



COVID-19 stifles demand and Q3 leasing volume drops to the lowest quarterly activity in five years

As the pandemic continues without a clear end in sight, its impact has begun to affect the resilient Suburban Maryland market. Leasing activity was sustained in the first half of the year by deals in progress prior to the pandemic, but as those transactions have closed, transaction volume has fallen. In the third quarter, leasing activity dropped 50% below the five-year quarterly average of 0.8 million square feet (msf) to 0.4 msf. There were ten leases completed above 10,000 square feet (sf) and the top three transactions were all signed by government tenants. Ongoing federal activity has historically sustained leasing volume during times of market volatility, but government transactions alone are not enough to keep the market from weakening. Most tenants are acting cautiously in the current environment and postponing significant lease commitments unless forced to act by an upcoming lease expiration.

Availability is on the rise but has not been significantly pushed up by sublease space

Tepid demand has allowed office availability to rise over the quarter by 90 basis points (bps) to 20.3% – a peak for the last year. Of the 12.6 msf of total space available for lease, 1.1 msf of that is sublease space on the market. Since the onset of the current public health crisis, most office markets have seen sublease supply surge as organizations reevaluate occupancy requirements and focus on reducing real estate costs by shedding space. Nearby DC and Northern Virginia markets have each seen sublease availability increase by 0.5 msf since Q1. Sublease supply has only increased by 35,432 sf in Suburban Maryland from Q1, which is not an unusual fluctuation for the market.

The current development pipeline continues forward delivering highly leased office space

Two construction projects were completed in the third quarter at 909 Rose Avenue in Northern Bethesda and 4600 River Road in College Park. After years of limited construction activity in the market, development picked up over the last three years, satiating a need in Suburban Maryland for prime office space. 2.3 msf remains under construction and is already 81.1% preleased, leaving limited blocks of new office space available. New construction will likely slow down as developers stop speculative construction in response to the temperate leasing activity and overall softening market conditions.

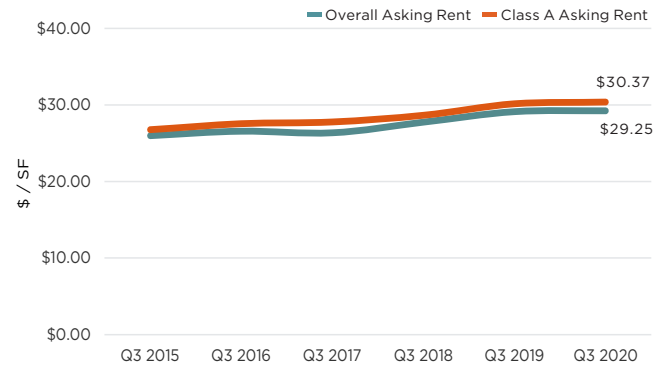
Outlook

- The presence of the government and related sectors has provided Suburban Maryland with some stability, but it is not expected to be enough to keep the market from weakening further in the near- to mid-term
- Sublease inventory has remained relatively stable but could see an increase depending on the longevity of the pandemic
- As the pool of tenants who are willing to sign new lease agreements shrinks, occupiers will gain additional leverage to secure favorable deal terms and generous concessions

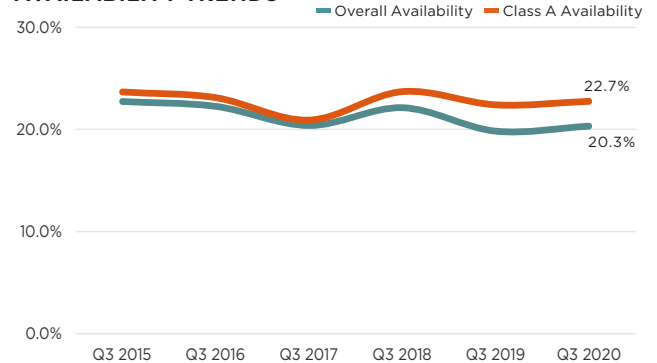
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	61.6 MSF	62.0 MSF	▲
Availability Rate	19.8%	20.3%	▲
Asking Rental Rate	\$29.12	\$29.25	▲
Class A Asking Rental Rate	\$30.15	\$30.37	▲
Quarterly Leasing Activity	0.5 MSF	0.4 MSF	▼

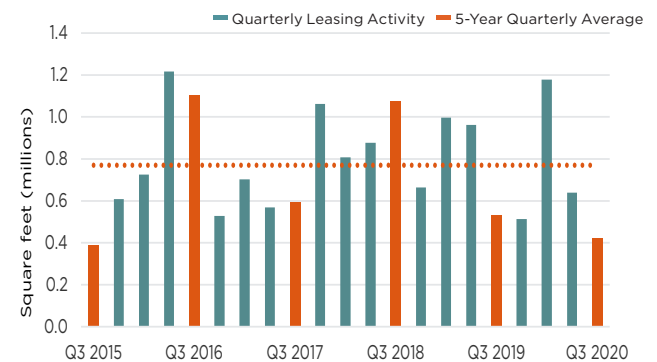
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

5 of 10

of major transactions were new locations

41.6%

of large transactions occurred in the Silver Spring / North Silver Spring submarket by square footage

54.7%

Government sector tenants represented 54.7% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
GSA - Executive Office of Immigration Review	61,049	3311 Toledo Road	New Location	Silver Spring / North Silver Spring	Government
GSA - Centers for Medicare & Medicaid Services	47,000	7501 Wisconsin Avenue	Renewal	Bethesda / Chevy Chase	Government
United States National Institutes of Health	43,629	6100 Executive Boulevard	Extension	North Bethesda / Potomac	Government
Eagle Bank	27,476	11900 Bournfield Way	New Location	Silver Spring / North Silver Spring	Financial Services
American Gene Technologies	27,060	9713 Key West Avenue	New Location	Rockville	Healthcare
Offit Kurman	23,500	7501 Wisconsin Avenue	New Location	Bethesda / Chevy Chase	Legal Services
CuriosityStream LLC	15,510	8484 Georgia Avenue	Renewal	Silver Spring / North Silver Spring	TAMI
Telligent Masonry	11,937	2273 Research Boulevard	Expansion	Rockville	Construction
Samson Properties	11,427	8455 Colesville Road	Relocation	Silver Spring / North Silver Spring	Real Estate
Calvert	8,778	7550 Wisconsin Avenue	New Location	Bethesda / Chevy Chase	Professional Services

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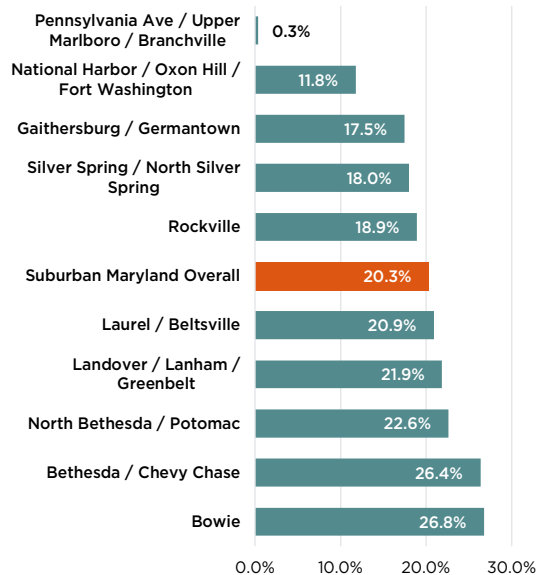
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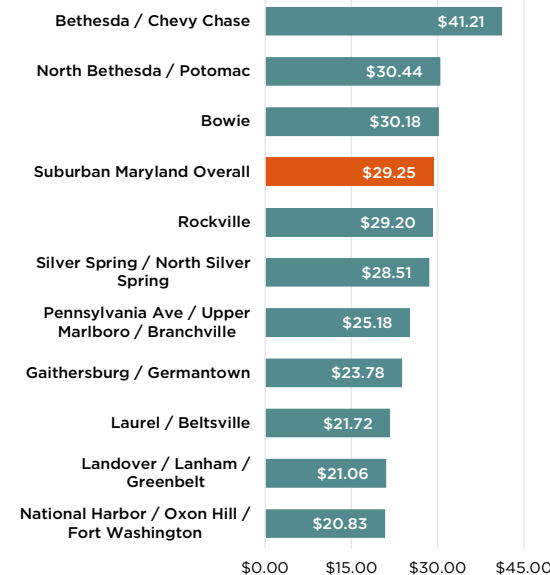
AVAILABILITY RATE COMPARISON

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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