



TRANSWESTERN

SUBURBAN MARYLAND OFFICE MARKET

Q1 2024



TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.3	3.5	↓	5.0	↓
NET ABSORPTION (THOUSANDS SF)	(892.0)	(79.0)	↓	(18.4)	↔
DIRECT VACANCY RATE	17.8%	15.4%	↑	15.2%	↔
DIRECT VACANT SF (MSF)	17.1	14.7	↑	14.3	↔
UNDER CONSTRUCTION (MSF)	0.2	2.0	↓	2.1	↓
ASKING RENT, FULL SERVICE (PSF)	\$29.82	\$29.49	↑	\$29.27	↔
SALES VOLUME (MILLIONS)	\$6.2	\$408.3	↓	\$183.5	↔

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

OFFICE CONDITIONS DIMINISHED IN Q1 2024

The office market declined during the first quarter of 2024, with negative 892,000 SF of net absorption. This was mostly driven by multiple mid-sized move outs and a lack of new leases during the past three months. The direct vacancy increased 80 basis points from last quarter, landing at 17.8%. Asking rents inched upward by 10 basis points, settling at \$29.82 PSF.

Economic uncertainty will impact overall demand in 2024, as tenants show caution inking new deals and most lease transactions right size. These headwinds will limit leasing activity and drag the overall market. The pipeline has eased which will help even out supply/demand fundamentals. In addition, several obsolete office buildings are slated to convert or be demolition, which will further help stabilize the market.

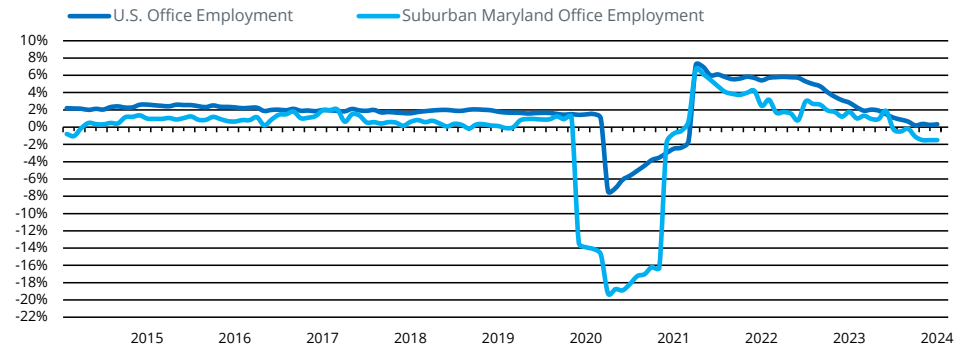


ECONOMY

Office-using Jobs Struggle to Start 2024

- 1,800 jobs were lost in the Suburban Maryland economy during the 12-months ending January 2024, which is below the pre-pandemic 5-year average of 9,900. This was driven by Montgomery/Frederick Counties losing 2,700 employees. Countering this was Calvert/Charles/Prince George's Counties adding 900 new jobs.
- Office-using jobs lost 6,300 positions over the year. This was due to job cuts in the professional/business services sector primarily located in Montgomery/Frederick Counties. However, Prince George's/Calvert/Charles Counties added 500 new jobs over this period most of which was concentrated in the federal government sector which added 1,100 positions.
- The unemployment rate in Suburban Maryland is currently at 2.9% in January 2024 which is above the average 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 modest over the next five years, adding just over 2,500 new jobs per year on average. We expect most of the growth to occur within the federal government, state and local government, and tech sectors.

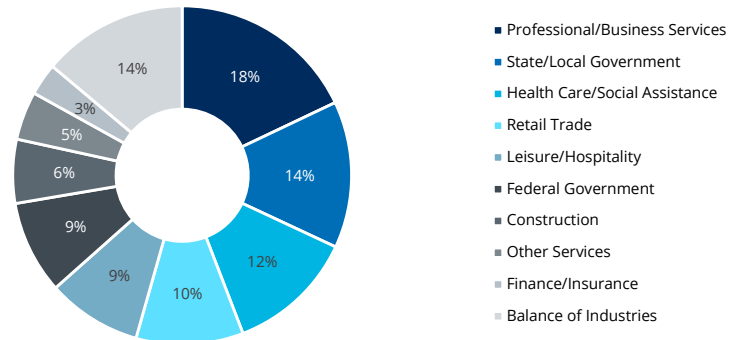
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

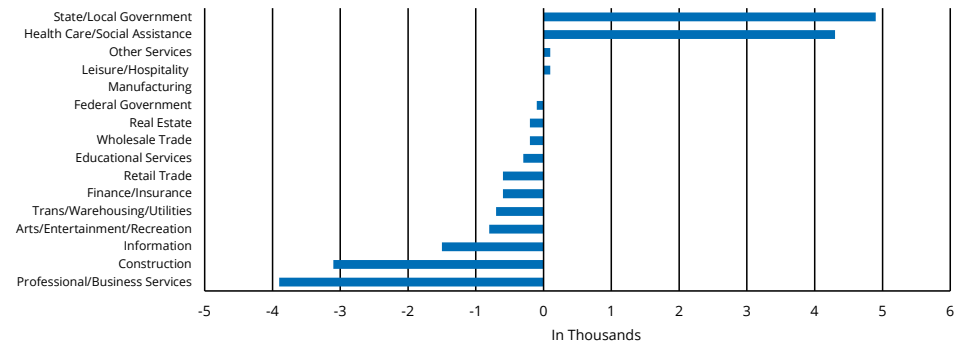
Suburban Maryland | January 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Suburban Maryland



Source: Bureau of Labor Statistics, Transwestern

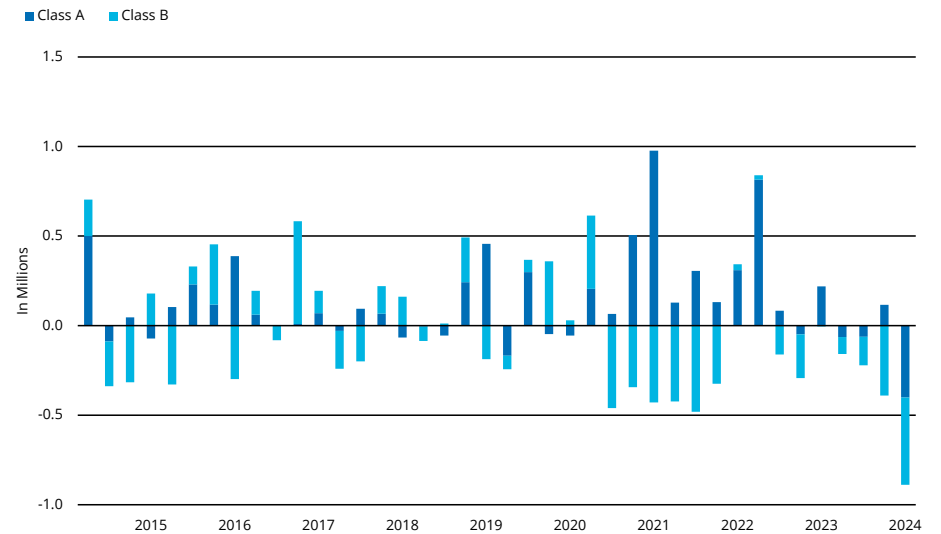


NET ABSORPTION

Large North Rockville and Frederick Move Outs Drag the Market in Q1

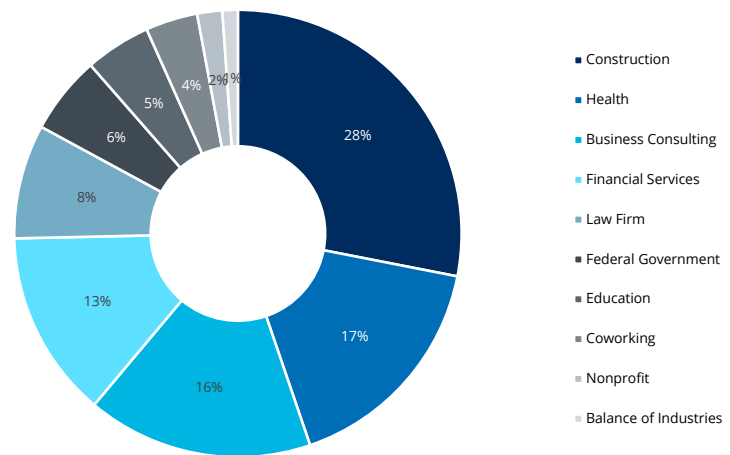
- Net absorption totaled negative 892,000 SF during the first quarter of 2024, after negative 275,000 SF during the fourth quarter of 2023. This compares to positive 216,000 SF of net absorption during the first quarter of last year. Year-over-year totaled negative 1.5 million SF and is one of the largest declines in recent history.
- Class A net absorption totaled negative 401,000 SF, while Class B closed the quarter with negative 488,000 SF.
- One of the most notable deals this quarter was LocalWorks signing a 16,192 SF lease at 6900 Wisconsin Avenue in the Bethesda/Chevy Chase submarket. Another deal that was Rockville Housing signing a 11,628 SF lease at 1300 Piccard Drive in North Rockville.
- Offsetting these lease signings were a few large move outs. Leidos gave back 123,809 SF at 9231 Corporate Boulevard in North Rockville. In addition, Sodexo vacated 149,135 SF at 9801 Washingtonian Boulevard as they have moved to their new space at 915 Meeting Street which delivered last quarter. Lastly, Wells Fargo Home Mortgage gave back 310,006 SF at 8480 Stagecoach Circle in Frederick.
- We anticipate demand will continue to face challenges through 2024, as economic strains lead certain tenants to delay leasing decisions or renegotiate their current footprint in response to new hybrid work policies. However, with safety concerns in the District, tenants are beginning to explore other options which could help Suburban Maryland.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2024



Source: CoStar, Transwestern

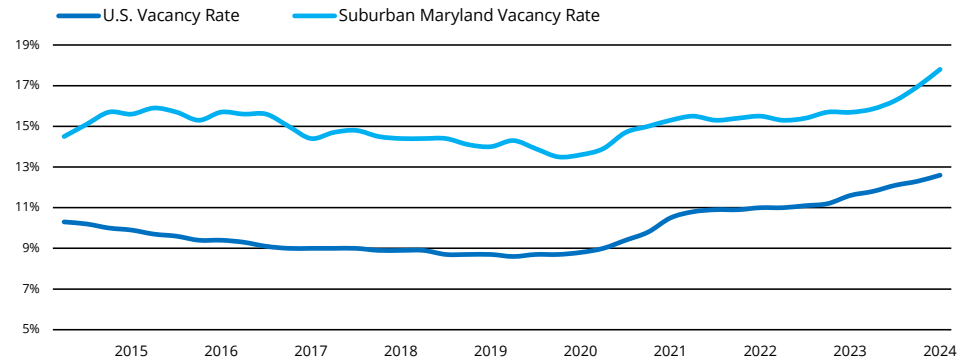


VACANCY

Vacancy Rate Continues to Rise in 2024

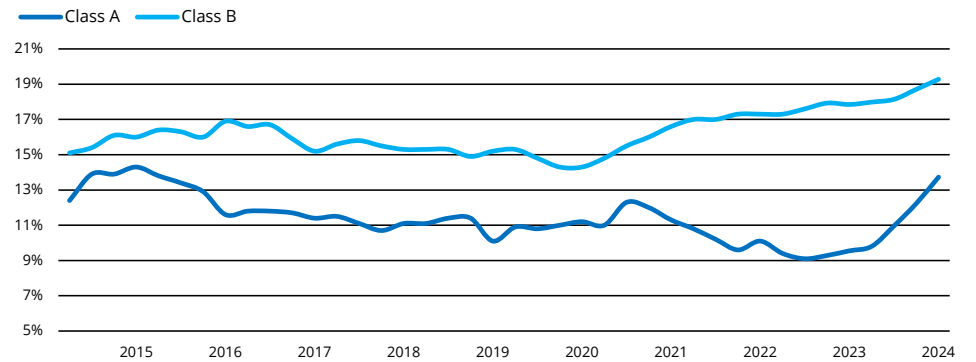
- The direct vacancy rate continued to rise from the end of 2023 finishing the quarter at 17.8% and is up 210-basis points from one year ago.
- The Class A vacancy rate increased 150-basis points to 13.7% in the quarter, while the Class B/C vacancy rate increased 60 basis points to 19.3%.
- The vacancy rate is expected to struggle through 2024. The rate for newer product will likely be steady due to flight to quality, while older product will continue to be challenged.

DIRECT VACANCY RATE



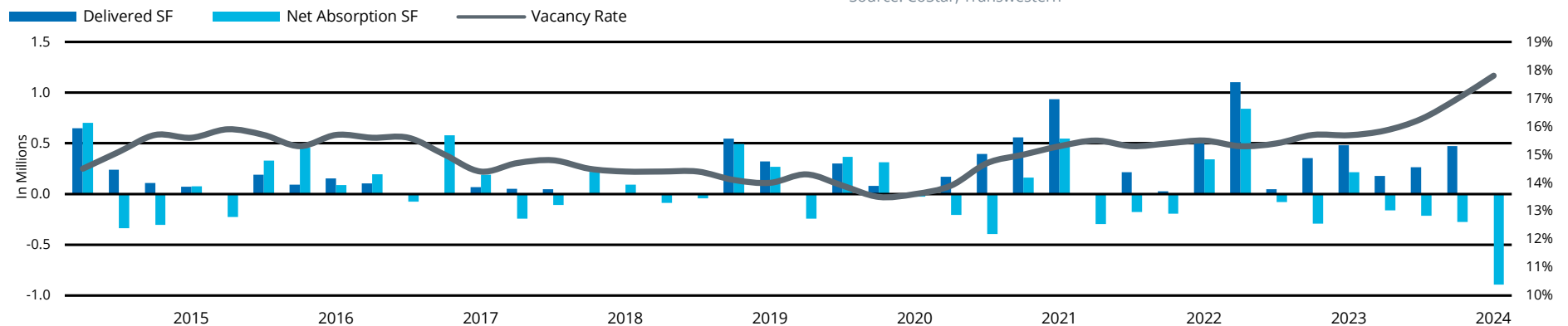
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

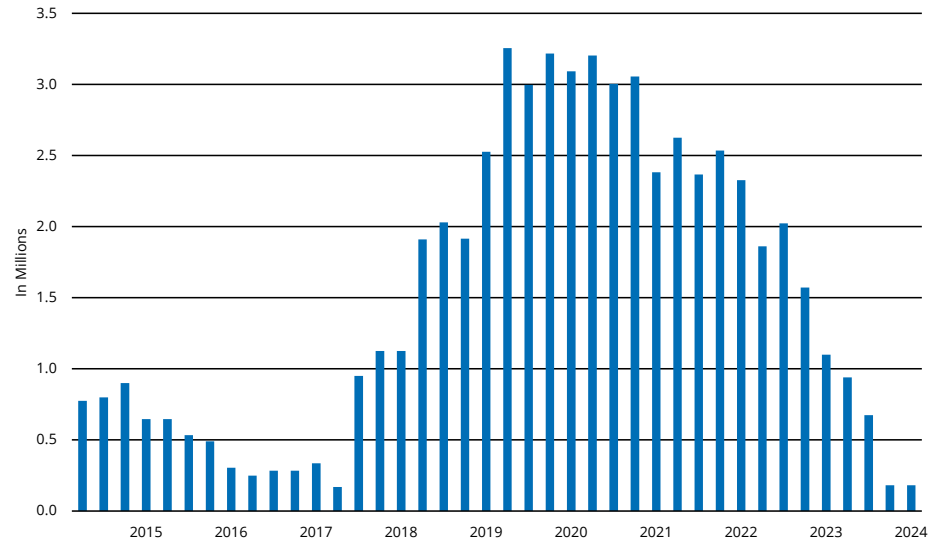


UNDER CONSTRUCTION

Construction Activity Remains Limited in Q1 2024

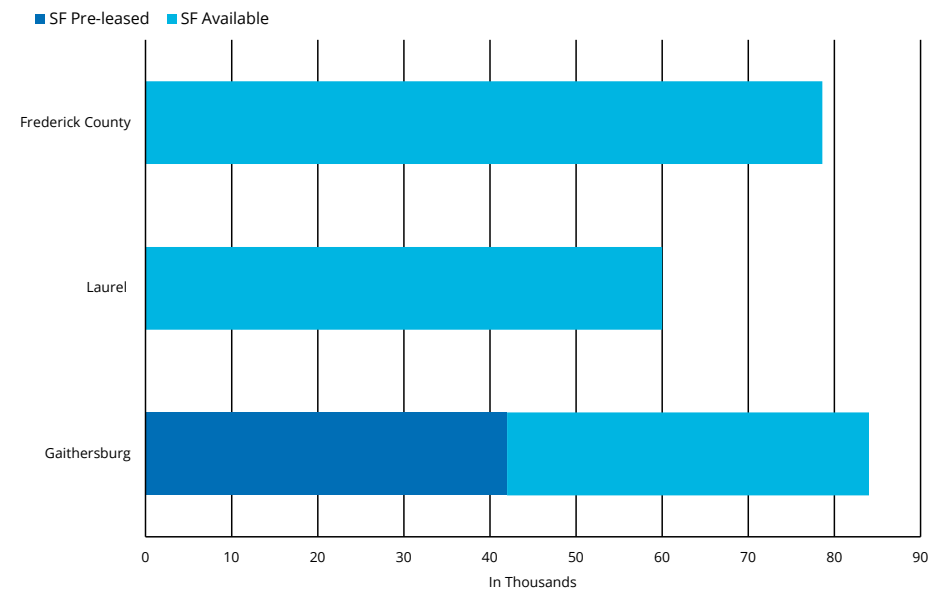
- There is 180,600 SF of office construction currently underway in Suburban Maryland, of which 23% is pre-leased. This is below the 10-year average of 1.6 million SF which is the same amount as one year ago. Most of the pipeline is slated to deliver this year.
- Frederick County has the most under construction due to the construction at 112 Thomas Johnson Drive. The 53,138 SF medical office building is expected to deliver in 2024. In total, the Frederick County submarket will bring 78,600 SF of new space to market when projects deliver next year.
- With office valuations under pressure we expect limited new groundbreakings for the office asset type. The construction pipeline will decelerate as developers pause breaking ground due to increased construction costs, the inability to acquire financing, and depressed office values. Select owners will look for distressed properties 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

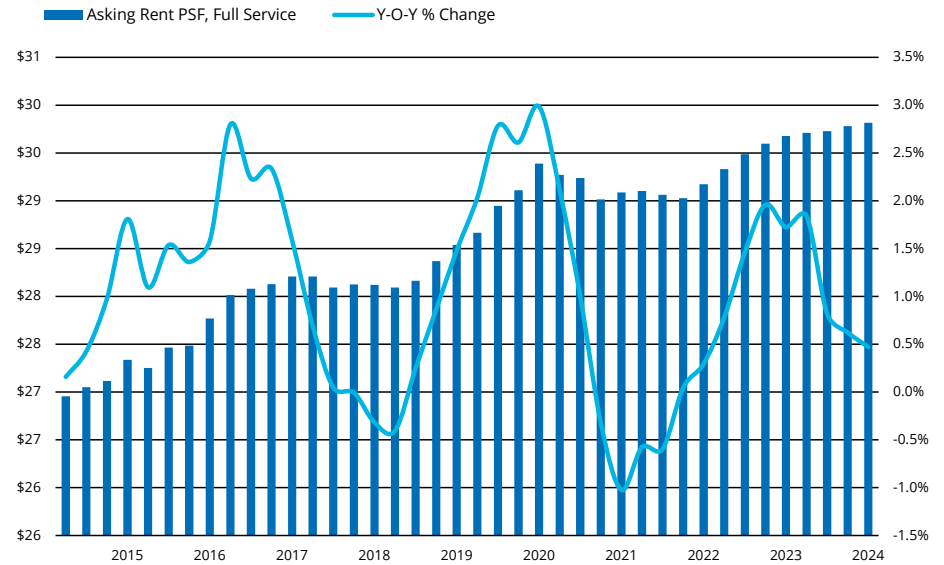


RENTAL RATES

Class A Asking Rents Inch Upward in Q1 2024

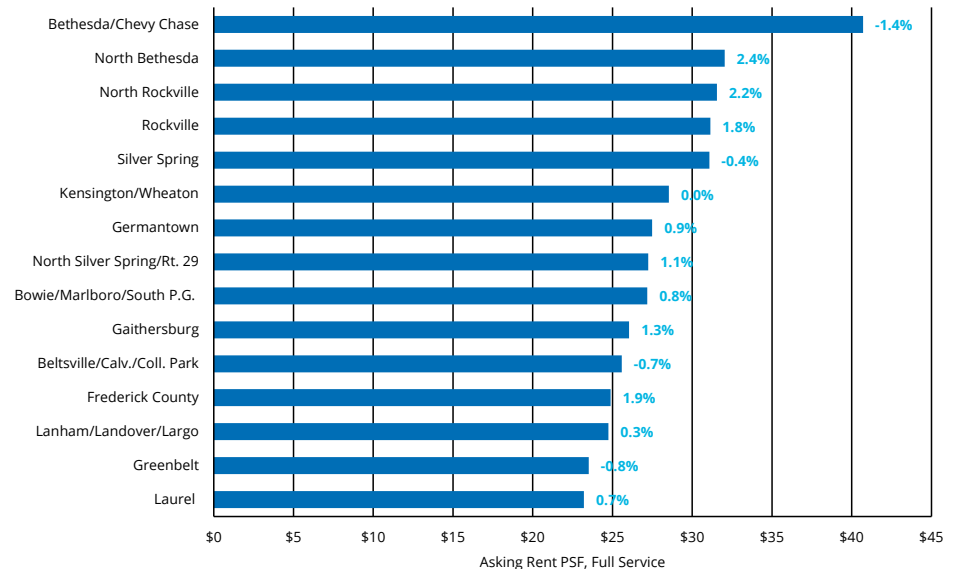
- Asking rents inched upwards 10 basis points during the first quarter of 2024, landing at \$29.82 PSF. The rate increased 50 basis points year-over-year which has been on an incline throughout 2023 and into 2024. Landlords have kept asking rents relatively steady, while offering competitive concessions which reduces the effective rate.
- Class A asking rents inched upward slightly to \$34.92 PSF, while Class B/C averaged \$26.81 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 during the first quarter of 2024, tenant improvement allowances averaged around \$115 PSF with 10.5 months of free rent. This compares to \$115 PSF and 11.8 months during 2023.
- 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. In addition, landlords will continue to provide competitive concession packages in order to attract tenants in a difficult market. However, select landlords might have to lower asking rents as a strategy if they under financial strain to offer elevated concessions.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

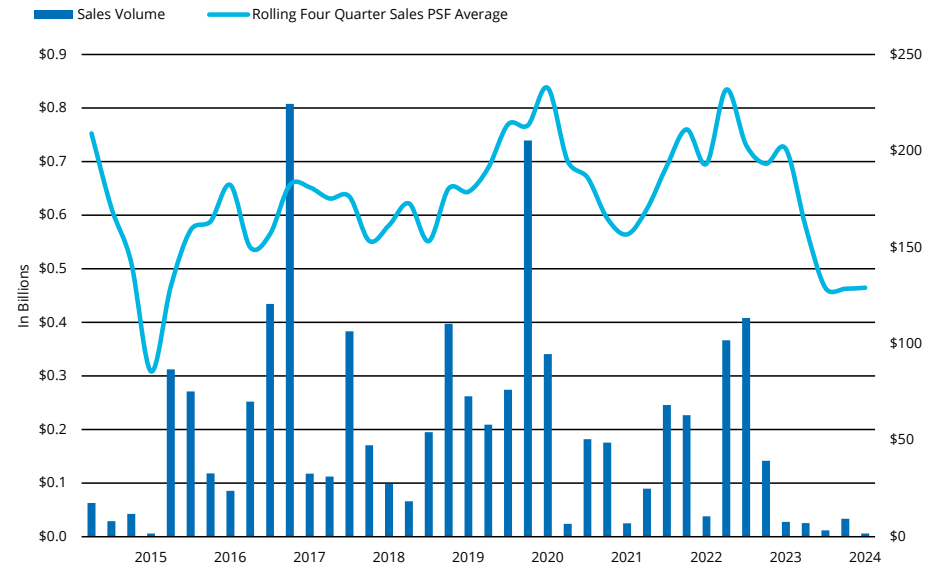


SALES

Sales Volume Continues to be Limited in Q1 2024

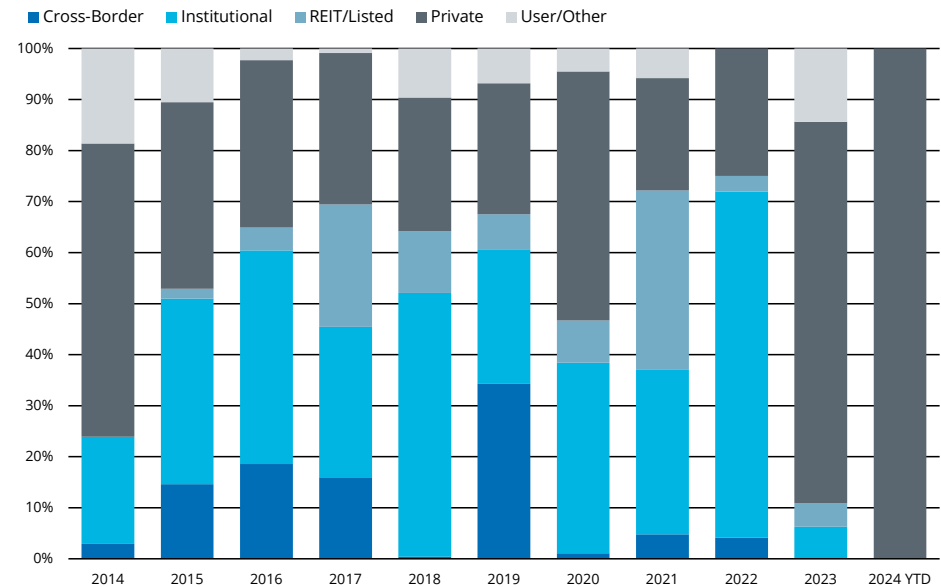
- During the first quarter of 2024, investment sales volume totaled \$6.5 million at \$158 PSF on two transactions. This compares to six transactions completed during the fourth quarter of 2023, totaling \$76.9 million at \$138 PSF.
- One notable sale of the quarter was 11224-11230 Triangle Lane in Kensington/Wheaton. Bobby Athanasakis purchased the asset for \$4.2 million or \$222 PSF from Nellis Corporation. Another notable deal was Hashem Samii purchasing a 19,996 SF Class B office property from The Jaffe Group for a total of \$2.0 million or \$98 PSF. The asset was sold at a 5.5% cap rate.
- 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 debt maturities still set to occur throughout 2024, opportunistic capital will be looking for distressed assets that they can purchase at a discounted rate.

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
THE BOZZUTO GROUP	6406 Ivy Ln	Greenbelt	Renewal	98,470
WASHINGTON COMMANDERS	4600 River Rd	College Park	Sublease	27,516
CAPITAL BANK	2275 Research Blvd	North Rockville	Renewal	22,473
CITRIN COOPERMAN	2 Bethesda Metro Ctr	Bethesda/Chevy Chase	Renewal	22,325
UNIVERSITY RESEARCH CO 	5404 Wisconsin Ave	Bethesda/Chevy Chase	Renewal	21,000
CHASEN & BOSCOLO	7852 Walker Dr	Greenbelt	Renewal	19,407

 = Transwestern deal
 Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
6490-6492 LANDOVER RD	Lanham/Landover/ Largo	Jan-24	\$1,950,000	19,996	\$98	Hashem Samii	The Jaffe Group
11224-11230 TRIANGLE LN	Kensington/Wheaton	Jan-24	\$4,200,000	18,900	\$222	Bobby Athanasakis	Nellis Corporation
7500 OLD GEORGETOWN RD	Bethesda/Chevy Chase	Dec-23	\$29,850,000	320,906	\$93	In-Rel Properties	Stonebridge Rockwood Capital
7111-7127 ALLENTOWN RD	Bowie/Marlboro/ South PG	Dec-23	\$2,962,500	29,840	\$99	MDC Capital LLC	Bernard J & Mary Gebhardt
11611 OLD GEORGETOWN RD	North Bethesda	Nov-23	\$10,400,000	23,280	\$447	MD-Nat Capital Park and Planning	Douglas Development Corporation

 = Transwestern deal
 Source: CoStar, CompStak, Transwestern.

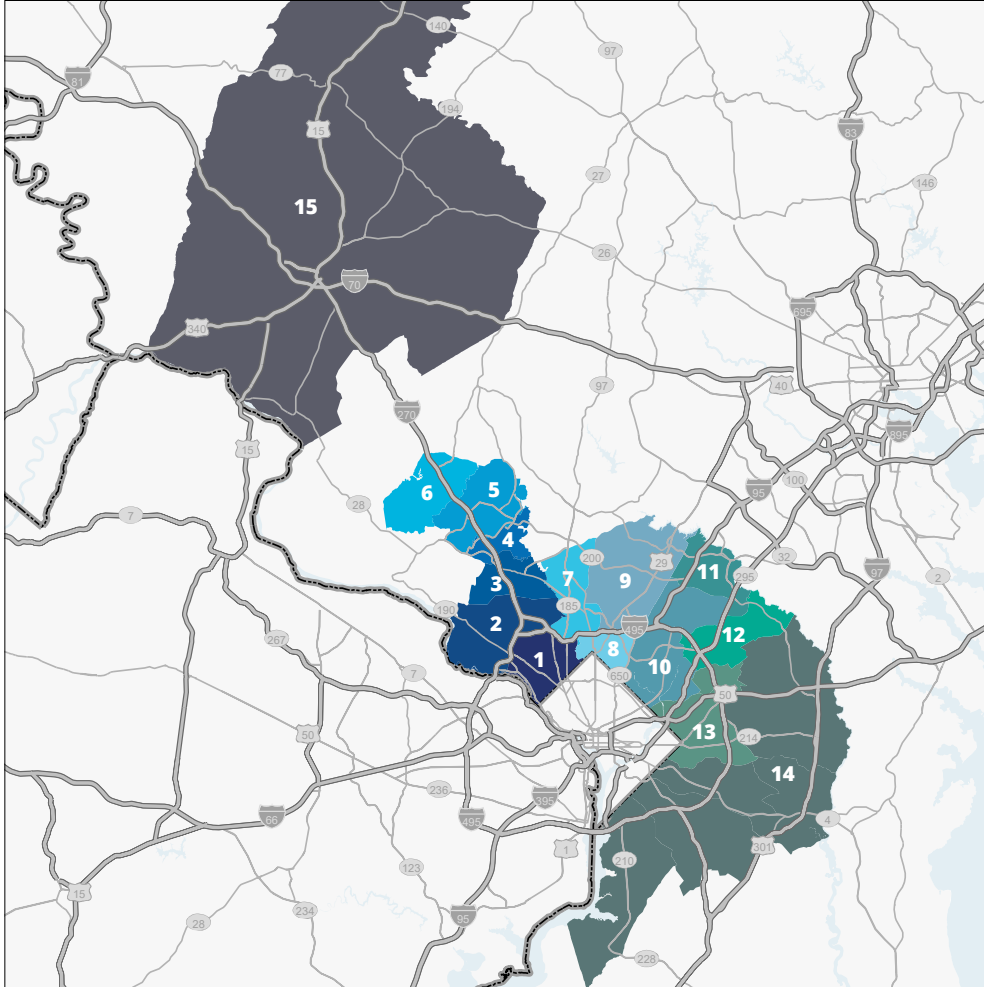


MARKET INDICATORS

All Classes of Space | Q1 2024

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	2,491,802	18.9%	19.9%	0	(82,000)	(304,000)	\$40.70
NORTH BETHESDA	11,173,353	2,000,030	17.9%	18.8%	0	22,000	161,000	\$32.03
ROCKVILLE	8,436,869	1,721,121	20.4%	21.6%	0	(76,000)	(228,000)	\$31.13
NORTH ROCKVILLE	12,720,546	1,908,082	15.0%	16.4%	0	(223,000)	(334,000)	\$31.55
GAITHERSBURG	6,074,217	704,609	11.6%	15.8%	42,000	(6,000)	(112,000)	\$26.04
GERMANTOWN	2,803,251	745,665	26.6%	28.4%	0	(36,000)	(95,000)	\$27.48
KENSINGTON/WHEATON	1,641,234	256,033	15.6%	15.6%	0	(32,000)	(41,000)	\$28.53
SILVER SPRING	6,973,396	1,070,690	15.4%	15.8%	0	(28,000)	(80,000)	\$31.07
N. SILVER SPRING/RT. 29	3,661,988	366,931	10.0%	10.4%	0	5,000	34,000	\$27.25
MONTGOMERY COUNTY	66,655,055	11,264,963	16.9%	18.2%	42,000	(456,000)	(999,000)	\$32.35
BELTSVILLE/CALV./COLL. PARK	5,989,488	946,339	15.8%	16.9%	0	(17,000)	(72,000)	\$25.57
LAUREL	2,579,823	552,082	21.4%	21.6%	60,000	(8,000)	(28,000)	\$23.21
GREENBELT	3,016,041	891,240	29.6%	30.1%	0	(20,000)	(53,000)	\$23.52
LANHAM/LANDOVER/LARGO	5,659,867	1,703,620	30.1%	33.2%	0	(22,000)	21,000	\$24.74
BOWIE/MARLBORO/SOUTH P.G.	5,485,712	471,771	8.6%	8.8%	0	(25,000)	(58,000)	\$27.17
PRINCE GEORGE'S COUNTY	22,730,931	4,565,053	20.1%	21.3%	60,000	(92,000)	(190,000)	\$25.21
FREDERICK COUNTY	6,880,350	1,307,267	19.0%	20.0%	78,600	(344,000)	(348,000)	\$24.88
TOTAL	96,266,336	17,137,282	17.8%	19.1%	180,600	(892,000)	(1,537,000)	\$29.82

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 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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