

PHED Committee #2B
July 10, 2017

MEMORANDUM

July 6, 2017

TO: Planning, Housing, and Economic Development (PHED) Committee

FROM: Marlene Michaelson, Senior Legislative Analyst
Nicole Rodriguez, Summer Associate

SUBJECT: Rock Spring Master Plan

This is the Planning, Housing, and Economic Development (PHED) Committee's first worksession on the Rock Spring Master Plan. A separate memorandum from Glenn Orlin addresses the transportation and school issues in the Plan. This memorandum addresses all other Master Plan issues except property specific recommendations, which will be addressed at the next meeting on July 17.

Councilmembers should bring their copy of the Plan to the meeting.

BACKGROUND

Rock Spring is a 535-acre area located in the North Bethesda area of the County, near the nexus of Interstates 495 and 270. The central portion is a typical suburban office park with buildings that are widely dispersed, centered within their large sites, and with sizable setbacks and ample surface and garage parking. The area also includes a large regional mall, other retail uses, a multi-family residential complex, and a public high school. Established residential neighborhoods surround the Plan area. A proposed transitway would link Rock Spring to the Grosvenor-Strathmore Metrorail station.

In the 1970s and 1980s, Rock Spring was one of Montgomery County's premier office parks and employment centers, with companies including Lockheed Martin, IBM, and Marriott International, and offices occupied by medical and professional services and consulting firms. By the late 2000s, the premier status of the office park began to weaken and office vacancy rates climbed. Rock Spring, like other areas with office parks throughout the country, is being impacted by decreased demand for office space and a preference for transit-served and amenity-rich locations. Although it still has a high percentage of Class A space (87 percent, compared to 50 percent countywide), the current vacancy rate is 22.3 percent and could increase to 39 percent when Marriott relocates. While the office market faces challenges, the area's retail establishments continue to thrive. Well-established, in-demand residential neighborhoods surround Rock Creek and help bolster the retail offerings.

Summary of Best Practices/Alternatives for Office Vacancies

Since increased vacancies in office parks is a nationwide trend, Staff undertook a review of studies on this topic and the experiences of other jurisdictions. A summary is presented below. Attached on © 1-6 are Executive Summaries of reports prepared for the County and the Rock Spring area. In this Master Plan the Council will focus on zoning tools, but the summary which follows presents a more comprehensive list of strategies to address office vacancies.

Mixed Use

One of the most highlighted solutions for vacant traditional office buildings is to transform the buildings and area into a more connected mixed-use environment. These areas promote pedestrian and cyclist pathways, green spaces, and the intersection of residential, retail, and commercial spaces.¹ In conjunction, an additional recommendation is to eliminate parking requirements and encourage the use of transit alternatives and shared parking solutions.² Tied to mixed-use development is supporting community development organizations, non-profit developers, and small-scale developers.³ Leaders can also support locally-owned businesses that can diversify the local economy and promote a sense of community.⁴ The Rock Spring Plan recommends rezoning several of the properties with Employment Office (EOF) zoning to mixed-use Commercial/Residential (CR) or Commercial/Residential Town (CRT) zoning.⁵

Adaptive Reuse

The focus of adaptive reuse is to keep the original outside structure of the office building, but to adapt internal features to increase “the ability to attract tenants, investment returns, meeting employee needs, marketability, maintenance and repair costs, operating costs, productivity levels, employee retention rates and market value”. In addition, owners focus on comparing forecasts of performance to evaluate how the building is meeting the needs for spatial, human resource, and operational requirements for an overall desire for financial savings and reduction in productivity losses.⁶ In Los Angeles, the government fosters adaptive reuse through ordinances and regulations that increase development flexibility. Overall, these include financial incentives such as tax credits and reduced code and zoning requirements. This encourages commercial building owners/developers to focus on reuse rather than building additional offices or demolition.⁷ Several additional studies mention the need for local governments to adopt adaptive reuse policies within the zoning code, increase flexibility via building codes, and provide financial incentives for developers.⁸

¹ <https://www.cnu.org/publicsquare/market-based-retrofit-suburban-strip-corridors>

² <http://baltimore.uli.org/wp-content/uploads/sites/11/2014/11/NTHP-BALTIMORE-REPORT.pdf>

³ http://chicago.uli.org/wp-content/uploads/sites/16/2015/06/PGL_PBRChicago_FullReport_SinglePageView.pdf

⁴ <http://baltimore.uli.org/wp-content/uploads/sites/11/2014/11/NTHP-BALTIMORE-REPORT.pdf>

⁵ A description of each of the zones used in the Rock Creek Plan is attached at © 7-10.

⁶ https://www.researchgate.net/profile/Peter_Love2/publication/240428213_The_rhetoric_of_adaptive_reuse_or_reality_of_d_emption_Views_from_the_field/links/0f317534636b90ee60000000.pdf

⁷ Bullen, P., Love, P. (2009). “Residential regeneration and adaptive reuse: learning from the experiences of Los Angeles.” *Structural Survey* Vol. 27 (5) 351-360. <https://doi.org/10.1108/02630800911002611>

⁸ http://chicago.uli.org/wp-content/uploads/sites/16/2015/06/PGL_PBRChicago_FullReport_SinglePageView.pdf
<http://baltimore.uli.org/wp-content/uploads/sites/11/2014/11/NTHP-BALTIMORE-REPORT.pdf>

Conversion

Several cities throughout the nation have touted their success in converting vacant office buildings into either residential or academic purposes. It is important to note that these buildings were either older structures, classified as Class B or C, or were in locations where space was in extremely high demand (urban areas). Conversions must take into consideration the structure of the building for either option. Specifically, for residential conversions, there are concerns regarding density increases, floor plans, and HVAC utilities and window locations. Cities like New York City, Chicago, Philadelphia, Boston, San Francisco, Cleveland, Dallas, Milwaukee, Kansas City, and St. Louis have increased their office to residential conversions. This successfully dealt with the decline in demand for the typical office space buildings that were older Class B or C, and increased need for residential spaces.⁹ Some locations have successfully converted buildings into schools when they have reached capacity in their original building.¹⁰ A report prepared by Bolan Smart Associates for the Planning Department presents their conclusion that existing office buildings in Rock Spring are “generally not ripe for near to medium term residential conversions”, that “continued office reinvestment is still market viable” and that the “cost threshold [for conversion] is prohibitive”.

Revitalization

Another solution is to revitalize the office space to attract employers and employees. Instead of a traditional office layout, new developers are utilizing aesthetically pleasing layouts, open office floor plans, and upgraded technology systems.¹¹ They are also including lifestyle amenities such as gyms and rooftop bars. Additionally, they create central courtyards to foster a greener environment (see footnote 10). Another reason to revitalize vacant buildings is to avoid the concept of “greyfields” which, due to their visual and vacant state, can have a negative impact on the area.¹²

Demolition

According to a Commercial Real Estate Analysis & Investment report, the demand for office space is inelastic due to the inability to “remove” office buildings if demand falls.¹³ If the building is less than 30 years old, it is extremely rare that owners demolish it; in fact, most buildings remain for more than 50 years (especially large Class A structures). If an owner considers demolition, they focus on the building’s long-term operational costs and requirements.¹⁴ However, if the buildings are not old, most remain standing.

⁹ **Williams, S. (July 22, 2016) “Solving Two Problems: Converting Unused Office Space to Residential. *Urban Land*.** <https://urbanland.uli.org/industry-sectors/residential/solving-two-problems-converting-unused/>

¹⁰ https://www.washingtonpost.com/news/digger/wp/2014/10/08/what-to-do-with-dying-suburban-office-buildings-turn-them-into-schools/?utm_term=.11bfb19b20c3

¹¹ <http://www.naiop.org/en/Magazine/2014/Winter-2014/Development-Ownership/Repositioning-Yesterdays-Buildings.aspx>

¹² <https://pdfs.semanticscholar.org/b93b/19662596ca8fed80e43c2c11c69974e3d752.pdf>

¹³ https://www.researchgate.net/profile/Norm_Miller/publication/245702364_Commercial_Real_Estate_Analysis_and_Investments/links/542eca4b0cf27e39fa965dea.pdf

¹⁴ https://www.researchgate.net/profile/Peter_Love2/publication/240428213_The_rhetoric_of_adaptive_reuse_or_reality_of_demolition_Views_from_the_field/links/0f317534636b90ee60000000.pdf

Incentives for Developers

One of the main issues with vacant office buildings is the lack of control local governments have over their use. While they can change the zoning for specific properties or areas, owners and developers can decide what to do with that space or whether to reuse or demolish the building to satisfy market values and economic conditions surrounding the property.¹⁵ However, local governments can use legal and financial tools to promote reuse when vacant and/or dilapidated buildings have a negative impact on the surrounding communities. This is clearly not the case with Rock Spring. Nonetheless, the legal tools include code enforcement, Vacant Property Registration Ordinances, holding lenders accountable through law (i.e., lenders who foreclose maintain the property), nuisance abatements, vacant property receivership (temporary control of vacant property), gaining control of a property (motivate owner to rehabilitate), tax foreclosure, land banking acquiring the property, and eminent domain.¹⁶ Local governments can also use financial tools such as tax increment financing (to subsidize current development and improvement projects), tax abatement (incentivize development), usage of the general fund, and a revolving loan fund (covers the gap in financing development). (See footnote 18.)

Green Retrofitting

While not necessarily a best practice in office building usage, several studies from Australia highlight the importance of retrofitting existing (vacant) office buildings to remain sustainable, reduce energy consumption, and combat greenhouse gas emissions.¹⁷ This promotes a sense of corporate social responsibility that helps the environment and is in line with the values of the incoming generation of workers. The office building's location, structural integrity, and layout must be taken into consideration prior to retrofitting. In Baltimore, a retrofitted building that went green became a new Class A space that attracted technology and finance tenants.¹⁸ While a different approach to retrofitting, an Urban Land Institute report focused on the City Parks Alliance, which hosted a federal funding strategy to demolish vacant buildings and repurpose them as parks to increase employment and improve the green environment.¹⁹

¹⁵ <https://pdfs.semanticscholar.org/b93b/19662596ca8fed80e43c2c11c69974e3d752.pdf>

¹⁶ https://icma.org/sites/default/files/306216_eppigbrachman-commercialvacantproperties-may14.pdf

¹⁷ **Bruce, T., Zuo, J., Rameezdeen, R., Pullen, S.** (2015). "Factors influencing the retrofitting of existing office buildings using Adelaide, South Australia as a case study." *Structural Survey* Vol. 22 (2) 150-166. <https://doi.org/10.1108/SS-05-2014-0019>

https://www.researchgate.net/profile/Peter_Love2/publication/242023825_Toward_the_sustainable_adaptation_of_existing_facilities/links/0deec534636f6de2b1000000.pdf

https://www.researchgate.net/profile/Sara_Wilkinson2/publication/235251739_Office_building_conversion_and_sustainable_adaptation_A_comparative_study/links/00b495175e2766373c000000.pdf

https://www.researchgate.net/profile/Sara_Wilkinson2/publication/263492217_Adaptation_patterns_in_premium_office_buildings_over_time_in_the_Melbourne_CBD/links/55c0440808aec0e5f4477409.pdf

¹⁸ **Spivak, J.** (Nov. 5, 2010) "**Repurposing Distressed Commercial Assets**". *Urban Land*. <https://urbanland.uli.org/economy-markets-trends/repurposing-distressed-commercial-assets/>

¹⁹ **Caravati, K. Goodman, J.** (Jan. 1, 2010). "**From Vacant Properties to Green Space**". *Urban Land*. <https://urbanland.uli.org/economy-markets-trends/from-vacant-properties-to-green-space/>

Overarching Plan Goals

Page 18 of the Plan describes its overarching goals related to land uses and urban design; environment and sustainability; community facilities; and transportation and connectivity. In the land use and urban design area the goals are as follows:

- Establish a redevelopment framework that provides a greater mix of uses and amenity options for businesses and their employees, as well as residents, both in the short and long term.
- Strengthen the viability of existing uses.
- Create opportunities for infill or redevelopment of single-use commercial areas and surface parking lots with a greater mix of uses and public spaces that will reshape Rock Spring into a well-integrated community.

This Plan does not address affordable housing. The Planning Department believes that the goal of revitalizing Rock Spring and potentially changing the mix of uses will be challenging. Increasing the requirements for Moderately Priced Dwelling Units (MPDUs), as the Council did in Westbard and Bethesda, could act as a disincentive in an area where they believe the County should be encouraging revitalization and reinvestment.

The following chart provides an estimate of the potential development in the Master Plan area, based on the recommended zoning. The Plan Estimates column reflects Planning Department staff assumptions about possible development for select properties that may redevelop within the life of the Plan. **These estimates are not based on the maximum theoretical density of each property.**

ROCK SPRING DEVELOPMENT				
	Existing Development	Pipeline	Plan Estimates	Total
Commercial (sf)	8,210,867	1,104,000	1,087,752	10,402,619
Residential Dwelling Units	386	1,430	2,297	4,113
Jobs	28,963	3,485	3,347	35,795

ENVIRONMENT

Pages 37-42 present the environmental recommendations in the Plan. This section of the Plan focuses on the goals of increasing tree cover and reducing impervious surfaces, particularly in the retail areas that have the least tree cover. It recommends that infill development be directed at the existing surface parking lots or that those lots otherwise be improved with new tree cover and stormwater management. When redevelopment occurs, it should be designed to increase tree cover from its existing 31 percent towards a goal of 40 percent. On page 41, the Plan includes specific recommendations for Water Quality, Air Quality, Climate Protection, Preservation/Enhancement of Biological Diversity, and Health and Wellness.

Pages 38-39 present the results of the Greenhouse Gas Modeling for the Plan. While additional development increases total greenhouse gases (as is generally the case for new development), the per capita greenhouse gas emissions are projected to be 15% below the existing per capita values.

Testimony: Mary Miller, a resident of the Wildwood Manor neighborhood, testified in support of smart development that would not perpetuate the problems tied to increasing permeable surfaces, mainly storm water runoff.

COMMUNITY FACILITIES

Pages 43-56 present the Community Facility recommendations in the Plan. School issues are addressed in a separate memorandum from Glenn Orlin. Parks, Trails, and Open Space are discussed beginning on page 47. **There are currently no M-NCPPC parks within the Rock Spring planning area.** The open spaces that do exist are generally privately owned and consist of plazas and landscaped areas. Stratton Local Park and Cabin John Regional Park are located just outside the planning area boundary. The plan makes numerous recommendations to create public parkland in the Rock Spring Planning Area on pages 52-54, focusing on four goals:

- Increase the number of publicly accessible green spaces within the Master Plan area.
- Improve the utility of existing publicly accessible open spaces.
- Improve pedestrian and cyclist connections to existing parkland and trail networks surrounding the Master Plan area.
- Improve pedestrian and cyclist connections between existing and proposed open spaces.

Most of the Plan’s recommendations are linked to redevelopment and the resubmission of previously approved regulatory plans.

Testimony: The Council received testimony from Francoise Carrier on behalf of the owner of Democracy Center, objecting to the Plan’s recommendations for open space on this site. (Comments regarding zoning and density will be addressed in the Staff memorandum for the July 17 meeting, when the Committee will be discussing site-specific zoning recommendations.) Plan language on page 52 is as follows:

Should the existing structures on the site be razed and the property redeveloped, or if infill is contemplated under the optional method of development, removal of the existing open space on the northern portion of the site should be discouraged. This existing open space should be considered for parkland, as a public benefit, either through dedication, or acquisition by the Department of Parks. Multi-family residential development should be encouraged over townhouses.

Democracy Associates believes the Plan’s “treatment of potential infill development and its dismissal of townhouses to be grossly unfair”. They recommend replacing the Plan text with the following replacement language:

Should the existing structures on the site be razed and the property redeveloped [, or if infill is contemplated under the optional method of development, removal of the existing open space on the northern portion of the site should be discouraged. This] the existing open space should be considered for parkland, as a public benefit, either through dedication, or acquisition by the Department of Parks. [Multi-family residential development should be encouraged over townhouses.]

If infill is contemplated under the optional method development, complete removal of the existing open space on the northern portion of the site should be discouraged. Infill development should be designed to preserve at least ½ acre of the open space, which should be considered for parkland, as a public benefit, either through dedication or through acquisition by the Department of Parks.

Staff Comments: Staff has asked Planning Department staff to indicate what the open space requirements are under the existing zone and what they would be under the proposed new zone to better understand whether the recommendations for this property exceed typical requirements. Staff will be prepared to address this issue at the worksession. Staff concurs that it is inappropriate to state a preference for multi-family residential development on this site as a means of preserving open space if that is not done on other sites in the planning area in similar situations.

Police, Fire, and Rescue are addressed on pages 54-55. The increase in residences and businesses is likely to create the need for additional units and a potential expansion of Station 26. The Davis **library** will continue to serve the residents of Rock Spring. A future **recreation center**, planned to be co-located with Wall Local Park and the Kennedy Shriver Aquatic Center, will serve all of North Bethesda, including the Rock Spring Area.

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I. Executive Summary

Bolan Smart was asked to analyze factors pertaining to possible adaptive reuse of office properties at Executive Boulevard and Rock Spring in North Bethesda. This analysis evaluates some of the options available to a property owner, such as retaining and converting an existing building, demolishing a structure and redevelopment for alternative use, or redefining planned but unbuilt office spaces for other use. The study was conducted as part of the County's planning process focusing on these office submarkets as part of the White Flint II Sector Plan and Rock Spring Master Plan. Since office uses in both these submarkets have of recent been experiencing higher than historical market vacancies, the analysis also addresses if office conversions are imminent and appropriate.

Montgomery County has already witnessed several office building conversions primarily in central business district locations such as Silver Spring and Wheaton and redevelopment of generally isolated and abandoned office properties in other suburban locations. Though this is common for a large and diverse economy such as Montgomery County, recent concern has been raised that some office parks themselves are becoming obsolete.

While this Technical Report concentrates on specific conditions contributing to the feasibility of office conversions, Bolan Smart was also asked to consider issues of possible wider public economic interest. Summarized below are findings and observations on the market viability of conversions in Executive Boulevard (EB) and Rock Spring (RS), office park dynamics and public policy implications.

Adaptive Reuse / Conversion Prospects

- 1. Existing office buildings in EB and RS are generally not ripe for near to medium term residential conversions.** Continued office reinvestment is still market viable, most existing buildings are not physically conducive to residential conversion, and the cost threshold is prohibitive. Precedents reviewed elsewhere underscore that all conversions are very circumstance specific, (truly obsolete structures, secondary locations / isolated properties, common ownership of multiple properties, etc.), and not submarket generic. Reuse for medical offices and institutional use is more akin to the original office use, and thus more feasible.
- 2. Surface parking lots and vacant land planned for office represent the strongest prospects for reuse.** Existing parking structures, however, are less suited for conversion, as the cost of parking structure replacement is generally not offset by the value of the underlying land reallocated to an alternative use.
- 3. There is strong market demand for lower to medium density residential use in both EB and RS, but less so for destination retail uses.** Given the lack of other comparably situated vacant land, these down-county central locations are highly coveted for residential use. While there is also potential demand for medical or institutional (i.e. school) use, retail demand is more limited due to plentiful surrounding offerings.
- 4. Land values relative to existing improvements are key to inducing conversions.** The higher the land value relative to the existing building improvement, the more likely a building will be converted or demolished. One land use may have a significantly higher value per permitted unit of floor area than another. In the subject locations, in the past few years land values for residential use have started to match, if not eclipse, office.

5. **Underdeveloped office properties with older buildings and excess unused permitted floor area are well suited to adaptive use, with sites on EB closest to the Pike District being immediate prospects.** The spike in interest for conversion to mixed-use of “gateway” sites at the eastern entry to EB is underpinned by the prospect of higher density new construction piggy-backing on the newly emergent Pike District.
6. **Over the next few years, select single-user purpose-built existing office buildings, especially in RS, may be facing functional obsolescence.** Depending on the current occupants future plans (or corporate changes), possible obsolescence in these cases (i.e. Marriott Headquarters) may or may not translate into physical reuse, with redevelopment most likely focusing on combined building and unused permitted building area reconfigurations.

EB and RS Office Submarket Context

1. **The recent increase in submarket office vacancies is largely due to one-time federal government related shifts.** Office vacancies spikes in EB and RS are not market-wide systemic, having been primarily due to NIH-related government users moving to new properties at other locations in Montgomery County. These relocations were reportedly primarily related to price and expanding space needs and not related to any regional locational shortcomings of EB or RS.
2. **Office landlords (and investors) are generally positive about the office market dynamics and platform for added future mixed-use densities at the subject locations.** Apart from the uncertainty posed for example by the possible relocation of the Marriott Headquarters, landlords actually vested in these submarkets, as well as prospective outside institutional owners, remain committed to the future of RS and EB as primarily office investments, with mixed-use additions, primarily in the form of optimizing the build-out of unused density.
3. **Location, value pricing, and parking convenience, are still marketable.** Despite a popularized wish list featuring more walkability, restaurants, transit and new construction, the aging existing office buildings in EB and RS are still sustainable for office use. The EB and RS locations are highly viable, convenient to a broad base of employees served by a regional road network near a range of retail and lodging amenities, and most of the non-special purpose buildings have substantial continued economic life.
4. **Executive Boulevard is a sustainable office market for regional and sub-regional users.** Maybe no longer an “office park” per se, but EB, has new energy emanating from the adjacent mixed-use Pike District (including improved overall connectivity).
5. **If only the location mattered, RS would continue to be a preeminent, cost competitive suburban office park serving regional and national oriented users.** RS is bracketed by an array of retailing, and is surrounded by generally premier residential neighborhoods. Moreover, RS is Maryland’s closest rival to suburban employment centers in Northern Virginia, relegating its competitive position to one distinguished more by regional jurisdictional differences than office park characteristics (though now tempered somewhat by the arrival of Metro in the Tysons / Dulles Corridor). To the extent that the success of RS is undercut, the long planned Rock Spring Center remains a missing link.

The Mixed-Use Equation

1. **While marketable and widely advocated, adding residential uses internal to an office park is not considered key to office user locational decisions.** EB and RS are surrounded by accessible residential alternatives, albeit with less affordable options than might be desired. Though adding 18-hour, seven day a week street life helps support added retail use, this impact is very limited unless supported by a large volume of new people increasing market demand.
2. **Street visible retail (and food service) helps, but is not critical to office park success.** Both EB and RS are proximate to an enviable range (by suburban standards) of retailing alternatives, albeit auto-centric. Less noticed at both locations is the internal food service and convenience retail that is generally present in the larger office buildings. New office or mixed-use construction that might have integrated street oriented retail has been non-existent at EB and RS, and mixed-use is not necessarily consistent with the mission and security concerns of larger single-use occupants.
3. **Not all alternative uses may be compatible with office uses.** Retail uses are generally compatible with office use, residential use compatibility varies, and institutional uses depend on the nature of the use.

Public Policy Choices

1. **Private sector property owners want a combination of a positive local business environment and flexibility to add value in the future.** Attracting real estate investment commitments is facilitated by letting the market determine the building type and price points, along with public investments in long term planning and updated infrastructure.
2. **Office conversions can help add to the sense of activity and vitality, but will not singularly transform these submarkets, nor may there be County-wide benefits.** Reuse may eliminate a very limited amount of office inventory compared with the County total, but there may be no net County benefit if it means reducing office availability where it is in demand (even at reduced levels), or translates into higher cost office space.
3. **EB and RS represent some unique office related assets that could merit being preserved.** While experiencing some basic aging and constant office user changes, EB, and in particular RS, represent the last and only down-county suburban type locations with their unique set of local and regional locational characteristics. Montgomery County (and its incorporated cities) already has a plentiful supply of transit served potential density office sites and a virtually unlimited supply of underdeveloped traditional office park land in mid-county and locations beyond.
4. **Municipal land use regulation and policies effect conversion scenarios in a variety of ways.** Adaptive reuse by its very nature involves revisiting the original premise of a property planning and use. Clearly zoning and building envelope stipulations are direct influences. In Montgomery County, how adequate public facility impacts are compared between land uses are an added complexity.
5. **Possible other county-wide economic benefits from permitting or even incentivizing office use conversions in the subject office parks are not clear.** With the exception of accommodating townhome development down-county, there is an ample supply of retailing and multi-family development opportunities elsewhere in Montgomery County. If highest and best use implies conversion to medical office or institutional use, then the community economic benefit may be positive because of the merit of locating such facilities in the most market efficient location.



Executive Summary

Prepared by Washington, DC-based Partners for Economic Solutions (PES) for the Montgomery County Planning Department, this in-depth market study examines the many forces changing the regional office market, current conditions in the county and best practices for office development.

The goal of the research is to better understand the unprecedented challenges confronting the market, including changing tenant preferences, high vacancies, flat rents and slow absorption of new and relet space. While these trends partly reflect a still-recovering economy, the Washington, DC region has been especially hard hit by cuts in federal government spending and leasing.

Regional Office Vacancies (Second Quarter, 2015)

- A total of 71.5 million square feet of office space currently is vacant throughout the Washington, DC region.
- With 20 million square feet of vacant office space, Fairfax County accounts for the largest share (28 percent) of vacancies region-wide. The District of Columbia has the second highest share (22 percent), with 15.6 million square feet.
- Montgomery County has nearly 11 million square feet of vacant office space, accounting for 15 percent of regional vacancies.
- Prince George's County has 7 percent of the region's vacant office space.
- In Montgomery County, 12 office buildings totaling 2.1 million square feet of space are completely vacant. Eight more buildings totaling 1.2 million square feet will become vacant this year.
- Seven relatively small office buildings totaling 400,000 square feet are now under construction in the county. Region-wide, 33 office buildings totaling 7.3 million square feet are under construction.

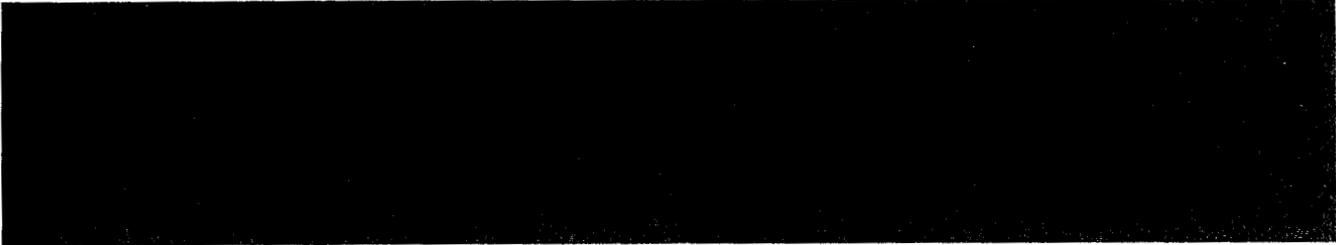


Findings

- Most jobs created during the economic recovery have been in restaurants, retailers and health care facilities, rather than in office-based sectors such as professional and technical services.
- Telecommuting, technological advances, more efficient work spaces and practices such as hoteling have enabled office tenants to reduce their square footage even as they expand their workforce.
- The most successful office clusters in Montgomery County are part of mixed-use developments with a strong sense of place and a quality environment. Transit connectivity is increasingly important to office tenants. 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 having difficulty in attracting tenants.
- Future office development is likely to occur at a much slower pace and be concentrated in prime locations. Not every location will be able to attract new office development or maintain former occupancy levels.

Recommendations

- Create or retrofit office environments that are attractive to today's tenants by adding amenities, mixed-uses and improved transit or highway connections. Incentives to renovate offices could be effective for buildings near transit or in mixed-use areas.
- Reduce the supply of non-competitive office space by converting vacant office buildings to housing, hotels or other uses. Policies that facilitate site assembly could help owners of older, small office buildings to redevelop. Plans for approved but unbuilt suburban office parks may need to be revisited. Some projects already have converted planned office space to residential or other uses, but redirecting development capacity to more competitive locations should be considered. Zoning impediments to redevelopment and diversification should be removed.
- Increase demand by competing for office tenants more effectively. County economic development initiatives including business attraction and retention, workforce development, technical assistance and support for local entrepreneurs should be intensified.



Executive Summary

This TAP comprises two separate study areas, both located in North Bethesda, Montgomery County, Maryland. The study areas are about a mile and a half apart, and are each undergoing a separate master planning process led by the Montgomery County Planning Department, as directed by the Montgomery County Council. For the purposes of this TAP, the study areas are referred to as Executive Boulevard and Rock Spring. Both study areas have common characteristics, the most prevalent of which is the overwhelming prevalence of office space, and the increasing vacancy rates in these office spaces.

As part of new master plan efforts for Executive Boulevard and Rock Spring, the Montgomery County Planning Department approached ULI Washington to conduct a TAP that would determine how to make these two office parks economically competitive and generators of the tax revenue needed to support public facilities and services.

Office space trends are shifting. By and large, tenants are changing where their office space is located. Often, this relocation is rooted in the “flight to quality” away from Class B or C office product and towards Class A office product. The market perception of the study area locations, combined with the age of their products, and the nearby amenity base characterize the products in both study areas as Class B and C space. According to the Panel, this product type does not possess the features most commonly sought by prospective office tenants. Nevertheless—and importantly—the office product in both study areas are locationally viable, and in some cases, locationally vital.

Though they are geographically separated, the study areas possess many parallel challenges. The Panel grouped these challenges into four categories: connectivity, identity, amenities, and land use. In order to maximize the vitality of these study areas, the Panel provided a host of recommendations for both Executive Boulevard and for Rock Spring.

Zoning Codes Defined for Rock Spring

Term	Definition
CR= Commercial Residential	The CR zone is intended for larger downtown, mixed-use, and pedestrian-oriented areas in close proximity to transit options such as Metro, light rail, and bus. Retail tenant gross floor area is not restricted.
CRT= Commercial Residential Town	The CRT zone is intended for small downtown, mixed-use, pedestrian-oriented centers and edges of larger, more intense downtowns. Retail tenant ground floor footprints are limited to preserve the town center scale. Transit options may include light rail, Metro, and bus.
EOF=Employment Office	The EOF zone is intended for office and employment activity combined with limited residential and neighborhood commercial uses. The EOF allows flexibility in building, circulation, and parking lot layout. Combines Commercial, Office Park (C-P), Office Building, Moderate Intensity (O-M), Technology and Business Park (I-3)
GR=General Retail	The GR zone is intended for commercial areas of a general nature, including regional shipping centers and clusters of commercial development. The GR zone provides development opportunities adjacent to the County's most auto-dominated corridors and those areas with few alternative mobility options. The GR zone allows flexibility in building, circulation, and parking lot layout. Retail/Service Establishment gross floor area is not restricted.
NR=Neighborhood Retail	The NR zone is intended for commercial areas that have a neighborhood orientation and which supply necessities usually requiring frequent purchasing and convenient automobile access. The NR zone addresses development opportunities within primarily residential areas with a few alternative mobility options and without a critical mass of density needed for pedestrian-oriented commercial uses. The NR zone allows flexibility in building, circulation, and parking lot layout.
R-90= One-Family Detached Residential	The intent of the R-90 zone is to provide designated areas of the County for moderate density residential uses. The predominant use is residential in a detached house. A limited

Term	Definition
	number of other building types may be allowed under the optional method of development.
THD=Townhouse High Density Zone	The intent of the THD zone is to provide designated areas of the County for residential purposes at slightly higher densities than the R-90, R-60, and R-40 zones. It is also the intent of the THD zone to provide a buffer or transition between nonresidential or high-density residential uses and the medium or low-density Residential Zones.
CRF= Commercial Residential Floating Zone	Allow development of mixed-use centers and communities at a range of densities and heights flexible enough to respond to various settings; allow flexibility in uses for a site; and provide mixed development that is compatible with adjacent development.
RSC= Regional Shopping Center Overlay Zone	Provide flexibility of development standards to facilitate certain uses compatible with a regional shopping center. Provide parking design standards and requirements compatible with the function and circulation needs of regional shopping centers.

Current & Proposed Zoning for Rock Spring

*=Regional Shopping Center Overlay Zone (RSC)

**=Applicable for a CR Floating Zone (CRF)

***=Camalier/Davis Property

Property	Current Zoning	Proposed Zoning	Change
Rock Spring West/Mixed Use Regional Marketplace	General Retail, Commercial Residential Town, Employment Office	General Retail, Commercial Residential Town	Remove Employment Office
Westfield Montgomery Mall (Westlake Crossing & Gas station included) *	General Retail- GR 1.5, H-45'	GR 1.5, H-45'; amend RSC to include residential uses and any associated development standards	Amend RSC
Ourisman Ford Site	CRT 2.5, C-1.5, R-2.0, H-75'	CRT 2.5, C-1.5, R-2.0, H-150'	Increased height
Office Building	EOF 1.5, H-75'	CRT 2.25, C-1.5, R-.75, H-150'	From EOF to CRT
Home Depot, Car Dealerships, Small Shopping Center, U.S. Post Office	CRT 2.25, C-1.5, R-.75, H-75'	CRT 2.25, C-1.5, R-.75, H-150'	Increased height

Property	Current Zoning	Proposed Zoning	Change
Rock Spring Central/Mixed Use Business Campus	Majority Employment Office (small CR)	Majority Commercial Residential, some Employment Office and Townhouse High Density	Convert Employment Office Zoning to mainly Commercial Residential
Stormwater Facility*** <i>(considered part of the Rock Spring Centre in the East Village Center)</i>	CR 1.5, C-.75, R-.75, H-275'	CR 1.5, C-.75, R-.75, H-275'	None
Montgomery Row Townhouses	Nonexistent but in a EOF-1.0, H-100	Townhouse High Density Zone	THD
Lockheed Martin/Rockledge Center	EOF 1.25, H-150'	EOF 1.25, H-150'	None (introduces Democracy Center-CR)
Democracy Center	EOF- 1.25, H-150'	CR-1.5, C-1.25, R-.75, H-150'	EOF to CR (added residential)
Capital Gateway	EOF 1.0, H-100'	EOF 1.0, H-100'	None
Rockledge Executive Center/Plaza***	EOF 1.0, H-100'	<u>RSMP</u> : CR 1.5, C-1.0, R-.75, H-100' <u>C/D</u> : CR-2.5, C-2.5, R-2.5, H-200'	EOF to CR
Rock Spring Plaza	EOF 1.5, H-100'; EOF 1.0, H-100'; EOF 1.25, H-100'	<u>RSMP</u> : (top left cluster of buildings) CR 1.5, C-1.5, R-.75, H-100'	EOF to CR
Rock Spring North*** (mix of Rock Spring Plaza/Rock Spring Court- different division than Planning Board)	EOF 1.5, H-100'; EOF 1.0, H-100'; EOF 1.25, H-100'	<u>C/D</u> : CR-2.5, C-2.5, R-2.5, H-175' (Rock Spring Plaza plus top right and middle right building)	EOF to CR
Rock Spring Court	EOF 1.0, H-100'	<u>RSMP</u> : (top right building & bottom cluster) CR 1.5, C-1.0, R-.75, H-100'; (middle right building) CR 1.5, C-1.25, R-.75, H-100'	EOF to CR
Rock Spring South*** (mix of Rock Spring Plaza/Rock Spring Court- different division than Planning Board)	EOF 1.0, H-100'	<u>C/D</u> : CRT-1.5, C-1.5, R-1.0, H-150' (bottom right cluster of buildings)	EOF to CRT
Democracy Plaza***	EOF 1.0, H-110'	<u>RSMP</u> : CR 1.5, C-1.0, R-.75, H-150' <u>C/D</u> : CRT-1.5, C-1.5, R-1.0, H-150'	EOF to CR (or CRT)
Marriot International Headquarters	EOF .75, H-100'	CR 1.5, C-.75, R-.75, H-150'	EOF to CR
Rock Spring East/Village Center			

Property	Current Zoning	Proposed Zoning	Change
Wildwood Shopping Center & Gas Station	WSC: NR .75, H-45' & R-90 Gas Station: CRT .75, C-.75, R-.25, H-35'	WSC: CRT 1.25 C-.5, R-.75, H-50' Gas Station: CRT 1.25, C-.75, R-.75, H-50'	NR to CRT and readjusted CRT
Aubinoe Properties	CRT 1.25, C-.5, R-.75, H-50'	CRT 1.25, C-.5, R-.75, H-50'	None
Walter Johnson High School	R-90	R-90	None
Bells Mills Road Offices	EOF .5, H-60'	EOF .5, H-60'	None
Georgetown Square Shopping Center***	NR .75, H-45'	<u>RSMP</u> : CRT 1.5, C-1.0, R-.75, H-75' <u>C/D</u> : CRT 1.75, C-1.0, R-1.25, H-75'	NR to CRT
Rock Spring Centre***	CR 1.5, C-.75, R-.75, H-275'	<u>RSMP</u> : CR 1.5, C-.75, R-.75, H-275' <u>C/D</u> : CR 1.5, C-.75, R-1.0, H-275'	RSMP lowers height allowance, C/D remains at status quo