

Savills Studley Report Baltimore office sector

Q3 2017



SUMMARY

Market Highlights

DECLINE IN ACTIVITY

Overall leasing activity completed in the four most recent quarters fell to 4.2 msf, well below the long-term historical average of 5.8 msf. Howard County, which exceeded its long-term average during 2014 and 2015, registered just over 800,000 sf in the last four quarters – 40% below its normal pace.

AVAILABILITY DECLINES

The region's overall availability rate fell for the second consecutive quarter, dropping by 90 basis points from 17.2% to 16.3%. Most of the decline came in the Class A sector, which posted a quarter-on-quarter decrease of 190 basis points from 22.1% to 20.2%.

RENTS FLAT

Asking rent in the region was unchanged, averaging \$22.89. The average Class A rent fell by 0.4% to \$26.75, but rent in Class B and C buildings rose by 0.8% to \$20.31.

SALES HIGHER

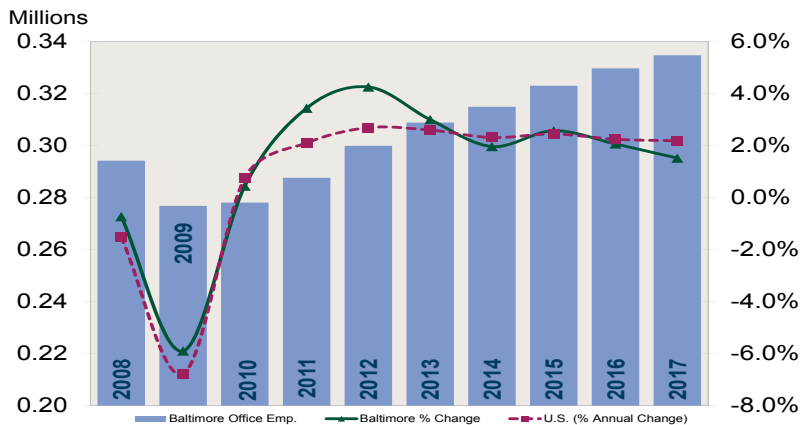
Office property sales in the first half of 2017 totaled \$851 million, increasing by 88.2% compared to the same time period during 2016.

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"The region hopes Amazon will include Baltimore on their short list for its HQ2 site. While Virginia and Pennsylvania are seen by many as more viable options, Port Covington and Tradepoint Atlantic have ample room to accommodate Amazon."

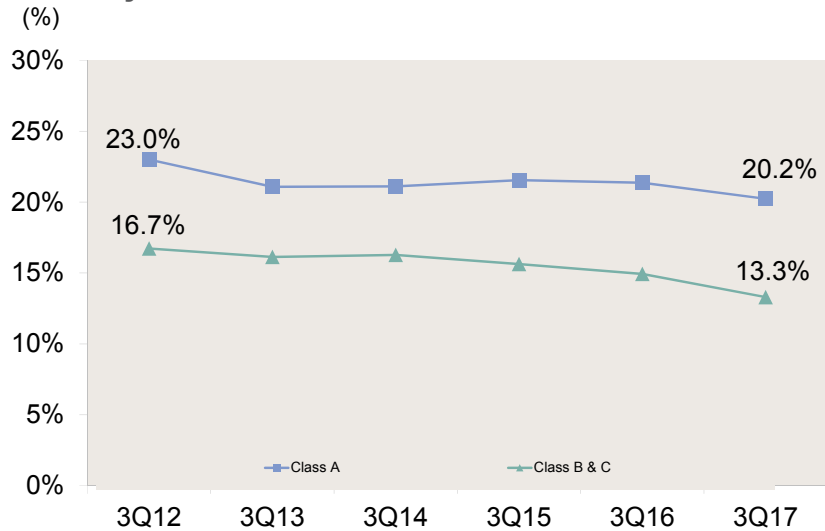
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Office-Using Employment Trends

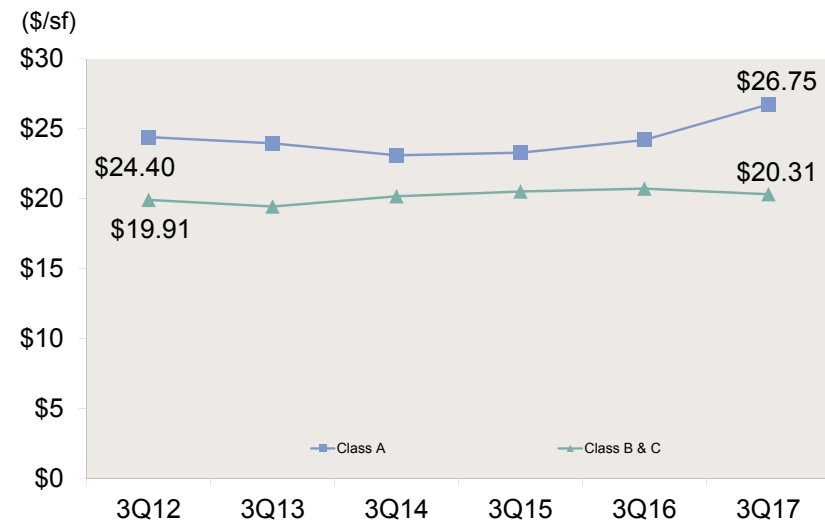


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Market Plods Along

Office-using employment in the Baltimore region has been very erratic of late. The region has added 1,200 jobs in the last 12 months – a year-on-year gain of merely 0.4% that is well short of national averages. The region has seen only a smattering of corporate site selection wins. In August, Constellium US Holding announced plans to move its corporate offices from New York to Baltimore. The aluminum manufacturer will bring at least 25 employees to 300 E. Lombard Street by year-end 2018. The company cited the affordability of office space, proximity to the airport and a \$150,000 loan from the city as reasons for their decision. Based in Amsterdam, the company makes aluminum products used in the auto, aerospace and defense industries.

Musical Chairs Downtown

A few businesses have moved from the suburbs to Downtown Baltimore in the last few quarters. Most recently, Medifast confirmed that it will relocate its headquarters from Owings Mills to the Legg Mason Tower. The nutrition and weight loss company will move 160 employees to a 51,000 sf space it is subleasing from OneMain Financial.

The majority of the leasing in Downtown Baltimore continues to come from businesses, particularly banks and law firms, moving within the CBD. M&T Bank finally made its move to 1 Light Street official, signing a 15-year lease with two five-year renewal options. The bank will relocate its mid-Atlantic headquarters to 155,000 sf at the new tower scheduled to deliver in late 2018. M&T will move more than 500 employees from 25 S Charles Street and 111 S. Calvert Street. The bank is also providing developer Madison Marquette a \$125-million construction loan. The 28-story tower will have 280 apartment units on 10 floors and nine floors of office space totaling 234,495 sf. M&T's lease leaves the building with just under 80,000 sf of office space for lease.

Construction Kept In Check

Development of corporate office space in Downtown Baltimore has been limited. Most developers have focused on multi-family/condo projects, with a few mixed-use projects such as 1 Light Street. Stephen Gorn, the owner of 414 Light Street in the Inner Harbor, recently announced that a second 40-story to

50-story tower is in the planning stages. The building may include a luxury hotel, condos or apartments as well as some office space. The first building, 414 Light Street is expected to be finished next summer. Gorn bought the 1.9-acre property at a foreclosure auction for \$11.5 million in 2011 and is expected to spend \$300 to \$400 million on the two towers.

New construction in the entire metro area remains limited, and may have peaked for this cycle. As of September, the region had 10 non owner-user properties either underway or under renovation, with 442,400 sf of available space remaining for lease. Tenants pursuing new space in Downtown Baltimore can expect a mid-\$30/sf or higher rent. Rent for new construction typically commands at least 20% premium compared to existing Class A space.

At the other end of the rent spectrum, the Northwest submarket offers some of the strongest value plays. The gap between the highest-caliber office product in a prime location, and run-of-the-mill space in some suburbs continues to widen. Tenants can still find ample office space priced in the mid-\$20/sf range in Northwest suburban areas such as Owings Mills and Reisterstown.

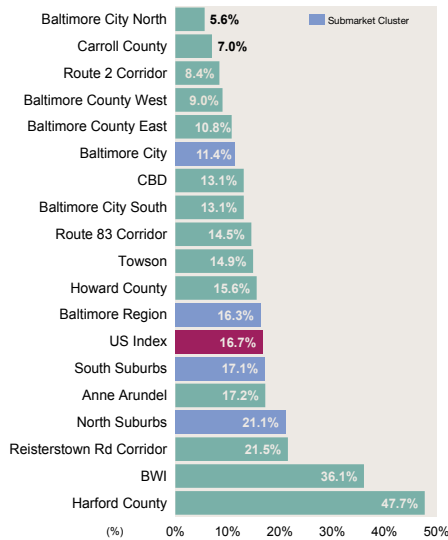
Town Centers Attracting Tenants

Although some companies are not opting to lease space Downtown, a fair number are picking space in town center developments. St. John Properties continues to attract tenants to its new properties across Baltimore, including its latest phase at Greenleigh at Crossroad in White Marsh. St. John is offering some flex and R&D space at the development. Eisai signed a 40,080 sf-lease for the entirety of 11675 Crossroads Circle. The subsidiary of a Japanese pharmaceutical firm, Eisai will move its 55 employees currently based in Southeast Baltimore. Applied Technology and Paragon Consulting also recently inked office leases at Crossroads Circle at Williams Court. Greenleigh is the latest phase at Baltimore Crossroads – the 1,000-acre mixed-use community will have 1,000 residential homes, 500 multi-family units, four office buildings totaling 428,000 sf, a 120 SpringHill Suites hotel and 116,000 sf of retail.

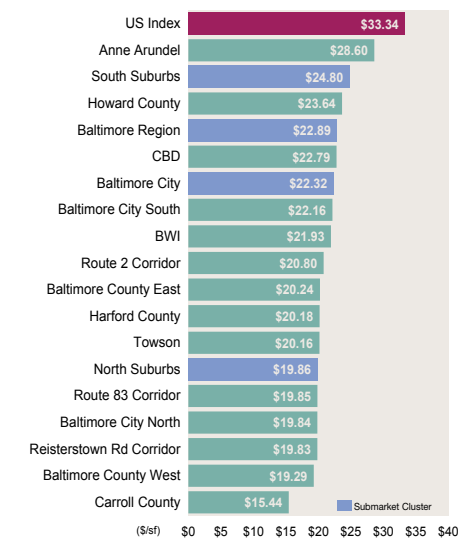
Towson Getting a Closer Look

Towson’s efforts to set up a more walkable, pedestrian-friendly setting is

Availability Rate Comparison



Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
M&T Bank	155,000	1 Light Street	CBD
Medifast	51,000	100 International Dr	CBD
Venable	23,459	111 Market Pl	CBD
Childtime	15,900	1341 Ashton Road	BWI
Franklin Square Hospital	12,400	9101 Franklin Square Drive	Baltimore County East
Roberto's House	6,000	2506-2510 St. Paul St	Baltimore City North
Corridor Mortgage	5,977	2205 Warwick Way	Howard County
Johns Hopkins Center for Communication Pr	5,900	111 Market Pl	CBD
Murthy Law Firm	3,663	10451 Mill Run Cir	Reisterstown Rd Corridor
Bun Shop	3,614	40 W Chesapeake Ave	Towson
Sum of Top Leases	282,913		

also garnering some attention. Even more so than in White Marsh and Bel Air, Towson offers a setting that is not yet as dense and congested as Montgomery County with costs that are still significantly lower. Interest in Towson has grown from both tenants and investors. In August, Merritt Properties acquired 100 West Road for \$24.55 million (\$202.70/sf) The 121,414-sf LEED-EB Gold Certified building was 100% occupied at time of sale, and brings Merritt’s portfolio in Towson and Timonium to more than 1.0 msf.

Retail Properties of America and AvalonBayCommunities recently unveiled plans for a rebranded Towson circle project. Now called Circle East, the retail and residential project is expected to break ground later this year. The former Hutzler Brothers department store will be converted into a retail and storage development, while Avalon Bay will build a five-story apartment development on a lot

across the street. The property is just north of Towson Row – Greenberg Gibbons’ and Caves Valley Partners \$350-million development. Towson has \$1 billion in developments underway.

Looking Forward

If Baltimore stands a chance of capturing Amazon – Port Covington and TradepointAtlantic have the most area to accommodate the world’s largest online retailer. Port Covington has more than 100 acres of land that could allow up to 8.0 msf of commercial space. Goldman Sachs’ recent \$233 million investment in the development gives some added weight to the project. Other dark horse candidates to land Amazon include Columbia Gateway and a potential bid from Downtown Columbia.

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.
CBD	19,419	285	801	2,538	2.5%	3,340	13.1%	0.3%	17.2%	\$22.79	1.4%	\$21.97
CBD - Class A	8,375	271	687	1,698	2.5%	1,886	20.3%	0.5%	22.5%	\$25.03	1.1%	\$24.32
Baltimore City South	9,928	39	270	1,299	-0.9%	1,371	13.1%	-0.1%	13.8%	\$22.16	1.4%	\$19.38
Baltimore City South - Class A	5,697	7	172	884	0.8%	886	15.5%	0.1%	15.6%	\$27.56	2.0%	\$26.33
Baltimore City North	8,227	44	157	460	-1.7%	585	5.6%	-0.1%	7.1%	\$19.84	-5.6%	\$19.38
Baltimore City North - Class A	1,183	7	23	54	-7.8%	70	4.6%	-0.4%	5.9%	NA	NA	N/A
Carroll County	1,302	5	25	91	-8.3%	101	7.0%	-0.6%	7.8%	\$15.44	-1.9%	\$18.36
Carroll County - Class A	181	0	3	2	0.0%	2	1.2%	0.0%	1.0%	\$21.50	7.5%	\$24.00
Reisterstown Rd Corridor	6,033	74	377	1,298	-3.9%	1,371	21.5%	-0.9%	22.6%	\$19.83	-0.7%	\$20.75
Reisterstown Rd Corridor - Class A	2,949	22	170	820	-1.0%	883	27.8%	-0.3%	29.9%	\$22.42	-2.4%	\$22.49
Route 83 Corridor	8,239	80	406	1,198	-25.7%	1,636	14.5%	-5.0%	19.6%	\$19.85	-2.2%	\$20.85
Route 83 Corridor - Class A	4,383	43	201	577	-44.4%	941	13.2%	-10.5%	21.5%	\$22.08	-4.1%	\$23.28
Towson	6,849	35	312	1,018	2.9%	1,046	14.9%	0.4%	15.3%	\$20.16	3.9%	\$20.24
Towson - Class A	2,404	10	98	401	-3.2%	405	16.7%	-0.6%	16.8%	\$22.70	1.3%	\$22.91
Baltimore County East	3,127	36	145	337	-31.6%	756	10.8%	-5.0%	21.9%	\$20.24	0.1%	\$20.84
Baltimore County East - Class A	679	2	27	37	-78.0%	186	5.4%	-19.1%	27.4%	\$22.46	0.3%	\$23.75
Harford County	5,394	35	113	2,572	-5.7%	2,704	47.7%	-2.9%	50.1%	\$20.18	-9.3%	\$23.97
Harford County - Class A	2,210	25	25	1,425	-9.4%	1,520	64.5%	-6.7%	68.8%	\$22.68	-11.2%	\$27.43
Howard County	16,387	151	813	2,549	-6.1%	2,760	15.6%	-1.0%	16.5%	\$23.64	0.0%	\$23.61
Howard County - Class A	8,065	81	430	1,235	-10.2%	1,599	15.3%	-1.7%	19.1%	\$25.62	1.2%	\$26.50
Baltimore County West	5,360	5	142	484	0.3%	536	9.0%	0.0%	10.0%	\$19.29	4.5%	\$18.71
Baltimore County West - Class A	278	0	35	0	N/A	35	0.0%	0.0%	12.7%	\$0.00	N/A	\$23.50
BWI	4,492	79	159	1,620	-3.3%	1,571	36.1%	-1.2%	35.0%	\$21.93	2.9%	\$21.95
BWI - Class A	2,180	31	69	775	-1.5%	846	35.5%	-0.6%	38.8%	\$24.58	-0.8%	\$25.31
Anne Arundel	13,974	72	468	2,404	-3.3%	2,460	17.2%	-0.6%	14.3%	\$28.60	-2.9%	\$28.10
Anne Arundel - Class A	8,904	45	265	1,744	-1.6%	1,692	19.6%	-0.3%	13.9%	\$32.55	-2.4%	\$30.29
Route 2 Corridor	2,061	4	39	174	0.1%	201	8.4%	0.0%	9.7%	\$20.80	2.2%	\$20.96
Route 2 Corridor - Class A	227	1	4	3	-68.4%	0	1.2%	-2.6%	0.0%	\$20.50	-1.1%	\$25.90
Baltimore City	37,573	368	1,228	4,298	1.0%	5,297	11.4%	0.1%	14.1%	\$22.32	0.7%	\$21.09
Baltimore City - Class A	15,256	286	881	2,636	1.7%	2,842	17.3%	0.3%	18.6%	\$25.49	1.3%	\$19.51
North Suburbs	30,944	266	1,379	6,514	-10.4%	7,614	21.1%	-2.5%	24.3%	\$19.86	-1.5%	\$21.97
North Suburbs - Class A	12,808	103	523	3,262	-18.9%	3,937	25.5%	-5.9%	30.7%	\$22.45	-3.6%	\$24.65
South Suburbs	42,274	311	1,620	7,230	-4.0%	7,528	17.1%	-0.7%	16.4%	\$24.80	-0.2%	\$25.19
South Suburbs - Class A	19,654	159	803	3,756	-4.7%	4,172	19.1%	-0.9%	18.0%	\$29.32	-0.5%	\$26.51
Baltimore Region	110,791	945	4,227	18,042	-5.3%	20,439	16.3%	-0.9%	17.8%	\$22.89	0.0%	\$22.99
Baltimore Region - Class A	47,718	547	2,208	9,654	-8.5%	10,951	20.2%	-1.9%	21.4%	\$26.75	-0.4%	\$24.20

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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.

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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