

# Suburban Maryland Office Market

## Low Demand Softens Market; Impending Deliveries to Boost Occupancy

Suburban Maryland's office market recovery softened in the second quarter of 2022. Net absorption totaled negative 543,072 square feet on the quarter, nearly twice the contraction registered in the previous quarter. Few examples of net positive occupancy in the quarter enabled the accumulation of significant negative net absorption. The overall vacancy rate registered 17.9% at the end of the second quarter, an increase of 70 basis points from the previous quarter and an increase of 210 basis points from a year ago. The average asking rental rate measured \$30.55/SF, an increase of 3.7% from the second quarter of 2021, but a decrease of 0.5% from the first quarter of 2022.

Currently, about 1.1 million square feet of office space is under construction. The pipeline is approximately 77.1% pre-leased. The most notable project under construction and scheduled to deliver within the next few months is Marriott's new headquarters at 7750 Wisconsin Avenue. Marriott has fully leased the 726,000 square-foot building, though this marks a notable contraction from their over 900,000 square-foot headquarters at 10400 Fernwood Road. Marriott's new headquarters will be designed to reflect a greater importance on amenitization and multi-use, community-based environments. Given the anticipated long-term prevalence of hybrid work, this workplace design philosophy is broadly applicable across the Washington metropolitan area. Return-to-office momentum has been building in the quarter, though employees continue to hold strong leverage in establishing lasting hybrid work arrangements.

### Current Conditions

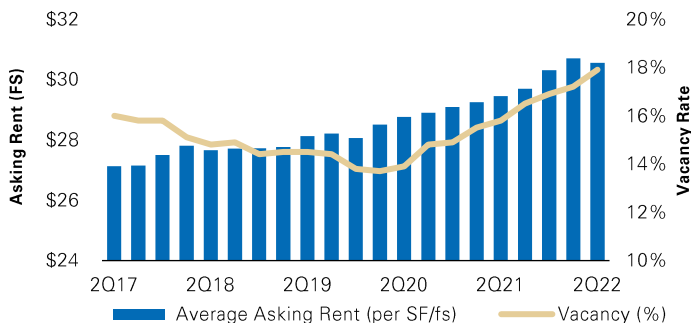
- Suburban Maryland recorded negative 543,072 square feet of net absorption in the second quarter, more than double what was recorded in the first quarter. Office demand has been muted, though with several impending deliveries in 2022, net absorption may improve in the coming quarters.
- Vacancy has increased 210 basis points from last year, to 17.9%.
- 1.1 million square feet is under construction; groundbreakings remain limited given low demand and rising cost of resources.
- Asking rents decreased slightly between the first and second quarters of 2022, measuring \$30.55/SF at mid-year.

### Market Summary

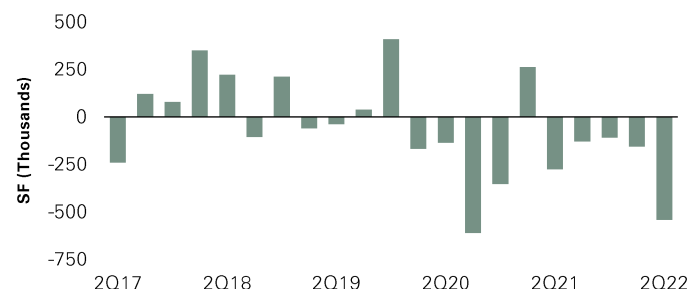
	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	75.4 M	75.4 M	75.8 M	↑
Vacancy Rate	17.9%	17.2%	15.8%	↑
Quarterly Net Absorption (SF)	-543,072	-157,534	-277,076	↑
Average Asking Rent/SF	\$30.55	\$30.70	\$29.45	→
Under Construction (SF)	1.1 M	923,196	1.3 M	→
Deliveries (SF)	0	0	0	↑

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



### Flight to Quality Supports Class A Optimism

The current low demand environment has challenged all asset classes, but, like nearly all U.S. markets, Suburban Maryland's limited tenant activity has largely been targeting the Class A market. This desire for quality has fueled Suburban Maryland's construction pipeline, which measures 1.1 million square feet at the end of the second quarter of 2022. Demand should rise as public health conditions fully normalize in the remainder of 2022, but many tenant requirements are anticipated to shrink as the pre-pandemic trend of densification is re-established and the new influence of hybrid-compatible office design evolves.

Despite the optimistic projection for high-quality space, Class A net absorption measured negative 191,561 square feet. Class A vacancy increased by 50 basis points this quarter, to 18.2%. Though Class A has resisted vacancy growth better than Class B over the last two years, persistent occupancy losses have pressured Class A vacancy, which increased by 190 basis points in the last year. Class B measured elevated vacancy of 19.1%, which is up 350 basis points over the last year. The bifurcation of market optimism is clearer in asking rent growth. Class A asking rents averaged \$33.14/SF, up 4.1% from one year ago. Alternatively, Class B rents have grown slower, by 0.6% over the year, and measure \$27.76/SF in the second quarter of 2022.

### Bethesda's Urbanization Drives New Opportunities

Although the demand for coworking space was severely hampered by the pandemic, tenant interest in shared workspaces is gradually expanding. The market is evolving, which has led coworking firms like WeWork to recognize the need for office space that is more accessible in traditionally suburban markets. Bethesda's long-planned densification significantly materialized in recent years, driving new attention to the market. Between the premier retail anchor of Bethesda Row, and new market entrants in office and hospitality, including Marriott and FOX 5's broadcast studios, Bethesda is gaining commercial prominence among occupiers. Though new construction is driving quality-focused tenancy to Bethesda, the market's diverse office inventory has

traditionally served a range of sizes and budgets. This dynamic is bellied by WeWork opening its first coworking space in Bethesda, at The Wilson. The move represents the firms' increased investment in the suburbs, which, while not entirely new, has evolved in the last two years. This diverse and multi-use environment bodes well for Suburban Maryland's office market. The location's Metrorail connectivity, in conjunction with its greater accessibility to the growing number of suburban workers hints at the long-term stability and appeal of Suburban Maryland.

### Suburban Maryland Outlook

Soft market fundamentals in Suburban Maryland should tighten gradually in 2022 as markets normalize. As this year's most notable delivery, Marriott's presence in downtown Bethesda will be a boon. However, this move may simply serve to offset the loss of Clark Construction, which plans to relocate from Bethesda to Tysons in late 2022. Suburban Maryland is in constant competition with Northern Virginia to capture regional economic growth. Prince George's County is seeking more private and government investment to support its growing technology and quantum computing industries, in addition to its office/medical demands, to complement the region's status as a life science hub. Increased development and investment in areas such as Gaithersburg, Germantown, and throughout Prince George's and Montgomery Counties bodes well for the continued necessity of diverse commercial and multi-use space throughout the region.

Suburban Maryland's construction pipeline is greater than last quarter, measuring 1.4% of inventory. Future new deliveries will be mostly in Bethesda, with a 77.1% prelease rate overall. Newmark Research projects that Suburban Maryland's overall vacancy rate will decrease to 17.6% by the end of the second 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](https://www.newmark.com/mid-atlantic-market-reports) page at nmrk.com.

### Notable 2Q 2022 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
NASDAQ, Inc	805 King Farm Boulevard	Rockville	Lease Extension	47,974
Xometry, Inc	6116 Executive Boulevard	Rockville	Direct Lease	28,068
SEEC Corporation	1300 Spring Street	Silver Spring	Direct Lease	22,283

### Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
15 West Gude Drive	Rockville	\$66,000,000	\$302	218,186
One Preserve Parkway	Rockville	\$42,000,000	\$229	183,667
20251-20300 Century Boulevard	Germantown	\$34,800,000	\$145	239,729

## Submarket Statistics—All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2019 Absorption (SF)	2020 Absorption (SF)	2021 Absorption (SF)	2Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
<b>Suburban Maryland</b>	<b>75,394,942</b>	<b>16.6%</b>	<b>17.9%</b>	<b>347,293</b>	<b>-1,274,582</b>	<b>-253,457</b>	<b>-543,072</b>	<b>-700,606</b>
Beltsville	1,457,852	24.0%	24.4%	-1,062	-19,452	49,657	0	10,601
Bethesda	11,419,588	20.1%	23.1%	187,647	-459,758	8,870	-23,565	-192,793
Bowie	1,229,062	15.4%	15.4%	4,239	-30,591	-13,250	10,731	11,643
College Park	3,344,450	12.7%	12.7%	197,669	-152,144	37,062	-5,107	-11,566
Gaithersburg	3,096,979	11.4%	11.7%	-226	-83,535	-3,712	-22,440	-34,981
Germantown	2,179,899	24.3%	25.1%	-42,624	-28,957	-56,005	-26,015	-54,053
Greenbelt	2,869,682	20.7%	21.8%	130,707	-49,391	-30,366	-23,559	47,591
Landover/Lanham/Largo	4,597,337	19.2%	19.6%	5,221	21,612	-6,165	-255,166	-245,434
Laurel	1,842,894	20.3%	20.5%	-95,067	-15,004	-34,012	16,410	13,869
North Rockville	11,221,801	17.2%	18.7%	297,593	-373,002	-298,002	-117,255	-66,732
North Bethesda	10,285,996	16.4%	18.1%	131,710	22,231	-102,870	18,803	-98,614
Rockville	9,104,332	13.5%	14.7%	94,590	-78,405	-316,790	-79,155	-61,995
Silver Spring	9,834,651	14.4%	15.3%	-639,090	-3,694	-85,973	-41,531	-24,051
Southern Prince George's	2,910,419	8.4%	8.5%	75,986	-24,492	598,099	4,777	5,909

## Market Statistics By Class

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<b>Suburban Maryland</b>	<b>75,394,942</b>	<b>16.6%</b>	<b>17.9%</b>	<b>347,293</b>	<b>-1,274,582</b>	<b>-253,457</b>	<b>-543,072</b>	<b>-700,606</b>
Class A	42,256,912	16.5%	18.2%	342,676	-818,668	330,386	-191,561	-194,089
Class B	23,282,287	17.9%	19.1%	116,654	-270,997	-551,532	-316,919	-516,512
Class C	9,855,743	13.6%	13.8%	-112,037	-184,917	-32,311	-34,592	9,995

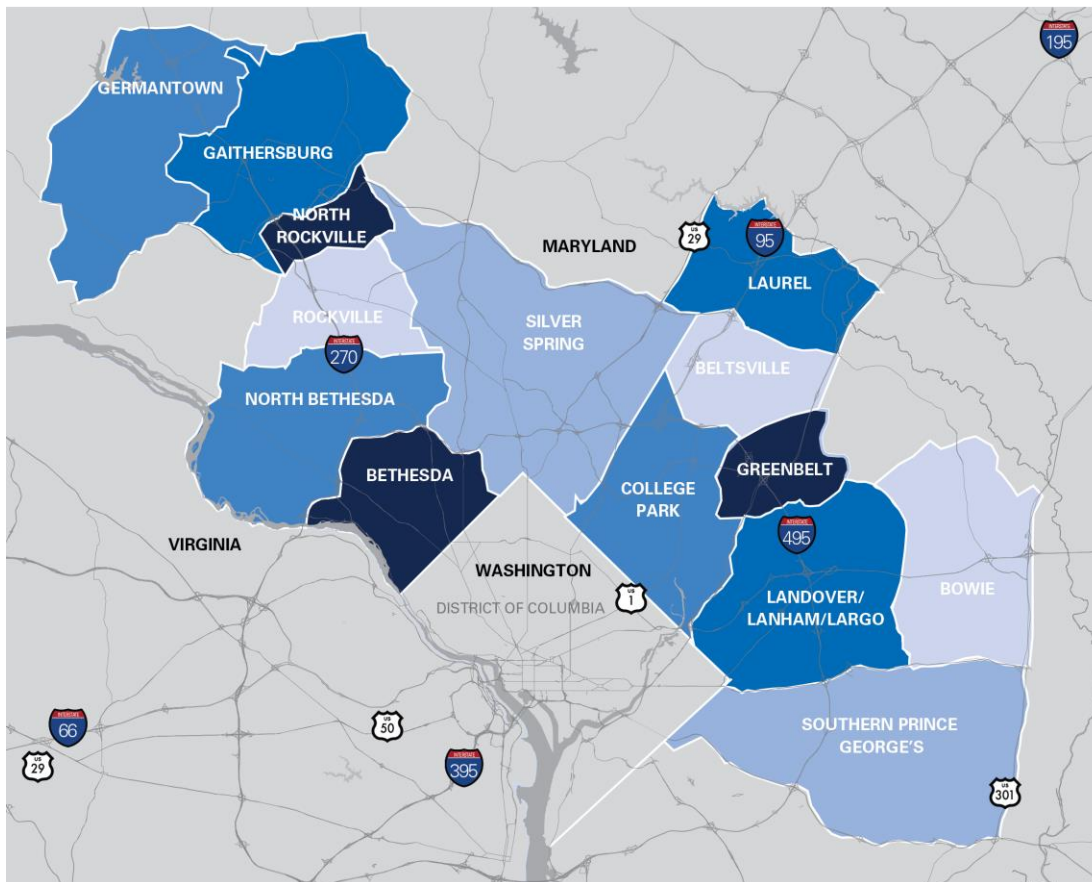
## Submarket Statistics—All Classes

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
<b>Suburban Maryland</b>	<b>75,394,942</b>	<b>\$33.14</b>	<b>\$27.76</b>	<b>\$30.55</b>	<b>0</b>	<b>0</b>	<b>1,080,746</b>
Beltsville	1,457,852	\$22.65	\$18.00	\$21.42	0	0	0
Bethesda	11,419,588	\$47.17	\$38.17	\$43.33	0	0	726,000
Bowie	1,229,062	\$26.36	\$16.99	\$25.39	0	0	0
College Park	3,344,450	\$27.97	\$24.00	\$25.34	0	0	0
Gaithersburg	3,096,979	\$30.29	\$26.83	\$28.64	0	0	0
Germantown	2,179,899	\$27.03	\$24.41	\$25.32	0	0	0
Greenbelt	2,869,682	\$23.67	\$22.41	\$23.00	0	0	0
Landover/Lanham/Largo	4,597,337	\$22.68	\$22.92	\$22.86	0	0	100,000
Laurel	1,842,894	\$22.50	\$21.04	\$21.20	0	0	0
North Rockville	11,221,801	\$29.90	\$25.24	\$28.43	0	0	97,196
North Bethesda	10,285,996	\$29.30	\$28.45	\$28.70	0	0	157,550
Rockville	9,104,332	\$34.30	\$32.20	\$33.10	0	0	0
Silver Spring	9,834,651	\$31.58	\$26.43	\$28.33	0	0	0
Southern Prince George's	2,910,419	\$33.71	\$19.00	\$24.72	0	0	0

## Market Statistics By Class

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<b>Suburban Maryland</b>	<b>75,394,942</b>	<b>\$33.14</b>	<b>\$27.76</b>	<b>\$30.55</b>	<b>0</b>	<b>0</b>	<b>1,080,746</b>
Class A	42,256,912	\$33.14	NA	\$33.14	0	0	1,080,746
Class B	23,282,287	NA	\$27.76	\$27.76	0	0	0
Class C	9,855,743	NA	NA	\$25.08	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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