Makeover Montgomery 4

Suburban Office Reinvention
The Changing Suburban Environment
May 10, 2018
Silver Spring, MD
▪ Approximately two-thirds of U.S. office buildings are at least 25 years old.

▪ Approximately 1,200 office properties or approximately 95 million square feet of development may be non-competitive in today’s environment, especially those in suburban communities (Newmark Grubb Knight Frank).
Some drivers to consider:

- Rebounding of cities and urban areas
- Walkable suburban places
- Demographics
  - Boomers/Gen Y/Gen Z
- Technology and innovation
Companies moving from the suburbs to urban areas:

- **McDonald’s**: Oak Brook, IL to downtown Chicago
- **GE**: 70 acre wooded campus in Fairfield, Conn. to Boston
- **Motorola Solutions**: Schaumburg, IL to downtown Chicago
- **Expedia**: Bellevue, Washington to Seattle
- **Aetna**: Hartford, Conn. to Boston
- **Marriott International**: Rock Spring Park to downtown Bethesda

“We are going through a change in our work force, and we wanted to be where we could attract millennials,” Mr. Vergnano said. “This is a group that likes to be in an urban setting, with access to public transportation. They don’t want to be confined to a building with a cafeteria or be next door to a shopping center” -Mark Vergnano, CEO Chemours (NY Times, Aug.1, 2016)

Back office functions may still remain in a suburban setting. For example, Motorola will retain 1,600 jobs in Schaumburg, while moving 1,100 jobs to downtown Chicago.
Overview

National

We Work/We Live/ Regus/Make Offices/and others
Washington, DC: Tax Initiative
The Mixed-Use Neighborhood Conversion Incentive Act would offer property tax abatements of up to $20 per square foot for 10 years to office-building owners who convert their properties into residences. The bill requires 8 percent of units to be affordable for residents earning up to 60 percent of Area Median Income (AMI). The tax breaks would only apply to buildings within the Downtown D.C. and Golden Triangle Business Improvement Districts.
# Office Conversions

## New Direction

### SAMPLE BUILDING CONVERSION CHECKLIST

**Office-to-Residential / Hotel (EB and RS)**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Near Term</th>
<th>Future</th>
<th>Potential for Policy Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Location</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) mixed-use proximate</td>
<td>yes</td>
<td>yes</td>
<td>possible</td>
</tr>
<tr>
<td>b) office growth</td>
<td>possible</td>
<td>possible</td>
<td>limited</td>
</tr>
<tr>
<td>2. Market for alternate uses</td>
<td>yes</td>
<td>yes</td>
<td>limited</td>
</tr>
<tr>
<td>3. Property / Buildings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) age / when reinvested &gt; 25 years</td>
<td></td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>b) &lt; 85 feet wide bldg depth</td>
<td></td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>c) bldg frame (&gt; 30 foot column spacing)</td>
<td></td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>d) window line open space views</td>
<td></td>
<td></td>
<td>limited</td>
</tr>
<tr>
<td>e) mostly bldg code compliant</td>
<td></td>
<td></td>
<td>limited</td>
</tr>
<tr>
<td>d) some conversion value</td>
<td></td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>4. Underused FAR</td>
<td></td>
<td></td>
<td>possible</td>
</tr>
<tr>
<td>5. Occupancy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) vacant</td>
<td></td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>b) single-user</td>
<td></td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>c) multi-tenant (possible complicated)</td>
<td></td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>6. Economic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) land to building value ratio &gt; 1.0</td>
<td></td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>b) non-office rents &gt; office rents</td>
<td></td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>c) value recovery &gt; repositioning costs</td>
<td></td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>7. Regulatory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) policy supported</td>
<td></td>
<td></td>
<td>possible</td>
</tr>
<tr>
<td>b) zoning compatible</td>
<td></td>
<td></td>
<td>possible</td>
</tr>
<tr>
<td>c) requirement factors (i.e. MPDUs)</td>
<td></td>
<td></td>
<td>possible</td>
</tr>
<tr>
<td>d) incentives (reg. relief, financial)</td>
<td></td>
<td></td>
<td>possible</td>
</tr>
<tr>
<td>8. Future infrastructure / other change</td>
<td></td>
<td></td>
<td>possible</td>
</tr>
<tr>
<td>Conversion Prospect</td>
<td></td>
<td></td>
<td>maybe</td>
</tr>
</tbody>
</table>

*Note: Ownership motivations are also key, vary widely, but are not considered in this generic checklist*
Suburban Maryland Office Market

Inventory & Vacancy by Submarket, Fourth Quarter 2017

Bethesda-Chevy Chase Submarket
- 7750 Wisconsin Avenue-New Marriott
- 4747 Bethesda Avenue-JBG Smith

Under Construction: Approximately 626,000 sq.ft
**Existing**

- **Land Area:** 535 acres
- **Existing Office:** 5.5 million sq.ft.
- **Office Vacancy:** 24%

**Residential**
- Townhouses: 168 under construction (EYA)
- Multifamily: 386 (The Montgomery/Fairfield)

**Land Ownership:** 116 acres or 22% by one entity
Rock Spring's Commercial Space (as Share of County)

- **Office**: 7.4%
- **Retail**: 4.7%
- **Hospitality**: 3.8%
- **Total**: 6.3%
Rock Spring Zoning

Prior Plan

New Plan

Rock Spring Park

Region: Rock Spring Master Plan Boundary
R-90: One-Family Detached Residential
RHR: General Retail
NR: Neighborhood Retail
CR: Commercial Residential

Prior Plan

- Rock Spring Park
- Prior Plan

New Plan

- Rock Spring Park
- New Plan

Economic Development
- Employment Office

Note: Regional Shopping Center Overlay Zone applies; building height may be increased.
Rock Spring Park

Development Opportunities

Marriott Site
Land Area: 33.65 acres
Existing Development: 808,482 sq.ft.; 0.55 FAR
Zone: CR 1.5 C0.75 R0.75 H150

Rock Spring Centre
Approved since 1999
- Commercial: 1 million sq.ft.
- Residential: 864 Units
Executive Boulevard

**Existing**

- **Land Area:** 91 acres
- **Existing Development:** 2.3 million sq.ft.
- **Class A:** More than 50% of existing inventory
- **Vacancy Rate:** 29%
  - Three vacant buildings
- **Existing Uses:**
  - Variety of users, including health care (Kaiser Mid-Atlantic Headquarters and Lab, John Hopkins Community Physicians), NIH, and institutional organizations.
- **Rents:** $27 + per sq.ft.
Existing

Executive Boulevard
Executive Boulevard

New Infrastructure

The Western Workaround

Executive Blvd

Old Georgetown Road

Montrose Parkway

Gables White Flint

Pike & Rose

Pike & Rose

Old Georgetown Road

Executive Blvd.
Executive Boulevard

Zoning

Prior Plan

- Employment Office: EOF 0.75, H-100
- Commercial Residential Tower: CRT 0.25, C-1.5, R-0.25, H-35
- Commercial Residential: CRT 0.25, C-0.5, R-0.25, H-35
- Single-Family Residential: R-20
- Single-Family Residential: R-60
- Multiple Family, medium density residential: CRN 0.5, C-0.5, R-0.25, H-35
- Multiple Family, low density residential: CRN 1.0, R-1.0, H-75
- Townhouse: CRN 2.0, C-0.5, R-1.5, H-220
- Multiple Family, low density residential: CRN 0.5, C-0.5, R-0.25, H-35

New Plan

- Employment Office: EOF 0.75, H-100
- Commercial Residential Tower: CRT 0.25, C-1.5, R-0.25, H-35
- Commercial Residential: CRT 0.75, C-0.75, R-0.25, H-35
- Single-Family Residential: R-20
- Single-Family Residential: R-60
- Multiple Family, medium density residential: CRN 0.5, C-0.5, R-0.25, H-35
- Multiple Family, medium density residential: CRN 1.0, R-1.0, H-75
- Commercial Residential: CRT 1.5, C-1.5, R-1.0, H-65
- Commercial Residential: CRT 2.25, C-1.5, R-0.75, H-75
- Commercial Residential: CRT 3.0, C-3.0, R-2.5, H-120
- Light Industrial: II 1.0, H-50

White Flint 2 Parklawn Overlay
Protected Bike Lanes

Executive Boulevard

120’ R.O.W.

Protected Bike Lanes

Street-oriented buildings

Retain existing tree canopy
Executive Boulevard

New Development

6000 Executive Boulevard

Development Program
- Residential: 364 dus (age restricted)
- Office: 281,641 sq.ft.
- Retail: 9,300 sq.ft.

Existing Office: 128,571 sq.ft. (remain)
Executive Boulevard

Future

Program
- Existing Office 100,126 sq.ft.
- New Office/Retail/ Other 252,126 sq.ft.
- Housing 117,394 sq.ft.

Opportunities
- Enhanced Executive Boulevard - wide sidewalk, bikeway, double row of street trees, new pedestrian oriented streetlights, benches
- Bus transit along Executive Boulevard with bus shelters
- Trail along stream to Executive Blvd.
- Underground parking 893 spaces
Rock Spring Park

- Rock Spring Park will continue to face challenges since it is less amenitized than other Metro-accessible locations. However, new owners such as Bridge Investment Group (6720 Rockledge Drive) are seeking ways to reposition older office spaces.

- Existing healthcare and associated businesses, such as Henry M. Jackson Foundation indicate a positive direction.

- Marriott’s relocation provides a great opportunity for a new destination that builds upon the adjacent EYA townhouses.

- Establishing some form of place management, either public, private or public-private for the district. Build upon Rock Spring shuttle service with additional mobility infrastructure.

- Will anything happen with Rock Spring Centre development in the near-term? What about conversions? Any role for the County? BRT to White Flint?

Executive Boulevard

- Executive Boulevard area is well-positioned to attract potential new office tenants, given its proximity to Pike & Rose, new infrastructure, including the Western Workaround and the future northern White Flint Metro Station entrance.

- Recent leasing activity: GSA renewed NIH lease at 2115 East Jefferson Street- 90,000 sq.ft.; American Physiological Society (APS) lease 30,000 sq.ft at 6120 Executive Boulevard; and ABT moving to 6120 Executive Boulevard.

- Sale at 6116 Executive Boulevard ($9.5 million by Goodstone LLC); future rehab.