

# Bethesda Office Market Update

THIRD QUARTER 2016



## State of the Market

Bethesda is a market that has always had great appeal to tenants, property owners and residents. It has all the core fundamentals that a great submarket needs, including transit, high end residential and established and well-known retail. Because of this, Bethesda continues to achieve higher rental rates, boast one of the lowest vacancy rates in the region, and maintain an affluent tenant base. This past quarter has been no exception, with the average rental rate up to \$38.00 per square foot, and the vacancy rate remaining flat around 11%.

## What is Happening in the Market?

### Retail:

Dean & DeLuca, specialty food market and café, has signed a lease to be in JBG's future retail project, 4747 Bethesda Avenue. JBG will begin demo of the existing building on the corner of Woodmont and Bethesda Avenues by the end of 2016, and is expected to deliver the new building by Q1 2019.

### Tenants:

Berkadia, mortgage banking and investment sales firm, is on the move. They have signed a lease to relocate from 7500 Old Georgetown Road in Bethesda to 4445 Willard Ave in Chevy Chase. They will take 16,936 square feet for 11 years. In other news at 7500 Old Georgetown, Morgan Stanley has expanded by 16,000 square feet.

### Properties:

Bethesda Towers continues to land new tenants: Pharmetic North America, LLC signed a lease for 11,000 square feet at 4350 East West Highway.

7201 Wisconsin has picked up two new tenants: Management Leaders for Tomorrow signed a lease for 11,000 square feet; Intelligent Office has signed a lease for 5,000 square feet.

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### CURRENT AVERAGE RENTAL RATE

**\$37.74** PSF

HISTORIC AVG RENTAL RATE: \$35.00 PSF

### VACANCY RATE

**10.7%**

HISTORIC VACANCY RATE: 12.3%



Berkadia relocation - 16,936 square feet at 4445 Willard Avenue.



Management Leaders for Tomorrow new lease - 11,000 square feet at 7201 Wisconsin Avenue.

## Developer Activities in Bethesda

Carr is now emptying 7272 Wisconsin building, with the intention to begin demo at the site in the first half of 2017. There is an urgency to relocate tenants out of the space in order to deliver the Purple line metro platform so that the Purple Line can open by 2021, or 2022 at the latest.

In addition to the Purple Line platform on the building site, Carr plans to build a 350,000 square feet office building, as well as two residential buildings that could bring an additional 500 units to downtown Bethesda. According to the Bethesda Magazine article, most of these units would be rentals, but some could be for-sale condos. In addition, both of these buildings will have ground-floor retail.

Carr's newest property at 4500 East West Highway continues to land new tenants as well: TEKsystems, an IT services, staffing, and talent management company, signed a lease for 19,000 square feet. This brings the building to 90% leased.

The Donohoe Companies, who recently relocated to Bethesda at 7101 Wisconsin, purchased 4800 Montgomery Lane. Full details on the purchase have not yet been disclosed.

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## Residential: What's Going on Over on the Corner?

Drive down any street in Bethesda and you will notice all the residential construction. Here is a quick snapshot of what is under discussion and what is delivering.

Donohoe is underway with its new development of "The Rugby" on the corner of Rugby Ave and Del Ray Avenue, 4850 Rugby Avenue. This project will bring 219 new apartment units to the market, along with 12,000 square feet of retail on the first floor. It is expected to be delivered by Q3 2018.

Duball, developer of the Lionsgate, has two condo projects, Stonehall and Cheval, currently under construction that will also have first floor retail.

- Stonehall located on the corner of Battery Lane and Woodmont Avenue across from the new Harris Teeter with 46 units, hoping to draw senior leadership and doctors from Walter Reed/NIH.
- Cheval located on the corner of Fairmont Avenue and Old Georgetown Road with 71 units pulling from the same pool of buyers.

Novo Properties, a local D.C. developer and the buyer of the old Steamers Crab house site, has plans to build a multi-family building, along with first floor retail.

## Update on Bethesda Master Plan

There was a lot of back and forth, but the Planning Board finally compromised on the Park Impact Payment (PIP), and they signed off on the Bethesda Downtown Plan. The PIP will be \$10.00 per square foot, but keep in mind this is just one approach for developers when it comes to density.

Developers will have 4 options :

- (1) Develop under the standard method at 1 FAR (or below),
- (2) Purchase density from a neighboring building,
- (3) Priority sending site, or
- (4) Tap into the pool of new density that will be created with the new Bethesda Master Plan (and pay the \$10.00 per square foot park fee.

## Expectations for Available Space

If you want to be in class A on top of the metro, you are going to pay for it with rents ranging from \$42.00 - \$50.00 per square foot.

If metro is not as important to you, there are plenty of options between \$33.00 - \$37.00 per square foot.

And if you're really looking for a deal, and class is not as important to you, you can find a deal in the mid to upper \$20s.

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