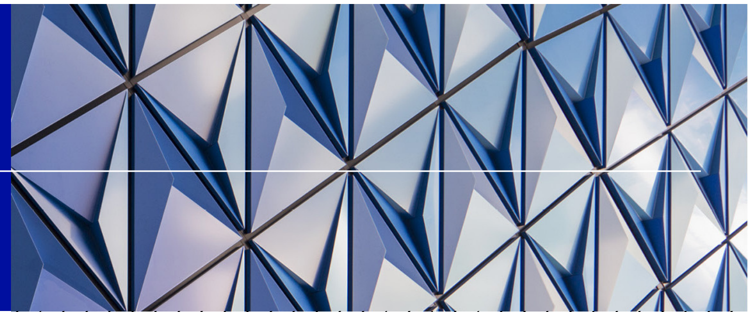
RESEARCH Q2 2021



Baltimore Office Market

Occupancy Losses Persist but Office-Using Labor Fundamentals Rebound

The Baltimore metro area's office market continued to soften modestly in the second quarter of 2021, an expected consequence of the pandemic-induced slow leasing environment. Baltimore's contraction in demand has been mild relative to comparable markets, but like its peer cities it faces long-term challenges given the future role of remote work.

Net absorption registered -131,795 square feet during second-quarter 2021. Occupancy losses in Baltimore City were -124,340 square feet, marking the largest quarterly loss for the city since the onset of the pandemic. Slow leasing activity throughout 2020 has limited opportunities for occupancy expansion, and this is likely to remain a challenge until pent-up demand loosens. The rapid pace of vaccinations has accelerated the prospect of a safe return of normal business activities, however. The metro area's relatively high vaccination rates and low viral spread have allowed for the elimination of distancing and mask restrictions, building confidence among office occupiers about reboarding and reengagement in real estate planning.

Vacancy continued to rise in second-quarter 2021, reaching 14.4%. This marks a 20-basis-point increase from first-quarter 2021 and a 90-basis-point increase from one year ago. The metro area's construction pipeline has been modest over the past 18 months, which has helped to limit vacancy growth due to inventory expansion. Two speculative buildings broke ground in Baltimore City during the second quarter, increasing the construction pipeline to 591,278 square feet and increasing the likelihood of the City's vacancy rate rising further between now and 2023.

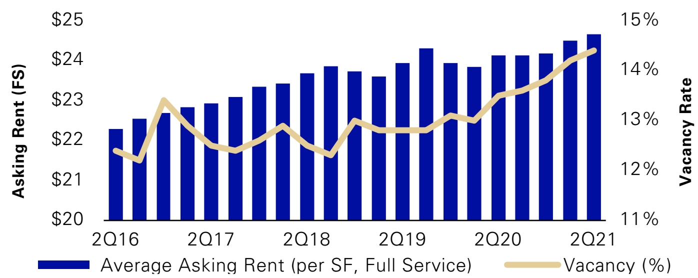
Asking rents averaged $24.65/SF during second-quarter 2021, up from $24.49/SF in the previous quarter. Face rents have been trending up in recent months, which is more an indicator of the quality of newly listed availabilities than a function of demand. These more expensive space listings have shifted the balance of Baltimore's average weighted rents toward 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.

Current Conditions

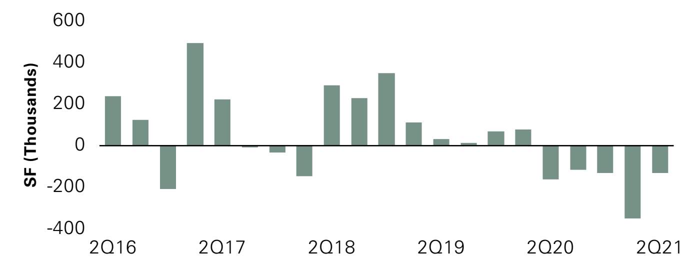
- The Baltimore office market registered -131,795 square feet of net absorption during the second quarter.
- The overall vacancy rate for Baltimore's office market was 14.4% in the second quarter of 2021, up 20 basis points on the quarter and up 90 basis points from one year ago.
- Construction activity measured 591,278 square feet in the second quarter, following the groundbreaking of two speculative office buildings in Baltimore City.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	82.1 M	82.0 M	82.1 M	↑
Vacancy Rate	14.4%	14.2%	13.5%	↑
Quarterly Net Absorption (SF)	-131,795	-350,785	-162,374	→
Average Asking Rent/SF	$24.65	$24.49	$24.12	→
Under Construction (SF)	591,278	333,110	0	↓
Deliveries (SF)	0	0	332,773	↑

NEWMARK

Downtown Baltimore Demand Shifts

Office demand in Baltimore's downtown core has been moving eastward, particularly among the city's large private sector firms. This gravity shift of office demand has been driven by tenants' desires for high-quality office space, more amenities and better transportation access in Baltimore's Harbor East and Harbor Point micro markets.

Since December 2020, several noteworthy relocations have been announced, including Transamerica moving from 100 Light Street to 1201 Wills Street, and Bank of America moving from 100 South Charles Street to 100 International Drive. Additionally, T. Rowe Price announced the impending construction of a 470,000-square-foot build-to-suit headquarters at Harbor Point. While Baltimore has retained these notable financial and insurance firms, their relocations will be a challenge for office market fundamentals in the Central Business District. Each of these firms will be relocating no more than 1 mile from their current offices but will collectively be vacating more than 600,000 square feet in the CBD.

While large private-sector tenants have been leaving the CBD for Baltimore's Southeast submarket, Governor Hogan has directed some state agencies to relocate or renew office spaces in Baltimore's CBD to support the downtown core. Most notably is the planned relocation of 12 state agencies from the State Center complex in Midtown Baltimore. The first RFPs for this relocation include the Maryland Department of Human Services and Department of Health. Separately, the Maryland State Retirement and Pension System renewed for 81,478 square feet at 120 East Baltimore Street in second-quarter 2021.

Office-Using Job Recovery Accelerates in Suburbs

Job recovery in the Baltimore metro area has been particularly pronounced through May 2021, with the metro adding 44,100 jobs since January 2021. The local pace of vaccinations and the lifting of business restrictions helped to accelerate job recovery in the spring. By May 2021, the metro area had recaptured 77.6% of the total jobs lost between March and April 2020, higher than the national rate of 71.2%.

Office-using employment recovery has been a particularly bright spot for the Baltimore metro. Since January 2021, the metro area has gained 20,100 office-using jobs, largely supported by Professional & Business Services – the market's largest office-using sector. Office-using labor recovery has not been consistent across the metro area, however. Baltimore City's office-using employment has been slower to recover from the impacts of the pandemic relative to the metro as a whole. In total, the Baltimore metro has recaptured 82.4% of the office-using jobs lost between March and April 2020; significantly higher than the national rate of 57.2% and the Baltimore City rate of 48.6%. This highlights the strength of Baltimore's suburban markets in driving office-using job recovery. Given the historically strong office demand in the counties, suburban office market fundamentals may recover more quickly than Baltimore City's metrics.

Within office-using labor, employment in Professional & Business Services exceeds pre-pandemic levels, indicating exceptionally strong recovery for the market's largest office-using sector. While the implementation of flexible remote work policies may soften the correlation between office-using employment growth and demand for space, rapid recovery of office-using labor sectors is still a benefit to the regional market and its attractiveness for companies seeking access to skilled labor.

Capital Markets Activity Remains Quiet

Investment sales volume through the first half of 2021 has been quiet. The largest sales of 2021 have been portfolio transactions, led by Brookfield's $3.4-billion portfolio to Blackstone Property Partners Life Sciences, which included two properties in the Baltimore market: 855 N Wolfe Street and 1812 Ashland Avenue.

Baltimore's investment sales market had proven sturdy in the five years preceding the pandemic. The region's economy and office demand drivers have become more diversified, highlighted by the growing education, healthcare, research and cybersecurity sectors. These economic drivers will prove important in the recovery of Baltimore's commercial real estate industry in the quarters to come.

Notable 2Q 2021 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Maryland State Retirement & Pension System	120 E Baltimore Street	CBD Baltimore	Lease Renewal	81,478
Transamerica	1201 Wills Street	Baltimore Southeast	Direct Lease	35,000
Raytheon	420 National Business Parkway	BWI	Direct Lease	28,900
Silverman Thompson	400 E Pratt Street	CBD Baltimore	Direct Lease	21,000

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

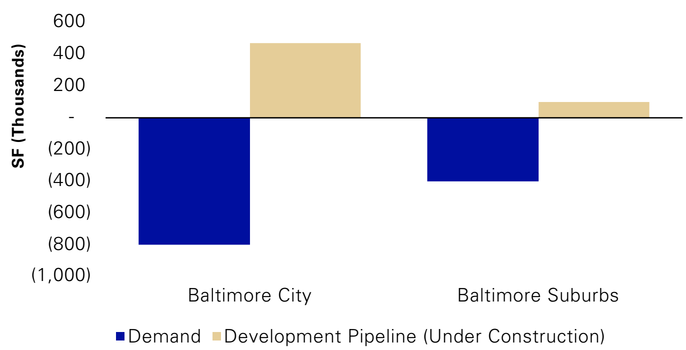
The impacts of COVID-19 continue to weigh on the Baltimore metro area's office market fundamentals, a trend likely to persist through the balance of 2021. Pent-up tenant demand is anticipated to loosen in the coming quarters, however, as high vaccination rates and fewer restrictions permit office reboarding in earnest. The pandemic has caused many firms to pause their long-term real estate initiatives, which has stifled leasing activity since the onset of the pandemic. The return of normal commercial activities in the second half of 2021, combined with the growing number of firms returning to the office, may loosen pent-up leasing demand and boost activity. Office market metrics, such as absorption and vacancy, are lagging indicators and therefore may remain challenged, despite increasing market activity.

The impact of remote work and flexible schedules may result in firms reassessing the utility and cost of their real estate portfolios. As such, net demand for local office space is expected to remain negative over the next two years, with most of the losses concentrated in Baltimore City. Suburban markets, anchored by federal contracting, cybersecurity and healthcare, are likely to fare better over the next two years but still experience net-negative demand on balance. These market-wide occupancy losses will apply upward pressure on vacancy rates; the metro rate is likely to reach 16.4% by second-quarter 2023. Baltimore City is likely to see its vacancy rate increase by 410 basis points over the next two years, to 19.5%. Although still modest in size, Baltimore City's expanded construction pipeline will inflate future inventory and apply additional upward pressure on vacancy.

Average asking rents, measured on a "same store" method, have remained steady throughout the pandemic. While newly listed, higher-quality availabilities are having a disproportionate effect on the market's rental rate average, concessions remain high and effective rents are under downward pressure. Given mounting occupancy losses and rising vacancy, competitive asset owners, particularly in Baltimore City and less desirable suburban submarkets, may increase concessions further, thereby reducing effective rents for tenants at least through the remainder of 2021. As supply and demand forces stabilize, asset owners may gradually re-establish leverage during the next two years.

Supply/Demand Forecast

Baltimore Metro Area, 24 Months Ending June 2023



Source: Newmark Research; June 2021

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	2Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Baltimore Metro Area	**82,080,271**	**13.6%**	**14.4%**	**718,090**	**222,907**	**-332,151**	**-131,795**	**-482,580**
Class A	48,980,437	14.3%	15.3%	685,202	238,003	-253,944	-8,427	-228,258
Class B	27,232,334	12.8%	13.4%	194,853	4,743	-112,738	-123,840	-254,128
Class C	5,867,500	11.7%	11.7%	-161,965	-19,839	34,531	472	-194

Market Statistics By Class

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Baltimore Metro Area	**82,080,271**	**$26.74**	**$21.01**	**$24.65**	**0**	**0**	**591,278**
Class A	48,980,437	$26.74	NA	$26.74	0	0	591,278
Class B	27,232,334	NA	$21.01	$21.01	0	0	0
Class C	5,867,500	NA	NA	$20.72	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)	2Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Baltimore Metro Area	**82,080,271**	**13.6%**	**14.4%**	**718,090**	**222,907**	**-332,151**	**-131,795**	**-482,580**
Annapolis	3,328,553	16.2%	16.7%	10,663	120,201	29,279	-7,311	-45,860
Baltimore County East	1,891,681	19.4%	21.7%	32,054	56,112	-25,568	12,511	-37,527
Baltimore Midtown	2,299,695	4.9%	4.9%	-178,157	-6,386	47,183	-6,152	-2,706
Baltimore Northeast	1,179,016	0.1%	0.1%	5,736	23,344	19,234	1,389	0
Baltimore Northwest	1,229,881	9.7%	9.7%	194	-5,735	5,718	-2,396	-7,486
Baltimore Southeast	6,869,047	11.7%	13.0%	-134,011	23,318	-70,119	-59,626	-57,539
Baltimore Southwest	2,331,933	24.2%	24.5%	28,539	9,386	-50,758	-14,294	34,331
BWI	9,670,197	10.3%	11.1%	345,052	104,555	139,208	-21,479	-93,701
Carroll County	369,095	9.9%	9.9%	3,846	-12,332	-18,170	4,019	5,471
CBD Baltimore	15,002,509	17.5%	18.3%	228,026	-102,373	-136,611	-43,261	-114,375
Columbia	11,796,210	14.3%	14.8%	-43,065	217,506	-298,024	-17,902	-71,045
Ellicott City	879,329	8.4%	9.1%	-6,371	6,128	3,467	150	-16,825
Harford County	1,910,894	17.1%	18.0%	5,295	32,920	41,762	-18,224	-16,533
I-83	7,694,601	11.4%	12.3%	379,229	-93,192	-48,935	28,342	-35,656
I-97 Crain Highway Corridor	726,522	15.4%	15.4%	24,669	-24,650	4,941	3,173	-5,377
Reisterstown Road Corridor	4,865,322	12.0%	13.0%	6,691	106,722	-92,590	41,522	49,630
Route 1 Corridor	1,215,332	16.9%	17.4%	-39,100	-39,497	96,921	-15,613	-18,191
Route 2 Corridor	931,886	5.9%	5.9%	-16,548	-19,876	-2,737	7,798	8,125
Towson	4,684,858	16.3%	16.8%	43,952	-95,568	-20,382	-41,936	-51,200
Woodlawn	3,203,710	10.1%	11.7%	21,396	-77,676	44,030	17,495	-6,116

Submarket Statistics—All Classes

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Baltimore Metro Area	**82,080,271**	**$26.74**	**$21.01**	**$24.65**	**0**	**0**	**591,278**
Annapolis	3,328,553	$32.25	$25.02	$30.44	0	0	0
Baltimore County East	1,891,681	$25.38	$23.91	$24.36	0	0	0
Baltimore Midtown	2,299,695	$19.75	$13.50	$15.31	0	0	37,300
Baltimore Northeast	1,179,016	NA	$18.63	$18.63	0	0	0
Baltimore Northwest	1,229,881	NA	$26.73	$24.81	0	0	0
Baltimore Southeast	6,869,047	$28.03	$17.00	$27.82	0	0	437,998
Baltimore Southwest	2,331,933	$17.94	$16.00	$17.71	0	0	0
BWI	9,670,197	$30.82	$22.14	$28.34	0	0	0
Carroll County	369,095	$24.50	$20.22	$20.55	0	0	0
CBD Baltimore	15,002,509	$26.48	$19.32	$24.15	0	0	0
Columbia	11,796,210	$28.85	$23.78	$27.39	0	0	115,980
Ellicott City	879,329	$24.04	$19.50	$21.29	0	0	0
Harford County	1,910,894	$26.35	$24.76	$25.54	0	0	0
I-83	7,694,601	$23.89	$19.64	$22.53	0	0	0
I-97 Crain Highway Corridor	726,522	$30.38	$20.69	$28.38	0	0	0
Reisterstown Road Corridor	4,865,322	$23.69	$20.52	$21.85	0	0	0
Route 1 Corridor	1,215,332	$21.17	$21.12	$21.13	0	0	0
Route 2 Corridor	931,886	$19.88	$19.08	$19.78	0	0	0
Towson	4,684,858	$23.56	$20.17	$21.30	0	0	0
Woodlawn	3,203,710	$22.44	$19.50	$20.69	0	0	0

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

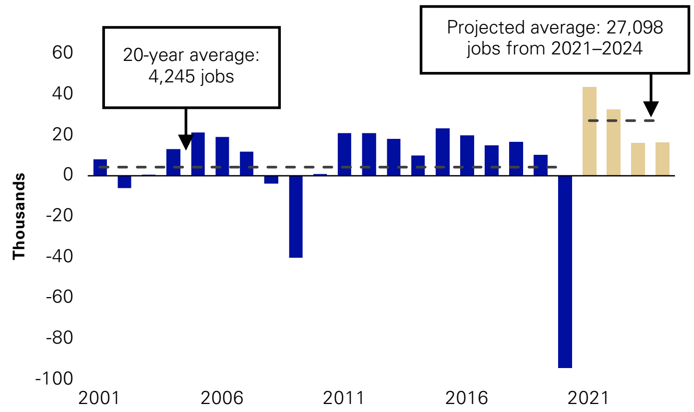
Economic Conditions

The Baltimore region's unemployment rate registered 5.4% in April 2021, the most recent available data, which was 70 basis points lower than the national rate of 6.1%. Both the Baltimore and U.S. unemployment rates rose sharply in April 2020 due to the pandemic but have since gradually declined, with occasional upward ticks mixed in. Unemployment should decline throughout the summer as vaccine distribution has advanced and normalized commercial activities are resuming. The Baltimore metro area is projected to create approximately 43,400 net new jobs in 2021 and an average of about 27,000 new positions per annum from 2021 to 2024. The region's strengths in e-commerce, cybersecurity, and healthcare will drive job creation.

For the 12-month period ending in May 2021, Baltimore's net change in employment was 113,800 jobs. This figure is influenced by the pandemic; it is more a reflection of the scarcity of jobs in May 2020 than robust creation of new jobs in the year since. Over the past year, metro employment growth was 9.1% and office-using employment growth was 4.8%. Office-using employment contracted less severely during the pandemic, due in part to the ability of office workers to function remotely. As a result, most of the jobs recovered over the past year have been in non-office-using sectors. However, Baltimore's largest office-using sector, Professional & Business Services, has grown 8.8% over the past year.

Employment Forecast

Baltimore Metro Area, Payroll Job Change, 2001-2020 and Forecast 2021–2024

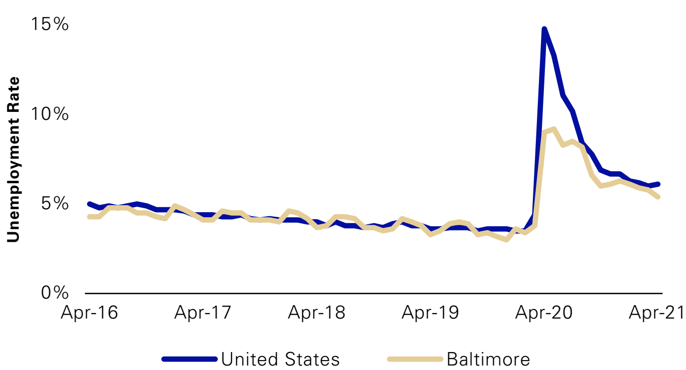


Note: Previous projections have been revised due to COVID-19 and are subject to further revision as conditions change.

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

Unemployment Rate

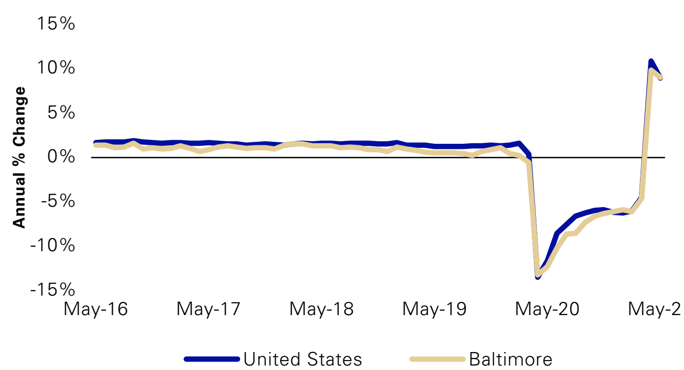
U.S.—Seasonally Adjusted
Baltimore—Not Seasonally Adjusted



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

Payroll Employment

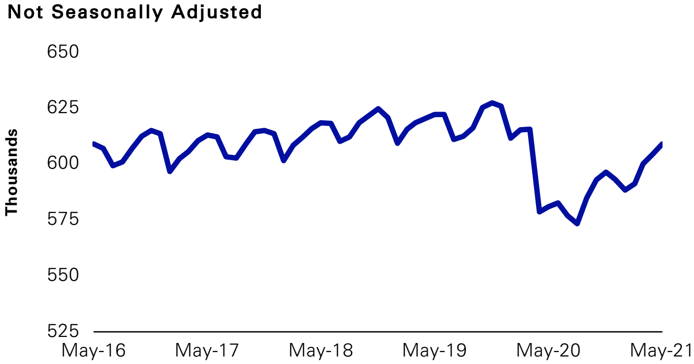
Total Nonfarm, U.S.—Seasonally Adjusted
Baltimore—Not Seasonally Adjusted, 12-Month % Change



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

Office-Using Employment*

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

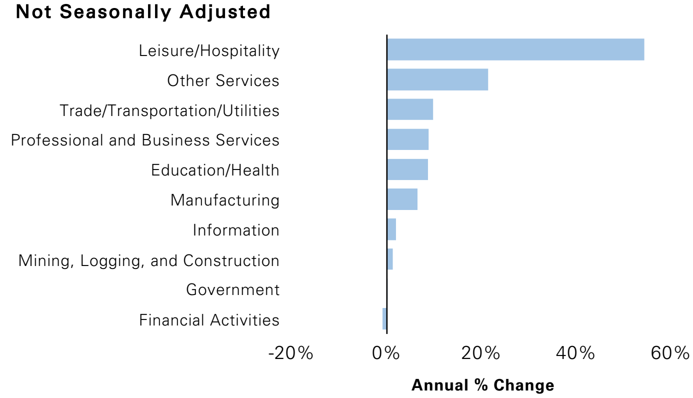


*Identified as Financial Activities, Government, Information, Other Services, and Professional and Business Services

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

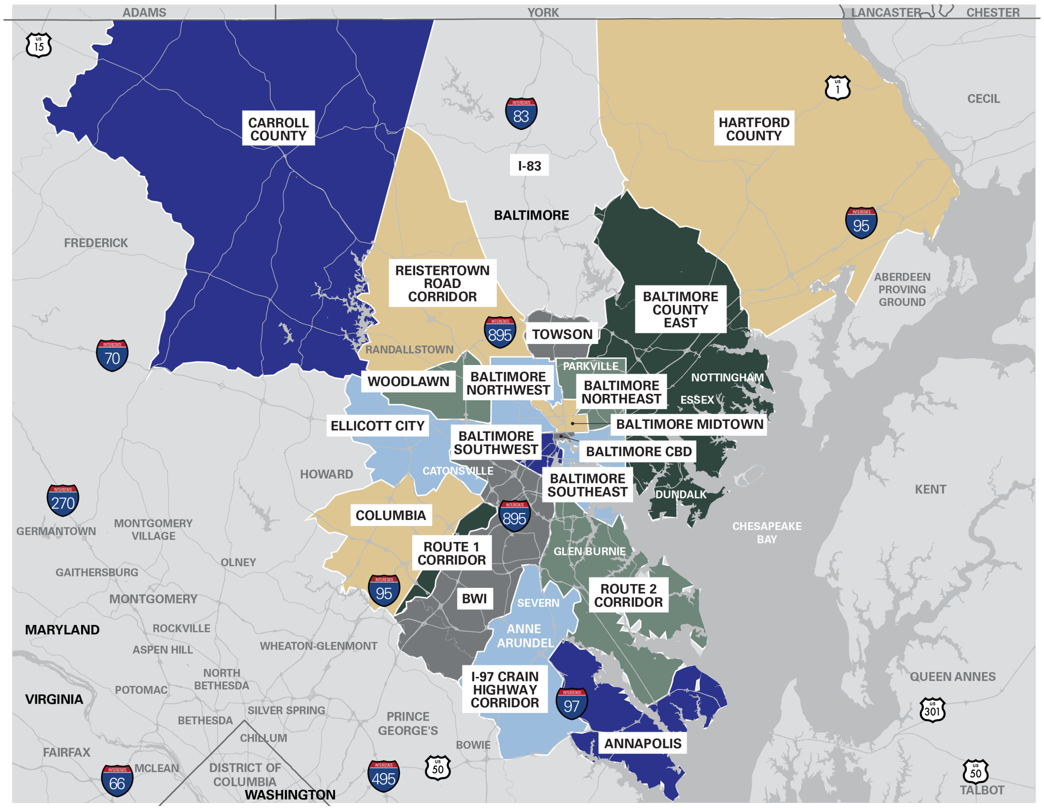
Employment Growth By Industry

Baltimore, % Change, 12 Months Ending May 2021, Not Seasonally Adjusted



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

Baltimore Office Submarkets



Methodology

Market statistics are calculated from a base building inventory of office properties 20,000 SF and larger that are deemed to be competitive in the Baltimore metro area office market. Properties that are more than 75% owner-occupied and federally owned buildings are generally excluded from inventory.

Glossary

Asking Rental Rate: The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year. Average asking rents are calculated on a weighted average basis, weighted by the amount of available space. Asking rents are quoted on a full service basis, meaning all costs of operation are paid by the landlord up to a base year or expense stop.

Class A: The most prestigious buildings competing for premier office users with rents above average for the area. Class A buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B: Buildings competing for a wide range of users with rents in the average range for the area. Class B building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

Class C: Buildings competing for tenants requiring functional space at rents below the area average.

Deliveries: Projects that have completed construction and received a certificate of occupancy.

Net Absorption: The net change in physically occupied space from one quarter to the next. **Year-to-Date (YTD) Net Absorption** is the net change in physically occupied space from the start of the calendar year to the current quarter. Net absorption is counted upon physical occupancy, not upon execution of a lease.

Sublease: Sublease space is offered and marketed as available by the current tenant, rather than directly from the owner.

Under Construction: Properties undergoing ground-up construction in which work has begun on the foundation. Properties that have only undergone grading or other site work are not included as under construction.

Under Renovation: Properties undergoing significant renovations that require all tenants to be out of the building. These properties are removed from inventory during the renovation period and delivered back to inventory upon completion of the renovations. These properties are not included in under construction totals.

Vacancy Rate: The amount of space that is physically vacant, expressed as a percentage of inventory. (Space that is being marketed as available for lease but is largely occupied is not included in the vacancy rate.) The **Overall Vacancy Rate** includes all physically vacant space, both direct and sublease, while the **Direct Vacancy Rate** includes only direct space.

For more information:

Baltimore
1 E Pratt Street
Suite 805
Baltimore, MD 21202
t 410-625-4200

Alexander (Sandy) Paul, CRE, LAI
Senior Managing Director
t 202-312-5783
alexander.paul@nmrk.com

Matt Kruczlnicki
Associate Director
t 202-312-5757
matthew.kruczlnicki@nmrk.com

Jordan Schott
Research Manager
t 202-664-5902
jordan.schott@nmrk.com

Adam Reiskin
Research Analyst
t 202-312-5763
adam.reiskin@nmrk.com

nmrk.com

ALABAMA
Birmingham

ARIZONA
Phoenix

ARKANSAS
Bentonville
Fayetteville
Little Rock

CALIFORNIA
El Segundo
Fresno
Irvine
Los Angeles
Newport Beach
Pasadena
Sacramento
San Francisco
San Jose
San Mateo
Santa Rosa
Visalia

COLORADO
Denver

CONNECTICUT
Stamford

DELAWARE
Wilmington

DISTRICT OF COLUMBIA

FLORIDA
Boca Raton
Jacksonville
Jupiter
Miami
Palm Beach
Tampa

GEORGIA
Atlanta
St. Simons Island

ILLINOIS
Chicago

INDIANA
Indianapolis

KENTUCKY
Louisville

LOUISIANA
New Orleans

MARYLAND
Baltimore
Salisbury

MASSACHUSETTS
Boston

MICHIGAN
Detroit

MINNESOTA
Minneapolis

MISSOURI
Kansas City
Lee's Summit
St. Louis

NEVADA
Las Vegas
Reno

NEW JERSEY
East Brunswick
Morristown
Rutherford

NEW YORK
Buffalo/Amherst
New York

NORTH CAROLINA
Charlotte

OHIO
Cincinnati
Cleveland
Columbus

OKLAHOMA
Oklahoma City
Tulsa

OREGON
Portland/Lake Oswego

PENNSYLVANIA
Allentown
Philadelphia
Pittsburgh

TEXAS
Austin
Dallas
Houston

UTAH
Salt Lake City

VIRGINIA
Tysons Corner

WASHINGTON
Seattle

WISCONSIN
Milwaukee

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/research.

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof and not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.