

MEMORANDUM

July 9, 2015

TO: Planning, Housing, and Economic Development Committee

FROM: Marlene Michaelson, Senior Legislative Analyst *MM*
Jacob Sesker, Senior Legislative Analyst *JS*

SUBJECT: **Briefing by Planning Department on Office Market Assessment Report**

The Planning Department recently presented to the Planning Board a research project that examined the County and regional office market. They will brief the Committee on the project and be available for questions. A two page summary is attached at © 1 - 2. The PowerPoint presented to the Planning Board is attached at © 3 - 27. The full 106 page study can be viewed at:

<http://www.montgomeryplanning.org/viewer.shtm#http://www.montgomeryplanning.org/research/documents/MontgomeryCountyOfficeFinalReport061815.pdf>

The summary of findings on the Planning Board website is as follows:

The research highlights unprecedented challenges confronting the Washington, DC region's office sector, including high and rising vacancies, flat rents, and slow absorption of new and relet space.

- Still recovering from the Great Recession, the region has been hard hit by cuts in federal spending and leasing and by shifts in the amount, type, and location of office space that tenants want.
- Most jobs created since 2010 have been in retailing, restaurants, and medical facilities instead of offices.¹
- Office tenants everywhere are reducing their square footage via new technologies, more efficient workspace designs, and practices such as telecommuting, hoteling, and benching.
- The data show that Montgomery County office centers located in mixed-use developments with quality amenities, a sense of place, and good transit connectivity are best positioned to compete. This trend is consistent with recommended land use strategies in recent County plans for White Flint, Bethesda, White Oak, and other communities.
- Single-use office developments without convenient transit or highway access are attracting fewer tenants.
- Future office development is likely to occur at a slower pace and concentrate in prime locations. Less attractive locations may not attain the level of office development and occupancy they experienced in the past.

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¹ While retail employment has been trending up, 2014 retail employment is still below 2007 retail employment.

OFFICE MARKET ASSESSMENT | MONTGOMERY COUNTY, MARYLAND

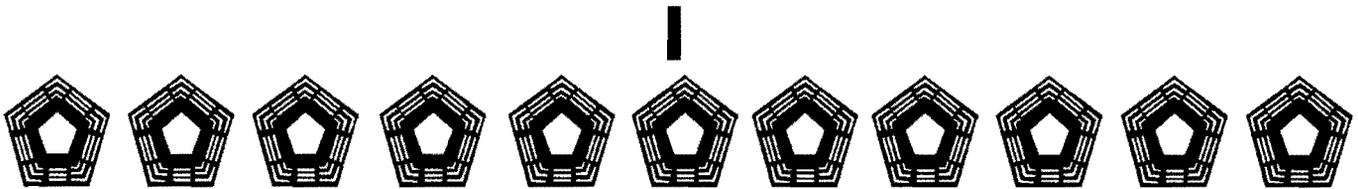
Prepared for the Montgomery County Planning Department by Washington, DC-based Partners for Economic Solution (PES), this in-depth study examines the changing regional office market and best practices for next-generation office development.

Report Findings:

The research highlights unprecedented challenges confronting the Washington, DC region's office sector, including high and rising vacancies, flat rents and slow absorption of new and relet space.

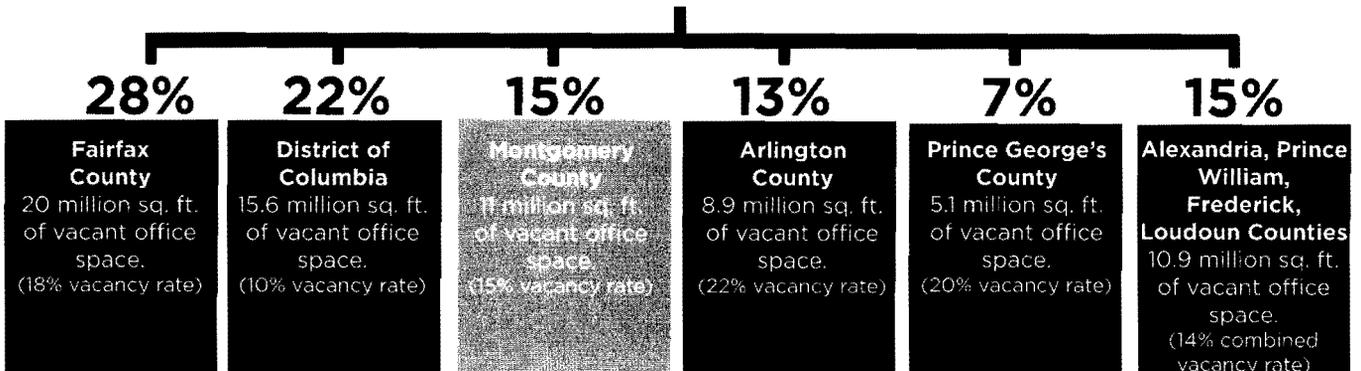
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71.5 million square feet of vacant office space in the Washington, DC region.



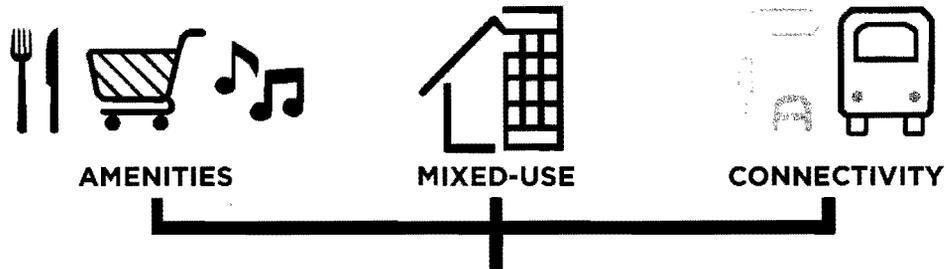
That's 11 Pentagons worth of unoccupied office space across 9 counties.

Percentage of regional vacant office space:



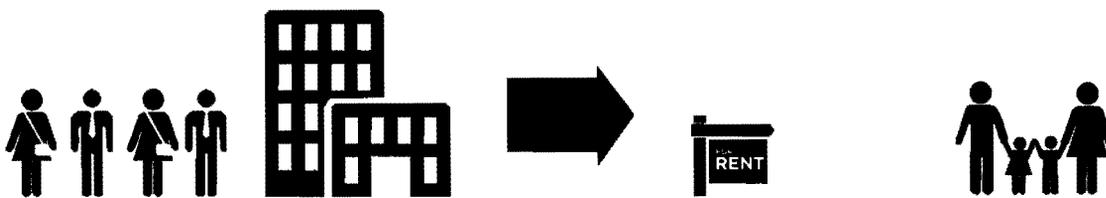
OFFICE MARKET ASSESSMENT | RECOMMENDATIONS

UPDATE EXISTING OFFICE CENTERS



Create or retrofit office environments that can attract today's tenants by adding amenities, mixed uses and better transit or highway connections. Offer incentives to renovate existing office buildings near transit or in mixed-use areas.

REPURPOSE NON-COMPETITIVE SPACE



Allow vacant office buildings to be converted to housing, hotels, schools or other uses. Facilitate site assembly to help owners of older, small office buildings redevelop. Revisit plans for approved but unbuilt suburban office parks; consider redirecting development capacity to more competitive locations. Remove zoning impediments to redevelopment and diversification.

ATTRACT AND RETAIN OFFICE USERS



Intensify County economic development initiatives, including business attraction and retention, workforce development, technical assistance and support for local entrepreneurs, in order to boost demand and compete more effectively for office tenants region-wide.

The full Office Market Assessment Report may be found at <http://montgomeryplanning.org/research/officestudy.shtm>



For additional information, please contact Lisa Madigan Tate, Regional Economist
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The New Office Landscape

presentation to the
Montgomery County Planning Board
June 25, 2015

Research + Special Projects Division
MONTGOMERY COUNTY PLANNING DEPARTMENT



The New Office Landscape

Montgomery County, Maryland

OFFICE
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OVERVIEW

Lisa Madigan Tate, Research + Special Projects Division staff

- Purpose of study
- Office market indicators
- Regional economic forces

ANALYSIS + RECOMMENDATIONS

Anita Morrison, Partners for Economic Solutions (PES)

- Office market restructuring
- Outlook for Montgomery County
- Recommendations



Montgomery County, Maryland

**OFFICE
MARKET
ASSESSMENT
REPORT**

**Purpose
of Study**

Purpose of study

Land use implications

- Rezoning / Conversion Requests
- Pipeline of Approved Development
- Master Planning
- Transportation Planning

Great Seneca Science Corridor - Approved Conversions to Date			
Plan No.	Plan Name	Commercial Square Feet to be Converted	Residential Units
11986186A	Hanover Shady Grove	120,063	366
120120180	Mallory Square	112,358	371
11996112A	Camden Shady Grove	155,330	475
Total		387,751	1212

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Earnings & Wages

Office jobs are critical to our economy

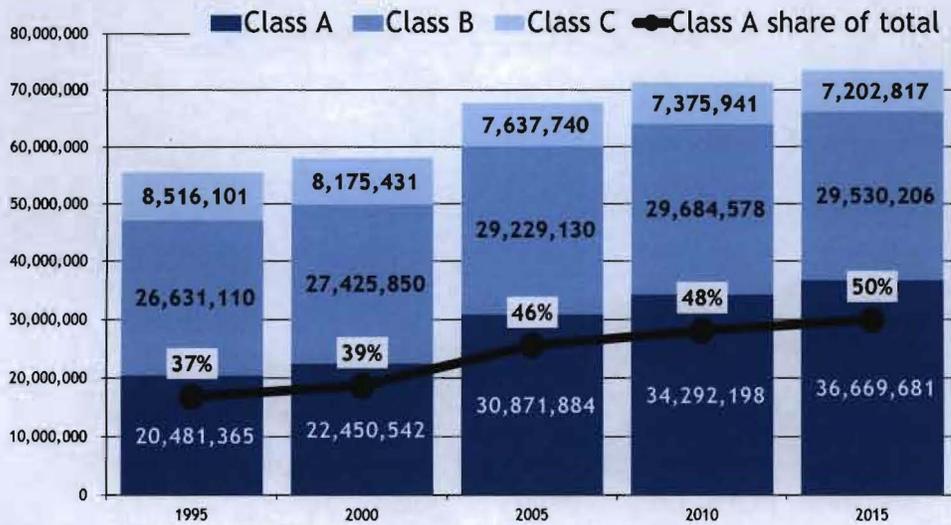
Average Weekly Wage by Industry in Montgomery County



4 major industries based in offices
 =
41% of all jobs
 +
55% of total wages
 in
 Montgomery County

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Earnings & Wages

Office property values are an important component of the County's tax base.



Source: CoStar

Goals of study

- Analyze trends in depth
- Not purely anecdotal: quantify impacts, outlook
- Identify best practices
- Recommend tangible land use and related strategies

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Earnings & Wages



Maryland-National Capital Park and Planning Commission

Montgomery County, Maryland

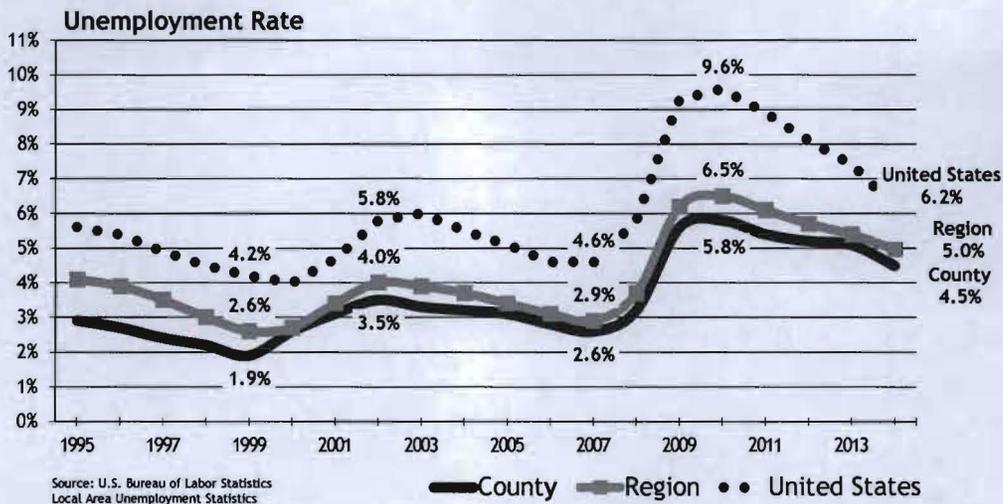
**OFFICE
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REPORT**

**Office
Market
Indicators**



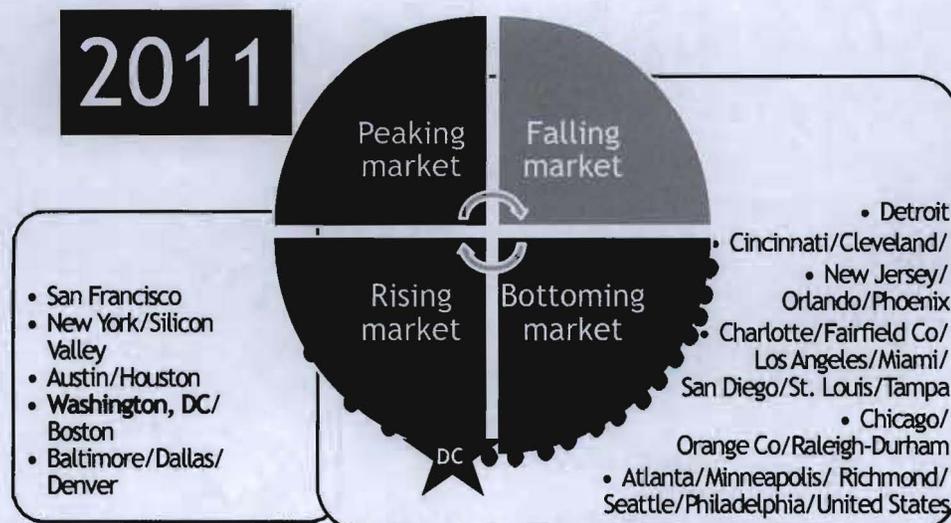
Maryland-National Capital Park and Planning Commission

The job market is recovering



Montgomery National Capital Park and Planning Commission

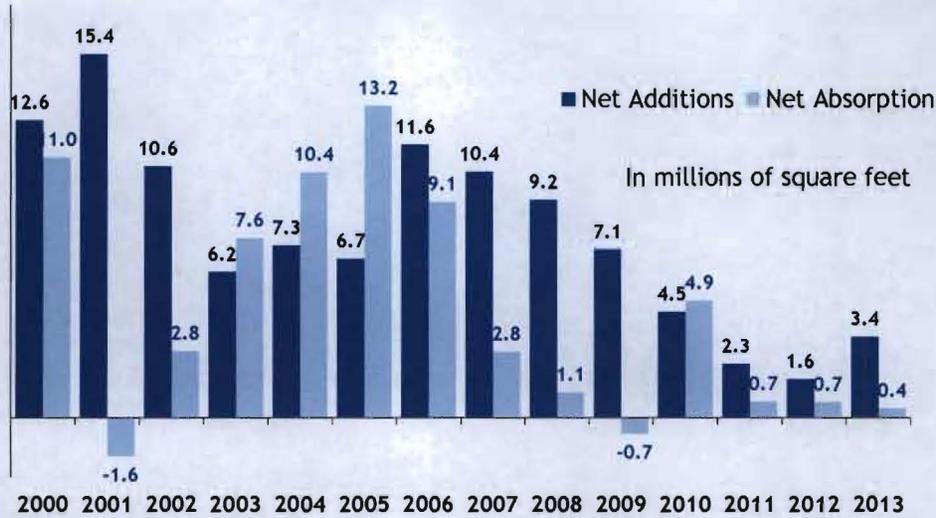
The region's office market was starting to recover



Montgomery National Capital Park and Planning Commission

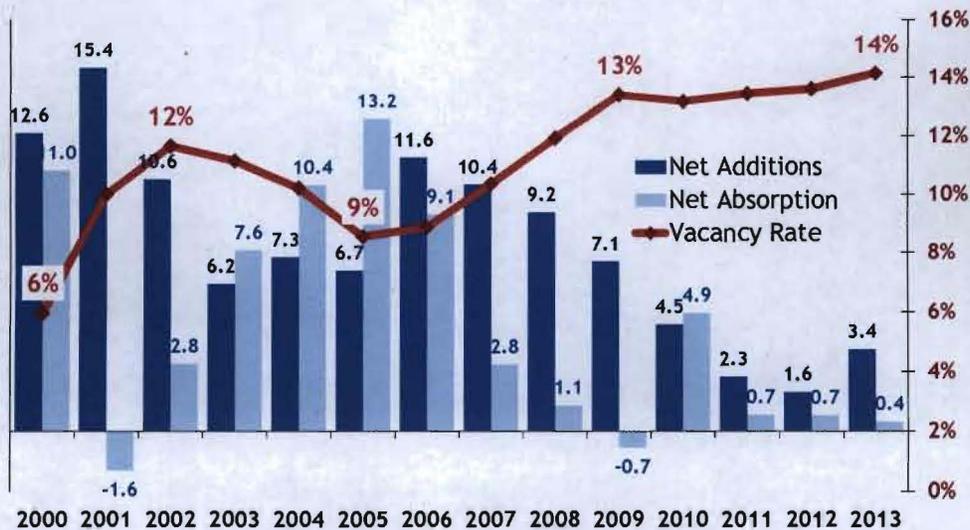
Jones Lang LaSalle
2011 OFFICE PROPERTY CLOCK

New space was added despite slowdown.



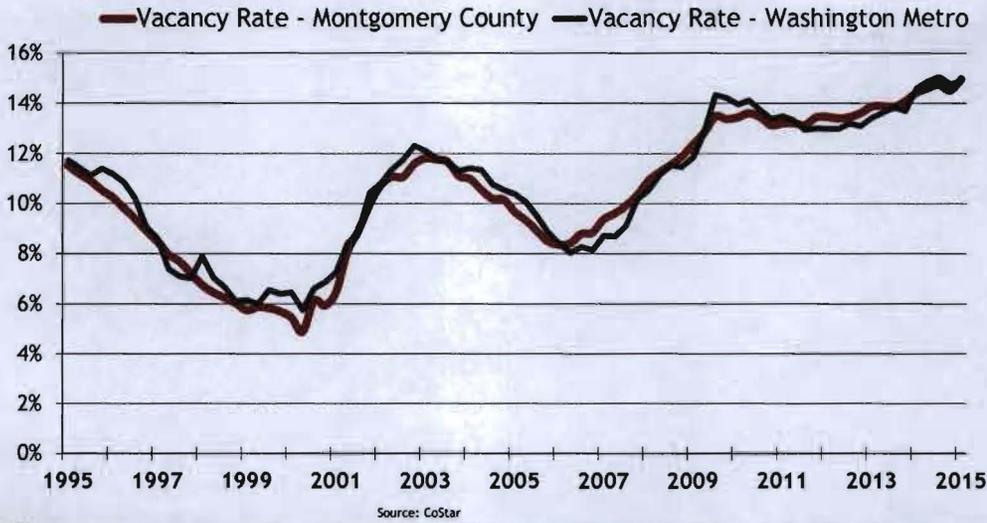
Source: CoStar

Result = rising vacancies

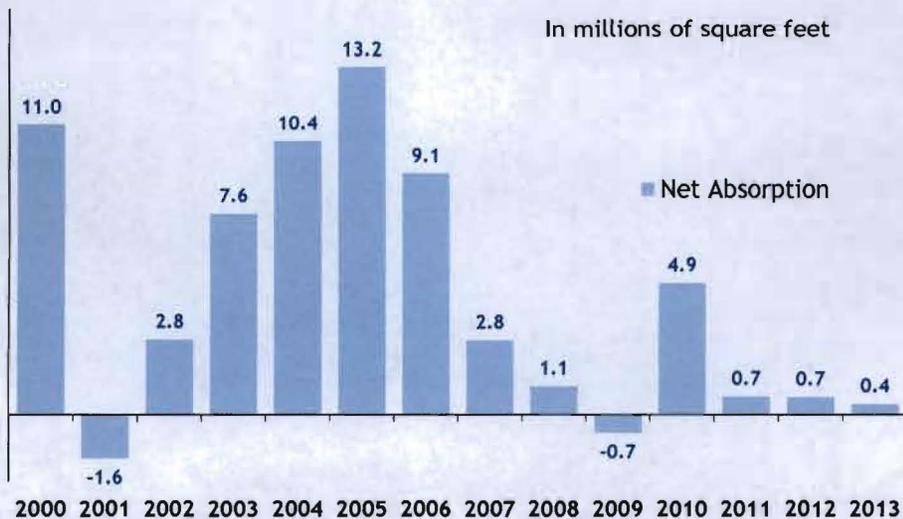


Source: CoStar

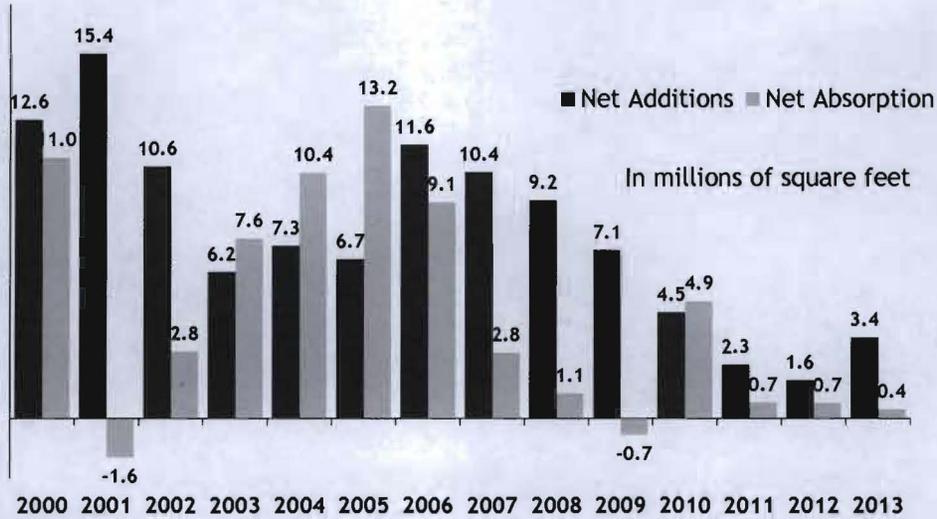
This is a region-wide phenomenon



The regional office market is stagnating.



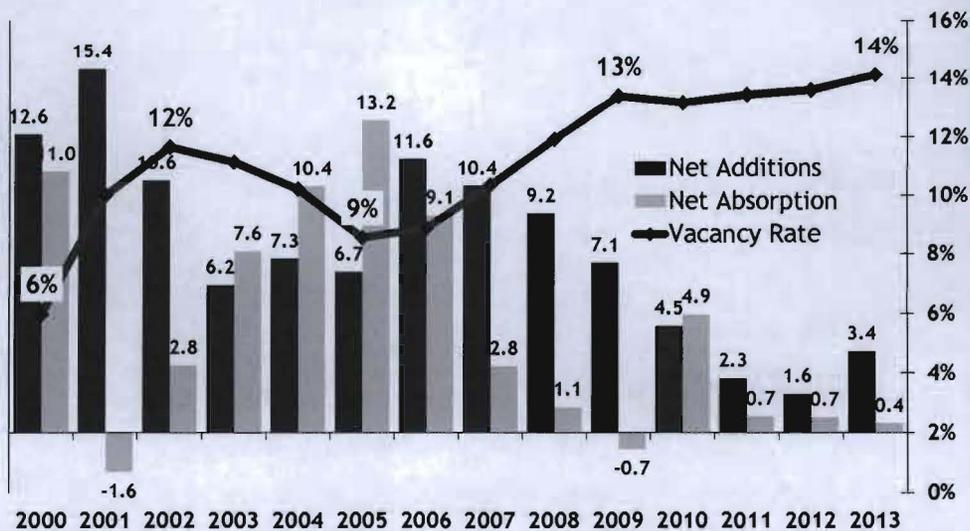
New space was added despite slowdown.



Source: CoStar



Result = rising vacancies

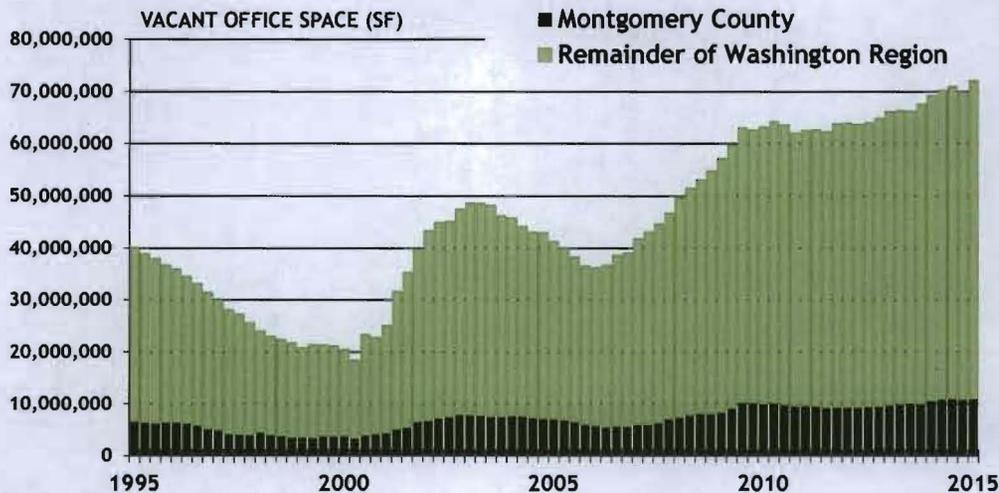


Source: CoStar



(10)

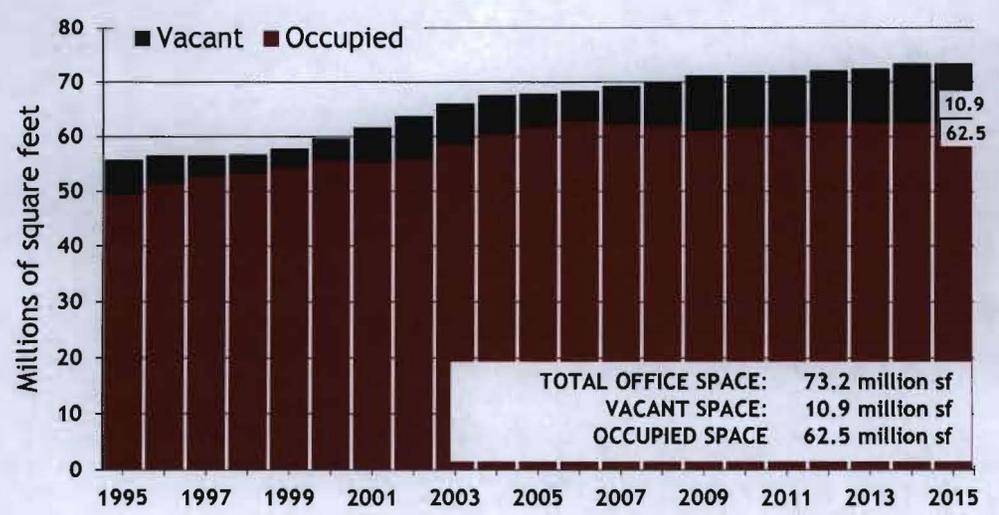
The region has +72 million square feet of vacant office space



Source: CoStar



The County has nearly 11 million square feet of vacant office space

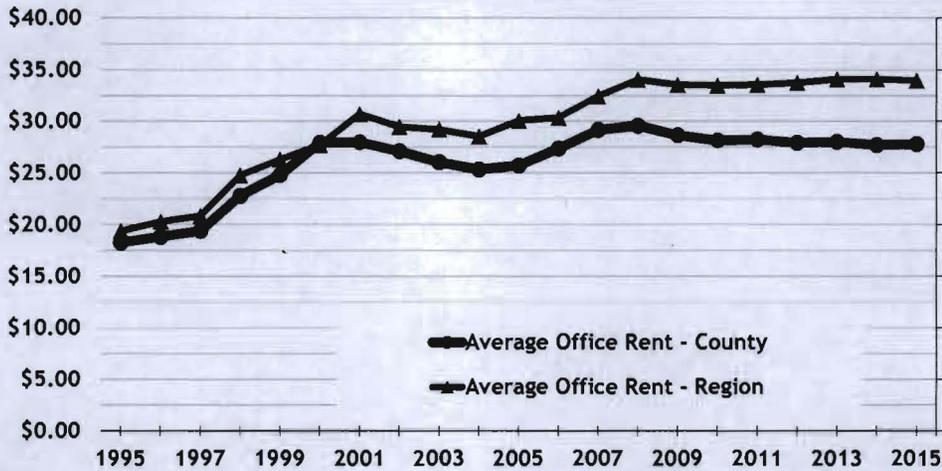


Source: CoStar



Rents are flattening

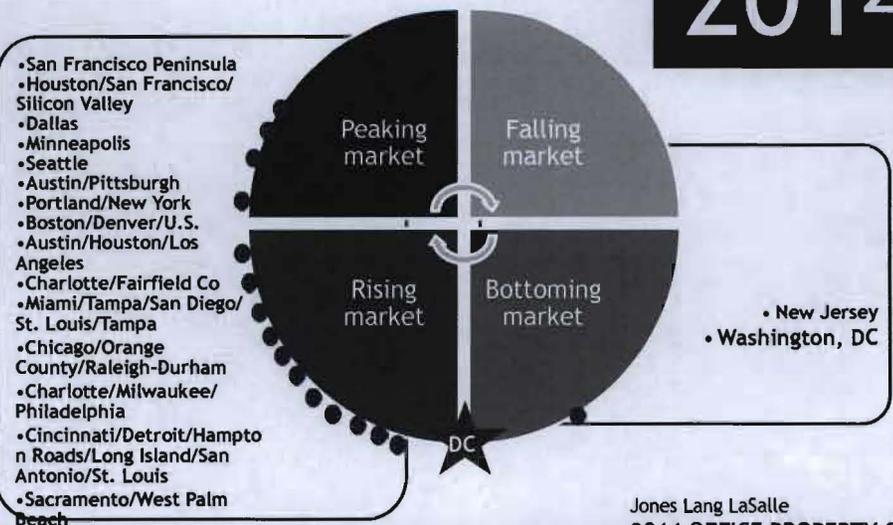
Average Asking Office Rent, 1995 to 2015



Source: CoStar

The Washington region now trails most office markets in the U.S.

2014

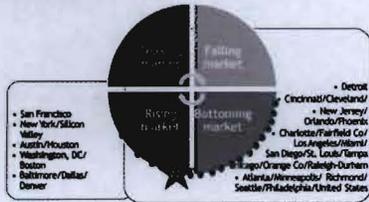


Jones Lang LaSalle
2014 OFFICE PROPERTY CLOCK

12

What happened to the office market recovery?

2011 The Washington office market was stronger than most



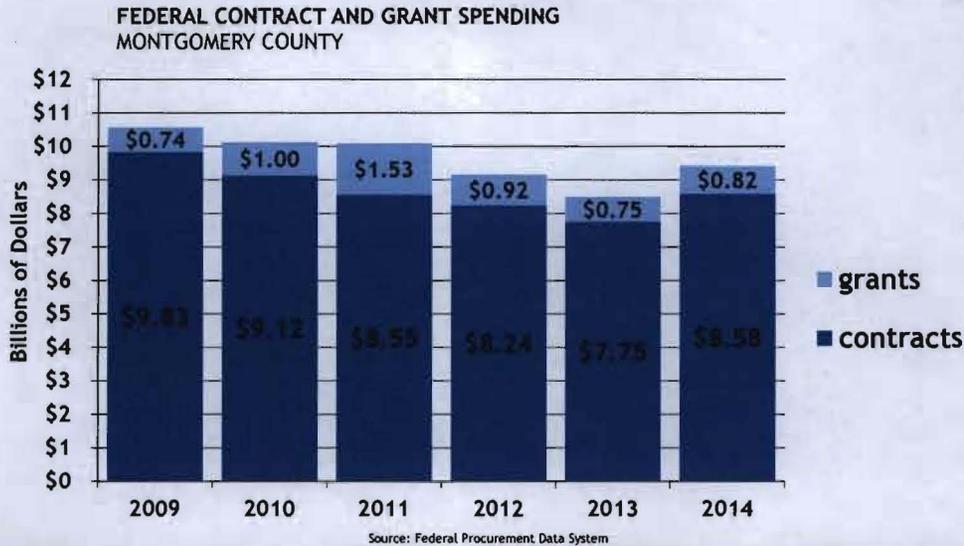
- Regional Economic Shocks
 - Federal budget cuts
 - Sequestration
 - Federal consolidation
- Structural Changes in the Office Industry
 - Shrinking office spaces
 - Changing location preferences

Montgomery County, Maryland

**OFFICE
MARKET
ASSESSMENT
REPORT**

Regional Economic Forces

Federal spending cuts, sequestration strained area businesses and non-profits



Montgomery National Capital Park and Planning Commission

Office jobs in the County were hard hit by federal budget turmoil



Source: Bureau of Labor Statistics, Quarterly Census of Earnings & Wages

Montgomery National Capital Park and Planning Commission

Bipartisan agreement: cut leasing costs



Nuclear Regulatory Commission

GSA: Freeze the footprint

- Reduce leased space
- Use space more efficiently
- Consolidate into government-owned buildings

Montgomery County, Maryland

OFFICE MARKET ASSESSMENT REPORT

Office Market Restructuring

MONTGOMERY COUNTY PLANNING DEPARTMENT

Maryland National Capital Park and Planning Commission

Office market restructuring

Changing Use of Space

- Technology cuts the cords that bound workers to their offices
- New economy businesses seek flexible spaces that encourage collaboration
- Innovative office designs increase employee density
- Less file storage and library space



Courtesy of Smith Group/JJR

MONTGOMERY COUNTY PLANNING DEPARTMENT

Maryland National Capital Park and Planning Commission

GSA adopted downsizing trends to cut space utilization



Federal downsizing will continue

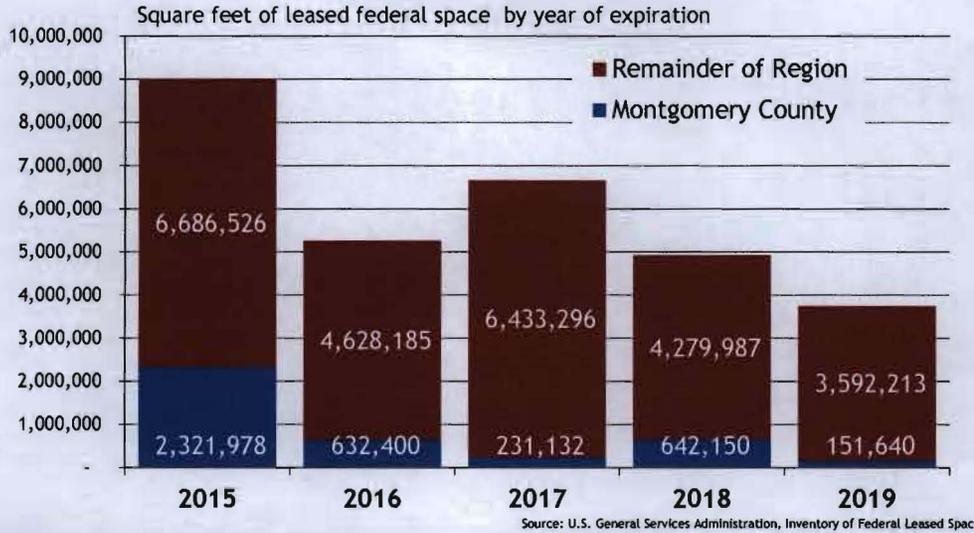
Consolidation into GSA-owned space: National Institute of Allergy and Infectious Diseases



Consolidation of federal leased space: National Institutes of Health in Rock Spring



2.3 million square feet of Federal office leases expire in 2015



Companies dependent on knowledge workers are voting with their feet



- Transit access, primarily Metro
- Mixed-use environments
- Sustainable buildings
- Pedestrian-oriented areas



Office tenants are seeking out more accessible mixed use environments



RESTON TOWN CENTER



PIKE AND ROSE



NAVY YARD



MOSAIC DISTRICT



TYSONS CORNER CENTER



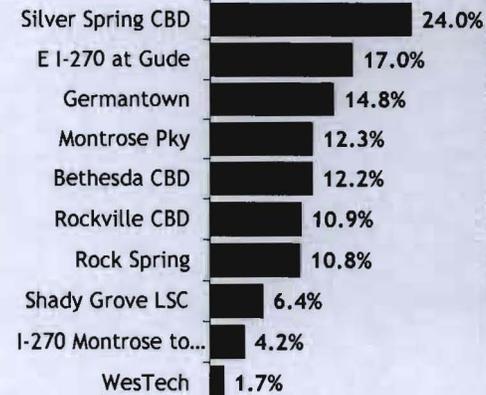
NOMA

Single-use, auto-oriented office parks are losing their appeal

2014
VACANCY RATE BY AREA

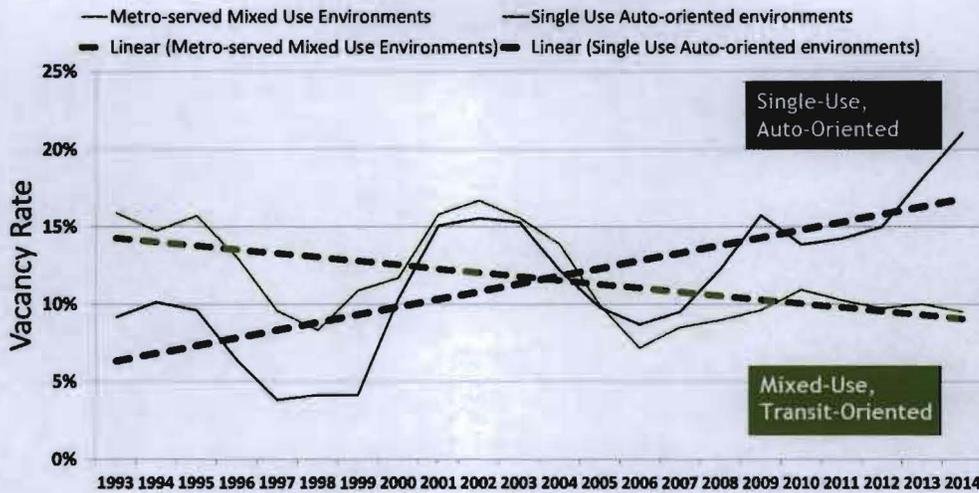


1995
VACANCY RATE BY AREA



Source: Partners for Economic Solutions

Single-use, auto-oriented office parks are losing their appeal



Source: Partners for Economic Solutions



Montgomery County, Maryland

**OFFICE
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Outlook for Montgomery County



Future Montgomery County Office Vacancies

Even with no new construction, acceptable vacancy levels are unlikely until **2022**

2019

- Vacancy rate: 10.4% to 15.2%
- Vacant space: 7.6 to 11.1 million sq. ft.

2022

- Vacancy rate: 7.1% to 14.8%
- Vacant space: 5.2 to 10.8 million sq. ft.

Analysis projects a soft regional office market for the next 5 to 10 years

- Office construction slowdown
- Uptick in conversions, demolitions, re-zoning, plan revisions
- Shopping for office space/ flight to quality
- Location, location, location

Some locations will recover; some will be unable to compete

<p>Best prospects</p>		<ul style="list-style-type: none">• Quality properties• Walkable, mixed-use environments• Easy transit/highway access
<p>Worst prospects</p>		<ul style="list-style-type: none">• Obsolete buildings• Auto-centric, single-use environments• Poor accessibility• Isolated from worker housing, amenities and business centers

Implications for the Future

- New construction focused in prime locations, mixed-use with transit and quality public spaces
- Transit connectivity is increasingly important
- Limited demand for single-use office parks and campuses
- Pipeline of 22.7 million office square feet
 - Mostly in less competitive locations and configurations

Implications for the Future



- Declining property values and taxes
- Conversions to other uses
- Demolitions

Montgomery County, Maryland

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REPORT

Strategies &
Best Practices

Best Practices



Rockville Town Center



Signature Theater in Shirlington



Reston Town Center



Capitol Riverfront



Transforming Office Parks

- Rezone for mixed uses
- Subdivide laboratory building
- Repurpose for hospitals
- Add retail, hotels and apartments by moving parking into garages
- Create pedestrian infrastructure



3rd Avenue in Northwest Park,
Burlington, MA



Enhance Office Environments

- Continue to invest in transit
- Enhance walkability and connectivity
- Events and programming to enliven districts
- Partner with developers to diversify existing office parks
 - Remove any zoning impediments to redevelopment
 - Provide incentives for building improvements

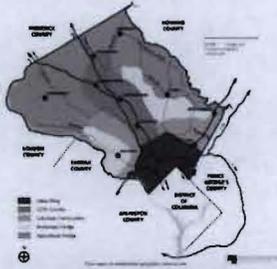
Reduce Non-Competitive Space



- Encourage conversion to other uses: housing, hotels, public schools
- Encourage demolition and redevelopment by facilitating assembly of small office sites
- Discourage new development that can't compete

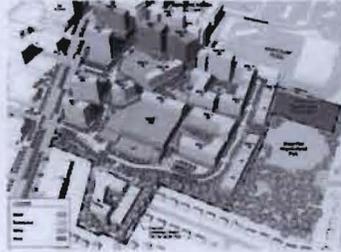
Montgomery County has planned ahead of major market trends

COMPACT DEVELOPMENT



MIXED USE ZONING

CREATING NEW URBAN CENTERS



RETROFITTING SUBURBAN OFFICE PARKS

TRANSIT ORIENTED DEVELOPMENT



URBAN DESIGN / PLACEMAKING



Increase Office Demand

- Support economic development
- Fund economic incentives for large tenants
- Provide landlord incentives for small tenants
- Invest in the local workforce
- Protect and enhance the local quality of life



Prioritize

- Support existing mixed-use districts rather than creating new districts
- Not every Metro or light rail station can attract significant office development
- Target office park redevelopment incentives
 - Opportunity for dense, walkable environment
 - Good accessibility and visibility
 - Available sites or vacant buildings
 - Residents + businesses to support retail + restaurants
 - Willing owners



Montgomery County, Maryland

OFFICE MARKET ASSESSMENT REPORT

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Access the full report at
<http://www.montgomeryplanning.org/research>

