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Valbridge Property Advisors | Baltimore Washington Metro serving the Baltimore and Washington, D.C. Metropolitan markets from our new central location:

**11100 Dovedale Court
 Marriottsville, MD 21104
 (443) 333-5522**

Prepared by:
 David H. Brooks, CRE, MAI
 (443) 333-5525
 dbrooks@valbridge.com

www.valbridge.com

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Commercial Markets: 2Q 2020

RETAIL – SNAPSHOT

- The Washington D.C. Metro area retail market ended the quarter with negative 500k SF of absorption. The biggest losses were seen in Washington, D.C. and Montgomery County with negative 142,892 and 121,486 sq. ft. of absorption, respectively.
- Rental rate growth has slowed since this time last year, with all retail types excluding strip centers experiencing a decline. Asking rents were above Q1 2020 levels.
- The owner of the Westfield Montgomery Mall has submitted plans to the Montgomery County Planning Board to demolish a vacant Sears and add 1.59 million sq. ft. of mixed-use development to the site. The plan includes a mixture of apartments, over a million sq. ft. of new retail and a hotel.

Submarket	Vacancy			Quoted Rates			Net Absorption
	Single Tenant	Strip Center	Restaurant	Single Tenant	Strip Center	Restaurant	
	District of Columbia	2.10%	4.50%	8.30%	\$45.32	\$27.53	
Montgomery County	0.70%	8.60%	1.30%	\$40.92	\$27.63	\$29.98	(121,486)
Prince George's County	2.80%	4.30%	2.30%	\$23.35	\$27.78	\$41.07	(55,358)
Charles County	1.40%	4.90%	2.20%	\$19.66	\$19.10		(22,271)
Calvert County	-	-	0.80%	-	\$21.42	\$32.00	(1,050)
Frederick County	1.50%	6.30%	7.80%	\$28.68	\$26.59	\$34.35	(32,332)
Alexandria	0.20%	1.00%	7.10%	\$55.00	\$12.00	\$38.01	(17,608)
Arlington County	1.70%	3.40%	9.00%	\$45.22	\$35.00		(19,760)
Fairfax County	0.40%	4.30%	3.00%	\$22.00	\$40.96	\$22.00	(87,306)
Total Submarket (2Q20)	2.90%	5.10%	3.90%	\$32.45	\$28.74	\$35.45	(500,063)
Total Submarket (1Q20)	1.40%	5.10%	4.10%	\$32.01	\$26.15	\$34.31	(61,127)
Total Submarket (2Q19)	1.60%	4.70%	4.30%	\$33.16	\$30.59	\$37.85	(419,592)

Source: CoStar Group, Inc.

*Quoted rental rates are based on a NNN lease structure

OFFICE – SNAPSHOT

- Absorption was strong compared to last quarter with 1,133,377 SF of absorption. Overall, the D.C. office market remains healthy when viewed against the same time last year. Major lease transactions include Walmart Labs taking 162k sq. ft. near Herndon Metro in Fairfax County, Palantir Technologies taking 104k sq. ft. in Georgetown and Children's National Health System in Silver Spring.

Submarket	Class A		Class B		Class C		Net Absorption
	Vacancy	Quoted Rates	Vacancy	Quoted Rates	Vacancy	Quoted Rates	
	District of Columbia	12.50%	\$55.46	12.00%	\$49.61	4.90%	
Montgomery County	12.30%	\$32.85	12.40%	\$26.89	7.00%	\$21.47	340,352
Prince George's County	14.40%	\$25.67	14.60%	\$20.50	6.50%	\$18.23	(173,130)
Charles County	21.80%	\$22.35	7.40%	\$17.79	7.90%	\$14.73	(9,085)
Calvert County	1.00%	\$22.00	4.90%	\$17.18	1.60%	\$15.89	18
Frederick County	6.30%	\$21.07	12.10%	\$18.87	2.90%	\$16.70	315,347
Alexandria	16.20%	\$36.73	10.20%	\$29.65	8.90%	\$27.87	84,860
Arlington County	20.00%	\$43.53	12.00%	\$37.31	2.20%	\$30.97	(202,359)
Fairfax County	16.90%	\$34.70	12.40%	\$26.08	4.50%	\$21.85	423,026
Total Submarket (2Q20)	15.70%	\$41.58	14.00%	\$34.65	6.30%	\$25.91	1,133,377
Total Submarket (1Q20)	15.70%	\$41.44	12.50%	\$34.47	5.30%	\$24.81	(510,435)
Total Submarket (2Q19)	15.20%	\$40.47	11.40%	\$33.72	4.90%	\$23.95	1,099,119

Source: CoStar Group, Inc.

*Quoted rental rates are based on a gross lease structure

Senior Managing Director:
David H. Brooks, CRE, MAI
(443) 333-5525
dbrooks@valbridge.com

Managing Director:
Michael Haller, MAI
(443) 333-5524
mhaller@valbridge.com

Managing Director:
Ed Steere, AICP
(443) 333-5521
esteere@valbridge.com

Senior Appraiser:
Kelly Hoffert
(443) 333-5528
khoffert@valbridge.com

Senior Appraiser:
Ilene Sheer, MAI
(410) 802-0371
isheer@valbridge.com

Senior Appraiser:
Ronald Godsey
(443) 333-5534
rgodsey@valbridge.com

Senior Appraiser:
Simon Luttmann
(443) 333-5532
sjluttman@valbridge.com

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INDUSTRIAL – SNAPSHOT

- The Washington, D.C. Industrial market continues to show strength, reaching a near cyclical low of 4.6% vacancy for warehouse space and 6.0% vacancy for flex space.
- The quarter ended with 680,085 sq. ft. of positive absorption. Frederick County saw the highest level of activity after the Kroger Co. purchased a 717,135 sq. ft. building that was formerly used by Toy R' Us for \$39 million.
- Amazon has submitted several applications with Prince George's County to convert and develop several last-mile distribution facilities including the 276,000 sq. ft. property it recently purchased outside of Collington Trade Center in Upper Marlboro.

Industrial Snapshot					
Submarket	Vacancy		Quoted Rates*		Net Absorption
	Warehouse	Flex	Warehouse	Flex	
District of Columbia	5.70%	5.70%	\$14.63	\$14.57	(75,962)
Montgomery County	5.70%	6.00%	\$12.28	\$14.06	(139,369)
Prince George's County	4.40%	5.90%	\$8.09	\$8.36	29,600
Charles County	12.50%	3.00%	\$6.08	\$9.98	162,340
Calvert County	10.30%	7.70%	\$8.42	\$8.39	(4,245)
Frederick County	7.00%	6.00%	\$6.93	\$8.71	750,769
Alexandria	6.80%	4.50%	\$12.88	\$12.42	16,463
Arlington County	10.60%	7.30%	-	\$13.70	(11,376)
Fairfax County	5.60%	7.30%	\$14.95	\$14.83	(48,135)
Total Submarket (2Q20)	4.60%	6.00%	\$9.30	\$10.73	680,085
Total Submarket (1Q20)	4.90%	8.90%	\$9.42	\$13.09	1,024,168
Total Submarket (2Q19)	6.30%	8.40%	\$8.75	\$13.39	(90,561)

*NNN rents

Source: CoStar Group, Inc.

MULTIFAMILY – SNAPSHOT

- As of the end of 1Q2020, the MSA's occupancy rate stood at roughly 92.7%, down 130 basis points from last quarter and 180 basis points from one year ago. Similarly to the Baltimore MSA, the Washington, D.C. area has seen rent growth for its Studio and 1BR units while larger unit asking rents have dropped somewhat.

Submarket	Multifamily Snapshot									
	Studio		1 BR		2 BR		3 BR		Overall	
	Vacancy	Asking Rent/Unit	Vacancy	Asking Rent/Unit	Vacancy	Asking Rent/Unit	Vacancy	Asking Rent/Unit	Vacancy	Asking Rent/Unit
District of Columbia	8.40%	\$1,618	8.10%	\$1,885	8.00%	\$2,326	6.10%	\$2,499	8.00%	\$1,984
Montgomery County	6.50%	\$1,388	5.40%	\$1,552	5.40%	\$1,828	5.10%	\$2,187	5.50%	\$1,896
Prince George's County	7.10%	\$1,199	4.70%	\$1,317	5.30%	\$1,544	6.20%	\$1,813	5.20%	\$1,474
Charles County	4.30%	\$747	4.20%	\$1,328	4.90%	\$1,549	5.50%	\$1,990	4.70%	\$1,518
Calvert County	5.20%	-	11.20%	\$1,162	14.00%	\$1,236	23.90%	\$1,658	13.40%	\$1,251
Frederick County	4.00%	\$1,052	5.80%	\$1,220	5.60%	\$1,407	5.90%	\$1,634	5.60%	\$1,357
Alexandria	9.60%	\$1,355	8.20%	\$1,607	8.00%	\$1,947	7.30%	\$2,133	8.20%	\$1,745
Arlington County	9.20%	\$1,547	9.00%	\$1,880	8.10%	\$2,421	6.90%	\$3,115	8.60%	\$2,106
Fairfax County	9.90%	\$1,460	7.60%	\$1,605	5.80%	\$1,916	5.50%	\$2,124	6.80%	\$1,786
Total Submarket (2Q20)	9.60%	\$1,950	7.40%	\$1,789	7.40%	\$1,874	7.70%	\$2,056	7.30%	\$1,785
Total Submarket (1Q20)	6.40%	\$1,559	6.10%	\$1,668	5.70%	\$1,931	5.40%	\$2,153	6.00%	\$1,800
Total Submarket (2Q19)	6.40%	\$1,557	5.80%	\$1,663	5.00%	\$1,928	5.20%	\$2,134	5.50%	\$1,801

Source: CoStar Group, Inc.

Data Sources

- ❖ Freddiemac.com
- ❖ CoStar Group, Inc.
- ❖ U.S. Department of Labor
- ❖ Valbridge Property Advisors

Some figures are interpolated and estimated due to variances between the reports.

Valbridge Property Advisors

is based in Naples, FL and is the largest independent commercial property valuation and advisory services firm in North America.

has 200 MAIs, 78 office locations and 675+ staff across the nation. Each Valbridge office is led by an appraiser who holds the MAI designation of the Appraisal Institute.

Valbridge | Baltimore

Washington Metro serves the Baltimore and Washington, D.C. markets from its central location in Marriottsville, MD. With four MAI's, five Certified General licensed appraisers, six motivated trainees, an economic consultant and a very capable support staff, VBWMetro is available for all types of real property valuation and evaluation assignments.

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CAP RATES

According to **PwC** "Real Estate Investor Survey," the following are the respective Cap Rates nationally:

National Capitalization Rates				
Property	Low	High	Average	Change from 1Q19
Apartment (National)	3.50%	8.00%	5.19%	Increase
Apartment (Mid-Atlantic Region)	4.00%	6.75%	5.43%	Increase
CBD Office (National)	3.75%	7.50%	5.55%	Increase
Suburban Office (National)	4.00%	7.50%	6.00%	Decrease
Washington, D.C. Office	4.50%	7.50%	5.38%	Increase
Northern Virginia Office	6.00%	8.00%	6.69%	Increase
National Warehouse	3.40%	7.00%	4.84%	Increase
Retail- Strip Center Market	4.75%	10.00%	6.75%	Flat

Source: PwC Real Estate Investor Survey

UNEMPLOYMENT & LENDING RATES

Unemployment	May-20	2019	2018
Washington, D.C. MSA	8.90%	3.00%	3.20%
National	13.00%	3.40%	3.60%
Home Mortgage Rates	Mar-20	2019	2018
30-Year Fixed	3.26%	4.10%	4.55%
15-Year Fixed	2.73%	3.57%	4.03%
5/1-Year ARM	3.17%	3.63%	3.69%

Source: U.S. Department of Labor & freddiemac.com

ADAPTING TO THE WORLD OF COVID-19

Retail – Malls are forecasted to be reconfigured with more active and green space as many retail centers battle ever growing chunks of vacancy. Retail development planners have begun to envision how the outdoors can become the new anchors of shopping centers, integrating the well-being of shoppers while still remaining in a shopping environment. As such, the value of assets located in regions such as California that have year round good weather for outdoor amenities may see a slight boost.

Multifamily – As social distancing is encouraged, multifamily developers are beginning to consider increasing the size of their amenity spaces. The costs of future projects could increase as a result of the tradeoff of potential rent generating units for common areas. With some communities already charging an amenity usage fee, tenants may see additional charges when it comes time to renew their lease to cover higher cleaning expenses required to keep existing common areas open.

NEW VALBRIDGE TEAM MEMBERS

We are pleased to announce the addition of Ben Mendelson, Lada Kramsky, and Bob Robidoux to the Valbridge Property Advisors | Baltimore Washington Metro Team.



Ben Mendelson (BMendelson@valbridge.com) studied finance at Northeastern University and just graduated this past May. Prior to joining Valbridge, Ben worked in asset management as well as executive search, but is now expanding his horizons. He is excited to learn more about the real estate business as a whole and gain particular experience within appraisal.

Lada Kramsky (LKramsky@Valbridge.com) has joined our office as an appraiser trainee. Lada has extensive experience with various building techniques, and he has built and operated a small hydropower station among other projects. After working at the Czech National Bank for 8 years, Lada relocated into the United States to continue with his education. Lada is a practicing affiliate of the Appraisal Institute, and he is currently working toward certification as a general appraiser. Lada is excited to bring his experience to Valbridge and we welcome him.



Bob Robidoux (rrobidoux@valbridge.com) brings to Valbridge, extensive knowledge and experience from his long, successful real estate appraising career. Among his many accomplishments, Bob earned Masters Degrees from Georgetown and Johns Hopkins universities, taught at Hopkins Allan L. Berman Real Estate Institute, coauthored that institute's TrendWatch 1998-2000, and advised on several other TrendWatch reports. Bob has been active in the Appraisal Institute, serving as President of the Maryland Chapter in 2004, and Director for Region VI. He is currently a committee member of the Appraisal Institute's 2010-2020 Comprehensive Examination Panel and the 2009-2020 Demonstration Appraisal Grading Panel. We welcome Bob to the VBWMETRO team.

VALBRIDGE DEVELOPMENT UPDATE

The Residences of Glenarden Hills is a 27-acre site that is one of Prince George's County' newest comprehensive master-planned community. In partnership with the Redevelopment Authority of Prince George's County, Pennrose will develop the project in four phases offering a mix of senior and family rental apartments and townhomes as well as homeownership opportunities with affordable financing options. The original 578-unit Glenarden Hills apartment complex was demolished in 2014 after years of neglect and disrepair. The first phase of the development was partially funded through Low Income Housing Tax Credit equity and consisted of 114 units for both seniors and families. The community reached stabilization shortly after opening in April 2019. The second phase is currently under construction and is expected to be completed by Fall 2020. Valbridge Property Advisors has provided the market feasibility analysis for all phases of this project.

