Suburban Maryland

Q3 2020 Market Report

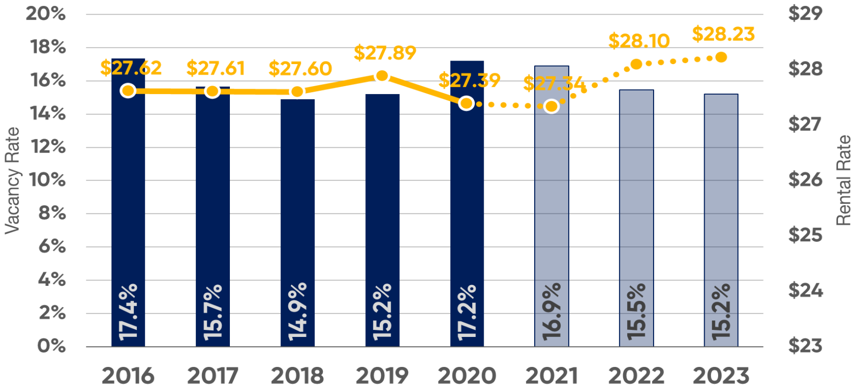
cresa

Key Performance Indicators

Vacancy	Average Rent	Net Absorption
↑ 16.9%	↑ $28.55/SF	↓ -363,837 SF

Market Overview

Effects of COVID-19 have continued to shock the Suburban Maryland market six months post-impact in the third quarter of 2020. Given the nature of the public health crisis, Suburban Maryland's focus on biotech/life sciences have given the market national-coverage, as local business in the I-270 corridor are working to develop a COVID-19 vaccine. Following a second-quarter trend, market uncertainty continues to strain leasing activity, recording the second-lowest quarterly activity the region has seen. Though leasing activity has continued to stay low, Suburban Maryland's market has reacted differently compared to the District of Columbia and Northern Virginia as the majority of top transactions this quarter were new leases, not renewals. Vacancy increased to 16.9% and is expected to remain elevated through 2020 and well into 2012 due to continued economic uncertainty and new construction deliveries. Occupancy losses were measured at -363,837 SF in Q3, bringing year-to-date net growth to -284,850 SF. If occupancy losses continue through the remainder of the year as expected, year-end absorption will end at a negative, the first time since 2014. A year-end occupancy loss will show the market slowing as it is in less demand, a significant shift from the considerable growth and tenant demand Suburban Maryland has seen in recent years.



Tenant's Perspective

Uncertainty surrounding the effects of COVID-19 continues to hinder the Suburban Maryland commercial real estate market. Market softness is expected to continue through the remainder of the year and into the next as landlords continue to compete for tenants amid uncertainty surrounding COVID-19. Though the uncertainty will hinder the market, top leases from the third quarter demonstrate Suburban Maryland's tenant composition is an asset considering the current emphasis in pharmaceutical research.

Washington Region Office Occupancy: **24.0%**

*Kastle Systems, Return to the Office Barometer

Labor Market Perspective

Suburban Maryland's labor pool contracted by 54,300 jobs over the last year, however most losses were non-office-using jobs.

↑ **Vacancy Change: 1.4%**
Since COVID

↓ **Average Rent Change: $0.11/SF**
Since COVID

↓ **618,149 SF**
Absorbed since COVID

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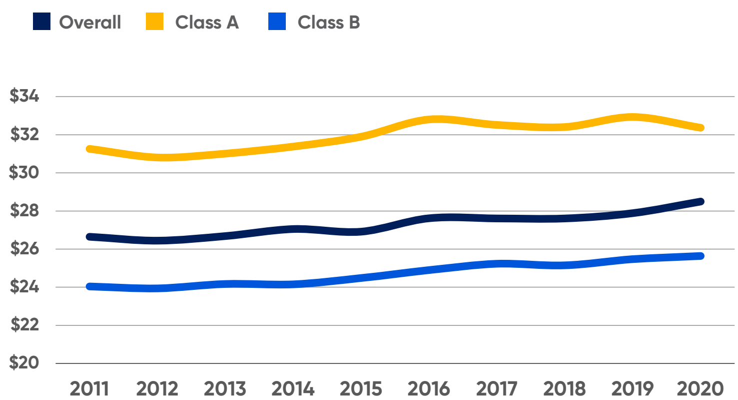
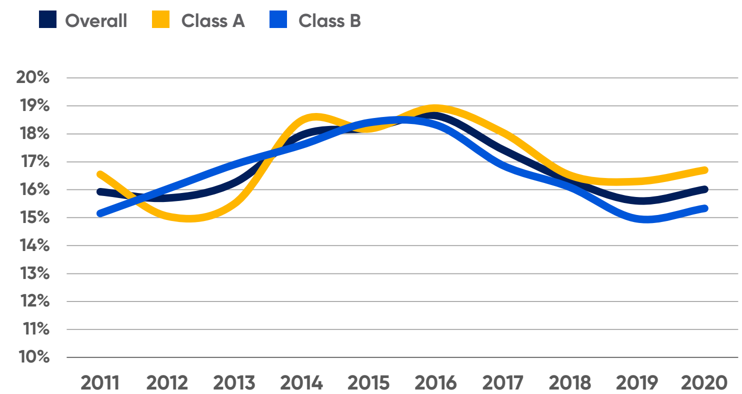
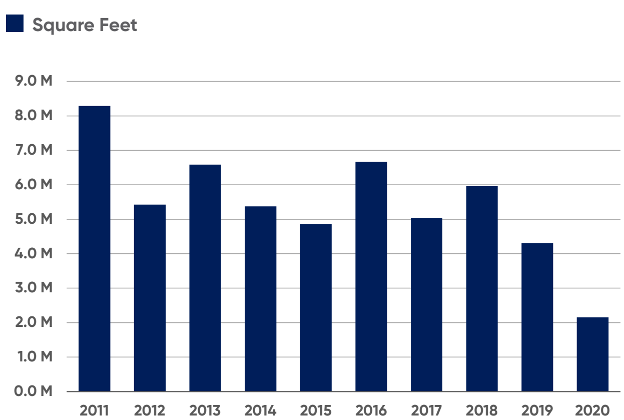
Asking Rents



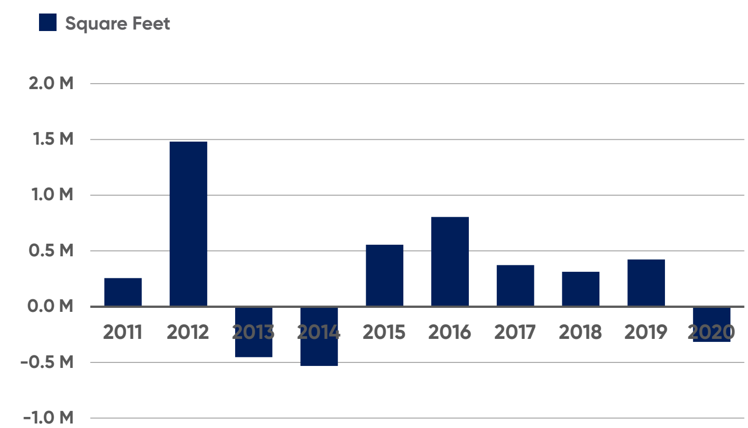
Average Vacancy Rate



Leasing Activity



Net Absorption



Region Continues Government and Life Science Growth

Office market fundamentals in Suburban Maryland continued to cool in the third quarter of 2020. Slow leasing activity has hindered the market, reducing leasing activity 16% from year-ago levels. The region's concentration of knowledge-based industries, particularly pharmaceutical, healthcare, and federal contracting, continues to be less directly impacted by the recessionary effects of COVID-19. Top quarterly leases were all health and life science related, three of which were government agencies of the Department of Health, Health and Human Services, and the National Institute of Health. Still, growing competition among landlords to secure tenants during the uncertain market will continue to flatten (or contract) rents and offer more aggressive concession packages.

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Q3 Top Leasing

Tenant	Submarket	Address	Size	Type
Department of Health	College Park	3311 Toledo Road	61,049	New Lease
Health and Human Services	Bethesda/Chevy Chase	7501 Wisconsin Avenue	47,000	Renewal
National Institutes of Health	North Bethesda/ Potomac	6100 Executive Boulevard	43,629	New Lease
US Pharmacopeial	Rockville	12725 Twinbrook Parkway	29,890	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 13.6% since the beginning of COVID-19, showing substantially less growth than neighboring regions. This growth, though slow, 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 Q3	Net Absorption (YTD)	Class A Rent	Class B Rent	Total Direct Rent	Under	SF Delivered YTD	Net New SF Delivered
Bethesda/Chevy Chase	81	10,273,895	518,161	2,955,924	1,856,707	18.1% ▲	(203,305)	(208,557)	$46.29	$37.40	$43.79 ▼	1,742,274	-	-
North Bethesda	78	10,106,504	190,902	2,057,571	1,814,611	18.0% ▲	(134)	22,855	$29.93	$29.30	$29.57 ▼	-	212,000	212,000
Rockville	80	8,241,841	82,935	1,567,032	1,095,932	13.3% ▲	14,172	24,941	$32.74	$27.55	$30.73 ▼	-	-	-
North Rockville	112	11,242,231	174,325	2,315,022	1,918,998	17.1% ▲	(60,262)	(70,685)	$30.41	$27.47	$29.13 ▲	258,904	-	-
Gaithersburg	78	3,730,908	2,110	662,012	573,743	15.4% ▲	(20,359)	(789)	$30.26	$21.08	$26.68 ▲	-	121,674	(43,326)
Germantown	47	2,696,969	66,922	813,027	652,807	24.2% ▲	276	(18,236)	$26.41	$22.24	$23.39 ▼	-	-	-
I-270 Corridor	476	46,292,348	1,035,355	10,370,588	7,912,798	17.1% ▲	(269,612)	(250,471)	$35.63	$29.06	$33.20 ▲	2,001,178	333,674	168,674
Silver Spring	56	5,917,671	203,089	1,268,789	1,081,016	18.3% ▼	(15,096)	97,918	$32.63	$25.98	$30.76 ▼	-	-	-
North Silver Spring	47	2,181,937	8,600	419,256	406,043	18.6% ▼	78,552	63,589	$30.70	$27.26	$27.32 ▲	-	-	-
Montgomery County	635	57,633,558	1,356,783	12,405,934	9,615,825	16.7% ▲	(54,889)	62,303	$33.16	$28.12	$30.74 ▲	2,001,178	333,674	168,674
Prince George's County	349	19,702,219	136,825	3,599,365	3,556,683	18.1% ▲	(262,110)	(258,616)	$26.15	$21.36	$23.16 ▲	994,043	-	-
Frederick County	138	5,706,219	56,790	1,292,819	852,917	14.9% ▲	(46,838)	(88,537)	$26.74	$22.27	$22.49 ▼	-	-	-
Total	1,122	83,043,539	1,550,398	17,298,118	14,025,425	16.9% ▲	(363,837)	(284,850)	$31.96	$25.45	$28.55 ▲	2,995,221	333,674	168,674