2Q25

Suburban Maryland Office Market Overview

Market Observations

Economy

- Although the metro's unemployment rate increased slightly quarter-over-quarter, the region's labor market remains tight, with unemployment 70 basis points below the national average. Regional nonfarm job growth remains positive, with a 0.9% 12-month increase as of May.
- While total nonfarm employment increased by 0.8% over the last twelve months, office-using employment sectors saw small growth or contraction. The Professional & Business Services (-0.5%) and Information (-0.2%) sectors each registered 12-month declines, while the Financial Activities sector experienced 0.2% growth over the last year.
- The number of office jobs has rebounded and now exceeds pre-pandemic levels. Office-using jobs in the region are currently 2.3% higher than five years ago—just before the pandemic—and 6.3% higher than the pandemic-induced employment trough in May of 2020.

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.
- Notable sales during the quarter include 4500 East West Highway, located in the Bethesda. The property was sold by Carr Properties to Peel Properties for $35.1 M, or $154 PSF. The 9-story, 226,566-square-foot building is likely to be redeveloped.

Leasing Market Fundamentals

- Suburban Maryland saw positive activity during Q2 2025, with 101,233 SF of positive net absorption, giving the market positive first-half absorption for the first time since 2018. Overall vacancy ended the quarter at 20.0%, tightening 20 bps quarter-over-quarter and year-over-year.
- After a building boom over the past five years, the pace of new construction deliveries has begun to slow. There were only two office deliveries in Suburban Maryland in 2023 and no deliveries in 2024. Furthermore, 1600 Rockville Pike is the only property that remains under construction in the market, totaling 237,000 SF.
- Asking rents rose through the first three quarters of 2024, before declining to end the year, a trend that has continued through the first half of 2025. Asking rents have decreased, ending Q2 2025 at $31.15 PSF, a decline of 1.3% quarter-over-quarter and 2.3% year-over-year.

Outlook

- Spec suite demand continues to be a major driver in leasing activity for smaller spaces in the region, while lease renewals dominate the leasing activity for larger spaces over 25,000 SF. In addition, a restrained office pipeline should help limit rising vacancies. DOGE and tariffs continue to provide uncertainty for regional tenants and federal employees.
- A slowdown in office deliveries and the lack of new speculative office construction will be advantageous in helping to balance supply with waning demand.
- Fewer landlords have capital for concessions, which have been a major driver in attracting tenants over the past several years. The pool of landlords that can pay for tenant improvements is shrinking. There are fewer owners offering trophy office supply, fostering an unusual landlord-favorable environment for the most quality space.

TABLE OF CONTENTS

1. Economy
2. Leasing Market Fundamentals
3. Market Statistics

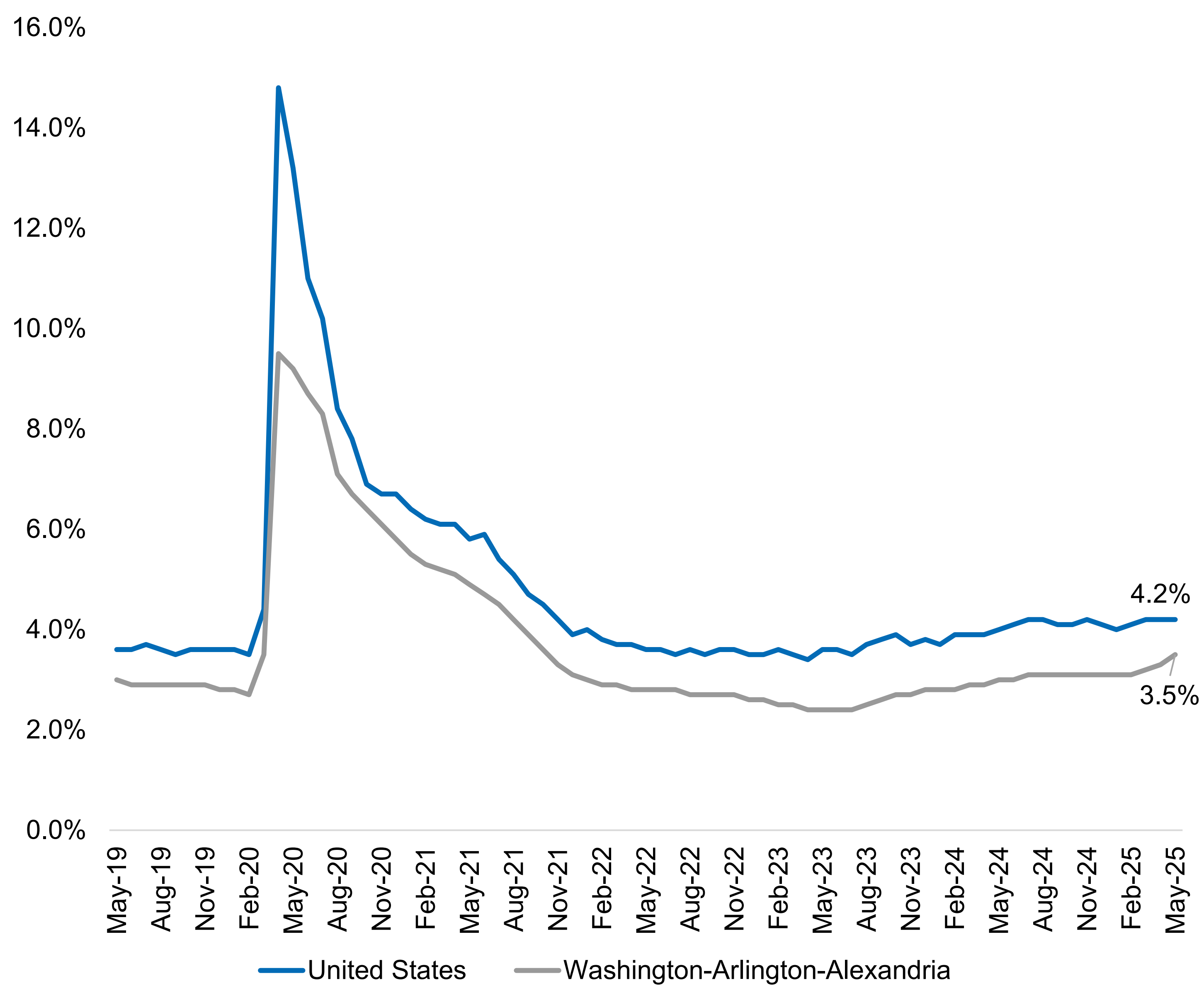
2Q25

Economy

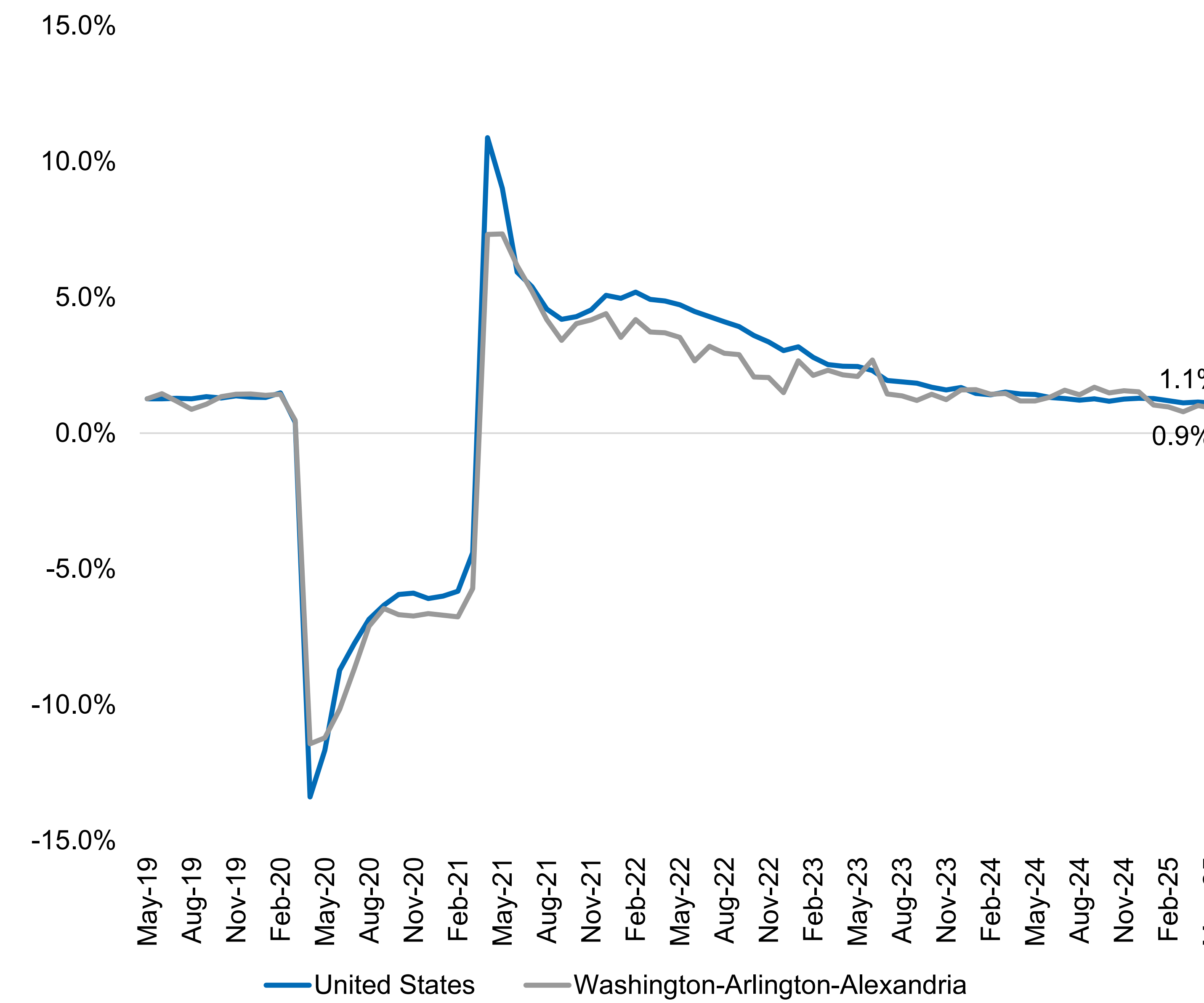
Metro Unemployment Rate Remains Tighter Than National Average

Although the metro's unemployment rate increased slightly quarter-over-quarter, the region's labor market remains tight, with unemployment 70 basis points below the national average. Regional nonfarm job growth remains positive, with a 0.9% 12-month increase as of May.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

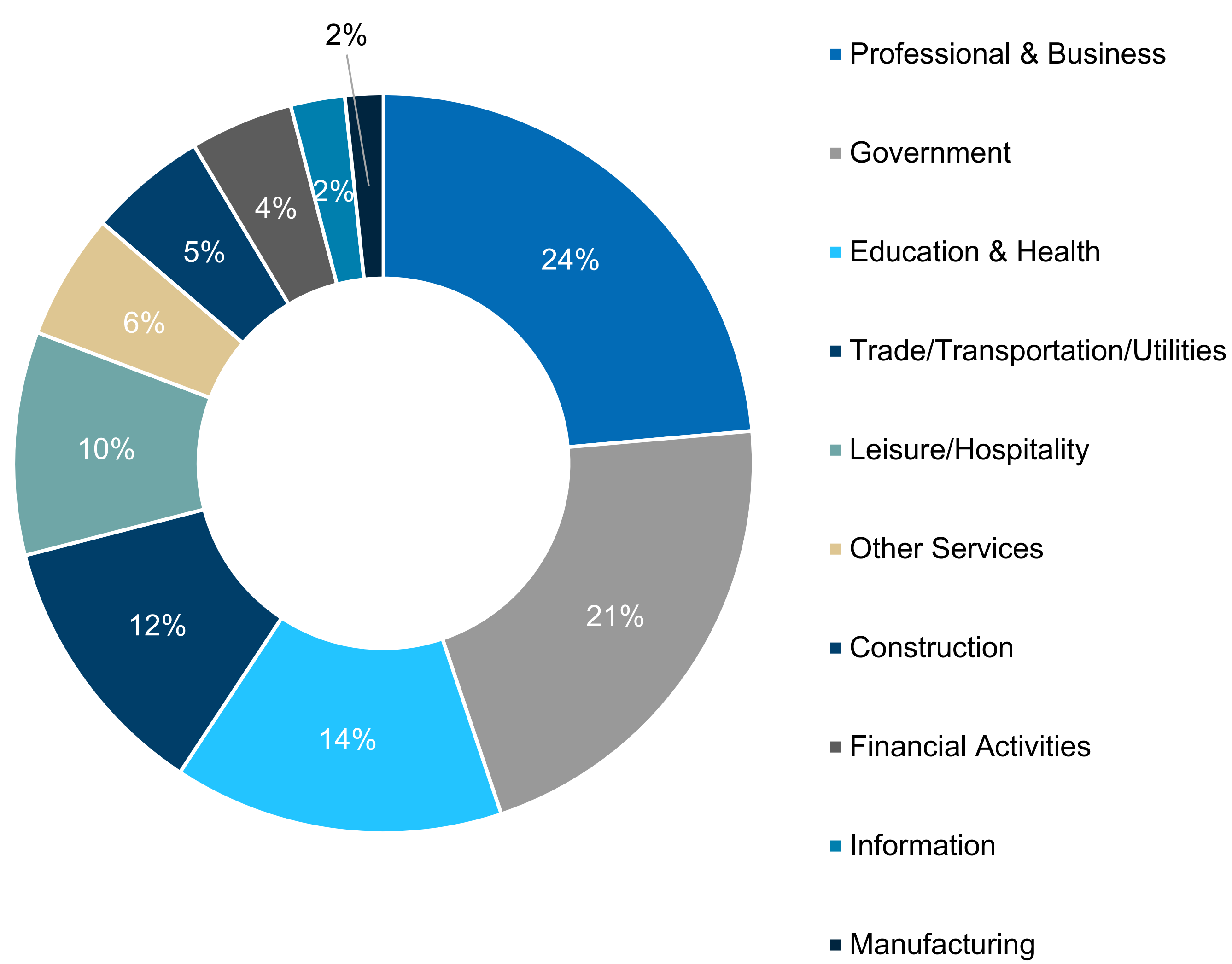


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

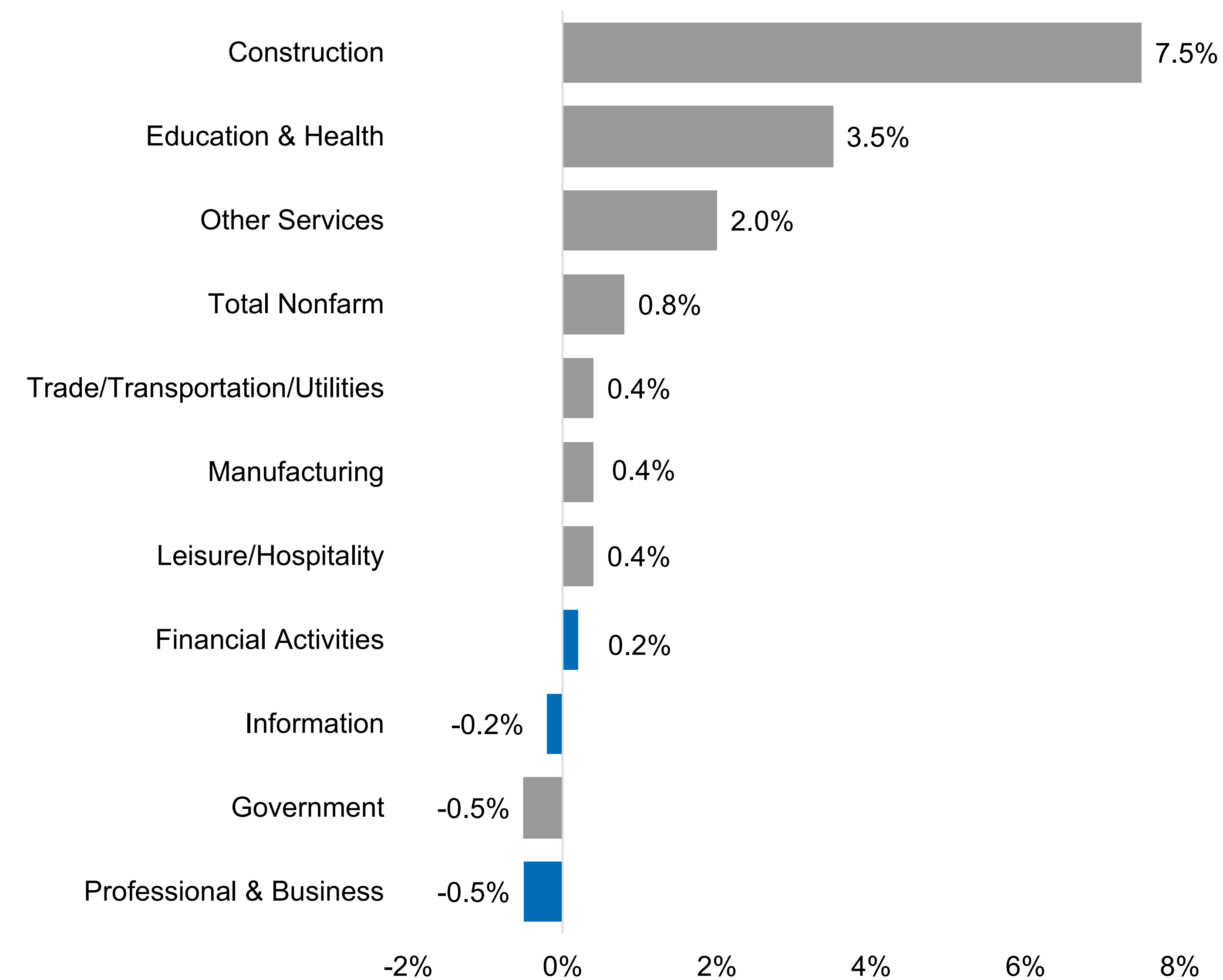
Job Growth Driven by Construction Alongside Education & Health

While total nonfarm employment increased by 0.8% over the last twelve months, office-using employment sectors saw small growth or contraction. The Professional & Business Services (-0.5%) and Information (-0.2%) sectors each registered 12-month declines, while the Financial Activities sector experienced 0.2% growth over the last year.

Employment by Industry, May 2025



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

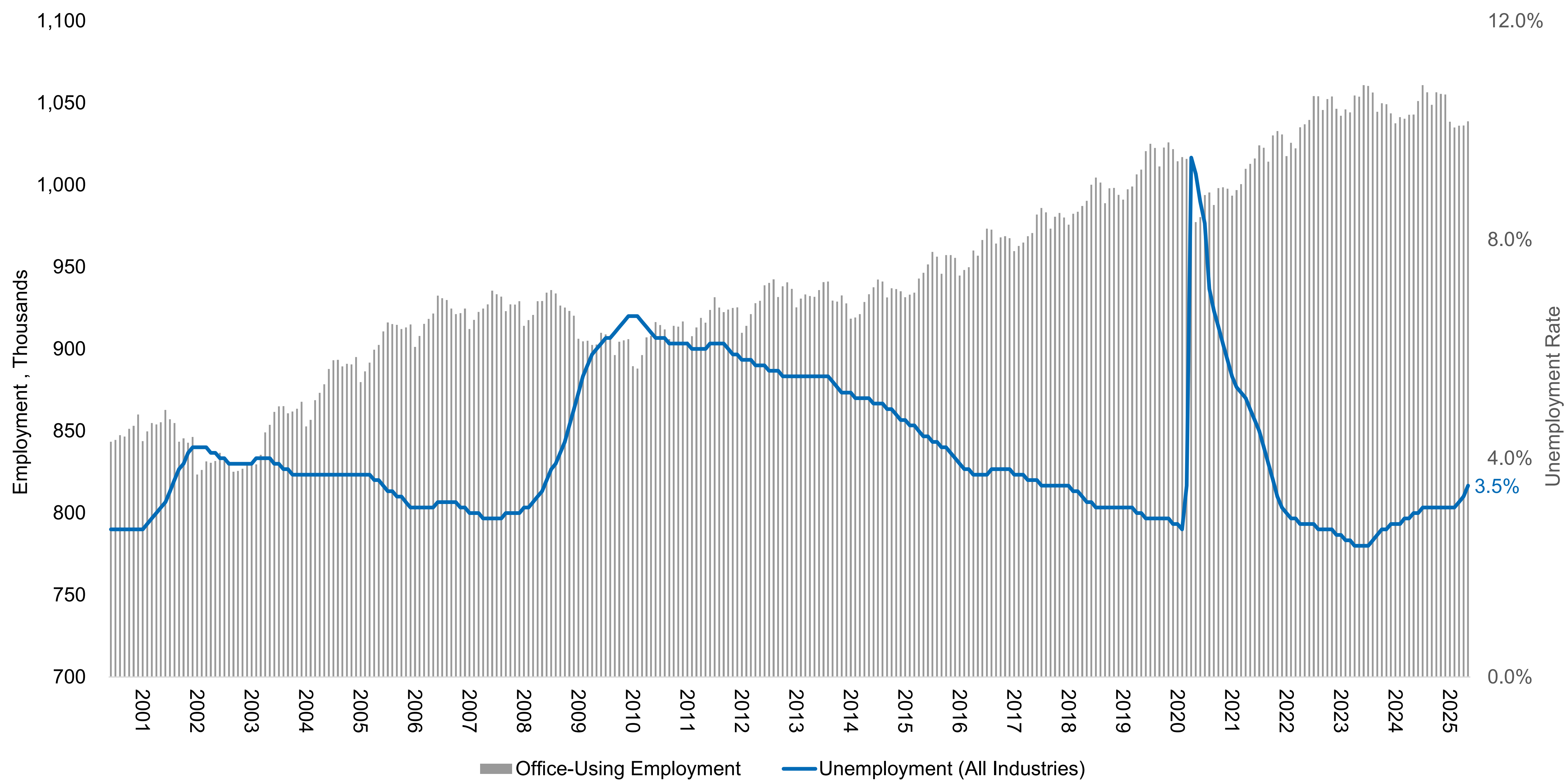


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and now exceeds pre-pandemic levels. Office-using jobs in the region are currently 2.3% higher than five years ago—just before the pandemic—and 6.3% higher than the pandemic-induced employment trough in May of 2020.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

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

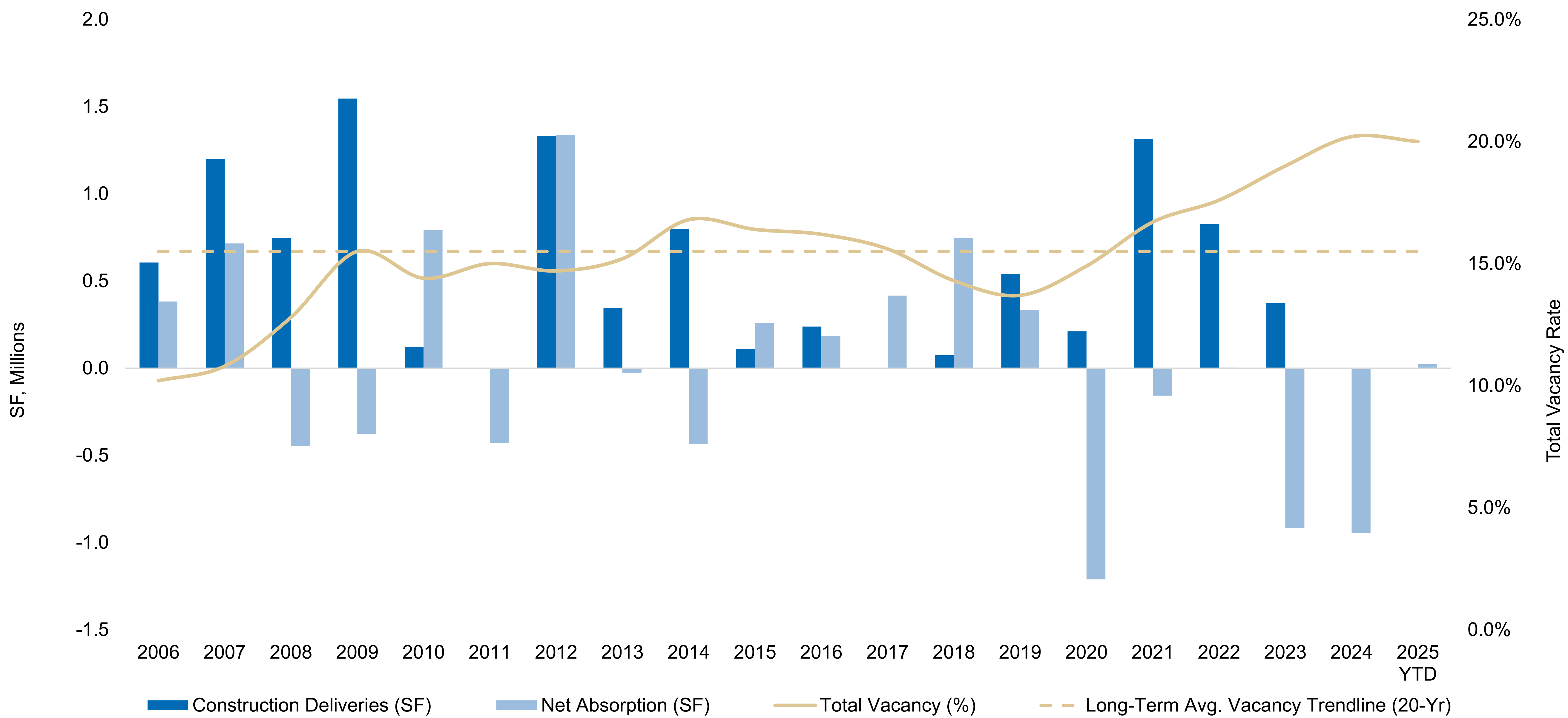
2Q25

Leasing Market Fundamentals

Vacancy Tightens as Market Has Positive First Half of 2025

Suburban Maryland's vacancy rate tightened quarter-over-quarter, ending Q2 2025 at 20.0%, a decrease of 20 bps. This tightening in vacancy, in tandem with a historically low construction pipeline, shows positive signs for Suburban Maryland and may indicate the market has reached its cyclical low. However, potential cuts to Suburban Maryland-based federal government agencies and contractors, such as NIH, may have a negative impact on the market in the near-term.

Historical Construction Deliveries, Net Absorption, and Vacancy

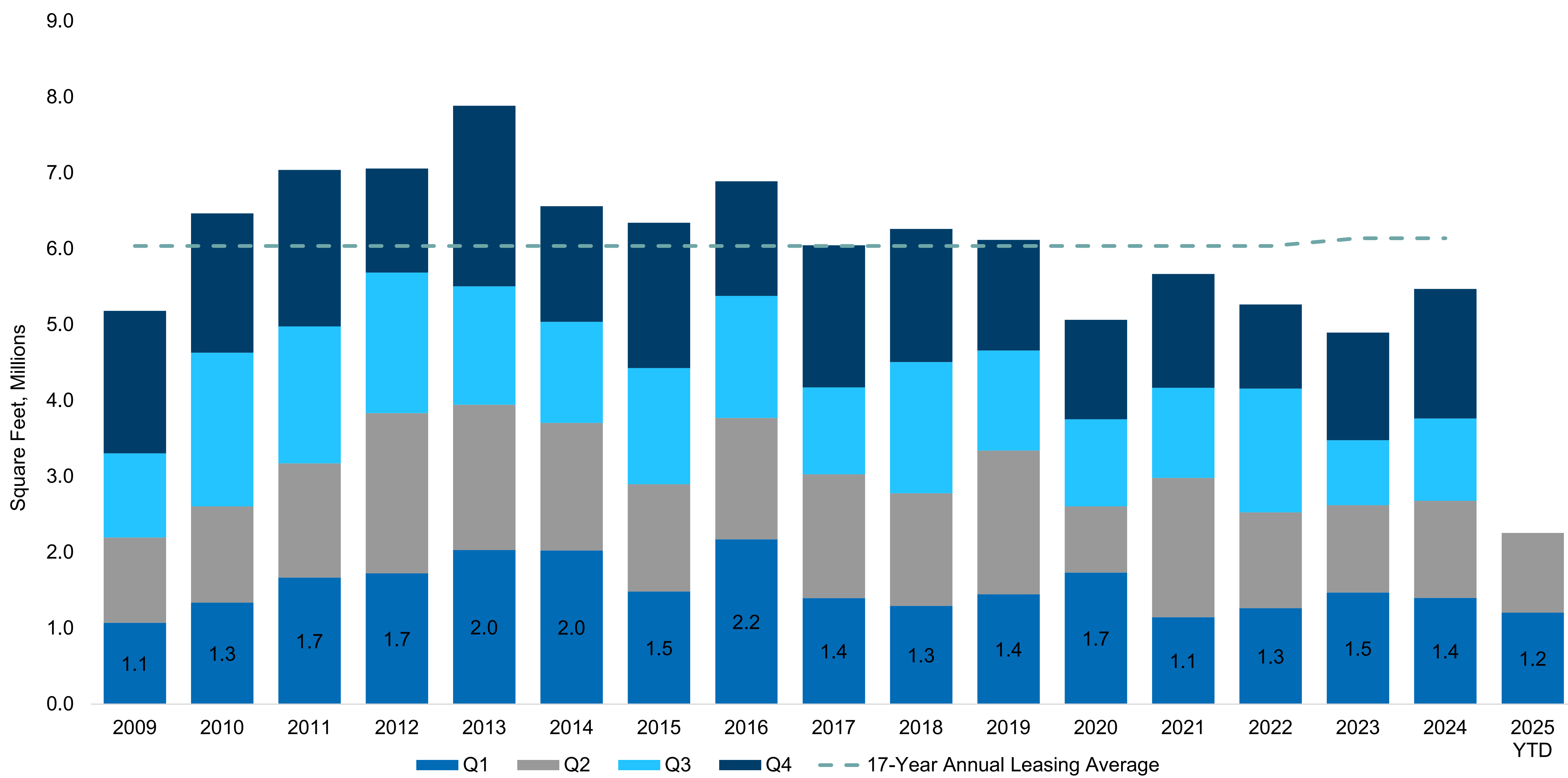


Source: Newmark Research, CoStar

Leasing Activity Slow to Begin 2025

The market saw 1.1 MSF of leasing activity during the second quarter of 2025, the least activity the market has experienced during a second quarter since 2020. Leasing activity through the first half of the year trails the historical average by 25.8%, though the gap may close after second-quarter transactions are fully tallied. Some tenants in the market have seen direct impacts from DOGE and tariffs, while others have slowed decision-making due to uncertainty.

Total Leasing Activity (msf)

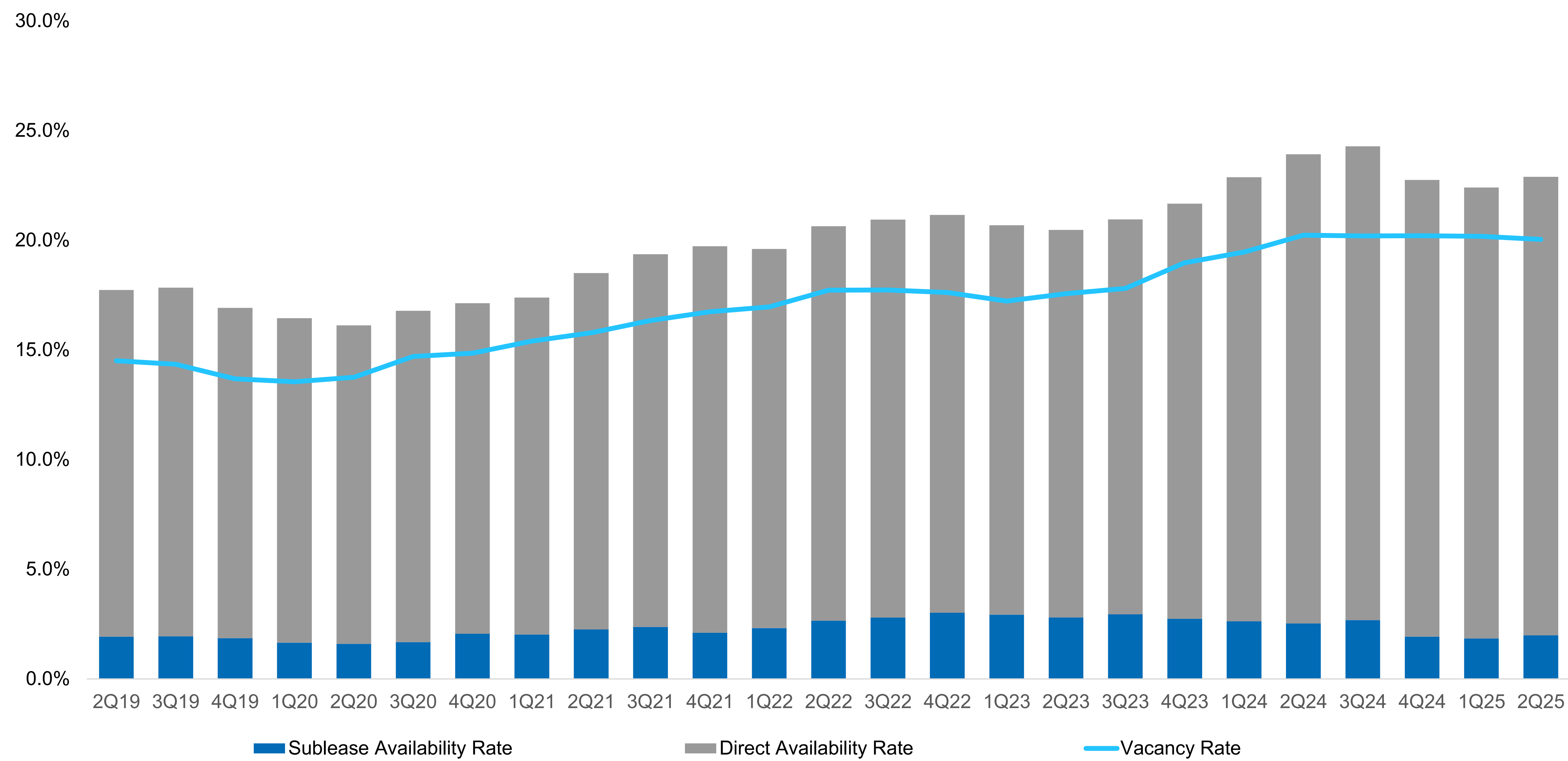


Source: Newmark Research, CoStar

Office Market Vacancy and Availability Diverge Slightly

Suburban Maryland office availability was up slightly during Q2 2025, ending the quarter at 22.9%, an increase of 50 bps quarter-over-quarter but a decrease of 140 bps year-over-year. This includes increases in both direct and sublease availability. The vacancy rate declined during the quarter to 20.0%, a tightening of 20 bps quarter-over-quarter, as well as year-over-year.

Available Space by Type as Percent of Overall Market

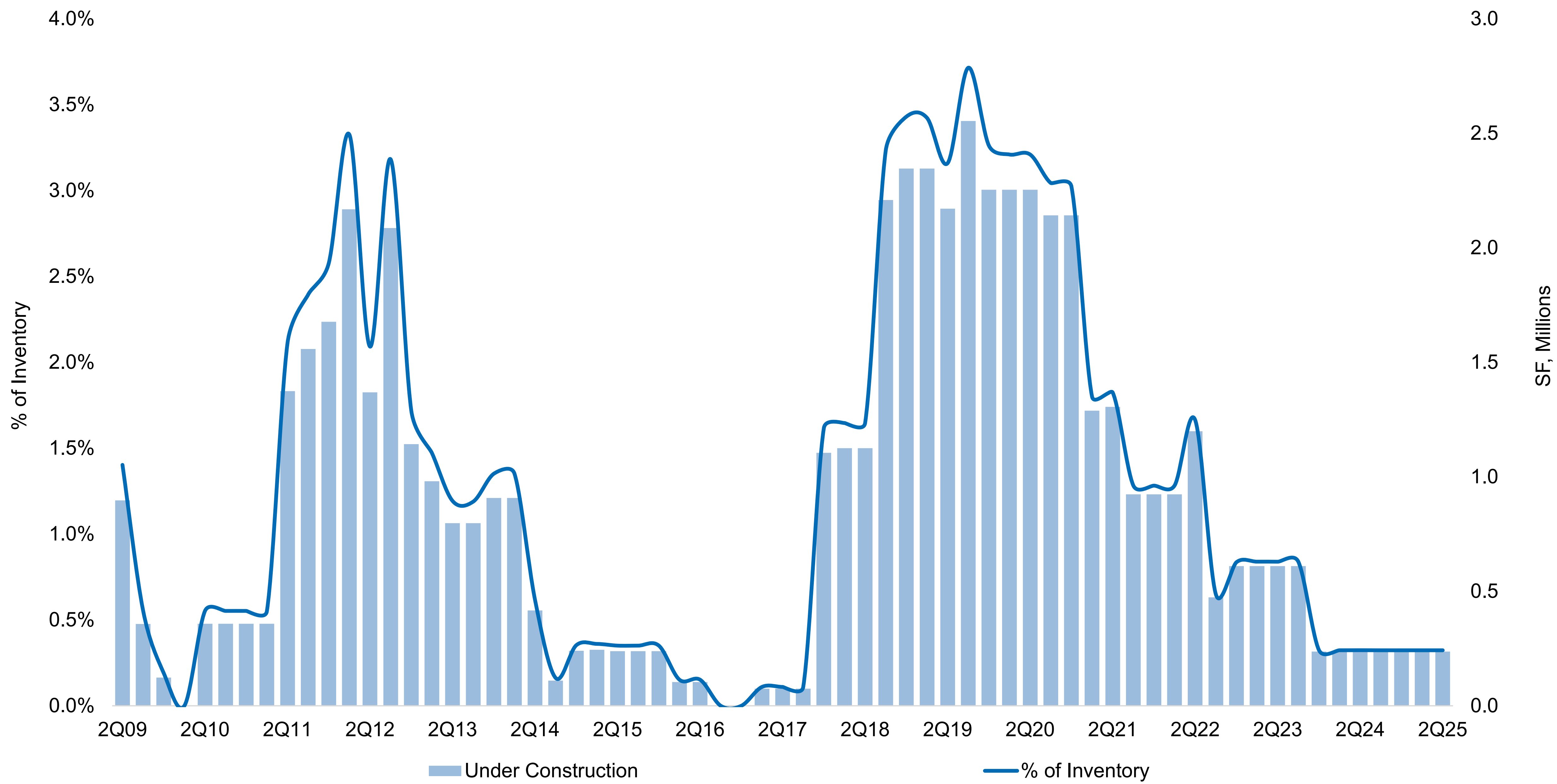


Source: Newmark Research

Slowing Office Construction Pipeline Will Help Ease Rising Vacancy

Suburban Maryland has one project under construction. This property, 1600 Rockville Pike, is BF Saul's office building that is part of the Twinbrook Quarter mixed-use development and is expected to deliver in early 2026 as a part of phase 1b. This limited pipeline, in combination with existing conversions of office into other uses, will help ease rising vacancies.

Office Under Construction and % of Inventory

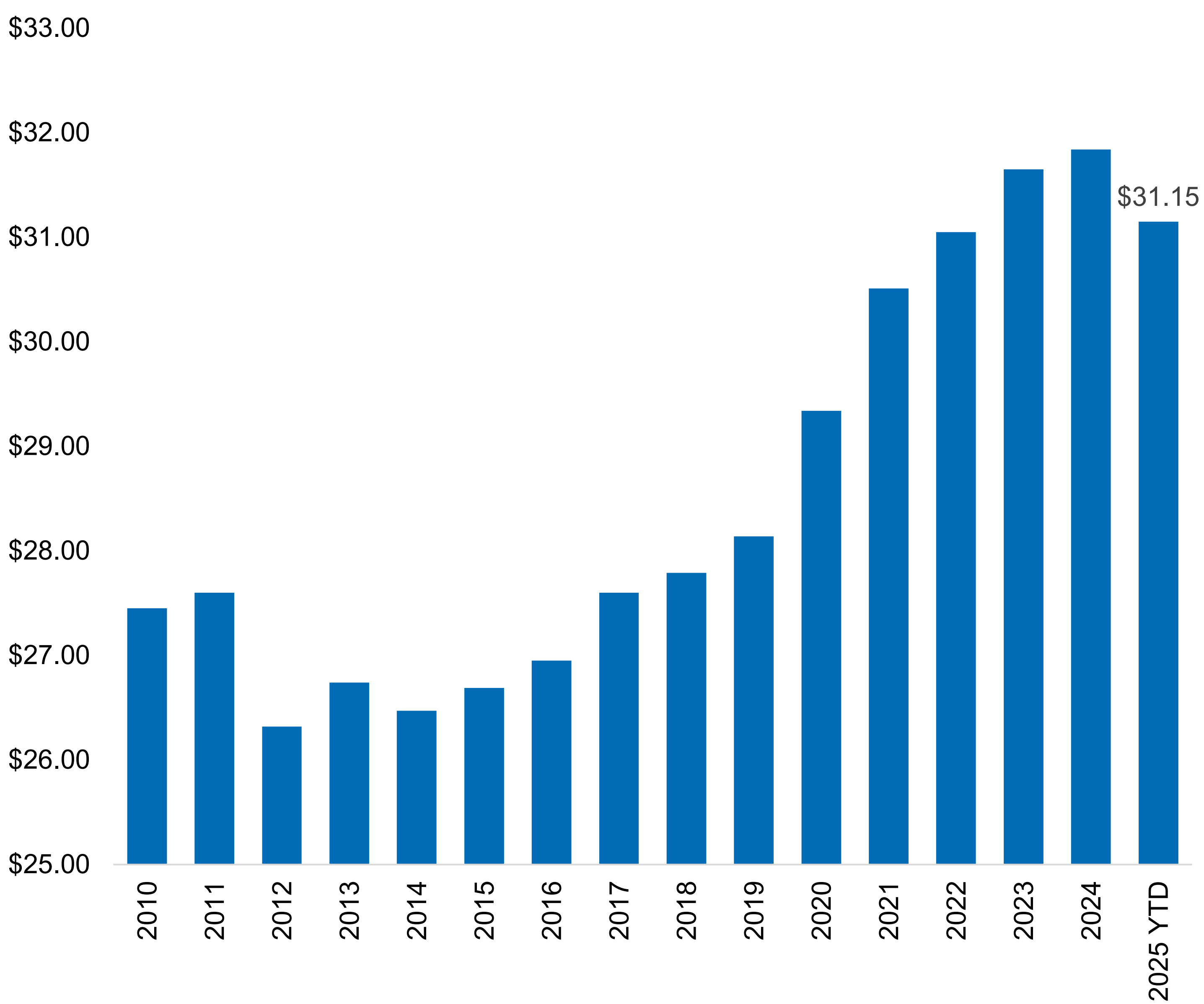


Source: Newmark Research, CoStar

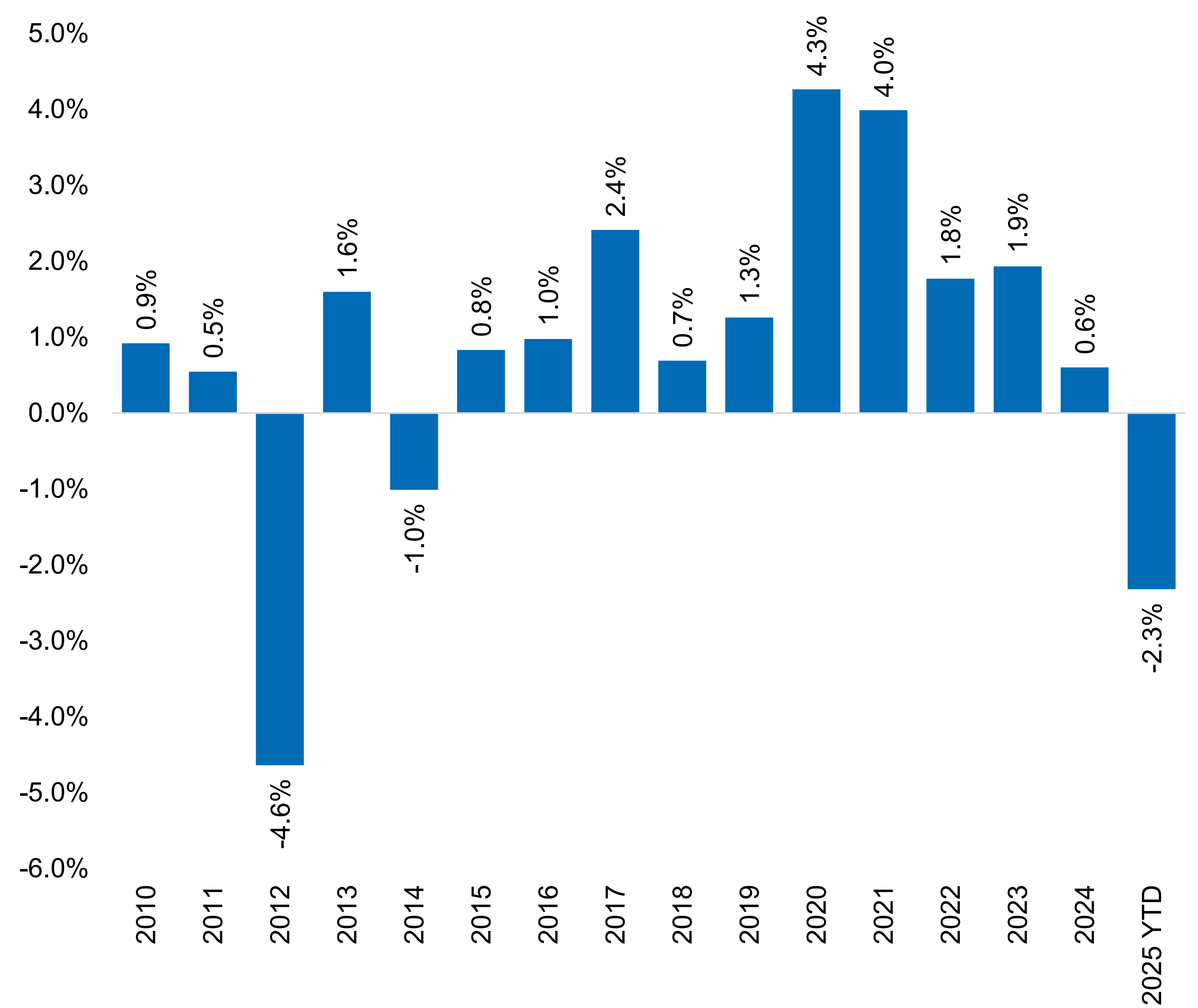
Asking Rents Dip During First Half of 2025

Average asking rents in Suburban Maryland have declined each of the last three quarters, ending Q2 2025 at $31.15 PSF, a decrease of 2.3% year-over-year. Since a cyclical high of 4.3% rent growth in 2020, the market has seen decelerating increases in rent as demand wanes, dipping into the negative through the first half of 2025.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

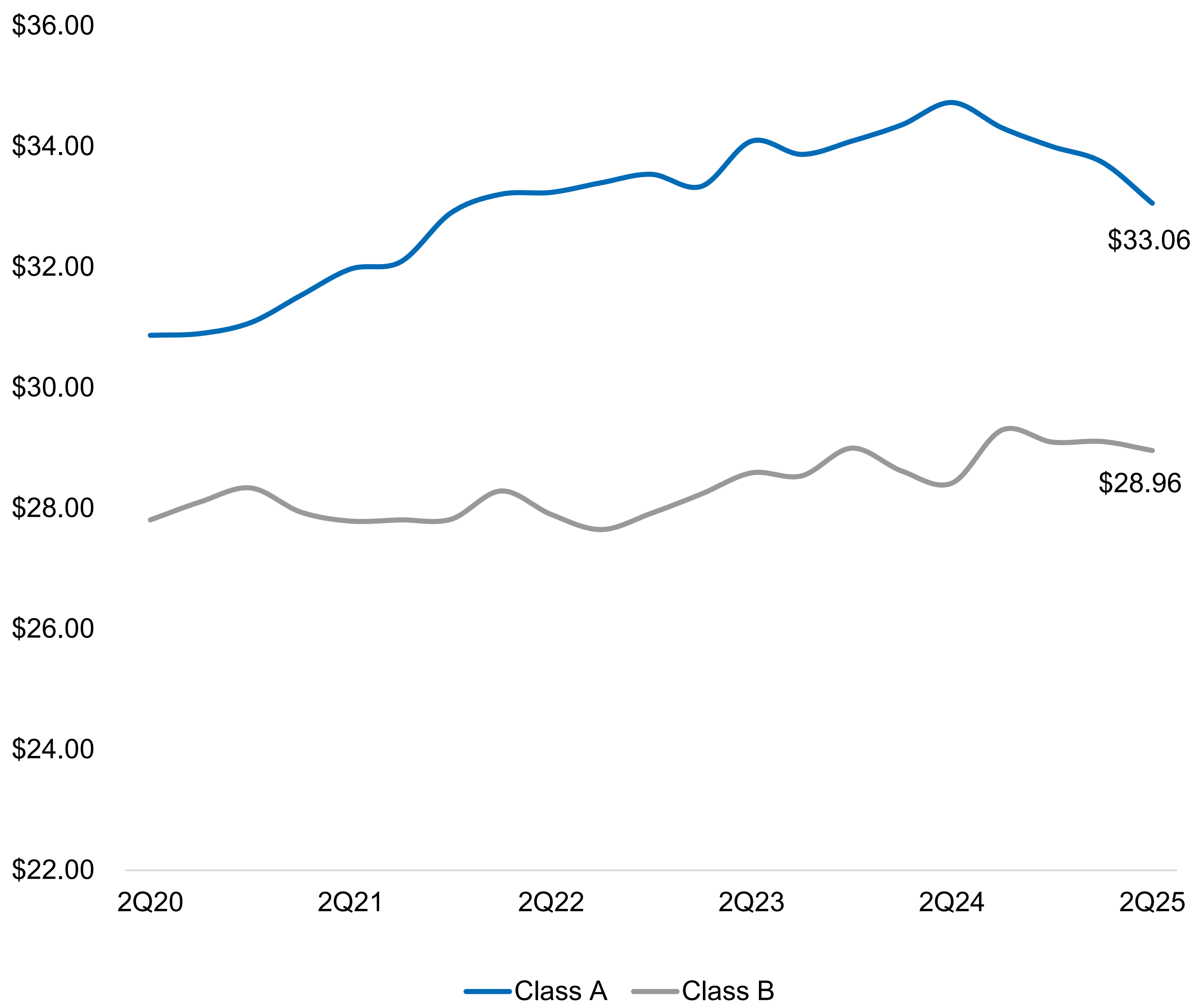


Source: Newmark Research, CoStar

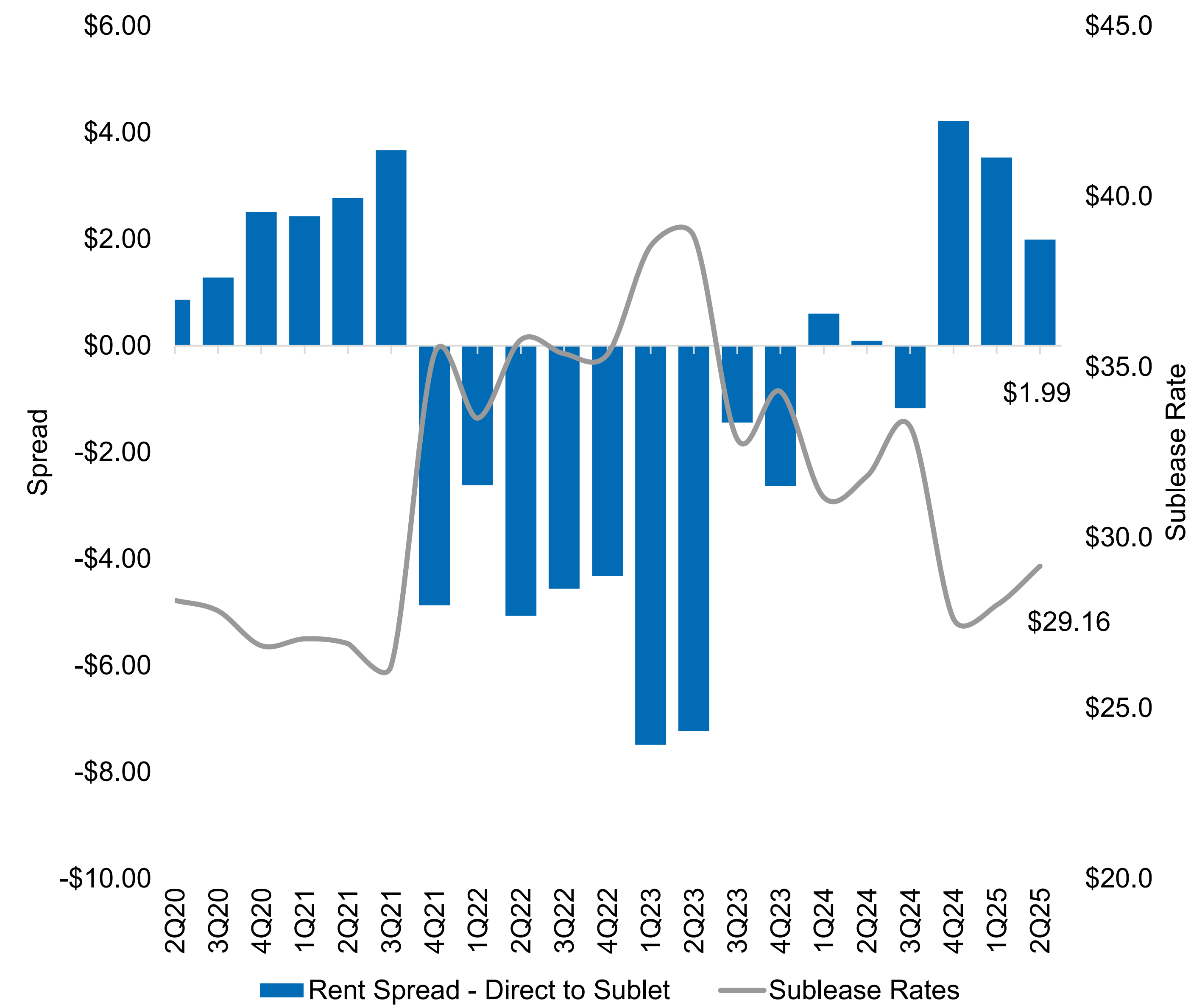
Class A Rents Decrease Slightly While Class B Rents Rise

Class A asking rents declined for the fourth straight quarter, ending the second quarter of 2025 at $33.06 PSF, a 4.8% decrease year-over-year. Class B rents also declined quarter-over-quarter but have increased by 1.9% since the second quarter of last year, ending 2Q25 at $28.96 PSF. Sublease rates have increased each of the last three quarters, ending the second quarter at $29.16 PSF, but are 7.7% below the five-year average. The direct to sublet rent spread remains positive but has declined over the first half of 2025.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Please reach out to your
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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