



Photo Credit: Mark Dennis

Overall Analysis

Through the third quarter of 2017, Baltimore City continues to demonstrate positive signs of economic growth. During this quarter, the City's unemployment rate experienced a decline for the second straight quarter. The combination of higher average employment and reduced labor force are the factors explaining this decline. Both of these indicators are also higher on a year-over-year basis.

The City's real estate market continues its mild but steady growth. On the residential side, both the number of transactions as well as the average value per transaction has increased during the third quarter of 2017 over the same quarter in 2016. On the commercial side, more specifically for rental of the City's existing commercial space, positive signs include reductions in the vacancy rates for industrial and downtown retail space, where both sectors saw vacant space get filled during the third quarter, indicating continued demand for City commercial space inventory. Key properties, such as 1 Light Street are under construction and are completely preleased.

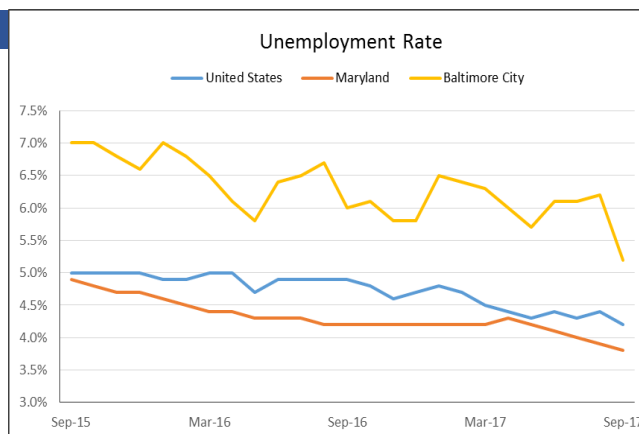
While these are all positive signs of a strong economy and there is still a positive view of generally favorable labor market conditions in the area, there are reasons to be cautious as the Federal Reserve has noted a softening of statewide business activity in Maryland.

Unemployment Rate

	Sept-16	Jun-17	Sept-17	Trend
United States	4.9%	4.4%	4.2%	■
Maryland	4.2%	4.1%	3.8%	■
Baltimore City	6.1%	6.1%	5.2%	■

Across all three regions, the unemployment rate is lower compared to both the most recent quarter as well as the same quarter from the prior year. In Baltimore, the unemployment rate experienced a decrease from 6.1% in June to 5.2% in September 2017. The September figure is still preliminary and, if finalized, is partially due to the decrease in the labor force in the same quarter.

Source: Bureau of Labor Statistics

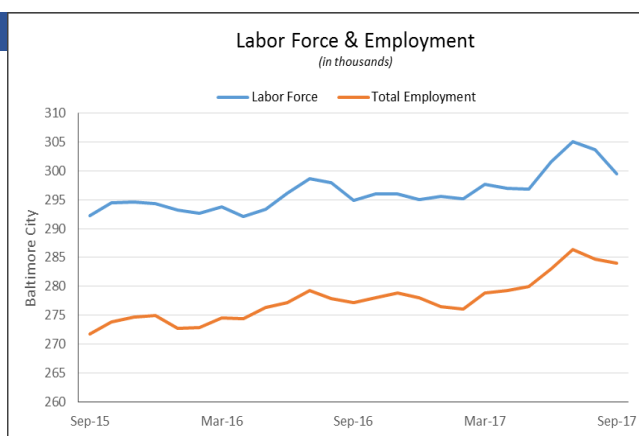


City Labor Force & Employment

	Sept-16	Jun-17	Sept-17	Trend
Labor Force	294,837	301,541	299,552	▲
Resident Employment	277,115	283,056	283,988	▲

The total labor force dropped between June and September likely due to the seasonal adjustment related to the end of summer employment. On a year-over-year basis, both the labor force and total employment have increased, signaling continued long-term growth. Since September 2016, the labor force and employment have increased by 1.6% and 2.5%, respectively.

Source: Bureau of Labor Statistics

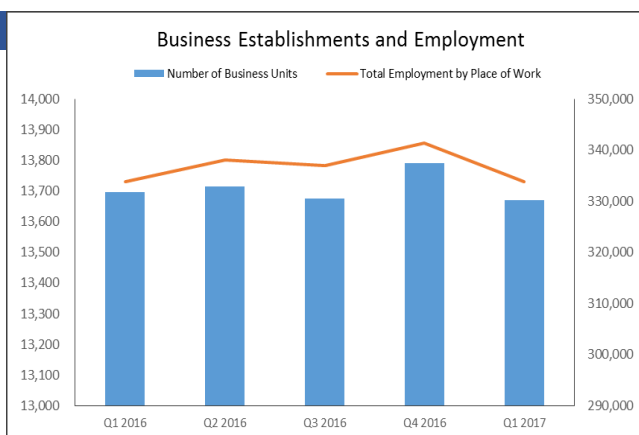


City Business Establishments and Employment

	Q1 2016	Q4 2016	Q1 2017	Trend
# of Business Units	13,697	13,789	13,671	■
Total Employment	333,810	341,306	333,857	■

In the first quarter of 2017, there were 13,671 business establishments in Baltimore City, this is a decrease of -0.2% from the first quarter of 2016. From the first quarter of 2016 to the first quarter of 2017, firm growth occurred in the Goods Producing Sector – with an increase in Manufacturing establishments. Despite a decrease in the number of Service Providing Sector businesses, there was an increase in the number of both Professional and Business and Education and Health Service establishments from the first quarter of 2016 to the first quarter of 2017. These sectors also increased their employment over the same time period. Data for the second and third quarters was not available in time for the release of this report.

Source: Quarterly Census of Employment and Wages



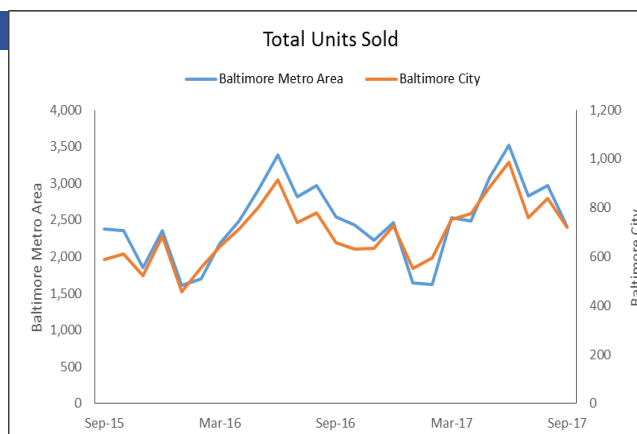
Total Units Sold

	Q3 2016	Q2 2017	Q3 2017	Trend
Baltimore Metro Area*	8,337	9,094	8,204	■
Baltimore City	2,175	2,643	2,316	▲

On a year-over-year basis, the most recent quarter indicates continued growth in the City's residential housing market despite a slowdown in surrounding areas. The totals above include all home sales from July through September of each respective year, as well as April-June of 2017. Year-over-year, home sales in the metro region are down 1.6%, and sales in the City have increased 6.5%. The drop in units sold between Q2 and Q3 is a reflection of the seasonality of the housing market, as the second quarter generally has the most activity each year.

*Does not include Baltimore City

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



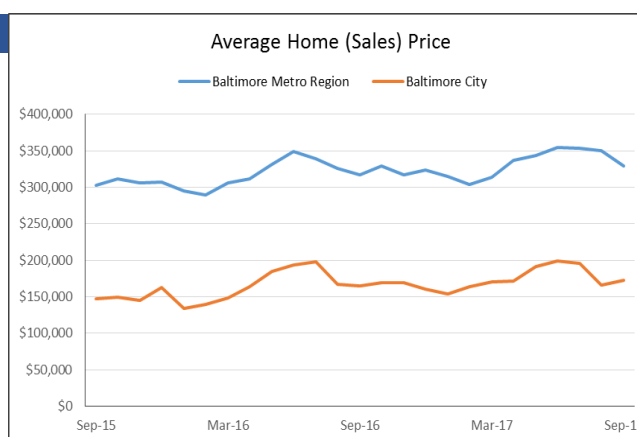
Average Home (Sales) Price

	Q3 2016	Q2 2017	Q3 2017	Trend
Baltimore Metro Area*	\$327,698	\$346,204	\$345,244	▲
Baltimore City	\$176,979	\$188,167	\$177,730	■

Average sales prices from homes in both Baltimore City and the Baltimore Metro regions have increased on year-over-year basis. The averages above include all home sales from July through September of each respective year, as well as April-June of 2017. Average sales prices in the greater Baltimore Metro area have increased 5.4% over Q3 2016 levels. The average sales price for Baltimore City homes increased 0.4% over the second quarter of 2016. Similar to Units Sold, there is seasonality in the average sales price, therefore the decline from Q2 to Q3 should not be considered a long-term trend at this time.

*Does not include Baltimore City

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



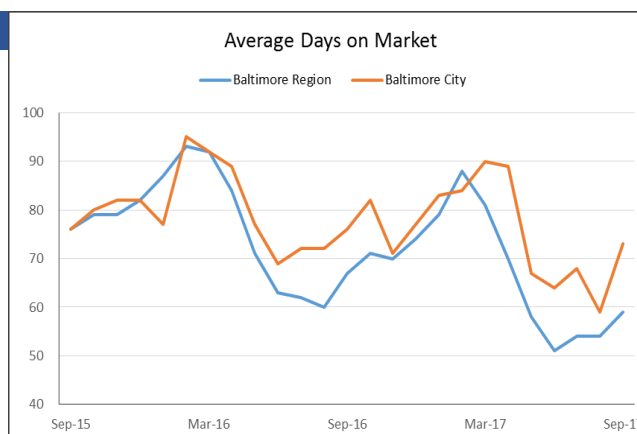
Average Days on Market

	Sept-16	Jun-17	Sept-17	Trend
Baltimore Region*	67	51	59	▲
Baltimore City	76	64	73	▲

Average Days on Market represents the average length of time it takes for a property to get sold once listed. A lower average indicates a strong housing market. Compared to September 2016, both the Region and the City saw a reduction in the Average Days on Market. Given the seasonality of this indicator, the change from June 2017 does not represent a meaningful comparison since summer months generally have the lowest Average Days on Market.

*Includes Baltimore City

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



Commercial Real Estate Outlook

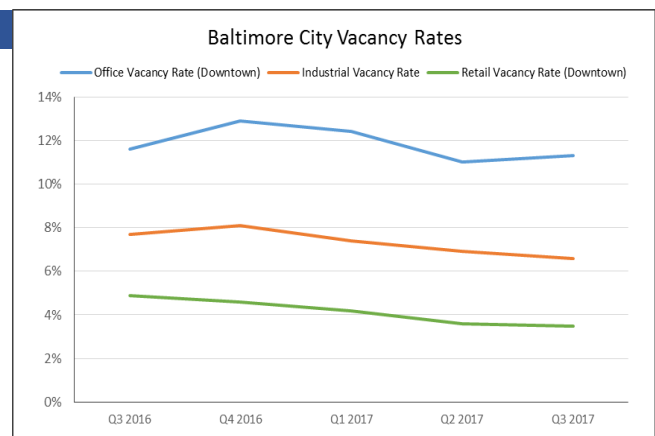
The Baltimore City commercial real estate market continues to show strong signals of demand. There are new projects underway, buildings are preleased, and significant leases have been signed. The decreasing vacancy rates and positive net absorption figures indicate a continued demand for space. Key properties, such as 1 Light Street are under construction and are completely preleased. Multiple industrial properties have been sold or have new leases within the City and there has been continued strong demand for space in the downtown and Canton Crossing areas by establishments seeking to capture spending by residents, office workers, and visitors to the City.

Baltimore City Vacancy Rates

	Q1 2017	Q2 2017	Q3 2017	Trend
Office (Downtown)	13.5%	11.0%	11.3%	▲
Industrial	7.4%	6.9%	6.6%	▲
Retail (Downtown)	4.2%	3.6%	3.5%	▲

The City continues to show a strong commercial market through the third quarter of 2017. Vacancy rates for Retail and Industrial space continue to decline, with the Office vacancy rate increasing slightly. With several large lease signings and major projects underway, the City's market can be expected to support the continued economic growth and development.

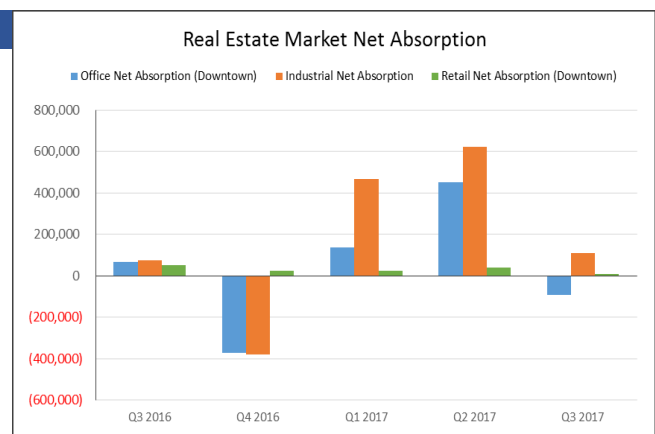
Source: CoStar



Real Estate Market Net Absorption

Through the first three quarters of 2017, the City continued to experience an overall increase in the total amount of space being absorbed by businesses. In the third quarter of 2017, a total of 93,079 square feet of office space was made available for lease in the Downtown. A total of 8,979 square feet of retail space (Downtown) was leased and a total of 110,979 square feet of industrial space was leased. Of the industrial space leased, examples include 301 East Cromwell Street, which was recently leased by Sagamore Development Company. Additionally, Holly Poultry leased 37,500 square feet of space at 2121 Wicomico Street.

Source: CoStar



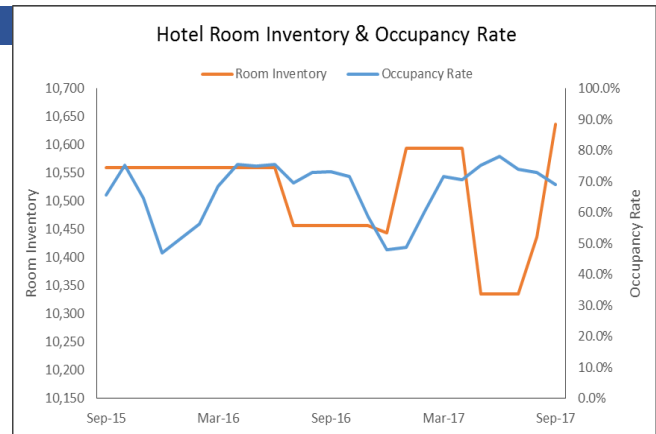
The Smith Travel Accommodations Report tracks data on a variety of indicators for the Hotel Industry in the City. Data collected by Smith Travel does not include information for every hotel in Baltimore City; however, data is reported for approximately 95% of the City's hotels. The information below is based on that reported data, therefore actual values may slightly differ.

Hotel Room Inventory & Occupancy Rate

	Sept-16	Jun-17	Sept-17	Trend
Room Inventory	10,456	10,335	10,636	▲
Occupancy Rate	73.1%	78.1%	69.0%	▼

The Occupancy Rate measures the percentage of available rooms that were sold in a given month in terms of the inventory. Occupancy fluctuates significantly based on the City's tourism seasons. In September 2016, the 73.1% occupancy rate on 10,456 rooms calculates to approximately 7,634 rooms being booked on average. In September 2017, 69.0% of the 10,636 available rooms only calculates to about 7,339 rooms booked, signaling that even after you incorporate changes to inventory, fewer rooms overall are being booked.

Source: Smith Travel Accommodations Report (STAR)

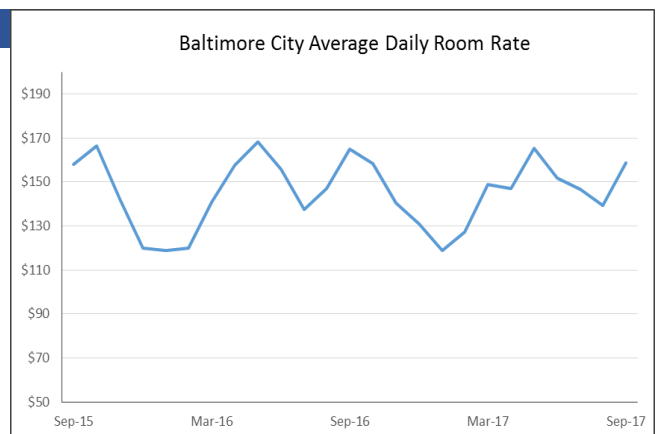


Average Daily Room Rate (ADR)

	Sept-16	Jun-17	Sept-17	Trend
Baltimore City	\$164.96	\$151.67	\$158.84	▲

The Average Daily Room Rate is a measure of the average rate paid for rooms sold, calculated by dividing revenue per room by the total number of rooms sold. ADR is influenced by seasonality because hotels will decrease prices in an effort to increase occupancy in the off-season months; however, drastic changes can also point to an imbalance between the inventory of hotel rooms available and the demand for those rooms.

Source: Smith Travel Accommodations Report (STAR)



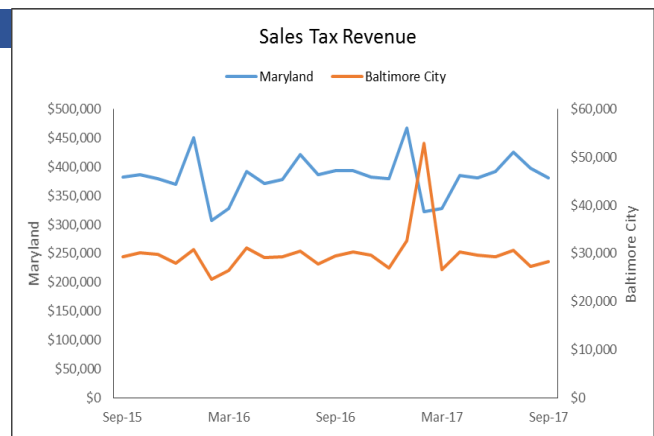
Sales Tax Revenue (State collected)

Although Baltimore City does not collect this revenue, Sales Tax activity can serve as an indicator of overall economic activity. In the third quarter of 2017, total State Sales Tax revenue declined both on a year-over-year as well as quarterly basis. Year-to-date Sales Tax generated in the City is up very slightly compared to the same time period in 2016, but in general there has been very little overall growth. Sales Tax revenue generated in the City has declined in consecutive quarters. There is seasonality to this indicator, as some months (i.e. holidays, summer months) see more economic 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)

	Q3 2016	Q2 2017	Q3 2017	Trend
Maryland	\$1,202.0	\$1,159.3	\$1,204.4	▲
Baltimore City	\$87.6	\$89.3	\$86.4	■
Ratio - City:State	7.3%	7.7%	7.2%	■

Baltimore City saw its participation of the Maryland Sales Tax revenue decline for the second straight quarter. Local sales subject to this tax were 3.2% lower in Q3 2017 than it was in the second quarter of 2017. Sales Tax revenue for the entire State increased 3.9% compared to Q2 2017. Growth in the State is outpacing second quarter growth, where total revenues increased 3.7%. This is an indicator that other State jurisdictions are generating additional tax revenue.

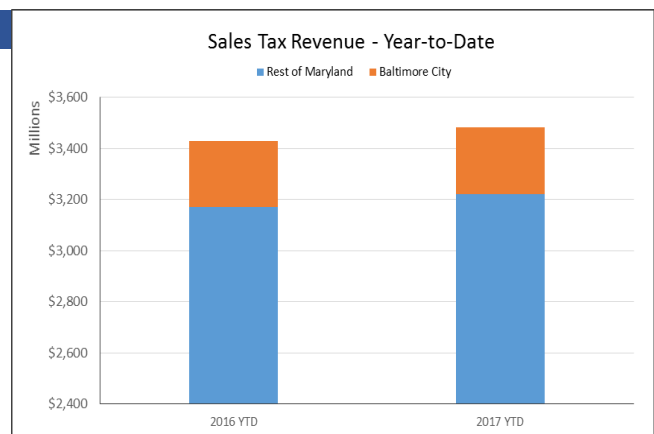


Source: Maryland State Comptroller's Office

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

	2016 YTD	2017 YTD	Trend
Maryland	\$3,429.1	\$3,481.2	▲
Baltimore City	\$259.2	\$259.6	■
Ratio - City:State	7.6%	7.5%	■

Year-to-Date Sales Tax generated in Baltimore City is only up \$402,000, or 0.2% higher than at this point last year, signaling almost no increase in spending on a year-over-year basis. As a whole, the State has increased revenues by 1.5% over the 2016 value.



Source: Maryland State Comptroller's Office

National Indicators

Third Quarter | 2017

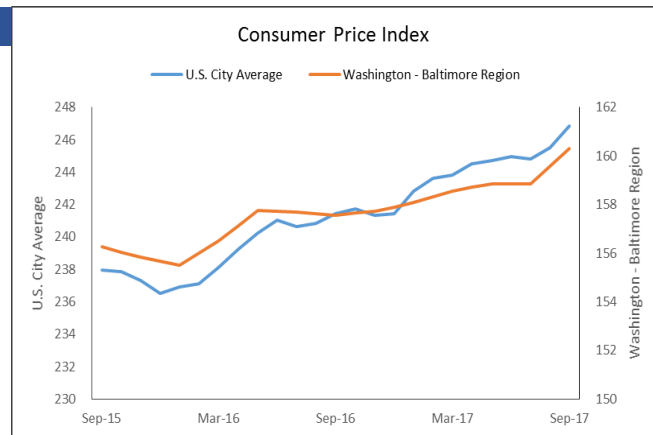
Consumer Price Index (CPI)

	Sept-16	Jun-17	Sept-17	Trend
United States	241.43	244.96	246.82	▲
Baltimore/DC Region	157.57	158.85*	160.29	▲

The Consumer Price Index for both the United States as well as the Baltimore/DC Metro Region increased over the third quarter of 2017. The CPI for the U.S. and Region has increased by 0.8% and 0.9% over the last year, respectively. Both the national and regional CPI indices continue to grow at a steady rate, and at this time there are no indications that suggest this trend will change.

*Regional data released bi-monthly. June value represents the average of May and July data.

Source: Bureau of Labor Statistics

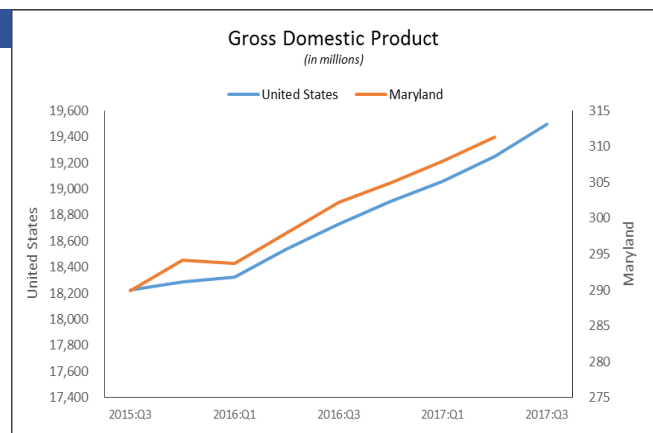


Gross Domestic Product (GDP)

	Q3 2016	Q2 2017	Q3 2017	Trend
United States	18,729.1	19,250.0	19,495.5	▲
Maryland	380.95	393.21	n/a	▲

The U.S. GDP increased by 1.3% over the second quarter of 2017. As of November, 2017 third 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 Q1 and Q2 2017, State GDP increased 1.0%, slightly greater than the national growth rate of 0.9% during the same period.

Source: Bureau of Economic Analysis



Consumer Confidence

	Sept-16	Jun-17	Sept-17	Trend
United States	100.42	101.03	101.24	▲

Consumer Confidence is often viewed as a leading indicator for the overall economy, as consumers' attitudes towards the market may indicate future trends. After steady increases through the end of 2016, Consumer Confidence leveled off in the beginning of 2017 and declined slightly through the second quarter. Between July and September, Consumer Confidence has rebounded to March/April 2017 levels.

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)