

SUBURBAN MARYLAND OFFICE MARKET

Q4 2024

TRENDLINES

	Q4 2024	Q4 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.2	2.0	↑	4.9	↓
NET ABSORPTION (THOUSANDS SF)	(546.0)	(275.0)	↓	(68.5)	↔
DIRECT VACANCY RATE	18.5%	17.0%	↑	15.8%	↔
DIRECT VACANT SF (MSF)	17.8	16.3	↑	15.0	↔
UNDER CONSTRUCTION (MSF)	0.2	0.2	↔	1.8	↓
ASKING RENT, FULL SERVICE (PSF)	\$29.84	\$29.78	↑	\$29.43	↔
SALES VOLUME (MILLIONS)	\$2.9	\$76.9	↓	\$155.9	↔

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

OFFICE CONDITIONS WEAKEN THROUGH Q4

The office market weakened during the fourth quarter of 2024, with negative 546,000 SF of net absorption. This was driven by large moveouts outweighing lease signings during the past three months. The direct vacancy rate increased 50-basis points during the quarter, resting at 18.5%. Asking rents continued to experience limited movement, settling at \$29.84 PSF, a 10-basis point increase from the quarter prior.

The Fed cut rates by another quarter point in December 2024 to keep the cooling economy stable. Two additional cuts are expected in 2025. Although hybrid is likely here to stay, private sector return to office mandates should move the average days in office slightly higher in 2025. The 2024 election produced an aligned government, which could encourage stricter policy to get the federal workforce back in the office over the next year. The office market remains in tenant favor for now, however, landlords with limited resources could struggle to lure tenants.

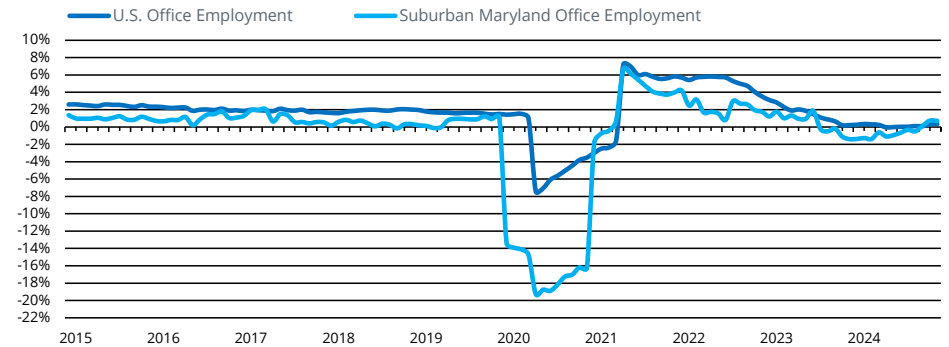


ECONOMY

Office-using Jobs Improve in Q4

- 7,400 jobs were added to the Suburban Maryland economy during the 12-months ending November 2024, which is below the pre-pandemic 5-year average of 9,900. While the education/health sector added 7,000 positions, the leisure/hospitality and construction sectors cut 2,000 and 3,600 positions, respectively.
- Office-using jobs gained 2,400 positions during the 12-months ending November 2024. This was due to the professional/business services and financial services sectors adding a total of 2,600 jobs. Countering this change was the information sector cutting 700 jobs from the Suburban Maryland market.
- The unemployment rate in Suburban Maryland is currently at 3.5% in November 2024, which is on track with the average of 3.3% 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 2,000 new jobs per year on average. We expect most of the growth to occur within the civic/social organizations, physician offices, and tech sectors.

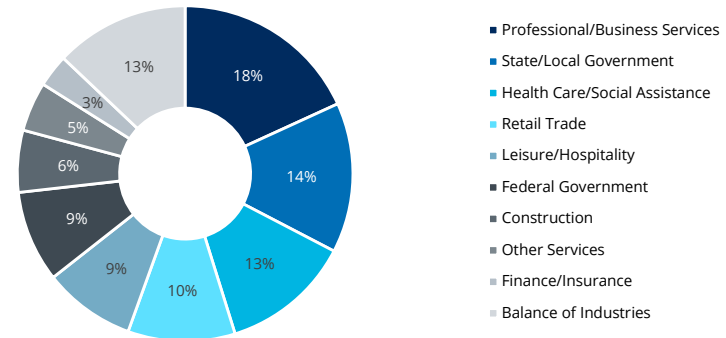
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

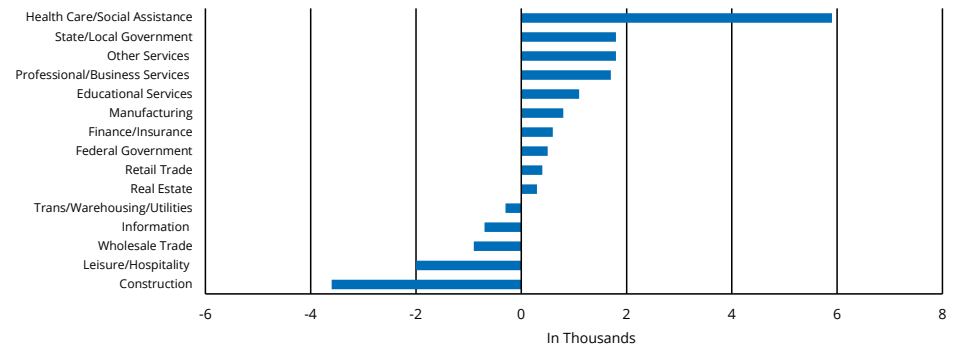
Suburban Maryland | November 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Suburban Maryland



Source: Bureau of Labor Statistics, Transwestern

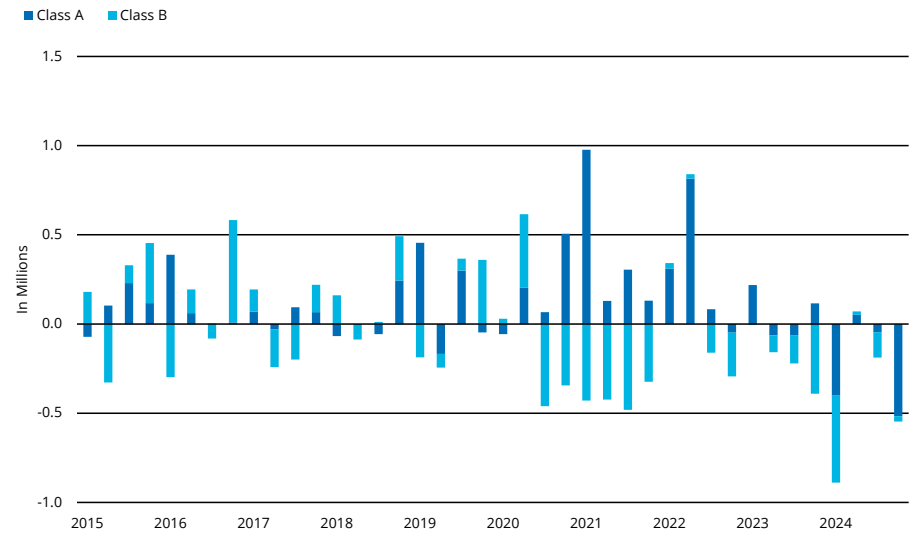


NET ABSORPTION

Office Market Conditions Weaken in Q4

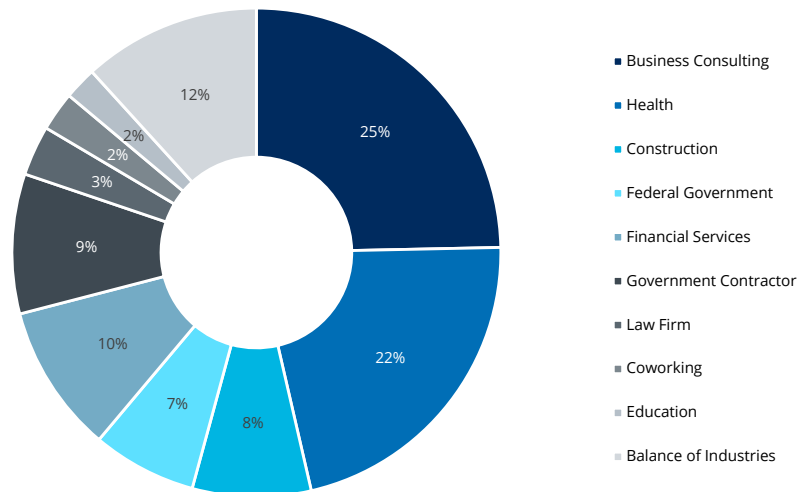
- Net absorption totaled negative 546,000 SF during the fourth quarter of 2024, after negative 187,000 SF during the third quarter of 2024. This compares to negative 275,000 SF of net absorption during the fourth quarter of last year. Year-over-year totaled negative 1.6 million SF.
- Class A net absorption totaled negative 516,000 SF, while Class B closed the quarter with negative 31,000 SF.
- One of the most notable deals this quarter was Eagle Bancorp, Inc. signing for 66,000 SF at 7500 Old Georgetown Road in Bethesda/ Chevy Chase. The bank will relocate its headquarters late 2025 by consolidating from office space in Rockville and Bethesda. Another notable deal was ARA signing a 20,000 SF lease at 12255 Prosperity Drive in the North Silver Spring submarket.
- Offsetting these lease signings was 2U, Inc. vacating 338,100 SF of Class A space at 7900 Harkins Road. The tech firm moved its headquarters from Lanham to 2345 Crystal Drive in Crystal City. Additionally, the Department of Energy gave back 97,000 SF at 20300 Century Boulevard in Germantown. Another large move out was the American Nurses Association vacating 83,000 SF at 8501-8517 Georgia Avenue in the Silver Spring submarket.
- We anticipate demand will continue to face challenges during 2025, 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

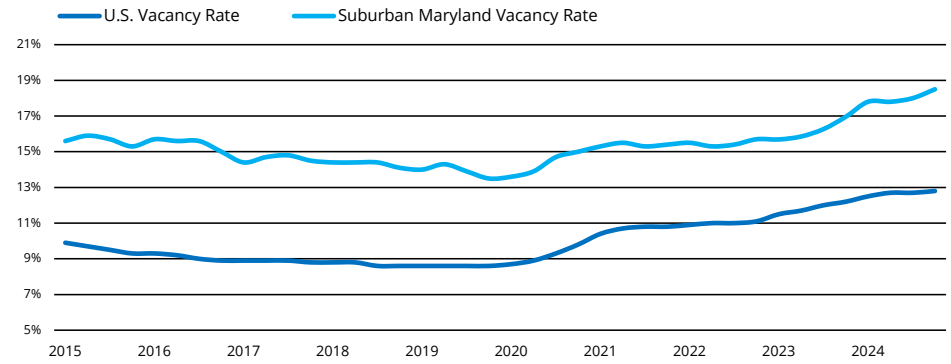


VACANCY

Vacancy Rate Climbs at Q4

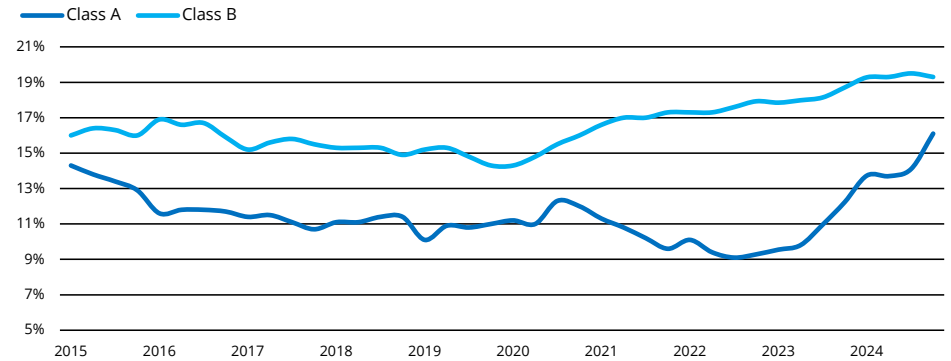
- The direct vacancy rate increased slightly during the fourth quarter to 18.5%, a 50-basis point increase from the previous quarter. The rate is up 150-basis points from 17.0% one year ago.
- The Class A vacancy rate jumped 200-basis points to 16.1% during the fourth quarter, while the Class B/C vacancy rate decreased 20-basis points to 19.3% at December 2024.
- The vacancy rate will be under pressure during 2025 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



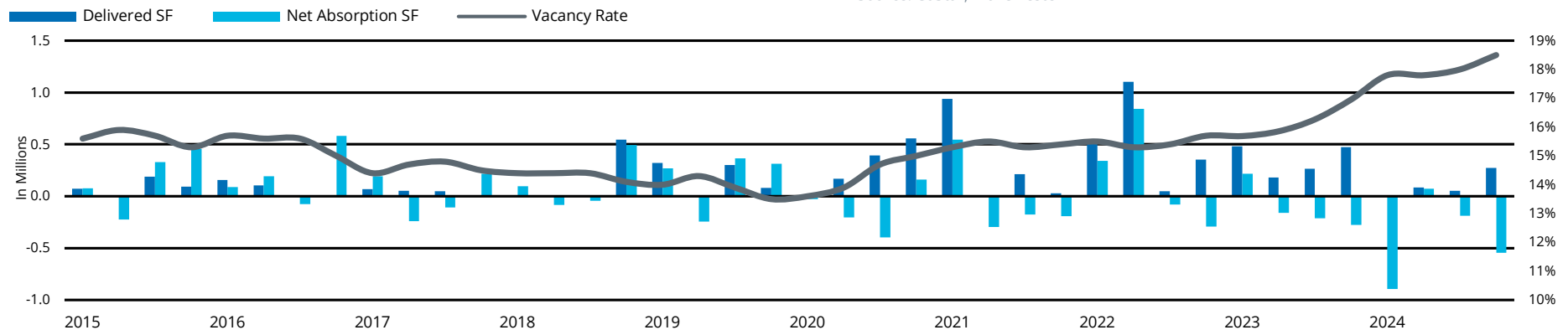
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

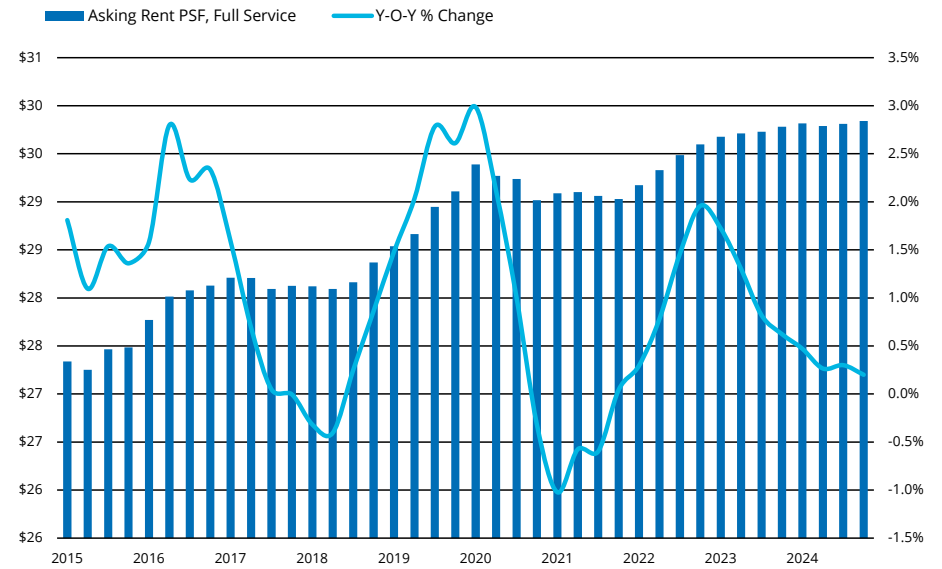


RENTAL RATES

Rents Remain Steady in Q4 2024

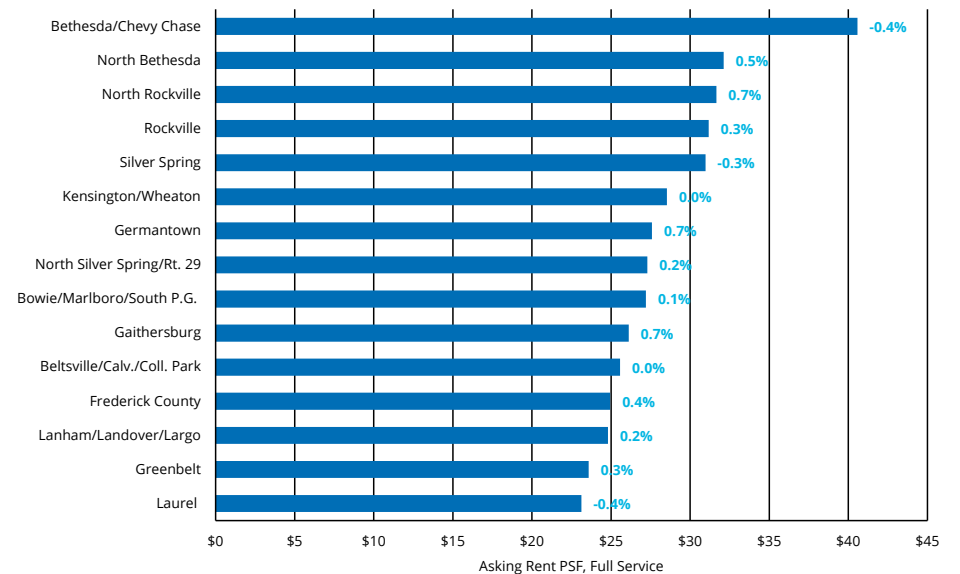
- Asking rents increased slightly during the fourth quarter of 2024, averaging \$29.84 PSF. The rate increased 20-basis points year-over-year which has remained on a slight incline throughout 2023 and 2024. Owners have held firm on asking rents in exchange for generous concession packages.
- Class A asking rents remained relatively flat, resting at \$34.80 PSF, while Class B/C increased to \$26.91 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 13.9 months for a typical 10-year or longer term on a new lease during 2024. This compares to \$115 PSF and 11.8 months during 2023.
- We anticipate limited asking rent growth during 2025. 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

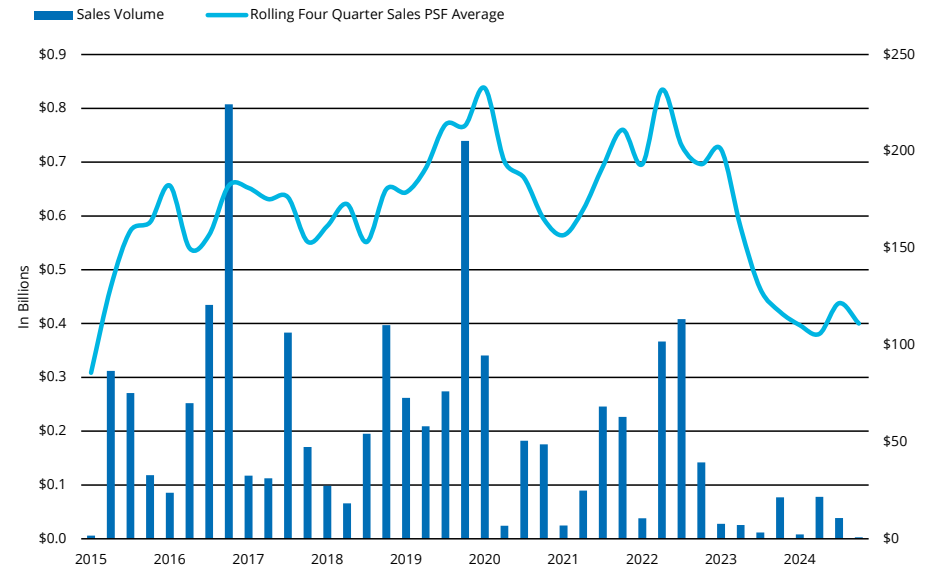


SALES

Investment Transactions Quiet during Q4

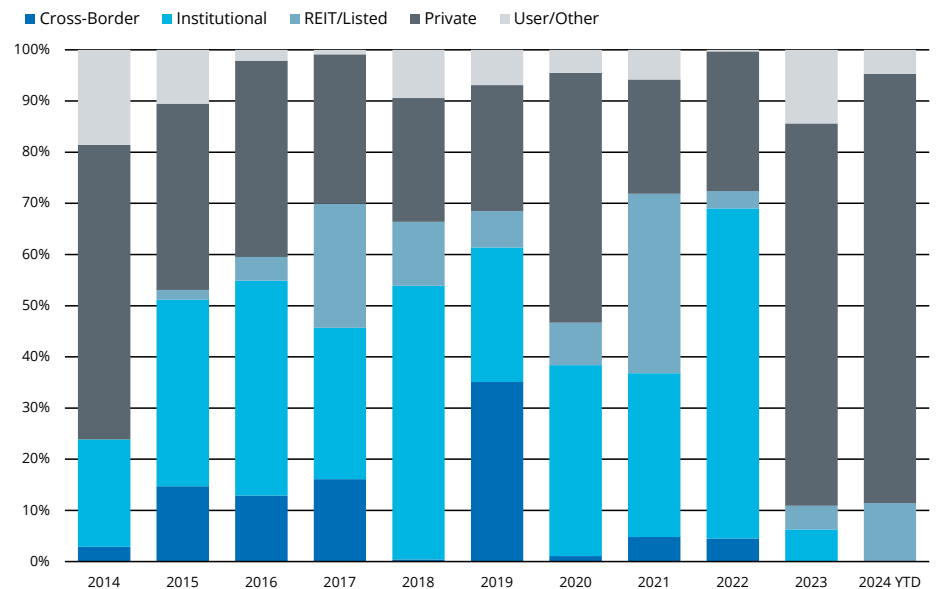
- Investment sales volume totaled \$2.9 million at \$96 PSF on one transaction during the fourth quarter of 2024. This compares to five transactions completed during the third quarter of 2024, totaling \$58.8 million at \$116 PSF.
- The only sale of the quarter was 914 Silver Spring Avenue in Silver Spring. Yonas H Bereka purchased the asset for \$2.9 million or \$96 PSF from Arline B Hillerson. The asset was 100% leased at the time of sale and sold at a 9% cap rate.
- 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 set to occur throughout 2025, 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
BAE SYSTEMS	520 Gaither Rd	North Rockville	Renewal	139,120
GOVERNMENT OF MONTGOMERY COUNTY, MD	1401 Rockville Pike	Rockville	Renewal	103,734
EAGLE BANCORP, INC	7500 Old Georgetown Rd	Bethesda/Chevy Chase	New Lease	65,997
AECOM	5700 Rivertech Ct	College Park	Sublease	34,421
INSTITUTIONAL SHAREHOLDER SERVICES, INC	702 King Farm Blvd	North Rockville	Renewal	27,418
COMPUTER PACKAGES	9801 Washingtonian Blvd	North Rockville	New Lease	24,068

Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
914 SILVER SPRING AVE	Silver Spring	Oct-24	\$2,935,000	30,682	\$96	Yonas H Bereka	Arline B Hillerson
5410 INDIAN HEAD HWY	Bowie/Marlboro/ South PG	Sep-24	\$2,300,000	26,000	\$88	Harborview Properties, Inc.	Behrooz Garavi
8490 PROGRESS DR	Frederick	Sep-24	\$18,000,000	126,151	\$143	A-CAP	Matan, Inc.
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, LLC

Source: CoStar, CompStak, Transwestern.

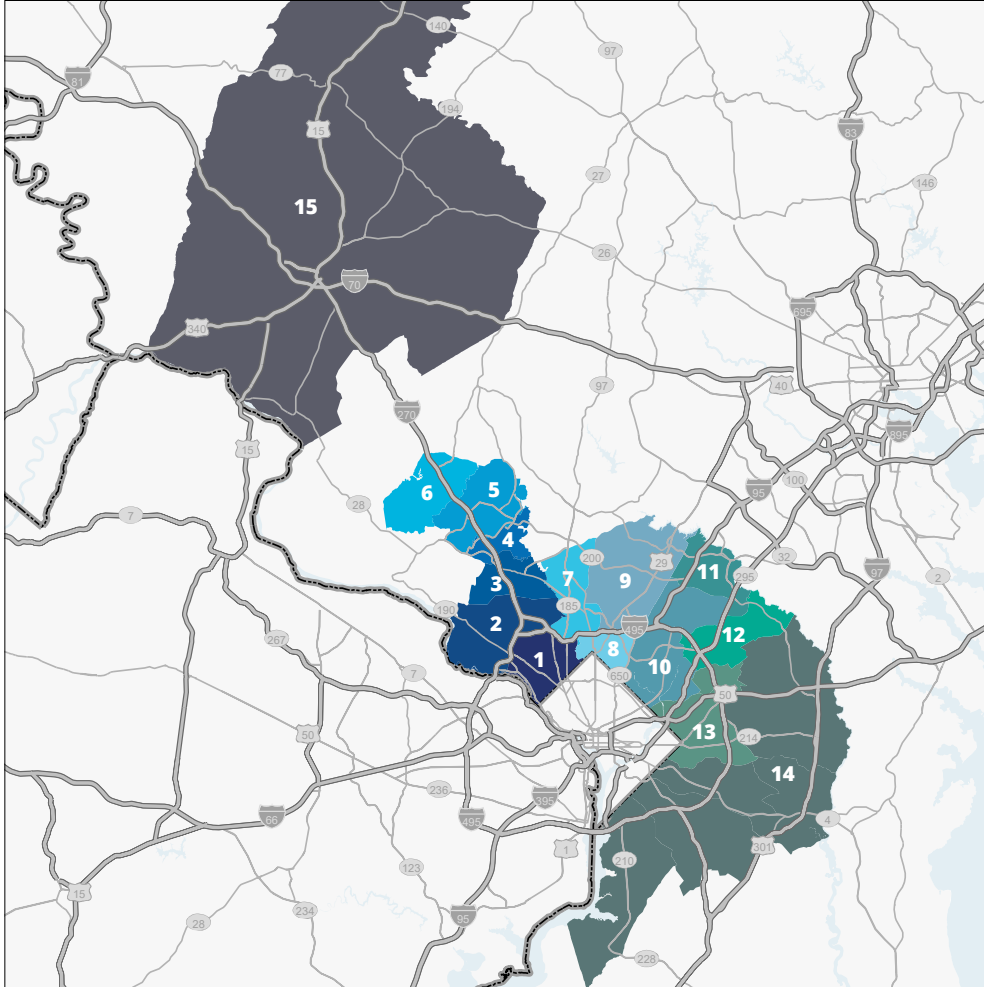


MARKET INDICATORS

All Classes of Space | Q4 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	2,315,321	17.6%	18.3%	0	(29,000)	95,000	\$40.57
NORTH BETHESDA	11,027,067	1,907,683	17.3%	17.8%	0	(32,000)	(32,000)	\$32.11
ROCKVILLE	8,436,869	1,948,917	23.1%	25.1%	231,500	(8,000)	(304,000)	\$31.17
NORTH ROCKVILLE	12,720,546	1,882,641	14.8%	16.2%	0	25,000	(197,000)	\$31.66
GAITHERSBURG	6,074,217	656,015	10.8%	14.8%	0	25,000	43,000	\$26.11
GERMANTOWN	2,803,251	897,040	32.0%	33.5%	0	(112,000)	(188,000)	\$27.59
KENSINGTON/WHEATON	1,641,234	282,292	17.2%	17.2%	0	(16,000)	(58,000)	\$28.53
SILVER SPRING	6,973,396	1,157,584	16.6%	16.9%	0	(77,000)	(115,000)	\$30.97
N. SILVER SPRING/RT. 29	3,661,988	400,621	10.9%	12.8%	0	2,000	(29,000)	\$27.29
MONTGOMERY COUNTY	66,508,769	11,448,115	17.2%	18.5%	231,500	(222,000)	(785,000)	\$32.37
BELTSVILLE/CALV./COLL. PARK	5,989,488	934,360	15.6%	16.4%	0	(10,000)	(6,000)	\$25.57
LAUREL	2,611,777	566,756	21.7%	21.9%	0	(5,000)	10,000	\$23.12
GREENBELT	3,016,041	862,588	28.6%	29.0%	0	12,000	9,000	\$23.58
LANHAM/LANDOVER/LARGO	5,659,867	2,094,151	37.0%	37.9%	0	(328,000)	(412,000)	\$24.80
BOWIE/MARLBORO/SOUTH P.G.	5,485,712	493,714	9.0%	9.3%	0	(16,000)	(47,000)	\$27.20
PRINCE GEORGE'S COUNTY	22,762,885	4,951,568	21.8%	22.3%	0	(347,000)	(446,000)	\$25.23
FREDERICK COUNTY	6,958,950	1,363,954	19.6%	20.7%	0	23,000	(322,000)	\$24.94
TOTAL	96,230,604	17,763,637	18.5%	19.6%	231,500	(546,000)	(1,553,000)	\$29.84

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

Elizabeth Norton

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

Michael McGraw

Research Analyst
Research Services
Michael.McGraw@transwestern.com
202-617-2339

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](https://twitter.com/Transwestern).