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4Q23

# Baltimore Office 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.
- Education and Health remains the largest industry in the region, encompassing 22% of the regional workforce. It is followed closely by Business and Professional services and Trade/Transportation/Utilities, containing 20% and 18% of the regional workforce, respectively.

## Major Transactions

- Sales volume totaled \$73 million across 50 transactions during Q4 2023. This is higher than the same period a year ago when the market saw \$58 million worth of sales volume across 75 transactions. Overall, however, 2023 was the least active year the Baltimore market has experienced over the past decade, with 233 transactions totaling \$355 million, much lower than the decade average of 334 transactions totaling \$822 million.
- The largest sale of the quarter was the Hines medical office portfolio, in which Harrison Street Capital sold a portfolio of two medical office buildings to Hines. The two medical office buildings, located in Pikesville, Maryland and Rockville, Maryland, totaled 215,000 square feet and sold for \$59.8 million, or \$277.60 per square foot.

## Leasing Market Fundamentals

- After the market experienced almost 1.7 million square feet of negative net absorption from 2020 to 2022, the market rebounded in 2023, ending the year with 145,000 square feet of positive net absorption. Much of this positive absorption occurred in Q4, largely due to CFG Bank occupying 90,000 square feet of space at the new Port Covington development.
- Vacancies and rents ended 2023 flat year-over-year. Baltimore’s vacancy rate ended 2023 at 16.4%, a decrease of 40 bps quarter-over-quarter and flat year-over-year. Average asking rents ended 2023 at \$24.98 per square foot, an increase of 1.5% quarter-over-quarter and flat year-over-year.
- There are four properties totaling 654,000 square feet currently under construction, lower than the market’s decade average of 784,000 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 2021. Since then, rents have flattened during 2022 and 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.

1. Economy
2. Leasing Market Fundamentals

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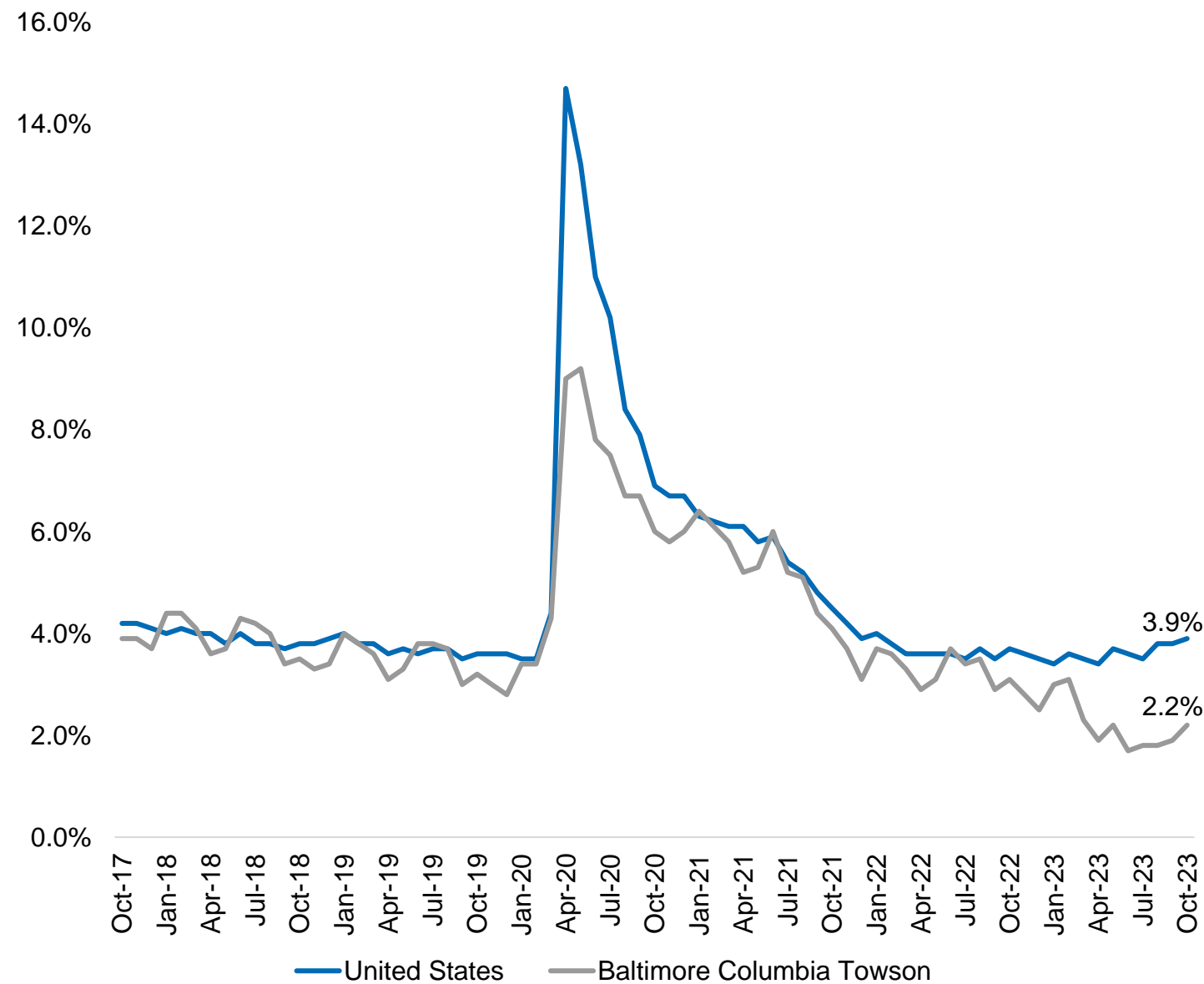
# Economy



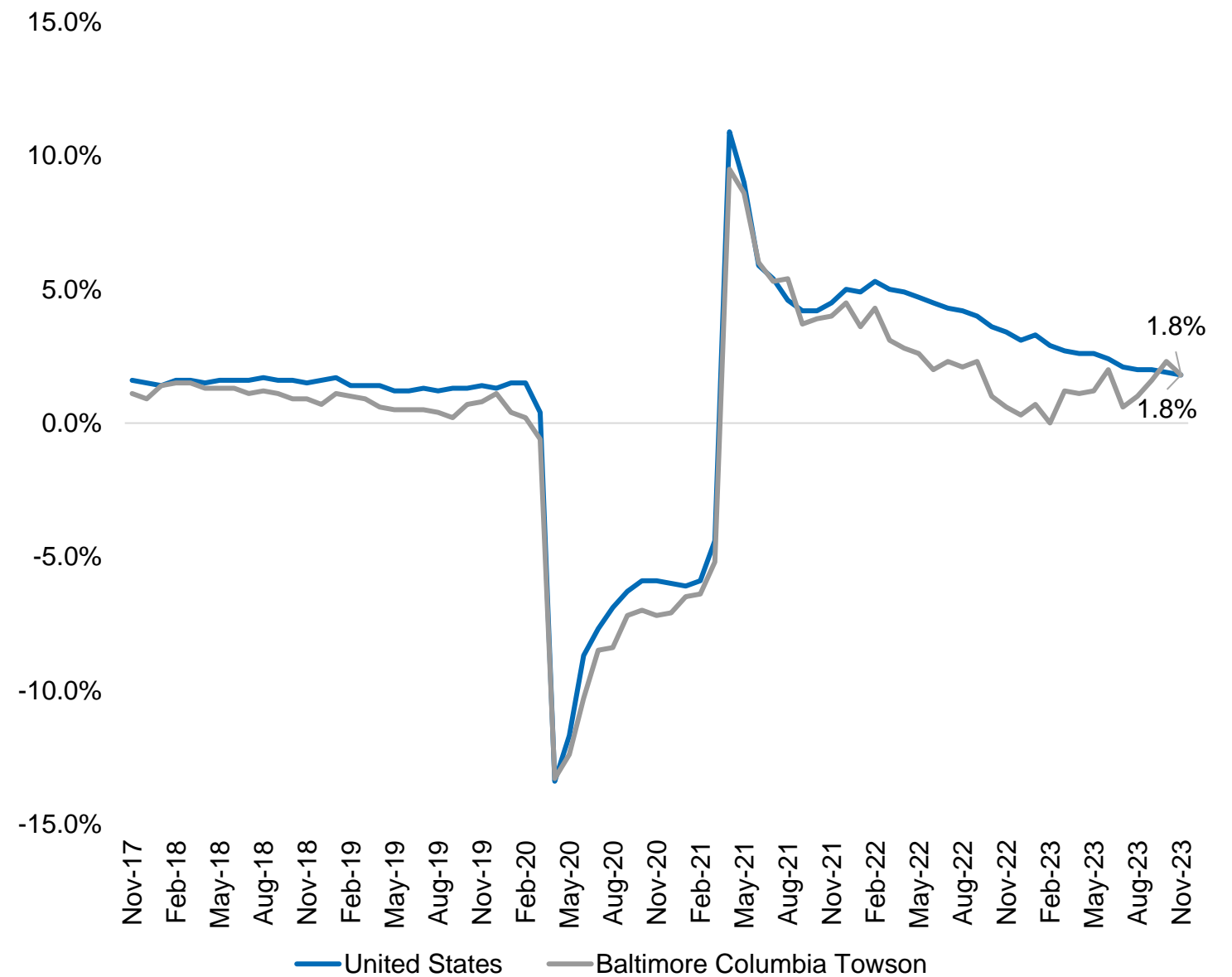
# Baltimore's Unemployment is the Lowest in the Nation

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

Unemployment Rate, Seasonally Adjusted



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

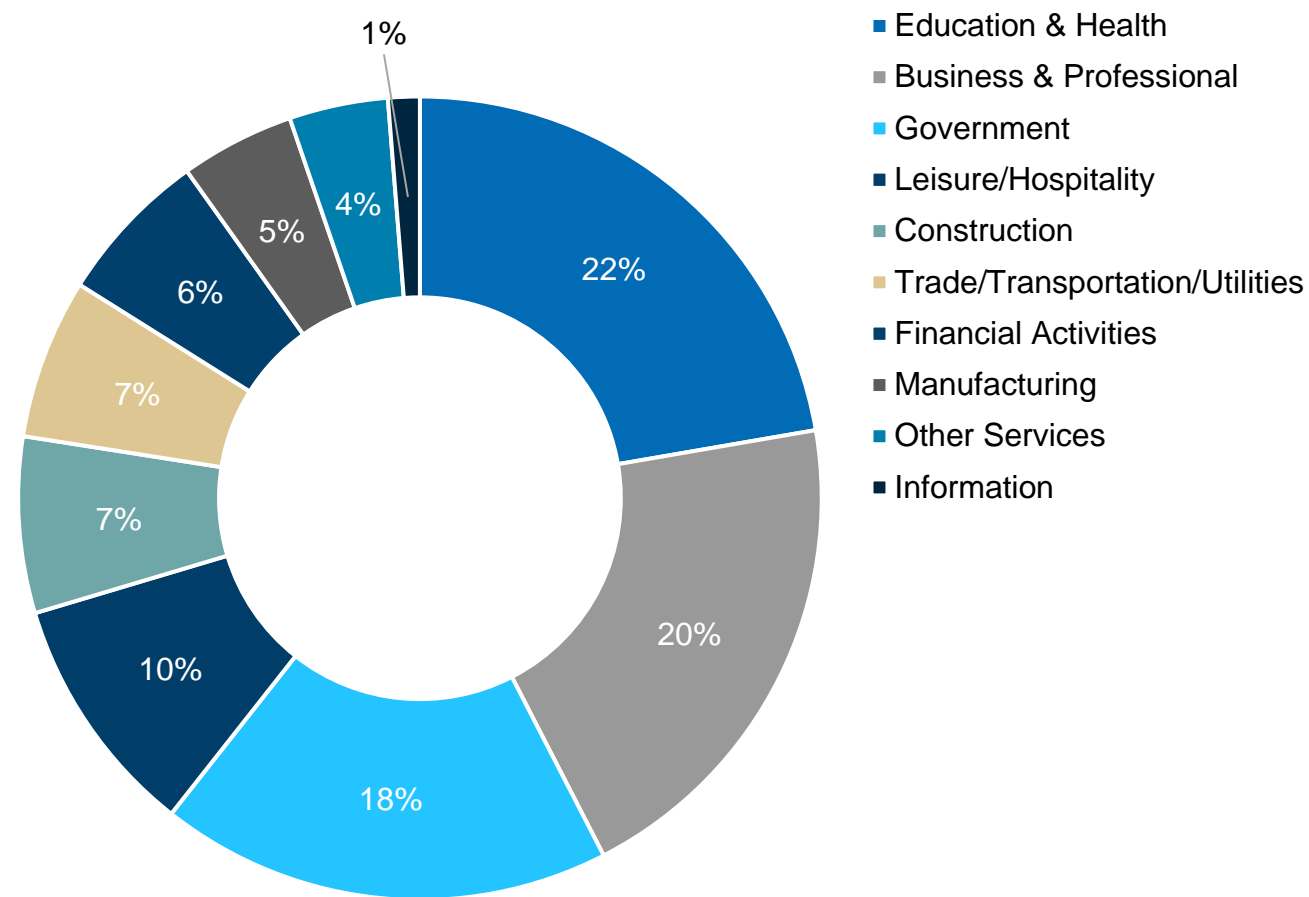


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

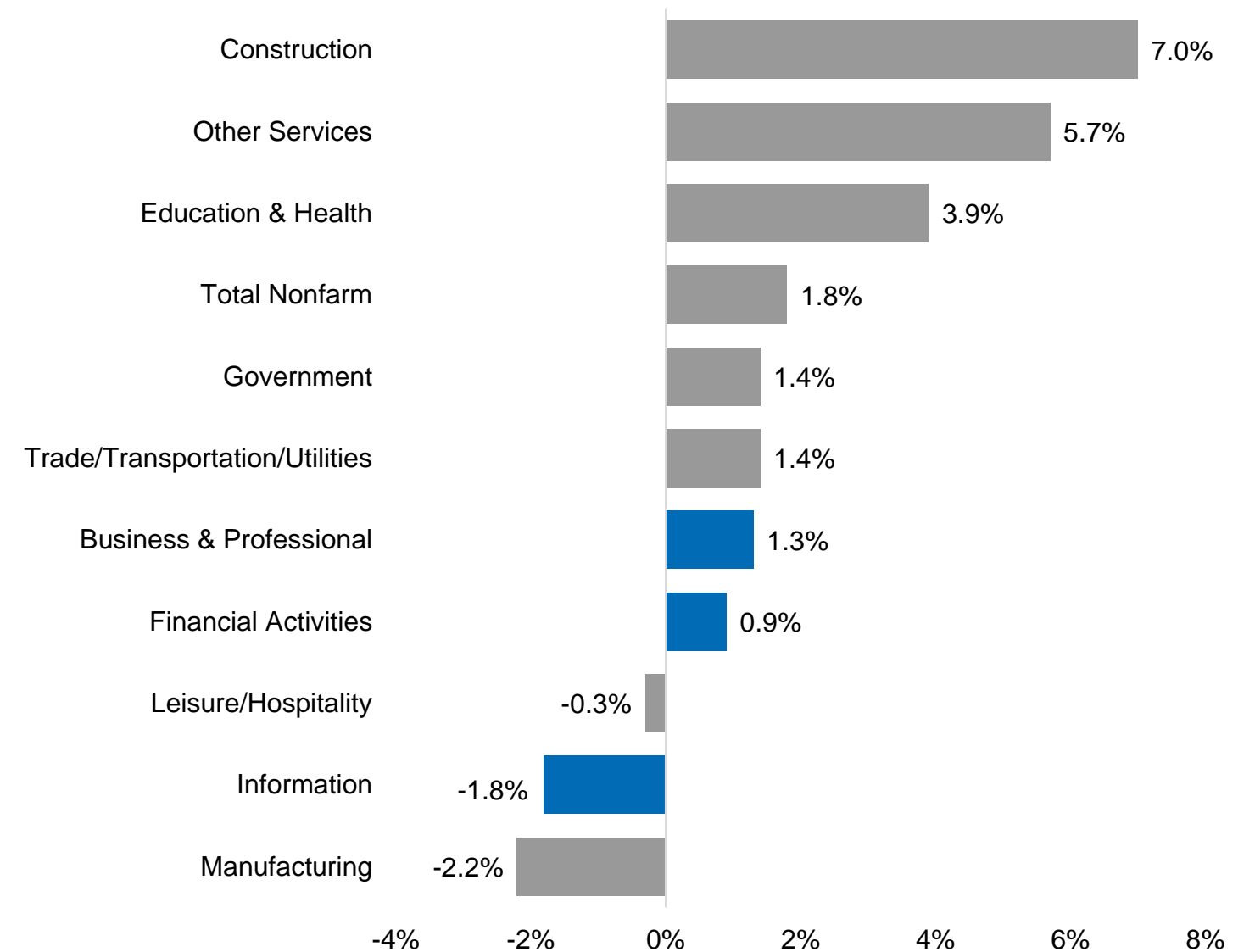
# Job Growth Driven by the Construction Industry

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

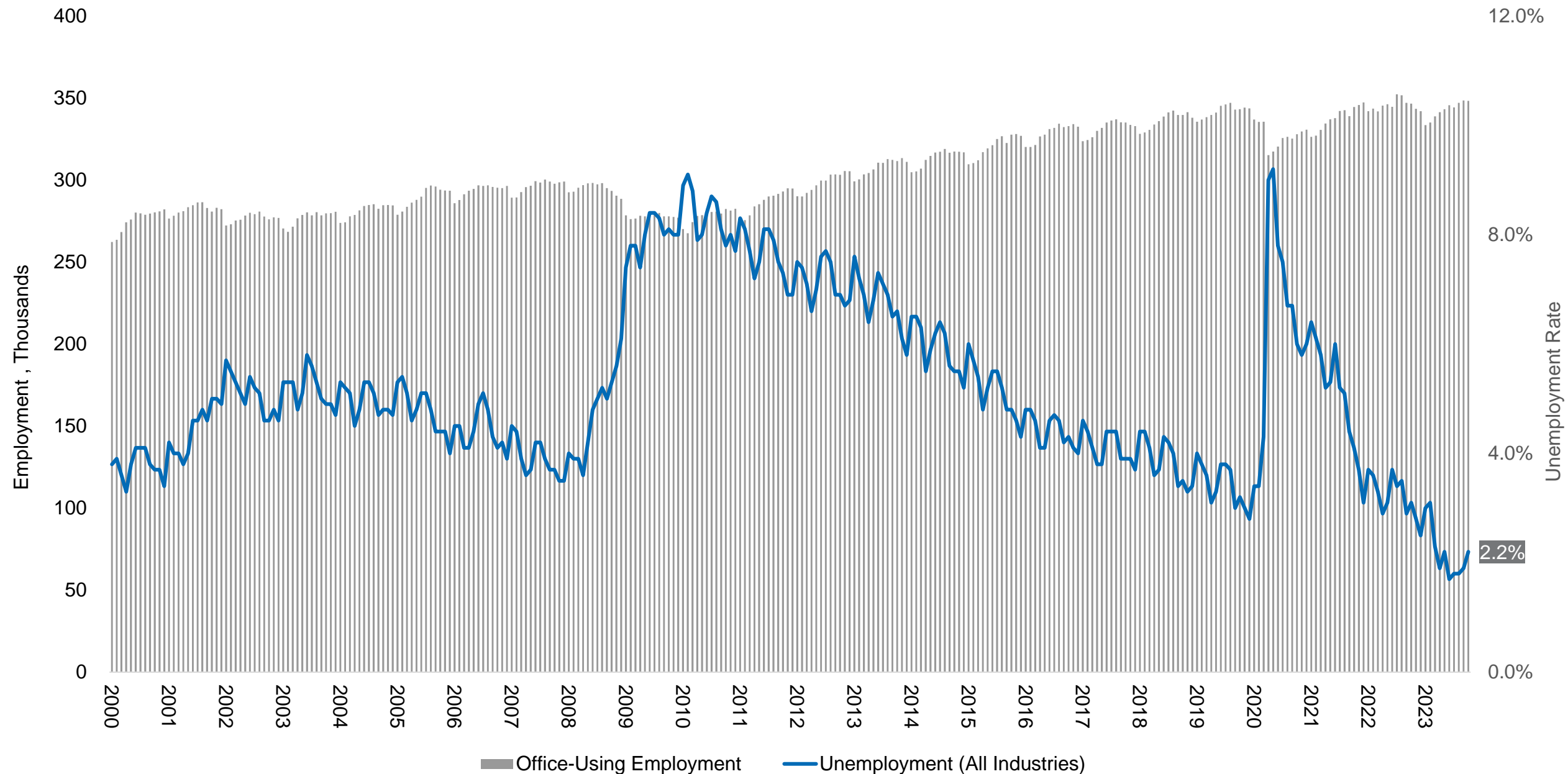


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

# 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

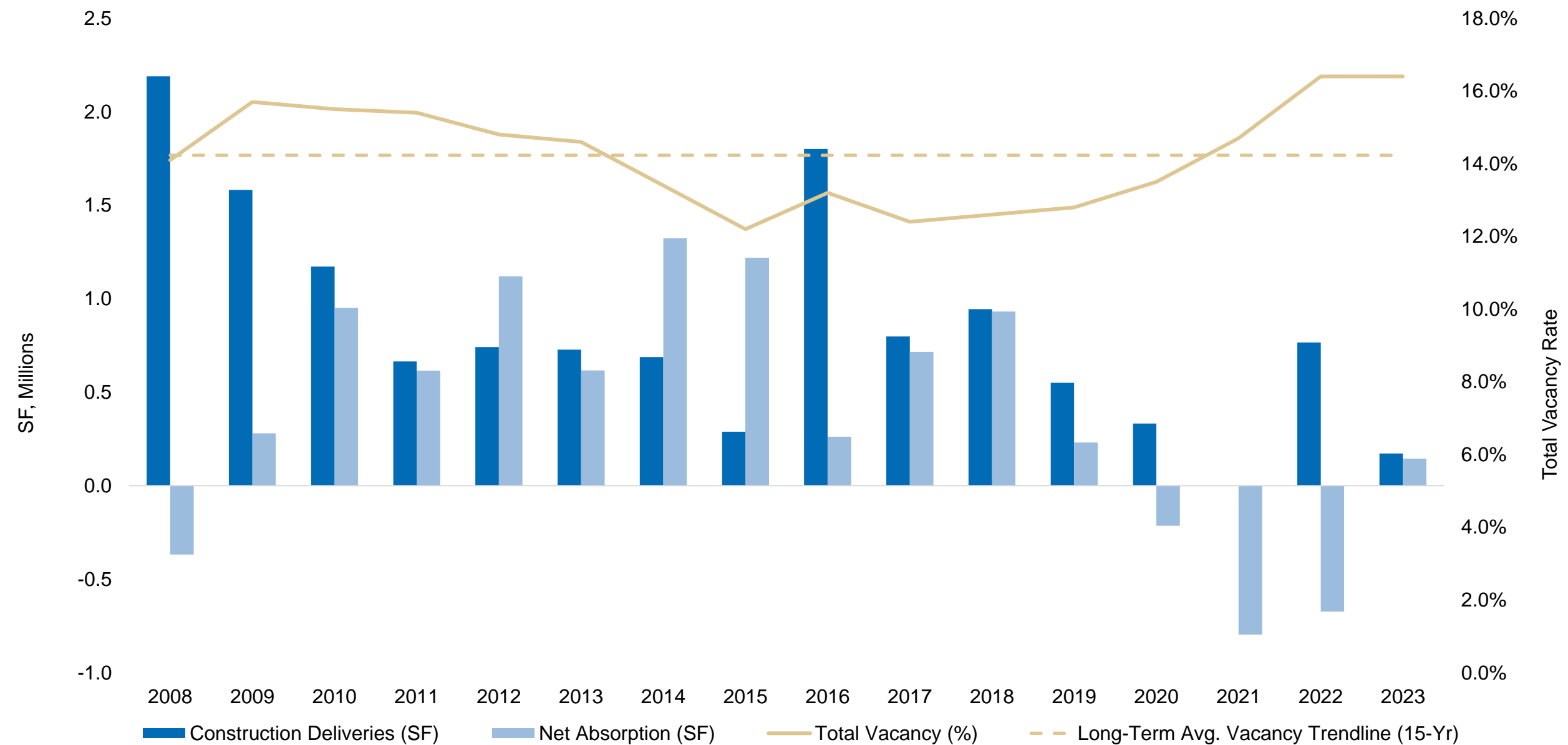




# Market Fundamentals Stabilize in 2023

The vacancy rate tightened to 16.4% in the fourth quarter of 2023, down 40 bps quarter-over-quarter while remaining flat year-over-year. After the market experienced ten straight years of positive net absorption from 2009 to 2019, the market saw three years of negative net absorption from 2020 to 2022. 2023 provided optimism, as the market experienced 144,890 square feet of positive net absorption, hinting that the negative effects of the pandemic could be softening.

## Historical Construction Deliveries, Net Absorption, and Vacancy



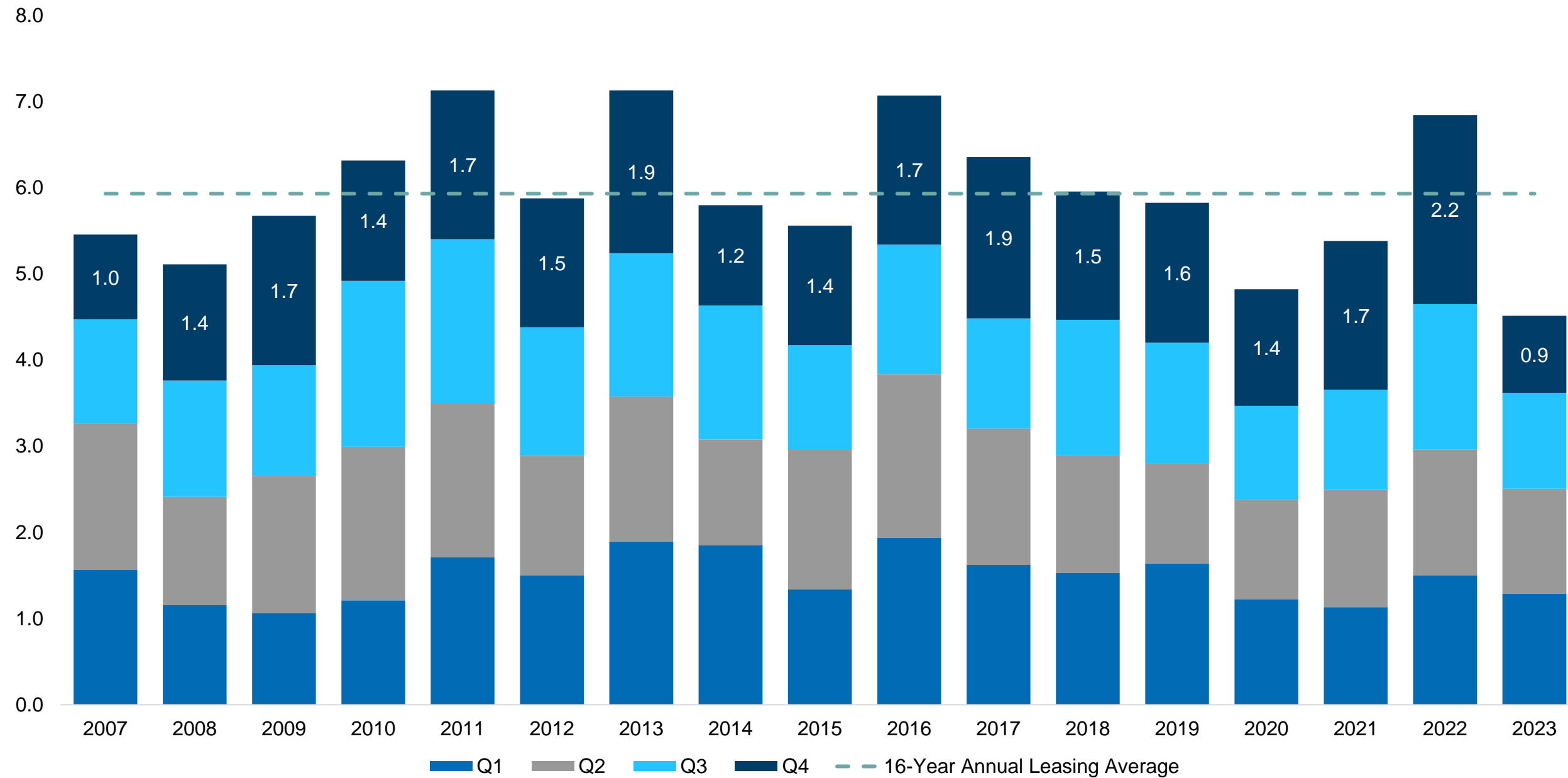
Source: Newmark Research, CoStar



# Leasing Activity Pace Has Slowed

Leasing activity saw a historically slow pace during 2023. The Baltimore market only experienced 4.5 million square feet of leasing activity during the year, 24% lower than the annual average of 5.9 million square feet per year.

Total Leasing Activity (tsf)



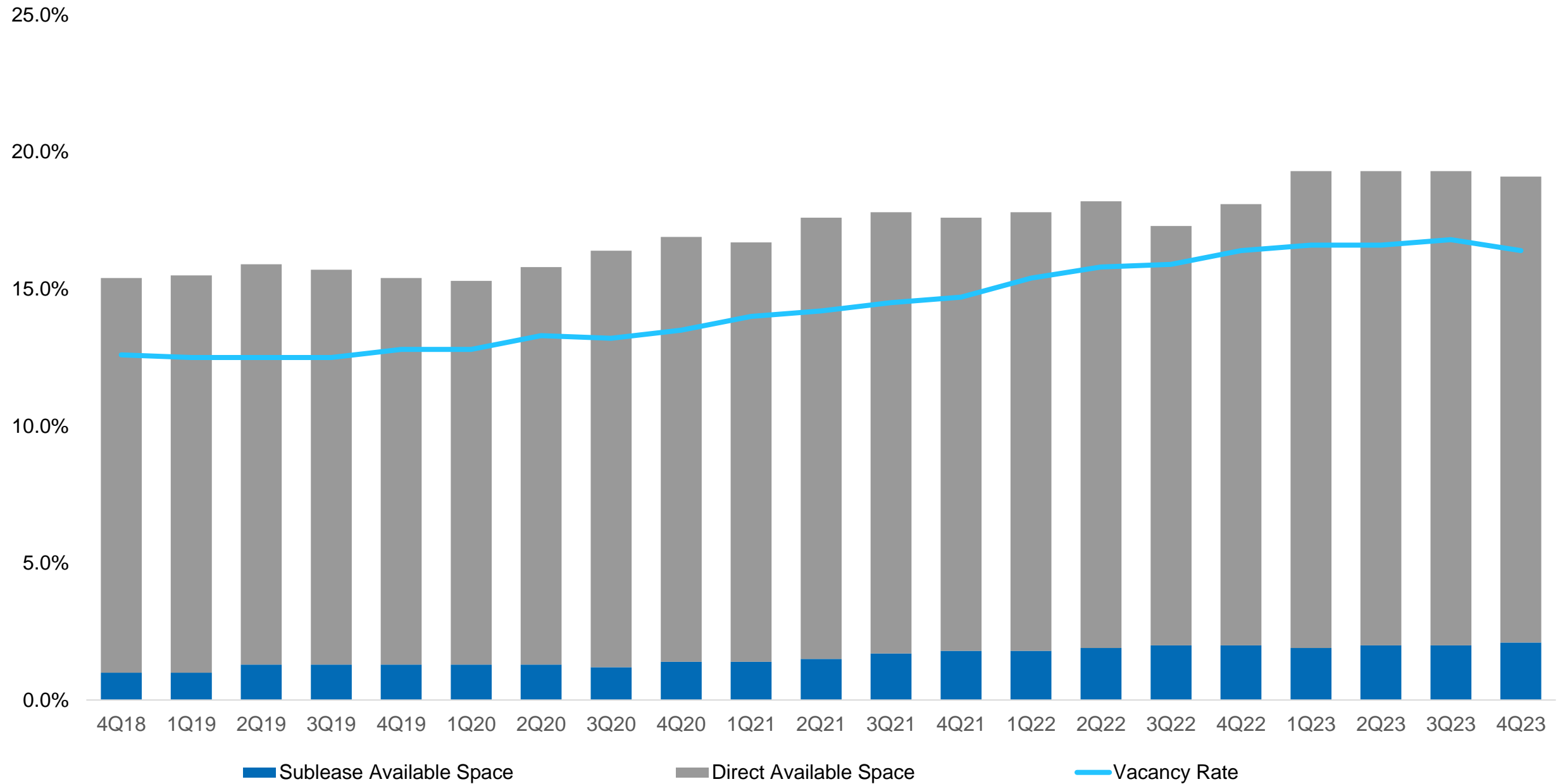
Source: Newmark Research, CoStar



# Availability and Vacancy Show Positive Movement to End 2023

During Q4 2023, both vacancy and availability tightened for the first time since 2020. Vacancy ended the year at 16.4%, a decrease of 40 bps quarter-over-quarter, while availability ended the year at 19.1%, a decrease of 20 bps quarter-over-quarter.

## Available Space and Vacancy Rate



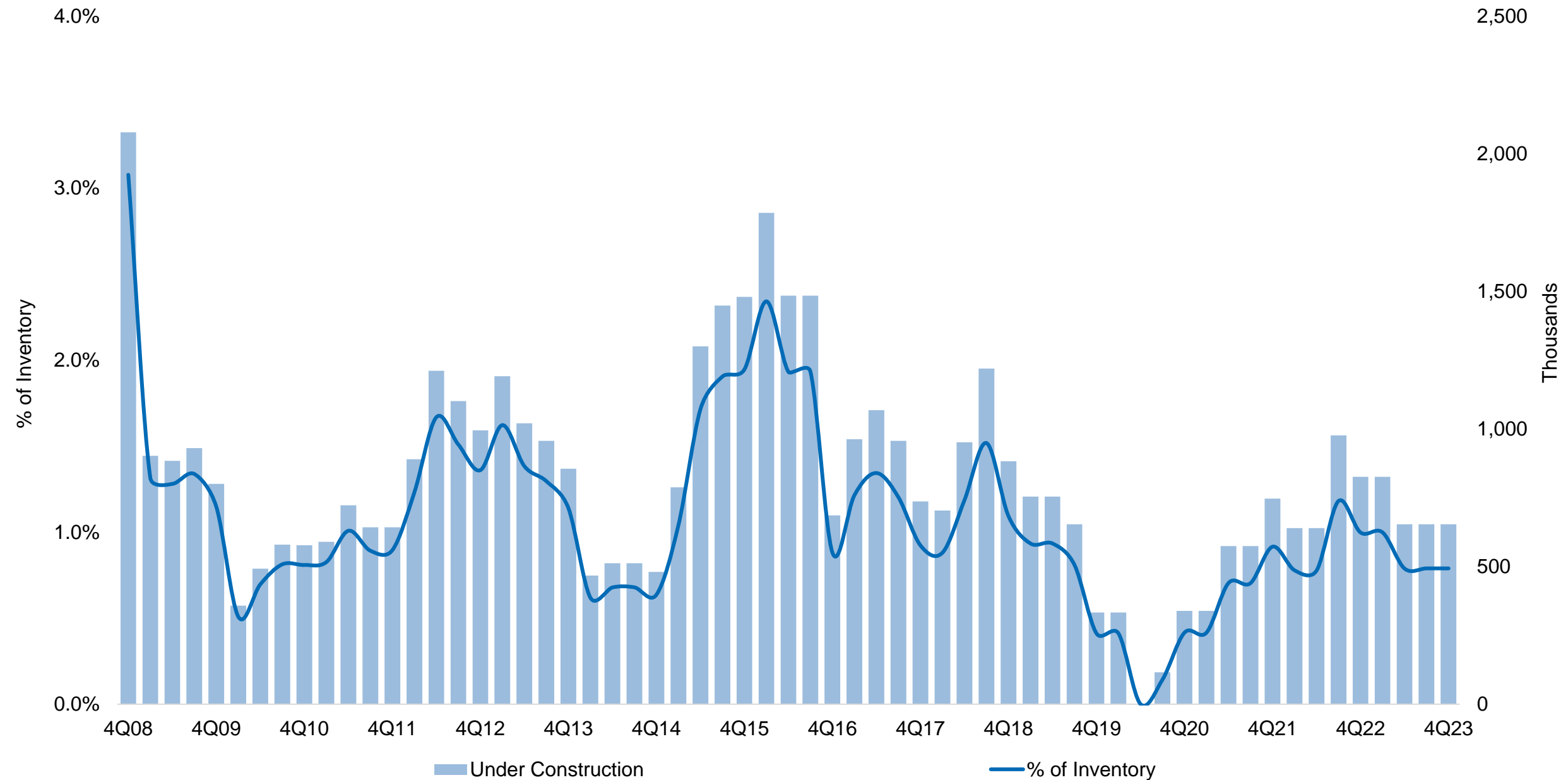
Source: Newmark Research, CoStar



# Construction Remains Below Historic Average

There are four properties totaling 654,000 square feet currently under construction, lower than the market's decade average of 784,000 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 during Q2 2024.

Office Under Construction and % of Inventory



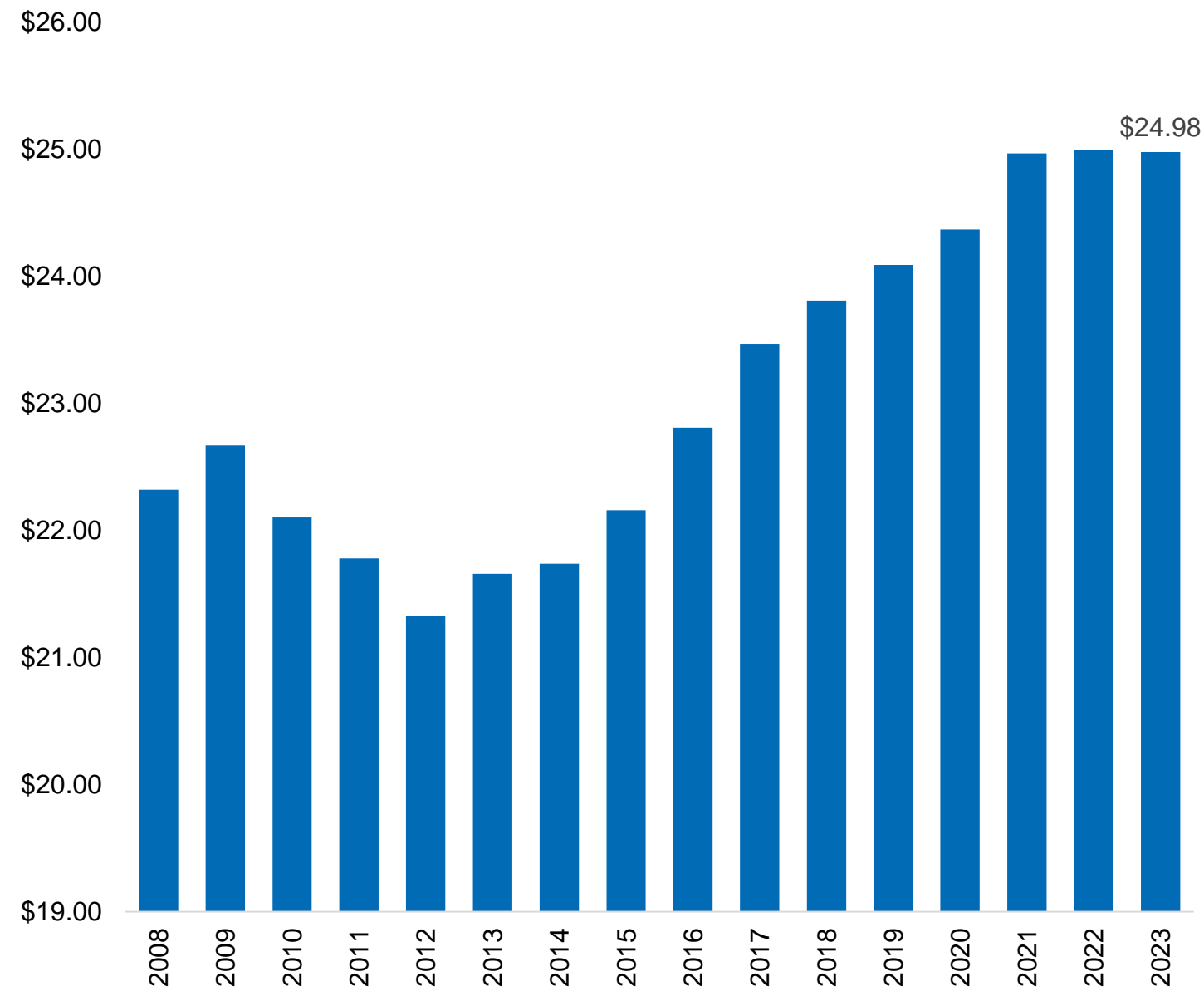
Source: Newmark Research, CoStar



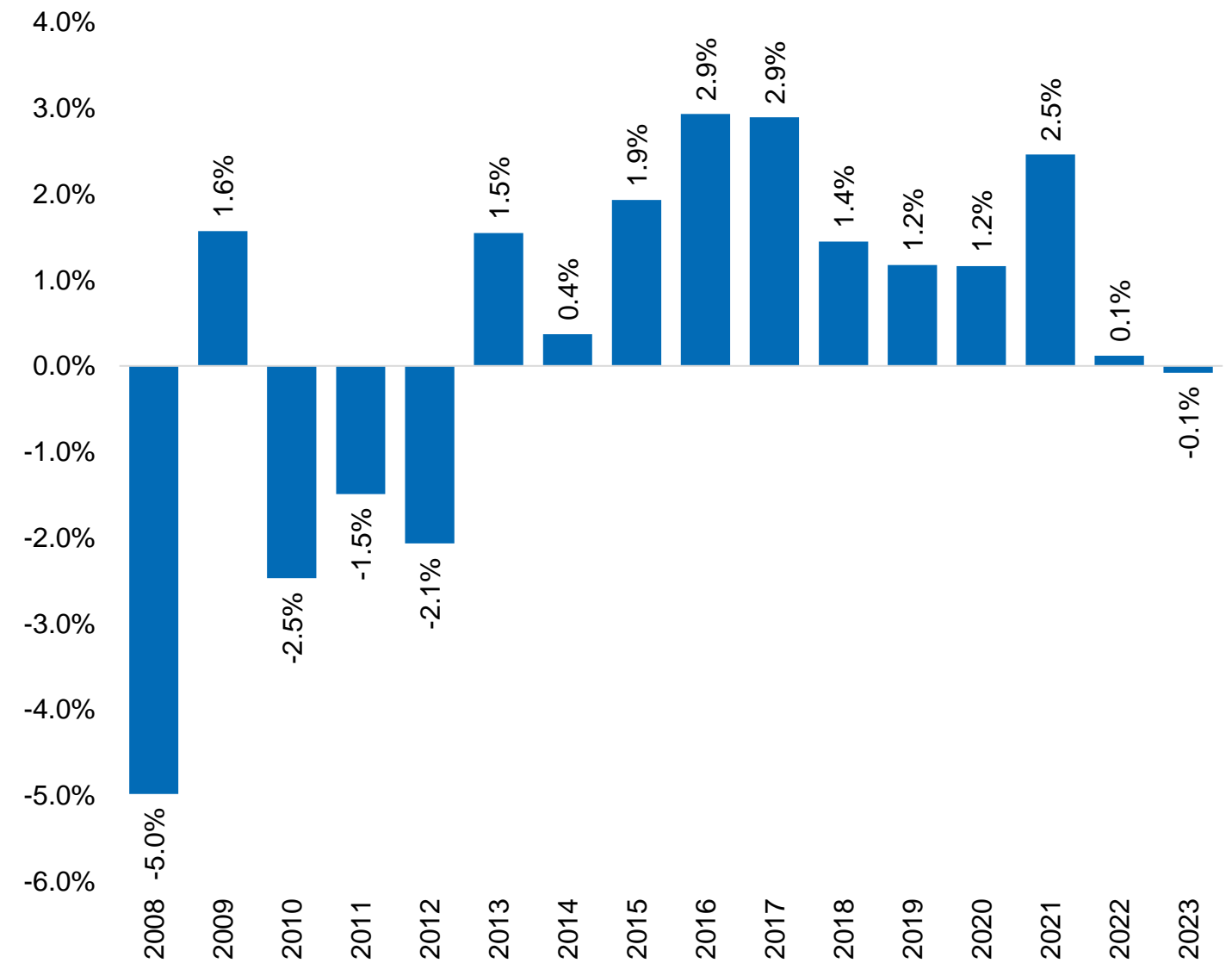
# Rents Stay Flat in 2023

After the market saw positive rent growth from 2015 to 2021, rents flattened in 2022 and remained flat through 2023. Average asking rents ended 2023 at \$24.98 per square foot, an increase of 4.1% quarter-over-quarter, however flat year-over-year.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



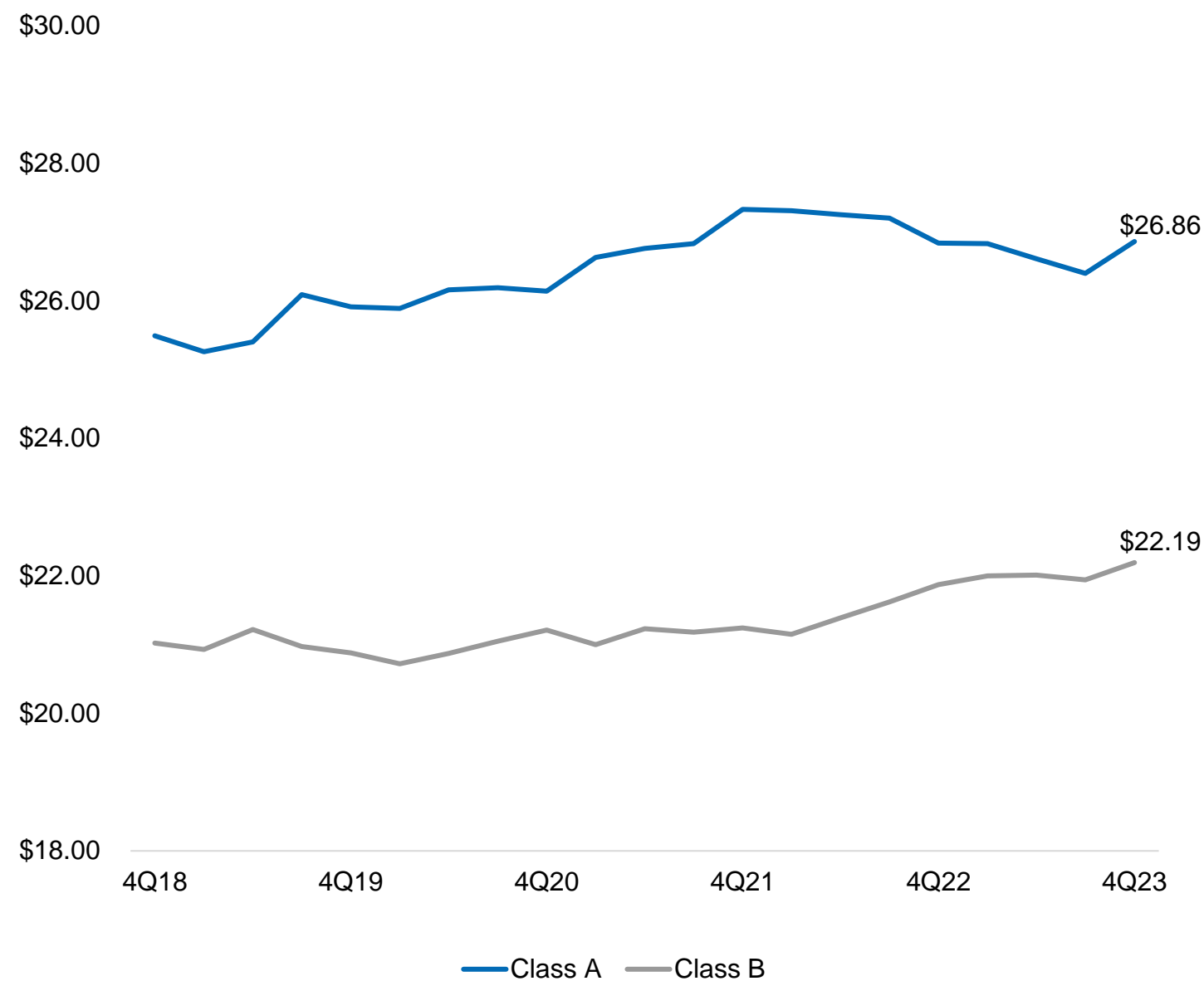
Source: Newmark Research, CoStar



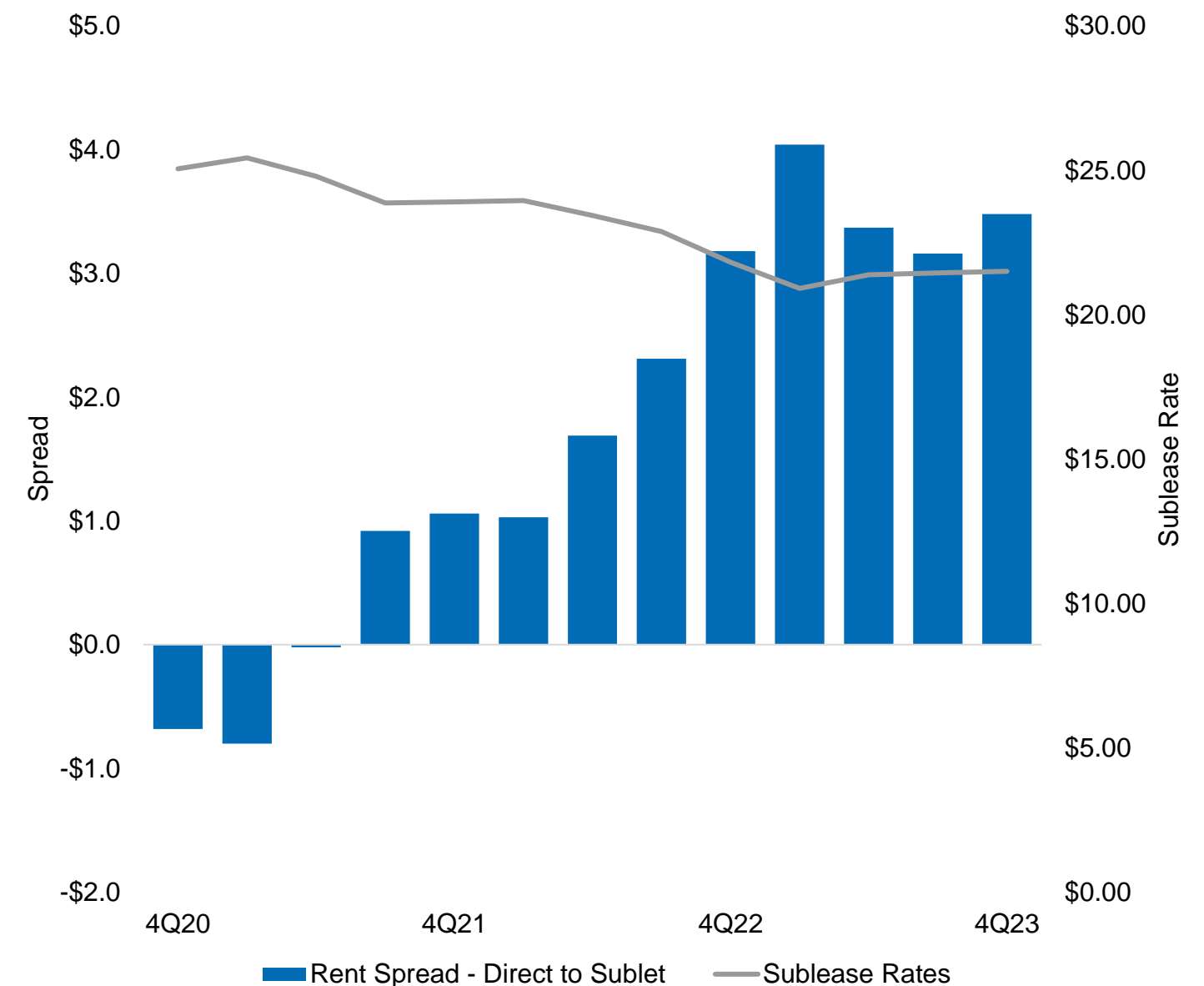
# Asking Rents End 2023 on a Positive Note

Both Class A and Class B rents rebounded during Q4 2023, increasing during the quarter after seeing negative movement earlier in the year. This late-year surge led to slight increases during 2023. Class A rents ended the quarter at \$26.86, an increase of 1.7% quarter-over-quarter and 0.1% year-over-year. Class B rents ended the quarter at \$22.19, an increase of 1.1% quarter-over-quarter and 1.5% year-over-year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



# Leasing Activity Driven by Renewals, Higher Education, and the Defense Industry

Renewals continue to drive the leasing market, evidenced by four of the top five transactions being renewals. Furthermore, higher education and defense companies remained active during Q4 2023, as Johns Hopkins had the largest transaction, a 114,000-square-foot renewal at 100 International Drive within the Baltimore Southeast submarket, and Northrop Grumman had the second-largest transaction with an 87,000-square-foot renewal at 1304 Concourse Drive within the BWI submarket.

## Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Johns Hopkins University Carey Business School	100 International Drive	Baltimore Southeast	Lease Renewal	113,623
Northrop Grumman	1304 Concourse Drive	BWI	Lease Renewal	87,130
Maryland Lottery & Gaming	1800 Washington Boulevard	Baltimore Southwest	Lease Renewal	65,682
Travelers Insurance	10 N Park Drive	I-83	Direct Lease	65,214
Goodell, DeVries, Leech & Dann, LLP	1 South Street	CBD Baltimore	Lease Renewal	45,000

Source: Newmark Research, CoStar

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