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Commercial Markets: 2Q 2020

RETAIL – SNAPSHOT

- The Baltimore retail market ended the quarter with negative 543k SF of absorption following last quarter's also negative 584,864 SF of absorption. Negative absorption was led by multiple store closures at the Westfield Annapolis Mall in Anne Arundel County and the closure of Sears in Baltimore County.
- Vacancy remained relatively flat since the same time last year, however quoted rental rates for all space types were slightly higher than last quarter.

Submarket	Vacancy			Quoted Rates			Net Absorption
	Single Tenant	Strip Center	Restaurant	Single Tenant	Strip Center	Restaurant	
	Baltimore City	3.00%	6.70%	6.50%	\$17.48	\$16.75	
Baltimore County	2.40%	5.80%	4.80%	\$23.16	\$21.57	\$27.90	(207,308)
Anne Arundel County	4.90%	4.90%	5.30%	\$22.72	\$20.67	\$25.23	(368,583)
Carroll County	0.80%	12.60%	8.20%	\$18.66	\$16.98	\$19.55	(21,226)
Harford County	1.30%	4.60%	5.80%	\$25.88	\$18.15	\$16.71	(61,197)
Howard County	0.60%	3.80%	1.80%	\$33.45	\$27.03	\$40.49	10,879
Queen Anne's County	0.80%	2.10%	-	-	-	-	6,358
Total Submarket (2Q20)	2.60%	5.60%	5.20%	\$22.82	\$20.77	\$23.95	(543,207)
Total Submarket (1Q20)	2.00%	4.60%	4.70%	\$20.88	\$20.73	\$23.35	(584,864)
Total Submarket (2Q19)	1.50%	4.90%	5.20%	\$18.63	\$21.05	\$23.29	38,526

Source: CoStar Group, Inc.

*Quoted rental rates are based on a NNN lease structure

OFFICE – SNAPSHOT

- The Baltimore City office market is beginning to show weakness with vacancy rates increasing across all asset classes. Since last quarter, Class C office space has seen the largest jump in vacancy standing at 35.1%.
- The development pipeline has also dried up with slightly more than 500,000 sq. ft. of space currently under construction. The bulk of this space is shared by the new Kaiser Permanente medical center in Timonium and an expansion of the Applied Physics Lab in Laurel. The 263,000-square-foot, four-story facility will add to the organization's existing 3 million-square-foot footprint in Howard County.

Submarket	Class A		Class B		Class C		Net Absorption
	Vacancy	Quoted Rates	Vacancy	Quoted Rates	Vacancy	Quoted Rates	
	Baltimore City	18.10%	\$28.81	23.40%	\$21.51	35.10%	
Baltimore County	17.50%	\$24.85	18.80%	\$20.76	21.40%	\$18.61	(44,381)
Anne Arundel County	17.50%	\$31.47	22.10%	\$23.74	18.00%	\$19.91	(2,086)
Carroll County	5.90%	\$24.01	24.20%	\$16.62	73.50%	\$18.26	(700)
Harford County	32.50%	\$27.88	17.30%	\$20.85	15.60%	\$19.61	(22,903)
Howard County	19.10%	\$27.74	18.20%	\$22.51	16.10%	\$21.48	(169,212)
Queen Anne's County	-	-	20.80%	\$20.78	21.70%	\$19.21	1,092
Total Submarket (2Q20)	12.90%	\$27.35	8.10%	\$19.43	4.60%	\$19.27	(210,974)
Total Submarket (1Q20)	13.80%	\$26.95	7.70%	\$19.53	5.40%	\$15.60	51,505
Total Submarket (2Q19)	12.90%	\$26.53	7.70%	\$19.85	5.90%	\$14.37	453,723

Source: CoStar Group, Inc.

*Quoted rental rates are based on a gross lease structure

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INDUSTRIAL – SNAPSHOT

- The market ended the quarter with negative 1.4 million sq. ft. of absorption. Baltimore County saw a significant reduction following the departure of Alcoa Forgings & Extrusions in Halethorpe and RPM Transport in Middle River.
- The vacancy rate for warehouse and flex space increased by roughly 1.0% since the same time last year. Despite this, rental rates for warehouse and flex space were up by 4.4% and 2.5%, respectively, since last quarter.
- In Anne Arundel County, construction of a 66,000 sq. ft. light industrial building is underway at Glen Burnie's Bay Meadow Industrial Park. The property is located roughly five miles from the Baltimore Washington International Thurgood Marshall Airport.

Industrial Snapshot					
Submarket	Vacancy		Quoted Rates*		Net Absorption
	Warehouse	Flex	Warehouse	Flex	
Baltimore City	4.80%	4.90%	\$5.98	\$6.40	72,078
Baltimore County	8.60%	12.40%	\$6.69	\$7.80	(1,064,593)
Anne Arundel County	9.00%	10.40%	\$7.98	\$11.06	(109,512)
Carroll County	5.20%	5.80%	\$6.73	\$7.04	(52,634)
Harford County	15.20%	10.40%	\$6.40	\$6.79	70,479
Howard County	6.30%	5.40%	\$7.30	\$8.96	(309,879)
Queen Anne's County	2.70%	4.70%	\$7.92	\$8.16	(16,092)
Total Submarket (2Q20)	7.80%	8.30%	\$5.90	\$11.27	(1,410,153)
Total Submarket (1Q20)	6.90%	7.80%	\$5.65	\$10.99	2,230,530
Total Submarket (2Q19)	7.10%	7.40%	\$5.66	\$11.18	651,255

*NNN rents

Source: CoStar Group, Inc.

MULTIFAMILY – SNAPSHOT

- Despite the effects of COVID-19, the Baltimore MSA multifamily market continues to show steady growth. Since the same time last, vacancy rates across all bedroom sizes were relatively unchanged. Asking rents for Studio and 1BR units experienced the highest growth, increasing between approximately \$175 - \$300. 3BR units saw a decline in asking rents since last quarter, decreasing by 14.4% to \$1,383.
- The Munsey in Downtown Baltimore City traded for \$22 million or about \$150,000 a unit. The community was purchased by Philadelphia-based PMC Property Group who owns several other communities throughout Downtown.

Multifamily Snapshot										
Submarket	Studio		1 BR		2 BR		3 BR		Overall	
	Vacancy	Asking Rent/Unit								
Baltimore City	9.30%	\$997	8.30%	\$1,110	7.50%	\$1,238	8.50%	\$1,426	8.20%	\$1,172
Baltimore County	5.10%	\$894	6.40%	\$1,096	5.60%	\$1,274	5.40%	\$1,561	5.80%	\$1,237
Anne Arundel County	5.10%	\$1,362	6.30%	\$1,412	5.50%	\$1,620	3.70%	\$1,732	5.60%	\$1,548
Carroll County	3.10%	\$817	5.30%	\$993	5.40%	\$1,227	7.20%	\$1,497	5.20%	\$1,165
Harford County	4.20%	\$873	4.50%	\$1,040	4.50%	\$1,231	5.50%	\$1,452	4.70%	\$1,186
Howard County	19.40%	\$1,405	7.20%	\$1,437	6.20%	\$1,709	7.10%	\$2,105	6.80%	\$1,630
Queen Anne's County	4.00%	-	4.90%	\$854	6.80%	\$1,119	8.60%	\$870	8.40%	\$975
Total Submarket (2Q20)	6.40%	\$1,306	6.50%	\$1,302	6.50%	\$1,327	6.60%	\$1,383	6.40%	\$1,306
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 (2Q19)	8.20%	\$1,009	6.80%	\$1,127	6.40%	\$1,319	6.60%	\$1,552	6.70%	\$1,262

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, 78 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, five Certified General licensed appraisers, six 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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CAP RATES

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

National Capitalization Rates				Change from
Property	Low	High	Average	1Q19
Apartment (National)	3.50%	8.00%	5.19%	Increase
Apartment (Mid-Atlantic Region)	4.00%	6.75%	5.43%	Increase
CBD Office (National)	3.75%	7.50%	5.55%	Increase
Suburban Office (National)	4.00%	7.50%	6.00%	Decrease
Washington, D.C. Office	4.50%	7.50%	5.38%	Increase
Northern Virginia Office	6.00%	8.00%	6.69%	Increase
National Warehouse	3.40%	7.00%	4.84%	Increase
Retail- Strip Center Market	4.75%	10.00%	6.75%	Flat

Source: PwC Real Estate Investor Survey

UNEMPLOYMENT & LENDING RATES

Unemployment	May-20	2019	2018
Baltimore MSA	9.70%	3.50%	3.80%
National	13.00%	3.40%	3.60%
Home Mortgage Rates	Mar-20	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 – Malls are forecasted to be reconfigured with more active and green space as many retail centers battle ever growing chunks of vacancy. Retail development planners have begun to envision how the outdoors can become the new anchors of shopping centers, integrating the well-being of shoppers while still remaining in a shopping environment. As such, the value of assets located in regions such as California that have year round good weather for outdoor amenities may see a slight boost.

Multifamily – As social distancing is encouraged, multifamily developers are beginning to consider increasing the size of their amenity spaces. The costs of future projects could increase as a result of the tradeoff of potential rent generating units for common areas. With some communities already charging an amenity usage fee, tenants may see additional charges when it comes time to renew their lease to cover higher cleaning expenses required to keep existing common areas open.

NEW VALBRIDGE TEAM MEMBER

We are pleased to announce the addition of Ben Mendelson, Lada Kramsky, and Bob Robidoux to the Valbridge Property Advisors | Baltimore Washington Metro Team.



Ben Mendelson (BMendelson@valbridge.com) studied finance at Northeastern University and just graduated this past May. Prior to joining Valbridge, Ben worked in asset management as well as executive search, but is now expanding his horizons. He is excited to learn more about the real estate business as a whole and gain particular experience within appraisal.

Lada Kramsky (LKramsky@Valbridge.com) has joined our office as an appraiser trainee. Lada has extensive experience with various building techniques, and he has built and operated a small hydropower station among other projects. After working at the Czech National Bank for 8 years, Lada relocated into the United States to continue with his education. Lada is a practicing affiliate of the Appraisal Institute, and he is currently working toward certification as a general appraiser. Lada is excited to bring his experience to Valbridge and we welcome him.



Bob Robidoux (rrobidoux@valbridge.com) brings to Valbridge, extensive knowledge and experience from his long, successful real estate appraising career. Among his many accomplishments, Bob earned Masters Degrees from Georgetown and Johns Hopkins universities, taught at Hopkins Allan L. Berman Real Estate Institute, coauthored that institute's TrendWatch 1998-2000, and advised on several other TrendWatch reports. Bob has been active in the Appraisal Institute, serving as President of the Maryland Chapter in 2004, and Director for Region VI. He is currently a committee member of the Appraisal Institute's 2010-2020 Comprehensive Examination Panel and the 2009-2020 Demonstration Appraisal Grading Panel. We welcome Bob to the VBWMETRO team.

VALBRIDGE DEVELOPMENT UPDATE

Four Ten Lofts will take the place of two previously city-owned parking lots and offer 78 apartment units for low income families. More than half of the units will be marketed to Baltimore City artists as part of continued efforts to revitalize the Bromo Tower Arts & Entertainment District. Additionally, twenty units will be set aside as permanent supportive housing for the homeless. The buildings will feature an outdoor terrace, artist workspaces and two art galleries on the ground floor. Valbridge Property Advisors provided the market feasibility analysis for this project.

