



TRANSWESTERN

# SUBURBAN MARYLAND OFFICE MARKET

## Q2 2024



### TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.8	2.0	↑	4.9	↓
NET ABSORPTION (THOUSANDS SF)	72.0	(160.0)	↑	(27.8)	↔
DIRECT VACANCY RATE	17.8%	15.9%	↑	15.4%	↔
DIRECT VACANT SF (MSF)	17.2	15.2	↑	14.5	↔
UNDER CONSTRUCTION (MSF)	0.1	0.9	↓	2.0	↓
ASKING RENT, FULL SERVICE (PSF)	\$29.79	\$29.71	↑	\$29.33	↔
SALES VOLUME (MILLIONS)	\$78.1	\$25.5	↑	\$176.9	↔

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

## OFFICE CONDITIONS IMPROVE SLIGHTLY IN Q2

The office market improved during the second quarter of 2024, with 72,000 SF of positive net absorption. This was driven by multiple mid-sized new leases and fewer large-scale move-outs in the market during the past three months. The direct vacancy rate was unchanged during the quarter at 17.8%. Asking rents stabilized with limited movement, settling at \$29.79 PSF.

Elevated inflation and interest rates will fuel economic uncertainty for most of 2024. This will cause select tenants to limit inking new deals and most lease transactions will right size. Businesses are watching the Fed, as a rate cut could come if inflation lowers to their target rate of 2.0% later this year. The pipeline is at historic lows and will help even out supply/demand. We expect generous concessions levels to moderate as landlords who have the resources to perform shrink. This should spark tenants in the market to act sooner rather than later.

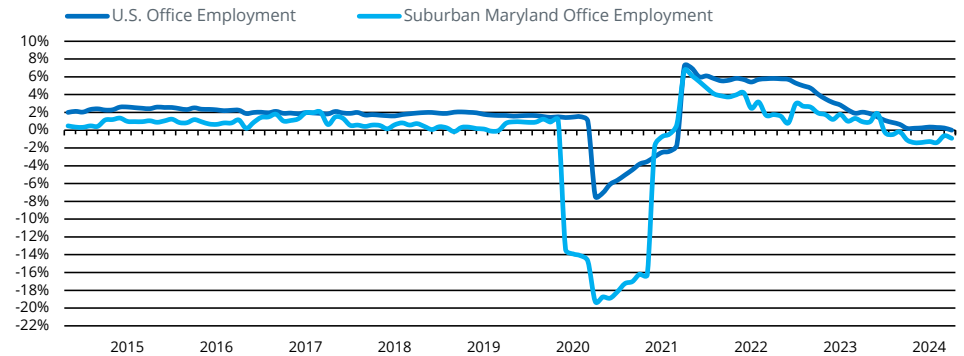


### ECONOMY

#### Office-using Jobs Struggle

- 700 jobs were lost in the Suburban Maryland economy during the 12-months ending April 2024, which is below the pre-pandemic 5-year average of 9,900. This was driven by Montgomery/Frederick Counties losing 800 employees. Countering this change was Calvert/Charles/Prince George's Counties adding 100 new jobs.
- Office-using jobs lost 3,100 positions during the 12-months ending April 2024. 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 lost 300 jobs over this period, most of which was concentrated in the federal government sector which lost 500 positions.
- The unemployment rate in Suburban Maryland is currently at 2.8% in April 2024 which is above the average of 2.3% over the past three months. The rate has improved significantly from the peak of 11.5% in May 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.

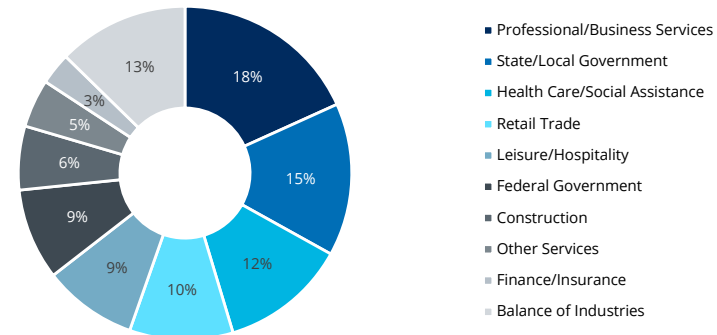
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

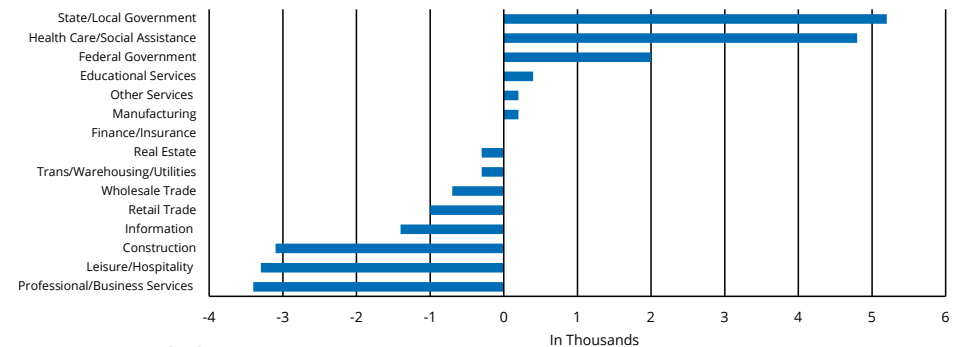
Suburban Maryland | April 2024



Source: Bureau of Labor Statistics, Transwestern

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

Suburban Maryland



Source: Bureau of Labor Statistics, Transwestern

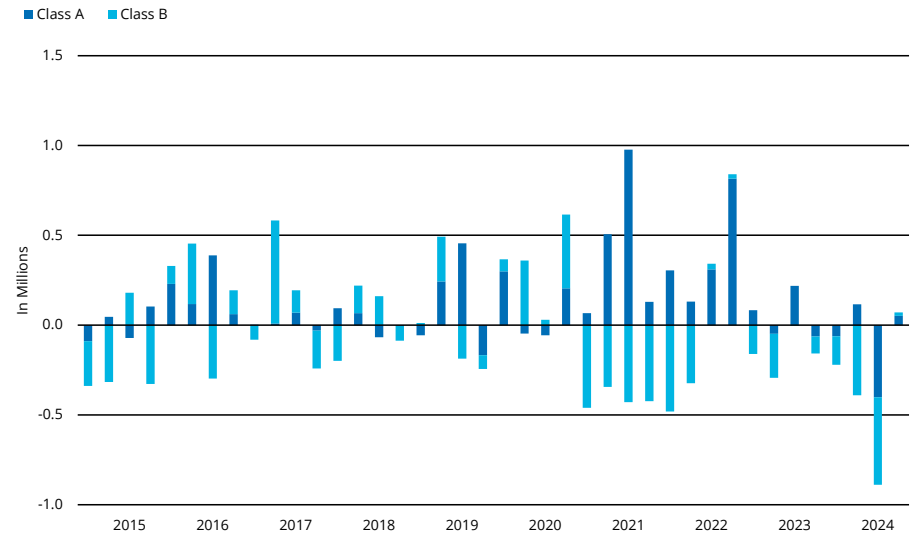


### NET ABSORPTION

#### Tenants Relocating Closer to the Core

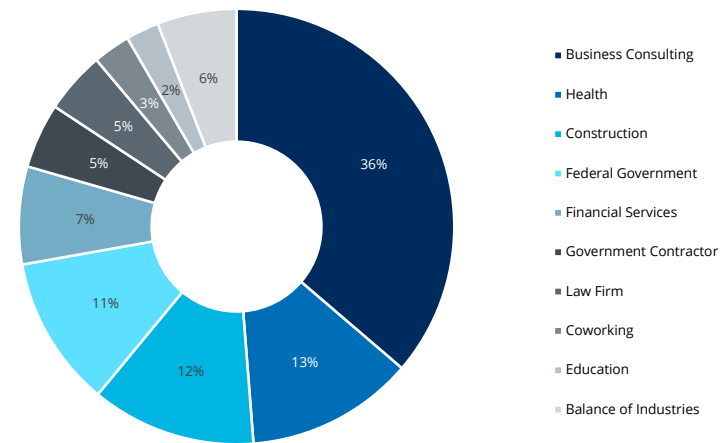
- Net absorption totaled positive 72,000 SF during the second quarter of 2024, after negative 892,000 SF during the first quarter of 2024. This compares to negative 160,000 SF of net absorption during the second quarter of last year. Year-over-year totaled negative 1.3 million SF, which is a 200,000 SF positive improvement from the first quarter of 2024.
- Class A net absorption totaled 51,000 SF, while Class B closed the quarter with 20,000 SF.
- One of the most notable deals this quarter was Westat signing a 182,000 SF lease at 7501 Wisconsin Avenue in the Bethesda/Chevy Chase submarket. The research company will relocate from their long-term headquarters in North Rockville. Another notable deal was BlueHalo signing a 57,000 SF lease at 20521 Seneca Meadows Parkway in Germantown.
- Offsetting these lease signings was Choice Hotels International giving back 186,000 SF at 1 Choice Hotels Circle, in Rockville and has since relocated to 915 Meeting Street in North Bethesda.
- 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.

### NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

### SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2024



Source: CoStar, Transwestern

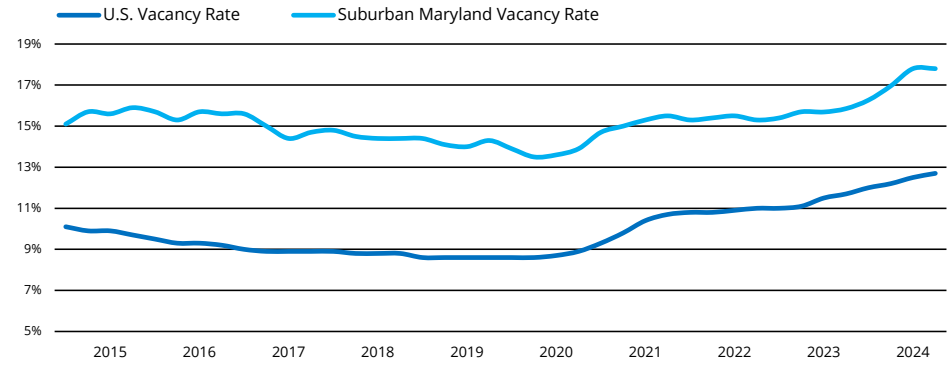


### VACANCY

#### Vacancy Rate Elevated at Q2

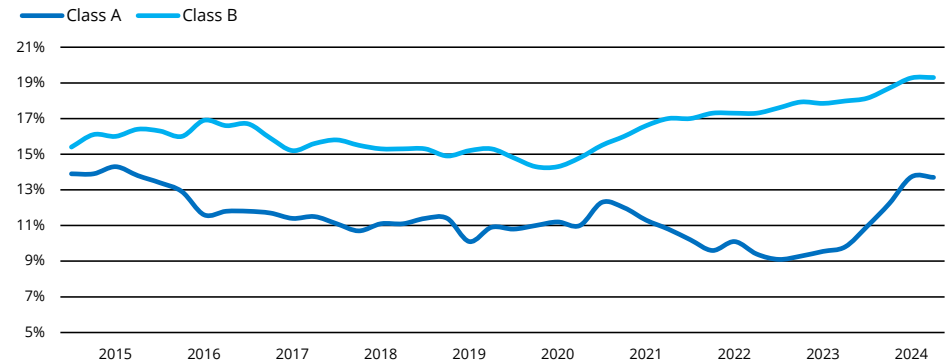
- The direct vacancy rate stalled during the second quarter, unchanged from the quarter prior at 17.8%. However, the rate is up 190-basis points from one year ago.
- The Class A vacancy rate stayed consistent at 13.7% during the second quarter, which is mirrored by Class B/C vacancy rate also remaining steady at 19.3%.
- The vacancy rate will be under pressure during 2024 as tenants continue to right size. The rate could somewhat be protected if more obsolete office buildings get demolished in preparation for conversion to another product type.

### DIRECT VACANCY RATE



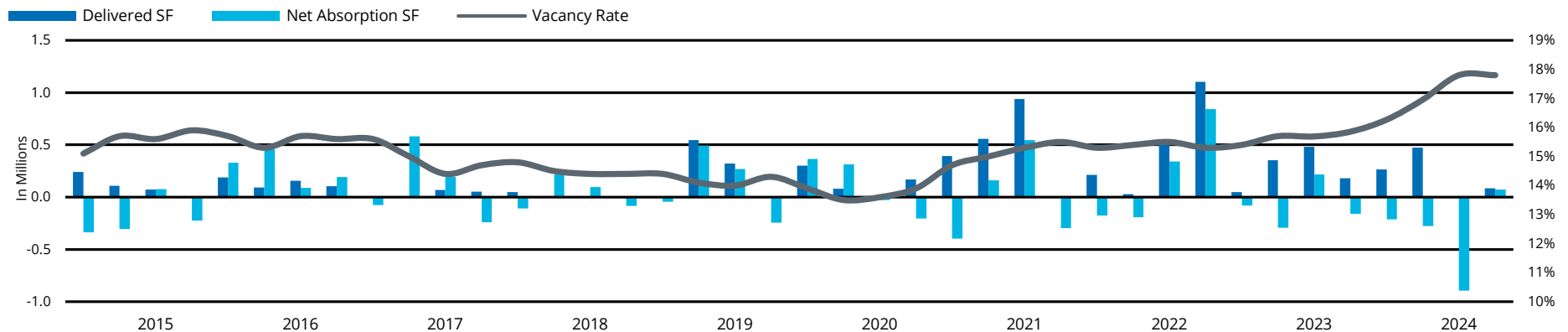
Source: CoStar, Transwestern

### DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

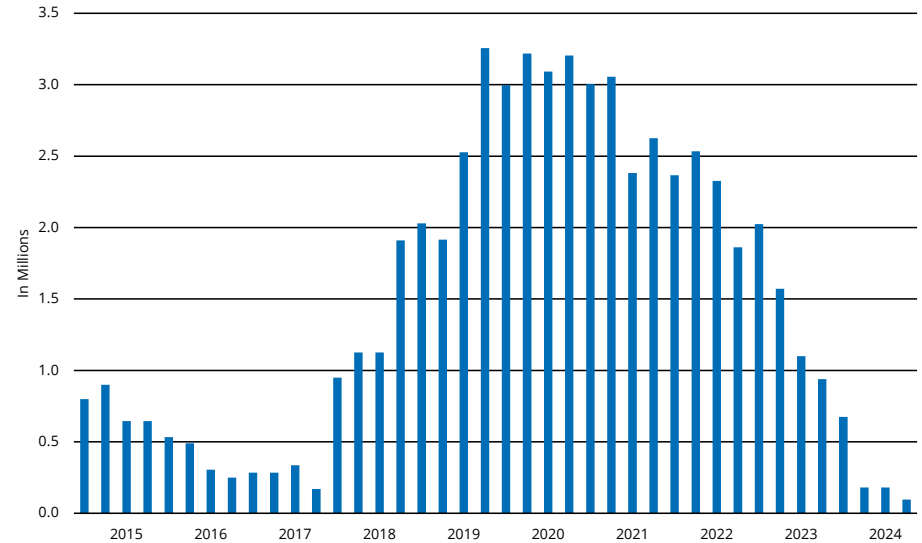


### UNDER CONSTRUCTION

#### Construction Activity Remains Limited in Q2 2024

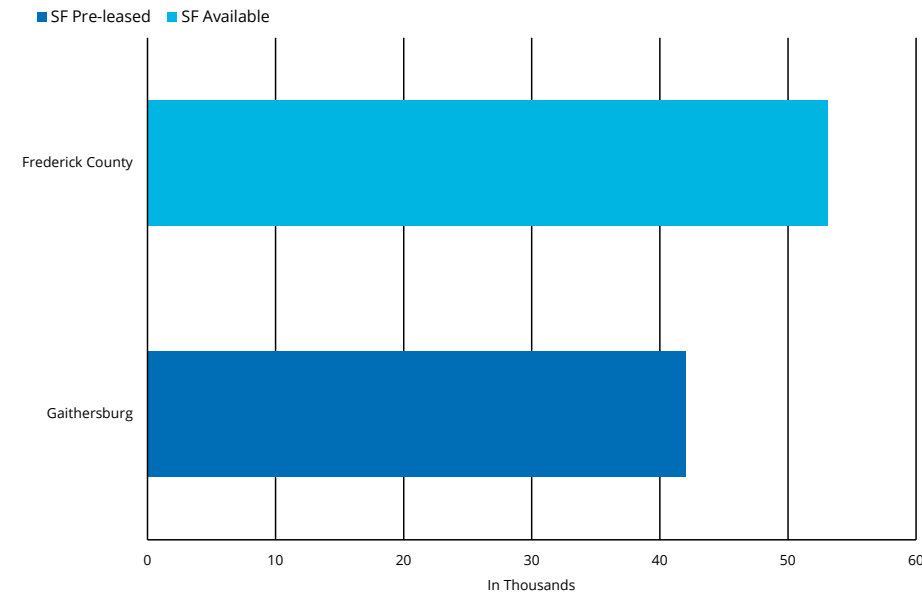
- There is 95,138 SF of office construction currently underway in Suburban Maryland, of which 44% is pre-leased. This is well below the 10-year average of 1.6 million SF. The entirety of the pipeline is slated to deliver this year.
- Frederick County has the most under construction due to the construction at 112 Thomas Johnson Drive. The 53,138 SF medical office building is expected to deliver in July 2024. In addition, Gaithersburg has a 42,000 SF renovation project set to deliver this year.
- We expect limited ground breakings in the near term, as developers analyze the current economic climate. Construction pricing and interest rates are elevated, which will pause select projects. If feasible, owners should look for conversion opportunities to an alternative property type.

### UNDER CONSTRUCTION



Source: CoStar, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

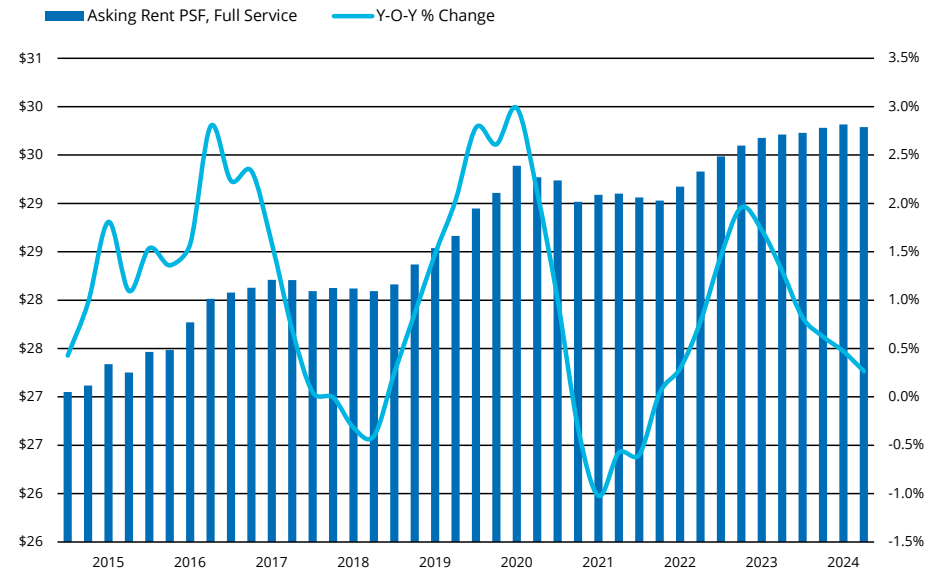


### RENTAL RATES

#### Rents Remain Steady in Q2 2024

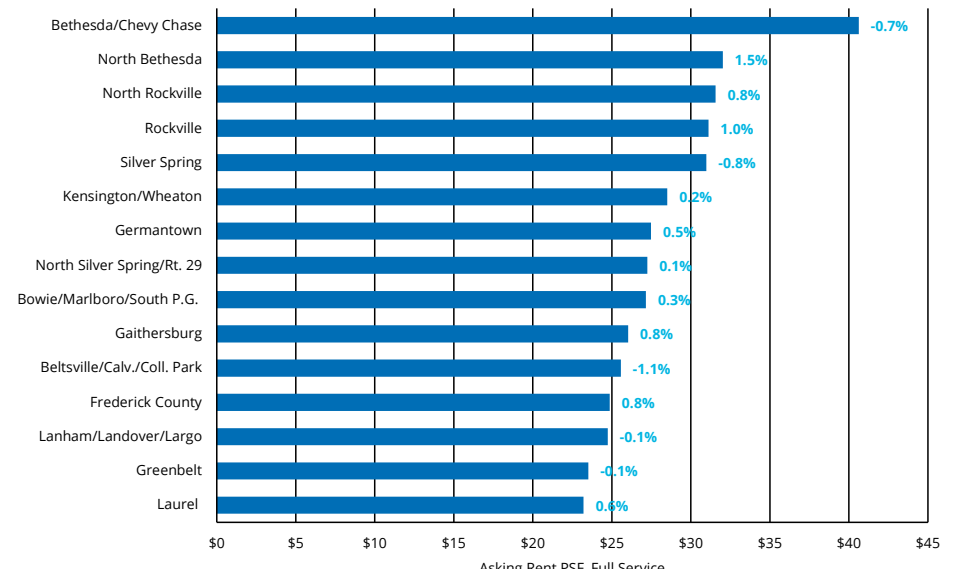
- Asking rents remained steady during the second quarter of 2024, landing at \$29.79 PSF. The rate increased 30 basis points year-over-year which has remained on an incline throughout 2023 and 2024.
- Class A asking rents dropped slightly to \$34.86 PSF, while Class B/C stayed steady at \$26.80 PSF for the quarter.
- Bethesda/Chevy Chase and Silver Spring experienced a 20 and 30 basis point decline, respectively, during the second quarter.
- Concession packages are elevated in Suburban Maryland, which will put downward pressure on effective rates. Tenant improvement allowances averaged \$113 PSF, and free rent averaged 11.0 months for a typical 10-year or longer term on a new lease during the first half of 2024. This compares to \$115 PSF and 11.8 months during 2023.
- We anticipate limited asking rent growth during 2024. Landlords facing financial headwinds in offering generous concessions could lower the asking rent to compete. However, most landlords will hold asking rents.

### ASKING RENT



Source: CoStar, Transwestern

### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

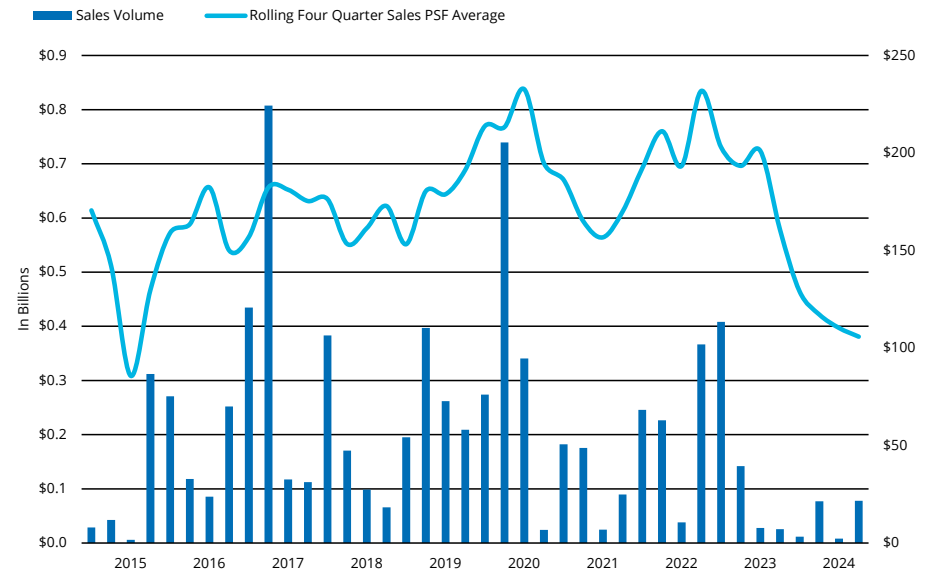


### SALES

#### Investment Transactions Rise at Mid-Year

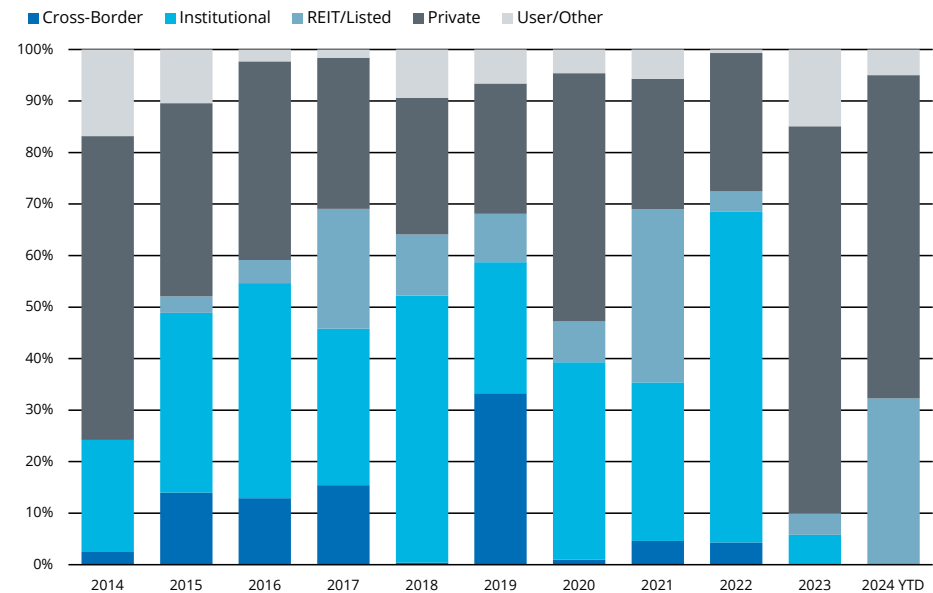
- Investment sales volume totaled \$78.1 million at \$104 PSF on 16 transactions during the second quarter of 2024. This compares to three transactions completed during the first quarter of 2024, totaling \$7.9 million at \$129 PSF.
- There were a handful of portfolio deals which boosted levels this quarter. One notable sale was 1801 Rockville Pike in Rockville. Singh Capital Partners and KPI Commercial purchased the asset for \$14.2 million or \$71 PSF from Pension Reserves Investment Management Board. The asset was 65% occupied at the time of sale. The new owners purchased the asset due to its location and have a \$7.5 million tenant improvement budget.
- Elevated interest rates, coupled with a soft office market, will limit investment volume in the near-term. 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
<b>WESTAT</b>	7501 Wisconsin Ave	Bethesda/Chevy Chase	New Lease	182,040
<b>ABT ASSOCIATES</b>	6130 Executive Blvd	North Bethesda	Renewal	107,675
<b>PRINCE GEORGE'S COUNTY DEPT OF SOCIAL SERVICES</b>	4235 28th Ave	Bowie/Marlboro/South PG	Renewal	73,132
<b>BLUEHALO</b>	20521 Seneca Meadows Pky	Germantown	New Lease	57,108
<b>SPORT SQUAD, INC.</b>	915 Meeting St	North Bethesda	New Lease	27,722
<b>ALEDADE</b>	4550 Montgomery Ave	Bethesda/Chevy Chase	Renewal/Expansion	19,480

= Transwestern deal  
 Source: CoStar, CompStak, Transwestern.

**NOTABLE SALES**

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
<b>4201 MITCHELLVILLE RD</b>	Bowie/Marlboro/South PG	Jun-24	\$6,150,000	48,970	\$126	Beatrice Loving Heart, Inc.	WesBanco
<b>2101 MEDICAL PARK DR</b>	Kensington/Wheaton	May-24	\$6,414,297	36,143	\$177	Blue Arch Capital	Promark Partners
<b>10301 GEORGIA AVE</b>	Kensington/Wheaton	May-24	\$5,876,669	33,700	\$174	Blue Arch Capital	Promark Partners
<b>2121 MEDICAL PARK DR</b>	Kensington/Wheaton	May-24	\$2,959,034	20,233	\$146	Blue Arch Capital	Promark Partners
<b>4601 PRESIDENTS DR</b>	Lanham/Landover/Largo	May-24	\$13,614,826	59,458	\$229	Harbert Management Corporation	BECO Management, Inc.

= Transwestern deal  
 Source: CoStar, CompStak, Transwestern.

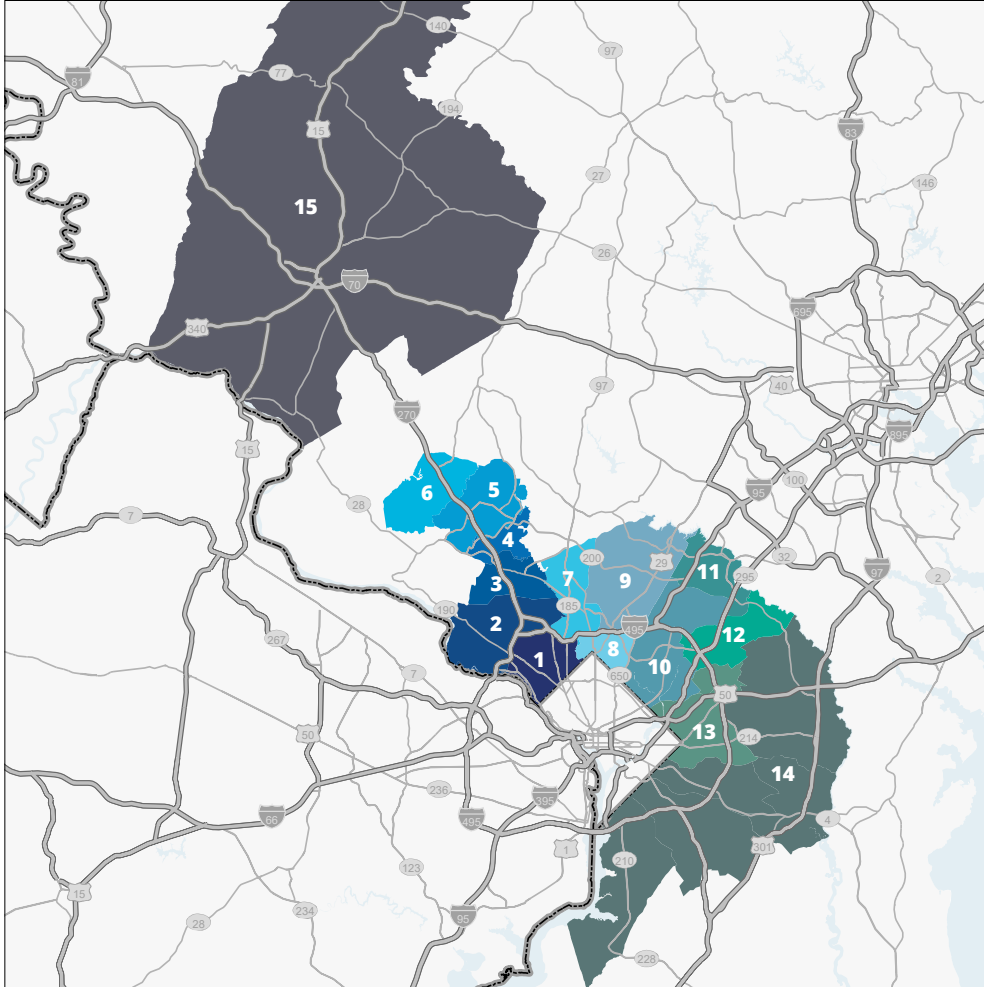


**MARKET INDICATORS**

All Classes of Space | Q2 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
4201 MITCHELLVILLE RD	Bowie/Marlboro/South PG	Jun-24	\$6,150,000	48,970	\$126	Beatrice Loving Heart, Inc.	WesBanco	\$40.70
2101 MEDICAL PARK DR	Kensington/Wheaton	May-24	\$6,414,297	36,143	\$177	Blue Arch Capital	Promark Partners	\$32.03
10301 GEORGIA AVE	Kensington/Wheaton	May-24	\$5,876,669	33,700	\$174	Blue Arch Capital	Promark Partners	\$31.13
2121 MEDICAL PARK DR	Kensington/Wheaton	May-24	\$2,959,034	20,233	\$146	Blue Arch Capital	Promark Partners	\$31.55
4601 PRESIDENTS DR	Lanham/Landover/Largo	May-24	\$13,614,826	59,458	\$229	Harbert Management Corporation	BECO Management, Inc.	\$26.04
<b>GERMANTOWN</b>	2,803,251	745,665	26.6%	28.4%	0	(36,000)	(95,000)	\$27.48
<b>KENSINGTON/WHEATON</b>	1,641,234	256,033	15.6%	15.6%	0	(32,000)	(41,000)	\$28.53
<b>SILVER SPRING</b>	6,973,396	1,070,690	15.4%	15.8%	0	(28,000)	(80,000)	\$31.07
<b>N. SILVER SPRING/RT. 29</b>	3,661,988	366,931	10.0%	10.4%	0	5,000	34,000	\$27.25
<b>MONTGOMERY COUNTY</b>	<b>66,655,055</b>	<b>11,232,282</b>	<b>16.9%</b>	<b>18.2%</b>	<b>42,000</b>	<b>33,000</b>	<b>(798,000)</b>	<b>\$32.32</b>
<b>BELTSVILLE/CALV./COLL. PARK</b>	5,989,488	940,350	15.7%	16.5%	0	6,000	(70,000)	\$25.57
<b>LAUREL</b>	2,639,823	562,282	21.3%	21.4%	0	50,000	31,000	\$23.21
<b>GREENBELT</b>	3,016,041	868,620	28.8%	29.3%	0	23,000	(27,000)	\$23.51
<b>LANHAM/LANDOVER/LARGO</b>	5,659,867	1,760,219	31.1%	34.2%	0	(57,000)	(55,000)	\$24.74
<b>BOWIE/MARLBORO/SOUTH P.G.</b>	5,485,712	482,922	8.8%	9.1%	0	(11,000)	(55,000)	\$27.15
<b>PRINCE GEORGE'S COUNTY</b>	<b>22,790,931</b>	<b>4,614,392</b>	<b>20.2%</b>	<b>21.4%</b>	<b>0</b>	<b>11,000</b>	<b>(176,000)</b>	<b>\$25.20</b>
<b>FREDERICK COUNTY</b>	<b>6,905,812</b>	<b>1,305,198</b>	<b>18.9%</b>	<b>19.8%</b>	<b>53,138</b>	<b>28,000</b>	<b>(335,000)</b>	<b>\$24.87</b>
<b>TOTAL</b>	<b>96,351,798</b>	<b>17,151,873</b>	<b>17.8%</b>	<b>19.1%</b>	<b>95,138</b>	<b>72,000</b>	<b>(1,309,000)</b>	<b>\$29.79</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 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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