INVESTMENT FORECAST

OFFICE

Baltimore Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

2020

Vacancy, Asking Rent Adjust Marginally; Suburban Office Hubs Propel Employment Growth and Deal Flow

Existing floor plans benefit from reduction in office development. Spanning the past three years, Baltimore represented a locale of stable office fundamentals, bolstered by its sizable medical sector and expanding tech industry. During the 36-month stretch, metro vacancy hovered in the mid-12 percent to low-13 percent range thanks largely to increased demand for Class B and C space. In 2020, renewals and new leases inked at these properties, spurred by the addition of more than 8,000 traditional office positions, will continue to support a level of absorption that translates to stable vacancy. A subdued volume of construction will also support sturdy demand for existing floor plans as deliveries fall to a cycle low, highlighted by Wills Wharf, a 233,000-square-foot property in Harbor Point. Minimal construction activity coupled with a nominal shift in office availability is not expected to significantly impact asking rents, with the metro's rate holding roughly $9 per square foot below the national average.

Pronounced asking rent growth in suburbs catches buyers' attention. Entering this year, Class B and C vacancy sat at a cycle low while asset values trailed the previous cycle's peak pricing by 14 percent, suggesting room for upside exists in Baltimore. Sales activity in suburban office hubs will continue to dictate overall deal flow, with investors accepting high-6 percent minimum returns outside the core. Buyer demand remains strong along Interstates 83 and 95 in Baltimore County, aided by a recent decline in local vacancy coupled with above-average rent gains. Here, opportunities to deploy $5 million to $10 million per transaction are most frequent, with high-7 percent to 9 percent cap rates common. Similar first-year yields are obtainable along Route 1, where higher asking rents and sub-$150 per square foot pricing pique investors' interest. Core-focused buyers eye Midtown Baltimore, where smaller Class C properties near major medical centers are available for less than $100 per square foot.

2020 Market Forecast

Employment up 1.4% — Organizations expand staffs by 20,300 positions in 2020. Traditional office-using employers grow payrolls 2.4 percent with the addition of 8,300 jobs.

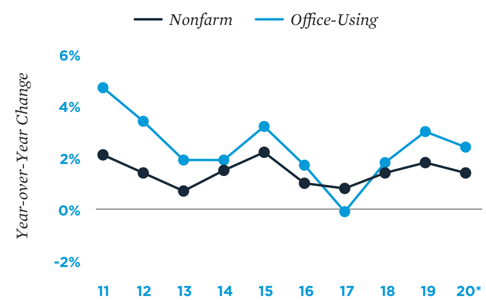
Construction 512,000 sq. ft. — Development is subdued for a second consecutive year, with supply additions upping the metro's office stock by 0.4 percent.

Vacancy down 10 bps — On net absorption of nearly 600,000 square feet of space, metro vacancy dips to 12.3 percent in 2020, comparable to the 30-basis-point drop registered last year.

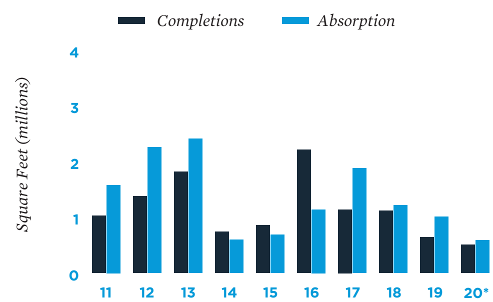
Rent up 0.3% — The average asking rent rises nominally this year to $23.13 per square foot. Spanning the prior two years, the metro's average rate declined by 2.7 percent.

Investment — Canton, Fells Point and other eastern Baltimore neighborhoods continue to attract buyers seeking sub-$2 million, Class C listings in areas of locally tight vacancy.

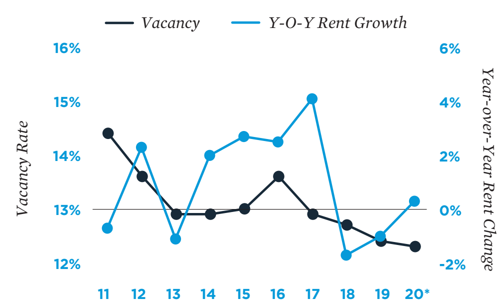
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



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

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