

FIGURES | SUBURBAN MARYLAND OFFICE | Q4 2023

FBI Announces New Location While Fundamentals Soften

▲ 19.8%

Vacancy Rate

▲ (193,728)

SF Net Absorption

▼ 0

SF Under Construction

▼ \$32.04

Average Gross Asking Rate

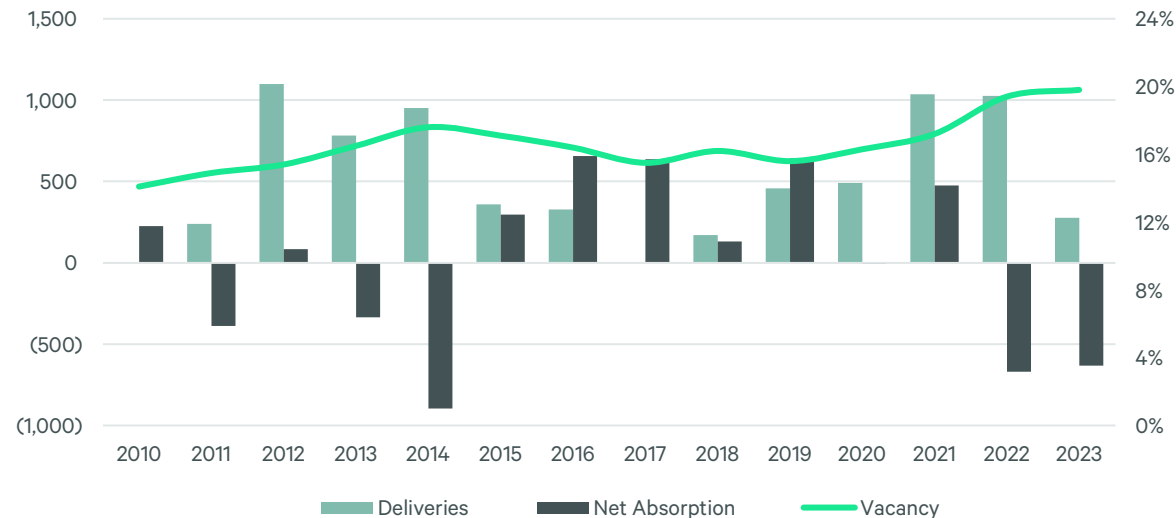
Note: Arrows indicate change from previous quarter.

The Suburban Maryland office market recorded 194,000 sq. ft. of negative absorption during the fourth quarter of 2023, bringing year-end totals to 633,000 sq. ft. of occupancy loss. This marks the first back-to-back years of occupancy loss since 2013-2014. In turn, vacancy increased 60 basis points (bps) over the prior quarter to 19.8%.

During the fourth quarter, Federal Realty delivered 915 Meeting Street, a 276,000 sq. ft. trophy office building at the Pike and Rose mixed-use development in the North Bethesda submarket. The building is 57% leased overall: Choice Hotels pre-leased 105,000 sq. ft. in October 2021 and will vacate 156,000 sq. ft. at its headquarters in Rockville; Sodexo also signed a 52,000 sq. ft. prelease in the building in October 2022 with plans to relocate its operations from 9801 Washingtonian Boulevard in Gaithersburg.

No other office properties are currently under construction in the Suburban Maryland market. This slowdown in new supply paired with the ongoing trend of office-to-residential and office-to-life-science conversions will likely help stabilize vacancy.

FIGURE 1: Historical Supply & Demand Dynamics
SF (000s)



Source: CBRE

Leasing Snapshot

Leasing activity was strong during the first half of 2023, with 2.5 million sq. ft. of transactions signed, driven by the National Cancer Institute’s 575,000 sq. ft. renewal at 9609 Medical Center Drive signed in March. Activity during the second half of the year dropped to just 708,000 sq. ft. Despite subdued activity during the second half of the year, total leasing volume surpassed 2022 levels by more than 370,000 sq. ft.

Federal government tenants accounted for 35% of total leasing activity in 2023 but accounted for just for 8% of the number of leases signed. Conversely, business services tenants signed more leases than any other sector, accounting for 29% of the deals that took place this year, while representing just 14% of the overall square footage that transacted.

Financial Services

The largest lease of the fourth quarter in Montgomery County was Capital Bank’s renewal and expansion at 2275 Research Boulevard, which serves as the bank’s corporate headquarters. The bank expanded by more than 6,000 sq. ft., bringing its total footprint to 28,500 sq. ft. in the building.

Additionally, Associated Insurance Management renewed its 19,000 sq. ft. lease at 1300 Spring Street. This lease was the largest lease signed this year in the Silver Spring submarket.

Entertainment

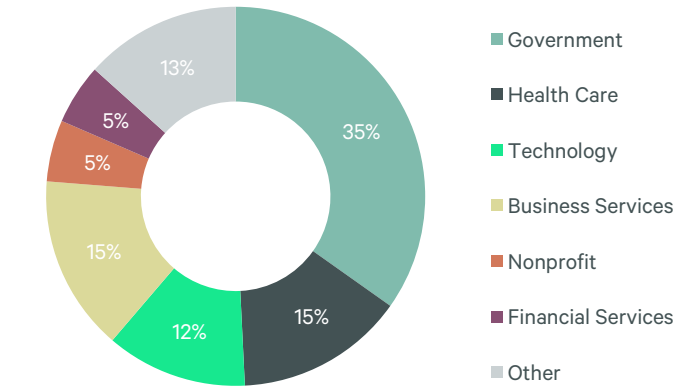
The Washington Commanders signed the second largest lease in Prince George’s County this quarter. The football team signed a sublease for 27,500 sq. ft. at 4600 River Road in College Park and will move its business operations out of FedEx Field and into the former Cybrary space on the fourth floor of the building.

FIGURE 2: Select Notable Q4 2023 Lease Transactions

Tenant	Industry	Address	Submarket	SF	Lease Type	Market Effect
Bozzuto	Business Services	6406 Ivy Ln	Greenbelt	99,480	Renewal	Flat
Capital Bank	Financial Services	2275 Research Blvd	North Rockville	28,508	Renewal	Growth
Washington Commanders	Entertainment	4600 River Rd	College Park	27,516	Sublease	Flat
Leidos	Business Services	2099 Gaither Rd	North Rockville	25,000	Renewal	Flat
University Research Co.	Nonprofit	5404 Wisconsin Ave	Bethesda/Chevy Chase	21,000	Renewal	Contraction
Citrin Cooperman	Financial Services	2 Bethesda Metro Ctr	Bethesda/Chevy Chase	20,436	Renewal	Flat
Associated Insurance Management	Financial Services	1300 Spring St	Silver Spring	19,426	Renewal	Flat
Immunocore	Life Sciences	9801 Washingtonian Blvd	North Rockville	19,242	New Lease	Growth
Coakley & Williams	Business Services	4500 East-West Hwy	Bethesda/Chevy Chase	18,660	New Lease	Growth

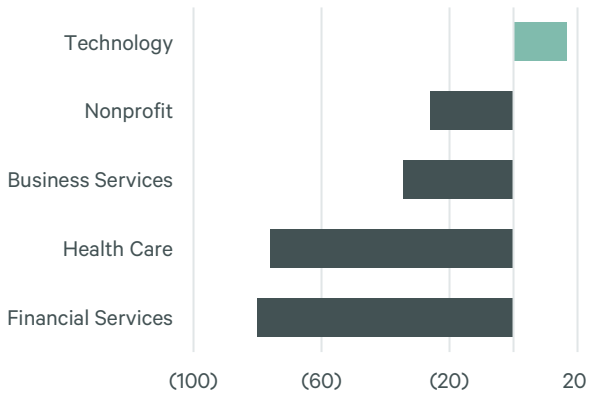
Source: CBRE

FIGURE 3: 2023 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: 2023 Net Demand by Sector (SF, 000's)



Source: CBRE

Pricing

Overall asking rates decreased by \$0.19 to \$32.04 per sq. ft. per annum on a full-service basis. Landlords have scaled back concession packages after reaching historic high levels in 2022. Tenant improvement allowances average \$80-100 per sq. ft. and abatements average 10-12 months (normalized for a 10-year term), down from 2022 marks of \$85 - \$105 per sq. ft. and 12-13 months, respectively.

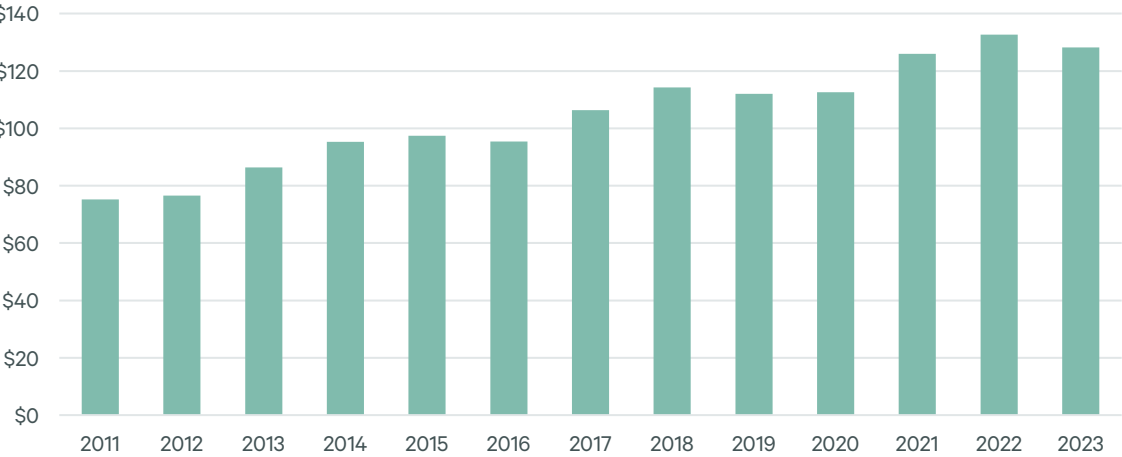
FBI Update

In November, the General Services Administration announced that a 40-acre site in Greenbelt would serve as the location for a new FBI headquarters. The FBI would eventually vacate the J. Edgar Hoover building in Washington DC, where it has been headquartered since 1975. The new campus would house 7,500 employees across a mixed-use development that would likely cost \$4 billion.

The long-awaited announcement didn't arrive without controversy, as state officials in Virginia felt that a GSA-owned warehouse in Springfield, VA would ultimately be the best choice for the Bureau. However, the Greenbelt site was selected after the GSA overruled a three-person selection committee that used a 100-point criteria to rank Greenbelt and Springfield, along with the site of the former Landover Mall in Landover, MD.

The GSA Inspector General has agreed to investigate why Greenbelt was selected over Springfield. Despite the investigation, Maryland officials including Governor Moore, plan to move forward on the project in Greenbelt. There has yet to be any announcement as to when a groundbreaking is set to take place.

FIGURE 5: Montgomery County Total Concession Packages



* Normalized for 10-year term and including all building classes

Source: CBRE

FIGURE 6: Asking Rent Changes by Asset Class

Asset Class	Gross Rent Per SF	Quarter-over-Quarter Change
Trophy/Class A	\$34.35	-0.02%
Class B	\$27.72	-1.26%
Class C	\$23.95	-1.60%
Overall	\$32.04	-0.60%

Source: CBRE

FIGURE 7: FBI HQ Announcement at a Glance

Location	Greenbelt, MD
Size	40-acres
Employees	7,500
Estimated Cost of Project	\$4 Billion
Groundbreak Date	TBD

Source: Washington Business Journal

Economic Outlook

The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is now complete makes a ‘soft landing’ appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters.

Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, while remaining elevated, is slowing. This nuance with wage growth is important. Higher wages are helping to maintain higher, albeit decelerating, core inflation.

This backdrop will likely translate into the Fed only slowly lowering its target rate in 2024 (CBRE expects 75 to 100 basis points worth of rate cuts in 2024). This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets.

Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

FIGURE 8: Employment Growth by Industry, 12-Month Percent Change

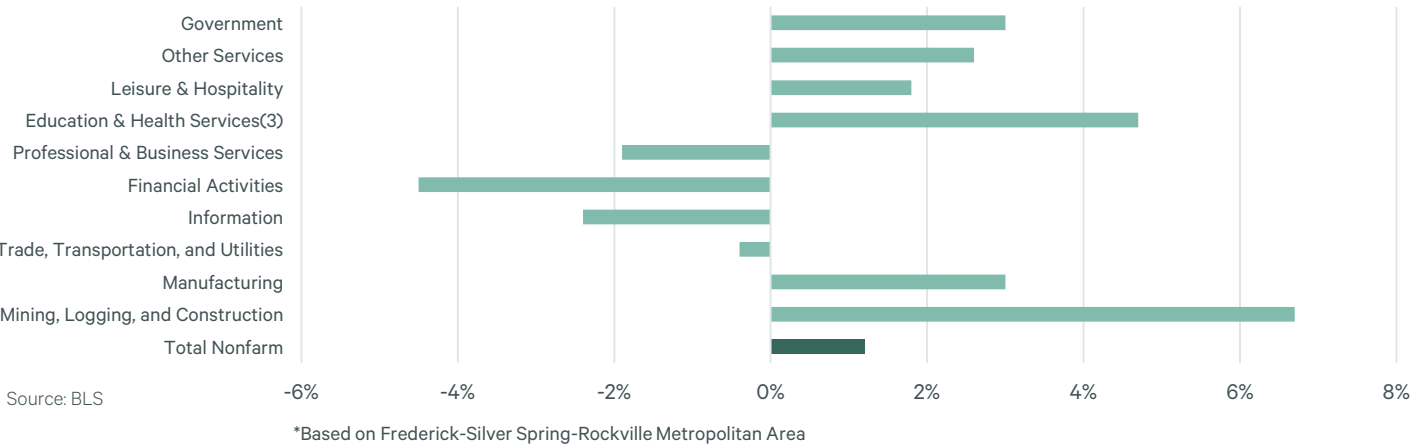


FIGURE 9: Unemployment Rate for Selected Counties

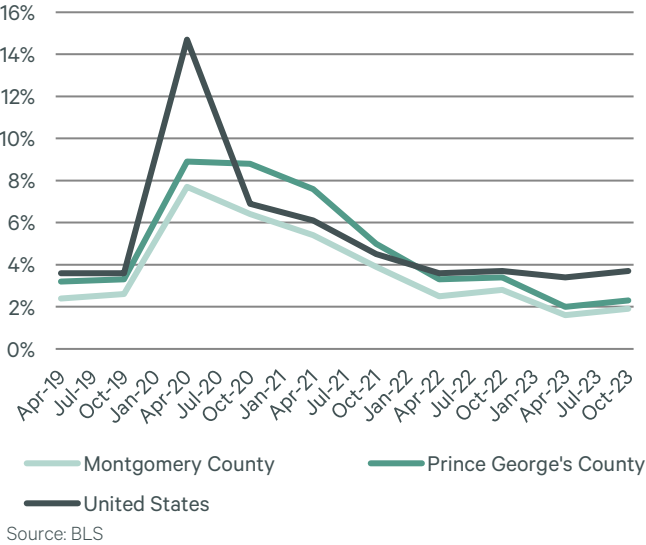


FIGURE 10: Consumer Price Index, 12-Month Percent Change

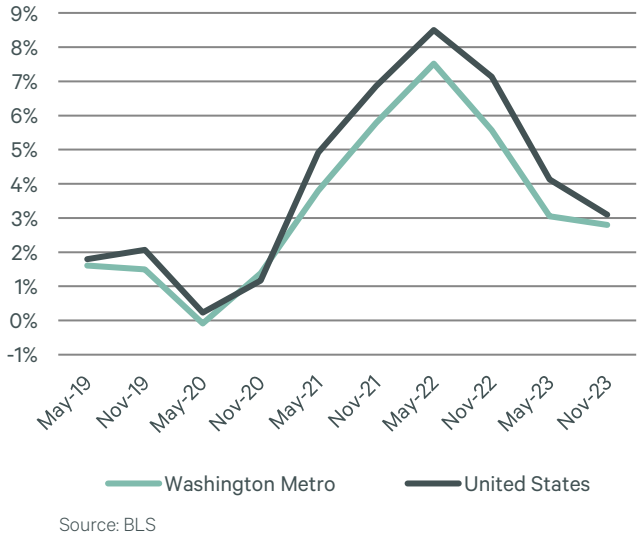


FIGURE 11: Key Market Statistics

	Number of Buildings	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2023 Net Absorption (SF)	2023 Net Absorption (SF)	Gross Asking Rent (\$/SF)	Under Construction (SF)
Montgomery County	547	56,679,449	21.3%	(146,118)	(610,622)	\$34.67	-
Bethesda/Chevy Chase	93	12,363,672	25.1%	(93,503)	(337,102)	\$44.99	-
Gaithersburg	40	3,833,872	9.6%	(3,424)	(15,153)	\$23.00	-
Germantown	27	2,216,011	27.2%	16,910	(20,894)	\$23.87	-
Kensington/Wheaton	33	1,076,718	15.9%	(3,943)	175	\$29.07	-
North Bethesda	82	10,298,889	24.8%	168,287	126,876	\$32.01	-
North Rockville	106	11,129,856	18.3%	24,481	37,784	\$30.27	-
North Silver Spring/Route 29	37	2,790,380	7.3%	3,750	20,363	\$28.80	-
Rockville	68	6,951,849	22.4%	(196,697)	(239,982)	\$31.39	-
Silver Spring	61	6,018,202	24.3%	(61,979)	(182,689)	\$30.43	-
Prince George's County	272	17,262,331	16.9%	25,861	54,948	\$22.98	-
Frederick County	59	3,161,029	8.9%	(73,471)	(77,316)	\$21.93	-
Overall	878	77,102,809	19.8%	(193,728)	(632,990)	\$32.04	-

Survey Criteria:

Includes all classes of competitive single and multi-tenant, non-owner-occupied office buildings 10,000 sq. ft. and greater in Suburban Maryland
Source: CBRE

Contact

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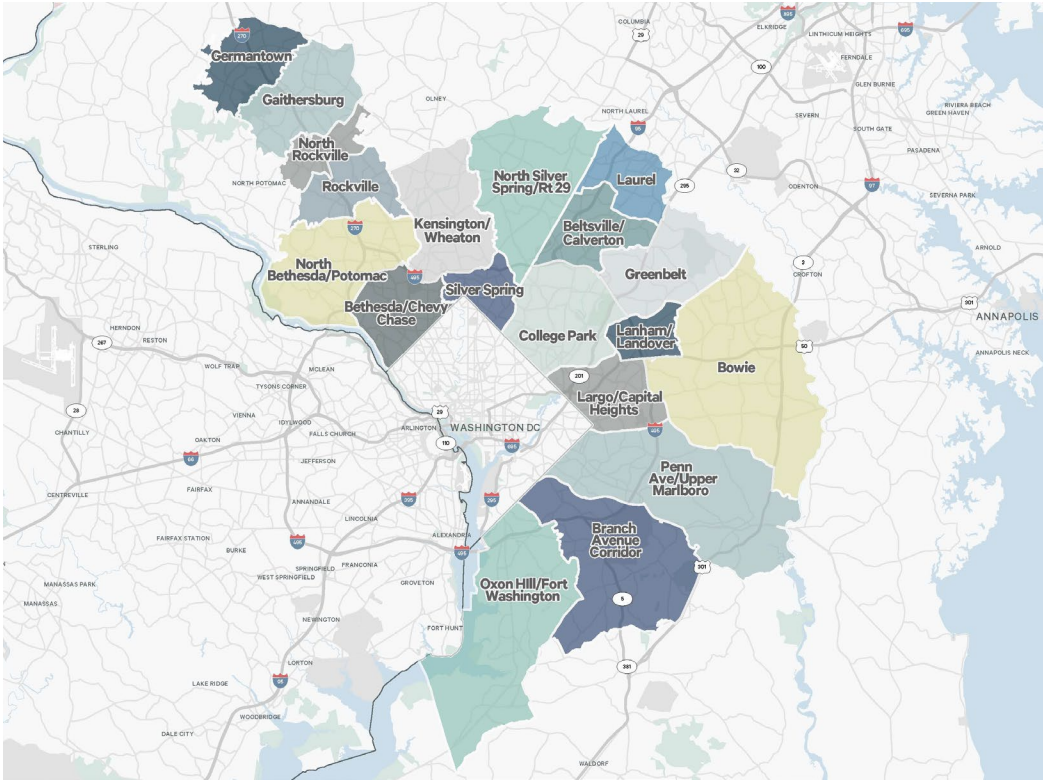
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* Frederick County not shown in the map