



Impact of Government Restructuring & Effects on Rockville 2025 Year-End Overview

How Federal Policy Shifts in 2025 Impacted Rockville's Economy

Rockville Economic Development, Inc.
February 9, 2026



Economic Impact

Key Economic Takeaways

Strong fundamentals persist, but policy changes and federal exposure are creating new pressures

- **Policy Changes:**

- **State Policy:** Effective July 1, 2025, Maryland enacted a 3% sales tax on certain data and information technology services. The potential impacts on technology-driven businesses and service providers are being monitored.
- **Federal Policy:** Executive actions in 2025 focused on energy deregulation, tariff adjustments, and federal agency restructuring. The downstream implications for climate, health, and workforce-related sectors are currently being monitored as policies are implemented and clarified.

- **Workforce:**

- **Local Employment Trends:** Rockville's unemployment rate increased to 4.2% in September 2025, up 1.5 percentage points from September 2024. This change coincides with broader regional and federal workforce adjustments, as well as reductions in private industry.
- **Regional Federal Employment:** Preliminary regional labor data indicate the Bethesda–Rockville–Frederick area experienced an estimated net reduction of approximately 9,900 federal jobs as of November 2025 from November 2024.
- **National Federal Workforce:** According to the U.S. Office of Personnel Management, federal civilian employment declined by more than 317,000 positions nationwide, representing an estimated 13.7% reduction from September 2024 levels. The local and regional impacts of these national workforce changes continue to be evaluated.



Key Economic Takeaways (cont'd)

Strong fundamentals persist, but policy changes and federal exposure are creating new pressures

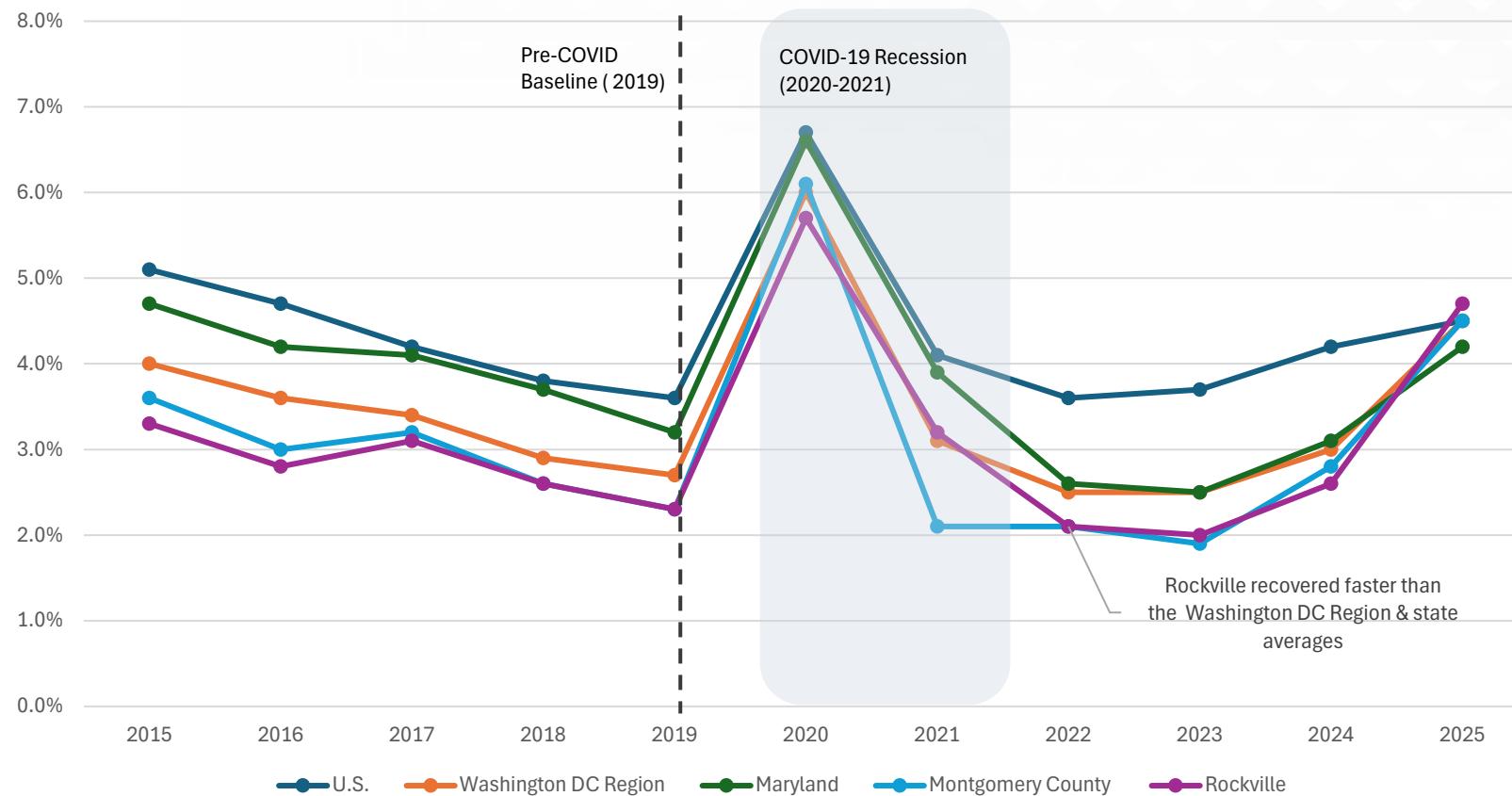
- **Hospitality**
 - **Visitor & Spending Trends:** Data from Visit Montgomery and national research organizations, including the Brookings Institution, indicate softening consumer spending and visitor demand in Montgomery County and the broader Washington, DC region. These trends are being monitored to assess duration and localized impacts.
- **Public Services**
 - **Service Delivery:** Reported disruptions to select public services, including food assistance programs (SNAP), early childhood education (Head Start), and federal workplace inspections (OSHA), have occurred.
- **Research & Data**
 - **Data Availability:** Temporary interruptions and reporting delays at some federal agencies have affected the timing and availability of key economic indicators, including components of the Consumer Price Index (CPI) and select employment data from the Bureau of Labor Statistics (BLS). Data quality and comparability impacts continue to be evaluated as updates are released.



Employment Activity in Rockville & Montgomery County

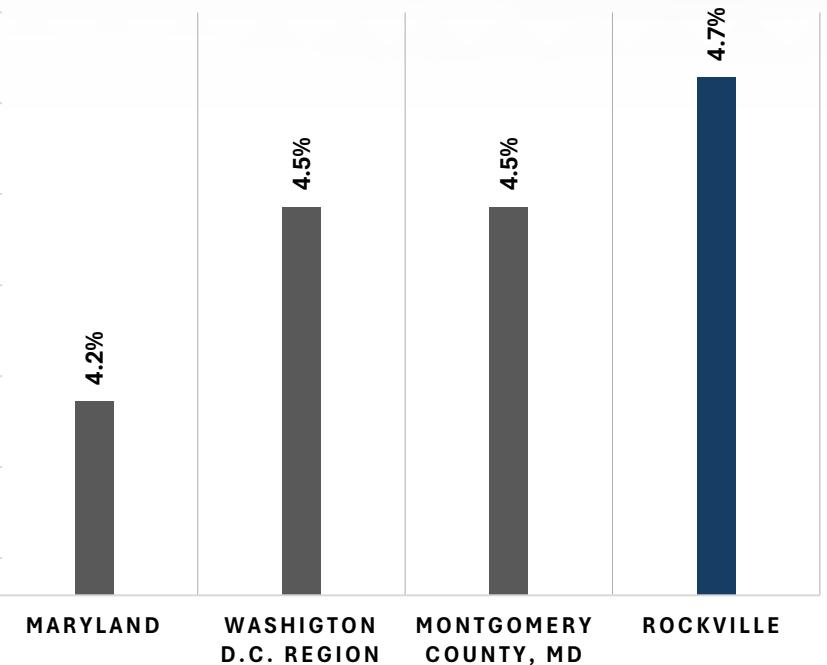
Rockville's low unemployment ticks up as federal cuts & private industry layoffs affect hundreds of workers

Historical Unemployment Rates by Locale



Source: Bureau of Labor Statistics

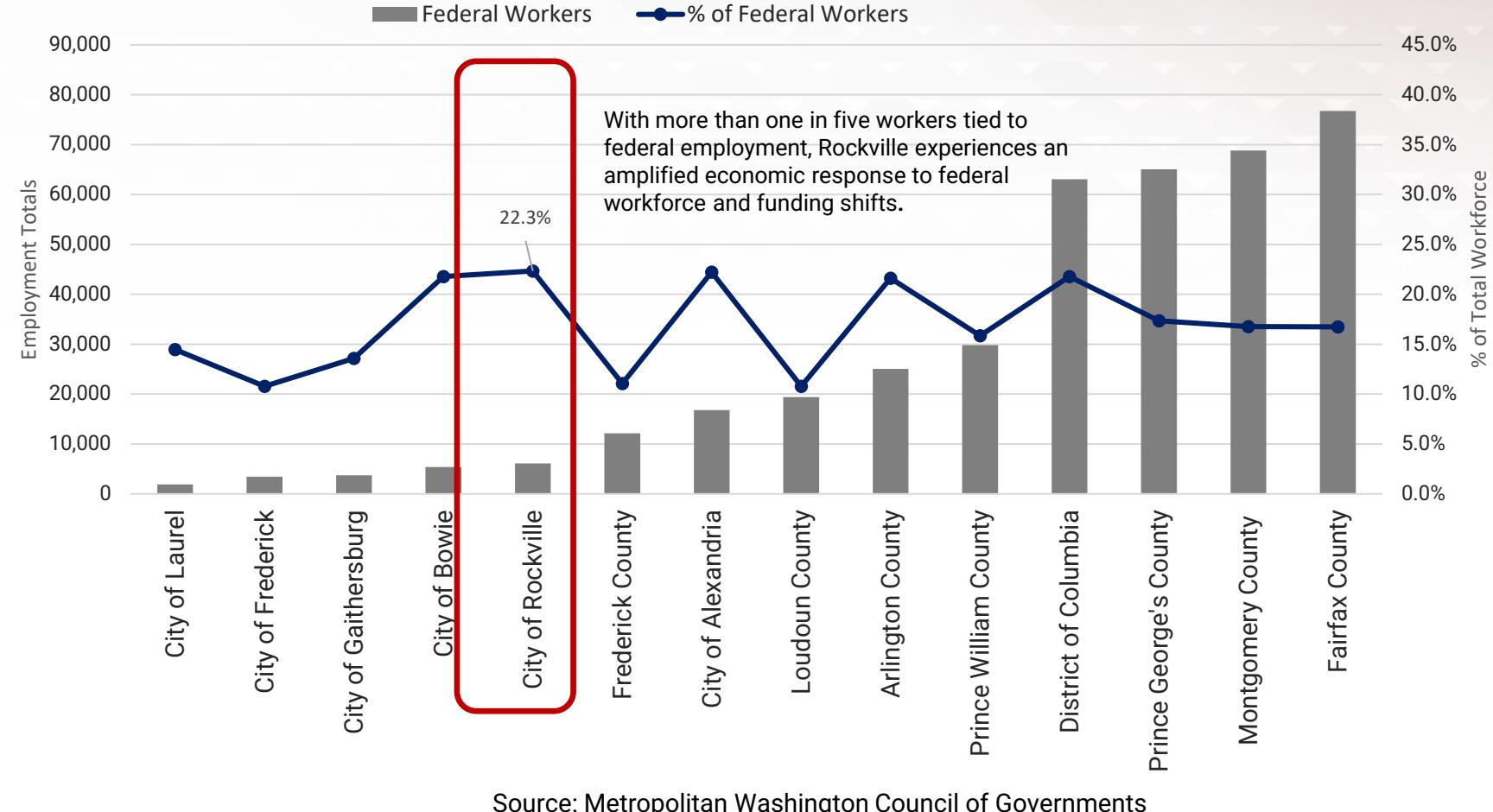
UNEMPLOYMENT RATE AS OF NOVEMBER 2025



Rockville's Federal Workforce Exposure: Risk and Economic Sensitivity

- Federal workforce and contractor reductions are translating into local economic impacts, affecting professional services, life sciences, and government contracting firms.
- Rockville's economy feels federal shifts faster than the broader region, given the concentration of federal agencies, contractors, and federally funded research activity.
- Office market stress is closely linked to federal exposure, as lease downsizing and contractor slowdowns contribute to elevated vacancy and delayed investment decisions.
- These conditions reinforce the importance of diversification, driving the City and REDI's focus on private-sector growth in life sciences, emerging technology, and small-scale manufacturing.

Federal Workforce Exposure by Locale



Federal Workforce Reductions Are Already Impacting Maryland Households

Rockville is experiencing early economic impacts from federal workforce reductions and industry realignment, but continues to demonstrate resilience

Share of D.C.-area households with federal government workers or contractors who lost their jobs

Q: Since Jan. 1, 2025, has anyone in your household been laid off, fired or put on leave from a job with the federal government or a federal government contractor? (Among those in the 31% of households with a federal government employee or contractor)



Source: April 22-May 4, 2025, Washington Post-Schar School poll of 499 adult residents in the Washington, D.C., area living in households with a federal government worker or contractor with a margin of error of +/- 5.7 percentage points. Error margins larger among subgroups.

EMILY GUSKIN / THE WASHINGTON POST

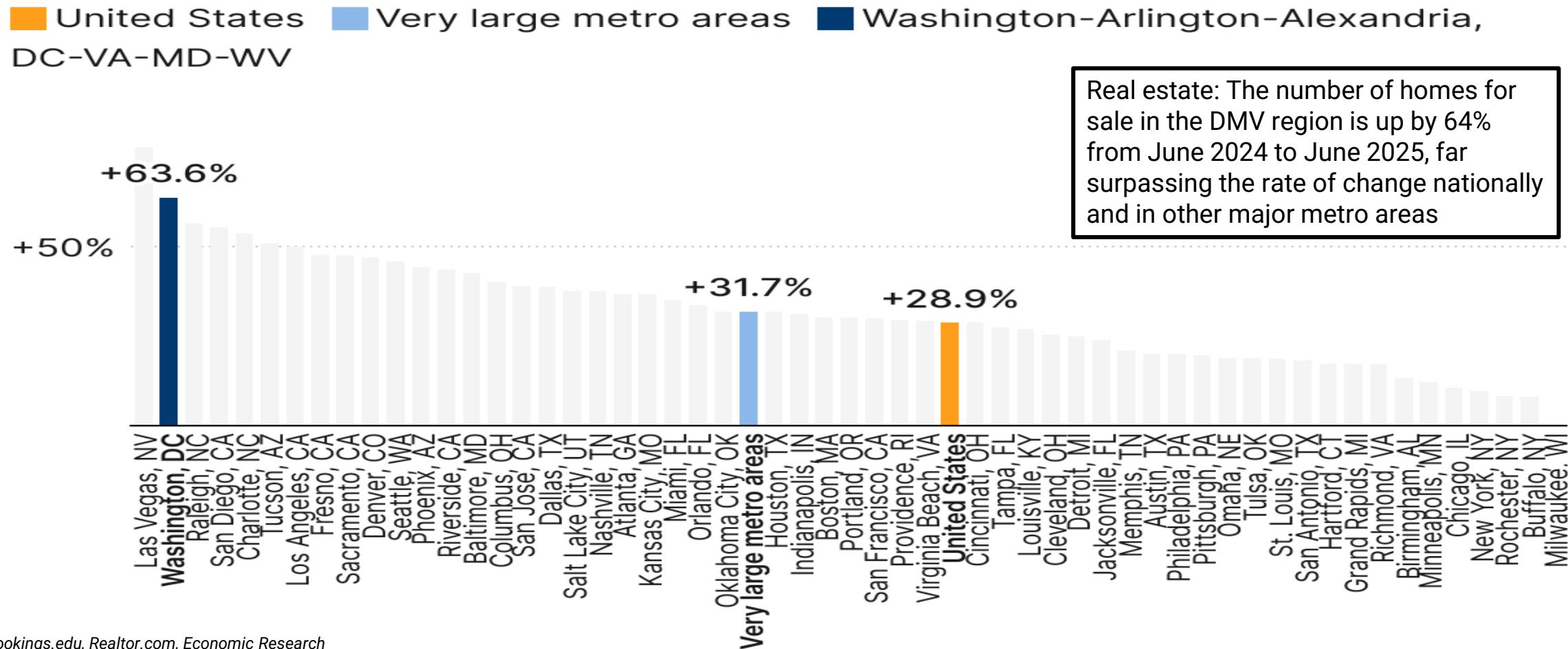
Source: Washington Post

- The chart shows that job losses tied to federal employment or federal contracting have had a meaningful and uneven impact across the Washington, DC region since January 1, 2025.
- With approximately 22% of Rockville's workforce tied to federal employment, federal policy decisions are translating more quickly into local labor market and commercial real estate impacts.
- Even modest federal cuts have outsized effects on professional services, life sciences, and government contracting firms located in the city.
- Federal workforce exposure underscores why diversification into private-sector growth industries is critical to Rockville's long-term economic resilience.

Active Home Listings in Washington D.C. Metro

Active home listings

Percent change (%)



Real estate: The number of homes for sale in the DMV region is up by 64% from June 2024 to June 2025, far surpassing the rate of change nationally and in other major metro areas

Source: Brookings.edu, Realtor.com, Economic Research





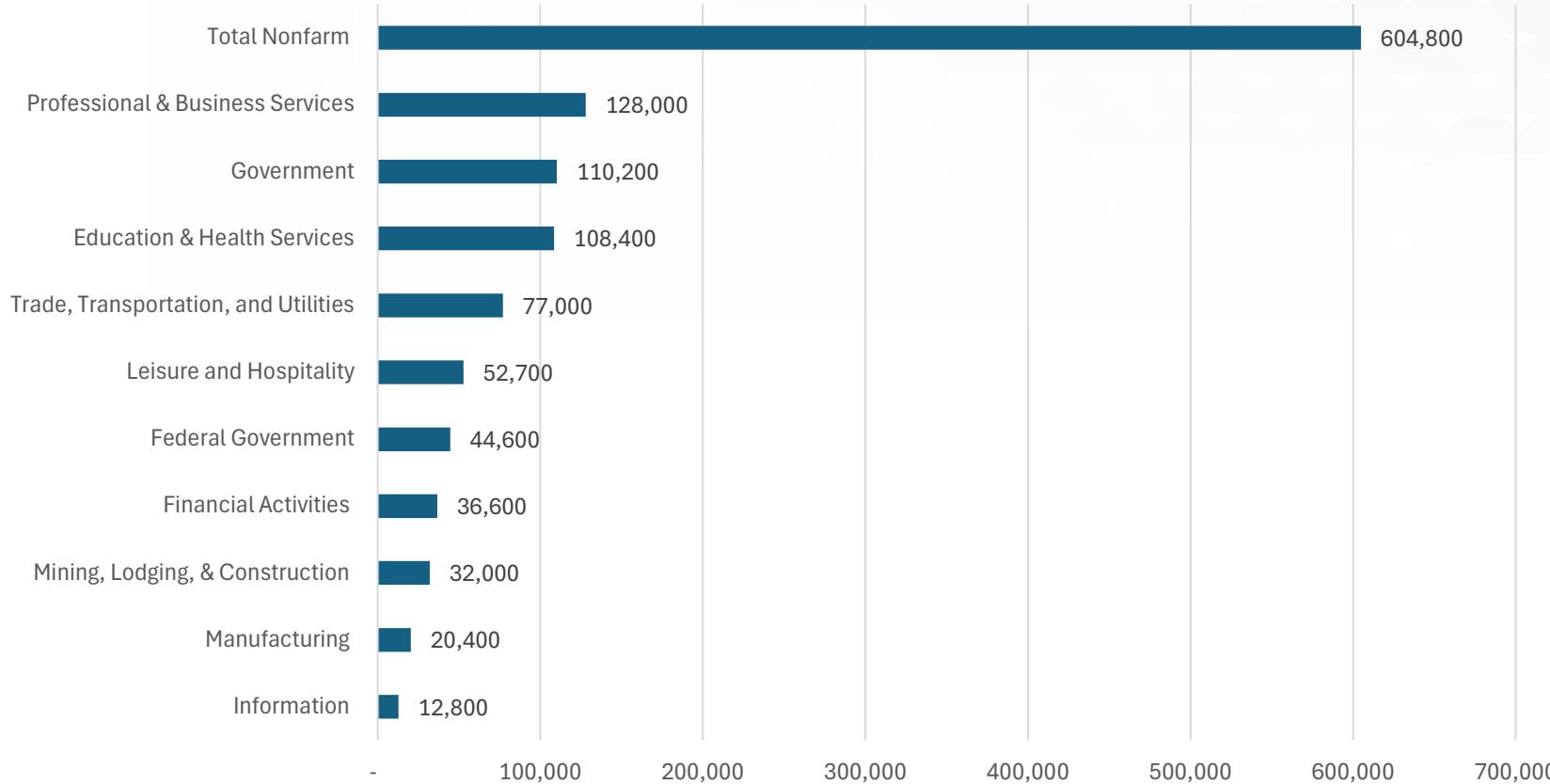
Industry Impact of Federal Restructuring



Bethesda-Rockville-Frederick Employment Numbers by Industry

Heavy reliance on federal and office-based sectors; blue-collar and life sciences show recent momentum

Employment by Industry as of November 2025



- Employment trends over the past 12 months show uneven performance across industries, signaling a period of adjustment rather than broad-based growth or decline.
- Office-producing and federally linked sectors are experiencing slower growth or contraction, consistent with federal workforce restructuring, delayed procurement, and evolving work patterns.
- Construction and other blue-collar industries continue to post stronger gains, helping offset softness in professional and office-based employment.
- Life sciences and technical sectors show mixed results, reflecting national investment headwinds alongside continued long-term demand for specialized talent.
- Overall labor market conditions remain relatively stable, but sector divergence highlights the region's sensitivity to federal policy decisions and the importance of diversification.

Source: Bureau of Labor Statistics

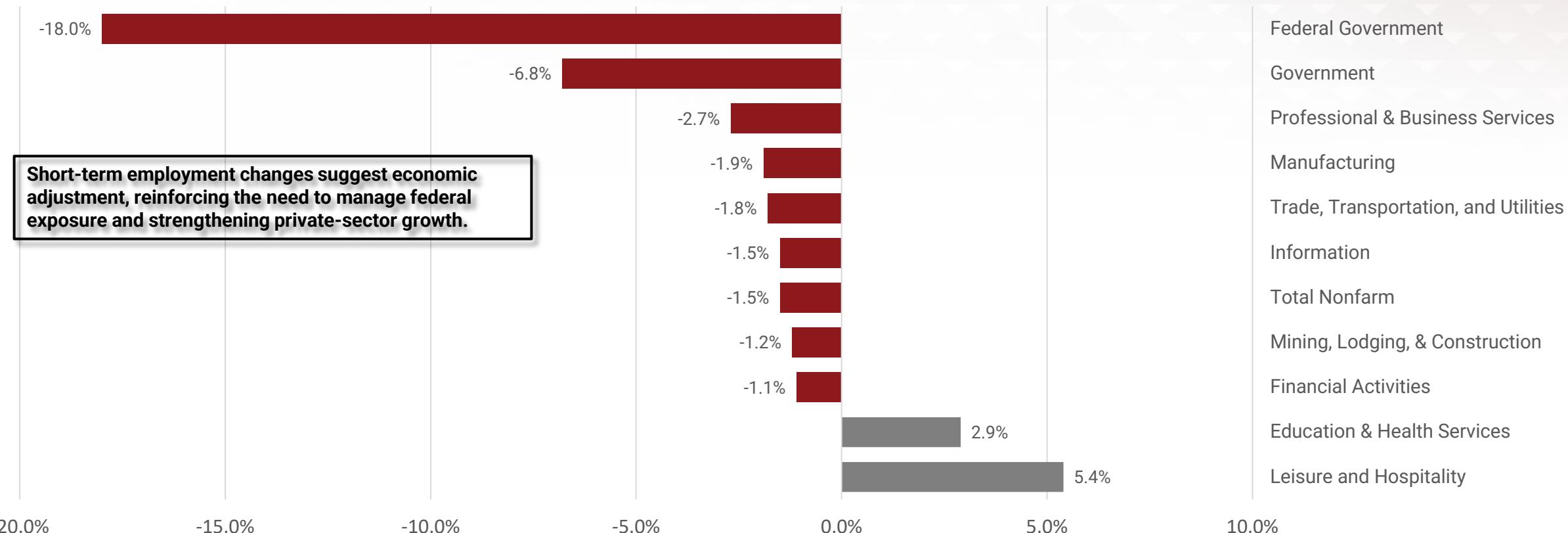


12-Month Employment Change Signals Emerging Economic Shifts

Bethesda-Rockville-Frederick employment change captures near-term federal policy effects

Year-Over-Year Percent Change in Employment

Nov 2024-Nov 2025

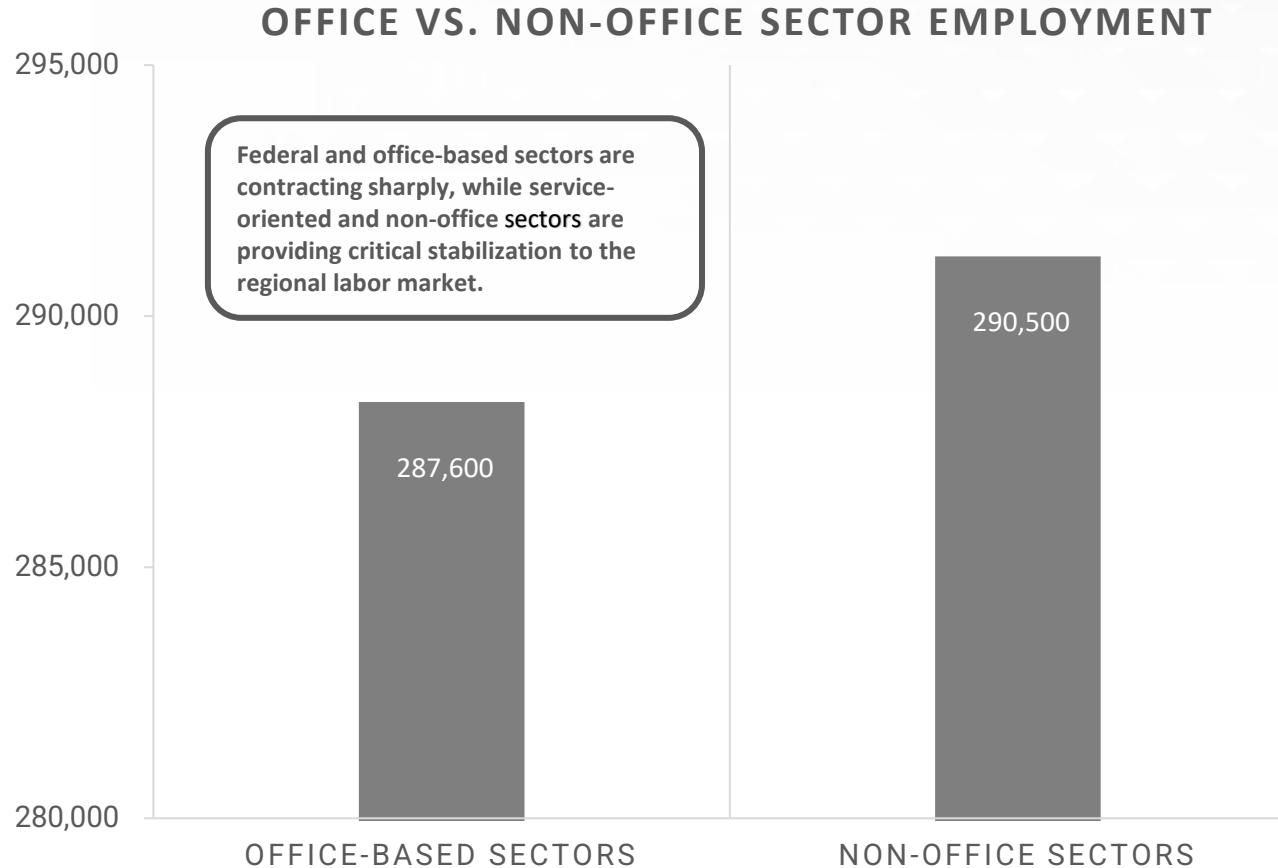


Short-term employment changes suggest economic adjustment, reinforcing the need to manage federal exposure and strengthening private-sector growth.

Source: Bureau of Labor Statistics



Labor Market in Transition: Federal Losses Offset by Non-Office Growth



Source: Bureau of Labor Statistics

- Despite similar employment size, office-based sectors are experiencing disproportionately larger declines, reinforcing the link between:
 - Federal workforce restructuring
 - Office market softness
- Office-based sectors are driving most of the employment contraction, particularly:
 - Professional & Business Services (-2.7%)
 - Information (-1.5%)
 - Financial Activities (-1.1%)
- Non-office sectors are showing relative resilience, with notable growth in:
 - Leisure and Hospitality (+5.4%), reflecting continued recovery in travel, dining, and in-person services.
 - Education & Health Services (+2.9%), underscoring the stabilizing role of healthcare and education employment.

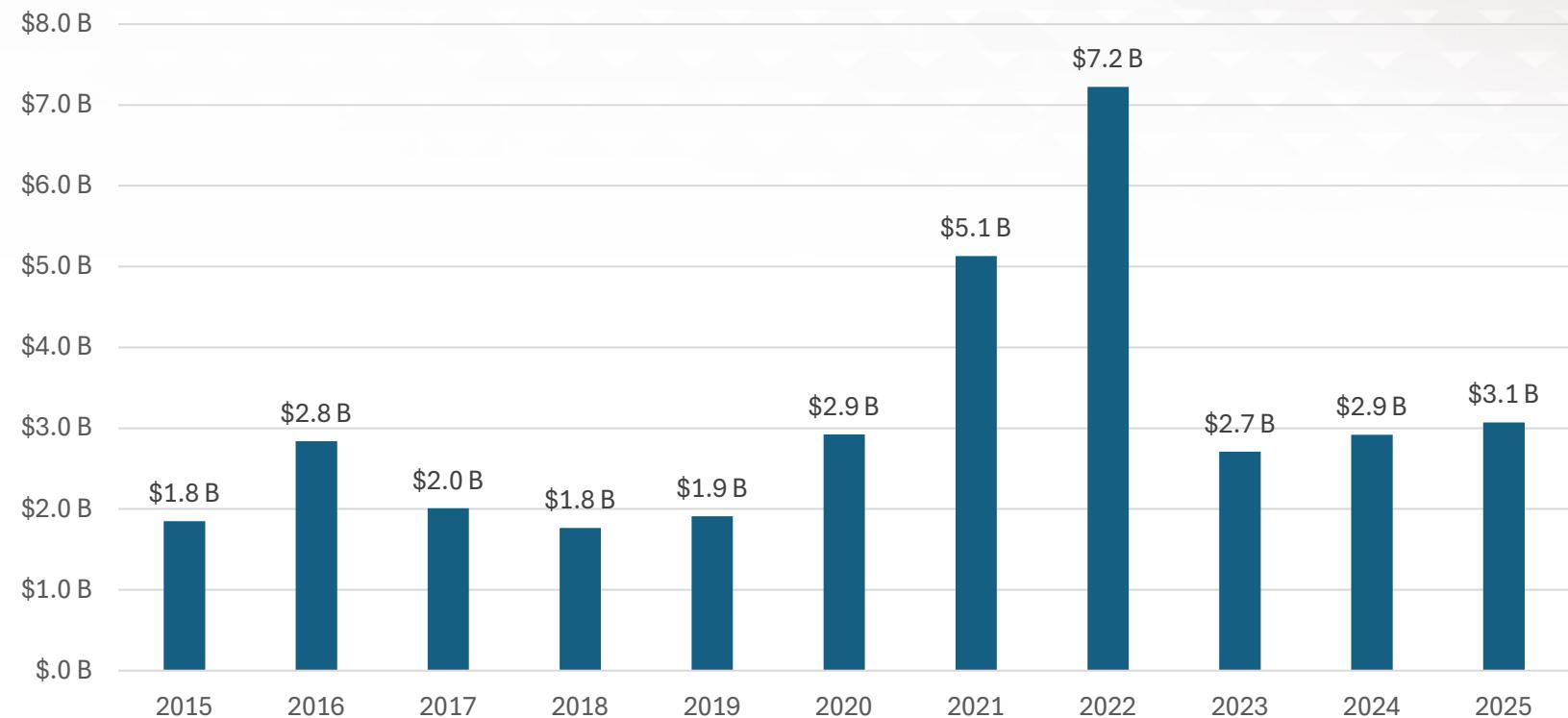


Federal Awards Activity for Rockville

\$34B in awards over 10 years – Cybersecurity, Life Science & Healthcare Services

- Over the past decade, Rockville has secured \$34 billion in federal awards, with funding peaking in 2022 before tapering off through 2025.
- Additional major awardees, such as Emmes, Hendall, and BAE Systems, have won some of the region's most substantial contracts across the life science, cybersecurity, and IT services sectors.

Rockville's Federal Awards (2015-2025)



Source: USASpending.gov



Federal Impacts on Life Sciences & Biotech Industry

- **What changed in 2025:**

- **Funding Uncertainty:** Federal budget actions and restructuring at agencies such as NIH and HHS introduced short-term uncertainty, leading some life sciences firms to delay expansion, hiring, or capital investment decisions.
 - **Impact of SBIR Funding Changes on Life Sciences:** The SBIR and STTR programs expired on September 30, 2025, and were not included in the budget approval for FY26. Agencies cannot issue new awards or solicitations.
- **Increased Reliance on Private Capital:** As federal funding became less predictable, life sciences firms increasingly relied on private investment, partnerships, and state or local support to sustain growth.
- **Grant & Contract Timing:** Slower grant awards, pauses, and heightened scrutiny of federal funding have affected cash flow and planning, particularly for early-stage and research-dependent companies.
- **Workforce Effects:** Federal workforce reductions and policy shifts impacted the broader research ecosystem, influencing talent availability, contractor activity, and collaboration with federal labs and agencies.
- **Regulatory Environment:** Changes in federal agency operations and staffing created longer or less predictable regulatory timelines, affecting product development and commercialization schedules.
- **Strategic Resilience:** Despite near-term pressures, Rockville's proximity to federal research institutions, strong talent base, and established life sciences ecosystem position the sector for long-term recovery and growth as federal conditions stabilize.



Federal Impacts on Government Contracting

What changed in 2025:

- **Timing & Pipeline Risk:** Greater variability in award timing and obligation levels has introduced uncertainty for contractors, particularly those dependent on multi-year federal programs.
- **Sector Sensitivity:** Technology, cybersecurity, health, and professional services—sectors with strong federal exposure—are experiencing heightened competition and more cautious procurement activity.
- **Local Implications:** Communities with a high concentration of federal contractors, including Rockville and the surrounding region, may experience downstream effects on employment, office demand, and investment decisions as contracting activity adjusts.
- **Facility & Workforce Reductions:** Accelerated budget cuts targeting underutilized federal facilities and personnel reductions could reduce demand for facility-related, administrative, and support contracts, particularly in markets with high federal office vacancy.
- **Heightened Scrutiny of Awards:** Expanded focus on identifying waste, fraud, and abuse may result in tighter oversight, contract reviews, and reductions or eliminations of funding for programs deemed non-critical, increasing competition and uncertainty for contractors.



Federal Impacts on Small-scale Manufacturing

What changed in 2025:

- **Manufacturing Employment Trends:** Manufacturing employment continued to soften, and employment dropped 2% from November 2024 to November 2025. This contraction can affect local supply chains and labor availability for small manufacturers in Rockville.
- **Tariff & Input Cost Pressures:** Federal tariff policies have been associated with uncertainty and higher input costs for manufacturers, particularly for intermediate materials (e.g., steel, aluminum), which disproportionately impact small manufacturing firms with limited purchasing scale.
- **Supply Chain & Cost Challenges:** Broader research shows that tariffs and trade policy uncertainty can raise operating costs and disrupt supply chains for U.S. manufacturers, potentially constraining growth for small manufacturers dependent on imported inputs.
- A major policy fight emerged over NIH research overhead/indirect cost reimbursements (courts blocked the attempted cap). Reuters
- Regional reporting flagged federal cuts as a threat to Montgomery County's life-science cluster.
- Increased importance of local gap-fill tools (grants, pilots, incentives) to keep startups and scaleups moving.



Federal Impacts on Emerging Industries

What changed in 2025:

- **AI Policy & Federal Frameworks:** Federal executive orders in 2025 directed a national AI policy framework aimed at maintaining U.S. AI leadership, reducing state-level regulatory fragmentation, and encouraging adoption and investment in AI technologies.
- **R&D Investment Priorities:** Federal research priorities in 2025 maintained or increased funding for key emerging technology areas – including AI, quantum information science, and advanced computing – through programs and federal lab partnerships that expand research infrastructure and industry engagement.
- **NSF AI Research Hubs:** The National Science Foundation expanded investments (e.g., \$100M in National AI Research Institutes) that support collaborative AI research and workforce development; such federal research networks help position regions like Rockville for technology spin-outs and partnerships.
- **Defense & Aerospace R&D:** Major portions of federal R&D funding continue to go to agencies such as the Department of Defense and NASA, sustaining aerospace and related technology development pipelines that benefit local suppliers and research firms.
- **Supply Chain & Tech Security Initiatives:** New federal initiatives, such as the Pax Silica supply-chain cooperation effort for semiconductors and advanced technology infrastructure, signal federal emphasis on resilient domestic tech ecosystems – an opportunity for local firms tied to aerospace, AI, and clean tech supply chains
- **Workforce & Talent Programs:** Federal tech workforce efforts (e.g., U.S. Tech Force) aim to recruit early-career technologists into missions related to AI and IT modernization, which may strengthen the regional talent pool accessible to Rockville's emerging tech sectors.



A scenic view of a city street in Rockville, Maryland, featuring modern buildings, autumn foliage, and a historic marker.

City of Rockville Commercial Inventory: Competitive Landscape



City of Rockville - Commercial Real Estate Fundamentals Year-End 2025

Office

- Inventory – 13.0 million square feet
- Vacancy – 25%
- Rents - \$30 per square foot
- Leasing – 487,000 square feet
- Sales - \$84 million
- Sales Price/SF - \$182

Industrial/Flex

- Inventory – 4.1 million square feet
- Vacancy – 7.7%
- Rents - \$24 per square foot
- Leasing – 103,000 square feet
- Sales - \$19.1 million
- Sales Price/SF - \$264

Retail

- Inventory – 2.3 million square feet
- Vacancy – 8.6%
- Rents - \$43 per square foot
- Leasing – 107,000 square feet
- Sales - \$12.4 million
- Sales Price/SF - \$337

Source: CoStar



City of Rockville - Office Fundamentals Year-End 2025

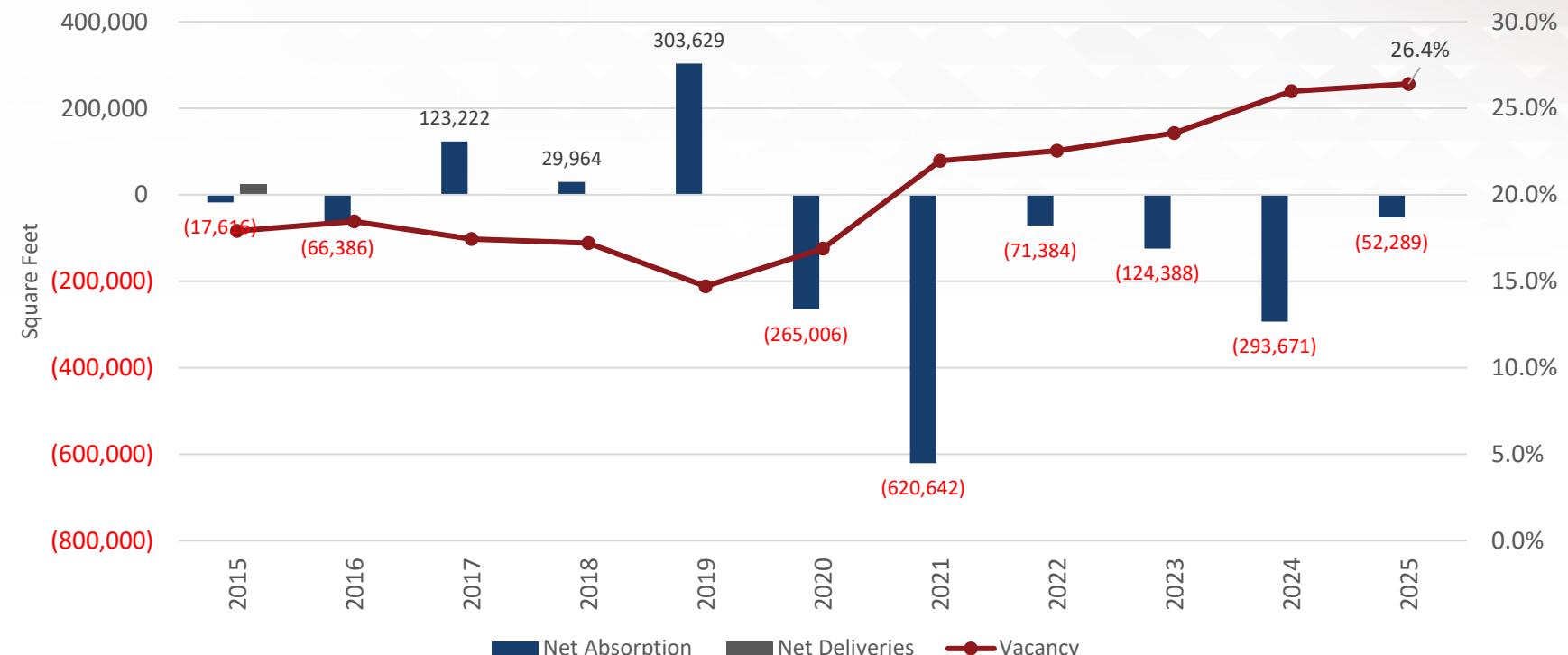
High Vacancy persists, but leasing momentum offers some relief as 2025 closed

These slides provide a brief overview of the City of Rockville's office market fundamentals throughout 2025.

- Vacancy Remains Elevated:** Office vacancy stood at approximately 26% as of year-end 2024 and persisted through 2025, reflecting structural shifts in office demand.
- Absorption Trend Improving:** Net absorption was negative 5,812 SF year-to-date (Q2 2025), a marked improvement from the -70,000 SF contraction in Q4 2024, indicating slowing tenant losses.
- Limited New Supply:** Low levels of new office deliveries suggest that vacancy pressure is demand-driven rather than supply-driven.

Rockville Office Market Trends (Year-to-date 2025)

Tracking Vacancy, Net Absorption, and Deliveries Across a Decade of Change



Source: CoStar

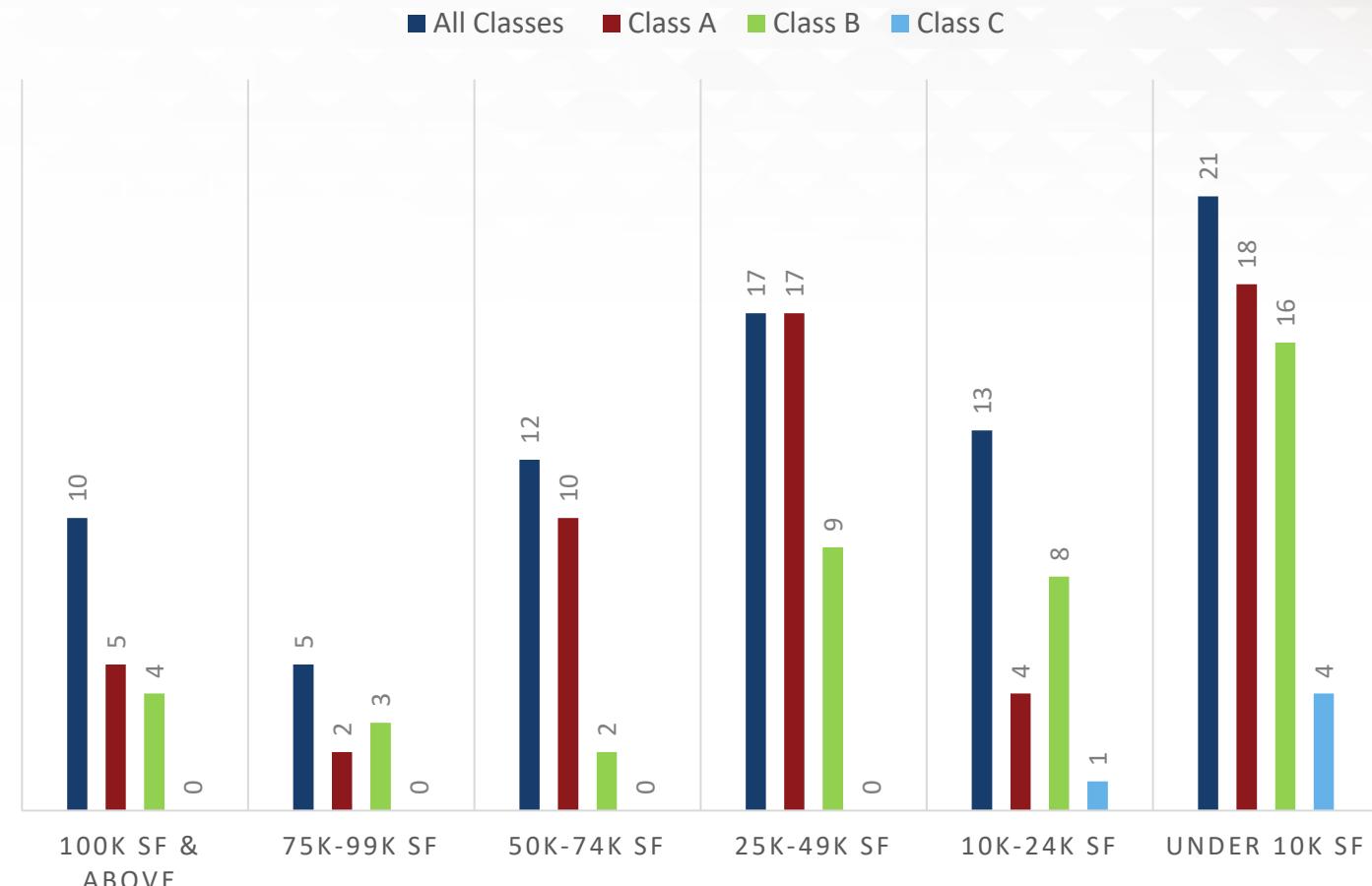
Available Blocks of Office Space

Rockville's vacancy is concentrated in a defined subset of properties, creating both challenges and opportunities for targeted repositioning and attraction strategies.

We're looking closer at the office space contributing to Rockville's elevated vacancy.

- **Concentrated Availability:** 51 buildings citywide contain 10,000 SF or more of available space, accounting for the majority of vacancy.
- **Class A Dominance:** Approximately 61% of available space is in Class A properties, largely built or renovated after 2003.
- **Class B Exposure:** 26% of available space is in Class B buildings, primarily constructed between 1973-1987.

AVAILABLE BLOCKS OF SPACE BY CLASS



Source: CoStar

Availability of Office Space in the City of Rockville

Both newer Class A and aging Class B assets are underperforming, though for different reasons, pointing to a mismatch between existing supply and evolving tenant preferences

- **Class A Underperformance:**

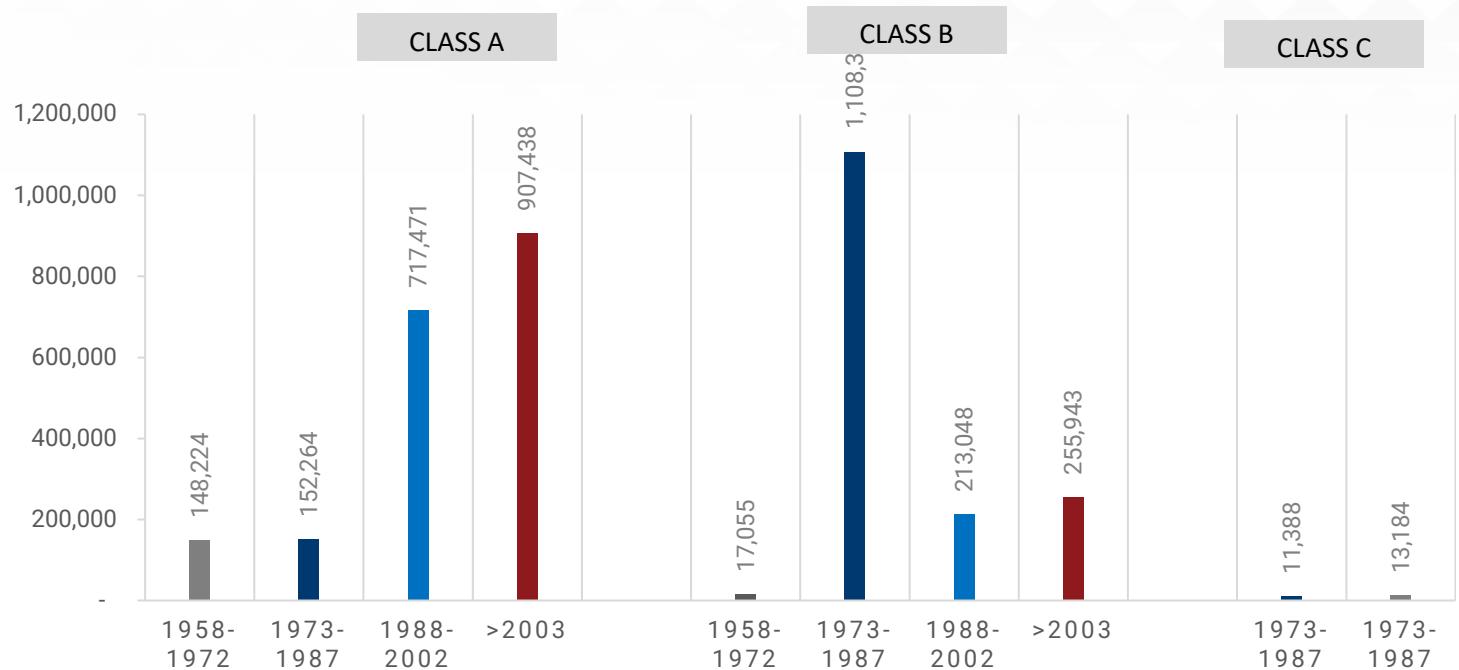
Elevated vacancy in newer buildings suggests that “newer” alone is no longer sufficient to attract tenants without location, flexibility, or cost alignment.

- **Class B Reinvestment Need:**

Persistent vacancies in older Class B assets indicate the need for renovation, repositioning, or alternative use strategies.

- **Demand Shift:** Hybrid work and cost sensitivity continue to reshape tenant location and space-use decisions.

AVAILABLE SPACE BY CLASS AND YEAR BUILT



Source: CoStar

Office Sales 2020-2025

City of Rockville office investment activity continued through 2025, but pricing erosion and distressed transactions highlight ongoing stress in the asset class.

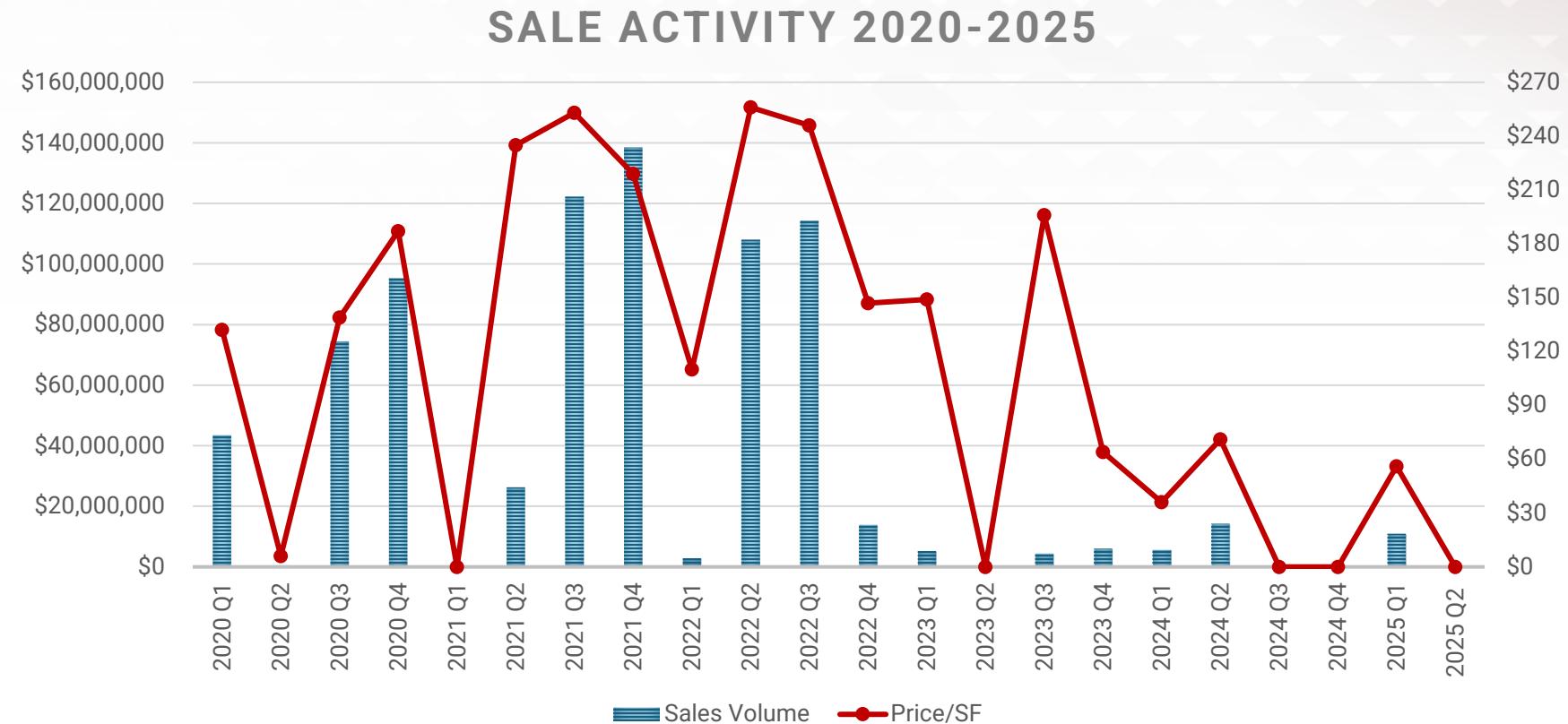
- **Transaction Volume:**

Approximately \$666 million in office assets traded between 2020–2025.

- **Pricing Pressure:** Recent sales reflect declining price per square foot, signaling reduced valuations.

- **Distress Indicators:** Three foreclosure sales and multiple pending lender takebacks indicate financial strain among owners.

- **Landlord Challenges:** Prolonged leasing difficulty continues to pressure asset competitiveness and capital reinvestment.



Source: CoStar



Where is Rockville Competitive?

R&D, Life Sciences, Biomanufacturing, & Research-adjacent Companies

- **Strong fit:** Rockville already has an existing ecosystem and needs to diversify within the life science and biotechnology sector.
 - Industries to focus on:
 - Biotech / biopharma R&D
 - Medtech + digital health
 - CRO/CDMO-adjacent professional services
 - Regulatory, quality, compliance, & service firms
- According to Scheer Partners, lab availability has risen notably along the Biotech Corridor and the overall DC Metro, meaning the near-term opportunity is often backfilling and repositioning, not just new construction. This also signals a tenant-friendly market.
- **Focus:** Life science and biotech firms needing 10K–60K square feet of R&D/lab or hybrid office/lab footprints



Where is Rockville Competitive?

REDI was ahead of the curve in working on diversifying the economy beyond Federal jobs and contracting

Federal contractor ecosystem & Tech focused Companies (Tech+Professional & Business Services)

- **Strong fit:** Works well in mid-size office blocks and flex; aligns with regional tenant demand cycles.
 - Industries to focus on:
 - Artificial Intelligence (AI) & advanced analytics companies
 - Health IT
 - Professional & Business Services - Engineering, program management, logistics, training providers
- **Focus:** Federal Contractors require 10K–50K SF office space with high parking, proximity to transit, and optional high-security features. AI & Tech Firms: Seek 5K–30K SF office/flex space with robust power and connectivity, plus scalability.



Where is Rockville Competitive?

Small-scale manufacturing

- **Strong fit:** Rockville can compete on proximity, workforce, and smaller footprints.
 - Industries to focus on:
 - Food production/specialty packaged foods
 - Light manufacturing, fabrication, printing
 - Consumer product assembly + distribution
 - **Focus:** Rockville can compete on proximity, workforce, and smaller footprints. These companies work well with space ranging from 3K–9K SF flex/industrial—this segment is consistently active because it matches small business scaling patterns.





REDI's Response to Current Federal Restructuring



REDI's Immediate Response to the Federal Changes

Supporting Employers and Workers Through Federal Shifts

- **Programmatic Response to Federal Changes:** MWBC launched two new initiatives: **Founders Rising**, a business accelerator equipping aspiring and early-stage entrepreneurs with foundational business skills, expert coaching, and leadership development; and **Reboot**, an entrepreneurial launchpad delivering free, high-impact, one-day workshops for aspiring entrepreneurs, creatives, and former federal employees transitioning into business ownership.
- **Regional Coordination:** In partnership with **Montgomery County Government, Montgomery County Economic Development Corporation, WorkSource Montgomery, the Cities of Rockville and Gaithersburg**, regional chambers, and economic development organizations, REDI helped launch Mobilize Montgomery, a coordinated initiative providing real-time tools and support to mitigate economic disruption
 - **Outcome:** **Mobilize Montgomery's** effort led to the 1st Federal Workforce Center in the United States.
- **Mobilize Montgomery Platform:** This online hub offers tools and information for businesses, job seekers, and entrepreneurs navigating the evolving labor landscape. Resources will be continuously updated to meet emerging needs.
- **Workforce Resource Update:** REDI has refreshed its workforce page to provide timely resources for Rockville businesses, residents, and job seekers impacted by federal changes.



REDI's Business Development Strategy

REDI had proactively begun evaluating strategies to diversify the local economy

Life Science Industry Sector

Strategic Actions

1. Activate the “Biotech Corridor” brand, including a soft launch at the 2025 International BIO Conference in Boston, to elevate national and international visibility and position Rockville as a premier life sciences destination
2. Deploy AI-driven prospecting tools (e.g., Gazelle) to identify, qualify, and advance high-value attraction and expansion opportunities
3. Target growth-stage and anchor life sciences companies aligned with Rockville’s existing assets to scale the local life sciences footprint
4. Build a collaborative life sciences ecosystem connecting industry, research institutions, workforce partners, and capital providers
5. Align incentives, real estate, workforce, and permitting resources to strengthen end-to-end support infrastructure
6. Expand partnerships with accelerators and incubators while actively marketing Rockville’s assets to attract, retain, and scale companies

Economic Outcomes

1. Increased national and international awareness of Rockville as a leading life sciences hub
2. Stronger attraction and retention of growth-stage and anchor life sciences firms
3. Job creation and increased private-sector investment across the life sciences value chain
4. Improved speed-to-market and expansion readiness for life sciences companies
5. Enhanced collaboration, commercialization, and long-term ecosystem resilience



REDI's Business Development Strategy

REDI's Strategy to Attract and Retain Innovation-Driven Companies in AI, Tech, and Advanced Manufacturing

Emerging Industries

Strategic Actions

1. Institutionalize strategic partnerships with MEIA, the Maryland Tech Council, higher education institutions, and leading incubators and accelerators to support startup formation, scale-up, and commercialization.
2. Build and actively manage a prioritized attraction and retention pipeline for small- and mid-sized growth companies using AI-enabled market intelligence platforms like Gazelle AI.
3. Position Rockville as a premier innovation hub for high-growth sectors, including AI, quantum technologies, aerospace, and bio/health computing.
4. Expand targeted engagement with investors, site selectors, and the development community to elevate market visibility.
5. Showcase advanced R&D and commercialization activity by highlighting material science and engineering breakthroughs led by Rockville-based companies.

Economic Outcomes

1. Increased startup formation and successful scale-ups in emerging technology sectors
2. Stronger attraction and retention of growth-oriented firms and high-quality jobs
3. Enhanced investment interest and site selection activity within Rockville
4. Greater commercialization of locally generated R&D and innovation
5. Reinforced regional and national recognition of Rockville as an emerging-industry hub



REDI's Business Development Strategy

Positioning Rockville as a Hub for Emerging Light Industrial and SSM Innovation

Small-Scale Manufacturing

Strategic Actions

1. Deploy targeted programming to improve awareness of technical assistance, site selection, and location services
2. Position small-scale manufacturing as a priority growth sector through enhanced digital presence and centralized resources
3. Deliver tailored, stage-appropriate technical assistance to support manufacturers from startup through expansion
4. Designate and promote Rock East and Twinbrook as priority hubs for light industrial and small-scale manufacturing investment
5. Elevate local manufacturer success stories to strengthen sector visibility and market credibility

Economic Outcomes

1. Enhanced visibility of Rockville as a competitive location for small-scale manufacturing
2. Increased business formation, retention, and expansion within the small-scale manufacturing sector
3. Improved business readiness and faster progression in growing and scaling the business
4. Greater utilization of Rock East and Twinbrook industrial space
5. Stronger attraction of capital, technical partners, and support services





THANK YOU

 51 Monroe Street, PE-20
Rockville, MD 20850

 (301) 315-8096

 RockvilleREDI.org