3Q23

Baltimore Industrial Market Overview

Market Observations

Economy

- The region's labor market remained historically strong amid shifting macroeconomic conditions. August's 1.8% unemployment rate was the lowest among all U.S. metros and significantly lower than the national average of 3.8%.
- Two industries recovering from pandemic-related losses, Construction and Leisure/Hospitality, were among the highest-growing industries during the past 12 months in the Baltimore market. Construction grew 5.7% during this period, while Leisure/Hospitality grew 4.4%.
- Although trade/transportation/utilities employment has stabilized and surpassed pre-pandemic highs, manufacturing employment continues to decline and remains below pre-pandemic levels.

Leasing Market Fundamentals

- After the market experienced over four million square feet of positive net absorption during both 2021 and 2022, activity has slowed in 2023. Year-to-date, the market has experienced 435,000 square feet of positive net absorption.
- Although the market has experienced positive net absorption, it has been counteracted by unoccupied deliveries, which has led to an expansion in the vacancy rate. Baltimore's vacancy rate ended Q3 2023 with a vacancy rate of 5.9%, an increase of 20 bps quarter-over-quarter and 30 bps year-over-year.
- Average asking rents continue to sit near record highs, ending Q3 2023 at $8.19 per square foot, a slight decrease of 0.6% quarter-over-quarter but an increase of 23% year-over-year.

Major Transactions

- Sales volume was low during Q3 2023, totaling $141 million across 33 transactions. This is much lower than the same period a year ago when the market saw $434 million worth of sales volume across 71 transactions.
- The largest deal of the quarter was a portfolio sale. GID Investment Advisors acquired two properties from TA Realty for $60.25 million, or $214.79 per square foot. The deal included a 138,000-square-foot distribution facility at 1000 Hampton Park Boulevard in Capitol Heights and a 142,000-square-foot warehouse at 8230 Sandy Court in Jessup. Both properties were fully occupied at the time of sale.

Outlook

- Demand far outpaced supply during 2021 and 2022, however 2023 has seen supply continue to deliver, albeit at a slower rate, with a decrease in demand. Supply and demand will likely continue to cool as the market finds a point of equilibrium.
- While supply and demand re-adjust, rent growth will likely decelerate and continue to cool throughout the year while remaining at historically elevated levels. This will vary on a submarket, size range, and asset-type basis.
- As supply and demand cool, leasing activity will likely follow suit, hovering at historically lower levels. Quality, Class A space should continue to see the most interest from landlords, tenants, and investors alike.

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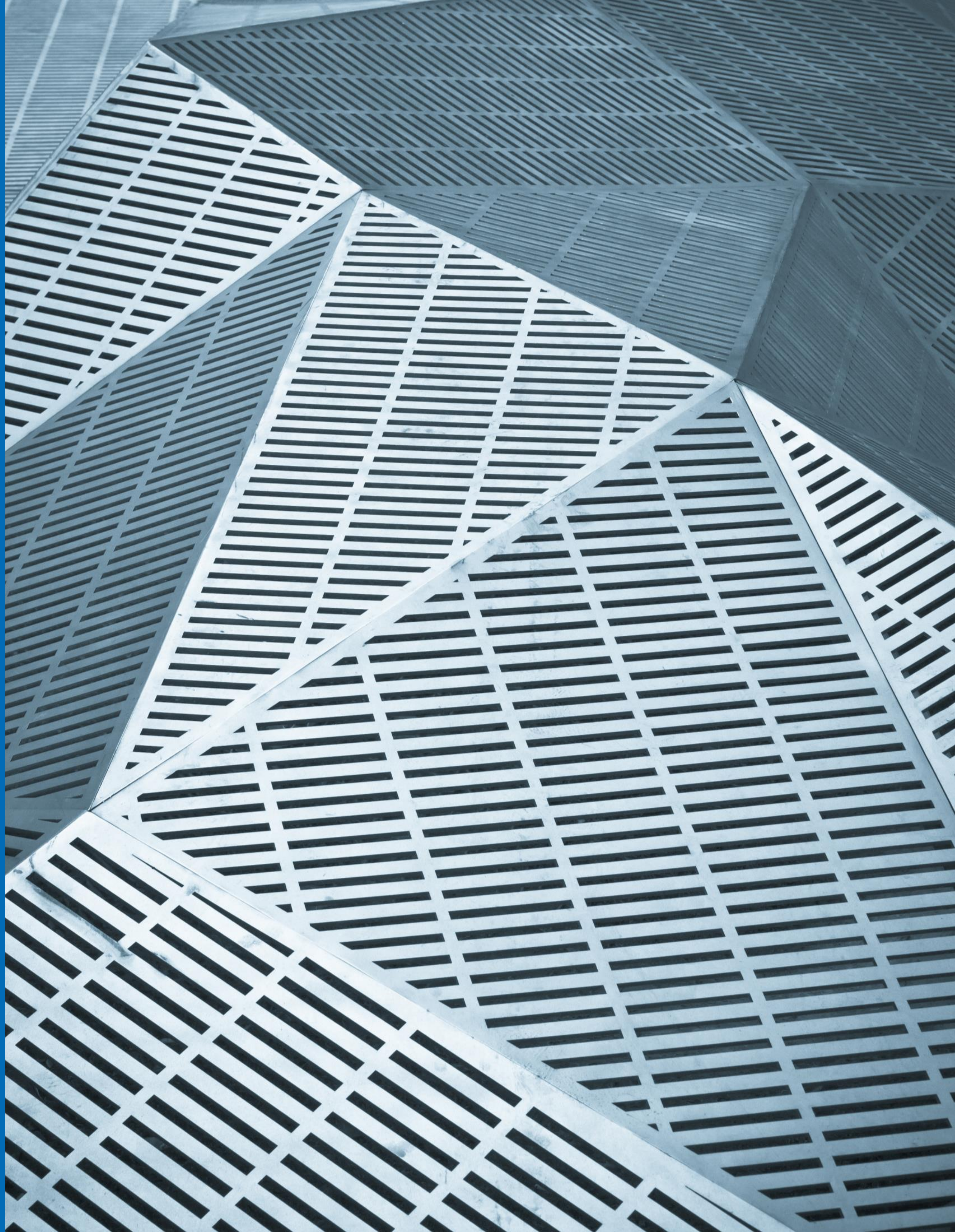
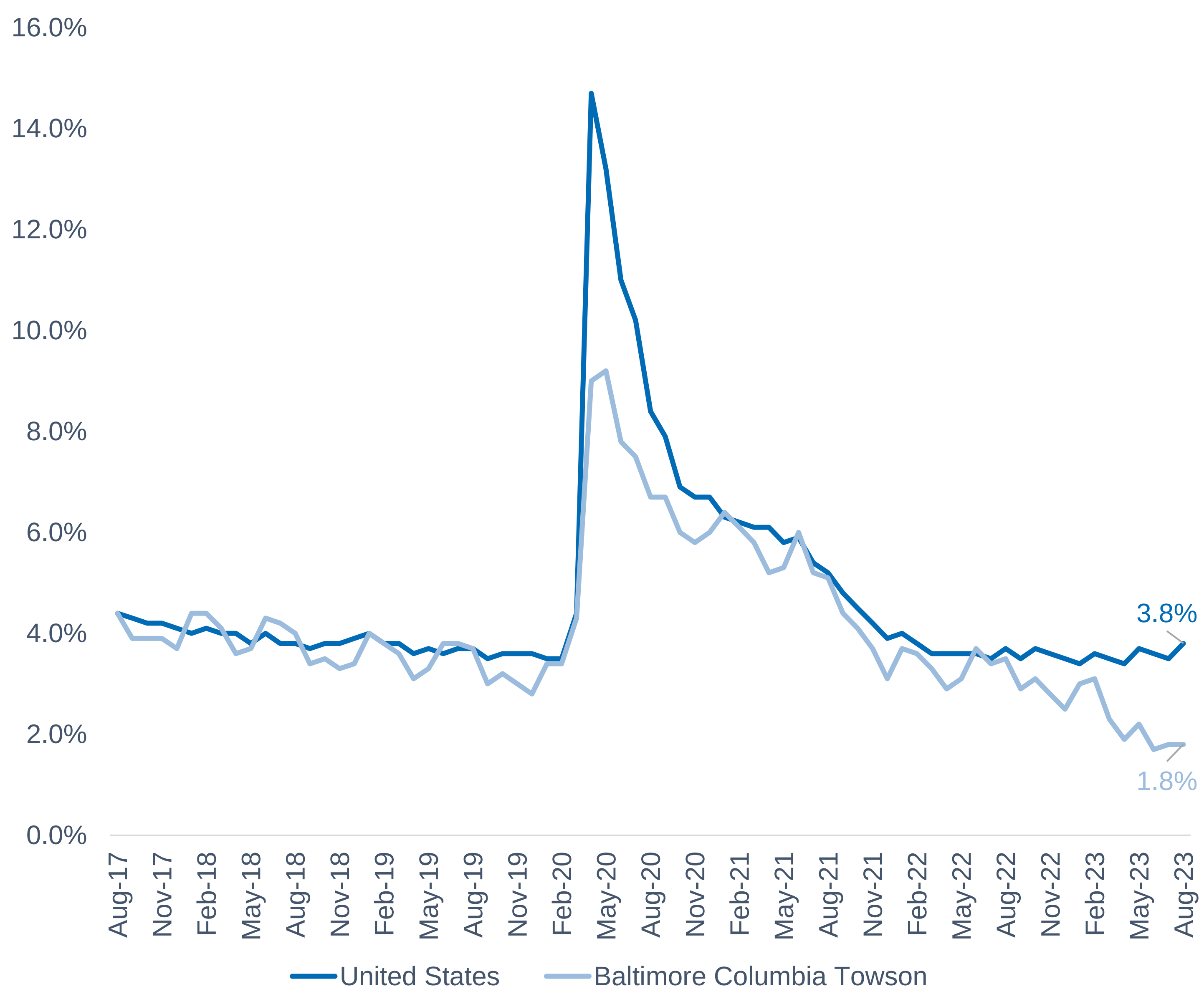


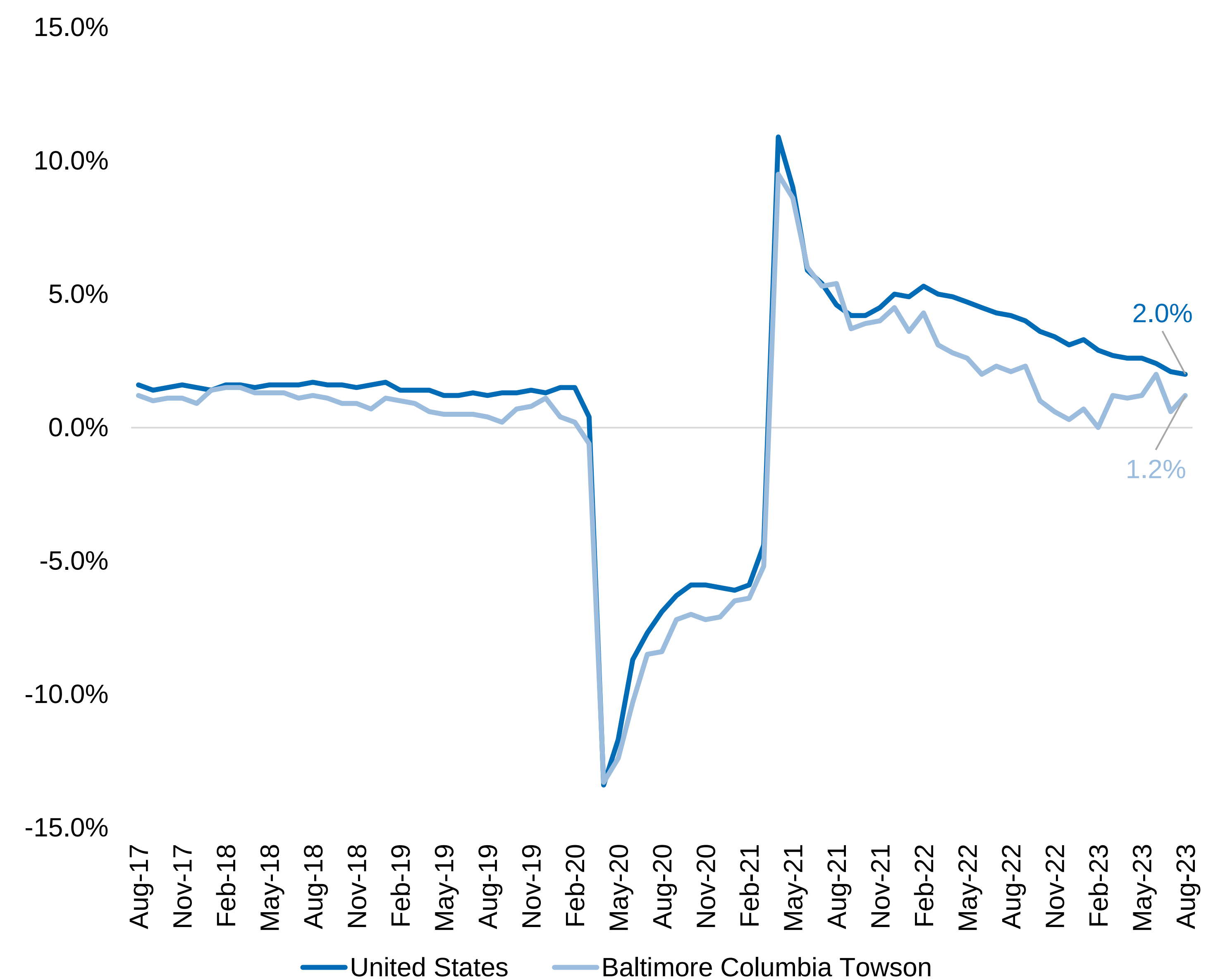
Baltimore’s Unemployment is the Lowest in the Nation

Baltimore’s unemployment rate is the lowest in the nation, measuring 1.8% as of August 2023, 170 basis points lower year-over-year and 200 basis points lower than the national average. Even the next two metros with the lowest rates, Birmingham and Boston, were 50 and 60 basis points higher than Baltimore, respectively.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

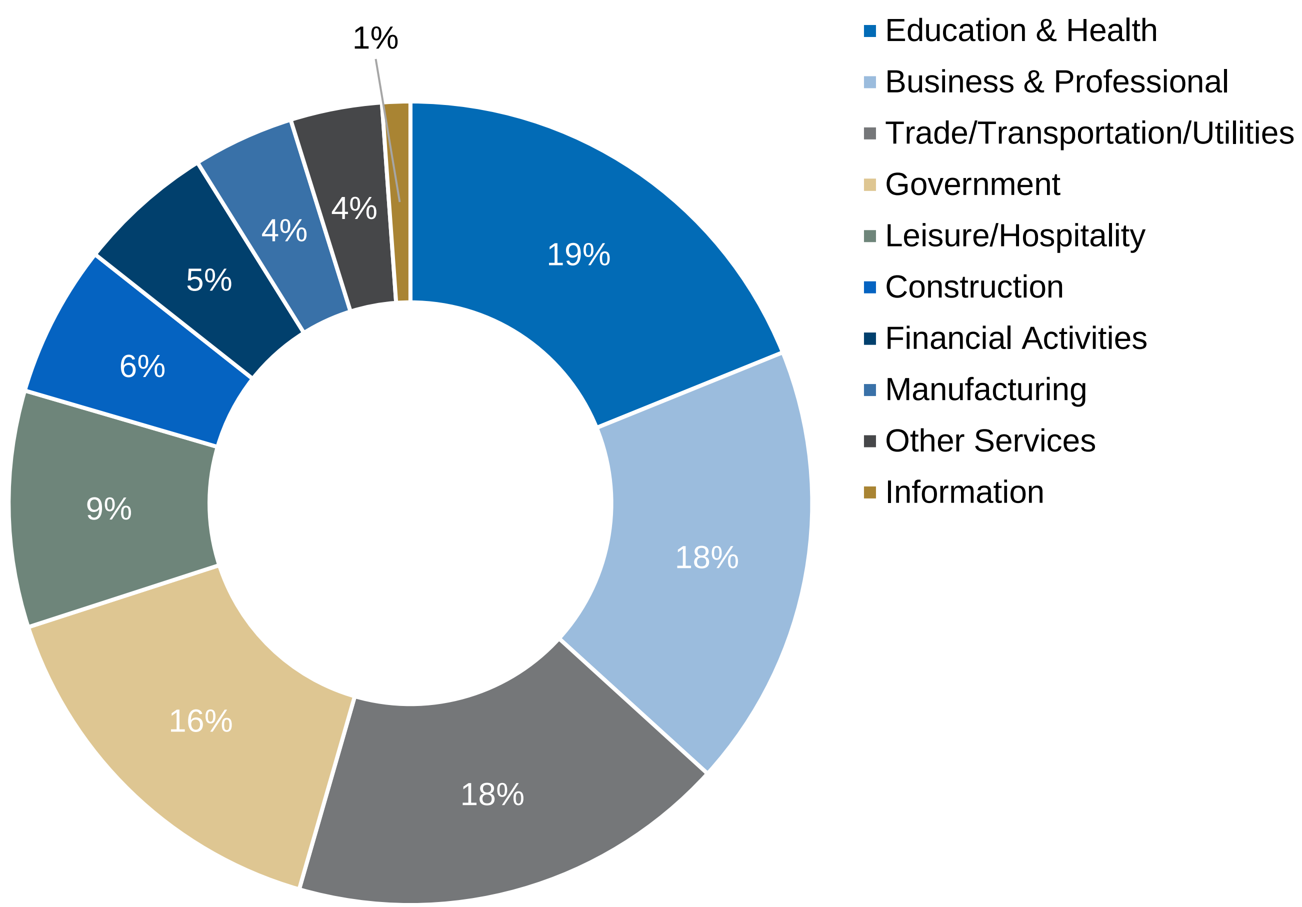


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

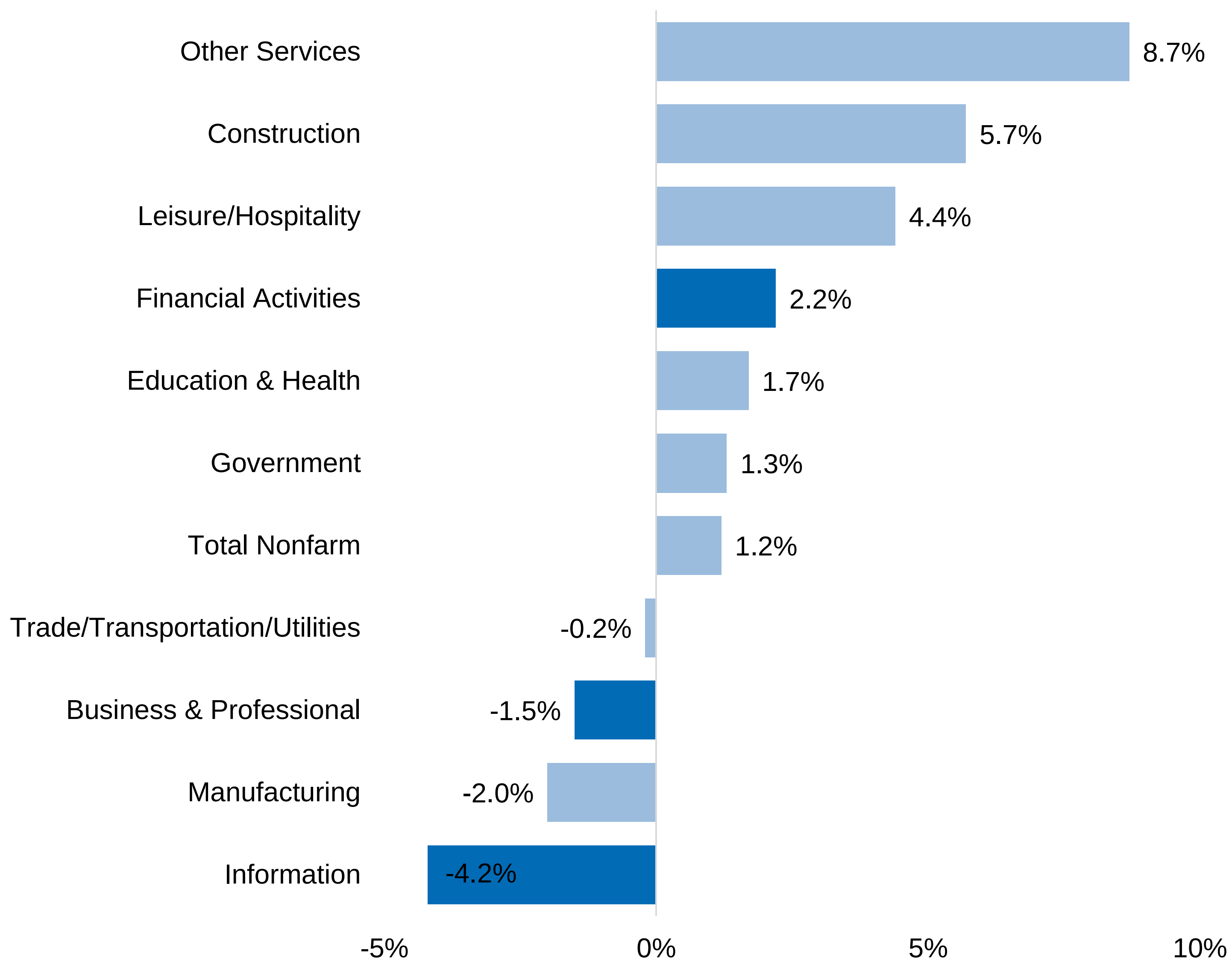
Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

Construction and leisure/hospitality were two of the largest industries in terms of 12-month job growth, highlighting two industries recovering from pandemic-related losses. The 12-month employment growth in the construction industry was 5.7% while leisure/hospitality grew 4.4%.

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month % Change, August 2023

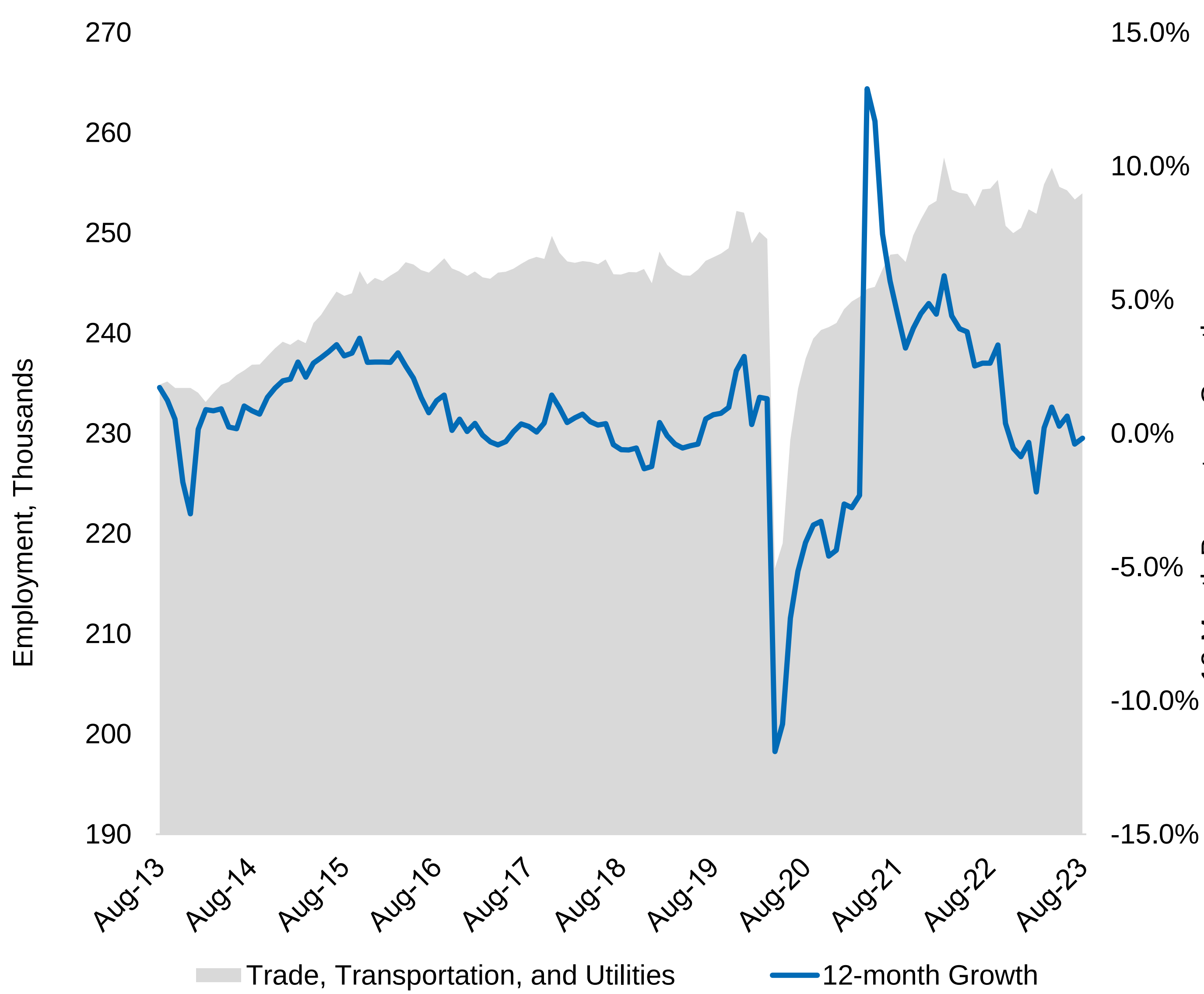


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

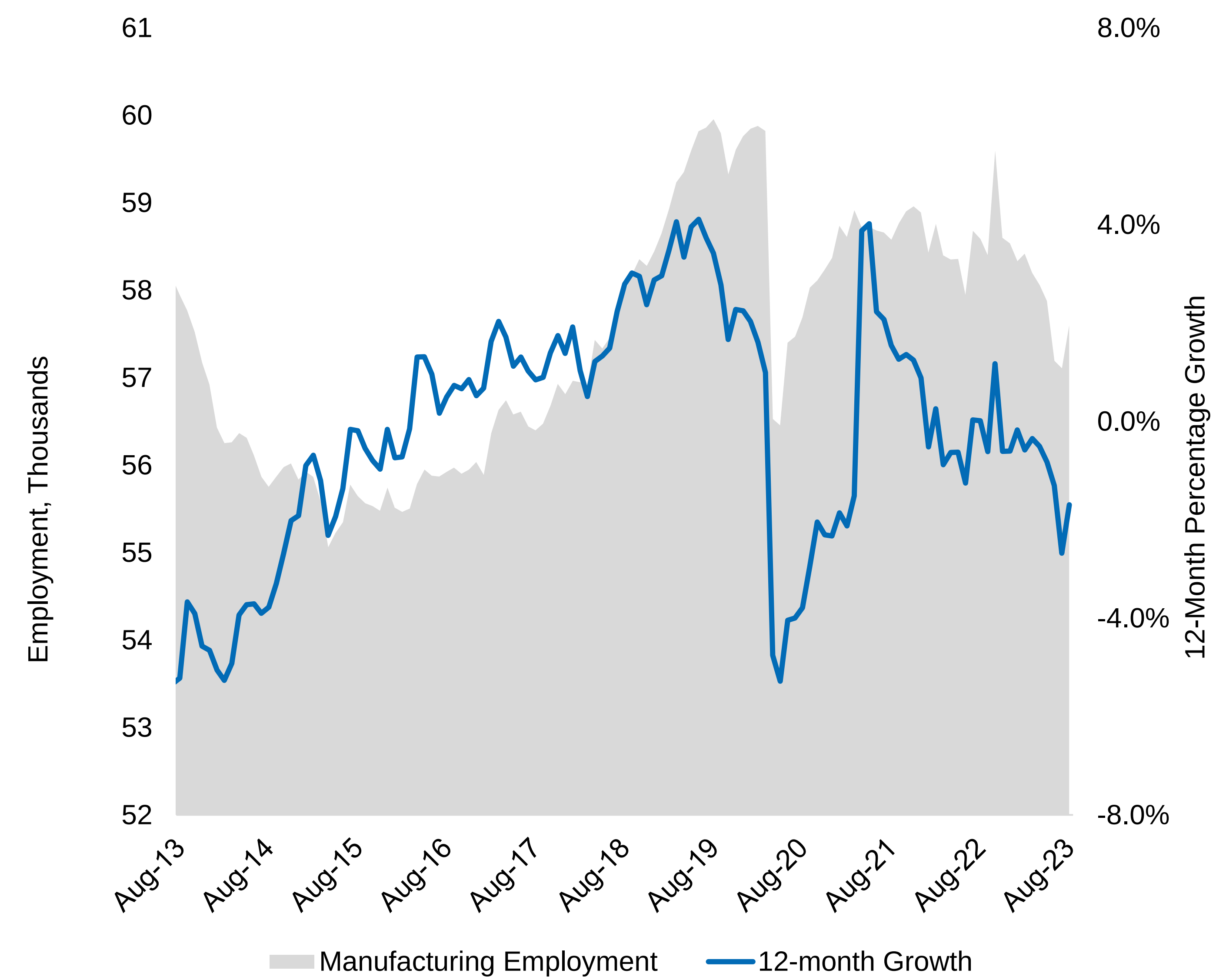
Trade/Transportation/Utilities Employment has Stabilized

Trade/transportation/utilities employment has stabilized, as it surpassed pre-pandemic highs in March and has remained above that mark since. On the other hand, manufacturing employment continues to decline and remains below pre-pandemic levels.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



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

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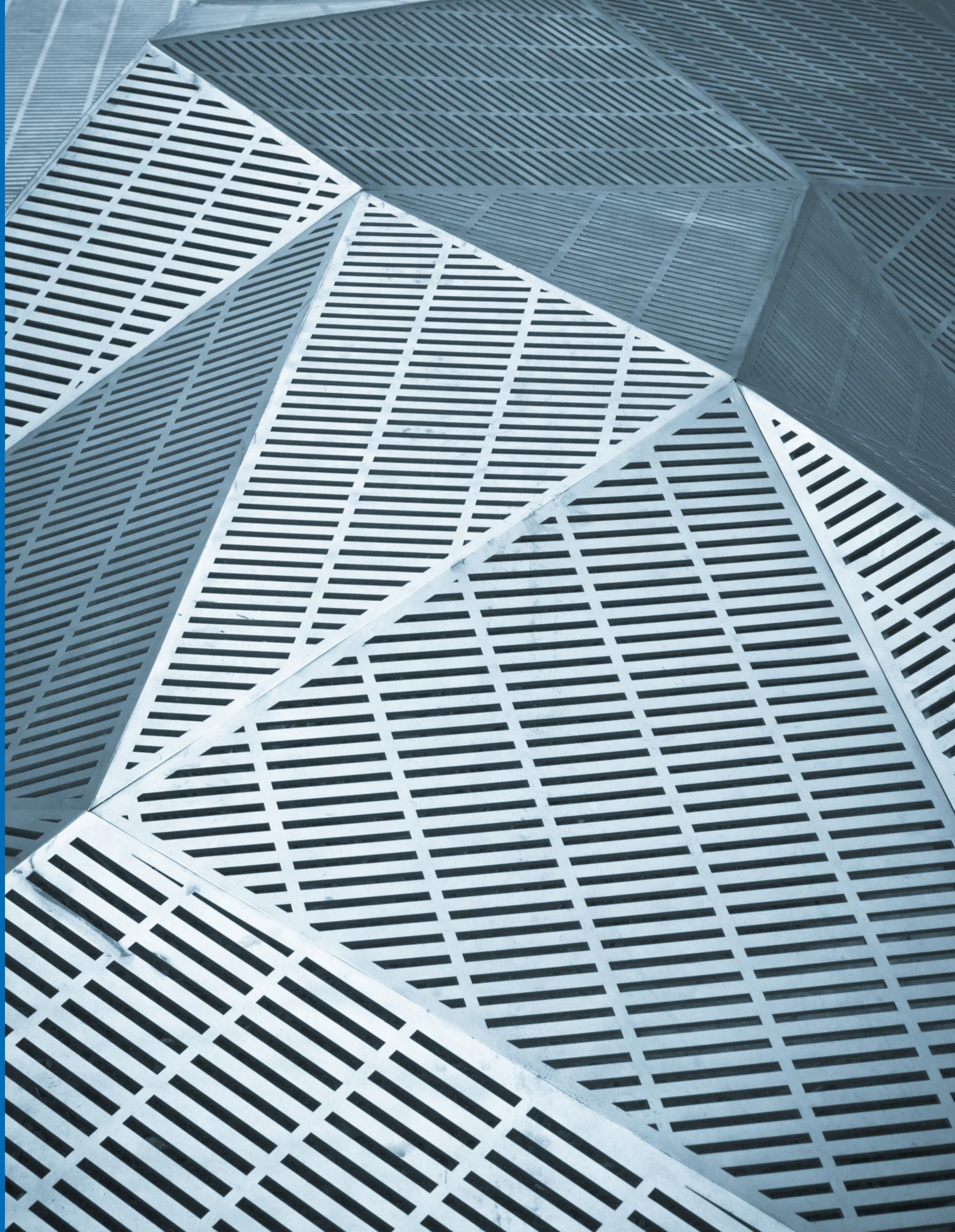
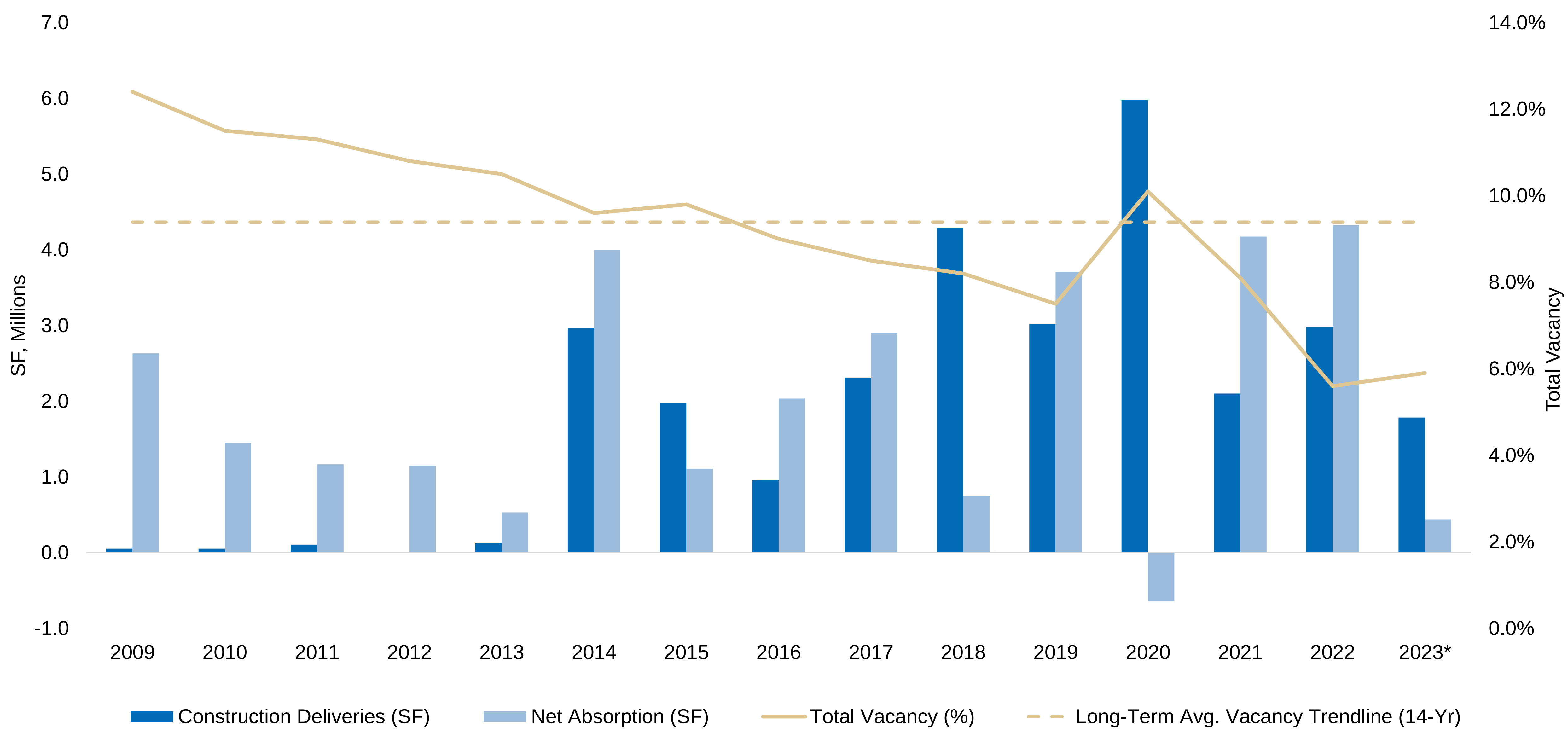
Leasing Market Fundamentals



Vacancy Rises as Deliveries Outpace Absorption

After the market saw demand outpace supply in 2021 and 2022, the script has been flipped and supply has outpaced demand in 2023. As of the end of Q3 2023, Baltimore has experienced almost 1.8 million square feet of deliveries while only seeing 435,000 square feet of positive net absorption year-to-date. Because of this discrepancy between supply and demand, the market ended Q3 2023 with a vacancy rate of 5.9%, an increase of 20 bps quarter-over-quarter and 30 bps year-over-year.

Historical Construction Deliveries, Net Absorption, and Vacancy

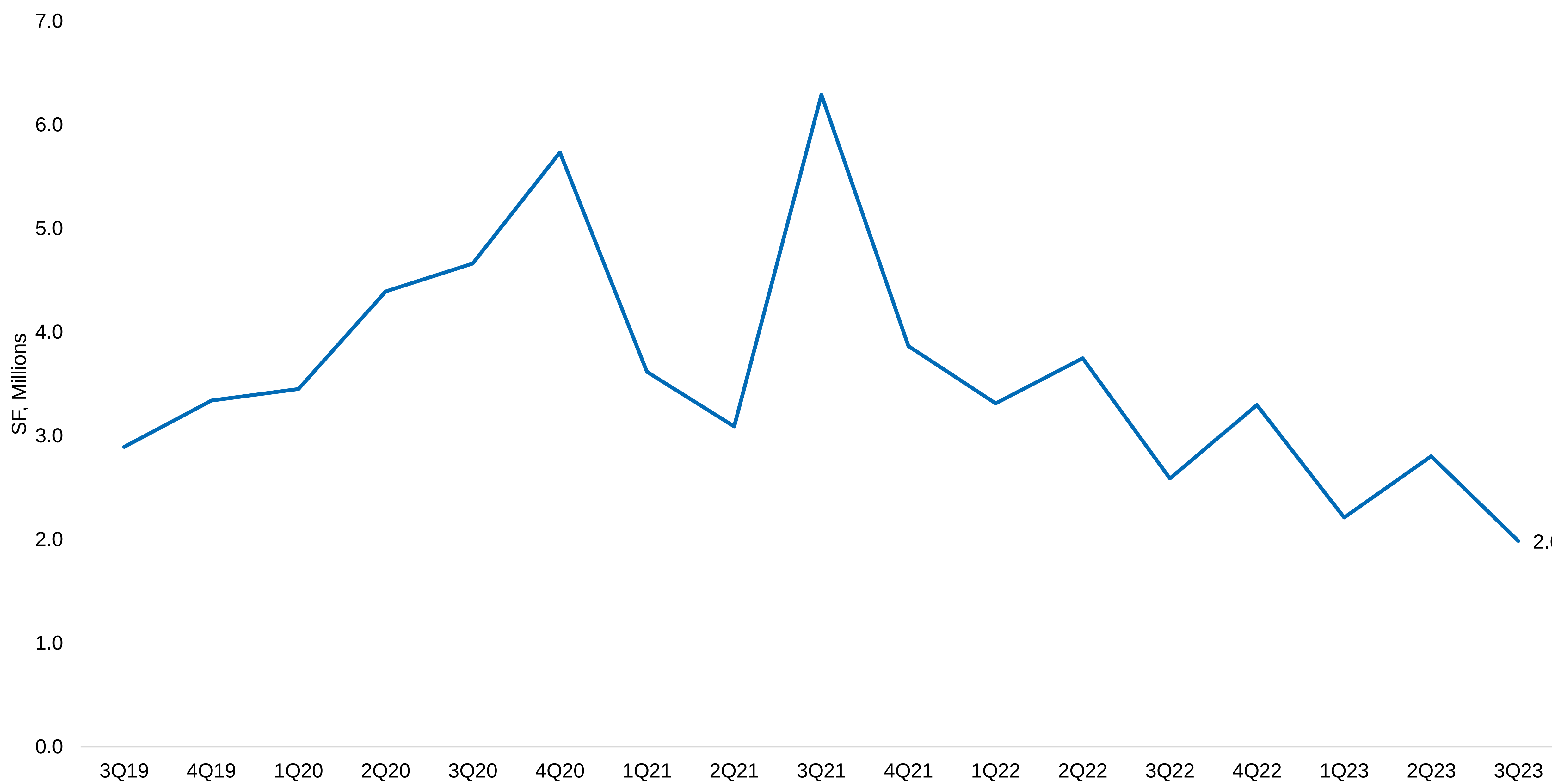


*2023 numbers through third quarter 2023
Source: Newmark Research

Industrial Leasing Activity Continues to Cool

Leasing activity decelerated close to a decade-low in Q3 2023, ending the quarter with 2.0 million square feet of activity. This is much lower than the decade-high when the market experienced 6.3 million square feet of activity during Q3 2021 and lower than the decade average of 3.3 million square feet of activity per quarter.

Total Leasing Activity (SF)

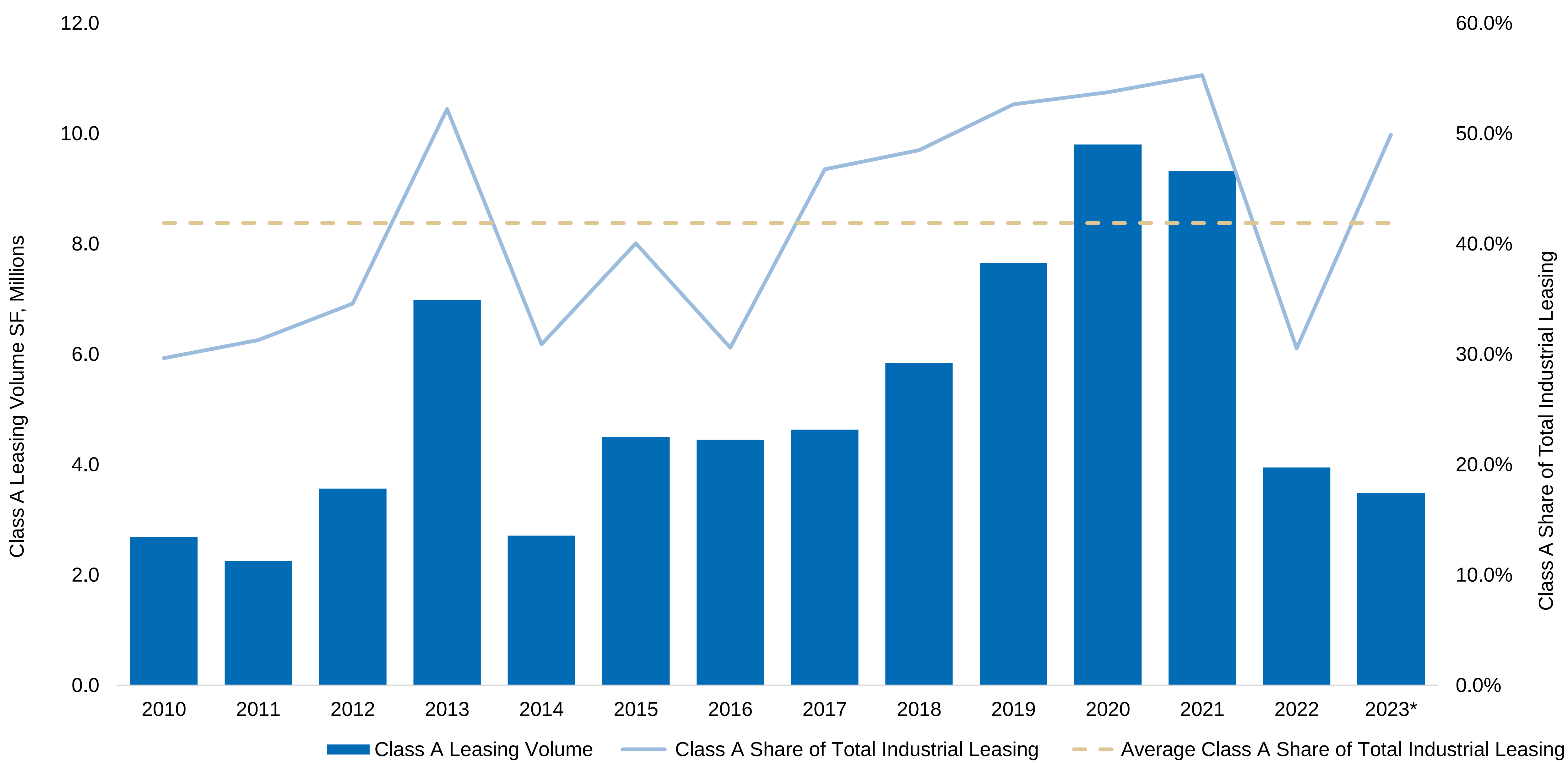


Source: Newmark Research, CoStar

Class A Industrial Leasing Above Long-Term Average

Although Class A industrial leasing activity remains below the levels of activity from 2018-2021, Class A product has seen a 49.9% share of total industrial leasing in the market during 2023. This is higher than the decade average of 41.9% and highlights the elevated interest in quality Class A space by occupiers.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

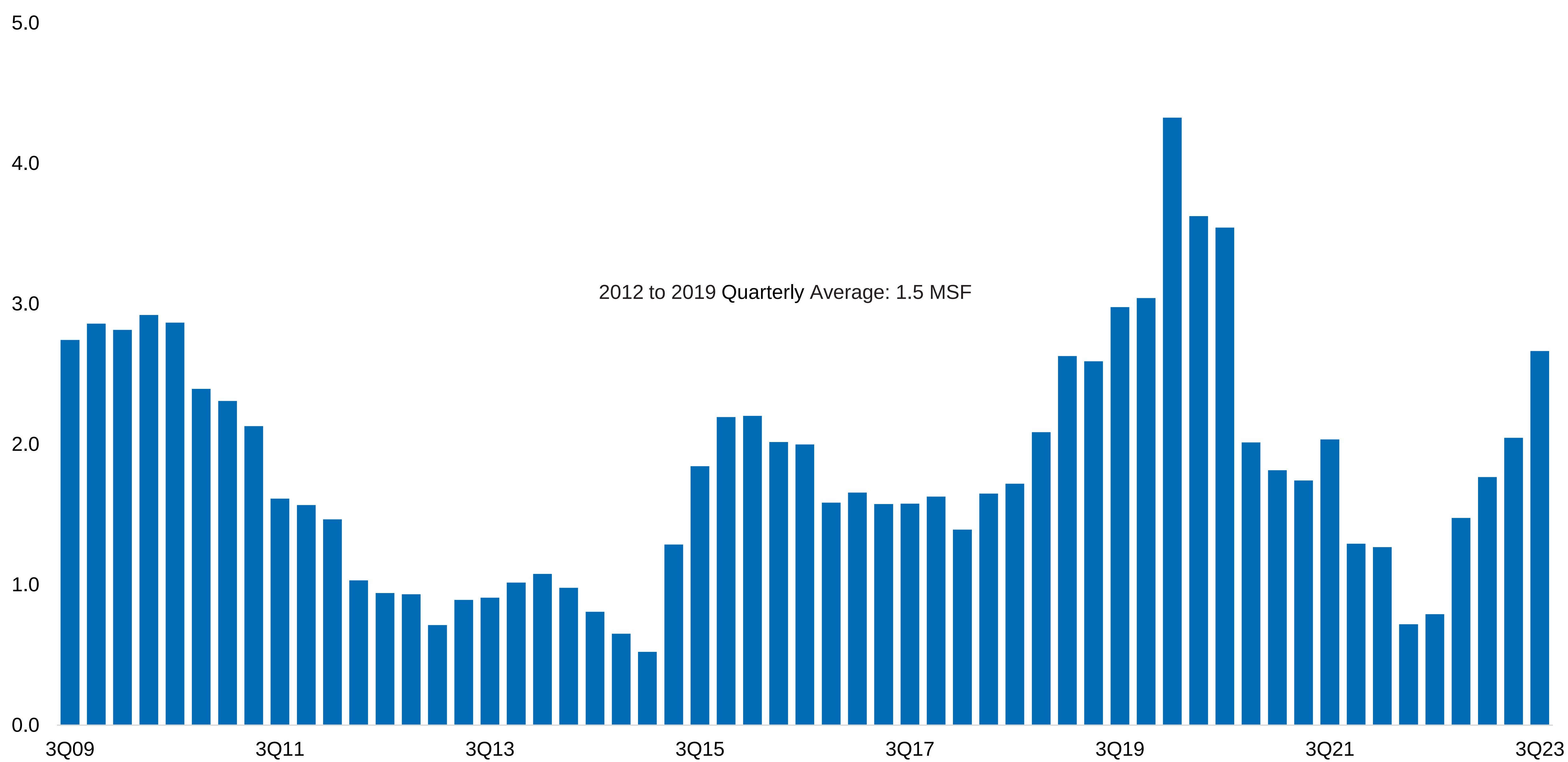


Source: Newmark Research, CoStar

Industrial Sublease Availability Spikes Above Pre-Pandemic Levels

The market saw a large dip in sublease available space during the beginning of the pandemic, as demand for industrial space soared. Since the market saw near historical lows in Q2 2022, sublease available space has been consistently added to the market, ending Q3 2023 at 2.7 million square feet, which is in line with the volume leading up to the pandemic.

Available Industrial Sublease Volume (msf)

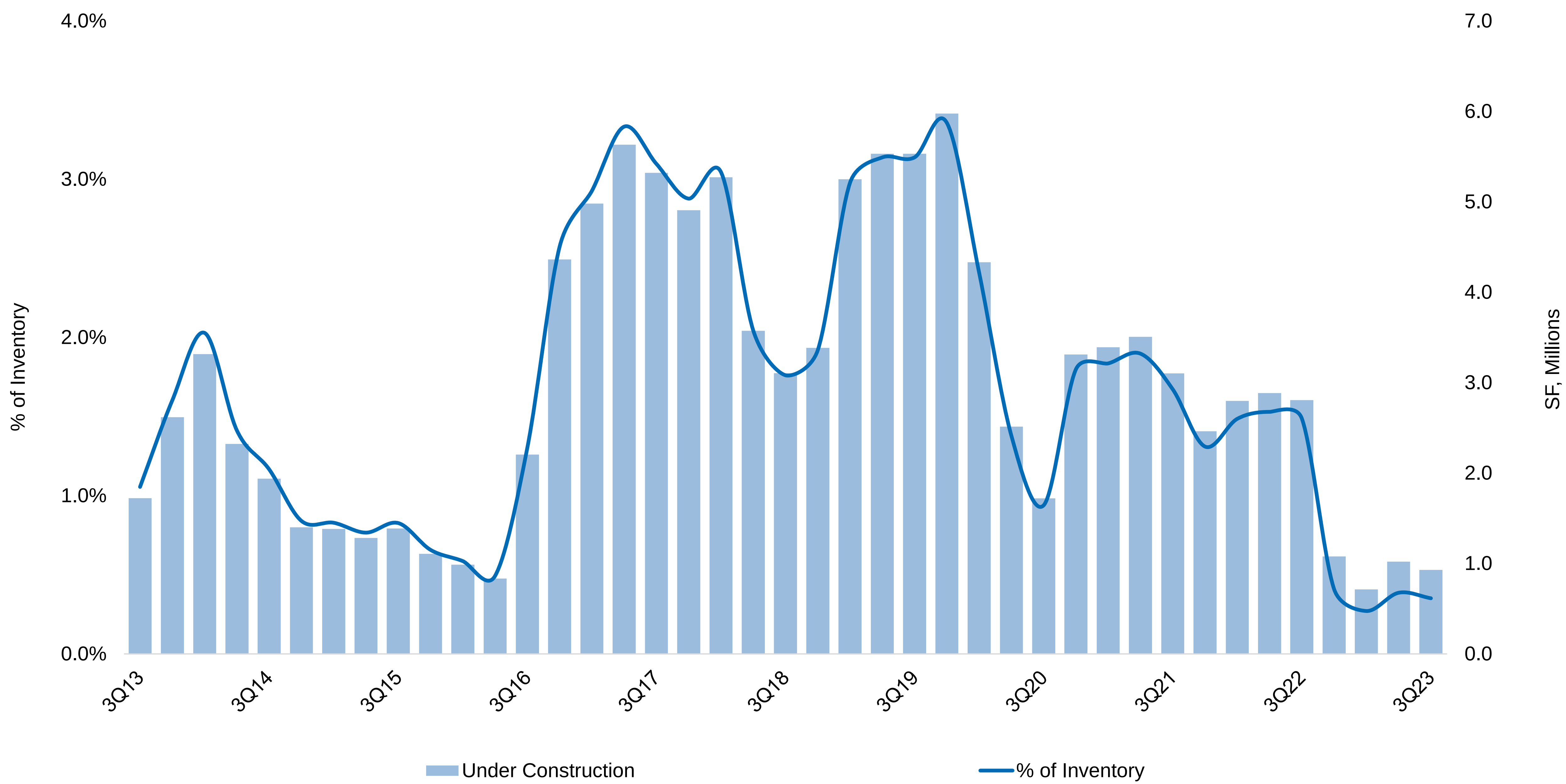


Source: Newmark Research, CoStar

Construction Supply Remains Near Historical Lows

Baltimore ended Q3 2023 with seven properties under construction totaling 930,000 square feet. This level of construction is low for the market, which has seen a decade average of three million square feet of space under construction at a time. This lack of construction is partially due to developers pausing new development, with some exiting land positions, amid slowing leasing activity and a challenging financing environment for new construction.

Industrial Under Construction and % of Inventory

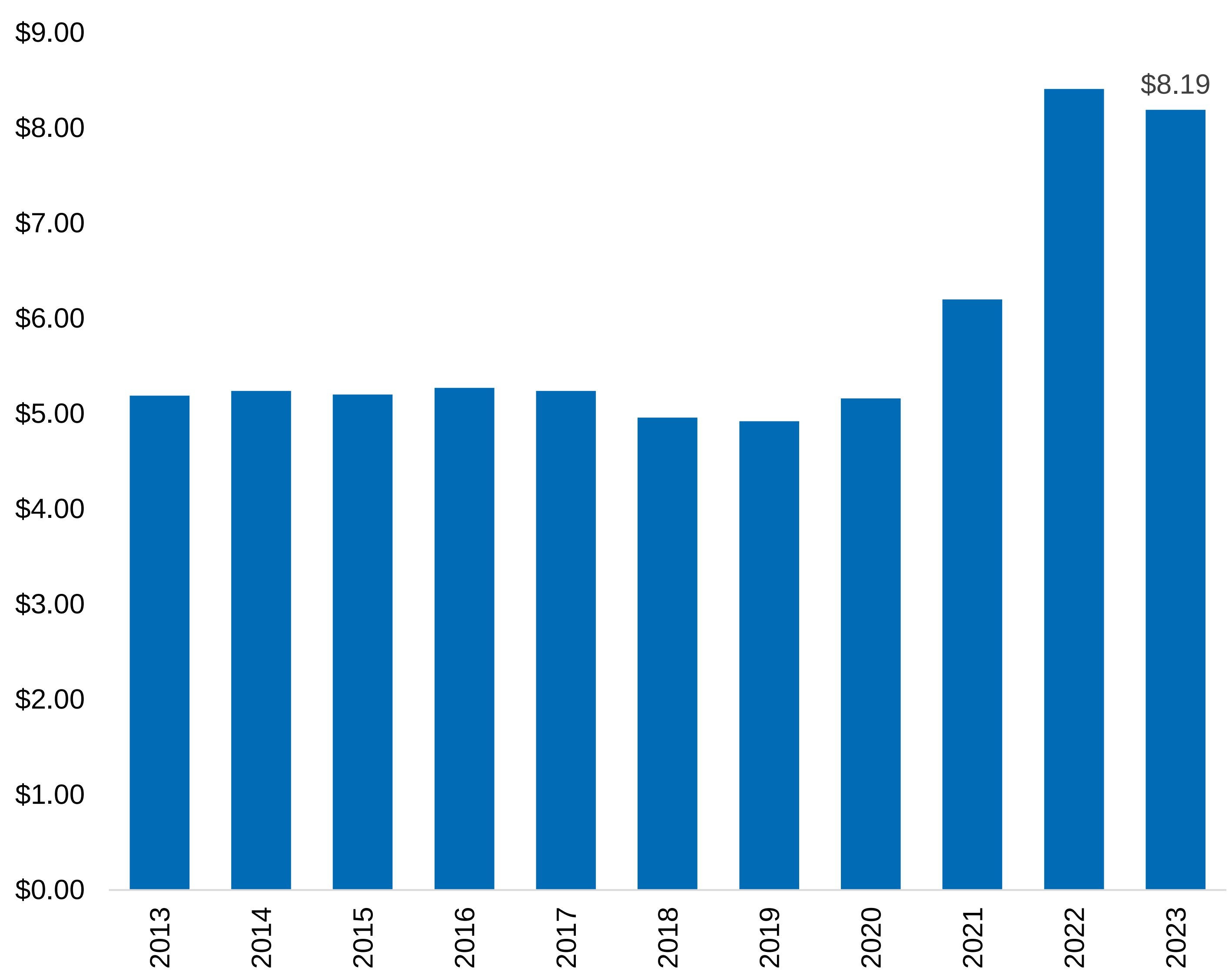


Source: Newmark Research, CoStar

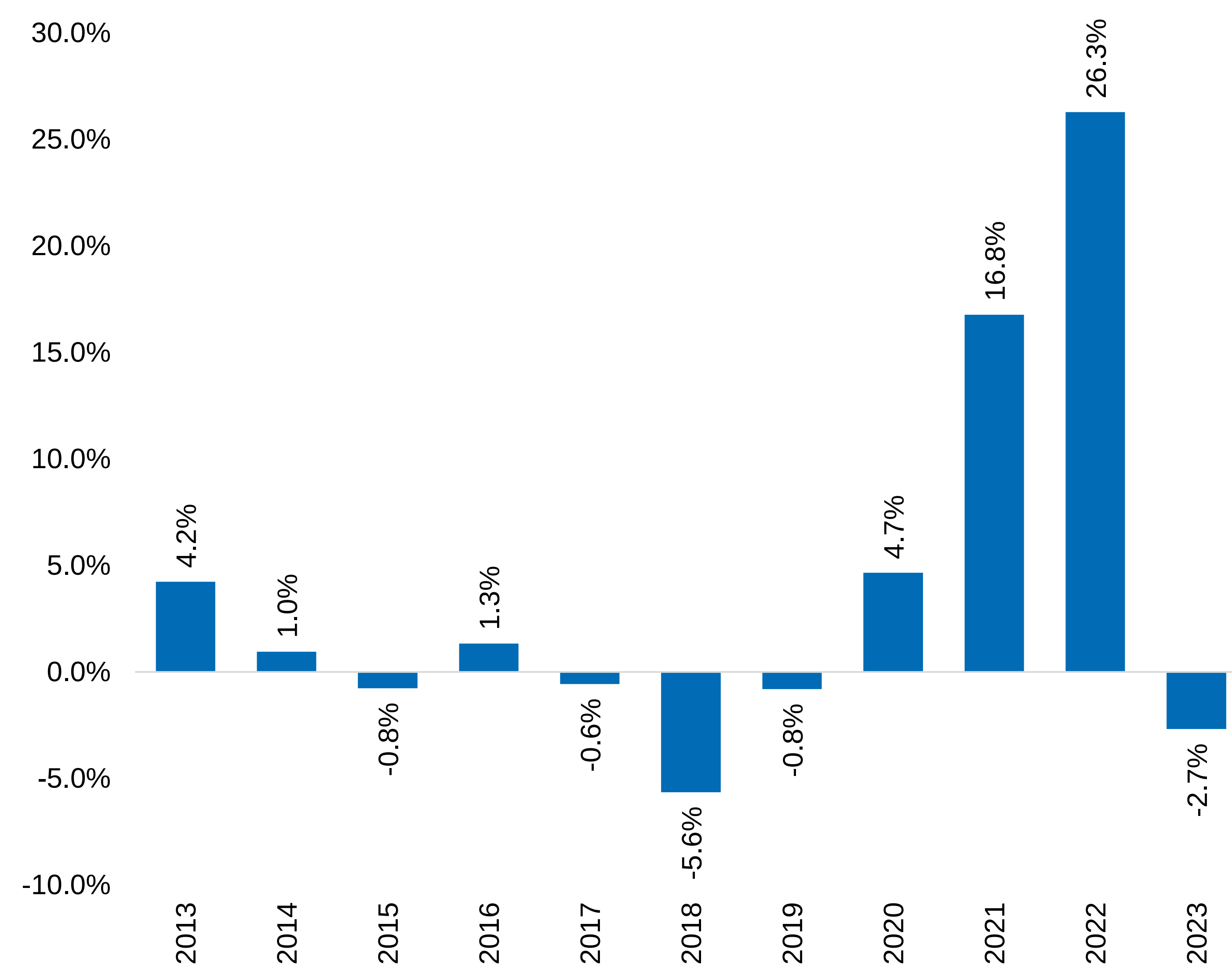
Asking Rents Remain Near Historic Highs

Average asking rents ended Q3 2023 at $8.19, a slight decrease of 0.6% quarter-over-quarter but an increase of 23% year-over-year. Rent growth will likely stabilize in coming quarters as demand catches up to the recent influx of supply.

Industrial Average Asking Rent, $/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 3Q23 Lease Transactions

Renewals were the theme of leasing activity during Q3 2023, as the five largest leases signed were renewals. This included Electrolux USA signing the largest lease of the quarter and renewing 692,000 square feet of space at 521 Chelsea Road within the Aberdeen submarket.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Electrolux USA	521 Chelsea Rd	Aberdeen	Renewal	692,000
Tesla	7101 Troy Hill Dr	Rt 1 / BWI Howard	Renewal	176,651
AGCO Corporation	1704 Trimble Rd	Outlying Harford County	Renewal	105,000
AGCO Corporation	103 Fulfillment Dr	Outlying Harford County	Renewal	90,950
Constellation Building Systems	1409 Tangier Dr	Baltimore County East	Renewal	72,326

Source: Newmark Research

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