

Availability drops to its lowest in over a decade, asking rents rise in response

Suburban Maryland's overall availability rate dropped significantly in 2019, down 50 basis points quarter over quarter, and 210 basis points year over year, closing at 18.8% - its lowest since 2008. With lowering availability, asking rents increased 5.4% year over year to \$28.80 per square foot (psf) for all classes. Class A asking rents experienced a sharper increase, up 7.1% to \$30.09 psf in Q4. Rising Class A asking rents accompany the delivery of premium space, particularly in Montgomery County. However, even with the tightening in availability this year, landlords are still competing to fill their buildings and offering generous concessions to entice tenants. Current concession offerings are averaging \$90.00 psf in tenant improvement allowances, and up to 11 months of free rent on new, long-term, Class A leases.

Leasing activity slows with the year's end

Total fourth-quarter leasing activity was its lowest since Q3 2015, finishing at 517,491 square feet (sf) leased, down from 540,565 sf last quarter. Still, with a stronger first-half of the year, 3.0 million square feet (msf) were leased in total during 2019 - slightly below leasing activity in 2018 (3.6 msf), but just above activity in 2017 (2.9 msf). In Suburban Maryland, Montgomery County usually garners the strongest demand, and Q4 was no different with 24.0% of leasing occurring in North Rockville, followed by the Bethesda/Chevy Chase submarket (19%). Notably, Prince George's County saw government contractor, Peraton, lease 32,336 sf at 7855 Walker Drive in Greenbelt during the quarter.

Trophy development delivers, construction pipeline remains active and new space is in high demand

In Q4, JBG Smith's trophy-quality development, 4747 Bethesda Avenue, delivered 85.0% preleased to tenants such as Booz Allen Hamilton, Host Hotel & Resorts, and Orano USA. The new development pipeline, which is mostly concentrated in Bethesda, has created a resurgence in the submarket. Tenants in a position to change their real estate situations have shown preference for relocating into prime space when the opportunity is available, particularly in the current tenant-friendly market. This has led to healthy preleasing across the market with 77.0% of the 2.5 msf currently under construction already spoken for. The market will see 1.1 msf of new space deliver in 2020.

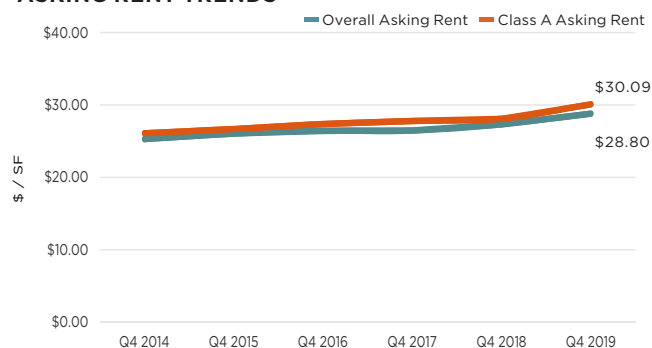
Outlook

- Even as new product pushes asking rents up, record-high concessions keep effective rents in check
- Montgomery County will see submarkets surrounding new developments tightening as new, amenitized Class A product is in high demand
- As record-high availability levels off and the market stabilizes, opportunities to take advantage of current favorable terms and abundant options may be diminishing

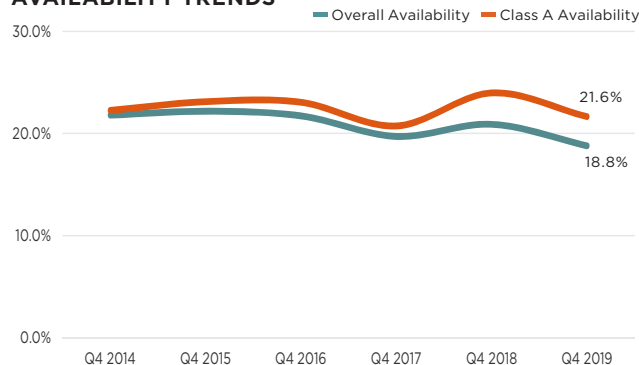
KEY STATISTICS

	Q4 2018	Q4 2019	y-o-y Change
Inventory	63.6 MSF	64.2 MSF	▲
Availability Rate	20.9%	18.8%	▼
Asking Rental Rate	\$27.33	\$28.80	▲
Class A Asking Rental Rate	\$28.09	\$30.09	▲
Quarterly Leasing Activity	0.7 MSF	0.5 MSF	▼

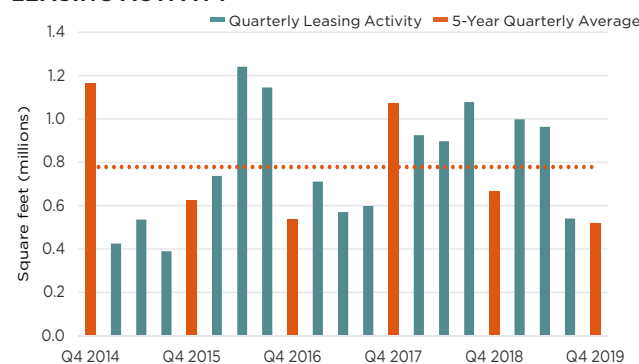
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

83.2%

of major transactions were **new locations**

75.6%

of large transactions occurred in **Montgomery County** submarkets

42.3%

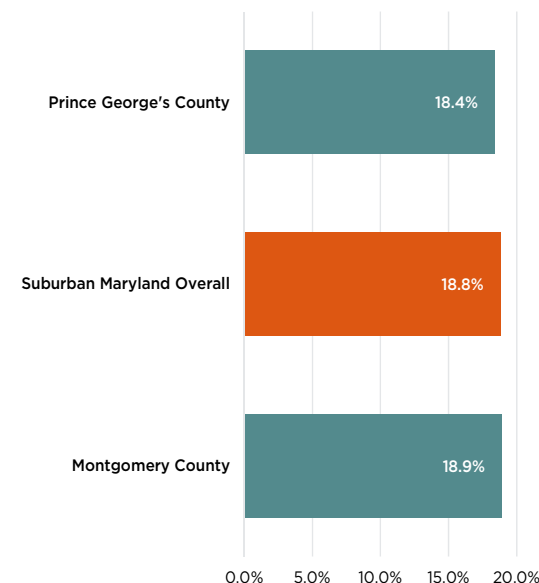
Professional Services sector represented 42.3% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Congressional Bank	37,551	4445 Willard Avenue	New Location	Montgomery County	Financial Services
Peraton	32,336	7855 Walker Drive	New Location	Prince George's County	Professional Services
Ana G. Méndez University	28,500	1 Inventa Place	New Location	Montgomery County	Education
Leidos	25,040	2099 Gaither Road	New Location	Montgomery County	Professional Services
Cellular Biomedicine Group	22,477	9605 Medical Center Drive	Relocation	Montgomery County	Pharmaceuticals
APISource, Inc.	22,003	7850 Walker Drive	New Location	Prince George's County	Professional Services
CNI Government LLC	14,819	1300 Piccard Drive	Renewal	Montgomery County	Professional Services
Neuraly	14,538	704 Quince Orchard Road	New Location	Montgomery County	Pharmaceuticals
Viel Bio	13,467	2400 Research Boulevard	New Location	Montgomery County	Pharmaceuticals
The Capital Group, LLC	11,929	6720-B Rockledge Drive	New Location	Montgomery County	Financial Services

Source Savills Research

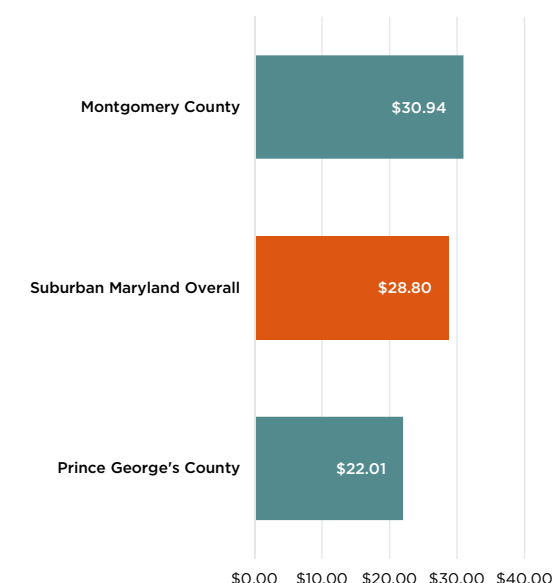
AVAILABILITY RATE COMPARISON

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.

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