

OFFICE & MEDICAL **MARKET**



RETAIL REVITALIZATION REPORT 2023

A Research and Analysis Report Supporting Prince George's County's
RETAIL REVITALIZATION ONLINE GUIDE

NATIONALLY, THE OFFICE market is in major flux with the persistence of remote work. Employers are still working to navigate these shifts and define their hybrid work policies. Many employers are looking for ways to entice their employees back to the office, including enhanced amenities and flexible workspaces. Remote work is also changing the nature of office space, with many employers looking for ways to take advantage of limited in-office time to promote collaboration. Specifically, Washington, D.C., was recently ranked the top major city to have embraced remote work, with almost half of Washington, D.C., employees choosing to work from home.

MEDICAL OFFICE OPPORTUNITY

When available retail space exceeds demand, landlords are increasingly looking to non-retail tenants to fill vacancies in traditional retail storefronts. As such, medical offices and healthcare tenants operating out of retail space are known as “medtail.” This isn’t a new concept but has gained traction in the aftermath of the pandemic. Medical tenants have been taking advantage of lower retail rents post-pandemic. Out of all leased medical office space in the United States in 2022, 20 percent is located in retail buildings. This is an increase from about 16 percent in 2010.³⁵

From a landlord’s perspective, medical tenants not only fill vacancies and increase foot traffic to other retail occupants, but they are typically well-funded and sign long-term leases. This trend will continue to evolve as many healthcare providers embrace a more customer-oriented approach and blur the line between a traditional healthcare provider and a holistic wellness company.

While medtail is the most common non-retail use of retail space, professional offices for attorneys, accountants, and architects, as well as daycare or educational facilities, religious facilities, and even ground floor residential make up some of the non-retail uses.

BRANCH AVENUE OFFICE OPPORTUNITY

Like the residential market, the majority of office properties in the market are located in the high-density areas in the northern submarket. There is minimal dedicated office space larger than 10,000 square feet in the south.

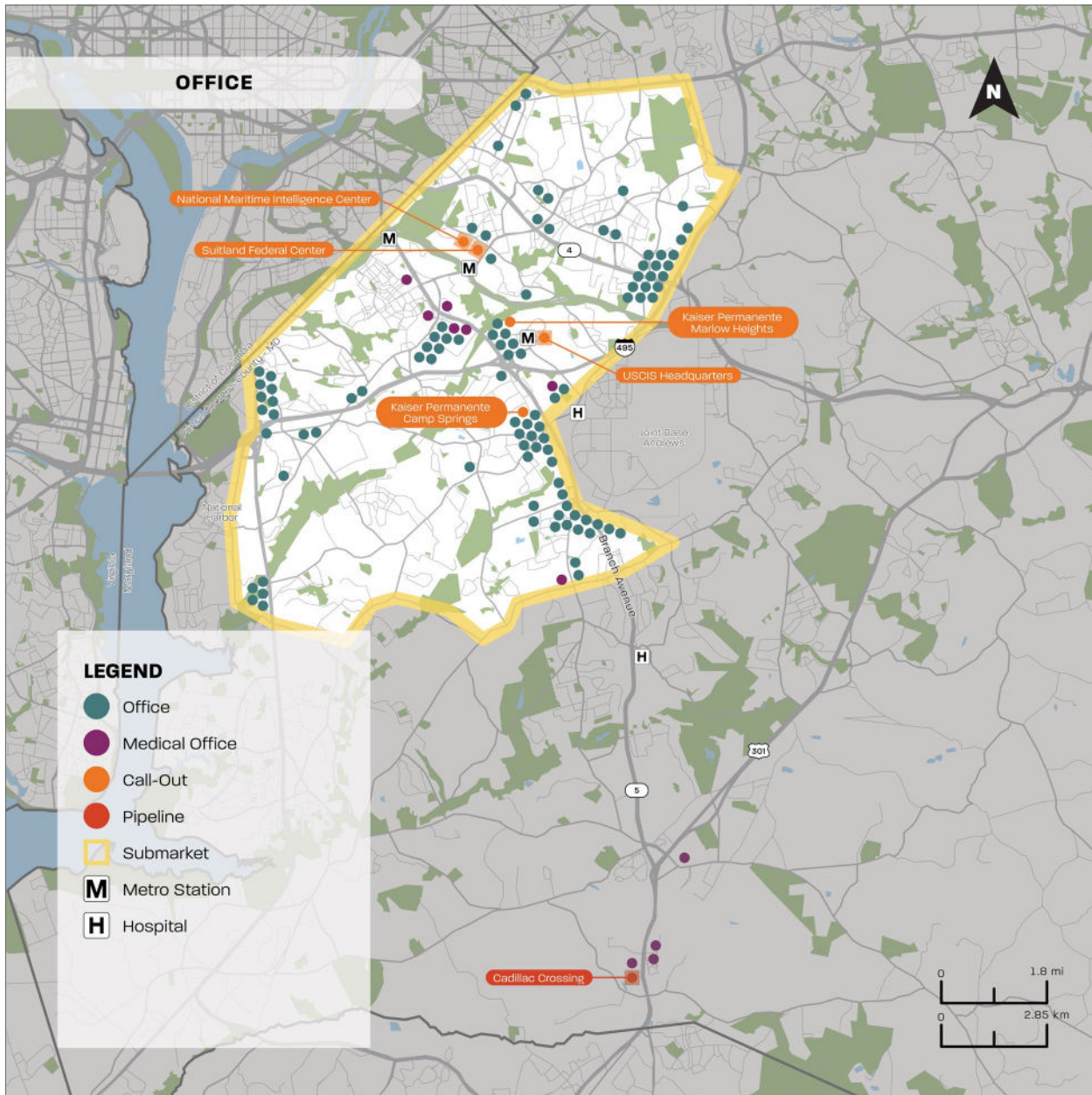
The northern segment of the corridor falls within the Suitland/Oxon Hill office submarket, denoted in **Map 11**. This includes the northern areas of Branch Avenue, as well as District Heights, Suitland, and Oxon Hill. This submarket has a small office presence, with a total inventory of 3.9 million square feet of office space. Most of the office space is concentrated in Suitland and occupied by federal tenants, such as the headquarters of the U.S. Census Bureau and National Maritime Intelligence Center (located in Suitland Federal Center). Federal tenants account for 2.3 million square feet of office space.

OUR METHODOLOGY

To evaluate the opportunity for office development along the Branch Avenue corridor, we first examined the existing inventory of office space to identify concentrations and gaps in the market. We analyzed historical performance of the existing inventory in the submarket, including net absorption, occupancy rates, and new developments. We assessed employment trends and projected employment growth to understand how the current supply would meet future needs. We then assigned capture rates to determine the amount of submarket demand that would be capturable on our site. Finally, we projected demand for office development within the Branch Avenue corridor over the next five and ten years. The following analysis is based on commercial real estate data sourced from Moody’s REIS, supplemented with employment and demographic data from Sitewise, ESRI, and the U.S. Bureau of Labor Statistics.

³⁵ Jane Margolies, “To Fill Empty Retail Space, Landlords Tap Doctors and Dentists,” The New York Times, February 22, 2022.

Map 11. Office Submarket and Supply



The submarket’s inventory is aged, with 65 percent of the office properties in the area built before 2000. Most office buildings in the market have small footprints, providing limited options for mid- to large-scale office tenants looking for space that is larger than 10,000 square feet. Out of the 375 office properties in the submarket, only six buildings are over 100,000 square feet, and only 32 buildings are over 25,000 square feet.

After a high of 6.0 percent in 2016, vacancy fell to an extremely low level of 2.6 percent in 2021.³⁶ This low vacancy, coupled with low construction activity since 2016, indicates that there is very little demand for office space in the submarket overall.

³⁶ REIS, 2022.

Historically, activity in this market has been slow. Every year since 2016 has seen negative net absorption (meaning more tenants have left the submarket than moved in), except for 2020.³⁷ Prior to 2020, total inventory in the submarket steadily contracted, losing 118,000 square feet since 2009 due to the conversion or demolition of obsolete office space. Office rental rates have steadily increased from \$22.77 per square foot in 2016 to an average of \$28.70 in 2021. However, rental rates below \$30 per square foot and the overall state of the office market make it difficult for developers to justify future office development in the area.³⁸

Despite the negative impacts of COVID-19 on the office market, 2020 was the strongest year on record in the submarket. 2020 was an outlier in the submarket because of the delivery of 589,000 square feet of office space next to the Branch Avenue Metro Station. The development was built for the U.S. Citizenship and Immigration Services and accounts for one-fourth of all office space in the submarket. Although this was the most activity the market has seen on record, due to COVID-19, the building has not been fully occupied by employees.

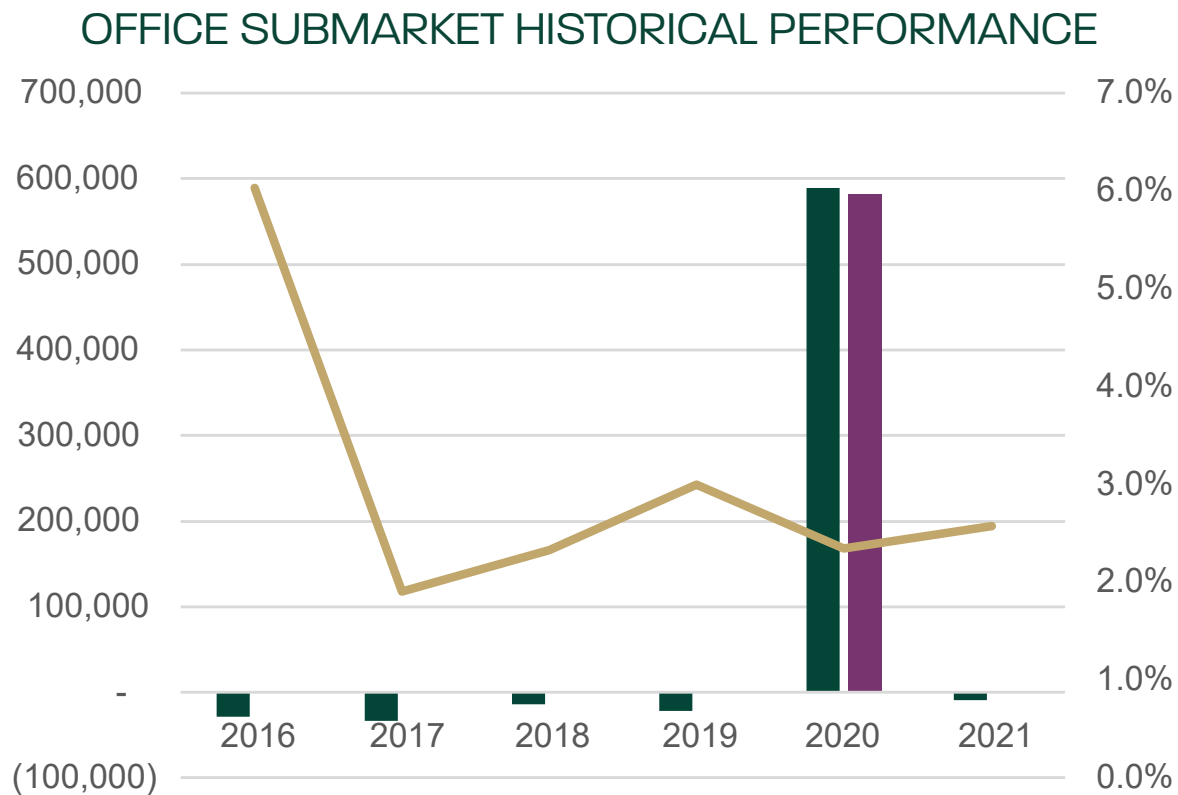


Figure 10. Office Submarket Historical Performance

BRANCH AVENUE MEDICAL OFFICE OPPORTUNITY

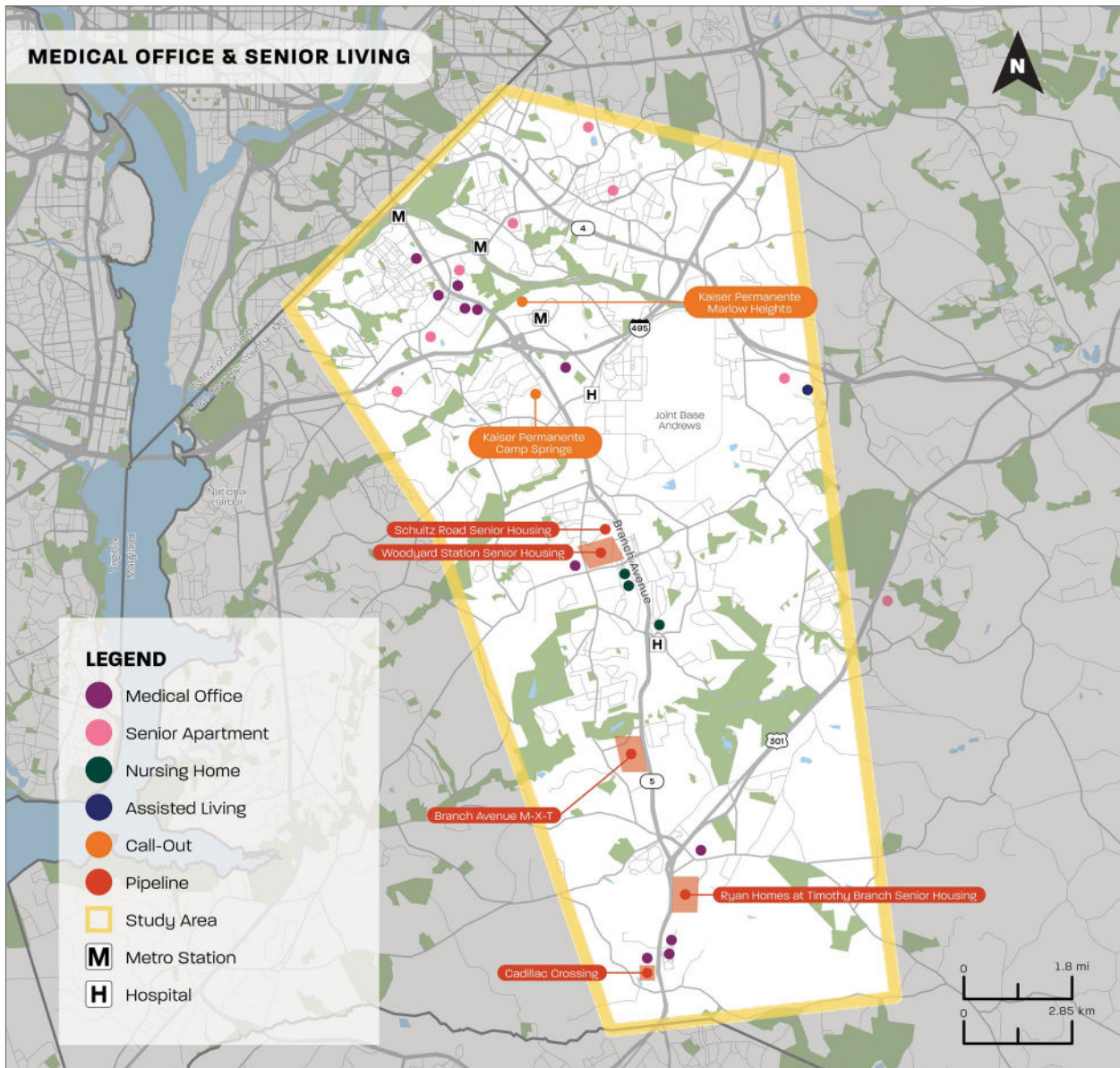
The national decline of traditional office markets over the past few years has given way to opportunities for medical offices in some markets. Currently, the Branch Avenue Corridor hosts 520,000 square feet of dedicated medical office space, ranging from small-scale, single-story urgent care buildings to multi-story medical office buildings.

The medical office inventory is closely split between the north and south; however, there are distinct building types between the two areas. In the north, there are a greater number of buildings which tend to be smaller scale. Medical office properties in the north are significantly older, with the newest buildings delivered in 1987. These properties have strong occupancy but are all class B or C buildings with asking rents below \$30.00 per square foot.

³⁷ REIS, 2022.

³⁸ REIS, 2022.

Map 12. Medical Office Supply



As demonstrated in **Map 12**, medical office properties in the north are located adjacent to Branch Avenue and often close to senior housing properties in the area. There are two Kaiser Permanente buildings in the north—one in proximity to the Malcolm Grow Surgery Center in Joint Base Andrews and another near the Branch Avenue Metro Station.

There are fewer medical office buildings in the south, but they tend to be larger and significantly newer than those in the north. Medical office buildings in the south are clustered in the Brandywine neighborhood, near Brandywine Crossing and the Ryan Homes at Timothy Branch developments. Brandywine Crossing has a 65,000-square-foot medical office building integrated into the center that was delivered in 2016, making it both the newest and largest medical office building in the market. Directly adjacent to the future Stephens Crossing residential development is a 41,000-square-foot medical office building that was also delivered in 2016. In addition to the strong concentration of quality medical office space in the south, there is a 100,000-square-foot office building planned for Cadillac Crossing. Although the exact timeline of the project is uncertain, if this property is delivered, the Brandywine area will be well supplied with quality medical office space.



SOURCE: M-NOPPC

Federal government tenants adjacent to transit stations, such as the Suitland Federal Center, are ideal office submarket tenants along the Branch Avenue corridor.

The recent expansion of the MedStar Southern Medical Hospital Center and the planned senior apartments at the Woodyard Station development generates a need for additional medical office space. However, considering the health of the office market and persistently low rents in the area, future medical office development will most likely mirror existing small-scale properties located near hospitals and senior housing along the Branch Avenue Corridor.

BRANCH AVENUE OFFICE & MEDICAL OFFICE DEMAND CONCLUSIONS

Based on the overall performance of the office submarket, there is a projected demand for 40,000 square feet of office space over the next five years, increasing to 103,000 square feet in ten years. However, all positive activity in the market over the last five years was a result of activity in 2020 rather than activity in the market overall.

Because 2020 was an extreme outlier, traditional office development is not recommended for the corridor in most circumstances. The exception to this would be the attraction of another federal government

tenant (like the USCIS) that is looking for a new headquarters in a location that is less expensive than Washington, D.C., or Northern Virginia. In this case, sites directly adjacent to either the Naylor Road or Branch Avenue Metro Stations are the most ideal. Traditional office development is not recommended in the south.

Given the low demand for traditional office space, it is recommended that any future office development in the corridor be focused on medical office space rather than traditional office tenants.