



TRANSWESTERN

BALTIMORE METRO AREA OFFICE MARKET

Q1 2023



TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.2	4.1	↓	4.6	↓
NET ABSORPTION (Thousands SF)	(566.0)	(122.0)	↓	(67.4)	↔
DIRECT VACANCY RATE	12.7%	12.0%	↑	11.8%	↔
DIRECT VACANT SF (MSF)	14.6	13.7	↑	13.5	↔
UNDER CONSTRUCTION (MSF)	1.4	1.2	↑	1.2	↔
ASKING RENT, FULL SERVICE (PSF)	\$23.86	\$23.71	↑	\$23.60	↔
SALES VOLUME (Millions)	\$11.8	\$146.2	↓	\$140.9	↔

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

BALTIMORE OFFICE HITS SNAG IN RECOVERY IN EARLY 2023

The Baltimore metro area office market experienced difficulties with negative 566,000 SF of net absorption. With mid to large scale move-outs that occurred this quarter, the direct vacancy rate rose 50-basis points to 12.7%. In spite of this, asking rents rose slightly, increasing by 10-basis points to \$23.86 PSF.

The Baltimore metro area has yet to fully realize the full impact of tenant rightsizing to accommodate expanded hybrid work schedules. The majority of companies believe a physical office is needed but are shedding real estate on average of 20%. This will impact the office market over the next several quarters. Flight to quality will keep top tier office space healthy with lower grade space struggling to keep and attract tenants. Given record level availability, landlords will compete with generous concession packages. Conversions of obsolete office buildings could help stabilize the market, but it is unlikely all announced buildings will convert leaving some owners exploring options.

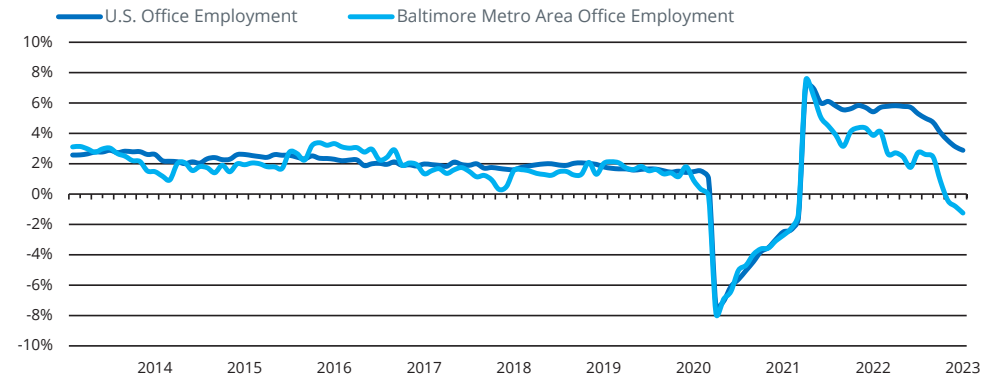


ECONOMY

Office-Using Job Market Retracts in First Quarter

- 16,200 new jobs were added to the Baltimore metro area during the 12- months ending in January 2023. This falls slightly below the pre-pandemic average of 17,000, marking the fourth month in a row that year-over-year job growth has fallen below that average.
- Office-using jobs lost 5,900 jobs year-over-year ending in January 2023. The bulk of the jobs lost in this timespan were attributed to professional/business services, which cut 7,100 jobs. This was somewhat buoyed by ambulatory health care services adding 1,500 new jobs to the market.
- The unemployment rate in the Baltimore metro area has trended downward landing at 3.0% in January 2023 and averaging 3.2% over the past three months. This compares favorably to 4.0% in October 2022.
- Despite the slow start to 2023, we expect office-using jobs to grow cautiously in 2023. Most of this growth should occur within the healthcare, consulting, and civic/social organization sectors.

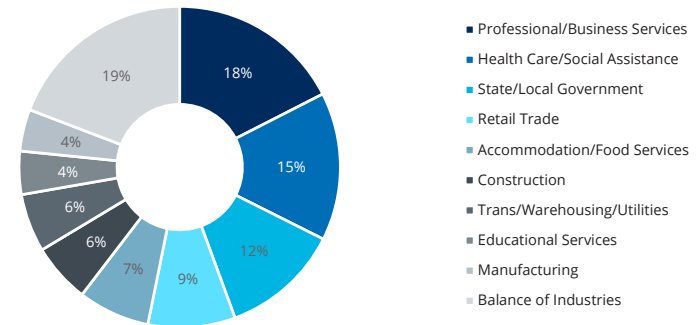
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

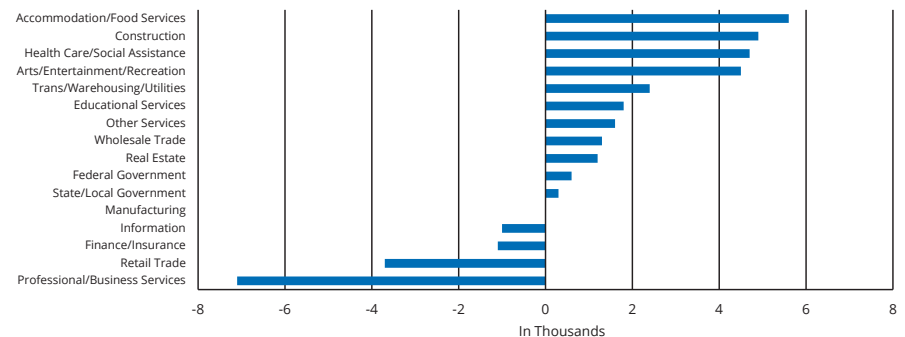
Baltimore Metro Area | January 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Baltimore Metro Area



Source: Bureau of Labor Statistics, Transwestern

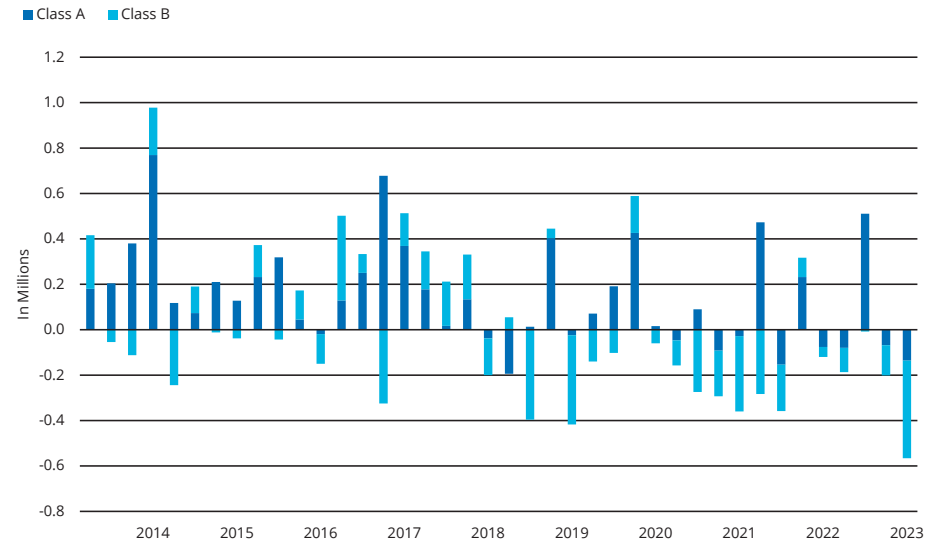


NET ABSORPTION

Net Absorption Trends Downward

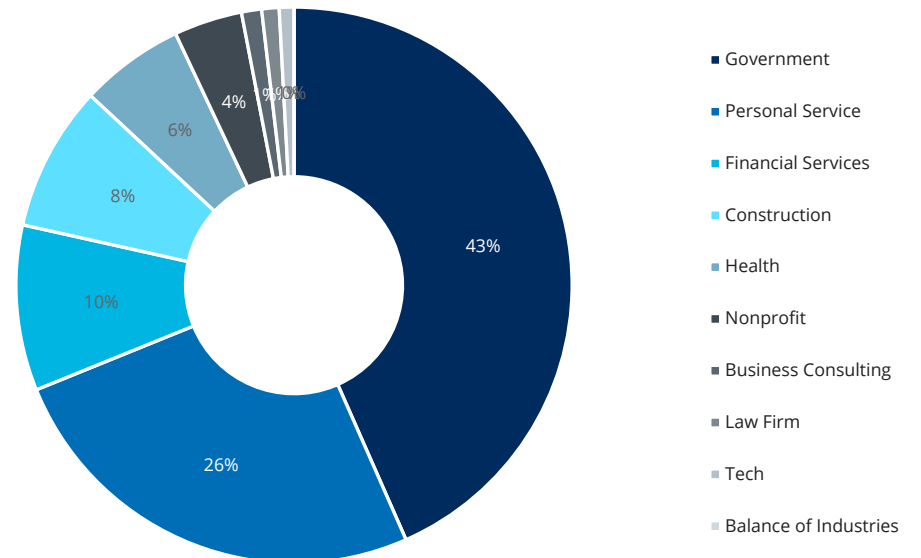
- Net absorption totaled negative 566,000 SF during the first quarter of 2023. This marks the largest addition of vacant SF to the market in recent history.
- Class A totaled negative 136,000 SF during the quarter. Despite this, in year-over-year, Class A totaled 226,000 SF of positive absorption. Class B/C space totaled 430,000 SF of negative absorption for the quarter, and negative 680,000 SF year-over-year.
- A notable transaction that occurred was the Maryland Department of Labor and IT signing for 126,432 SF at 100 S. Charles Street in the Baltimore CBD, and Element Fleet Management signing for 63,995 SF at 10200 Grand Central Avenue in Baltimore County West. Offsetting this gain were large-scale move-outs such as USRA selling 7178-7180 Columbia Gateway Drive and vacating 91,722 SF, of which they occupied and Fundamental Healthcare which vacated 74,710 SF at 920 Ridgebrook Road in the Baltimore County North submarket.
- We expect the demand for office to remain challenged through 2023 as economic conditions continue to give tenants pause in making real estate decisions.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

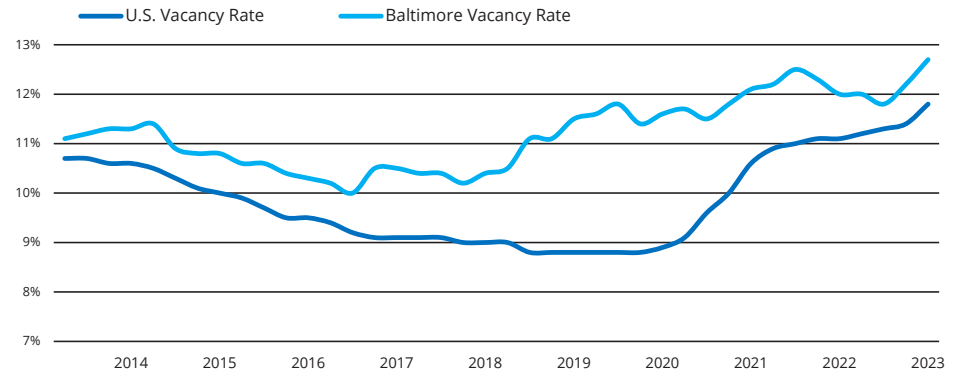


VACANCY

Vacancy Rate Edges Up to 12.7%

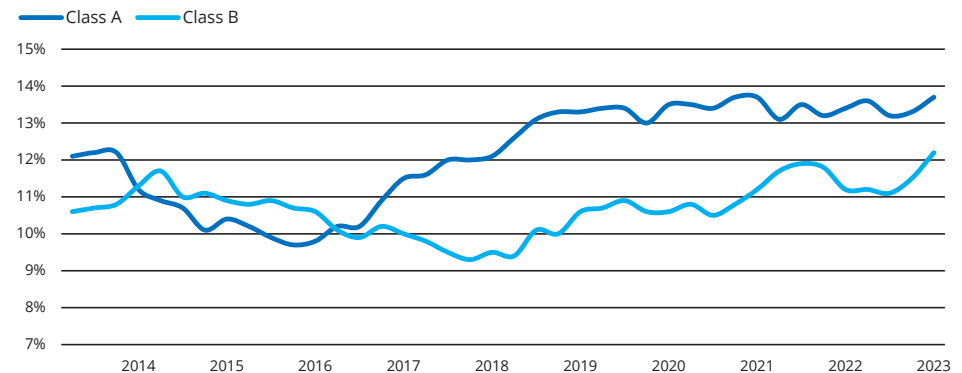
- The vacancy rate increased 50-basis points to 12.7% in the first quarter, marking a 70-basis point increase in year-over-year.
- Class B/C product rose 70-basis points to 12.2%. Class A space also experienced a rise in vacancy rate, climbing 40-basis points to 13.7%.
- The Baltimore CBD was one of the few submarkets to record a decrease in vacancy rate, edging down 20-basis points to 13.4%. Baltimore County East experienced the biggest increase in vacancy rate, escalating 170-basis points to 13.7%, as small-scale lease signings were outweighed by larger move-outs.
- The vacancy rate is likely to continue to trend upwards in the coming quarters as demand for office space remains low and delivery of construction projects will introduce vacant space to the market.

DIRECT VACANCY RATE



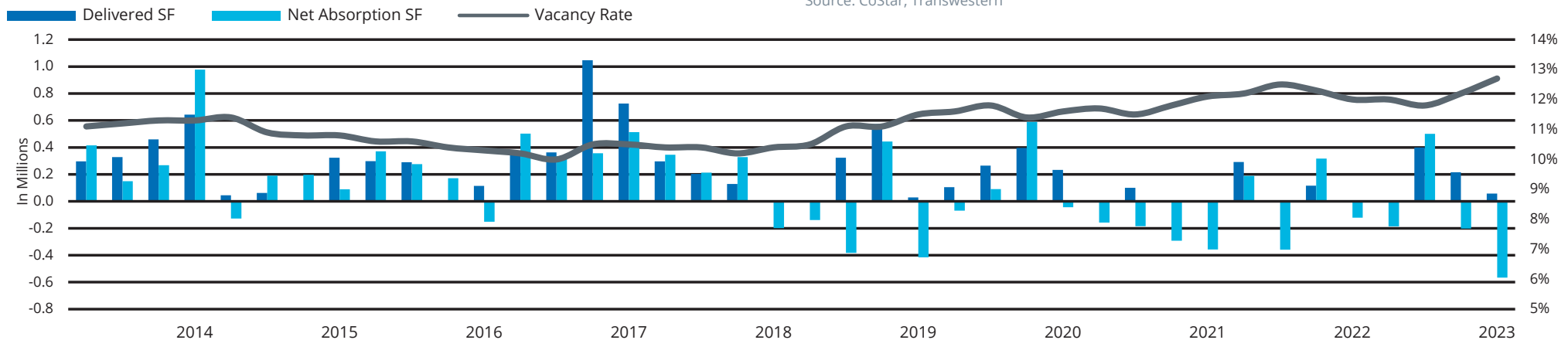
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

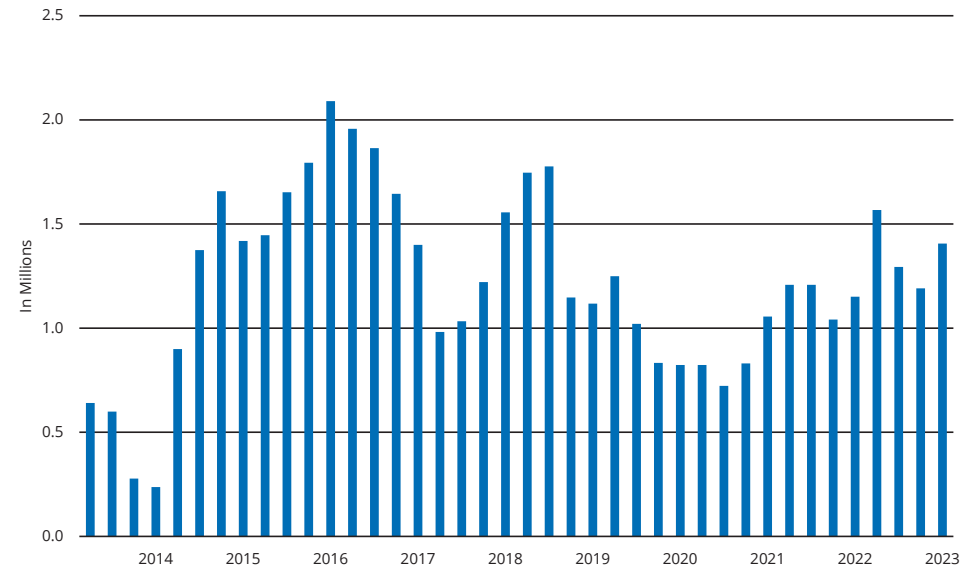


UNDER CONSTRUCTION

Pipeline Delivers Two Properties and Adds One Large Project

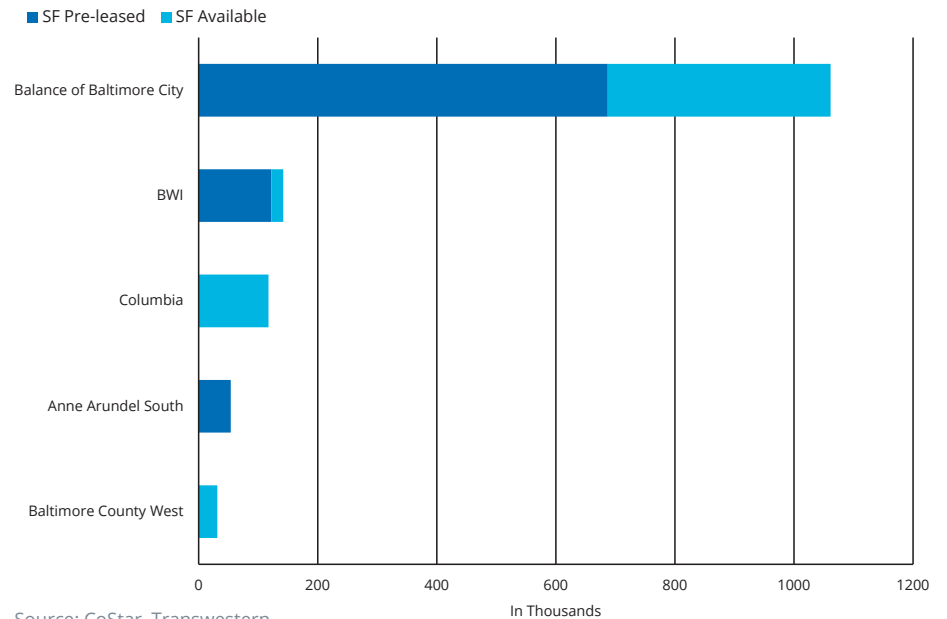
- There were two deliveries this quarter, 1001 N Charles Street added 37,300 SF to the inventory at 77% pre-leased in the Balance of Baltimore City, and 43 N Bond Street added 20,000 SF of vacant office product to the Harford County submarket.
- The construction pipeline has 14 projects underway that total 1.4 million SF at 61% is pre-leased. There was one addition to the pipeline, 4 Martin Luther King Jr Boulevard in the Balance of Baltimore City submarket which will add 251,850 SF to the market when delivered in the fourth quarter of 2024, with 34% already pre-leased.
- While the largest project continues to be the two T. Rowe Price buildings at 1307 Point that total 450,000 SF, the second largest is now 4 Martin Luther King Jr Boulevard at 251,850 SF, supplanting 550 National Business Parkway in the BWI submarket. Another notable project is 4010 Boston Street, which totals 104,500 SF in the Balance of Baltimore City and is the only timber-framed building currently set for spec development.
- The construction pipeline will likely see little to no additions to the construction pipeline in 2023 as the elevated vacancy rate and economic conditions, such as increasing interest rates and high inflation, give developers pause.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

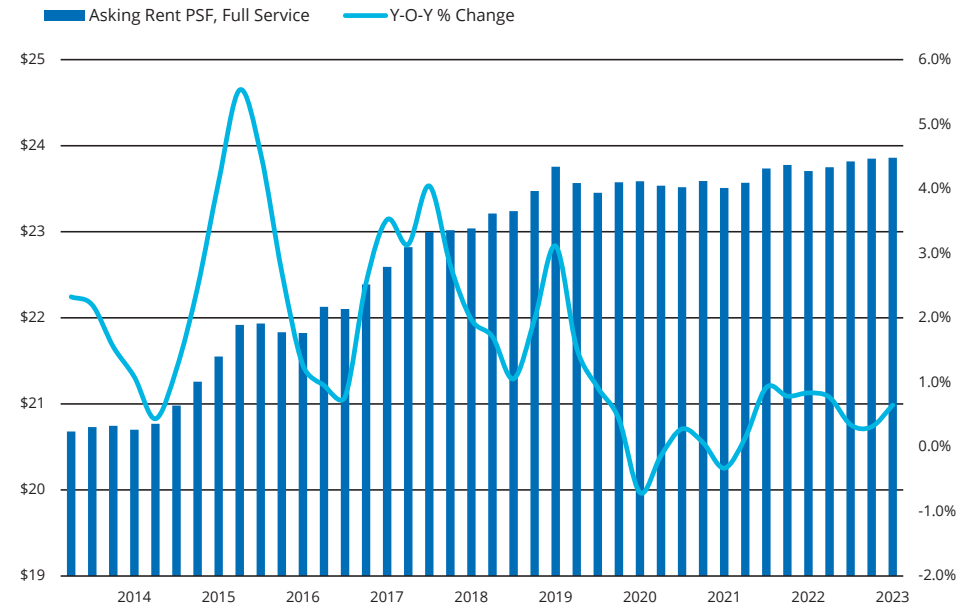


RENTAL RATES

Rental Rates Remain Stable Despite Increasing Vacancy Rates

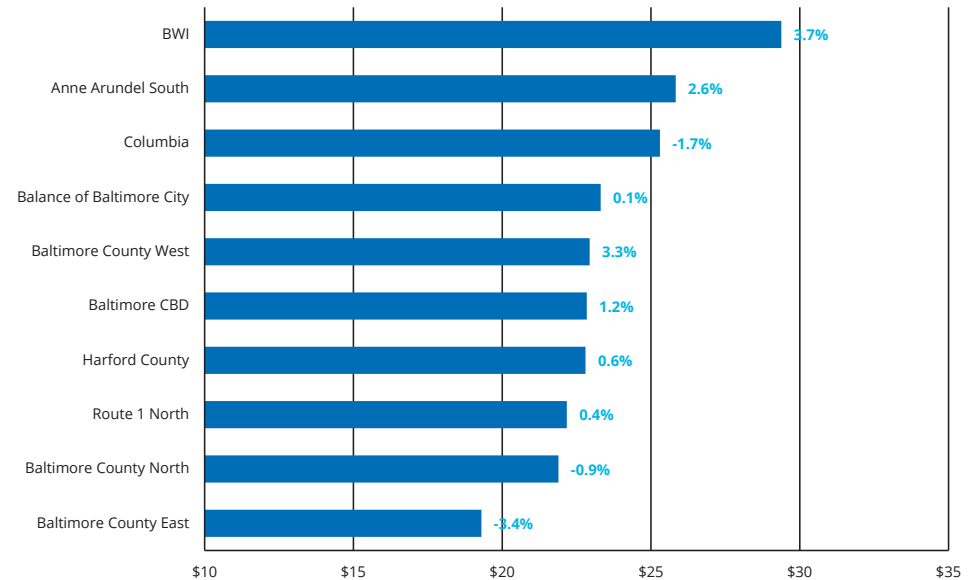
- Asking rental rates edged-up 10-basis points to \$23.85 PSF, continuing the trend of increasing rents throughout 2022.
- Class A rental rates remained relatively stable, declining 10-basis points to \$29.33 PSF. Class B/C product, slightly increased, edging up 20-basis points to \$22.04 PSF.
- The BWI submarket continues to have the highest rental rates in the Baltimore metro area at \$29.39 PSF. Baltimore County East experienced the largest jump in rental rate, rising 60-basis points to \$19.30 PSF.
- Baltimore County North and the Columbia submarket had the largest decrease in rental rate in the quarter, both totaling 30-basis points and averaging, \$21.89 PSF and \$25.30 PSF, respectively.
- We expect rental rates to have tempered growth throughout 2023 as an increasing vacancy rate, large swings in negative absorption, and current economic conditions will give landlords pause as the demand for office product decreases.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

Asking Rent PSF, Full Service

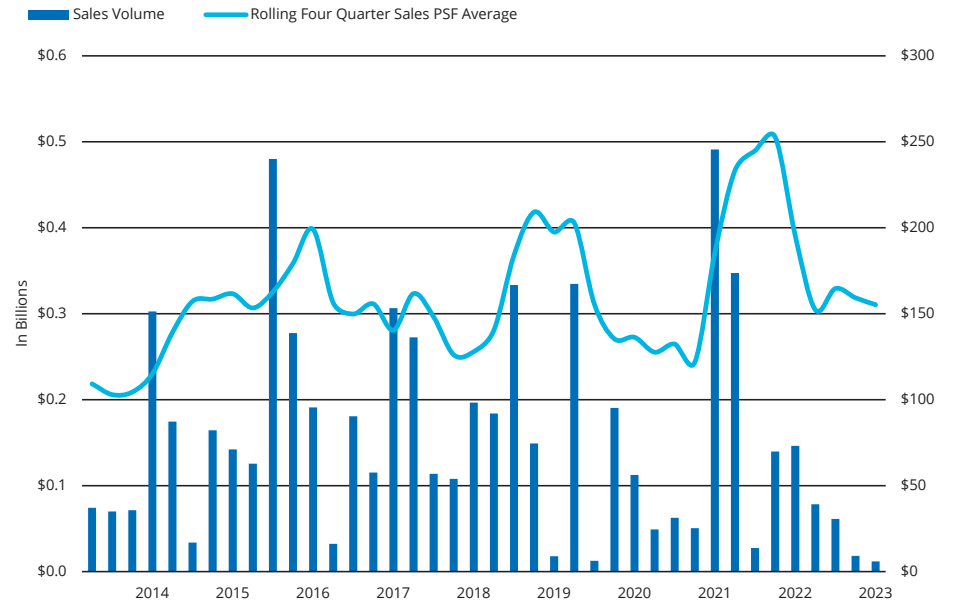


SALES

Investment Sales Dampen with Uncertain Economic Conditions

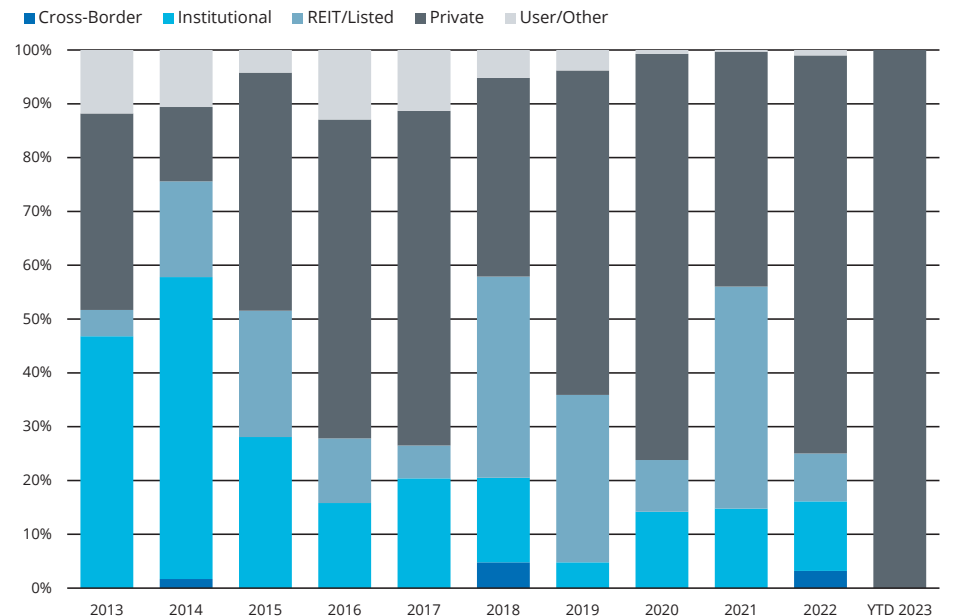
- Baltimore office market investment sales had a sluggish start to 2023 with four transactions occurring during the past three months. The overall volume from these transactions totaled \$11.7 million, or \$159 PSF.
- This total for the quarter marks the lowest volume in recent history, as the previous low, the fourth quarter of 2022 had a sales volume of \$18.3 million, or \$97 PSF. All four transactions included Class B/C product, which is the second consecutive quarter where Class A product has not been involved in a transaction.
- The most notable transaction for the first quarter was 307 Washington Avenue, which was purchased for \$8.6 million, or \$305 PSF by an undisclosed buyer. Another sale that occurred this quarter was Belle Grove Management purchasing 6314 Windsor Mill Road for \$1.4 million, or \$92 PSF.
- Transaction volume will remain limited as investors are wary of current market conditions and will wait to see the pace at which the Federal Reserve raises interest rates in the coming months.

SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
MARYLAND DEPARTMENT OF LABOR AND IT	100 S Charles St	Baltimore CBD	New Lease	126,432
ELEMENT FLEET MANAGEMENT	10200 Grand Central Ave	Baltimore County West	New Lease	63,995
MARYLAND DEPARTMENT OF AGING	36 S Charles St	Baltimore CBD	New Lease	19,656
THOMAS PARK INVESTMENTS	1906 Towne Centre Blvd	Anne Arundel South	Sublease	14,159
KENNEDY KREIGER INSTITUTE	425 Williams Ct	Baltimore County East	New Lease	13,365
ABR CAPITAL PARTNERS	100 Light St	Baltimore CBD	New Lease	11,606

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
307 WASHINGTON AVE	Baltimore County North	Mar-23	\$8,600,000	28,152	\$305	Undisclosed	Greenberg Gibbons
6314 WINDSOR MILL RD	Baltimore County West	Feb-23	\$1,465,000	16,000	\$92	Belle Grove Management LLC	Signature Properties
328-340 S HIGHLAND AVE	Balance of Baltimore City	Feb-23	\$900,000	15,000	\$60	Singh Capital Partners	Anthony Dantonio
328-340 S HIGHLAND AVE	Balance of Baltimore City	Jan-23	\$825,000	15,000	\$55	Charm City Builders	Undisclosed
6956 AVIATION BLVD	BWI	Dec-22	\$4,916,914	54,310	\$82	St. John Properties	Adler Real Estate Partners

Source: CoStar, Transwestern



MARKET INDICATORS

All Classes of Space | Q1 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
HARFORD COUNTY	3,855,382	1,316,613	34.2%	34.8%	0	(8,000)	(246,000)	\$22.80
BALTIMORE COUNTY WEST	13,341,076	1,627,611	12.2%	14.7%	31,284	(67,000)	(40,000)	\$22.94
BALTIMORE COUNTY NORTH	16,821,875	2,220,488	13.2%	14.7%	0	(177,000)	(261,000)	\$21.89
BALTIMORE COUNTY EAST	3,136,752	429,735	13.7%	14.8%	0	(53,000)	(13,000)	\$19.30
BALTIMORE CBD	19,731,163	2,636,083	13.4%	13.5%	0	51,000	166,000	\$22.84
BALANCE OF BALTIMORE COUNTY	21,689,854	2,494,333	11.5%	11.7%	1,061,573	(129,000)	(110,000)	\$23.31
BALTIMORE COUNTY NORTH	78,576,102	10,724,863	13.6%	14.6%	1,092,857	(383,000)	(504,000)	\$22.64
COLUMBIA	16,634,641	1,771,589	10.7%	12.9%	117,200	(53,000)	18,000	\$25.30
ROUTE 1 NORTH	1,245,773	261,612	21.0%	21.7%	0	1,000	(27,000)	\$22.17
BWI	11,432,974	1,080,416	9.5%	9.7%	142,195	(91,000)	98,000	\$29.38
ANNE ARUNDEL SOUTH	7,323,248	787,249	10.8%	11.4%	54,000	(40,000)	(41,000)	\$25.83
BALTIMORE COUNTY SOUTH	36,636,636	3,900,867	10.6%	11.9%	313,395	(183,000)	48,000	\$26.57
TOTAL	115,212,738	14,625,730	12.7%	13.7%	1,406,252	(566,000)	(456,000)	\$23.86

Source: CoStar, Transwestern



RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in Baltimore. This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding those properties owned by a government agency.

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).

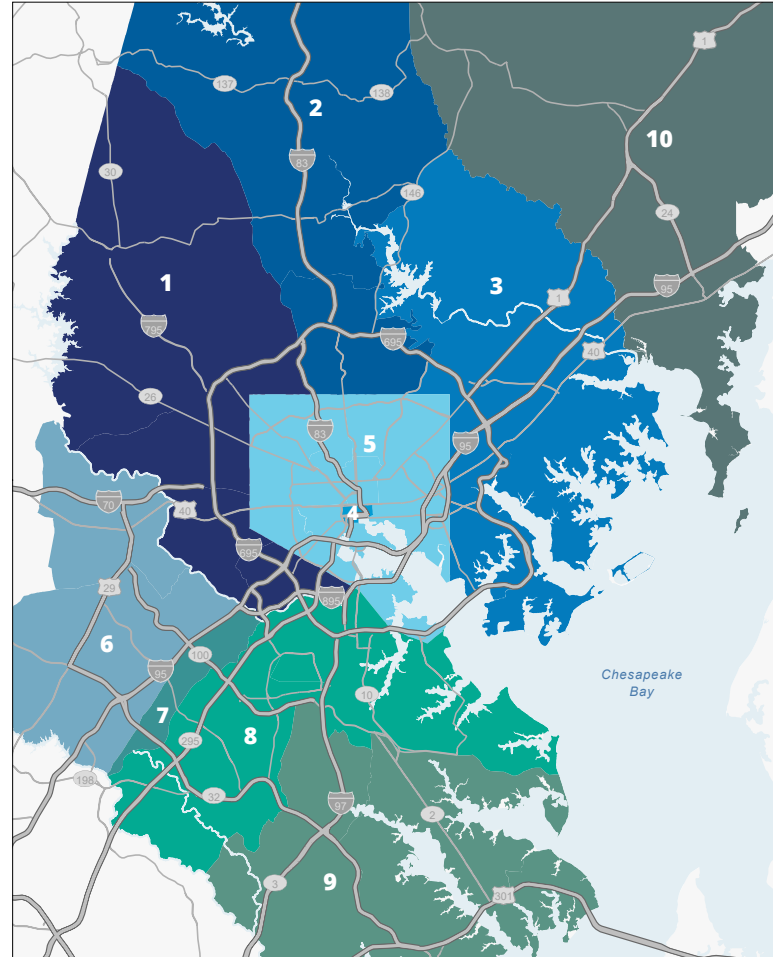
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Baltimore Office Submarkets

- 1** Baltimore County West
- 2** Baltimore County North
- 3** Baltimore County East
- 4** Baltimore CBD
- 5** Balance of Baltimore City
- 6** Columbia
- 7** Route 1 North
- 8** BWI
- 9** Anne Arundel South
- 10** Harford County