

I-270 Corridor Lab Space Update

First Quarter 2015



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Market Summary

Over the past three years (2011 to 2014), the I-270 lab market has been weak, at best. For thirty-six months, the lack of new demand for lab space has been further intensified by several large blocks of new lab space coming on the market. New lab space blocks included the JCVI and GSK (previous HGS) subleases as well as Qiagen vacating their Clopper Road facilities to consolidate to their Germantown campus.

In the last quarter, however, several new funding events and the promise of growth for a variety of local life science companies are promising to turn the tide for the Montgomery County lab market. Additionally, GSK's recent announcement about plans to locate their vaccine R&D in Rockville gives a renewed sense of identity and possibilities for the life science community.

We are anticipating major changes on the near-term horizon for the Maryland life sciences market.

Major 1st Quarter Transactions



21 FIRSTFIELD ROAD

- **Novavax** – 20,000 sf new lease at **21 Firstfield Road**. This is the 3rd building that Novavax occupies on Firstfield Road (20, 21, & 22 Firstfield); continued expansion on Firstfield Road will start to make that area of Gaithersburg look like the Novavax campus.



9712 MEDICAL CENTER DRIVE

- **REGENX** – 10,000 sf new lease at 9712 Medical Center Drive. A renewed industry interest in gene therapy and resulting \$30M investment provided the emerging company with their new Rockville address to facilitate rapid growth and hiring.



9 WEST WATKINS MILL ROAD

- **Henry M. Jackson (HMJ) Foundation** – 8,000 sf expansion at 9 W. Watkins Mill Road. HMJ already occupies a substantial portion of 9 West Watkins, which made additional expansion to facilitate an NIH contract an easy decision.



401 PROFESSIONAL DRIVE

- **VRL** – 8,000 sf new lease at 401 Professional Drive. Having recently acquired a division of BioReliance, the Texas company snapped up a recently vacated block of lab space and tailored it for their diagnostic process requirements.

Market Forecast

Dramatic reduction in available lab space.

- Several large blocks expected to come off the market in the next 6 months...reducing the lab vacancy rate by up to 4% (300,000 sf) with another 1% to 2% (75,000 to 150,000 sf) reduction expected in the 12 months following.
- No new large blocks coming on the market in the next 18 months.
- Building space from scratch to facilitate specialized manufacturing requirements

Landlords are embracing new, innovative building amenities.

As an example, Alexandria Real Estate Equities built a FitLab (state-of-the-art fitness facility) in 910 Clopper Road, which is free for the use of tenants in their portfolio. Also they are planning shared amenities in 9 W. Watkins Mill Road to include: a lounge-and-relaxation area (huge TV, comfortable furniture, foosball and video games), kitchen, and conference facilities.

A potential shortage of lab space and rising rental rates are also possible in the coming months.

Depending on the size and functionality of the space, there may be several voids in the market, which calls for building new lab space. For landlords willing to provide the tenant improvement allowance needed to build new lab/office space (\$100+ / sf), the costs of building new space will be amortized into the rental rates and will result in higher price per square foot. Otherwise, tenants will need to find other sources of capital or financing to build the needed lab space.

Market Metrics

