MARKET REPORT

Market Intelligence Report 2013: Baltimore

OCTOBER 21, 2013

Business, education, government, and expanding tourism and healthcare industries form the foundation of Baltimore's economy. What should hoteliers have an eye on?

Compared with Mid-Atlantic sister cities such as Boston, New York, Philadelphia, and Washington, D.C., Baltimore's pivotal role in America's history—as well as its present—remains unsung. More than 300 years ago, the city was established as a major port of trade; today, its modern seaport is the second largest in the Mid-Atlantic. The city hosted a session of the Second Continental Congress, and it was from Baltimore that Francis Scott Key watched the historic battle of the War of 1812 that inspired the poem "Defense of Fort Henry," which ultimately became the "Star-Spangled Banner."
The Baltimore-Towson MSA comprises a rapidly expanding network of public and private entities. Tens of millions of tourists flock to Baltimore each year to visit the city's historical attractions and neighborhoods, and some of the most prominent institutions of business and government have headquarters in the area. The following article takes a closer look at these economic forces, which also act as a wellspring for hotel demand.

Economic Drivers
The table below lists Greater Baltimore's top employers.

Rank	Firm	Number of Employees
1	Johns Hopkins University	22,000
2	Johns Hopkins Hospital and Health System	16,552
3	University System of Maryland	9,467
4	University of Maryland Medical System	8,900
5	Medstar Health	6,294
6	LifeBridge Health - Sinai	5,213
7	Mercy Health Services	3,280
8	Constellation Energy/BGE	3,273
9	St. Agnes HealthCare	3,022
10	Kennedy Krieger Institute	2,449

Source: Baltimore Development Corporation, 2013

Finance, education, healthcare, government, and energy play major roles in Baltimore's economy. Important entities and developments in each sector are described below.

- **Finance and Insurance**. National and multinational companies in Baltimore include Legg Mason, Morgan Stanley, and Transamerica. Morgan Stanley has reported progress in its goal to create 1,500 new jobs in Baltimore by the end of 2018, spurred by the substantial loan forgiveness agreement Morgan Stanley established with the City of Baltimore.
- **Education**. Baltimore is home to the prestigious Johns Hopkins University system, the University of Maryland-Baltimore, and smaller schools such as the University of Baltimore, Loyola University, and Notre Dame of Maryland University. The Maryland Independent College and University Association (MICUA) released a report in 2012 that ranked the Baltimore-

Towson MSA third in the nation based on the economic impact of metropolitan higher-education institutions. Higher-education expenditures in Baltimore amount to $1,900 per capita per year, which reportedly translates into $15.2 billion in spending[1]. Colleges and universities in the Baltimore-Towson MSA enroll close to 110,000 full-time students and sustain 84,660 jobs, comprising 6.7% of the metropolitan area's total workforce.

- **Health Care**. The Johns Hopkins Hospital and Health System, Baltimore's largest employer and one of the nation's premier healthcare institutions, includes specialized facilities such as the Brady Urological Institute, the Wilmer Eye Institute, the Sidney Kimmel Comprehensive Cancer Center, and the John Hopkins Children's Center. A $1.1-billion cardiovascular and critical-care tower and the Charlotte R. Bloomberg Children's Center were added in 2012. The not-for-profit University of Maryland Medical System provides a complete range of medical services to more than 300,000 patients each year and generates an economic impact of nearly $3.5 billion. The ongoing expansion of the university's Baltimore campus includes a $200-million cancer treatment center, which is expected to open as part of the University of Maryland BioPark in 2015.
- **Government and Military**. U.S. government and military operations near Baltimore include the Social Security Administration, the Department of Veterans Affairs, and Fort Meade. The National Security Agency (NSA), headquartered at Fort Meade, heads the U.S. Cyber Command, which began operations in May of 2010. Military contractors like Northrop Grumman Corporation reinforce the government's contribution to the Baltimore area's economy.
- **Energy**. Constellation Energy, which operates 27 power plants across the U.S., completed its merger with Exelon Corporation in March of 2013. The $7.9-billion merger is expected to induce $445 million in investment and create more than 2,400 new jobs across Maryland. The combined Constellation Energy/Exelon Corporation's headquarters offices are anticipated to open in Harbor Point in late 2014.

Historical & Projected Employment, Households, Population, and Household Income

With the exception of heightened unemployment levels during the recent recession, the Baltimore market reflected annual decreases in unemployment over the last decade. Households and the overall population noted growth year-over-year, even through the economic downturn. Modest growth rates in employment, household size, and population are expected through 2017. Household average income is forecast to increase at higher annual rates as growth in more highly paid jobs continues.

The following table illustrates unemployment statistics for Baltimore, the Baltimore-Towson MSA, the state of Maryland, and the U.S. from 2003 through 2012.

UNEMPLOYMENT STATISTICS

Year	City	MSA	State	U.S.
2003	7.4 %	4.8 %	4.5 %	6.0 %
2004	7.3	4.6	4.3	5.5
2005	6.9	4.4	4.1	5.1
2006	6.3	4.0	3.8	4.6
2007	5.5	3.6	3.4	4.6
2008	6.6(S)	4.5(S)	4.3(G)	5.8
2009	10.7(S)	7.8(S)	7.4(G)	9.3
2010	11.9(S)	8.3(S)	7.8(D)	9.6
2011	10.9(E)	7.7(E)	7.3(D)	8.9
2012	10.2(E)	7.2(E)	6.8(D)	8.1
Recent Month - Jul				
2012	11.1 %	7.8 %	7.2 %	8.2 %
2013	10.8	7.5	7.0	7.4

The most recent comparative period illustrates a modest decrease, per the latest available data for 2013, which can be attributed to resumed federal spending and steadier streams of government contract work. It should be noted that the City of Baltimore's unemployment rate typically registers much higher than that of the MSA; nevertheless, local employment has remained strong within the healthcare and education sectors, particularly at Johns Hopkins University, the University of Maryland, and their healthcare affiliates.

Office Space Trends

The following table details Baltimore's office space statistics, which are important indicators of the market's propensity to attract commercial hotel demand.

OFFICE SPACE STATISTICS – MARKET OVERVIEW

Submarket	Inventory		Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
	Buildings	Square Feet			
Central Baltimore	119	15,833,000	12,223,100	22.8 %	$23.13
Towson/Timonium	171	10,405,000	8,844,300	15.0	$21.77
East Baltimore	51	2,557,000	2,094,200	18.1	$24.23
Southwest Baltimore/BWI	84	4,745,000	3,838,700	19.1	$22.58
Anne Arundel	162	8,326,000	7,493,400	10.0	$27.25
Harford/North Baltimore City	43	1,853,000	1,393,500	24.8	$21.59
West/Northwest Baltimore	143	8,065,000	6,774,600	16.0	$21.03
Howard City	178	10,951,000	9,396,000	14.2	$24.51
Totals and Averages	**951**	**62,735,000**	**52,057,800**	**17.0 %**	**$23.38**

Source: REIS Report, 2nd Quarter, 2012

The Baltimore office market experienced positive net absorption in the second quarter, and the vacancy rate decreased one percentage point from the prior year; however, excess office supply has kept vacancy rates, especially in Central Baltimore, relatively high. REIS expects Baltimore's overall vacancy rate to close at 16.8% by year-end 2013, falling faster in future years as net absorption picks up.

Airport and Tourism

Passenger traffic at Baltimore/Washington International Thurgood Marshall Airport (BWI) has remained relatively stable over the last several years. Southwest, BWI's largest carrier, announced plans to join other carriers in increasing flights and locations serviced from the airport in the near future. A $100-million renovation of the airport's central section includes enhanced concourse connections in 2013, and the State of Maryland announced a $125-million project to construct a connector between Concourses D and E, providing additional capacity for international service by the fall of 2016.

Leisure demand generated by Arundel Mills Mall, the Harbor Place waterfront, Downtown Baltimore attractions, and professional sporting events provides hotels with significant compression. A new Horseshoe Casino is scheduled to open in Baltimore in 2014 near M&T Bank Stadium. The $400-million project is expected to generate 1,700 jobs and attract sizable leisure demand upon opening. This could prompt the addition of a new hotel near the casino, as only one hotel exists nearby, the Holiday Inn Express Baltimore at the Stadiums.

Convention Center

A renovation of the Baltimore Convention Center (BCC) was completed in 2012, and the venue may undergo a 200,000- to 300,000-square-foot expansion in the future. In addition to the expansion, an 18,500-seat Inner Harbor arena and a 500-unit full-service hotel connected to the BCC would be developed on adjacent parcels; the proposed hotel would take the place of the existing Sheraton Inner Harbor on Charles Street. This project is still in the feasibility stage and is contingent on both private and public funds. City officials expect that the proposed expansion would be completed between 2016 and 2020.

The table below illustrates statistics for the BCC though 2012/13.

CONVENTION CENTER STATISTICS – MARKET OVERVIEW

Year	Number of Events	Percent Change	Number of Delegates	Percent Change
2005/06	201	—	544,682	—
2006/07	166	(17.4) %	544,682	(0.0) %
2007/08	172	3.6	514,144	(5.6)
2008/09	139	(19.2)	435,999	(15.2)
2009/10	131	(5.8)	368,834	(15.4)
2010/11	147	12.2	455,444	23.5
2011/12	134	(8.8)	392,373	(13.8)
2012/13	135	0.7	417,405	6.4

Source: Sage Policy Group, Inc.

The number of events and delegates decreased in the 2011/12 fiscal year, following a promising rebound in 2010/11. The Baltimore Area Convention and Visitors Association (BACVA) has since ramped up efforts to increase convention bookings, partnering with the BCC and local hoteliers to increase production, streamline sales processes, and identify opportunities for future business.

New Hotel Supply Update

The Four Seasons Baltimore, the city's most recent new hotel, opened in November of 2011. Hotel projects in the planning stages include the following:

- The proposed Crowne Plaza hotel, located at 1 East Redwood Street/15-19 South Charles Street, will feature 173 guestrooms, with retail on the ground floor. The mixed-use development is slated for completion in July of 2014.
- The 208-key Harbor East Hyatt Place development at 511 South Central Avenue is expected to open in September of 2014, with construction expected to begin by the end of 2013.
- The proposed 42-key La Quinta Inn & Suites, located at 200 West Saratoga Street, is scheduled for completion by the end of 2013.
- The Inn at Government House, located at 1125 North Calvert Street, is slated to open in April of 2014. The boutique hotel will feature 18 luxury rooms.

Hotel projects anticipated but not begun include:

- A 90- to 100-room extended-stay hotel at the UMB BioPark;
- A 270-room, upscale, full-service hotel at Wills Pier as part of the Harbor Point master plan (scheduled for completion in 2015);
- A 194-room, extended-stay hotel at 880 North Wolfe Street, near the John Hopkins' Science & Technology Park. Construction is expected to begin by December of 2014 and reach completion by late 2016.

Outlook on Market Occupancy and Average Rate

The expansion of Baltimore's corporations, healthcare systems, and government operations should drive additional hotel demand, especially as the economy continues to strengthen. Occupancy gains may be moderated, however, in areas of significant hotel supply growth. Average rate should rise as lodging demand increases; new high-quality supply should support further average rate growth for the city as a whole.

Recent Hotel Transactions

The following table summarizes hotel transactions in Maryland since December of 2011.

REVIEW OF HOTEL TRANSACTIONS

Property	Location	Sale Date	Price	Rooms	Price/Rm
Holiday Inn Express Andrews Air Force Base	Camp Springs, Maryland	Sep-13	$8,500,000	127	$66,929
Hampton Inn Laurel	Laurel, Maryland	Mar-13	6,662,500	80	83,281
Lord Baltimore Hotel	Baltimore, Maryland	Mar-13	10,000,000	439	22,779
Hunt Valley Inn	Hunt Valley, Maryland	Mar-13	24,000,000	393	61,069
DoubleTree by Hilton Baltimore BWI Airport	Linthicum, Maryland	Nov-12	13,000,000	260	50,000
Hyatt Place Baltimore Owings Mills	Owings Mills, Maryland	Oct-12	10,455,000	123	85,000
Brookshire Suites Baltimore	Baltimore, Maryland	Sep-12	7,850,000	97	80,928
LakeStar Lodge	McHenry, Maryland	Sep-12	1,699,000	21	80,905
Westin Annapolis	Annapolis, Maryland	Sep-12	41,139,600	225	182,843
Comfort Suites BWI Airport	Linthicum Heights, Maryland	Jun-12	8,350,000	137	60,949
Hampton Inn Hagerstown	Hagerstown, Maryland	Jun-12	3,693,000	118	31,297
Hilton Garden Inn Solomons	Dowell, Maryland	May-12	11,500,000	100	115,000
Residence Inn by Marriott Bethesda	Bethesda, Maryland	May-12	64,500,000	187	344,920
Ramada Conference Center Edgewood	Edgewood, Maryland	May-12	3,650,000	152	24,013
Holiday Inn Express Rockville Bethesda North	Rockville, Maryland	Mar-12	19,500,000	162	120,370
Holiday Inn Baltimore Inner Harbor Downtown	Baltimore, Maryland	Feb-12	20,700,000	365	56,712
Sleep Inn & Suites Edgewood	Edgewood, Maryland	Jan-12	2,525,000	84	30,060
Country Inn & Suites BWI Airport	Linthicum Heights, Maryland	Jan-12	7,505,000	107	70,140
Hampton Inn Lexington Park	Lexington Park, Maryland	Dec-11	12,400,000	111	111,712

The most recent hotel transactions in the Baltimore area have been of the Lord Baltimore Hotel, the Brookshire Suites Baltimore, and the Holiday Inn Baltimore Inner Harbor Downtown. The Lord Baltimore Hotel operated as a Radisson at the time of sale but is planned to remain independent; the buyer, Miami-based Rubell Hotels, began renovations to the lobby and public areas following the sale, and guestroom renovations are expected to be completed by early 2014. The Brookshire Suites Baltimore was purchased by Modus Hotels in September of 2012 as a distressed asset. The Holiday Inn Baltimore Inner Harbor Downtown was distressed at the time of sale and will remain branded as a Holiday Inn and be managed by ownership.

Conclusion

The expansion of private- and public-sector entities, along with the city's tourism and convention base, should provide a strong platform for further economic and hotel performance growth. Some challenges remain, especially with respect to the progress of national economic recovery. While the duration of the federal government shutdown is unknown at the time of writing, its effects will likely prove detrimental to area businesses and hotels, which typically receive heavy patronage from the government demand segment. Overall, however, recent advances in employment and the promise of additional leisure demand help support an optimistic outlook for the Baltimore market in the coming years.

1 MICUA Matters. “Economic Impact of Higher Education in Baltimore Area Ranked Third in the Nation.” Summer 2012. http://www.micua.org/77-publications/archive-micua-matters-summer-2012/1236-economic-impact-of-higher-education-in-baltimore-area-ranked-third-in-nation