2Q24

Baltimore Industrial Market Overview

NEWMARK

Market Observations

Economy

- The region's labor market remained historically strong amid shifting macroeconomic conditions. May's 2.7% unemployment rate was significantly lower than the national average of 4.0%.
- Although the market saw solid gains in Education & Health and Manufacturing employment, the market saw a decline in the most relevant industries to the office market. The Business & Professional, Information, and Financial Activities industries all saw declines in year-over-year employment.
- Education and Health remains the largest industry in the region, encompassing 20% of the regional workforce. It is followed closely by Business and Professional services with 18% and Trade/Transportation/Utilities with 17% of the regional workforce.

Major Transactions

- The largest deal of the quarter was the sale of 1411 Tangier Drive 2A in Middle River Maryland. This 900,000 SF industrial park, located within the Baltimore County East submarket, was sold by Prudential RE Advisors to EQT Exeter for $140.5 million, or $156 PSF. The property was 97% occupied at the time of sale and contained the largest lease transaction of the second quarter as well.
- AIREIT purchased 6720 Baymeadow Drive from High Street (HSLP) for $17.75 million, or $168 PSF. The 105,700 SF flex/distribution warehouse in Glen Burnie MD was fully occupied at the time of sale.

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Leasing Market Fundamentals

- The Baltimore industrial market experienced 925,700 SF of negative net absorption during Q2 2024 and ended the quarter at a 5.8% vacancy rate, an increase of 10 bps quarter-over-quarter and 50 bps year-over-year. Despite this expansion in vacancy, the market remains much tighter than the long-term average of 9.4%.
- Class A product saw 41.6% of overall leasing volume during Q2 2024. This is higher than the decade average of 39.8% and highlights the elevated interest in quality Class A space by occupiers.
- Average asking rents decreased year-over-year but continue to sit near record highs, ending Q2 2024 at $8.09 PSF, an decrease of 2.6% quarter-over-quarter and 3.5% year-over-year.

Outlook

- The market appears to be re-adjusting after experiencing unprecedented development in recent years. This development has led to an oversupply of space, which is leading to an increase in the vacancy rate as demand catches up. While supply and demand re-adjust, rent growth will likely continue relatively flat while remaining at historically elevated levels.
- Leasing activity will likely continue to hover at historically lower levels until demand catches up with supply. As has been the case historically, Class A space will continue to see the most interest from landlords, tenants, and investors alike but will continue to trend toward the long-term average of 39.8%
- In the short-term to mid-term there will be some uncertainty in the market after the tragic collapse of the Francis Scott Key Bridge on March 26th. After eleven weeks, the port has fully reopened, however it is unlikely for vessel count to return to prior levels until next year. The bridge is expected to take years to rebuild and the impact on the regional industrial market is uncertain as major logistics routes are diverted.

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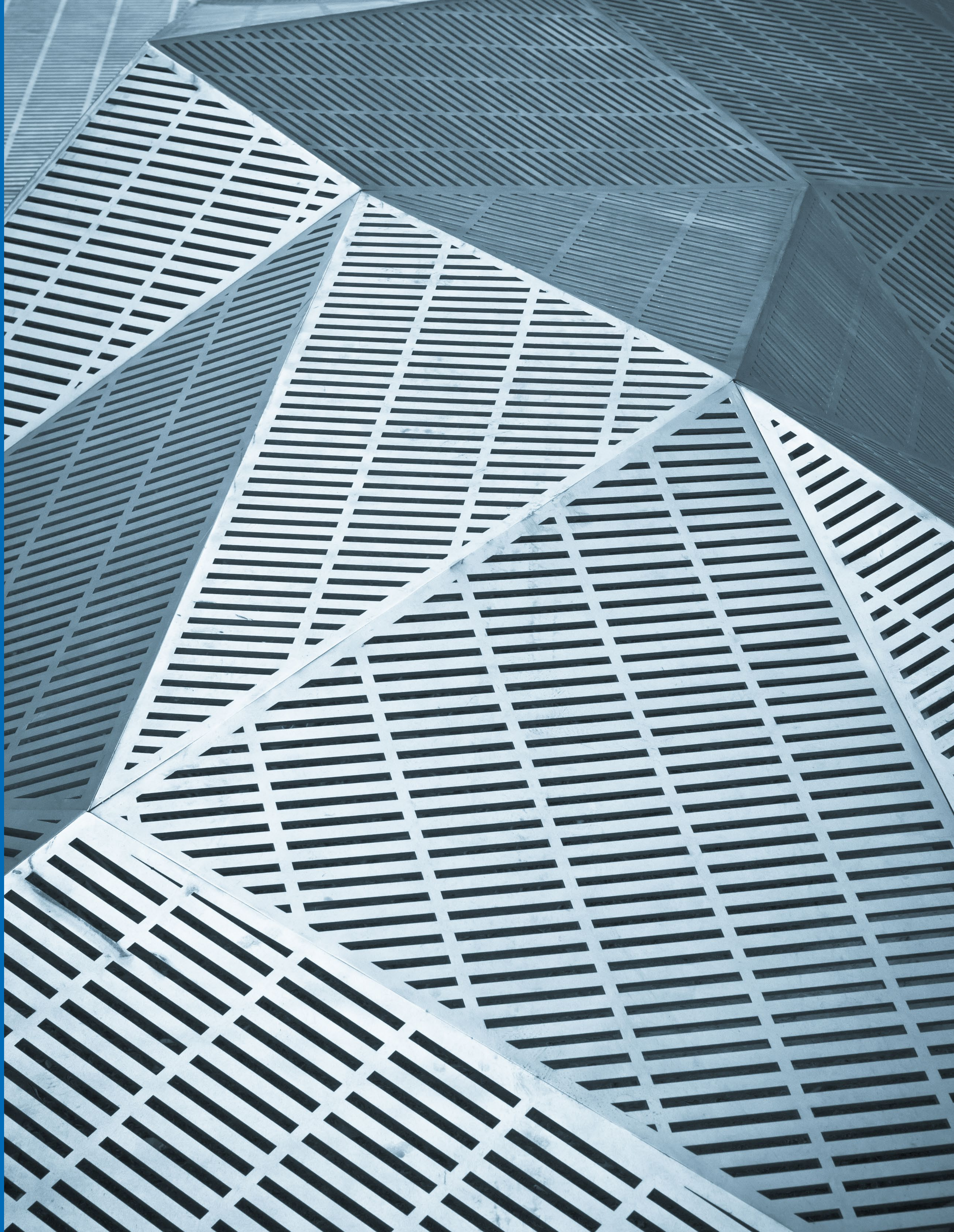
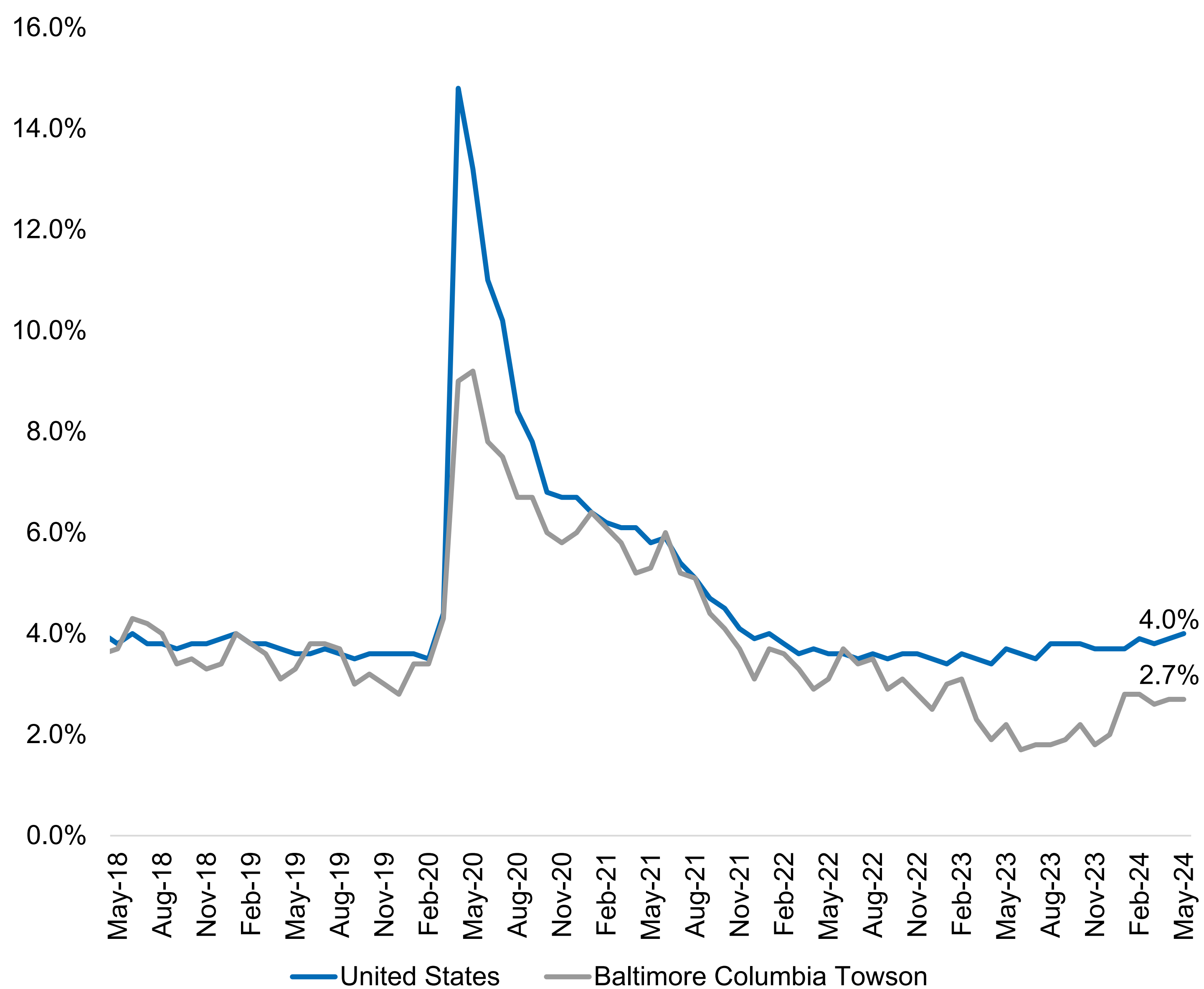


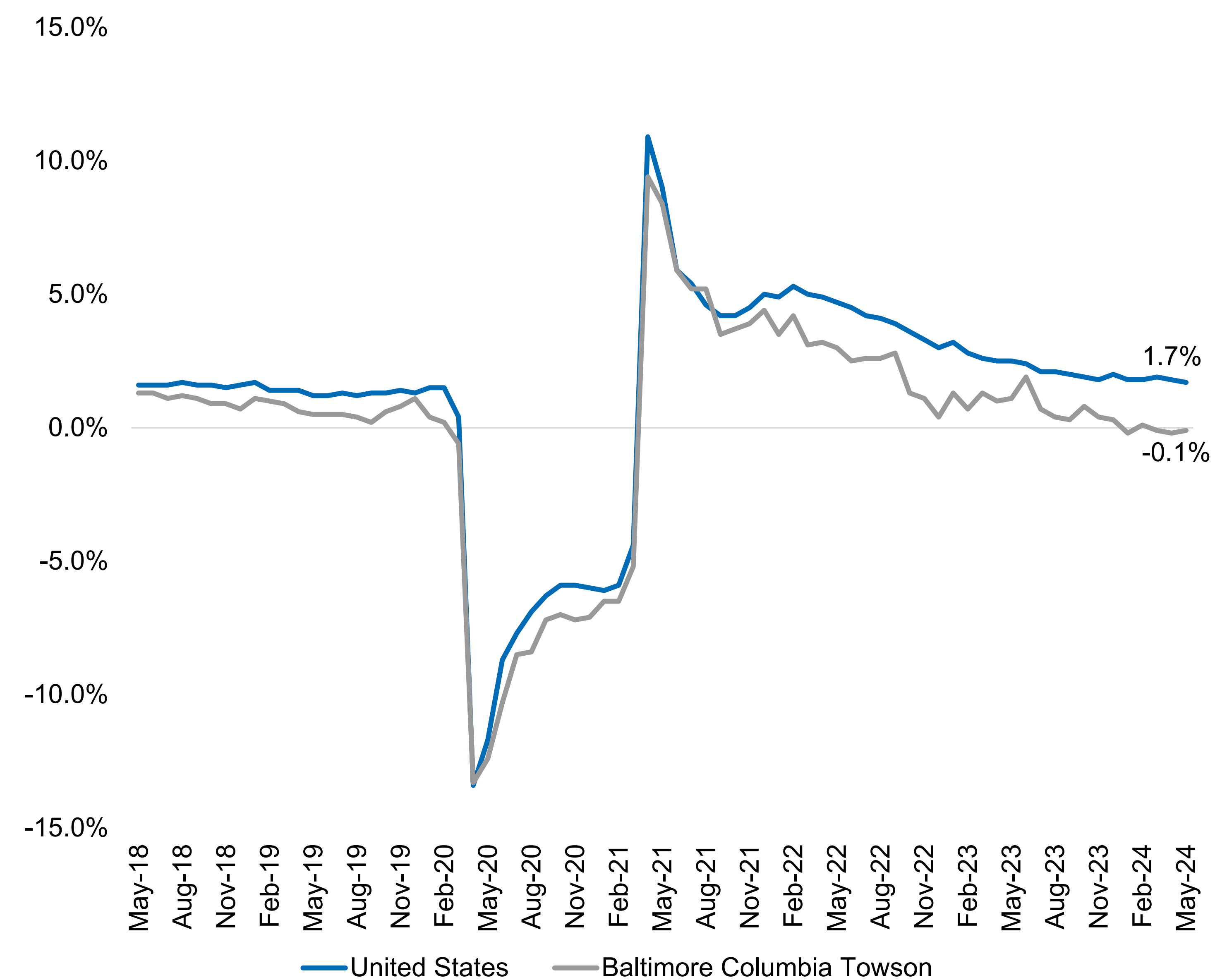
Baltimore’s Unemployment Remains Below National Levels

Baltimore’s unemployment rate ended May 2024 at 2.7%. This is 50 bps higher year-over-year and 130 bps lower than the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

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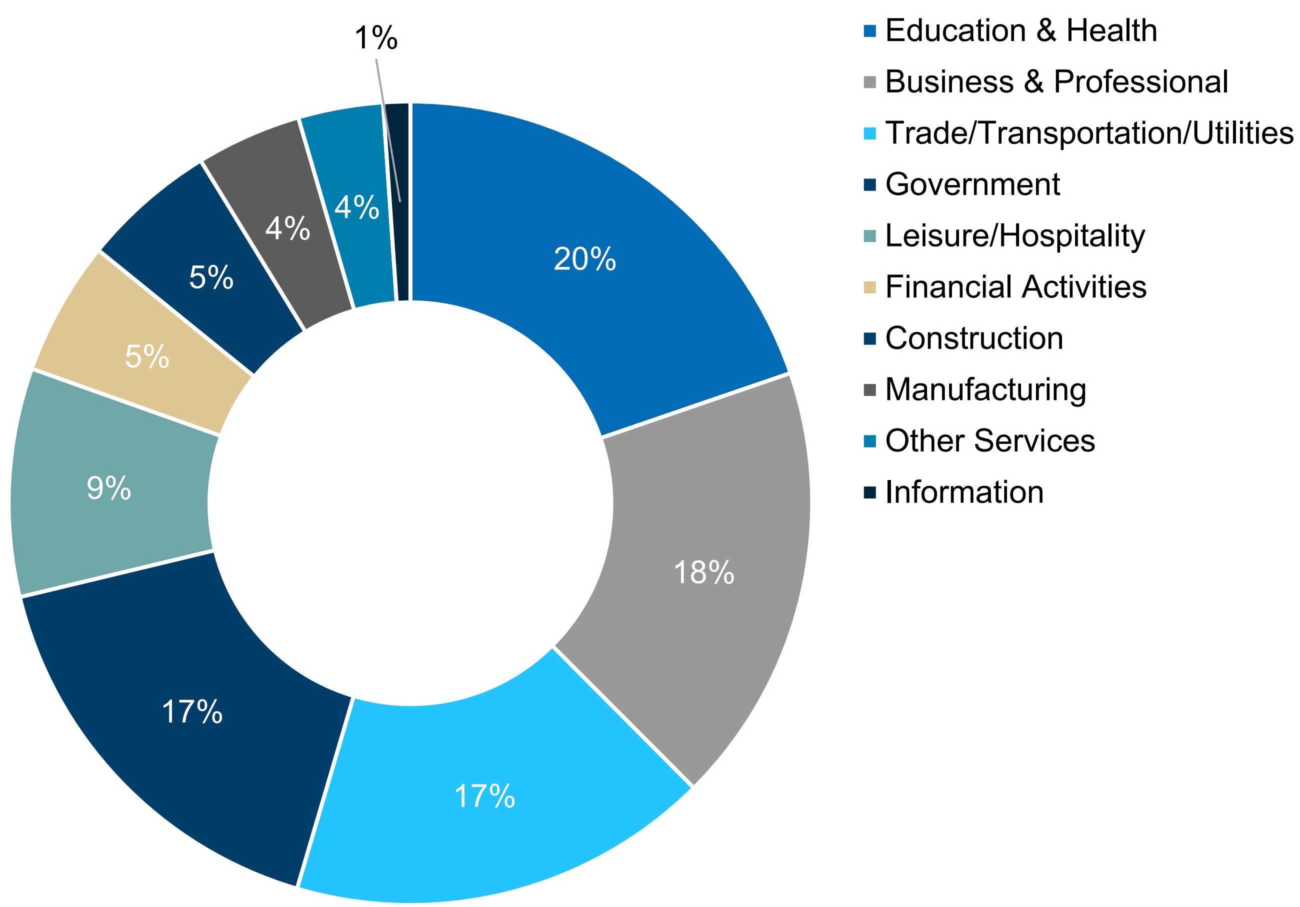
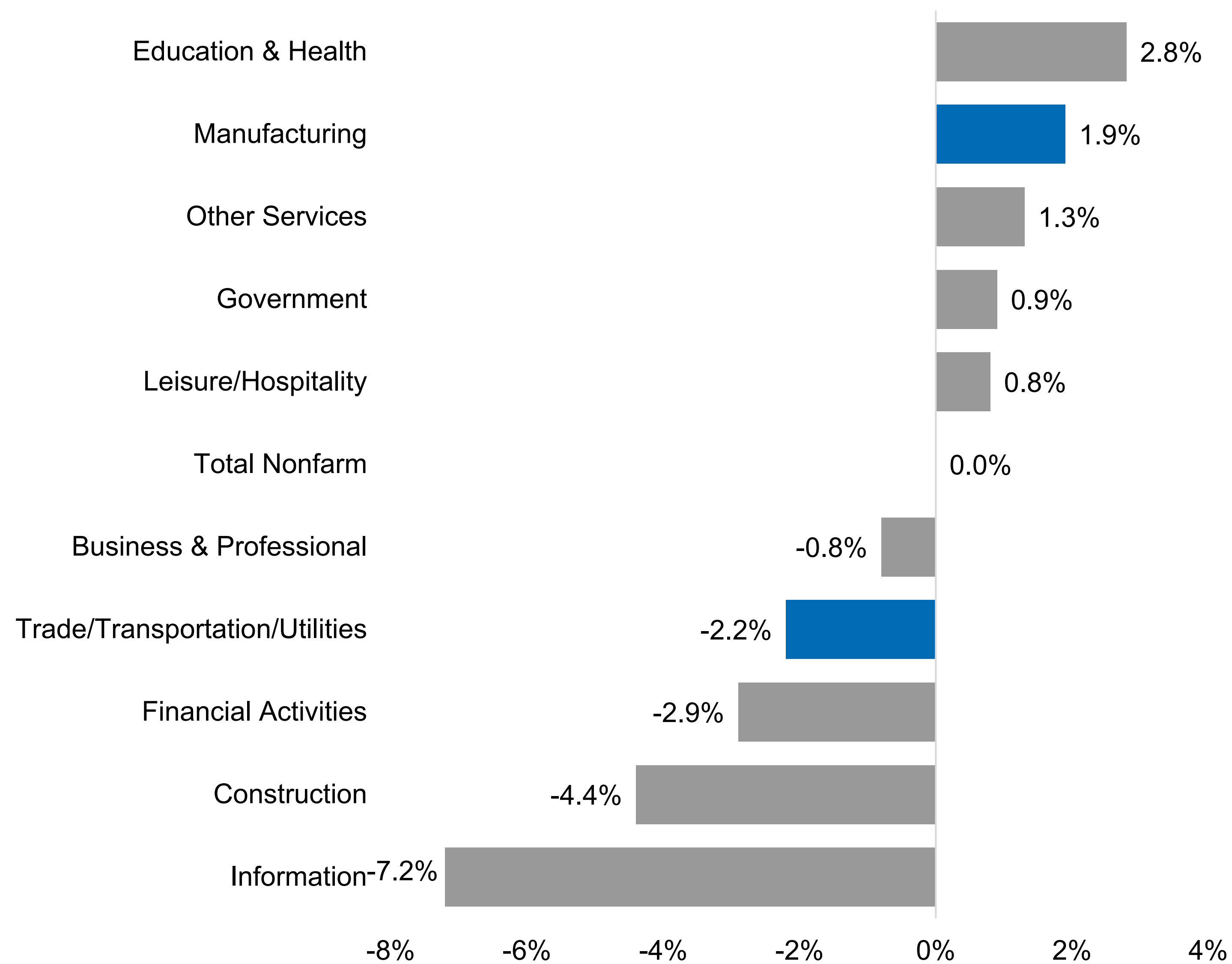
Manufacturing Experiences Annual Growth, Trade/Transportation/Utilities Sees Losses

Overall nonfarm employment remained flat in the Baltimore metro year-over-year. Within the industrial sector, manufacturing saw positive job gains with employment growth of 1.9% year-over-year, while trade/transportation/utilities saw a year-over-year decline of 2.2%. Despite the annual employment decline, trade/transportation/utilities remains the third largest industry in the region, only behind the Education & Health and Business & Professional industries. If the decline in the trade/transportation/utilities sector continues, it will drop behind the Government sector into fourth.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024



Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

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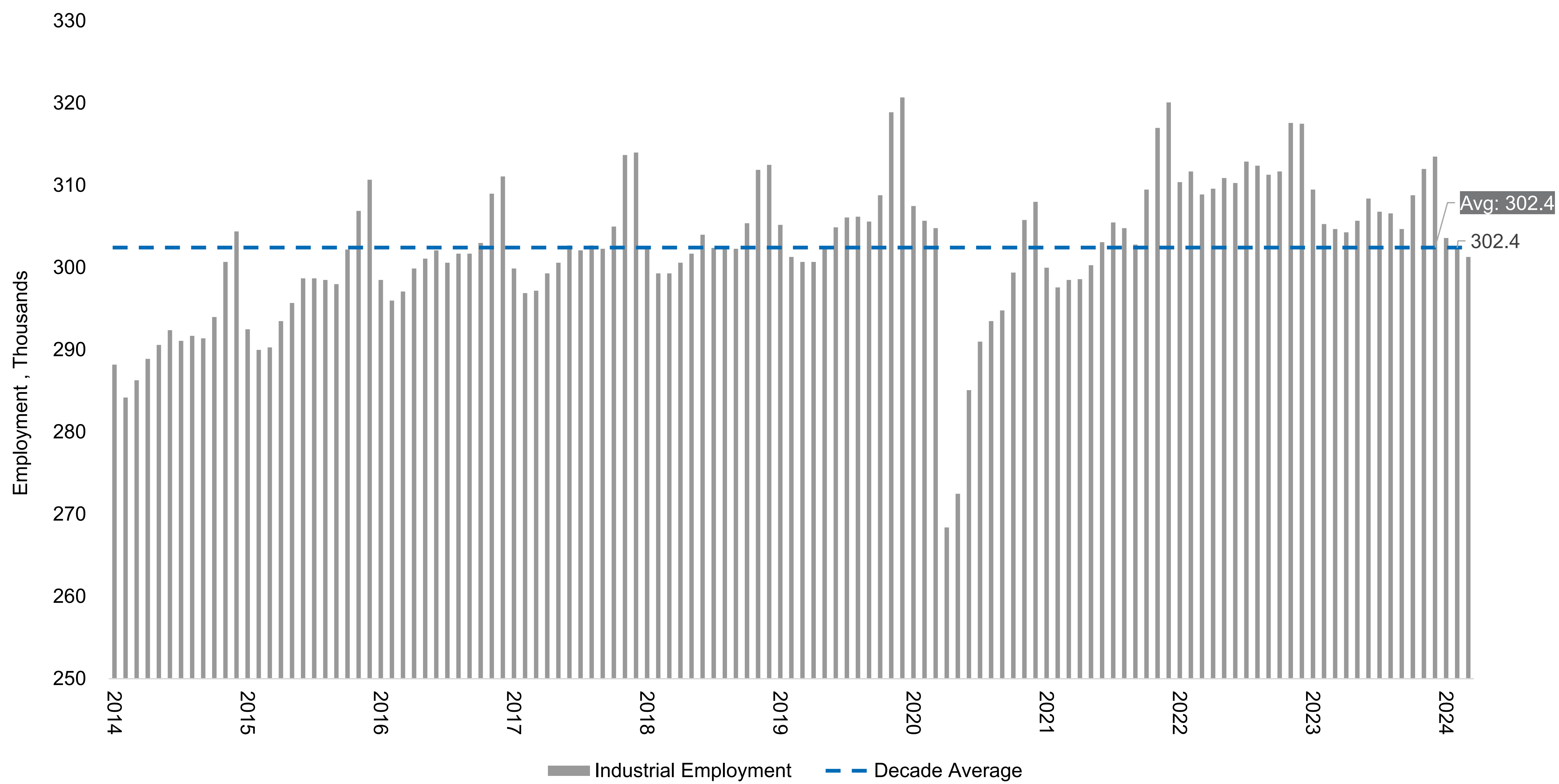
Industrial Employment Remains Steady

The number of industrial jobs has rebounded and now sits in line with pre-pandemic levels. Employment ended May 2024 at 302,400 employees, in line with the decade average and an increase of 12.3% since the market reached a pandemic-related low in April of 2020. Industrial employment is dominated by the trade/transportation/utilities industry, which makes up over 80% of industrial employment. As such, industrial employment is very cyclical, with a large increase of employees during the holiday season and then a drop-off at the beginning of each year, as was the case to begin 2024. It has since decreased 3.9% since the holiday season.

Industrial Employment



Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

*Industrial employment includes employment in the following industry sectors: Trade/Transportation/Utilities and Manufacturing.

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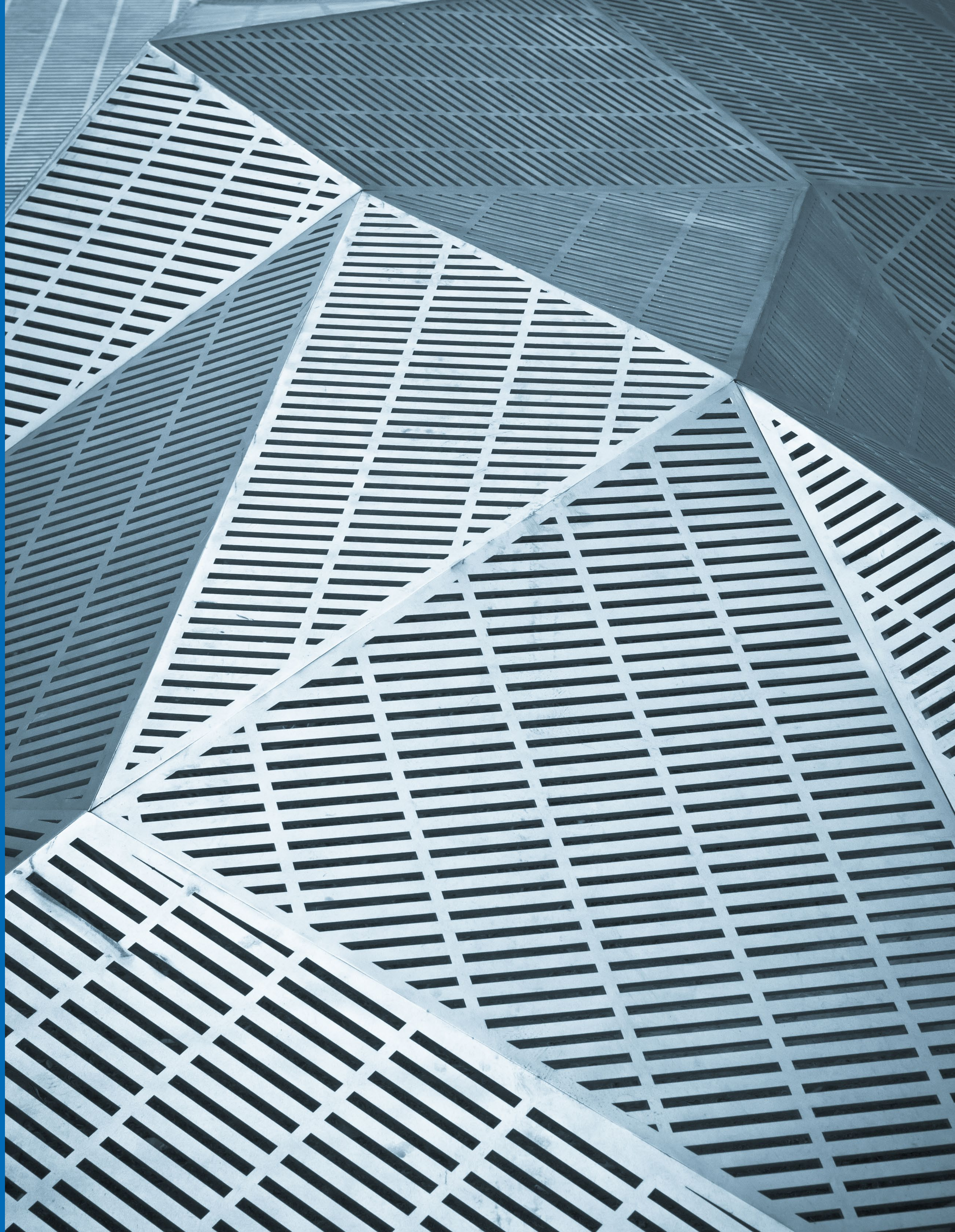
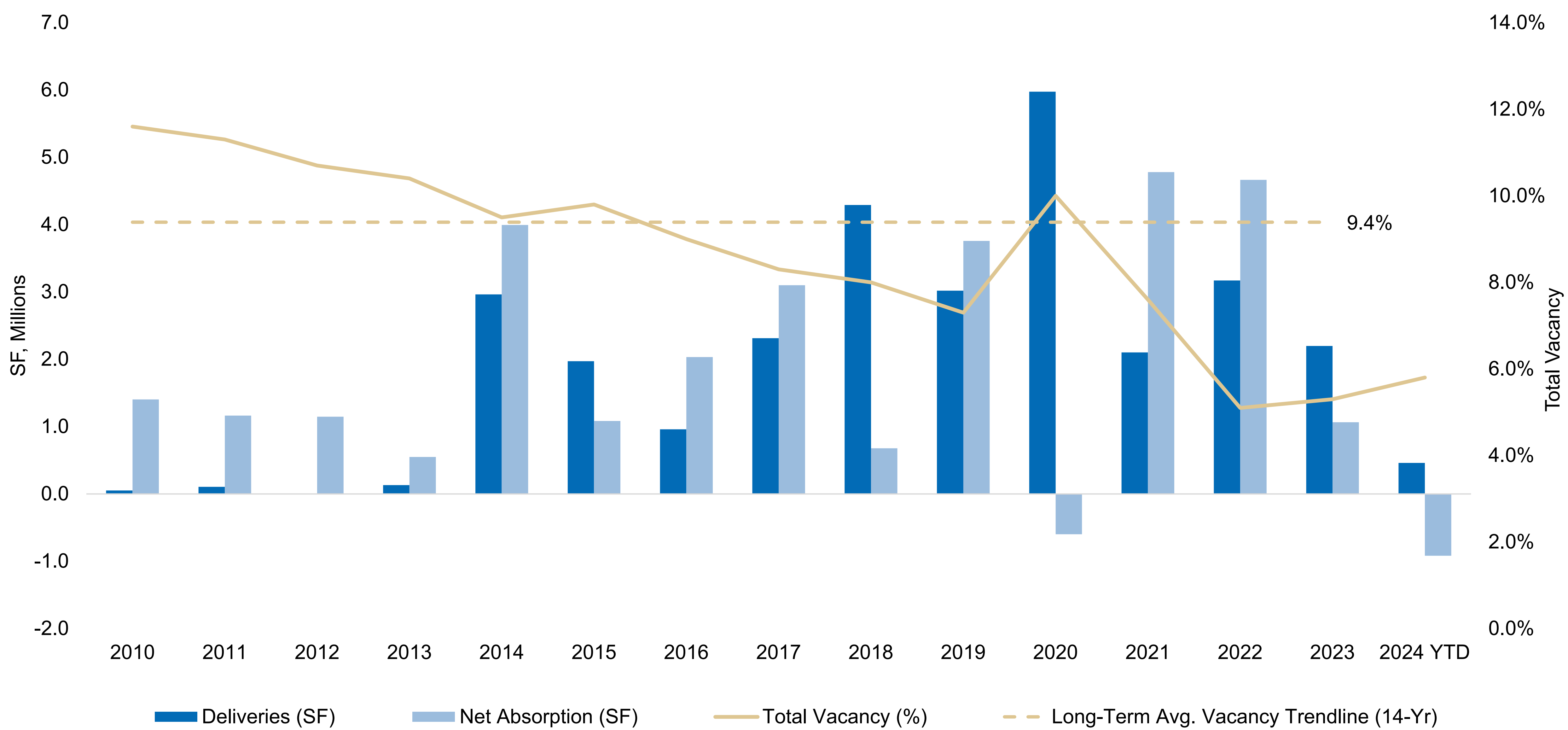
Leasing Market Fundamentals



Market Remains Historically Tight Despite Expansion of Vacancy

The Baltimore industrial market ended Q2 2024 at a 5.8% vacancy rate, an increase of 10 basis points quarter-over-quarter and 50 bps year-over-year. Despite this expansion in vacancy, the market remains much tighter than the long-term average of 9.4%. The market experienced 918,000 SF of negative net absorption during the first half of 2024 as there were multiple large space departures, including LifeScience Logistics vacating 291,000 SF at Gateway Commerce Center and Herbiculture vacating 97,000 SF at 1200 Hamburg Street.

Historical Construction Deliveries, Net Absorption, and Vacancy

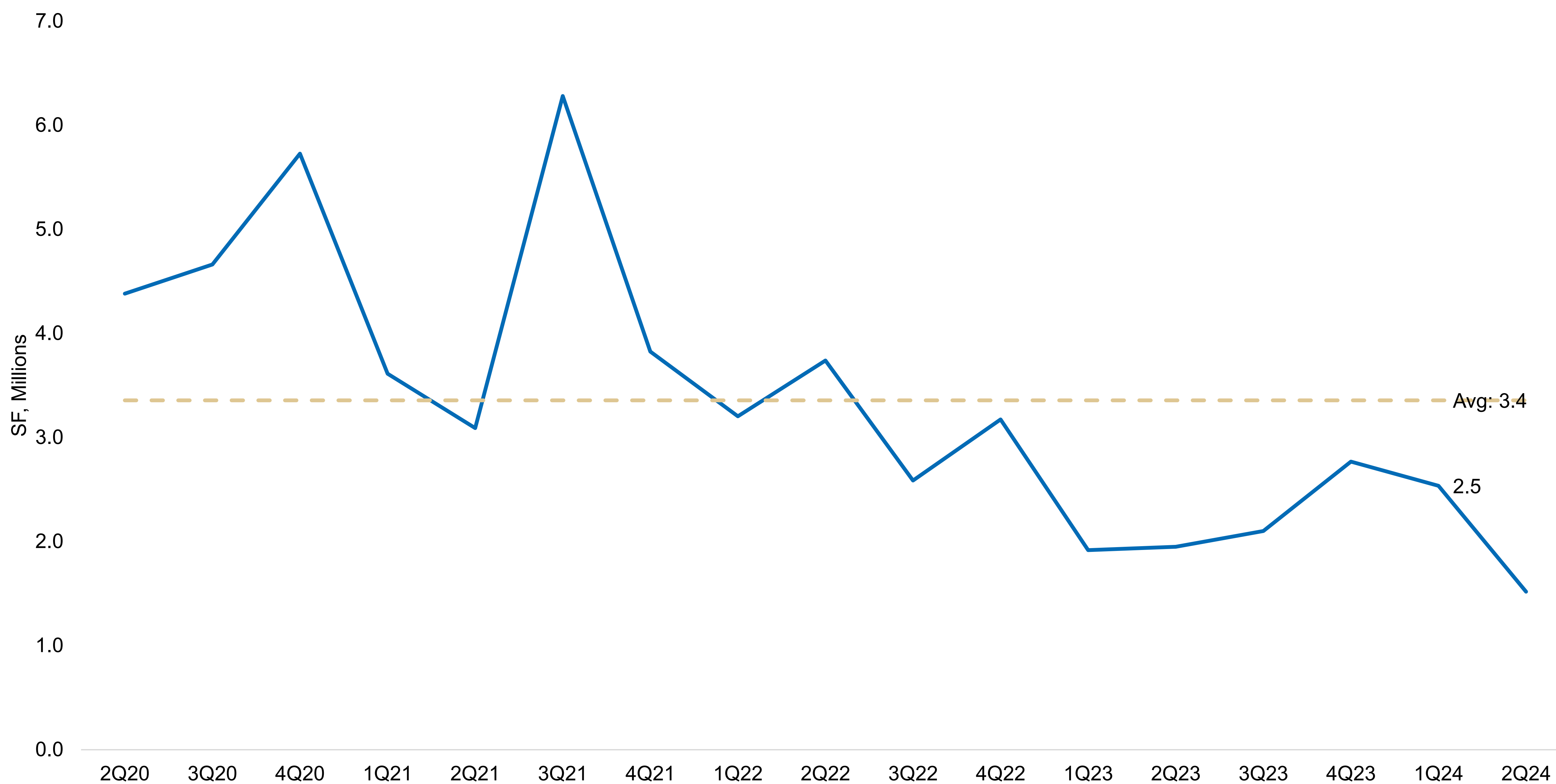


Source: Newmark Research, CoStar

Industrial Leasing Activity Declined by Two-Thirds Quarter Over Quarter

Leasing activity decelerated to a historical low in Q2 2024, ending the quarter with 1.5 MSF of activity. This is much lower than the recent high, when the market experienced 6.3 MSF of activity during Q3 2021, and lower than the four-year average of 3.4 MSF of quarterly activity.

Total Leasing Activity (SF)



Source: Newmark Research, CoStar

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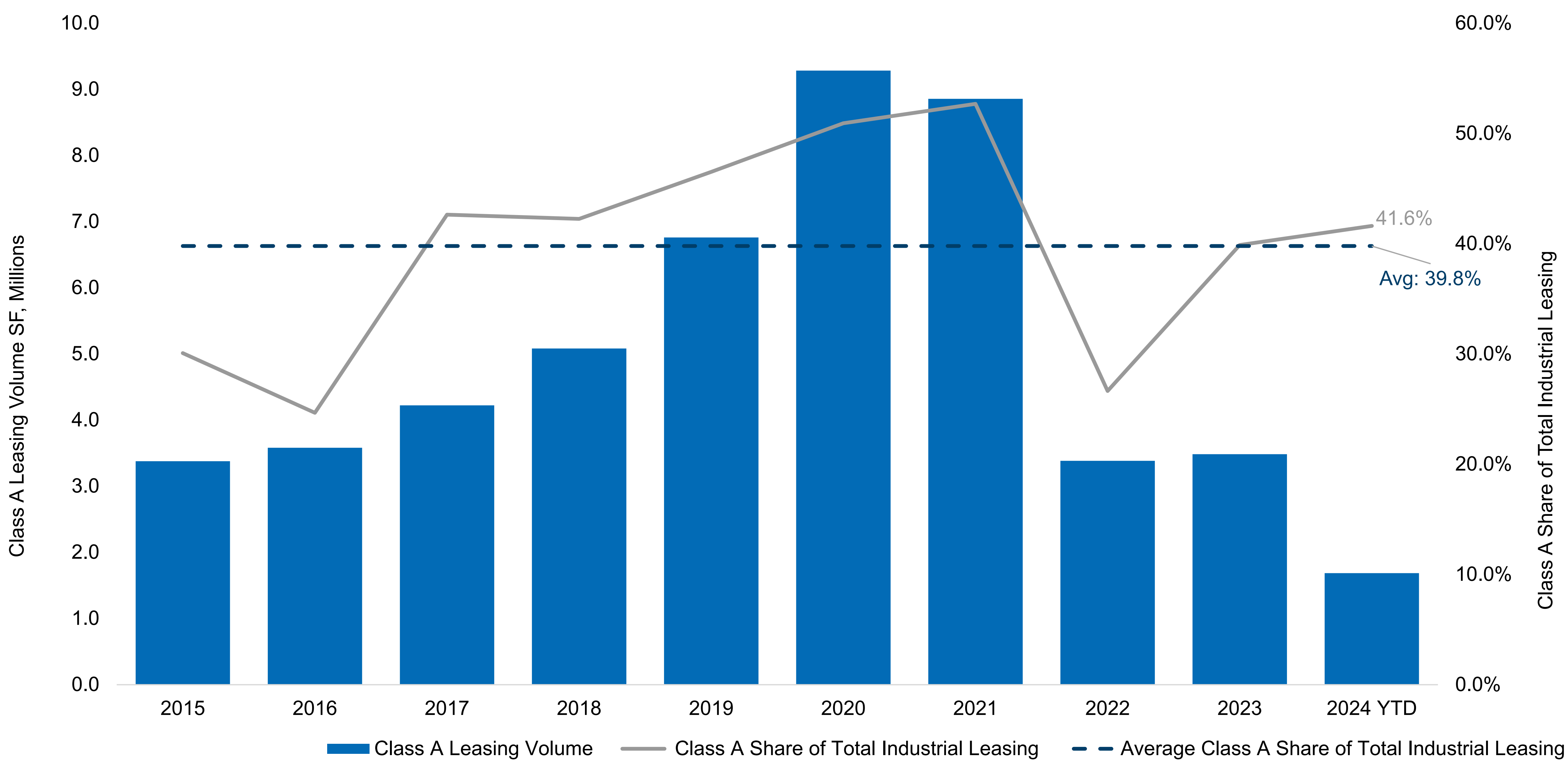
Class A Industrial Leasing Above Long-Term Average

Class A product saw 41.7% of overall leasing volume during Q2 2024. This is higher than the decade average of 39.8% and highlights the elevated interest in quality Class A space by occupiers. However, Class A product decreased from 49.7% of overall leasing volume in Q1 2024; showing signs of a return to the decade average.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

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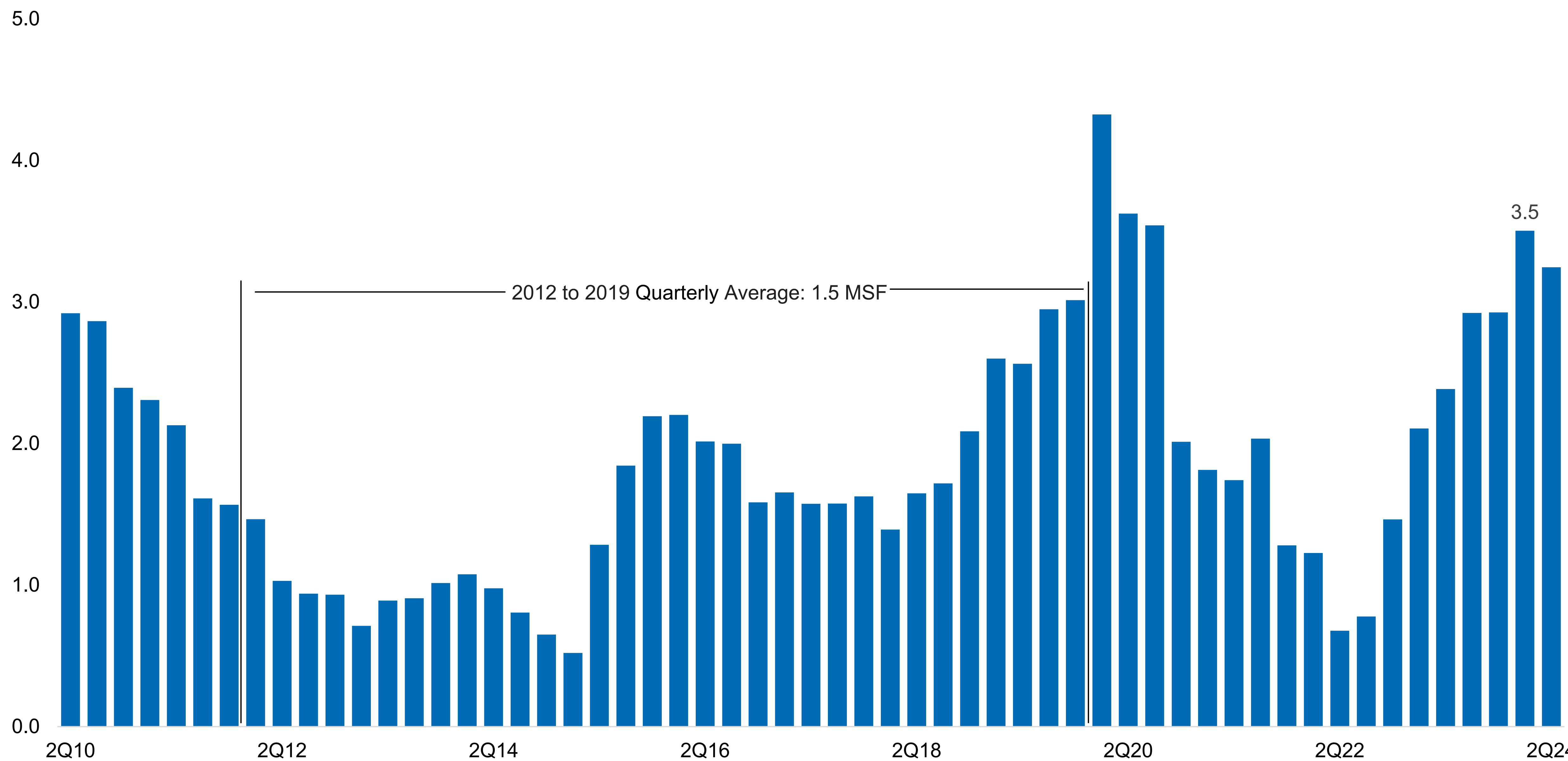
Industrial Sublease Availability Spikes Above Pre-Pandemic Levels

The market saw a large dip in sublease available space during the beginning of the pandemic, as demand for industrial space soared. Since the market saw near historical lows in Q2 2022, sublease available space has been consistently added to the market, ending Q2 2024 at 3.2 MSF, which is in line with the volume leading up to the pandemic.

Available Industrial Sublease Volume (msf)

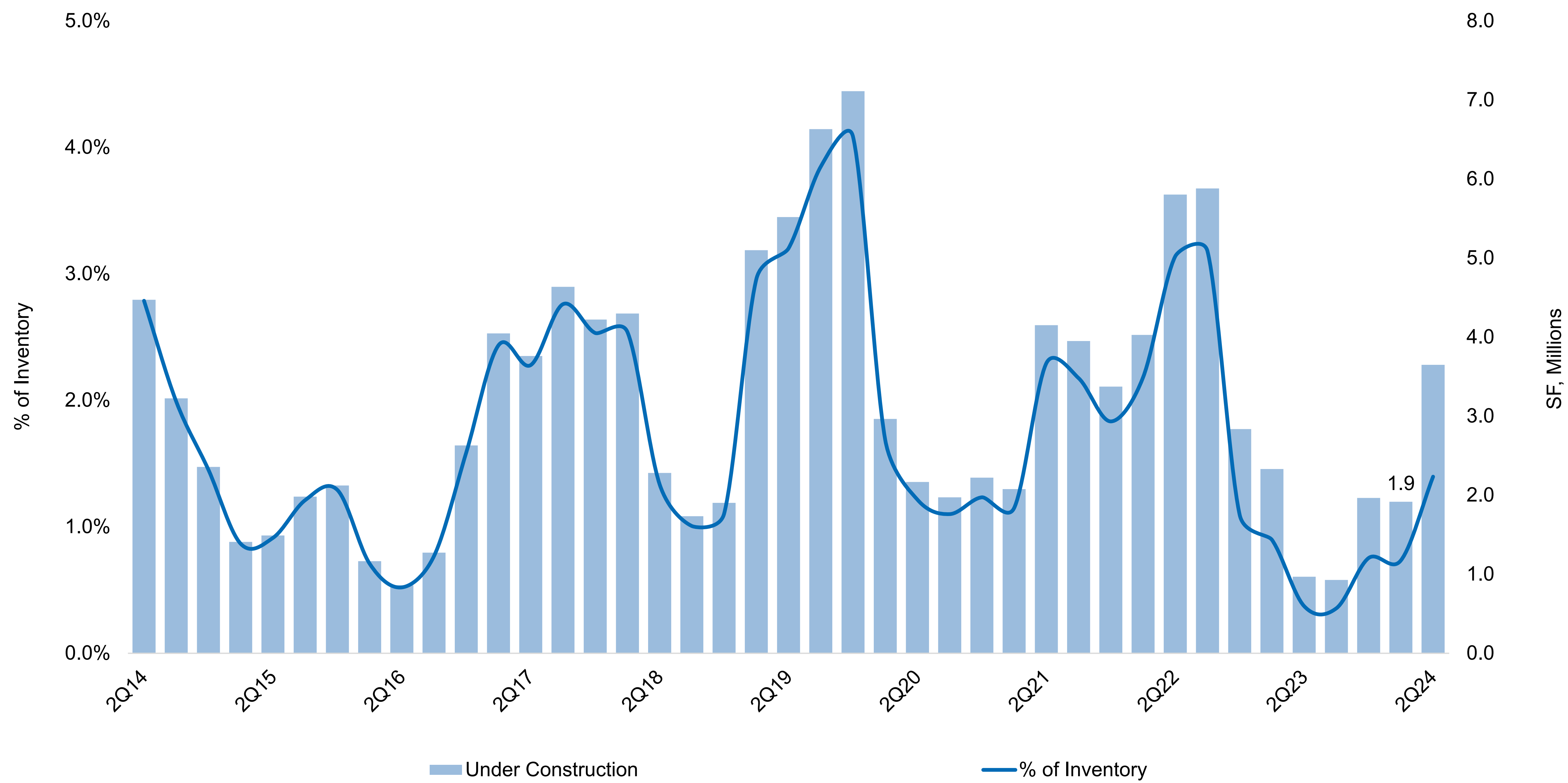


Source: Newmark Research, CoStar

Construction Supply Remains Modest

Baltimore ended Q2 2024 with fifteen properties under construction totaling almost 3.6 MSF. This level of construction is slightly above the decade-average of 3.1 MSF of space under construction at a time.

Industrial Under Construction and % of Inventory

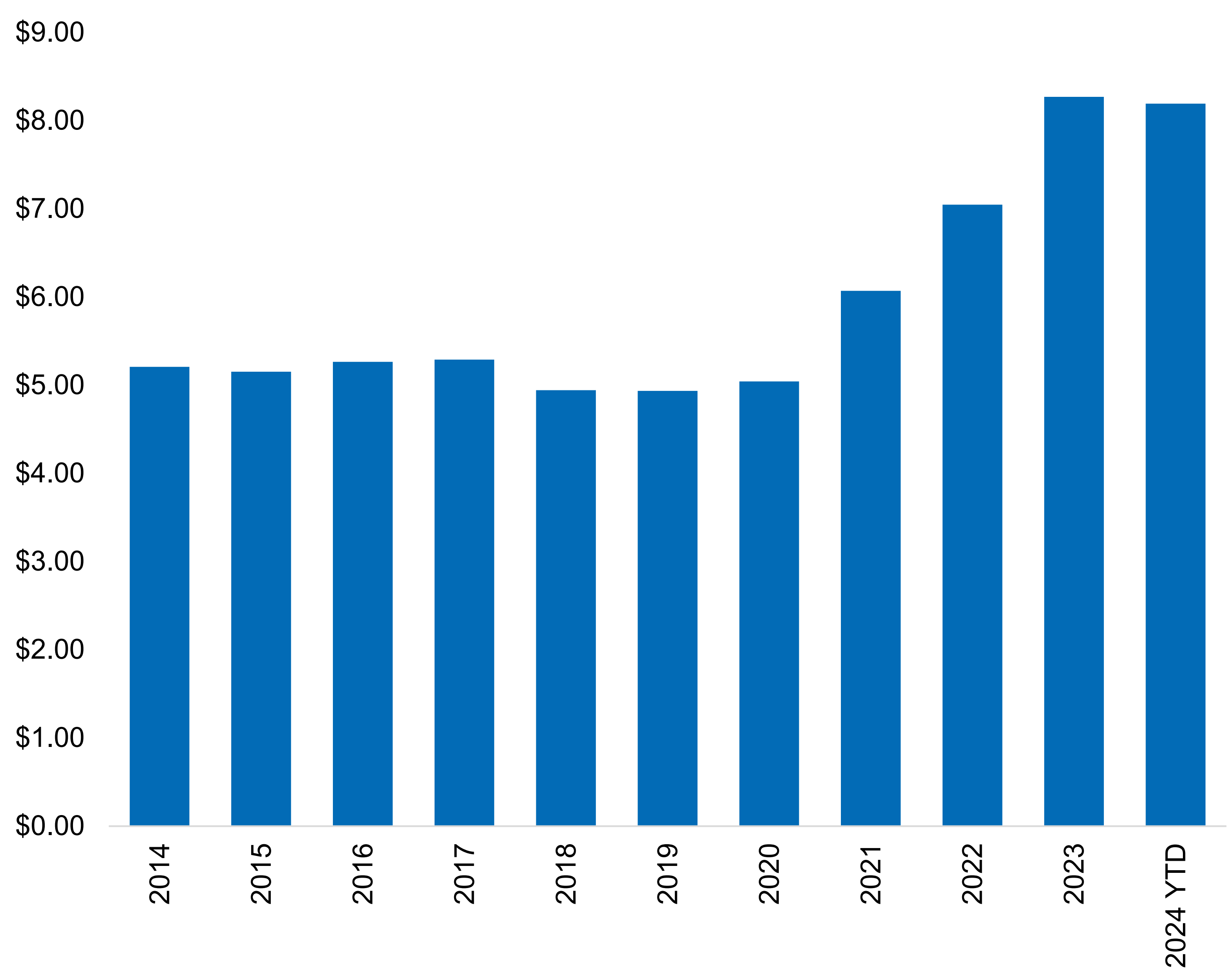


Source: Newmark Research, CoStar

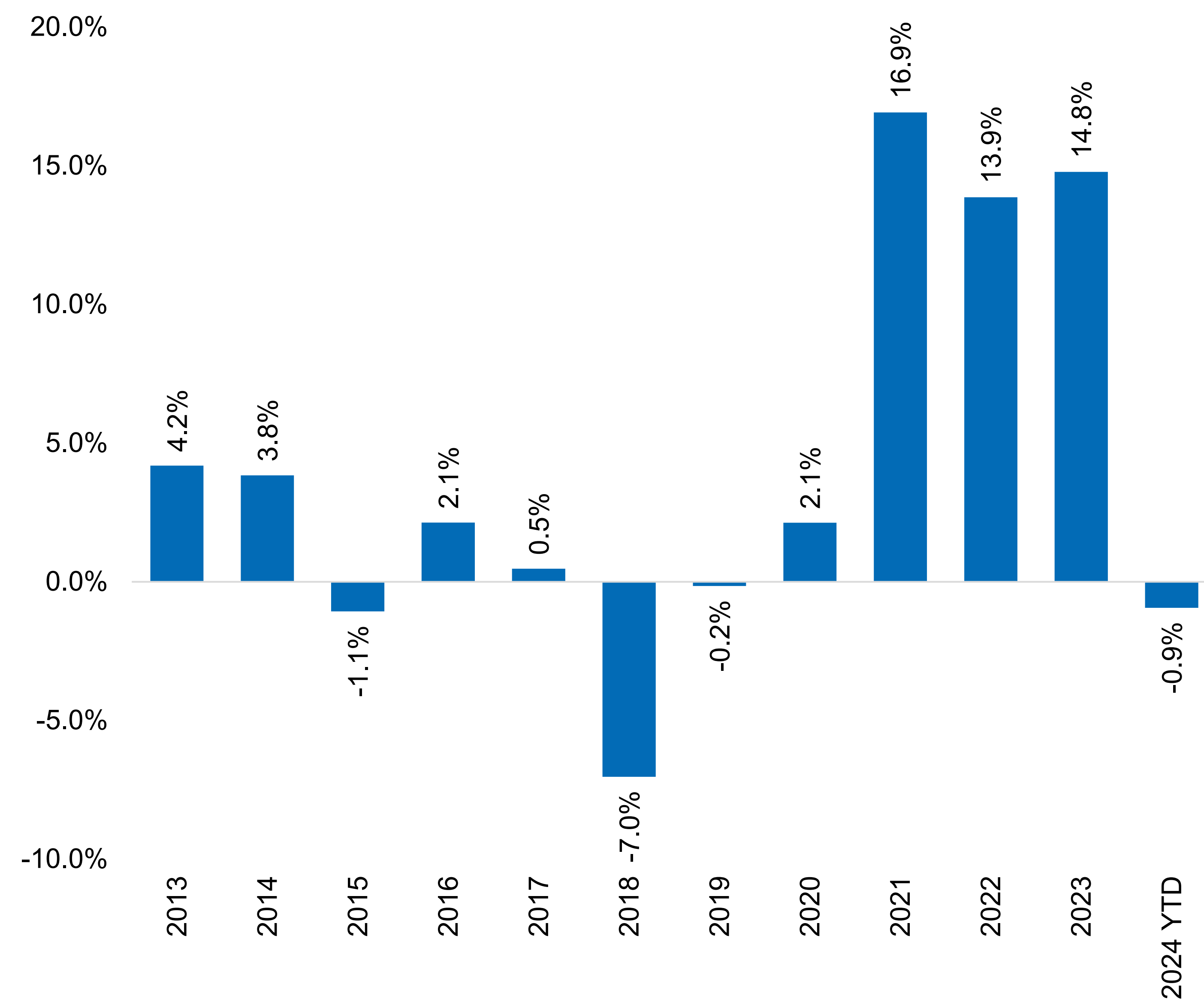
Asking Rents Remain Near Historic Highs

Average asking rents ended Q2 2024 at $8.20 PSF, remaining near historical highs. The market saw an astounding 66.5% increase in rents from the beginning of 2020 through 2022, however rent growth has leveled off since. Rents will likely stay relatively flat in the coming quarters as demand catches up to the recent influx of supply.

Industrial Average Asking Rent, $/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

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Notable 2Q24 Lease Transactions

Baltimore County East and Baltimore Southeast were the most active submarkets, with four out of the five major leases in the second quarter taking place there. The largest lease of the quarter was 217,745 SF signed by Mary Sue Candles at 1411 Tangier Drive, followed by Allied Power signing for 154,590 SF at 7200 Standard Drive.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Mary Sue Candles	1411 Tangier Drive	Baltimore County East	New Lease	217,745
Allied Power	7200 Standard Drive	BWI	New Lease	154,590
Cowan Systems	7001 Quad Avenue	Baltimore County East	New Lease	114,750
Forward Air	6201 Seaforth Street	Baltimore Southeast	New Lease	95,000
PPC Lubricants	801 N Kresson Street	Baltimore Southeast	Lease Renewal	90,234

Source: Newmark Research

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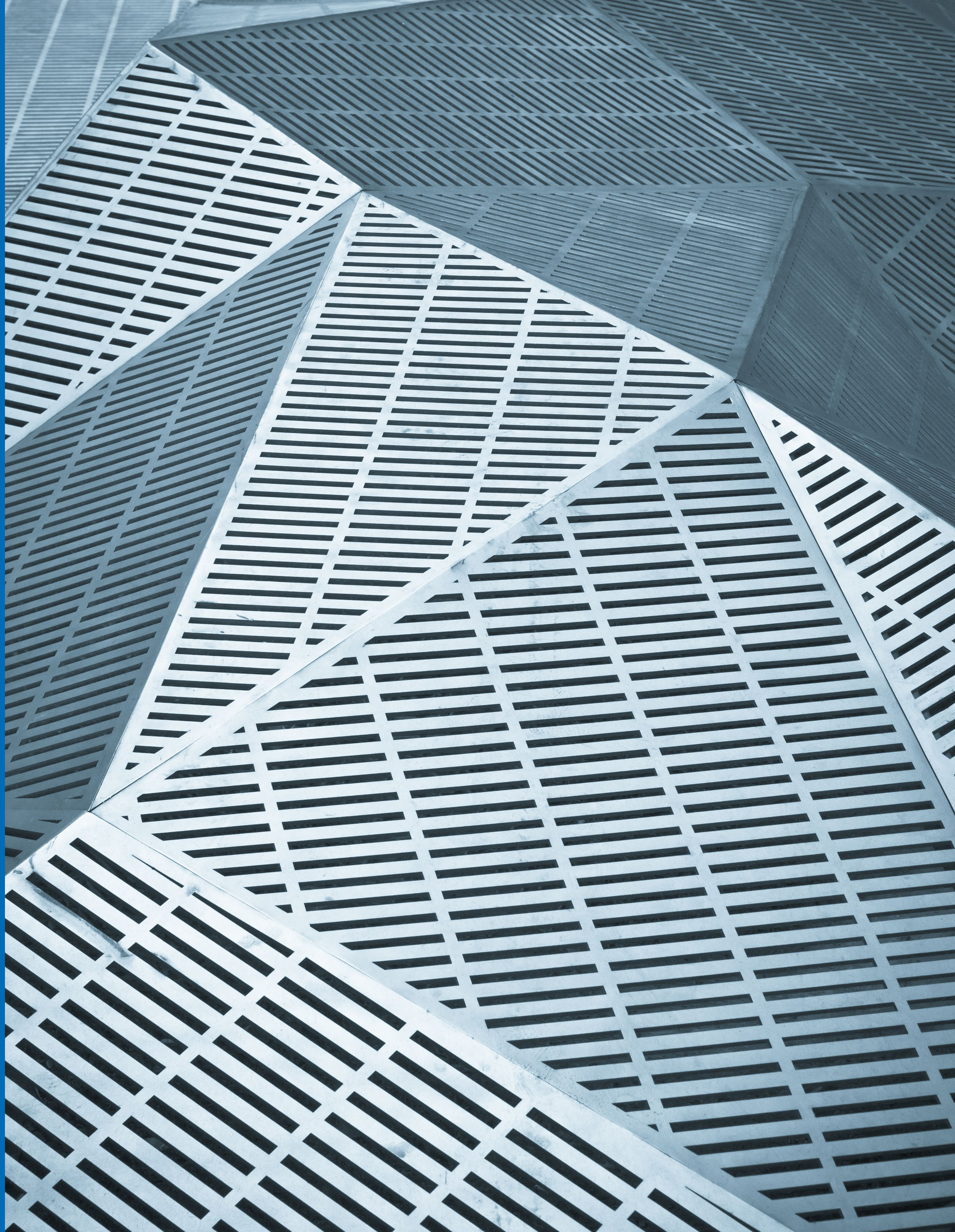
Market Statistics



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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at .

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