Suburban Maryland

Q1 2021 Market Report

cresa

Key Performance Indicators

Vacancy	Average Rent	Net Absorption	Deliveries
16.8%	$27.96/SF	643,926 SF	362,000 SF

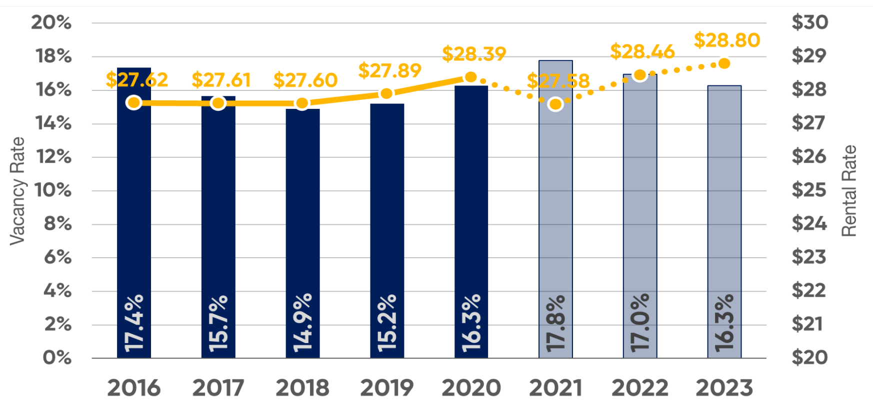
* Y-O-Y Comparison

Tenant's Perspective

While large federal government leases provide a safety net for the market, the lack of organic demand will put further pressure on the overall office market. Vaccination rates are increasing as return to the office plans gain traction, but how occupied offices will be remains uncertain. The softening of the market as a result of COVID-19 is likely to continue into 2021, putting more pressure on Landlords to compete through lower rental rates and high concession offerings.

Market Overview

With the federal government providing a boost, Suburban Maryland found relief in the first quarter of 2021. Overall, the submarket posted 643,976 SF of positive absorption, marking the first positive quarter since COVID-19's impact. Leading the way was Prince George's county with 589,306 SF of positive absorption, anchored by USCIS's new 575,000 SF headquarters in Branch Avenue. Bethesda/Chevy Chase is another bright spot for the market, posting 207,085 SF positive absorption. However, the low-demand environment continues to cause pain for most of the Suburban Maryland market. Average direct asking rents fell to $27.96/SF, down $0.48/SF from year-ago levels. Vacancy levels continued to climb in the first quarter as well, increasing 130 basis points year-over-year to 16.8%. With another 1.6 million SF of new construction underway, these levels could rise even higher in the absence of pre-leasing and normal tenant demand. Along with the federal government, the Biotech and Life Science industries remain important near-term drivers for the Suburban Maryland office market.



Washington Region Return to Office Barometer: 21.2%

*Kastle Systems, Return to the Office Barometer

Labor Market Perspective

Suburban Maryland's labor pool contracted by 50,000 jobs over the last year; however, most losses were non-office-using jobs.

Vacancy Change: 1.3%
Since COVID

Average Rent Change: $0.70/SF
Since COVID

139,903 SF
Lost Occupancy since COVID

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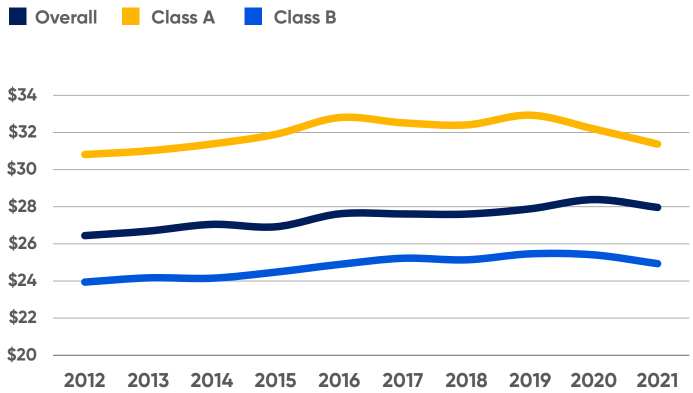
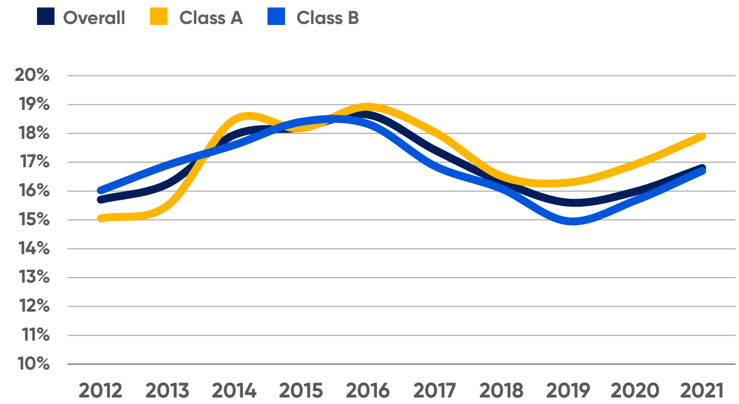
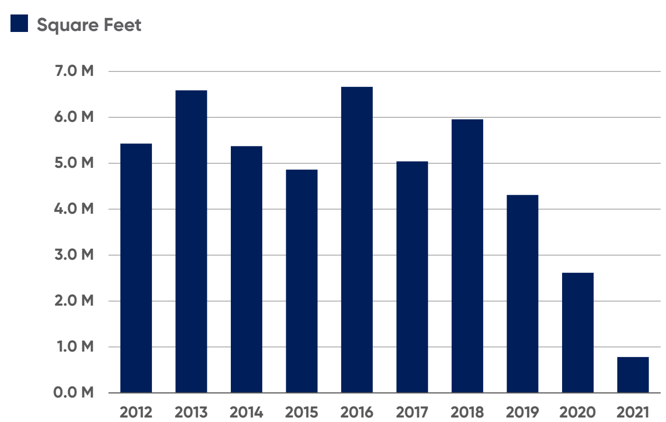
Average Asking Rents



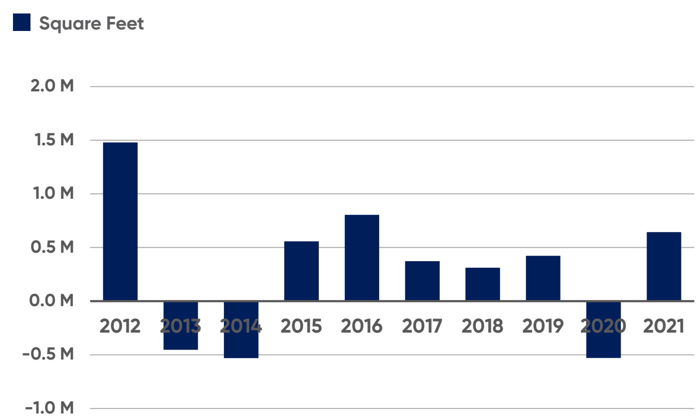
Average Vacancy Rate



Leasing Activity



Net Absorption



With a Solid Base, Can Suburban Maryland Expand its Playing Field?

Despite showing signs of recovery during the first quarter, activity in Suburban Maryland looked familiar to years past. A large amount of overall SF absorption can be attributed to leases signed by the federal government, with the National Institute of Health's 108,849 SF lease in North Bethesda being another example. Certain pockets of the market have remained resilient, driven primarily by quality. Bethesda/Chevy Chase posted positive absorption on the quarter, while the Pike & Rose development in North Bethesda landed two top quarterly leases, with Industrious and United Solutions each taking large blocks of space. However, the remainder of the market has struggled to find tenant demand outside of the federal government and Life Science industries. While both these sectors are important drivers for the Suburban Maryland market, organic job growth from other industries will be pivotal in moving the market towards a full recovery.

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Q1 Top Leasing

Tenant	Submarket	Address	Size	Type
GSA - NIH	North Bethesda/ Potomac	2115 E Jefferson St	108,849	New Lease
Industrious	North Bethesda/ Potomac	909 Rose Ave	40,914	New Lease
United Solutions	North Bethesda/ Potomac	909 Rose Ave	20,602	New Lease
Perfect Office Solutions	Gaithersburg	18310 Montgomery Village Ave	16,000	New Lease

Sublease Market

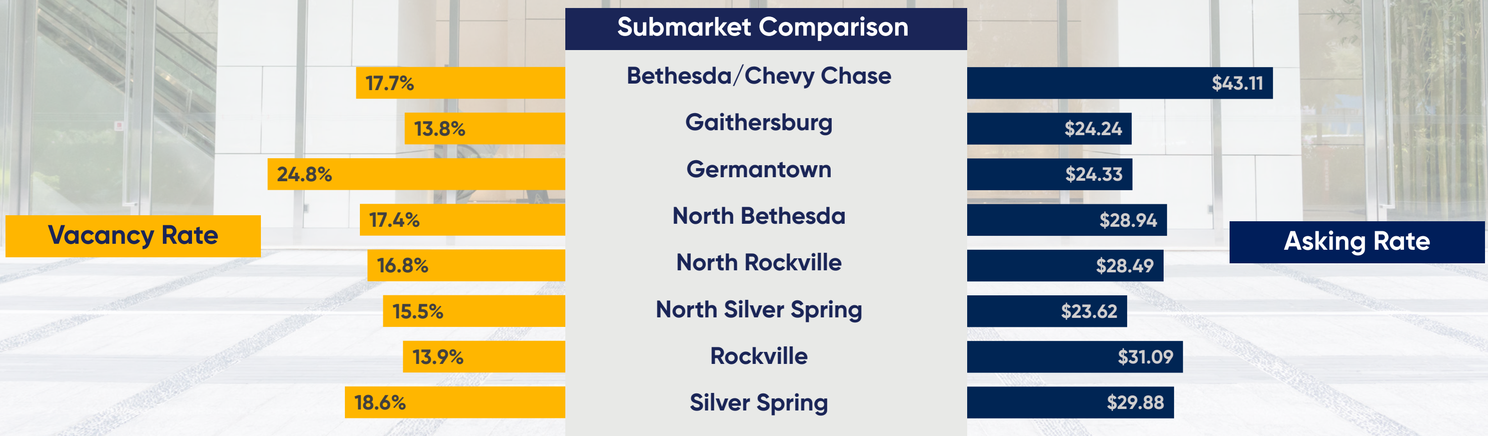
Recessionary Connection

Following past economic shocks, sublease listings recorded varying increases as firms reacted to the market uncertainty by listing unused and unnecessary space.

Current Availability

Sublease availability has increased by 27.5% since the beginning of COVID-19, showing substantially less growth than neighboring regions. This growth, though slower than other market areas, remains on-par with sublease activity following the 2008 market crash.

Submarket Comparison



Submarket Statistics

Submarket	Total Bldgs	Inventory	Sublet Available	Total Available	Total Vacant	Vacancy Rate	Net Absorption Q1	Net Absorption (YTD)	Class A Rent	Class B Rent	Total Direct Rent	Under Construction	SF Delivered YTD	Net New SF Delivered
Bethesda/ Chevy Chase	83	10,657,209	463,487	3,213,083	1,882,290	17.7% ▲	207,085	207,085	$46.55	$36.86	$43.11 ▼	1,164,911	362,643	199,643
North Bethesda	78	10,194,968	188,651	2,087,332	1,774,319	17.4% ▲	(17,240)	(17,240)	$28.57	$29.37	$28.94 ▼	-	-	-
Rockville	81	8,447,851	96,496	1,676,667	1,177,165	13.9% ▲	(52,723)	(52,723)	$32.40	$27.90	$31.09 ▲	-	-	-
North Rockville	113	11,554,078	363,046	2,749,565	1,939,651	16.8% ▲	(31,106)	(31,106)	$30.85	$24.39	$28.49 ▼	258,904	-	-
Gaithersburg	78	3,621,234	17,453	546,560	500,402	13.8% ▲	(36,773)	(36,773)	$28.41	$19.31	$24.24 ▲	-	-	-
Germantown	46	2,730,907	80,722	785,250	677,308	24.8% ▲▼	(26,391)	(26,391)	$27.63	$22.08	$24.33 ▲	-	-	-
I-270 Corridor	479	47,206,247	1,209,855	11,058,457	7,951,135	16.8% ▲	42,852	42,852	$35.41	$28.26	$32.71 ▼	1,423,815	362,643	199,643
Silver Spring	56	5,981,393	208,902	1,313,662	1,113,529	18.6% ▲	7,986	7,986	$34.76	$25.61	$29.88 ▼	-	-	-
North Silver Spring	47	2,209,308	-	403,329	343,272	15.5% ▼	7,567	7,567	$29.50	$23.43	$23.62 ▼	-	-	-
Montgomery County	638	55,396,948	1,418,757	12,775,448	9,407,936	17.0% ▲	58,405	58,405	$33.11	$27.66	$30.18 ▼	1,423,815	362,643	199,643
Prince George's County	349	20,011,558	99,217	3,745,080	3,403,932	17.0% ▲	589,306	589,306	$26.29	$20.32	$22.90 ▲	197,000	-	-
Frederick County	137	5,613,413	52,497	1,690,023	792,433	14.1% ▲	(3,735)	(3,735)	$22.40	$22.42	$22.41 ▼	-	-	-
Total	1,124	81,021,919	1,570,471	18,210,551	13,604,301	16.8% ▲	643,976	643,976	$31.37	$24.94	$27.96 ▼	1,620,815	362,643	199,643