

NEWMARK

Suburban Maryland Office Market Overview

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Suburban Maryland Office Market Observations



Economy

- According to the most recently released data, the labor market remains tight, though more data from recent months will likely show growing unemployment in the Washington region. As of December 2025, the region's unemployment rate was 4.2%, an increase of 110 basis points compared with the same period last year. 12-month seasonally adjusted regional nonfarm job growth was negative for much of 2025, declining by 2.3% as of December.
- Office-using sectors saw job contraction over the last 12 months, with Information (-2.8%), Professional & Business Services (-2.7%) and Financial Activities (0.4%) each losing jobs.
- Office-using jobs in the region are currently 3.1% higher than five years ago, but only 0.9% higher than in March 2020, just before the pandemic began. Year-over-year office employment declined by 2.3%. While government job losses were impactful, private sector stagnation as a result may prove just as significant. Declines in two out of three office-using sectors demonstrate the need for a new office stimulant to propel growth in the region.



Leasing Market Fundamentals

- Suburban Maryland saw over 41,000 SF of negative net absorption during the first quarter of 2026, after approximately 246,408 square feet of positive absorption for the previous year. The market's vacancy rate remained the same quarter-over-quarter, as well as year-over-year, with a steady rate at 20.2%. The stable vacancy rate, combined with a historically low construction pipeline, suggests the Suburban Maryland may be nearing a cyclical low.
- After a building boom from 2017-2022, the pace of new construction deliveries has begun to slow. There were two office deliveries in Suburban Maryland in 2023, but no projects have delivered since. There is currently just one property under construction in the market, 1600 Rockville Pike, which will deliver 237,000 SF in 2026.
- Average asking rents in Suburban Maryland have declined each of the last five quarters, starting 2026 at \$31.17 PSF, a decrease of 1.0% year-over-year. Since a cyclical high of 4.4% rent growth in 2021, the market has seen decelerating increases in rent as demand wanes, dipping into the negative during 2026.



Major Transactions

- Office investment sales continue to lag in pricing per square foot as well as total transaction volume. However, owner-user sales and conversion opportunities are propping up demand in the region's capital markets.
- A notable deal occurring during the quarter was the sale of 121 Congressional Lane, a 52,100-square-foot office building located in the Rockville submarket. The property was sold by Cohen Siegel Investors to Federal Realty Investment Trust for \$7.0 M, or \$134.00/SF. The building was sold out of special servicing.
- Lifestyle Furniture signed one of the largest lease deals of the quarter, taking 106,000 SF at 725 Rockville Pike in the Rockville submarket.



Outlook

- Coming out of last fall's shutdown and combined with increased certainty after DOGE-driven cuts, the region may gain some level of certainty in 2026, potentially leading to increased leasing activity.
- A slowdown in office deliveries and the lack of new speculative office construction will be advantageous in helping to balance supply with waning demand.
- The Suburban Maryland office market will likely continue as a slow-moving, stable market in coming quarters, with growth concentrated in top-tier submarkets and assets, as the flight-to-quality persists.

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Economy

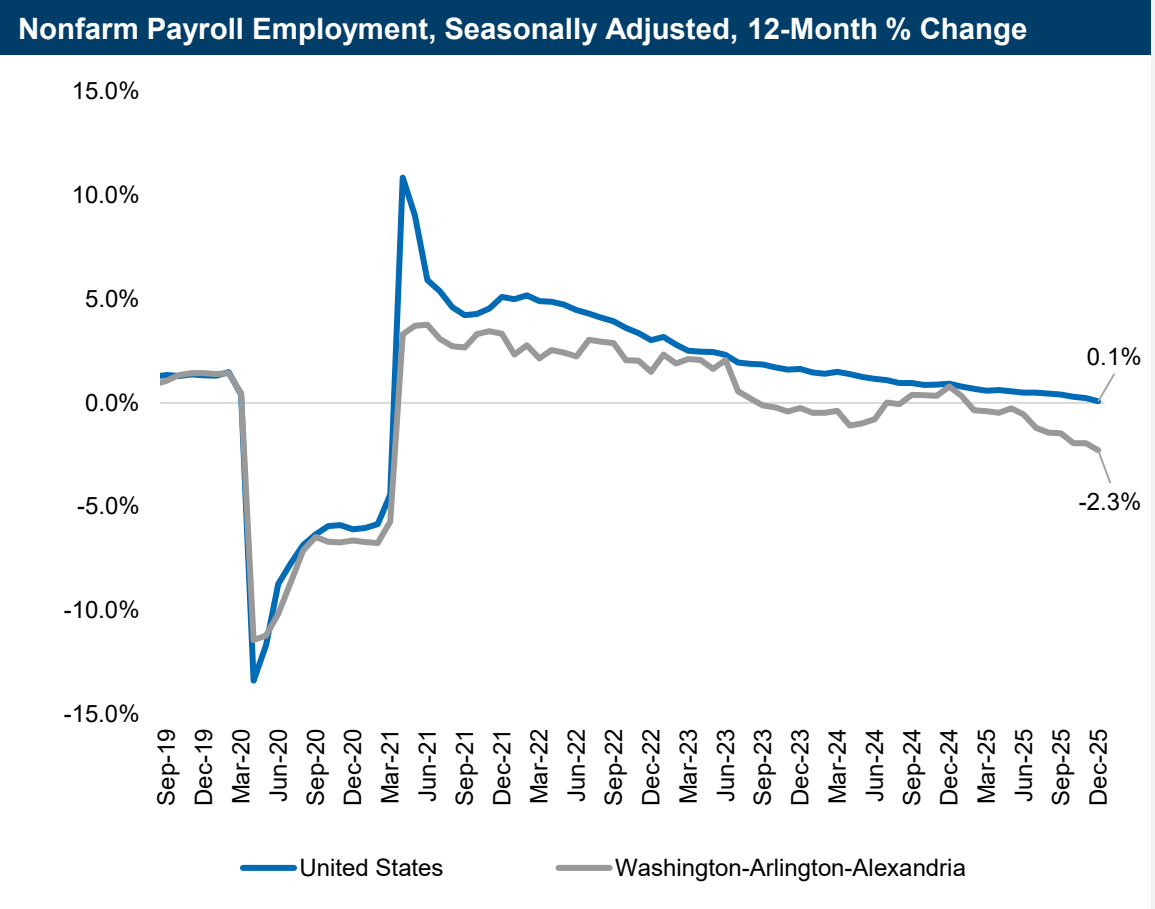
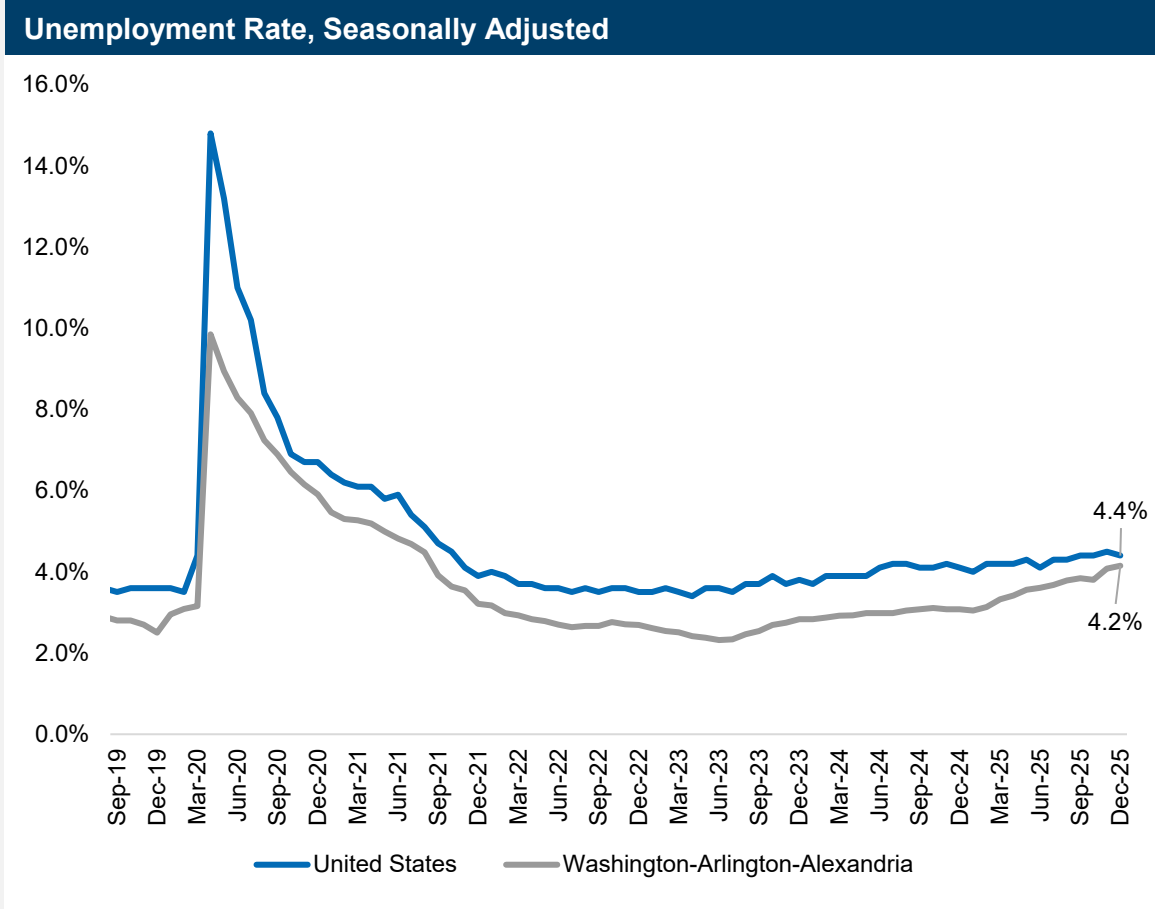
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Local Nonfarm Employment Data Shows Job Contraction During 2025

According to the most recently released data, the labor market remains tight, though more data from recent months will likely show growing unemployment in the Washington region. The fall's federal government shutdown, as well as deferred resignations, contributed to negative employment growth. The metro's unemployment rate increased quarter-over-quarter as data became available after the shutdown ended, though without October figures included. As of December 2025, the region's unemployment rate was 4.2%, an increase of 110 basis points compared with the same period last year. 12-month seasonally adjusted regional nonfarm job growth was negative for much of 2025, declining by 2.3% as of December.

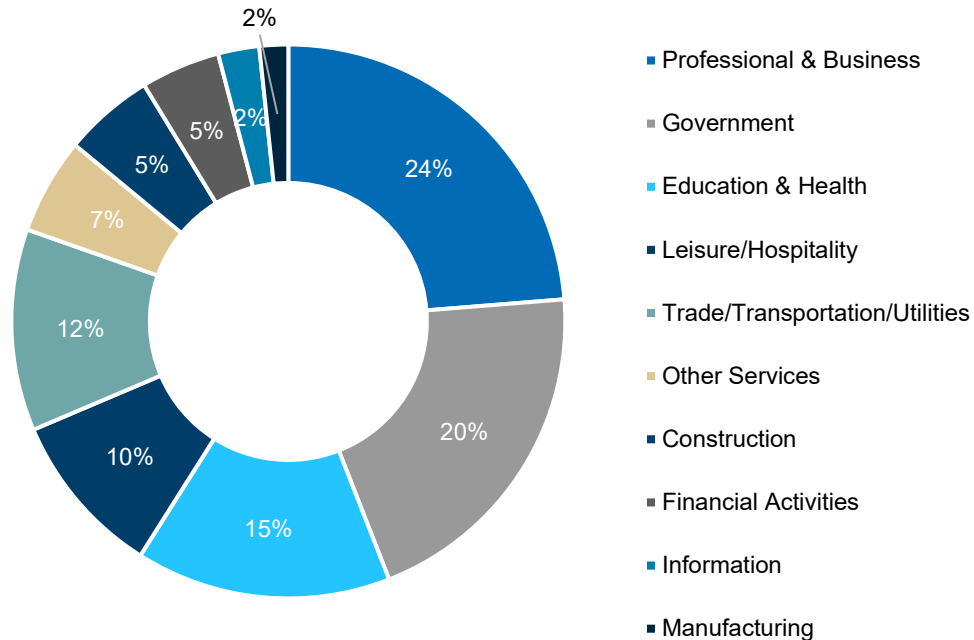


Source: Moody's, Washington-Arlington-Alexandria; Newmark Research
 *October 2025 federal government shutdown missing data addressed with duplicating September 2025's data

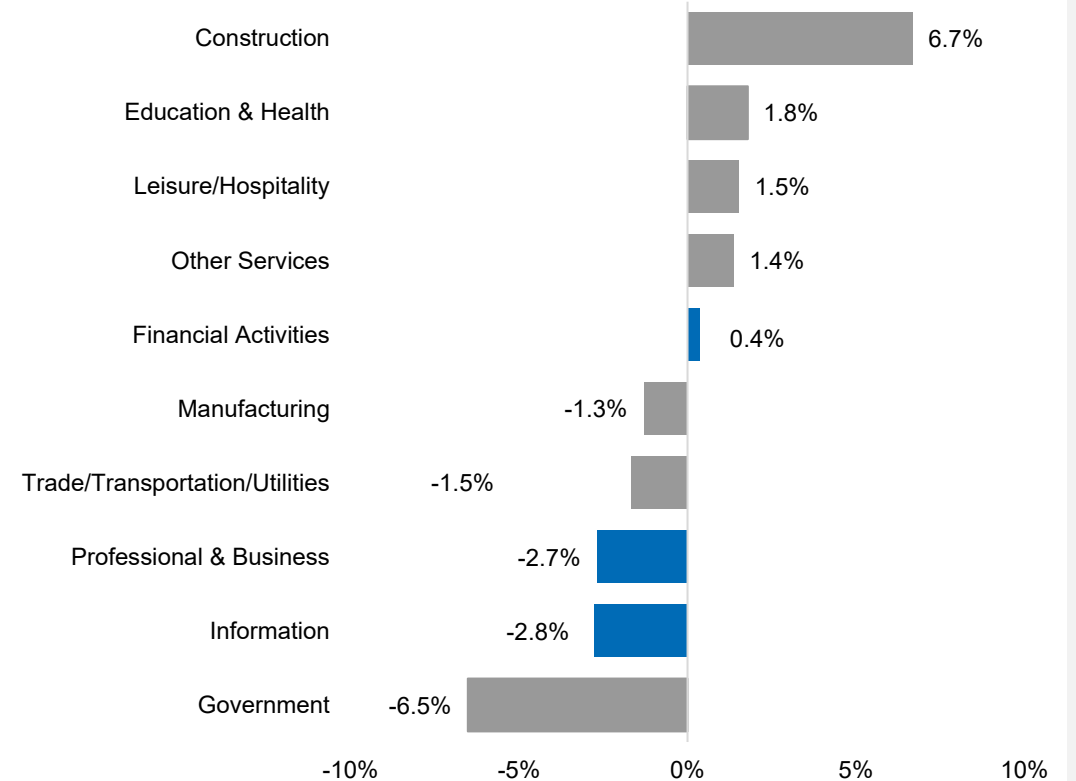
Washington Metro Area Job Growth Driven by Construction and Education & Health

The Construction sector propped up job growth in the region with a 6.7% 12-month increase. The Education & Health, Leisure/Hospitality and Other Services sectors also experienced 12-month growth. The Financial Activities sector was the only office-using sector to see positive, though limited, growth over the last twelve months, at 0.4%, while the Professional & Business Services (-2.7%) and Information (-2.8%) sectors experienced job contraction. The Government sector registered job losses of 6.5% year-over-year after the impacts of DOGE and federal government cuts. According to the Bureau of Labor Statistics, the region saw federal government jobs decline by 14.3% during 2025.

Employment by Industry, December 2025

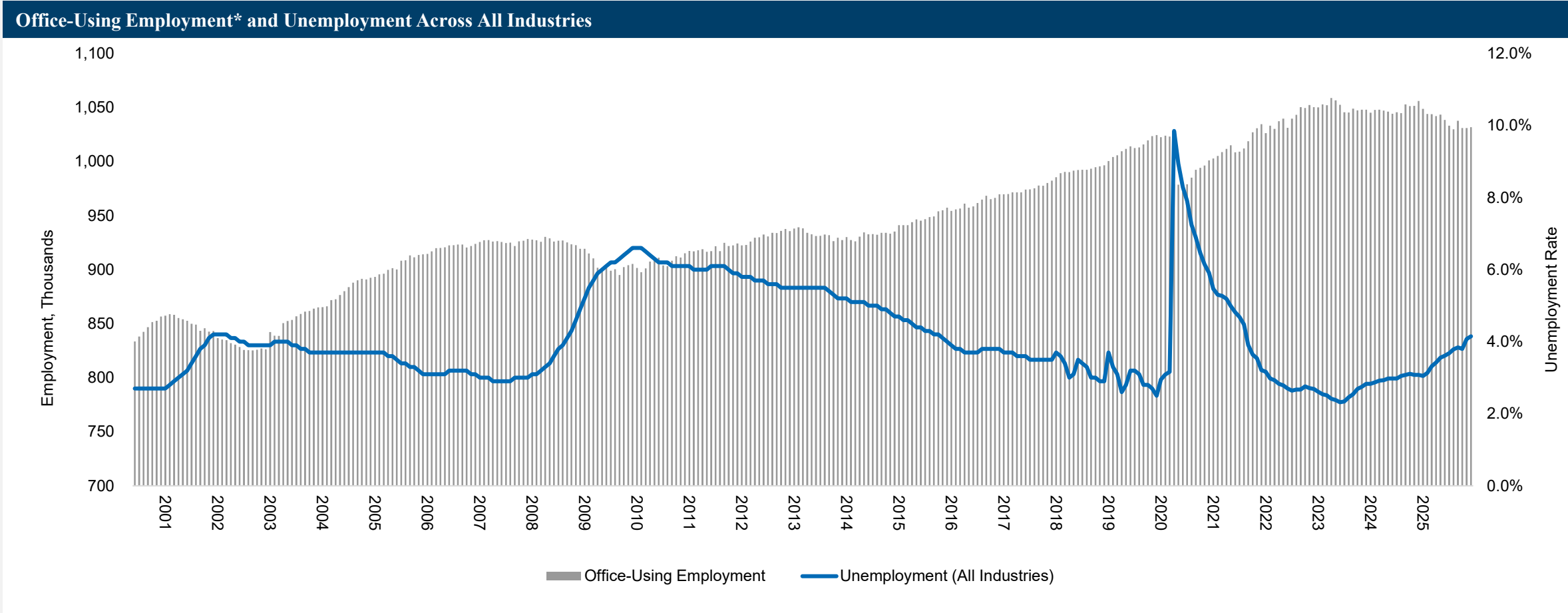


Employment Growth by Industry, 12-Month % Change, December 2025



Office-Using Employment Has Lost Traction

The number of office jobs exceeds pre-pandemic levels as of December 2025 – the most recently available data – but are down year-over-year. Office-using jobs in the region are currently 3.1% higher than five years ago, but only 0.9% higher than in March 2020, just before the pandemic began. Year-over-year office employment declined by 2.3%, due in part to DOGE actions and their impact on the regional workforce. While government job losses were impactful, private sector stagnation as a result may prove just as significant. Declines in two out of three office-using sectors demonstrate the need for a new office stimulant to propel growth in the region.



Source: Moody's; Newmark Research

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

** October 2025 federal government shutdown missing data addressed with duplicating September 2025's data

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Leasing Market Fundamentals

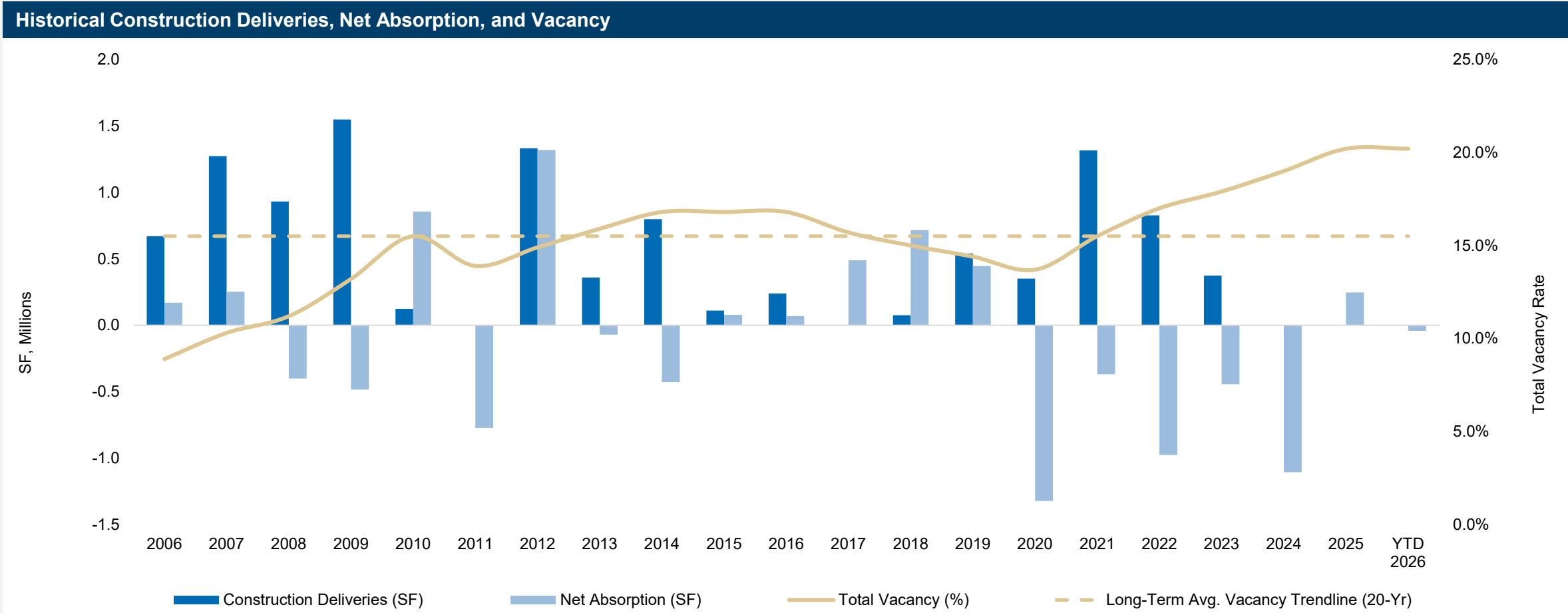
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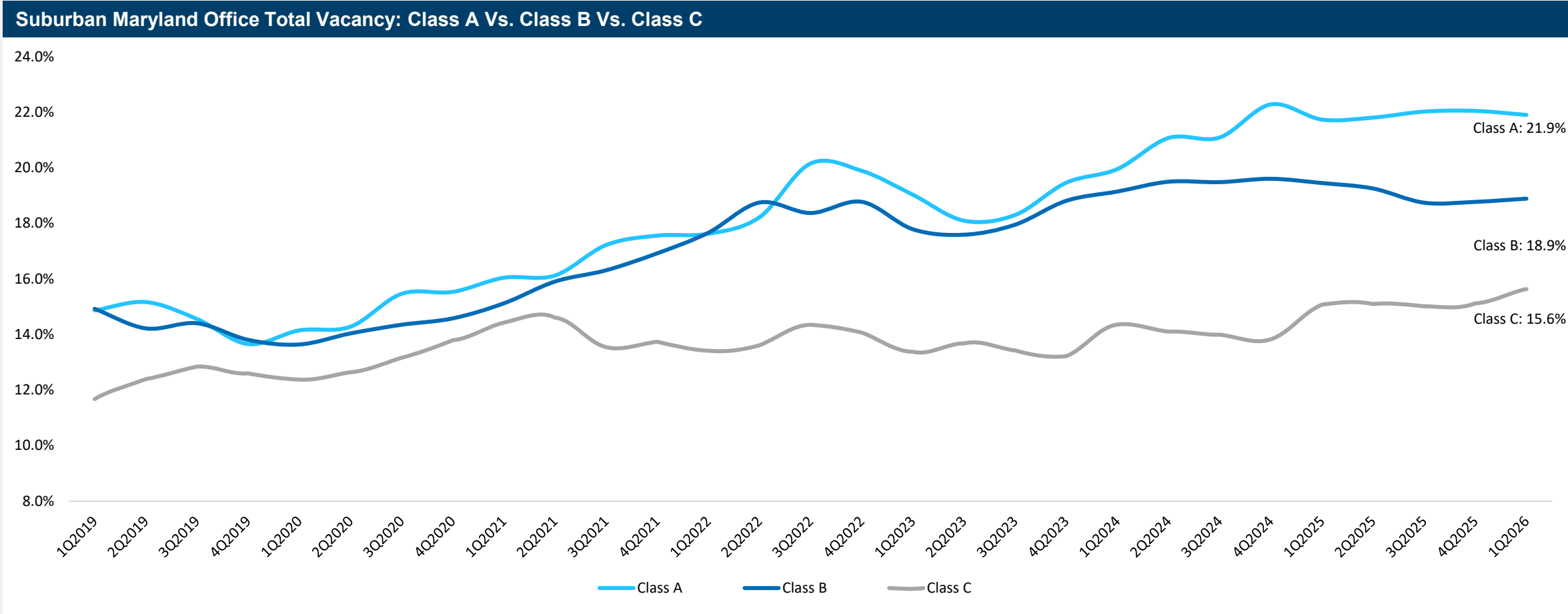
Market Registers Negative Net Absorption During First Quarter

Suburban Maryland saw over 41,000 SF of negative net absorption during the first quarter of 2026, after 246,408 square feet of positive annual absorption in 2025. The market's vacancy rate remained the same quarter-over-quarter, as well as year-over-year, with a steady rate at 20.2%. The stable vacancy rate, combined with a historically low construction pipeline, suggests the Suburban Maryland office market may be nearing a cyclical low. Increased certainty regarding federal government activity, after last year's potential cuts to agencies like NIH that support the market, and improved economic conditions could bolster demand.



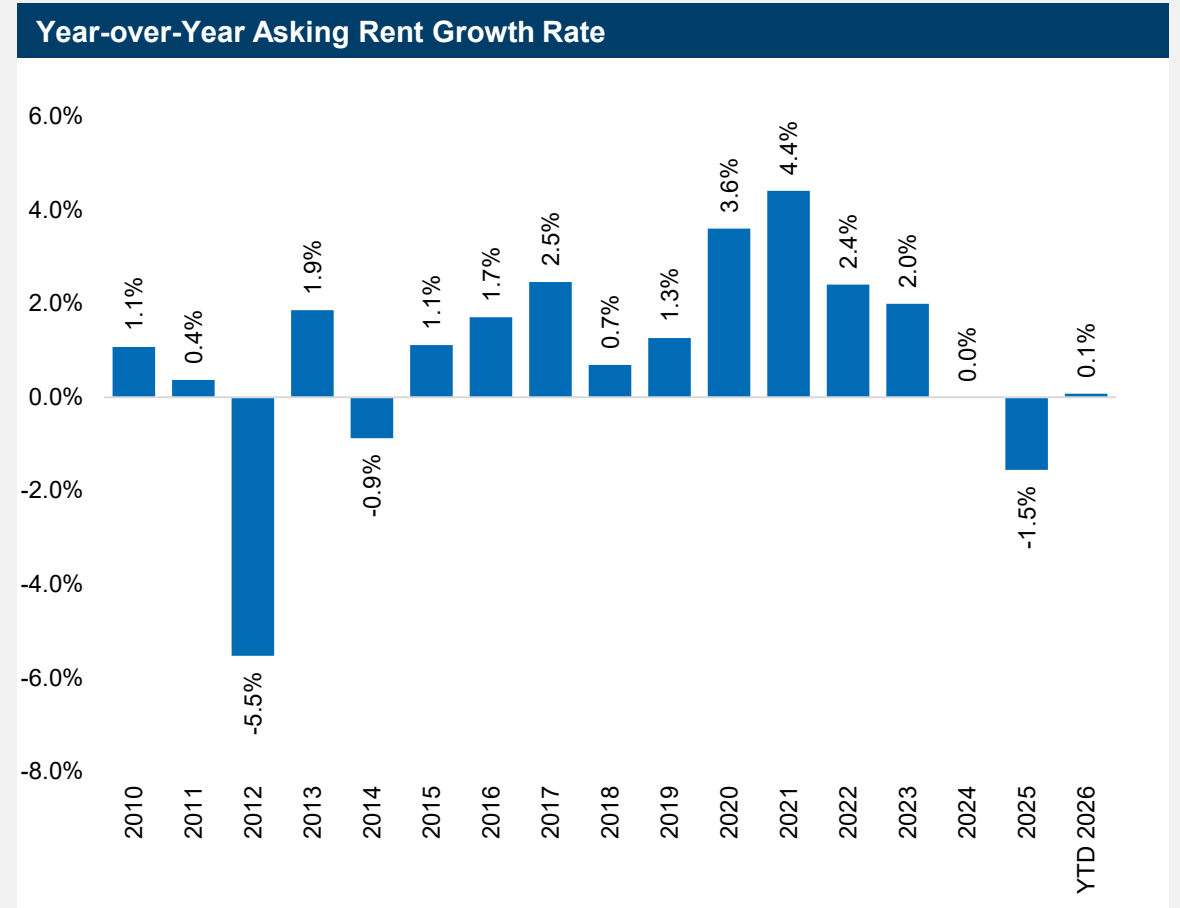
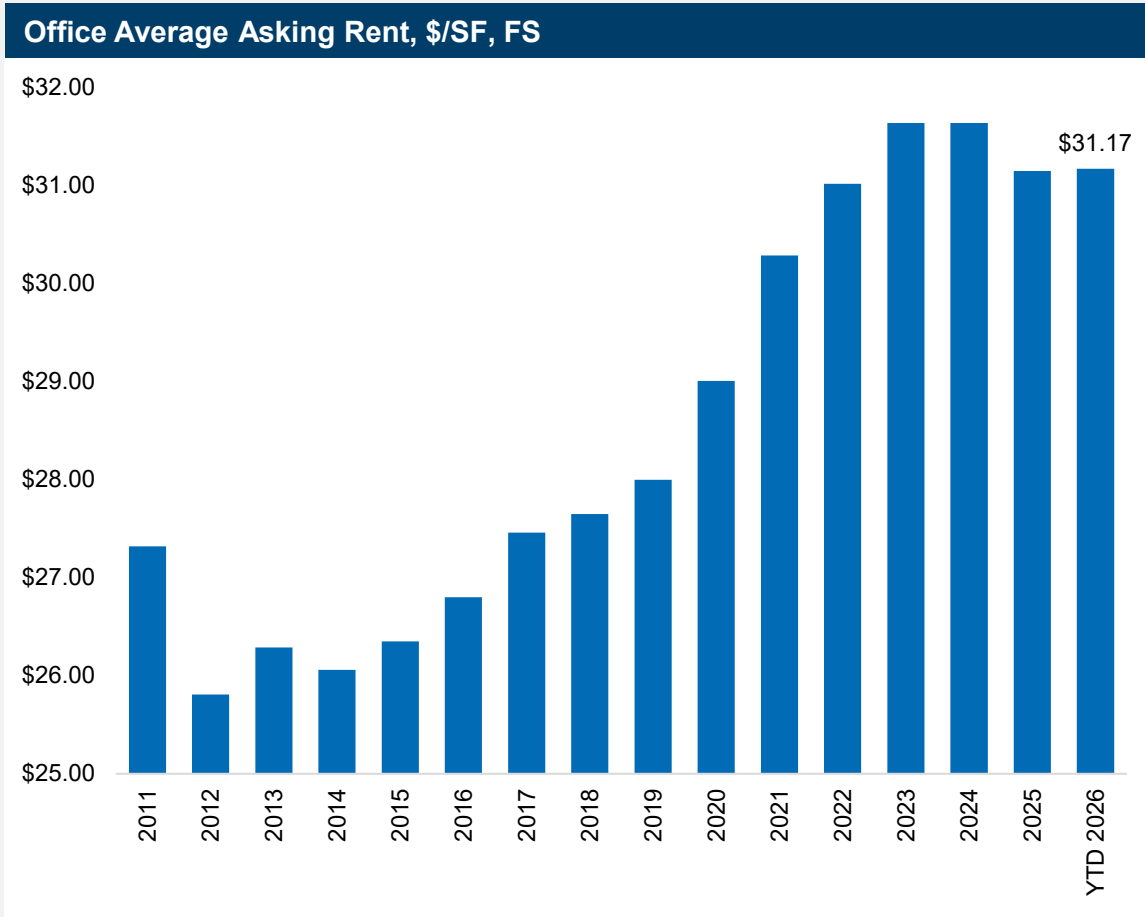
Lower-Quality Product Continues To Outperform Higher-Quality Product

The Suburban Maryland market has seen lower-quality product outperform higher-quality product during recent years. At the beginning of 2020, Class A vacancy was 14.1%, higher than both Class B product at 13.6% and Class C product at 12.4%. Since then, all classes have seen expansions in vacancy, however Class A product has seen the largest expansion. At the beginning of 2026, the Class A vacancy rate was 21.9%, an increase of 780 basis points since the start of 2020. Class B vacancy registered 18.9%, an increase of 530 basis points, while Class C vacancy was 15.6%, an increase of 320 basis points. Demand for lower-priced suburban office space has outpaced newer, high-quality space in downtown areas.



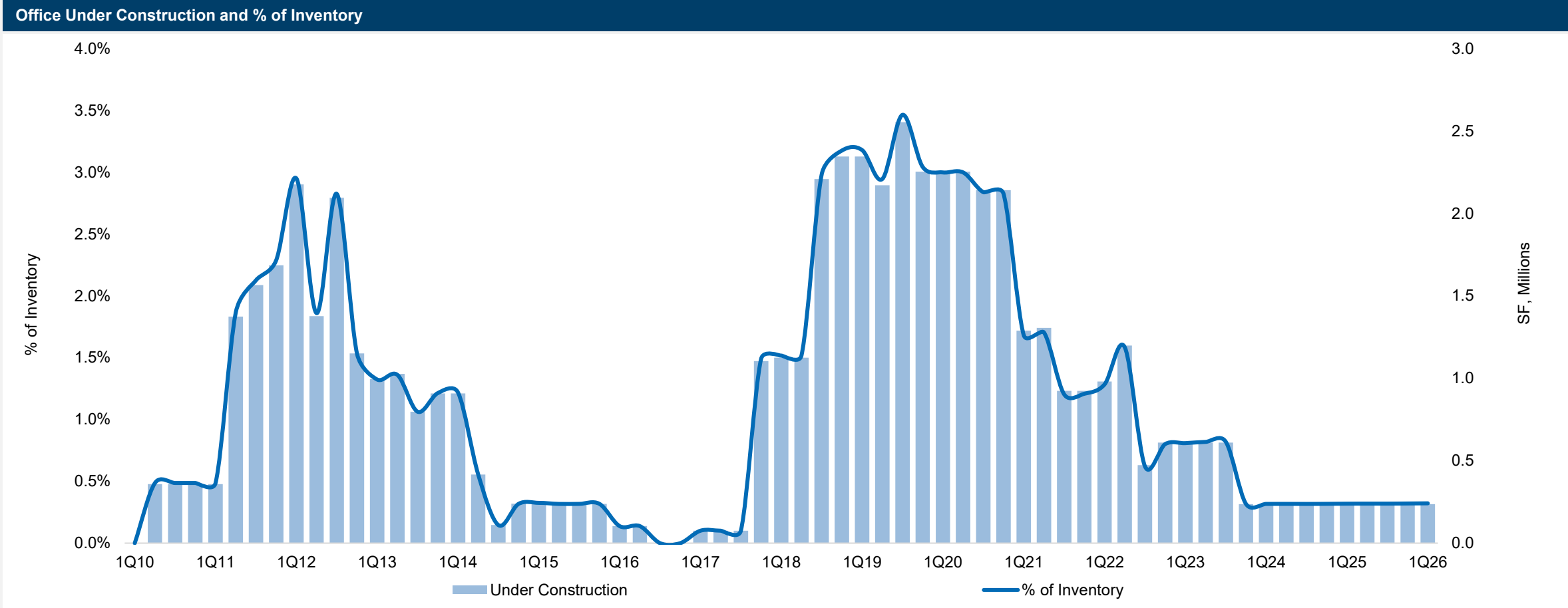
Asking Rents Flat To Start 2026

After five consecutive quarters of decline, The average asking rents in Suburban Maryland have increased slightly ending Q1 2026 at \$31.17/SF, a decrease of 1.0% year-over-year. Since a cyclical high of 4.4% rent growth in 2021, the market has seen decelerating rental growth, with rental rate contraction seen at year end in 2025 and to start the year in 2026.



Limited Office Construction Pipeline Primed To Push Vacancy Lower

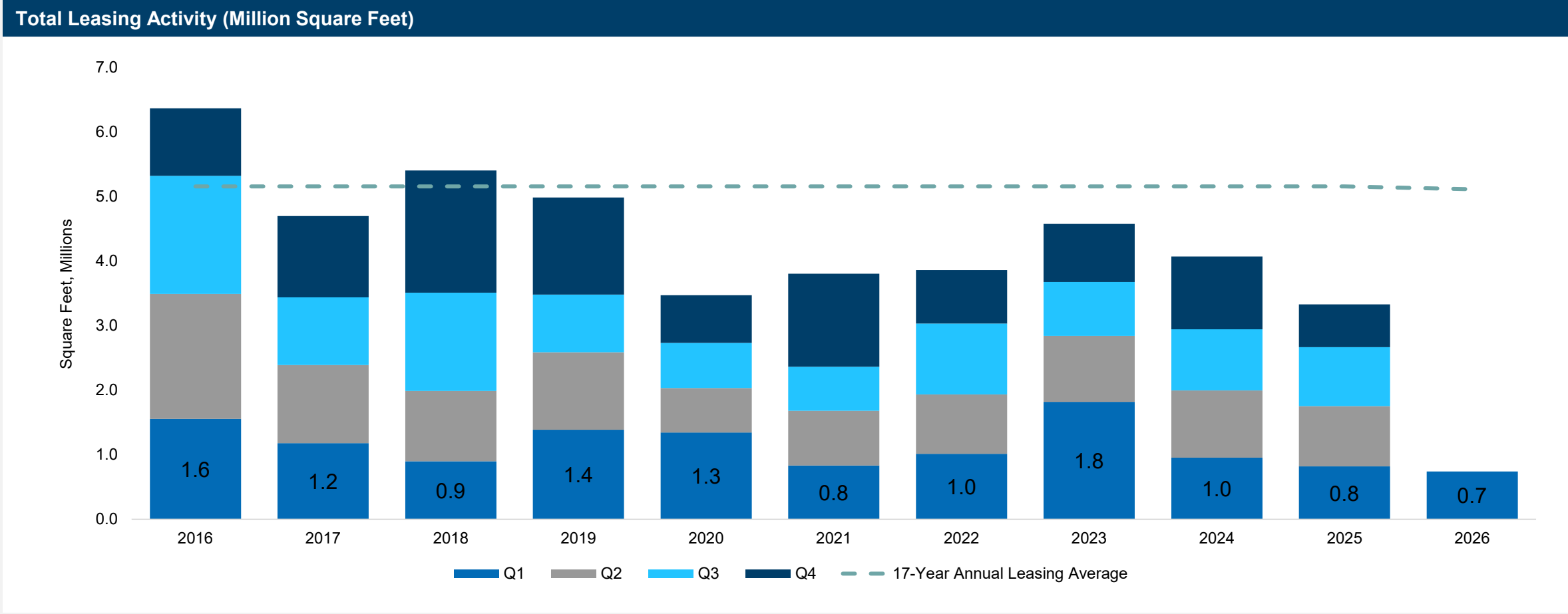
Suburban Maryland has one project under construction: BF Saul’s 1600 Rockville Pike office development, part of the Twinbrook Quarter mixed-use project, which is expected to deliver in 2026 as a part of phase 1B. A limited pipeline, in combination with existing conversions of office into other uses, will help to compress vacancies. Overall, the market’s construction pipeline is equal to 0.3% of the current total inventory, the lowest level since the middle of 2017.



Source: Newmark Research, CoStar

Leasing Activity Hits Long-Term Low

The Suburban Maryland office market saw just over 700,000 square feet of leasing activity during the first quarter of 2026; the smallest figure recorded across the same period over the past ten years. Leasing activity declined by approximately 13% year-over-year and was down roughly 65% compared with the first quarter of 2023. Some tenants in the market have seen direct impacts from DOGE and tariffs, while others have slowed decision-making due to continued uncertainty at the federal government level.





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Market Statistics

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