
1Q24

Suburban Maryland Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market remains strong amid shifting macroeconomic conditions. Suburban Maryland’s unemployment rate, as of February 2024, measures 2.7%, 120 basis points lower than the national rate; however, the region’s labor market contracted by 0.4% in the 12 months ending February 2024.
- The Education & Health sector led all industries in regional annual job growth for the 12 months ending February 2024 with a 3.8% increase. The office-occupying industries of Professional and Business Services, Financial Activities, and Information experienced job losses over the past year, helping to account for continued limited demand for office space.
- Despite unemployment being near record lows, the number of office-using jobs has declined 1.7% over the past year. Still, the number of office-using jobs remains 4.6% higher than the pandemic-induced trough in April of 2020.

Major Transactions

- Office investment sales continue to lag in pricing per square foot as well as total transaction volume. However, owner-user sales and conversion opportunities are propping up demand in the region’s capital markets.
- No major office sale transactions occurred in Suburban Maryland during the first quarter.
- No leasing transactions larger than 30,000 square feet were signed during the quarter, however, a handful of moderate-sized new leases were completed, signaling tenants’ confidence in making long-term real estate decisions while also weighing future space needs and hybrid work models.

Leasing Market Fundamentals

- Suburban Maryland’s net absorption totaled negative 367,200 square feet during the first quarter. Overall vacancy increased to 19.6%, up 120 basis points over the past year.
- After a building boom over the past five years, the pace of new construction deliveries has begun to slow, with only two office deliveries in Suburban Maryland in all of 2023 and no deliveries during the first quarter. Furthermore, only two properties remain under construction in the market, totaling 257,000 square feet.
- While overall asking rates increased this quarter, it is expected that they will reset in the coming quarters, as landlords are forced by liquidity constraints to trade elevated concession packages for lower rates. As in other markets, Class A and trophy space in Suburban Maryland has outperformed Class B and C space. This is illustrated in the continued increase in Class A asking rents while Class B asking rents have started to decline.

Outlook

- A strong and resilient labor market, coupled with persistent inflationary concerns, is contributing to an uncertain macroeconomic outlook in the near-term.
- A slowdown in office deliveries and the lack of new speculative office construction will be advantageous in helping to balance supply with waning demand.
- Fewer landlords have capital for concessions, which have been a major driver in attracting tenants over the past several years. The pool of landlords that can pay for tenant improvements is shrinking. There are fewer owners offering trophy office supply, fostering an unusual landlord-favorable environment for the most quality space. Meanwhile, conditions continue to soften in Class B and C assets.

1. Economy
2. Leasing Market Fundamentals

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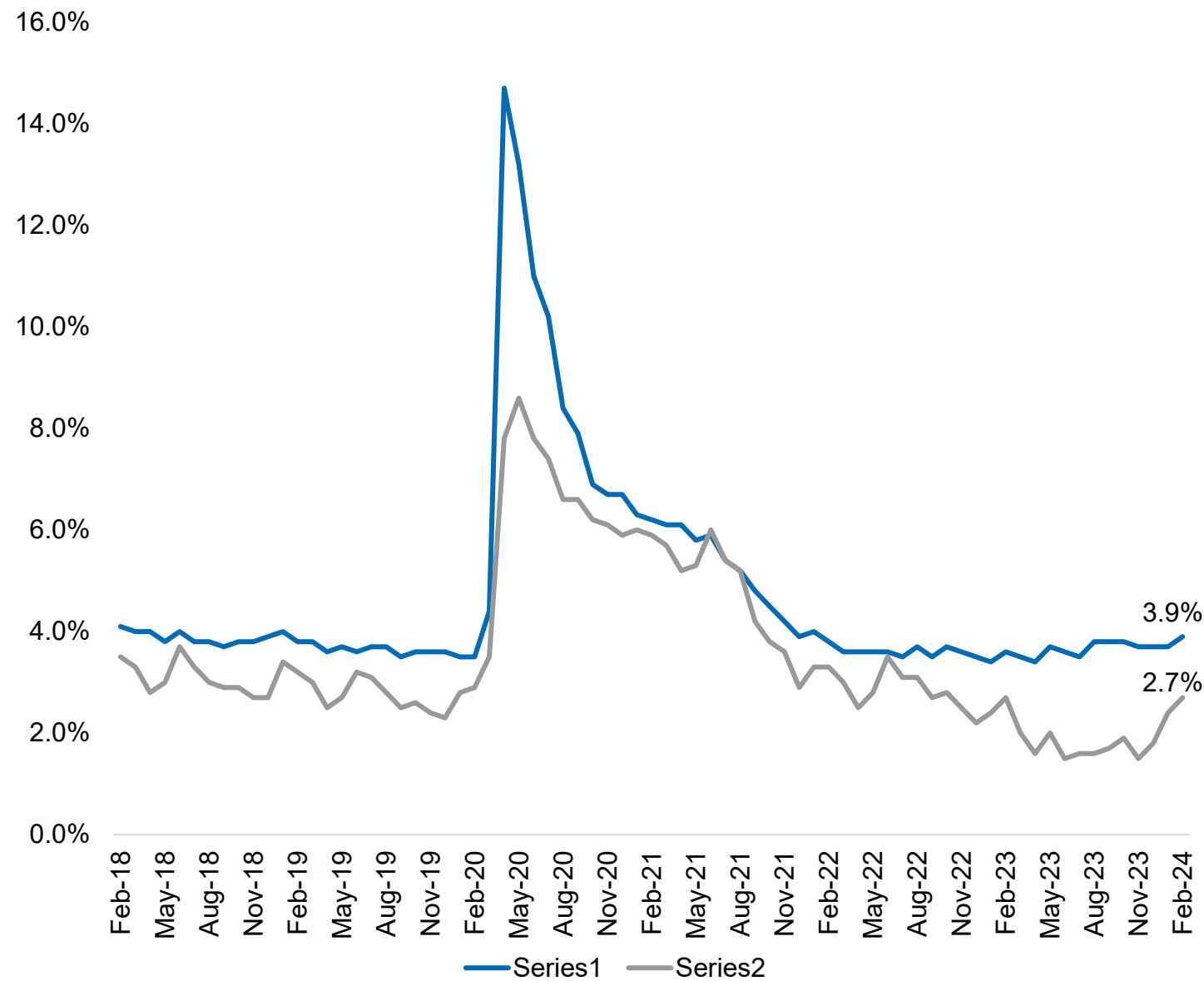
Economy



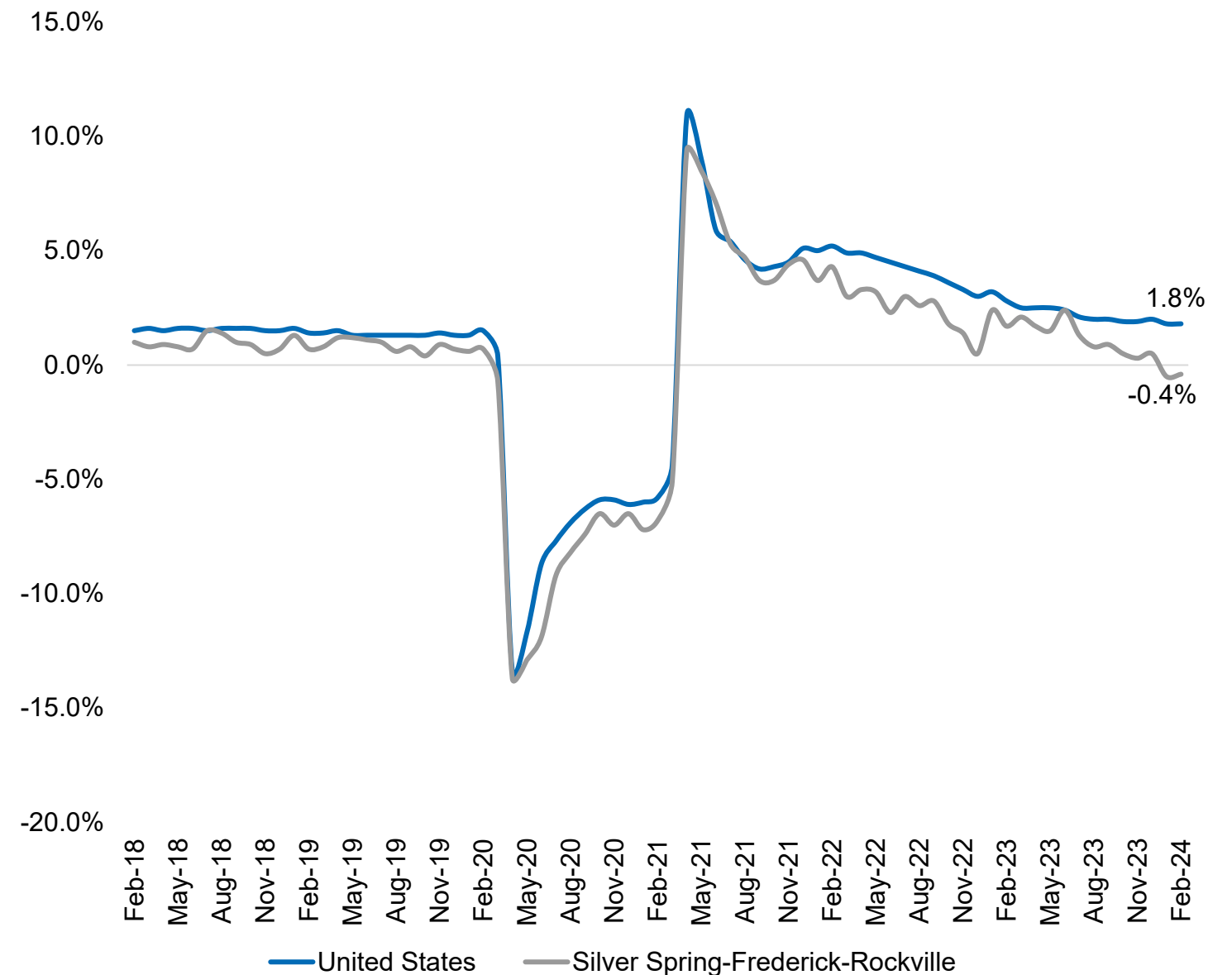
Metro Employment Trends Signal a Slowing Economy

Suburban Maryland's unemployment rate, as of February 2024, measures 2.7%, 120 basis points lower than the national rate; however, the region's labor market contracted by 0.4% in the 12 months ending February 2024.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



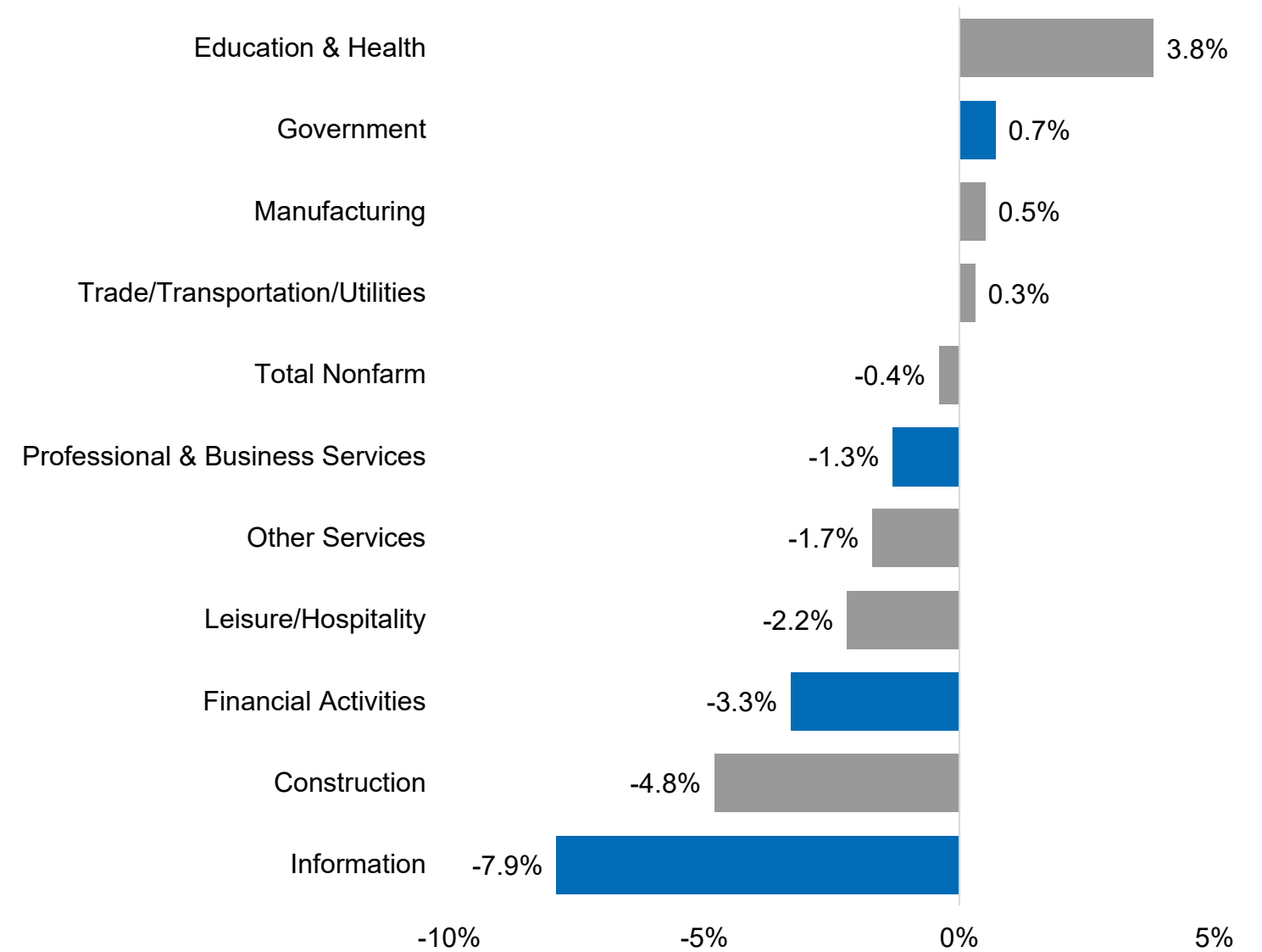
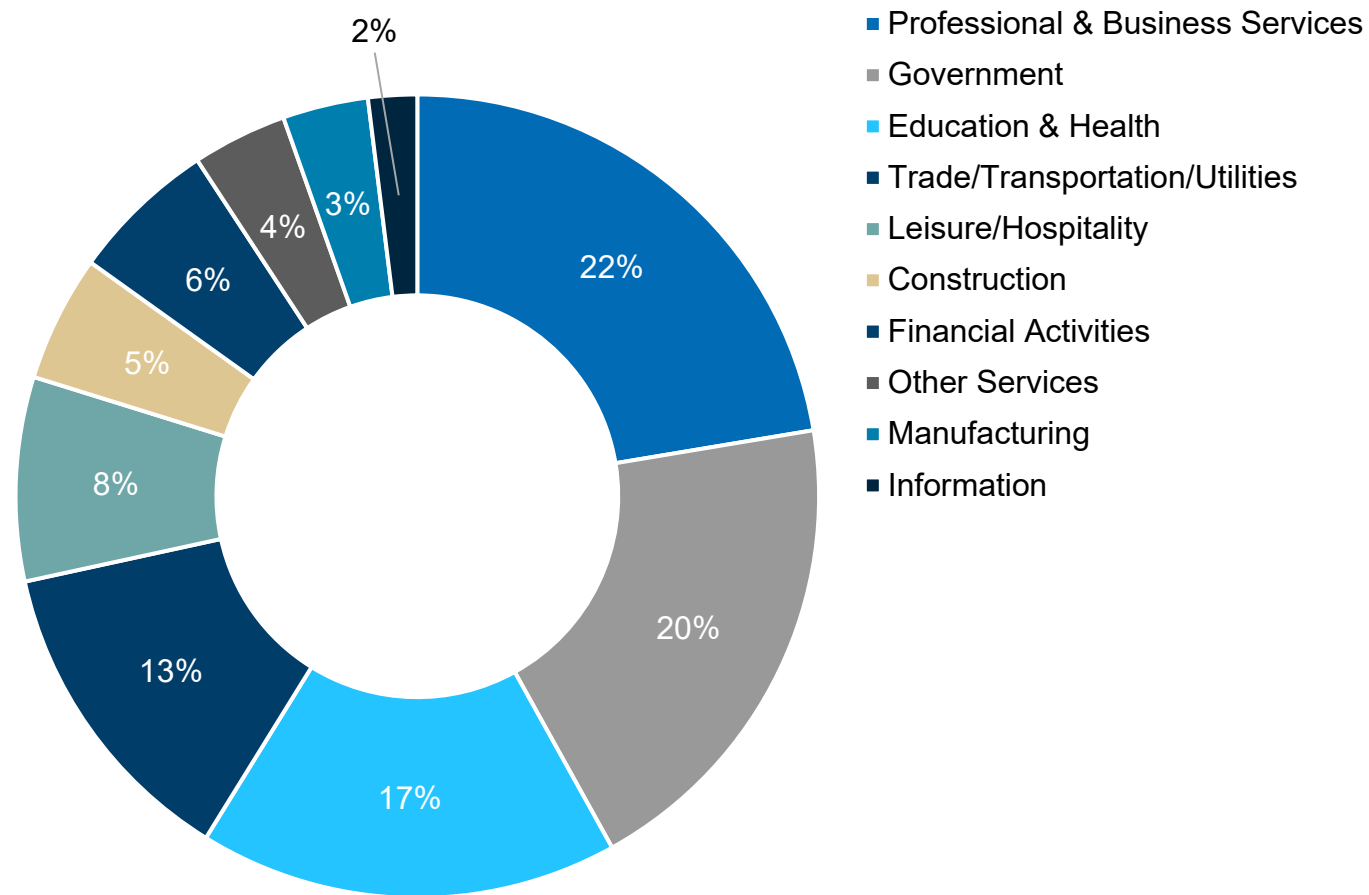
Source: U.S. Bureau of Labor Statistics, Silver Spring-Frederick-Rockville

Job Growth Driven by Non-Office-Using Sectors

The Education & Health sector led all industries in regional annual job growth for the 12 months ending February 2024 with a 3.8% increase. The office-occupying industries of Professional and Business Services, Financial Activities, and Information experienced job losses over the past year, helping to account for continued limited demand for office space.

Employment by Industry, February 2024

Employment Growth by Industry, 12-Month % Change, February 2024

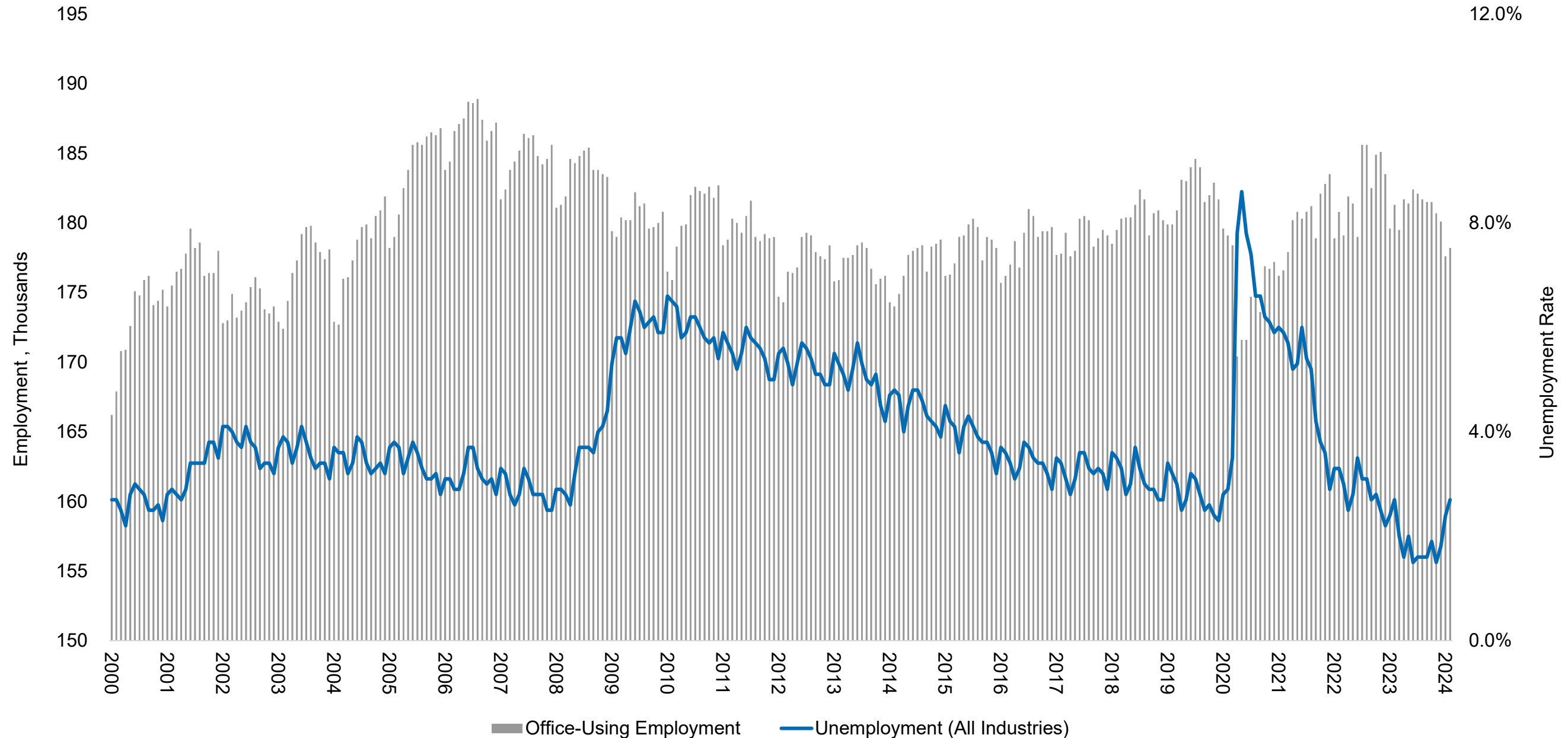


Source: U.S. Bureau of Labor Statistics, Silver Spring-Frederick-Rockville

Overall Office-Using Employment Declines

Despite unemployment being near record lows, the number of office-using jobs has declined 1.7% over the past year. This decline in office-using jobs is one of the factors contributing to waning demand for office space. Still, the number of office-using jobs remains 4.6% higher than the pandemic-induced trough in April of 2020.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Silver Spring-Frederick-Rockville

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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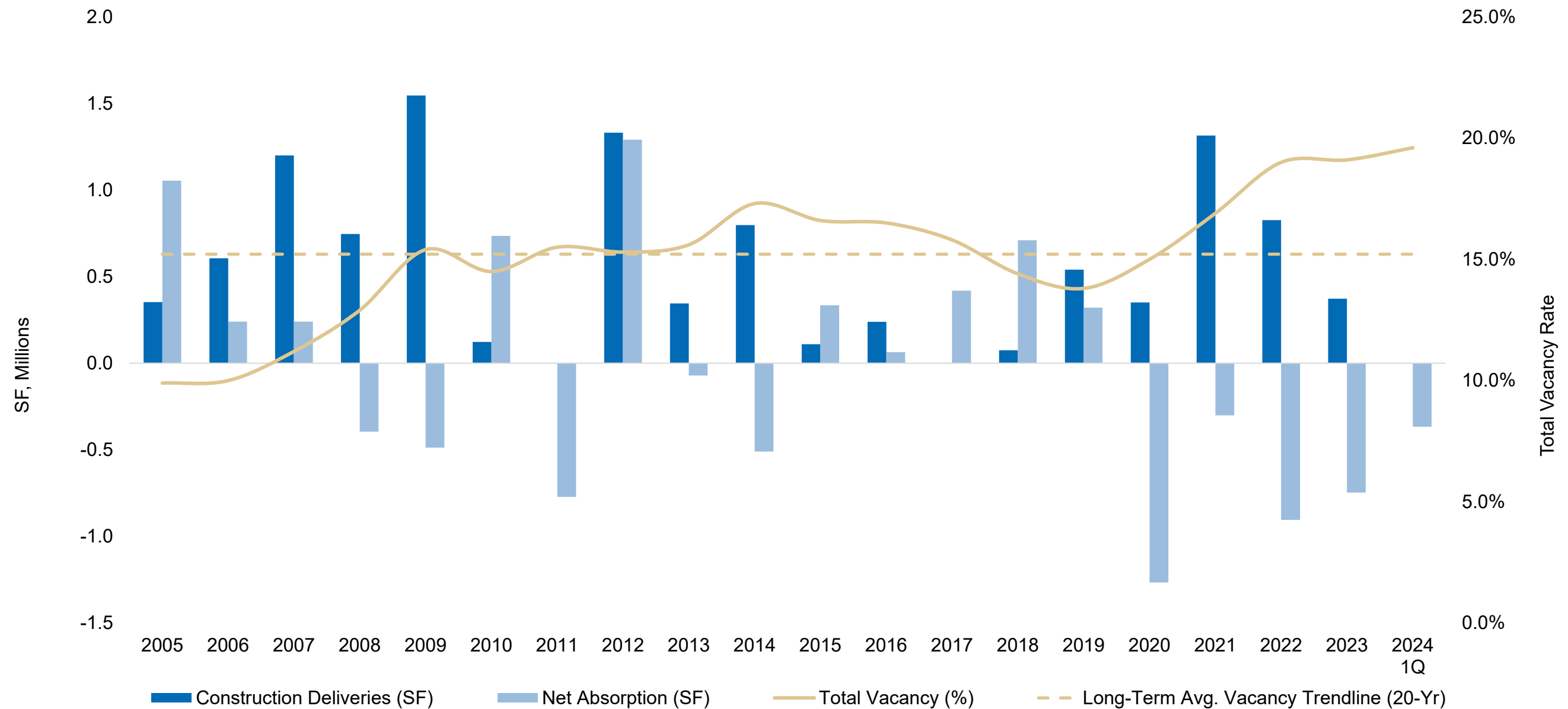
Leasing Market Fundamentals



Vacancy Rises but Construction Deliveries Slow Down

Suburban Maryland's vacancy rate rose 50 basis points over the first quarter to 19.6%. However, the pace of new construction deliveries has begun to slow, with only two office deliveries in Suburban Maryland in all of 2023 and no deliveries during the first quarter. Furthermore, only two properties remain under construction in the market, totaling 257,000 square feet. A slowdown in office deliveries and the lack of new speculative office construction will be advantageous in helping to balance supply with waning demand.

Historical Construction Deliveries, Net Absorption, and Vacancy

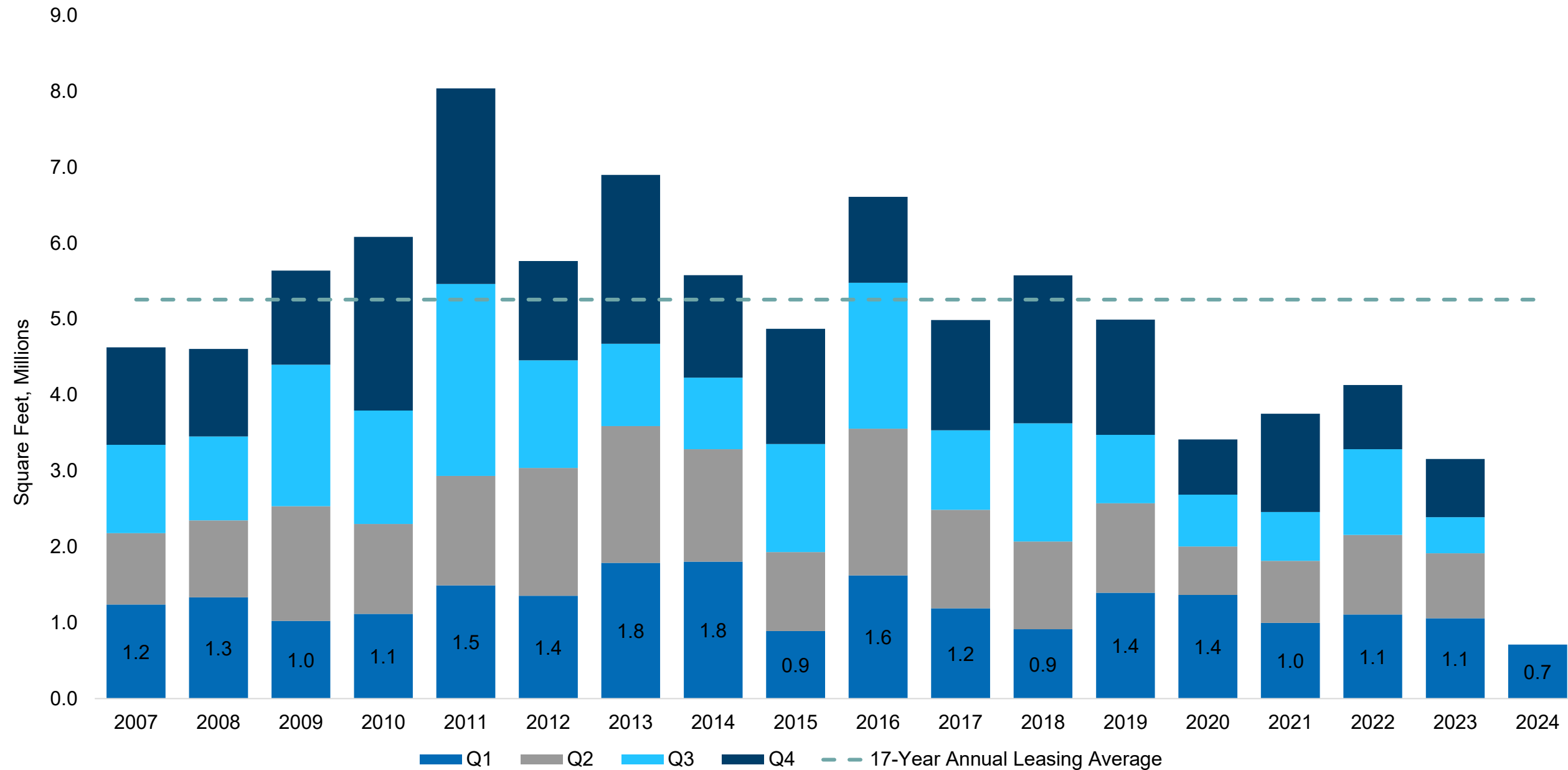


Source: Newmark Research, CoStar

Leasing Activity Has Slowed

A cloudy economic outlook and the higher cost of capital has prompted many companies to pause, assess current conditions and enact cost-cutting measures where applicable. Annual leasing volume for 2023 was slightly lower than over the past three years, and volume during the first quarter of 2024 is the lowest first quarter on record.

Total Leasing Activity (msf)

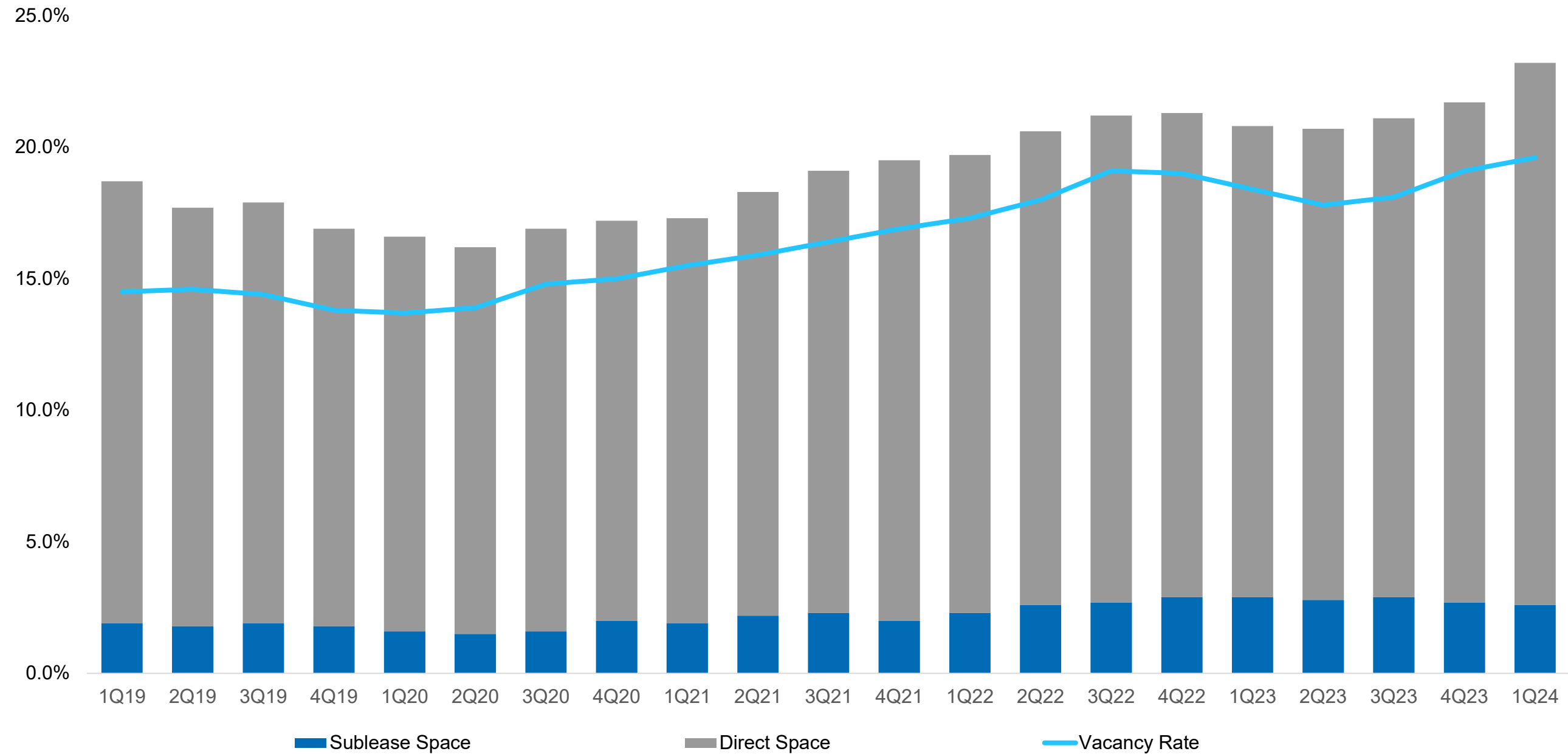


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Available office space sits at or near a historical high, both in terms of direct and sublease space. Over the past five years, the direct availability rate has averaged 16.9% while the sublease availability rate has averaged 2.3%. The 1Q24 availability rates of 20.6% for direct space and 2.6% for sublease space are well above the long-term average. However, sublease availability appears to have peaked for this cycle, with the sublease availability rate having declined 30 basis points over the past six months.

Available Space by Type as Percent of Overall Market

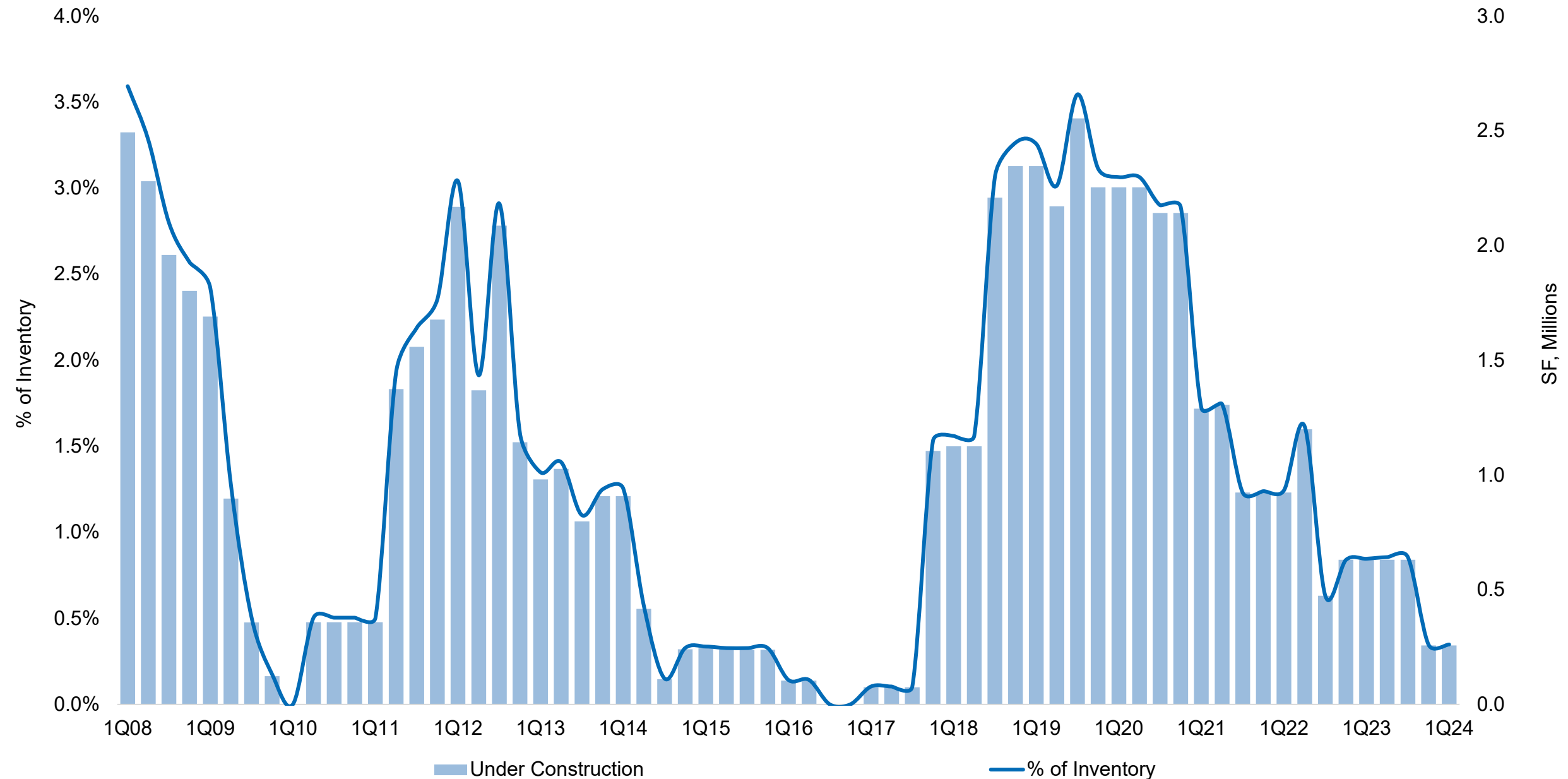


Source: Newmark Research, CoStar

Slowing Office Construction Pipeline Will Help Ease Rising Vacancy

The building boom that has occurred in Suburban Maryland over the past five years is waning, with only two projects remaining under construction: 1600 Rockville Pike, BF Saul's 237,000-square-foot office building that is part of the Twinbrook Quarter development; and 12345 Columbia Pike, part of Finmark Management's White Oak Town Center development, which measures 20,000 square feet and has a full floor of office/retail space available. Both projects remain fully available and are slated to deliver later this year.

Office Under Construction and % of Inventory

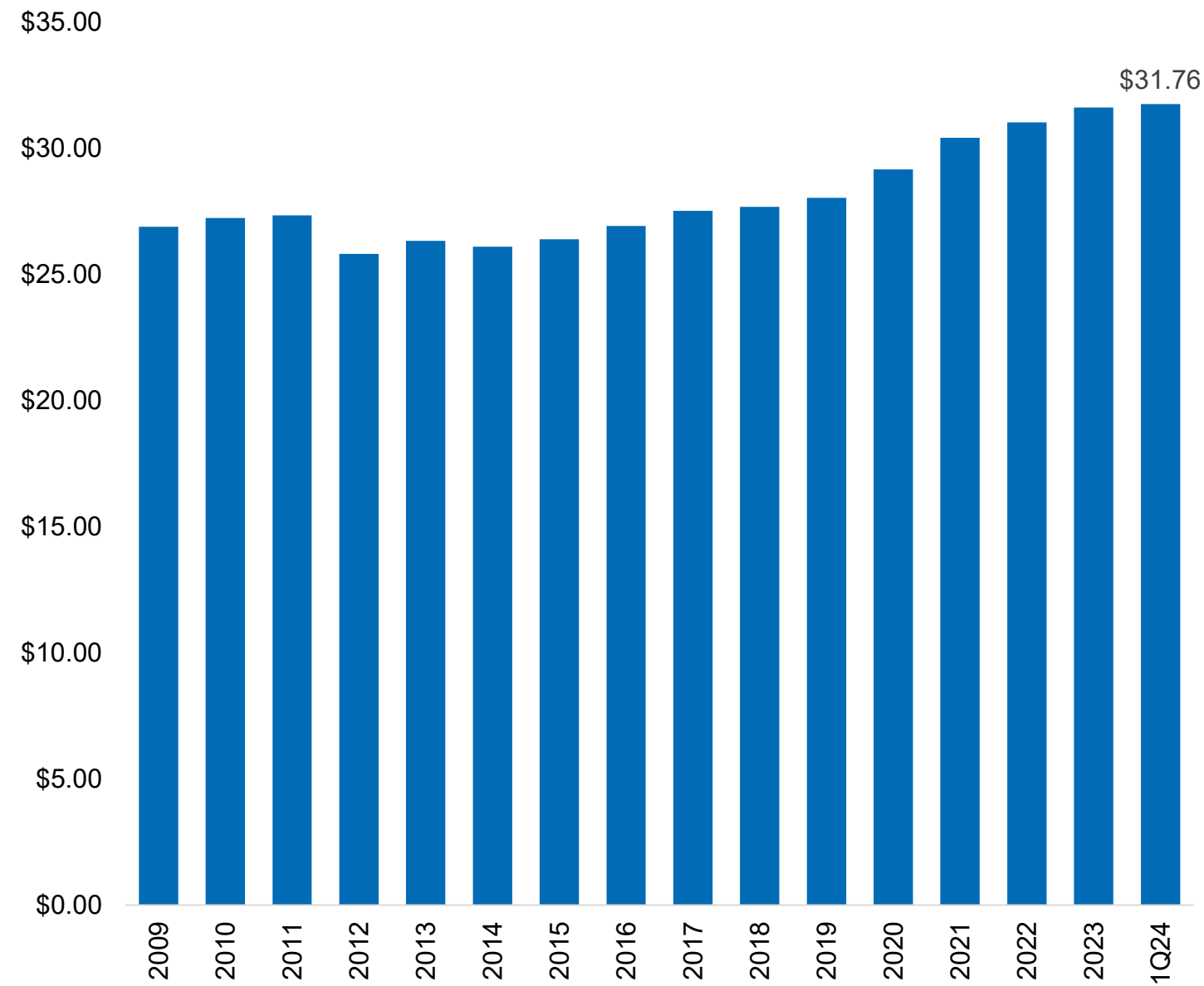


Source: Newmark Research, CoStar

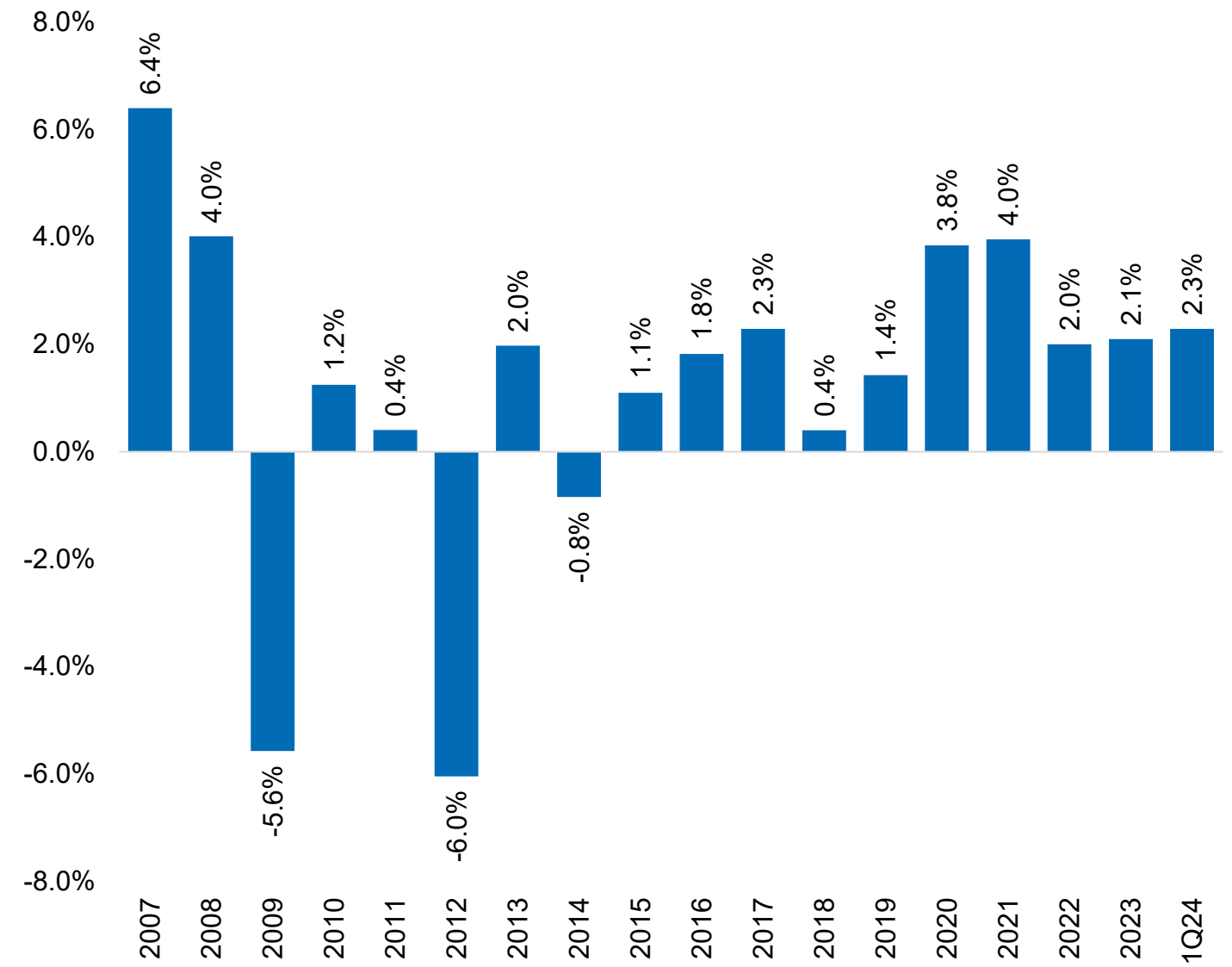
Asking Rents Continue to Rise

In past cycles, asking rents have adjusted downward to account for depressed demand, but it often takes many quarters or even years for rates to fall, as asset owners seek to maintain face rates while increasing concessions to attract tenants. While overall asking rates increased this quarter, it is expected that they will reset in the coming quarters, as landlords are forced by liquidity constraints to trade elevated concession packages for lower rates.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

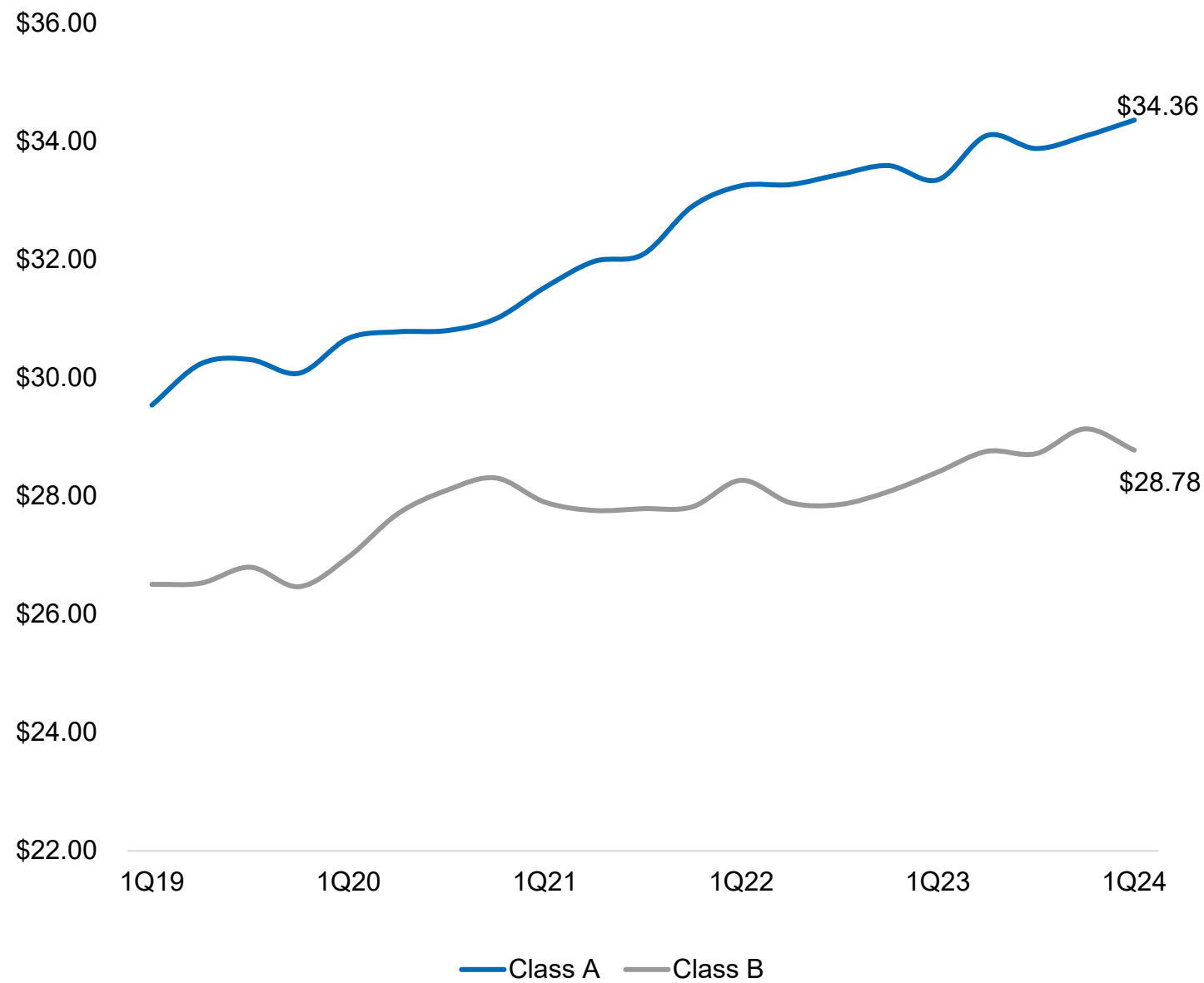


Source: Newmark Research, CoStar

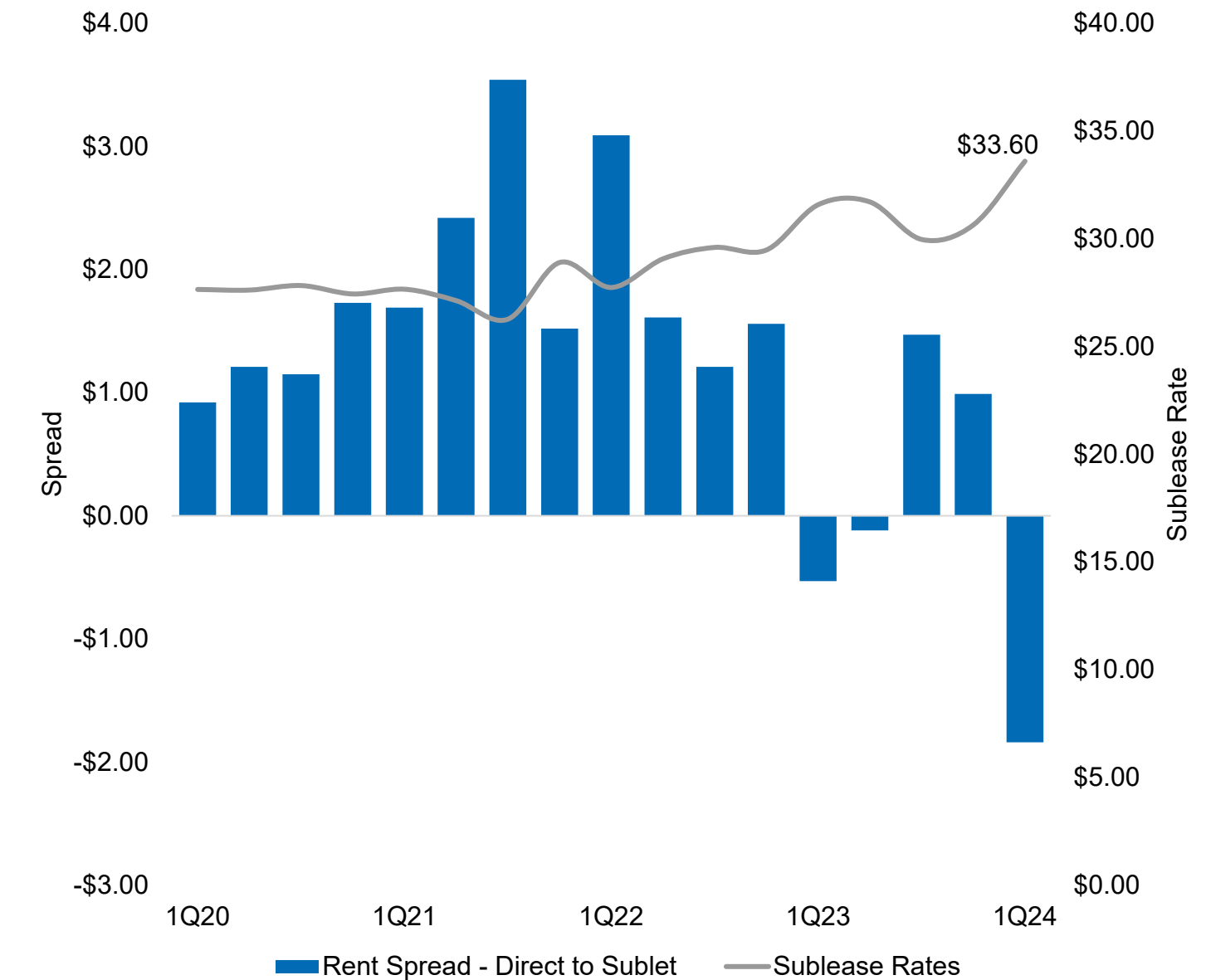
Asking Rents Show Class Bifurcation

As in other markets, Class A and trophy space in Suburban Maryland has outperformed Class B and C space. This is illustrated in the continued increase in Class A asking rents while Class B asking rents have started to decline. Sublease asking rents are more volatile, with the marketing of higher-priced blocks of space causing swings in the average asking rental rate.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Remains Limited

Despite negative absorption, leasing activity continues, albeit at a slower pace. No transactions larger than 30,000 square feet were signed during the quarter, however, a handful of moderate-sized new leases were completed, signaling tenants' confidence in making long-term real estate decisions while also weighing future space needs and hybrid work models.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Sport Squad, Inc.	915 Meeting Street	North Bethesda	New Lease	27,722
ChasenBoscolo	7852 Walker Drive	Greenbelt	Renewal	19,407
Luminis Health	7501-7503 Greenway Center Drive	Greenbelt	New Lease	16,368
LocalWorks	6900 Wisconsin Avenue	Bethesda	New Lease	16,192
Podville Media Holdings	1201 Seven Locks Road	Rockville	New Lease	13,730



Please reach out to your
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Appendix



Suburban Maryland Submarket Overview (page 1 of 2)

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy	Overall Vacancy	2021 Absorption (SF)	2022 Absorption (SF)	2023 Absorption (SF)	1Q 2024 Absorption (SF)	YTD 2024 Absorption (SF)
Class A	41,998,789	19.3%	20.6%	330,386	-344,943	-510,373	-219,272	-219,272
Class B	22,427,285	18.5%	19.6%	-551,532	-488,346	-212,248	-46,187	-46,187
Class C	9,483,408	14.7%	15.4%	-79,658	-71,901	-24,370	-94,796	-94,796
Suburban Maryland	73,909,482	18.5%	19.6%	-300,804	-905,190	-746,991	-360,255	-360,255

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 2024 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)
Class A	41,998,789	\$34.36	NA	\$34.36	276,000	276,000	237,000
Class B	22,427,285	NA	\$28.78	\$28.78	0	0	0
Class C	9,483,408	NA	NA	\$24.75	0	0	0
Suburban Maryland	73,909,482	\$34.36	\$28.78	\$31.76	276,000	276,000	237,000

Source: Newmark Research

Suburban Maryland Submarket Overview (page 2 of 2)

Submarket Statistics – All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	1Q 2024 Absorption (SF)	YTD 2024 Absorption (SF)	1Q 2024 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Asking Rent (Price/SF)
Beltsville	1,367,332	12.9%	12.9%	84,718	84,718	0	0	0	\$23.28
Bethesda	11,849,910	25.1%	26.5%	-41,797	-41,797	0	0	0	\$45.03
Bowie	1,229,062	9.3%	9.3%	16,893	16,893	0	0	0	\$25.90
College Park	3,294,229	14.0%	15.1%	222	222	0	0	0	\$23.49
Gaithersburg	3,096,979	13.1%	14.8%	-3,432	-3,432	0	0	0	\$24.14
Germantown	2,008,798	25.8%	28.1%	16,448	16,448	0	0	0	\$25.79
Greenbelt	2,869,682	28.0%	28.7%	-71,621	-71,621	0	0	0	\$22.50
Landover/Lanham/Largo	4,360,350	8.9%	11.8%	-6,061	-6,061	0	0	0	\$21.65
Laurel	1,842,894	22.1%	22.7%	-14,782	-14,782	0	0	0	\$22.18
N. Rockville	11,078,842	20.7%	22.0%	-338,791	-338,791	0	0	0	\$29.90
North Bethesda	9,642,472	19.3%	21.3%	35,963	35,963	276,000	276,000	0	\$30.04
Rockville	8,906,421	17.3%	17.8%	-45,311	-45,311	0	0	237,000	\$32.84
Silver Spring	9,756,916	15.9%	16.3%	25,407	25,407	0	0	0	\$28.87
Southern Prince George's County	2,605,595	5.4%	5.5%	-18,111	-18,111	0	0	0	\$25.54
Suburban Maryland	73,909,482	18.5%	19.6%	-360,255	-360,255	276,000	276,000	237,000	\$31.76

Source: Newmark Research

For more information:

Carolyn Bates

Director

Mid-Atlantic Research

carolyn.bates@nmrk.com

Chad Braden

Senior Research Analyst

Mid-Atlantic Research

chad.braden@nmrk.com

District of Columbia

1899 Pennsylvania Avenue, NW

Suite 300

Washington, DC 20006

t 202-331-7000

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

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