

Savills Studley Report

Baltimore office sector

Q4 2018



SUMMARY

Market Highlights

LEASING FALLS IN 2018

Quarterly leasing activity failed to reach 1.0 million square feet (msf) for the fourth consecutive quarter, and fell by nearly 10% to just under 700,000 sf. Tenants leased a total of 2.8 msf during 2018 – a sharp decrease from the 4.1 msf leased in 2017.

AVAILABILITY FALLS

The region's total availability rate dropped by 136 basis points to 16.5%, and has fallen by 50 basis points year-on-year. The Class A availability rate declined by 56 basis points to 18.5% during the fourth quarter.

RENT FLAT

Overall asking rent for the Baltimore region inched higher, ticking up from \$23.45 to \$23.63. Class A rent rose by 1.0% from \$26.13 to \$26.40.

SALES DOWN

Office property sales during the first 11 months of 2018 totaled \$996 million, a 15% decrease compared to the same period during 2017.

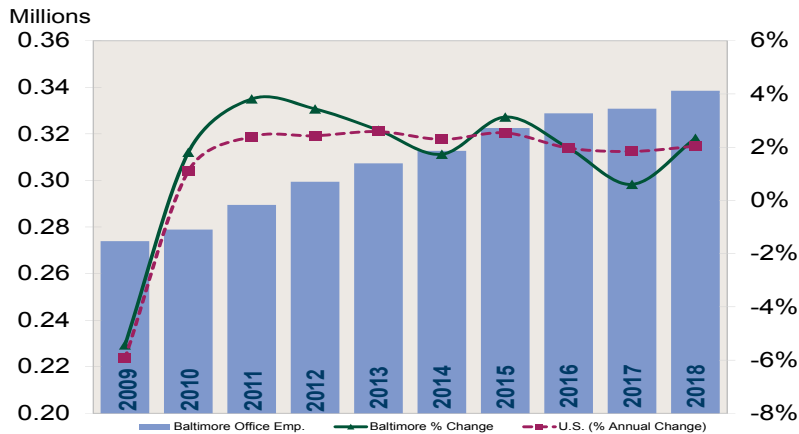
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"Baltimore's office market ended the year much as it began – with tepid leasing and ample availability in much of the region. Conditions are tighter in a few areas, but most tenants are in a strong position to negotiate favorable terms heading into 2019."

Savills Studley Research

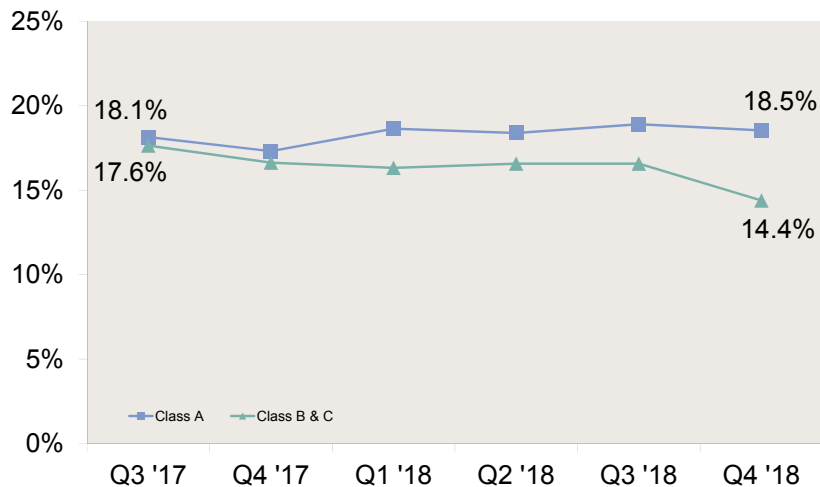
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Office-Using Employment Trends

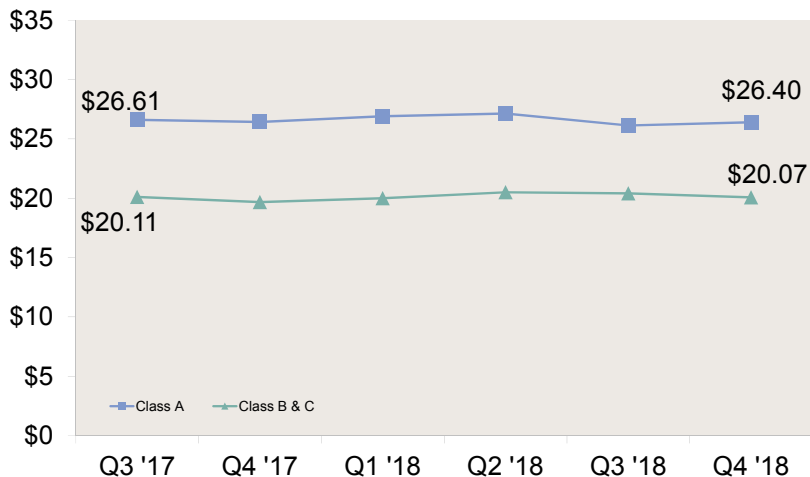


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Slow but Steady Path for Baltimore

Baltimore's overall economy and office market clung to a path of slow but steady expansion during 2018. Employment remains in positive territory with the unemployment rate for Baltimore as a region sitting at 3.8%, just below the national unemployment of 4.0%. The region added nearly 8,000 office-using jobs (a 2.3% increase) over the last year. Employment growth is driven by job creation in new business developments throughout the County, including Tradepoint Atlantic, downtown Towson, Owings Mills and expansions at the County's major health care facilities.

Eds and Meds Steer Demand

Baltimore's world-class healthcare sector continues to spark growth in the economy. Eds and meds remain a top source of hiring and has a stabilizing influence on the regional economy. Demand for doctors was elevated in 2018 as advertised job openings for the area spiked by 17%, outpacing the national average by 10 percentage points.

Market fundamentals in the medical office sector are much stronger than in traditional corporate office space. Medical office properties command higher pricing than many traditional office buildings. In mid-November, Welltower paid \$80 million (\$500/sf) for a 160,000-sf outpatient medical building on the John Hopkins Howard County General Hospital office campus in Columbia. Built in 2009, the five-story LEED Silver medical facility adds to Welltower's growing medical office presence in Columbia.

Pricing for traditional office product is much lower. Investors looking for value-add properties in the Baltimore region can find assets priced well under \$300/sf, sometimes lower. In October, Grand Capital Partners paid \$24.5 million (\$190.36/sf) for 180 Admiral Cochrane Drive in the West Woods Business Park in Annapolis. The 128,703-sf building was approximately 62% leased at time of sale.

No Amazon, No Loss

Baltimore, and a long list of other cities, lost out on the Amazon HQ2 stakes. Amazon's ramp up in New York City and Crystal City will take a couple more years to gain traction. Since Baltimore is located between these two cities, it could eventually see some spillover as the ecommerce and logistics giant is likely to take advantage of growing intermodal and port enhancements up and down the East

Coast. Many were thankful that Baltimore's Amazon bid did not make the "Top 20" locations for Amazon, let alone win HQ2. Montgomery County similarly lost their bid. Now rather than spend money to incentivize Amazon to come to Maryland, more money can be put into areas across the region that need support.

Baltimore can benefit from some of these proposed initiatives. Governor Larry Hogan of Maryland recently announced his intention to push job creation and economic activity in new federal "Opportunity Zones" throughout the state. Of the 149 zones in Maryland, 42 are in Baltimore. Businesses that relocate to or expand in an opportunity zone will receive tax credits. Additionally, money will be available for small business lending, new job training programs will be created. The proposals are part of an effort to draw in private investment over the next decade. Finally plans call for the demolition of vacant and obsolescent buildings. It remains to be seen how these proposals will play out, but ideally some obsolete buildings will be torn down and incentives will draw new businesses to Baltimore.

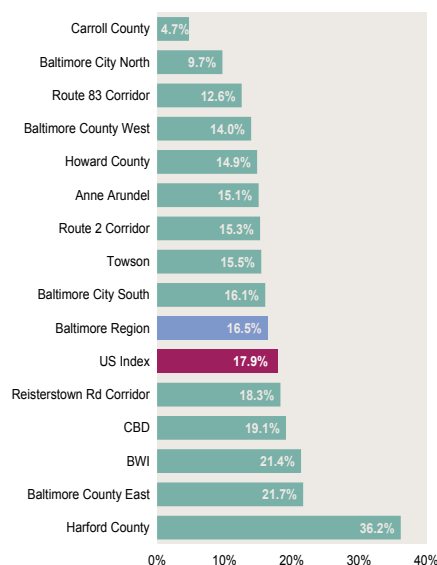
Leasing activity matches the steady pace of the regional economy. Quarterly leasing has hit the long-term (five-year average) of 1.2 msf only once since 2017. Healthcare as well as government agencies and educational institutions have consistently fueled leasing activity in recent quarters. This continued in the fourth quarter. The biggest lease of the quarter was the State of Maryland's 64,234-sf lease at 211 Schilling Circle. North American Trade Schools took 42,000 sf at 6901 Security Boulevard. Defense and cybersecurity firms remain active. Northrup Grumman leased 57,140 sf at 900 International Drive.

Activity among banks, law firms and general professional business services has been more sporadic. In the last four quarters, only a handful of leases over 20,000 sf have been signed by law firms and banks during 2018. Among these, renewals dominate. Eastern Savings Bank, for example, renewed its 34,827-sf lease at 11350 McCormick Rd. This building has extensive amenities including deli and cafeteria in the building, fitness center, dry cleaner, ATM, post office and nearby restaurants.

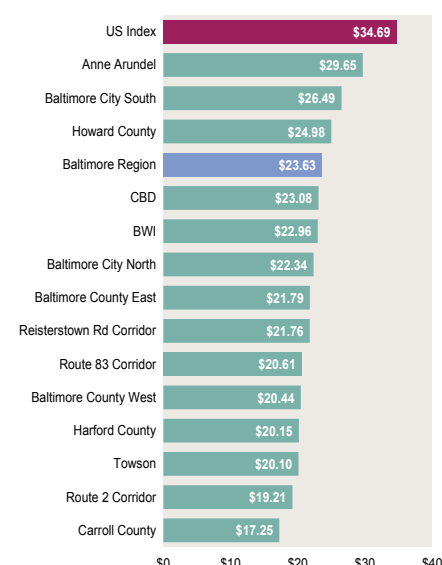
Ample Space Options in Most Areas

Conditions have not changed dramatically in much of the region's office market during 2018. Tenants can find ample space options in all except a handful of micro-markets.

Availability Rate Comparison



Overall Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Northrup Grumman	57,139	900 International Dr	BWI
North American Trade Schools	42,000	6901 Security Blvd	Baltimore County West
Amerigroup Corporation	36,551	7550 Teague Rd	Anne Arundel
Eastern Savings Bank	34,827	11350 McCormick Rd	Route 83 Corridor
Network Building & Consulting	28,600	6095 Marshalee Dr	Howard County
EZShield, Inc	15,089	9920 Franklin Square Dr	Baltimore County East
American Pool Enterprises	15,000	11155 Dolfield Blvd	Reisterstown Rd Corridor
Nike	12,018	10980 Grantchester Way	Howard County
Veratas	10,500	1900 N Howard St	Baltimore City North
Havas North America, Inc.	10,015	700 E Pratt St	CBD
Sum of Top Leases	261,739		

These include the Pratt Street Corridor, and the cyber/defense corridor in Columbia.. Suburban submarkets West of Baltimore and more peripheral areas such as Harford County have availability rates exceeding 30%.

Tenants seeking less than 20,000 sf have ample options to pick over, particularly in suburban locations. Rent growth has been very limited in such areas, with rent well under \$30/sf in much of the region. Landlords still must extend generous concessions to drive relocation and offset increased buildout costs.

Businesses willing to pay top dollar also have a growing set of new buildings to consider. The newest amenity-laden buildings in the CBD, such as Willis Wharf and One Light Street, are close to achieving a \$40/sf rent.

Columbia has attracted strong demand in recent quarters. Its town center is poised for a major overhaul, including new office

buildings such as 6100 Merriweather Drive hoping to tap into strong demand for pedestrian friendly, livable/walkable environments. This 320,964-sf building will deliver in Downtown Columbia at the end of 2019 as Howard County's newest trophy building. New development across the region is under control. As of year-end 2018, Baltimore had 0.55 msf of new office development underway, 48.2% pre-leased.

Looking Forward

Baltimore, like other markets, with a strong import/export market continues to keep a nervous watch on the trade conflicts between Washington, DC and other countries. In commercial real estate we can see the direct effects with construction costs going up due to tariffs and labor shortages. This can increase the cost of development and building out newly leased spaced for tenants.

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	14,535	63	362	2,783	-24.0%	3,323	19.1%	-6.1%	22.9%	\$23.08	1.6%	\$22.74
CBD - Class A	7,554	51	251	1,804	1.8%	1,634	23.9%	0.4%	21.6%	\$25.87	2.9%	\$24.93
Baltimore City South	7,855	51	263	1,262	-1.9%	1,238	16.1%	-0.8%	16.3%	\$26.49	-1.6%	\$28.29
Baltimore City South - Class A	5,357	37	191	937	-8.0%	986	17.5%	-2.4%	19.2%	\$30.03	-0.2%	\$30.28
Baltimore City North	4,877	23	58	473	6.2%	265	9.7%	0.6%	5.4%	\$21.56	4.8%	\$16.98
Baltimore City North - Class A	820	2	13	16	-8.6%	46	2.0%	-0.2%	5.6%	NA	NA	N/A
Carroll County	854	0	9	40	-5.7%	34	4.7%	-0.3%	4.0%	\$17.25	-0.5%	\$15.13
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	5,243	36	147	961	-3.7%	1,098	18.3%	-0.7%	20.9%	\$21.76	1.0%	\$18.06
Reisterstown Rd Corridor - Class A	2,965	26	94	593	0.7%	563	20.0%	0.1%	19.0%	\$22.80	-0.9%	\$22.48
Route 83 Corridor	7,415	92	332	932	-2.6%	1,035	12.6%	-0.3%	14.0%	\$20.61	1.5%	\$19.59
Route 83 Corridor - Class A	4,210	27	150	477	1.3%	538	11.3%	0.1%	12.8%	\$22.08	1.0%	\$21.24
Towson	4,830	28	149	747	24.2%	635	15.5%	3.0%	13.2%	\$20.10	0.3%	\$19.86
Towson - Class A	1,849	4	62	283	6.9%	245	15.3%	1.0%	13.2%	\$21.95	0.5%	\$22.97
Baltimore County East	2,364	28	47	513	19.4%	307	21.7%	3.5%	13.5%	\$21.79	3.4%	\$20.24
Baltimore County East - Class A	696	0	1	203	85.0%	31	29.1%	13.4%	5.1%	\$23.85	0.0%	\$24.19
Harford County	2,570	7	15	930	-0.1%	952	36.2%	0.0%	37.4%	\$20.15	0.6%	\$25.02
Harford County - Class A	1,266	2	7	680	-2.9%	729	53.7%	-1.6%	57.6%	\$20.00	0.7%	\$26.78
Howard County	14,614	172	920	2,172	-3.6%	2,122	14.9%	-0.6%	14.9%	\$24.98	0.3%	\$23.94
Howard County - Class A	8,000	95	547	1,368	-4.7%	1,261	17.1%	-0.9%	16.6%	\$26.88	0.6%	\$25.83
Baltimore County West	3,768	73	117	527	-4.4%	508	14.0%	-0.6%	13.5%	\$20.44	-0.4%	\$19.14
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	3,306	20	181	707	-13.7%	987	21.4%	-3.4%	30.1%	\$22.96	-0.1%	\$21.89
BWI - Class A	1,225	16	79	217	-4.3%	280	17.7%	-0.8%	22.8%	\$26.11	2.9%	\$24.81
Anne Arundel	11,023	55	201	1,663	-5.1%	1,470	15.1%	-0.8%	13.5%	\$29.65	2.6%	\$28.05
Anne Arundel - Class A	7,732	36	116	1,221	-6.2%	815	15.8%	-1.1%	10.8%	\$32.35	3.5%	\$33.26
Route 2 Corridor	920	22	37	141	-5.0%	137	15.3%	-0.8%	14.9%	\$19.21	-9.4%	\$20.69
Route 2 Corridor - Class A	0	0	0	0	#DIV/0!	0	#DIV/0!	#DIV/0!	#DIV/0!	\$0.00	#DIV/0!	\$0.00
Baltimore City	27,268	137	683	4,519	-16.3%	4,826	16.6%	-3.4%	17.9%	\$23.96	1.4%	\$24.08
Baltimore City - Class A	13,731	90	456	2,757	-1.8%	2,666	20.1%	-0.7%	19.7%	\$27.29	1.3%	\$26.94
North Suburbs	23,276	193	700	4,124	4.1%	4,061	17.7%	0.7%	17.5%	\$20.80	1.1%	\$20.50
North Suburbs - Class A	11,167	58	313	2,235	4.8%	2,108	20.0%	0.9%	19.0%	\$21.78	0.7%	\$23.73
South Suburbs	33,631	342	1,456	5,209	-5.7%	5,224	15.5%	-0.9%	15.8%	\$25.58	0.9%	\$24.16
South Suburbs - Class A	17,187	146	742	2,805	-5.3%	2,356	16.3%	-1.0%	14.2%	\$29.20	2.1%	\$28.28
Baltimore Region	84,174	672	2,839	13,851	-6.9%	14,111	16.5%	-1.3%	17.0%	\$23.63	0.8%	\$23.09
Baltimore Region - Class A	42,085	294	1,510	7,797	-1.4%	7,129	18.5%	-0.4%	17.3%	\$26.40	1.0%	\$26.43

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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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