

Baltimore Industrial Market

Vacancy Rate Edges Up as New Product Delivers

Baltimore's industrial market fundamentals were shaped by the delivery of new product during the fourth quarter of 2020, with negative net absorption and an increased vacancy rate. However, the average asking rent continued to tick up. Vacancy rose by 60 basis points from the previous quarter to 10.4% and is 220 basis points higher than one year ago. A large portion of the increase in vacancy can be attributed to large buildings across the region that have delivered vacant over the past year. Average asking rental rates are 7.0% higher than a year ago, an increase partially driven by the recent top-of-the-market deliveries. The Baltimore industrial market registered -301,741 square feet of net absorption during the fourth quarter, bringing year-to-date absorption to positive 1.2 million square feet. The pandemic has brought disruption to the market but also opportunity, as e-commerce accelerated and modern last-mile distribution space is increasingly in demand. The industrial sector was better insulated from the impacts of the pandemic than many other property types but has still seen job losses this year.

Two notable industrial properties completed construction in the Baltimore metro area during the third quarter, delivering a total of 926,600 square feet. The largest delivery of the quarter was Tower Logistics Center located at 1225 South Philadelphia Boulevard in the Arbutus submarket. The 860,000-square-foot distribution center delivered vacant and is available for lease.

Investment Sales Pick up from Third Quarter

Baltimore's industrial investment sales market picked up during the fourth quarter with three transactions over \$15.0 million. The largest transaction of the quarter was the portfolio sale of 8410-8416 Kelso Drive, a four-building complex totaling about 1.3 million square feet, with tenants including Amazon. Starwood Real Estate Income Trust purchased the complex from J.P. Morgan Asset Management for \$164.2 million.

Baltimore Industrial Outlook

Baltimore's industrial market fundamentals softened slightly during fourth-quarter 2020. Vacancy ticked up, a result of both move-outs and a large vacant delivery. Leasing activity in the Baltimore industrial market has remained steady despite economic uncertainty, with notable leases in the fourth quarter such as McCormick & Co. and Amazon. Net absorption was negative during the fourth quarter due to a large move-out by Pier 1, which went out of business. Driven by several deliveries and sturdy demand for warehouse/distribution space, the average asking rent increased by 7.0% over the past year. Consistent demand is likely to continue into 2021 as COVID-19 cases have increased in the fourth quarter and the logistics sector has seen a related uptick in e-commerce activity. A vaccine is now being rolled out, but online shopping is likely to grow further, even if the rate of acceleration slows modestly in 2021. As of the fourth quarter, there is 2.8 million square feet of industrial product under construction, much of it speculative. Accordingly, the market is likely to continue to see elevated vacancy while recent deliveries lease up.

Current Conditions

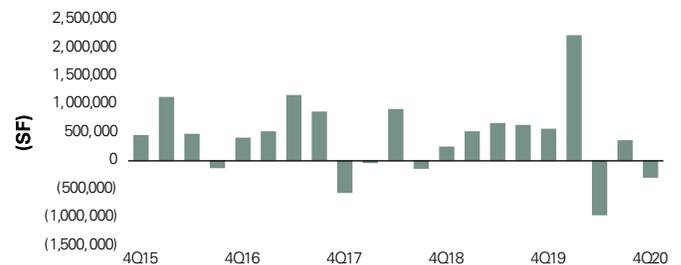
- The vacancy rate ticked up 60 basis points to 10.4% during the fourth quarter of 2020 and is 220 basis points higher than a year ago. The average asking rent is 7.0% higher than a year ago, bolstered in part by deliveries of new space.
- Baltimore's industrial investment sales market picked up during the fourth quarter, with three notable transactions.
- The region's unemployment rate registered 7.2% in October 2020, which was 30 basis points higher than the national rate of 6.9%.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Prior Year	12-Month Forecast
Total Inventory (SF)	189.2 M	188.2 M	181.8 M	↑
Vacancy Rate	10.4%	9.8%	8.2%	↓
Quarterly Net Absorption (SF)	-301,741	360,475	568,317	↑
Average Asking Rent/SF (NNN)	\$5.49	\$5.36	\$5.13	↑
Under Construction (SF)	2.8 M	1.7 M	7.7 M	↑
Deliveries (SF)	926,600	795,390	1.6 M	↑

Submarket Statistics—All Classes

	Total Inventory (SF)	Under Construction (SF)	Overall Vacancy Rate	2018 Net Absorption (SF)	2019 Net Absorption (SF)	4Q 2020 Net Absorption (SF)	YTD 2020 Absorption (SF)	Average Asking Rent (NNN)
Baltimore Industrial	189,159,132	2,790,997	10.4 %	1,005,582	3,109,917	-301,741	1,237,871	\$5.49
Arbutus	9,670,134	1,999,362	30.5 %	233,095	58,489	-36,873	-556,966	\$4.38
Baltimore County East	28,230,157	400,000	13.9 %	618,264	194,546	116,497	2,963,418	\$2.84
Baltimore NE	5,214,635	147,060	1.3 %	143,415	-44,024	13,160	36,523	-
Baltimore NW	2,024,153	-	0.0 %	40,180	194,500	-	-	-
Baltimore SE	18,592,444	-	4.1 %	387,315	670,338	145,176	112,218	\$6.25
Baltimore SW	13,806,217	-	6.1 %	117,948	-18,866	32,620	53,845	\$4.42
BWI North/Linthicum	1,928,199	-	12.1 %	-108,422	23,923	6,420	-25,257	\$8.92
BWI/Anne Arundel	7,202,984	-	11.7 %	-17,554	105,746	46,871	-162,452	\$8.28
Carroll County	7,814,121	-	4.3 %	-307,824	-136,120	44,997	-49,826	\$4.40
CBD Baltimore	4,809,578	-	7.9 %	-13,502	126,721	407	-35,578	\$9.92
Cecil County	13,803,399	-	9.5 %	81,800	1,828,850	-	550,100	\$4.75
Columbia	6,517,553	-	4.7 %	-423,495	255,717	-2,246	-32,714	\$8.25
Harford County	21,858,761	244,575	14.0 %	17,955	-1,190,575	-654,000	-980,134	\$4.70
I-97/Crain Highway Corridor	10,176,517	-	18.1 %	61,627	-106,251	27,441	-128,538	\$5.39
Reisterstown Road	3,482,993	-	2.5 %	-103,311	-118,000	34,026	-2,184	\$8.23
Route 1 Corridor	23,227,037	-	9.4 %	68,801	139,254	69,671	-449,169	\$6.23
Route 2 Corridor	2,867,420	-	0.1 %	28,335	1,039,760	-1,000	109,290	\$7.95
Route 83 Corridor	4,450,867	-	8.4 %	191,009	-101,611	-110,053	-123,487	\$7.53
South Anne Arundel	1,669,125	-	2.4 %	7,141	65,271	-26,221	-35,701	\$8.37
Woodlawn/Catonsville	1,812,838	-	3.8 %	-17,195	122,249	-8,634	-5,517	\$6.88

Note: Asking rents are quoted on a triple net basis.

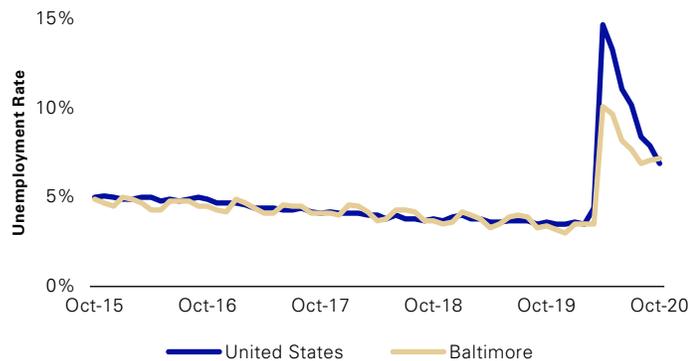
Economic Conditions

The Baltimore region's unemployment rate registered 7.2% in October 2020, the most recent data available at this writing, which was 30 basis points higher than the national rate of 6.9%. Both the Baltimore and U.S. unemployment rates rose sharply in March due to the pandemic but gradually declined following the April peak. Baltimore's unemployment rate paused its decline in September as economic stress, lack of federal stimulus and the spreading virus slowed recovery. Falling labor force participation also affects the unemployment rate, as some workers are choosing to leave the workforce entirely due to the pandemic (for early retirement, parenting reasons, and other motivations). Unemployment could begin to modestly decrease with new stimulus packages in the coming months, but a full recovery will depend on the vaccine rollout and the ability to restore normal commercial activities in 2021.

For the 12-month period ending in October 2020, every Baltimore job sector experienced losses with the exception of Mining, Logging and Construction; the overall net change was -83,600 jobs. Industrial-using job sectors Manufacturing (-1.4%) and Trade/Transportation/Utilities (-3.1%) experienced job declines that were less than Baltimore's overall 12-month job change for all industries (-5.8%). The decline in industrial-using jobs is still something to monitor; although not as great as earlier in the pandemic, it may affect the health of the industrial market, especially with the continued uncertainty of the economy. However, continued demand from e-commerce providers likely will help bolster industrial space demand.

Unemployment Rate

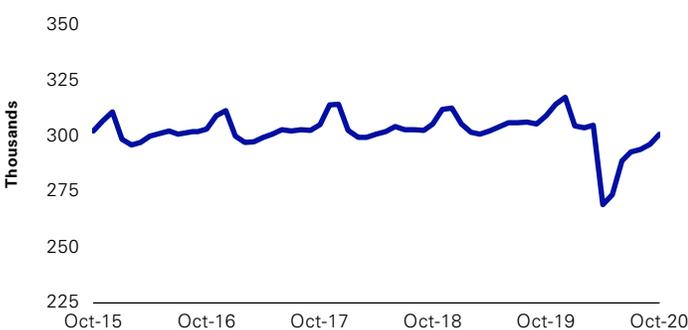
U.S.—Seasonally Adjusted
Baltimore—Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Newmark Research; December 2020

Industrial-Using Employment*

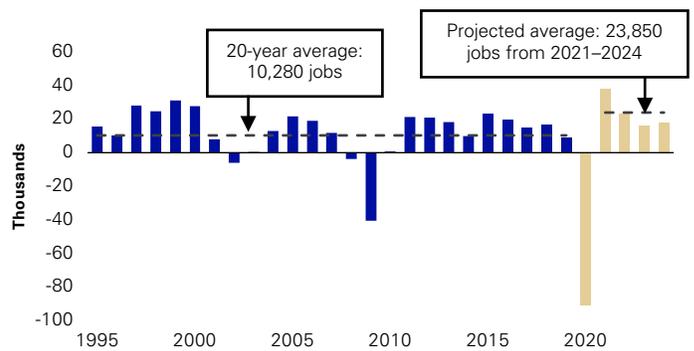
Baltimore, Industrial-Using Employment (000's),
Not Seasonally Adjusted



*Identified as Manufacturing and Trade/Transportation/Utilities
Source: U.S. Bureau of Labor Statistics, Newmark Research; December 2020

Employment Forecast

Baltimore Metro Area, Payroll Job Change, 2000-2019 and
Forecast 2020-2024

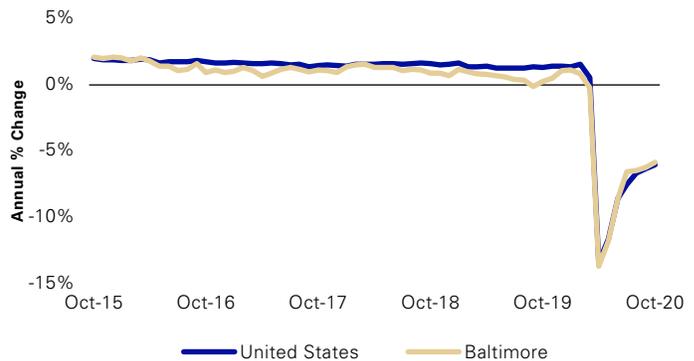


*Previous projections have been revised due to COVID-19 and are subject to further revision as conditions change.

Source: U.S. Bureau of Labor Statistics, Moody's Analytics, Newmark Research; December 2020

Payroll Employment

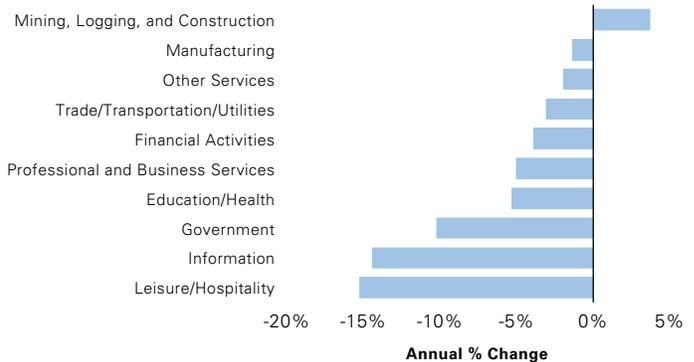
Total Nonfarm, U.S.—Seasonally Adjusted
Baltimore—Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, Newmark Research; December 2020

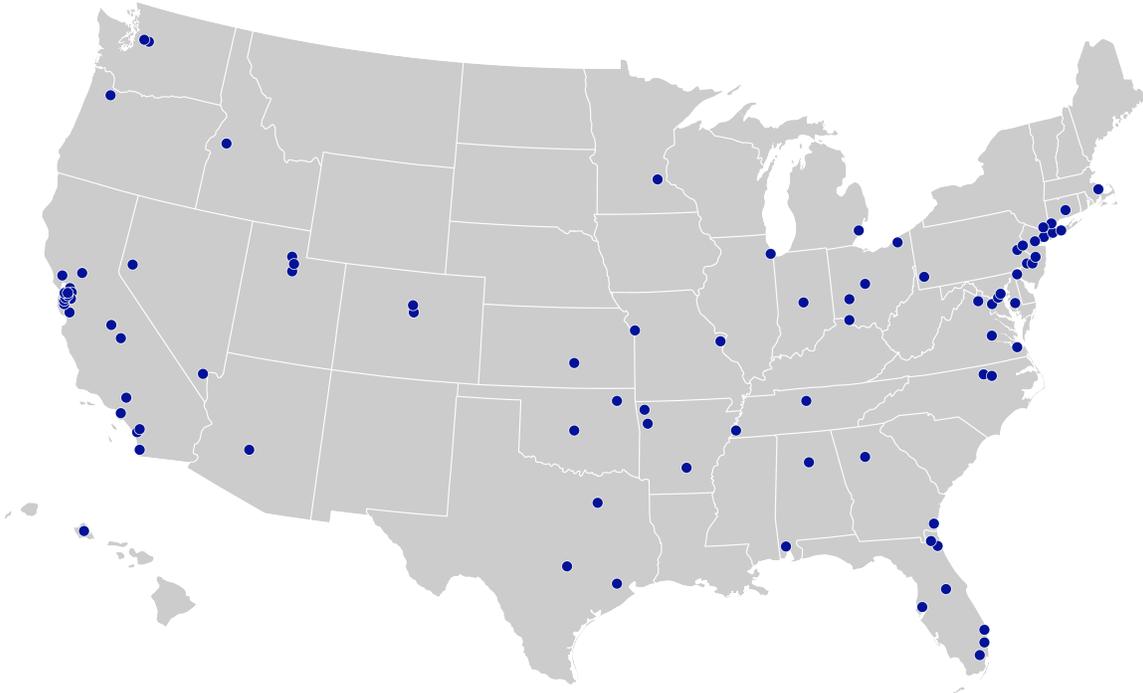
Employment Growth By Industry

Baltimore, % Change, 12-Months Ending October 2020,
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Newmark Research; December 2020

Newmark United States Office Locations



Methodology

Market statistics are calculated from a base building inventory of office properties 20,000 SF and larger that are deemed to be competitive in the Washington Metro Area office market. Properties that are more than 75% owner-occupied and federally owned buildings are generally excluded from inventory.

Glossary

Asking Rental Rate: The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year. Average asking rents are calculated on a weighted average basis, weighted by the amount of available space. Asking rents are quoted on a full service basis, meaning all costs of operation are paid by the landlord up to a base year or expense stop.

Class A: The most prestigious buildings competing for premier office users with rents above average for the area. Class A buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B: Buildings competing for a wide range of users with rents in the average range for the area. Class B building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

Class C: Buildings competing for tenants requiring functional space at rents below the area average.

Deliveries: Projects that have completed construction and received a certificate of occupancy.

Net Absorption: The net change in physically occupied space from one quarter to the next. **Year-to-Date (YTD) Net Absorption** is the net change in physically occupied space from the start of the calendar year to the current quarter. Net absorption is counted upon physical occupancy, not upon execution of a lease.

Sublease: Sublease space is offered and marketed as available by the current tenant, rather than directly from the owner.

Under Construction: Properties undergoing ground-up construction in which work has begun on the foundation. Properties that have only undergone grading or other site work are not included as under construction.

Under Renovation: Properties undergoing significant renovations that require all tenants to be out of the building. These properties are removed from inventory during the renovation period and delivered back to inventory upon completion of the renovations. These properties are not included in under construction totals.

Vacancy Rate: The amount of space that is physically vacant, expressed as a percentage of inventory. (Space that is being marketed as available for lease but is largely occupied is not included in the vacancy rate.) The **Overall Vacancy Rate** includes all physically vacant space, both direct and sublease, while the **Direct Vacancy Rate** includes only direct space.

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