

MARKETBEAT

Suburban Maryland

Office Q2 2019



SUBURBAN MARYLAND OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
D.C. Metro Employment	3.30M	3.33M	▲
D.C. Metro Unemployment	3.3%	3.3%	■
U.S. Unemployment	3.9%	3.6%	▼

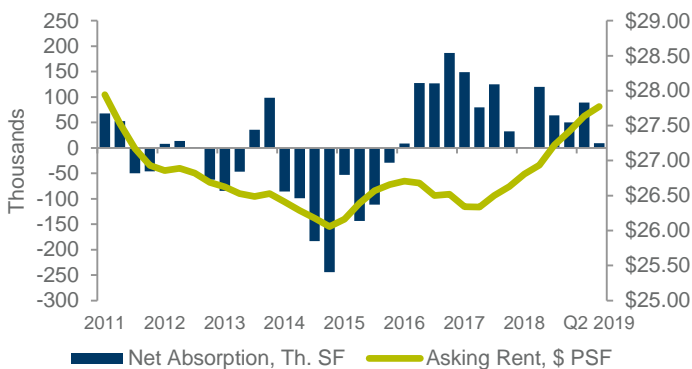
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	19.0%	18.4%	▲
YTD Net Absorption (sf)	355k	81k	■
Under Construction (sf)	2.1M	2.5M	▲
Average Asking Rent*	\$27.27	\$27.81	■

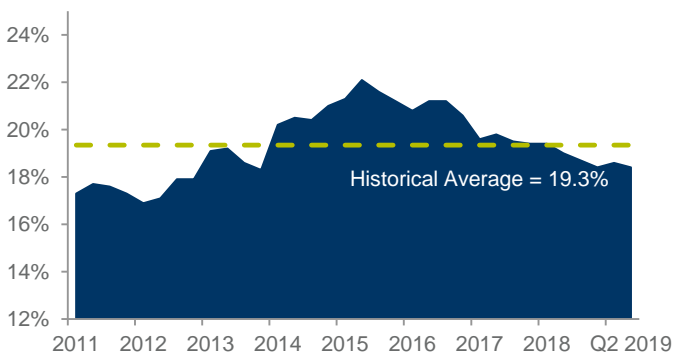
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Year-end 2018 net new job growth in the Washington, DC metropolitan region was revised sharply downward in the second quarter of 2019, falling from the initial reporting of 54,000 new jobs to 36,000. This possibly indicates that the government shutdown of late 2018/early 2019 had a pronounced negative impact and does not bode well for a federal sector that is likely to be faced with increasing gridlock in advance of the 2020 presidential election. This is reminiscent of the "Tea Party Wave" of 2010 in which a conservative House of Representatives came into the majority that was diametrically opposed to the incumbent executive branch and the friction between the two branches mired the federal government in shutdowns, budget sequestration and gridlock. This ultimately resulted in a crisis of confidence and clarity and the region lost over 27,000 office-using jobs by 2014. While the headline job growth statistics in the region have slowed in late 2018/early 2019, the headline economic indicators remain relatively healthy. The labor markets remain very tight with a regional unemployment rate of 3.3% and year-to-date, the DC region has added 20,800 jobs led by gains in Professional and Business Services, Leisure and Hospitality and Retail (6,500, 5,800 and 3,100 jobs, respectively).

Market Overview

Silver Spring can boast of several trophy developments during the second quarter of 2019, after trophy developments in Bethesda captured a lot of attention in Suburban Maryland over the past couple years. With two new large leases and one expansion being signed during the quarter, it is clear that tenants are not shying away from large jumps in rent. The largest lease was that for WeWork; the coworking company decided to expand its roots into the Washington, DC suburbs and open its first Montgomery County location. However, this is WeWork's second location in Suburban Maryland, having opened the first one at 7761 Diamonback Drive in College Park last year. WeWork committed to two floors at 7272 Wisconsin Avenue totaling 60,000 square feet (sf) in the new development. Also signing for space at the property was ProShares—also known as ProFunds—which leased 54,615 sf. WeWork and ProShares will join tenants Enviva—which decided to expand an additional 20,000 sf bringing its total occupancy to 100,000 sf—and Fox 5. These new pre-leases have brought the building to 80% leased, and it is still a year out from delivering. In addition, Children's National signed a lease for 110,400 sf at the new Inventa Towers, formerly known as the Discovery Inc. headquarters. This is good news for Silver Spring and will also help to offset the loss of Discovery vacating its footprint. New leasing activity closed the second quarter of 2019 at 676,680 sf, with the year-to-date (YTD) total at 1,165,138 sf. Despite strong leasing activity, absorption registered negative 53,312 sf in the second quarter of 2019. The majority of the negative absorption was due to Discovery officially vacating its headquarters in early April. However, Discovery moved into its 60,000 sf of space at 8403 Colesville Road during the quarter and thus helped offset the negative absorption a bit. In addition, Kaiser Permanente relocated to its 176,000-sf build-to-suit at 4000 Garden City Drive. Given the strong leasing activity in the past two quarters, the overall vacancy rate for Suburban Maryland declined 60 basis points (bps) year-over-year (YOY) to close the second quarter of 2019 at 18.4%. Vacancy in Montgomery County remained 120 bps below that figure at 17.2%, while vacancy in Prince George's County was 21.3%, 290 bps higher than the overall Suburban Maryland rate. Overall gross asking rents for Suburban Maryland closed the second quarter of 2019 at \$27.81 per square foot (psf) on a full-service basis—a 2.0% increase YOY. Class A asking rents rose 3.5% YOY to close the quarter at \$31.40 psf on a full-service basis. There were no building deliveries during the second quarter of 2019; however, 7373 Wisconsin Avenue is officially under construction. JBG Smith's trophy development at 4747 Bethesda Avenue is scheduled to deliver in the third quarter of the year. The 281,000-sf building is just over 93% leased, which should help to keep absorption numbers in check. The building scheduled to deliver after that in Montgomery County is 7272 Wisconsin Avenue, but not until September of 2020.

Outlook

The Suburban Maryland market continues to make record-breaking news, and in more submarkets than just Bethesda during the second quarter of 2019. Trophy developments in Bethesda have raised the bar and are leaving Class A building owners with no option but to sharpen up their buildings if they want to stay competitive in the market. Given that 4747 Bethesda Avenue is more than 90% leased, vacancy rates and absorption numbers should remain in check.

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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	41,324	1,806,240	16.6%	7,564	6,418	192,730	209,000	\$29.39	\$32.50
Silver Spring	5,497,684	6,248	948,769	17.4%	-449,639	-444,632	160,858	0	\$30.10	\$32.21
I-270/Rockville	9,325,000	82,192	1,500,126	17.0%	77,272	108,237	246,875	0	\$29.20	\$30.97
Germantown	1,872,930	3,000	378,947	20.4%	20,096	28,322	24,539	0	\$23.05	\$24.92
Bethesda/Chevy Chase	8,465,789	206,533	982,806	14.0%	-37,811	-21,854	297,684	1,742,020	\$38.46	\$43.65
Rock Spring Park	4,004,404	62,574	897,441	24.0%	23,073	47,925	55,302	0	\$30.32	\$30.44
Gaithersburg	2,106,015	1,450	381,428	18.2%	5,972	-8,332	13,944	0	\$23.99	\$24.54
North Silver Spring	1,055,127	6,119	155,806	15.3%	899	1,416	28,466	0	\$24.17	N/A
Montgomery County	43,430,010	409,440	7,051,563	17.2%	-352,574	323,482	1,020,398	1,951,020	\$30.62	\$33.15
Beltsville/College Park	4,239,155	5,809	807,106	19.2%	12,534	-7,454	24,690	0	\$22.34	\$24.08
Laurel	928,694	150	228,174	24.6%	5,683	-1,901	9,236	0	\$23.17	\$17.50
Greenbelt	2,824,441	5,238	870,231	31.0%	28,877	36,000	13,842	0	\$21.76	\$23.68
Landover/Lanham	3,066,183	8,541	472,707	15.7%	224,978	229,787	23,491	0	\$21.57	\$22.27
Bowie	780,082	0	118,386	15.2%	178	183	14,068	0	\$25.73	\$18.95
Oxon Hill/Suitland	1,595,938	0	343,340	21.5%	19,209	66,867	7,801	574,767	\$24.13	\$28.00
Prince George's County	13,434,493	19,738	2,839,944	21.3%	291,459	323,482	93,128	574,767	\$22.09	\$23.72
Frederick County	3,273,235	6,322	748,750	23.1%	7,803	40,229	51,612	0	\$18.30	\$23.60
SUBURBAN MARYLAND TOTALS	60,137,738	435,500	10,640,257	18.4%	-53,312	81,211	1,165,138	2,525,787	\$27.81	\$31.40

*Rental rates reflect gross asking \$psf/year

**Does not include renewals

Key Lease Transactions Q2 2019

	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1 Discovery Place	110,400	Children's National Health Systems	New	Silver Spring
7272 Wisconsin Avenue	60,067	WeWork	New	Bethesda/ Chevy Chase
7272 Wisconsin Avenue	54,615	ProFunds/ProShares	New	Bethesda/ Chevy Chase
1700 Rockville Pike	35,655	Dovel Technologies	Renewal	Pike Corridor
6720 Rockledge Drive	32,000	Henry M. Jackson Foundation	Expansion	Rock Spring Park

*Renewal- not included in Leasing Activity Statistics

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
45 Thomas Johnson Drive	56,500	CNL Healthcare Properties/ Welltower Inc.	\$25,518,7437/\$451.66	Frederick

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