

# BALTIMORE METRO AREA ECONOMY AND MULTIFAMILY MARKET

## SUBURBAN FUNDAMENTALS CONTINUE TO OUTPERFORM

Baltimore metro area multifamily absorption ticked up during the first quarter of the year. The region absorbed 316 multifamily units, up from 253 during the first quarter of 2019. Due to job losses which began in March, absorption is likely to decline during the remainder of the year. The metro area's occupancy rate registered 94.8%, even with one year ago. At the end of the first quarter, 4,416 units were under construction, and 961 units delivered in the region. An additional 1,198 units are planned and likely to deliver within the next three years, bringing the region's development pipeline to 5,614 units. 62% of planned units are located in Baltimore City and there may be some delays in new starts given the current environment. As of the publication of this report, construction is considered to be an essential business, and projects already underway are generally moving forward.

## ECONOMIC AND MULTIFAMILY MARKET OUTLOOK

The Baltimore metro area's economic growth has been above average over the past year, and regional multifamily market metrics remained sturdy in the first quarter, particularly in the suburbs. For the 12 months ending in March 2020, the region added 500 jobs with an unemployment rate of 3.5% in February 2020. However, with the coronavirus pandemic and its far-reaching impact on the economy, Baltimore likely will suffer job losses in the short term. The region is projected to add 6,300 jobs per annum from 2021 through 2024, with a net loss of jobs in 2020. Baltimore may be somewhat insulated from the worst impacts of a recession, as its core job sectors such as logistics and healthcare are better equipped to handle this downturn. The Professional and Business Services sector added 5,200 jobs in the 12 months ending March 2020 while six sectors saw job losses over this same period. Education and Healthcare lost 200 jobs in the 12 months ending in March 2020. Despite this recent job loss, this sector could see job growth in the coming year, especially at Johns Hopkins University, which has taken a leading role in COVID-19 research.

## ECONOMY

**Payroll Employment:** 1.42 million at March 2020.

**Historical Job Change:** 500 jobs added in the 12 months ending March 2020.

**Projected Job Change:** After job losses in 2020, NKF forecasts an average increase of 6,300 jobs per annum from 2021–2024.

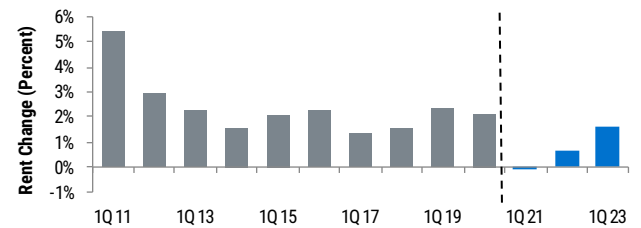
**Unemployment Rate:** 3.5% in February 2020, down 60 basis points from February 2019.

**Average Household Income:** \$137,124 in 2019.

Source: Moody's, U.S. Bureau of Labor Statistics, Esri, NKF Research; April 2020

## MARKET ANALYSIS

### Annual Average Effective Rent Change

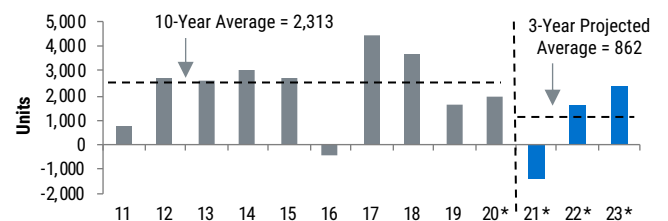


Source: RealPage, NKF Research; April 2020

Note: Effective rent change is calculated using same-store method for the trailing 12 months

## MARKET OUTLOOK

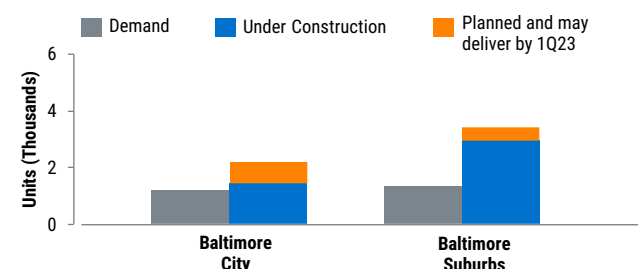
### Multifamily Absorption Projection



Source: RealPage, NKF Research; April 2020

\*12 months ending in the first quarter

### Multifamily Demand and Delivery Projections: 2Q20–1Q23



Source: RealPage, NKF Research; April 2020

## MULTIFAMILY MARKET SUMMARY

	Current Quarter	Year Ago Period	36-Month Forecast
Total Inventory (Units)	229,560	227,845	↑
Occupancy Rate	94.8%	94.8%	↓
Quarterly Net Absorption (Units)	316	253	↓
12-Month Effective Rent Change	2.1%	2.4%	↓
Quarterly Deliveries (Units)	961	252	↓

## ECONOMIC AND MULTIFAMILY MARKET OUTLOOK (CONTINUED)

Over the next 36 months, new supply is likely to outpace demand in both the city and the suburbs, decreasing total occupancy by 110 basis points to 93.7%. Rent growth is likely to slow materially, with 0.9% annual average effective rent growth over the next 36 months—lower than the 10-year average of 2.4%. While the impacts of COVID-19 are expected to stall absorption for the remainder of this year and into 2021, demand likely will accelerate in 2022 and 2023.

## SALES MARKET IS ROBUST DURING PAST 12 MONTHS

The Baltimore area multifamily market registered \$2.3 billion in sales volume for the 12 months ending in the first quarter of 2020, an increase of \$900 million from the prior year. During the 12 months ending in the first quarter of 2020, the Baltimore metro area recorded an average sale price of \$173,337 per unit—an increase of 20.4% from a year earlier. The increase in the average price per unit can partially be attributed to the high quality of many assets sold in this period including Columbia Town Center and The Townes at Mill Run, which both traded above \$250,000 per unit. The average pro-forma cap rate measured 5.7% for the 12 months ending in first quarter of 2020, down 20 basis points from the first quarter of 2019.

## MULTIFAMILY INVESTMENT SALES OUTLOOK

Sales volume in the Baltimore area continued to be strong for the 12 months ending in the first quarter of 2020, but it is likely to moderate in the second quarter due to the impacts of COVID-19. Sales volume may pick up again in the third and fourth quarter as the multifamily sector is often seen as a safe haven in times of crisis. Another bright spot for multifamily is the continued availability of debt provided through Fannie Mae and Freddie Mac.

Baltimore's suburbs have had stronger leasing fundamentals than Baltimore City for the past several years. Accordingly, all of the recent notable transactions have occurred in the suburbs. This trend is likely to persist through 2020, as the suburbs continue to see higher occupancy rates, giving comfort to investors. Overall, Baltimore's large Health and Education employment base will help buoy the Baltimore area's performance during this recession.

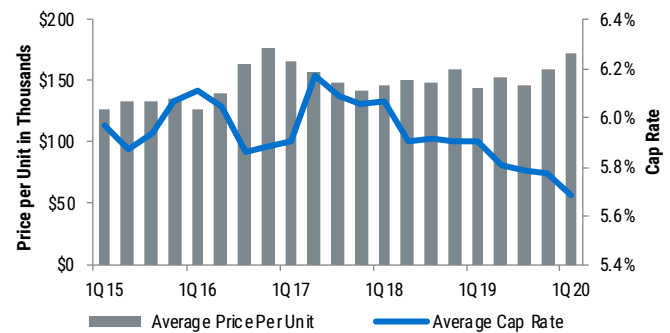
## METRO AREA MULTIFAMILY INVESTMENT SALES MARKET SUMMARY

	Metro Region
12 Month Transaction Volume at 1Q 2020	\$2.3 B
12 Month Transaction Volume at 1Q 2019	\$1.4 B
1Q 2020 Average Price Per Unit	\$173,337
1Q 2020 Average Cap Rate	5.7%

Note: Averages are for trailing 12 months  
Source: Real Capital Analytics, NKF Research

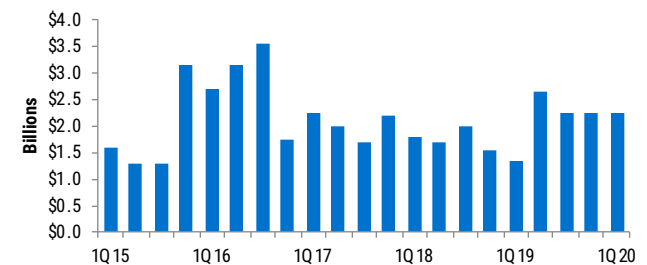
## MARKET ANALYSIS

### Average Multifamily Cap Rate and Price Per Unit



Note: Values are trailing 12-month averages  
Source: Data provided by Real Capital Analytics, analysis by NKF Research

### Trailing 12-Month Multifamily Transaction Volume



Source: Data provided by Real Capital Analytics, analysis by NKF Research

## NOTABLE RECENT MULTIFAMILY SALES TRANSACTIONS

Project	Sale Price (Millions)	Price/Unit	Buyer	Seller	City
Columbia Town Center	\$133.7	\$251,789	Cardone Capital	Clarion Partners	Columbia, MD
The Chimneys of Cradle Rock	\$40.1	\$202,273	Hamilton Zanze	Aimco	Columbia, MD
The Timbers at Long Reach	\$34.9	\$195,787	Hamilton Zanze	Aimco	Columbia, MD
The Townes at Mill Run	\$28.0	\$259,259	Paradise Management	Klein Enterprises	Owings Mills, MD

# 1Q 2020 BALTIMORE METRO AREA MULTIFAMILY MARKET AND SUBMARKET STATISTICS



## MARKET STATISTICS: OCCUPANCY AND ABSORPTION

	Total Inventory (Units)	Overall Occupancy Rate	2017 Absorption (Units)	2018 Absorption (Units)	2019 Absorption (Units)	1Q 2020 Absorption (Units)	YTD 2020 Absorption (Units)
<b>Baltimore Metro Area</b>	<b>229,560</b>	<b>94.8%</b>	<b>4,441</b>	<b>3,732</b>	<b>1,642</b>	<b>316</b>	<b>316</b>
Baltimore City	71,040	93.7%	1,940	1,817	623	5	5
Baltimore Suburbs	158,520	95.4%	2,501	1,915	1,019	311	311

## MARKET STATISTICS: EFFECTIVE RENT AND DELIVERIES

	Total Inventory (Units)	Effective Rent (Per Unit)	Effective Rent (Per SF)	1-Year Effective Rent Change	5-Year Average Effective Rent Change	2019 Deliveries (Units)	YTD 2020 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
<b>Baltimore Metro Area</b>	<b>229,560</b>	<b>\$1,350</b>	<b>\$1.51</b>	<b>2.1%</b>	<b>1.9%</b>	<b>1,546</b>	<b>961</b>	<b>4,416</b>	<b>5,614</b>
Baltimore City	71,040	\$1,265	\$1.59	1.0%	0.9%	1,050	269	1,447	2,195
Baltimore Suburbs	158,520	\$1,388	\$1.48	2.5%	2.3%	486	692	2,969	3,419

## SUBMARKET STATISTICS – ALL CLASSES

	Total Inventory (Units)	Overall Occupancy Rate	Effective Rent (Per Unit)	Effective Rent (Per SF)	1-Year Effective Rent Change	5-Year Average Effective Rent Change	YTD 2020 Deliveries (Units)	Under Construction (Units)	Pipeline* (Units)
<b>Baltimore City</b>	<b>71,040</b>	<b>93.7%</b>	<b>\$1,265</b>	<b>\$1.59</b>	<b>1.0%</b>	<b>0.9%</b>	<b>269</b>	<b>1,447</b>	<b>2,195</b>
Baltimore City East	17,185	94.7%	\$1,430	\$1.84	0.4%	0.8%	111	688	1,184
Baltimore City North	18,066	93.0%	\$1,086	\$1.30	2.2%	1.5%	-	-	0
Baltimore City West	17,982	94.5%	\$987	\$1.32	2.4%	1.9%	132	-	133
Downtown Baltimore	17,807	92.5%	\$1,567	\$1.92	-1.1%	-0.5%	26	759	878
<b>Baltimore Suburbs</b>	<b>158,520</b>	<b>95.4%</b>	<b>\$1,388</b>	<b>\$1.48</b>	<b>2.5%</b>	<b>2.3%</b>	<b>692</b>	<b>2,969</b>	<b>3,419</b>
Annapolis	9,911	95.0%	\$1,702	\$1.93	4.6%	2.3%	-	-	-
Columbia/North Laurel	16,284	95.9%	\$1,645	\$1.70	2.9%	1.9%	127	382	382
Ellicott City/Elkridge	8,795	95.3%	\$1,620	\$1.69	4.5%	2.0%	168	394	394
Far North Baltimore Suburbs	13,710	96.8%	\$1,293	\$1.36	2.6%	1.8%	42	-	-
Northeast Anne Arundel County	12,332	96.2%	\$1,360	\$1.55	1.4%	2.9%	-	215	215
Northwest Anne Arundel County	13,237	95.0%	\$1,756	\$1.74	3.6%	1.7%	34	654	654
Owings Mills/Pikesville/Randallstown	18,755	95.6%	\$1,355	\$1.31	3.0%	2.3%	232	437	667
Parkville/Carney/Perry Hall	12,160	96.2%	\$1,146	\$1.32	2.6%	3.0%	-	324	324
Southeast Baltimore County	18,719	94.6%	\$1,067	\$1.27	3.1%	2.2%	-	-	-
Southwest Baltimore County	18,535	95.3%	\$1,156	\$1.29	0.9%	2.5%	-	-	-
Towson/Hunt Valley	15,390	95.9%	\$1,406	\$1.39	3.0%	1.9%	89	563	783

\*Units under construction plus those planned and likely to deliver within the next 36 months.  
 Note: Column totals may not be exact due to rounding. Rent growth calculated using same-store method.  
 Source: RealPage, NKF Research; April 2020

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**GLOSSARY**

**Absorption:** Net change in occupied units over a specific period.

**Effective Rent:** The price at which a unit leases after factoring in all concessions and discounts, calculated over the lease period.

**Inventory:** Professionally managed, investment-grade apartment buildings with 40 or more units.

**Occupancy Rate:** The number of physically occupied units, expressed as a percentage of total inventory.

**Pipeline:** Units under construction, plus those planned and likely to deliver within the next 36 months.

**Note:** *Submarkets were redistricted as of third quarter 2018. As a result, comparison to historical versions of this report is not advised. Please see the research contact information above should you need historical data.*

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