

Office Market Assessment

Montgomery County, Maryland

Prepared for the
Montgomery County Planning Department

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Executive Summary

Prepared by Washington, DC-based Partners for Economic Solutions (PES) for the Montgomery County Planning Department, this in-depth market study examines the many forces changing the regional office market, current conditions in the county and best practices for office development.

The goal of the research is to better understand the unprecedented challenges confronting the market, including changing tenant preferences, high vacancies, flat rents and slow absorption of new and relet space. While these trends partly reflect a still-recovering economy, the Washington, DC region has been especially hard hit by cuts in federal government spending and leasing.

Regional Office Vacancies (Second Quarter, 2015)

- A total of 71.5 million square feet of office space currently is vacant throughout the Washington, DC region.
- With 20 million square feet of vacant office space, Fairfax County accounts for the largest share (28 percent) of vacancies region-wide. The District of Columbia has the second highest share (22 percent), with 15.6 million square feet.
- Montgomery County has nearly 11 million square feet of vacant office space, accounting for 15 percent of regional vacancies.
- Prince George's County has 7 percent of the region's vacant office space.
- In Montgomery County, 12 office buildings totaling 2.1 million square feet of space are completely vacant. Eight more buildings totaling 1.2 million square feet will become vacant this year.
- Seven relatively small office buildings totaling 400,000 square feet are now under construction in the county. Region-wide, 33 office buildings totaling 7.3 million square feet are under construction.

Findings

- Most jobs created during the economic recovery have been in restaurants, retailers and health care facilities, rather than in office-based sectors such as professional and technical services.
- Telecommuting, technological advances, more efficient work spaces and practices such as hoteling have enabled office tenants to reduce their square footage even as they expand their workforce.
- The most successful office clusters in Montgomery County are part of mixed-use developments with a strong sense of place and a quality environment. Transit connectivity is increasingly important to office tenants. This trend is consistent with recommended land use strategies in recent County plans for White Flint, Bethesda, White Oak and other communities.
- Single-use office developments without convenient transit or highway access are having difficulty in attracting tenants.
- Future office development is likely to occur at a much slower pace and be concentrated in prime locations. Not every location will be able to attract new office development or maintain former occupancy levels.

Recommendations

- Create or retrofit office environments that are attractive to today's tenants by adding amenities, mixed-uses and improved transit or highway connections. Incentives to renovate offices could be effective for buildings near transit or in mixed-use areas.
- Reduce the supply of non-competitive office space by converting vacant office buildings to housing, hotels or other uses. Policies that facilitate site assembly could help owners of older, small office buildings to redevelop. Plans for approved but unbuilt suburban office parks may need to be revisited. Some projects already have converted planned office space to residential or other uses, but redirecting development capacity to more competitive locations should be considered. Zoning impediments to redevelopment and diversification should be removed.
- Increase demand by competing for office tenants more effectively. County economic development initiatives including business attraction and retention, workforce development, technical assistance and support for local entrepreneurs should be intensified.



Introduction

The Washington, DC metro region¹ is currently experiencing unprecedented challenges in its office market, exemplified by vacancy rates that have risen in the past year from 14.6 percent to 15.0 percent,² more than 70 million square feet of vacant space, average reported rents that have declined 0.5 percent since 2008, larger than normal concession packages, slow absorption and minimal new construction.

Montgomery County is suffering along with the rest of the region, performing better than other jurisdictions on some indicators and worse on others. The county's vacancy rate rose from 14.8 percent to 14.9 percent between 2014 and 2015. However, average reported rents in the county have declined more than 7.8 percent since 2008, and absorption has been slower than seen in the District of Columbia and Fairfax County. Most new office deliveries in the past year have been built-to-suit for single tenants.

The region and county have experienced recession-driven office market downturns for decades. What is different this time is a major realignment as tenants reduce their office space even as they expand their workforce. That trend will impact local and regional office markets for many years into the future.

Montgomery County's Challenge

As of mid-year 2014, the office inventory includes 11 totally or almost totally vacant buildings with 2.25 million square feet of space; another nine buildings are almost totally available with 1.4 million square feet.³ All of these buildings are located in office parks or independent campuses.

High vacancies also threaten the financial viability of individual buildings. They pressure each landlord who has vacant space to lower rents or increase concession packages in order to lure tenants, undercutting the building's cash flow and thus its market value. As more buildings are affected, these depressed values could have negative implications for the property tax base of the county, the City of Gaithersburg, and the City of Rockville.

¹ Defined to include the District of Columbia; Montgomery, Arlington, Calvert, Charles, Clarke, Culpeper, Fairfax, Frederick, Loudoun, Prince George's, Prince William, Rappahannock, Spotsylvania, Stafford and Warren counties; and the cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park.

² Well-leased office buildings have vacancies of three to five percent. A healthy office market that combines a wide range of properties would have vacancies of eight to ten percent.

³ As of mid-year 2015, 12 major office buildings totaling 2.1 million square feet stand completely empty, and another eight buildings are soon to be largely vacant.



Projected occupancy rates do not suggest any near-term relief in these problems. Only significant increases in office-based employment, office building demolitions or conversions to other uses could make a dent in the county's nearly 11 million square-foot vacant office inventory.

To bring the county office market back into balance with a vacancy rate of less than 10 percent, employment in office-based industries would need to expand by at least 21,900 jobs. That is equal to eight percent of all jobs in office-using industries and more than seven times the number of total jobs created in the county from 2004 through 2013.

Office development has played a major role in anchoring new developments in the county. That role has shifted now to residential development. Master plans will need to recognize that shift and may require revisions to accommodate that new reality. Reuse or redevelopment strategies will be needed for some buildings that can no longer compete effectively for tenants.

The zoning re-write has lowered some of the barriers to repositioning single-use office districts by allowing introduction of non-office uses into office park zones. However, more may need to be done to encourage the required transitions.

Several major single-use office parks will need major injections of new private investment to compete with walkable mixed-use districts. New infrastructure may be required to provide quality transit access and roadway improvements to better serve pedestrians.

To provide a better understanding of the many issues involved in office development, this analysis has delved deeply into the performance of the county's office base, focusing on variations by location and type and class of space.

This report addresses:

- forces changing the office market, including employment trends;
- trends in office market conditions in the region, county, county subareas, and specific office clusters;
- future prospects for the market;
- best practices, the lessons they offer, and the strategies they suggest; and
- conclusions and recommendations, emphasizing planning-related strategies.



I. Forces Changing the Office Market

Several major forces are changing office markets – national, regional, and local. This section outlines those forces, distinguishing among those primarily impacting demand and those affecting supply conditions. Because the forces affect different types of office users differently, the discussion begins with an introduction to the different types of users active in Montgomery County. The second half of the section explores employment trends in more depth due to their importance in explaining and predicting office demand.

Types of Office Tenants

Montgomery County offers the full range of office spaces of different classes, age, rent levels and type of setting from urban centers near Metro stations to bare-bones buildings along major thoroughfares to stand-alone campuses to amenitized office park buildings. They attract a wide variety of users with differing needs, budgets and locational criteria. At the risk of over-generalization:

- Corporate or agency headquarters look for prestige locations with good regional accessibility from which to draw a well-educated workforce. Access to client businesses and/or other companies that support or collaborate with them can be important. That can argue for locating within major office clusters, close to a major client, and/or near a major airport. For some, signage and visibility are important to corporate image-making.
- Contractors often seek close proximity to their major client (e.g., the Pentagon) and flexible lease terms that can accommodate the life of a major contract.
- Many smaller companies are less driven by prestige and more constrained by finances. Their locations often represent a compromise between easy access for their owners and/or workers and affordable rents.
- Support operations, such as back-office operations, tend to locate in less expensive office space accessible by a more local workforce and offering free parking.
- Health and other professionals serving the local market depend on access and visibility to serve local residents; health care providers often cluster near hospitals to reduce the physicians' travel times. Their ties to local customers makes them less mobile and less likely to relocate. Many own their own office building.
- Other local service providers – real estate agents, insurance, tax preparers – depend on the local population for their business and will often use a visible location to



advertise their services and attract customers. They often locate in retail space and/or own their space.

These tenant groups and individual tenants approach the office market differently and location criteria change over time depending on the industry culture (e.g., software development), the company's stage in its life cycle (e.g., start-up or established), and the state of the economy. Over the last few years, the growing competition for qualified workers has raised the importance of office environments that can attract tech workers and others with specialized skills in high demand. This variation in location criteria complicates the process of generalizing trends in the office market.

Regional and County Employment

Office demand is driven by employment in sectors that occupy office space. Montgomery County competes within the region for businesses and other organizations to fill its office space. This section reviews regional and local employment trends and Montgomery County's shifting competitive position.

Regional Employment Trends

Metropolitan Washington and Montgomery County weathered the Great Recession much better than the rest of the country. The region's concentration of federal government functions and its extensive base of contractors and suppliers positioned it to benefit from the government's relative employment stability and stimulus spending. Employment declined only 1.6 percent (45,000 jobs) from 2008 to 2009 and then expanded 1.8 percent, adding 50,000 jobs to 2011. The region's relatively strong economic performance in contrast with many other parts of the country made it a magnet for in-migration, particularly among younger millennial workers leaving college and getting started in their careers.

Since then, the expiration of the stimulus programs, drawdown of American actions in Iraq and Afghanistan, budget wars on Capitol Hill, sequestration and the government shutdown have taken their toll. The 2013 sequestration imposed significant cuts in government contracting. Failure to reach a comprehensive budget accord for more than three years created great overall uncertainty regarding existing and future Federal government contracts and directly impacted contractors' employment levels and their willingness to commit to long-term leases. With the Bipartisan Budget Act of 2013, the uncertainty has been reduced somewhat, but the budget wars continue to influence the regional economy. The region's employment growth has slowed from 1.4 and 1.3 percent annual growth in 2011 and 2012, respectively, to 1.0 percent in 2013 and 0.5 percent for the 12 months from August 2013 through July 2014.

Higher-wage jobs traditionally based in office space are growing more

The region's and the county's shifting economies are creating more lower-wage jobs that don't require office space.



slowly than lower-wage service jobs in restaurants, retailing and hospitals. Federal government employment is down by 1.8 percent since 2010. Information employment fell by 5.0 percent while professional, scientific, and technical services grew 3.9 percent with the economic recovery. (Annual employment data are shown in Appendix Table A-5.) Three sectors – leisure and hospitality, education and health services, and trade, transportation, and utilities – added 87,200 jobs from 2010 to 2013 as compared with only 34,200 in traditional office-using categories of professional and business services, information, and financial activities.

Economic performance over the 12 months from July 2013 to July 2014 showed an even greater shift to lower-wage industries. Employment in professional and business services, financial activities, federal government and information declined by 5,400 jobs while retail trade, leisure and hospitality, education, and health services expanded by 18,800 jobs. Decline in the region's core industries would blunt the region's ability to attract new residents and provide jobs for existing residents; that calls out for economic diversification to reduce the region's dependence on the Federal government and its expenditures.

Table 1. Employment Trends, Washington-Arlington-Alexandria, DC-MD-VA-WV Metro Area, 2004-2013

Industry					2004-2013 Change		2010-2013 Change	
	2004	2007	2010	2013	Number	Percent	Number	Percent
Government								
Federal Government	340.0	341.8	380.2	373.4	33.4	9.8%	-6.8	-1.8%
State and Local Government	283.1	304.8	307.4	313.7	30.6	10.8%	6.3	2.0%
Total Government	623.1	646.6	687.6	687.1	64.0	10.3%	-0.5	-0.1%
Private-Sector Employment								
Goods-Producing Sectors								
Construction, Natural Resources and Mining	177.3	184.9	139.9	146.0	-31.3	-17.7%	6.1	4.4%
Manufacturing	66.1	62.2	52.1	47.9	-18.2	-27.5%	-4.2	-8.1%
Total Goods-Producing	243.4	247.1	192.0	193.9	-49.5	-20.3%	1.9	1.0%
Service-Producing Sectors								
Trade, Transportation, and Utilities	399.0	404.2	377.9	389.6	-9.4	-2.4%	11.7	3.1%
Information	106.0	93.9	80.3	76.3	-29.7	-28.0%	-4.0	-5.0%
Financial Activities	157.4	159.4	146.9	151.1	-6.3	-4.0%	4.2	2.9%
Professional and Business Services	619.3	675.1	680.3	706.8	87.5	14.1%	26.5	3.9%
Education and Health Services	304.4	330.4	359.6	393.6	89.2	29.3%	34.0	9.5%
Leisure and Hospitality	237.7	254.3	259.9	291.4	53.7	22.6%	31.5	12.1%
Other Services	165.5	180.6	182.0	189.3	23.8	14.4%	7.3	4.0%
Total Service-Producing	1,989.3	2,097.9	2,086.9	2,198.1	208.8	10.5%	111.2	5.3%
Total Private	2,232.7	2,345.0	2,278.9	2,392.0	159.3	7.1%	113.1	5.0%
Total Employment								
Total Employment	2,855.9	2,991.4	2,966.6	3,079.0	223.1	9.8%	112.4	3.8%

Note: Data in thousands of jobs.

Source: Bureau of Labor Statistics, 2014; Partners for Economic Solutions, 2014.

Montgomery County Employment Trends

Figure 3, Table 2 and Appendix Table A-6 summarize county employment trends over the last decade. From 2004 to 2013, the county's employment base grew 0.7 percent, adding just over 3,000 jobs to reach 451,800 total jobs in 2013.

The county's employment base grew more strongly until its 2006 peak of 464,800 jobs. Total employment fell sharply with the Great Recession, reaching the low of 441,600 jobs in 2010. With the national economic recovery, the county has replaced more than half of the jobs lost since 2006.

Figure 3.

AT-PLACE EMPLOYMENT TRENDS, 2004 to 2013 WASHINGTON METRO AREA AND MONTGOMERY COUNTY IN THOUSANDS

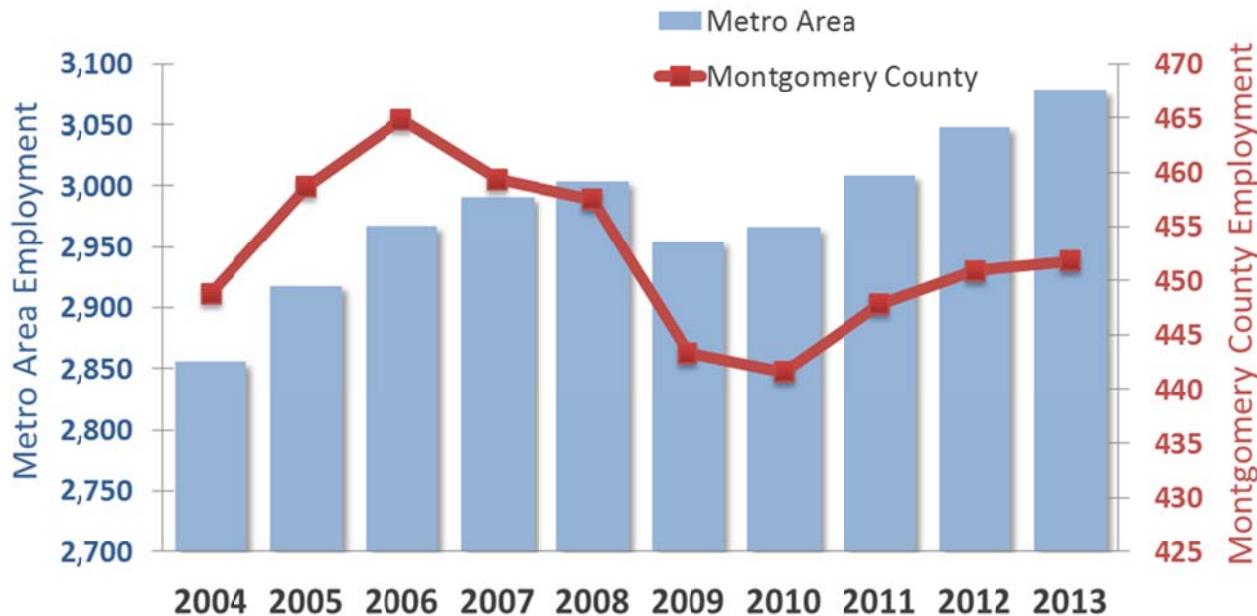




Table 2. Employment Trends, Montgomery County, 2003-2013

Industry	2004	2007	2010	2013	2004-2013 Change		2010-2013 Change	
					Number	Percent	Number	Percent
Government								
Federal Government	40,661	40,319	45,072	46,854	6,193	15.2%	1,782	4.0%
State Government	1,062	1,066	1,199	1,122	60	5.6%	-77	-6.4%
Local Government	36,105	37,469	37,140	40,707	4,602	12.7%	3,567	9.6%
Total Government	77,828	78,854	83,411	88,683	10,855	13.9%	5,272	6.3%
Private-Sector Employment								
Goods-Producing Sectors								
Natural Resources and Mining	682	806	796	258	-424	-62.2%	-538	-67.6%
Construction	29,117	30,449	22,291	23,363	-5,754	-19.8%	1,072	4.8%
Manufacturing	15,463	14,563	12,356	11,219	-4,244	-27.4%	-1,137	-9.2%
Total Goods-Producing	45,262	45,818	35,443	34,840	-10,422	-23.0%	-603	-1.7%
Service-Producing Sectors								
Trade, Transportation, and Utilities	64,367	62,631	57,287	57,607	-6,760	-10.5%	320	0.6%
Information	14,832	14,089	12,818	12,359	-2,473	-16.7%	-459	-3.6%
Financial Activities	34,598	35,371	30,830	30,479	-4,119	-11.9%	-351	-1.1%
Professional and Business Services	96,406	103,189	100,075	98,510	2,104	2.2%	-1,565	-1.6%
Education and Health Services	55,205	58,983	63,188	66,767	11,562	20.9%	3,579	5.7%
Leisure and Hospitality	38,331	37,614	36,894	40,257	1,926	5.0%	3,363	9.1%
Other Services	21,307	22,125	21,637	22,307	1,000	4.7%	670	3.1%
Total Service-Producing	325,046	334,002	322,729	328,286	3,240	1.0%	5,557	1.7%
Unclassified	646	672	0	0	-646	-100.0%	0	
Total Private Employment	370,954	380,492	358,172	363,126	-7,828	-2.1%	4,954	1.4%
Total Employment								
Total Employment	448,782	459,346	441,583	451,809	3,027	0.7%	10,226	2.3%

Source: Maryland Department of Labor, Licensing and Regulation, 2014; Partners for Economic Solutions, 2014.

Government employment expanded by 9,800 jobs from 2007 to 2013 along with increases in education, health services, leisure, and hospitality jobs.

While the major job losses in construction, manufacturing, trade, and transportation had little impact on office demand, key office-using industries also suffered significant job losses. The information and financial activities sectors lost 16.7 and 11.2 percent of their jobs from 2004 to 2013, respectively.

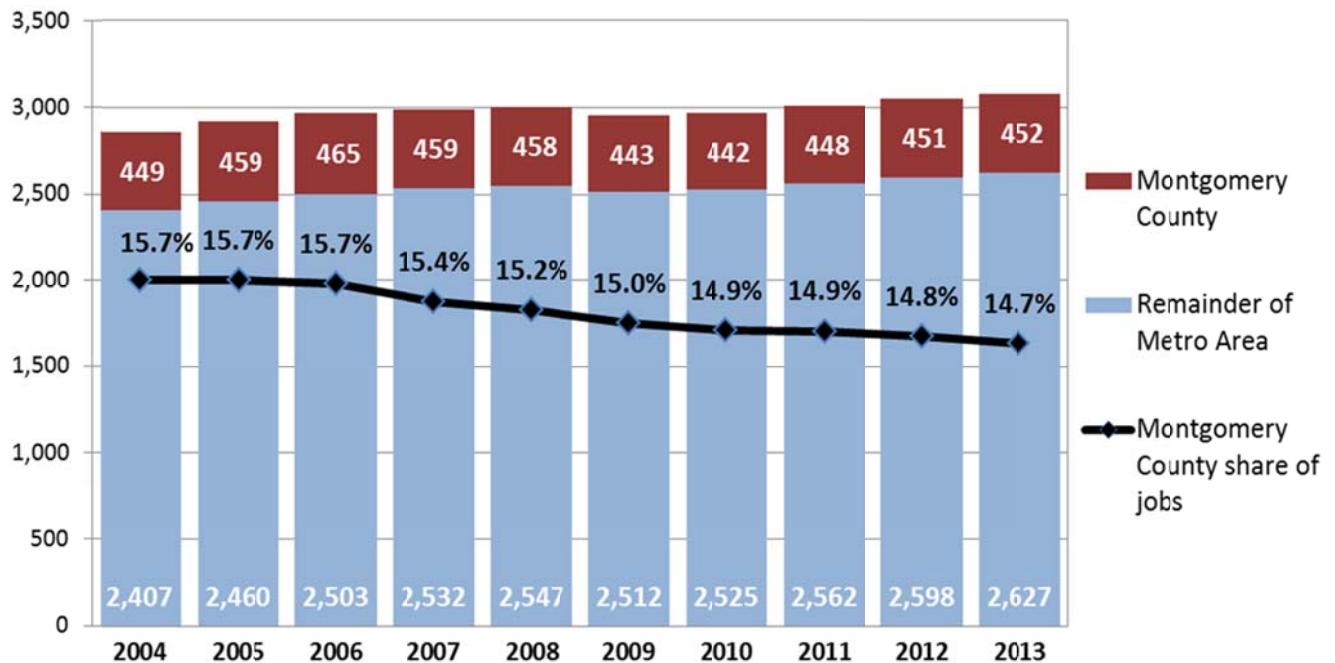


With the cutbacks in Federal contracting and other economic contractions, the county lost 4,700 jobs in professional and business services from its peak level in 2005 to 2013.

Over the last decade, Montgomery County's economy has followed the same track as the region as a whole. However, the Great Recession hit the county somewhat harder than other parts of the region, causing the county's share of regional employment to fall from 15.7 percent in 2004 to 15.0 percent in 2009. Its share has continued to trend downward to 14.7 percent in 2013, as shown in Figure 4.

Figure 4.

MONTGOMERY COUNTY SHARE OF METRO AREA JOBS 2004 TO 2013





The change in the county's share of regional jobs has not been uniform across industries, as shown in Table 3. The county increased its share of government jobs from 12.5 to 12.9 percent from 2004 to 2013 and grew its share of the information industry from 14.0 to 16.2 percent. However, employment in professional and business services declined from 15.6 percent of the regional total to 13.9 percent.

Table 3. Montgomery County's Share of Regional Employment, 2004-2013

Industry	2004	2007	2010	2013
Government				
Federal Government	12.0%	11.8%	11.9%	12.5%
State & Local Government	13.1%	12.6%	12.5%	13.3%
Total Government	12.5%	12.2%	12.1%	12.9%
Private-Sector Employment				
Goods-Producing Sectors				
Construction, Natural Resources and Mining	16.8%	16.9%	16.5%	16.2%
Manufacturing	23.4%	23.4%	23.7%	23.4%
Total Goods-Producing	18.6%	18.5%	18.5%	18.0%
Service-Producing Sectors				
Trade, Transportation, and Utilities	16.1%	15.5%	15.2%	14.8%
Information	14.0%	15.0%	16.0%	16.2%
Financial Activities	22.0%	22.2%	21.0%	20.2%
Professional and Business Services	15.6%	15.3%	14.7%	13.9%
Education and Health Services	18.1%	17.9%	17.6%	17.0%
Leisure and Hospitality	16.1%	14.8%	14.2%	13.8%
Other Services	12.9%	12.3%	11.9%	11.8%
Total Service-Producing	16.3%	15.9%	15.5%	14.9%
Total Private Employment	16.6%	16.2%	15.7%	15.2%
Total Employment				
Total Employment	15.7%	15.4%	14.9%	14.7%

Source: Maryland Department of Labor, Licensing and Regulation, 2014; Partners for Economic Solutions, 2014.



As shown in Figure 5,⁴ comparisons of job growth performance in key industries across major jurisdictions in the region indicate that the Montgomery County's share has declined somewhat, while Fairfax County, the District of Columbia, and Arlington County have increased their shares.

Examining office-using sectors in more detail reveals that some individual subsectors grew in spite of losses in the overall industry.

- Health care offices outside of hospitals added almost 1,200 jobs from 2007 to 2012.
- Business and technical schools and educational services added more than 300 jobs.
- More than 1,400 jobs were created in the office administrative services sector.
- Employment in the management, scientific and technical consulting and scientific research and development services sector increased by 2,400 jobs.

However, these gains were more than eclipsed by losses in other office-using sectors, including most segments of the financial activities sector, legal services, and computer systems design and related services. Appendix Table A-7 shows 2005-2012 employment in office-using industries.

The employment losses from 2007 to 2012 were reflected in the number of establishments as well. (See Appendix Table A-8.)

- The county lost 407 business establishments, a 1.5-percent loss.
- The losses happened across the size spectrum with three-quarters having four or fewer employees.
- During the same time, though, there was growth among large companies with an additional nine establishments moving into the category of 500 to 999 employees and six more companies reaching 1,000 or more employees.

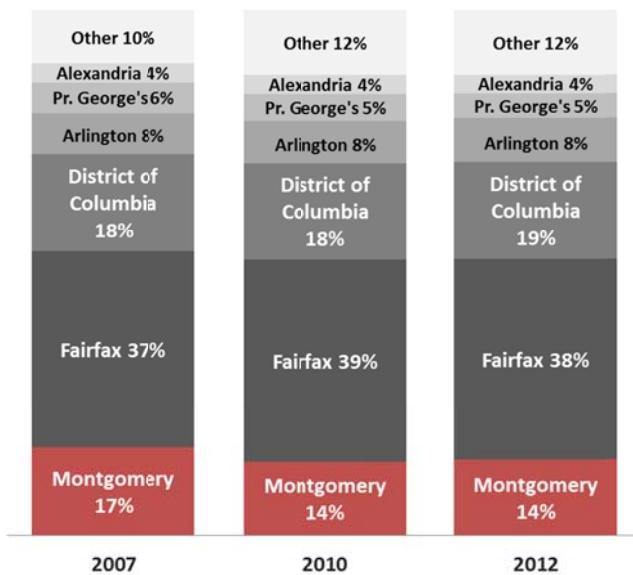
⁴ These charts reflect the Bureau of the Census' County Business Patterns data through 2012; the categories differ slightly from those used by the Bureau of Labor Statistics and the Maryland Department of Labor, Licensing and Regulation in Tables 1 to 3.



Figure 5.

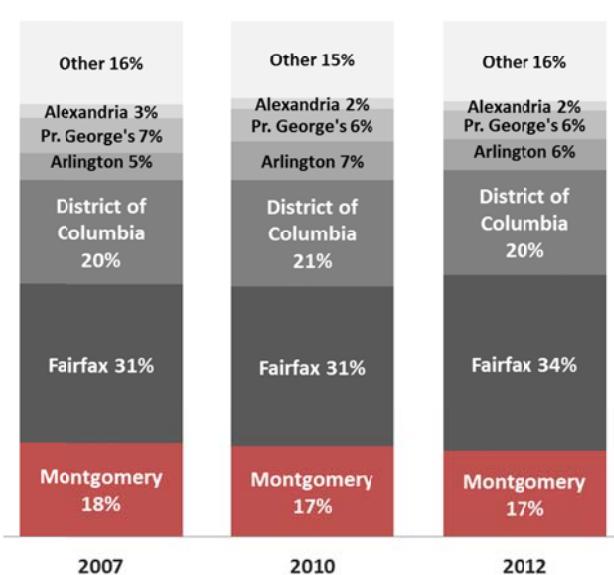
PROFESSIONAL/SCIENTIFIC/TECH SERVICES JOBS

Share of metro area employment by jurisdiction
2007 to 2012



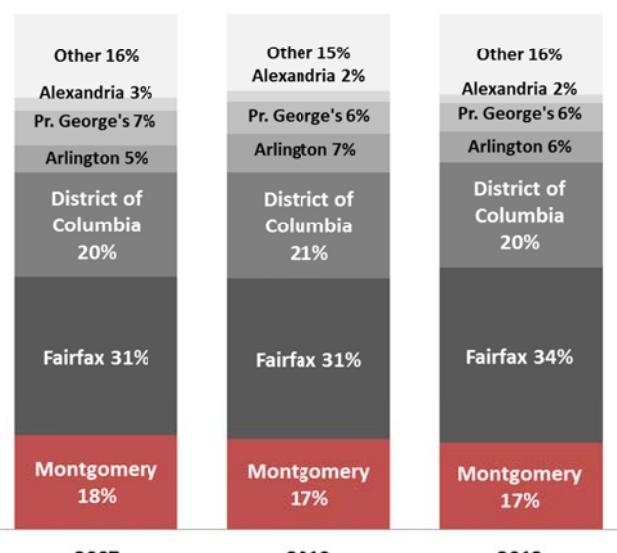
INFORMATION JOBS

Share of metro area employment by jurisdiction
2007 to 2012



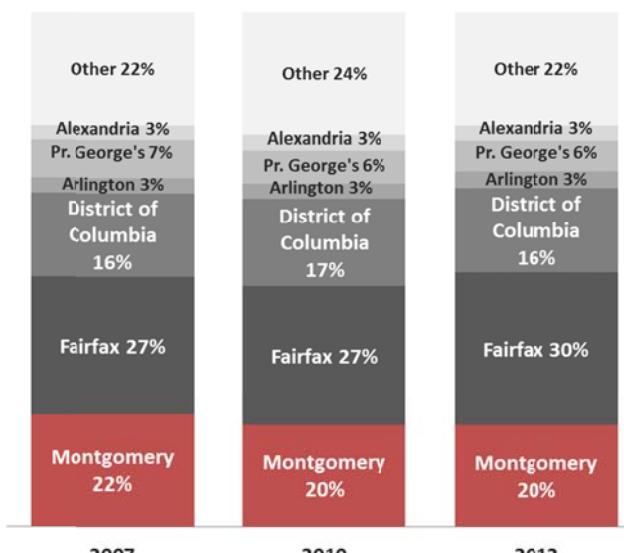
COMPANY MANAGEMENT JOBS

Share of metro area employment by jurisdiction
2007 to 2012



FINANCE JOBS

Share of metro area employment by jurisdiction
2007 to 2012





Regional and National Trends in Office Demand

This section discusses a range of region-wide and larger industry forces that are fundamentally changing office demand everywhere.

Employment-Driven Demand

Traditionally, office demand has been driven by the number of people employed in industries that typically locate in office space. As such, macroeconomic forces and regional employment trends have been reliable predictors of demand for office space in Montgomery County. This is no longer the case.

The Great Recession's impact on business activity and growth affected office demand in markets across the country, the region, and the county. The Washington region fared better than many other markets as government employment grew with stimulus spending. But as the stimulus spending wound down, Federal, State, and local government employment declined and the recovery slowed.

This downward trend was accelerated through major Federal budget cuts and the sequestration cuts imposed by the Budget Control Act of 2011. The cutbacks affected both direct government and contractor employment as contracts were canceled or not renewed. As a result many of the region's major contractors have restructured their organizations, reduced their workforce and consolidated into smaller blocks of office space. Lingering uncertainty about Federal funding reduces contractors' willingness to commit to long-term leases.

The national and regional economic recovery has been slower than in previous recessions, and the Washington region's recovery has been undercut by its dependence on Federal spending. Key office-using sectors – professional, scientific and technical services, information, and financial activities – have been slow to recover, limiting demand.

Life Sciences Companies

Specific to the Montgomery County office market is demand from the biotechnology and related life science industries, which have been a major force in the I-270 corridor office market. Over the last decade, the industry's volatility has impacted office demand. The industry's pattern of mergers and acquisitions has had varying effects. AstraZeneca's acquisition of MedImmune has been associated with continued growth whereas GlaxoSmithKline's acquisition of Human Genome Sciences resulted in staff reductions and relocations, creating new office vacancies. Fluctuating availability of financing for biotech companies also has affected the industry's growth.

Changing Office Space Utilization Patterns

Major shifts in the amount of space occupied per employee have been underway nationally for the last decade or two as technology and design changes have affected tenant layouts. Formerly typical employee space allocations of 250 rentable square feet per employee have declined to 180 square feet per employee and may continue to decline to 150 or fewer square feet per employee. Unlike the cyclical employment changes, these shifts appear to be structural changes in the industry, likely to persist into the future.

Across most industries, technology is reducing the number of employees actually working in the office and the amount of space they require. Many workers are no longer tethered to their desks and are able to work almost anywhere. Tele-commuting from home, their clients' offices and/or local coffee shops is increasingly common. Workers are seeking greater flexibility and employers are responding by relaxing previous requirements that all work take place in the office.

Reacting to the high costs of office leases, companies adopted strategies to reallocate office space, moving away from permanent desk assignments to "hoteling" where the employees in the office on any day select temporary desks and roll over portable cabinets with their files and materials. The U.S. General Services Administration (GSA) has found that, in many agencies, only half of the employees may be in the office at the same time.

Office space per employee has fallen from the historic average of 250 square feet per employee to 180 square feet. Unlike cyclical variations, these are structural changes likely to persist into the future.



Photo credit: Smith Group JJR

Tenants are reducing their space usage by 10 to 25 percent with no change in the number of employees.

Strategies to enhance collaboration and teamwork have led many companies to move away from the traditional pattern of private offices to large shared workplaces. These alternative layout designs result in 10- to 25-percent reductions in space per employee.

Information management technology also has reduced significantly the amount of space required for file and information storage. Law firms no longer need substantial law libraries now that all the information is retrievable electronically. With more professionals generating their own documents, the ratio of secretaries and assistants to professionals has dropped significantly in many industries. Major law firms had averaged 800 square feet per attorney. That ratio is now down to 600 square feet.

Shifting Locational Demand

In the competition for technology and other highly-valued workers, office style and location are becoming an important factor. Millennials are showing much greater affinity for urban, walkable locations that allow them to live, work, and play within close proximity without depending on a car. They and other workers also place an increasing value on a sustainable workplace that provides a healthy work setting and reflects their environmental values. Long work hours place a premium on shorter commutes. Nearby restaurants make it easier to stay connected with friends. In contrast, stand-alone office campuses have fallen out of favor along with many single-use office parks that require a car and time to access restaurants, services and retailers.



Photo credit: eHPIN via Flickr

Timing of Change

The trend toward higher employee densities is clear. However, not every office tenant will increase its employee density in the near term. Some companies will be locked into long-term leases or buildings that they own, be unable to find space suitable for open layouts, or unable to afford renovations to achieve the higher densities. Given lease terms and resistance by older managers accustomed to traditional office layouts, the trend may take seven to ten years to spread through the market.

Federal Space Cutbacks

The county's extensive Federal presence, long a source of economic strength and stability, is now disrupting the local office market as entire office buildings are vacated.

In a government-wide push to reduce facility costs, the General Services Administration (GSA) launched the Freeze the Footprint initiative in 2013, formalizing ongoing efforts to reduce the amount of private space leased and to move more Federal employees into government-owned space. Each agency is required to submit a plan on how it will maintain or reduce its 2012 level of office and warehouse space, subject to annual compliance review.

This initiative follows on the heels of moves mandated by the 2005 Base Realignment and Closure Commission and largely completed by 2009. Defense Department moves from multiple buildings near the Pentagon to government-owned buildings at Fort Belvoir, Fort Meade, and other locations created major vacancies and triggered heightened competition for tenants.

The National Institutes of Health (NIH), the Department of Health and Human Services (HHS), the Food and Drug Administration (FDA), the Department of Energy (DoE), the National Institute of Standards and Technology (NIST), the Nuclear Regulatory Commission (NRC), the National Oceanic and Atmospheric Administration (NOAA) and other agencies are major players in the county's office market, representing 11 percent of the total countywide inventory. GSA rents 8.1 million rentable square feet of space in the county (Appendix Table A-1) and owns 30

Figure 1.

GSA LEASED SPACE IN MONTGOMERY COUNTY, BY JURISDICTION, 2014

n = 8,100,000 rentable square feet

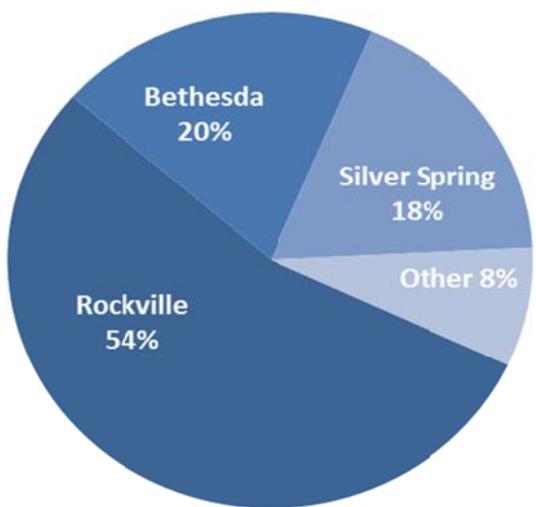


Photo credit: GSA

buildings with a total of 3.67 million usable square feet⁵ (Appendix Table A-2). Its geographic distribution is shown in Figure 1.

GSA is adopting many of the new office design concepts, telecommuting, and other techniques to improve the efficiency of government-owned space. At the GSA headquarters in the District of Columbia, the agency brought back employees out of leased space, increasing the number of employees from 2,200 to 3,300 in the same amount of space following renovations.

Where private space leases are still most appropriate, space requirements are reduced 10 to 25 percent from the amount of space previously leased. For example, GSA was authorized by Congress to seek a 345,000 square-foot lease for NIH, replacing three blocks of leased space that had a total of 435,000 square feet. A second prospectus is seeking 194,000 square feet of space for the NIH Office of Director to replace four current leases with a total of 250,000 square feet. Appendix Table A-3 lists the major lease prospectuses for Montgomery County leases approved by Congress from 2009 to 2014.

The strategy to shift more Federal operations to government-owned space is playing out in Montgomery County with the phased construction of new facilities for the Food & Drug Administration on its new White Oak campus. While several divisions have moved already, others are in leased space awaiting construction of new facilities. Each building's construction must be approved by Congress in the annual budget process. In the meantime, FDA is leaving 231,500 square feet of private office space to take excess space at the Nuclear Regulatory Commission in Rockville.

Going forward, the impacts of the Freeze the Footprint program are likely to be most significant over the next year with the expiration of 3.6 million rentable square feet of leases in 2014, 2015, and 2016. (See Figure 2.) Of that total space, actions have been taken on 2.0 million square feet of leases. They include renewal of 802,000 square feet at the Parklawn Building, vacating 636,000 square feet for moves into the Parklawn Building or government-owned space, and 517,000 square feet of leases out for

Continued GSA lease consolidations could eliminate 1.1 million square feet of private office leases by 2017.



Photo credit: GSA

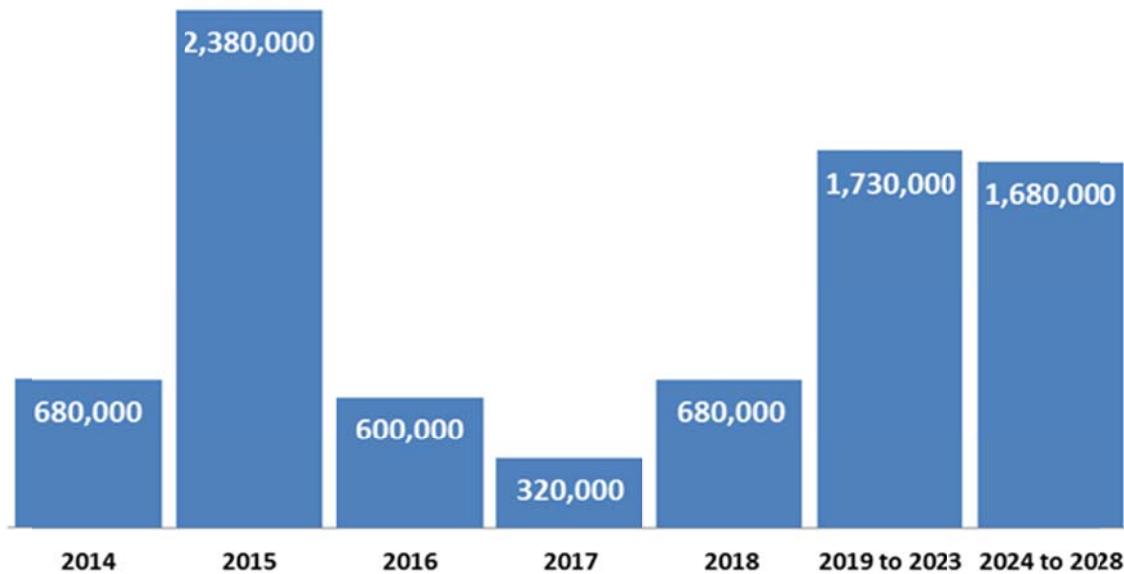
⁵ Roughly equivalent to 4.2 million rentable square feet of space.



proposals with a reduction of 146,000 square feet. That leaves an additional 1,571,000 square feet of leases to be renewed or replaced. The pattern from other lease renewals suggests a likely 20-percent decrease in leased space due to efficiency gains in the new leases. That translates into an additional 310,000 square feet of vacant space. All told, GSA actions could reduce Montgomery County's private office space occupancy by roughly 1.1 million square feet over the next five years.

Figure 2.

**GSA LEASES EXPIRING IN MONTGOMERY COUNTY,
2014 to 2028**



Supply Forces

The market is responding to the unprecedented mix of cyclic and structural changes in the amount, type and location of office that tenants demand.

Responding to Changing Tenant Preferences

Developers and building owners are accommodating structural changes in tenant demand for more efficient, collaborative, sustainable and mixed use, accessible office environments in a variety of ways.

Office designs increasingly provide open plan spaces for individual work stations or for a collection of tables and couches where people can work on their laptops. These spaces are supplemented by a collection of meeting and team rooms of varying sizes as well as private spaces for lengthy phone calls. Co-working office space has been developed in Bethesda and Silver Spring to accommodate entrepreneurs and other workers needing a desk away from their office or home. Urban mixed-use developments in Bethesda, Rockville and Silver Spring and elsewhere in the region have excelled in competing for office tenancy in recent years.

Corporate efforts to reduce their carbon footprints and environmental impacts are driving developers to improve the sustainability of office buildings under the Leadership in Energy & Environmental Design (LEED) certification program. LEED buildings with open-span space, high ceilings, and floor-to-ceiling glass exteriors allow natural light to reach a much greater share of workers, reducing energy consumption and enhancing productivity.

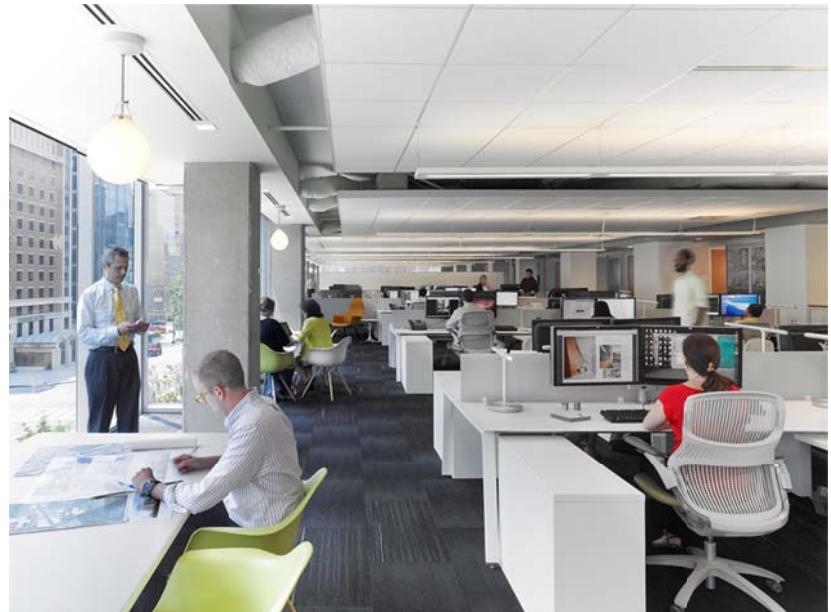


Photo credit: Smith Group JJR

“Office landlords should consider embracing flexible design features, green technologies and Leadership in Energy and Environmental Design (LEED) systems or face the consequences. Obsolescent suburban office space now follows nearby left-for-dead regional malls into value-loss oblivion.”

Emerging Trends in Real Estate 2013



Construction in Excess of Demand

The region's and county's current high vacancy rates reflect extensive construction in the early- and mid-2000s that had been premised on continuation of healthy growth in the technology and government contractor sectors. When absorption lagged due to the economic downturn, the subsequent constraints on Federal spending and the slowing of the biotechnology sector, the new space exceeded demand.

The downturn in demand was greater and lasted longer than expected due to the combination of forces discussed above. In the county, more than 12.3 million square feet of space were delivered from 2002 to 2013 (a net addition of 11.1 million after discounting for demolition) relative to absorption of 7.7 million square feet.

What distinguishes the market's performance this time is that the demand for office space has been much slower in the recovery from the Great Recession, allowing the large overhang of vacant space to persist much longer than would have been expected.

Major Vacancies

The county has 10 buildings with 2.0 million square feet of space that are completely or almost totally vacant. The 540,000 square-foot Comsat Building on I-270 south of Clarksburg was vacated when Comsat was acquired by Lockheed Martin and moved to other space. Vitro Corporation had occupied a 265,000 square-foot building in Aspen Hill, which has since sat vacant for four years. Eight of the vacant buildings are Class A buildings. Several were vacated by GSA tenants, including the National Cancer Institute.

Appendix Table A-4 lists 30 buildings with at least 100,000 square feet of vacant or available space. Another nine buildings with 1.4 million square feet are completely available though not yet vacant. All of the totally vacant or available office buildings are in office parks or campuses. Three spaces of 100,000 square feet or more are available in White Flint and downtown Silver Spring. The rest are in single-use office districts.

At least four buildings were returned to their lenders as a result of losing a major tenant or failing to lease up. The lenders then disposed of those buildings at prices of \$80 to \$100 per square foot as compared with replacement costs of \$250 or more per square foot. These "bargain prices" allow the buyers to make substantial improvements to upgrade the buildings' systems and finishes while still offering low rents with large concession packages. Those rent levels for renovated space will likely allow them to attract tenants from other office parks, spreading vacancies among other buildings and suppressing the rent increases required to support new construction.



Limited New Construction

Given the high vacancy rates, only two new speculative office buildings are under construction countywide. In both cases, superior locations in mixed-use environments convinced their developers that they could succeed in spite of the overall overhang of vacant space.

Speculative building is likely to remain limited for several years.

For example, the speculative office building currently under construction in the Pike & Rose development in White Flint was able to lure Bank of America Merrill Lynch to move from a Tower Oaks location on I-270 to higher-rent space because the environment would be more attractive to its employees and customers. The reduction from 60,000 to 43,000 square feet with the move offset the higher per-square-foot rents. Federal Realty Investment Trust had access to internal financing and needed the office building for a complete first-phase development of its retail environment.

Speculative building is likely to remain limited with developers and their lenders and investors waiting for pre-leasing before proceeding with new buildings. This will greatly impact pipeline projects approved for development but not yet built. Such projects propose construction of an additional 22.7 million square feet of office space, much of which is in single-use auto-reliant office parks. Over the last three years, amended site plans have removed 558,000 square feet of office space from the pipeline.

Heavy Competition

Throughout the region, individual jurisdictions and developers are intensely competitive. Developers are offering larger incentive packages, including greater allowances for tenant improvements, months of free rent, moving expenses and other incentives.

Other jurisdictions also have stepped up their incentive packages for major employers/tenants, including Federal agencies. For example, Alexandria provided substantial incentives (rumored to be worth tens of millions) to entice the National Science Foundation to relocate from Arlington⁶.

⁶ Jonathan O'Connell, "National Science Foundation headquarters to move to Eisenhower Avenue in Alexandria." *Washington Post Capital Business Blog*, 6/7/2013 as posted on http://www.washingtonpost.com/blogs/capital-business/post/national-science-foundation-headquarters-to-move-to-eisenhower-avenue-in-alexandria/2013/06/07/636b61d0-cf82-11e2-8845-d970ccb04497_blog.html



Office Building Conversions

Responding to the somewhat bleak outlook for vacant office buildings over the near term, some owners of older Class B or C office buildings across the country have responded to lack of market potential caused by the flight to quality by converting their buildings to residential use. This has happened most often in downtown settings with buildings that have experienced high vacancies at low rents for a long period of time and are facing major capital costs to bring them up to modern standards. Most conversions have been to residential or hotel uses. One creative reuse opportunity is for a school. Fairfax County recently purchased and retrofitted 6245 Leesburg Pike in Falls Church for use as a 700-pupil elementary school.

Montgomery County has seen at least three older buildings converted from office to residential use:

- the former CSC office building in downtown Silver Spring converted to a Hampton Inn and a Homewood Suites by Hilton;
- the Computer Building in downtown Wheaton currently being converted to a 194-unit apartment building with ground-floor retail space; and
- 1320 Fenwick Lane in downtown Silver Spring in the process of building permit approval for residential conversion.

Constraints on Conversion

Conversion requires residential demand from prospective tenants willing to pay market rents that can support the costs of conversion. That demand has typically been seen in downtown and other close-in locations near to employment centers, restaurants, and entertainment that allow short commutes in live, work, and play environments.

One of the key reasons why the county has not seen more conversions relates to the economics of conversion. Converting an office building typically requires demolition of the existing interiors, reconfiguring the existing spaces, extending plumbing throughout the building, upgrading electrical and heating, air conditioning and ventilation systems, and installing new fire stairs to meet building codes. The future potential rents and occupancy need to be high enough to provide an adequate return on that investment.

Conversion of office buildings can reduce the vacant space inventory, but only a few buildings are suitably designed and located to justify the investment.



Not every building is suited to conversion. Residential codes and markets require access to light and air, which can be hard to provide in large-floorplate office buildings where much of the interior space is too far from windows.

Developers often find it less expensive to demolish the existing office building and build a new structure designed specifically for residential use. Conversion of an existing building is most warranted when the building has a particular charm, historic designation that allows use of historic tax credits, and/or the potential to bypass difficult development approvals. For example, the CSC building was reused because it was much larger than the then-current zoning would allow on the site.

Not every owner of an obsolete building that might be suitable for conversion will be interested in pursuing that potential. Such a major undertaking involves major costs and risks best managed by experienced developers that specialize in residential products and adaptive reuse. Until the current owners are willing to sell the building at a reasonable price that will allow profitable reuse, conversion is unlikely to proceed.

For buildings that still have reasonable occupancy levels, the opportunity costs of tearing down and replacing a building can be daunting even if it can be replaced by a bigger building with better rents.

The analysis of Bethesda's Apex Building prepared for the Purple Line station planning demonstrated that the existing building's value at a 1.55 FAR was greater than the value of the cleared site with an FAR of 5.0. Bolan Smart Associates estimated the current value at roughly \$45 million for the building itself plus a \$20 million value for the unused FAR that would be available at demolition assumed for 2025, discounted to 2013. That total value of \$65 million compared with a land value of \$60 million for a 5.0 FAR building constructed by 2016. Though a replacement building would generate significant revenues, cash flow would stop for at least two years, demolition and relocation costs would be incurred, and the future revenue would require substantial investment in new construction.

Older office buildings may still have more value “as is” than after reuse or redevelopment given the costs, time and risks involved in new construction.



Conclusions

Both demand and supply forces are causing fundamental shifts in the region's and county's office markets. Cyclically low levels of demand are being magnified by structural changes in the market. More office jobs will not necessarily result in fewer office vacancies.

The trends of office consolidation in urban locations with rising vacancies in suburban office buildings are happening across the country, forcing reevaluation of many long-accepted expectations and patterns. The growing preferences for open, flexible office space in mixed-use settings that offer walkability and connectivity are shifting the competitiveness of much of the county's office inventory.

The fundamental office demand typically generated by employment growth has been muted by economic shifts. The region's and county's dependence on Federal government and related employment has left them vulnerable to government budget cuts. Economic development to grow and diversify the economy is increasingly important and pressing.

II. Market Trends and Conditions

The regional and county office markets have responded to and been impacted by the regional employment trends. However, the correlation between changes in employment and in the office market is not direct. Structural changes in the relationship between office-using employment and occupied office space, manifested as square feet per employee, is playing a much greater role in affecting office demand, leading to rising vacancies even in times of relatively stable job counts.

Also contributing to high vacancies is the effect of office market cycles, which tend to exaggerate the economic cycles as supply often expands beyond the demand. Given the lead times involved in developing a major office building, buildings started in prosperous times often deliver during the recession. At the same time that companies may be shedding employees and/or office space, new office space is added to the inventory, increasing overall vacancies.

This section examines office absorption and occupancy trends for the region, the county, county subareas and individual office clusters throughout the county and region to provide context, quantify changes, and reveal patterns by type of office locations. A similar analysis of vacancy rates in office clusters in the District of Columbia, Alexandria and Arlington, Fairfax, and Prince George's counties demonstrate similar patterns.

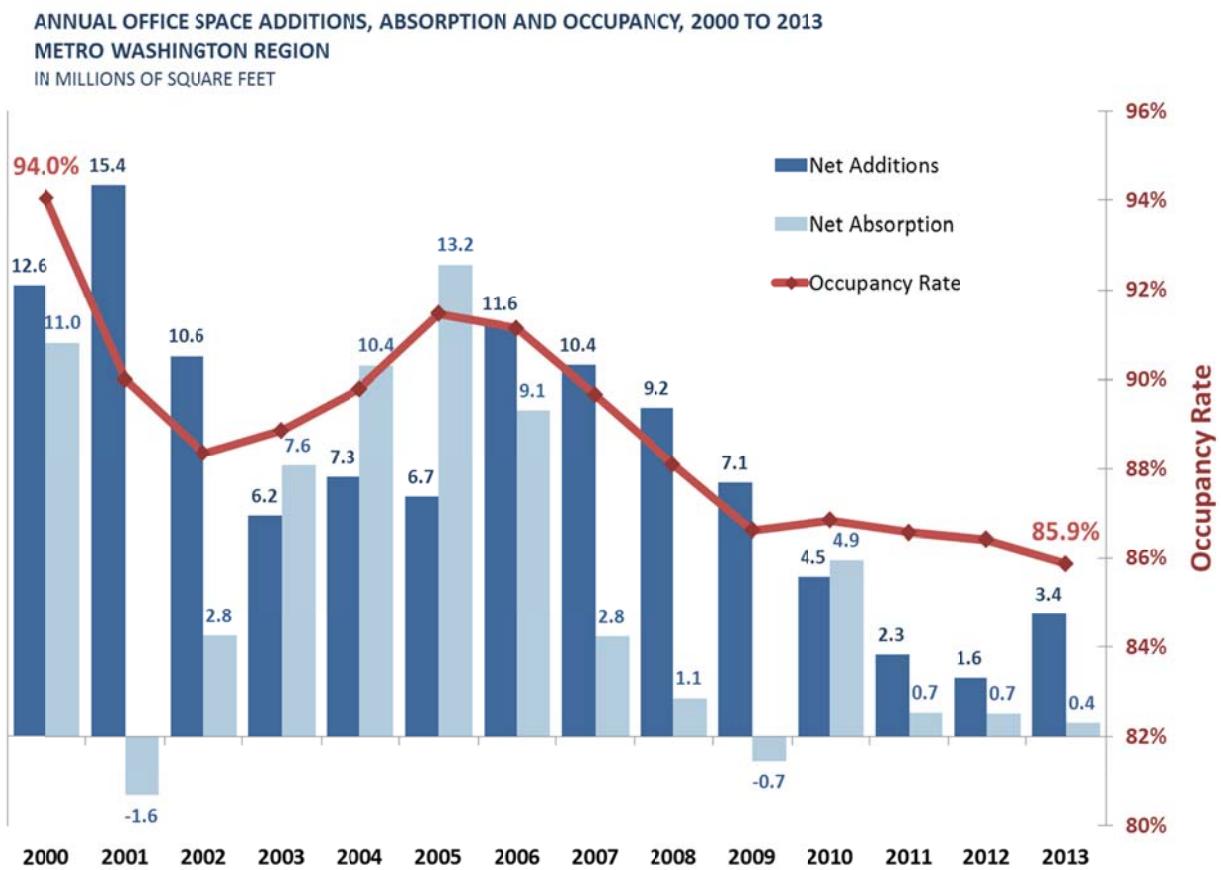
Regional Market

The metropolitan area office market as a whole includes 480 million square feet of space, of which 15.1 percent is located in Montgomery County. Shown in Figure 6 and Appendix Table A-9, the market has seen the addition of 110 million square feet (29.4 percent) from the beginning of 2000 through the end of 2013. During the same period, occupied space expanded by 62 million square feet (17.8 percent). The market lost occupancy following the dot.com boom/bust and the start of the Great Recession. Net absorption (the change in the total square feet of occupied space) turned negative in 2009 and has remained very low for the last three years (392,000 to 677,000 square feet annually).

The region continued to construct new space at a high rate from 2005 to 2009, more consistent with its performance earlier in the decade. Vacancy rates increased substantially from 6.0 percent in 2000, a tight market, to 11.7 percent in 2002 following the dot.com boom and bust before recovering to 8.5 percent in 2005. Since then, vacancy rates have risen sharply to 14.1 percent in 2013. Montgomery County followed the same pattern as the region but with somewhat less rebound from the 2009 low point to 2013 levels.

The region's office market was roiled by the realignment of forces ordered by the 2005 Defense Base Realignment and Closure Commission (BRAC). In particular, Arlington lost approximately 4.2 million square feet of private space leases with Defense Department moves to Fort Belvoir, Fort Meade, and Redstone Arsenal, which emptied several Crystal City buildings.

Figure 6.





Montgomery County and Competitive Jurisdictions

Montgomery County has shown similar trends with some variation. This discussion analyzes county trends and compares them to those of competitive jurisdictions. The county had a total office inventory that encompassed 1,513 buildings and 73.0 million square feet of space in the Second Quarter of 2014.

Of that inventory, 85.2 percent was occupied, leaving total vacancies of 14.8 percent. While this vacancy estimate includes space available for sublease, it does not include excess space that companies have not sought to sublease. Such “shadow” vacancies become important as the tenants’ leases expire and they move to smaller quarters.

Direct rents (excluding subleased space) are reported to average \$28.18 per square foot on a full-service basis including utilities, taxes, and janitorial; however, rents for half or more of the buildings are not disclosed by their leasing agents and not reflected in this average.

Many buildings are leasing at rates well below what would be required to support construction of new space, inhibiting the feasibility of new office construction. These statistics are provided by CoStar and represent private office space, not including government-owned buildings or some major single-tenant spaces built specifically for individual entities.

Table 4. Montgomery County and Washington Metro Area Office Market Conditions, Second Quarter, 2014

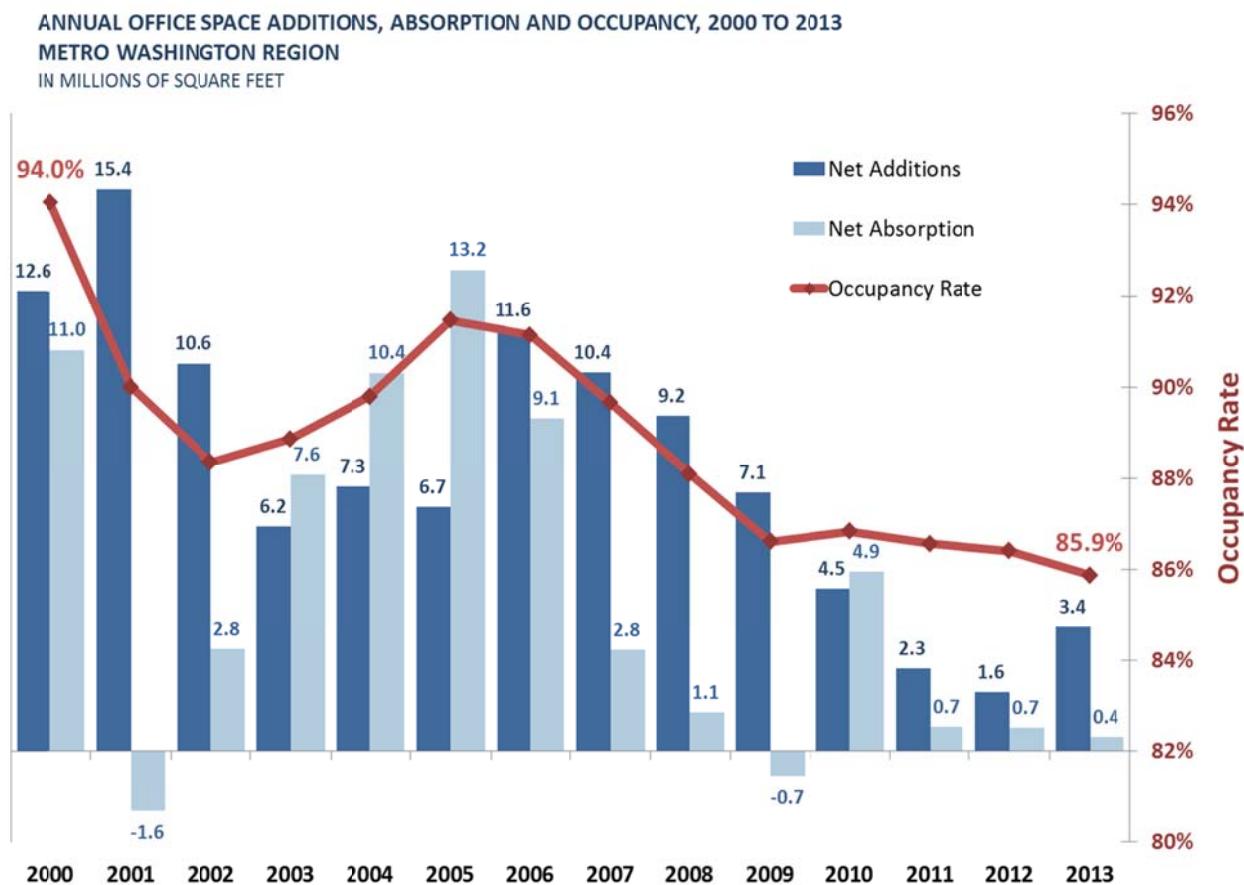
	Montgomery County	Washington Metro	County Share of Region
Office Inventory	72,983,098	481,672,683	15.2%
Occupied Square Feet	62,177,783	411,257,765	15.1%
Occupancy Rate	85.2%	85.4%	
Vacant Space, Direct from Landlord	10,263,147	66,693,652	15.4%
Vacant Sublease Space	535,445	3,721,266	14.4%
Total Vacant Space	10,805,315	70,414,918	15.3%
Vacancy Rate	14.8%	14.6%	
Space Under Construction	565,048	4,990,800	11.3%

Source: CoStar, June 2014; Partners for Economic Solutions, 2014.

Montgomery County has 15.2 percent of the metropolitan area's office inventory and 15.4 percent of the regional supply of vacant space. The county's 14.8-percent vacancy rate compares with 14.6 percent regionally. Construction has slowed across the region to a total of 5.0 million square feet currently under construction, of which 11.3 percent is located in Montgomery County, as shown in Table 4.

The county's current inventory represents a 17.0-percent or 10.8 million square-foot increase since 2000 and a 6.1-percent increase since 2006. Occupancy has dropped from 93.1 percent in 2000 during the dot.com boom to 87.7 percent in 2002 and 91.9 percent in 2006 prior to the impacts of the Great Recession. Figure 7 and Appendix Table A-10 provide county market trends since 2000.

Figure 7.

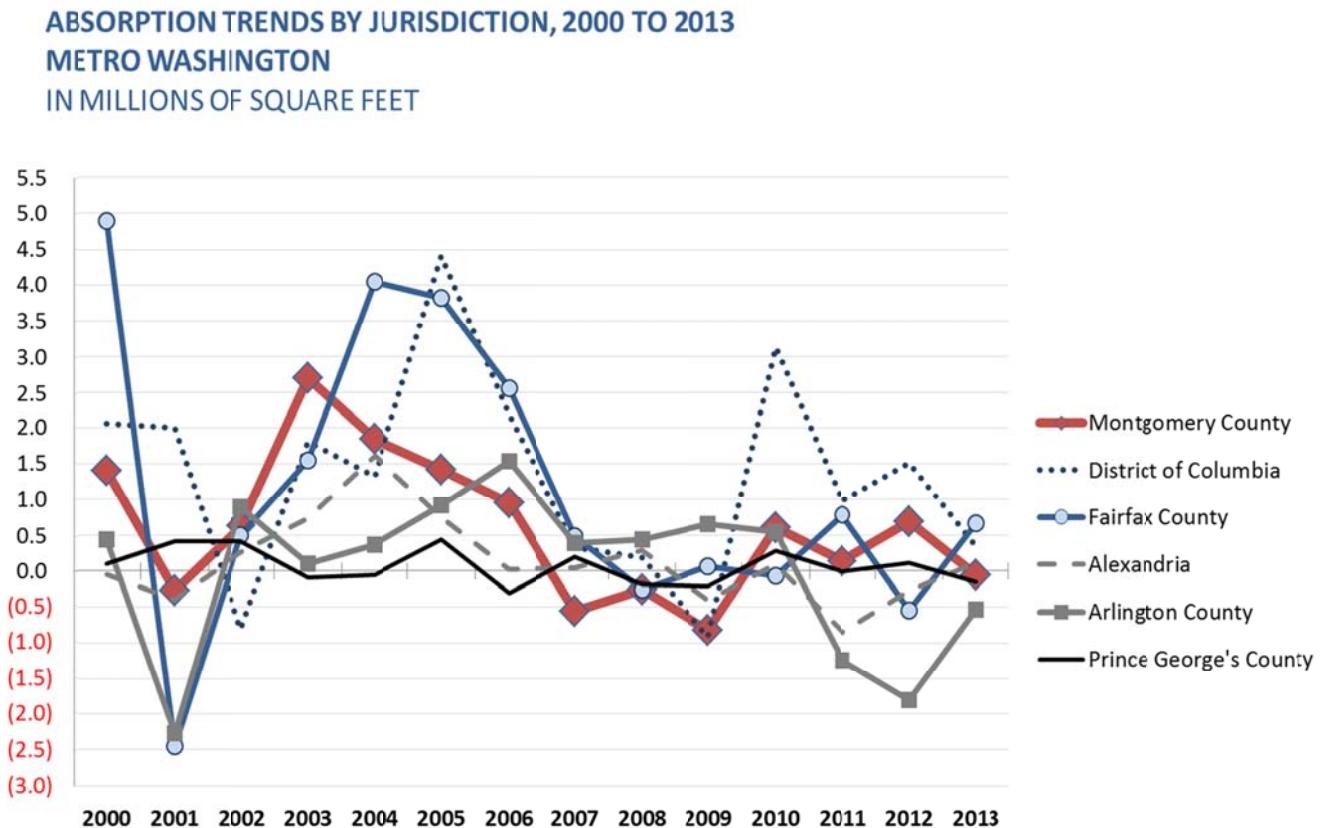


Absorption Trends by Jurisdiction

Figure 8 illustrates the relative performance of the individual jurisdictions as measured by annual absorption. It shows some commonalities – all experienced sharp declines in the 2001-2002 aftermath of the dot.com boom and subsequent bust.

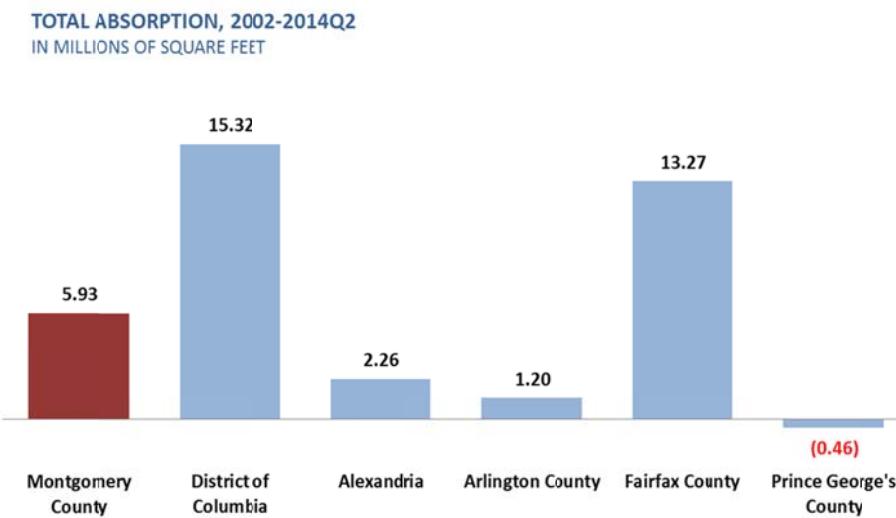
Absorption recovered during the 2004-2006 period with stronger economic activity before again falling dramatically from 2007 through 2009. The District led the recovery with high absorption in 2010 while Arlington's absorption bottomed out in 2011 with the completion of the BRAC moves.

Figure 8.



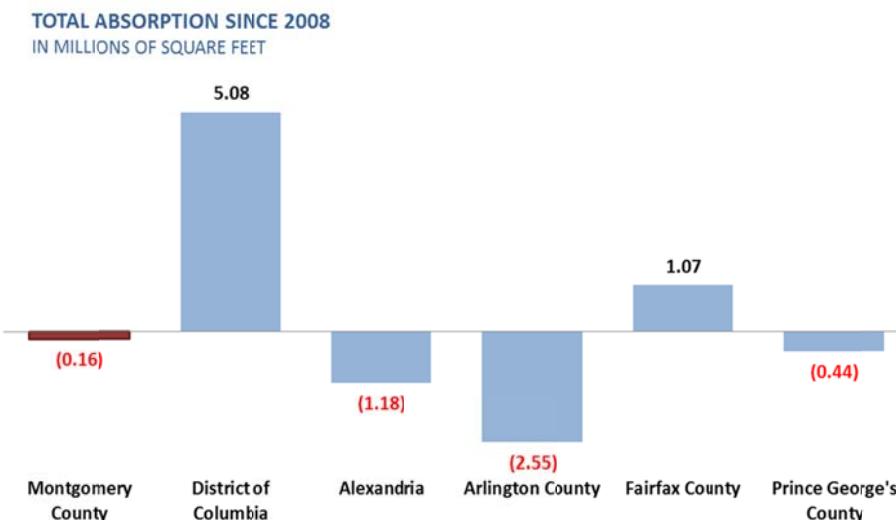
Reviewing total absorption trends from 2002 (following the dot.com bust) through 2013, Montgomery County's office market enjoyed net absorption of a total of 7.3 million square feet. It was surpassed by the 14.5 million square feet of absorption in the District of Columbia and the 13.6 million square feet absorbed in Fairfax County, as shown in Figure 9 and Appendix Tables A-11 and A-12.

Figure 9.



More recently, though, Montgomery County has lagged the District and Fairfax County even more, actually losing 159,000 square feet of occupied space from 2008 through the first quarter of 2014. (See Figure 10.) The District's market absorbed 5.1 million square feet while Fairfax County absorbed 1.1 million square feet.

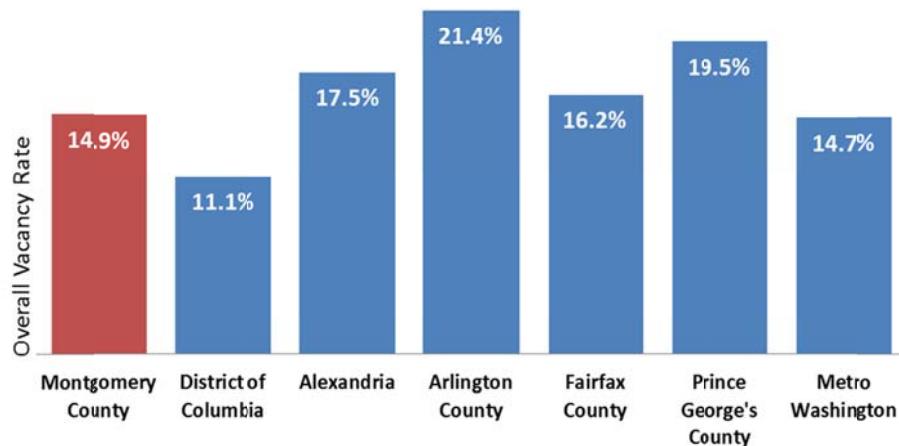
Figure 10.



In terms of vacant space, the county's 14.8-percent rate in Second Quarter of 2014 is roughly equivalent to the region's 14.6-percent rate. Only the District of Columbia had a lower rate at 11.1 percent, as shown in Figure 11.

Figure 11.

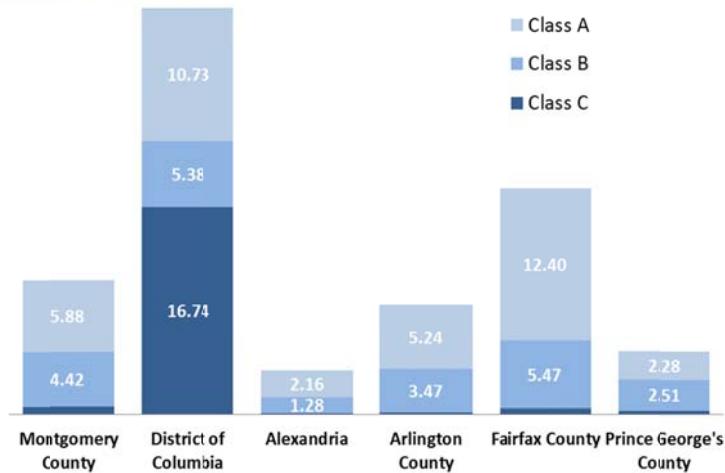
OFFICE VACANCY RATES BY JURISDICTION, 2014 Q2



High vacancies in Arlington and Alexandria (21.4 and 17.5 percent, respectively) reflect the impact of BRAC-related moves. Figure 12 and Appendix Table A-13 provides vacancy rates by jurisdiction by class of space.

Figure 12.

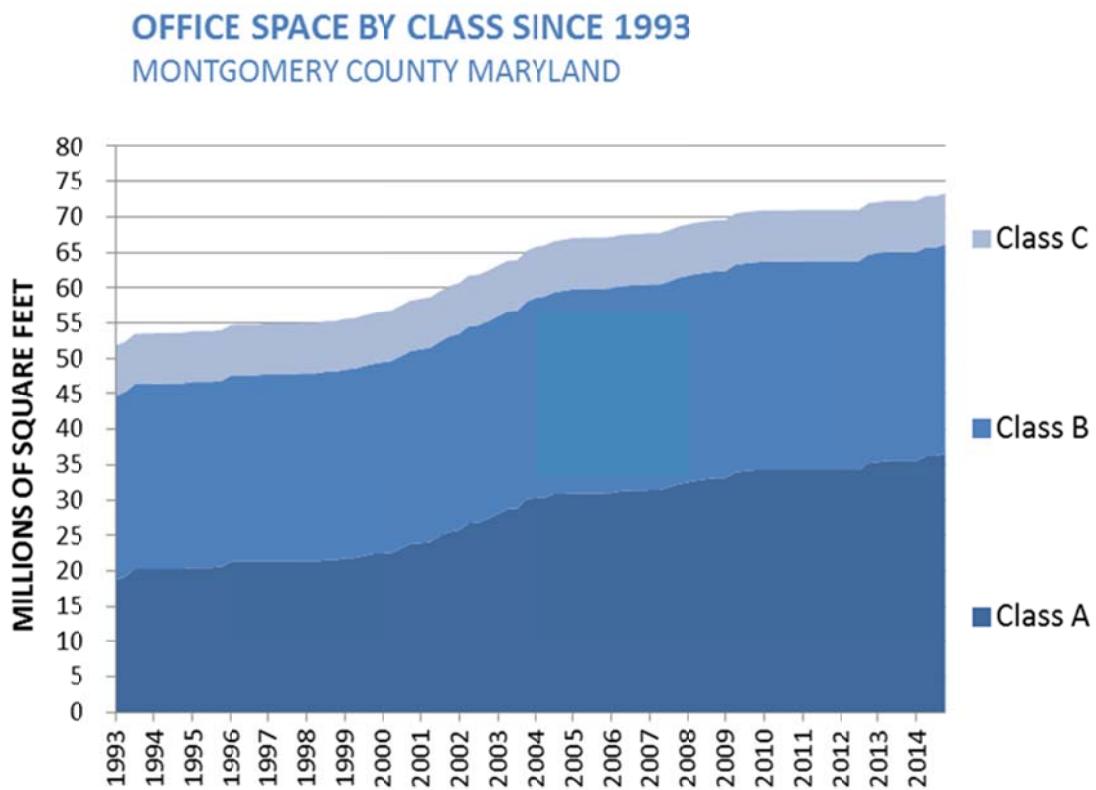
VACANCIES BY CLASS OF SPACE, JULY 2014 SELECTED JURISDICTIONS IN MILLIONS OF SQUARE FEET



Class of Space

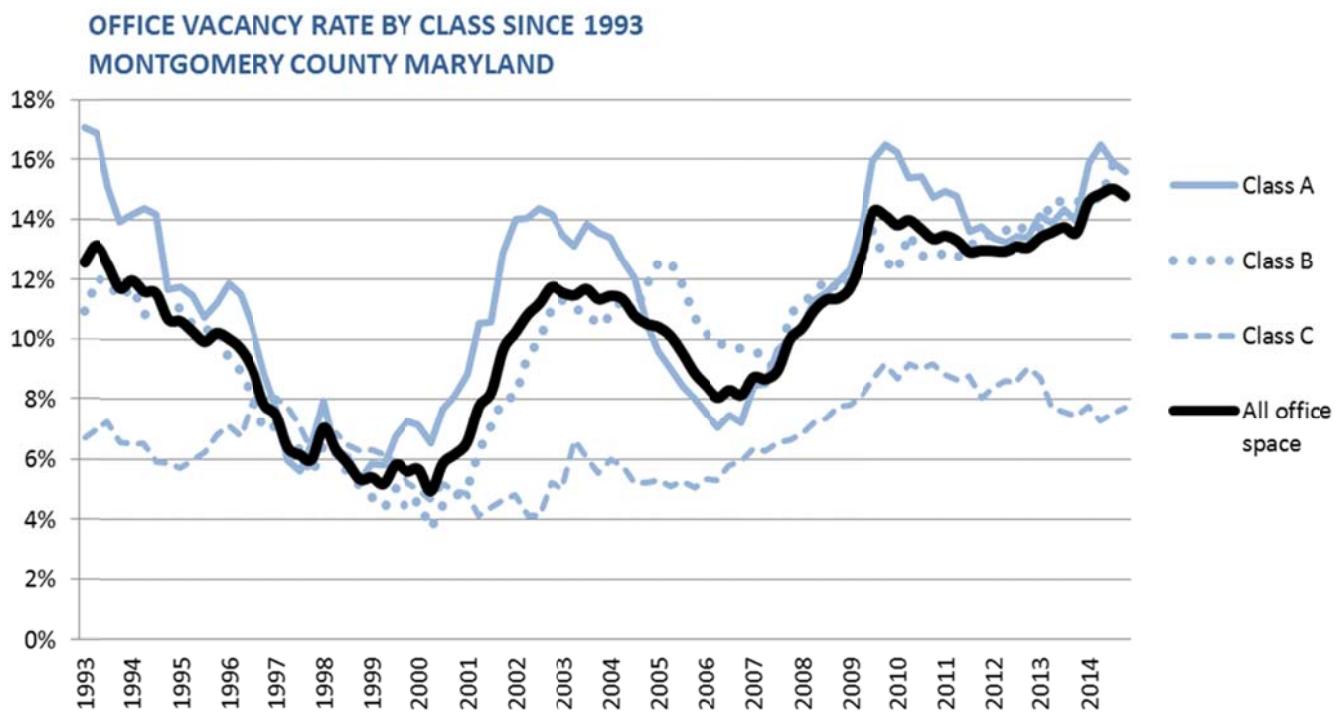
The county's inventory of office space is divided 50 percent Class A space, 40 percent Class B space, and 10 percent C space. Since 1994, the Class A inventory has increased by 16.0 million square feet while Class B space grew by 2.9 million square feet, and Class C space declined by 1.3 million square feet, as shown in Figure 13.

Figure 13.



Vacancy rates for Class A and B space have increased in tandem over the past two decades with Class A rates growing from 11.5 percent in 1994 to 16.3 percent in 2014 (Figure 14). At the same time, Class C vacancies have declined from 14.2 to 7.5 percent. The reduction in the Class C space vacancy rate reflects a 1.3 million square-foot reduction in space.

Figure 14.



County Submarket Conditions

Office space across the county comes in many types and flavors, serving a diverse market of tenants that differ in the type of space they need, locational preferences and the rents they are able to afford. Some tenants need access to business customers who cluster in employment centers while others locate near their residential customers and others are untethered to their customers. Technology has changed some of those traditional locational imperatives, giving tenants wider latitude in choosing offices. In the knowledge economy where attracting and retaining qualified workers is key to successful operations, factors that influence a company's workforce now get high priority. These preferences include access to transit and walkable mixed-use environments where workers can live, eat and play. Other large companies value visibility from I-270 or other major thoroughfares.



Prevailing rents impact the type of space that can be developed (e.g., high-rise, low-rise, flex) due to differences in construction costs, and land prices influence whether parking is provided in surface lots or structures. Building size will respond to the submarket's scale and pace of demand with each building designed to achieve full occupancy within 18 to 24 months from opening. In slower markets, this need for a timely lease-up leads developers and, more importantly, lenders and investors to wait until a building has significant pre-leases for 50 to 75 percent of the space rather than build speculatively.

The following analysis examines market trends within 12 county subareas defined by CoStar to include the whole county.

Geographic Distribution

The county's office inventory is concentrated down county in Bethesda and downtown Silver Spring, in the I-270 corridor and in smaller business districts in Wheaton and White Oak. CoStar breaks the county market into 12 submarkets (organized into four major subareas and shown on Map 1) with the following breakdown of space:

Performance has varied significantly across county submarkets. Bethesda/Chevy Chase is enjoying much lower vacancies – 9.3 percent – than are other county submarkets. Gaithersburg and downtown Silver Spring also have relatively low vacancy rates at 11.2 and 11.4 percent, respectively. In part, this reflects the locational advantages of Metro-served business districts with a full mix of uses, a walkable environment and quality public spaces. The 83.1-percent vacancy rate for the I-270 Corridor North submarket reflects the 538,000 square-foot former Comsat building. Table 5 profiles each of the submarkets.

Figure 15.

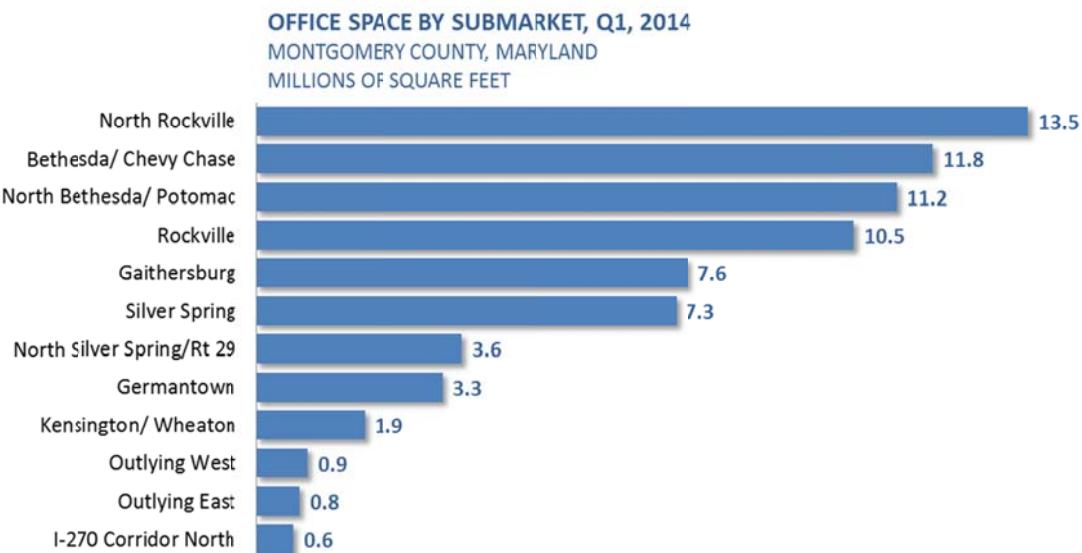




Table 5. County Submarkets and Submarket Clusters

Submarket	Total Inventory	Vacancy Rate	Average Rent ¹	2002-2013 Performance	
				Deliveries	Absorption
Bethesda/Chevy Chase					
Bethesda/Chevy Chase	11,839,356	9.4%	\$37.46	689,953	1,092,007
I-270 Corridor					
Gaithersburg	7,553,675	11.2%	\$22.24	1,821,025	1,347,518
Germantown	3,259,246	17.5%	\$24.67	1,138,659	831,616
I-270 Corridor North	647,988	83.1%	\$22.97	27,718	(470,761)
North Bethesda/Potomac	11,210,292	18.6%	\$30.13	958,797	(328,979)
North Rockville	13,519,397	17.5%	\$26.42	3,573,822	2,407,082
Rockville	10,461,818	12.2%	\$28.61	1,803,770	1,341,215
Total Cluster	46,652,416			9,323,791	5,127,691
Southeast Montgomery County					
Kensington/Wheaton	1,893,360	21.4%	\$24.00	73,840	(341,821)
North Silver Spring/Rt 29	3,590,734	12.5%	\$23.90	224,177	(7,192)
Silver Spring	7,344,726	11.4%	\$27.62	872,217	647,693
Total Cluster	12,828,820			1,170,234	298,680
Outlying Montgomery County					
Outlying County East	754,536	7.6%	\$26.23	34,359	41,639
Outlying County West	895,637	3.9%	\$29.37	749,318	727,072
Total Cluster	1,650,173			783,677	768,711
Total County	72,970,765	14.7%		11,967,655	7,287,089

Note: ¹Average full-service rent on direct leases, excluding subleases.

Source: CoStar; Partners for Economic Solutions, 2014.

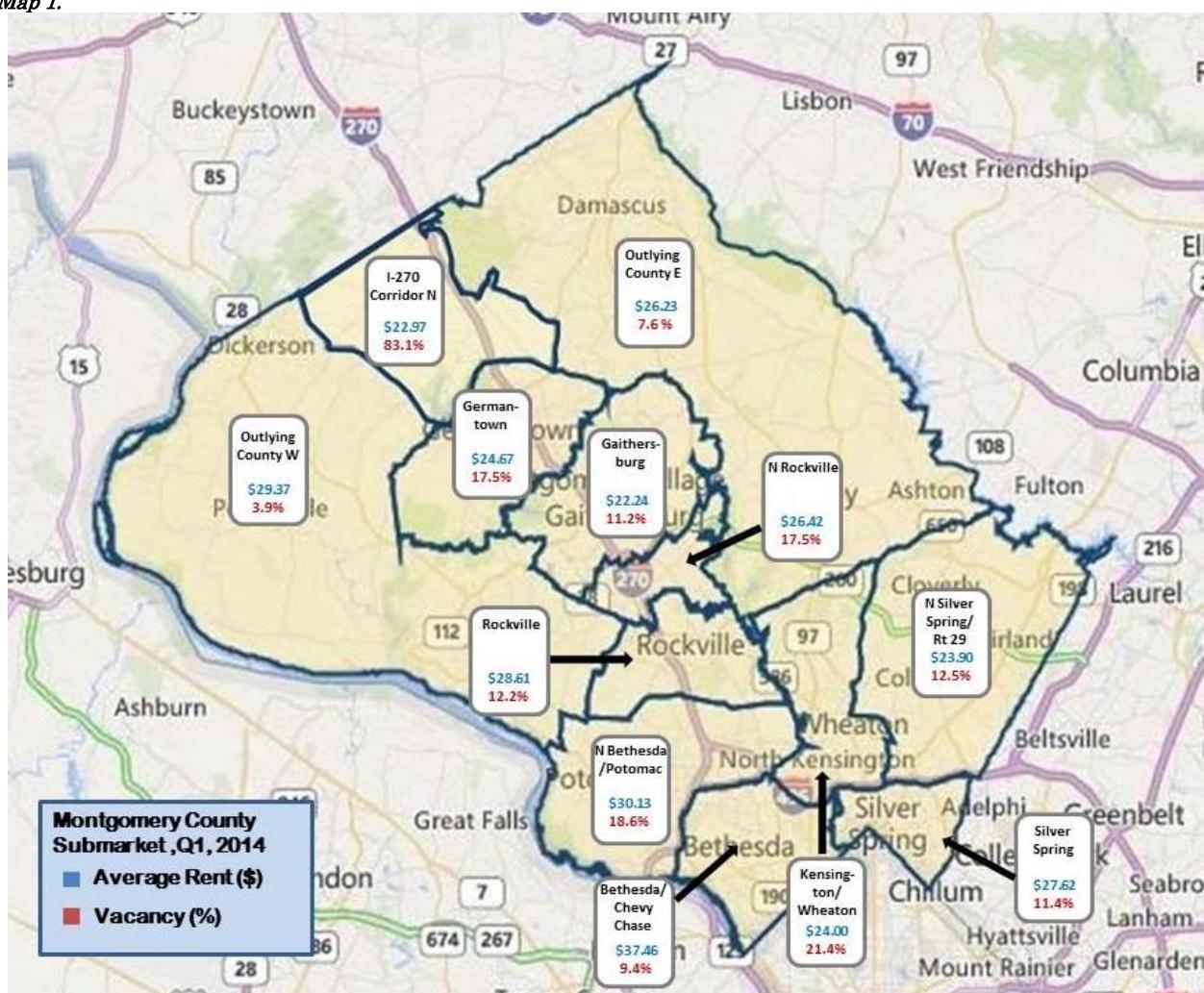
Average rents are highest in Bethesda/Chevy Chase, North Bethesda/Potomac, Rockville, and Silver Spring. (The Outlying County West is an anomaly dominated by the former Human Genome Sciences campus.) These reflect higher demand generated by highway and Metro access, proximity to executive housing, proximity to anchors such as NIH and, in some cases, higher investment in finishes for lab space. This pattern is reflected in the distribution of Class A space across the county.

Through the decades and across different markets, office development has typically followed the path of executive housing development. Many of the decision-makers who select their businesses' locations are influenced by the length and ease of their personal commutes and those of other valued executives. In Montgomery County, that tendency has encouraged office development to the northwest from Bethesda to Rockville and west toward Potomac. That orientation is further reinforced by the location patterns of NIH and other agencies that have attracted supportive and related businesses.

As shown in Appendix Table A-14, Class A space is concentrated in North Rockville, North Bethesda/Potomac, Bethesda/Chevy Chase, Silver Spring, and Rockville. These five submarkets contain 83 percent of the county's Class A inventory. Class C space in older buildings with lower quality finishes and inferior locations represents only 10 percent of the county's inventory but more than 21 percent in Kensington/Wheaton, 17.5 percent in North Rockville, 13.5 percent in Gaithersburg, and 12.9 percent in Silver Spring.

Map 1 provides a snapshot of vacancy and rent rates by geographic submarket. Rents are highest in Bethesda/Chevy Chase, North Bethesda/Potomac, Rockville, and Silver Spring. The lowest rents are in the I-270 Corridor North, Gaithersburg, and North Silver Spring/Route 29 submarkets. The Outlying County West submarket name is something of a misnomer. Its inventory is larger than would be expected for a largely rural portion of the county – 896,000 square feet of office space. Three buildings in the former Human Genome Sciences campus in the Great Seneca Science Corridor constitute 73 percent of that space. Though only 3.9 percent of the submarket's space is reported as vacant, the HGS property is being marketed currently. Bethesda/Chevy Chase, Gaithersburg, Silver Spring, and Rockville have the lowest vacancy rates ranging from 9.4 to 12.2 percent. Vacancy rates are highest in the I-270 Corridor North, Kensington/Wheaton, North Bethesda/Potomac, Germantown, and North Rockville submarkets.

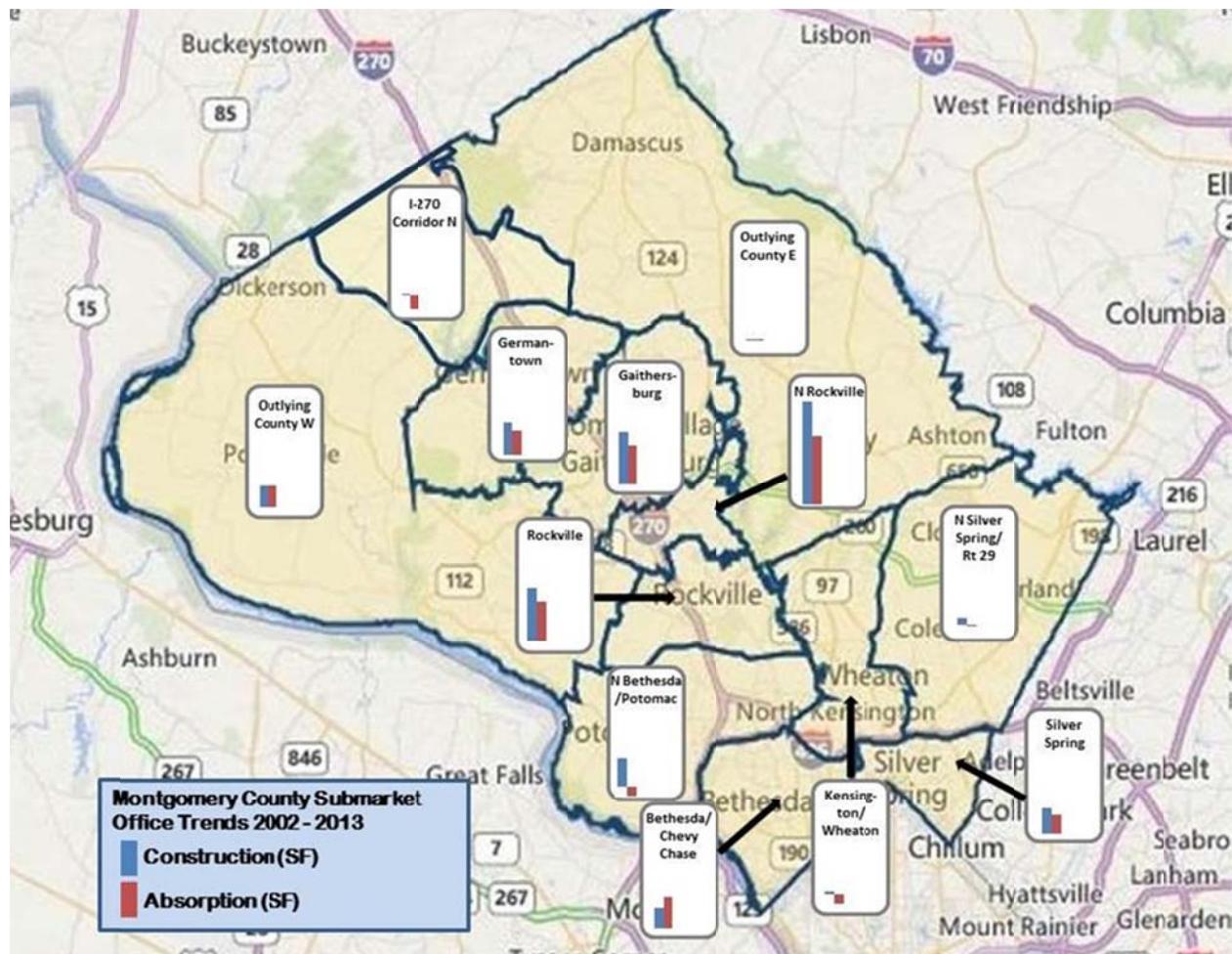
Map 1.



Submarket Office Market Trends

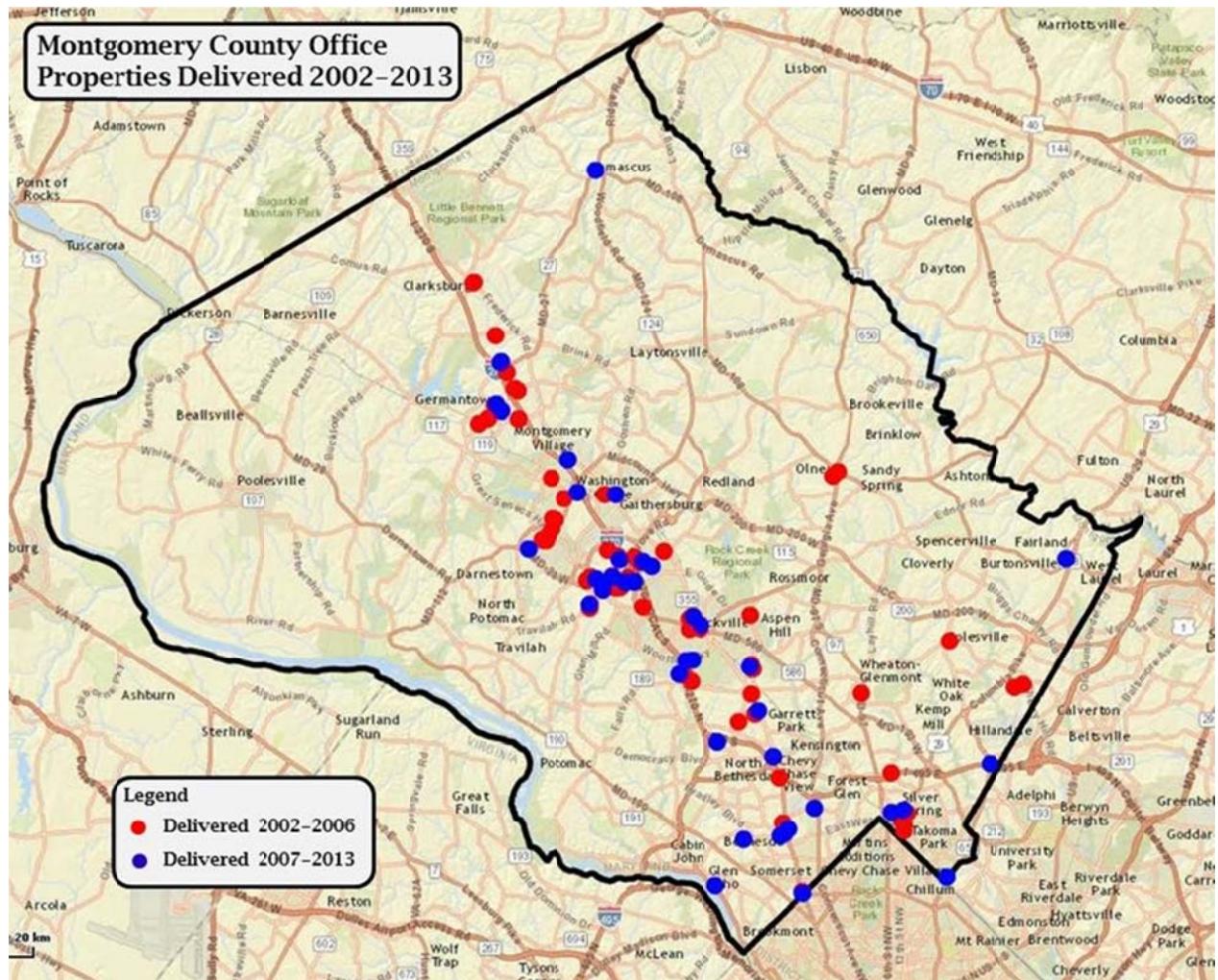
Map 2 summarizes new construction and absorption of space by submarket for 2002 to 2013. The statistics are shown in Appendix Table A-15. It demonstrates the concentration of new construction in the I-270 Corridor. The North Bethesda/Potomac, Kensington/Wheaton, I-270 Corridor North, and North Silver Spring/Route 29 submarkets all experienced negative absorption during the period, i.e., the total amount of occupied space declined. Absorption was greatest in North Rockville, Gaithersburg, Rockville, and Germantown. New space deliveries focused in those four submarkets with significant new space also in North Bethesda/Potomac.

Map 2.



Map 3 shows that new construction was spread across the Inner Beltway communities and extending up I-270 during the 2002-2006 period. With the Great Recession beginning in 2007, new deliveries through 2013 were more focused in Bethesda, Rockville, Gaithersburg, and Germantown.

Map 3.





Office Clusters by Type

Because the submarket statistics obscure some of the variation that happens within each submarket, this final trends analysis considers more fine-grained geographic breakdowns of clusters within submarkets. These clusters provide additional insights into the performance of different types of office environments and locations.

Office Typology

To help better understand the market variations, this analysis breaks offices into a typology with the expectation that different areas have performed better or worse over the past decade. The categories represent a matrix that matches the type of building and setting with its locational attributes relative to transit and highway access. Proximity to Metro stations is the region's locational distinction with the greatest impact. This analysis distinguishes between:

- Metro-adjacent locations within one-quarter mile of a Metro station;
- Metro-proximate locations within one-quarter to one-half mile of a Metro station;
- highway locations within 1,000 feet of I-270 or the Beltway (I-495); and
- other locations not proximate to a Metro station or highway.

Among the types of buildings and settings, the distinctions include:

- business districts or major mixed-use developments with at least 50,000 square feet of retail space and 200 residential units within one-quarter mile;
- office/business parks with a cluster of office uses within an organized and controlled environment;
- industrial/flex cluster in an organized industrial park or historically industrial district; and
- freestanding office buildings, typically located along major thoroughfares.

Table 6 summarizes the county's office inventory for each type of space focusing on buildings with at least 10,000 square feet of office space. Just over 30 percent of the total inventory is located in mixed-use business districts, of which almost two-thirds is within one-quarter mile of a Metro station and another 28 percent is within one-quarter to one-half mile. Single-use office parks and clusters represent 37 percent of the overall inventory; of that total, 38 percent of the space is located within 1,000 feet of I-270 or the Beltway.



Office space in industrial/flex districts accounts for less than two percent of the inventory. Freestanding buildings constitute 31 percent of the inventory with 60 percent of that space located away from Metro and the major highways.

Table 6. Total and Vacant Office Square Feet by Type, Second Quarter, 2014

Land Type	Metro-Adjacent ¹	Metro-Proximate ²	I-270 or Beltway Frontage ³	Other ⁴	Total
Total Square Feet					
Mixed-Use Business District ⁵	13,463,000	5,913,000	104,000	1,773,000	21,253,000
Office Park/Campus	-	550,000	10,173,000	15,680,000	26,403,000
Industrial/Flex Cluster		104,000	-	1,243,000	1,347,000
Freestanding Office	2,896,000	4,906,000	864,000	12,992,000	21,658,000
Total	16,359,000	11,473,000	11,141,000	31,688,000	70,661,000
Vacant Square Feet					
Mixed-Use Business District ⁵	1,090,000	732,000	-	154,000	1,976,000
Office Park/Campus	-	44,000	1,828,000	2,642,000	4,514,000
Industrial/Flex Cluster	-	16,000	-	185,000	201,000
Freestanding Office	274,000	427,000	31,000	2,322,000	3,054,000
Total	1,364,000	1,219,000	1,859,000	5,303,000	9,745,000
Vacancy Rate					
Mixed-Use Business District ⁵	8.1%	12.4%	0.0%	8.7%	9.3%
Office Park/Campus	NA	8.0%	18.0%	16.8%	17.1%
Industrial/Flex Cluster	NA	15.4%	NA	14.9%	14.9%
Freestanding Office	9.5%	8.7%	3.6%	17.9%	14.1%
Total	8.3%	10.6%	16.7%	16.7%	13.8%

Notes: Analysis restricted to buildings with at least 10,000 square feet of office space.

¹Located within one-quarter mile of a Metro station.

²Located between one-quarter and one-half mile of a Metro station.

³Not located within one-half mile of Metro but within 1,000 feet of an Interstate.

⁴Not located within one-half mile of Metro or 1,000 feet of an Interstate.

⁵Includes at least 50,000 square feet of retail and 200 dwelling units within one-quarter mile.

Source: CoStar, 2014; Partners for Economic Solutions, 2014.

The variation in vacancy rates underscores the importance of these locational factors. Large office buildings (10,000 square feet or more) in mixed-use districts within one-quarter mile of a Metro station are experiencing vacancies of 8.1 percent, reflecting a reasonable balance between demand and supply. At the same time, office buildings in single-use business parks along I-270 and the Beltway have 18 percent of their space vacant, including several buildings that are 100 percent vacant.

Metro Station Areas

The office market performs very differently within Metro station areas than it does in more auto-oriented portions of the county. Vacancies are shown in Table 7 for six Metro station areas with significant office inventories. Comparing performance of office buildings within one-quarter mile (easy walking distance) of the Metro station to those between one-quarter to one-half mile walking distance shows major differences. In all but Bethesda and Rockville Metro station areas, vacancy rates are significantly higher beyond the quarter-mile walking distance. Silver Spring Metro station area buildings have vacancies of only 7.5 percent as compared with 16.2 percent among buildings farther away. In White Flint, the



comparison is 2.7 percent vacancies for close-in buildings versus 12.5 percent for those farther out.

In Bethesda, farther-out buildings have 7.5-percent vacancies versus 11.4 percent for close-in buildings, which may reflect recently delivered buildings that have not yet reached full occupancy. The higher vacancies in close-in Bethesda may relate to 7550 Wisconsin Avenue and the Air Rights Building that have been undergoing renovations. In Rockville, the discrepancy is lower at 8.1 percent for close-in buildings as compared with 6.4 percent for buildings farther away from the Metro station. This reflects the fact that Rockville Metro Plaza II opened in 2013 and is still undergoing its initial lease-up.

Table 7. Montgomery County Vacant Space¹ by Metro Station Area, July 2014

Submarket	Class A		Class B		Class C		Total	
	Sq. Ft.	Percent	Sq. Ft.	Percent	Sq. Ft.	Percent	Sq. Ft.	Percent
Bethesda								
0-0.25 Mile	440,643	11.4%	177,409	12.5%	8,774	4.3%	626,826	11.4%
0.25-0.5 Mile	16,095	4.7%	139,405	9.6%	7,332	2.0%	162,832	7.5%
0-0.5 Mile	456,738	10.8%	316,814	11.0%	16,106	2.8%	789,658	10.3%
Rockville								
0-0.25 Mile	75,372	6.3%	56,285	21.1%	7,950	3.1%	139,607	8.1%
0.25-0.5 Mile	62,721	8.8%	50,795	6.7%	20,951	3.4%	134,467	6.4%
0-0.5 Mile	138,093	7.2%	107,080	10.5%	28,901	3.3%	274,074	7.2%
Silver Spring								
0-0.25 Mile	232,872	7.6%	24,445	4.8%	21,881	13.7%	279,198	7.5%
0.25-0.5 Mile	187,281	16.7%	157,205	12.2%	136,260	24.6%	480,746	16.2%
0-0.5 Mile	420,153	10.0%	181,650	10.1%	158,141	22.1%	759,944	11.3%
Twinbrook								
0-0.25 Mile	64,310	18.7%	-	NA	1,500	16.5%	65,810	18.6%
0.25-0.5 Mile	320,452	42.7%	13,192	1.5%	21,120	17.4%	354,764	20.5%
0-0.5 Mile	384,762	35.1%	13,192	1.5%	22,620	17.3%	420,574	20.2%
Wheaton								
0-0.25 Mile	-	NA	1,500	4.4%	-	0.0%	1,500	1.3%
0.25-0.5 Mile	16,317	16.3%	76,456	31.1%	2,000	10.5%	94,773	26.0%
0-0.5 Mile	16,317	16.3%	77,956	27.8%	2,000	2.0%	96,273	20.0%
White Flint								
0-0.25 Mile	-	0.0%	32,315	33.6%	-	0.0%	32,315	2.7%
0.25-0.5 Mile	84,716	12.2%	149,090	15.4%	6,923	2.7%	240,729	12.5%
0-0.5 Mile	84,716	6.1%	181,405	17.0%	6,923	1.1%	273,044	8.8%
Montgomery County								
Total	5,850,117	16.4%	4,388,681	14.6%	566,517	7.7%	10,805,315	14.8%

Source: CoStar, 2014; Partners for Economic Solutions, 2014.

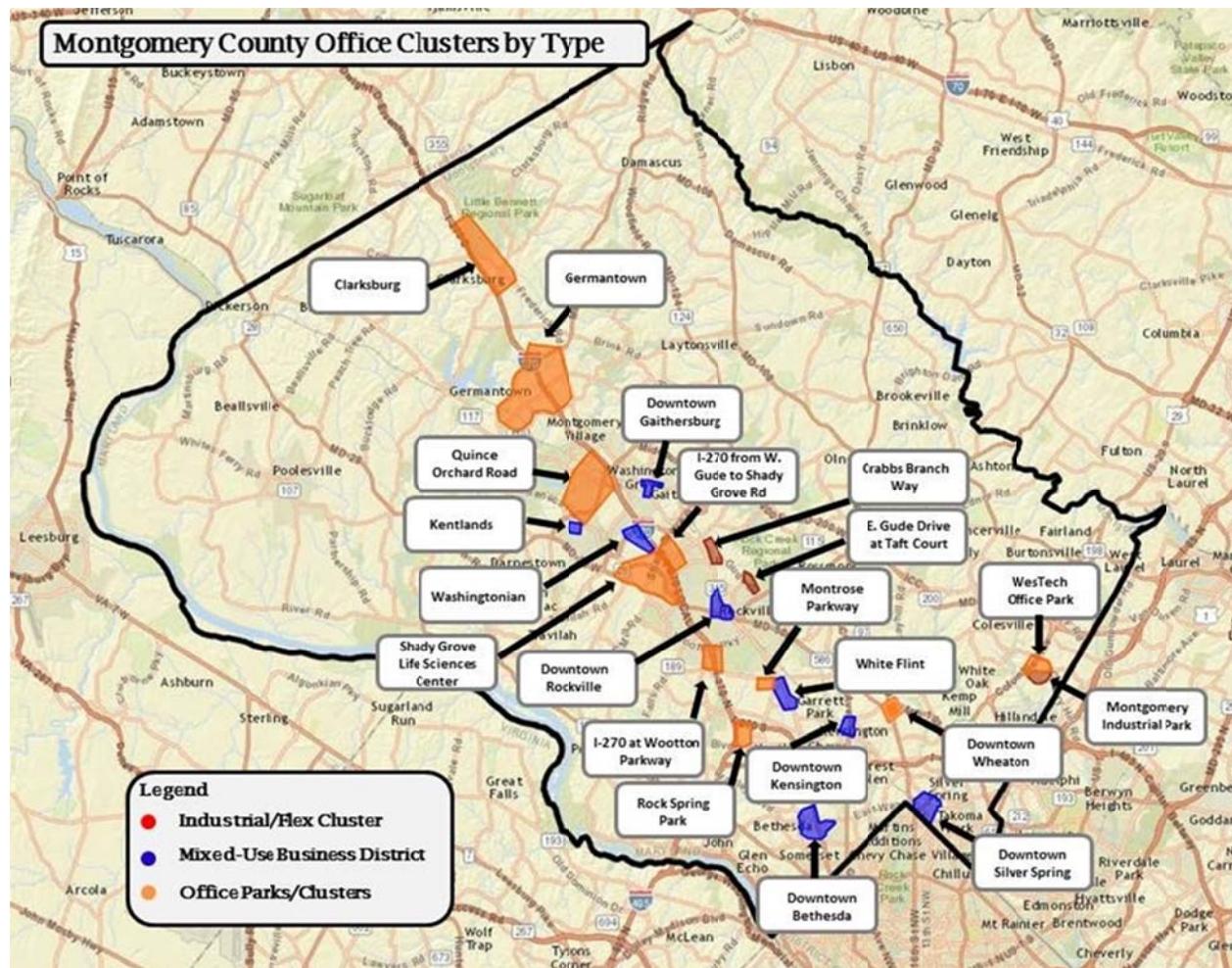
However, a Metro station alone is not sufficient to support a significant office cluster. Wheaton, Forest Glen, Glenmont, Grosvenor, and Shady Grove have not developed major office buildings. In some cases, that reflects the zoning, the nature and quality of nearby commercial areas, the limited supply of suitable sites, and the nature of the surrounding residential uses. As importantly, they lack the mix of uses that create business area vitality. Only Wheaton has a cluster of restaurants and retail. For Wheaton and Glenmont distance from I-270 and I-495 constrain the areas' marketability for a work force that still depends largely on auto travel.

Clusters by Type of Environment

Twenty-two clusters better define the county's office market by grouping office buildings within clusters that share accessibility and environmental characteristics, as shown in Map 4.

These clusters represent 49.8 million square feet of office space, or 68 percent of the county's total office inventory. Appendix Table A-16 provides a cross-walk between these clusters and the submarkets defined by CoStar.

Map 4.





The county's mixed-use business districts include the traditional downtowns in Bethesda, Gaithersburg, Kensington, Rockville, Silver Spring, and Wheaton as well as the new mixed-use environments at the Kentlands and the Washingtonian and the evolving White Flint area. These mixed-use districts include roughly 22.1 million square feet of office space, or 30 percent of the county's inventory.

Mixed use districts typically feature lower vacancy rates and rents typically higher than other nearby office buildings. Their performance contrasts with that of single-use office parks and office districts, which include Rock Spring, office areas along I-270, the Montrose Parkway/Rockville Pike area, Quince Orchard Road, Shady Grove Life Sciences Center, WesTech office park, Germantown, and Clarksburg (36 percent of the county's space).

Three primary office clusters developed in industrial/flex areas include Crabbs Branch Way northeast of the W. Gude Drive/Rockville Pike intersection, E. Gude Drive at Taft Court, and Montgomery Industrial Park with 2 percent of the county's office space.

Table 8 summarizes key characteristics of these smaller clusters.

Table 8. Office Performance by Type of Cluster, Second Quarter, 2014

Type/Cluster	Number of Buildings	Inventory	Occupied Square Feet	Vacancy Rate	Average Rent	Average Year Built	Square Feet Under Construction
Mixed-Use Business Districts							
Downtown Bethesda	173	7,958,746	7,078,190	11.1%	\$37.63	1963	241,412
Downtown Gaithersburg	46	325,639	399,009	11.8%	\$24.65	1927	-
Downtown Kensington	35	485,532	462,598	4.7%	\$21.80	1966	-
Downtown Rockville	74	2,534,175	2,370,604	6.5%	\$32.77	1974	23,597
Downtown Silver Spring	104	6,523,449	5,818,046	10.8%	\$27.98	1962	-
Downtown Wheaton	25	476,243	410,956	13.7%	\$23.30	1961	-
Kentlands	22	140,049	138,247	1.3%	\$27.97	2001	-
Washingtonian	4	910,946	835,506	8.3%	\$34.02	2004	-
White Flint	25	2,715,188	2,535,516	6.8%	\$30.61	1980	170,000
Mixed-Use Business District Total	508	22,073,967	20,048,672	9.2%	\$32.30	1967	435,009
Office Parks/Clusters							
Rock Spring Park	23	5,290,235	4,294,883	18.8%	\$31.36	1985	-
I-270 at Wootton Parkway	12	1,304,252	886,251	32.0%	\$32.37	1992	-
I-270 from W. Gude to Shady Grove Rd	27	2,925,958	2,421,173	17.3%	\$26.28	1984	-
Montrose Parkway	34	1,914,249	1,258,529	34.3%	\$28.79	1980	-
Quince Orchard Road	27	2,734,872	2,588,525	5.4%	\$23.77	2001	-
Shady Grove Life Sciences Park	83	7,336,754	5,852,037	20.2%	\$27.37	1988	-
WesTech Business Park	12	1,090,808	977,647	10.4%	\$22.02	1988	-
Germantown	63	3,247,064	2,663,193	18.0%	\$24.61	1990	-
Clarksburg	11	106,231	105,536	0.7%	\$22.97	1999	-
Office Parks/Clusters Total	292	25,950,423	21,047,774	18.9%	\$27.45	1988	-
Industrial/Flex Clusters							
Crabbs Branch Way	25	1,064,688	962,623	9.6%	\$22.48	1985	-
E. Gude Drive at Taft Court	19	365,278	260,726	28.6%	\$20.95	1982	-
Montgomery Industrial Park	9	350,276	316,037	9.8%	\$20.61	1989	-
Industrial/Flex Clusters Total	53	1,780,242	1,539,336	13.5%	\$21.80	1985	-
Total in Clusters	853	49,804,632	42,635,832	14.4%	\$29.40	1979	435,009

Source: CoStar, 2014; Partners for Economic Solutions, 2014.



Vacancy rates are markedly lower in mixed-use districts as compared with office parks, industrial districts and freestanding buildings, ranging from 4.7 percent in downtown Kensington to 13.7 percent in downtown Wheaton.

The Washingtonian and White Flint clusters have current vacancy rates of 8.3 and 6.8 percent, respectively. Average direct rents are higher in several of these districts, including \$37.63 in downtown Bethesda, \$32.77 in downtown Rockville and \$34.02 in the Washingtonian, despite having older inventories with median years built ranging from 1923 in downtown Gaithersburg to 1961-1966 in Silver Spring, Wheaton, Bethesda, and Kensington.

Office buildings in single-use environments, including office parks, show much higher vacancy rates, generally ranging from 17 to 21 percent. The highest rate is the 32-percent vacancy rate in the I-270/Wootton Parkway cluster (Tower Oaks). These clusters are generally 20 to 30 years newer than the traditional downtowns with median year built ranging from 1980 for the Montrose Parkway/Rockville Pike cluster to 2001 for the Quince Orchard Road cluster.

Reflecting their newer stock, locations accessible to I-270 and, in some cases, lab space (which is much more expensive to build than ordinary office space and commands higher rents), average rents are in the low \$30s for the Rock Spring Park, I-270 at Wootton Parkway and Montrose Parkway/Rockville Pike clusters. Other clusters have average rents ranging from \$23.77 in the Quince Orchard Road cluster to \$27.37 in Shady Grove Life Sciences cluster.

Industrial/flex clusters show varying vacancies, ranging from 9.6 percent in Crabbs Branch Way cluster at Shady Grove to 28.6 percent in the East Gude Drive cluster due in part to differences in the quality of the surrounding environment and the age of the building stock. Rents range from \$20.61 to \$22.48 per square foot.

Historical Trends

Table 9 provides vacancy rate trends for 1994 to Second Quarter 2014. Figures 16 and 17 compare vacancy rate trends for Metro-served mixed-use environments to those of single-use auto-oriented office districts.

Each cluster shows significant variation over time, and their trends do not correlate completely. However, calculating a linear average over time shows that the Metro-served mixed-use districts saw a decline in vacancies of roughly five percentage points. Over the same period, the single-use office district increased their vacancies by roughly 10 percentage points.

Table 9. Office Vacancy Rates by Type of Cluster, 1994-Second Quarter, 2014

Type/Cluster	Vacancy Rate			
	1994	2004	2009	Q2 2014
Mixed-Use Business Districts				
Downtown Bethesda	14.9%	12.6%	9.2%	11.1%
Downtown Gaithersburg	5.9%	4.1%	7.7%	11.8%
Downtown Kensington	5.8%	4.8%	11.2%	4.7%
Downtown Rockville	9.7%	17.2%	9.6%	6.5%
Downtown Silver Spring	19.6%	9.2%	10.0%	10.8%
Downtown Wheaton	8.0%	7.6%	14.7%	13.7%
Kentlands	NA	22.0%	2.9%	1.3%
Washingtonian	NA	8.7%	28.1%	8.3%
White Flint	8.2%	11.2%	13.9%	6.8%
Mixed-Use Business District Total	14.5%	11.9%	10.9%	9.2%
Office Parks/Clusters				
Rock Spring Park	13.6%	8.8%	17.9%	18.8%
I-270 at Wootton Parkway	5.3%	14.3%	22.7%	32.0%
I-270 from W. Gude to Shady Grove Rd	14.9%	10.3%	32.5%	17.3%
Montrose Parkway	14.2%	15.1%	3.6%	34.3%
Quince Orchard Road	33.2%	8.6%	7.2%	5.4%
Shady Grove Life Sciences Park	10.2%	12.4%	11.5%	20.2%
WesTech Business Park	3.1%	5.2%	3.6%	10.4%
Germantown	9.7%	19.6%	18.4%	18.0%
Clarksburg	21.7%	0.0%	8.0%	0.7%
Office Parks/Clusters Total	21.7%	11.8%	15.3%	18.9%
Industrial/Flex Clusters				
Crabbs Branch Way	8.8%	11.7%	9.4%	9.6%
E. Gude Drive at Taft Court	6.4%	3.6%	34.7%	28.6%
Montgomery Industrial Park	27.2%	16.2%	5.8%	9.8%
Industrial/Flex Clusters Total	11.7%	10.9%	13.9%	13.5%
Total in Clusters	17.6%	11.8%	13.3%	14.4%

Source: CoStar, 2014; Partners for Economic Solutions, 2014.

Figure 16.

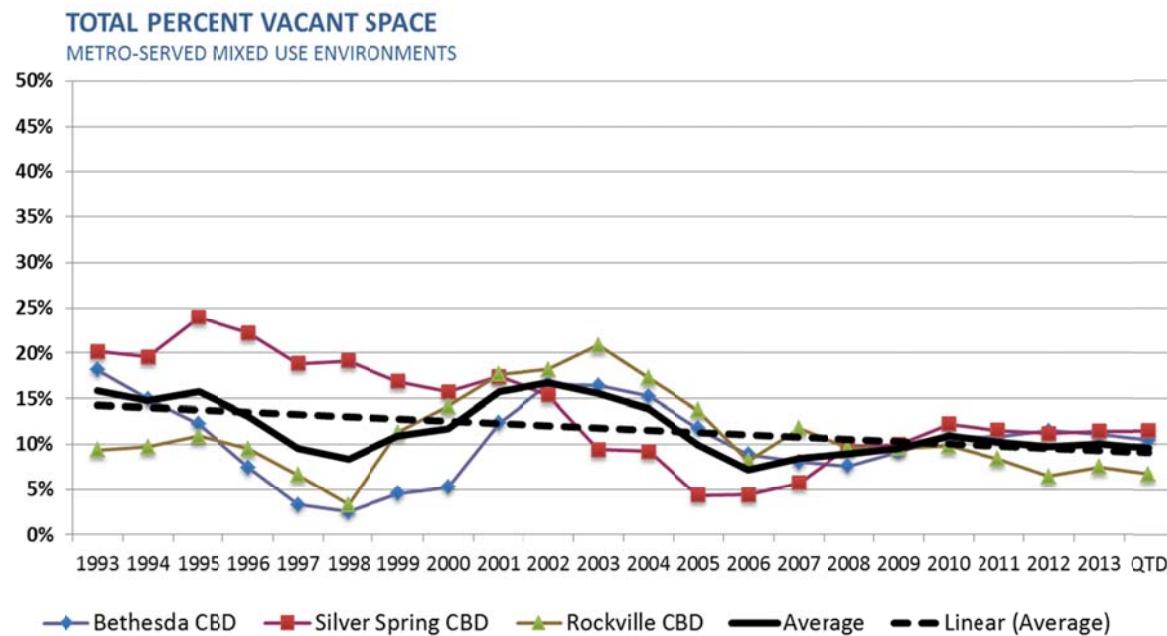
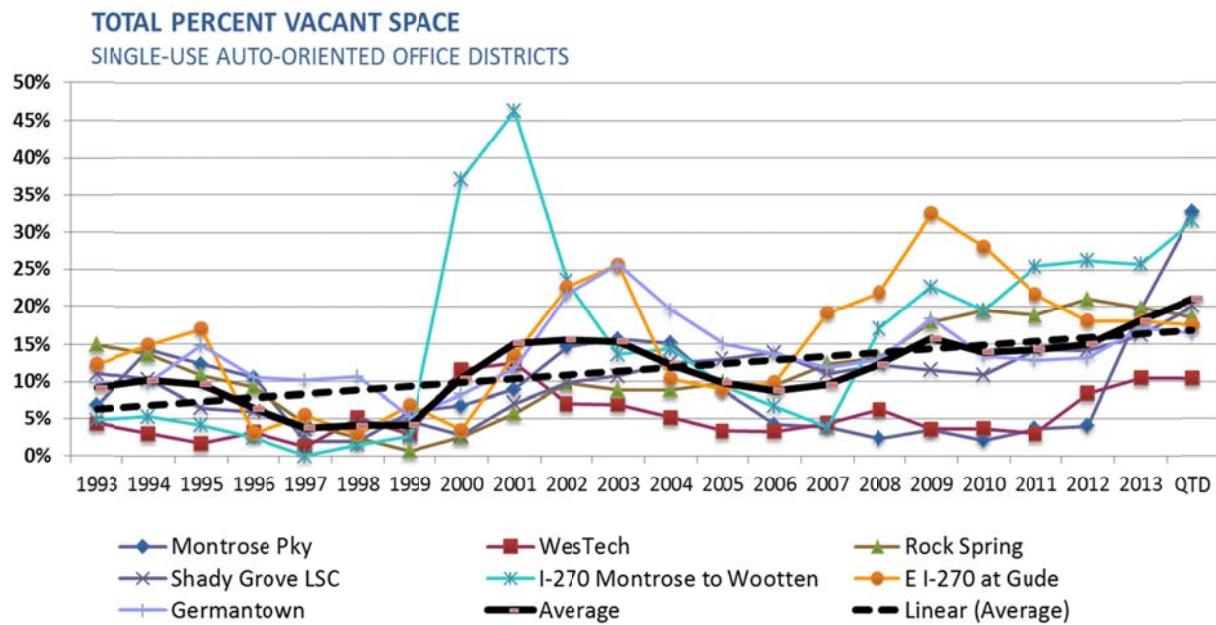


Figure 17.



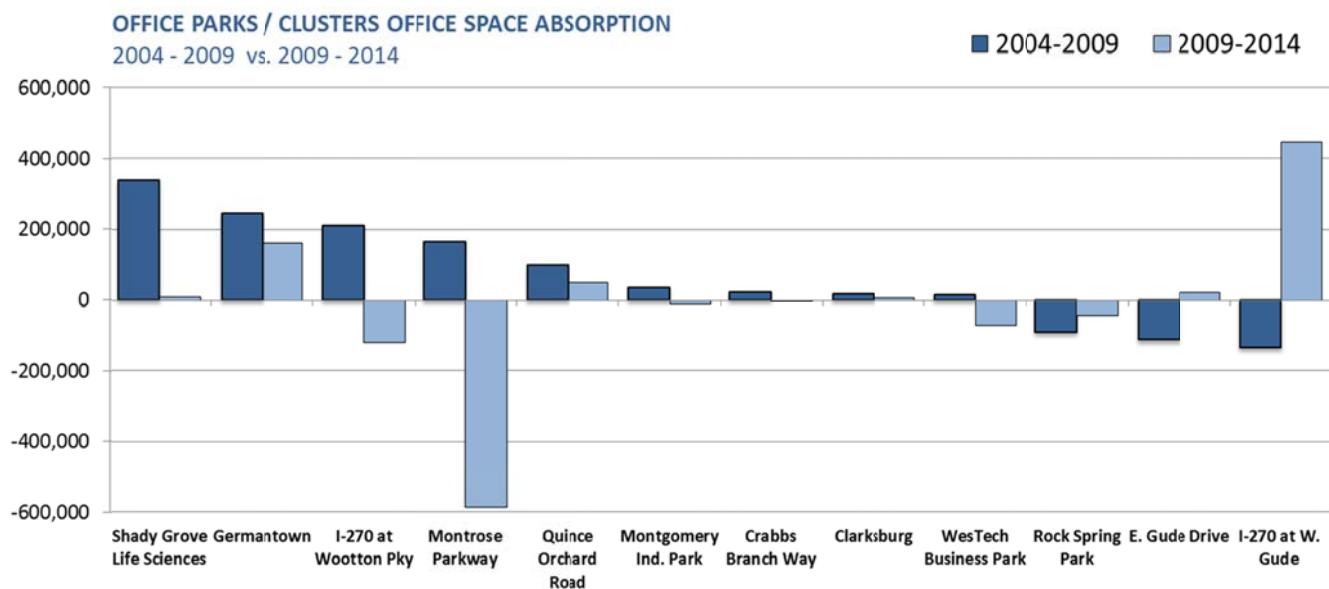


Historical data for the clusters over the past five years show that mixed-use business districts reduced their office vacancies from 10.9 percent in 2009 to 9.2 percent in the second quarter of 2014. The best performing mixed-use business districts were:

- The Washingtonian, which absorbed 180,000 square feet of space to reduce its vacancies from 28.1 to 8.3 percent;
- White Flint, which filled 524,000 square feet of space and reduced its vacancy rate from 13.9 to 6.8 percent; and
- Downtown Rockville, which absorbed 223,000 square feet to reduce vacancies from 11.2 to 4.7 percent.

These three districts all benefitted from new construction, which allowed them to better compete. Appendix Table A-17 provides historic data for changes in inventory and absorption, vacancy rates and average rents for the last 20 years.

Figure 18.

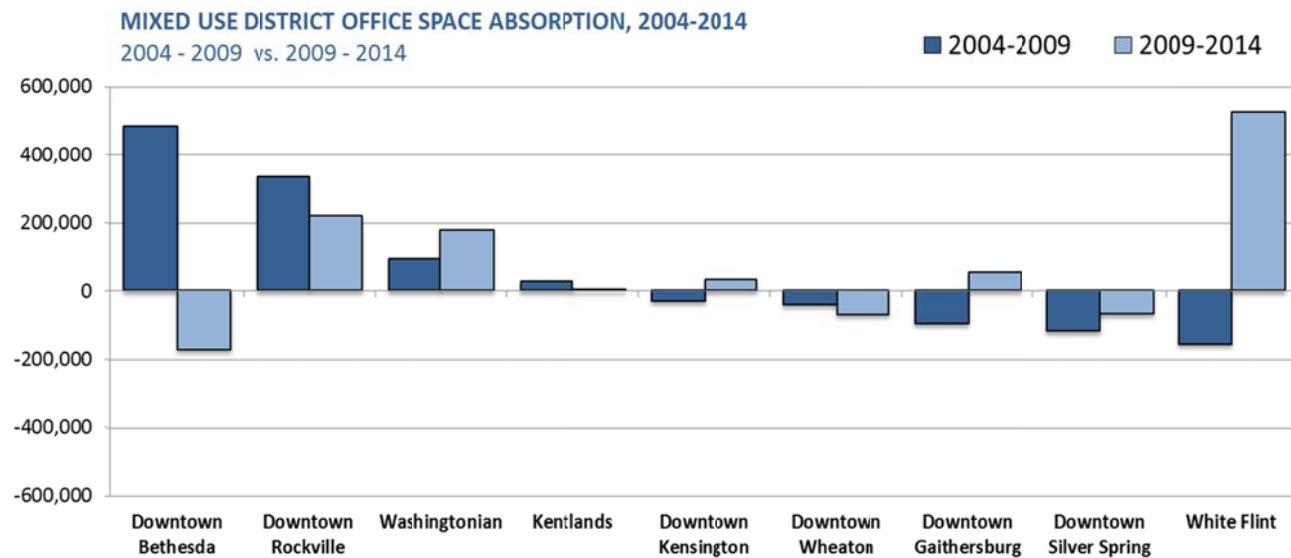


During the same 2009-Second Quarter 2014 period, office parks and clusters increased their vacancies from 15.3 to 18.9 percent. Figure 19 shows absorption trends for single-use office parks and clusters. In the Shady Grove Life Sciences Park cluster, the increase from 11.5 to 20.2 percent was due to the addition of 736,000 square feet without commensurate absorption. Overall, these clusters lost 153,000 square feet of occupied space with GSA vacating buildings.

There were major occupancy losses in the Montrose Parkway, the I-270 at Wootton Parkway, WesTech Business Park off US 29 and the Rock Spring clusters. Despite these losses, two clusters had significant positive absorption:

- I-270 from W. Gude Drive to Shady Grove Road, which absorbed 446,000 square feet; and
- Germantown, which absorbed 161,000 square feet.

Figure 19.



Regional Comparison

These patterns are not unique to Montgomery County. They are evident elsewhere in the region. Table 10 provides summary information about major office clusters in Alexandria, Arlington County, the District of Columbia, Fairfax County, and Prince George's County broken into the same broad categories. The results show marked similarities with a few exceptions. Vacancies created by BRAC actions skew the statistics for Arlington. Some submarkets have seen recent construction that has overshot demand, Rosslyn and Tysons, in particular.

Table 10. Office Performance by Type of Cluster in Competitive Jurisdictions, Second Quarter, 2014

Type/Cluster	Number of Buildings	Inventory	Occupied Square Feet	Vacancy Rate	Average Rent	Under Construction
Mixed-Use Business Districts						
Reston Town Center (Fairfax)	10	2,492,055	2,399,865	3.7%	\$47.06	-
Old Town (Alexandria)	363	3,471,107	3,211,597	7.5%	\$30.18	-
Clarendon/Courthouse (Arlington)	54	4,169,201	3,854,173	7.6%	\$42.18	-
Georgetown (DC)	158	3,690,081	3,344,862	9.4%	\$42.64	-
CBD (DC)	388	45,220,981	40,586,865	10.2%	\$51.15	-
King Street Station (Alexandria)	93	4,164,209	3,719,699	10.7%	\$35.30	-
East End (DC)	399	47,965,355	42,585,074	11.2%	\$54.51	590,348
NoMa (DC)	39	8,916,626	7,350,609	17.6%	\$47.24	200,000
Capitol Riverfront (DC)	14	3,359,559	2,754,944	18.0%	\$47.41	-
Crystal City (Arlington)*	49	11,095,324	8,063,468	27.3%	\$38.61	-
Rosslyn (Arlington)	38	8,922,060	6,209,515	30.4%	\$39.93	-
Pentagon City (Arlington)*	8	1,824,844	1,260,541	30.8%	NA	-
Mixed-Use Business Districts Total	1,613	145,291,402	125,341,212	13.7%	\$48.76	790,348
Office Parks/Clusters						
Lee Highway (Arlington)	29	191,779	187,225	2.4%	\$27.43	-
College Park Metro (Prince George's)	9	1,302,464	1,264,948	2.9%	\$26.31	-
Vienna (Fairfax)	86	842,341	796,439	5.4%	\$23.75	-
Herndon - Non-Toll Road (Fairfax)	87	2,453,020	2,234,037	8.9%	\$20.69	-
Herndon - Dulles Toll Road (Fairfax)	90	10,246,993	9,139,058	10.8%	\$28.18	-
Landover/Largo (Prince George's)	19	1,420,851	1,265,446	10.9%	\$22.00	-
Merrifield (Fairfax)	92	6,285,984	5,520,401	12.2%	\$25.79	15,000
Eisenhower Valley (Alexandria)	34	5,311,024	4,658,504	12.3%	\$36.89	700,000
Huntington/Mt. Vernon Rt. 1 (Alexandria)	47	1,019,847	892,078	12.5%	\$22.53	-
Fairfax Center (Fairfax)	41	5,252,410	4,489,649	14.5%	\$28.38	-
Route 28 South (Fairfax)	113	10,589,619	8,754,305	17.3%	\$24.54	-
Springfield (Fairfax)	43	1,494,319	1,223,425	18.1%	\$22.86	-
Tysons (Fairfax)	180	26,311,797	21,259,452	19.2%	\$33.09	1,138,878
Fairview Park (Fairfax)	13	2,492,608	1,980,957	20.5%	\$32.54	-
Reston - Dulles Toll Road (Fairfax)	139	12,203,461	9,685,242	20.6%	\$27.47	390,000
Lanham (Prince George's)	29	1,139,017	881,269	22.6%	\$18.71	-
Prince George's Plaza (Prince George's)	14	176,704	132,290	25.1%	\$19.62	-
Greenbelt (Prince George's)	44	2,597,283	1,801,694	30.6%	\$22.00	-
Mark Center (Alexandria)	13	1,611,093	1,133,278	29.7%	\$32.62	-
New Carrollton (Prince George's)	15	1,078,092	756,569	29.8%	\$21.24	-
Office Parks/Clusters Total	1,137	94,020,706	78,056,266	17.0%	\$28.70	2,243,878
Industrial/Flex Clusters						
Beltsville (Prince George's)	41	862,354	740,237	14.2%	\$18.36	-
Total in Clusters	2,791	240,174,462	204,137,715	15.0%	\$40.80	3,034,226

Note: *Impacted by BRAC moves.

Source: CoStar, 2014; Partners for Economic Solutions, 2014.



Reston Town Center stands out with total vacancies of only 3.7 percent, illustrating the power of mixed-use development in a quality pedestrian environment, even with no Metro service. Georgetown and downtown DC have relatively low vacancy rates of 9.4 and 10.2 percent, respectively. NoMa and Capital Riverfront have emerged recently as hot clusters with major new blocks of space that are still leasing up.

Vacancies are much higher along Route 28 South (17.3 percent) and in Springfield (18.1 percent), Tysons (19.2 percent), and along the Dulles Toll Road in Reston (20.6 percent). Each of these markets is affected by its own circumstances. The dichotomy between mixed-use and single-use office park performance is not completely consistent. College Park Metro, Herndon, Landover/Largo, Merrifield, Eisenhower Valley, and Fairfax Center all have vacancy rates below the regional average.

Historical Data

As with Montgomery County clusters, the performance of clusters in competitive jurisdictions was a mixed bag. Generally, the mixed-use districts improved their occupancy levels from 2009 to the second quarter of 2014; however, the impact of BRAC moves on Crystal City, Rosslyn, and Pentagon City were significant. These three clusters lost 3.4 million square feet of occupancy, ending with vacancy rates of 27.3 to 30.8 percent. Appendix Table A-18 includes inventory change, absorption, vacancy rate, and average rent trends for the past 20 years.

Many of the office parks/clusters also improved their occupancy levels. The most significant declines occurred in:

- Tysons, which lost 496,000 square feet of office occupancy, raising its vacancy rate from 16.1 percent in 2009 to 19.2 percent in the second quarter of 2014;
- Alexandria's Mark Center, which lost 363,000 square feet of occupied space to increase its vacancy rate from 7.1 to 20.7 percent; and
- the Dulles Toll Road cluster in Reston which lost 262,000 square feet of occupied space and increased its vacancy rate from 18.5 to 20.6 percent.

In the competitive jurisdictions, increased vacancy rates related more to an excess of newly constructed space than did Montgomery County's market. The 2004-2009 period introduced 5.7 million more square feet of new space than were absorbed, followed by an excess of 6.3 million square feet added to the inventory from 2009 to the second quarter of 2014. Table 11 shows historic vacancy rates for these competitive clusters.

Table 11. Office Vacancy Rate by Type of Cluster in Competitive Jurisdictions, 1994-Second Quarter, 2014

Type/Cluster	Vacancy Rate			
	1994	2004	2009	Q2 2014
Mixed-Use Business Districts				
Reston Town Center (Fairfax)	0.0%	3.9%	18.8%	3.7%
Old Town (Alexandria)	5.6%	6.1%	7.9%	7.5%
Clarendon/Courthouse (Arlington)	5.9%	8.8%	10.0%	7.6%
Georgetown (DC)	17.6%	3.7%	12.8%	9.4%
CBD (DC)	13.9%	6.1%	9.5%	10.2%
King Street Station (Alexandria)	11.9%	11.4%	11.0%	10.7%
East End (DC)	12.4%	11.0%	10.2%	11.2%
NoMa (DC)	32.6%	9.4%	21.8%	17.6%
Capitol Riverfront (DC)	3.3%	10.3%	22.2%	18.0%
Crystal City (Arlington)*	7.7%	18.0%	8.4%	27.3%
Rosslyn (Arlington)	13.3%	7.6%	7.2%	30.4%
Pentagon City (Arlington)*	0.0%	0.0%	0.0%	30.8%
Mixed-Use Business Districts Total	12.8%	9.0%	10.5%	13.7%
Office Parks/Clusters				
Lee Highway (Arlington)	0.0%	3.2%	10.2%	2.4%
College Park Metro (Prince George's)	8.0%	3.8%	3.3%	2.9%
Vienna (Fairfax)	6.9%	11.9%	7.0%	5.4%
Herndon - Non-Toll Road (Fairfax)	17.4%	10.0%	9.9%	8.9%
Herndon - Dulles Toll Road (Fairfax)	11.5%	24.0%	15.3%	10.8%
Landover/Largo (Prince George's)	9.8%	10.3%	21.2%	10.9%
Merrifield (Fairfax)	5.9%	14.5%	13.6%	12.2%
Eisenhower Valley (Alexandria)	6.6%	1.2%	8.8%	12.3%
Huntington/Mt. Vernon Rt. 1 (Alexandria)	8.0%	8.4%	7.3%	12.5%
Fairfax Center (Fairfax)	17.6%	13.8%	17.0%	14.5%
Route 28 South (Fairfax)	23.4%	9.4%	19.1%	17.3%
Springfield (Fairfax)	22.5%	6.5%	15.7%	18.1%
Tysons (Fairfax)	17.0%	17.0%	16.1%	19.2%
Fairview Park (Fairfax)	11.0%	5.9%	26.1%	20.5%
Reston - Dulles Toll Road (Fairfax)	15.2%	15.8%	18.5%	20.6%
Lanham (Prince George's)	30.8%	14.6%	23.8%	22.6%
Prince George's Plaza (Prince George's)	29.8%	15.0%	18.0%	25.1%
Greenbelt (Prince George's)	12.9%	15.6%	25.7%	30.6%
Mark Center (Alexandria)	14.4%	16.8%	7.1%	29.7%
New Carrollton (Prince George's)	16.2%	19.6%	23.8%	29.8%
Office Parks/Clusters Total	15.1%	14.7%	16.3%	17.0%
Industrial/Flex Clusters				
Beltsville (Prince George's)	32.7%	14.6%	12.3%	14.2%
Total in Clusters	13.6%	11.3%	12.8%	15.0%

Note: *Impacted by BRAC moves.

Source: CoStar, 2014; Partners for Economic Solutions, 2014.



III. Future Outlook

The county's and region's past office absorption trends demonstrate nothing if not the volatility of demand and the myriad factors that influence it. Accurate projections are not possible given the range of external forces at work, ranging from the Federal budget wars to the overall state of the economy to the availability of financing for biotechnology and other technology companies.

However, the combined effects of improved efficiencies in the use of space by GSA and other tenants will likely cause countywide vacancy rates to remain high or even increase over at least the next five years. Given the extent of major GSA leases in single-use office districts and the market's preference for offices in mixed-use districts, those vacancies will likely concentrate in those office parks.

Due to the overhang of vacant space, funding for new office construction is quite limited and will probably remain constrained until vacancy rates approach 10 percent and rents increase.

Bethesda, White Flint, and downtown Rockville may be exceptions to the countywide trends with favorable vacancy rates and rents starting to support new development earlier than elsewhere in the county.

Vacant Space Projections

This analysis of future office vacancies combines the impacts of reduced GSA demand, increasing employee densities, reductions to the inventory, and additional years of absorption assuming no new construction. Table 12 indicates that vacancy rates by the end of 2019 could still range from 10.8 to 15.8 percent. With eight more years, they could decline to 7.7 to 15.5 percent by the end of 2022. However, it is likely that the county will see some new office construction before 2020, which would leave vacancy rates higher longer.

The vacant space projections assume:

- no new construction;
- GSA leases are replaced in county private space with 20-percent reductions in space leased;
- 25 to 35 percent of private tenants relocate, renovate or reorganize office space in the next five years and reaching 35 to 50 percent in 10 years, decreasing office



square feet per employee by 11 percent (from an average of 180 to 160 square feet per employee);

- removal of the Comsat (538,000 square feet) and Vitro (263,000 square feet) buildings from the competitive office inventory through conversions or demolitions;
- 97,000 to 106,000 square feet of building space demolished or converted to other uses annually (100 to 110 percent of the 12-year average); and
- 300,000 to 900,000 square feet of average annual absorption, reflecting economic recovery and excluding offsets for higher employee densities (50 to 150 percent of the average from 2002 through 2013, a time that included both economic growth and decline.)

Table 12. Projection of Future Vacancy Rates Assuming No New Construction or Demolition

	2015-2019	2015-2022
Existing Inventory	73,000,000	73,000,000
Current Vacant Space	10,800,000	10,800,000
Current Vacancy Rate	14.8%	14.8%
Additional GSA Space Vacated		
Space Out for Lease	145,900	145,900
Moving to Owned Space, Parklawn or NRC	606,100	606,100
Efficiency from Remaining Leases Replaced	310,000	570,000
Efficiency Gains from Private Tenants at Lease Renewals		
Square Feet Currently Leased	54,100,000	54,100,000
Assumed Percent That Change Their Space Use Patterns	25% - 35%	32% - 45%
Assume Reduction from 180 rsf per Employee to 160 RSF	11%	11%
Resulting Space Reductions	1,500,000 - 2,100,000	1,900,000 - 2,700,000
Reductions to the Inventory		
Removal of Comsat & Vitro Buildings	810,000	810,000
Projected Square Feet Demolished or Converted to Other Uses Over Five Years	490,000 - 530,000	780,000 - 850,000
Future Vacant Space Before Absorption	12,100,000 - 12,600,000	12,400,000 - 13,200,000
Absorption of Existing Space		
Annual Gross Absorption	900,000 - 300,000	900,000 - 300,000
Future Vacancy Rate		
Future Vacant Space After Absorption	7,600,000 - 11,100,000	5,200,000 - 10,800,000
Future Vacancy Rate if No New Construction	10.4% - 15.2%	7.1% - 14.8%

Source: U.S. General Services Administration; Partners for Economic Solutions, 2014.



Tougher Competition

Lower rents resulting from competition from vacant buildings will limit the rents other buildings can charge and may set off a round of musical chairs as tenants take advantage of lower rents to improve the quality of their offices or reduce their rent burden.

Competition is an essential element in real estate markets, providing a market incentive to reinvest and keep buildings up to date. Ultimately, many tenants will benefit from better quality space with more amenities and lower rents. However, the process can be bruising and tenant “flight to quality” will undermine the market for some of the county’s older Class C and B office buildings that are not well located and do not warrant that scale of reinvestment.

As these buildings cycle down, disinvestment and deterioration may blight nearby properties. Eventually, they will be redeveloped or reused for other uses. Depending on the demand for other uses, well-located sites could then be used for highest and better purposes. Recycling buildings and sites may offer the opportunity to introduce other uses into single-use office districts and achieve a better mix.

New Construction

Sustained new construction is not likely to begin before vacancy rates fall below 10 percent, which this countywide analysis suggests will not happen until 2020 or later. The recovery of the market could be delayed by continued construction. Currently, the county is seeing construction of only two new speculative office buildings in Bethesda and Rockville.

In fact, the market rarely acts based on countywide conditions; it acts more often based on the strength of specific submarkets. The individual developer makes a decision about whether a new building in a specific location could compete with existing and other proposed buildings for potential tenants. That calculus includes consideration of whether a modern open-span building could attract tenants at feasible rents by luring them out of older buildings.

Subareas that can offer Metro and good roadway access within a walkable mixed-use environment will be the markets that recover most quickly. In desirable submarkets with lower vacancy rates, new construction may resume within three years. New construction will come much more slowly to single-use office parks that do not offer the restaurant, retail and other amenities of competitive mixed-use environments.

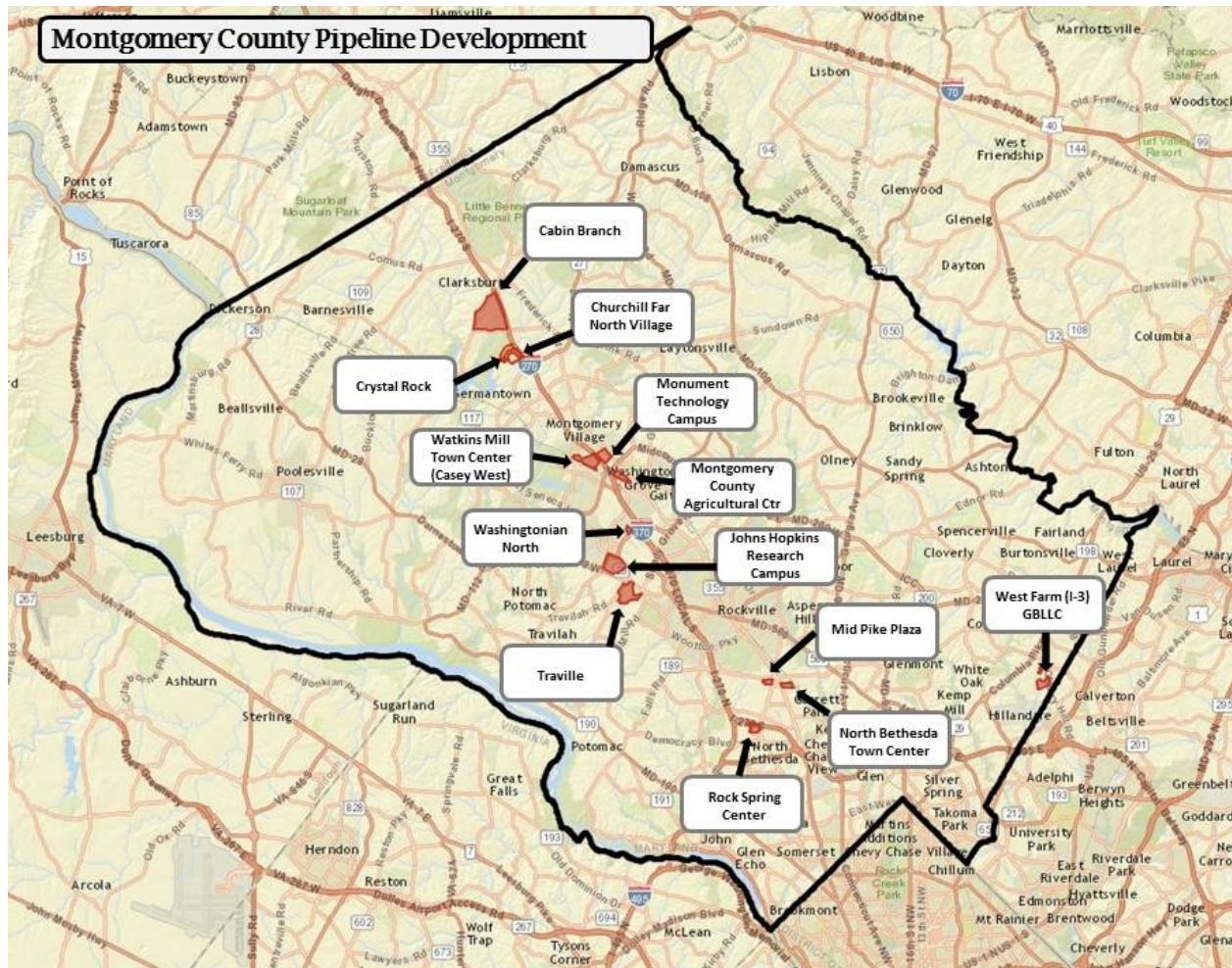
The slowed pace of new office development will have significant implications for the county’s future land use patterns.

Office Space in the Development Pipeline

The current development pipeline includes 92 approved projects with almost 22.7 million square feet of unbuilt office space. Based on historic absorption trends over the past 20 years, that inventory of approved space represents more than a 30-year supply of office space.

Appendix Table A-19 summarizes the planned but unbuilt office supply by size of project, and Appendix Table A-20 summarizes unbuilt supply by planning area. Listed in Table 13 and shown on Map 5, 12 projects propose more than 500,000 square feet of new office space – a total potential of 12.1 million square feet or 31 percent of total approved space.

Map 5.





Of these projects, only Mid Pike Plaza (now Pike & Rose) and North Bethesda Town Center, with a total of almost 2.0 million square feet, are located within walking distance of a Metro station. The proposed Corridor Cities Transitway will serve an additional four projects with a total of 4.4 million square feet of unbuilt office space. Five projects propose single-use office development with no supportive retail or housing – Johns Hopkins Research Campus, Churchill Far North Village, West Farm, Traville, and Monument Technology Campus.

Table 13. Approved Developments with the Largest Unbuilt Office Components, 2014

Project	Policy Area	Proximity to Metro Station			Near CCT Station	Square Feet			Other Land Uses	
		<1/4 Mile	1/4-1/2 Mile	>1/2 Mile		Approved Total	Unbuilt Total	Unbuilt Office	Retail	Housing
Cabin Branch	Clarksburg			X		2,420,000	2,420,000	2,213,000	X	X
Johns Hopkins Research Campus	R&D Village			X	X	1,800,000	1,410,000	1,410,000		
Churchill Far North Village	Germantown West			X	X	1,300,000	1,299,000	1,299,000		
Mid Pike Plaza	N. Bethesda	X				1,716,000	1,385,000	1,156,000	X	X
Crystal Rock	Germantown West			X	X	1,432,000	1,432,000	1,098,000	X	X
Watkins Mill Town Center (Casey West)	Gaithersburg			X		1,197,000	1,197,000	937,000	X	X
North Bethesda Town Center	White Flint	X				1,430,000	962,000	809,000	X	X
Montgomery County Agricultural Center	Gaithersburg					1,150,000	1,150,000	750,000	X	X
West Farm (I-3) GBLLC	Fairland/White Oak			X		1,128,000	720,000	720,000		
Traville	R&D Village			X		1,322,000	621,000	621,000		X*
Monument Technology Campus	Gaithersburg			X	X	1,172,000	550,000	550,000		
Rock Spring Center	N. Bethesda			X		1,080,000	1,080,000	550,000	X	X
All Other Office Projects						25,247,000	12,399,000	10,556,000		
Total Gross Floor Area						42,394,000	26,625,000	22,669,000		

Note: *No housing units remaining in pipeline.

Though Washingtonian North is approved for major office development, it has been sold to new owners who plan residential development.

Source: Montgomery County Planning Department, 2014; Partners for Economic Solutions, 2014.

Prospects for Large Vacant Campus Developments

The demand trends suggest that it is very unlikely that large vacant campuses – Comsat and Vitro – will find replacement tenants. Their isolated campus locations no longer appeal to the market. Plan for redevelopment (or maybe adaptive reuse).

Conversions to Residential Use

Some of the approved office potential may be converted to other uses in light of the slow market conditions. The Planning Board has approved eight amended site plans that converted proposed office space to residential uses. (See Appendix Table A-21.) These projects replaced 578,000 square feet of existing office space (including 360,000 square feet occupied by the county at the Shady Grove Metro) and removed 558,000 square feet from the pipeline over the past three years. (Over the past two decades, redevelopment has replaced many small office buildings with office, retail, and residential uses.)

Fiscal Implications

The presence of many office buildings with little or no space leased threatens to start a down-cycle of declining property values and property tax revenues. Some such buildings are now trading at prices 40 to 60 percent below the cost it would take to build them today (i.e., replacement costs) in recognition of the constrained market. The new owners are then able to offer bargain rents, which undercut the ability of other building owners and developers to achieve the rents required to justify investment in new space or major renovations to existing space. As other existing buildings are forced to lower their rents in response to this increased competition, their values will decline as well because value reflects the achievable lease revenue stream.

Anecdotally, six of the buildings with large vacancies have assessed values of \$62, \$71, \$78, \$98, \$126, and \$129 per square foot as compared with replacement costs of roughly \$250 per square foot, including four designated as Class A buildings. The Comsat Building now carries an assessed value of only \$21 per square foot.

These shifts will create some new winners and losers depending on whether jurisdictions can attract other development to offset those losses. Jurisdictions that depend on office parks for a good share of their property tax revenues may find growing budget shortfalls if these high vacancies persist. For those whose office market is dominated by driveable single-use office parks, new office construction is unlikely to offset those declining values and property tax revenues.

In New Jersey where the situation is more severe, The Star-Ledger reports that “Since 2009 alone, more than one-third of New Jersey towns have seen the value of their commercial land decline by more than five percent, and more than 130 by 10 percent or more.”⁷

⁷ Stirling, Stephen. Diamonds to Dinosaurs: NJ Towns Struggle Under Weight of Massive Office Park Vacancies, *The Star-Ledger*, June 29, 2014 as reported at http://www.nj.com/news/index.ssf?2014/06/diamonds_to_dinosaurs_nj_towns_struggle_under_weight_of_massive_office_park_vacancies.html



IV. Best Practices

The trends are clearly moving away from single-use office parks to mixed-use districts that offer nearby restaurants, retail, entertainment, and housing in a walkable environment. Tenants place high value on the natural and man-made amenities and programming, which help to attract residents, workers, and visitors to local restaurants and hotels. Given that competition for human capital is often characterized as businesses' highest priority, environments that appeal to millennials and other knowledge workers are particularly attractive to office tenants.

Quality of the public spaces, amenities, and the buildings that line the streets are all important in place-making. Plazas, street furniture, lighting, and other public space fixtures communicate and reinforce the feeling of quality. Local restaurants and shops give the areas a greater sense of authenticity and uniqueness as does reuse of historic buildings. Great public spaces and pedestrian environments encourage interaction and provide the opportunity for community gatherings and serendipitous encounters.

Recognizing the importance of the pedestrian environment, the Commonwealth of Massachusetts' MassWorks grant program helps to fund traffic signal improvements, sidewalks, and other pedestrian amenities in helping to remake auto-oriented business parks. Fairfax County authorized tax-increment financing (TIF) to help fund the public spaces and infrastructure that allowed the Mosaic District to develop.

Also important is programming to draw people to the area, including concerts, farmers markets and festivals. As with the Bethesda and Silver Spring urban districts, business improvement districts fund downtown events and operations in several of the successful example business districts.

Transit access is increasingly important as new households value neighborhoods that allow them to function without a car. Most often in this region that has translated into walkable access to Metro. However, Shirlington has developed a transit hub with an enclosed bus terminal to provide high-frequency service. Park Potomac on I-270 at Wootton Parkway runs a shuttle bus to the Metro as does the Mosaic District project in Merrifield, Virginia.

Successful Office Markets

Mixed-Use with Great Public Space and Programming – Reston Town Center

In the Washington region, one of the most successful business districts is Reston Town Center with 2.1 million square feet of office space, 360,000 square feet of retail and restaurants, a cinema, 360 residential units, a hotel, and structured parking.

Fountain Square is the Town Center's focal point with the Mercury Fountain and the Pavilion, which serves as an outdoor ice skating rink in the winter and a concert and event venue at other times. Dozens of events, concerts, and seasonal ice skating help to enliven the district. Through programming, density and a careful mixing of uses, Reston Town Center has emerged as a preeminent office location with rents that exceed those in Tysons and Montgomery County.

This submarket has average rents of \$47.06 per square foot and 3.7-percent vacancies. Its location with direct access to the Dulles Toll Road six miles east of Dulles International Airport is a major advantage.

First envisioned as part of the Reston plan in 1964, the Town Center was initially planned and funded by Mobil Land Corporation in the late 1970s, which was unable to develop it successfully. The first phase started in 1988 and included two Class A office buildings, a Hyatt Regency Hotel, shops, restaurants, and a movie theater. The second phase in 2000 added two additional office buildings. The Town Center was completed through the 2000s with the addition of three more office buildings, retail, and upscale apartments, condominiums, and townhouses.

While vacancies peaked at 21.4 percent in the first quarter of 2008 with the addition of 635,000 square feet of new office space, those vacancies were drawn down rapidly to 6.2 percent by the second quarter of 2011.

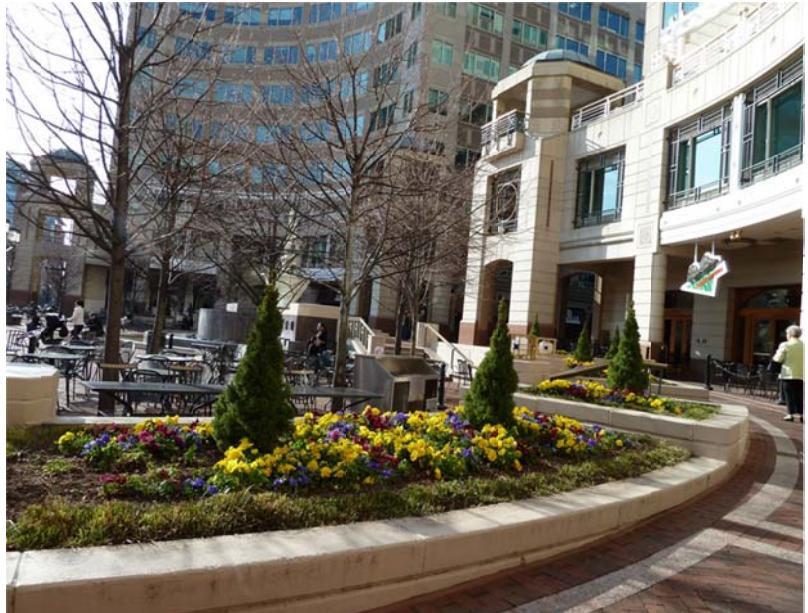


Photo credit: Adam Theo via Flickr



Photo credit: Adam Theo via Flickr

New Public Infrastructure – NoMa

Washington's NoMa (North of Massachusetts district between Union Station and New York Avenue) has developed over the last decade, converting a bypassed industrial area to now include 16 million square feet of office space, more than 3,900 housing units, three hotels, and 200,000 square feet of retail uses, including a Harris Teeter.

Historic warehouses were converted to office use. None of this development was possible before the property owners and the District came together to fund the cost of inserting the new New York Avenue/Gallaudet University station on Metro's Red Line that opened in 2004.

GSA opened a new building for Alcohol, Tobacco and Firearms in 2007 and then took large blocks of space in other newly constructed, LEED-certified buildings. National Public Radio moved its offices to NoMa in 2012, and other private sector tenants are filling the area.

Office rents now stand at roughly \$47.11 and office vacancies are 14.6 percent. Nine major new apartment complexes are achieving high rents, and more are under construction. The NoMa Business Improvement District (BID), which involves many of the area's developers and property owners, focuses on clean and safe programs, marketing, and programming to help build community. NoMa has not yet fully realized its potential. Restaurants are still limited in number, and the area suffers from a lack of quality open space. The District has committed \$50 million to constructing new parks to serve the area.



Photo credit: NoMa BID



Photo credit: NoMa BID

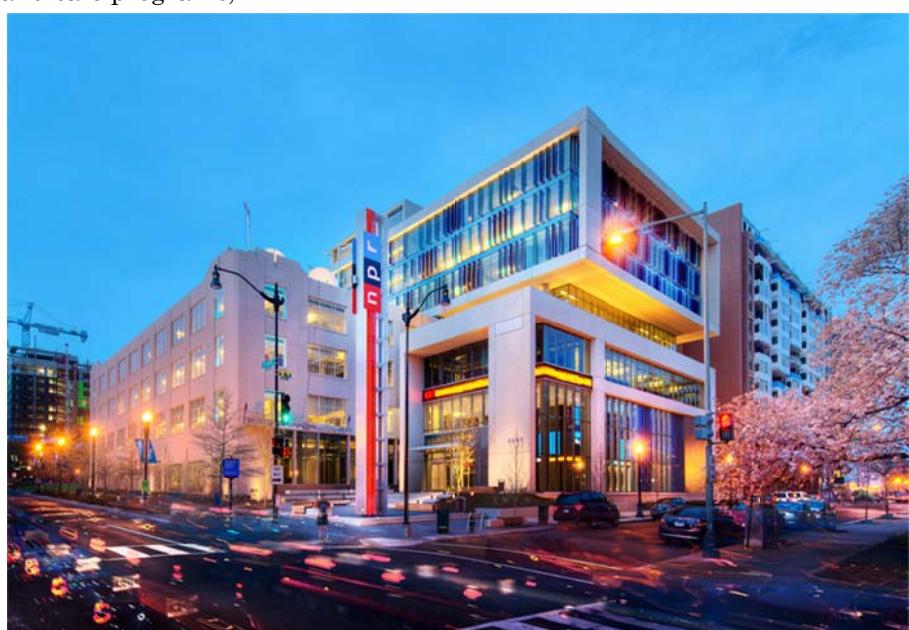


Photo credit: NoMa BID

Urban Mixed- Use in the Suburbs – Mosaic District

Replacing an aging movie megaplex surrounded by acres of parking in an industrial area with a mixed-use development, the Mosaic District has created a vibrant community gathering place. The 31-acre development includes up-scale retailing, an Angelika Film Center, a 150-room Hyatt House hotel, and 73,000 square feet of office space. EDENS and Avant developed the Merrifield Town Center on a grid design.

The Town Center offers a variety of restaurants and up-scale retailers, anchored by a MOM's Organic Market and an urban-style Target store four stories above ground-level retail tenants and a parking deck. Events are programmed for the public space including a weekly farmers market and storytellers. A one-acre park includes an outdoor movie screen for public events. Ultimately, the development will include 125,000 square feet of office space, 500,000 square feet of retail and other non-residential space, and 1,000 residential units – both rental apartments and for-sale townhouses.

There is a free shuttle to the Metro that runs every 15 minutes. Fairfax County supported the redevelopment by establishing its first tax-increment financing (TIF) package in 2009. TIF bonds funded \$42 million for a portion of the costs of two parks, realignment and widening of Eskridge Road, widening of Lee Highway, intersection improvements, and constructing the street grid. An additional \$30 million bond for public facilities was issued to be repaid through self-assessment of properties in the district



Photo credit: Laura Dominick



Photo credit: EDENS

Great Public Spaces and Mixed- Use – Capitol Riverfront

Capitol Riverfront is one of the District's newest and most active office centers and neighborhoods, developing along the Anacostia Waterfront between the Navy Yard and the Nationals Park. Starting with Navy contractors who moved to the area for proximity to Navy offices relocated under BRAC in 2001, the office base expanded with a new headquarters for the U.S. Department of Transportation.

The area is now developing rapidly based on high-quality public spaces, activity programming, and extensive residential development. The ballpark's 2008 opening brought new restaurants and retailers to the area, helping to create a true urban neighborhood. Signature award-winning public open spaces were created along the waterfront and north of M Street on the site of historic canals. Movies in the park, fountains, seasonal ice skating, concerts, and other programming help to activate the spaces. Historic buildings have been renovated to accommodate a brewery, restaurants, co-working spaces and other private-market uses. Extensive housing development is underway, redeveloping the former Arthur Capper/Carrollsburg housing owned by the DC Housing Authority.

Capitol Riverfront's office space has 18.5-percent vacancies due to the recent opening of several buildings and average rents of \$41.67 per square foot.



Photo credit: Capitol Riverfront BID



Photo credit: Capitol Riverfront BID

Urban Mixed-Use and Cultural Anchors – Shirlington

A more established mixed-use development, Shirlington remade a 1940s community shopping center into an urban village with 350,000 square feet of retail space, a movie theater, 80,000 square feet of office space. Starting in 2005, Federal Realty Investment Trust more than tripled the density of development, creating a street grid and a traditional Main Street feel. Design guidelines and streetscape amenities helped to create a vibrant district. The streets are always active, attracting not only restaurant and retail patrons but dog owners as well.

New uses included 644 apartments and condominiums, 42,000 square feet of streetfront restaurants and retail space, including Harris Teeter, and a 195,000 square-foot office building. Signature Theatre, a regional theater company, and other theaters – an art-house cinema, Theater on the Run and Classika Theater – draw patrons from around the county and the region, contributing to the area's vitality.

Though it lacks a Metro station, Shirlington benefits from direct access to I-395 and from a major enclosed bus terminal offering frequent Metrobus and Arlington Transit (ART) bus service.

Arlington County contributed two and a half acres of land and funded construction of a complex that houses the Shirlington Library and Signature Theatre, which funded its interior improvements. It also funded extensive structured public parking. Each dollar of the county's investment leveraged \$24 in private investment.



Photo credit: Dan Reed



Photo credit: Dan Reed

Mixed-Use and Civic Anchors – Rockville Town Center

Over the past 17 years, Rockville Town Center has emerged as a vibrant, mixed-use center, replacing the failed Rockville Mall and reknitting a downtown torn apart by urban renewal. Rockville Mall opened in 1972 as an inwardly focused shopping center that turned its back on downtown Rockville. The Mall quickly lost its sole anchor store and struggled to fill its storefronts, ultimately closing in 1981. The west end of the Mall was demolished in 1995, clearing the way for a new solution.

The \$370 million public/private development attracted major funding from the City of Rockville, Montgomery County and the State of Maryland. The City funded business relocation and infrastructure improvements. The county invested \$25.3 million in the 102,000 square-foot Rockville branch of the Montgomery County Public Library system. Designed to engage the sidewalks, the regional library has a vast collection and a busy calendar of events that help to activate the public spaces.



Photo credit: Bossi via Flickr

The Rockville Arts and Innovation Center includes a 28,000 square-foot space run by the non-profit Metropolitan Center for the Visual Arts that includes galleries, studios and classroom/workshop spaces. The fourth and fifth floors house the Innovation Center, which offers incubator space for small start-up companies, focusing primarily on technology start-ups. Montgomery County government and courts adjoin the 60-acre Town Center.

The Town Center's first phase in 1998 included the Regal movie theaters and a restaurant row that faced an empty parking lot for more than a decade. The subsequent development of Town Square Plaza has filled that gap with an active public space that hosts a farmers market and several outdoor festivals. The retail space has expanded to roughly 180,000 square feet, including Dawson's Market, a local natural foods grocery store.

More than 640 housing units also have been developed. Choice Hotels International recently relocated its headquarters with 400 employees to Rockville from a site along U.S. 29 in Silver Spring and will soon open a Cambria Suites Hotel in the Town Center.



Photo credit: Dan Reed



Figure 20.

Characteristics of Successful Office Districts							
	Reston Town Center	NoMa	Mosaic District	Capitol Riverfront	Shirlington	Rockville Town Center	White Flint
Walkable District	X	X	X	X	X	X	X
Mixed Uses	X	X	X	X	X	X	X
Entertainment	X		X	X	X	X	X
Metro Station		X		X		X	X
Shuttle Bus to Metro			X		X		
Highway Access	X		X		X		
Public Space	X		X	X	X	X	X
Programming	X		X	X	X	X	

Reusing Suburban Office Campuses

The heyday of the single-company stand-alone office campus is well past. In the Chicago area, major corporations are leaving suburban campuses for more compact locations in the city. Companies making the move include Motorola Mobility, BP Amoco, United Airlines, and parts of the old Sara Lee. Other vacant office campuses include those formerly occupied by Kraft and Allstate. Daniel Miranda, president of HAS Commercial Real Estate noted that “about the only type of company that remains committed to the suburban campus environment are pharmaceutical firms such as Abbott Laboratories or Astellas, which opened a new US headquarters in Glenview, Illinois. It’s a business with a lot of intellectual property involved and they don’t want to share it.”⁸

New Jersey developed thousands of acres of office parks and millions of square feet of space over the last 20 to 30 years. Roughly one-quarter of that space sits vacant. Many of the factors contributing to office vacancies in Montgomery County are at work throughout New Jersey. Pharmaceutical company mergers and reorganizations led them to vacate major office campuses. Brokers marketing in the area report that those isolated suburban campuses do not appeal to millennial workers.

⁸ Roeder, David. *Nobody Home at Suburban Office Parks*, September 9, 2012 as reported on www.suntimes.com/business/roeder/14319633-452/nobody-home-at-suburban-office-parks.html#.U-FRksrflo



Subdivision of Space and Rezoning – Bridgewater, New Jersey

The former Sanofi US Research and Development Campus in Bridgewater, New Jersey was acquired and rebranded as the New Jersey Center of Excellence. The site had 110 acres and 1.2 million square feet of laboratory and office space and GMP production space. The existing buildings have attracted Ashland Specialty Ingredients and Amneal Pharmaceuticals to take advantage of its state-of-the-art equipment. The new owner and the community pursued a zoning change to allow retail, hotel and multi-family development.

Conversion to Medical and Mixed- Use – Holmdel, New Jersey

Bell Laboratories developed a 1.9 million square-foot office complex in Central New Jersey in 1962, later taken over by Alcatel-Lucent. The building and its 473-acre site closed in 2007 and have been acquired by Somerset Development for redevelopment as a health care center, residences, a hotel, and retail space. The six-story building will be converted to include 50,000 square feet of retail, the town library, and a hotel. Community Healthcare Associates is buying up to 400,000 square feet of the building to develop an ambulatory surgical center, an assisted-living facility, physician offices, and other medical services. Half of the acreage in this wealthy rural community will be developed for 225 single-family houses and townhouses.

Conversion to Medical Use – Middleton, New Jersey

Sloan Kettering is reusing another former Lucent Technologies building in Middletown, New Jersey for a cancer center with ambulatory surgeries, oncology units, and chemotherapy and radiation treatments. Vacant for almost a decade, the complex has a 288,000 square-foot building on 400 acres off the Garden State Parkway.

Addition of Retail, Hotels and Apartments – Marlborough, Massachusetts

In Marlborough, Massachusetts, a former Hewlett-Packard campus from the 1960s is being redeveloped as the mixed-use Forest Park development. The Town approved new mixed-use zoning in 2012, replacing its traditional office/industrial zoning. AvalonBay is developing 350 apartments. Atlantic Management has added a Hilton Garden Inn and 30,000 square feet of retail and restaurant space on the 100-acre site. Quest Diagnostics is locating more than 1,000 lab workers to the refurbished tech assembly buildings. Other new tenants include Boston Scientific and TJX companies.

The Commonwealth of Massachusetts awarded a \$1.6 million grant through MassWorks for roadway, bicycle and pedestrian improvements on Simarano Drive in Marlborough. The second phase will include 50,000 square feet of retail, 250,000 square feet of office, and a 900-space parking structure. Employment is already up by 7,000 jobs.



Repositioning Office Parks

Property owners and developers are beginning to rethink and redesign conventional office parks to accommodate a mix of uses.

David Begelfer, CEO of the National Association of Industrial and Office Parks – Massachusetts (NAIOP-MA) reports that dozens of office parks are under renovation, investing billions of dollars to respond to tenant demands for more on-site amenities.⁹ Office parks along I-495 outside Boston have Class A vacancy rates of almost 18 percent, while Boston has 11.5-percent vacancies and Cambridge's vacancy rate is below 6 percent. This despite the fact that rents are half what they are in Boston and Cambridge.

Retail and Hotel Addition with Walkable Infrastructure, Burlington, Massachusetts

In Burlington, Massachusetts, Northwest Park is being redeveloped by Nordblom Company with creation of the Third Avenue entertainment component. Designed as a boulevard, Third Avenue will include 300,000 square feet of retail and restaurant space. The first phase includes Wegmans Food Market and Kings Bowling Alley. A \$2.0 million MassWorks grant funded new traffic signal and pedestrian crossings and intersection improvements. A second \$1.5 million MassWorks grant is being used to redevelop office space in the park. Nordblom committed to demolish an obsolete office building and construct three new Class A build-to-suit office buildings. The MassWorks Infrastructure Program consolidated six capital budget programs to give communities a single set of requirements.

Also in Burlington off Route 128, the New England Executive Park has fared better than other office parks with a 10-percent vacancy rate and such tenants as BAE Systems. But its owner feels the need to upgrade the park's environment and provide a mix of new uses. Andrew Gallinaro, a director with National Development, says that "to be competitive, office parks, increasingly need to be able to offer amenities such as restaurants and stores that appeal to workers, particularly younger ones."¹⁰

National Development is demolishing an office building for 300,000 square feet of new development, including a hotel, three restaurants, and new retail and office space, responding to tenant requests for nearby amenities. The city provided a 15-year tax-

⁹ Fitzgerald, Jay. Developer Take Steps to Reinvent Suburban Office Parks, July 26, 2014 as reported at www.bostonglobe.com/business/2014/07/26/suburban-office-parks-turning-live-work-play-development-compete-with-cities/kYJHwumXiLKU2bFvCvhBeM/story.html

¹⁰ Laidler, John. Burlington Office Park Seeks Upgrade and Expansion. May 7, 2014 as reported at [www.bostonglobe.com/metro/regional/north/2014/05/07/burlington-office-park-seeks-upgrade-and-expansion/A38sBk0ujBwQKyMXM4pX6\]/story.html](http://www.bostonglobe.com/metro/regional/north/2014/05/07/burlington-office-park-seeks-upgrade-and-expansion/A38sBk0ujBwQKyMXM4pX6]/story.html)



increment financing incentive for leasing and renovating space to cover the \$64 million renovation.

The property's zoning was changed in 2009 to allow restaurants, retail, hotels, and structured parking. The addition was designed as a pedestrian street with sidewalks, walking paths, open space, and landscaping. Traffic improvements valued at \$1 million include traffic light signals to allow pedestrian crossings.

Addition of Retail, Hotel and Housing, Structured Parking – Henrico County, Virginia

In the northwest suburbs of Richmond, Virginia, Innsbrook is the region's premiere mixed-use office park with 5.4 million square feet of office space on 630 acres developed over 30 years. Highwoods Properties, a Real Estate Investment Trust (REIT), the owners are now moving to create a 24/7 center for the development.

The Land Use Plan has been changed and 188 acres have been rezoned from traditional O-2, O-3 and M-1 zoning for office and light industrial uses to Urban Mixed-Use District zoning that allows development of mixed-use, pedestrian-oriented activity centers with business, retail, residential, cultural, educational, and other public and private uses. The plan is to add 3.5 million square feet of office space, 400,000 square feet of retail space, 800 to 1,000 hotel rooms, and 5,000 to 6,000 residential units, taking advantage of the development's natural and other amenities. Parking lots will be converted to accommodate new structures and structured parking, developed around a shared parking strategy and an intra-park shuttle system. Highwoods owns 28 office sites and one-third of the site's acreage. Because the buildings and acreage were still in single ownership, coordinated effort for the entire city center area was possible.



V. Conclusions and Recommendations

Major shifts in the regional and county office markets are resulting from the confluence of improved technologies that provide great flexibility as to where work occurs; economic and budgetary pressures that have caused the Federal government and other large organizations to focus on design solutions to reduce their real estate cost burdens; the high priority being given to worker recruitment and retention; shifting work styles that emphasize collaboration; and new office designs that decrease the square feet of space per employee by as much as 15 to 20 percent.

These are major long-term shifts likely to persist for several more years. Among the resulting trends and multiple implications for land use patterns and plans are the following:

- Worker preferences and tastes are guiding office site selection to a greater extent than in the past as the importance of talent in a knowledge-based economy outweighs other factors for companies not dependent on the local population.
- Knowledge workers' preferences are focusing on walkable mixed-use environments that provide nearby opportunities for restaurants, entertainment, retail and housing.
- Mixed-use districts with Metro access which use public space, infrastructure, public art and other amenities to create attractive gathering places and encourage walking are the most competitive office locations, particularly when accompanied by regular events and other programming.
- Transit connectivity will grow increasingly important in the development and marketing of office space as traffic congestion increases and more workers reject work places that require them to commute by and own cars.
- Single-use districts are being bypassed – plentiful free parking is no longer sufficient to attract tenants.
- Innovative designs are improving the efficiency of space in new buildings, providing a valuable marketing advantage that undercuts the demand for space in older office buildings.
- GSA and other major consolidations have left behind empty generic office buildings in single-use districts around the county.



- Major single-company office campuses (i.e., the Comsat and Vitro buildings) are no longer competitive, though the state-of-the-art technology in the former Human Genome Sciences campus buildings may facilitate its re-leasing.
- Conversions of older office buildings to residential, hotel, medical offices and other uses will be most feasible for narrow-footprint buildings in mixed-use environments where rents are high enough to offset the costs of building renovations.
- Some buildings should be demolished given limited office demand and physical constraints on conversion; however, their owners are more likely to reduce rents to extract more value.
- Lower rents in office buildings that have lost their anchor tenants will pressure other similar buildings to reduce their rents in order to compete for tenants.
- These lower rents will translate into lower property values and ultimately into lower assessments and property tax revenue for the county and municipalities.
- Not every location can compete for new office development, particularly in these market times. Given the extensive competition from established mixed-use business districts and office parks that lend themselves to redevelopment as mixed-use centers, it will be difficult to create a new office cluster in locations such as Glenmont even with Metro access.
- Local population-serving office tenants will continue to seek space easily accessed by their clients/customers. Growing residential areas will need to accommodate some office buildings with smaller spaces suitable to this market segment.
- The better-capitalized local businesses that can afford higher rents will likely gravitate to mixed-use districts over time to stay in the heart of the local business activity.
- Near- and mid-term demand will be much more weighted toward housing than office development.

Many factors influence office demand and development decisions, and the next decade undoubtedly will bring shifts as unexpected as some of those experienced over the last five years. It will be important to incorporate flexibility into future plans and designs to accommodate changes in technology, preferences and economic conditions.

Recommendations

As discussed in Section I, reductions in space occupied by GSA and other major tenants are likely to keep the market in flux and vacancy rates high to 2020 or beyond. Business as usual will not eliminate the overhang of vacant space. Waiting for the economic recovery to grow out of these high vacancies is unlikely to be successful. Concerted actions will be needed to counter these trends and mitigate their impacts.

The answers lie in:

- enhancing office environments to improve their competitiveness;
- reducing the supply of non-competitive office space; and
- increasing demand by competing more effectively.

This analysis focuses primarily on responses to supply issues most susceptible to planning-related strategies.

Enhance Office Environments to Improve Competitiveness

The most successful office clusters are characterized by mixed-use development with a strong sense of place and quality environment. Planning Board actions and policies can help existing office clusters compete more effectively by enhancing the physical environment, planning for essential infrastructure, and supporting a mix of uses.

Continue to Invest in Transit

- Investments in light rail and bus rapid transit systems that reduce office parks' total dependence on personal autos could improve these facilities' ability to meet the changing demand for transit-accessible workplaces. In particular, the Corridor Cities Transitway would provide quality transit service to multiple buildings in the Great Seneca Science Corridor and Germantown.

Partner with Developers to Diversify Existing Office Parks

- Where possible, upgrade existing office parks to provide a better walkable environment with a balance of office, retail, and residential uses. While that does not eliminate the dominance of auto traffic, experience has shown that an on-site mix of uses can reduce the number of trips generated and allow some workers to delay their evening commute until after rush hour. Higher densities also facilitate providing transit service, including shuttle bus service to a proximate Metro station.



- Plans and policies that encourage diversification and densification of uses in single-use office districts could help them achieve greater longevity. The White Flint Partnership has demonstrated the potential for successful public/private partnership efforts to redefine and change an entire district that had been stuck in an antiquated land use pattern.
- The county might consider using tax-increment financing to help fund parking garages that could eliminate parking lots so as to free up land for infill development and use diversification.
- Conversion to walkable mixed-use environments will not be possible in every office park. The retail and restaurant tenants that activate the area can only succeed in certain kinds of locations where the density of nearby office and residential uses can provide sufficient market and where development sites have good accessibility and visibility. The extent of competitive retail also will constrain the number of viable new retail clusters.

Create and Upgrade Public Places and the Walkable Environment

- Invest in infrastructure to facilitate and encourage walking and improve connectivity to and within office districts and their surrounding neighborhoods. As described in Section IV, MassWorks has invested in stoplights, intersection improvements, sidewalks and streetscape to help existing office parks to diversify with the addition of retail, restaurants, entertainment and/or hotel facilities. Additional public space enhancements in existing downtowns and mixed-use districts could help them improve their appeal to potential tenants.

Continue to Support Urban District Programming Efforts

- Placemaking is more than physical space design and amenities. Events and programs that help activate the area can be critical to building community and shaping the nature of public places. The county's urban districts have a long history of regularly scheduled concerts, festivals, farmers markets, parades and other events that build a sense of community and attract shoppers and restaurant patrons. That activity provides valuable patronage and support to urban district businesses, helping create and maintain a healthy mix of the uses that make the areas interesting places to work.

Remove Any Zoning Impediments to Redevelopment and Diversification

- The new zoning code should be reviewed to ensure that it does not inadvertently create barriers to reuse or adjustments. Zoning treatment of existing office parks may need to be revisited.



Provide Incentives for Renovations

- Incentives to help landlords fund improvements to bring their buildings up to 21st century standards could be effective for buildings whose locations near transit and/or in mixed-use environments will allow them to compete. Gaithersburg's economic development toolkit includes financial assistance to landlords to fit out space has been vacant for two years or more in order to create stable, well-paying jobs. Many communities abate new property taxes triggered by renovations of historic buildings.

Reduce the Supply of Non-Competitive Space

The county has little influence over the decisions of individual property owners regarding the fate of existing office buildings that may no longer be competitive. Code enforcement can help encourage owners to maintain their buildings as they struggle to compete for new tenants, but the county can't force an owner to upgrade or demolish a building.

Encourage Conversion to Other Uses

- Financial incentives could help to improve the feasibility of conversion.
- A limited number of office buildings will be suitable for conversion to housing, hotel or other uses by virtue of their location and configuration. The high costs of renovation mean this is most likely to be feasible within one-half mile of a Metro station. Buildings with narrow footprints that can offer adequate light and air to residential units or hotel rooms are the best candidates for conversions.
- Work with Montgomery County Public Schools to determine whether one or two obsolescent office buildings are appropriately located relative to enrollment needs and capable of cost-effective conversion for high-quality school facilities.

Facilitate Site Assembly

- Policies that facilitate site assembly could help owners of older small office buildings to achieve the scale of new development that would justify demolition of some of the least competitive buildings. Such policies include density levels available only to properties of a minimum size and limits on curb cuts.

Review Building Safety Codes

- One broker noted an issue related to the application of building occupancy standards developed since 9/11. The total number of persons that can work in a building is now limited by the evacuation potential, focused primarily on the width of the fire staircases. This standard works against existing pre-2001 office buildings by



limiting their occupancy and preventing tenants from achieving higher employee densities. It would be worth considering waivers to that standard in buildings with adequate sprinklers. Further study might reveal other provisions that inhibit reuse.

Discourage New Development That Can't Compete Effectively

- Work with the developers with approved plans for single-use office developments that have not yet been built. Encourage re-design for a more sustainable mix of uses.
- Over the long term, the county would be well served by planning and zoning strategies that limit development of new office buildings in commercial strips along major thoroughfares.
- The office typology analysis summarized in Table 6 demonstrated that freestanding buildings on arterials neither near Metro nor interstate interchanges had almost the highest level of current vacancies among the different office types – 17.9 percent.

Increase Demand

Competition for businesses, both large and small, will only intensify regionally as other jurisdictions respond to the need to backfill empty buildings and grow their local economies. Montgomery County will need to step up its game if it is to remain highly competitive. Discussions with area developers and brokers consistently point to the market perception that Montgomery County is not business-friendly as a key consideration as businesses decide where to locate. Some of that perception may reflect the limited press coverage given to the county's economic development activities. Actions and subsequent reporting must demonstrate that the county is supportive of business growth and committed to helping its businesses to compete and succeed.

Montgomery County has several assets that have helped it achieve a robust economy and office sector. The quality of life in the county, particularly the quality of the public schools, has attracted a well-educated and competitive work force. The presence of several key agencies, particularly those focused in the medical field, has allowed the county to develop particular strength in life sciences. However, while the county has fared relatively well at retaining local companies as they expand, it has not attracted many companies from outside of the county. That fact underscores the need to be pro-active and aggressive in retaining existing companies, working with them as they consider their futures before their leases expire.

From a real estate perspective, the county is well positioned to benefit from the market's move toward walkable mixed-use environments given its 11 Metro stations, historic downtowns and newly developed mixed-use projects. Bethesda, Rockville, and Silver Spring have each developed a dynamic mix of diverse uses that compete well within the regional



market. White Flint and Twinbrook are poised to achieve similar walkability and mixed uses, and the county is relocating its facilities to allow mixed-use redevelopment at the Shady Grove Metro station.

Recognizing the county's lagging "cool" factor, the Nighttime Economy Task Force has recommended strategies to encourage and better support nightlife so as to attract and retain young people.

Expand Economic Development Efforts

- Aggressive economic development efforts could help the county compete better for both local business growth and relocation. The Office of Economic Development is currently preparing a comprehensive economic development strategy that will examine opportunities to generate additional demand through economic growth and detail approaches to improve the county's ability to attract, retain and grow businesses.
- Better marketing can increase awareness of the county's assets and help counter the perception of Montgomery County as being less supportive of business. Often a community's most important marketing is to its resident companies, helping to shape their perceptions and influence their future location decisions.

Fund Economic Incentives

- Economic incentives are an unfortunate fact of life in the regional and national competition for business relocations. While their efficacy is questionable as the primary tool for company retention, companies will seek incentives, and the county's competitors will offer them. Montgomery County needs to be able to respond in kind.
- Incentives are becoming a standard in GSA lease competitions as well as the Federal government seeks to save on lease costs. The county has stepped up in the past and can expect to need to do so again in the future unless the region's jurisdictions can agree to stop the arms race and refrain from such incentives.

Help Landlords Respond to Small Tenant Demand

- Office building economics favor large tenants because leasing efforts have a much bigger payoff for the same amount of work as for a small tenant. Until driven by the market to serve small tenants, most office buildings accommodate small tenants only in spaces left over after large tenants take most of a floor.
- Financial assistance to landlords to offset the cost of tenant improvements for smaller tenants is now being offered under the new Make Office Vacancies Extinct (MOVE) program. The incentives are helpful but given the cap of \$40,000 for 10,000



square feet of space, they are not likely to be the deciding factor that attracts a company to the county.

Support Local Business Growth

- Focused attention on the issues that limit the growth and expansion potentials of local businesses should work to reduce barriers to success and improve the county's image and reputation as a business-friendly locale.
- The incubator system, technical assistance programs and other efforts to support local entrepreneurs should continue to receive county support.
- One specific issue identified by developers is the time and effort required to secure building permits for tenant improvements.

Continue to Develop the Workforce

- One of the county's key strengths is its talented and diverse workforce. Public education must continue to be one of the county's highest priorities. Workforce development programs to help retrain adults seeking to advance in their careers or change fields should be expanded in close cooperation with local employers.

Protect and Enhance the Local Quality of Life

- The county's strong quality of life has allowed it to flourish for multiple decades, providing a pleasant and supportive residential environment.



Setting Priorities

In these times where there is not enough office demand to fill the excessive vacancies, choices must be made as to the relative priorities of different actions and initiatives. Focus on supporting existing mixed-use districts rather than creating new districts where no office base now exists.

Not every Metro or light rail station can attract significant office development beyond what is needed to support the local population. Those that do not offer a compelling sense of place and efficient auto access as well as transit access will be limited in their ability to compete.

As noted earlier, the choice of where to help developers transform conventional office parks into mixed-use developments must be strategic. Very few will have the location, business base, physical configuration and ownership patterns that will allow successful re-positioning as mixed-use centers.

Public investment should be targeted to those with:

- the potential for creating a more dense, walkable environment;
- a location with good accessibility and visibility;
- available sites and/or vacant buildings capable of accommodating infill development and supporting placemaking;
- a density of nearby residents and businesses not currently well served by existing retail and restaurant clusters; and
- owners willing to make substantial investments to create a competitive development.



Appendix Tables



Table A-1. Inventory of General Services Administration-Leased Buildings

Building Name	City	Zip Code	Initial Effective Date	Expiration Date	Usable Square Feet	Rentable Square Feet	Available Square Feet	Status
10401 Fernwood Rd	Bethesda	20817	4/1/12	3/31/24	80,950	99,583	-	Active
11545 Rockville Pike	Bethesda	20852	12/15/92	12/14/18	295,734	347,922	-	Active
4340 East West Highway	Bethesda	20814	8/26/13	8/25/23	114,451	129,914	-	Active
4550 Montgomery Avenue	Bethesda	20814	4/30/04	10/31/16	13,011	14,962	-	Active
6700 Rockledge Drive	Bethesda	20817	6/1/05	5/31/15	137,435	159,731	-	Active
6701 Democracy Boulevard	Bethesda	20817	7/20/12	7/19/22	107,436	126,626	-	Active
6701 Rockledge Drive	Bethesda	20817	7/1/05	6/30/15	227,226	247,130	-	Active
6707 Democracy Boulevard	Bethesda	20817	7/20/12	7/19/22	192,276	229,324	-	Active
7201 Wisconsin Avenue	Bethesda	20814	10/1/11	9/30/21	39,245	45,075	-	Active
7475 Wisconsin Avenue	Bethesda	20814	10/11/11	10/10/16	10,344	11,927	-	Active
7501 Wisconsin Avenue	Bethesda	20814	6/15/10	6/30/15	59,544	70,500	-	Active
7700 Wisconsin Avenue	Bethesda	20814	9/30/10	1/31/16	100,569	119,536	-	Active
15800 Crabbs Branch Way	Derwood	20855	6/11/11	6/10/21	16,782	19,258	-	Active
16050 Industrial Drive	Gaithersburg	20877	2/20/94	2/28/17	150,000	150,000	-	Active
16071 Industrial Drive	Gaithersburg	20877	10/9/05	10/8/15	169,452	169,709	-	Active
209 Perry Parkway	Gaithersburg	20877	4/30/13	4/29/18	21,268	21,268	-	Active
51 Metropolitan Court	Gaithersburg	20878	8/4/13	8/3/18	8,200	8,540	-	Active
7500 Lindbergh Drive	Gaithersburg	20879	7/16/12	7/15/22	-	24,678	-	Active
20020 Century Boulevard	Germantown	20874	6/12/07	6/11/17	42,976	46,616	-	Active
20030 Century Boulevard	Germantown	20874	8/14/09	6/11/17	10,561	12,652	-	Active
20300 Century Boulevard	Germantown	20874	12/1/09	11/30/19	78,050	85,804	27,017	Active
20400 Century Boulevard	Germantown	20874	8/1/05	7/31/15	75,596	80,550	-	Active
5516 Nicholson Lane	Kensington	20895	5/1/01	9/30/15	3,593	4,132	-	Active
1 Choke Cherry Road	Rockville	20850	8/27/04	8/26/14	213,932	228,020	-	Active
1 Church Street	Rockville	20850	1/2/07	1/1/17	8,700	10,005	-	Active
1101 Wootton Parkway	Rockville	20852	9/26/01	8/25/15	101,057	120,219	-	Active
11400 Rockville Pike	Rockville	20852	11/22/04	11/21/14	69,260	78,956	-	Active
1151 Seven Locks Road	Rockville	20854	7/16/05	7/15/15	93,761	96,016	-	Active
11601 Landsdown Street	Rockville	20852	11/3/12	11/2/27	321,976	358,440	-	Active
11919 Rockville Pike	Rockville	20852	1/19/13	1/18/23	53,957	61,902	-	Active
12100 Parklawn Drive	Rockville	20852	6/30/11	6/29/21	78,013	78,177	6,389	Active
12300 Twinbrook Parkway	Rockville	20852	8/13/03	8/12/18	66,508	77,521	-	Active
12420 Parklawn Drive	Rockville	20852	12/21/10	12/20/20	78,378	93,014	-	Active
12501 Ardenes Avenue	Rockville	20852	10/24/11	10/23/16	60,816	70,701	-	Active
1350 Piccard Drive	Rockville	20850	8/4/04	8/3/14	89,402	104,474	-	Active
1401 Rockville Pike	Rockville	20852	10/1/07	9/30/15	87,419	100,522	-	Active
1451 Rockville Pike	Rockville	20852	2/4/11	2/3/16	40,015	44,761	-	Active
2094 Gaither Road	Rockville	20850	8/12/03	8/11/16	49,758	53,512	-	Active
2098 Gaither Road	Rockville	20850	1/3/04	1/2/17	45,160	48,968	-	Active
21 Church Street	Rockville	20850	10/1/08	9/30/18	64,351	75,307	-	Active
2115 East Jefferson Street	Rockville	20852	10/8/05	12/6/16	115,352	128,645	-	Active
30 West Gude Drive	Rockville	20850	12/15/07	9/28/18	9,228	10,646	-	Active
301 N. Stonestreet Avenue	Rockville	20850	10/24/93	12/23/15	48,316	48,316	-	Active
315 N. Washington Street	Rockville	20850	12/11/12	12/10/22	11,490	12,370	-	Active
4930 Boiling Brook Parkway	Rockville	20852	12/15/11	12/14/21	46,372	48,235	-	Active
5 Research Place	Rockville	20850	12/1/10	11/30/20	61,448	63,852	-	Active
540 Gaither Road	Rockville	20850	3/23/03	3/22/18	125,222	133,895	-	Active
5515 Security Lane	Rockville	20852	8/1/99	7/31/14	50,635	57,803	-	Active
5600 Fishers Lane	Rockville	20852	8/1/90	7/31/15	664,494	801,550	57,803	Active
5630 Fishers Lane	Rockville	20852	3/1/13	2/28/23	52,822	55,728	-	Active
6006 Executive Boulevard	Rockville	20852	8/22/94	4/26/15	42,366	48,663	-	Active
6010 Executive Boulevard	Rockville	20852	8/1/04	7/31/14	14,043	15,810	-	Active
6011 Executive Boulevard	Rockville	20852	10/1/08	9/30/14	50,802	57,310	-	Active
6100 Executive Boulevard	Rockville	20852	9/22/10	9/21/15	74,300	82,873	-	Active
6120 Executive Boulevard	Rockville	20852	10/1/99	7/31/14	662	759	-	Active



Table A-1. Inventory of General Services Administration-Leased Buildings (Continued)

Building Name	City	Zip Code	Initial Effective Date	Expiration Date	Usable Square Feet	Rentable Square Feet	Available Square Feet	Status
7500 Standish Place	Rockville	20855	11/15/05	11/14/15	97,346	113,934	-	Active
7519 Standish Place	Rockville	20855	9/7/00	12/3/16	69,625	75,993	-	Active
7520 Standish Place	Rockville	20855	1/1/03	12/31/17	49,520	53,227	-	Active
7620 Standish Place	Rockville	20855	7/1/09	6/30/19	15,909	16,164	-	Active
801 Thompson Avenue	Rockville	20852	5/3/11	11/2/16	44,883	50,918	-	Active
9200 Corporate Boulevard	Rockville	20850	9/15/04	9/14/14	98,872	108,518	-	Active
9707 Medical Center Drive	Rockville	20850	2/7/13	2/6/23	-	574,614	-	Active
9800 Medical Center Drive	Rockville	20850	8/1/13	9/30/28	98,350	134,405	-	Active
10001 New Hampshire Avenue	Silver Spring	20903	10/23/10	10/22/20	48,443	51,728	-	Active
10230 New Hampshire Avenue	Silver Spring	20903	11/1/09	10/31/19	10,600	12,241	-	Active
1100 Wayne Avenue	Silver Spring	20910	4/1/02	9/30/15	14,732	17,025	-	Active
11510 Georgia Avenue	Silver Spring	20902	1/1/06	6/30/14	26,862	31,076	-	Active
11900 Tech Road	Silver Spring	20904	10/1/00	9/30/15	53,672	54,208	-	Active
1305 East West Highway	Silver Spring	20910	1/1/14	12/31/28	266,207	293,446	-	Active
1315 East West Highway	Silver Spring	20910	1/1/14	12/31/28	489,288	512,774	-	Active
1325 East West Highway	Silver Spring	20910	1/1/14	12/31/28	277,622	285,118	-	Active
15916 New Hampshire Avenue	Silver Spring	20904	9/22/04	9/21/14	64	64	-	Active
8401 Colesville Road	Silver Spring	20910	10/29/04	10/13/15	8,966	10,242	-	Active
8403 Colesville Road	Silver Spring	20910	5/17/06	5/16/16	22,683	25,105	-	Active
8455 Colesville Road	Silver Spring	20910	7/28/04	6/21/15	134,415	150,443	-	Active
Total					6,672,773	8,063,650	91,209	

Source: General Services Administration Inventory of Owned and Leased Properties, 2014; Partners for Economic Solutions, 2014.



Table A-2. Inventory of General Services Administration-Owned Buildings

Building Name	City	Zip Code	Original Construction Date	Usable Square Feet	Available Square Feet
11555 Rockville Pike	Bethesda	20852	1/1/86	345,183	-
19901 Germantown Road	Germantown	20874	10/1/92	8,246	-
19901 Germantown Road	Germantown	20874	10/1/57	567,578	-
Route 118	Germantown	20874	1/1/57	13,838	-
Route 118	Germantown	20874	1/1/57	1,512	-
Route 118	Germantown	20874	1/1/57	5,836	-
Route 118	Germantown	20874	10/1/73	10,038	-
Route 118	Germantown	20874	1/1/57	14,346	-
5450 Marinelli Road Behind White Flint North One	Rockville	20852	1/1/70	-	-
10903 New Hampshire Avenue	Silver Spring	20903	8/1/10	18,000	-
10904 New Hampshire Avenue	Silver Spring	20903	10/15/03	127,712	-
10905 New Hampshire Avenue	Silver Spring	20903	4/1/05	420,725	-
10906 New Hampshire Avenue	Silver Spring	20903	1/1/04	27,940	-
10907 New Hampshire Avenue	Silver Spring	20903	5/1/09	1,236	-
10908 New Hampshire Avenue	Silver Spring	20903	3/1/08	277,056	-
10909 New Hampshire Avenue	Silver Spring	20903	11/1/09	97,382	-
10910 New Hampshire Avenue	Silver Spring	20903	5/1/08	3,097	-
10903 New Hampshire Avenue - Building 45	Silver Spring	20903	7/1/11	829	-
10903 New Hampshire Avenue - Building 1	Silver Spring	20903	11/30/08	87,913	-
10903 New Hampshire Avenue - Building 2	Silver Spring	20903	10/1/05	132,822	-
10903 New Hampshire Avenue - Building 62	Silver Spring	20903	5/1/07	136,174	-
10903 New Hampshire Avenue - Building 66	Silver Spring	20903	5/1/09	369,680	-
10903 New Hampshire Avenue - Building 71	Silver Spring	20903	8/1/10	213,139	-
10903 New Hampshire Avenue - Building 75	Silver Spring	20903	5/2/14	247,590	-
10903 New Hampshire Avenue - Building 100	Silver Spring	20903	5/1/09	-	-
10903 New Hampshire Avenue - Building 52	Silver Spring	20903	8/1/10	233,906	-
10903 New Hampshire Avenue - Building 72	Silver Spring	20903	8/1/10	151,424	-
10903 New Hampshire Avenue - Building 403	Silver Spring	20903	8/1/10	-	-
10951 New Hampshire Avenue	Silver Spring	20903	8/1/10	-	-
1335 East West Highway	Silver Spring	20910	1/1/87	157,621	29,798
Total Owned Space				3,670,823	29,798

Note: List does not include all buildings owned by the Federal government. Some agencies operate and maintain buildings outside the GSA framework.

Source: General Services Administration Inventory of Owned and Leased Properties, 2014; Partners for Economic Solutions,



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Economic Solutions

Table A-3. General Services Administration Lease Replacement Prospectuses Submitted to Congress, 2009-2014

Year Authorized	Agency	Square Feet		Address	Comments
		Current	Future		
2014	National Institutes of Health	434,764	345,000	6701 Rockledge Dr 6705 Rockledge Dr 6100 Executive Blvd	Bethesda Bethesda Rockville
2014	NIH Office of Director	250,144	194,000	6011 Executive Blvd 6100 Executive Blvd 6120 Executive Blvd 2115 E. Jefferson St	Rockville Rockville Rockville Rockville
2012	Agency for Healthcare Research and Quality	133,895		540 Gaither Rd.	Rockville
2012	Substance Abuse and Mental Health Services Administration	228,020	228,020	1 Choke Cherry Rd	Rockville
2011	Consumer Product Safety Commission	154,410	124,000	4340 East West Highway	Bethesda
2010	Nuclear Regulatory Commission			Two White Flint 11545 Rockville Pike	Bethesda
2010	Food and Drug Administration	101,000	101,000	1401 Rockville Pike	Rockville
2010	National Institutes of Health	352,717	403,000	6701 Democracy Blvd 6707 Democracy Blvd	Bethesda Bethesda
2009	National Institute of Allergy and Infectious Diseases	159,731	491,000	6700 Rockledge Dr	Bethesda
		200,269		6610 Rockledge Dr 10401 Fernwood Rd	Bethesda Bethesda
2009	National Oceanic and Atmospheric Administration		986,000	1315 East West Hwy 1325 East West Hwy 1305 East West Hwy	Silver Spring Silver Spring Silver Spring
2014	Food and Drug Administration	89,402		1350 Picard Dr	Rockville
		49,758		2094 Gaither Rd	Rockville
2015		45,160		2098 Gaither Rd	Rockville
		47,133		7700 Wisconsin Ave	Bethesda

Source: General Services Administration Lease Prospectuses, 2009-2014; Partners for Economic Solutions, 2014.



Table A-4. Buildings with 100,000 Square Feet or More, October 2014

Building Name	Address	Submarket	Cluster	Class	Size	Vacant Sq. Ft.	Available Sq. Ft.
Vacant or Almost Totally Vacant Buildings							
Vitro Corporation	13900 Connecticut Ave.	Kensington-Wheaton	None	B	262,923	262,923	-
Comsat Building	22300 Comsat Dr.	I-270 North Corridor	None	B	537,784	537,784	-
Crown Point Corporate Center	400 Professional Dr	Gaithersburg	Quince Orchard	A	129,030	116,333	-
6560 Rock Spring Dr	6560 Rock Spring Dr	N. Bethesda-Potomac	Rock Spring	A	180,393	180,393	-
6116 Executive Blvd	6116 Executive Blvd	N. Bethesda-Potomac	Rock Spring	A	209,717	207,055	-
Executive Plaza South	6120 Executive Blvd	N. Bethesda-Potomac	Rock Spring	A	174,211	174,211	-
Executive Plaza North	6130 Executive Blvd	N. Bethesda-Potomac	Rock Spring	A	154,248	154,248	-
Shady Grove Executive Ctr 4	9211 Corporate Blvd	N. Rockville	Shady Grove Life Sciences Park	A	116,000	116,000	-
Blackwell One	9601 Blackwell	N. Rockville	Shady Grove Life Sciences Park	A	122,086	122,086	-
7811 Montrose Rd	7811 Montrose Rd	Rockville	I-270 at Wooten Parkway	A	102,086	102,086	-
Subtotal					1,988,478	1,973,119	-
Buildings with Almost All Space Available But Not Yet Vacant							
700 Quince Orchard Rd	700 Quince Orchard Rd	Gaithersburg	Quince Orchard	C	164,520	-	164,520
Shady Grove Executive Ctr 5	9200 Corporate Blvd	N. Rockville	Shady Grove Life Sciences Park	A	109,803	-	109,803
Venter Institute Bldg V	9704 Medical Center	N. Rockville	Shady Grove Life Sciences Park	B	124,000	-	124,000
Phase I	540 Gaither Rd	N. Rockville	I-270 at W. Gude	A	133,895	-	133,884
1390 Piccard Dr	1390 Piccard Dr	N. Rockville	I-270 at W. Gude	B	108,039	32,136	104,646
1350 Piccard Dr	1350 Piccard Dr	N. Rockville	I-270 at W. Gude	B	104,747	-	104,747
Human Genome Sciences Bldg A	14200 Shady Grove Rd	Outlying Co West	Shady Grove Life Sciences Park	A	287,204	-	287,204
Human Genome Sciences Bldg B	14200 Shady Grove Rd	Outlying Co West	Shady Grove Life Sciences Park	A	187,509	-	187,508
Human Genome Sciences Bldg C	14200 Shady Grove Rd	Outlying Co West	Shady Grove Life Sciences Park	A	182,701	-	182,701
Subtotal					1,402,418	32,136	1,399,013
Other Buildings with at Least 100,000 Square Feet of Vacant and/or Available Space							
Piedmont Pointe II	6720-B Rockledge Dr	N. Bethesda-Potomac	Rock Spring	A	239,499	116,759	134,818
Capital Gateway Bldg I	6700 Rockledge Dr	N. Bethesda-Potomac	Rock Spring	A	306,658	-	207,829
Capital Gateway Bldg II	6710 Rockledge Dr	N. Bethesda-Potomac	Rock Spring	A	309,202	108,479	-
North Bethesda Place I	11400 Rockville Pike	N. Bethesda-Potomac	White Flint	B	180,680	14,362	121,636
Park Plaza II	2099 Gaither Rd	N. Rockville	I-270 at W. Gude	A	143,880	109,161	-
Fallsgrove Plaza	14995 Shady Grove Rd	N. Rockville	Shady Grove Life Sciences Park	A	110,000	7,181	109,868
Research Center	1801 Research Blvd	N. Rockville	Shady Grove Life Sciences Park	B	151,935	101,903	-
Woodmont Office Center	1401 Rockville Pike	Rockville	None	A	188,444	132,898	-
2000 Tower Oaks Blvd	2000 Tower Oaks Blvd	Rockville	I-270 at Wooten Parkway	A	200,405	140,640	-
Silver Spring Metro Plaza 2	8403 Colesville Rd	Silver Spring	Downtown Silver Spring	A	470,045	66,279	111,253
Silver Spring Plaza	8757 Georgia Ave	Silver Spring	Downtown Silver Spring	A	243,582	83,450	103,950
Subtotal					2,544,330	881,112	789,354
Total					5,935,226	2,886,367	2,188,367

Source: CoStar, October 2014; Partners for Economic Solutions, 2014.



Table A-5. Employment Trends, Washington-Arlington-Alexandria, DC-MD-VA-WV Metropolitan Area, 2004-2013

Industry	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Government										
Federal Government										
Federal Government	340.0	340.9	342.2	341.8	348.6	361.3	380.2	382.6	378.2	373.4
State and Local Government	283.1	291.2	298.3	304.8	311.2	313.6	307.4	306.0	309.1	313.7
Total Government	623.1	632.1	640.5	646.6	659.8	674.9	687.6	688.6	687.3	687.1
Private-Sector Employment										
Goods-Producing Sectors										
Construction, Natural Resources and Mining	177.3	186.6	191.5	184.9	172.4	148.7	139.9	141.8	144.1	146.0
Manufacturing	66.1	65.4	63.7	62.2	60.8	55.4	52.1	50.6	49.3	47.9
Total Goods-Producing	243.4	252.0	255.2	247.1	233.2	204.1	192.0	192.4	193.4	193.9
Service-Producing Sectors										
Trade, Transportation, and Utilities	399.0	405.9	404.1	404.2	397.3	377.3	377.9	383.8	387.0	389.6
Information	106.0	99.8	96.9	93.9	91.0	83.5	80.3	79.4	76.3	76.3
Financial Activities	157.4	160.4	161.5	159.4	154.3	148.1	146.9	146.7	148.4	151.1
Professional and Business Services	619.3	646.4	664.5	675.1	681.8	674.1	680.3	694.2	706.3	706.8
Education and Health	304.4	310.8	319.2	330.4	340.6	351.4	359.6	370.8	381.4	393.6
Leisure and Hospitality	237.7	245.2	249.4	254.3	261.8	258.1	259.9	269.0	280.4	291.4
Other Services	165.5	165.9	176.7	180.6	184.7	183.7	182.0	184.6	187.5	189.3
Total Service-Producing	1,989.3	2,034.4	2,072.3	2,097.9	2,111.5	2,076.2	2,086.9	2,123.5	2,167.3	2,198.1
Total Private	2,232.7	2,286.4	2,327.5	2,345.0	2,344.7	2,280.3	2,278.9	2,320.9	2,360.7	2,392.0
Total Employment										
Total Employment	2,855.9	2,918.5	2,968.0	2,991.4	3,004.6	2,955.1	2,966.6	3,009.5	3,048.7	3,079.0

Note: Data in thousands of jobs.

Source: Bureau of Labor Statistics, 2014; Partners for Economic Solutions, 2014.



Table A-6. Employment Trends, Montgomery County, 2004-2013

Industry	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Government										
Federal Government	40,661	39,968	39,785	40,319	41,543	43,158	45,072	46,460	47,080	46,854
State Government	1,062	1,043	1,068	1,066	1,080	1,029	1,199	1,186	1,232	1,122
Local Government	36,105	36,935	37,397	37,469	37,860	37,834	37,140	38,450	39,669	40,707
Total Government	77,828	77,946	78,250	78,854	80,483	82,021	83,411	86,096	87,981	88,683
Private-Sector Employment										
Goods-Producing Sectors										
Natural Resources and Mining	682	709	745	806	873	719	796	620	393	258
Construction	29,117	29,444	30,891	30,449	28,503	24,223	22,291	23,425	23,263	23,363
Manufacturing	15,463	14,714	14,303	14,563	14,459	13,431	12,356	11,787	11,435	11,219
Total Goods-Producing	45,262	44,867	45,939	45,818	43,835	38,373	35,443	35,832	35,091	34,840
Service-Producing Sectors										
Trade, Transportation, and Utilities	64,367	64,990	64,349	62,631	61,075	56,566	57,287	57,440	58,193	57,607
Information	14,832	15,105	15,208	14,089	14,335	14,117	12,818	12,634	12,232	12,359
Financial Activities	34,598	36,127	35,797	35,371	34,312	31,908	30,830	30,474	30,586	30,479
Professional and Business Services	96,406	101,111	106,477	103,189	102,413	99,577	100,075	101,751	99,317	98,510
Education and Health Services	55,205	56,698	58,365	58,983	60,422	61,977	63,188	64,234	65,780	66,767
Leisure and Hospitality	38,331	39,505	37,878	37,614	38,133	37,133	36,894	37,523	39,115	40,257
Other Services	21,307	21,701	21,962	22,125	21,918	21,460	21,637	21,800	22,579	22,307
Total Service-Producing	325,046	335,237	340,036	334,002	332,608	322,738	322,729	325,856	327,802	328,286
Unclassified	646	618	608	672	592	173	0	0	6	0
Total Private Employment	370,954	380,722	386,583	380,492	377,035	361,284	358,172	361,688	362,899	363,126
Total Employment	448,782	458,668	464,833	459,346	457,518	448,305	441,583	447,784	450,880	451,809

Source: Maryland Department of Labor, Licensing and Regulation, 2014; Partners for Economic Solutions, 2014.



Table A-7. Detailed Employment Trends for Office-Using Industries, Montgomery County, 2005-2012

Industry	2005	2007	2012	2007-2012 Change	
				Number	Percent
Information	22,724	20,655	16,550	(4,105)	-19.9%
Newspaper, Periodical, Book, and Directory Publishers	2,708	2,535	1,658	(877)	-34.6%
Software Publishers	1,812	1,309	2,538	1,229	93.9%
Motion Picture and Video Industries	930	953	1,081	128	13.4%
Sound Recording Industries	131	124	81	(43)	-34.7%
Radio and Television Broadcasting	f	418	437	19	4.5%
Cable and Other Subscription Programming	g	3,076	2,250	(826)	-26.9%
Internet Publishing and Broadcasting	273	301	**	NA	NA
Wired Telecommunications Carriers	3,563	h	4,840	NA	NA
Wireless Telecommunications Carriers (except Satellite)	789	1,228	f	NA	NA
Telecommunications Resellers	c	160	**	NA	NA
Satellite Telecommunications	4,316	607	c	NA	NA
Cable and Other Program Distribution	g	g	**	NA	NA
Other Telecommunications	b	8	c	NA	NA
Internet Service Providers and Web Search Portals	446	695	**	NA	NA
Data Processing, Hosting, and Related Services	3,016	3,383	1,972	(1,411)	-41.7%
Other Information Services	327	270	798	528	195.6%
Finance and Insurance	23,340	24,379	19,832	(4,547)	-18.7%
Depository Credit Intermediation	5,345	5,759	4,324	(1,435)	-24.9%
Nondepository Credit Intermediation	2,574	3,044	2,075	(969)	-31.8%
Activities Related to Credit Intermediation	1,464	1,806	951	(855)	-47.3%
Securities and Commodity Contracts Intermediation and	g	1,448	1,013	(435)	-30.0%
Securities and Commodity Exchanges	**	a	c	NA	NA
Other Financial Investment Activities	2,362	3,187	2,760	(427)	-13.4%
Insurance Carriers	5,896	5,352	5,636	284	5.3%
Agencies, Brokerages, and Other Insurance Related Activities	3,541	3,019	2,908	(111)	-3.7%
Other Investment Pools and Funds	f	756	b	NA	NA
Professional, Scientific, and Technical Services	65,117	82,013	72,811	(9,202)	-11.2%
Legal Services	5,435	6,090	4,251	(1,839)	-30.2%
Accounting, Tax Preparation, Bookkeeping, and Payroll	5,996	5,612	5,611	(1)	0.0%
Architectural, Engineering, and Related Services	6,539	5,873	7,038	1,165	19.8%
Specialized Design Services	664	784	601	(183)	-23.3%
Computer Systems Design and Related Services	17,217	31,673	21,361	(10,312)	-32.6%
Management, Scientific, and Technical Consulting Services	10,765	11,735	13,685	1,950	16.6%
Scientific Research and Development Services	14,115	15,309	15,790	481	3.1%
Advertising, Public Relations, and Related Services	1,189	g	1,474	NA	NA
Other Professional, Scientific, and Technical Services	3,197	3,215	3,000	(215)	-6.7%
Management of Companies and Enterprises	13,586	15,603	16,147	544	3.5%
Administrative and Support and Waste Management and	38,018	45,130	46,833	1,703	3.8%
Office Administrative Services	3,082	3,100	4,526	1,426	46.0%
Facilities Support Services	1,979		4,568	4,568	#DIV/0!
Employment Services	8,437	10,777	11,266	489	4.5%



Table A-7. Detailed Employment Trends for Office-Using Industries, Montgomery County, 2005-2012 (Continued)

Industry	2005	2007	2012	2007-2012 Change	
				Number	Percent
Business Support Services	2,090	1,480	1,294	(186)	-12.6%
Travel Arrangement and Reservation Services	467	495	593	98	19.8%
Investigation and Security Services	4,830		6,050	6,050	#DIV/0!
Services to Buildings and Dwellings	15,813		16,545	16,545	#DIV/0!
Other Support Services	586		1,006	1,006	#DIV/0!
Waste Collection	516		417	417	#DIV/0!
Waste Treatment and Disposal	132		c	NA	NA
Remediation and Other Waste Management Services	86		413	413	#DIV/0!
Educational Services	9,602	10,367	10,987	620	6.0%
Elementary and Secondary Schools	5,882		6,298	6,298	#DIV/0!
Junior Colleges	a		a	NA	NA
Colleges, Universities, and Professional Schools	619		739	739	#DIV/0!
Business Schools and Computer and Management Training	380	479	f	NA	NA
Technical and Trade Schools	c	228	342	114	50.0%
Other Schools and Instruction	2,226	2,428	2,446	18	0.7%
Educational Support Services	274	468	655	187	40.0%
Health Care and Social Assistance	51,557	54,715	62,073	7,358	13.4%
Offices of Physicians	9,136	9,966	9,831	(135)	-1.4%
Offices of Dentists	3,409	3,508	3,752	244	7.0%
Offices of Other Health Practitioners	1,645	1,873	2,124	251	13.4%
Outpatient Care Centers	2,402	2,346	2,642	296	12.6%
Medical and Diagnostic Laboratories	845	686	897	211	30.8%
Home Health Care Services	2,849		3,218	3,218	#DIV/0!
Other Ambulatory Health Care Services	132	273	319	46	16.8%
General Medical and Surgical Hospitals	9,731		11,733	11,733	#DIV/0!
Psychiatric and Substance Abuse Hospitals	a		e	NA	NA
Specialty (except Psychiatric and Substance Abuse) Hospitals	g		g	NA	NA
Nursing Care Facilities (Skilled Nursing Facilities)	4,743		5,880	5,880	#DIV/0!
Residential Intellectual and Developmental Disability, Mental	1,349		2,780	2,780	#DIV/0!
Continuing Care Retirement Communities and Assisted	3,847		5,263	5,263	#DIV/0!
Other Residential Care Facilities	264		109	109	#DIV/0!
Individual and Family Services	3,485		5,277	5,277	#DIV/0!
Community Food and Housing, and Emergency and Other	f		517	517	#DIV/0!
Vocational Rehabilitation Services	1,042	1,080	1,194	114	10.6%
Child Day Care Services	3,851		4,279	4,279	#DIV/0!
Other Services (except Public Administration)	22,386	24,017	25,665	1,648	6.9%
Automotive Repair and Maintenance	2,822		2,440	2,440	#DIV/0!
Electronic and Precision Equipment Repair and Maintenance	541		172	172	#DIV/0!
Commercial and Industrial Machinery and Equipment (except	404		264	264	#DIV/0!
Personal and Household Goods Repair and Maintenance	556		249	249	#DIV/0!
Personal Care Services	3,391		3,603	3,603	#DIV/0!
Death Care Services	268		256	256	#DIV/0!
Drycleaning and Laundry Services	1,015		875	875	#DIV/0!
Other Personal Services	919	956	970	14	1.5%
Religious Organizations	5,390	5,907	6,697	790	13.4%
Grantmaking and Giving Services	886	1,118	1,936	818	73.2%
Social Advocacy Organizations	972	1,077	1,301	224	20.8%
Civic and Social Organizations	809	812	545	(267)	-32.9%
Business, Professional, Labor, Political, and Similar	4,413	4,668	6,357	1,689	36.2%
Total Jobs in Office-Using Industries	246,330	276,879	270,898	(5,981)	-2.2%

Note: a: 0-19 employees, b: 20-99 employees, c: 100-249 employees, e: 250-499 employees, f: 500-999 employees, g: 1,000-2,499 employees, h: 2,500-4,999 employees.

Sources: County Business Patterns; Partners for Economic Solutions, 2014.



Table A-8. Montgomery County Establishments by Size, 2012

Industry	Number of Employees									Total
	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500-999	1,000 or more	
Total Establishments										
Agriculture, forestry, fishing and hunting	13	5	-	1	-	-	-	-	-	19
Mining, quarrying, and oil and gas extraction	1	1	-	2	-	-	-	-	-	4
Utilities	5	1	2	1	-	3	-	-	-	12
Construction	1,367	338	225	125	51	30	10	1	2	2,149
Manufacturing	186	73	63	33	10	9	6	-	1	381
Wholesale trade	481	138	83	57	28	11	2	1	1	802
Retail trade	1,153	643	435	250	108	92	16	-	-	2,697
Transportation and warehousing	165	52	23	27	2	4	1	-	-	274
Information	328	81	57	82	31	25	7	-	3	614
Finance and insurance	821	397	196	101	39	22	2	-	2	1,580
Real estate and rental and leasing	868	225	113	63	24	7	3	3	-	1,306
Professional, scientific, and technical services	4,005	677	427	353	118	74	24	12	4	5,694
Management of companies and enterprises	327	48	54	31	17	14	6	3	2	502
Administrative and support and waste management	903	285	190	180	81	50	16	6	6	1,717
Educational services	273	78	69	73	32	22	2	1	-	550
Health care and social assistance	1,898	749	483	286	72	67	13	4	9	3,581
Arts, entertainment, and recreation	225	42	32	27	25	17	1	-	-	369
Accommodation and food services	625	308	392	357	106	32	2	-	-	1,822
Other services (except public administration)	1,322	487	322	182	51	17	5	4	-	2,390
Industries not classified	22	1	1	-	-	-	-	-	-	24
Total	14,988	4,629	3,167	2,231	795	496	116	35	30	26,487
2005-2012 Change in the Number of Establishments										
Agriculture, forestry, fishing and hunting	(4)	3	(1)	1	-	-	-	-	-	(1)
Mining, quarrying, and oil and gas extraction	-	(1)	-	2	(1)	-	-	-	-	-
Utilities	3	1	2	1	-	-	(1)	-	-	6
Construction	(189)	(68)	(77)	(68)	(8)	4	(4)	-	-	(410)
Manufacturing	(32)	(11)	(5)	(18)	(7)	(4)	(1)	-	-	(78)
Wholesale trade	(66)	(2)	(21)	(31)	(1)	-	-	1	-	(120)
Retail trade	(204)	(19)	(42)	-	(18)	(8)	(4)	(1)	-	(296)
Transportation and warehousing	(51)	3	(7)	5	(4)	(5)	-	-	-	(59)
Information	(81)	(17)	(11)	3	(1)	(3)	-	(3)	-	(113)
Finance and insurance	(61)	22	(24)	(21)	(17)	(4)	(3)	(2)	1	(109)
Real estate and rental and leasing	(154)	8	(40)	(2)	(3)	(5)	2	1	(1)	(194)
Professional, scientific, and technical services	150	(10)	(31)	33	(20)	(9)	1	8	-	122
Management of companies and enterprises	246	25	14	(3)	(5)	(3)	-	1	1	276
Administrative and support and waste management	23	51	13	8	(1)	(12)	4	2	3	91
Educational services	24	18	3	5	-	-	1	1	-	52
Health care and social assistance	167	14	90	67	5	17	5	(2)	2	365
Arts, entertainment, and recreation	10	(7)	(1)	(8)	6	3	(3)	-	-	-
Accommodation and food services	10	(9)	98	10	21	3	-	-	-	133
Other services (except public administration)	(24)	12	(4)	5	11	(4)	2	3	-	1
Industries not classified	(74)	-	1	-	-	-	-	-	-	(73)
Total	(307)	13	(43)	(11)	(43)	(30)	(1)	9	6	(407)

Source: County Business Patterns; Partners for Economic Solutions, 2014.



Table A-9. Office Market Trends, Metropolitan Washington, 1993-2013

Year	Total Square Feet	RBA Under Construction	Vacant Square Feet	Occupied Square Feet	Occupancy Rate	Net Absorption	Average Rent ¹
Annual							
1993	344,928,250	3,562,120	47,136,034	297,213,813	86.2%	NA	\$19.49
1994	346,285,620	5,039,357	40,214,070	304,726,720	88.0%	7,512,907	\$18.99
1995	348,307,962	5,359,954	35,746,145	311,411,380	89.4%	6,684,660	\$19.78
1996	352,782,846	3,625,166	30,097,404	321,252,641	91.1%	9,841,261	\$20.50
1997	354,666,710	8,437,812	24,665,937	328,964,160	92.8%	7,711,519	\$22.87
1998	359,178,232	15,300,234	20,271,084	337,393,684	93.9%	8,429,524	\$26.36
1999	370,678,996	20,288,600	19,558,760	349,453,213	94.3%	12,059,529	\$27.58
2000	383,289,567	20,815,991	17,120,030	360,473,915	94.0%	11,029,702	\$30.46
2001	398,710,236	14,375,588	34,577,579	358,835,908	90.0%	(1,635,007)	\$30.78
2002	409,355,171	13,523,411	43,826,786	361,656,696	88.3%	2,820,788	\$30.02
2003	415,524,415	13,074,215	41,504,045	369,253,409	88.9%	7,593,713	\$29.43
2004	422,801,382	14,777,098	35,893,706	379,641,075	89.8%	10,387,666	\$30.35
2005	429,521,265	17,645,649	32,243,513	392,855,538	91.5%	13,214,463	\$31.43
2006	441,076,920	17,018,874	34,710,044	401,993,688	91.1%	9,138,150	\$32.84
2007	451,482,787	14,948,389	41,817,123	404,777,974	89.7%	2,784,286	\$34.42
2008	460,699,812	12,553,340	50,331,807	405,839,331	88.1%	1,061,357	\$34.72
2009	467,801,933	7,069,895	57,577,872	405,153,394	86.6%	(685,937)	\$33.54
2010	472,271,030	4,083,497	54,361,224	410,097,798	86.8%	4,944,404	\$33.63
2011	474,546,274	5,178,212	55,819,683	410,775,271	86.6%	677,473	\$33.97
2012	476,170,649	7,320,832	60,672,575	411,428,317	86.4%	653,046	\$34.19
2013	479,586,490	5,465,000	62,536,935	411,820,331	85.9%	392,014	\$34.54
2000-2013 Change							
Amount	38,509,570		27,826,891	9,826,643	-5.3%		\$1.70
Percent	8.7%		80.2%	2.4%	-5.8%		5.2%

Note: ¹Full-service rent.

Sources: CoStar; Partners for Economic Solutions, 2014.



Table A-10. Office Market Trends, Montgomery County, 1993-2013

Year	Total Square Feet	RBA Under Construction	Vacant Square Feet	Occupied Square Feet	Occupancy Rate	Net Absorption	Average Rent ¹
Annual							
1993	55,291,180	151,851	7,026,147	48,369,699	87.5%	NA	\$18.02/fs
1994	55,392,972	392,325	6,406,779	48,890,183	88.3%	520,484	\$18.74/fs
1995	55,785,297	918,409	6,166,000	49,448,462	88.6%	558,279	\$18.40/fs
1996	56,591,266	178,803	4,918,327	51,486,771	91.0%	2,038,309	\$19.05/fs
1997	56,585,183	825,516	3,946,259	52,627,282	93.0%	1,140,511	\$19.19/fs
1998	56,748,976	1,324,310	3,411,873	53,287,003	93.9%	659,721	\$23.00/fs
1999	57,827,074	2,702,000	3,457,818	54,128,621	93.6%	841,618	\$25.02/fs
2000	59,615,938	3,058,145	2,849,767	55,531,357	93.1%	1,402,736	\$28.07/fs
2001	61,674,024	3,368,138	5,787,197	55,256,589	89.6%	(274,768)	\$28.53/fs
2002	63,707,238	3,229,783	7,291,937	55,883,543	87.7%	626,954	\$27.88/fs
2003	66,023,690	1,538,336	7,235,524	58,582,389	88.7%	2,698,846	\$26.62/fs
2004	67,526,646	632,390	6,293,060	60,429,183	89.5%	1,843,794	\$25.96/fs
2005	67,810,037	790,284	5,269,250	61,841,932	91.2%	1,412,749	\$26.74/fs
2006	68,329,712	1,078,548	5,118,178	62,792,871	91.9%	950,939	\$28.08/fs
2007	69,235,314	1,598,354	6,471,310	62,228,997	89.9%	(563,874)	\$29.90/fs
2008	69,965,684	1,308,409	7,560,260	61,973,949	88.6%	(255,048)	\$30.54/fs
2009	71,220,689	108,000	9,441,997	61,148,782	85.9%	(825,167)	\$29.34/fs
2010	71,234,351	396,388	8,970,851	61,751,266	86.7%	602,484	\$28.36/fs
2011	71,234,803	729,921	8,780,957	61,886,731	86.9%	135,465	\$28.52/fs
2012	72,136,668	1,303,571	9,043,842	62,575,094	86.7%	688,363	\$28.20/fs
2013	72,471,735	1,062,722	9,443,510	62,517,568	86.3%	(57,526)	\$28.23/fs
2000-2013 Change							
Amount	14,644,661		5,985,692	8,388,947	-7.3%		\$3.21
Percent	25.3%		173.1%	15.5%	-7.8%		12.8%

Note: ¹Full-service rent.

Sources: CoStar; Partners for Economic Solutions, 2014.

Table A-11. Absorption Trends by Jurisdiction, 2000-2013¹

Year	Washington Metro	Montgomery County	District of Columbia	Alexandria	Arlington County	Fairfax County	Prince George's County
2000	11,020,702	1,402,736	2,063,722	(44,142)	434,926	4,893,816	97,014
2001	(1,638,007)	(274,130)	2,004,191	(399,090)	(2,271,652)	(2,455,395)	417,027
2002	2,820,788	626,954	(813,399)	257,708	891,497	489,738	407,946
2003	7,596,713	2,698,846	1,811,496	727,438	99,763	1,553,401	(94,930)
2004	10,387,666	1,845,103	1,321,609	1,615,346	359,567	4,046,118	(56,219)
2005	13,214,463	1,412,749	4,416,475	737,929	919,593	3,826,003	432,429
2006	9,138,150	950,939	2,180,831	21,853	1,539,639	2,554,964	(307,930)
2007	2,784,286	(563,874)	327,139	51,237	388,546	486,076	193,355
2008	1,061,357	(255,048)	182,727	291,365	434,642	(261,805)	(185,274)
2009	(685,937)	(825,167)	(916,984)	(404,531)	656,098	69,122	(214,881)
2010	4,944,404	602,484	3,128,662	99,315	547,675	(66,711)	278,798
2011	677,473	135,465	978,348	(856,393)	(1,245,948)	781,630	(4,573)
2012	653,046	688,363	1,508,516	(272,946)	(1,800,652)	(546,573)	113,889
2013	392,014	(52,148)	338,709	119,470	(530,473)	658,798	(154,622)
Total	62,367,118	8,393,272	18,532,042	1,944,559	423,221	16,029,182	922,029

Source: CoStar, 2014; Partners for Economic Solutions, 2014.



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Table A-12. Office Market Trends in Competitive Close-In Jurisdictions, 2002-First Quarter, 2014

	Metro Washington	Montgomery County	District of Columbia	Alexandria	Arlington County	Fairfax County	Prince George's County
Inventory							
2002	409,355,171	63,702,578	130,439,031	16,141,052	35,278,652	99,435,986	23,923,604
2008	460,699,812	69,959,333	143,738,139	19,988,828	39,073,456	109,592,191	25,525,520
2014 Q1	480,034,659	72,500,117	151,218,599	20,113,445	41,342,675	112,796,227	26,054,935
Occupied							
2002	361,656,696	55,878,883	120,031,334	14,457,853	31,566,746	81,726,377	21,367,107
2008	405,839,331	61,967,598	130,271,611	17,903,021	35,308,496	93,931,134	21,348,538
2014 Q1	410,693,205	61,808,303	135,351,326	16,720,639	32,762,439	94,999,430	20,907,142
Total Vacant							
2002	47,698,475	7,823,695	10,407,697	1,683,199	3,711,906	17,709,609	22,566,497
2008	54,860,481	7,991,735	13,466,528	2,085,807	3,764,960	15,661,067	4,176,982
2014 Q1	69,341,454	10,691,814	15,867,273	3,392,806	8,580,236	17,796,797	5,157,793
Total Absorption							
2002-2014 Q1	49,036,509	5,929,420	15,319,992	2,262,786	1,195,693	13,273,053	(459,965)
2002-2008	44,182,635	6,088,715	10,240,277	3,445,168	3,741,750	12,204,757	(18,569)
2008-2014 Q1	4,853,874	(159,295)	5,079,715	(1,182,382)	(2,546,057)	1,068,296	(441,396)
Full-Service Rent							
2002	\$30.02	\$27.09	\$38.86	\$25.83	\$30.21	\$24.51	\$19.22
2008	\$34.72	\$29.60	\$46.66	\$32.50	\$36.62	\$29.47	\$22.40
2014 Q1	\$34.70	\$27.88	\$49.68	\$29.24	\$39.81	\$28.28	\$20.70

Note: Inventory and absorption data are shown in rentable square feet.

Source: CoStar, June 2014; Partners for Economic Solutions, 2014.

Table A-13. Vacant Space in Metropolitan Washington and Selected Counties, Second Quarter, 2014

Jurisdiction	Class A		Class B		Class C		Total	
	Sq. Ft.	Percent	Sq. Ft.	Percent	Sq. Ft.	Percent	Sq. Ft.	Percent
Montgomery County	5,877,633	16.5%	4,424,284	14.7%	570,340	7.7%	10,872,257	14.9%
District of Columbia	10,733,960	11.8%	5,379,803	10.8%	627,123	5.9%	16,740,886	11.1%
Alexandria	2,163,279	20.0%	1,275,523	16.8%	89,557	5.3%	3,528,359	17.5%
Arlington County	5,238,307	21.5%	3,465,668	23.3%	142,534	6.8%	8,846,509	21.4%
Fairfax County	12,398,698	17.7%	5,471,629	14.1%	436,229	10.3%	18,306,556	16.2%
Prince George's County	2,281,576	25.8%	2,505,412	20.3%	282,727	5.8%	5,069,715	19.5%
Metro Washington	41,616,121	16.1%	26,655,517	14.5%	2,909,094	7.2%	71,180,732	14.7%

Source: CoStar, 2014; Partners for Economic Solutions, 2014.



Table A-14. Office Space by County Submarket, Second Quarter, 2014

Submarket	Space Inventory by Class				Average Rent ¹
	Class A	Class B	Class C	Total	
Bethesda/Chevy Chase					
Bethesda/Chevy Chase	5,814,495	5,129,774	895,087	11,839,356	\$37.46
I-270 Corridor					
Gaithersburg	2,381,845	4,149,426	1,022,404	7,553,675	\$22.24
Germantown	1,490,868	1,720,879	47,499	3,259,246	\$24.67
I-270 Corridor North	-	588,652	59,336	647,988	\$22.97
North Bethesda/Potomac	7,124,271	3,173,939	912,082	11,210,292	\$30.13
North Rockville	8,028,101	4,888,229	594,128	13,519,397	\$26.42
Rockville	4,233,585	4,395,875	1,832,358	10,461,818	\$28.61
Total Cluster	23,258,670	18,917,000	4,467,807	46,652,416	
Southeast Montgomery County					
Kensington/Wheaton	165,000	1,323,230	405,130	1,893,360	\$24.00
North Silver Spring/Rt 29	1,399,928	1,966,811	223,995	3,590,734	\$23.90
Silver Spring	4,193,011	2,205,079	946,636	7,344,726	\$27.62
Total Cluster	5,757,939	5,495,120	1,575,761	12,828,820	
Outlying Montgomery County					
Outlying County East	-	420,752	333,784	754,536	\$26.23
Outlying County West	719,082	114,455	62,100	895,637	\$29.37
Total Cluster	719,082	535,207	395,884	1,650,173	
Total County	35,550,186	30,077,101	7,334,539	72,970,765	\$28.17

Note: ¹Average full-service rent on direct leases, excluding subleases.

Source: CoStar; Partners for Economic Solutions, 2014.



Table A-15. Office Performance by County Submarket, 2002-2014

Submarket	Vacancy Rate	2002-2013 Performance		
		Deliveries	Net Additions ¹	Absorption
Bethesda/Chevy Chase				
Bethesda/Chevy Chase	9.4%	689,953	630,238	1,092,007
I-270 Corridor				
Gaithersburg	11.2%	1,821,025	1,748,259	1,347,518
Germantown	17.5%	1,138,659	1,138,659	831,616
I-270 Corridor North	83.1%	27,718	27,718	(470,761)
North Bethesda/Potomac	18.6%	958,797	768,914	(328,979)
North Rockville	17.5%	3,573,822	3,573,822	2,407,082
Rockville	12.2%	1,803,770	1,565,688	1,341,215
Total Cluster		9,323,791	8,823,060	5,127,691
Southeast Montgomery County				
Kensington/Wheaton	21.4%	73,840	73,840	(341,821)
North Silver Spring/Rt 29	12.5%	224,177	219,773	(7,192)
Silver Spring	11.4%	872,217	270,003	647,693
Total Cluster		1,170,234	563,616	298,680
Outlying Montgomery County				
Outlying County East	7.6%	34,859	31,479	41,639
Outlying County West	3.9%	749,318	749,318	727,072
Total Cluster		783,677	780,797	768,711
Total County	14.7%	11,967,655	10,797,711	7,287,089

Note: ¹Deducts any demolitions or conversions to other uses.

Source: CoStar; Partners for Economic Solutions, 2014.



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Table A-16. Cross-Walk Between Office Clusters and CoStar Submarkets

Cluster by Type	CoStar Submarket
Mixed-Use Business Districts	
Downtown Bethesda	Bethesda/Chevy Chase
Downtown Gaithersburg	Gaithersburg
Downtown Kensington	Kensington/Wheaton
Downtown Rockville	Rockville
Downtown Silver Spring	Silver Spring
Downtown Wheaton	Kensington/Wheaton
Kentlands	Gaithersburg
Washingtonian	Rockville
White Flint	North Bethesda/Potomac
Office Parks/Clusters	
Rock Spring Park	North Bethesda/Potomac
I-270 at Wootton Parkway	Rockville
I-270 from W. Gude to Shady Grove Rd	North Rockville
Montrose Parkway	Rockville
Quince Orchard Road	Gaithersburg
Shady Grove Life Sciences Park	Rockville & North Rockville
WesTech Business Park	North Silver Spring/Rt. 29
Germantown	Germantown
Clarksburg	I-270 Corridor North
Industrial/Flex Clusters	
Crabbs Branch Way	North Rockville
E. Gude Drive at Taft Court	North Rockville
Montgomery Industrial Park	North Silver Spring/Rt. 29

Source: CoStar, 2014; Partners for Economic Solutions, 2014.



Table A-17. Office Performance by Type of Cluster, 1994-Second Quarter, 2014

Type/Cluster	Inventory			Occupied Sq. Ft.			Vacancy Rate			Average Rent				
	1994-2004	2004-2009	2009-2014	1994-2004	2004-2009	2009-2014	1994	2004	2009	2014	1994	2004	2009	2014
Mixed-Use Business Districts														
Downtown Bethesda	1,370,904	175	(23,807)	1,142,532	482,426	(171,618)	14.9%	12.6%	9.2%	11.1%	\$20.14	\$29.92	\$34.98	\$37.63
Downtown Gaithersburg	112,000	(86,052)	(49,366)	113,380	(95,723)	52,765	5.9%	4.1%	7.7%	11.8%	\$13.05	\$18.67	\$23.42	\$24.65
Downtown Kensington	3,416	-	-	8,023	(31,009)	31,540	5.8%	4.8%	11.2%	4.7%	\$14.12	\$21.37	\$21.41	\$21.80
Downtown Rockville	182,158	184,553	158,946	133	334,539	223,002	9.7%	17.2%	9.6%	6.5%	\$18.32	\$27.42	\$28.47	\$32.77
Downtown Silver Spring	275,703	(74,974)	(15,365)	906,622	(118,263)	(67,855)	19.6%	9.2%	10.0%	10.8%	\$17.20	\$24.05	\$29.78	\$27.98
Downtown Wheaton	-	-	(86,820)	2,361	(40,327)	(69,144)	8.0%	7.6%	14.7%	13.7%	\$15.91	\$22.48	\$23.76	\$23.30
Kentlands	NA	-	-	NA	26,735	2,295	NA	22.0%	2.9%	1.3%	NA	\$26.00	\$16.53	\$27.97
Washingtonian	NA	296,935	-	NA	94,517	180,346	NA	8.7%	28.1%	8.3%	NA	\$25.42	\$36.81	\$34.02
White Flint	90,541	-	381,364	104,295	(155,771)	523,571	8.2%	11.2%	13.9%	6.8%	\$18.98	\$27.15	\$25.52	\$30.61
Mixed-Use Business District Total	2,034,722	320,637	364,952	2,277,346	497,124	704,902	14.5%	11.9%	10.9%	9.2%	\$18.38	\$26.76	\$36.28	\$32.30
Office Parks/Clusters														
Rock Spring Park	100,000	428,998	-	316,428	(91,291)	(46,031)	13.6%	8.8%	17.9%	18.8%	\$22.92	\$31.56	\$36.28	\$31.36
I-270 at Wootton Parkway	506,552	374,405	-	396,123	211,055	(121,845)	5.3%	14.3%	22.7%	32.0%	\$19.59	\$26.50	\$36.67	\$32.37
I-270 from W. Gude to Shady Grove Rd	856,623	573,525	-	837,294	(135,299)	445,532	14.9%	10.3%	32.5%	17.3%	\$15.88	\$23.46	\$27.69	\$26.28
Montrose Parkway	151,360	(65,423)	-	1,522,925	164,113	(587,062)	14.2%	15.1%	3.6%	34.3%	\$20.82	\$26.26	\$27.03	\$28.79
Quince Orchard Road	1,411,965	68,734	-	1,599,842	100,538	50,544	33.2%	8.6%	7.2%	5.4%	\$12.93	\$20.47	\$22.58	\$23.77
Shady Grove Life Sciences Park	1,992,899	316,496	736,286	1,651,916	337,576	10,582	10.2%	12.4%	11.5%	20.2%	\$19.17	\$25.64	\$28.05	\$27.37
WesTech Business Park	143,000	-	-	115,350	16,768	(73,369)	3.1%	5.2%	3.6%	10.4%	\$17.03	\$19.83	\$24.13	\$22.02
Germantown	1,210,856	257,143	182,285	816,165	244,644	160,884	9.7%	19.6%	18.4%	18.0%	\$19.11	\$22.29	\$23.95	\$24.61
Clarksburg	-	27,718	-	17,000	19,213	7,810	21.7%	0.0%	8.0%	0.7%	NA	NA	\$22.80	\$22.97
Office Parks/Clusters Total	6,373,255	1,981,596	918,571	7,273,043	867,317	(152,955)	21.7%	11.8%	15.3%	18.9%	\$19.54	\$25.47	\$24.29	\$27.45
Industrial/Flex Clusters														
Crabbs Branch Way	74,803	(200)	-	37,372	24,160	(2,159)	8.8%	11.7%	9.4%	9.6%	\$17.92	\$23.90	\$24.29	\$22.48
E. Gude Drive at Taft Court	-	-	-	10,043	(113,432)	22,160	6.4%	3.6%	34.7%	28.6%	\$13.60	\$24.86	\$20.69	\$20.95
Montgomery Industrial Park	35,243	-	-	64,259	36,303	(13,825)	27.2%	16.2%	5.8%	9.8%	\$13.50	\$14.60	\$12.75	\$20.61
Industrial/Flex Clusters Total	110,046	(200)	-	111,674	(52,969)	6,176	11.7%	10.9%	13.9%	13.5%	\$16.14	\$22.27	\$21.28	\$21.80
Total in Clusters	8,518,023	2,302,033	1,283,523	9,662,063	1,311,472	558,123	17.6%	11.8%	13.3%	14.4%	\$18.81	\$25.94	\$29.45	\$29.40

Source: CoStar, 2014; Partners for Economic Solutions, 2014.



Table A-18. Office Performance by Type of Cluster in Competitive Jurisdictions, 1994-Second Quarter, 2014

Type/Cluster	Inventory			Occupied Sq. Ft.			Vacancy Rate			Average Rent				
	1994	2004	2004-2009	2009-2014	1994	2004	2009-2014	1994	2004	2009	2014	1994	2004	2009
Mixed-Use Business Districts														
Reston Town Center (Fairfax)	1,090,386	882,235	-	1,027,461	477,065	375,905	0.0%	3.9%	18.8%	3.7%	\$23.00	\$40.00	\$41.93	\$47.06
Old Town (Alexandria)	24,456	39,009	(11,000)	5,869	(25,407)	2,935	5.6%	6.1%	7.9%	7.5%	\$22.96	\$26.37	\$28.88	\$30.18
Clarendon/Courthouse (Arlington)	748,944	276,086	112,364	593,171	203,134	204,158	5.9%	8.8%	10.0%	7.6%	\$19.73	\$32.80	\$43.53	\$42.18
Georgetown (DC)	(150,289)	167,808	(55,270)	372,209	(177,958)	77,935	17.6%	3.7%	12.8%	9.4%	\$24.08	\$29.62	\$42.80	\$42.64
CBD (DC)	1,176,705	1,059,416	869,744	4,390,359	(514,593)	436,020	13.9%	6.1%	9.5%	10.2%	\$28.17	\$38.93	\$49.94	\$51.15
King Street Station (Alexandria)	1,862,984	234,968	114,192	1,661,136	225,416	113,768	11.9%	11.4%	11.0%	10.7%	\$19.77	\$33.55	\$38.72	\$35.30
East End (DC)	6,062,813	4,193,696	700,804	5,905,781	4,122,053	124,380	12.4%	11.0%	10.2%	11.2%	\$27.66	\$43.47	\$52.07	\$54.51
NoMa (DC)	1,242,372	1,302,044	2,541,698	2,014,087	389,508	2,366,984	32.6%	9.4%	21.8%	17.6%	\$29.00	\$25.04	\$45.44	\$47.24
Capitol Riverfront (DC)	863,752	2,042,369	334,327	766,250	1,472,945	400,538	3.3%	10.3%	22.2%	18.0%	NA	\$38.59	\$43.10	\$47.41
Crystal City (Arlington)*	(134,164)	424,020	449,229	(1,170,583)	1,366,516	(1,688,884)	7.7%	18.0%	8.4%	27.3%	\$25.42	\$33.22	\$37.96	\$38.61
Rosslyn (Arlington)	260,741	406,613	531,568	678,015	412,434	(1,578,852)	13.3%	7.6%	7.2%	30.4%	\$22.70	\$30.05	\$38.23	\$39.93
Pentagon City (Arlington)*	-	-	325,000	-	-	(239,303)	0.0%	0.0%	0.0%	30.8%	NA	\$38.75	NA	NA
Mixed-Use Business Districts Total	13,048,700	11,028,264	5,912,656	16,243,755	7,951,113	595,584	12.8%	9.0%	10.5%	13.7%	\$26.73	\$37.97	\$47.29	\$48.76
Office Parks/Clusters														
Lee Highway (Arlington)	-	-	-	(6,100)	(13,402)	14,948	0.0%	3.2%	10.2%	2.4%	\$16.45	\$30.00	\$29.17	\$27.43
College Park Metro (Prince George's)	238,767	118,510	391,762	252,354	118,565	384,689	8.0%	3.8%	3.3%	2.9%	NA	\$18.26	\$28.05	\$26.31
Vienna (Fairfax)	21,900	(10,516)	(7,298)	(22,187)	32,046	6,547	6.9%	11.9%	7.0%	5.4%	\$14.32	\$23.11	\$26.04	\$23.75
Herndon - Non-Toll Road (Fairfax)	867,330	80,281	-	891,079	74,732	24,721	17.4%	10.0%	9.9%	8.9%	\$13.66	\$20.42	\$21.72	\$20.69
Herndon - Dulles Toll Road (Fairfax)	5,569,939	1,229,034	-	3,805,337	1,825,383	458,447	11.5%	24.0%	15.3%	10.8%	\$14.35	\$25.06	\$27.46	\$28.18
Lanover/Largo (Prince George's)	458,681	112,933	-	406,717	(53,033)	145,571	9.8%	10.3%	21.2%	10.9%	\$15.08	\$21.43	\$22.23	\$22.00
Merrifield (Fairfax)	1,123,510	141,189	58,436	536,649	174,829	140,560	5.9%	14.5%	13.6%	12.2%	\$16.86	\$26.74	\$30.99	\$25.79
Eisenhower Valley (Alexandria)	2,378,876	923,089	-	2,456,364	510,656	(185,949)	6.6%	1.2%	8.8%	12.3%	\$16.57	\$22.00	\$33.08	\$36.89
Huntington/Mt. Vernon Rt. 1 (Alexandria)	192,550	-	(129,683)	172,319	13,785	(174,104)	8.0%	8.4%	7.3%	12.5%	\$17.61	\$21.04	\$24.48	\$22.53
Fairfax Center (Fairfax)	594,949	198,062	(19,896)	684,111	338	113,462	17.6%	13.8%	17.0%	14.5%	\$17.18	\$25.14	\$29.01	\$28.38
Route 28 South (Fairfax)	3,180,146	3,313,683	953,645	3,320,707	2,068,660	957,157	23.4%	9.4%	19.1%	17.3%	\$18.02	\$16.47	\$25.45	\$24.54
Springfield (Fairfax)	(12,000)	-	-	230,508	(137,833)	(36,354)	22.5%	6.5%	15.7%	18.1%	\$13.15	\$19.49	\$20.92	\$22.86
Tysons (Fairfax)	6,064,277	1,157,582	376,055	5,030,127	1,201,947	(496,258)	17.0%	17.0%	16.1%	19.2%	\$16.57	\$25.19	\$28.84	\$33.09
Fairview Park (Fairfax)	951,756	330,353	-	958,301	(193,369)	138,734	11.0%	5.9%	26.1%	20.5%	\$20.29	\$26.54	\$37.56	\$32.54
Reston - Dulles Toll Road (Fairfax)	3,834,302	546,270	-	3,177,732	133,532	(261,929)	15.2%	15.8%	18.5%	20.6%	\$14.48	\$24.43	\$27.30	\$27.47
Lanham (Prince George's)	75,978	-	-	237,726	(105,447)	13,863	30.8%	14.6%	23.8%	22.6%	\$14.30	\$19.57	\$18.87	\$18.71
Prince George's Plaza (Prince George's)	-	(1,502)	-	26,427	(6,689)	(12,554)	29.8%	15.0%	18.0%	25.1%	NA	\$17.32	\$17.99	\$19.62
Greenbelt (Prince George's)	135,130	147,424	-	51,261	(135,490)	(129,285)	12.9%	15.6%	25.7%	30.6%	\$19.79	\$21.78	\$21.43	\$22.00
Mark Center (Alexandria)	669,755	-	-	535,354	155,248	(363,005)	14.4%	16.8%	7.1%	29.7%	\$16.76	\$24.60	\$32.77	\$32.62
New Carrollton (Prince George's)	-	-	-	(36,848)	(45,659)	(64,505)	16.2%	19.6%	23.8%	29.8%	\$15.71	\$20.02	\$22.69	\$21.24
Office Parks/Clusters Total	26,345,846	8,286,392	1,623,021	22,707,938	5,618,799	674,756	15.1%	14.7%	16.3%	17.0%	\$16.25	\$23.70	\$27.90	\$28.70
Industrial/Flex Clusters														
Beltsville (Prince George's)	60,609	10,500	(1,260)	195,302	28,975	(17,551)	32.7%	14.6%	12.3%	14.2%	\$12.72	\$17.18	\$15.25	\$18.36
Total in Clusters	39,455,155	19,325,156	7,534,417	39,146,995	13,598,887	1,252,789	13.6%	11.3%	12.8%	15.0%	\$23.18	\$32.26	\$39.47	\$40.80

Note: *Impacted by BRAC moves.

Source: CoStar, 2014; Partners for Economic Solutions, 2014.



Partners for Economic Solutions

Table A-19. Approved Development Projects with Unbuilt Commercial Square Feet, 2014

Amount of Unbuilt Office Space (Square Feet)	Number of Projects	Total Square Feet	Estimated Space by Type		
			Office	Retail	Industrial
1,000,000 or more	5	7,945,730	7,176,000	704,000	-
500,000-999,999	8	7,129,777	5,787,000	1,253,000	-
250,000-499,999	16	6,218,958	5,492,000	727,000	-
100,000-249,999	23	4,466,673	3,948,000	518,000	-
50,000-99,999	6	580,804	448,000	133,000	-
20,000-49,999	9	353,076	304,000	50,000	-
10,000-19,999	13	422,553	190,000	45,000	188,000
0-9,999	13	85,767	42,000	25,000	18,000
Total	93	27,203,338	23,387,000	3,455,000	206,000

Note: Estimated space by type totals vary from the overall total due to some variation in square feet per employee.

Source: Montgomery County Planning Department Development Pipeline, 2014; Partners for Economic Solutions, 2014.

Table A-20. Approved Development Projects with Unbuilt Commercial Square Feet by Policy Area, 2014

Policy Area	Number of Projects	Total Square Feet	Estimated Space by Type		
			Office	Retail	Industrial
Bethesda CBD	9	1,764,702	1,360,000	404,000	-
Bethesda Chevy Chase	2	221,363	114,000	107,000	-
Clarksburg	1	2,420,000	2,213,000	190,000	-
Cloverly	1	3,171	3,000	-	-
Fairland/White Oak	4	1,033,322	1,021,000	12,000	-
Friendship Heights	1	295,743	296,000	-	-
Gaithersburg City	19	5,790,172	4,835,000	768,000	188,000
Germantown East	4	828,156	655,000	173,000	-
Germantown West	7	3,224,802	2,891,000	285,000	-
Glenmont	1	2,425	2,000	-	-
Great Seneca	1	12,700	13,000	-	-
Kensington/Wheaton	3	22,571	5,000	-	18,000
North Bethesda	9	3,674,542	2,916,000	671,000	-
North Potomac	1	40,000	40,000	-	-
Potomac	1	501,443	320,000	181,000	-
R&D Village	5	2,761,510	2,761,000	-	-
Rockville City	11	1,951,684	1,744,000	208,000	-
Rural East	3	120,184	79,000	42,000	-
Silver Spring CBD	6	1,239,408	995,000	244,000	-
Silver Spring/Takoma Park	2	76,731	59,000	18,000	-
Twinbrook	1	256,580	256,000	1,000	-
White Flint	1	962,129	809,000	151,000	-
Total	93	27,203,338	23,387,000	3,455,000	206,000

Note: Estimated space by type totals vary from the overall total due to some variation in square feet per employee.

Source: Montgomery County Planning Department Development Pipeline, 2014; Partners for Economic Solutions, 2014.



Table A-21. Office to Residential Conversions in Montgomery County, January 2014

Project	Planning Area	Application Number	Conversion Type ¹	Conversion Summary	Status (1/29/14)	Existing Office Space Lost ²	Office SF Removed from Pipeline	Office SF Still in Pipeline	Residential Units Added	Other Changes
11141 Georgia Avenue	Wheaton CBD	Sketch Plan 320120030 Prelim Plan 120120230 Site Plan 820120170	Site Conversion, that included a Building Conversion	Converting existing 86,820 sf 5-story commercial office building (The Computer Building) into a 145-foot 12-story mixed use building with 194 MF residential units and 840 s.f. of retail.	Under Construction	86,820	0	0	194	
814 Thayer Avenue	Silver Spring CBD	Prelim Plan 120070410 Site Plan 820080070	Site Conversion	Plan approved in 2008 to demolish 15,844 SF Class B Office Building built in 1961 and replace with 52 affordable housing units.	Site Plan Approved	15,844	0	0	52	
Mallory Square, 9435 Key West / Research Blvd	Great Seneca Science Corridor	Prelim plan 120120180 Site Plan 820120130	Site Conversion	Plan approved in 2013 to demolish 115,800 sf former BNA flex building built in 1974. Replace with 371 MF residential units (along with 311 new approved units).	Site Plan Approved	115,800	0	0	371	
Shady Grove Station	Shady Grove Sector	Prelim plan 1200120080 Site plan 820130220	Site Conversion	County demolishing existing Montgomery County Services Park office/warehouse uses. Site plan application submitted for Shady Grove Station West, covering the western side of the development; site plan proceeds with residential, library and retail uses approved under prelim. plan but not with approved office building at Shady Grove Road and Crabb's Branch Way.	Site Plan Approved	359,930	0	180,109	0	
8711 Georgia Avenue	Silver Spring CBD	Prelim Plan 12006042A Site Plan 82008023A	Approval Conversion	Prelim and Site Plan amended to convert 148,278 sf of office to 160 MF residential units, and reduce retail from 4,462 sf to 2,400 sf.	Under Construction	0	705	0	160	4,462 retail reduced to 2,400
8621 Georgia Avenue	Silver Spring CBD	Project Plan 92010001A Site Plan 82011006A	Approval Conversion	Project and site plans amended to convert 191,281 sf of office and 6,209 sf ground floor retail/restaurant uses to 292 dwelling units and 1,619 retail. Applicant indicated site had been unsuccessfully marketed as future office.	Under Construction	0	191,281	0	292	6,209 retail reduced to 1,619
Hanover Shady Grove	Great Seneca Science Corridor	Prelim Plan 11986186A Site Plan 820120190	Approval Conversion	Prelim plan amended to convert 210,340 square feet of approved but unbuilt office use to up to 452,152 sf of new MF residential in up to 366 units. 5,000 sf of live/work space added	Site Plan Approved	0	210,371	0	366	



Table A-21. Office to Residential Conversions in Montgomery County, January 2014 (Continued)

Project	Planning Area	Application Number	Conversion Type ¹	Conversion Summary	Status (1/29/14)	Existing Office Space Lost ²	Office SF Removed from Pipeline	Office SF Still in Pipeline	Residential Units Added	Other Changes
Camden Shady Grove (DANAC Stiles)	Great Seneca Science Corridor	Prelim Plan 11996112A Site Plan 820130110	Approval Conversion	Prelim plan amended to convert 155,330 sf out of 301,857 sf of approved but unbuilt commercial development to residential uses, in order to construct up to 498,072 sf of residential uses for up to 475 units and 5,000 sf of non-residential live/work units. This will leave 141,527 square feet of commercial uses available after the conversion.	Site Plan Approved	0	155,330	146,327	475	
Rock Spring Park	North Bethesda Garrett Park	Prelim Plan 11998093B	Application for approval Conversion	Application submitted to convert 439,180 sf of approved office to 168 townhouses	Under Plan Review	0	0	439,180	0	

Note: ¹Approval Conversions: Approved office development converting to residential use.; Site Conversions: Existing office buildings demolished or converted to residential as part of a site redevelopment; Building Conversions: Existing office buildings converted to residential use.

²Existing office space that was demolished or converted to other use.

Source: Montgomery County Planning Department, Research & Special Projects Division, January 29, 2014.

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