MONTGOMERY COUNTY
REAL ESTATE OFFICE MARKET OVERVIEW

2019 Q1

Office building landlords find themselves competing in a market increasingly focused on tenant experience. To remain competitive in the market, landlords are having to rethink how they differentiate their brand to appeal to this new norm for office space.

Evidence of this trend is the fact that major trophy buildings in Montgomery County have been pre-leased with high-profile tenants at high rates. Class A Office buildings continue to outperform B & C buildings, following a trend that has been consistent in national CRE metrics since the recession. Although the beginning of the coworking age was just 9 years ago, it has already shifted the landscape of the office market in terms of aesthetics, lease terms, and tenant experience.

NEW DEVELOPMENT IN MOCO

Bethesda Trophy buildings are attracting high profile tenants at rental rates that are more than $20 higher than the average asking price in the overall Bethesda/Chevy Chase submarket in Q4 (Arcieri, K).

4747 Bethesda Avenue, JBG Project:

▶ 287,183 SF, 15 story building
▶ Host Hotels & Resorts relocating their HQ, taking 55,000 SF
▶ 83% Leased
▶ Features the highest rental rates in the county ($60-70 PSF) (Troy, J)

The Wilson at 7272 Wisconsin Ave, Carr Properties:

▶ 937,000 SF mixed-use project
▶ Proshares occupying 55,000 SF, joining previously signed tenants: Fox5, WTTG, and Enviva
▶ 59% leased (Yemane, R)

While the Bethesda Trophy Buildings are filling, lower class building landlords are struggling to compete in this changing office market. Within the last quarter, almost 2 million more square feet was taken in Class A space in the Washington DC Market than in Class B & C Office buildings (Costar Analytics).

REIMAGINING REAL ESTATE

In a market focused on tenant experience, the role of technology and the internet of things (IoT) allows landlords to reimagine existing space as an upgraded 'smart office' that features better building metrics and controls. Class B & C landlords can compete and perhaps out perform their newer Class A Trophy competitors by judiciously incorporating new technologies and management tools:

▶ IoT technology allows for tenants to control certain aspects of their space in addition to improving office efficiency (printers reordering toner automatically, scanners that translate text to computer programs, etc).
▶ Energy reducing technology lowers buildings operating costs (motion sensors reduce energy usage, water sensors detect leaks early on to prevent extensive damage, etc).
▶ Applications designed to connect tenants to amenities within the building and the surrounding neighborhood enhance the tenant experience (Stribling, D).
▶ Virtual reality marketing allows for a space to be toured by potential clients outside of the region. Additionally, tenants can visualize space during a fit-out or adaptive reuse to resolve construction or flow issues.

Integration of new technology can transform B & C space into the office of the future, without charging Class A rent. If owners utilize this expanding tool effectively, they may successfully rebrand a building by offering reimagined offices that can compete with new space.

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