



## COVID-19 uncertainty begins to impact leasing activity while other market fundamentals remain unshaken

The Suburban Maryland market began Q2 in a government-mandated shutdown, and even though restrictions have eased, tenants are only allowed to use their office space again at reduced occupancy levels to comply with new health guidelines. Whether offices are in use or not, many tenants have upcoming lease expirations and are faced with the difficult task of making decisions about their real estate needs. During Q2, 0.6 million square feet (msf) leased, which was a significant (50.0%) decline in activity from Q1 (1.2 msf leased), but just a slight dip down from the five-year quarterly leasing average of 0.8 msf. Occupiers showed a preference to stay in their current office spaces rather than relocate with renewals comprising 53.2% of transaction volume – an 11.6% increase over the quarter. Leasing was bolstered in the second quarter by the government sector which made up 25.3% of activity. Much of that was a single lease, the Food & Drug Administration's renewal at 12420 Parklawn Drive in Rockville for 93,014 square feet (sf).

### Robust construction pipeline will not lead to a surge in availability as it delivers highly preleased

As of Q2, there is currently 2.6 msf under construction in Suburban Maryland that will deliver 70.6% preleased. In recent years, the market has benefited from a robust development pipeline answering the long-sought-after demand for new, quality space. Almost 0.7 msf is set to deliver next quarter if expected construction timelines are met which will leave around 2.0 msf in development – 80.4% of which are pre-leased to the Department of Homeland Security Headquarters and to Marriot for its new headquarters. Because so much of the current construction projects underway are pre-leased, availability is not expected to increase dramatically.

### Availability stable and asking rents tick up despite pandemic as Suburban Maryland upholds its reputation for resiliency

Given the current economic contraction, many office markets are seeing a surge in availability as companies look to cut real estate costs by returning space. This has not been the case in Suburban Maryland which is cushioned from that volatility by its make-up of the non-cyclical government and related sectors. In the second quarter, availability only fluctuated upwards 0.2% to 19.5% (which is still down 1.2% from the same period last year (20.7%)). As supply levels remain unchanged, landlords have not yet been compelled to re-price rents. Overall, asking rents increased 80 basis points (bps) over the quarter to \$29.37 per square foot (psf).

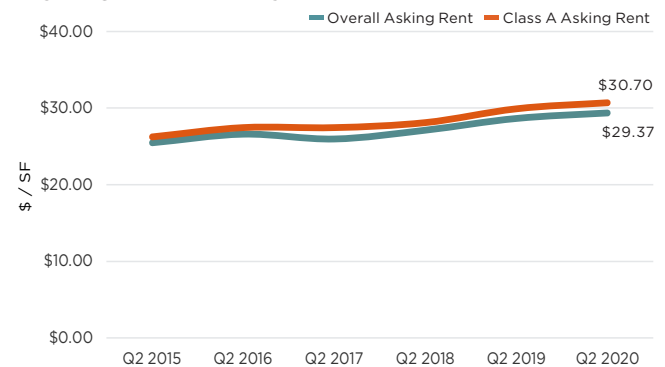
### Outlook

- Suburban Maryland's core tenant base of government and related sectors will keep leasing sustained, but the lack of new demand will continue to push the market in the tenant's favor
- As the public health crisis causes continued uncertainty in the market, developers are increasingly unlikely to start any new development without substantial pre-lease commitments
- Compared to other markets, the Suburban Maryland market is expected to remain quite stable through the COVID-19 crisis

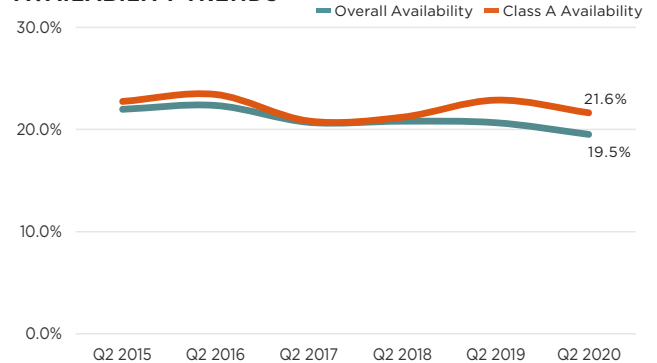
### KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	61.5 MSF	<b>61.6 MSF</b>	▲
Availability Rate	20.7%	<b>19.5%</b>	▼
Asking Rental Rate	\$28.65	<b>\$29.37</b>	▲
Class A Asking Rental Rate	\$29.91	<b>\$30.70</b>	▲
Quarterly Leasing Activity	1.0 MSF	<b>0.6 MSF</b>	▼

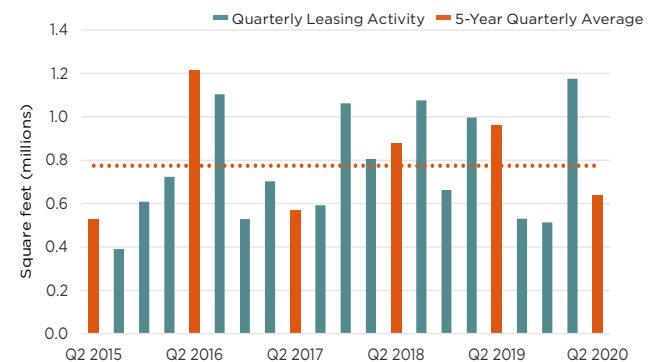
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

53.3%

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

50.4%

of large transactions occurred in the **Rockville** submarket by square footage

27.0%

**Government** sector tenants represented 27.0% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
GSA - Food & Drug Administration	93,014	12420 Parklawn Drive	Renewal	Rockville	Government
Open Text	50,375	9711 Washingtonian Boulevard	Renewal	Rockville	TAMI
New York Life	38,000	6905 Rockledge Drive	New Location	North Bethesda / Potomac	Financial Services
Children's National Health System	35,000	1 Inventa Place	Expansion	Silver Spring / North Silver Spring	Healthcare
Aurinia Pharmaceuticals	30,531	77 Upper Rock Circle	New Location	Rockville	Pharmaceuticals
Perspecta	30,226	14400 Sweitzer Lane	New Location	Laurel / Beltsville	Professional Services
Comcast SportsNet	28,477	7700 Wisconsin Avenue	Renewal	Bethesda / Chevy Chase	TAMI
One Digital	15,865	909 Rose Avenue	New Location	North Bethesda / Potomac	Financial Services
CPWR	11,841	8484 Georgia Avenue	Renewal	Silver Spring / North Silver Spring	Non-profit
Panagora Group LLC	11,622	8601 Georgia Avenue	New Location	Silver Spring / North Silver Spring	Professional Services

Source Savills Research

For more information, please contact us:

**Savills**  
1201 F Street, NW  
Suite 500  
Washington, DC 20004  
+1 202 628 6000

**Thomas M. Fulcher, Jr.**  
Vice Chairman, Director

**David Lipson**  
Vice Chairman, Director

**William P. Quinby**  
Vice Chairman

**Gary Stein**  
Vice Chairman

**Lois A. Zambo**  
Vice Chairman

**Ben Plaisted**  
Executive Vice President

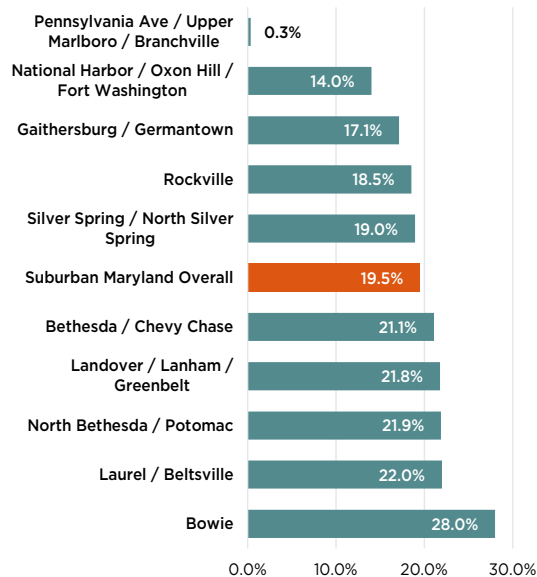
**Devon Munos**  
Research Manager  
+ 1 202 624 8550  
DMunos@savills.us

**About Savills Inc.**  
Savills helps organizations find the right solutions that ensure employee success. Sharply skilled and fiercely dedicated, the firm's integrated teams of consultants and brokers are experts in better real estate. With services in tenant representation, workforce and incentives strategy, workplace strategy and occupant experience, project management, and capital markets, Savills has elevated the potential of workplaces around the corner, and around the world, for 160 years and counting.

For more information, please visit Savills.us and follow us on LinkedIn, Twitter, Instagram and Facebook.

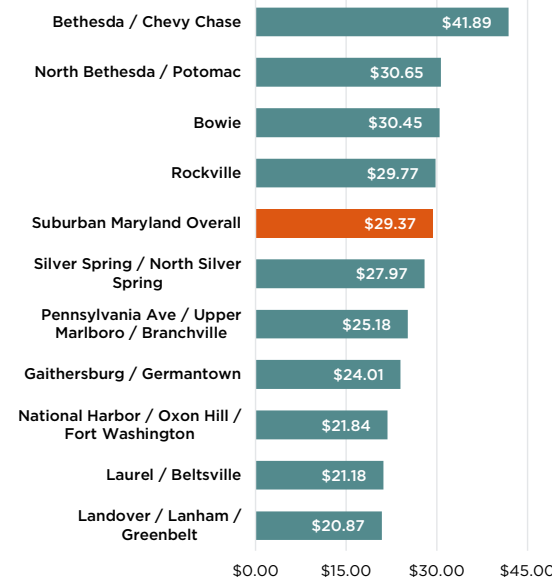
AVAILABILITY RATE COMPARISON

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.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills research.

Copyright © 2020 Savills

