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 $31.09 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
**MAJOR TRANSACTIONS**

- **83.2%** of major transactions were new locations.
- **75.6%** of large transactions occurred in Montgomery County submarkets.
- **42.3%** of major transactions involved professionals services sector.

### MAJOR TRANSACTIONS

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

### AVAILABILITY RATE COMPARISON

**Suburban Maryland Submarkets**

- **Prince George's County**: 18.4%
- **Montgomery County**: 18.9%
- **Suburban Maryland Overall**: 18.8%
- **Montgomery County**: 19.9%

### RENTAL RATE COMPARISON ($/SF)

**Suburban Maryland Submarkets**

- **Prince George's County**: $22.01
- **Montgomery County**: $30.94
- **Suburban Maryland Overall**: $28.80
- **Montgomery County**: $30.94

**Source**: Savills Research

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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
Co-Regional Manager

**David Lipson**
Vice Chairman
Co-Regional Manager

**Ben Plaisted**
Executive Vice President
Co-Regional Manager

**William P. Quinby**
Vice Chairman
Co-Regional Manager

**Gary Stein**
Vice Chairman
Co-Regional Manager

**Lois A. Zambo**
Vice Chairman
Co-Regional Manager

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

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