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Commercial Markets: 1Q 2021

RETAIL – SNAPSHOT

- The Baltimore retail market ended the quarter with only a negative 20k SF absorption. Activity was somewhat muted during the first months of the new year as tenants began to reconsider existing leases after a slow holiday sales season. Major leases during the quarter included 40k SF to Ashley Home Store in Hunt Valley and 32k SF to Surplus Freight in Owings Mills.
- Quoted rental rates remain stable since the same time last year aside from strip center properties which are 1.5% higher than last quarter and 5.5% higher than a year ago. Vacancy rates have increased slightly for all property types excluding restaurants.

Retail Snapshot							
	Vacancy			Quoted Rates			
Submarket	Single Tenant	Strip Center	Restaurant	Single Tenant	Strip Center	Restaurant	Net Absorption
Baltimore City	3.70%	4.80%	6.10%	\$23.44	\$15.30	\$17.70	11,607
Baltimore County	2.40%	5.30%	4.70%	\$20.91	\$21.38	\$26.74	(55,124)
Anne Arundel County	6.90%	5.70%	7.60%	\$5.40	\$23.27	\$27.26	7,943
Carroll County	0.80%	13.30%	10.50%	\$18.92	\$17.50	\$19.78	(7,045)
Harford County	5.70%	6.80%	2.90%	\$25.09	\$22.94	\$19.27	11,416
Howard County	0.70%	5.10%	5.00%	\$47.25	\$28.83	\$44.59	12,529
Queen Anne's County	1.30%	10.70%	3.80%	-	\$15.00	-	(1,550)
Total Submarket (1Q21)	3.40%	6.80%	5.90%	\$21.82	\$22.25	\$24.62	(20,224)
Total Submarket (4Q20)	3.10%	6.70%	6.10%	\$23.21	\$21.92	\$25.01	(153,387)
Total Submarket (1Q20)	1.60%	5.80%	5.50%	\$22.09	\$21.10	\$24.40	(513,868)

Source: CoStar Group, Inc.

*Quoted rental rates are based on a NNN lease structure

OFFICE – SNAPSHOT

- The Baltimore MSA's office market was hard hit during the quarter, registering total net absorption of more than a half million square feet. Baltimore County and Anne Arundel County experienced the heaviest losses at 222k SF and 206k SF of negative absorption, respectively.
- Over the near term, we expect Baltimore City's office market to remain weak but should be buoyed by Governor Hogan's relocation of 3,000 State employees to the City. Rents continue to slump to below levels last seen in Q4 2019. A lack of corporate relocations combined with several headquarter departures and downsizings during 2020 will place continued pressure on the City's performance.

Office Snapshot							
Submarket	Class A		Class B		Class C		Net Absorption
	Vacancy	Quoted Rates	Vacancy	Quoted Rates	Vacancy	Quoted Rates	
Baltimore City	15.60%	\$26.17	10.90%	\$18.95	3.00%	\$16.82	(165,108)
Baltimore County	14.20%	\$22.54	9.30%	\$18.58	4.70%	\$15.83	(222,833)
Anne Arundel County	10.70%	\$32.63	10.70%	\$21.62	2.90%	\$19.02	(206,930)
Carroll County	4.40%	-	8.90%	\$14.77	12.70%	\$12.29	(14,270)
Harford County	29.80%	\$22.86	6.70%	\$16.80	2.80%	\$16.23	(5,083)
Howard County	13.20%	\$27.44	8.50%	\$20.82	6.30%	\$21.98	250
Queen Anne's County	-	-	7.90%	\$18.35	1.70%	\$14.18	2,463
Total Submarket (1Q21)	14.60%	\$27.47	9.80%	\$19.56	4.10%	\$17.13	(611,511)
Total Submarket (4Q20)	14.30%	\$27.47	9.50%	\$19.43	4.00%	\$16.85	(220,398)
Total Submarket (1Q20)	13.70%	\$27.01	9.10%	\$19.29	4.00%	\$15.97	276,528

Source: CoStar Group, Inc.

*Quoted rental rates are based on a gross lease structure

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INDUSTRIAL – SNAPSHOT

- Vacancy rates in the Baltimore MSA industrial market continue to compress from last quarter. Warehouse vacancy dropped 30 points while flex space dropped 20 points.
- The nation's largest industrial lease was signed in the Baltimore metro during the first quarter with Wayfair taking 1.2 million SF at MRP's Eastgate 95 Industrial Park in Harford County. The increasing demand for warehouse space is expected to continue and markets along Interstate 95 will especially enjoy considerable rent gains. Year over year, warehouse rental rates in the Baltimore MSA have grown 5.6%.

Industrial Snapshot					
Submarket	Vacancy		Quoted Rates*		Net Absorption
	Warehouse	Flex	Warehouse	Flex	
Baltimore City	4.60%	4.70%	\$5.95	\$6.58	(215,646)
Baltimore County	7.50%	8.10%	\$5.62	\$9.37	(166,699)
Anne Arundel County	6.40%	9.10%	\$7.06	\$13.88	517,157
Carroll County	1.90%	15.90%	\$5.49	\$7.85	143,134
Harford County	18.10%	8.20%	\$6.42	\$10.41	(46,438)
Howard County	6.10%	5.20%	\$6.83	\$13.02	(99,124)
Queen Anne's County	9.40%	4.20%	\$9.57	\$9.38	(55,258)
Total Submarket (1Q21)	7.20%	8.50%	\$6.43	\$11.73	77,126
Total Submarket (4Q20)	7.50%	8.70%	\$6.28	\$11.61	1,639,455
Total Submarket (1Q20)	7.60%	7.90%	\$6.09	\$10.94	2,417,363

*NNN rents

Source: CoStar Group, Inc.

MULTIFAMILY – SNAPSHOT

- The Baltimore MSA multifamily submarket's asking rents have picked up since last quarter as warmer weather brings increased seasonal demand. Year-over-year, overall MSA multifamily rental rates have grown by \$39 per unit or roughly 3.0%.
- More than 1,000 new construction units have been absorbed over the last five quarters and vacancy rates have hit a five-year low in the MSA. Recently, Greystar announced its first multifamily project in Baltimore as part of the Collective at Canton mixed-use development. The community will offer 500 units and is expected to deliver in 2022.

Multifamily Snapshot										
Submarket	Studio		1 BR		2 BR		3 BR		Overall	
	Vacancy	Asking Rent/Unit	Vacancy	Asking Rent/Unit	Vacancy	Asking Rent/Unit	Vacancy	Asking Rent/Unit	Vacancy	Asking Rent/Unit
Baltimore City	7.20%	\$1,034	6.20%	\$1,131	5.70%	\$1,267	5.80%	\$1,433	6.20%	\$1,196
Baltimore County	4.20%	\$966	4.30%	\$1,155	3.60%	\$1,370	3.20%	\$1,678	3.80%	\$1,324
Anne Arundel County	3.40%	\$1,438	4.80%	\$1,457	4.20%	\$1,690	2.90%	\$1,830	4.20%	\$1,615
Carroll County	2.40%	\$839	2.80%	\$1,034	3.20%	\$1,283	4.30%	\$1,510	3.00%	\$1,213
Harford County	2.50%	\$938	2.80%	\$1,132	2.00%	\$1,289	2.60%	\$1,504	2.40%	\$1,255
Howard County	7.50%	\$1,464	4.60%	\$1,480	3.90%	\$1,802	4.30%	\$2,157	4.20%	\$1,703
Queen Anne's County	2.40%	-	1.80%	\$896	1.80%	\$1,097	0.90%	\$944	1.90%	\$993
Total Submarket (1Q21)	6.00%	\$1,047	5.00%	\$1,189	4.20%	\$1,409	3.80%	\$1,646	4.60%	\$1,335
Total Submarket (4Q20)	6.40%	\$1,025	5.60%	\$1,194	4.70%	\$1,400	5.20%	\$1,651	5.30%	\$1,329
Total Submarket (1Q20)	6.90%	\$1,037	6.70%	\$1,171	5.90%	\$1,359	5.70%	\$1,592	6.30%	\$1,296

Source: CoStar Group, Inc.

Data Sources

- ❖ [Freddiemac.com](#)
- ❖ [CoStar Group, Inc.](#)
- ❖ [U.S. Department of Labor](#)
- ❖ [Valbridge Property Advisors](#)

Some figures are interpolated and estimated due to variances between the reports.

Valbridge Property

Advisors is based in Naples, FL and is the largest independent commercial property valuation and advisory services firm in North America.

Valbridge has 200 MAIs, 80 office locations and 675+ staff across the nation. Each Valbridge office is led by an appraiser who holds the MAI designation of the Appraisal Institute.

Valbridge | Baltimore Washington Metro serves the Baltimore and Washington, D.C. markets from its central location in Marriottsville, MD. With four MAI's plus three Certified General licensed appraisers, four motivated trainees, an economic consultant and an associate market analyst. VBWMetro is available for all types of real property valuation and evaluation assignments.

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CAP RATES

According to **PwC** "Real Estate Investor Survey," the following are the respective Cap Rates nationally:

National Capitalization Rates				
Property	Low	High	Average	Change from 4Q20
Apartment (National)	3.50%	8.00%	5.22%	Increase
Apartment (Mid-Atlantic Region)	4.00%	6.75%	5.38%	Flat
CBD Office (National)	3.75%	7.50%	5.65%	Increase
Suburban Office (National)	4.00%	7.50%	6.00%	Flat
Washington, D.C. Office	4.50%	7.75%	5.45%	Decrease
Northern Virginia Office	6.00%	8.00%	6.69%	Flat
National Warehouse	3.40%	7.00%	4.85%	Flat
Retail- Strip Center Market	5.00%	10.00%	7.3%	Increase

Source: PwC Real Estate Investor Survey

UNEMPLOYMENT & LENDING RATES

Unemployment	April-21	2020	2019
Baltimore MSA	9.70%	3.50%	3.80%
National	7.90%	3.40%	3.70%
Home Mortgage Rates	April-21	2019	2018
30-Year Fixed	3.26%	4.10%	4.55%
15-Year Fixed	2.73%	3.57%	4.03%
5/1-Year ARM	3.17%	3.63%	3.69%

Source: U.S. Department of Labor & Freddiemac.com

ADAPTING TO THE WORLD OF COVID-19

Retail – As shoppers return back to their favorite stores, many retailers are reconsidering how they make the most of their building footprint. With growing curbside pickup and delivery orders, major retailers such as Target and Walmart are dedicating more space as well as employees to order fulfillment. Stock rooms are now frequently used to replenish store shelves as well as hold inventory for digital purchases.

Multifamily – Rollout of the vaccine has helped drive a strong recovery in the apartment sector, with national absorption estimated at 100,000 units in the first quarter as compared to 65,000 in Q4 2020. As households become more comfortable making life changes and are confronted with the shortage of for-sale housing, many have been forced to remain renters.

Hospitality – Profitability in major markets remain down despite updated CDC guidance on travel for fully vaccinated individuals. With no quick recovery in sight, many owners are pursuing multifamily conversions for their properties. What would seem like a straightforward redevelopment, many of these projects are facing opposition from planning commissions concerned about overwhelming the school system and longer emergency response times.

Office – A January survey of office workers using Slack found that only 17% of workers want to return to the office full time, 20% would like to work remotely full time and 63% prefer a hybrid model. Local REIT Brandywine Realty Trust stated that physical tour activity from prospective tenants increased 40% during the first quarter and conducted 1,500 virtual tours.