

Key Performance Indicators



* Y-O-Y Comparison

Market Overview

Despite a strong start to the year, the Suburban Maryland office market struggled in the second quarter of 2021. After posting 643,976 SF of positive absorption in the first quarter, the market saw negative absorption totaling 495,955 SF. The Consumer Product Safety Commission's renewal for 126,266 SF at 4330 East-West Highway represented the largest lease of the quarter, marking the fifth straight quarter that GSA provided the top lease in Suburban Maryland. In total, only two of ten submarkets considered had positive absorption, with North Rockville and Gaithersburg posting modest gains. Average direct asking rents did see slight improvement from the first quarter, landing at \$28.22/SF, but are still down from year-ago levels. The total vacancy rate also climbed to 17.3%, representing a 170 basis point increase year-over-year. Over 1.3 million SF of construction remains underway in the market, mainly concentrated in downtown Bethesda. The 379,911 SF Avocet Tower project at 7373 Wisconsin Avenue has yet to see pre-leasing activity, which stands to further increase vacancy levels in the market.

Tenant's Perspective

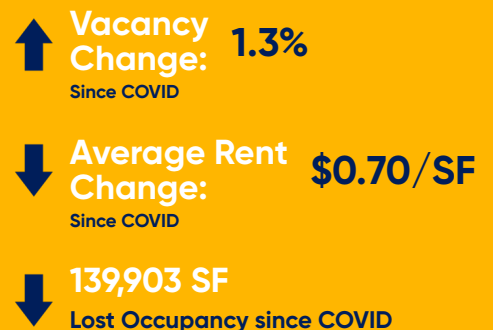
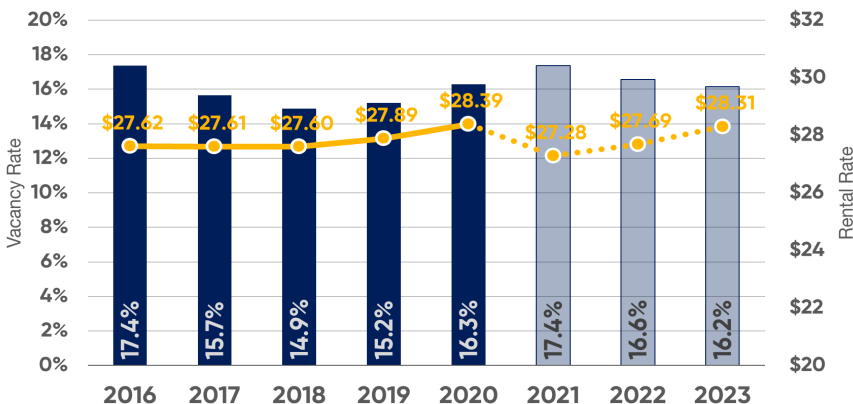
Now five quarters since the impact of COVID-19, the Suburban Maryland office market is expected to remain soft going forward. Outside of consistent demand from the GSA and life sciences industry, the market has struggled to attract and grow new business. Some landlords have held firm on rental rates but have needed to remain competitive with concessions to land tenants. The economy continues to show positive signs in its recovery, however, the permanent implementation of remote-work policies in a post-COVID world is likely to have a prolonged effect on leasing and vacancy levels.

Washington Region Office Occupancy: 27.4%

*Kastle Systems, Return to the Office Barometer

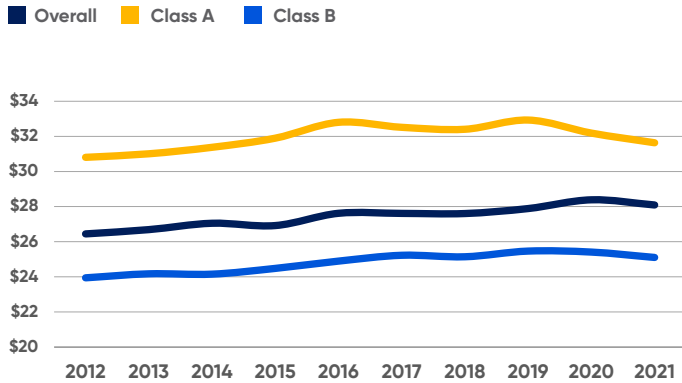
Labor Market Perspective

Suburban Maryland's labor pool contracted by 78,000 jobs over the last year; however, most losses were non-office-using jobs.

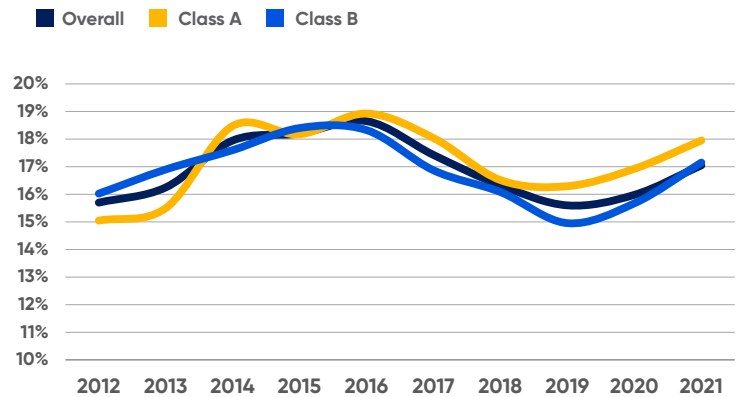


Q2 2021 Market Report

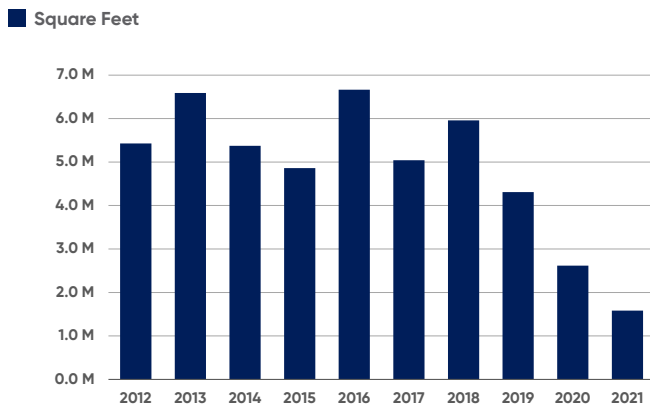
Average Asking Rents



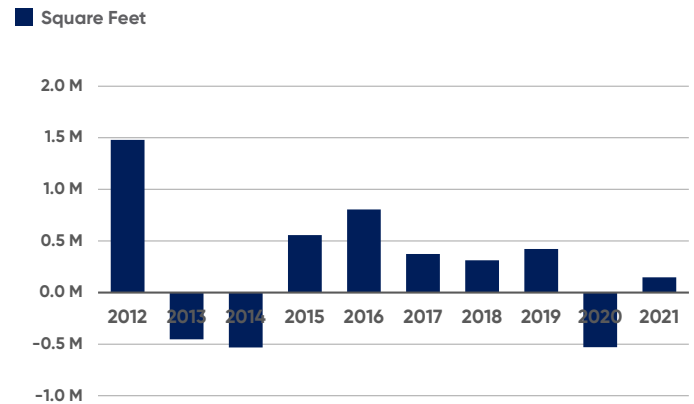
Average Vacancy Rate



Leasing Activity



Net Absorption



Driven by Quality, Two-Tiered Recovery is Looming for Office Product

Much can be said about the potential of the life sciences industry in Maryland. Consistently providing top quarterly leases, MaxCyte's 67,000 SF lease at 9713 Key West Avenue is another example. In 2020 alone, biotech companies in Montgomery County received nearly \$8 billion in research funding. Vacancy rates for laboratory space have been in the low single digits for over five years, helping spur building repositions and build-to-suit projects. Despite this demand, the rest of the office market is struggling to keep up, with all ten submarkets considered in this report posting double-digit vacancy rates. New deliveries in recent years such as 7272 Wisconsin Avenue in Bethesda and 909 Rose Avenue in North Bethesda have shown the ability to attract new tenants, yet 14 million square feet of space remains vacant in Suburban Maryland as of the second quarter of 2021. Until growth from other industries accelerates and provides consistent demand, the market for existing space will remain tenant-favorable for the foreseeable future.

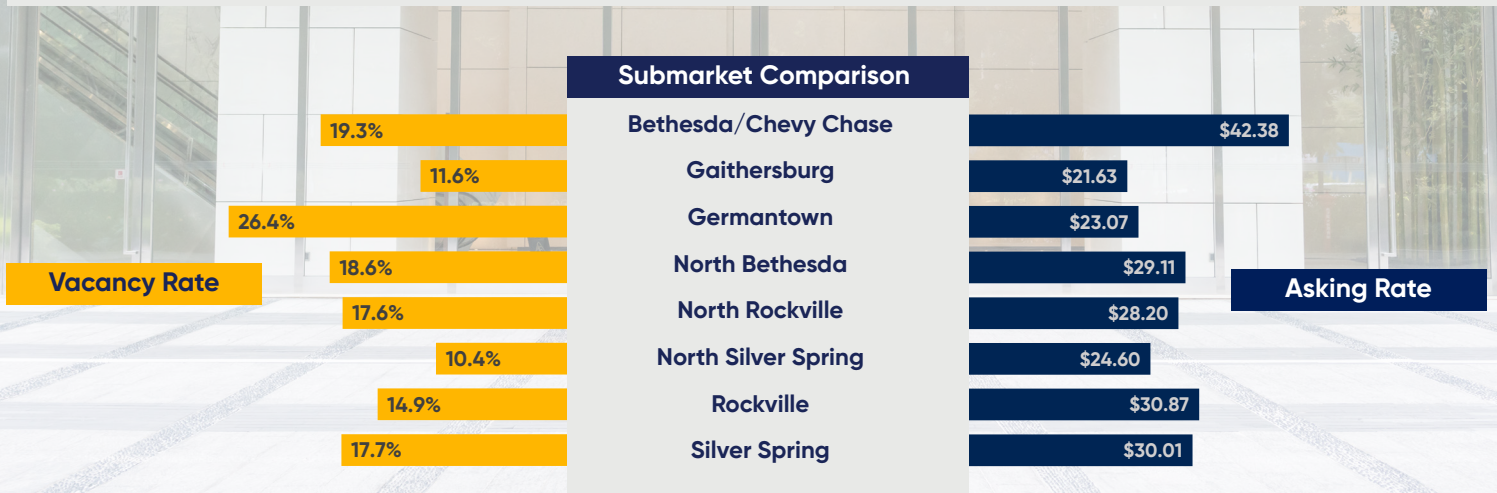
Q2 Sublease Market

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

Over 1.8 million SF is available for sublease as of the end of the second quarter of 2021, representing a 36.6% increase since the beginning of COVID-19. This growth, though slower than other market areas, remains on-par with sublease activity following the 2008 market crash.



Submarket Statistics

Submarket	Total Bldgs	Inventory	Sublet Available	Total Available	Total Vacant	Vacancy Rate	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	84	10,792,974	508,552	3,469,627	2,080,244	19.3% ▲	(141,095)	65,990	\$46.68	\$37.60	\$42.38 ▼	1,164,911	362,643	199,643
North Bethesda	78	10,189,170	286,448	2,151,652	1,890,133	18.6% ▲	(120,243)	(137,483)	\$29.05	\$29.16	\$29.11 ▼	-	-	-
Rockville	81	8,461,774	123,923	1,702,249	1,264,475	14.9% ▲	(67,150)	(119,873)	\$32.58	\$27.74	\$30.87 ▲	-	-	-
North Rockville	116	11,848,669	380,970	2,791,069	2,085,524	17.6% ▲	28,767	(2,339)	\$30.85	\$26.31	\$28.20 ▼	-	174,640	174,640
Gaithersburg	78	3,628,437	19,865	475,948	421,145	11.6% ▼	15,925	(20,848)	\$24.98	\$19.21	\$21.63 ▼	-	-	-
Germantown	46	2,730,914	84,304	834,577	721,077	26.4% ▲	(43,769)	(70,160)	\$27.57	\$22.13	\$23.07 ▼	-	-	-
I-270 Corridor	483	47,651,938	1,404,062	11,425,122	8,462,598	17.8% ▲	(327,565)	(284,713)	\$35.93	\$28.80	\$32.43 ▼	1,164,911	537,283	374,283
Silver Spring	56	5,998,455	77,704	1,238,830	1,061,410	17.7% ▲	(79,079)	(71,093)	\$34.70	\$25.10	\$30.01 ▼	-	-	-
North Silver Spring	47	2,209,308	-	399,240	418,900	10.4% ▼	(10,628)	(3,061)	\$23.83	\$24.65	\$24.60 ▲	-	-	-
Montgomery County	586	55,859,701	1,481,766	13,063,192	9,942,908	17.8% ▲	(417,272)	(358,867)	\$33.21	\$27.41	\$30.14 ▼	1,164,911	537,283	374,283
Prince George's County	346	20,012,636	98,572	3,741,352	3,389,889	16.9% ▲	(59,529)	529,777	\$25.55	\$22.02	\$23.29 ▼	197,000	574,767	574,767
Frederick County	137	5,618,308	37,182	1,247,530	797,187	14.4% ▲	(19,154)	(22,889)	\$27.28	\$22.39	\$22.88 ▼	-	-	-
Total	1,069	81,490,645	1,617,520	18,052,074	14,129,984	17.3% ▲	(495,955)	148,021	\$31.91	\$25.27	\$28.22 ▼	1,361,911	1,112,050	949,050