
2Q24

Baltimore Office Market Overview



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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 sale of the quarter by square feet was 100 N Charles Street located in the Baltimore CBD. The 345,663 SF property traded for \$4.4 million at \$13.00 PSF. It was 32% occupied and sold at auction.
- The largest sale of the quarter by price was 120 Slade Avenue in Pikesville Maryland. The 21,592 SF property traded for \$5 million at \$233.00 PSF. The property is single-tenant occupied and was purchased as a part of a sale-leaseback transaction.

Leasing Market Fundamentals

- After the market experienced over 1.2 MSF of negative net absorption from 2020 to 2022, the market rebounded in 2023, ending the year with 156,000 SF of positive net absorption. The market began 2024 on a down note, with 77,000 SF of negative net absorption during the first quarter but drastically increased in the second quarter. The second quarter positive net absorption was 612,796 SF, bringing the year-to-date net absorption to 545,581 SF.
- Although the market’s vacancy remains above the long-term average of 14.1%, the vacancy rate has decreased by 70 basis points quarter-over-quarter to 15.0% in the second quarter. Leasing activity during Q2 2024 was below the market’s historical average.
- There are five properties totaling 735,000 SF currently under construction, below the market’s decade average of 809,000 SF under construction.

Outlook

- Baltimore rents performed much better than most markets during the initial two years of the pandemic, with rents increasing 3.7% from the beginning of 2020 to the end of 2021. Since then, rents have declined, which may continue in the short term as leases roll over and companies look to downsize, leading to a larger disparity between supply and demand.
- After the market experienced a large expansion in vacancies from 2020-2022, vacancies have remained relatively flat since 2022, with a 70-basis point decrease quarter-over-quarter in 2Q 2024. This contrasts with leasing activity which has underperformed the historical average.
- Life sciences is a critical growth driver for the Baltimore region, and its relatively affordable office market is expected to capture more demand as some life sciences users are priced out of more costly East Coast markets.

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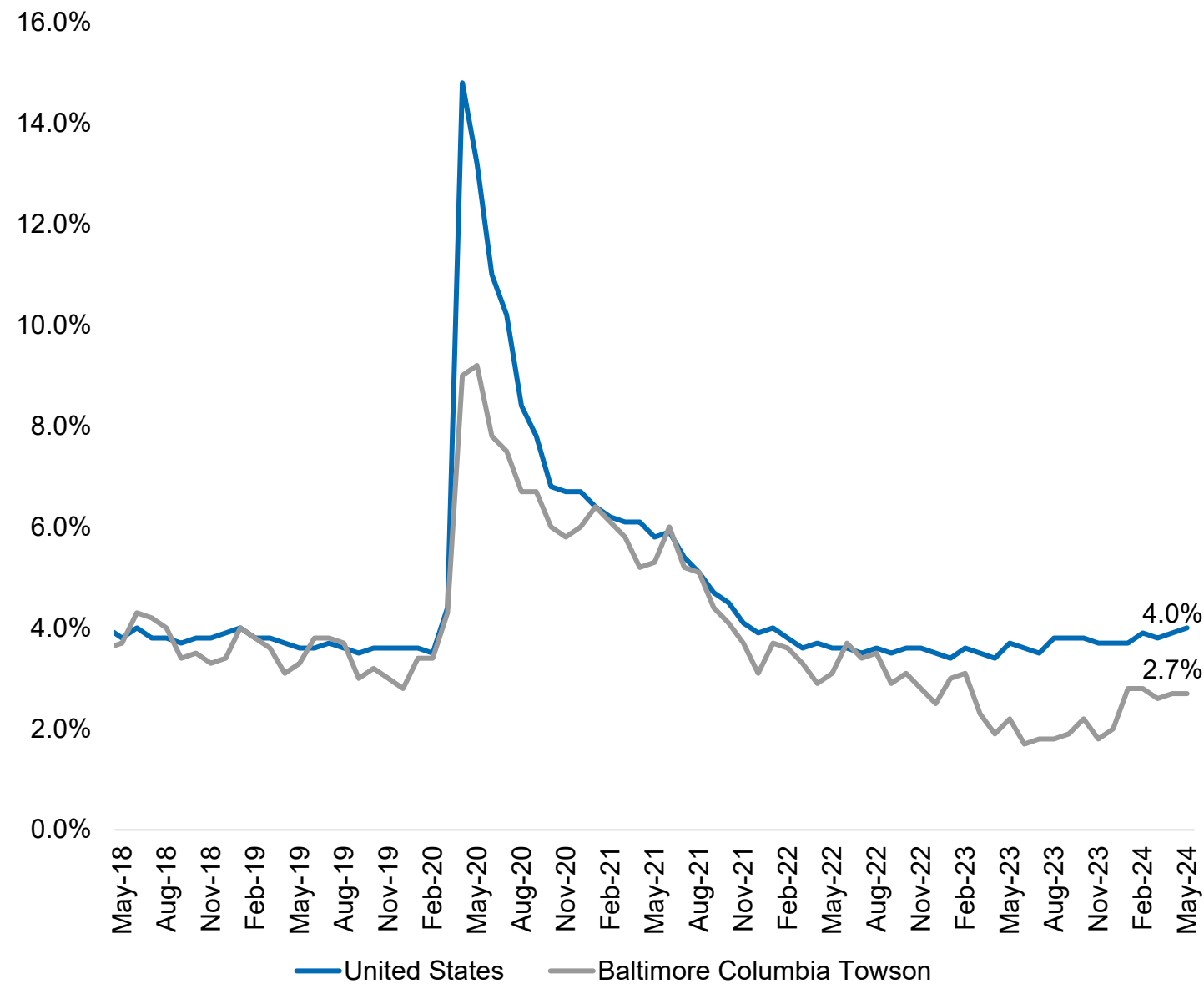
Economy



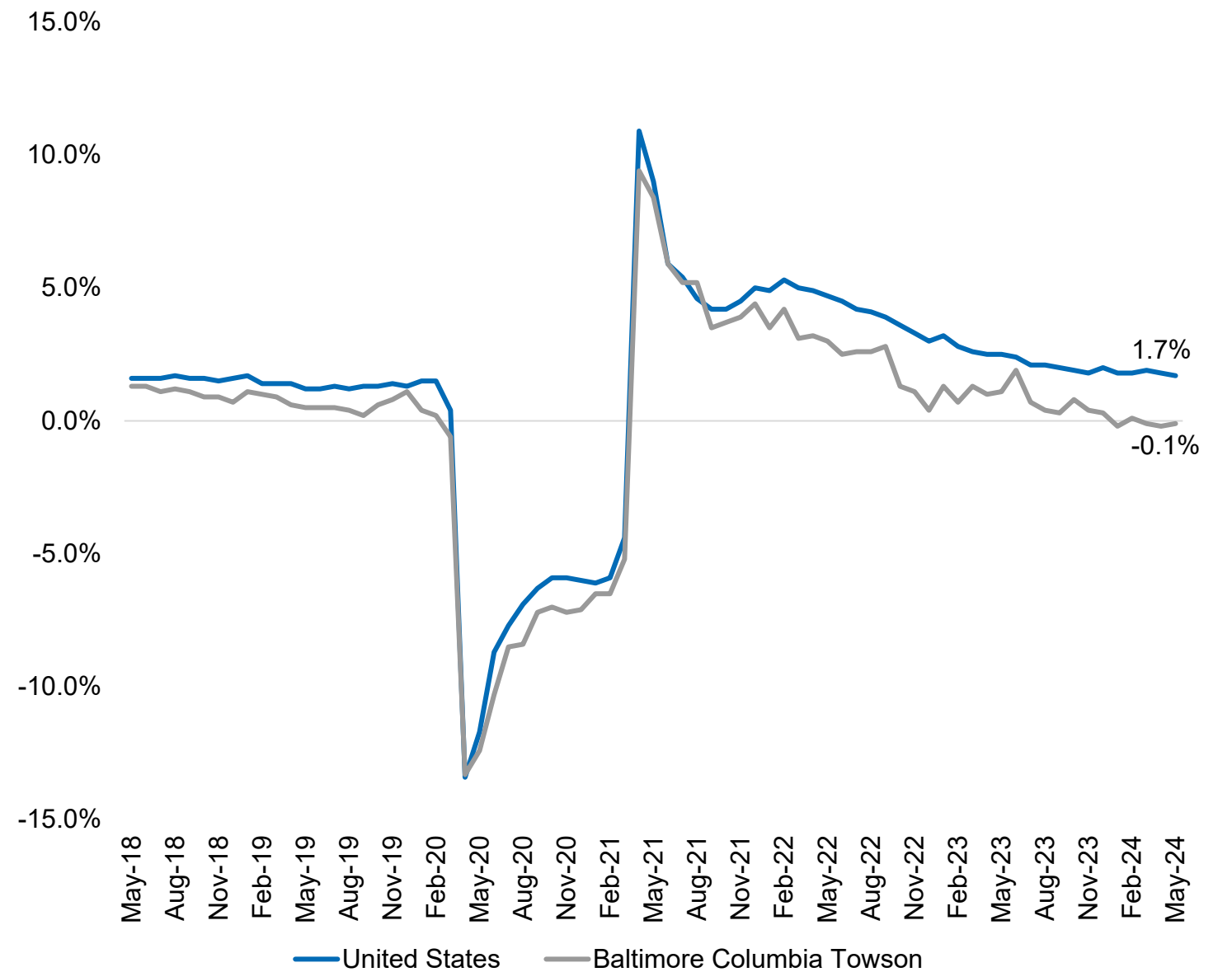
Baltimore's Unemployment Remains Below National Levels

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

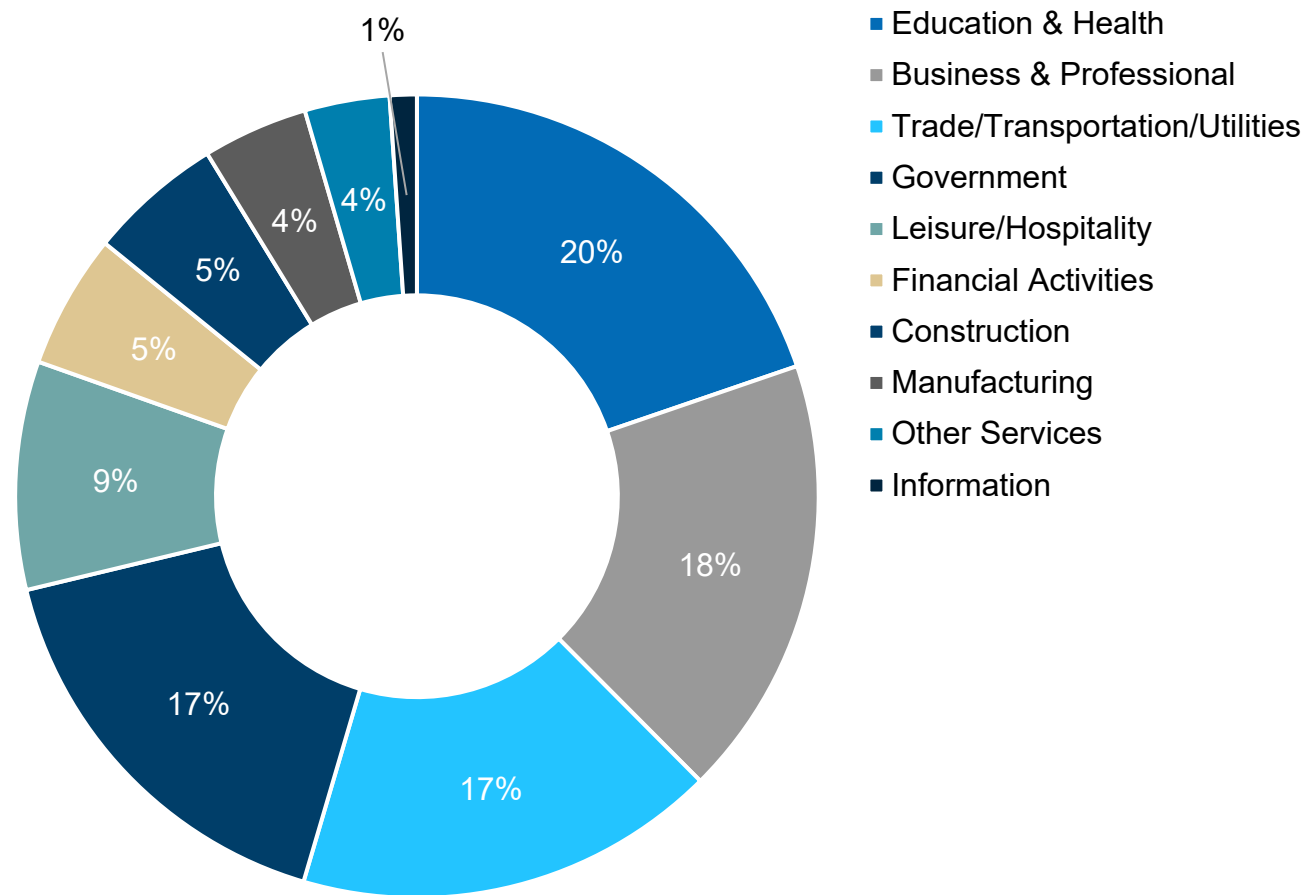


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

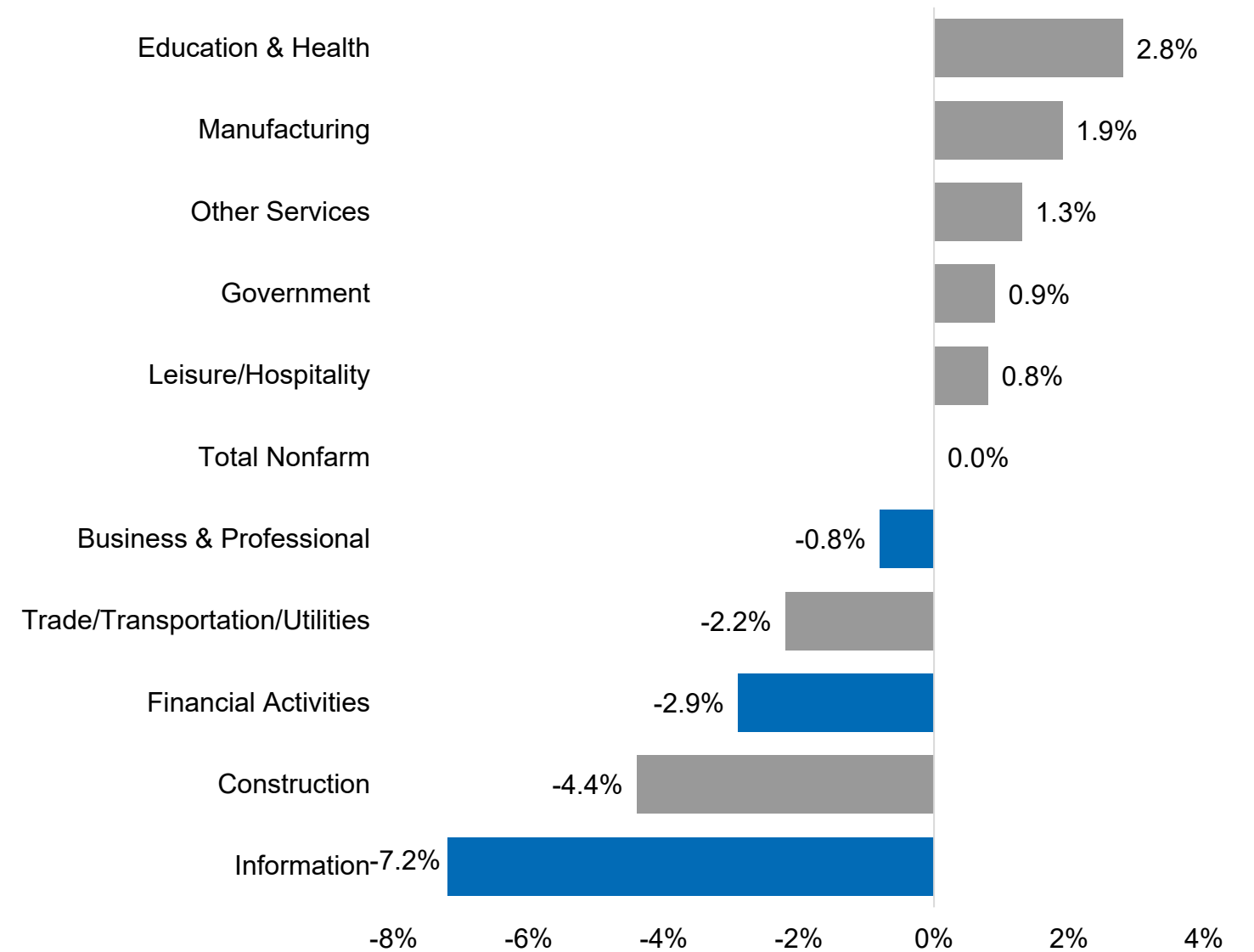
Office-Using Industries Experience 12-Month Employment Decline

Overall nonfarm employment remained flat in the Baltimore metro year-over-year. Although the market saw solid gains in Education & Health and Government employment growth, 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. Regardless, the Business & Professional industry remains the second-largest industry in the region, only behind Education & Health.

Employment by Industry, May 2024



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

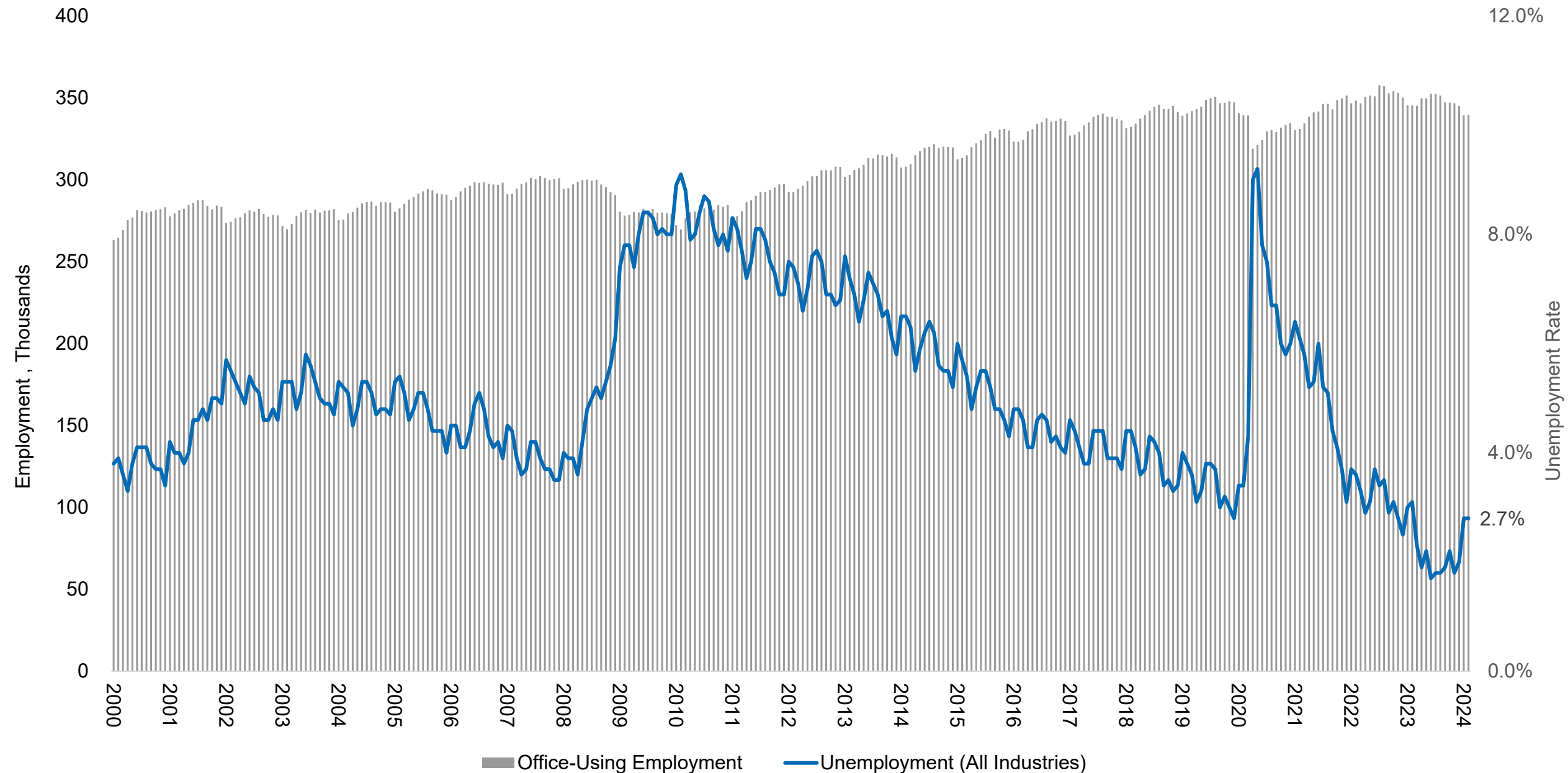


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

Overall Office-Using Employment Sees Slight Declines

Although the number of office jobs has rebounded close to pre-pandemic levels, the market has seen declines in office-using employment since the middle of 2023. Employment ended May 2024 at 344,200 employees, a decrease of 1.6% year-over-year, however an increase of 7.9% since the market reached a pandemic-related low in April of 2020.

Office-Using Employment* and Unemployment Across All Industries



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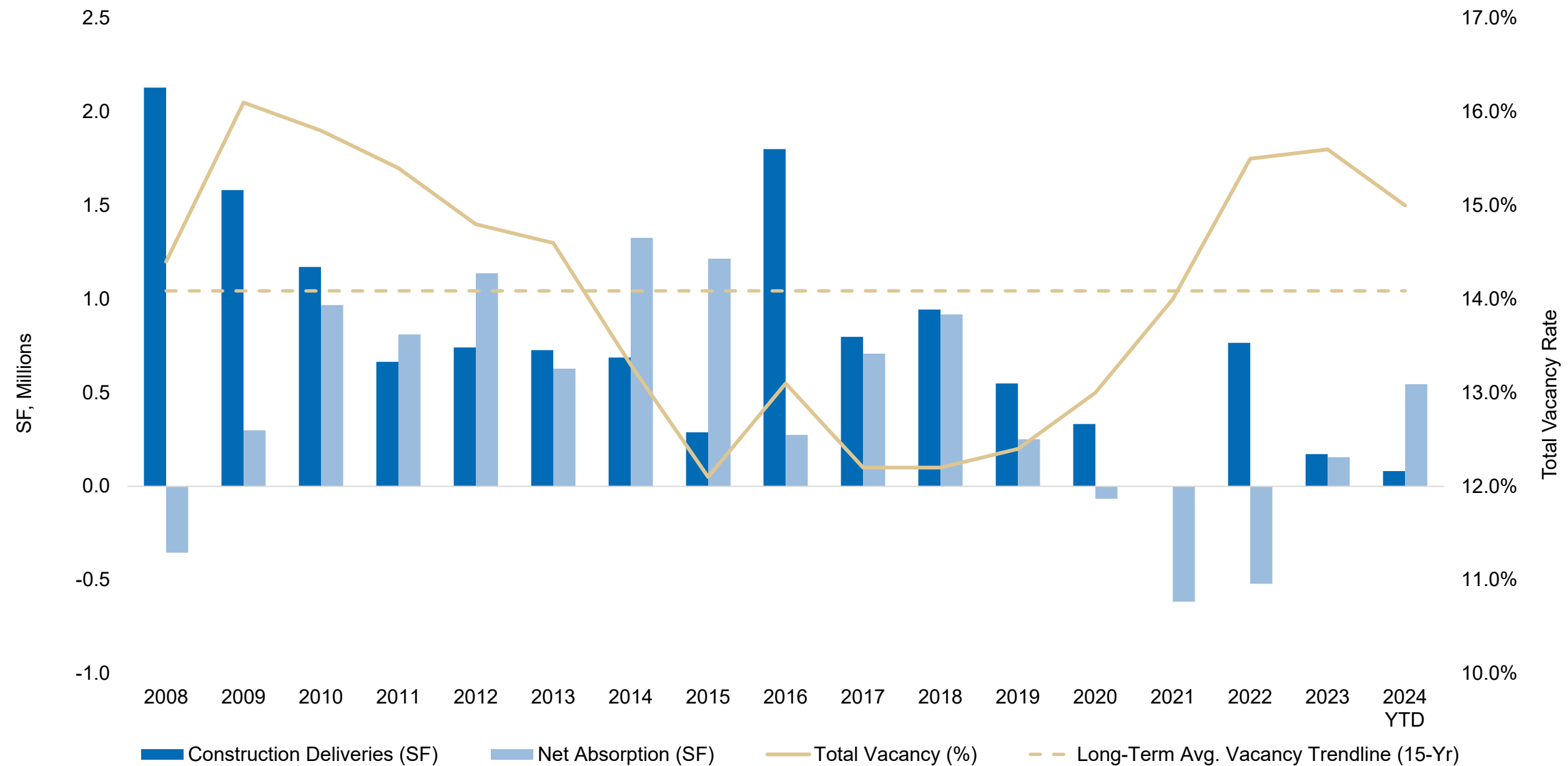
Leasing Market Fundamentals



Market Fundamentals Show Positive Signs Midway Through 2024

The vacancy rate decreased to 15.0% during Q2 2024, down 70 bps quarter-over-quarter after the market experienced 612,000 SF of positive net absorption. Although the market's vacancy remains above the long-term average of 14.1%, the drastic decrease in vacancy quarter-over-quarter shows tenants' ability to make long-term real estate commitments in Baltimore. There was one Class A office space delivery at 8150 Maple Lawn Boulevard for roughly 82,000 SF with an additional 735,000 SF under construction.

Historical Construction Deliveries, Net Absorption, and Vacancy



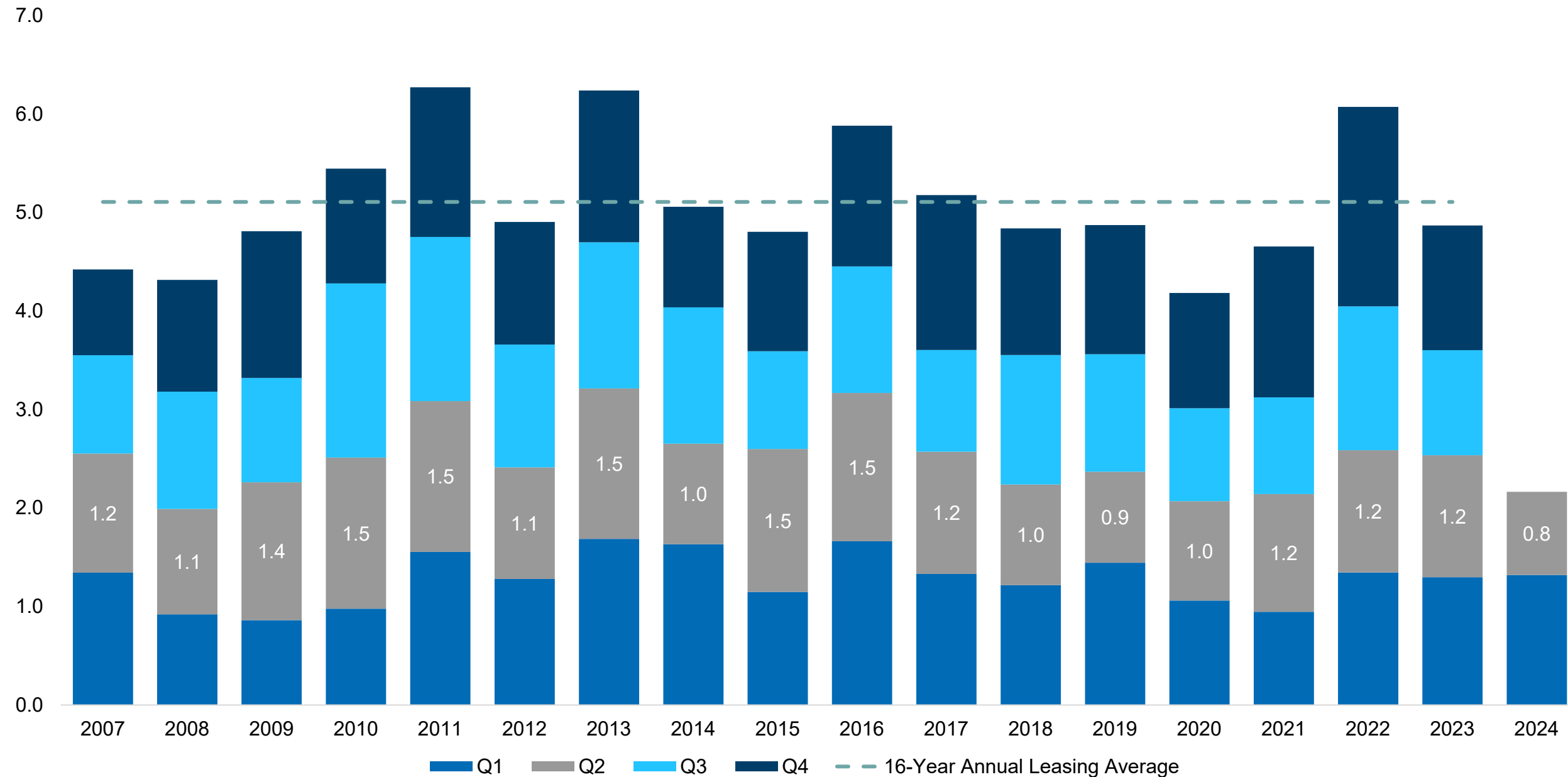
Source: Newmark Research, CoStar



Leasing Activity below the Historical Average, Overshadowed by Positive Absorption

Leasing activity during Q2 2024 is below the market's historical average. The Baltimore market experienced 800,000 SF of leasing activity during the quarter, below the historical average of 1.3 MSF of leasing activity during the second quarter.

Total Leasing Activity (tsf)



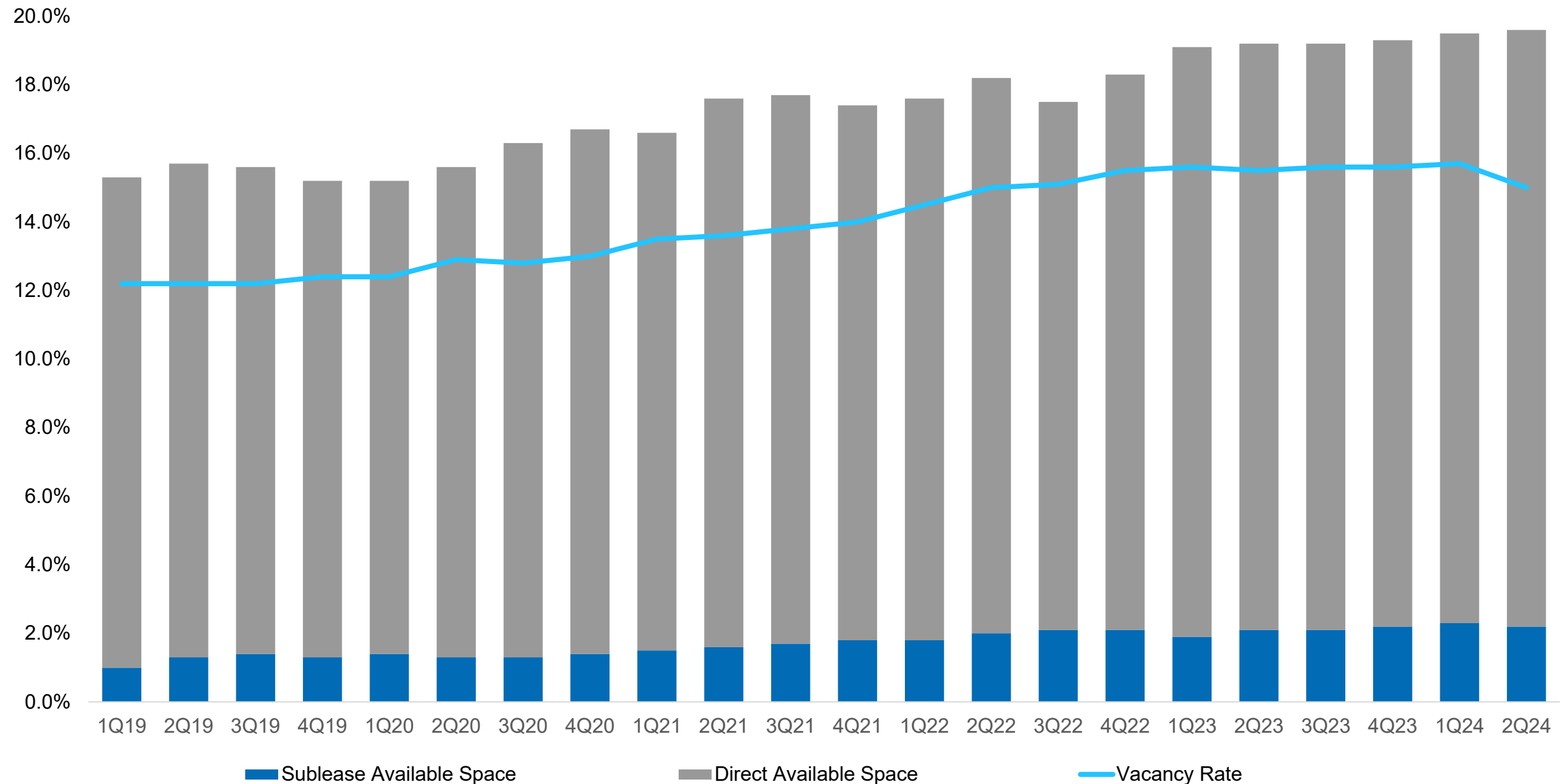
Source: Newmark Research, CoStar



Vacancy Decreases Drastically Midway through 2024

During Q2 2024, both sublease and direct available space stayed relatively flat. Vacancy ended the quarter at 15.0%, a decrease of 70 bps quarter-over-quarter, while availability ended the quarter at 19.6%, an increase of 10 bps quarter-over-quarter. This decrease in vacancy is primarily driven by many small to mid sized leases with the largest lease of the quarter being Mariner Finance moving into 8110 Corporate Drive for 79,901 SF.

Available Space and Vacancy Rate



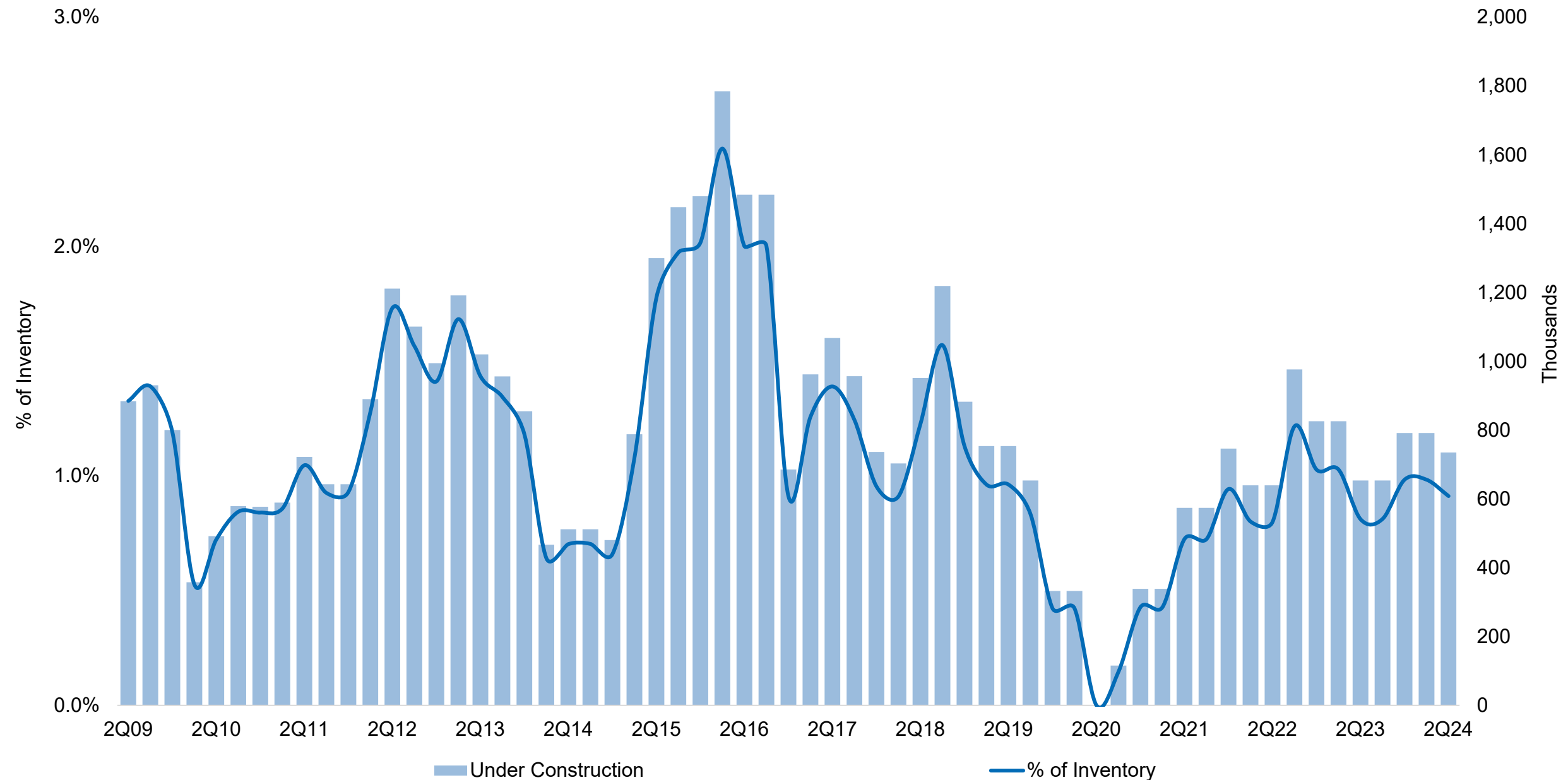
Source: Newmark Research, CoStar



Construction Below the Historical Average

There are five properties totaling 735,000 SF currently under construction, below the market's decade average of 792,000 SF under construction. Highlighting these developments is T Rowe Price's new headquarters at Harbor Point, which will add two buildings totaling 450,000 square feet to the market, with delivery expected in the second half of 2024.

Office Under Construction and % of Inventory



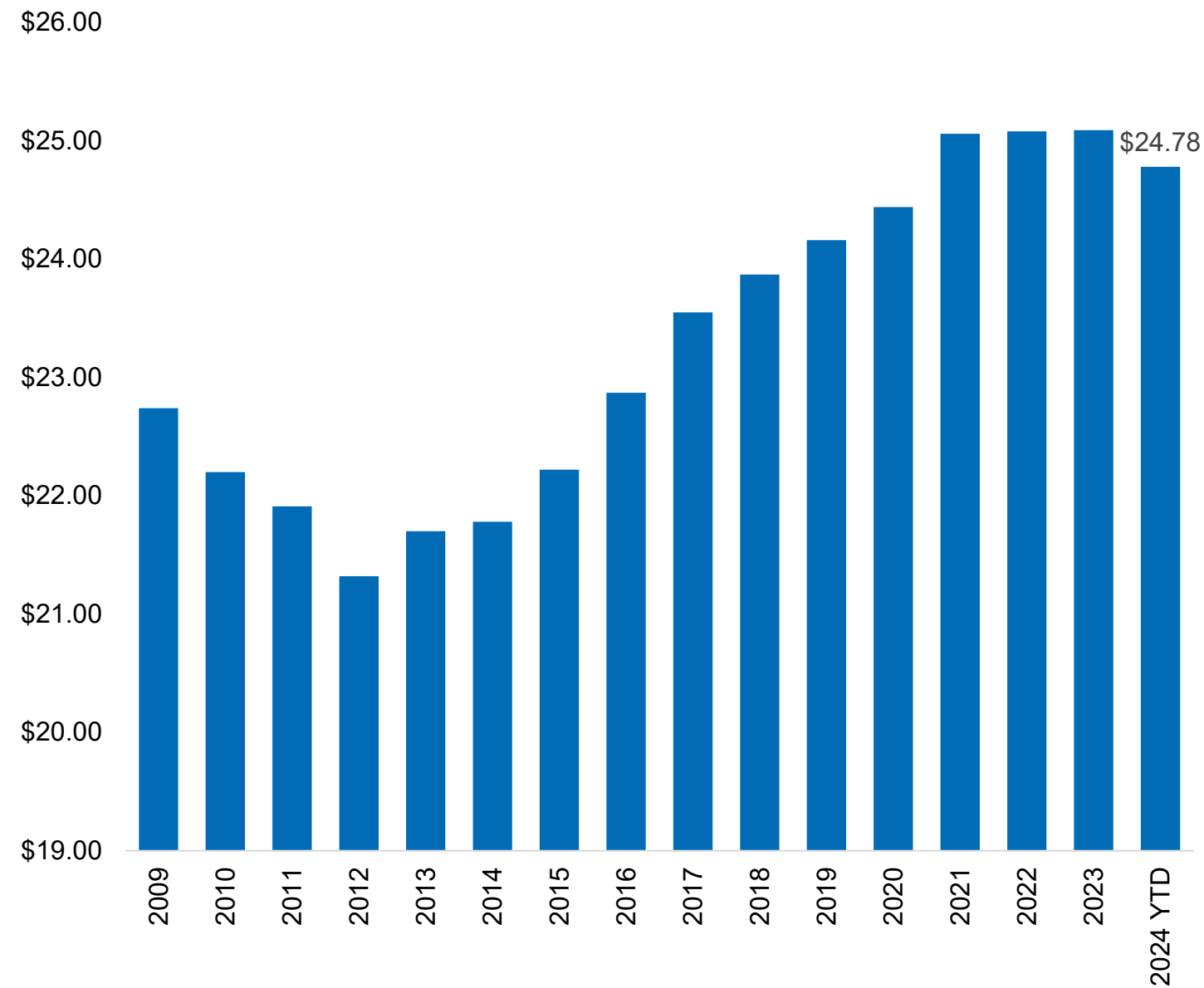
Source: Newmark Research, CoStar



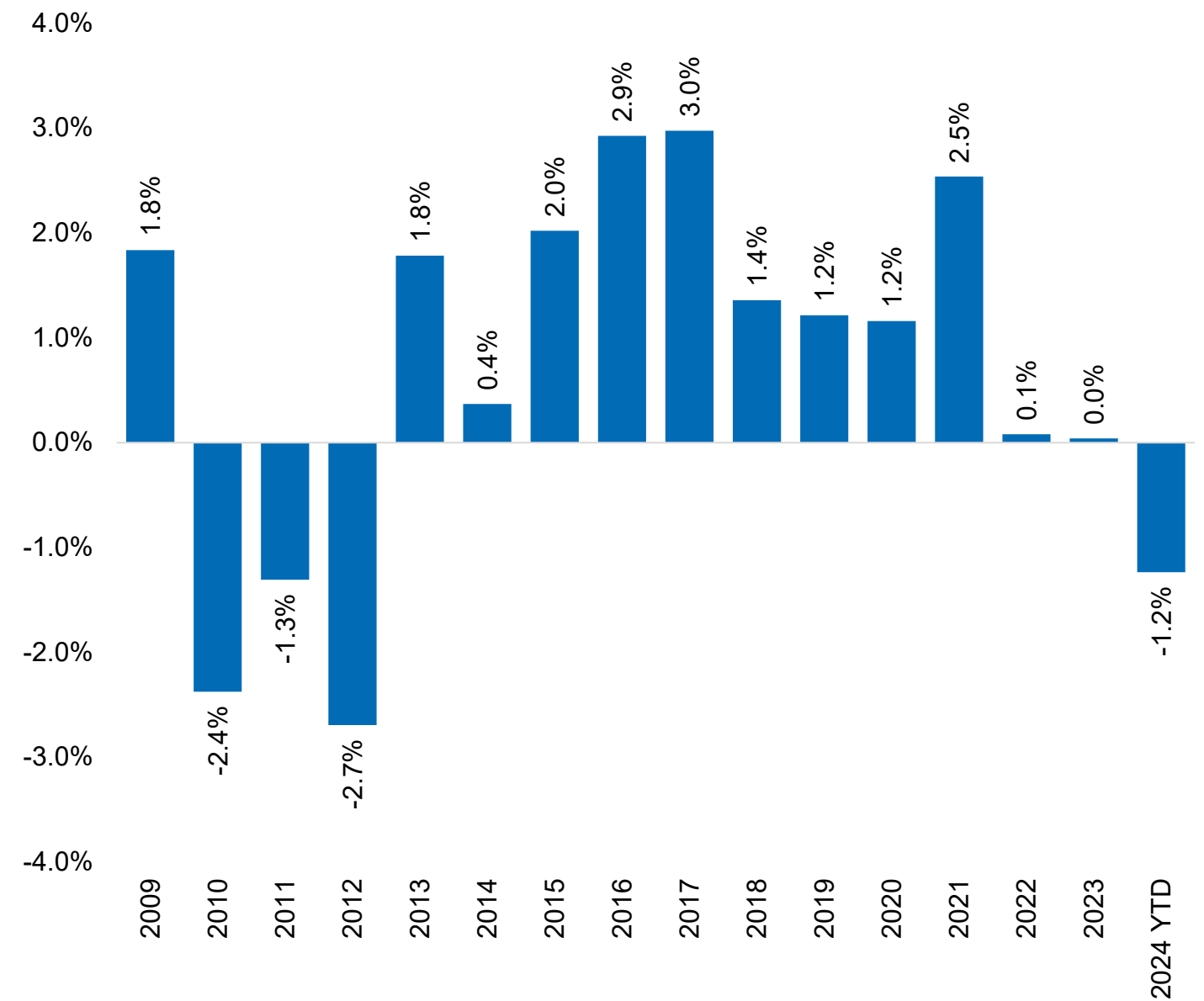
Rents Continue to Decline Midway Through 2024

After the market saw positive rent growth from 2013 to 2021, rents flattened in 2022 and remained flat through 2023. To begin 2024, average asking rents have begun to fall, ending Q2 2024 at \$24.78 PSF, a decrease of 0.4% quarter-over-quarter and a decrease of 0.2% year-over-year.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

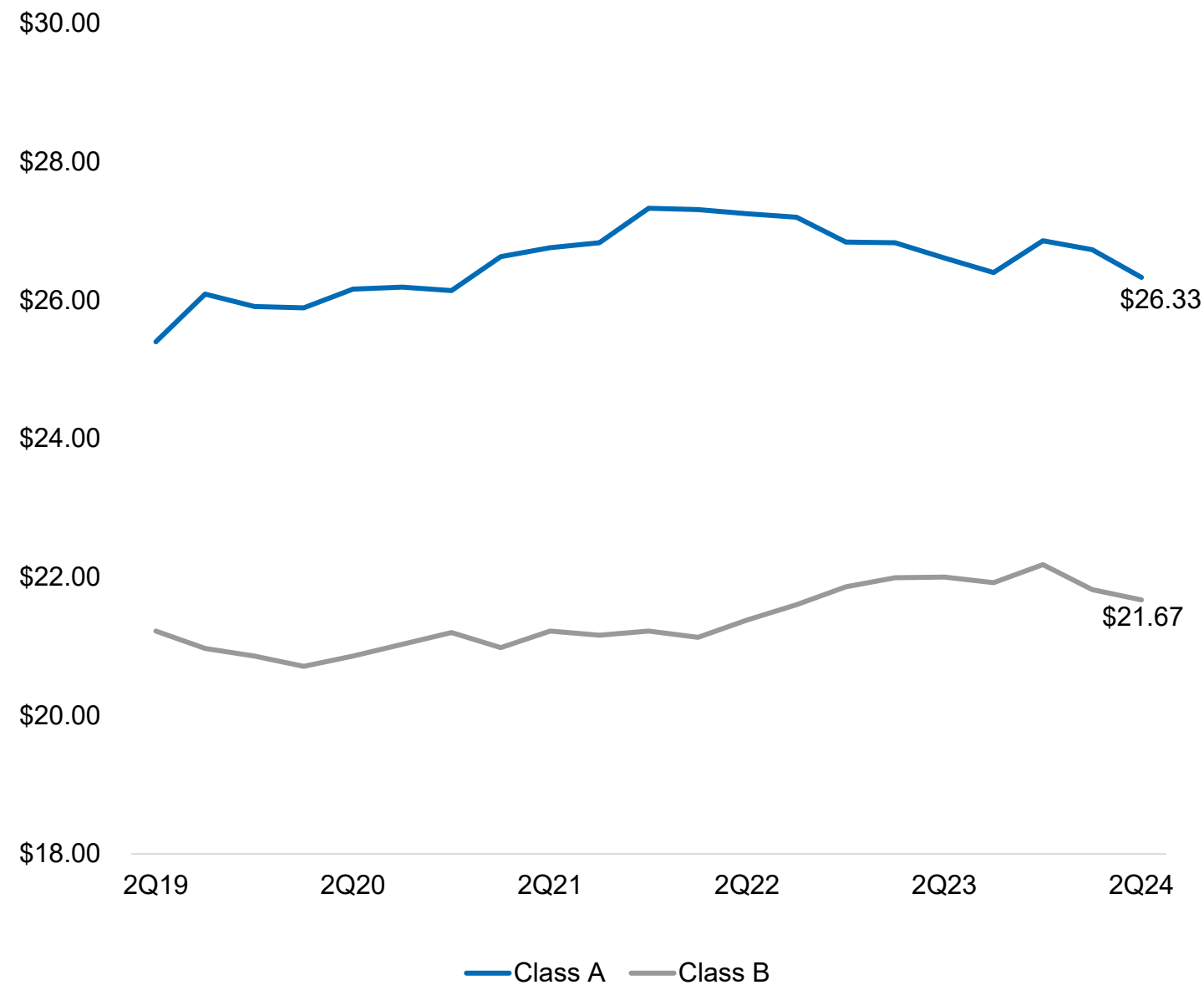


Source: Newmark Research, CoStar

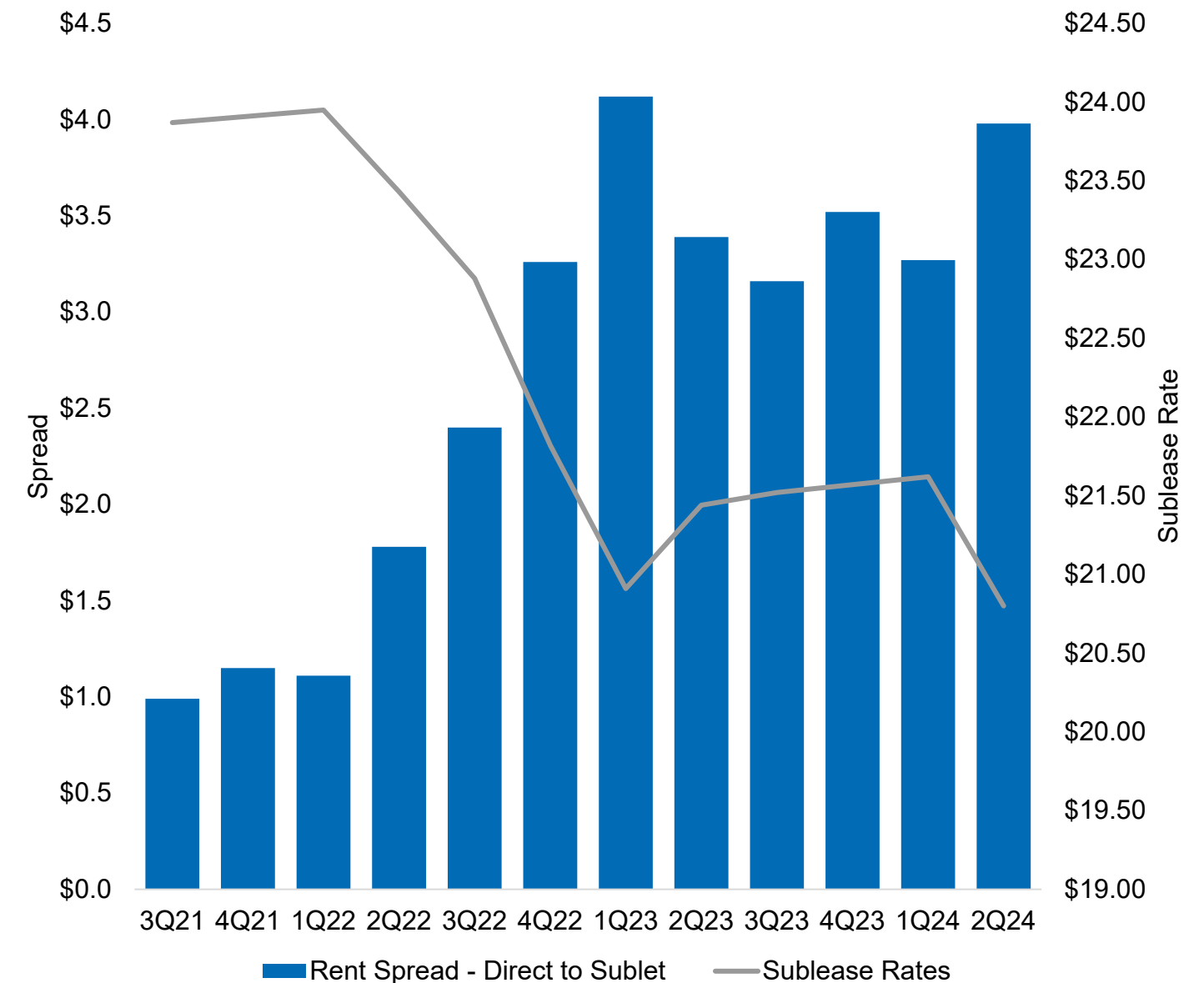
Both Class A and Class B Rents Decline Slightly

Both Class A and Class B rents declined slightly during Q2 2024, decreasing during the quarter after seeing positive movement to end 2023. Class A rents ended the quarter at \$26.33, a decrease of 1.5% quarter-over-quarter and 1.1% year-over-year. Class B rents ended the quarter at \$21.67, a decrease of 0.7% quarter-over-quarter and 1.5% year-over-year. Sublease rates decreased drastically by 3.8% quarter-over-quarter and decreased 3.0% year-over-year. This increased the spread between direct and sublease rates to \$4.00 PSF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Driven by New Leases

In a change from recent quarters, new leases drove leasing activity during Q2 2024, as three of the five largest transactions were new deals. The five major leases of the second quarter of 2024 are from a variety of industries, highlighting the diverse occupier pool Baltimore has access to.

Notable 2Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Mariner Finance	8110 Corporate Drive	Baltimore County East	New Lease	79,901
Franklin & Prokopik	2 N Charles Street	CBD	Lease Renewal	38,000
NVR Homes	7080 Samuel Morse Drive	Columbia	New Lease	33,897
RMF Engineering	5520 Research Park Drive	BWI	Lease Renewal	32,552
Intuitive Machines	881 Cromwell Park Drive	BWI	New Lease	21,117

Source: Newmark Research, CoStar

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Market Statistics





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