RESEARCH Q4 2021

Baltimore Office Market

Occupancy Losses Steady; Vacancy in High-Demand Suburbs is Controlled

The Baltimore Metro area's office market continued to experience modest contraction in the fourth quarter. Mounting occupancy losses have applied pressure on vacancy, which has increased 100 basis points over the last year to 14.8%. While Baltimore's occupancy losses during the pandemic have been less severe than other East Coast metro markets, Baltimore's pace of recovery in the second half of 2021 has been slower than that of other markets.

Net absorption registered negative 118,427 square feet during the fourth quarter of 2021, bringing the Baltimore Metro area's year-end absorption to negative 740,063 square feet. Comparable levels of occupancy losses were recorded in both Baltimore City and the surrounding counties in the quarter, measuring negative 29,484 square feet and negative 88,943 square feet, respectively. Slow leasing activity has continued to stall office demand regionally. Market fundamentals like net absorption and vacancy are trailing indicators, which suggests this continued trend of low demand is likely to remain a challenge for occupancy until post-pandemic office use come into focus. Despite the initial push to reboard offices in the third quarter, the emergence of new variants and, in the case of Baltimore City, mask mandates, have caused many corporations to adopt a "wait and see" mentality in determining when it is safe to return to the office.

Current Conditions

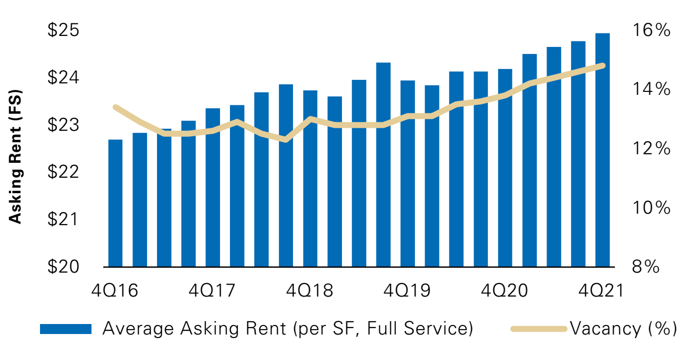
- The Baltimore office market registered negative 118,427 square feet of net absorption during the fourth quarter.
- The overall vacancy rate for Baltimore's office market was 14.8% in the fourth quarter of 2021, up 20 basis points from the prior quarter and 100 basis points from a year ago.
- Construction activity measured 763,553 square feet, with no new deliveries during the fourth quarter.
- Asking rents rose for the fourth consecutive quarter to $24.94/SF, due to higher quality product entering the availability market. Class A asking rents increased by 4.9%.

Market Summary

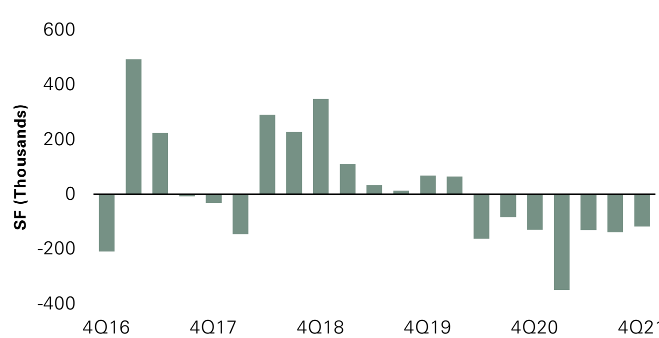
	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	82.0 M	82.1 M	82.1 M	↑
Vacancy Rate	14.8%	14.6%	13.8%	↑
Quarterly Net Absorption (SF)	-118,427	-139,056	-130,142	→
Average Asking Rent/SF	$24.94	$24.77	$24.18	→
Under Construction (SF)	763,553	591,278	333,110	↓
Deliveries (SF)	0	0	0	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



NEWMARK

Vacancy continued to rise during the fourth quarter of 2021, reaching 14.8%. This marks a 20-basis-point increase from the third quarter of 2021 and a 100-basis-point increase from one year ago. The metro area's construction pipeline is modest, measuring 763,553 square feet in the fourth quarter. Two office projects recently broke ground. First, 189 Harry S. Truman Parkway in the Annapolis submarket began construction on a 54,000-square-foot building which is 100% prelease to the Administrative Office of the Courts. Second, 4010 Boston Street at the Collective at Canton broke ground on a 118,000-square-foot speculative office tower. While this project signals market optimism in Baltimore City, desirability of the Canton area exceeds that of the overall market. Most office developers in the region remain cautious in undertaking new construction activities, particularly those lacking significant preleases.

Asking rents averaged $24.94/SF during the fourth quarter, up 3.1% from one year ago. Face rents have been trending up in recent quarters, which is more of an indicator of the quality of newly listed availabilities than it is a function of increased demand. The region's negative net absorption over the last two years has led to the addition of many new and high-price space listings in the market. These new listings have shifted the balance of the market's average weighted rents toward higher-end product, subsequently applying upward pressure on Baltimore's average weighted rents. Average rent growth, as measured in a "same store" method, is largely flat as demand continues to lag. The market remains favorable to tenants.

Pace of Class B Softening Exceeds Class A

Unlike many markets, where office fundamentals are bifurcated between building classes, Baltimore's Class A and Class B markets have historically been competitive. Though both markets continue to record comparable fundamentals, the onset of the pandemic has created subtle deviations in the trajectories of Class A and Class B market fundamentals.

Year-end net absorption was recorded at negative 354,394 square feet and negative 398,256 square feet for Class A and B markets, respectively. While these are comparable levels of occupancy contraction, the region's Class B market has notably less inventory, which has led to faster vacancy growth relative to higher-quality buildings. Class A vacancy measured 15.8% in the fourth quarter; higher than Class B vacancy, which measured 13.8%, but Class A vacancy has increased at a slower pace of 90 basis points over the last year. Class B vacancy has increased by 140 basis points over the last year. Class B market fundamentals are more challenged in Baltimore City, where vacancy measures 15.1%. The development of Baltimore Southeast, which includes Harbor East, Harbor Point, and Canton, has been a magnet for firms relocating from Downtown.

Office demand has been suppressed for much of the last two years, but overall asking rents have continued to appreciate. Class A rents have increased 4.9% over the last year to $27.28/SF while Class B rents are up 1.0% to $21.20/SF. Despite tepid demand, Class A rent growth has increased in each of the last five quarters, a reflection of high-priced new availabilities and landlords' efforts to hold pricing on high-quality assets. Conversely, Class B rent growth has softened each quarter of 2021, possibly signaling the competitive challenges in a limited demand environment. Although Class A asking rents continue to increase, it should be noted that effective rents, through generous concession packages, are under downward pressure.

Downtown Law Firms Record Large Consolidations Upon Relocating

Large law firms, particularly those with a national presence, are significant drivers of office quality and tenant expectations in downtown markets. Over the last year, the legal industry has been looked to as a leader for return-to-office planning. Law firms generally have valued the importance of in-person attendance to provide mentorship to new associates and future shareholders. In the fourth quarter; however, law firms' return-to-office plans has been split, with most firms electing to delay mandatory returns until 2022. Still, voluntary in-office attendance has been growing among some firms.

While Baltimore's top law firms are similarly split on return-to-office plans, they have been cohesive with respect to office space needs. Four recently signed leases indicate that law firms are willing to consolidate their footprints and "give back" space. Gordon Feinblatt, Ballard Spahr, Saul Ewing Arnstein & Lehr, and Silverman Thompson will contract their collective footprint by 41.2%. Most notably, Gordon Feinblatt will be giving back about 31,000 square feet in its relocation to 1001 Fleet Street, a 47.1% reduction in square footage. The law firm industry has nationally undergone significant space reductions in recent years, so these contractions in Baltimore are likely a reflective of industry trends as opposed to a reaction to the pandemic. However, this does highlight the magnitude to which some firms can consolidate their footprint and remain efficient.

Notable 4Q 2021 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Ascension St. Agnes	6740 Alexander Bell Drive	Columbia	Direct Lease	61,818
Administrative Office of the Courts	189 Harry S. Truman Parkway	Annapolis	Direct Lease	54,000
Deamport	7000 Columbia Gateway Drive	Columbia	Direct Lease	36,956
Planet Home Lending	11000 Broken Land Parkway	Columbia	Direct Lease	22,588

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*
Railway Loft: 1501 St. Paul Street	Baltimore Midtown	$20,400,000	$272	74,870

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

Investment Activity Slow Through 2021

Baltimore's investment sales volume has been quiet through 2021; however, one major sale did transact in the fourth quarter. The Exelon Tower at 1310 Point Street sold in December for $246.0 million. Armada Hoffler purchased 79.0% equity stake in the building, which includes 491,000 square feet of office space leased entirely to Exelon, and 103 multifamily units. Baltimore's investment sales market had proven sturdy in the five years preceding the pandemic. The region's economy and office demand drivers have become more diversified, highlighted by the growing education, healthcare, research, and cybersecurity sectors, and will prove important in the recovery of Baltimore's real estate industry in the quarters to come.

Baltimore Office Market Outlook

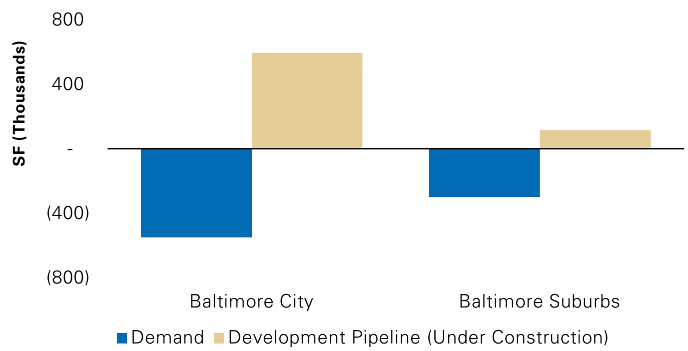
Economic momentum was gained in the fourth quarter, but office fundamentals are likely to remain under pressure in 2022. The emergence of the Delta variant stifled recovery and caused many office occupiers to delay return-to-office plans. Further slowing re-boarding was Baltimore's indoor mask mandate, which remains in effect as of late December. It has been illustrated in recent months that the pace of office re-boarding is closely tied to public health conditions. The emergence of the Omicron variant is a point of concern for regaining office market recovery momentum. While Omicron's true threat is not known at the writing of this report, tenants are likely to take a cautious approach to re-boarding as infection rates rise in January 2022.

Regardless, pent-up demand is expected to modestly rise in 2022 as some tenants 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 workplace strategies is still unknown, but many leaders are seeking a balance between employee flexibility and corporate culture, productivity, and mentorship/development. Despite an anticipated rise in leasing activity, office metrics, such as absorption and vacancy, are lagging indicators and therefore may remain challenged. As such, net demand for local office space is expected to remain negative over the next year, with losses concentrated in Baltimore City. Suburban markets, anchored by stable tenants like federal contracting, cybersecurity, and healthcare, are likely to fare better. Newmark estimates that over the next 24 months, regional net demand will measure negative 900,000 square feet, which will result in vacancy rising to 16.6% by year-end 2023.

Average asking rents, measured on a "same store" method, have remained steady throughout the pandemic. While newly listed, higher-quality availabilities are having a disproportionate effect on the market's rental rate average, 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 DECEMBER 2023



Source: Newmark Research; December 2021

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	4Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Baltimore Metro Area	**82,041,351**	**14.0%**	**14.8%**	**718,090**	**222,907**	**-312,511**	**-118,427**	**-740,063**
Class A	49,079,077	14.8%	15.8%	685,202	238,003	-234,304	-65,962	-354,394
Class B	27,134,374	13.0%	13.8%	194,853	4,743	-112,738	-55,480	-398,256
Class C	5,827,900	11.5%	11.5%	-161,965	-19,839	34,531	3,015	12,587

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	4Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Baltimore Metro Area	**82,041,351**	**$27.28**	**$21.20**	**$24.94**	**0**	**0**	**763,553**
Class A	49,079,077	$27.28	NA	$27.28	0	0	763,553
Class B	27,134,374	NA	$21.20	$21.20	0	0	0
Class C	5,827,900	NA	NA	$20.69	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	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	4Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Baltimore Metro Area	**82,041,351**	**14.0%**	**14.8%**	**718,090**	**222,907**	**-312,511**	**-118,427**	**-740,063**
Annapolis	3,300,653	17.2%	18.2%	10,663	120,201	29,279	-21,941	-113,303
Baltimore County East	1,891,681	15.9%	16.8%	32,054	56,112	-25,568	33,363	55,405
Baltimore Midtown	2,239,695	4.4%	4.4%	-178,157	-6,386	47,183	9,308	8,902
Baltimore Northeast	1,179,016	0.5%	0.5%	5,736	23,344	19,234	1,094	-4,558
Baltimore Northwest	1,229,881	9.7%	9.9%	194	-5,735	5,718	-619	-9,847
Baltimore Southeast	6,869,047	10.4%	12.0%	-134,011	23,318	-70,119	10,375	9,176
Baltimore Southwest	2,331,933	24.1%	24.5%	28,539	9,386	-50,758	11,320	33,579
BWI	9,670,197	10.3%	10.7%	345,052	104,555	139,208	57,149	-52,779
Carroll County	389,095	13.8%	14.2%	3,846	-12,332	-18,170	-1,313	-13,511
CBD Baltimore	14,962,909	18.8%	19.2%	228,026	-102,373	-136,611	-60,962	-248,239
Columbia	11,796,210	13.5%	15.0%	-43,065	217,506	-278,384	-68,626	-115,397
Ellicott City	879,329	9.1%	9.9%	-6,371	6,128	3,467	-6,175	-24,019
Harford County	1,910,894	22.9%	23.8%	5,295	32,920	41,762	-57,067	-128,753
I-83	7,793,241	12.6%	13.7%	379,229	-93,192	-48,935	16,168	-63,684
I-97 Crain Highway Corridor	726,522	11.9%	11.9%	24,669	-24,650	4,941	21,540	19,545
Reisterstown Road Corridor	4,865,322	13.3%	14.5%	6,691	106,722	-92,590	-13,875	52,300
Route 1 Corridor	1,215,332	18.2%	18.7%	-39,100	-39,497	96,921	-2,102	-34,081
Route 2 Corridor	931,886	7.6%	7.6%	-16,548	-19,876	-2,737	-22,371	-7,590
Towson	4,654,798	15.9%	16.3%	43,952	-95,568	-20,382	18,752	-41,004
Woodlawn	3,203,710	12.0%	13.4%	21,396	-77,676	44,030	-42,445	-62,205

Submarket Statistics—All Classes

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	4Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Baltimore Metro Area	**82,041,351**	**$27.28**	**$21.20**	**$24.94**	**0**	**0**	**763,553**
Annapolis	3,300,653	$31.94	$25.89	$30.29	0	0	54,000
Baltimore County East	1,891,681	$24.94	$23.73	$24.34	0	0	0
Baltimore Midtown	2,239,695	$22.28	$19.50	$20.43	0	0	37,300
Baltimore Northeast	1,179,016	NA	$18.63	$18.63	0	0	0
Baltimore Northwest	1,229,881	NA	$27.07	$25.18	0	0	0
Baltimore Southeast	6,869,047	$27.55	$18.03	$27.19	0	0	556,273
Baltimore Southwest	2,331,933	$24.57	$16.00	$19.66	0	0	0
BWI	9,670,197	$31.94	$22.80	$28.84	0	0	0
Carroll County	389,095	$24.50	$20.83	$21.11	0	0	0
CBD Baltimore	14,962,909	$26.35	$20.23	$24.52	0	0	0
Columbia	11,796,210	$27.54	$22.45	$26.15	0	0	115,980
Ellicott City	879,329	$24.33	$19.41	$21.34	0	0	0
Harford County	1,910,894	$26.37	$24.92	$25.65	0	0	0
I-83	7,793,241	$24.43	$20.65	$23.18	0	0	0
I-97 Crain Highway Corridor	726,522	$33.32	$22.12	$28.01	0	0	0
Reisterstown Road Corridor	4,865,322	$26.08	$20.43	$22.55	0	0	0
Route 1 Corridor	1,215,332	$21.09	$20.06	$20.79	0	0	0
Route 2 Corridor	931,886	NA	$22.44	$22.40	0	0	0
Towson	4,654,798	$22.82	$20.39	$21.12	0	0	0
Woodlawn	3,203,710	$22.52	$19.62	$20.74	0	0	0

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

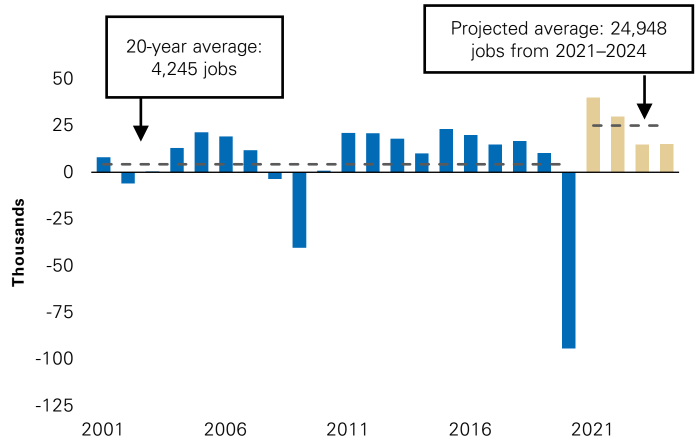
Economic Conditions

The Baltimore region's unemployment rate registered 4.9% in October 2021, 30 basis points higher than the national rate. Both the Baltimore and U.S. unemployment rates rose sharply in April 2020 due to the pandemic and have since gradually declined. Unemployment likely will continue its gradual decline as vaccine distribution advances and local governments gain control over the current variants. The Baltimore Metro area is projected to create approximately 40,000 net new jobs in 2021 and an average of about 24,948 new jobs per annum from 2021 to 2024. The region's strengths in e-commerce, cybersecurity, and healthcare will drive the bulk of the job creation.

For the 12-month period ending in October 2021, the Baltimore region added 67,800 jobs. Over the past year, metro employment growth was 3.0% and office-using employment growth was 3.9%. While most of the jobs recovered during the initial phase of the economic recovery were in the non-office-using sectors, office-using employment has led economic growth more recently. Baltimore's largest office-using sector, Professional & Business Services, grew 9.3% between October 2020 and October 2021.

Employment Forecast

BALTIMORE METRO AREA, PAYROLL JOB CHANGE, 2001-2020 AND FORECAST 2021–2024

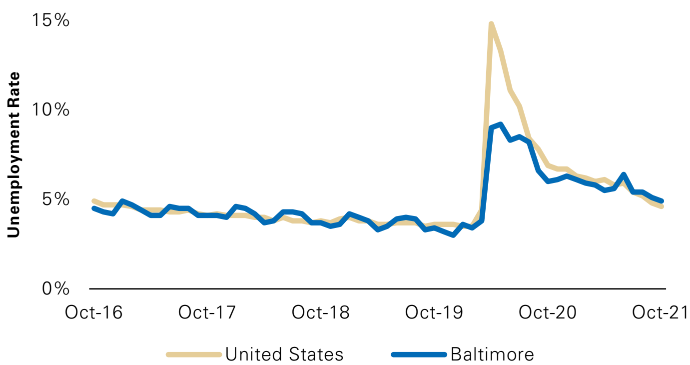


Note: Previous projections have been revised due to COVID-19 and are subject to further revision as conditions change.

Source: U.S. Bureau of Labor Statistics, Moody's Analytics, Newmark Research; December 2021

Unemployment Rate

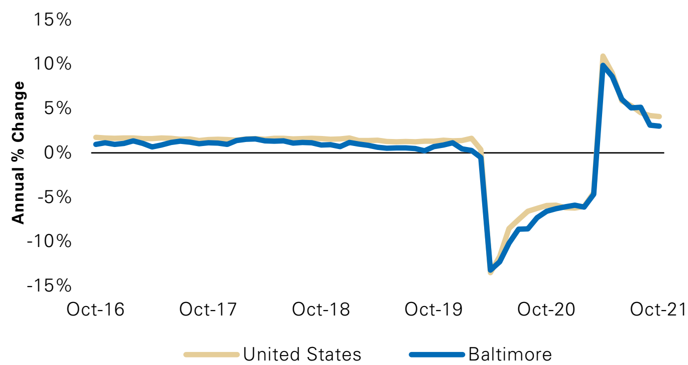
U.S.—SEASONALLY ADJUSTED
BALTIMORE—NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, Newmark Research; December 2021

Payroll Employment

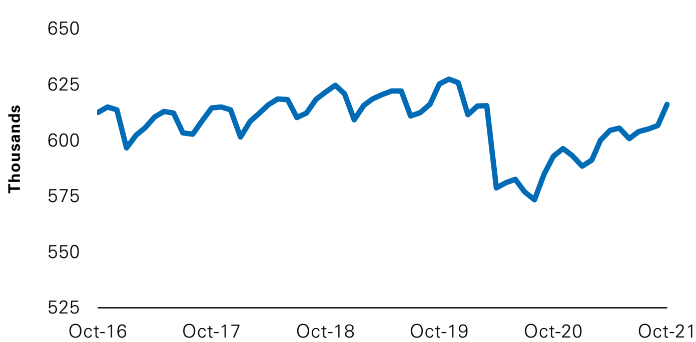
TOTAL NONFARM, U.S.—SEASONALLY ADJUSTED
BALTIMORE—NOT SEASONALLY ADJUSTED, 12-MO. % CHANGE



Source: U.S. Bureau of Labor Statistics, Newmark Research; December 2021

Office-Using Employment*

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

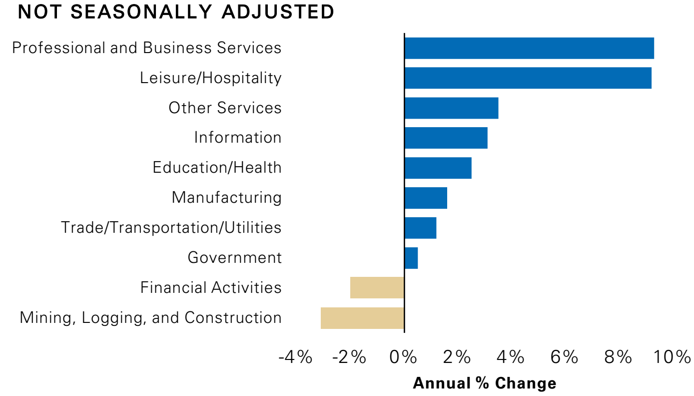


*Identified as Financial Activities, Government, Information, Other Services, and Professional and Business Services

Source: U.S. Bureau of Labor Statistics, Newmark Research; December 2021

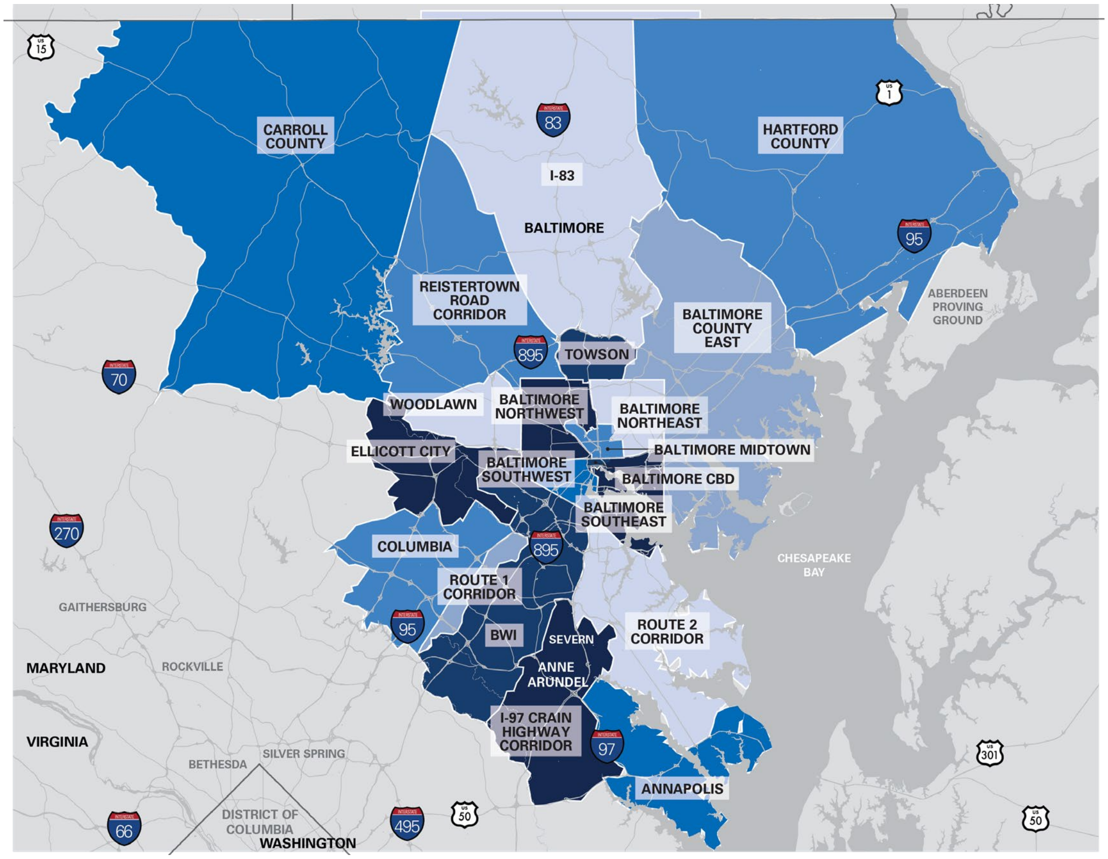
Employment Growth By Industry

BALTIMORE, % CHANGE, 12 MONTHS ENDING OCTOBER 2021, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, Newmark Research; December 2021

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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