



A TALE OF TWO CITIES

Review by: John Schultz, Senior Vice President & Principal

For retail, 2017 seemed like a tale of two cities. One day it's "total store liquidation" for some well know retail brands, and other days we read about new concepts backfilling vacant spaces and new capital infusions or growth mode charges from others. Although times are changing, it is not all "doom and gloom" for the retail industry.

Summarizing an article from *Retail Dive* earlier this quarter, here are some trends that indicate what we can expect to see in real estate for the remainder of 2018:

1. Acquisition fever is heating up

Amazon's purchase of Whole Foods was the talk of the industry last year. With competition as fierce as ever, and retail valuations relatively depressed, we don't expect the frenzied pace of buyouts to slow. In fact, Neil Saunders, managing director of GlobalData, thinks the pace could increase, as retailers "look to both consolidate their positions in the market and embark on new ventures in the digital space."

2. Personalization takes a new form

There are few terms buzzier than "personalization" in retail today and the quest for this holy grail will only accelerate into 2018. In fact, retailers will invest more in personalization efforts this year than any other area of retail, according to Forrester Research.

"Personalization is a bit like the weather — everyone talks about it, but almost no one is really doing anything about it."

And for the first time, retailers are investing in personalizing the physical store, not just the online experience. Personalization has been cited as the No. 1 investment by retailers to Forrester Research for several years, but 2018 marks the first time that survey respondents (72%) said they planned to extend personalization projects to stores.

3. Brick-and-mortar experimentation will increase

It's been a while since brick-and-mortar retail just meant four walls and some product-laden shelves. According to Deborah Weinswig, managing director at Fung Global Retail & Technology, a retail think tank, the idea behind this new breed of retail is to be a resource for the shopper, a new kind of experience. To somehow "get the customer to make the store more a part of her life, to 'live more of her life' there." That also means making sure store associates have the technology they need to better cater to customers — mobile, IoT or otherwise — and we can expect much more of that as we head into 2018, as well.

4. Private label grabs the spotlight

The rise of private label in 2017 was astonishing, with retailers like Amazon and Target standing out in particular for their breadth of new proprietary lines. So why are retailers making such a big push to develop their own brands? A few simple reasons: gross margin dollars, leverage with national brands and exclusivity — all of which have become increasingly necessary priorities. "When they (Target) get a designer to do a line of home goods, it creates an air of cheap chic that frankly, made the Target brand what it is. Other types of commodity items are much more around 'good value.'"

In short, any piece of news about retail can be spun into "begging of the end" or "what apocalypse?" Successful retails need to "fix what is not broken" every year to avoid falling into the trap of just opening the doors and customers will flock. Now that is a dated concept!

RETAIL SNAPSHOT | 1ST QUARTER 2018

3.9%
VACANCY RATE

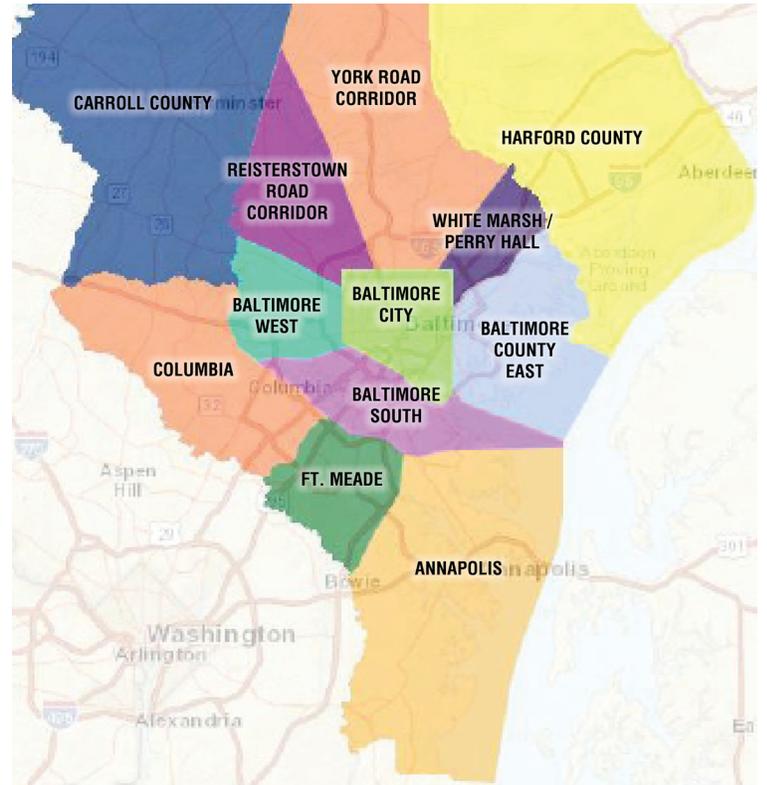
-133,231
YTD ABSORPTION

\$20.32
AVG. RENTAL RATE



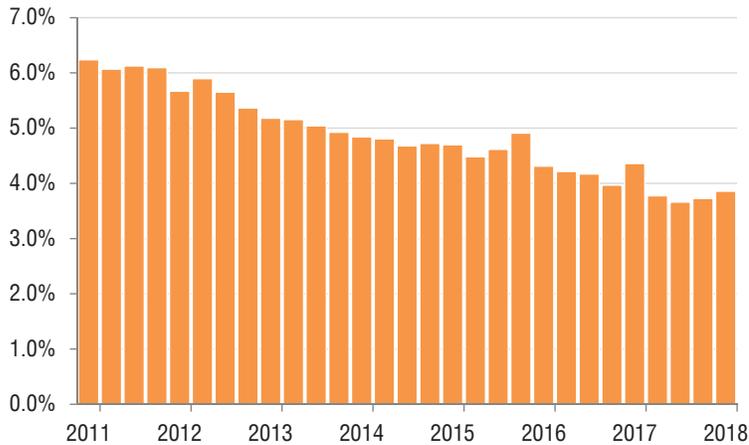
THE NUMBERS

Submarket	Bldgs	Market Size SF	Direct Vacant SF	Direct Vacancy	Absorption		Available SF %	Average Asking Rent
					Current	YTD		
Annapolis	829	13,603,915	449,869	3.3%	-24,677	-24,677	4.6%	\$22.85
Baltimore City	3,457	26,910,049	1,045,375	3.9%	-154,349	-154,349	5.3%	\$22.14
Baltimore County East	713	9,680,022	641,963	6.6%	-8,169	-8,169	7.8%	\$13.93
Baltimore South	644	10,583,053	630,642	6.0%	77,861	77,861	7.1%	\$17.36
Baltimore West	607	10,662,515	311,925	2.9%	12,770	12,770	4.9%	\$19.02
Carroll County	528	8,034,591	295,090	3.7%	25,522	25,522	4.9%	\$16.19
Columbia	427	9,115,501	199,259	2.2%	-14,193	-14,193	3.1%	\$27.64
Ft. Meade	371	8,261,378	277,415	3.4%	-18,406	-18,406	5.6%	\$22.50
Harford County	864	12,026,965	470,694	3.9%	-12,170	-12,170	5.6%	\$19.18
Reisterstown Road Corridor	361	6,030,777	259,644	4.3%	-22,055	-22,055	5.2%	\$22.42
White Marsh / Perry Hall	356	6,212,681	168,737	2.7%	18,948	18,948	4.2%	\$19.59
York Road Corridor	692	13,111,696	426,126	3.2%	-14,313	-14,313	5.7%	\$23.58
Market Totals	9,849	134,233,143	5,176,739	3.9%	-133,231	-133,231	5.4%	\$20.32





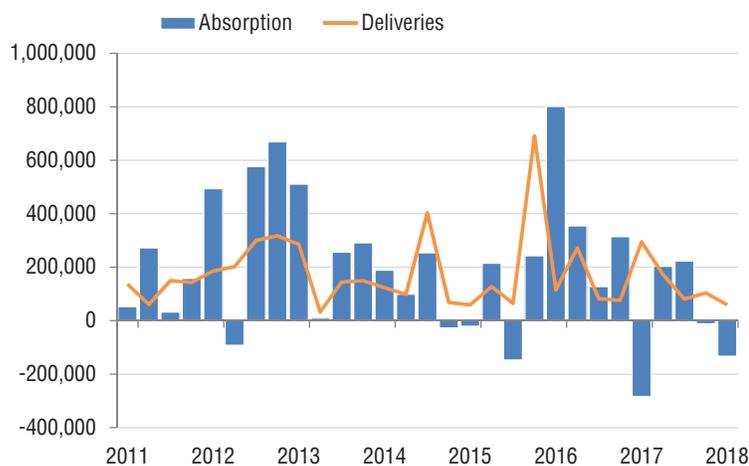
DIRECT VACANCY



Slight Growth in Vacancy

While overall vacancy did increase slightly (+0.1%) this quarter, it still remains one of the lowest numbers the Baltimore Metro has experienced in many years, averaging 3.9% this quarter. The two submarkets that continue to struggle with filling space are Baltimore County East (6.6%) and Baltimore South (6.0%); these submarkets have had the highest vacancies for several consecutive quarters. On the other hand, the healthiest areas can be found in the Columbia submarket, which has an average vacancy of 2.2%, White Marsh/Perry Hall, which is averaging 2.7%, and Baltimore West, averaging 2.9%. While there haven't been many large annual changes, Annapolis did increase their vacancy by 1.1%, while White Marsh/Perry Hall and Carroll County decreased by 1.3% and 1.1%, respectively. Average vacancy has dropped by 0.5% since this time last year.

ABSORPTION



Absorption Losses Across the Market

The Baltimore metro retail market experienced a negative absorption this quarter, losing 133,231 sf of tenants across eight of the twelve submarkets. The most noticeable losses occurred in Baltimore City, which averaged -154,349 sf direct absorption this quarter. Baltimore City was followed by other tenant losses in Annapolis (-24,677 sf), Reisterstown Road Corridor (-22,055 sf), and Ft. Meade (-18,406 sf). However, a few of the submarkets saw increased interest and gained new tenants. Baltimore South's absorption averaged +77,861 sf, while Carroll County experienced +25,522 sf, and White Marsh/Perry Hall had +18,948 sf. Tenant movement should pick up in the next few quarters. Comparatively, 2017's 1st quarter's absorption was -284,003 sf, but later quarters' growth caused this number to even out by year end.

ASKING RENTAL RATES



Rental Rates Begin to Climb

Asking rental rates are experiencing a record high this quarter, averaging \$20.32/sf NNN which is an increase of \$1.56/sf from this time last year, and an increase of \$1.20/sf from last quarter. This change is primarily due to large increases in properties in Baltimore City and White Marsh/Perry Hall, which saw a quarterly increase of \$5.26/sf and \$2.18/sf, respectively. Notable buildings with high asking rates downtown are 1601 Eastern Avenue, 325 W. Lexington Street, and 1706 Fleet Street. In White Marsh/Perry Hall, the Shoppes at Perry Hall and Perry Hall Station are some of the most expensive properties to lease. The most affordable areas to lease can be found in Baltimore County East, asking around \$13.93/sf, and Carroll County, asking an average of \$16.19/sf. On average, the most expensive areas continue to be Columbia (asking \$27.64/sf) and York Road Corridor (asking \$23.58/sf).



NEWS HIGHLIGHTS

- The building permit for a residential condo building at 141 West Street in Annapolis was recently approved. The building will have 24 units and additional 3,000 sf of retail space on the first floor.
- Silver Diner has been granted a building permit and will be Howard County's first official diner at Gateway Overlook Drive in Elkridge.
- Sapwood Cellars, a new brewery in Columbia, has signed a lease for 7,200 sf at 8980 Route 108. They hope to open in June.
- The Steak N Shake at 8100 Veterans Highway in Millersville, sold at auction in January after filing for bankruptcy. The sale price has yet to be publically disclosed, but the cap rate was estimated at 6.75%.
- The Annapolis Restaurant Park on Jennifer Road (off of Route 50) has announced that Uncle Julio's will replace the former Famous Dave's space. The building will be approximately 8,100 sf and will cost approximately \$1.5 million to build, according to the Annapolis Mall Shopping Center's permit.
- Cherry Tree Shopping Center at 11200 Scaggsville Road in Laurel reportedly sold to Citywide Properties for \$7 million (\$151/sf). The retail center is approximately 46,300 sf and reported roughly 20% vacant at the time of sale. Existing tenants include Verizon Wireless, Zip's Cleaners, and Music & Arts.
- An auto dealership at 8528 Baltimore National Pike in Ellicott City sold in February for \$8.5 million to Behrang & Gabriela Doroudian (G&B Real Estate Holdings LLC). The property is approximately 25,173 sf, sits on 4.15 acres of space, and was 100% leased at the time of sale.
- Aldi has leased part of the former Mars space (20,000 sf) at Grand York Plaza in Timonium at the intersection of York and Ridgely Roads. Their current plan is to open in June.
- The Tilted Kilt closed in White Marsh this March. The location will be backfilled by Bar Louie, which plans to open this fall in 7,947 sf of the total Tilted Kilt space, leaving 2,400 sf available for lease.
- Growler USA, a craft beer bar, has leased the space at the Rotunda in Hampden between CineBistro and MOD Pizza. Opening date TBD.
- The Ciao Bella Restaurant at 236 S. High Street sold this past month for \$1.05 million to an investment group.
- Sprouts Farmers Market has reported that their second Maryland location will be in the Towson Shopping Center, and plans to open late 2018.
- IHOP has leased 5,000 sf at 600 E. Pratt Street and will replace the Panera Bread that closed this past summer.

NOTABLE TRANSACTIONS

Lease

Location	Submarket	Tenant	Amount Leased SF
200 Clifton Boulevard	Carroll County	ULTA	11,387 sf
7419 Ritchie Highway	Route 2 Corridor	Mattress & More	11,200 sf
250 Englar Road	Carroll County	Papa Joes	3,690 sf
5000 Sinclair Lane	Baltimore City	Expressions	3,250 sf

Sale

Location	Submarket	Price	PSF	Building Size
8504-8528 Baltimore National Pike	Columbia	\$8,500,000	\$337.66	25,173 sf
4600 Thunder Court	Harford County	\$4,300,000	\$131.79	32,628 sf
7420-7432 E. Furnace Branch Road	Route 2 Corridor	\$3,100,000	\$78.00	39,742 sf
111-115 Main Street	Annapolis	\$2,200,000	\$228.38	9,633 sf