Baltimore City Economic Indicator Report

Second Quarter | 2020

Photo Credit: Mark Dennis

Overall Analysis

The progression of COVID-19 during the second quarter of 2020 drastically changed the global and local economic environment. The social and economic restrictions set in March 2020, intended to preserve the general public health, have subsequently led to both short and long term economic effects. Throughout the quarter, Federal and State health authorities provided revised guidance on these restrictions dictating the fluctuation in the economy.

The impact to the economy is broad. National Gross Domestic Product (GDP) and consumer confidence decreased from the previous year. Economic activity and employment in sectors specifically related to tourism, hospitality, and retail are those hardest hit. Prior to COVID-19, National and local unemployment were at historical lows but spiked to record levels in April as restrictions took hold, slightly improving by the end of the quarter. Hotel occupancy was strong during the first quarter of 2020, but plummeted since mid-March. Similarly, retail sales as related to the State's Sales tax revenue saw double-digit declines due to the closure of retail and restaurant establishments. Baltimore City's sales participation to State sales tax revenue has also fallen. Commercial real estate saw declines in office and retail vacancy rates. The one indicator not adversely affected is regional home sales. Prices in the City continue to increase and sales remain strong with residential units taking fewer days on the market.

This report tracks and reports on 33 total indicators. During this time of uncertainty, these indicators represent a snapshot of the local economy and other market trends that can change quickly.

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Baltimore City Quick Stats

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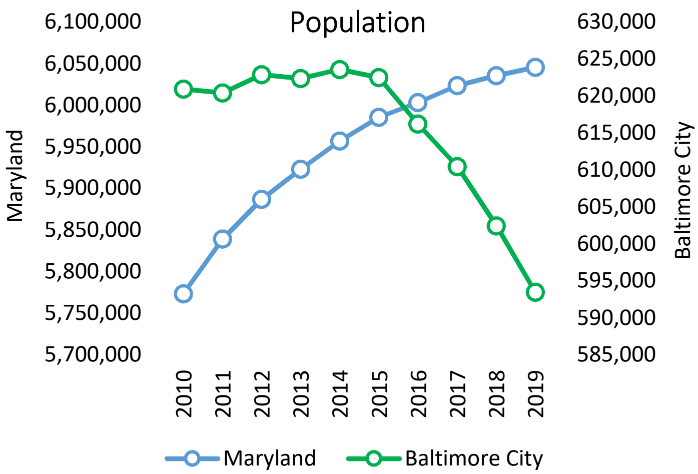


While the population in the State has experienced steady growth since 2010, Baltimore City's population has been reduced by 27,471 individuals during this time period. As of July 2019, it is estimated that there are 593,490 residents in the City.

Other quick stats for the City are shown below.

Median Household Income $48,840

Mean Commute Time 31 minutes

Owner Occupied Housing Unit Rate: 47.3%

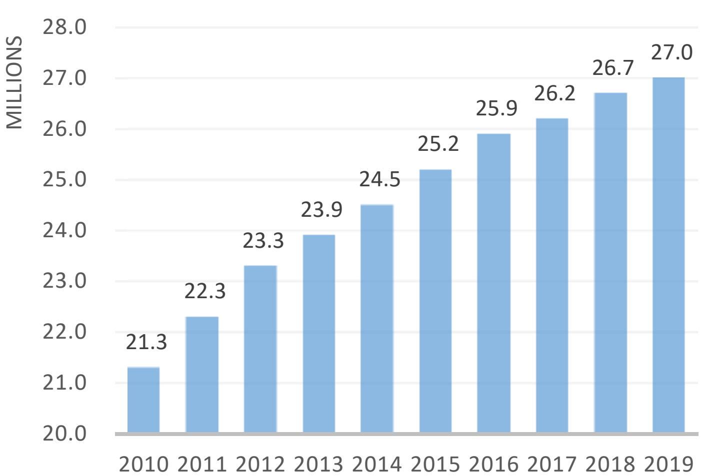
21.8% **Below Poverty Level**

Households 238,436

(Source: US Census Bureau V2019)

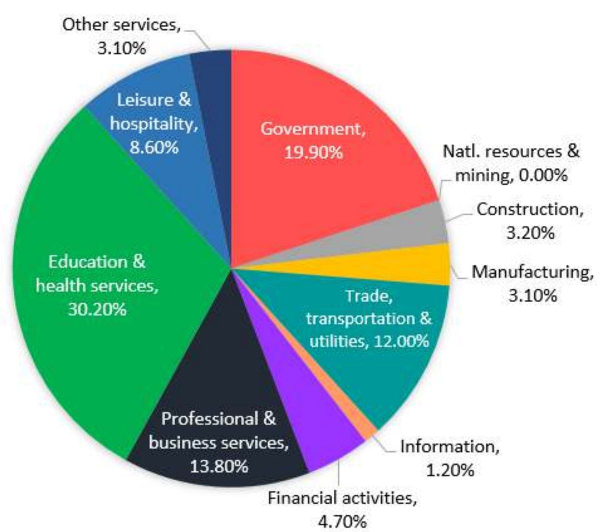
Tourism

Annual visitors to Baltimore City showed steady growth since 2010, up to 27.0 million in Calendar Year 2019. Comparative statistics assessing the impact of COVID-19 will be available at the end of 2020. *(Source: Visit Baltimore)*



Employment by Industry

Government, Education and Health Services make up 50% of Baltimore City employment. Leisure & Hospitality, directly impacted by COVID-19, makes up almost 9%. *(Source: Maryland Department of Commerce.)*



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Employment

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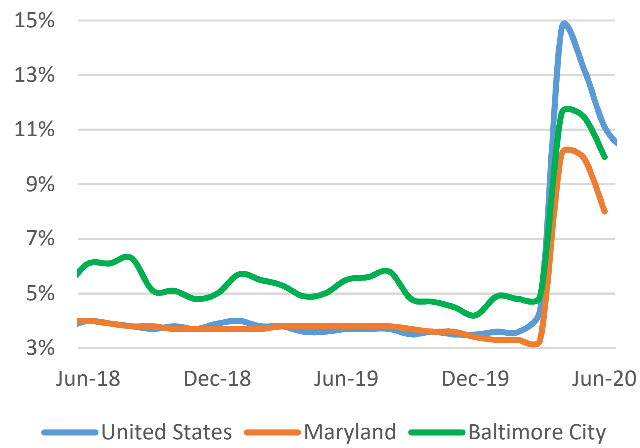
Unemployment Rate

	Jun-19	Dec-19	Jun-20	Trend
Baltimore City	5.5%	4.2%	10.0%	▲
Maryland	3.8%	3.4%	8.0%	▲
United States	3.7%	3.5%	11.1%	▲

As a result of COVID-19 and imposed governmental restrictions, the unemployment rate peaked in April at 14.7%, 10.1% and 11.6% at the national, state and City level respectively. However, as some of the imposed restrictions eased later in the quarter, more businesses resumed operations and some people returned to the workplace. The unemployment rate slightly declined in June, but the quarter still ended at historically high levels, reflecting the uncertain economic environment amidst the COVID-19 emergency.

Source: Bureau of Labor Statistics, U.S. Department of Labor

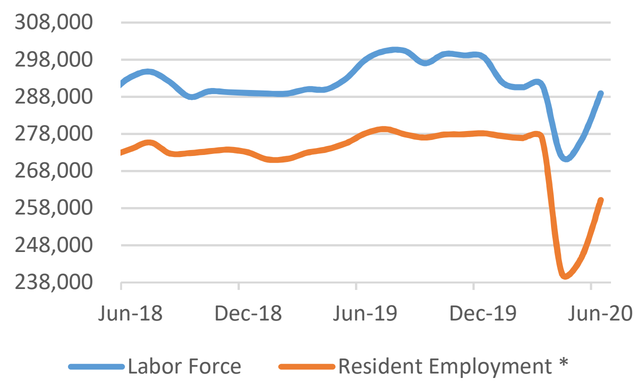


City Labor Force & Employment

	Jun-19	Dec-19	Jun-20	Trend
Labor Force	298,077	298,768	288,949	▼
Resident Employment	278,182	278,177	260,176	▼

As of June 2020, resident employment experienced a 6.5% year-over-year decline while the labor force declined 3.1%. These figures reflect the disruptions brought upon the labor market by the restrictions imposed to combat COVID-19. April experienced the most significant decline when restrictions were most severe, but both the labor force and employment partially rebounded by the end the quarter as businesses reopened. The City averaged 248K employed residents during the second quarter of 2020, a decline of 9.9% from the previous year's average of 276k.

Source: Bureau of Labor Statistics

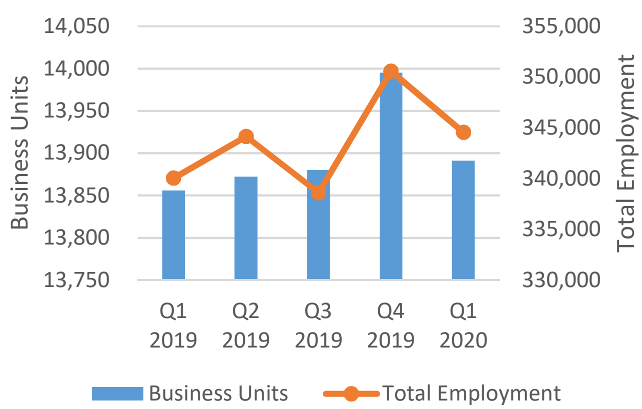


City Business Establishments and Employment

	Q1 2019	Q3 2019	Q1 2020	Trend
# of Business Units	13,856	13,880	13,891	▲
Total Employment	340,046	338,606	344,551	▲

During the first quarter of 2020, the number of business establishments in Baltimore City increased from the prior year, but decreased from the prior quarter. Second quarter data is not yet available, so the implications of COVID-19 are not apparent. Service sector industries experienced overall growth, with an increase in the number of professional and business service establishments and the number financial establishments.

Source: Quarterly Census of Employment and Wage



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Residential Real Estate

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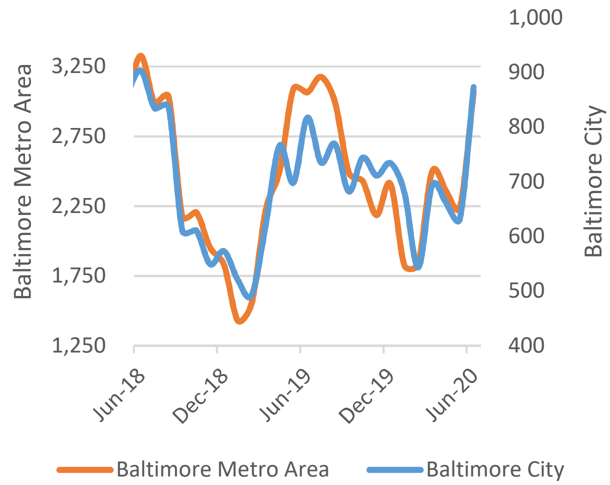
Total Units Sold

	Q2 2019	Q4 2019	Q2 2020	Trend
Baltimore Metro*	8,653	7,024	7,669	■
Baltimore City	2,281	2,189	2,167	■

**Excludes Baltimore City*

Year-over-year, residential real estate activity in the City showed a decline of 5.0% in the number of transactions during the 2nd quarter of 2020 while the Metro Area experienced a 11.4% decline over the same period. The declines are due to lower activity early in the quarter as the market was still adjusting to COVID-19 conditions; however, activity ramped up at quarter end with June surpassing the prior year. The continued strength in the market is a product of historically low interest rates, high demand from buyers already in the market, new buyers looking for more space, and most importantly, the low real estate inventory supply, down 40% and 30% from last year in the Metro and City areas, respectively.



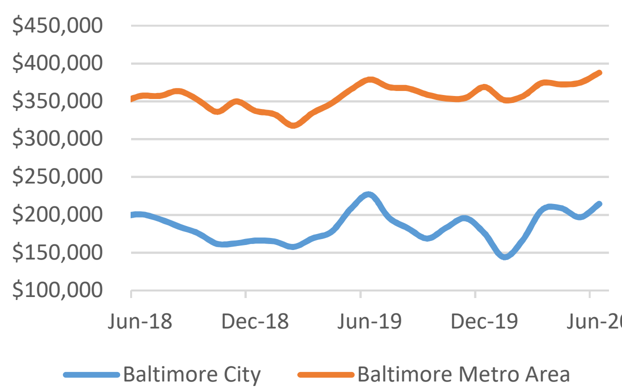
Source: SmartCharts BrightMLS

Average Home (Sales) Price

	Q2 2019	Q4 2019	Q2 2020	Trend
Baltimore Metro*	$364,041	$359,147	$378,326	▲
Baltimore City	$204,249	$184,591	$206,648	▲

**Excludes Baltimore City*

Average home sales prices in both the Metro Area and City have increased by 3.9% and 1.2% respectively on a year-over-year basis – a response to high demand and much lower supply. Increased prices are indicative of continued optimism in the local real estate market. Historically low interest rates continue bolstering activity and there are no indications that the Federal Reserve will raise them in the near term.

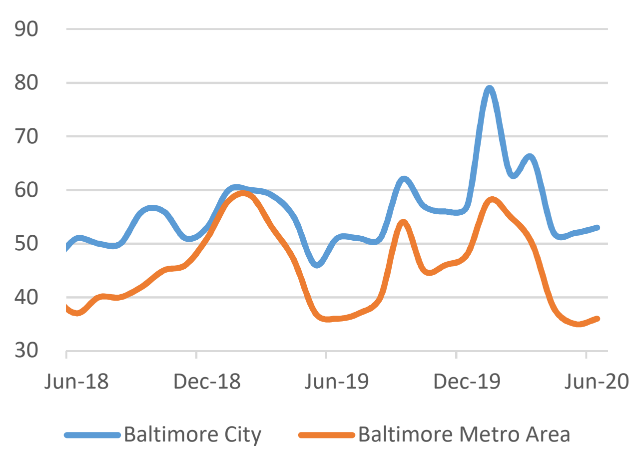


Source: SmartCharts BrightMLS, Federal Reserve

Average Days on Market

	Q2 2019	Q4 2019	Q2 2020	Trend
Baltimore Metro	40	46	36	▼
Baltimore City	51	57	52	■

A year-over-year comparison showed that on average it took four fewer days, or a decline of -9.2%, for residential properties in the Metro Area to sell during the second quarter of 2020, while the City maintained a stable sales pattern. Competition has not only increased average prices, but also reduced the average days on the market. Recent anecdotal experiences suggest that buyers are paying more than asking price and the days it takes to sell residential properties continues to decline.



Source: SmartCharts BrightMLS

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Commercial Real Estate

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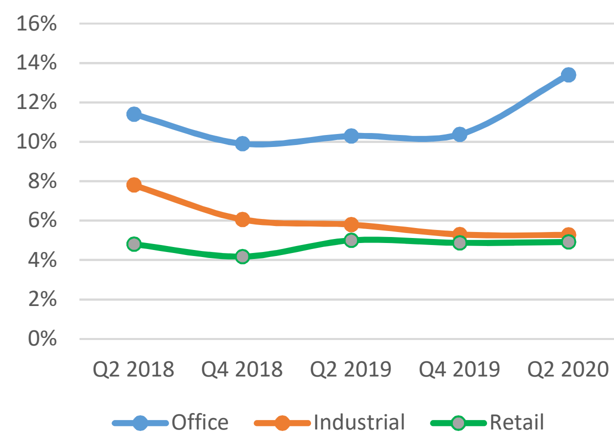
While the Baltimore City commercial real estate market has displayed strong demand and continued strength, there are signs of the market starting to cool down including dips in office occupancy and retail spending – both of which have been exacerbated by on the onset of COVID-19. Given the known projects in development and planning, investment levels are expected to rise slightly closer to $472 million in 2020 and fall closer to $210 million in 2021. Projects include the recently completed Avalon in Little Italy (a mixed-use development with 380 housing units, 3,100 sq. feet of office space and 8,000 sq. feet of retail space), and ongoing work at Wills Wharf in Fells Point (a mixed-use development with 236,000 sq. feet of office space, 3,000 sq. feet of retail space and 156 hotel rooms), and the third phase of Canton Crossing called Collective at Canton set on a 12-acre land area and is to include 7 buildings comprised of mixed-use housing, retail and restaurants.

Baltimore City Vacancy Rates

	Q2 2019	Q4 2019	Q2 2020	Trend
Office (Downtown)	9.9%	10.1%	10.4%	▲
Industrial	5.5%	5.4%	5.0%	▼
Retail (Downtown)	3.8%	4.6%	4.7%	▲

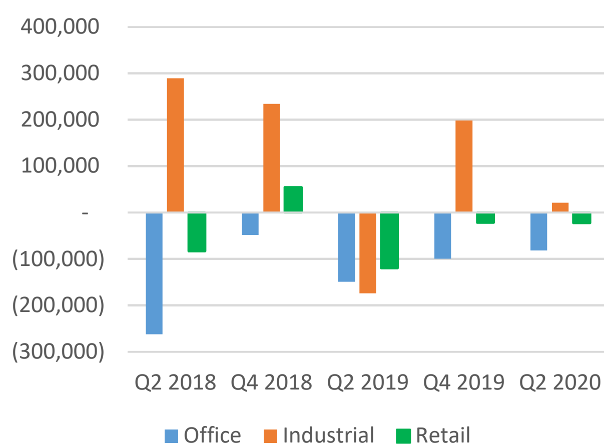


Vacancy rates within the Downtown area decreased for industrial space, but increased for retail and office properties. The low vacancy rate for industrial space continues to indicate strong demand within the City; however, the office and retail markets' volatility are indicative of the uncertainty of the current economic environment. Vacancy rates for office space grew in the second quarter of 2020 as many companies shifted to telework. This represents the largest quarterly increase in the office vacancy rate experienced by the City in the last five calendar years. This shift may trigger changes in the commercial real estate market in the future that could cause a decline in development throughout the City.

Source: CoStar

Real Estate Market Net Absorption

	Q2 2019	Q4 2019	Q2 2020	Trend
Office (Downtown)	(262,611)	(438,948)	(99,707)	▼
Industrial	289,425	369,730	279,364	▲
Retail (Downtown)	(83,397)	(28,506)	(53,138)	▼



Demand for Downtown office and retail space continued to decline during the second quarter of 2020, while industrial properties had positive net absorption. Office space saw higher vacancies and lower net absorption as employees continued teleworking through the second quarter, and companies are left to evaluate the future of physical office locations. The retail sector is also facing challenges amidst the current economic climate that is driving lower net absorption. Recovery factors for retail will depend on future consumer preferences, the economic recovery and the residual impact of COVID-19 on the retail sector.

Source: CoStar

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Tourism

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The City relies on the market expertise of Visit Baltimore and the Smith Travel Accommodations Report (STR), which tracks data on a variety of indicators for the Hotel Industry in the City. Data collected by STR does not include information for every hotel in Baltimore City, but reports on approximately 95.8% of the total inventory. The fluctuations in occupancy rate tend to vary due to seasonal behavior, summer months correlate with higher levels of spending and travel relative to winter months; however, the most recent decline in occupancy rate is due to COVID-19.

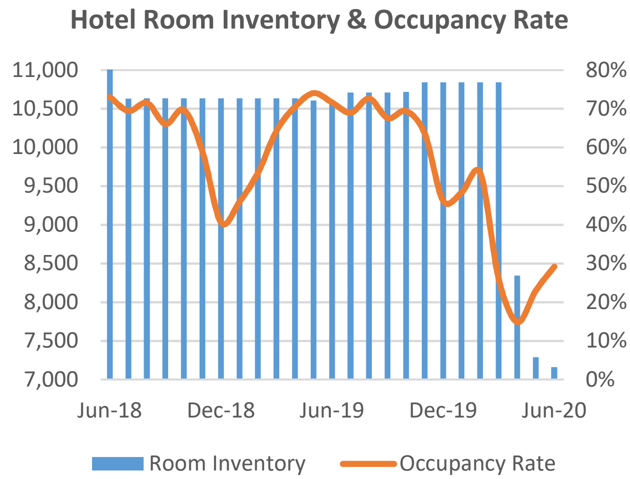
Hotel Room Inventory, Occupancy Rate and Average Daily Room Rate (ADR)

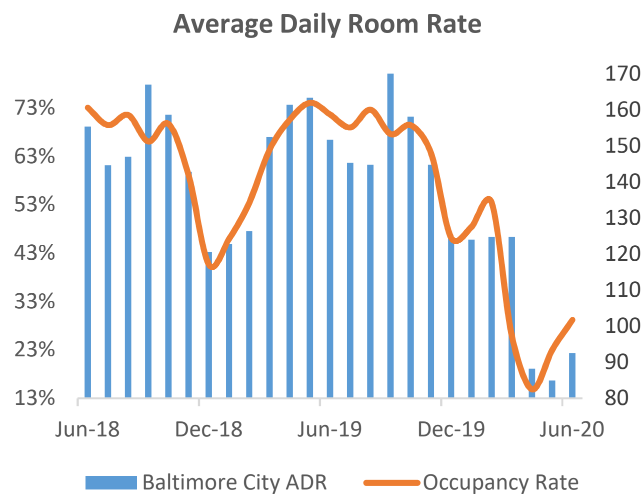
	June-19	Dec-19	Jun-20	Trend
Room Inventory	10,607	10,841	7,159	■
Occupancy Rate	71.6%	46.1%	35.3%	▼
ADR	$151.80	$124.84	$102.36	▼

The spread of COVID-19 in March 2020 and the implementation of travel, social and economic restrictions heavily affected the tourism and hotel industries, clearly shown in the second quarter of 2020. Relatively low occupancy rates and ADR are often correlated and this holds true in the most recent data. Occupancy rates in the City declined 69.0%, from an average of 72.0% last year to 22.4% this year. ADR declined 44.2%, from an average of $159.0 last year to $88.6 this year. Seven hotels temporarily closed, two hotels were converted to COVID-19 patient recovery centers, and the Convention Center has been used as a field hospital since March 2020, and it is expected to continue operating in this capacity until April 1, 2021.

Conventions, meetings, sporting and other events have been cancelled, postponed or are being held without fans since the onset of COVID-19, further eroding both occupancy rates and ADR.

The latest travel forecast from Tourism Economics expects a slow recovery for the hotel and tourism sector with room demand expected to reach around 80% of 2019 levels by the third quarter of 2021, with a full rebound not expected until the third quarter of 2023.





Source: Smith Travel Accommodations Report (STR)

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Sales Tax

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Sales Tax revenue is collected by and for the sole benefit of the State. Although Baltimore City does not collect or benefit from this revenue – with the exception of a small percentage that constitutes the City's Highway User Revenue – Sales Tax information can serve as an indicator of the overall economic environment. In the second quarter of 2020 spending activity in the State as a whole decreased year-over-year and from the prior quarter. Changes to consumer behavior due to COVID-19 are observable in the data. Generally, there is about a one- or two-month delay between Sales Tax activity and reporting on revenue.

Sales Tax Revenue (Millions)

	Q2 2019	Q4 2019	Q2 2020	Trend
Maryland*	$1,162.9	$1,203.5	$820.7	▼
Baltimore City	$93.8	$92.1	$45.1	▼
City:State Ratio	7.5%	7.1%	5.2%	▼

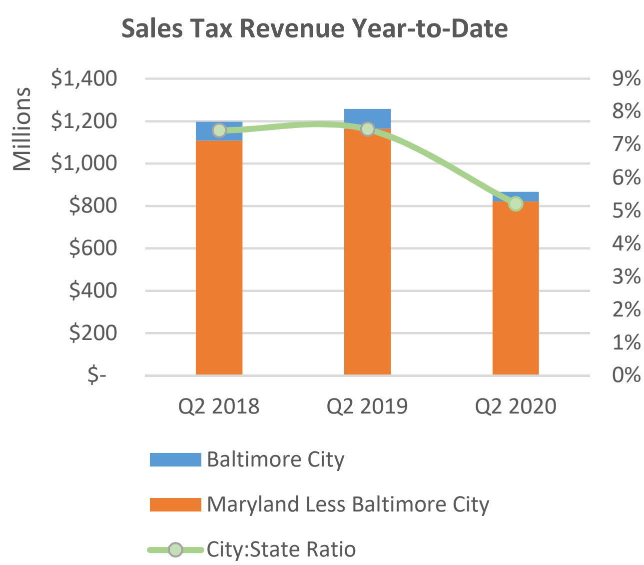
**Excludes Baltimore City*

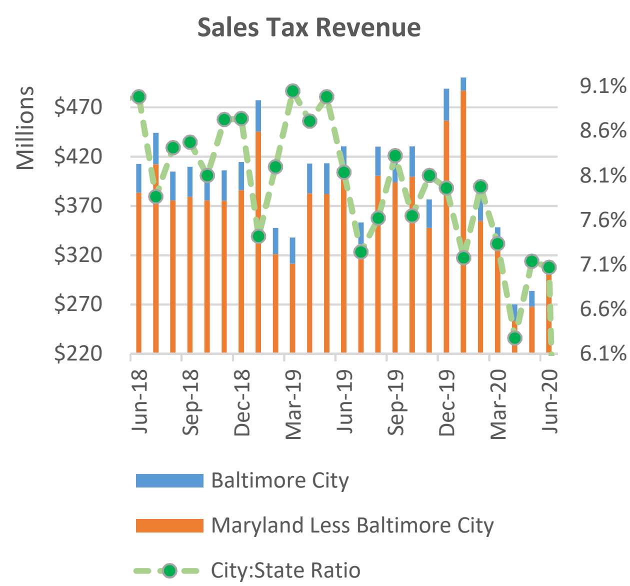
Sales Tax revenue generated in the City was down 51.9% while the State (less City) was down 29.4% from the prior year, indicating that during the second quarter of 2020 spending activity shifted from Baltimore City to other parts of the State and online, as evidenced by the 2.3% decrease in the City:State Ratio from the prior year.

All sectors except "Miscellaneous" experienced notable year-over-year declines as the COVID-19 pandemic and the efforts put in place to curb it have resulted in changes to consumer-spending habits. The largest declines for the second quarter came from the Apparel Group (-73.3%), Utilities and Transportation (-45.9%), Food and Beverage (-45.8%) and Automotive (-44.8%).

The closures or limited operations of restaurants and retail establishments led to less consumer spending as evidenced by these double-digit declines. The exception is on activities from essential businesses such as supermarkets and wholesale grocery that saw 4% growth from the prior year. The changes in spending habits during the pandemic may lead to long-term changes in consumer spending behaviors, including permanent increases in online methods of shopping.

Source: Maryland State Comptroller's Office





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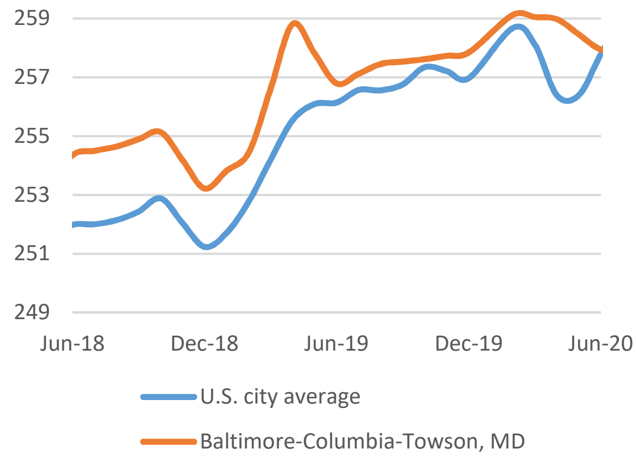
National Indicators

Consumer Price Index (CPI)

	Jun-19	Dec-19	Jun-20	Trend
United States	256.1	257.0	257.8	▲
Baltimore-Columbia-Towson*	256.8	257.8	257.9	▲

The CPI for urban consumers in the United States and the Baltimore-Columbia-Towson Region showed slight year-over-year growth, increasing 0.6% and 0.4%, respectively. Since June 2018, the national index has increased 2.3% while the regional index has increased 1.4%. The cost of living for urban consumers, both nationally and regionally, continues to increase at a manageable pace and has slowed in the most recent quarter from measures taken to combat COVID-19. It is uncertain how these measures and record-low interest rates will affect CPI moving forward.

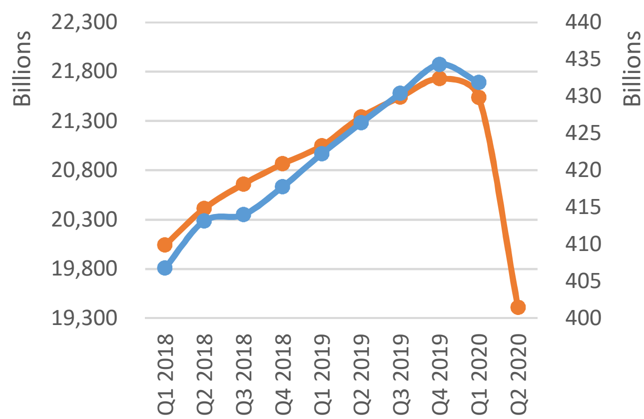


***Regional data released bi-monthly; values shown represent averages of months before and after the listed month**
Source: Bureau of Labor Statistics

Gross Domestic Product (GDP)

	Q2 2018	Q2 2019	Q2 2020	Trend
United States	$20,412	$21,340	$19,409	▼
Maryland	$413.2	$426.4	NA	▲

National GDP declined 9.1% year-over-year, and 9.9% from the prior quarter. The State GDP data is not yet available for the second quarter of 2020, but it normally trends similar to the national index and is not expected to depart from this trend in the short-term. National GDP was experiencing the longest growth phase in history prior to COVID-19, but the onset of the pandemic created uncertainty for the short and long-term impacts on economic recovery.

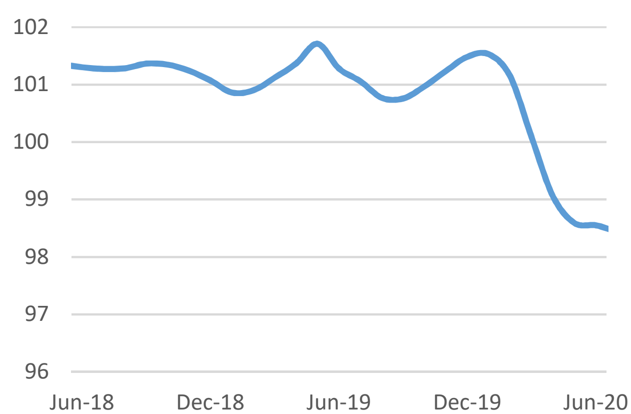


Source: Bureau of Economic Analysis

Consumer Confidence

	Jun-19	Dec-19	Jun-20	Trend
United States	101.3	100.5	98.6	▼

Consumer Confidence has been relatively volatile over the past 24 months, peaking at 101.7 in May 2019 and reached a new low of 98.1 in April 2020 as a direct result of COVID-19. The data indicates a steady decrease since last year, further exacerbated by the sudden onset of COVID-19. While COVID-19 is the most influential factor in the current volatility and decline in Consumer Confidence, other factors like the current global political climate, may be contributing as well.



Source: Organization for Economic Co-operation and Development (OECD)

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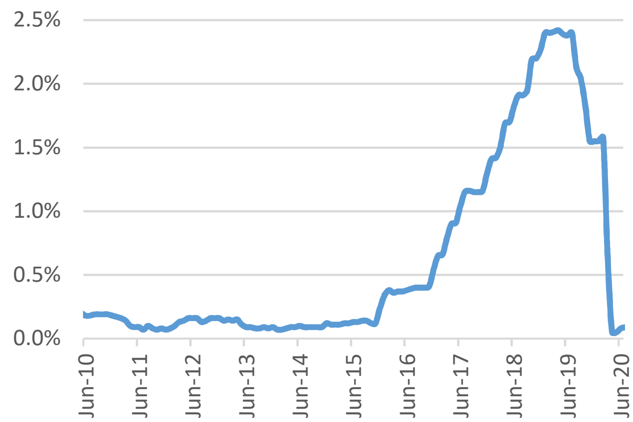
Federal Funds Rate

	Jun-19	Dec-19	Jun-20	Trend
Interest Rate	2.38%	1.55%	0.08%	▼

Set by the Federal Open Market Operations Committee (FOMC), this rate is an instrument of monetary policy used to control both economic growth and a target inflation rate of 2%. To help stabilize the economy after the Great Recession, this rate was brought to zero. As the economy began to recover, the FOMC started to raise this rate until the first cut in July 2019, when the rate was adjusted down to support the economy and boost inflation. The most recent cuts in March and April 2020 are a result of the COVID-19 pandemic and FOMC taking actions to bolster the economy, mirroring the actions taken during the Great Recession. The rate is continuing to be maintained at the lower levels.



Source: Federal Reserve

Trend Methodology

Green Arrow (▲▼) – Indicates a positive trend vs the prior periods against which an indicator is being compared. For instance, when an indicator for the comparison period has improved vs both the prior quarter and year-over-year, a green arrow is assigned.

Yellow Square (■) – Indicates no distinguishable trend vs the prior periods against which an indicator is being compared. For instance, when an indicator for the comparison period has improved vs either the prior quarter or year-over-year, a yellow square is assigned.

Red Arrow (▼▲) – Indicates a negative trend vs the prior periods against which an indicator is being compared. For instance, when an indicator for the comparison period has deteriorated vs both the prior quarter and year-over-year, a red triangle is assigned.

Employment Indicators

Unemployment Rate – The unemployment rate is calculated by taking the total number of unemployed workers (who are willing and able to work) divided by the total number of people in the labor force. The unemployment rate is affected by both changes in employment as well as people entering or leaving the labor force.

Resident Employment – Represents total employment by specifically City residents.

Total Employment – Total employment represents the total number of jobs that are available and have been filled by both City residents and workers who live outside of the City.

Labor Force – The labor force is the sum of all employed and unemployed people. The labor force includes anyone over the age of 16 that is either employed or actively looking for a job.

Real Estate

Total Units Sold – Total number of housing sales that have been completed for the selected time period.

Average Home (Sales) Price – Calculated by taking the total Sold Dollar Volume (sum of all sales) divided by the number of units sold.

Average Days on Market – Days on market is defined as the total number of days the listing is on the active market before either an offer is accepted or the agreement between real estate broker and seller ends. Average days on market represents the average for all of the units in the selected region.

Commercial Vacancy Rates – A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. Under construction space is generally not included in vacancy calculations.

Net Absorption – The net change in occupied space over a given period of time. Includes direct and sublease space.

Tourism Indicators

Hotel Occupancy Rate – Total number of rooms sold divided by the number of rooms available, multiplied by 100. Occupancy is always expressed as a percentage of rooms occupied.

Average Daily Room Rate – The Average Daily Room Rate is calculated by taking the total room revenue divided by the number of rooms sold, displayed as the average rental rate for a single room.

Hotel Room Inventory – The total number of rooms that exist across all hotels in the area.

National Indicators

Consumer Price Index – The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living; the CPI is one of the most frequently used statistics for identifying periods of inflation or deflation. (Source: Investopedia)

Gross Domestic Product – Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, the United States releases an annualized GDP estimate for each quarter in addition to the annual calculation. GDP includes all private and public consumption, government outlays, investments, private inventories, paid-in construction costs and the foreign balance of trade (exports are added, imports are subtracted). Put simply, GDP is a broad measurement of a nation's overall economic activity. (Source: Investopedia)

Consumer Confidence – An index developed by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future. The idea behind the Consumer Confidence Index (CCI) is that if consumers are optimistic, they tend to purchase more goods and services. This increase in spending inevitably stimulates the whole economy. (Source: Investopedia)

Federal Funds Rate - The federal funds rate is the interest rate that depository institutions, or banks, lend money to one another. The funds come from excess balances the bank owns which are held at the Federal Reserve and are used to meet Reserve requirements. Another term for the federal funds rate is the overnight rate. The Federal Open Market Committee (FMOC) meets eight times a year to set the federal funds rate. Led by Jerome Powell, the FMOC makes periodic adjustments to the rates based on open market operations and the supply of money required to meet target rates. (Source: Investopedia)