

Availability rises albeit at a muted rate, aided by a decline in sublease supply

In Q1, availability continued to escalate, though not at the surging rate seen earlier in the pandemic – topping off at 21.6%. This increase over the quarter, up from 21.1% in Q4, is the smallest change in availability since the pandemic began and may indicate market conditions beginning to level off from the wave of oversupply seen in 2020. Nationally, rising availability has been bolstered by a surge in sublease supply; however, the Suburban Maryland market saw sublease space drop from 1.5 million square feet (msf) on the market to 1.4 msf – a decrease of 7.0%. As vaccination becomes widespread and organizations feel more comfortable returning to the office, many are rethinking the sublease space they listed earlier in the pandemic and planning to reoccupy the space instead.

As the uncertainty from the pandemic ebbs, leasing volume sees slight increase

Quarterly leasing activity rose for the second consecutive quarter with 0.6 msf signed for in Q1. While this may possibly be a sign that the market is seeing some return to normalcy, activity remains weak and is still below the 5-year quarterly average of 0.8 msf leased and well below the 1.2 msf of leasing activity seen in Q1 2020. The government sector continues to fuel leasing activity in the Suburban Maryland market and made up over one third of total activity (37.9%) in the first quarter. The top two leases completed were the National Institutes of Health (NIH) at 2115 E Jefferson Street for an 89,708-square-foot (sf) extension and at 6011 Executive Boulevard for an 57,310-sf extension. Including these two major transactions by NIH, renewals and extensions made up 52.9% of all deals done in Suburban Maryland. These types of transactions have become more frequent throughout the pandemic as many organizations looked to delay real estate decisions. As the future of the workplace becomes more certain, organizations will likely sign for longer terms and consider relocations more often.

Largest quarterly delivery of new office space by square feet in over a decade

2021 brought with it a record amount of new construction delivered in the Suburban Maryland Market – almost a million square feet (0.9 msf) of new office space. The deliveries included new trophy asset, The Wilson (7272 Wisconsin Avenue), which is leased by several large tenants including Enviva (79,472 sf), WeWork (60,067 sf), and Walker & Dunlop, Inc (60,000 sf). Also delivered, was The Department of Homeland Securities new headquarters at 1 Capital Gateway in the Branch Avenue Corridor of Prince George’s County. With these projects out of the pipeline, 1.4 msf remains under construction between two projects, Avocet Tower (7373 Wisconsin) which is delivering later this year, and the Marriott Headquarters (7750 Wisconsin Avenue) delivering in early 2022.

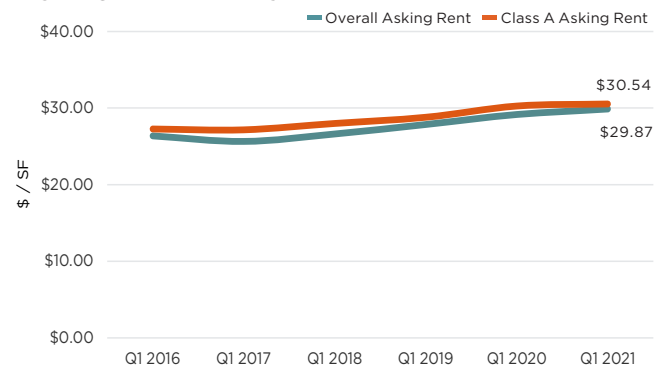
Outlook

- Tenants that are active in the market will benefit from having abundant options to choose from and increased leverage to secure favorable deal terms such as generous concessions.
- The impact of the pandemic will subside as more organizations return to the office, but it will take time and significant leasing activity to reverse the pandemic’s effects.
- There will likely be a slump in new construction for the near- to mid-term as developers are taking note of soft market conditions and may act cautiously before starting any new projects without significant preleasing.

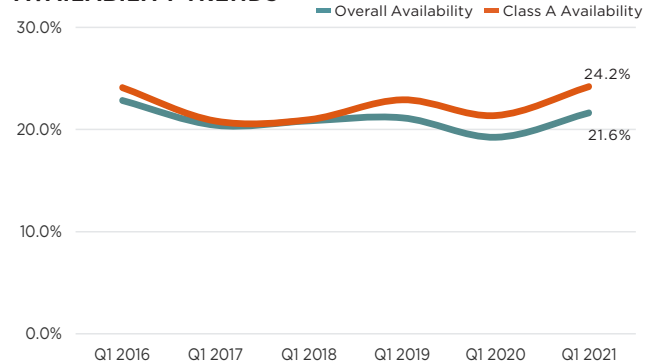
KEY STATISTICS

	Q1 2020	Q1 2021	y-o-y Change
Inventory	60.9 MSF	61.6 MSF	▲
Availability Rate	19.2%	21.6%	▲
Asking Rental Rate	\$29.15	\$29.87	▲
Class A Asking Rental Rate	\$30.26	\$30.54	▲
Quarterly Leasing Activity	1.2 MSF	0.6 MSF	▼

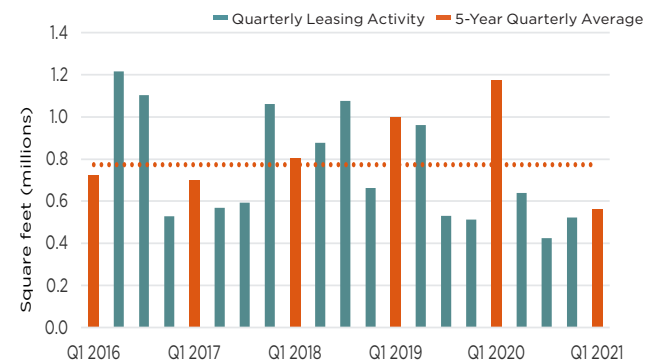
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

52.1%

of major transactions were **extensions** by square footage

71.4%

of large transactions occurred in the **North Bethesda / Potomac** submarket by square footage

52.1%

Government sector tenants represented 52.1% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
GSA - National Institutes of Health	89,708	2115 E Jefferson Street	Extension	North Bethesda / Potomac	Government
GSA - National Institutes of Health	57,310	6011 Executive Boulevard	Extension	North Bethesda / Potomac	Government
Industrious	40,914	909 Rose Avenue	New Location	North Bethesda / Potomac	Coworking
OncoC4	34,459	9640 Medical Center Drive	New Location	Rockville	Pharmaceuticals
United Solutions	20,602	909 Rose Avenue	New Location	North Bethesda / Potomac	Non-profit
GSA - National Institutes of Health	19,141	2115 E Jefferson Street	Extension	North Bethesda / Potomac	Government
National Cable Communications LLC	16,061	7501 Wisconsin Avenue	New Location	Bethesda / Chevy Chase	TAMI
Perfect Office Solutions	16,000	18310 Montgomery Village Avenue	New Location	Gaithersburg / Germantown	Coworking
Johns Hopkins Community Physicians, Inc	13,419	7315 Wisconsin Avenue	Renewal	Bethesda / Chevy Chase	Healthcare
Zuckerman Gravely Management	11,153	2 Wisconsin Circle	Renewal	Bethesda / Chevy Chase	Professional Services

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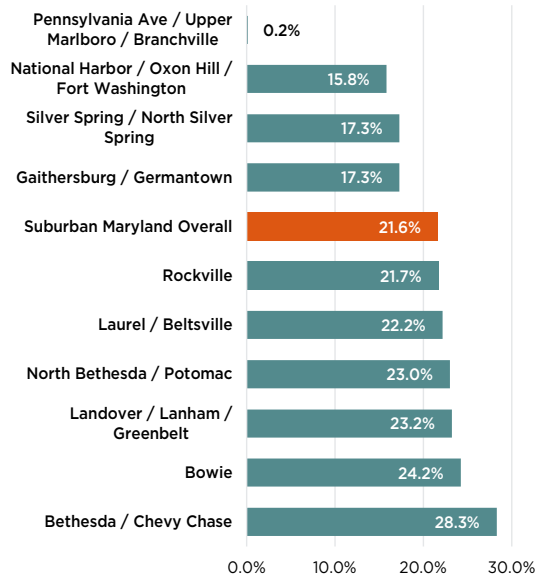
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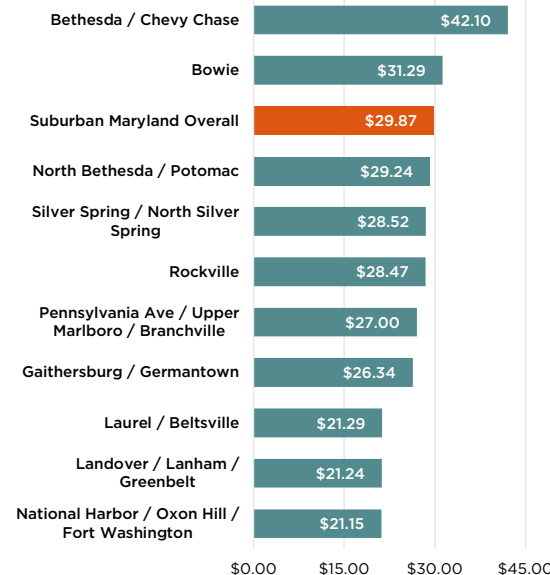
AVAILABILITY RATE COMPARISON

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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