RESEARCH Q1 2022

Suburban Maryland Office Market

Demand Remains Soft; Upcoming Deliveries Will Boost Occupancy

Suburban Maryland's office market recovery modestly softened in the first quarter of 2022. Net absorption totaled negative 183,027 square feet on the quarter, almost double what it was last quarter. The overall vacancy rate was 17.2% at the end of the first quarter, an increase of 20 basis points from the previous quarter and an increase of 170 basis points from a year ago. The average asking rental rate measured $30.39/SF, an increase of 4.2% from the first quarter of 2021.

Currently, about 923,196 square feet of office space is under construction, excluding renovations and owner-occupied buildings. The pipeline is approximately 89.5% pre-leased. The most notable project currently under construction and scheduled to deliver in early 2022 is Marriott's new headquarters at 7750 Wisconsin Avenue. Marriott has fully leased the 726,000 square-foot building, and the new hotel that is within the headquarters will also deliver as a boost for Bethesda's hospitality community. Flexible work schedules continue to decrease the time employees are expected to be in the office; however, public health conditions have improved, and it seems that the first half of 2022 may be an inflection point for employers requiring a return to office in greater earnest. Variants have forced tenants to evolve their corporate footprint alongside their employees' schedules to maximize office space value without losing talent.

Current Conditions

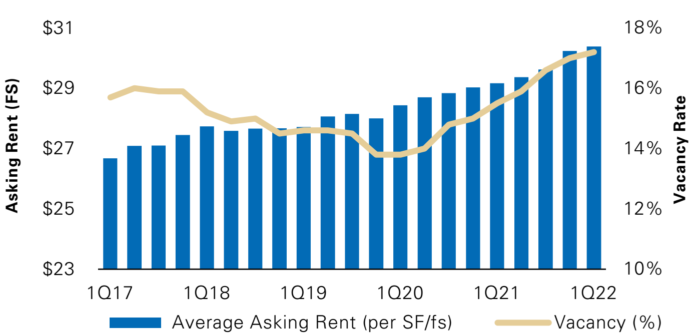
- Suburban Maryland had negative 183,027 square feet of absorption in the first quarter, double what it was last quarter.
- Vacancy has increased 170 basis points from last year, to 17.2%. Demand should increase through second-quarter, dependent on the continued improvement of public health.
- 1.0 million square feet is under construction; groundbreakings are limited given less demand for office space and cost of resources.
- Asking rents continued to steadily increase in the first quarter, rising 4.2% over the last year to $30.39/SF.

Market Summary

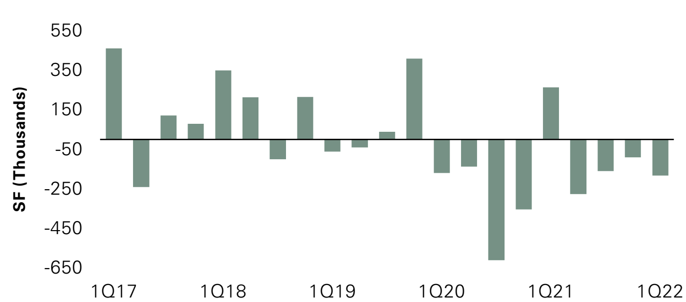
	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	75.2 M	75.9 M	76.0 M	↑
Vacancy Rate	17.2%	17.0%	15.5%	↑
Quarterly Net Absorption (SF)	-183,027	-90,731	263,357	↑
Average Asking Rent/SF	$30.39	$30.24	$29.17	→
Under Construction (SF)	923,196	923,196	1.3 M	↓
Deliveries (SF)	0	0	932,767	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



NEWMARK

Flight to Quality Supports Class A Tenant Demand; Overall Demand Slows in Early 2022

The current slow-demand environment has challenged all asset classes; but the existing demand in Suburban Maryland has largely been within the Class A market. Despite this, Class A net absorption was slightly negative in the first quarter. Total vacancy was stable this quarter, at 17.5%. Occupancy loss has pressured Class A vacancy, which despite the decrease this quarter, has increased by 140 basis points in the last year. The Class B market measures a relatively comparable vacancy of 18.0%, but the rate of growth over the last year is significantly higher, at 280 basis points. The bifurcation of market optimism is most apparent in asking rent growth. Class A asking rents averaged $32.66/SF, up 3.9% from one year ago. Alternatively, Class B rents have grown less aggressively by 2.0% over the year and measure $28.13/SF in the first quarter of 2022.

Suburban Maryland's construction pipeline is 923,196 square feet, which will expand the supply of Class A inventory. Demand should follow suit gradually, assuming public health continues the current trend of improvement. Still, some tenant requirements will shrink compared to pre-pandemic needs as office design evolves.

Life Science Boom Continues with Growth of Lab-Supportive Coworking Space

The demand for space among life science and pharmaceutical companies has remained strong; with its proximity to government funding and the NIH network, Suburban Maryland continues attracting tenants and investors. Also, academic institutions nearby, like the University of Maryland and Johns Hopkins have supported demand, as they collaborate. While not new, life science coworking space has become increasingly popular in Maryland, as demand for flexible space increases. The I-270 Innovation Labs are newly renovated to be flexible for diverse tenants who need plug-and-play space with variable lease lengths. These deals are also a way to drive tenants to office buildings, connected to the gradual trend of the urbanization and amenitization of life science spaces. These spaces requiring adequate office space should provide an overall boost to the Suburban Maryland office market.

Suburban Maryland Outlook

Soft market fundamentals in Suburban Maryland should tighten over the next year; leasing activity is increasing, but should accelerate in 2022, as this should be the year market activities normalize. The elimination of indoor mask mandates in Montgomery and Prince George's Counties in February is a major step towards a return to normalcy and acceptable office occupation for employers and employees.

As this year's most notable delivery in the Suburban Maryland office market, Marriott's growing presence in the area is a boon, especially as it shows confidence that Maryland will be an even greater destination for work and personal travel. Also, like in Northern Virginia, Prince George's County is looking to attract more private and government investment in its growing technology and quantum computing industries, to complement its status as a life science hub. With the help of the University of Maryland, the Economic Development Council is looking to collaborate and grow with IonQ, the world's best-capitalized quantum computing firm. That broader areas of Maryland are seeing development bodes well for the continued necessity of diverse office space throughout the region.

Suburban Maryland's construction pipeline is greater than last quarter, measuring 1.2% of inventory. Future new deliveries will be mostly in Bethesda, with an 89.5% prelease rate overall. Newmark Research projects that Suburban Maryland's overall vacancy rate will decrease to 16.6% by the end of the first quarter of 2024, a consequence of the long-term workplace changes caused by COVID-19 and the flight to quality.

For additional information on the Washington metropolitan area economy and office market outlook, please visit the Mid-Atlantic Market Reports page at nmrk.com.

Notable 1Q 2022 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Tetracore	77 Upper Rock Circle	Rockville	Direct Lease	93,400
The EMMES Corporation	401 North Washington Street	Rockville	Direct Lease	54,198
International Rescue Committee, Inc	8737 Colesville Road	Silver Spring	Direct Lease	20,298
Industrious	4500 Est West Highway	Bethesda	Direct Lease	18,738
LRMD Accounting	9841 Washingtonian Boulevard	North Rockville	Direct Lease	13,000

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
20-40 West Gude Drive	Rockville	$45,000,000	$156	288,491
8301 Professional Place	Landover/Largo/Capitol Heights	$31,700,000	$231	137,000

Submarket Statistics—All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2019 Absorption (SF)	2020 Absorption (SF)	2021 Absorption (SF)	1Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
Suburban Maryland	**75,168,669**	**16.0%**	**17.20%**	**345,945**	**-1,274,520**	**-264,618**	**-183,027**	**-183,027**
Beltsville	1,457,852	24.0%	24.4%	-1,062	-19,452	49,657	10,601	10,601
Bethesda	11,168,118	20.5%	23.1%	187,647	-459,758	8,870	-169,228	-169,228
Bowie	1,229,062	16.2%	16.2%	4,239	-30,591	-13,250	912	912
College Park	3,344,450	12.5%	12.5%	197,669	-152,144	37,062	-6,459	-6,459
Gaithersburg	3,070,379	10.8%	11.1%	-226	-83,535	-3,712	-12,541	-12,541
Germantown	2,303,899	22.8%	23.6%	-42,624	-28,895	-37,167	-54,878	-54,878
Greenbelt	2,869,682	20.0%	20.9%	130,707	-49,391	-30,366	71,150	71,150
Landover/Lanham/Largo	4,597,337	13.9%	14.0%	5,221	21,612	-6,165	9,732	9,732
Laurel	1,842,894	20.8%	21.4%	-95,067	-15,004	-34,012	-2,541	-2,541
North Rockville	11,190,018	16.4%	17.5%	296,245	-373,002	-298,001	51,870	51,870
North Bethesda	10,252,948	16.6%	18.4%	131,710	22,231	-132,870	-117,417	-117,417
Rockville	9,130,960	12.7%	14.1%	94,590	-78,405	-316,790	17,160	17,160
Silver Spring	9,800,651	13.8%	14.9%	-639,090	-3,694	-85,973	17,480	17,480
Southern Prince George's	2,910,419	8.5%	8.6%	75,986	-24,492	598,099	1,132	1,132

Market Statistics By Class

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Suburban Maryland	**75,168,669**	**16.0%**	**17.2%**	**345,945**	**-1,274,520**	**-264,618**	**-183,027**	**-183,027**
Class A	42,274,774	16.0%	17.5%	342,676	-818,668	330,386	-181	-181
Class B	23,042,315	16.9%	18.0%	115,306	-270,935	-532,693	-227,433	-227,433
Class C	9,851,580	13.5%	13.7%	-112,037	-184,917	-62,311	44,587	44,587

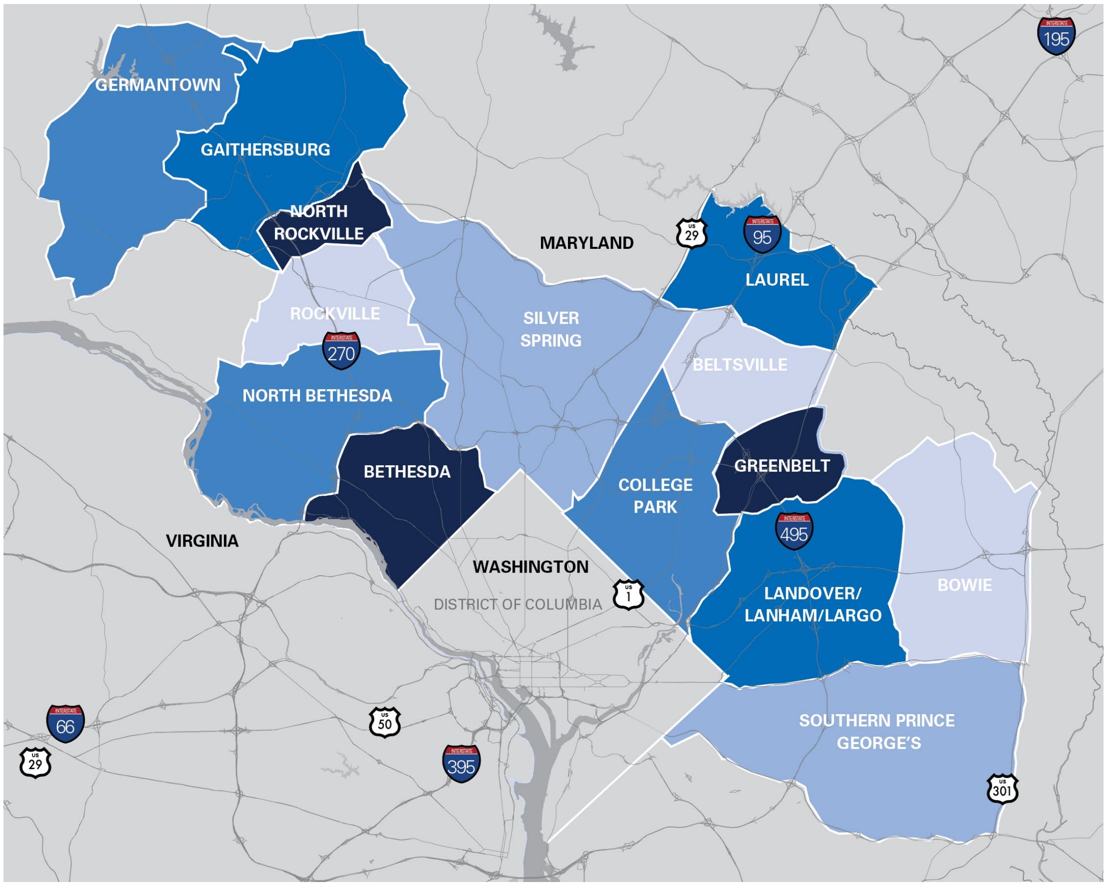
Submarket Statistics—All Classes

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
Suburban Maryland	**75,168,669**	**$32.66**	**$28.13**	**$30.39**	**0**	**0**	**923,196**
Beltsville	1,457,852	$22.65	NA	$22.60	0	0	0
Bethesda	11,168,118	$47.08	$38.24	$42.90	0	0	726,000
Bowie	1,229,062	$26.34	$15.95	$25.59	0	0	0
College Park	3,344,450	$27.93	$24.00	$25.53	0	0	0
Gaithersburg	3,070,379	$30.26	$19.49	$28.07	0	0	0
Germantown	2,303,899	$27.03	$24.40	$25.32	0	0	0
Greenbelt	2,869,682	$23.60	$22.50	$22.97	0	0	0
Landover/Lanham/Largo	4,597,337	$23.13	$21.90	$22.29	0	0	100,000
Laurel	1,842,894	$22.50	$20.84	$21.02	0	0	0
North Rockville	11,190,018	$29.30	$25.11	$27.93	0	0	97,196
North Bethesda	10,252,948	$29.66	$28.39	$28.93	0	0	0
Rockville	9,130,960	$33.22	$30.56	$31.86	0	0	0
Silver Spring	9,800,651	$31.13	$26.31	$28.04	0	0	0
Southern Prince George's	2,910,419	$33.54	NA	$23.90	0	0	0

Market Statistics By Class

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
Suburban Maryland	**75,168,669**	**$32.66**	**$28.13**	**$30.39**	**0**	**0**	**923,196**
Class A	42,274,774	$32.66	NA	$32.66	0	0	923,196
Class B	23,042,315	NA	$28.13	$28.13	0	0	0
Class C	9,851,580	NA	NA	$25.31	0	0	0

Suburban Maryland Office Submarkets



Methodology

Market statistics are calculated from a base building inventory of office properties 20,000 SF and larger that are deemed to be competitive in the Washington Metro Area office market. Properties that are more than 75% owner-occupied and federally owned buildings are generally excluded from inventory.

Glossary

Asking Rental Rate: The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year. Average asking rents are calculated on a weighted average basis, weighted by the amount of available space. Asking rents are quoted on a full service basis, meaning all costs of operation are paid by the landlord up to a base year or expense stop.

Class A: The most prestigious buildings competing for premier office users with rents above average for the area. Class A buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B: Buildings competing for a wide range of users with rents in the average range for the area. Class B building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

Class C: Buildings competing for tenants requiring functional space at rents below the area average.

Deliveries: Projects that have completed construction and received a certificate of occupancy.

Net Absorption: The net change in physically occupied space from one quarter to the next. **Year-to-Date (YTD) Net Absorption** is the net change in physically occupied space from the start of the calendar year to the current quarter. Net absorption is counted upon physical occupancy, not upon execution of a lease.

Sublease: Sublease space is offered and marketed as available by the current tenant, rather than directly from the owner.

Under Construction: Properties undergoing ground-up construction in which work has begun on the foundation. Properties that have only undergone grading or other site work are not included as under construction.

Under Renovation: Properties undergoing significant renovations that require all tenants to be out of the building. These properties are removed from inventory during the renovation period and delivered back to inventory upon completion of the renovations. These properties are not included in under construction totals.

Vacancy Rate: The amount of space that is physically vacant, expressed as a percentage of inventory. (Space that is being marketed as available for lease but is largely occupied is not included in the vacancy rate.) The **Overall Vacancy Rate** includes all physically vacant space, both direct and sublease, while the **Direct Vacancy Rate** includes only direct space.

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