Baltimore City Economic Indicator Report

Fourth Quarter | 2020

Photo Credit: Mark Dennis

Overall Analysis

As the COVID-19 pandemic continued into the fourth quarter of 2020, the economic landscape remained highly uncertain. The social and economic restrictions initially set in March 2020 remain in place at various levels of enforcement and continue affecting both the short and long-term economic recovery. Infections during the fourth quarter peaked to the highest levels since the start of the pandemic, requiring the reinstatement of strict health mandated protective measures leading to tightened capacity limits and the temporary and permanent closure of businesses. These protective measures and tightening restrictions drove much of the economic change throughout the fourth quarter.

The impact to the economy continues to be extensive. During the fourth quarter, National Gross Domestic Product (GDP) and consumer confidence remained lower than the previous year but have improved compared to the prior quarter. Economic activity and employment in sectors specifically related to tourism, hospitality, and retail activities continue to be hardest hit. In general, retail sales activity explained by the level of the State's Sales tax revenue saw declines due to the closure and restricted operation of retail and restaurants; however, statewide sales experienced significant growth due to online sales and a shift from services to goods. The City's commercial real estate market saw declines in retail, industrial and office occupancy rates. The one activity that continues to remain unaffected by COVID-19 is regional home sales. Prices in the City continued to increase, and sales remained strong with residential units taking fewer days on the market.

This report tracks and reports on 33 total indicators. During this continued time of uncertainty, these indicators represent a snapshot of the local economy and other market trends that can change quickly.

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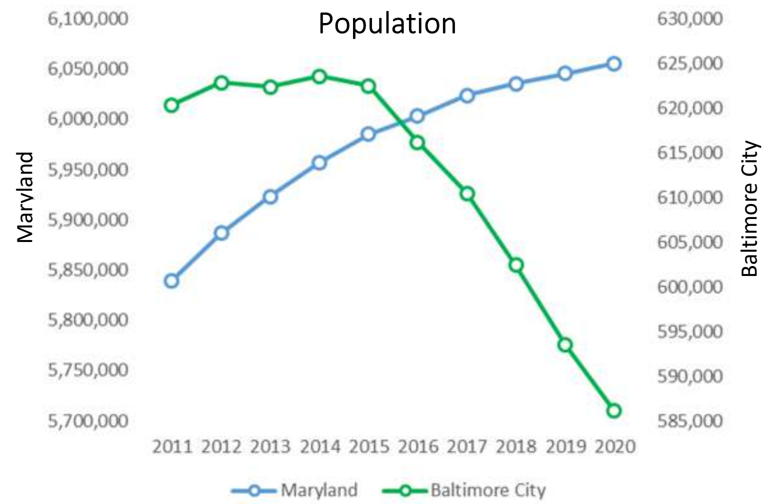
Baltimore City Quick Stats

Fourth Quarter | 2020



(Source: US Census Bureau V2019)

While the population in the State has experienced steady growth since 2010, Baltimore City's population has been reduced by 34,830 individuals during the same time period. As of July 2020, it is estimated that there are 586,131 residents in the City. The 2020 Census results will provide non-estimated population data in the latter part of 2021.

Other quick stats for the City are below.

Owner Occupied Housing Unit Rate: 47.3%

Households 238,436

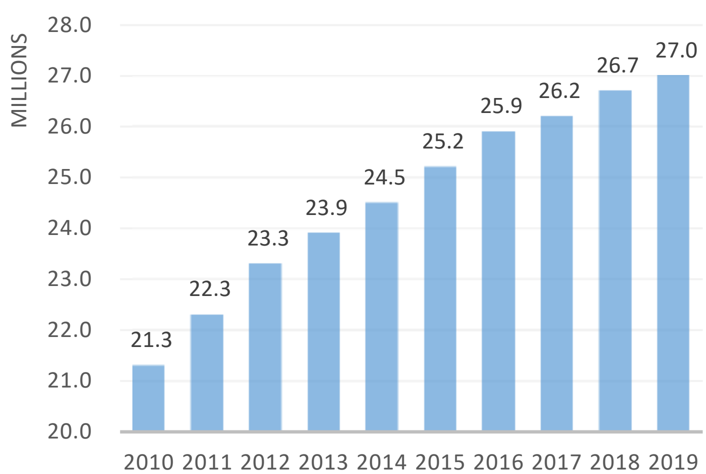
Median Household Income $48,840

21.8% **Below Poverty Level**

Mean Commute Time 31 minutes

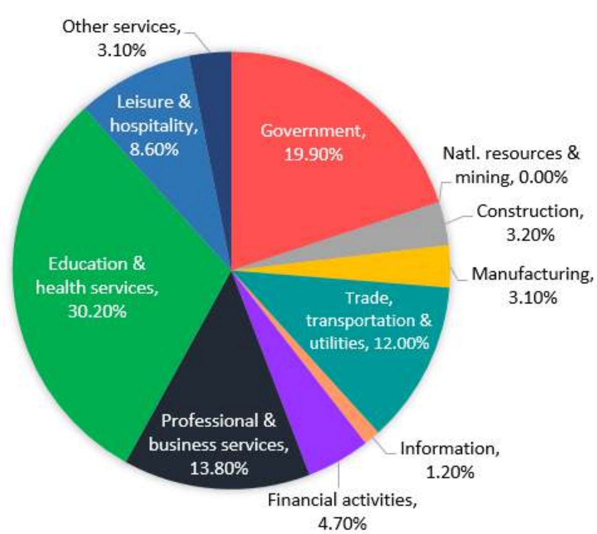
Tourism

Annual visitors to Baltimore City showed steady growth since 2010, up to 27.0 million in Calendar Year 2019. Comparative statistics assessing the impact of COVID-19 in 2020 activity will be available mid to late calendar year 2021. *(Source: Visit Baltimore)*



Employment by Industry

Government, Education and Health Services make up 50% of Baltimore City employment. Leisure & Hospitality, directly impacted by COVID-19, makes up almost 9%. *(Source: Maryland Department of Commerce.)*



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Employment

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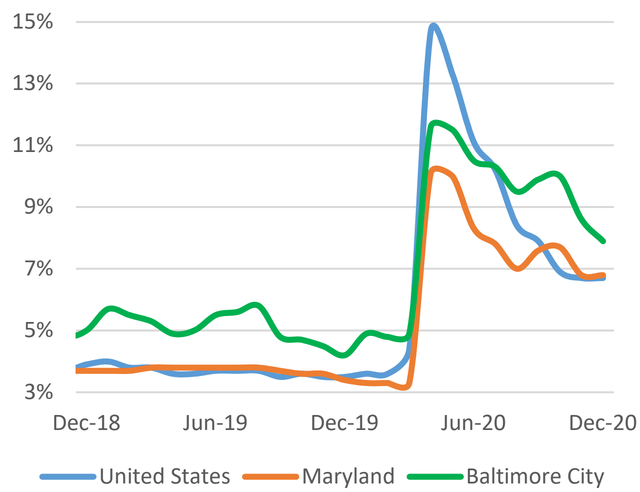
Unemployment Rate

	Dec-19	Sep-20	Dec-20	Trend
Baltimore City	4.2%	9.9%	7.9%	▼
Maryland	3.4%	7.6%	6.8%	▼
United States	3.5%	7.9%	6.7%	▼

National, State, and local unemployment peaked in April 2020 at 14.7%, 10.1% and 11.6% respectively, but has since declined to 6.7%, 6.8% and 7.9% in December 2020. The City's nominal unemployment rate showed a slight reduction from the prior quarter, but not in response to improved market conditions. The average number of employed City residents was reduced by 5,600 or 2.2% while the City's labor force was reduced by 8,000 individuals or 2.9% from the fourth quarter of 2020 to the first quarter of 2021.

Source: Bureau of Labor Statistics, U.S. Department of Labor

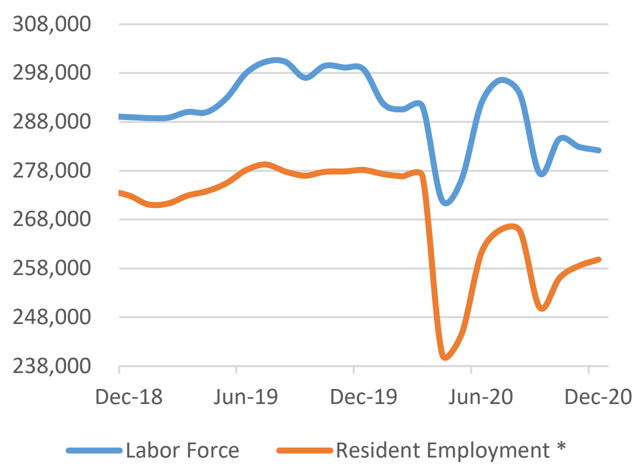


City Labor Force & Employment

	Dec-19	Sep-20	Dec-20	Trend
Labor Force	298,768	277,469	282,198	▲
Resident Employment	278,177	250,011	259,830	▲

As of December 2020, resident employment experienced a 6.6% year-over-year decline while the labor force declined 5.5%. These figures reflect the labor market disruptions from the emergency response and resulting restrictions to confront the COVID-19 pandemic. The labor force and resident employment are continuing to rebound into the fourth quarter of 2020 even as restrictions to control the increase in COVID-19 cases were strengthened during the quarter. The City averaged 258K employed residents during the fourth quarter of 2020, a decline of 7.1% from the previous year's average of 278k.

Source: Bureau of Labor Statistics

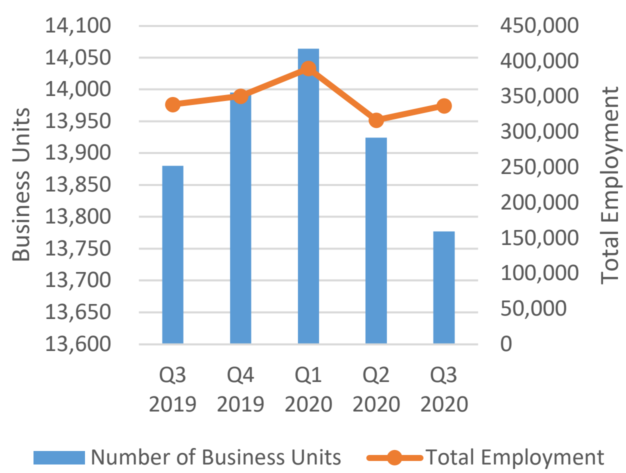


City Business Establishments and Employment

	Q3 2019	Q2 2020	Q3 2020	Trend
# of Business Units	13,880	13,924	13,777	▼
Total Employment	338,606	316,719	336,966	▲

In the fourth quarter of 2020, the number of business establishments in Baltimore City declined 1.1%, while total employment grew 6.4% on a quarter over quarter basis, and declined 0.7% and 0.5% respectively from the prior year. Service related industries were disproportionally more affected by COVID-19 restrictions, with leisure & hospitality and other services including retail and restaurants, falling 40.2% and 15.7% respectively. Trade, Transportation, and Utilities however saw growth, increasing 29.4% from last year.

Source: Quarterly Census of Employment and Wage



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Residential Real Estate

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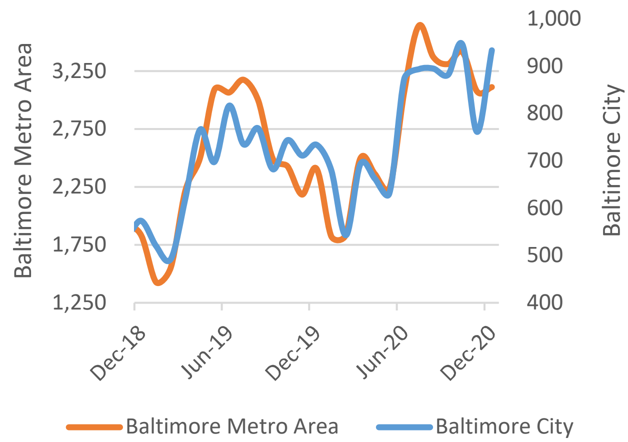
Total Units Sold

	Q4 2019	Q3 2020	Q4 2020	Trend
Baltimore Metro*	7,024	10,325	9,600	▼
Baltimore City	2,189	2,671	2,641	■

Year-over-year, residential real estate activity in both the City and Metro area continued to grow during the fourth quarter, increasing 20.6% and 32.9% respectively. The strong growth is a reflection of the very active market that first ramped up in June 2020 and continues to remain robust at the end of the fourth quarter. This market strength is a product of historically low interest rates, high demand from buyers already in the market, new buyers looking for more space, and more importantly, the continued low real estate inventory supply, down 51.2% and 42.2% from last year in the Metro and City areas, respectively.

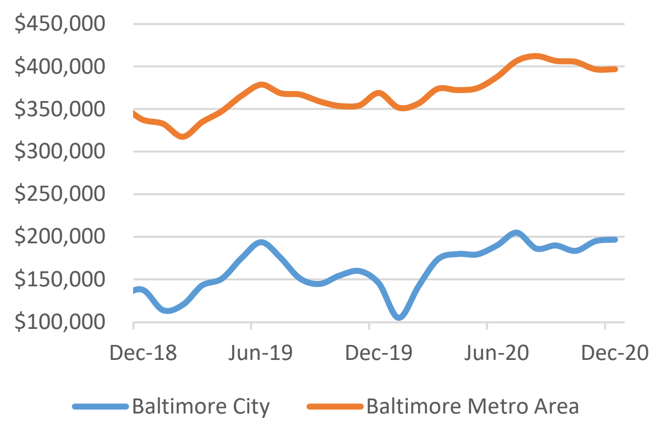


Source: SmartCharts BrightMLS, *Excludes Baltimore City

Average Home (Sales) Price

	Q4 2019	Q3 2020	Q4 2020	Trend
Baltimore Metro*	$359,147	$408,613	$399,801	▼
Baltimore City	$184,591	$221,045	$222,239	▲

Average home sales prices in both the Metro Area and City increased by 14.4% and 20.4% respectively on a year-over-year basis – a response to high buyer demand that outpaces available supply in addition to historically low interest rates that continue bolstering real estate activity with no indications that the Federal Reserve will raise them in the near term. Home sales are at 10-year highs while average prices are consistently outperforming prior months' record values, indicating continued optimism in the local real estate market.

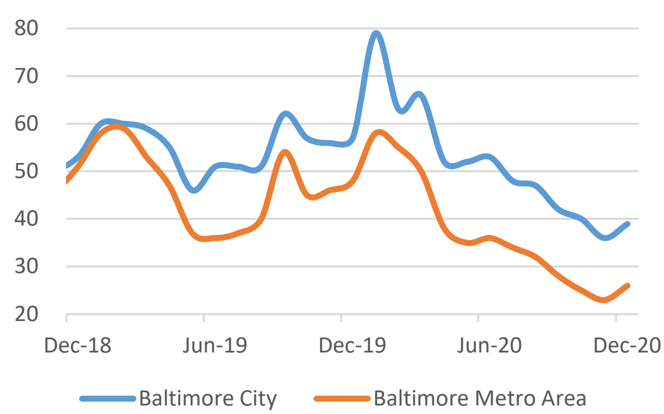


Source: SmartCharts BrightMLS, *Excludes Baltimore City

Average Days on Market

	Q4 2019	Q3 2020	Q4 2020	Trend
Baltimore Metro*	46	31	25	▼
Baltimore City	57	46	38	▼

Competition has not only increased average prices, but also reduced the average days on the market to historical lows. On a year over year basis, the Metro region's average declined 22 days to 25 days, while the City saw a decline of 18 days to 38 days. The same factors driving the number of units sold and raising sale prices – high demand, low supply and historically low interest rates – are consequently making properties to last shorter time in the market before sale.



Source: SmartCharts BrightMLS, *Excludes Baltimore City

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Commercial Real Estate

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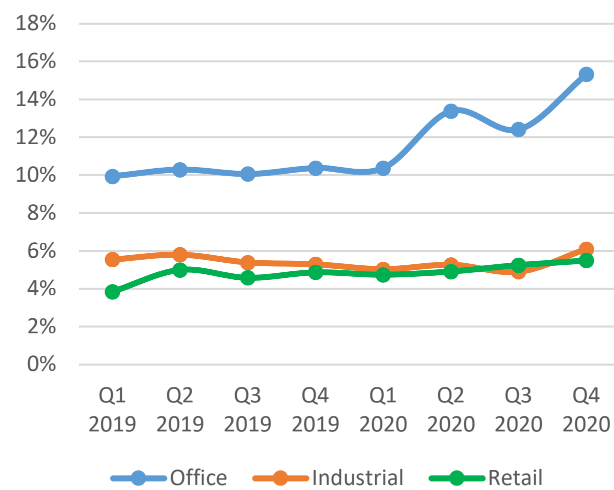
The Baltimore City commercial real estate market has historically displayed strong demand and strength, but the COVID-19 pandemic disrupted all commercial sectors: office, retail and industrial. The office and retail sectors saw softening of their vacancy rates due to extended teleworking conditions and health mandated government restrictions, but the industrial sector has benefited from a shift to e-commerce, as companies expand warehouses to accommodate growing demand. Ongoing projects in the City include the work at Wills Wharf in Fells Point (a mixed-use development with 236,000 sq. ft. of office space, 3,000 sq. ft. of retail space and 156 hotel rooms), and the third phase of Canton Crossing called Collective at Canton, set on a 12-acre land area that will include seven buildings comprised of mixed-use housing, retail and restaurants. Other noteworthy development includes a mixed-use renovation of the Super Block in Downtown by The Compass Group, Old Town Mall redevelopment and the conversion to apartments with street-level retails of former retail and restaurant establishments in the historic Fells Point. The Downtown Business District continues to experience the exit of larger corporations, with T Rowe Price moving to Harbor Point, Transamerica vacating 100 Light St. for Harbor Point, and Gordon Feinblatt moving to 1001 Fleet St.

Baltimore City Vacancy Rates

	Q4 2019	Q3 2020	Q4 2020	Trend
Office (Downtown*)	10.4%	12.4%	15.3%	▲
Industrial	5.3%	4.9%	6.1%	▲
Retail (Downtown*)	4.9%	5.2%	5.5%	▲

Vacancy rates increased for office, industrial and retail properties. The vacancy rate increase for the office and retail markets' is indicative of the uncertainty of the current economic environment, especially in the Downtown Central Business District. The increase in office space vacancy rates is especially pronounced year over year as many companies continue telework policies or have reduced physical office footprints. Industrial space continues to indicate strong demand within the City with the increase in vacancy rate driven by a surplus supply of unoccupied industrial space that became operational.

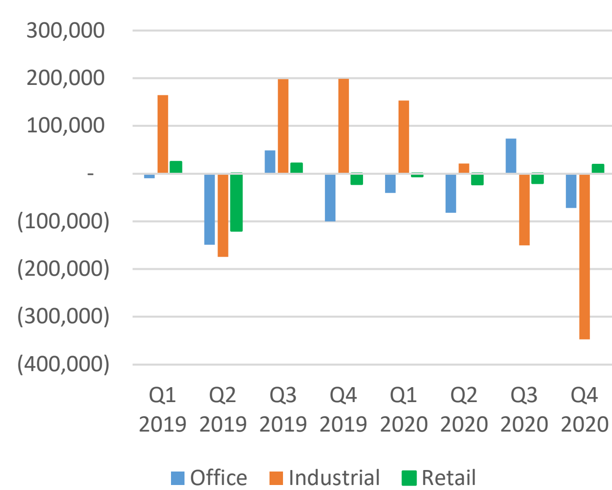
Source: CoStar, *Downtown Business District



Real Estate Market Net Absorption

	Q4 2019	Q3 2020	Q4 2020	Trend
Office (Downtown*)	-100,047	73,299	-72,293	▼
Industrial	198,454	-150,432	-347,487	▼
Retail (Downtown*)	-21,720	-19,773	18,556	▲

Retail properties saw positive net absorption for the first time since the third quarter of 2019 while the office sector continues to face challenges amidst the current economic climate that is driving lower net absorption. Industrial space saw negative net absorption driven by a surplus of space delivering vacant during the fourth quarter of 2020. Continued recovery factors for retail will depend on future consumer preferences, speed of economic recovery and the residual impact of COVID-19 on the retail sector. For office properties, uncertainty is abundant for the future as workers continue teleworking and companies reevaluate their physical presence.



Source: CoStar *Downtown Business District

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Tourism

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The City relies on the market expertise of Visit Baltimore and the Smith Travel Accommodations Report (STR), which tracks data on a variety of indicators for the Hotel Industry in the City. Data collected by STR does not include information for every hotel in Baltimore City, but reports on approximately 95.8% of the total inventory. The fluctuations in occupancy rate tend to vary due to seasonal behavior, summer months correlate with higher levels of spending and travel relative to winter months; however, the most recent decline in occupancy rate is due to COVID-19.

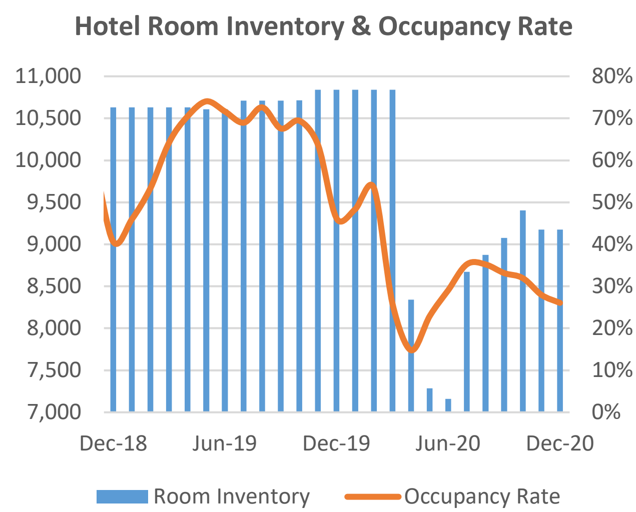
Hotel Room Inventory, Occupancy Rate and Average Daily Room Rate (ADR)

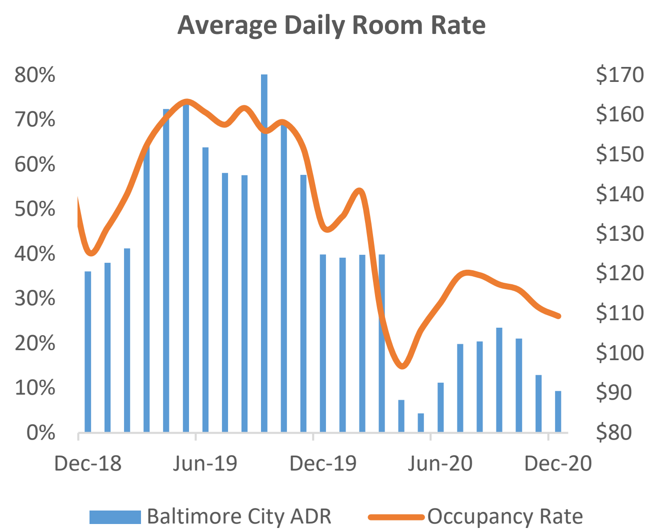
	Dec-19	Sep-20	Dec-20	Trend
Room Inventory	10,841	9,077	9,177	▲
Occupancy Rate	46.1%	33.2%	26.1%	▼
Average Daily Rate (ADR)	$124.7	$106.5	$90.5	▼

The spread of COVID-19 in March 2020 and the implementation of travel, social and economic restrictions heavily affected the tourism and hotel industries, impact that has extended into the fourth quarter of 2020. Low occupancy rates and ADR are often correlated, and this relation continues to hold true as shown in the most recent data as both metrics are still down from last year. The average occupancy rate in the City declined 52.0%, from 59.7% in 2019 to 28.7% in 2020 and ADR declined 32.5%, from an average of $142.6 to $96.3 over the same period. Three hotels are being used to house homeless individuals, and one hotel is remaining as a COVID-19 patient care center until at least June 30, 2021. The Convention Center has been used as a field hospital, COVID-19 testing site and COVID-19 vaccination site since March 2020, and it is expected to continue operating in this capacity until August 31, 2021.

Following health guidelines and governmental regulations, conventions, meetings, sporting and other events continue to be cancelled, postponed or are being held with restricted attendance policies since the onset of COVID-19, further eroding both occupancy rates and ADR.

The latest travel forecast from Tourism Economics expects a slow recovery for the hotel and tourism sector with room demand expected to reach around 80% of 2019 levels by the third quarter of 2021, with a full rebound not expected until the third quarter of 2023. Leisure and business travel are expected to recover at different rates, with leisure rebounding before business.





Source: Smith Travel Accommodations Report (STR)

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Sales Tax

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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 information can serve as an indicator of the overall economic environment. Sales tax data for the fourth quarter of 2020 indicates not only year over year, but also quarter to quarter increases in spending activity in the State as a whole as consumer behavior adapted due to COVID-19 and shifted from physical to online purchases; however, this level of activity was not experienced in the City. Generally, there is about a one- or two-month delay between Sales Tax activity and reporting on revenue.

Sales Tax Revenue (Millions)

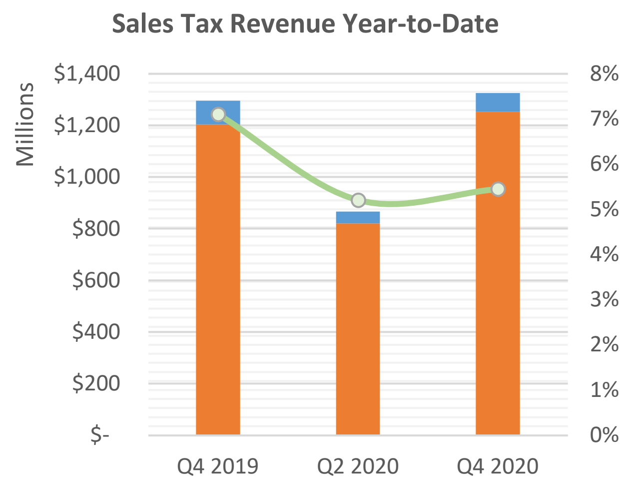
	Q4 2019	Q3 2020	Q4 2020	Trend
Maryland*	$1,203.5	$1,474.1	$1,252.9	▼
Baltimore City	$92.0	$88.2	$72.3	▼
City:State Ratio	7.1%	5.6%	5.5%	■

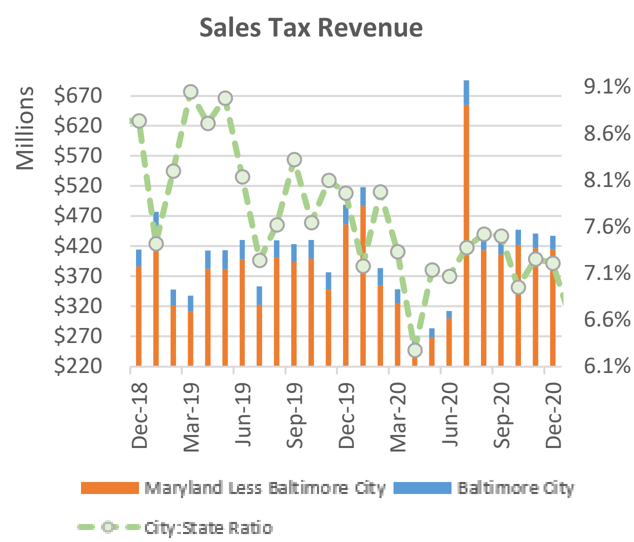
Sales Tax revenue generated in the City during the fourth quarter was down 21.5% while the State (less City) was up 4.1% from the prior year. All sales and use transactions in the City experienced year-over-year declines in the fourth quarter as the COVID-19 pandemic and the efforts to control its expansion resulted in changes to consumer-spending habits. There was a 1.7% decrease in the City:State Ratio of sales generated in the City from the prior year, as activity shifted from Baltimore City to other parts of the State and online sales.

The State, less City, experienced growth in the following sectors: General Merchandise (+2.0%), Furniture & Appliances (+1.7%), Building & Industrial Supplies (+9.1%), Hardware, Machinery & Equipment (+1.2%), and Miscellaneous – including online (+28.0%). Growth in these sectors mirrors national trends of higher spending on durable goods, construction materials and online purchases.

The closures or limited operations of restaurants, retail establishment and entertainment venues led to less consumer spending as evidenced by declines in the Food & Beverage and Apparel sectors, and promoted a shift to online spending. The exception is on essential business activities such as supermarkets and wholesale grocery sales that continue to operate without or minimum disruptions. The changes in spending habits during the pandemic may lead to long-term changes in consumer spending behaviors, including permanent increases in online methods of shopping.

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





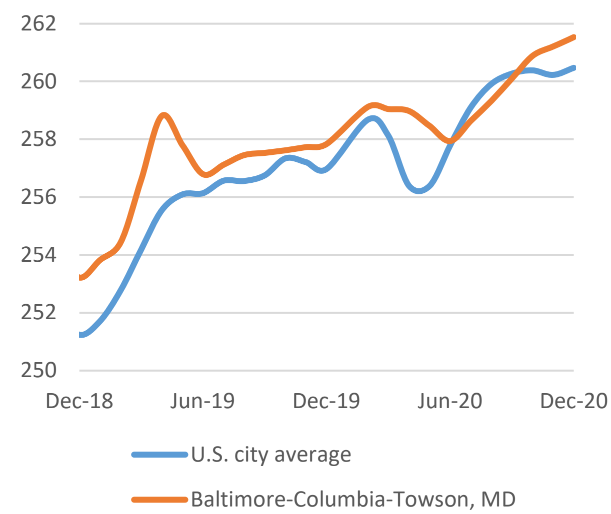
National Indicators

Fourth Quarter | 2020

Consumer Price Index (CPI)

	Dec-19	Sep-20	Dec-20	Trend
United States	257.0	260.3	260.5	■
Baltimore-Columbia-Towson*	257.8	260.1	261.5	▲

The CPI for urban consumers in the United States and the Baltimore-Columbia-Towson Region showed a year-over-year increase of 1.4%. Since December 2018, the national index has increased 3.7% while the regional index has increased 3.3%. The cost of living for urban consumers, both nationally and regionally, continues to increase at a pace still sustainable to the economy. It experienced an increase from the third quarter of 2020 which at the time was still experiencing volatility because of the onset of COVID-19. It remains to be seen how record-low interest rates, supply chain disruptions and measures in place to protect against COVID-19 will affect CPI moving forward.

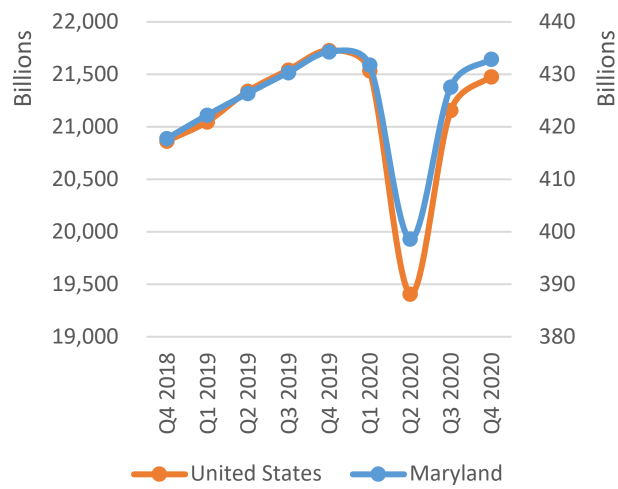


***Regional data released bi-monthly; values shown represent averages of months before and after the listed month**
Source: Bureau of Labor Statistics

Gross Domestic Product (GDP)

	Q4 2018	Q3 2020	Q4 2020	Trend
United States	$20,865	$21,158	$21,480	▲
Maryland	$417.8	$427.2	$432.9	▲

National GDP is down 1.1% year-over-year, but up 1.5% from the prior quarter. This is an indication of both the impact COVID-19 has had on the economy, and the signs of economic recovery taking place. National GDP was experiencing the longest growth phase in history before the onset of COVID-19, and the short and long-term effects that COVID-19 dealt to the economy continue to remain unclear. State GDP data continues to trend similar to the national index and is not expected to depart from this trend in the short-term.

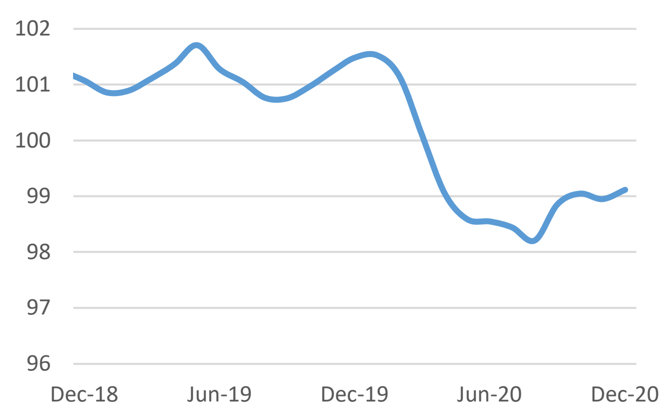


Source: Bureau of Economic Analysis

Consumer Confidence

	Dec-19	Sep-20	Dec-20	Trend
United States	101.5	98.9	99.1	▲

Consumer Confidence has been relatively volatile over the past 24 months, first peaking at 101.7 in May 2019 and subsequently reaching a new low of 98.2 in August 2020. Data indicates a steady decrease since 2019 which was further exacerbated by the onset of COVID-19. Along with COVID-19, other factors like the current global and national political climate, may be contributing to the volatility as well.



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

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National Indicators Continued

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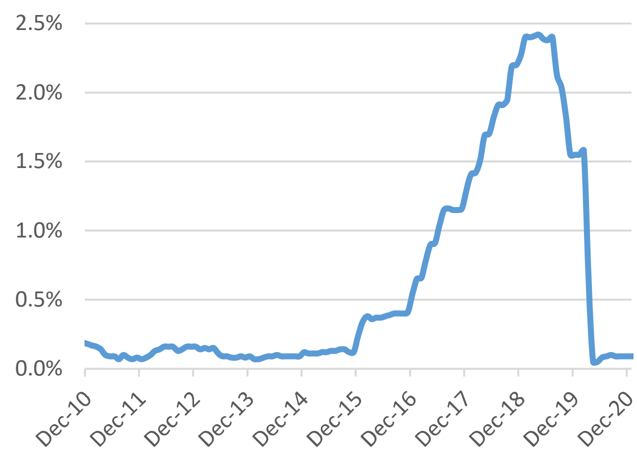
Federal Funds Rate

	Dec-19	Sep-20	Dec-20	Trend
Interest Rate	1.55%	0.09%	0.09%	



Set by the Federal Open Market Operations Committee (FOMC), this rate is an instrument of monetary policy used to control both economic growth and a target inflation rate of 2%. To help stabilize the economy after the Great Recession, this rate was brought close to zero. As the economy began to recover, the FOMC started to raise this rate until the first cut in July 2019, when the rate was adjusted down to support the economy and boost inflation. The most recent cuts in March and April 2020 are the result of the COVID-19 pandemic and FOMC taking actions to bolster the economy, mirroring the actions taken during the Great Recession. The rate is continuing to be maintained at the lower levels.

Source: Federal Reserve

Glossary

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)

Federal Funds Rate - The federal funds rate is the interest rate that depository institutions, or banks, lend money to one another. The funds come from excess balances the bank owns which are held at the Federal Reserve and are used to meet Reserve requirements. Another term for the federal funds rate is the overnight rate. The Federal Open Market Committee (FMOC) meets eight times a year to set the federal funds rate. Led by Jerome Powell, the FMOC makes periodic adjustments to the rates based on open market operations and the supply of money required to meet target rates. (Source: Investopedia)