Photo Credit: Mark Dennis

Overall Analysis

Through Quarter One of Calendar Year 2019, 10 indicators point to continued positive growth, 18 suggest steady or flattening growth, while five (5) suggest the emergence of a negative trend. This report tracks and reports on 33 total indicators, three of which – relating to commercial real estate – are being featured for the first time. From the prior quarter, 11 of 30 indicators have remained unchanged, eight (8) have improved, while 11 have deteriorated.

In support of the overall optimistic sentiment, the national and local unemployment rates remain at historical lows, regional home sale prices continue to increase, commercial real estate displays strong demand, hotel occupancy remains strong, as does sales tax revenue, and national Gross Domestic Product continues to climb. At the same time, there are some rain clouds forming on the horizon. Residential units are spending more time on the market, office and retail vacancy rates ticked upward, consumer confidence continued to decline, and Baltimore City's share of contribution to State sales tax revenue weakened.

At the June 19th Federal Open Market Committee (FOMC) press conference, Jerome Powell, Chairman of the Federal Reserve Bank's Board of Governors, supported the positive overarching narrative that is expressed in Baltimore City's first quarter report. Although inflation continues to run below the target rate of 2% and business confidence has declined modestly, while concerns persist about international trade tensions and global economic growth, the FOMC expects continued strength in the job market and maintains a steady economic outlook into the near future.

Unemployment Rate

	Mar-18	Sept-18	Mar-19	Trend
Baltimore City	5.9%	5.1%	5.3%	🟨
Maryland	4.1%	3.8%	3.8%	🟨
United States	4.0%	3.7%	3.8%	🟨

While Baltimore's unemployment rate continues to decrease, reflecting State and National trends, the City's rate continues to lag behind. Despite this, Baltimore City's rate represents near-all-time 21st Century lows. Historically low rates signal that we are still experiencing full or near-full employment, and that potential employers may experience difficulty filling vacant positions. Out of every 100 people who want to work, 96 are able to find a job. Given these sustained low rates, employers may experience increased pressure to raise wages, to retain as well as attract new talent.

**Source: Bureau of Labor Statistics, National Public Radio**

Unemployment Rate
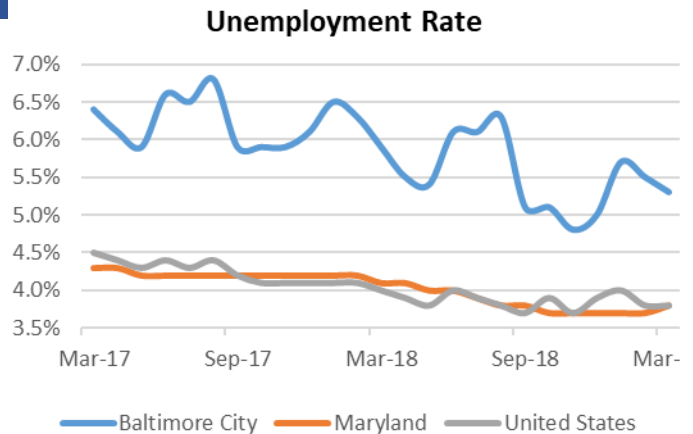
City Labor Force & Employment

	Mar-18	Sept-18	Mar-19	Trend
Labor Force	288,047	287,986	290,033	🟨
Resident Employment	271,006	273,318	274,712	🔺

Resident employment experienced a 1.4 percent year-over-year increase while the labor force grew slightly but remained relatively unchanged. These figures bolster what the data say about the City's declining unemployment rate and support the national narrative of continued late-cycle economic expansion. The City averaged 273K employed residents during Quarter One of Calendar Year 2019 and figures from the Bureau of Labor Statistics for this period indicate a stable labor force.

**Source: Bureau of Labor Statistics**

City Labor Force & Employment
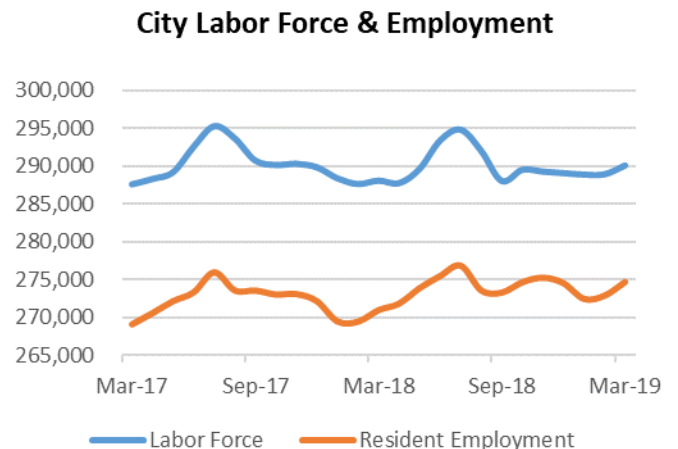
City Business Establishments and Employment

	Q4 2017	Q3 2018	*Q4 2018	Trend
# of Business Units	13,767	13,625	13,864	🔺
Total Employment	345,352	343,784	346,701	🔺

In the fourth quarter of Calendar Year 2018, the number of business establishments in Baltimore City increased from both the previous quarter and the fourth quarter a year prior. From the fourth quarter of CY 2017 to the fourth quarter of CY 2018, service sector industries experienced overall incline, with an increase in the number of professional and business service establishments and the number financial establishments. In addition to the number of establishments increasing, the total number of persons employed in Baltimore City increased by less than one percent over the same time period.

*Q1 2019 data not yet available
**Source: Quarterly Census of Employment and Wages**

Business Establishments and Employment
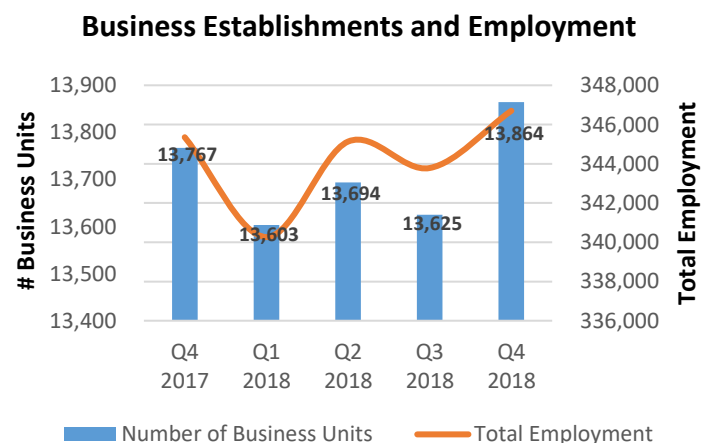
Total Units Sold

	Q1 2018	Q4 2018	Q1 2019	Trend
Baltimore Metro*	5,634	5,986	5,202	🟧
Baltimore City	1,910	1,733	1,633	🔻

A year-over-year comparison of the City and its Metro Area continued to show a gradual slowdown of activity. This marks the fourth consecutive quarter of year-over-year unit sales declines for the City. Compared to Quarter One of Calendar Year 2018, City and Metro Area unit sales declined 14.5% and 7.7%, respectively. For context, Quarter Three of Calendar Year 2018 compared to the period for the prior year showed a year-over-year unit sales decline of 1.5% and 0.2%, respectively.

*Excludes Baltimore City
**Source: Metropolitan Regional Information Systems, Inc. (MRIS**)

Total Units Sold
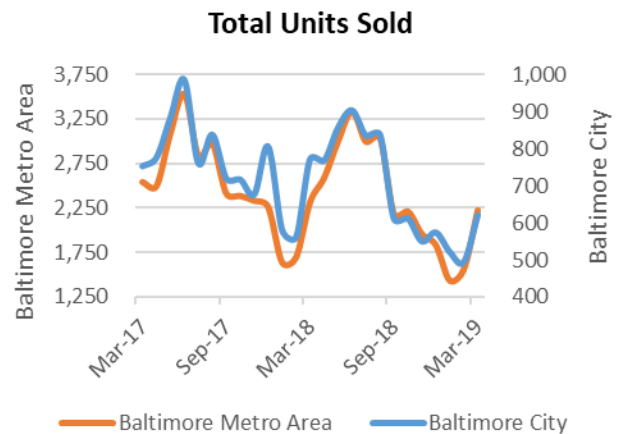
Average Home (Sales) Price

	Q1 2018	Q4 2018	Q1 2019	Trend
Baltimore Metro*	$326,372	$341,152	$328,477	🟧
Baltimore City	$153,000	$163,305	$163,808	🔺

Despite the regional and local trend of slowing sales, average sales prices in both the Metro Area and City increased year-over-year. Lower supply in the Metro Area may be driving costs higher, and increased prices are also indicative of continued optimism in the market. During its June 19th meeting the Federal Open Market Committee voted to hold interest rates steady for 2019 while also signaling at the possibility of a rate cut next year. Historically low interest rates continue to bolster the housing market.

*Excludes Baltimore City
**Source: Metropolitan Regional Information Systems, Inc. (MRIS**)

Average Home Sale Price
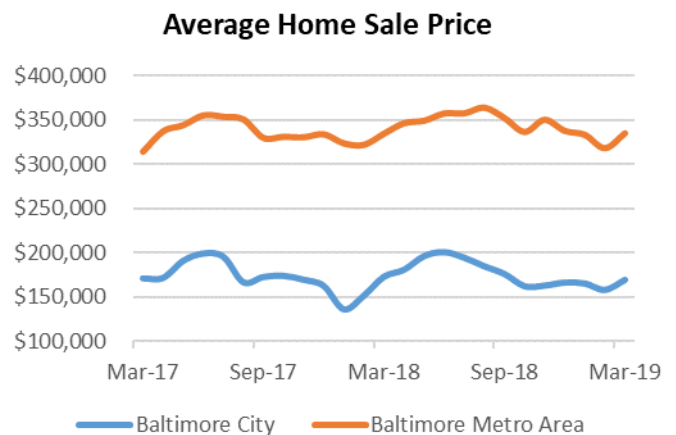
Average Days on Market

	Q1 2018	Q4 2018	Q1 2019	Trend
Baltimore Metro*	71	70	81	🟧
Baltimore City	71	71	83	🟧

The City and Metro Area experienced declines in the pace of home sales, which correlates as expected with the data on number of units sold. Year-over-year, average days on market increased 14.1% for the Metro Area and 16.9% for the City. However, these figures are in keeping with the three- and five-year days-on-market averages for the City and its Metro Area. When compared to longer term trends, we find support for the narrative of continued stability in the housing market and attribute this increase to short-term headwinds.

*Excludes Baltimore City
Source: Metropolitan Regional Information Systems, Inc. (MRIS)

Average Days on Market
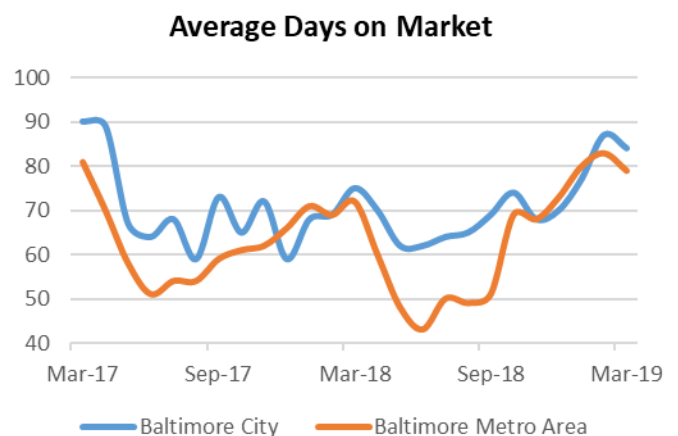
While the Baltimore City commercial real estate market has displayed strong demand and continued strength, there are signs of the market starting to cool down. Despite multiple projects across the City underway, preleased buildings, newly signed leases, and continued building sales, vacancy rates (in 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. Regarding 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

	Q2 2018	Q3 2018*	Q2 2019*	Trend
Office (Downtown)	10.5%	12.8%	8.1%	▼
Industrial	8.3%	7.2%	5.8%	▼
Retail (Downtown)	3.7%	5.2%	5.0%	◼

Vacancy rates within the Downtown area decreased for office space but increased for retail properties, from the prior year. The low vacancy rate for industrial space continues to indicate strong demand within the City. Despite office and retail market volatility, there has been considerable investment in these properties either for possible conversion to multifamily properties or acquisition. One factor potentially affecting vacancy rates within the retail market is an increased supply, with the development of new retail centers in East Baltimore, specifically Yard 56 and Canton Crossing II.

*Best available data
Source: CoStar

Baltimore City Vacancy Rates
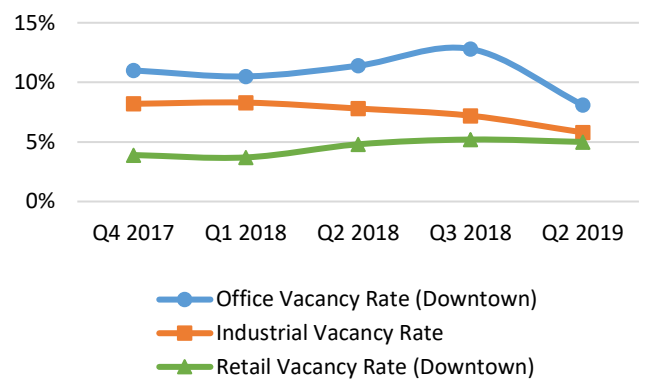
Real Estate Market Net Absorption

	Q2 2018	Q3 2018*	Q2 2019*	Trend
Office (Downtown)	(262,611)	(438,948)	(99,707)	▼
Industrial	289,425	369,730	279,364	▼
Retail (Downtown)	(83,397)	(28,506)	(53,138)	◼

Downtown office space continued to become available during the second quarter of 2019, although net absorption improved over one year ago. Over the past 12 months, there has been continued significant leasing and a sustained boom in the industrial market. Also, a total of 171,000 square feet of Downtown office space became available for lease and a net of 2,000 square feet of Downtown retail space became leased. Additionally, nearly 3.4 million square feet of industrial space is leased. While industrial properties are being leased within the City, there are several speculative and built-to-suit developments underway outside the City which could affect overall absorption.

*Best available data
Source: CoStar

Real Estate Market Net Absorption
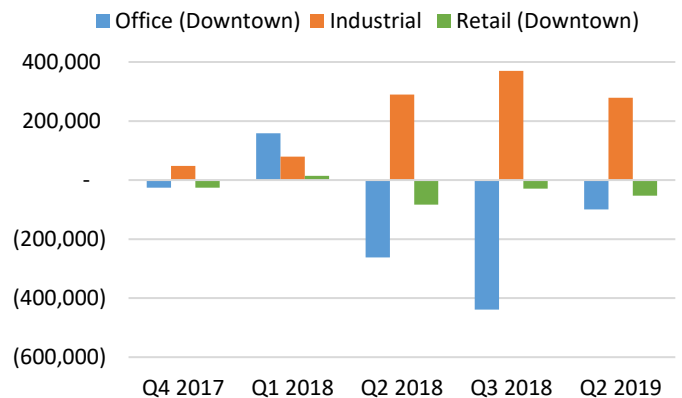
The Smith Travel Accommodations Report tracks data on a variety of indicators for the Hotel Industry in the City. Data collected by Smith Travel does not include information for every hotel in Baltimore City. However, data is reported for approximately 95% of the inventory. In Quarter One of Calendar Year 2019 the average occupancy rate declined from Quarter Four of Calendar Year 2018, but modestly beat the prior year's Quarter One rate. The decline from the prior quarter is primarily due to increased room inventory from new hotels opening in the City. Demand, as indicated by the Average Daily Rate, has remained constant. The modest occupancy rate decline from the prior quarter can be explained by seasonal behavior – fall months correlate with higher levels of spending and travel relative to winter months – and should not be indicative of a sustained downward trend.

Hotel Room Inventory vs. Occupancy Rate

	Mar-18	Sept-18	Mar-19	Trend
Room Inventory	10,930	11,010	11,010	■
Occupancy Rate	66.4%	66.4%	66.0%	■

Despite March occupancy rates decreasing slightly compared to September, total demand for rooms in the City is virtually unchanged, after accounting for seasonality. The year-over-year occupancy rate only decreased by 0.4 percentage points, the equivalent of 64 rooms. That's 18% of a single room per night on an annualized basis, based on March 2018 inventory, which is not indicative of any broader trend. The year-over-year increase in room inventory is chiefly 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)


Hotel Room Inventory & Occupancy Rate
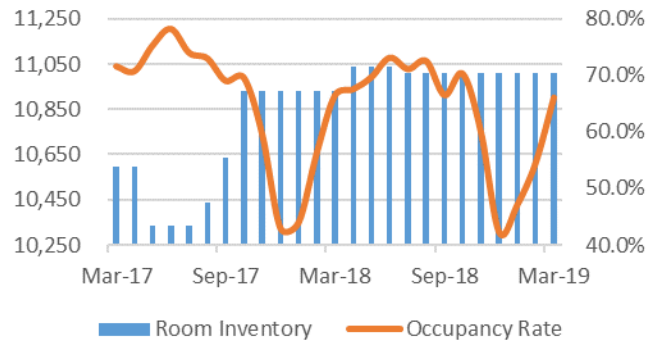
Average Daily Room Rate vs. Occupancy Rate

	Mar-18	Sept-18	Mar-19	Trend
Baltimore City ADR	$134.59	$157.40	$143.21	■
Occupancy Rate	66.4%	66.4%	66.0%	■

Average Daily Rate (ADR) is subject to seasonal influences as hotels decrease prices in an effort to increase occupancy in the off-season months. In the lodging industry, relatively low occupancy rates and ADR are often correlated. Data from the recent period examined affirm this. Aside from seasonal influences, conventions and other goings-on also have a short-term effect on the ADR. March 2019 ADR increased 6.4% year-over-year. In the context of increased inventory and stable occupancy rates, this might suggest that 2019 will be a more prosperous year for the lodging and broader tourism industry.

Source: Smith Travel Accommodations Report (STAR)


Average Daily Room Rate
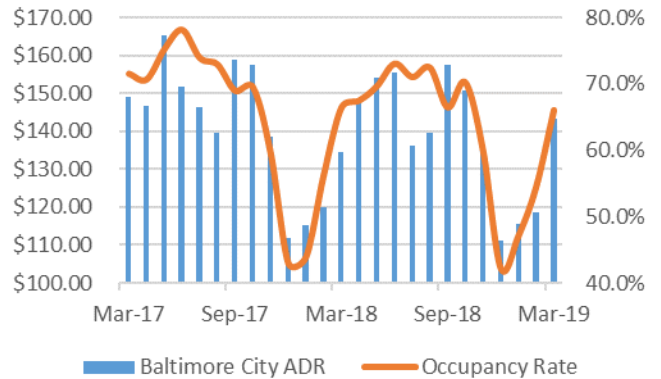
Sales Tax revenue is collected by and for the sole benefit of the State. Although Baltimore City does not collect or benefit from this revenue – with the exception of a small percentage that constitutes the City's Highway User Revenue – Sales Tax activity can serve as an indicator of the overall economic environment. In the first quarter of Calendar Year 2019 spending activity for the State as a whole increased year-over-year but decreased from the prior quarter. Additionally, the City decreased its participation as a percentage of the State total compared to the same periods during 2017 and 2018. Overall, no major changes to consumer behavior 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)

	Q1 2018	Q4 2018	Q1 2019	Trend
Maryland*	$1,050.9	$1,136.3	$1,077.4	🟧
Baltimore City	$86.4	$89.2	$85.3	🟧
City:State Ratio	7.7%	7.3%	7.4%	🟧

Sales Tax revenue generated in the City experienced a modest year-over-year decrease while Sales Tax revenue generated throughout the rest of the State increased modestly. These changes amount to a 1.3% decrease and 2.5% increase, respectively, from the same period last year. It follows that during Quarter One of Calendar Year 2019 spending activity shifted from Baltimore City to other parts of the State. Despite these changes, which are limited and should be evaluated within the context of seasonal behavior, it does not appear that Baltimore City should be immediately concerned about shifting consumer preferences. Sectors experiencing notable year-over-year change include General Merchandise (-11%), Hardware, Machinery and Equipment (+8.5%), Apparel (+6.1%), and Utilities and Transportation (-4.3%).

*Excludes Baltimore City
**Source: Maryland State Comptroller's Office**
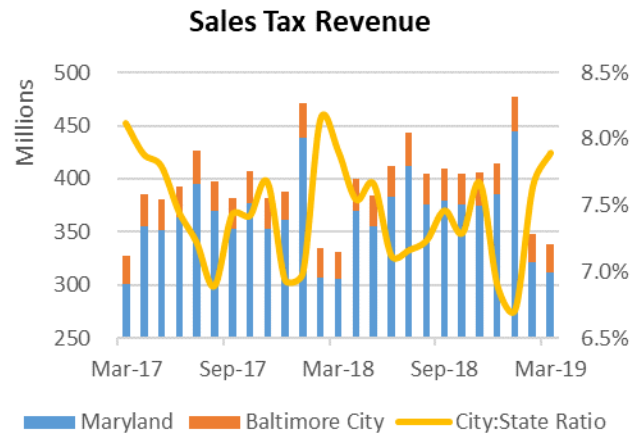
Sales Tax Revenue

Annual Sales Tax Revenue (Millions)

	2017 YTD	2018 YTD	2019 YTD	Trend
Maryland*	$1,033.6	$1,050.9	$1,077.4	🔼
Baltimore City	$83.9	$86.4	$85.3	🟧
City:State Ratio	7.9%	7.7%	7.4%	🔽

Baltimore City's total share of Sales Tax revenue is down slightly compared to Quarter One for the prior two calendar years. The City:State revenue ratio reflects the period average. This metric decreased slightly from 2017 to 2019, as the State increased sales tax revenue at a rate that outpaced the City. Revenue generated in the City for the 2019 period exceeded that of 2017 but trailed 2018 by only $1 million. State Sales Tax revenue for the calendar year to-date increased 2.5% year-over-year, while Sales Tax revenue in the City decreased 1.3%. However, revenue generated in the City is up 1.7% over two years prior.

***Excludes Baltimore City**
Source: Maryland State Comptroller's Office

Sales Tax Revenue Year-to-Date
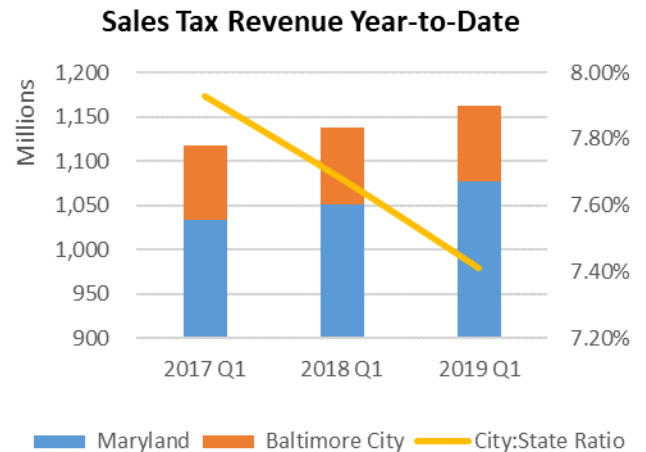
Consumer Price Index (CPI)

	Mar-18	Sept-18	Mar-19	Trend
United States	249.6	252.4	254.2	▲
Balt-Columbia-Towson*	252.3	254.9	254.4	■

The Consumer Price Index tracks the price level of a basket of consumer goods and services and can be used to measure inflation. The CPI for urban consumers in the United States and the Baltimore-Columbia-Towson Region showed modest year-over-year growth, increasing 1.8% and 0.8%, respectively. Since March 2017 the national index has increased 4.3% while the regional index has increased 3.1%. It follows that the cost of living for urban consumers, both nationally and regionally, continues to increase at a manageable pace.

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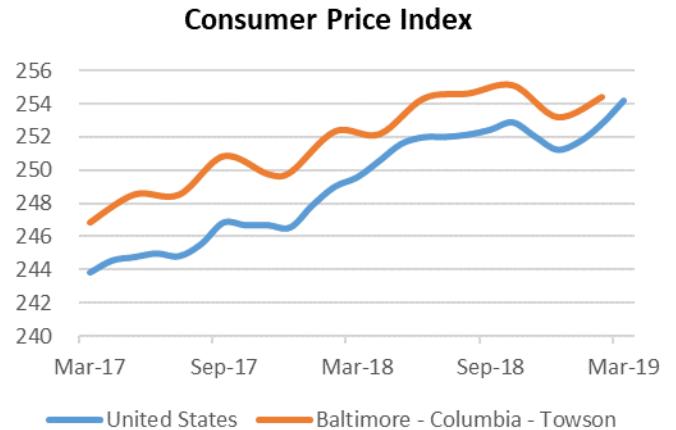
Gross Domestic Product (GDP)

	Q1 2018	Q4 2018	Q1 2019	Trend
United States	$20,041	$20,865	$21,048	▲
Maryland	$407.9	$417.8	NA	▲

National GDP grew 5% year-over-year. Growth from the prior quarter was more modest, at 0.8%. The State's GDP trends similar to the national index and is not expected to depart from this trend in the short-term. From Quarter Three to Quarter Four, for Calendar Year 2018, State GDP increased 0.9%. State GDP data is not yet available for Quarter One of 2019. The current period marks the 38th straight quarter of national GPD growth and the 19th straight quarter of State GDP growth.

Source: Bureau of Economic Analysis
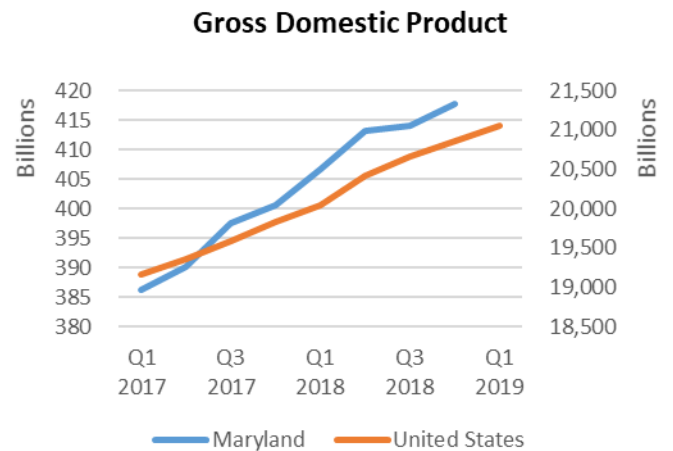
Consumer Confidence

	Mar-18	Sept-18	Mar-19	Trend
United States	101.5	101.4	101.1	▼

Consumer Confidence has been relatively volatile over the past 24 months, peaking at 101.57 in October 2017 – this was also the index's post-Great Recession high – and reaching a low of 100.86 in January 2019. The data indicate a slight year-over-year decline, although the index continues to hover around 101, which, prior to economic expansion since 2015, was last achieved during 2005. Given the slow but continued economic expansion, it is unclear if the volatility is a result of the current global political climate, concerns about economic downturn, or some other undetermined factor(s).

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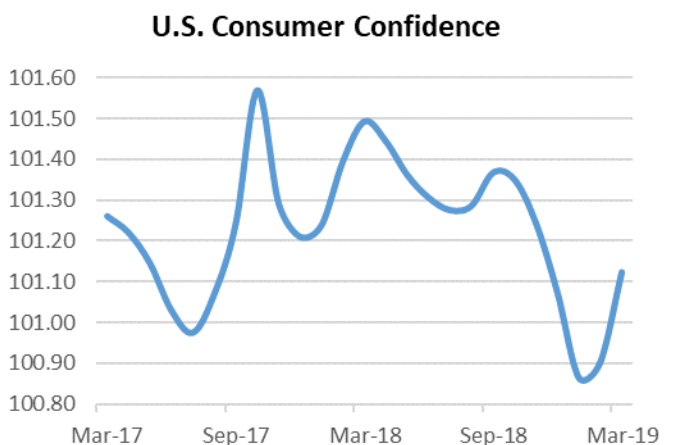
Trend Methodology

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)