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Commercial Markets: 3Q 2020

RETAIL – SNAPSHOT

- The Washington D.C. Metro area retail market ended the quarter with another negative absorption of 414,540 SF following last quarter's negative 672,641 SF of absorption. Major retail leases were signed by Burlington Stores for 35k SF as well as Ashley Furniture taking 25k SF in Prince George's County while American Freight absorbed 30k SF in Frederick County.
- Rental rates have declined across all retail asset types since this time last year with strip centers experiencing the largest drop of 13.1%. Vacancy rates are up for all retail types since the beginning of the pandemic.

Retail Snapshot							
Submarket	Vacancy			Quoted Rates			Net Absorption
	Single Tenant	Strip Center	Restaurant	Single Tenant	Strip Center	Restaurant	
District of Columbia	2.80%	4.40%	8.90%	\$39.58	\$28.00	\$38.13	(126,350)
Montgomery County	2.00%	9.60%	1.40%	\$38.27	\$27.88	\$28.33	29,286
Prince George's County	2.10%	4.70%	3.40%	\$22.42	\$22.14	\$40.54	(108,114)
Charles County	8.40%	4.40%	3.50%	\$14.75	\$17.77	\$18.00	(61,056)
Calvert County	-	-	0.80%	-	-	\$32.00	(7,298)
Frederick County	1.90%	7.30%	10.10%	\$25.47	\$22.39	\$34.35	(45,583)
Alexandria	0.20%	2.00%	5.40%	\$42.59	-	\$35.73	(26,126)
Arlington County	3.20%	3.40%	1.90%	\$42.85	\$35.00	\$46.66	(29,217)
Fairfax County	0.40%	5.60%	3.70%	\$34.57	\$36.08	\$25.86	(40,082)
Total Submarket (3Q20)	2.00%	5.80%	4.60%	\$30.86	\$26.59	\$34.38	(414,540)
Total Submarket (2Q20)	1.80%	5.30%	3.90%	\$32.01	\$26.22	\$34.54	(672,641)
Total Submarket (3Q19)	1.60%	4.70%	4.30%	\$33.16	\$30.59	\$37.85	114,644

Source: CoStar Group, Inc.

*Quoted rental rates are based on a NNN lease structure

OFFICE – SNAPSHOT

- The Washington office market saw negative 2.1 million sq. ft. of absorption compared to a positive 966k last quarter. The biggest losses occurred in Washington DC and Fairfax county with negative 749,013 and 551,018 respectively.
- Major lease transactions include DC Department of General Service taking 240k sq. ft. in Northeast DC and the Department of Housing and Community Development absorbed 55k SF in Anacostia.

Office Snapshot							
Submarket	Class A		Class B		Class C		Net Absorption
	Vacancy	Quoted Rates	Vacancy	Quoted Rates	Vacancy	Quoted Rates	
District of Columbia	13.50%	\$54.97	12.70%	\$48.39	5.40%	\$33.41	(749,013)
Montgomery County	15.20%	\$31.99	13.20%	\$26.75	8.20%	\$22.11	(136,239)
Prince George's County	15.10%	\$25.41	16.10%	\$20.65	5.90%	\$18.56	(198,652)
Charles County	24.40%	\$21.16	6.90%	\$17.58	7.70%	\$15.60	5,540
Calvert County	2.60%	\$22.00	5.10%	\$18.10	1.60%	\$15.89	(4,020)
Frederick County	5.50%	\$15.84	13.90%	\$18.23	2.80%	\$16.34	(66,892)
Alexandria	16.10%	\$36.94	11.10%	\$28.84	6.70%	\$28.56	(24,112)
Arlington County	21.50%	\$41.90	12.90%	\$36.81	2.30%	\$31.31	(390,398)
Fairfax County	17.90%	\$34.29	14.50%	\$26.28	4.80%	\$22.09	(551,018)
Total Submarket (3Q20)	16.00%	\$41.69	13.40%	\$34.38	5.80%	\$25.32	(2,114,804)
Total Submarket (2Q20)	15.60%	\$41.81	12.40%	\$34.44	5.60%	\$25.00	966,750
Total Submarket (3Q19)	15.20%	\$41.48	12.20%	\$33.17	5.10%	\$24.82	(644,627)

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 declining and healthy rent growth. Warehouse and flex space rental rates have increased an average of 6.5% YoY.
- The quarter ended with a negative 3,980 sq. ft of absorption. Fairfax and Montgomery Counties were the only bright spots with positive absorption of 79,441 sq. ft. and 34,607 sq. ft. respectively. Frederick County has seen the highest level of activity with new leases signed by Raynor and Advanced Collision II in Beltsville, MD totalling approximately 128k SF.

Industrial Snapshot					
Submarket	Vacancy		Quoted Rates*		Net Absorption
	Warehouse	Flex	Warehouse	Flex	
District of Columbia	6.20%	6.50%	\$14.11	\$15.50	(39,055)
Montgomery County	5.60%	7.20%	\$12.25	\$13.93	34,607
Prince George's County	4.50%	6.20%	\$8.20	\$8.00	(19,870)
Charles County	13.00%	9.40%	\$6.19	\$7.22	(16,836)
Calvert County	12.10%	8.80%	\$8.48	\$9.08	(14,800)
Frederick County	7.70%	6.30%	\$7.04	\$8.39	(11,035)
Alexandria	7.50%	4.70%	\$14.04	\$13.70	(16,432)
Arlington County	0.00%	0.00%	-	-	-
Fairfax County	5.50%	7.10%	\$10.27	\$11.79	79,441
Total Submarket (3Q20)	5.60%	6.60%	\$9.35	\$10.43	(3,980)
Total Submarket (2Q20)	5.70%	6.40%	\$9.28	\$10.40	(109,434)
Total Submarket (3Q19)	6.20%	6.80%	\$8.75	\$9.80	86,621

*NNN rents

Source: CoStar Group, Inc.

MULTIFAMILY – SNAPSHOT

- The MSA's occupancy rate stood at roughly 92.4%, down 30 basis points from last quarter and 180 basis points from one year ago. Asking rents have also decreased across all unit sizes since the last quarter indicating some weakness in the multifamily markets.
- Local investor Caruthers Properties acquired Pike 3400 in Arlington County for \$107.8 million or about \$419,000 per unit.. This is luxury apartment building near Amazon's second headquarters and Virginia Tech's planned \$1billion innovation campus was recently completed in 2015.

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	12.00%	\$2,079	10.60%	\$1,930	10.80%	\$1,974	12.30%	\$2,014	10.20%	\$1,919
Montgomery County	7.00%	\$1,352	5.80%	\$1,531	5.70%	\$1,828	5.50%	\$2,202	5.80%	\$1,711
Prince George's County	7.10%	\$1,185	4.80%	\$1,317	5.10%	\$1,555	5.60%	\$1,844	5.10%	\$1,481
Charles County	4.50%	\$752	3.90%	\$1,389	4.20%	\$1,559	4.90%	\$2,018	4.20%	\$1,546
Calvert County	4.20%	-	7.80%	\$1,160	9.00%	\$1,240	15.50%	\$1,650	8.90%	\$1,252
Frederick County	3.40%	\$1,047	7.80%	\$1,255	5.60%	\$1,506	5.40%	\$1,655	7.10%	\$1,422
Alexandria	10.60%	\$1,304	8.80%	\$1,561	8.80%	\$1,935	8.40%	\$2,126	9.00%	\$1,705
Arlington County	9.90%	\$1,457	9.60%	\$1,750	9.00%	\$2,279	8.80%	\$3,020	9.40%	\$1,975
Fairfax County	9.50%	\$1,424	7.30%	\$1,566	5.90%	\$1,862	5.00%	\$2,093	6.60%	\$1,739
Total Submarket (3Q20)	9.80%	\$1,449	7.90%	\$1,603	7.00%	\$1,894	6.20%	\$2,151	7.60%	\$1,746
Total Submarket (2Q20)	8.80%	\$1,509	7.40%	\$1,648	6.90%	\$1,920	6.70%	\$2,158	7.30%	\$1,781
Total Submarket (3Q19)	6.00%	\$1,557	6.10%	\$1,669	5.50%	\$1,931	5.30%	\$2,150	5.80%	\$1,798

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, 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, three motivated trainees, an economic consultant and an associate market analyst. 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 3Q19
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	Sept-20	2019	2018
Washington, D.C. MSA	8.90%	3.00%	3.20%
National	7.9%	3.40%	3.70%
Home Mortgage Rates	Oct-20	2019	2018
30-Year Fixed	2.81%	4.10%	4.55%
15-Year Fixed	2.32%	3.57%	4.03%
5/1-Year ARM	2.88%	3.63%	3.69%

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

ADAPTING TO THE WORLD OF COVID-19

Retail – Some properties will likely become more like last-mile fulfillment centers, or logistics space with curbside pick-up. Expect to see a much smaller physical retail presence and vast amounts of vacant space with lower rents. Top brands will take advantage of lower prices to upgrade their locations, while malls will leverage empty space to improve their tenant roster or convert to more innovative uses.

Multifamily – Homebuilders are having a difficult time keeping up with housing demand due to the disruption of supply chains and increases in material prices. Developers are pushing lawmakers to help assist with rising construction costs, at the same time tax revenues are sliding leaving local governments with less money to dedicate to affordable housing. With no foreseeable help from government, property owners and tenants are being left to fend for themselves.

Hospitality – Looking ahead we expect economy hotels to have the fastest return to pre-pandemic levels, and luxury and upper scale hotels to have the slowest. Economy hotels are better able to tap segments of demand that remain relatively healthy despite travel restrictions, including truck drivers and extended stay guests.

Office – While it's still too early to gauge the long term implications for office requirements. Many companies have already begun consolidating their footprint, saving money on fixed rent costs and investing in technology. Companies who are in need of physical space are opting for shorter lease terms to be more agile in the face of crisis.

VALBRIDGE FEATURED ASSIGNMENT

McCleary Hill consists of two phases on a nearly 27-acre parcel acquired by the Hagerstown Housing Authority. Upon completion, the site will offer fourteen homeownership units as well as 138 townhome rentals with a majority of these units set aside for very low income households. McCleary Hill will serve as off-site replacement public housing for the community of Noland Village which is planned to be redeveloped as a mixed-income community. Homeownership units will be developed by Habitat for Humanity at both the Noland Village and McCleary Hill sites using reinvested developer fees and other sources of funds. The second phase of McCleary Hill is currently under construction and the first units are expected to be completed by the beginning of 2021. Valbridge Property Advisors provided the market feasibility analysis for both phases of McCleary Hill as part of its award of Low Income Housing Tax Credits.

