

Key Performance Indicators



Vacancy
15.6%



Average Rent
\$28.48/SF



Net Absorption
-175,289 SF

Market Overview

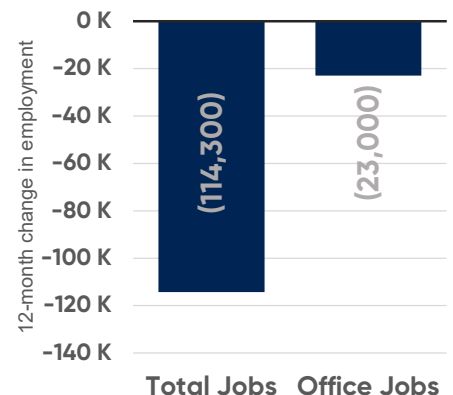
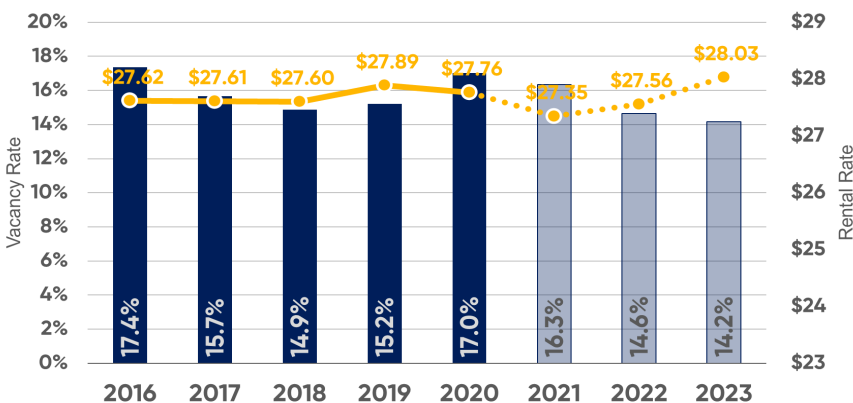
The coronavirus adversely impacted suburban Maryland's office market in Q2 of 2020. The repercussions of forced layoffs, mandatory remote working, and delayed real estate initiatives began to materialize in April. Pandemic-induced economic uncertainty has played a role in slowing down leasing activity, which reached historically low levels in Q2. While leasing volume was well below average, the region's strong pharmaceutical and federal industries supported Q2's top leases. **Given the nature of the current public health crisis, Maryland's strength in biotech/life sciences could insulate the commercial real estate market from some of the recessionary pressures expected.** Occupancy losses were measured at -175,289 SF in Q2, bringing year-to-date net growth to 78,987 SF. Vacancy increased to 15.6% and is expected to remain elevated through 2020 due to continued economic uncertainty and new construction deliveries. Though asking rents are relatively steady, larger urban submarkets, particularly in Montgomery County, have supported regional rent growth, which has been falling in many of Maryland's more outdated rural markets.

Tenant's Perspective

Suburban Maryland's office market is expected to remain soft due to slow demand and structurally high vacancy. Economic uncertainty will be a hindrance to the commercial real estate market, however Maryland's tenant composition could be an asset as the country invests in pharmaceutical research. **Still, growing competition among landlords to secure tenants will result in flat (or contracting) rents and more aggressive concession packages.**

Labor Market Perspective

Suburban Maryland's labor pool contracted by 114,300 jobs over the last 12 months, however most losses were non-office-using jobs.

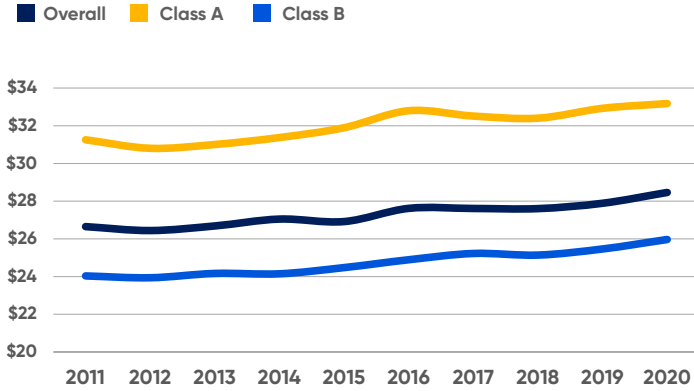


Suburban Maryland

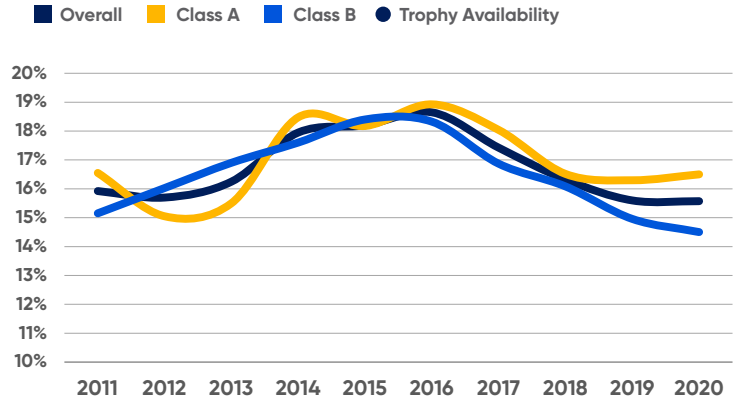


Q2 2020 Market Report

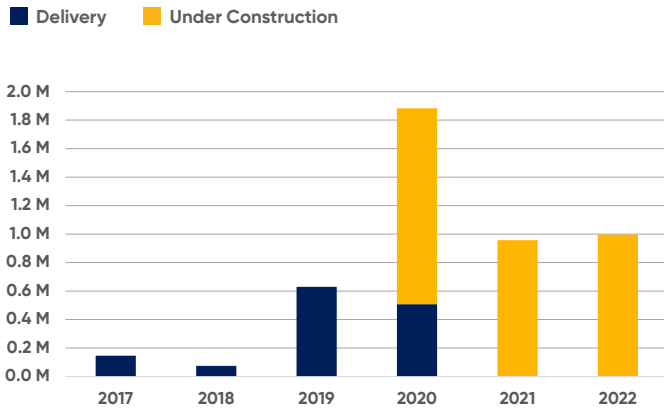
Asking Rents



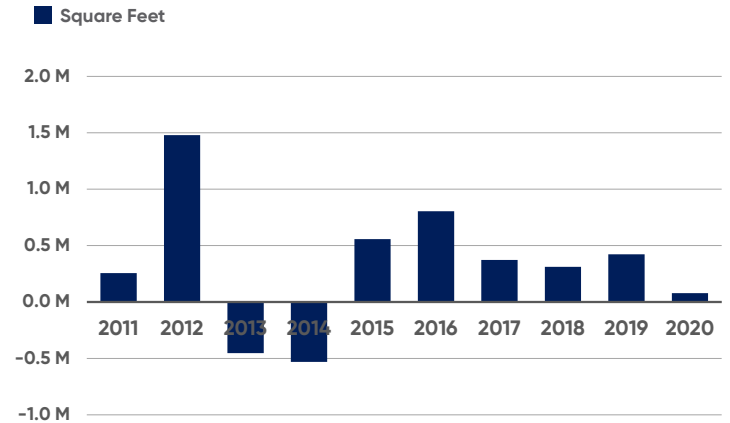
Average Vacancy Rate



Construction Delivery Pipeline (SF)



Net Absorption



Long-Term Growth Expected

Prior to the coronavirus, Suburban Maryland's office market had shown signs of incremental tightening attributed to increased activity among federal, life science, and healthcare firms. Though COVID-19 has caused most tenants to pause their real estate initiatives, Suburban Maryland's office market is poised to rebound more quickly than many markets. The region's concentration of knowledge-based industries, particularly pharmaceutical, healthcare, and federal contracting, should be less directly impacted by the recessionary forces of a post-pandemic economy. Continued investment in laboratory-supportive real estate must be a priority to continue attracting and fostering the growth of life science tenants in the region. **Exceptionally tight market conditions for Class A lab space (5.3% vacancy) may stifle immediate growth opportunities.**

Suburban Maryland



Q2 2020 Market Report

Q2 Top Leasing

Tenant	Submarket	Address	Size	Type
GSA - NIH	North Bethesda	6001 Executive Blvd	150,000	Renewal
GSA - FDA	Rockville	12420 Parklawn Drive	93,014	Renewal
United Health Group	Frederick	5275 Westview Drive	41,032	New Lease
Aurinia Pharmaceuticals	North Rockville	77 Upper Rock Circle	30,531	New Lease

Sublease Market

Recessionary Connection

Following past economic shocks, sublease listings increased sharply. For a variety of reasons, many firms used the recessionary uncertainty to list unused and unnecessary space.

Current Availability

Sublease availability has increased by 5% since the beginning of COVID. This growth is on-par with the post-2001 and 2008 market crashes. Following those shocks, availability expansion continued for two years. While COVID is not a traditional recession, sustained sublease expansion could be a reality.

Submarket Comparison

Bethesda/Chevy Chase

\$44.69

Gaithersburg

\$27.65

Germantown

\$23.20

North Bethesda

\$29.86

North Rockville

\$29.20

North Silver Spring

\$23.95

Rockville

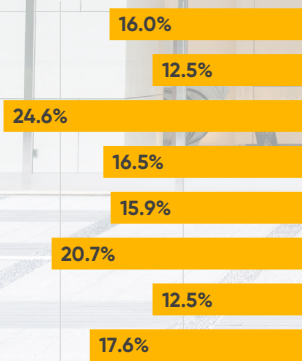
\$30.68

Silver Spring

\$30.92

Asking Rate

Vacancy Rate



Submarket Statistics

Submarket	Total Bldgs	Inventory	Sublet Available	Total Available	Total Vacant	Vacancy Rate	Net Absorption Q1	Net Absorption Q2	Net Absorption (YTD)	Class A Rent	Class B Rent	Total Direct Rent	Under Construction	SF Delivered YTD	Net New SF Delivered
Bethesda/Chevy Chase	81	10,259,773	453,710	2,872,089	1,641,019	16.0% ▲	41,533	(46,785)	(5,252)	\$46.96	\$37.44	\$44.69 ▲	1,907,274	-	-
North Bethesda	77	9,894,504	154,252	2,015,254	1,631,783	16.5% ▲	79,399	(56,410)	22,989	\$30.95	\$29.09	\$29.86 ▼	-	-	-
Rockville	80	8,241,842	48,055	1,545,532	1,029,996	12.5% ▲	3,424	7,345	10,769	\$32.76	\$27.54	\$30.68 ▼	-	-	-
North Rockville	112	11,239,000	208,615	2,205,006	1,784,866	15.9% ▼	(39,290)	28,867	(10,423)	\$31.03	\$26.45	\$29.20 ▼	258,904	-	-
Gaithersburg	77	3,609,236	1,100	665,726	451,413	12.5% ▼	12,344	7,226	19,570	\$30.29	\$22.12	\$27.65 ▲	121,674	-	-
Germantown	47	2,696,969	6,926	765,611	664,336	24.6% ▼	(18,964)	452	(18,512)	\$25.81	\$22.27	\$23.20 ▼	-	-	-
I-270 Corridor	474	45,941,324	872,658	10,069,218	7,203,413	15.7% ▲	78,446	(59,305)	19,141	\$34.56	\$28.72	\$33.42 ▲	2,287,852	-	-
Silver Spring	55	5,875,428	171,433	1,222,827	1,031,198	17.6% ▼	87,811	25,203	113,014	\$32.58	\$26.03	\$30.92 ▲	-	-	-
North Silver Spring	46	2,012,937	8,600	434,934	417,095	20.7% ▲	(25,462)	10,499	(14,963)	\$30.70	\$27.34	\$23.95 ▼	-	508,086	508,086
Montgomery County	631	57,245,057	1,220,551	12,170,352	8,895,040	15.5% ▲	140,795	(23,603)	117,192	\$33.48	\$27.90	\$30.85 ▲	2,334,852	508,086	508,086
Prince George's County	346	19,416,723	120,003	3,711,037	3,281,189	16.9% ▲	86,220	(82,726)	3,494	\$25.85	\$21.10	\$23.00 ▲	882,767	-	-
Frederick County	138	5,656,664	41,030	1,230,104	791,467	14.0% ▲	27,261	(68,960)	(41,699)	\$27.81	\$22.70	\$22.81 ▼	-	-	-
Total	1,115	82,318,444	1,381,584	17,111,493	12,881,983	15.6% ▲	254,276	(175,289)	78,987	\$31.97	\$25.48	\$28.48 ▲	3,217,619	508,086	508,086