MARKET REPORT

Retail

Baltimore Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

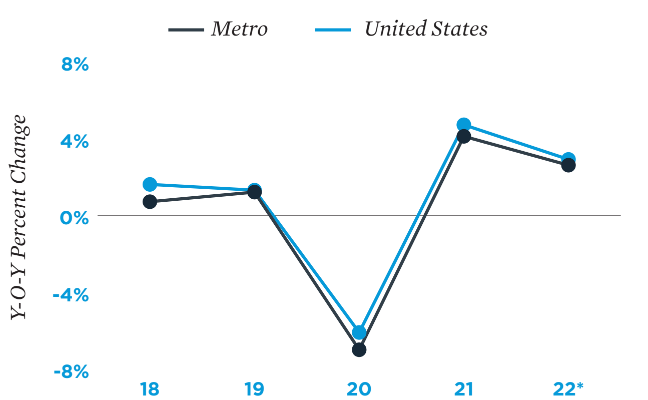
2Q/22

Baltimore City Arrivals to be Well Met by Tenants as Core Residency Picks Up

Retail outlook in city center improving. Across the city of Baltimore, apartment vacancies declined by more than 100 basis points year-over-year in March as people returned to reopened workplaces or in anticipation thereof. This renter influx has aided foot traffic at area retailers, catching the eyes of prospective tenants. The city has been one of the most active areas in the metro for leasing so far this year, helping keep local vacancy under 5 percent. Availability may tick up later in the year, however, as over half of the market's construction pipeline is focused here. Despite this, the full impact on the metro may be mitigated by high pre-leasing. Over $1 billion in planned public investments around Camden Yards and M&T Bank Stadium should also benefit downtown retailers in the future as more fans flock to the improved homes of the Orioles and Ravens.

Limited construction adds to suburban progress. Deliveries outside of the urban core this year are modest, with most floorplans below 15,000 square feet. Retailers aiming to capture demand from suburban residential growth will have to look toward existing properties, adding positive momentum to vacancy contractions and rent growth. Major recent lease signings include furniture stores and discount grocers in areas like Owings Mills and Edgewood. Such retailers fill needs of households newly forming or relocating outside of the city proper. A new movie theater in Annapolis also reflects recovering interest in entertainment and social venues, as consumer hobbies continue to trend back toward historical patterns.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

36,000 JOBS *will be created*

EMPLOYMENT:

Employment growth will taper to 2.6 percent this year, below the outsized pace set in 2021 but above historical averages. With staff counts poised to end the year about 8,000 positions short of the pre-pandemic high, a full job recovery is on the table for 2023.

400,000 SQ. FT. *will be completed*

CONSTRUCTION:

Development will pick up relative to 2020 and 2021, although the 0.3 percent planned inventory expansion trails the average for the past growth cycle by about half. The most space underway for 2022 is on the east side of the city of Baltimore.

70 BASIS POINT *decrease in vacancy*

VACANCY:

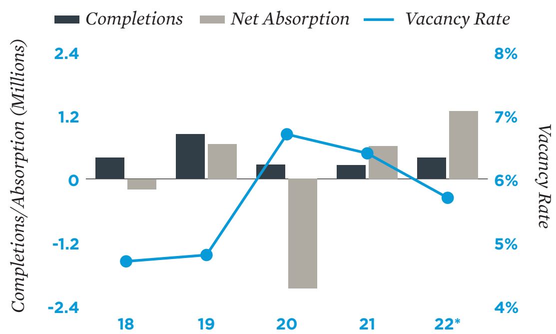
Net absorption will surpass 1 million square feet for the first time since 2016, helping lower vacancy to 5.7 percent this year. Availability will be well-below the first quarter 2021 peak of 7.0 percent, but above the year-end 2019 level by 90 basis points.

3.1% INCREASE *in asking rent*

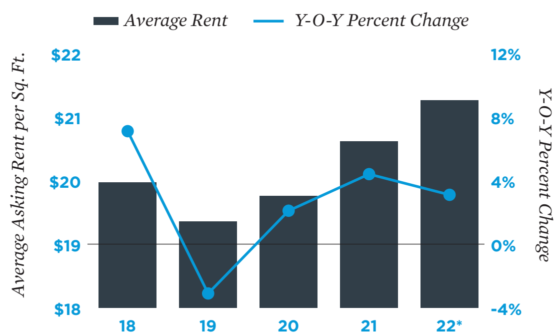
RENT:

Accelerated leasing velocity will sustain upward movement in marketed rents, lifting the metrowide average to $21.26 per square foot this year. Momentum is picking up for multi-tenant properties and tempering for single-tenant buildings.

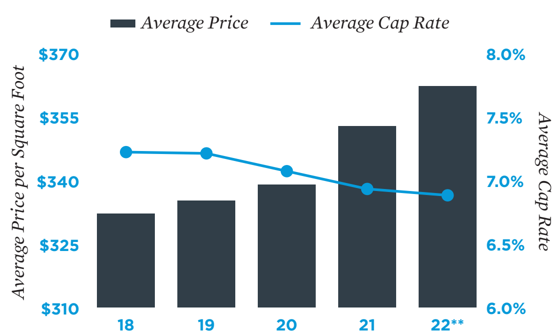
Supply and Demand



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

138,000 sq. ft. completed

- After averaging about 66,000 square feet per quarter last year, deliveries fell to 18,000 square feet in the opening period of 2022.
- Recent completions were led by a 55,000-square-foot Whole Foods in Towson, followed by a scattering of sub-15,000-square-foot storefronts and restaurants in predominantly suburban settings.

VACANCY

80 basis point decrease in vacancy Y-O-Y

- Two consecutive quarters of positive net absorption pushed the metrowide vacancy rate down 50 basis points between September 2021 and March of this year to a rate of 6.2 percent, above the 2019 measure of 4.8 percent.
- An 80-basis-point drop in single-tenant vacancy to 5.9 percent drove overall tightening as the multi-tenant rate held firm at 8.6 percent.

RENT

3.7% increase in the average asking rent Y-O-Y

- A return to positive net absorption over the past 12 months lifted the average asking rent to $20.54 per square foot. Baltimore's mean marketed rate first surpassed the $20 threshold in spring 2021.
- Rent growth exceeded the market average pace in several areas, including Downtown Baltimore and Ellicott City-Columbia.

Investment Highlights

- The number of properties that changed hands during the year ended in March was up about 30 percent from the prior period, driven by a record-setting fourth quarter 2021. Transaction velocity climbed faster for single-tenant assets as multi-tenant sales activity improved but did not surpass previous peak years. Added bidding pressure helped lift the average overall sale price nearly 6 percent year-over-year to $362 per square foot, while the mean cap rate dipped into the high-6 percent zone.
- While buyers continued to frequently explore opportunities in Baltimore County and the city of Baltimore, more investors looked to assets in Anne Arundel County over the past four quarters. Several restaurants, mixed-use spaces and other stores changed hands in Annapolis, near Fort Meade and along Interstate 97 south of BWI. Below-market entry costs and pockets of household density may have prompted buyer attention.
- Rising interest rates may emphasize Baltimore assets, where cap rates on average exceed those of similar properties in other major northeast and mid-Atlantic markets. Baltimore submarkets with higher yields include East Baltimore County, where entry costs are often under $200 per square foot and cap rates are above mid-7 percent.