

INVESTMENT FORECAST

Multifamily
Baltimore


IPA
INSTITUTIONAL
PROPERTY
ADVISORS


2020

Vacancy Drops to Historical Low; Investors Find Comparative Advantage in Baltimore

Vacancy drops to multiyear low amid moderated construction pipeline. Baltimore's well-regarded educational institutions and healthcare providers, comprising about a fifth of the labor force, continue to hire thousands of personnel per year. These new job opportunities are supporting the formation of additional households, contributing to a steady increase in rental demand that will drop vacancy to 4.3 percent in 2020. The number of units available has not fallen much below this threshold since 2000 when vacancy was 2.6 percent. Operations are also benefiting from a more modest construction pipeline. Except for 2019, fewer units will come online in 2020 than during any other year since 2011. While not as many apartments will open within the city of Baltimore as previous years, a handful of large-scale projects are slated to deliver in surrounding towns. Projects with more than 300 units apiece will be finalized in the suburban settings of Ellicott City, Columbia and Towson, where demand for the new supply is underscored by below-market vacancy rates. This dynamic is also leading to above-market average rent growth, contributing to a metrowide appreciation in effective rates similar to 2019.

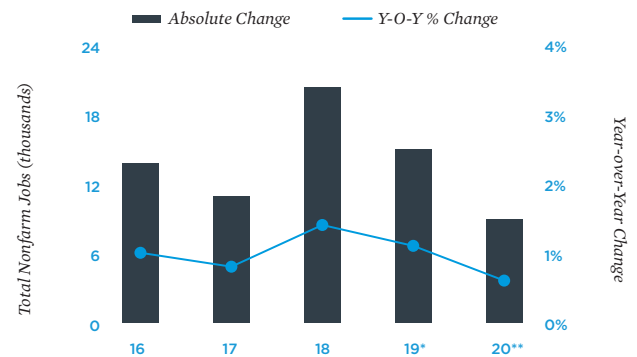
Expanding investor pool for Baltimore assets poised to continue. The search for yield and stable market conditions over the past two years put Baltimore on more investors' lists for acquisitions and that trend should continue for the coming year. Cap rates typically average 50 basis points higher than primary East Coast markets, which has piqued the interest of a larger buyer pool than traditionally witnessed in the marketplace. Last year recorded acquisitions from cross-border capital sources and REITs, which highlights the expanding interest for the metro and favorable outlook for returns given the long-term hold strategy of these investors. In addition, because Baltimore has been late to the investment cycle as an acquisition target, the market holds a deeper pool of well-located value-add opportunities that have yet to be tapped. As more capital sources are introduced into the market due to the tempered supply pipeline, potential renovation opportunities and stable rent growth projections, demand for assets will remain elevated. Existing owners could reap strong returns in the coming year given the strong demand for assets and pricing conditions.

20.5%  2019 share of local population between 20 and 34 years old

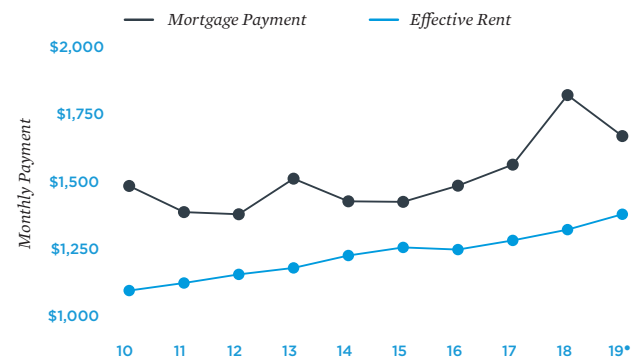
37.9%  of local population hold bachelor's degree or higher*

\$294,908  2019 median home price

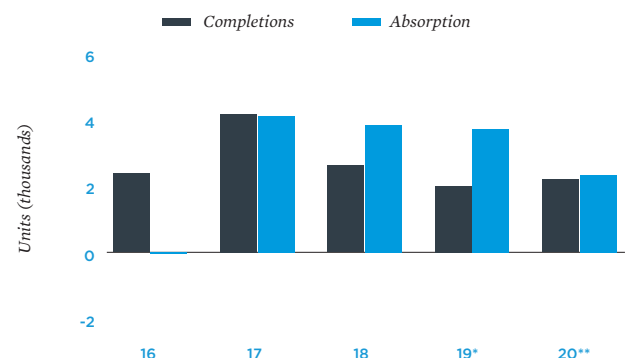
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast * Through 3Q
* 2019: 25+ years old

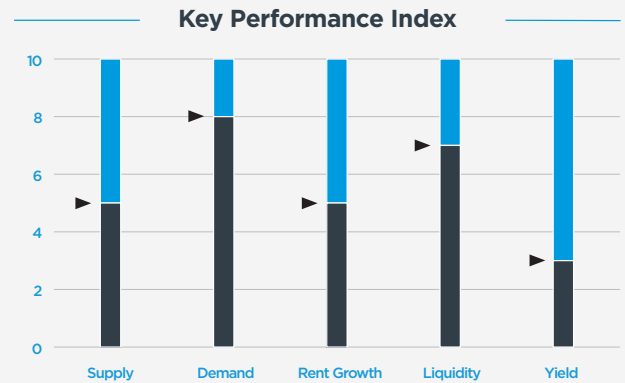
Sources: Marcus & Millichap Research Services; RealPage, Inc.

2020 Investment Outlook

Balance in market performance in the second half of 2019 maintained rent growth at 5 as demand advanced from 7 to 8. Supply retreated by two points but still holds a solid 5, reflecting the overall equilibrium in the multifamily market.

Upward liquidity movement of two points shows the growing investment interest in Baltimore as new capital flows into the metro. The rise in liquidity helps explain the two-point drop in yield over the past six months, but it remains at an attractive level.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2020 Market Forecast

Employment
48,000 jobs



Metro **0.6%**
U.S. **1.0%**

Construction
as % of inventory*



Metro **0.9%**
U.S. **1.7%**

Class A Vacancy
Up 60 bps



Metro **5.0%**
U.S. **5.3%**

Class A Rent
\$1,922 per month

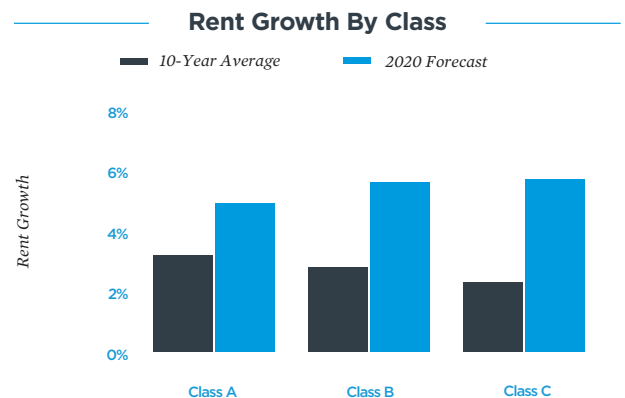
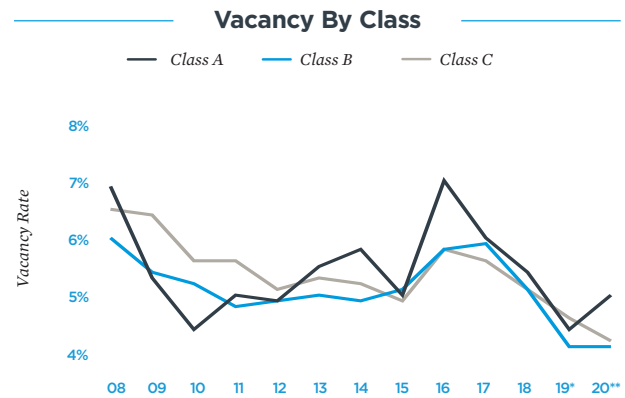


Metro **4.9%**
U.S. **3.3%**

Investment
3-yr. avg. activity
\$20+ million



Deals: **27**
Volume: **\$1.7 billion**



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* Estimate ** Forecast
* Arrow reflects completions trend compared with 2019
Sources: Marcus & Millichap Research Services;
CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics