

MARKETBEAT

Suburban Maryland

Office Q4 2018



SUBURBAN MARYLAND OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
D.C. Metro Employment	3.3M	3.34M	▲
D.C. Metro Unemployment	3.6%	3.3%	■
U.S. Unemployment	4.1%	3.7%	▼

Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	19.4%	18.4%	▲
YTD Net Absorption (sf)	131k	404k	■
Under Construction (sf)	1.5M	2.2M	▲
Average Asking Rent*	\$26.85	\$27.62	■

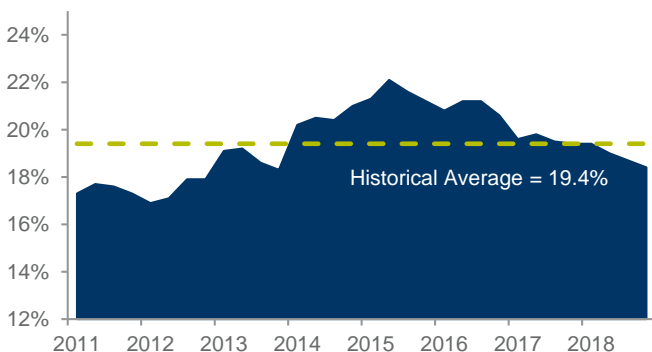
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Job growth in Suburban Maryland was modest to close 2018 with 8,100 net new nonfarm jobs added to payrolls. Among office-using sectors, Professional and Business Services boasted the largest number of positions, adding 2,600 jobs year-over-year (YOY). The Education and Healthcare and Construction sectors rounded out positive growth with 2,600 and 2,500 jobs, respectively.

Market Overview

Throughout 2018 the Suburban Maryland office market showed no signs of slowing down. Trophy developments in Bethesda continue to sign leases at record-breaking rental rates in the high \$60's to low \$70's, competing with top-of-the-market deals in Northern Virginia and Class A rents in the District of Columbia. Marriott International officially broke ground on its new headquarters in the second quarter of 2018, which will house about 4,000 employees once it delivers in 2022. New leasing activity closed the fourth quarter of 2018 at 423,629 square feet (sf), boosting the annual total to over 2.4 million square feet (msf). Leasing activity was a bit lower than it was in the previous three quarters due to the fact that all leases signed for more than 40,000 sf were renewals. The largest renewal in the fourth quarter of 2018 was signed by the General Services Administration/U.S. Department of Veterans Affairs for just over 68,000 sf at 7485 New Horizon Way. Northrop Grumman decided to stay put at 8300 Professional Place and renew its 60,859 sf of office space. One notable new lease of the fourth quarter was that for Marriott Employees Federal Credit Union, taking 18,487 sf at 1801 Research Boulevard.

Year-to-date absorption in Suburban Maryland registered positive 403,719 sf in 2018 of which 54,697 sf was recorded in the fourth quarter. The Beltsville/College Park submarket captured 166,391 sf of positive absorption during the quarter. There were a few notable tenant move-ins that helped bolster positive absorption for the quarter. The Federal Drug Administration moved into 104,000 sf at 11785 Beltsville Drive. In addition, construction at 5801 University Research Court was completed and The State of Maryland is now occupying the entire 75,000-sf building. H. Beck vacated 6600 Rockledge Drive in Rock Spring Park and relocated to 2440 Research Boulevard in the I/270 Rockville submarket, occupying just over 23,000 sf. Despite these large move-ins, the Frederick submarket is taking a big hit due to State Farm's regional office closing at 1 State Farm Drive. The insurance company has already downsized a large amount, now only occupying about a third of the 406,000-sf building. Its lease does not expire until 2021, however, the company plans to be fully vacated from 1 State Farm Drive by August of 2019. This large block of vacant space could be a great option for a tenant looking to occupy a full building. With the help of positive absorption, overall vacancy declined 100 basis points (bps) year-over-year (YOY) to 18.4% at the end of the fourth quarter of 2018. Montgomery County's overall vacancy rate declined by 130 bps YOY, closing the quarter at 16.6%. Prince George's County's vacancy rate remains 480 bps above the Suburban Maryland average, having closed the quarter at 23.2%. This is due primarily to the increased trend of suburban/urban infill locations which are not prevalent in Prince George's County. With vacancy continuing to trend downward, overall gross asking rents have trended upward, closing the fourth quarter of 2018 at \$27.62 per square foot (psf) on a full-service basis—an increase of 2.9% YOY. Class A asking rents are following a similar pattern, closing the quarter at \$30.78 psf—an increase of 2.1% YOY. The only new construction that delivered during 2018 was 5801 University Research Court; the 75,000-sf speculative office building delivered in the fourth quarter and is fully leased to The State of Maryland, which has helped keep vacancy rates in check. Kaiser Permanente's 176,00-sf built-to-suit at 4000 Garden City Drive is nearing completion and will be fully occupied by the first quarter of 2019. JBG Smith's new trophy office building is scheduled to deliver in the third quarter of 2019 and is already 79% pre-leased.

Outlook

The Suburban Maryland market has continued to tighten throughout 2018. Rental rates continue to tick upward, while vacancy rates are falling. Year-to-date absorption remained 366,000 sf above the five-year average of 37,000 sf. Once the JBG Smith building at 4747 Bethesda Avenue delivers in July, the market could see a significant spike in asking rental rates if the building is not fully leased.

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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	109,077	1,788,343	17.1%	-16,385	78,727	270,549	209,000	\$ 28.86	\$ 32.20
Silver Spring	5,402,684	6,236	483,018	9.1%	46,432	56,431	238,668	0	\$ 30.13	\$ 31.92
I-270/Rockville	9,164,000	95,144	1,563,834	18.1%	127,465	420,589	503,494	0	\$ 28.80	\$ 30.64
Germantown	1,872,930	3,000	407,269	21.9%	-1,454	-39,648	21,899	0	\$ 23.47	\$ 25.65
Bethesda/Chevy Chase	8,465,789	217,676	951,713	13.8%	-3,546	-210,527	547,670	1,242,020	\$ 38.64	\$ 43.76
Rock Spring Park	4,165,404	54,702	958,630	24.3%	-10,236	121,177	203,232	0	\$ 30.36	\$ 30.46
Gaithersburg	2,106,015	2,312	372,234	17.8%	-31,062	66,415	154,179	0	\$ 23.76	\$ 24.50
North Silver Spring	1,055,127	2,361	160,980	15.5%	31,165	36,775	59,246	0	\$ 24.69	N/A
Montgomery County	43,335,010	490,508	6,686,021	16.6%	142,379	529,939	1,998,937	1,451,020	\$30.11	\$32.48
Beltsville/College Park	4,249,155	5,809	818,391	19.4%	166,391	177,297	140,805	0	\$ 22.57	\$ 24.24
Laurel	928,694	0	226,423	24.4%	9,854	-18,403	4,256	0	\$ 22.74	\$ 17.50
Greenbelt	2,837,971	25,466	931,796	33.7%	11,817	44,448	70,284	0	\$ 21.71	\$ 23.87
Landover/Lanham	2,947,320	8,541	559,576	19.3%	-10,745	-32,442	45,615	176,000	\$ 21.50	\$ 22.03
Bowie	780,082	0	118,569	15.2%	15,572	14,410	47,602	0	\$ 19.32	\$ 15.95
Oxon Hill/Suitland	1,655,938	0	410,207	24.8%	687	-57,974	7,864	574,767	\$ 24.31	\$ 25.87
Prince George's County	13,399,160	39,816	3,064,962	23.2%	193,576	127,336	316,426	750,767	\$22.04	\$23.75
Frederick County	3,273,235	0	760,289	23.2%	-281,258	-253,556	108,625	0	\$18.60	\$22.93
SUBURBAN MARYLAND TOTALS	60,007,405	530,324	10,511,272	18.4%	54,697	403,719	2,423,988	2,201,787	\$27.62	\$30.78

*Rental rates reflect gross asking \$psf/year

**Does not include renewals

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7485 New Horizon Way	68,537	US Department of Veterans Affairs	Renewal	Frederick
8300 Professional Place	60,859	Northrop Grumman	Renewal	Landover/Lanham
6710 Rockledge Drive	42,462	International Business Machines Corporation	Renewal	Rock Spring Park
5202 Presidents Court	25,907	Maximus	Renewal	Frederick
1801 Research Boulevard	18,487	Marriott Employees' Federal Credit Union	Direct	I-270/Rockville

*Renewal- not included in Leasing Activity Statistics

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
7316 Wisconsin Avenue	75,707	Chevy Chase Land Company/ Saul Centers	\$35,500,000/\$510	Bethesda/Chevy Chase
15800 Crabbs Branch Way	63,000	Equus Capital Partners/ Rickman Development	\$4,771,498/\$77	Pike Corridor

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