

MARKETBEAT

Suburban Maryland

Office Q1 2019



SUBURBAN MARYLAND OFFICE

Economic Indicators	Q1 18	Q1 19	12-Month Forecast
D.C. Metro Employment	3.3M	3.32M	▲
D.C. Metro Unemployment	3.6%	3.3%	■
U.S. Unemployment	4.1%	3.8%	▼

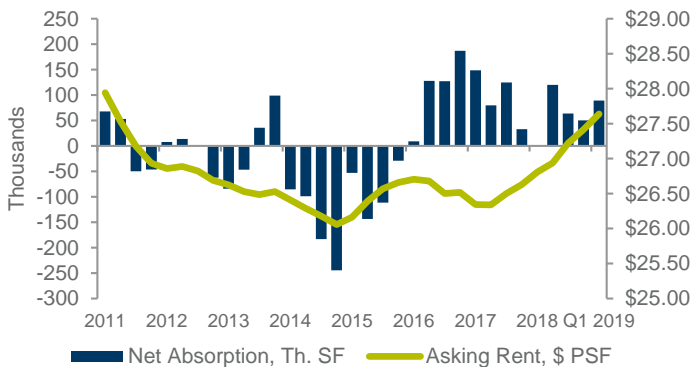
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	19.4%	18.6%	▲
YTD Net Absorption (sf)	-101k	108k	■
Under Construction (sf)	1.5M	2.0M	▲
Average Asking Rent*	\$26.92	\$27.81	■

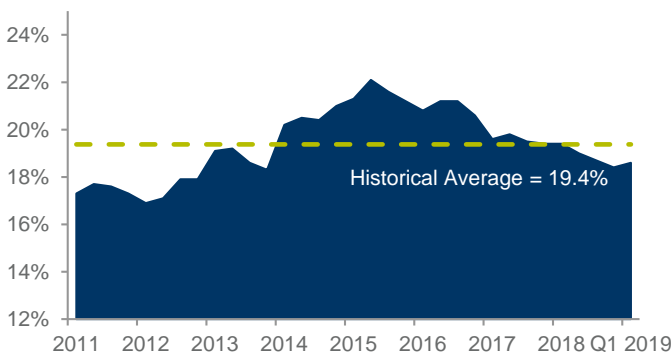
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Job growth across the Washington D.C. metropolitan region got off to a decent start in 2019, with 8,100 net new jobs added in January and February. Industry sectors that led in job creation were Leisure and Hospitality with 6,900 jobs and Professional and Business Services with 3,100 jobs. The unemployment rate continues to be incredibly tight and has hovered at 3.3% since October 2017 – the lowest rate since April 2008.

Market Overview

The success of new trophy developments in Bethesda continued to dominate office-leasing headlines. The most recent was Pebblebrook Hotel Trust's signing for 16,000 square feet (sf) at 4747 Bethesda Avenue, bringing the building to 83% leased. Pebblebrook will relocate from its current headquarters at 7315 Wisconsin Avenue, bringing any remaining employees at LaSalle's office at 7550 Wisconsin, a result of their recent merger. Pebblebrook will join Booz Allen Hamilton, Host Hotels & Resorts, JBG Smith and Orano USA into the property once the building delivers later this year. With these developments, plus the Marriott headquarters under construction, downtown Bethesda has become a small hub for the hospitality industry. Despite those leases, overall leasing activity closed the first quarter of 2019 at 483,358 sf, a decline of 17.14% year-over-year (YOY). Aronson signed the largest lease of the quarter for just under 50,000 sf at 111 Rockville Pike, relocating from its current space at 805 King Farm Boulevard. Stein Sperling signed the second-largest lease of the quarter—for 42,406 sf at 1101 Wootton Parkway.

Despite a small decline in leasing activity, the first quarter of 2019 registered positive 108,005 sf of absorption. Small and midsize tenants helped to bolster positive absorption, with the largest move-in under 20,000 sf. The GSA/Veterans Administration moved into space just under 18,000 sf at 5202 Presidents Court in Frederick. However, the market can expect to see a big swing in absorption when Discovery vacates its headquarters in April (expected in the second quarter of 2019). In the wake of positive absorption, the overall vacancy rate for Suburban Maryland declined 80 basis points (bps) YOY to 18.6%. Montgomery County's vacancy rate closed the quarter at 16.6%, a 130-bps decline YOY. Montgomery County's vacancy rate remains 200 bps below the Suburban Maryland average, while the rate in Prince George's County is 570 bps above the average, closing the first quarter of 2019 at 24.3%. This trend should continue as the desire for suburban/urban infill locations shows no signs of slowing. As vacancy rates continue to tighten—especially in metro-proximate locations—overall gross asking rents are anticipated to increase in return. Overall gross asking rents in Suburban Maryland closed the first quarter of 2019 at \$27.81 per square foot (psf) on a full-service basis—an increase of 3.3% YOY. Class A asking rents declined by 3.1% over the same time period, closing the quarter at \$31.29 psf.

Kaiser Permanente's built-to-suit at 4000 Garden City Drive delivered during the first quarter of 2019. The 175,000-sf building is fully leased, which helped to keep vacancy rates in check. JBG Smith's building at 4747 Bethesda Avenue is on schedule to deliver in the third quarter of this year, which will bring 281,000 sf to the Bethesda/Chevy Chase submarket. While preparation for construction at 7373 Wisconsin Avenue has also started, actual construction will not officially begin until the second quarter of 2019.

Outlook

The Suburban Maryland market has clearly not yet hit its peak. Trophy developments in Bethesda continue to capture leases at record-breaking rental rates in the high \$60's to low \$70's, out competing with top-of-the-market deals in Northern Virginia and Class A rents in the District of Columbia. Suburban Maryland is going to experience a swing in absorption when Discovery vacates from their headquarters in Silver Spring; however, if the activity rumors prove true, the 500,000 sf of space will not be lingering on the market for long.

MARKETBEAT

Suburban Maryland

Office Q1 2019



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	107,652	1,818,783	17.4%	-1,146	-1,146	73,590	209,000	\$29.08	\$32.36
Silver Spring	5,497,684	10,013	495,365	9.2%	5,007	5,007	36,387	0	\$30.54	\$32.70
I-270/Rockville	9,325,000	79,330	1,580,260	17.8%	30,965	30,965	150,290	0	\$29.17	\$30.93
Germantown	1,872,930	3,000	399,043	21.5%	8,226	8,226	24,046	0	\$22.87	\$25.65
Bethesda/Chevy Chase	8,465,789	204,484	969,238	13.9%	15,957	15,957	85,562	1,242,020	\$39.29	\$43.67
Rock Spring Park	4,004,404	62,574	920,514	24.6%	24,852	24,852	4,984	0	\$29.92	\$29.98
Gaithersburg	2,106,015	1,450	387,400	18.5%	-14,304	-14,304	10,930	0	\$24.08	\$24.53
North Silver Spring	1,055,127	4,240	158,584	15.4%	517	517	19,200	0	\$24.27	N/A
Montgomery County	43,430,010	472,743	6,729,187	16.6%	70,074	70,074	404,989	1,451,020	\$30.45	\$32.88
Beltsville/College Park	4,239,155	5,809	838,379	19.9%	-19,988	-19,988	20,251	0	\$22.46	\$24.06
Laurel	928,694	0	215,274	23.2%	11,149	11,149	5,973	0	\$22.96	\$17.50
Greenbelt	2,824,441	16,360	953,779	34.3%	7,123	7,123	9,573	0	\$21.67	\$23.81
Landover/Lanham	3,066,183	8,541	697,685	23.0%	4,809	4,809	11,582	0	\$21.45	\$22.26
Bowie	780,082	600	117,964	15.2%	5	5	2,912	0	\$20.04	\$18.95
Oxon Hill/Suitland	1,595,938	0	407,800	25.6%	2,407	2,407	5,531	574,767	\$24.71	\$26.38
Prince George's County	13,434,493	31,310	3,230,881	24.3%	5,505	5,505	55,822	574,767	\$22.02	\$23.84
Frederick County	3,273,235	0	727,863	22.2%	32,426	32,426	22,547	0	\$18.11	\$23.09
SUBURBAN MARYLAND TOTALS	60,137,738	504,053	10,687,931	18.6%	108,005	108,005	483,358	2,025,787	\$27.81	\$31.29

*Rental rates reflect gross asking \$psf/year

**Does not include renewals

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
111 Rockville Pike	49,833	Aronson	New	Pike Corridor
1101 Wootton Parkway	42,406	Stein Sperling	New	I-270/Rockville
11333 Woodglen Drive	31,000	Georgetown University	Renewal	Pike Corridor
7255 Woodmont Avenue	30,000	Mid-Cap Financial	Renewal	Bethesda/ Chevy Chase
540 Gaither Road	27,159	Marriott	New	I-270/Rockville

*Renewal- not included in Leasing Activity Statistics

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1100 Wayne Avenue	165,219	Brandywine/ Bridge Commercial Real Estate	\$35,666,667/\$216	Silver Spring
8484 Georgia Avenue	142,862	Brandywine/ Bridge Commercial Real Estate	\$35,666,666/\$250	Silver Spring

Cushman & Wakefield
2 Bethesda Metro
Bethesda, MD 20814
cushmanwakefield.com

For more information, contact:
Paige Wingate, Research Analyst
Tel: +1 301 634 2367
paige.wingate@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of \$8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2019 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.