
1Q24

Baltimore Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. February’s 2.8% unemployment rate was significantly lower than the national average of 3.9%.
- Although the market saw solid gains in Education & Health and Government employment, the market saw a decline in the most relevant industries to the office market. The Business & Professional, Information, and Financial Activities industries all saw declines in year-over-year employment.
- Education and Health remains the largest industry in the region, encompassing 20% of the regional workforce. It is followed closely by Business and Professional services and Trade/Transportation/Utilities, each containing 18% of the regional workforce.

Major Transactions

- The largest sale of the quarter was Franklin Center, sold by Peakstone Realty Trust to COPT Defense Properties. The property, located at 6841 Benjamin Franklin Drive within the Columbia South submarket, sold for \$15 million, or \$74.77 PSF. The 200,00-square-foot, seven-story office building was 55% occupied by Leidos at the time of sale.
- Riva Road Buildings LLC sold 2661 Riva Road to Chaney Enterprises for \$3.96 million, or \$108.01 PSF. The 37,000-square-foot, three-story office building was fully vacant at the time of sale. The building will be owner-occupied by Chaney Enterprises with any remaining space leased out.

Leasing Market Fundamentals

- After the market experienced over 1.2 MSF of negative net absorption from 2020 to 2022, the market rebounded in 2023, ending the year with 156,000 SF of positive net absorption. The market began 2024 on a down note, with 77,000 SF of negative net absorption during the first quarter.
- Although the market’s vacancy remains above the long-term average of 14.1%, the vacancy rate has remained relatively flat since 2022. To provide further optimism, leasing activity during Q1 2024 was on pace with the market’s historical average.
- There are five properties totaling 792,000 SF currently under construction, on par with the market’s decade average of 796,000 SF under construction.

Outlook

- Baltimore rents performed much better than most markets during the initial two years of the pandemic, with rents increasing 3.7% from the beginning of 2020 to the end of 2021. Since then, rents have flattened, which may continue in the short term as leases roll over and companies look to downsize, leading to a larger disparity between supply and demand.
- After the market experienced a large expansion in vacancies from 2020-2022, vacancies have remained relatively flat since 2022. This is likely to continue, as leasing activity has remained steady and was in line with the historical average during Q1 2024.
- Life sciences is a critical growth driver for the Baltimore region, and its relatively affordable office market is expected to capture more demand as some life sciences users are priced out of more costly East Coast markets.

1. Economy
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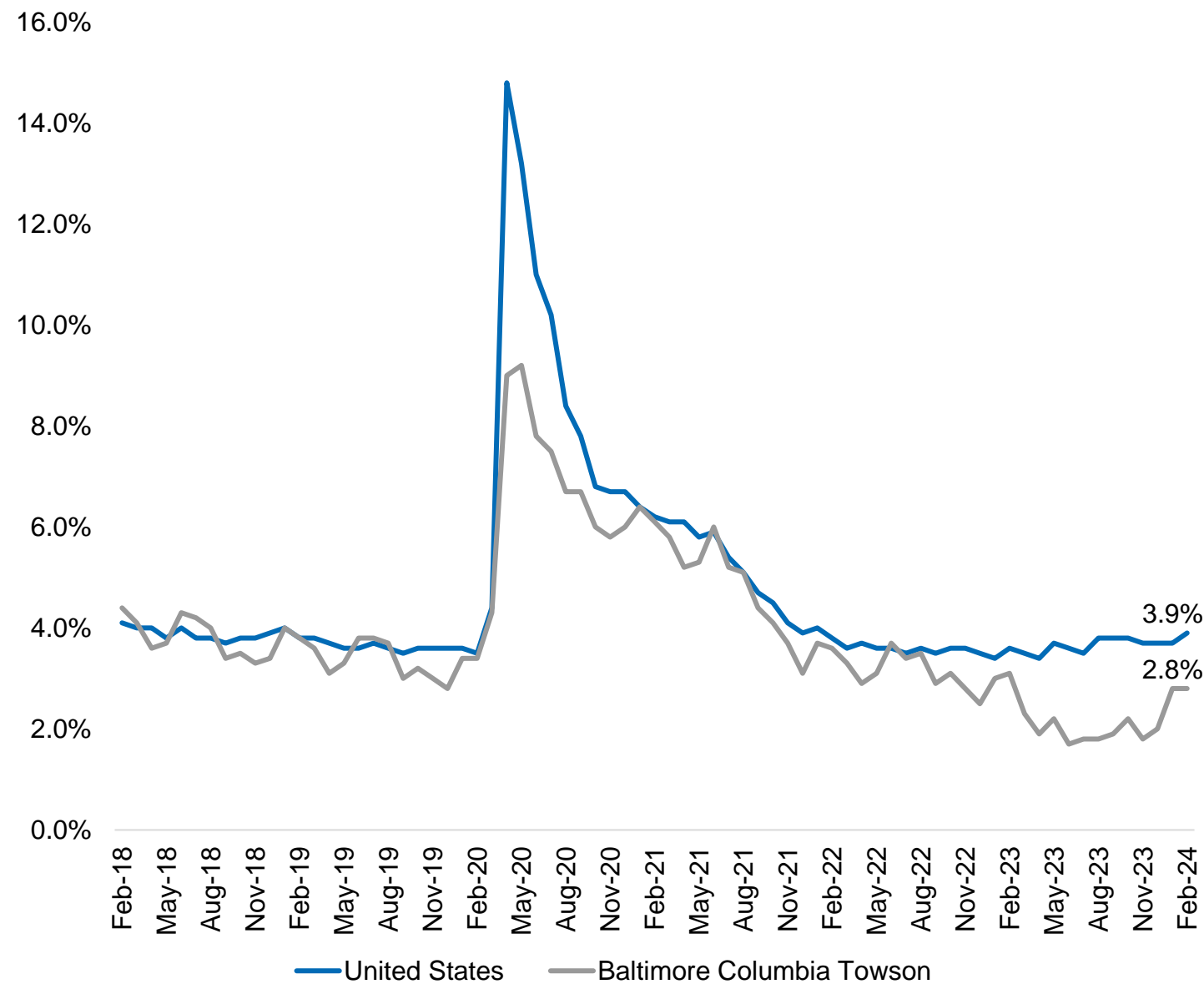
Economy



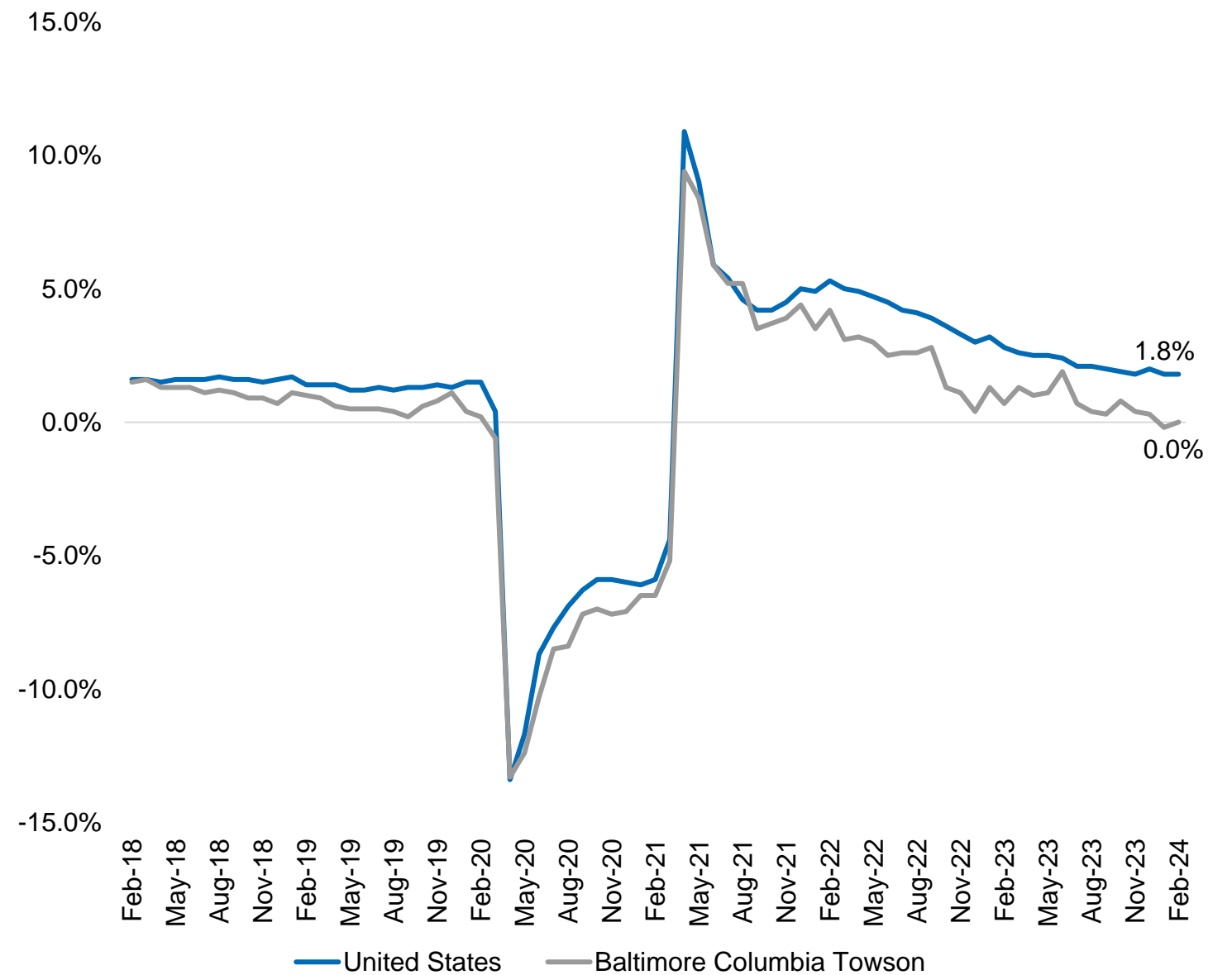
Baltimore's Unemployment Remains Below National Levels

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

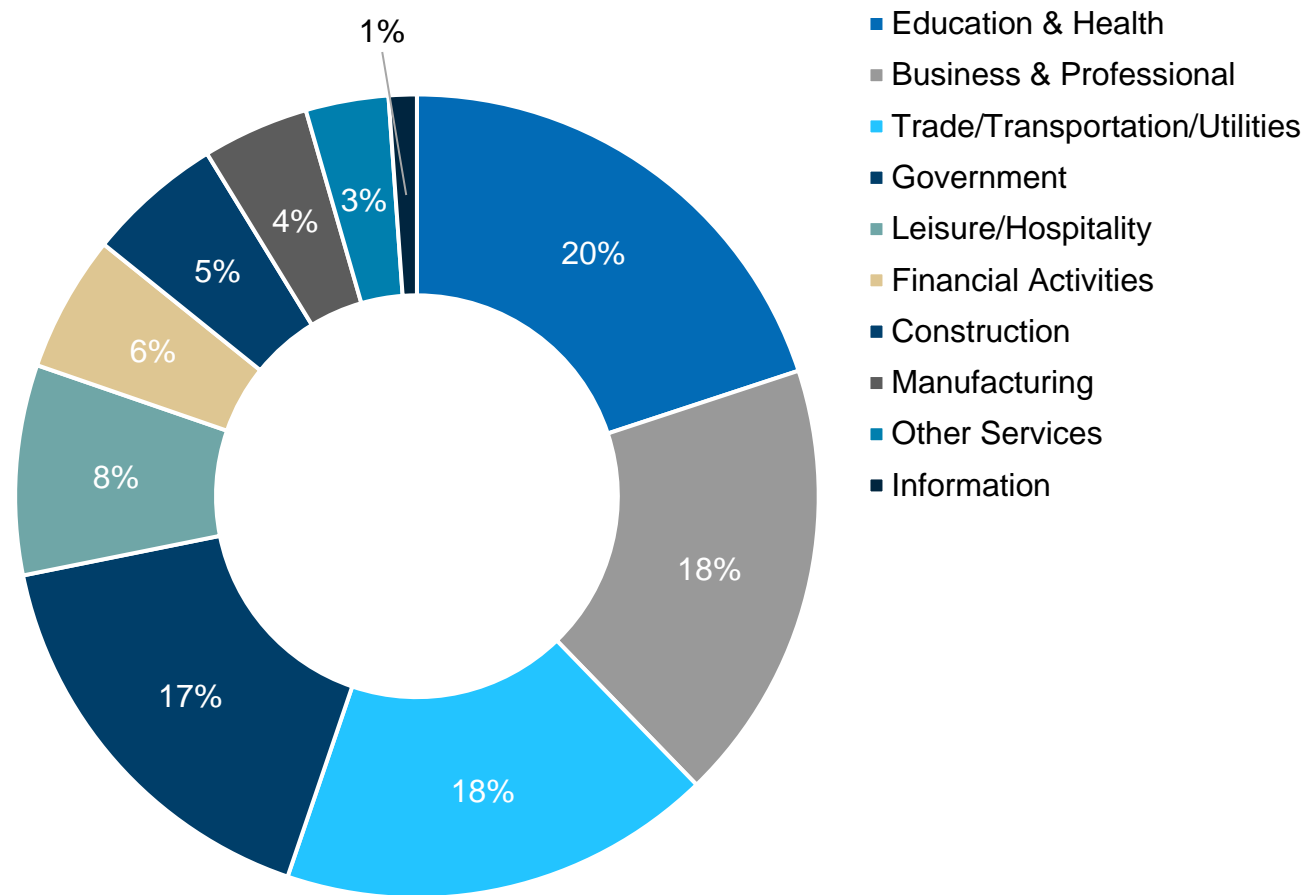


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

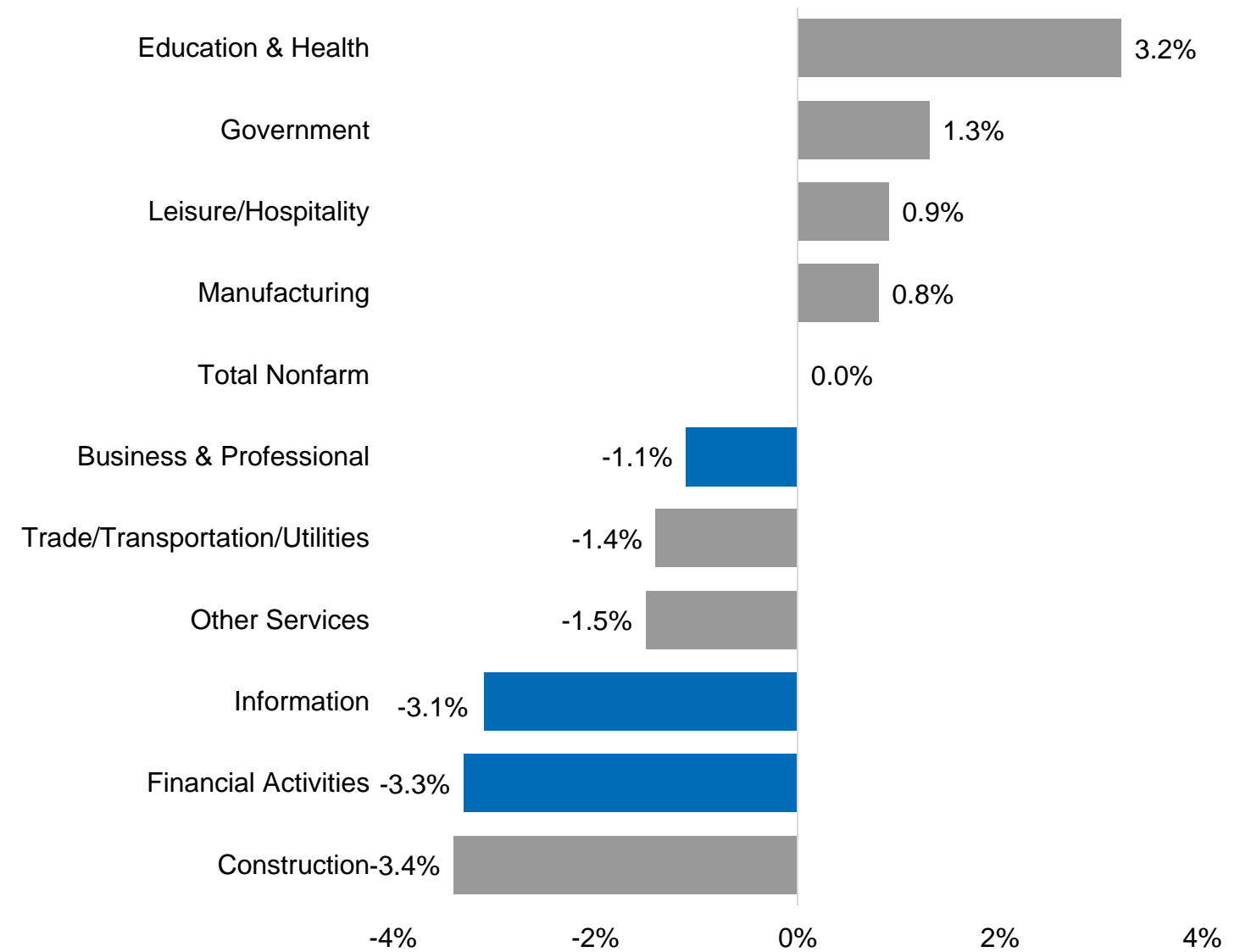
Office-Using Industries Experience 12-Month Employment Decline

Overall nonfarm employment remained flat in the Baltimore metro year-over-year. Although the market saw solid gains in Education & Health and Government employment growth, the market saw a decline in the most relevant industries to the office market. The Business & Professional, Information, and Financial Activities industries all saw declines in year-over-year employment. Regardless, the Business & Professional industry remains the second-largest industry in the region, only behind Education & Health.

Employment by Industry, February 2024



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

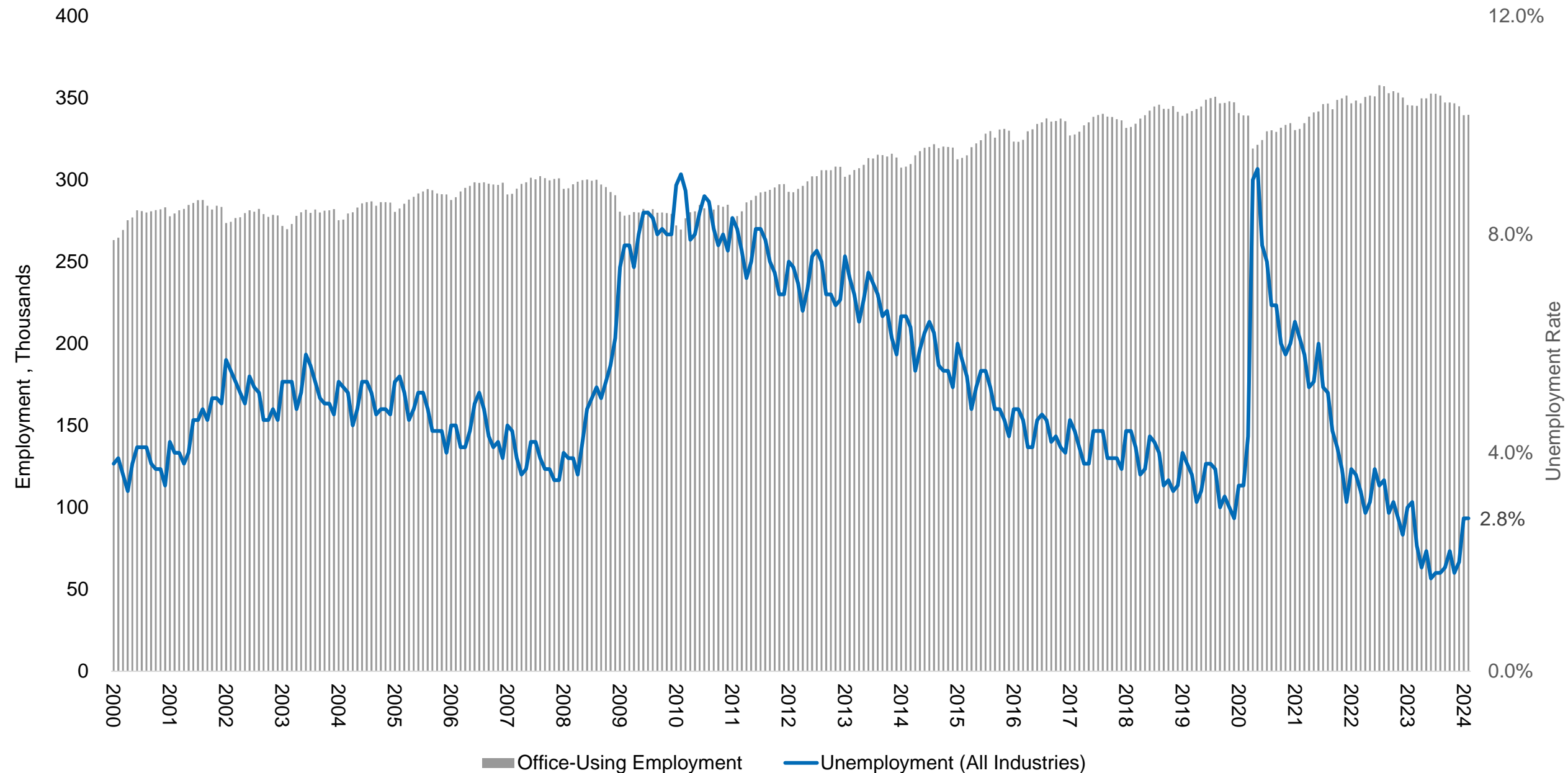


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

Overall Office-Using Employment Sees Slight Declines

Although the number of office jobs has rebounded close to pre-pandemic levels, the market has seen declines in office-using employment since the middle of 2023. Employment ended February 2023 at 339,600 employees, a decrease of 1.7% year-over-year, however an increase of 6.5% since the market reached a pandemic-related low in April of 2020.

Office-Using Employment* and Unemployment Across All Industries



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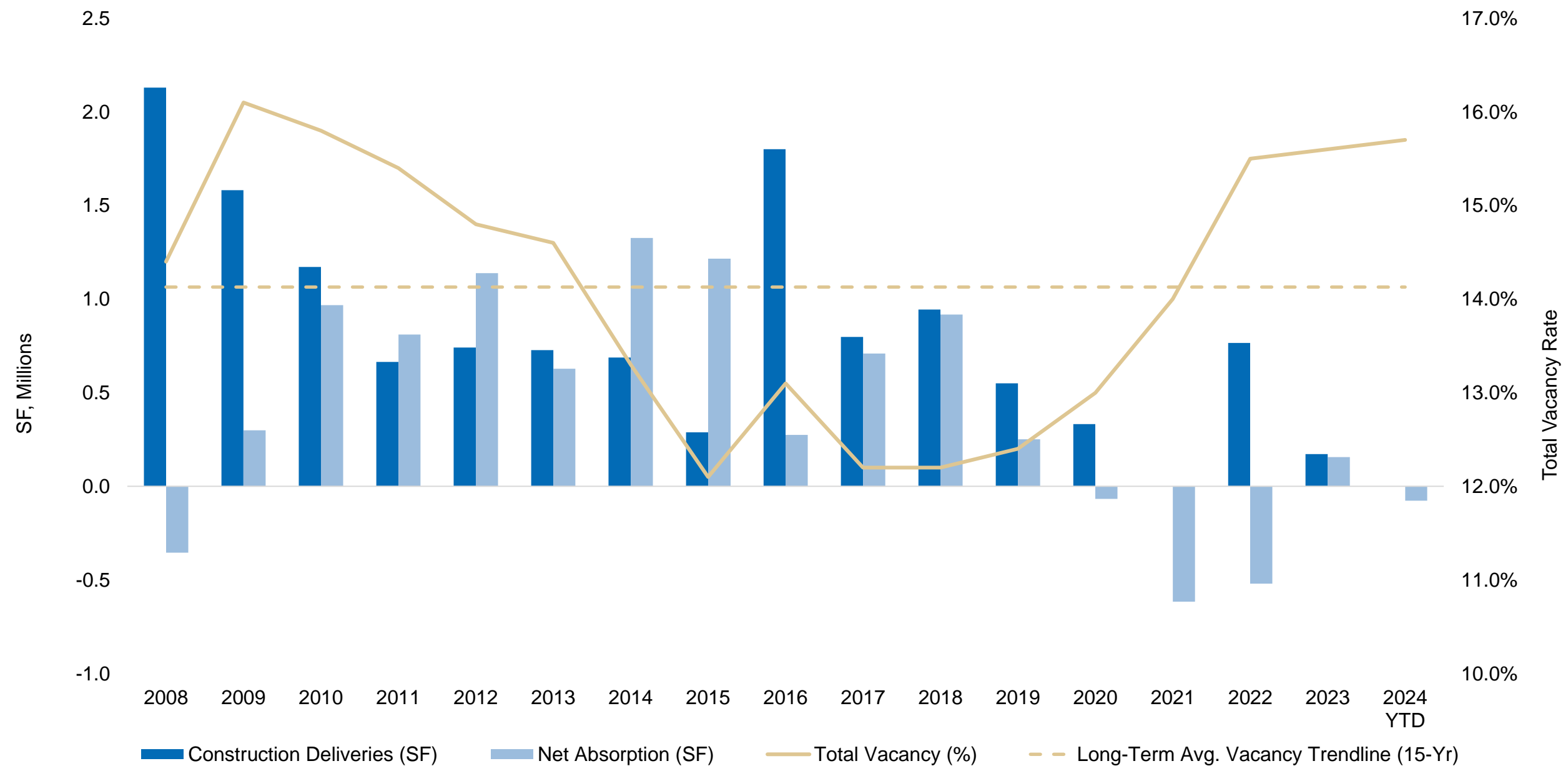
Leasing Market Fundamentals



Market Fundamentals Relatively Stable to Begin 2024

The vacancy rate expanded to 15.7% during Q1 2024, up 10 bps quarter-over-quarter after the market experienced 77,000 SF of negative net absorption. Although the market's vacancy remains above the long-term average of 14.1%, the vacancy rate has remained relatively flat since 2022. Furthermore, although there were no deliveries during Q1 2024, there were five properties totaling almost 800,000 SF under construction, which is in line with the market's historical average.

Historical Construction Deliveries, Net Absorption, and Vacancy



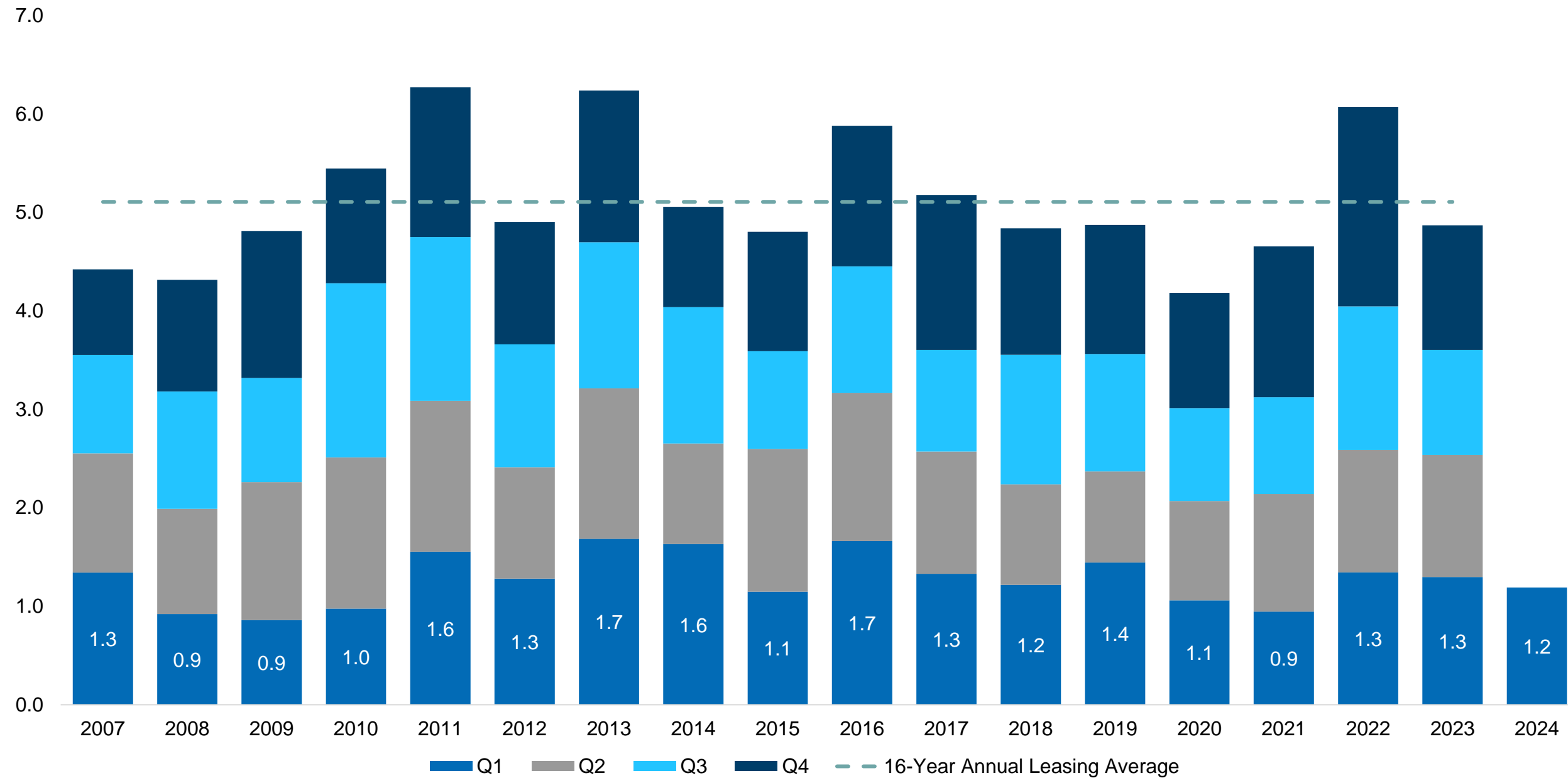
Source: Newmark Research, CoStar



Leasing Activity on Pace with Historical Average

Leasing activity during Q1 2024 is on pace with the market's historical average. The Baltimore market experienced 1.2 MSF of leasing activity during the quarter, on par with the historical average of 1.3 MSF of leasing activity during the first quarter.

Total Leasing Activity (tsf)



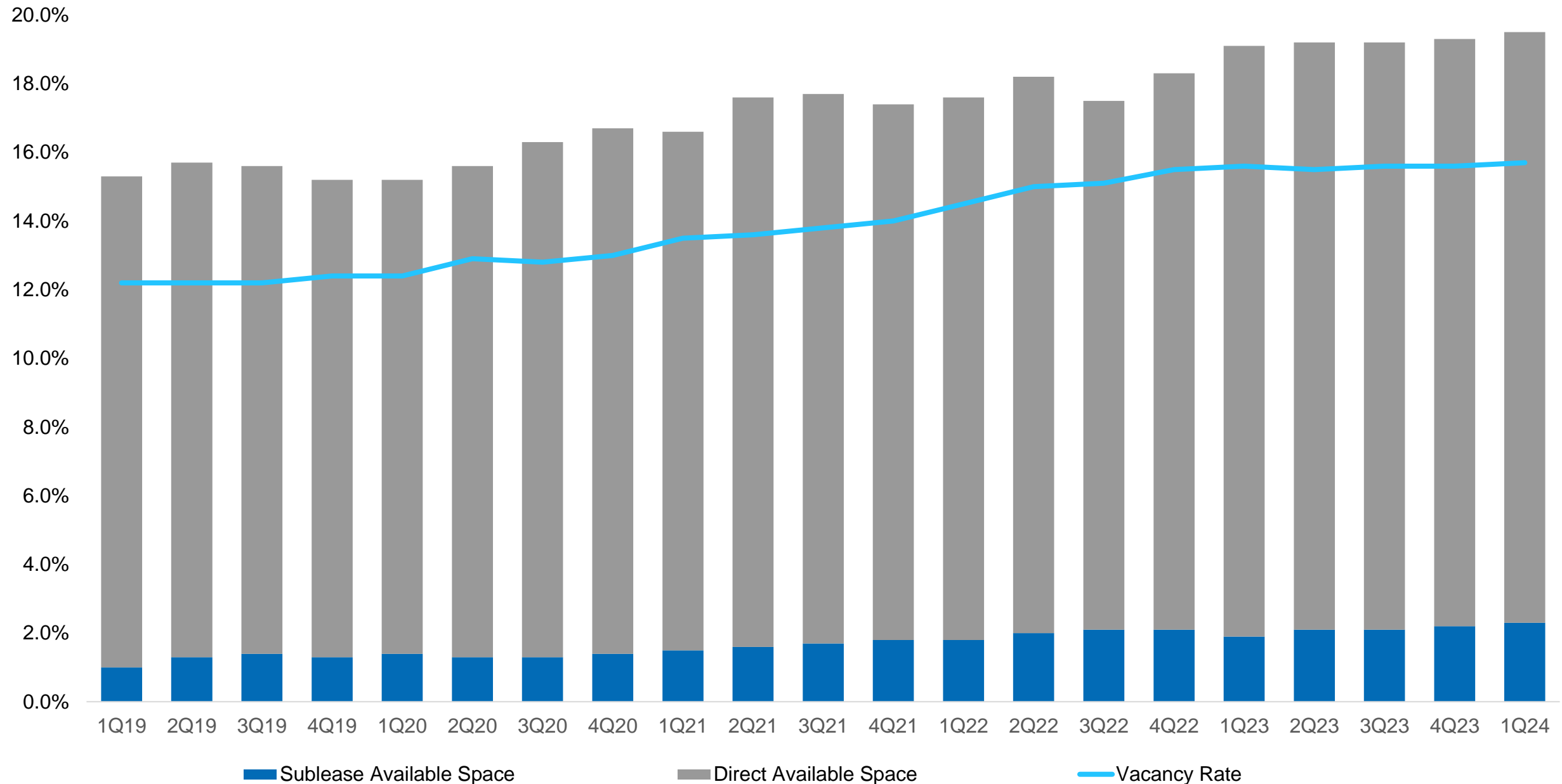
Source: Newmark Research, CoStar



Availability and Vacancy Stay Relatively Flat to Begin 2024

During Q1 2024, both vacancy and availability stayed relatively flat. Vacancy ended the quarter at 15.7%, an increase of 10 bps quarter-over-quarter, while availability ended the quarter at 19.5%, an increase of 20 bps quarter-over-quarter.

Available Space and Vacancy Rate



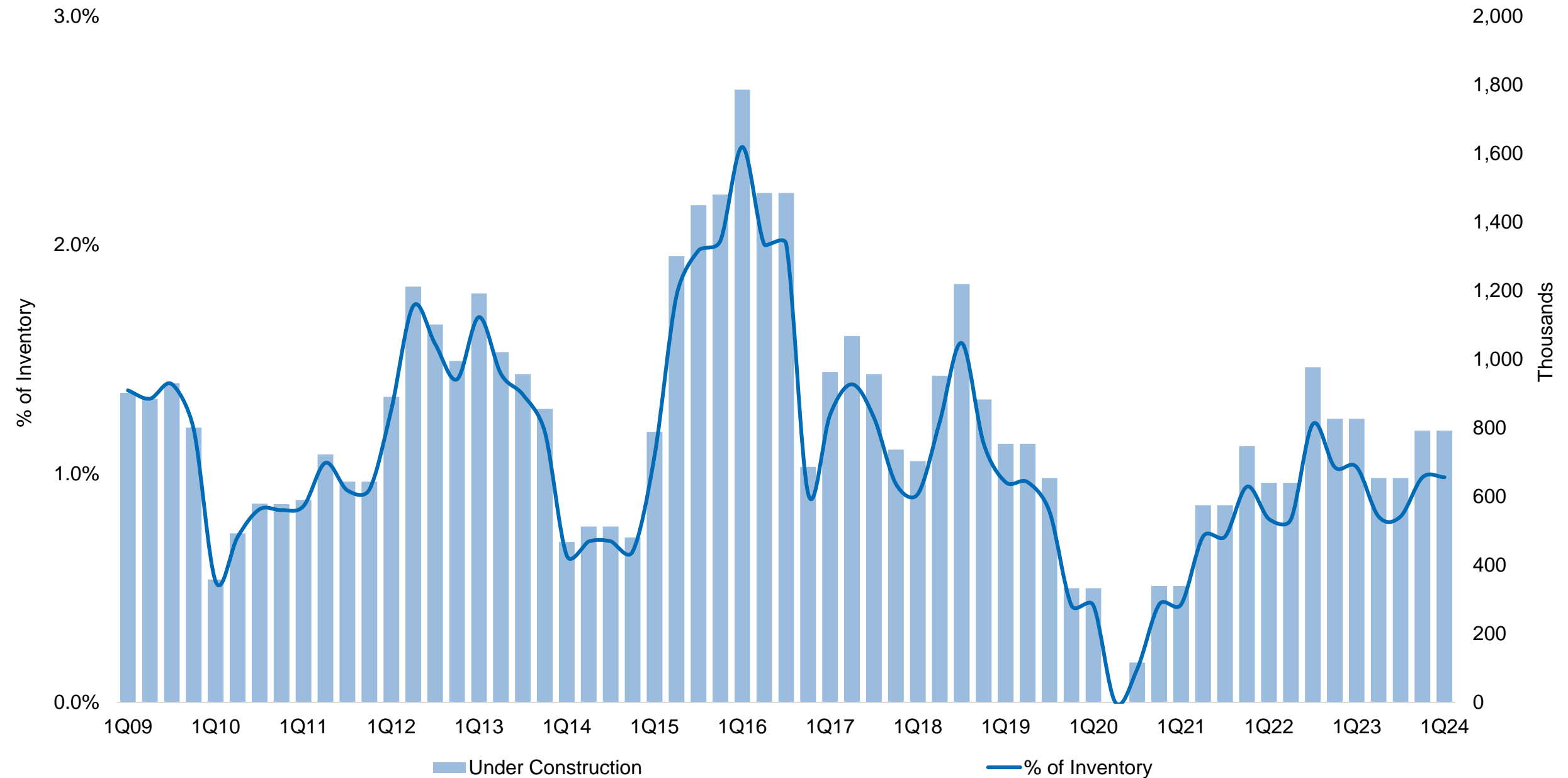
Source: Newmark Research, CoStar



Construction on Par with Historical Average

There are five properties totaling 792,000 SF currently under construction, on par with the market's decade average of 796,000 SF under construction. Highlighting these developments is T Rowe Price's new headquarters at Harbor Point, which will add two buildings totaling 450,000 square feet to the market, with delivery expected in May.

Office Under Construction and % of Inventory



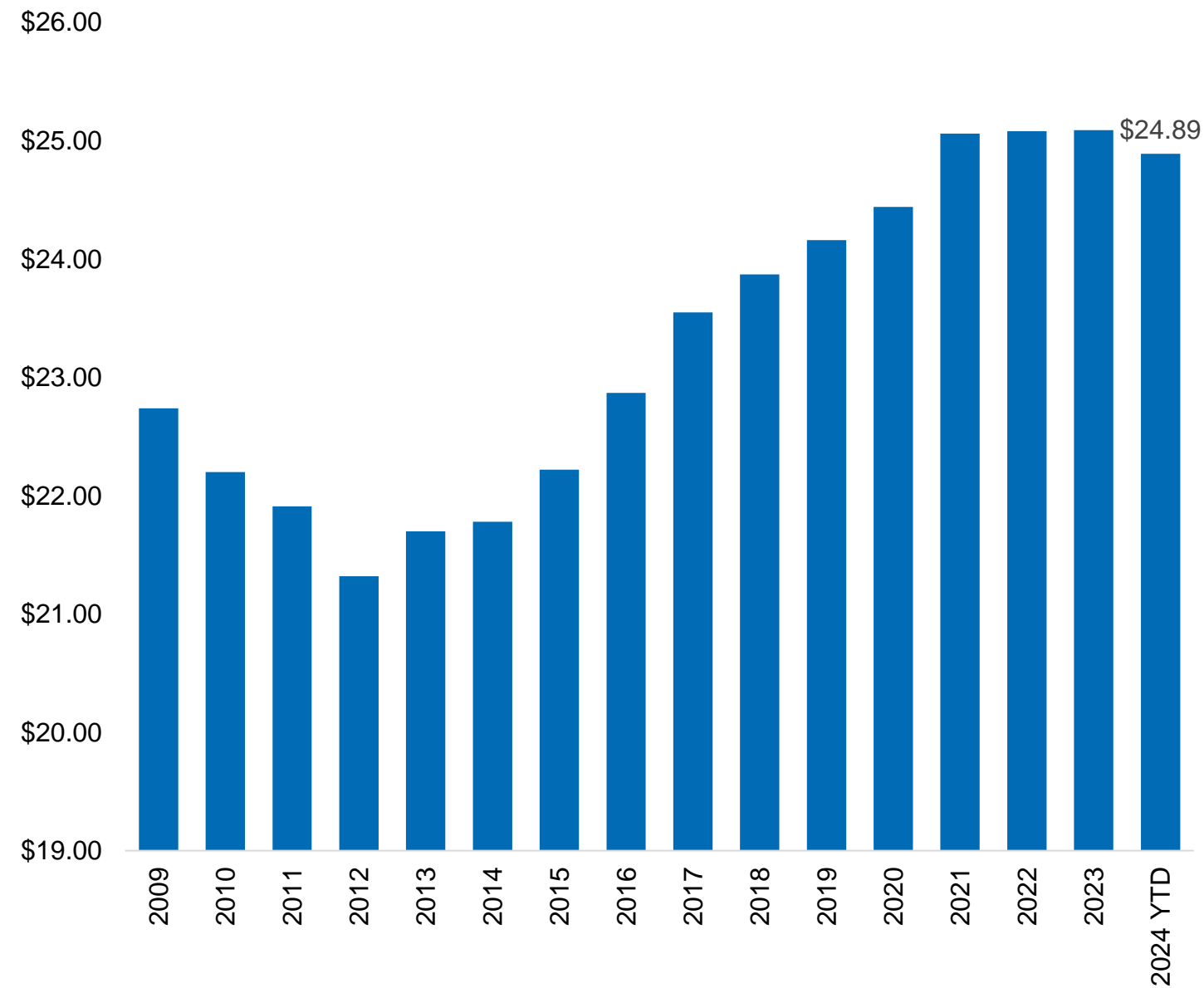
Source: Newmark Research, CoStar



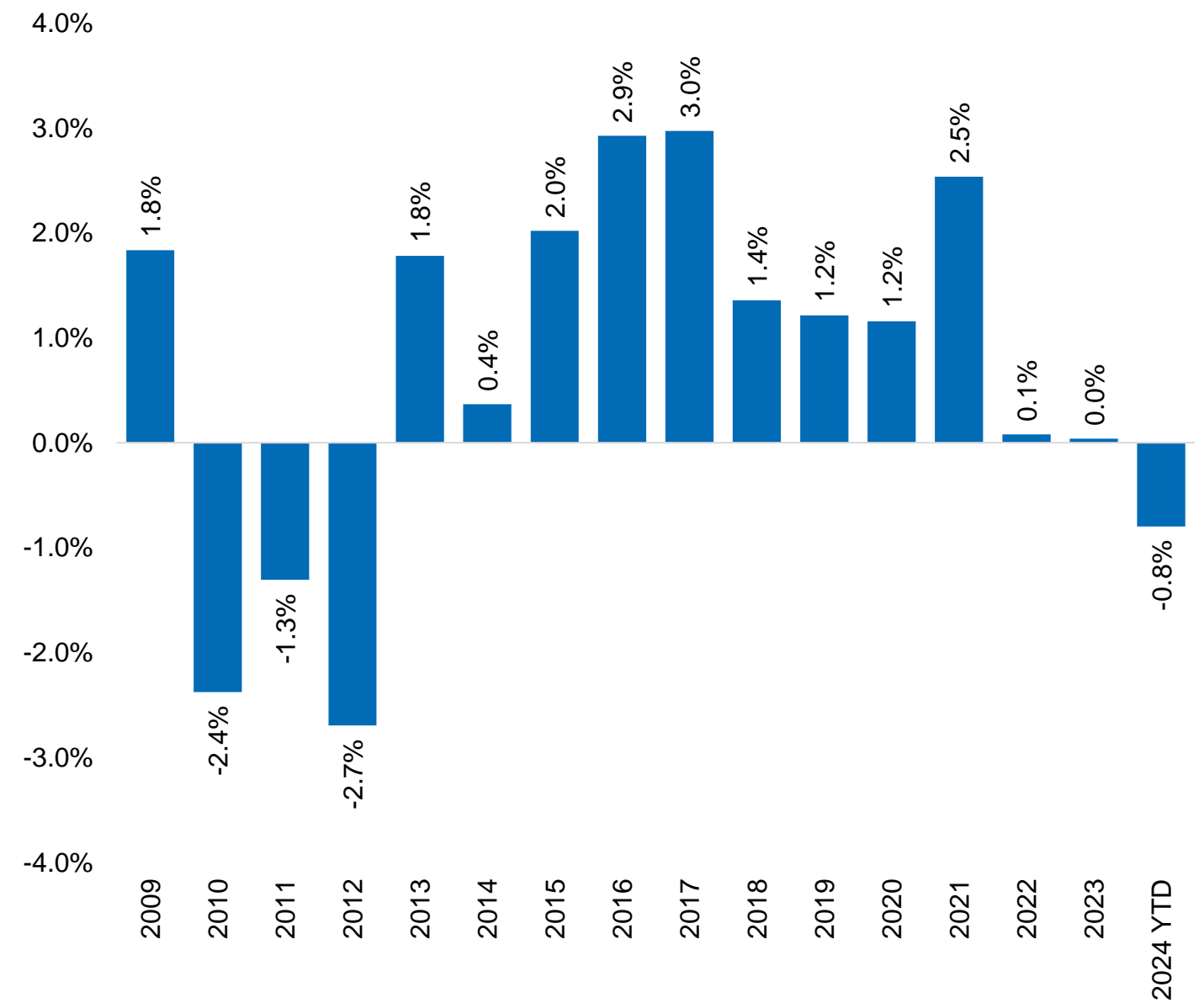
Rents Decline Slightly to Start 2024

After the market saw positive rent growth from 2013 to 2021, rents flattened in 2022 and remained flat through 2023. To begin 2024, average asking rents have begun to fall, ending Q1 2024 at \$24.89 PSF, a decrease of 0.8% quarter-over-quarter.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



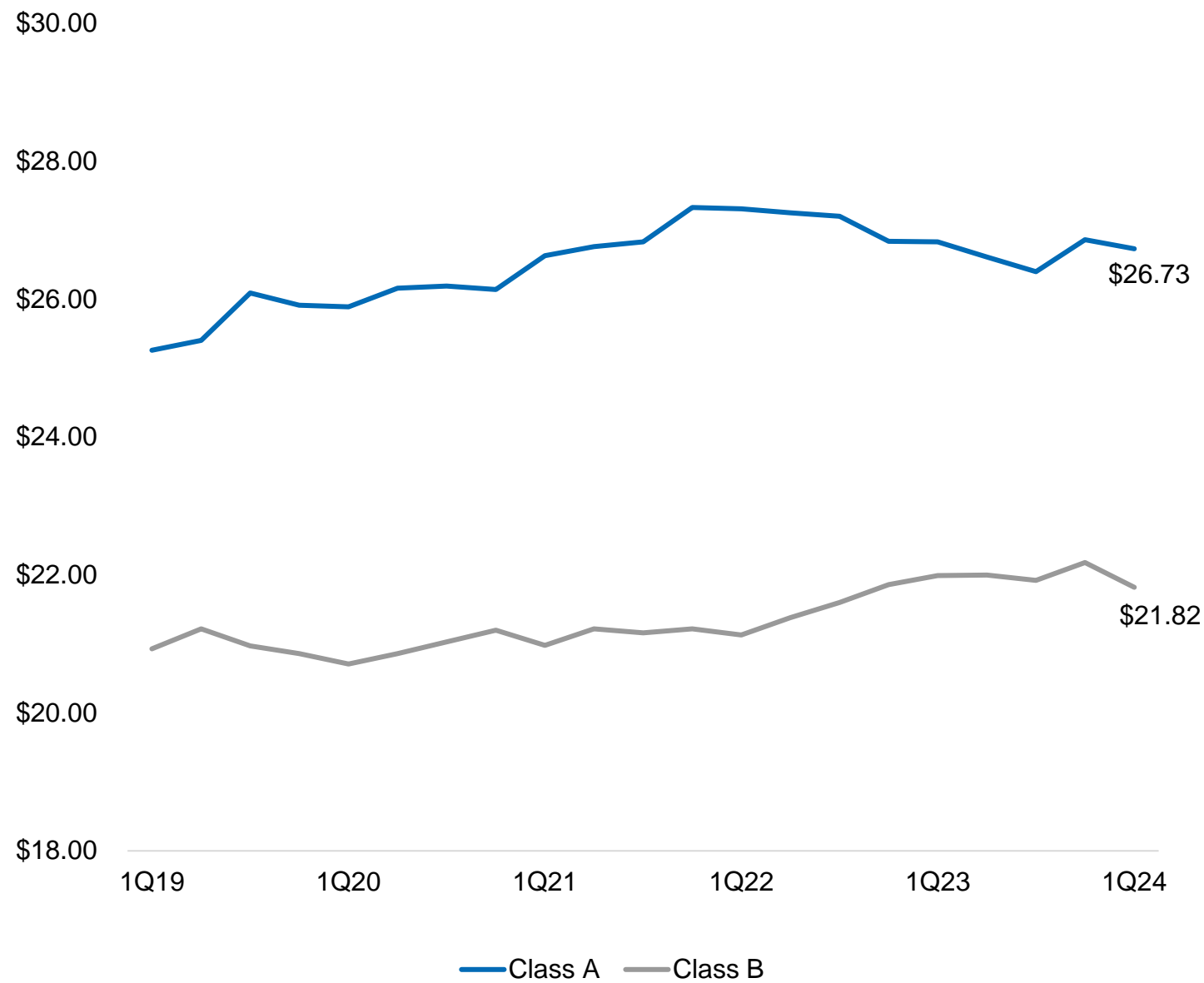
Source: Newmark Research, CoStar



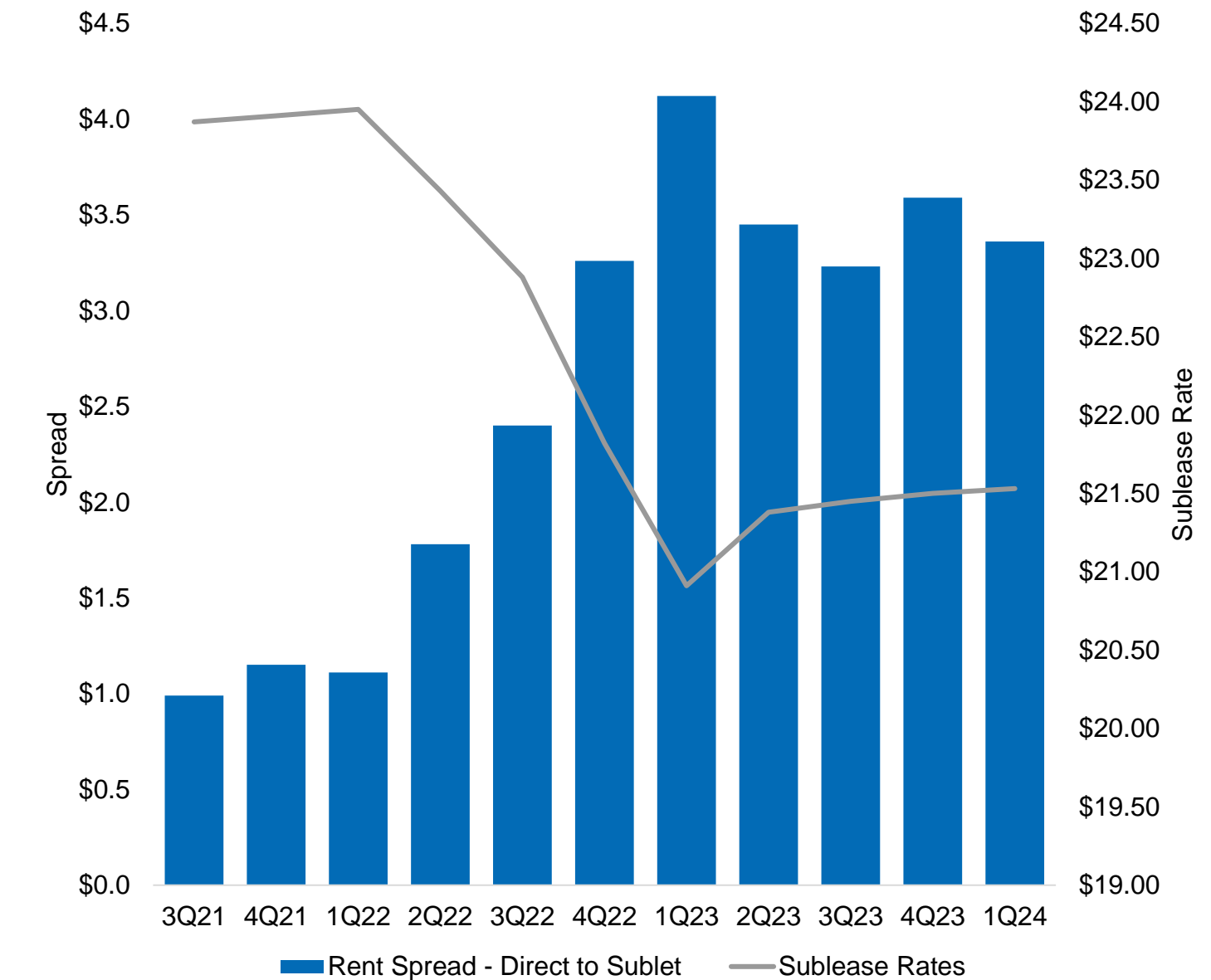
Both Class A and Class B Rents Decline Slightly

Both Class A and Class B rents declined slightly during Q1 2024, decreasing during the quarter after seeing positive movement to end 2023. Class A rents ended the quarter at \$26.73, a decrease of 0.5% quarter-over-quarter and 0.4% year-over-year. Class B rents ended the quarter at \$21.82, a decrease of 1.6% quarter-over-quarter and 0.8% year-over-year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



Leasing Activity Driven by Renewals and the Government

Renewals continue to drive the leasing market, evidenced by three of the top five transactions being renewals. Furthermore, the government largely contributed to leasing activity during Q1 2024, as the Maryland Department of the Environment had the largest transaction, a 263,000-square-foot renewal at 1800 Washington Boulevard within the Baltimore Southwest submarket.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Maryland Department of the Environment	1800 Washington Boulevard	Baltimore Southwest	Lease Renewal	263,473
Window Nation	8110 Maple Lawn Boulevard	Columbia South	Direct Lease	50,698
Armstrong Institute for Patient Safety and Quality	750 E Pratt Street	CBD	Lease Renewal	38,501
Automated Health Systems, Inc	6514 Meadowridge Road	Columbia North	Direct Lease	36,474
WellPoint	7550 Teague Road	BWI / Anne Arundel	Lease Renewal	30,000

Source: Newmark Research, CoStar

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Market Statistics





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