

FIGURES | BALTIMORE INDUSTRIAL | Q2 2023

# Industrial Activity Normalizing from a Peak

▲ 5.5%

Vacancy Rate

▼ 209,014

SF Net Absorption

▲ 4.8M

SF Under Construction

▲ \$9.64

Average Net Asking Rate

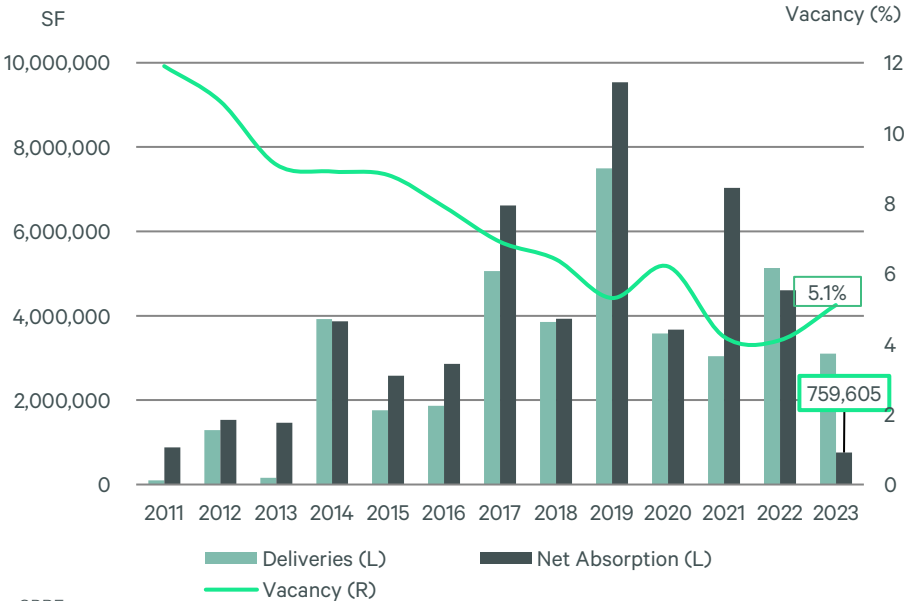
Note: Arrows indicate change from previous quarter.

Economic uncertainty continues to slow activity in industrial markets across the country. Tenants and landlords alike face numerous challenges to their businesses leading to a deepening divide in sentiment about the future of the market. Industrial developers are facing many obstacles to seeing returns on their investments, including shifting underwriting assumptions, waning tenant demand, and lingering material delays. The U.S. industrial market delivered nearly 90 million sq. ft. of vacant supply in the first quarter of 2023 indicating that we may be at a crossroads from the abundant levels of activity recorded during the pandemic.

Despite challenges, the Baltimore industrial market remains a bright spot in the Mid-Atlantic. The market recorded 209,014 sq. ft. of positive absorption during the quarter, bringing year-to-date totals to 759,605 sq. ft. of occupancy gain. Even with relatively low absorption numbers, vacancy increased just 10 basis points (bps) over the prior quarter to 5.5%. The new product totaled just 372,060 sq. ft. but was 42% preleased overall. While the vacancy rate has only seen a slight decrease this quarter, it is still near historic lows and can be viewed as a “return to normalcy” after the robust market activity recorded in 2020 and 2021.

Tenants signed leases totaling 3.9 million sq. ft. during the quarter, marking the highest level of leasing activity since Q1 2022. Overall, industrial leasing totaled 6.3 million sq. ft. during the first half of 2023.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

## Sector Snapshot

### Wholesale

During the second quarter, four wholesale tenants signed leases totaling 2.6 million sq. ft. Floor and Décor signed the largest lease of the quarter to set up its new 1.3 million sq. ft. distribution facility at Tradepoint Atlantic. This is the second million-plus sq. ft facility Floor and Décor has leased at Tradepoint Atlantic, doubling down on its enormous investment in Baltimore and the Mid-Atlantic region. Altogether, wholesale tenants accounted for 48% of gross leasing activity in the Baltimore market during the second quarter.

### 3PL

The past 24 months of cost fluctuations and supply chain disruptions thrust third-party logistics (3PLs) companies into the spotlight. As transportation costs have continued to surge, 3PLs have captured demand from retailers and wholesalers looking to mitigate inventory challenges. In 2022, CBRE predicted that 3PLs would comprise upwards of 35% of all gross leasing activity across the country.

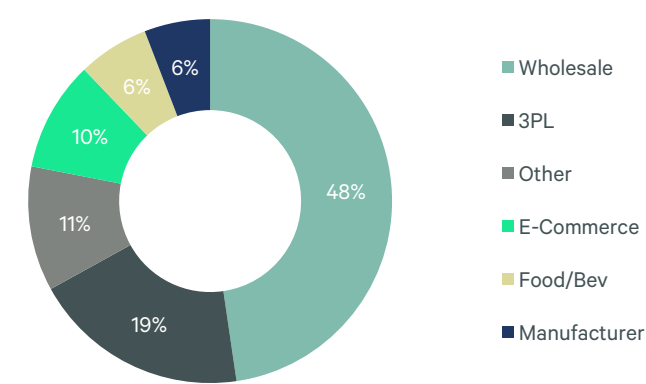
While tenant demand has slowed across all sectors, 3PLs remain active in all size ranges. This quarter, Ace Logistics filled the largest vacancy in the Baltimore metro, signing a 15-year lease at Tower Logistics in Harford County.

FIGURE 2: Select Notable Q2 2023 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF
Floor and Décor	Wholesale	Logistics Center XIII	Baltimore County East	New Lease	1,321,240
Ace Logistics	3PL	1225 S Philadelphia Rd	Harford/Cecil County	New Lease	860,000
Electrolux	Wholesale	521 Chelsea Rd	Harford/Cecil County	Renewal	692,000
Restoration Hardware	Wholesale	1 Principio Pkwy: Bldg C-1	Harford/Cecil County	New Lease	593,520
Ancora Warehousing	3PL	8416 Kelso Dr	Baltimore County East	Sublease	232,427
Main Street Market	Food and Bev	1747 E Patapsco Ave	Baltimore City	New Lease	104,167
Empire Today, LLC	Wholesale	1879 Lamonte Ave	Baltimore/ Washington Corridor	Renewal	62,400
Advanced Relocation Services	Other	1305 Continental Dr	Harford/Cecil County	New Lease	60,000

Source: CBRE

FIGURE 3: Q2 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: 2023 Typical Logistics Costs P&L Line Items



\* Includes rent. \*\* Includes payroll.

Source: CBRE

## Development Activity

Two properties totaling 372,060 sq. ft. delivered in Baltimore during the second quarter. Of note, 1003 Konica Dr delivered with a 58.6% prelease rate.

Numerous development projects across the metro have faced challenges in the development cycle, causing many delivery dates to be delayed. While only two delivered this quarter, five projects totaling 2.2 million sq. ft. are expected to deliver in Baltimore by the end of 2023.

## Pricing

After two years of blistering rent growth, asking rents during the second quarter remained relatively flat across Baltimore. Arguably unsustainable rent growth occurred throughout the pandemic, and now in the face of heightened economic turmoil, rent negotiations are beleaguered by a difference in tenant and landlord sentiment on pricing. Landlords are still bullish on the value of industrial space and continue to push rents, while tenants face tighter financial scrutiny.

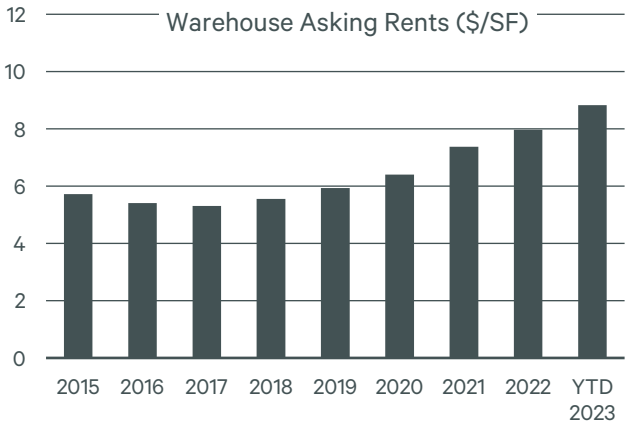
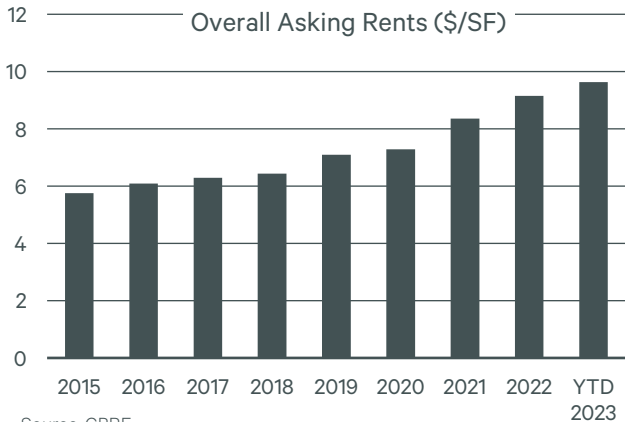
Rents have increased marginally (1%) from the prior quarter to \$9.64 per sq. ft. on a triple-net basis. Rental rates increase moving south from Harford/Cecil county to the Baltimore-Washington Corridor (BWC), which posted the highest rents this quarter at \$12.50 per sq. ft. The BWC, along with the Baltimore Southwest submarket posted the highest rent growth quarter-over-quarter at \$0.75 each.

FIGURE 5: Development Pipeline

Address	Submarket	SF	Expected Delivery	Developer(s)
Logistics Center XIII	Baltimore County East	1,321,240	24-Oct	TPA
Bainbridge B	Harford/Cecil	1,026,000	23-Jul	MRP/Hillwood
Bainbridge C	Harford/Cecil	605,280	23-Jul	MRP/Hillwood
Principio C1	Harford/Cecil	593,520	24-Apr	Stewart Properties
1701 E Patapsco Ave	Baltimore City	241,000	23-Dec	NorthPoint Development
6709 Pulaski Hwy	Baltimore City	222,400	23-Aug	Obrecht Properties
1955 Sparrows Point Blvd	Baltimore County East	204,000	24-Jan	TPA
Principio C2	Harford/Cecil	200,100	24-Apr	Stewart Properties
350 Old Bay Ln	Harford/Cecil	157,350	24-Jun	SK Realty
1600 E Patapsco Ave	Baltimore City	151,721	23-Nov	NorthPoint Development
Eastgate Expansion	Harford/Cecil	100,000	24-Jan	Prudential / MRP

Source: CBRE

FIGURE 6: Historical Rent Growth (\$/SF)



## Economic Outlook

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth. Tighter credit conditions are also likely to catch up with America’s small and medium sized industries (restaurants, cafes) in the service sector in the next two quarters.

Perhaps the key question is: Will inflation slow fast enough to avert further rate hikes? CBRE’s baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long expected slowdown in the U.S. economy is still on track, but will start in earnest at the end of Q3 and last through the end of Q1 2024 by which time, inflation will have slowed up, and rates will be falling.

FIGURE 7: Employment Growth by Industry, 12-Month Percent Change

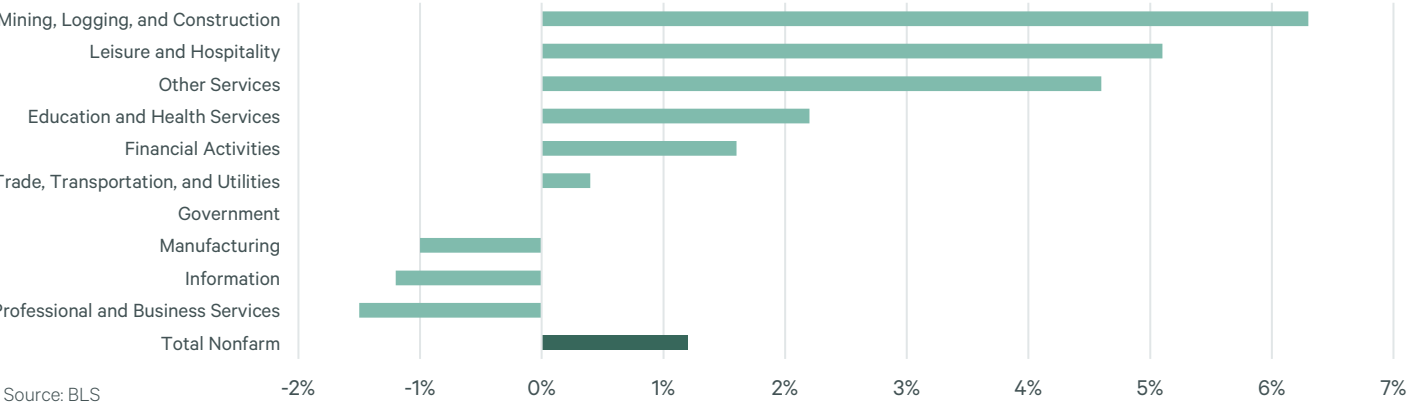


FIGURE 8: Unemployment Rate

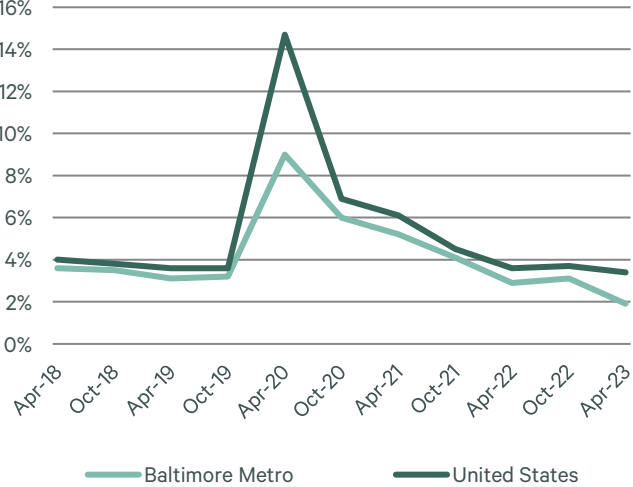


FIGURE 9: Consumer Price Index, 12-Month Percent Change

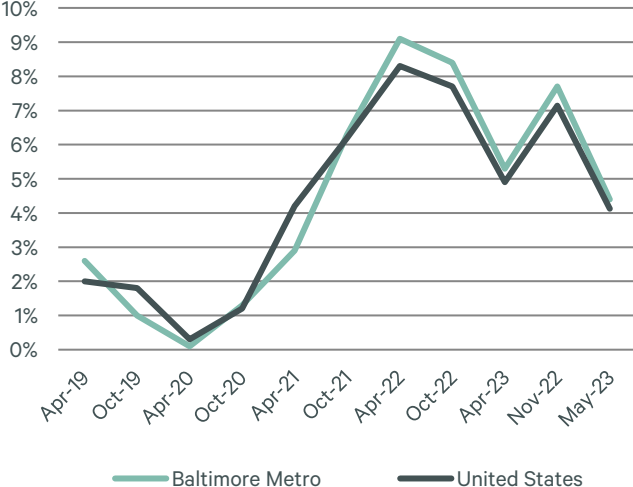


FIGURE 10: Key Market Statistics

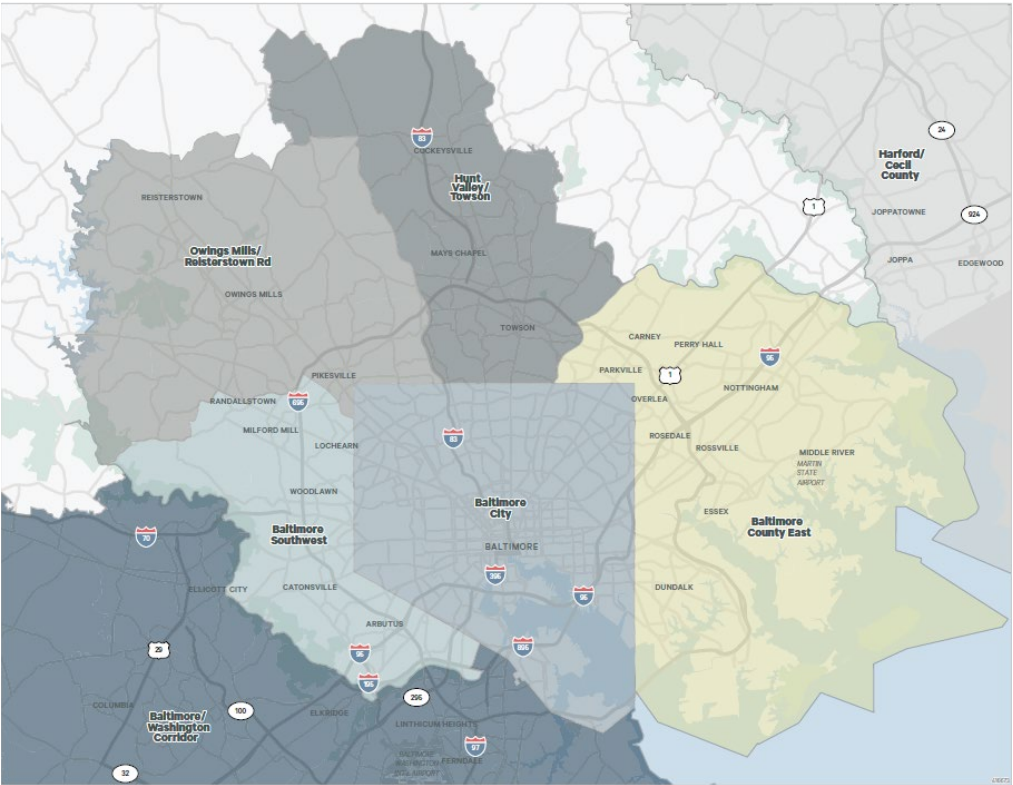
Warehouse	Inventory (SF)	Overall Vacancy Rate (%)	Q2 Net Absorption (SF)	YTD Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Annapolis	498,012	5.8%	6,300	(28,650)	\$10.68	-
Baltimore City	29,426,847	3.1%	284,761	445,366	\$7.92	615,121
Baltimore County East	28,056,193	3.9%	(93,920)	32,634	\$8.09	1,525,240
Baltimore Southwest	7,908,834	10.6%	(207,283)	(256,714)	\$11.50	-
Balt/Washington Corridor	49,514,401	4.1%	(402,790)	(596,421)	\$12.50	-
Harford/Cecil County	37,284,068	7.9%	616,332	875,610	\$7.21	2,682,250
Hunt Valley/Towson	3,216,649	6.4%	74,947	74,947	\$8.76	-
Owings Mills/Reisterstown Rd	961,948	0.3%	15,970	12,630	\$12.50	-
Total	156,866,952	5.1%	294,317	559,402	\$8.89	4,822,611

Flex	Inventory (SF)	Overall Vacancy Rate (%)	Q2 Net Absorption (SF)	YTD Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Annapolis	1,130,307	10.1%	(50,641)	(38,762)	\$16.90	-
Baltimore City	2,528,816	6.7%	(4,879)	17,830	\$7.55	-
Baltimore County East	2,581,799	8.1%	(23,492)	73,995	\$8.28	-
Baltimore Southwest	3,264,392	11.9%	15,906	(22,192)	\$12.30	-
Balt/Washington Corridor	16,242,116	6.2%	(23,208)	68,518	\$13.86	-
Harford/Cecil County	2,076,849	4.9%	14,324	24,650	\$9.08	-
Hunt Valley/Towson	3,653,062	5.6%	(23,334)	75,938	\$10.55	-
Owings Mills/Reisterstown Rd	1,781,852	12.5%	10,021	226	\$11.23	-
Total	33,259,193	7.3%	(85,303)	200,203	\$12.00	-

FIGURE 10 (Continued): Key Market Statistics

Overall	Inventory (SF)	Overall Vacancy Rate (%)	Q2 Net Absorption (SF)	YTD Net Absorption (SF)	NNN Asking Rent (\$/SF)	Under Construction (SF)
Annapolis	1,628,319	8.8%	(44,341)	(67,412)	\$14.61	-
Baltimore City	31,955,663	3.4%	279,882	463,196	\$7.84	615,121
Baltimore County East	30,637,992	4.2%	(117,412)	106,629	\$8.12	1,525,240
Baltimore Southwest	11,173,226	11%	(191,377)	(278,906)	\$10.87	-
Balt/Washington Corridor	65,756,517	4.6%	(425,998)	(527,903)	\$11.33	-
Harford/Cecil County	39,360,917	7.7%	630,656	900,260	\$7.30	2,682,250
Hunt Valley/Towson	6,869,711	6.0%	51,613	150,885	\$9.49	-
Owings Mills/Reisterstown Rd	2,743,800	8.2%	25,991	12,856	\$11.24	-
Total	190,126,145	5.5%	209,014	759,605	\$9.64	4,822,611

Source: CBRE



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