MARKET REPORT

Multifamily

Baltimore Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

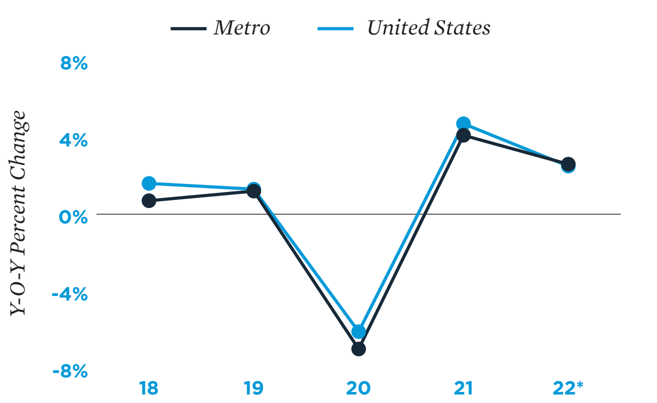
2Q/22

Leasing Surge Slices Vacancy; Trio of Submarkets Account for Supply Pipeline

Renewed demand for urban units elevates fundamentals. Positive absorption is widespread throughout the market, with all 15 of Baltimore's submarkets recording vacancy compression over the past 12 months ending March. As a result, metrowide vacancy contracted to the lowest rate in over 20 years, while rent growth surpassed the double-digit mark on an annual basis for the first time on record. The easing of pandemic-related restrictions on entertainment and dining venues, coupled with office returns for some employers, spearheaded renter demand in Downtown Baltimore. Over the past four quarters, vacancy in the urban core compressed 370 basis points to 3.5 percent. Entering the second quarter, availability in the CBD was only 90 basis points above the suburban rate, compared to the 370 basis point difference observed at the end of 2020.

Class A demand warrants additional projects. Despite net absorption surpassing the 4,000-unit mark in three of the past four years, development in Baltimore is below the metro's 10-year trailing average. Projects slated for 2022 completion are concentrated in Downtown Baltimore, Baltimore City East and Owings Mills-Pikesville-Randallstown. The roughly 2,000 units delivered across these locales should be well received, as Class A vacancy was historically low at the onset of this year. Tight conditions and a lack of supply additions elsewhere may spark project proposals in additional submarkets moving forward.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

36,000 JOBS *will be created*

EMPLOYMENT:

Bolstered by the metro's education and health services sector, Baltimore's employment base expands by 2.6 percent in 2022. Still, total employment in the market will trail the pre-pandemic peak by roughly 7,600 positions at year-end.

2,000 UNITS *will be completed*

CONSTRUCTION:

Supply additions accelerate this year, as developers expand the metro's apartment inventory by 0.9 percent. The largest project slated for completion this year is Alta Federal Hill I, delivering 500 units in the Baltimore City East submarket.

10 BASIS POINT *decrease in vacancy*

VACANCY:

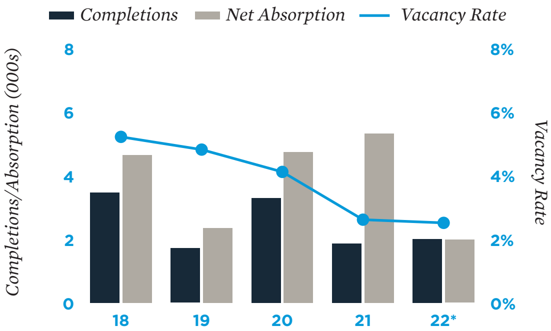
Robust renter demand and limited pockets of development will contribute to the sixth consecutive year of annual vacancy compression. Availability will fall to 2.5 percent in 2022 — the lowest rate in over 20 years.

6.7% INCREASE *in effective rent*

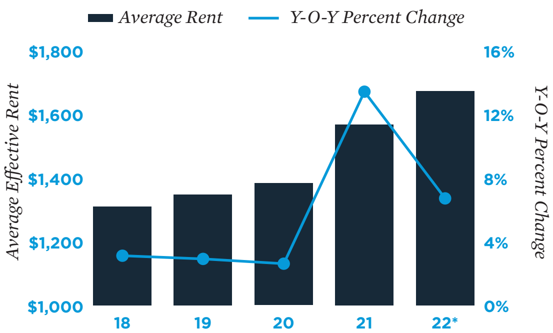
RENT:

Limited availability allows for effective rents to rise on an annual basis for the sixth straight year. The average rate will climb to $1,673 per month in 2022, marking the second-largest annual gain on record, behind last year's 13.4 percent surge.

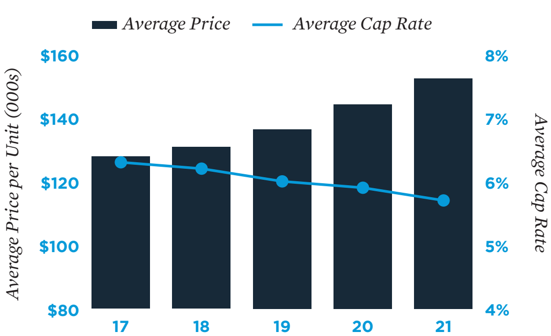
Supply and Demand



Rent Trends



Sales Trends



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IPA Multifamily

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

1,440 units completed

- Inventory grew by 0.5 percent over the past four quarters with the bulk of supply delivering in the Owings Mills-Pikesville-Randall, Baltimore City East and Downtown Baltimore submarkets.
- Entering this year, construction is underway on 4,200 units across the metro, with delivery dates extending into 2023.

VACANCY

160 basis point decrease in vacancy Y-O-Y

- Renters absorbed 4,950 units over the past 12 months ending in March, slicing metro vacancy to 2.5 percent — 230 basis points below Baltimore's pre-pandemic rate.
- The Class A sector has the highest vacancy rate among all class cuts, registering at just 3.1 percent.

RENT

12.8% increase in the average effective rent Y-O-Y

- Limited availability elevated the average effective rent to $1,585 per month, which is the highest rate on record.
- The average effective rent in the suburbs climbed 12.5 percent over the past year to $1,563 per month. In the urban core, effective rent jumped 14.1 percent to $1,737 per month.

Investment Highlights

- Investors returned from the sidelines in force during 2021, resulting in the largest annual transaction total on record. Historically tight vacancy rates and standout rent growth, coupled with the potential for higher first-year returns relative to other major Mid-Atlantic metros, heightened investor demand for Baltimore properties.
- Competition for available listings has been vigorous, with out-of-state buyers accounting for roughly 70 percent of all deals over the past year. As a result, the average sale price rose 6 percent to $152,000 per unit, compressing the mean cap rate to 5.7 percent.
- Revitalization efforts and robust rent growth have elevated buyer interest downtown, where many value-add opportunities exist. Older Class B/C properties are changing hands in the urban core most often, where sale prices generally fall in line with the market average and first-year returns average in the mid-5 percent range.
- Investors targeting higher quality assets are active in West Anne Arundel County. Class A/B properties here often garner sale prices above $250,000 per unit, with yields averaging in the high-3 percent span.