1Q24

Baltimore Industrial Market Overview

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Market Observations

Economy

- The region's labor market remained historically strong amid shifting macroeconomic conditions. February's 2.8% unemployment rate was 30 bps lower year-over-year and 110 bps lower than the national average.
- Within the industrial sector, manufacturing saw positive job gains with employment growth of 0.8% year-over-year, while trade/transportation/utilities saw a modest year-over-year decline of 1.4%.
- The number of industrial jobs has rebounded and now sits in line with pre-pandemic levels. Employment ended February 2024 at 302,400 employees, in line with the decade average and an increase of 12.7% since the market reached a pandemic-related low in April of 2020.

Major Transactions

- The largest deal of the quarter was the sale of 10000 Franklin Square Drive. This 392,500-square-foot distribution facility, located within the Baltimore County East submarket, was sold by TA Realty to Stolz Real Estate Partners for $41 million, or $104.46 PSF. The property was 85.8% occupied at the time of sale, with a majority of the space occupied by Chesapeake Beverage.
- Goodwill Industries International purchased a 181,000-square-foot warehouse facility from NorthBridge. The property, located at 2701 Wilmarco Avenue within the Baltimore SW submarket, sold for $25.13 million, or $139.04 PSF. The property was fully vacant at the time of sale, however Goodwill intends to occupy the entire facility.

Leasing Market Fundamentals

- The Baltimore industrial market experienced 575,000 SF of negative net absorption during Q1 2024 and ended the quarter at a 5.6% vacancy rate, an increase of 30 bps quarter-over-quarter and 10 bps year-over-year. Despite this expansion in vacancy, the market remains much tighter than the long-term average of 9.4%.
- Class A product saw 49.7% of overall leasing volume during Q1 2024. This is higher than the decade average of 36.3% and highlights the elevated interest in quality Class A space by occupiers.
- Average asking rents rose moderately year-over-year and continue to sit near record highs, ending Q1 2024 at $8.29 PSF, an increase of 0.5% quarter-over-quarter and 2.9% year-over-year.

Outlook

- The market appears to be re-adjusting after experiencing unprecedented development in recent years. This development has led to an oversupply of space, which is leading to an increase in the vacancy rate as demand catches up. While supply and demand re-adjust, rent growth will likely continue relatively flat while remaining at historically elevated levels.
- Leasing activity will likely continue to hover at historically lower levels until demand catches up with supply. As has been the case historically, Class A space will continue to see the most interest from landlords, tenants, and investors alike.
- In the short-term there will be some uncertainty in the market after the tragic collapse of the Francis Scott Key Bridge on March 26th. This incident will greatly affect port activities until the channel is cleared, however the extent to which it will affect industrial real estate is unclear. The channel is expected to be fully cleared within the coming months, however the bridge will likely take years to be rebuilt.

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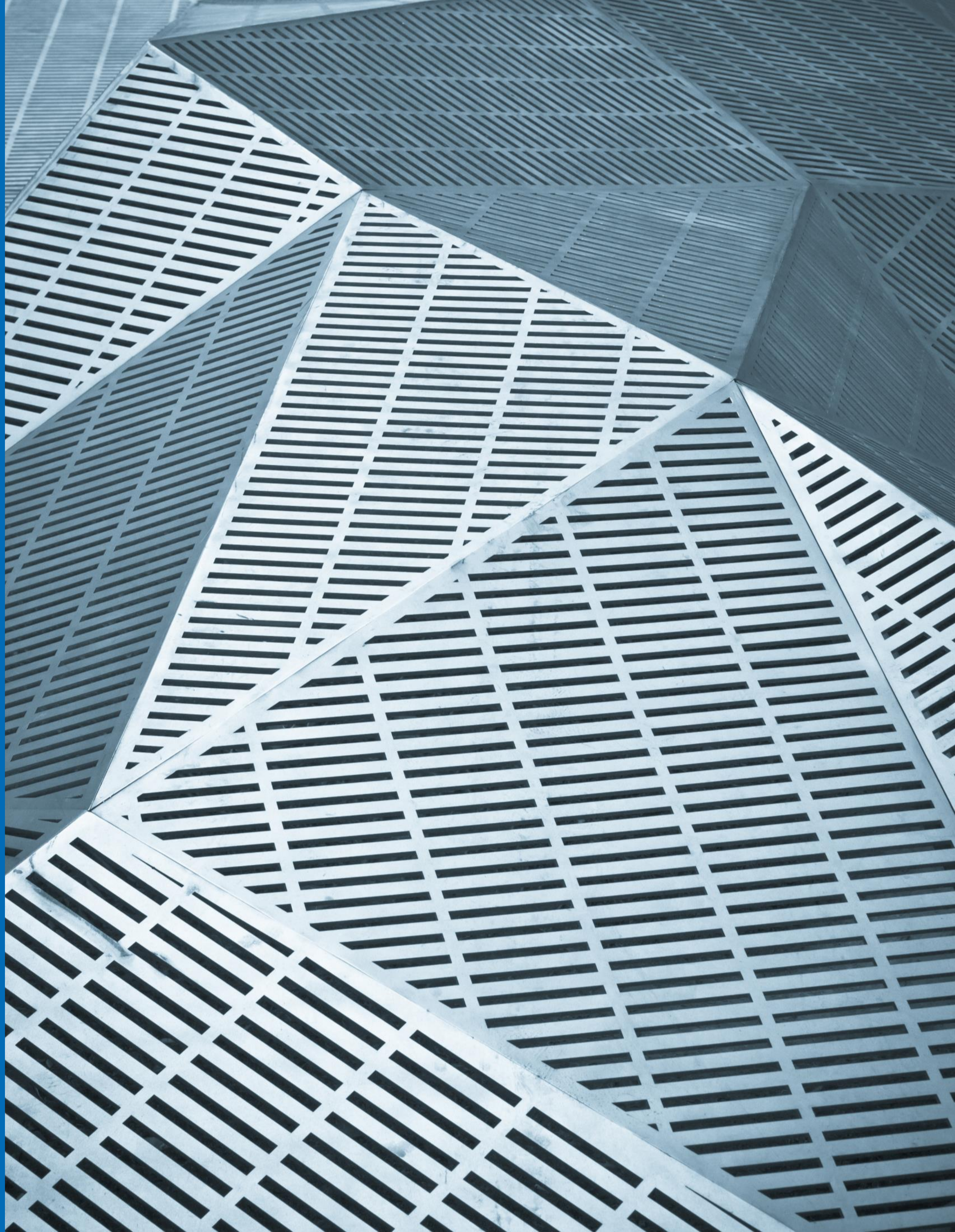
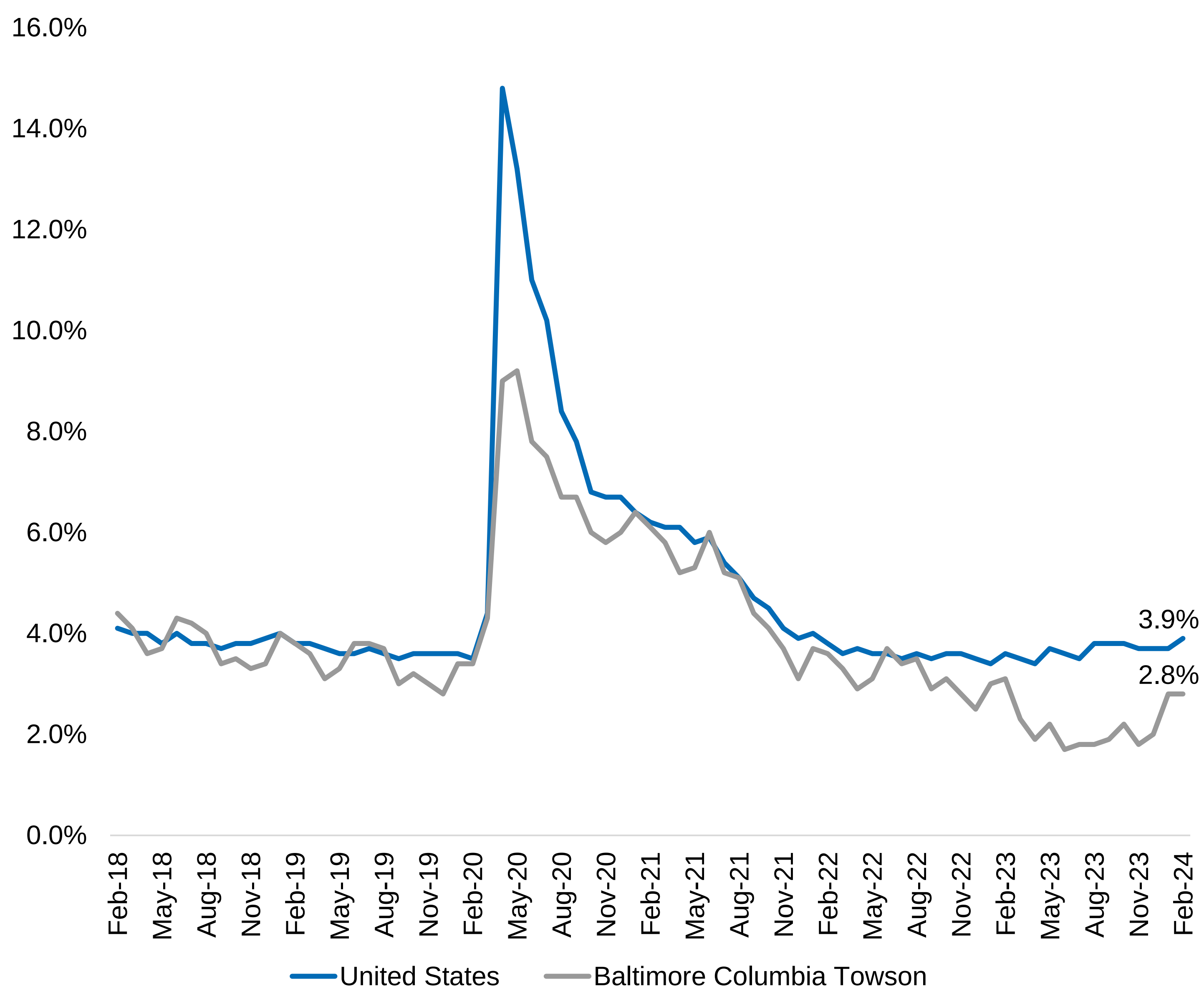


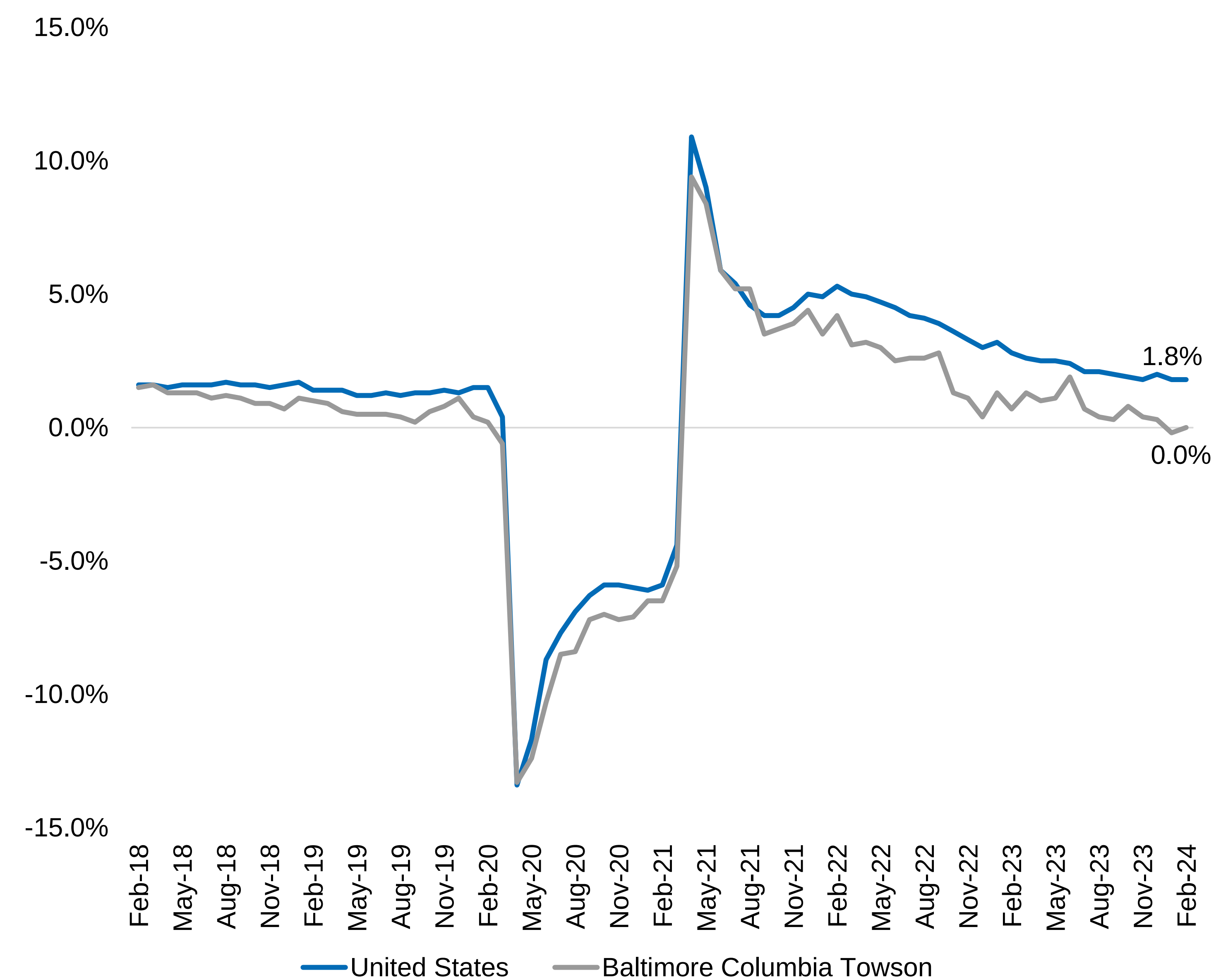
Baltimore's Unemployment Remains Below National Levels

Baltimore's unemployment rate ended February 2024 at 2.8%. This is 30 bps lower year-over-year and 110 bps lower than the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

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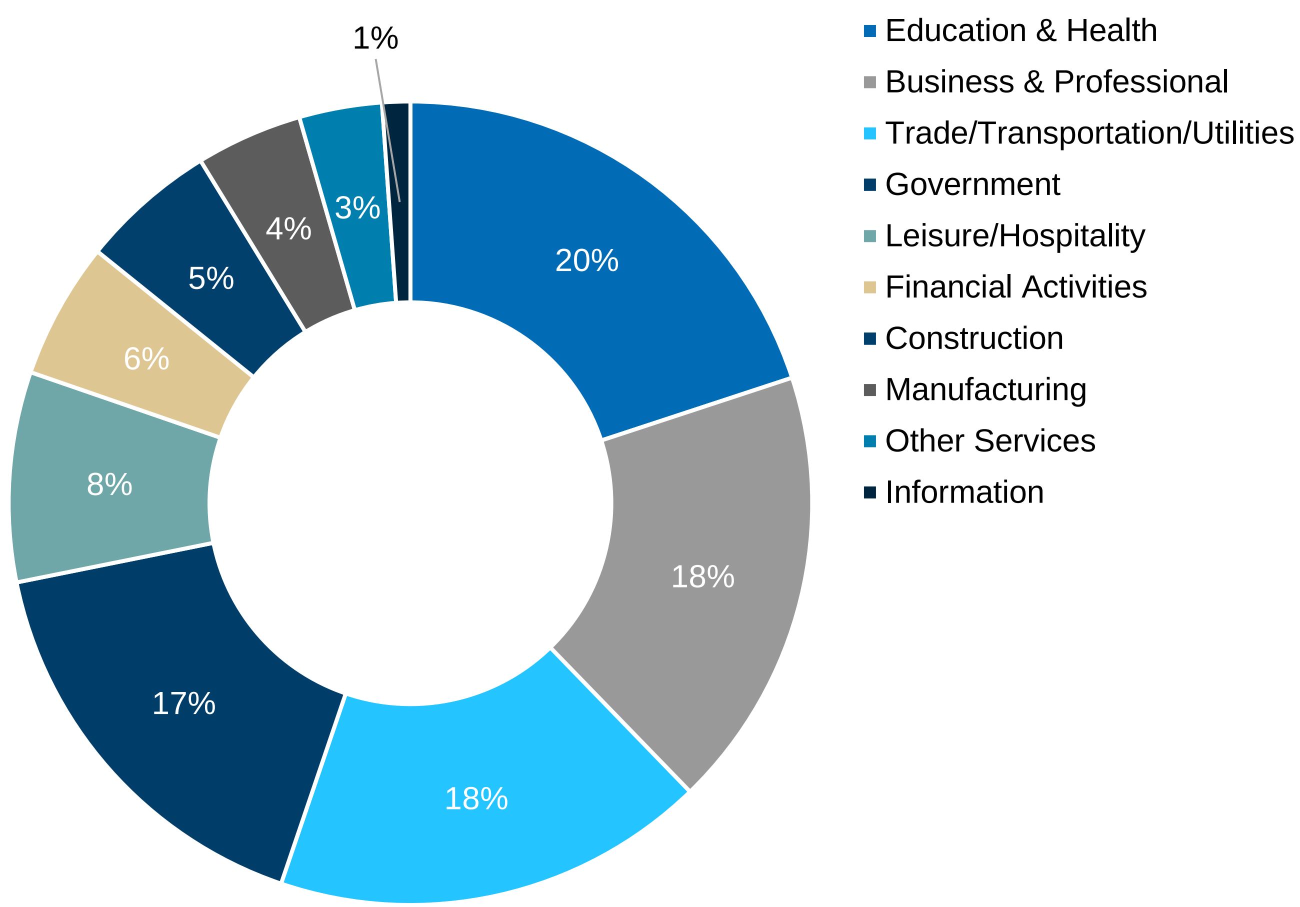
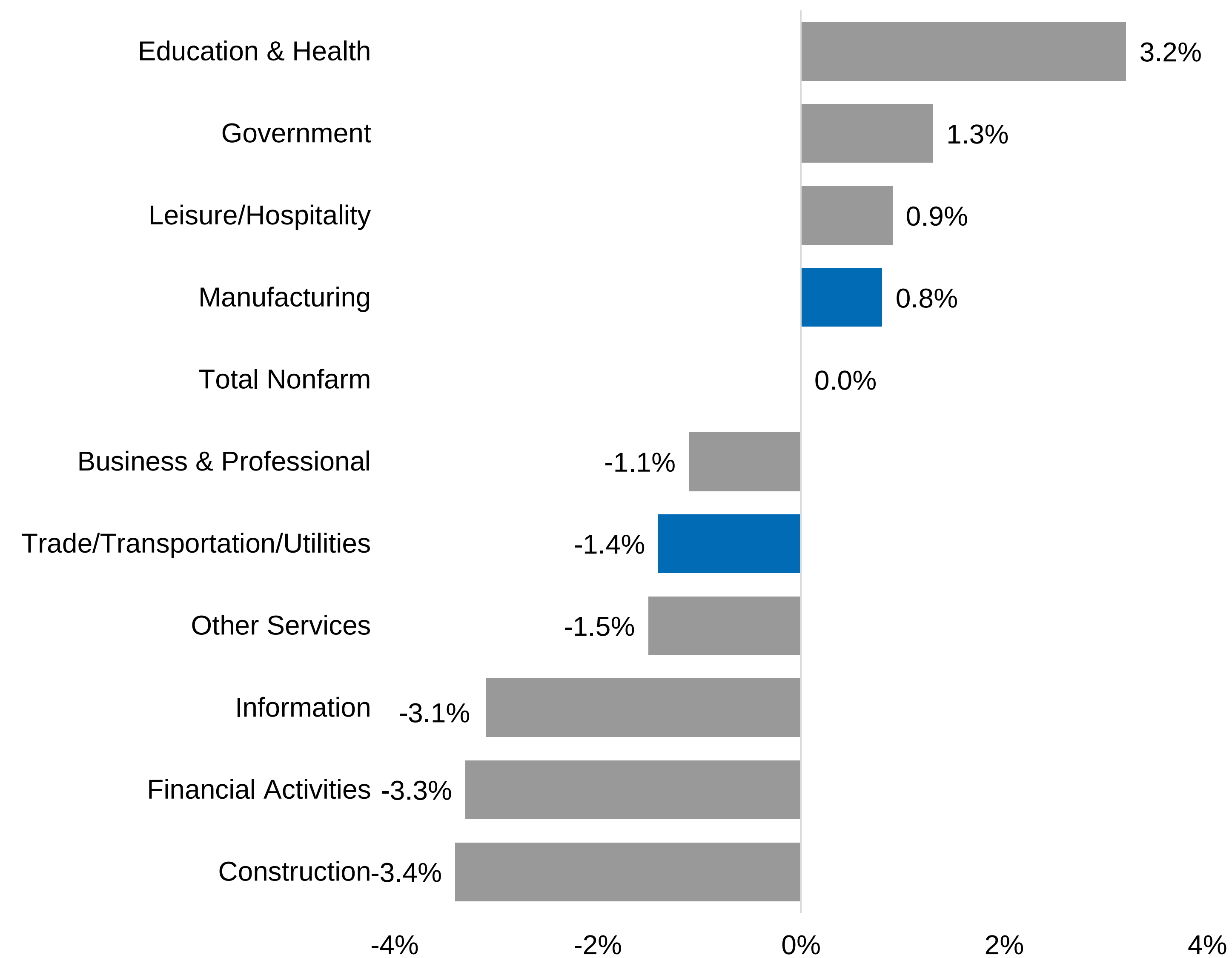
Manufacturing Experiences Annual Growth, Trade/Transportation/Utilities Sees Losses

Overall nonfarm employment remained flat in the Baltimore metro year-over-year. Within the industrial sector, manufacturing saw positive job gains with employment growth of 0.8% year-over-year, while trade/transportation/utilities saw a modest year-over-year decline of 1.4%. Despite the annual employment decline, trade/transportation/utilities remains the third largest industry in the region, only behind the Education & Health and Business & Professional industries.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

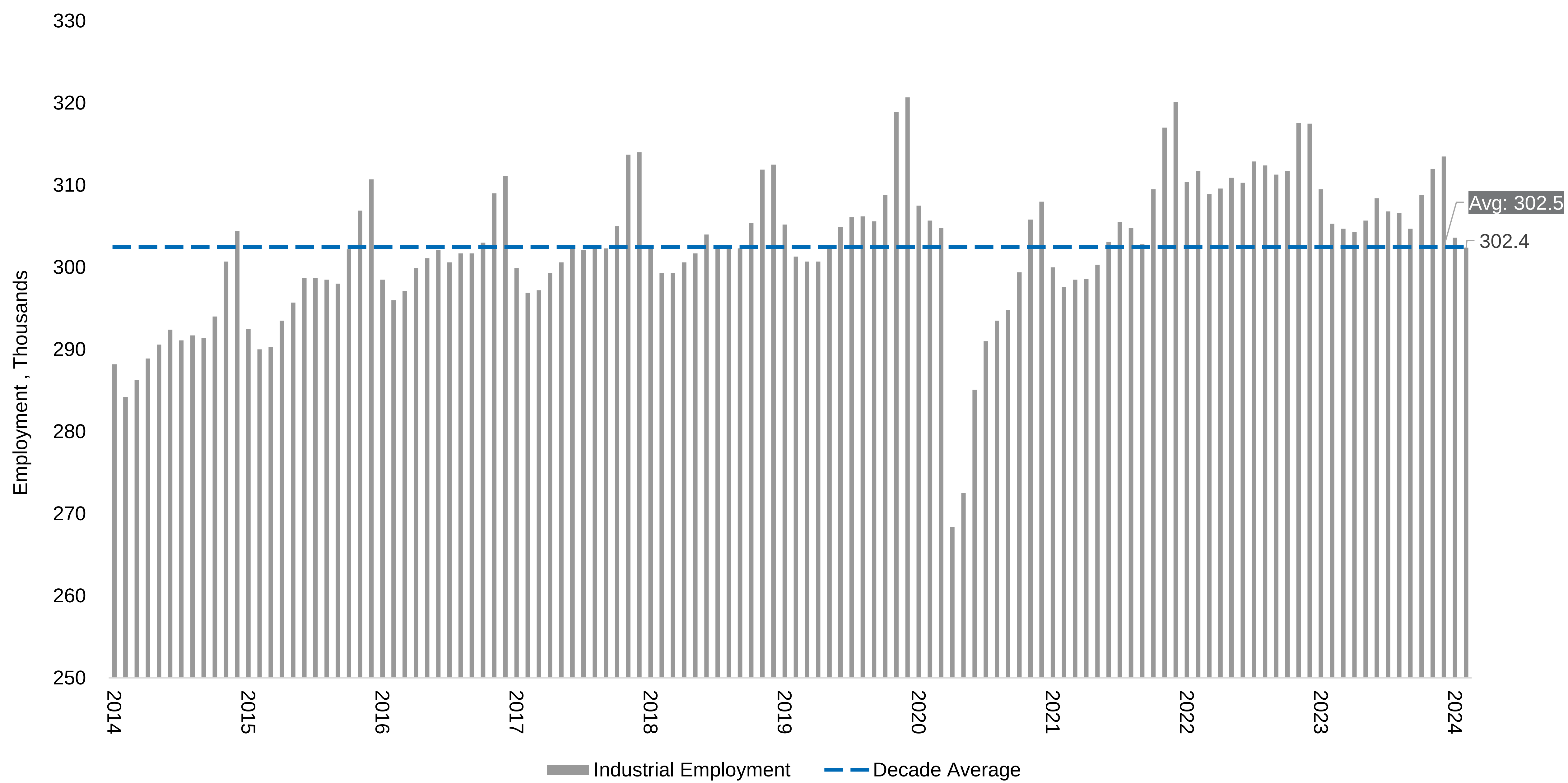


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

Industrial Employment Remains Steady

The number of industrial jobs has rebounded and now sits in line with pre-pandemic levels. Employment ended February 2024 at 302,400 employees, in line with the decade average and an increase of 12.7% since the market reached a pandemic-related low in April of 2020. Industrial employment is dominated by the trade/transportation/utilities industry, which makes up over 80% of industrial employment. As such, industrial employment is very cyclical, with a large increase of employees during the holiday season and then a drop-off at the beginning of each year, as was the case to begin 2024.

Industrial Employment



Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

*Industrial employment includes employment in the following industry sectors: Trade/Transportation/Utilities and Manufacturing.

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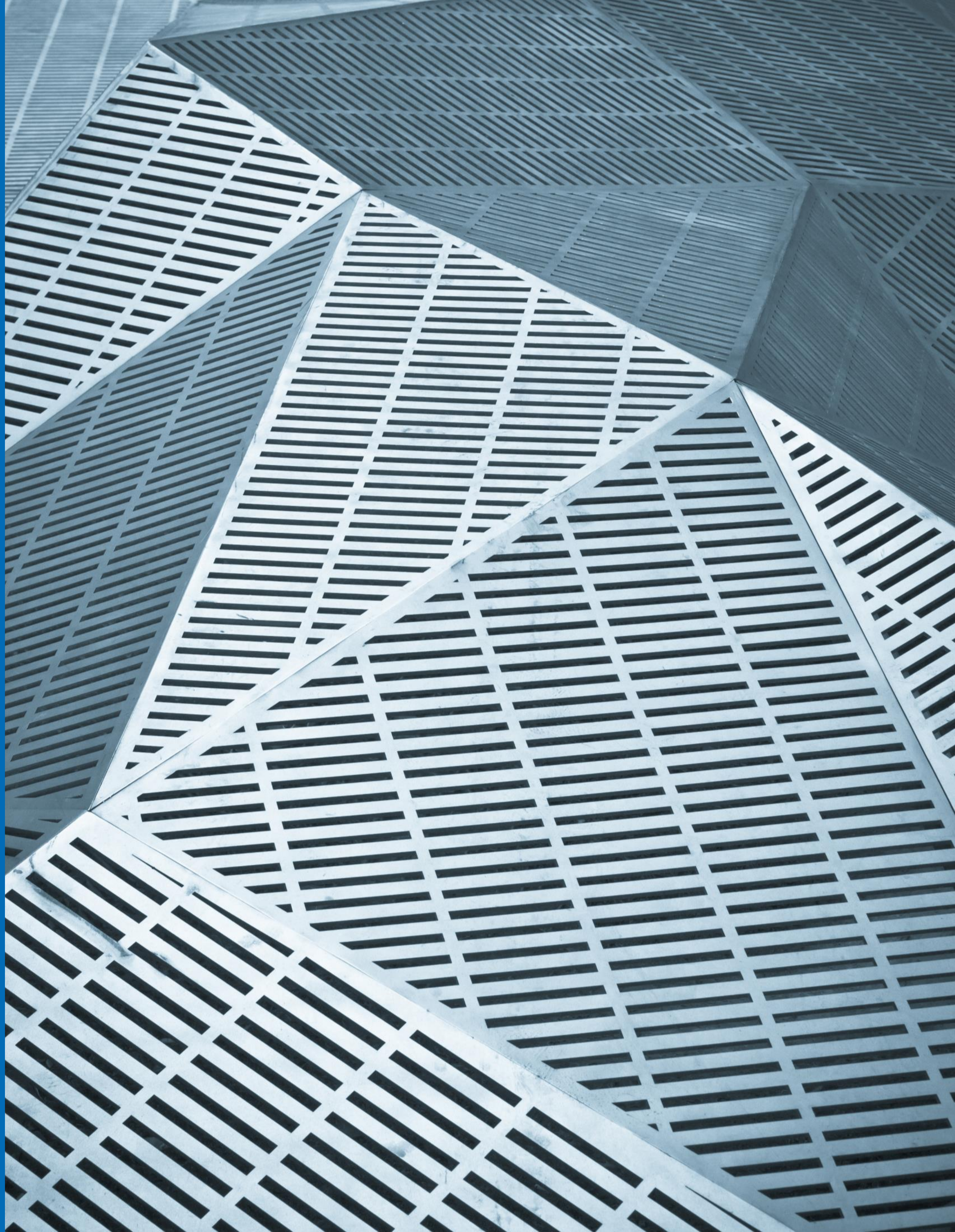
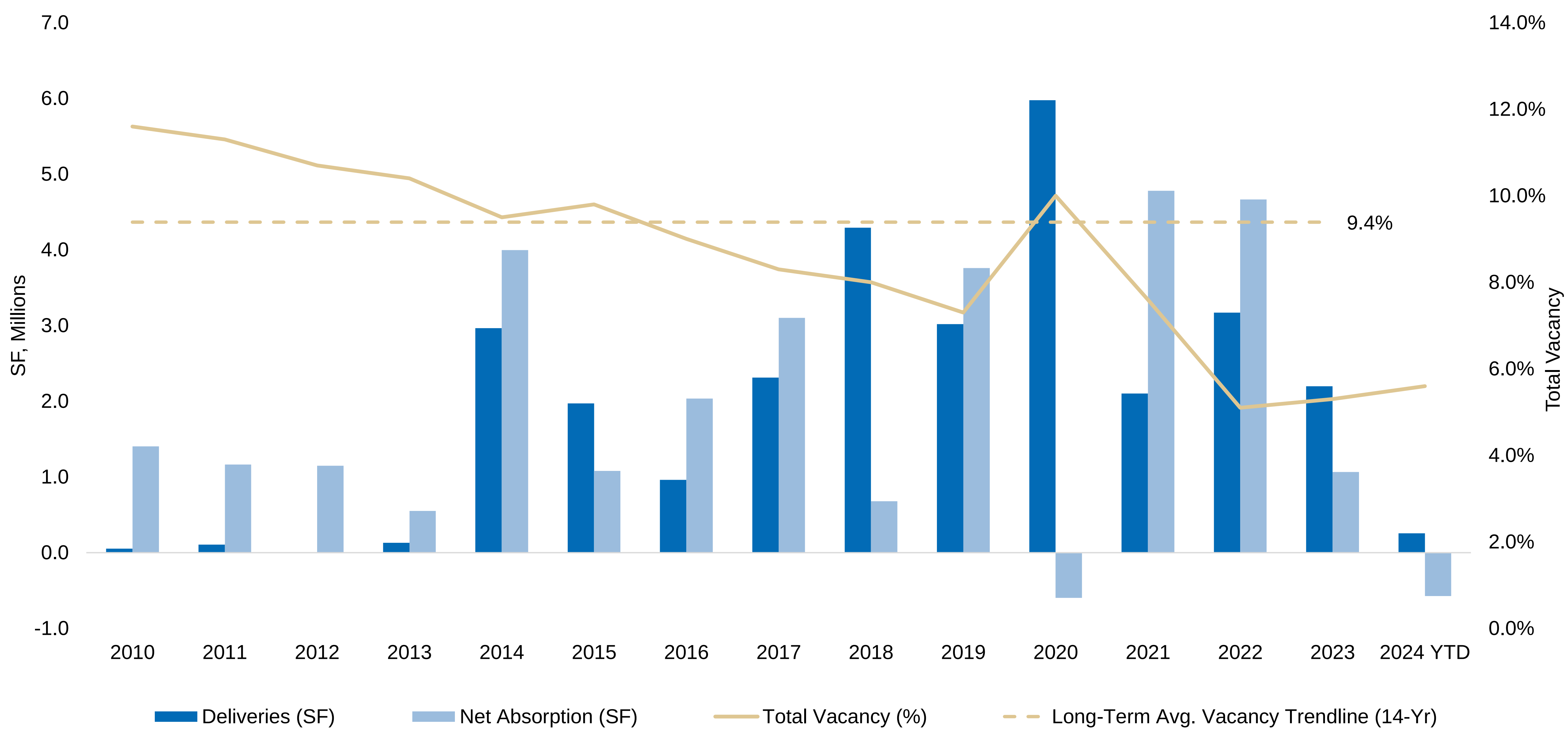
Leasing Market Fundamentals



Market Remains Historically Tight Despite Expansion of Vacancy

The Baltimore industrial market ended Q1 2024 at a 5.6% vacancy rate, an increase of 30 basis points quarter-over-quarter and 10 bps year-over-year. Despite this expansion in vacancy, the market remains much tighter than the long-term average of 9.4%. The market experienced 575,000 SF of negative net absorption during this quarter as there were multiple large space departures, including LifeScience Logistics vacating 291,000 SF at Gateway Commerce Center and Herbiculture vacating 97,000 SF at 1200 Hamburg Street.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

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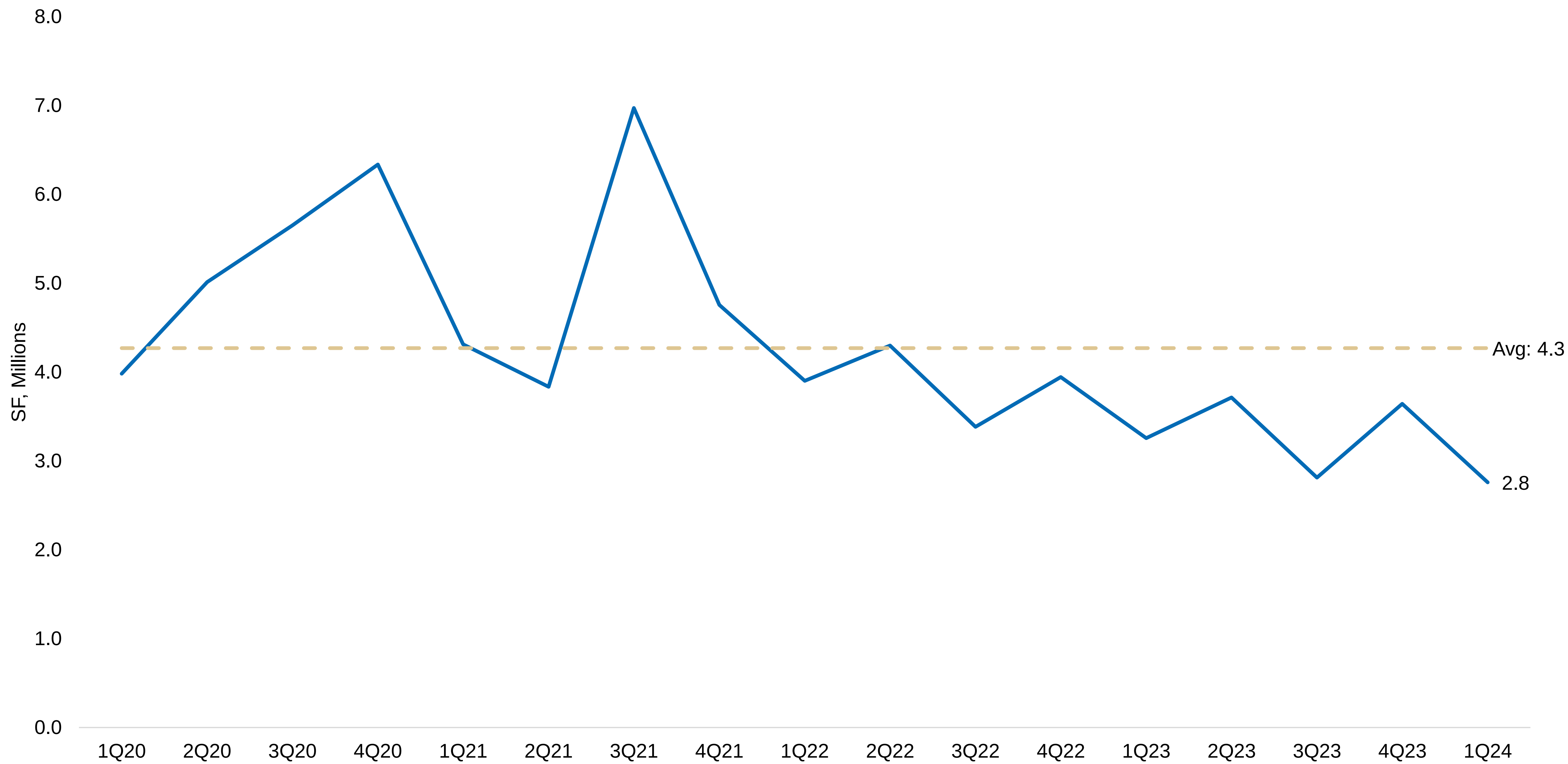
Industrial Leasing Activity Remains Modest

Leasing activity decelerated to a historical low in Q1 2024, ending the quarter with 2.8 MSF of activity. This is much lower than the recent high, when the market experienced 7.0 MSF of activity during Q3 2021, and lower than the four-year average of 4.3 MSF of quarterly activity.

Total Leasing Activity (SF)



Source: Newmark Research, CoStar

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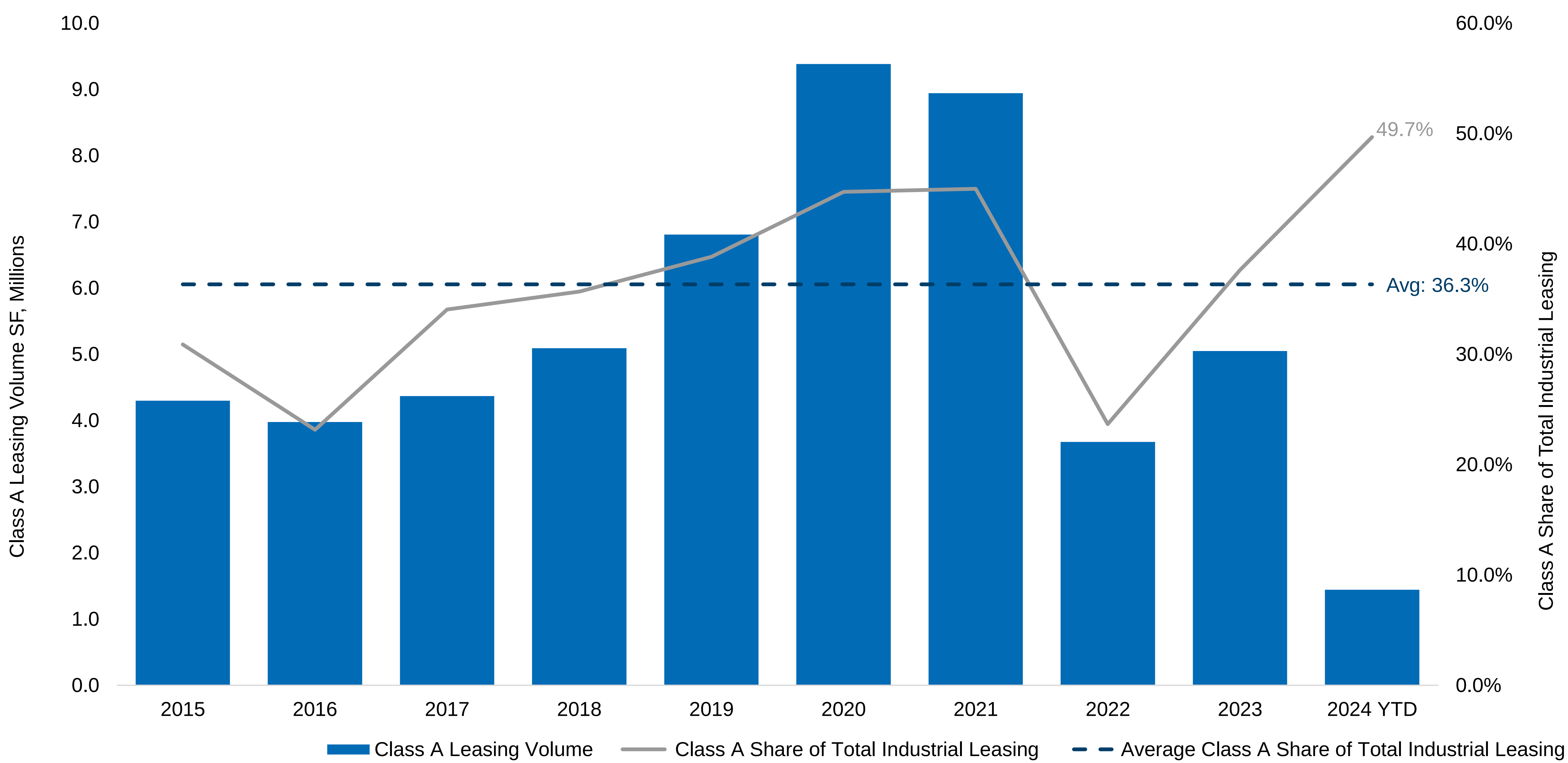
Class A Industrial Leasing Above Long-Term Average

Class A product saw 49.7% of overall leasing volume during Q1 2024. This is higher than the decade average of 36.3% and highlights the elevated interest in quality Class A space by occupiers.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

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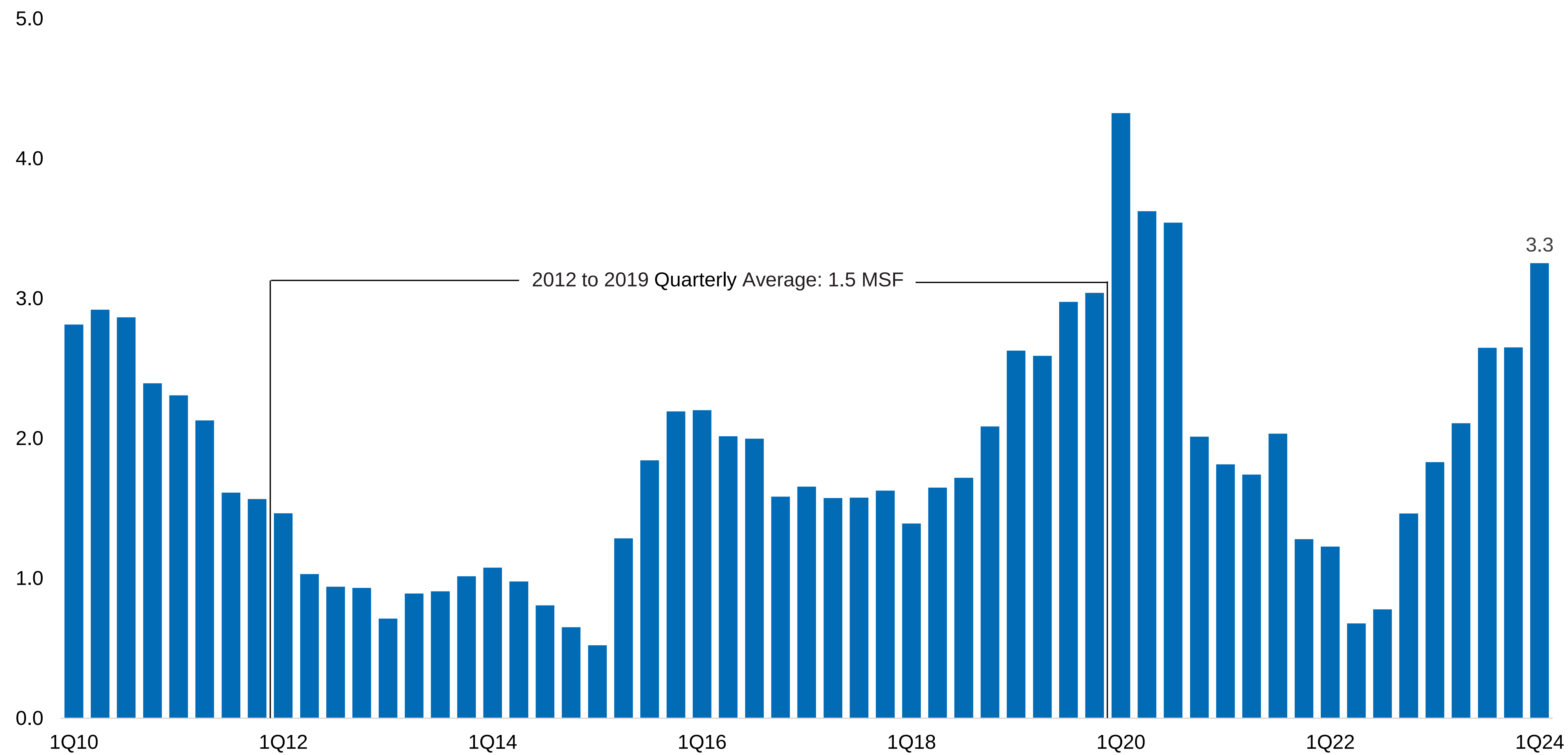
Industrial Sublease Availability Spikes Above Pre-Pandemic Levels

The market saw a large dip in sublease available space during the beginning of the pandemic, as demand for industrial space soared. Since the market saw near historical lows in Q2 2022, sublease available space has been consistently added to the market, ending Q1 2024 at 3.3 MSF, which is in line with the volume leading up to the pandemic.

Available Industrial Sublease Volume (msf)



Source: Newmark Research, CoStar

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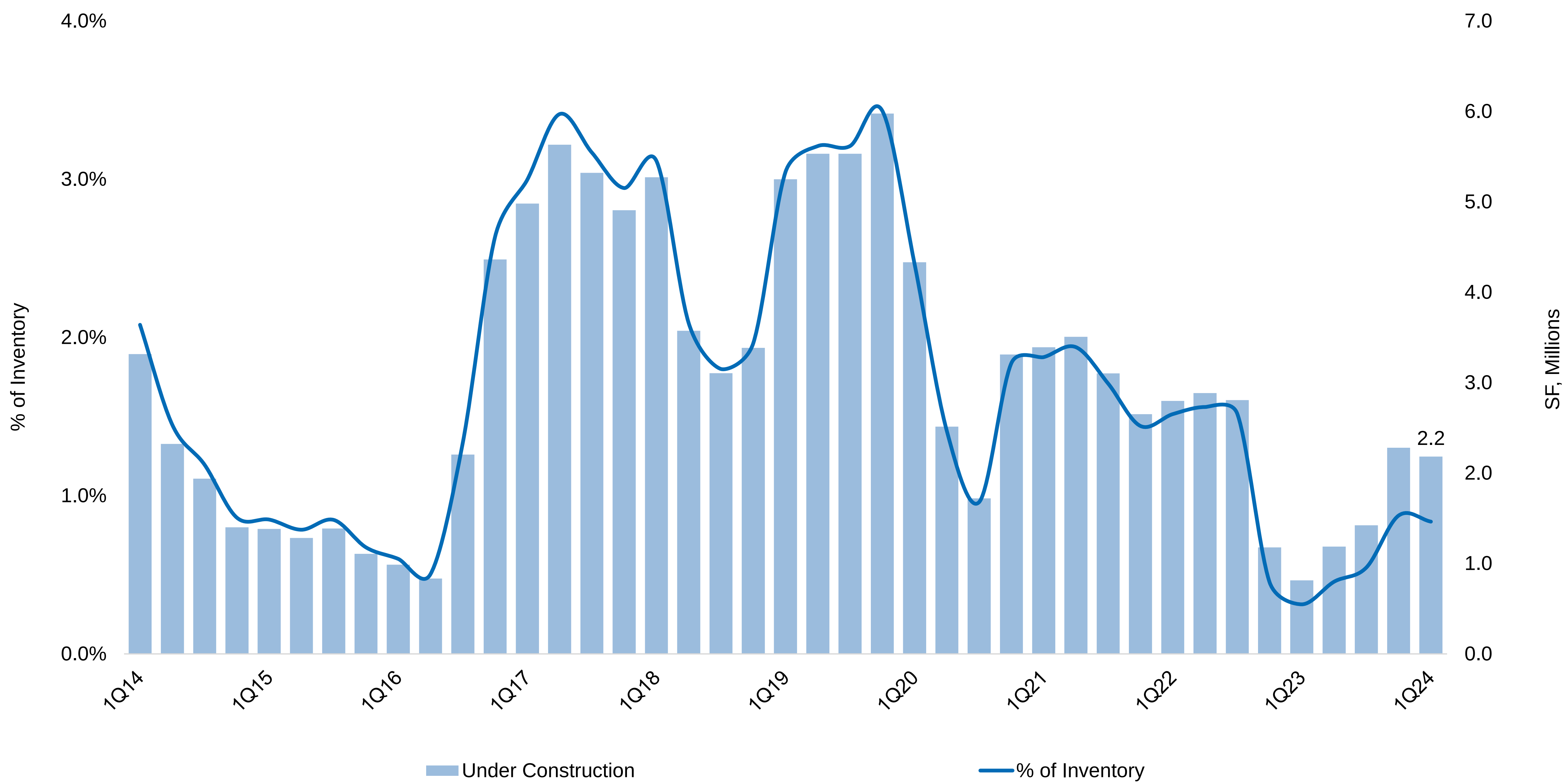
Construction Supply Remains Modest

Baltimore ended Q1 2024 with eighteen properties under construction totaling almost 2.2 MSF. This level of construction is low for the market, which has seen a decade-average of 3.0 MSF of space under construction at a time.

Industrial Under Construction and % of Inventory

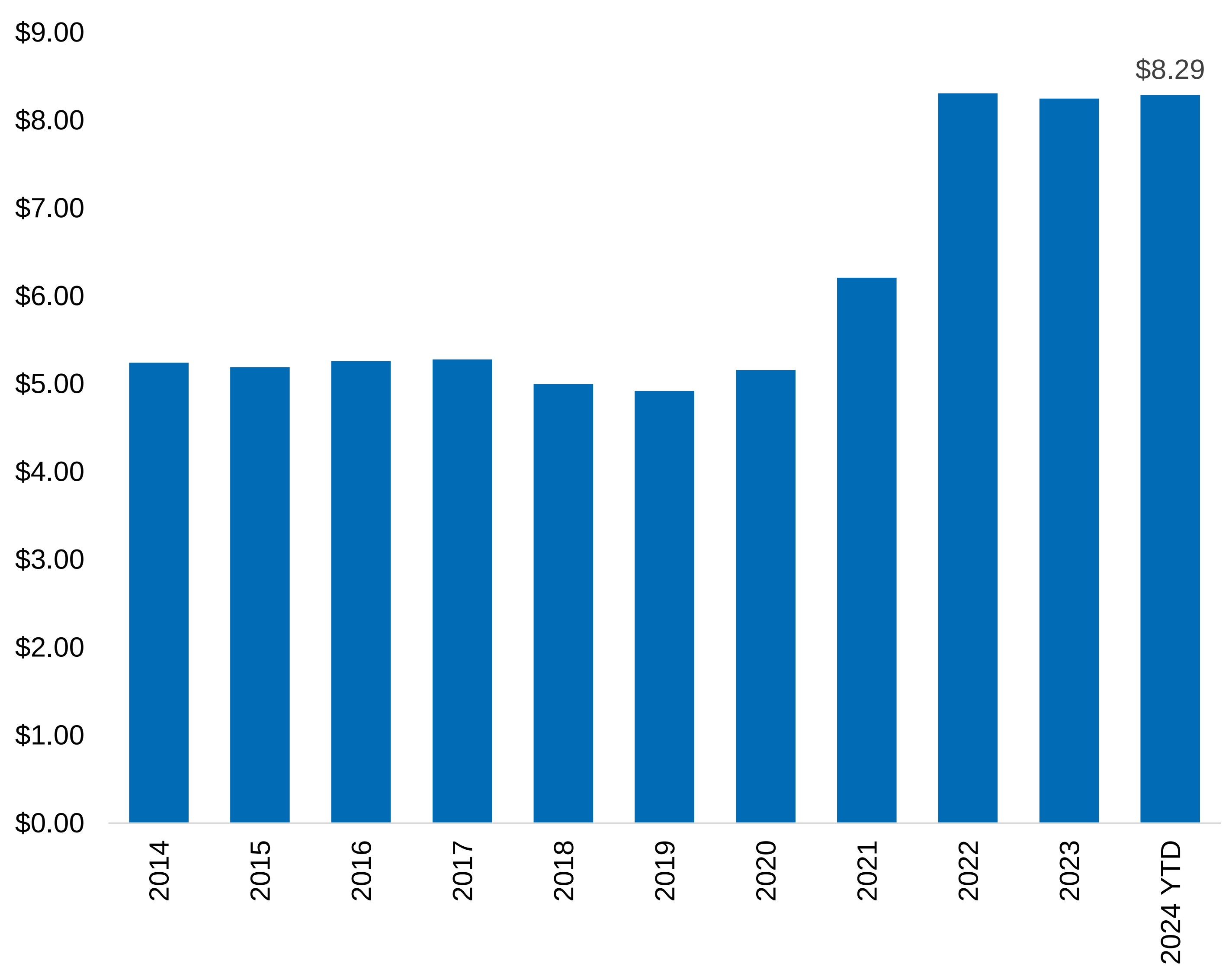


Source: Newmark Research, CoStar

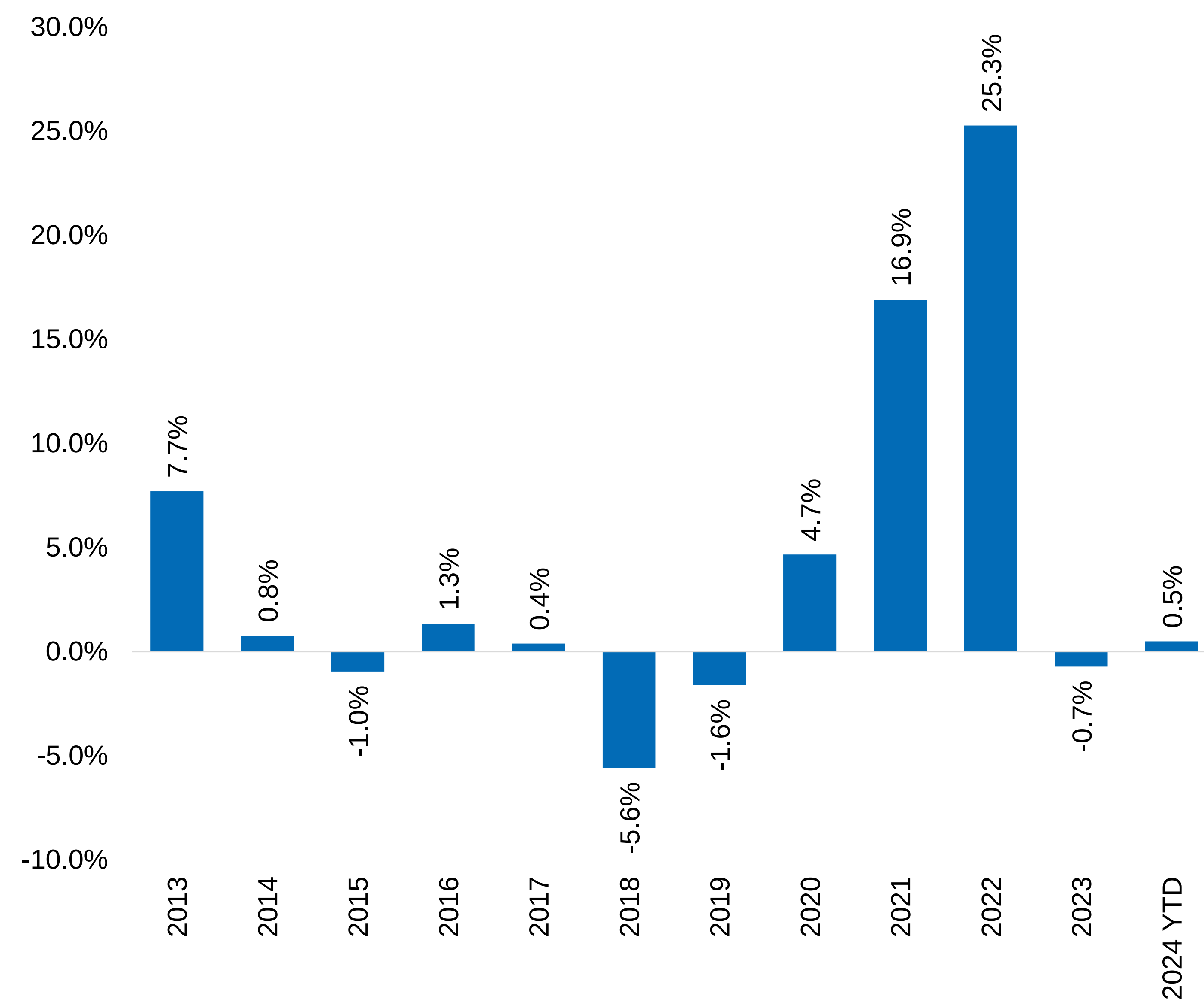
Asking Rents Remain Near Historic Highs

Average asking rents ended Q1 2024 at $8.29 PSF, remaining near historical highs. The market saw an astounding 68.9% increase in rents from the beginning of 2020 through 2022, however rent growth has leveled off since. Rents will likely stay relatively flat in the coming quarters as demand catches up to the recent influx of supply.

Industrial Average Asking Rent, $/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

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Notable 1Q24 Lease Transactions

Baltimore County East was the most active submarket during Q1 2024, containing four of the top five transactions. This included the University of Maryland Medical System signing the largest lease of the quarter for 400,000 square feet of space at the proposed warehouse development at 1390 Sparrows Point Boulevard. The 400,000-square-foot distribution warehouse is on track to start construction in Q3 2024 with an estimated delivery of Q2 2025.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
University of Maryland Medical System	1390 Sparrows Point Blvd	Baltimore County East	Direct Lease	400,000
Mako Freight	8411 Kelso Dr	Baltimore County East	Sublease	274,821
Boise Cascade	7700 Rolling Mill Rd	Baltimore County East	Lease Renewal	204,253
Pacific Coast Furniture Distributors	400 Old Post Rd	Aberdeen	Direct Lease	175,805
SEKO Logistics	8801 Citation Rd	Baltimore County East	Sublease	156,797

Source: Newmark Research

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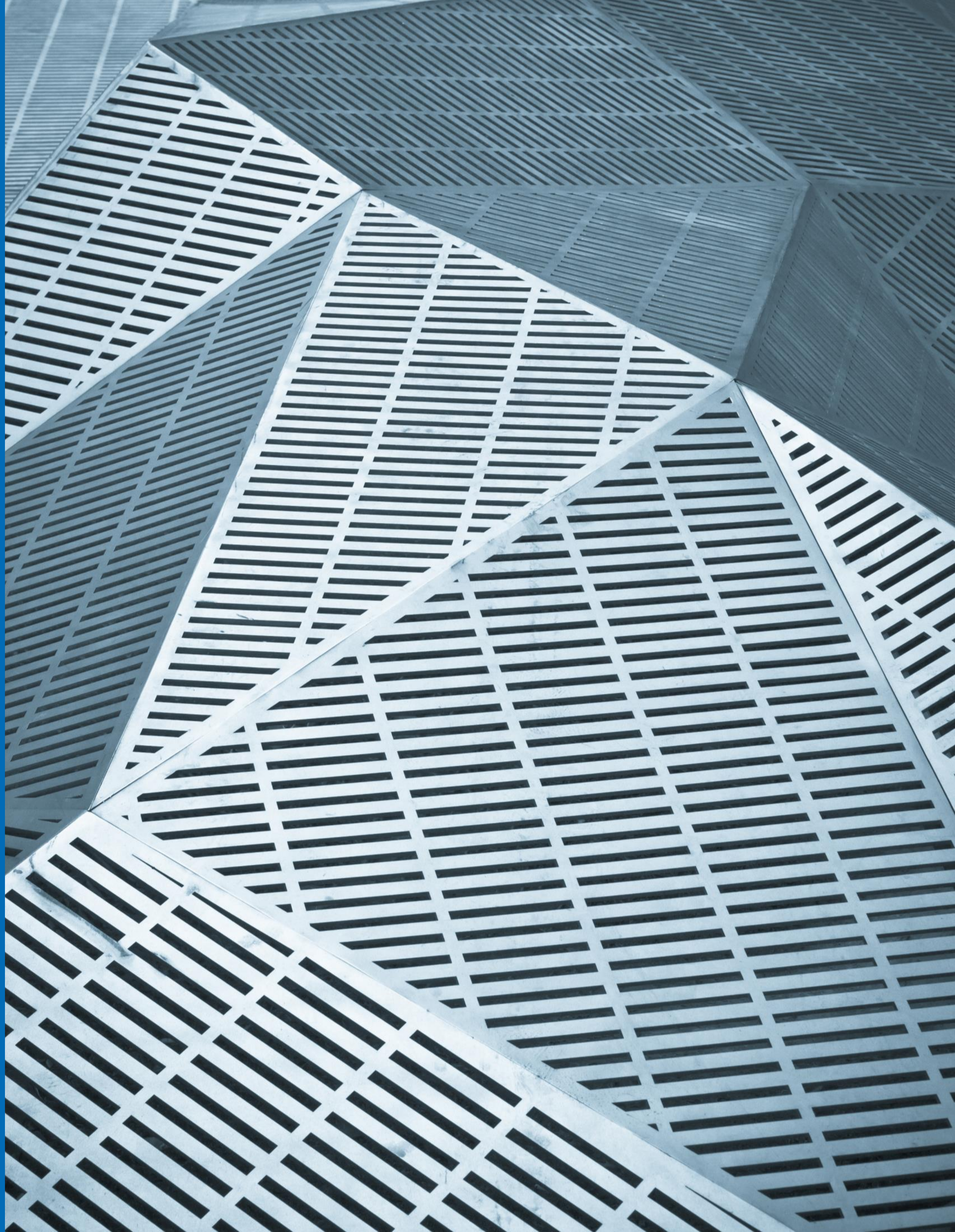
Market Statistics



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Market Statistics By Sub-Type

	Total Inventory (SF)	Overall Vacancy	Overall Availability	1Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Baltimore	**261,088,820**	**5.6%**	**8.2%**	**-574,808**	**-574,808**	**254,160**	**254,160**	**2,181,699**	**$8.29**
Warehouse/Distribution	131,885,800	6.4%	9.6%	-207,298	-207,298	0	0	1,432,922	$7.76
General Industrial	89,638,035	4.2%	6.4%	-507,431	-507,431	204,000	204,000	616,337	$9.40
Flex	39,564,985	6.0%	7.7%	139,921	139,921	50,160	50,160	132,440	$12.59

Submarket Statistics – All Sub-Types

	Total Inventory (SF)	Overall Vacancy	Overall Availability	1Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Arbutus	16,293,102	9.1%	13.8%	-124,561	-124,561	0	0	0	$8.31
Baltimore County East	33,987,130	9.0%	10.5%	-19,409	-19,409	254,160	254,160	510,200	$7.54
Baltimore NE	7,279,635	1.3%	2.8%	39,250	39,250	0	0	0	$4.42
Baltimore NW	3,087,676	3.5%	4.2%	-27,828	-27,828	0	0	0	$9.21
Baltimore SE	28,642,417	4.4%	8.3%	169,525	169,525	0	0	0	$7.87
Baltimore SW	16,626,621	4.1%	7.0%	14,142	14,142	0	0	0	$8.17
BWI North / Linthicum	5,035,717	5.5%	8.6%	67,972	67,972	0	0	0	$10.92
BWI / Anne Arundel	11,687,024	6.8%	8.8%	32,424	32,424	0	0	612,910	$10.50

Source: Newmark Research

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Submarket Statistics – All Classes

	Total Inventory (SF)	Overall Vacancy	Overall Availability	1Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Carroll County	10,969,794	1.3%	2.4%	15,138	15,138	0	0	0	$12.89
CBD Baltimore	5,945,952	6.8%	9.4%	31,399	31,399	0	0	0	$8.06
Cecil County	13,759,739	0.3%	0.5%	-4,984	-4,984	0	0	0	$8.95
Columbia	12,589,835	9.7%	12.3%	-627,772	-627,772	0	0	0	$7.36
Harford County	28,110,887	6.7%	9.0%	151,489	151,489	0	0	564,919	$6.46
I-97 / Crain Hwy Corridor	13,528,886	5.1%	6.1%	-123,656	-123,656	0	0	67,240	$9.96
Reisterstown Rd	3,869,533	7.9%	8.7%	-144,658	-144,658	0	0	0	$13.35
Route 1 Corridor	27,400,880	4.6%	10.0%	-144,658	-144,658	0	0	0	$8.80
Route 2 Corridor	5,255,008	3.1%	4.8%	-14,576	-14,576	0	0	258,530	-
Route 83 Corridor	10,772,602	3.5%	4.7%	20,937	20,937	0	0	0	$10.55
Southern Anne Arundel	1,950,157	4.6%	7.5%	-41,767	-41,767	0	0	0	$16.85
Woodlawn / Catonsville	4,296,225	7.2%	10.5%	-574,808	-574,808	0	0	0	$8.29

Source: Newmark Research

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