



Photo Credit: Mark Dennis

Overall Analysis

Through the first three quarters of 2018, indicators point to steady and continued economic growth; however, according to the Federal Reserve Bank of Richmond, as of November, businesses surveyed within Maryland reported indexes showing weakening general business conditions and mild increases in sale activity. On a more positive note, these businesses were optimistic, expecting to see growth in the next six months.

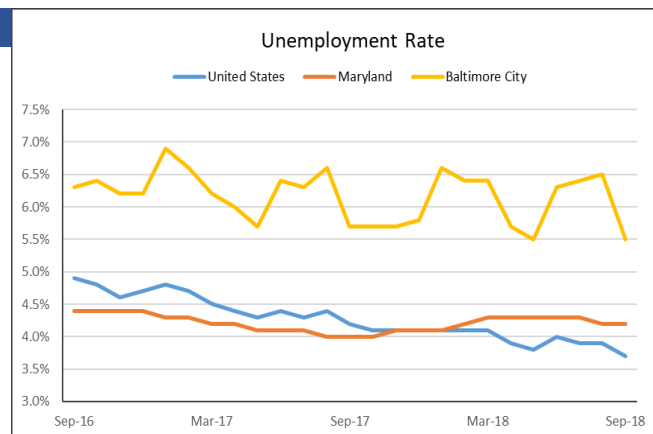
Unemployment remains at a historical low and total employment has increased over the past year, but there are some indications of a possible slowing of the labor market. As of September 2018, the City's unemployment rate sits at 5.5%; along with May 2018, this is the lowest in the City since January 2008. The total number of persons employed within the City exceeds 338,000 persons. Other economic indicators, including tourism, residential real estate, and sales tax revenues, continue to point to sustained economic growth within Baltimore City. As for commercial real estate, the third quarter behaved much like the second, displaying mixed behavior in vacancy rates and absorption, depending on the market segment.

Unemployment Rate

	Sept-17	Jun-18	Sept-18	Trend
United States	4.2%	4.0%	3.7%	▲
Maryland	4.0%	4.3%	4.2%	▲
Baltimore City	5.7%	6.3%	5.5%	▲

Despite fluctuations over the last year, Baltimore's unemployment rate has decreased, and for the second time in 2018 reached pre-recession levels. On a year-over-year basis, the National rate has also declined with the State seeing a very slight increase. Low rate of unemployment is a signal of a tight labor market which remains at virtually full employment levels, with the potential of employers experiencing difficulty in filling open positions. This low rate may lead to increased pressure on raising wages of existing workers.

Source: Bureau of Labor Statistics

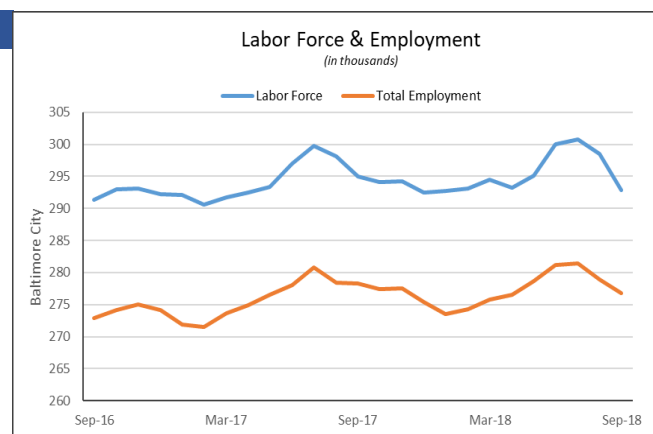


City Labor Force & Employment

	Sept-17	Jun-18	Sept-18	Trend
Labor Force	294,993	300,019	292,847	■
Resident Employment	278,234	281,114	276,836	■

Despite the 0.7% decrease in resident employment (year-over-year), the City has averaged 278K employed residents over the last 18 months, and preliminary figures from the BLS indicate a positive trend in the City's labor force and absorption in the job market.

Source: Bureau of Labor Statistics

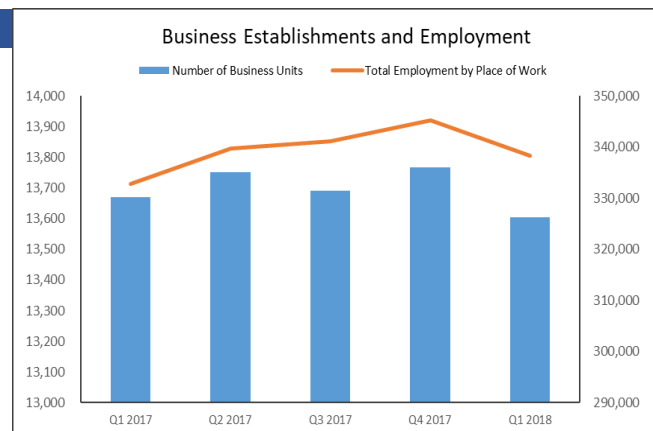


City Business Establishments and Employment

	Q1 2017	Q4 2017	Q1 2018	Trend
# of Business Units	13,671	13,767	13,603	■
Total Employment	332,844	345,238	338,248	▲

In the first quarter of 2018, the number of business establishments in Baltimore City decreased slightly from both the previous quarter and the first quarter a year prior. From the first quarter of 2017 to the first quarter of 2018, many service sector industries experienced declines but, there was an increase in the number of professional and business service establishments and the number of goods-producing establishments held steady. While the number of establishments decreased, the total number of persons employed in Baltimore City increased by 1.6% over the same time period.

Source: Quarterly Census of Employment and Wages



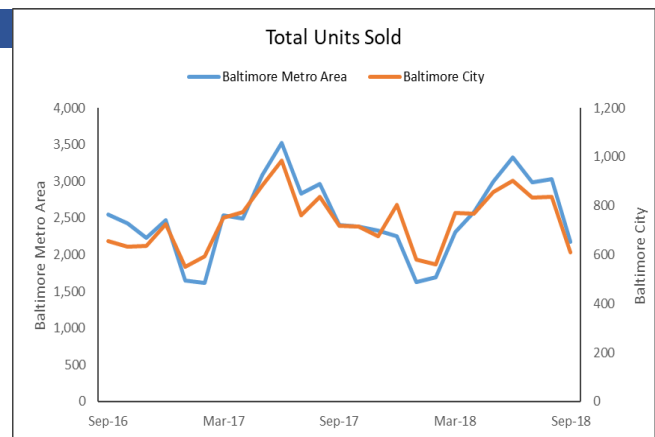
Total Units Sold

	Q3 2017	Q2 2018	Q3 2018	Trend
Baltimore Metro Area*	8,204	8,903	8,189	■
Baltimore City	2,316	2,526	2,281	■

The region's residential housing market continued to show a gradual slowdown of activity compared to the same quarter of the prior year. This marks the second quarter in a row where year-over-year sales have declined, albeit marginally. Compared to the third quarter of 2017, City and Metro Area unit sales declined 1.5% and 0.2%, respectively.

*Does not include Baltimore City

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



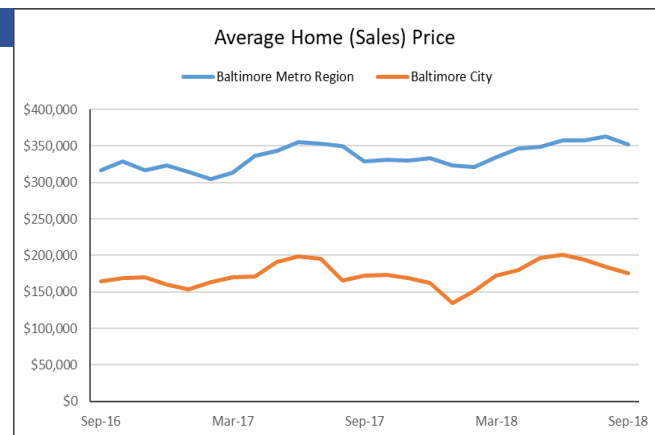
Average Home (Sales) Price

	Q3 2017	Q2 2018	Q3 2018	Trend
Baltimore Metro Area*	\$345,244	\$351,147	\$358,196	▲
Baltimore City	\$177,730	\$193,099	\$185,712	▲

Despite a slowdown in the number of housing units that transferred ownership in the second quarter, average sales prices in both the Metro Area and City increased year-over-year. In the areas surrounding the City, housing prices increased over Q2, which typically yields the highest sales figures. 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)



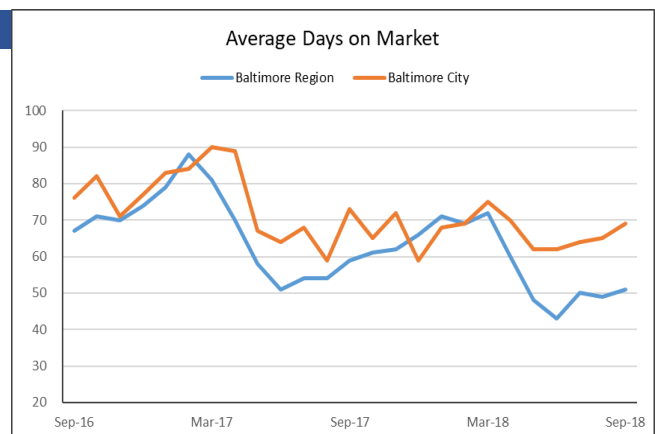
Average Days on Market

	Sept-17	Jun-18	Sept-18	Trend
Baltimore Region*	59	43	51	▲
Baltimore City	73	62	69	▲

The City and region as a whole continue to see home sales happening at a faster rate than the same time period last year, which supports the above notion that there is increased demand and optimism in the local housing market. Residential listings in the region are on the market 13.6% less time than in September 2017. In the City, the average list time has decreased by 5.5% year-over-year.

*Includes Baltimore City

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



Commercial Real Estate Outlook

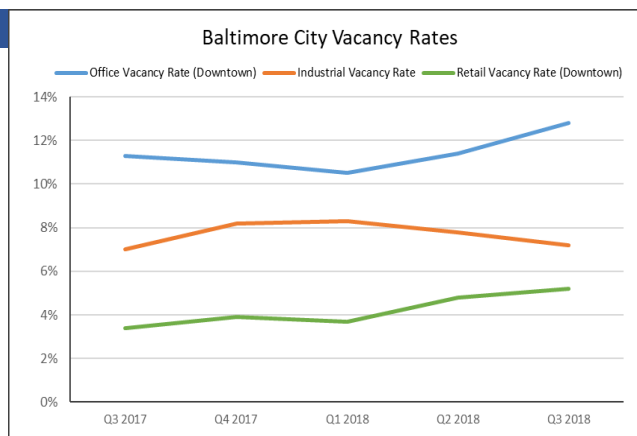
While the Baltimore City commercial real estate market has displayed strong demand and continued strength, there are signs of the market starting to cool down. Multiple projects across the City are underway and buildings being preleased, significant leases signed, and buildings continue being sold; however, vacancy rates (in the Downtown) are trending upward, potentially indicating that demand is not keeping up with current supply. Even though there is still strong interest in developing properties and locating within Baltimore City, particular segments are faring better than others. In regards to the office market, while there was overall negative net absorption of space, WeWork signed a new lease for Wills Wharf and One Light in Downtown Baltimore opened with 66% of its 241,000 sq.ft. space being preleased. Similar to the office market, the retail market has experienced an overall negative net absorption, but there are multiple new retail properties being developed, including Yard 56 (106,000 sq.ft.) and Canton Crossing II (90,000 sq.ft.). The City's industrial market continues to have positive net absorption and within the last year, several properties have been delivered (5350 Holabird Avenue and 1821 Oliver Street) with another (1801 62nd Street) currently under construction.

Baltimore City Vacancy Rates

	Q3 2017	Q2 2018	Q3 2018	Trend
Office (Downtown)	11.0%	11.4%	12.8%	▼
Industrial	7.3%	7.8%	7.2%	▲
Retail (Downtown)	3.5%	4.8%	5.2%	▼

Vacancy rates within the downtown area increased for office and retail properties from both the quarter and year prior. The low vacancy rate for industrial space continues to indicate strong demand for industrial space within the City. Despite the increase in vacancy rates, the office market remains strong with One Light Street being 66% pre-leased. One factor potentially affecting vacancy rate in the retail market is the increased supply with the development of new retail centers in East Baltimore, specifically Yard 56 and Canton Crossing II.

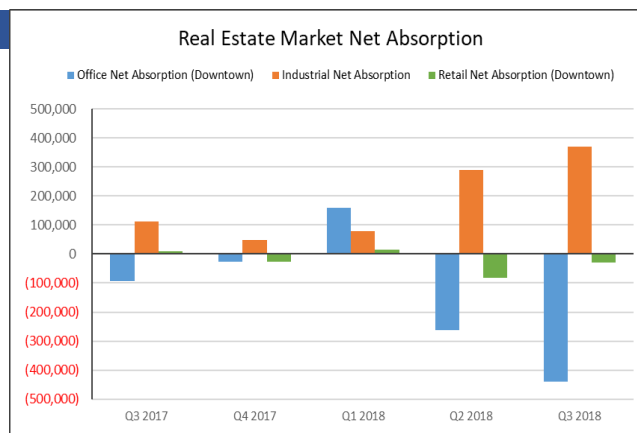
Source: CoStar



Real Estate Market Net Absorption

The third quarter of 2018 marked a continuation of office and retail space becoming available in the Downtown area, while the industrial market continued with more businesses leasing space than making it available. In the third quarter of 2018, a total of 438,948 square feet of office space became available for lease and 28,506 square feet of retail space in the Downtown became available for lease. Also in the third quarter, 369,730 square feet of industrial space in Baltimore City became leased. This marks the third straight quarter of positive net absorption of industrial space in Baltimore City.

Source: CoStar



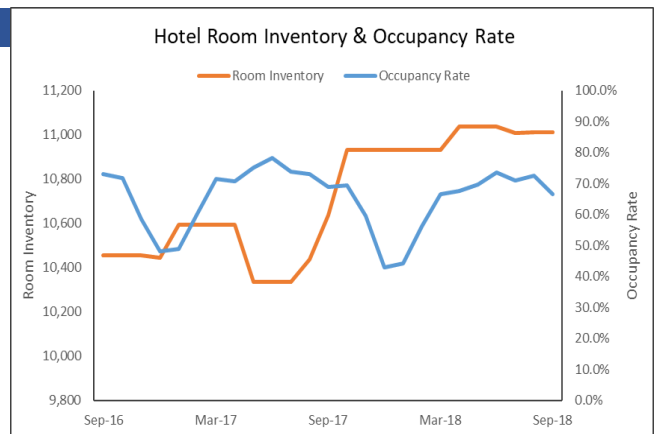
The Smith Travel Accommodations Report tracks data on a variety of indicators for the Hotel Industry in the City. Data collected by Smith Travel does not include information for every hotel in Baltimore City; however, data is reported for approximately 95% of the inventory. In the most recent quarter, the occupancy rate declined from both September 2017 and June 2018 levels. The decline from the prior year is primarily due to the increased room inventory from new hotels opening in the City; actual demand has remained almost constant. The decline from June occupancy levels can be explained by the seasonality of the tourism industry and should not be considered a downward trend.

Hotel Room Inventory & Occupancy Rate

	Sept-17	Jun-18	Sept-18	Trend
Room Inventory	10,636	11,038	11,010	■
Occupancy Rate	68.9%	73.7%	66.4%	■

Despite September occupancy rates decreasing compared to June, the total demand for rooms in the City is virtually unchanged compared to September 2017. Total year-over-year only decreased by 0.2%, or thirteen rooms per night, and does not indicate a trend. 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 and added 104 rooms.

Source: Smith Travel Accommodations Report (STAR)

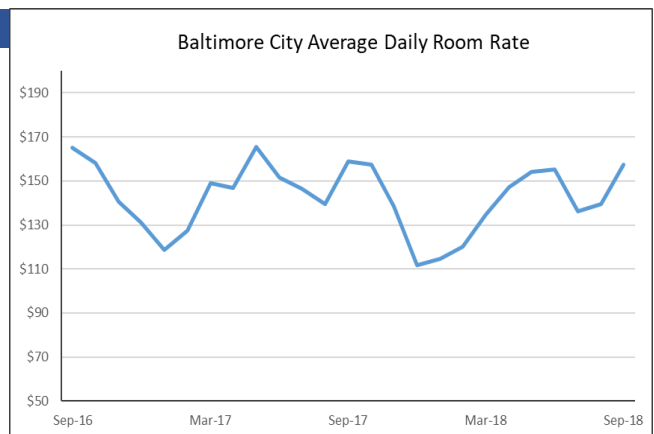


Average Daily Room Rate (ADR)

	Sept-17	Jun-18	Sept-18	Trend
Baltimore City	\$158.91	\$155.25	\$157.38	■

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. The ADR in the City increased 1.4% in the most recent quarter but is down 1.0% compared to the previous year. One possible explanation for this is that hotels have been required to lower prices slightly in reaction to increased supply.

Source: Smith Travel Accommodations Report (STAR)



Sales Tax Revenue (State collected)

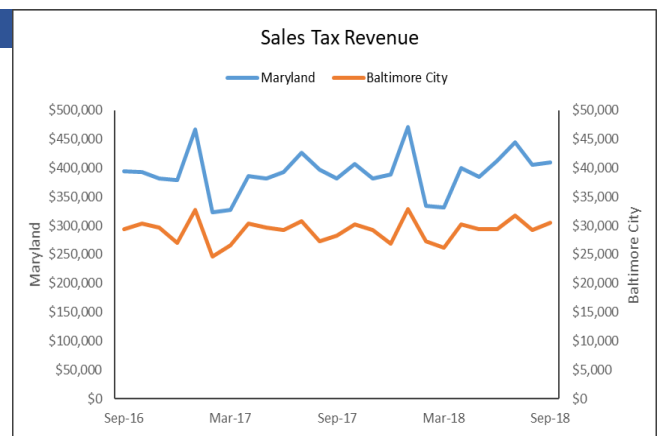
Although Baltimore City does not collect this revenue, Sales Tax activity can serve as an indicator of overall economic environment. In the third quarter of 2018, spending activity for the State as a whole increased on both a year-over-year and quarterly basis, while the City increased its participation as a percentage of the State total compared to the same period in 2017. Generally, there is about a 1-2 month delay between activity and Sales Tax revenue being reported.

Sales Tax Revenue (in millions)

	Q3 2017	Q2 2018	Q3 2018	Trend
Maryland	\$1,204.4	\$1,196.6	\$1,258.3	▲
Baltimore City	\$86.4	\$88.9	\$91.6	▲
Ratio - City:State	7.2%	7.4%	7.3%	■

Quarterly Sales Tax revenue generated in the City increased for the second quarter in a row as of the third quarter of 2018. Sales Tax revenue from City activities increased 6.0% from the same time period last year, while Maryland's total Sales Tax revenue grew at a slightly slower rate of 4.5% compared to Q3 2017. This means that in the third quarter, Baltimore City experienced greater spending activity than the rest of the State. If this continues, it is a positive trend for the City. Industries experiencing significant growth in September include Apparel; General Merchandise; and Hardware, Machinery, and Equipment.

Source: Maryland State Comptroller's Office

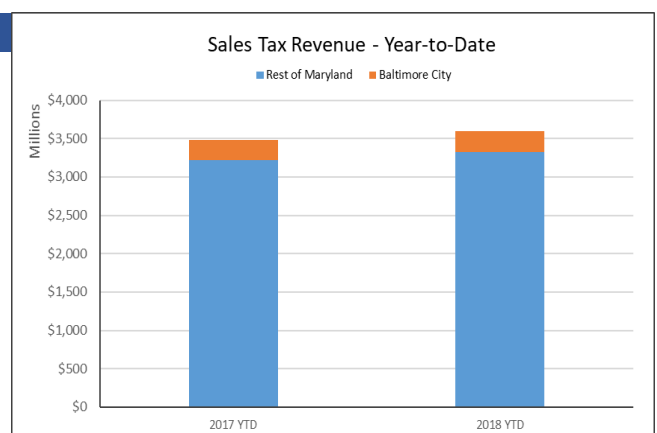


Sales Tax Revenue – Year-to-Date (in millions)

	2017 YTD	2018 YTD	Trend
Maryland	\$3,481.2	\$3,592.2	▲
Baltimore City	\$259.6	\$266.9	▲
Ratio - City:State	7.5%	7.4%	■

Despite stronger growth in the third quarter of 2018 than the State as a whole, Baltimore City's total share of Sales Tax revenue in the first three quarters of 2018 is down slightly from 2017. In general, this is not necessarily signs of a downward trend, as both the State and City are experiencing tax revenues increasing compared to the prior year. Tax revenue in the State has increased 3.2% and revenues from spending in the City are up 2.8%.

Source: Maryland State Comptroller's Office



National Indicators

Third Quarter | 2018

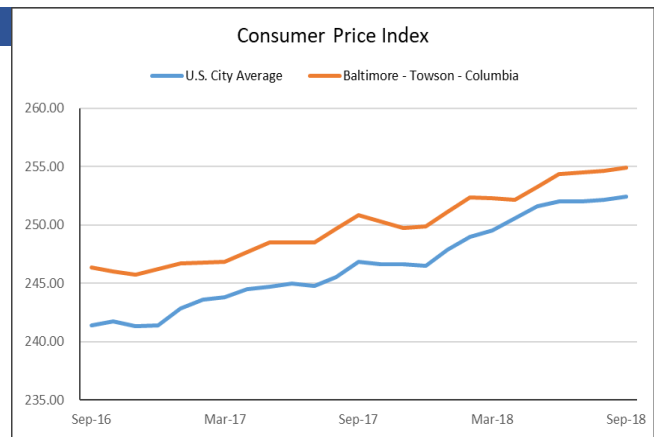
Consumer Price Index (CPI)

	Sept-17	Jun-18	Sept-18	Trend
United States	246.82	251.99	252.44	■
Balt.-Towson-Columbia	250.85	254.35	254.89*	■

The Consumer Price Index for the United States and region showed slower growth in Q3 2018, both only increasing 0.2% since June. Since September 2017, the national index has increased 2.3%. While the area inflation remains similar to last year, the nation is experiencing gradual increases. The regional index has increased a slower rate of 1.6% in the last year.

*Regional data released bi-monthly. Values shown represent averages of months before and after the listed month. September 2017 is a published value (not an average).

Source: Bureau of Labor Statistics

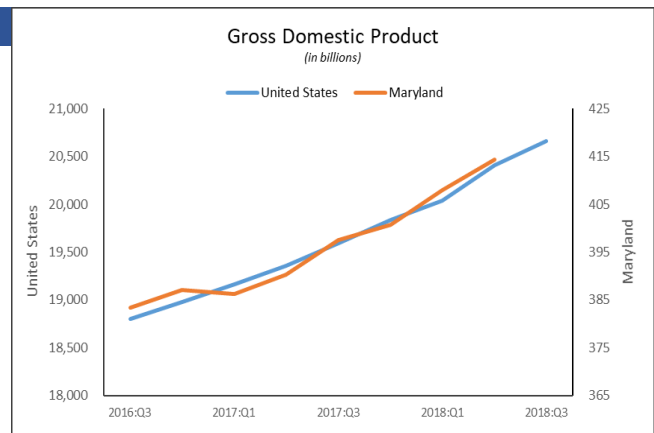


Gross Domestic Product (GDP)

	Q3 2017	Q2 2018	Q3 2018	Trend
United States	19,588.1	20,411.9	20,660.3	■
Maryland	397.5	414.4	n/a	■

Nationwide GDP grew 1.2% in the third quarter of 2018, representing a slowdown compared to the prior quarter where growth was 1.9%. 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 Q1 2018 and Q2 2018, State GDP increased 1.6%, slightly less than the national level over the same period.

Source: Bureau of Economic Analysis

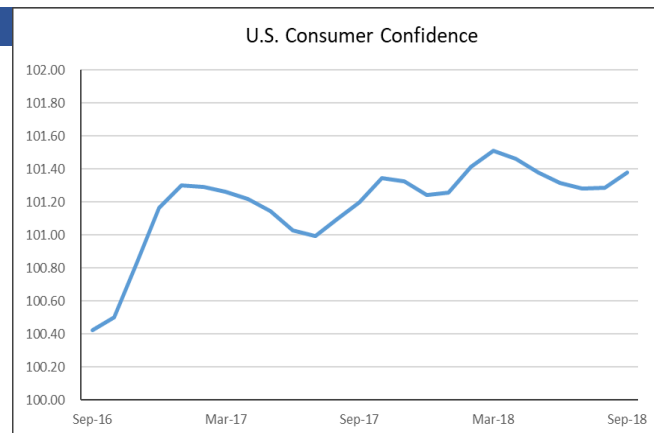


Consumer Confidence

	Sept-17	Jun-18	Sept-18	Trend
United States	101.20	101.32	101.38	▲

After a brief decline in the second quarter of 2018, Consumer Confidence rebounded slightly in September. 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 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)