

REGIONAL ECONOMY FILLED WITH PROMISE FOR 2017

Commercial Real Estate Market Continues to Grow



Photo by Jeffrey Sauters

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Fueled by health care, cyber-security, government contracting and logistics, the Baltimore-Columbia-Towson metropolitan statistical area continues to be at the vanguard of Maryland's economic growth. Between November 2015 and November 2016, the region added 23,600 jobs, or roughly three-fourths of all the jobs added in Maryland. That translated into 1.7 percent job growth, better than the statewide (1.1%) and national (1.6%) averages.

While there is a presumption that the jobs of today are not nearly as good as the ones of the past in terms of compensation, recent data tells a more nuanced story. Professional and business services, which encompasses a mix of jobs ranging from very high wage to entry level, accounted for 46% of the metropolitan area's job growth during the most recent 12-month period for which data exist. Education and health services, which also embodies a mix of high-, medium- and low-wage positions, chipped in another 35% of the region's net new job creation.

Over 2016, the regional unemployment rate dipped from 5% to 4.2%, one of the lower rates of unemployment among the nation's 25 largest metropolitan areas. The decline in regional unemployment has occurred despite the addition of 30,000 people to the area's labor force.

The balance of 2017 should result in another year of progress. The region can point to a number of signature developments that create the capacity to accommodate large-scale investment. These include the redevelopment of downtown Columbia, major investments in a number of Baltimore County submarkets including Towson and Tradepoint Atlantic, as well as Port Covington and Harbor Point in Baltimore City. Potential federal tax cuts and expected increases in defense spending could also position the region for faster economic growth during the months ahead.

Highest Paying Industries

Health care, technology and computer science are the highest paying jobs in Baltimore City, covering almost 30% of the city's job market.

Business Value

The highest value of sales and revenue falls to health care and social assistance, wholesale trade, professional, scientific and technical services, and retail trade.

Employment Trends

Baltimore represents 31% of the state's educational services, health care and social assistance industry jobs.

BALTIMORE OFFICE MARKET

2016 SUBMARKET SNAPSHOTS | COURTESY OF MACKENZIE COMMERCIAL REAL ESTATE

BALTIMORE CITY experienced significant leasing activity throughout 2016. The vacancy rate dipped from 13.44% to 12.21% resulting in an increase in asking rents of nearly \$4/sf. This is largely attributed to a strong South Baltimore submarket. We expect this trend to continue in 2017 as companies consider office buildings outside of the traditional City Center due to the walkability to nearby restaurants, shops and free parking.

- Planit Advertising moved into 26,000 sf at 1414 Key Highway.
- McHenry Row leased to 100% occupancy; plans to build another

office building on the site.

- Stadium Square mixed-use development in Federal Hill is set to deliver two new office buildings in 2017.

PORT COVINGTON: Sagamore Development Co., LLC purchased two more land areas in South Baltimore as part of the Port Covington redevelopment – 101 W. Cromwell Street for \$3.32 million and 2400 Clarkson Street for \$1.3 million. Both properties were initially owned by the National Aquarium. Sagamore has said the development is a 15- to 20-year project.

Sagamore Spirit Distillery, the first completed project in Port Covington, opened in April. Ground is expected to be broken in late 2017 or early 2018 on the initial phase of the 266-acre project.

Betamore opened a second co-working space at City Garage, occupying 8,000 sf in an open floorplan. This adds to their Federal Hill space, which is at near capacity serving 30 companies. The new space can accommodate 95 companies in a variety of settings.

CITY CENTER boasts Exelon Tower, a fully leased Class A+ building at Harbor Point. Yet, City Center lost over 532,000 sf in 2016, partly due to the Exelon relocation. The most notable trends include the continued shift from lower class to higher class buildings as tenants search for more efficient space with better parking, water views and better managed properties; and, the relocation from City Center to surrounding neighborhoods like Locust Point, Fells Point and Canton.

- Shops at Canton Crossing Phase II includes a 90,000 sf addition to the existing shopping center. Construction is estimated to start in November. Nordstrom Rack is one of the first stores that agreed to lease space.
- Offices at Power Plant Live! The Cordish Companies announced that they will double their downtown co-working space in the upcoming year at Spark. They currently have 30,000 sf and are adding over 18 offices, two conference centers and event space on another floor. In addition, they announced their next renovations will be for the first-floor lobby to include a formal welcome area, an event space and possibly a gym as well.
- Liberty Harbor East | Harbor East is \$170 million mixed-use project under construction that started in late 2016. The development will include a 50,000 sf Whole Foods market that will anchor the street level retail.

BALTIMORE COUNTY EAST saw another major office building change hands during the 4th Quarter 2016. COPT sold 4940 Campbell Boulevard to a local owner, The Morris Weinman Company.

BALTIMORE COUNTY WEST continued to be driven by interest from government entities and related contractors, but could be attractive to those shopping for the lowest rate among the Northern region submarkets, at an average of \$20.45/sf.

HARFORD COUNTY continued to fill vacancies in Forest Hill, Bel Air and the Route 24 Corridor. The Aberdeen and Havre de Grace markets lagged behind, but with the possibility of another BRAC, this area may improve as defense spending increases and the business climate improves.

- Eastgate 95 Industrial Park Construction began on phase 1 of a possible 2.5 million sf Class A warehouse and distribution space in Perryman. The plans call for three buildings covering a 243-acre site between Amtrak and the Aberdeen Proving Ground.

CECIL COUNTY

- Principio Business Park, along Route 40, is in the final stages of a 1.15 million sf fulfillment center (Principio Commerce Center) for Amazon, set for move in by the end of 2017. In the same plaza, construction began on an 800,000 sf regional headquarters and warehouse for Lidl (a German grocer company).

I-83 CORRIDOR had a slight drop with a vacancy rate in the 9.0% range. Of the suburban office markets in the metro area, only Columbia surpasses the I-83 corridor – and just barely (.05%). Hunt Valley offers what employers are seeking – a safe environment, parking, amenities. McCormick headquarters continue to transform the corner of York and Shawan Roads.

- JMT delivered new headquarters on Wight Ave. with 130,000 sf in Q1.
- HMS purchased its headquarters building at 20 Wight Ave. in late 2016.

REISTERSTOWN ROAD CORRIDOR continues to be fueled by Foundry Row's opening and is a selling point to many of the local office parks and nearby businesses. However, the office market has remained unchanged for the most part. Class A product continues to do well with rents ticking up and vacancy coming down. Medical leasing ticks up and we expect this trend to continue.

TOWSON market activity continues to be driven by the retail and housing sectors while the office market remained stagnant with a few tenants inquiring about adding space to their existing locations.

- Towson Row is in redesign after finding below surface rock, meaning parking will need to be above surface. This delay will ultimately impact office leasing.

COLUMBIA added approximately 93,000 sf of positive absorption. Maple Lawn and Downtown Columbia are proof that the "Live, Work, Play" concept is here to stay. Employers fight for Class A product in amenity-rich areas in efforts to attract the top millennial talent from the employment pool.

- Maple Lawn, currently building its seventh of 10 mid-rise office buildings, continues to lease up its new product in under 18 months, while the overall project maintains at 93% occupancy.
- Howard Hughes Corporation received approval for a \$90 million TIF from the Howard County Council, which allows them to move forward with its revitalization of Downtown Columbia.

ROUTE 2 CORRIDOR hangs in as one of the most stable in the region. Rents are holding firmly between \$20.00/sf and \$22.00/sf for the best spaces while vacancy hovers a few points on either side of 14%.



Opposite: Maple Lawn in Columbia. Above: Sagamore Spirit Distillery in Port Covington, Baltimore City.

1ST QUARTER 2017 HIGHLIGHTS

BALTIMORE OFFICE MARKET HIGHLIGHTS

Office Properties Under Construction Under Construction (QTD): 1,526,870 sf Delivered (QTD): 449,079 sf

- Chesapeake Real Estate Group LLC and Thompson Creek Window Company acquired a six-story 122,000 sf Class A building at 4200 Parliament Place. The project was 33% leased at the time of the sale; Thompson Creek plans to move its corporate headquarters into 22,000 sf of the building in 2017.
- ACGI drastically expanded their space in 11000 Broken Land Parkway from 7,500 sf to 19,000 sf with their renewal.
- The MPB Group leased 5,121 sf of office space at 6440 Dobbin Road in the Columbia Business Center.
- Pratt Street Capital, LLC purchased a 100% leased two-building portfolio, Crystal Heights Office Center in Columbia for \$8.5 million.
- The Wells Fargo tower at 7 St. Paul Street sold at auction in February for \$15 million by Alex Cooper Auctioneers. Sold “as is,” the building is 378,010 sf and Wells Fargo occupies 95,000 sf.
- The W.R. Grace Building located at 10 E. Baltimore Street was sold at \$7.5 million (approximately \$46/sf) through auction at the beginning of this year. The property is around 168,000 sf and was 65% leased at the time of sale.
- The Candler Building at 111 Market Place sold for around \$60 million to American Real Estate Partners of Herndon in the beginning of February. The building was 73% leased at the time of sale. The buyer plans to invest \$8 million in renovation plans.
- The Natalie M. LaPrade Medical Cannabis Commission is entering into a 10-year lease for 10,900 sf in Linthicum at 849 International Drive. This is a relocation from their former space at 4201 Patterson Avenue.
- The Howard Hughes Corporation purchased two additional downtown Columbia offices: The American City Building on Little Patuxent Parkway for \$16 million and One Mall North (located near the Mall in Columbia) for \$22.5 million.

- The Fuel Fund of Maryland has announced they will be relocating its offices to the Montgomery Park Business Center in South Baltimore at 1800 Washington Boulevard.

BALTIMORE RETAIL MARKET HIGHLIGHTS

Retail Properties Under Construction Under Construction (QTD): 726,780 sf Delivered (QTD): 466,878 sf

- Howard Bank is opening a 2,500 sf branch at Remington Row.
- Ledo Pizza (2,500 sf) and Urban-Bar-B-Que (1,800 sf) announced plans to open this spring/summer at the Jefferson Square project near Johns Hopkins Hospital.
- Clark Burger announced the opening of a second location in Little Italy at 415 S. Central Avenue; opening spring 2017.
- Trader Joe’s, The Quiet Storm, ZenLife and Amaryliss are opening (or have opened) at The Shops at Kenilworth as part of the \$20 million redevelopment of the center by Greenberg Gibbons.
- Fleet Street Kitchen in Harbor East has been replaced by Tagliata, an Italian restaurant by Atlas Restaurant Group. Opening summer 2017.
- Three new retailers signed leases at Foundry Row: Sarku Japan (1,930 sf), Bonchon Chicken (3,060 sf) and Sunset Raw Juice Bar (1,482 sf). Opening summer 2017.
- Share Kitchen has taken space inside the former Phillips Seafood plant at McHenry Row in Locust Point.
- Starbucks, Dynamic Dental Care LLC and Salons by JC, have signed leases for the newly redeveloped Wilde Lake Village Center in Columbia. The redevelopment consists of 7.4 acres and cost around \$18 million. It includes 41,000 sf of retail space, 20,000 sf of restaurant space and 30,000 sf of office space.
- Chipotle Mexican Grill opened in January at 711 Harford Road in the Parkville Shopping Center.
- Marley Station Mall in Glen Burnie sold to G.L. Harris (Texas-based investor) for \$22.7 million. The mall had a 2% vacancy rate at the time of the sale. The developer

currently owns at least three other older shopping centers across the country. There is almost 840,000 sf of retail space in Marley Station.

BALTIMORE INDUSTRIAL MARKET HIGHLIGHTS

Industrial Properties Under Construction Under Construction (QTD): 3,998,284 sf Delivered (QTD): 350,550 sf

- Amazon.com has announced a new 1.2 million sf fulfillment center in Cecil County. This will be their third Maryland facility.
- H&S Bakery has completed its \$15 million expansion in Fells Point, adding 34,000 sf to the building at 600 S. Bond Street bringing the size of the entire facility to 119,000 sf.
- Clark Construction signed a deal for 51,000 sf at 8870 Greenwood Place from Prologis.
- Maryland Port Administration received approval to acquire the Point Breeze Business Center (103 acres). They will retain 70 acres for \$56 million.
- Freshly announced plans for opening a distribution center in 171,000 sf at 8704 Bollman Place. Freshly will be subleasing the space from Coastal Sunbelt. Opening summer 2017.
- Fully, a standing workstation company, recently opened a 100,000 sf distribution center and showroom at 10001 Franklin Square Drive in White Marsh. This will be their first East Coast location.
- Iron World, a distributor of steel fences and gates, is expanding its manufacturing operations in Howard County, investing \$1 million to streamline their processes and include exterior upgrades and storage space.
- Industrial Property Trust (IPT) purchased 1904 Park 100 Drive (120,000 sf) at \$12.9 million, and 7495 Race Road (125,000 sf) at \$13.45 million. 1904 Park 100 Drive was 100% leased, and 7495 Race Road was 94% leased at the time of sale. **I95**

Note: Summary reports were contributed by MacKenzie senior staff and edited for space. To review the entire report, visit www.mackenziecommercial.com.