TRANSWESTERN

BALTIMORE METRO AREA OFFICE MARKET

Q4 2023

TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.1	3.7	↓	4.3	↓
NET ABSORPTION (Thousands SF)	(427.0)	(202.0)	↓	(82.1)	↔
DIRECT VACANCY RATE	13.3%	12.2%	↑	12.1%	↔
DIRECT VACANT SF (MSF)	15.4	14.0	↑	13.9	↔
UNDER CONSTRUCTION (MSF)	1.3	1.2	↑	1.1	↔
ASKING RENT, FULL SERVICE (PSF)	$23.96	$23.85	↑	$23.70	↔
SALES VOLUME (Millions)	$46.0	$18.3	↑	$119.0	↔

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

BALTIMORE OFFICE STRUGGLES AT END OF 2023

The Baltimore metro area office weakened in the fourth quarter as the net absorption totaled negative 427,000 SF. The vacancy rate rose 40-basis points to 13.3%. Asking rental rates edged up slightly, increasing 20-basis points to $23.96 PSF.

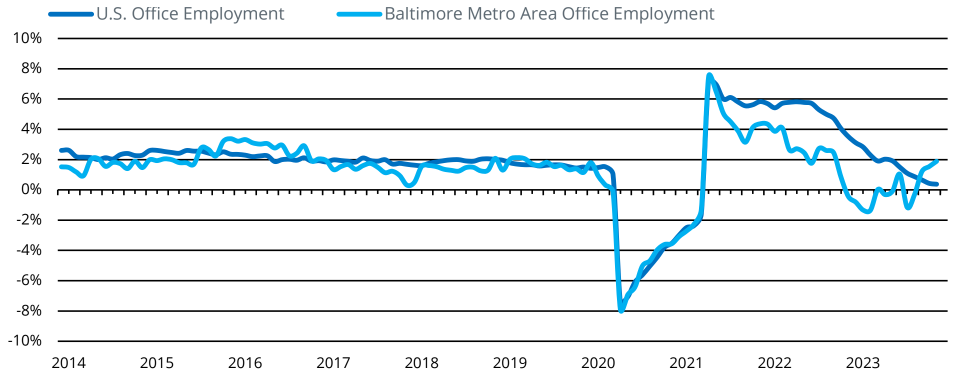
We expect office market conditions to remain soft in the Baltimore metro area through 2024, as future move-outs and rightsizing, coupled with limited leasing activity, will drag the overall market. Top tier space will remain in demand, with most of the pressure on Class B product. Although demolitions and conversions of obsolete office product to alternative property types will help, it will not be the entire solution.

ECONOMY

Office-Using Job Growth Maintains Upward Trend in Q4

- 24,900 new jobs were added to the Baltimore metro area during the 12-months ending in November 2023. Most of this growth was concentrated in the healthcare sector which added 9,300 jobs during this period.
- Office-using jobs experienced growth year-over-year, adding 9,000 net new jobs. The physician offices sector added the most office using jobs at 4,000 followed by the professional/business services sector which added 3,300 jobs.
- The unemployment rate in the Baltimore metro area experienced a slight uptick of 40-basis points to 2.2%, up from 1.8% in August of this year. However, in the twelve months since October 2022, the unemployment rate has decreased 180-basis points.
- 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.

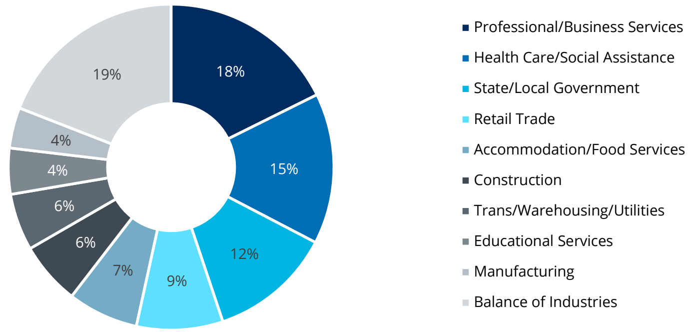
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

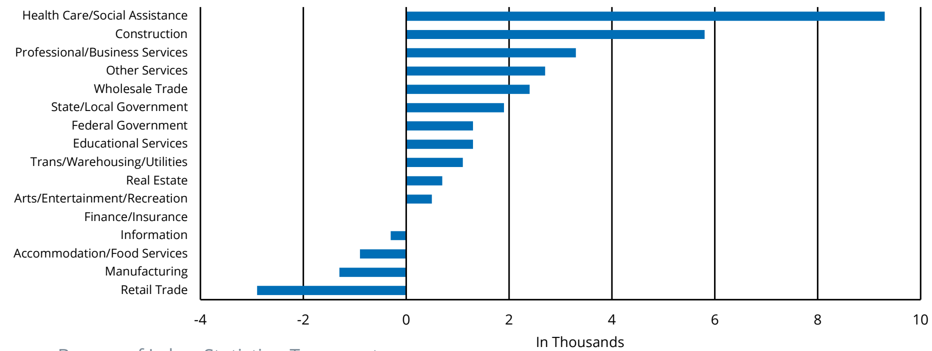
Baltimore Metro Area | November 2023



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 Maintains Negative Trend at End of 2023

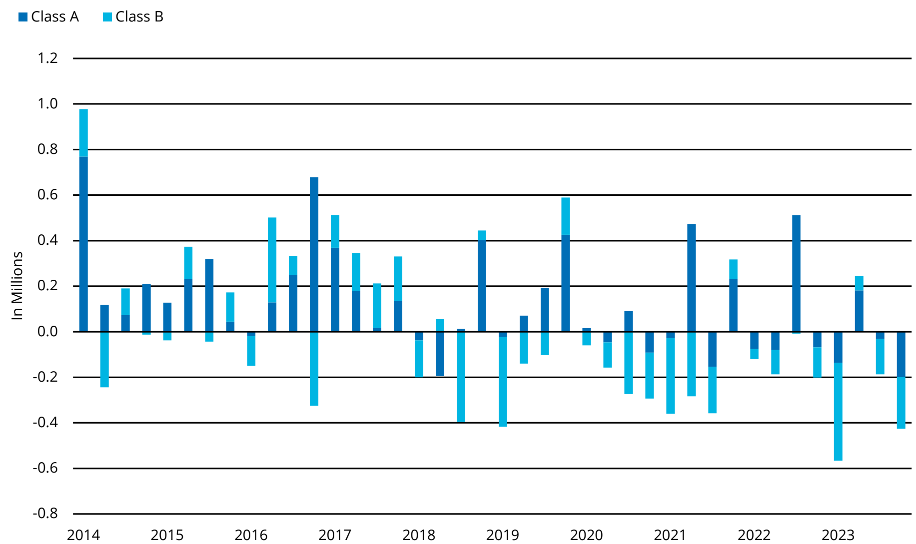
- Net absorption totaled negative 427,000 SF in the fourth quarter. This is the second consecutive quarter in a row with negative absorption and is the third quarter out of four in 2023 to be negative.

- Class A experienced a downturn in the fourth quarter, totaling negative 199,000 SF and the total for 2023 was negative 184,000 SF. Class B/C space totaled negative 227,000 SF for the quarter, with the year totaling negative 751,000 SF.

- A notable transaction that occurred was The Guntry Club of Maryland inking 20,410 SF at 10705 Red Run Boulevard in Baltimore County West. This was mitigated by Allianz vacating a 60,000 SF at 800 Red Brook Boulevard, also in Baltimore County West. Another notable move-out was the Maryland Department of Human Services terminating their 32,833 SF lease at 5818 Reisterstown Road in the Balance of Baltimore City submarket.

- We expect absorption to remain minimal to negative in 2024 as the demand for office space continues to be tempered and the flight to quality leaves Class B/C product with rising vacancy and those tenants that move potentially are rightsizing in Class A product.

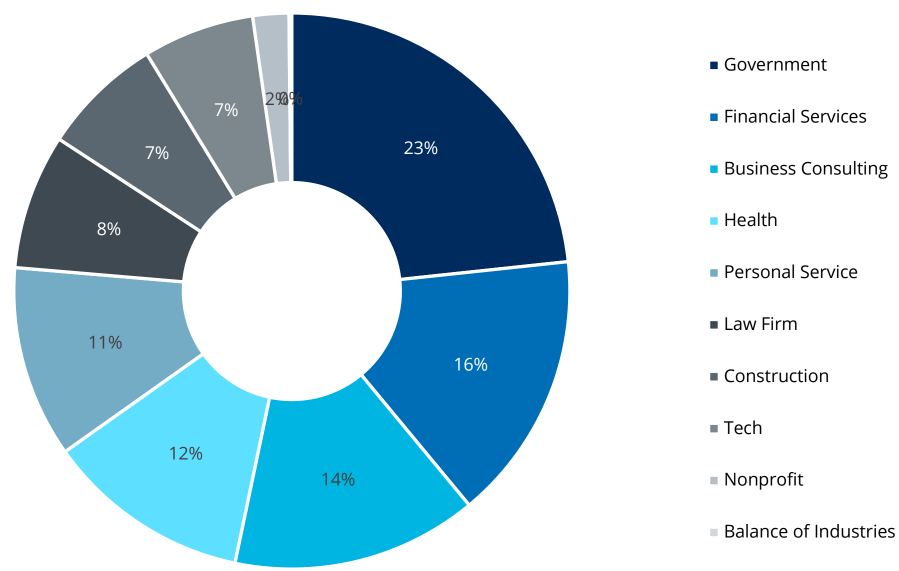
NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY

YTD 2023



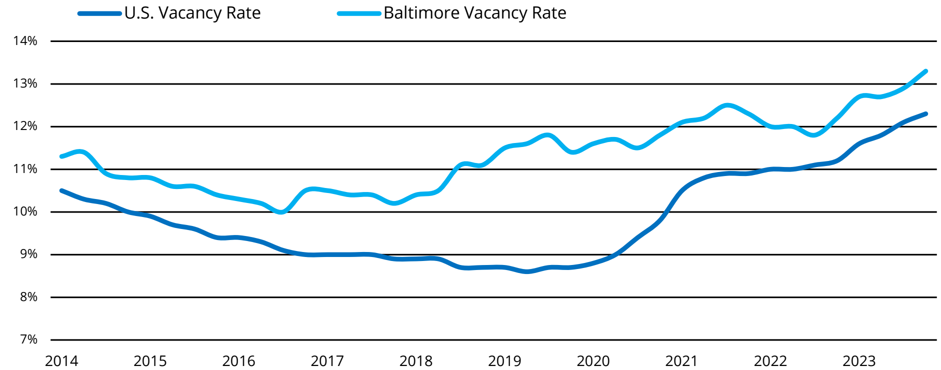
Source: CoStar, Transwestern

VACANCY

Vacancy Rate Climbs Higher in Q4

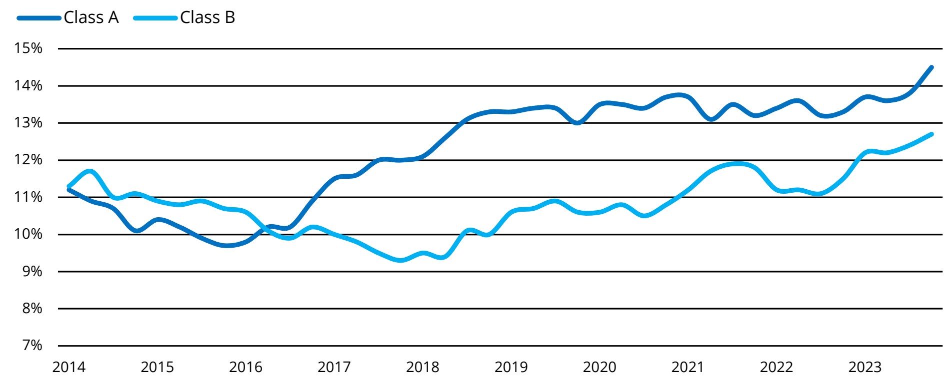
- The vacancy rate increased 40-basis points to 13.3% in the fourth quarter and has risen 110-basis points since the fourth quarter of 2022.
- Both product classes experienced increases in vacancy rate in the quarter, with Class A rising 70-basis points to 14.5% and Class B/C increasing 30-basis points to 12.7%.
- Columbia had the largest rise in vacancy rate, rising 140-basis points to 12.3%, which was aided by GCOM vacating 17,402 SF at 9175 Guilford Road. Baltimore County East and Baltimore County North tied for the lowest decrease in vacancy rate, edging down 20-basis points to 13.5% and 12.8%, respectively.
- The vacancy rate is likely to be challenged throughout 2024, as demand softens due to economic uncertainty and tenants right size office space.

DIRECT VACANCY RATE



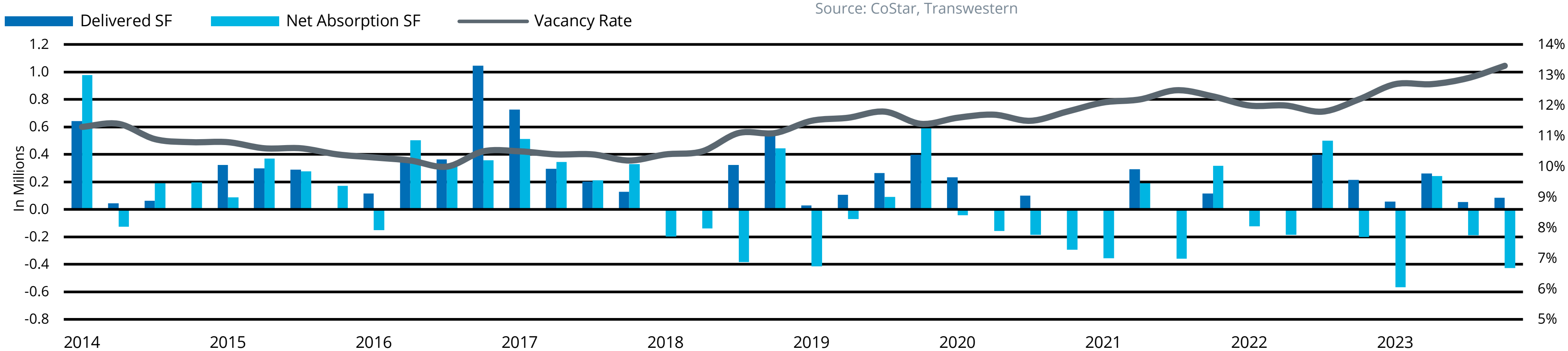
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



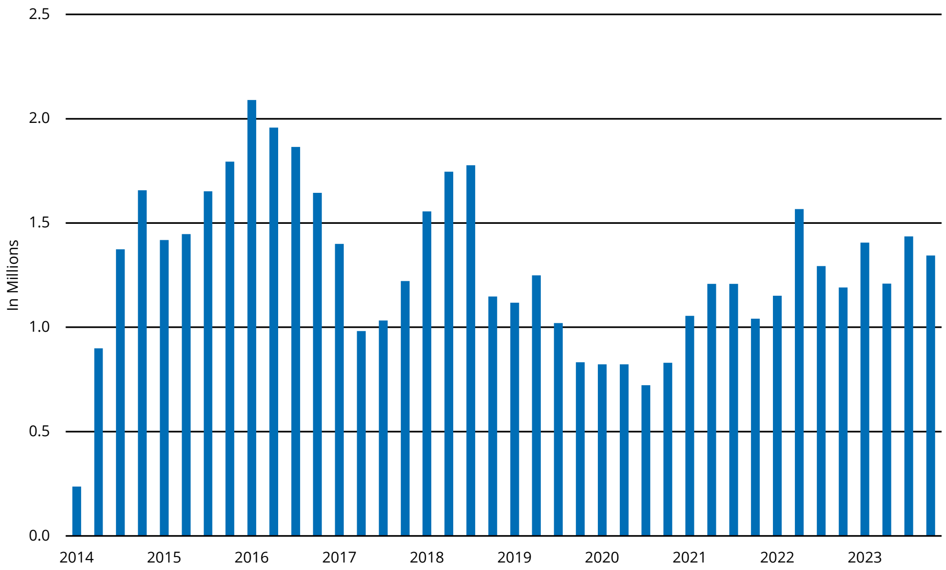
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Construction Pipeline Delivers One Project

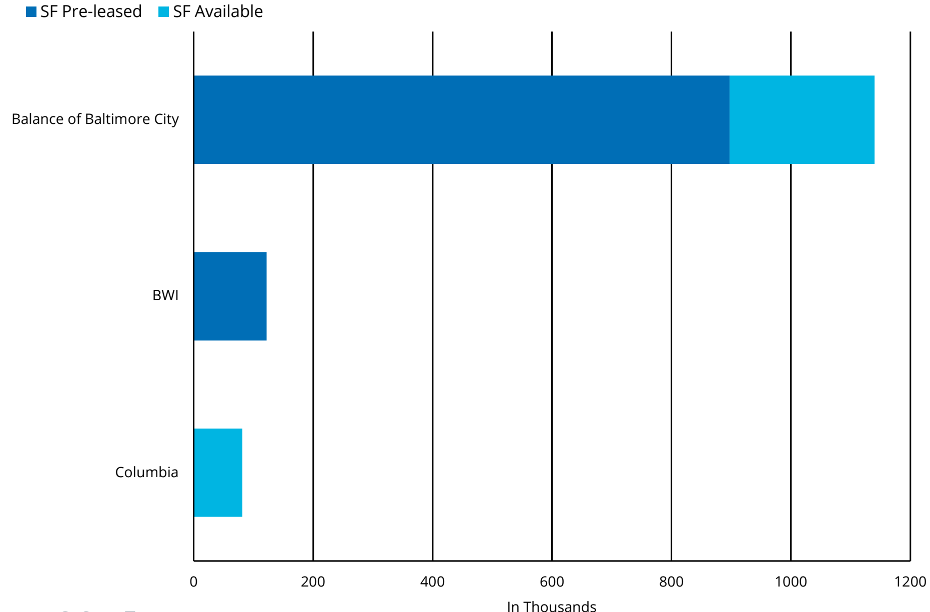
- There was one delivery in the quarter, 10285 Little Patuxent Parkway, which totals 86,000 SF and is 25% pre-leased by the Orthopedic Associates of Central Maryland in Columbia.
- The construction pipeline has eight projects underway totaling 1.3 million SF at 76% pre-leased. There were no additions to the pipeline this quarter.
- The largest project continues to be the two T. Rowe Price buildings at 1307 Point Street that together total 450,000 SF. The second largest project is Under Armour's new building at 2501 Port Covington Drive in the Balance of Baltimore City that will total 280,000 SF when delivered at the end of 2024.
- Balance of Baltimore City has the largest amount under construction, totaling 1.1 million SF at 79% pre-leased. In second is BWI, with one project at 550 National Business Parkway which totals 122,195 SF and is 100% pre-leased by Microsoft and Amazon Web Services.
- The construction pipeline will likely dwindle throughout 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



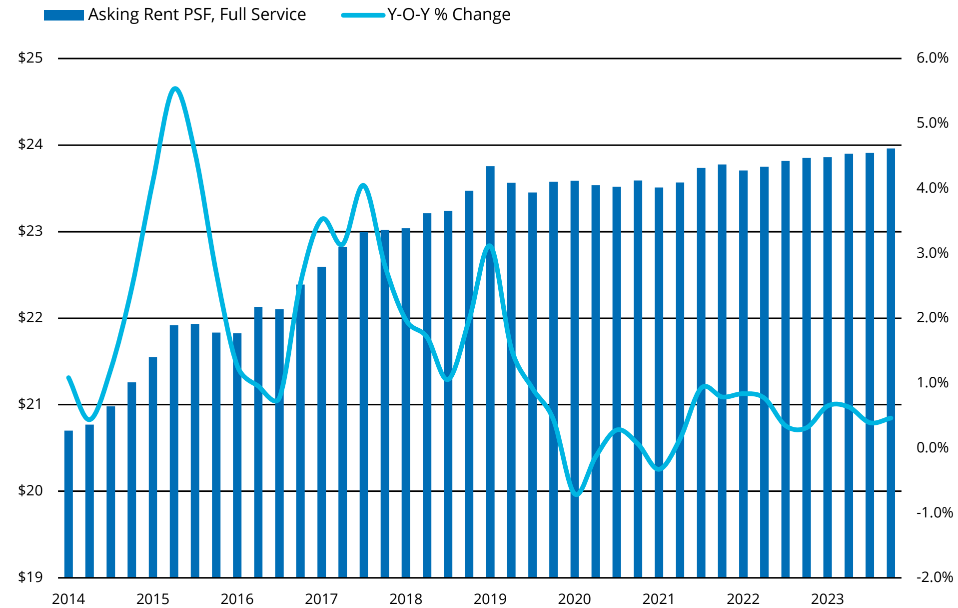
Source: CoStar, Transwestern

RENTAL RATES

Rental Rates Hold Slow Growth in Fourth Quarter

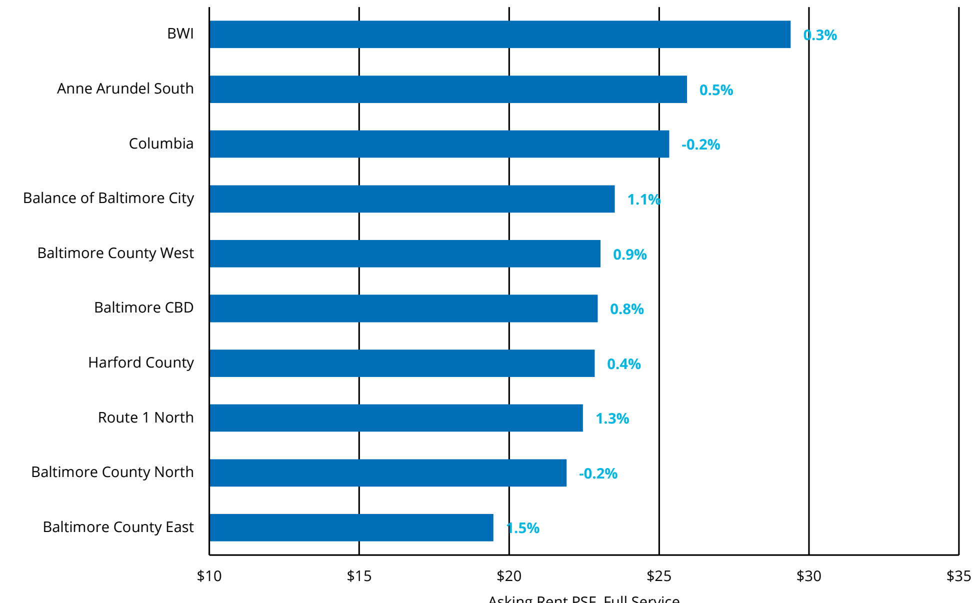
- Asking rental rates ticked up 20-basis points to $23.96 PSF, with a year-over-year increase of 50-basis points from $23.86 PSF in the fourth quarter of 2022.
- Class A rental rates remained stable at $29.20 PSF. Class B/C rates experienced an increase in the quarter, rising 30-basis points to $22.21 PSF, and sharply rising 100-basis points year-over-year from $22.04 PSF in the fourth quarter of 2022.
- BWI holds the highest asking rental rate, averaging $29.39 PSF, a 10-basis point rise in the quarter. Two submarkets experienced decreases in year-over-year, Columbia and Baltimore County North both edged down 20-basis points, averaging $25.34 and $21.92 PSF, respectively.
- Four submarkets tied for the largest increase in quarterly asking rental rate averages, Harford County, Baltimore County West, Baltimore County East, and Anne Arundel South all rose 30-basis points and averaging $22.85, $23.05, $19.47, and $25.93 PSF, respectively.
- We anticipate the rental rate to have tempered growth throughout 2024 as demand for office space remains low and landlords facing high vacancies may lower rates to entice potential tenants.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



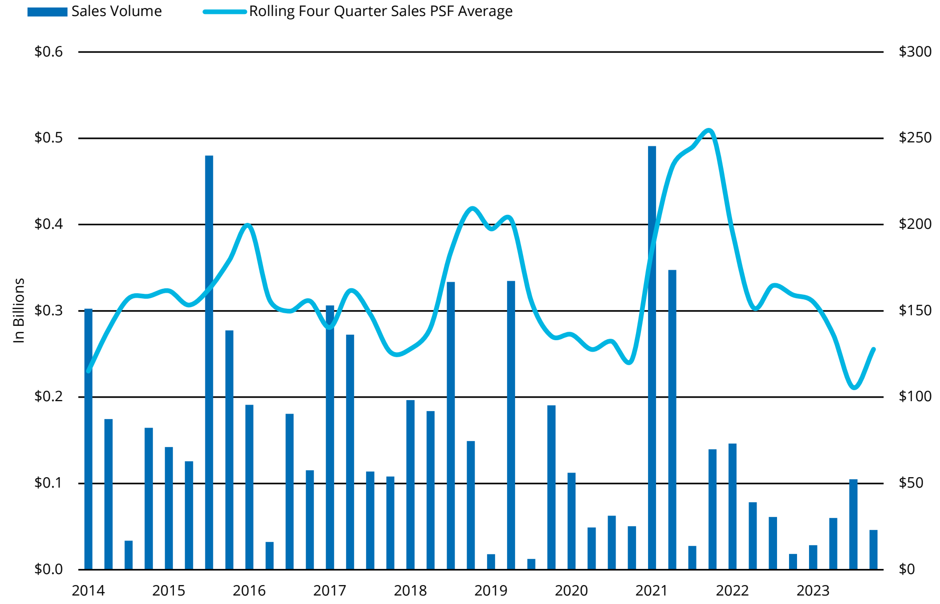
Source: CoStar, Transwestern

SALES

Investment Sales Market Remains Soft in Q4

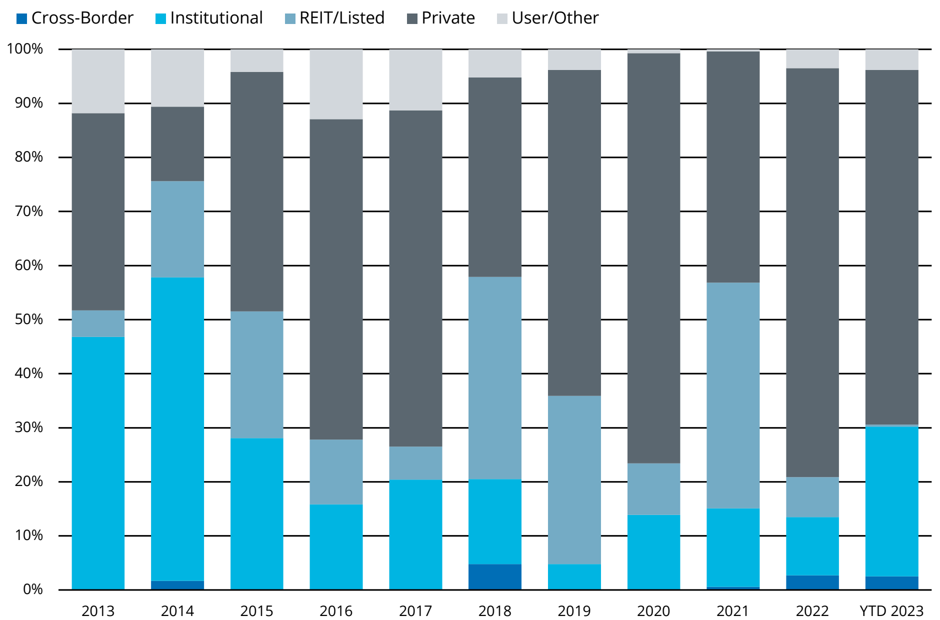
- Baltimore office market experienced the lowest number of transactions in 2023 with a total of five transactions, while it is the second lowest total by sales volume which totaled $46 million, or $186 PSF.
- Of the five transactions that occurred in the quarter, all were Class B/C product. This marks the second quarter of the year to solely have Class B/C product sold, mirroring the first quarter of 2023.
- The most notable transaction in the quarter was 1838 Greene Tree Road in Baltimore County West, which was purchased for $34 million, or $238 PSF by Hines. Another notable sale was Chesapeake Real Estate Group buying 9900 Franklin Square Drive for $4.2 million, or $122 PSF.
- Transaction volume will likely be stagnant through early 2024 as economic factors and unfavorable office market conditions give investors pause. However, this may slightly change if the Federal Reserve begins to lower interest rates after several months of holding the rate at 5.5%.

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
GOODELL, DEVRIES, LEECH, & DANN	1 South St	Baltimore CBD	Renewal	45,000
ATAPCO PROPERTIES	1 South St	Baltimore CBD	Renewal	23,000
THE GUNTRY CLUB OF MD	10705 Red Run Blvd	Baltimore County West	New Lease	20,410
COHEN & COMPANY	1 W Pennsylvania Ave	Baltimore County North	New Lease	18,624
OPTIV	6950 Columbia Gateway Dr	Columbia	Sublease	15,823
CARROLL MOTOR FUELS	18 Loveton Cir	Baltimore County North	Expansion	15,000

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
10270 OLD COLUMBIA RD	Columbia	Nov-23	$1,789,070	16,515	$108	Chesapeake Real Estate Group	Adler Real Estate Partners
10280 OLD COLUMBIA RD	Columbia	Nov-23	$1,851,576	17,092	$108	Chesapeake Real Estate Group	Adler Real Estate Partners
9160 GUILFORD RD	Columbia	Nov-23	$4,100,000	36,295	$113	Infiniti Hr	Adler Real Estate Partners
9900 FRANKLIN SQUARE DR	Baltimore County East	Oct-23	$4,200,000	34,500	$122	Chesapeake Real Estate Group	FD Stonewater
1838 GREENE TREE RD	Baltimore County West	Oct-23	$34,078,005	143,421	$238	Hines	Harrison Street Capital
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 | Q4 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	1,330,107	34.5%	35.1%	0	(7,000)	(21,000)	$22.85
BALTIMORE COUNTY WEST	13,372,360	1,758,465	13.2%	15.5%	0	(82,000)	(166,000)	$23.05
BALTIMORE COUNTY NORTH	16,821,875	2,159,929	12.8%	15.0%	0	24,000	(116,000)	$21.92
BALTIMORE COUNTY EAST	3,136,752	421,893	13.5%	14.6%	0	8,000	(45,000)	$19.47
BALTIMORE CBD	19,731,163	2,855,099	14.5%	14.6%	0	(93,000)	(168,000)	$22.95
BALANCE OF BALTIMORE CITY	21,891,242	2,736,405	12.5%	13.2%	1,140,185	(109,000)	(170,000)	$23.52
BALTIMORE COUNTY NORTH	78,808,774	11,261,899	14.3%	15.5%	1,140,185	(259,000)	(686,000)	$22.76
COLUMBIA	16,750,641	2,051,954	12.3%	14.3%	81,586	(143,000)	(218,000)	$25.34
ROUTE 1 NORTH	1,245,773	225,878	18.1%	18.1%	0	0	37,000	$22.46
BWI	11,432,974	1,074,700	9.4%	10.1%	122,195	(27,000)	(86,000)	$29.39
ANNE ARUNDEL SOUTH	7,377,248	784,939	10.6%	11.5%	0	2,000	16,000	$25.93
BALTIMORE COUNTY SOUTH	36,806,636	4,137,471	11.2%	12.6%	203,781	(168,000)	(251,000)	$26.62
TOTAL	**115,615,410**	**15,399,369**	**13.3%**	**14.5%**	**1,343,966**	**(427,000)**	**(937,000)**	**$23.96**

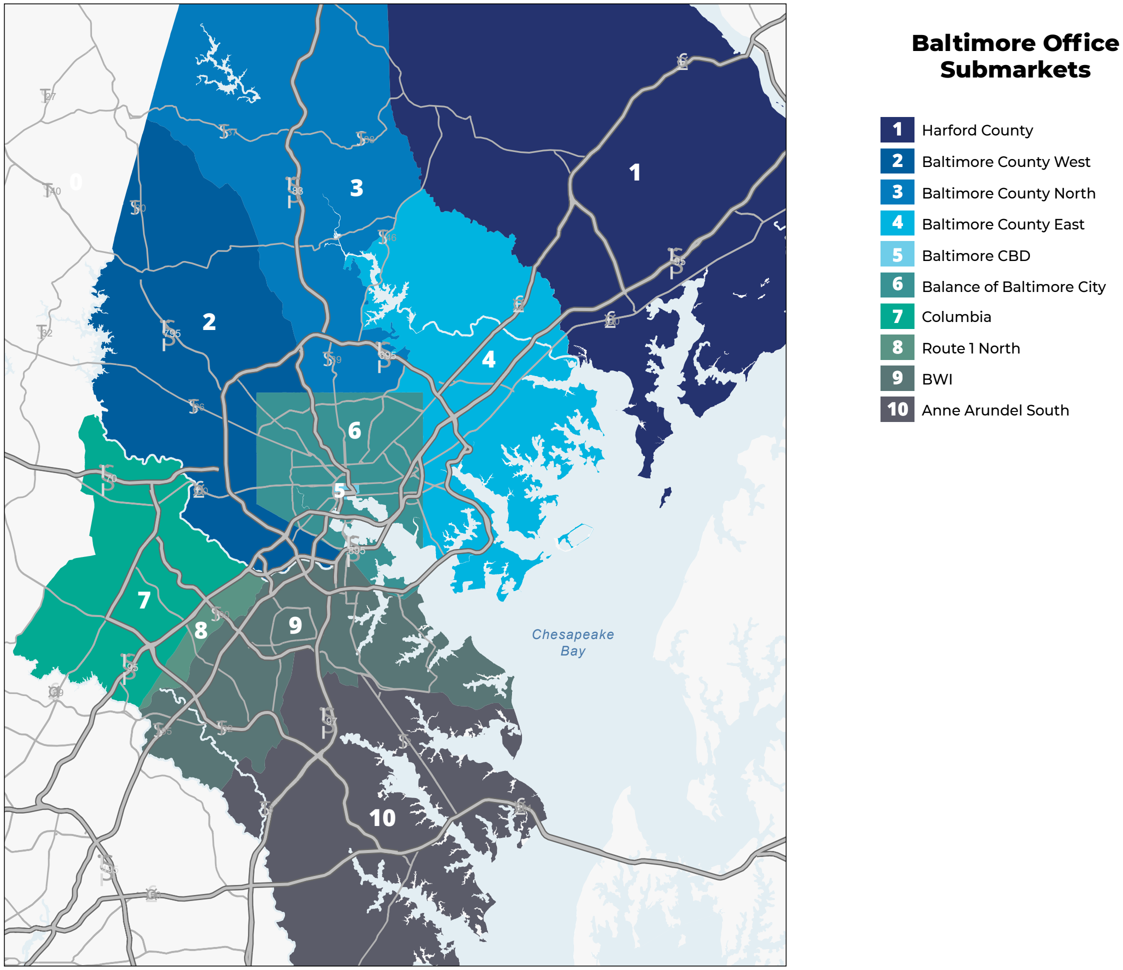
Source: CoStar, Transwestern

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.



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