

Rapidly evolving COVID-19 pandemic shuts down Baltimore market

COVID-19 has caused a public health crisis unlike anything we have seen before, swiftly crossing the globe and reaching Baltimore at the end of Q1. Governor Larry Hogan of Maryland issued a stay-at-home order for the state on March 30th, 2020. Businesses were forced to close and shift to remote work – leaving nearly all office buildings in Baltimore unoccupied. While many tenants in a position to make real estate decisions have hit pause to reassess their needs, it is important to remember that times of uncertainty can create unexpected opportunities for tenants. 2019 had seen consistent tightening in availability down 130 basis points year-over-year, closing at 15.4% in Q1. An economic downturn could provide additional space options for occupiers to choose from and shift availability back towards the tenant's favor.

Overall rents declining ahead of COVID-19 effects, though core submarkets still see some growth

In the first quarter of 2020, Baltimore's overall average office asking rent stood at \$23.76 per square foot (psf), reflecting no change over the year and a 2.0% decline over the quarter. Class A rents increased by 1.7% year-over-year, but declined by 0.9% over the quarter, to \$26.46 psf. Central Business District rents increased by 3.5% year over year, while suburban rents declined by 2.9% over the same period. Over the trailing four quarters through the first quarter of 2020, large rent increases occurred in Baltimore County East (up 19.0%), the Route 83 Corridor (up 17.1%), and Harford County (up 8.8%). The largest year over year rent declines were seen in Howard County (down 10.1%), Route 2 Corridor (down 9.3%), and Baltimore City North (down 6.6%).

Leasing activity dropped sharply over the quarter as crisis fears quickly circulated

Total first-quarter leasing activity was just 680,000 square feet (sf), reflecting declines of 32.4% and 24.9% over the last quarter and year, respectively. First-quarter leasing activity was 28.0% below the five-year average of 940,000 sf and well below the Q3 2014 peak of 1.5 million square feet (msf). Nearly 180 leases were signed in the quarter, averaging 3,900 sf per lease. The largest leases in the quarter were signed by General Dynamics (54,841 sf) at 7142 Ambassador Road in Baltimore County West, Orano TN (32,391 sf) at 7160 Riverwood Drive in Howard County, and Bravura Information Technology Systems (27,551 sf) at 210 Research Boulevard in Harford County. As businesses await more economic and office market clarity, the pace of leasing activity is expected to decline even further in the coming quarters.

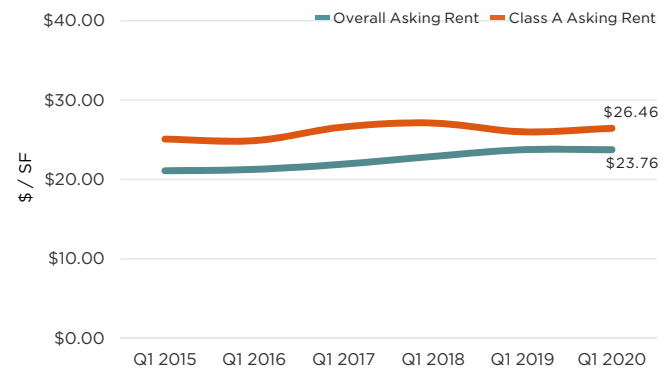
Outlook

- COVID-19 will likely result in reduced transaction volume until tenants can re-evaluate immediate needs, and gain clarity on how and when a return to physical workplaces is possible
- Ahead of the pandemic, Baltimore had a limited development pipeline and in the near-term few – if any – proposed projects will start construction without significant lease commitments
- Baltimore MSA employment was projected to grow by 1.2% per year over the next five years, prior to the shutdown; revised projections, which assume a 20% net decline in U.S. employment in 2020, imply a 14.2% job loss in the MSA over the same period

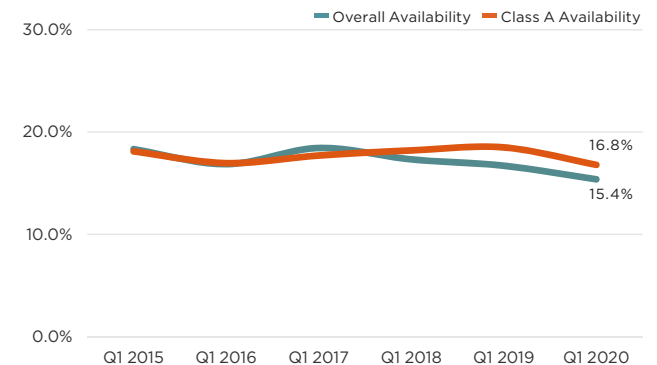
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	82.3 MSF	82.3 MSF	◀▶
Availability Rate	16.7%	15.4%	▼
Asking Rental Rate	\$23.75	\$23.76	▲
Class A Asking Rental Rate	\$26.01	\$26.46	▲
Quarterly Leasing Activity	0.9 MSF	0.7 MSF	▼

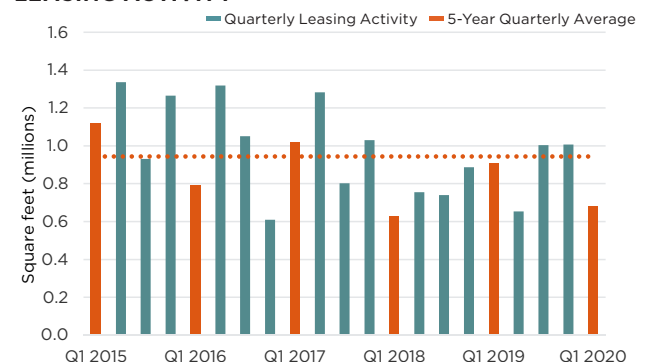
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

46.6%

of major transactions were renewals

42.9%

of large transactions occurred in the Howard County submarket

82.4%

Professional Services sector tenants represented 82.4% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
General Dynamics	54,841	7142 Ambassador Road	Renewal	Baltimore County West	Professional Services
Orano TN	32,391	7160 Riverwood Drive	New Location	Howard County	Professional Services
Bravura Information Technology Systems, Inc	27,551	210 Research Boulevard	Renewal	Harford County	Professional Services
General Dynamics	26,561	6721 Columbia Gateway Drive	Renewal	Howard County	Professional Services
CallisonRTKL Inc	22,869	901 S Bond Street	Restructure	Baltimore City South	Professional Services
Pennonni	15,000	8890 McGaw Road	New Location	Howard County	Professional Services
PCI Strategic Management	14,968	6811 Benjamin Franklin Drive	Expansion	Howard County	TAMI
PinnacleCare	14,628	250 W Pratt Street	New Location	CBD	Healthcare
EY	13,533	1201 Wills Street	New Location	Baltimore City South	Professional Services
The Jacobs Company	11,493	7075 Samuel Morse Drive	New Location	Howard County	Financial Services

Source Savills Research

For more information, please contact us:

Savills
102 West Pennsylvania Avenue
Suite 302
Towson, MD 21204
+1 410 844 3900

George Santos
Senior Managing Director
gsantos@savills.us

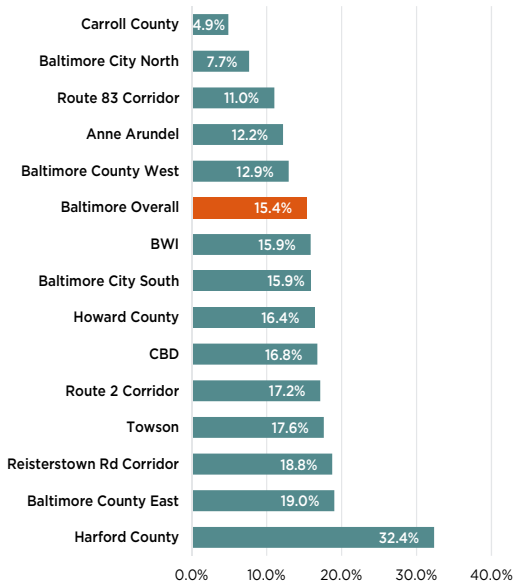
Devon Munos
Research Manager
dmunos@savills.us

About Savills Inc.
Savills helps organizations find the right solutions that ensure employee success. Sharply skilled and fiercely dedicated, the firm's integrated teams of consultants and brokers are experts in better real estate. With services in tenant representation, workforce and incentives strategy, workplace strategy and occupant experience, project management, and capital markets, Savills has elevated the potential of workplaces around the corner, and around the world, for 160 years and counting.

For more information, please visit Savills.us and follow us on LinkedIn, Twitter, Instagram and Facebook.

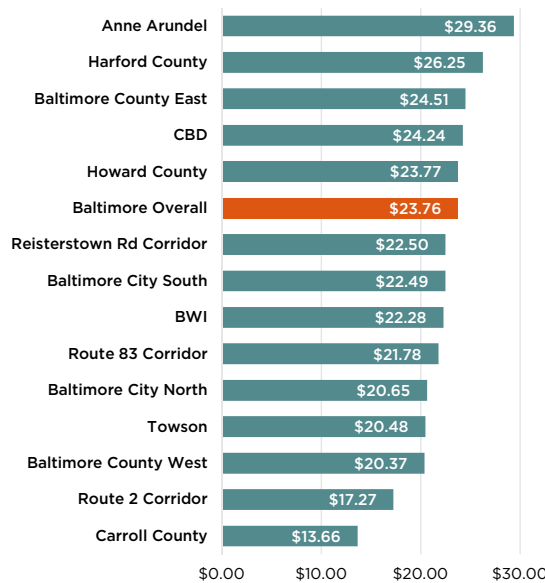
AVAILABILITY RATE COMPARISON

Baltimore Submarkets



RENTAL RATE COMPARISON (\$/SF)

Baltimore Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills research.

Copyright © 2020 Savills

