

MARKET REPORT

Retail
Baltimore Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

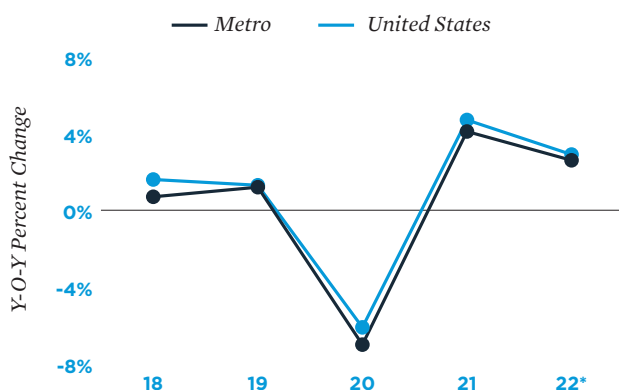
3Q/22

Nationwide-Leading Wage Growth Facilitates a Rise in Consumer Spending and Retailer Expansion

Retail fundamentals turning the corner. Baltimore led all major U.S. metros in median household income growth during the past year ended in June. This standout increase bolstered consumer spending and has caught the attention of expanding retailers. Following an unprecedented stretch of moveouts and store closings that pushed availability up to 6.9 percent, the metro has posted at least 200,000 square feet of positive net absorption in four of the past five quarters entering the second half. Space demand outpaced new supply by nearly 1 million square feet, slicing 80 basis points off the vacancy rate during this span. Leasing activity has been widespread, with retailers taking at least 100,000 square feet off the market in East Baltimore County, Baltimore City West, Carroll County, Ellicott City-Columbia, Towson and the Route 1-BWI Area over the trailing 12-month period ending in June.

Inflationary pressures limit new supply. Retailers looking to expand through new development are facing challenges, including rising construction costs, delays in permitting and extended timelines, due to material and labor shortages. This has curbed supply additions, with retail stock expanding by just 0.2 percent year-over-year ending in June. As a result, second generation space — particularly restaurants — have been highly coveted as of late. This trend is highlighted by recent job gains, as the accommodations and food services sector accounted for more than 40 percent of all positions added metrowide through the first seven months of 2022.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**36,000
JOBS**
will be created

EMPLOYMENT:

Job growth this year remains well above the historical average. However, the rate of increase will slow from the 4.1 percent gain recorded last year. The workforce is expected to reach within 8,000 positions of the pre-pandemic level by the end of 2022.



**355,000
SQ. FT.**
will be completed

CONSTRUCTION:

Although construction activity will accelerate relative to last year's pace, retail stock is projected to increase by only 0.3 percent in 2022. Projects slated for near-term completion are concentrated in eastside Baltimore and Southern Anne Arundel County.



**40
BASIS POINT**
decrease in vacancy

VACANCY:

Net absorption will reach the highest level since 2016, helping metro-wide vacancy decline for the second consecutive year. At 5.9 percent, the rate will remain 100 basis points above Baltimore's pre-pandemic level.

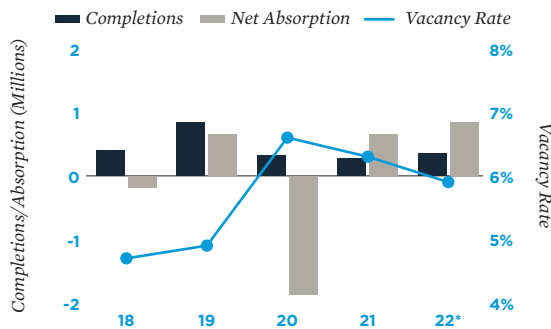


**3.0%
INCREASE**
in asking rent

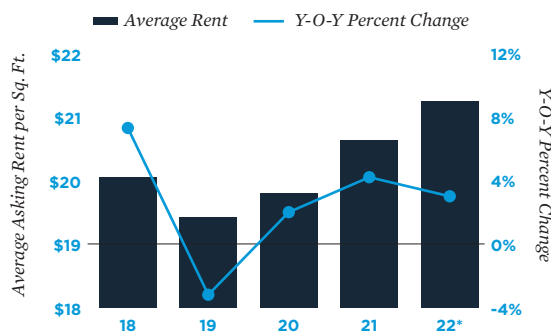
RENT:

Following the 4.2 percent gain last year, the average asking rent continues to rise, reaching \$21.25 per square foot in 2022. This growth rate is roughly 230 basis points higher than the long-term historical average.

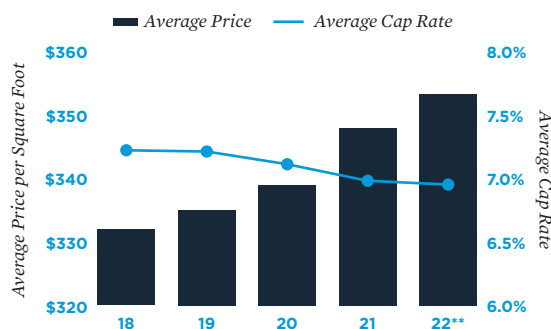
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

202,000 sq. ft. completed

- Completions over the past year ending in June fell by more than 50 percent relative to the previous 12-month span, steering many expanding retailers toward the metro's existing supply.
- Entering August, roughly 350,000 square feet of retail space was underway, with nearly 87 percent of the pipeline preleased.



VACANCY

40 basis point decrease in vacancy Y-O-Y

- Single-tenant properties accounted for nearly 90 percent of all net absorption during the trailing 12-month period ending in the second quarter. Availability in this segment fell 50 basis points to 5.6 percent.
- Meanwhile, vacancy in multi-tenant properties remained relatively steady at 9.1 percent during this span.



RENT

2.3% increase in the average asking rent Y-O-Y

- Average asking rents in multi-tenant properties have been gaining momentum, rising by 7.6 percent year-over-year ending in June. In the single-tenant segment, the mean marketed rate advanced 1.4 percent.
- Baltimore City East led all submarkets in rent gains during this time frame, with the average asking rate increasing by 12.8 percent.

Investment Highlights

- Multi-tenant properties changed hands for an average sale price of \$269 per square foot over the past year ending in June, marking a 3 percent rise relative to the previous 12-month period. The mean cap rate for assets in this segment fell 10 basis points during this span to 7.7 percent.
- Investors are pursuing multi-tenant listings in suburban submarkets with strong residential demand, such as Southern Anne Arundel County, Ellicott City-Columbia, Baltimore County East and the Reisterstown Road Corridor. Grocery-anchored community and neighborhood centers have been highly coveted in these locales as of late.
- Transaction velocity for single-tenant assets rose by nearly 10 percent over the past four quarters ending in June. Heightened competition for listings lifted entry costs in this segment by nearly 3 percent to \$436 per square foot, while the average yield compressed 10 basis points to 6.2 percent.
- Restaurants, fast food establishments and drug stores are being targeted most often in the single-tenant segment. Deal flow has been most pronounced inside the city of Baltimore; however, buyers are also finding opportunities in Towson, Harford County and Anne Arundel County.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

© Marcus & Millichap 2022 | www.ipausa.com