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4Q24

# Suburban Maryland Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- The region’s labor market remains strong amid shifting macroeconomic conditions. October’s 3.1% unemployment rate remains lower than the region’s ten-year historical average of 3.8%, tightening 60 basis points quarter-over-quarter and expanding 30 bps year-over-year. Furthermore, the Washington DC metro’s unemployment rate is 100 bps lower than the national rate.
- Year-over-year, office-related job gains were most pronounced in Education & Health, posting a gain of 2.4%. Furthermore, the Business & Professional and Government sectors also experienced notable job gains, increasing 1.4% and 0.6% year-over-year, respectively. The office-occupying industries of Information and Financial Activities 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 1.5% higher than five years ago—just prior to the pandemic—and 6.3% 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 7735 Old Georgetown Road located in the Bethesda submarket. The property was sold by Washington Capital Management Inc to The Duffie Companies and The Gudelsky Company for \$12.2 M, or \$87.90 PSF. The 12-story, 139,800-square-foot building, located on 0.52 acres of land, was 65.3% leased at the time of sale.

## Leasing Market Fundamentals

- Suburban Maryland saw positive activity during Q4 2024, with 46,000 SF of positive net absorption. This was the market’s first quarter with positive net absorption since Q1 2023. Overall vacancy ended the quarter at 20.3%, tightening 10 bps quarter-over-quarter, however expanding 110 bps 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 continued to rise during 2024, however at a decelerating pace relative to recent years. Since the market saw a 4.2% annual increase in rents during 2020, the market has seen a deceleration, ending 2024 with a 0.6% increase in rents.

## 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 50,000 SF. 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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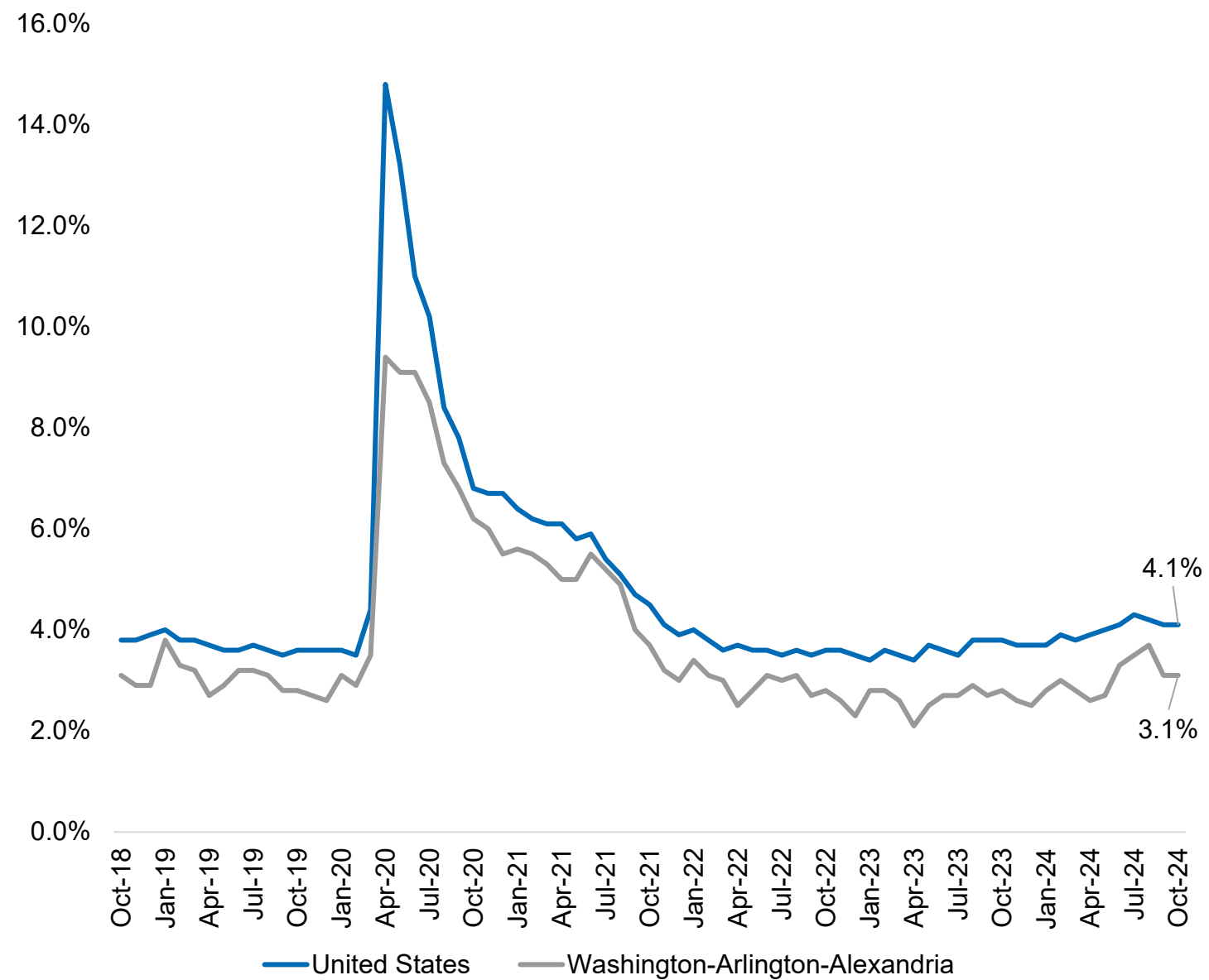
# Economy



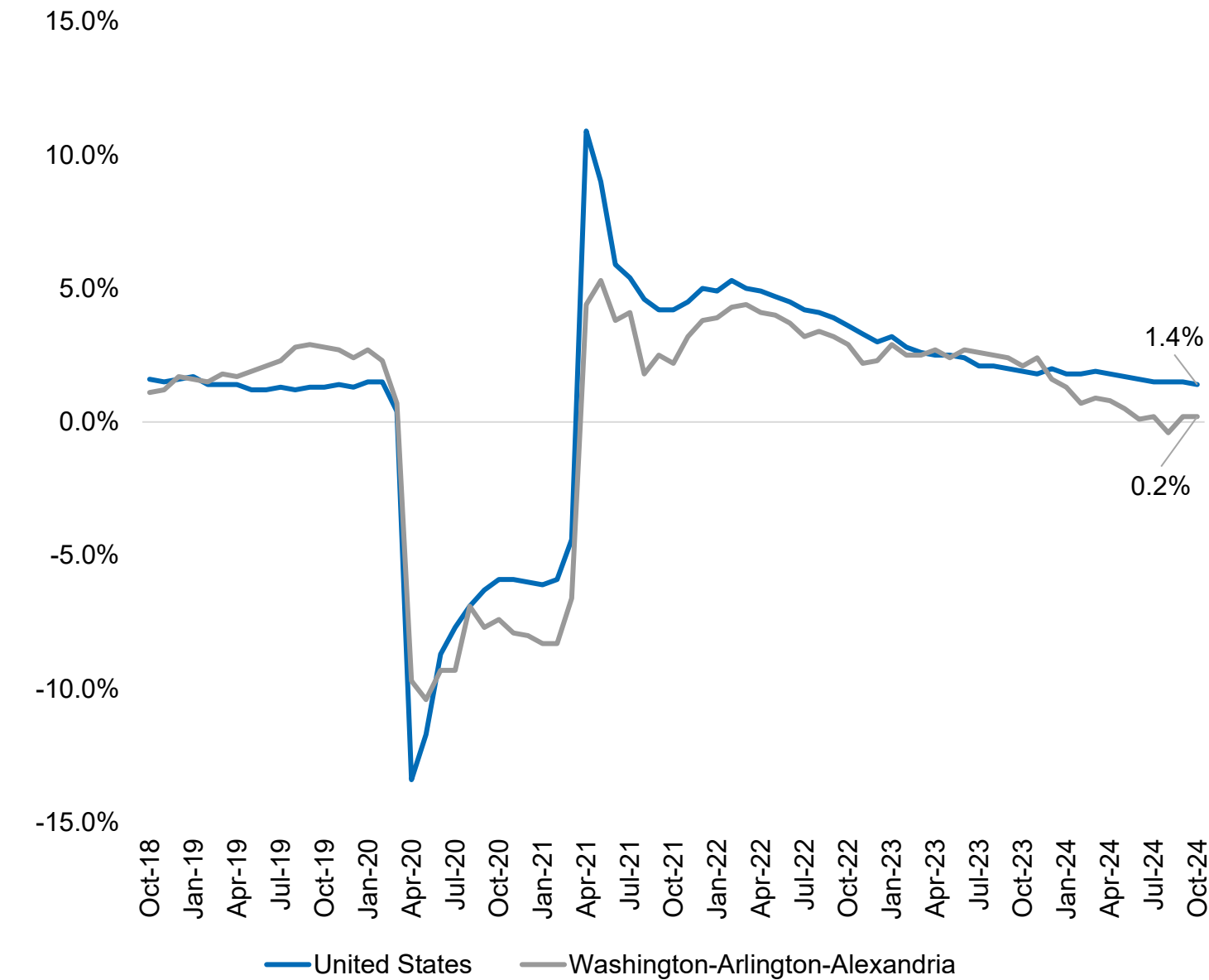
# Metro Employment Job Growth Rebounds from Negative Territory

The region's labor market is very tight, with unemployment 100 basis points below the national average. The metro unemployment rate drastically decreased 60 basis points from last quarter. National job growth has begun to slow but nonetheless remains positive. Year-over-year regional job growth has recovered slightly from net losses of -0.4% in August to positive growth of 0.2% in October.

Unemployment Rate, Seasonally Adjusted



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



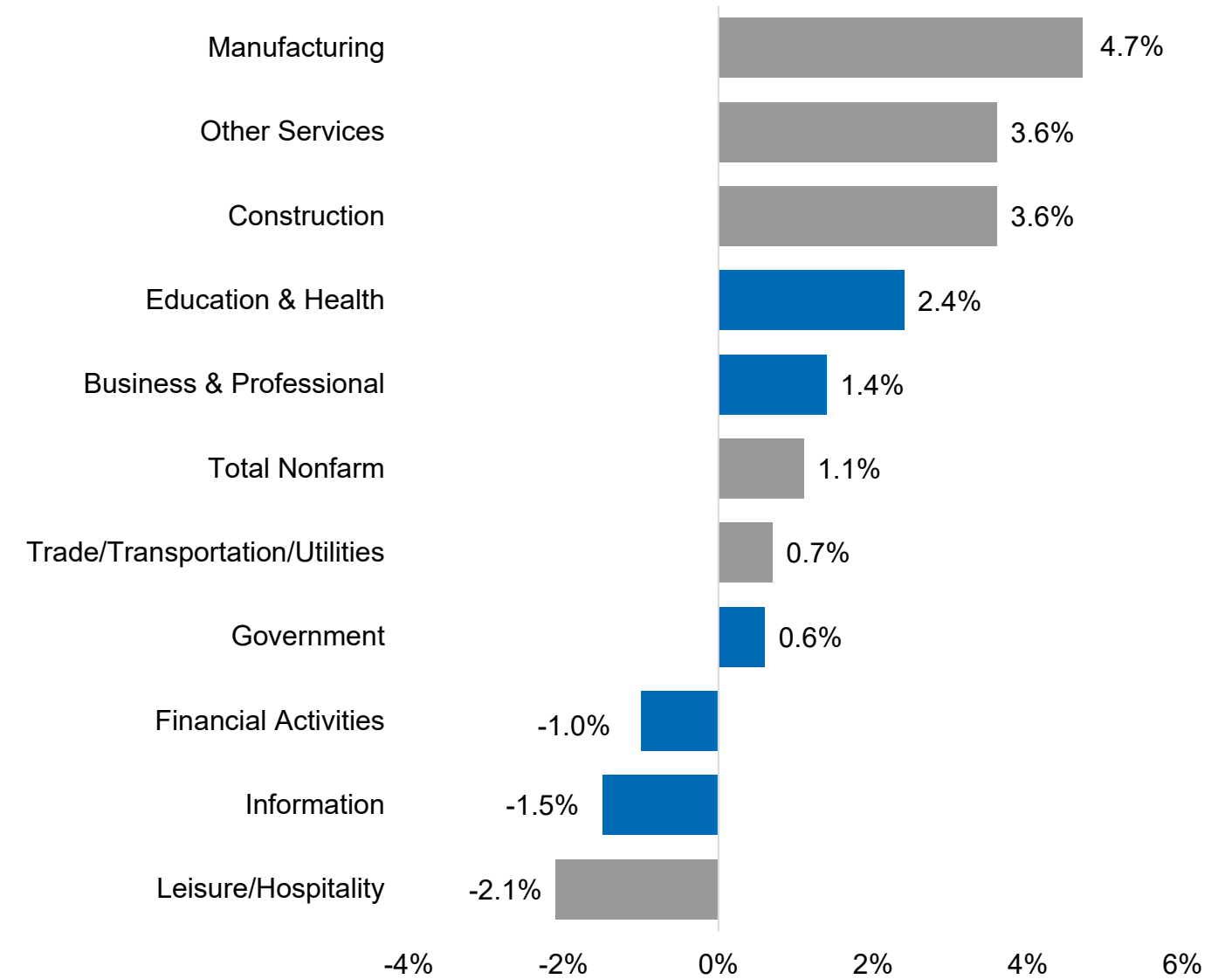
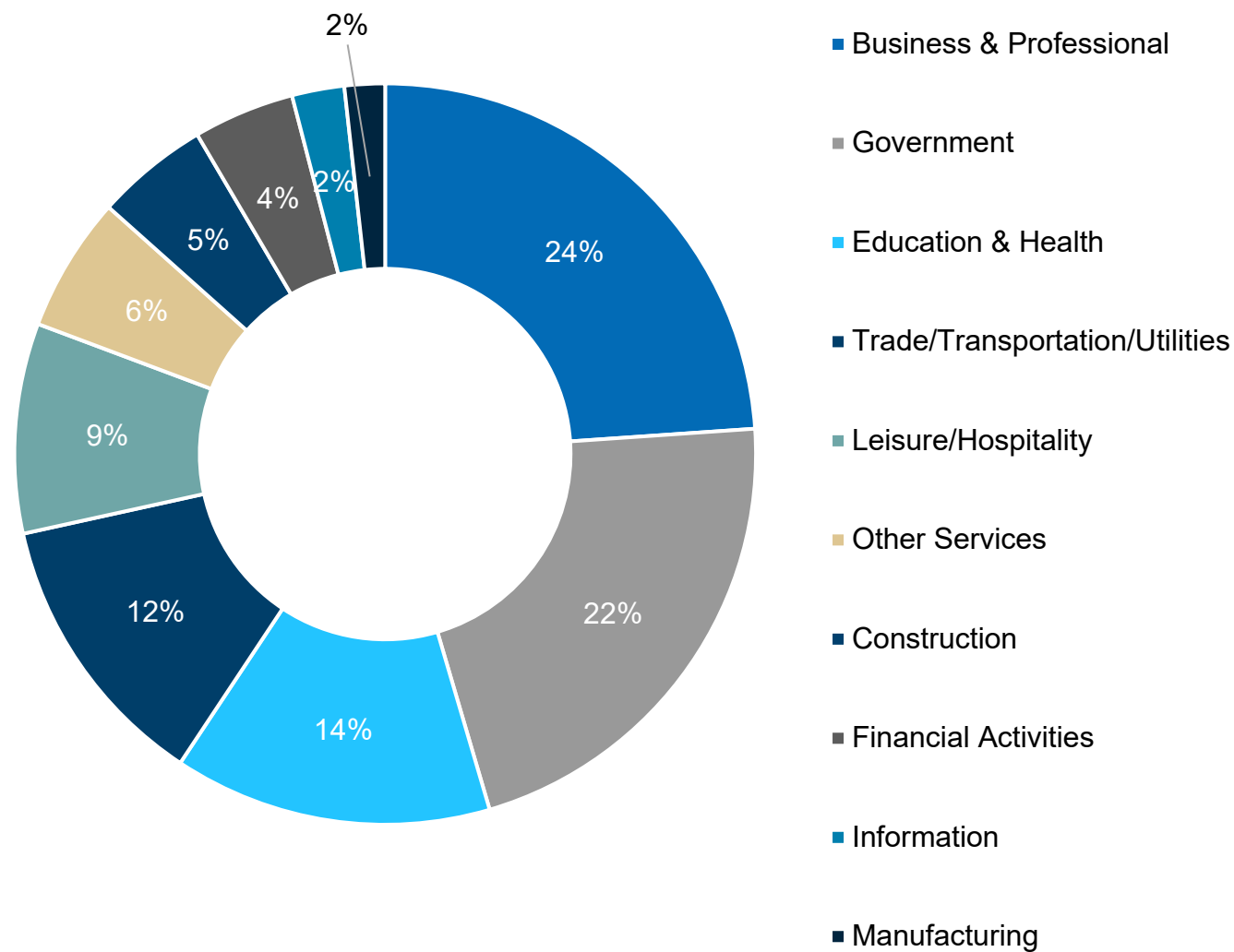
Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

# Job Growth Driven in Large Part by Manufacturing, Other Services, and Construction

Rather atypically, Manufacturing, Other Services, and Construction propped up job growth in the region, leading to total nonfarm employment growth of 1.1%. Although the other office-using sectors of Financial Activities and Information continued to have negative job growth, Business and Professional Services grew 1.4% year-over-year.

Employment by Industry, November 2024

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



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

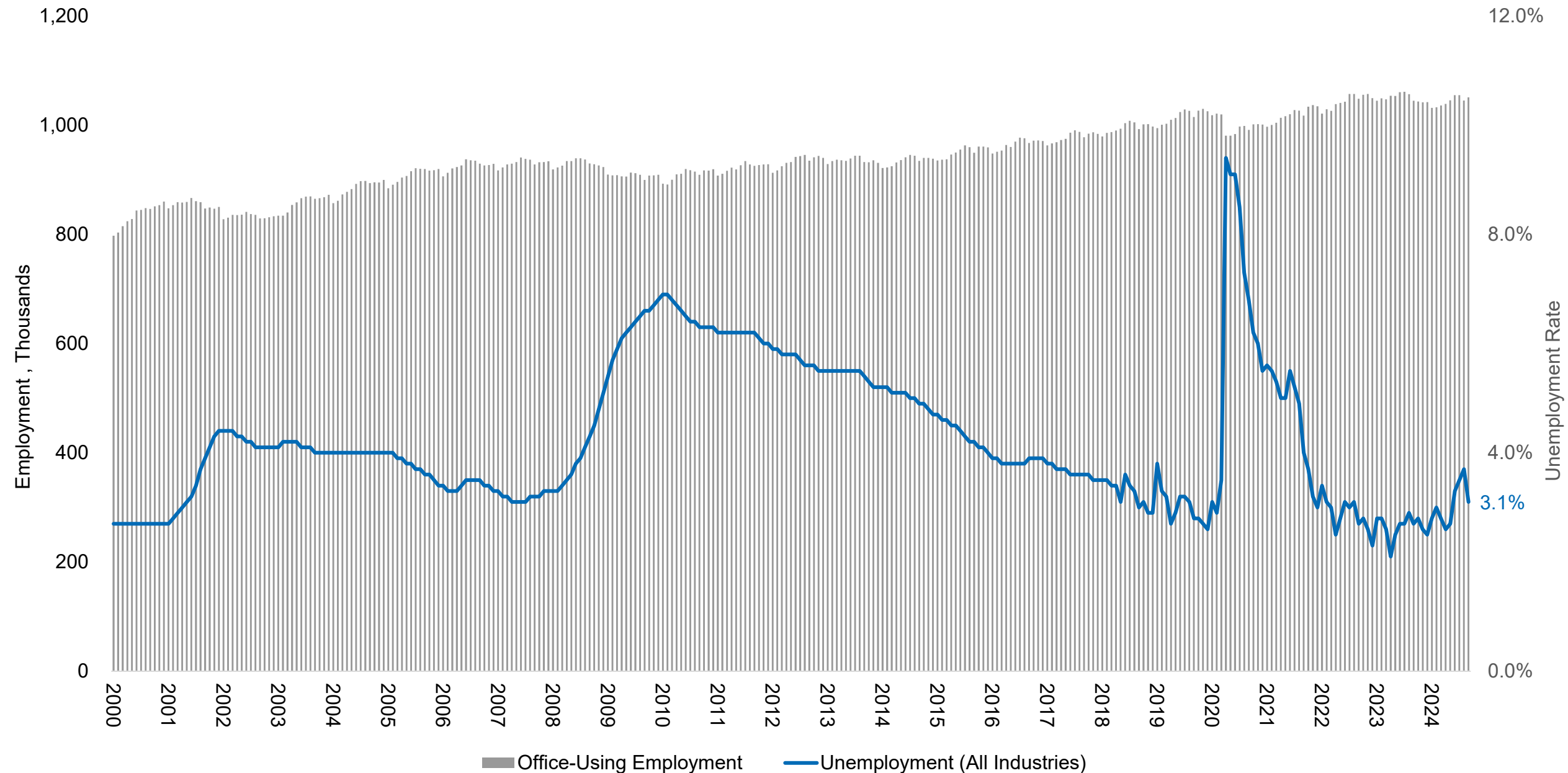
Note: November 2024 data is preliminary.

\*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 2.4% 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-Alexandria-Arlington

Note: October 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

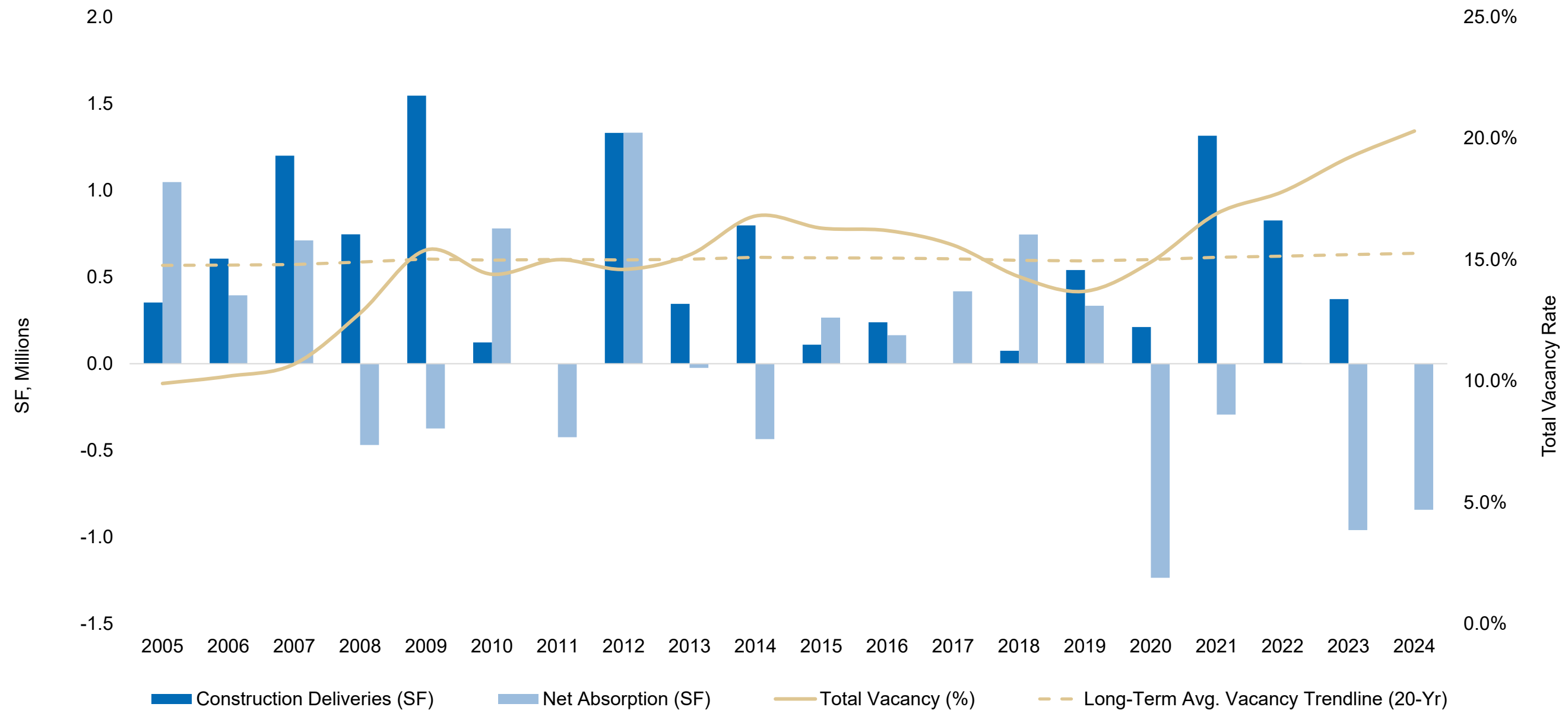




# Vacancy Tightens While Construction Deliveries Slow Down

Suburban Maryland's vacancy rate decreased slightly quarter-over-quarter, ending Q4 2024 at 20.3%, a tightening of 10 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.

## Historical Construction Deliveries, Net Absorption, and Vacancy

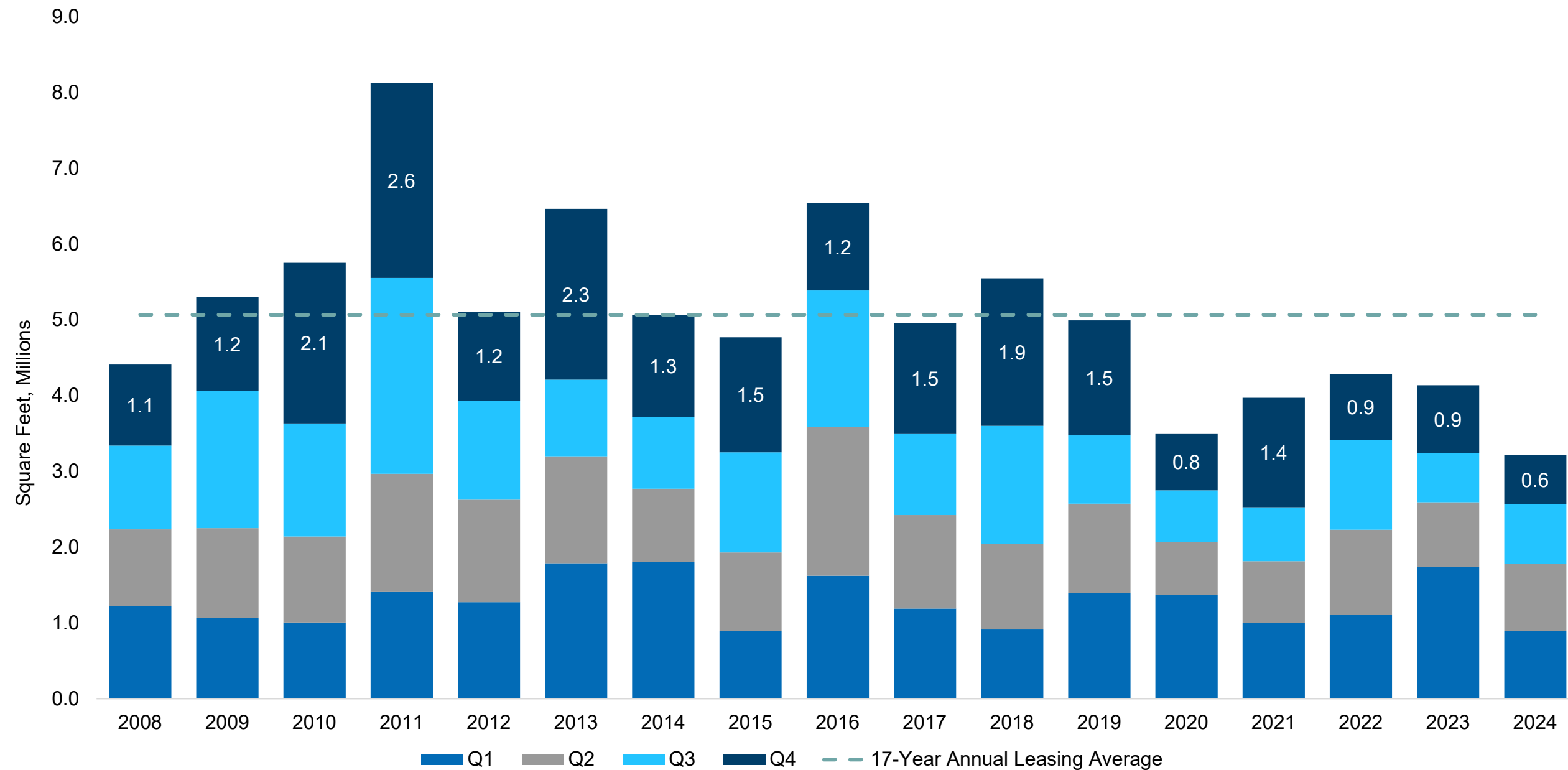


Source: Newmark Research, CoStar

# Suburban Maryland Experiences Historically Slow Year

The market saw 0.6 MSF of leasing activity during Q4, the least activity the market has experienced in a fourth quarter during the past 17 years. This led to a total of 3.2 MSF of leasing activity during 2024, a historically slow year for the market.

## Total Leasing Activity (msf)

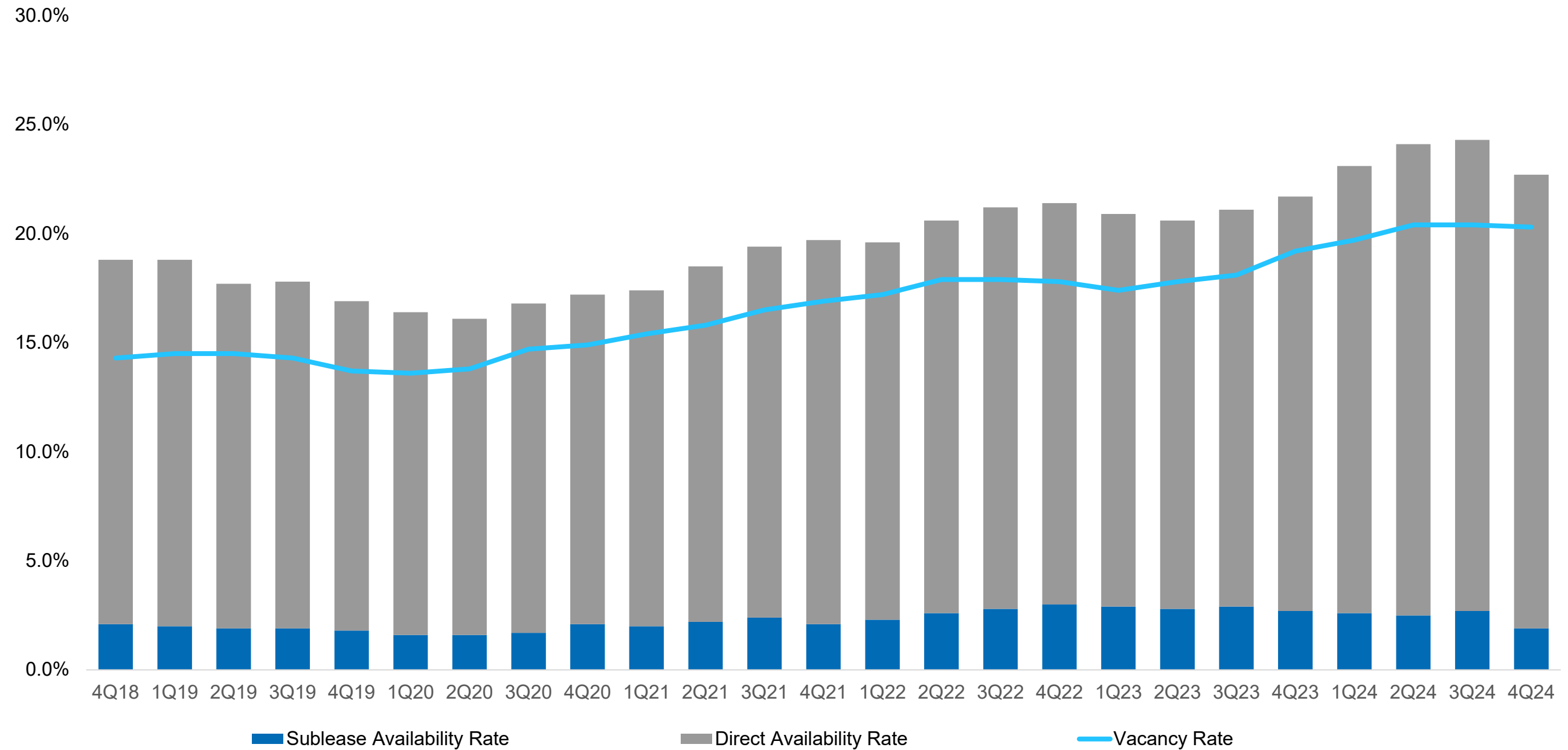


Source: Newmark Research, CoStar

# Office Market Ends 2024 On a Positive Note

Available office space tightened noticeably during Q4 2024, ending the year at 22.7%. This was a decrease of 150 bps quarter-over-quarter, however an expansion of 60 bps year-over-year. Much of this decrease in availability during the quarter was within sublease space, with AECOM taking space off the market after signing for 34,421 SF of sublease space at 5700 Rivertech Court. The vacancy rate followed suit, ending the year at 20.3%, a tightening of 10 bps quarter-over-quarter, however an expansion of 110 bps year-over-year.

Available Space by Type as Percent of Overall Market

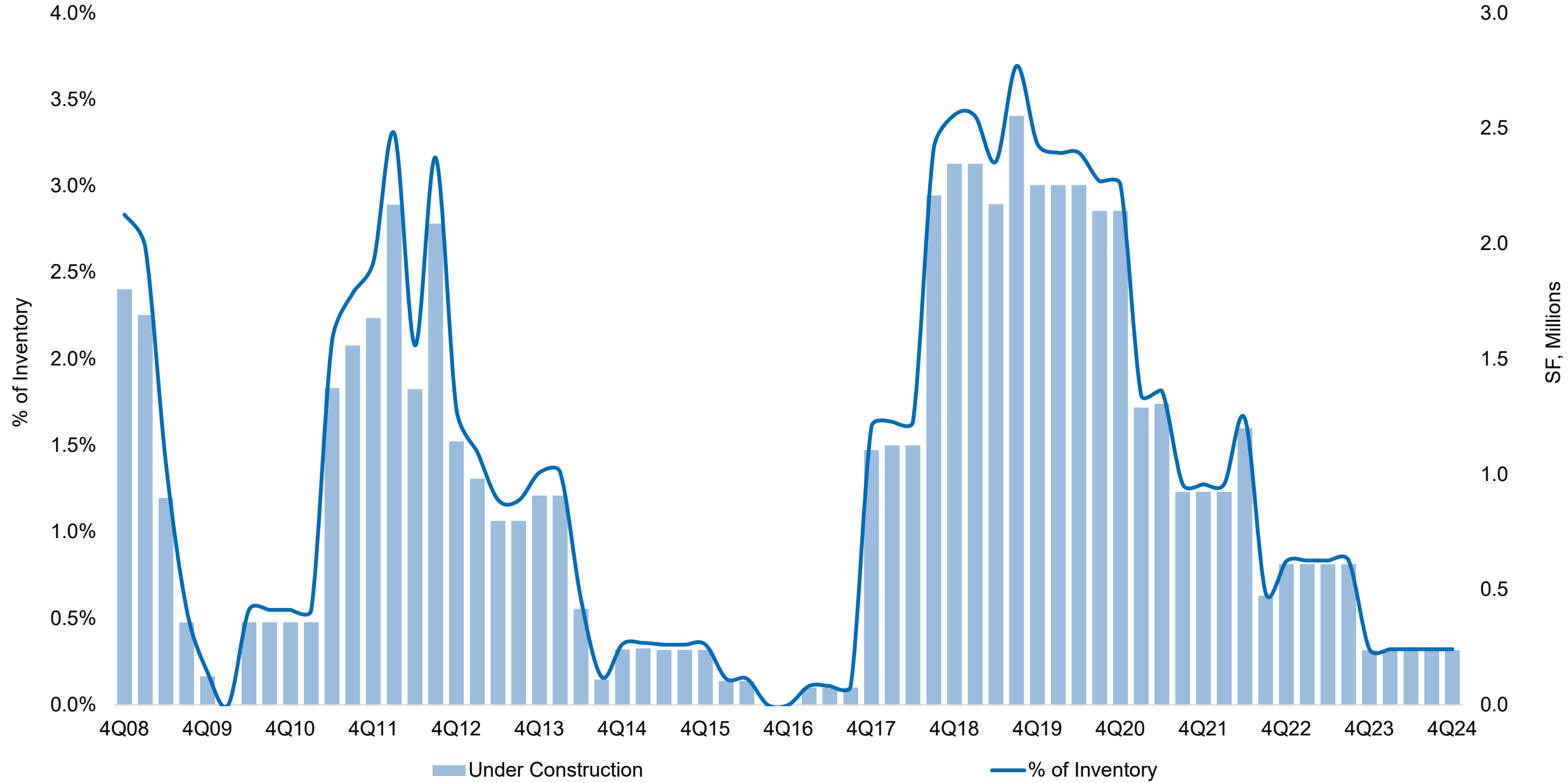


Source: Newmark Research

# 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. 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**

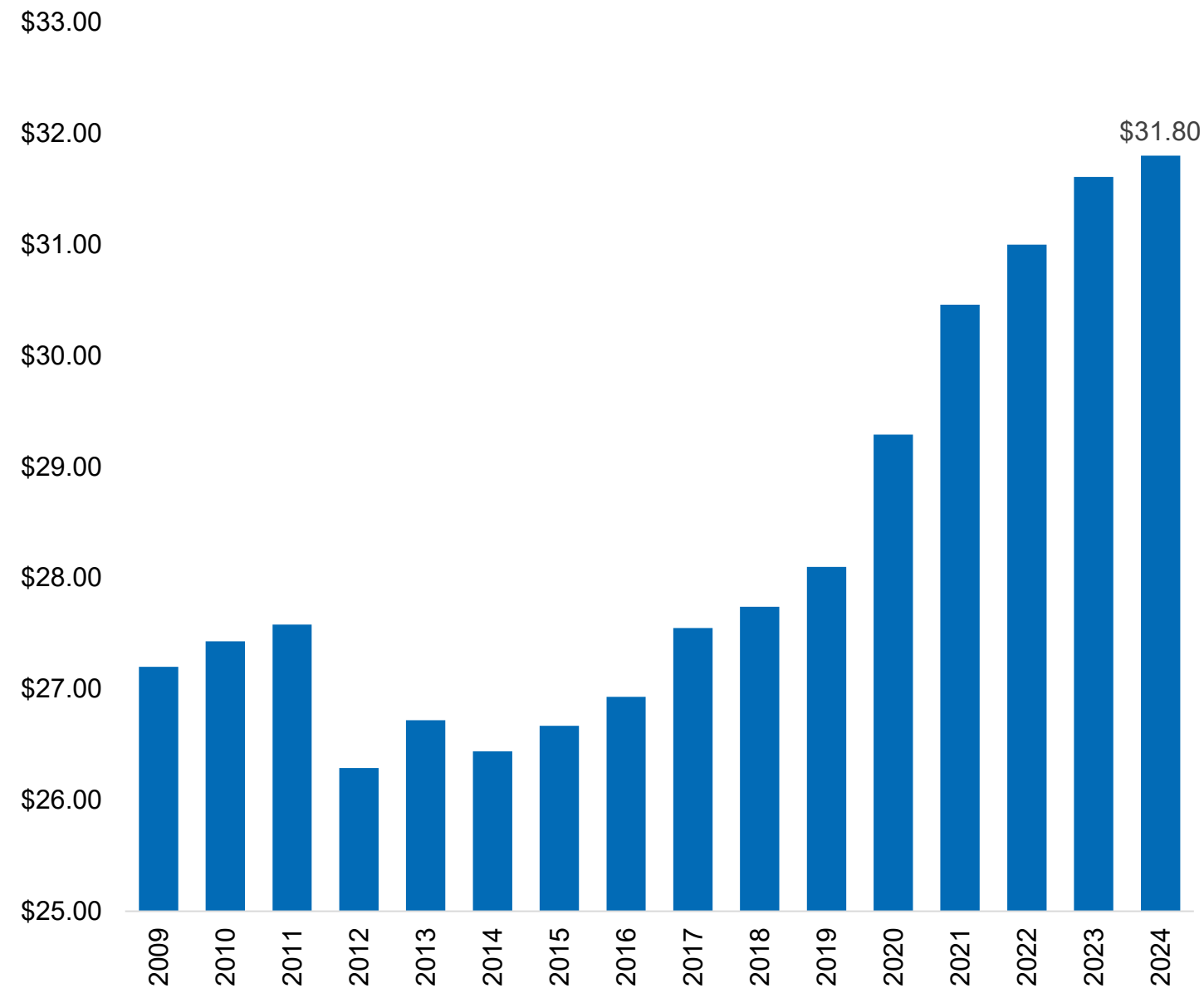


Source: Newmark Research, CoStar

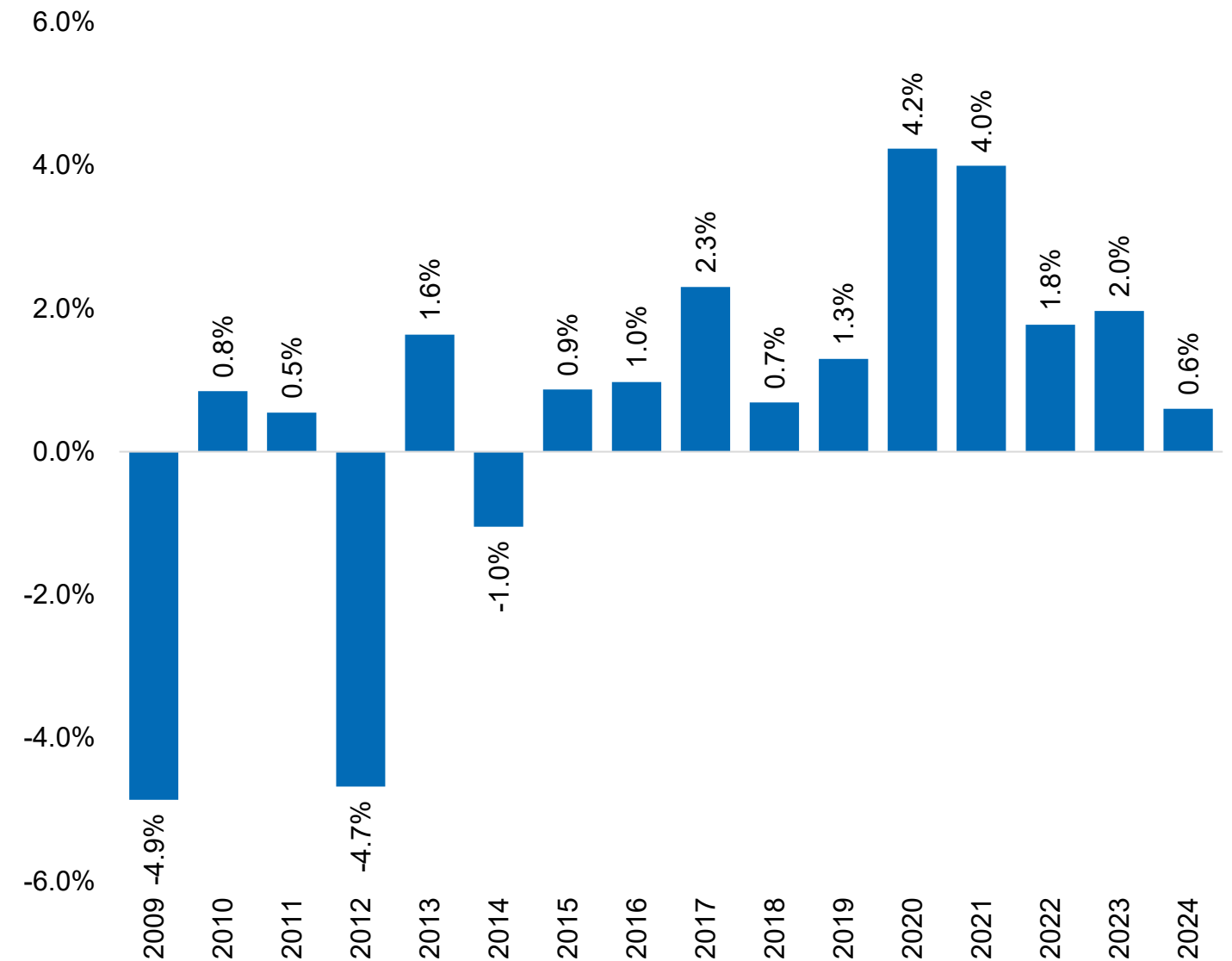
# Asking Rents Continue to Rise, Albeit at a Decelerating Pace

Average asking rents ended 2024 at \$31.80 PSF across all asset types, an increase of 0.6% year-over-year. After 2020 set the high-water mark for rent growth at 4.2%, the market has seen decelerating increases in rent as demand wanes.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

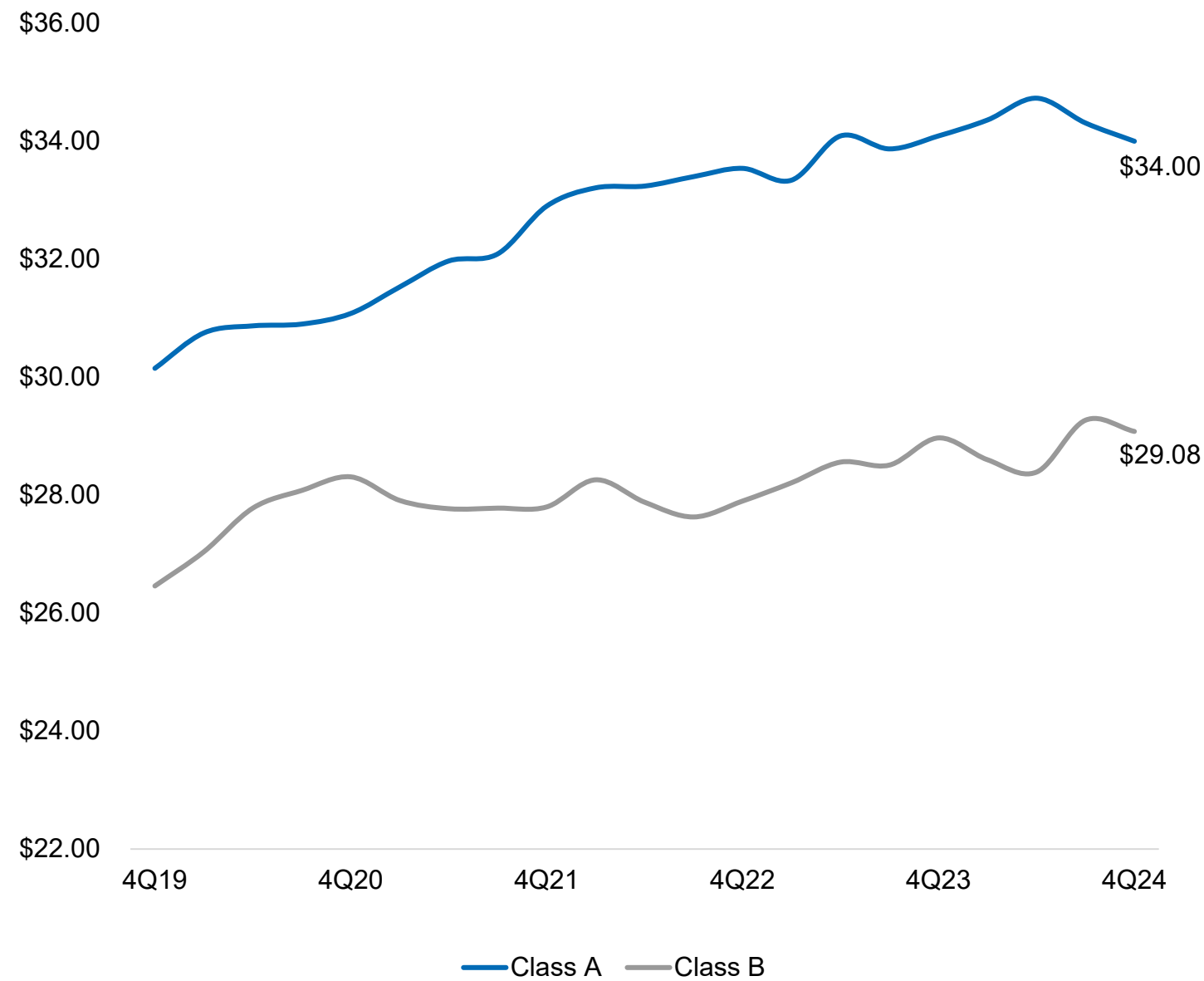


Source: Newmark Research, CoStar

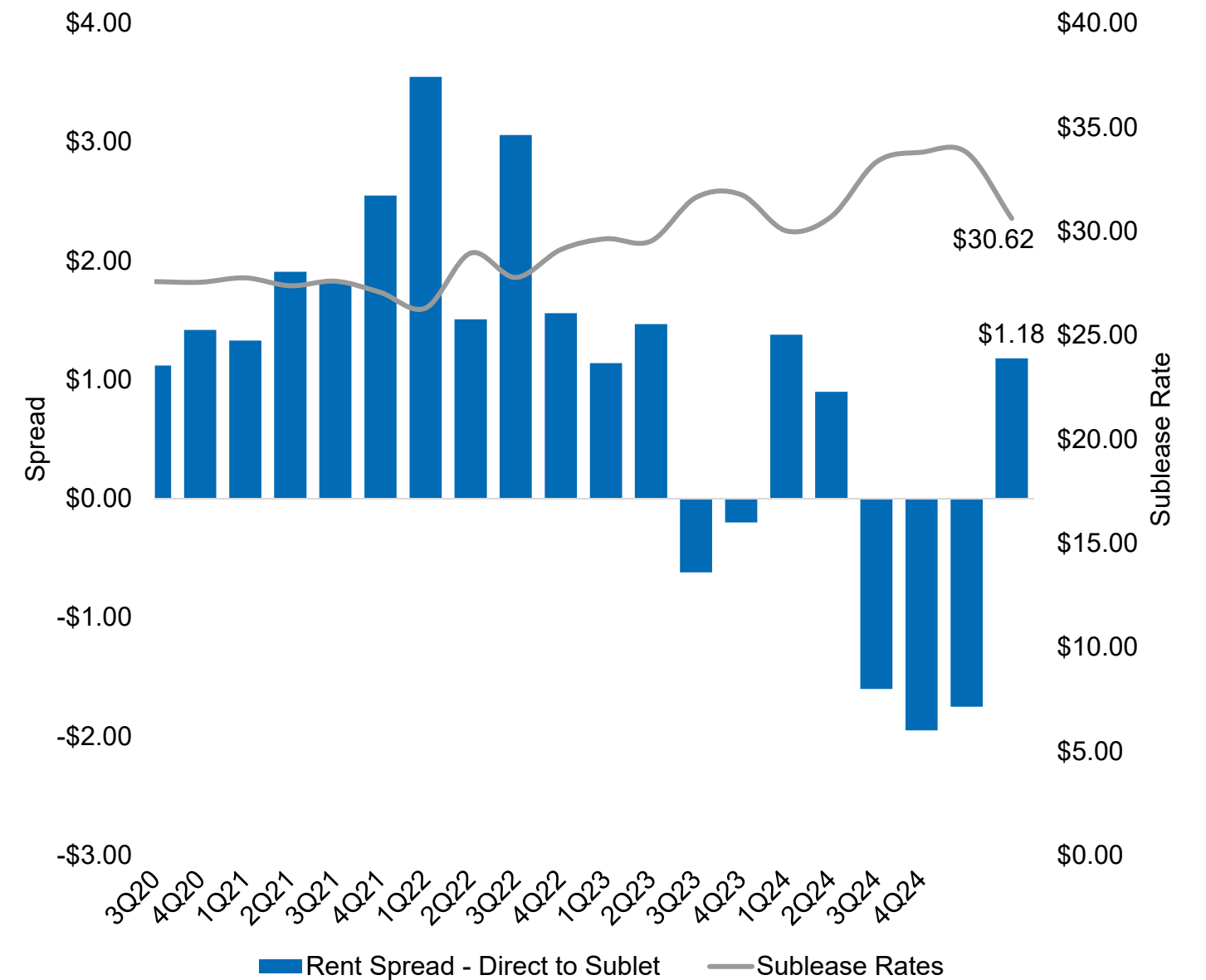
# Asking Rents Show Slight Decline to End 2024

Asking rents saw a decline during Q4 2024, both in Class A rents and Class B rents. Class A rents ended the year at \$34.00, which was a 0.9% decline quarter-over-quarter and a 0.3% decline year-over-year. Class B rents ended the year at \$29.08, which was a 0.6% decline quarter-over-quarter, however a 0.4% increase year-over-year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

# Leasing Activity Highlighted by New Deals

New deals dominated leasing activity during Q4 2024, with four of the five largest deals being new deals. These new deals coincide with the market experiencing positive quarterly net absorption for the first time since Q1 2023. This leasing activity suggests there will be more positive net absorption in coming quarters.

## Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Eagle Bancorp, Inc.	7500 Old Georgetown Road	Bethesda	New Lease	65,997
AECOM	5700 Rivertech Court	College Park	Sublease	34,421
Computer Packages Inc	9801 Washington Boulevard	North Rockville	New Lease	24,068
ARA	12255 Prosperity Drive	Silver Spring	New Lease	20,000
Regus	7201 Wisconsin Avenue	Bethesda	New Lease	10,186

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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	Quarterly Absorption (SF)	YTD Absorption (SF)	Quarterly Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
<b>Suburban Maryland</b>	<b>73,759,063</b>	<b>20.3%</b>	<b>22.7%</b>	<b>46,004</b>	<b>-842,945</b>	<b>0</b>	<b>0</b>	<b>237,000</b>	<b>\$31.80</b>
Class A	41,994,376	22.0%	25.0%	1,483	-626,881	0	0	237,000	\$34.00
Class B	22,356,279	19.8%	21.6%	10,825	-132,079	0	0	0	\$29.08
Class C	9,408,408	14.0%	14.9%	33,696	-83,985	0	0	0	\$25.87

## Submarket Statistics – All Classes

	Total Inventory (SF)	Overall Vacancy	Overall Availability	Quarterly Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Beltsville	1,463,332	16.8%	25.1%	-13,573	15,294	0	0	0	\$23.99
Bethesda	11,849,910	27.0%	29.0%	29,874	-100,460	0	0	0	\$45.23
Bowie	1,229,062	11.1%	15.9%	-5,698	-4,906	0	0	0	\$24.92
College Park	3,294,229	9.8%	9.1%	166,657	172,373	0	0	0	\$23.96
Gaithersburg	3,096,979	14.5%	17.9%	-57,471	7,274	0	0	0	\$25.37

# Suburban Maryland Office Market Overview (page 2 of 2)

## Submarket Statistics – All Classes

	Total Inventory (SF)	Overall Vacancy	Overall Availability	Quarterly Absorption (SF)	YTD Absorption (SF)	Quarterly Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Asking Rent (Price/SF)
Germantown	2,008,798	34.3%	34.0%	-81,238	-107,708	0	0	0	\$25.67
Greenbelt	2,869,682	27.2%	32.1%	35,956	-34,876	0	0	0	\$22.91
Landover/Lanham/Largo	4,371,210	17.0%	16.9%	7,957	-12,003	0	0	0	\$23.61
Laurel	1,814,894	25.8%	21.9%	-13,935	-90,038	0	0	0	\$22.24
N. Rockville	11,078,842	21.9%	27.8%	87,968	-331,390	0	0	0	\$29.51
North Bethesda	9,503,466	21.4%	25.6%	-6,004	4,793	0	0	0	\$30.84
Rockville	8,911,148	19.1%	16.8%	-4,443	-158,345	0	0	237,000	\$31.58
Silver Spring	9,661,916	16.5%	19.9%	-85,107	-126,916	0	0	0	\$29.36
Southern Prince George's County	2,605,595	7.7%	8.6%	-14,939	-76,037	0	0	0	\$27.45

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