MARKET REPORT

Multifamily

Baltimore Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

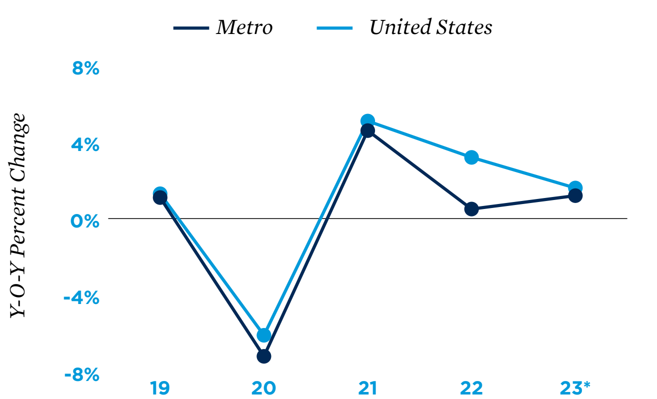
3Q/23

Slow Labor Market Recovery Continues to Hinder Apartment Demand in Baltimore

Lower-tier units drive vacancy increase. Renter demand somewhat rebounded from April through June of this year, marking the strongest quarterly absorption total since the final frame of 2021. More than 600 units were taken off the market on net during this span; however, that figure remained well below the second quarter average for the metric in the decade leading up to the health crisis. The more affordable, workforce housing segment of the market has been most affected in recent quarters, as the ending of the statewide eviction moratorium and inflationary pressures have significantly hindered leasing in lower-tier apartments. Other headwinds include a declining population in the 20- to 34-year-old cohort, coupled with total employment remaining 21,000 positions below the pre-pandemic peak. As of June, Class C vacancy was at 5.7 percent, the highest rate among all apartment property tiers. Meanwhile, the rates in Class A and B units registered at 5.4 and 4.9 percent, respectively.

Annapolis stands out among submarkets. Even with recent negative momentum, some areas are still boasting healthy fundamentals. Entering the third quarter, vacancy in Annapolis was at 3.4 percent, which is 200 basis points below the 2019 level and the lowest rate among all submarkets in Baltimore. Despite having the highest effective rent in the metro, renter demand has remained steady due to a strong local employment base that includes the State of Maryland, Anne Arundel Medical Center and the U.S. Naval Academy. Minimal deliveries in the area also helped keep market conditions tight.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

16,200 JOBS *will be created*

EMPLOYMENT:

Job growth exceeds the long-term average as firms expand the workforce by 1.2 percent in 2023. Still, Baltimore remains one of just seven major U.S. metros where total employment remains below the 2019 level.

3,000 UNITS *will be completed*

CONSTRUCTION:

Deliveries in 2023 will more than double last year's pace, as developers expand local inventory by 1.3 percent. However, apartment construction is expected to moderate throughout Baltimore over the next two years.

70 BASIS POINT *increase in vacancy*

VACANCY:

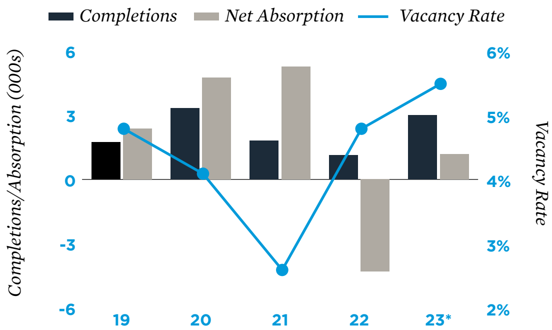
Despite the return of positive renter demand in 2023, vacancy will increase on an annual basis for the second straight year. Notable supply pressure will lift the metro's rate to 5.5 percent, the highest level since 2018.

2.5% INCREASE *in effective rent*

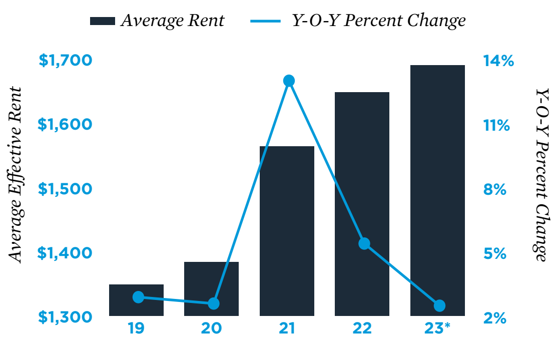
RENT:

Rising vacancy and competition from new properties will hinder rent gains in 2023, as the growth rate falls below the long-term average of 3.3 percent. The mean effective rent will reach $1,690 per month by year-end.

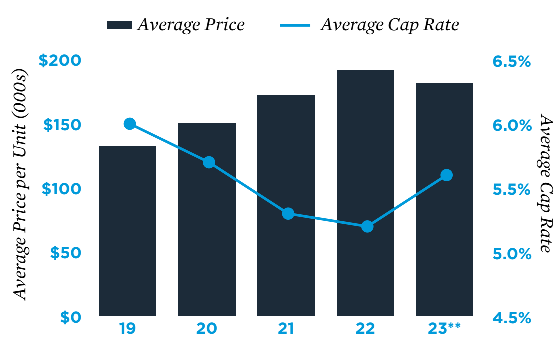
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION

2,430 units completed

- Developers increased local apartment inventory by 1.0 percent during the past year ending in June. East Baltimore led all submarkets in supply additions, receiving more than 1,060 units.
- Similar to Annapolis, deliveries were sparse in North and West Baltimore, as well as Southeast and Southwest Baltimore counties.

VACANCY

200 basis point increase in vacancy Y-O-Y

- During the past 12 months ending in June, all but one of Baltimore's 15 submarkets recorded a local annual vacancy increase of at least 100 basis points, lifting the metrowide average to 5.3 percent.
- Vacancy in Class B apartments was at 4.9 percent, the lowest among property tiers. Meanwhile, the Class A rate registered at 5.4 percent.

RENT

3.1% increase in the average effective rent Y-O-Y

- Annual rent growth slowed to the lowest level since late 2020 during the previous four quarters ending in June. Still, the metro's average effective rent advanced to $1,675 per month, a new all-time high.
- Rent gains were strongest in Annapolis, North Baltimore and Columbia-North Laurel, with each area recording local growth over 4 percent.

Investment Highlights

- Heightened borrowing costs and rising vacancy have combined to hinder deal-making in the Baltimore metro. Transaction velocity slowed by more than 50 percent over the past year ending in June relative to the previous period, as many investors are opting to take a wait-and-see approach during fluctuations in capital markets. Although the average sale price has contracted in recent quarters, at $180,850 per unit, the mean entry cost still remains 37 percent above the 2019 annual mark. This may prompt some buyers who acquired assets prior to the health crisis to list their properties for sale to capitalize on the strong price appreciation in recent years.
- As elevated debt costs impact profit margins, many institutional investors are targeting assets outside of Baltimore proper. The city's property tax rate at 2.2 percent is more than double that of the next-closest municipality, which has elevated interest for suburban assets. Properties with over 150 units in areas like Baltimore County, Anne Arundel County and Howard County have been changing hands as of late. Pricing here has averaged around $220,000 per unit over the past four quarters, with first-year returns averaging in the low-5 percent span.