MARKET REPORT

Multifamily

Baltimore Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

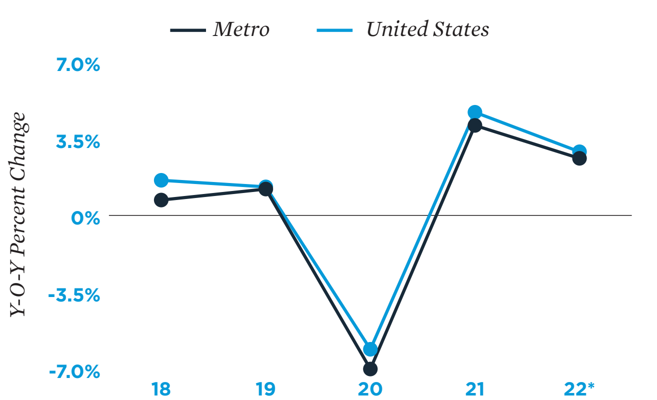
3Q/22

Limited Deliveries and a Constrained Single-Family Housing Market Benefit Rentals

Performance outpacing historical norms. The record-setting streak of apartment demand has begun to settle in Baltimore. Still, multifamily fundamentals are strong relative to performance metrics prior to the health crisis. Entering the second half, availability was 150 basis points below the pre-pandemic rate, with fewer than 8,000 physically vacant units across the metro in June. Before the health crisis, so few units had not been vacant since 2006, when inventory was 17 percent smaller. Meanwhile, effective rents rose by more than 2.5 percent in just the second quarter alone, a growth rate that nearly matches typical annual outputs in Baltimore. Looking ahead, a shortage of for-sale housing in the market will likely keep rental demand elevated in the near- to mid-term. As of June, there were just under 4,000 active single-family listings throughout the metro, compared to over 10,500 during the same month in 2019.

Supply additions fall to 20-year low. Rising interest rates and ongoing supply chain disruptions are affecting the pace of development. Both groundbreakings and timelines for ongoing projects have been delayed as a result, significantly reducing the amount of new supply expected to deliver in 2022. Although a slight uptick in vacancy is projected, slowing supply additions will limit upward movement, and the rate will remain 100 basis points below the 10-year trailing average at year-end. However, the construction pipeline will likely expand in the coming quarters, as more office to apartment conversions are being planned in Downtown Baltimore.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

36,000 JOBS *will be created*

EMPLOYMENT:

Baltimore employers added over 23,000 new positions during the first half, largely driven by robust hiring in the metro's leisure and hospitality sector. By year-end, total employment will trail the pre-pandemic level by nearly 8,000 positions.

850 UNITS *will be completed*

CONSTRUCTION:

Apartment inventory increases by less than 1 percent for the second straight year, as elevated construction costs slow development. Downtown Baltimore will receive the bulk of new supply over the second half of 2022.

130 BASIS POINT *increase in vacancy*

VACANCY:

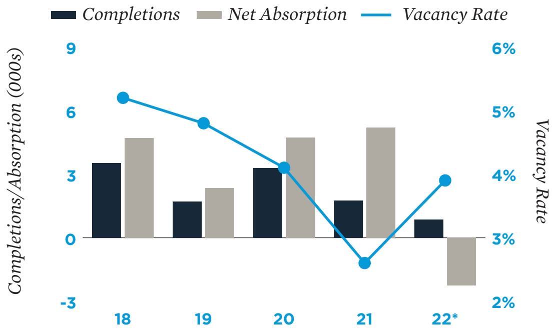
Historic levels of rent growth will lead to renter consolidation during this inflationary period, as many residents look to cut down on expenses. Still, availability will end the year 90 basis points below the 2019 rate.

7.2% INCREASE *in effective rent*

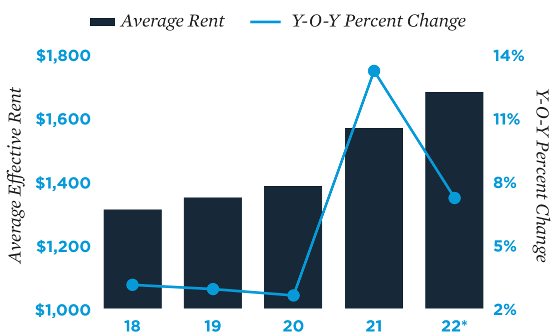
RENT:

Effective rents continue to climb at an elevated pace, following the 13.2 percent surge recorded in 2021. By the end of this year, the average rate will reach $1,680 per month, marking the second-largest annual gain in over two decades in the Baltimore metro.

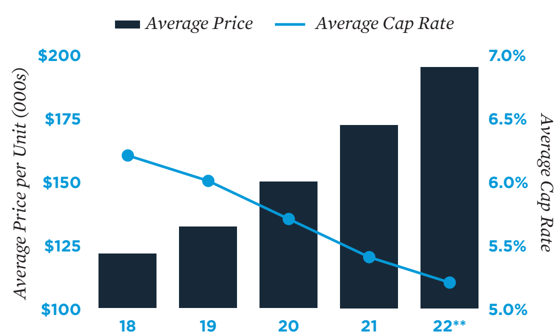
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

IPA Multifamily
John Sebree
Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research
Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

913 units completed

- Apartment inventory rose by just 0.3 percent year-over-year ending in June. Deliveries were concentrated in the Downtown Baltimore, Owings Mills-Pikesville-Randallstown and Baltimore City East submarkets.
- Entering the second half, there were nearly 5,500 units underway with completion dates extending into 2025.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Highlighted by the 190-basis-point decline observed in the Towson-Hunt Valley submarket, Baltimore's availability fell to 3.3 percent over the past year ending in June.
- Renter demand has returned to the CBD as well, evidenced by the 110-basis-point decrease observed in Downtown Baltimore during this span.

RENT

11.1% increase in the average effective rent Y-O-Y

- Eleven of the metro's 15 submarkets experienced double-digit rent gains during the past four quarters ending in June, elevating the average effective rate metrowide to $1,625 per month.
- Class A rents noted the largest gain among property tiers during this span, with the average rate rising by 13.1 percent to $2,130 per month.

Investment Highlights

- Record-setting apartment demand over the past two years rapidly compressed vacancies in Baltimore, yielding historic rent growth in the metro, which has garnered the attention of institutions. Although deal flow is starting to slow, increased competition for available listings resulted in a 21 percent surge in the average sale price over the past year ending in June. Still, entry costs here are $50,000 per unit less than the Washington, D.C. mean, with first-year returns roughly 100 basis points higher.
- Investors searching for higher-quality apartments are active in West Anne Arundel County, Annapolis and Federal Hill. In these neighborhoods, assets with over 150 units in the $20 million to $100 million price tranche are changing hands most often, with first-year returns here frequently falling into the mid-3 percent span.
- Institutions concentrating on the submarkets with the lowest Class A vacancy rates look to Towson-Hunt Valley and Owings Mills-Pikesville-Randallstown. Despite having some of the tightest upper-tier conditions in the market, both submarkets had Class A rent gains that were below the metrowide average over the past year. This may indicate potential for upside as leases turn over and operators align rates with the market.