

NORTH ROCKVILLE

OFFICE SPACE MARKET REPORT

FOURTH QUARTER 2016



North Rockville Market: Great Place to Grow Your Business

It's no secret that Montgomery County is a great place to live, work and play but what might not be so well known is that North Rockville is one of the most ideal places to headquarter and grow businesses. There are a few challenges facing businesses that choose to be located in North Rockville, but those challenges are far outweighed by the opportunity and value and found here.

Market Truths

Low unemployment averages about 4% in the county. And with low unemployment, it is a challenge to find and retain employees.

Office parks are passé and North Rockville has more than its fair share of them. For businesses looking to attract the next generation of workers, targeting millennials, the suburban office park setting can be seen as "boring" or "tired". However, Landlords are making strides to combat the lack of urbanity by constructing on-site amenities like tenant lounges complete with coffee bars, fitness centers, and state of the art conference centers.

Public Transportation continues to be a challenge. With very little access to, and limited office space near the Metro, the North Rockville market remains "un-walkable". But again, landlords are aware of challenge and are working to provide concessions to ease the transportation 'heartburn.'

The Stats are clear. We're seeing a 5-year high in vacancy and a 5-year low in vacancy and while activity seems to be increasing, the data suggests it's not enough to improve the overall "health" of the market.

Market Activity

Vacancy rates remain in the high teens (18.5% to be exact) and asking rental rates actually slumped down to \$24.99 per square foot from \$25.14 per square foot from last quarter. Abundant vacancy and a low rental rate has been the message all year long, and this quarter is no different. And while this message might not be 'great' news for landlords, it is for those tenants who are looking to relocate or expand their offices.

Recent Activity

- In a true display of real life monopoly, PS Business Parks purchased 9200 and 9211 Corporate Boulevard bringing their ownership interest on Corporate Boulevard to 5 buildings, totaling over 500,000 square feet of office space.
- The owners at 1445-1455 Research Boulevard have the right to tip their cap as they completed one of the largest transactions of the year. Information Innovators, Inc will be consolidating their offices and expanding into approximately 50,000 square feet in the building. Over the next several months, the technology and health solutions company will phase itself into the building that has played host to the likes of Thomson Reuters, Suntrust Bank (corporate), and Dell Computers.

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CURRENT AVERAGE RENTAL RATE

\$24.80 PSF

HISTORIC AVERAGE RENTAL RATE: \$25.14 PSF

VACANCY RATE

19.0%

UP FROM 18.7% IN THE LAST QUARTER

TRANSACTIONS IN THE MARKET



Information Innovators consolidated their space at **1445-1455 Research Boulevard** and will be doing a phased move-in for 50,000 square feet.



Seigel & Bosworth ENT Center relocated to **15204 Omega Drive** occupying 7,000 square feet.



Alquimi moved from 9210 Corporate to **2101 Gaither Road** expanding to 8,640 square feet.

“EAST VS. WEST.” Of I-270 that is.

When it comes to vacancy in the North Rockville market, there seem to be two schools of thought. One is the PS Business Parks (PSBP) and Washington Property Company approach on the west side of 270 and the second is the Marcus Partners and JBG’s approach on the east.

On the West side, PSBP has decided to try and repeat history and have made the decision to build out a majority of their recently acquired vacancy on Corporate Boulevard (250,000 square feet) on a speculative basis. The idea behind this decision is that if there is a 1,000 - 8,000 square foot tenant in the market, they will have one, if not several, “ready to go” options to choose from. We saw their success with this approach a few years ago at their property at 7361 Calhoun Place. PSBP isn’t the only “West Side” owner to follow this model. The new owners of 1 Research Court (Washington Property Company) are moving forward with their own spec suites, albeit on a much small scale. About 3 spaces totaling 10,000 square feet.

On the East side, the owners of 2099 Gaither Road (Marcus Partners), located on the east side of I-270, are doing quite the opposite. They are not spending any money on their 115,000 square feet of vacancy and seem comfortable with waiting for large (full floor) tenants before they start spending their money. It’s likely that their strategy is also related to the future development of 30+ acres across the street from them. Inevitably, even though years away, their building will be in walking distance to new amenities being developed by 1788 Holdings making it a more attractive option in the market than it is today. In a similar scenario, the owners of 77 Upper Rock Circle (JBG) now have a vacant building on their hands after SAMSHA (Substance Abuse and Mental Health Services Administration) recently moved out of the 228,000 square foot building. They too seem to be waiting for the new development, happening in their front yard which will include a MOM’S Organic Market and CVS, to take shape before spending any unnecessary money. So, who has the right idea here? Time will tell.

Want to Grow Your Business in Rockville?

KNG Health, located at 15245 Shady Grove Road, recently expanded and were the first recipients of the City of Rockville’s Business Expansion Fund. You can read the full article here: <http://www.knghealth.com/news/kng-health-receives-inaugural-grant-rockville-business-expansion-fund>.

The Business Expansion Fund is a real thing... businesses that are located within the Rockville city limits that are looking to grow by a minimum of 1,000 square feet, the fund can provide a one-time grant of up to \$5.00 per square foot. More information on the Fund and other programs is available at www.RockvilleREDI.org/incentives.

Still a Tenant’s Paradise

The answer is “yes, North Rockville is still a “tenant’s paradise”. Despite an overall sense of increased activity, the aggressive rental rates and abundant available space make this market alluring to tenants. Landlords are still offering aggressive concession packages to keep existing tenants and attract new ones. While owners can’t pick up their buildings and move them closer to Metro or other amenities, they can certainly develop on-site amenities that mitigate the need to leave for coffee, lunch, exercise, or business meetings / events, which happens to be exactly what they’re doing.

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For additional market insight, please contact:

Aaron Gambini

Assistant Vice President

Scheer Partners

agambini@scheerpartners.com

(301) 337-4710