



The Baltimore market is best defined as a stable market, with fundamentals changing only slightly. The area's economy and demographics are not expected to change dramatically in the near future either. Given these trends, none of the property sectors seem to be offering a big opportunity for quick returns, but no property type seems overly risky either.

## Demographics & Economy

### Population:

2006 (est.): 2.7 million

2011 (proj.): 2.8 million

### Unemployment Rate:

Baltimore - 3.8%

Maryland - 3.6%

National - 4.5%

### Economic Performance Rating\*:

Baltimore - 8.0

National - 6.0

\*Rating given by CCIM designees and candidates in the study area, based on a scale of 1 to 10, with 10 high.

## Office

- During fourth quarter 2006, Baltimore office fundamentals improved steadily. Space absorption was strong, and rental rates increased slightly. Construction activity also continued to grow throughout the region.
- The average sale price for office properties is \$137 per square foot, below the national average of \$167 per square foot, and well below the East regional average of \$200 per square foot.
- The transaction-based capitalization rate for the Baltimore office market is 6.9 percent, 20 to 30 basis points lower than the national and East regional average capitalization rates.
- CCIM designees and candidates rated Baltimore's office market performance at 7.0 out of a possible 10.

*With improving fundamentals and a lower capitalization rate than the regional and national averages, the Baltimore office market appears to be a fairly strong investment opportunity, as the average price is also well below national levels. However, if construc-*

*tion continues, overbuilding could occur, thus forcing vacancy rates up and rental rates down.*

## Industrial

- The Baltimore industrial sector fundamentals remained steady during fourth quarter 2006, with average rental rates consistent over the last two quarters. Fourth quarter construction activity slowed, although some reports indicated an increase in speculative building.
- The average price of industrial properties in the area is \$71 per square foot, lower than the national average of \$83 per square foot and the East regional average of \$84 per square foot.
- The average capitalization rate for industrial properties in the Baltimore area is 6.8 percent, lower than the East regional average of 7.3 percent and the national average of 7.4 percent.

*Baltimore's industrial market fundamentals appear to be entering a period of equilibrium. Sale prices and capitalization rates are well below regional and national average levels. However, if new construction is not*

*held in check, supply may increase dramatically, forcing fundamentals such as rental rates and vacancy rates to worsen.*

## Retail

- RERC's transaction analysis indicates that the average price for retail properties in the Baltimore area is \$133 per square foot, below both the national average of \$169 per square foot and the East regional average of \$199 per square foot.
- The average capitalization rate for the Baltimore region is 7.1 percent, higher than both the national and East regional average capitalization rates of 6.9 percent.

*With the average capitalization rate for Baltimore area retail properties is slightly higher than both the regional and national capitalization rates, and the average sale price per square foot substantially lower, there may be a small window of investment opportunity.*

## Apartment

- RERC's transaction analysis indicates Baltimore's apartment properties are selling for an average price of \$99,515 per unit, slightly below the

## National Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
<b>Volume (in millions)</b>						
<\$2 million	\$2,307	\$4,047	\$4,070	\$5,669	\$220	\$16,312
\$2-5 million	\$3,910	\$5,701	\$6,222	\$5,910	\$926	\$22,668
>\$5 million	\$155,131	\$32,581	\$50,896	\$87,663	\$33,689	\$359,961
All	\$161,348	\$42,328	\$61,188	\$99,242	\$34,835	\$398,942
<b>Unit Price Averages</b>						
<\$2 million	\$103	\$68	\$103	\$92,566	\$53,998	-
\$2-5 million	\$167	\$96	\$216	\$128,810	\$59,767	-
>\$5 million	\$209	\$104	\$250	\$126,410	\$137,649	-
All	\$167	\$83	\$169	\$107,833	\$110,713	-
Median of all	\$137	\$66	\$123	\$86,170	\$82,776	-
<b>Capitalization Rates (All)</b>						
Range	4.7 - 10.5	4.8 - 11	4.4 - 10.4	3.8 - 10.6	5.7 - 12.3	3.8 - 12.3
Average	7.2	7.4	6.9	6.3	8.7	7.3

## East Region Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
<b>Volume (in millions)</b>						
<\$2 million	\$452	\$789	\$817	\$888	\$28	\$2,974
\$2-5 million	\$881	\$1,080	\$1,264	\$1,749	\$146	\$5,119
>\$5 million	\$62,999	\$8,110	\$12,157	\$30,547	\$8,698	\$122,511
All	\$64,287	\$9,914	\$14,178	\$33,144	\$8,861	\$130,384
<b>Unit Price Averages</b>						
<\$2 million	\$95	\$56	\$98	\$81,790	\$54,731	-
\$2-5 million	\$157	\$97	\$239	\$158,133	\$48,372	-
>\$5 million	\$258	\$127	\$338	\$174,721	\$182,367	-
All	\$200	\$84	\$199	\$128,020	\$147,952	-
Median of all	\$146	\$57	\$124	\$87,004	\$94,017	-
<b>Capitalization Rates (All)</b>						
Range	4.7 - 10	4.8 - 9.9	4.7 - 10.4	4.2 - 9	5.9 - 11.5	4.2 - 11.5
Average	7.1	7.3	6.9	6.1	8.4	7.2

national average of \$107,833 per unit, and well below the East region average of \$128,020 per unit.

- The average capitalization rate for the Baltimore apartment market is 5.6 percent, lower than both the national and East regional rates of 6.3 percent and 6.1 percent, respectively.

Although the apartment market in the Baltimore area has low capitalization rates, the average selling price is also low. With an economy and demographics that are expected to see about average growth over the next few years, RERC expects demand to remain relatively constant.

### Hotel

- The average sale price for hotels in the Baltimore area is \$216,074 per room, nearly twice the national average of \$110,713 per room and substantially higher than the East regional average of \$147,952 per room.
- The average transaction-based capitalization rate for hotel properties within the Baltimore market is 8.2 percent, lower than both the national and regional average capitalization rates.

The lower average capitalization rate compared to regional and national average rates indicates that according to this data set, the value of Baltimore's hotel properties is generally higher than those regionally or nationally. This is reflected in the higher average sale price. Because the Baltimore area relies heavily on tourism, there is continued demand for hotel space.

Baltimore Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)						
	Office	Industrial	Retail	Apartment	Hotel	Total
<b>Volume</b>						
<\$5 million	\$75	\$84	\$42	\$36	-	\$236
>\$5 million	\$733	\$699	\$335	\$928	\$348	\$3,043
All	\$808	\$783	\$376	\$964	\$350	\$3,281
<b>Unit Price Averages</b>						
<\$5 million	\$114	\$71	\$101	\$76,207	-	-
>\$5 million	\$161	\$69	\$205	\$142,402	\$221,333	-
All	\$137	\$71	\$133	\$99,515	\$216,074	-
Median of all	\$100	\$57	\$86	\$75,714	\$181,155	-
<b>Capitalization rates (all)</b>						
Range	5.2 - 8.6	5.1 - 8.5	5.3 - 8.9	4.2 - 7	6.2 - 10.3	4.2 - 10.3
Average	6.9	6.8	7.1	5.6	8.2	6.9

NCREIF Real Estate Index Returns - 4Q 2006					
	Office	Industrial	Retail	Apartment	Average
<b>Total Return</b>					
1-Year Rate	19.40%	16.30%	14.00%	12.30%	16.10%
3-Year Rate	16.80%	19.60%	21.30%	14.20%	19.20%
5-Year Rate	12.00%	16.20%	18.80%	15.90%	16.90%
10-Year Rate	13.00%	14.60%	13.10%	-	14.70%
15-Year Rate	-	12.10%	9.80%	-	11.40%
<b>Income Return</b>					
1-Year Rate	6.50%	6.30%	6.70%	5.10%	6.50%
3-Year Rate	7.70%	7.40%	7.20%	5.60%	7.40%
5-Year Rate	8.70%	8.10%	8.00%	6.20%	8.10%
10-Year Rate	9.50%	8.60%	8.60%	-	8.80%
15-Year Rate	-	8.60%	8.40%	-	8.70%
<b>Allocation</b>					
	Office	Industrial	Retail	Apartment	Other
1-Year Average	9%	34%	28%	20%	9%
3-Year Average	10%	34%	28%	19%	9%
5-Year Average	12%	31%	29%	17%	10%
10-Year Average	13%	30%	31%	13%	13%
15-Year Average	9%	33%	34%	8%	16%

Sources: RERC and National Council of Real Estate Investment Fiduciaries

## Noteworthy Transactions

- The 977,436-square-foot industrial building located at the intersection of Security Boulevard and I-695 sold for \$77 million, or \$79 per square foot, slightly higher than the Baltimore area average of \$69 per square foot for properties in this price category.
- The Verizon Office Building, located at 1 East Pratt St. and containing 265,000 square feet, sold for approximately \$20 million, or nearly \$75 per square foot – less than half the average sale price of \$161 per square foot for buildings selling over \$5 million.
- The 155,000-square-foot retail building located at 4536 Edmondson Ave. sold for \$14 million, or \$90 per square foot – less than half the area average sale price of \$205 per square foot for properties selling in this price category.
- The 16-unit apartment complex located at 638-54 South Paca St. and 517-29 South Freemont Ave. sold for \$1.5 million, or \$93,750 per unit, higher than the Baltimore area average of \$76,207 per unit for properties selling for less than \$5 million.
- A 367,000-square-foot industrial property located at 659 East 25th St. sold for \$32.2 million, or \$88 per square foot, greater than the average price of \$69 per square foot for properties selling over \$5 million.