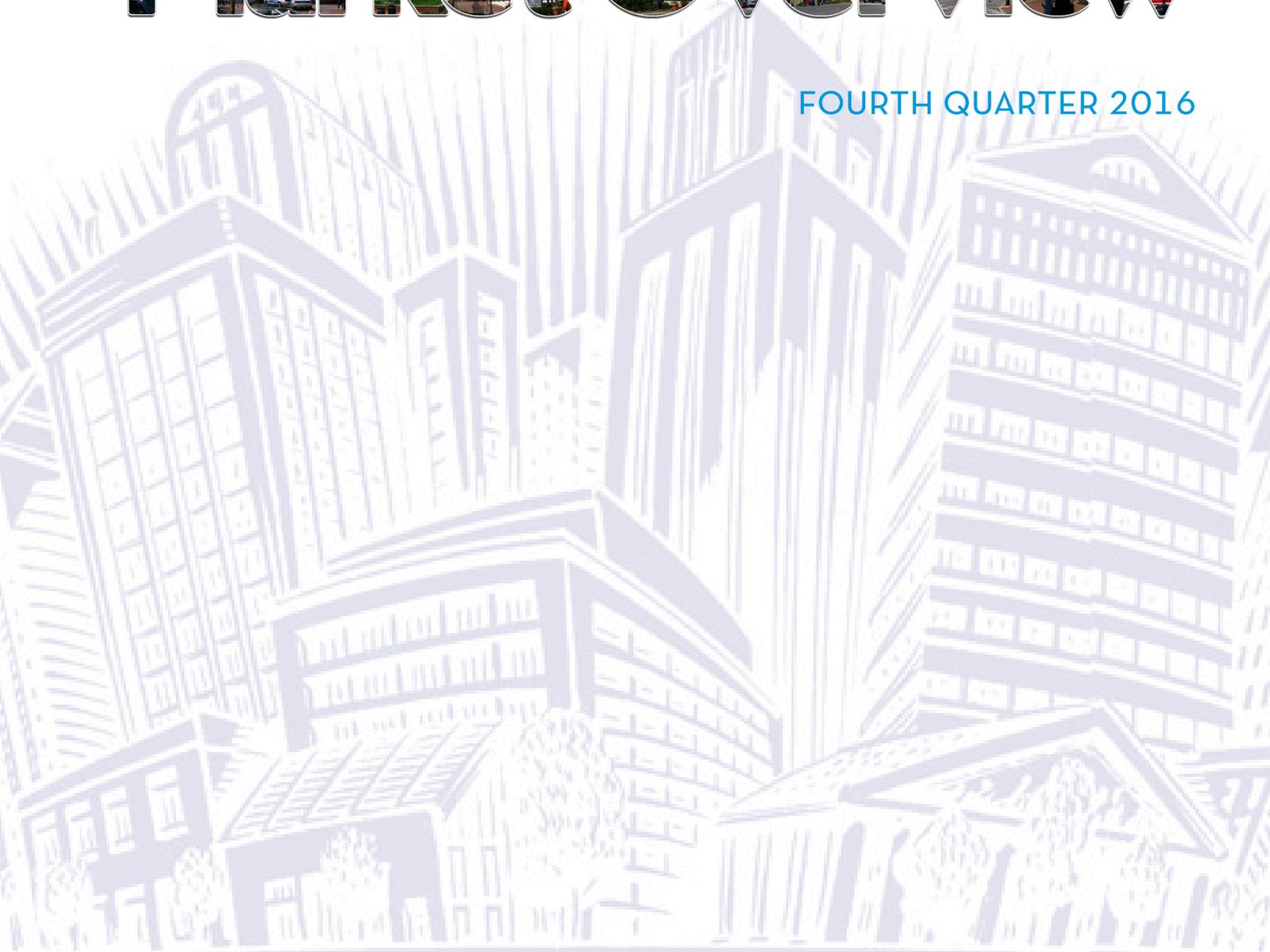


Bethesda Office Market Overview

FOURTH QUARTER 2016



Bethesda Market: Still Room at the Table for More?

Downtown Bethesda is the economic engine for Montgomery County and is home to several prestigious companies and industry-leading organizations. But in the coming years, decades, expect to see the Bethesda we know today to undergo a major transformation and possibly green space revitalization. We will know more about the future plans for Bethesda in 2017.

The Town with the Plan

The Bethesda Downtown plan was finalized this summer. The plan, which encompasses 550 pages with appendices of land-use guidance, calls for more affordable housing downtown with 15 percent set aside as moderately priced dwelling units. It also calls for a greener and more connected downtown with parks and open space a top priority, including the creation of new civic greens in areas including Veterans Park and the Bethesda Farm Women's Market as well as new urban parks, pathways and greenways.

The plan recommends retaining the existing zoning, which allows a maximum building height of 35 feet, for the Bethesda Fire Department's Fire Station 6 at Bradley Boulevard and Wisconsin Avenue, but also includes the option of creating a floating zone that would allow for additional height and density on the site. It recommends creating a greenway along the eastern edge of downtown Bethesda between the Town of Chevy Chase and the East Bethesda neighborhood that would create a network of parks and open space that would serve as buffer between commercial and residential areas.

Big Winner

Marriott also announced it has narrowed its search for a new \$600M HQ facility to Downtown Bethesda, with local incentives helping it stay in Montgomery County. The region's largest private office tenant on the market has yet to decide on a specific site, but based on its search requirements, four downtown Bethesda properties appear to be in contention.

What's Next

There has been lots of discussion about what is next for Bethesda, is new density a good thing, where will Marriott employees park (In 2022, mind you), what's going on with the Purple Line. Conversations have been lively, to say the least.

Breaking News: LOI Signed for Marriott HQ and Hotel in Downtown Bethesda

On Inauguration Day, Marriott disclosed it had signed a letter of intent with The Bernstein Cos. and Boston Properties Inc. for a new corporate home and flagship hotel at a roughly 2-acre site by Wisconsin and Norfolk avenues. This announcement indicates that Marriott is moving forward with a downtown Bethesda location and also indicates to the market major changes are right around the corner for Bethesda (in the coming years). For tenants and landlords, let the jockeying begin!

But here is something interesting to consider, with the proposed changes, Bethesda's skyline could rival Rosslyn's skyline, be second in height to Baltimore's skyline, and surpass in height the Silver Spring and Tysons Corner skyline. Is that a good thing for Bethesda? For the county? For business?

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Bethesda Office Market Overview

CURRENT AVERAGE RENTAL RATE

\$37-\$38^{PSF}

HISTORIC AVG RENTAL RATE: \$36.00 PSF

VACANCY RATE

11.2%

REMAINS FLAT. HISTORIC AVG: 12.4%

TRANSACTIONS IN THE MARKET



Cystic Fibrosis Foundation signed a lease to relocate from 6931 Arlington Road where they are on multiple floors to 4550 Montgomery where they will take 56,000 sf. They are expected to relocate late spring 2017.



Brookfield is buying the Long & Foster at 46500 East-West Highway.

MARKET SCOOP

JBG Companies is moving forward with their retail project at the corner of Woodmont and Bethesda Avenues. Rents are likely to be in the high \$50s per sq ft.