

INVESTMENT FORECAST

Industrial
Baltimore Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2024

Tempered Demand for Certain Types of Industrial Space Not Holding Back Investment Sales

Distribution and manufacturing tailwinds weighed down by warehouse hurdles. Baltimore entered 2024 boasting the greatest cumulative rent growth since 2019 of any major Northeast market, reflecting the metro's expanding industrial tenant base. Leasing trends in 2023 favored distribution facilities and manufacturing spaces, including by aerospace firm Rocket Lab, with a move to Middle River slated for this year. Overall net absorption in 2023 nevertheless slowed to the lowest level since the financial crisis, as more warehouses were relinquished than occupied. That behavior will likely extend in some degree through this year as e-commerce and omni-channel retailers trim their footprints amid less rapid consumer spending growth and higher operating costs. Following this settling, the long-term outlook for the market is aided by a tapering development pipeline, increasing Port of Baltimore throughput and household formation. Properties near the population centers of Baltimore and Columbia, as well as along Interstate 95 to Philadelphia, continue to register strong tenant demand.

Trends entering 2024 point to optimism for this year's investment sales climate. While overall trading in 2023 was down by about a third from the record set in 2022, activity in the final three months of last year surpassed the quarterly average from that same landmark period. The pickup in transactions, together with an 80-basis-point jump in 2023's mean cap rate, suggest buyer and seller expectations are aligning. This behavior may carry further into 2024, if benchmark interest rates like the 10-year Treasury stay relatively stable. For active investors, I-95 continues to exude a strong influence, with properties frequently changing hands near the major thoroughfare as it passes through the city of Baltimore and up into Harford County.

2024 MARKET FORECAST

+1.2%



EMPLOYMENT: While the pace of employment growth slows in 2024, the 17,000 jobs created will still outpace six of the ten years preceding the pandemic.

1.2 million
sq. ft.



CONSTRUCTION: Completions slated for this year will comprise the smallest opening total since 2012. About half of the space arriving this year will be on the east side of Baltimore County.

+30 bps



VACANCY: Baltimore's vacancy rate will advance by under half the margin of the U.S. measure to a local level of 7.1 percent. The metro's average vacancy rate from 2014-2019 was 7.8 percent.

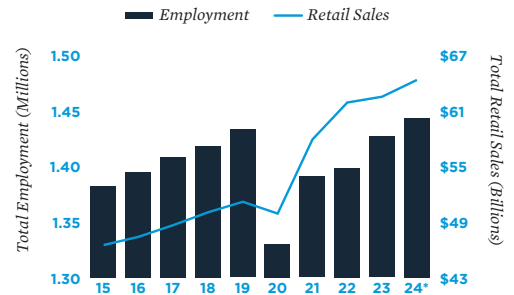
+8.1%



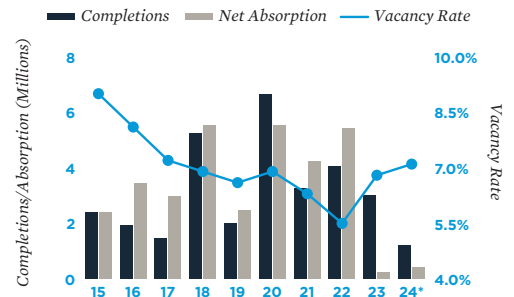
RENT: The average asking rent in the metro will rise to \$11.91 per square foot this year, allowing Baltimore to join just four other major U.S. markets that will post rent growth of over 8 percent.

INVESTMENT: *Despite softer absorption for warehouses in 2023, the asset type held investors' attention. For properties in strong locations, re-tenanting may allow for the capture of the past few years' robust rent growth.*

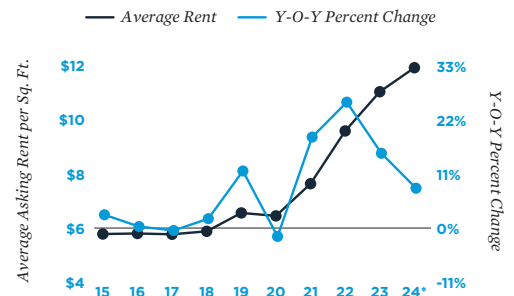
Economic Trends



Supply and Demand



Rent Trends



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2023. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.