

Suburban Maryland Office Market

Market Improves Slightly Amidst Declining Vacancy and Stronger Pipeline

Suburban Maryland's office market recovery tightened slightly in the first quarter of 2023. Net absorption totaled 119,597 square feet on the quarter, boosted by few instances of negative absorption and no single vacancy greater than 100,000 square feet. The overall vacancy rate decreased moderately, to 18.1%. Nonetheless, vacancy has increased 110 basis points over the last year. The average asking rental rate measured \$30.88/SF in the first quarter of 2023, an \$0.08/SF decrease from the fourth quarter of 2022. Rental rates have been relatively steady over the last year, oscillating between \$30.75/SF and \$31.00/SF.

Suburban Maryland's construction pipeline measured 511,746 square feet in the first quarter of 2023. The pipeline is approximately 17.2% preleased, maintaining the potential for net new vacancy when future projects deliver. There are five properties currently under construction, and two of those are expected to deliver in 2023. However, one of these under-construction properties is WMATA's new headquarters at New Carrollton, which does not factor into Newmark's stats, due to being owner occupied. The last delivery in the Suburban Maryland office market was Kingdom Square, in the fourth quarter of 2022. No properties broke ground in the first quarter of 2023, however 12345 Columbia Pike broke ground at the very end of the fourth quarter of 2022. It is worth mentioning, though, that Suburban Maryland's construction pipeline is the largest it has been since the second quarter of 2022.

Current Conditions

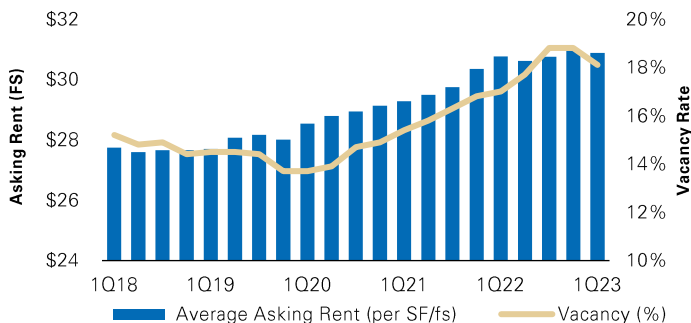
- Suburban Maryland recorded 119,597 square feet of net absorption in the first quarter, a significant improvement from the fourth quarter of 2022.
- Vacancy has increased 110 basis points from a year ago, but it decreased by 70 basis points since the fourth quarter, to 18.1%.
- 511,746 square feet is under construction, the most robust pipeline since second-quarter 2022.
- Asking rents have increased just 0.4% over the last year, though they have declined 0.3% since the fourth quarter of 2022, to \$30.88/SF.

Market Summary

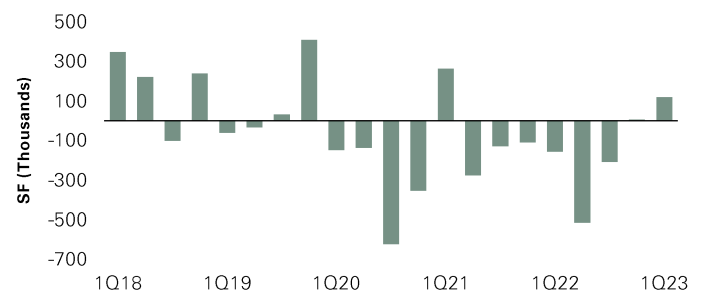
	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	75.2 M	75.8 M	74.9 M	↑
Vacancy Rate	18.1%	18.8%	17.0%	↑
Quarterly Net Absorption (SF)	119,597	6,137	-157,534	→
Average Asking Rent/SF	\$30.88	\$30.96	\$30.76	↑
Under Construction (SF)	511,746	511,746	923,196	→
Deliveries YTD (SF)	0	826,000	0	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Pike District Partnership and MoCo to Boost Tech

Suburban Maryland has long been, and continues to be, popular among life science companies and tenants for its proximity to government entities and the National Institutes of Health. With the Pike District Partnership, Maryland looks to further bolster its appeal to the tech industry, perhaps in part, as response to Northern Virginia's recent and ongoing success in wooing major tech companies. This new partnership, which joins Montgomery County with some of the largest institutions in Maryland, including the White Flint Downtown Advisory Committee, aims to vastly increase the development of and investment in the North Bethesda area. The partnership's plans include making the area into a stronger urban, mixed-use area, that is more popular among pedestrians and less auto centered.

The Pike District Partnership aims to build off the success of the Pike & Rose development, by continuing the growth further out around Rockville. Part of this strategy is based around potential future partnerships with entities like the U.S. Navy, to establish the area as a stronghold for innovation and collaboration. The general growth of North Bethesda towards Rockville should further boost the overall Suburban Maryland office market, by attracting a greater diversity of groups, companies, and individuals to areas beyond Bethesda. Historically, Bethesda has gotten the majority of development and acclaim, though this trend seems to be leveling, which is likely to help balance office market KPIs between northern and southern Maryland. In support of balanced growth, this public/private partnership could create as much as 10 million square feet of development.

Class B Market Stabilizing, Despite Declining Rents

Especially in the last two years since the pandemic, stronger Class A office markets and the flight to quality have been dominating headlines. Yet, at the beginning of 2023, the Suburban Maryland office market suggests that it is possible for Class B market conditions to be steadier relative to Class A. Although Class A assets in Suburban Maryland boast average

rental rates roughly \$6.00/SF higher than those in Class B assets, Class B rental rates have declined gradually over the last year, while oscillating between \$27.00/SF and \$28.18/SF. Maryland's Class A assets, meanwhile, have been relatively steady, but have increased from \$33.25/SF in the first quarter of 2022, to \$33.45/SF in the first quarter of 2023. At the same time, Class A total vacancy has increased by 170 basis points in the last year, to 19.4%, while Class B total vacancy has only increased 40 basis points in the last year, to 18.2%. This stabilization could be an indirect result of the flight to quality and the slightly increased amount of real estate decisions made by tenants in the last several months. Likely, many of the companies who have sought a flight to quality have already done so, and those tenants maintaining some or all their Class B occupancy have already chosen to stay. These trends should be beneficial for the longer-term strength and stability of both Suburban Maryland's Class A and Class B office markets.

Suburban Maryland Outlook

Relatively steady and strengthening market fundamentals in Suburban Maryland should persist in the coming quarters, resulting in net neutral to slightly positive demand. However, recessionary pressures may continue to slightly soften market conditions in early 2023. Suburban Maryland's construction pipeline is unchanged from last quarter, yet at its largest since the second quarter of 2022. Nonetheless, Suburban Maryland's construction pipeline maintains the lowest prelease rate in the metro area, at just 17.2%. Suburban Maryland's overall vacancy rate is expected to remain unchanged, at 18.1% by the end of the first quarter of 2025.

For additional information on the Washington metropolitan area economy and office market outlook, please visit the [Mid-Atlantic Market Reports](https://www.nmrk.com/mid-atlantic-market-reports) page at nmrk.com.

Notable 1Q 2023 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Halvik	7601 Ora Glen Drive	Greenbelt	Direct Lease	79,648
Origin	2600 Tower Oaks Boulevard	Rockville	Sublease	18,389
Management Leadership for Tomorrow	7200 Wisconsin Avenue	Bethesda	Sublease	16,536

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
6901-6905 Rockledge Drive	Bethesda	\$69,500,000	\$101	688,493
9601 Blackwell Road	Rockville	\$48,000,000	\$397	120,999
100 Lakeforest Boulevard	Gaithersburg	\$14,500,000	\$113	128,655

Submarket Statistics—All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2020 Absorption (SF)	2021 Absorption (SF)	2022 Absorption (SF)	1Q 2023 Absorption (SF)	YTD 2023 Absorption (SF)
Suburban Maryland	75,176,335	16.7%	18.1%	1,266,230	-253,457	-876,208	119,597	119,597
Beltsville	1,520,332	22.3%	22.7%	-19,452	49,657	35,604	-15,483	-15,483
Bethesda	11,855,270	20.2%	22.6%	-459,758	8,870	574,089	-133,795	-133,795
Bowie	1,229,062	10.1%	10.3%	-30,591	-13,250	34,712	39,814	39,814
College Park	3,344,450	12.6%	12.6%	-152,144	37,062	-27,744	20,059	20,059
Gaithersburg	3,096,979	7.9%	7.9%	-83,535	-3,712	-29,161	110,449	110,449
Germantown	2,111,498	22.9%	27.0%	-28,957	-56,005	-101,205	-1,338	-1,338
Greenbelt	2,869,682	22.9%	23.4%	-49,391	-30,366	10,021	-10,436	-10,436
Landover/Lanham/Largo	4,360,350	10.0%	12.5%	21,612	-6,165	-313,048	-4,268	-4,268
Laurel	1,842,894	18.4%	18.4%	-15,004	-34,012	45,193	6,873	6,873
North Rockville	11,089,084	16.3%	17.9%	-375,820	-298,002	4,288	52,949	52,949
North Bethesda	10,309,664	25.5%	27.2%	22,231	-102,870	-994,137	-37,815	-37,815
Rockville	8,928,235	13.3%	14.5%	-67,235	-316,790	-107,168	72,773	72,773
Silver Spring	9,834,916	14.2%	15.0%	-3,694	-85,973	-15,395	19,111	19,111
Southern Prince George's	2,783,919	3.7%	3.7%	-24,492	598,099	7,743	704	704

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2020 Absorption (SF)	2021 Absorption (SF)	2022 Absorption (SF)	1Q 2023 Absorption (SF)	YTD 2023 Absorption (SF)
Suburban Maryland	75,176,335	16.7%	18.1%	-1,266,230	-253,457	-876,208	119,597	119,597
Class A	42,463,564	17.9%	19.4%	-797,822	330,386	-352,557	79,746	79,746
Class B	22,983,528	16.5%	18.2%	-283,491	-551,532	-492,048	-26,289	-26,289
Class C	9,729,243	12.1%	12.3%	-184,917	-32,311	-31,603	66,140	66,140

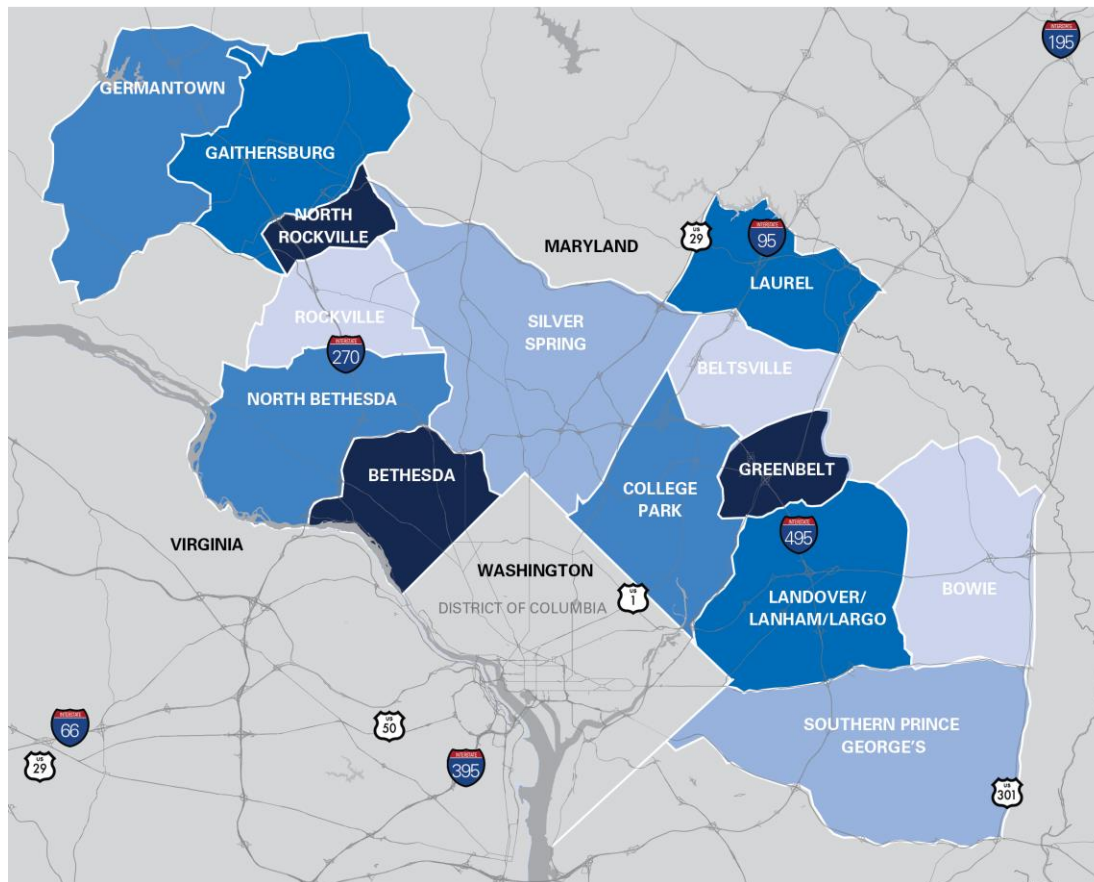
Submarket Statistics—All Classes

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2023 Deliveries (SF)	YTD 2023 Deliveries (SF)	Under Construction (SF)
Suburban Maryland	75,176,335	\$33.45	\$27.85	\$30.88	0	0	511,746
Beltsville	1,520,332	\$22.69	\$10.00	\$19.28	0	0	0
Bethesda	11,855,270	\$47.22	\$37.47	\$43.38	0	0	0
Bowie	1,229,062	\$27.00	\$23.74	\$26.32	0	0	0
College Park	3,344,450	\$26.96	\$21.36	\$25.03	0	0	0
Gaithersburg	3,096,979	\$21.04	\$21.21	\$21.31	0	0	0
Germantown	2,111,498	\$27.03	\$24.49	\$25.43	0	0	0
Greenbelt	2,869,682	\$23.69	\$21.32	\$22.37	0	0	0
Landover/Lanham/Largo	4,360,350	\$24.78	\$22.08	\$23.00	0	0	0
Laurel	1,842,894	\$22.50	\$20.94	\$21.14	0	0	0
North Rockville	11,089,084	\$30.44	\$27.33	\$29.47	0	0	97,196
North Bethesda	10,309,664	\$29.81	\$30.53	\$29.68	0	0	157,550
Rockville	8,928,235	\$34.98	\$30.67	\$33.43	0	0	237,000
Silver Spring	9,834,916	\$31.89	\$26.33	\$28.10	0	0	20,000
Southern Prince George's	2,783,919	\$31.97	\$19.50	\$23.29	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 2023 Deliveries (SF)	YTD 2023 Deliveries (SF)	Under Construction (SF)
Suburban Maryland	75,176,335	\$33.45	\$27.85	\$30.88	0	0	511,746
Class A	42,463,564	\$33.45	NA	\$33.45	0	0	511,746
Class B	22,983,528	NA	\$27.85	\$27.85	0	0	0
Class C	9,729,243	NA	NA	\$24.97	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.

For more information:

District of Columbia

1899 Pennsylvania Avenue, NW
Suite 300
Washington, DC 20006
t 202-331-7000

Raymond Moussazadeh

Senior Research Analyst
t 202-664-5894
Raymond.moussazadeh@nmrk.com

Adam Reiskin

Research Analyst
t 202-312-5763
adam.reiskin@nmrk.com

nmrk.com

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