



Photo Credit: Mark Dennis

Overall Analysis

Through the end of 2017, Baltimore City continues to demonstrate positive signs of economic growth. Normally the fourth quarter of the year is one of the slowest in terms of economic activity; however, on a year-over-year basis Baltimore City has seen growth in a variety of areas. During this quarter, the City's labor force and resident employment increased compared to Q4 2016.

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 fourth 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 continued reductions in the vacancy rates for industrial and downtown retail space. Multiple industrial properties have been sold or have new leases within the City, signaling continued interest in the demand for all types of building types within the City.

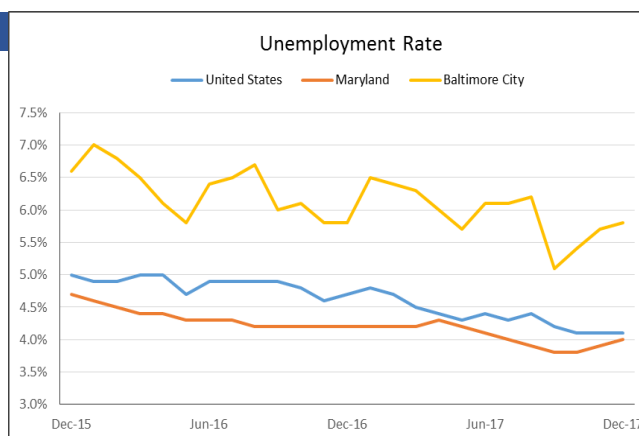
While these are all positive signs of a strong economy and there is still a positive view of generally favorable labor market conditions in the area, economic growth at all levels (national, regional, and local) is beginning to slow down.

Unemployment Rate

	Dec-16	Sept-17	Dec-17	Trend
United States	4.7%	4.2%	4.1%	▲
Maryland	4.2%	3.8%	4.0%	■
Baltimore City	5.8%	5.1%	5.8%	■

Across all three regions there's an overall downward trend on unemployment. In Baltimore, the unemployment rate experienced a slight increase from 5.1% in September to 5.8% in December 2017. Compared to December 2016, the City's unemployment rate has not changed because of the tightening labor market. In the long run, this may put pressure on wages and inflation.

Source: Bureau of Labor Statistics

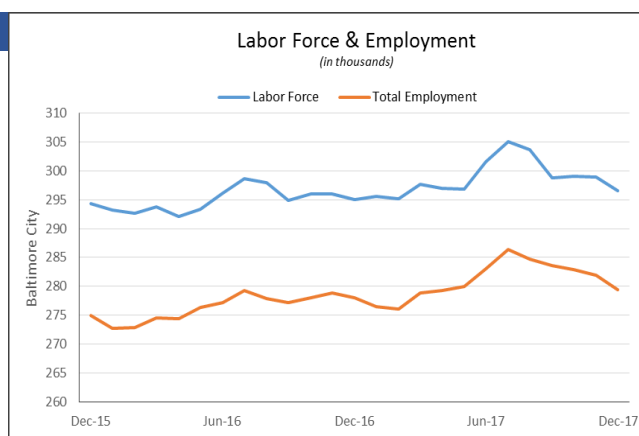


City Labor Force & Employment

	Dec-16	Sept-17	Dec-17	Trend
Labor Force	294,982	298,842	296,588	▲
Resident Employment	277,981	283,555	279,418	▲

In Baltimore City, both Labor Force and Employment figures are up on a year-over-year basis. In general, more people are entering the labor force in anticipation of being able to find a job. Coupled with the lowering unemployment rate, firms will need to focus their efforts on retaining and recruiting workers. Since December 2016, the labor force and employment increased by 0.5% each.

Source: Bureau of Labor Statistics

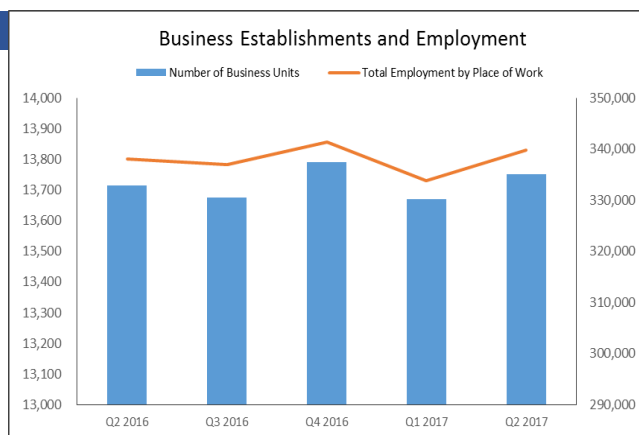


City Business Establishments and Employment

	Q2 2016	Q1 2017	Q2 2017	Trend
# of Business Units	13,714	13,671	13,752	■
Total Employment	337,982	333,857	339,768	▲

In the second quarter of 2017, the number of business establishments in Baltimore City increased from both the previous quarter and from the same time a year prior. From the second quarter of 2016 to the second quarter of 2017, there was a slight decline of 1.4% in government sector total employment; however, this decline was offset by a 1.0% increase in private sector employment, which takes up a larger share of the labor market. Between the first and second quarters of 2017, total employment increased 1.8%. Overall, these indicators point to positive economic growth and those businesses within the City continue to expand in both number and their employment.

Source: Quarterly Census of Employment and Wages



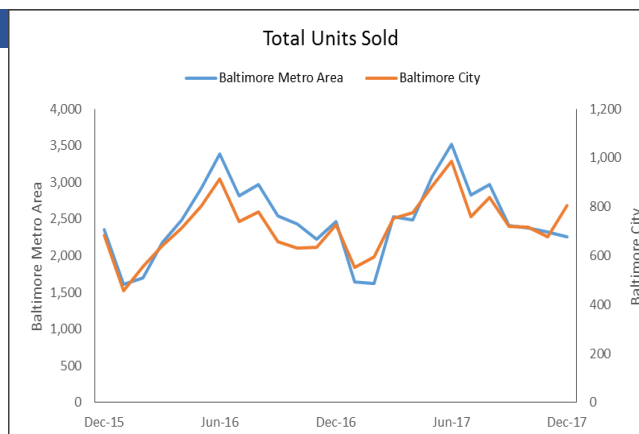
Total Units Sold

	Q4 2016	Q3 2017	Q4 2017	Trend
Baltimore Metro Area*	7,126	8,204	6,965	■
Baltimore City	1,993	2,316	2,197	▲

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 October through December of each respective year, as well as July-September of 2017. Year-over-year, home sales in the metro region are down 2.3%, but sales in the City have increased 10.2%. The drop in units sold between Q3 and Q4 is a reflection of the seasonality of the housing market; generally the winter months are slower in terms of sales activity.

*Does not include Baltimore City

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



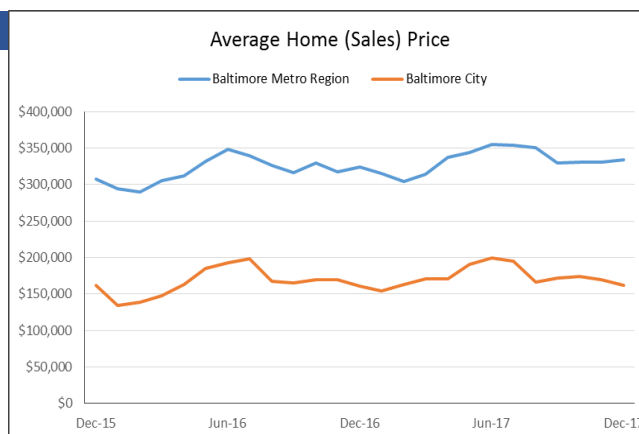
Average Home (Sales) Price

	Q4 2016	Q3 2017	Q4 2017	Trend
Baltimore Metro Area*	\$323,728	\$345,244	\$331,444	▲
Baltimore City	\$166,163	\$177,730	\$167,956	■

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 October through December of each respective year, as well as July-September of 2017. Average sales prices in the greater Baltimore Metro area have increased 2.4% over Q4 2016 levels. The average sales price for Baltimore City homes increased 1.1% over the fourth quarter of 2016. The anticipation of the effect of interest rates increasing over 2018 means that people want to purchase now, resulting in higher sales prices.

*Does not include Baltimore City

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



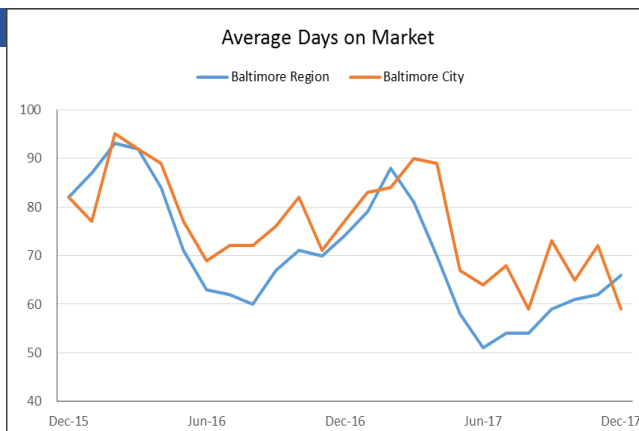
Average Days on Market

	Dec-16	Sept-17	Dec-17	Trend
Baltimore Region*	74	59	66	▲
Baltimore City	77	73	59	▲

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 December 2016, both the Region and the City saw a reduction in the Average Days on Market. In Baltimore City particularly, the decrease in Average Days on Market between September and December 2017 indicates that the City's housing market could be heating up.

*Includes Baltimore City

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



Commercial Real Estate Outlook

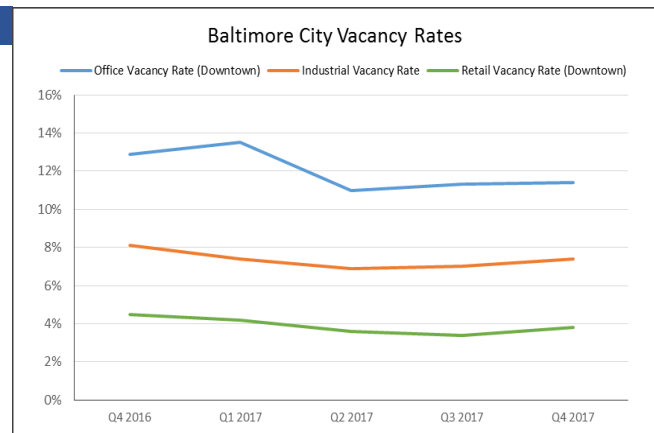
The Baltimore City commercial real estate market continues to show strong signals of demand. There are multiple projects underway with buildings being preleased, significant leases signed, and buildings being sold. The low and relatively stable vacancy rates and absorption figures continue to indicate a demand for space with little new supply becoming available. Key properties, such as 1 Light Street and 414 Light Street, Stadium Square, and the continued development at McHenry Row are under construction and have significant portions preleased. Multiple industrial properties have been sold or have new leases within the City and there has been continued strong demand for space in both the downtown and across other areas of the City by establishments seeking to capture spending by residents, office workers, and visitors to the City.

Baltimore City Vacancy Rates

	Q4 2016	Q3 2017	Q4 2017	Trend
Office (Downtown)	12.1%	11.3%	11.4%	■
Industrial	8.1%	7.0%	7.4%	▲
Retail (Downtown)	4.5%	3.4%	3.8%	▲

Baltimore City's commercial real estate market continues to show a strong demand for available space. While vacancy rates increased slightly for Office, Retail, and Industrial space, all rates are below the same period a year prior. There continues to be demand from businesses seeking to locate to Baltimore City and the Downtown area, while new residential projects and conversions continue in the Central Business District. Vacancies may continue to increase slightly as developers complete their projects before they are fully leased.

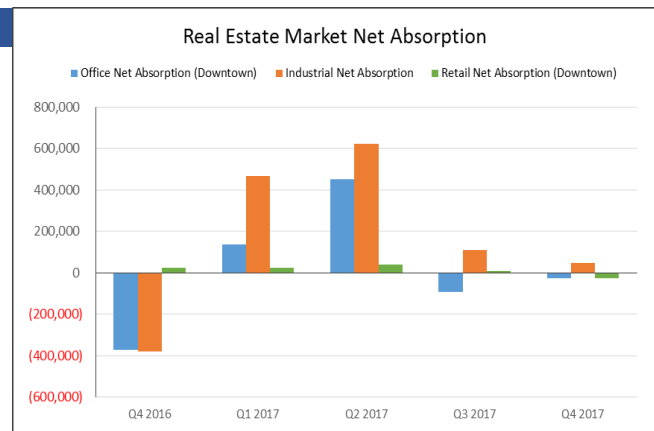
Source: CoStar



Real Estate Market Net Absorption

The fourth quarter of 2017 saw both positive and negative amounts of absorption from businesses in Baltimore. In the fourth quarter of 2017, a total of 26,310 square feet of office space and 26,244 square feet of retail space in the Downtown was made available for lease. A total of 47,924 square feet of industrial space was leased. This was the fourth consecutive quarter of positive absorption. In 2017, multiple leases of over 60,000 square feet of space were signed in Southeastern Baltimore City.

Source: CoStar



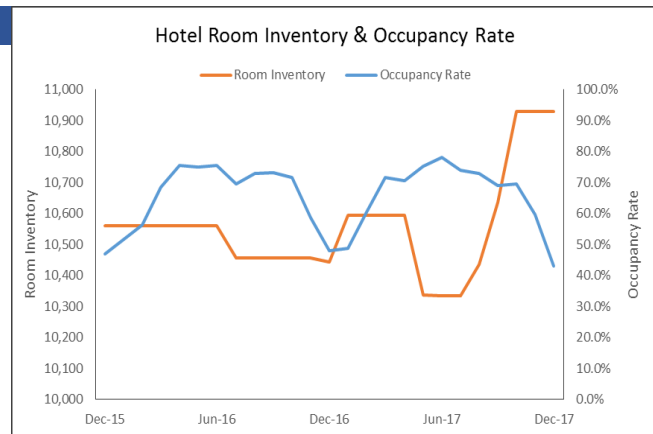
The Smith Travel Accommodations Report tracks data on a variety of indicators for the Hotel Industry in the City. Data collected by Smith Travel does not include information for every hotel in Baltimore City; however, data is reported for approximately 95% of the City's hotels. For the fourth quarter of 2017, the main cause for the drop in Occupancy Rate and Average Daily Rate was the fact that the City did not host the Army/Navy college football game this year. When comparing year-over-year data (Dec-16/Dec-17), this should be taken into consideration.

Hotel Room Inventory & Occupancy Rate

	Dec-16	Sept-17	Dec-17	Trend
Room Inventory	10,444	10,636	10,929	▲
Occupancy Rate	48.1%	68.9%	42.9%	▼

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 December 2016, the 48.1% occupancy rate on 10,444 rooms calculates to approximately 5,024 rooms being booked on average. In December 2017, 42.9% of the 10,929 available rooms only calculates to about 4,693 rooms booked, signaling that even after incorporating changes to inventory, fewer rooms overall were booked.

Source: Smith Travel Accommodations Report (STAR)

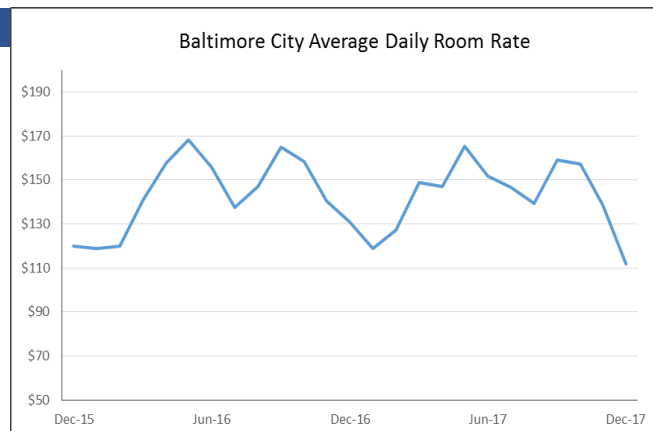


Average Daily Room Rate (ADR)

	Dec-16	Sept-17	Dec-17	Trend
Baltimore City	\$130.93	\$158.91	\$111.81	▼

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. In December 2017, the sharp drop in ADR is likely a result of the aforementioned absence of the Army/Navy football game.

Source: Smith Travel Accommodations Report (STAR)



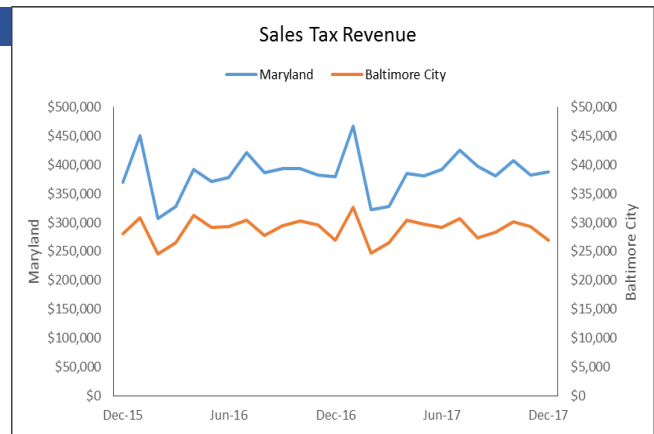
Sales Tax Revenue (State collected)

Although Baltimore City does not collect this revenue, Sales Tax activity can serve as an indicator of overall economic activity. In the fourth quarter of 2017, total State Sales Tax generated by Baltimore City did not change much on a quarterly or year-over-year basis. 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)

	Q4 2016	Q3 2017	Q4 2017	Trend
Maryland	\$1,154.5	\$1,204.4	\$1,177.5	▲
Baltimore City	\$87.0	\$86.4	\$86.4	■
Ratio - City:State	7.5%	7.2%	7.3%	■

After two consecutive quarters of declining Sales Tax revenue, Baltimore City's fourth quarter activity remained the same as the previous quarter. Maryland as a whole generated less Sales Tax revenue for the fourth quarter of 2017, indicating that other jurisdictions in the State saw declines in economic activity. Sales Tax revenue for the entire State decreased 2.2% compared to Q3 2017; however, tax revenue is up 2.0% compared to Q4 2016.

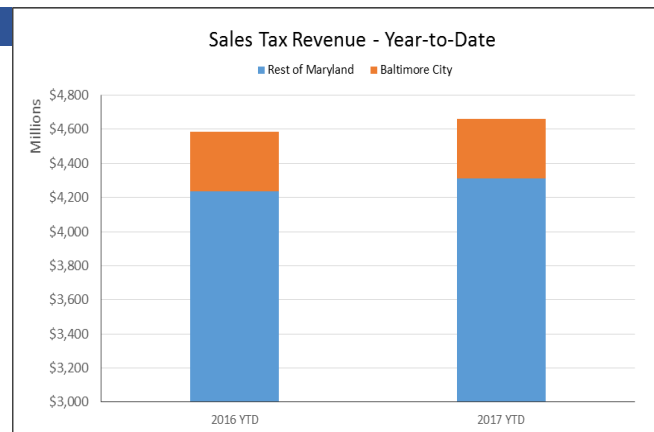


Source: Maryland State Comptroller's Office

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

	2016 Year-End	2017 Year-End	Trend
Maryland	\$4,583.6	\$4,658.7	▲
Baltimore City	\$346.2	\$346.1	■
Ratio - City:State	7.6%	7.4%	■

Year-End Sales Tax generated in Baltimore City is down slightly compared to 2016; however, the total change is less than one-tenth of a percentage point. As a whole, the State Sales Tax revenue increased 1.6% in 2017 indicating that sales activity is on pace with regional inflation (shown on next chart).



Source: Maryland State Comptroller's Office

National Indicators

Fourth Quarter | 2017

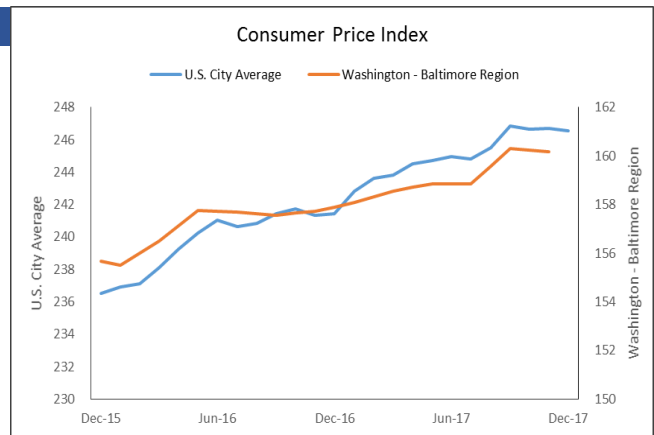
Consumer Price Index (CPI)

	Dec-16	Sept-17	Dec-17	Trend
United States	241.43	246.82	246.52	▲
Baltimore/DC Region	157.90	160.29	160.16*	▲

After several months of steady increases, the Consumer Price Index for both the United States as well as the Baltimore/DC Metro Region leveled off during the fourth quarter of 2017. The CPI for the U.S. and Region has increased by 2.1% and 1.6% over the last year, respectively. There is currently no indication that growth will decline in future quarters.

*Regional data released bi-monthly. Value shown was released in November 2017.

Source: Bureau of Labor Statistics

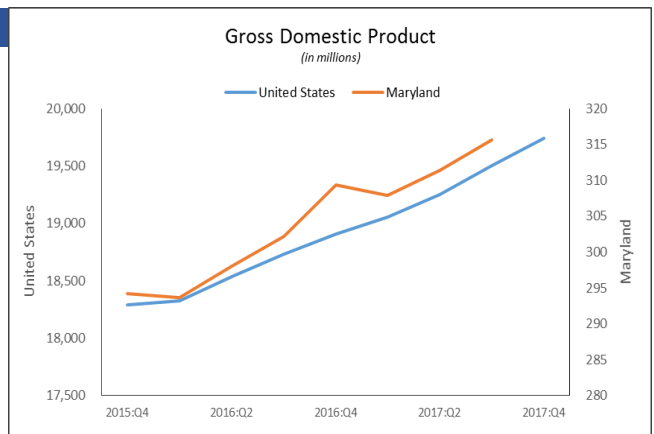


Gross Domestic Product (GDP)

	Q4 2016	Q3 2017	Q4 2017	Trend
United States	18,905.5	19,500.6	19,738.9	▲
Maryland	389.7	397.8	n/a	▲

The U.S. GDP increased by 1.2% over the third quarter of 2017. As of February 2018, 2017 fourth 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 Q2 and Q3 2017, State GDP increased 1.2%, matching the national growth rate during the same period.

Source: Bureau of Economic Analysis



Consumer Confidence

	Dec-16	Sept-17	Dec-17	Trend
United States	100.16	101.23	101.17	■

Consumer Confidence is often viewed as a leading indicator for the overall economy, as consumers' attitudes towards the market may indicate future trends. In 2016, Consumer Confidence increased sharply towards the end of the year. In 2017 there's been more volatility; however, Consumer Confidence levels in December 2017 were still higher than the same month of the prior year.

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)