Multifamily Metro Outlook: Baltimore Winter 2019

Overall, the Baltimore market remains healthy, with the vacancy rate in central Baltimore at 9.7 percent as of Q3 2018 compared to well under 5.0 percent for most suburban submarkets, according to REIS. The one exception is Howard County, which has seen elevated levels of development and recorded an estimated 7.0 percent vacancy rate in Q3 2018. Fortunately, with slowing development and decelerating-but-steady job growth, these two submarkets should stabilize, giving rent growth a chance to recover in 2019.

Baltimore has a population of 2.8 million and a relatively well-educated workforce. Currently, 39 percent of its population has earned a bachelor's degree compared to 31 percent nationally, allowing Baltimore to attract well-paying, knowledge-based industries such as the life sciences. Additionally, Baltimore has the lowest costs of business and living of any major metro area on the east coast, including nearby Washington, D.C.

With the National Security Agency (NSA) in Anne Arundel County, the metro area has become a hub for the growing cyber security field, In fact, the Baltimore Business Journal reports that three cybersecurity industry firms announced plans to open headquarters by 2020 in the first phase of the $5.5 billion Port Covington development project, with an eye toward establishing a "Cyber Town."

Nine of the metro's top twenty employers are in the stable education and healthcare fields, which are expected to grow as Baby Boomers age and Millennials/Echo Boomers graduate college. These include major employers Johns Hopkins and the University of Maryland.

However, pockets of extreme poverty, including West Baltimore, continue to dampen economic growth. A sense of security and the perception of an elevated crime rate are likely deterring some job seekers from relocating to the city, dampening population growth and the need for new housing.

Development

Almost 21,000 rental units have been added since the beginning of 2012 consisting primary of Class A delivered in downtown neighborhoods in and around the waterfront. However, construction seems to have slowed – finally – as just over 3,100 units should be delivered in 2018 compared an average of 4,500 units in 2017 and 2016.

Opportunity Zones present new opportunities for tax-advantages development predominantly in neglected Downtown neighborhoods such Poppleton, Sandtown-Winchester, Cherry Hill, and Mondawmin. In all, Baltimore City contains 42 of Maryland's 149 new Opportunity Zones according to the Baltimore Development Corporation. Some, such as Hollins Market and Port Covington were already seeing redevelopment activity.

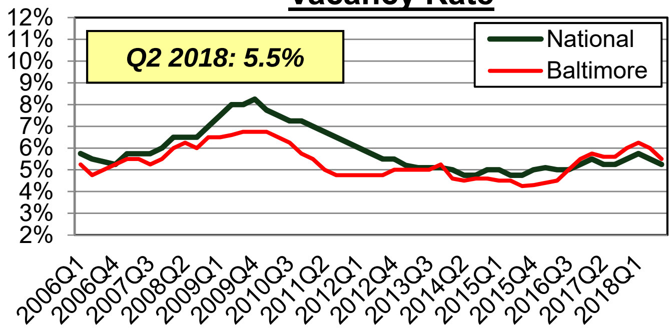
Outlook

Due to elevated development in Baltimore City, the vacancy rate in the Class A segment is about twice as high as Baltimore's average vacancy rate. By contrast, affordable rentals remain in short supply. This combined with a shortage of new development in the suburbs will leave the market steady for the next 18 months. Vacancies and rent growth should tighten modestly and rents should grow around two percent which is typical for this market.

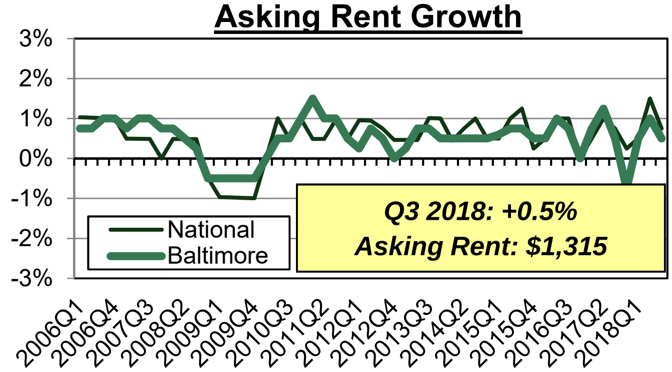
The metro has a mature diversified economy with both jobs and population growing slowly. Fortunately, many of the jobs are at stable, federal employers and contractors such as the Social Security Administration, Medicare, and Northrup Grumman, and should continue to provide well paying jobs despite slow growth.

Vacancy and Rent Composite Estimates

Vacancy Rate

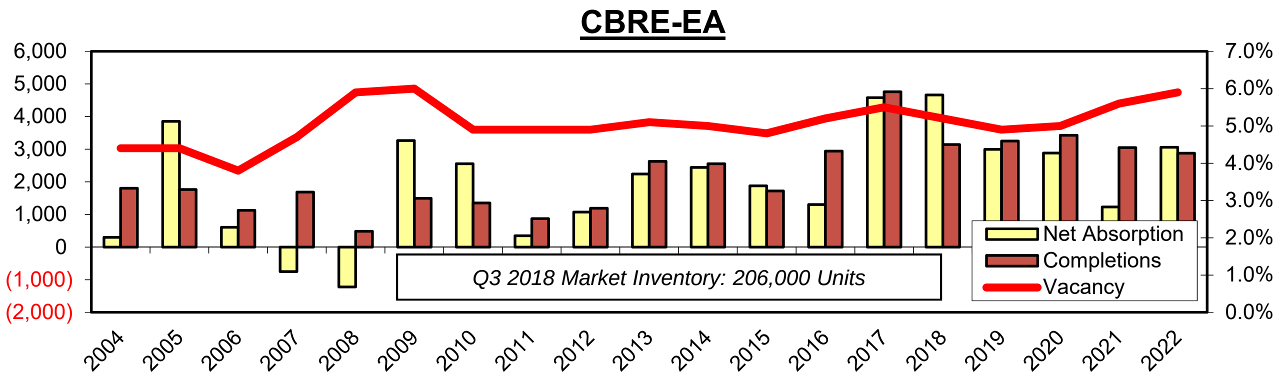


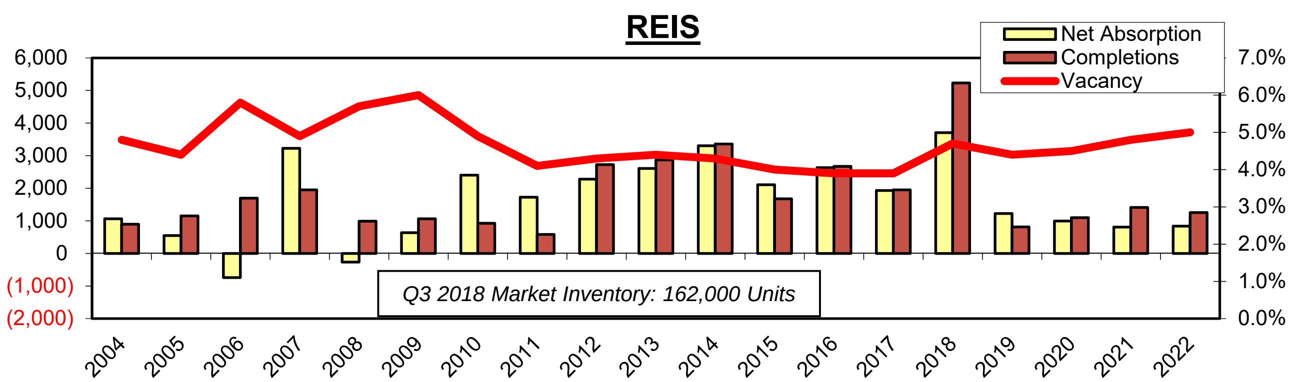
Asking Rent Growth

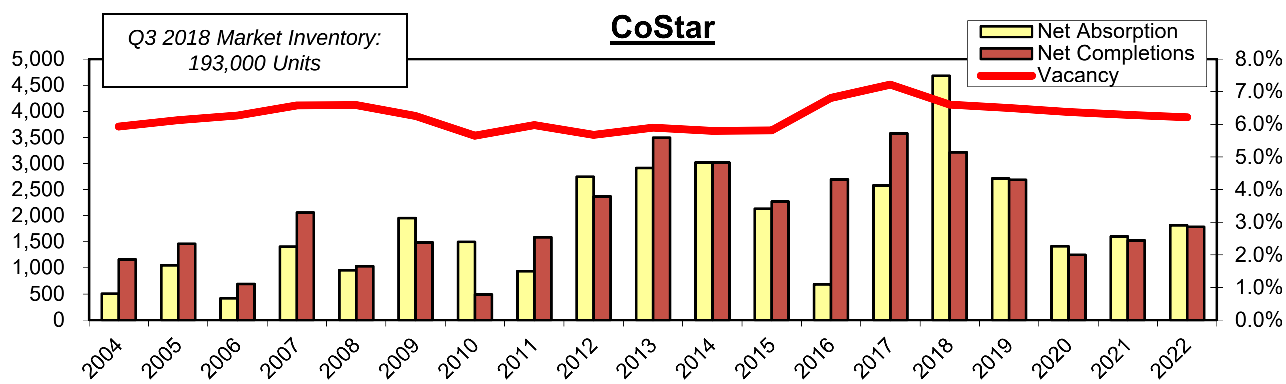


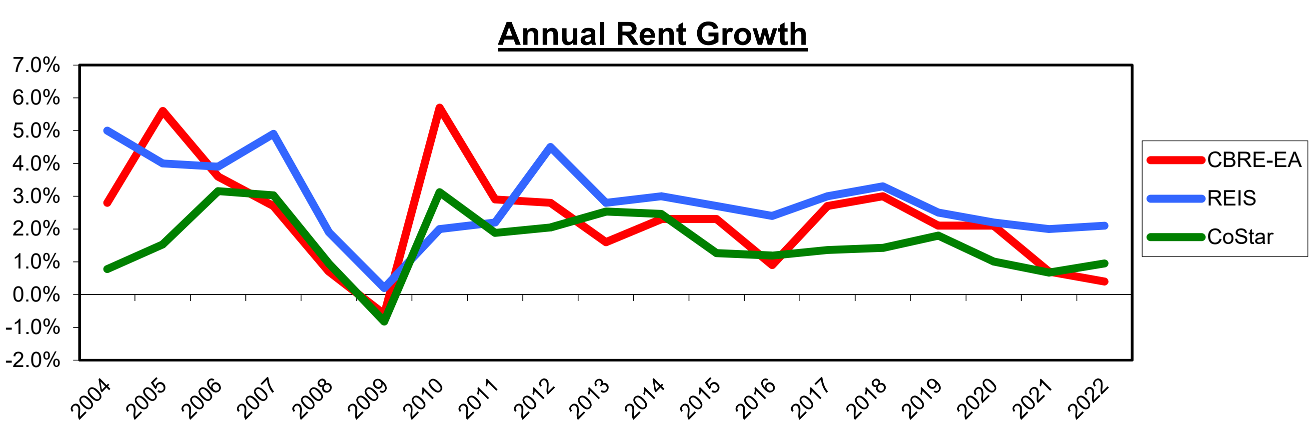
Source: Fannie Mae Multifamily and Economics Research

Multifamily Metro Outlook: Baltimore – Q3 2018









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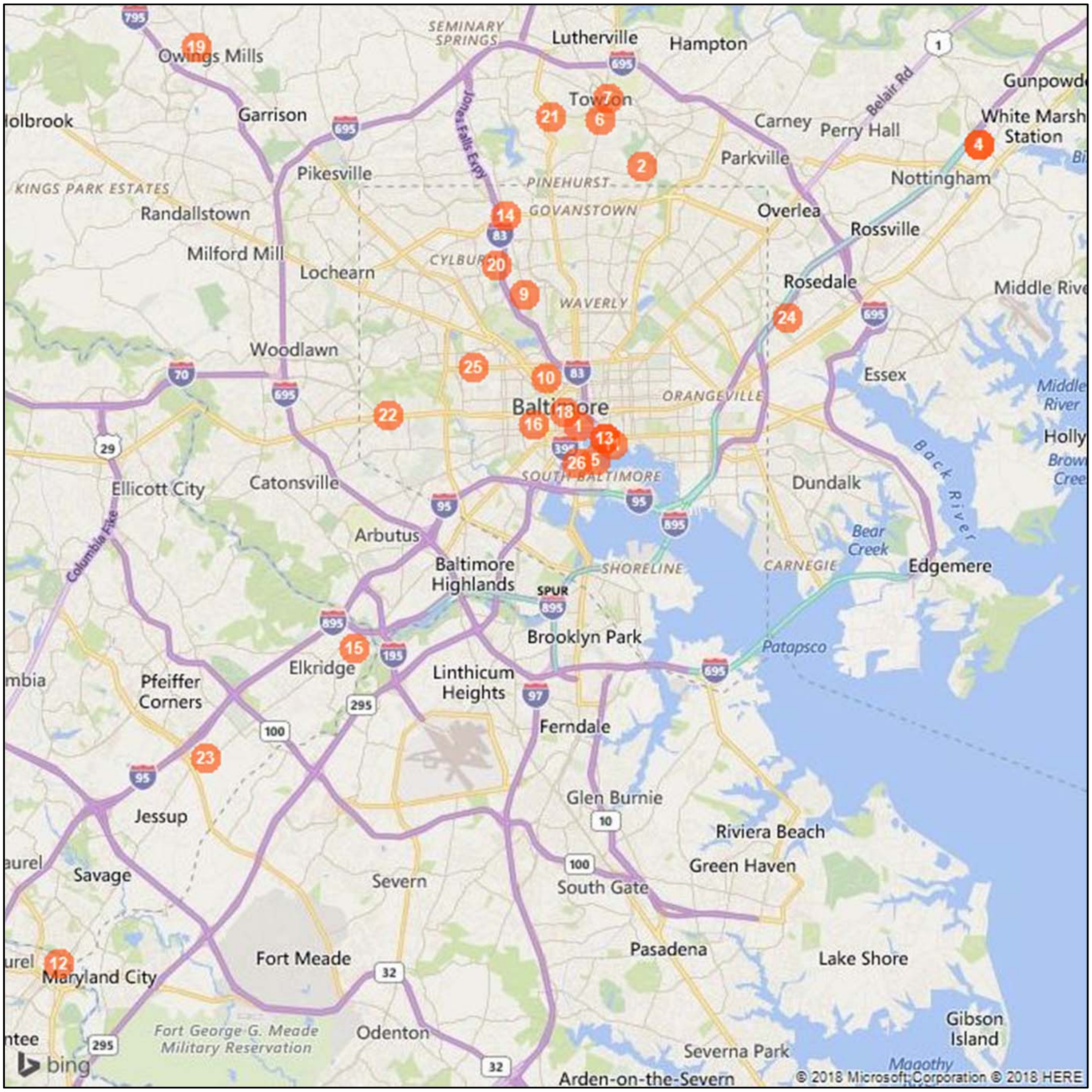
Construction Bidding/Underway
(26 projects/5,000 Units/6.9 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Central Baltimore City	11	2948	2083
Towson/Timonium/Hunt Valley	4	1735	1209
Columbia/Howard County	2	1083	738
Pikesville/Randallstown/Owings Mills	2	433	398
Laurel	1	320	252
Woodlawn/Cantonsville	1	132	104
Parkville/Carney/White Marsh	3	68	91
Dundalk/Essex/Rosedale	1	82	74

Fannie Mae™

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Fannie Mae Multifamily Economics and Market Research

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<u>Sources Used</u>

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.

