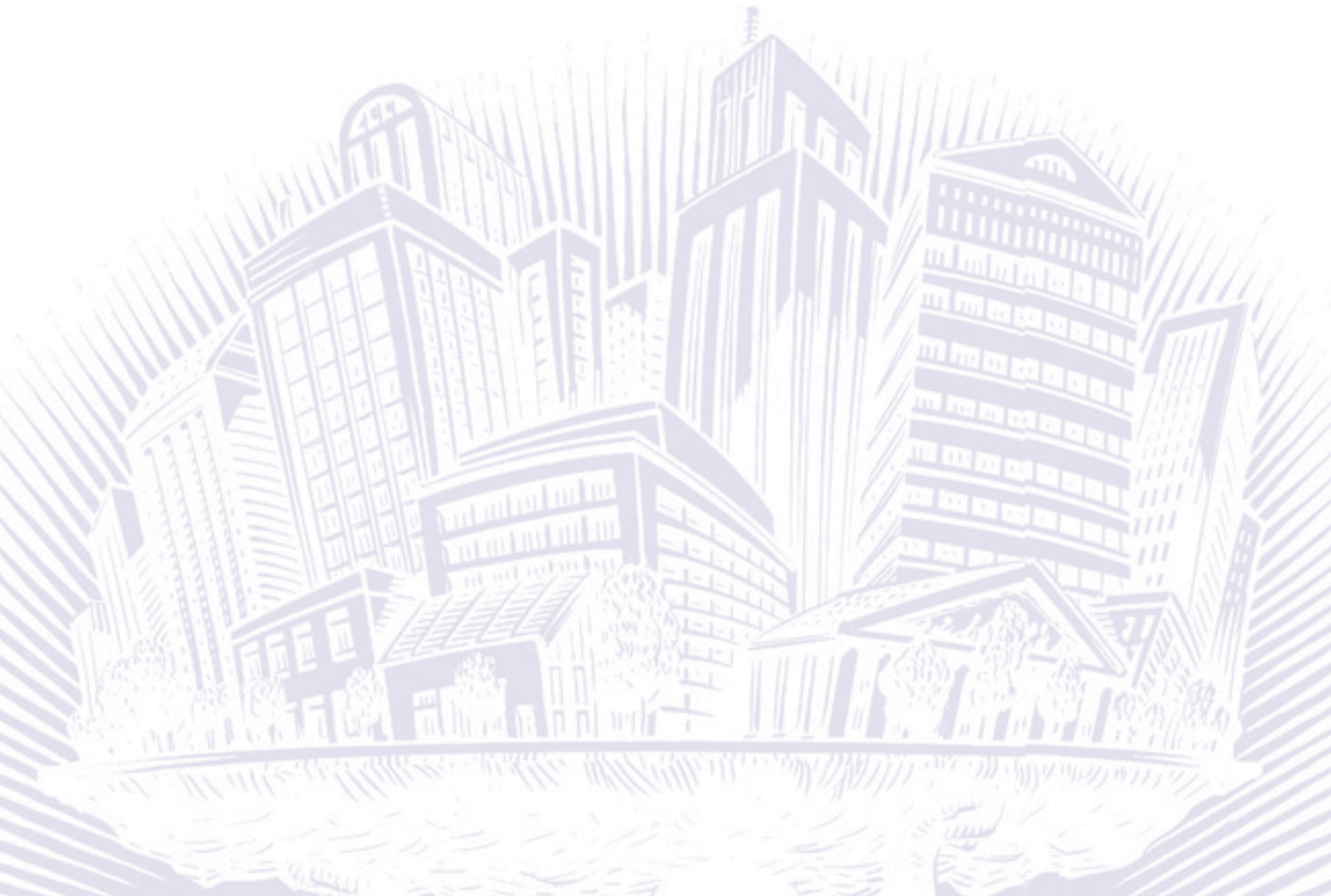


GERMANTOWN GAITHERSBURG OFFICE MARKET REPORT

THIRD QUARTER 2016



Low Rents and Higher Vacancy Make the Gaithersburg-Germantown Area a Desirable Market for Tenants

Over the past 5 years, the market has been active, and is one that shows real value, and promise for future development. The entire market totals 14.1 million square feet, 76% of which is office (10.72 million square feet) and 24% is flex (3.38 million square feet). The total market vacancy rate is 14.8%. The office vacancy rate is 16.8%, while the flex vacancy rate is 8.4%.

The average office asking rental rate is \$23.52 full service, while flex is \$11.70 and generally rented on a triple net basis.

With vacancy rates tracking similar to the other Montgomery County markets, office asking rent per sf (on average) is \$4 more in Rockville and \$10 more in Bethesda. With vacancy rates reasonably high, the market is a buyer's market where tenants have lots of options.

There are 36 spaces in the market over 10,000 square feet, which gives options for medium size companies and 18 spaces larger than 20,000 square feet that can fit larger companies. To illustrate the runway in the market, there is 8.8 million square feet of proposed future development in the up-county, which can create an estimated 50,286 jobs (based on an estimated 175 square feet per employee). Several transactions were completed this quarter, including Senseonics and Versar but the most notable transaction was Novavax signing a major lease of 147,051 square feet at 1201 Clopper Road.

AVERAGE OFFICE RENTAL RATE

\$23.52 PSF

FLEX AVERAGE RENTAL RATE : \$11.70, NNN

OFFICE VACANCY RATE

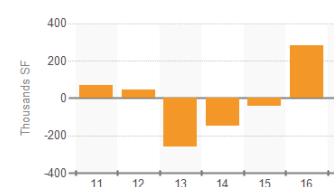
16.8%

OF THE 10,720,000 SF OF OFFICE SPACE

VACANCY RATE



ABSORPTION



Future Development

In Gaithersburg, the Monument Corporate Center is anchored by Kaiser Permanente in phase 1 (200,000 square feet) of a 3-phase project, totaling 750,000 square feet. Monument Corporate Center will contain 750,000 square feet of Class A office space. It has excellent signage visible along I-270, easy access from major roadways, and the convenience of nearby dining, retail, and lodging establishments.

Lakeforest Mall was purchased by Five Mile Capital Partners in 2013 with the intent to redevelop. FedEx just purchased the former IBM site for \$48,000,000. The new I-270 Watkins Mill Interchange project is approved and will ease congestion along the I-270 corridor. The Watkins Mill Town Center (The Spectrum) is under way and a major driver for future commercial development, with 1 million square feet of residential and retail space.

Crown Farm and Downtown Crown totals 182 acres, 260,000 square feet of commercial retail, and 2,200 residential units. New retail has created an influx of new residents. A 32-acre plot of land has been set aside and donated to Montgomery County Public Schools for a high school to help reduce overcrowding.

In Germantown, Milestone Business Park is creating a town center with 4 existing office buildings totaling 635,000 square feet, 485 apartment units, and 38,250 square feet of new retail. Some notable tenants in the Park include DRS, Xerox, Aecom, and Weatherbug. Nearby in the 270 Corporate Center, a 70,000 square foot Top Golf Entertainment Venue will be delivered next year. And the Pinkney Innovation Complex at Montgomery College (PICMC) is home to the new Holy Cross Hospital and can deliver nearly 700,000 square feet of new technology space. Sencca Meadows with its new retail hub, anchored by Wegman's, still has 3 green field pads ready for commercial development.

Major Developments



WATKINS MILL TOWN CENTER



WATKINS MILL TOWN CENTER



270 CORPORATE CENTER

What We Can Conclude

Milestone Business Park, Monument Corporate Center, Crown Farm, Watkins Mill Interchange, and Watkins Mill Town Center, Seneca Meadows and PICMC are significant market drivers. Vacancy rates are trending down, and so far, positive absorption has occurred in 2016. This means that we could see the Gaithersburg/Germantown “lower cost alternative market” start to gradually become more expensive. We already see this trend in The Washingtonian, where rental rates are increasing due to the adjacent amenities and declining vacancy rates.

New town center development is spurring major economic development, and is paving the way for tremendous commercial opportunities.

For additional market insight, contact:

Henry Bernstein | (301) 337-4700 | hbernstein@scheerpartners.com

Scheer Partners | 9201 Corporate Boulevard, Suite 420 | Rockville, Maryland 20850