



TRANSWESTERN

SUBURBAN MARYLAND OFFICE MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	1.9	4.9	↓	5.2	↓
NET ABSORPTION (Thousands SF)	(213.0)	(79.0)	↓	63.7	↔
DIRECT VACANCY RATE	16.3%	15.4%	↑	14.9%	↔
DIRECT VACANT SF (MSF)	15.6	14.7	↑	14.0	↔
UNDER CONSTRUCTION (MSF)	0.7	2.0	↓	2.3	↓
ASKING RENT, FULL SERVICE (PSF)	\$29.73	\$29.49	↑	\$29.18	↔
SALES VOLUME (Millions)	\$4.5	\$408.3	↓	\$210.2	↔

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

OFFICE CONDITIONS DIMINISHED IN Q3 2023

The office market softened during the third quarter of 2023, with negative 213,000 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 40 basis points from last quarter, landing at 16.3%. Asking rents inched upward by 10 basis points, settling at \$29.73 PSF.

We expect office market conditions to remain soft in Suburban Maryland through 2024, as future move-outs and rightsizing, coupled with limited leasing activity, will drag the overall market. This will put pressure on all constituents to explore creative solutions. Given record level availability, landlords will need to be creative in deploying hospitality approaches to make the office more desirable than alternative work options.

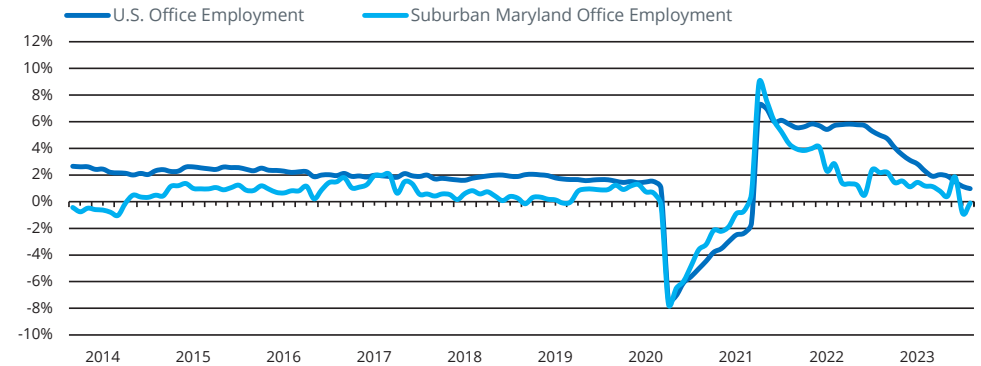


ECONOMY

Overall Job Growth Healthy, but Office-Using Struggles

- 13,600 new jobs were added to the Suburban Maryland economy during the 12-months ending August 2023, well-ahead of the pre-pandemic 5-year average of 9,900. This was driven by health care and the state/local government sectors.
- Office-using jobs lost 400 positions over the year. The was due to job cuts in the financial services sector primarily located in Montgomery/ Frederick County. However, Prince George’s/Calvert/Charles County added 2,400 new jobs over this period most of which was concentrated in the administration support sector which added 1,400 positions.
- The unemployment rate in Suburban Maryland is currently at 1.8% in July 2023 which is on par with the average over the past three months. The rate has improved significantly from the peak of 10.4% in July 2020. Montgomery County has the lowest unemployment rate at 1.5%.
- 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.

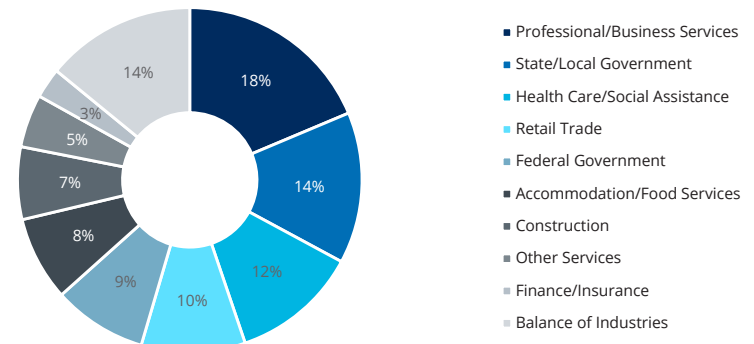
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

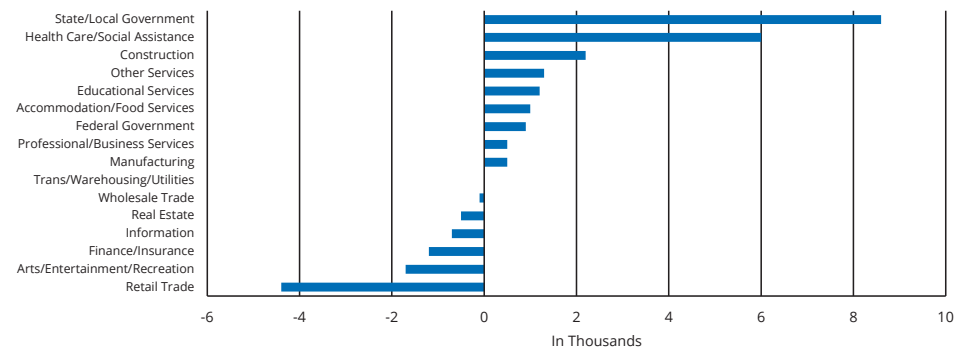
Suburban Maryland | August 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Suburban Maryland



Source: Bureau of Labor Statistics, Transwestern

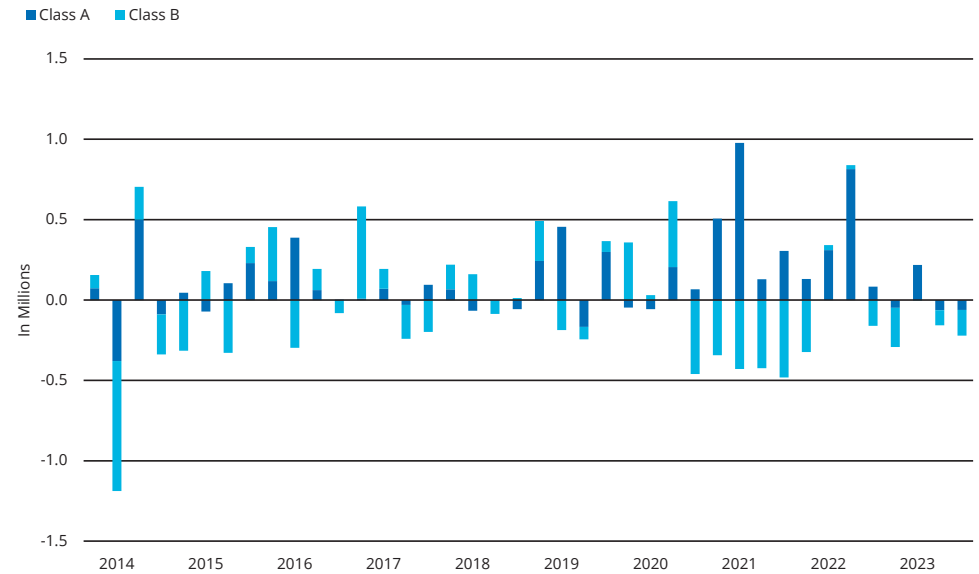


NET ABSORPTION

Multiple Moveouts Impact Net Absorption

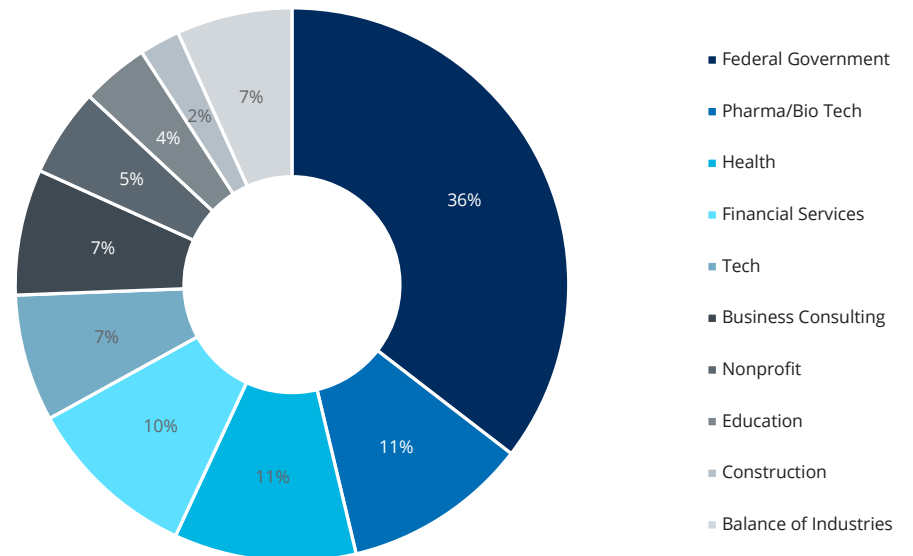
- Net absorption totaled negative 213,000 SF during the third quarter of 2023, after totaling negative 160,000 SF during the second quarter of 2023. This compares to negative 79,000 SF of net absorption during the third quarter of last year.
- Class A net absorption totaled negative 81,000 SF, while Class B closed the quarter with negative 132,000 SF.
- The most notable deal of the quarter was Manatee Bio inking a 38,350 SF deal at 1450 Research Boulevard in the North Rockville submarket. Other notable deals include Capital City Protective Solution signing for 12,235 SF at 9111 Edmonston Road in Greenbelt as well as a confidential tenant signing for 20,501 SF at 5404 Wisconsin Avenue in Bethesda/Chevy Chase.
- Offsetting this gain were mid-sized move outs, such as Polinger vacating 16,465 SF at 5330 Wisconsin Avenue in Bethesda/Chevy Chase. Willis moved out of the entire third floor for a total of 25,944 SF at 12505 Park Potomac Avenue in Rockville.
- We anticipate that demand will continue to face challenges through 2024, as economic strains lead certain tenants to delay leasing decisions or renegotiate their current leases in response to new hybrid work policies.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

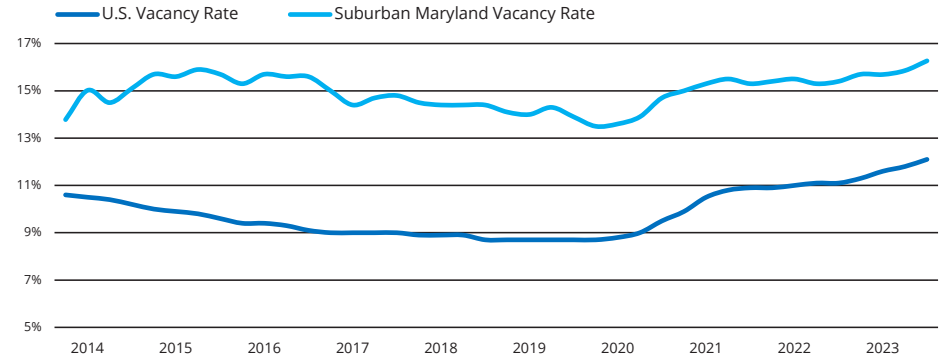


VACANCY

Vacancy Rate Rises Due to Vacant Deliveries in Q3

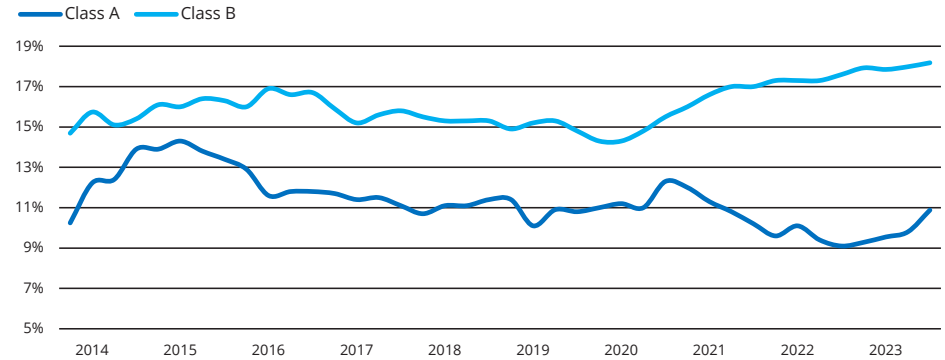
- The direct vacancy rate continued to rise from the second quarter of 2023 finishing the quarter at 16.3% and is up 90-basis points from one year ago.
- The Class A vacancy rate increased 120-basis points to 11.0% in the quarter, due mostly to a vacant delivery while the Class B/C vacancy rate increased 10 basis points to 18.1%.
- The vacancy rate is expected to face ongoing challenges through 2024. The rate for newer product will likely experience a slight dip due to flight to quality, while older product will continue to struggle.

DIRECT VACANCY RATE



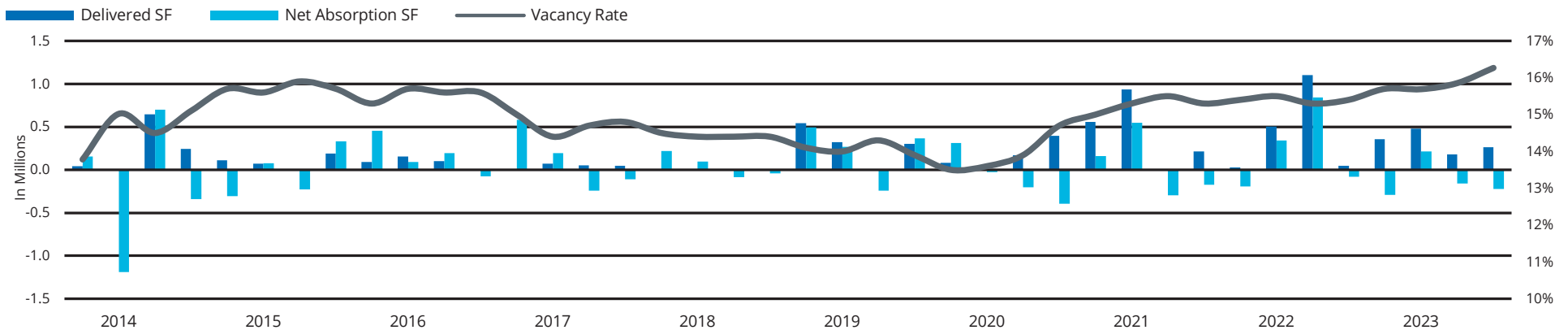
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

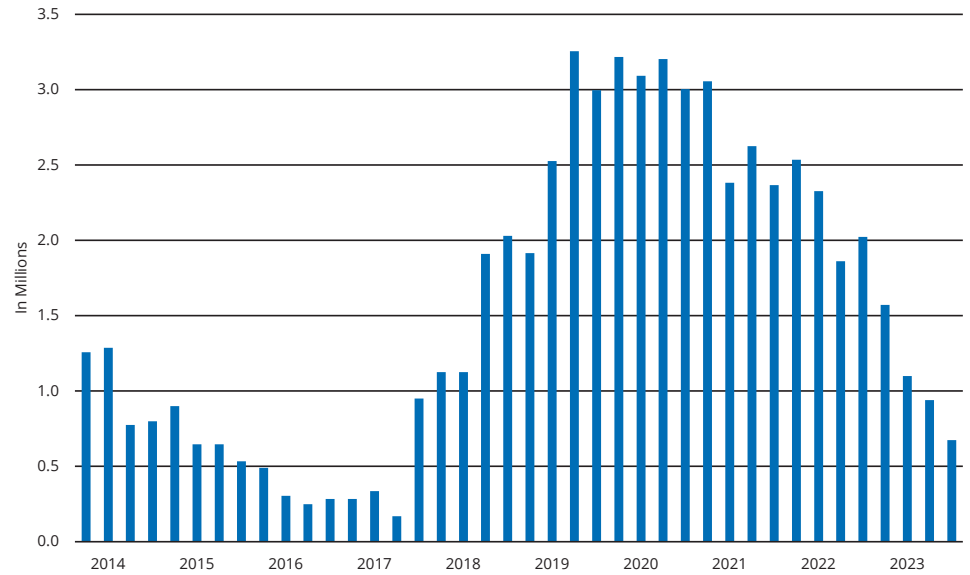


UNDER CONSTRUCTION

Three Projects Deliver in Q3

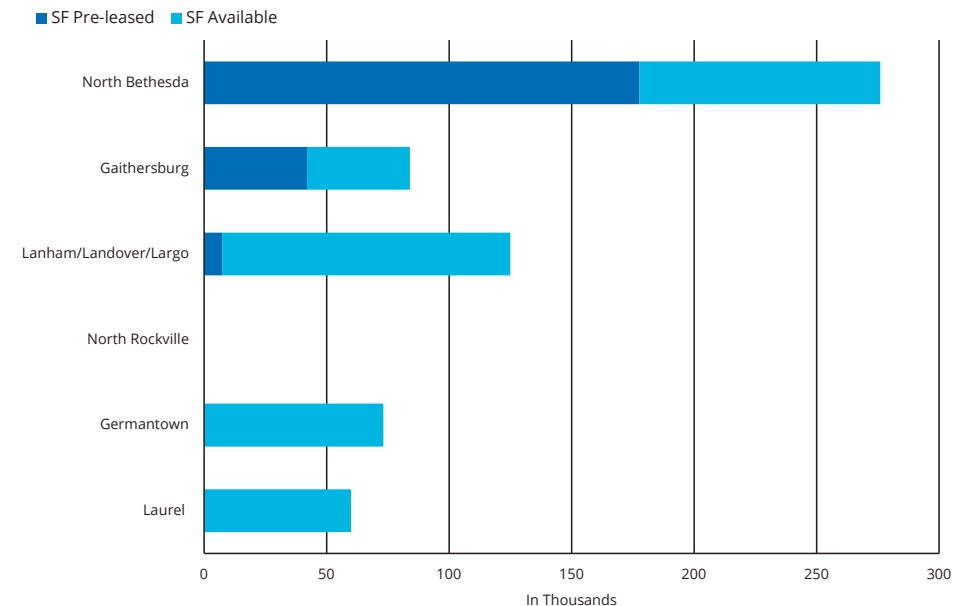
- Three projects delivered over the quarter for a total of 264,596 SF at 3% pre-leased. One of the most notable deliveries was Monument Innovation Center at 735 Watkins Mills in the Gaithersburg submarket. The Class A project totals 135,000 SF, none of which has been leased yet.
- There is 674,766 SF of office construction currently underway in Suburban Maryland, of which 34% is pre-leased. This is below the 10-year average of 1.6 million SF and less than 2.0 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.
- With office valuation decreasing we expect limited new groundbreakings for the office asset type. The construction pipeline will decelerate as developers pause breaking ground under the current economic climate. Select owners will remain patient and opportunistic to find projects at a lower value with well-funded tenants in place and hope to hold for the long term.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

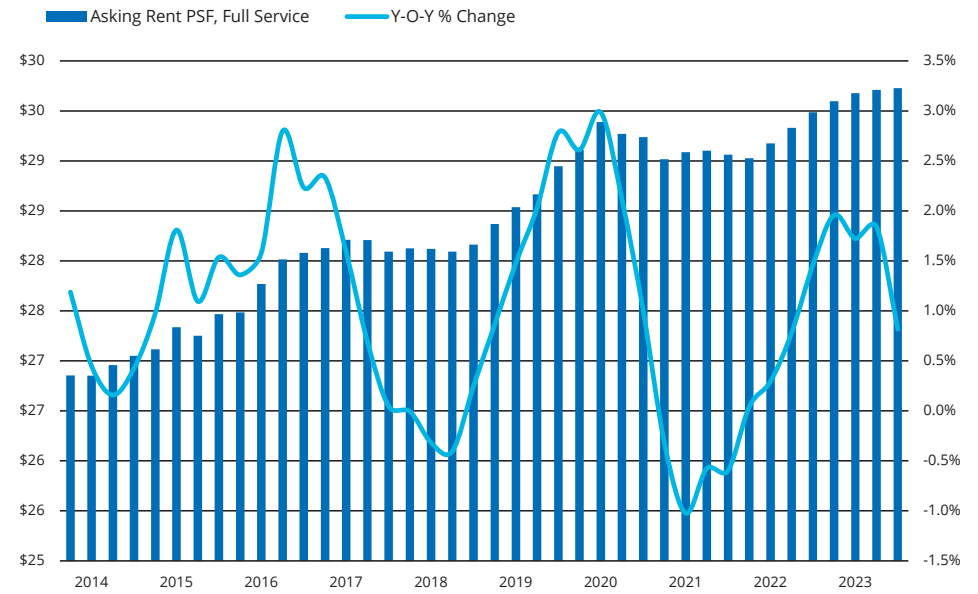


RENTAL RATES

Class A Asking Rents Inch Downward in Q3

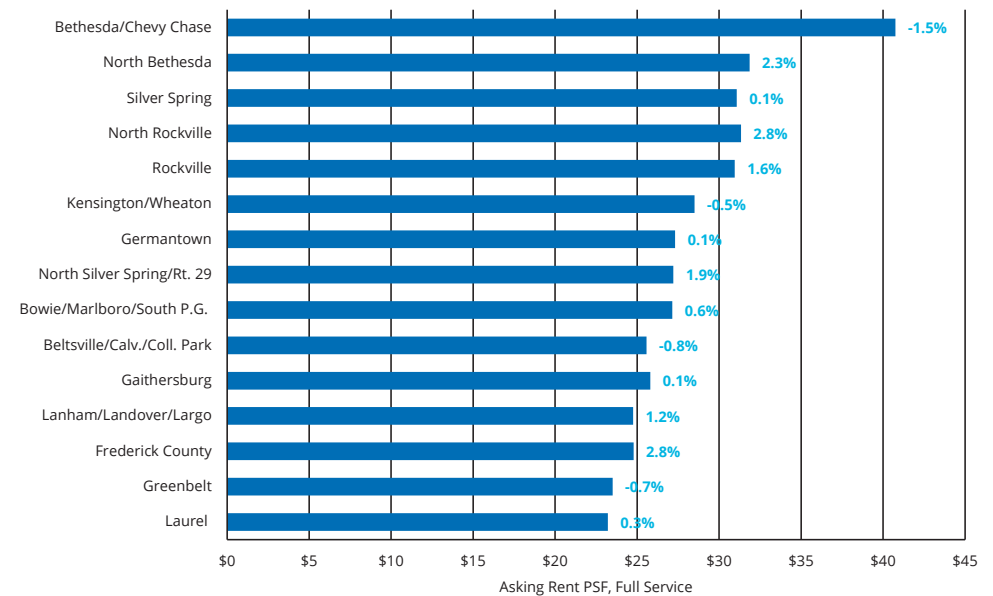
- Asking rents inched upwards 10 basis points during the third quarter of 2023, landing at \$29.73 PSF. The rate increased 80 basis points year-over-year which has been on an incline throughout 2022 and into 2023. Landlords have kept asking rents relatively steady, while offering competitive concessions which reduces the effective rate.
- However, Class A asking rents dipped slightly by 10 basis point to \$34.89 PSF, while Class B/C averaged \$26.68 PSF, after a 20-basis point increase during the quarter.
- Concession packages will remain elevated through 2024, which will put downward pressure on effective rates. For a typical 10-year or greater term for a new lease signed since the start of 2023, tenant improvement allowances averaged around \$118 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

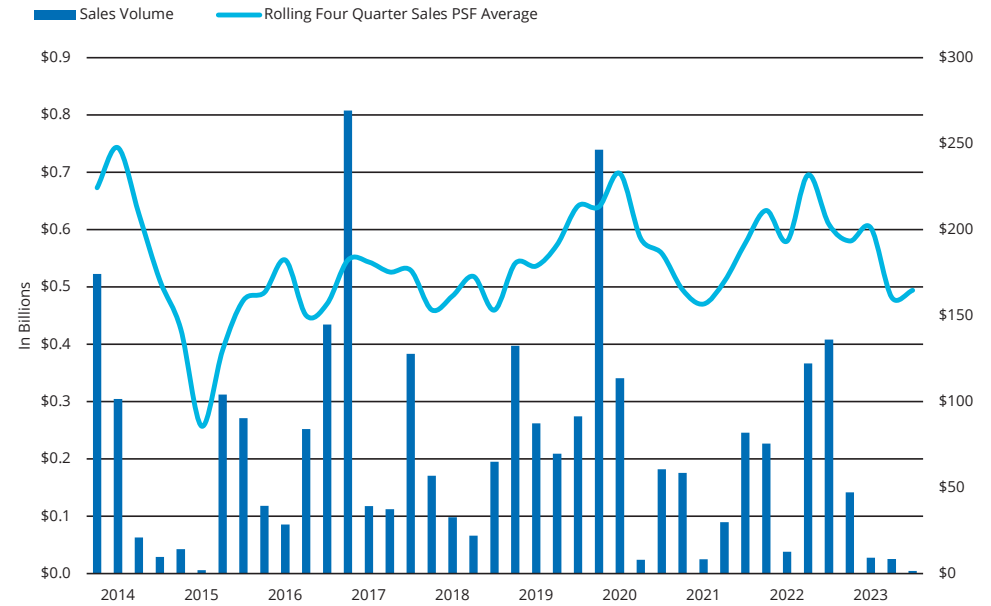


SALES

Sales Volume Remains Limited Through Q3

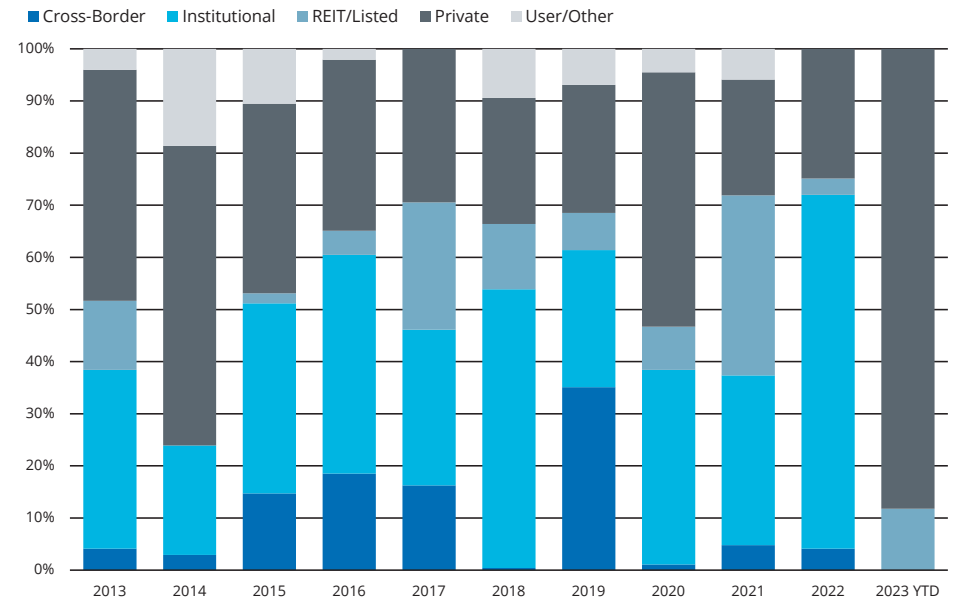
- During the third quarter of 2023, investment sales volume totaled \$4.5 million at \$196 PSF on one transaction. This compares to four transactions completed during the second quarter of 2023, totaling \$25.5 million at \$122 PSF. This is the lowest number of transactions since the first quarter of 2021.
- The only sale of the quarter was 17 W Jefferson Street in Rockville. District Pro Realty purchased the asset at a 7.5% cap rate from Garza Law Firm, P.A. The property was 100% leased at the time of sale.
- Elevated interest rates continue to stifle investment volume across all property sectors as debt remains difficult to acquire. The office market largely remains in a period of price discovery. With office valuations declining, opportunistic buyers will have the chance to purchase quality assets for pennies on the dollar in due time.

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 INSTITUTE OF HEALTH	5625 Fishers Ln	Rockville	Renewal	153,000
NATIONAL INSTITUTE OF HEALTH	12735 Twinbrook Pkwy	Rockville	Renewal	77,000
US FOOD & DRUG ADMINISTRATION	11919 Rockville Pike	North Bethesda	Renewal	62,000
AMERICAN NURSES ASSOCIATION	8501-8517 Georgia Ave	Silver Spring	Renewal	51,000
MANATEE BIO	1450 Research Blvd	North Rockville	New Lease	38,000
US FOOD & DRUG ADMINISTRATION	5630 Fishers Ln	Rockville	Renewal	28,000

= Transwestern deal
 Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
17 W JEFFERSON ST	Rockville	Aug-23	\$4,500,000	22,950	\$196	District Pro Realty	Garza Law Firm, P.A.
7300 PEARL ST	Bethesda/Chevy Chase	Jun-23	\$3,500,000	24,372	\$144	Promark Real Estate Services	Rockpoint
9135 PISCATAWAY RD	Bowie/Marlboro/South PG	Jun-23	\$6,450,000	37,694	\$171	Community Healthcare Trust, Inc	Clinton Towers I, II, II LLC
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

= Transwestern deal
 Source: CoStar, CompStak, Transwestern.

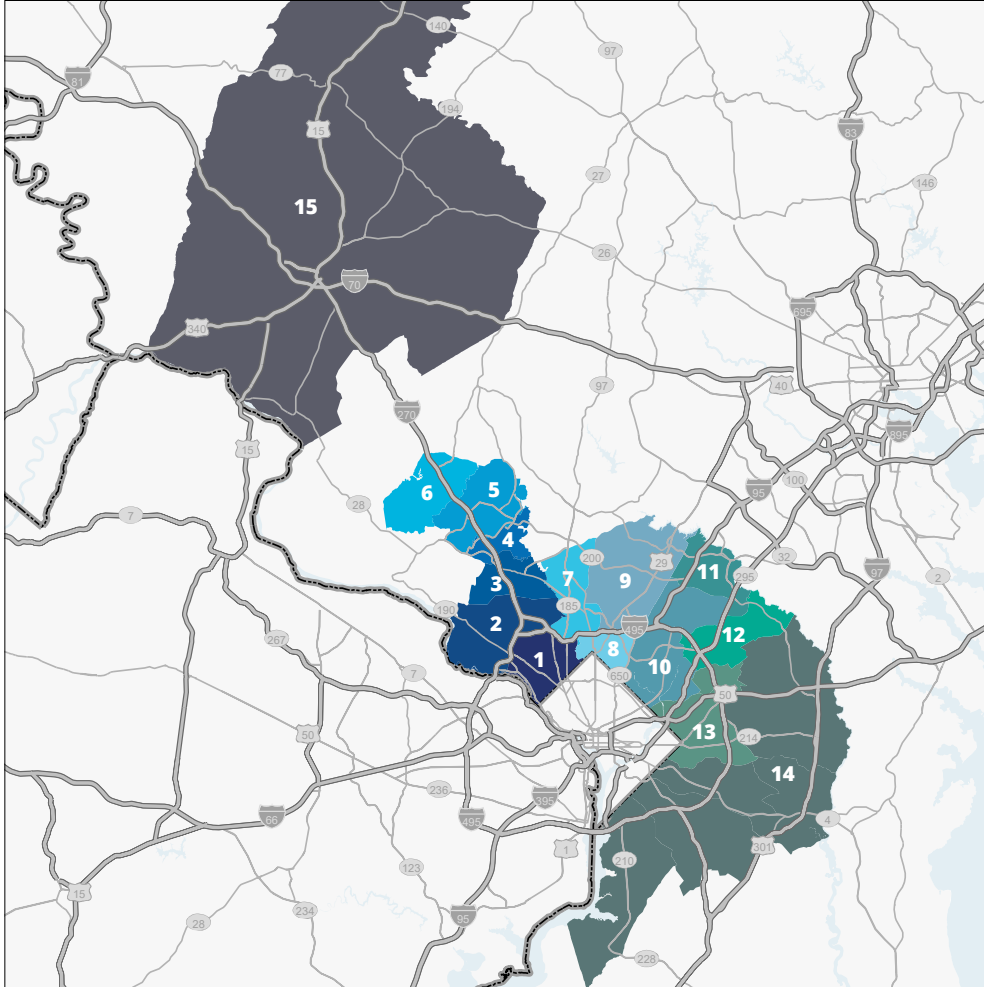


MARKET INDICATORS

All Classes of Space | Q3 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	2,344,296	17.8%	19.6%	0	(145,000)	(400,000)	\$40.76
NORTH BETHESDA	10,897,353	1,901,588	17.5%	18.8%	276,000	(5,000)	42,000	\$31.85
ROCKVILLE	8,436,869	1,594,568	18.9%	19.6%	0	(84,000)	(202,000)	\$30.95
NORTH ROCKVILLE	12,720,546	1,609,149	12.7%	13.8%	0	28,000	(10,000)	\$31.33
GAITHERSBURG	6,074,217	595,273	9.8%	14.1%	42,000	(12,000)	(39,000)	\$25.80
GERMANTOWN	2,730,085	655,220	24.0%	26.6%	73,166	(19,000)	(52,000)	\$27.31
KENSINGTON/WHEATON	1,641,234	223,826	13.6%	15.1%	0	0	(37,000)	\$28.50
SILVER SPRING	6,973,396	1,012,537	14.5%	15.0%	20,000	(5,000)	(103,000)	\$31.07
N. SILVER SPRING/RT. 29	3,661,988	384,509	10.5%	11.3%	0	7,000	72,000	\$27.21
MONTGOMERY COUNTY	66,305,889	10,320,967	15.6%	17.1%	411,166	(235,000)	(729,000)	\$32.24
BELTSVILLE/CALV./COLL. PARK	6,082,488	972,722	16.0%	17.1%	0	(10,000)	(6,000)	\$25.58
LAUREL	2,579,823	552,082	21.4%	21.6%	60,000	(19,000)	(44,000)	\$23.22
GREENBELT	3,016,041	835,443	27.7%	28.1%	0	6,000	48,000	\$23.50
LANHAM/LANDOVER/LARGO	5,534,867	1,558,065	28.2%	21.5%	125,000	22,000	284,000	\$24.76
BOWIE/MARLBORO/SOUTH P.G.	5,485,712	438,857	8.0%	8.4%	0	(11,000)	5,000	\$27.14
PRINCE GEORGE'S COUNTY	22,698,931	4,357,169	19.2%	18.0%	185,000	(12,000)	287,000	\$25.21
FREDERICK COUNTY	6,880,350	910,958	13.2%	14.5%	78,600	34,000	(7,000)	\$24.78
TOTAL	95,885,170	15,589,094	16.3%	17.1%	674,766	(213,000)	(449,000)	\$29.73

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

Elizabeth Norton

Senior Managing Research Director
Research Services
Elizabeth.Norton@transwestern.com
202-775-7026

Jared Reinson

Research Analyst
Research Services
Jared.Reinson@transwestern.com
202-775-7030

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).