

FIGURES | SUBURBAN MARYLAND OFFICE | Q4 2022

Suburban Maryland Posts Quiet Quarter to End 2022

▲ 19.4%
Vacancy Rate

▼ (257,212)
SF Net Absorption

▶ 376,000
SF Under Construction

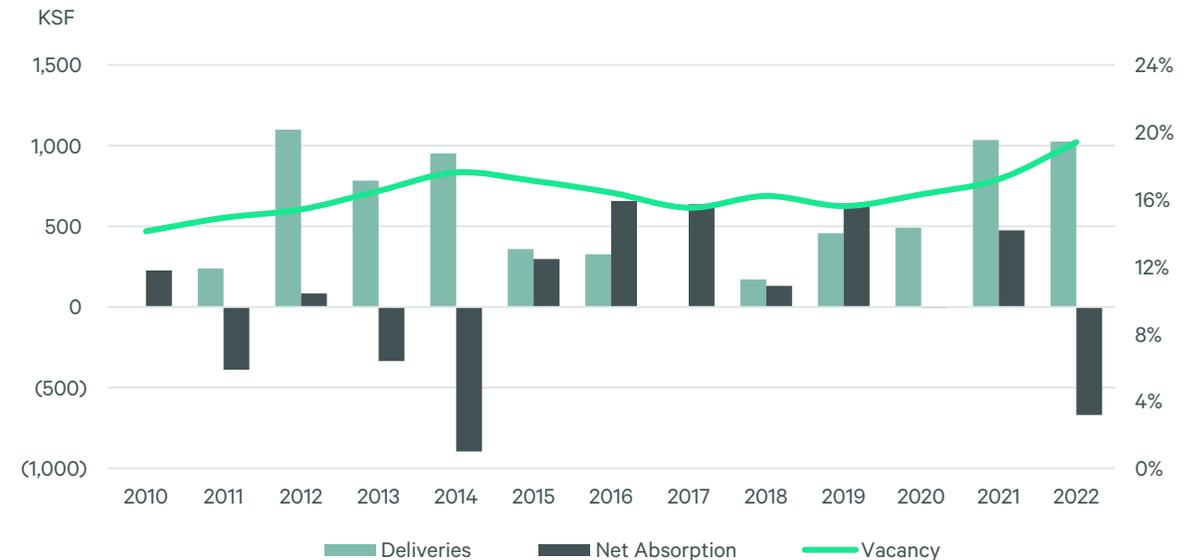
▲ \$31.31
Average Gross Asking Rate

Note: Arrows indicate change from previous quarter.

The Suburban Maryland office market recorded 257,000 sq. ft. of occupancy loss during the fourth quarter, bringing the year-end totals to 670,000 sq. ft. of negative absorption. This marks the first year since 2014 that the market recorded negative net absorption. Consequently, vacancy increased 50 basis points (bps) to 19.4%, a record high for the market and a 380-bps increase from pre-pandemic levels.

The main driver of occupancy loss during the third quarter was tenants vacating space across various office buildings that will eventually be converted to life science lab space. An additional 155,000 sq. ft. of sublease space also had a significant impact on Q3 market fundamentals. On the year, the biggest cause for occupancy loss came from Marriott’s move to 7750 Wisconsin Avenue. The new trophy asset delivered during the third quarter, bringing 734,000 sq. ft. of fully leased office space to the Bethesda/Chevy Chase submarket. Marriott—which has been located in Montgomery County for more than 60 years—signed a prelease for the entire building in 2017 to serve as its new headquarters. This change in address resulted in a 775,000-sq.-ft., full-building vacancy at 10400 Fernwood Road in the North Bethesda submarket. The Fernwood Road property was purchased by Erickson Senior Living in 2018 with plans to convert the property into senior housing, which will help balance market fundamentals upon construction commencement. If Marriott’s old headquarters were removed from the North Bethesda inventory, vacancy in the submarket would stabilize at 22.7% this quarter.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Tenants across Suburban Maryland signed leases totaling 320,000 sq. ft. during Q4, down 41% from the prior quarter. Although gross leasing was low, eight of the top ten leases of the quarter represented growth or had a flat effect on the market. Overall activity remains down 37% from the pre-pandemic quarterly average of 863,000 sq. ft. In total, the market recorded 2.41 million sq. ft. of leasing activity in 2022, up 100,000 sq. ft. from 2021.

Business Services

The biggest lease of the quarter came from Sodexo, as the food service provider will be taking 56,000 sq. ft. of trophy office space at 915 Meeting Street when the building delivers by the end of 2023. When Sodexo makes their move, they will leave behind 116,000 sq. ft. at 9801 Washingtonian Blvd in Gaithersburg. JBS International signed a 25,168 sq. ft. lease at 11200 Rockville Pike during the quarter and will reduce its office footprint in the relocation. The public health consulting firm currently occupies 45,000 sq. ft. at 5515 Security Lane.

Education

The second largest lease of the quarter belonged to Montgomery College. The community college signed a 15-year full-building lease at 2221 Broadburch Drive, filling the last of several properties that DSC Partners purchased from PS Business Parks. The lease at the former medical office building ends a long search for a desired campus for the college in the eastern portion of the county.

Return to Office

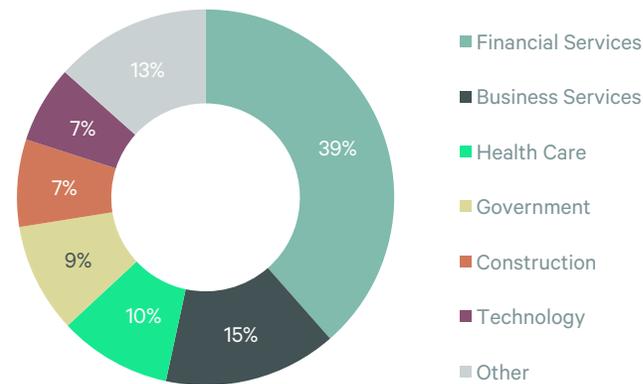
According to Kastle’s key swipe data, Suburban Maryland ended the year with a 41% return to office occupancy in comparison to pre-pandemic levels. This mark remains consistent with the Northern Virginia and Downtown D.C. office markets. As a whole, the DC metro is on par with the Chicago metro and performing better than California markets like San Jose and San Francisco but is being outpaced by Texas markets such as Houston and Dallas.

FIGURE 2: Select Notable Q4 2022 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF	Market Effect
Sodexo	Business Services	915 Meeting St	North Bethesda	New Lease	56,000	Contraction
Montgomery College	Education	2221 Broadburch Dr	N. Silver Spring/ Rt. 28	New Lease	55,665	Growth
JBS International	Business Services	11200 Rockville Pike	North Bethesda	New Lease	25,168	Contraction
Lediant Bio	Life Sciences	9841 Washingtonian Blvd	North Rockville	Renewal	21,696	Flat
Long & Foster	Business Services	4650 East-West Hwy	Bethesda/Chevy Chase	Renewal	19,975	Flat
Gilbert Employment Group	Business Services	8403 Colesville Rd	Silver Spring	New Lease	16,972	Growth
Optimal Beginnings	Healthcare	6010 Executive Blvd	North Bethesda	New Lease	13,011	Growth
RBC Capital Markets	Financial Services	111 Rockville Pike	Rockville	Renewal	11,963	Flat

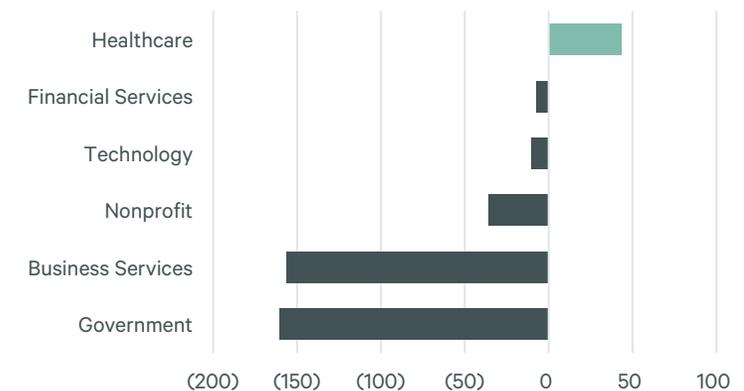
Source: CBRE

FIGURE 3: 2022 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: 2022 Net Demand by Sector (SF, 000's)



Source: CBRE

Pricing

Overall asking rates remained consistent with Q3 figures, up just \$0.02 to \$31.31 per sq. ft. per annum on a full-service basis. Year-over-year, asking rent is up 6.5%.

Concession packages for all asset classes in Montgomery County remain elevated as landlords compete for limited tenant demand. Tenant improvement allowances are high due to factors such as inflation, supply chain issues and construction costs, while abatements are approximating 1.25 to 1.5 months per year of term.

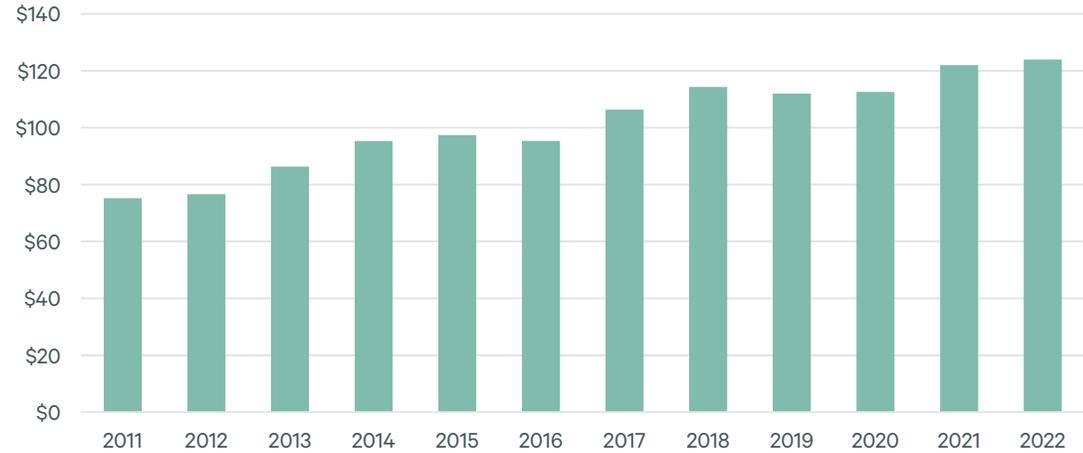
Development Activity

There were no new building deliveries during the quarter, however two buildings remain under construction:

- 9179 Central Avenue is scheduled to deliver in Capitol Heights by year-end and is fully preleased to several Prince George’s County government agencies including Veterans’ Affairs and Health & Human Services.
- The next building set to deliver in Montgomery County is 915 Meeting Street, the second office building at Federal Realty Income Trust’s Pike & Rose development. The building is scheduled to deliver 276,000 sq. ft. of office space in North Bethesda in January 2024 and is currently 65% preleased to Choice Hotels and Sodexo.

In addition to the new Marriott headquarters, 2022 also saw the delivery of Avocet Tower—7373 Wisconsin Avenue. When the 369,000 sq. ft. of office building delivered in the Bethesda/Chevy Chase submarket, the only tenant with a lease in place was Long & Foster for 21,841 sq. ft. on the 17th floor. Over the course of the year, the building has added real estate investment trust firms AGNC and Global Medical REIT for a combined 35,551 sq. ft.

FIGURE 5: Montgomery County Total Concession Packages



* Normalized for 10-year term and including all building classes

Source: CBRE

FIGURE 6: Q4 Average Asking Rates by Class

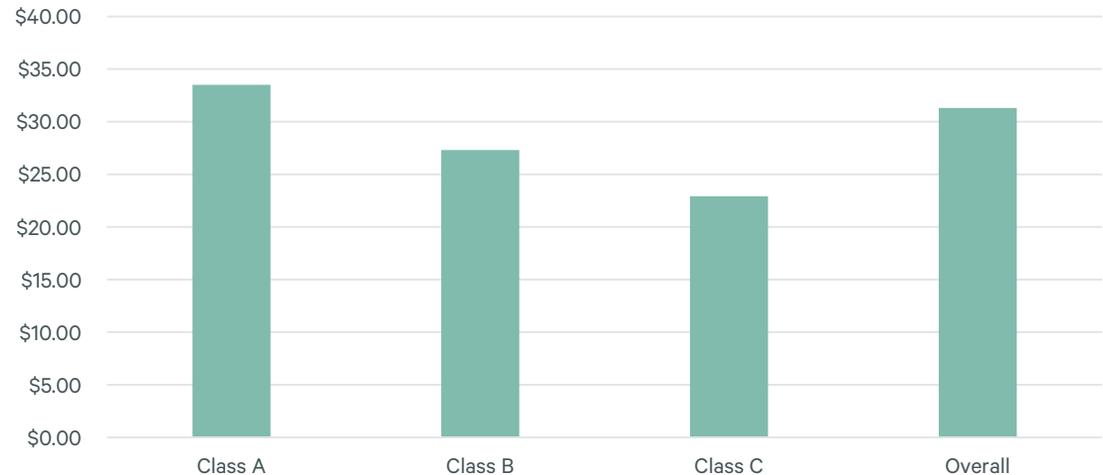


FIGURE 7: Key Market Statistics

	Number of Buildings	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2022 Net Absorption (SF)	YTD 2022 Net Absorption (SF)	Gross Asking Rent (\$/SF)	Under Construction (SF)
Montgomery County	587	59,419,276	20.5	(99,545)	(536,874)	34.16	276,000
Bethesda/Chevy Chase	100	12,562,690	22.5	21,589	557,512	45.07	-
Gaithersburg	45	4,465,265	8.4	10,042	(491)	21.80	-
Germantown	28	2,230,148	26.1	(1,909)	(54,764)	23.72	-
Kensington/Wheaton	33	1,076,718	15.9	(1,868)	(16,074)	26.66	-
North Bethesda	82	10,558,571	28.5	(2,449)	(839,037)	30.12	276,000
North Rockville	121	12,306,415	18.8	16,865	(65,320)	30.59	-
North Silver Spring/Route 29	38	2,808,380	8.0	(16,607)	(13,179)	25.90	-
Rockville	71	7,161,183	19.9	(95,101)	(82,110)	32.00	-
Silver Spring	69	6,249,906	19.9	(30,107)	(23,411)	30.90	-
Prince George's County	280	17,322,029	17.1	(155,285)	(151,395)	22.50	100,000
Frederick County	69	3,443,499	11.1	(2,382)	18,257	22.19	-
Overall	936	80,184,804	19.4	(257,212)	(670,012)	31.31	376,000

Source: CBRE



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