

I-270 Corridor Lab Market Report

Scheer Partners
A Reputation for Results

Q3 2018

Market Summary

The I-270 lab market saw only a few closed leases in the Q3 of 2018, but quite a few transactions are poised to closed in Q4. These will result in both net absorption of available inventory and new deliveries to the market.

Q3 2018 had several mid-size blocks of existing lab space deliver to the market ranging between 18,000 to 36,000 square feet. These spaces will appeal to the growing lab users in the market with good functionality and varying tiers of pricing. Several of these spaces are subleases with a relatively low basis, which resulted in the average marketed rent decreasing slightly. However, the spaces do not break below 18,000 square feet, which leaves an ongoing void in the market for the 7,000 to 15,000 square-foot lab users.

Market Metrics

Availability

358,661 SF [4.4%]

Absorption

-137,700 SF [-1.7%]

Average Rental Rate

\$29.47, NNN

Forecast

There are 12 requirements in the market that are on track to close in Q4 totaling approximately 350,000 square feet (110,000 square feet of existing inventory, 25,000 square feet of new lab conversion, and 215,000 square feet of ground up construction). This will be an exciting end to a busy year and will leave us much in the same place we started, with very little lab supply. There have been some new, creative opportunities developed, but if demand builds as it is anticipated, there will need to be new labs created in the coming year.

Major Transactions



**SHUTTLE
PHARMACEUTICALS**
15810 Gaither Road
2,000 SF



CV PATH INSTITUTE
19 Firstfield Road
15,000 SF



KITE PHARMA
930 Clopper Road
33,000 SF

Bethesda Lab

In recent years Bethesda has gained national attention due to its commercial, retail, and residential growth. However, what is often overlooked is the significant scientific footprint in Bethesda with the largest occupants being NIH, Walter Reed, Uniformed Services University of the Health Sciences, and Howard Hughes. As the lab market tightens in the Maryland I-270 market, the growth around these scientific installations will be part of the next generation of lab development.

Many of the early ventures in the Maryland lab market were based on cooperative research and development agreements (CRADA) out of the NIH. These agreements help transfer promising technology out of government labs and put them in companies to commercialize and (hopefully) bring to market. The natural conclusion is that with this collaboration there should be a lab cluster close to the NIH's Bethesda campus, but the nearest meaningful lab cluster is located 10 miles north of the NIH.

One of the major trends over the past 15 years in top-tier lab markets such as Boston/Cambridge, San Francisco, and New York City are the urban locations. Lab markets in urban locations are typically costlier in the form of occupancy expenses, but affords companies who locate in these areas access to amenities, public transportation, and the ability to recruit and retain top talent. Recently, outside of the scientific industry there have been several large companies who made the move to more urban areas for all the same reasons.

The NIH's Bethesda campus has approximately 12.6M square feet in 75 buildings, over 9M square feet of the campus has a "research" designation. The NIH campus houses several resources that include:

- \$26B in extramural research funding
- US National Library of Medicine
- Researchers who are experts in their fields from the 27 NIH institutions
- Training opportunities at the on the NIH campus and seminars at Clinical Center Grand Rounds
- Over 1,600 clinical trials going on at any given time

Pair all of the above points with a supply constrained lab market and a growing life sciences industry, Bethesda will be a natural next step in the growth of the Maryland I-270 lab market.

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