



RESEARCH 3Q 2021



Suburban Maryland Office Market

Demand Softens, but Modest Construction Pipeline Will Aid Market's Rebound

Demand for office space in Suburban Maryland remained soft during third-quarter 2021. Net absorption totaled -223,617 square feet. Leasing activity, while greater than much of the last year, remains relatively quiet, exacerbated by concern over the variants. The overall vacancy rate was 16.2% at the end of the third quarter, an increase of 20 basis points from the previous quarter and an increase of 130 basis points from a year ago. Vacancy will likely continue to increase in the latter part of 2021, as 380,000 square feet is scheduled to deliver in the fourth quarter with 0.0% preleased. The average asking rental rate ended the third quarter at \$29.64/SF, an increase of 2.7% from \$28.85/SF in the third quarter of 2020. Despite occupancy losses over the last year, rental rates continue to steadily increase; this is partially a result of obsolete buildings getting renovated, as tenants demand higher-quality space.

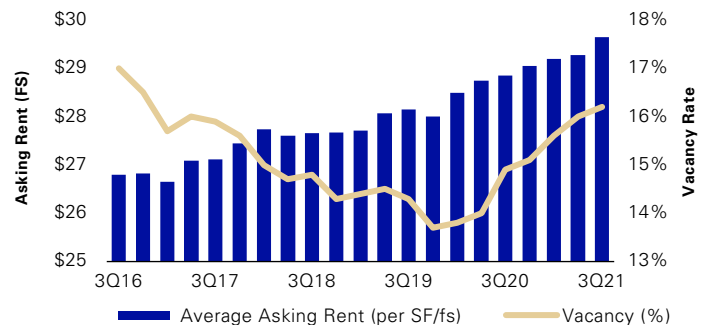
Currently, 1.3 million square feet of office space is under construction, excluding renovations and owner-occupied buildings. The pipeline is approximately 63.4% preleased; there were no office deliveries in the third quarter of 2021. The most notable projects under construction will deliver in the fourth quarter of 2021 and the third quarter of 2022, respectively. The first, Avocet Tower at 7373 Wisconsin Avenue, holds 380,000 square feet of office space and 0.0% preleased. The first through sixth floors of the building will be a Marriott Autograph Collection hotel, with office space above. The second notable project is Marriott's new headquarters at 7750 Wisconsin Avenue. Marriott has fully preleased the 726,000-square-foot building, although the pandemic caused them to notably alter their future space use plans. A large amount of space had been devoted to individual workstations, but Marriott leadership changed course and have prioritized a layout with more communal spaces. Flexible work schedules have lowered the expectation of employees being in the office five days a week, therefore limiting the need for a lot of individual workstations. Amidst the evolution of the variants, Marriott and other tenants are evolving their corporate footprint and their employees' schedules to maximize office space value, while providing the flexibility top talent is demanding.

Current Conditions

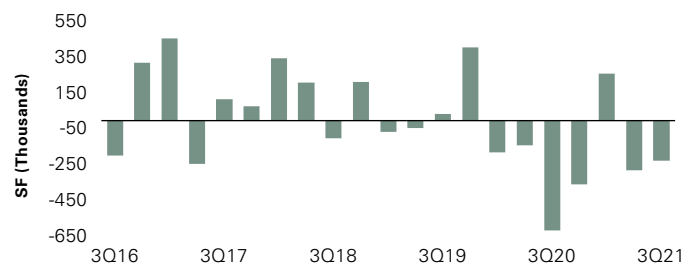
- Suburban Maryland registered -223,617 square feet of absorption during the third quarter.
- The vacancy rate is up 20 basis points from last quarter and up 130 basis points from one year ago, to 16.2%. Demand is likely to remain modest during the rest of 2021 before accelerating in 2022, largely dependent on variant spread.
- Over 1.3 million square feet is under construction; groundbreakings are limited given the easing demand for office space and cost of resources.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	75.1 M	75.0 M	74.7 M	↑
Vacancy Rate	16.2%	16.0%	14.9%	↑
Quarterly Net Absorption (SF)	-223,617	-279,262	-612,407	↓
Average Asking Rent/SF	\$29.64	\$29.28	\$28.85	↑
Under Construction (SF)	1.3 M	1.3 M	2.1 M	↓
Deliveries (SF)	0	0	351,095	↑

NEWMARK

Class A Demand Negative but Gradually Rebounding

Demand in Suburban Maryland's Class A office market was negative during the third quarter of 2021, registering -108,636 square feet of net absorption. Class A vacancy, which was 16.5% at the end of the third quarter, increased 100 basis points over the past year. Class A asking rents averaged \$32.00/SF, up 4.2% from \$30.72/SF one year ago. Suburban Maryland's construction pipeline is 1.3 million square feet, which will expand the supply of Class A inventory. Demand should follow suit, albeit maybe slowly, depending on the mitigation of the variants. Still, some tenant requirements will shrink compared with pre-pandemic needs as office design evolves.

Maryland Biotech Industry is Boosted by Domestic Support and Post-Pandemic Promise

Suburban Maryland's status as a major hub for biotech has amplified over the past year. Companies are now working on COVID-19 boosters, as well as moving beyond the pandemic and returning to other research and development projects. Domestic investment in Maryland biotech is increasing steadily. This trend has been led by The Shady Grove Bio+Tech Campus, bought by Boston Properties, and planned to be converted into Class A lab space. It will contain 7 buildings totaling 435,000 square feet on 35 acres of land. This increases Boston Properties' biotech holdings to over 4 million square feet, and this growth echoes a newer trend, characterized by more office-to-lab conversions. As the real estate market gradually tightens, the demand for obsolete office space to be converted may grow.

Further growth of private and public support of the Maryland biotech industry is bolstered by the expansion of the Biotechnology Investment Incentive Tax Credit (BIITC). This program offers certain investors with a refundable State income tax credit for support of a Qualified Maryland Biotechnology Company (QMBC); the development further encourages domestic and foreign investment into maintaining and expanding Maryland's strength in this industry. The application process for this program has been expanded and finalized in the third quarter.

This domestic interest reflects the continued and growing strength of Suburban Maryland's biotech sector, a high-wage industry that will require both lab and traditional office space.

Suburban Maryland Outlook

Soft office fundamentals in Suburban Maryland are likely to slowly tighten over the next two years; leasing activity remains limited for now as tenants still manage the dynamic nature of the pandemic and its variants. Leasing activity should continue slowly accelerating in the fourth quarter and into early 2022, as tenants re-board and consider office needs for the next year. Many office tenants are focusing on communal workspace as opposed to smaller individual offices, which reflects a common change in work preferences; many people prefer a hybrid work schedule in which traditional offices are utilized more frequently for meetings and collaborative work.

Suburban Maryland's construction pipeline is higher than last quarter, measuring 1.7% of inventory. Future new deliveries will be concentrated in Bethesda, with a 56.6% pre-lease rate overall. Newmark Research projects that Suburban Maryland's overall vacancy rate will increase to 17.5% by the end of the third quarter of 2023, a consequence of the long-term workplace changes caused by COVID-19.

As the prioritization of COVID-related research and funding decreases, cancer and cell, diabetes, and Alzheimer's research will again become more prominent. Maryland is a significant player in these fields, as domestic and international companies value its proximity to the NIH and other government organizations. This will be reinforced by President Biden's proposition of ARPA-H, an organization to be unveiled in 2022, under the umbrella of the NIH, which will be wholly devoted to researching those diseases. President Biden is a major proponent of drastically increasing and improving cancer and disease research. Before and during his presidency, Biden has pushed for more funding for, and attention to cancer and cell research. This should only continue to boost Maryland's life sciences and biotech activity, in a similar way to which the proximity to the Department of Defense and Pentagon has attracted defense contractors and cybersecurity companies to Northern Virginia throughout the 2000's.

For additional information on the Washington metropolitan area economy and office market outlook, please visit the [Mid-Atlantic Market Reports](https://www.newmark.com/mid-atlantic-market-reports) page at nmrk.com.

Notable 3Q 2021 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Perspecta (Peraton)	8401 Colesville Road	Silver Spring	Direct Lease	18,806
Business Center, LLC	6400 Goldsboro Road	Bethesda	Lease Renewal	15,700
Truebill	8455 Colesville Road	Silver Spring	Lease Expansion	13,352
Axelson, Williamowsky, Bender & Fishman	1401 Rockville Pike	Rockville	Direct Lease	9,023
Hendall	1803 Research Boulevard	Rockville	Lease Renewal	7,601

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
1700 Rockville Pike	Rockville	\$32,800,000	\$201	163,000
Bowie Corporate Center	Bowie	\$24,800,000	\$190	130,650

Submarket Statistics—All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	3Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Suburban Maryland	75,136,227	15.2%	16.2%	680,170	345,945	-1,281,027	-223,617	-239,522
Beltsville	1,457,852	27.8%	28.2%	77,319	-1,062	-19,452	5,031	4,147
Bethesda	11,277,394	16.0%	18.5%	-152,116	187,647	-459,758	68,916	39,971
Bowie	1,229,062	16.7%	16.7%	45,968	4,239	-30,591	-11,843	-18,431
College Park	3,729,450	11.2%	11.2%	66,443	197,669	-152,144	3,158	30,844
Gaithersburg	3,526,178	9.7%	10.0%	30,598	-226	-83,535	11,146	-11,509
Germantown	2,232,399	22.4%	23.3%	-68,967	-42,624	-28,895	-51,844	-64,356
Greenbelt	2,869,682	22.4%	22.8%	43,056	130,707	-49,391	-9,797	-12,807
Landover/Lanham/Largo	4,597,337	14.1%	14.3%	166,268	5,221	21,612	7,840	-7,237
Laurel	1,842,894	22.0%	22.5%	26,511	-95,067	-15,004	24,660	-57,359
North Rockville	11,693,189	15.6%	16.8%	243,161	296,245	-381,707	-9,417	-170,258
North Bethesda	9,679,622	14.4%	15.8%	221,345	131,710	22,231	-115,820	-210,946
Rockville	8,334,684	14.4%	15.3%	-113,513	94,590	-78,405	-114,034	-307,107
Silver Spring	9,756,065	13.9%	14.7%	128,883	-639,090	-1,496	-30,987	-47,406
Southern Prince George's	2,910,419	8.8%	8.9%	-34,786	75,986	-24,492	-626	592,932

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	3Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Suburban Maryland	75,136,227	15.2%	16.2%	680,170	345,945	-1,281,027	-223,617	-239,522
Class A	41,858,847	15.1%	16.5%	533,517	342,676	-827,373	-108,636	280,084
Class B	23,090,396	16.0%	16.8%	171,921	115,306	-268,737	-91,199	-416,443
Class C	10,186,984	13.8%	13.9%	-25,268	-112,037	-184,917	-23,782	-103,163

Submarket Statistics—All Classes

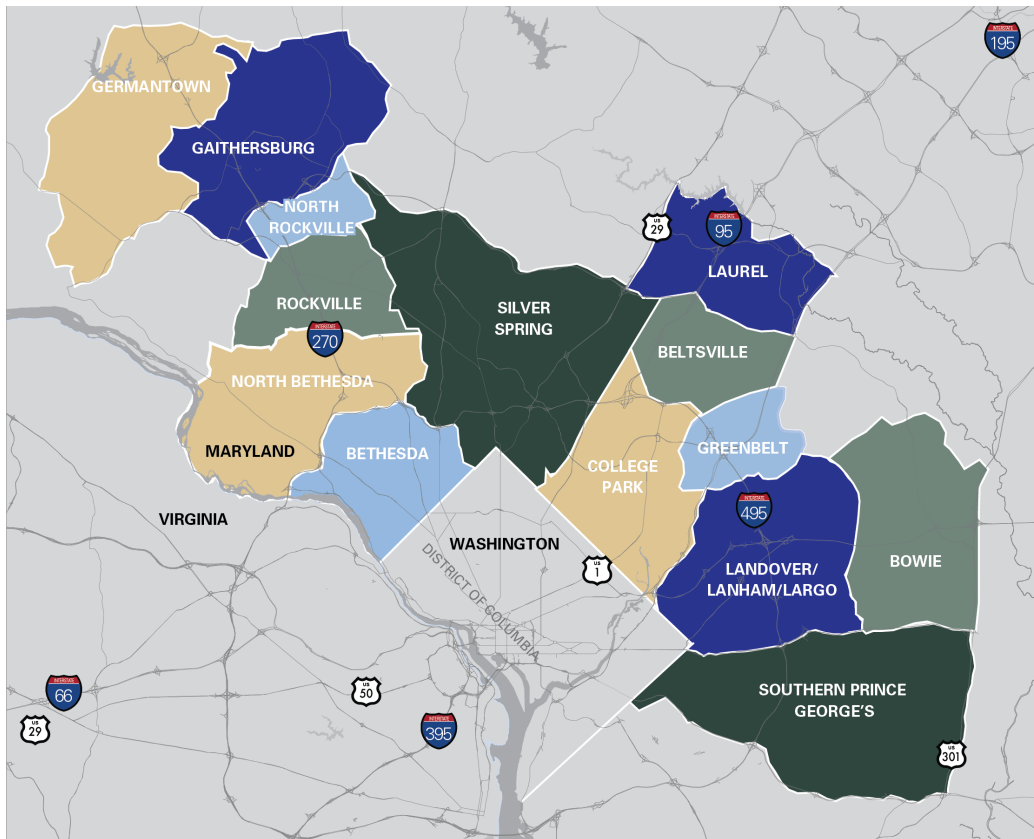
	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	3Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Suburban Maryland	75,136,227	\$32.00	\$27.51	\$29.64	0	932,767	1,305,860
Beltsville	1,457,852	\$22.65	\$17.50	\$22.41	0	0	0
Bethesda	11,277,394	\$46.89	\$38.70	\$42.07	0	358,000	1,108,664
Bowie	1,229,062	\$25.96	\$16.66	\$25.16	0	0	0
College Park	3,729,450	\$27.77	\$24.00	\$25.20	0	0	0
Gaithersburg	3,526,178	\$30.68	\$16.84	\$27.95	0	0	0
Germantown	2,232,399	\$26.84	\$23.14	\$24.83	0	0	0
Greenbelt	2,869,682	\$23.38	\$22.08	\$22.70	0	0	0
Landover/Lanham/Largo	4,597,337	\$21.91	\$21.64	\$21.65	0	0	100,000
Laurel	1,842,894	\$22.50	\$20.74	\$21.06	0	0	0
North Rockville	11,693,189	\$29.39	\$23.47	\$27.42	0	0	97,196
North Bethesda	9,679,622	\$29.68	\$28.46	\$28.85	0	0	0
Rockville	8,334,684	\$33.31	\$28.17	\$31.24	0	0	0
Silver Spring	9,756,065	\$32.06	\$25.99	\$27.98	0	0	0
Southern Prince George's	2,910,419	\$31.40	\$16.25	\$22.43	0	574,767	0

Market Statistics By Class

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	3Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Suburban Maryland	75,136,227	\$32.00	\$27.51	\$29.64	0	932,767	1,305,860
Class A	41,858,847	\$32.00	NA	\$32.00	0	932,767	1,305,860
Class B	23,090,396	NA	\$27.51	\$27.51	0	0	0
Class C	10,186,984	NA	NA	\$24.89	0	0	0

Note: Asking rents are quoted on a full service basis.

Suburban Maryland Office Submarkets



Methodology

Market statistics are calculated from a base building inventory of office properties 20,000 SF and larger that are deemed to be competitive in the Washington Metro Area office market. Properties that are more than 75% owner-occupied and federally owned buildings are generally excluded from inventory.

Glossary

Asking Rental Rate: The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year. Average asking rents are calculated on a weighted average basis, weighted by the amount of available space. Asking rents are quoted on a full service basis, meaning all costs of operation are paid by the landlord up to a base year or expense stop.

Class A: The most prestigious buildings competing for premier office users with rents above average for the area. Class A buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B: Buildings competing for a wide range of users with rents in the average range for the area. Class B building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

Class C: Buildings competing for tenants requiring functional space at rents below the area average.

Deliveries: Projects that have completed construction and received a certificate of occupancy.

Net Absorption: The net change in physically occupied space from one quarter to the next. **Year-to-Date (YTD) Net Absorption** is the net change in physically occupied space from the start of the calendar year to the current quarter. Net absorption is counted upon physical occupancy, not upon execution of a lease.

Sublease: Sublease space is offered and marketed as available by the current tenant, rather than directly from the owner.

Under Construction: Properties undergoing ground-up construction in which work has begun on the foundation. Properties that have only undergone grading or other site work are not included as under construction.

Under Renovation: Properties undergoing significant renovations that require all tenants to be out of the building. These properties are removed from inventory during the renovation period and delivered back to inventory upon completion of the renovations. These properties are not included in under construction totals.

Vacancy Rate: The amount of space that is physically vacant, expressed as a percentage of inventory. (Space that is being marketed as available for lease but is largely occupied is not included in the vacancy rate.) The **Overall Vacancy Rate** includes all physically vacant space, both direct and sublease, while the **Direct Vacancy Rate** includes only direct space.

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