INVESTMENT FORECAST

RETAIL

Baltimore Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2019

Strong Demand Further Limits Availability Despite Elevated Construction

Job growth drawing new retail tenants, sustaining minimal vacancy. Demographic factors continue to benefit the local economy. A fifth of all Baltimore jobs are in educational and health services, a segment that will become increasingly important as the baby boomer generation ages and more young people attend college. Positive job creation improves the underlying demand for retailers in the metro, emphasized by the growing number of tenants moving into the area the past few years. More operators locating in the market in 2019 will keep availability at a historically low level, even as the construction pipeline expands. Completions for this year are largely located outside the core, led by a pair of big-box stores in Owings Mills and two shopping centers in southeast Baltimore City. These buildings are already fully pre-leased, supporting a rise in asking rents at existing facilities. Monthly rates will appreciate at a pace consistent with the previous five-year annual average following a growth surge in 2018.

Pockets of household growth and rising yields bolster investor demand. Few deliveries in 2018 and favorable consumption trends enhanced the competition for listings. While sales prices are rising, entry costs remain below those of other Mid-Atlantic markets, propelling investment activity in Baltimore. The recent influx of multifamily arrivals downtown is changing the retail dynamic in the metro's core, contributing to buyer interest. Residential growth is also supporting elevated sales velocity near Aberdeen, with investors pursuing opportunities in areas near ingress/egress ramps along I-95 and Route 40. Greater initial returns are also bolstering investment interest. Uncertainty over lending rates is motivating some buyers to seek wider financing margins, to which the market's rising average cap rate is an advantage. The retail cap rate average begins 2019 near the mid-7 percent zone, its highest level in six years.

2019 Market Forecast

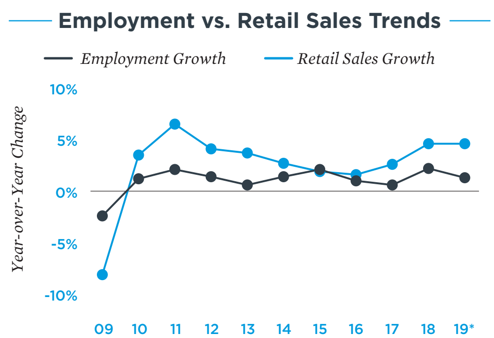
Employment up 1.3% — Metro employers will expand staffs by 18,000 personnel this year following a 2.2 percent increase in 2018.

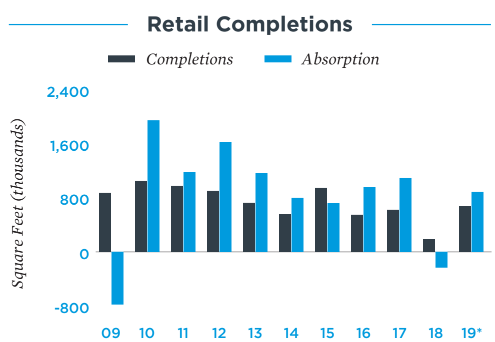
Construction 680,000 sq. ft. — Last year development fell to the lowest level in over a decade as less than 190,000 square feet of retail space was delivered. For 2019 the pace of completions advances to a four-year high.

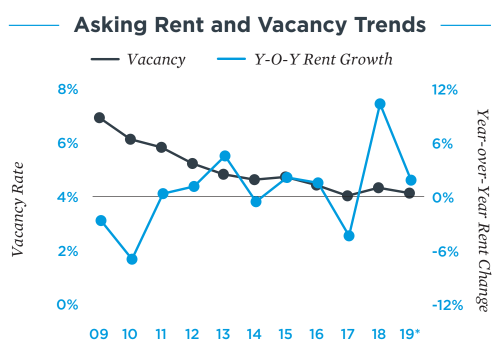
Vacancy down 20 bps — Improved demand supports a drop in the vacancy rate to 4.1 percent, its second-lowest value in more than eleven years. In 2018 vacancy rose 30 basis points.

Rent up 1.8% — The average asking rent advances to $20.94 per square foot after rates appreciated by multiple times that pace in 2018.

Investment — Recently established opportunity zones in the city of Baltimore have already begun attracting new investment into the area, and could incite new transaction activity as both private parties and funds seek existing assets for redevelopment.







* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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