# MARKET REPORT

**Office**

*Baltimore Metro Area*

INSTITUTIONAL PROPERTY ADVISORS

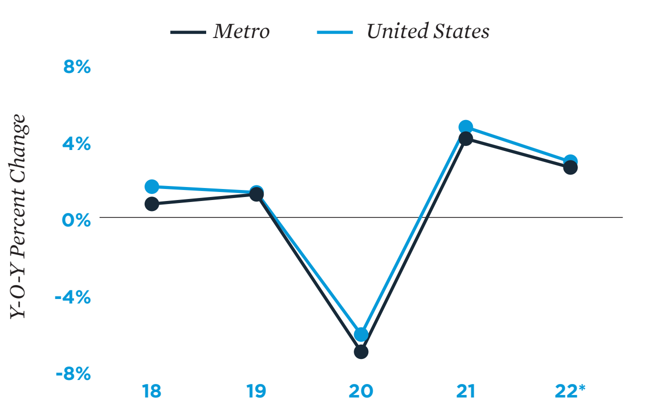
2Q/22

## Loosening Restrictions and Heightened Leasing Activity May Signal a Turning Point

**Pandemic-induced effects less severe in Baltimore.** Entering the second quarter, local vacancy sat at 13.8 percent, undercutting the average of the top 20 largest office markets by inventory, which was 16.8 percent. Of this group, Baltimore is one of two metros to record vacancy expansion of less than 200 basis points since the onset of the health crisis. Looking ahead, favorable signs have emerged that provide optimism for the region. Positive net absorption returned in the trailing 12-month period ending in March, and the easing of pandemic restrictions in Baltimore County has eliminated logistical challenges associated with bringing employees back to offices. Additionally, firms in both the public and private sector are taking large blocks of space off the market, with Microsoft and the State Department of Human Services each recently committing to leases over 150,000 square feet.

**Construction activity accelerates.** Limited development over the past two years helped soften vacancy increases in the metro since the start of the pandemic. Although the pace of construction is projected to nearly double this year relative to 2021, supply additions will remain well below levels seen during the Global Financial Crisis. As of June, there was just over 1 million square feet in the active pipeline with arrivals extending into 2023. Projects slated for near-term completion are largely concentrated in Southeast Baltimore, highlighted by Rye Street Market, delivering nearly 200,000 square feet to the submarket in the fourth quarter.

### Employment Trends




* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2022 Outlook

**36,000 JOBS**
*will be created*

### EMPLOYMENT:

Employers expand the workforce by 2.6 percent this year, with the region's e-commerce, cybersecurity and health care industries driving the bulk of job growth. Still, total employment will remain 10,000 positions below the pre-pandemic peak by year-end.

**730,000 SQ. FT.**
*will be completed*

### CONSTRUCTION:

Office inventory increases by less than 1 percent for the sixth consecutive year. However, supply additions will reach the largest annual total since 2018. More than half of the space slated for completion this year was unaccounted for as of June.

**40 BASIS POINT**
*increase in vacancy*

### VACANCY:

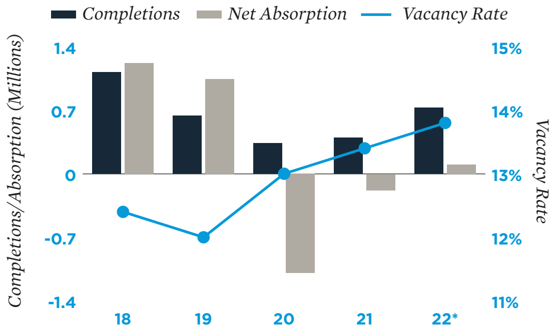
Metrowide vacancy expands for the third straight year, mirroring last year's increase. Still, at 13.8 percent, availability in Baltimore is the lowest among all major Mid-Atlantic markets, and over 500 basis points below the rate in Washington, D.C.

**0.9% INCREASE**
*in asking rent*

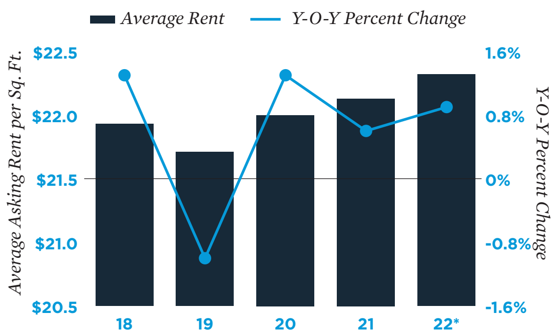
### RENT:

Baltimore registers another year of nominal asking rent growth. The rate is expected to reach $22.32 per square foot by year-end, which is nearly 9 percent lower than any other major Mid-Atlantic market.

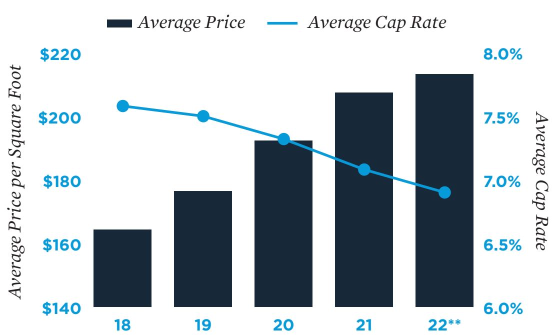
## Supply and Demand




## Rent Trends




## Sales Trends




** Forecast ** Through 1Q*

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

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*Price: $250*

## 1Q 2022 - 12-Month Period

### CONSTRUCTION

**400,000 sq. ft. completed**

- Developers increased the metro's office inventory by 0.3 percent over the past four quarters ending in March, marking the second-lowest year-over-year percent change in a decade and a half.
- Deliveries during this span were largely concentrated in the Ellicott City-Columbia submarket.

### VACANCY

**20 basis point increase in vacancy Y-O-Y**

- Driven by large increases in the Reisterstown Road Corridor, Central Baltimore County and Baltimore County East submarkets, the vacancy rate metrowide rose to 13.8 percent during the past year.
- Availability in Downtown Baltimore compressed by 50 basis points, while vacancy increased by 30 basis points in suburban locales.

### RENT

**0.1% increase in the average asking rent Y-O-Y**

- Rent gains in the Route 1-BWI Area, Route 2 Corridor and Harford County helped lift the metro's average asking rent to $22.09 per square foot over the past 12 months.
- The mean marketed rent in Class B/C offices grew 1.7 percent, while the rate for Class A properties fell by 2.1 percent.

## Investment Highlights

- Trading slowed in the first quarter of 2022. However, transaction velocity over the past 12 months ending in March is up by nearly 80 percent relative to the previous yearlong span. Heightened competition for available listings is placing upward pressure on entry costs, with the mean sale price rising to $213 per square foot. First-year returns here average in the high-6 percent range, roughly 40 basis points higher than Washington, D.C.
- Investors seeking assets with value-add or upside potential have been active in Downtown Baltimore and Harford County. Here, older Class B/C offices under 50,000 square feet are targeted most often. Pricing in both locales frequently falls below the metro average, with cap rates sometimes reaching double digits. Similar opportunities can be found in Carroll County and the Reisterstown Road Corridor as well.
- Buyers have shown a willingness to pay a premium for medical office assets in submarkets like Queen Anne's County, Southwest Baltimore County and Ellicott City-Columbia. Heightened competition for properties of this sub-type are driving up sale prices in these neighborhoods, with entry costs that average above $400 per square foot.