



MACKENZIE

COMMERCIAL REAL ESTATE SERVICES, LLC



MARKET REPORT



RETAIL MARKET

4TH QUARTER 2015



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BALTIMORE

LUTHERVILLE

ANNAPOLIS

BEL AIR

COLUMBIA

BALTIMORE RETAIL OVERVIEW

FOURTH QUARTER | 2015



Today's Retail Market

Presented by Joe Mekulski, Real Estate Advisor

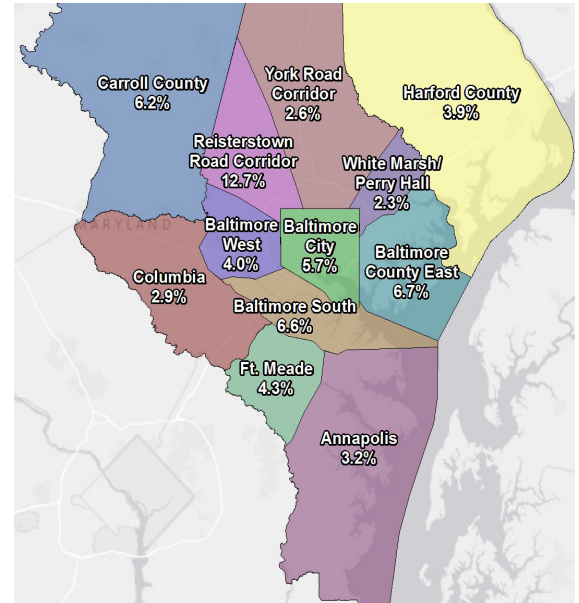
Now Trending. The continuing trend for the Baltimore retail market is growth driven by the reurbanization of key realms of Baltimore City and the major arteries of Towson, Owings Mills, and the 95 Corridor. As job prospects continued to improve in 2015 for every demographic group across the country, the demand for additional housing, particularly among Millennials who have reluctantly left the nest, has intensified. The surge in development in Baltimore City has certainly catered to the Millennial crowd that demands not only affordable and convenient housing, but also entertainment, dining, and lifestyle retail options at their doorstep. The "Live, Work, Play" trend that has developed both downtown and in the denser areas of the suburbs will continue to burgeon these attractive markets.

When asked how the "Live, Work, Play" trend will continue to affect the retail market in Baltimore and surrounding areas, Tom Fidler, Executive Vice President at MacKenzie Retail, responded, "while the real estate community had been expecting dramatic investment in multi-family and supporting retail to make up for lack of construction in the years following the recession, what was not expected was the continued lack of wage growth throughout 2015 has stifled middle class demand." This was evident in 2015 with the recorded sales growth among retailers that are on opposite ends of the price point spectrum – DollarTree, Ross Dress for Less, Marshalls, Nordstrom, and Bloomingdales. It is even visible in the restaurant categories with strong sales growth in pricey quick-serve concepts such as Panera Bread, Chipotle, and Starbucks, versus middle America casual dining chains like Applebee's, Ruby Tuesdays, and TGIFridays. Mr. Fidler went on to say, "this has created a 'haves and have-nots' oriented market amongst retailers." Specifically, Mr. Fidler mentioned that companies catering towards consumers seeking luxury products as well as companies targeting towards lower middle class consumers will continue to make more gains in 2016 as the market shows no signs of retracting from this trend.

Store vs. Online. Brick and mortar retail will face its most precarious assault yet from the rapidly growing online platforms that consumers are depending on for their shopping needs. The recent announcement of Amazon's one-hour delivery service in Baltimore is perhaps the biggest sign of the acceleration towards online platforms. Though, online retail sales make up only a small fraction of total retail spending, as shown in the chart to the right, web influenced sales are approaching the same level as brick and mortar sales.

Wage Growth Needed. The Baltimore area continues to experience lackluster wage growth which drives any increase in retail sales, above and beyond the needs of a consumer. The reduction in gasoline prices has certainly helped some buyer categories, but, wage growth would be the larger catalyst needed to position the area for changes of any impact. Demand for food will continue to fuel modest rental rate growth in specific markets, while less attractive, less accessible retail properties in sluggish communities will likely remain vacant or at rents below fair market values. Retail product development and growth are continuing to be driven by local density, area expenditures for certain use categories, and area co-tenancy which support overall strength of a retailer and their success.

HISTORICAL VACANCY RATES



QUICK STATS



Vacancy remained steady, decreasing slightly by 0.20% in the past quarter, from 5.04% in the 3rd Quarter to 4.84% in the 4th Quarter.



Absorption has seen a large increase from negative 126,073 in the 3rd Quarter to 172,346 in the 4th Quarter. This was a significant turn from the steady negative absorption throughout 2015.



Rental rates only increased by \$0.06/ft over the last year since the 1st Quarter. The consistency can be seen in the \$0.01/ft change from 4th Quarter 2014.

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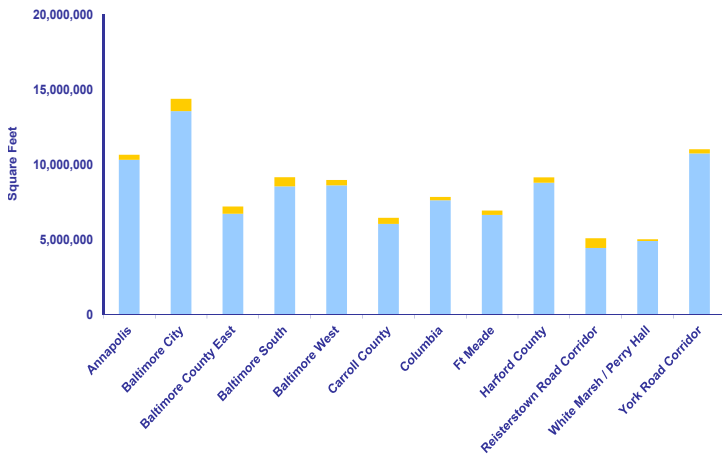
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ABSORPTION/VACANCY RATES

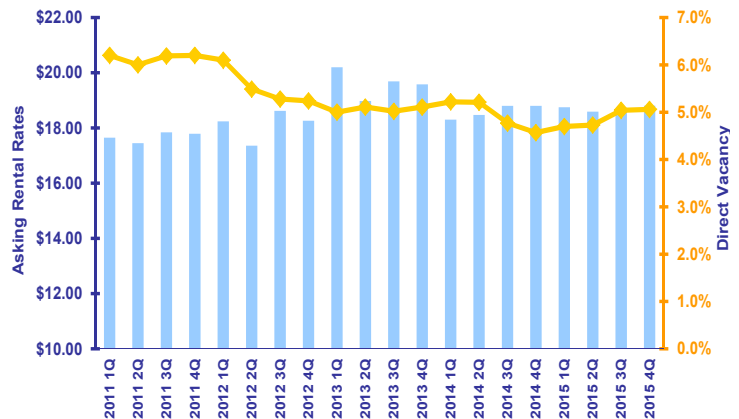
■ Vacant
■ Occupied



While vacancy has increased by 0.27% from 4th Quarter 2014, it did decrease from 5.05% in the 3rd Quarter 2015 to 4.84% in the 4th Quarter. The market is currently lead by White Marsh/Perry Hall, which had an average direct vacancy of 2.34%. Other strong markets include York Road Corridor (2.60%), Columbia (2.91%), and Annapolis (3.17%). The increase in absorption was primarily split between two strong markets: Annapolis (84,329 sf) and Baltimore West (88,200 sf). Although Carroll County saw a large decrease of negative 68,510 sf, the other markets' absorption balanced the average of 172,346 sf.

RENTAL RATE/VACANCY RATES

■ Vacancy Rates %
■ Rental Rates



Rental rates in the Baltimore Metro Retail Market have remained steady throughout the past year, ending with an average of \$18.81/sf by the 4th Quarter. From the 3rd Quarter to the 4th Quarter, rates increased by \$0.13 going from \$18.68/sf to \$18.81/sf. Baltimore County East represents the lowest asking rates of \$14.47/sf, a decrease in \$0.61 from last quarter. Columbia has consistently maintained the highest rental rate in the market, starting the year at \$24.28/sf and ending 2015 at \$24.50/sf. Columbia is closely followed by Annapolis (\$22.95/sf), Baltimore West (\$20.91/sf), and Ft. Meade (\$20.78/sf).

HIGHLIGHTS

- Towson Commons Retail LLC, a joint venture between Maryland Financial Investors (MFI) and Woodmont Properties, bought the entire ground floor (roughly 115,000 sf) of Towson Commons in November and plan to announce retail plans for the space by the end of 2016.
- Cooper's Hawk, winery and restaurant, signed a lease for over 9,773 sf at Annapolis Towne Centre. They will place a market/retail store on the first floor and eating and drinking on the second floor.
- Trader Joe's has announced they are moving from their Towson Circle location to The Shops at Kenilworth sometime in 2017. The new store is around 12,400 sf with 750 parking spaces, which is an upgrade from their current location with the addition of 600 parking spaces and 500 sf.
- Captain's Club, a Martha's Vinyard-based retailer, has signed a 2,580 sf lease at 168 Main Street in Annapolis.
- Nacho Mamas announced plans for a 6,700 sf second location in downtown Towson.
- Retail Properties of America Inc. has purchased Towson Square for \$40.5 million. Towson Square already includes a movie theater and several restaurants including Bobby's Burger Palace, BJ's Restaurant and Brewhouse, and Bonefish Grill.
- The Orioles Pub at the Club (the Center Club) held its grand opening celebration. The Orioles Pub has taken over the former Grill Room on the Center Club's 16th floor.
- FoodPlenty Restaurant, which is a spinoff of the Victoria Gastro Pub, has entered into a project off of Route 108 for an 8,000 sf space. The entire project broke ground in October and will include around 40,000 sf of retail space.
- 9021 Snowden Square Drive was sold to GM Staten Island 2 LLC for \$6.62 million. The property is around 15,000 sf and will house several retail tenants.
- Yardhouse, home to more than 100 beers, is heading to Harborplace's Light Street Pavilion. This is the groups first Maryland location.

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NOTABLE TRANSACTIONS

Lease

Location	Submarket	Tenant	Amount Leased SF
3414 Merchant Boulevard	Harford County	Ocean City Brewing Company	10,547 sf
901 W 36th Street	Baltimore City North	Hampden Tavern	11,250 sf
1438 Liberty Road	Carroll County	Dollar Tree	8,400 sf
116 W. University Parkway	Baltimore City North	Cypriana	5,900 sf
3501 Boston Street	Baltimore City	Iron Rooster	5,500 sf
4009 North Point Boulevard	Baltimore County East	Express Care Urgent Care Centers	5,331 sf
9633-9645 Belair Road	Baltimore County East	Bank of America	3,000 sf
55 Market Place	City Center	Chicken Rico	2,800 sf
3410 Plum Tree Drive	Baltimore County West	Lax World	2,786 sf
541-C Baltimore Annapolis Boulevard	Annapolis	Kirsten's Cakery	2,300 sf
2145-2147 York Road	I-83 Corridor	Game Stop	1,685 sf

Sale

Location	Submarket	Price	PSF	Building Size SF
1519 - 1525 Rockspring Road	Harford County	\$16,500,000.00	\$289.57	59,981 sf
12518 Eastern Avenue	Baltimore County East	\$2,172,477.00	\$217.25	10,000 sf
2120 Baldwin Avenue	Annapolis	\$2,030,000.00	\$86.45	23,481 sf
17 Annapolis Street	Annapolis	\$625,000.00	\$228.44	2,736 sf
8081 Main Street	Columbia	\$550,000.00	\$196.57	2,798 sf
4115 Norrisville Road	Harford/Cecil County	\$365,000.00	\$119.40	3,057 sf
6732 Holabird Avenue	Baltimore County East	\$230,000.00	\$208.52	1,103 sf

Number of Buildings 2,337

Market Size 101,846,643 sf

Criteria: The Baltimore Retail Market resemble 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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