

# Bethesda Office Market Update

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Q2 2018

It rained *every day* in the second quarter.

It didn't, but it felt like it and luckily, we're better at talking about conditions and forecast for the office market than we are about the weather. When it comes to Bethesda's office market, we're telling a much better story.

The average gross rent per square foot took a slight dip from last quarter and even last year, but overall, it's about a dollar over the 5-year average. It's hard to tell the whole story from those numbers alone, because the delta between trophy (and even "super" trophy) Class A buildings and Class B & C buildings in Bethesda is widening. The approximately **\$37.64** per square foot average rent reported for second quarter is a far cry from the \$70-range commitment reportedly made by the latest tenant to sign on at JBG Smith's new development...

...4747 Bethesda Avenue, which is scheduled to deliver Q3 2019, is just one of several new developments proposed or in the pipeline in downtown Bethesda. While some development is build-to-suit, most notably the new Marriott headquarters (which broke ground in June), there is a lot of speculative development moving forward. It appears developers like the forecast for Bethesda and want to ensure their role in its sunny future through redevelopment, repositioning, and new development.

Imminent new building deliveries should alleviate the tight **10.7%** vacancy rate that currently leaves little flexibility for tenants to find a place among existing availabilities. New development could help retain or attract companies that otherwise need to look farther up the Red Line, I-270 and 355 as mix-use developments from North Bethesda up to Germantown continue to offer more options and less traffic. One tenant of note to that left downtown Bethesda for Rockville last quarter was H. Beck, who took almost 24,000 square feet at 2400 Research.

An entirely new addition to the Bethesda market is the proposed plan for the Stonebridge Carras/Donohoe Development joint venture 8280 Wisconsin Avenue named "Bethesda Bio." While Montgomery County has a strong bio presence further north, this urban model will be new to the region (except for United Therapeutics in Silver Spring) and address the thin lab space availability that currently exists up the corridor. With a summer 2021 delivery goal, leasing efforts are just getting going but the outlook is good with NIH at the building's doorstep.

**So, what's ahead for tenants? If we're harkening back to the weather analogy... is it an umbrella or sunglasses?**

I say grab your sunglasses. Though the tight availability makes it a "landlord's market" in terms of rental rates, there is still a lot that counts in a tenant's favor when considering the hot selection of both new deliveries as well as improvements and amenity additions to existing office buildings. Though rental rates may not see a reduction, concessions such as abatement and construction allowance could remain in your favor across all building classes as long as there is competition.

The only gray cloud in Bethesda's sky could be transportation and parking. Despite the headlines saying the new workforce doesn't drive and ridesharing/driverless vehicles will be the new normal... there will still be young workers who migrate to the suburbs when it's time to start a family and Wisconsin Ave and the parking garages aren't feeling any roomier. However, with the Purple Line and improvements to the Capital Crescent Trail and bike & pedestrian safety projects approved and underway, For this part of the forecast I hope I'm off, just like our counterparts reporting the weather often are.

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