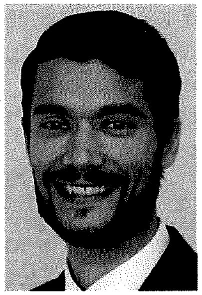
AFTER URBAN CONSTRUCTION BOOM, BALTIMORE MULTIFAMILY IS MOVING TO THE 'BURBS



Michael Denise
Strategic Advisors Services-Baltimore, Cushman & Wakefield

The multifamily real estate landscape is booming across the Baltimore metro with exciting new development popping up throughout this burgeoning market. Luxury apartment developers have focused their attention on Baltimore City's urban waterfront neighborhoods by creating a distinct live-work-play environment.

At the same time, suburban developers have focused their efforts along the Interstate 95 corridor, drawn to affluent neighborhoods supported by top ranked school districts. While an increase in development has led to a rise in urban vacancy rates, the influx of tech startups, coupled with the city's employment drivers — medical and educational institutions — has helped to stabilize these rates.

TIF investment has also helped paint a bright future in Baltimore for mixed-use ventures like the East Baltimore Development project around Perkins Homes and the 250-acre Port Covington development in south Baltimore. Both projects are anticipated to support new multifamily housing in these areas.

Development boom

Vacancy rates have increased following a nearly 20,000-unit spike in new construction from 2014 to 2018. More than 3,900 new units were completed in 2018 alone, and another 6,400 units were underway at the start of 2019. The boom is expected to taper off in 2020 and has already caused a decrease in the market's vacancy rate by more than 100 basis points over the past two quarters.

Development is now shifting to suburban neighborhoods bound by the I-95 corridor, the commuter artery between downtown Baltimore and Washington, D.C. This corridor is a crucial economic link between these two Mid-Atlantic metros, which together recently overtook Chicago as the country's third most populous combined statistical area. This rapid increase in population has allowed the Baltimore metro to absorb new construction while maintaining steady growth in rental rates.

While rental rate growth slowed in 2017 and 2018, it remained positive, pushing above 3 percent in the first half of 2019. This could be a sign that developers' demand forecasts were attuned to the rise in renter households, which may prevent the onset of a traditional boom and bust cycle.

The catalysts

Baltimore's development landscape has thrived in certain areas, specifically in suburban areas between Baltimore and D.C. thanks to the migration of well-educated families to the country's best rated public-school systems. As a result, Howard, Prince George's and Anne Arundel counties have all ranked in the top 20 U.S. counties for per capita median income, driving a rise in housing prices and rental rates.

Baltimore's education and medical industries also continue to attract

see MULTIFAMILY, page 16

MULTIFAMILY from page 15

international talent, along with new industries that are also flocking to the market. Tech startups and cybersecurity agencies are taking advantage of Baltimore's highly educated workforce and low cost of business compared to other large Northeastern cities. These attributes led *The Wall Street Journal* to name Baltimore as one of the top three U.S. cities for recent college graduates.

Baltimore has long been a stronghold for industrial employment due to its strategic Mid-Atlantic location. This sector is experiencing increased expansion due to the transformation of the former site of Bethlehem Steel. The nearly 2,500-acre Trade Point Atlantic industrial project has attracted large-scale distribution centers, establishing Baltimore as a major benefactor of the e-commerce economy.

Cap rates, opportunity zones

As cap rates for Class A product have stabilized around 5.5 percent, stakeholders have shifted their focus to secondary multifamily product. Funded by private capital increasingly sourced from tri-state area investors, increased capital flow has pushed cap rates for Class B and C product below 6 percent.

While the stabilization of cap rates across all classes of multifamily product indicates a potential peak in the market, opportunity zones that may continue to fuel activity. Baltimore City contains nearly 80 percent of the state's opportunity zones, making it one of the densest urban areas for this type of investment vehicle.

These zones have attracted significant capital from investors across the nation. While the future appears to be focused around development in the suburbs, opportunity zones could lead to yet another multifamily renaissance in Baltimore City.

support effective logistics models, lah by food and e-commerce concepts ahe companies that overlap both sectors Site plans will also change to with?0. focus to traffic circulation patterns and larger amounts of vehicle and truck parking.

Additionally, with less greenfield and more brownfield development available, developers are taking increased environmental risks.

How much runway is left on this cycle that has landed so many large investments in the Baltimore metropolitan region? Our best guess is 18 to 24 months, but the market has fooled us before, and we wouldn't be surprised if this extends longer.