
4Q23

Baltimore Industrial Market Overview

NEWMARK

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. October’s 2.2% unemployment rate was tied for the lowest among all U.S. metros and significantly lower than the national average of 3.9%.
- Construction experienced the fastest growth of all industries, with a 12-month increase of 7.0%. This highlights that development is gaining traction after losing momentum during the pandemic when many projects were put on pause.
- Trade/transportation/utilities employment has stabilized, surpassing pre-pandemic highs, and continues to grow as evidenced by a 12-month growth rate of 1.4%.

Major Transactions

- Sales volume totaled \$231 million across 36 transactions during Q4 2023, which is slightly lower than the same period a year ago when the market saw \$297 million worth of sales volume across 33 transactions. Overall, 2023 was the least active year the Baltimore market has experienced since 2016, with 132 transactions totaling \$658 million, much lower than the decade average of 175 transactions totaling \$950 million.
- The largest deal of the quarter was Aberdeen Logistics Center. This 500,000-square-foot distribution facility, located at 727 Old Philadelphia Road within the Aberdeen submarket, was sold by Northwestern Mutual to Peterson Companies for \$51.3 million, or \$102.57 PSF. Peterson Companies acquired the property as part of their strategic focus of expanding their industrial footprint and owning best-in-class industrial properties within the Mid-Atlantic.

Leasing Market Fundamentals

- After the market experienced over 4 MSF of positive net absorption during both 2021 and 2022, activity slowed in 2023. During 2023, the market experienced only 150,000 SF of positive net absorption.
- Although the market experienced positive net absorption, it has been counteracted by unoccupied deliveries, which has led to an expansion in the vacancy rate. Baltimore ended 2023 with a vacancy rate of 6.0%, an increase of 50 bps year-over-year.
- Average asking rents stayed relatively flat year-over-year and continue to sit near record highs, ending 2023 at \$8.28 PSF, a slight increase of 0.4% quarter-over-quarter but a slight decrease of 0.7% year-over-year.

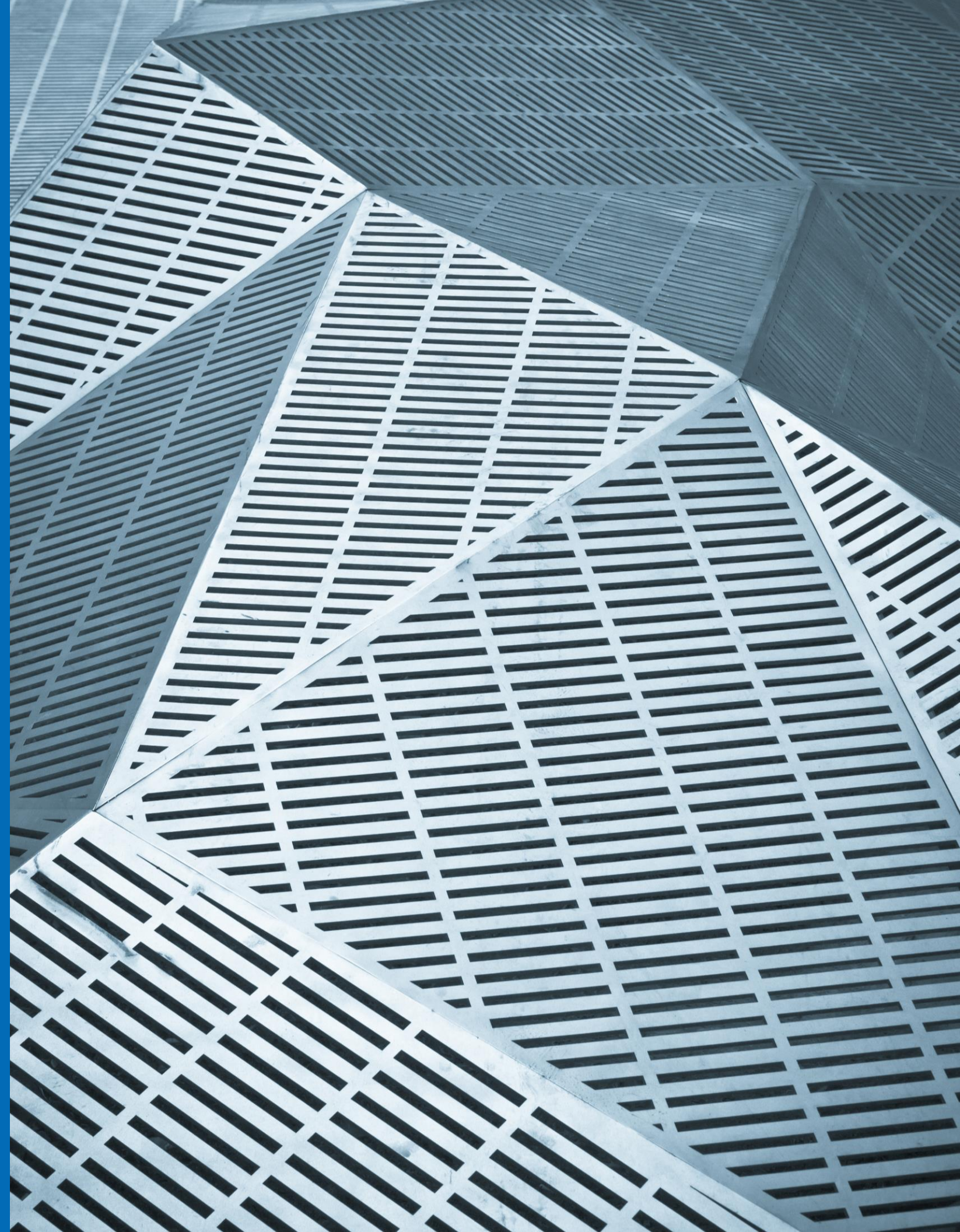
Outlook

- Demand far outpaced supply during 2021 and 2022, however 2023 has seen supply continue to deliver with a decrease in demand. With much of the new supply delivering unoccupied, the market experienced positive absorption alongside an expansion of the vacancy rate during 2023. As the level of new supply cools, the market will likely continue to see positive absorption leading to a tightening of vacancy going forward.
- While supply and demand re-adjust, rent growth will likely continue flat while remaining at historically elevated levels. This will vary on a submarket, size range, and asset-type basis.
- Leasing activity will likely continue to hover at historically lower levels until demand catches up with supply. As has been the case historically, Class A space will continue to see the most interest from landlords, tenants, and investors alike.

1. Economy
2. Leasing Market Fundamentals

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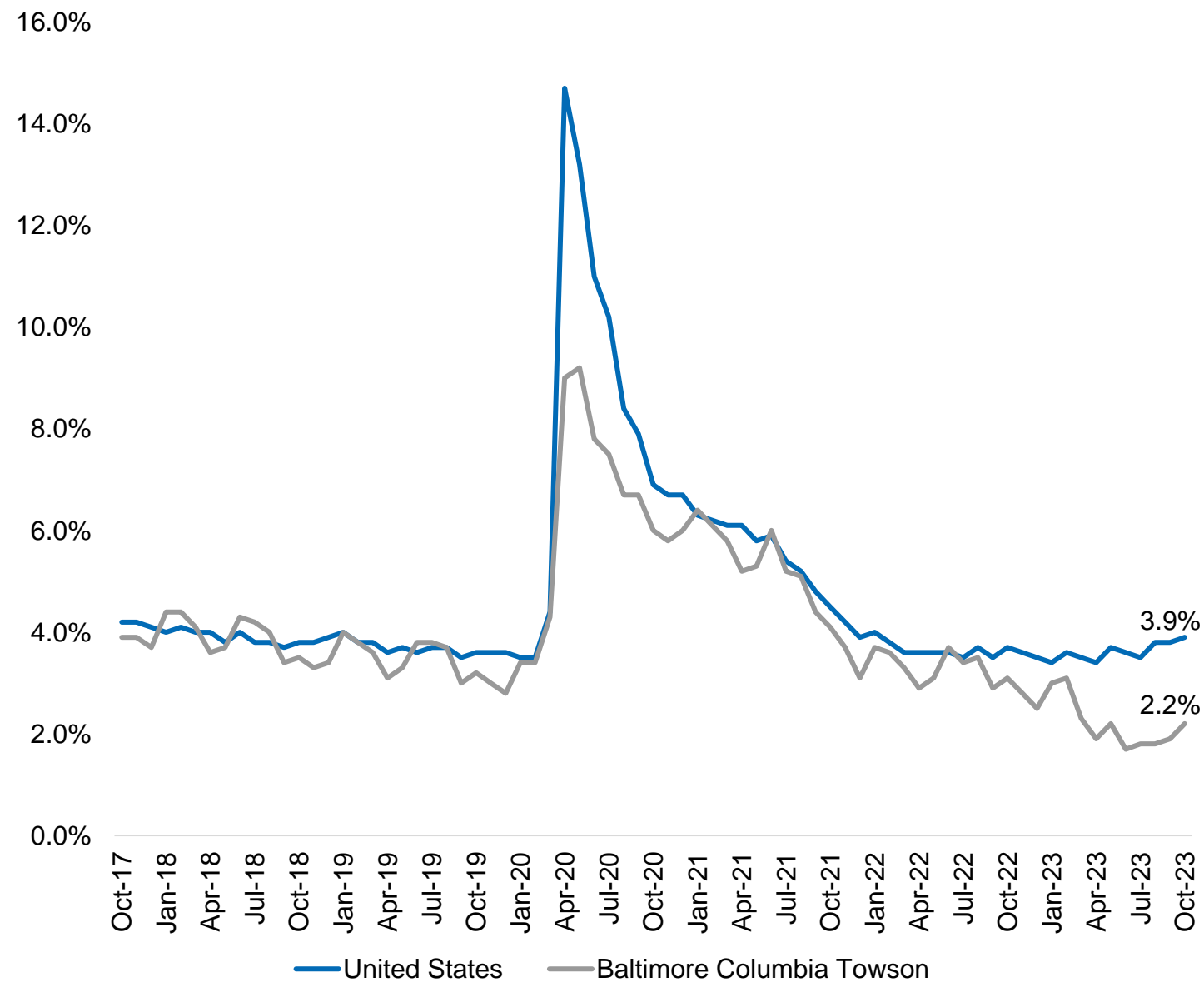
Economy



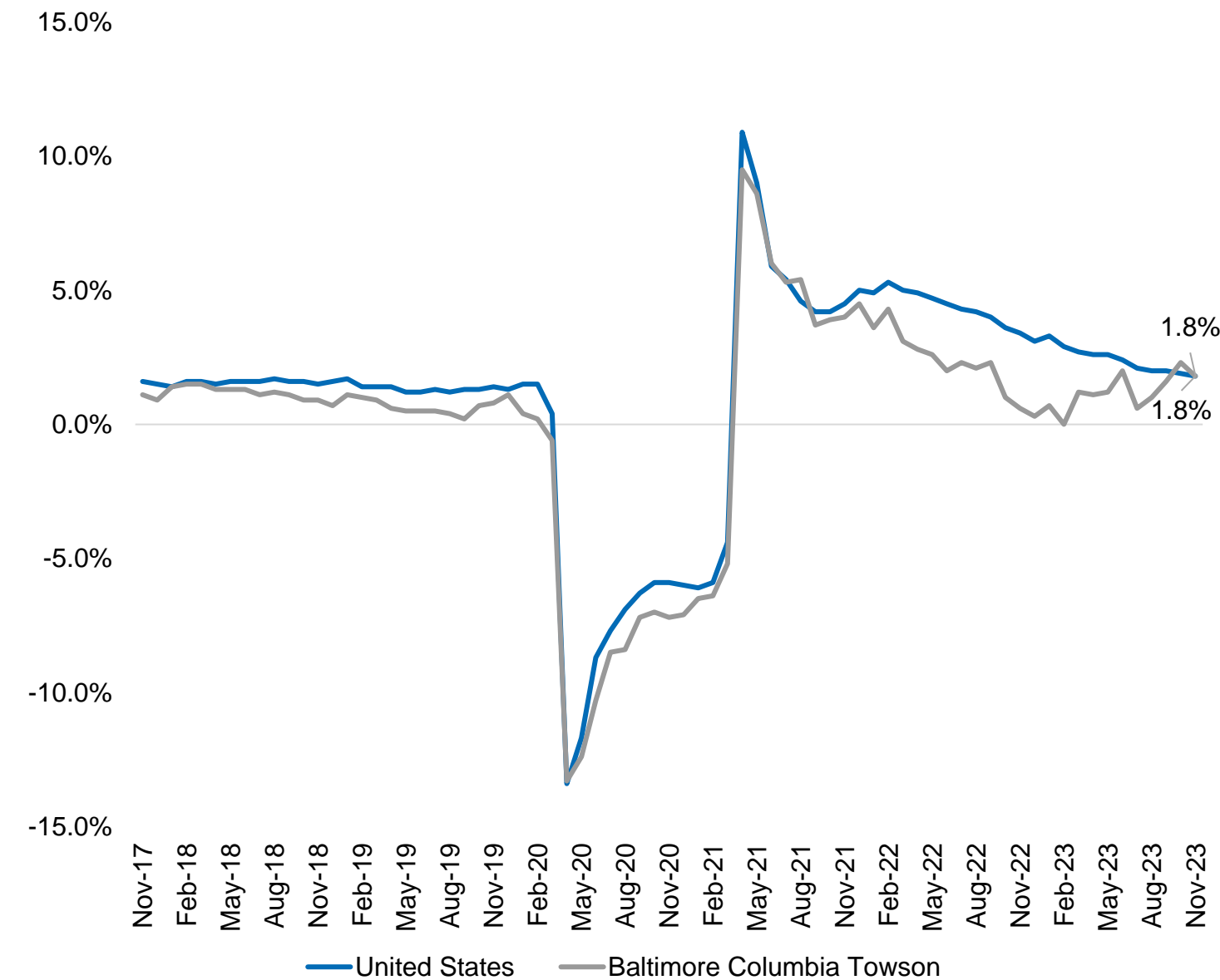
Baltimore's Unemployment is the Lowest in the Nation

Baltimore's unemployment rate is tied with Birmingham for lowest in the nation, measuring 2.2% as of October 2023. This is 90 bps lower year-over-year and 170 bps lower than the national average.

Unemployment Rate, Seasonally Adjusted



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

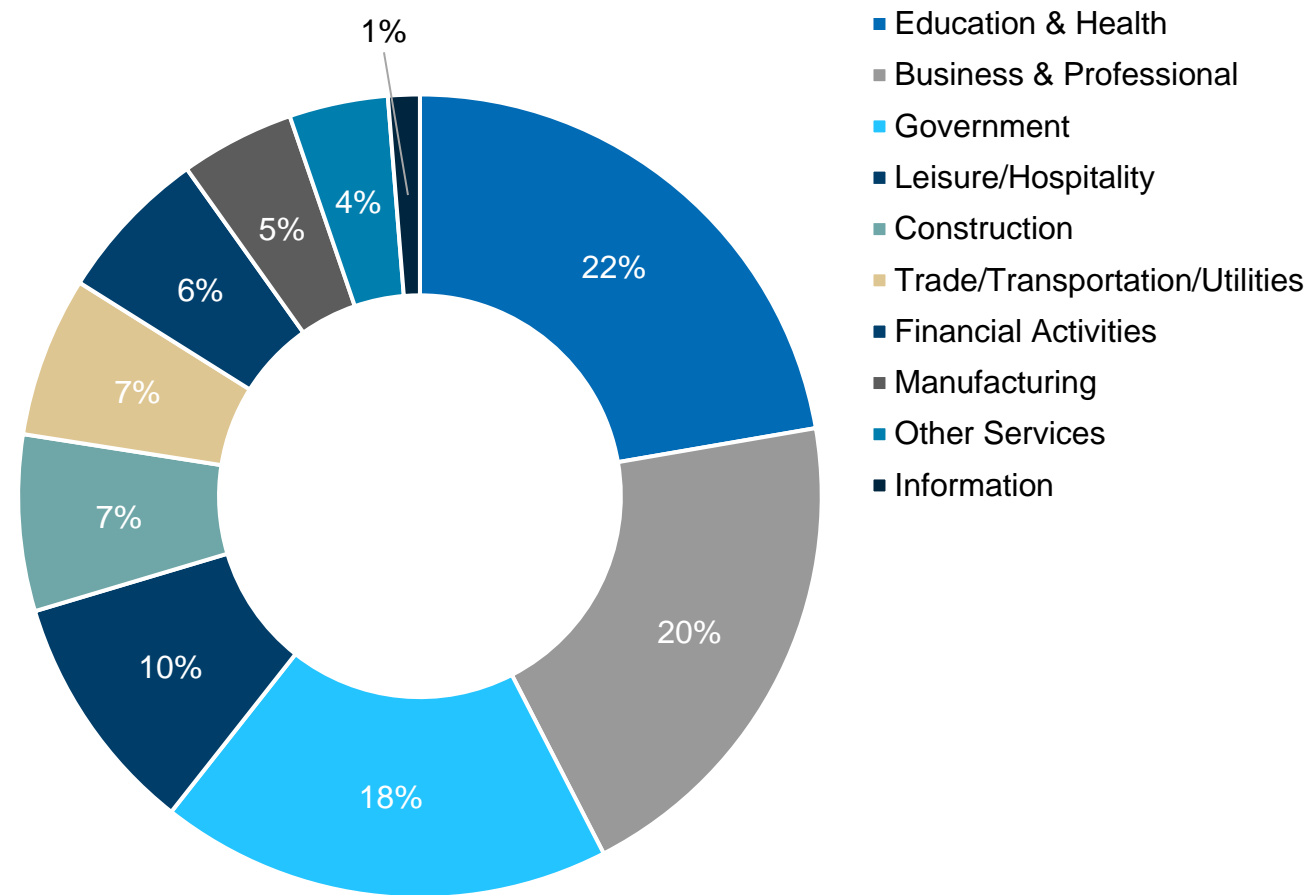


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

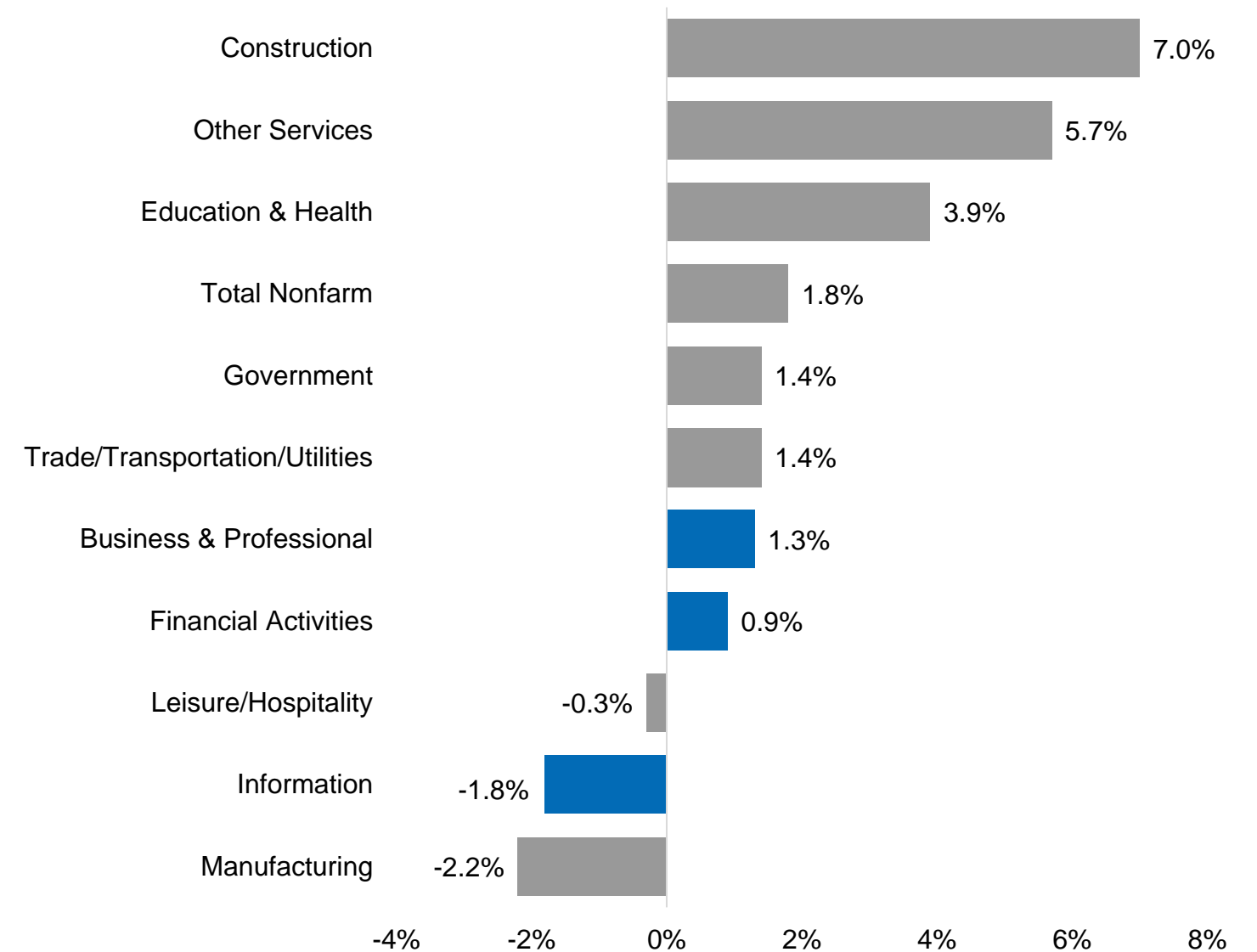
Job Growth Driven by the Construction Industry

Construction experienced the fastest growth of all industries, with a 12-month increase of 7.0%, which is the highest annual increase the market has experienced in the past decade. This growth highlights the market's recovery to normalcy after the pandemic, as construction experienced a 2.2% decrease in employment during 2020. Construction then proceeded to have a slight increase of 0.4% in 2021, followed by a sizeable increase of 4.7% in 2022, before having its best year in 2023 at 7.0%.

Employment by Industry, November 2023



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

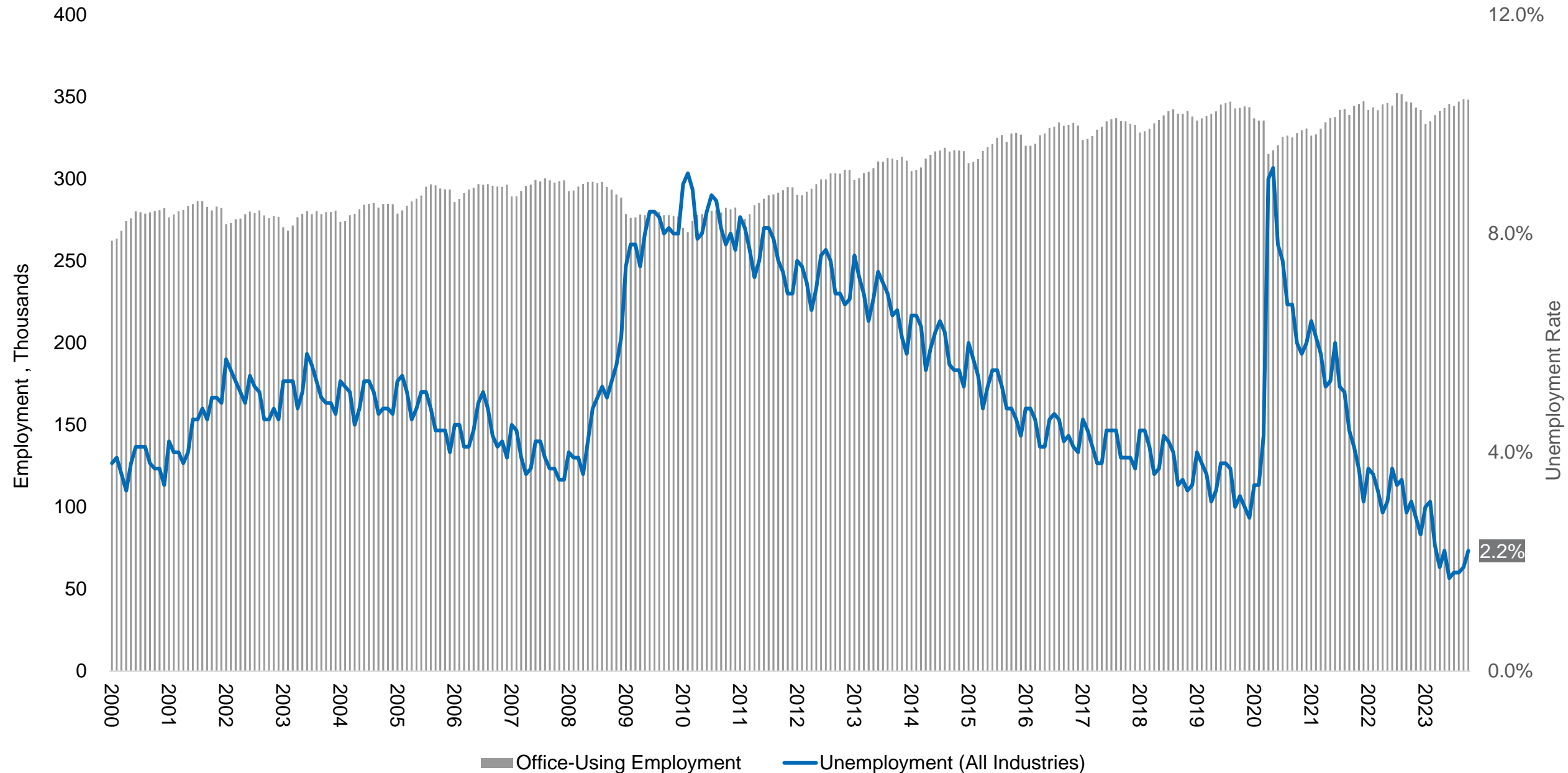


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

Overall Office-Using Employment Has Rebounded

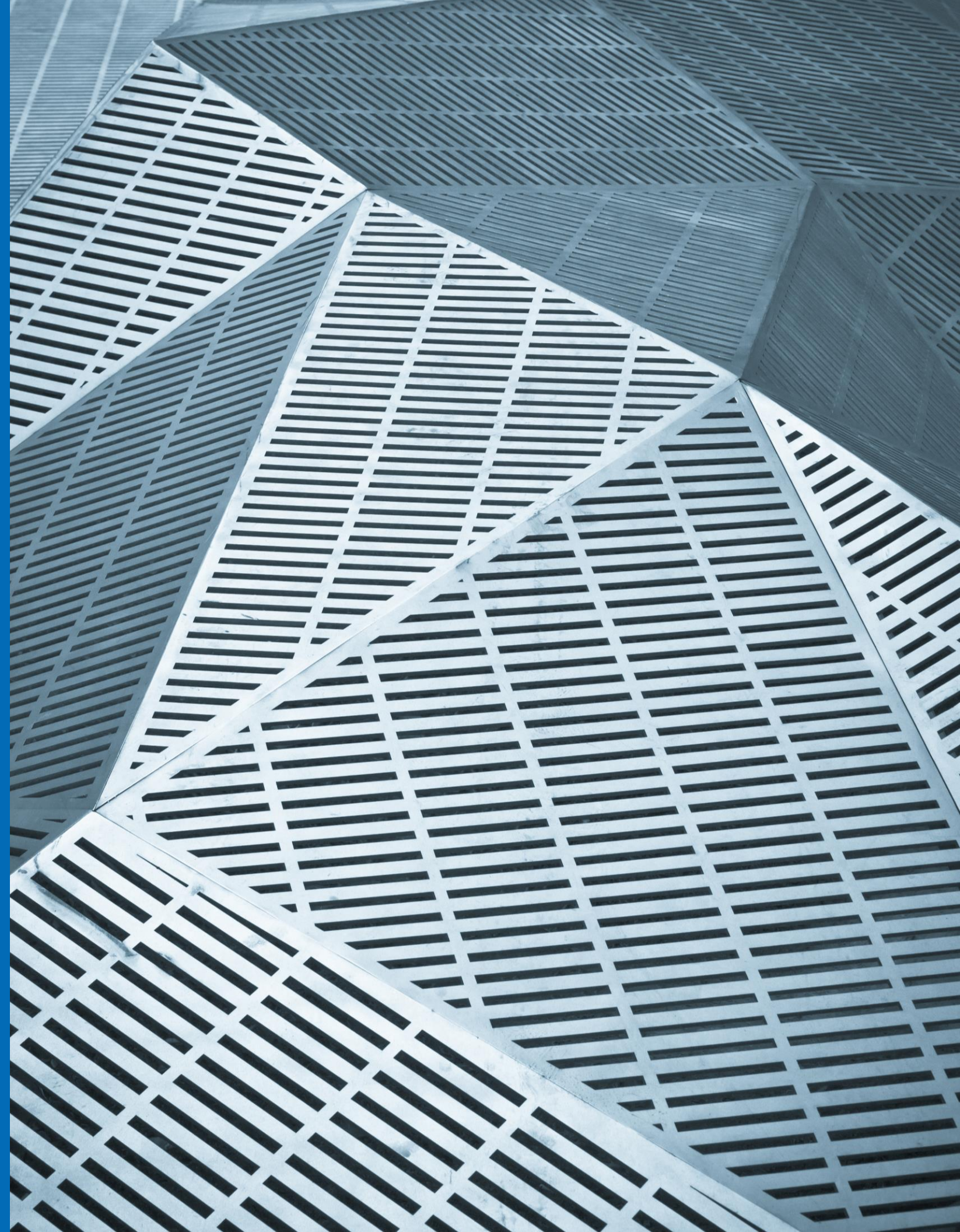
The number of office jobs has rebounded and now sits above pre-pandemic levels. Employment ended October 2023 at 348,300 employees, slightly higher than the pre-pandemic high and an increase of 10.5% since the market reached a pandemic-related low in April of 2020.

Office-Using Employment* and Unemployment Across All Industries



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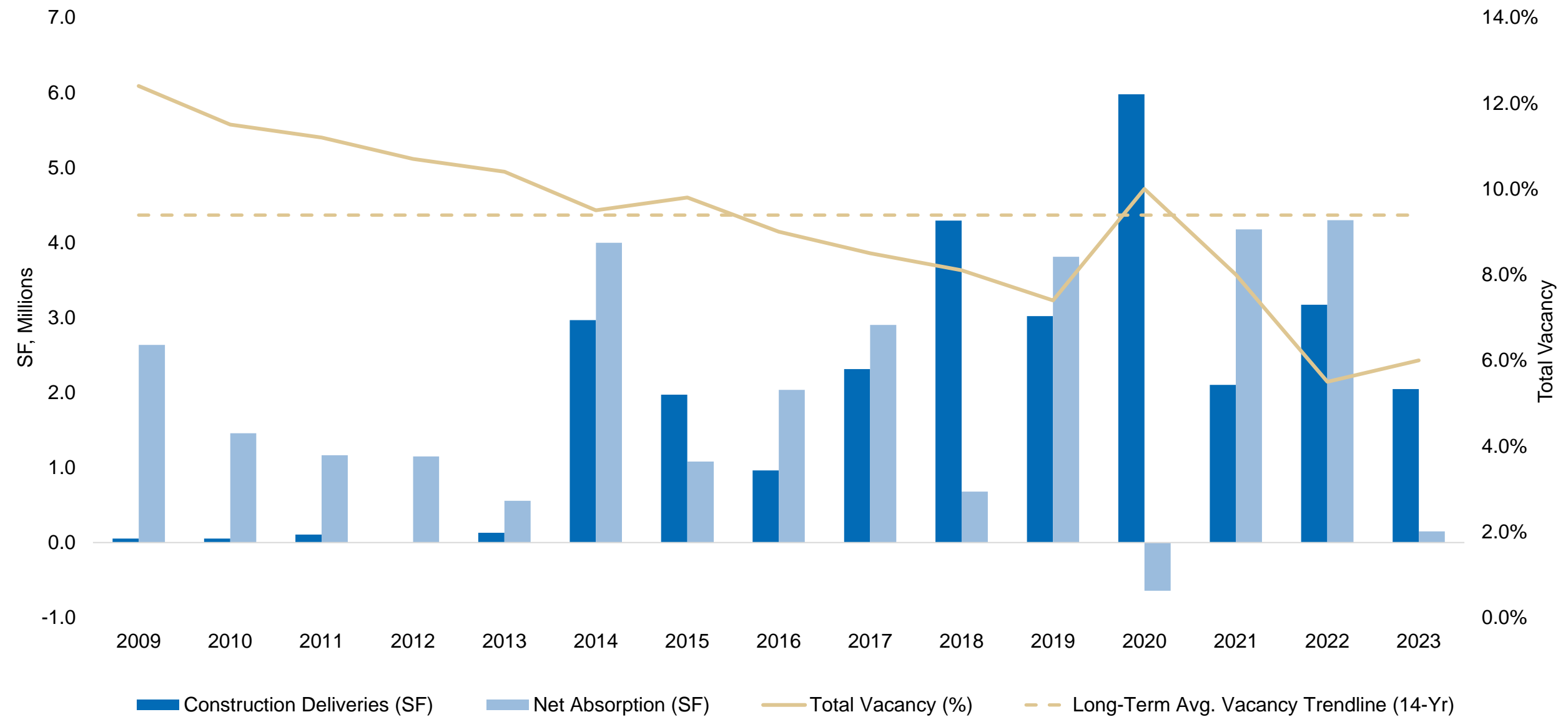
Leasing Market Fundamentals



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. During 2023, Baltimore experienced over two MSF of deliveries while only seeing 150,000 SF of positive net absorption. Because of this discrepancy between supply and demand, the market ended 2023 with a vacancy rate of 6.0%, an increase of 50 bps year-over-year.

Historical Construction Deliveries, Net Absorption, and Vacancy



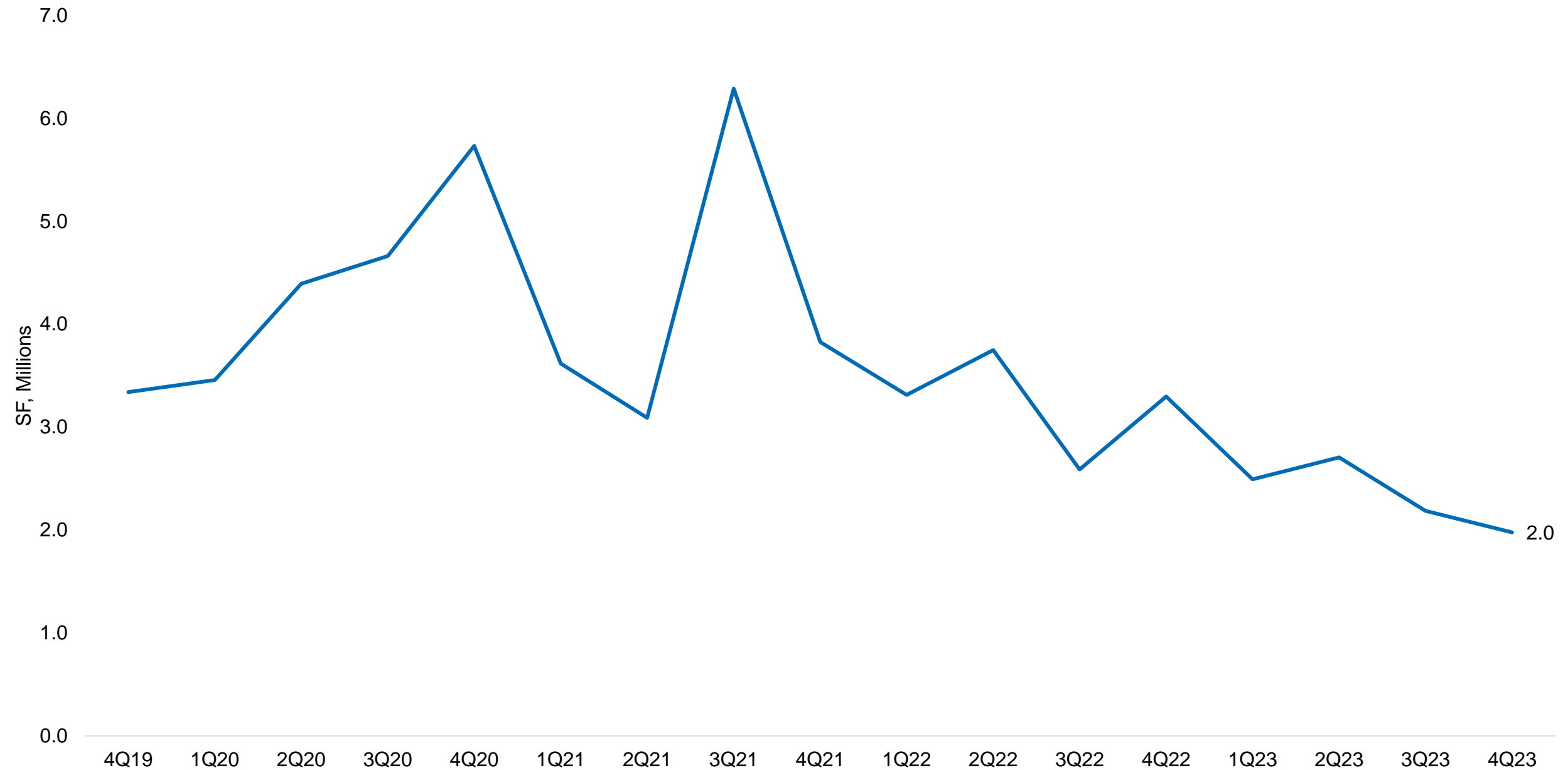
Source: Newmark Research, CoStar



Industrial Leasing Activity Continues to Cool

Leasing activity decelerated to a decade-low in Q4 2023, ending the quarter with 2.0 MSF of activity. Overall, during 2023, the market experienced 9.4 MSF of activity. This is much lower than the decade-high, when the market experienced 18.2 MSF of activity during 2020, and lower than the decade average of 12.8 MSF of annual activity.

Total Leasing Activity (SF)



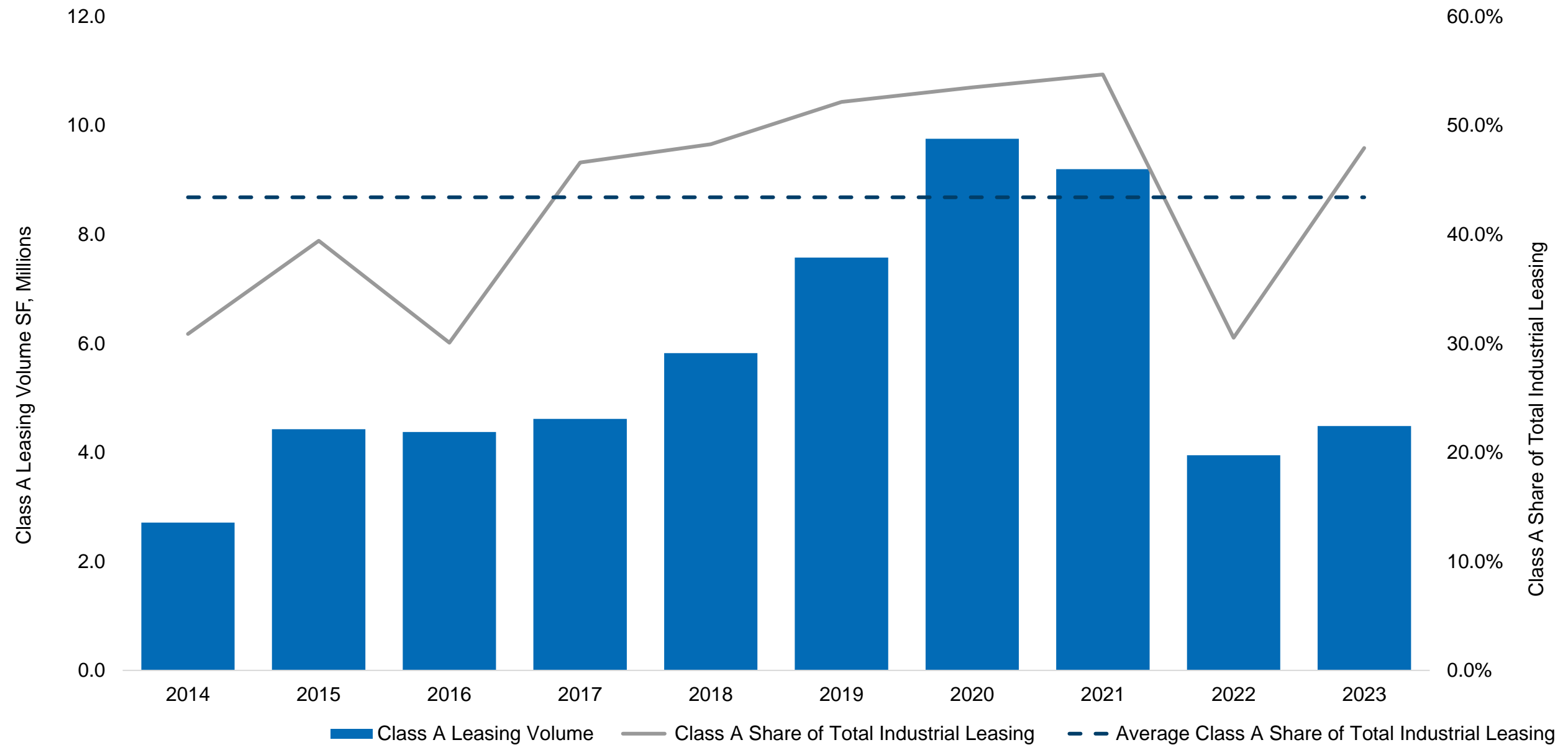
Source: Newmark Research, CoStar



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 saw a 47.9% share of total industrial leasing in the market during 2023. This is higher than the decade average of 43.4% and highlights the elevated interest in quality Class A space by occupiers.

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



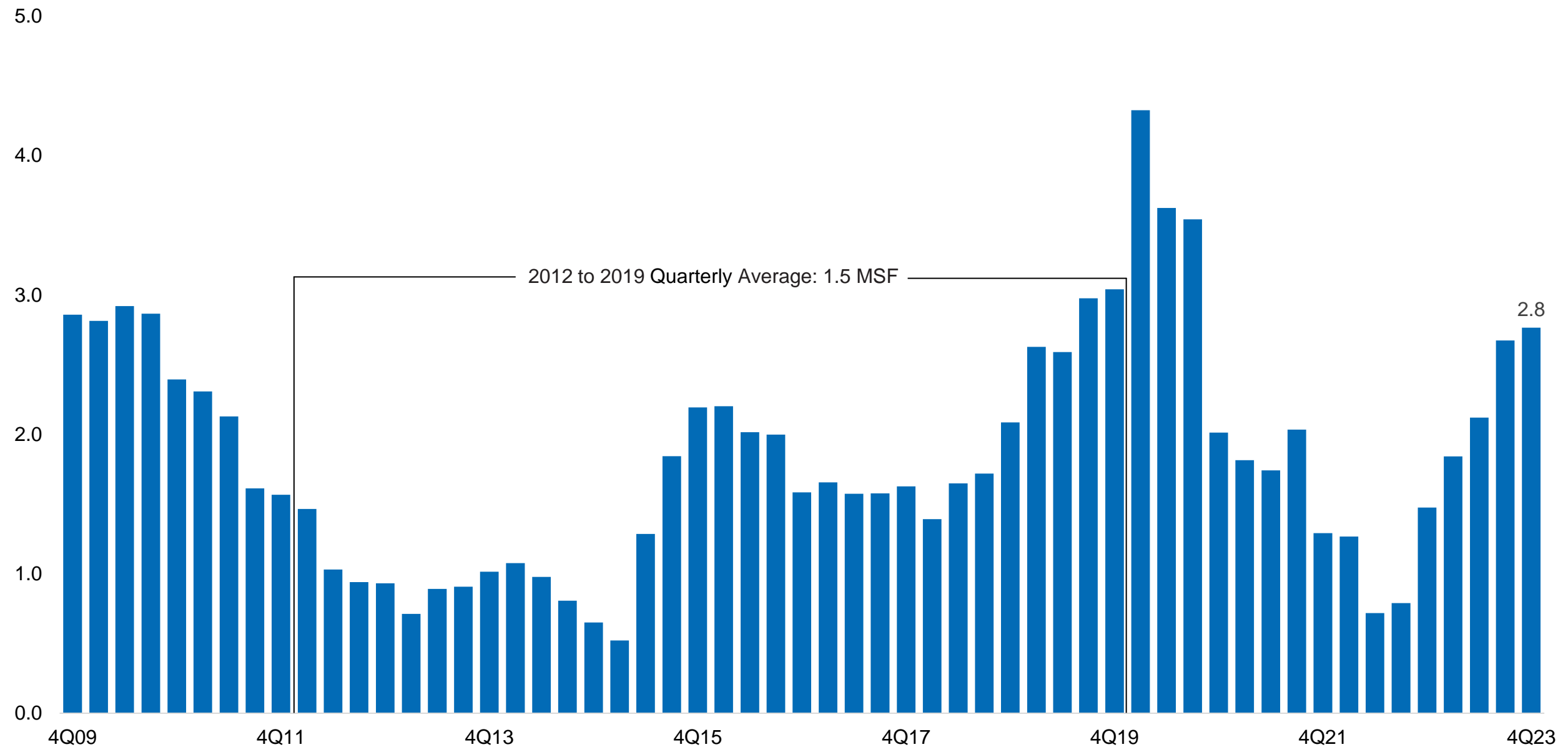
Source: Newmark Research, CoStar



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 2023 at 2.8 MSF, which is in line with the volume leading up to the pandemic.

Available Industrial Sublease Volume (msf)



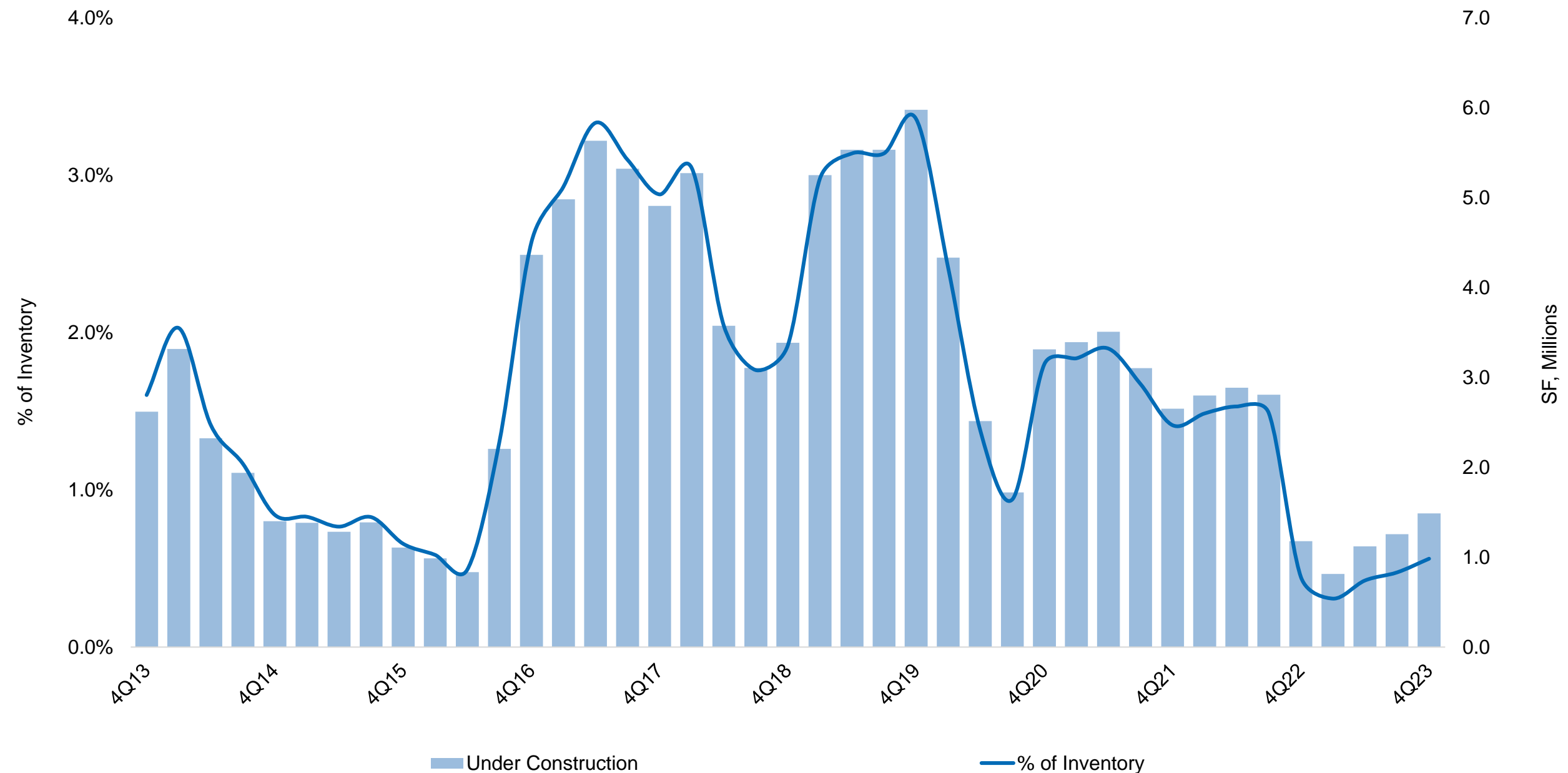
Source: Newmark Research, CoStar



Construction Supply Remains Near Historical Lows

Baltimore ended Q4 2023 with nine properties under construction totaling almost 1.5 MSF. 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



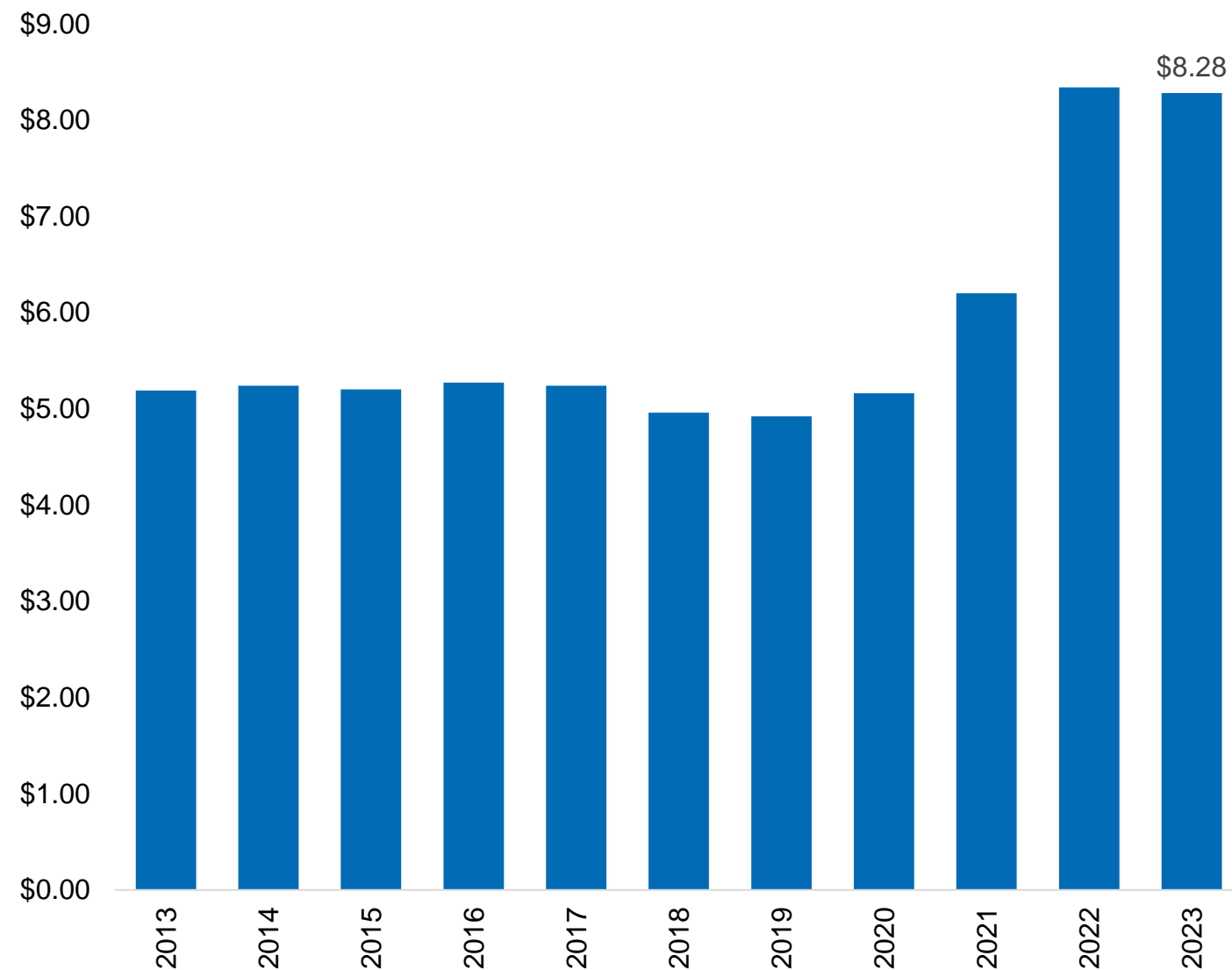
Source: Newmark Research, CoStar



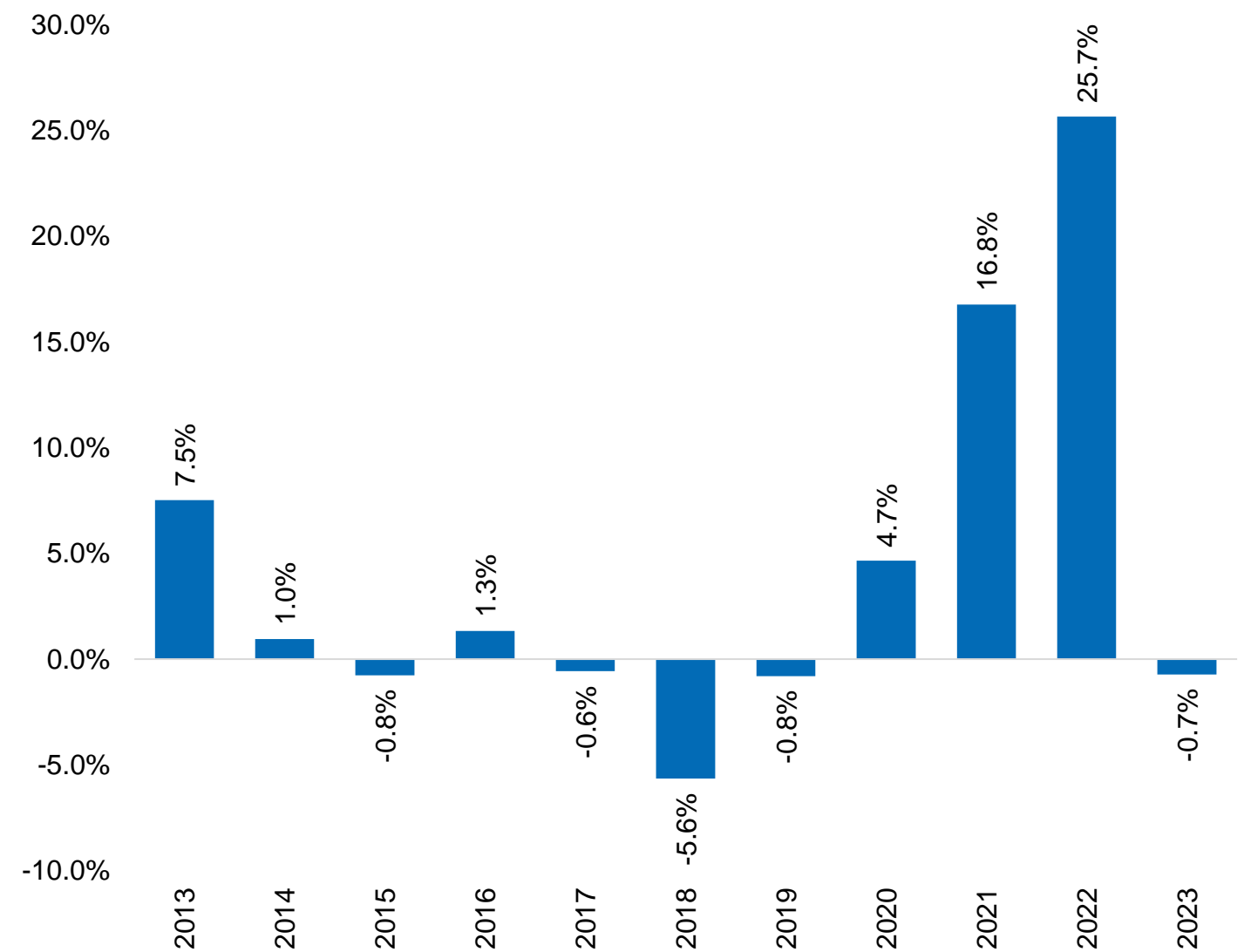
Asking Rents Remain Near Historic Highs

Average asking rents ended 2023 at \$8.28 PSF, remaining near historical highs year-over-year. The market saw an astounding 69.5% increase in rents from the beginning of 2020 through 2022, however rent growth leveled off in 2023. Rents will likely stay relatively flat in the 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 4Q23 Lease Transactions

Renewals continued to be the theme of leasing activity during Q4 2023, as three of the five largest leases signed were renewals. This included Nissan signing the largest lease of the quarter and renewing 154,400 square feet of space at 1021 Swan Creek Drive within the Route 2 Corridor submarket.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Nissan	1021 Swan Creek Dr	Route 2 Corridor	Lease Renewal	154,400
Royal Logistics Inc	8415 Kelso Dr	Baltimore County East	Lease Renewal	144,500
Rocket Lab	103 Chesapeake Park Plz	Baltimore County East	Direct Lease	113,000
Carlisle Construction Materials	1255 S Caton Ave	Baltimore SW	Direct Lease	108,160
Shaw Industries	1405 Magellan Rd	BWI	Lease Renewal	106,758

Source: Newmark Research

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