

NORTH BETHESDA OFFICE MARKET REPORT

SECOND QUARTER 2016



Market Summary

The current office market is finally stabilizing at a 17.7% vacancy rate. This relates to the vacancy rates in the North Rockville / Rockville area which are all striving to regress back towards the healthy 10% mark. The average rent in the area is \$30.90 a square foot which is \$2 dollars less than prices 10 years ago.

The 17.7% vacancy rate correlates to 3,350,000 square feet of open office space in a 19,000,000 square foot market. Much of this vacant space has to do with the consolidation of businesses across the board the largest stemming from the federal government with a 22% reduction.

What does this mean for tenants?

With further corporate and government consolidations on the horizon, we are seeing landlords making vast property improvements while allowing first of its kind compensations. Landlords are attempting to catch up with the market demands while trying to remain competitive, and on the county-side, there are efforts to accelerate the development approval process.

With large tenants such as Marriott sparking conversations about their relocation and possible new site developments, developers are increasing their construction applications to the county. At present, the county is seeing an increase in mixed-use apartment complexes with a heavy emphasis on retail along the Rockville Pike. The thought and trend is that the current and future workforce prefers the mixed-use development where they can live and work in one small areas, moving away from the suburban office parks. The county recognizes this trend and is working with developers to catch up on mixed-use projects, while creating an appealing community. With the area seeing the effects of people moving away from the tired, drive to office parks it's crucial that steps are taken to create this young urban environment. Creating this landscape will help Montgomery County maintain the allure to retain and attract such tenants as Marriott.

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CURRENT AVERAGE RENTAL RATE

\$30.90 PSF

\$2.00 LESS THAN AVERAGE 10 YEARS AGO

VACANCY RATE

17.7%

= 3,350,000 SF OF VACANT OFFICE SPACE

Forecast

Such major transactions and investments serve as a vote of confidence in the revitalization of the Rockville Pike district. With the build out of further high end residential units to breaking ground in the near future, the possibility is bright that North Bethesda is to become an extension of Bethesda. The ultimate goal is to create this urban oasis that conforms to the younger generations want to work where they live. ABT's move to the area marks proof of this and a stride in the right direction of big tenants moving to the market not only to save money on rental rates but also being drawn towards the new, attractive living environment.

With major market improvements occurring and tenants being compensated like never before, it is a great time to renegotiate, renew or go out and find new space. With current construction costs for a full build out being in the \$55-60/ square foot range, landlords are making this work for good credit tenants. This is crucial in the revamp of this market that is blanketed by a large portion of class B space. Tenants have the opportunity right now to go out in the market and get aggressive and really create their own space.

Opportunities for Landlords

The opportunity exists to catch up with the market in terms of building improvements and improve their competitive edge for when the market returns.

Opportunities for Tenants

With major market improvements occurring and tenants being compensated like never before, it is a great time to renegotiate, renew or go out and find new space.

For additional market insight, contact:

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Major Market Transactions



ABT Associates – ABT is moving from downtown Bethesda to Rockville taking 155,000 square feet at 6130 Executive Blvd that was left vacant by NIH in 2013.



5515 SECURITY LANE



11400 ROCKVILLE PIKE

Hines – Hines just bought North Bethesda Market I & II (5515 Security Lane & 11400 Rockville Pike) for \$59 million dollars from JBG. With 51% vacancy, Hines is working on the continuation of JBG's improvements to create exciting Class A space along the Pike by improving bathrooms and tenant lobbies.