

MARKETBEAT

Suburban Maryland

Industrial Q3 2019



SUBURBAN MARYLAND INDUSTRIAL

Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
D.C. Metro Employment	3.31M	3.34M	▲
D.C. Metro Unemployment	3.2%	3.2%	▲
U.S. Unemployment	3.8%	3.7%	▲

*Numbers above are quarterly average

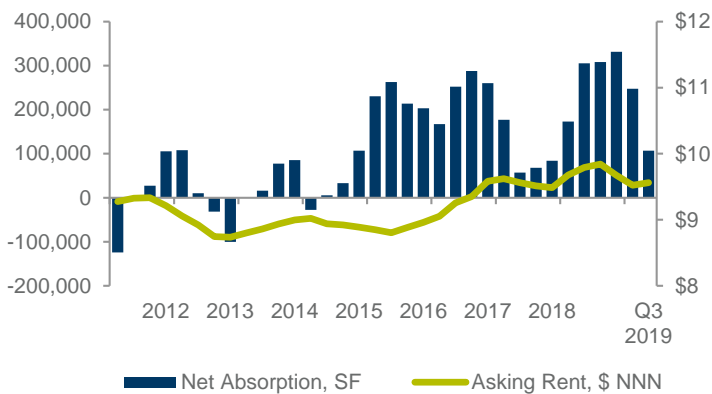
Market Indicators (Overall, All Property Types)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	8.2%	7.8%	▲
YTD Net Absorption (sf)	566k	4k	▲
Under Construction (sf)	213k	0k	■
Average Asking Rent*	\$9.66	\$9.82	▼

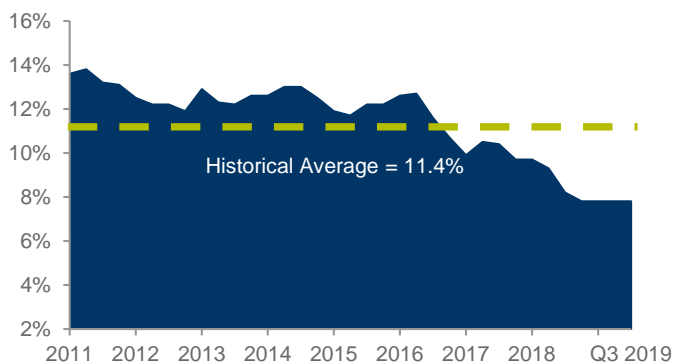
*Rental rates reflect net asking \$psf/year

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 third quarter of 2019. This possibly indicates that the government shutdown of late 2018/early 2019 had a pronounced negative impact. 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 3.2%.

Market Overview

The Suburban Maryland industrial market continues to improve. Absorption was positive in the third quarter of 2019, while vacancy rates declined and rental rates rose. The office services sector captured more than half of new leasing activity for the third quarter, registering 112,143 square feet (sf) for the quarter and 450,332 sf year-to-date (YTD). Leasing activity in the warehouse/distribution sector closed the quarter at 103,217 sf, helping to bring the YTD total to 575,564 sf. The largest lease signed during the quarter was a renewal—by the GSA- Defense Intelligence Agency for 266,000 sf at 3300 75th Avenue. Another large notable renewal was that of Qiagen Sciences for 43,414 sf at 6951 Executive Way. The life science industry continues to remain robust along the I-270 corridor, proven by Qiagen's renewal. Given that the largest leases signed during the third quarter were renewals, new leasing activity was down year-over-year (YOY), declining 23.7%. Despite the slowdown in leasing activity, absorption registered positive 4,653 sf for the third quarter of 2019. Still, the warehouse/distribution sector itself closed the quarter with 73,887 sf of negative absorption. The largest warehouse/distribution relocation was Comcast vacating from 8700 Ritchie Road and moving to 8210 Penn Randall Place. Absorption for the office services sector remained positive, closing the quarter at 78,540 sf—some of which was due to Mygrant Glass expanding into an additional 21,472 sf and bringing its total occupancy to 51,751 sf at 9950 Business Parkway. This helped bring the YTD total absorption to 121,698 sf. In the wake of positive absorption for the quarter, the vacancy rate in Suburban Maryland declined by 40 basis points (bps) YOY to close the quarter at 7.8%. Third-quarter vacancy for warehouse/distribution space was 7.0%, remaining 80 bps below the Suburban Maryland average. Vacancy in the office services sector was 160 bps above the Suburban Maryland average, closing the third quarter at 9.4%. The overall asking rents for both sectors increased in the third quarter of 2019. Rates for warehouse/distribution product increased 2.1% YOY, closing the third quarter at \$8.09 per square foot (psf) on a NNN basis. For office services space, asking rents increased 4.8% YOY, registering \$12.11 psf NNN for the quarter.

Outlook

Last-mile distribution centers and eCommerce warehouses continue to be the top demand drivers for Suburban Maryland's industrial market. The enterprise-zone tax credits have also been a strong enticement, not surprising given the benefits of the program: in reward for job creation and investments, real property and state income tax credits are given to businesses that are located within these enterprise zones, an equal benefit for landlords and tenants.

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT (OS)*	OVERALL WEIGHTED AVG. NET RENT (W/D)*
North Bethesda/Rockville	208	7,600,994	0	6.2%	-74,488	0	\$14.35	\$12.45
Gaithersburg/Germantown	197	8,525,893	0	8.4%	18,607	0	\$14.75	\$12.18
Montgomery County	405	16,126,887	0	7.4%	-55,881	0	\$14.54	\$12.27
Beltsville/College Park	160	7,454,361	0	6.8%	41,756	0	\$9.51	\$9.48
Laurel	37	2,986,711	0	2.9%	25,053	0	\$10.76	\$8.21
Landover/Lanham	192	14,308,493	0	6.5%	146,712	0	\$8.90	\$6.96
Bowie	32	2,621,804	0	10.4%	-5,566	0	\$10.50	\$7.65
Oxon Hill/Suitland	109	4,845,836	0	14.0%	54,027	0	\$17.53	\$5.48
Prince George's County	530	32,217,205	0	7.7%	261,982	0	\$9.60	\$6.68
Frederick County	23	1,837,718	0	14.2%	-84,412	0	\$11.87	N/A
Suburban Maryland TOTALS	958	50,181,810	0	7.8%	121,689	0	\$12.11	\$8.09

*Rental rates reflect asking \$psf/year

OS = Office Service/Flex W/D = Warehouse/Distribution

TYPE	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	582	33,004,414	0	7.0%	-73,887	0	\$8.09
Office Service/Flex	376	17,177,396	0	9.9%	78,540	0	\$12.11

Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3300 75 th Avenue	266,000	GSA- Defense Intelligence Agency	Renewal	Landover/Lanham
1100 Hampton Park Boulevard	56,843	Service Source	Renewal	Beltsville-College Park
6951 Executive Way	43,414	Qiagen Sciences	Renewal	Frederick
8660 Cherry Lane	14,902	Undisclosed	New Lease	Laurel

Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
5901 Ammendale Road	39,150	Amberson, Legrand/Next Day Cabinets	\$2,608,065/ \$130	Beltsville-College Park

*Part of portfolio sale

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