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COMMERCIAL REAL ESTATE SERVICES, LLC

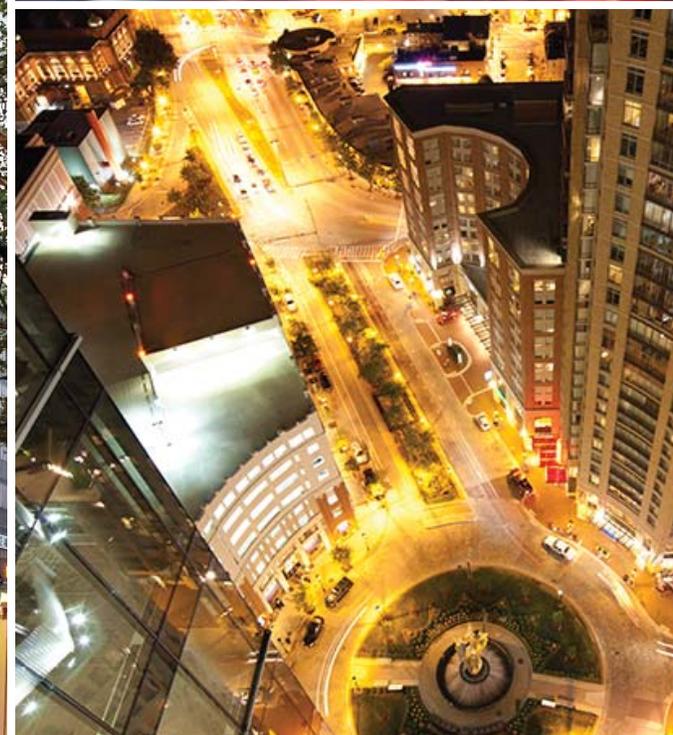


MARKET REPORT



RETAIL MARKET

2ND QUARTER 2016



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BALTIMORE

LUTHERVILLE

ANNAPOLIS

BEL AIR

COLUMBIA

BALTIMORE RETAIL OVERVIEW

SECOND QUARTER | 2016

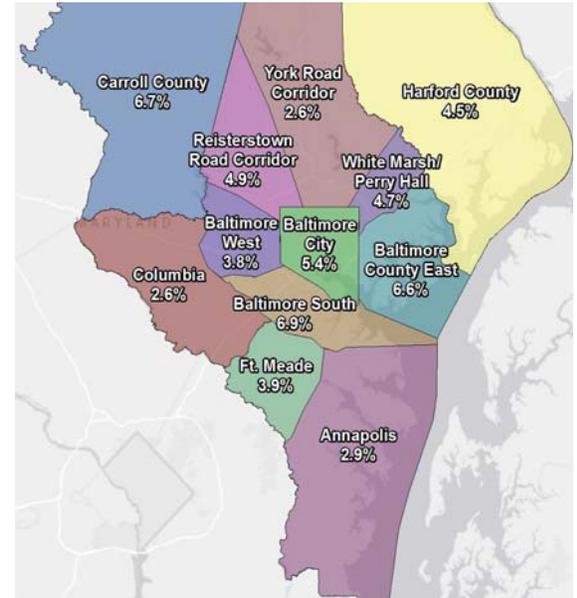


Grocery Market War Begins

Presented by Tom Fidler, Executive Vice President/Principal

What a difference 90 days makes. The recent announcement by Weis Markets, based in Sunbury, PA with 162 stores throughout MD, PA, NJ, and WV, to acquire 38 Food Lion locations and an additional five existing Mars stores; the closure of all other Mars locations totaling eight units; the ongoing efforts by Lidl Corporation to enter the Mid-Atlantic market; the continued expansion of Harris Teeter's pipeline for new store development; and, the acquisition of Food Lion by Ahold (Giant Foods); the battle for market share and brand dominance in the local market is underway. These events are significant to the changing landscape of the community grocer market. It is likely that the stars aligned perfectly for Weis Markets. The maturity of the local Baltimore DMA, lack of new potential sites for development, and the growing development costs for commercial properties, it became virtually impossible to make a new store, ground up construction, affordable and profitable. The complexity of the population and the lack luster demographic growth are factors that make the need for brand growth and store expansion almost a stalled discussion upon arrival. Then, Food Lion becomes a target for Giant Foods, and then the opportunity becomes a reality for Weis Markets. Most importantly, Weis' cost of entry into new markets is likely to be substantially less than other competing grocery store chains; they are buying the Food Lion leases, fixtures, equipment, etc. for a fraction of what it would cost to build new. That will create a wave throughout the local industry. Other grocery providers will need to sharpen their pencils on marketing campaigns, sales promotions, and service performance. Who benefits the most? The consumer. Once the conversions begin, we expect the price wars to begin, and the battle for customers to commence. More favorable to the real estate market, the growth of Weis Markets and entry into new markets will certainly be positive. The immediate absorption of these anchor spaces has certainly provided developers and property owners with a sigh of relief. The last thing the local market needed was a dramatic increase in the amount of vacancy of numerous anchor-box locations.

HISTORICAL VACANCY RATES



Local Food Matters

During the 2nd Quarter of 2016, we continued to see the proliferation of quick serve restaurants (QSR's), fast food, and full-service restaurants. The dynamics and diversity of the new offerings is exciting. We expect another strong year in the leasing market for new retail centers, or retail opportunities for food uses, with projected deal activity to reach 70% of all retail leasing in 2016. Deal structures are becoming expensive and expansive with developers now seeing the need to increase their scope of work to include many of the critical infrastructure items for a food user – increased HVAC capacity, electric service, installation of grease traps for tenant use, and heightened design elements on exterior facades. What was once the norm, and rather minimal work scope, has become outdated and antiquated. Tenant improvement allowances are on the increase as well. Developers are having to fund more dollars per square foot and provide offsets if needed. Most important to the local real estate market, in a positive light, is the fact that the majority of the prospects are local and regional concepts, with proven success, and a track record of strong, local support. Consumers, and the larger world of "Foodies," are embracing this growth. The consumer market is showing a stronger tendency towards local concepts and providing brand loyalty. We expect Baltimore to continue its path towards becoming a well-recognized community market of great neighborhood food venues and concepts, that are unique, diverse, eclectic, and affordable.

QUICK STATS



Average vacancy remained flat from the 1st Quarter to the 2nd Quarter, decreasing by a mere 0.05%. This 4.54% rate is 0.34% less than the same quarter the prior year.



Absorption remained positive during the 2nd Quarter bringing the year-to-date total to just over 344,000 sf.



For the past year, rental rates have fluctuated on average a mere \$0.25/sf. This quarter's rate is an increase from the 1st Quarter rate of \$18.58/sf.

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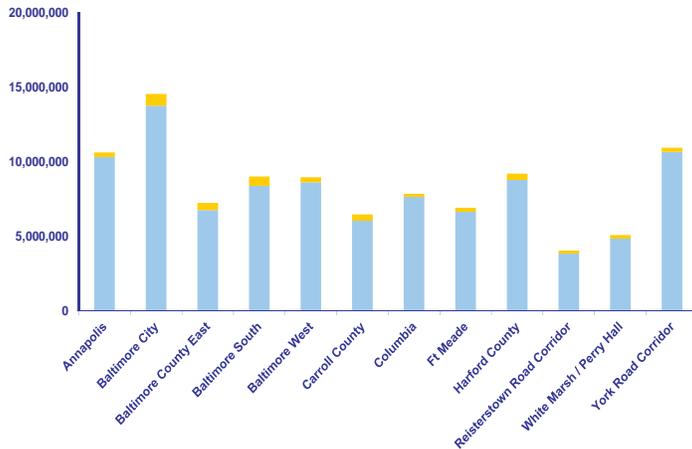
BALTIMORE RETAIL OVERVIEW

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ABSORPTION/VACANCY RATES

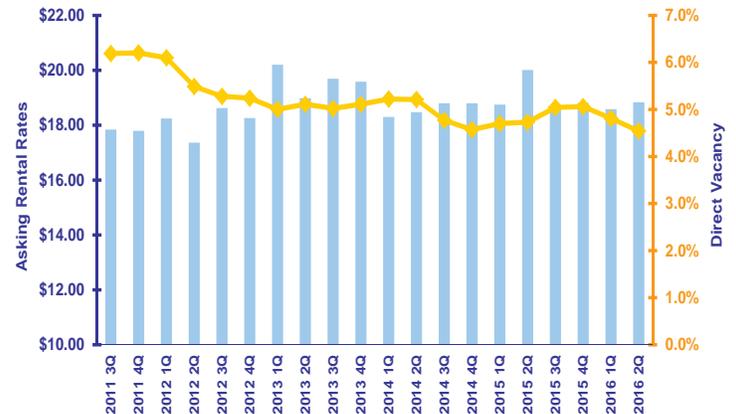
■ Vacant
■ Occupied



Overall vacancy for the Baltimore Metropolitan Retail Market was 4.54%. The York Road Corridor, Columbia, and Annapolis submarkets remain the tightest all with vacancies under 3%; 2.57%, 2.64%, and 2.95%, respectively. Despite Carroll County's negative absorption of 107,569 sf and Baltimore South's negative 56,793 sf, overall absorption for the market remained positive with 45,949 sf absorbed.

RENTAL RATE/VACANCY RATES

■ Vacancy Rates %
■ Rental Rates



Overall average rental rates increased by a mere \$0.25/sf during the 2nd Quarter. One notable change occurred in the Columbia submarket, an increase of \$1.31/sf for a rate of \$25.93/sf, positioning the submarket with the highest average rental rate. The best deals can be found in the White Marsh/Perry Hall submarket, \$14.19/sf, followed by Baltimore County East at \$14.67/sf.

HIGHLIGHTS

- Former Shoo-fly space at Baltimore's iconic Belvedere Square, is slated to debut as The Starlite Diner by the end of August. The new project, spearheaded by former Red Maple owner Leonard Clarke, will be a family-friendly spot to enjoy comfort food, weekend brunch, and local craft beer.
- Weis Markets announced plans to purchase five Mars Super Market stores in Baltimore County, MD, including two in Dundalk and individual units in Essex, Arbutus and Carney. Weis Markets intends to complete the purchase in late July.
- Modern Cook Shop, a market, restaurant, bakery and cocktail bar from the owners of Fork & Wrench opened inside Bozzuto's Union Wharf Apartments. The 4,432 sf Modern Cook Shop will have enough seating for 150, with outdoor tables, and eventually offer room service for residents of the 281-unit complex.
- The owners of one of Howard County's most popular restaurants, Victoria Gastro Pub, announced they will open a new restaurant in a prime downtown Ellicott City spot. Manor Hill Tavern will replace The Diamondback Tavern at 3747 Old Columbia Pike.
- Eggspectation opened its inaugural location in Baltimore County at Metro Centre at Owings Mills. Eggspectation joined Times Square Kitchen, Fractured Prune and Subway as part of the first wave of restaurants to open at Metro Centre.
- Hampden's iconic restaurant, The Food Market, selected Quarry Lake at Greenspring as the site of its second restaurant location and first in Baltimore County.
- General Growth Properties Inc. listed the Gallery at Harborplace for sale. The waterfront property at Pratt and Calvert streets consists of a total of 431,918 square feet. The Gallery at Harborplace is on the market, along with the office tower and parking. The Renaissance Hotel, also a part of the complex, is not included in the sales package.
- 26,000 sf of retail space has been leased in Greenebaum Enterprises' newest retail component at Maple Lawn. Delivered in three brand new buildings, Greenebaum has signed two new restaurants and a nail salon. Bliss Nails opens in July, with seafood restaurant Hudson Coastal and Steel Fire Grill both to follow in the fall.

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BALTIMORE RETAIL OVERVIEW

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NOTABLE TRANSACTIONS

Lease

Location	Submarket	Tenant	Amount Leased SF
8035-8067 Liberty Road	Baltimore County West	Alko Clothing & Shoe Outlet	20,104 sf
6612 Baltimore National Pike	Baltimore County West	Cozi Furniture	14,700 sf
5237-5275 Campbell Boulevard	Baltimore County East	Massage Envy Spa	4,200 sf
3400-3450 Annapolis Road	BWI	Chick Fresh A	3,740 sf
2620-2638 Quarry Lake Drive	Reisterstown Rd Corridor	La Food Market	3,479 sf
2341 Forest Drive	Annapolis	MOD Pizza	3,000 sf
3113 Saint Paul Street	Baltimore City Midtown	Kong Fu Tea	2,800 sf
11815 W. Market Place	Columbia	Bliss Nails & Spa	2,523 sf
41-83 Shipping Place	Baltimore County East	Full House Pizza	2,083 sf
2103-2159 W. Patapsco Avenue	Baltimore Southwest	Little Caesars	1,920 sf
574 Ritchie Highway	Route 2 Corridor	Firehouse Subs	1,800 sf

Sale

Location	Submarket	Price	PSF	Building Size SF
110 Compromise Street	Annapolis	\$4,150,000	11,158 sf	\$371.93
14 Bel Air South Parkway	Harford County	\$2,056,391	6,090 sf	\$337.67
47 Randall Street	Annapolis	\$1,800,000	7,128 sf	\$252.53
996 Corporate Boulevard	BWI	\$1,432,316	6,330 sf	\$226.27
4110 Wholesale Club Drive	Baltimore County East	\$1,325,353	6,758 sf	\$196.12
170 Main Street	Annapolis	\$1,175,000	4,040 sf	\$290.84
4047-4057 North Point Road	Baltimore County East	\$850,000	6,000 sf	\$141.67

Number of Buildings 2,346

Market Size 100,988,442 sf

Criteria: 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.

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