



# Baltimore Office Market

## Occupancy Contraction Rises in Suburbs; Developer Confidence in Class A

The Baltimore metro area's office market continued to exhibit signs of increased softening in the second quarter, noted by rising vacancy and negative net absorption. The market's vacancy rate has increased 140 basis points over the last year to 15.8%. While Baltimore's occupancy losses during the height of the pandemic had been less severe than other East Coast markets, it has failed to capture the recovery momentum experienced by many other small and mid-sized cities over the last year.

Net absorption registered negative 369,405 square feet during the second quarter of 2022. Contrary to the recent trend, most of the quarterly occupancy losses were concentrated in Baltimore's surrounding counties, which measured negative 262,321 square feet of net absorption. Though quarterly occupancy losses were stronger in the suburbs, Baltimore City still records a higher vacancy rate of 17.1%. In the second quarter, the vacancy rates of both Baltimore City and the surrounding counties each increased by 40 basis points. Slow leasing activity has continued to stall office demand regionally. Market fundamentals like net absorption and vacancy are trailing indicators of leasing activity, which suggests this trend of low demand is likely to continue challenging occupancy in the period ahead. Nonetheless, office occupiers currently face fewer logistical hurdles in requiring employees to return to offices, when compared to 2021. Still, return-to-office momentum is slow and the long-term impact of flexible hybrid schedules among office occupiers is likely to apply some downward pressure on market-wide demand.

### Current Conditions

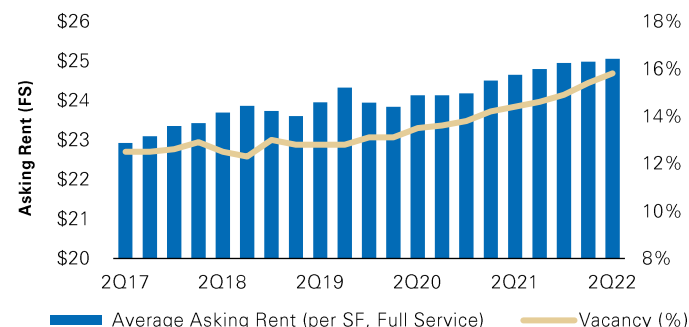
- The Baltimore office market recorded negative 369,405 square feet of net absorption in the second quarter of 2022.
- Baltimore's vacancy rate measured 15.8% in the second quarter, up 40 basis points from first quarter and up 140 basis points from a year ago.
- Construction activity measured 747,353 square feet. One new office project delivered in the second quarter of 2022, measuring 183,000 SF.
- Asking rents have increased by 1.6% in the last year, to \$25.05/PSF.

### Market Summary

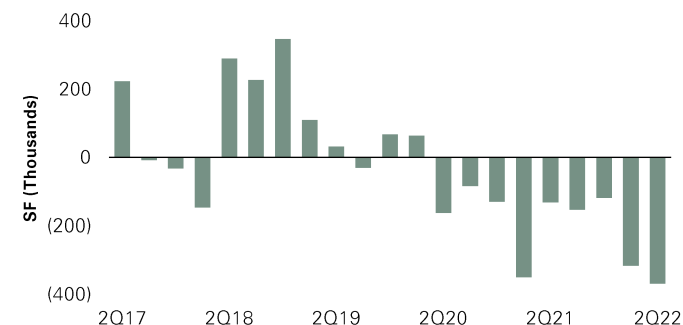
	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	82.8 M	82.7 M	82.0 M	↑
Vacancy Rate	15.8%	15.4%	14.4%	↑
Quarterly Net Absorption (SF)	-369,405	-317,351	-131,795	→
Average Asking Rent/SF	\$25.05	\$24.98	\$24.65	→
Under Construction (SF)	747,353	665,465	591,278	↓
Deliveries (SF)	183,000	115,980	0	→

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



## RESEARCH Q2 2022

Vacancy continued to rise in the second quarter, reaching 15.8%. This is a 40 basis-point increase from first-quarter 2022 and a 140 basis-point increase from one year ago. The metro area's construction pipeline measures 743,353 square feet in the second quarter. There are three office developments expected to deliver next quarter, which will increase the market inventory by almost 200,000 square feet. Asking rents averaged \$25.05/SF in the second quarter, up 1.6% from one year ago. Face rents have been trending up recently, which is more indicative of the quality of newly listed availabilities in the downtown core of Baltimore than it is a function of increased demand. Stabilized submarkets in the suburbs have recorded more net-neutral or modestly net-negative rent growth over the last year. Overall, the market remains favorable to tenants and effective rents are under downward pressure as generous concession packages offset elevated asking rents in many of the metro area's submarkets.

### Modern Tenant Demands Show Suburban Favoritism

Although the vacancy rates of Baltimore City and the surrounding counties are both gradually increasing and softening overall fundamentals, the spread between Baltimore City and the suburbs is increasing. Baltimore City's vacancy current measures 200 basis points above that of the surrounding suburbs, the highest spread recorded in over five years. Tenant migration from downtown to the suburbs is a growing trend contributing to this rising imbalance. CareFirst BlueCross BlueShield signed a lease for one of multiple satellite offices in Howard County, something the company has been considering for some time. At the same time, Kyocera Document Solutions moved its expanding operations to Middle River, to better enable Mid-Atlantic service.

What is notable is that, although Baltimore City currently has more vacant space than the surrounding counties, the suburbs collectively measured much more negative occupancy in the second quarter of 2022, at negative 262,321 square feet, compared to negative 107,084 square feet of negative absorption in Baltimore City. Further challenging this imbalance, all the office

properties under construction and expected to deliver in the second half of 2022 are within Baltimore City and collectively have very little preleased space. Although flight-to-quality has resulted in improved fundamentals among recently-completed buildings, these expected deliveries are expected to add over 500,000 square feet of vacant office space to Baltimore City, thus increasing the vacancy spread with the surrounding counties.

### Strong Construction Pipeline Suggests Class A Optimism Despite Challenged Vacancy

Demand in the Class A market is strong, supported by a relatively robust construction pipeline of almost 750,000 square feet. Despite challenging market conditions, Baltimore's modest construction pipeline has been rising since 2020. Concurrently, new office inventory has begun to deliver, adding 298,980 square feet thus far in 2022. The largest project currently under construction is at Port Covington's Rye Street Market and measures about 220,000 square feet. Although the pipeline will result in inventory expansion upon delivery, most of the office projects under construction in the Baltimore market are relatively modest in size, which benefits tenants due to the diversity of product. The market's growing pipeline demonstrates developer optimism for Class A space in the period ahead. Nonetheless, it is worth mentioning that despite the pipeline-based optimism, market-wide Class A fundamentals are showing some signs of softening in 2022.

Although Class A vacancy increased to 17.1% in the second quarter, some of that increase can be attributed to new deliveries, like 8130 Maple Lawn, which delivered vacant and boosted overall Class A vacancy by 17 basis points. By comparison, Class B vacancy increased 70 basis points this quarter, to 14.5%. Flight-to-quality remains a strong driver in Baltimore. Developments like Metro Centre in Owings Mills, which will soon begin its second phase of construction, illustrate the appetite of developers for Class A office and the appeal of transit-oriented, mixed-use, highly-amenitized communities. Also favorable for the Class A market, is the number of properties under construction.

### Notable 2Q 2022 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Maryland State Department of Human Services	25 South Charles Street	CBD Baltimore	Direct Lease	149,024
CareFirst BlueCross BlueShield	76100 Merriweather Drive	Columbia	Direct Lease	85,188
Design Collective	100 East Pratt Street	CBD Baltimore	Direct Lease	26,850
The Office of The Public Defender	201 North Charles Street	CBD Baltimore	Direct Lease	22,943

### Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Crossroads Professional Center	Ellicott City	\$21,300,000	\$399	53,360
10610-10612 Beaver Dam Road	Baltimore County	\$20,000,000	\$794	25,200
One Calvert Plaza	CBD Baltimore	\$11,100,000	\$86	128,861

### Investment Sales Activity Softened Activity in 2022

Baltimore's investment sales volume has decreased through the second quarter of 2022, with \$60.7 million transacted. New investment acquisitions have been supported by private and institutional investors through mid-year, a continuation of a trend that has been prevalent since the beginning of the pandemic. The region's economy and office demand drivers have still further diversified, highlighted by the growing education, healthcare, research, and cybersecurity sectors, and will prove important in the recovery of Baltimore's real estate industry moving forward.

### Baltimore Office Market Outlook

Baltimore's metro area office occupancy declined in the second quarter of 2022, as a variety of factors including the duration of the pandemic's influence, greater prevalence of permanent hybrid work schedules, and slow leasing activity continued to pressure occupancy. The federal government has taken its first steps in issuing details for recalling workers back to offices. This federal announcement on return-to-office planning, along with similar notices by private firms, points toward a more collective effort for in-office occupancy in the period ahead.

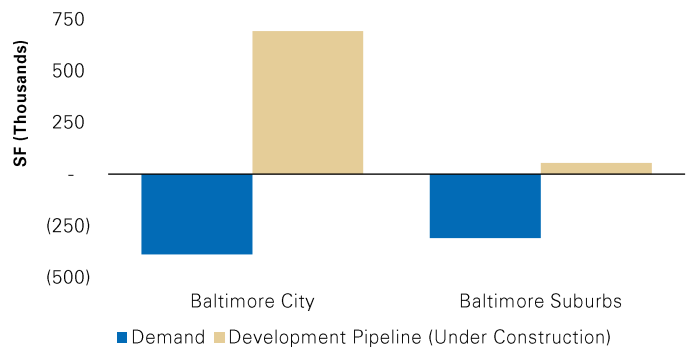
Pent-up demand is expected to modestly rise in 2022 as tenants further reengage in real estate planning. However, many firms are expected to downsize due to the impacts of remote working, resulting in net-negative occupancy on balance. The degree to which firms reassess their long-term office strategies is still unclear, though national market surveys indicate that 2-3 in-office days per week are expected for most firms. Slow leasing activity in early 2022 is likely to challenge absorption and vacancy through the remainder of the year. As such, net demand for local office space is expected to remain negative over the next two years, with losses concentrated in Baltimore City. Suburban markets, anchored by stable tenants like federal contracting, cybersecurity,

and healthcare, are likely to fare better. Newmark Research estimates that over the next 24 months, regional net demand will measure negative 700,000 square feet and new construction deliveries will measure 747,535 square feet. These supply and demand shifts are anticipated to result in vacancy rising to 17.4% by June 2024.

Average asking rents, measured on a "same store" method, have remained steady through the pandemic. While new, higher-quality availabilities are disproportionately raising the market's average rental rate, 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 into 2022. When supply and demand forces stabilize, asset owners may gradually re-establish leverage.

### Supply/Demand Forecast

BALTIMORE METRO AREA, 24 MONTHS ENDING JUNE 2024



Source: Newmark Research; June 2022

### Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2019 Absorption (SF)	2020 Absorption (SF)	2021 Absorption (SF)	2Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
<b>Baltimore Metro Area</b>	<b>82,839,565</b>	<b>14.8%</b>	<b>15.8%</b>	<b>179,536</b>	<b>-312,511</b>	<b>-753,928</b>	<b>-369,405</b>	<b>-686,756</b>
Class A	49,468,907	15.8%	17.1%	194,632	-234,304	-368,259	-214,380	-621,362
Class B	27,339,079	13.6%	14.5%	4,743	-112,738	-398,256	-173,002	-93,440
Class C	6,031,579	11.3%	11.3%	-19,839	34,531	12,587	17,977	28,046

### 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 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
<b>Baltimore Metro Area</b>	<b>82,839,565</b>	<b>\$27.12</b>	<b>\$21.37</b>	<b>\$25.05</b>	<b>183,000</b>	<b>298,980</b>	<b>747,353</b>
Class A	49,468,907	\$27.12	NA	\$27.12	183,000	298,980	747,353
Class B	27,339,079	NA	\$21.37	\$21.37	0	0	0
Class C	6,031,579	NA	NA	\$21.42	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	2019 Absorption (SF)	2020 Absorption (SF)	2021 Absorption (SF)	2Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
<b>Baltimore Metro Area</b>	<b>82,839,565</b>	<b>14.8%</b>	<b>15.8%</b>	<b>222,907</b>	<b>-312,511</b>	<b>-753,928</b>	<b>-369,405</b>	<b>-686,756</b>
Annapolis	3,632,232	18.4%	19.1%	120,201	29,279	-127,168	-7,537	-27,908
Baltimore County East	1,891,681	16.5%	17.7%	56,112	-25,568	55,405	-24,499	-17,033
Baltimore Midtown	2,259,695	4.4%	4.4%	-6,386	47,183	8,902	-379	-2,756
Baltimore Northeast	1,179,016	0.3%	0.3%	23,344	19,234	-4,558	-2,737	1,627
Baltimore Northwest	1,229,881	8.5%	8.6%	-5,735	5,718	-9,847	18,333	14,784
Baltimore Southeast	6,869,047	10.3%	12.0%	23,318	-70,119	9,176	-7,149	237
Baltimore Southwest	2,331,933	23.4%	23.6%	9,386	-50,758	33,579	13,351	22,095
BWI	9,670,197	10.2%	10.2%	104,555	139,208	-52,779	24,282	50,497
Carroll County	368,845	13.6%	13.6%	-12,332	-18,170	-13,511	-3	3,187
CBD Baltimore	15,049,414	21.2%	22.3%	-102,373	-136,611	-248,239	-128,503	-406,777
Columbia	11,993,590	14.8%	16.5%	217,506	-278,384	-115,397	-97,394	-93,370
Ellicott City	879,329	10.3%	11.1%	6,128	3,467	-24,019	-8,033	-10,556
Harford County	1,910,894	23.5%	25.7%	32,920	41,762	-128,753	-38,991	-36,044
I-83	7,793,241	13.6%	15.1%	-93,192	-48,935	-63,684	-97,812	-106,784
I-97 Crain Highway Corridor	726,522	10.4%	10.4%	-24,650	4,941	19,545	2,623	11,183
Reisterstown Road Corridor	4,865,322	13.0%	14.6%	106,722	-92,590	52,300	7,975	-6,832
Route 1 Corridor	1,398,332	17.8%	18.2%	-39,497	96,921	-34,081	-7,884	-27,370
Route 2 Corridor	931,886	8.3%	8.5%	-19,876	-2,737	-7,590	1,091	-8,053
Towson	4,654,798	16.9%	17.3%	-95,568	-20,382	-41,004	-12,340	-47,798
Woodlawn	3,203,710	11.8%	13.4%	-77,676	44,030	-62,205	-3,799	915

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 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
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Annapolis	3,632,232	\$31.24	\$25.99	\$30.20	0	0	54,000
Baltimore County East	1,891,681	\$25.66	\$24.00	\$25.04	0	0	0
Baltimore Midtown	2,259,695	\$22.10	\$18.54	\$19.41	0	0	37,300
Baltimore Northeast	1,179,016	NA	\$18.50	\$18.50	0	0	0
Baltimore Northwest	1,229,881	NA	\$29.10	\$28.65	0	0	0
Baltimore Southeast	6,869,047	\$27.29	\$27.75	\$27.36	0	0	656,053
Baltimore Southwest	2,331,933	\$24.51	\$16.00	\$20.95	0	0	0
BWI	9,670,197	\$31.62	\$23.43	\$28.85	0	0	0
Carroll County	368,845	\$24.25	\$17.40	\$19.34	0	0	0
CBD Baltimore	15,049,414	\$26.02	\$20.70	\$24.47	0	0	0
Columbia	11,993,590	\$27.95	\$21.98	\$26.33	0	115,980	0
Ellicott City	879,329	\$25.82	\$20.35	\$22.08	0	0	0
Harford County	1,910,894	\$25.12	\$24.66	\$25.01	0	0	0
I-83	7,793,241	\$25.06	\$19.99	\$23.71	0	0	0
I-97 Crain Highway Corridor	726,522	\$33.36	\$21.93	\$27.99	0	0	0
Reisterstown Road Corridor	4,865,322	\$25.42	\$21.05	\$23.37	0	0	0
Route 1 Corridor	1,398,332	\$21.57	\$21.05	\$21.16	183,000	183,000	0
Route 2 Corridor	931,886	\$19.08	\$21.72	\$21.66	0	0	0
Towson	4,654,798	\$22.64	\$20.45	\$21.13	0	0	0
Woodlawn	3,203,710	\$22.52	\$19.52	\$20.71	0	0	0

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

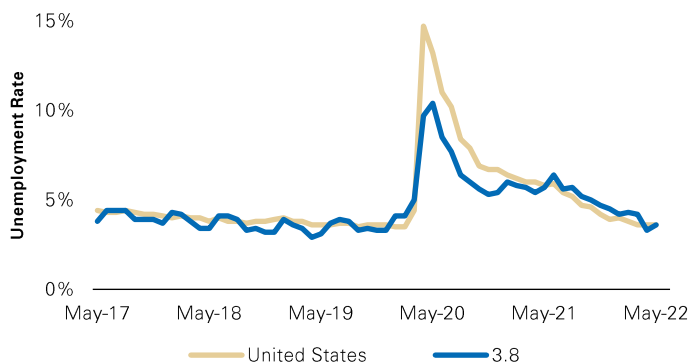
## Economic Conditions

The Baltimore region's unemployment rate registered 3.6% in May 2022 equal to the national rate. Baltimore's unemployment rate has been volatile recently, falling 90 basis points in April and increasing 30 basis points in May. Macroeconomic factors, such as inflation, are contributing to a more uncertain recovery. However, Baltimore's unemployment rate historically faces seasonal upward pressure in early summer. The region is projected to create about 45,000 net new jobs in 2022 and average about 21,796 new positions per annum from 2022 to 2025. The region's strengths in e-commerce, cybersecurity, and healthcare will drive job creation in the long term.

For the 12-month period ending in May 2022, the Baltimore region added 52,800 jobs. Over the past year, total employment growth measured 3.9% and office-using employment grew at 2.0%. While some headwinds exist, Baltimore's labor recovery has been steady in 2022 and, for the first time, total jobs gained over the last two years exceeds that of jobs lost between March and April 2020. Office-using employment is slowing marginally, but collectively has recovered 112.6% of the jobs lost between March and April 2020.

## Unemployment Rate

U.S.—SEASONALLY ADJUSTED  
BALTIMORE—NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, Newmark Research; June 2022

## Office-Using Employment\*

BALTIMORE, OFFICE-USING EMPLOYMENT (000'S),  
NOT SEASONALLY ADJUSTED

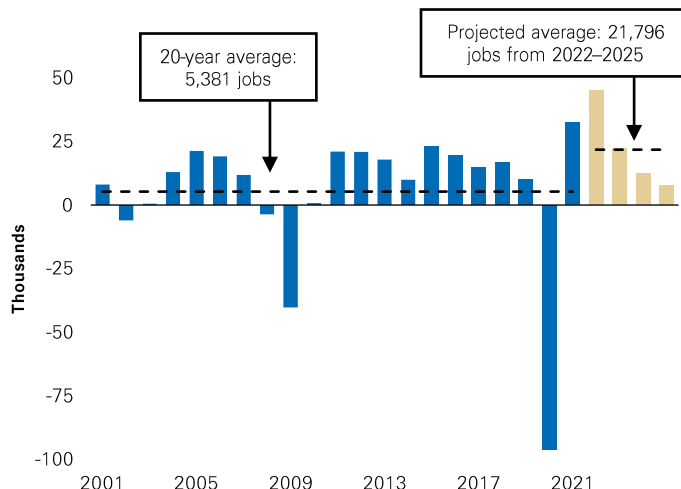


\*Identified as Financial Activities, Government, Information, Other Services, and Professional and Business Services

Source: U.S. Bureau of Labor Statistics, Newmark Research; June 2022

## Employment Forecast

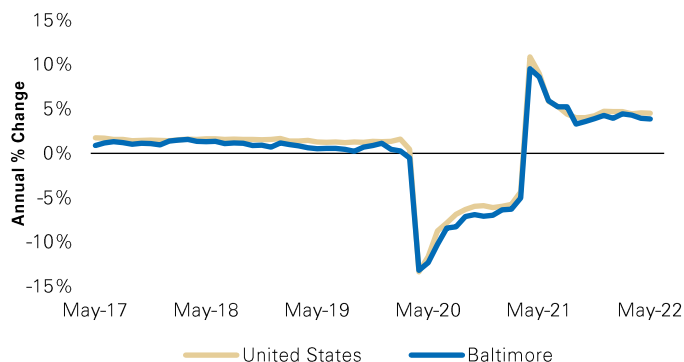
BALTIMORE METRO AREA, PAYROLL JOB CHANGE, 2001-2021  
AND FORECAST 2022-2025



Source: U.S. Bureau of Labor Statistics, Moody's Analytics, Newmark Research; June 2022

## Payroll Employment

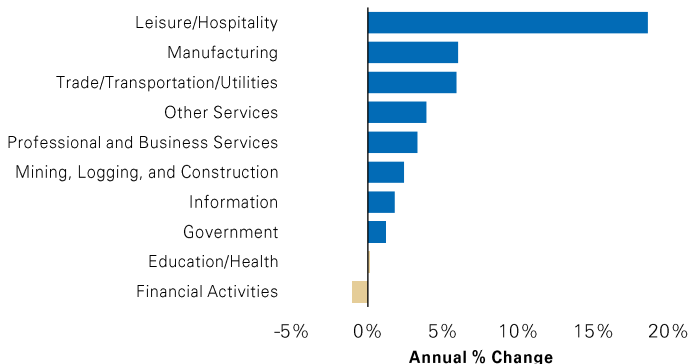
TOTAL NONFARM, U.S.—SEASONALLY ADJUSTED  
BALTIMORE—NOT SEASONALLY ADJUSTED, 12-MO. % CHANGE



Source: U.S. Bureau of Labor Statistics, Newmark Research; June 2022

## Employment Growth By Industry

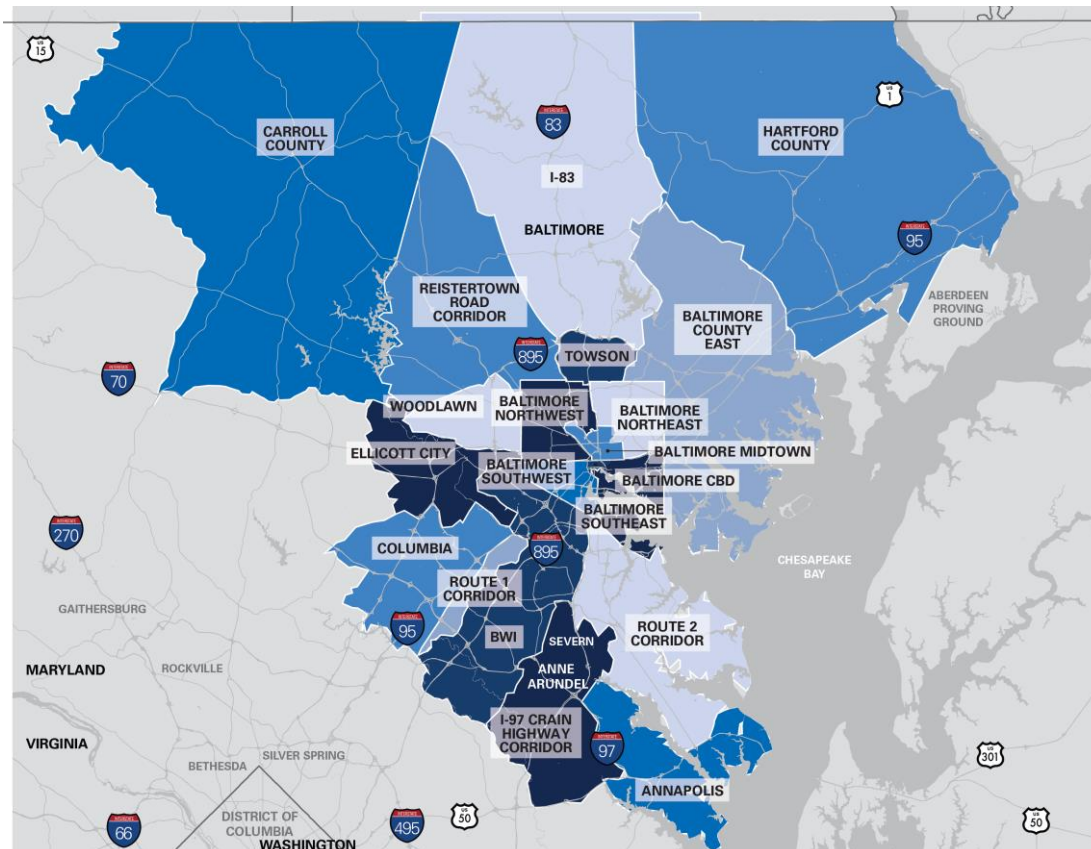
BALTIMORE, % CHANGE, 12 MONTHS ENDING MAY 2022,  
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, Newmark Research; June 2022



## 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.

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