

INVESTMENT FORECAST

Industrial
Baltimore

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Baltimore's Ease of Access to Major Population Hubs Spurs Leasing and Investment Activity in the Metro

Vacancy drops to 26-year low. The ongoing rise of e-commerce, coupled with the metro's strategic positioning between Washington, D.C. and New York, is fueling industrial demand in Baltimore. Leasing activity has been robust, with tenants absorbing 3.0 million square feet over the past year, lowering vacancy to 7.1 percent entering 2022. Larger commitments have been a primary driver of recent compression, as firms signed nearly 30 leases last year that each totaled over 100,000 square feet. Several factors indicate the metro will be able to sustain this momentum moving forward. More than 18 million people live within 100 miles of Baltimore, and the metro provides industrial tenants more cost-effective options relative to other Mid-Atlantic markets. Additionally, the reconstruction of the Howard Street Tunnel will support double-stack rail transport. Once complete, the Port of Baltimore is poised to observe a significant rise in activity, which may spur additional industrial demand locally.

Out-of-market investors expand Mid-Atlantic portfolios. Historically tight vacancy and the potential for higher yields relative to other major Mid-Atlantic markets are bolstering investor demand in Baltimore. The metro's buyer pool is growing, with out-of-state capital sources accounting for more than half of all transactions in 2021. As a result, competition for assets elevated, compressing the average cap rate under 7 percent for the first time on record. Assets inside the city of Baltimore are highly sought after, due to the growing need for last-mile distribution space. Here, properties generally trade below the metro mean of \$115 per square foot, with first-year returns averaging in the low-8 percent range. Investors are also targeting assets in the Route 1-BWI Area submarket, due to proximity to the metro's airport and highway system. Entry costs hover near \$150 per square foot, with cap rates that average in the mid-6 percent span.

2022 Market Forecast

- Employment**
up 2.2%

The pace of hiring eases slightly as 30,000 jobs are created this year. In 2021, 34,000 positions were added.
- Construction**
3.5 million sq. ft.

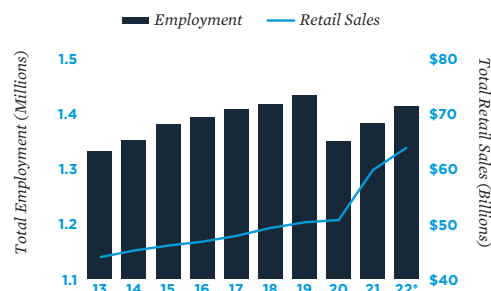
Completions will surpass 3 million square feet for the third time in the past five years in 2022. Over 70 percent of the pipeline is concentrated in the Baltimore County East submarket.
- Vacancy**
down 20 bps

Net absorption surpasses supply additions this year, reducing metrowide vacancy to 6.9 percent. In 2021, a 10-basis-point decrease was registered.
- Rent**
up 6.5%

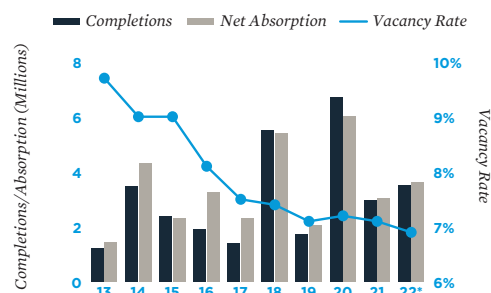
The average asking rent will rise to \$8.00 per square foot in 2022, following the 18.8 percent increase recorded last year.
- Investment**

Elevated development in the Baltimore County East submarket may provide investors opportunities to acquire newer inventory, which will likely heighten buyer interest in the area.

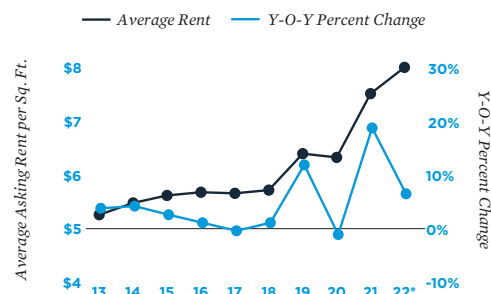
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.