

MARKETBEAT

Suburban Maryland

Office Q3 2018



SUBURBAN MARYLAND OFFICE

Economic Indicators	Q3 17	Q3 18	12-Month Forecast
D.C. Metro Employment	3.28M	3.34M	▲
D.C. Metro Unemployment	3.6%	3.4%	■
U.S. Unemployment	4.4%	3.9%	▼

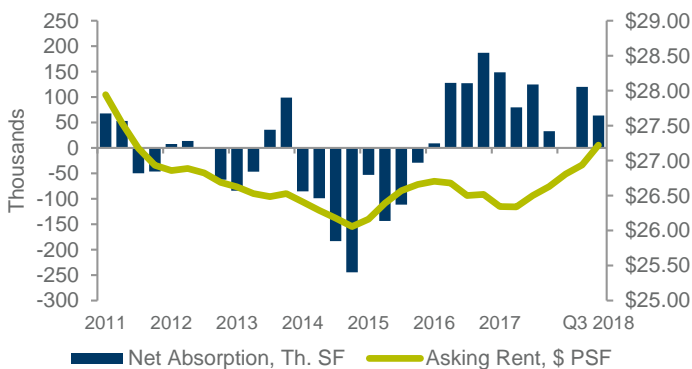
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	19.5%	18.7%	▲
YTD Net Absorption (sf)	40k	337k	■
Under Construction (sf)	356k	2.0M	▲
Average Asking Rent*	\$26.71	\$27.85	■

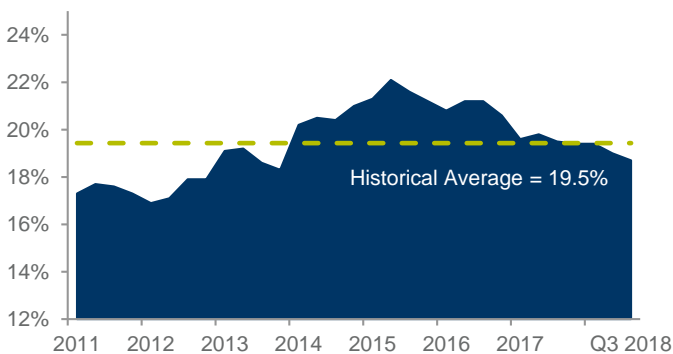
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Job growth in Suburban Maryland remained healthy in the third quarter of 2018. The Professional and Business Services sector boasted the largest number of net new nonfarm payroll jobs, adding 6,000 jobs year-over-year (YOY). The Education and Healthcare sector was not far behind, adding 4,300 over the same period; the Construction sector added 3,300 new jobs. As new construction breaks ground over the next couple of months, the Manufacturing sector could see more job gains. With new developments continuing to lure tenants from surrounding Metro markets, job growth in Suburban Maryland shows no signs of slowing down.

Market Overview

Excitement for the future of Suburban Maryland's office market continues to build. The Discovery Communications headquarters at 1 Discovery Place sold during the third quarter to Foulger-Pratt for approximately \$70 million or \$143 per square foot (psf). The building's flexible design makes it possible to reposition the space for multiple tenants once Discovery vacates in January 2019. There are two separate buildings—one 150,000 square feet (sf) and the second one 350,000 sf connected by an atrium. Foulger-Pratt plans to renovate the building exterior, streetscape and amenity space to draw new tenants to the building. Discovery also announced it will be maintaining a presence nearby, leasing 60,000 sf at 8403 Colesville Road, which lessens the negative impact of the company's pending departure.

Year-to-date new leasing activity across Suburban Maryland closed the third quarter at 1,868,961 sf. Carr Properties secured its first two tenants at 7272 Wisconsin Avenue, bringing the proposed trophy office building to 40% preleased. Enviva will move from its current home at 7200 Wisconsin into 80,000 sf once the 1.0-million-square-foot (msf) mixed-use project delivers three years from now. Fox Television will be moving its headquarters out of the District of Columbia to join Enviva, leasing just under 60,000 sf. It is clear from these leases that new developments in Bethesda continue to attract tenants and push rents to record highs.

Overall year-to-date absorption remained positive, closing the third quarter at 337,909 sf. Due to a few of mid-sized tenant move-outs, however, absorption registered negative 53,182 sf for the quarter. Northrop Grumman vacated from 60,800 sf at 8300 Professional Place, and SunEdison moved out of 33,300 sf at 7550 Wisconsin Avenue. Despite negative absorption this quarter, overall vacancy declined 80 basis points (bps) year-over-year (YOY) to 18.7%, due to a large amount of positive absorption since the third quarter of 2017.

Montgomery County's overall vacancy rate has fallen 100 bps to 16.9% over the same time period, while overall vacancy in Prince George's County's has increased 50 bps YOY to 25.6%. These diverging statistics show the increased demand for Metro-proximate locations. As vacancy rates continue to tick downward in these suburban/urban infill locations, asking rents are on the rise. Overall gross asking rents for all classes have increased by over 4.0% YOY, closing the third quarter of 2018 at \$27.85 per square foot (psf) on a full-service basis. Class A overall asking rents officially hit the \$31.00-psf mark during the quarter. There are two buildings slated to deliver in the fourth quarter of 2018. Kaiser Permanente's 176,000-sf built-to-suit at 4000 Garden City Drive will deliver in the fourth quarter of this year. In addition, 5801 University Research Court, a 75,000-sf speculative office building, is 85% preleased after the State of Maryland signed a lease for 62,000 sf during the third quarter. Vacancy rates should remain in check since the majority of 5801 is preleased.

Outlook

Trophy development continues to peak in Bethesda at rental rates in the high \$60's to low \$70's (psf) full service (FS). These rates are \$10 to \$15 (psf) higher than top of market deals in Northern Virginia and are rivaling quality Class A rents in the District of Columbia. This has created a gap in Bethesda's Class A rents as the next best product is transacting in the mid \$40 to mid-\$50's (psf) FS. As new quality space comes online and the market in the existing Class A market tightens, tenants seeking value could be forced up the Rockville Pike and I-270 Corridors.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE (%)	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Pike Corridor	11,103,061	104,328	1,772,078	16.9%	-111,372	117,867	188,008	0	\$ 28.97	\$ 32.15
Silver Spring	4,802,684	9,783	525,903	11.2%	10,221	9,999	192,572	0	\$ 30.20	\$ 31.81
I-270/Rockville	9,164,000	111,704	1,674,739	19.5%	75,136	293,124	380,221	0	\$ 29.22	\$ 31.16
Germantown	1,872,930	3,000	405,815	21.8%	1,961	-38,194	18,119	0	\$ 25.22	\$ 27.72
Bethesda/Chevy Chase	8,465,789	198,158	976,537	13.9%	-50,463	-215,833	477,725	1,242,020	\$ 38.90	\$ 43.58
Rock Spring Park	4,165,404	13,809	989,287	24.1%	112,421	131,413	92,050	0	\$ 30.22	\$ 30.52
Gaithersburg	2,106,015	2,312	341,172	16.3%	8,952	97,477	149,366	0	\$ 23.91	\$ 24.55
North Silver Spring	1,655,127	2,361	192,145	11.8%	-4,795	5,610	26,903	0	\$ 24.27	N/A
Montgomery County	43,335,010	445,455	6,877,676	16.9%	42,061	401,463	1,524,964	1,242,020	\$30.35	\$32.71
Beltsville/College Park	4,174,155	100	1,130,898	27.1%	8,119	10,906	130,848	75,000	\$ 22.85	\$ 24.49
Laurel	928,694	0	236,277	25.4%	7,098	-28,257	4,244	0	\$ 23.23	\$ 17.50
Greenbelt	2,837,971	24,966	893,246	32.4%	9,344	32,631	53,727	0	\$ 21.67	\$ 23.91
Landover/Lanham	2,947,320	8,541	609,691	21.0%	-79,755	-82,557	41,561	176,000	\$ 21.58	\$ 22.11
Bowie	780,082	600	133,541	17.2%	6,215	-1,162	24,386	0	\$ 19.33	\$ 15.95
Oxon Hill/Suitland	1,655,938	18,518	356,532	22.6%	-17,836	-22,817	7,864	574,767	\$ 25.10	\$ 26.98
Prince George's County	13,324,160	52,725	3,360,185	25.6%	-66,815	-91,256	262,642	825,767	\$22.23	\$24.07
Frederick County	3,273,235	0	479,031	14.6%	-28,428	27,702	81,355	0	\$18.30	\$22.72
SUBURBAN MARYLAND TOTALS	59,932,405	498,180	10,716,892	18.7%	-53,182	337,909	1,868,961	2,067,787	\$27.85	\$31.00

*Rental rates reflect gross asking \$psf/year

**Does not include renewals

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7272 Wisconsin Avenue	80,000	Enviva	Direct	Bethesda/ Chevy Chase
12215 Plum Orchard Drive	71,500	3M*	Renewal	North Silver Spring
5801 University Research Court	62,623	State of Maryland	Direct	Beltsville/ College Park
8403 Colesville Road	59,250	Discovery Communications	Direct	Silver Spring
7272 Wisconsin Avenue	59,178	Fox 5	Direct	Bethesda/ Chevy Chase

*Renewal- not included in Leasing Activity Statistics

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1 Discovery Place	490,062	Discovery Communications/ Foulger-Pratt	\$70,000,000/\$142	Silver Spring
401 N Washington	228,989	C-III Asset Management/ Normandy Real Estate Partners	\$37,000,000/\$161	Pike Corridor

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