AFTER RECORD-SETTING 2017, BALTIMORE LOOKS TO EXTEND ITS INDUSTRIAL REVOLUTION

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The greater Baltimore metropolitan region achieved positive absorption of more than 6 million square feet of warehouse and industrial space in 2017, smashing the previous record by several million square feet and triggering yet another wave of speculative development activity.

While on the surface there seems to be no end in sight to this unprecedented level of activity as we cross the midway point of 2018, there does exist several warning signs that are worth monitoring. But, who wants to dwell on anything remotely negative, when experiencing a seemingly endless supply of 600,000-square-foot requirements?

A Major Industrial Market

The Baltimore-Washington, D.C. region is considered the fourth largest MSA in the country with more than 10 million people in the Combined Statistical Area. Several major seaports are within close proximity, approximately one-third of all consumers residing in the United States can be accessed within a one-day truck drive and developable land is still available, although an increasing number of projects involve the demolition of unusable product to make way for the modern variety.

Local fundamentals mirror conditions found in "white-hot" sections of the country, including the Inland Empire in Southern California, Northern New Jersey and sections in Pennsylvania where Interstates 81 and 78 intersect. That is, retailers cannot gain access fast enough to large-scale warehouse buildings situated near major population centers to support the same-day or next-day delivery expectations of the American consumer.

Developments Underway

Over the past several years, major corporations including Amazon, FedEx, FILA, Sephora Americas, Pier 1 Imports and Under Armour have entered the marketplace with significant leases, and the momentum continues to build.

Offering more than 3,100 acres in Eastern Baltimore County, TradePoint Atlantic has arguably been the most significant benefactor of this recent activity, and with its ability to handle nearly any-sized distribution requirement, it has landed an 855,000-square-foot Amazon fulfillment center and a 1.3 million-square-foot Under Armour distribution center among its major tenants. There is significant political support, both on the county and state level, for this project, which is close to Baltimore City and the Port of Baltimore.

Duke Realty's Chesapeake Commerce Center, a 177-acre industrial campus built on the former General Motors plant, has also attracted Amazon, among others, and Chesapeake Real Estate Group's Port 95 Industrial Park (positioned just across the street from Chesapeake Commerce Center) will contain more than 1 million square feet of industrial and warehouse product on the former Sun Products manufacturing facility. Johns Hopkins Health System has leased 165,000 square feet of space at this project.

Moving north of the city and into the suburbs finds Eastgate, a nearly 2.3 million-square-foot industrial park being developed by MRP Industrial in Harford County. Principio Business Park, a project of Stewart Properties in Cecil County, has signed Amazon to a 1 million-square-foot distribution center. Chesapeake Real Estate Group's site in Anne Arundel County south of the city called Brandon Woods III is another project that soon will be making a name for itself.

The success of these projects is fueling the current and future development pipeline. We expect a number of new projects within the next 18 to 24 months to come out of the ground that will mirror these developments in both size and scope.

All of the regional industrial development companies, along with major national REITs, are working as fast as they can to get land entitled and bring projects out of the ground. All of this activity is being driven by the tremendous liquidity in the capital markets, coupled with the insatiable demand for stabilized industrial product by institutional owners.

Needs Still Exist

There are a few areas of caution and concern in the market. Experiencing 600,000-square-foot requirements is tremendous, but the region currently lacks the 75,000- to 100,000-square-foot users that maintain a steady and consistent flow of deals.

While projects with larger footprints are becoming quickly filled, there still exists a number of projects with smaller spaces that remain unleased. This issue is causing a bifurcation that can pull a market into a situation that can be described as a "tale of two cities."

A healthy market has to rectify that problem, and this activity has been spotty for the past two years. This market needs four to six consecutive quarters of regular demand.

When do the good times end? At this point, there are no train headlights in the tunnel. Upcoming recessionary periods are foreshadowed by lease concessions, business failures, above-market tenant improvement packages and irresponsible or aggressive underwriting tactics.

Industrial professionals in Baltimore hope to enjoy at least a couple more years of current activity levels.

JOB GROWTH, LOW UNEMPLOYMENT KEEP OFFICE DEVELOPMENT CHURNING IN BALTIMORE

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Continued job growth, coupled with a 4.3 percent unemployment rate (down from nearly 9 percent in 2010) in the greater Baltimore metropolitan region are the primary reasons giving real estate development companies the confidence to construct speculative commercial office buildings in select submarkets throughout central Maryland.

After delivering more than 1 million square feet of space in Baltimore City, another 1.6 million is presently rising in the downtown skyline. Industries including financial services, medical and healthcare, education, cybersecurity and manufacturing continue to exhibit excellent health, and a location approximately 40 miles from the center of Washington, D.C., remains one of Baltimore's most valuable assets. Below is a quick scan around the entire area:

Canton

Merritt Properties announced plans earlier this year to construct a 20-story, 200,000-square-foot speculative office building along Boston Street. Previously announced, but yet to begin just several streets away, is Corporate Office Properties Trust's $1 billion project containing more than 1 million square feet of commercial office and retail space.

Since the opening of The Shops at Canton Crossing, a shopping center developed by 28 Walker Associates several years ago, this submarket has experienced a retail renaissance, although the inclusion of new commercial office product is a yet unproven formula.

Penn Station

The Charles Street Corridor is set to receive a shot in the arm with the redevelopment of Penn Station, which will incorporate more than 1.6 million square feet of commercial office, retail and residential space within the Amtrak and Maryland Rail Commuter (MARC) Station that first opened in 1911 and is considered the eighth-busiest in the country. Local members of the development team include Beatty Development Group, Armada Hoffler Properties, Cross Street Partners and Gensler.

McHenry Row

This 20-acre mixed-use project by 28 Walker Associates was the recent recipient of three leases at McHenry Row III, bringing the five-story, 75,000-square-foot speculative development to more than 80 percent leased. Positioned adjacent to a Courtyard Marriott hotel that is also under construction, this latest office building will begin welcoming tenants this fall.

First opened in 2011, McHenry Row contains the city's first Harris Teeter grocery store, 110,000 square feet of retail space, 500 residential units and unique uses such as the Diamondback Brewing Co. and taproom.

Port Covington

Sagamore Development's $5.5 billion development, and the expected future home of the new Under Armour corporate campus, has been strangely quiet after dominating local headlines for the past two years. More than 200,000 square feet of space, spread among two or three buildings, is expected to be delivered in 2020, but there are few signs of activity on the site currently.

Considered among the largest urban renewal projects in the country, the project is expected to contain more than 18 million square feet of mixed-use product. The most noticeable addition has been last fall's opening of the Sagamore Spirit distillery and adjacent Rye Street Tavern.

One Light Street

M&T Bank has signed a 155,000-square-foot lease (for 500 employees) within this 28-story mixed-use building that will contain 415,000 square feet of office space, as well as luxury apartments and retail, with delivery scheduled for this fall. The developer is Madison Marquette.

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