

# BALTIMORE OFFICE MARKET

## BALTIMORE OFFICE MARKET STEADY IN SECOND QUARTER

Baltimore metro office market metrics were steady during the second quarter of 2019, with very modest absorption, a slight uptick in asking rents, and a stable vacancy rate.

- Baltimore's office market experienced 23,110 square feet of net absorption during second-quarter 2019, the tenth consecutive quarter with positive absorption.
- Asking rents ticked up to \$23.93/SF during the second quarter, a 1.5% increase compared with the prior quarter. Baltimore's office market has seen modest yet steady rent increases in all but three quarters dating back to second-quarter 2014.
- The Class A market continues to outperform, as tenant preference for high-quality space has led to rising asking rents for well-located, highly-amenitized product.
- Overall vacancy for Baltimore's office market registered 12.6% at the end of the second quarter, up 20 basis points from one year ago as new product gradually reaches the market.
- 753,737 square feet of office space is currently under construction in the Baltimore metro area, including 520,964 square feet set to deliver before the end of 2019.
- There were no office deliveries during second-quarter 2019.
- In the most notable tenant move of the quarter, the Maryland Office of Health Care Quality relocated from its previous headquarters in Catonsville, Maryland into 33,371 square feet at 7120 Samuel Morse Drive in the Columbia submarket.
- Baltimore's office investment sales market has moderated in 2019 following an active 2018, with approximately \$70 million in investment volume through mid-June.

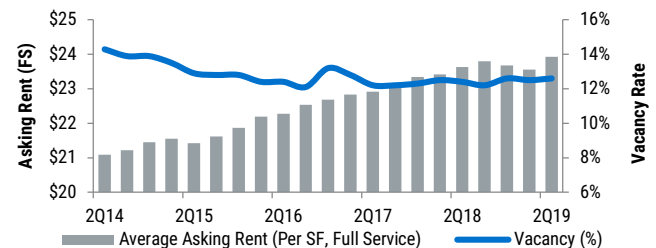
Although gross leasing activity slowed in the first half of 2019, Baltimore's significant cybersecurity and defense contracting presence has continued to drive growth in markets like BWI, which has seen 640,940 square feet of absorption since the beginning of 2017. During the second quarter of 2019, the BWI submarket saw some of the highest overall asking rents in the market across all asset classes.

### CURRENT CONDITIONS

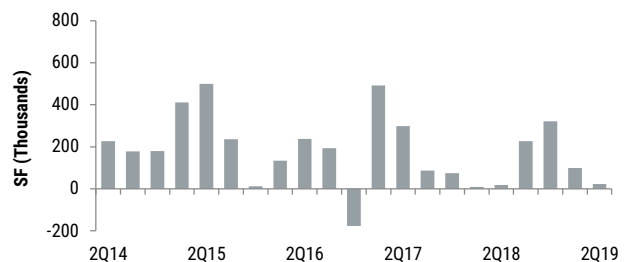
- Asking rents in the Baltimore metro area averaged \$23.93/SF at second-quarter 2019, up 1.3% from a year ago and the highest figure recorded this cycle.
- Baltimore registered 23,110 square feet of net absorption during second-quarter 2019, bringing year-to-date absorption to 122,541 square feet.
- 753,737 square feet of office space is under construction in the Baltimore metro area, less than one year ago.

### MARKET ANALYSIS

#### Asking Rent and Vacancy Rate



#### Net Absorption



### MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory	81.8 MSF	82.0 MSF	82.1 MSF	↑
Overall Vacancy Rate	12.6%	12.5%	12.4%	↓
Quarterly Net Absorption (SF)	23,110	99,431	17,298	↑
Average Asking Rent (Per SF, Full Service)	\$23.93	\$23.56	\$23.63	↑
Under Construction (SF)	753,737	753,737	951,722	↓
Deliveries (SF)	0	128,957	320,000	↑

## COLUMBIA'S DOWNTOWN REVITALIZATION COULD LEAD TO OFFICE MARKET MOMENTUM

Howard County is quickly emerging as a desirable destination for technology and health care firms, with close proximity to Baltimore and Washington, D.C. The Howard Hughes Corporation is leading an expansive redevelopment of Downtown Columbia, with a vision of up to 14 million square feet of mixed-use development, with approximately 1.4 million square feet already completed.

Over the last three years, Columbia has emerged as one of Baltimore's highest-performing office submarkets, with more than 500,000 square feet of positive net absorption from 2016 through the second quarter of 2019, while its vacancy rate has declined 100 basis points since the start of 2018.

The impact has already been felt by the Columbia office market, luring major tenants to the area with 350,000 SF of high-end commercial space in two office buildings. One Merriweather, a 210,000-square-foot office building that delivered in Downtown Columbia in 2016, serves as the current headquarters for MedStar Health. Two Merriweather, a 128,000-square-foot office building that delivered in 2017, serves as the regional headquarters for global learning company Pearson.

In addition to Class A office space, the Downtown Columbia development has added three Class A multifamily properties totaling 817 units, as well as 45,000 square feet of street-level retail. In 2014, a new Whole Foods opened in the development; it has been a key catalyst in creating a walkable, mixed-use urban environment.

## INVESTMENT SALES TEPID IN FIRST HALF OF 2019

After an active 2018 in which office investment volume totaled \$868 million, Baltimore's office investment sales market slowed through the first half of 2019 with \$70.3 million in year-to-date sales volume. The largest sale of the quarter was Center Court Partners's acquisition of Patuxent Crossing, at 9755-9830 Patuxent Woods Drive in the Columbia submarket. Greenfield Acquisition Partners sold the 294,730-square-foot office complex for \$47.5 million or \$161/SF.

Overall, Baltimore's investment sales market has proven sturdy. Investors are seeking to capitalize on the steady performance of the region's leasing market, as well as the greater potential for returns that can be found in stronger secondary investment markets. In particular, investors are attracted to the region's burgeoning education/health and cybersecurity sectors, and their potential to support demand for office space. The transformation or revitalization of select neighborhoods, including Port Covington and Columbia, also appeals to long-term investors.

## BALTIMORE'S STRENGTHS IN CYBERSECURITY AND THE EDUCATION/HEALTH SECTOR ARE A DRAW FOR POTENTIAL INVESTORS

### NOTABLE LEASE TRANSACTIONS 1Q 2019 - 2Q 2019

Tenant	Building	Submarket	Type	Square Feet
Social Security Administration	1718 Woodlawn Drive	Woodlawn	Renewal	160,810
The Guntry Club of Maryland	10705 Red Run Boulevard	Reisterstown Road Corridor	Direct Lease	63,477
First Home Mortgage	5355 Nottingham Drive	Baltimore County East	Renewal	27,459
Towson University	307 Washington Avenue	Towson	Direct Lease	21,716

### NOTABLE SALES TRANSACTIONS 1Q 2019 - 2Q 2019

Building	Submarket	Sale Price	Price/SF	Square Feet
9755-9830 Patuxent Woods Drive	Columbia	\$47,500,000	\$161	294,730
999 Corporate Boulevard	BWI North	\$10,400,000	\$154	67,455

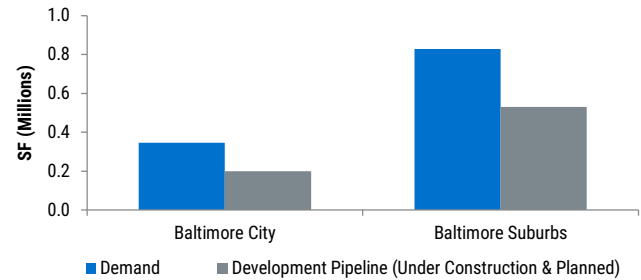
## BALTIMORE OFFICE MARKET OUTLOOK

The Baltimore metro area's leadership in the healthcare and cybersecurity industries will generate office-using jobs throughout the balance of this economic cycle. Over the next two years, even with a potential national economic downturn, the Baltimore market is well-positioned for methodical growth. However, ongoing job attrition in the financial services sector is keeping the market from maximizing its performance.

The Baltimore office market experienced moderating growth through the first half of 2019, following steady demand and rising rents during 2017 and 2018. As seen in the adjacent chart, demand is likely to exceed new supply in both the city and the suburbs over the next 24 months, as the development pipeline has been modest. This will allow for a 60-basis-point decline in vacancy in the city and a 70-basis-point decline in the suburbs. Overall, metro Baltimore's vacancy rate is expected to decline by 70 basis points, to 11.9%, by June 2021. This likely will lead to a modest increase in asking rents during the next two years.

## SUPPLY / DEMAND FORECAST

### Baltimore Metro Area | 24 Months Ending June 2021



Source: NKF Research; June 2019

**DEMAND IS LIKELY TO EXCEED NEW SUPPLY OVER THE NEXT TWO YEARS, PLACING UPWARD PRESSURE ON ASKING RENTS**

## MARKET STATISTICS BY CLASS

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2016 Absorption (SF)	2017 Absorption (SF)	2018 Absorption (SF)	2Q 2019 Absorption (SF)	YTD 2019 Absorption (SF)
<b>Baltimore Metro Area</b>	<b>81,809,113</b>	<b>12.2%</b>	<b>12.6%</b>	<b>357,669</b>	<b>996,591</b>	<b>574,646</b>	<b>23,110</b>	<b>122,541</b>
Class A	48,223,652	12.3%	13.0%	152,987	761,584	219,239	23,844	78,907
Class B	27,679,561	12.1%	12.3%	126,422	196,304	309,642	-22,043	22,301
Class C	5,905,900	11.0%	11.1%	78,260	38,703	45,765	21,309	21,333

## MARKET STATISTICS BY CLASS

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2019 Deliveries (SF)	YTD 2019 Deliveries (SF)	Under Construction (SF)
<b>Baltimore Metro Area</b>	<b>81,809,113</b>	<b>\$25.19</b>	<b>\$21.95</b>	<b>\$23.93</b>	<b>0</b>	<b>128,957</b>	<b>753,737</b>
Class A	48,223,652	\$25.19	NA	\$25.19	0	128,957	753,737
Class B	27,679,561	NA	\$21.95	\$21.95	0	0	0
Class C	5,905,900	NA	NA	\$21.68	0	0	0

Note: Asking rents are quoted on a full service basis.

## SUBMARKET STATISTICS – ALL CLASSES

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2016 Absorption (SF)	2017 Absorption (SF)	2018 Absorption (SF)	2Q 2019 Absorption (SF)	YTD 2019 Absorption (SF)
<b>Baltimore Metro Area</b>	<b>81,809,113</b>	<b>12.2%</b>	<b>12.6%</b>	<b>357,669</b>	<b>996,591</b>	<b>574,646</b>	<b>23,110</b>	<b>122,541</b>
Annapolis	3,228,553	16.1%	17.1%	54,526	22,743	10,663	4,450	17,794
Baltimore County East	1,791,681	8.2%	8.2%	38,346	-34,679	109,034	10,986	15,417
Baltimore Midtown	2,345,974	8.6%	8.6%	221,323	-17,554	29,573	-31,051	-27,178
Baltimore Northeast	1,179,016	4.0%	4.0%	123,905	10,919	5,736	-1,621	-3,610
Baltimore Northwest	1,229,881	8.6%	8.6%	-25,827	2,671	194	9,566	5,390
Baltimore Southeast	6,636,274	9.5%	10.3%	345,865	7,534	-168,823	20,375	54,625
Baltimore Southwest	2,319,701	22.3%	22.3%	-24,633	65,594	-16,994	1,923	7,403
BWI	9,670,197	8.7%	9.2%	-398,489	183,910	382,861	26,597	74,169
Carroll County	369,095	6.4%	6.4%	4,047	4,655	3,846	-12,031	-12,174
CBD Baltimore	15,342,878	16.9%	17.2%	-571,471	256,360	1,490	-51,967	-17,846
Columbia	11,465,714	10.2%	10.9%	116,012	355,218	-78,506	101,577	146,089
Ellicott City	879,329	9.7%	10.4%	33,641	-12,549	-6,371	-9,642	-18,909
Harford County	1,910,894	18.9%	19.7%	-22,185	28,649	5,295	18,849	24,826
I-83	7,812,296	7.7%	7.9%	15,478	-8,390	288,367	1,241	6,479
I-97 Crain Highway Corridor	726,522	20.3%	20.3%	26,165	38,623	24,669	-30,330	-28,963
Reisterstown Road Corridor	4,865,322	14.5%	15.5%	76,502	75,615	-28,465	40,380	22,539
Route 1 Corridor	1,215,332	14.3%	15.5%	154,669	-5,843	-39,100	5,555	-8,538
Route 2 Corridor	931,886	5.8%	6.1%	39,365	4,468	-16,548	-20,688	-15,981
Towson	4,684,858	13.6%	13.6%	98,917	60,630	46,329	-22,143	-67,590
Woodlawn	3,203,710	12.0%	12.0%	51,513	-41,983	21,396	-38,916	-51,401

## SUBMARKET STATISTICS – ALL CLASSES

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2019 Deliveries (SF)	YTD 2019 Deliveries (SF)	Under Construction (SF)
<b>Baltimore Metro Area</b>	<b>81,809,113</b>	<b>\$25.19</b>	<b>\$21.95</b>	<b>\$23.93</b>	<b>0</b>	<b>128,957</b>	<b>753,737</b>
Annapolis	3,228,553	\$31.09	\$23.74	\$30.25	0	128,957	100,000
Baltimore County East	1,791,681	\$27.72	\$23.12	\$24.73	0	0	100,000
Baltimore Midtown	2,345,974	NA	\$19.75	\$19.64	0	0	0
Baltimore Northeast	1,179,016	NA	\$18.50	\$18.50	0	0	0
Baltimore Northwest	1,229,881	NA	\$26.19	\$26.19	0	0	0
Baltimore Southeast	6,636,274	\$29.74	\$26.41	\$26.94	0	0	232,773
Baltimore Southwest	2,319,701	\$17.01	\$16.01	\$16.88	0	0	0
BWI	9,670,197	\$31.57	\$21.14	\$28.18	0	0	0
Carroll County	369,095	NA	\$11.60	\$11.60	0	0	0
CBD Baltimore	15,342,878	\$25.50	\$19.49	\$23.64	0	0	0
Columbia	11,465,714	\$32.14	26.87	\$28.51	0	0	320,964
Ellicott City	879,329	\$21.91	\$18.73	\$19.80	0	0	0
Harford County	1,910,894	\$27.43	\$20.65	\$25.47	0	0	0
I-83	7,812,296	\$21.74	\$19.76	\$21.51	0	0	0
I-97 Crain Highway Corridor	726,522	\$24.67	\$23.34	\$23.25	0	0	0
Reisterstown Road Corridor	4,865,322	\$25.21	\$21.66	\$22.80	0	0	0
Route 1 Corridor	1,215,332	\$23.40	\$22.17	\$22.61	0	0	0
Route 2 Corridor	931,886	\$20.17	\$18.59	\$20.11	0	0	0
Towson	4,684,858	\$21.89	\$20.35	\$20.97	0	0	0
Woodlawn	3,203,710	\$22.36	\$19.08	\$20.54	0	0	0

Note: Asking rents are quoted on a full service basis.

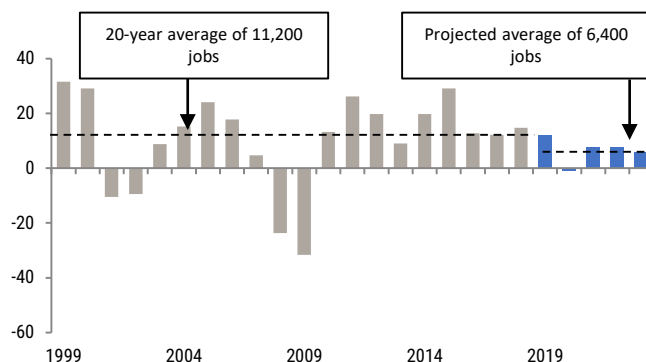
## ECONOMIC CONDITIONS

The Baltimore region's unemployment rate registered 3.4% as of April 2019, down 30 basis points from the 3.7% recorded one year prior. The region's unemployment rate has declined significantly since February 2010, when it reached a cyclical peak of 8.7%.

For the 12-month period ending in April 2019, the highest growth rates among Baltimore's major industries were in the Education and Health Services (3.0%), Manufacturing (2.8%), and Mining, Logging, and Construction (2.2%) sectors. Growth in the Professional and Business Services sector—even at a moderate 0.8%—bodes well for future expansion of the region's office market, as this sector mostly comprises office-using positions. However, the region continues to see attrition in the office-intensive Financial Activities and Information sectors. Overall, non-farm payroll employment increased by 17,400 jobs, or 1.2%, during the 12 months ending in April 2019. This rate modestly trails the national growth rate of 1.7% during the same period.

## EMPLOYMENT FORECAST

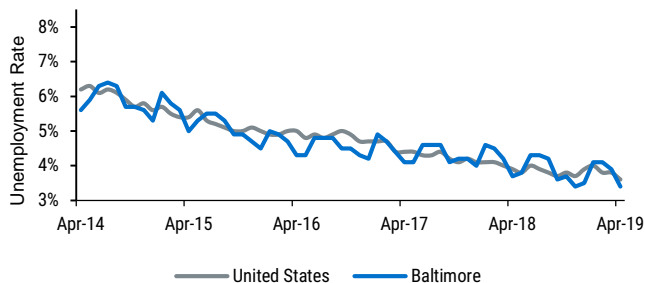
### Baltimore Metro Area, Payroll Job Change, 1999 – 2018 and Forecast 2019 – 2023



Source: U.S. Bureau of Labor Statistics, Moody's Analytics, NKF Research; June 2019

## UNEMPLOYMENT RATE

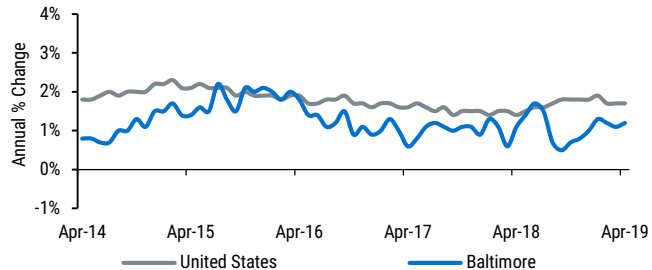
### U.S. – Seasonally Adjusted, Baltimore – Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, NKF Research; June 2019

## PAYROLL EMPLOYMENT

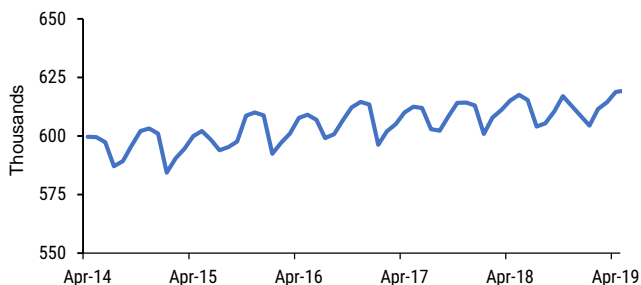
### Total Nonfarm, U.S. – Seasonally Adjusted, Baltimore – Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, NKF Research; June 2019

## OFFICE-USING EMPLOYMENT\*

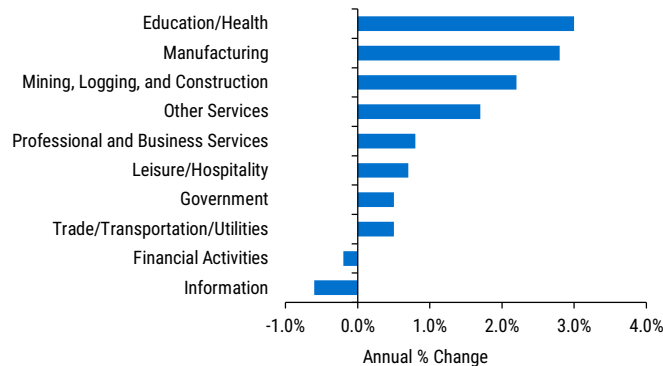
### Baltimore, Office-Using Employment (000's), Not Seasonally Adjusted



\*Identified as Financial Activities, Government, Information, Other Services, and Professional and Business Services  
Source: U.S. Bureau of Labor Statistics, NKF Research; June 2019

## EMPLOYMENT GROWTH BY INDUSTRY

### Baltimore, % Change, 12 Months Ending April 2019, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, NKF Research; June 2019

## METHODOLOGY

Market statistics are calculated from a base building inventory of office properties 20,000 SF and larger that are deemed to be competitive in the Baltimore Metro Area office market. Properties that are more than 75% owner-occupied are generally excluded from inventory.

## GLOSSARY

**Asking Rental Rate:** The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year. Average asking rents are calculated on a weighted average basis, weighted by the amount of available space. Asking rents are quoted on a full service basis, meaning all costs of operation are paid by the landlord up to a base year or expense stop.

**Class A:** The most prestigious buildings competing for premier office users with rents above average for the area. Class A buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

**Class B:** Buildings competing for a wide range of users with rents in the average range for the area. Class B building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

**Class C:** Buildings competing for tenants requiring functional space at rents below the area average.

**Deliveries:** Projects that have completed construction and received a certificate of occupancy.

**Net Absorption:** The net change in physically occupied space from one quarter to the next. **Year-to-Date (YTD) Net Absorption** is the net change in physically occupied space from the start of the calendar year to the current quarter. Net absorption is counted upon physical occupancy, not upon execution of a lease.

**Sublease:** Sublease space is offered and marketed as available by the current tenant, rather than directly from the owner.

**Under Construction:** Properties undergoing ground-up construction in which work has begun on the foundation. Properties that have only undergone grading or other site work are not included as under construction.

**Under Renovation:** Properties undergoing significant renovations that require all tenants to be out of the building. These properties are removed from inventory during the renovation period and delivered back to inventory upon completion of the renovations. These properties are not included in under construction totals.

**Vacancy Rate:** The amount of space that is physically vacant, expressed as a percentage of inventory. (Space that is being marketed as available for lease but is largely occupied is not included in the vacancy rate.) The **Overall Vacancy Rate** includes all physically vacant space, both direct and sublease, while the **Direct Vacancy Rate** includes only direct space.

