

Savills Studley Report

Baltimore office sector

Q3 2018



SUMMARY

Market Highlights

LITTLE CHANGE IN LEASING

Quarterly leasing activity failed to reach 1.0 million square feet (msf) for the third consecutive quarter, with very few leases over 50,000 sf. Demand for newly constructed product remains elevated. Tenants have leased a total of 3.3 msf during the last four quarters.

AVAILABILITY DECLINES SLIGHTLY

The region's total availability rate declined by 30 basis points to 17.3%, and has fallen by 10 basis points year-on-year. The Class A availability rate also declined 30 basis points to 18.7%.

RENT FLAT

Overall asking rent for the Baltimore region fell slightly (by 0.3%) from \$23.40 to \$23.33. Class A rent fell by 2.7% from \$27.14 to \$26.40.

SALES DOWN

Office property sales during the first seven months of the year totaled \$407 million, a 52% decrease compared to the first seven months of 2017.

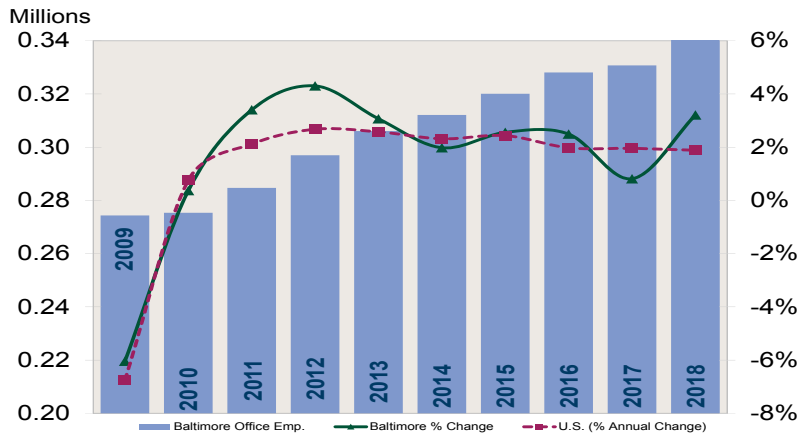
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"Demand for office space, from both investors and buyers, remains choppy. Fully leased newer assets with proximity to mass transit continue to garner the strongest demand as well as elevated rent and pricing. Older buildings scattered across the region are struggling to maintain leasing velocity."

Savills Studley Research

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Office-Using Employment Trends



Source: Bureau of Labor Statistics^

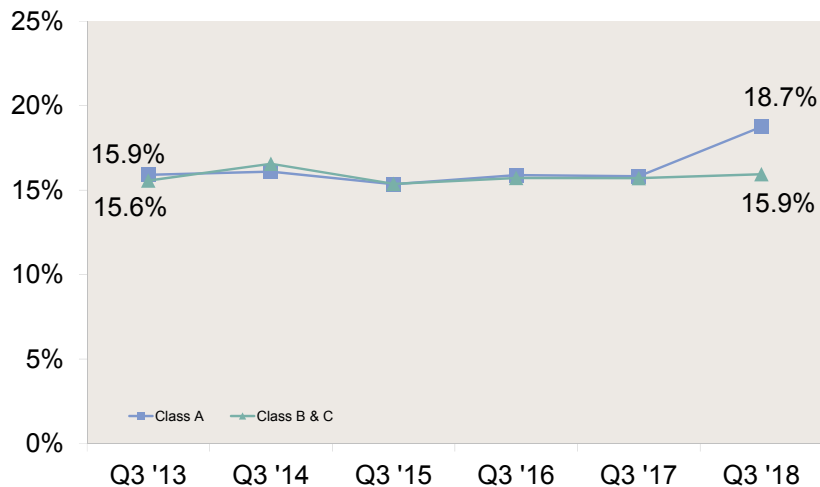
Tenants Remain Highly Selective

Baltimore's office market continued its course of slow but steady leasing through the third quarter. The region's Class A availability rate has increased from a year ago, due primarily to tenants reducing their footprints and new construction coming to the market. Class A rent is slipping in many submarkets and has decreased slightly year-on-year across the entire region.

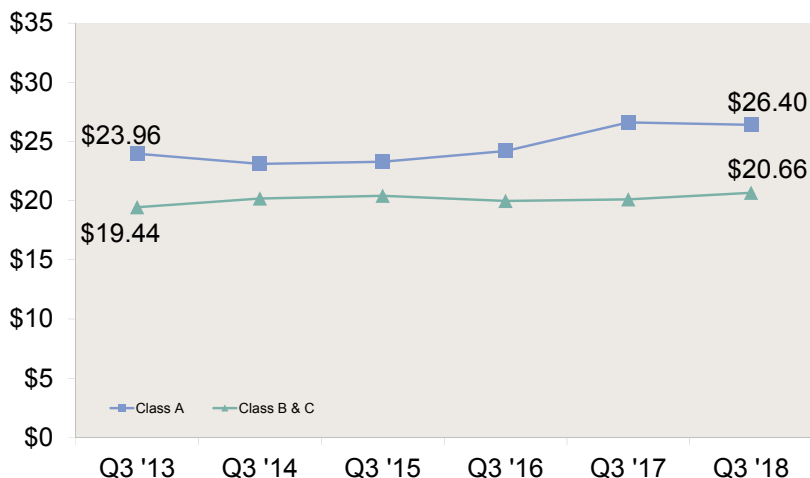
Asking rent is falling due to a combination of the lease-up of quality Class A space and weak demand in several submarkets such as Harford County, CBD and BWI. Rent is 4.5% lower for buildings constructed prior to 2000, with larger decreases in many suburban submarkets such as Carroll County, Towson and Harford. In turn, landlords continue to extend generous concessions.

Big blocks are still available in many submarkets. The CBD, Columbia South and Aberdeen are all hoping to lure large tenants to long-standing blocks of space. The Baltimore Sun, for example, moved its newsroom and business operations out of 401 N Calvert Street, shifting to its printing plant in Port Covington and leaving almost 210,000 sf behind. Additionally, nearly 40% of the Walbert Building (1800 N Charles) is sitting vacant with a big chunk of space. Over 50% of 100 N. Charles Street has been sitting vacant for years. Ownership has just resumed efforts to lease the empty 185,540-sf tower. Two buildings in the CBD, 10 S Howard and 300-400 N Greene Street, are completely empty after large tenants, the U.S. Army Core of Engineers and the SSA vacated. Older buildings, even in prime locations, are struggling to compete for tenants – despite offering highly discounted rent.

Availability Rate Trends



Asking Rent Trends (\$/sf)



Wills Wharf Lands Jellyfish

Tenants appear willing to spend more to lease brand new space with the best amenities. Wills Wharf secured two key leases over the last few months. Digital marketing agency Jellyfish inked a 34,645-sf lease for the entire sixth floor. Jellyfish is a London-based digital marketing agency headquartered in one of the most recognizable, prime, trophy buildings in the United Kingdom, The Shard. In order to move to Baltimore for their U.S. headquarters they similarly required a best-in-class space. Wills Wharf's premier product and prime location fulfilled these requirements. Jellyfish will move 140 employees from 250 S. President Street once the building is completed in early 2020. A few weeks later, WeWork announced a 69,290-sf

lease on two floors at Wills Wharf for its first Baltimore coworking location. The 12-story, 325,000-sf building will also have a 156-room Canopy by Hilton hotel occupying its top four floors.

Success at Wills Wharf could prompt Beatty Development Group to move ahead with the mixed-use development they have planned at 1000 Wills St. Beatty would like to transform the former manufacturing site into nearly 1-msf of office, residential and retail right on the waterfront. With Wills Wharf leasing up quickly and other buildings on the way, the Harbor may take off as the next hot spot in town meeting.

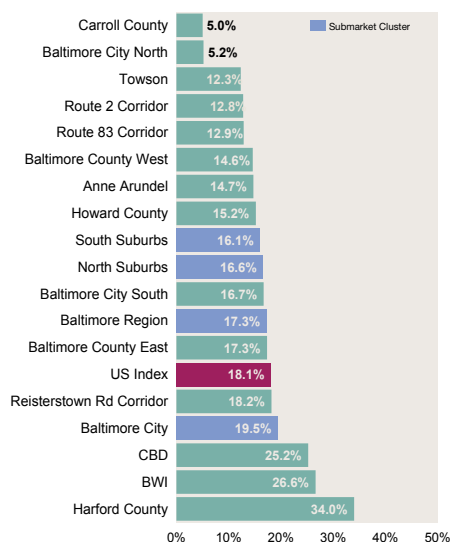
Older properties must undertake extensive redevelopment in order to keep their existing tenants from relocating to new projects such as Wills Wharf. A win for Baltimore in the CBD was 100 S Charles Street retaining Nelson Mullins Riley & Scarborough LLP. The growing firm has had an expansion requirement for quite some time. Nelson Mullins will move up four floors in a new ten-year lease for 23,500-sf, with an option to expand into an additional 15,000-sf. The building has undergone a recent makeover with a new café, meeting rooms and lounges. In addition to new amenities, 30,000 sf of the building will be available as coworking space. This building is a prime example of what many older Class A buildings are doing to stay relevant in a market that is competing with newly constructed space in suburban markets.

Spotty Leasing in Much of the Market

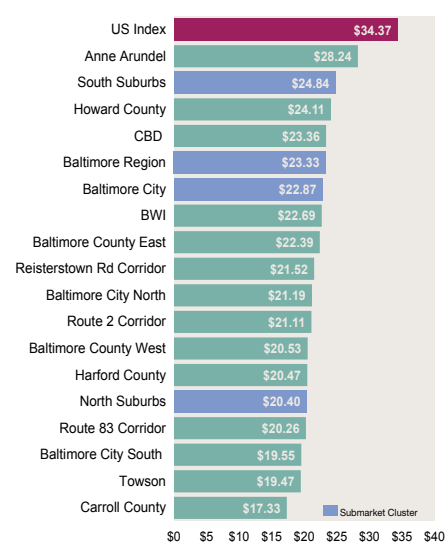
Government agencies, healthcare and education continue to supplement demand from the private sector. The U.S. Department of Veterans Affairs (USDVA), a government organization that provides benefits and services to America's veterans, signed a 15,000-square-foot lease at Cignal Corporation's office building at Franklin Square Professional Center in Baltimore.

Tenants in Howard County and along the cybersecurity corridor in BWI/Anne Arundel remain active. Howard has had several top leases during the first half of 2018 and rents have been slowly increasing. Leasing was spotty in many submarkets, though. Harford County has the highest availability rate in the market at 30%, but this is actually a sign of progress as the availability was 41.7% at the same time last year. Expansions in most other submarkets have had negligible impact, with tenants generally

Availability Rate Comparison



Overall Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
WeWork	69,290	Wills St @ S Caroline St	Baltimore City South
Jellyfish	34,645	Wills St @ S Caroline St	Baltimore City South
Tbc Inc	28,000	900 S Wolfe St	Baltimore City South
Nelson Mullins Riley & Scarborough LLP	23,500	100 S Charles	Columbia South
Webmechanix LLC	7,412	8621 Robert Fulton Dr	Columbia South
Stanley Black & Decker	6,600	210 Allegheny Ave	Towson
Driven Media	6,389	311 International Cir	Route 83 Corridor
Pascal Family Services	4,250	1215 Annapolis Rd	Anne Arundel
Guidewell Financial Solutions	4,100	6315 Hillside Court	Columbia South
Social Toaster Inc	3,800	3600 Clipper Mill Rd	Baltimore Northwest
Sum of Top Leases	187,986		

filling out a floor or at most adding a floor. In Towson, Stanley Black & Decker doubled its occupancy at 210 Allegheny Avenue, adding 6,600 sf. The Connecticut-based toolmaker first leased space at the building just six months ago. Owners Chesapeake Real Estate and Cicero Capital undertook a \$1 million renovation that included a new façade and interior work.

The CBD will face more competition from mixed-use product in suburban areas. Towson's ambitious Towson Row mixed-use project just got underway in early June. The \$350-million complex will transform Towson, adding 1.2 msf of commercial and residential space to be developed by Caves Valley Partners. The 150,000-sf office component will be woven into 100,000 sf of retail and restaurant space, two Hilton hotels, 250 apartments and 300 student units.

Investors Picking Their Spots

Sales in the Baltimore office market, much

like leasing, have been steady, but far from spectacular. As of September, office property sales totaled \$526 million year-to-date, well above the \$388 million sold in 2017 during the same period. In markets such as Boston, Austin and Silicon Valley buyers have been eagerly chasing buildings with high vacancy or a looming lease rollover. In much of Baltimore, though, high vacancy is still a liability. Buyers are focused on what tenants want – amenity-laden buildings located in neighborhoods with proximity to mass transit and retail.

Fully-leased buildings also command a premium. CoreCivic, the Nashville-based diversified REIT that targets U.S. government agency properties, paid \$242 million (\$448/sf) for 6100 S Wabash Avenue. The 540,556-sf building located across from the Reisterstown Plaza metro is fully leased to the Social Security Administration for 20 years. Of note, SSA's headquarters in Woodlawn, located about five miles away, sold for merely \$26 million (\$162/sf).

Submarket	Total	Net Absorption & Leasing Volume		Available SF			Availability Rate			Asking Rents Per SF		
	Inventory SF (1000's)	Leasing (This Quarter)	Leasing (Last 12 months)	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
CBD	15,461	41	412	3,899	11.4%	2,538	25.2%	2.6%	16.4%	\$23.36	0.1%	\$22.65
CBD - Class A	7,904	34	291	1,800	10.2%	1,698	22.8%	2.1%	21.5%	\$25.08	-2.5%	\$25.03
Baltimore City South	7,792	139	322	1,301	-8.3%	1,299	16.7%	-1.5%	16.7%	\$19.55	-16.2%	\$22.16
Baltimore City South - Class A	5,321	106	246	1,032	-7.6%	884	19.4%	-1.6%	16.6%	\$24.10	-13.3%	\$27.56
Baltimore City North	4,744	14	159	246	-5.1%	460	5.2%	-0.3%	9.7%	\$21.19	-0.3%	\$19.84
Baltimore City North - Class A	820	10	20	18	-62.9%	54	2.2%	-3.7%	6.6%	NA	NA	N/A
Carroll County	854	0	17	43	1.4%	91	5.0%	0.1%	10.7%	\$17.33	0.8%	\$15.44
Carroll County - Class A	181	0	0	0	N/A	2	0.0%	0.0%	1.2%	\$0.00	0.0%	\$21.50
Reisterstown Rd Corridor	5,501	51	136	1,001	-13.8%	1,025	18.2%	-2.9%	18.6%	\$21.52	10.5%	\$19.83
Reisterstown Rd Corridor - Class A	2,965	40	78	589	-0.8%	547	19.9%	-0.2%	18.4%	\$23.02	1.2%	\$22.42
Route 83 Corridor	7,468	91	330	961	-7.3%	1,072	12.9%	-1.0%	14.4%	\$20.26	2.0%	\$19.72
Route 83 Corridor - Class A	4,204	50	147	470	-5.2%	452	11.2%	-0.6%	10.7%	\$21.87	2.3%	\$22.08
Towson	4,950	24	136	609	-5.4%	866	12.3%	-0.7%	17.5%	\$19.47	-4.0%	\$19.39
Towson - Class A	1,849	9	61	265	-4.2%	252	14.3%	-0.6%	13.6%	\$21.84	-6.9%	\$23.06
Baltimore County East	2,605	9	34	452	20.7%	337	17.3%	3.0%	12.9%	\$22.39	2.4%	\$20.24
Baltimore County East - Class A	700	0	3	125	103.3%	37	17.9%	9.1%	5.2%	\$27.55	0.0%	\$22.46
Harford County	2,820	5	16	959	-19.5%	1,367	34.0%	-8.2%	48.5%	\$20.47	-0.4%	\$19.71
Harford County - Class A	1,266	4	7	700	-24.4%	970	55.3%	-17.8%	76.6%	\$19.85	0.4%	\$22.68
Howard County	14,833	235	1,047	2,255	1.5%	2,443	15.2%	0.2%	16.5%	\$24.11	-2.1%	\$23.64
Howard County - Class A	7,948	106	521	1,436	4.0%	1,130	18.1%	0.7%	14.2%	\$26.72	-1.8%	\$25.62
Baltimore County West	3,769	10	77	551	7.3%	484	14.6%	1.0%	12.8%	\$20.53	1.9%	\$19.29
Baltimore County West - Class A	231	0	0	0	N/A	0	0.0%	0.0%	0.0%	\$0.00	N/A	\$0.00
BWI	3,528	67	184	939	-7.1%	1,110	26.6%	-2.0%	31.5%	\$22.69	4.3%	\$21.66
BWI - Class A	1,393	0	93	346	2.3%	265	24.9%	0.6%	19.0%	\$25.37	0.1%	\$24.58
Anne Arundel	11,386	59	442	1,677	-3.6%	1,831	14.7%	-0.5%	16.1%	\$28.24	-3.1%	\$28.27
Anne Arundel - Class A	7,824	40	340	1,214	-2.0%	1,171	15.5%	-0.3%	15.0%	\$31.06	-3.4%	\$32.55
Route 2 Corridor	1,176	5	24	150	-6.4%	174	12.8%	-0.9%	14.8%	\$21.11	1.6%	\$20.80
Route 2 Corridor - Class A	59	0	0	1	0.0%	3	2.2%	0.0%	4.5%	\$20.50	0.0%	\$20.50
Baltimore City	27,997	194	893	5,446	5.2%	4,298	19.5%	1.0%	15.4%	\$22.87	-1.6%	\$22.20
Baltimore City - Class A	14,046	149	556	2,850	1.8%	2,636	20.3%	0.4%	18.8%	\$25.01	-4.2%	\$25.37
North Suburbs	24,199	180	668	4,025	-9.5%	4,758	16.6%	-1.8%	19.7%	\$20.40	1.2%	\$19.64
North Suburbs - Class A	11,166	103	296	2,149	-8.7%	2,260	19.3%	-1.8%	20.2%	\$22.65	5.3%	\$22.53
South Suburbs	34,692	375	1,775	5,572	-1.3%	6,042	16.1%	-0.2%	17.4%	\$24.84	-0.6%	\$24.25
South Suburbs - Class A	17,455	145	954	2,997	1.3%	2,568	17.2%	0.2%	14.7%	\$28.83	-0.8%	\$28.67
Baltimore Region	86,888	750	3,336	15,043	-1.5%	15,098	17.3%	-0.3%	17.4%	\$23.33	-0.3%	\$22.61
Baltimore Region - Class A	42,666	397	1,806	7,997	-1.4%	7,463	18.7%	-0.3%	17.5%	\$26.40	-2.7%	\$26.61

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(1) Percentage point change for availability rates.

Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.

Statistics are calculated using both direct and sublease information.

Short-term sublet spaces (terms under two years) were excluded.

^Unless otherwise noted, source for data is Savills Studley.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.

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