TRANSWESTERN

SUBURBAN MARYLAND OFFICE MARKET

Q3 2024

TRENDLINES

	Q3 2024	Q3 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.4	1.8	↑	4.9	↓
NET ABSORPTION (THOUSANDS SF)	(187.0)	(213.0)	↑	(25.0)	↔
DIRECT VACANCY RATE	18.0%	16.3%	↑	15.5%	↔
DIRECT VACANT SF (MSF)	17.4	15.6	↑	14.7	↔
UNDER CONSTRUCTION (MSF)	0.4	0.7	↓	1.9	↓
ASKING RENT, FULL SERVICE (PSF)	$29.81	$29.73	↑	$29.39	↔
SALES VOLUME (MILLIONS)	$38.5	$11.7	↑	$168.8	↔

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

OFFICE CONDITIONS WEAKEN THROUGH Q3

The office market weakened during the third quarter of 2024, with 187,000 SF of negative net absorption. This was driven by moveouts outweighing lease signings during the past three months. The direct vacancy rate increased 20 basis points during the quarter, resting at 18.0%. Asking rents continued to experience limited movement, settling at $29.81 PSF.

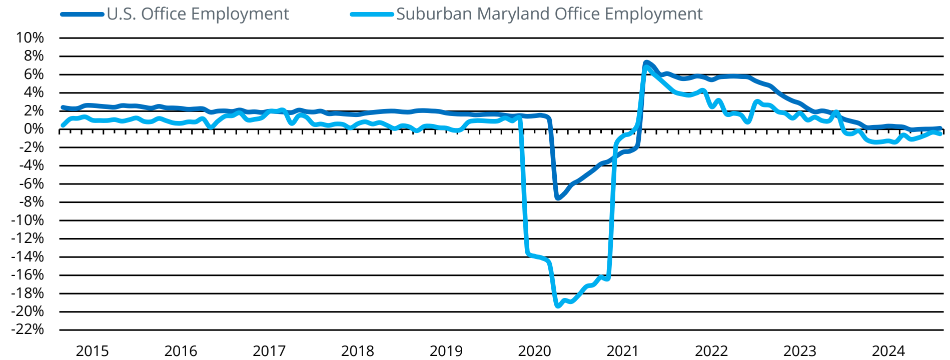
The employment market remains relatively stable, but in recent months hiring has been soft. The Fed cut rates by 50 basis points at the most recent meeting with intention to keep the economy humming. The pipeline is at historic lows and will help even out supply/demand in time. We expect generous concessions 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. However, rightsizing of space as leases roll will act as a drag to the market over the next several quarters.

ECONOMY

Office-using Jobs Struggle

- 600 jobs were eliminated in the Suburban Maryland economy during the 12-months ending August 2024, which is below the pre-pandemic 5-year average of 9,900. While the government sector added 5,300 positions, the professional/business and construction sectors cut 3,000 and 4,000 positions, respectively.
- Office-using jobs lost 1,700 positions during the 12-months ending August 2024. This was due to the professional/business services and information sectors cutting a total of 3,500 jobs. Countering this change was the financial services and federal government sectors adding 1,800 new jobs to the market.
- The unemployment rate in Suburban Maryland is currently at 3.5% in July 2024 which is above the average of 3.4% 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.

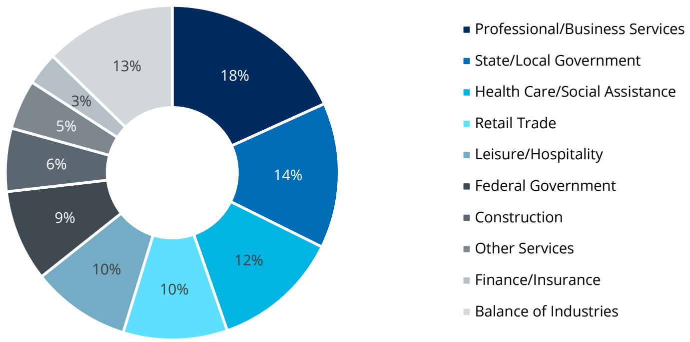
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

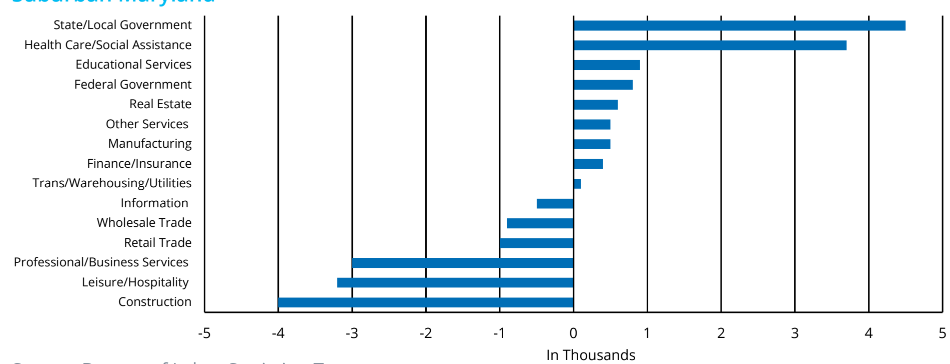
Suburban Maryland | August 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Suburban Maryland



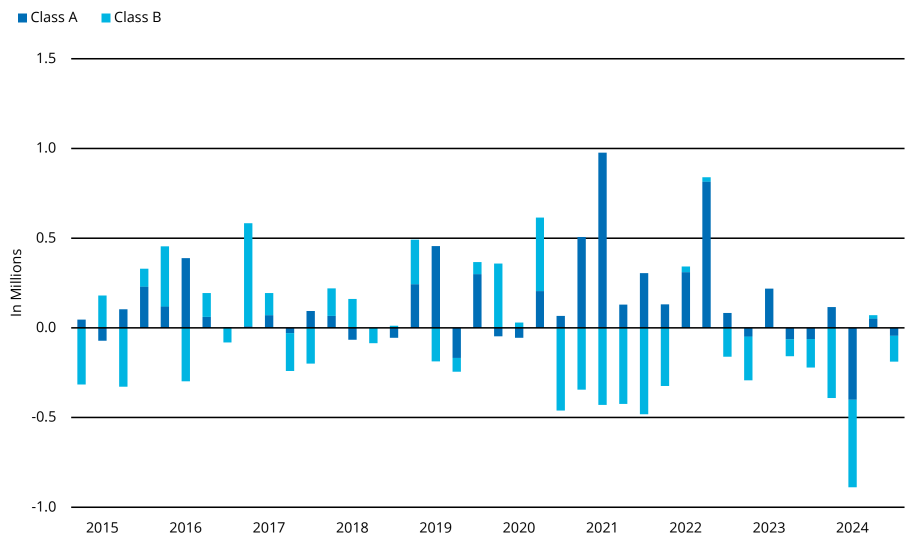
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

Office Market Declines in Q3

- Net absorption totaled negative 187,000 SF during the third quarter of 2024, after positive 72,000 SF during the second quarter of 2024. This compares to negative 213,000 SF of net absorption during the third quarter of last year. Year-over-year totaled negative 1.3 million SF.
- Class A net absorption totaled negative 45,000 SF, while Class B closed the quarter with negative 143,000 SF.
- One of the most notable deals this quarter was Enviva signing for 22,000 SF at 7500 Old Georgetown Road in Bethesda/Chevy Chase. Another notable deal was Arthritis and Rheumatism signing a 20,000 SF lease at 7361 Calhoun Place in the North Rockville submarket.
- Offsetting these lease signings was Conduent giving back 48,000 SF at 12410 Milestone Center Drive in Germantown. Another notable move out was Regis shedding 18,000 SF at 2 Bethesda Metro Circle in the Bethesda/Chevy Chase submarket.
- We anticipate demand will continue to face challenges during the balance of 2024, as select tenants delay leasing decisions or renegotiate their current footprint.

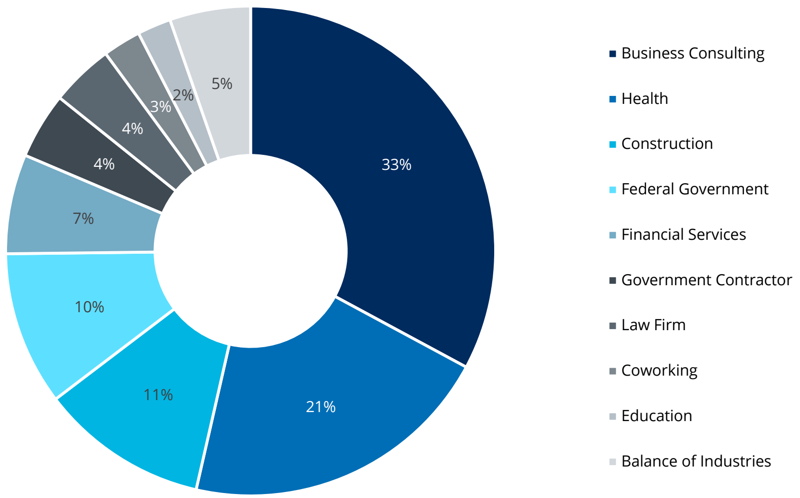
NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY

YTD 2024



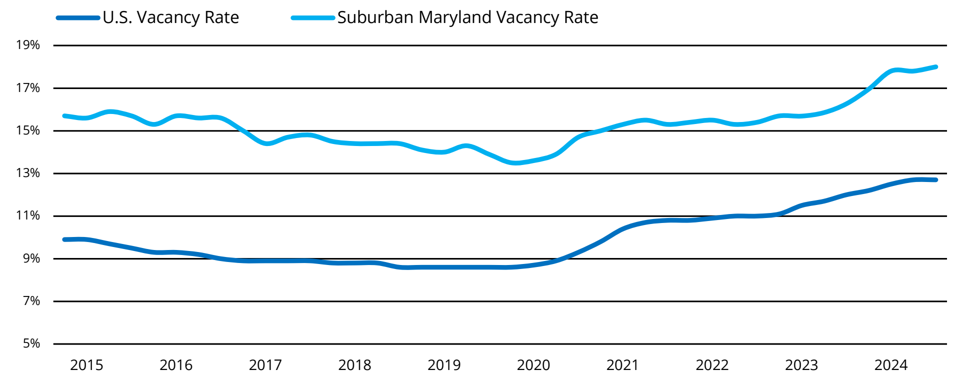
Source: CoStar, Transwestern

VACANCY

Vacancy Rate Increases at Q3

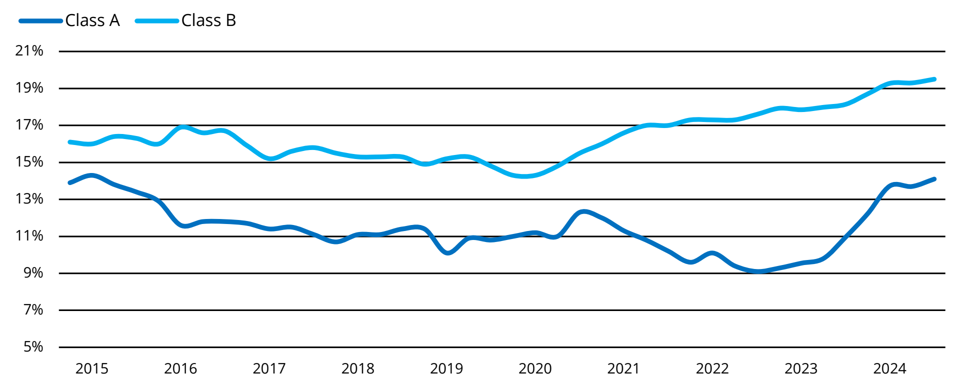
- The direct vacancy rate increased slightly during the third quarter to 18.0%, a 20-basis point increase from the previous quarter. The rate is up 170-basis points from 16.3% one year ago.
- The Class A vacancy rate jumped 40 basis points to 14.1% during the third quarter, which is mirrored by Class B/C vacancy rate climbing 20 basis points to 19.5% for the quarter.
- 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



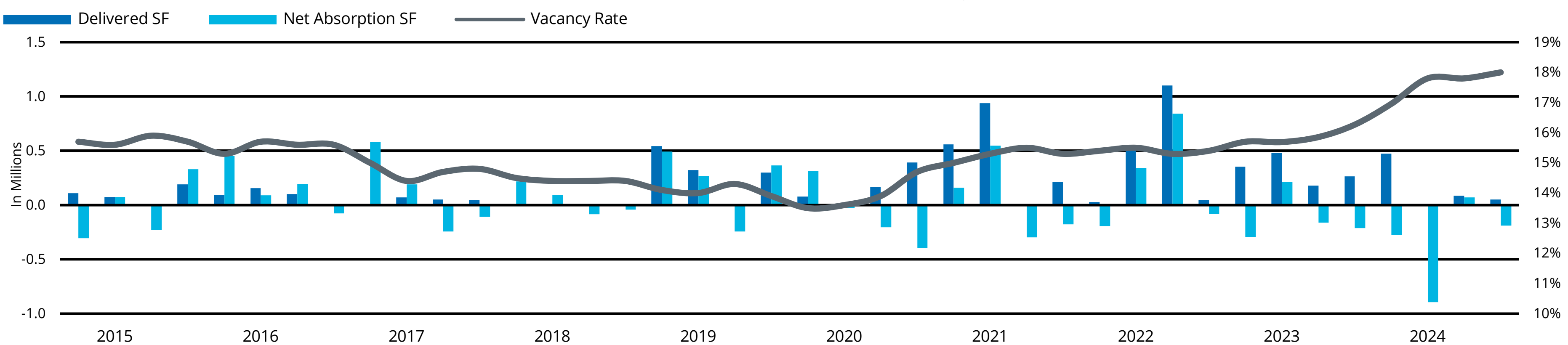
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



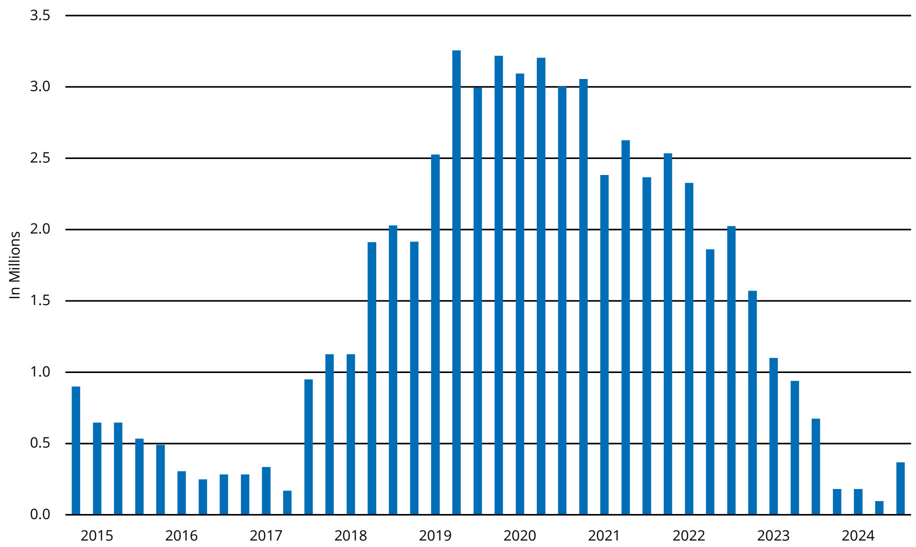
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Construction Activity Limited in Q3 2024

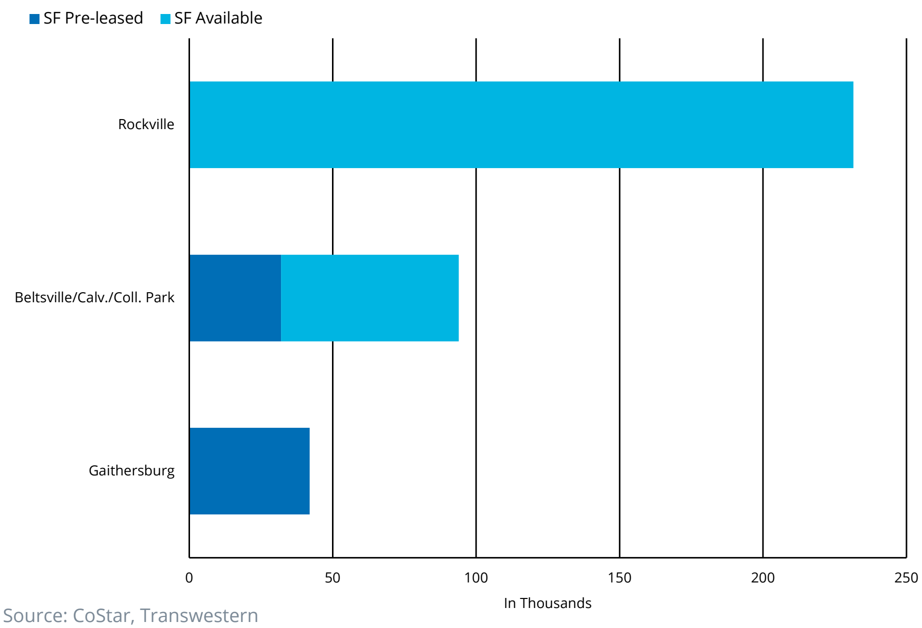
- There is 325,000 SF of office construction currently underway in Suburban Maryland, of which 10% is pre-leased. This is well below the 10-year average of 1.6 million SF.
- The Rockville submarket has the most under construction due to the project at 1600 Rockville Pike. The 231,500 SF office building is expected to deliver in January 2026. In addition, Beltsville/Calverton has a 94,000 SF renovation project set to deliver at the end of the year.
- We expect limited ground breakings in the near term, as developers analyze the current economic climate and overall office demand which is muted. 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



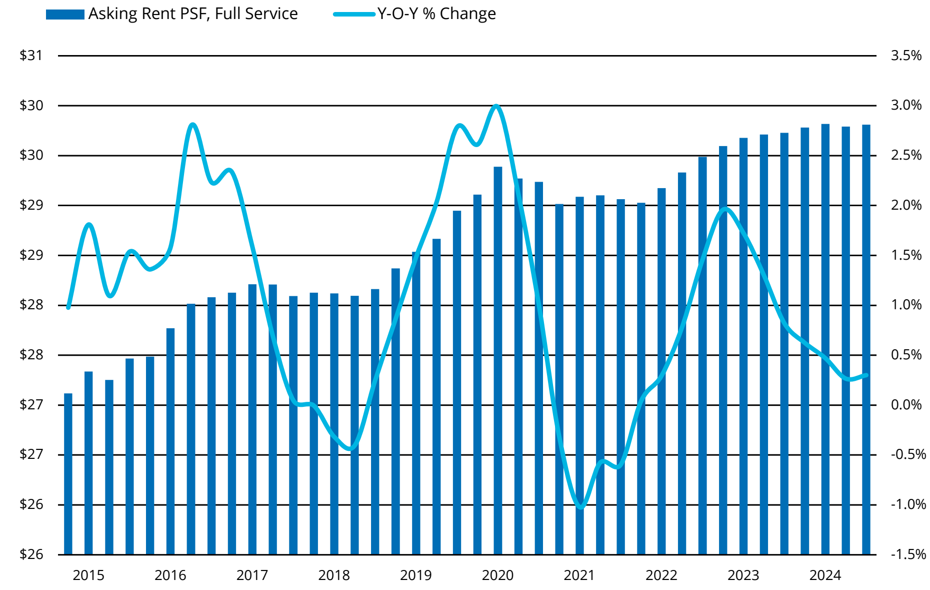
Source: CoStar, Transwestern

RENTAL RATES

Rents Remain Steady in Q3 2024

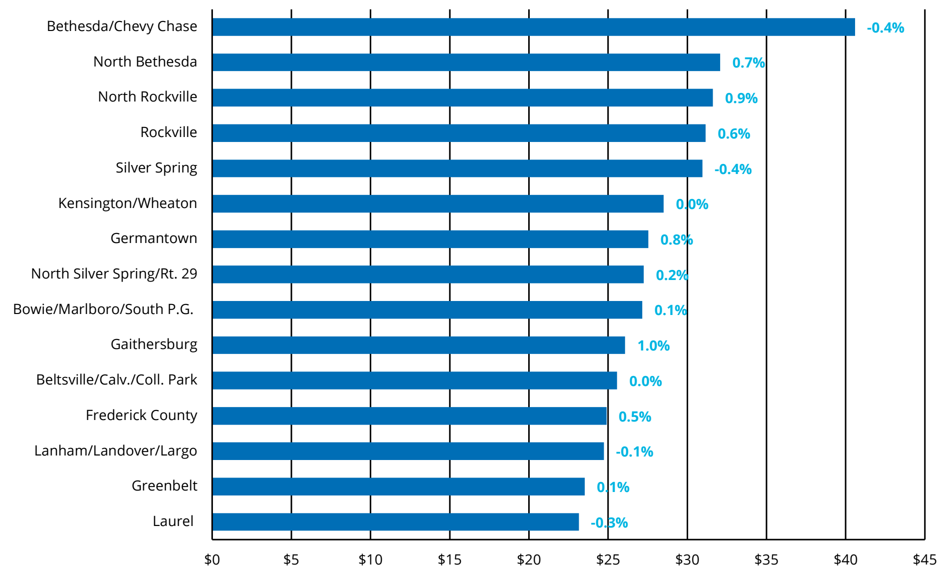
- Asking rents remained relatively flat during the third quarter of 2024, averaging $29.81 PSF. The rate increased 30 basis points year-over-year which has remained on an incline throughout 2023 and 2024. Owners have held firm on asking rents in exchange for generous concession packages.
- Class A asking rents dropped slightly to $34.82 PSF, while Class B/C increased 20 basis points to $26.86 PSF for the quarter.
- Concession packages are elevated in Suburban Maryland, which will put downward pressure on effective rates. Tenant improvement allowances averaged $114 PSF, and free rent averaged 10.0 months for a typical 10-year or longer term on a new lease during the first nine months of 2024. This compares to $115 PSF and 11.8 months during 2023.
- We anticipate limited asking rent growth during the balance of 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



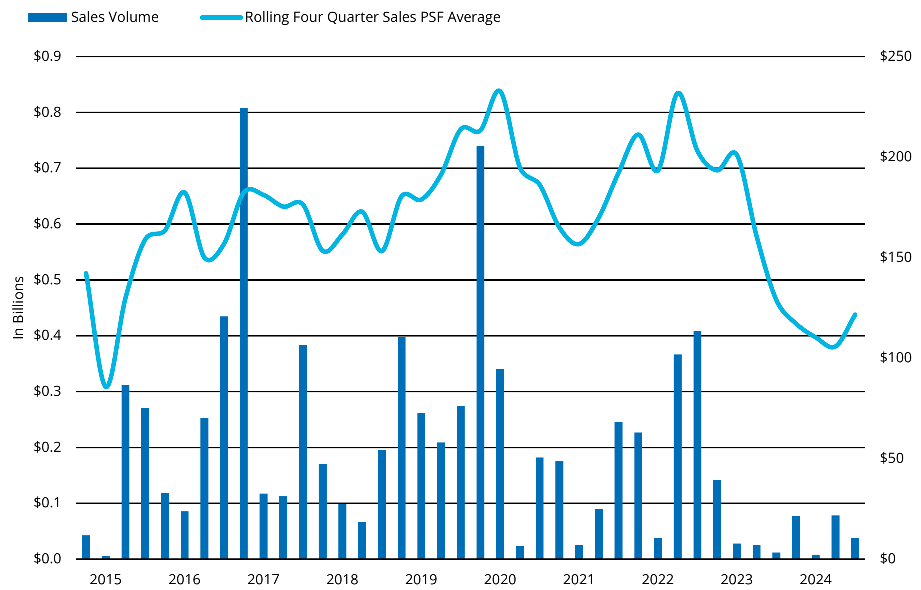
Source: CoStar, Transwestern

SALES

Investment Transactions Drop during Q3

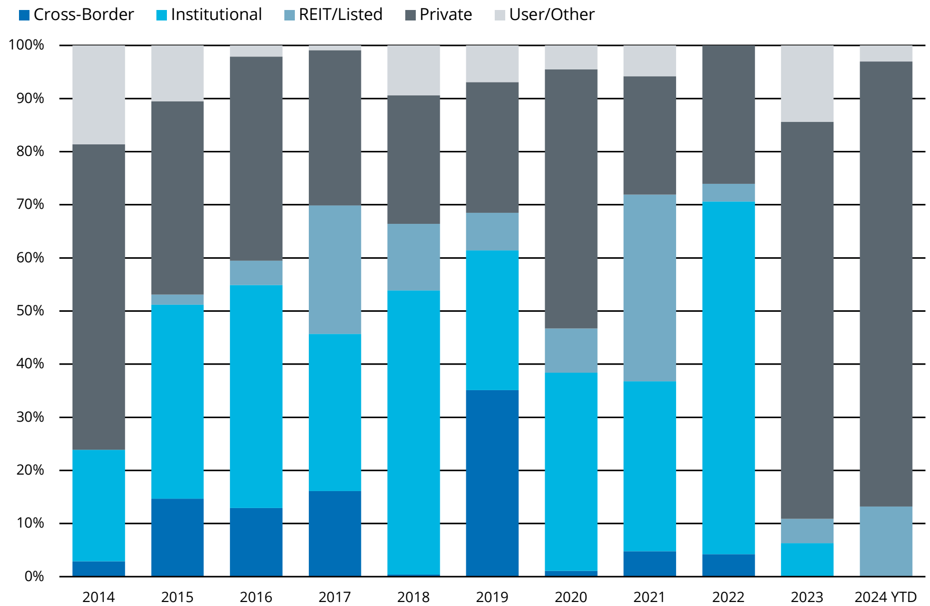
- Investment sales volume totaled $38.5 million at $116 PSF on three transactions during the third quarter of 2024. This compares to 22 transactions, boosted by a portfolio deal, completed during the second quarter of 2024, totaling $123 million at $90 PSF.
- One notable sale was 2115 E Jefferson Street in North Bethesda/ Potomac. Kennedy Lewis Investment purchased the asset for $21.8 million or $149 PSF from Stanford Properties. Another notable sale was Leadfoot Group purchasing 20500 Seneca Meadows Parkway from Johns Hopkins Health System for $8.5 million or $132 PSF.
- Elevated interest rates, coupled with a soft office market, will limit investment volume in the near-term. The recent lowering of rates by the Fed could spark some activity, but it will likely remain low given the state of the office market. 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
NATIONAL INSTITUTE OF HEALTH	6555 Rock Spring Dr	North Bethesda	Renewal	123,750
CISCO SYSTEMS	77 Upper Rock Cir	North Rockville	New Lease	22,363
ENVIVA	7500 Old Georgetown Rd	Bethesda/Chevy Chase	New Lease	21,683
ARTHRITIS & RHEUMATISM ASSOCIATES, P.C.	7361 Calhoun Pl	North Rockville	New Lease	19,909
REGUS	9711 Washingtonian Blvd	North Rockville	Renewal	17,013
GDIT	9801 Washingtonian Blvd	North Rockville	New Lease	15,959

= Transwestern deal
Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
20500 SENECA MEADOWS PKY	Germantown	Aug-24	$8,500,000	64,320	$132	Leadfoot Group	Johns Hopkins Health System
6 MONTGOMERY VILLAGE AVE	Gaithersburg	Aug-24	$8,200,000	120,247	$68	Premier Management Services, LC	Madison Marquette Real Estate Services
2115 E JEFFERSON ST	North Bethesda/ Potomac	Jul-24	$21,760,000	146,286	$149	Kennedy Lewis Investment	Stanford Properties
2221 BROADBIRCH DR	North Silver Spring/ Rt 29	Jun-24	$17,128,862	55,193	$310	Boyd Watterson Asset Management	DSC Partners LLC
12409 MILESTONE CENTER DR	Germantown	Jun-24	$12,100,000	162,285	$75	MRP Realty | Rockwood Capital	Walton Street Capital, LLC | Matan, Inc.

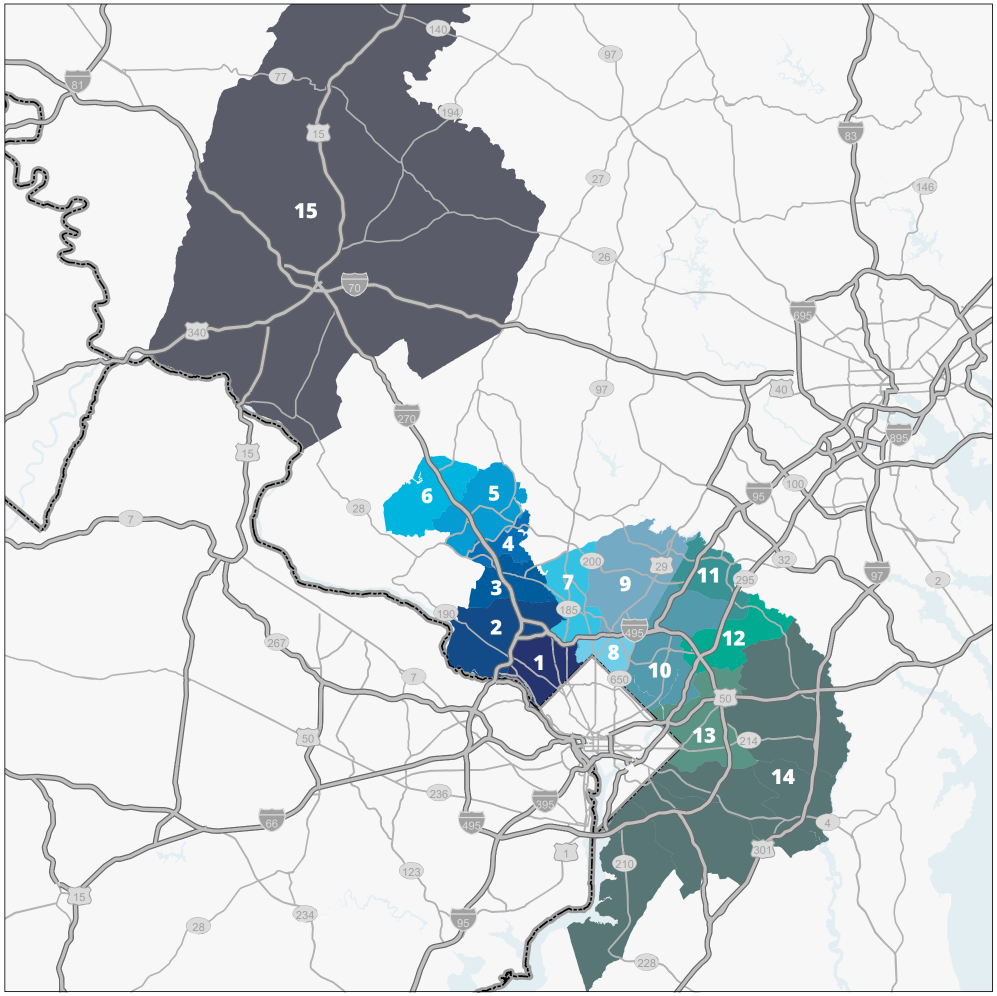
= Transwestern deal
Source: CoStar, CompStak, Transwestern.

MARKET INDICATORS

All Classes of Space | Q3 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	2,286,347	17.4%	18.2%	0	(34,000)	58,000	$40.59
NORTH BETHESDA	11,173,353	2,022,377	18.1%	18.5%	0	(45,000)	155,000	$32.08
ROCKVILLE	8,436,869	1,940,480	23.0%	24.7%	231,500	(8,000)	(346,000)	$31.15
NORTH ROCKVILLE	12,720,546	1,908,082	15.0%	16.6%	0	25,000	(299,000)	$31.62
GAITHERSBURG	6,074,217	680,920	11.2%	15.1%	42,000	(1,000)	(86,000)	$26.07
GERMANTOWN	2,803,251	784,910	28.0%	29.6%	0	(62,000)	(57,000)	$27.54
KENSINGTON/WHEATON	1,641,234	265,880	16.2%	16.2%	0	(11,000)	(42,000)	$28.51
SILVER SPRING	6,973,396	1,080,876	15.5%	15.8%	0	14,000	(68,000)	$30.96
N. SILVER SPRING/RT. 29	3,661,988	402,819	11.0%	11.6%	0	(19,000)	(18,000)	$27.25
MONTGOMERY COUNTY	**66,655,055**	**11,372,691**	**17.1%**	**18.3%**	**273,500**	**(141,000)**	**(703,000)**	**$32.35**
BELTSVILLE/CALV./COLL. PARK	5,989,488	924,777	15.4%	16.2%	0	16,000	(45,000)	$25.57
LAUREL	2,639,823	561,532	21.5%	21.6%	0	(27,000)	23,000	$23.15
GREENBELT	3,016,041	874,652	29.0%	29.3%	0	(6,000)	(39,000)	$23.52
LANHAM/LANDOVER/LARGO	5,659,867	1,765,879	31.2%	32.1%	0	(6,000)	(83,000)	$24.74
BOWIE/MARLBORO/SOUTH P.G.	5,485,712	477,257	8.7%	9.0%	0	6,000	(38,000)	$27.16
PRINCE GEORGE'S COUNTY	**22,762,885**	**4,604,096**	**20.2%**	**20.8%**	**0**	**(17,000)**	**(182,000)**	**$25.20**
FREDERICK COUNTY	**6,958,950**	**1,387,159**	**19.9%**	**21.4%**	**0**	**(29,000)**	**(398,000)**	**$24.90**
TOTAL	**96,376,890**	**17,363,946**	**18.0%**	**19.1%**	**273,500**	**(187,000)**	**(1,283,000)**	**$29.81**

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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ABOUT TRANSWESTERN

Four dynamic, integrated companies make up the Transwestern enterprise, giving us the perspective to think broadly, deeply and creatively about commercial real estate. Clients and investors rely on us for expertise that spans institutional and opportunistic investment, development, hospitality, and brokerage and asset services. Our award-winning, collaborative culture empowers team members with resources and independence to work across boundaries in pursuit of innovative solutions, reinforcing a reputation for service excellence that translates to measurable results. Through offices nationwide and alliance partners around the globe, we positively impact the built environment and our communities while fostering a work climate that champions career vitality for all. Learn more at transwestern.com and @Transwestern.