

MARKETBEAT

Suburban Maryland

Office Q3 2019



SUBURBAN MARYLAND OFFICE

Economic Indicators	Q3 18	Q3 19	12-Month Forecast
D.C. Metro Employment	3.30M	3.34M	▲
D.C. Metro Unemployment	3.2%	3.2%	▲
U.S. Unemployment	3.8%	3.7%	▲

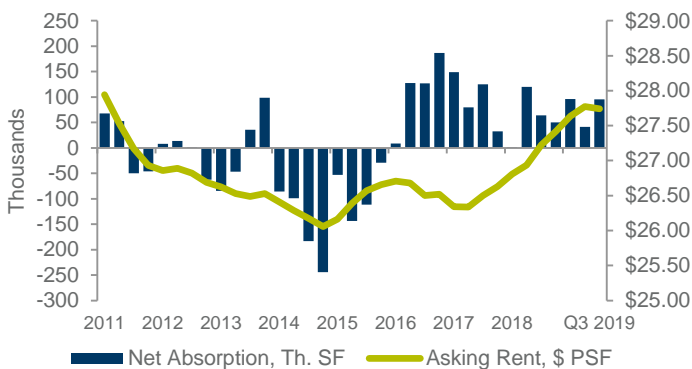
Market Indicators (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	18.7%	18.0%	▲
YTD Net Absorption (sf)	349k	344k	■
Under Construction (sf)	2.1M	2.5M	▲
Average Asking Rent*	\$27.85	\$27.73	■

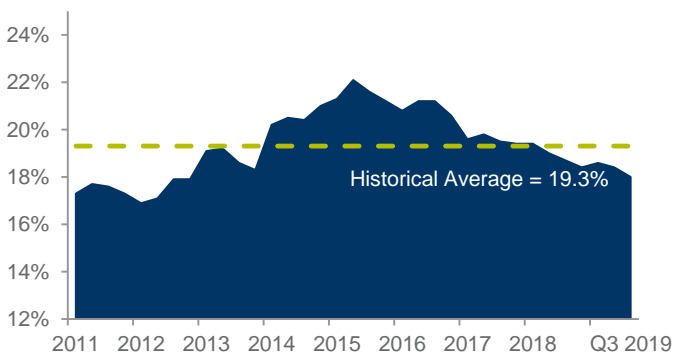
*Rental rates reflect gross asking \$psf/year

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 third quarter of 2019. 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 3.2%.

Market Overview

Suburban Maryland continues to make headline news. In the third quarter of 2019 there were a handful of large leases signed that helped bolster leasing activity for the quarter. Compared to the second quarter of 2019, Bethesda remained out of the spotlight and shared some of its glory with the I/270 Rockville Corridor. M&T Bank captured the largest lease of the quarter, signing on to take 30,531 square feet (sf) at 77 Upper Rock Circle. Nutricia will also be joining the tenant roster at the building, taking down 19,000 sf. This is a great success story for 77 Upper Rock and is an example of the success owners across the region are having in product that has gone through substantial renovation, in this case featuring extensive façade and interior work. They have captured three large tenants this year totaling approximately 75,000 sf. In the same submarket, Noyes Air Conditioning leased 26,704 sf at 15800-15810 Gaither Drive. These above average leases helped to bring the total new leasing activity for the third quarter of 2019 to 521,884 sf, with the year-to-date (YTD) total closing at 1,721,155 sf.

Following healthy leasing activity, absorption registered positive 162,529 sf in the third quarter of 2019. There were a handful of move-ins that helped bolster absorption. In addition to the leases at 77 Upper Rock Circle, Aronson officially relocated into 49,833 sf at 111 Rockville Park. On the flipside, the largest move-out this quarter was Johns Hopkins vacating 40,694 sf at 9605 Medical Center Drive. Given the strong leasing activity and positive absorption, the vacancy rate decreased by 70 basis points (bps) year-over-year (YOY) to close the third quarter at 18.0%. While the vacancy rate of 16.9% in Montgomery County remains 110 bps below Suburban Maryland, Prince George's County is 230 above the average, closing at 20.3% for the quarter. Suburban Maryland's overall gross asking rent for all classes registered \$27.73 per square foot (psf) on a full-service basis- a 0.4% decrease YOY. Class A product rents rose by 1.06% YOY, closing the quarter at \$31.33 psf on a full-service basis.

There were no building deliveries in the third quarter of 2019; however, JBG Smith's trophy development at 4747 Bethesda Avenue will deliver next quarter. The 281,000 sf building is just over 93% leased, which should help keep absorption and vacancy in check. There is 2,525,787 sf currently under construction with the bulk centered in Bethesda/Chevy Chase where JBG Smith's trophy development is located along with the Marriott headquarters at 7750 Wisconsin Avenue. There was one notable sale that took place this quarter at The Clark building located at 7500 Old Georgetown Road. This 388,844 sf building sold for \$133,750,000 or \$394.72 psf to Stonebridge Associates and Rockwood Capital. The building traded at 93.1% leased with a few of the anchor tenants being Morgan Stanley Wealth Management and Clark Construction.

Outlook

The I/270 Rockville submarket captured the majority of the attention this quarter however Suburban Maryland overall is in a good place at the end of the third quarter of 2019. With the first trophy building delivering next quarter, the rental rates in Suburban Maryland, specifically Bethesda/Chevy Chase, will rise. However, with only a 7% availability rate, vacancy and absorption numbers should remain steady in the fourth quarter. As trophy developments continue to push buildings to new standards, it has forced Class A owners to improve their buildings in order to stay competitive in the market.

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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	39,282	1,758,468	16.2%	24,358	56,232	247,988	209,000	\$29.01	\$31.78
Silver Spring	5,497,684	11,498	941,371	17.3%	2,148	-442,484	228,801	0	\$30.31	\$32.97
I-270/Rockville	9,325,000	37,341	1,514,181	16.6%	-9,956	139,033	393,052	0	\$29.35	\$31.40
Germantown	1,872,930	4,200	402,636	21.7%	-24,889	3,433	49,539	0	\$23.01	\$26.50
Bethesda/Chevy Chase	8,465,789	222,569	942,124	13.8%	24,646	2,792	380,328	1,742,020	\$38.79	\$43.13
Rock Spring Park	4,004,404	62,574	868,729	23.3%	28,712	76,637	70,600	0	\$30.29	\$30.43
Gaithersburg	2,106,015	2,450	383,012	18.3%	-2,584	-10,916	28,844	0	\$24.11	\$24.34
North Silver Spring	1,055,127	400	159,162	15.1%	2,363	3,779	60,603	0	\$24.08	N/A
Montgomery County	43,430,010	380,314	6,969,683	16.9%	44,798	-171,494	1,459,755	1,951,020	\$30.34	\$32.98
Beltsville/College Park	4,239,155	5,809	795,673	18.9%	11,433	3,979	28,625	0	\$22.43	\$24.09
Laurel	928,694	0	221,541	23.9%	6,783	4,882	21,436	0	\$23.24	\$17.50
Greenbelt	2,824,441	2,796	808,075	28.7%	64,598	100,598	61,557	0	\$21.84	\$23.76
Landover/Lanham	3,066,183	12,428	443,097	14.9%	-8,569	255,510	26,104	0	\$21.72	\$22.26
Bowie	780,082	0	119,854	15.4%	-1,468	-1,285	20,375	0	\$25.74	\$15.95
Oxon Hill/Suitland	1,595,938	2,671	318,889	20.1%	21,780	88,647	11,401	574,767	\$21.91	N/A
Prince George's County	13,434,493	23,704	2,707,129	20.3%	94,557	452,331	169,498	574,767	\$22.13	\$23.51
Frederick County	3,273,235	11,767	720,131	22.4%	23,174	63,403	91,206	0	\$16.56	\$24.07
SUBURBAN MARYLAND TOTALS	60,137,738	415,785	10,396,943	18.0%	162,529	344,240	1,721,155	2,525,787	\$27.73	\$31.33

*Rental rates reflect gross asking \$psf/year

**Does not include renewals

Key Lease Transactions Q3 2019

	SF	TENANT	TRANSACTION TYPE	SUBMARKET
77 Upper Rock Circle	30,531	M&T Bank	New	I-270/Rockville
15800-15810 Gaither Drive	26,704	Noyes Air Conditioning	New	I-270/Rockville
20501 Seneca Meadows Parkway	25,000	RADA Technologies	New	Germantown
7700 Wisconsin Avenue	22,750	Victor O.Shinnerer	New	Bethesda / Chevy Chase
5280 Corporate Drive	20,000	BB&T Bank	New	Frederick

Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
7500 Old Georgetown	338,844	Clark Enterprises/ Stonebridge Associates JV. Rockwood Capital	\$133,750,000 / \$395	Bethesda / Chevy Chase

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