

# MONTGOMERY COUNTY INDUSTRIAL MARKET REPORT

FOURTH QUARTER 2016



# The Fastest Game in the County: The Industrial Market

## MONTGOMERY COUNTY INDUSTRIAL MARKET REPORT

### Sitting on the Sidelines or Getting in the Game?

What a year 2016 was for the industrial market. Although always a healthy market with sustained sub 8% vacancy since the early part of 2012, the industrial/flex sales market witnessed significant amounts of investors, both users and traditional investors, sitting on the sidelines for most of the year. With such limited supply of purchase opportunities, slightly inflated price points and few replacement options available to sellers, cash remained patient waiting for options to present themselves.

What we have seen in the last quarter or so is that many end-users are finally finding opportunities to buy and secure locations to expand their business and use the purchase of the property as a long-term investment. The user-buyer can more easily justify the higher price points, where investors are more challenged with value-add/lease-up expenses often required. With the national election cycle now over, there should be a renewed consumer confidence in investing in real estate and we anticipate sellers to take advantage of this market shift. In 2017 we should see more sales activity in the industrial market, with the potential for national players seeking well-positioned assets, attractive in-place rental income and dropping vacancy to enter into the fray.

### Montgomery County: Land of Opportunity for the Industrial Market?

Montgomery County is not a traditional industrial market, like what we see in our regional markets like Baltimore, Frederick, Dulles and in the District. The county has a service oriented industrial make-up: auto-repair facilities, HVAC contractors and moving companies, by way of example. This dynamic landscape presents interesting opportunities for both end-users and investors to enter into the county's industrial market.

Industrial land has not been a planning priority for Montgomery County largely because its economy and land use are dominated by non-industrial jobs that occupy office, retail and other types of space. Though industrial land uses represent not quite one percent of the county's developed land area (excluding the agricultural reserve), industrial development plays an important support role, serving county residents and businesses. Over the last 5 years, we have seen two major

#### CURRENT AVERAGE RENTAL RATE

**\$11.65** PSF

HISTORIC AVG RENTAL RATE: \$11.26 PSF

#### VACANCY RATE

**6.6%**

HISTORIC AVERAGE: 7.6%

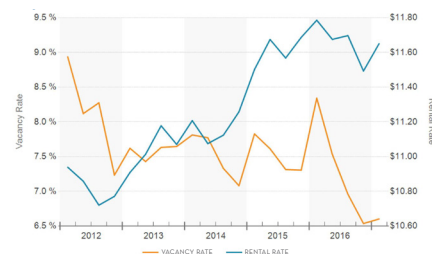
Availability			Inventory		
	Survey	5-Year Avg		Survey	5-Year Avg
Rent Per SF	\$11.65	\$11.26	Existing Buildings	639	635
Vacancy Rate	6.6%	7.6%	Existing SF	14,388,696	14,217,944
Vacant SF	949,842	1,082,483	12 Mo. Const. Starts	0	63,051
Availability Rate	8.8%	11.8%	Under Construction	0	54,391
Available SF	1,261,742	1,675,912	12 Mo. Deliveries	200,080	73,560
Sublet SF	23,981	69,855			
Months on Market	14.0	15.6			

Demand			Sales		
	Survey	5-Year Avg		Past Year	5-Year Avg
12 Mo. Absorption SF	285,574	89,302	Sale Price Per SF	\$183	\$125
12 Mo. Leasing SF	579,289	656,191	Asking Price Per SF	\$165	\$145
			Sales Volume (Mil.)	\$33	\$39
			Cap Rate	7.3%	6.9%

MARKET SUMMARY

VACANCY & RENTAL RATES



influences penetrate and impact our industrial market place: core metro-driven zoning changes and a recent trend toward larger footprint recreational uses- training facilities, sports and entertainment complexes.

As the county's demographics change, and as zoning rules change, the industrial market is poised to see additional demand further influence the market.

## The City of Rockville: Welcome Industrial Users!

Hands down, the hot spot for the industrial market in Montgomery County is Rockville. In 2016, the city addressed the industrial market in its updated Master Plan.

In Rockville's Master Plan, it stated that in the City of Rockville borders, industrial occupies 211 acres, 3 percent of the total land area. The report also stated the importance of industrial use in supporting the city. Most industrial space in Rockville is designed for light production and assembly, setting the stage to further influence and support our service industrial uses.

In 2016, the City of Rockville conducted a feasibility study of the Southlawn Drive submarket to determine how to better facilitate and foster industrial market growth, while managing residential and community impacts. The study's final outcome was that Rockville has the opportunity to meet the demand of the industrial market and should take every opportunity to do so.

## Who Should Get in the Game?

As evidenced by the charts below, rents and vacancy factors are back to their pre-recession levels, further indicating a return to prominence for the county's industrial markets. With E-commerce and fulfillment developing strongly throughout the US, evidenced by the likes of Fed-Ex and Amazon entering into the county, we expect demand to outpace supply for 2017.

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