TRANSWESTERN

BALTIMORE METRO AREA OFFICE MARKET

Q3 2023

TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	1.7	4.3	↓	4.4	↓
NET ABSORPTION (Thousands SF)	(188.0)	500.0	↓	(38.5)	↔
DIRECT VACANCY RATE	12.9%	11.8%	↑	12.0%	↔
DIRECT VACANT SF (MSF)	14.9	13.6	↑	13.8	↔
UNDER CONSTRUCTION (MSF)	1.4	1.3	↑	1.1	↔
ASKING RENT, FULL SERVICE (PSF)	$23.91	$23.82	↑	$23.67	↔
SALES VOLUME (Millions)	$62.9	$61.3	↑	$122.0	↔

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

BALTIMORE OFFICE WEAKENS IN THE THIRD QUARTER

The Baltimore metro area office weakened in the third quarter as the net absorption totaled negative 188,000 SF. The vacancy rate rose 20-basis points to 12.9%. Asking rental rates remained stable, rising to $23.91 PSF in the quarter, up from $23.90 PSF in the previous quarter.

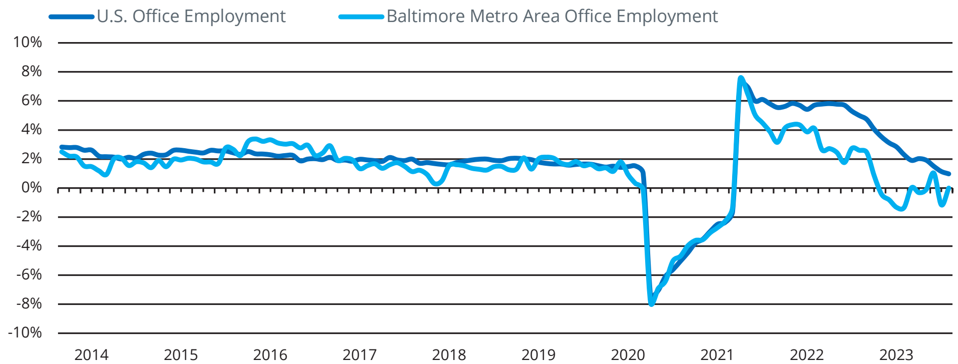
We expect office market conditions to remain soft in the Baltimore metro area through 2024, as future move-outs and rightsizing, coupled with limited leasing activity, will drag the overall market. This will put pressure on all constituents to explore creative solutions. Given record level availability, landlords will need to be creative in deploying hospitality approaches to make the office more desirable than alternative work options.

ECONOMY

Office-Using Job Growth Continues to Climb Through the Summer

- 17,200 new jobs were added to the Baltimore metro area during the 12-months ending in August 2023. This is the second highest year-over-year average in 2023, as June added 27,400 new jobs.
- Office-using jobs were flat in the 12 months ending in August 2023. The industry sector that faired the strongest was the federal government, which added 2,200 net new jobs in the past 12 months. However, most jobs lost were within the professional/business services, which cut 4,000 jobs.
- The unemployment rate in the Baltimore metro area decreased significantly, declining 50-basis points since June of this year to 1.7% as of August 2023. This is a 130-basis point decrease in unemployment rate since January of this year.
- Despite economic headwinds, we expect office-using jobs to continue to grow modestly through 2024. Most of this growth should occur within the healthcare, consulting, and civic/social organization sectors.

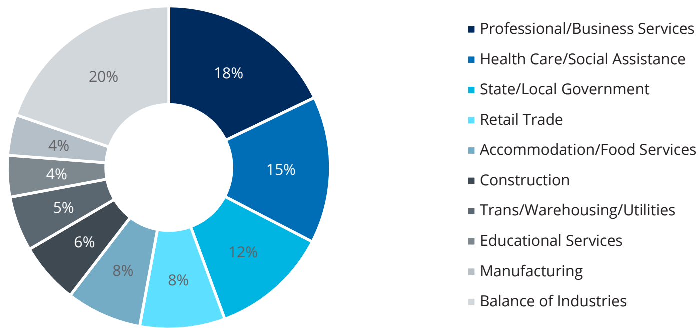
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

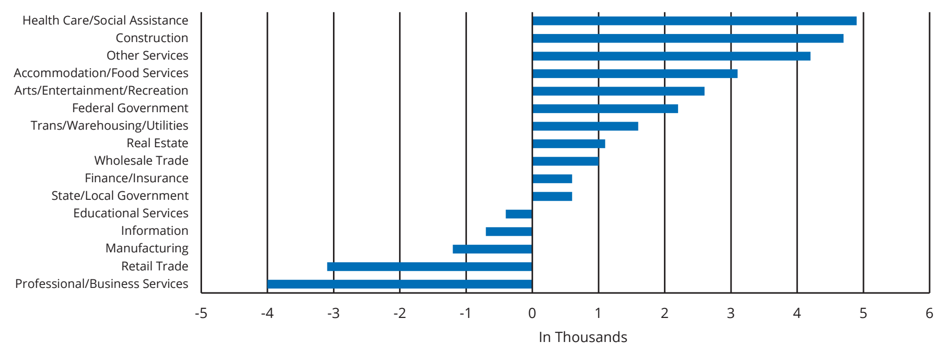
Baltimore Metro Area | August 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Baltimore Metro Area



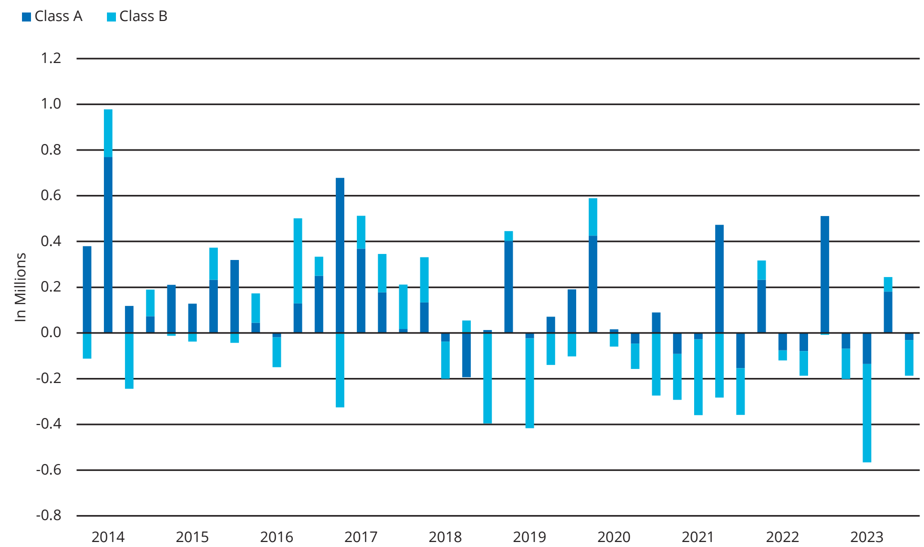
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

Net Absorption Moves Negative in Back Half of 2023

- Net absorption totaled negative 188,000 SF during the third quarter of 2023, making it the second quarter out of three to total negative absorption in 2023.
- Class A slightly struggled in the third quarter, totaling negative 31,000 SF and the year-over-year absorption totaled negative 55,000 SF. Class B/C space totaled 156,000 SF of negative absorption for the quarter, with the year-over-year totaled negative 658,000 SF.
- A notable transaction that occurred was U.S. Immigrations and Customs Enforcement (ICE) signing for 30,450 SF at 6522 Meadowridge Road in Columbia. Counteracting this was GDIT vacating a full floor at 6721 Columbia Gateway Drive in Columbia, as well as Towson University leaving 53,754 SF at 1 Olympic Place in Baltimore County North.
- We expect absorption to oscillate in the coming quarters as demand for Class A space could increase with the flight to quality, while Class B/C product could struggle as tenants vacate for newer product.

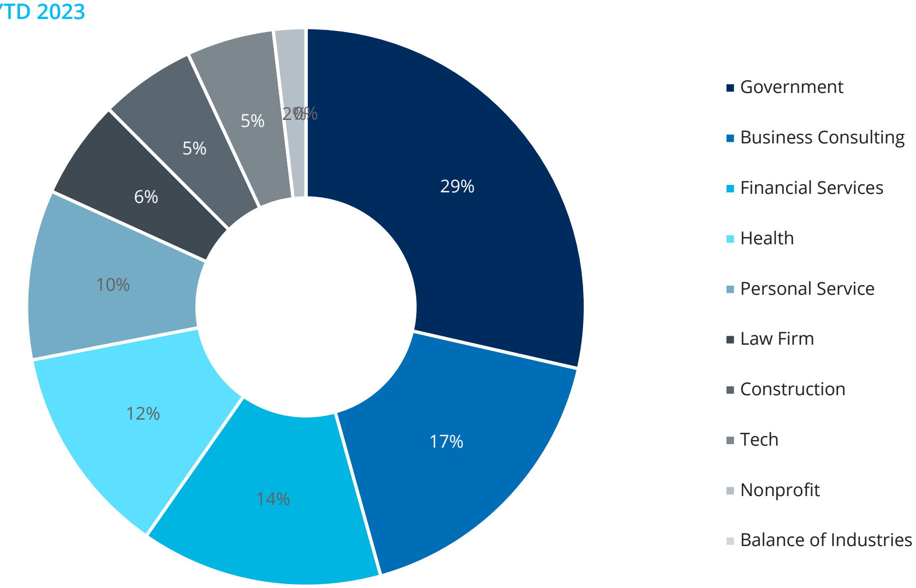
NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY

YTD 2023



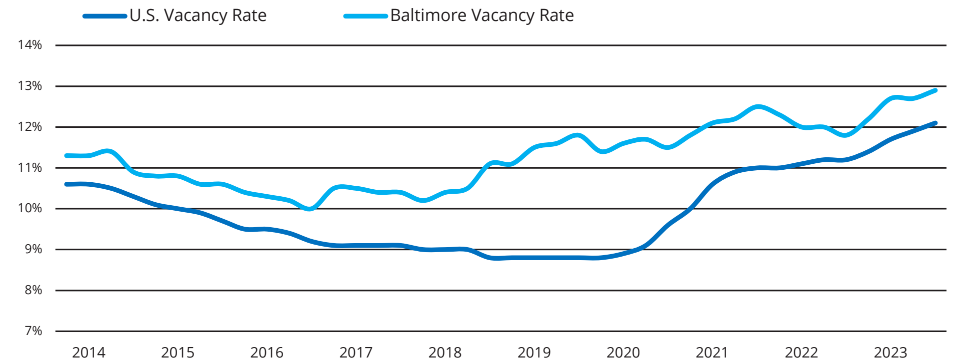
Source: CoStar, Transwestern

VACANCY

Vacancy Rate Sees Slight Uptick

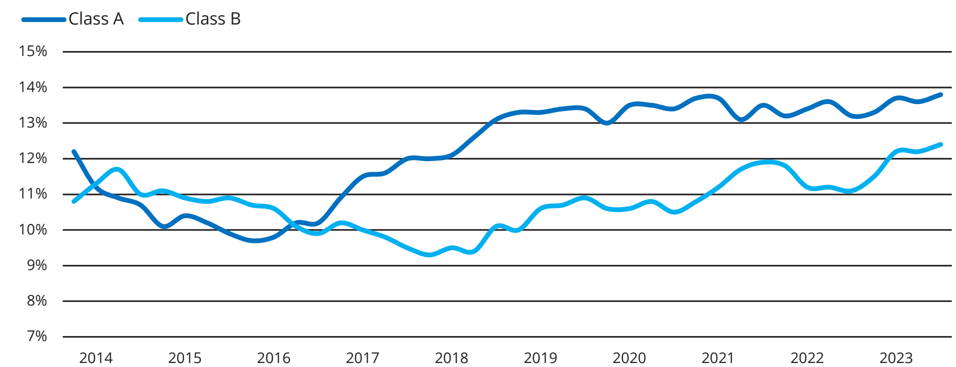
- The vacancy rate increased 20-basis points to 12.9% in the quarter and has risen 110-basis points since the third quarter of 2022.
- Both product classes struggled in the quarter as each experienced 20-basis points increases, with Class A averaging 13.8% and Class B/C averaging 12.4%.
- Route 1 North had the largest decrease in vacancy rate, declining 240-basis points to 18.1%, which was aided by multiple small move-ins and minimal move-outs. Anne Arundel South had the largest increase in vacancy rate, rising 80-basis points to 10.7%.
- The vacancy rate is likely to be challenged through 2024, as demand softens due to economic uncertainty and tenants right size office space.

DIRECT VACANCY RATE



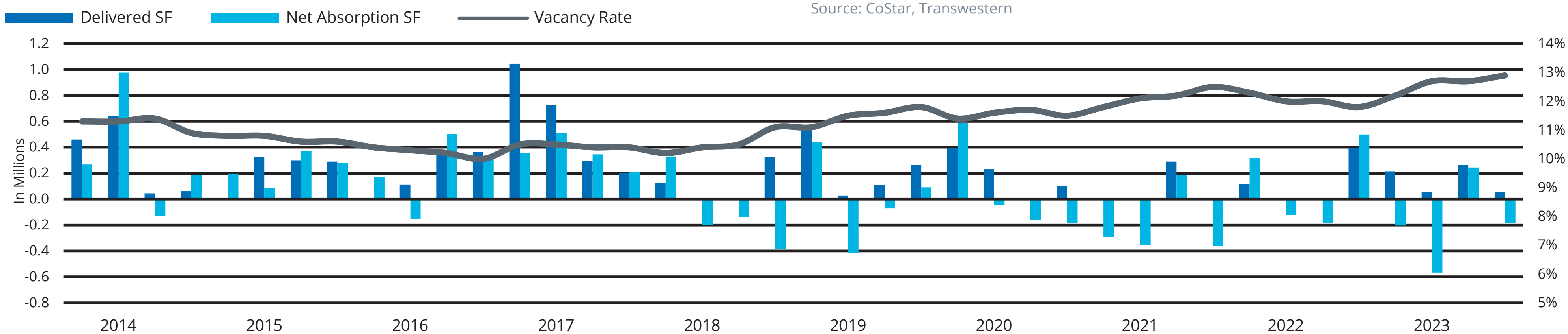
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



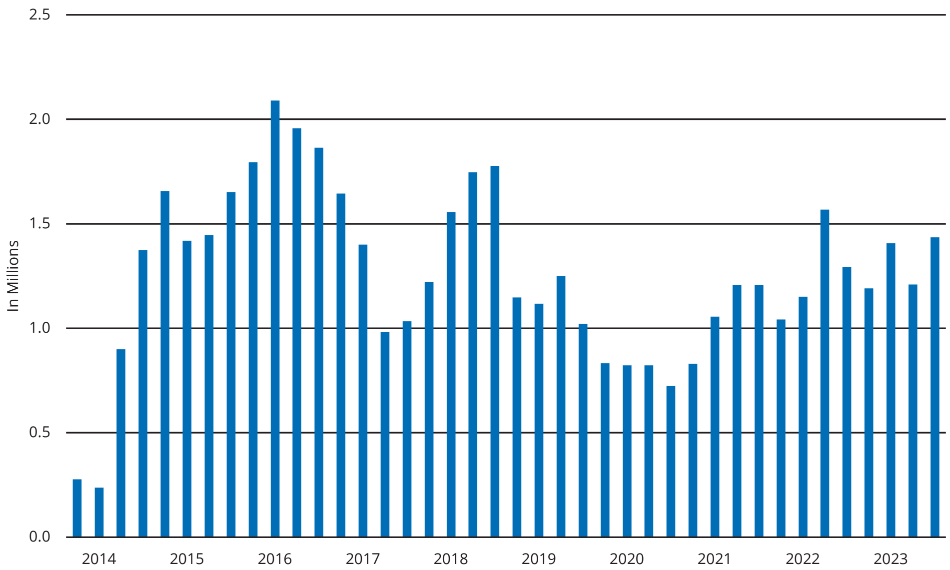
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Construction Pipeline Evens Out With One Delivery and One Addition

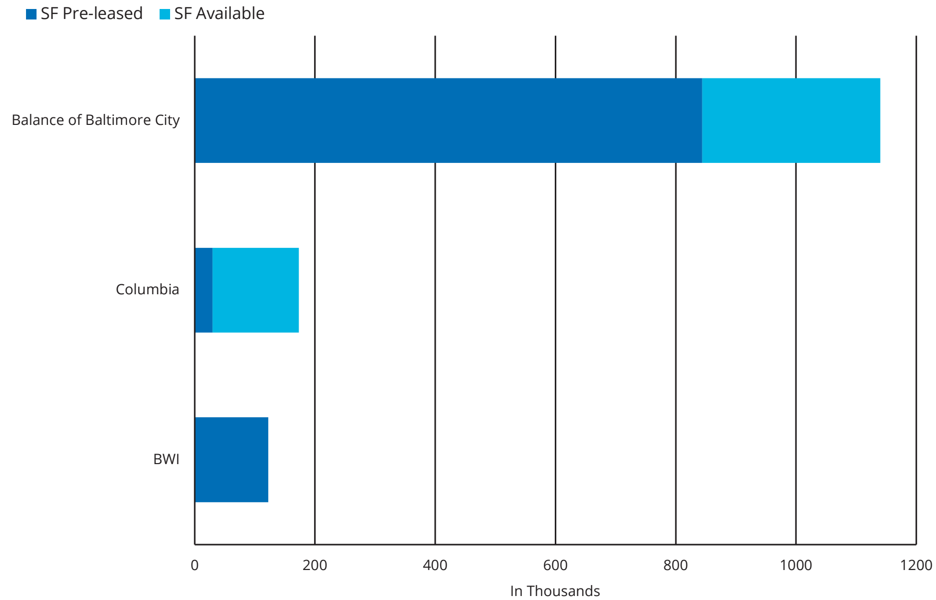
- There was one delivery in the quarter, 189 Harry S. Truman Parkway, which totals 54,000 SF and is 100% pre-leased by the Administrative Office of the Courts in Anne Arundel South.
- The construction pipeline has nine projects underway that total 1.4 million SF at 69% is pre-leased. There was one addition to the pipeline, 2501 Port Covington Drive – Teammate Building 2 in the Balance of Baltimore City, which will total 280,000 SF and is 100% pre-leased by Under Armour.
- The largest project continues to be the two T. Rowe Price buildings at 1307 Point Street that total 450,000 SF, with the Under Armour building becoming the second largest project. Another notable project is 4 Martin Luther King Jr Boulevard at 251,850 SF in the Balance of Baltimore City which is anticipated to deliver in the fourth quarter of 2024.
- Balance of Baltimore City has the largest number of SF under construction, totaling 1.1 million SF with 74% pre-leased. In second is Columbia which totals 173,200 SF and is 17% pre-leased.
- The construction pipeline will likely become stale through 2024 as developers pause due to economic headwinds such as inflation and high interest rates. Projects could break ground if an anchor tenant has been secured.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



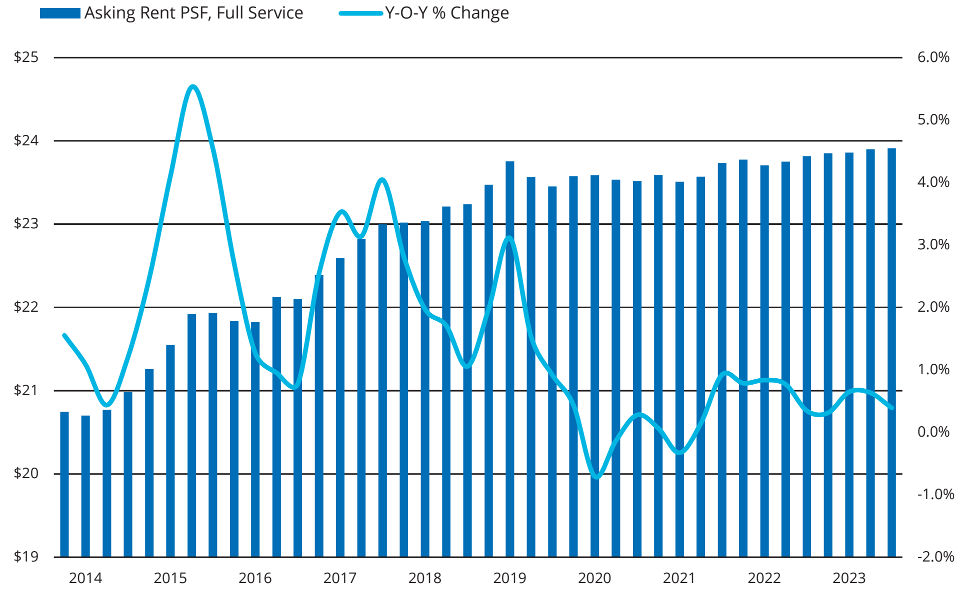
Source: CoStar, Transwestern

RENTAL RATES

Rental Rates Slowly Rise Throughout 2023

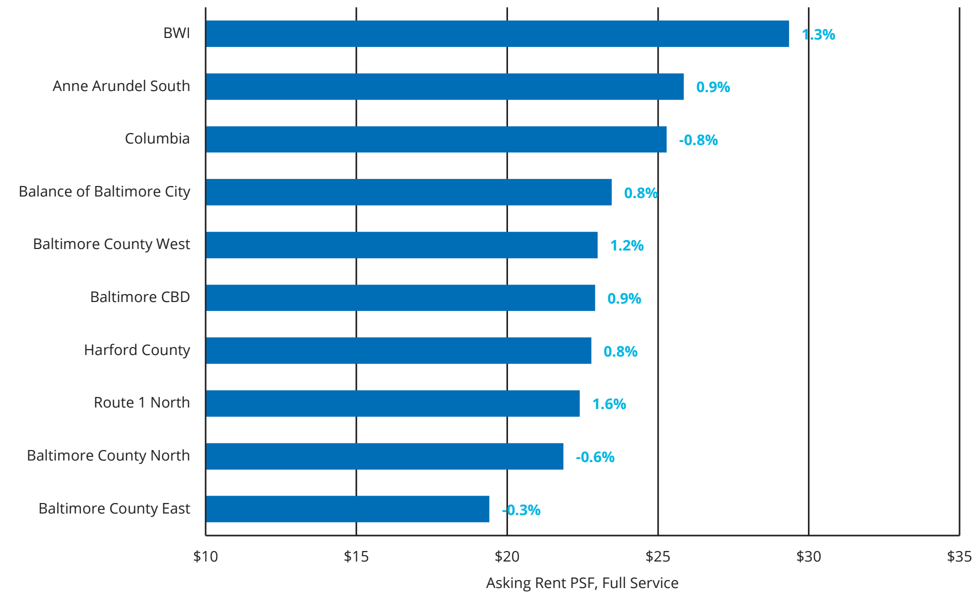
- Asking rental rates edged-up 10-basis points to $23.91 PSF, with a year-over-year increase of 40-basis points up from $23.81 PSF in the third quarter of 2022.
- Class A rental rates remained stable as the rental rates decreased by one cent to $29.21 PSF. Class B/C product rental rates slightly increased in the quarter, increasing 10-basis points to $22.14 PSF, and has risen 60-basis points since the start of 2023, up from $22.00 PSF in the fourth quarter of 2022.
- BWI has the highest asking rental rate in the market, averaging $29.34 PSF, decreasing 10-basis points in the quarter. Route 1 North experienced the largest increase in the quarter, rising 80-basis points to $22.40 PSF, as well as having the largest year-over-year increase which rose 160-basis points.
- Harford County and Baltimore County North tied for the largest decrease in quarterly asking rental rate averages, both dropping 30-basis points and averaging $22.79 PSF and $21.86 PSF, respectively.
- 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



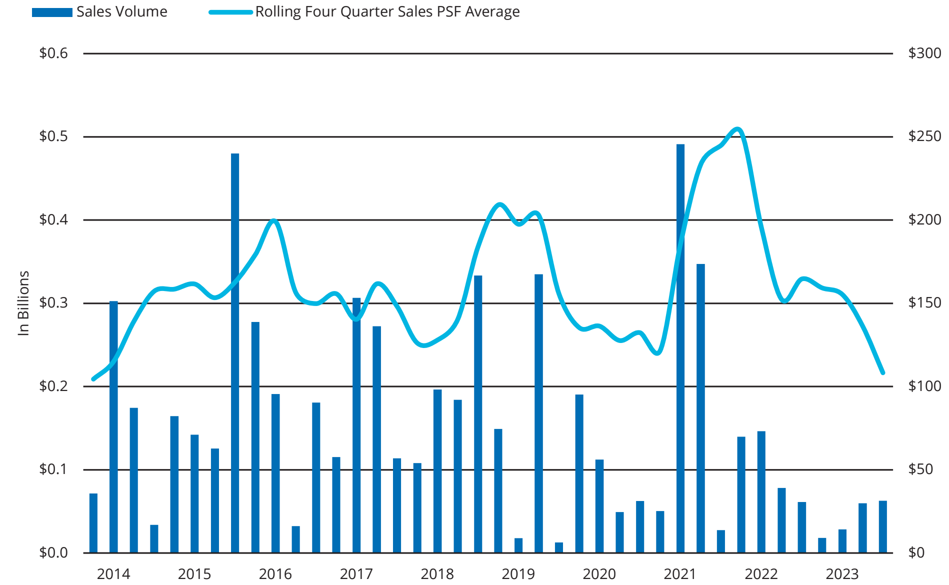
Source: CoStar, Transwestern

SALES

Investment Sales Volume Remains Low in Third Quarter

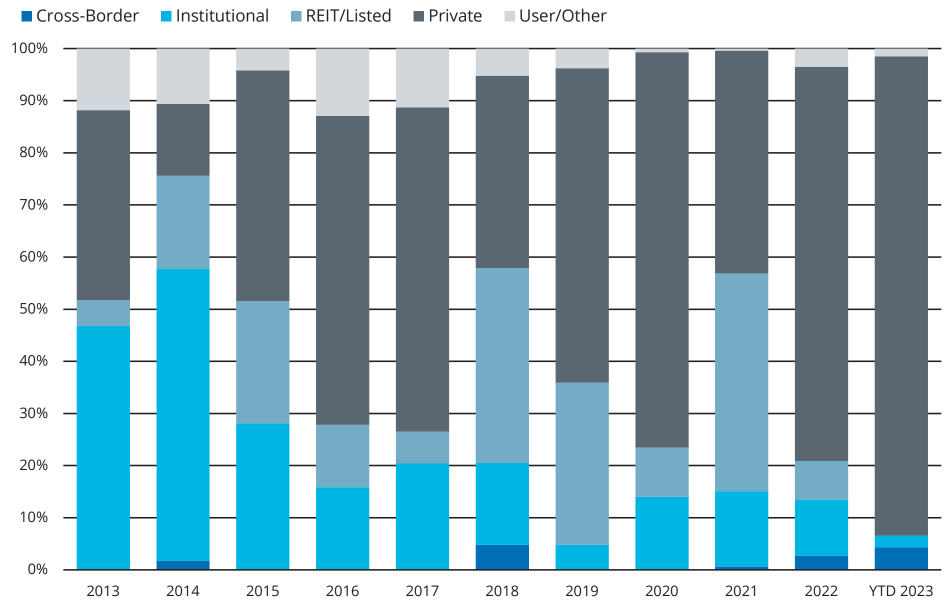
- Baltimore office market experienced its lowest level of transactions in the year so far, totaling six investment sales throughout the quarter. The overall volume from these transactions totaled $62.9 million, or $94 PSF.
- Despite trailing the second quarter of 2023 in total number of transactions, with the previous quarter totaling 10, the volume of sales is slightly larger where the previous quarter totaled $59.8 million, or $83 PSF.
- The most notable transaction for the third quarter was 1 E. Pratt Street in the Baltimore CBD, which was purchased for $25 million, or $70 PSF by MCB Real Estate. Another sale that occurred this quarter was Annapolis 151, LLC purchasing 151 West Street in Anne Arundel South for $9.5 million, or $264 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
CACI	2720 Technology Dr	BWI	Renewal	149,384
FBI	801 International Dr	BWI	Renewal	65,551
GSA CUSTOMS AND BORDER PATROL	7031 Ridge Rd	BWI	New Lease	31,133
GSA ICE	6522 Meadowridge Rd	Columbia	New Lease	30,450
RCM&D	4 N Park Dr	Baltimore County North	New Lease	24,904
DEFENSE CONTRACT MANAGEMENT AGENCY	939 Elkridge Rd	BWI	New Lease	18,830

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
151 WEST ST	Anne Arundel South	Aug-23	$9,500,000	36,014	$264	Annapolis 151, LLC	Moore & Associates, Inc.
305 WASHINGTON AVE	Baltimore County North	Aug-23	$5,800,000	52,800	$110	Baltimore County	Dr. Pattanashetti, DMD
209 W FAYETTE ST	Baltimore CBD	Jul-23	$6,288,375	68,121	$92	Experimental Holdings Inc	Elliott Bay Capital Trust, LLC
210 W PENNSYLVANIA AVE	Baltimore County North	Jul-23	$13,550,000	132,502	$102	Mid-Atlantic Properties, Inc.	John Angelos
104 CHURCH LN	Baltimore County West	Jul-23	$2,800,000	21,000	$82	Saeed Joseph Haken	Mayer & Steinberg, Inc.
1 E PRATT ST	Baltimore CBD	Jul-23	$25,000,000	356,016	$70	MCB Real Estate, LLC	Banyan Street Capital

Source: CoStar, Transwestern

MARKET INDICATORS

All Classes of Space | Q3 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	1,323,553	34.3%	35.1%	0	(1,000)	(107,000)	$22.79
BALTIMORE COUNTY WEST	13,372,360	1,676,894	12.5%	14.6%	0	8,000	(93,000)	$23.00
BALTIMORE COUNTY NORTH	16,821,875	2,183,479	13.0%	15.5%	0	(35,000)	(183,000)	$21.86
BALTIMORE COUNTY EAST	3,136,752	429,735	13.7%	15.1%	0	(9,000)	(45,000)	$19.41
BALTIMORE CBD	19,731,163	2,762,363	14.0%	14.1%	0	(53,000)	(99,000)	$22.91
BALANCE OF BALTIMORE COUNTY	21,891,242	2,626,949	12.0%	12.6%	1,140,185	(53,000)	(147,000)	$23.47
BALTIMORE COUNTY NORTH	78,808,774	11,002,973	14.0%	15.1%	1,140,185	(143,000)	(674,000)	$22.71
COLUMBIA	16,664,641	1,823,112	10.9%	13.0%	173,200	(73,000)	(46,000)	$25.29
ROUTE 1 NORTH	1,245,773	225,878	18.1%	18.1%	0	30,000	26,000	$22.40
BWI	11,432,974	1,047,260	9.2%	9.8%	122,195	6,000	(13,000)	$29.34
ANNE ARUNDEL SOUTH	7,377,248	787,152	10.7%	11.0%	0	(8,000)	(5,000)	$25.86
BALTIMORE COUNTY SOUTH	36,720,636	3,883,403	10.6%	11.8%	295,395	(45,000)	(38,000)	$26.57
TOTAL	**115,529,410**	**14,886,376**	**12.9%**	**14.1%**	**1,435,580**	**(188,000)**	**(712,000)**	**$23.91**

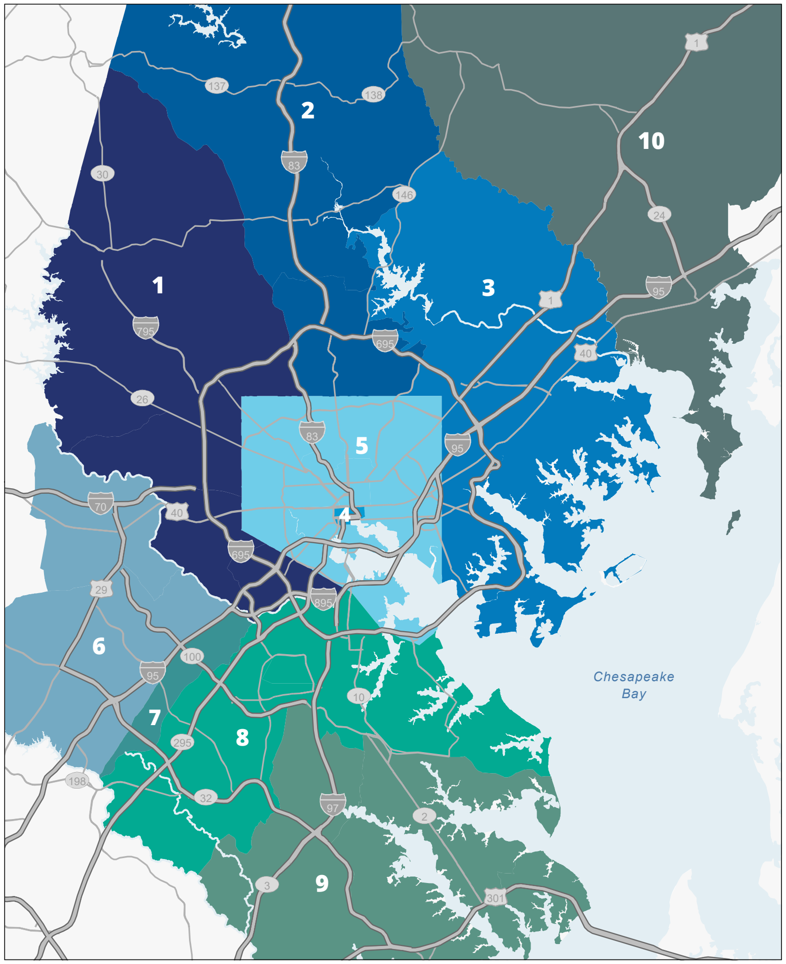
Source: CoStar, Transwestern

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.



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

FOR MORE INFORMATION

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