Residential Real Estate Update for the Baltimore Market

LAI Baltimore Chapter – January, 2019 meeting

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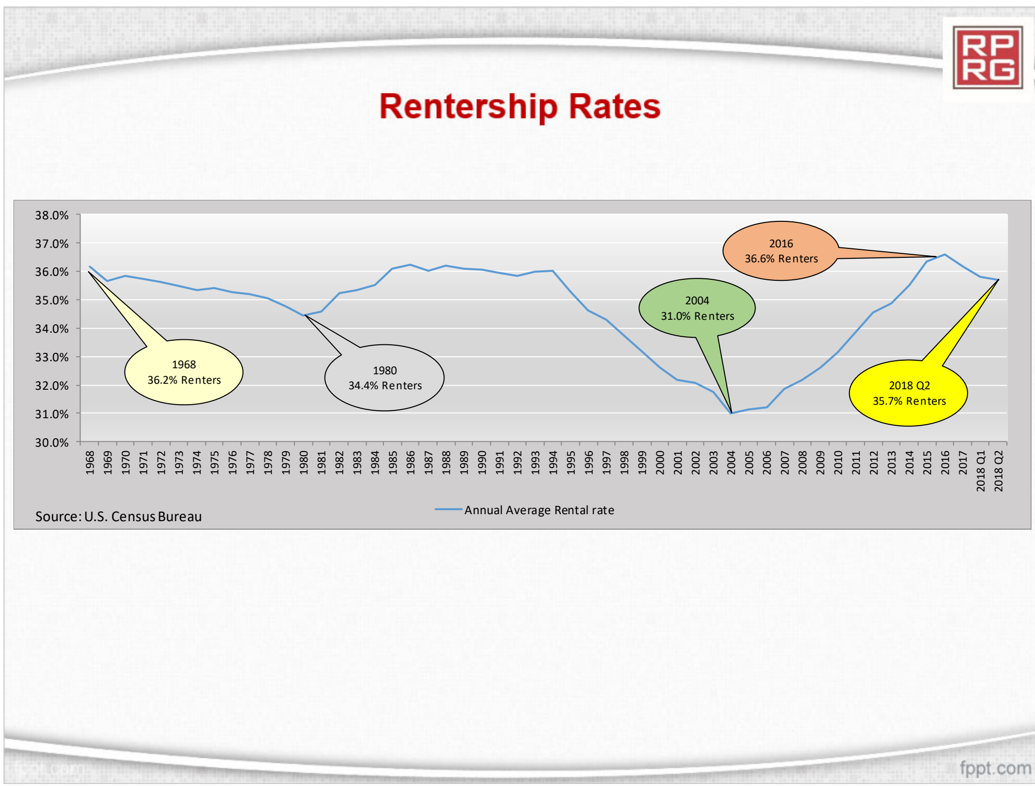
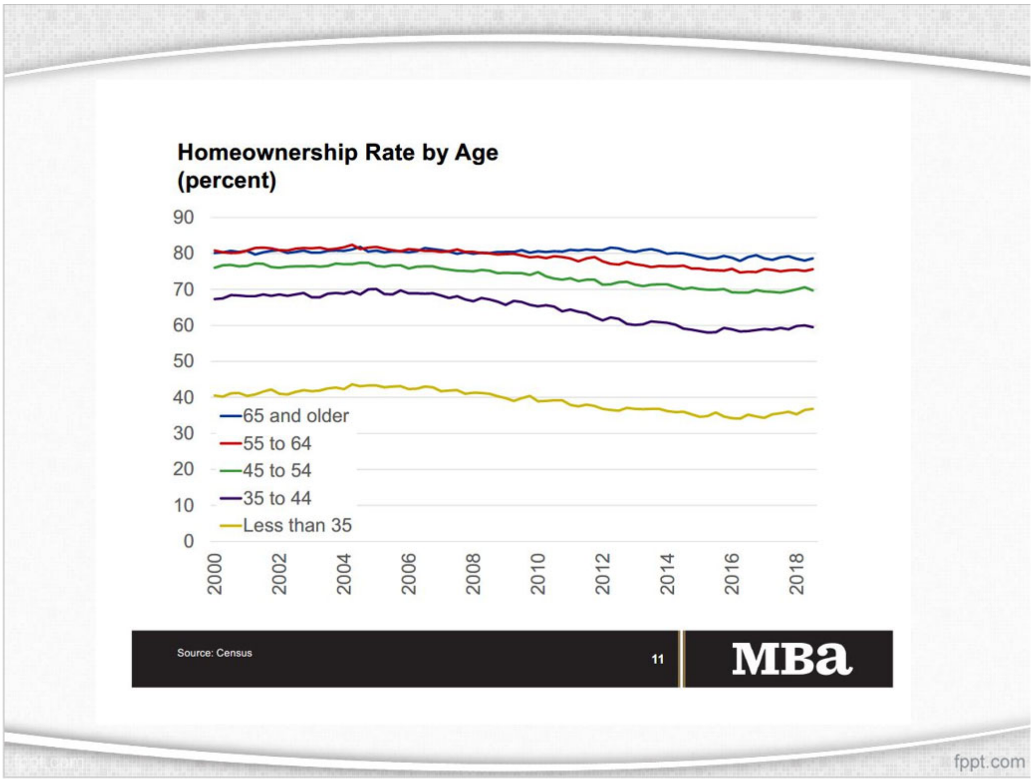
On January 16th, Bob Lefenfeld, of Real Property Research Group, and Abigail Ferretti, of Partners for Economic Solutions, provided the Baltimore Chapter of LAI with an overview of the residential market in the U.S, emphasizing the greater Baltimore area market within the macro picture.

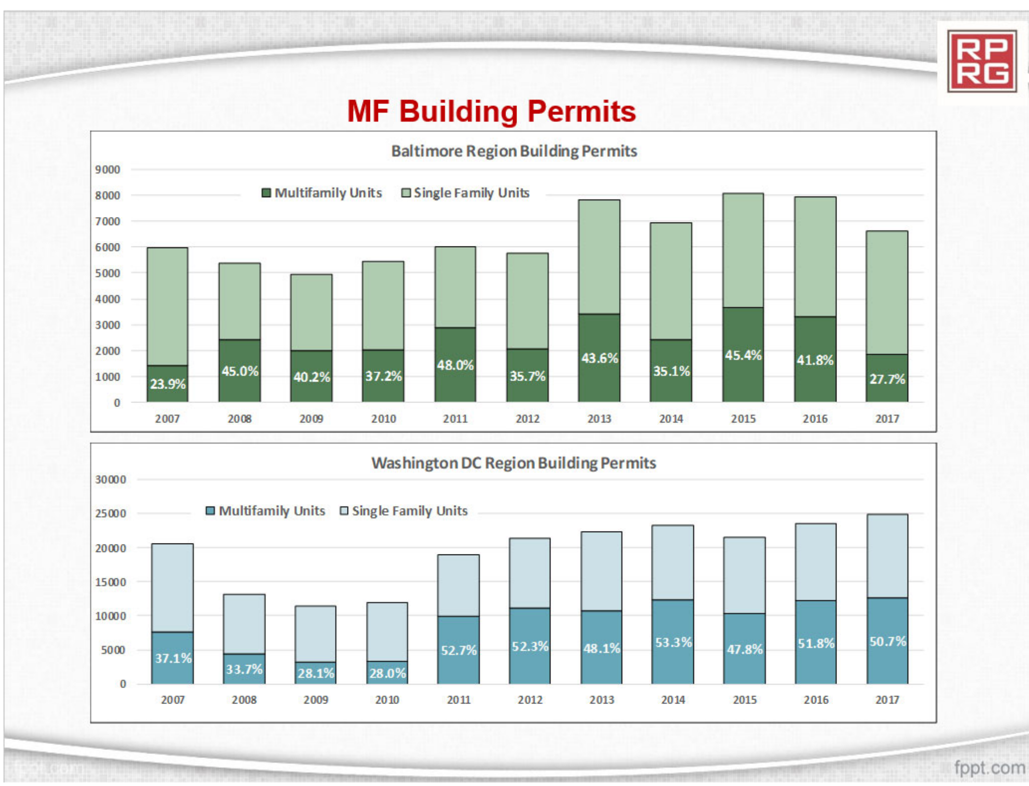
Bob spoke first and addressed the broad demographic fundamentals happening across the country, and what has been happening with overall rentership rates, as follows:



As can be seen in this revealing slide, rentership percentages declined dramatically running up to 2007, after which the Great Recession began to push new household formations disproportionately into rental housing. The result is that rentership rates are now "back to the 1960's levels". Millennials have obviously been slow to buy houses and have kids. Bob opined that the "Big Question" is "what will happen over the next 5 years?" Will Millennials follow in their parent's footsteps and start to buy houses? The answer to that question will have a profound effect on both the for-sale and rental markets. This disparity in homeownership between Millennials and all other age cohorts is dramatically illustrated in the following slide:

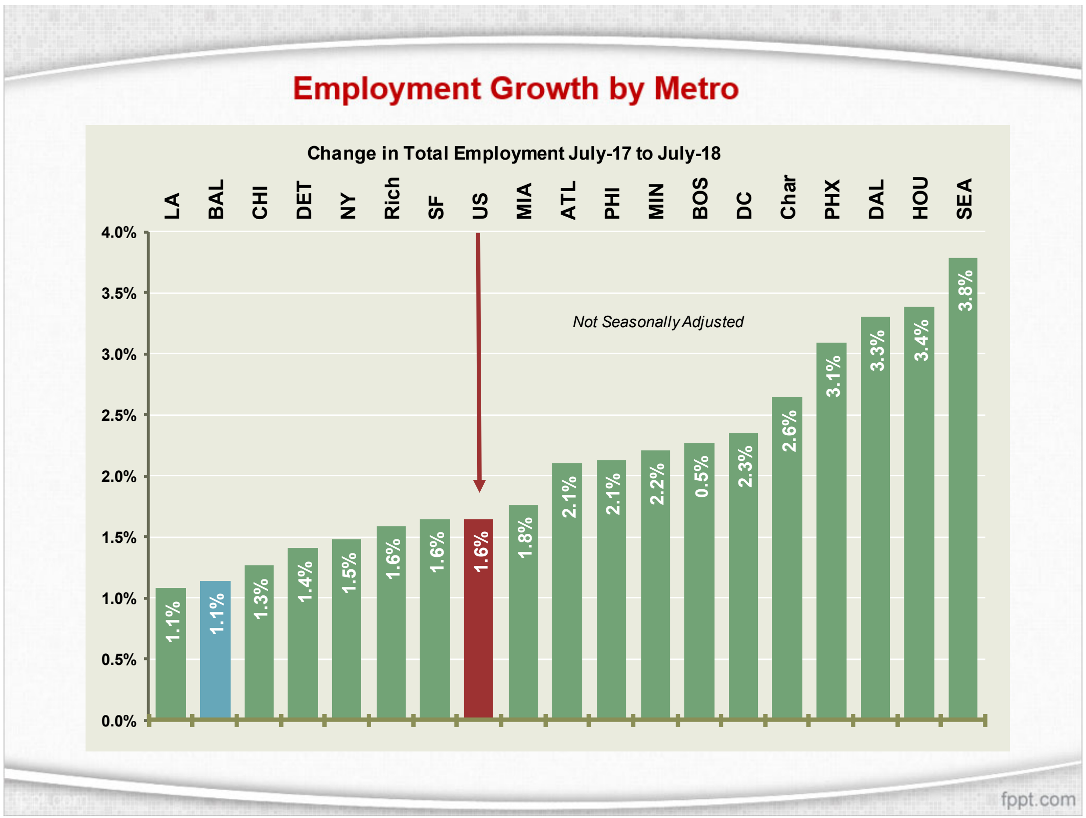


With respect to housing construction trends in the greater Baltimore/Washington marketplace, Bob offered this revealing slide:



The high percentages of multifamily permits issued in recent years is indicative of the fact that since the Great Recession, renters comprised the majority of new household formations. Almost all (95%) of the multifamily permits issued for the Baltimore Region were for rental projects. While the DC Region's multifamily permits were comprised mostly of rental projects, they also contained a significant number of for-sale condos due to the "more robust market" in the Washington area.

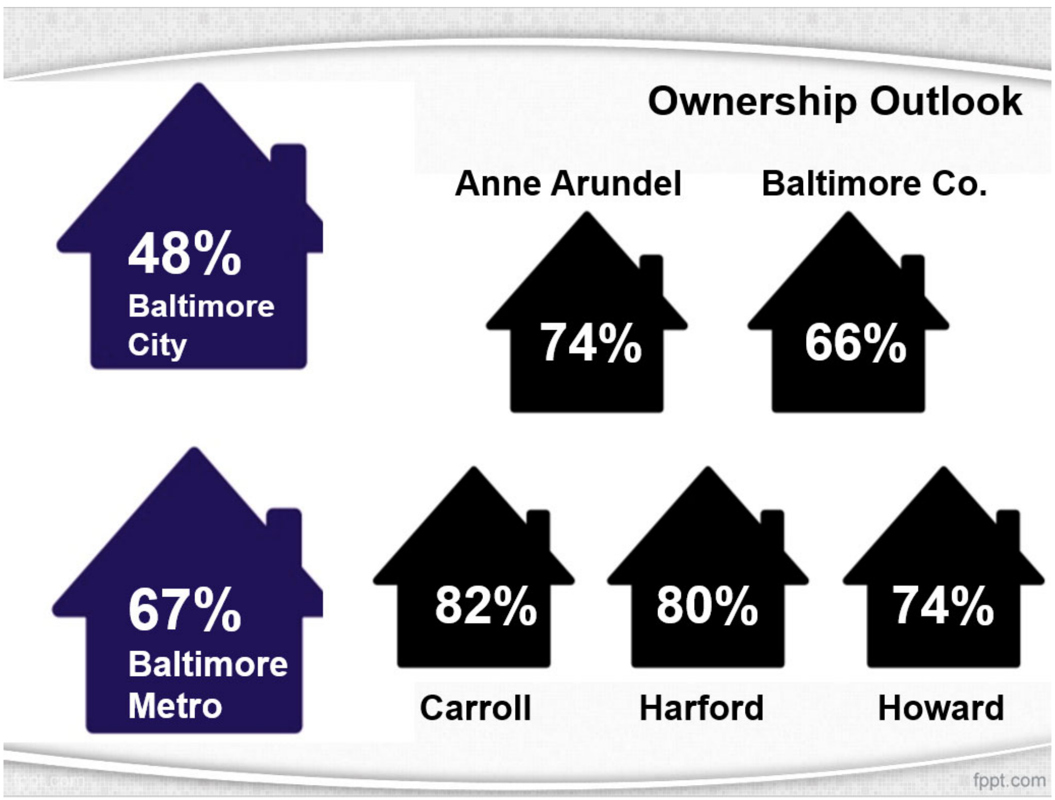
Addressing the overall economy and its impact on our local housing markets, Bob referenced a December, 2018 snapshot created by the Mortgage Bankers Association, titled "Economic Dashboard". Succinctly put, MBA's snapshot of economic metrics is "really strong", with low unemployment, stellar job growth, and good GDP growth. This strong national macro-economic performance has boosted employment growth in all markets, but unevenly, as can be seen below:



Bob advised that they are quite busy with market study work in the western half of the U.S. as a result of the stellar employment growth rates evidenced above in Seattle, Houston, etc. But closer to home, market studies are increasingly challenging given the less robust employment growth rate in the greater Baltimore area of 1.6%. Bob provided an excellent overview of the supply/demand dynamics currently in place in the Maryland, DC and N. VA markets for rental housing, with slides showing submarkets experiencing excess supply; submarkets that are "in balance"; and those still evidencing excess demand for new rental housing. Sections of downtown DC and Baltimore City currently have significant over-supply issues. Generally speaking, most submarkets are currently "in balance" in spite of "lots of new supply" due to strong ongoing demand for rental housing. There do still exist submarkets where demand for rental housing exceeds projected supply. These are mostly in tertiary markets in the Mid-Atlantic and these "betwixt & between" markets are where there are currently opportunities for new rental housing to be developed. The reader is encouraged to review Bob's slides detailing these Mid-Atlantic submarkets – they are enlightening snapshots for anyone interested in rental housing in the Mid-Atlantic, but a bit too large for inclusion herein.

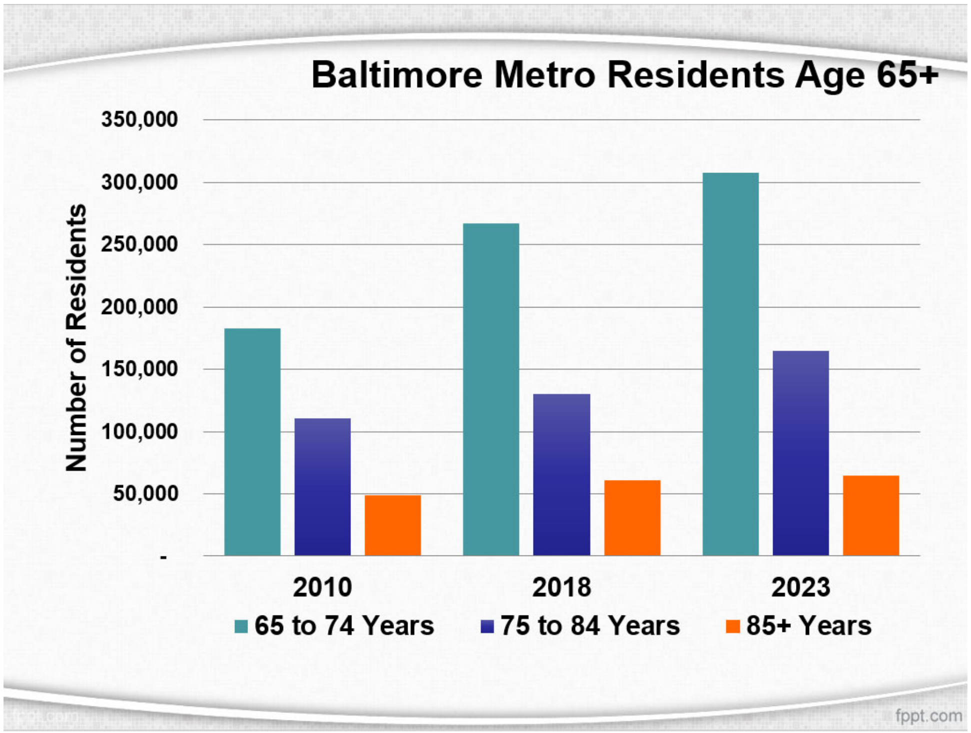
Abigail Ferretti followed Bob, addressing the for-sale market dynamics within the greater Baltimore area. Abigail began with an overview of unemployment rates in the Baltimore Metro area, which have been steadily declining in recent years. She opined that she expects that downward trend to continue – obviously good news for the housing markets. She pointed out that, although Baltimore is commonly perceived as a blue-collar town, its important to realize that 71% of Baltimore Metro employment consists of white collar workers. And that those workers commonly commute out to neighboring municipalities for work. "[Traffic] congestion has not reached the point where people are afraid to commute to other jurisdictions". This bodes well for homeownership rates.

The outlook for homeownership rates is neatly summarized in the following slide Abigail provided:



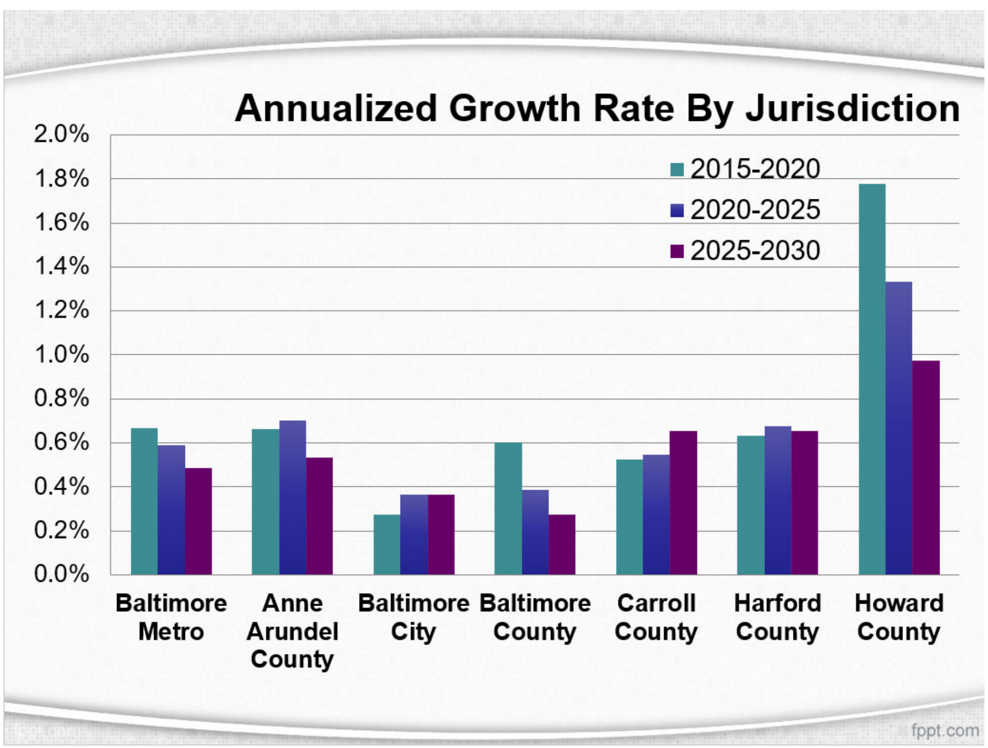
Abigail opined that the various homeownership rates in and around Baltimore "are not going to change much" going forward. She anticipates these will be fairly stable into the future. Furthermore, she opines that "neighborhood characteristics are not changing much in spite of lots of migration between Counties".

The coming aging of the population within the Baltimore Metro area is evident in this slide Abigail provided:

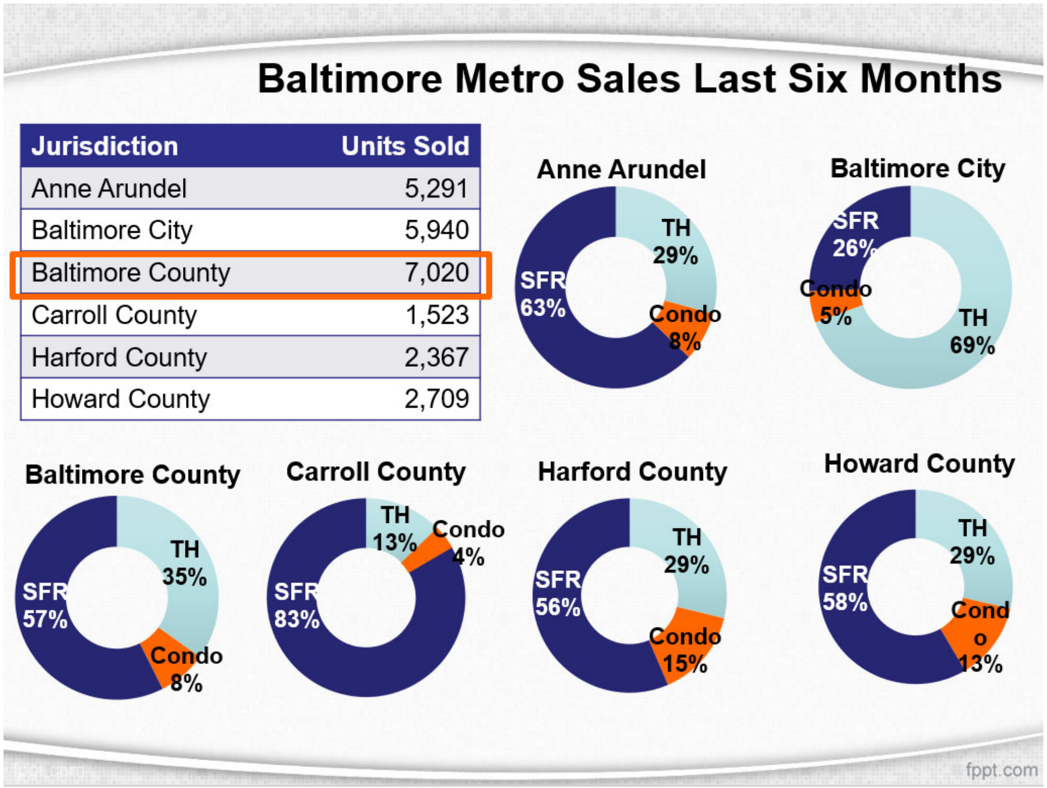


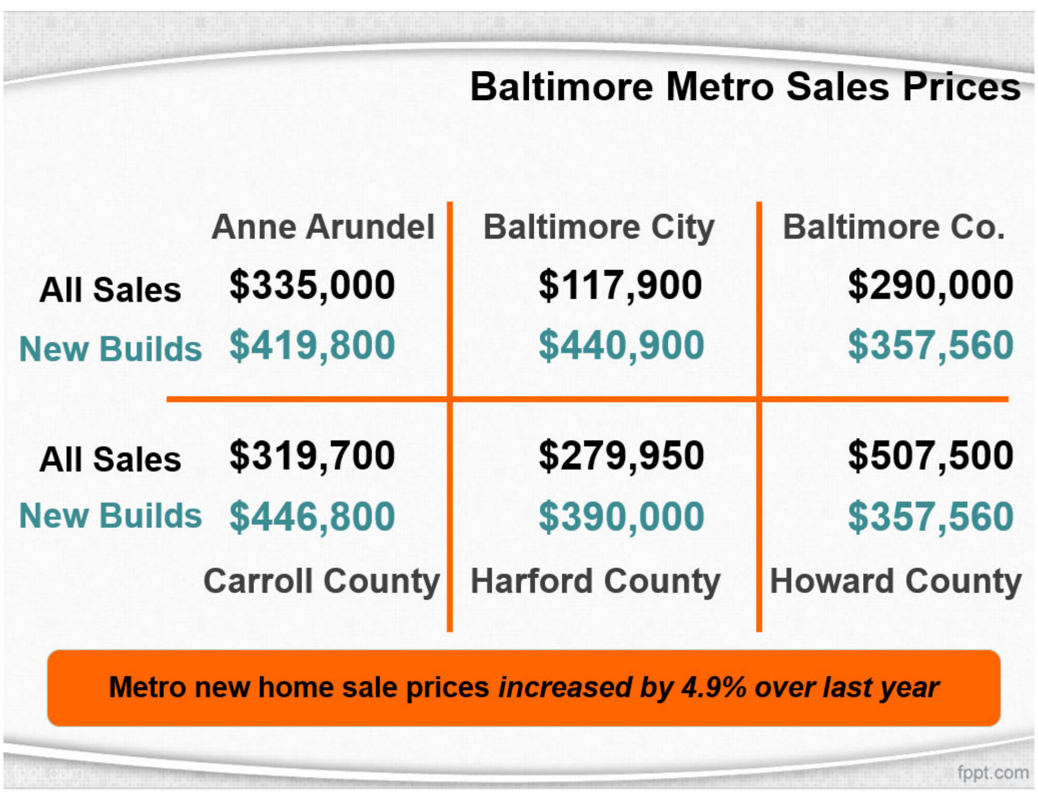
This marked demographic shift makes older folks “ripe for new housing opportunities”. However, the numbers of seniors moving into Assisted Living or Nursing Facilities has not matched expectations, as “technology is allowing seniors to stay in their homes longer”.

Abigail advised that the “most telling slide” in her presentation with respect to housing prices and homeownership rates is as follows:



As can be readily gleaned from this picture, Baltimore Metro growth rates will be slowly reducing over time going forward, which will tend to put downward pressure on for-sale housing prices and demand. "The numbers" on for-sale housing are neatly summarized in the following two slides:





Abigail noted that one would expect to see more “urbanization” taking place in the Counties surrounding Baltimore City (i.e. more condos and towns, as opposed to single family dwellings), however that does not appear to be happening. She especially expected Howard County to start becoming more “densified” given that Columbia is undergoing a planned urbanization at present, but the overall percentage of non-single family housing (i.e. condos and towns) has not been changing significantly.

The large disparity in sales prices evident in Baltimore is indicative of the, on the whole, low quality housing stock within the City. While its apparent from the “new builds” numbers that upscale housing is the only new for-sale product being built en masse– as it is the only housing type from which a developer/homebuilder can hope to make a profit.

The Baltimore LAI Chapter looks forward to our February meeting in which a commercial RE overview will be provided to compliment the excellent residential overview provided by Mr. Lefenfeld and Ms. Ferreti.