Bridge Collapse Creates Uncertainty Following Stable First Quarter

▲ 7.4%
Vacancy Rate

▼ 165,834
SF Net Absorption

▼ 3.6M
SF Under Construction

▲ $10.39
Average NNN Asking Rate

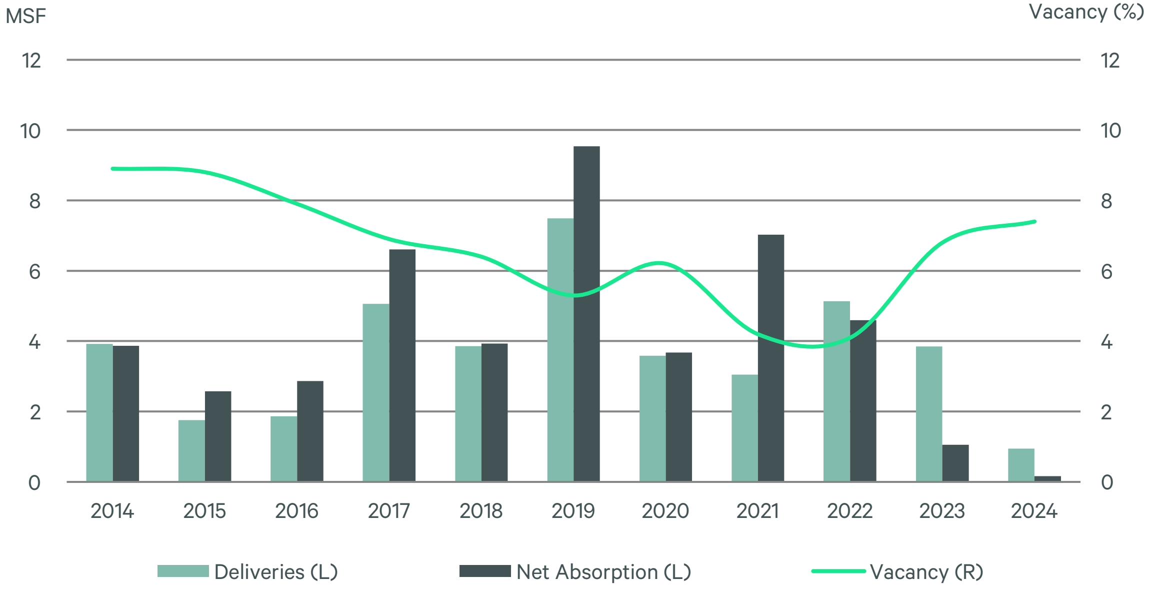
Note: Arrows indicate change from previous quarter.

On March 26, 2024, a large container ship struck the Francis Scott Key Bridge, causing a collapse. While many elements related to clean-up, timing, and Port activity are speculative right now, clarity is expected soon. CBRE Mid-Atlantic Research recently released a report summarizing Baltimore's Francis Scott Key Bridge Collapse and will continue to update with new insights into short-term and long-term effects.

The vacancy rate increased by 40 basis points quarter-over-quarter, mostly driven by the Baltimore/Washington Corridor (BWC) recording 635,000 sq. ft. of occupancy loss, 90% of which can be attributed to two bulk, class B move-outs. However, with the delivery of 745,000 sq. ft. of fully preleased space, as well as strong fundamentals from the I-95 North submarkets, absorption is positive for the quarter at 165,000 sq. ft. of occupancy gain. Despite the move-outs, the Baltimore/Washington Corridor captured the largest share of leasing activity during the quarter. The submarket accounted for 45% of all leasing in the Baltimore market and was driven by renewals. Baltimore County East was right behind capturing 44% of leasing activity and was driven by expansions and footprint growth.

The construction pipeline remains vigorous, with 3.6 million sq. ft. under construction, including 383,000 sq. ft. breaking ground during the first quarter. As new space comes online, rental rates remain elevated at $10.39 per sq. ft. on a triple-net basis.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Leasing Snapshot

3PL

Logistics service tenants accounted for 41% of all activity in Baltimore, the most of any sector. Of note, Mako Freight committed to a sublease at 8411 Kelso Drive and will occupy nearly 275,000 sq. ft. The second largest lease of the quarter was another sublease; SEKO Logistics will fully occupy 156,797 sq. ft. at 8801 Citation Rd.

Wholesale

Wholesalers were the second most active during the first quarter, accounting for 17% of all leasing activity. Costco and Bizerba USA renewed leases for 122,600 sq. ft. and 69,123 sq. ft., respectively.

Food & Beverage

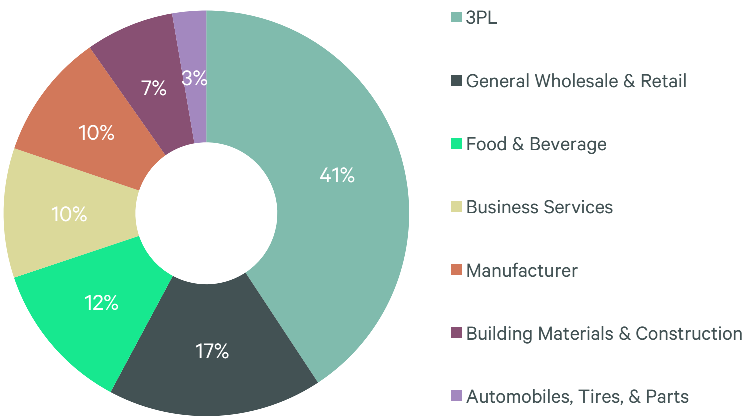
The Food and Beverage sector was the third most active industry, accounting for 12% of all activity. Southern Glazers Wine & Spirits signed a 129,500 sq. ft. expansion at 7001 Quad Avenue, its second expansion at the property.

FIGURE 2: Select Notable Q1 2024 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF
Mako Freight	3PL	8411 Kelso Dr	Baltimore County East	Sublease	274,821
SEKO Logistics	3PL	8801 Citation Rd	Baltimore County East	Sublease	156,797
Iron Mountain	Business Services	8679 Greenwood Pl	Baltimore/Washington Corridor	Renewal	130,000
Southern Glazer's Wine & Spirits	Food/Bev	7001 Quad Ave	Baltimore County East	Expansion	129,500
Costco	Wholesale	8700 Robert Fulton Dr	Baltimore/Washington Corridor	Renewal	122,600
The Agam Group	Manufacturer	6695 Business Pky	Baltimore/Washington Corridor	Renewal	114,980
Shearer Logistics	3PL	7045 Troy Hill Dr	Baltimore/Washington Corridor	Renewal	69,454
Bizerba USA	Wholesale	1804 Fashion Ct	Harford/Cecil County	Renewal	69,123

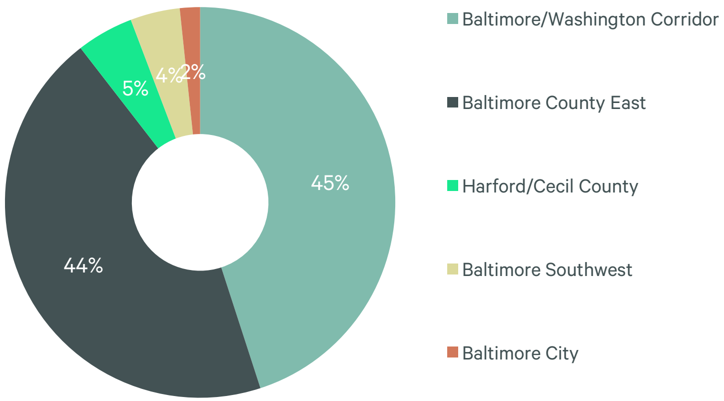
Source: CBRE

FIGURE 3: Q1 2024 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: Q1 2024 Gross Leasing by Submarket (Share by SF)



Source: CBRE

Development Activity

Nearly one million sq. ft. of new industrial space delivered across three properties during the first quarter:

- Stewart Properties delivered Building C-1 at 1 Principio Parkway in Cecil County. Restoration Hardware will occupy the entire 593,520 sq. ft. warehouse.
- NorthPoint Development's 151,721 sq. ft. warehouse delivered at Harbor Logistics, located at 1600 E Patapsco Avenue. The property is fully leased to Lowe's and Maritime Applied Physics Corporation, which will occupy 104,647 sq. ft. & 47,074 sq. ft. respectively.
- A new 204,000 sq. ft. Tradepoint Atlantic warehouse delivered at 1651 Sparrows Point Boulevard. The building is fully available for lease.

The Baltimore development pipeline remains robust, with 3.6 million sq. ft. under construction. Two properties located at 7300 Corporate Center Drive broke ground during the first quarter.

Pricing

Asking rents increased 2.9% quarter-over-quarter to $10.39 per sq. ft. per annum on a triple net basis (NNN). Warehouse rents cracked double digits, reaching $10.07 NNN.

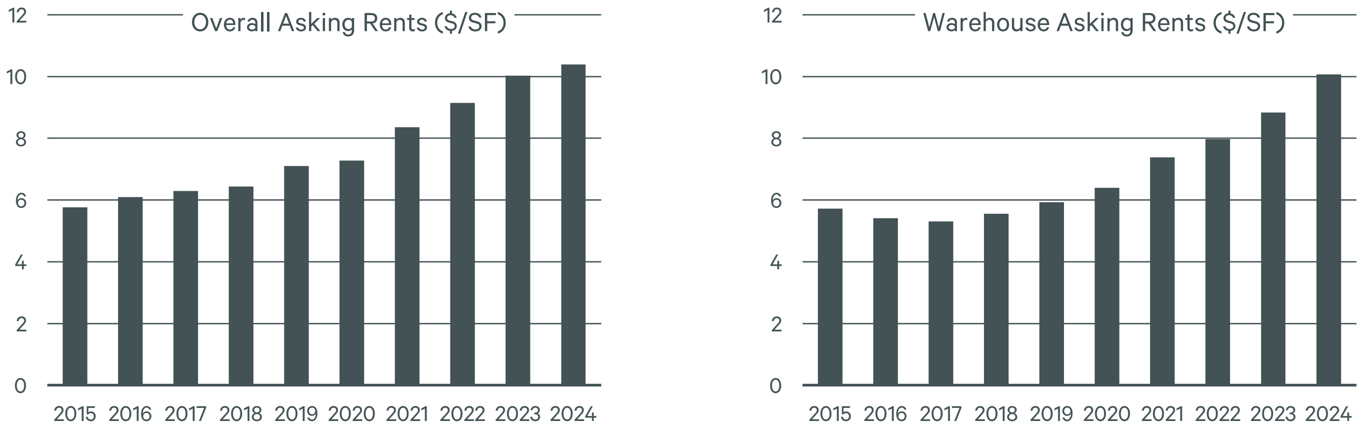
Baltimore County East saw a 5.7% increase in warehouse rents quarter-over-quarter, the largest of any submarket. New Class A vacancies, including 1651 Sparrows Point Boulevard, caused the hike.

FIGURE 5: Select Development Projects

Address	Submarket	SF	Expected Delivery	Developer(s)
1365 Sparrows Point Blvd	Baltimore County East	1,321,240	Oct-24	Tradepoint Atlantic
8250 Eastern Ave	Baltimore County East	442,200	Oct-24	DWS
7031 Tradepoint Ave	Baltimore County East	414,960	Dec-24	Tradepoint Atlantic
7300 Corporate Center Dr	BWC	228,014 | 155,508	Dec-24	Trammell Crow
801 Chelsea Rd	Harford/Cecil	259,200	Sep-24	FRP Development
1 Principio Pkwy	Harford/Cecil	200,100	May-24	Stewart Properties
10301 Philadelphia Rd	Baltimore County East	167,900	Aug-24	Merritt Properties
350 Old Bay Ln	Harford/Cecil	157,350	Jun-24	SK Realty
2413 Peppermill Rd	BWC	106,700	Apr-24	Chesapeake Real Estate Group

Source: CBRE

FIGURE 6: Historical Rent Growth ($/SF)



Source: CBRE

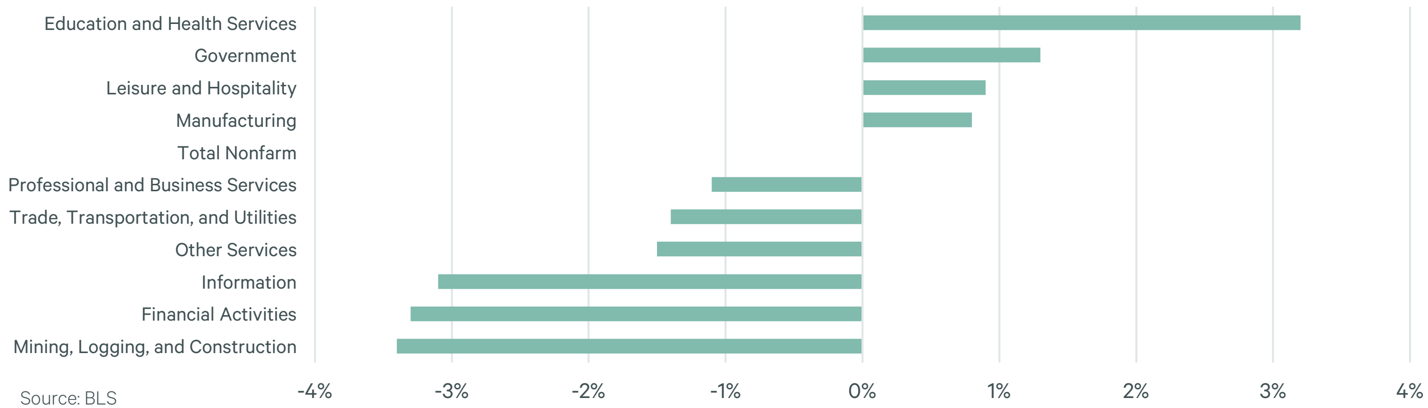
Economic Outlook

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a 'soft landing'. GDP growth should be less than half 2023's pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure & hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines the job openings rate declining to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

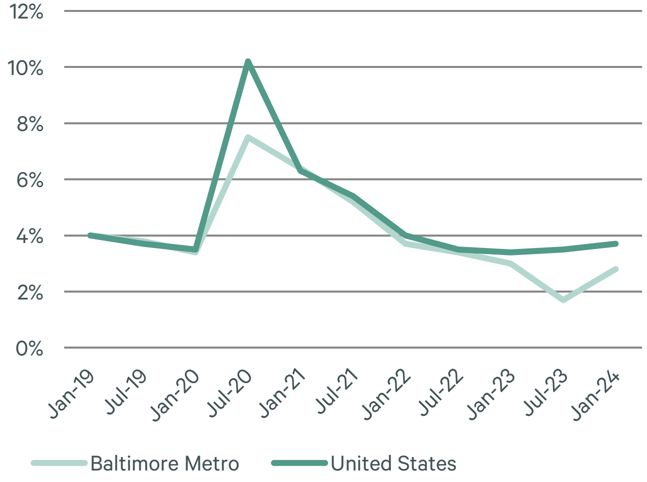
The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is actually delivered. Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.

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



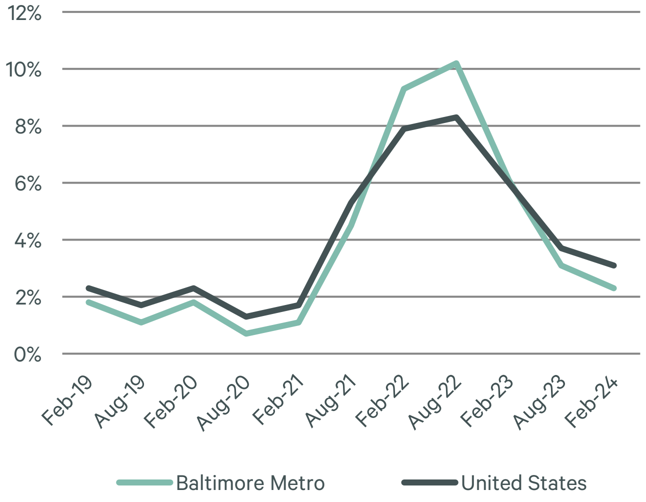
Source: BLS

FIGURE 8: Unemployment Rate for Selected Counties



Source: BLS

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



Source: BLS

FIGURE 10: Key Market Statistics

Warehouse	Inventory (SF)	Overall Vacancy Rate (%)	Q1 Net Absorption (SF)	NNN Asking Rent ($/SF)	Under Construction (SF)
Annapolis	368,762	0.0%	0	$10.65	-
Baltimore City	28,754,823	5.5%	543,433	$9.36	-
Baltimore County East	28,448,048	3.9%	94,032	$9.17	2,346,300
Baltimore Southwest	7,424,498	15.3%	(102,427)	$11.05	-
Balt/Washington Corridor	50,052,921	6.5%	(718,696)	$13.08	693,000
Harford/Cecil County	39,400,756	11.3%	267,696	$7.53	616,650
Hunt Valley/Towson	2,962,411	8.3%	(26,605)	$9.16	-
Owings Mills/Reisterstown Rd	706,368	0.0%	0	$11.50	-
Total	158,118,587	7.5%	57,433	$10.07	3,655,950

Flex	Inventory (SF)	Overall Vacancy Rate (%)	Q1 Net Absorption (SF)	NNN Asking Rent ($/SF)	Under Construction (SF)
Annapolis	1,193,298	8.4%	600	$16.46	-
Baltimore City	2,726,461	7.8%	20,082	$8.26	-
Baltimore County East	2,904,145	7.2%	29,919	$8.56	-
Baltimore Southwest	3,653,313	12.1%	(925)	$11.73	-
Balt/Washington Corridor	14,556,760	5.6%	83,841	$14.30	-
Harford/Cecil County	1,839,712	4.7%	9,171	$10.11	-
Hunt Valley/Towson	3,545,745	5.8%	12,383	$10.58	-
Owings Mills/Reisterstown Rd	1,792,677	15.0%	(46,670)	$11.47	-
Total	32,212,111	7.2%	108,401	$12.42	-

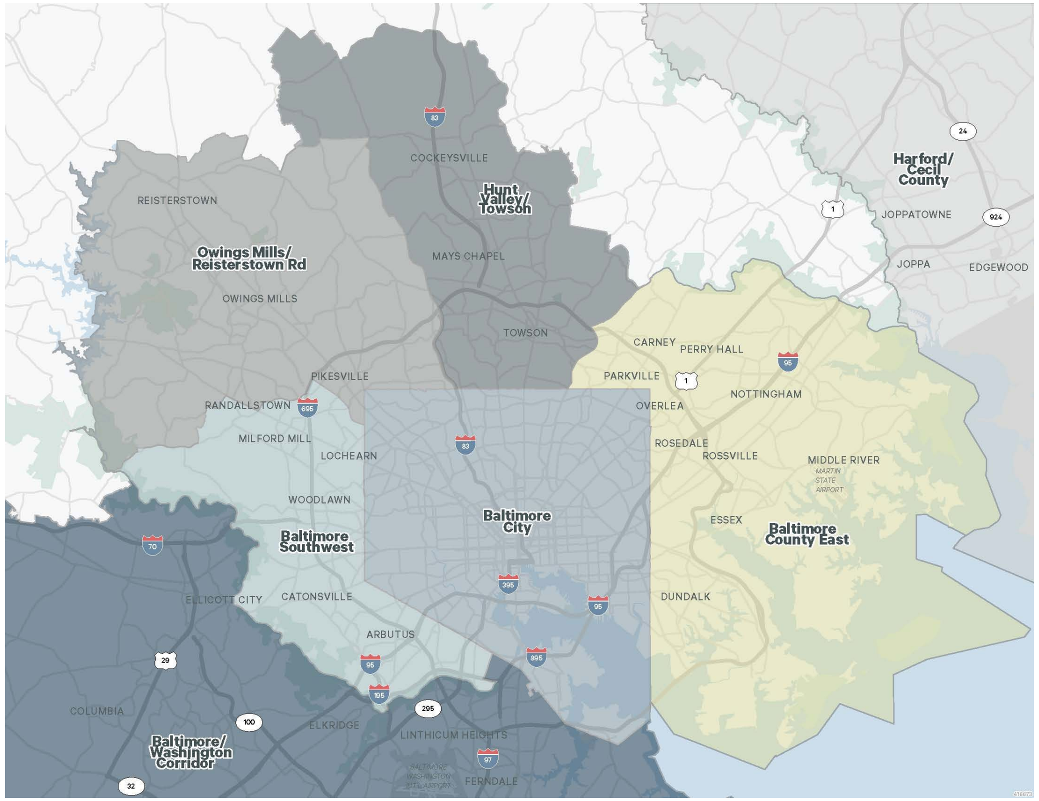
FIGURE 10 (Continued): Key Market Statistics

Overall	Inventory (SF)	Overall Vacancy Rate (%)	Q1 Net Absorption (SF)	NNN Asking Rent ($/SF)	Under Construction (SF)
Annapolis	1,562,060	6.4%	600	$16.46	-
Baltimore City	31,481,284	5.7%	563,515	$9.34	-
Baltimore County East	31,352,193	4.2%	123,951	$9.10	2,346,300
Baltimore Southwest	11,077,811	14.2%	(103,352)	$11.20	-
Balt/Washington Corridor	64,609,681	6.3%	(634,855)	$13.29	693,000
Harford/Cecil County	41,240,468	11.0%	276,867	$7.59	616,650
Hunt Valley/Towson	6,508,156	7.0%	(14,222)	$9.81	-
Owings Mills/Reisterstown Rd	2,499,045	10.8%	(46,670)	$11.47	-
Total	190,330,698	7.4%	165,834	$10.39	3,655,950

Survey Criteria:

Includes all classes of competitive single and multi-tenant industrial buildings 10,000 sq. ft. and greater in Baltimore.

Source: CBRE



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