## office space monitor: october-december 2012

### montgomery county

The County's average office vacancy rate was 13.5 percent in the fourth quarter of 2012, up slightly from 13.3 percent one year ago and up 5.5 percentage points above the lowest vacancy rate in the last decade (8 percent) achieved in the fourth quarter of 2006. Average office rent was $27.84 per square foot, down from $28.31 in the same quarter of 2011. One office property totaling 585,130 square feet was built in the last quarter of 2012. Montgomery County had six office properties totaling 1.5 million square feet under construction at the end of 2012, accounting for 97 percent of office construction in the state.
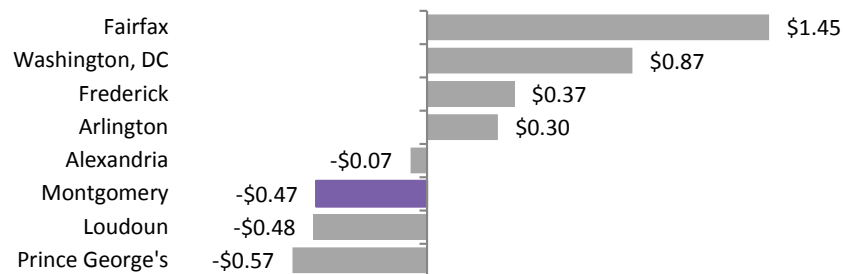
### region

The Washington, D.C. region's office vacancy rate was 13.5 percent, up slightly from 13.3 percent a year ago. Average office rents closed the year at $33.95 per square foot, up from $33.62 one year ago. The region added nine office properties totaling 909,404 square feet during the fourth quarter of 2012. Montgomery County accounted for nearly 64 percent of this new office inventory. Arlington followed, adding 138,535 square feet of office space. The District ranked third with 98,243 square feet of new office space. More than 7.6 million square feet of office space was under construction in the region in the final quarter of 2012. The District of Columbia led office development in the region, with 2.3 million square feet under construction, followed by 2.2 million square feet underway in Fairfax County. Montgomery County ranked third.
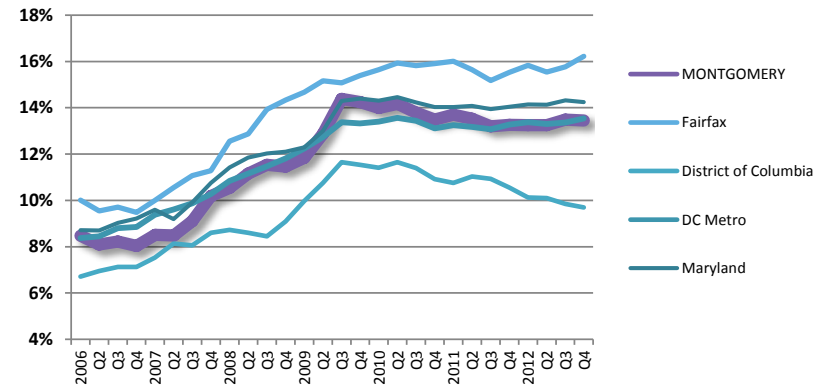
### state and nation

Maryland's office vacancy rate was 14.2 percent in the quarter, up slightly from 14 percent one year ago. Average office rents were $24.60 per square foot, down from $25.06 one year ago. The U.S. office vacancy rate fell to 11.9 percent in the closing quarter of 2012, down from 12.3 percent in the first quarter of the year.

### Year-over-year change in average office rent



| | |
|---|---|
| Fairfax | $1.45 |
| Washington, DC | $0.87 |
| Frederick | $0.37 |
| Arlington | $0.30 |
| Alexandria | -$0.07 |
| Montgomery | -$0.47 |
| Loudoun | -$0.48 |
| Prince George's | -$0.57 |

**Montgomery County had six office properties totaling 1.5 million square feet under construction at the end of 2012, accounting for 97 percent of the state's office construction.**

### OFFICE VACANCY RATE



Legend: MONTGOMERY, Fairfax, District of Columbia, DC Metro, Maryland

### OFFICE MARKET SNAPSHOT

Year-End 2012

| | EXISTING OFFICE SPACE | | VACANCY | | AVERAGE RENT |
|---|---|---|---|---|---|
| | buildings | sq ft | rate | sq ft | per sq ft |
| **MARYLAND** | **4,298** | **118,823,992** | **14.2%** | **16,925,202** | **$24.60** |
| **REGION** | **11,310** | **476,909,403** | **13.5%** | **64,557,456** | **$33.95** |
| Alexandria, VA | 739 | 20,731,601 | 16.5% | 3,428,235 | $30.17 |
| Arlington, VA | 325 | 39,851,591 | 16.1% | 6,421,611 | $40.78 |
| District of Columbia | 2,389 | 150,330,210 | 9.7% | 14,577,558 | $49.28 |
| Fairfax, VA | 1,758 | 111,819,004 | 16.2% | 18,145,362 | $29.70 |
| Frederick, MD | 638 | 8,827,825 | 14.7% | 1,296,564 | $21.11 |
| Loudoun, VA | 551 | 17,729,937 | 15.3% | 2,715,787 | $23.50 |
| **Montgomery, MD** | **1,509** | **70,799,816** | **13.5%** | **9,532,760** | **$27.84** |
| Prince Georges, MD | 1,154 | 26,729,634 | 17.8% | 4,765,189 | $19.92 |

## office trends

Montgomery County's inventory of vacant office space rose to 9.5 million at the close of 2012, a 2.3 percent increase in one year. Office vacancy rates have been flat for the past two years, staying between 13.2 percent and 13.7 percent. After a sharp fall-off in 2009 and 2010 and modest gains in 2011, office construction accelerated in 2012. The County added around 585,000 square feet of new office space in the fourth quarter of 2012, up sharply from the 166,000 total square feet that was added from 2010 through the third quarter of 2012. The year closed with an additional 1.5 million square feet of office space under construction. In contrast to the region as a whole, asking office rents in Montgomery County have declined slightly each year since the recession began, falling to $27.84 per square foot at the close of 2012 -- $2.24 below the peak rent reached in the third quarter of 2008.
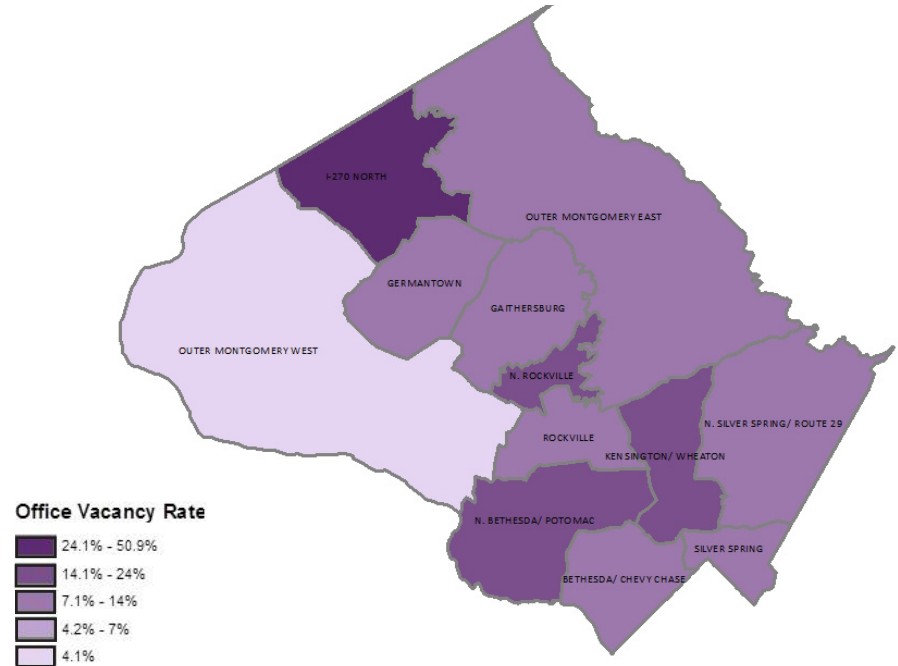
## office market conditions in Montgomery County

Office vacancy rates in Montgomery County submarkets ranged from 4.1 percent in the western part of the county (Outer Montgomery West) to a high of 50.9 percent in the I-270 North market, where a half million square feet of office space in the landmark COMSAT Building remains vacant. The North Bethesda/Potomac submarket had the largest year-over-year net increase in vacant office space, with vacant inventory rising by 127,090 square feet in 2012. Rockville had the largest absolute decline in vacant space (64,248 square feet), while North Rockville has the highest vacant inventory (2.04 million square feet).

### OFFICE MARKET SNAPSHOT

| | EXISTING OFFICE SPACE | | VACANCY | | Year-End 2012 AVERAGE RENT |
|---|---|---|---|---|---|
| | buildings | sq ft | rate | sq ft | per sq ft |
| **Montgomery, MD** | **1,509** | **70,799,816** | **13.5%** | **9,532,760** | **$27.84** |
| Bethesda/Chevy Chase | 247 | 11,948,617 | 9.9% | 1,184,984 | $35.84 |
| Gaithersburg | 210 | 7,370,392 | 11.5% | 850,378 | $22.42 |
| Germantown | 65 | 2,937,292 | 13.8% | 406,721 | $23.64 |
| I_270 North | 21 | 1,082,529 | 50.9% | 550,714 | $19.06 |
| Kensington | 101 | 1,971,006 | 23.3% | 459,842 | $23.42 |
| N. Bethesda/Potomac | 129 | 10,757,568 | 15.0% | 1,614,984 | $29.57 |
| N. Rockville | 162 | 13,189,196 | 15.5% | 2,041,456 | $26.16 |
| N. Silver Spring/Route 29 | 84 | 3,601,167 | 7.8% | 281,283 | $23.76 |
| Outer Montgomery East | 75 | 734,210 | 7.9% | 58,056 | $25.57 |
| Outer Montgomery West | 31 | 886,287 | 4.1% | 36,702 | $30.40 |
| Rockville | 204 | 9,406,754 | 13.2% | 1,237,149 | $29.18 |
| Silver Spring | 188 | 7,394,900 | 11.0% | 816,941 | $27.38 |

source: Montgomery County Planning Department analysis of CoStar data (3/8/2013).

## OFFICE VACANY RATE, FOURTH QUARTER 2012



**Office Vacancy Rate**

- 24.1% – 50.9%
- 14.1% – 24%
- 7.1% – 14%
- 4.2% – 7%
- 4.1%

## ONE-YEAR CHANGE IN VACANT OFFICE SPACE, 2011 Q4 - 2012 Q4



**Change in vacant office space**

- 99,249 - 127,090
- 49,001 - 99,248
- 14,001 - 49,000
- 0 - 14,000
- -39,994 - -1