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Commercial Markets: 1Q 2020

It's clear that the first quarter statistics have not been materially impacted by the COVID-19 pandemic. We fully anticipate that Q2 will exhibit significant fluctuations.

COVID-19 Survey: The Results Are In

Last month, Valbridge sent a survey to over 30,000 professionals specializing in office, industrial, retail, hospitality, multi- and single-family housing, and net lease specialties, to gain their perspectives on the current and potential future effects of COVID-19 on the real estate market. We have compiled the results from our COVID-19 survey and included them in a [report](#) for your review. We hope these results will offer strategic insights into various CRE market sectors as we look ahead and find ways to navigate our 'new normal' in the months to come. The last slide of the survey results gives an overview, as shown below:

WHAT IMPACT DO YOU ANTICIPATE THE PANDEMIC WILL HAVE ON THE FOLLOWING PROPERTY TYPES?

	INCREASE IN VALUE	DOWN 5-10%	DOWN 11-25%	DOWN 26-50%	UNCHANGED
General Market	0.56%	54.44%	34.44%	5.56%	5.00%
Office	0.00%	40.28%	40.83%	11.11%	7.78%
Industrial	17.13%	38.12%	11.60%	3.59%	29.56%
Single Tenant (Credit) Net Lease	6.63%	47.79%	19.61%	4.14%	21.82%
Multi-family	6.89%	50.96%	20.39%	2.20%	19.56%
Hospitality	1.11%	7.50%	37.50%	51.94%	1.94%
Retail	0.00%	14.88%	48.21%	34.99%	1.93%
Senior Housing	5.90%	40.17%	20.79%	6.74%	26.40%

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RETAIL – SNAPSHOT

- The Baltimore retail market ended the quarter with negative 584k SF of absorption following last quarter's positive 239,383 SF of absorption. The closure of various Shoppers grocery stores continues to leave many retail centers grocery without an anchor tenant across the region.
- Vacancy remained relatively flat, however quoted rental rates for all space types were down from the same time last year.

Submarket	Vacancy			Quoted Rates			Net Absorption
	Single Tenant	Strip Center	Restaurant	Single Tenant	Strip Center	Restaurant	
Baltimore City	3.00%	5.60%	6.30%	\$16.32	\$16.87	\$16.79	(95,864)
Baltimore County	1.80%	5.80%	5.30%	\$21.06	\$21.60	\$28.60	(158,238)
Anne Arundel County	1.90%	4.50%	5.40%	\$21.66	\$20.07	\$26.95	(168,124)
Carroll County	0.90%	7.10%	8.40%	\$18.66	\$17.37	\$19.55	(20,797)
Harford County	1.50%	4.80%	5.90%	\$23.34	\$18.33	\$16.71	(7,179)
Howard County	4.40%	4.60%	0.90%	\$34.89	\$26.90	\$45.09	(41,737)
Queen Anne's County	0.80%	2.10%	3.80%	-	-	-	(92,925)
Total Submarket (1Q20)	2.00%	4.60%	4.70%	\$20.88	\$20.73	\$23.35	(584,864)
Total Submarket (4Q19)	2.00%	4.50%	4.60%	\$20.52	\$20.71	\$23.51	239,383
Total Submarket (1Q19)	1.80%	4.60%	4.50%	\$22.74	\$21.91	\$23.70	(165,788)

Source: CoStar Group, Inc.

*Quoted rental rates are based on a NNN lease structure

OFFICE – SNAPSHOT

- As developers wait for market fundamentals to improve, the under construction pipeline has been reduced to zero after three buildings totalling 379,560 SF delivered last quarter.
- Class A and C rental rates continued to grow in the MSA from last quarter while Class B asking rents declined by 0.9%. Since last year, rates for Class A and C space has risen by close to \$1.00 PSF.
- Net absorption was positive for the MSA overall led by absorption activity in Anne Arundel County and Harford County. In Harford County, Upper Chesapeake Health took 95,200 SF at Aberdeen Corporate Park which has been vacant since its completion in 2012.

Submarket	Class A		Class B		Class C		Net Absorption
	Vacancy	Quoted Rates	Vacancy	Quoted Rates	Vacancy	Quoted Rates	
Baltimore City	16.40%	\$26.97	5.70%	\$17.70	5.40%	\$15.40	(24,971)
Baltimore County	12.00%	\$22.98	8.80%	\$18.54	3.60%	\$16.34	(99,841)
Anne Arundel County	10.30%	\$29.83	8.90%	\$21.60	5.30%	\$17.51	210,004
Carroll County	4.00%	-	6.40%	\$13.72	13.60%	\$13.41	12,216
Harford County	29.50%	\$21.89	5.60%	\$16.87	3.70%	\$14.58	138,886
Howard County	12.90%	\$27.47	10.50%	\$21.20	5.00%	\$17.73	(181,739)
Queen Anne's County	-	-	8.40%	\$17.33	1.70%	\$14.18	(3,050)
Total Submarket (1Q20)	13.80%	\$26.95	7.70%	\$19.53	5.40%	\$15.60	51,505
Total Submarket (4Q19)	13.40%	\$26.83	7.90%	\$19.71	5.80%	\$14.38	(196,945)
Total Submarket (1Q19)	13.30%	\$25.85	7.70%	\$20.03	5.80%	\$14.46	327,114

Source: CoStar Group, Inc.

*Quoted rental rates are based on a gross lease structure

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, 75 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 three MAI's, five Certified General licensed appraisers, four motivated trainees, an economic consultant and a very capable support staff, VBWMetro is available for all types of real property valuation and evaluation assignments.

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INDUSTRIAL – SNAPSHOT

- The vacancy rate for warehouse and flex space increased by roughly 3.5% since the previous quarter. Warehouse rental rates dropped by \$0.35 PSF while flex space was up by \$0.44 PSF.
- Net absorption was positive across the MSA excluding in Anne Arundel County which was led by the 123k SF loss of the Gable Companies at 6600 Cabot Drive in Glen Burnie.
- Baltimore County saw close to 2 million SF of absorption during the quarter fuelled by 2,199,280 SF leased at Tradeport Atlantic in Sparrows Point. It is rumoured that Amazon has purchased a six-building portfolio at the industrial center for \$90.5 million spanning 648,173 SF.

Submarket	Vacancy		Quoted Rates*		Net Absorption
	Warehouse	Flex	Warehouse	Flex	
Baltimore City	4.60%	9.40%	\$5.46	\$11.17	168,619
Baltimore County	8.60%	7.00%	\$4.53	\$9.10	1,975,628
Anne Arundel County	10.00%	10.40%	\$6.38	\$12.16	(54,924)
Carroll County	3.30%	15.60%	\$6.07	\$7.25	18,833
Harford County	9.00%	7.90%	\$4.94	\$11.45	49,632
Howard County	6.00%	4.60%	\$6.77	\$13.15	68,242
Queen Anne's County	0.50%	8.40%	\$9.57	\$8.02	4,500
Total Submarket (1Q20)	6.90%	7.80%	\$5.65	\$10.99	2,230,530
Total Submarket (4Q19)	6.70%	7.50%	\$6.00	\$10.55	391,127
Total Submarket (1Q19)	7.10%	7.00%	\$5.54	\$11.21	(109,878)

*NNN rents

Source: CoStar Group, Inc.

MULTIFAMILY – SNAPSHOT

- Vacancy rates across all unit types inched up by an average of 32.5 basis points since last quarter while rental rates remained generally flat. Overall, vacancy rates stand at approximately the same level as 1Q2019.
- The 371-unit Avalon Townson apartments opened during the quarter as part of the Circle East mixed-use development by RPAI at York and Joppa Road. A 720-unit student housing property is also underway at the \$350 million Towson Row project which plans to open by the Fall semester.

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	7.60%	\$1,001	7.50%	\$1,100	6.80%	\$1,220	6.90%	\$1,409	7.20%	\$1,160
Baltimore County	4.80%	\$911	6.30%	\$1,076	5.90%	\$1,256	6.10%	\$1,546	6.00%	\$1,220
Anne Arundel County	4.80%	\$1,504	7.00%	\$1,408	6.40%	\$1,593	4.90%	\$1,765	6.40%	\$1,541
Carroll County	3.40%	\$815	6.10%	\$993	5.80%	\$1,236	9.20%	\$1,551	5.80%	\$1,160
Harford County	4.60%	\$865	4.90%	\$1,040	4.70%	\$1,217	5.90%	\$1,430	5.00%	\$1,177
Howard County	10.60%	\$1,402	8.00%	\$1,417	6.50%	\$1,716	7.90%	\$2,091	7.30%	\$1,628
Queen Anne's County	4.60%	-	4.30%	\$1,004	3.00%	\$1,152	1.40%	-	3.80%	\$962
Total Submarket (1Q20)	6.70%	\$1,009	6.30%	\$1,162	5.90%	\$1,348	6.30%	\$1,597	6.20%	\$1,285
Total Submarket (4Q19)	6.20%	\$1,012	6.10%	\$1,162	5.70%	\$1,351	5.90%	\$1,578	5.90%	\$1,286
Total Submarket (1Q19)	6.80%	\$993	6.60%	\$1,137	6.20%	\$1,321	6.50%	\$1,549	6.40%	\$1,259

Source: CoStar Group, Inc.

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 1Q19
Apartment (National)	3.50%	7.00%	5.14%	Increase
Apartment (Mid-Atlantic Region)	4.00%	6.75%	5.13%	Decrease
CBD Office (National)	3.75%	7.50%	5.45%	Decrease
Suburban Office (National)	4.30%	9.00%	6.36%	Decrease
Washington, D.C. Office	4.50%	6.50%	5.23%	Increase
Northern Virginia Office	4.25%	8.50%	6.54%	Increase
National Warehouse	3.60%	6.00%	4.79%	Increase
Retail- Strip Center Market	4.50%	10.00%	6.81%	Increase

Source: PwC Real Estate Investor Survey

UNEMPLOYMENT & LENDING RATES

Unemployment	Mar-20	2019	2018
Baltimore MSA	3.5%	3.8%	4.2%
National	4.5%	3.9%	4.1%
Home Mortgage Rates	Mar-20	2019	2018
30-Year Fixed	3.50%	4.06%	4.44%
15-Year Fixed	2.92%	3.57%	3.99%
5/1-Year ARM	3.34%	3.75%	3.66%

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

NEW VALBRIDGE TEAM MEMBER

We are pleased to announce the addition of James Carran to the Valbridge Property Advisors | Baltimore Washington Metro Team.

James studied finance at the University of Maryland and graduated in 2017. Prior to joining Valbridge, James worked in commercial property management as a building engineer. James comes from a family of real estate investors and is excited to gain more experience in the Baltimore Washington Metro area.