
3Q24

Baltimore Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. August’s 3.5% unemployment rate was significantly lower than the national average of 4.2%.
- The market saw a solid 12-month gain in the Business & Professional sector of 1.7%, however, it saw declines in the Financial Activities and Information sectors of 1.6% and 6.1% respectively. This resulted in an overall 12-month gain of 0.6% for the three main office-using sectors.
- 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 2200 Defense Highway, a 65,780-square-foot, four-story office building. Cantor Fund Management sold the Class A office building to APG Real Estate Investments for \$9 M, or \$136.82 PSF. The property was fully occupied at the time of sale.
- 8020 Corporate Drive, known as McLean Ridge I, was sold by Fernau LeBlanc Investment Partners to An-nur Foundation of MD for \$4 M, or \$77.52 PSF. The buyer plans to fully move into the building as an owner-user.

Leasing Market Fundamentals

- After the market experienced almost 1.2 MSF of negative net absorption from 2020 to 2022, the market rebounded in 2023, ending the year with 63,000 SF of positive net absorption. The market has continued the positive momentum from 2023, experiencing 324,000 SF of positive net absorption through the first three quarters of 2024, despite seeing 31,000 SF of negative net absorption during Q3 2024.
- Although the market’s vacancy remains above the historical average of 13.7%, the vacancy rate has stabilized and remained relatively flat since the end of 2022, ending Q3 2024 at 15.4%.
- Development has been muted the past few years, which continued in Q3 2024 with no deliveries. Furthermore, there are three properties totaling 588,000 SF under construction, well below the market’s decade average of 788,000 SF under construction.

Outlook

- Baltimore rents performed much better than most markets during the initial two years of the pandemic, with rents increasing 3.6% from the beginning of 2020 to the end of 2021. Since then, rents have declined slightly, 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, ending Q3 2024 at 15.4%. 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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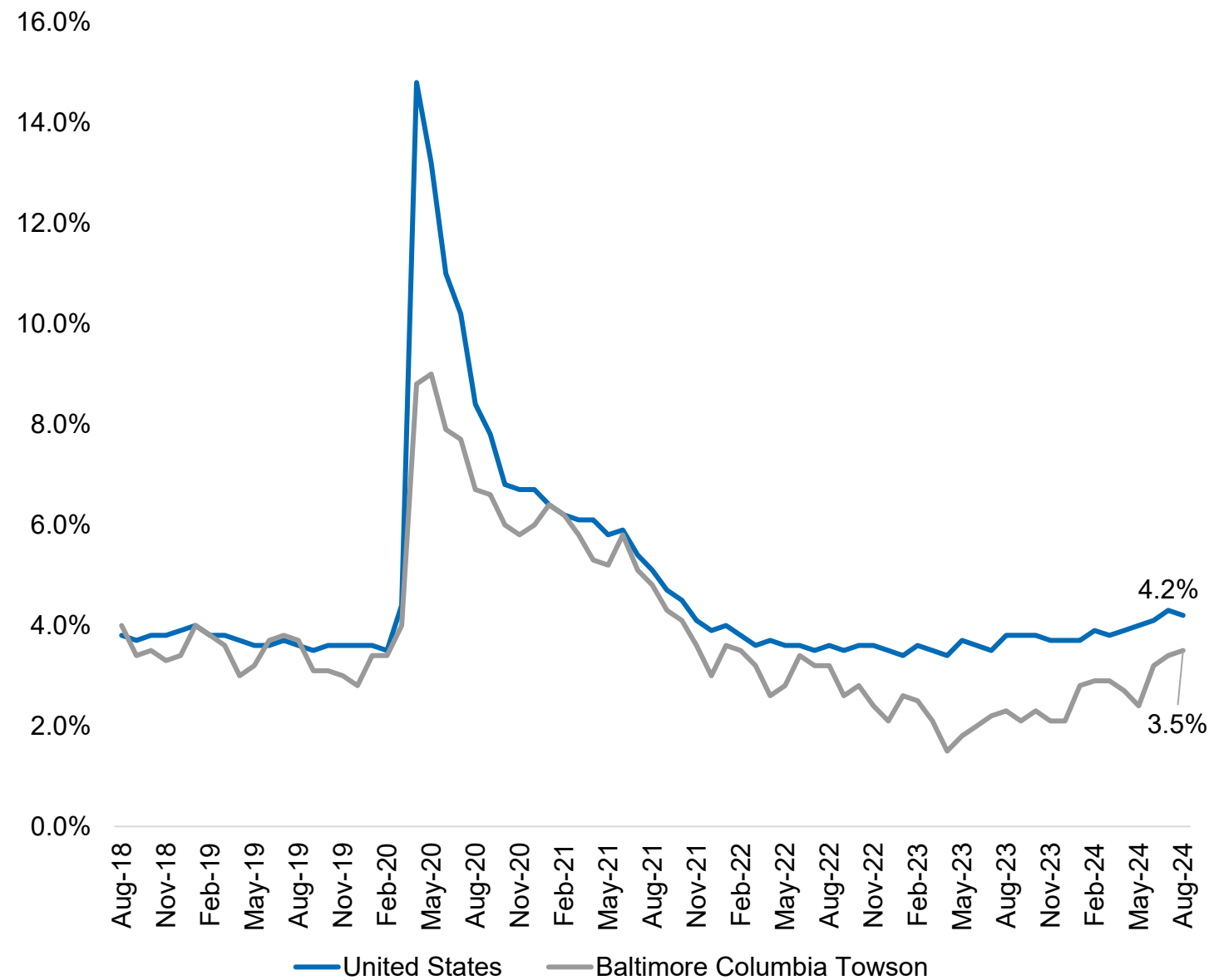
Economy



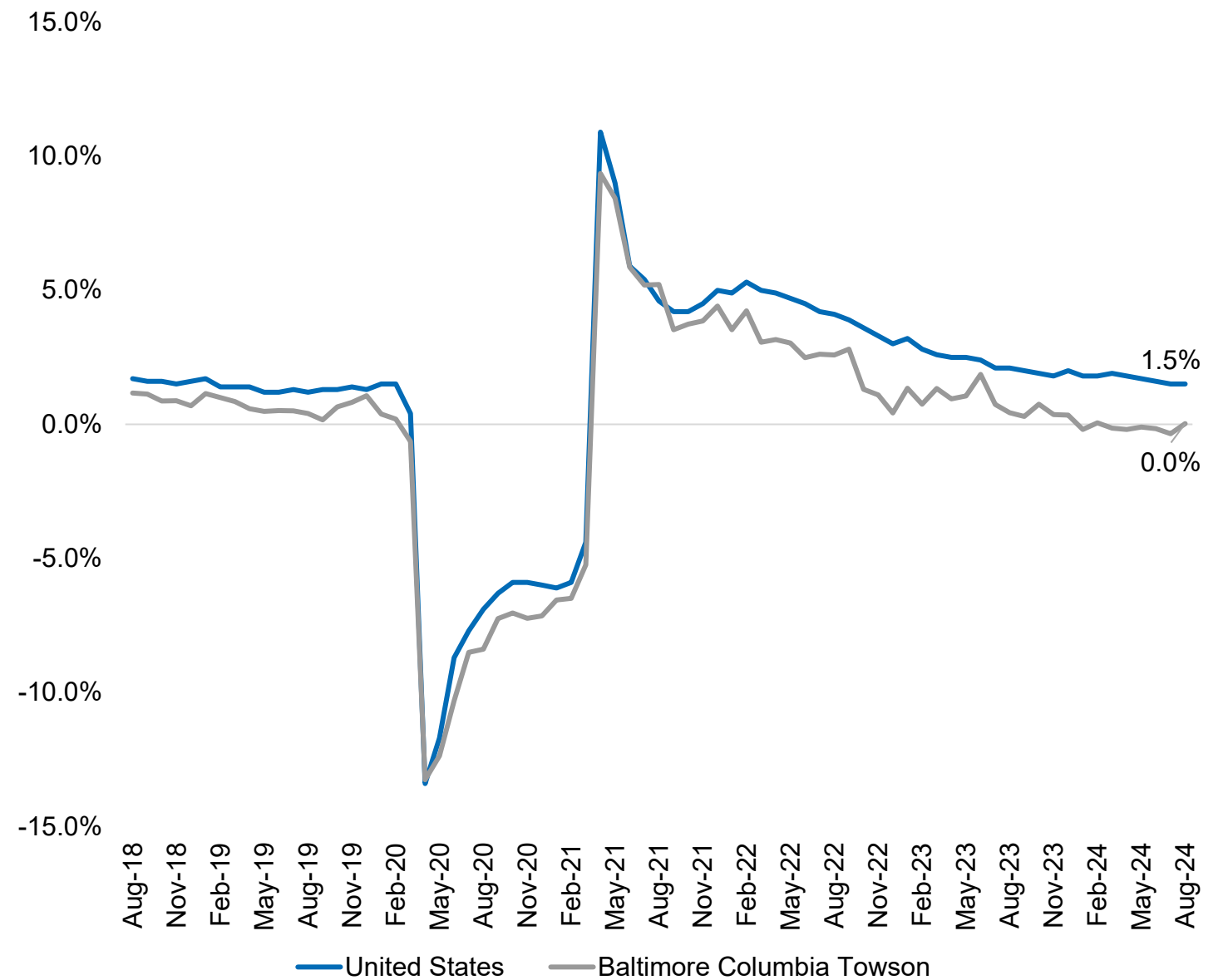
Baltimore's Unemployment Remains Below National Levels

Baltimore's unemployment rate ended August 2024 at 3.5%. This is 120 bps higher year-over-year, however 70 bps lower than the national average.

Unemployment Rate, Seasonally Adjusted



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

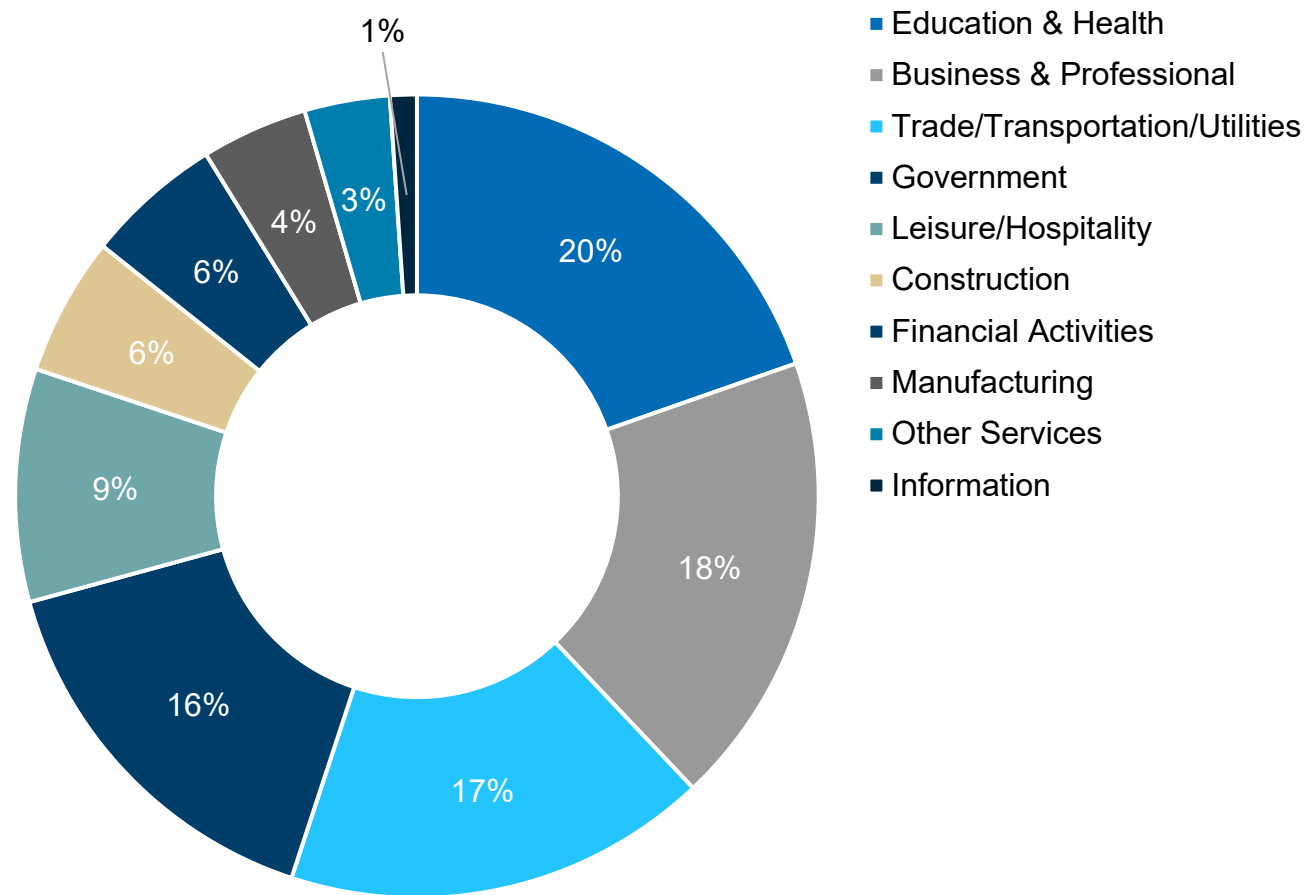


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

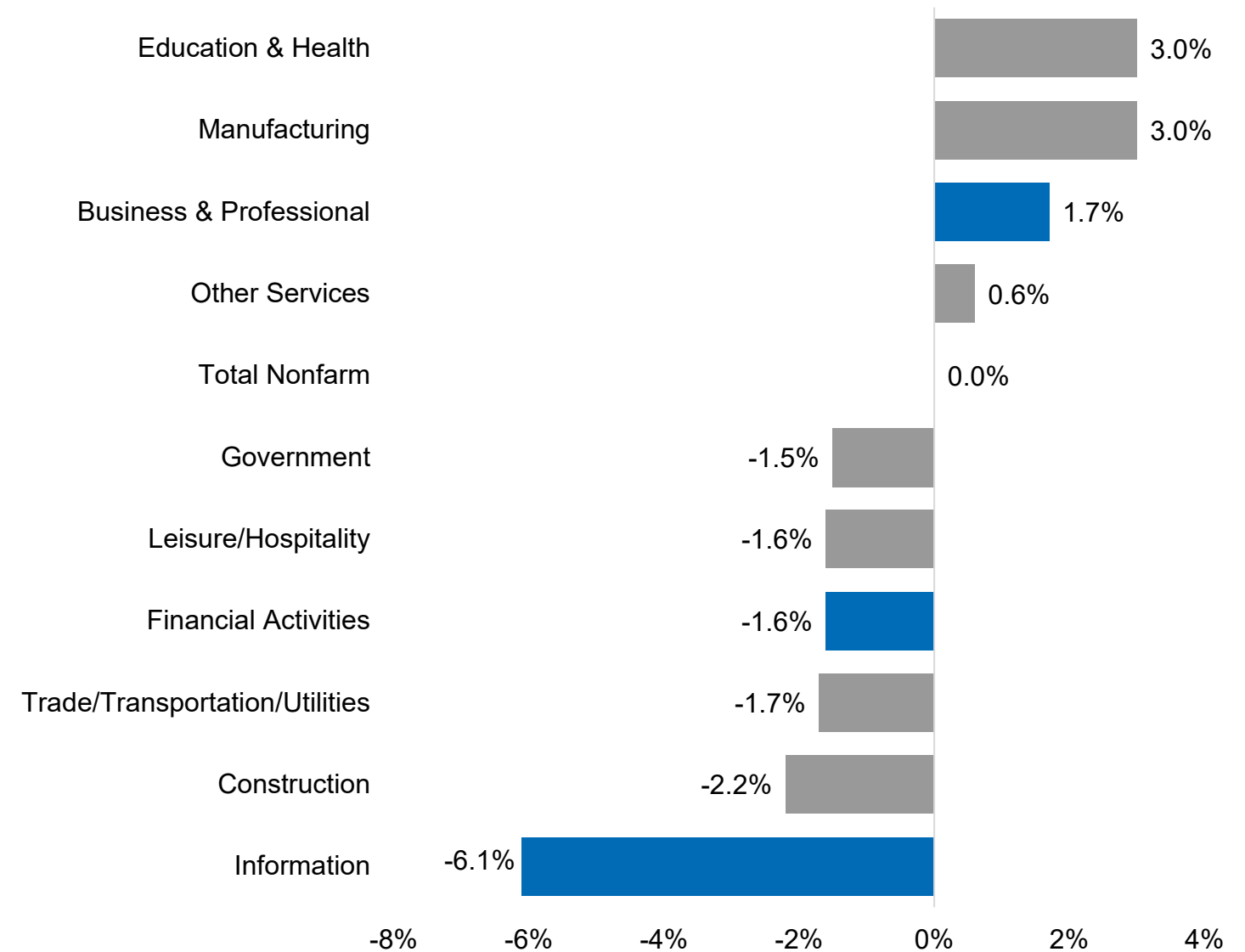
The Business & Professional Sector Sees 12-Month Employment Growth

Overall nonfarm employment remained flat in the Baltimore metro year-over-year. The market saw declines in two of the three office-using sectors. The Information and Financial Activities sectors saw declines of 6.1% and 1.6%, respectively. Conversely, the Business & Professional sector saw an expansion of 1.7% over the past year, providing optimism for the office market. The Business & Professional industry remains the second-largest industry in the region, only behind Education & Health.

Employment by Industry, August 2024



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

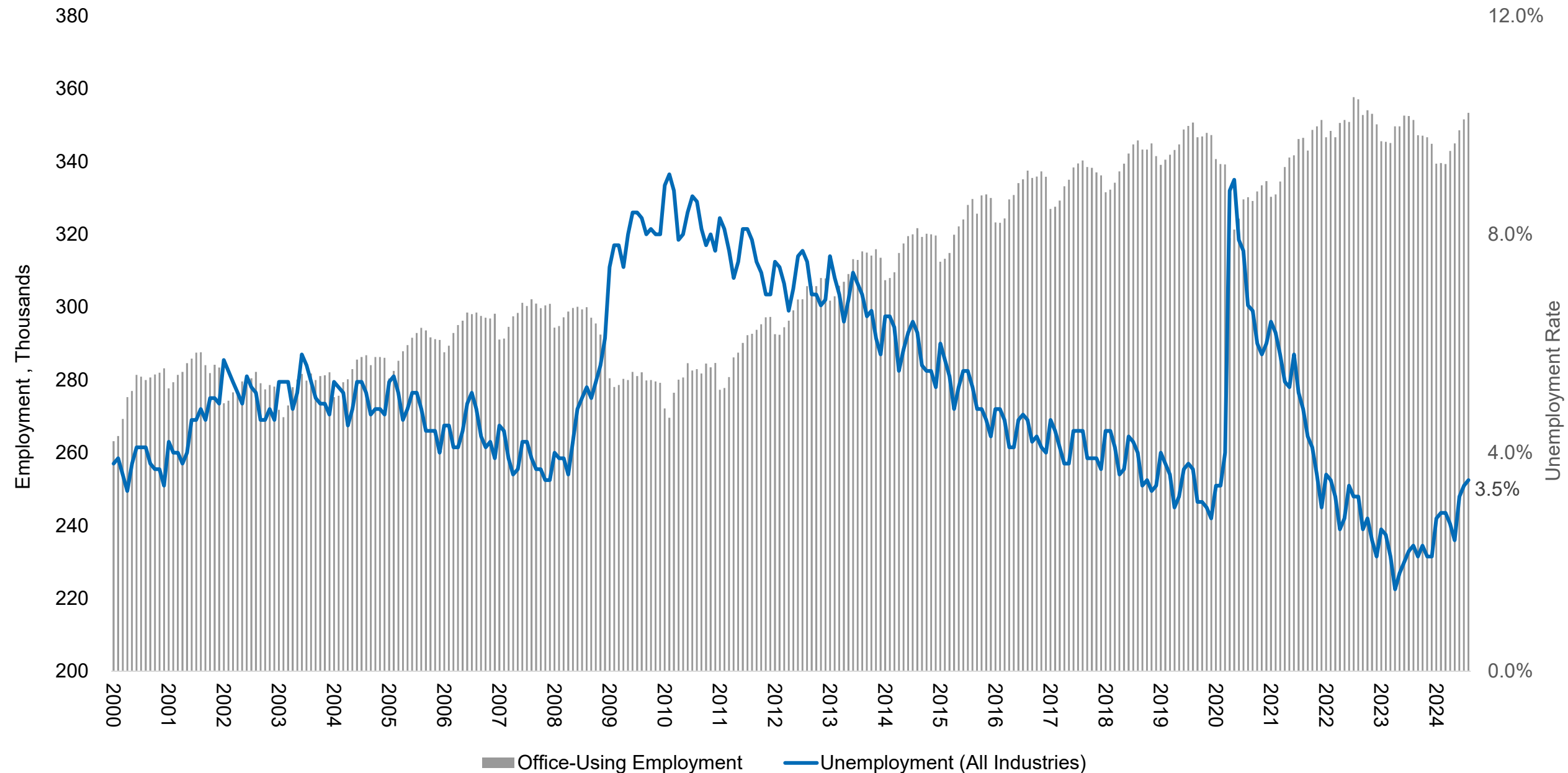


Source: U.S. Bureau of Labor Statistics, Baltimore-Columbia-Towson

Office-Using Employment Has Seen Positive Movement in 2024

The number of office jobs has rebounded past pre-pandemic levels after experiencing solid gains in 2024. Employment ended August 2024 at 353,400 employees, an increase of 0.6% year-over-year and an increase of 10.8% since the market reached a pandemic-related low in April of 2020.

Office-Using Employment* and Unemployment Across All Industries



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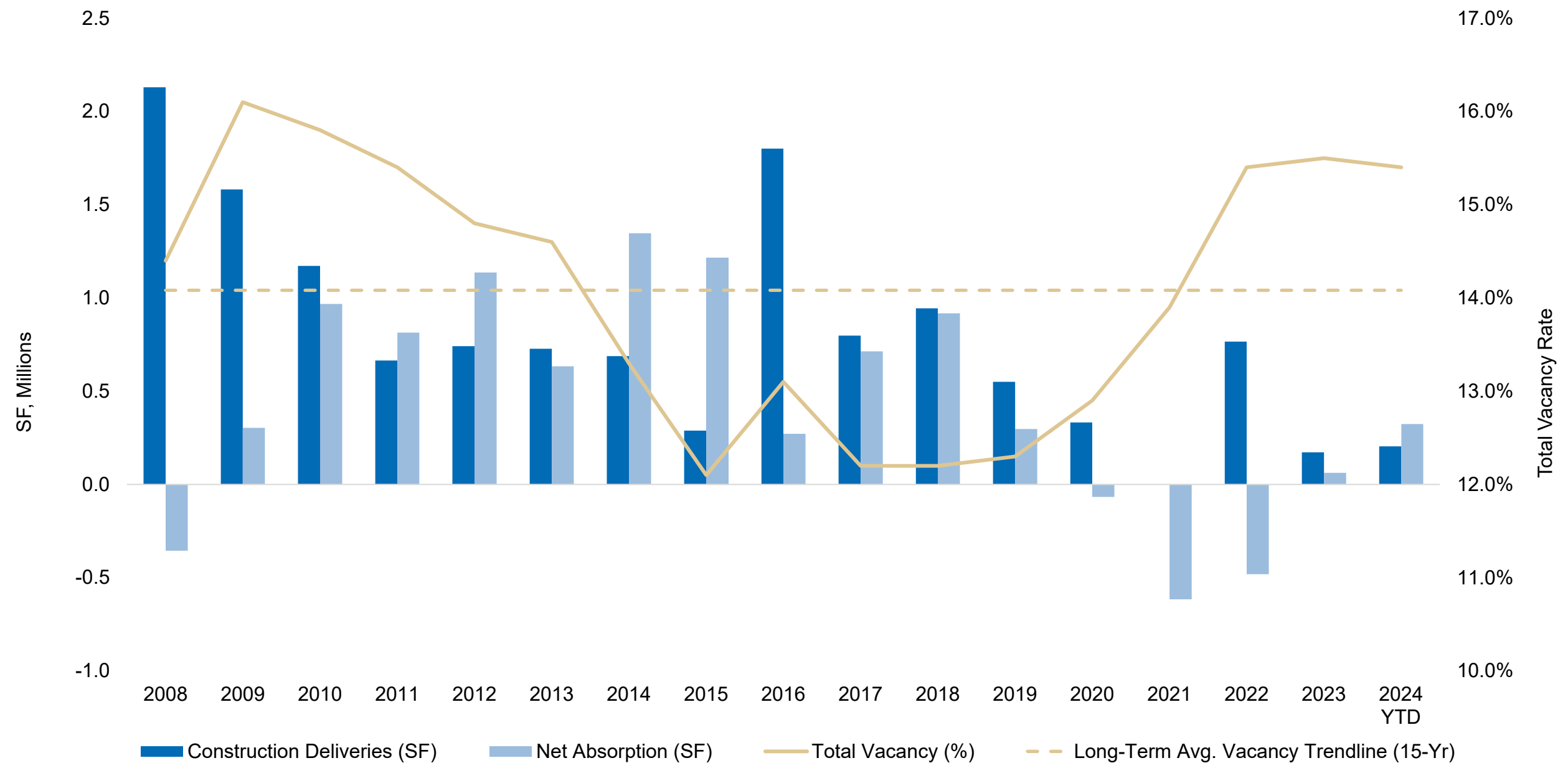
Leasing Market Fundamentals



Market Fundamentals Show Positive Signs in 2024

The vacancy rate remained flat during Q3 2024, ending the quarter at 15.4% after the market experienced 31,000 SF of negative net absorption. Although the market's vacancy remains above the long-term average of 14.1%, the positive net absorption of 324,000 SF during 2024 shows tenants' ability to make long-term real estate commitments in Baltimore. Although there were no deliveries during the quarter, there are currently three properties under construction totaling 588,000 SF.

Historical Construction Deliveries, Net Absorption, and Vacancy



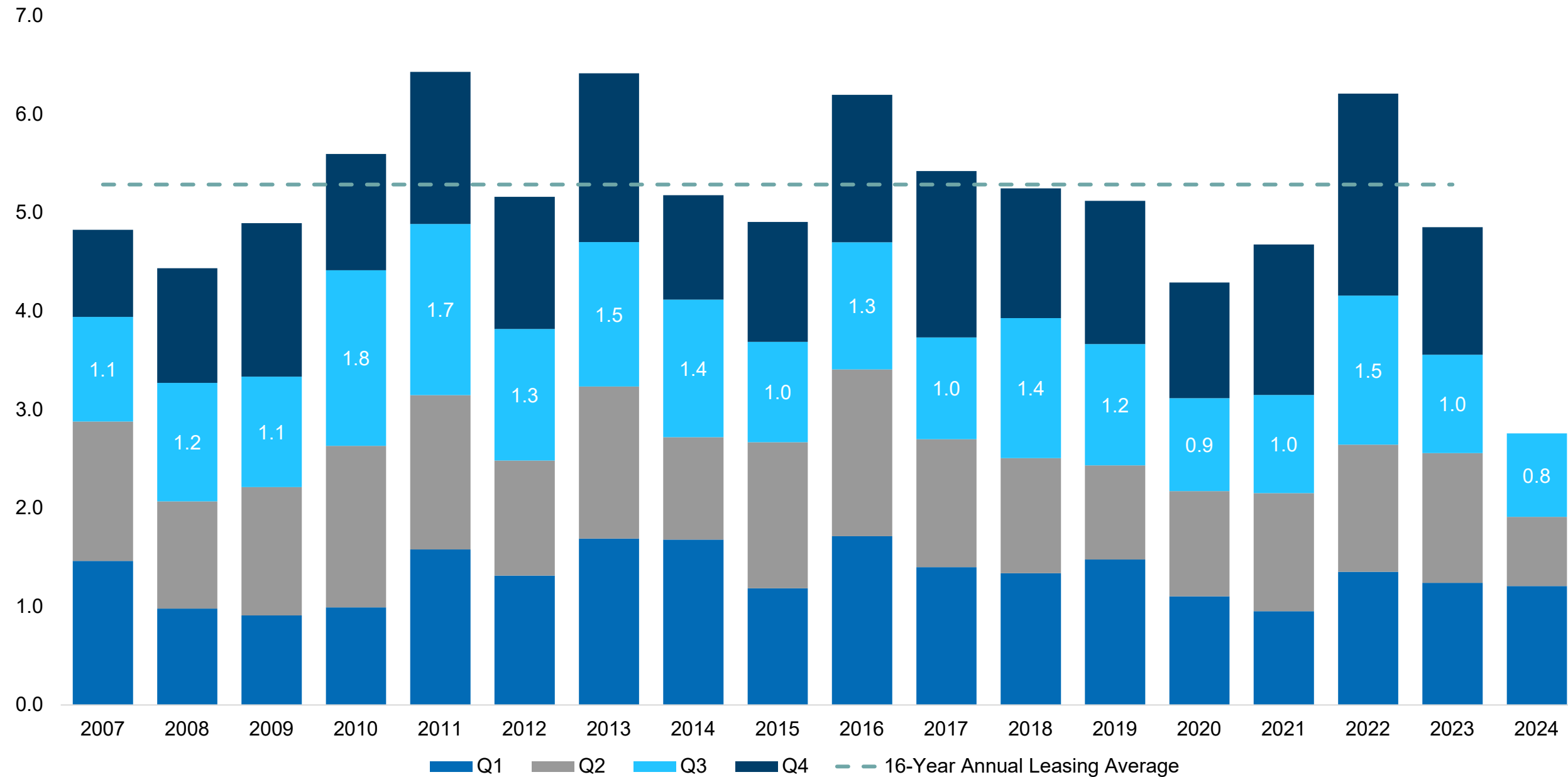
Source: Newmark Research, CoStar



Leasing Activity below the Historical Average

Leasing activity during Q3 2024 is below the market's historical average. The Baltimore market experienced 0.8 MSF of leasing activity during the quarter, below the historical average of 1.2 MSF of leasing activity during the third quarter.

Total Leasing Activity (tsf)



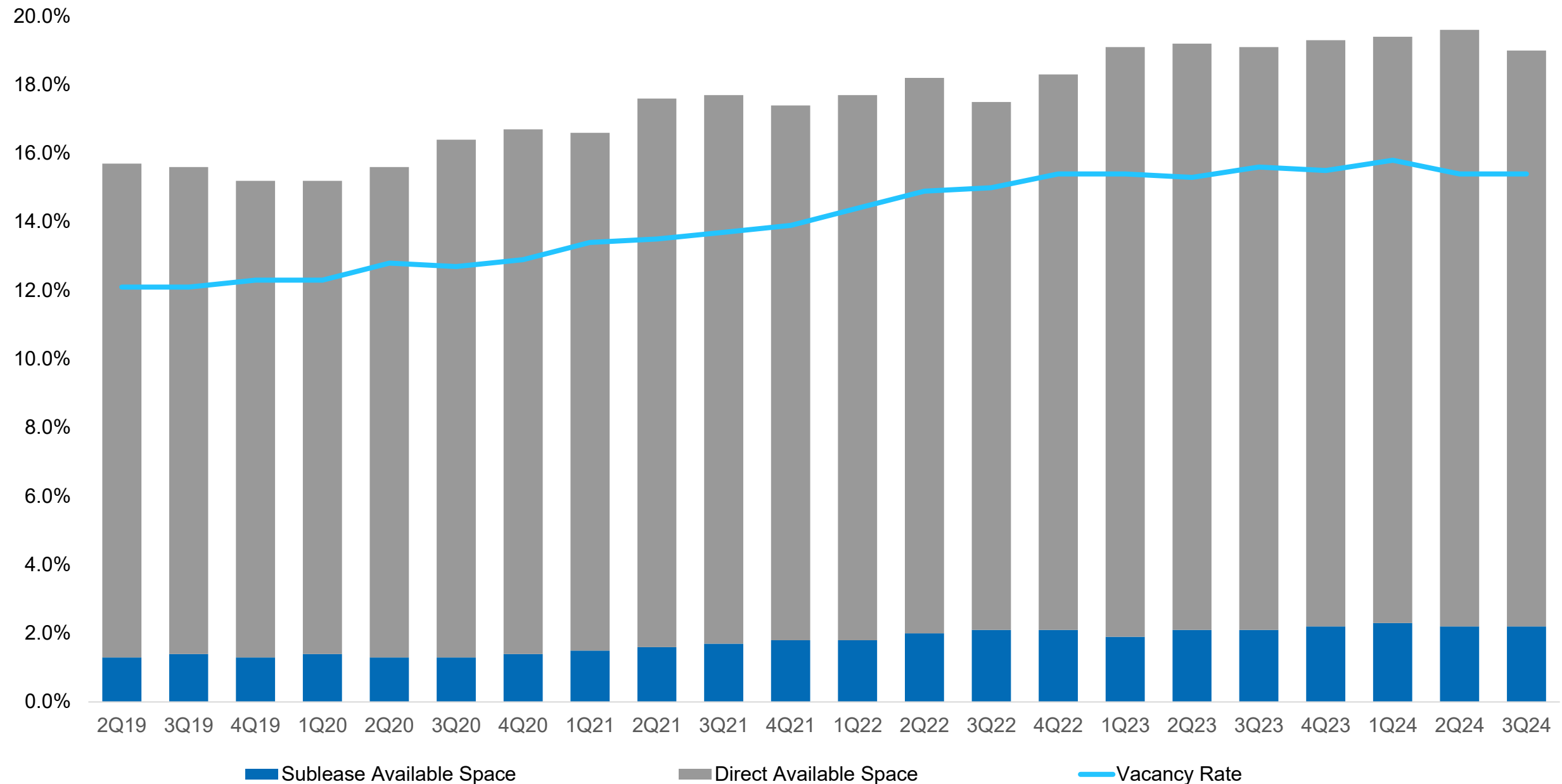
Source: Newmark Research, CoStar



Vacancy Remains Stabilized While Availability Has Tightened

During Q3 2024, sublease availability stayed relatively flat at 2.2% while direct available space tightened 60 bps to 16.8%. Vacancy ended the quarter at 15.4%, flat quarter-over-quarter and a decrease of 20 bps year-over-year. Vacancy has remained relatively stable since the end of 2022 after expanding consistently from 2020 to 2022.

Available Space and Vacancy Rate



Source: Newmark Research, CoStar



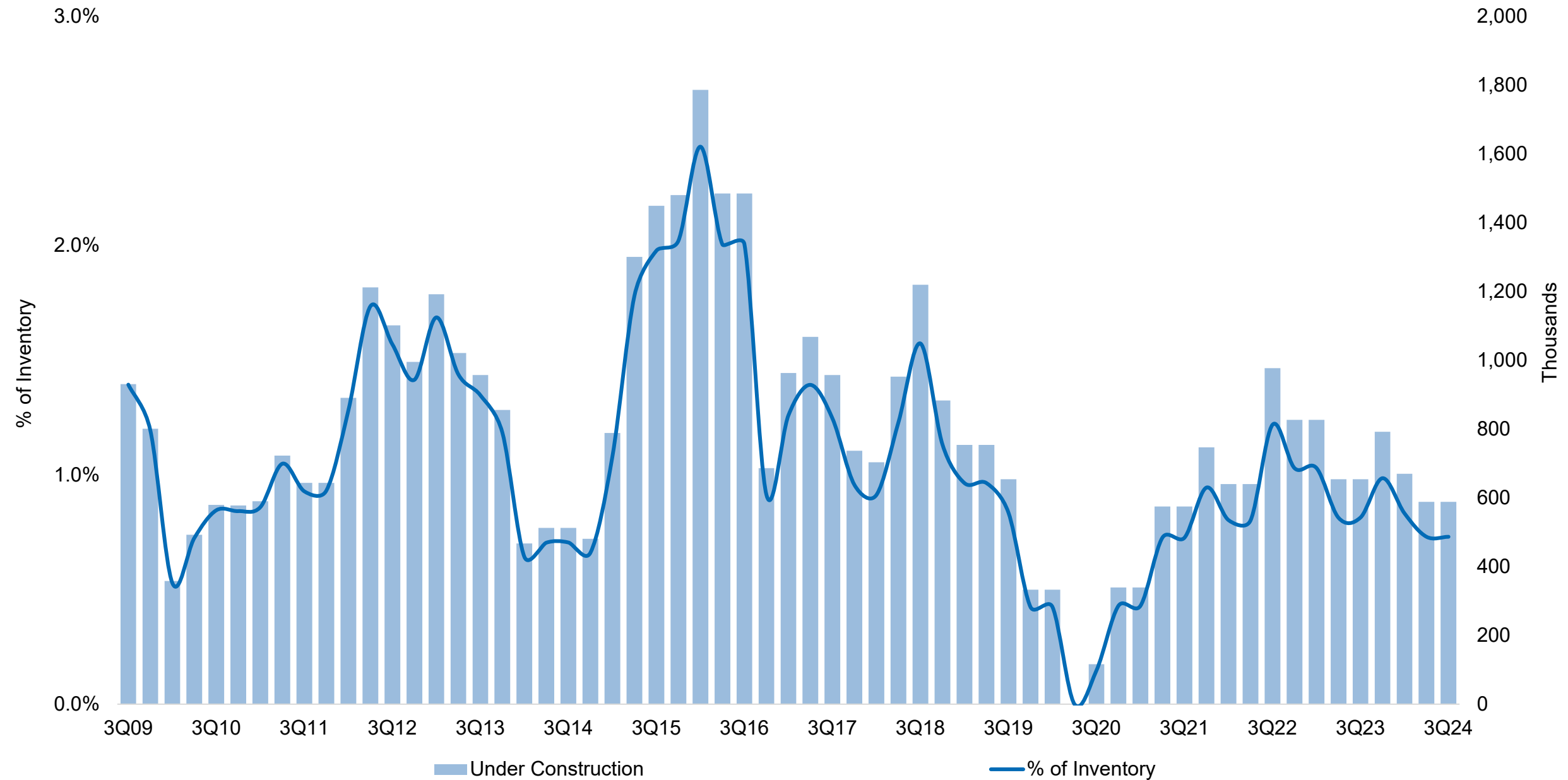


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Construction Below the Historical Average

There are three properties totaling 588,000 SF currently under construction, below the market's decade average of 788,000 SF under construction. The largest of 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 by the end of 2024.

Office Under Construction and % of Inventory



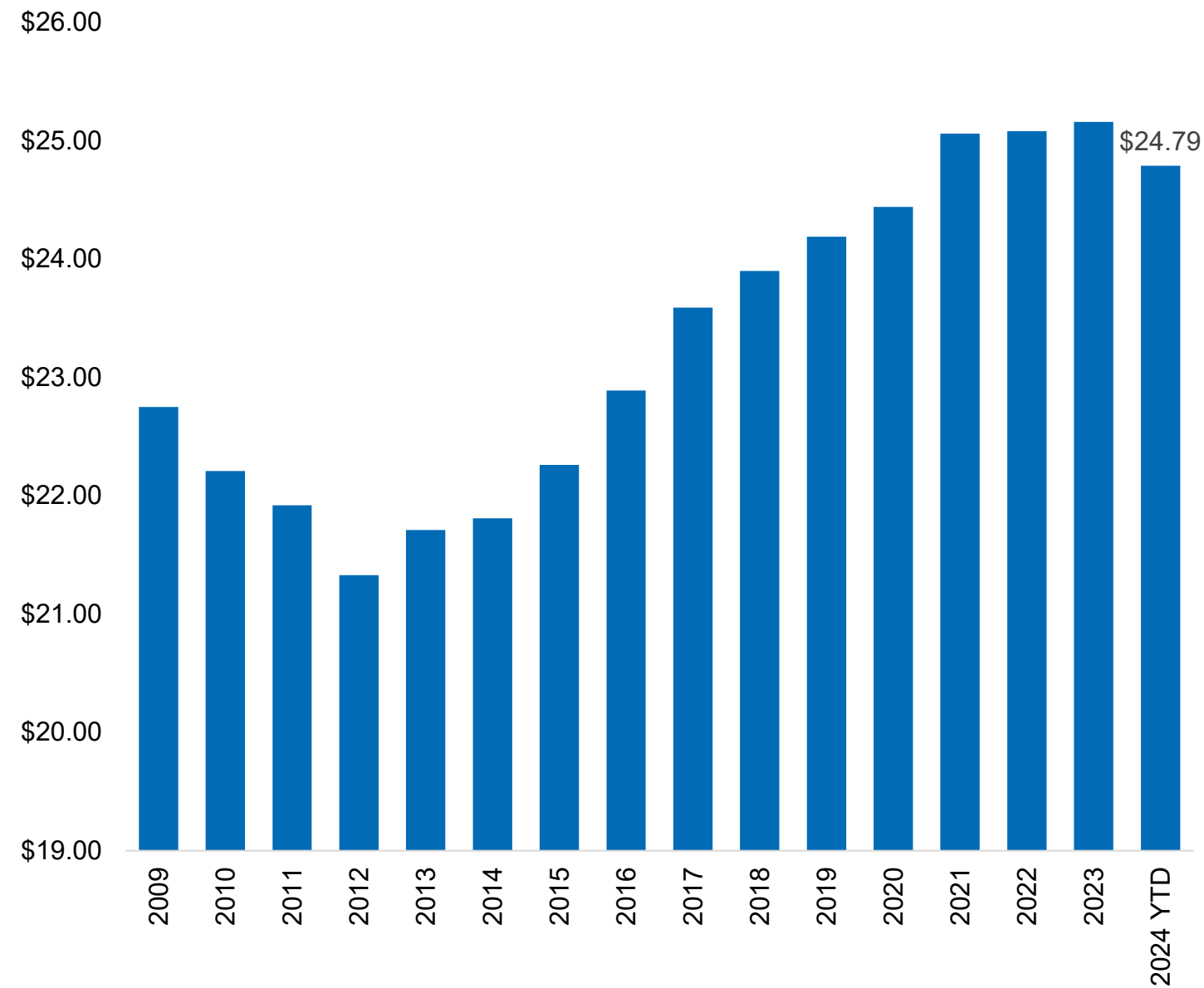
Source: Newmark Research, CoStar



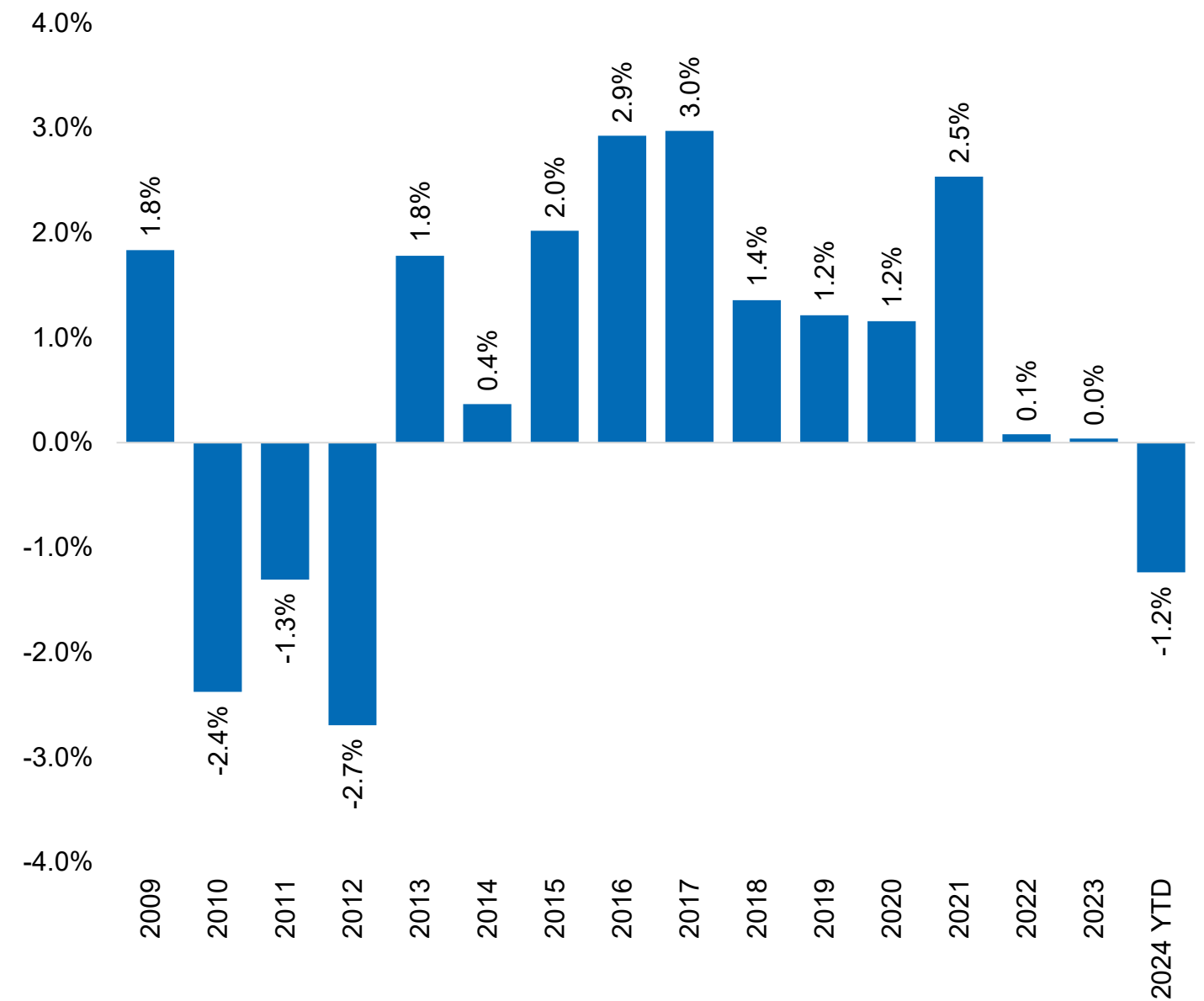
Rents Remain Depressed During 2024

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 Q3 2024 at \$24.79 PSF, flat quarter-over-quarter, however a decrease of 0.1% year-over-year.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



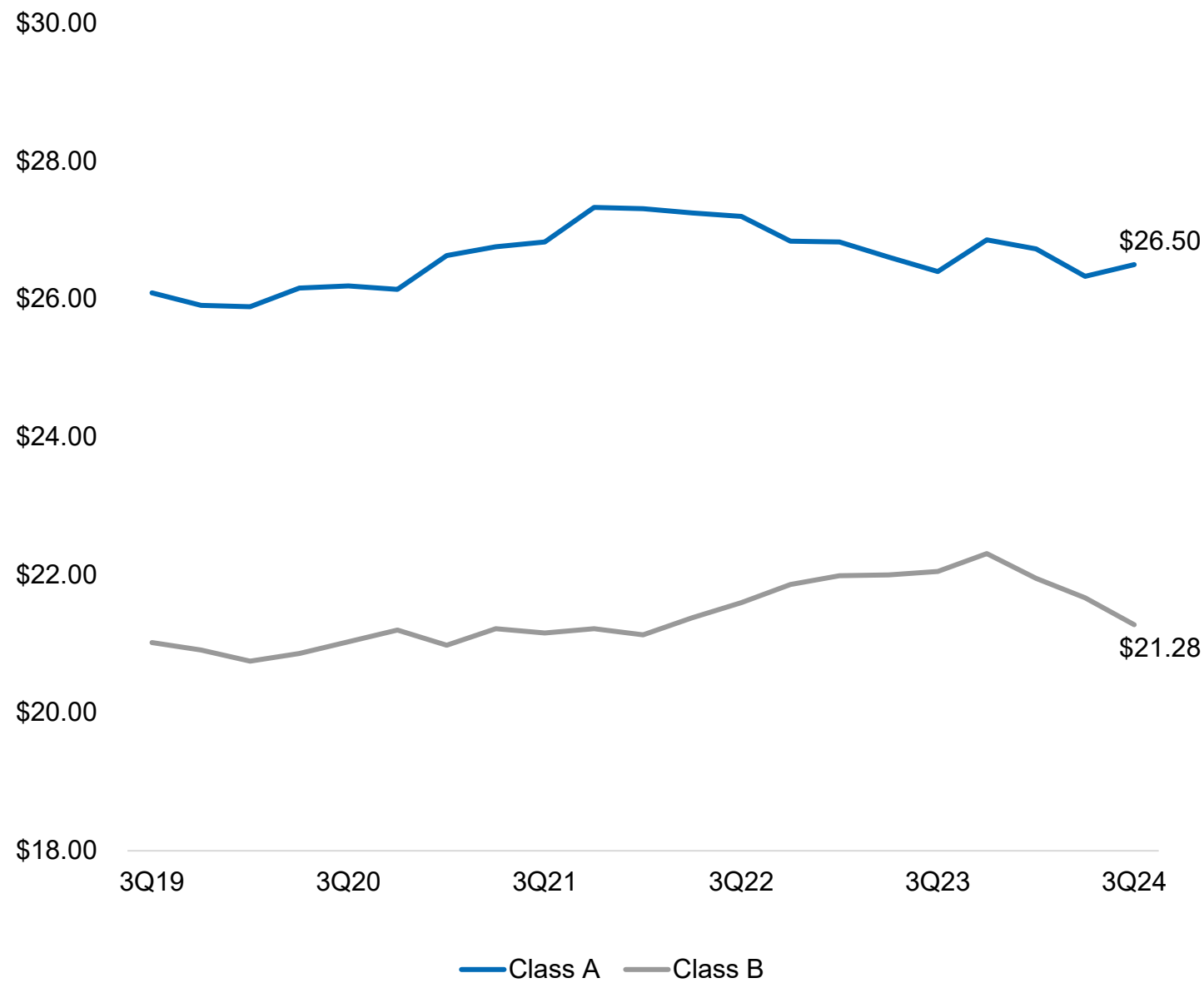
Source: Newmark Research, CoStar



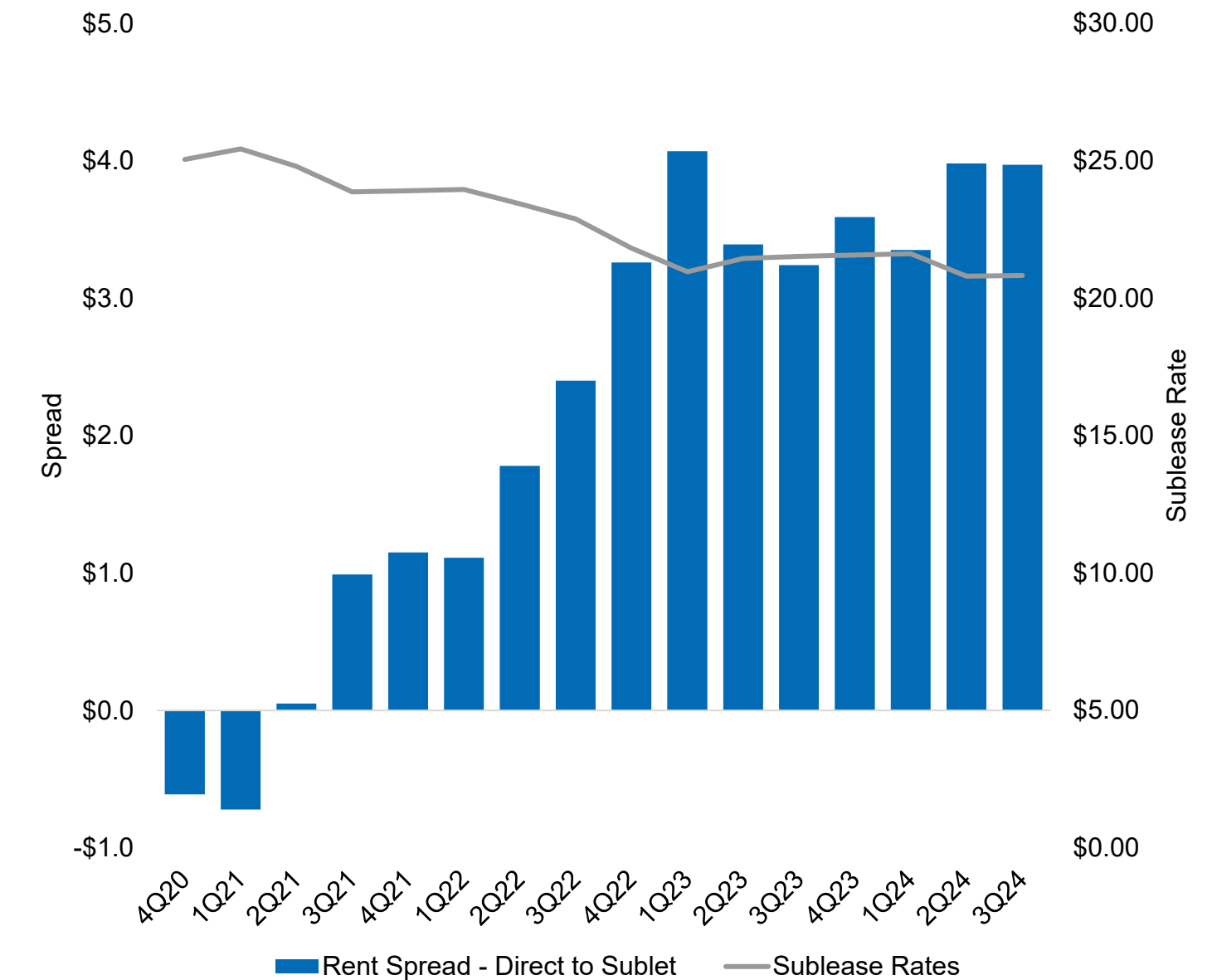
Class A Rents Show Positive Movement While Class B Rents Decline Slightly

Class A rents ended the quarter at \$26.50, an increase of 0.7% quarter-over-quarter and 0.4% year-over-year. Class B rents ended the quarter at \$21.28, a decrease of 1.8% quarter-over-quarter and 3.5% year-over-year. Sublease rates remained flat quarter-over-quarter but decreased 3.3% year-over-year. The spread between direct and sublease rates ended Q3 2024 at \$3.97 PSF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



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Market Statistics



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Market Statistics By Class

	Total Inventory (SF)	Overall Vacancy	Overall Availability	3Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Baltimore	80,580,903	15.4%	19.0%	-30,685	324,174	0	203,781	587,985	\$24.79
Class A	49,075,496	17.9%	22.7%	-65,030	35,708	0	203,781	587,985	\$26.50
Class B	26,226,934	13.0%	15.0%	29,345	293,090	0	0	0	\$21.28
Class C	5,278,473	4.2%	4.7%	5,000	-4,624	0	0	0	\$21.47

Submarket Statistics – All Classes

	Total Inventory (SF)	Overall Vacancy	Overall Availability	3Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Annapolis	3,442,008	17.9%	17.0%	-70,309	294	0	0	0	\$29.38
Baltimore County East	1,891,681	19.1%	16.6%	-24,476	64,950	0	0	0	\$23.85
Baltimore Midtown	2,167,162	5.9%	6.4%	3,413	-61,646	0	0	0	\$19.15
Baltimore Northeast	1,179,016	4.8%	7.4%	33,329	-12,234	0	0	0	-
Baltimore Northwest	1,229,881	12.0%	9.1%	-3,551	-24,264	0	0	0	\$19.77
Baltimore Southeast	7,330,224	16.2%	24.9%	-29,603	-120,657	0	0	450,000	\$28.45
Baltimore Southwest	2,331,933	17.1%	17.2%	10,015	-2,067	0	0	0	\$28.46
BWI	9,792,392	7.6%	9.1%	121,364	165,733	0	122,195	137,985	\$25.96

Source: Newmark Research



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Submarket Statistics – All Classes

	Total Inventory (SF)	Overall Vacancy	Overall Availability	3Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Carroll County	368,845	5.7%	7.2%	2,749	22,661	0	0	0	\$16.52
CBD Baltimore	13,864,685	15.7%	21.4%	-31,890	252,352	0	0	0	\$24.37
Columbia	11,774,337	20.5%	22.3%	-4,238	-28,739	0	81,586	24,832	\$26.44
Ellicott City	879,329	9.5%	7.8%	8,645	-3,176	0	0	0	\$22.61
Harford County	1,910,894	23.2%	25.6%	13,674	27,858	0	0	0	\$24.79
I-83	7,793,241	14.8%	22.0%	-17,511	34,193	0	0	0	\$21.25
I-97 Crain Highway Corridor	726,522	12.7%	15.3%	-666	2,872	0	0	0	\$27.45
Reisterstown Road Corridor	4,725,322	16.4%	24.6%	-27,589	79,165	0	0	0	\$23.98
Route 1 Corridor	1,398,332	22.0%	20.5%	-113,057	-113,057	0	0	0	\$17.61
Route 2 Corridor	931,886	9.2%	9.8%	-9,366	-1,315	0	0	0	\$23.48
Towson	4,489,503	15.7%	20.3%	-6,696	41	0	0	0	\$22.00
Woodlawn	2,353,710	21.6%	21.8%	2,021	41,210	0	0	0	\$20.05

Source: Newmark Research



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