Savills Studley Report
Baltimore office sector

Q4 2016

SUMMARY

Market Highlights

LEASING REMAINS SUBPAR
Tenants have leased 5.0 msf in the four most recent quarters, 14.8% below the long-term historical average of 5.8 msf. Deal volume for the region has not attained its historical average since late 2014.

AVAILABILITY DECREASES
Following a decrease in the third quarter, the region's overall availability rate inched 20 basis points lower in the fourth quarter, falling to 18.5%. The Class A rate decreased by 40 basis points to 19.3%. Compared to year-end 2015, though, Baltimore's overall and Class A availability rates are up by 30 basis points and 110 basis points, respectively.

RENTS RISE
The overall average asking rent in the region rose by 1.9% from \$22.51 to \$22.95 in the fourth quarter and has increased by 4.7% year-on-year. The Class A average rent increased by 1.3% quarter-on-quarter to \$26.27, and has jumped by 4.4% from a year ago.

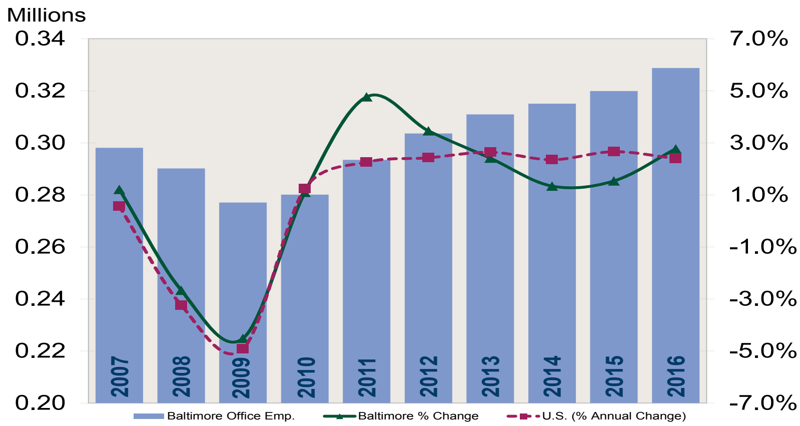
SALES DECLINE

Office property sales have decreased by 17% in the Baltimore region – as of November sales volume totaled \$634 million, compared with the \$760 million total during 2015.

"Baltimore's office market is expected to steer a steady course in 2017, with conditions favoring tenants slightly across most of the market. Landlords will continue to extend generous concessions in this environment."

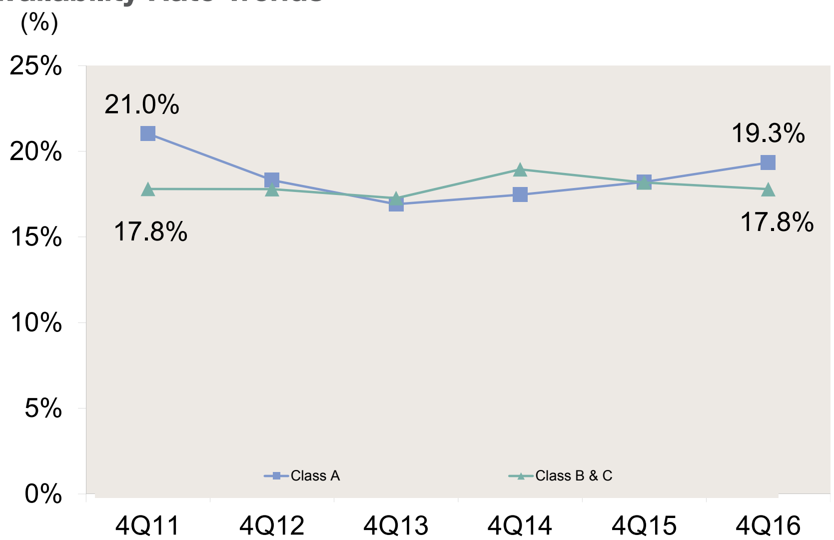
Michael Clark, Senior Managing Director

Office-Using Employment Trends

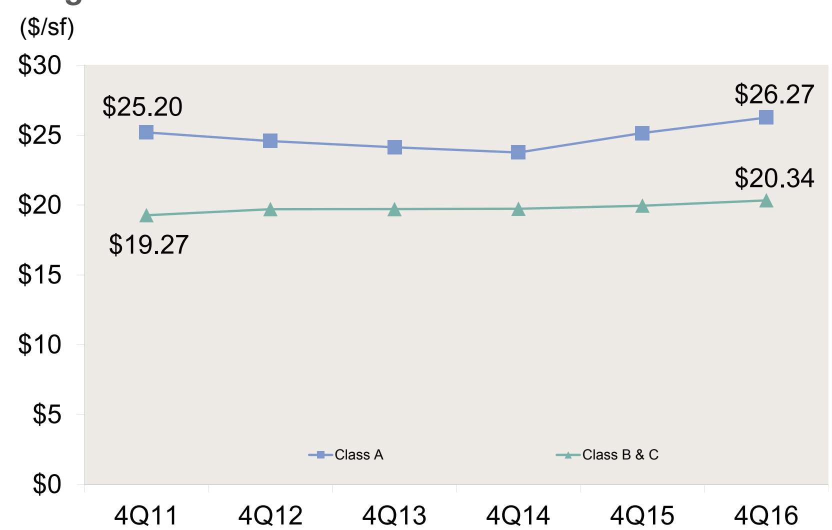


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Favorable Conditions for Tenants in 2017

Despite some turbulence both locally and nationally, Baltimore's office market remained on a relatively steady course during 2016. Next year is shaping up roughly the same, with conditions favoring tenants slightly. A few micro-markets, such as Pratt Street, Harbor East and Columbia, present tenants with tighter conditions. Landlords are eager to work with established creditworthy tenants. The core tenant in Baltimore – the 10,000 to 20,000-sf user – has multiple options to consider, including a growing list of new developments spread across the region.

Availability in much of Baltimore is still elevated, and demand is steady, but far from brisk. Tenants leased approximately 5.0 msf in 2016, a slight decrease from the 5.3 msf completed in 2015, and well below the long-term historical average of 5.8 msf leased annually. In response to ample availability, and reduced leasing activity, landlords have kept concessions elevated in the last 12 months. Most landlords will stretch a bit for larger tenants willing to commit to term, and some are backing off their original proposals and face rents.

All owners are eager to keep steady cash flow in place – no one knows for certain how much longer this recovery will carry on, after all. Landlords are doing their best to retain tenants. Renewals are a win-win for owners trying to keep cash flow in place, and tenants eager to avoid the capital expenditures and disruption associated with relocation. More landlords are negotiating early renewals – 12 or 18 months ahead of lease rollover, and in some cases two years out. Some tenants are able to secure expansion and cancellation rights, or occasionally give back space as they restructure their deals.

Relocating Tenants Have Multiple Options

Renewals will not work, though, for companies that are growing rapidly or those that have been shoehorning their employees into outdated and inefficiently configured space for the last couple of cycles. Companies that are on a mission to recruit, retain and motivate employees consider the workplace a key weapon in the battle for talent. Many of these firms are targeting new product underway in White Marsh, Bel Air or Columbia. New office buildings with the latest amenities and proximity to retail and prime housing are clearly outperforming the balance of the market. These projects are also testing the limits for what tenants will pay. Corporate Office Properties Trust plans to convert a warehouse and construct two new buildings at its Columbia Gateway project, with a total buildout of up to 500,000 sf. Space at the building has a face rent of more than $37.00. This places it about on par with new product at National Business Park, $3.00 to $4.00 more than existing Class A product in Maple Lawn, and just below the top of Downtown's market, where rent is bumping up against $40.00 in Harbor East.

Soft Spots to North and West

These new projects and tight micro-markets have boosted rental growth in some areas. Overall asking rent in Baltimore City spiked by 8.1% year-on-year to $22.46. Howard County posted a 4.1% increase in the same period to just under $25.00. Outside of these areas, though, the rental rate growth has barely exceeded the rate of inflation.Tenants can find some soft spots in Northwest Baltimore, such as Owings Mills for example, where availability is well in excess of 15.0%. These areas present geographically flexible tenants the most opportunity. A few buildings constructed at the peak of the last cycle, in areas such as Aberdeen, have struggled with chronic vacancy over the last several years. Some developers were banking on a surge in demand related to Base Realignment and Closure (BRAC) that never came to fruition. This could be a cautionary tale to anyone trying to predict with any certitude the implications of federal policy changes.

Tech Incubators Proliferating

Several tech micro-markets in Baltimore are also strapped for space. This includes Fell's Point, Canton and Federal Hill. Tech and new media firms that have graduated from the incubator, or coworking facilities, covet converted loft and warehouse product in these hip locations but options are limited. On the other hand, there is no shortage of tech/innovation/incubator centers or shared workspace providers already up and running. More are in the planning stages. One of the most exciting is in the new Innovation Center being planned in West Central Baltimore. Plans call for a 6.8 square mile section that encompasses Coppin State University and the Maryland Institute College of Art to become a "smart city" with free WiFi and grant money for select entrepreneurs via the city's Project C.O.R.E program.

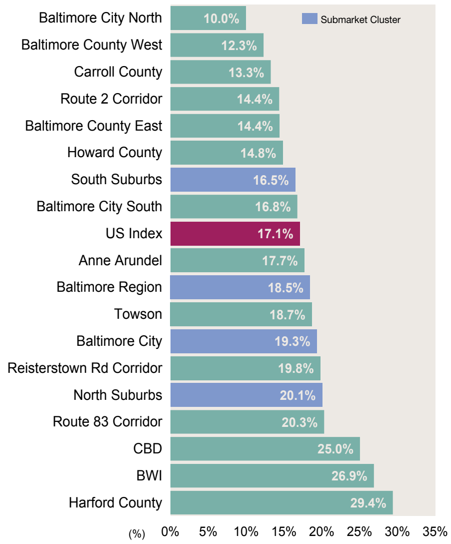
The Innovation Center adds to Baltimore's list of ambitious redevelopment projects, which already includes Sparrows Point, Locust Point, and of course Port Covington. These developments will expand the range of options for tenants and may present mid-sized and rapidly growing tech companies with an alternative to Fell's Point and other areas that tech and creative sectors firms have targeted. In South Baltimore, Mark Sapperstein's 28 Walker Development is gathering momentum. The developer recently unveiled plans for a 119-room hotel and 110,000-sf office building.

Looking Forward

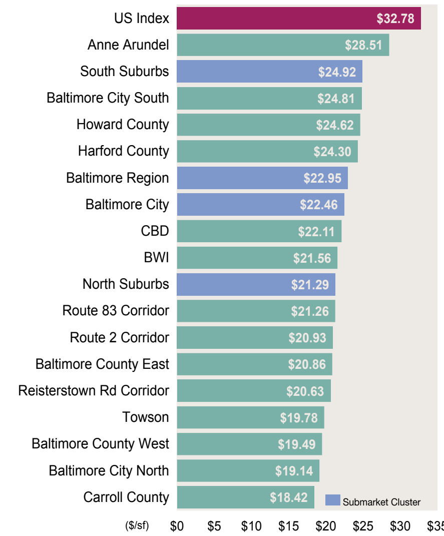
As 2017 starts, Baltimore, like so many other cities will keep a close eye on events in Washington, DC. An infrastructure bill is expected to be a key agenda item that has a good chance of achieving success. Any substantial expenditures on major road, bridge and other shovel-ready improvements will give support to suppliers, vendors and contractors in Baltimore. Some of these smaller and mid-sized contractors have seen steady work in the last few years and this stimulus may give them enough of a boost to consider leasing and investing in warehouse and flex buildings. The new administration also appears likely to support defense funding. The Route 32 Corridor has benefitted already from the cyber focus, and could see even more resources come its way.

Businesses abhor uncertainty. The first half of next year will hopefully provide some clarity as to what direction this new Administration will take. So far, the President-elect seems to have embraced unpredictability as a strategy. This recovery is already in its eighth year and may be sensitive to any volatility. In turn, few owners will let a solid tenant leave over a bit of tenant improvement or a bit more rent abatement. Tenants will remain in a strong position to negotiate favorable terms in 2017.

Availability Rate Comparison



Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Pearson PLC	71,427	10960 Grantchester Way	Howard County
Morgan Stanley	57,035	100 S Charles St	CBD
QSSI	33,643	7111 Security Blvd	Baltimore County West
Comcast	28,418	1215 E Fort Ave	CBD
United Way	25,600	1800 Washington Blvd	CBD
NuVasive, Inc	20,643	10275 Little Patuxent Pky	Howard County
Eurotech Inc	17,027	10260 Old Columbia Rd	Howard County
Waste Management of Maryland Inc	15,726	6994 Columbia Gateway Dr	Howard County
Respira Inc	15,000	809 Pinnacle Dr	BWI
Enterprise Homes	10,000	875 Hollins St	CBD
Sum of Top Leases	**294,519**		

Submarket	Total	Net Absorption & Leasing Volume		Available SF			Availability Rate			Asking Rents Per SF		
	Inventory SF (1000's)	Net Abs. (Last 12 months)	Leasing (Last 12 months)	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
CBD	16,086	-556	728	4,029	2.0%	4,436	25.0%	0.5%	26.5%	$22.11	0.1%	$21.61
CBD - Class A	8,173	-467	644	1,864	3.9%	1,767	22.8%	0.9%	21.6%	$24.21	-0.7%	$24.13
Baltimore City South	9,535	447	311	1,599	10.7%	1,311	16.8%	0.8%	14.5%	$24.81	13.5%	$18.73
Baltimore City South - Class A	5,289	461	215	993	14.4%	745	18.8%	0.7%	15.5%	$29.78	1.6%	$26.61
Baltimore City North	7,152	127	212	713	-2.9%	747	10.0%	-0.6%	10.6%	$19.14	-3.1%	$19.35
Baltimore City North - Class A	1,183	120	10	70	-10.3%	80	5.9%	-1.8%	7.8%	NA	NA	N/A
Carroll County	1,312	49	23	174	-4.9%	216	13.3%	-0.7%	16.5%	$18.42	1.7%	$18.07
Carroll County - Class A	181	1	3	5	0.0%	4	3.0%	0.0%	2.2%	$23.51	0.7%	$23.71
Reisterstown Rd Corridor	6,147	52	838	1,218	1.1%	1,261	19.8%	-0.4%	21.3%	$20.63	3.8%	$21.53
Reisterstown Rd Corridor - Class A	3,117	38	520	656	-0.5%	711	21.1%	-1.5%	24.3%	$23.01	4.2%	$22.45
Route 83 Corridor	7,968	-104	372	1,619	3.5%	1,502	20.3%	1.0%	18.5%	$21.26	3.8%	$21.12
Route 83 Corridor - Class A	4,158	-106	204	920	3.4%	832	22.1%	1.4%	19.4%	$22.69	-2.0%	$22.41
Towson	5,916	30	260	1,106	-10.4%	1,096	18.7%	-2.2%	18.5%	$19.78	-1.2%	$20.37
Towson - Class A	2,082	-9	76	432	-27.7%	334	20.8%	-8.0%	16.1%	$22.88	0.1%	$23.33
Baltimore County East	3,084	69	168	445	-1.4%	472	14.4%	-0.2%	15.9%	$20.86	2.0%	$20.70
Baltimore County East - Class A	554	2	26	68	-4.1%	73	12.3%	-0.5%	13.1%	$24.02	2.7%	$23.53
Harford County	3,646	-10	140	1,072	-3.7%	1,085	29.4%	-1.1%	29.9%	$24.30	1.2%	$22.92
Harford County - Class A	1,347	-79	55	653	-6.0%	688	48.5%	-3.1%	51.1%	$27.95	0.6%	$27.52
Howard County	15,729	403	1,018	2,334	-2.3%	2,086	14.8%	-0.5%	13.5%	$24.62	2.5%	$23.65
Howard County - Class A	7,348	462	576	1,124	3.8%	888	15.3%	0.3%	12.6%	$26.92	1.1%	$26.96
Baltimore County West	4,532	49	280	558	-13.9%	666	12.3%	-2.0%	14.7%	$19.49	1.4%	$18.79
Baltimore County West - Class A	278	36	35	0	NA	36	0.0%	0.0%	12.8%	$23.50	0.0%	$23.50
BWI	3,346	-215	146	900	-4.4%	772	26.9%	-1.2%	22.7%	$21.56	-0.1%	$21.66
BWI - Class A	1,228	5	42	227	0.0%	241	18.5%	0.0%	19.6%	$25.34	0.4%	$24.98
Anne Arundel	12,497	-169	391	2,212	3.2%	1,940	17.7%	0.5%	15.7%	$28.51	-2.1%	$27.00
Anne Arundel - Class A	7,528	-142	241	1,223	-2.5%	1,155	16.2%	-0.5%	15.5%	$32.53	3.2%	$28.82
Route 2 Corridor	2,104	62	91	303	-10.1%	338	14.4%	-1.6%	16.1%	$20.93	0.8%	$21.27
Route 2 Corridor - Class A	201	3	17	14	-25.1%	19	7.0%	-2.3%	9.4%	$24.09	0.6%	$25.90
Baltimore City	**32,772**	**18**	**1,252**	**6,341**	**0.7%**	**6,494**	**19.3%**	**0.3%**	**19.8%**	**$22.46**	**3.3%**	**$20.77**
Baltimore City - Class A	**14,646**	**115**	**868**	**2,927**	**-2.0%**	**2,591**	**20.0%**	**0.4%**	**18.5%**	**$25.52**	**1.0%**	**$24.22**
North Suburbs	**28,073**	**86**	**1,802**	**5,634**	**-6.3%**	**5,631**	**20.1%**	**-0.5%**	**20.2%**	**$21.29**	**2.1%**	**$21.26**
North Suburbs - Class A	**11,439**	**-153**	**884**	**2,735**	**2.4%**	**2,643**	**23.9%**	**-1.7%**	**23.2%**	**$24.09**	**0.5%**	**$23.90**
South Suburbs	**38,208**	**131**	**1,925**	**6,306**	**-2.4%**	**5,801**	**16.5%**	**-0.5%**	**15.3%**	**$24.92**	**0.8%**	**$23.81**
South Suburbs - Class A	**16,584**	**363**	**911**	**2,589**	**0.2%**	**2,338**	**15.6%**	**-0.2%**	**14.4%**	**$29.42**	**1.9%**	**$27.61**
Baltimore Region	**99,053**	**235**	**4,979**	**18,281**	**-0.3%**	**17,926**	**18.5%**	**-0.2%**	**18.2%**	**$22.95**	**1.9%**	**$21.91**
Baltimore Region - Class A	**42,669**	**325**	**2,663**	**8,250**	**0.1%**	**7,571**	**19.3%**	**-0.4%**	**18.2%**	**$26.27**	**1.3%**	**$25.16**

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(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.