

SUBURBAN MARYLAND OFFICE MARKET

Q1 2023



TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.5	5.7	↓	5.3	↓
NET ABSORPTION (Thousands SF)	216.0	342.0	↓	76.0	↔
DIRECT VACANCY RATE	15.7%	15.5%	↑	14.7%	↔
DIRECT VACANT SF (MSF)	15.0	14.6	↑	13.8	↔
UNDER CONSTRUCTION (MSF)	1.1	2.3	↓	2.5	↓
ASKING RENT, FULL SERVICE (PSF)	\$29.68	\$29.17	↑	\$29.02	↔
SALES VOLUME (Millions)	\$27.9	\$38.2	↓	\$221.5	↔

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

OFFICE CONDITIONS IMPROVED IN Q1 2023

The Suburban Maryland office market expanded during the first quarter of 2023, with 216,000 SF of net absorption. This was mostly driven by one large pre-leased delivery and mid-sized lease signings during the past three months. Despite this, the direct vacancy remained the same from last quarter, landing at 15.7%. Asking rents inched up 30 basis points, settling at \$29.68 PSF at the end of the first quarter of 2023.

Suburban Maryland has yet to fully realize the full impact of tenant rightsizing to accommodate expanded hybrid work schedules. The majority of companies believe a physical office is needed but are shedding real estate on average of 20%. This will impact the office market over the next several quarters. Flight to quality will keep top tier office space healthy with lower grade space struggling to keep and attract tenants. Given record level availability, landlords will compete with generous concession packages. Conversions of obsolete office buildings could help stabilize the market, but it is unlikely all announced buildings will convert leaving some owners exploring options.

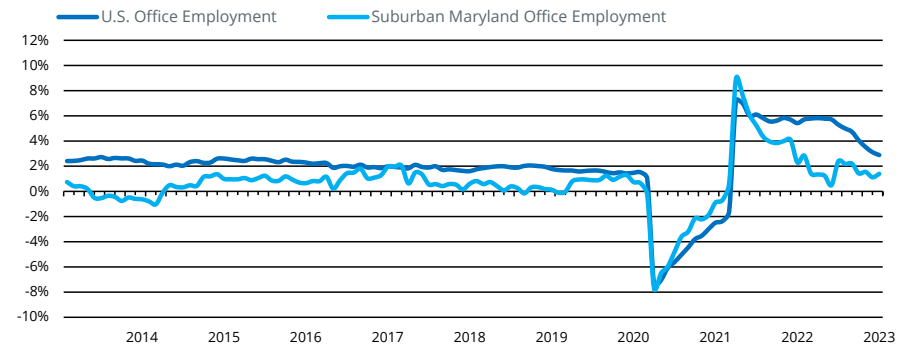


ECONOMY

Job Growth Remains Healthy Entering Q1 2023

- 22,900 new jobs were added to the Suburban Maryland economy during the 12-months ending January 2023, well-ahead of the pre-pandemic 5-year average of 9,900. This was driven by health care and the state and local government sectors.
- Office-using jobs added 5,400 new positions over the year. This was relatively split between Montgomery and Frederick counties with 2,600 jobs added, while Calvert/Charles/Prince George’s added to this gain with 2,800 jobs.
- The unemployment rate in Suburban Maryland is currently at 3.1% in January 2023 which is just below the average of 3.5% over the past three months. The rate has improved significantly from the peak of 10.4% in July 2020.
- We expect office-using job growth in Suburban Maryland to be steady over the next five years, adding just over 2,400 new jobs per year on average. However, growth will be softer in 2023 due to economic uncertainty, with stronger growth in later years. We expect most of the growth to occur within the federal government, tech, consulting, and health care.

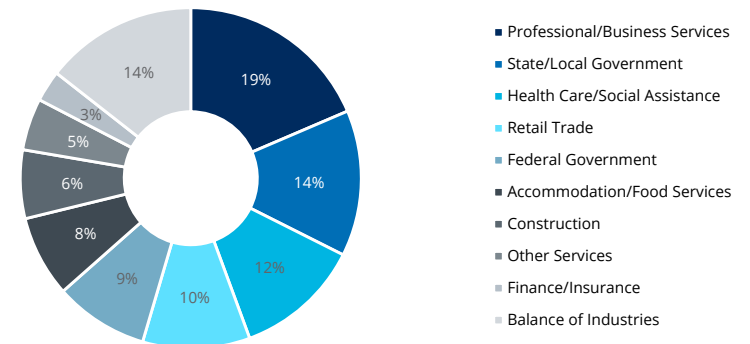
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

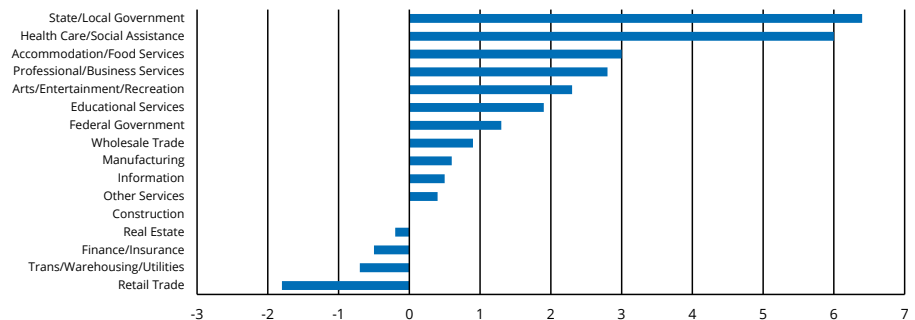
Suburban Maryland | January 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Suburban Maryland



Source: Bureau of Labor Statistics, Transwestern

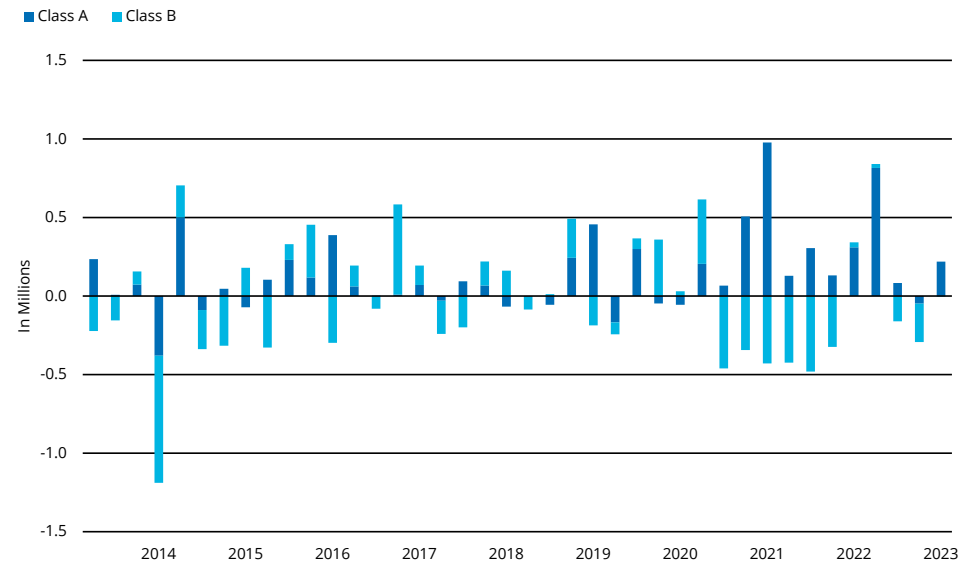


NET ABSORPTION

Pre-leased Delivery Lifts Net Absorption in Q1

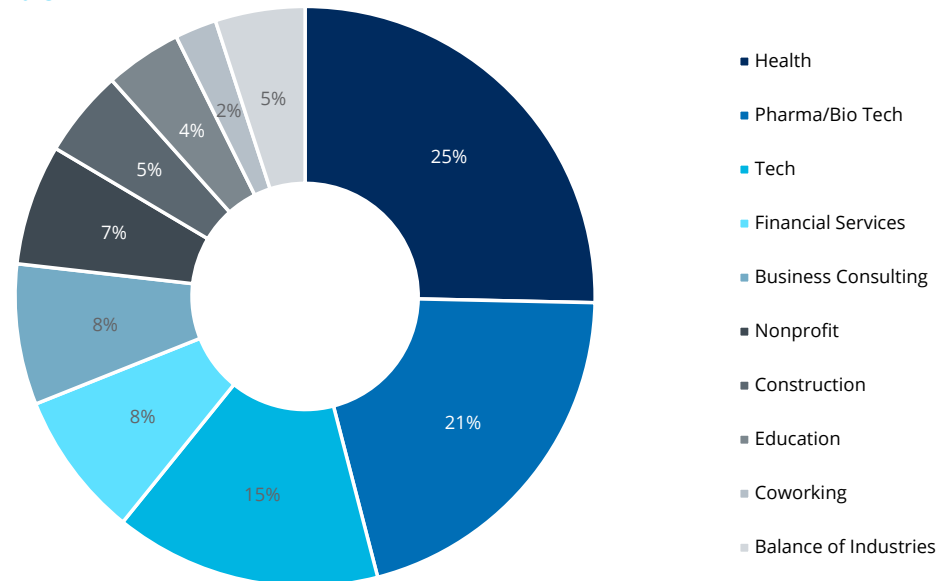
- Net absorption totaled 216,000 SF during the first quarter of 2023, after totaling negative 292,000 SF during the fourth quarter of 2022. This compares to positive 342,000 SF of net absorption during the first quarter of 2022.
- Class A net absorption totaled positive 219,000 SF, while Class B closed the quarter with negative 4,000 SF.
- The most notable deal of the quarter was the delivery of the new WMATA HQ in the Lanham/Landover/Largo submarket that brought 315,000 SF of new fully leased inventory to the market. Other notable deals include Halvik signing a 79,648 SF deal at 7601 Ora Glen Drive in Greenbelt. A few other notable deals include Treatment and Learning Center inking a 36,828 SF lease at 1390 Piccard Drive in North Rockville as well as Abacus Technology signing a 13,540 SF lease at 5404 Wisconsin Avenue in Bethesda/Chevy Chase.
- Offsetting this gain were large move-outs, such as BCG vacating 71,580 SF at 4800 Hampden Lane in Bethesda/Chevy. Carl M Freeman moved out of 10,516 SF at 111 Rockville to relocate to Pike and Rose.
- We expect office demand to remain challenged during 2023, as economic headwinds cause select tenants to pause lease decisions or commit to rightsizing given new work from home policy.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

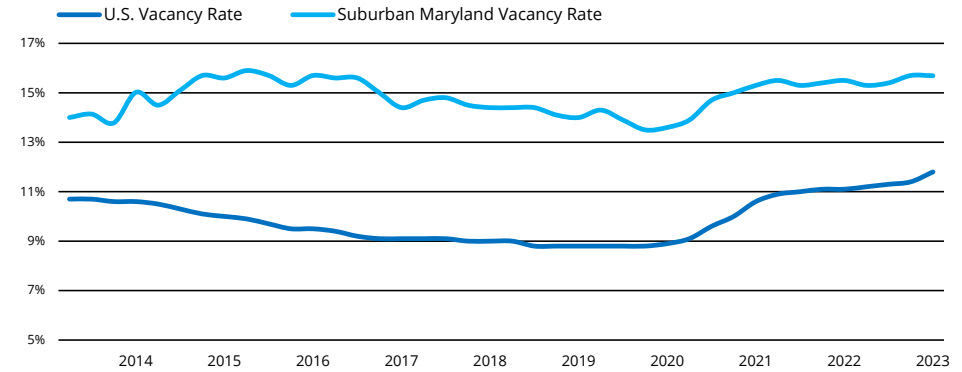


VACANCY

Vacancy Rate Remains Constant in Q1

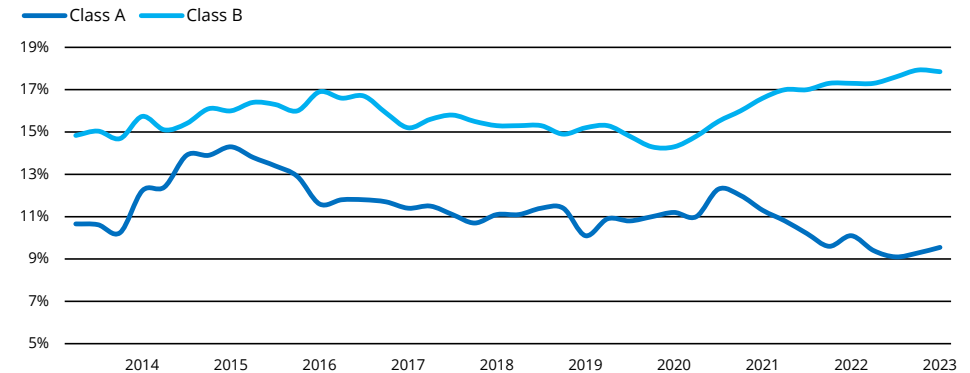
- The direct vacancy rate remained unchanged from the fourth quarter of 2022 finishing the quarter at 15.7% but is up 20-basis points from one year ago.
- The Class A vacancy rate increased 20-basis points to 9.5% in the quarter, while Class B/C vacancy rate decreased 10 basis points to 17.8%.
- The vacancy rate will be under pressure through 2023. The rate for newer product will likely edge down due to flight to quality, while older product will continue to see a rise.

DIRECT VACANCY RATE



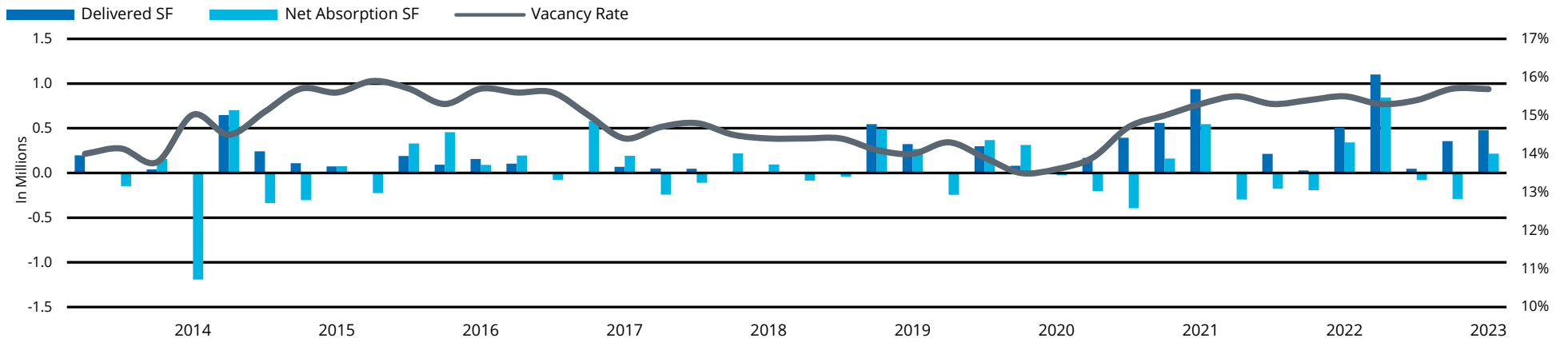
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

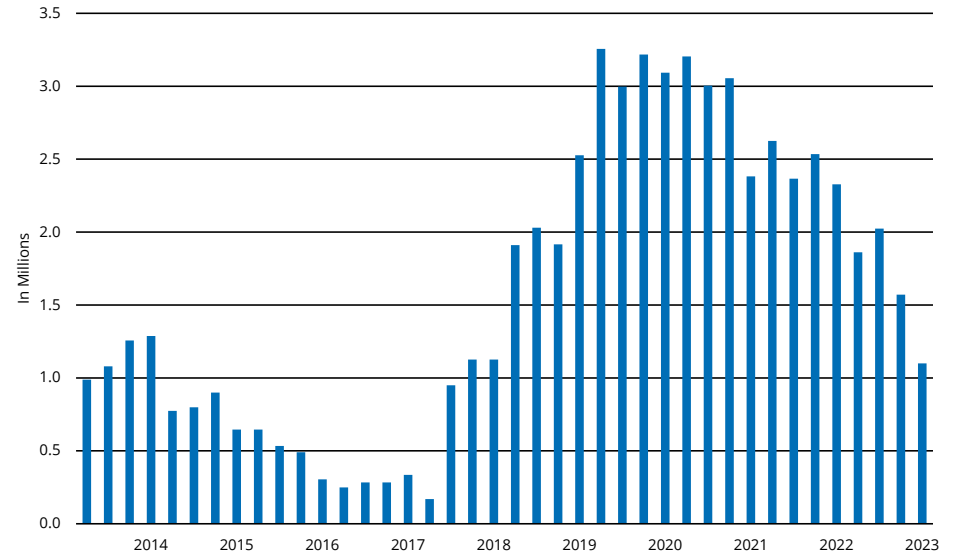


UNDER CONSTRUCTION

WMATA HQ Delivers in Lanham/Landover/ Largo Submarket

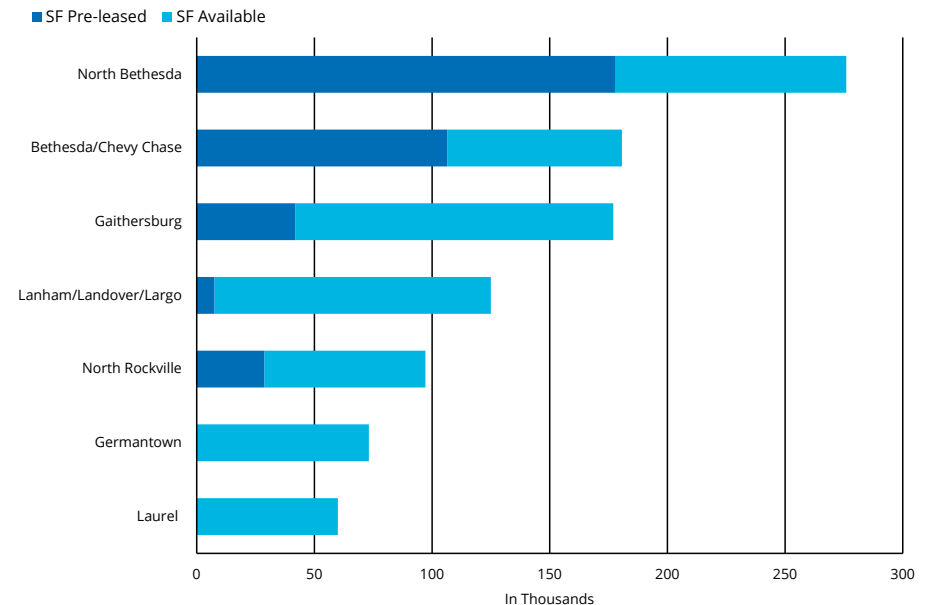
- The Washington Metropolitan Area Transit Authority (WMATA) delivered 315,000 SF of new product at 4100 Garden City Drive in the Lanham/Landover/Largo submarket during the first quarter. The completion of the project will help Prince George’s County in terms of economic growth and begin to reinvigorate the surrounding communities.
- There is 1.1 million SF of office construction currently underway in Suburban Maryland, of which 33% is pre-leased. This is the slightly below the 10-year average of 1.6 million SF, but less than 2.3 million SF one year ago. Most of the pipeline is slated to deliver this year with a few projects delivering in 2024.
- North Bethesda has the most under construction due in large part due to the construction at 915 Meeting Street at Pike and Rose. In total, North Bethesda will bring 276,000 SF of new space to market when projects deliver over the next year.
- The construction pipeline will continue to decelerate as developers pause breaking ground under the current economic climate. Select owners will remain patient and potentially find older properties to renovate for flight to quality.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

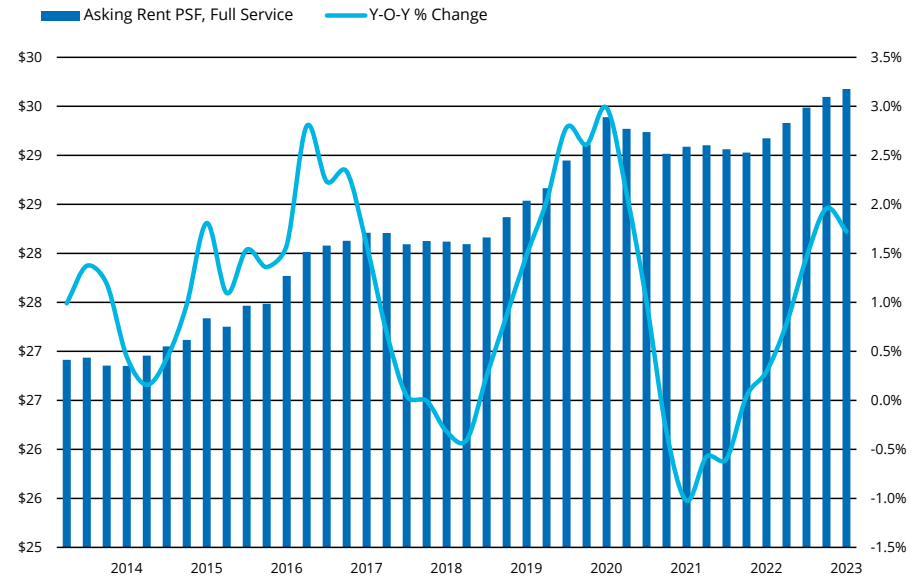


RENTAL RATES

Class A Asking Rents Decline Slightly

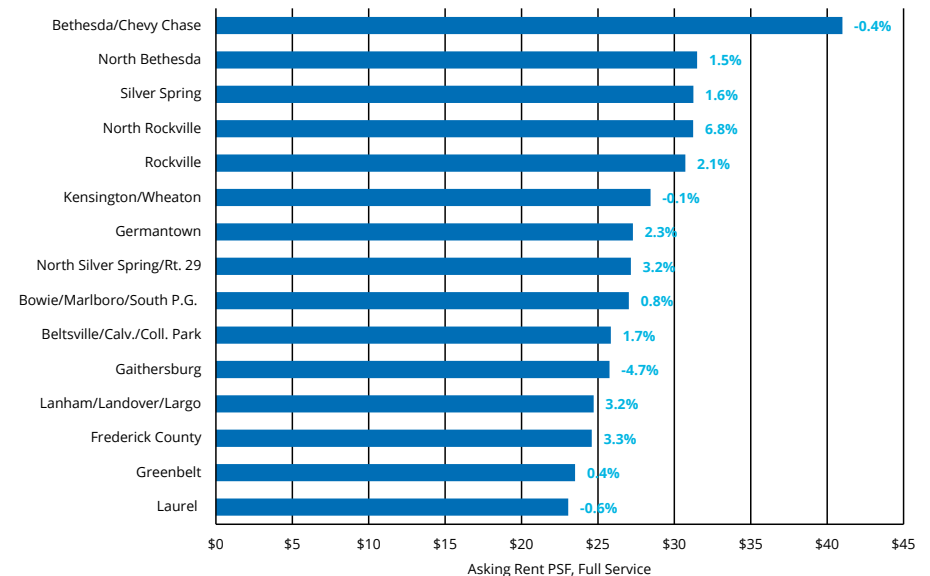
- Asking rents climbed 30 basis points during the first quarter of 2023, landing at \$29.68 PSF. The rate rose 1.7% year-over-year which has remained constant throughout 2022 and into 2023.
- Class A asking rents decreased slightly by 20 basis point to \$34.96 PSF, while Class B/C averaged \$26.56 PSF, after a 60-basis point climb during the quarter.
- Concession packages will remain elevated during the balance of 2023, which will put downward pressure on effective rates. For a typical 10-year or greater term for a new lease signed during the first quarter of 2023, tenant improvement allowances averaged around \$120 PSF with 12.9 months of free rent. This compares to \$101 PSF and 12.9 months during 2022.
- We anticipate limited asking rent growth over next year. Newer space should achieve greater rent gains due to continued demand and quality product coming on-line. However, older properties will likely experience downward pressure as tenants vacate for quality product.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

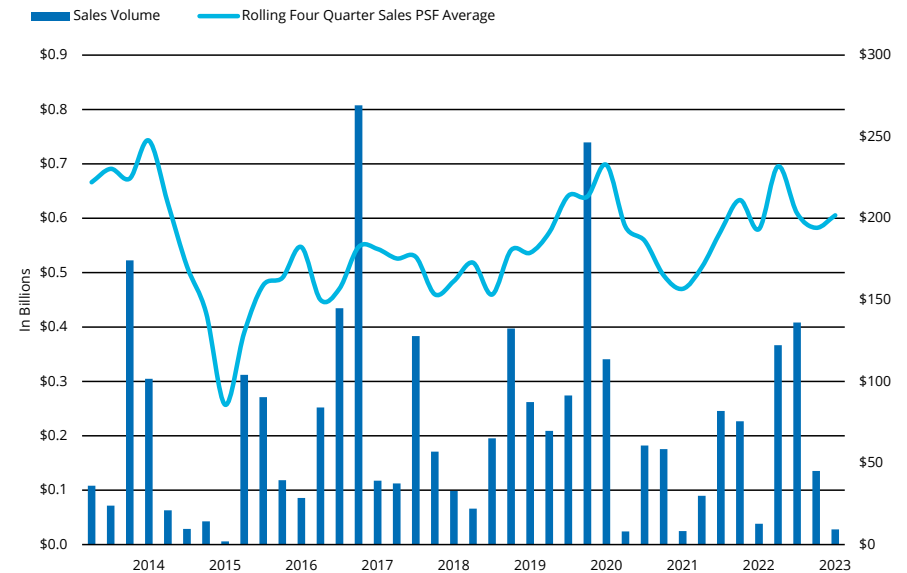


SALES

Sales Volume Contracted in Q1 2023

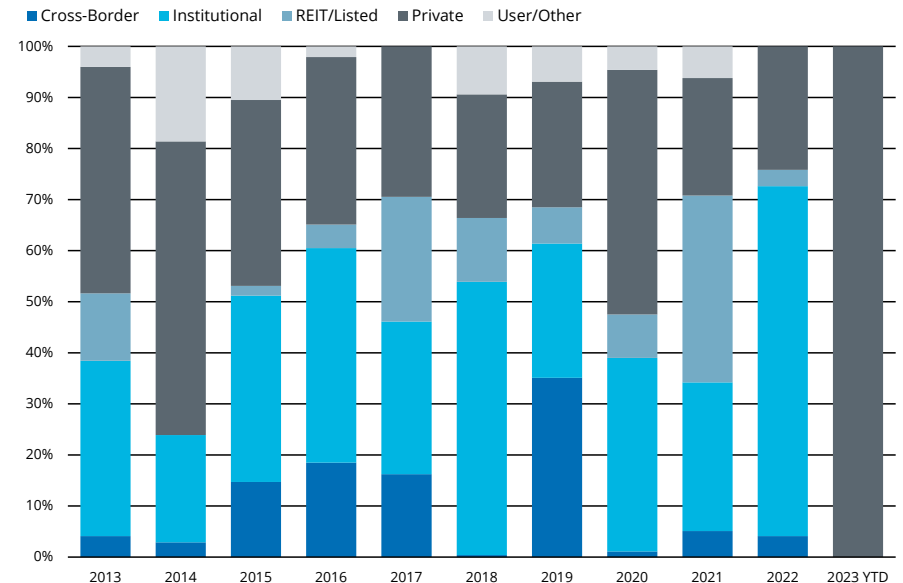
- During the first quarter of 2023, investment sales volume totaled \$27.9 million at \$156 PSF on four transactions. This compares to seven transactions completed during the fourth quarter of 2022, totaling \$135 million at \$188 PSF. This is the lowest number of transactions in terms of number of deals and sale price since the first quarter of 2022.
- The most notable sale of the quarter was 1 Taft Court in Rockville. Montecito Medical Real Estate purchased the asset for \$14 million or \$441 PSF from William W Bush IV. The property was 100% leased at the time of sale with an actual cap rate of 7.32%.
- Activity up ticked slightly during the quarter; however, we expect the sales volume to remain limited until market conditions settle and capital markets begin to thaw. In addition, transaction volume will continue to slow due to limited liquidity, ongoing price discovery, as well as limited occupancy levels in office product.

SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
MACROGENICS, INC	9704 Medical Center Dr	North Rockville	Renewal	123,000
HALVIK INC	7601 Ora Glen Dr	Greenbelt	New Lease	80,000
CHILDREN'S NATIONAL HOSPITAL	1221 Plum Orchard Dr	North Silver Spring/Rt 29	Renewal	71,000
HOLY CROSS HEALTH, INC	10720 Columbia Pike	North Silver Spring/Rt 29	Renewal	39,000
TREATMENT AND LEARNING CENTER	1390 Piccard Dr	North Rockville	New Lease	37,000
H K COMPANY & TRADE, INC.	1383 Piccard Dr	North Rockville	New Lease	35,000

= Transwestern deal

Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
200 PROFESSIONAL DR	Gaithersburg	Feb-23	\$5,700,000	63,101	\$90	K&Malay, LLC	Easterly Government Properties, Inc.
1 TAFT CT	Rockville	Feb-23	\$14,275,000	32,380	\$441	Montecito Medical Real Estate	VIP Properties Inc.
1110 BONIFANT ST	Silver Spring	Feb-23	\$5,200,000	64,736	\$80	Ryan Stuart Development	PGIM Real Estate
6530 NEW HAMPSHIRE AVE	Silver Spring	Jan-23	\$2,700,000	18,540	\$146	Lane Estate, LLC	PGIM Real Estate
2301 RESEARCH BLVD	North Rockville	Dec-22	\$13,936,900	94,491	\$147	Community Healthcare Trust, Inc	PGIM Real Estate

Source: CoStar, Real Capital Analytics, Transwestern.

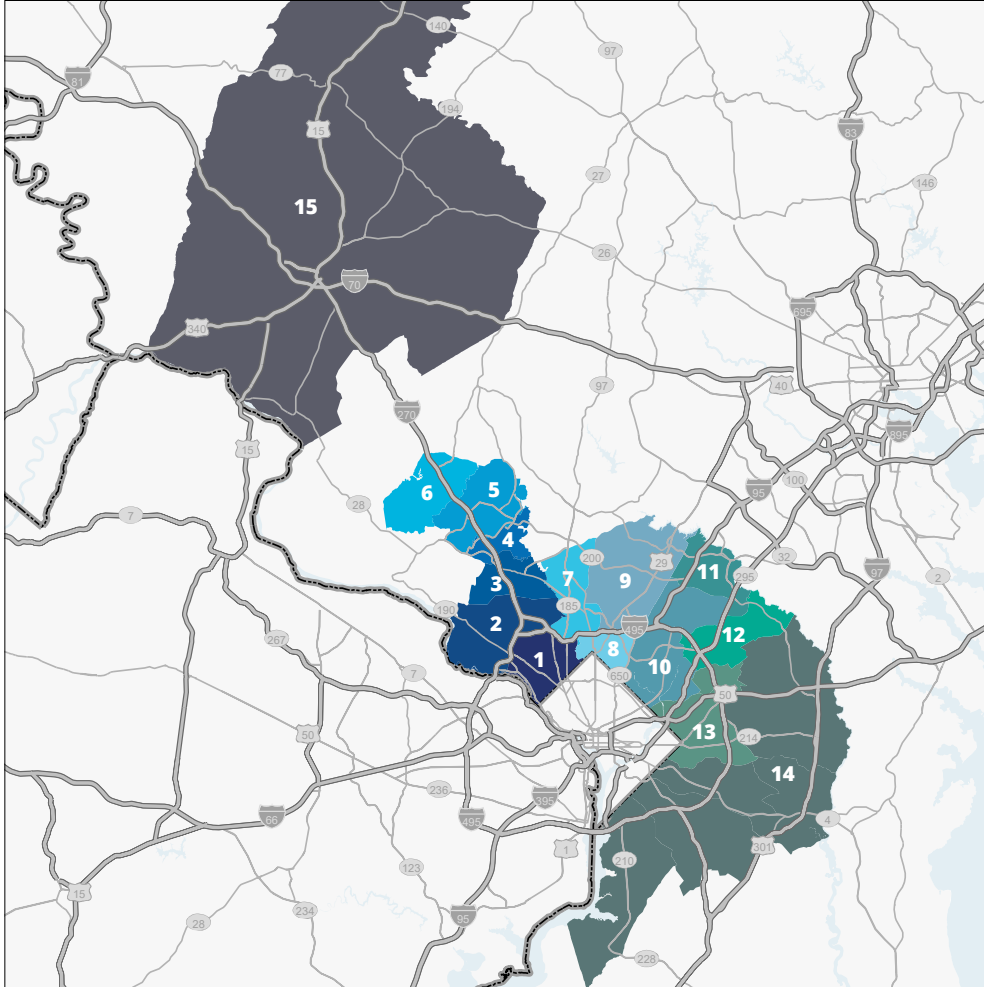


MARKET INDICATORS

All Classes of Space | Q1 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
BETHESDA/CHEVY CHASE	13,170,201	2,187,861	16.6%	19.0%	180,683	(81,000)	505,000	\$41.00
NORTH BETHESDA	10,897,353	1,885,242	17.3%	18.9%	276,000	22,000	9,000	\$31.49
ROCKVILLE	8,436,869	1,493,326	17.7%	18.7%	0	(34,000)	(114,000)	\$30.72
NORTH ROCKVILLE	12,623,350	1,476,932	11.7%	13.2%	97,196	19,000	32,000	\$31.23
GAITHERSBURG	5,939,217	457,320	7.7%	7.8%	177,000	(15,000)	(83,000)	\$25.76
GERMANTOWN	2,730,085	577,413	21.2%	24.6%	73,166	(1,000)	20,000	\$27.29
KENSINGTON/WHEATON	1,641,234	215,002	13.1%	14.5%	0	(23,000)	(31,000)	\$28.44
SILVER SPRING	6,973,396	990,222	14.2%	14.6%	0	(76,000)	(39,000)	\$31.25
N. SILVER SPRING/RT. 29	3,661,988	400,988	11.0%	12.0%	0	(2,000)	46,000	\$27.15
MONTGOMERY COUNTY	66,073,693	9,684,305	14.7%	16.1%	804,045	(191,000)	345,000	\$32.21
BELTSVILLE/CALV./COLL. PARK	6,082,488	967,116	15.9%	16.2%	0	13,000	16,000	\$25.85
LAUREL	2,579,823	523,704	20.3%	20.4%	60,000	(18,000)	5,000	\$23.06
GREENBELT	3,016,041	838,459	27.8%	28.4%	0	90,000	3,000	\$23.50
LANHAM/LANDOVER/LARGO	5,534,867	1,599,577	28.9%	21.9%	125,000	318,000	258,000	\$24.72
BOWIE/MARLBORO/SOUTH P.G.	5,485,712	413,276	7.5%	7.7%	0	7,000	75,000	\$27.02
PRINCE GEORGE'S COUNTY	22,698,931	4,342,132	19.1%	17.6%	185,000	410,000	357,000	\$25.23
FREDERICK COUNTY	6,905,734	984,758	14.3%	15.3%	0	(3,000)	(14,000)	\$24.60
TOTAL	95,678,358	15,011,194	15.7%	16.4%	989,045	216,000	688,000	\$29.68

Source: CoStar, Transwestern.



Suburban Maryland Office Submarkets

- 1 Bethesda/Chevy Chase
- 2 North Bethesda
- 3 Rockville
- 4 North Rockville
- 5 Gaithersburg
- 6 Germantown
- 7 Kensington/Wheaton
- 8 Silver Spring
- 9 N. Silver Spring/Rt. 29
- 10 Beltsville/Calverton/College Park
- 11 Laurel
- 12 Greenbelt
- 13 Lanham/Landover/Largo
- 14 Bowie/Marlboro/South P.G.
- 15 Frederick County

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Suburban Maryland. This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding those properties owned by a government agency.

FOR MORE INFORMATION

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