Cassidy Turley / Commercial Real Estate Services

June 2012

Insights: Baltimore Industrial and the Panama Canal

Following the completion of the Panama Canal expansion in 2014, the Port of Baltimore (POB) will be one of two East Coast ports with both a 50-foot channel and a 50-foot berth, allowing it to accommodate the larger post-Panamax ships. A portion of cargo traffic currently flowing through West Coast ports is expected to be diverted East. The POB is already experiencing promising growth as $51.4 billion of goods crossed in 2011, the highest volume of traffic in the state's history. The trend continued in 2012 with a 13% increase in cargo traffic in the first quarter.

Factors Contributing to Increased Traffic*

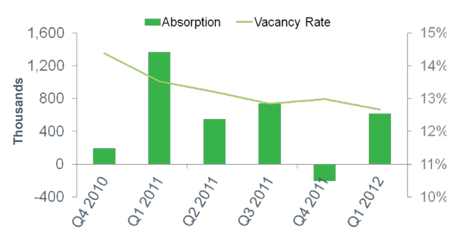
- The reduced cost of shipping through the expanded Panama Canal directly to the East Coast.
- The POB's ideal proximity to the Mid-Atlantic and Northeast consumer markets.
- CSX planning for a new intermodal facility allowing double-stacked containers through the POB for increased rail-shipping efficiency.
- Private investment from Ports America improving the POB's infrastructure, giving the POB an advantage over competitors like the Port of New York/New Jersey and the Port of Savannah.
- Charleston and Savannah are waiting on government funding to deepen their harbors; delays could prevent these ports from being prepared to take full advantage of the Panama Canal expansion.

An increase in imports traveling through the POB and growth in state exports will create significant future demand for industrial property around Baltimore. The effects of increased traffic to the POB will be felt by both existing industrial inventory and industrial land.

Recent Market Trends

Over the past six quarters, the Baltimore industrial market has experienced steady absorption and vacancy rates.

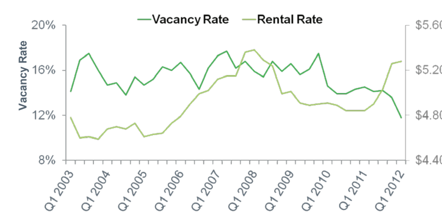
Baltimore Metro Industrial Market Fundamentals



Source: Cassidy Turley Baltimore Research

These solid market fundamentals are partly due to a lack of speculative industrial development over that time period, allowing market demand to fill the 160 million square feet of existing inventory. As a result, speculative development of Class A industrial facilities could become an attractive option in Baltimore. In 2011, Class A industrial product began to show signs of recovery from the 2008 recession with a dramatic decrease in vacancy rates and subsequent upward trend of average rental rates. Coupled with demand for warehouse and distribution facilities to service increasing levels of cargo traveling through the POB, these trends indicate a need for new industrial product.

Baltimore Metro Class A Industrial Vacancy Rate

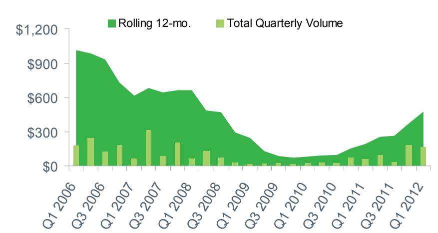


Source: CoStar Group, Inc.

Implications on Industrial Sale Volume

Industrial sales volume around Baltimore can also expect a boost due to the increased port traffic. With $342.7 million in industrial sales during Q4 2011 and Q1 2012, the Baltimore Metro area saw its highest quarterly sale volumes since 2007.

Baltimore Metro Industrial Overall Sales Volume (Millions)



Source: Real Capital Analytics

As vacancy rates continue to improve, either through new businesses entering the market or existing businesses expanding their operations to take advantage of the new capabilities of the POB, the existing industrial inventory in the metropolitan area will become an increasingly attractive option for investors.

The Manufacturing and Owner/User Markets

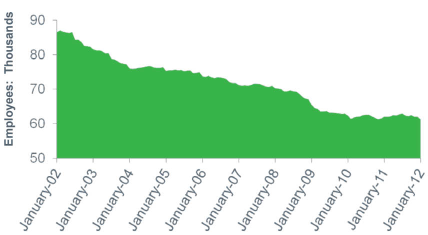
With the ability to service larger cargo ships, the POB could become attractive to manufacturing companies who currently

* *Journal of Commerce*, April 2-9, 2012, *Port of Baltimore Magazine*, January/February 2012

produce and transport their goods from the industrial-heavy Midwest. Expanding companies may choose to open operations closer to an East Coast port rather than in their Midwest locations, eliminating the need to ship their inventory to the coast.

The manufacturing workforce in the Baltimore area has declined steadily over the past decade.

Baltimore Metro Manufacturing Workforce

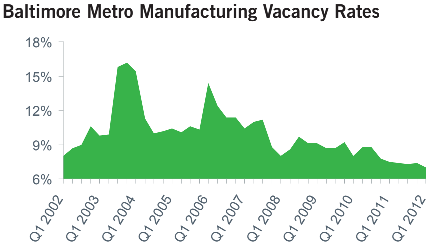


Source: US Bureau of Labor Statistics

However, this reduction in workforce has had little impact on metropolitan manufacturing vacancy rates. In fact, after a high of 16.2% in 2003, the manufacturing inventory has settled to a vacancy rate of 7% in Q1 2012.

Accordingly, any future growth in the manufacturing industry and workforce in the Baltimore area will quickly impact the industrial market fundamentals.

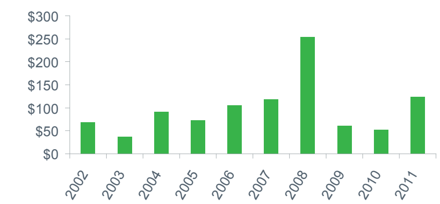
Baltimore Metro Manufacturing Vacancy Rates



Source: CoStar Group, Inc.

Large vacant blocks could also disappear quickly if companies choose to pursue the owner/user purchase path. The Baltimore Metro area saw less owner/user industrial purchases in 2009 and 2010 than it had since 2003; however, the market experienced a bounce-back in 2011 with over $120 million in owner/user purchases.

Baltimore Metro Industrial Owner/User Sales Volume (Millions)



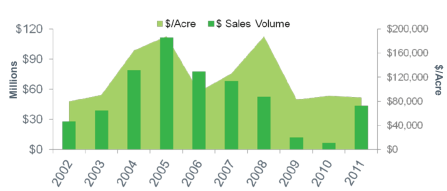
Source: CoStar Group, Inc.

If sales volume continues to increase, supply will dry up and new construction will be required.

Industrial Land Sales

Land will also benefit from increased demand in the Baltimore Metro industrial market. The area saw combined sales volume for industrial land of $18.56 million in 2009 and 2010, the lowest total at any point in the past decade. Land sales rebounded in a big way as 2011 volume more than doubled the combined total of the previous two years to end at $43.77 million. A dramatic dip in pricing per acre contributed to increased volume in 2011; the question will now be how pricing trends as market fundamentals remain strong and new opportunities for speculative development emerge.

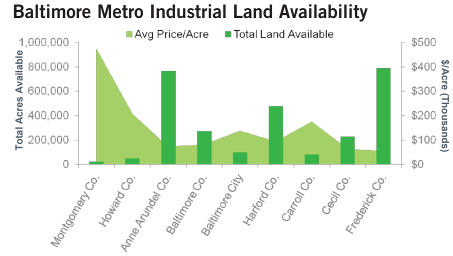
Baltimore Metro Industrial Land Sales Volume



Source: CoStar Group, Inc.

The relative scarcity of land close to the POB is also a factor in land pricing. Much of the undeveloped industrial land in the market exists in the counties surrounding the metropolitan area. This could create growth in Cecil and Carroll Counties, and possibly Frederick County. Not surprisingly, areas with the most available land also have the lowest average price per acre for current market offerings.

Baltimore Metro Industrial Land Availability



Source: CoStar Group, Inc.

Over the next five to ten years, the Baltimore metropolitan industrial market should witness improving market fundamentals and the positive effects of the expansion of the Panama Canal. The Baltimore area should become an increasingly desirable place to do business both as a manufacturer and as an industrial property owner.