

3Q24

Suburban Maryland Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market remains strong amid shifting macroeconomic conditions. August’s 3.7% unemployment rate remains lower than the region’s ten-year historical average of 3.9%, although it has risen 100 basis points quarter-over-quarter and year-over-year. Furthermore, the Washington DC metro’s unemployment rate is 50 basis points lower than the national rate.
- Year-over-year, job gains were most pronounced in Education & Health, posting a gain of 2.2%. Furthermore, the Government sector also experienced notable job gains, increasing 0.4% year-over-year. The office-occupying industries of Information, Financial Activities, and Professional and Business Services experienced job losses over the past year, however, helping to account for continued limited demand for office space.
- While some office-using sectors experienced a decline in employment over the past year, jobs in the office-using sectors remain at a level that is 1.8% higher than five years ago—just prior to the pandemic—and 6.6% higher than the pandemic-induced employment trough in May 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.
- The largest sale during the quarter was 2115 East Jefferson Street located in the North Bethesda submarket. The property was sold by Stanford Properties to Kennedy Lewis Investment Management for \$21.76 M, or \$148.75 PSF. The six-story, 146,286-square-foot building, located on 5.57 acres of land, was fully vacant at the time of sale and has been vacant since June 2022 when the National Institute of Health vacated the property. The property sold for land value with a plan to demolish the building and construct 86 townhomes.

Leasing Market Fundamentals

- Suburban Maryland’s net absorption stayed relatively flat during Q3 2024, totaling negative 10,943 square feet. Overall vacancy ended the quarter at 19.7%, flat quarter-over-quarter and 170 basis points higher year-over-year.
- After a building boom over the past five years, the pace of new construction deliveries has begun to slow. 2023 only saw two office deliveries in Suburban Maryland and there have been no deliveries in 2024. Furthermore, only one property remains under construction in the market.
- As in other markets, rents for Class A and trophy space in Suburban Maryland have outperformed Class B and C space. In terms of lease type, renewals continue to drive leasing volume as the four largest leases of the third quarter were renewals.

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. In addition, a restrained office pipeline should help limit rising vacancies.
- 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. Meanwhile, conditions continue to soften in Class B and C assets.

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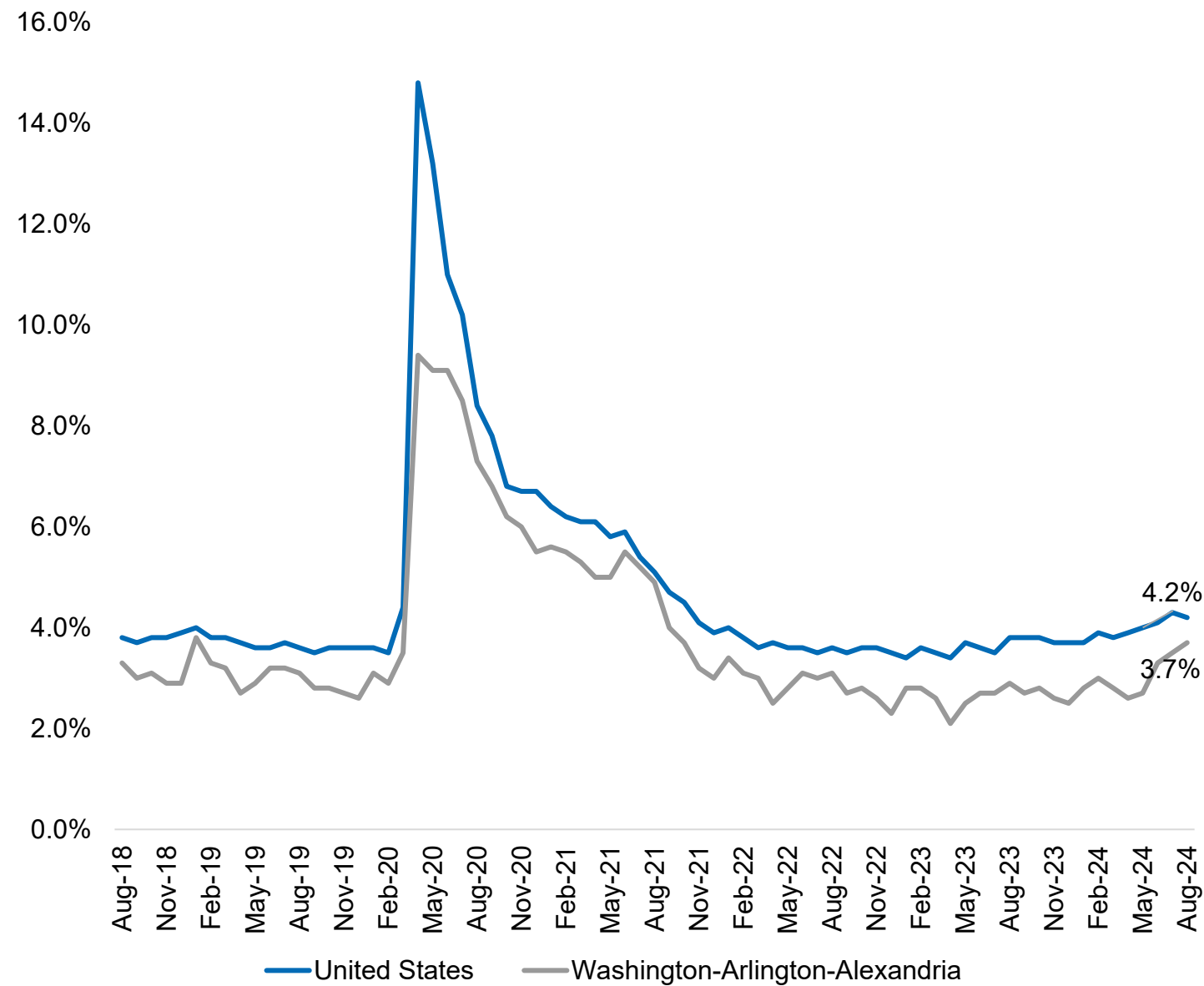
Economy



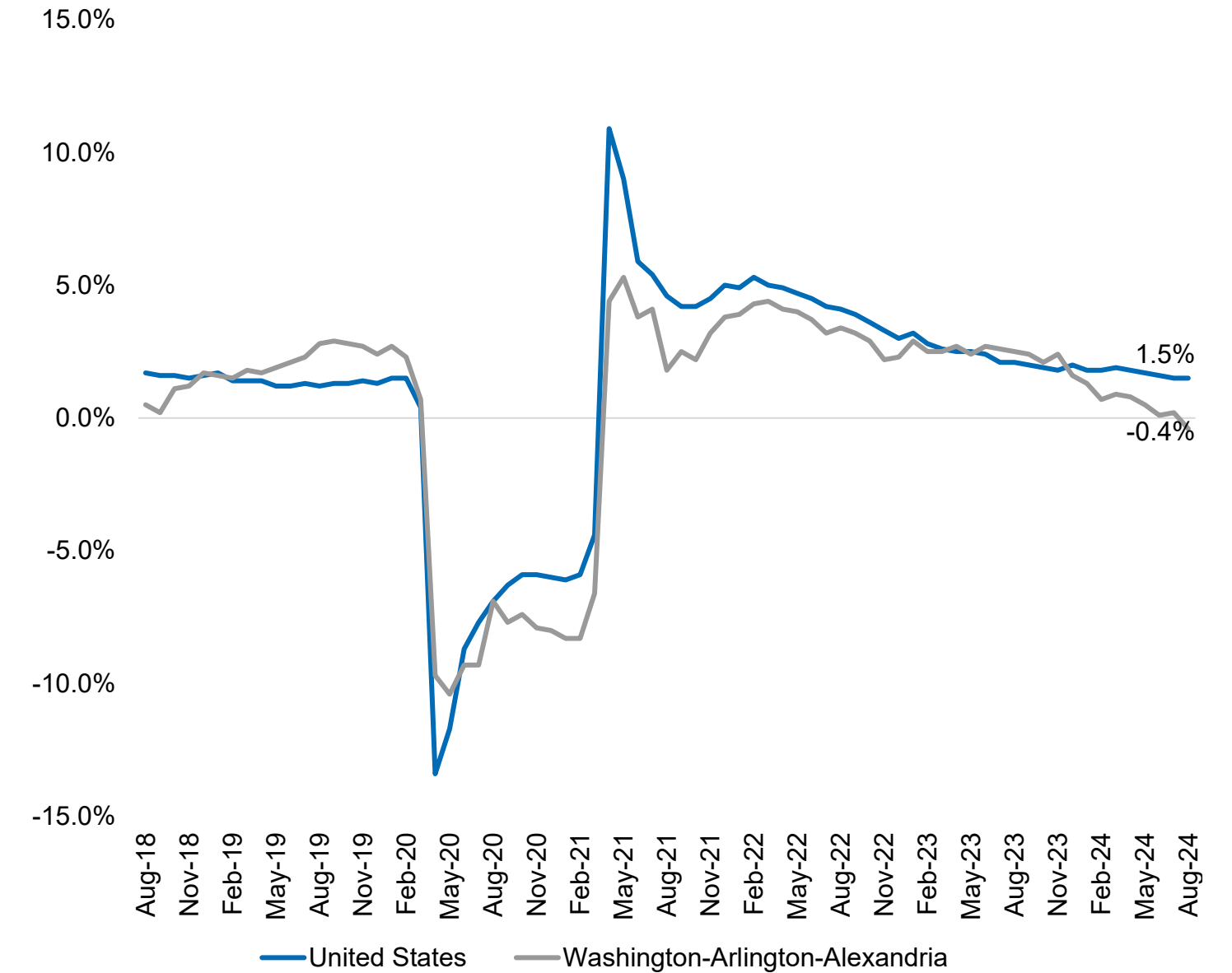
Metro Employment Job Growth Enters Negative Territory

The region's labor market is very tight, with unemployment 50 basis points below the national average. However, it is showing signs of loosening as the spread between the regional and national labor market decreasing 70 basis points quarter-over-quarter. National job growth has begun to slow, but nonetheless remains positive. Regional job growth has dipped to -0.4% year-over-year.

Unemployment Rate, Non-Seasonally Adjusted



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

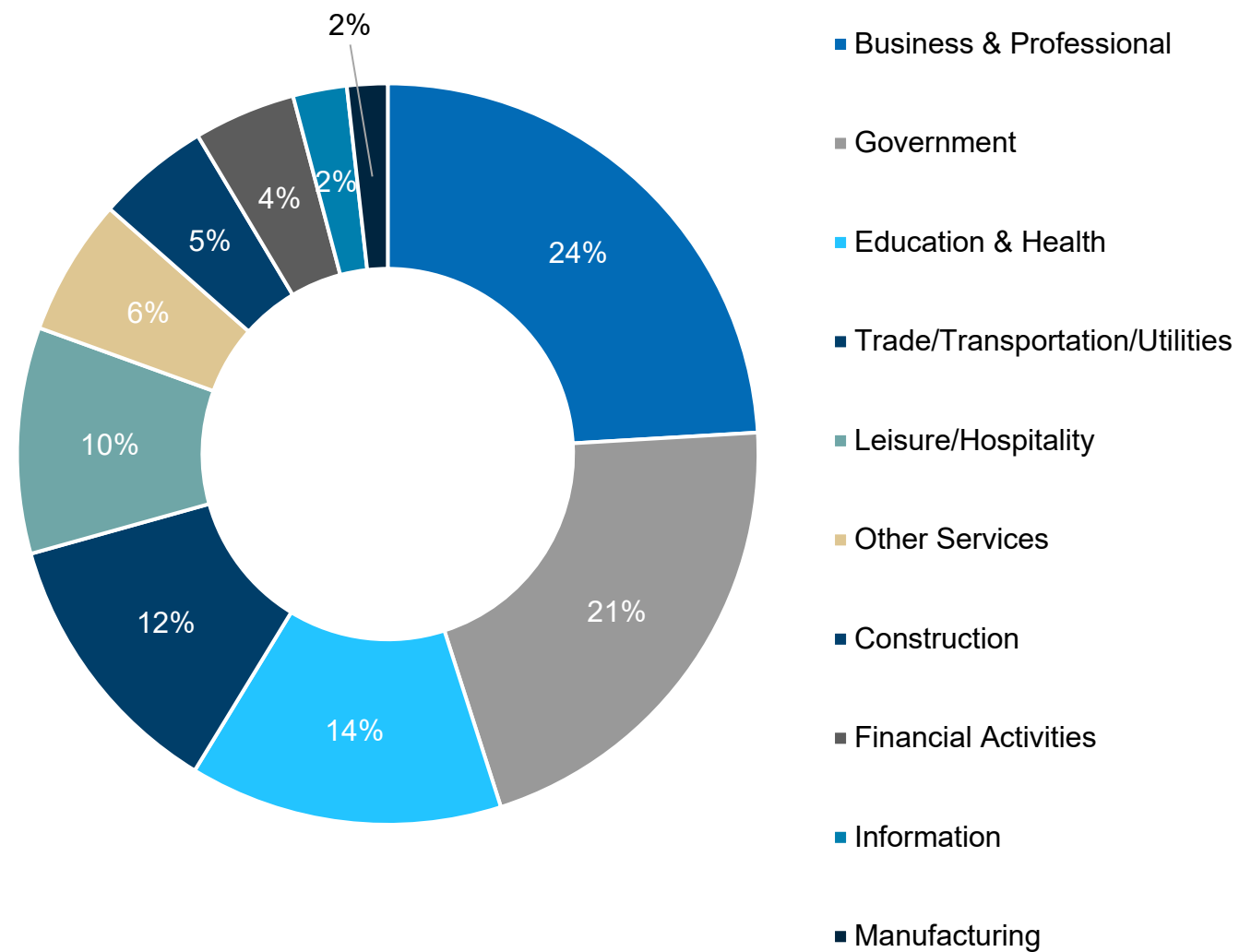


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

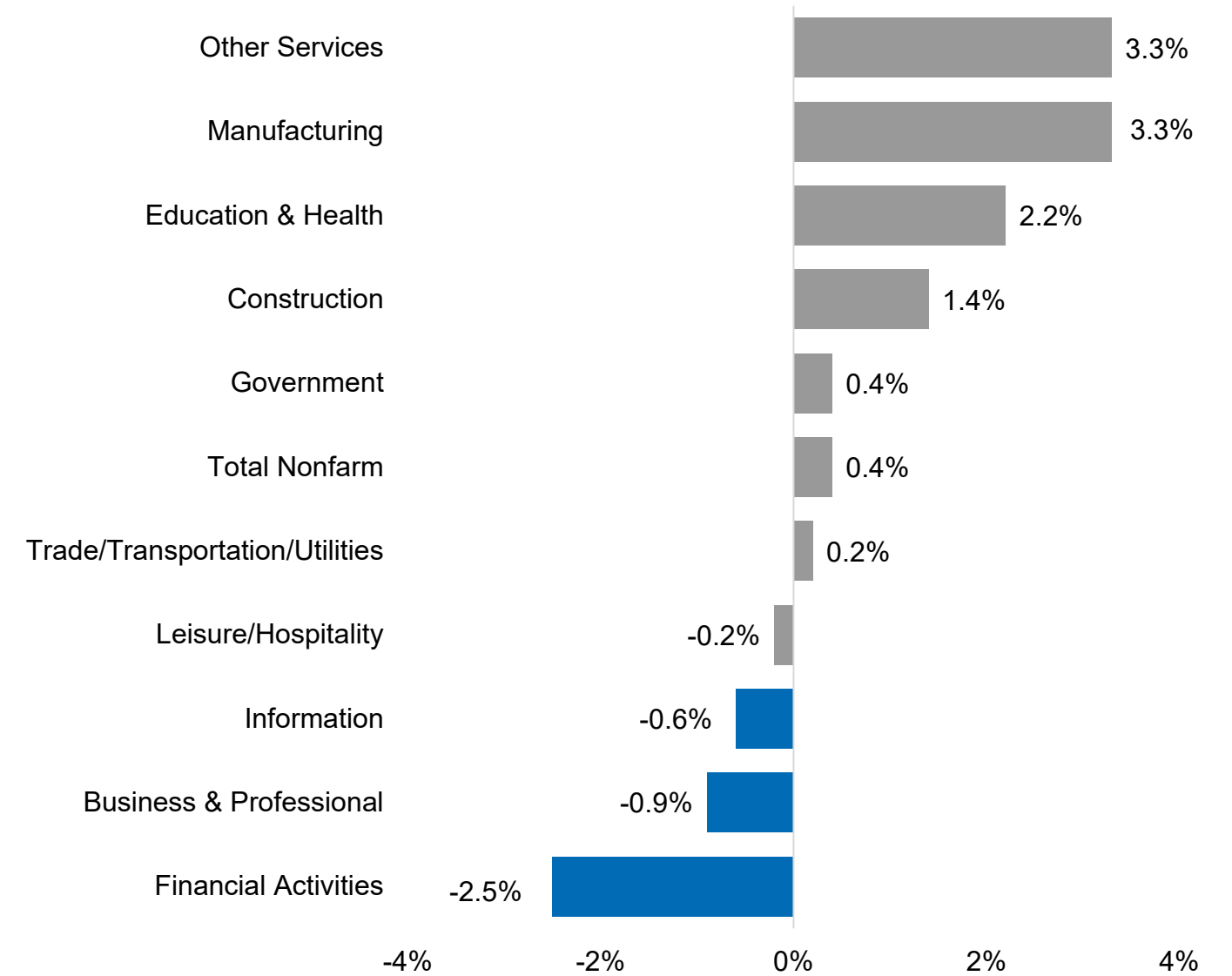
Job Growth Driven by Other Services, Manufacturing, and Education & Health

Education, Health, and Government propped up job growth in the region, leading to total nonfarm employment growth of 0.9%. Despite this, office-occupying industries of Information, Financial Activities, and Professional and Business Services experienced some job losses over the past year, contributing to declining demand for office space.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

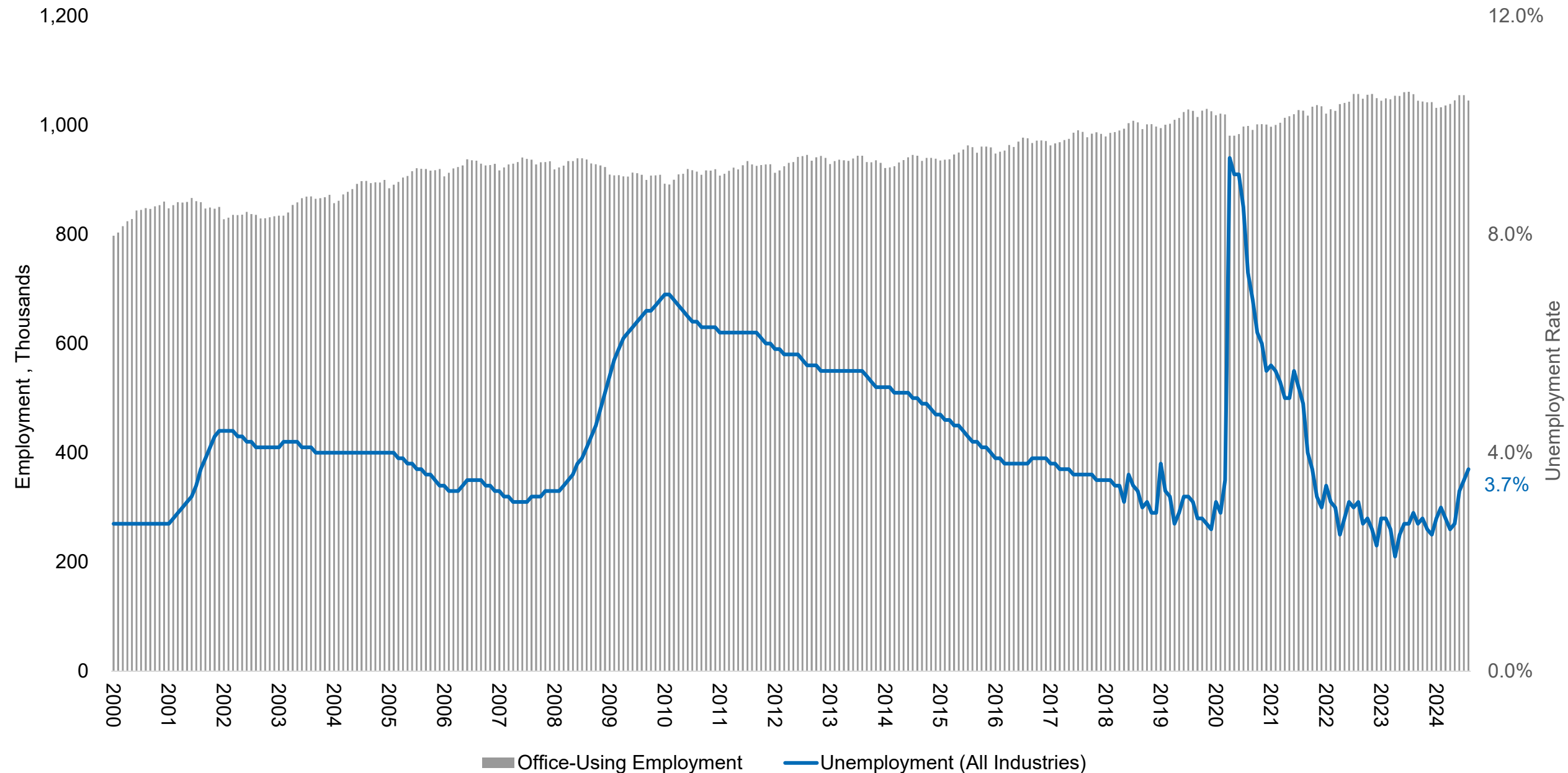


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

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 2.5% higher than four years ago—just before the pandemic—and 6.7% higher than the pandemic-induced employment trough in May 2020.

Office-Using Employment* and Unemployment Across All Industries



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

Note: August 2024 data is preliminary.

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

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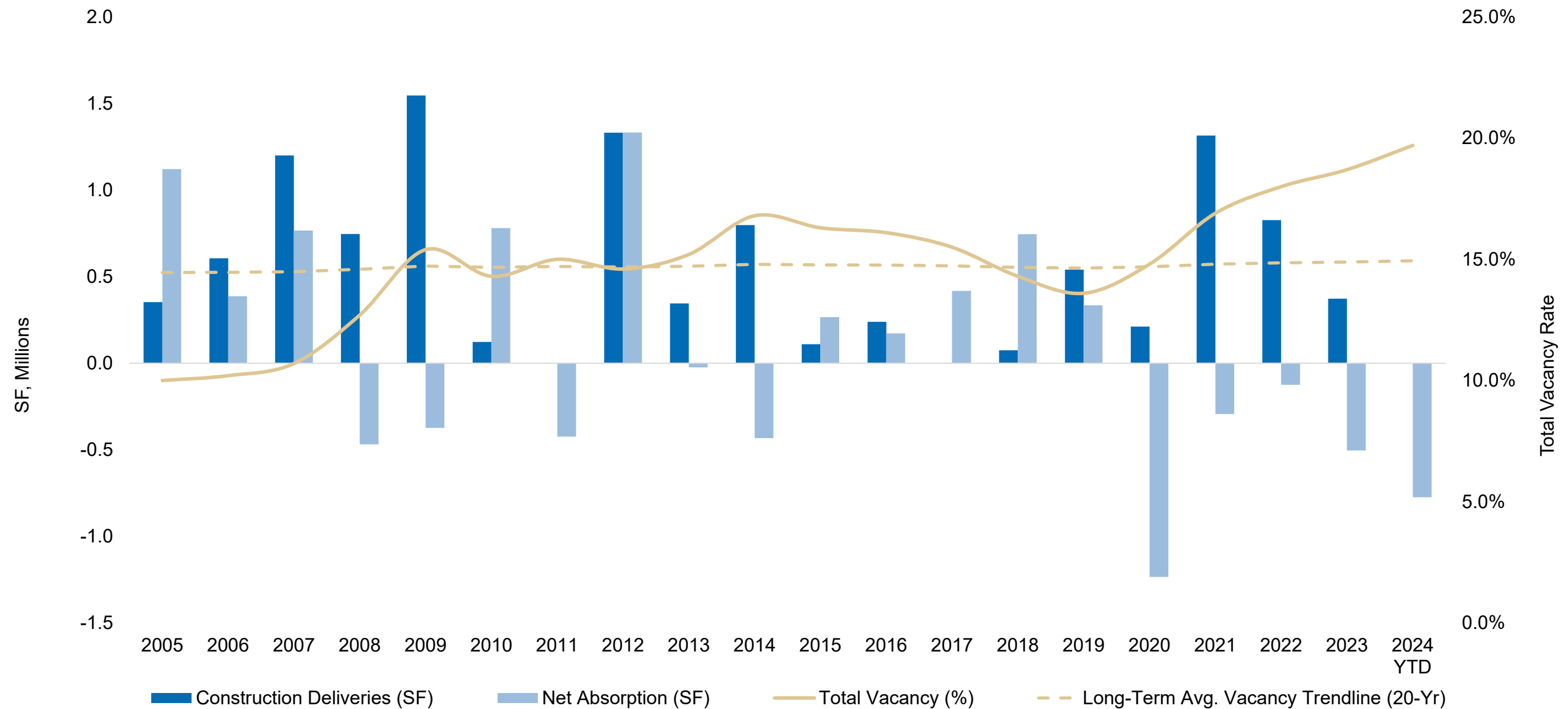
Leasing Market Fundamentals



Vacancy Rises while Construction Deliveries Slow Down

Suburban Maryland's vacancy rate remained the same quarter-over-quarter in the third quarter of 2024 to 19.7%. This flatlining in vacancy, in tandem with a historically low pipeline shows positive signs for suburban Maryland and may indicate the market has reached its cyclical low.

Historical Construction Deliveries, Net Absorption, and Vacancy

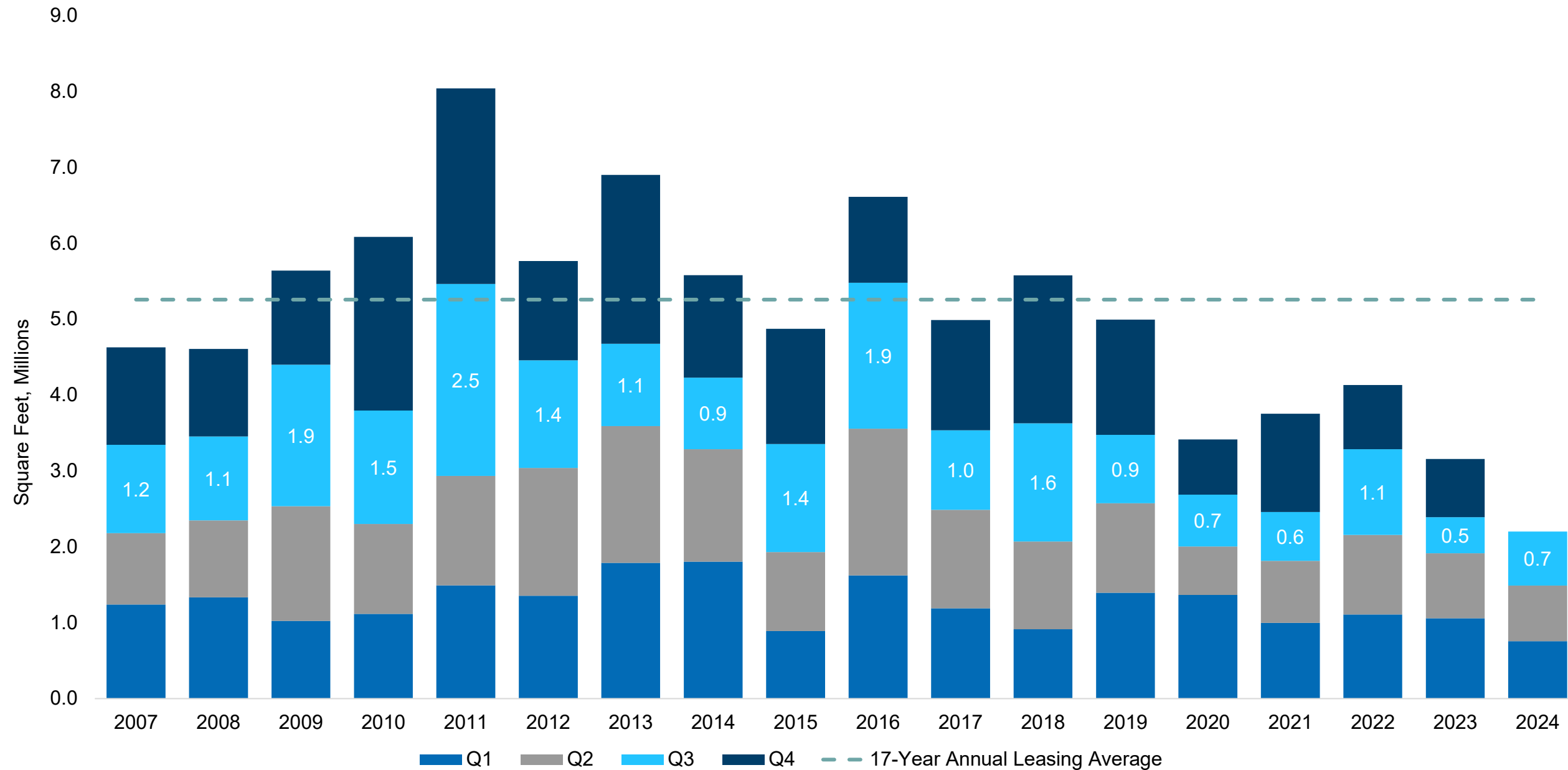


Source: Newmark Research, CoStar

Leasing Activity Has Slowed

Annual leasing volume for 2023 was slightly lower than over the past three years, and volume during the first three quarters of 2024 is the lowest on record, with only 2.2 million SF of leasing activity year-to-date.

Total Leasing Activity (msf)

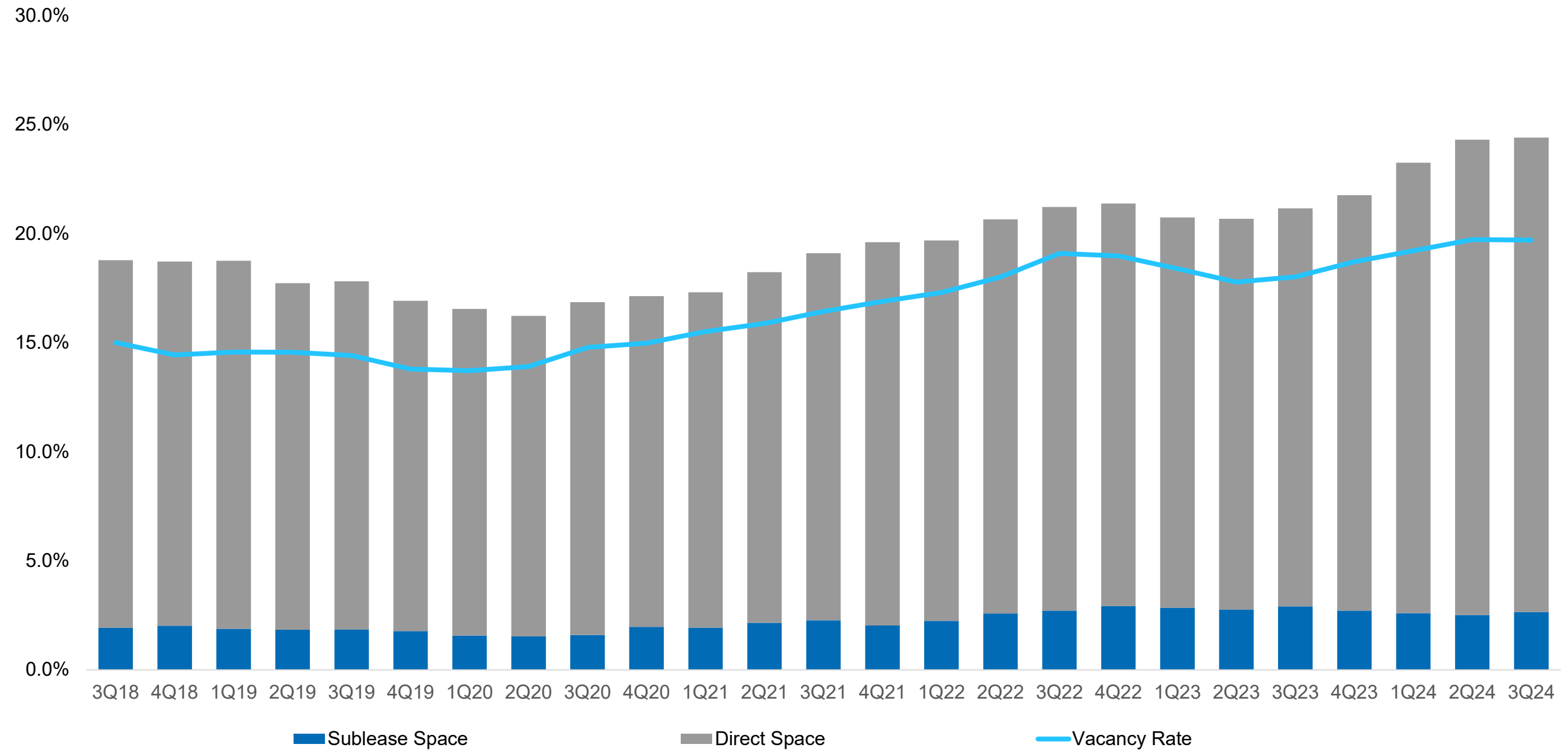


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Available office space sits at or near a historical high, both in terms of direct and sublease space. However, available direct space has declined 10 basis points quarter-over-quarter. Over the past five years, the direct availability rate has averaged 18.0% while the sublease availability rate has averaged 2.4%. The 3Q24 availability rates of 21.7% for direct space and 2.7% for sublease space are above the long-term average.

Available Space by Type as Percent of Overall Market

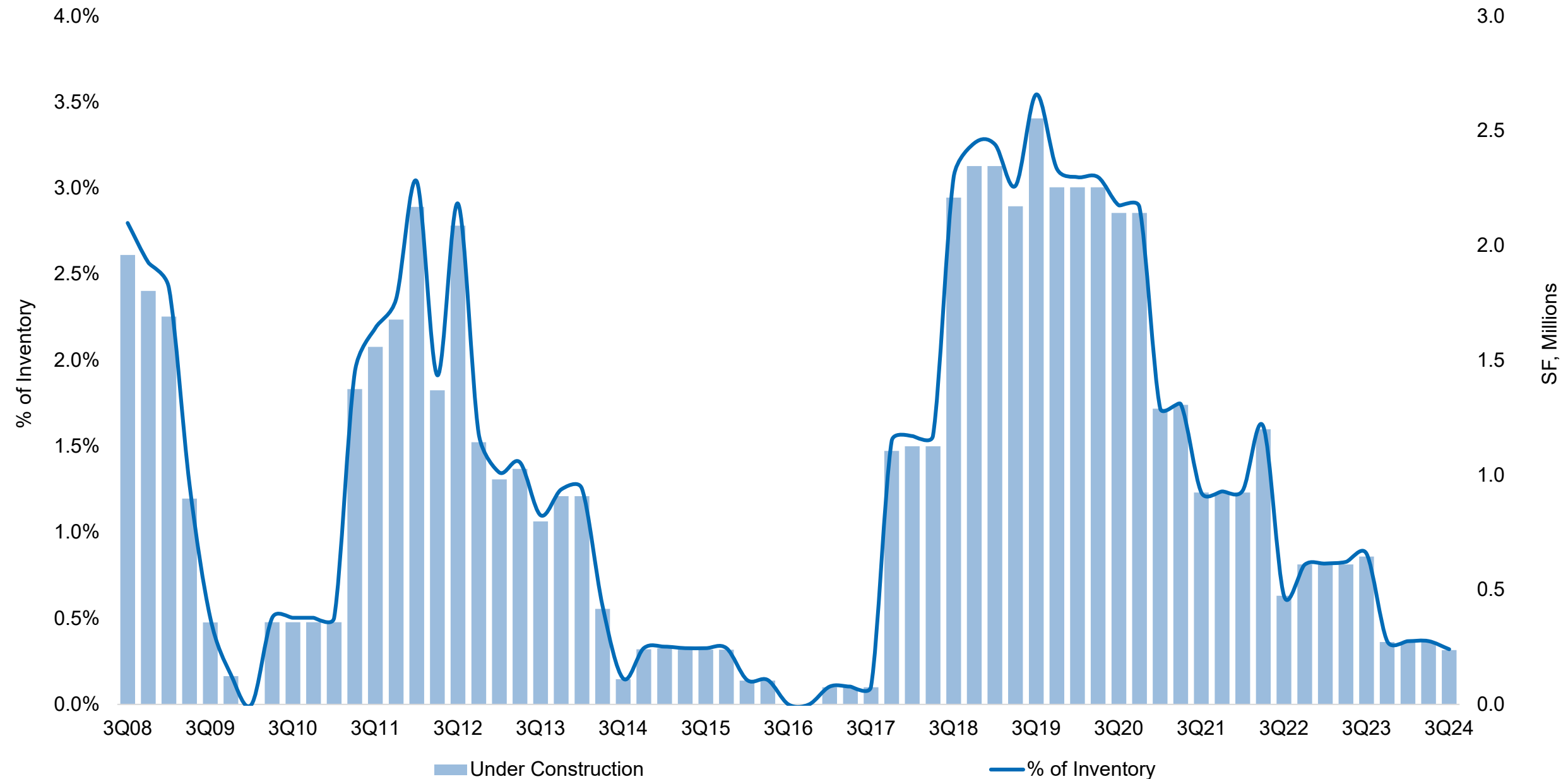


Source: Newmark Research

Slowing Office Construction Pipeline Will Help Ease Rising Vacancy

The building boom that has occurred in Suburban Maryland over the past five years is waning, with only one project remaining under construction, 1600 Rockville Pike. 1600 Rockville Pike is BF Saul's office building that is part of the Twinbrook Quarter mixed-use development and is expected to deliver later this year as a part of phase 1b. This limited pipeline in combination with existing conversions of office into other uses will help ease rising availability as supply decreases.

Office Under Construction and % of Inventory

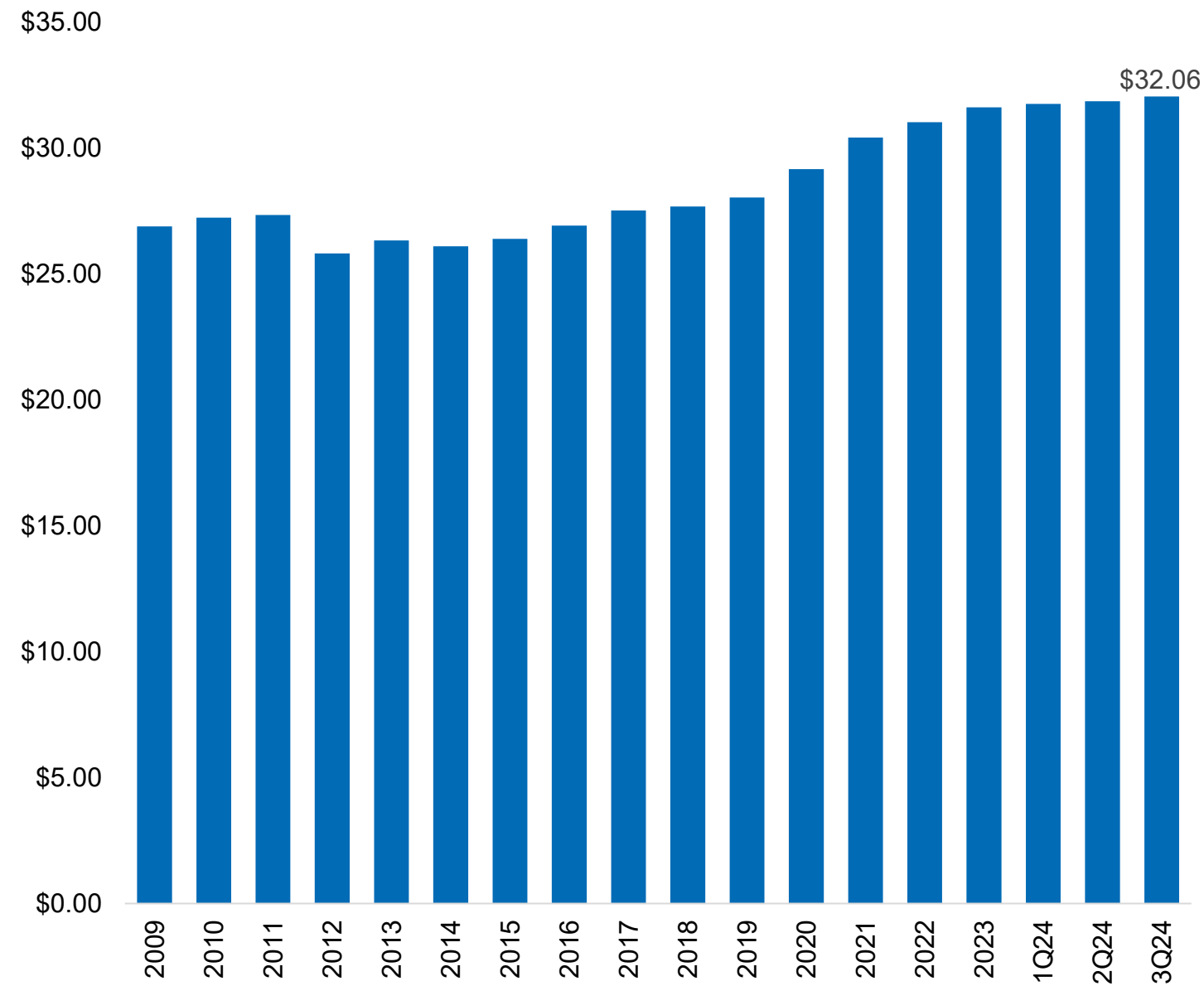


Source: Newmark Research, CoStar

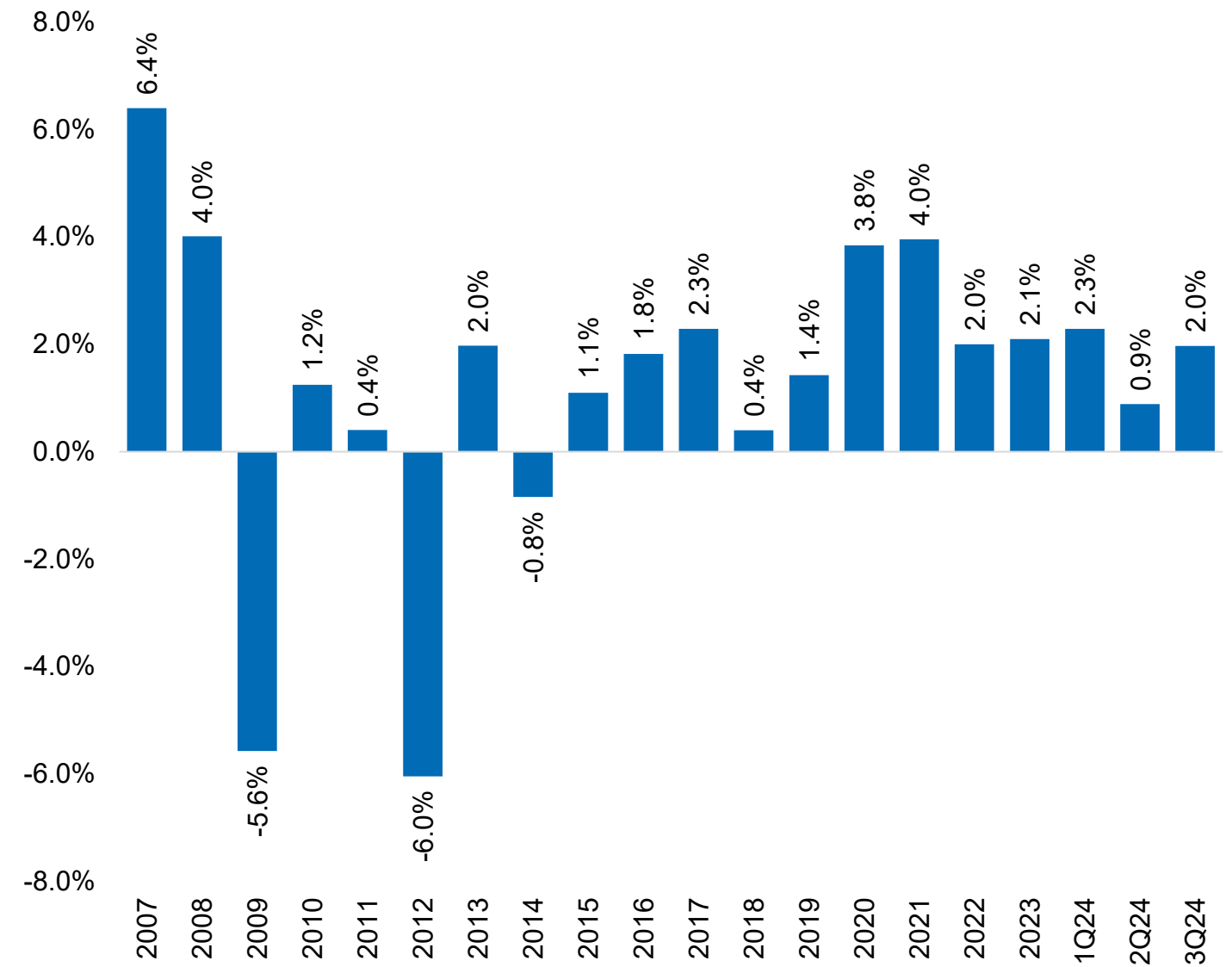
Asking Rents Continue to Rise

In past cycles, asking rents have adjusted downward to account for depressed demand, but it often takes many quarters or even years for rates to fall, as asset owners seek to maintain face rates while increasing concessions to attract tenants.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

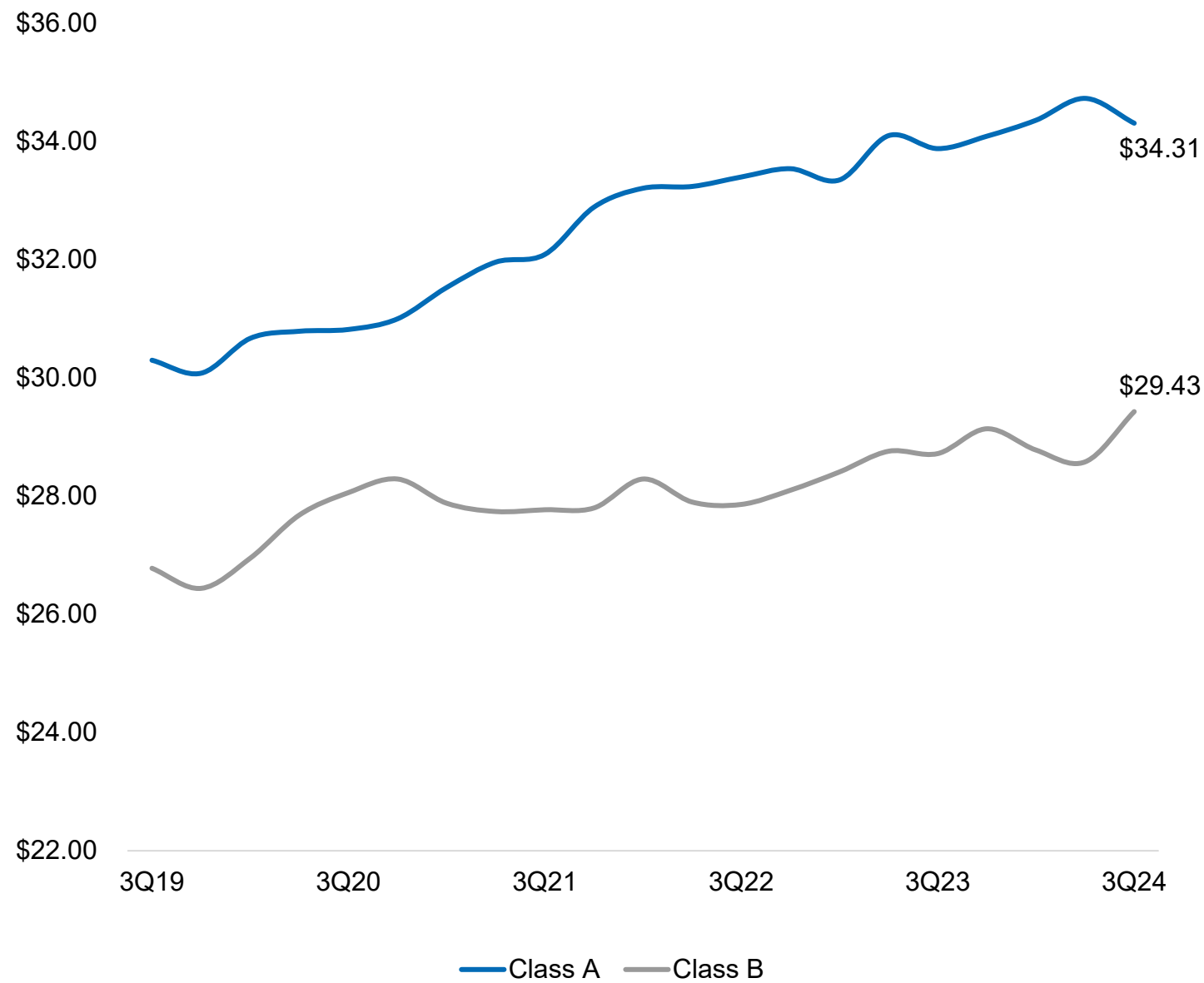


Source: Newmark Research, CoStar

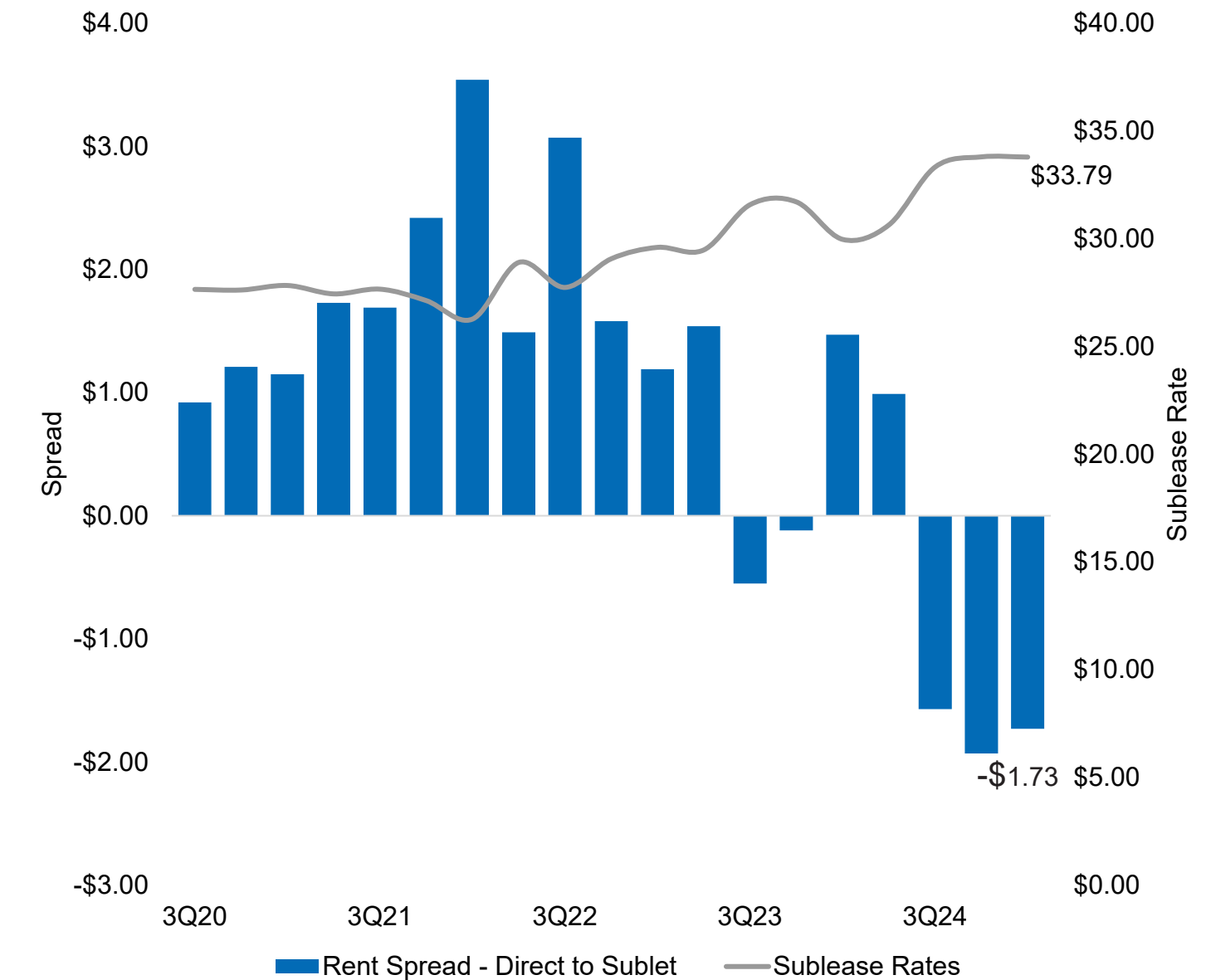
Asking Rents Show Class Bifurcation

As in other markets, Class A and trophy space in Suburban Maryland has outperformed Class B and C space. Sublease asking rents are more volatile, with the marketing of higher-priced blocks of space causing swings in the average asking rental rate. Recent movement in the spread between direct and sublease rents can be attributed to sublease space transitioning to direct listings once their term ends.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



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Market Statistics



Suburban Maryland Office Market Overview (page 1 of 2)

Market Statistics By Class

	Total Inventory (SF)	Overall Vacancy	Overall Availability	3Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Suburban Maryland	73,910,482	19.7%	24.4%	-10,943	-775,037	0	0	237,000	\$32.06
Class A	41,978,789	21.2%	27.3%	-19,168	-628,364	0	0	237,000	\$34.31
Class B	22,523,285	19.2%	22.8%	-9,417	-28,992	0	0	0	\$29.43
Class C	9,408,408	14.3%	15.5%	17,642	-117,681	0	0	0	\$25.76

Submarket Statistics – All Classes

	Total Inventory (SF)	Overall Vacancy	Overall Availability	3Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Beltsville	1,463,332	15.8%	24.6%	2,526	28,867	0	0	0	\$24.01
Bethesda	11,849,910	27.2%	31.1%	16,622	-130,334	0	0	0	\$45.46
Bowie	1,229,062	10.6%	15.7%	-2,607	792	0	0	0	\$25.72
College Park	3,294,229	14.9%	10.5%	6,967	5,716	0	0	0	\$24.02
Gaithersburg	3,096,979	12.6%	15.7%	14,391	64,745	0	0	0	\$24.40

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Submarket Statistics – All Classes

	Total Inventory (SF)	Overall Vacancy	Overall Availability	3Q 2024 Absorption (SF)	YTD 2024 Absorption (SF)	3Q 2024 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Asking Rent (Price/SF)
Germantown	2,008,798	30.2%	34.9%	-61,146	-26,470	0	0	0	\$25.64
Greenbelt	2,869,682	28.4%	32.7%	6,080	-70,832	0	0	0	\$22.71
Landover/Lanham/Largo	4,360,350	9.5%	19.2%	-7,486	-19,960	0	0	0	\$23.69
Laurel	1,842,894	24.7%	22.1%	-21,098	-76,103	0	0	0	\$22.37
N. Rockville	11,078,842	21.7%	28.2%	48,391	-305,446	0	0	0	\$29.79
North Bethesda	9,642,472	21.0%	31.5%	-2,328	10,797	0	0	0	\$30.92
Rockville	8,906,421	19.0%	19.6%	12,177	-153,902	0	0	237,000	\$33.17
Silver Spring	9,661,916	15.6%	20.6%	-13,314	-41,809	0	0	0	\$29.18
Southern Prince George's County	2,605,595	7.2%	7.7%	-10,118	-61,098	0	0	0	\$25.84

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