

Baltimore Industrial Market

Industrial Fundamentals Steady; Economic Headwinds Create Uncertainty

Baltimore's industrial market fundamentals remain relatively tight, under the influence of pandemic-driven demand for ecommerce distribution centers. The average asking rent increased by 8.4% in the last year, measuring \$6.31/SF in the third quarter of 2022. Rental rates only increased \$0.05/SF from second-quarter, signaling a slowdown in appreciation through the summer. The vacancy rate remained unchanged from last quarter, measuring 5.1%. The market recorded 79,936 square feet of net absorption in the third quarter, a noteworthy decline from prior quarters. Quarterly net absorption has been strong since fourth-quarter 2021, illustrating that industrial demand can remain robust despite the cultural shift toward post-pandemic normalcy, which has been underway for the last year. Despite low quarterly absorption, Baltimore's industrial market continues to show positive trends in demand growth and subsequently investor optimism.

Baltimore's industrial development pipeline has increased in 2022, measuring 4.3 million square feet of active construction in the third quarter. There was, however, only 77,000 square feet of new deliveries during the quarter. Elevated inflation has been a challenge for material costs and supply chain issues may curtail some development activity, but overall enthusiasm for modern warehouse and distribution space should continue to support a healthy construction pipeline. There are around 10 industrial properties in the Baltimore market expected to deliver in the fourth quarter of 2022, emphasizing continued demand.

Current Conditions

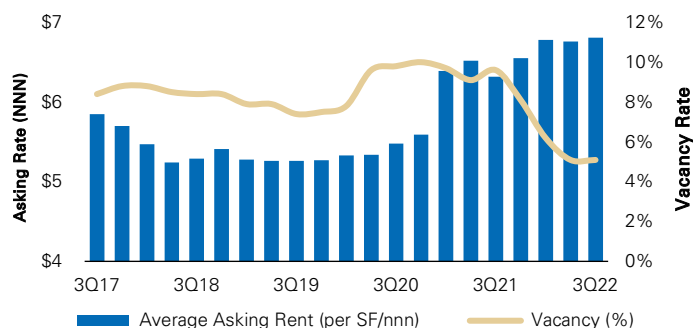
- The vacancy rate remained the same during the third quarter of 2022, at 5.1%. In the last year, the vacancy rate has decreased 450 basis points from 9.6%. The average asking rent is 8.4% higher than a year ago, at \$6.31/ SF (NNN).
- Baltimore's industrial investment sales market softened in the second quarter, recording a quarterly volume of about \$53 million.
- The region's unemployment rate registered 4.3% in August 2022; equal to the national rate.

Market Summary

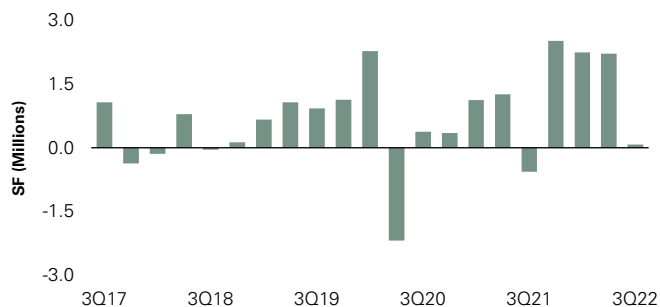
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	189.9 M	189.8 M	189.7 M	↑
Vacancy Rate	5.1%	5.1%	9.6%	→
Quarterly Net Absorption (SF)	79,936	2.2 M	-560,546	↑
Average Asking Rent/SF (NNN)	\$6.31	\$6.26	\$5.82	↑
Under Construction (SF)	4.3 M	4.4 M	3.1 M	→
Deliveries YTD (SF)	715,271	638,271	1.3 M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Demand Remains Strong Despite Market Constraints

Industrial markets profited during the pandemic as the need for storage and distribution space, particularly among ecommerce firms, increased greatly. Baltimore's industrial market was similarly active, despite complicating factors, including elevated construction costs, supply chain issues, and lack of developable land in traditional industrial areas. Baltimore serves as an integral geographic access point to major Mid-Atlantic markets, but its demand is being further supported by the land constraints in nearby markets, including Northern Virginia. Growing demand for data center development in Northern Virginia has caused a noteworthy reduction in available land for traditional industrial development. At the same time, while demand is high, cost constraints may result in a contraction in the construction pipeline.

Investors hold a surplus of capital dedicated to industrial properties, but interest rates, volatile economic conditions, and tightening lending markets have resulted in many investors holding allocations. Despite current economic complications, there is general optimism for the Baltimore market in the next year. The strength of the area is further supported by the expanded presence of diverse companies and industries, including traditional logistics and distribution companies dependent on the Port of Baltimore's flow of goods, and non-traditional government and pharmaceutical firms in need of industrial and lab facilities.

Excess Demand Slowed by Investor Caution

The Baltimore industrial market remains appealing to investors, despite complex market dynamics. Demand is high for industrial product, though the third quarter has seen very few transactions and slight investor activity. It is important to recognize that this is not for lack of desire. Although this dynamic could change in the coming quarters, demand exceeds supply in the market, particularly for warehouse space. This would normally be a sign

for optimism, but it is a result of retailers having excess inventory. Amidst the rush to meet pandemic-based consumer demand for products, many companies took in huge quantities of goods, but that demand has since declined.

Nonetheless, there is still investor optimism for increased transaction activity. Consequently, there is a large amount of capital that has been made available. Despite the excess demand and available investment capital, investors remain hesitant due to interest rates and market uncertainty. Financing continues to be the biggest obstacle for investors in 2022, but there is industry and regional optimism that markets could correct in 2023, allowing the market to absorb additional demand and loosen already-allocated investment capital.

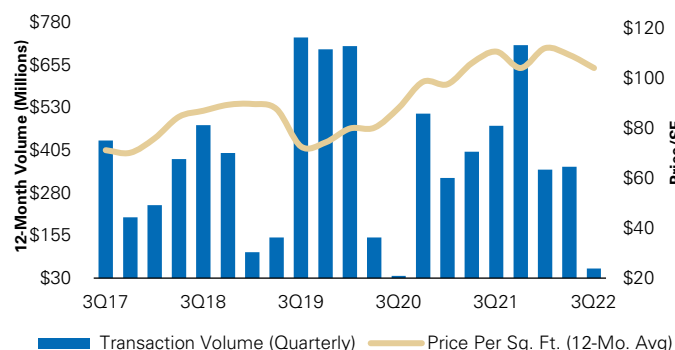
Baltimore Industrial Outlook

As markets normalize through the remainder of 2022, Baltimore's industrial market should remain consistent. With logistics and lab space demand nearly exceeding supply, Baltimore's industrial market fundamentals are holding strong. Net absorption should remain net-positive through 2022 due to continued strong demand and incoming deliveries. However, the metro area's construction pipeline has been contracting in recent quarters, which could limit occupancy gains after the deliveries of late 2022, should new projects not break ground in the coming quarters. 2022 is seeing delivered, high quality industrial product, but the pipeline must expand this year for the longer-term prosperity and appeal of the Baltimore industrial market. Although industrial product supply and demand issues have been exacerbated by the pandemic, these shortages were prevalent prior to COVID-19, and even as the effects of the pandemic and variants fades, this troublesome market dynamic will not also fade by default.

For additional information on the Mid-Atlantic economy and commercial real estate market outlook, please visit the [Mid-Atlantic Market Reports](https://www.nmrk.com/mid-atlantic-market-reports) page at nmrk.com.

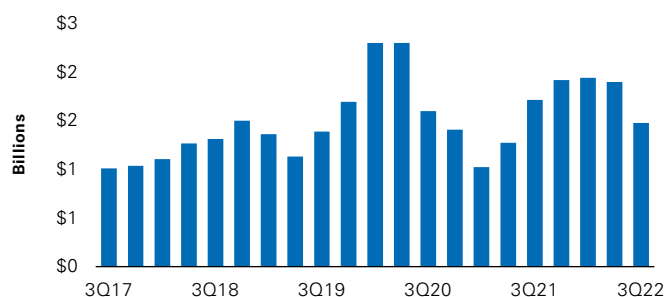
Investment Sales Market

INVESTMENT SALE VOLUME AND PRICE PER SQ FT



Note: Price/SF is a trailing 12-month trailing average
Source: Real Capital Analytics, Newmark Research

TRAILING 12-MONTH TRANSACTION VOLUME



Source: Real Capital Analytics, Newmark Research

Submarket Statistics—All Classes

	Total Inventory (SF)	Under Construction (SF)	Overall Vacancy Rate	2020 Net Absorption (SF)	2021 Net Absorption (SF)	3Q 2022 Net Absorption (SF)	YTD 2022 Absorption (SF)	Average Asking Rent (NNN)
Baltimore Metro Area	189,877,436	4,319,006	5.1%	851,639	4,025,298	79,936	4,535,929	\$6.31
Baltimore-Washington Corridor	64,795,189	2,726,337	6.6%	-2,367,007	1,786,697	170,711	2,694,199	\$7.75
Annapolis	10,176,517	0	6.9%	-128,538	888,797	-23,000	251,610	\$6.41
Arbutus	10,426,284	2,726,337	13.8%	-1,756,966	131,394	-8,250	1,494,403	\$7.72
BWI/Anne Arundel County	9,222,914	0	3.0%	-192,910	357,952	51,893	261,197	\$7.68
BWI North/Linthicum	2,012,199	0	15.0%	0	0	52,660	24,786	\$8.08
Columbia	6,785,818	0	9.1%	-32,714	-290,252	10,742	205,229	\$10.77
Route 1 Corridor	23,304,037	0	4.1%	-365,169	697,331	83,941	454,249	\$6.76
Route 2 Corridor	2,867,420	0	0.0%	109,290	1,475	2,725	2,725	N/A
I-95 North	63,303,598	1,440,309	2.8%	3,283,722	2,253,549	224,533	2,206,710	\$4.77
Baltimore County East	27,294,863	1,440,309	2.4%	3,713,756	-148,665	233,172	1,053,760	\$5.92
Cecil County	13,832,399	0	1.0%	550,100	1,173,013	2,367	21,937	N/A
Harford County	22,176,336	0	4.3%	-980,134	1,229,201	-11,006	1,131,013	\$4.68
Beltway	49,797,188	152,360	6.4%	-66,021	-41,429	-347,837	-429,741	\$6.24
Baltimore SE	18,514,640	0	7.0%	112,218	-146,574	-373,109	-323,457	\$6.42
Baltimore SW	13,821,217	152,360	8.7%	53,845	-26,107	-63,460	-270,254	\$5.22
Carroll Count/ Reisterstown Road	11,197,626	0	2.7%	-103,080	63,180	65,800	142,800	\$7.84
Hunt Valley/Route 83 Corridor	4,450,867	0	7.3%	-123,487	70,794	8,510	-21,252	\$7.67
Woodlawn/Cantonsville	1,812,838	0	3.6%	-5,517	-2,722	14,422	42,422	\$6.93
Baltimore City	11,981,461	0	4.0%	945	26,481	32,529	64,761	\$6.74
Baltimore NE	5,361,695	0	4.0%	36,523	13,736	7,129	-12,962	\$5.81
Baltimore NW	1,810,188	0	0.0%	0	-71,144	0	37,679	N/A
CBD Baltimore	4,809,578	0	5.4%	-35,578	83,889	25,400	40,044	\$7.50

Note: Asking rents are quoted on a triple net basis.

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
4801 Hollins Ferry Road	Arbutus	\$55,750,000	\$199	279,804
5107 North Point Boulevard	Baltimore County East	\$22,000,000	\$45	485,031
7030 Quad Avenue	Baltimore County East	\$7,500,000	\$107	70,000

RESEARCH Q3 2022

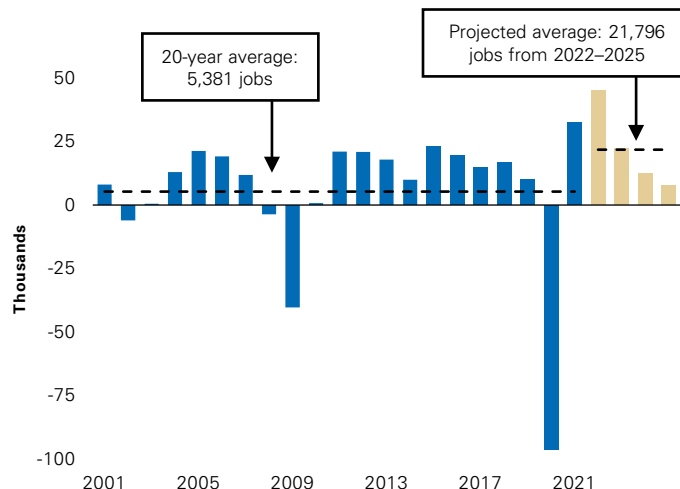
Economic Conditions

The Baltimore region's unemployment rate registered 4.3% in August 2022 compared to the national rate of 3.7%. Macroeconomic factors, such as inflation, are contributing to a more uncertain recovery. However, Baltimore's unemployment rate historically faces seasonal upward pressure towards the end of the year. 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 ecommerce, cybersecurity, and healthcare will drive job creation in the long term.

For the 12-month period ending in August 2022, the Baltimore region added 31,900 jobs. Employment growth in industrial-using sectors increased 4.1% over the last 12 months, which is notably higher than the Metro's overall gain of 3.3% and office-using employment gain of 2.3%. Although industrial employment contracted between December 2021 and January 2022, overall industrial-using employment has returned to pre-pandemic levels, Manufacturing continues to dominate the industrial market with a 229.4% recovery since the start of the pandemic

Employment Forecast

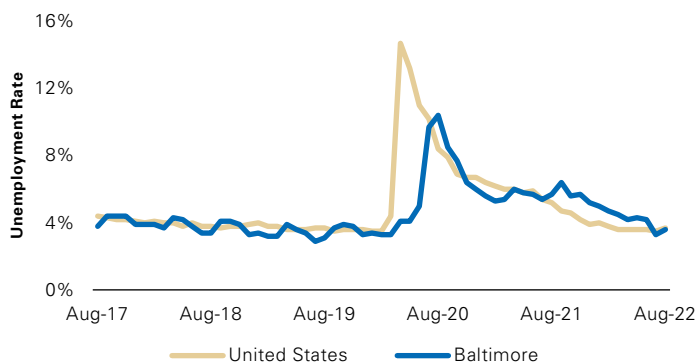
BALTIMORE METRO AREA, PAYROLL JOB CHANGE, 2001-2021 AND FORECAST 2022-2025



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

Unemployment Rate

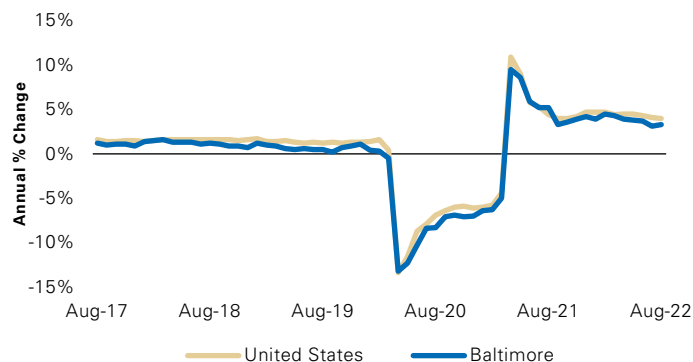
U.S.—SEASONALLY ADJUSTED BALTIMORE—NOT SEASONALLY ADJUSTED



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

Payroll Employment

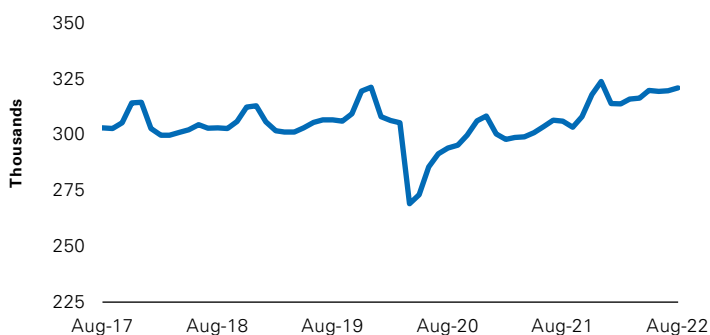
TOTAL NONFARM, U.S.—SEASONALLY ADJUSTED BALTIMORE—NOT SEASONALLY ADJUSTED, 12-MO. % CHANGE



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

Industrial-Using Employment*

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

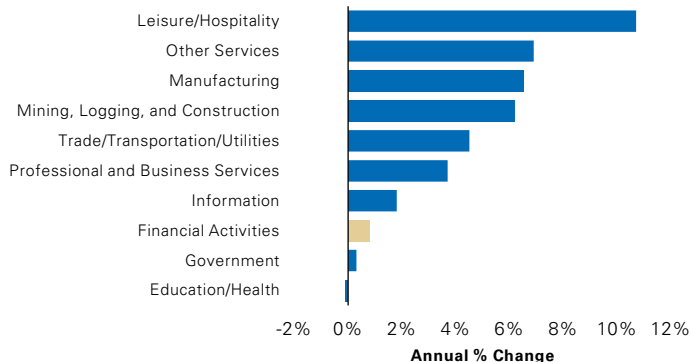


*Identified as Manufacturing and Trade/Transportation/Utilities

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

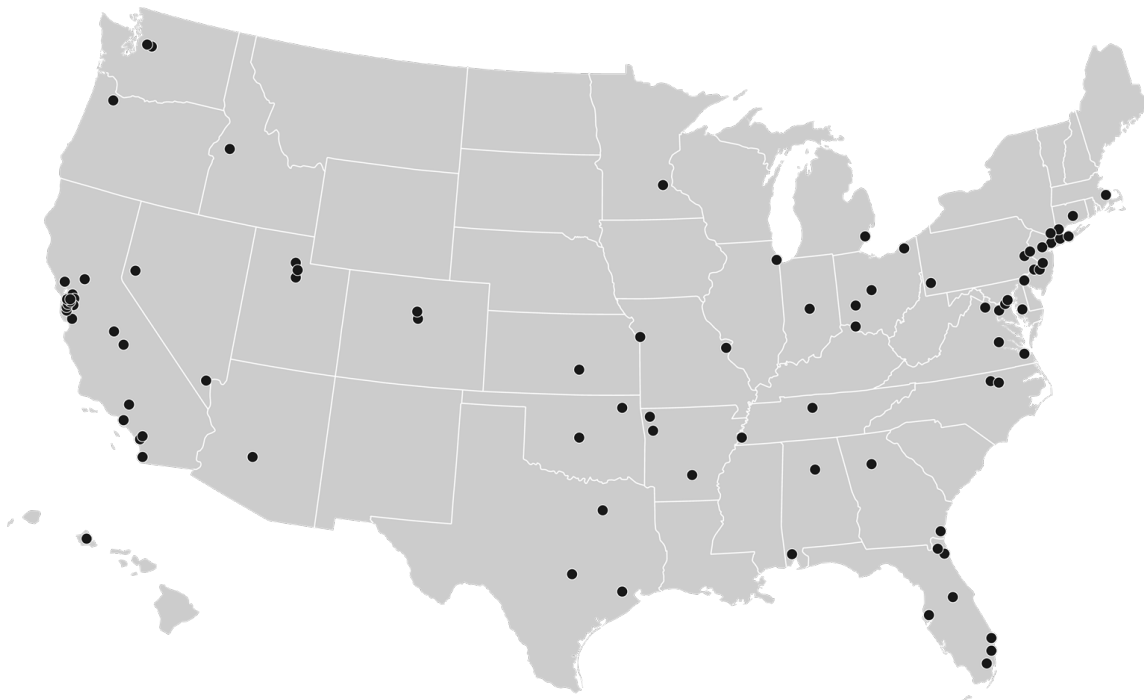
Employment Growth By Industry

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



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

Newmark United States Office Locations



Methodology

Market statistics are calculated from a base building inventory of industrial properties 10,000 SF and larger that are deemed to be competitive in the Baltimore Metro Area industrial market. This includes multi-tenant, single-tenant and owner-occupied buildings.

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 triple net basis, meaning all costs of operation are paid by the tenant on a pro rata basis.

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

General Industrial: Properties characterized by 10–30% office build out, clear heights 16 feet and higher, up to 200 foot typical bay depth, dock or ground loading, and 10,000 SF and up typical suite size. Typical uses include manufacturing, warehouse, transportation, service and construction.

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.

R&D/Flex: Properties characterized by 30% and higher office build out, clear heights up to 16 feet, up to 120-foot typical bay depth, ground loading, and 5,000 SF and up typical suite size. Typical uses include back office, R&D/lab, light assembly and retail/showroom.

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.

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.

Warehouse/Distribution: Properties characterized by 5-10% office build out, clear heights 16 feet and higher, up to 400 foot typical bay depth, dock loading, and 25,000 SF and up typical suite size. Typical uses include warehouse and distribution.

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