

# Rockville real estate

JLL

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**Research**

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# National office sector trends

1

## Tenant demand has nearly returned to pre-pandemic levels

- Office leasing volume has climbed for three consecutive quarters, establishing a new post-pandemic high in Q4 2024
- Q4 leasing volume reflected over 92% of typical pre-pandemic averages

3

## Rent momentum remains broadly positive

- Despite lagging against inflation, same-store asking rents continue to grow
- Face rates and effective rates on leases signed in 2024 saw an improvement from softening economics in 2023

2

## Net absorption flips positive for first quarter since 2021

- The market experienced its first quarter of positive net absorption since Q4 2021, and just the second time since the pandemic began
- Availability has declined for two consecutive quarters, pointing towards meaningful declines in vacancy in 2025

4

## Hybrid employers still requesting more office attendance

- Momentum continues for return-to-office, with several major employers establishing or increasing requirements, or announcing new mechanisms of enforcement in Q4

### By the numbers

**4.8 billion**

Existing inventory (s.f.)

**37 million**

Under construction (s.f.)

**19.6%**

Direct vacancy

**22.3%**

Total vacancy

**-33.6 million**

YTD net absorption (s.f.)

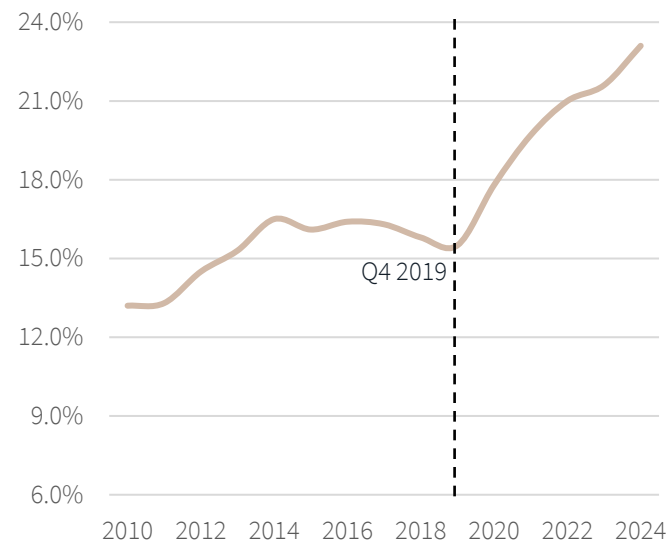
**180 million**

Sublease available (s.f.)

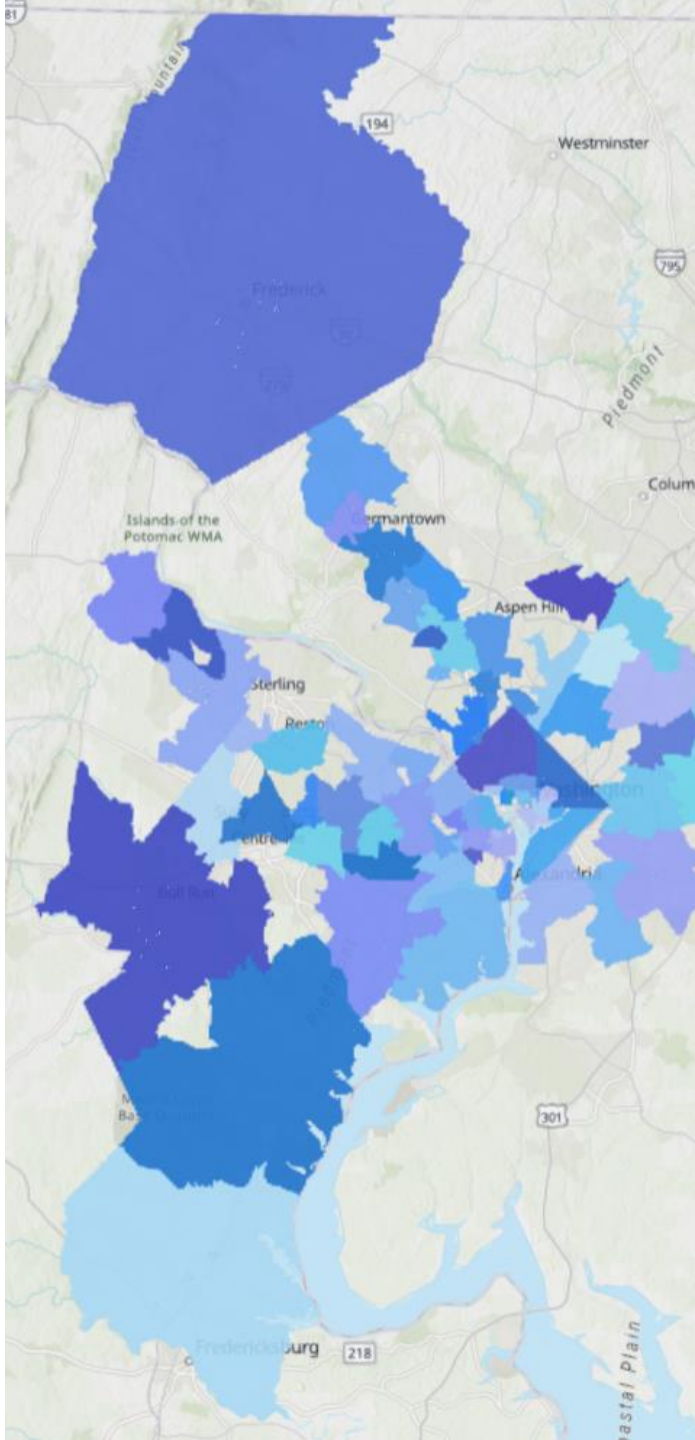
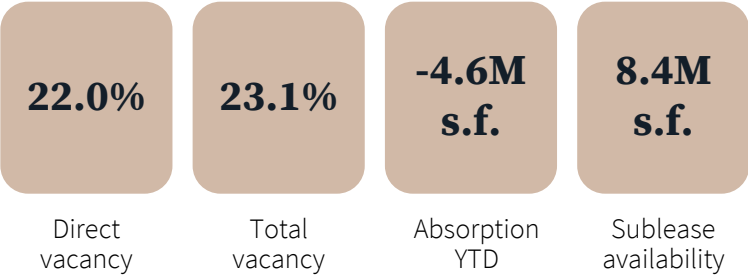


# Metro DC market health

Metro DC total office vacancy



- Office sector facing ongoing challenges
- Prolonged high vacancies creating economic hurdles for property owners
- Workplace strategies evolving in response to changing demands
- City exploring innovative alternatives for underutilized office spaces
- Trophy buildings and high-quality Class A are in high demand



# Pre vs. post pandemic

## How has the pandemic affected office use?

- Dramatic shift to hybrid and remote work models.
- Metro DC office occupancy dropped from nearly 85% pre-pandemic to 77% currently.
- Widespread adoption of flexible work arrangements.

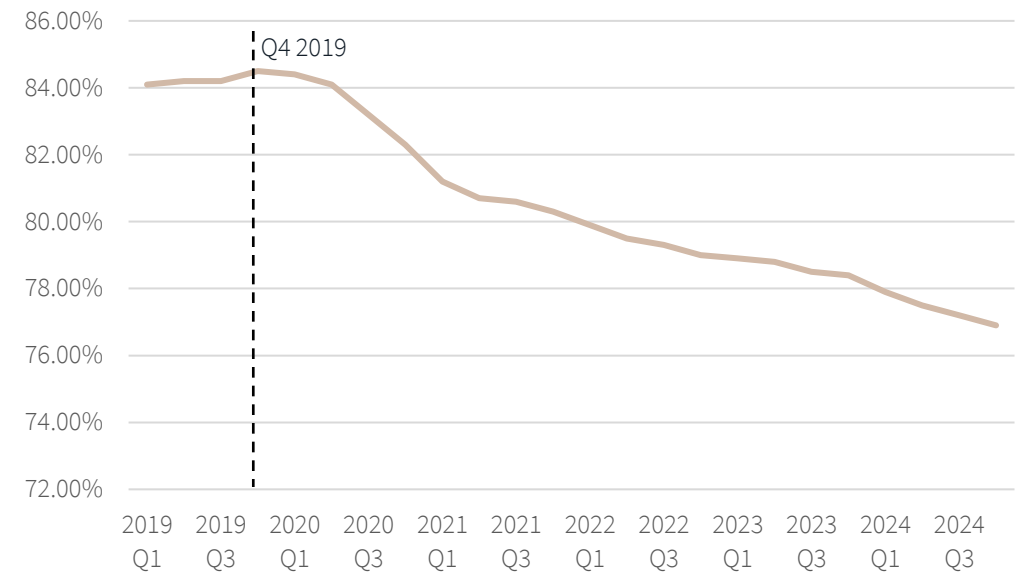
## Where do we stand today?

- Signs of recovery emerging in the office market.
- Companies with existing space maintaining or expanding; those who left considering return.
- Trend shifting from fully remote to hybrid and in-person models
- Three-day hybrid and full in-person models require the same amount of office space.

## Where are we going?

- Continued emphasis on quality spaces and increased technology adoption.
- Office market expected to rebound as companies reevaluate in-office policies.
- Companies using return to work to optimize workforce and improve efficiency.

## Metro DC office occupancy trends





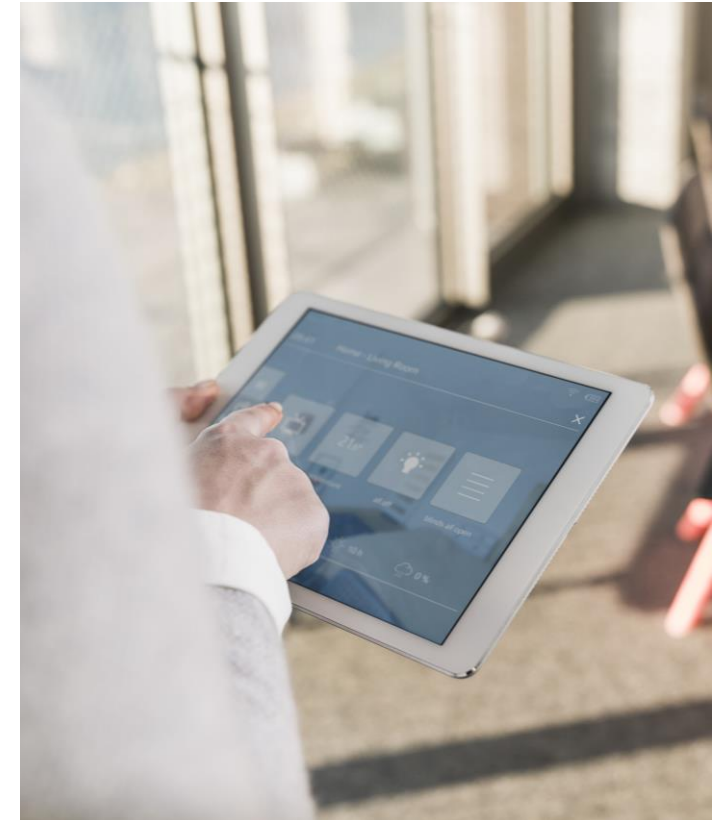
# Return to office

- Return to office mandates have become contentious as the pandemic's impact recedes.
- Corporations are revising policies, emphasizing in-office productivity and fostering company culture.
- Major corporations, including Amazon, AT&T, Starbucks and JPMorgan have announced return-to-office mandates.
- Other firms, including smaller ones, may follow suit.
- President Trump has ended remote work for federal employees.
- 28% of Washington D.C. federal employees are unionized.
- Return may help revitalize the DC Metro region and its supporting private sector.



# The AI revolution

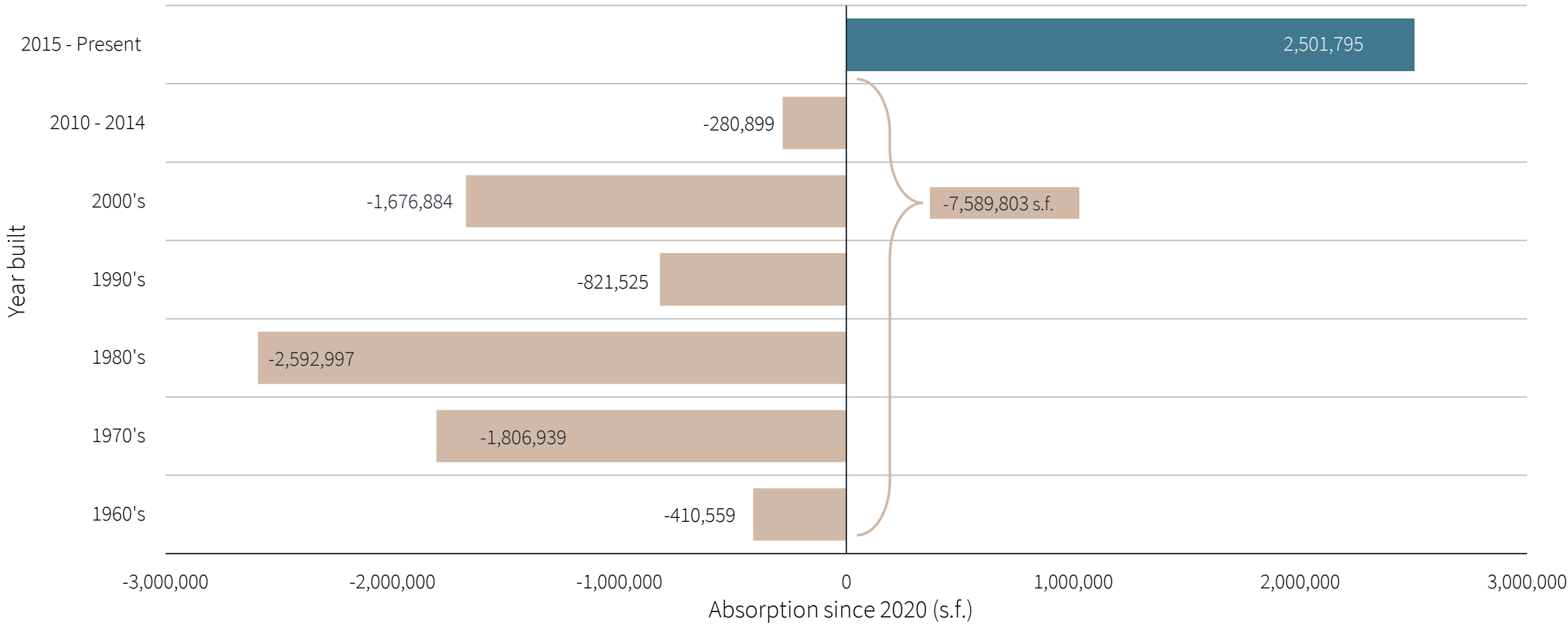
- PwC forecasts that AI could inject up to \$15.7 trillion into the global economy by 2030
- Key sectors such as aerospace, defense, robotics, and healthcare are already experiencing substantial AI-driven investments.
- The AI market in defense alone is projected to reach \$18.56 billion by 2029.
- Nations and corporations are intensifying their efforts to gain a competitive edge in AI capabilities
- Investments are anticipated to accelerate, further fueling the global AI race and its economic impact across industries.
- Metro DC area is strategically positioned to capitalize on the rapidly expanding AI industry.
- The region will inevitably play a crucial role in shaping AI-related policies, particularly concerning safety, ethics, and regulation.
- The area's robust defense sector forms a cornerstone of the local economy.
- Key institutions such as the Department of Defense and Department of State, along with major defense contractors, have a significant presence in the region.
- The D.C. metro area is poised to become a hub for AI innovation and implementation in these critical domains.





# Suburban Maryland occupancy changes

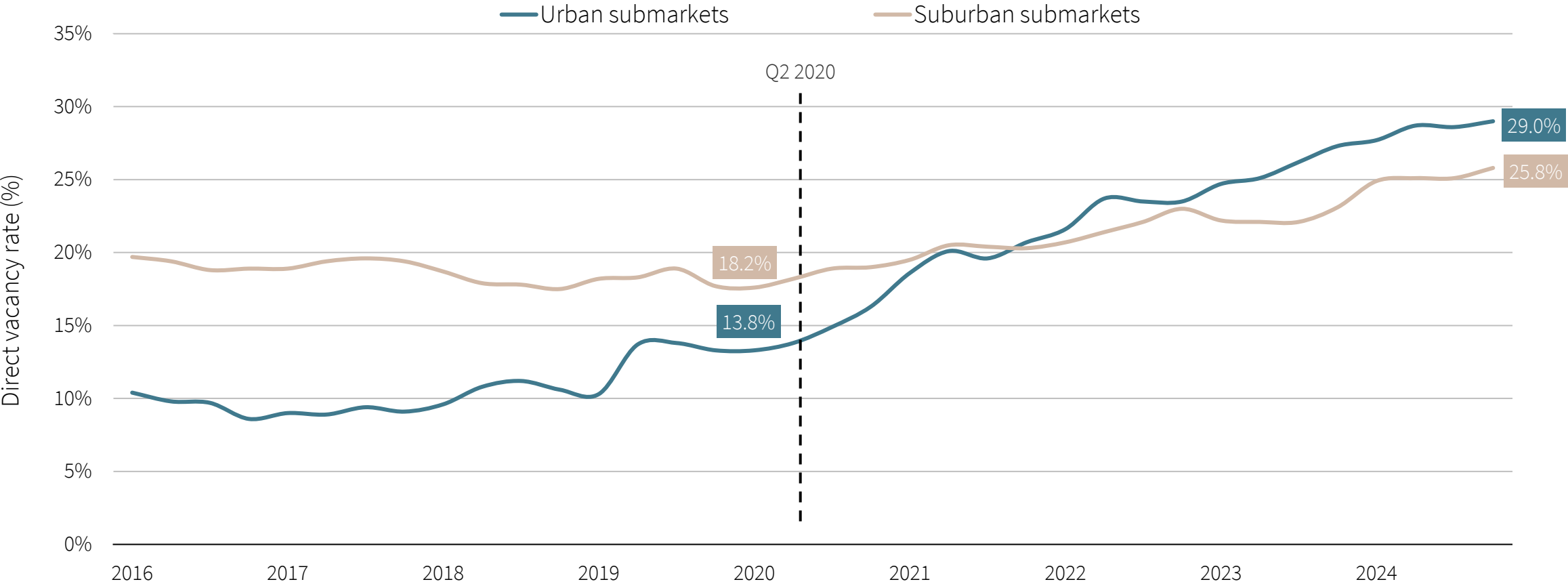
Net absorption by year built (s.f.)





# Suburban Maryland direct vacancy

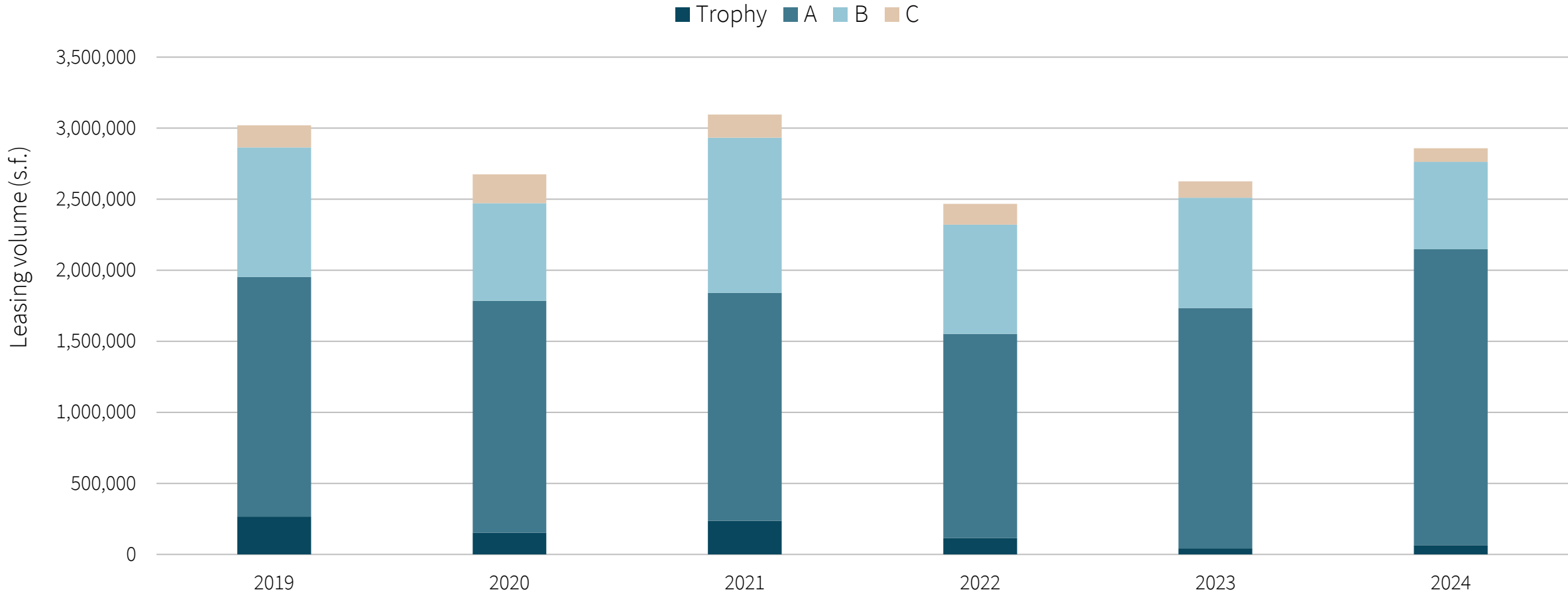
Direct vacancy by submarket type



\*Urban Submarkets include the Bethesda CBD, Chevy Chase & Silver Spring; Suburban Submarkets include the regions north of the Beltway.

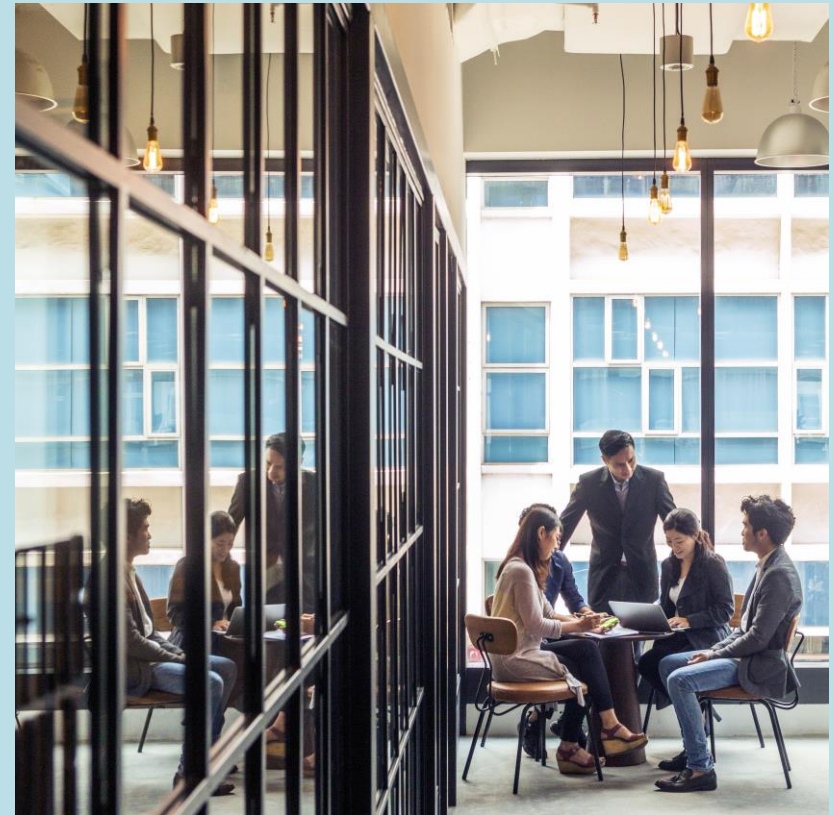
# Suburban Maryland leasing volume

Leasing volume by building class



# Rockville's office sector is enduring a correction period catalyzed by the pandemic

- COVID-19 pandemic disrupted predictable commercial real estate cycles, especially in the office sector
- Shifting work arrangements, struggling businesses, and new priorities have created unprecedented challenges.
- Occupancy losses have become commonplace as companies navigate the post-pandemic landscape.
- Rockville faces an oversupply of office space, with demand insufficient to fill vacant areas.
- Asking rents have remained relatively stable as landlords attempt to balance property valuations against purchase prices.
- Some property owners are considering alternate uses for their buildings which could help correct the market imbalance.
- 255 Rockville Pike, 121 Rockville Pike, 51 Monroe St, 110 N. Washington St, 600 Jefferson Plaza and 1445-1455 Research Blvd have all experienced distress.
- More distress is predicted.



# Rockville office sector: by the numbers

70

Total office properties

0

Under construction s.f..

8,483,326

Total existing supply (s.f.)

29.8%

Direct vacancy (%)

31.8%

Total vacancy (%)

303,363

Sublease availability (s.f.)

-269,363

2024 net occupancy loss (s.f.)

\$30.20

Direct asking rent p.s.f. (FS)



# Distressed, demolished, and repurposed assets



- The financial strain of maintaining vacant properties has hindered landlords' ability to invest in necessary upgrades.
- Without modernized spaces, attracting new tenants becomes increasingly challenging, yet the lack of rental income makes it hard to fund these improvements.
- Landlords find themselves in a catch-22 situation, struggling to recapture market demand while managing the costs of empty buildings.
- The persistence of this cycle has left many landlords in a position of financial distress, limiting their ability to negotiate and secure future leases.



- Aging, abandoned office buildings create opportunities for blank-slate development.
- Assets on larger land parcels, more common in Rockville than in higher-density areas, can become future mixed-use sites.
- Outside the City of Rockville, there have been four office asset demolitions in recent months, a trend likely to continue.
- Demolition aids the market's health through its correction phase.
- More efficient land use may attract new investments aligned with current market demands.



- Conversions can play a limited role in revitalizing the commercial real estate sector, while the life science conversion wave has receded.
- Washington D.C.'s "Office to Anything" conversion tax incentive aims to repurpose obsolete offices into diverse uses like entertainment, hotels, and retail, beyond just residential.
- Approach can reinvigorate underutilized office assets.
- Tax breaks for developers may make otherwise unfeasible projects viable.
- Help boost local economy by repurposing aging office buildings that will likely continue to struggle.

# Rockville life sciences

- Life sciences sector has experienced a significant downturn since the peak of the pandemic, 2023.
- The life sciences market flourished during the height of the pandemic.
- Rockville attracted investments from global pharmaceutical companies, laboratory development surged, and biotech startups received unprecedented funding.
- The sector has witnessed a dramatic decline in demand.
- Rockville now faces a lab vacancy rate nearing 50% as new developments and conversions deliver vacant.
- Rockville and the surrounding area lag considerably behind major life science hubs like Boston and the San Francisco Bay Area.

1.1 M

Total lab inventory (s.f.)

48.0%

Direct vacancy

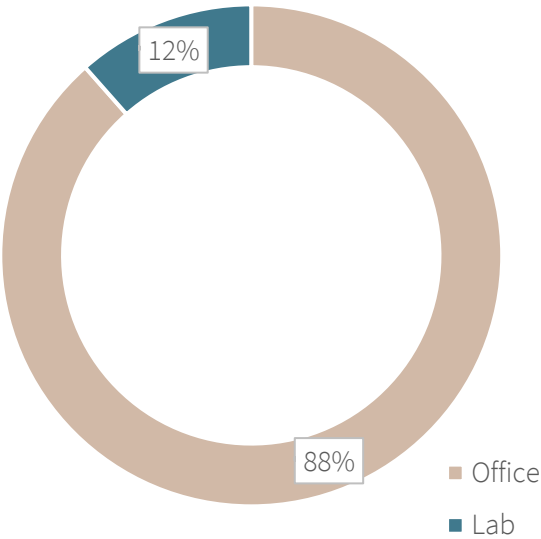
48.0%

Total vacancy

47,180

Sublease availability (s.f.)

Inventory total: lab vs. office



# Venture capital trends

- Venture capital in Rockville reached an all time high at \$1.92 billion in 2020, driven by the surge in life sciences demand during the COVID-19 pandemic.
- The subsequent years saw a return to pre-pandemic levels, but 2024 marked a resurgence.
- Amazon's \$500 million investment in local company X-Energy propelled totals to their second-highest level on record.
- Headline-grabbing investments spotlight the area and could potentially catalyze future capital influx.
- Venture capital investments in 2024 generally declined outside of the Amazon investment.
- Persistent high interest rates curtailed easy lending as capital costs increased.

**\$798M Invested**

2024 Totals

**51.5%**

Y-O-Y Increase

**50 Investments**

Since Jan 2023

**\$3.51M**

Median Capital Invested

# Demographic insight

- The city of Rockville, Maryland is experiencing modest growth,
- Households are expected to grow from 26,990 to 27,441 over the same period.
- The city's population is aging, with the median age rising from 39.8 in 2024 to 41.2 in 2029.
- Rockville maintains a strong working-age population, with 54.8% of residents in the 25-64 age group in 2024.
- Median household income is forecast to grow from \$124,682 in 2024 to \$141,469 by 2029, a 2.56% annual increase.
- High-income households are prevalent, with 27.5% earning \$200,000+ in 2024, increasing to 31.8% by 2029.
- In 2024, the population was 45.4% White, 22.3% Asian, 17.9% Hispanic, 11.3% Black and 11.9% identifying as two or more races.
- Rockville's housing market is balanced between owners and renters, with 53.8% of housing units projected to be owner-occupied in 2024.

2024	2029 Projection
68,406 Population	69,480 Population
42.0% Population >45	44.3% Population >45
\$124,682 Median household income	\$141,469 Median household income
27.5% Household income >\$200,000	31.8% Household income >\$200,000



# Outlook

- Rockville's commercial real estate market faces challenges but shows potential for recovery.
- The office sector correction continues, with high vacancy rates likely to persist short-term.
- The return to office trend is gaining momentum, potentially increasing occupancy and demand for quality, flexible spaces.
- The AI revolution presents opportunities, particularly given Rockville's proximity to D.C. and strong ties to defense and government sectors.
- Long-term growth in the life sciences sector is supported by NIH presence and government funding.
- Venture capital investments, like Amazon's recent \$500M in X-Energy, could catalyze economic growth.
- Rockville's growing, affluent population will support development, while aging demographics may influence future real estate needs.



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