

BALTIMORE METRO AREA OFFICE MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.1	3.7	↓	4.5	↓
NET ABSORPTION (Thousands SF)	244.0	(186.0)	↑	(52.5)	↔
DIRECT VACANCY RATE	12.7%	12.0%	↑	11.8%	↔
DIRECT VACANT SF (MSF)	14.6	13.8	↑	13.6	↔
UNDER CONSTRUCTION (MSF)	1.2	1.6	↓	1.2	↔
ASKING RENT, FULL SERVICE (PSF)	\$23.90	\$23.75	↑	\$23.62	↔
SALES VOLUME (Millions)	\$9.1	\$78.3	↓	\$135.4	↔

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

BALTIMORE OFFICE ABSORPTION SWINGS POSITIVE

The Baltimore metro area office had mixed results in the second quarter as net absorption totaled positive 244,000 SF, while the direct vacancy rate remained unchanged at 12.7%. Asking rental rates slightly increased, rising to \$23.90 PSF in the quarter, up from \$23.86 PSF in the previous quarter.

We expect office market conditions to struggle in the Baltimore metro area during the second half of 2023, as future tenant move-outs and rightsizing, coupled with limited leasing activity, will drag the overall market. Market fundamentals should oscillate quarter-to-quarter but remain relatively steady for the year. A reduced construction pipeline, which is down 23% year-over-year will help stabilize the market in due time. Although this will limit options to tenants looking to upgrade to new construction, these tenants could backfill 2nd generation Class A space as an alternative. Conversions of obsolete office buildings could help stabilize the market, but it is unlikely all announced buildings will convert leaving some owners exploring alternative options.

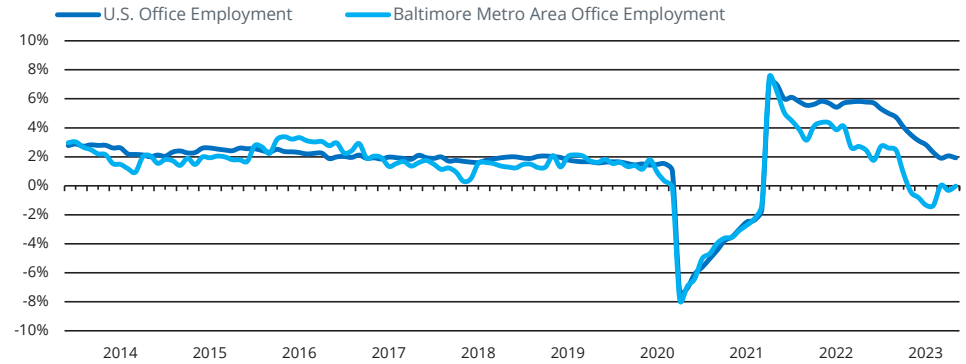


ECONOMY

Office-Using Job Begins Steady Climb in Second Quarter

- 16,800 new jobs were added to the Baltimore metro area during the 12-months ending in May 2023. This falls slightly below the pre-pandemic average of 17,000, however, this is the highest year-over-year average since September 2022.
- Since the beginning of the quarter in April, there have been 5,500 net new jobs added to the office-using market ending in May 2023, aided by professional/business services adding 4,200 in that timespan. However, office-using jobs have lost 100 jobs year-over-year ending in May 2023. The bulk of the jobs lost in this timespan were attributed to professional/business services, which cut 3,800 jobs overall. The industry sector that fared the best was the federal government, which added 2,100 net new jobs in the past 12 months.
- The unemployment rate in the Baltimore metro area remained steady in the quarter, declining 10-basis points since March of this year to 2.2% as of May 2023. This marks a 90-basis point decrease in unemployment rate since February of this year.
- Despite economic headwinds, we expect office-using jobs to continue to grow cautiously in 2023. Most of this growth should occur within the healthcare, consulting, and civic/social organization sectors.

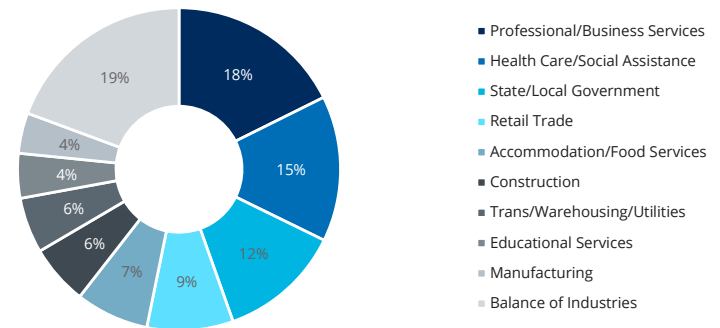
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

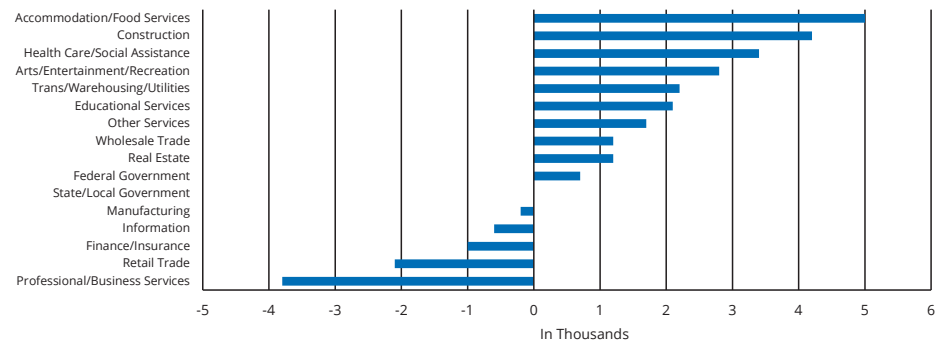
Baltimore Metro Area | May 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Baltimore Metro Area



Source: Bureau of Labor Statistics, Transwestern

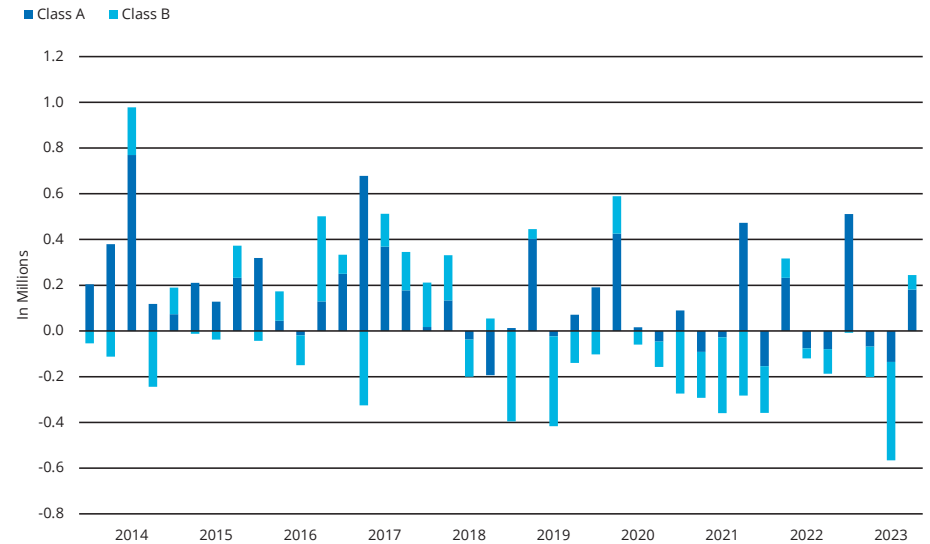


NET ABSORPTION

Net Absorption Returns Positive Due to Pre-Leased Deliveries

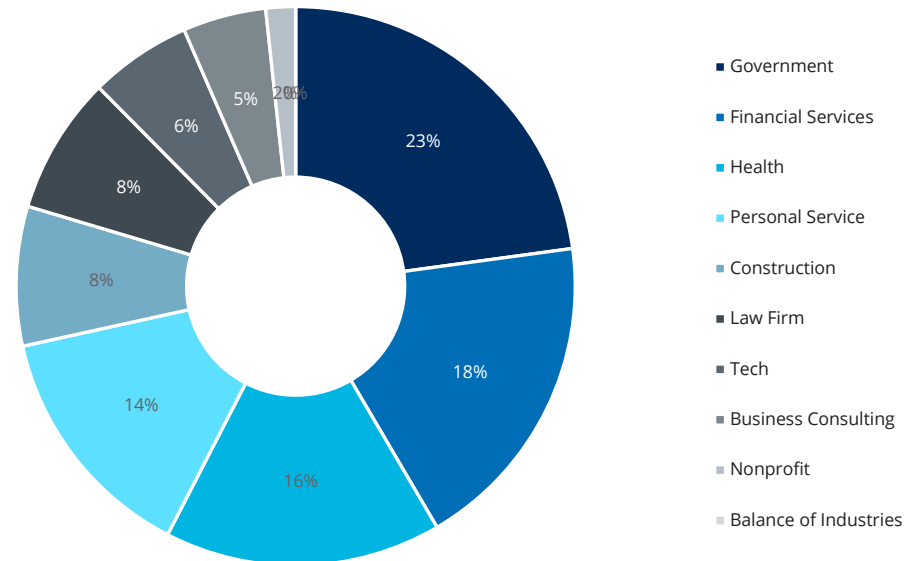
- Net absorption totaled positive 244,000 SF during the second quarter of 2023, becoming the first quarter that has positive absorption since the third quarter of 2022. This was aided by multiple pre-leased deliveries.
- Class A totaled positive 181,000 SF during the quarter and the year-over-year absorption totaled positive 488,000 SF. Class B/C space totaled 64,000 SF of positive absorption for the quarter. However, the year-over-year totaled negative 508,000 SF.
- A notable transaction that occurred was Semmes, Bowen, and Semmes signing for 36,000 SF at 250 W. Pratt Street in the Baltimore CBD, and Radnet signing for 34,000 SF at 10461 Mill Run Circle in Baltimore County West. A notable sublease, which does not affect net absorption, was S3 Shared Services Solutions signing for 38,915 SF at 1501 S. Clinton Street.
- We expect absorption to remain stable in the coming quarters as demand for Class A space will continue but may be offset by the markets aging Class B/C product that will continue to struggle to lease.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

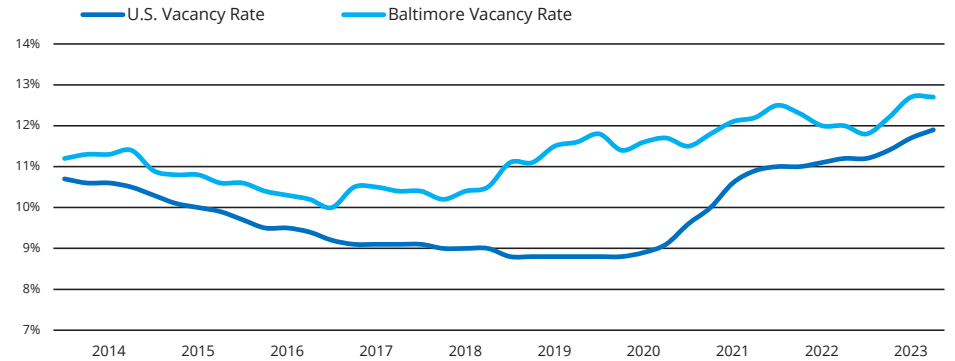


VACANCY

Vacancy Rate Holds Steady at 12.7%

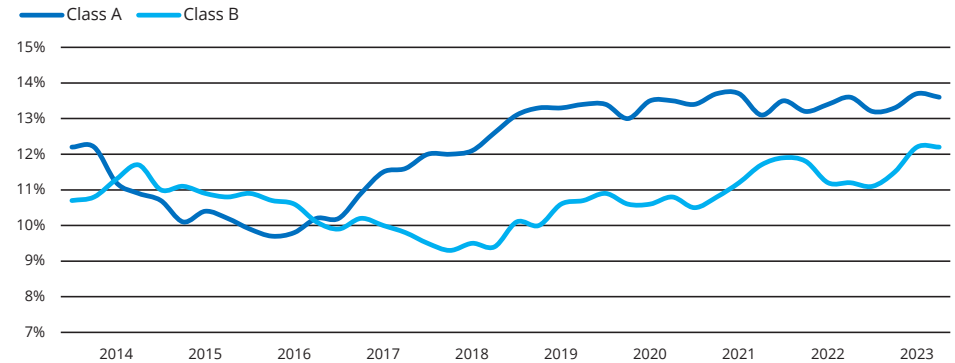
- The vacancy rate was unchanged during the second quarter at 12.7%. However, the rate is up 70-basis points compared to one year ago.
- Class B/C product remained at 12.2%. Class A experienced a decrease in vacancy rate, declining 10-basis points to 13.6%.
- Anne Arundel South had the largest decrease in vacancy rate, declining 90-basis points to 9.9%. Baltimore County West experienced the biggest increase in vacancy rate, escalating 40-basis points to 12.6%, this was aided by an undisclosed tenant vacating 22,253 SF at 10461 Mill Run Circle, as well as a fully vacant building, 120 Westminster Pike, totaling 31,284 SF being delivered.
- The vacancy rate is likely to remain stable in the remainder of 2023 as demand trickles in from tenants, coupled with a decelerating construction pipeline, which will allow fundamentals to even out a bit.

DIRECT VACANCY RATE



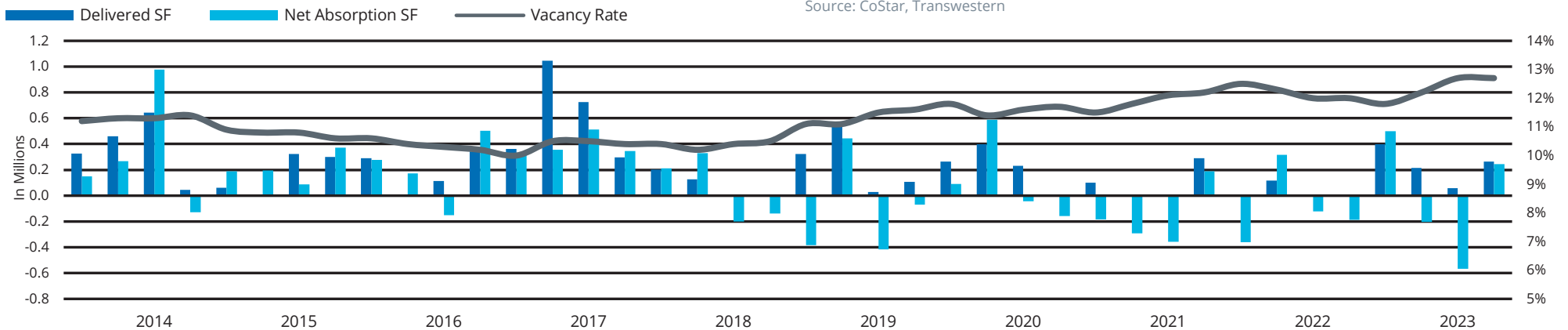
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

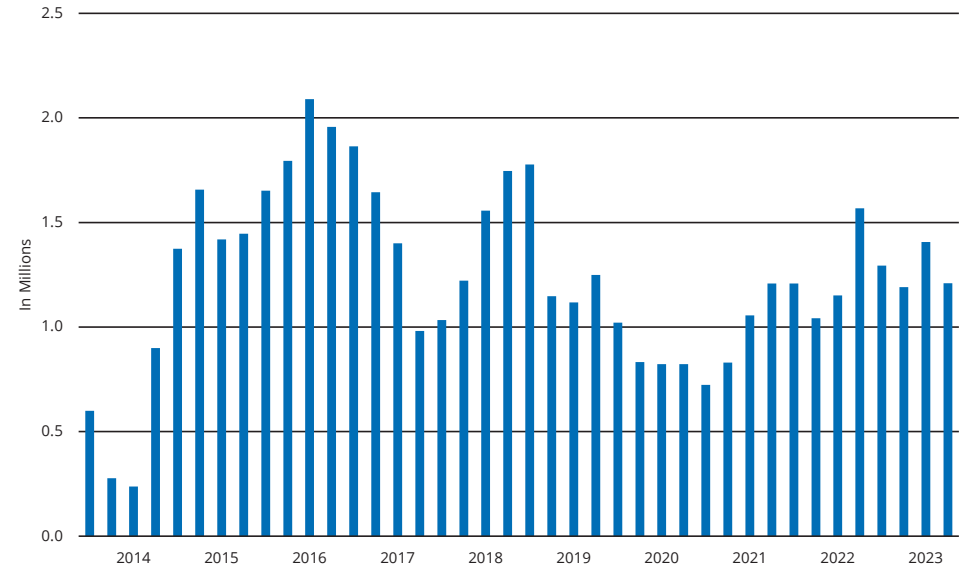


UNDER CONSTRUCTION

Multiple Pipeline Projects Deliver

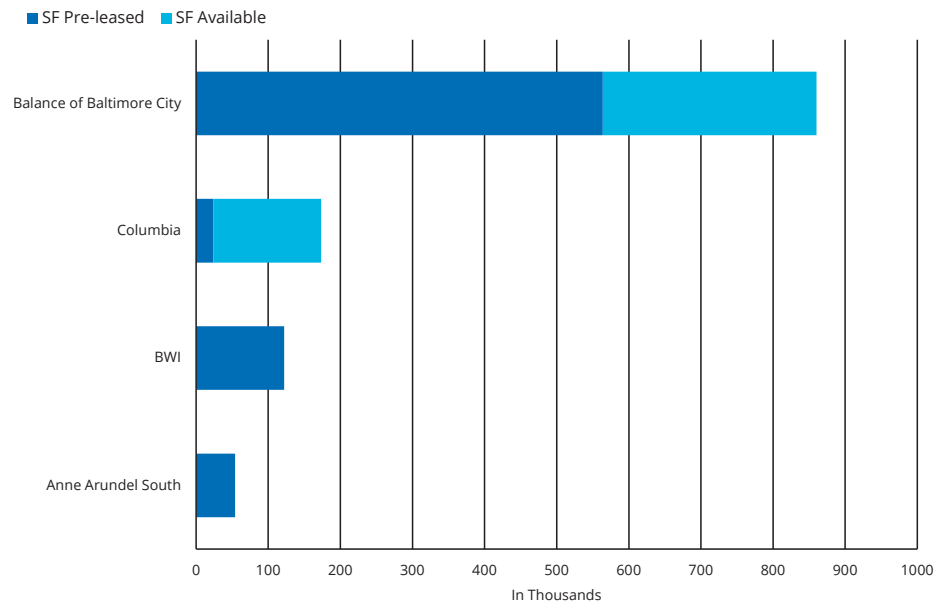
- There were five deliveries this quarter, the largest being 104,500 SF at 4010 Boston Street in the Balance of Baltimore City. The project is 51% pre-leased with a mix of tenants including Greenburg Gibbons and The Celebree School. A couple of buildings were 100% pre-leased, including 8155 Westside Boulevard in Columbia, which is Buch Construction's new headquarters.
- The construction pipeline has nine projects underway that total 1.2 million SF at 63% is pre-leased. There was one addition to the pipeline, 10285 Little Patuxent Parkway in the Columbia submarket, which will add 86,000 SF to the market and is currently 28% pre-leased.
- While the largest project continues to be the two T. Rowe Price buildings at 1307 Point Street that total 450,000 SF, the second largest is now 4 Martin Luther King Jr Boulevard at 251,850 SF.
- Balance of Baltimore City has the largest number of SF under construction, totaling 860,185 SF with 66% pre-leased. In second is Columbia which totals 173,200 SF and is 14% pre-leased.
- The construction pipeline will likely see little to no additions to the construction pipeline during the balance of 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

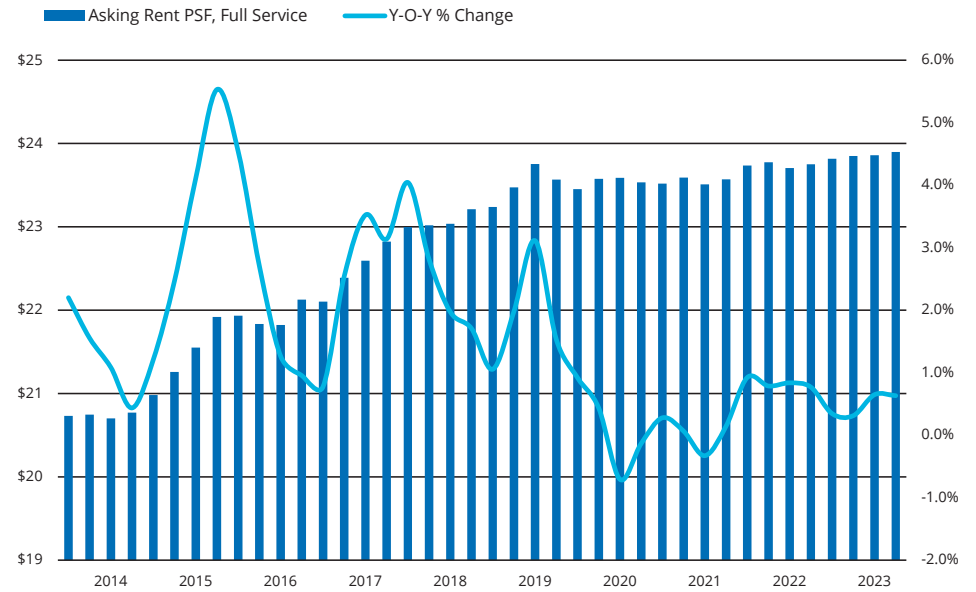


RENTAL RATES

Rental Rates Edged Up Slightly in Second Quarter

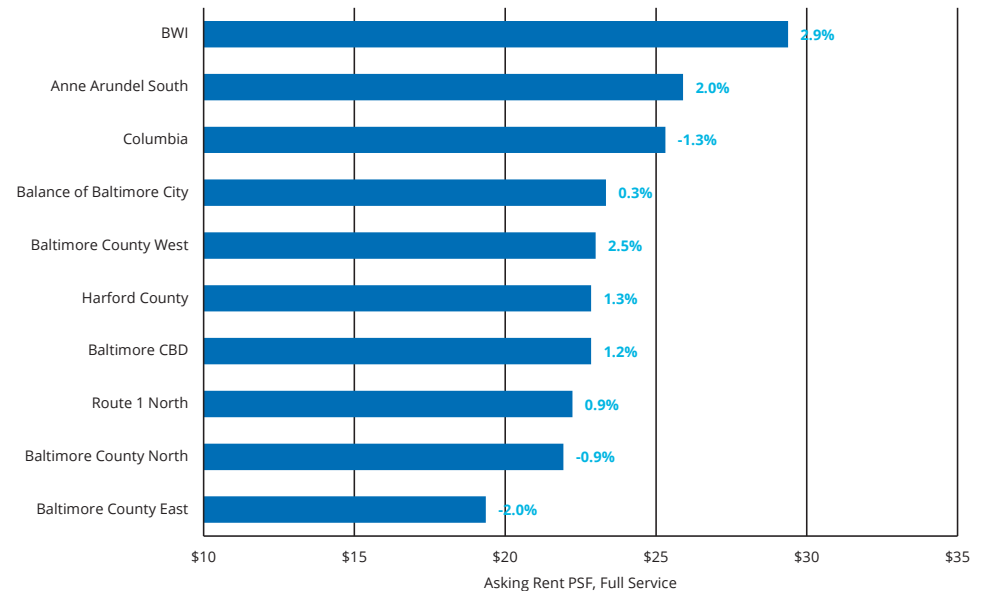
- Asking rental rates edged-up 10-basis points to \$23.90 PSF, making this the highest rate in the market in recent history.
- Class A rental rates experienced a decrease, declining 40-basis points to \$29.22 PSF, and is down 70-basis points in year-over-year. Class B/C product rental rates rose in the quarter, increasing 40-basis points to \$22.12 PSF, and has risen 120-basis points year-over-year.
- BWI continues to have the highest asking rental rate in the market, averaging \$29.38 PSF, remaining stable from the last quarter, however this is a 290-basis points increase from \$28.55 PSF in the second quarter of 2022.
- No submarkets experienced a decrease in quarterly asking rental rate averages, although Columbia has edged down 30-basis points during the first half of 2023 to \$25.31 PSF, and has decreased 130-basis points year-over-year, from \$25.65 PSF in the second quarter of 2022.
- We expect rental rates to remain relatively stable during the balance of the year as vacancy rates remain elevated and demand for office space remains low.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

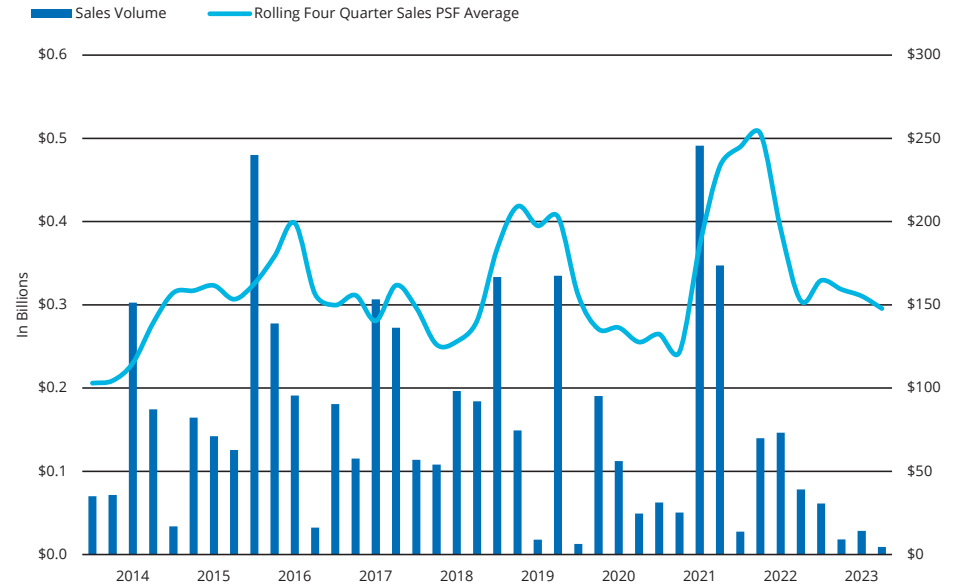


SALES

Investment Sales Remain Low at Mid-Year 2023

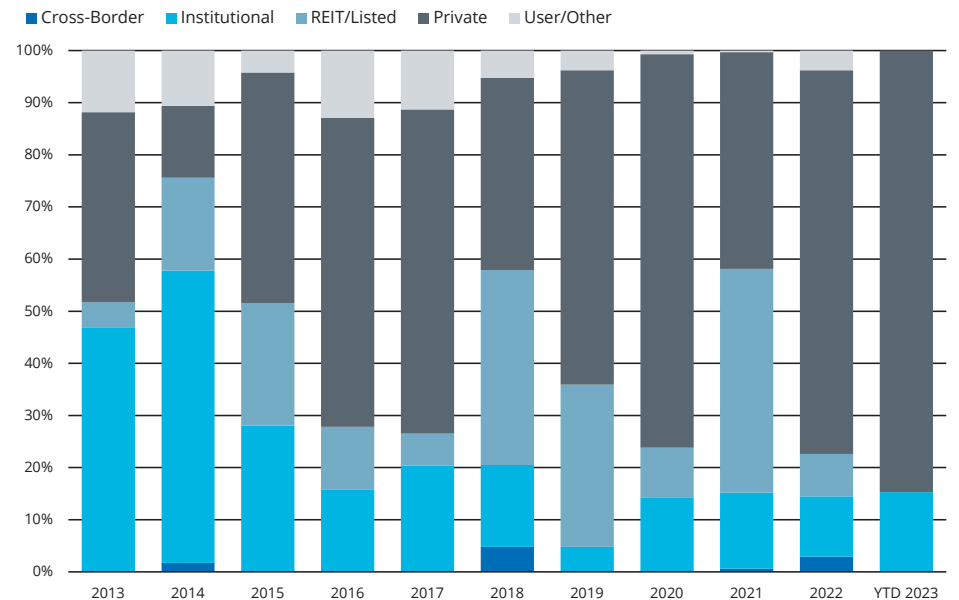
- Baltimore office market experienced a low level of transactions, totaling three investment sales throughout the quarter. The overall volume from these transactions totaled \$9.1 million, or \$129 PSF.
- This marks the lowest number of sales and sales volume in recent history, as the previous low, the fourth quarter of 2022 had a sales volume of \$18.3 million, or \$97 PSF. As all three properties sold were Class B/C product, this marks the third consecutive quarter with no Class A transactions.
- The most notable transaction for the second quarter was 6522 Meadowridge Road in Columbia, which was purchased for \$4 million, or \$132 PSF by Genesis Financial Group. Another sale that occurred this quarter was Pratt Street Capital purchasing 23-25 Walker Avenue in Baltimore County West for \$3.1 million, or \$194 PSF.
- Transaction volume will remain limited as economic factors such as elevated interest rates and inflation, as well as high office vacancy rates will give investors pause.

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
S3 SHARED SERVICES SOLUTIONS	1501 S Clinton St	Balance of Baltimore City	Sublease	38,915
SEMMES, BOWEN, AND SEMMES	250 W Pratt St	Baltimore CBD	New Lease	36,000
RADNET, INC.	10461 Mill Run Cir	Baltimore County West	New Lease	34,000
BUCH CONSTRUCTION	8155 Westside Blvd	Columbia	New Lease	30,000
BOLTON PARTNERS	1 W Pennsylvania Ave	Baltimore County North	New Lease	24,735
ALLIANZ TRADE	100 International Dr	Balance of Baltimore City	New Lease	24,584

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1965 GREENSPRING DR	Baltimore County North	May-23	\$2,000,000	24,273	\$82	Axios Real Estate Group	Helion Automotive Technologies
6522 MEADOWRIDGE RD	Columbia	May-23	\$4,022,200	30,450	\$132	Undisclosed	Firestone Consulting
23-25 WALKER AVE	Baltimore County West	Apr-23	\$3,100,000	16,020	\$194	Pratt Street Capital LLC	Salisbury Management Inc
7845 OAKWOOD RD	BWI	Mar-23	\$2,750,000	27,000	\$102	Hyatt Commercial	Jorge Miguel Ramirez MD
8601-8615 RIDGELY'S CHOICE DR	Baltimore County East	Mar-23	\$7,950,000	41,550	\$82	America's Realty	Douglas Legum Development Inc.

Source: CoStar, Transwestern



MARKET INDICATORS

All Classes of Space | Q2 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	1,322,396	34.3%	34.8%	0	(6,000)	(190,000)	\$22.85
BALTIMORE COUNTY WEST	13,372,360	1,684,917	12.6%	15.1%	0	(26,000)	(46,000)	\$23.00
BALTIMORE COUNTY NORTH	16,821,875	2,148,153	12.8%	14.8%	0	72,000	(138,000)	\$21.93
BALTIMORE COUNTY EAST	3,136,752	420,325	13.4%	14.7%	0	9,000	(25,000)	\$19.36
BALTIMORE CBD	19,731,163	2,709,089	13.7%	13.7%	0	(73,000)	3,000	\$22.85
BALANCE OF BALTIMORE COUNTY	21,891,242	2,574,410	11.8%	12.5%	860,185	121,000	71,000	\$23.34
BALTIMORE COUNTY NORTH	78,808,774	10,859,290	13.8%	14.9%	860,185	97,000	(325,000)	\$22.68
COLUMBIA	16,664,641	1,749,787	10.5%	12.6%	173,200	52,000	85,000	\$25.31
ROUTE 1 NORTH	1,245,773	255,383	20.5%	20.5%	0	6,000	(10,000)	\$22.23
BWI	11,432,974	1,052,977	9.2%	9.5%	122,195	27,000	170,000	\$29.38
ANNE ARUNDEL SOUTH	7,323,248	725,002	9.9%	10.5%	54,000	62,000	59,000	\$25.90
BALTIMORE COUNTY SOUTH	36,666,636	3,783,149	10.3%	11.5%	349,395	147,000	304,000	\$26.59
TOTAL	115,475,410	14,642,440	12.7%	13.8%	1,209,580	244,000	(21,000)	\$23.90

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.

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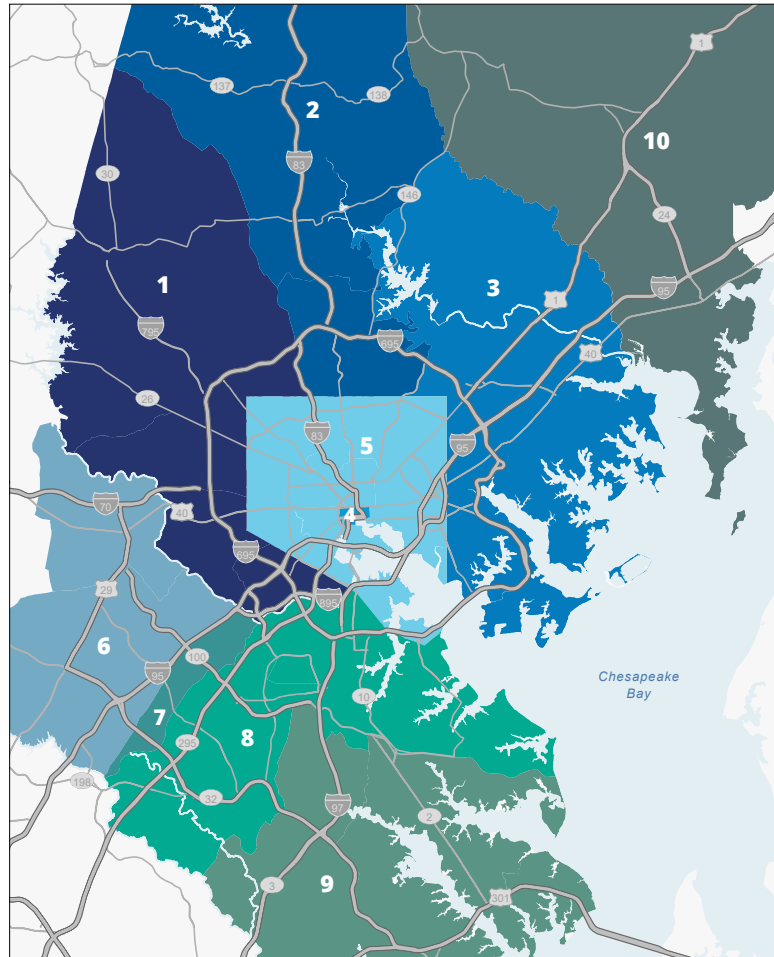
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Baltimore Office Submarkets

- 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