



TRANSWESTERN

# SUBURBAN MARYLAND OFFICE MARKET

## Q2 2023



### TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.2	4.6	↓	5.2	↓
NET ABSORPTION (Thousands SF)	(160.0)	842.0	↓	64.7	↔
DIRECT VACANCY RATE	15.9%	15.3%	↑	14.8%	↔
DIRECT VACANT SF (MSF)	15.2	14.6	↑	13.9	↔
UNDER CONSTRUCTION (MSF)	0.9	1.9	↓	2.4	↓
ASKING RENT, FULL SERVICE (PSF)	\$29.71	\$29.33	↑	\$29.05	↔
SALES VOLUME (Millions)	\$15.5	\$366.7	↓	\$212.0	↔

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

### OFFICE CONDITIONS SOFTENED IN Q2 2023

The office market diminished during the second quarter of 2023, with negative 160,000 SF of net absorption. This was mostly driven by multiple mid-sized move outs and a lack of new lease signing during the past three months. The direct vacancy increased 20 basis points from last quarter, landing at 15.9%. Asking rents increased slightly by 10 basis points, settling at \$29.71 PSF.

We expect office market conditions to struggle in Suburban Maryland during the second half of 2023, as future move-outs and rightsizing, coupled with limited leasing activity, will drag the overall market. Suburban Maryland has historically been relatively stable during downturns, so the market should oscillate quarter-to-quarter but remain relatively steady for the year. A reduced construction pipeline, which is down 50% year-over-year will help stabilize the market in due time. Although this will limit options to tenants looking to upgrade to new construction, these tenants could backfill 2nd generation Class A space as an alternative. Given record level availability, landlords will compete with generous concession packages, which will put pressure on the effective rent. Conversions of obsolete office buildings could help stabilize the market, but it is unlikely all announced buildings will convert leaving some owners exploring alternative options.

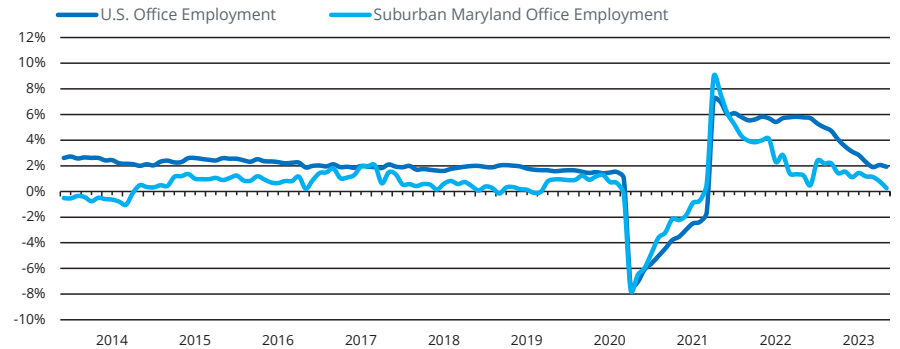


### ECONOMY

#### Job Growth Remains Strong Through Q2 2023

- 17,300 new jobs were added to the Suburban Maryland economy during the 12-months ending May 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 1,000 new positions over the year. Growth was limited due to job cuts in the financial/insurance sector. This growth was in Prince George’s County.
- The unemployment rate in Suburban Maryland is currently at 2.3% in May 2023 which is slightly above the average of 2.2% 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.

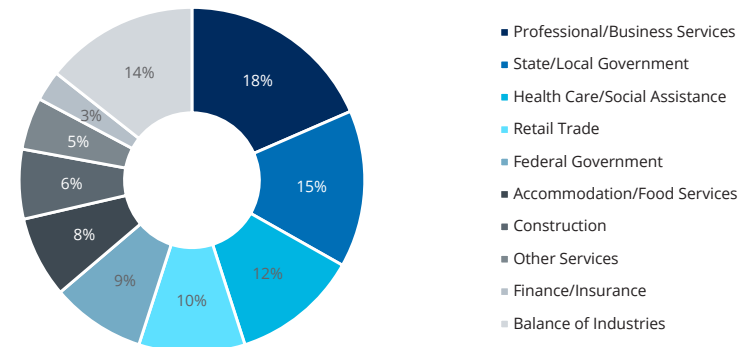
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

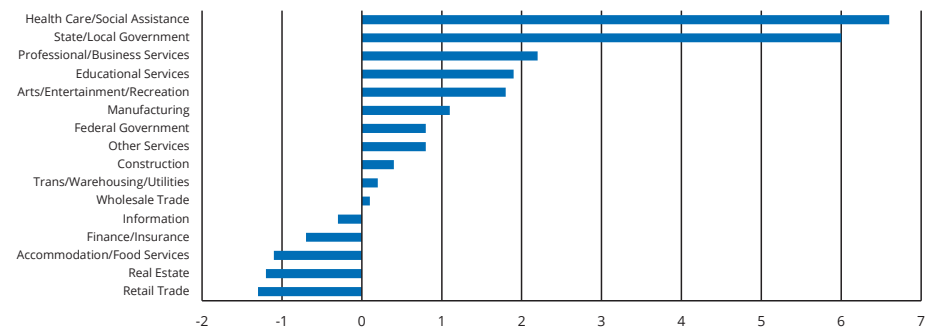
Suburban Maryland | May 2023



Source: Bureau of Labor Statistics, Transwestern

### Y-O-Y CHANGE IN JOBS BY INDUSTRY

Suburban Maryland



Source: Bureau of Labor Statistics, Transwestern

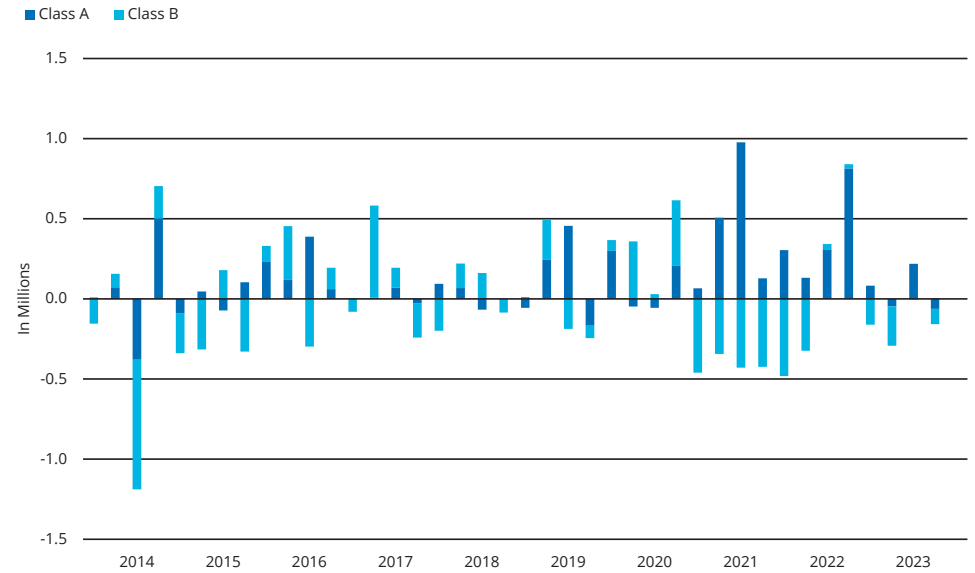


### NET ABSORPTION

#### Multiple Mid-sized Move Outs Impacts Market

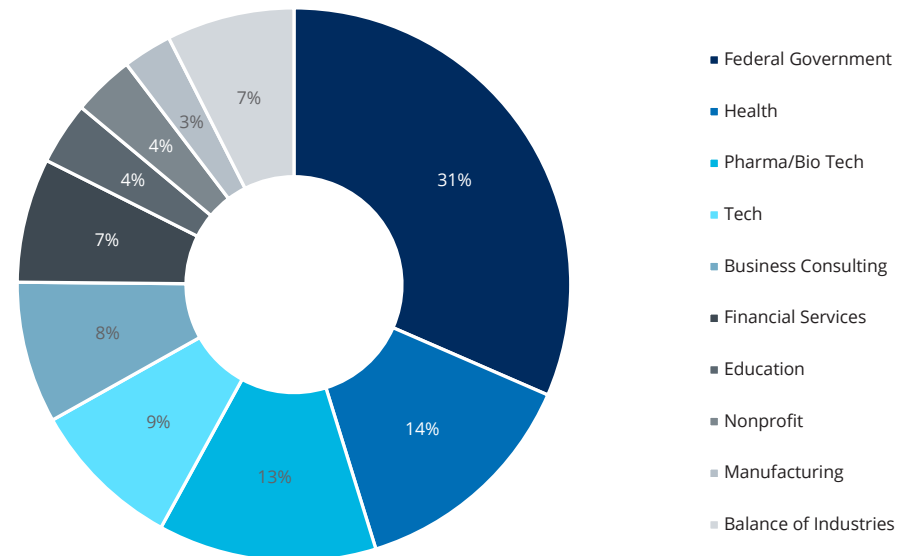
- Net absorption totaled negative 160,000 SF during the second quarter of 2023, after totaling positive 216,000 SF during the first quarter of 2023. This compares to positive 842,000 SF of net absorption during the second quarter of last year, which was driven by a pre-leased delivery.
- Class A net absorption totaled negative 63,000 SF, while Class B closed the quarter with negative 95,000 SF.
- The most notable deal of this quarter was X-energy signing a 50,000 SF lease at 530 Gaither Road in the North Rockville submarket. Two other notable deals were both AST and CDR signing leases at 4200 Parliament Place in the Lanham/Landover/Largo submarket, both leases combined for 37,000 SF.
- Offsetting these lease signings were multiple mid-sized move outs and tenants downsizing, such as Amentum vacating 34,639 SF on the third floor at 20501 Seneca Meadows Parkway in Germantown as they exercised exercised their contraction right. Also, ICF downsized to 80,000 SF leaving 50,000 SF behind at 530 Gaither Road in North Rockville which has been backfilled by X-energy. Lastly, CNSI moved out of 18,210 SF at 1300 Piccard Drive in North Rockville.
- We expect office demand to remain under pressure during the balance of 2023, as economic headwinds cause select tenants to pause lease decisions or commit to rightsizing given new hybrid work policy.

### NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

### SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

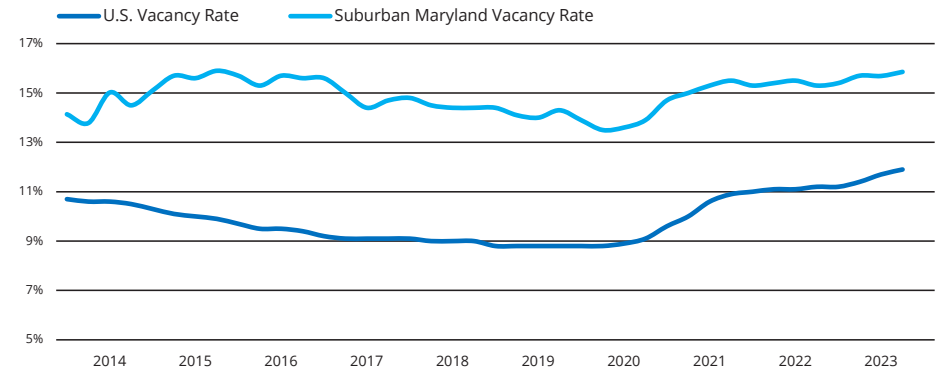


### VACANCY

#### Vacancy Rate Increases Slightly in Q2

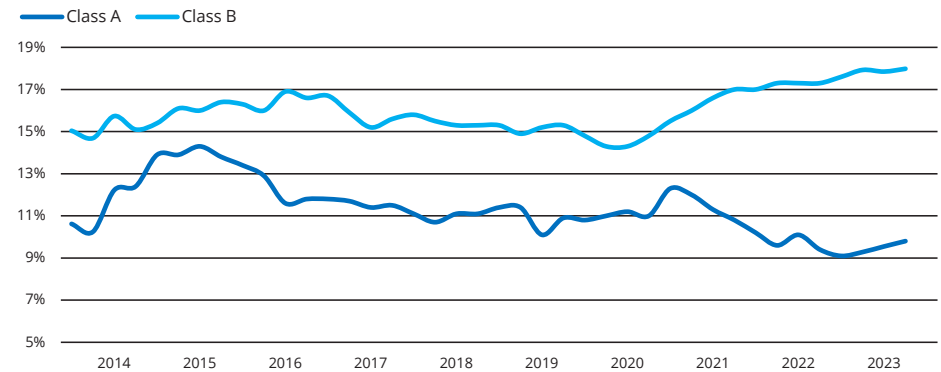
- The direct vacancy rate inched upward from the first quarter of 2023 finishing the quarter at 15.9% and is up 60-basis points from one year ago.
- The Class A vacancy rate increased 40-basis points to 9.8% in the quarter, while Class B/C vacancy rate increased 20 basis points to 18.0%.
- The vacancy rate will remain challenged during the second half of 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



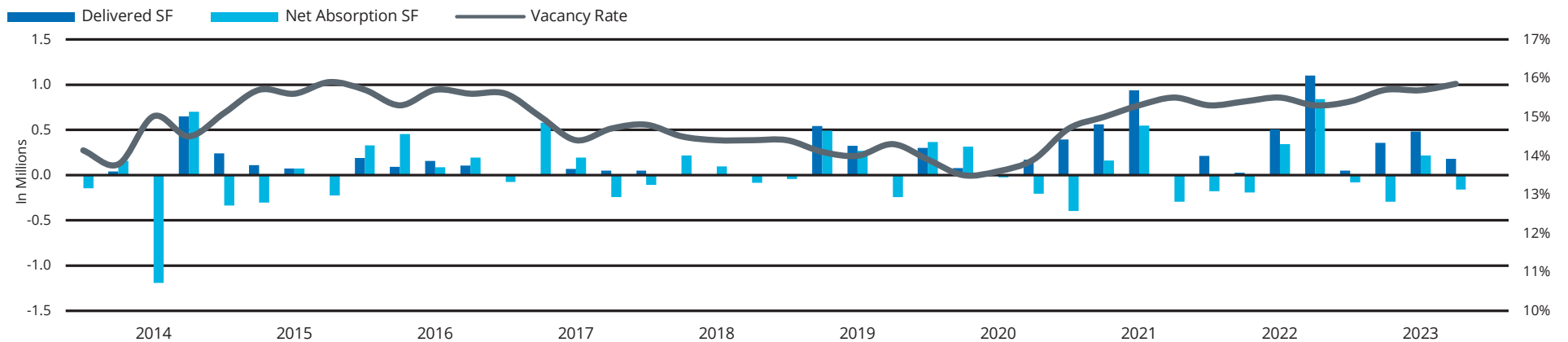
Source: CoStar, Transwestern

### DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern



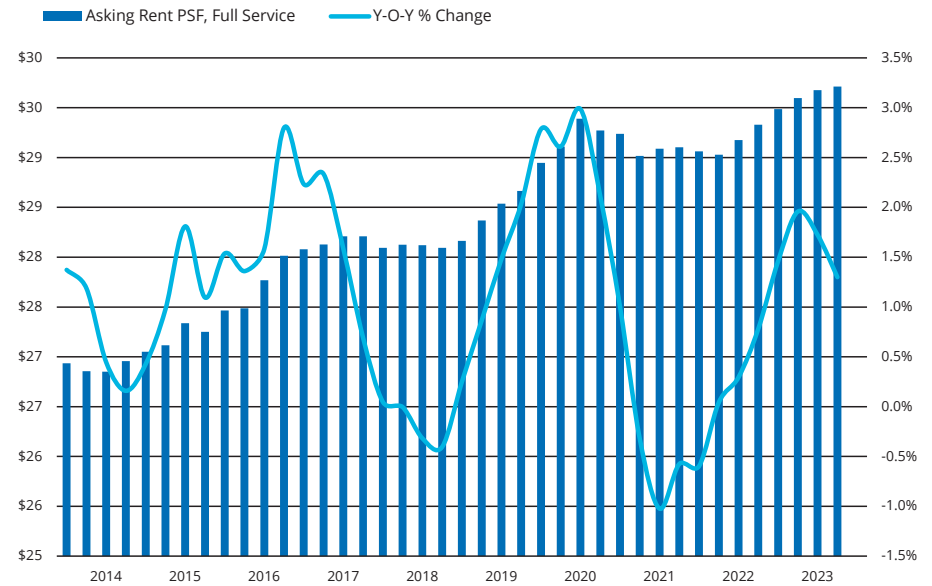


### RENTAL RATES

#### Class A Asking Rents Continue to Decrease Slightly in Q2

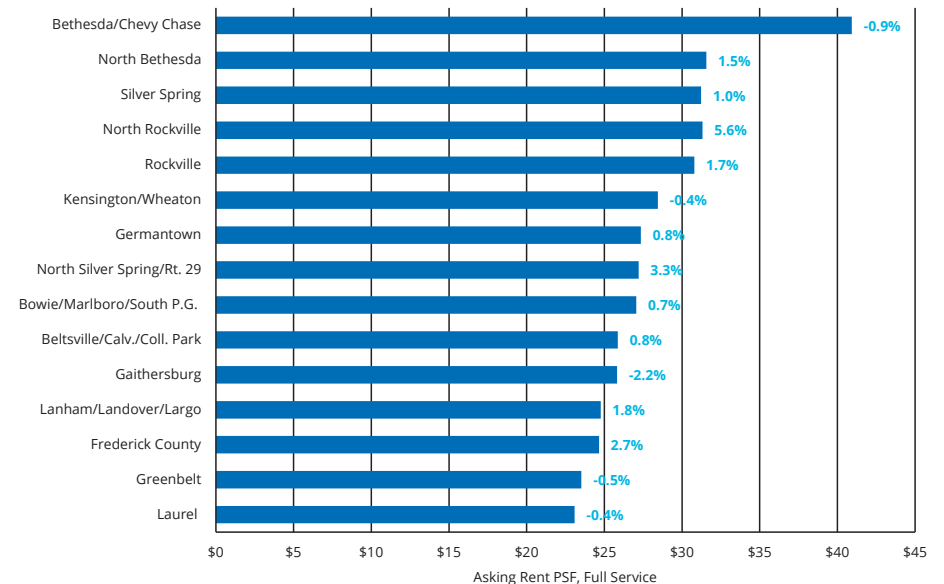
- Asking rents climbed 10 basis points during the second quarter of 2023, landing at \$29.71 PSF. The rate increased 130 basis points year-over-year which has been on an incline throughout 2022 and into 2023. Landlords have kept asking rents relatively steady, while offering competitive concessions which reduces the effective rate.
- Class A asking rents decreased slightly by 10 basis point to \$34.93 PSF, while Class B/C averaged \$26.63 PSF, after a 30-basis point increase 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 half 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. Despite the recent drag, 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

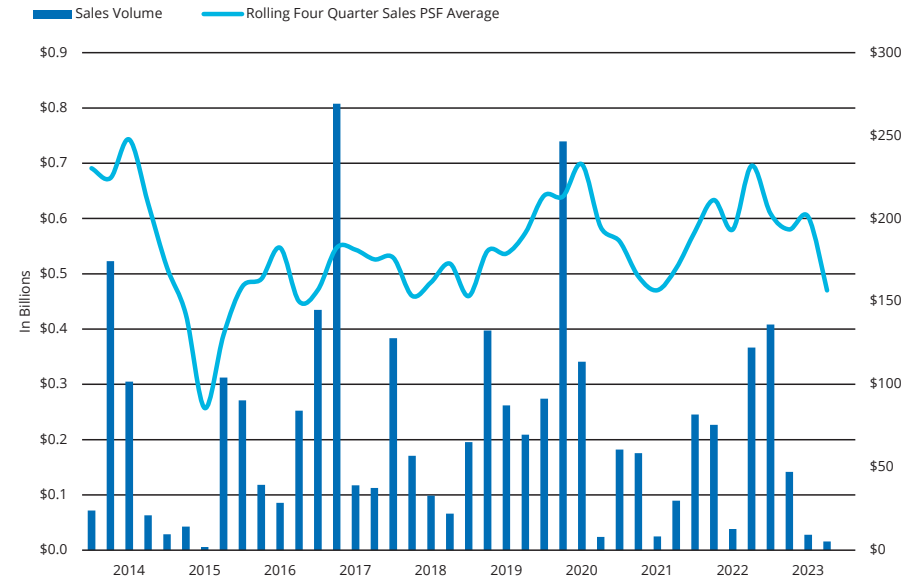


### SALES

#### Sales Volume Remains Limited in Q2 2023

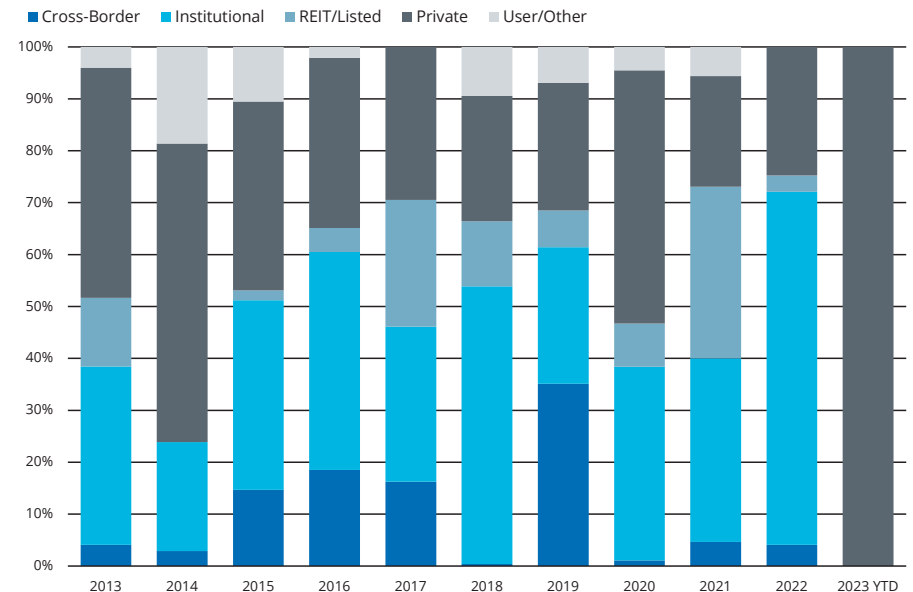
- During the second quarter of 2023, investment sales volume totaled \$15.5 million at \$106 PSF on two transactions. This compares to four transactions completed during the first quarter of 2023, totaling \$27.9 million at \$156 PSF. This is the second lowest amount of sales volume since the first quarter of 2021.
- The most notable sale of the quarter was 700 Professional Drive in Gaithersburg. Baron Investment Services purchased the asset for \$10 million or \$147 PSF from The Humane Society of the United States. The former HQ of the animal focused nonprofit was sold as a potential redevelopment opportunity.
- Activity has been limited but consistent for the first half of 2023. We expect the sales volume to remain quiet 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
NATIONAL CANCER INSTITUTE	9607-9609 Medical Center Dr	North Rockville	Renewal	575,000
ASTRAZENECA	9950 Medical Center Dr	North Rockville	Renewal	84,000
ICF	530 Gaither Rd	North Rockville	Extension & Downsizing	80,000
OPEN TEXT	9711 Washingtonian Blvd	North Rockville	Renewal	50,000
X-ENERGY	530 Gaither Rd	North Rockville	New Lease	50,000
GSA - FDA	5630 Fishers Ln	Rockville	Renewal	27,000

= Transwestern deal

Source: CoStar, CompStak, Transwestern.

## NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
9001 EDMONSTON RD	Greenbelt	May-23	\$5,545,820	79,326	\$70	Arcwell Group LLC	Tenacity Group
700 PROFESSIONAL DR	Gaithersburg	Apr-23	\$10,000,000	67,808	\$147	Baron Investment Services, LLC	The Humane Society of the United States
200 PROFESSIONAL DR	Gaithersburg	Feb-23	\$5,700,000	63,101	\$90	K&Malay, LLC	Just Trust Solutions
1 TAFT CT	Rockville	Feb-23	\$14,275,000	32,380	\$441	Montecito Medical Real Estate	William W Bush IV
1110 BONIFANT ST	Silver Spring	Feb-23	\$5,200,000	64,736	\$80	Ryan Stuart Development	1110 Bonifant Building

= Transwestern deal

Source: CoStar, CompStak, Transwestern.

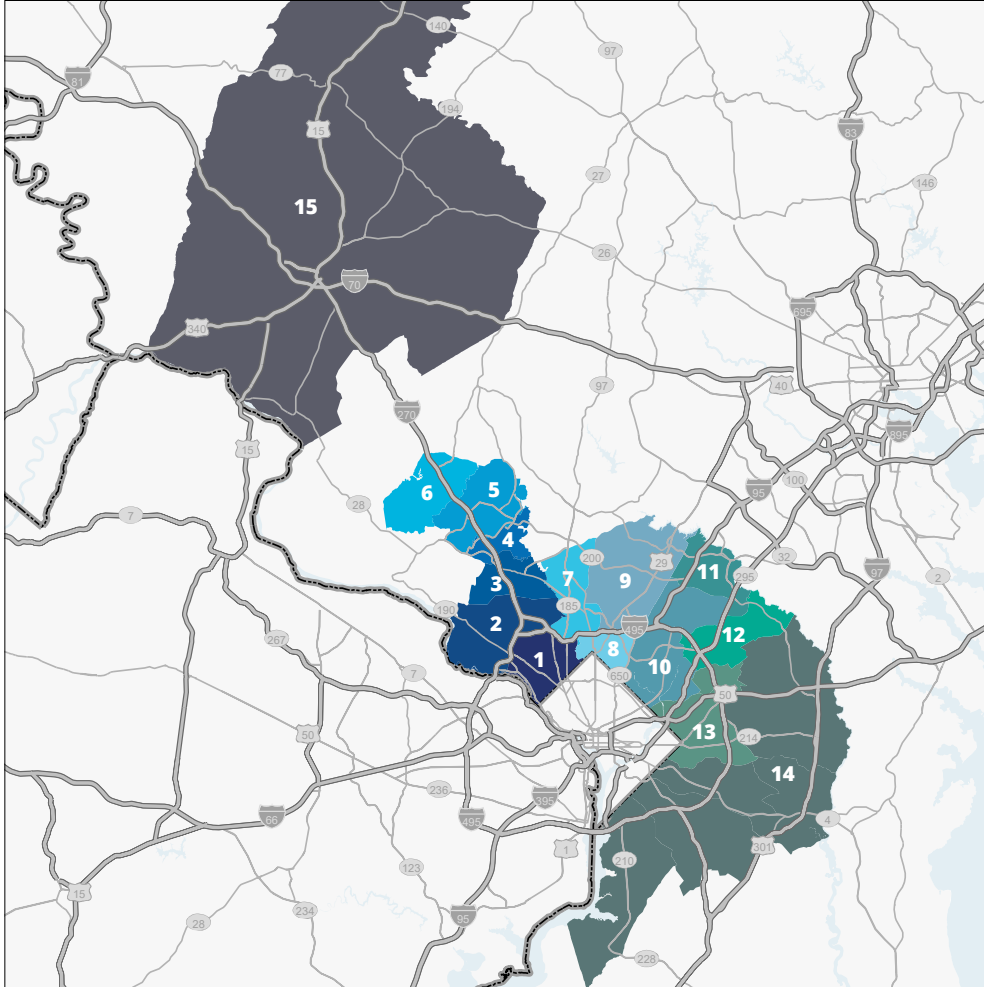


## MARKET INDICATORS

## All Classes of Space | Q2 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	2,199,424	16.7%	18.8%	0	(12,000)	(250,000)	\$40.92
NORTH BETHESDA	10,897,353	1,896,139	17.4%	18.5%	276,000	(11,000)	(19,000)	\$31.56
ROCKVILLE	8,436,869	1,510,200	17.9%	18.8%	0	(17,000)	(93,000)	\$30.79
NORTH ROCKVILLE	12,623,350	1,540,049	12.2%	13.6%	97,196	(63,000)	(76,000)	\$31.32
GAITHERSBURG	5,939,217	448,411	7.6%	9.8%	177,000	9,000	(56,000)	\$25.81
GERMANTOWN	2,730,085	636,110	23.3%	26.8%	73,166	(59,000)	(33,000)	\$27.34
KENSINGTON/WHEATON	1,641,234	223,826	13.6%	15.1%	0	(9,000)	(38,000)	\$28.44
SILVER SPRING	6,973,396	1,007,656	14.5%	15.0%	20,000	(17,000)	(101,000)	\$31.23
N. SILVER SPRING/RT. 29	3,661,988	391,833	10.7%	11.8%	0	9,000	66,000	\$27.21
<b>MONTGOMERY COUNTY</b>	<b>66,073,693</b>	<b>9,853,646</b>	<b>14.9%</b>	<b>16.4%</b>	<b>643,362</b>	<b>(170,000)</b>	<b>(600,000)</b>	<b>\$32.24</b>
BELTSVILLE/CALV./COLL. PARK	6,082,488	962,858	15.8%	16.1%	0	4,000	17,000	\$25.86
LAUREL	2,579,823	533,306	20.7%	20.8%	60,000	(10,000)	(21,000)	\$23.08
GREENBELT	3,016,041	841,174	27.9%	28.3%	0	(3,000)	9,000	\$23.52
LANHAM/LANDOVER/LARGO	5,534,867	1,580,205	28.6%	32.0%	125,000	19,000	275,000	\$24.76
BOWIE/MARLBORO/SOUTH P.G.	5,485,712	427,886	7.8%	8.3%	0	(15,000)	30,000	\$27.06
<b>PRINCE GEORGE'S COUNTY</b>	<b>22,698,931</b>	<b>4,345,428</b>	<b>19.1%</b>	<b>20.2%</b>	<b>185,000</b>	<b>(5,000)</b>	<b>310,000</b>	<b>\$25.26</b>
<b>FREDERICK COUNTY</b>	<b>6,905,734</b>	<b>970,256</b>	<b>14.1%</b>	<b>15.1%</b>	<b>111,000</b>	<b>15,000</b>	<b>(23,000)</b>	<b>\$24.66</b>
<b>TOTAL</b>	<b>95,678,358</b>	<b>15,169,330</b>	<b>15.9%</b>	<b>17.2%</b>	<b>939,362</b>	<b>(160,000)</b>	<b>(313,000)</b>	<b>\$29.71</b>

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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