



BALTIMORE INDUSTRIAL VACANCY CONTINUES TO DECLINE

By Anirban Basu, Sage Policy Group, Inc.

The Baltimore region is not among the nation's most rapidly growing economies. It doesn't have the dynamic technology marketplace that characterizes economies in San Jose, Seattle, and Raleigh. Its central city is losing population. One also won't find one of the nation's lowest unemployment rates in the region and HQ2 isn't headed this way.

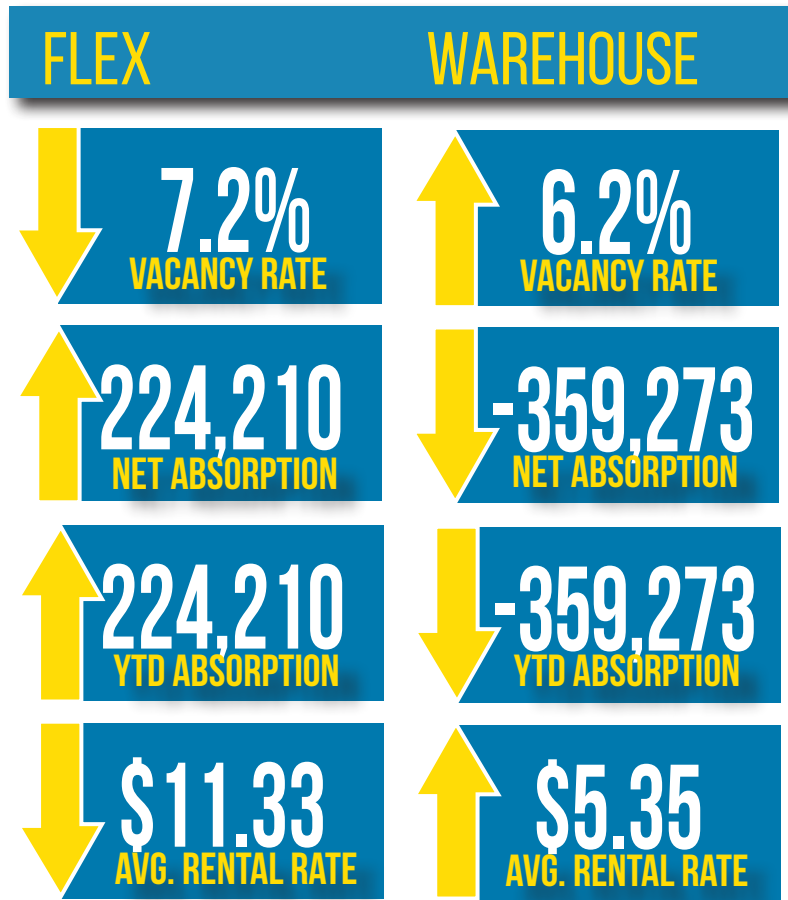
But the region has much going for it nonetheless, including a dynamic industrial marketplace centered upon the activities of the Port of Baltimore, large proximate population centers, and important elements of the nation's interstate highway system. The region remains one of the most educated and affluent in the nation, and the economic outlook for 2018 is reasonably good.

Though warehouse net absorption was negative during 2018's initial quarter (-359,273 sf), the direct vacancy rate remains a satisfactory 7.0%, less than the 7.2% vacancy level that characterized the marketplace a year ago. Two markets that have been strong performers, the Harford/Cecil and BW Corridor markets, experienced negative net absorption exceeding a quarter million square feet during the quarter. Negative net absorption in Baltimore City was also apparent (-122,729 sf). Despite that, direct vacancy remains less than 8% in each of these three warehouse markets.

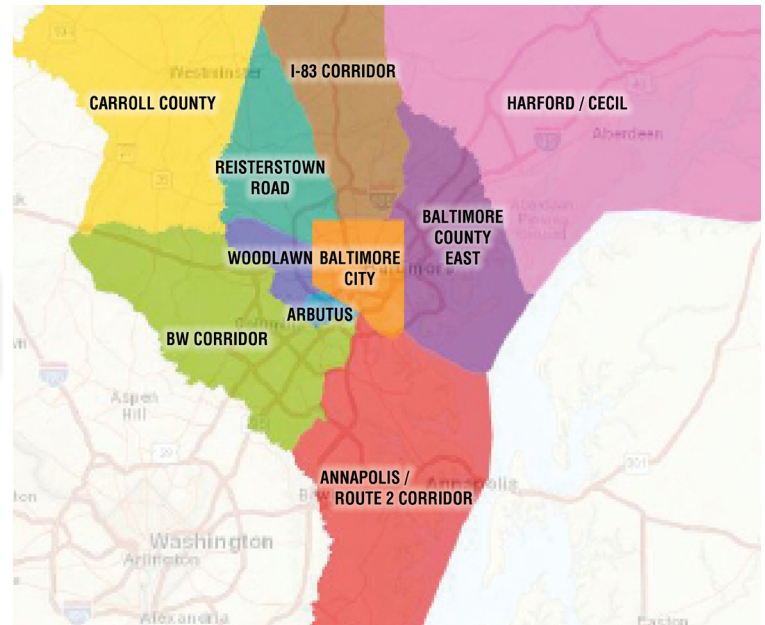
Net absorption in the flex category was a positive 224,210 sf during 2018's first quarter, with the vacancy rate falling 0.4% points during the quarter to 7.2%. Positive net absorption was heavily concentrated in the BW Corridor (+124,684 sf). The region continues to experience job growth among construction firms and in several light industrial segments, fueling demand for flex space.

Despite the quarterly reversal in warehouse space net absorption, asking rents continue to rise in most markets. For instance, in the Harford/Cecil market, average asking rent for warehouse space expanding by \$0.28/sf to \$5.29/sf during the first quarter. Asking rent in the region's flex market expanded by an impressive \$0.37/sf during Q1:2018 to \$11.33/sf

AT QUICK GLANCE...



* Industrial market statistics are in comparison to this time last quarter



LOOKING AHEAD...

DAN HUDAK, SENIOR VICE PRESIDENT/PRINCIPAL

Although the Baltimore Metropolitan Q1 industrial statistics revealed a somewhat stagnant market based on little change in vacancy levels and negative absorption, we believe deal activity will pick up and remain brisk over the next several quarters. Corporate investment spending fueled by recent tax changes coupled with increased consumer spending should sustain continued demand for quality warehouse/distribution space and investment activity in the region.



THE NUMBERS

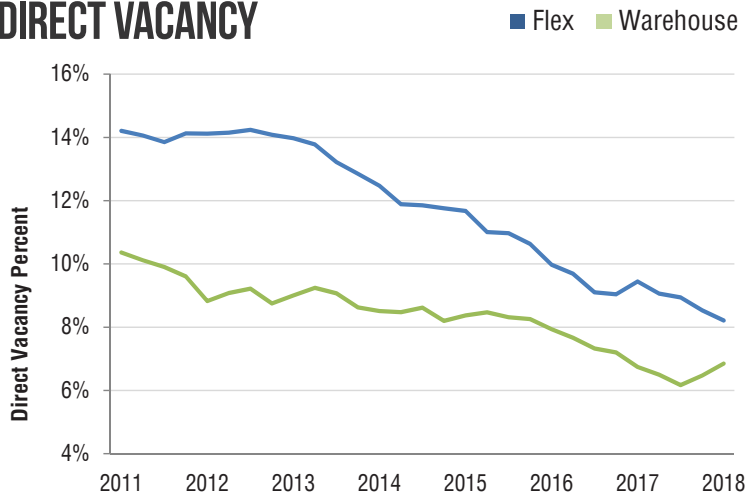
	Submarket	Bldgs	Market Size SF	Direct Vacant SF	Direct Vacancy	Absorption		Available SF %	Average Asking Rent
						Current	YTD		
FLEX INDUSTRIAL MARKET	Annapolis/Route 2 Corridor	177	5,214,212	341,062	6.5%	3,908	3,908	7.8%	\$11.09
	Arbutus	59	2,110,746	101,280	4.8%	10,480	10,480	7.3%	\$8.85
	Baltimore City	134	4,450,130	419,807	9.4%	-33,585	-33,585	15.5%	\$10.85
	Baltimore County East	114	3,829,036	145,870	3.8%	27,750	27,750	6.9%	\$11.67
	BW Corridor	333	15,010,522	1,223,745	8.2%	124,684	124,684	12.2%	\$13.04
	Carroll County	56	1,561,625	257,095	16.5%	-3,978	-3,978	15.8%	\$10.52
	Harford/Cecil	141	3,113,058	193,325	6.2%	9,115	9,115	12.3%	\$10.85
	I-83 Corridor	109	4,957,472	118,668	2.4%	40,891	40,891	5.6%	\$9.36
	Reisterstown Rd Corridor	87	3,082,848	374,881	12.2%	30,053	30,053	16.9%	\$10.18
	Woodlawn/Catonsville	53	2,521,930	132,835	5.3%	14,892	14,892	12.0%	\$8.41
Totals	1,263	45,851,579	3,308,568	7.2%	224,210	224,210	11.1%	\$11.33	
WAREHOUSE INDUSTRIAL MARKET	Annapolis/Route 2 Corridor	197	8,976,218	750,621	8.4%	-12,879	-12,879	10.1%	\$5.66
	Arbutus	103	7,570,140	515,369	6.8%	64,630	64,630	14.7%	\$3.61
	Baltimore City	1,104	40,899,540	2,394,412	5.9%	-122,729	-122,729	7.8%	\$4.80
	Baltimore County East	335	20,663,411	1,743,197	8.4%	187,016	187,016	10.0%	\$5.27
	BW Corridor	571	44,242,756	3,496,184	7.9%	-256,632	-256,632	11.8%	\$5.85
	Carroll County	159	7,562,081	329,761	4.4%	-4,499	-4,499	5.7%	\$5.86
	Harford/Cecil	346	34,863,168	2,587,732	7.4%	-261,223	-261,223	6.6%	\$5.29
	I-83 Corridor	83	4,381,681	102,595	2.3%	55,554	55,554	2.9%	\$7.87
	Reisterstown Rd Corridor	55	1,546,682	27,356	1.8%	-2,340	-2,340	4.1%	\$8.78
	Woodlawn/Catonsville	48	1,287,339	111,887	8.7%	-6,171	-6,171	11.8%	\$8.09
Totals	3,001	171,993,016	12,059,114	7.0%	-359,273	-359,273	9.1%	\$5.35	
Industrial Market Totals		4,264	217,844,595	15,367,682	7.1%	-135,063	-135,063	9.5%	\$6.82

HIGHLIGHTS

- McCormick renewed their 252,445 sf Class B warehouse space at 1351 Brass Mill Road (Riverside Business Park) in Belcamp.
- Paragon BioServices signed a lease for 151,200 sf at 7555 Harmans Road (Harmans). The space will be used for a lab and manufacturing facility for gene therapy and vaccines. Paragon is leaving its current space in Baltimore for this new lease.
- Thorlabs Quantum Electronics has renewed its two-building lease in Columbia at 8300 Stayton Drive and 10335 Guilford Road, totaling around 83,740 sf.
- Delsey Luggage opted to renew its space at 6090 Dorsey Road. The company currently leases 186,000 sf.
- Flir Systems renewed its lease at 7055 Troy Hill Drive.
- BTS Biogas LLC has leased space at Oceano Avenue (Maryland Food Center) in Jessup. The lease is for a ten-year term. The firm, based out of Italy, runs a plant that processes natural waste from food (primarily fruits and vegetables) into electricity, natural gas, and fertilizer. This space is in addition to another recycling facility in the area.
- A taproom and brewery called B.C. Brewery opens this April in an industrial park at 10900 Gilroy Road.
- 10000 Franklin Square Drive in White Marsh recently sold to TA Realty (Realty Associates Fund XI Portfolio LP) for \$34.5 million (\$87.90/sf). The space is approximately 392,500 sf of Class A warehouse space, and was 62% leased at the time of sale to Chesapeake Beverage. The property stretches 27 acres and was last sold in 2013 for \$17 million.
- The 81,000 sf light industrial/flex building at 9176 Red Branch Road (Oakland Ridge Industrial Park) was sold in February for \$7.2 million to Feldman Bergin Properties and Fortified Property Group. The building was reportedly fully leased at the time of the sale.



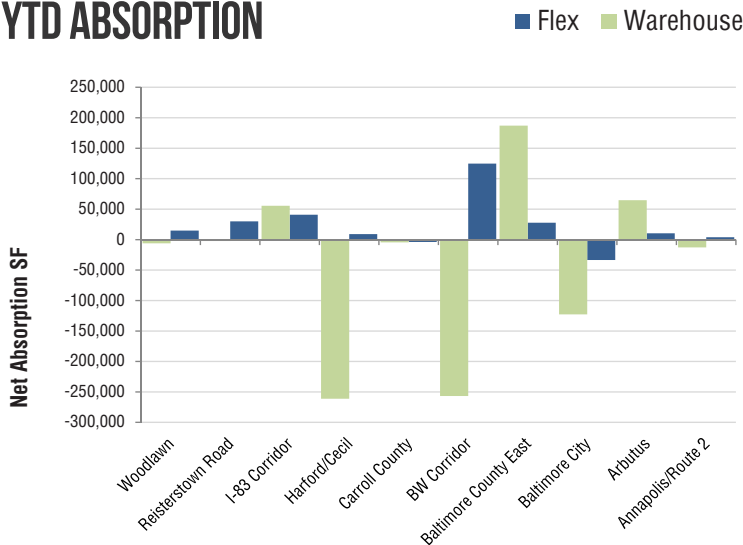
DIRECT VACANCY



Flex Submarkets Remain Strong

Overall this quarter, the industrial market's direct vacant space increased by 884,363 sf, resulting in 7.1% vacancy (an increase of 0.3%) in the total market space. However, the flex market's growth has remained positive, decreasing 1.2% over the past year, and 0.4% this quarter, resulting in an all-time low of 7.2%. The warehouse market, particularly Harford/Cecil Counties, Woodlawn, and Baltimore City, was the source of the slight increase in vacant space. In the past year, Harford/Cecil has increased 2.8%, Woodlawn has increased 7.8%, and Baltimore City increased 1.3%. While this was slightly offset by positive annual changes in Arbutus (-4.1%), Baltimore County East (-4.4%), and Carroll County (-2%), the warehouse market is still experiencing an increase in vacancy that began toward the end of 2017 and which still continues into the beginning of the 2nd Quarter 2018.

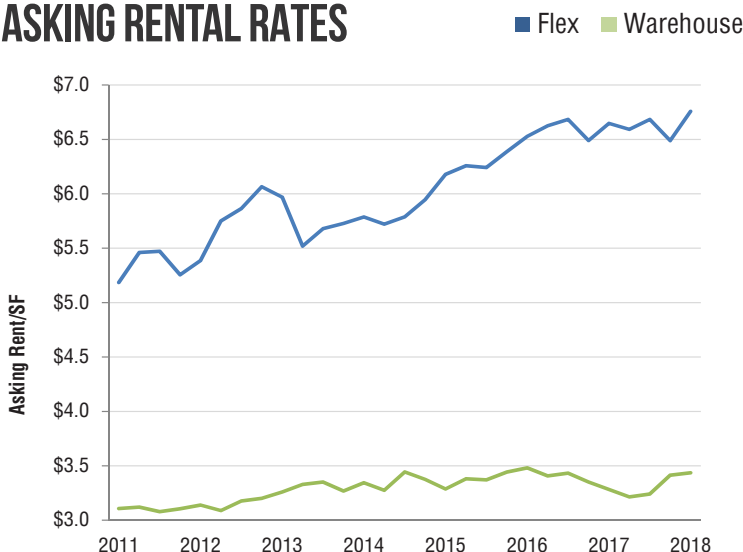
YTD ABSORPTION



Flex vs. Warehouse Absorption Cancels Out

The industrial market's absorption this quarter experienced a minor loss of tenants, averaging a negative 135,063 sf overall. However, this average shows that the flex submarkets' gain of 224,210 sf was cancelled out by the warehouse submarkets' loss of 359,273 sf. The flex market's growth this quarter can be attributed to the BW Corridor, which gained 124,684 sf of tenants, and I-83 Corridor, which gained 40,891 sf. The only major loss can be seen in Baltimore City, which saw a -33,585 sf this quarter. On the other hand, the warehouse submarkets that are struggling the most this quarter are the BW Corridor (-256,632 sf), Harford/Cecil (-261,223 sf), and Baltimore City (-122,729 sf). Positive gains can still be seen in Baltimore County West (+187,016 sf) and Arbutus (+64,630 sf).

ASKING RENTAL RATES



Industrial Space Continues to Cost

Asking rents continue to be some of the most expensive rates that the industrial market has experienced in years. While the tail end of 2017 saw a slight decrease in rates, the 1st Quarter of 2018 bounced back, averaging \$6.82/sf for the market as a whole, \$11.33/sf for the flex submarkets, and \$5.35/sf for the warehouse submarkets. On average, the rates went up approximately \$0.13/sf. However, some notable quarterly changes within the flex submarkets include: Arbutus (-\$4.36/sf), I-83 Corridor (-\$2.16/sf), and Baltimore City (+\$1.41/sf). The best deals can be found in Woodlawn (asking \$8.41/sf) and Arbutus (asking \$8.85/sf). Warehouse submarkets all saw little change this quarter, all fluctuating within \$1.00. Arbutus remains the cheapest submarket for warehouse tenants, asking \$3.61/sf, closely followed by Baltimore City (\$4.80/sf); Reisterstown Road continues to be the most expensive along with Woodlawn, asking \$8.78/sf and \$8.09/sf, respectively.



NOTABLE TRANSACTIONS

Lease

Location	Submarket	Tenant	Amount Leased SF
7555 Harmans Road	BW Corridor	Paragon Bioservices	151,200 sf
3901 Dillon Street	Baltimore City	Ace Logistics	85,704 sf
1212 E 25th Street	Baltimore City	Breaking Chains, Inc.	4,830 sf
2002 Bethel Road	Carroll County	North American Millwright	3,750 sf

Sale

Location	Submarket	Price	PSF	Building Size
10000 Franklin Square Drive	Baltimore County East	\$34,500,000	\$87.90	392,500 sf
9176 Red Branch Road	Columbia	\$7,200,000	\$88.82	81,067 sf
8200 Fischer Road	Baltimore County East	\$4,800,000	\$35.56	135,000 sf
11111 Pepper Road	I-83 Corridor	\$4,382,250	\$149.49	29,315 sf

REPORT CRITERIA

OFFICE:

Buildings 15,000 sf in size and greater in the Metro areas within Anne Arundel County, Baltimore City, Baltimore County, and Howard County, buildings 20,000 sf in size and greater within Baltimore's City Center, buildings 10,000 sf in size and greater in the Metro areas within Harford County, and buildings 5,000 sf in size and greater within Annapolis city limits. MacKenzie includes all class types, but does not track owner occupied buildings or buildings leased exclusively to medical tenants. The office market is separated into the following submarkets: Annapolis, Baltimore City, BWI, Baltimore County East, Baltimore County West, City Center, Columbia, Harford County, I-83 Corridor, Reisterstown Corridor, Route 2 Corridor, and Towson.

INDUSTRIAL:

Flex buildings and some single story office buildings that are greater than 5,000 sf, single story warehouse buildings that are greater than or equal to 5,000 sf, and some multi-story warehouse buildings in Baltimore City. MacKenzie does not track owner occupied buildings. We have classified the properties into 10 submarkets for industrial identified as the following: Annapolis, Arbutus, Baltimore County East, Baltimore City, BW Corridor, Carroll, Harford/Cecil, I-83 Corridor, Reisterstown Road Corridor, and Woodlawn/Catonsville. Flex buildings are limited to properties 5,000 sf and greater, while warehouse buildings are limited to single-story properties. Data does not include under construction or proposed projects.

RETAIL:

Retail buildings greater than or equal to 2,000 sf in Baltimore City and surrounding counties of Baltimore, Howard, Carroll, Harford, Cecil and Anne Arundel. The Baltimore Retail Market resembles a "hub and spoke" configuration, with many of the submarkets following the major roads in and out of Baltimore City. The region is broken down into twelve submarkets; Annapolis, Baltimore City, Baltimore County East, Baltimore County South, Baltimore County West, Carroll County, Columbia, Fort Meade, Harford County (including Cecil County) the Reisterstown Road Corridor, White Marsh/Perry Hall (Baltimore County East), and the York Road Corridor.