Scheer Partners
A Reputation for Results

Market Report

Maryland

SCIENTIFIC REAL ESTATE *Mid-Year 2023*

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MARKET SNAPSHOT

- ▲ AVAILABILITY
- ▲ RENTAL RATES
- ▼ ABSORPTION
- – CONSTRUCTION DELIVERIES

MARKET SUMMARY

Funding remains the key driver for scientific company expansions.

Through H1 2023, the ongoing standoff between venture capital groups and pre-revenue companies has resulted in a pronounced decrease in demand for lab space. Companies are cutting back on overhead to extend their cash runways for research and development resulting in announced layoffs and disposal of facilities that are not essential to technological advancement. For example, the leasing volume for the I-270 Corridor in H1 2023 is only 180,097 SF, with 73.6% being new deals, compared to an average of 256,390 SF between 2019-2022. In-market expansions are significantly lower than historic averages at only 8,867 SF, a 91.7% decrease during the same period.

New availability came in the form of subleases and construction of spec suites (ranging from 2,000 – 12,000 SF). Despite a rise in space options there continues to be upwards pressure on asking rents as landlords combat rising interest rates and construction costs. Lab tenants have been challenged by their boards at lease execution, which has left some expansions on hold until their next round of funding.

KEY TAKEAWAYS

We continue to operate in an increasingly tenant-friendly environment which is estimated to endure through mid-2024.

Despite rising supply and limited demand amid macroeconomic headwinds such as rising interest rates, and labor/construction costs, Class-A lab rents are holding steady as owners are faced with maturing debt and loan obligations. Rental rates are being offset by record-high concessions of $175+ PSF in tenant improvement allowance (TIA) for direct-new leases, with some landlords amortizing larger improvement packages for terms exceeding 10 years.

New developments are having trouble getting financed and require a lead tenant to get out of the ground.

More spaces are being marketed for scientific use, many in shell condition, but due to the slowdown in tenant demand across asset classes, they could be leased to a different end user if given the opportunity. Speculative or proposed projects vastly overstate the number of planned deliveries that would add to inventory for 2023-2025. New ground up development that was previously going to be built on a speculative basis are now waiting for a lead tenant before they break ground.

Funding remains the key driver for scientific company expansions.

Life science companies are taking a cautious approach to their real estate needs as they look to control costs.

Pandemic accelerated funding from 2020-2022 enabled companies to execute leases for larger footprints anticipating future needs for additional space as they expanded operations and headcount. However, a disconnect in valuations and more cautious investor sentiment has made investments in pre-revenue scientific companies less attractive, causing many to exhaust their financing as they look to scale.

Contract-based groups show interest in growth and are using smaller real estate footprints as a springboard until they build client lists / revenues.

Many contract research and manufacturing organizations are dealing with the ripple effect of the funding issues by the pre-revenue companies that contract with them. Diagnostic companies are working to navigate the new realities in the post-COVID market looking for a path forward. New startups in both contract-based spaces are eager to find opportunities and are testing the market for the next generation of services. Speculatively built lab spaces provide a strong option for these companies by allowing for immediate occupancy and shorter length of lease.

Rising construction costs and supply chain issues hinder the buildout process.

Tenants should expect to incur higher costs to convert or build out functional lab space. Time to move-in is a critical consideration in the life science sector and long lead times for materials and equipment, such as 12 to 24 weeks for furniture and case work, and up to 60 weeks for backup generators, have become the norm. Additionally, high contractor fees, resulting from reductions in labor availability, and rising costs of MEP (mechanical, electrical, plumbing) equipment, steel, and concrete, further inflate expenses.

I-270 CORRIDOR

The market has over 462,000 SF of sublease space available, reaching a record-high 4.15% availability through H1, and will become more of a factor through 2024 as companies look to decrease their real estate costs.

The I-270 Corridor's existing inventory currently sits at 11,127,204 SF, with a total availability rate of 9.58% or 1.07 million SF. A total of 172,818 SF of spec suites delivered in the first half of the year and an additional 60,400 SF are scheduled to deliver in the second half of the year. 3.15 million SF of space (28.4%) is owner-occupied while 7.9 million SF is privately held and leased. There have been no sales transactions in the corridor through H1 2023.

H1 2023 deal volume driven by new activity has substantially fallen since the pandemic-accelerated highs of 2021. Total availability in the market is 9.58%, it is largely driven by sublease activity in Rockville and Gaithersburg. Germantown has the highest amount of direct available space for lease as a percentage of submarket inventory, totaling 118,355 SF and is, by and large, the worst performing submarket relative to the corridor. Expansions within the market grinded to a halt with only 20,581 SF of deal volume in 2022, and under 10,000 SF through H1 2023.

Existing Inventory (SF)
11,127,204

Under Construction (SF)
438,166

Under Renovation (SF)
282,331

Proposed (SF)
2,122,000

Availability Rate (%)
9.58

Avg. Asking Rents ($)
42.12

We continue to operate in an increasingly tenant friendly environment which is estimated to endure through mid-2024.

DEVELOPMENT PROJECTS

Property Address
9810 Darnestown Rd. Rockville, MD
Square Feet
192,000
Building Status
Under Construction
Delivery Date
Fall 2023*
Tenant
Amgen
Owner
Alexandria Real Estate Equities

Property Address
9820 Darnestown Rd. Rockville, MD
Square Feet
250,000
Building Status
Under Construction
Delivery Date
Fall 2024*
Tenant
BioReliance
Owner
Alexandria Real Estate Equities

Property Address
20521 Seneca Meadows Pkwy Germantown, MD
Square Feet
83,141
Building Status
Under Construction
Delivery Date
Fall 2023
Tenant
Available
Owner
Minkoff Development Corporation

Property Address
4 Martin Luther King Blvd. Baltimore, MD
Square Feet
250,000
Building Status
Under Construction
Delivery Date
2024
Tenant
University of Maryland
Owner
Wexford Science + Technology

*Delivery of core and shell. Final delivery contingent on tenant design/build.

MAJOR LEASE TRANSACTIONS

Tenant Name
Astrazeneca
Property Address
9950 Medical Center Dr. Rockville, MD
Square Feet
84,264
Deal Type
Direct New

Tenant Name
Bioqual
Property Address
1330 Piccard Dr. Rockville, MD
Square Feet
35,000
Deal Type
Renewal

Tenant Name
Emergent
Property Address
401 Professional Dr. Rockville, MD
Square Feet
11,500
Deal Type
Direct New

FUNDING (COMPANIES)

HeMemics Biotechnologies
Seed ($2mm)

Salubris Biotherapeutics
Series B ($35mm)

Hightide Therapeutics
Series C ($107mm)

Adaptive Phage Therapeutics
Series B ($110.7mm)

ACQUISITIONS

CiPA LAB For Drugs of Tomorrow. .... **by Nova Research Laboratories**

TeraImmune .... **by Baudax Bio**

VALENZABio .... **by Acelyrin**

Life science companies are taking a cautious approach to their real estate needs as they look to control costs.

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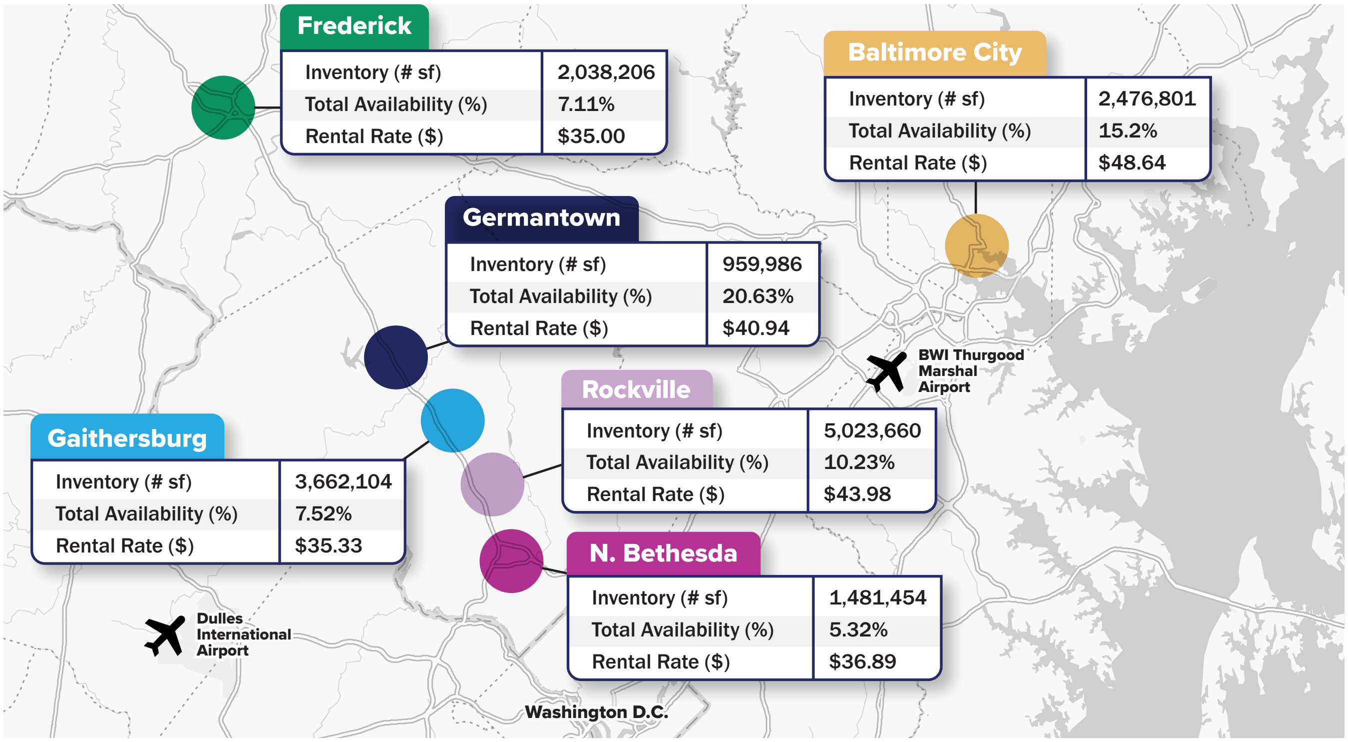

Frederick

Inventory (# sf)	2,038,206
Total Availability (%)	7.11%
Rental Rate ($)	$35.00

Baltimore City

Inventory (# sf)	2,476,801
Total Availability (%)	15.2%
Rental Rate ($)	$48.64

Germantown

Inventory (# sf)	959,986
Total Availability (%)	20.63%
Rental Rate ($)	$40.94

Rockville

Inventory (# sf)	5,023,660
Total Availability (%)	10.23%
Rental Rate ($)	$43.98

Gaithersburg

Inventory (# sf)	3,662,104
Total Availability (%)	7.52%
Rental Rate ($)	$35.33

N. Bethesda

Inventory (# sf)	1,481,454
Total Availability (%)	5.32%
Rental Rate ($)	$36.89

SUBMARKET SUMMARY

GAITHERSBURG

Gaithersburg has been the most transactionally active submarket in 2023 (8 of 12 leases that were signed), but also has had the greatest percentage change increase in lab availability. Since 2019, Gaithersburg had a near zero percent availability rate. In late-2022, that started to change with more space options. As of January 2023, Gaithersburg had 150,000 SF of space on the market for lease, most of which was at the Monument Innovation Center at 735 Watkins Mill Road. Through the preceding months of 2023, the available lab inventory in Gaithersburg more than doubled to 356,488 SF. This strong uptick in available lab space is due to large subleases which now offer tenants existing lab and office space for various sizes and functionalities. Growth from groups like BioNTech and Emergent have helped to offset the increase in new availability.

GERMANTOWN

Germantown has seen several buildings converted from offices to lab over the past several months. Landlords are delivering speculatively built lab/office suites of various sizes, plus there are a couple of subleases that are available and provide a solution for tenants who need immediate occupancy. Minkoff Development's ground-up, lab-ready, shell is delivering in Seneca Meadows to accommodate a larger company footprint. Lab availability in the Germantown market has grown to 132,755 SF in the first half of 2023 with over 300,000 SF in the development pipeline, should continue to see rising availability through the end of the year.

NORTH BETHESDA

The North Bethesda lab market has remained stable in the first half of 2023 with no new additions to the inventory. Speculatively built lab suites at 12441 Parklawn and the large block of lab at 12725 Twinbrook, which is being marketed as a life science repositioning opportunity given the substantial existing infrastructure, remain the only existing options in the North Bethesda market.

Rising construction costs and supply chain issues hinder the buildout process.

ROCKVILLE

Rockville remains the largest lab submarket in the I-270 Corridor. There has been an increase in lab availability from 260,000 SF to 514,147 SF due to subleases and conversions, which provide an interesting array of small lab spaces, as well as some larger blocks in the 40,000 – 50,000 SF range. The biggest news out of Rockville in the first half of 2023 was 9950 Medical Center Drive changing hands, from TCR2 to AstraZeneca, for the entire 84,264 SF building.

FREDERICK

Frederick is quietly proving itself as a contract-market with 22.2% of the companies located within city limits being contract research & manufacturing organizations (per the City of Frederick's Industry Profile, June 2023). Companies like AstraZeneca and Kite Pharma, have located here to take advantage of the lower cost options for scientific manufacturing given their low tax structure and more competitive asking rents than that of the I-270 corridor.

The city boasts 2.038 million SF of existing scientific inventory with 215,000 SF of construction at Progress Labs at Riverside. Frederick has a large amount of potential scientific real estate that is being considered by developers ,such as the Jefferson Technology Park, although it appears that projects like this will require pre-leasing of over 50% to get out of the ground, which is not uncommon. Asking rents for manufacturing space are being marketed in the $12-17 range, while newly renovated lab-ready shell spaces such as 7495 Horizon Way are asking $35 PSF NNN.

BALTIMORE CITY

Baltimore boasts some of the state's highest base rental rates in scientific real estate at $60 NNN at locations like 4 Martin Luther King Avenue. After factoring in common area maintenance (CAM) costs of approximately $24, gross rents quickly catapult into $80-$90 PSF. Despite being the state's most expensive market, given barriers of low supply, the city offers prime partnerships with organizations like Johns Hopkins University and Fast Forward. Scheer Partners recently announced a partnership with the incubator – a testament to our firm's commitment to the market.

The delivery of City Garage at 101 W Dickman Street is continuing to see inbound activity but demand has shifted away from pre-revenue life science companies towards those focused on medical devices and diagnostics. Although, BeMore Labs at 6200 Seaforth St. has had success in leasing over 16,000 SF of spec suites recently. They have three more spec suites delivering in Q2 2024, each in the 2,500 SF range, which reinforces the need for more to be constructed in this market.

Some companies choose Montgomery County for its affordable Class A spaces but Baltimore's urban setting, and university research, makes it a hub for recruitment and growth. Even as companies strategize to extend their cash runways by cutting headcount and reducing space, the city remains attractive due to reliable tech transfer out of Johns Hopkins and the University of Maryland. Additionally, the presence of top incubators and local venture capital firms focused on life science companies adds to the appeal.

BeMore Labs has four spec suites delivering in Q2 2024

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