

Baltimore Office Market

Softening Intensifies in Core Submarkets as Slow Leasing Environment Persists

The Baltimore metro area's office market continued softening in the first quarter of 2021, measuring the largest net absorption loss since the beginning of the pandemic. Although Baltimore's occupancy losses in 2020 were mild relative to comparable U.S. markets, limited leasing activity and tepid demand have become a weight on the market's prospects of tightening in the near term.

Net absorption registered -359,250 square feet during first-quarter 2021. This marks four consecutive quarters of occupancy losses in the Baltimore metro. Slow leasing activity throughout 2020 may limit the opportunities for occupancy expansion in 2021. Though most tenants remain paused in making significant real estate decisions, leasing activity could be poised for a rebound in 2021, partly due to the distribution of the coronavirus vaccines. As vaccination rates rise in the coming months, confidence among office occupiers is likely to increase and mark an inflection point for office re-boarding and re-engagement in real estate planning.

Vacancy continued to steadily rise in first-quarter 2021, reaching 14.2%. This marks a 40-basis point increase from fourth-quarter 2020 and a 120-basis point increase from one year ago. Occupancy losses have been the largest contributing factor in rising vacancy rates, as the construction pipeline has not delivered a building since second-quarter 2020. Quarterly vacancy rose in each of the metro area's four largest office submarkets, indicating tenant attrition in some of the region's most desirable office locations. The Baltimore market currently has 333,110 square feet of office space under construction—a modest pipeline.

Asking rents averaged \$24.49/SF during first-quarter 2021, up from \$24.18/SF in the previous quarter. Face rents have largely been flat since the onset of the pandemic; however, the growing supply of new availability, much of it sublease space from tenants in higher-end buildings, is steering the average asking rent. Over the past year, 1.1 million square feet of new Class A availability was added to the market. These more expensive space listings have shifted the balance of Baltimore's average weighted rents to higher-end product. Average rent growth, as measured in a "same store" method, remains largely flat as demand continues to lag. Tenants have leverage in the current market.

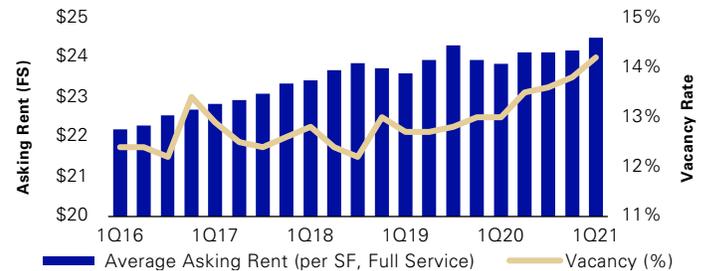
NEWMARK

Current Conditions

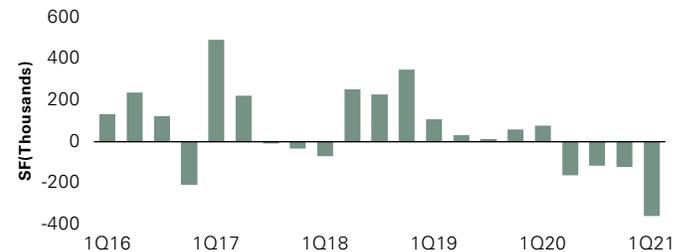
- The Baltimore office market registered -359,250 square feet of net absorption during the first quarter, marking the largest quarterly loss of occupancy since the start of the pandemic.
- The overall vacancy rate for Baltimore's office market was 14.2% in the first quarter of 2021, up 40 basis points on the quarter and up 120 basis points from one year ago.
- Construction activity remains muted to begin 2021, with only 333,110 square feet of office space under construction.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	82.0M	82.1M	81.7M	↑
Vacancy Rate	14.2%	13.8%	13.0%	↑
Quarterly Net Absorption (SF)	-359,250	-121,307	77,068	↓
Average Asking Rent/SF	\$24.49	\$24.18	\$23.84	→
Under Construction (SF)	333,110	333,110	332,773	↑
Deliveries (SF)	0	0	0	↑

Advancements in the treatment and vaccination of the coronavirus have been encouraging for commercial real estate. The effective re-boarding of offices hinges on the ability for communities to reach widespread immunity, and indicators point to this achievement being reached in the second half of 2021. Governor Hogan announced that beginning April 27, all Maryland residents over the age of 16 will be eligible to register for the coronavirus vaccine. These forward-looking indicators depict greater market stability to come; however, the current pace of recovery remains slow. Additionally, real estate markets tend to lag the economy, which may delay recovery but will afford greater leverage to tenants in the market for space.

Suburbs are Well Positioned to Recapture Demand

Office demand continues to be subdued in the Baltimore market; however, the underlying conditions that drove tenant and investor demand before the pandemic are expected to remain engines throughout the recovery. Cybersecurity and defense contracting have been the anchors of Baltimore's office market expansion for several years. Geographically, these firms have largely concentrated in suburban submarkets and benefit from the proximity to federal agencies and military installations. Federal spending, which drives demand for government contractors, is expected to remain steady and should provide stability for the government contracting sector locally.

Prior to the pandemic, federal procurement often translated to office demand from contractors; however, that relationship may be weakening. Given the adoption of remote working, particularly among technology firms, IT-focused contractors may determine that a decentralized workforce or smaller office footprint is more advantageous for operations. In the last several months, NewWave, a government-focused IT company, has listed both of its Woodlawn office spaces for sublease. Totalling nearly 52,000 square feet, these sublets could be a temporary strategy to recoup value from unused office space, but it could also reflect how technology companies will view the utility of office space in the future. That said, compelling reasons to return to the office abound for tenants, including the building of corporate culture, the attraction/retention of top talent, and for mentoring purposes.

While the conditions likely to drive future demand are sturdier in Baltimore's suburbs, space contractions have been common market-wide in recent quarters. First-quarter 2021 marked the largest occupancy loss for the submarkets outside of Baltimore City, measuring -335,815 square feet. Over half of that lost occupancy was Class A space, which recorded a vacancy rate of 14.8%. Still, Class A vacancy in the submarkets outside of Baltimore City remains below that of Baltimore City (16.1%) and total availability was slightly down in the first quarter. Class A product in the suburban submarkets, particularly in the I-95 Corridor, performed well in attracting tenancy prior to the pandemic. Newer, suburban Class A product is likely to rebound first as demand accelerates in the region.

Private Investors Support Office Acquisitions in a Slow Year

Office investment activity has been soft since the beginning of the pandemic, as uncertainty cooled investor appetite. Sale volume for investor-grade office buildings was down 29.3% in the Baltimore metro in 2020. While total volume lagged, largely due to inactivity from publicly traded REITs and foreign investors, institutional and private investors increased acquisition activity. For investment-grade buildings, institutional and private investors accounted for 93.6% of the metro's acquisitions in 2020, above the five-year average of 61.7%. These groups were also less likely to divest from the market, representing 40.5% of all dispositions in 2020, compared to a five-year average of 69.9%. A large share of the private acquisitions originated from Mid-Atlantic-based investment groups, indicating that local real estate investors see opportunity and are confident enough to deploy capital.

Investment sales remained slow but steady in first-quarter 2021. Noteworthy transactions included 855 N Wolfe Street and 1812 Ashland Avenue, which sold as part of Brookfield's \$3.4 billion portfolio to Blackstone Property Partners Life Sciences. Two small suburban office/medical buildings also closed during the first quarter of 2021. These investments highlight the momentum of life sciences and healthcare in the Baltimore market.

Notable 1Q 2021 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
CliftonLarsonAllen	1966 Greenspring Drive	I-83 Corridor	Lease Extension	28,962
Advarra	6100 Merriweather Drive	Downtown Columbia	Direct Lease	27,130
MGH Advertising	118 Shawan Road	I-83 Corridor	Direct Lease	20,000
Maryland Oncology Hematology	810 Bestgate Road	Annapolis	Direct Lease	20,000

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
200 St. Paul Plaza	CBD Baltimore	\$38,860,000	\$139	280,000
6200-6250 Old Dobbin Lane Complex (6 Buildings)	Columbia North	\$30,600,000	\$121	252,476

Baltimore Office Market Outlook

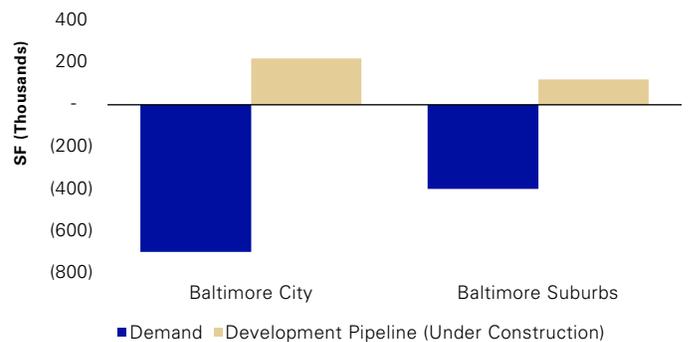
Soft market conditions are expected to persist in the Baltimore metro area at least through the summer of 2021. The slow labor recovery over the past six months dampened growth projections for early 2021; however, job creation is likely to accelerate throughout the year. Though the market saw a loss of 94,300 jobs in 2020, it is expected to recoup 38,600 jobs in 2021. Public health conditions are anticipated to greatly improve this year and fuel the rehiring of many workers, particularly those in the leisure and hospitality sector. The recovery of office-intensive jobs is also likely to accelerate; however, these jobs, such as the 3,500 jobs lost in the past year in the financial services sector, may be more dependent on full economic stabilization.

The extended period of slow leasing activity in 2020 and the modest number of new lease signings will limit occupancy increases in the coming quarters. In addition, it is likely that tenants will look to downsize real estate footprints to account for a more remote workforce. As such, negative net absorption is expected over the next two years, with most of the lost occupancy concentrated in Baltimore City. These occupancy losses will apply upward pressure on vacancy rates, which are anticipated to reach 15.9% for the metro area as of first-quarter 2023. Baltimore City is likely to see its vacancy rate rise 300 basis points over the next two years, to 17.8%. The region's relatively modest construction pipeline will help to keep inventory expansion minimal. This will help suppress supply-side vacancy growth and will also ensure tenants in the market for space will occupy existing inventory.

Tenant demand could be poised for modest growth in the coming quarters as the distribution and administration of the coronavirus vaccines represents a turning point in the global fight against the virus. As confidence grows among occupiers and re-boarding occurs in earnest, pent-up demand may boost leasing momentum. When demand returns, the suburbs are likely to attract the most interest, which is in line with pre-pandemic trends. Fast-growing suburban nodes, such as the I-95 and I-83 Corridors, have developed a diversified and stable tenant base, anchored by federal agencies and associated contractors. Rising sublease availabilities and uncertainty regarding the future office needs of cybersecurity firms could temper the market's recovery, but the region's key industries suggest modest long-term growth.

Supply/Demand Forecast

Baltimore Metro Area, 24 Months Ending March 2023



Source: Newmark Research; March 2021

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	1Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Baltimore Metro Area	82,036,039	13.4%	14.2%	756,845	214,869	-323,316	-359,250	-359,250
Class A	48,903,457	14.3%	15.2%	646,977	229,965	-253,944	-228,296	-228,296
Class B	27,265,082	12.4%	12.8%	271,833	4,743	-103,903	-130,288	-130,288
Class C	5,867,500	11.7%	11.7%	-161,965	-19,839	34,531	-666	-666

Market Statistics By Class

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Baltimore Metro Area	82,036,039	\$26.61	\$20.79	\$24.49	0	0	333,110
Class A	48,903,457	\$26.61	NA	\$26.61	0	0	333,110
Class B	27,265,082	NA	\$20.79	\$20.79	0	0	0
Class C	5,867,500	NA	NA	\$20.75	0	0	0

Note: Asking rents are quoted on a full service basis.

Submarket Statistics—All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	1Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Baltimore Metro Area	82,036,039	13.4%	14.2%	756,845	214,869	-323,316	-359,250	-359,250
Annapolis	3,328,553	15.8%	16.1%	10,663	134,066	29,279	-38,549	-38,549
Baltimore County East	1,891,681	18.7%	18.7%	109,034	56,112	-16,733	-58,503	-58,503
Baltimore Midtown	2,299,695	4.7%	4.7%	-178,157	-6,386	47,183	3,446	3,446
Baltimore Northeast	1,179,016	0.2%	0.2%	5,736	23,344	19,234	-1,389	-1,389
Baltimore Northwest	1,229,881	9.5%	9.5%	194	-5,735	5,718	-5,090	-5,090
Baltimore Southeast	6,869,047	10.6%	12.1%	-134,011	23,318	-70,119	2,087	2,087
Baltimore Southwest	2,287,701	22.1%	22.4%	28,539	9,386	-50,758	48,625	48,625
BWI	9,670,197	10.0%	10.9%	345,052	104,555	139,208	-72,222	-72,222
Carroll County	369,095	10.9%	10.9%	3,846	-12,332	-18,170	1,452	1,452
CBD Baltimore	15,002,509	17.3%	18.0%	228,026	-102,373	-136,611	-71,114	-71,114
Columbia	11,796,210	14.6%	15.2%	-81,290	195,603	-298,024	-53,143	-53,143
Ellicott City	879,329	8.4%	9.1%	-6,371	6,128	3,467	-16,975	-16,975
Harford County	1,910,894	16.3%	17.0%	5,295	32,920	41,762	1,691	1,691
I-83	7,694,601	12.1%	12.7%	379,229	-93,192	-48,935	-63,998	-63,998
I-97 Crain Highway Corridor	726,522	15.8%	15.8%	24,669	-24,650	4,941	-8,550	-8,550
Reisterstown Road Corridor	4,865,322	12.9%	13.9%	6,691	106,722	-92,590	8,108	8,108
Route 1 Corridor	1,215,332	15.6%	16.1%	-39,100	-39,497	96,921	-2,578	-2,578
Route 2 Corridor	931,886	6.8%	6.8%	-16,548	-19,876	-2,737	327	327
Towson	4,684,858	15.5%	15.9%	43,952	-95,568	-20,382	-9,264	-9,264
Woodlawn	3,203,710	10.8%	12.2%	21,396	-77,676	44,030	-23,611	-23,611

Submarket Statistics—All Classes							
	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Baltimore Metro Area	82,036,039	\$26.61	\$20.79	\$24.49	0	0	333,110
Annapolis	3,328,553	\$32.66	\$24.87	\$30.22	0	0	0
Baltimore County East	1,891,681	\$24.73	\$22.86	\$23.49	0	0	0
Baltimore Midtown	2,299,695	\$21.50	\$19.46	\$20.36	0	0	0
Baltimore Northeast	1,179,016	NA	\$18.50	\$18.50	0	0	0
Baltimore Northwest	1,229,881	NA	\$26.50	\$24.59	0	0	0
Baltimore Southeast	6,869,047	\$26.42	\$17.00	\$26.17	0	0	217,130
Baltimore Southwest	2,287,701	\$17.94	\$16.00	\$17.82	0	0	0
BWI	9,670,197	\$31.75	\$21.88	\$29.30	0	0	0
Carroll County	369,095	\$24.50	\$20.00	\$20.51	0	0	0
CBD Baltimore	15,002,509	\$26.33	\$19.42	\$23.92	0	0	0
Columbia	11,796,210	\$28.27	\$23.13	\$26.82	0	0	115,980
Ellicott City	879,329	\$23.43	\$19.53	\$21.05	0	0	0
Harford County	1,910,894	\$26.35	\$24.76	\$25.54	0	0	0
I-83	7,694,601	\$23.62	\$19.57	\$22.31	0	0	0
I-97 Crain Highway Corridor	726,522	\$29.21	\$18.87	\$27.70	0	0	0
Reisterstown Road Corridor	4,865,322	\$23.32	\$20.81	\$21.78	0	0	0
Route 1 Corridor	1,215,332	\$23.45	\$20.83	\$21.40	0	0	0
Route 2 Corridor	931,886	\$19.08	\$18.70	\$18.81	0	0	0
Towson	4,684,858	\$23.90	\$19.83	\$21.41	0	0	0
Woodlawn	3,203,710	\$22.44	\$19.80	\$20.99	0	0	0

Note: Asking rents are quoted on a full service basis.

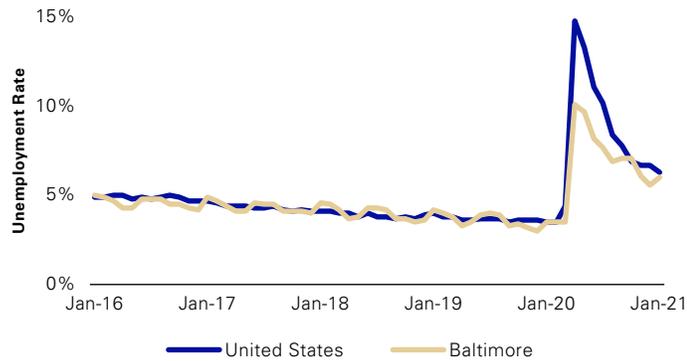
Economic Conditions

The Baltimore region’s unemployment rate registered 6.0% in January 2021, the most recent data available at this writing, and is 30 basis points lower than the national rate of 6.3%. The economic recovery during 2020 was uneven in Baltimore. Unemployment rates are expected to decrease during the balance of 2021 as the impacts of the \$1.9-trillion American Rescue Plan and the pace of coronavirus vaccinations kickstart economic momentum.

For the 12-month period ending in January 2021, every Baltimore job sector experienced losses; totaling a net change of -83,900 jobs. Office-using industries have been less severely hurt, as the three largest office sectors experienced 12-month declines less than Baltimore’s overall rate of -6.0%. Those industries include professional and business services (-2.0%), government (-3.7%) and financial activities (-3.7%). Labor seasonality tends to result in lower employment levels in the first quarter of a year, so the current lull in employment is expected. A strong recovery is expected throughout 2021 as pandemic restrictions are eased and more commercial activities return to normal.

Unemployment Rate

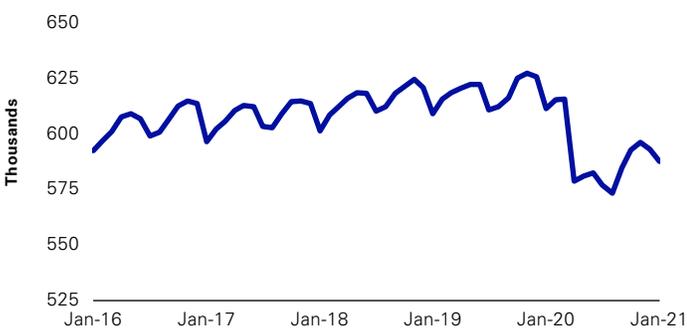
U.S.—Seasonally Adjusted
Baltimore—Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Newmark Research; March 2021

Office-Using Employment*

Baltimore, Office-Using Employment (000’s),
Not Seasonally Adjusted

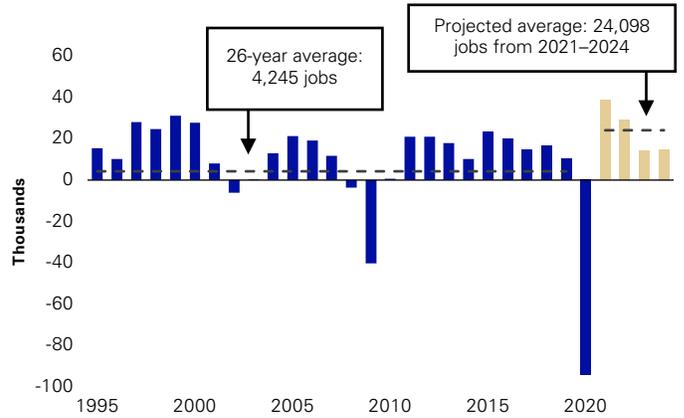


*Identified as Financial Activities, Government, Information, Other Services, and Professional and Business Services

Source: U.S. Bureau of Labor Statistics, Newmark Research; March 2021

Employment Forecast

Baltimore Metro Area, Payroll Job Change, 1995-2020 and Forecast 2021-2024

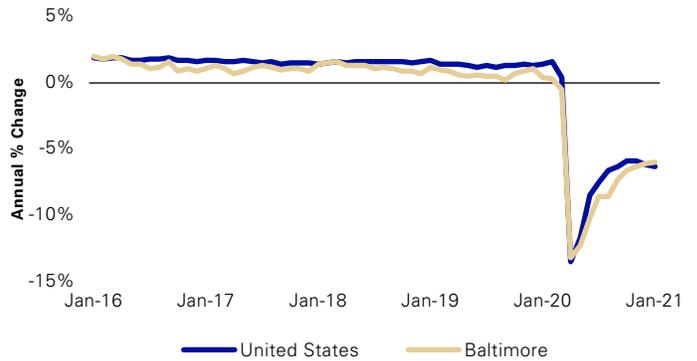


Note: Previous projections have been revised due to COVID-19 and are subject to further revision as conditions change.

Source: U.S. Bureau of Labor Statistics, Moody’s Analytics, Newmark Research; March 2021

Payroll Employment

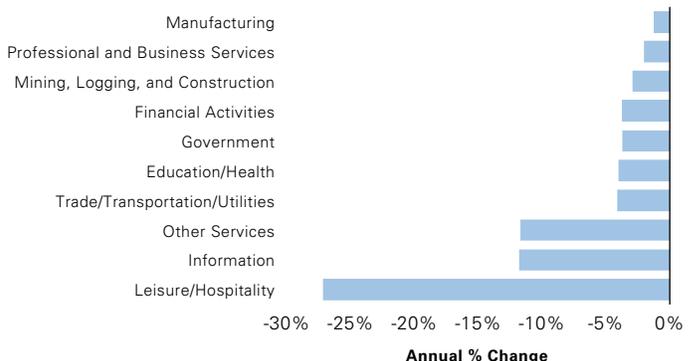
Total Nonfarm, U.S.—Seasonally Adjusted
Baltimore—Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, Newmark Research; March 2021

Employment Growth By Industry

Baltimore, % Change, 12-Months Ending January 2021,
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Newmark Research; March 2021

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