



Global pandemic will test resiliency in the Suburban Maryland market

As the unprecedented COVID-19 crisis escalated world-wide, Governor Larry Hogan of Maryland issued a stay-at-home order for the state on March 30th, 2020. Businesses were forced to close doors and quickly adapt to the rapidly-evolving situation by shifting to remote work where possible. The Suburban Maryland office market is better insulated than most to brace for the eventual impact of the pandemic due to its core tenant base of the federal government, government contractors, and healthcare. These industries have been historically resilient during times of economic volatility and are expected to continue to contribute to the stability of the market.

Unknown trajectory of COVID-19 threatens to upset a strong start to new decade

Prior to the COVID-19 crisis, Suburban Maryland was poised to start a year of robust leasing with activity totaling 1.2 million square feet (msf) in Q1 – the highest quarterly total since Q2 2016. The government sector led leasing activity (28.6%), largely due to the GSA - National Institutes of Health renewing at 6001 Executive Boulevard for 153,731 square feet (sf) and at 6101 Executive Boulevard for 19,943 sf. Demand in Q1 came largely from renewals, which made up 67.3% of activity. In recent years, tenants have favored relocating into higher-quality space as office function and design have evolved, making it easier and more economical than renewing. This flight to quality has resulted in projects currently under construction reaching 77.0% preleased to date, and with little new construction anticipated, relocation options in new developments are dwindling.

The calm before the storm – rental rates and availability saw little change ahead of economic downturn

Prior to the COVID-19 related slowdown, availability decreased 190 basis points over the last year to 19.3%. Overall asking rents saw minimal fluctuation with a 1.2% increase over the quarter, and a 4.6% increase over the year to \$29.15 per square foot (psf). Class A rents rose at the same pace quarter over quarter (1.2%), and finished at \$30.25 psf. As rents saw some upward pressure, they were offset by generous concession packages made up of average tenant improvement allowances above \$90.00 psf and 11 months of free rent for new, long-term, Class A leases. Suburban Maryland, already a tenant-favorable market, may lean even more towards the occupier as the economy is disrupted and transaction volume decreases in coming quarters.

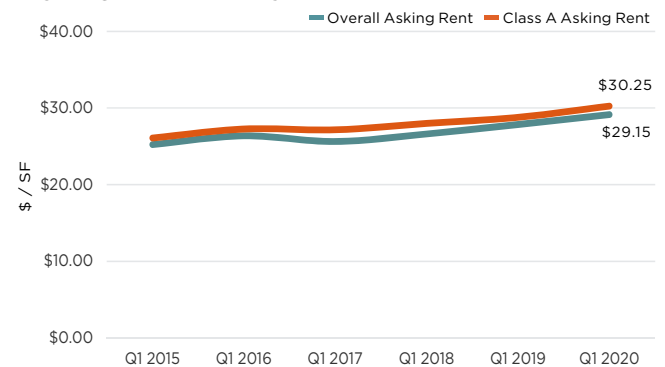
Outlook

- Economic volatility will translate into many forms of opportunities for occupiers as landlords look to secure tenants and stabilize their properties
- Current circumstances are expected to cause tenants with upcoming real estate decisions to step back and re-evaluate capital, workforce, and space design needs before signing lease agreements
- After a recent boom in construction activity, COVID-19 is likely to cause a significant slow in demand which, in turn, will depress any inclinations developers might have to move forward with speculative construction without tenants already committed to the space

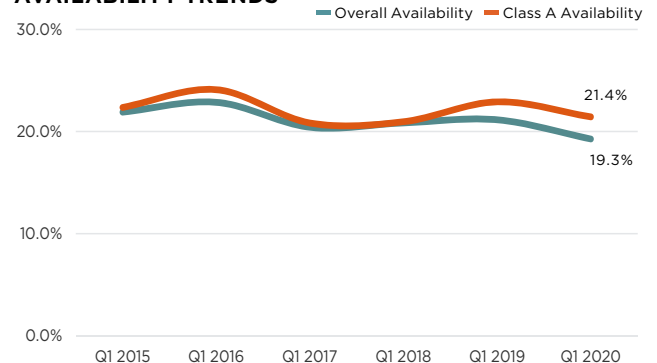
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	61.5 MSF	61.5 MSF	◀▶
Availability Rate	21.1%	19.3%	▼
Asking Rental Rate	\$27.86	\$29.15	▲
Class A Asking Rental Rate	\$28.79	\$30.25	▲
Quarterly Leasing Activity	1.0 MSF	1.2 MSF	▲

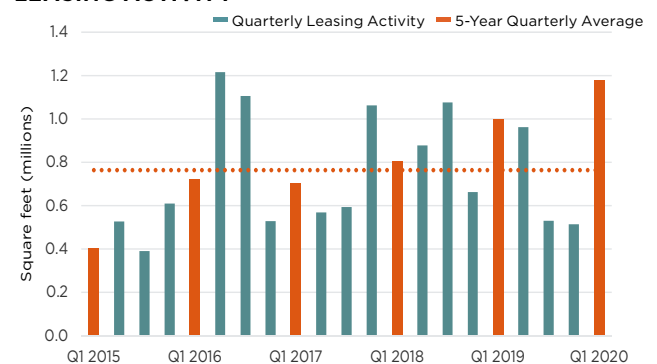
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

6 of 10

major transactions were **renewals**

40.3%

of large transactions occurred in the **Rockville** submarket

31.0%

Government sector tenants represented 31.0% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
GSA - National Institutes of Health	173,674	6001 & 6101 Executive Boulevard	Renewal	North Bethesda / Potomac	Government
Supernus Pharmaceuticals Inc	135,220	9713 & 9715 Key West Avenue	Renewal	Rockville	Pharmaceuticals
ZeniMax Media Inc	104,472	1350 Piccard Drive	New Location	Rockville	TAMI
Social & Scientific Systems, Inc.	57,934	8757 Georgia Avenue	Renewal	Silver Spring / North Silver Spring	Non-profit
Creative Associates International Inc.	57,118	4445 Willard Avenue	Relocation	Bethesda / Chevy Chase	Non-profit
BAE Systems	49,080	520 Gaither Road	Renewal	Rockville	Engineering
GSA - Food and Drug Administration	48,433	10001 New Hampshire Avenue	Renewal	Silver Spring / North Silver Spring	Government
DMI	43,952	6550 Rock Spring Drive	Renewal	North Bethesda / Potomac	TAMI
Creative Direct Response, Inc.	24,703	4200 Parliament Place	New Location	Landover / Lanham / Greenbelt	Professional Services
Lockheed Martin Corporation	22,593	6720-B Rockledge Drive	New Location	North Bethesda / Potomac	Professional Services

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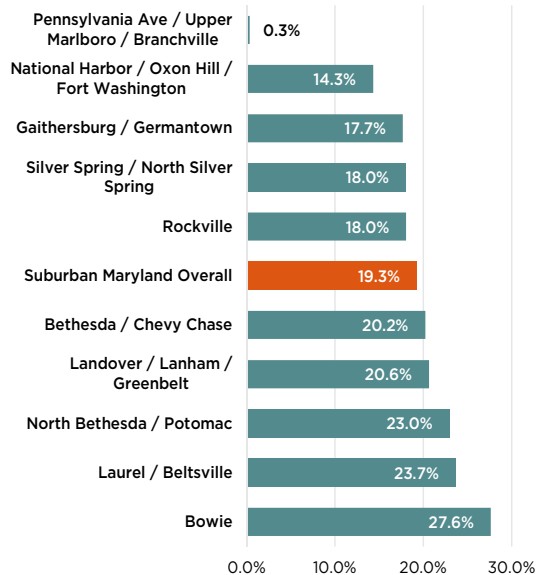
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AVAILABILITY RATE COMPARISON

Suburban Maryland Submarkets



RENTAL RATE COMPARISON (\$/SF)

Suburban Maryland Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot (psf). Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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