MARKET REPORT

Multifamily

Baltimore Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

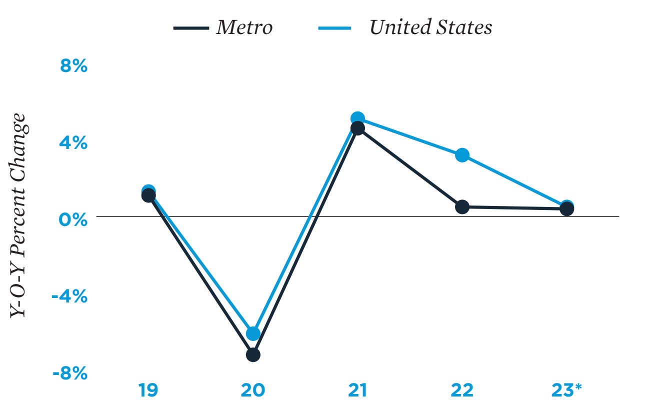
2Q/23

Baltimore's Growing Economy Gives Long-Run Optimism for Renter Demand

Supply growth will inch-up availability. Apartment demand achieved record levels in 2020 and 2021, but conditions in Baltimore have since softened. Nevertheless, the settling from historically tight market conditions leaves the metro in fundamentally healthy shape, and rent growth over the past 12 months ending in March still outpaced Baltimore's long-term average. Although recent performance has waned, a demand moderation was expected as recessionary fears began to emerge. As conditions in the financial sector become more predictable later this year, hiring should accelerate, providing a boost to renter demand. However, deliveries in 2023 will more than double last year's total, and the influx of new supply may continue to nudge up vacancy while slowing rent growth in the near-term.

Long-run tailwinds remain in place. The addition of a new container terminal at the Port of Baltimore, coupled with the Howard Street Tunnel redevelopment, are expected to increase economic activity in the area and create ample employment opportunities. The local tech sector is also growing. Notable firms like Microsoft and Amazon Web Services recently inked leases at the National Business Park. Also, the local presence of the National Security Administration should lure more young talent in the technology and cybersecurity industries, as the administration embarked on a large hiring spree in early 2023. These emerging job segments, along with the presence of the federal government and a collection of world-class healthcare firms, should keep local renter demand steady for the foreseeable future.

Employment Trends



** Forecast*

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

Multifamily 2023 Outlook

5,000 JOBS
will be created

EMPLOYMENT:

Economic uncertainty continues to slow hiring across multiple industries in 2023, resulting in job growth falling under 1 percent for the second straight year. By the end of 2023, total employment will remain roughly 26,000 positions below the previous peak.

2,500 UNITS
will be completed

CONSTRUCTION:

Developers are expected to ramp up activity this year, with annual supply additions projected to reach the highest total since 2020. Projects slated for near-term delivery are concentrated in the CBD and Baltimore City East submarkets.

70 BASIS POINT
increase in vacancy

VACANCY:

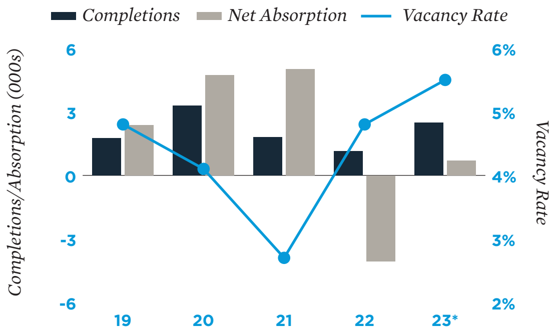
Annual net absorption returns to positive territory; however, an influx of new supply results in the second consecutive year of rising vacancy. Availability is expected to reach 5.5 percent by the end of 2023.

2.4% INCREASE
in effective rent

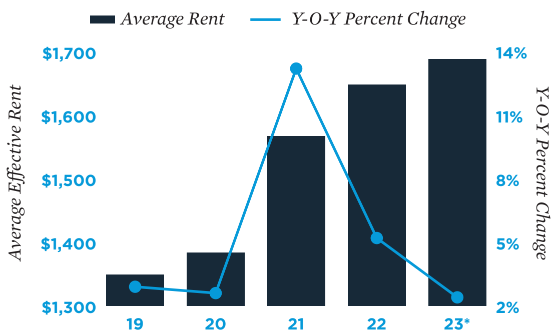
RENT:

Rising vacancy may induce concession usage to fill vacant units and new deliveries, resulting in rent growth slowing from record levels achieved in 2021 and 2022. Still, the average effective rent will rise to $1,688 per month by the end of this year.

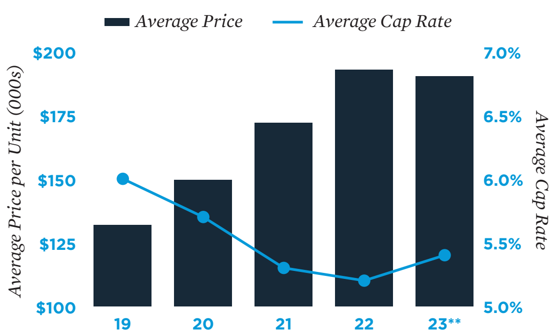
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

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

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Price: $250

1Q 2023 - 12-Month Period

CONSTRUCTION

1,784 units completed

- As of April, there were nearly 5,000 units under construction across the Baltimore metro area, equating to 2.5 percent of existing inventory.
- Development activity ramped up slightly over the past 12 months ending in March relative to the previous yearlong span, with local apartment inventory increasing by 0.8 percent.

VACANCY

260 basis point increase in vacancy Y-O-Y

- More than 4,400 units were returned to the market on a net basis during the trailing yearlong period ending in March, resulting in vacancy rising to 5.2 percent entering the second quarter.
- Availability in Class A apartments was at 5.4 percent, while Class B properties recorded a rate of 5.0 percent entering April.

RENT

4.3% increase in the average effective rent Y-O-Y

- The average effective rent in Class A buildings rose by 5.0 percent, while the mean rate in Class B apartments increased by 4.6 percent during the past four quarters ending in March.
- The Baltimore City North and West submarkets led all locales in rent gains during this span, posting gains of 9.0 percent and 6.6 percent, respectively.

Investment Highlights

- The average first-year return in Baltimore was at 5.4 percent for trades recorded during the 12-month period ending in March. Entry costs rose by more than 40 percent since the start of 2020, as record levels of absorption following the end of pandemic lockdowns elevated buyer interest, resulting in rapidly declining yields during this time frame.
- Trading activity for assets $20 million and above reached the second-highest level on record in 2022. However, transaction velocity drastically declined starting in October of last year though the first quarter of 2023, as rising interest rates widened the gap between buyer and seller expectations. Elevated borrowing costs may continue to slow deal flow and produce cap rate adjustments going forward, at least in the near-term while there is still uncertainty in the banking system and financial markets.
- Buyer activity for higher-tier assets has been most pronounced in Howard County, where mean local effective rents are roughly $300 above the metro average. Properties here are highly coveted due to the area's proximity to large suburban office parks, coupled with a highly-regarded school system that attracts many renters, with pricing averaging around $260,000 per unit.