INVESTMENT FORECAST

Office

Baltimore

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Speculative Building and Return-to-Office Uncertainty Prolong Recovery in Baltimore's Office Sector

Development pipeline accelerates while leasing activity lags. Lingering impacts from the health crisis are still hindering office fundamentals in Baltimore. Many companies decided to reduce their office footprints while overall leasing activity has softened, resulting in five consecutive quarters of negative net absorption. Although mild relative to other Northeastern markets, rising vacancy is still impeding rent growth. Many landlords are offering tenant improvement allotments and concessions to boost or maintain occupancy during this period of uncertainty. While the number of jobs that typically utilize office space returning to pre-pandemic levels provides optimism in the metro, a few headwinds remain that may affect conditions in the short term. The rising concern of COVID-19 variants continues to delay return-to-office timelines for many major employers. Additionally, over 85 percent of space scheduled to deliver in 2022 is available for lease entering this year, which will likely result in a modest uptick in availability. However, despite the expected rise in vacancy, the rate will still remain well below the national average.

Pricing on the rise despite softening office fundamentals. Overall transaction volume in the Baltimore metro increased on a year-over-year basis in 2021; however, deal flow still remains below historical averages. Buyers are targeting properties with secure tenant rosters to mitigate risk, which has contributed to a rise in pricing for office assets. The average sale price is up nearly 5 percent entering this year, compressing average cap rates to the high-7 percent range. Class B assets remain highly sought after in suburban submarkets like Columbia and Towson, where properties generally trade with yields above the market average. Institutional capital sources and investors targeting high-quality assets were active in Baltimore's east side and areas surrounding the Baltimore/Washington International Airport. Properties here often garner sale prices above $200 per square foot, with first-year returns ranging in the 4 percent to 6 percent span.

2022 Market Forecast

Employment up 2.2% — Roughly one-third of the 30,000 jobs created this year will come from office-using firms.

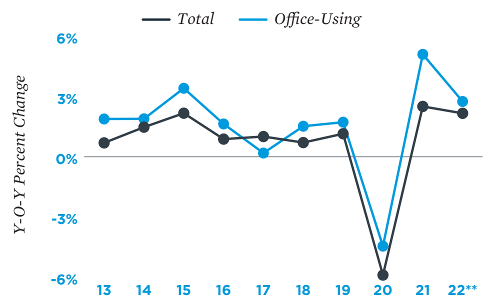
Construction 600,000 sq. ft. — Deliveries are expected to increase this year following the completion of 450,000 square feet in 2021. The bulk of new supply will deliver in the Baltimore City East submarket.

Vacancy up 30 bps — Supply additions will outpace net absorption for the third consecutive year, placing upward pressure on availability. Marketwide vacancy will climb to 13.6 percent by year-end.

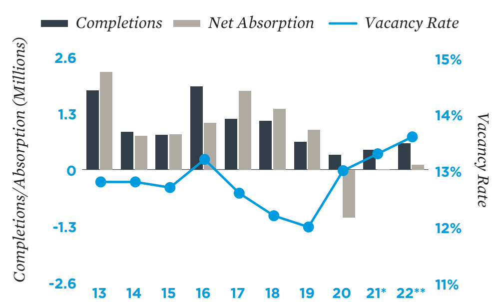
Rent up 0.8% — A rise in office availability will hold rent growth below 1 percent for the sixth consecutive year. The average asking rate will inch up to $22.44 per square foot in 2022.

Investment — Investor demand in Downtown Baltimore will likely elevate as the market moves further into recovery and return-to-office timelines become more certain.

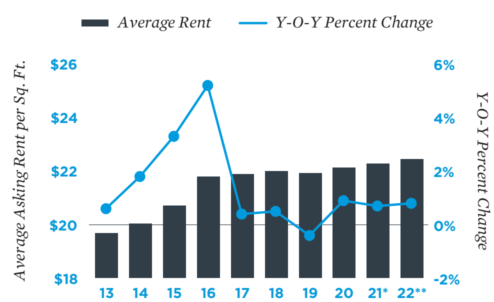
Employment Trends



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 December 2021. Effective rent is equal to asking rent less concessions. 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. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth 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.