Baltimore City Economic Indicator Report

First Quarter | 2021

Photo Credit: Mark Dennis

Overall Analysis

The COVID-19 pandemic continued into the first quarter of 2021, but signs of recovery began to emerge as COVID-19 vaccinations started up in January for front line workers and increased throughout the quarter, while infections and deaths declined. Most of the social and economic restrictions initially set in March 2020 remained in place but began to be eased as the reduction in COVID-19 infections and hospitalizations became material. The end of the first quarter gave way to increased capacity limits, reopening of establishments and resumption of group activities. The passage of the American Rescue Plan Act of 2021 in March led to an infusion of additional Federal Aid at the end of the quarter and allowed the economy to regain momentum. The overall outlook for the national economic recovery is optimistic, with the International Monetary Fund projecting that the U.S. will expand 6.5% this year.

The impact to the economy continues to be felt across all metrics. During the first quarter, National Gross Domestic Product (GDP) grew over the prior year while consumer confidence remained down but improved over the prior quarter. Economic activity and employment in sectors specifically related to tourism, hospitality, and retail 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 in demand 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 the regional home sales, with prices in the City reaching record high levels, and sales remained strong with residential units taking fewer days on the market.

This report tracks and reports on 33 total indicators. During this time of uncertainty, these indicators represent a snapshot of the local economy and other market trends that can change quickly. Trend analysis reflects long term expectations and may depart from the short-term trend seen on a quarter over quarter basis.

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Baltimore City Quick Stats

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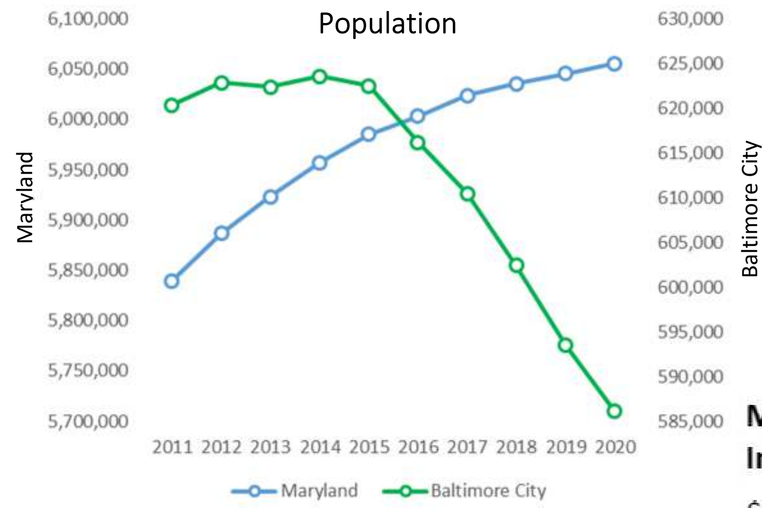


While the population in the State has experienced steady growth since 2010, Baltimore City's population has been reduced by 34,830 individuals during this time period. As of July 2020, it is estimated that there are 586,131 residents in the City. The 2020 Census results will provide non-estimated population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

Other quick stats for the City are below.

Median Household Income
$48,840

Mean Commute Time
31 minutes

Owner Occupied Housing Unit Rate: 47.3%

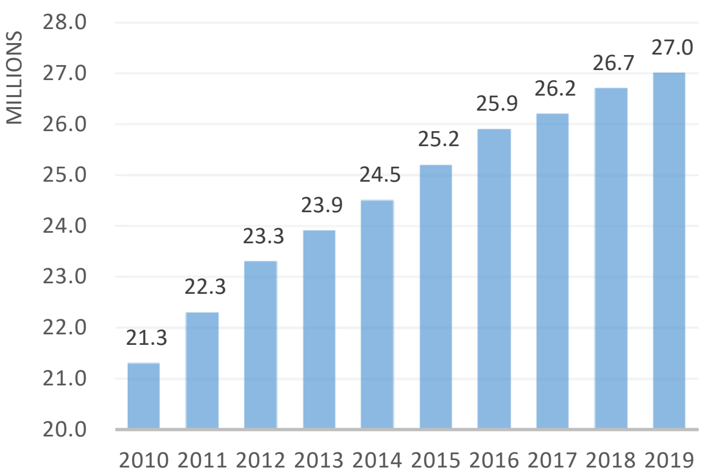
21.8% **Below Poverty Level**

Households
238,436

(Source: US Census Bureau V2019)

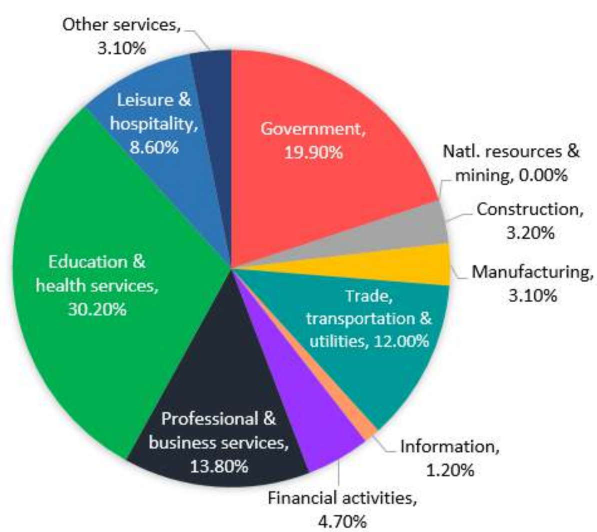
Tourism

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.)*



Employment

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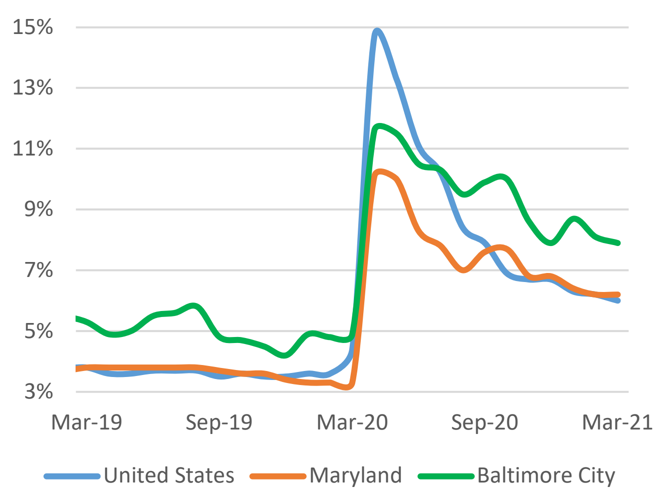
Unemployment Rate

	Mar-20	Dec-20	Mar-21	Trend
Baltimore City	4.9%	7.9%	8.0%	▼
Maryland	3.3%	6.8%	6.2%	▼
United States	4.4%	6.7%	6.0%	▼

Unemployment levels decreased in the first quarter, showing an improvement over the prior quarter, but remained higher than the previous March by 1.6%, 2.9% and 3.1% in the United States, Maryland, and Baltimore City respectively. The unemployment rate decrease is a factor of both the increase in hiring as the economy begins to reopen and a reduction in the labor force. 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 2.8% between the fourth quarter of 2020 and first quarter of 2021.

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

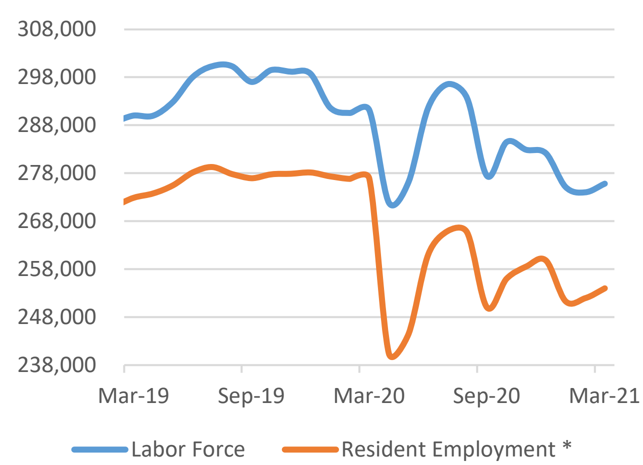


City Labor Force & Employment

	Mar-20	Dec-20	Mar-21	Trend
Labor Force	291,181	282,198	276,238	▲
Resident Employment	276,898	259,830	254,037	▲

As of March 2021, resident employment experienced an 8.3% year-over-year decline while the labor force declined 5.1%. These figures reflect the labor market disruptions from the emergency response and restrictions to confront the COVID-19 pandemic. The labor force and resident employment are experiencing instability as the economy gradually adapts to changing labor requirements and the fear of infection continues to be a threat. The City averaged 252K employed residents during the first quarter of 2021, a decline of 8.9% from the previous year's average of 277k.

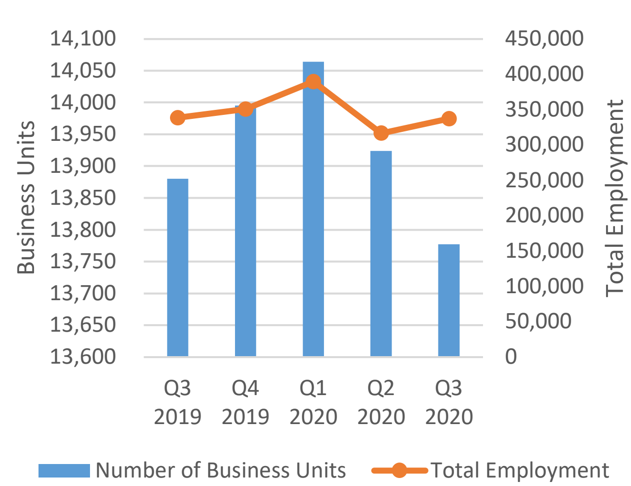
Source: Bureau of Labor Statistics



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	▲

The last available data on this indicator is for the third quarter of 2020, in which the number of business establishments in Baltimore City declined 1.1%, while total employment grew 6.4% on a quarter over quarter basis. Both measures declined 0.7% and 0.5% respectively from the prior year. Service-related industries were disproportionally affected by the preventive 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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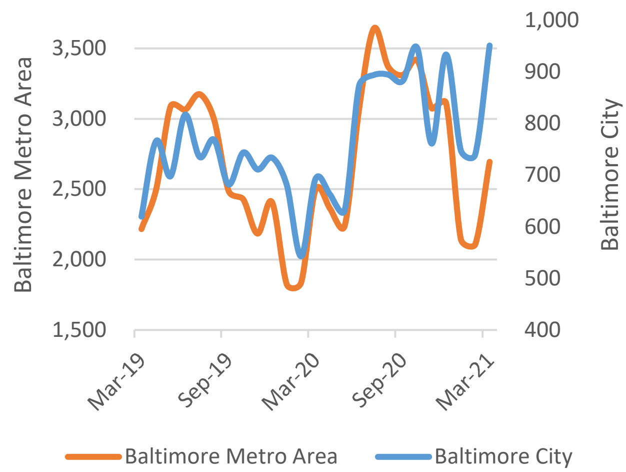
Total Units Sold

	Q1 2020	Q4 2020	Q1 2021	Trend
Baltimore Metro*	6,161	9,600	6,950	■
Baltimore City	1,917	2,641	2,439	■

Year-over-year, residential real estate activity in both the City and Metro area continued to grow in the first quarter, increasing 27.2% and 12.8% respectively. The strong growth reflects the very active market that first ramped up in June 2020 and continues to remain robust through the end of the first quarter of 2021. 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 or a second home, and most importantly, the continued low real estate inventory supply, down 49.7% and 58.5% from last year in the City and Metro areas, respectively. The quarter over quarter decrease in the total units sold is a side effect of tight inventory supply, with less homes for sale leading to fewer sales and not a reflection of market strength.

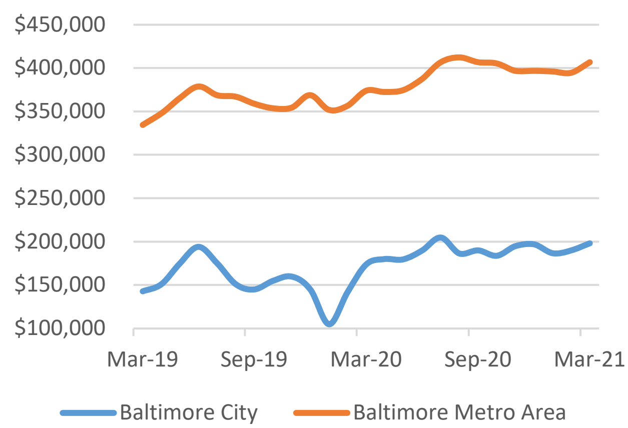


Source: SmartCharts BrightMLS, *Excludes Baltimore City

Average Home (Sales) Price

	Q1 2020	Q4 2020	Q1 2021	Trend
Baltimore Metro*	$360,941	$399,801	$399,248	▲
Baltimore City	$172,377	$222,239	$219,330	▲

Average home sales prices in both the Metro Area and City increased by 10.6% and 27.2% respectively on a year-over-year basis, a response to high buyer demand that outpaces available supply. Home sale units and prices remain at historical highs, and these increased prices are indicative of continued optimism in the local real estate market. Additionally, historically low interest rates continue to bolster real estate activity with only slight indications that the Federal Reserve will raise them in the near term.

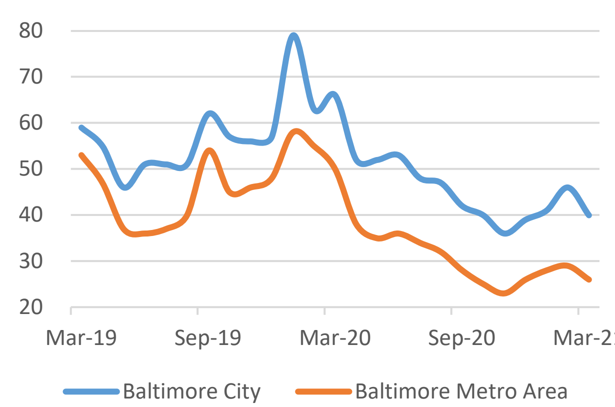


Source: SmartCharts BrightMLS, *Excludes Baltimore City

Average Days on Market (ADM)

	Q1 2020	Q4 2020	Q1 2021	Trend
Baltimore Metro*	54	25	28	▼
Baltimore City	69	38	42	▼

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, both the Metro region and City ADM declined 27 days, down to 28 days for the Metro and 42 days for the City. The same factors driving the number of units sold and raising sale prices are impacting the average days on the market – high demand, low supply and historically low interest rates.



Source: SmartCharts BrightMLS, *Excludes Baltimore City

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Commercial Real Estate

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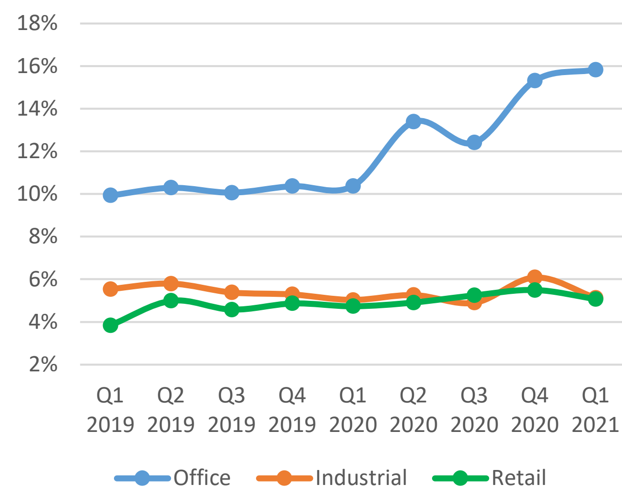
The Baltimore City commercial real estate market historically displayed strong demand and strength, but the COVID-19 pandemic disrupted demand to all commercial sectors: office, retail and industrial. The office and retail sectors saw softening vacancy rates as a consequence of health mandated government restrictions and extended teleworking. The industrial sector has benefited from a shift to e-commerce as companies have expanded warehouses to accommodate growing demand. Pipeline projects in the City include ongoing work at Wills Wharf in Fells Point (a mixed-use development with 236,000 sq. feet of office space, 3,000 sq. feet 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 to include seven buildings comprised of mixed-use housing, retail and restaurants. Other noteworthy developments include a mixed-use renovation of the Super Block downtown by The Compass group, the Old Town Mall redevelopment, and conversion of former retail and restaurant establishments into apartment hubs with street-level retail in 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 Street.

Baltimore City Vacancy Rates

	Q1 2020	Q4 2020	Q1 2021	Trend
Office (Downtown*)	10.4%	15.3%	15.8%	▲
Industrial	5.0%	6.1%	5.1%	▼
Retail (Downtown*)	4.7%	5.5%	5.1%	■

Vacancy rates mainly increased for office and retail properties. The increase for these properties is indicative of the uncertainty of the economic environment, especially in the Downtown Central Business District. The pronounced year over year increase in vacancy rates for office space is the result of many companies continued teleworking arrangements or reductions in physical office footprints. Demand for City Industrial space remains stable, indicating continued strong demand. The slight change in vacancy rate for this group is due to additional space that became available during the last quarter of 2020 and remains unoccupied.

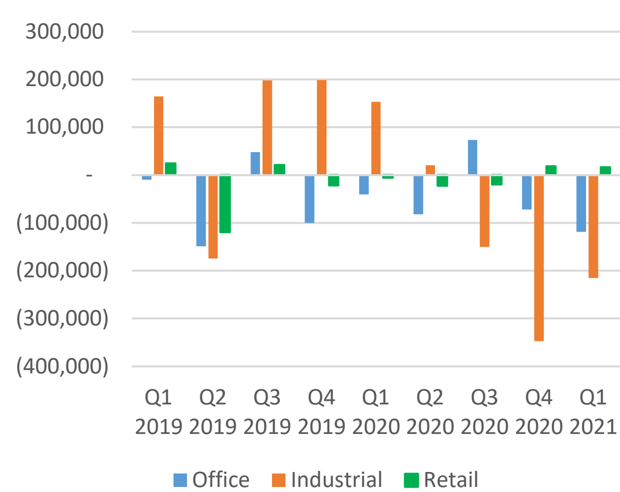


Source: CoStar, *Downtown Business District

Real Estate Market Net Absorption

	Q1 2020	Q4 2020	Q1 2021	Trend
Office (Downtown*)	(40,716)	(72,293)	(119,075)	▼
Industrial	152,999	(347,487)	(215,646)	▲
Retail (Downtown*)	(6,012)	18,556	16,312	■

Retail properties saw back-to-back months of 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 driving lower net absorption. As explained above, Industrial space saw negative net absorption due to the increased supply of space delivered during the fourth quarter of 2020 and remaining empty into the first quarter. 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 teleworking continues and companies reevaluate their physical presence.



Source: CoStar *Downtown Business District

Tourism

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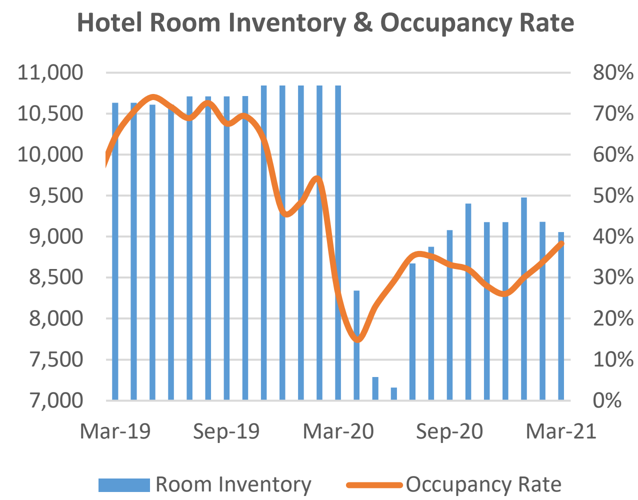
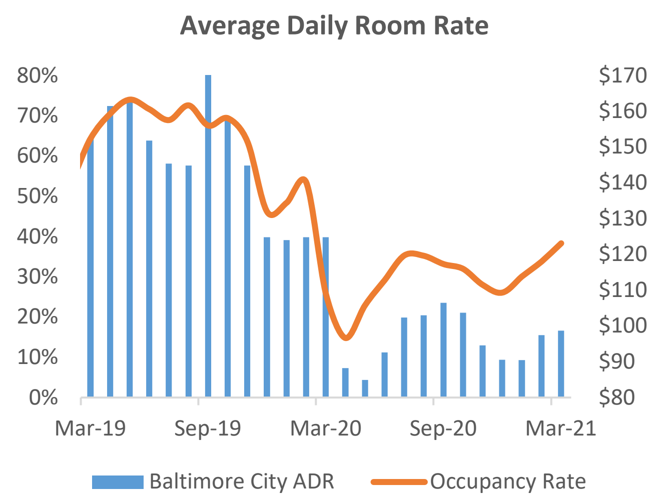
The City relies on the market expertise of Visit Baltimore and the Smith Travel Accommodations Report (STR), which tracks data on a variety of indicators for the Hotel Industry in the City. Data collected by STR does not include information for every hotel in Baltimore City, but reports on approximately 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)

	Mar-20	Dec-20	Mar-21	Trend
Room Inventory	10,841	9,177	9,054	▲
Occupancy Rate	25.9%	26.1%	38.4%	▲
ADR	$124.82	$90.50	$98.71	▲





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 first quarter of 2021. Low occupancy rates and ADR are often correlated, and this continues to hold true in the most recent data. Both metrics continue to remain down from last year. Occupancy rates in the City declined 8.3%, from an average of 42.4% last year to 34.1% this year. ADR declined 23.3%, from an average of $124.6 last year to $95.5 this year. March 2021, marking the one-year anniversary of the implementation of restrictions, saw occupancy rate increase by 12.6% from the previous March, ADR however remained 21.1% below the prior year and is anticipated to recover slower than hotel occupancy. Three hotels are being used to house homeless individuals, and one hotel will remain as a COVID-19 patient care center until September 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 September 30, 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)

Sales Tax

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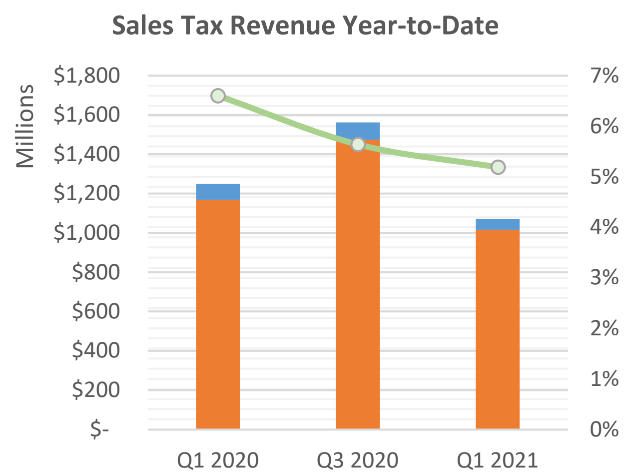
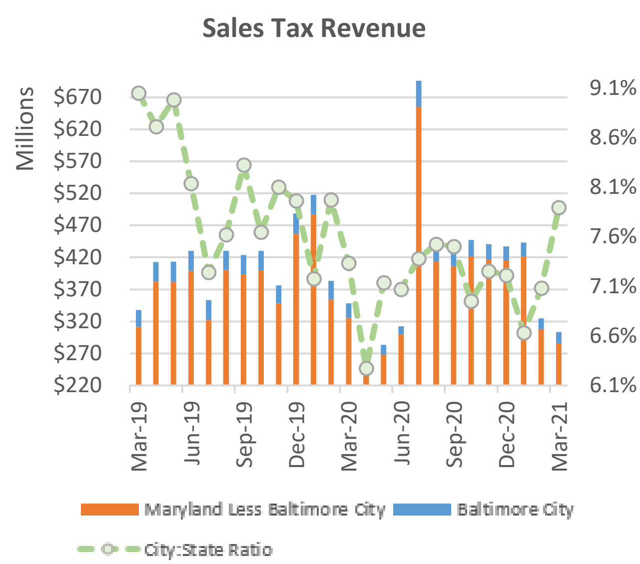
Sales Tax revenue is collected by and for the sole benefit of the State. Although Baltimore City does not collect or benefit from this revenue – with the exception of a small percentage that constitutes the City's Highway User Revenue, sales tax information can serve as an indicator of the overall economic environment. In the first quarter of 2021 spending activity in the State as a whole decreased year-over-year and from the prior quarter, primarily due to filing deadline extensions and not necessarily a reflection of actual economic activity. Changes to consumer behavior due to COVID-19 continue to be observable in the data. Generally, there is a one to two month delay between Sales Tax activity and reporting on revenue.

Sales Tax Revenue (Millions)

	Q1 2020	Q4 2020	Q1 2021	Trend
Maryland*	$1,166.9	$1,252.9	$1,015.6	▲
Baltimore City	$82.5	$72.3	$55.6	▲
City:State Ratio	6.6%	5.5%	5.2%	▼



Sales Tax revenue generated in the City during the first quarter was down 32.6% while the State (less City) was down 13.0% from the prior year. There was a 1.4% decrease in the City:State Ratio from the prior year, as activity shifted from Baltimore City to other parts of the State and online. The decrease in the Sales Tax revenue experienced during the first quarter is not a direct representation of economic activity. Many companies took advantage of the sales tax return filing extension deadlines offered by the State skewing the reported sales tax figures.



With the exception of Utilities & Transportation in the City and Miscellaneous in the State, all industries across the City and the State reported year-over-year declines in the first quarter resulting from both the COVID-19 pandemic and the filing deadline extension. While almost all groups reported declines from the prior year, General Merchandise, Building & Industrial Supplies, Utilities & Transportation, Hardware, Machinery & Equipment and Miscellaneous had the smallest declines indicating that purchasing habits in both the State and City follow the national trends of higher spending on durable goods, construction materials and online purchases.

The closures or limited operations of restaurants, retail establishments and entertainment venues led to less consumer spending as evidenced by larger declines in the Food & Beverage and Apparel sectors and promoted a sustained shift to online spending. The modification in spending habits during the pandemic may lead to long-term changes in consumer buying preferences, including permanent increases in online methods of shopping.

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

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National Indicators

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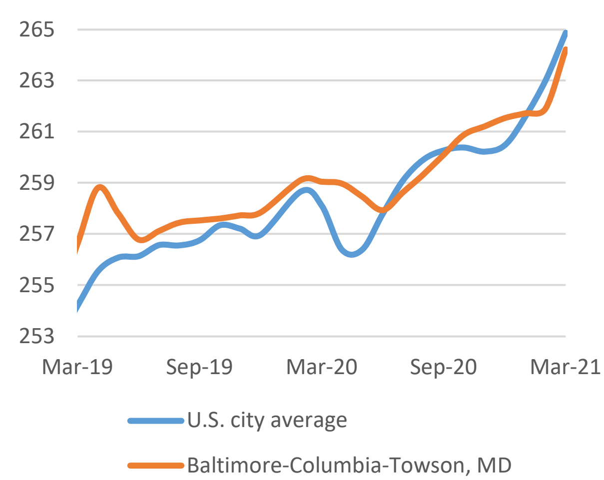
Consumer Price Index (CPI)

	Mar-20	Dec-20	Mar-21	Trend
United States	258.1	260.5	264.9	▲
Baltimore-Columbia-Towson*	259.0	261.5	264.2	▲

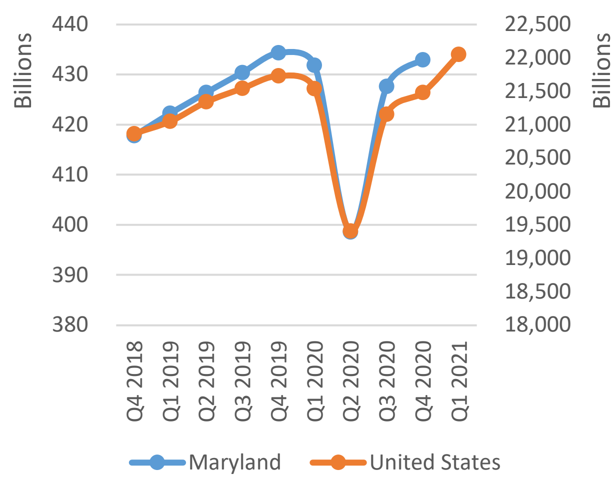


The CPI for urban consumers in the United States showed year-over-year growth increasing 2.6%, while the Baltimore-Columbia-Towson Region saw an increase of 2.0%. Since March 2019, the national index has increased 4.2% while the regional index has increased 3.0%. The cost of living for urban consumers, both nationally and regionally, continues to increase at a manageable pace. 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)

	Q1 2020	Q4 2020	Q1 2021	Trend
United States	$21,538	$21,480	$22,049	▲
Maryland	$431.9	$432.9	N/A	▲

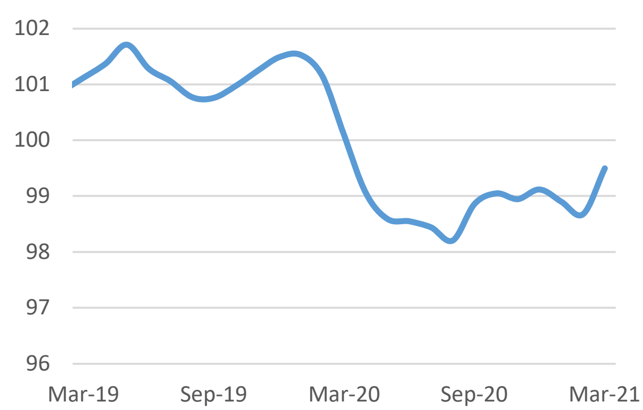


National GDP is up 2.4% year-over-year, and 2.7% from the prior quarter. This indicates both the impact of COVID-19 on the economy, and the economic recovery that is taking place - strengthened by the availability of COVID-19 vaccines to a growing portion of the US population since January 2021. National GDP was experiencing the longest growth phase in history before COVID-19, but the short and long-term effects on the economy continue to remain unclear; however, national estimates project strong growth for the remainder of 2021. 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

	Mar-20	Dec-20	Mar-21	Trend
United States	100.1	99.1	99.5	▲



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 and continues to remain unstable. 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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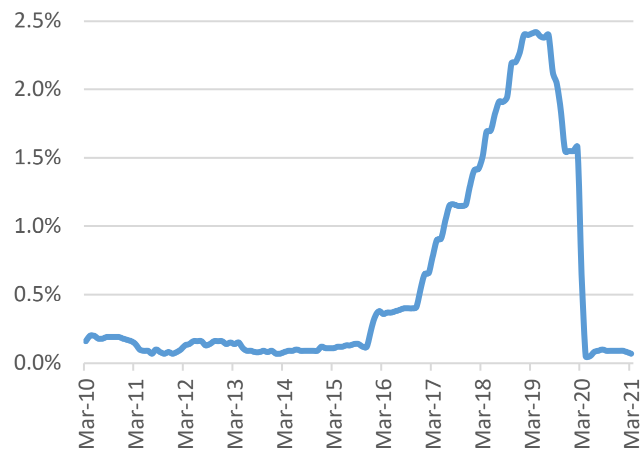
Federal Funds Rate

	Mar-20	Dec-20	Mar-21	Trend
Interest Rate	0.65%	0.09%	0.07%	

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 to zero. As the economy began to recover, the FOMC started to raise this rate until its 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 continues retained at the lower levels, but there are some indicators suggesting it may be moved higher earlier than expected to counter inflation concerns.



Source: Federal Reserve

Glossary

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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)