



AVISON  
YOUNG

# Suburban Maryland Office Insight Report

Q3 2021

**AVANT**  
by AVISON YOUNG



# 01.

## Economic and demographic trends

Suburban Maryland has seen a more adverse impact due to pandemic-related decreases in local government activities, resulting in significant stagnation in office users.

# Key takeaways



## Economic conditions

- After rebounding from a pandemic high of 9.1 percent, Suburban Maryland's unemployment rate stands at **6.6 percent**, although well off historic lows.
- Most **other office-using sectors have seen employment recover** past their pre-pandemic level, suggesting that workers are able to effectively perform their jobs remotely, given the disparity between employment rates and office utilization.



## Recovery rate

- As measured by extrapolated mobility data, overall activity across the DC Metro region is **64.8 percent** of pre-COVID levels, while visitor traffic at office locations specifically is only **36.0 percent** of pre-COVID levels.
- Stagnant office recovery in the face of a relatively strong overall recovery suggests that **employers may need to mandate return-to-office** for any significant improvement in office occupancy levels to be realized.



## Office demand

- Year-to-date leasing activity is down **20.9 percent** compared with the same period in 2020. While the rate of decline appears to have slowed, the annual total remains on pace to be lower than in 2020.
- Renewals are still accounting for a higher share, **46.6 percent**, of post-COVID leasing activity, as many tenants are renewing short term and expressing higher interest for spec/move-in-ready office space.
- Recent net absorption has totaled **-0.6 percent** of the existing stock, which is on par with the figure recorded in the last recession.

# Key takeaways



## Office supply

- Total and direct vacancy have reached all-time highs, totaling **16.3 percent** and **15.2 percent**, respectively.
- Activity within the **biotech sector** clustered along Suburban Maryland's I-270 Corridor, remains elevated. With demand outpacing supply, more developers and landlords are turning their attention towards lab product types.
- While the amount of vacant sublease space has increased to **0.9 msf**, the highest level since 2010, it has not surpassed the figures posted in past recessions.



## Pricing trends

- The average direct base rent has edged up by **1.7 percent** in 2021, but the increase is being offset by high concession packages, as landlords compete for a shrinking pool of tenants.
- The overall average TI package has increased by **15.2 percent**, and average abatement has risen by **4.7 percent** since the end of 2019.



## Capital markets

- Suburban Maryland total office sales volume stands at **\$0.3B** year-to-date, lagging 2020's total volume.
- The transaction at 9737 Washingtonian Boulevard accounted for over 30 percent of the net total Q3 deal volume, and at **\$405 psf**, pulled up the average sale price for Suburban Maryland.



# Employment and unemployment rate

# 6.6%

## Suburban Maryland unemployment rate as of July 2021

After rapidly rising and then falling, unemployment has hovered between 6.6% and 7.2% for the past several months. The economy has regained roughly 75,000 jobs since September 2020.



Note: Not seasonally adjusted data.  
Source: Bureau of Labor Statistics

# Office-using job gains and losses

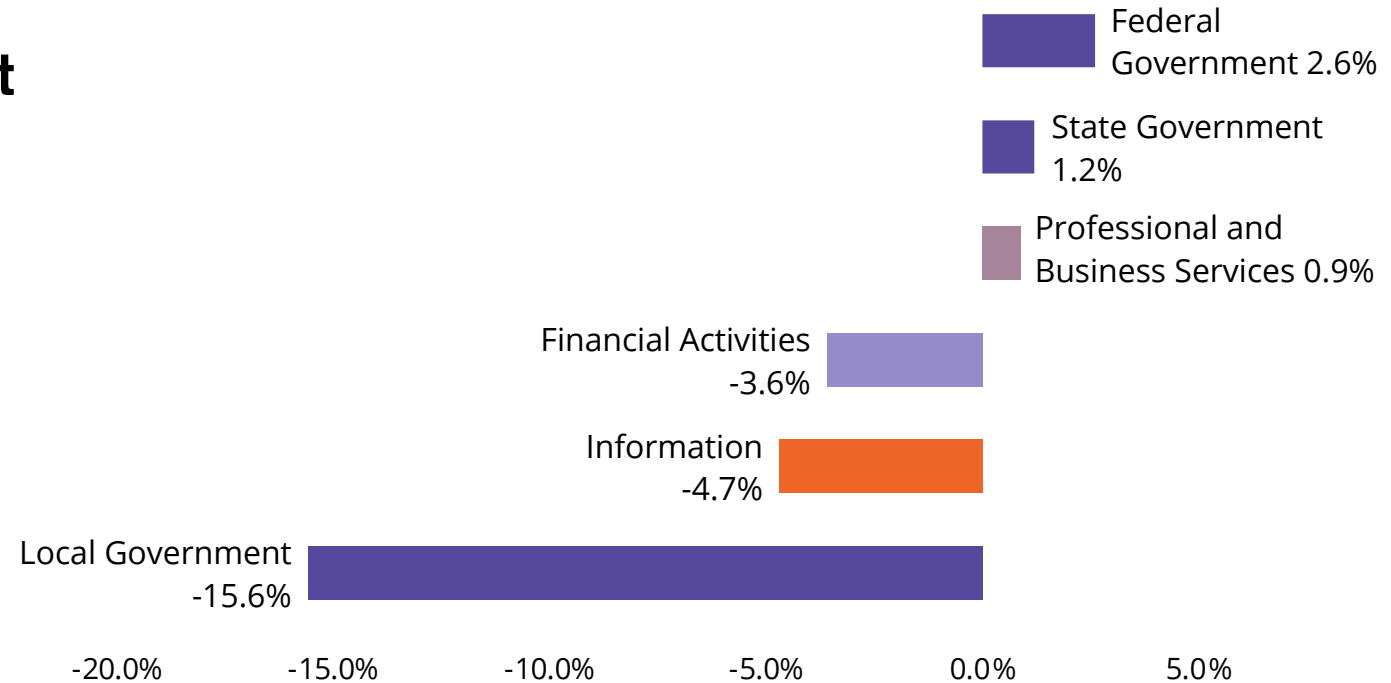
# -1.9%

## Change in office-using employment during the pandemic

DC Metro employment has declined by 4.2% since the start of the pandemic, though office-using jobs contracted by just 1.9%. The pandemic's impact on the office-using labor market has been less severe than the global financial crisis, when Financial Activities job losses totaled 5%.

## Total change in Washington, DC MSA job gains/(losses)

February 2020 to July 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics

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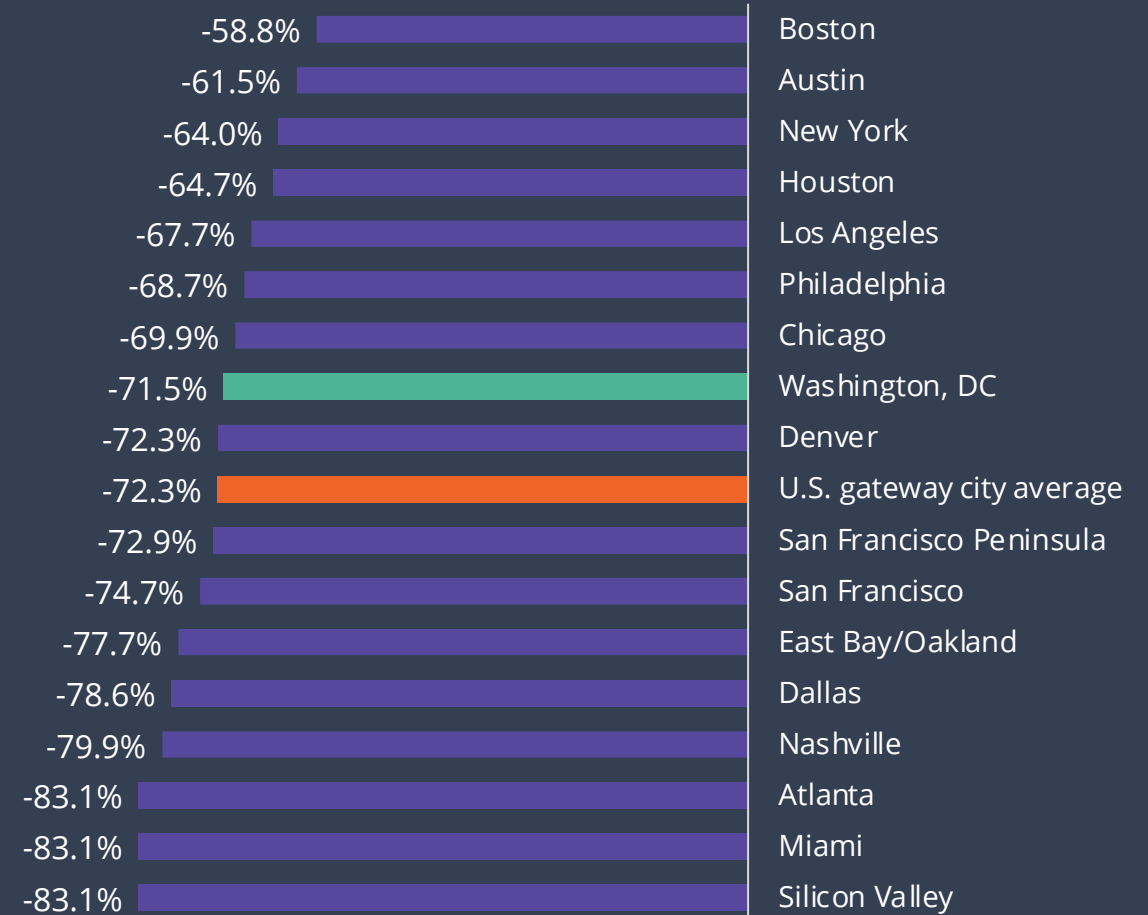
# U.S. return-to-work rates since start of COVID

# -72.3%

Average office visitor volumes across  
U.S. gateway cities, March 2, 2020 vs.  
September 20, 2021

Return-to-work efforts across cities have been influenced  
by governmental regulations (informed by infection and  
vaccination rates), office-using industry composition and  
employees' reliance on mass transit.

[VIEW VITALITY INDEX](#)



Note: Representative full-building office occupiers only.  
Weekdays only. Data as of September 20, 2021.  
Source: Orbital Insight, AVANT by Avison Young

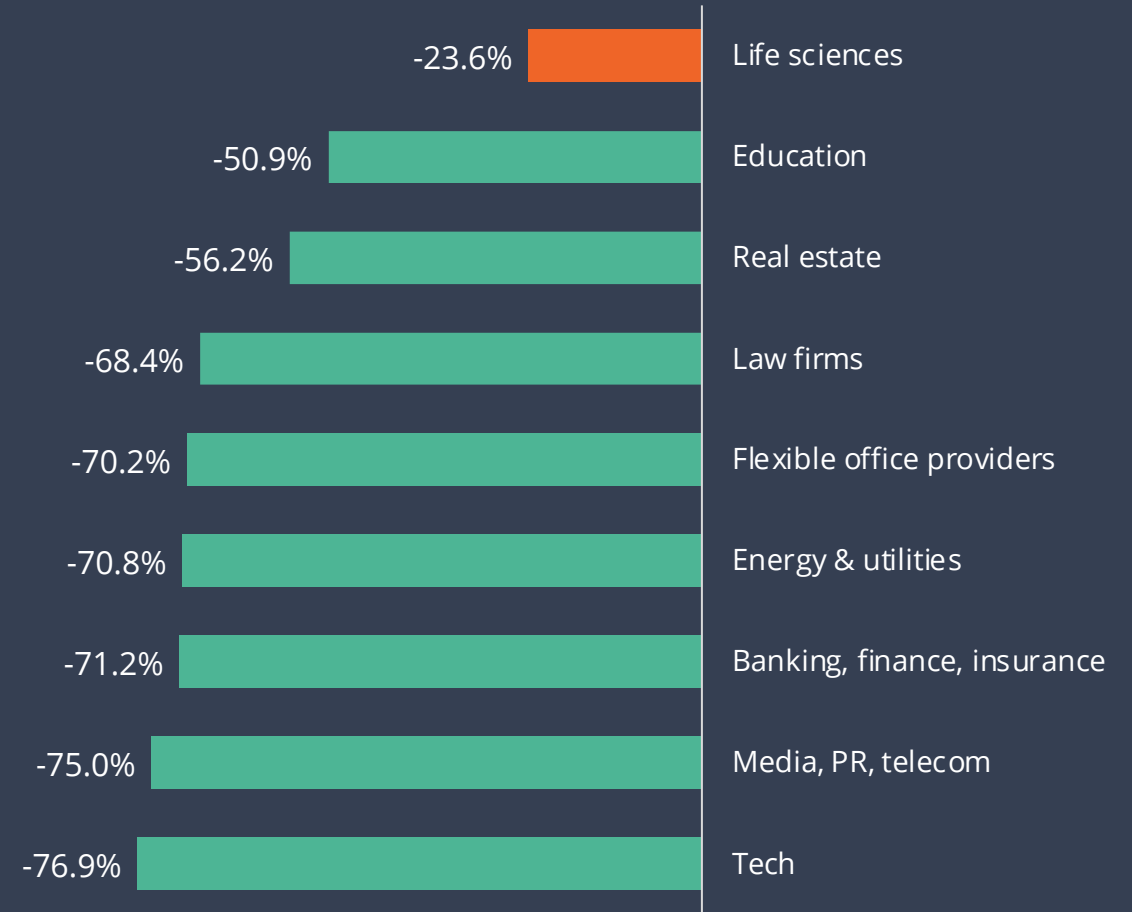
# U.S. return-to-work rates since start of COVID

# -23.6%

Average life sciences office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Life science companies have expedited their return to office strategies due to niche specialized space requirements needed for day-to-day tasks. This stands in stark contrast to other industries, such as technology, that have embraced flexible in-office and remote working options.

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Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

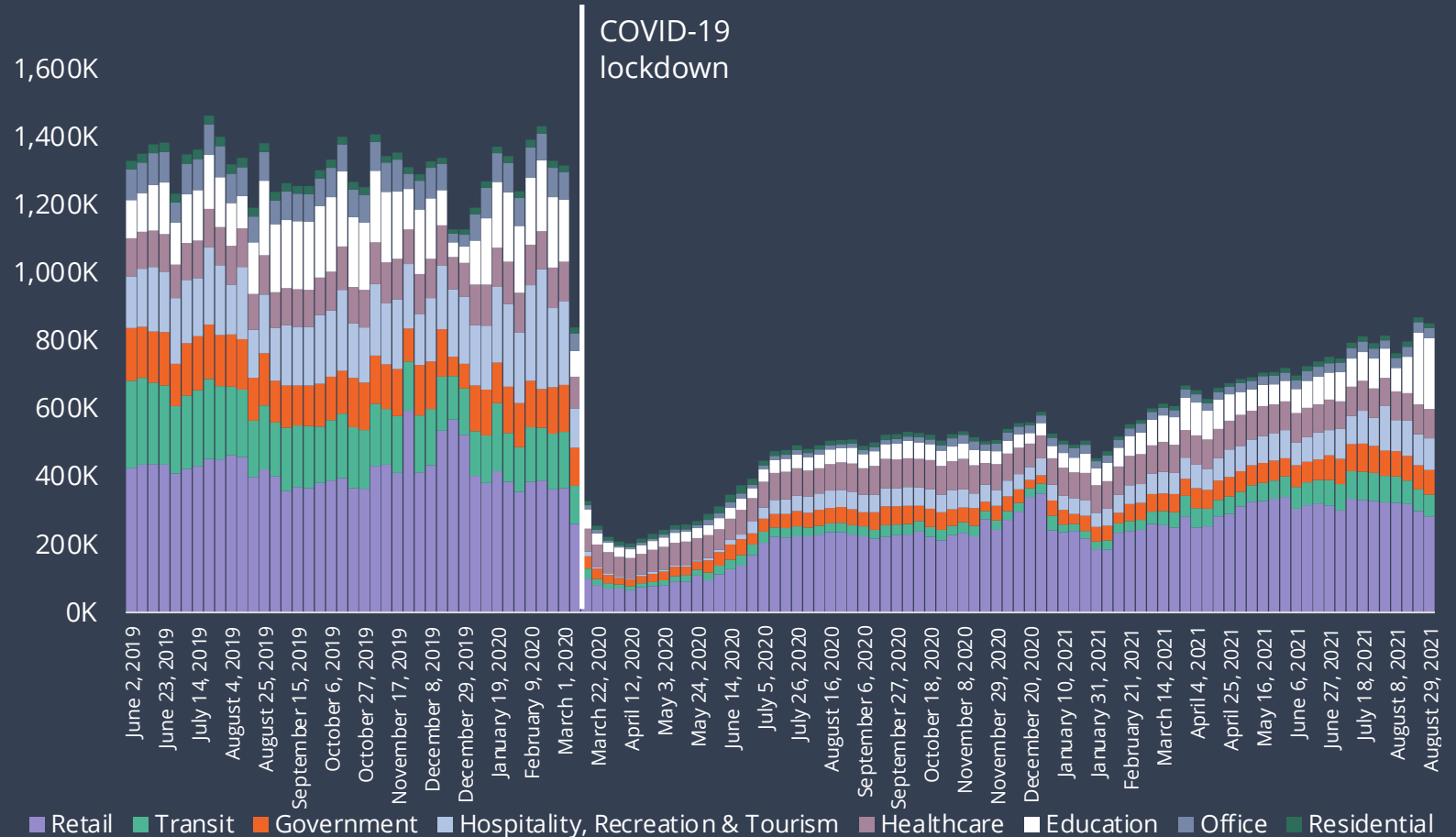


# Recovery index

# 64.8%

**Regional activity in past six weeks compared to the six weeks before lockdown**

Although the fall has created an uptick at schools (white area on the chart), regional activity in other sectors has started to decline.



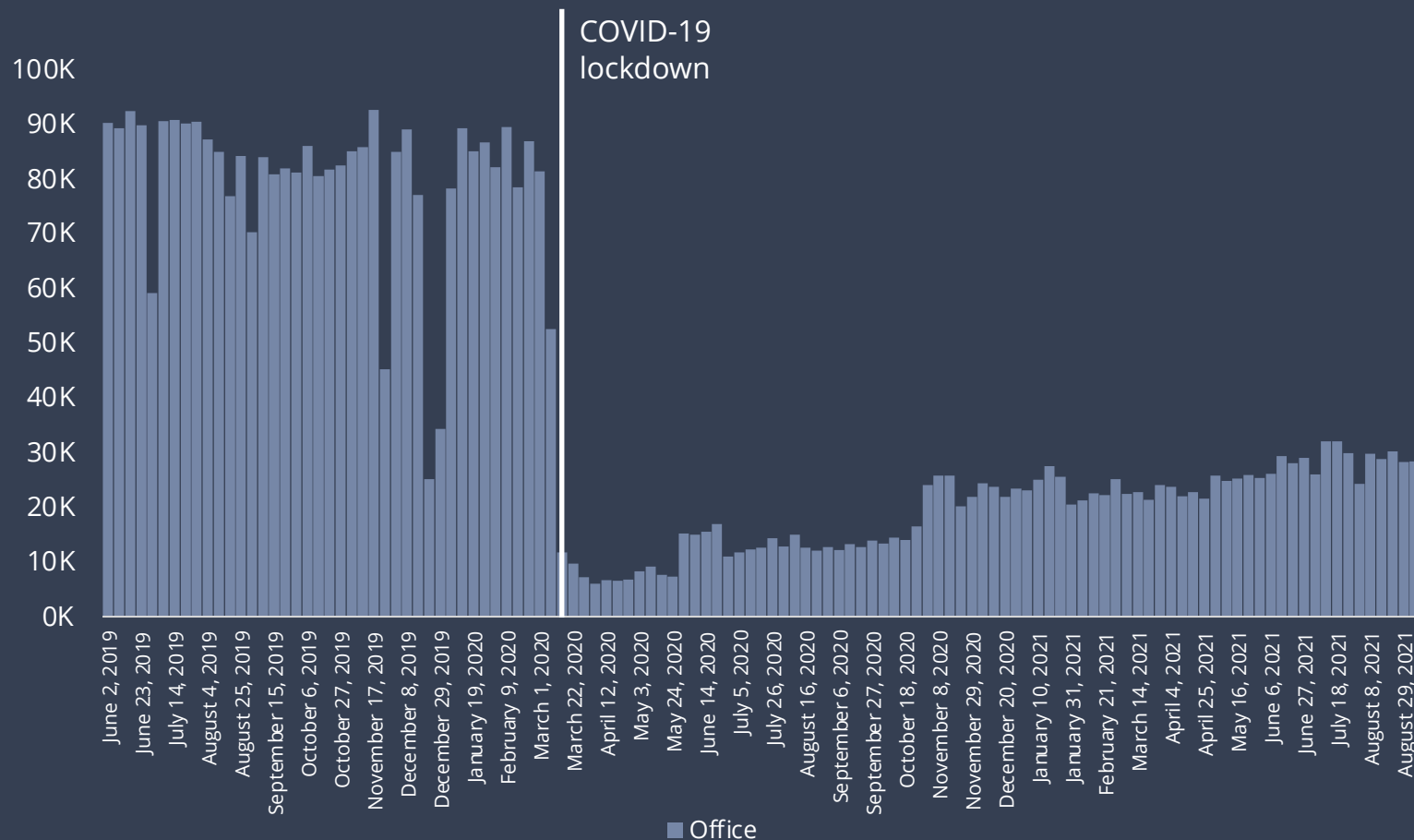
Note: Representative areas of interest. Weekdays only.  
Source: Orbital Insights, AVANT by Avison Young

# Recovery index

# 36.0%

**Regional office activity  
in past six weeks  
compared to the six  
weeks before lockdown**

Traffic to office buildings hasn't recovered nearly as much as the region overall and has once again begun to decline, likely a response to new strains of COVID-19.



Note: Representative areas of interest. Weekdays only.  
Source: Orbital Insights, AVANT by Avison Young



# Change in local activity levels, 2019 vs. 2021

**-80.0%**

Office

**-34.5%**

Retail

**-67.2%**

Transit

**-23.3%**

Healthcare

**-0.6%**

Education

**-40.4%**

Government

**-47.6%**

Residential

**-42.0%**

Hospitality & Tourism

Note: Select, representative areas of interest only. Weekdays only.  
Week of September 16, 2019 vs. week of September 20, 2021.  
Source: Orbital Insight, AVANT by Avison Young

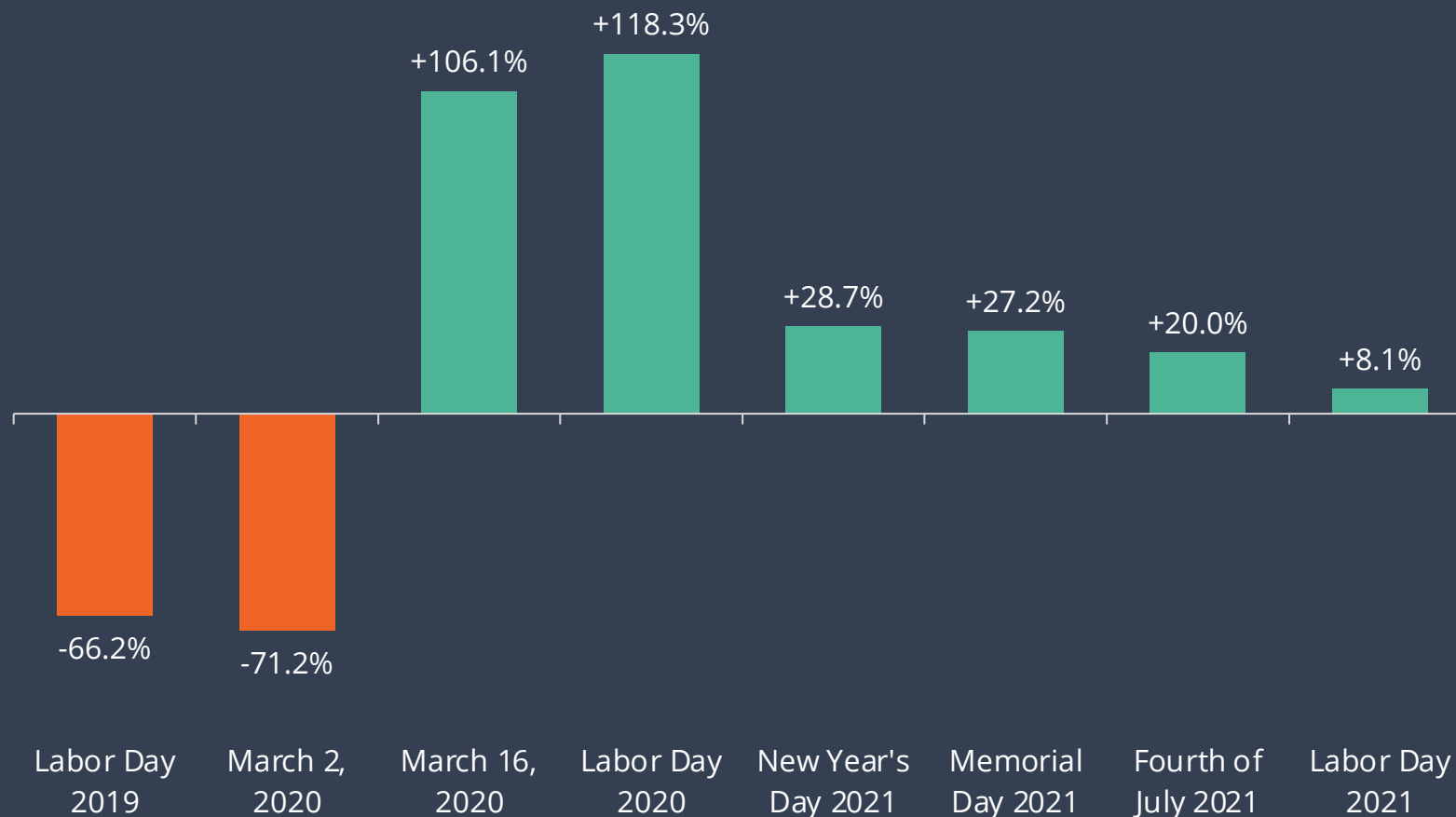
# Evolution of local return-to-work efforts

**+20.0%**

DC Metro office visitor volume since the Fourth of July 2021

While office activity remains dramatically below the levels of traffic seen before the pandemic, it has recovered substantially from the low point of the COVID-19 lockdowns.

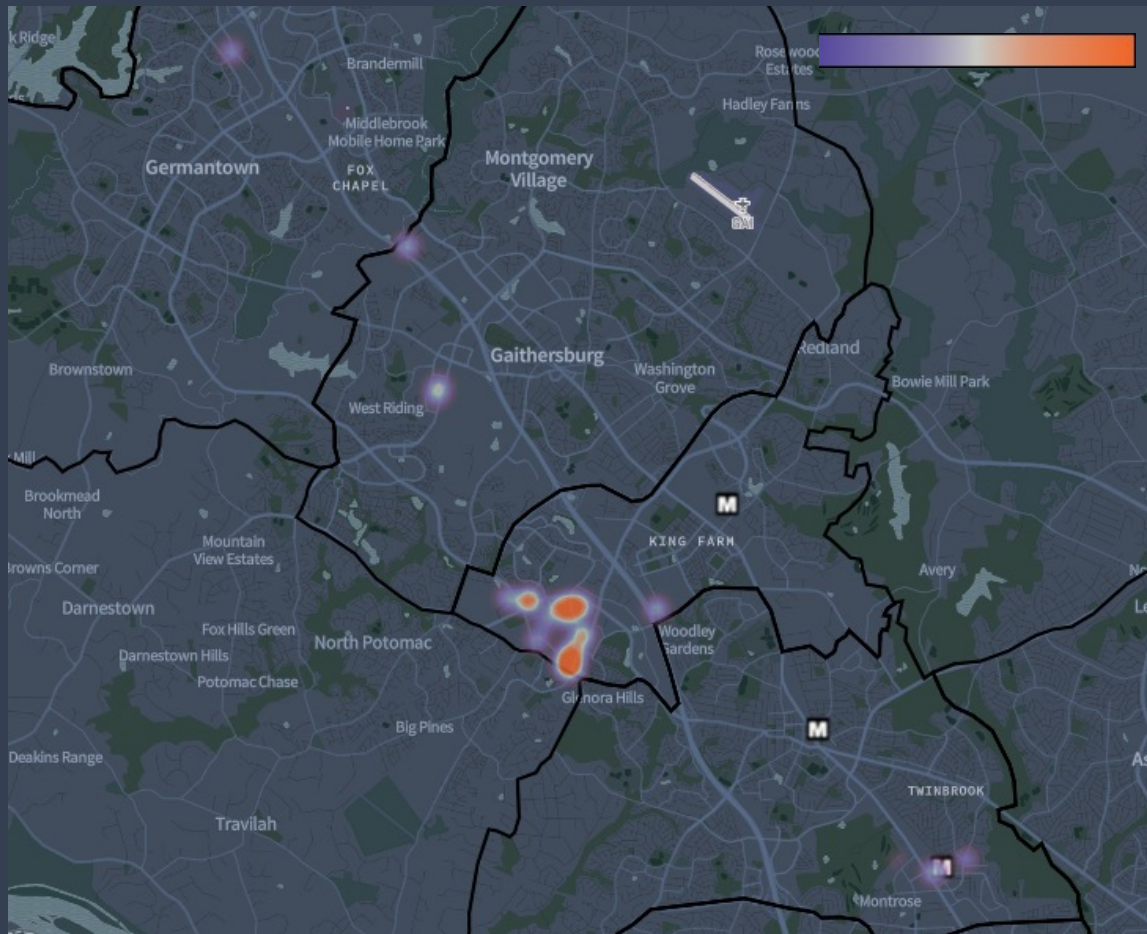
[VIEW VITALITY INDEX](#)



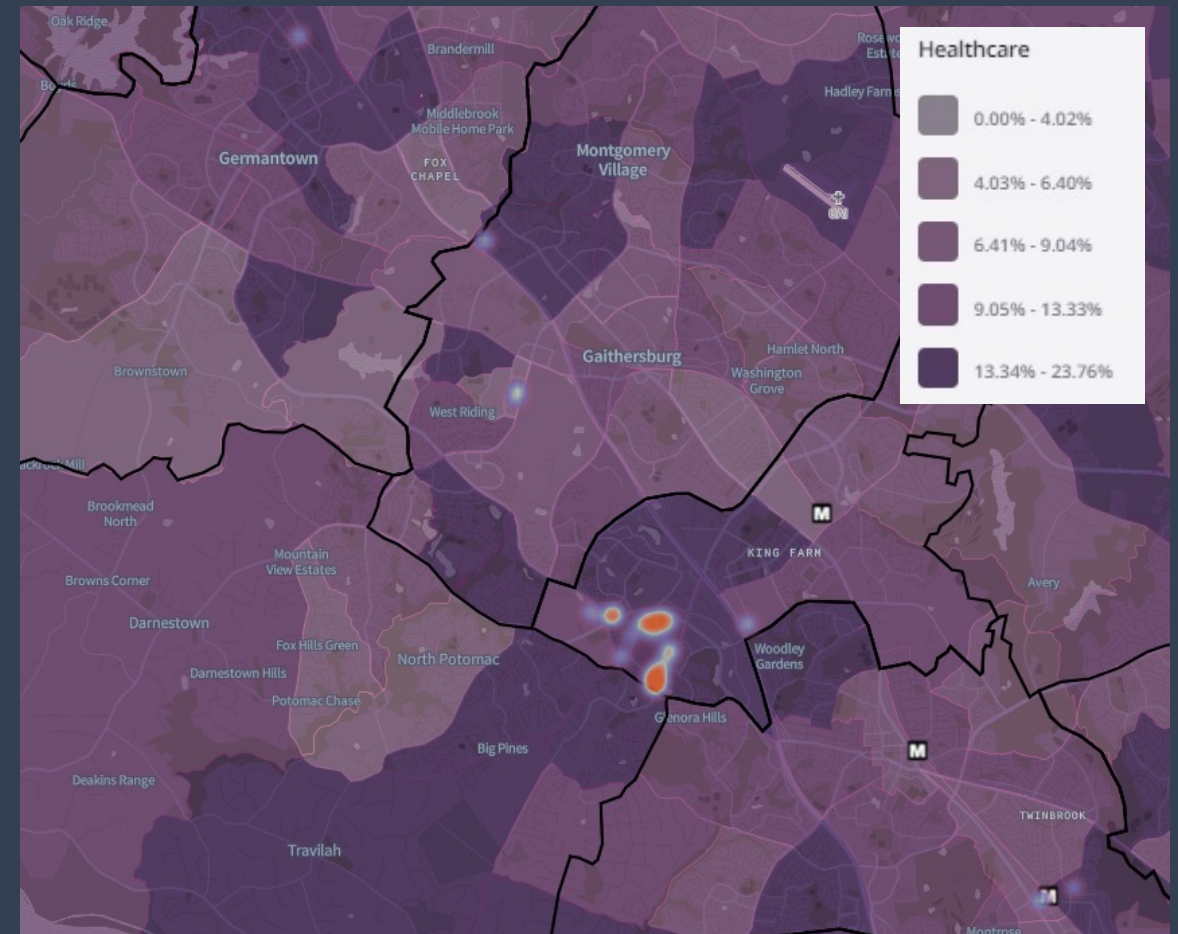
Note: Select, representative occupiers only. Weekdays only.  
Data as of September 20, 2021.  
Source: Orbital Insight, AVANT by Avison Young



# Life science properties and employment



Heat map density of office lab properties in suburban MD



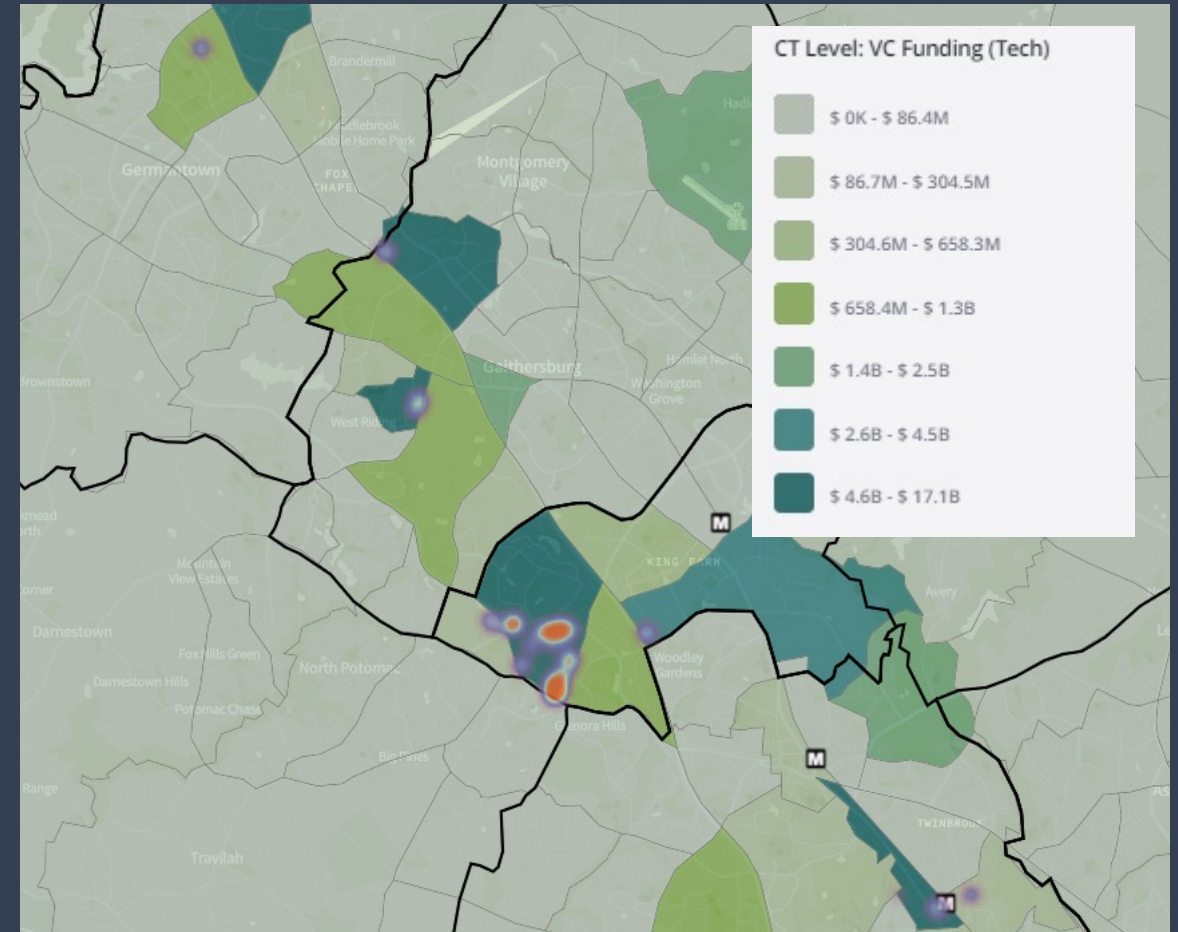
Location of health care jobs

Note: Side by side comparison of office lab properties  
vs. location of health care jobs.  
Source: AVANT by Avison Young

# Venture Capital Funding & Life Science Office Use

Venture capital funding has been directed towards submarkets clustered around technology companies taking advantage of the life sciences, which has not only been cushioning the market in terms of office use but supports a robust growth rate in areas with high healthcare employment opportunities.

There has been increased activity from real estate investors in these areas evaluating new and existing development projects.



Source: AVANT by Avison Young



# 02.

## Office occupier conditions

With demand temporarily paused, total absorption remains negative. Tenants are seeking shorter and more flexible lease terms with access to spec/move-in-ready space.

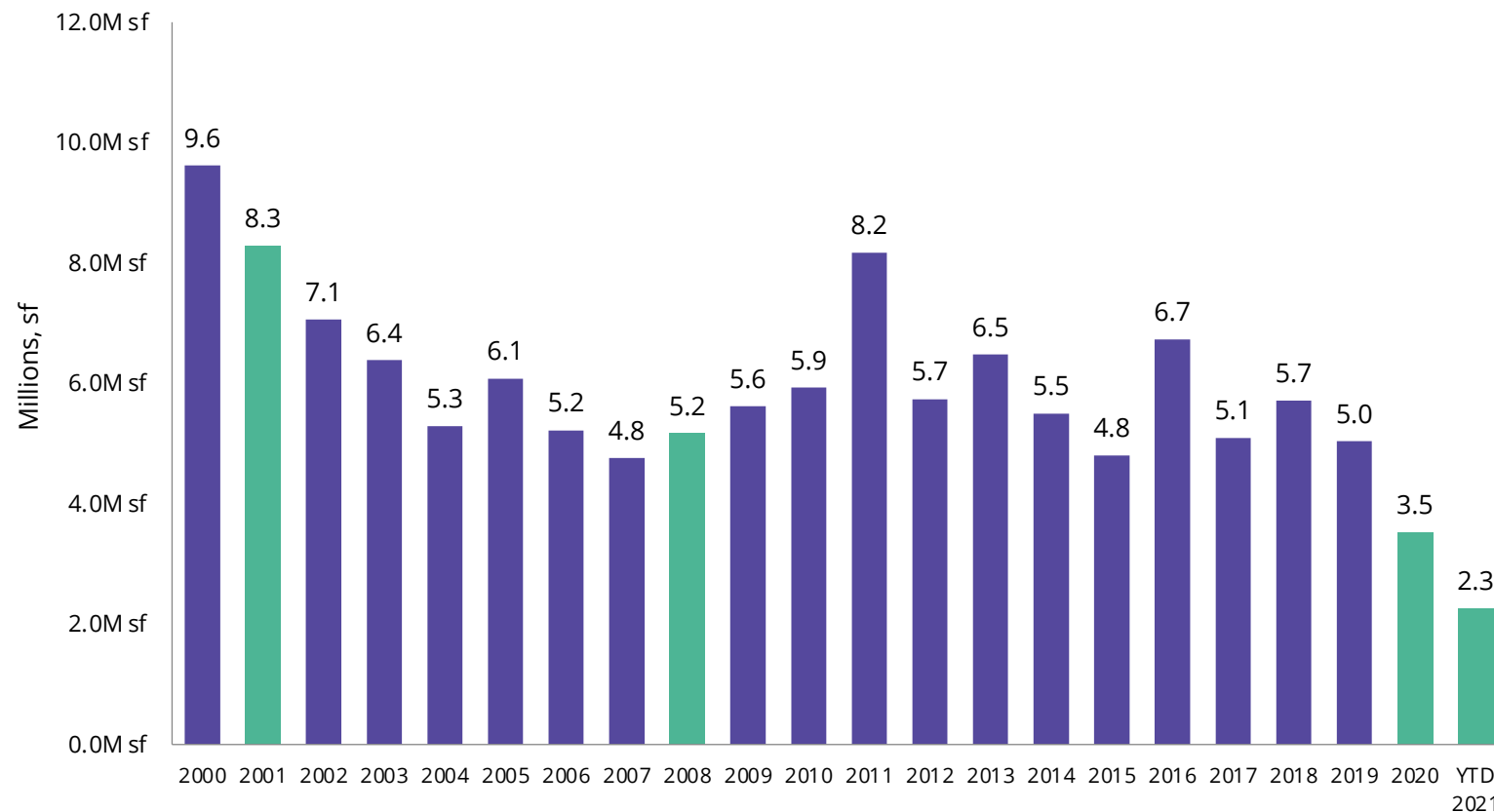


# Office leasing activity

# -20.9%

**Leasing activity for Q3  
year-to-date 2021 vs. the  
same period in 2020**

Ongoing pandemic-related factors continue to significantly suppress office leasing activity in Suburban Maryland, more so than in prior recessions. The year-over-year drop-off may be declining, however, as it was approaching 30% in Q2 2021.



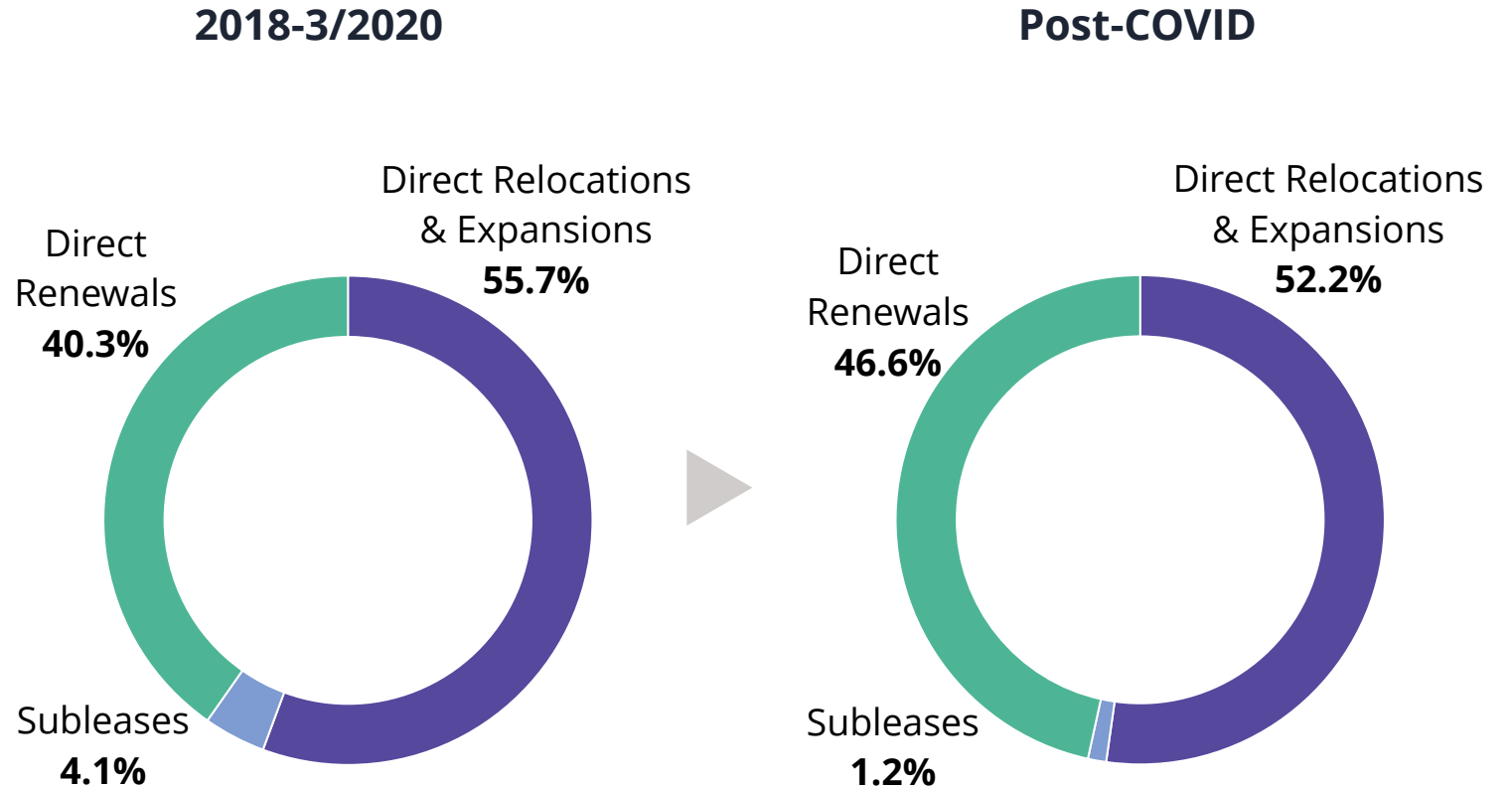
Source: AVANT by Avison Young, CoStar

# Transaction activity by lease type

# 46.6%

## Renewals share of office leasing post-COVID

Based on total sf, direct renewals still account for an elevated share of Suburban Maryland's office leasing activity since the onset of the pandemic.



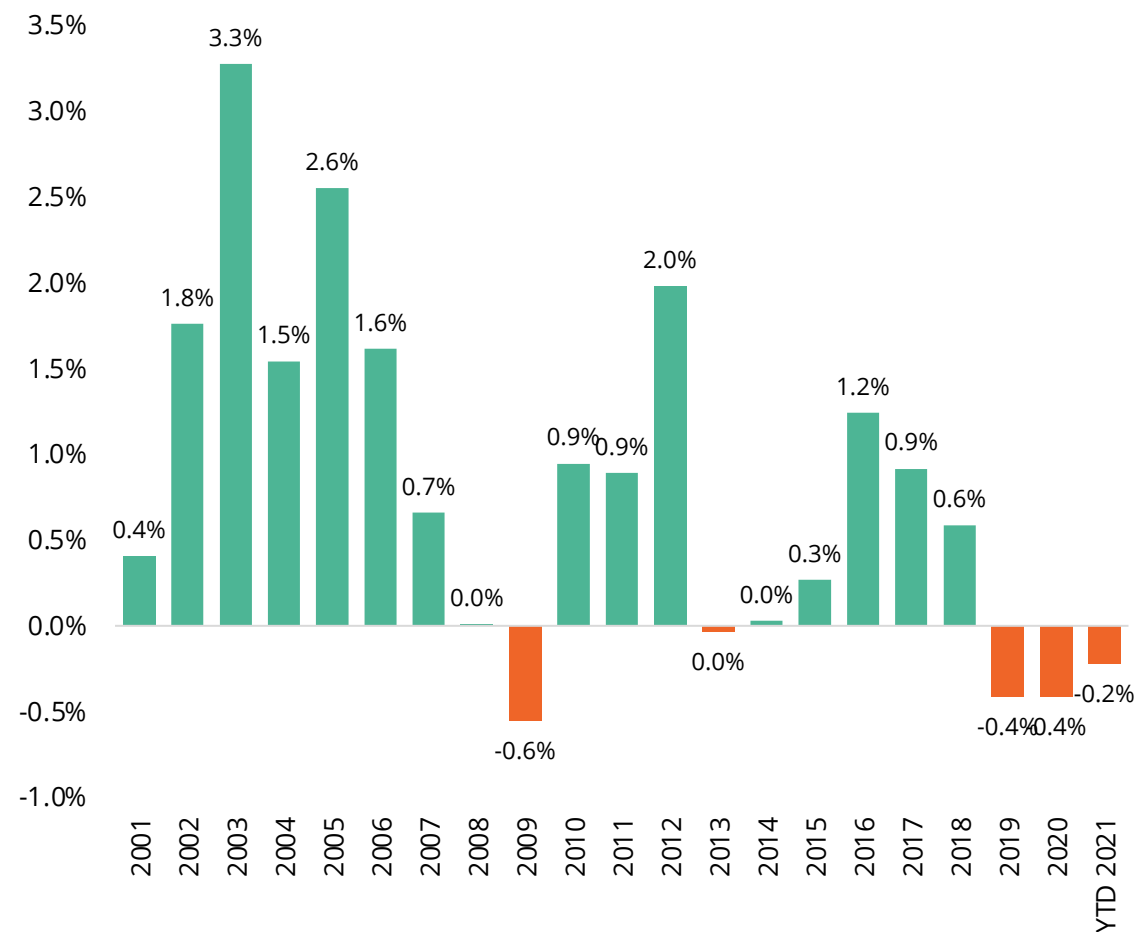
Source: AVANT by Avison Young

# Absorption

# -0.6%

**Net absorption as a percentage of inventory, 2020 through Q3 2021**

Net absorption from 2020 to Q3 2021 has totaled negative 0.6% of the existing stock. This figure matches the low that occurred during the global financial crisis.



Source: AVANT by Avison Young

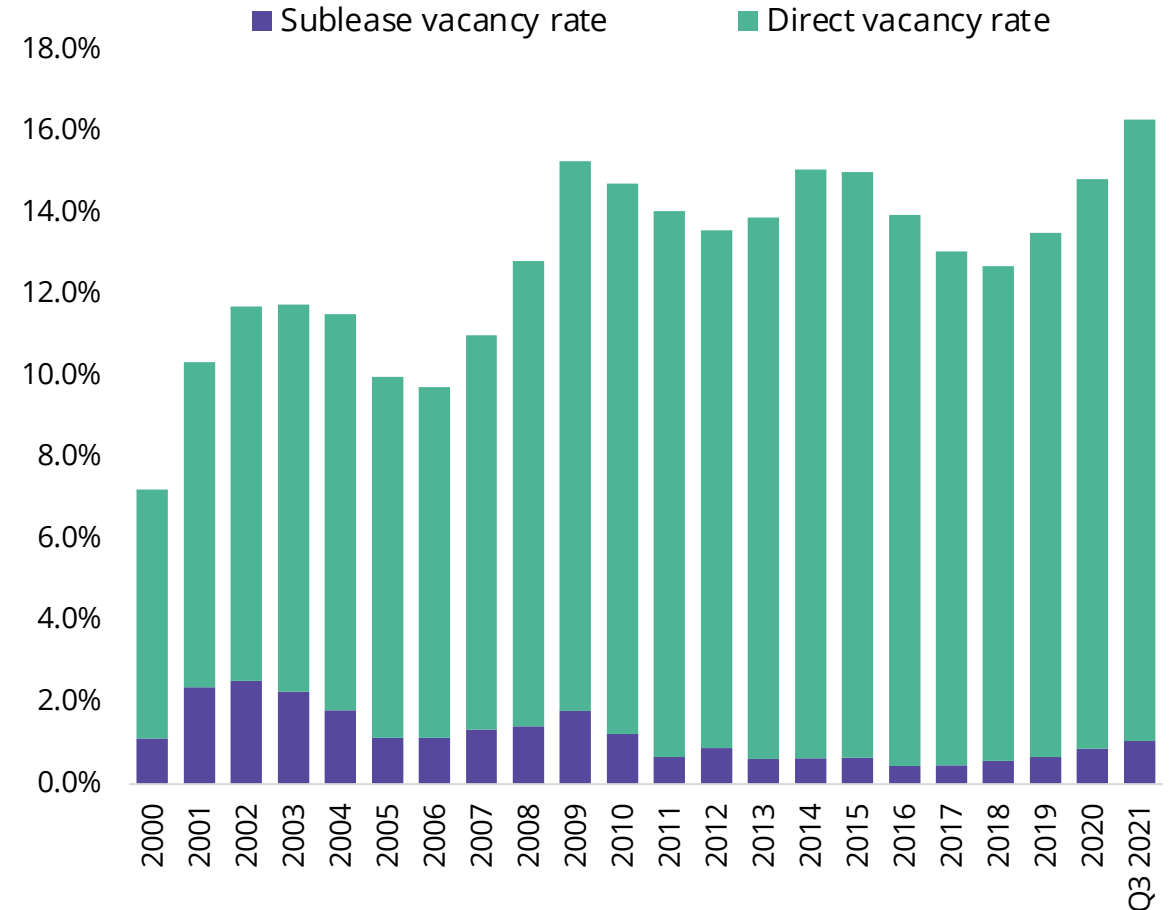


# Vacancy rate

# 16.3%

**Record high total vacancy  
as of Q3 2021**

The total (16.3%) and direct (15.2%) vacancy rates for Q3 2021 are record highs, while sublease vacancy (1.1%) is at its highest level since 2010 (1.2%).



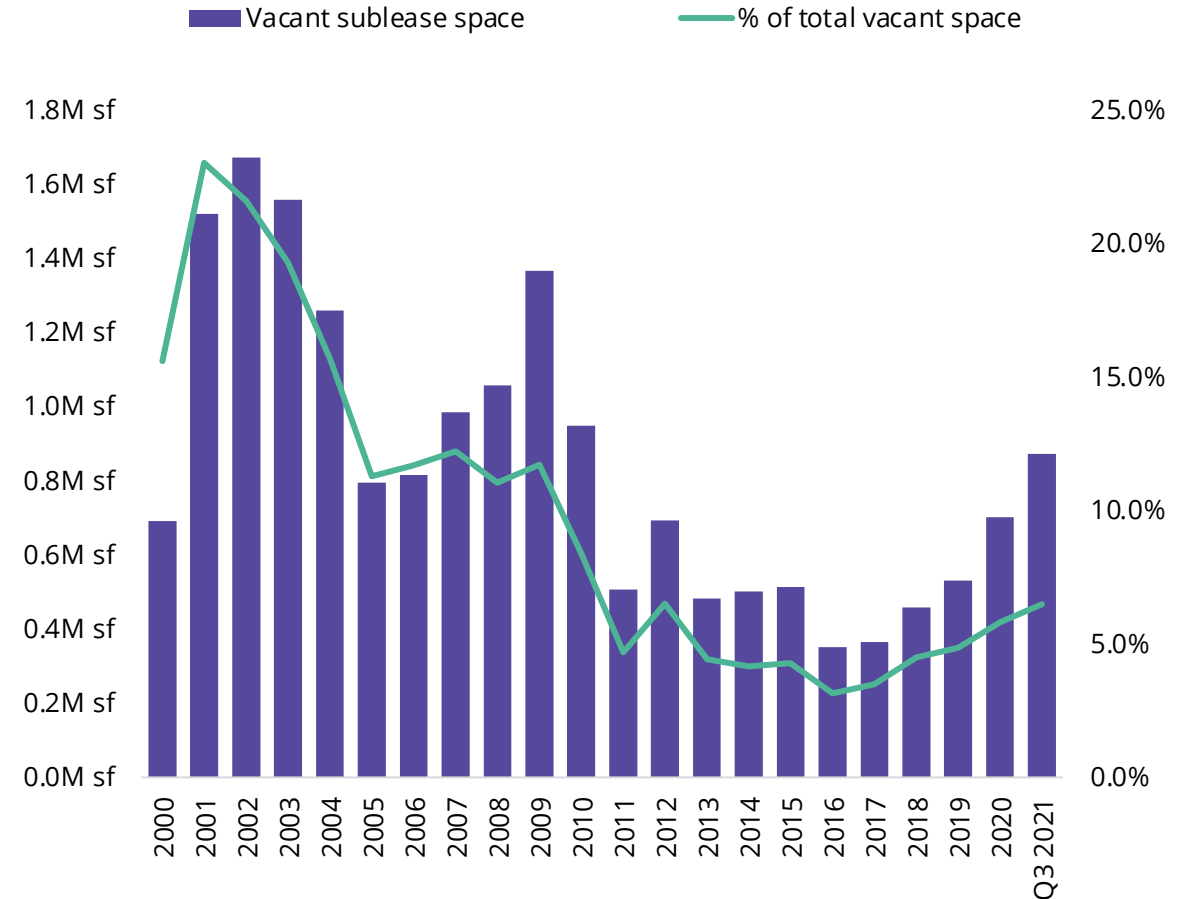
Source: AVANT by Avison Young

# Vacant sublease space

# 0.9 msf

**An increased but non-record level of sublease vacant space**

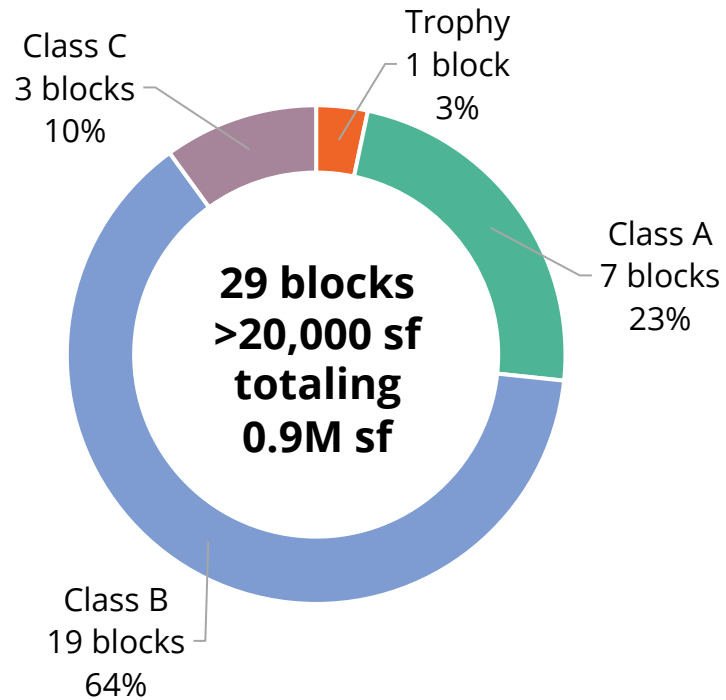
While the amount of vacant sublease space (0.9 msf) is at the highest level since 2010, this metric remains well below the peak of 1.7 msf reached in 2002.



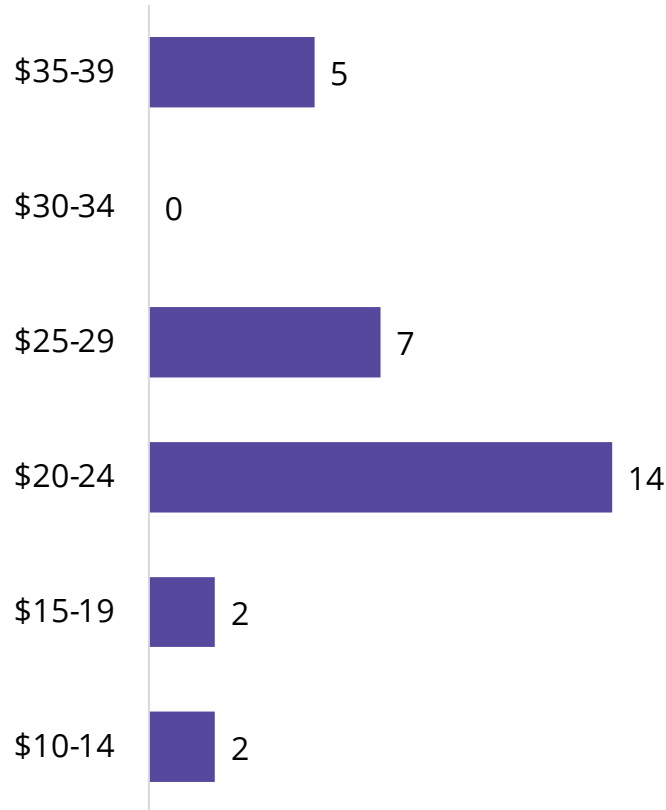
Source: AVANT by Avison Young

# Sublease supply pipeline

## Building classification



## Asking rent per square foot



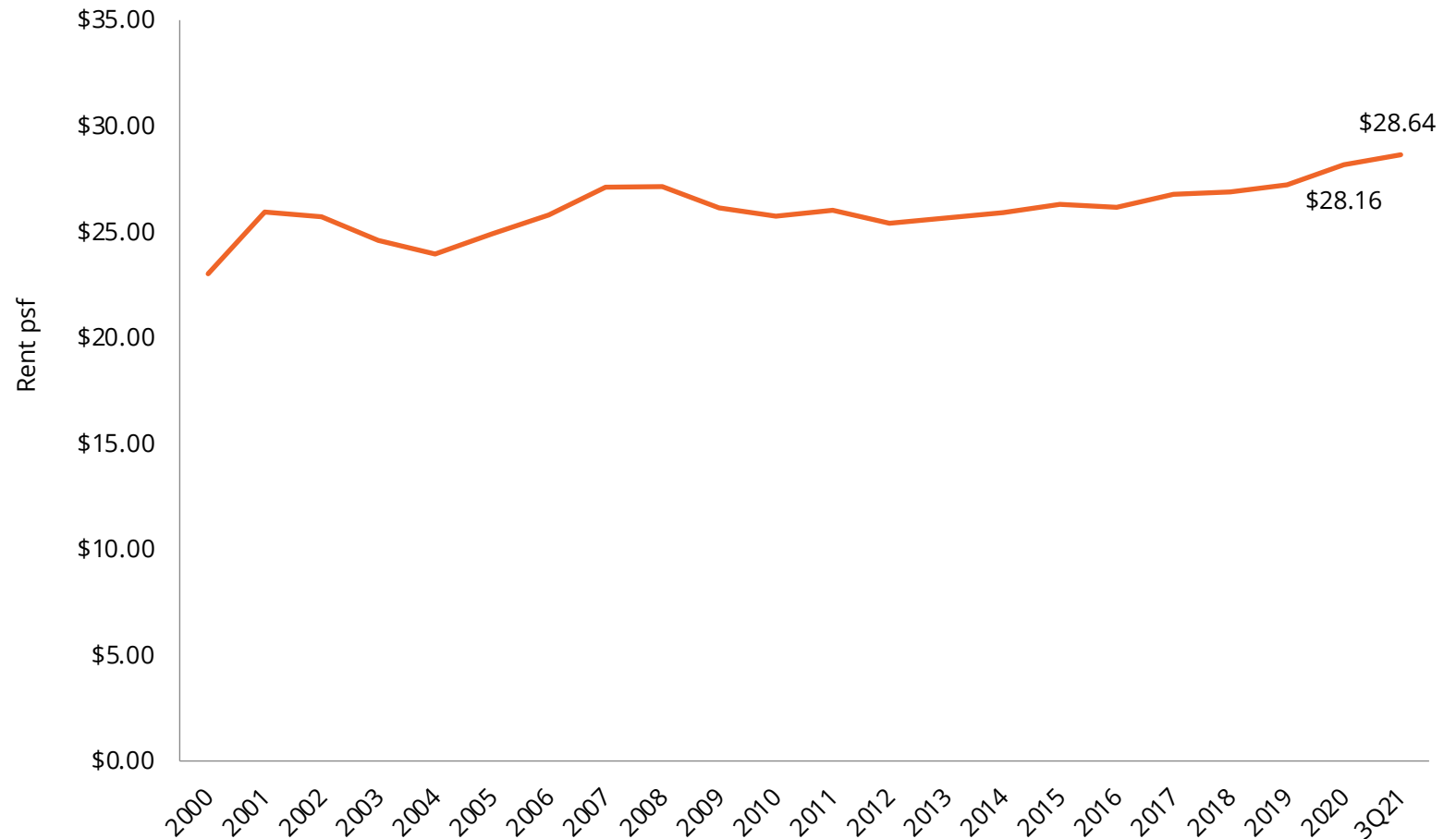
Note: Contiguous blocks of 20,000 sf or greater;  
vacant or available  
Source: AVANT by Avison Young

# Base rents

# +1.7%

## Change in base rent, year-to-date 2021

While the average direct base rent has increased, net effective rates are not rising due to elevated concession packages.



Note: Full service direct base rents annualize excluding subleases  
Source: AVANT by Avison Young

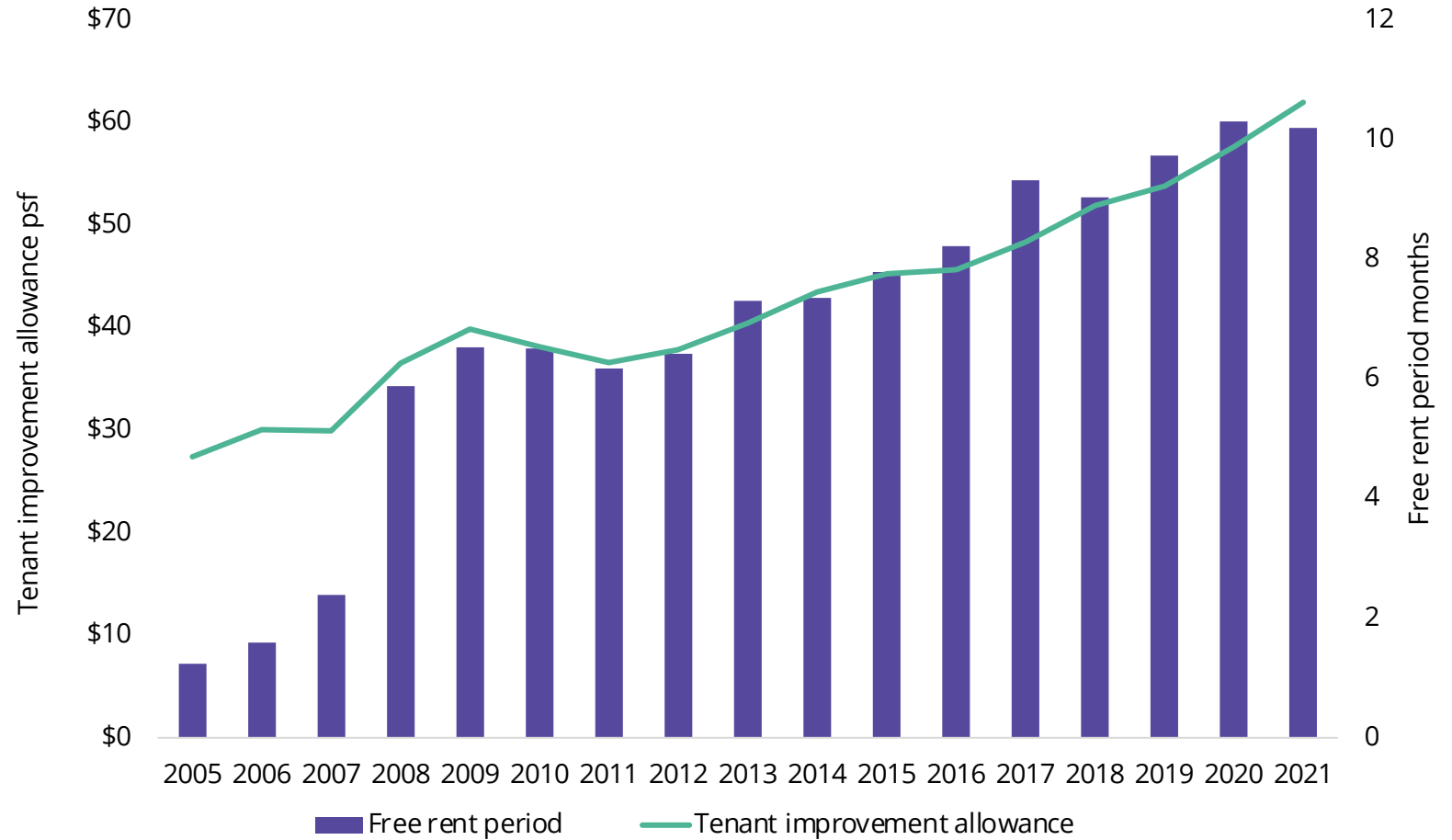


# Concessions

# 15.2%

## Rise in TIs since end of 2019

Concessions remain high in 2021, with the average tenant improvement allowance increasing by 15.2% and average free rent period rising 4.7% since year-end 2019.



Source: AVANT by Avison Young

# Development pipeline

**5 properties**

Under construction

**1.9 msf**

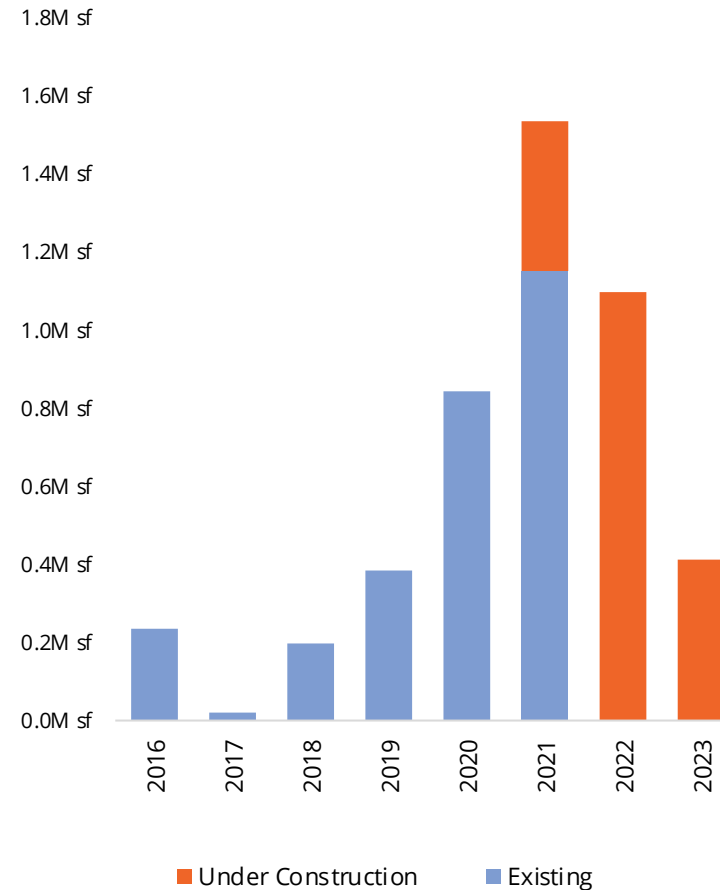
Under construction

**2.3%**

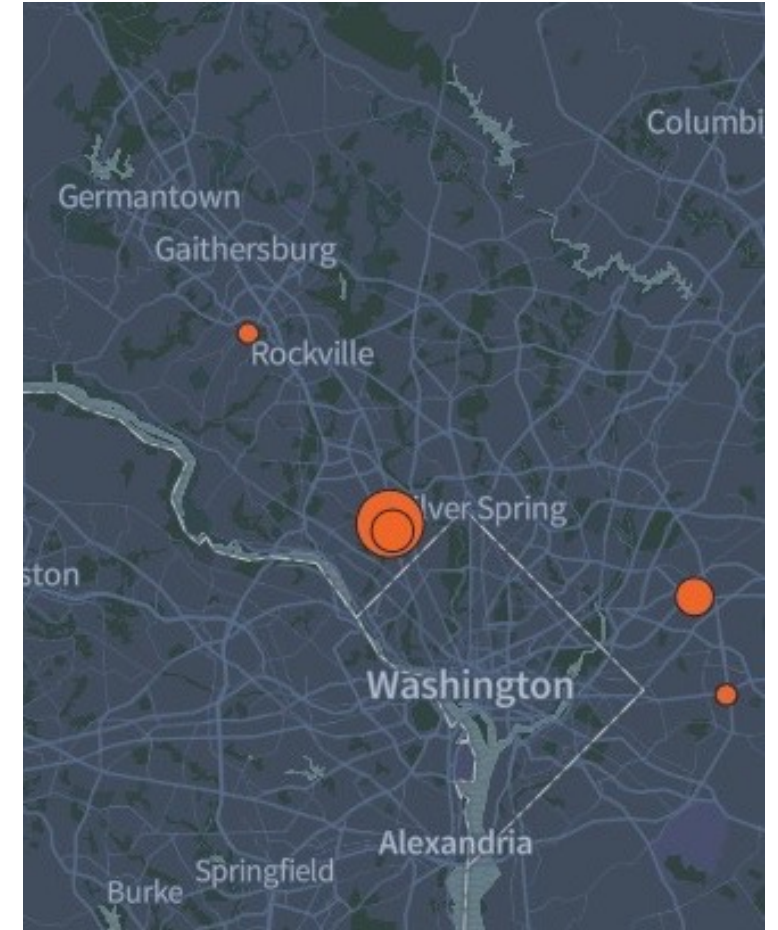
share of office  
inventory

**1986**

average delivery date of  
existing offices



Source: AVANT by Avison Young



# 03.

## Capital market conditions

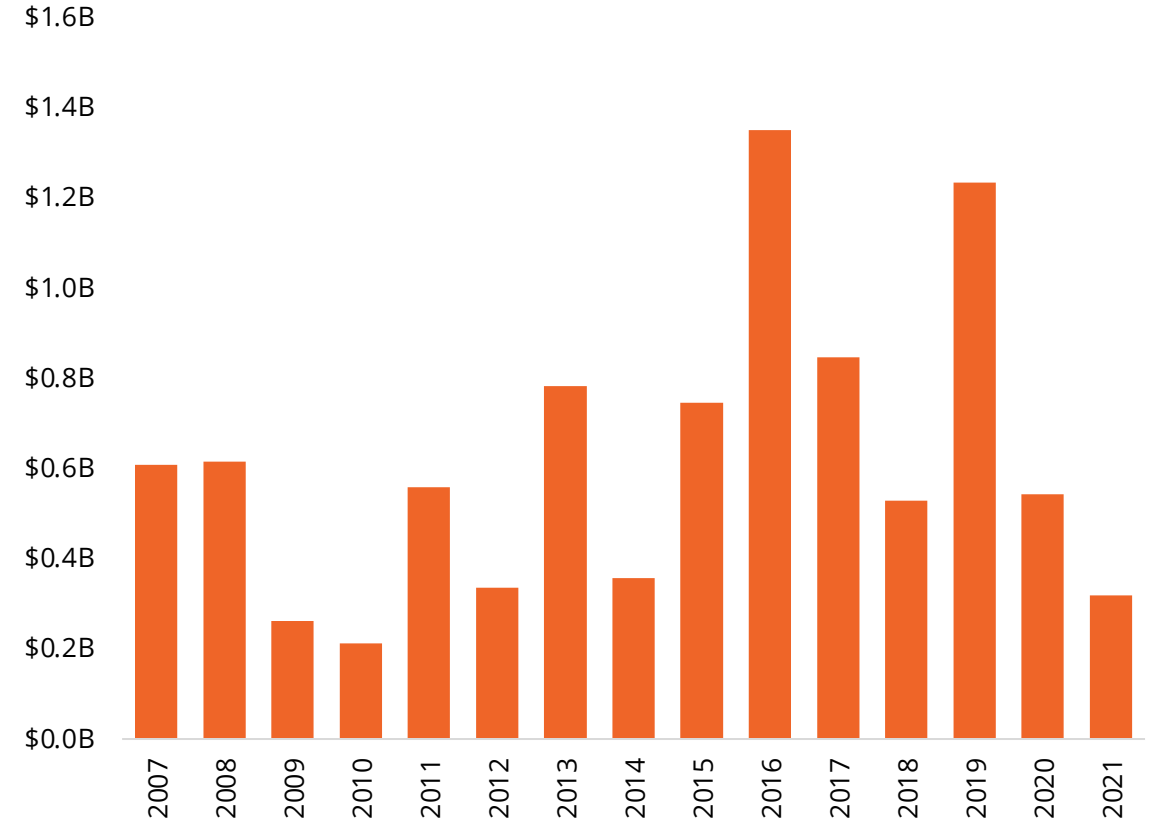
Investors have had limited deal-flow leading to the lowest amount of office investment dollars over the past several years, although there is peaked interest for lab and life science properties.

# Office investment dollar volume

# \$0.3B

## Office investment volume YTD

Investment sale activity in Suburban Maryland is lagging 2020's total volume and has slightly outperformed annual totals seen in the wake of the past recession.



Source: AVANT by Avison Young,



# Looking forward



## Here's what we can expect

- Suburban MD is receiving additional interest from investors that are deviating from traditional office acquisitions and **exploring prospective life science and lab office space to add to their portfolios.**
- The trend of **developers and landlords seeking to accommodate biotech tenants** is expected to persist. This may take various forms, such as retrofitting existing obsolete buildings or new development – including applying for a change to an approved use or property type.
- **Spec suites**, including those larger in size, **will likely be in high demand** as tenants who are looking to relocate seek shorter occupancy timeframes.
- **Downward pressure on net effective rents is likely to remain**, with concession packages elevated due to competition for tenants as well as the high cost of building materials.





# Get in touch



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# Let's talk

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