

Suburban Maryland

cresa

Q4 2020 Market Report

Key Performance Indicators



Vacancy
16.5%



Average Rent
\$28.08/SF



Net Absorption
-244,753 SF

Market Overview

Suburban Maryland continued to struggle in its recovery from the pandemic in the fourth quarter of 2020. Occupancy losses continued, marking the first time since 2014 that year-end absorption ended negative for the market. The fourth quarter saw losses measured at -244,753 SF, resulting in an annual net occupancy loss of -529,603 SF. The Biotech & Life Sciences sector, typically a bright spot for the market, saw an activity slow-down to end the year. However, the continued development and the strong, educated employee base for the industry are expected to increase leasing activity and boost the local economy for years to come. Vacancy decreased four basis points (bps) to 16.5% from Q3, though levels are expected to remain high to begin 2021 as new construction delivers with availabilities and market uncertainty continues. Asking rates did see an increase year-over-year from \$27.90/SF to \$28.08/SF, partly due to market forces being slower to adjust and new deliveries introducing higher quality space to the region. There is likely to be downward pressure on rents as demand for space remains low in the future.

Tenant's Perspective

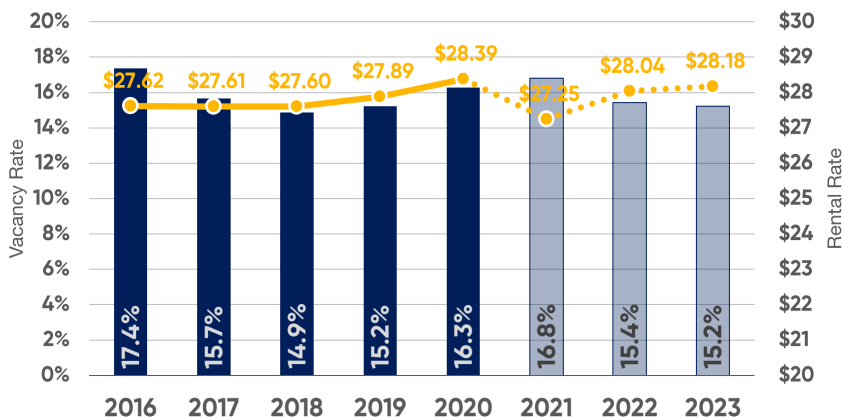
Uncertainty surrounding the effects of COVID-19 continues to hinder the Suburban Maryland commercial real estate market. Market softness continued through the end of 2020 and is expected to continue well into 2021 as Landlord's battle to land tenants in a low-demand environment. While uncertainty will remain, Suburban Maryland should continue to benefit from a strong Life Sciences tenant base, and a possible expansion of Federal Government demand as the transition to a new administration takes place.

**Washington Region
Office Occupancy: 19.6%**

*Kastle Systems, Return to the Office Barometer

Labor Market Perspective

Suburban Maryland's labor pool contracted by 50,000 jobs over the last year; however, most losses were non-office-using jobs.



**Vacancy
Change: 1.0%**
Since COVID

**Average Rent
Change: \$0.58/SF**
Since COVID

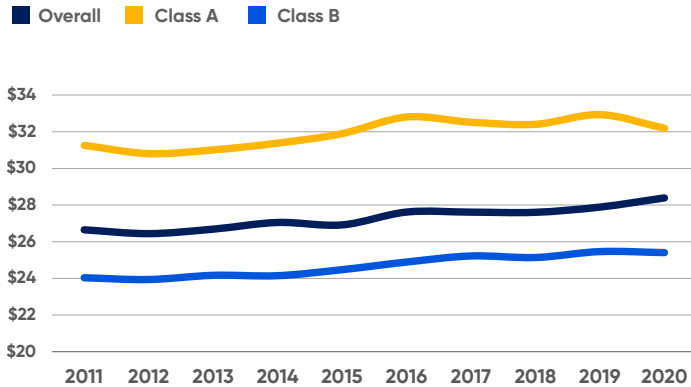
**499,029 SF
Absorbed since COVID**

Suburban Maryland

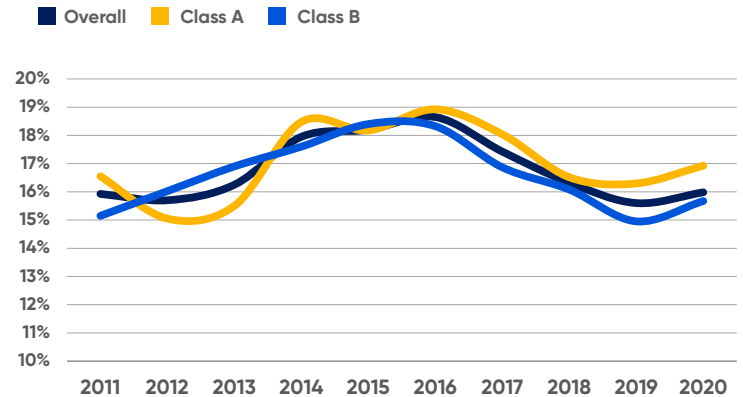


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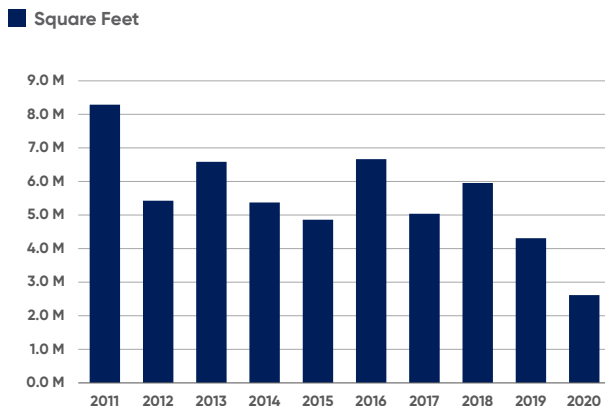
Average Asking Rents



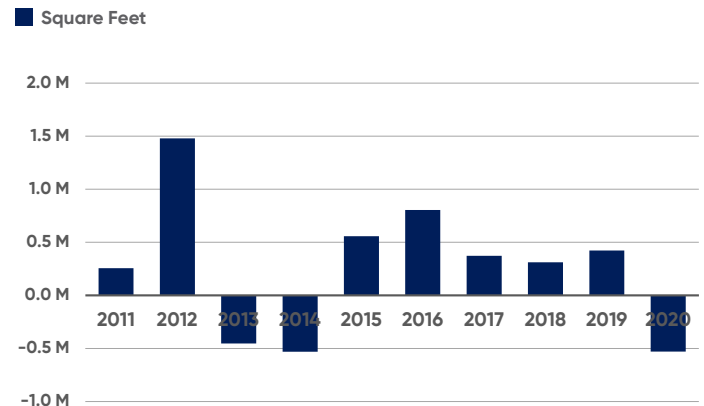
Average Vacancy Rate



Leasing Activity



Net Absorption



Pre-Leasing Continues; Hope for Relief from Life Sciences and Federal Government

The fourth quarter provided little relief to Suburban Maryland, as leasing activity remained slow to end 2020, down 62% from year-ago levels. Top quarterly leases included office-using tenants such as Walker & Dunlop and UBS in downtown Bethesda, along with an expansion by the Food & Drug Administration in Prince George's County. Increased vaccine distribution will boost market fundamentals and likely continue to drive growth in the region for Life Sciences and Federal Government sectors as they respond to the pandemic. These knowledge-based industries continue to be less impacted by the effects of COVID-19, providing a much-needed backstop for the region. However, the lack of demand from harder-hit industries and increasing sublet availability will likely cause market fundamentals to soften further.

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Q4 Top Leasing

Tenant	Submarket	Address	Size	Type
Department of Health	College Park	3311 Toledo Road	61,049	New Lease
Health and Human Services	Bethesda/Chevy Chase	7501 Wisconsin Avenue	47,000	Renewal
National Institutes of Health	North Bethesda/Potomac	6100 Executive Boulevard	43,629	New Lease
US Pharmacopeial	Rockville	12725 Twinbrook Parkway	29,890	New Lease

Sublease Market

Recessionary Connection

Following past economic shocks, sublease listings recorded varying increases as firms reacted to the market uncertainty by listing unused and unnecessary space.

Current Availability

Sublease availability has increased by 27.3% since the beginning of COVID-19, showing substantially less growth than neighboring regions. This growth, though slower than other market areas, remains on-par with sublease activity following the 2008 market crash.

Submarket Comparison

Bethesda/Chevy Chase

\$43.08

Gaithersburg

\$22.64

Germantown

\$23.68

North Bethesda

\$29.58

North Rockville

\$29.64

North Silver Spring

\$22.76

Rockville

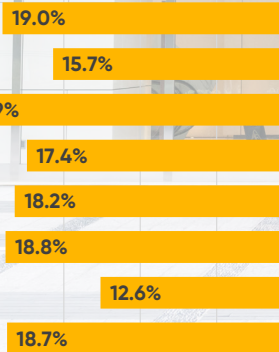
\$31.16

Silver Spring

\$30.13

Asking Rate

Vacancy Rate



Submarket Statistics

Submarket	Total Bldgs	Inventory	Sublet Available	Total Available	Total Vacant	Vacancy Rate	Net Absorption Q4	Net Absorption (YTD)	Class A Rent	Class B Rent	Total Direct Rent	Under Construction	SF Delivered YTD	Net New SF Delivered
Bethesda/Chevy Chase	81	10,273,895	491,924	2,987,492	1,952,738	19.0% ▲	(102,613)	(311,170)	\$46.10	\$36.77	\$43.08 ▼	1,742,274	-	-
North Bethesda	78	10,147,689	197,394	2,142,326	1,767,662	17.4% ▼	19,037	41,892	\$29.76	\$29.38	\$29.58 ▲	-	212,000	212,000
Rockville	81	8,427,946	115,260	1,632,884	1,058,535	12.6% ▼	37,397	62,338	\$32.74	\$28.16	\$31.16 ▲	-	-	-
North Rockville	113	11,324,128	364,509	2,686,847	2,061,894	18.2% ▲	(79,430)	(150,115)	\$30.62	\$27.36	\$29.64 ▲	258,904	-	-
Gaithersburg	78	3,730,906	9,333	541,547	585,301	15.7% ▲	(11,558)	(12,347)	\$24.87	\$19.62	\$22.64 ▲	-	121,674	(43,326)
Germantown	46	2,685,669	84,922	756,094	587,184	21.9% ▼	65,623	47,387	\$26.93	\$21.74	\$23.68 ▲	-	-	-
I-270 Corridor	477	46,590,233	1,263,342	10,382,681	8,013,314	17.2% ▲	(71,544)	(322,015)	\$34.63	\$28.90	\$32.93 ▲	2,001,178	333,674	168,674
Silver Spring	56	5,983,438	197,485	1,269,033	1,121,515	18.7% ▲	(40,499)	57,419	\$32.66	\$25.48	\$30.13 ▼	-	-	-
North Silver Spring	47	2,209,308	8,600	438,646	415,839	18.8% ▼	(9,796)	53,793	\$29.50	\$22.65	\$22.76 ▼	-	-	-
Montgomery County	635	57,826,119	1,576,577	12,785,706	9,775,123	16.9% ▼	(172,847)	(110,544)	\$33.20	\$27.12	\$30.28 ▼	2,001,178	333,674	168,674
Prince George's County	349	19,556,564	107,155	3,614,268	3,024,033	15.5% ▼	(42,797)	(301,413)	\$26.31	\$20.83	\$23.14 ▲	994,043	-	-
Frederick County	138	5,718,535	55,504	1,785,687	894,075	15.9% ▲	(29,109)	(117,646)	\$22.77	\$22.11	\$22.29 ▼	-	-	-
Total	1,122	83,101,218	1,739,236	18,185,661	13,693,231	16.5% ▲	(244,753)	(529,603)	\$31.64	\$24.74	\$28.08 ▲	2,995,221	333,674	168,674