RESEARCH Q3 2022

Suburban Maryland Office Market

Low Demand Softens Market Despite Recent Deliveries

Suburban Maryland's office market recovery softened in the third quarter of 2022. Net absorption totaled negative 197,341 square feet on the quarter, about half of the contraction registered in the second quarter. Few examples of net positive occupancy enabled the accumulation of significant negative net absorption. The overall vacancy rate registered 18.9% at the end of the third quarter, an increase of 100 basis points from second quarter, due to Marriott's relocation, and an increase of 240 basis points from a year ago. The average asking rental rate measured $30.75/SF, an increase of 3.5% from the third quarter of 2021.

Suburban Maryland's construction pipeline shrank to its lowest level since 2017, measuring 414,746 square feet in the third quarter of 2022. The pipeline is approximately 36.7% preleased, indicating potential vacancy increases in the coming quarters. Marriott's new headquarters at 7750 Wisconsin Avenue delivered this quarter. The 726,000 square-foot building marks a notable contraction from its over-900,000 square-foot headquarters at 10400 Fernwood Road. This delivery and occupancy is influential for Suburban Maryland statistics this quarter, as it resulted in more than 700,000 square feet of inventory growth and positive absorption, as well as about 900,000 square feet of additional vacancy from Marriott's old headquarters. Otherwise, there are two properties set to deliver in the remainder of 2022, but generally, relative scarcity of office leasing activity will keep construction activity low.

Current Conditions

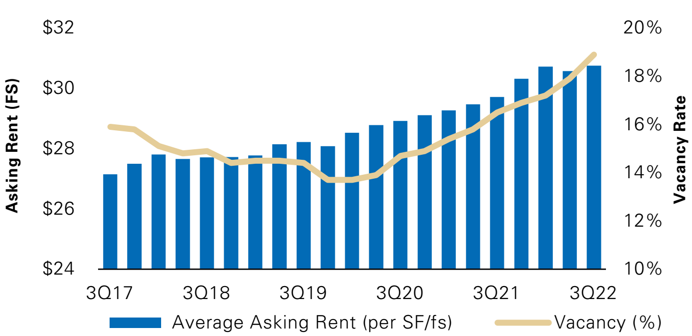
- Suburban Maryland recorded negative 197,341 square feet of net absorption in the third quarter, an improvement from the second quarter.
- Office demand has been muted, despite several deliveries in 2022.
- Vacancy has increased 240 basis points from last year, to 18.9%.
- 414,746 square feet is under construction; groundbreakings remain limited given low demand and cost of resources.
- Asking rents increased 3.5% over the last year, to $30.75/SF.

Market Summary

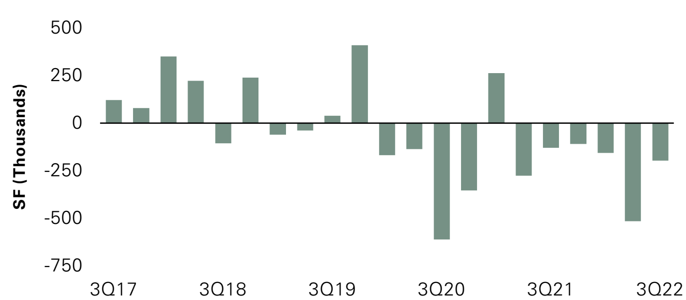
	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	75.8 M	75.3 M	76.1 M	↑
Vacancy Rate	18.9%	17.9%	16.5%	↑
Quarterly Net Absorption (SF)	-197,341	-515,833	-130,169	→
Average Asking Rent/SF	$30.75	$30.57	$29.71	↑
Under Construction (SF)	414,746	1.1 M	923,196	→
Deliveries YTD (SF)	726,000	0	1.3 M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



NEWMARK

Purple Line Construction Expected to Accelerate

After more than two years, construction on the Purple Line is set to move forward as a result of Laborers' International Union of North America Local 11 signing a collective bargaining agreement with the Purple Line's new contractor, Maryland Transit Solutions. The project is about four years behind pace and is now expected to be functional by 2026. The budget has also increased to $3.4 billion, compared to the originally planned $2.0 billion. Like many other projects, the Purple Line has been hurt by the effects of the pandemic, including supply chain issues and construction and materials costs.

Upon completion, the Purple Line will stretch just over 16 miles, while reaching 21 stations throughout Montgomery and Prince George's Counties. While the time and financial burden of the project has been onerous, there is much to gain for the region. Though WMATA already services much of the Washington metro area, this east-west extension in Suburban Maryland will, among other things, be a boon for the overall office market. Greater demand for regional connectivity outside the traditional Metrorail service will be necessary for the growth of Suburban Maryland, particularly given the recent densification of commercial nodes, including Bethesda.

Suburban Expansion is a Boost for Offices

As the office market, especially in Suburban Maryland and the metro area, normalizes after the pandemic, new trends have become clearer. While there has been concern over return-to-office rates and the effects of hybrid/remote work on commercial real estate, tenants and firms are returning to a position of active decision making. Furthermore, while hybrid work is not going away any time soon, the consequent growth of non-city-center areas, like Bethesda and Pike and Rose, in Rockville, has supported office recovery. The accessibility of places like Bethesda makes returning to offices there acceptable to employees. This trend is further bolstered by the fact that Bethesda, like the Pike and Rose area, has undergone extensive revitalization and modernization over the last several years, both in terms of office space, and life and leisure spaces. This suburban expansion, of work and play, are indicative of the evolution of the post-pandemic flight to quality, which continues to support the gradual recovery of the office market.

Suburban Maryland Outlook

Soft market fundamentals in Suburban Maryland should gradually tighten in the next year as markets further normalize. As this year's most notable delivery, Marriott's presence in downtown Bethesda boosts the strength of Maryland's denser, surrounding office markets. Yet, this move may serve to offset the loss of Clark Construction, which will relocate from Bethesda to Tysons in late 2022. Suburban Maryland remains in competition with Northern Virginia for 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 investment in Gaithersburg, Germantown, and throughout Montgomery and Prince George's Counties bodes well for the continued necessity of diverse commercial and multi-use space throughout the region.

Suburban Maryland's construction pipeline declined from last quarter, measuring less than 1.0% of inventory. For a change, future new deliveries will be concentrated in submarkets outside of Bethesda. Newmark Research projects that Suburban Maryland's overall vacancy rate will decrease to 18.2% by the end of the third quarter of 2024.

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 3Q 2022 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
ArcellX	800 King Farm Boulevard	Rockville	Direct Lease	60,000
42 Services, LLC	3206 Tower Oaks Boulevard	Rockville	Direct Lease	18,760
FTI Consulting	6903 Rockledge Drive	Bethesda	Direct Lease	14,103

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
6901-6905 Rockledge Drive	Bethesda	$69,500,000	$101	688,493
1550 Research Boulevard	Rockville	$25,500,000	$300	85,000
15001 Shady Grove Road	Rockville	$21,600,000	$417	51,779

Submarket Statistics—All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2019 Absorption (SF)	2020 Absorption (SF)	2021 Absorption (SF)	3Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
Suburban Maryland	**75,796,753**	**17.6%**	**18.9%**	**347,384**	**-1,274,582**	**-253,457**	**-197,341**	**-870,708**
Beltsville	1,457,852	24.0%	24.4%	-1,062	-19,452	49,657	-1,338	9,263
Bethesda	12,145,588	18.5%	21.1%	187,647	-459,758	8,870	806,311	613,518
Bowie	1,229,062	14.6%	14.6%	4,239	-30,591	-13,250	9,096	20,739
College Park	3,344,450	13.5%	13.5%	197,669	-152,144	37,062	-26,863	-38,429
Gaithersburg	3,096,979	11.3%	11.6%	-226	-83,535	-3,712	3,701	-31,280
Germantown	2,111,498	23.2%	26.5%	-42,533	-28,957	-56,005	-45,745	-93,377
Greenbelt	2,869,682	21.9%	22.7%	130,707	-49,391	-30,366	-27,771	19,820
Landover/Lanham/Largo	4,597,337	19.6%	20.1%	5,221	21,612	-6,165	-22,406	-267,840
Laurel	1,842,894	18.7%	19.2%	-95,067	-15,004	-34,012	23,706	37,575
North Rockville	11,149,801	16.9%	18.4%	297,593	-373,002	-298,002	43,203	-2,711
North Bethesda	10,285,996	25.7%	27.4%	131,710	22,231	-102,870	-946,548	-1,045,162
Rockville	8,920,544	13.9%	15.1%	94,590	-78,405	-316,790	-27,571	-89,566
Silver Spring	9,834,651	14.3%	15.1%	-639,090	-3,694	-85,973	20,143	-3,908
Southern Prince George’s	2,910,419	8.7%	8.7%	75,986	-24,492	598,099	-5,259	650

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2019 Absorption (SF)	2020 Absorption (SF)	2021 Absorption (SF)	3Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
Suburban Maryland	**75,796,753**	**17.6%**	**18.9%**	**347,384**	**-1,274,582**	**-253,457**	**-197,341**	**-870,708**
Class A	42,727,124	18.6%	20.1%	342,676	-818,668	330,386	-203,450	-397,539
Class B	23,213,886	17.3%	18.7%	116,745	-270,997	-551,532	71,931	-417,342
Class C	9,855,743	14.2%	14.5%	-112,037	-184,917	-32,311	-65,822	-55,827

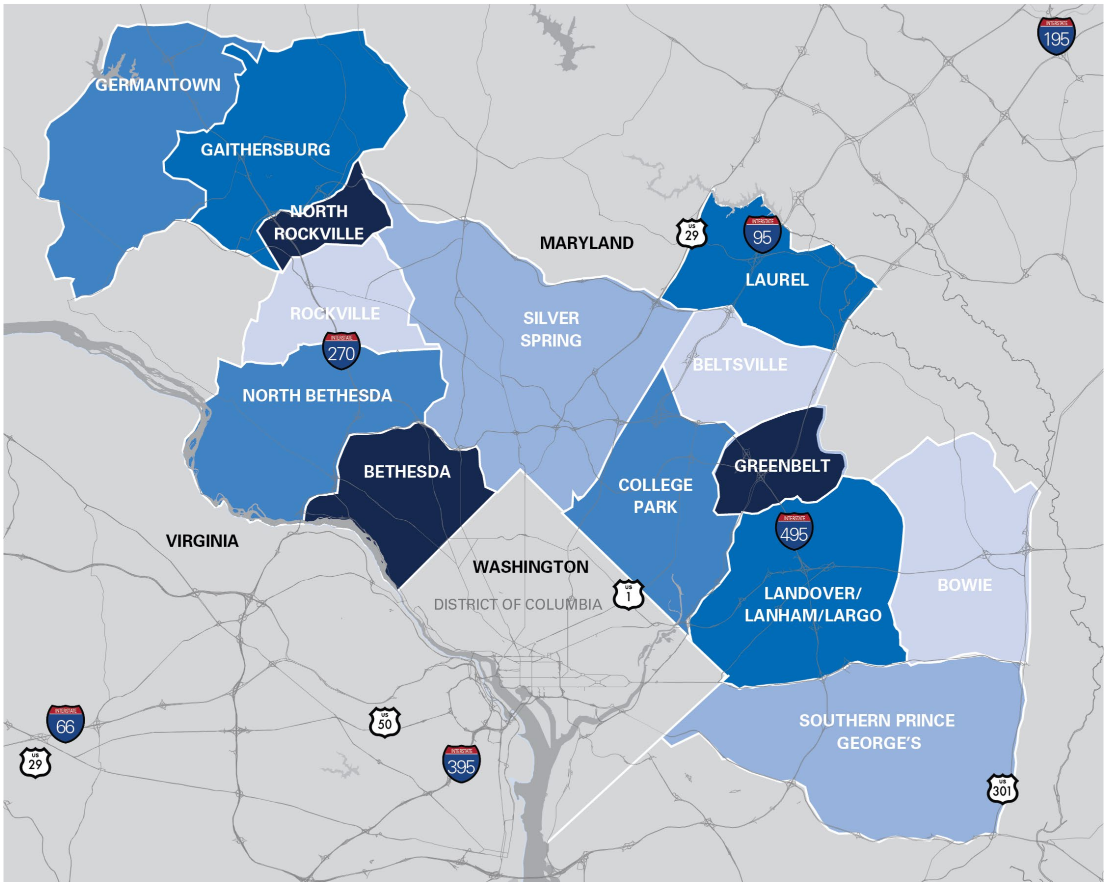
Submarket Statistics—All Classes

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	3Q 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
Suburban Maryland	**75,796,753**	**$33.44**	**$27.77**	**$30.75**	**726,000**	**726,000**	**414,746**
Beltsville	1,457,852	$22.65	$18.00	$21.05	0	0	0
Bethesda	12,145,588	$47.45	$37.91	$43.62	726,000	726,000	0
Bowie	1,229,062	$26.36	$24.70	$26.19	0	0	0
College Park	3,344,450	$27.19	$24.00	$25.09	0	0	0
Gaithersburg	3,096,979	$30.24	$24.79	$28.19	0	0	0
Germantown	2,111,498	$27.04	$24.36	$25.40	0	0	60,000
Greenbelt	2,869,682	$23.75	$22.15	$22.92	0	0	0
Landover/Lanham/Largo	4,597,337	$22.28	$22.92	$22.78	0	0	100,000
Laurel	1,842,894	$22.50	$20.91	$21.11	0	0	0
North Rockville	11,149,801	$30.37	$25.75	$28.94	0	0	97,196
North Bethesda	10,285,996	$29.19	$29.90	$29.08	0	0	157,550
Rockville	8,920,544	$34.44	$31.55	$32.98	0	0	0
Silver Spring	9,834,651	$31.42	$26.28	$28.15	0	0	0
Southern Prince George’s	2,910,419	$32.37	$19.16	$23.03	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)	3Q 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
Suburban Maryland	**75,796,753**	**$33.44**	**$27.77**	**$30.75**	**726,000**	**726,000**	**414,746**
Class A	42,727,124	$33.44	NA	$33.44	726,000	726,000	414,746
Class B	23,213,886	NA	$27.77	$27.77	0	0	0
Class C	9,855,743	NA	NA	$25.12	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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