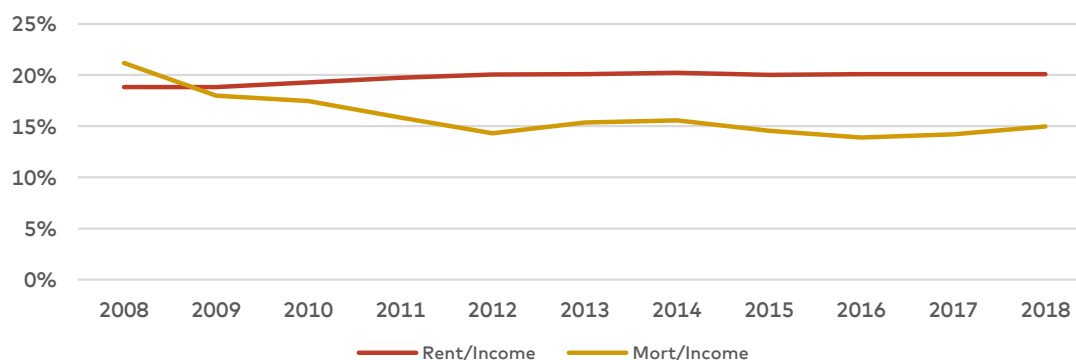
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

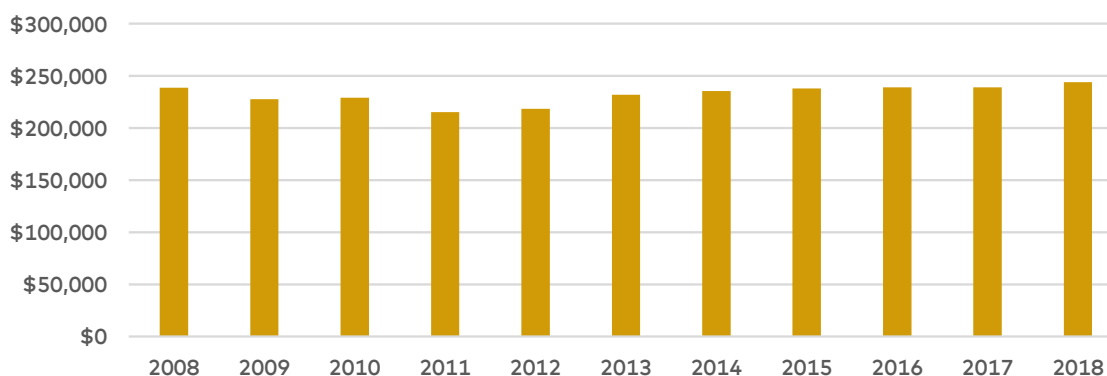
- ▶ The median home price in Baltimore climbed to \$243,786 in 2018, a 2.1% uptick over one year. The metro remains relatively affordable, especially when compared to nearby Washington, D.C., with values rising only moderately during the current cycle. Home prices were up just 13.2% between the 2011 trough and 2018, a far cry from other coastal markets.
- ▶ Overall, Baltimore's housing costs grew alongside incomes during the better part of this cycle, with little fluctuation in overall affordability. As of 2018, the average rent accounted for 20% of the area median income, while the average mortgage payment equated to just 15%.

Baltimore Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Baltimore Median Home Price



Source: Moody's Analytics

Population

- ▶ Baltimore gained 4,202 residents in 2018, a 0.2% uptick and one-third of the national growth rate.
- ▶ Like many other coastal metros, most of Baltimore's demographic growth came from immigration during this cycle, with negative domestic net migration numbers recorded since 2013.

Baltimore vs. National Population

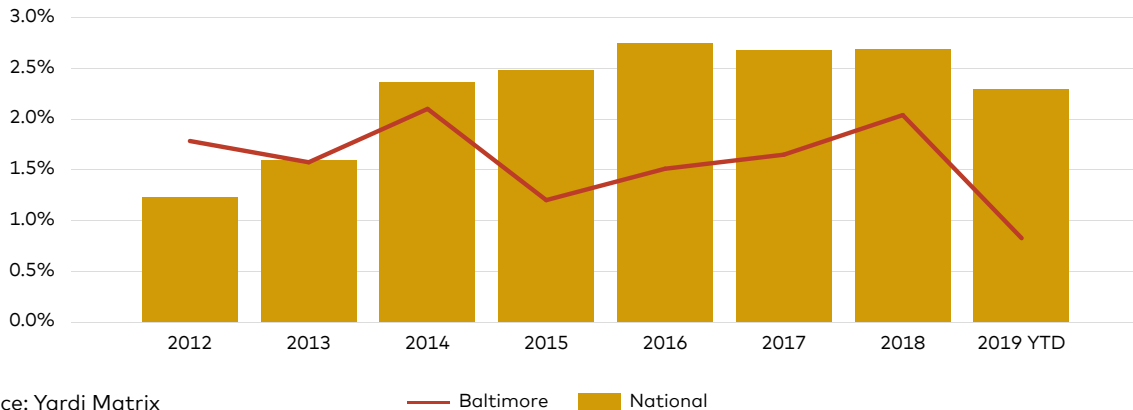
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Baltimore Metro	2,790,285	2,794,294	2,798,587	2,802,789

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

SUPPLY

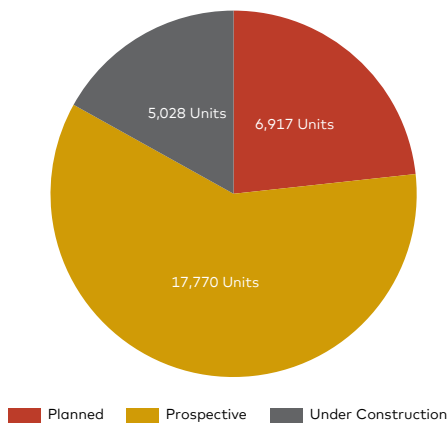
- ▶ In December 2019, developers had some 5,028 units under construction, with the large majority scheduled for completion by the end of this year. Another 24,687 units were in the planning and permitting stages at the start of 2020.
- ▶ Apartment deliveries in Baltimore marked the lowest volume of the cycle in 2019, with only 1,833 units coming online. This figure represented just 0.8% of total stock, well below the 2.3% national rate. This came on the heels of 2018's cycle high when 4,474 units came online.
- ▶ The revitalization of the downtown area, the city's diversifying economy and D.C.'s spillover effect have triggered a healthy multifamily expansion during this cycle, with nearly 16,000 units coming online across the metro in the last five years. Of these, one-third are located within 3 miles of downtown Baltimore.
- ▶ Construction was almost evenly split between urban and suburban submarkets as of December. Little Italy (655 units) led the pipeline, followed by Towson-Northeast (580 units). Ellicott City, Elkrigde and Columbia, all located between Baltimore and D.C., had a total of 1,024 units underway. The largest property slated for completion in 2020 is Juniper, a 383-unit community owned by The Howard Hughes Corp. Located in Columbia, Md., the project is part of the developer's Merriweather District master plan.

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



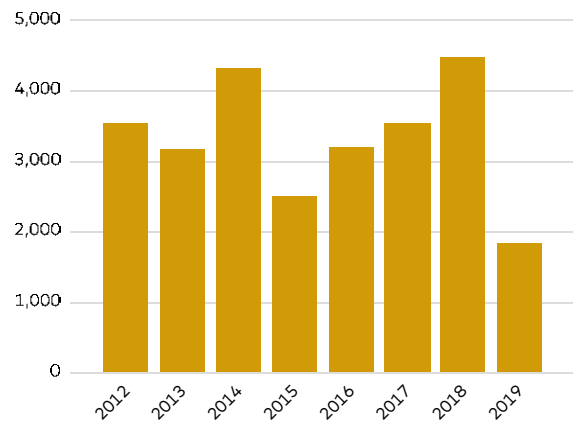
Source: Yardi Matrix

Development Pipeline (as of December 2019)



Source: Yardi Matrix

Baltimore Completions (as of December 2019)



Source: Yardi Matrix

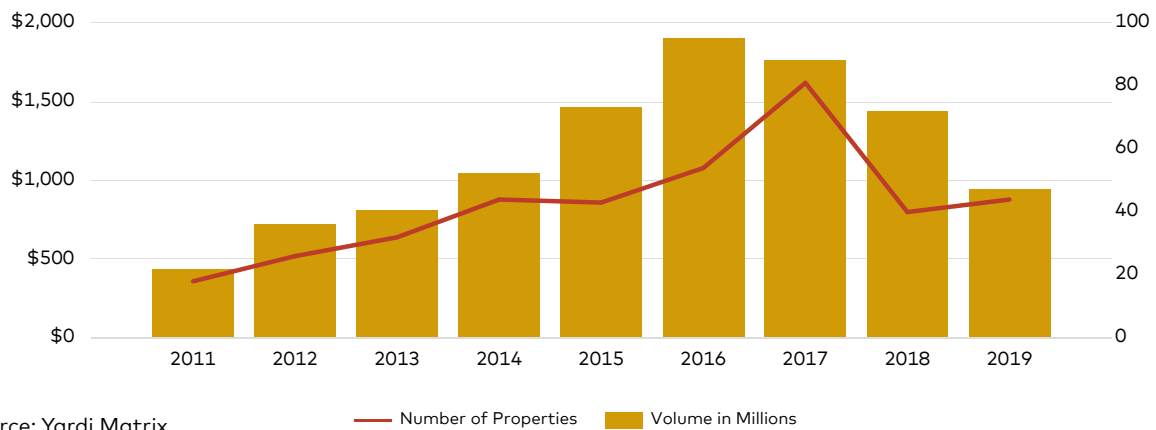
TRANSACTIONS

- ▶ Baltimore's transaction volume totaled \$945 million in 2019, the lowest number in the past six years. Even so, per-unit prices continued to rise, albeit at a slow rate—up 4.9% since 2018 to \$165,708, virtually on par with the \$166,589 national average.
- ▶ The metro's prospects continued to attract investors across the quality spectrum, with buyers targeting both stabilized Class A assets and

value-add plays. Of the 44 multifamily units that traded last year, 27 were in the Renter-by-Necessity segment, while the remaining 17 were Lifestyle assets.

- ▶ Investors heavily targeted suburban assets last year; seven of the top 10 submarkets by transaction volume were located outside Baltimore's city limits.

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



Source: Yardi Matrix

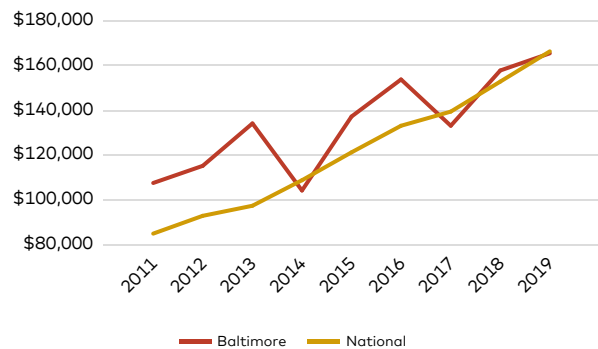
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Odenton	124
Annapolis	107
Laurel	87
Towson–Southwest	86
Baltimore–Cheswolde	72
Frederick–East	47
Towson–Northeast	40

Source: Yardi Matrix

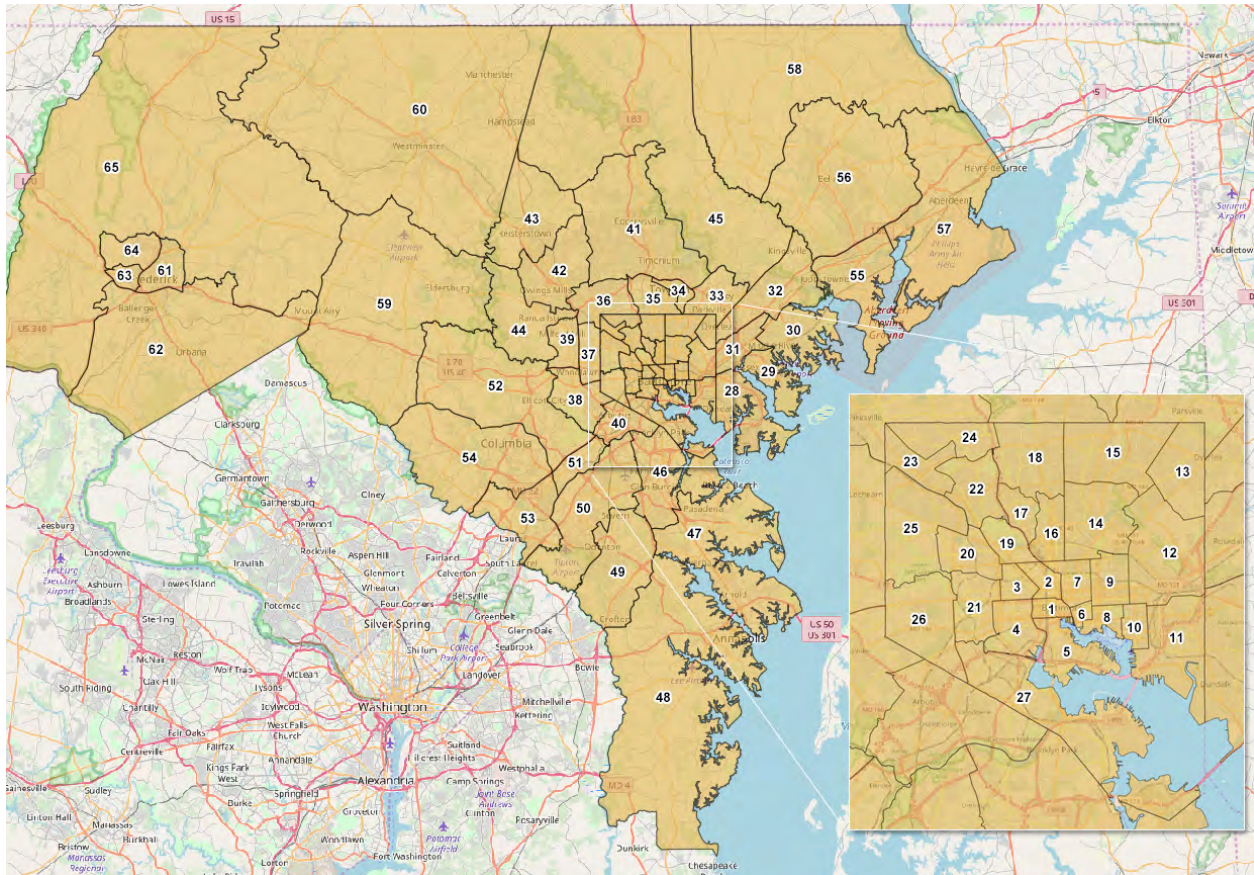
¹ From January 2019 to December 2019

Baltimore vs. National Sales Price per Unit



Source: Yardi Matrix

BALTIMORE SUBMARKETS



Area No.	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 No.	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 No.	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.

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