



MONTGOMERY COUNTY
ECONOMIC DEVELOPMENT
CORPORATION MARYLAND

2016

YEAR-END MARKET REPORT



MONTGOMERY COUNTY, MD

Montgomery County is one of the most affluent Counties in the United States. It has one of the largest and most educated populations in Maryland. Montgomery County lies on the northern border of the District of Columbia and only 30 miles south of Baltimore, making it an ideal location for companies with employees commuting from both cities. Its infrastructure and amenities—including Metrorail and roads, luxury housing and many of the nation’s top public and private schools make it an ideal location for company employees and executives.

The Montgomery County office market is centered along the I-270 Technology Corridor, Rockville Pike, nearby Bethesda, and Silver Spring. Pockets of development correspond to existing transportation infrastructure and highway access. The office market includes at least 118 major companies with 100 or more employees that are headquartered in Montgomery County such as Marriott International, Lockheed Martin, Discovery Communications, and Choice Hotels International. Several factors draw these tenants to the county, including the federal government, the highly-educated workforce, and proximity to world-class universities such as the University of Maryland, Johns Hopkins University, American University, Georgetown University, and George Washington University.

ECONOMY AND EMPLOYMENT

Along with the DC Metro Region, Montgomery County’s economy improved throughout 2016 with a constant decrease in unemployment. As of October 2016, the employment rate posted at 3.3%, a year-over-year decrease of 0.93 percentage points (pp), the lowest unemployment rate since the Great Recession began in 2008. This rate is well below the state’s rate of 4.2%. The Leisure and Hospitality sector experienced the largest amount of growth this year with the addition of 4,372 jobs, a 10.4% increase from last year. As of October 2016, Montgomery County resident employment stands at 538,011 (above the ten-year average of 512,359) (See Figures 1 and 2).

MONTGOMERY COUNTY EMPLOYMENT

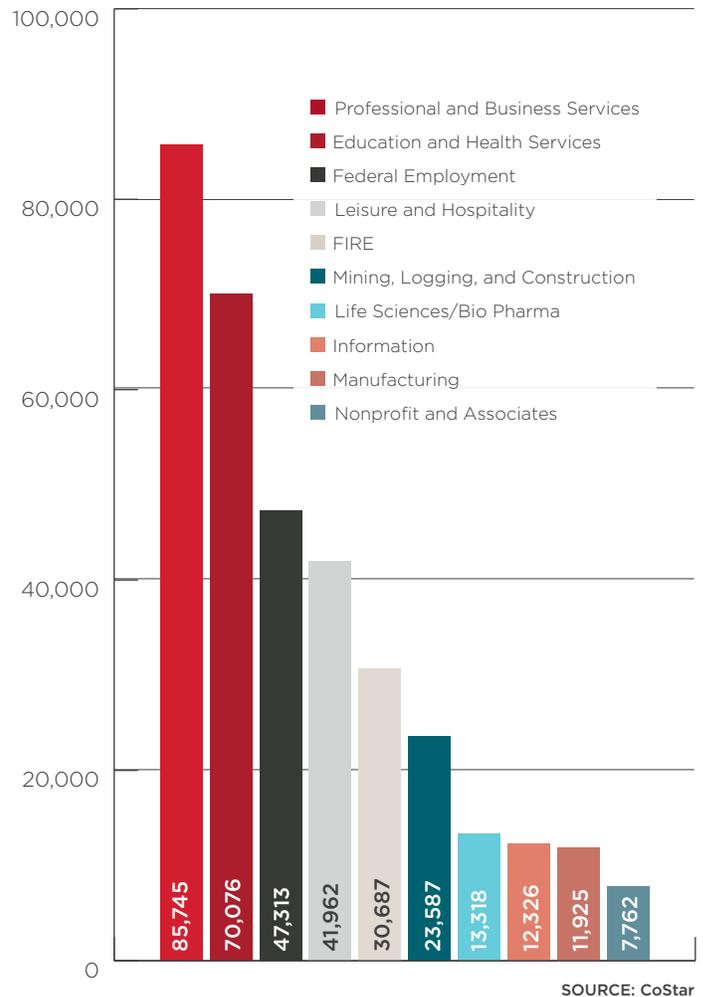


Figure 1: Montgomery County total employment as of 2015.

MONTGOMERY COUNTY EMPLOYMENT % GROWTH YOY

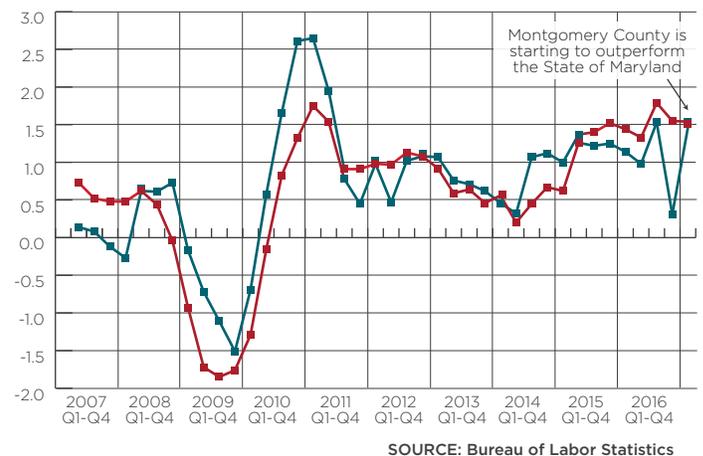


Figure 2: Year-over-year employment growth for Montgomery County.



MARKET ACTIVITY

Throughout 2016, Montgomery County was poised to continue on the road to recovery. The overall vacancy rate was 18.0% at the end of 2016, a 0.8 percentage point (pp) decrease from last year. The net absorption for 2016 registered at a positive 250,590 square feet (sf). Significant move-ins that contributed to this growth included WeddingWire's expansion at 2 Wisconsin Circle, American Society of Health-Systems Pharmacists (ASHP) relocation to 4500 East West Highway and Otsuka America Pharmaceutical, Inc.'s occupancy at 2440 Research Boulevard. At \$27.02 per square feet (psf), rents have only dropped \$0.15 per square feet since this time in 2015.

Leasing demand for 2016 recorded at 2.9 million sf, up 9.7% from 2015. The largest deal in 2016 was the renewal U.S. Nuclear Regulatory Commission at 11545 Rockville Pike for 342,922 sf. Abt Associates' relocation to North Bethesda was the largest new lease of 2016. The global research firm decided to designate Rockville as its corporate headquarters, and will occupy 154,951 sf at 6130 Executive Boulevard for a 10-year term. Other notable leases include: the National Institute of Health's (NIH) new lease at 6700 Rockledge Drive for 90,500 sf, and WeddingWire's expansion, and the renewal of 68,000 sf at 2 Wisconsin Circle (See Figures 3 and 4).

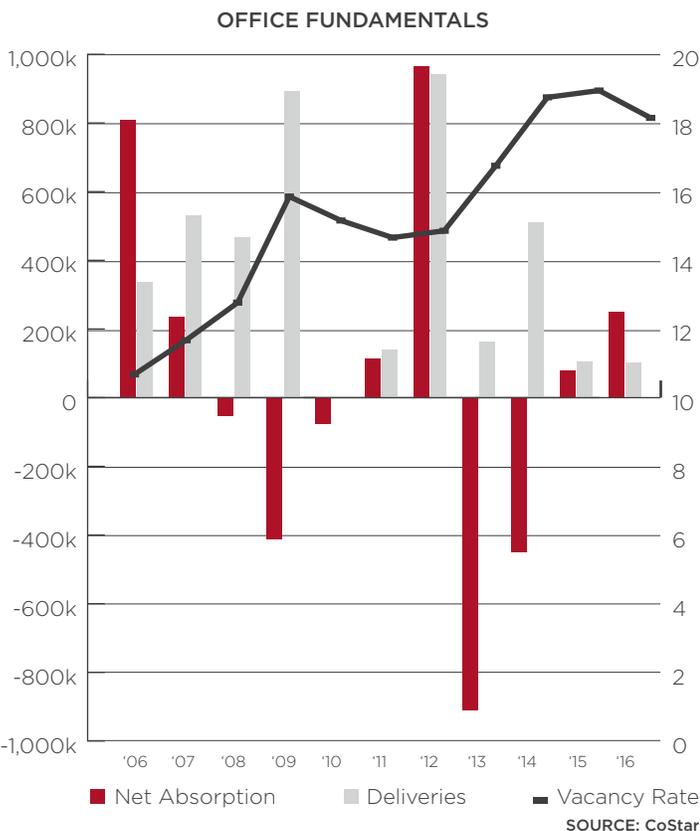


Figure 3: Showing office fundamentals over time.

HISTORICAL LEASING ACTIVITY

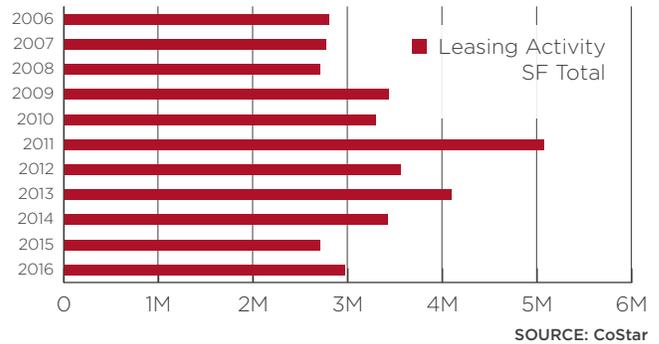


Figure 4: Historical leasing activity in Montgomery County.

HIGHLIGHTS OF 2016

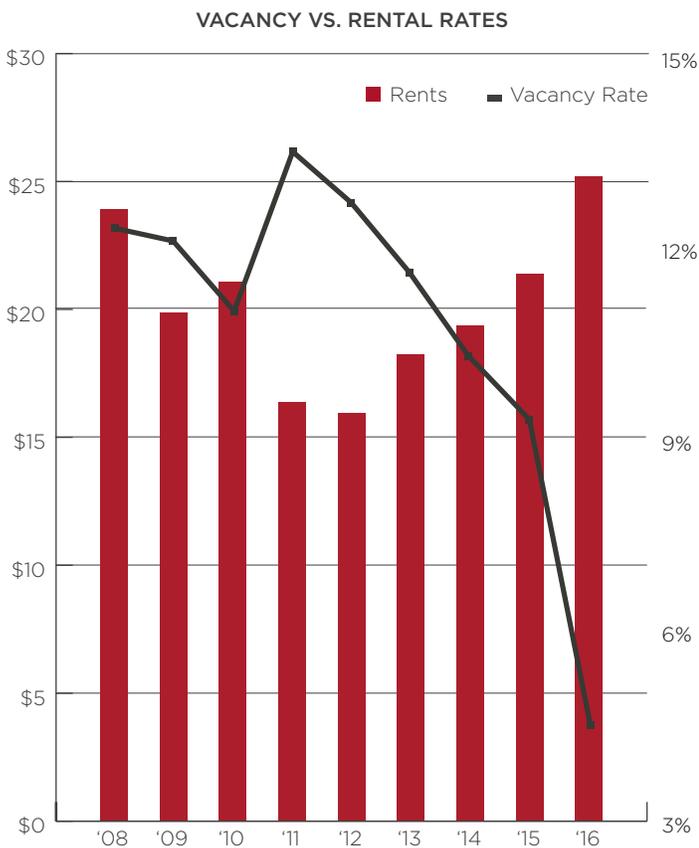
- Marriott chose to stay in Montgomery County, and will relocate its headquarters to Bethesda, MD.** Currently, Marriott International occupies almost 1.0 million sf of space at 10400 Fernwood Road.
- Bethesda-based InfoZen will continue its growth in Montgomery County.** The 20-year old firm is expanding its space at 6700 Rockledge Drive and is expected to create 100 new positions by 2017.
- GlaxoSmithKline (GSK) opened its new global research and development site in Rockville, MD to further strengthen its presence in the United States.** The facility will create about 200 jobs and the company will be investing more than \$50 million over the next two years to continuously develop the site with state-of-the-art equipment.
- American Society of Health-Systems Pharmacists' (ASHP) relocates to 4500 East West Highway.** ASHP sold their former headquarters to Carr Properties for \$105.5 million and relocated 65,776 sf to 4500 East West Highway. Carr intends to redevelop the property into a mixed-use development project.
- The Nuclear Regulatory Commission (NRC) extended its full-occupancy lease at Two White Flint North or 11545 Rockville Pike in North Bethesda for the second time, agreeing to a 15-year renewal.** The deal comes a year after the NRC began to explore other alternatives to the 348,000-square foot building.



LIFE SCIENCES

As 2016 came to a close, the Life Sciences sector experienced robust growth, increased leasing demand and declining vacancy rates. As 2016 ended, vacancy rates posted at 4.5%, the lowest it has been since the first half 2009. As 2017 opens, the main concern is the availability of lab space, especially Class-A product. At the close of the year, there was less than 100,000 sf of Class-A space available to the market. According to Scheer Partners, “the capital costs of building new labs will either be borne by the tenant or paid by the landlord.” As a result of the limited space, rents have also been on the rise and ended the year at \$25.21 NNN, an 18.0% increase from Q4 2015. Tenant demand continued to support that quality space is needed, Totaling 860,413 sf at the end of 2016. It was up from 203,639 sf at the end of 2015.

With the presence of major global companies like GlaxoSmithKline (GSK), MedImmune/AstraZeneca, Emergent BioSolutions, United Therapeutics and Qiagen—coupled with a slew of recent mergers, the region will



SOURCE: CoStar

Figure 5: To show relationship between vacancy rates and rental rates.

continue to flourish and attract other major industry players. The continued growth felt in recent years will aid in elevating the reputation of Montgomery County as a center for innovation, and lead it to a higher global profile, sparking interest from global companies and investors (See Figure 5).

DEVELOPMENT OUTLOOK

The development landscape in Montgomery County has changed significantly over the last ten years. New commercial construction was delivered in the Life Science and Retail sectors. Despite the limited office pipeline, Montgomery County has been buzzing with upcoming projects that will aid in its growth as a premier place to conduct business. Six development projects of significance are summarized below.

MARRIOTT INTERNATIONAL HEADQUARTERS



Marriott announced that it has signed a letter of intent with The Bernstein Cos. and Boston Properties Inc the selected site for its new headquarters will be located at 7750 Wisconsin Avenue, in downtown Bethesda close to the Bethesda Metro station. The site will consist of a 22-story build-to-suit office building and a 230-room flagship Marriott hotel. Marriott announced earlier in 2016 that will remain in Montgomery County, but relocate its headquarters and 3,500 employees out of Fernwood Drive and to downtown Bethesda by 2022.

APEX BUILDING



The planning board has recently given Carr Properties the green light for the redevelopment of the Apex building. This mixed-use project will consist of almost 1.0 million sf of space including office (360,000 sf), retail (14,572 sf), 480 multifamily dwellings and 800 underground parking spots. The project is expected to deliver by 2020.



SILVER SPRING INDOOR ARENA

Montgomery County recently issued a request for development proposals (RDP) to turn two downtown Silver Spring garages into a 5,000-seat indoor arena. Montgomery County Department of Transportation (MCDOT) owns the garages at 1100 and 1101 Bonifant Drive, as well as a connecting bridge between them. In a release by County Executive Ike Leggett, “the arena could be home to high school, college and pro-sporting events, as well as children’s shows, concerts and graduations.” The responses to the RDP are due April 10, 2017.

PURPLE LINE PROJECT



Despite the delay in construction, the Purple Line project is moving forward with the design work for Montgomery County stations. According to *Bethesda Magazine*, “the designs were displayed

during a public event where community members had an opportunity to meet 90 artists competing to produce artwork for the Purple Line’s 21 stations.” The 16.2-mile light-rail will be a transportation conduit between Bethesda and New Carrollton.

CANOPY BY HILTON



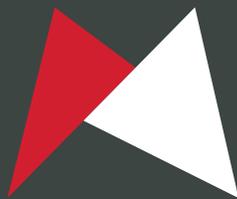
Canopy by Hilton, is a new hotel brand that is expected to cater to a younger generation of travelers. The 177-room hotel, which includes 23 suites and two Presidential suites, is located at the center of Pike & Rose. This Rockville hotel is being developed by Federal Realty and the Buccini/Pollin Group, and is expected to deliver in 2017.

THE UNIVERSITIES AT SHADY GROVE



The Universities at Shady Grove broke ground on a 220,000-sf academic complex for the Biomedical Sciences and Engineering Education Facility (BSE). Three University System

of Maryland partner research universities (University of Maryland, Baltimore, University of Maryland, College Park and UMBC) have collaborated to bring advanced degree opportunities in healthcare, biosciences, engineering and computational sciences. The building will house 10 STEM-related programs, as well as: state-of-the-art teaching facilities, clinical training facilities, collaborative learning spaces. The BSE facility is expected to open in 2019.



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