

Availability tightens, and rents respond to the increase in quality space

Availability fell in Q3, ending the quarter at 19.3%, down 220 basis points year over year, and 90 basis points for the quarter. With a decrease in availability, and new product coming to Montgomery County, it has caused asking rents to tick up 5.1% year over year, closing at \$28.91 per square foot (psf) for all classes. There is a ten dollar spread between overall asking rents in Montgomery County at \$31.17 psf compared to Prince George's County at \$21.62 psf. Class A rents across the market saw a similar 5.2% year over year rise to \$30.12 psf. Even as rents face upward pressure, availability remains abundant in this tenant favorable market and concessions are generous.

Pace of leasing drops nearly in half with no leases over 50,000 sf completed

A total of 540,565 sf leased in Q3, a significant decline since the first and second quarters, which each leased just under one million square feet (msf). Leasing activity year-to-date is at 2.5 msf, which is just under the pace of 2018 leasing, and ahead of 2017 leasing. Recently, many major leases for the market have been coming from the Bethesda area, however, in the third quarter 53% of leases over 10,000 sf came out of North Rockville. The biggest lease of the quarter was a renewal for the GSA - Food and Drug Administration for 48,443 sf at 10001 New Hampshire Avenue - the only government lease of the quarter signed. The majority of transactions came from the finance, insurance and real estate (FIRE) industry (27%), followed by healthcare (23%), and professional services (23%).

Rate of construction remains robust and preleasing a success

There is almost 3.0 msf under construction with the next highly anticipated delivery being JBG Smith's trophy building, 4747 Bethesda Avenue, which is 93% preleased. All current construction projects are 75% preleased and 1.4 msf is expected to deliver over the next twelve months. There are many additional proposed projects waiting to secure an anchor tenant and break ground. With many unknowns in how the economy will fare in upcoming years there may be few if any projects that will begin speculatively. There has been a considerable demand for new quality space in the Suburban Maryland market and the projects started over the last two years have seen great success.

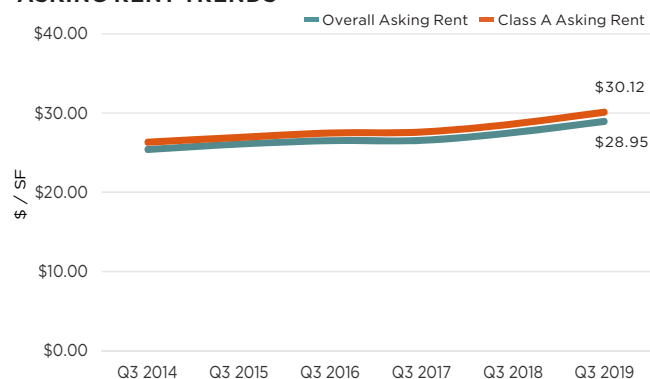
Outlook

- Expect to see additional tightening in Montgomery County availability as new construction prompts continued flight to quality with a heavy amount of preleasing
- There may be a greater contrast in future rents between Montgomery County and Prince George's County as only one region continues to deliver new product and bring in more amenities
- While leasing activity dropped in the third quarter, Suburban Maryland is still on track to finish 2019 within the margins of the last two years

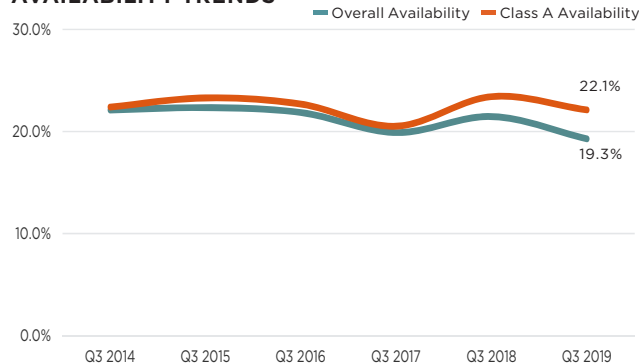
KEY STATISTICS

	Q3 2018	Q3 2019	y-o-y Change
Inventory	63.3 MSF	64.2 MSF	▲
Availability Rate	21.5%	19.3%	▼
Asking Rental Rate	\$27.54	\$28.95	▲
Class A Asking Rental Rate	\$28.63	\$30.12	▲
Quarterly Leasing Activity	1.0 MSF	0.5 MSF	▼

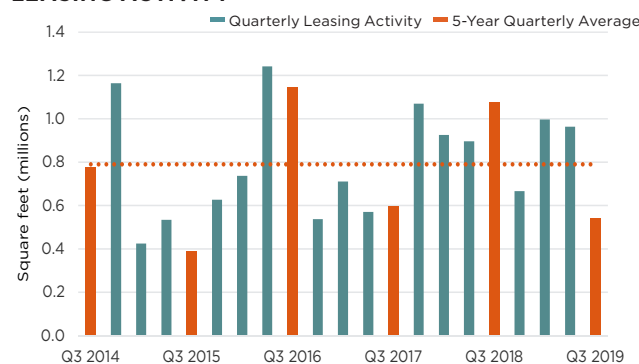
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

50.4%

of major transactions were **new market entrants, expansions or relocations**

ALL

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

57.7%

Healthcare and Financial Services sectors resented 57.7% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
GSA - Food and Drug Administration	48,443	10001 New Hampshire Avenue	Renewal	Montgomery County	Government
Otsuka America Pharmaceutical	34,540	2440 Research Boulevard	Renewal	Montgomery County	Pharmaceuticals
M&T Bank	30,531	77 Upper Rock Circle	New Location	Montgomery County	Financial Services
Noyes Air Conditioning, Inc	26,704	15800-15810 Gaither Drive	New Location	Montgomery County	Professional Services
Victor O. Schinnerer & Company, Inc	22,750	7700 Wisconsin Avenue	Relocation	Montgomery County	Financial Services
Colony Group	20,000	7475 Wisconsin Avenue	Expansion	Montgomery County	Financial Services
Capital Digestive Care	19,595	10770 Columbia Pike	New Location	Montgomery County	Healthcare
Nutricia	19,000	77 Upper Rock Circle	New Location	Montgomery County	Healthcare
RSM US LLP	16,585	9801 Washingtonian Boulevard	New Location	Montgomery County	Professional Services
Cherry Bekaert LLP	15,419	6116 Executive Boulevard	New Location	Montgomery County	Professional Services

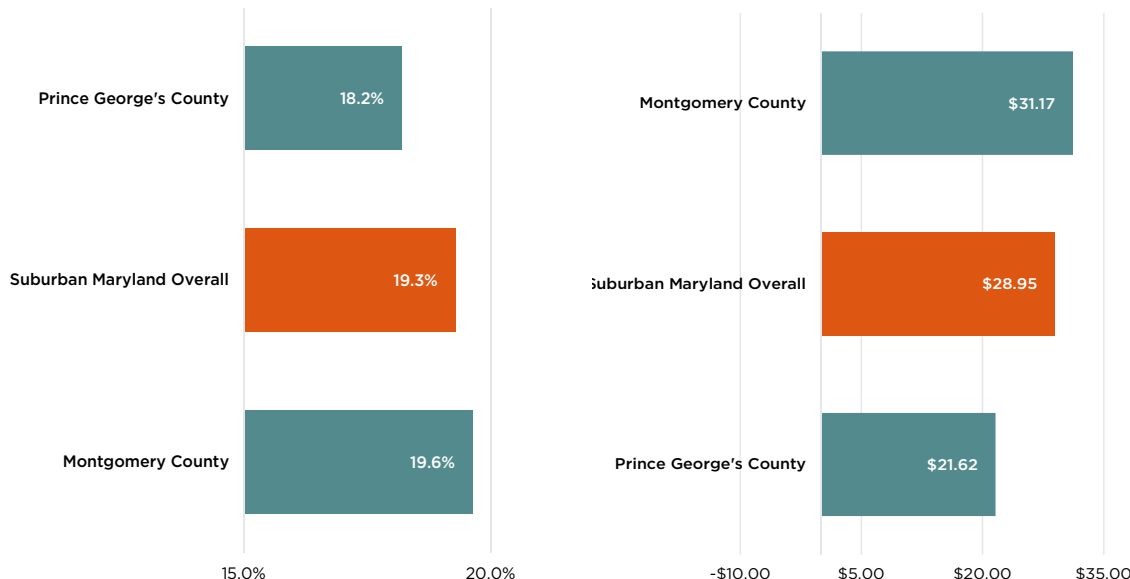
Source Savills Research

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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