



Baltimore Office Market

Suburban Growth Moderates; Positive Occupancy Offsets Some Losses

The Baltimore Metro area's office market exhibited modest tightening in the third quarter of 2022, breaking from an extended period of occupancy contraction and vacancy growth. Despite steadily negative net absorption for the last two years, Baltimore has recorded low occupancy contraction relative to comparable east coast markets. Prior to the third quarter, Baltimore had failed to harness the recovery momentum gained by other markets, but for the third quarter, that trend has shifted. Concerningly, this upswing coincides with growing economic pressures and recessionary anxieties, which may foreshadow future volatility.

Net absorption measured 141,869 square feet in the third quarter of 2022 and year-to-date net absorption measured negative 544,887 square feet. Positive absorption was not concentrated in any specific submarket, highlighting a market-wide moderation in occupancy contraction. Subsequently, overall vacancy decreased 10 basis points from last quarter to 15.9%. Despite the optimistic quarter, vacancy over the last 12 months has increased 170 basis points within Baltimore City and 110 basis points in the surrounding counties. Although the metro area recorded modest tightening in the third quarter, overall leasing activity has slowed in 2022. Fundamentals such as net absorption and vacancy are trailing indicators of leasing activity, which suggests periods of softening are likely to return in the coming quarters. However, return-to-office momentum has accelerated in the post-Labor Day period, which could encourage decision makers to re-engage in real estate planning, as workplaces are repopulated.

Current Conditions

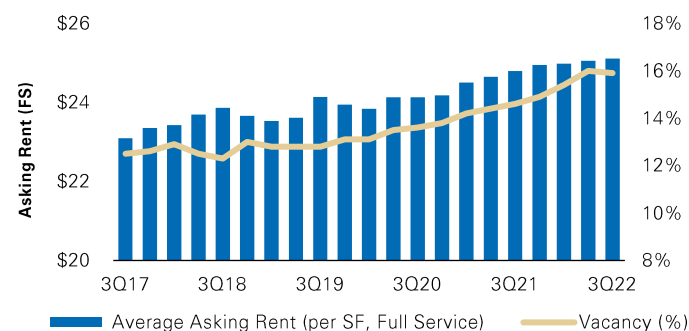
- The Baltimore office market recorded 141,869 square feet of net absorption in the third quarter of 2022.
- Baltimore's vacancy rate measured 15.9% in the third quarter, down 10 basis points from second quarter and up 130 basis points from a year ago.
- Construction activity measured 1,237,660 square feet, with two new projects breaking ground, which added 572,195 square feet to the pipeline this quarter
- Asking rents have increased by 1.3% in the last year, to \$25.11/PSF.

Market Summary

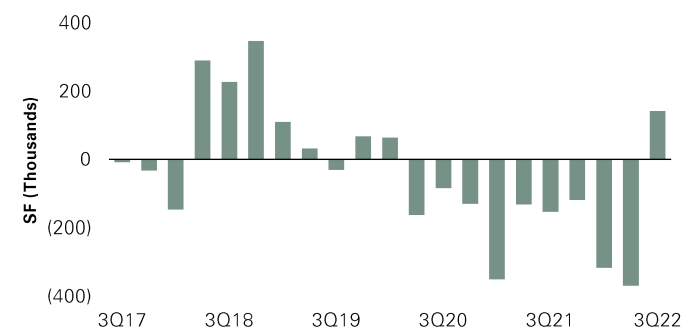
	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	82.9 M	82.8 M	82.1 M	↑
Vacancy Rate	15.9%	16.0%	14.6%	↑
Quarterly Net Absorption (SF)	141,869	-369,405	-152,921	↓
Average Asking Rent/SF	\$25.11	\$25.05	\$24.79	→
Under Construction (SF)	1,237,660	747,353	591,278	↓
Deliveries YTD (SF)	298,980	298,980	0	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Vacancy moderated in the third quarter of 2022 reaching 15.9%. This is a 10 basis-point decrease from the second quarter and an increase of 130 basis points from one year ago. The metro area's construction pipeline measures over 1.2 million square feet in the third quarter. Two projects broke ground in the quarter, inflating the construction pipeline by 572,195 square feet. Most notable is the commencement of 1307 Point Street, which will be fully occupied by T. Rowe Price upon its completion in 2024.

Asking rents averaged \$25.11/SF in the third quarter, up 1.3% from one year ago. Face rents have been modestly increasing since last year, as flight to quality remains a growing trend in real estate demand. Leasing activity is relatively low, but on the rise, and has been distributed throughout Baltimore's key submarkets. Activity in the third quarter was supported by Franklin Templeton's 60,070 square-foot lease at 1201 Wills Street.

Creative Building Owners Find Opportunities

Given the expected uncertainty of office space needs, building owners are considering all options to boost tenancy. The difficulty of filling vacancy has led to the repurposing of buildings through research within market needs. Medical conversions have been gaining popularity due to the relatively low cost of driving additional attention and income. The popularity of this shift in use has benefitted both property owners and tenants. Medical occupiers looking for space are presented with more options and can capture greater concessions. For property owners, average medical rents exceed those of office rents and have been on the rise by as much as 50% in some markets. Above-average demand from medical users should encourage more repurposing of traditional office space to medical-supportive space.

Residential conversions have also been an alternative for owners throughout the pandemic. This trend has been most apparent in Baltimore City. For example, the Fidelity & Deposit Building on 210 N Charles Street recently sold for \$6.0 million to Trademark Properties and local investor Prab Tangarajah. The new owners intend to invest an additional \$34.0 million into the project, creating approximately 240 units and retail. Trademark is

additionally converting 300 W Fayette Street into a 107-unit multifamily building. In addition to office, hotel conversions are being considered as well. Urban Investment Partners acquired The Embassy Suites Inner Harbor Hotel and The Grand with the intent to convert to multifamily. Greater densification and diversification of asset types in downtown Baltimore could serve as long-term drivers of demand and build a stronger live-work-play environment in the urban core.

Class B Fundamentals Exhibit Relative Stability

Among most office markets, fundamentals are uniquely bifurcated between building classes; however, Baltimore's Class A and B markets have historically been competitive. The repercussions of the pandemic on office demand have modestly influenced this historical relationship between Class A and B.

This divergence in 2022 is partly evident in occupancy gains. Year-to-date net absorption was recorded at negative 604,843 square feet for Class A, while Class B net absorption was barely positive at 19,827 square feet. While just over half the size of the Class A market, Class B has seen moderate vacancy growth, rising 40 basis points over the last year to 14.0%. This contrasts with Class A, which recorded a 200 basis-point increase in vacancy over the last year, reaching 17.5%. It should be noted that despite the relatively stronger performance of the market's Class B assets, Class B vacancy in Baltimore City is elevated at 15.5%.

Office demand has been slow for much of the last few years, but overall rents continue to appreciate. Class A rents have increased 1.0% over the last year to \$27.09/SF, while Class B rents are up 2.0%, to \$21.59/SF. Despite slow demand, Class A rent growth has increased each of the last five quarters, a reflection of high-priced new availabilities and landlords' efforts to hold pricing. Equally, Class B rent growth has seen steady growth each quarter over the last year and has reached its highest rate since mid-2018. Though asking rents continue to increase for Class A and B assets, it should be noted that effective rents, through generous concession packages, are under downward pressure.

Notable 3Q 2022 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
AWS	550 National Business Parkway	BWI	Direct Lease	122,195
Johns Hopkins	8130 Maple Lawn Boulevard	Columbia	Direct Lease	109,246
Franklin Templeton	1201 Wills Street	Baltimore SE	Direct Lease	60,070
Maryland Department of Assessments & Taxation	700 E Pratt Street	Baltimore CBD	Direct Lease	47,391

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Exelon Tower: Partial interest 79%	CBD Baltimore	\$246,000,000	\$701	350,760*
6200-6250 Old Dobbin Lane	Columbia	\$37,000,000	\$147	252,476
6630-6650 Eli Whitney Drive	Columbia	\$24,500,000	\$206	119,202

* Square footage representative of the share of interest purchased in building

Investment Sales Activity Softened in 2022

Baltimore's investment sales volume has decreased through the third quarter of 2022, with 12-month trailing total volume measuring \$681.3 million. New investment acquisitions have been largely supported by private investors, consistent with acquisition trends in industrial and mixed assets. This is a continuation of a trend that has been prevalent since the start of the pandemic. Sales volume has been decreasing over the last 12 months, which is expected due to the rising cost of capital, elevated interest rates, and general inflationary pressures.

Baltimore Office Market Outlook

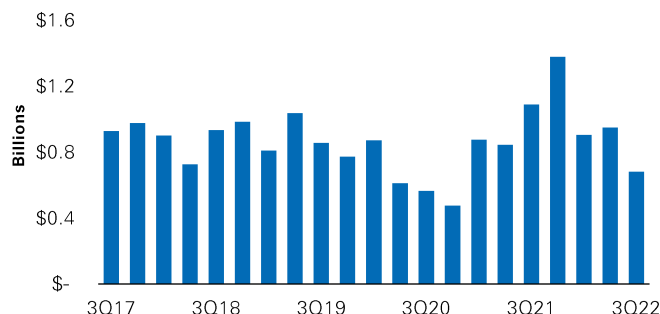
Baltimore's office market showed modest signs of recovery, registering positive absorption for the first time this year. While expectations for rapid recovery of leasing demand remain relatively low, new leasing commitments from mid-sized tenants and the return of workers to offices are encouraging. Leasing activity is expected to marginally rise in the coming year as some tenants begin to reengage in real estate planning. However, many firms are expected to downsize due to long-term adoption of hybrid work schedules, which may result in net negative occupancy on balance. The degree to which firms will evaluate long-term real estate strategies is still unknown, but many are seeking a balance of productivity, company culture, and employee flexibility. While this quarter brought positive absorption, the market should continue to experience periods of contraction in the coming quarters due to prolonged slow leasing.

Average asking rent growth has moderated in 2022. Since 2020, the influence of new availabilities in higher-quality buildings was disproportionately propelling the market's average rent growth. That trend has slowed, resulting in flattening rents. However, concessions remain high and effective rents are under downward pressure. Given long-term occupancy losses and rising vacancy, competitive asset owners, particularly in Baltimore City and less

desirable suburban submarkets, may drive concessions further and reduce effective rents for tenants into 2023. When supply and demand forces stabilize, asset owners may gradually re-establish leverage.

Investment Sales

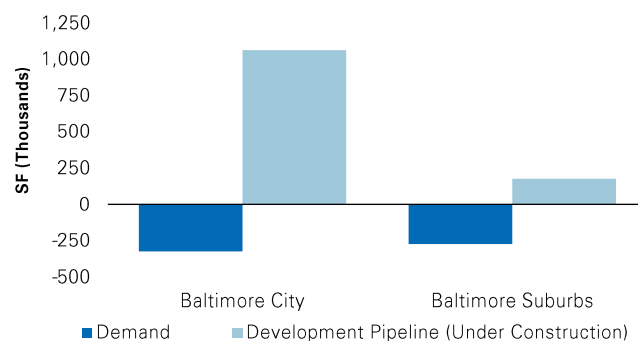
TRAILING 12-MONTH OFFICE TRANSACTION VOLUME



Source: Real Capital Analytics; Newmark Research; September 2022

Supply/Demand Forecast

BALTIMORE METRO AREA | 24 MONTHS ENDING SEPT 2024



Source: Newmark Research; September 2022

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2019 Absorption (SF)	2020 Absorption (SF)	2021 Absorption (SF)	3Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
Baltimore Metro Area	82,879,165	14.7%	15.9%	179,536	-312,511	-753,928	141,869	-544,887
Class A	49,468,907	16.1%	17.5%	194,632	-234,304	-368,259	16,519	-604,843
Class B	27,339,079	13.1%	14.0%	4,743	-112,738	-398,256	113,267	19,827
Class C	6,071,179	10.7%	11.1%	-19,839	34,531	12,587	12,083	40,129

Market Statistics By Class

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	3Q 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
Baltimore Metro Area	82,879,165	\$27.09	\$21.59	\$25.11	0	298,980	1,237,660
Class A	49,468,907	\$27.09	NA	\$27.09	0	298,980	1,237,660
Class B	27,339,079	NA	\$21.59	\$21.59	0	0	0
Class C	6,071,179	NA	NA	\$21.55	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)	3Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
Baltimore Metro Area	82,879,165	14.7%	15.9%	179,536	-312,511	-753,928	141,869	-544,887
Annapolis	3,632,232	17.6%	18.1%	120,201	29,279	-127,168	33,931	6,023
Baltimore County East	1,891,681	15.1%	15.8%	56,112	-25,568	55,405	36,154	19,121
Baltimore Midtown	2,259,695	4.6%	4.6%	-6,386	47,183	8,902	-3,845	-6,601
Baltimore Northeast	1,179,016	0.3%	0.3%	23,344	19,234	-4,558	0	1,627
Baltimore Northwest	1,229,881	8.6%	8.7%	-5,735	5,718	-9,847	-624	14,160
Baltimore Southeast	6,869,047	11.7%	12.8%	23,318	-70,119	9,176	-55,295	-55,058
Baltimore Southwest	2,331,933	23.9%	24.0%	-33,985	-50,758	33,579	-9,676	12,419
BWI	9,670,197	10.0%	10.3%	104,555	139,208	-52,779	-8,006	42,491
Carroll County	368,845	13.6%	13.6%	-12,332	-18,170	-13,511	-62	3,125
CBD Baltimore	15,089,014	20.5%	21.9%	-102,373	-136,611	-248,239	43,898	-362,879
Columbia	11,993,590	14.2%	16.1%	217,506	-278,384	-115,397	52,055	-41,315
Ellicott City	879,329	10.4%	11.2%	6,128	3,467	-24,019	-1,176	-11,732
Harford County	1,910,894	24.6%	26.6%	32,920	41,762	-128,753	-17,609	-53,653
I-83	7,793,241	13.6%	15.1%	-93,192	-48,935	-63,684	2,524	-104,260
I-97 Crain Highway Corridor	726,522	10.0%	10.0%	-24,650	4,941	19,545	2,717	13,900
Reisterstown Road Corridor	4,865,322	11.9%	13.5%	106,722	-92,590	52,300	52,241	45,409
Route 1 Corridor	1,398,332	29.7%	32.4%	-39,497	96,921	-34,081	-14,612	-41,982
Route 2 Corridor	931,886	7.9%	8.1%	-19,876	-2,737	-7,590	3,848	-4,205
Towson	4,654,798	16.0%	16.3%	-95,568	-20,382	-41,004	46,294	-1,504
Woodlawn	3,203,710	12.0%	14.0%	-77,676	44,030	-62,205	-20,888	-19,973

Submarket Statistics—All Classes

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	3Q 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
Baltimore Metro Area	82,879,165	\$27.09	\$21.59	\$25.11	0	298,980	1,237,660
Annapolis	3,632,232	\$30.23	\$25.62	\$29.32	0	0	54,000
Baltimore County East	1,891,681	\$25.43	\$22.88	\$24.55	0	0	0
Baltimore Midtown	2,259,695	\$22.10	\$18.54	\$19.47	0	0	37,300
Baltimore Northeast	1,179,016	NA	NA	NA	0	0	0
Baltimore Northwest	1,229,881	NA	\$24.79	\$26.58	0	0	0
Baltimore Southeast	6,869,047	\$26.29	\$28.02	\$26.59	0	0	1,024,165
Baltimore Southwest	2,331,933	\$24.27	\$16.00	\$20.53	0	0	0
BWI	9,670,197	\$32.93	\$23.61	\$29.76	0	0	122,195
Carroll County	368,845	\$24.25	\$17.29	\$19.27	0	0	0
CBD Baltimore	15,089,014	\$26.49	\$20.01	\$25.13	0	0	0
Columbia	11,993,590	\$26.82	\$22.41	\$25.52	0	115,980	0
Ellicott City	879,329	\$26.54	\$19.83	\$22.98	0	0	0
Harford County	1,910,894	\$25.44	\$25.41	\$25.36	0	0	0
I-83	7,793,241	\$24.62	\$19.60	\$23.18	0	0	0
I-97 Crain Highway Corridor	726,522	\$33.64	\$22.72	\$28.98	0	0	0
Reisterstown Road Corridor	4,865,322	\$25.22	\$25.24	\$25.20	0	0	0
Route 1 Corridor	1,398,332	\$23.00	\$21.21	\$21.29	0	183,000	0
Route 2 Corridor	931,886	\$19.08	\$22.28	\$22.10	0	0	0
Towson	4,654,798	\$22.90	\$20.34	\$21.13	0	0	0
Woodlawn	3,203,710	\$23.12	\$19.50	\$20.76	0	0	0

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

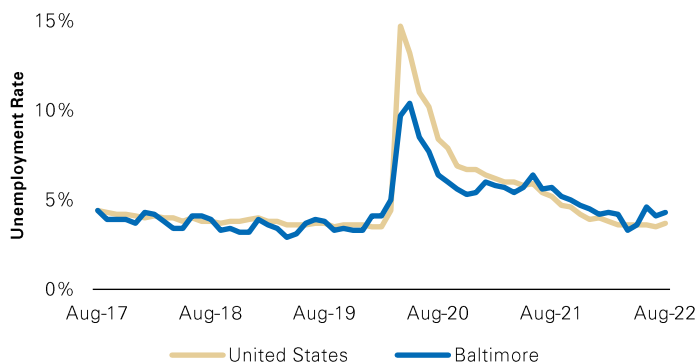
Economic Conditions

The Baltimore region's unemployment rate rose over the summer of 2022, reaching 4.3% in August 2022, above the national rate of 3.7%. Macroeconomic factors, such as inflation, are contributing to a more uncertain recovery. Nonetheless, 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 e-commerce, cybersecurity, and healthcare will drive job creation in the long term.

For the 12-month period ending in August 2022, the Baltimore region added 45,700 jobs. Over the past year, total employment growth measured 3.3% and office-using employment grew at 2.3%. While some headwinds exist, Baltimore's labor market remains in expansion. Although overall employment growth has slowed throughout 2022, office-using employment has modestly accelerated in August 2022, measuring 2.3% growth year-over-year. Among office-using employment sectors, the Baltimore metro has recovered 116.7% of the jobs lost between March and April 2020.

Unemployment Rate

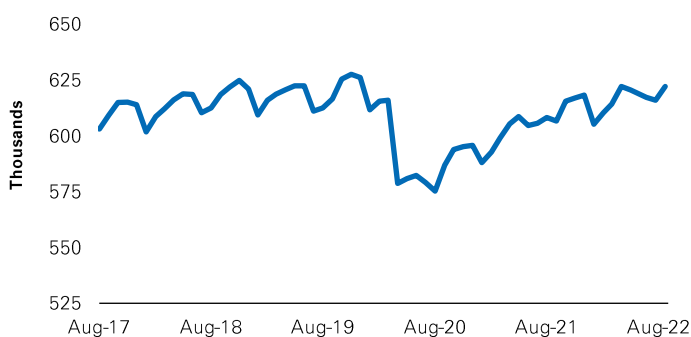
U.S.—SEASONALLY ADJUSTED
BALTIMORE—NOT SEASONALLY ADJUSTED



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

Office-Using Employment*

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

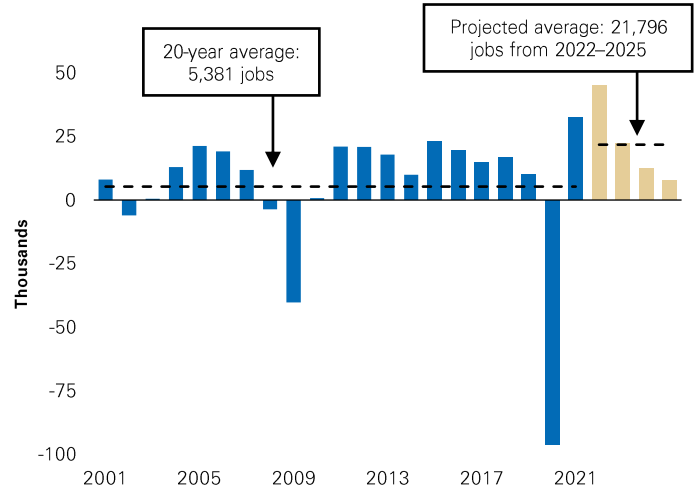


*Identified as Financial Activities, Government, Information, Other Services, and Professional and Business Services

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

Employment Forecast

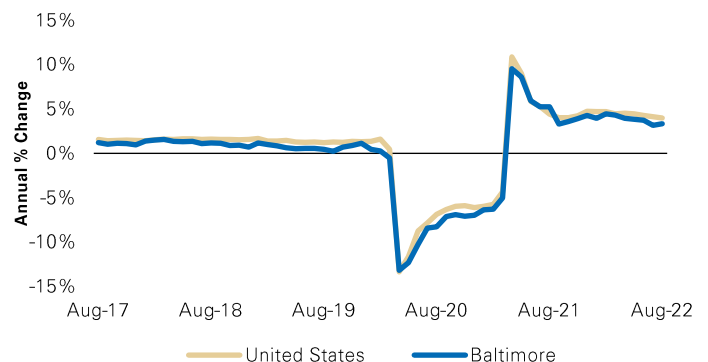
BALTIMORE METRO AREA, PAYROLL JOB CHANGE, 2001-2021
AND FORECAST 2022-2025



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

Payroll Employment

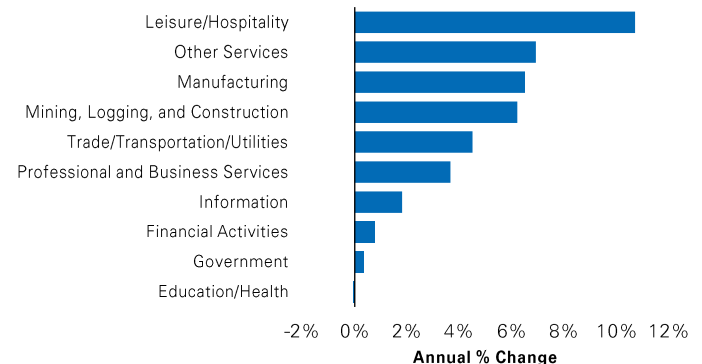
TOTAL NONFARM, U.S.—SEASONALLY ADJUSTED
BALTIMORE—NOT SEASONALLY ADJUSTED, 12-MO. % CHANGE



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

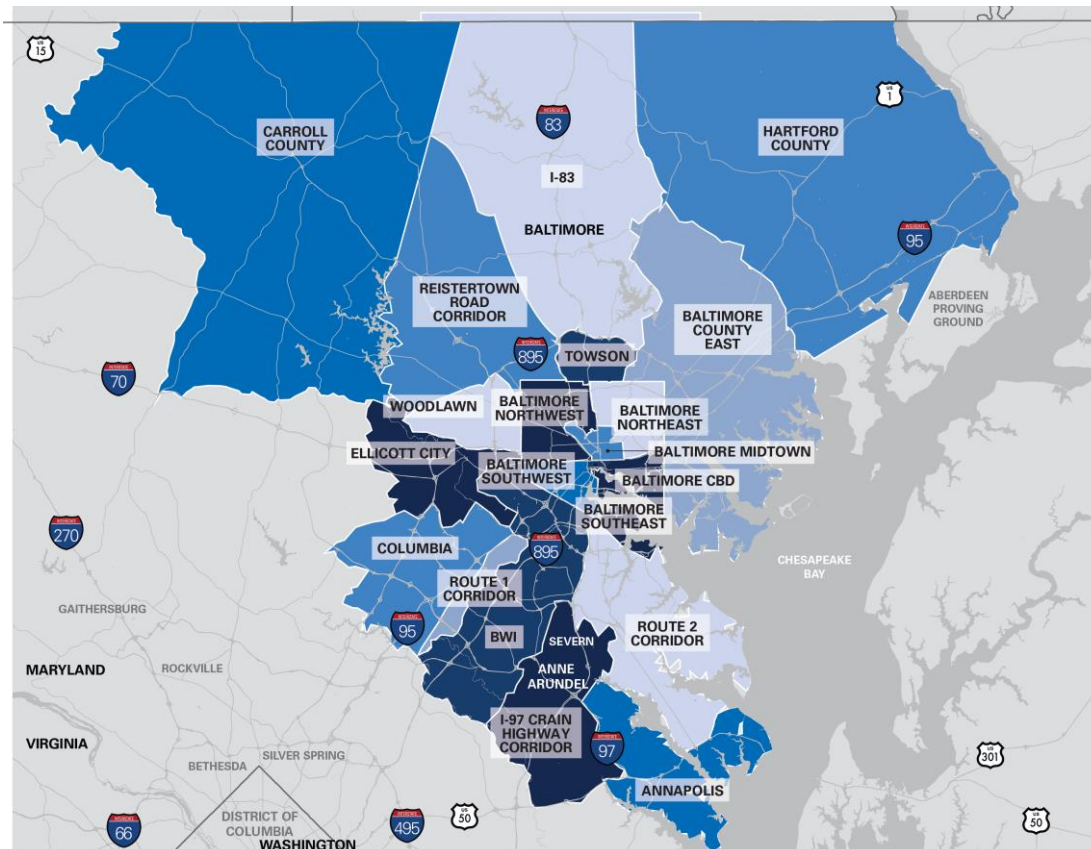
Employment Growth By Industry

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



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

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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