
4Q23

Suburban Maryland Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market remains strong amid shifting macroeconomic conditions. October’s 1.9% unemployment rate is near a historic low and remains 200 basis points lower than the national rate of 3.9%.
- The Construction and Leisure/Hospitality sectors led all industries in regional annual job growth, followed closely by Education & Health Services. The office-occupying industries of Financial Activities, Professional and Business Services and Information experienced job losses over the past year.
- Despite unemployment being near record lows, the number of office-using jobs has declined 4.2% 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 4.0% higher than the pandemic-induced trough in April of 2020.

Major Transactions

- Office investment sales continue to lag, with sales volume near historic lows as buyers and sellers grapple with high interest rates and limited access to debt.
- The largest sales transaction of the quarter was the CapMed Portfolio, a two-building medical office portfolio sale including 9850 Key West Avenue in Rockville and 1838 Greene Tree Road in Pikesville. The properties traded from Harrison Street Capital to Hines for a total of \$59.8 million or approximately \$278 per square foot.
- 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 335,788 square feet during the fourth quarter to bring 2023’s annual absorption total to negative 620,884 square feet.
- Overall vacancy increased to 19.6%, up 70 basis points from 12 months ago.
- After a building boom over the past five years, the pace of new construction deliveries has begun to slow. Only one project delivered in Suburban Maryland in all of 2023: Alexandria Center at 9808 Medical Center Drive in North Rockville delivered during the fourth quarter. The property was 56% preleased upon delivery. Only three projects remain under construction in the market.
- Asking rents have largely held value since the onset of the pandemic, increasing 2.1% over the past year. Sublease asking rents have been holding relatively flat for much of the last three years, which more visibly exhibits the impact of low demand.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- 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 appear to have capital for the concessions that have been a major driver in attracting tenants over the past several years, contributing to the recent slowdown in deal volume. This trend is likely to continue in the near-term.

1. Economy
2. Leasing Market Fundamentals

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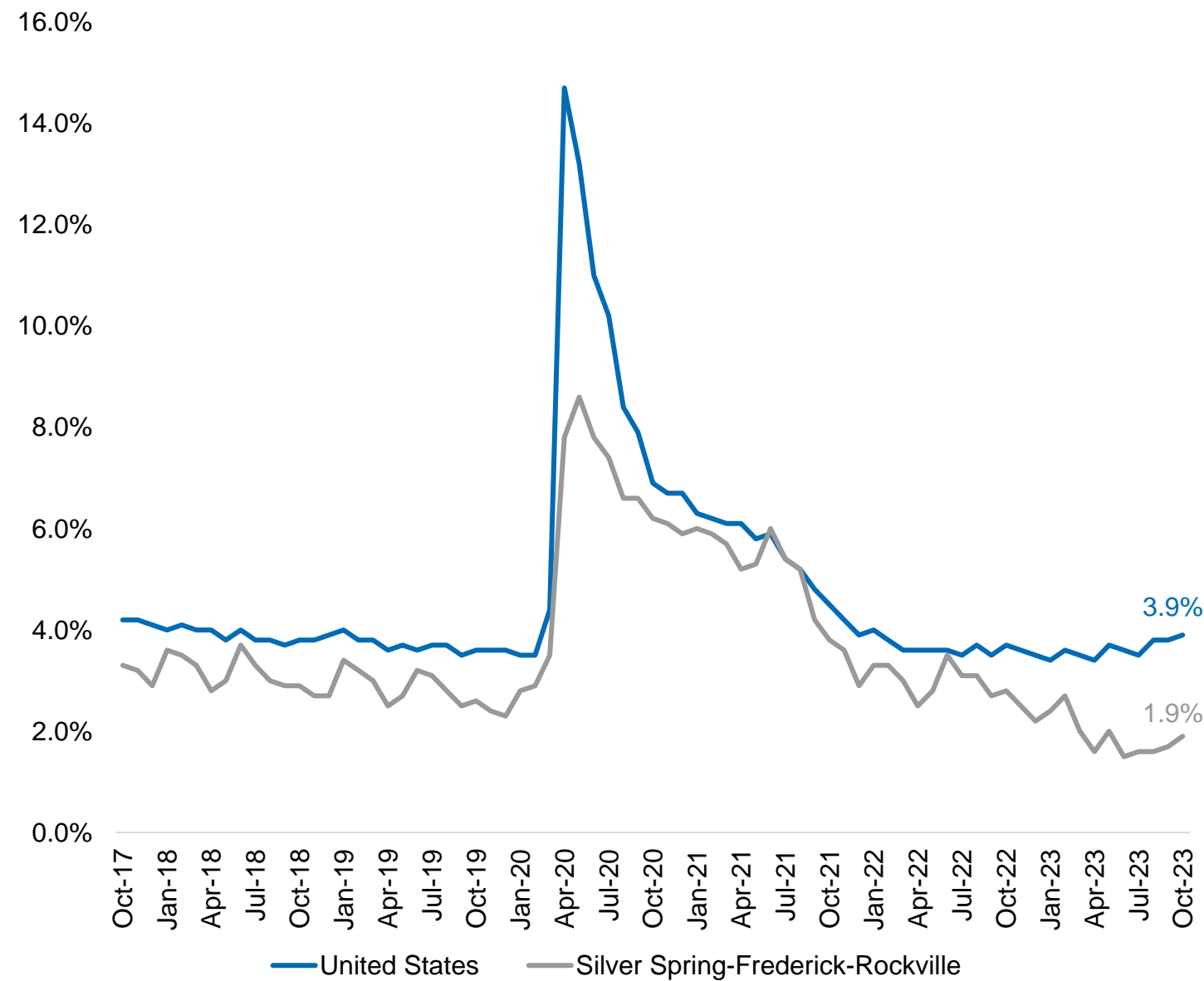
Economy



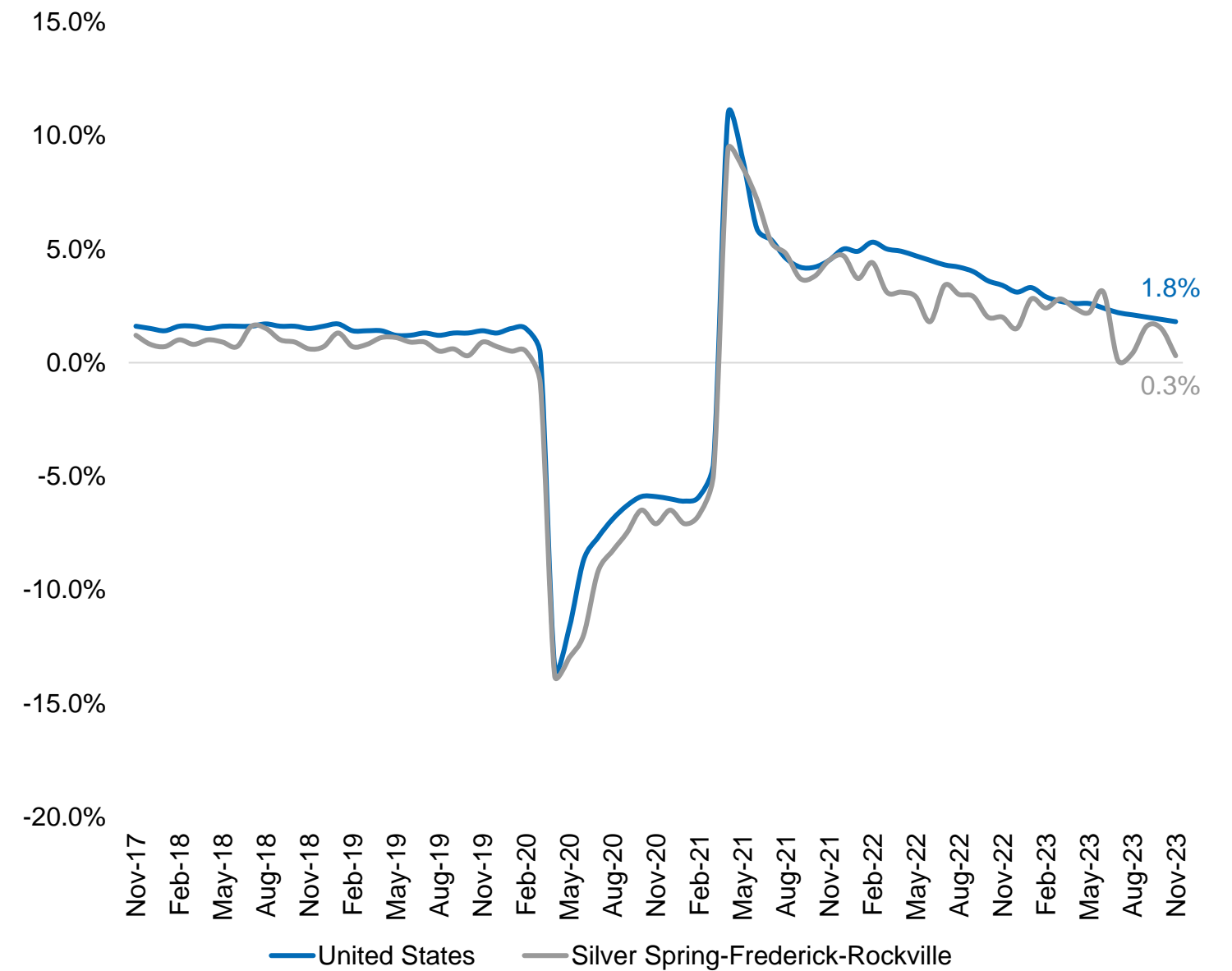
Metro Employment Trends Signal a Slowing Economy

Suburban Maryland's unemployment rate, as of October 2023, measures 1.9%, 200 basis points lower than the national rate; however, the region's annual growth rate for the 12 months ending November 2023 is 150 basis points lower than the nation's rate.

Unemployment Rate, Seasonally Adjusted



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

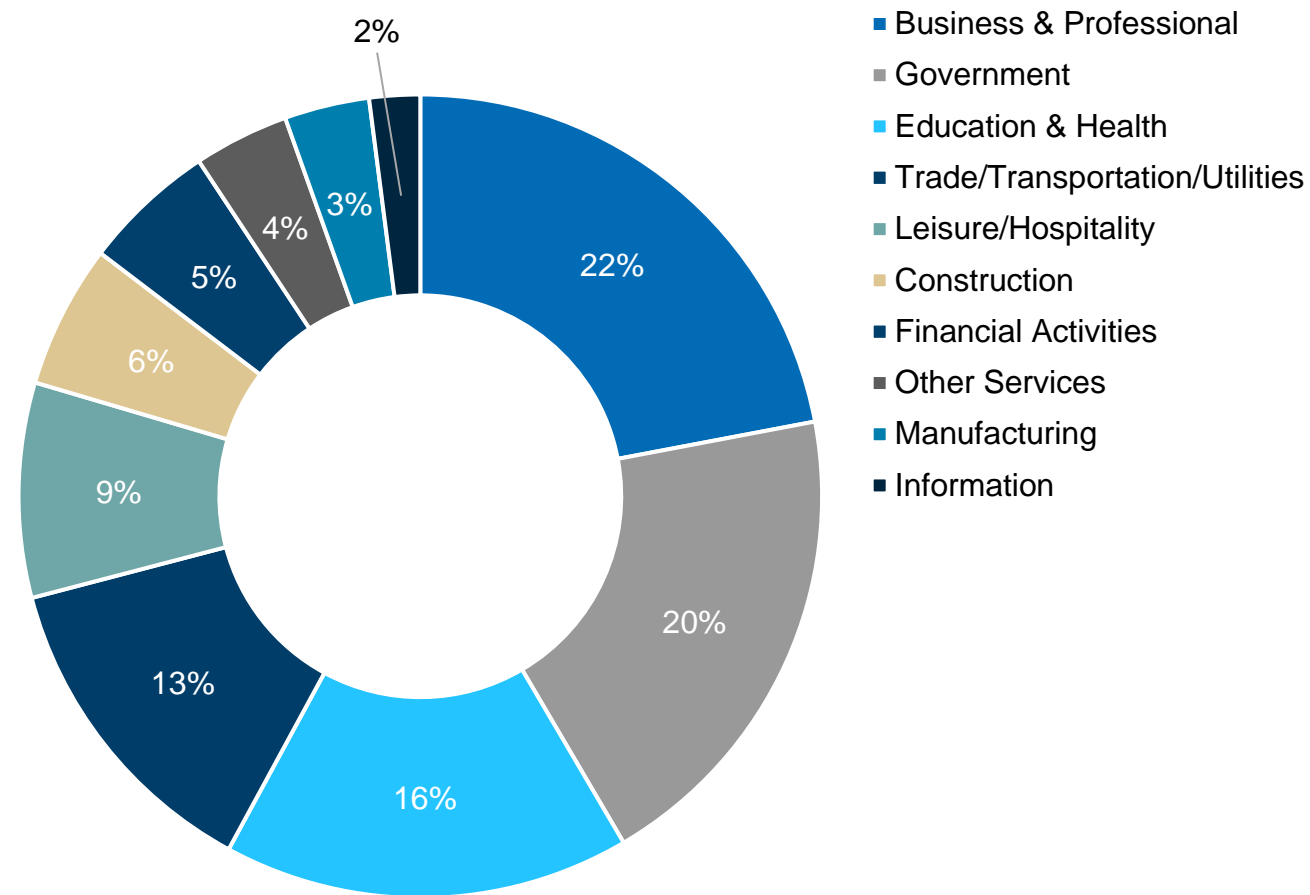


Source: U.S. Bureau of Labor Statistics, Silver Spring-Frederick-Rockville

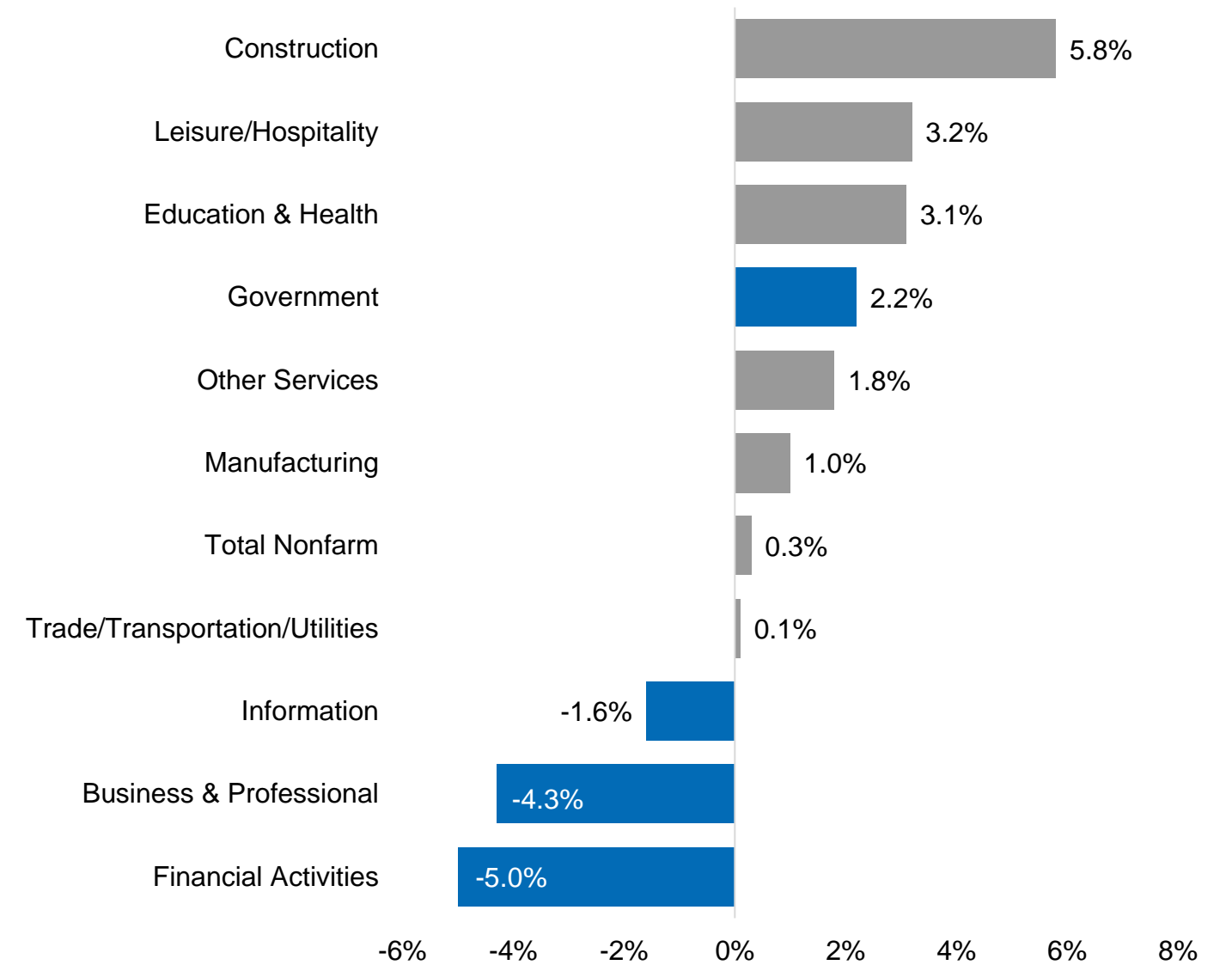
Job Growth Driven by Non-Office-Using Sectors

The Construction and Leisure/Hospitality sectors led all industries in regional annual job growth, followed closely by Education & Health Services. The office-occupying industries of Financial Activities, Professional and Business Services and Information experienced job losses over the past year, helping to account for continued limited demand for office space.

Employment by Industry, November 2023



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

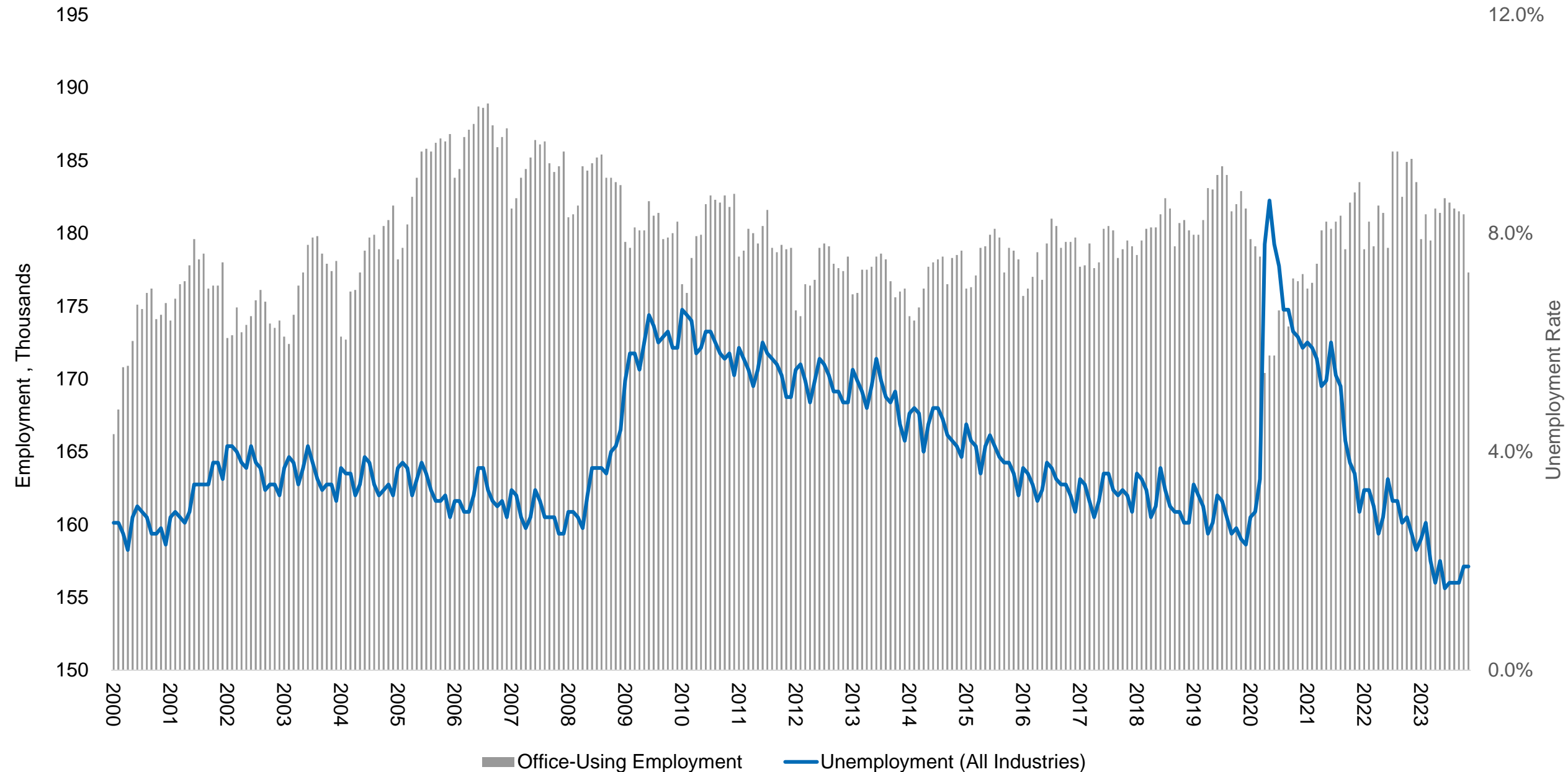


Source: U.S. Bureau of Labor Statistics, Silver Spring-Frederick-Rockville

Overall Office-Using Employment Declines

Despite unemployment being near record lows, the number of office-using jobs has declined 4.2% 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 4.0% 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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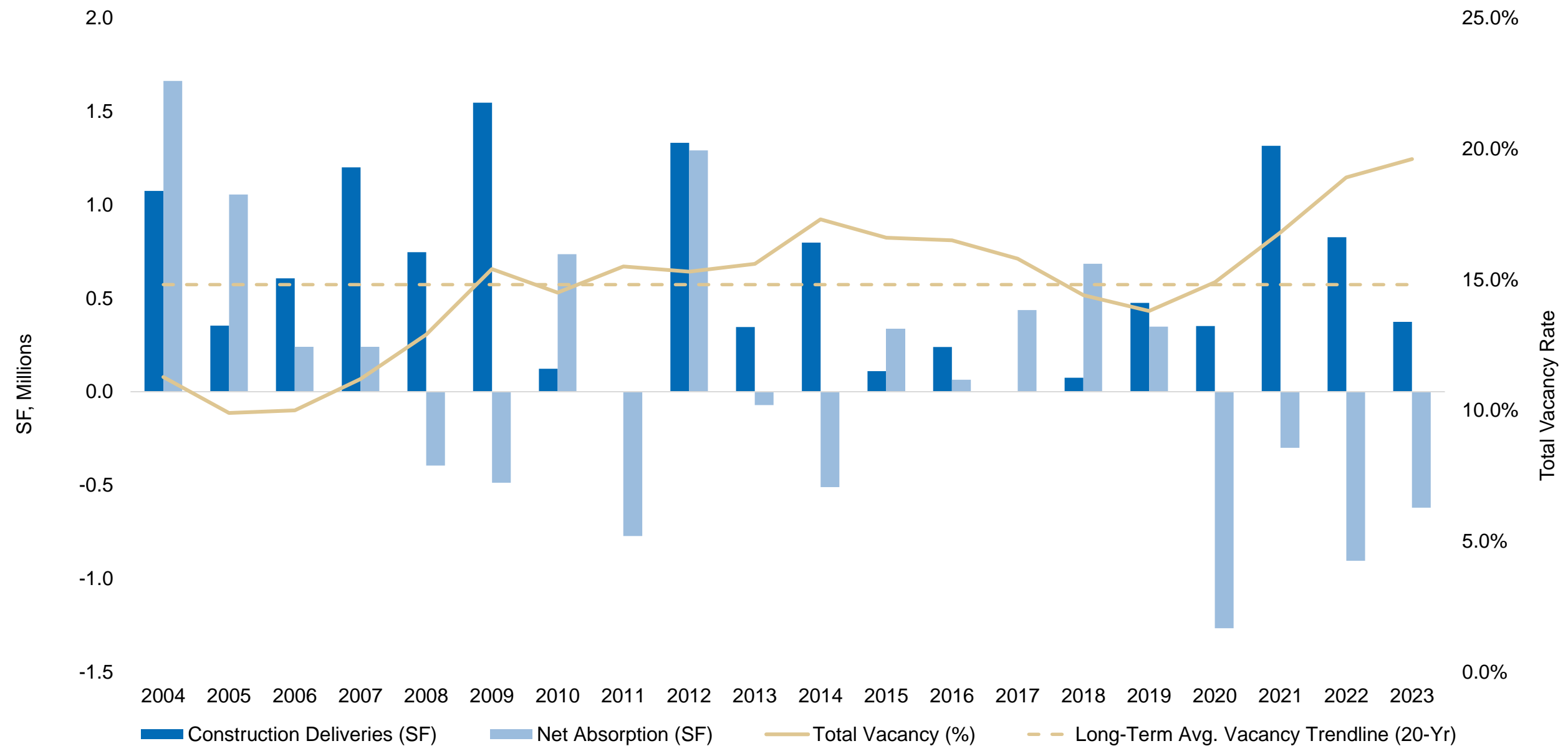
Leasing Market Fundamentals



Vacancy Rises but Construction Deliveries Slow Down

Suburban Maryland's vacancy rate rose 70 basis points over the quarter to end 2023 at 19.6%. However, the pace of new construction deliveries has begun to slow, with only one office delivery in Suburban Maryland in all of 2023. Furthermore, only three properties remain under construction in the market, totaling 533,000 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

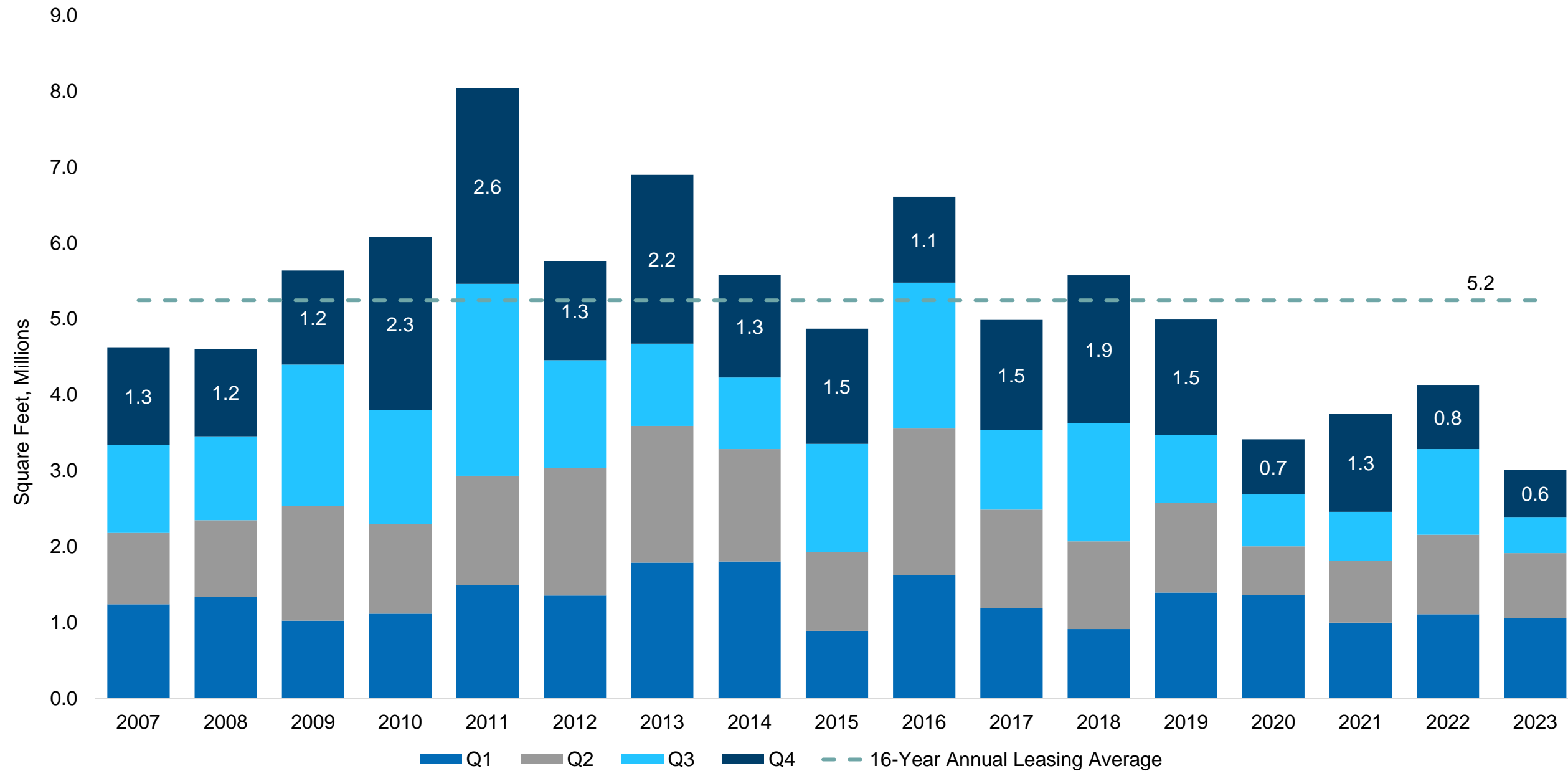


Source: Newmark Research, CoStar

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 is slightly lower than over the past three years, driven partly by slower leasing activity during the second half of the year.

Total Leasing Activity (msf)

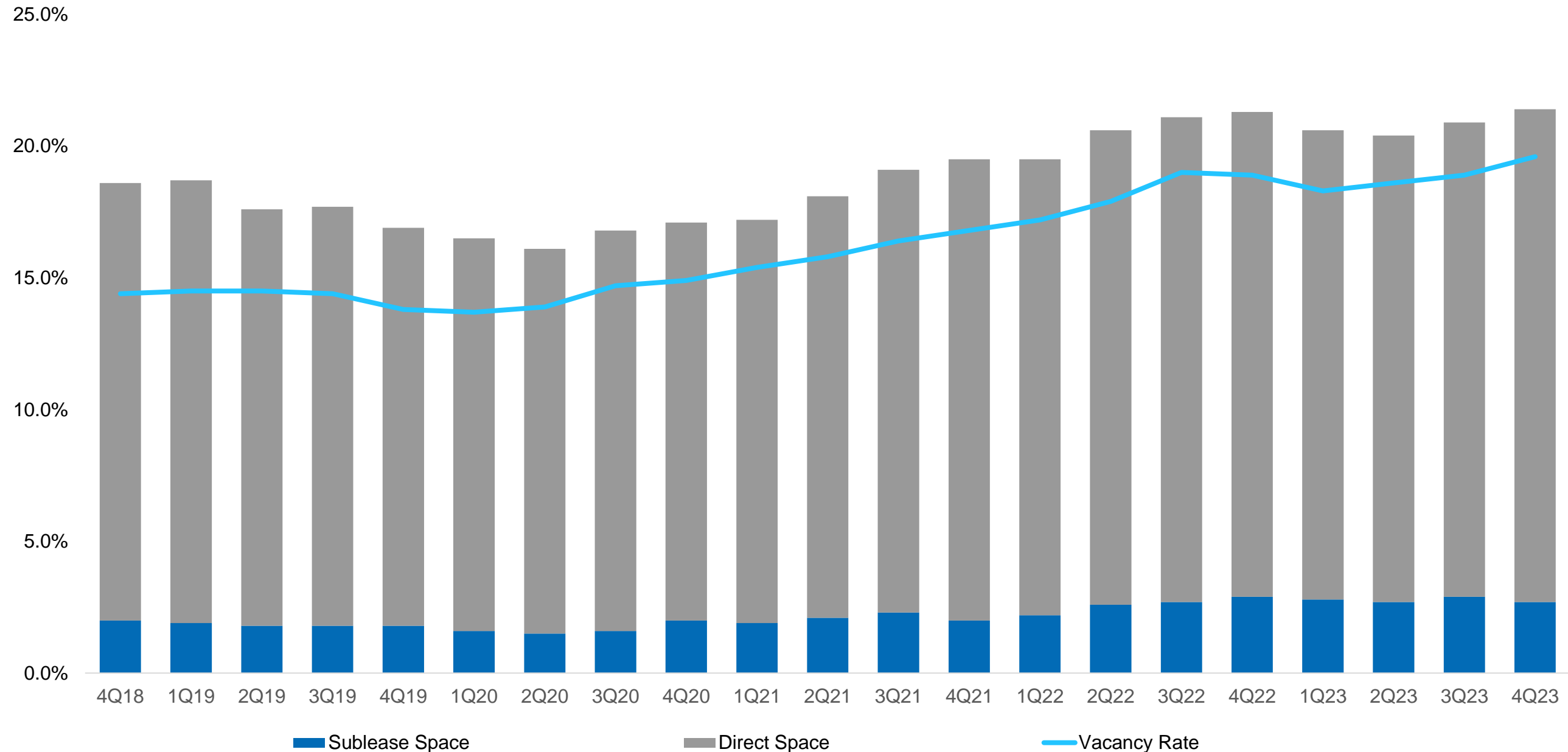


Source: Newmark Research, CoStar

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 six years, the direct availability rate has averaged 16.6% while the sublease availability rate has averaged 2.1%. The 4Q23 availability rates of 18.7% for direct space and 2.7% for sublease space are well above the long-term average. This expansion of available space is likely to continue as companies cautiously plan longer-term office strategies.

Available Space by Type as Percent of Overall Market

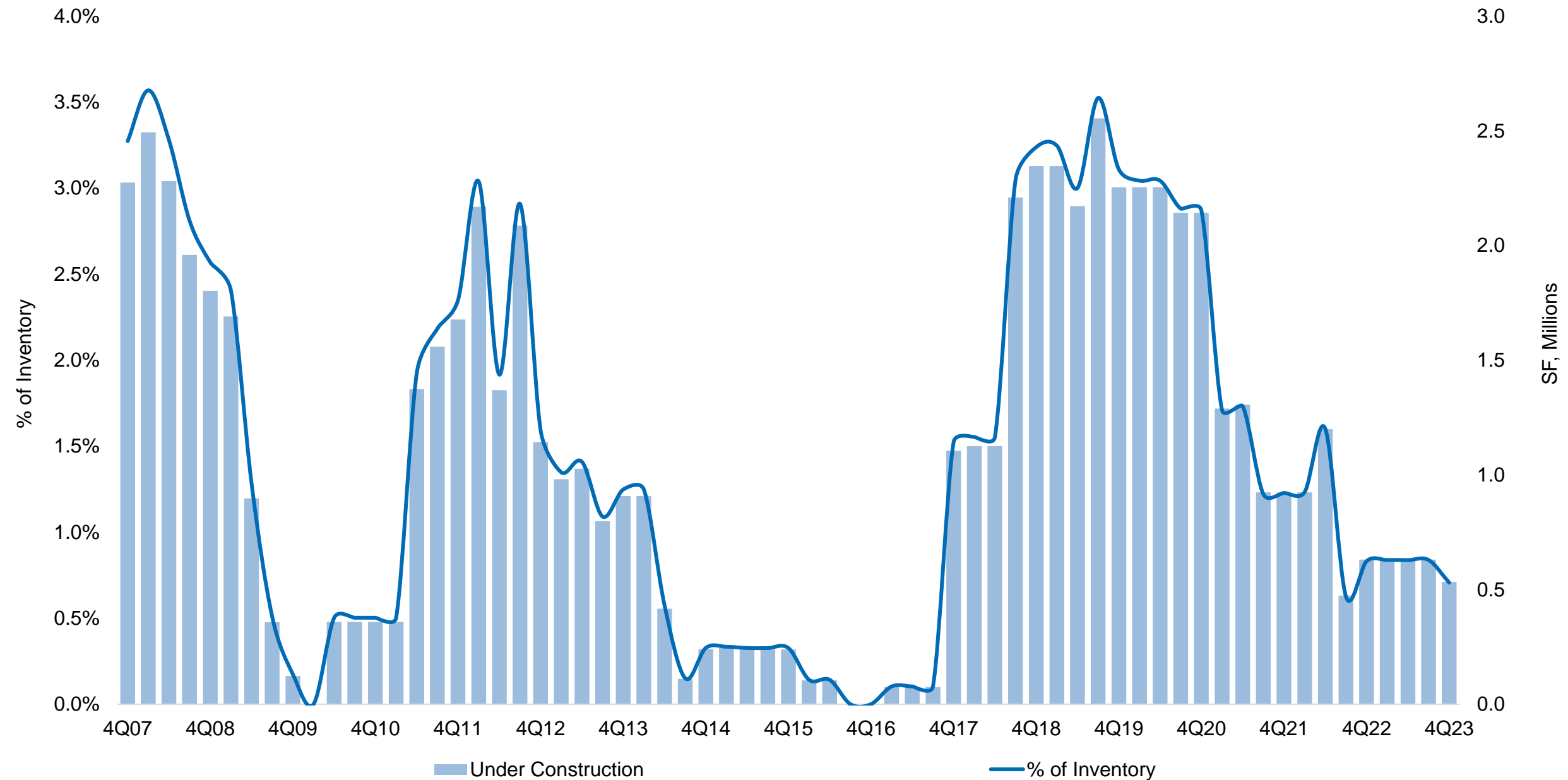


Source: Newmark Research, CoStar

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 three projects remaining under construction. One project delivered in Suburban Maryland during the fourth quarter: Alexandria Center at 9808 Medical Center Drive in North Rockville. The property was 56% preleased upon delivery. With demand continuing to moderate, limited new supply and strong preleasing will help ease rising vacancy.

Office Under Construction and % of Inventory

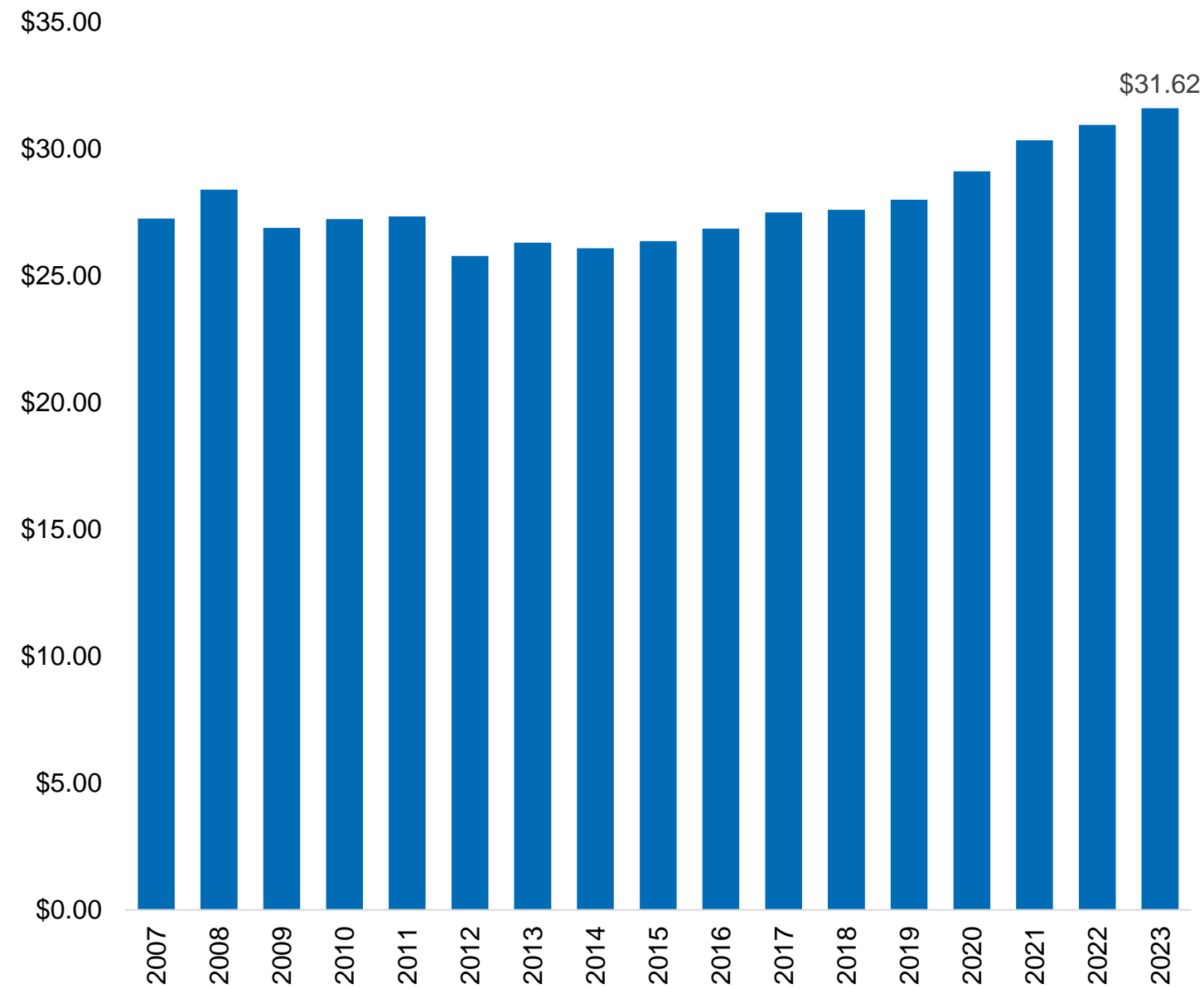


Source: Newmark Research, CoStar

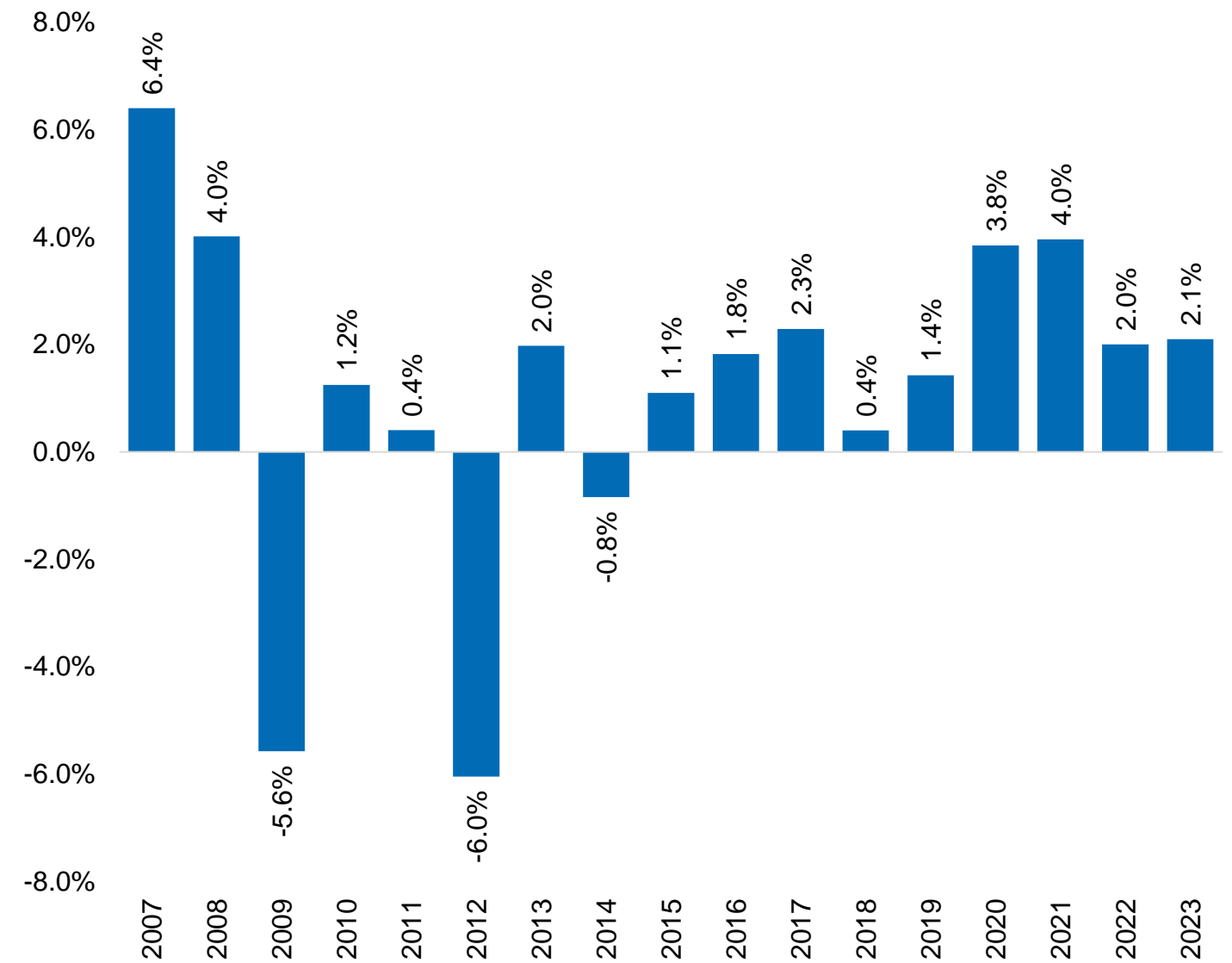
Asking Rents Continue to Rise, But at a Decelerating Rate

While overall asking rates increased this quarter, year-over-year growth has begun to moderate. It is expected that asking rates should 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

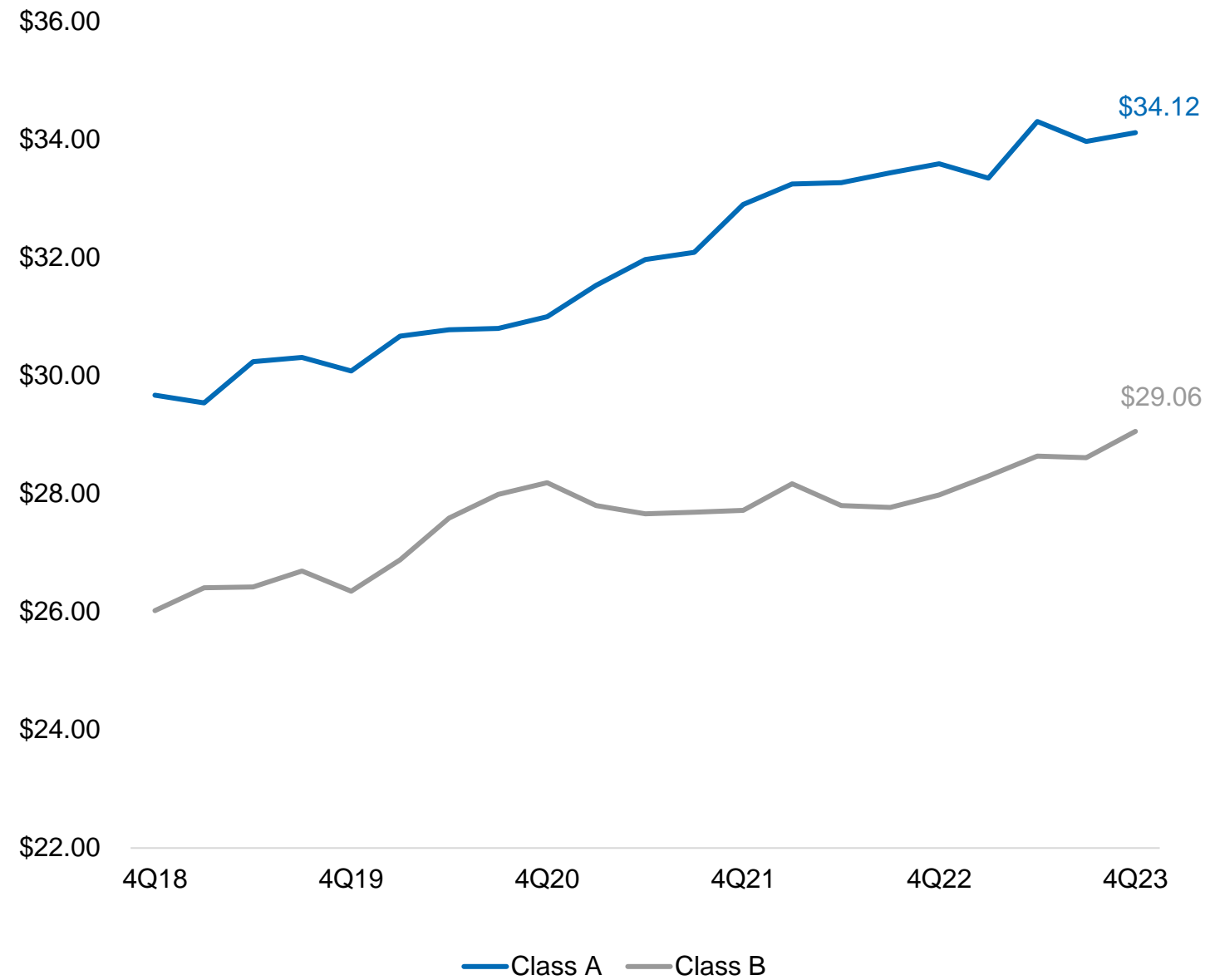


Source: Newmark Research, CoStar

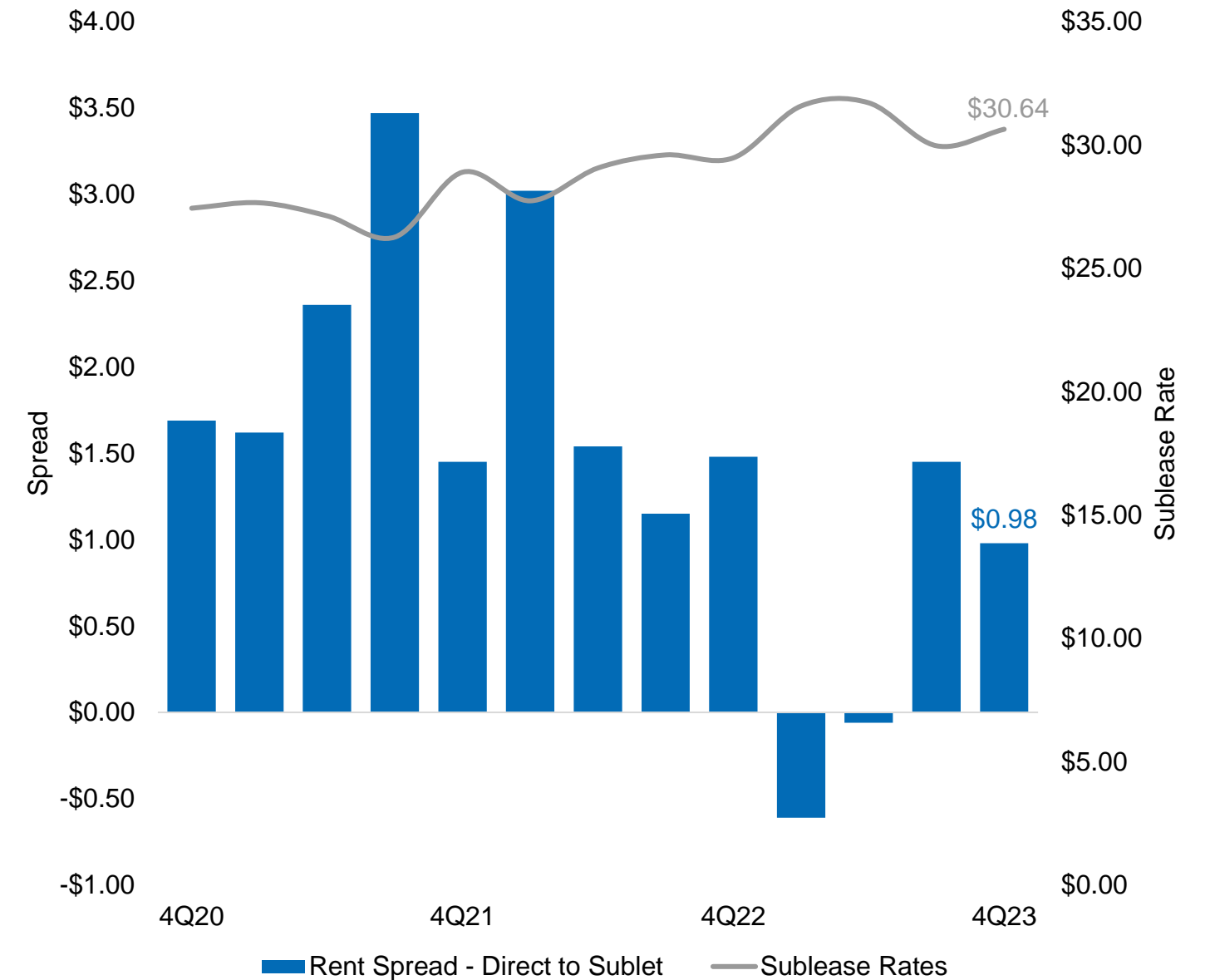
Asking Rents March On

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely held value since the onset of the pandemic. Sublease asking rents have been holding relatively flat for much of the last three years, which more visibly exhibits the impact of low demand.

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 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
University of Maryland Institute for Health Computing	6116 Executive Boulevard	North Bethesda	New Lease	27,491
Leidos	2099 Gaither Road	North Rockville	Renewal	25,000
RLJ Lodging Trust	7373 Wisconsin Avenue	Bethesda	New Lease	21,841
University Research Co.	5404 Wisconsin Avenue	Bethesda	Renewal/Downsize	21,000
Immunocore	9801 Washingtonian Boulevard	North Rockville	New Lease	19,242

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