

I-27 Corridor Lab Market Report

Market Metrics

AVAILABILITY from 4.4%
221,000 SF ↓ **2.8%**

ABSORPTION from -0.8%
120,000 SF ↑ **1.5%**

NEW DELIVERIES/ CONVERSIONS
195,000 SF

Major Transactions



1201 CLOPPER ROAD
LENTIGEN
(MILTENYI BIOTEC)
147,000 SF

700 QUINCE ORCHARD
SUPERNUS
PHARMACEUTICALS
118,000 SF



620 PROFESSIONAL
PANACEA
26,000 SF

930 CLOPPER
KITE PHARMA
26,000 SF



Market Summary

2018 started with significant activity in the first quarter, focused mainly in Gaithersburg. There were three large transactions that closed, which combined almost exceeded all of the square footage leased in 2017.

In terms of new supply there was only one new space (5,300 square feet) that came available in the first quarter. However, the conversion of two office buildings to lab signals a long-awaited turn in the market to deliver new space to accommodate growing demand in the I-270 Corridor.

Forecast

Lab availability will remain scarce as vacancy rates are expected to maintain in the sub-4% range. While options are limited, the supply of lab space caters to the small to mid-sized users in the market in the 2,500 to 30,000 square foot range.

Larger users in the market will need to get creative to find solutions. This will result in office-to-lab conversions and new ground up construction (time permitting).

Why is it so difficult to convert office buildings into labs?

When scientific hubs around the US run low on supply of lab space, the question is often raised, “why not convert existing office buildings into lab space?”. The answer has multiple factors, but here is a quick summary of just a few reasons it is not as easy as most people think...

- Physical limitations – lab space has functional needs to accommodate that can be expensive and/or disruptive to achieve in an existing office building. Some examples include: floor load capacities, HVAC segregation, additional plumbing, and electrical requirements.
- Landlord – biotech companies have a distinctive set of facility needs and funding resources. The high cost of the tenant improvements paired with their unique balance sheets mean this type of use does not appeal to most landlords unless they have a long-term view of the project as lab.
- Other tenants – scientific companies use facilities differently than typical office users. Sounds, smells, and daily operations that are common in lab buildings do not always mix well with most attorneys, accountants, and other office tenants.
- Capital outlay – the general lab component of scientific space costs approximately \$180 - \$225 per square foot (this is a rule-of-thumb and can fluctuate dramatically due to finish level, functionality, and specialization). Contrast that to the expectation for most landlords to provide \$30 to \$60 per square foot for office space...someone needs to bridge the difference.
- Location – scientific tenants characteristically prefer to be clustered around similar type organizations. There are a variety of reasons for this, such as: zoning cost and affiliations with institutions or other scientific organizations.

The key to conversion is working with a qualified, experienced team to identify and vet opportunities early in the process. Once the physical aspects of the building are qualified, the cost implications need to be assessed. Finally a lease or sale of the building will be negotiated with close attention to the operational issues of the building for the future.

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