

MARKETBEAT BALTIMORE

Office Q4 2019



CUSHMAN &
WAKEFIELD

	YoY Chg	12-Mo. Forecast
12.4% Vacancy Rate	▼	▼
127K Net Absorption, SF	▼	▲
\$23.42 Asking Rent, PSF	—	—

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
1.4M Baltimore Metro Employment	—	▲
3.7% Baltimore Metro Unemployment Rate	▼	▲
3.6% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMY

The Baltimore Metro continues to see a slight decrease in the unemployment rate towards the end of 2019 reaching 3.7%. The rate decreased 10 basis points (bps) year-over-year (YOY), and is now 10 bps higher than the national average of 3.6%. The market remained driven by the education, medical and government (eds, meds, and feds sectors). These sectors dominated throughout the last decade, keeping the unemployment rate at or below the national average in the past 10 years.

SUPPLY AND DEMAND: Lack of New Inventory Helps Drive Vacancy Down

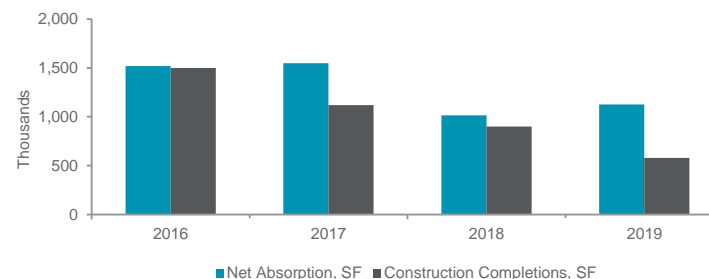
The overall vacancy rate in Baltimore fell YOY 70 bps to 12.4% in the fourth quarter of 2019. For the entire year the market welcomed more than 1.1 million square feet (msf) of net new tenant demand in the market, led by the Annapolis market with almost 400,000 square feet (sf) of net positive absorption. Tenants continued to favor the Baltimore/Washington Corridor, Anne Arundel and Howard County; 56% of the absorption for 2019 happened in the Baltimore/Washington Corridor cluster.

While leasing activity slowed in 2019, the limited new inventory being introduced to the market pushed the vacancy rate down further. Just under 580,000 sf of new buildings were delivered to the market in 2019 with 38.2% of this inventory being preleased when the building finished construction. This trend will continue into 2020 with only about 324,000 sf of office product currently under construction, 60% of it already spoken for.

PRICING: Asking Rents Remain Stagnant

Asking rents in Baltimore remained steady with a 1.0% rent increase YOY to \$23.42 per-square-foot (psf) gross. The Annapolis submarket leads the market in asking rates at \$27.49 psf. Tenants were willing to pay a premium for space in class A buildings where asking rental rates reached \$27.19 psf a 26.1% premium versus their Class B competition.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





Sales

Both local and national investors became selective with their plays in Baltimore, but were still investing in assets with a strong performance history. The sale of 11333 McCormick Road in the 83 North Corridor was the top sale in Q4 2019 fetching \$99.3 million for the 377,000 sf office building occupied by Bank of America. Investors continued to see value in the Baltimore Central Business District (CBD) as 36 S Charles Street traded hands for \$26.9 million. This marked the 12th sale in Baltimore's CBD since the start of 2017 with all transactions totaling \$625 million for that period

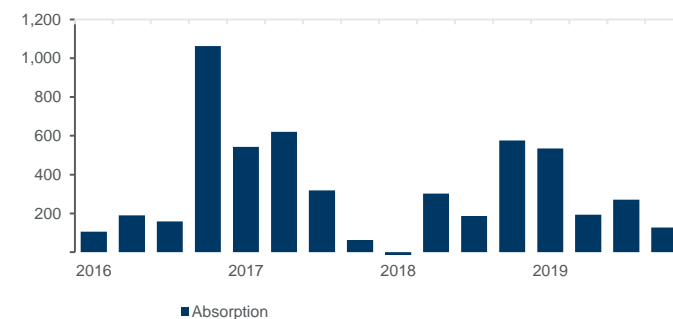
Leasing

Several large deals were signed in Q4 2019 helping to bring the total for the year to 101 million square feet (msf) of new deals signed. The activity was highlighted by Northrop Grumman signing a lease for 114,925 sf at 1500 W Nursery Road in the BWI/North Linthicum submarket. The Baltimore Police Department inked a deal at 1800 Washington Avenue in Baltimore's Southeast market. During Q4 2019 alone leasing activity totaled almost 760,000 sf with 80.3% of the activity being new deals to the market. Including renewals, just over 3.2 msf of deals were signed in the Baltimore metro in 2019.

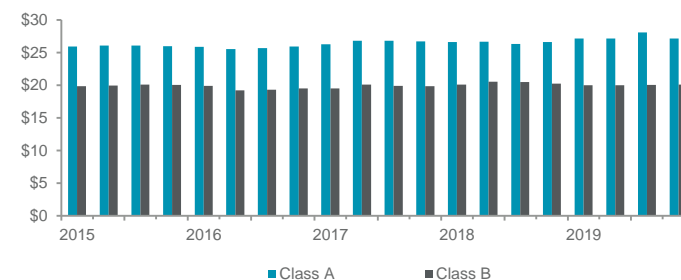
Outlook

- The Baltimore CBD could see a sharp drop in vacancy rates as the State Center redevelopment project takes off. This project could bring an additional 1 msf of absorption into Baltimore's CBD and relocate over 3,300 employees from the midtown hub to the CBD.
- Tenants will continue their flight to quality driving a wedge between Class A and B asking rental rates in the metro.
- As construction continues to slow in the office sector, vacancy rates should continue to decrease and create upward pressure on rental rates.

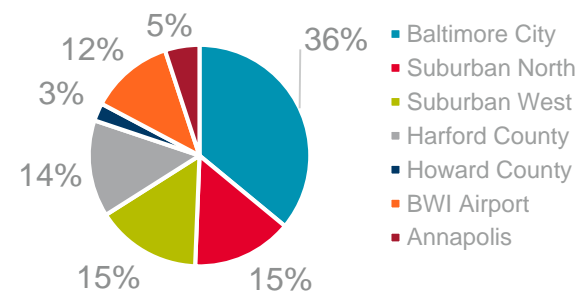
Absorption



Average Asking Rents



Vacant Space by Submarket





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Baltimore City	21,473,765	125,608	3,338,720	16.1%	48,844	231,002	625,761	330,000	\$23.01	\$24.51
Howard County	17,222,778	95,908	1,314,861	8.2%	46,406	238,308	539,249	0	\$23.65	\$31.48
BWI Airport	11,475,314	55,787	1,425,474	12.9%	6,833	136,388	452,348	0	\$27.06	\$33.28
Suburban North	13,181,991	129,340	1,231,129	10.3%	-1,490	-37,144	312,664	0	\$20.56	\$22.24
Greater Annapolis	4,001,952	21,774	229,124	6.3%	-2,018	59,131	128,610	100,000	\$27.49	\$31.65
Suburban West	8,078,056	35,701	1,140,103	14.6%	16,160	396,664	222,011	0	\$19.17	\$23.00
Harford	2,071,382	15,324	469,766	23.4%	12,386	101,197	8,250	0	\$22.98	\$23.47
Baltimore Totals	77,505,238	479,442	9,149,177	12.4%	127,121	1,125,546	2,288,893	430,000	\$23.42	\$27.19

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1500 W Nursery Road	BWI North/Linthicum	Northrop Grumman	114,925	Expansion in Market
1800 Washington Blvd	Southwest	Baltimore Police Department	75,000	New Lease
1747 Dorsey Road	BWI/Anne Arundel	Rosendin Electric	36,048	New Lease
25 S Charles Street	CBD	Rosenberg Martin Greenberg, LLC	25,784	Renewal*
300 E Lombard Street	CBD	F.N.B.	25,642	Renewal*

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

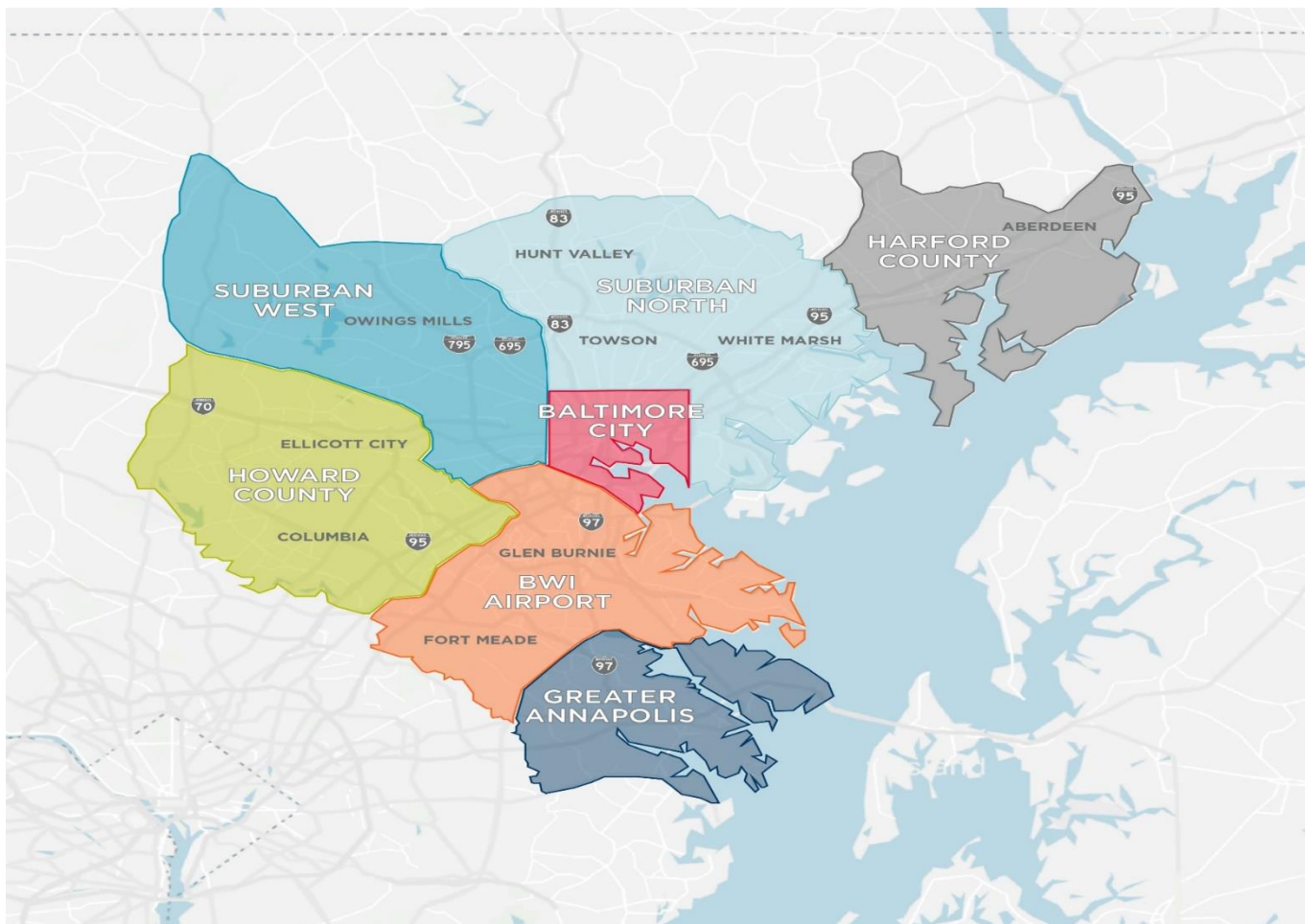
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
11333 McCormick Road	83 North	Inland Private Capital Corporation / Spirit Realty Capital Inc.	377,332	\$99.3M/\$263
36 S Charles	CBD	C-III Asset Management / Zamir Equities	307,435	\$26.9M/\$87
Waters Edge Corporate Campus	Harford County	Manekin, LLC / Time Equities, Inc.	273,372	\$17M/NA
226 Schilling Cir	Route 83 North	Greenfield Partners / Merritt Properties	98,640	\$7.3M / \$74

KEY CONSTRUCTION COMPLETIONS 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
6100 Merriweather Drive	Town Center	Tenable	166,000	Howard Hughes
187 Harry S Truman Parkway	Annapolis	Administrative Office of the Courts	128,957	St. John Properties



OFFICE SUBMARKETS

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