The New Office Landscape

presentation to the
Montgomery County Planning Board
June 25, 2015

Research + Special Projects Division
MONTGOMERY COUNTY PLANNING DEPARTMENT

PES
Partners for Economic Solutions

MONTGOMERY COUNTY PLANNING DEPARTMENT

The New Office Landscape

Montgomery County, Maryland

OFFICE MARKET ASSESSMENT REPORT

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

Land use implications

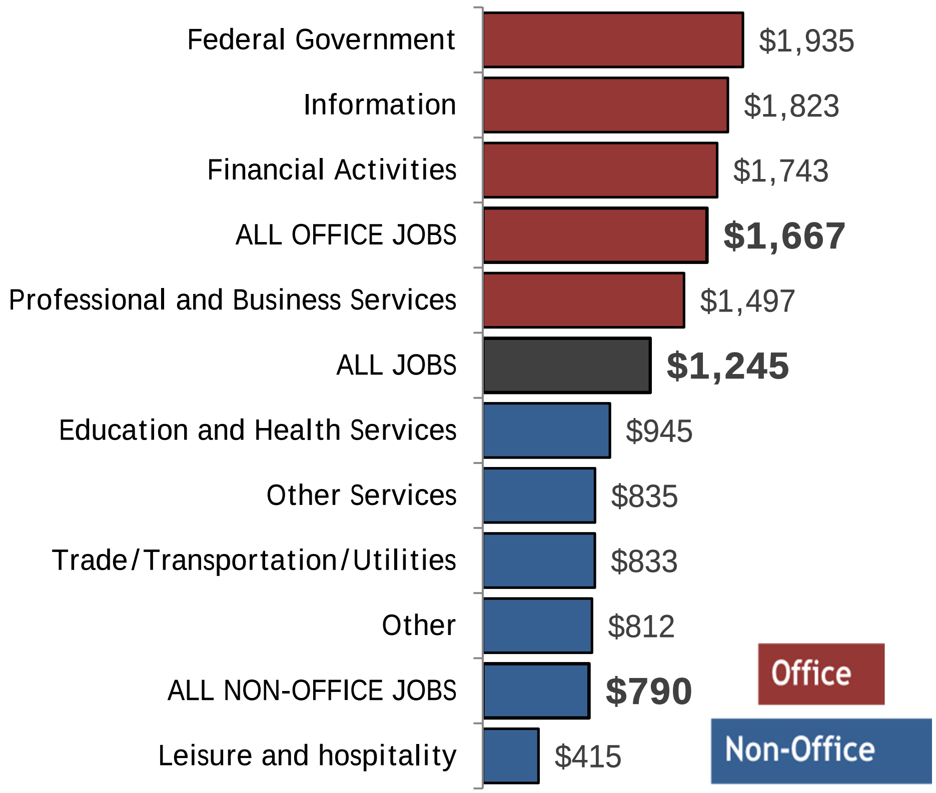
- Rezoning / Conversion Requests
- Pipeline of Approved Development
- Master Planning
- Transportation Planning

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

+

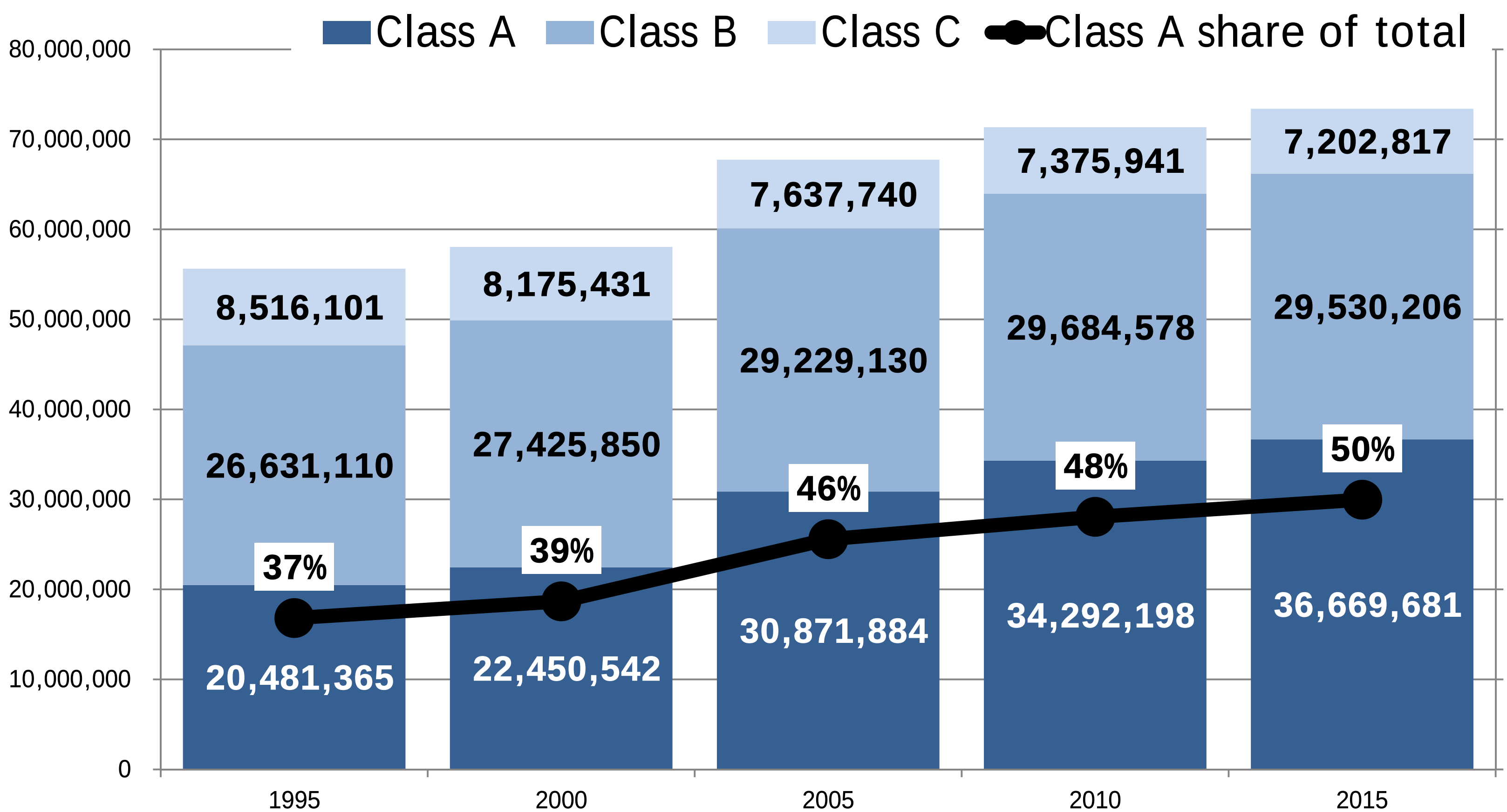
55% of total wages

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

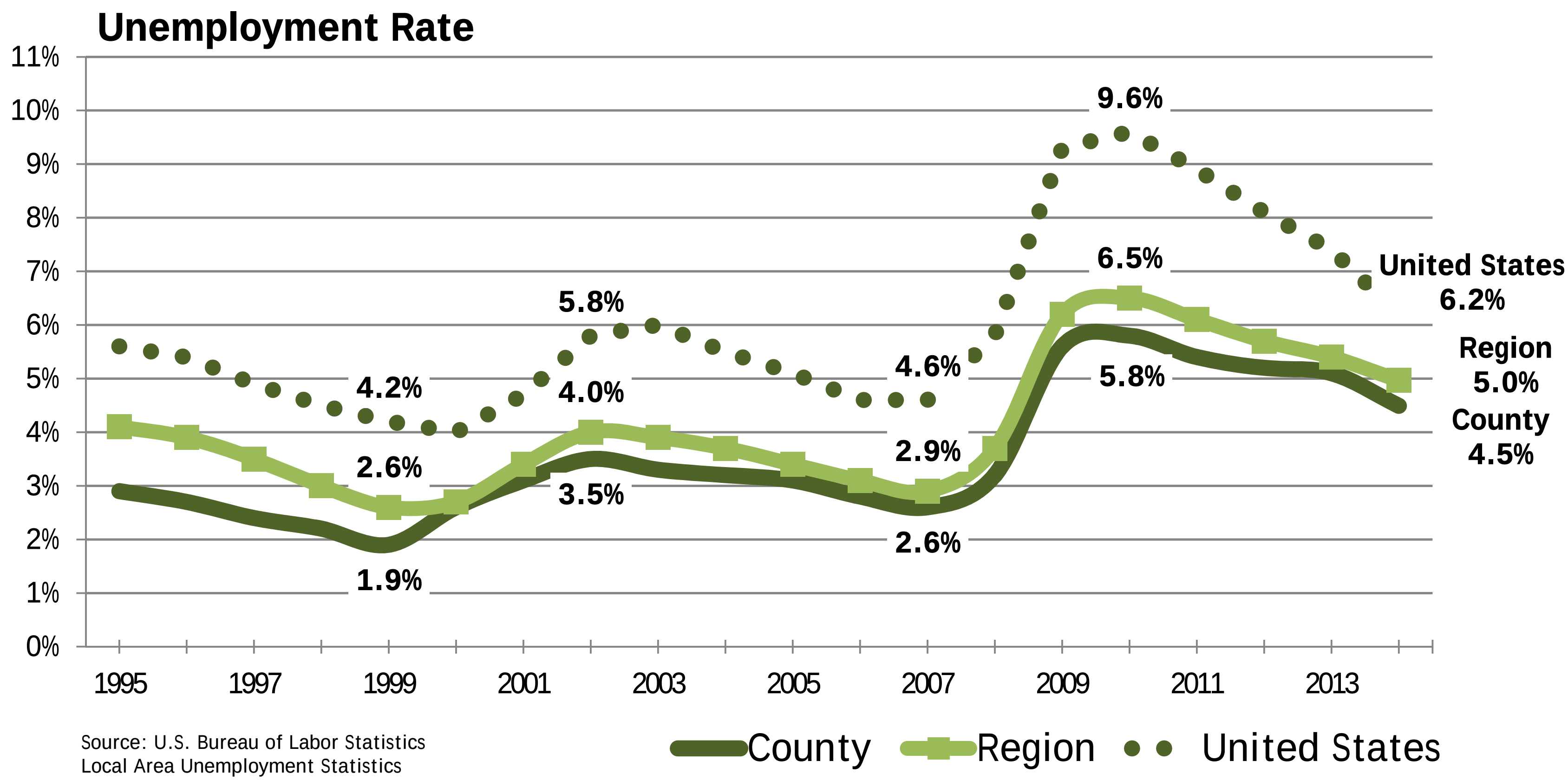
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Earnings & Wages

Montgomery County, Maryland

OFFICE
MARKET
ASSESSMENT
REPORT

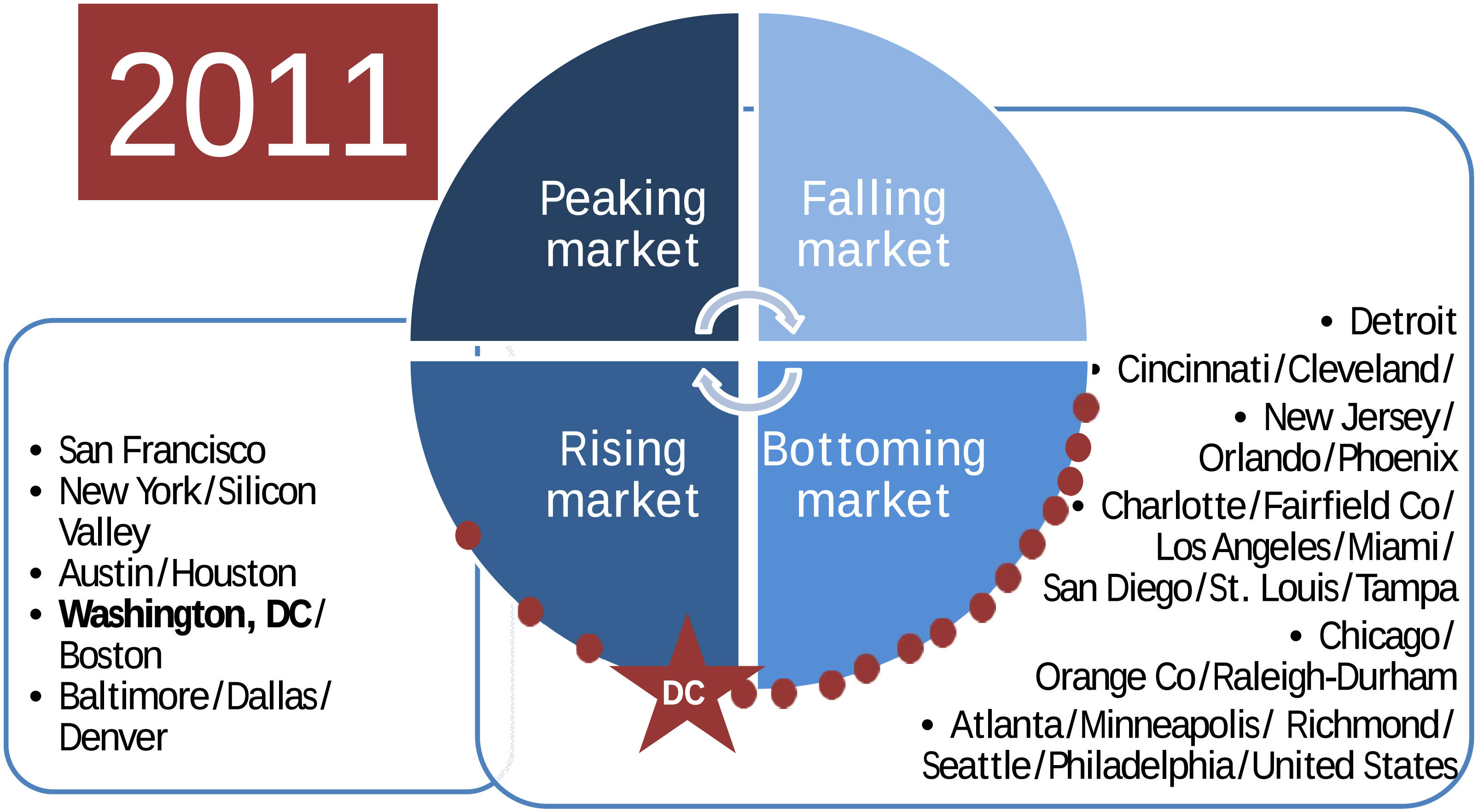
Office Market Indicators

The job market is recovering



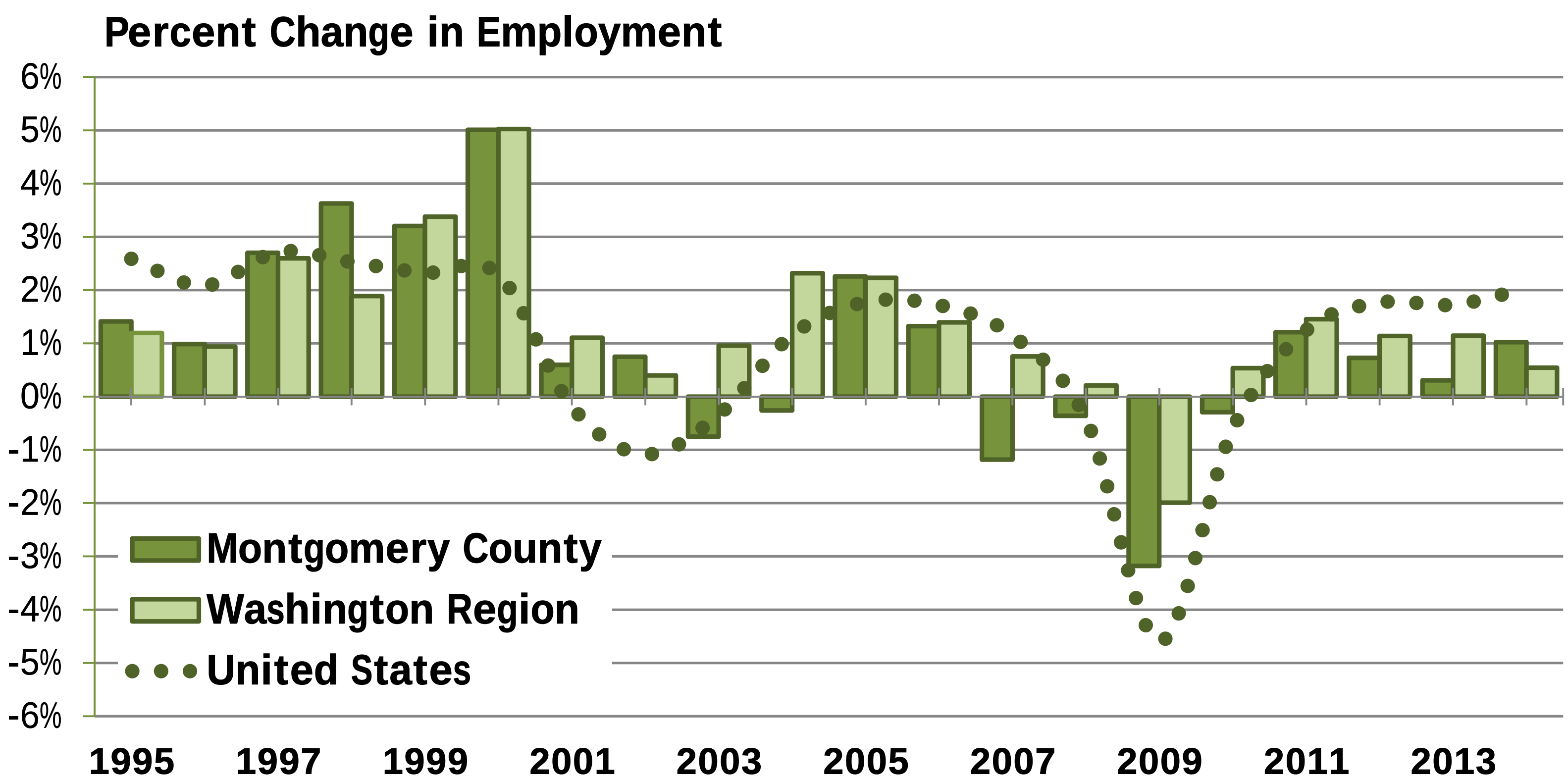
Source: U.S. Bureau of Labor Statistics
Local Area Unemployment Statistics

The region's office market was starting to recover



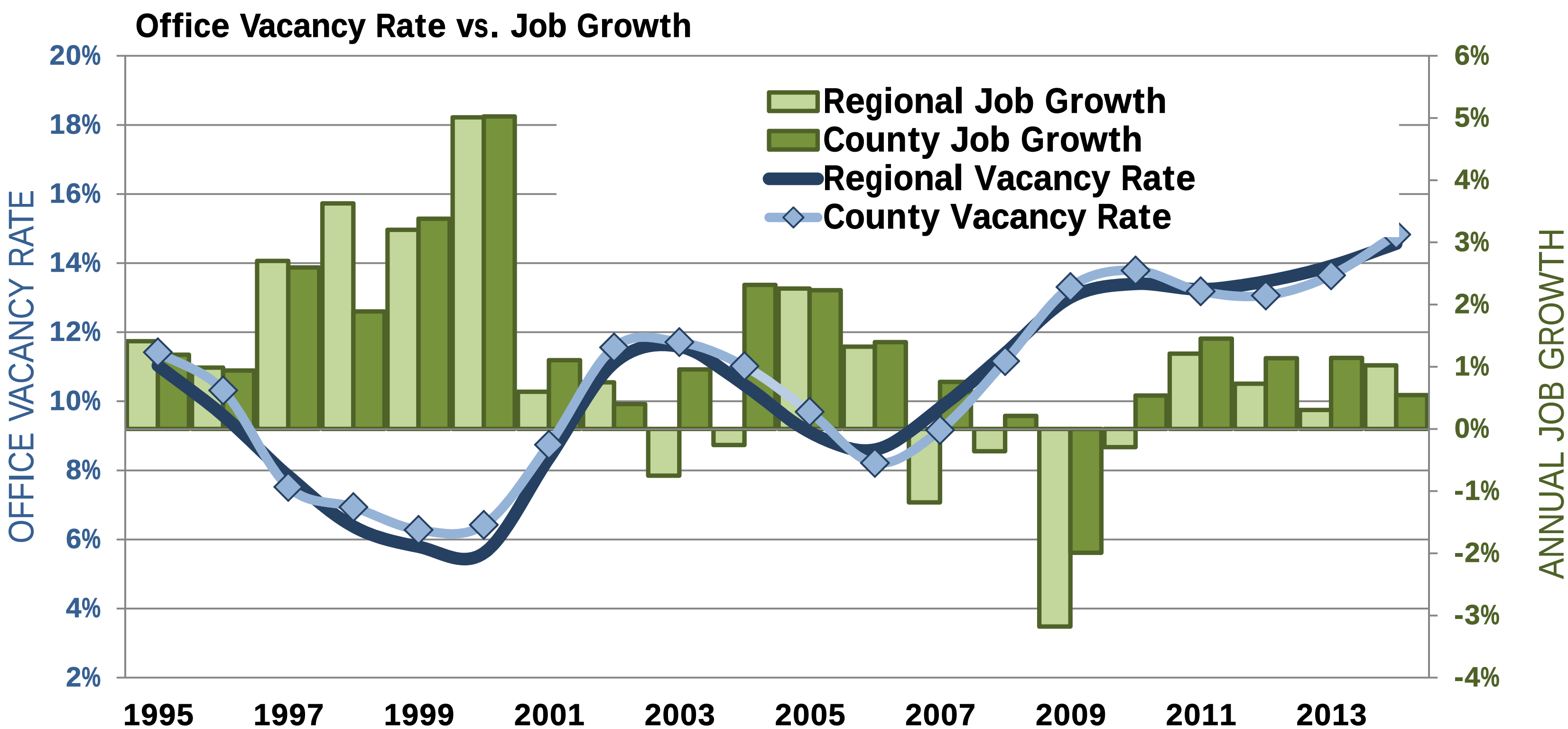
Jones Lang LaSalle
2011 OFFICE PROPERTY CLOCK

Four consecutive years of positive job growth in the region and county



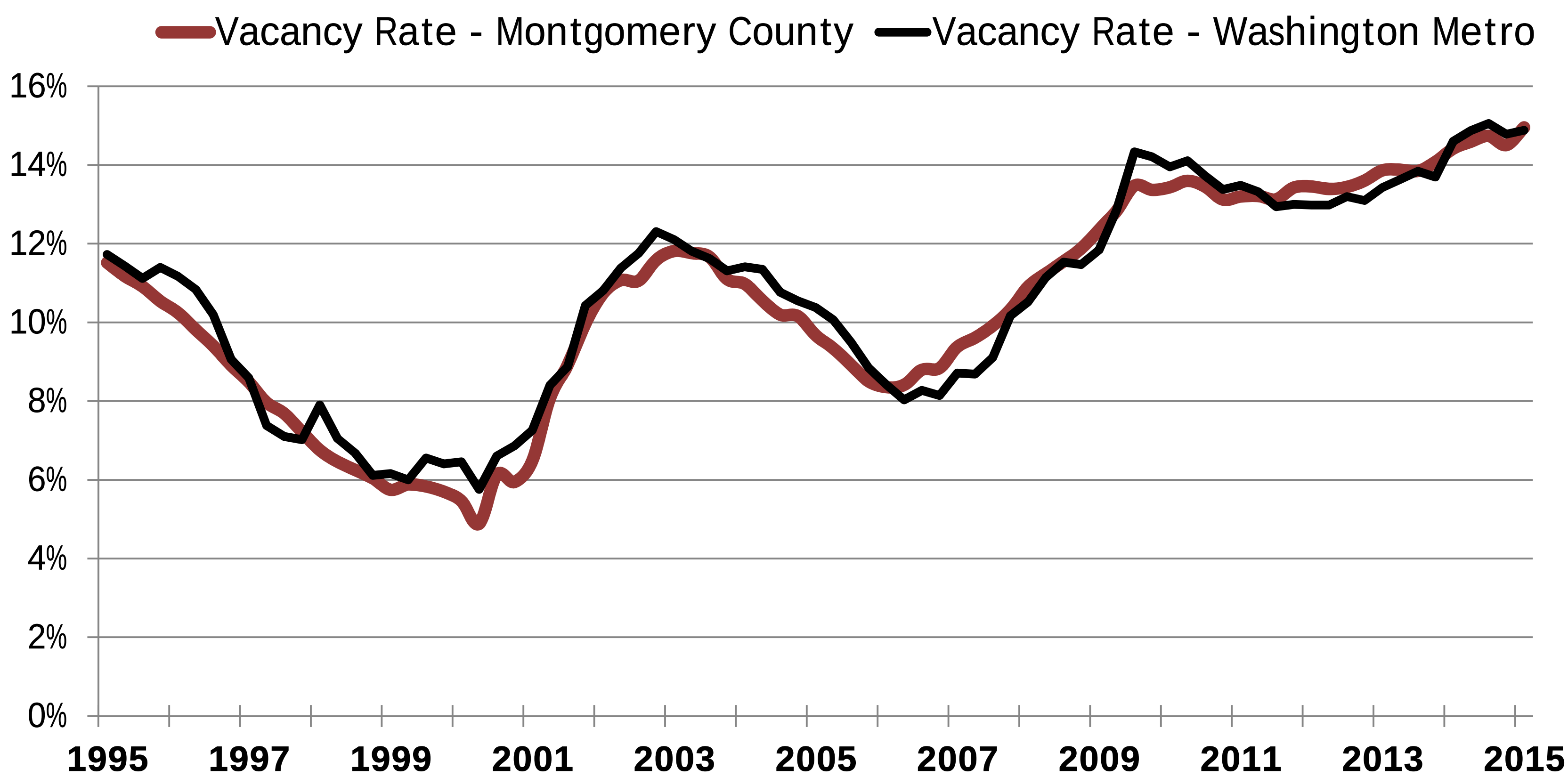
Source: U.S. Bureau of Labor Statistics
Quarterly Census of Earnings & Wages

Post-recession job growth did not revive office demand



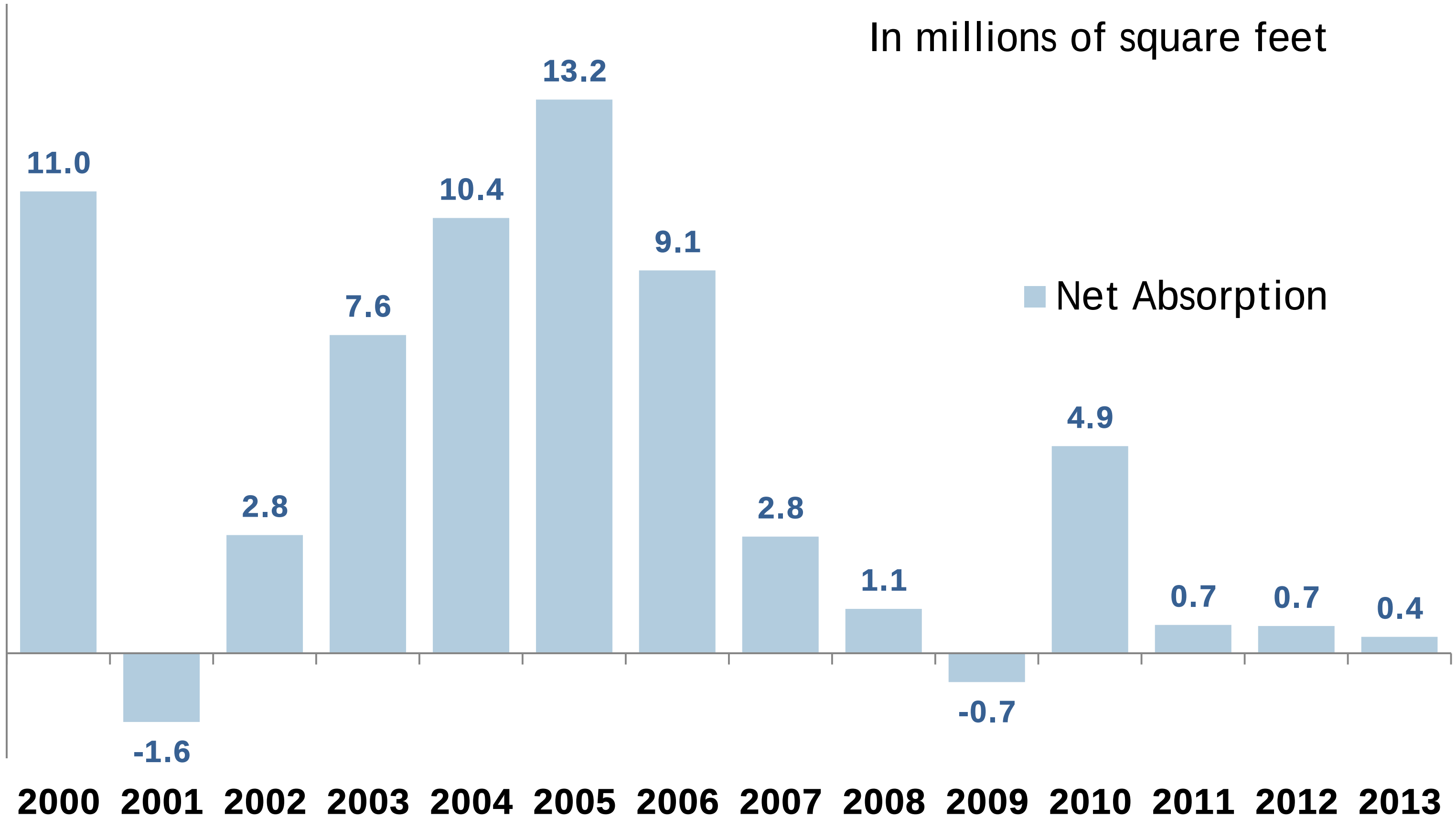
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Earnings & Wages; CoStar

This is a region-wide phenomenon



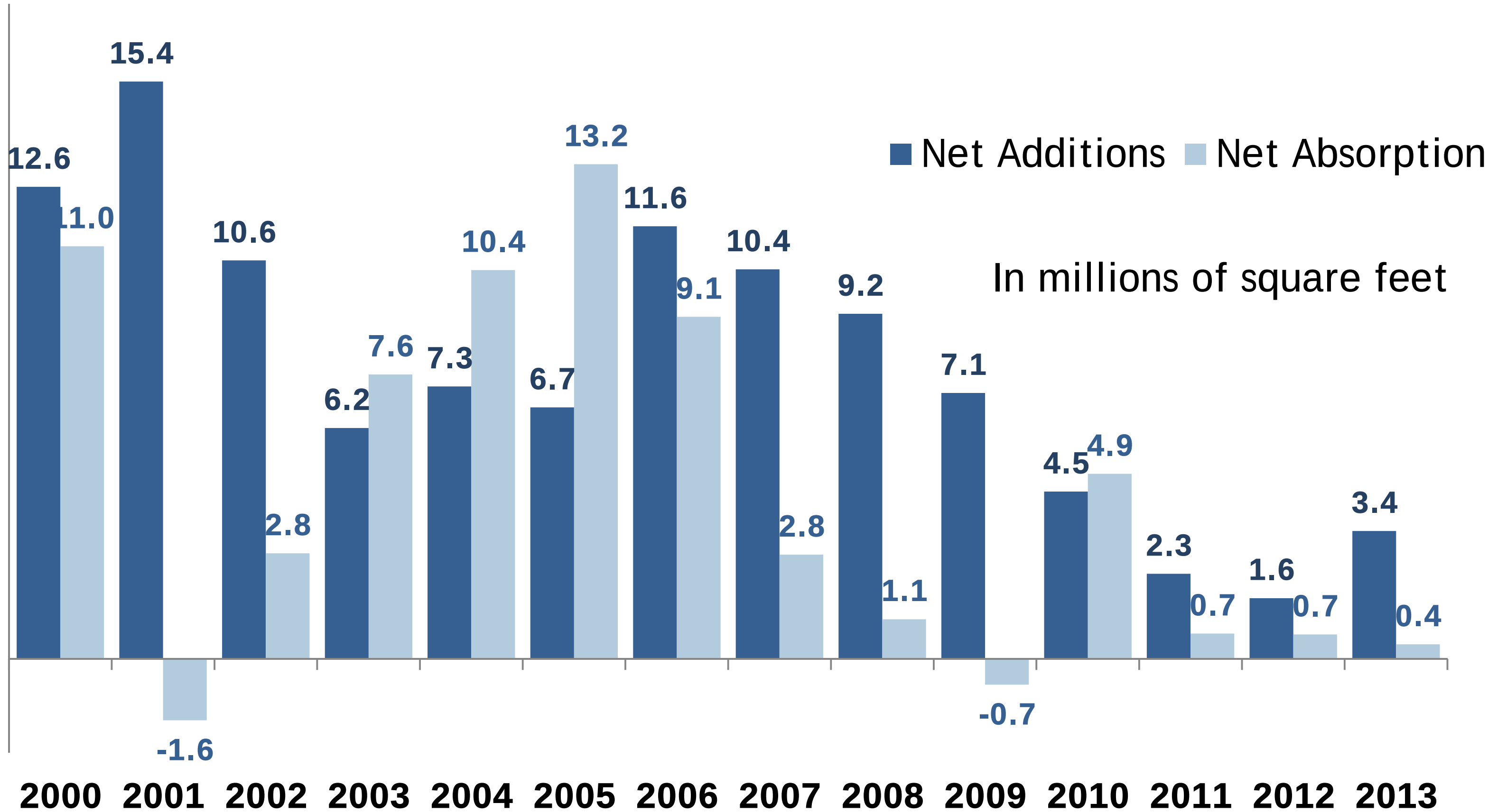
Source: CoStar

The regional office market is stagnating.



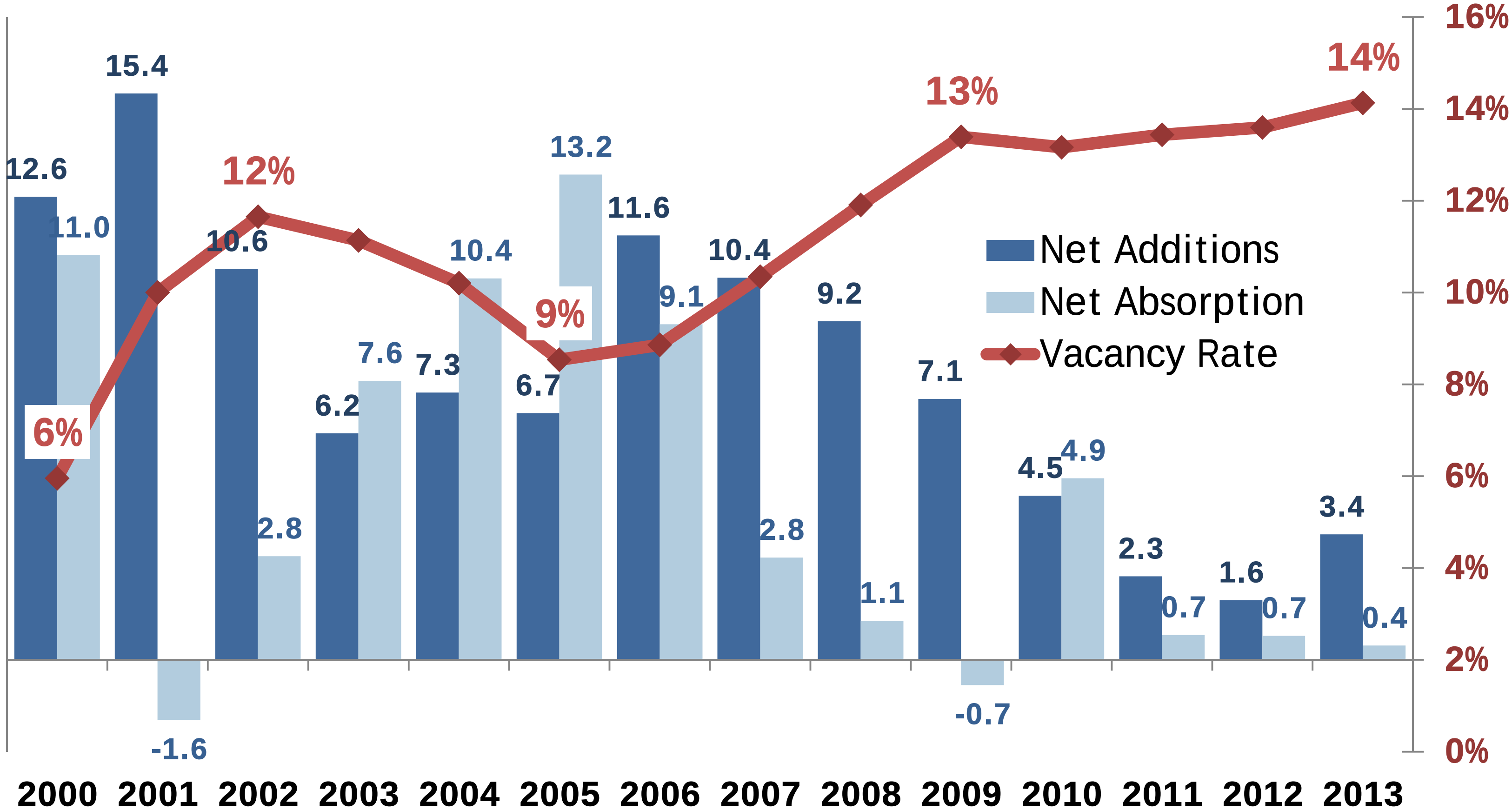
Source: CoStar

New space was added despite slowdown.



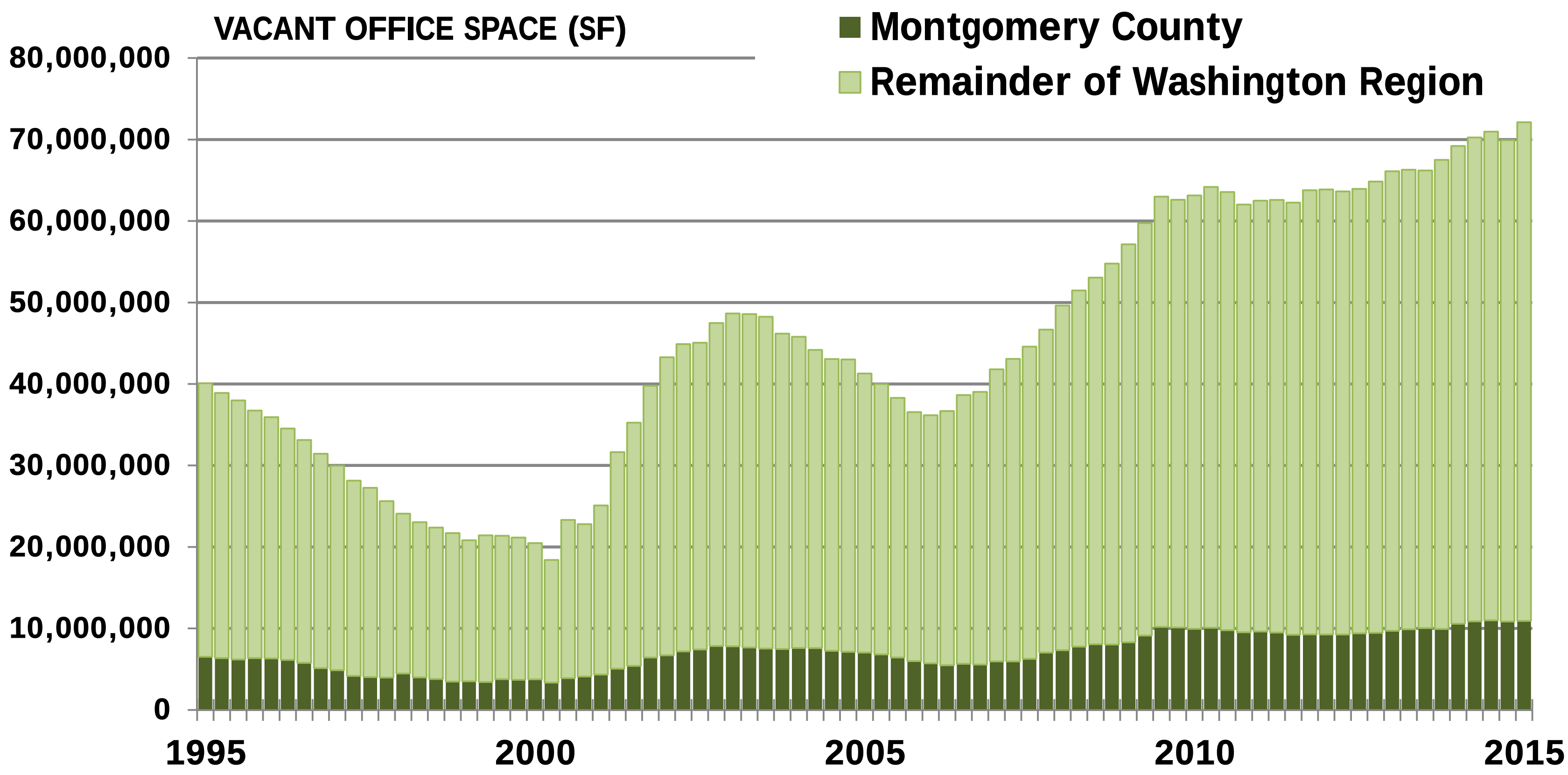
Source: CoStar

Result = rising vacancies



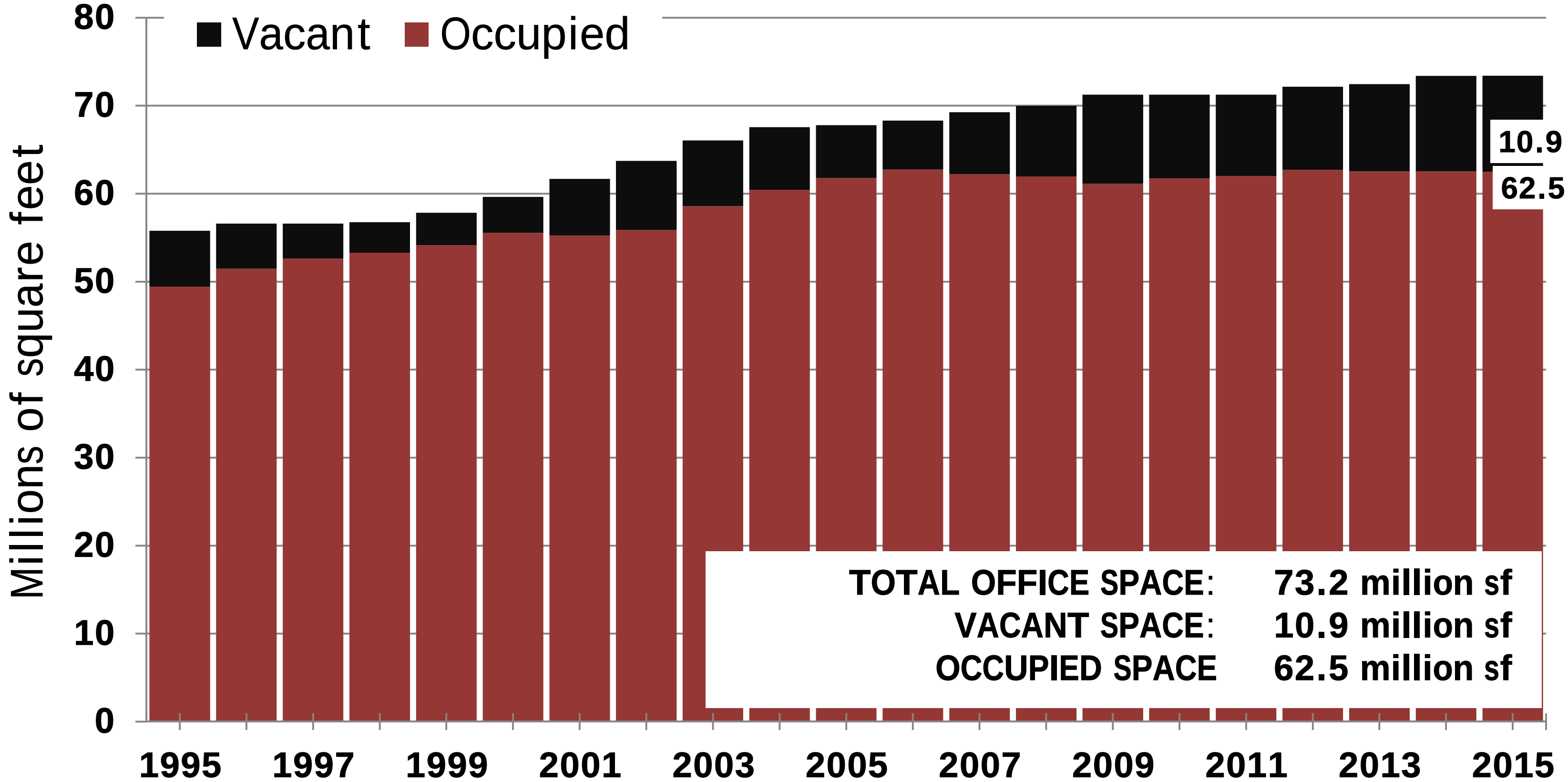
Source: CoStar

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



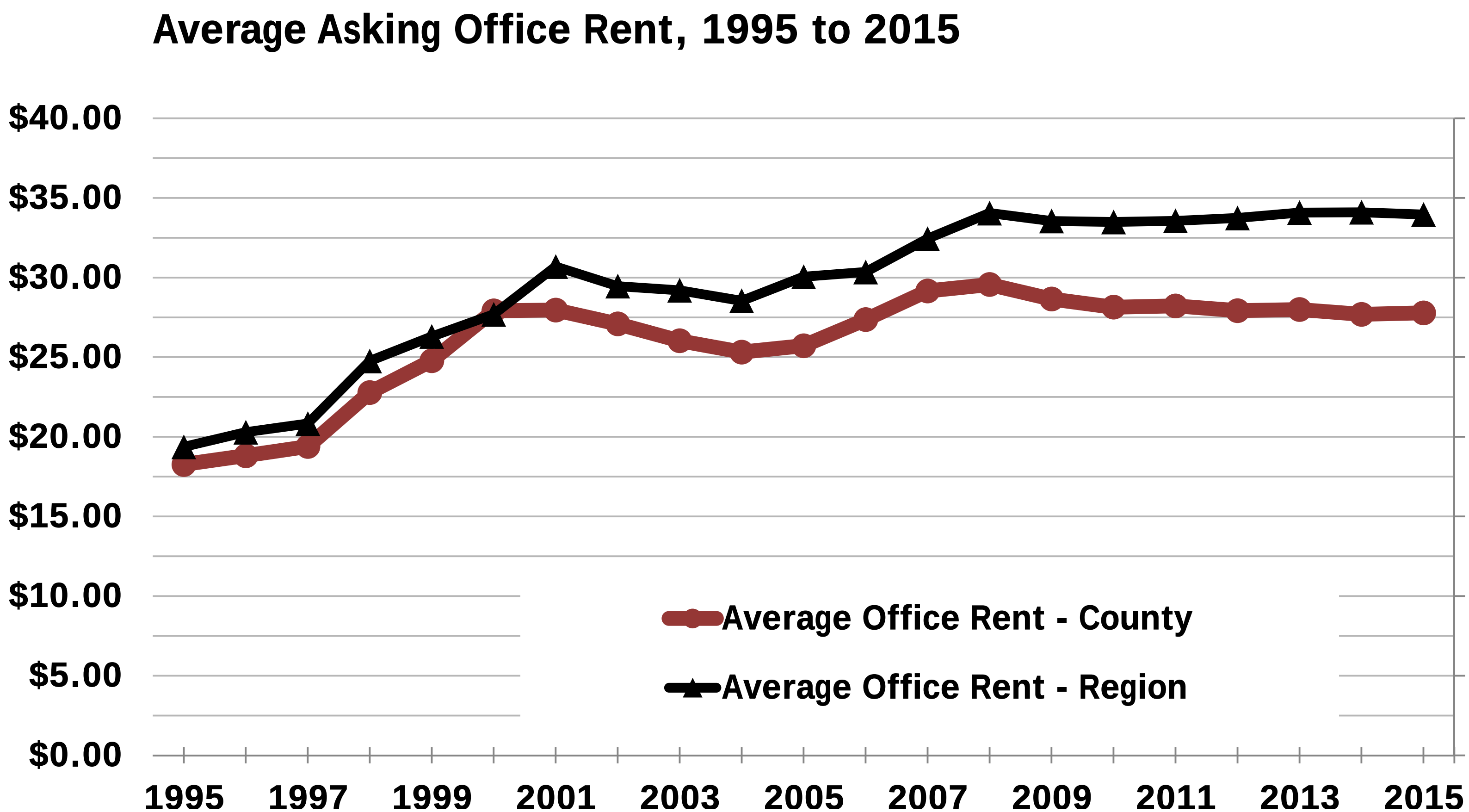
Source: CoStar

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



Source: CoStar

Rents are flattening

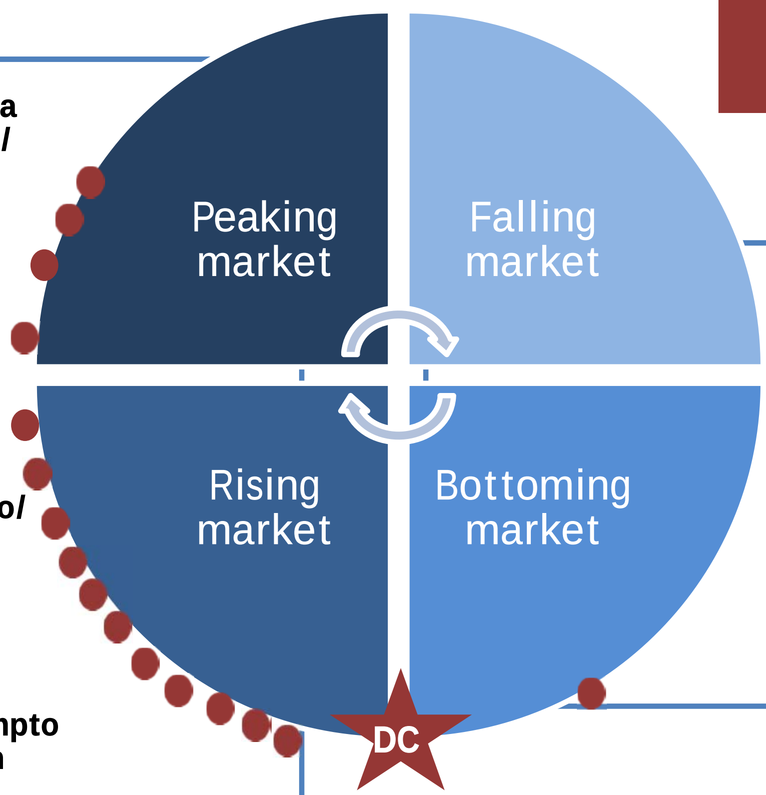


Source: CoStar

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

2014

- San Francisco Peninsula
- Houston/San Francisco/ Silicon Valley
- Dallas
- Minneapolis
- Seattle
- Austin/Pittsburgh
- Portland/New York
- Boston/Denver/U.S.
- Austin/Houston/Los Angeles
- Charlotte/Fairfield Co
- Miami/Tampa/San Diego/ St. Louis/Tampa
- Chicago/Orange County/Raleigh-Durham
- Charlotte/Milwaukee/ Philadelphia
- Cincinnati/Detroit/Hampton Roads/Long Island/San Antonio/St. Louis
- Sacramento/West Palm Beach



- New Jersey
- Washington, DC

Jones Lang LaSalle
2014 OFFICE PROPERTY CLOCK

What happened to the office market recovery?

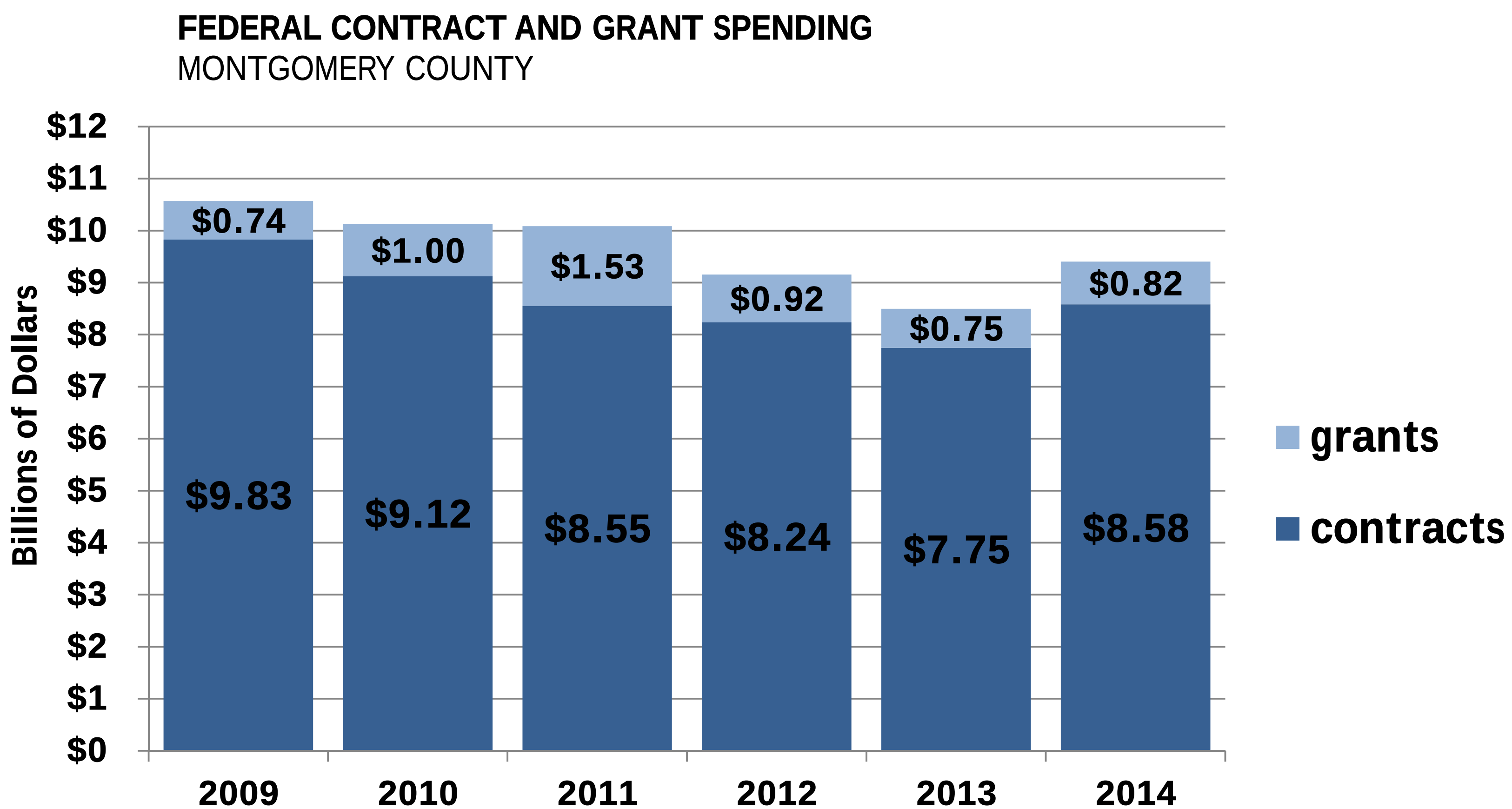
- Regional Economic Shocks
  - **Federal budget cuts**
  - **Sequestration**
  - **Federal consolidation**
- Structural Changes in the Office Industry
  - **Shrinking office spaces**
  - **Changing location preferences**

Montgomery County, Maryland

OFFICE MARKET ASSESSMENT REPORT

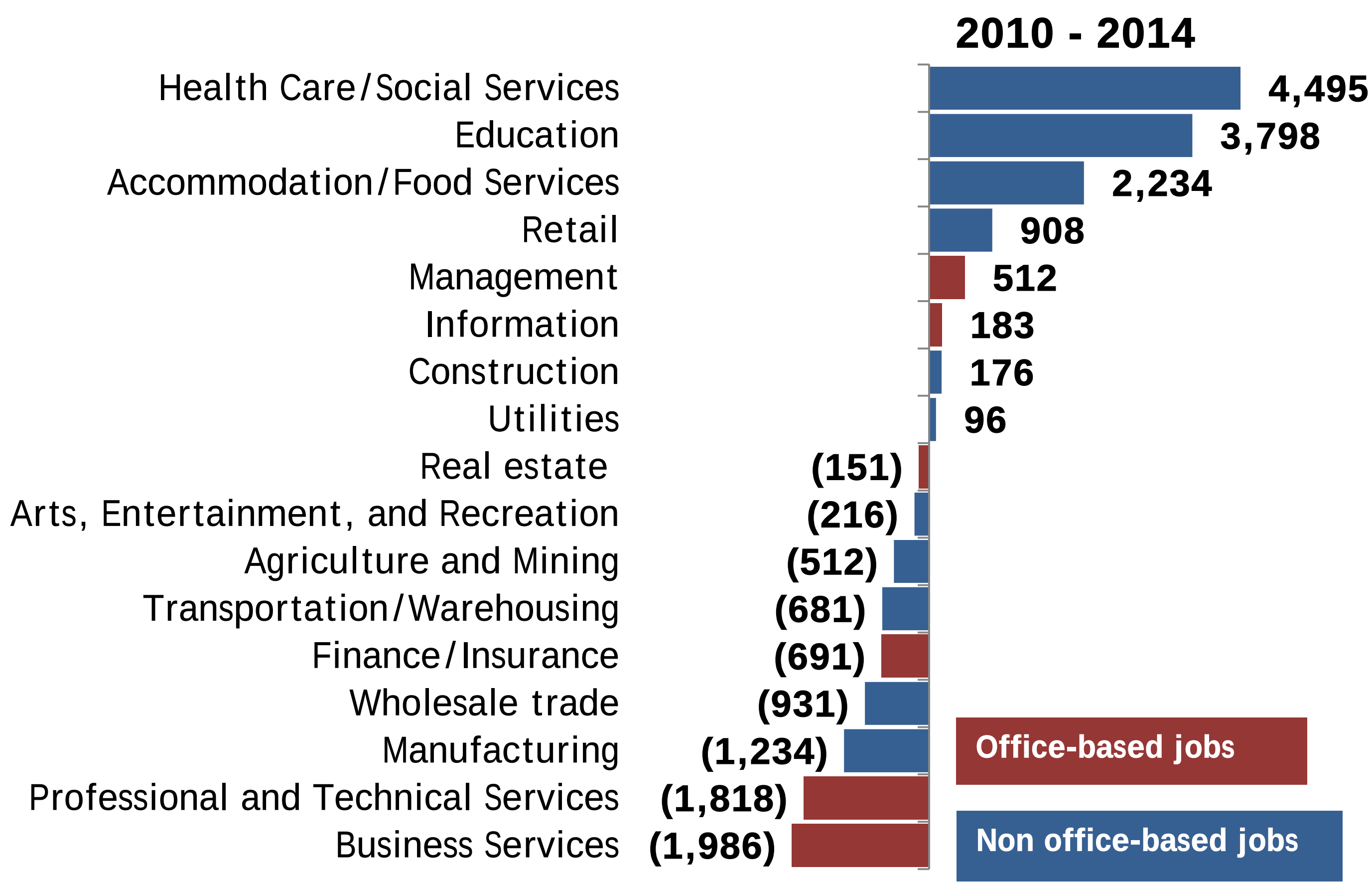
Regional Economic Forces

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



Source: Federal Procurement Data System

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



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

Bipartisan agreement: cut leasing costs

Nuclear Regulatory Commission

GSA: Freeze the footprint

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

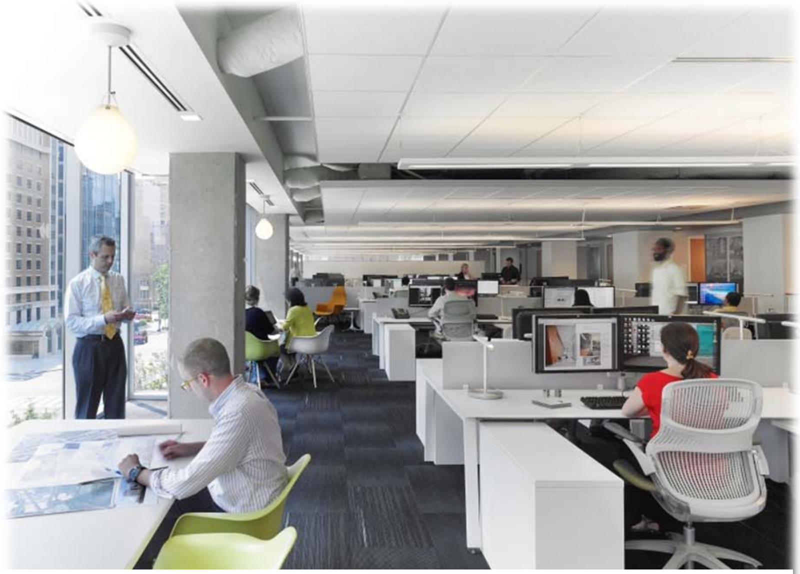
Montgomery County, Maryland

OFFICE MARKET ASSESSMENT REPORT

Office Market Restructuring

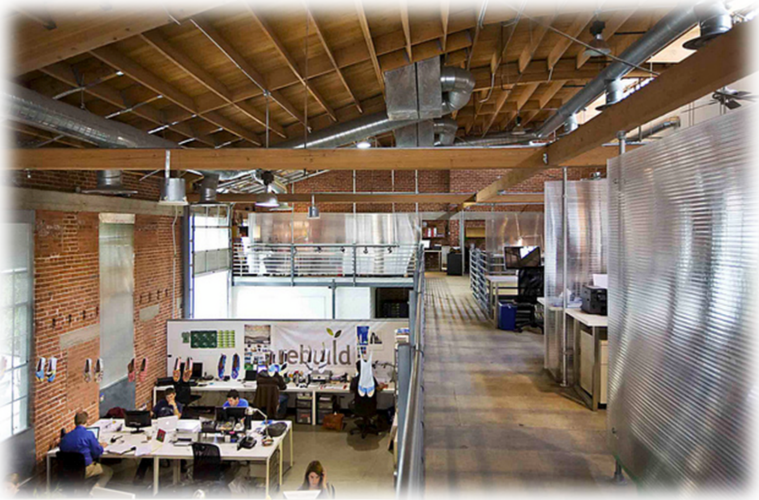
Changing Use of Space

- 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



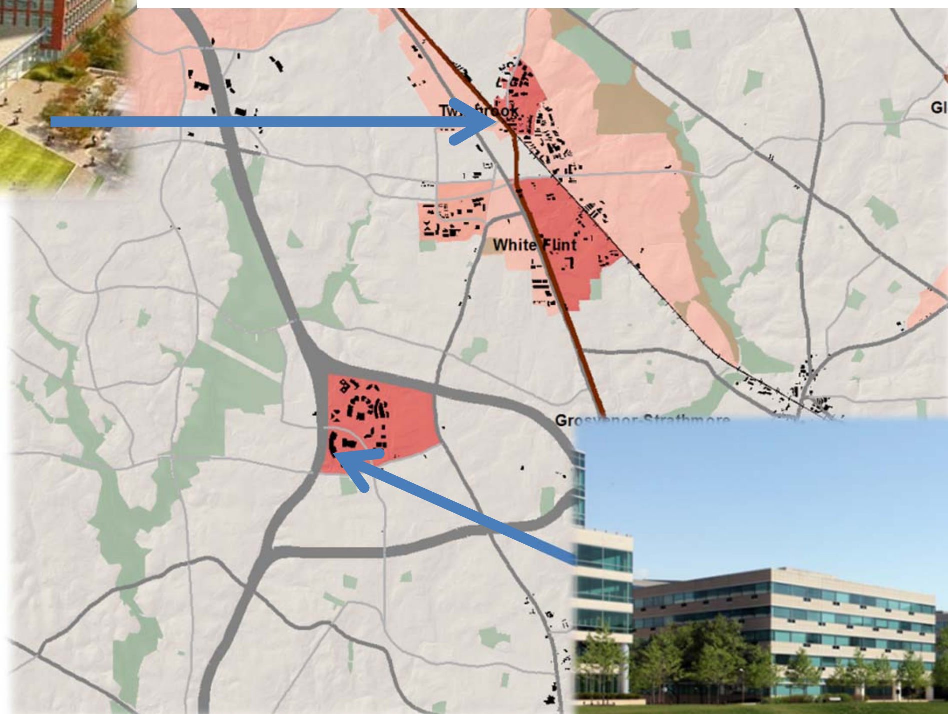
Courtesy of Smith Group/JJR

GSA adopted downsizing trends to cut space utilization



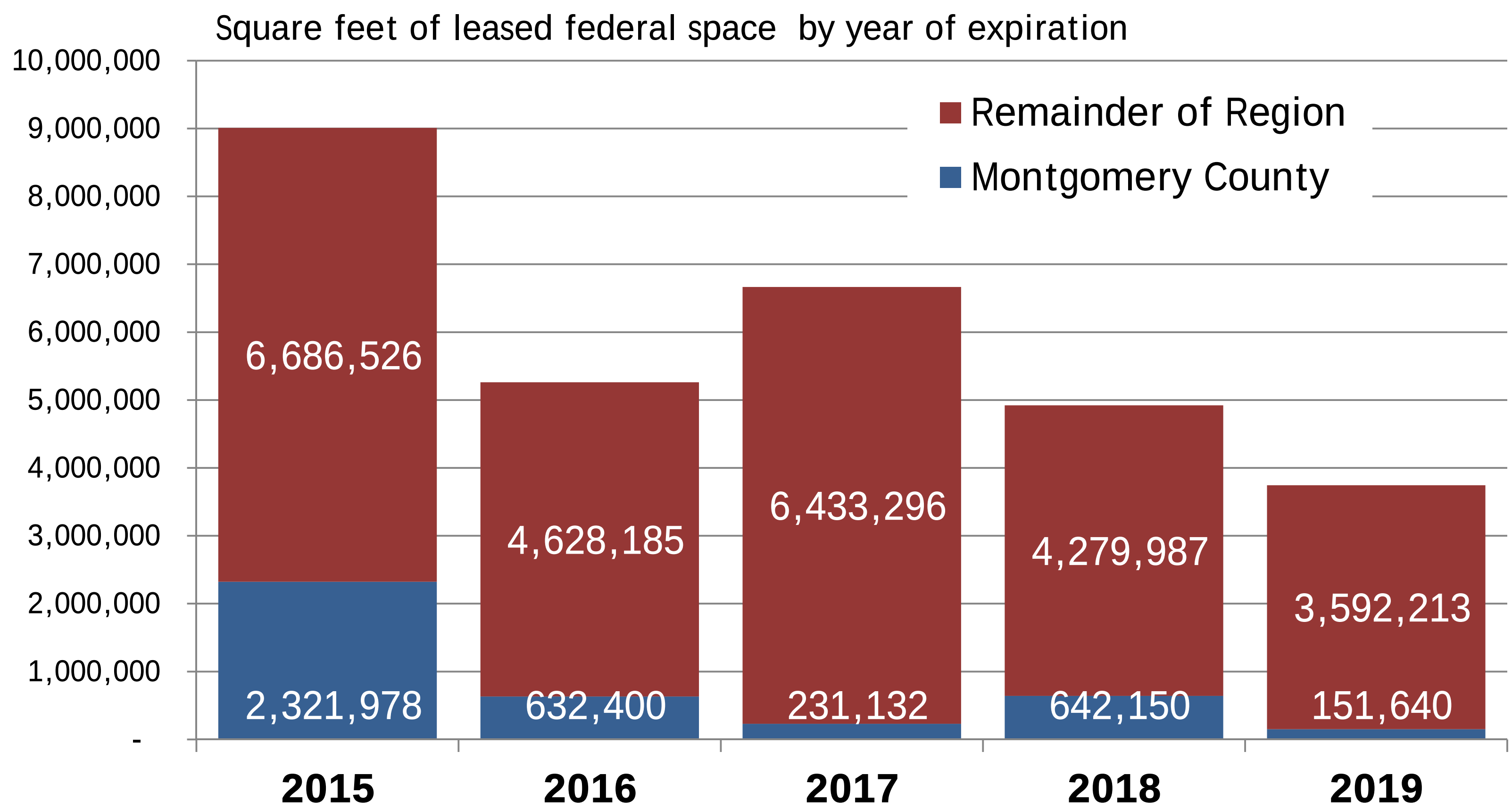
Federal downsizing will continue

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



Source: U.S. General Services Administration, Inventory of Federal Leased Space

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

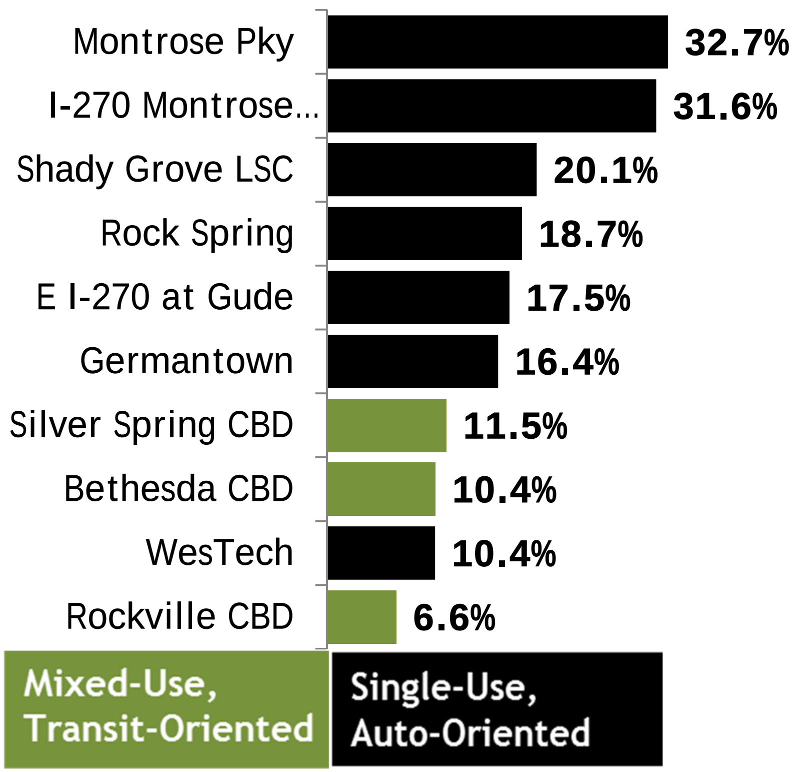
MOSAIC DISTRICT

TYSONS CORNER CENTER

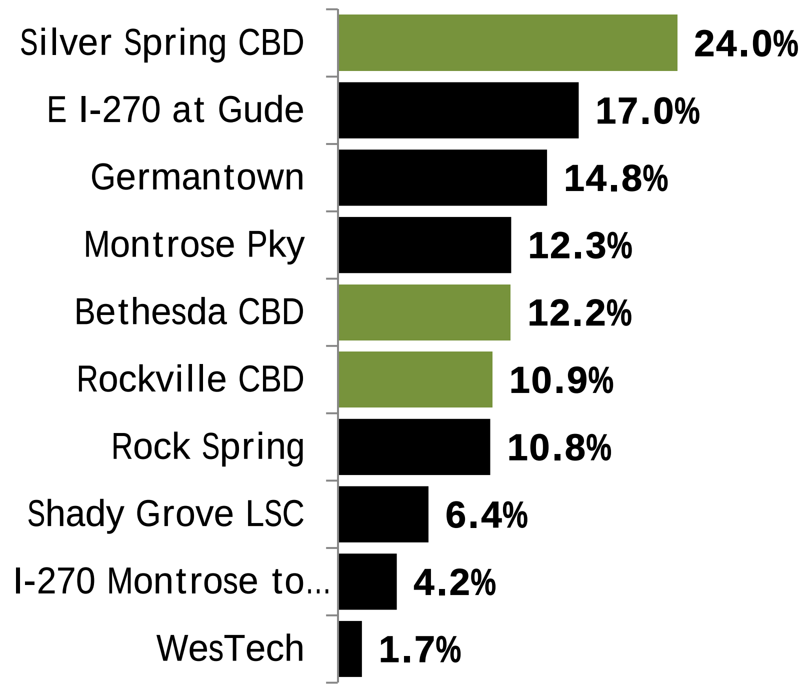
NOMA

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

2014
VACANCY RATE BY AREA

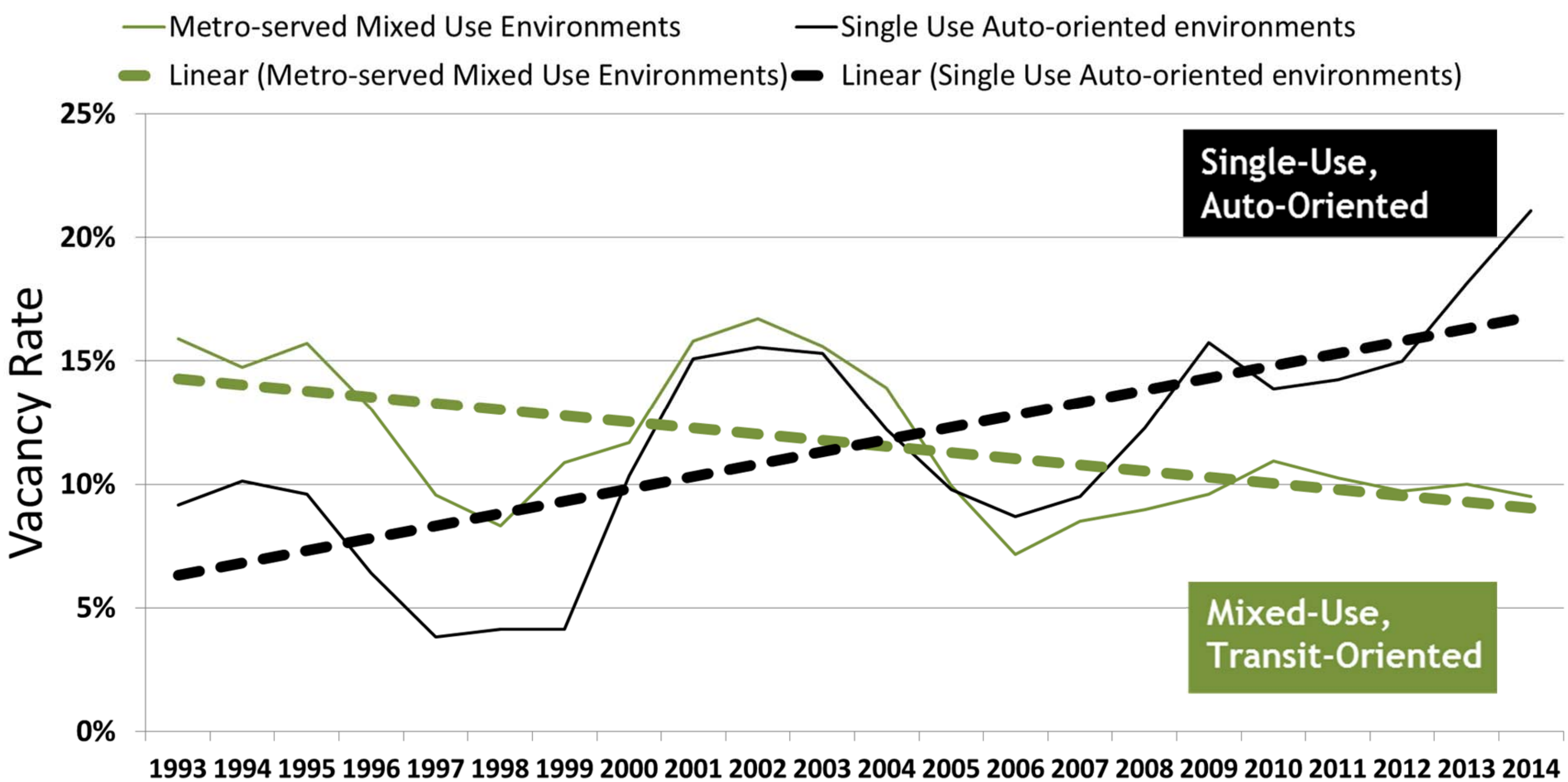


1995
VACANCY RATE BY AREA



Source: Partners for Economic Solutions

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



Source: Partners for Economic Solutions

Montgomery County, Maryland

OFFICE
MARKET
ASSESSMENT
REPORT

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

Best prospects

- Quality properties
- Walkable, mixed-use environments
- Easy transit/highway access

Worst prospects

- **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

OFFICE MARKET ASSESSMENT 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

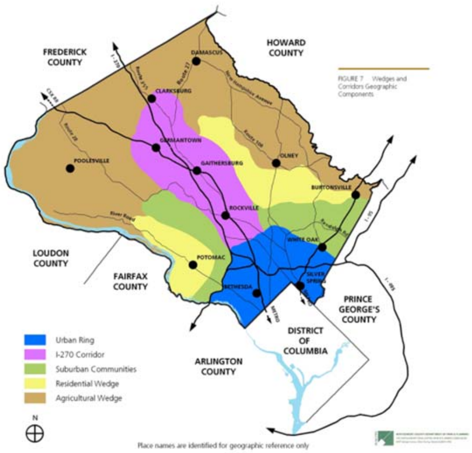
- Continue to invest in transit
- Enhance walkability and connectivity
- Events and programming to enliven districts
- Partner with developers to diversify existing office parks
  - Remove any zoning impediments to redevelopment
  - Provide incentives for building improvements

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



CREATING NEW URBAN CENTERS

TRANSIT ORIENTED DEVELOPMENT

ZONiNG MONTGOMERY

MIXED USE ZONING

RETROFITTING SUBURBAN OFFICE PARKS

Silver Spring
Placemaking
a workshop series - Fall 2014

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

Staff contact:
Lisa Madigan Tate, Regional Economist
Research & Special Projects Division
Lisa.Tate@montgomeryplanning.org
301.377.4936

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

MONTGOMERY COUNTY PLANNING DEPARTMENT