



Photo Credit: Mark Dennis

### Overall Analysis

Through the first half of 2018, the national and local economics have displayed slow and sustained economic growth.

Employment indicators nationwide have yet to show a slowdown; the national unemployment rate briefly dipped below 4% in the second quarter, and as of June 2018 remains at 4.0%. Locally, a year-over-year increase in both the labor force and resident employment signal continued optimism in the job market. The City's real estate market remains stable. Within the residential segment of the market, the number of units sold declined in the second quarter; however, average price increased and homes are being sold at a faster rate. As for commercial real estate, the second quarter displayed mixed behavior in vacancy rates and absorption, depending on the market segment. There were slight increases in vacancy for the office and retail market, with decreasing vacancy for the industrial market.

Increasing costs of goods and services, measured by the Consumer Price Index (CPI), are indicating inflationary pressures. It will be important to see how the effect of the tariffs impact the costs for imported goods and services, and if increases in wages keep pace. Meanwhile, the Consumer Confidence Index (CCI) continues showing customers' optimism in the continued growth of the national economy. The local economy remains strong with no major areas showing economic slowdown. Attention should still be given to the State and Federal levels though, as the City's economy is indirectly tied to the State's economic growth, federal government spending, and the ability to translate the increase in persons seeking employment to persons working.

# Employment

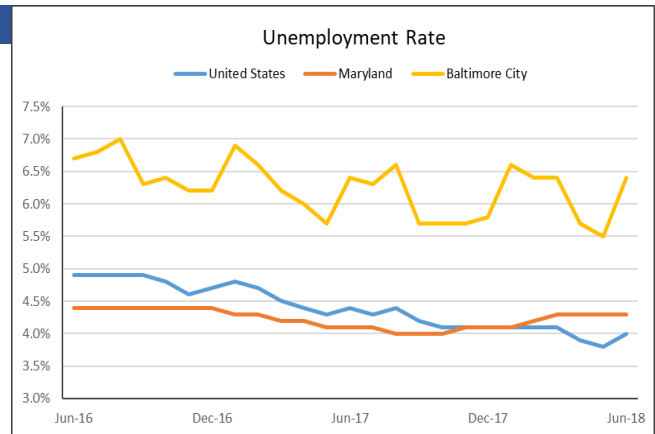
Second Quarter | 2018

## Unemployment Rate

	Jun-17	Mar-18	Jun-18	Trend
United States	4.4%	4.1%	4.0%	▲
Maryland	4.1%	4.3%	4.3%	■
Baltimore City	6.4%	6.4%	6.4%	■

National unemployment rates continued to decline in the second quarter of 2018, representing a decline both year-over-year as well as in the most recent quarter. Maryland continues to hover slightly above the 4% mark with little movement in the past six months. Year-over-year, Baltimore City unemployment remains unchanged; however, unemployment increased in June after two months of unemployment below 6%.

Source: Bureau of Labor Statistics

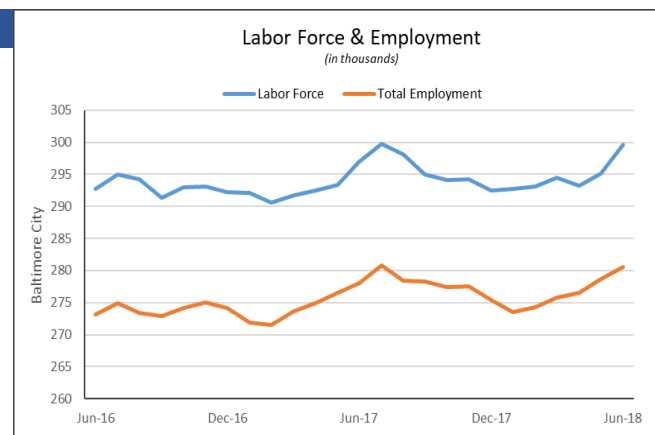


## City Labor Force & Employment

	Jun-17	Mar-18	Jun-18	Trend
Labor Force	296,974	294,531	299,638	▲
Resident Employment	278,098	275,768	280,535	▲

The total labor force and resident employment continue to increase in the City, signaling both increased optimism and job availability within the labor market. Both indicators show slower growth year-over-year (<1%); however, both are increasing at equal rates (explaining why there is no change in the unemployment rate).

Source: Bureau of Labor Statistics

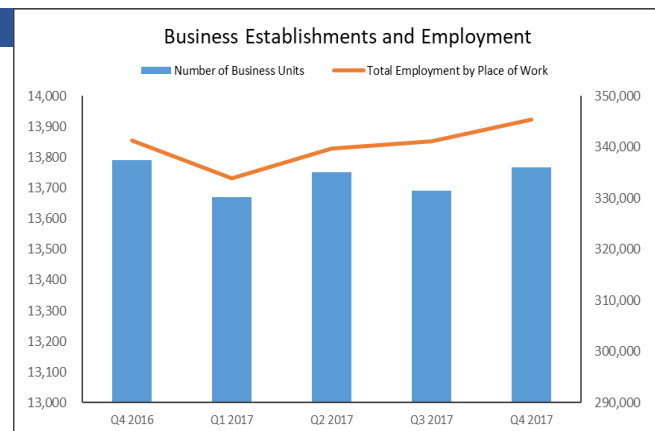


## City Business Establishments and Employment

	Q4 2016	Q3 2016	Q4 2017	Trend
# of Business Units	13,798	13,690	13,767	■
Total Employment	341,306	341,166	345,372	▲

In the fourth quarter of 2017, the number of business establishments in Baltimore City increased from the previous quarter, but was down slightly from the same time a year prior. From the third quarter of 2017 to the fourth quarter of 2017, there was an increase in the number of both goods-producing and service establishments while total employment in the fourth quarter of 2017 was above both the previous quarter and the year prior. Overall, these indicators point to continued economic growth as businesses within the City continue to expand in both their number and their employment.

Source: Quarterly Census of Employment and Wages



# Residential Real Estate

Second Quarter | 2018

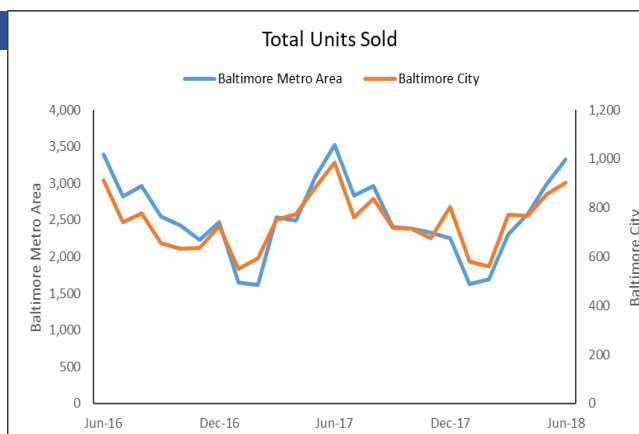
## Total Units Sold

	Q2 2017	Q1 2018	Q2 2018	Trend
Baltimore Metro Area*	9,094	5,634	8,903	■
Baltimore City	2,643	1,910	2,526	■

The region's residential housing market showed signs of a slowdown in the second quarter of 2018 (year-over-year comparison). Compared to the second quarter of 2017, City and Metro Area units sold dropped 4.4% and 1.9%, respectively. The lower number of units sold in the Metro Area may be a result of fewer active listings. In Q2 2018, Active Listings dropped 13% compared to the same period of time in 2017. Locally, active listings in Q2 increased 1.5% compared to 2017.

\*Does not include Baltimore City

Source: Metropolitan Regional Information Systems, Inc. (MRIS)



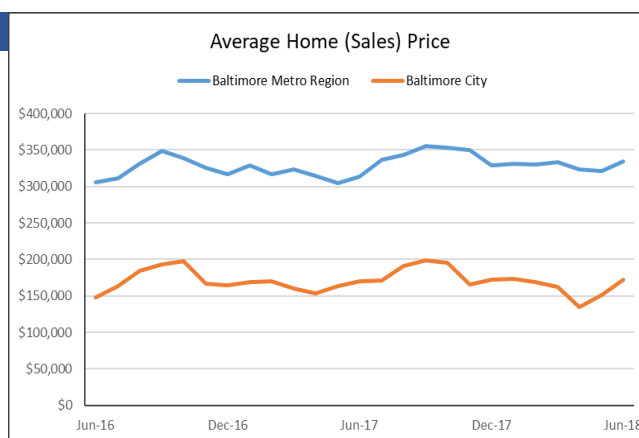
## Average Home (Sales) Price

	Q2 2017	Q1 2018	Q2 2018	Trend
Baltimore Metro Area*	\$346,204	\$327,263	\$351,147	▲
Baltimore City	\$188,167	\$154,989	\$193,099	▲

Despite a slowdown in the number of housing units that transferred ownership in the second quarter, sales prices in both the Metro Area and City increased year-over-year. Lower supply in the Metro Area may be driving the higher costs, but the increased prices may also indicate continued optimism in the market.

\*Does not include Baltimore City

Source: Metropolitan Regional Information Systems, Inc. (MRIS)



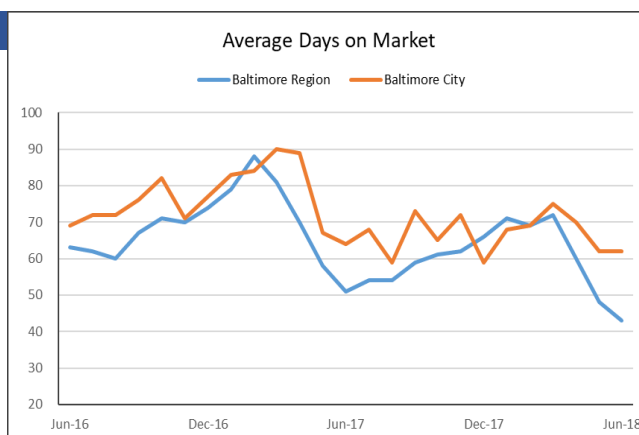
## Average Days on Market

	Jun-17	Mar-18	Jun-18	Trend
Baltimore Region*	51	72	43	▲
Baltimore City	64	75	62	▲

Compared to June 2017, the entire region saw a reduction of 15.7% in the number of Average Days on Market. Locally, The City experienced a 3.2% reduction in the number of days it took for a listing to get sold.

\*Includes Baltimore City

Source: Metropolitan Regional Information Systems, Inc. (MRIS)



### Commercial Real Estate Outlook

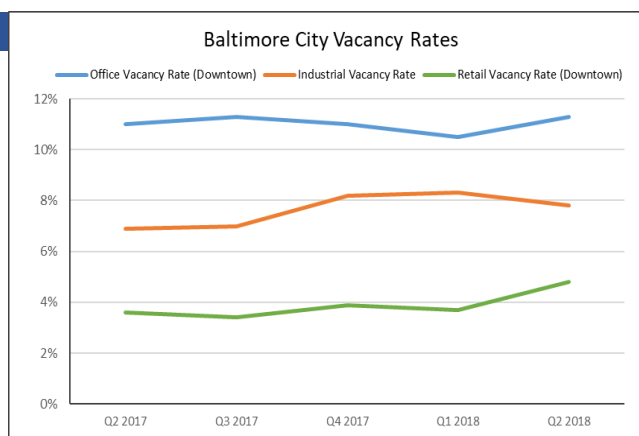
The Baltimore City commercial real estate market continues to display signals of continued demand. There are multiple projects underway with buildings being preleased, significant leases signed, and buildings being sold, as well as, new projects being announced. The relatively low vacancy rates and absorption figures are providing signals that while there is interest in Baltimore City, particular segments are faring better than others. The industrial market has seen the delivery of new properties (5350 Holabird Ave), sales (5300 Holabird Ave), and leases signed (1657 S. Highland Ave and 2000 Washington Blvd). Despite increasing vacancy rates, new properties and leases for office and retail properties are occurring. Key office properties such as 1 E. Pratt, 500 E. Pratt, and 7 St. Paul have been sold. New leases at 100 E. Pratt, 750 E. Pratt, and 100 Light St. have been signed. For the retail market, a lease for nearly 30,000 square feet of space was signed at 200 E. Pratt Street.

### Baltimore City Vacancy Rates

	Q2 2017	Q1 2018	Q2 2018	Trend
Office (Downtown)	10.8%	10.5%	11.3%	■
Industrial	7.1%	8.3%	7.8%	▲
Retail (Downtown)	3.7%	3.7%	4.8%	■

Although vacancy rates for both office and retail space increased from the previous quarter and the same quarter a year prior, rates remain below than they had been over the long-term. The vacancy rate for industrial space decreased by a half a percentage point from the previous quarter indicating increasing demand for industrial space. Through the first half of 2018, one additional industrial property became available lease. With multiple projects coming online and new projects announced, there is continued demand for space across the City including strong demand for space in the Downtown area.

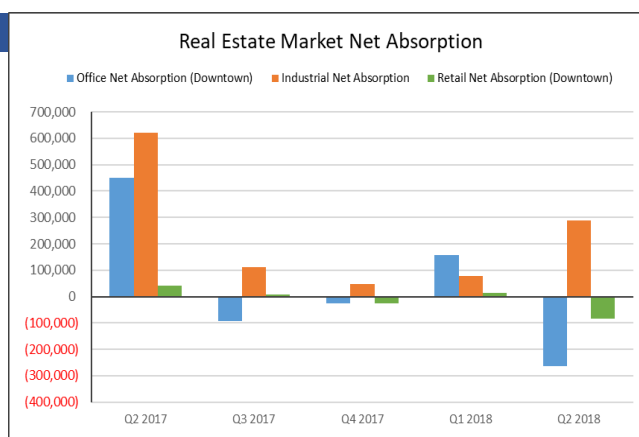
Source: CoStar



### Real Estate Market Net Absorption

The second quarter of 2018 displayed a change in absorption for the office and retail markets in the Downtown with more space becoming available for lease, while the industrial market continued with more businesses leasing space than making it available. In the second quarter of 2018, a total of 262,611 square feet of office space became available for lease and 83,397 square feet of retail space in the Downtown became available for lease. Also in the second quarter, 289,425 square feet of industrial space in Baltimore City became leased. Three of the top 15 industrial leases in total square footage were signed in Baltimore City.

Source: CoStar





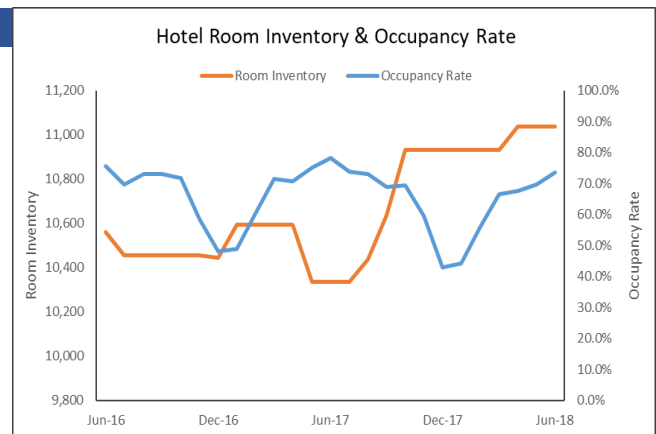
The Smith Travel Accommodations Report tracks data on a variety of indicators for the Hotel Industry in the City. Data collected by Smith Travel does not include information for every hotel in Baltimore City; however, data is reported for approximately 95% of the inventory. Throughout the first half of 2018, total occupancy and revenue have declined compared to the same period of time in 2017. The Occupancy Rate increased compared to March, but typically the Tourism industry is relatively cyclical and data should be compared on a year-over-year basis. Although the Occupancy Rate is down compared to June 2017, the overall demand is relatively flat.

### Hotel Room Inventory & Occupancy Rate

	Jun-17	Mar-18	Jun-18	Trend
Room Inventory	10,335	10,929	11,038	▲
Occupancy Rate	78.1%	66.4%	73.7%	■

As stated above, despite June occupancy rates increasing compared to March, the occupancy rate is still down 4.4% compared to June 2017. The reduction is a result of the higher inventory; the number of rooms rented is virtually unchanged from June 2017 (0.8% increase). The increase in rooms since March is due to the opening of the new boutique Hotel Revival in Mount Vernon, which opened in April 2018.

Source: Smith Travel Accommodations Report (STAR)

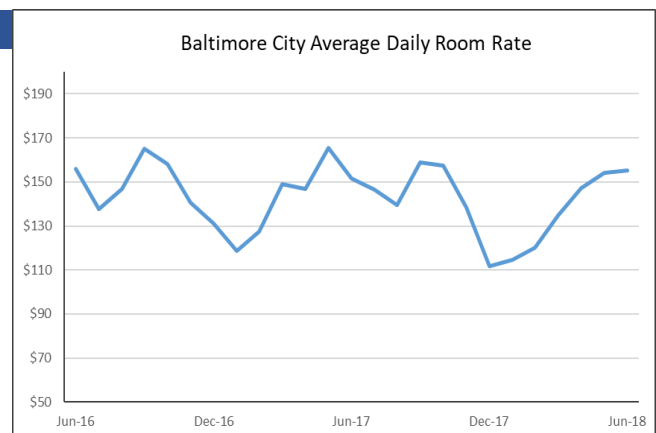


### Average Daily Room Rate (ADR)

	Jun-17	Mar-18	Jun-18	Trend
Baltimore City	\$151.67	\$134.51	\$155.25	▲

Average Daily Rate (ADR) is influenced by seasonal demand because hotels will decrease prices in an effort to increase occupancy in the off-season months; however, significant changes may indicate shortages in supply or demand. Conventions and events in the City both impact the ADR as well. Although the June ADR increased year-over-year, year-to-date ADR is still down 3.6% compared to the prior year. This is likely a result of the increased room availability.

Source: Smith Travel Accommodations Report (STAR)



# Sales Tax

Second Quarter | 2018

## Sales Tax Revenue (State collected)

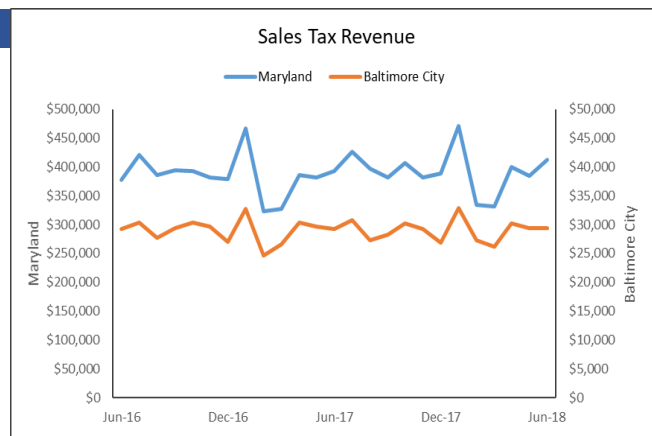
Although Baltimore City does not collect this revenue, Sales Tax activity can serve as an indicator of overall economic activity. In the first quarter of 2018, total State Sales Tax generated by Baltimore City increased on a year-over-year basis and was consistent with prior quarter activity. There is seasonality to this indicator, as some months (i.e. holidays, summer months) see more sales activity than others. Generally, there is about a 1-2 month delay between activity and Sales Tax revenue being reported.

### Sales Tax Revenue (in millions)

	Q2 2017	Q1 2018	Q2 2018	Trend
Maryland	\$1,159.3	\$1,137.4	\$1,196.6	▲
Baltimore City	\$89.3	\$86.4	\$88.9	■
Ratio - City:State	7.7%	7.6%	7.4%	▼

Quarterly Sales Tax revenue in the City increased in the second quarter of 2018; the first material increase in almost a year. However, year-over-year Sales Tax revenue is down compared to Q2 2017. Compared to Q2 2017, Maryland Sales Tax revenue increased 3.2%, but the City's actually declined 0.5%. As a result, Baltimore City's total share of the State revenue declined, signaling declining activity in the City for the second quarter. One sector of declining Sales Tax revenue was for Furniture & Appliances, where Q2 tax revenue declined 17% compared to Q2 2017.

Source: Maryland State Comptroller's Office

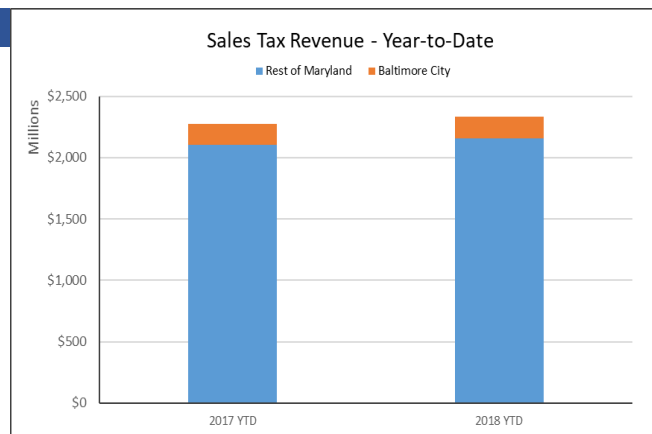


### Sales Tax Revenue – Year-to-Date (in millions)

	2017 YTD	2018 YTD	Trend
Maryland	\$2,276.8	\$2,334.0	▲
Baltimore City	\$173.3	\$175.3	▲
Ratio - City:State	7.6%	7.5%	■

As stated above, the decline in Baltimore City's Sales Tax revenue (as a percentage of total State revenue) for the second quarter signals a slowdown in economic activity for that period. However, in both the State and the City, economic activity for the first six months of the year has increased compared to 2017.

Source: Maryland State Comptroller's Office



## National Indicators

Second Quarter | 2018

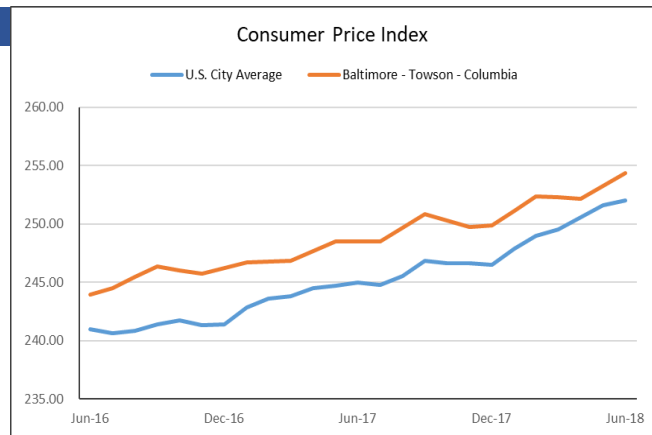
### Consumer Price Index (CPI)

	Jun-17	Mar-18	Jun-18	Trend
United States	244.96	249.55	251.99	▲
Balt.-Towson-Columbia	248.53*	252.27*	254.35	▲

The Consumer Price Index for the United States has increased at a steady rate over the first half of 2018. The CPI for the United States increased 2.2% in the first half of 2018, which is slightly less than the year-over-year growth of 2.9%. Locally, the CPI increased at a slower rate. Since December, the regional CPI only increased 1.8%.

\*Regional data released bi-monthly. Values shown represent averages of months before and after the listed month.

Source: Bureau of Labor Statistics

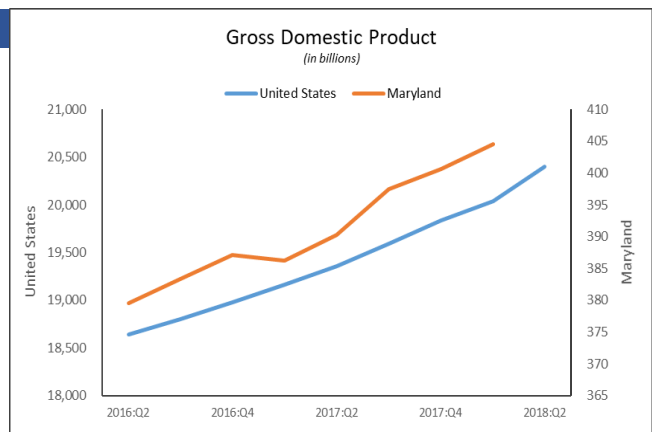


### Gross Domestic Product (GDP)

	Q2 2017	Q1 2018	Q2 2018	Trend
United States	19,359.1	20,041.0	20,402.5	▲
Maryland	390.2	404.6	n/a	■

After only increasing at a rate of 1.1% in the first quarter of 2018, the National GDP increased 1.8% in the second quarter of the year. As of August 2018, second quarter data for the State was not available. The State's GDP generally trends similarly to the national index; therefore, it is not expected a different behavior pattern at the State level in the short-term. Between Q4 2017 and Q1 2018, State GDP increased 1.0%, slightly less than the national level over the same period.

Source: Bureau of Economic Analysis

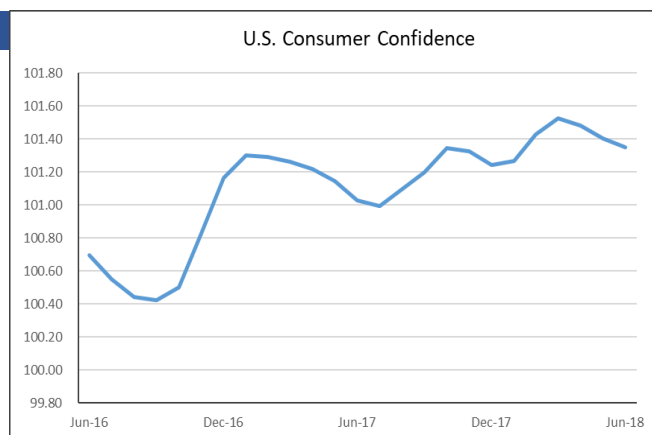


### Consumer Confidence

	Jun-17	Mar-18	Jun-18	Trend
United States	101.03	101.53	101.35	■

Consumer Confidence is often viewed as a leading indicator for the overall economy, as consumers' attitudes towards the market may indicate future trends. Over the past 18 months, Consumer Confidence has been marginally volatile; however, year-over-year data shows increases in the indicator. Given the slow expansion of the economy, it's unclear if the volatility is a result of the current political climate, concerns an economic downturn, or some other unknown.

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



### *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 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)