

MARKET REPORT

Retail
Baltimore Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

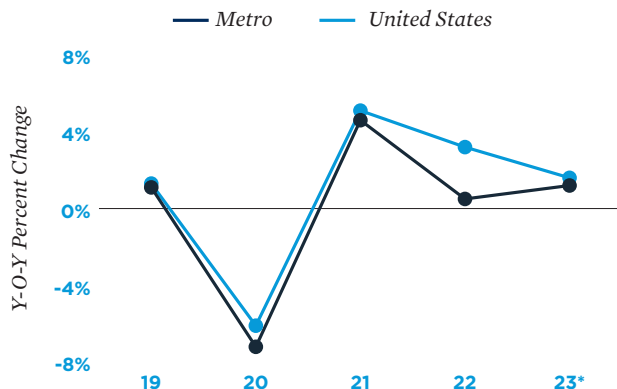
4Q/23

Retailers Coalescing Around Major Thoroughfares As Space Preferences Shift

Tenant demand for highway-adjacent retail stands out. With only 10,000 square feet delivered since 2019, as well as near decade-high net absorption over the past year, vacancy along the Route 2 Corridor fell 150 basis points annually to 9.1 percent in June. Amid softer demographic trends in the metro, retailers have placed greater emphasis on locations near the submarket's highway. Maryland Route 2 connects Baltimore to Annapolis — the state's administrative capital — as well as the highly-visited western Chesapeake, aiding retailer performance. Average asking rates were the lowest among the metro's larger submarkets, at \$16.64 per square foot, enabling retailers to minimize downside risk. Although, amid nominal construction moving forward, some space demand may shift toward other submarkets with highly-trafficked thoroughfares that have higher amounts of newer and upcoming builds, like the Route 1-BWI Area.

Route 83 North is an expansion hotspot. Central Baltimore County had nine straight quarters of positive net absorption through June 2023, unmatched by any other submarket. Connectivity from high-income outlying suburbs, like Sparks, to Baltimore City has been a primary factor motivating retailer expansions. The presence of Johns Hopkins University also provides a buttress against economic downturns, supporting space demand. With local vacancy already falling to a post-2020 low of 5.6 percent in June, mild construction on top of these factors should sustain further tightening.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**16,200
JOBS**

will be created

EMPLOYMENT:

Job creation this year will exceed the market's long-term average pace, at 1.2 percent. Most hiring is anticipated to come from the public sector, as the Baltimore city government added 9,200 roles in the first eight months.



**310,000
SQ. FT.**

will be completed

CONSTRUCTION:

Baltimore's overall retail stock is projected to expand by 0.3 percent for the third consecutive year. As of October, the Route 1-BWI Area accounted for over one-fifth of the metro's total construction pipeline.



**10
BASIS POINT**

increase in vacancy

VACANCY:

Marketwide vacancy bumps up to 6.1 percent as a third consecutive year of net out-migration slows the pace of retailer expansions. Still, mild multi-tenant deliveries should limit near-term rises in that segment's rate.



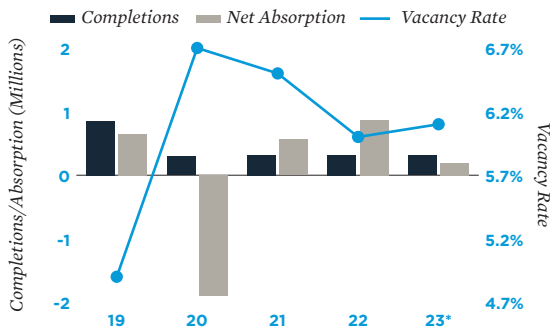
**0.3%
INCREASE**

in asking rent

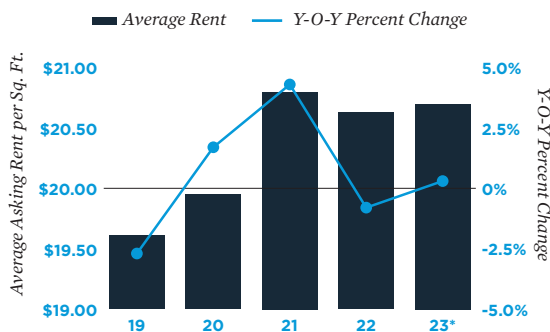
RENT:

After declining in 2022, Baltimore's average asking rent inches up to \$20.70 per square foot this year. Single-tenant spaces should lead this growth, following a 1.6 percent gain through the first half of 2023.

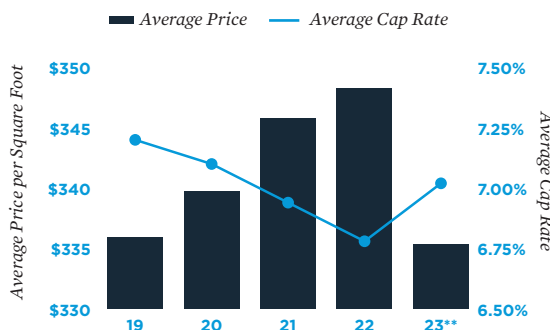
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

343,000 sq. ft. completed

- Marketwide inventory grew by 0.3 percent in the 12-month period ended June. Deliveries were widespread, as Baltimore City East's 91,000-square-foot total ranked as the highest among any local submarket in the span.
- The 0.9 percent stock expansion reported by Downtown Baltimore City was a six-year high for the submarket.



VACANCY

20 basis point decrease in vacancy Y-O-Y

- Three out of the metro's five submarkets with at least 10 million square feet of inventory noted vacancy compression over the last year. These local declines contributed to lowering the marketwide rate to 6.1 percent.
- Vacancy in the Route 1-BWI Area fell 90 basis points over the first six months of 2023 to a metro-low 2.4 percent.



RENT

0.8% decrease in the average asking rent Y-O-Y

- A 6.8 percent annual decline in the average multi-tenant asking rate pulled Baltimore's overall mean marketed rent down to \$20.65 per square foot.
- Single-tenant asking rents may climb in the Route-1 BWI Area. The submarket was one of just three across the mid-Atlantic with more than 5 million square feet of single-tenant stock and sub-2 percent vacancy.

Investment Highlights

- Transaction velocity remained at an above-average pace during the first quarter, but has since trailed off amid restrained lending from regional banks. Still, deal flow has actually risen to a five-year high in the Reisterstown Road Corridor in the first eight months of 2023. Buyers may have been attracted to low single-tenant pricing and improving property operations. Over the year ended in June, numerous local assets changed hands for under the metro average of \$412 per square foot. In the same span, the submarket's overall vacancy rate fell by a metro-leading 520 basis points. If this momentum continues, it should pull investor interest here into 2024.
- Despite slowing deal flow, assets in Southern Anne Arundel are still generally commanding premium pricing compared to the rest of the metro. Nearly all transactions for restaurants in the area have penciled in for over \$420 per square foot in 2023, with local cash flow expectations bolstered by record, double-digit percentage rent growth over the past year.
- Relative to the total number of deals, auto parts shops had their best representation since at least 2018. Most are trading in outlying suburbs, such as Ellicott City-Columbia, Harford County and the Route 1-BWI Area.

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