3Q23

# Baltimore Office 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%.

– Education and Health remains the largest industry in the region, encompassing 19% of the regional workforce. It is followed closely by Business and Professional services and Trade/Transportation/Utilities, each containing 18% of the regional workforce.

## Major Transactions

– Sales volume improved during Q3 2023, totaling $124 million across 57 transactions. This is higher than the same period a year ago when the market saw $97 million worth of sales volume across 71 transactions. Furthermore, it is the most active third quarter the market has seen since 2018.

– The largest sale of the quarter was One East Pratt Street within the CBD, which MCB Real Estate LLC acquired from Banyan Street Capital. The 356,000-square-foot Class A office building sold for $25 million, or $70.22 per square foot.

## Leasing Market Fundamentals

– After the market experienced over 1.7 million square feet of negative net absorption from 2020 to 2022, the losses have slowed to -24,000 square feet in 2023.

– Vacancy rose and rents declined year-over-year. Baltimore's vacancy rate ended Q3 2023 at 16.8%, an increase of 10 bps quarter-over-quarter and 60 bps year-over-year. Average asking rents ended Q3 2023 at $24.59 per square foot, a decrease of 0.6% quarter-over-quarter and 1.6% year-over-year.

– There are four properties totaling 626,000 square feet currently under construction, lower than the market's decade average of 810,000 square feet under construction.

## Outlook

– Baltimore rents performed much better than most markets during the initial two years of the pandemic, with rents increasing 3.7% from the beginning of 2020 to the end of 2022. Since then, rents have begun to flatten during 2023. This may continue in the short term as leases roll over and companies look to downsize, leading to a larger disparity between supply and demand.

– Fewer landlords have capital for concessions to attract tenant relocations, contributing to the recent slowdown in deal volume. This trend is likely to continue in the near term.

– Life sciences is a critical growth driver for the Baltimore region, and its relatively affordable office market is expected to capture more demand as some life sciences users are priced out of more costly east coast markets.

TABLE OF CONTENTS

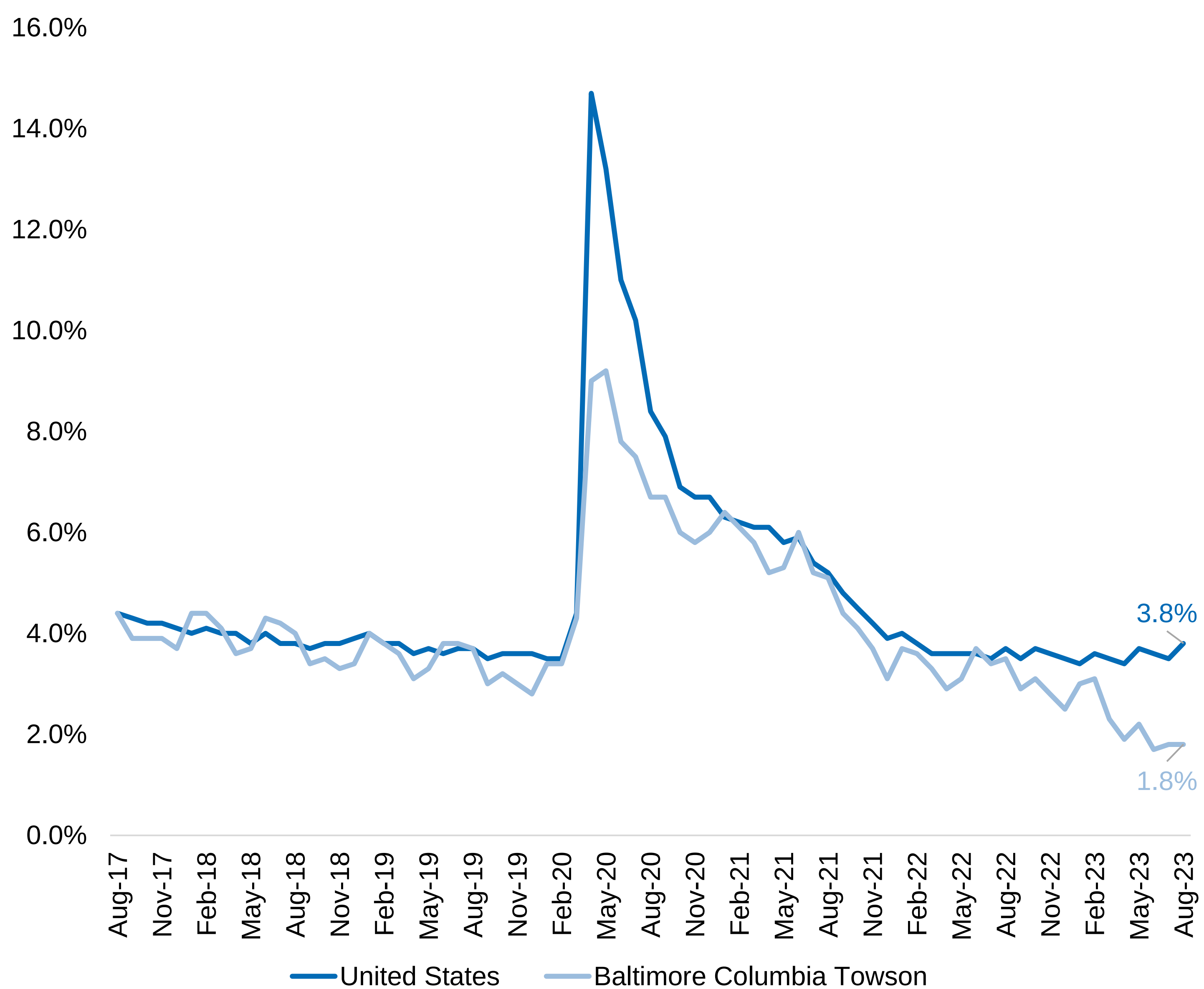
3Q23

# Economy

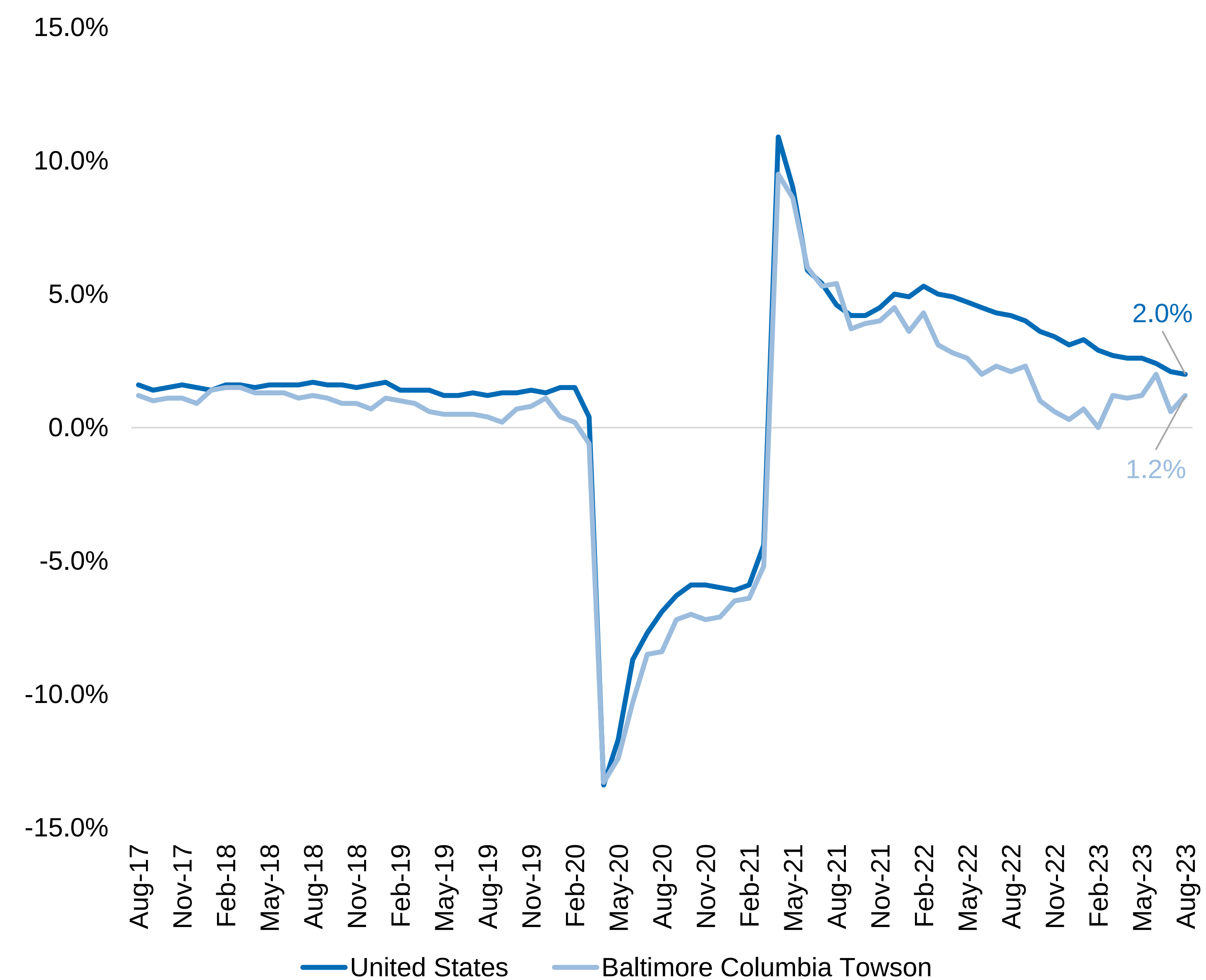
# Baltimore's Unemployment is the Lowest in the Nation

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, are 50 and 60 basis points higher than Baltimore, respectively.

## Unemployment Rate, Seasonally Adjusted




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

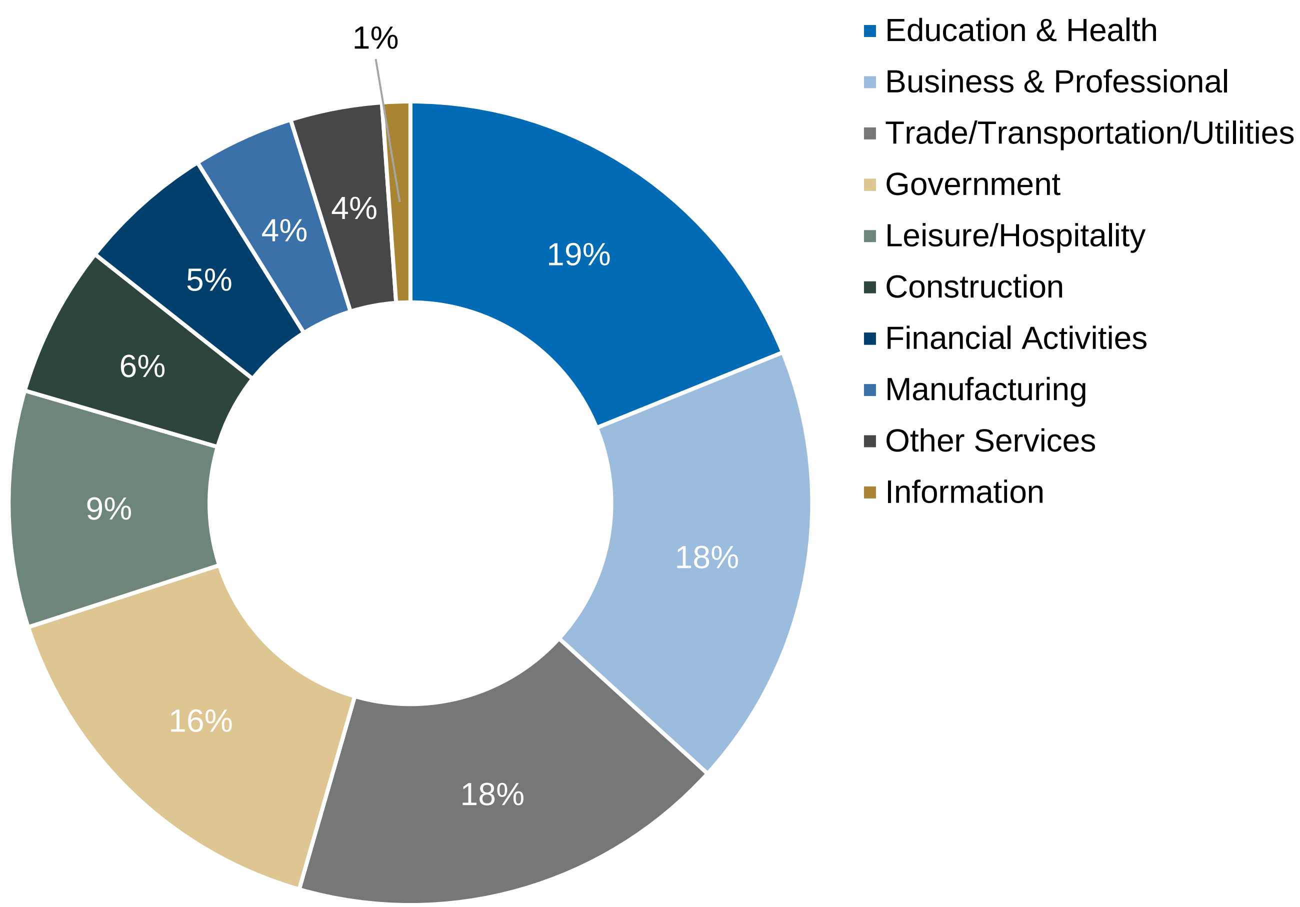



Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

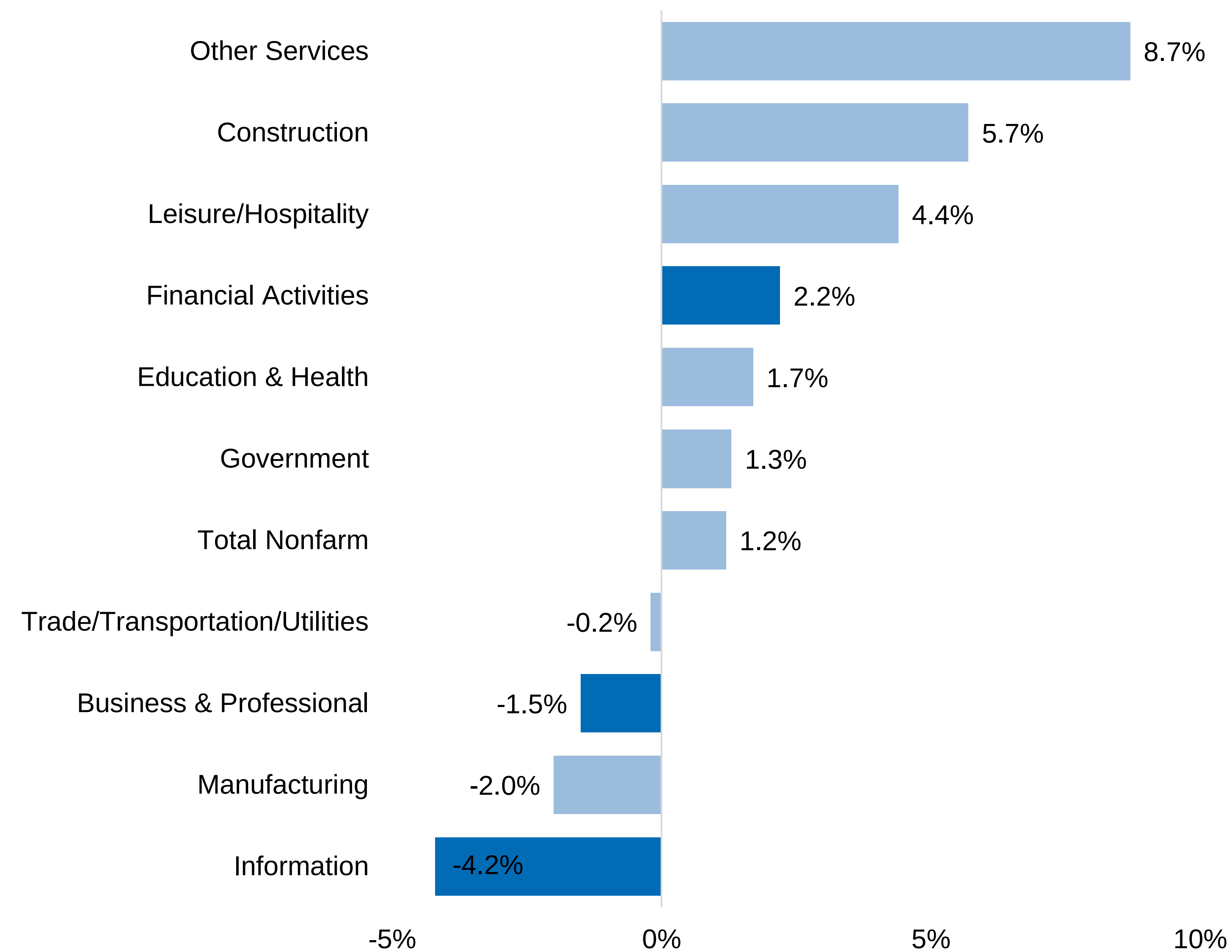
# Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

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

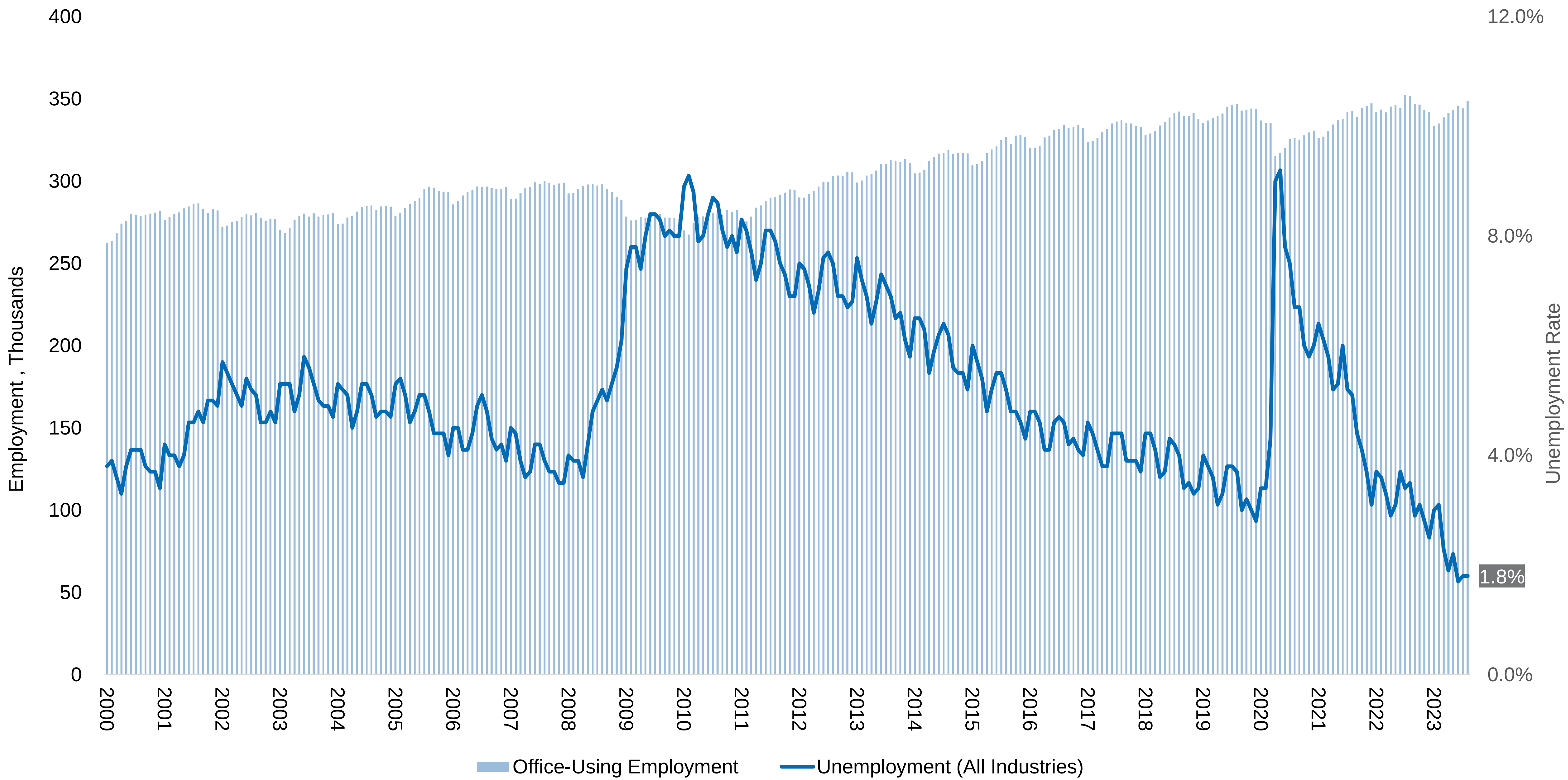



Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

# Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and now sits above pre-pandemic levels. Employment ended August 2023 at 348,700 employees, slightly higher than the pre-pandemic high and an increase of 10.6% since the market reached a pandemic-related low in April of 2020.

## Office-Using Employment* and Unemployment Across All Industries




Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson
Note: August 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

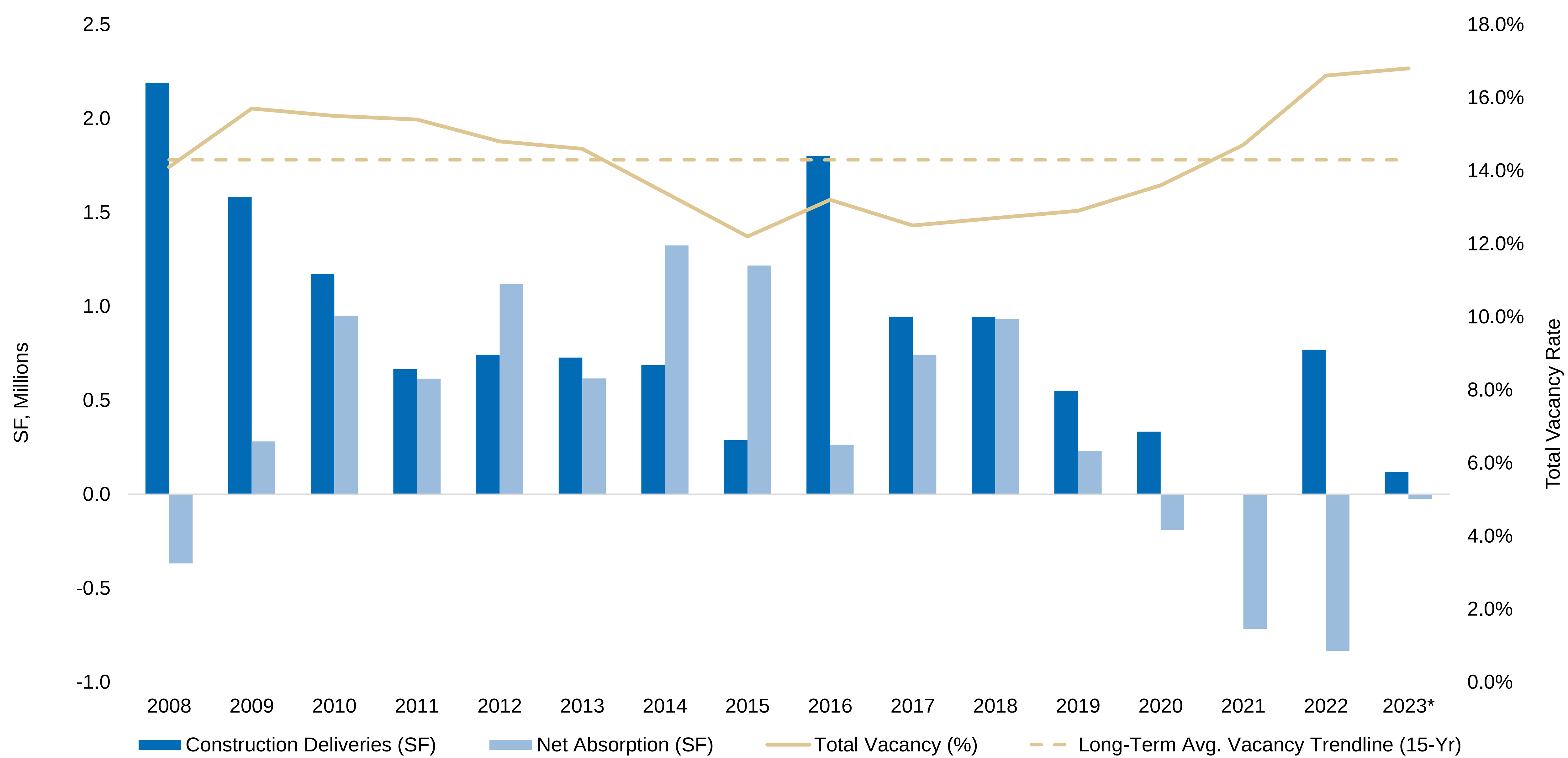
3Q23

# Leasing Market Fundamentals

# Market Fundamentals Looking to Stabilize in 2023

The vacancy rate increased to 16.8% in the third quarter of 2023, up 10 bps quarter-over-quarter and 60 bps year-over-year. After the market experienced ten straight years of positive net absorption from 2009 to 2019, the market has seen three years of negative net absorption from 2020 to 2022. So far in 2023, the market has only experienced 24,000 square feet of negative net absorption, hinting that the negative effects of the pandemic could be softening.

**Historical Construction Deliveries, Net Absorption, and Vacancy**

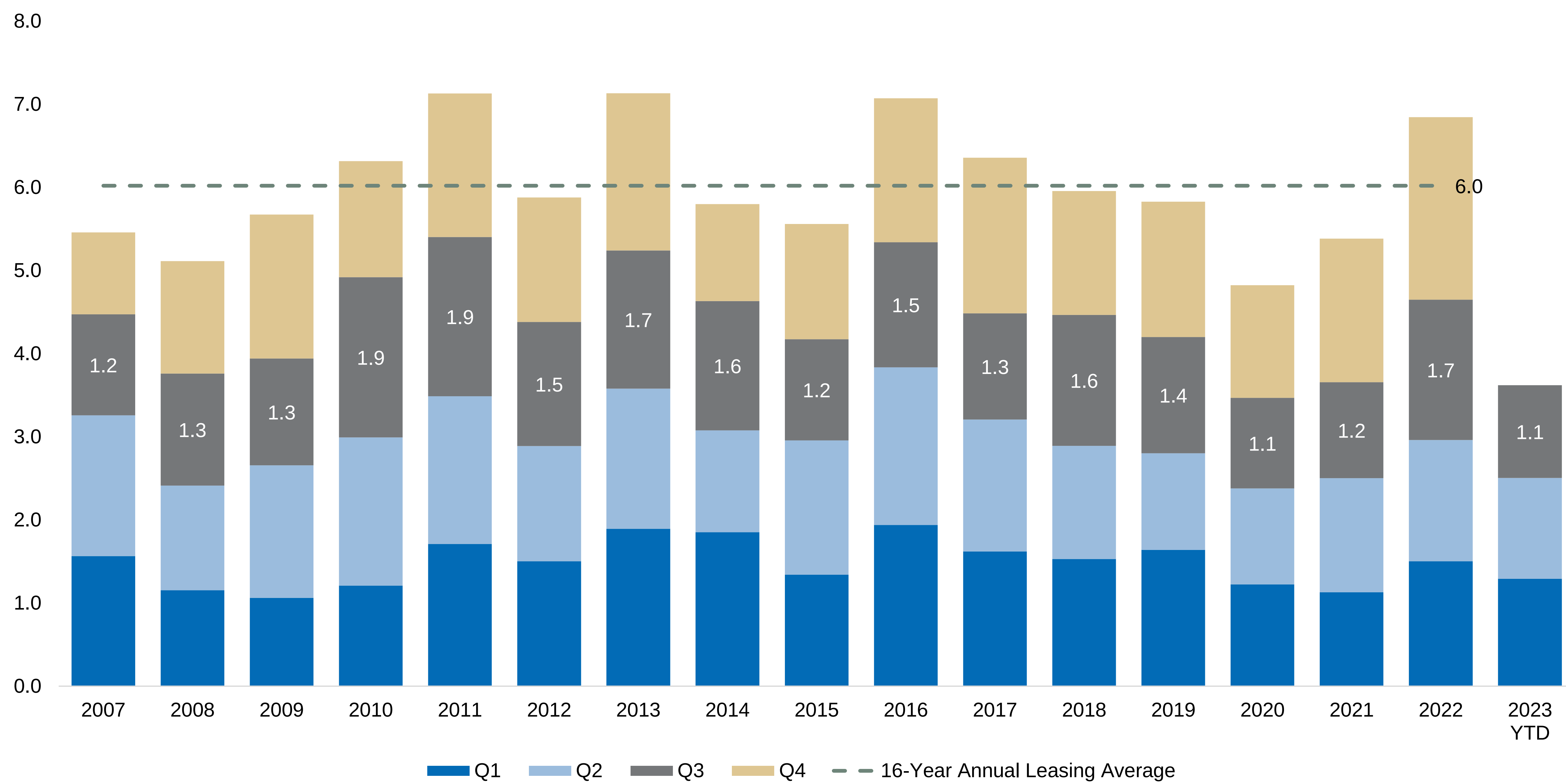



*2023 numbers are through 3Q23
Source: Newmark Research

# Leasing Activity Pace Has Slowed

Leasing activity remains low for the first three quarters of 2023 and is down 22.1% compared to the same period of 2022.  An uncertain economic outlook, increased interest rates, and hybrid work models are reducing space requirements.

**Total Leasing Activity (tsf)**

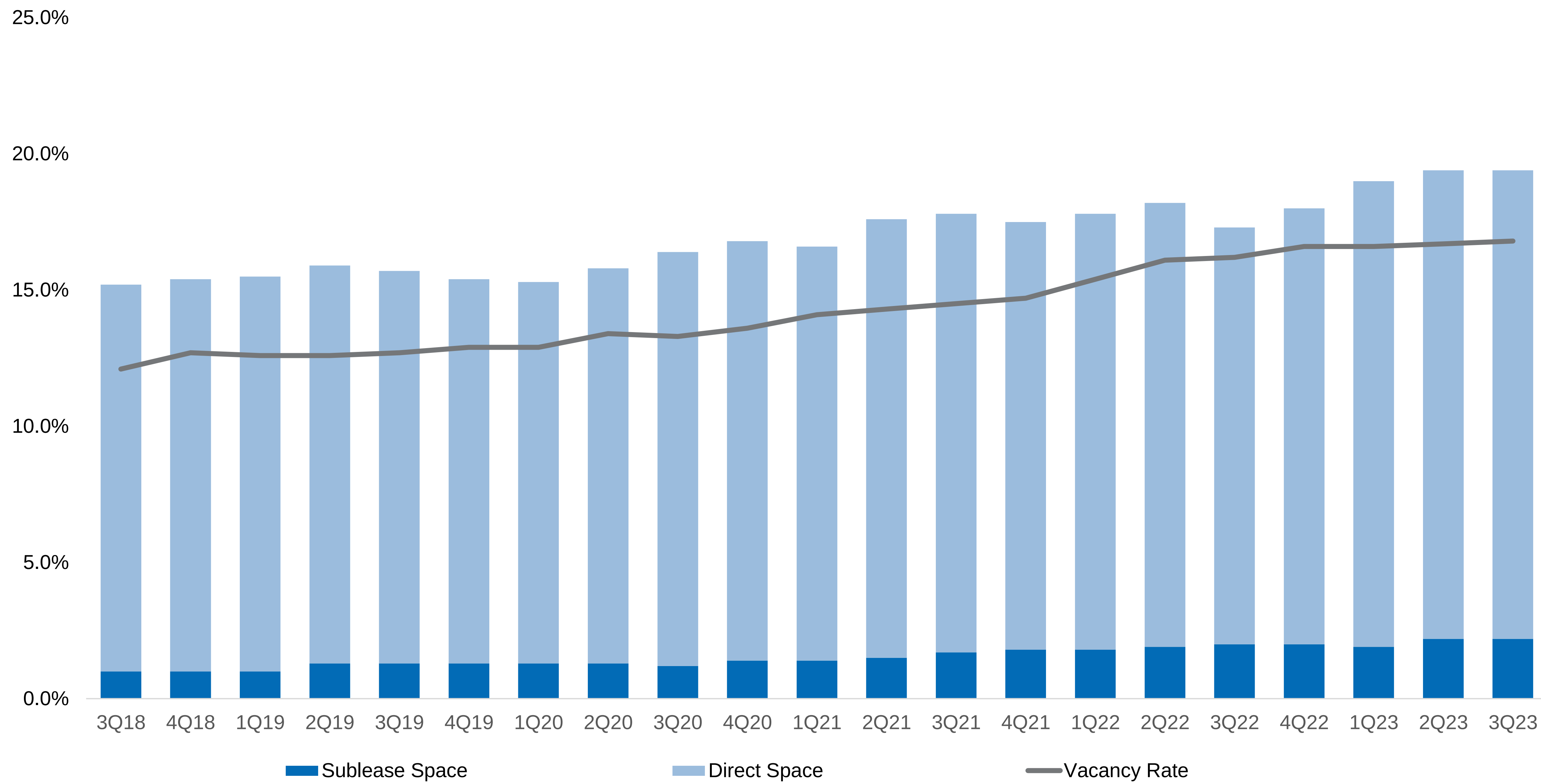



Source: Newmark Research, CoStar

# Availability Stabilizing in 2023

Although available space remains at historic highs, it appears to have stabilized during 2023. The Baltimore office market ended Q3 2023 with a 19.4% availability rate, remaining flat quarter-over-quarter and increasing 210 bps year-over-year.

## Available Space and Vacancy Rate

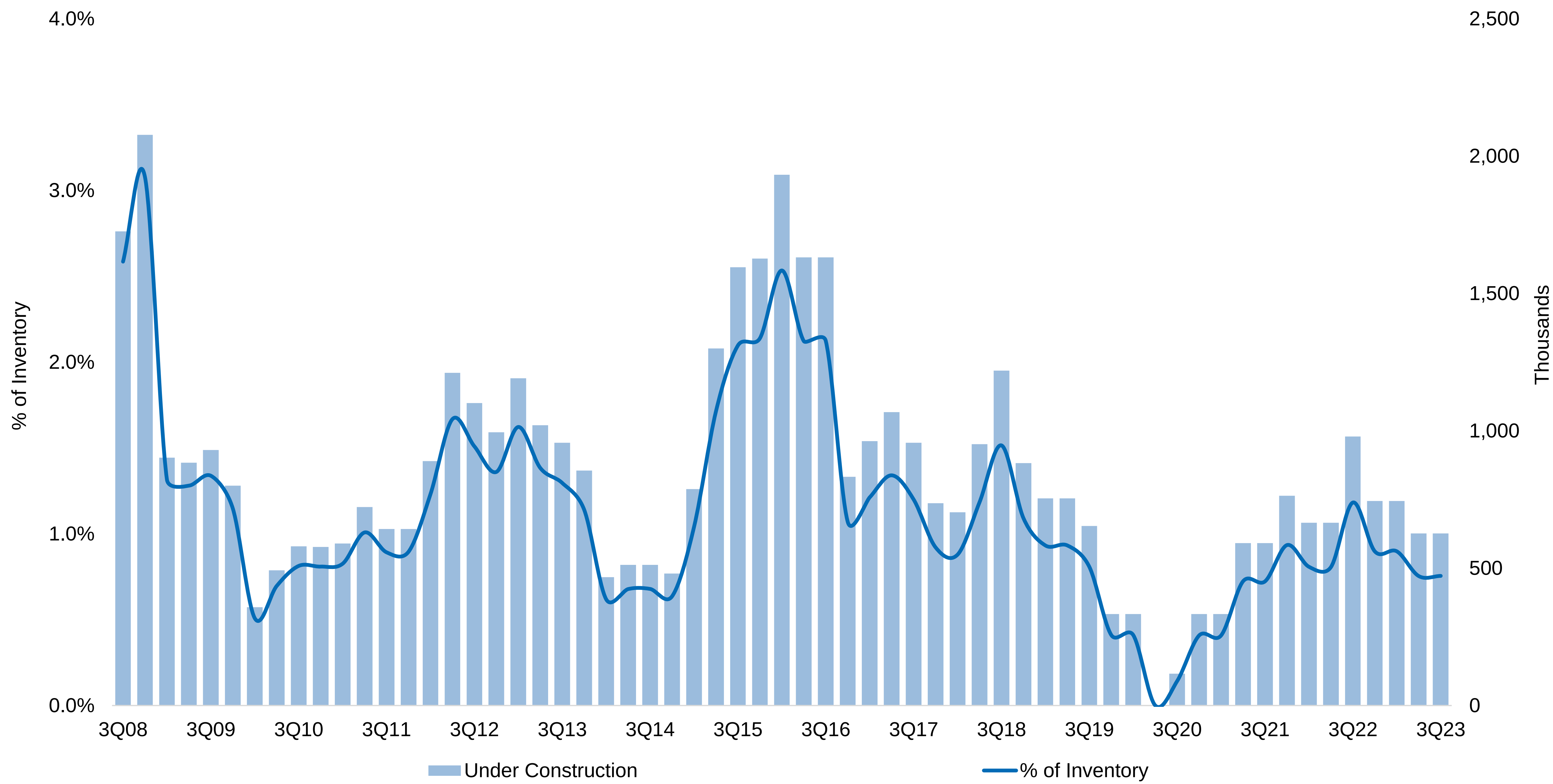



Source: Newmark Research, CoStar

# Construction Remains Below Historic Average

There are four properties totaling 626,000 square feet currently under construction, lower than the market's decade average of 810,000 square feet under construction. Highlighting these developments is T Rowe Price's new headquarters at Harbor Point, which will add two buildings totaling 450,000 square feet to the market, with delivery expected in May of 2024.

**Office Under Construction and % of Inventory**

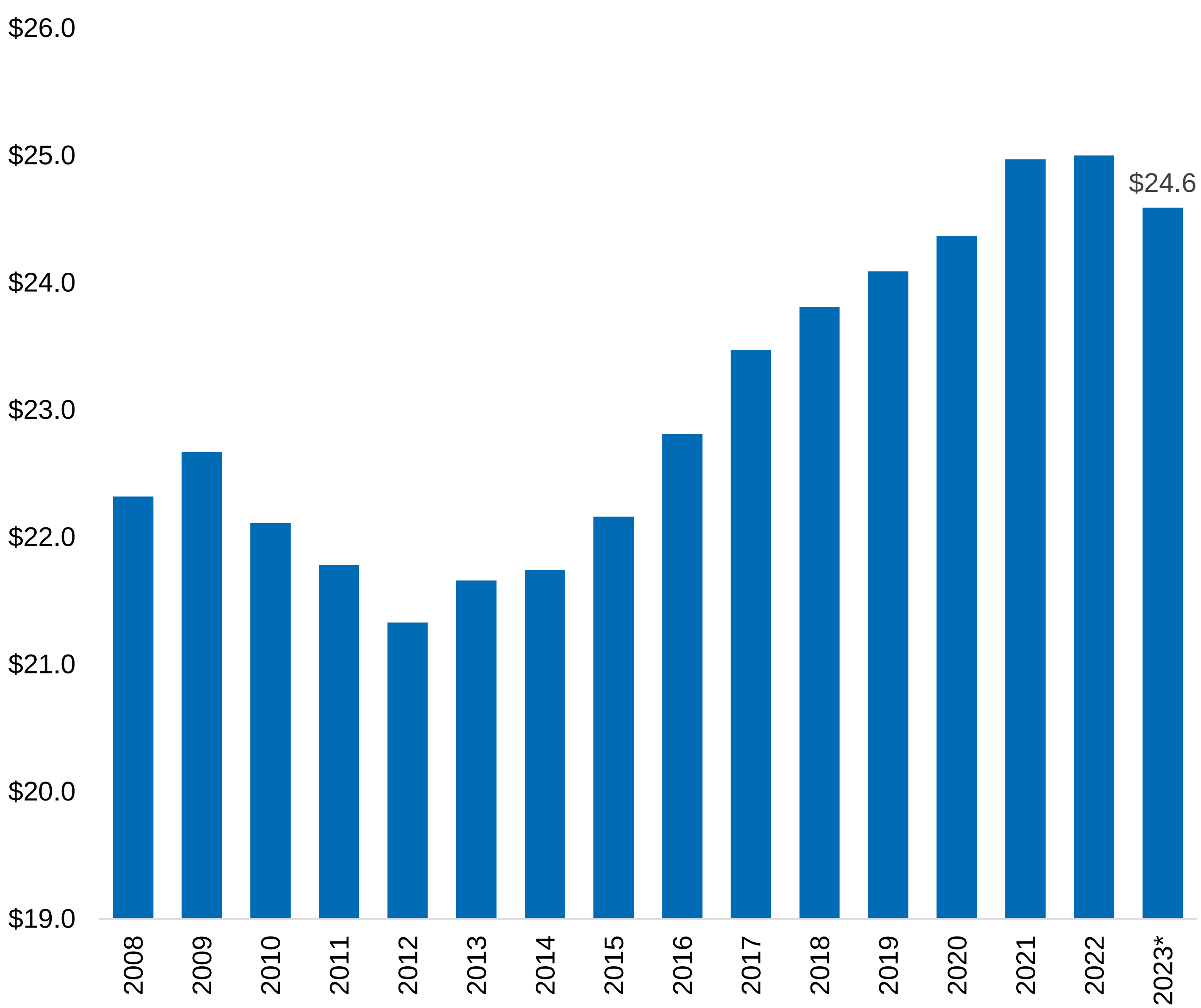



Source: Newmark Research, CoStar

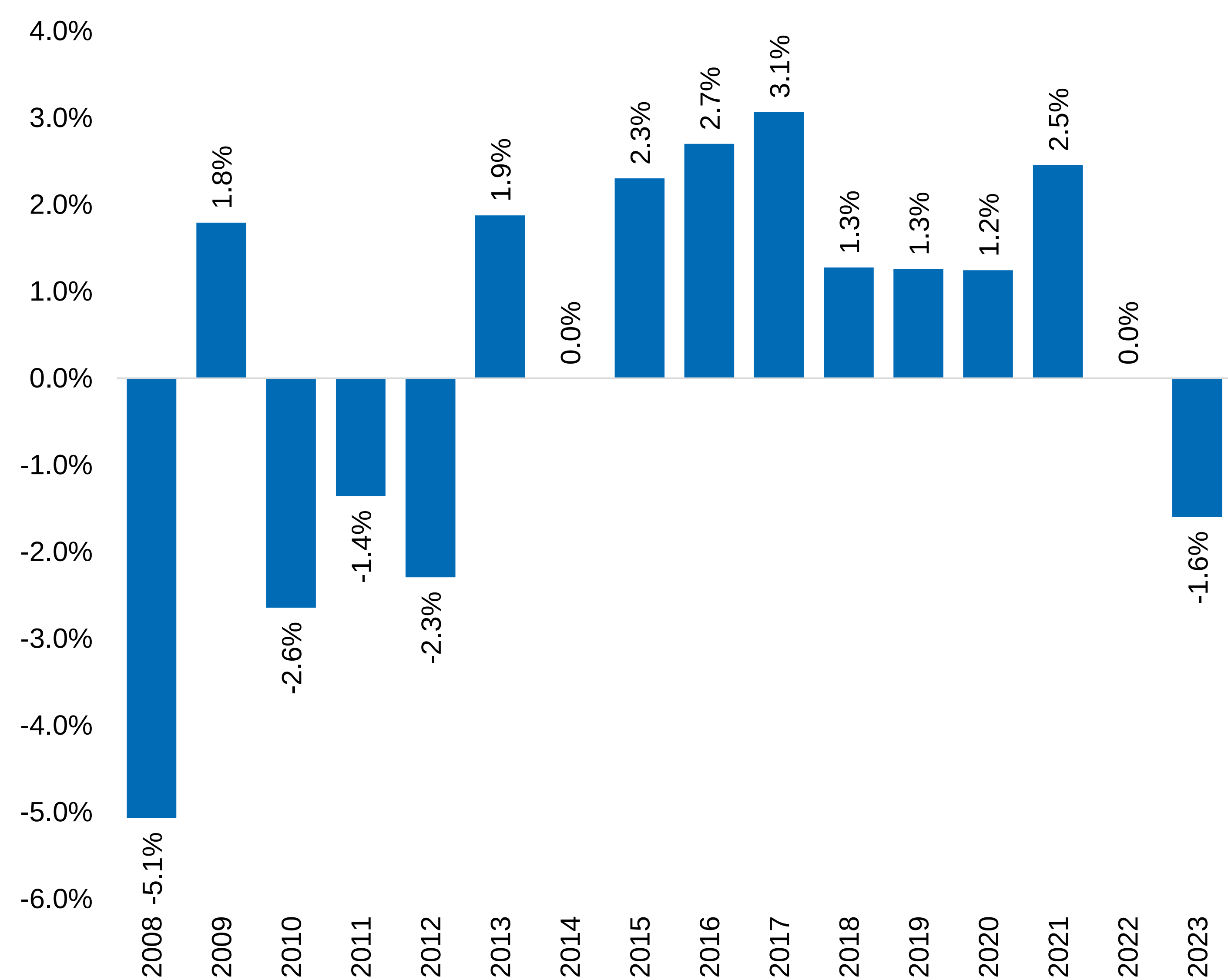
# Rents Declining in 2023

After the market saw positive rent growth from 2015 to 2021, rents flattened in 2022 and have declined in 2023.  Average asking rents ended Q3 2023 at $24.60 per square foot, a decrease of 0.6% quarter-over-quarter and 1.6% year-over-year.

**Office Average Asking Rent, $/SF, FS**




**Year-over-Year Asking Rent Growth Rate**

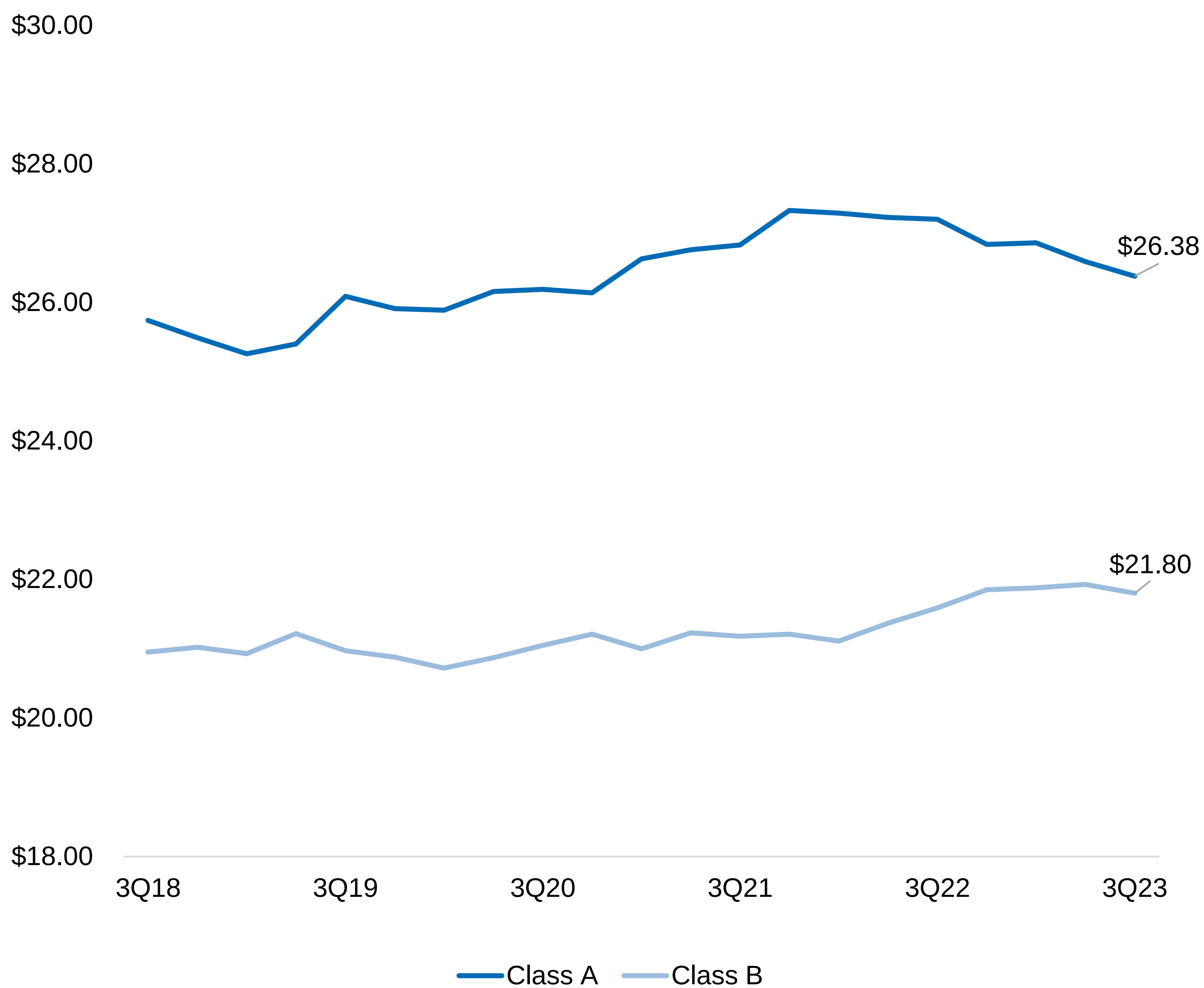



Source: Newmark Research, CoStar

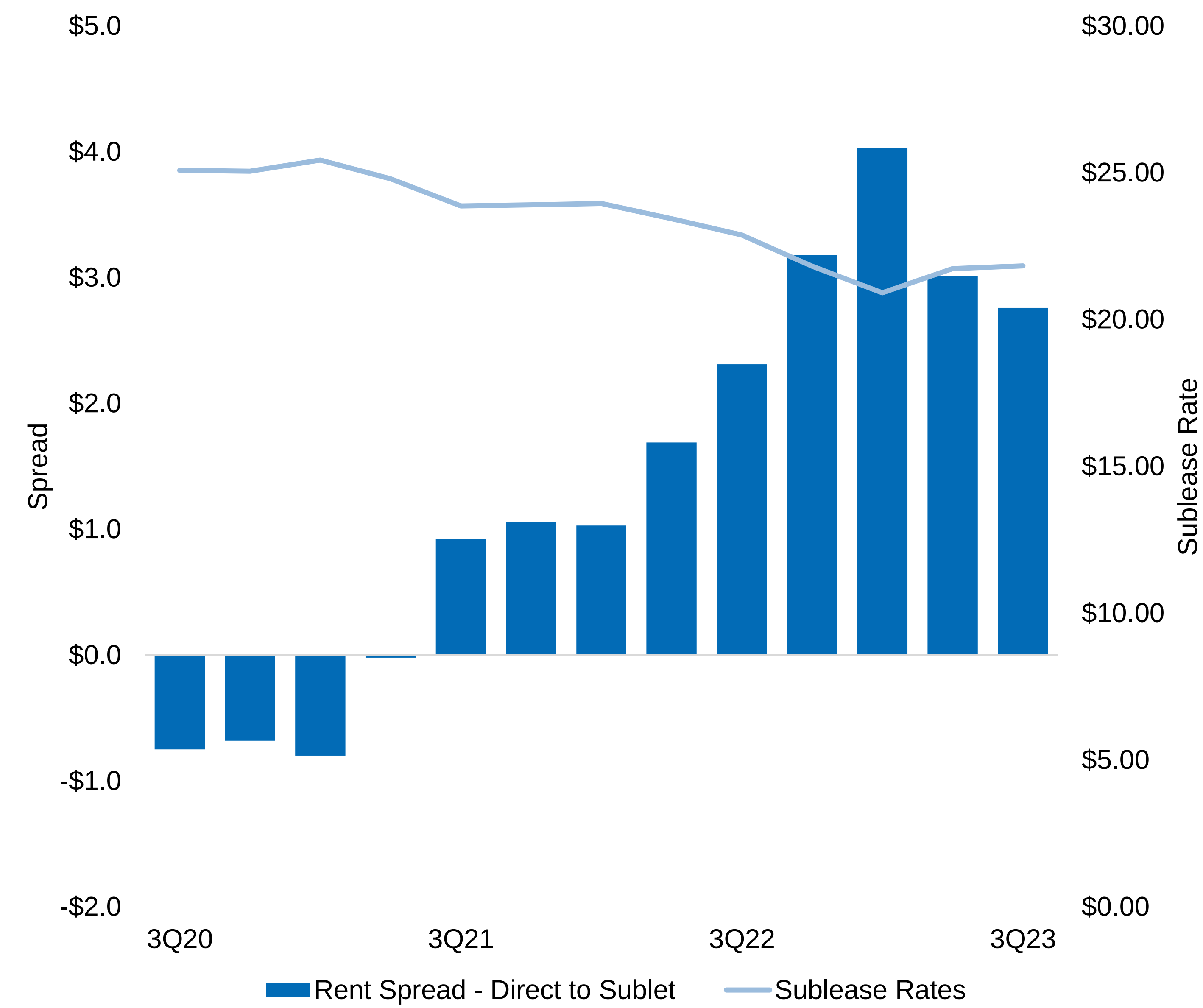
# Asking Rents Decline Across the Board

Both Class A and Class B rents saw a decline during Q3 2023. Class A rents ended the quarter at $26.38, a decrease of 0.8% quarter-over-quarter and 3.0% year-over-year. Class B rents ended the quarter at $21.80, a decrease of 0.6% quarter-over-quarter, however an increase of 1.0% year-over-year.

## Class A and Class B Asking Rents




## Sublease Rates




Source: Newmark Research, CoStar

# Leasing Activity Driven by Renewals and the Defense Industry

Renewals continue to drive the leasing market, evidenced by four of the top five transactions being renewals. Furthermore, defense companies remained active in Q3 2023, as Northrop Grumman had the largest transaction, a 57,000-square-foot renewal at 800 International Drive within BWI North, and General Dynamics had the second-largest transaction with a 28,000-square-foot renewal at 430 National Business Parkway within the Annapolis Junction – BWI submarket.

## Notable 2Q23 Lease Transactions

| Tenant | Building(s) | Submarket | Type | Square Feet |
|---|---|---|---|---|
| Northrop Grumman | 800 International Drive | BWI North | Lease Renewal | 56,584 |
| General Dynamics Mission Systems | 430 National Business Parkway | Annapolis Junction - BWI | Lease Renewal | 28,261 |
| RCM&D | 4 N Park Drive | I-83 | Direct Lease | 24,904 |
| Morgan Stanley | 410 Severn Avenue | Annapolis | Lease Renewal | 13,748 |
| The Traffic Group, Inc. | 9900 Franklin Square Drive | Baltimore County East | Lease Renewal | 12,071 |

Source: Newmark Research

*For more information:*

**Carolyn Bates**
*Director*
*Mid-Atlantic Research*
carolyn.bates@nmrk.com

**Chad Braden**
*Senior Research Analyst*
*Mid-Atlantic Research*
chad.braden@nmrk.com

**Raymond Moussazadeh**
*Senior Research Analyst*
*Mid-Atlantic Research*
raymond.moussazadeh@nmrk.com

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

**New York Headquarters**
125 Park Ave.
New York, NY 10017
t 212-372-2000

**nmrk.com**



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