

Industrial market in Baltimore region continues to thrive

Vacancy rates way down as ecommerce, port activity help drive market

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One of the bright spots in Maryland's commercial real estate market is the industrial sector - specifically warehouse and related spaces. Charm City plays a large role in this market thanks to the Port of Baltimore, the state's proximity to major highways and rail corridors, and e-commerce.

In a recently released by Newmark Knight Frank, the Baltimore industrial market's vacancy rate in the second quarter of 2017 was 8.2 percent, compared to 8.8 percent in the first quarter and 9.2 percent last year. "When taking into account the 1.4 million square feet of new industrial space that (was) delivered in 2016, this consistent decline in vacant shows the strength of demand for industrial space in Baltimore," the report states.

Net absorption hit 1.3 million square feet for the second quarter, increasing from the first quarter total of 572,763 square feet, according to the report. Another key market metric, rental rate, saw the average asking price slightly declined going from \$5.14 per square foot in the first quarter to \$5.12 in the second.

'20-minute drive'

Chesapeake Real Estate Group partner Matthew Laraway said the buzz word nationally for industrial development right now is infill. "You are seeing a lot of growth in infill locations that are in and amongst the population and the consumer," he said. "You are going to start to see a lot more of that and I think that is going to continue to be a hot topic. It's no longer 'Hey. I need to be within a day's drive of a U.S. population.' It's like 'I need to be within a 20-minute drive of the person who is going to consume my product.'"

Laraway also believes the market will see a lot more adaptive reuse of functionally obsolete buildings inside major metropolitan areas. "No longer are they going to be along the outer beltway of a major metropolitan area," he said. "You are going to start seeing them smack dab in the middle of an area that you would not expect to see them before."

Taking a broad-brush approach to the Baltimore industrial market, James Caronna, principal at NAI KLN, said the sale side is very robust. "There is far more capital chasing (and) not enough product to feed that capital that is available. There is no shortage of money out there to purchase all types of property, whether it is Class A industrial or Class C industrial — and anything in between."



Duke Realty's Chesapeake Commerce Park.

The Baltimore region's industrial market has been hot and shows no signs of cooling off, experts say.

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Caronna has been in the business for more than 30 years and he said he has never seen vacancy rates as low as they are right now. "Although the market overall is floating around 8 percent, there are submarkets within the overall market that are at 4.8 percent, 4.5 percent, 5.2 percent," he said. He attributes the lower vacancy rates partially to the 2008 recession and partially to the decline of new facilities built.

The industrial leasing market is soft, Caronna said. "We really don't have the activity that we'd hope to see given the low rates," he said. "I still think rental rates are holding fairly steady."

Which side of the tunnel?

While Cecil County and the east side of Baltimore City has attracted some big clients recently, Caronna says there is not really a hot new area to be in. "The market is really controlled by which side of the tunnel do you want to be on — Are you serving the Philly/New York market on the east side or are you serving the D.C./Northern Virginia market? That continues to be the same. Are you port-related? If you are, you are going to be on the east side. If you are serving D.C. and the government and you are a contractor, you are going to be on the west side. That's just how it works."

Laraway says the Port of Baltimore will be a hot area thanks to a lack of available inventory. "... You have the growth in Baltimore County East and you've got great access to the interstate and you also have industrial users that don't want to deal with paying a toll to and from the Port of Baltimore through the Fort McHenry Tunnel, which is cost prohibitive for them to go south, so you are going to see a lot of growth here north of the tunnel."

So will these trends hold? Laraway thinks they will, through 2018 and into the following year.

"Whether you are seeing a transition from bricks and mortar retail to people wanting things at their home and people wanting to secure products from their smartphones or devices, that product has to come from somewhere and usually it is going to come from a warehouse," he said.