
3Q23

Suburban Maryland Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. August’s 1.6% unemployment rate was significantly lower than the national average of 3.8%.
- Year-over-year, job gains have been most pronounced in the construction industry with 6.0% growth, followed by leisure/hospitality with 3.6% growth, and education/health with 3.2% growth.
- Business and Professional services remains the largest industry in the region, containing 23% of the regional workforce, followed closely by the Government at 19%.

Major Transactions

- Sales volume remained modest during Q3 2023, totaling \$36 million across 44 transactions. This is the least amount of sales volume the market has seen since 2009, during the Great Recession. It is also much lower than a year ago, when the market saw \$305 million of sales volume across 109 transactions in Q3 2022.
- The largest sale of the quarter was 64 Tomas Johnson Drive in the Frederick submarket. Patriot Medical Laboratories sold this 60,000 square-foot medical office building to Monocacy Montessori for \$7.5 million, or \$125 per square foot. Monocacy Montessori, who previously leased the space, will continue to fully occupy the building.

Leasing Market Fundamentals

- After the market experienced three straight years of negative net absorption from 2020-2022, the market has experienced over 200,000 square feet of positive net absorption in 2023.
- Vacancy tightened, while rents rose year-over-year. Vacancy tightened 50 basis points to 18.1% after the market saw a historically high vacancy rate of 18.6% during the second half of 2022. Average asking rents ended the quarter near the all-time high at \$31.41 per square foot, up 2.2% year-over-year.
- There are three properties totaling 415,000 square feet of space under construction in the market. These properties are spread out in the market, located within Silver Spring, North Bethesda, and Rockville.

Outlook

- Although most markets saw rents flatten over the past few years, Suburban Maryland performed exceptionally well in this regard. Since 2020, Suburban Maryland has seen positive rent growth of at least 2.0% each year and ended Q3 2023 12.1% higher than the beginning of 2020. This could be attributed to an increase in demand with tenants relocating from high-cost urban areas to low-cost suburban areas.
- Fewer landlords have capital for concessions to attract tenant relocations, contributing to the recent slowdown in deal volume. This trend is likely to continue in the short-term.
- The education, health, and government sectors should continue to experience job growth in Suburban Maryland which will help drive office leasing activity.

1. Economy
2. Leasing Market Fundamentals

3Q23

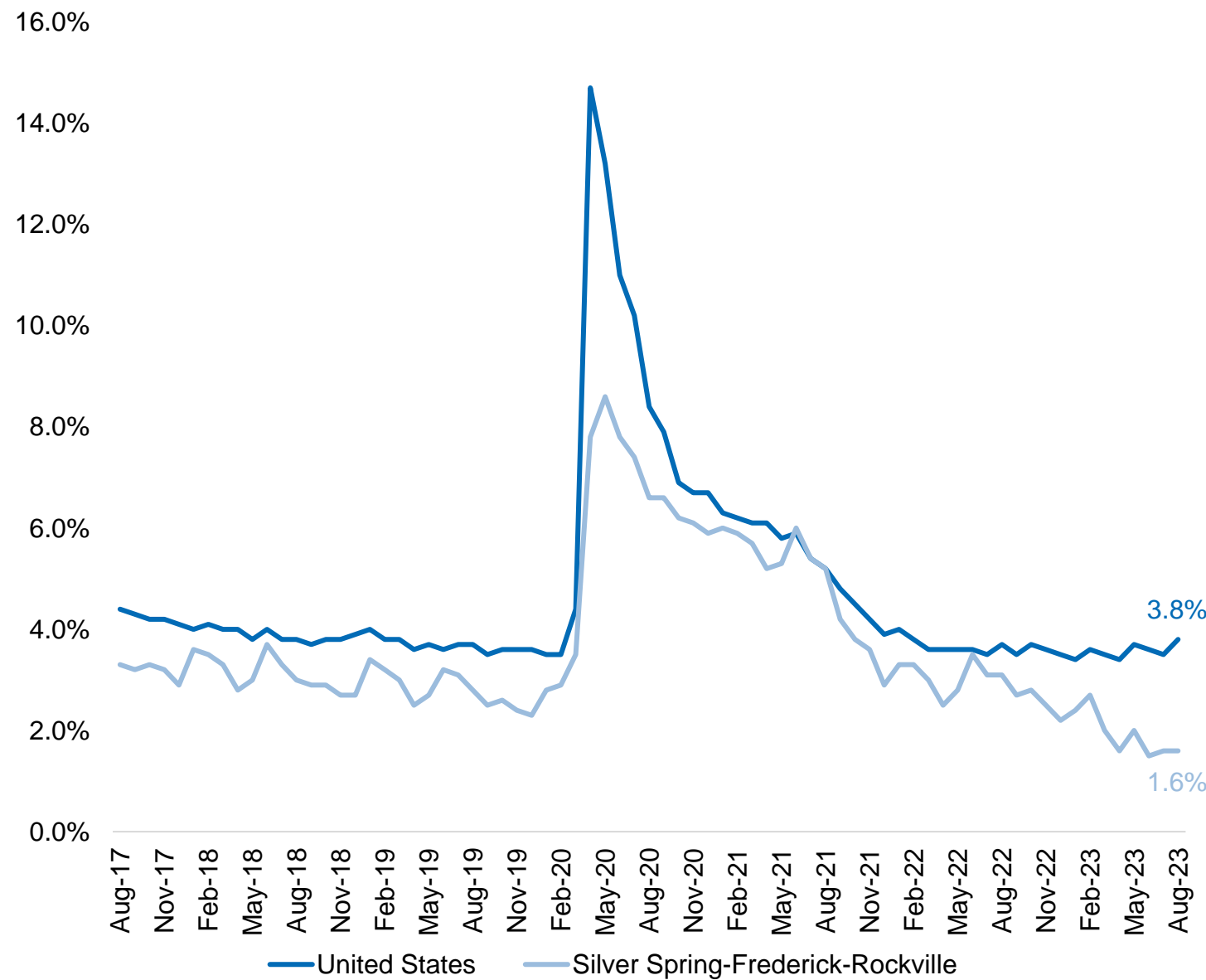
Economy



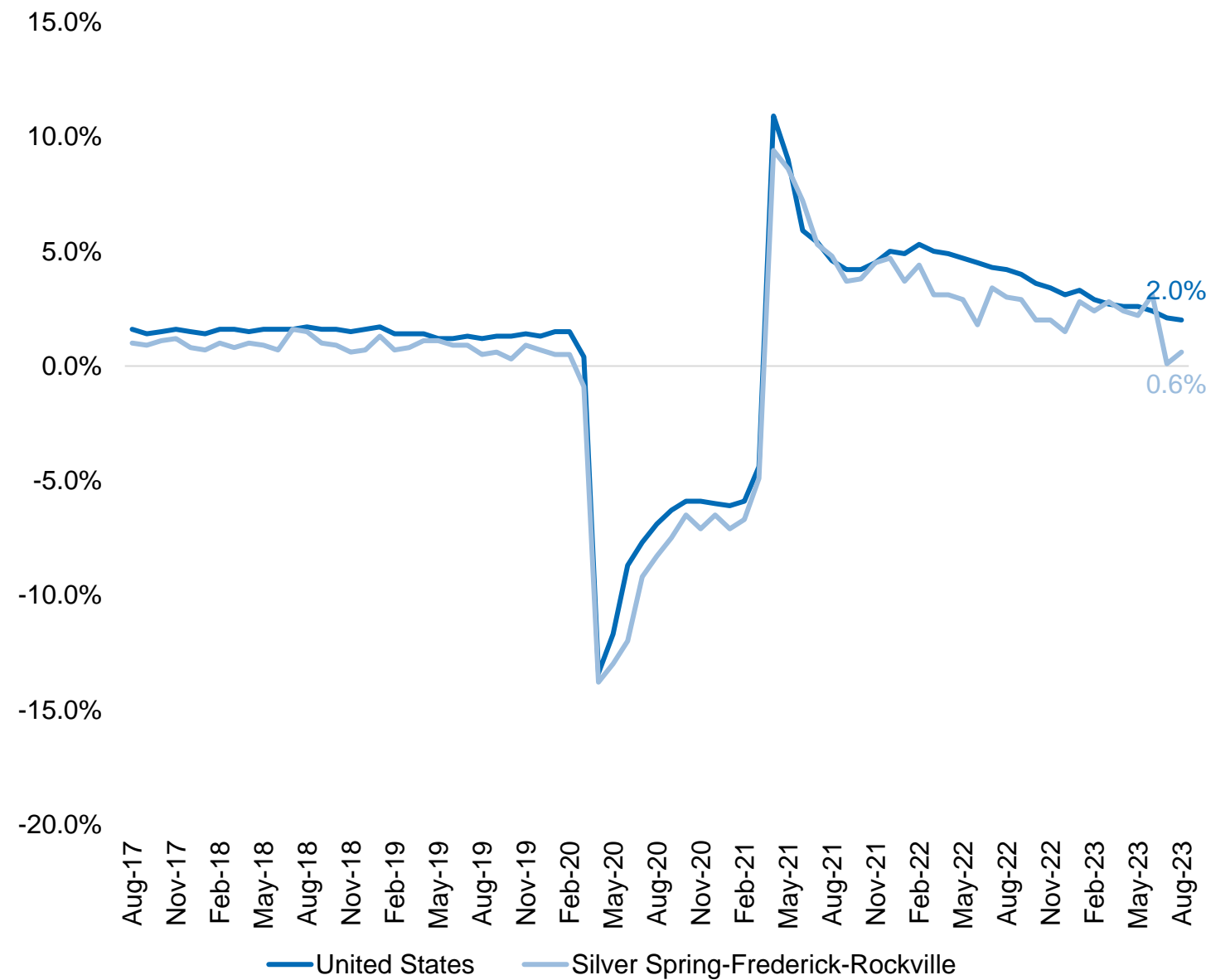
Regional Employment Trends Continue to Impress

Suburban Maryland’s unemployment rate measures 1.6% as of August 2023. This is 150 basis points lower year-over-year and 220 basis points lower than the national average.

Unemployment Rate, Seasonally Adjusted



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



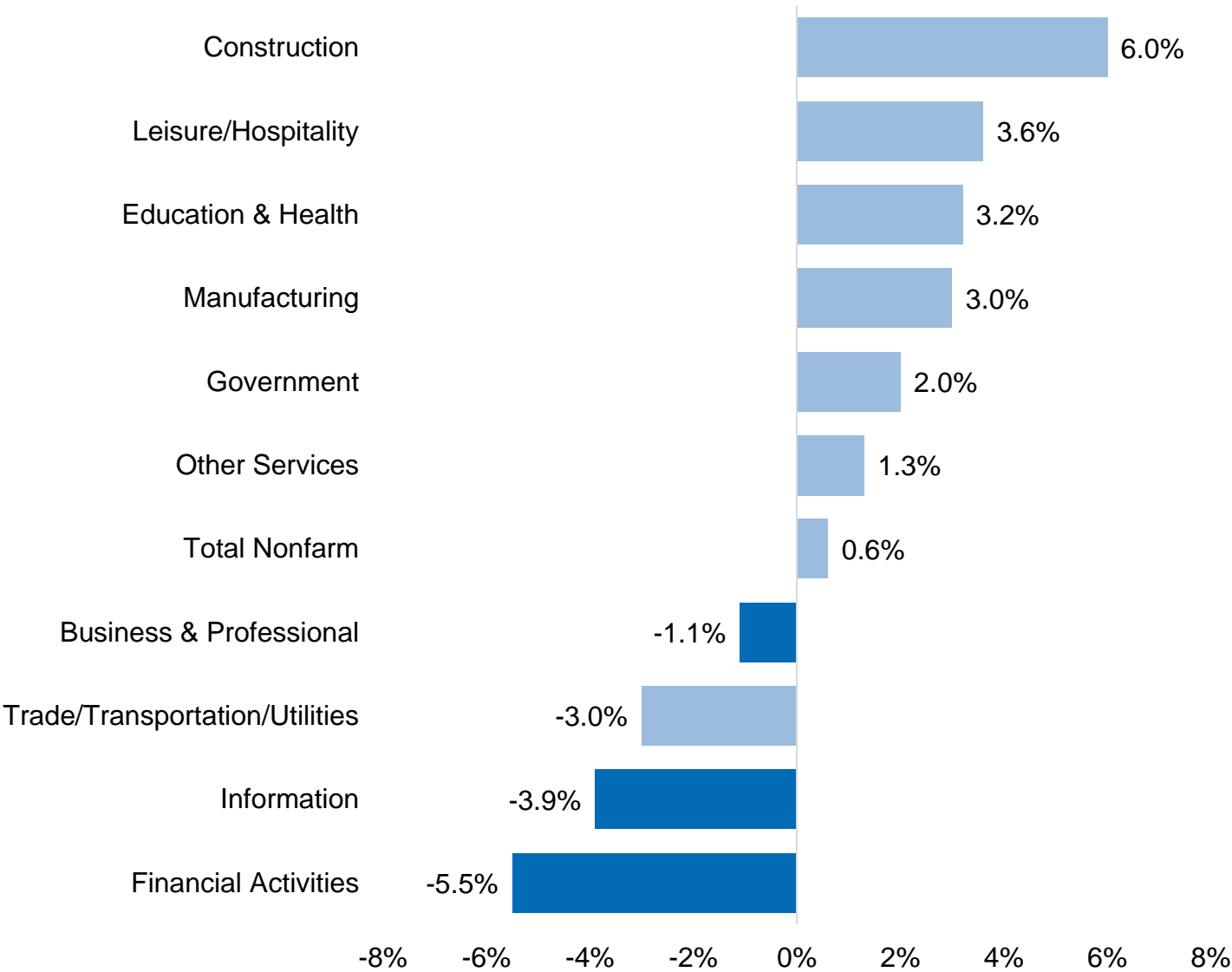
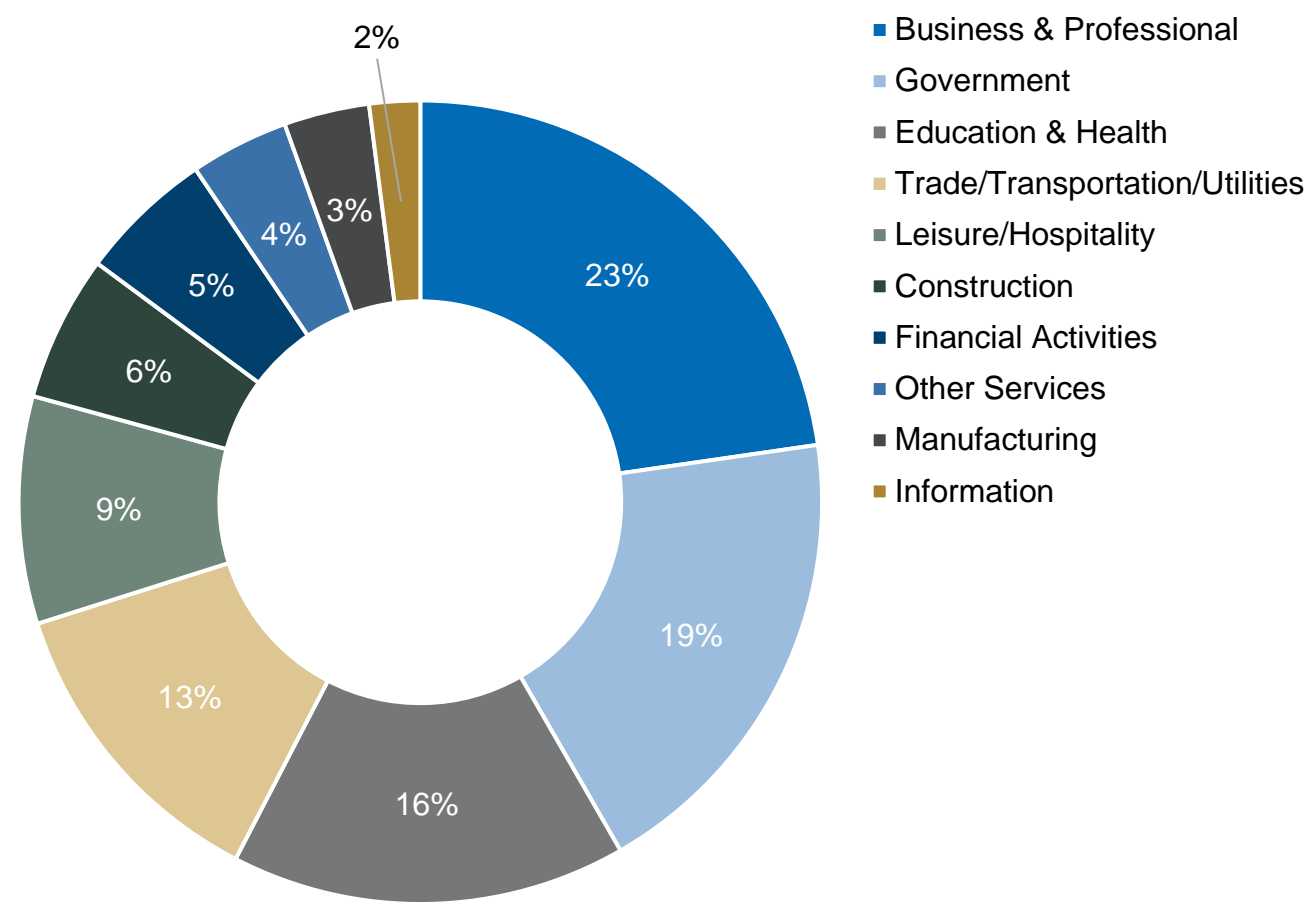
Source: U.S. Bureau of Labor Statistics, Silver Spring-Frederick-Rockville

Job Growth Driven by Services Making up for Pandemic Losses

The construction sector led all industries in regional annual job growth at 6.0%, highlighting an increase of development coming out of the pandemic. This is followed by the leisure/hospitality sector at 3.6%, further highlighting a sector recovering from pandemic-related losses.

Employment by Industry, August 2023

Employment Growth by Industry, 12-Month % Change, August 2023

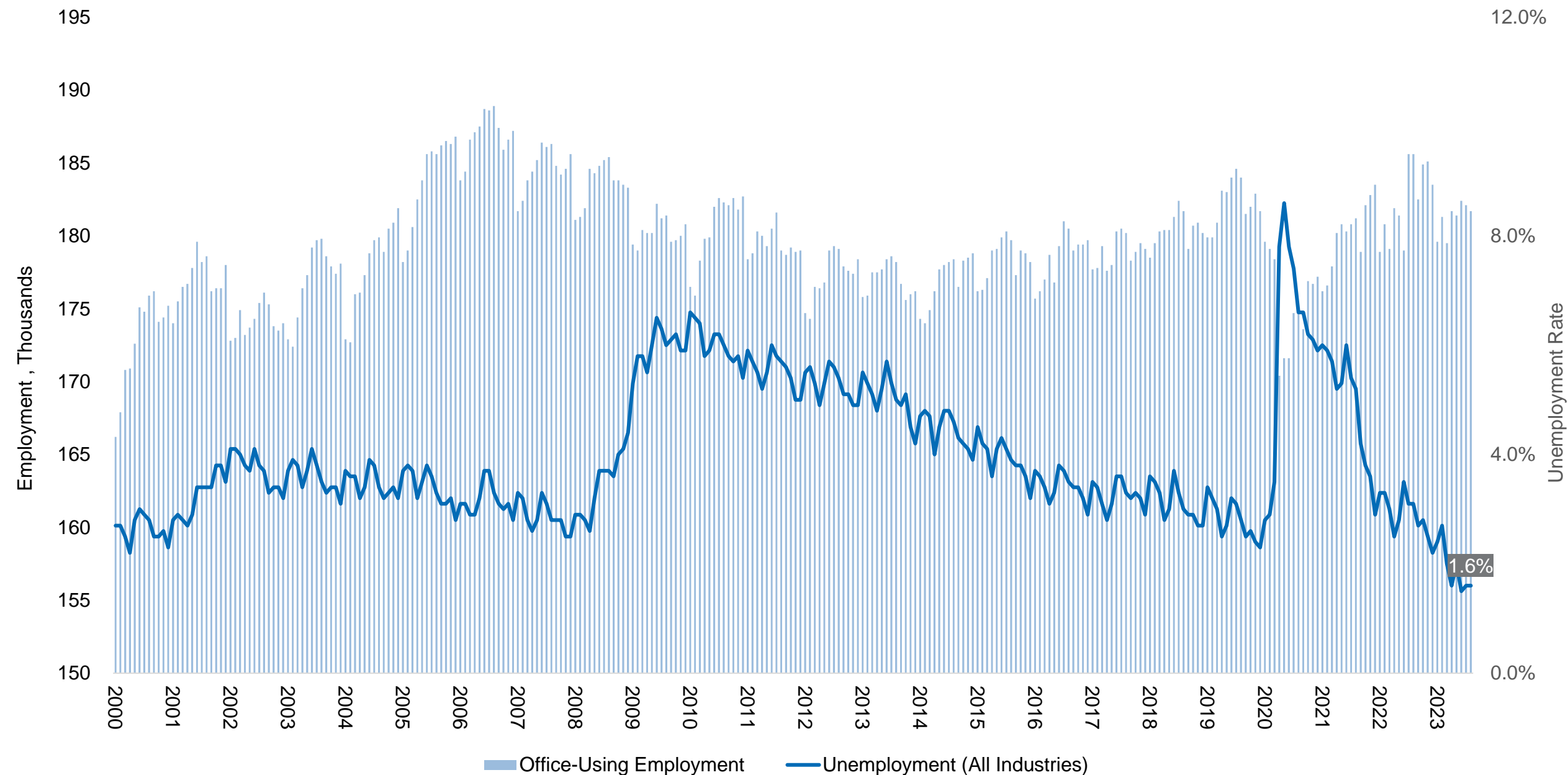


Source: U.S. Bureau of Labor Statistics, Silver Spring-Frederick-Rockville

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded close to pre-pandemic levels. Employment ended August 2023 at 181,700 employees, an increase of 6.6% since the market reached a pandemic-related low 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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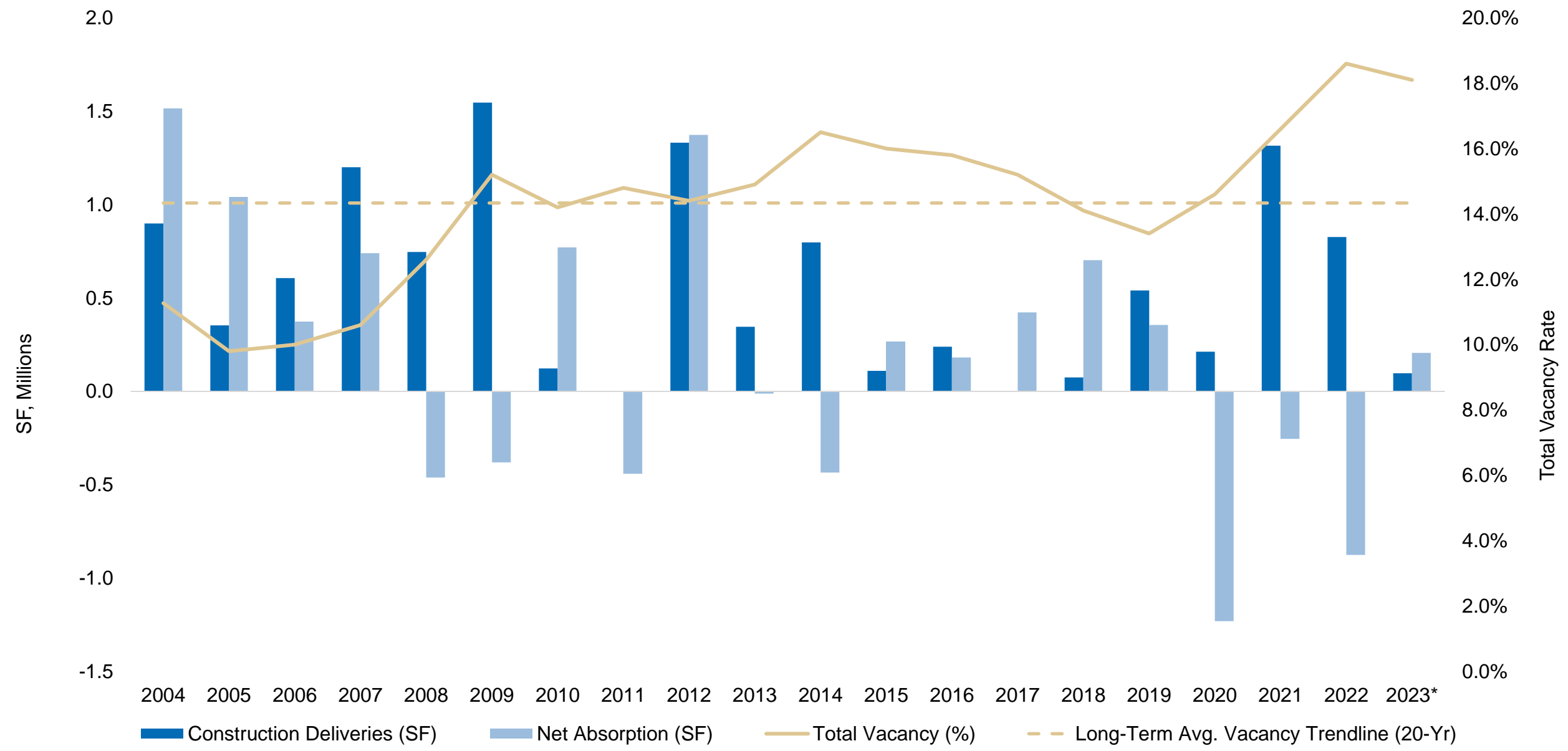
Leasing Market Fundamentals



Vacancy has Tightened Since Reaching Historical Highs in 2022

Vacancy expanded slightly quarter-over-quarter, ending Q3 2023 at 18.1%, an increase of 10 basis points. Despite this, vacancy has tightened 50 basis points year-over-year, with the possibility that 2023 is the first year the market experiences positive annual net absorption since 2019.

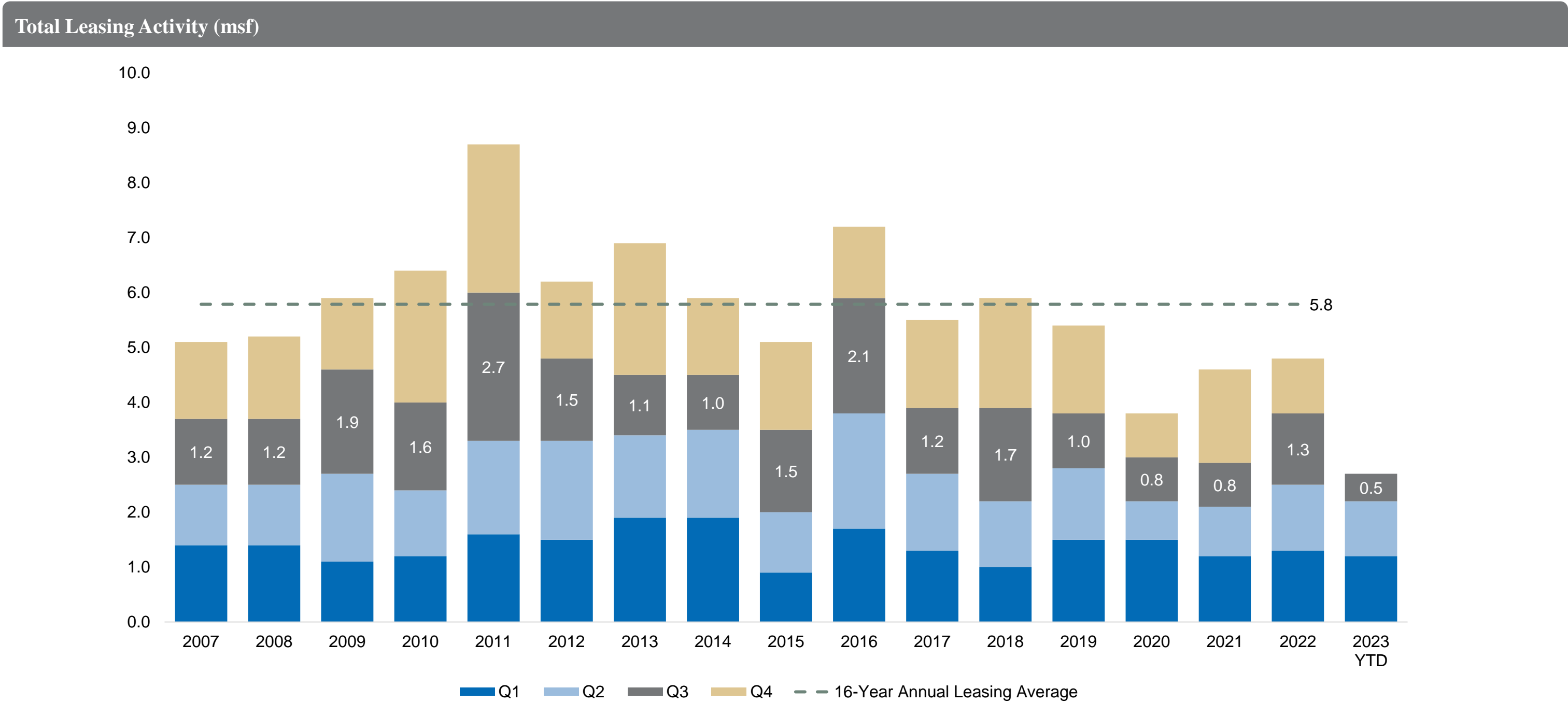
Historical Construction Deliveries, Net Absorption, and Vacancy



*2023 numbers through 3Q23
Source: Newmark Research

Leasing Activity Pace has Slowed

Leasing activity was low during the first three quarters of 2023 and is down 30.0% compared to the same period of 2022. The Bethesda/Chevy Chase submarket saw the most leasing activity in Q3 2023, with 140,000 square feet of activity, as it remains one of the largest and most active submarkets in Suburban Maryland.

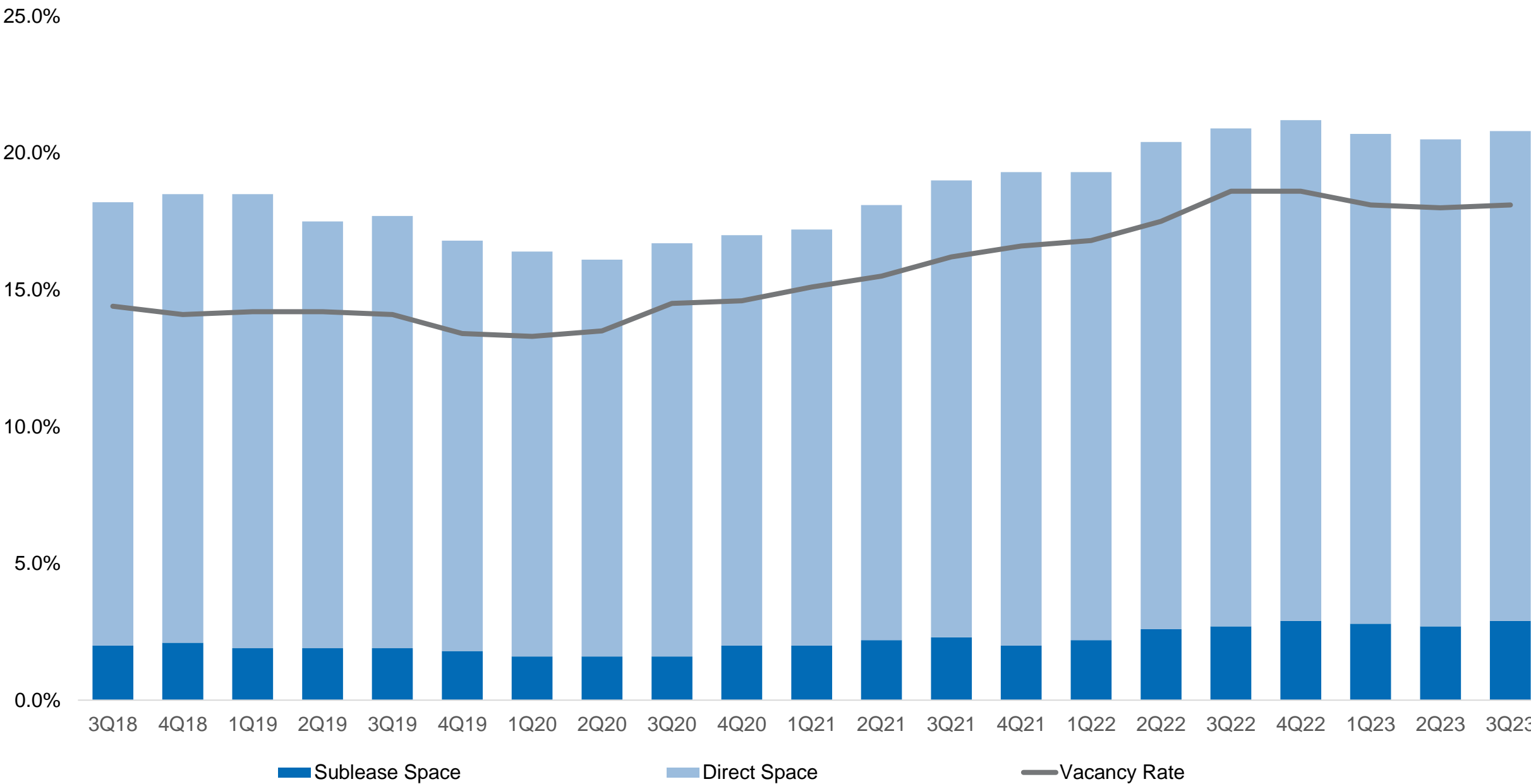


Source: Newmark Research, CoStar

Available Space Decreases During 2023

After increases throughout 2022, available space has decreased and flattened in 2023. Despite the recent decrease, available space remains elevated compared to the pre-pandemic average.

Available Space and Tenant Demand as Percent of Overall Market

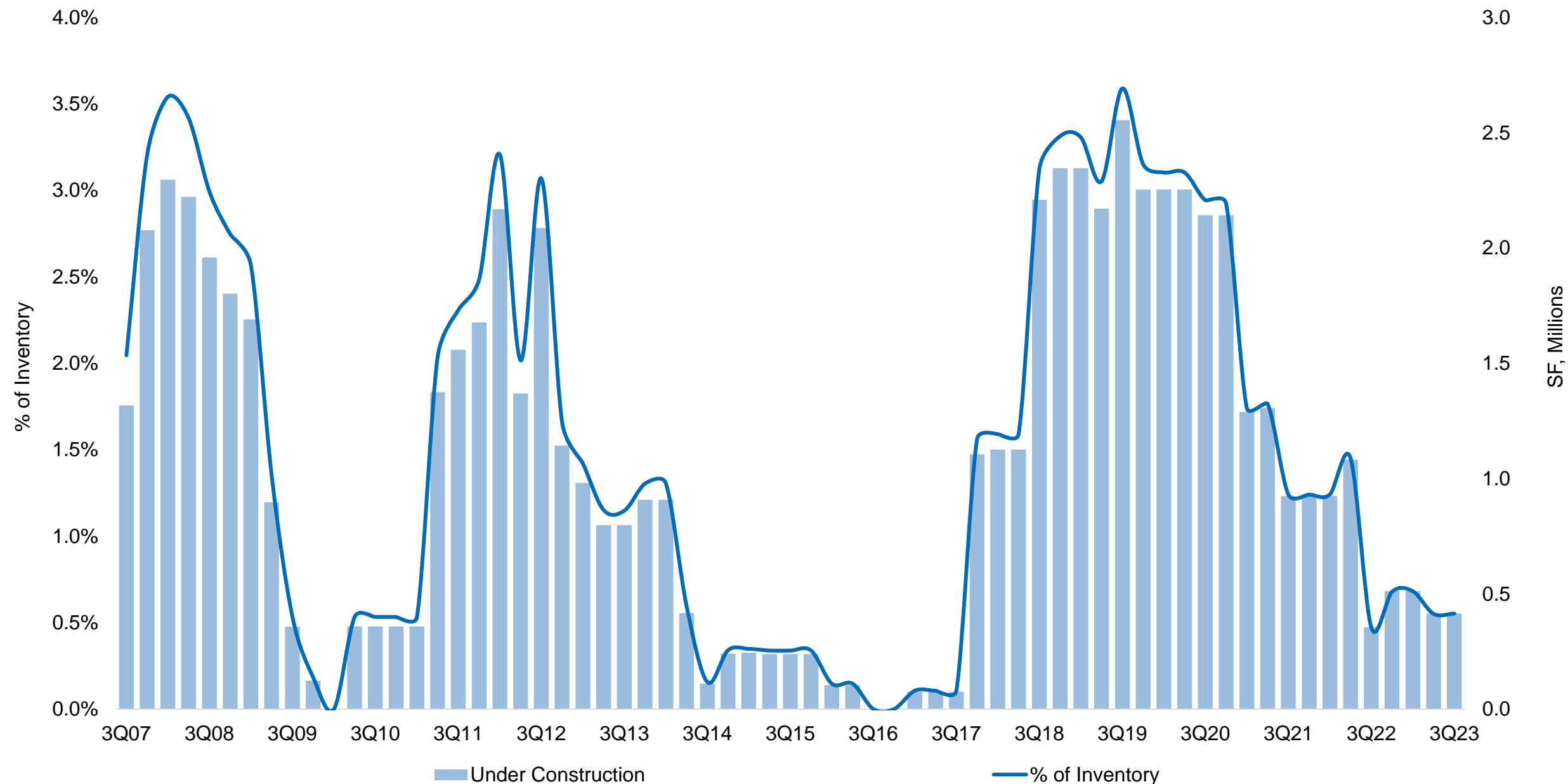


Source: Newmark Research

Construction Remains Limited

There are only three properties totaling 415,000 square feet currently under construction, much lower than the market’s decade average of 960,000 square feet under construction. All three properties are within three of the largest submarkets in Suburban Maryland. Twinbrook Quarter will bring 237,000 square feet of space to the Rockville submarket upon delivery, 915 Meeting Street will bring 158,000 square feet of space to the North Bethesda submarket upon delivery, and 12345 Columbia Pike will bring 20,000 square feet of space to the Silver Spring submarket upon delivery.

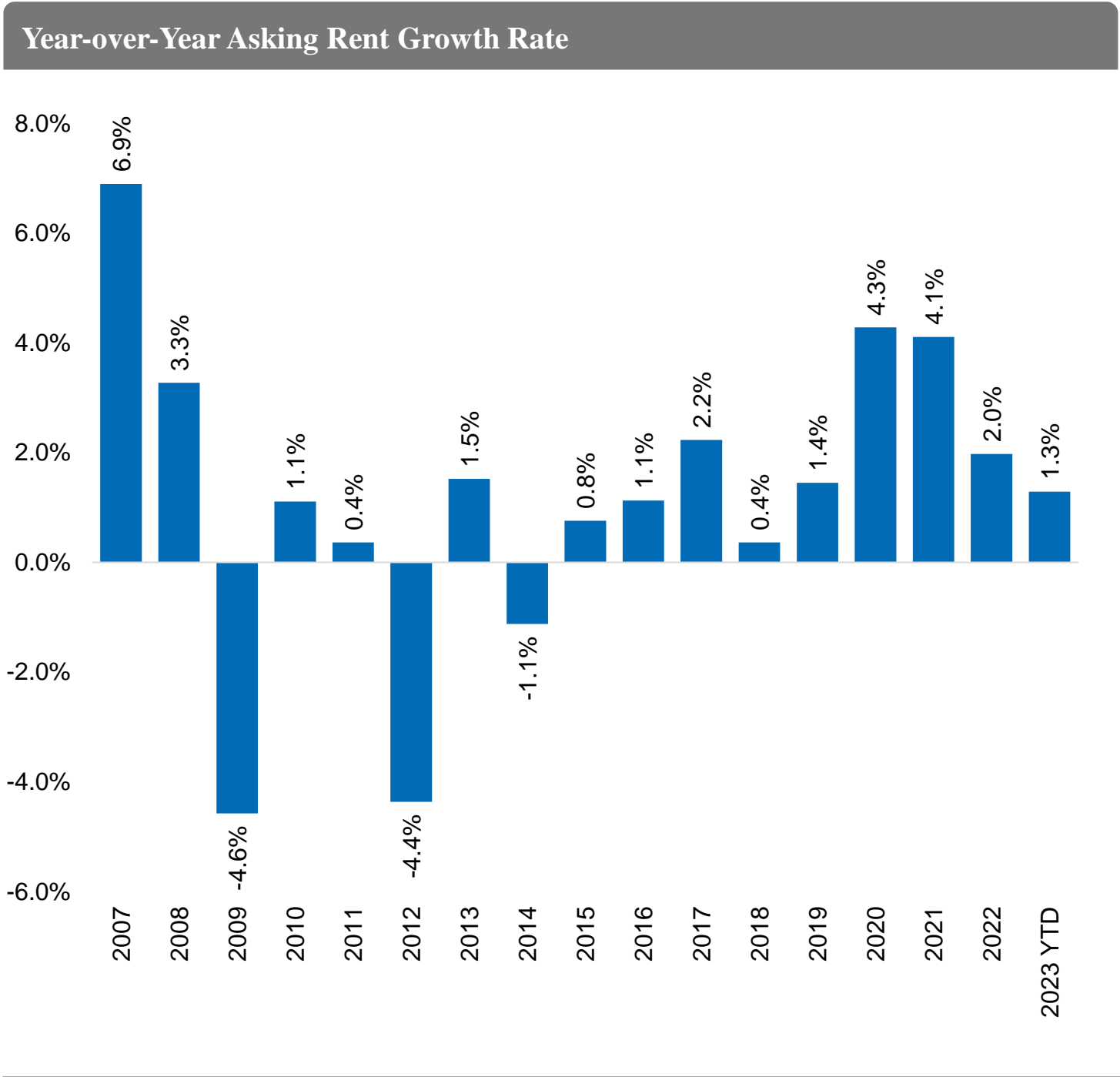
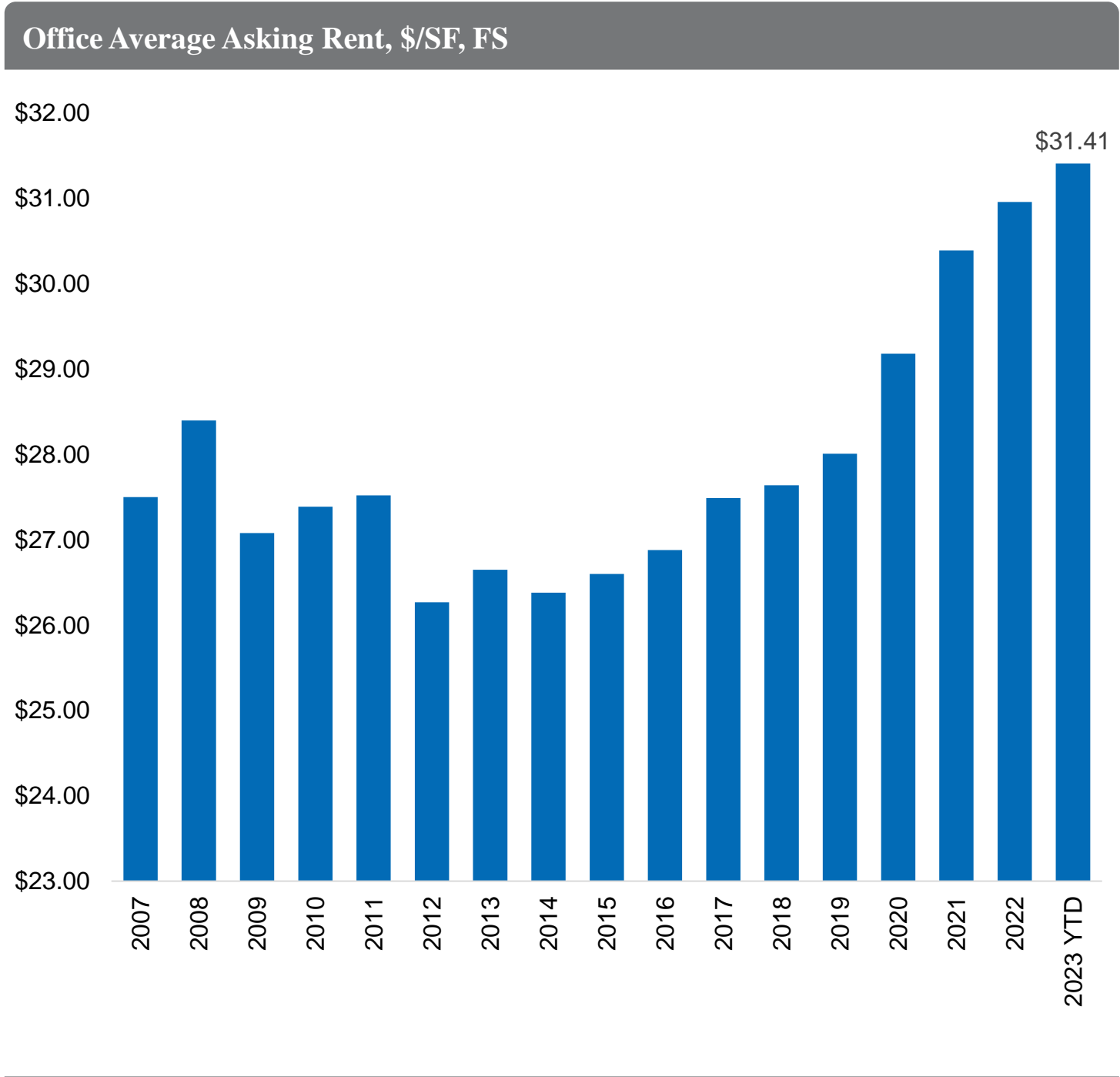
Office Under Construction and % of Inventory



*WMATA HQ does not factor into Newmarks stats due to owner occupancy
Source: Newmark Research, CoStar,

Rents Continue to Climb

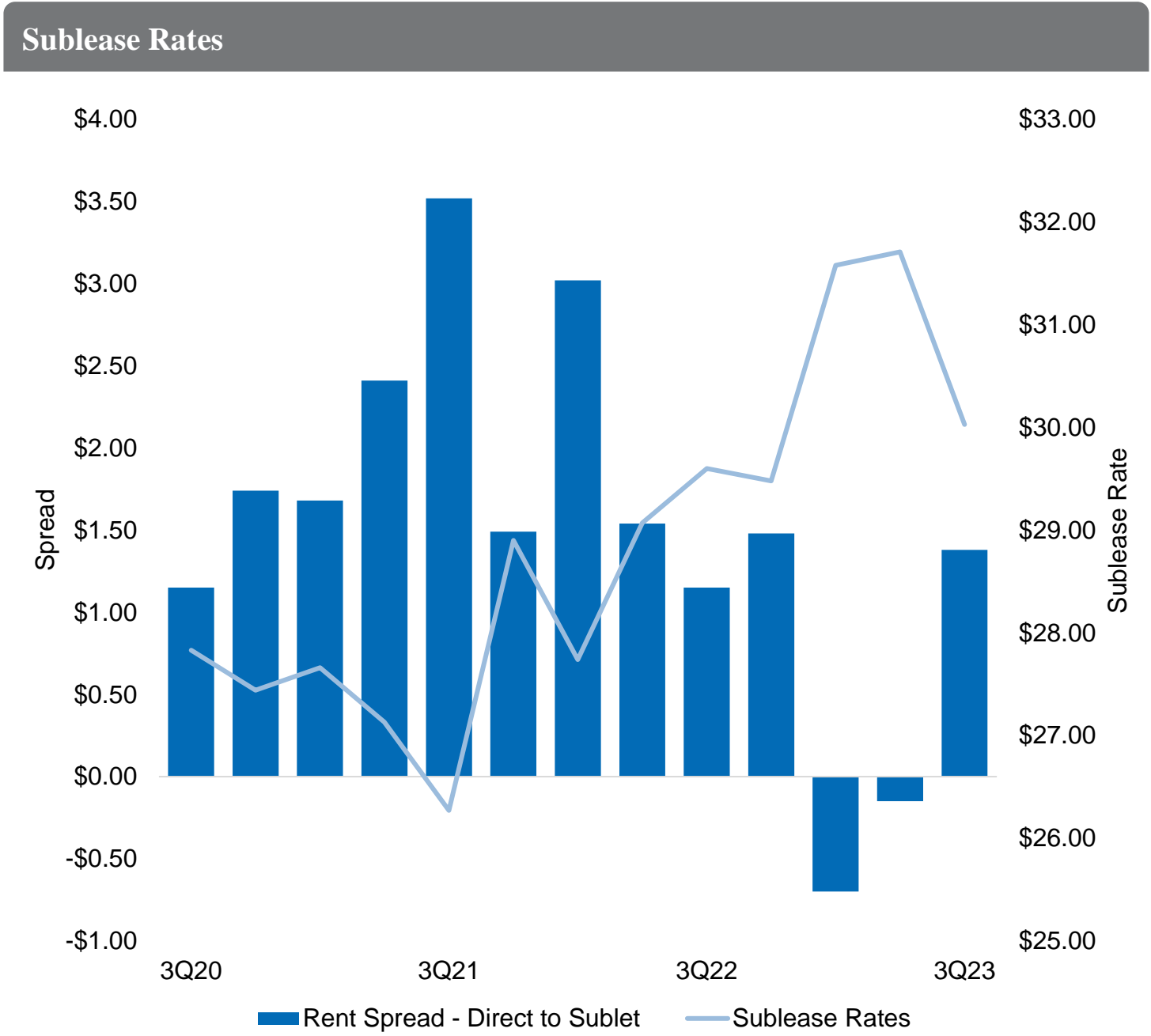
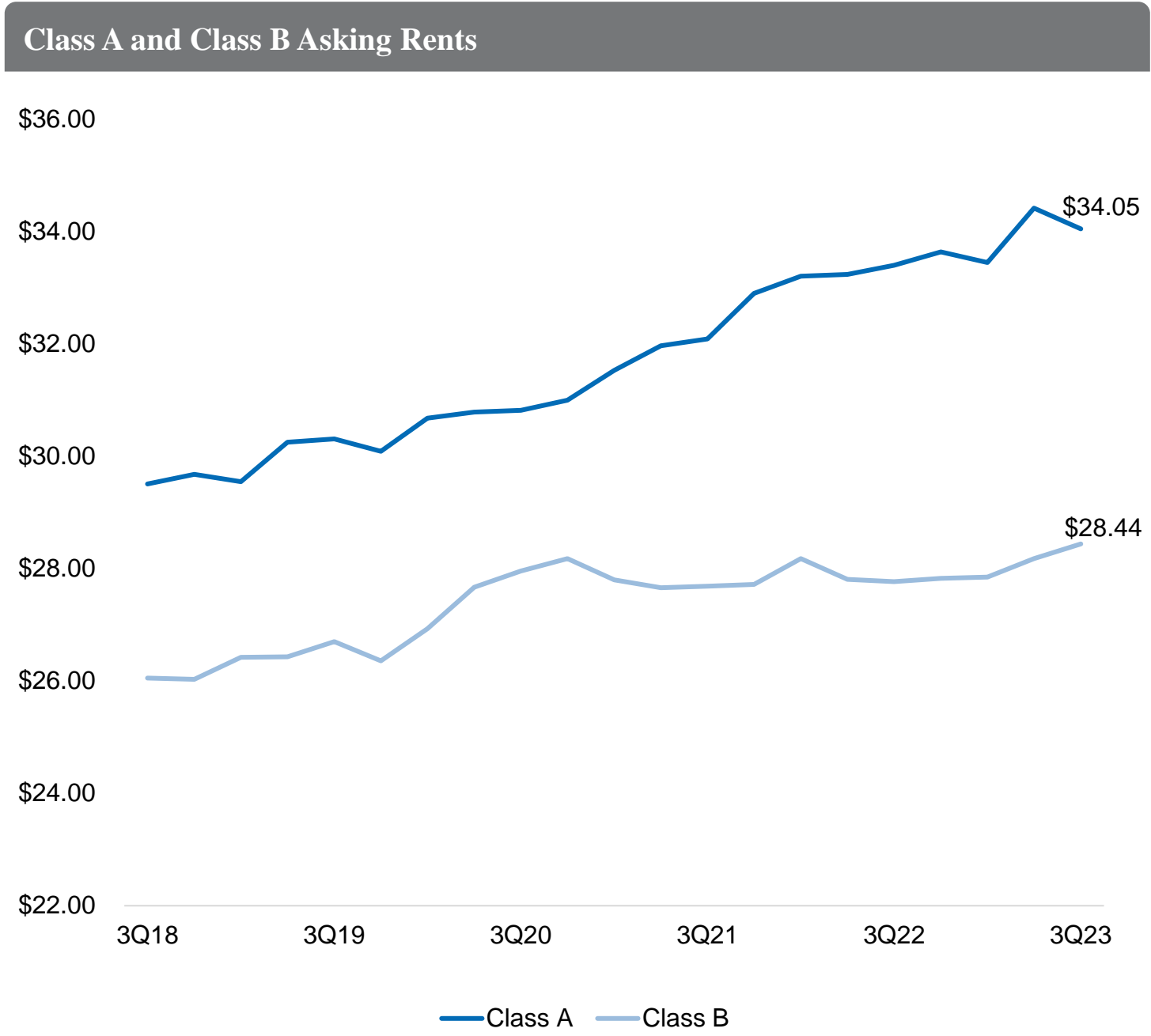
Rents declined 0.5% quarter-over-quarter, ending Q3 2023 at \$31.41. However, rents continue to show annual growth, increasing 1.3% year-over-year.



Source: Newmark Research, CoStar

Asking Rents Show Positive Movement in 2023

Although rents stagnated during the pandemic, both Class A and Class B rents have shown positive movement within the past year. Class A rents decreased 1.1% quarter-over-quarter, however they increased 1.9% year-over-year and sit near historical highs. Class B rents have shown slow, but steady, growth during 2023, increasing 0.9% quarter-over-quarter and 2.4% year-over-year and have now surpassed pre-pandemic highs.



Source: Newmark Research, CoStar

Multiple New Lease Transactions Provide Optimism

Although overall leasing activity remains suppressed, there are still notable deals occurring in the market, including multiple new leases signed during Q3 2023. UMD Institute for Health Computing, Xenergy, and American Institute of Physics all signed new deals over 20,000 square feet during the quarter.

Notable 3Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
UMD Institute for Health Computing	6116 Executive Boulevard	North Bethesda / Potomac	New Lease	27,491
XEnergy	530 Gaither Road	North Rockville	New Lease	24,706
American Institute of Physics	1 Physics Ellipse Drive	College Park	New Lease	22,521
Presidential Bank	4600 East West Highway	Bethesda / Chevy Chase	Lease Renewal	20,313
RBC Wealth Management	5425 Wisconsin Avenue	Bethesda / Chevy Chase	Lease Renewal	18,408

Source: Newmark Research

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