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Commercial Markets: 1Q 2021

RETAIL – SNAPSHOT

- The Washington D.C. Metro area retail market ended the quarter with another negative absorption of 612,086 SF following last quarter's negative 672,641 SF of absorption.
- Single tenant and strip center property rates have declined roughly 2% since last quarter while quoted restaurant rates are 6.0% higher than last year.
- Retail real estate investment trust PREIT signed a lease to add a 90k SF self-storage facility at the Mall at Prince George's. The deal signals a new strategy by retail owners to diversify and adapt to shifting consumer habits.

Submarket	Vacancy			Quoted Rates			Net Absorption
	Single Tenant	Strip Center	Restaurant	Single Tenant	Strip Center	Restaurant	
	District of Columbia	3.30%	3.00%	10.20%	\$39.18	\$28.19	
Montgomery County	4.00%	9.90%	4.50%	\$40.27	\$28.01	\$29.62	(174,526)
Prince George's County	4.20%	4.30%	1.90%	\$29.91	\$22.80	\$31.07	(171,791)
Charles County	8.30%	3.00%	3.80%	\$14.11	\$18.14	\$18.00	57,946
Calvert County	-	0.80%	0.00%	-	-	-	(9,485)
Frederick County	2.60%	6.70%	10.10%	\$21.08	\$26.83	\$34.56	(12,133)
Alexandria	0.30%	1.40%	5.40%	\$55.00	-	\$35.00	(16,147)
Arlington County	2.10%	6.10%	5.30%	\$40.54	\$40.00	\$42.01	(10,264)
Fairfax County	0.80%	6.10%	1.90%	\$25.65	\$31.37	\$30.74	(264,610)
Total Submarket (1Q21)	3.00%	5.70%	4.70%	\$30.42	\$26.48	\$36.04	(612,086)
Total Submarket (4Q20)	2.10%	5.60%	4.80%	\$31.03	\$26.70	\$34.09	(672,641)
Total Submarket (1Q20)	1.40%	4.90%	4.00%	\$32.08	\$26.15	\$33.97	114,644

Source: CoStar Group, Inc.

*Quoted rental rates are based on a NNN lease structure

OFFICE – SNAPSHOT

- DC's office market continues to suffer with few indicators showing a quick recovery. Rent growth has gone negative for Class A and B office space and net absorption remains deeply negative. DC's office market reached a record high vacancy rate of 13% during the quarter.
- Some investors view the downturn as an opportunity to scoop up trophy assets at a discount. A lending affiliate of Metlife purchased 1350 I St. NW for \$120.5 million at a foreclosure auction. The building was previously assessed for \$194.3 million.

Submarket	Class A		Class B		Class C		Net Absorption
	Vacancy	Quoted Rates	Vacancy	Quoted Rates	Vacancy	Quoted Rates	
	District of Columbia	14.20%	\$54.93	14.90%	\$48.64	6.60%	
Montgomery County	16.20%	\$32.43	14.40%	\$26.85	8.50%	\$22.30	(249,723)
Prince George's County	13.60%	\$25.24	15.60%	\$20.93	3.00%	\$19.31	606,932
Charles County	14.60%	\$21.32	9.30%	\$17.88	7.90%	\$15.16	602
Calvert County	1.00%	\$22.00	4.90%	\$18.15	3.20%	\$17.86	(2,801)
Frederick County	6.70%	\$15.55	12.40%	\$19.02	3.40%	\$15.92	39,193
Alexandria	19.00%	\$36.69	13.10%	\$28.67	6.50%	\$29.30	(332,884)
Arlington County	23.90%	\$41.79	14.00%	\$38.27	2.70%	\$35.37	(731,241)
Fairfax County	19.40%	\$33.83	14.30%	\$25.99	5.20%	\$21.83	(1,087,600)
Total Submarket (1Q21)	17.20%	\$41.20	14.40%	\$34.06	5.20%	\$25.46	(3,274,927)
Total Submarket (4Q20)	16.20%	\$41.65	13.60%	\$34.64	5.30%	\$25.71	(1,826,855)
Total Submarket (1Q20)	15.50%	\$41.81	12.30%	\$33.96	5.00%	\$24.82	(572,448)

Source: CoStar Group, Inc.

*Quoted rental rates are based on a gross lease structure

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INDUSTRIAL – SNAPSHOT

- The Washington, D.C. industrial market continues to show strength, with vacancy rates remaining flat and positive net absorption.
- PCCP and Panatonic Development Co. acquired 90 acres in Hagerstown, Maryland for \$7 million. The developers have proposed a 730k SF warehouse for the site. Penzance also purchased 70 acres for \$8 million in Hagerstown with plans to develop a 825k SF spec warehouse.

Industrial Snapshot					
Submarket	Vacancy		Quoted Rates*		Net Absorption
	Warehouse	Flex	Warehouse	Flex	
District of Columbia	6.80%	5.90%	\$14.03	\$10.00	(958)
Montgomery County	5.20%	6.30%	\$13.08	\$16.62	357,670
Prince George's County	5.50%	7.30%	\$8.60	\$11.91	(12,524)
Charles County	12.00%	2.60%	\$9.48	\$9.76	(178,190)
Calvert County	11.90%	1.40%	\$8.22	\$8.15	63,413
Frederick County	7.60%	10.00%	\$7.40	\$10.28	324,053
Alexandria	4.20%	3.80%	\$13.39	\$12.38	11,165
Arlington County	3.60%	0.00%	\$18.67	-	(9,257)
Fairfax County	4.80%	10.80%	\$10.46	\$13.69	(84,749)
Total Submarket (1Q21)	5.60%	6.60%	\$9.35	\$10.43	52,291
Total Submarket (4Q20)	5.70%	6.40%	\$9.28	\$10.40	(203,416)
Total Submarket (1Q20)	6.20%	6.80%	\$8.75	\$9.80	1,444,457

*NNN rents

Source: CoStar Group, Inc.

MULTIFAMILY – SNAPSHOT

- The MSA's multifamily market is beginning to make a comeback with overall vacancy rates stabilizing just above 8.0%. Washington, D.C. continues to see the highest vacancy rates after suburban neighborhoods in Maryland and Virginia have attracted renters looking for value.
- There are still 15,000 apartments in the development pipeline for the region, thus rental concessions are expected to remain high throughout 2021. The once popular Navy Yard area in Washington, D.C. reached an overall vacancy rate of 26% during the quarter.

Multifamily Snapshot										
Submarket	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	13.60%	\$1,497	12.70%	\$1,794	11.10%	\$2,303	9.00%	\$2,457	12.20%	\$1,912
Montgomery County	7.80%	\$1,366	6.40%	\$1,531	6.50%	\$1,872	6.00%	\$2,210	6.50%	\$1,733
Prince George's County	6.20%	\$1,189	5.30%	\$1,330	5.10%	\$1,555	5.60%	\$1,844	5.50%	\$1,495
Charles County	4.50%	\$752	3.90%	\$1,389	4.20%	\$1,559	4.90%	\$2,018	4.20%	\$1,546
Calvert County	3.70%	-	4.70%	\$1,120	5.50%	\$1,258	8.30%	\$1,664	5.30%	\$1,237
Frederick County	2.70%	\$1,087	3.90%	\$1,289	3.90%	\$1,531	3.40%	\$1,732	3.80%	\$1,454
Alexandria	10.30%	\$1,254	8.30%	\$1,548	7.80%	\$1,959	8.00%	\$2,142	8.30%	\$1,706
Arlington County	8.70%	\$1,446	9.10%	\$1,762	9.00%	\$2,338	10.90%	\$2,981	9.10%	\$2,008
Fairfax County	7.60%	\$1,412	7.70%	\$1,592	6.30%	\$1,899	5.70%	\$2,167	6.90%	\$1,774
Total Submarket (1Q21)	11.20%	\$1,429	8.60%	\$1,602	7.30%	\$1,925	7.10%	\$2,199	8.30%	\$1,761
Total Submarket (4Q20)	11.00%	\$1,424	8.60%	\$1,576	7.20%	\$1,888	6.80%	\$2,174	8.20%	\$1,732
Total Submarket (1Q20)	7.10%	\$1,548	6.70%	\$1,666	5.90%	\$1,951	5.90%	\$2,191	6.40%	\$1,809

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.

Valbridge has 200 MAIs, 80 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.

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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 1Q20
Apartment (National)	3.50%	8.00%	5.22%	Increase
Apartment (Mid-Atlantic Region)	4.00%	6.75%	5.43%	Flat
CBD Office (National)	3.75%	7.50%	5.59%	Increase
Suburban Office (National)	4.00%	7.50%	6.05%	Increase
Washington, D.C. Office	4.50%	8.00%	5.38%	Increase
Northern Virginia Office	6.00%	8.00%	6.69%	Flat
National Warehouse	3.40%	7.00%	4.84%	Flat
Retail- Strip Center Market	4.75%	10.00%	6.84%	Increase

Source: PwC Real Estate Investor Survey

UNEMPLOYMENT & LENDING RATES

Unemployment	Apr-21	2019	2018
Washington, D.C. MSA	8.90%	3.00%	3.20%
National	13.00%	3.40%	3.60%
Home Mortgage Rates	Apr-21	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 – As shoppers return back to their favorite stores, many retailers are reconsidering how they make the most of their building footprint. With growing curbside pickup and delivery orders, major retailers such as Target and Walmart are dedicating more space as well as employees to order fulfillment. Stock rooms are now frequently used to replenish store shelves as well as hold inventory for digital purchases.

Multifamily – Rollout of the vaccine has helped drive a strong recovery in the apartment sector, with national absorption estimated at 100,000 units in the first quarter as compared to 65,000 in Q4 2020. As households become more comfortable making life changes and are confronted with the shortage of for-sale housing, many have been forced to remain renters.

Hospitality – Profitability in major markets remain down despite updated CDC guidance on travel for fully vaccinated individuals. With no quick recovery in sight, many owners are pursuing multifamily conversions for their properties. What would seem like a straightforward redevelopment, many of these projects are facing opposition from planning commissions concerned about overwhelming the school system and longer emergency response times.

Office – A January survey of office workers using Slack found that only 17% of workers want to return to the office full time, 20% would like to work remotely full time and 63% prefer a hybrid model. Local REIT Brandywine Realty Trust stated that physical tour activity from prospective tenants increased 40% during the first quarter and conducted 1,500 virtual tours.