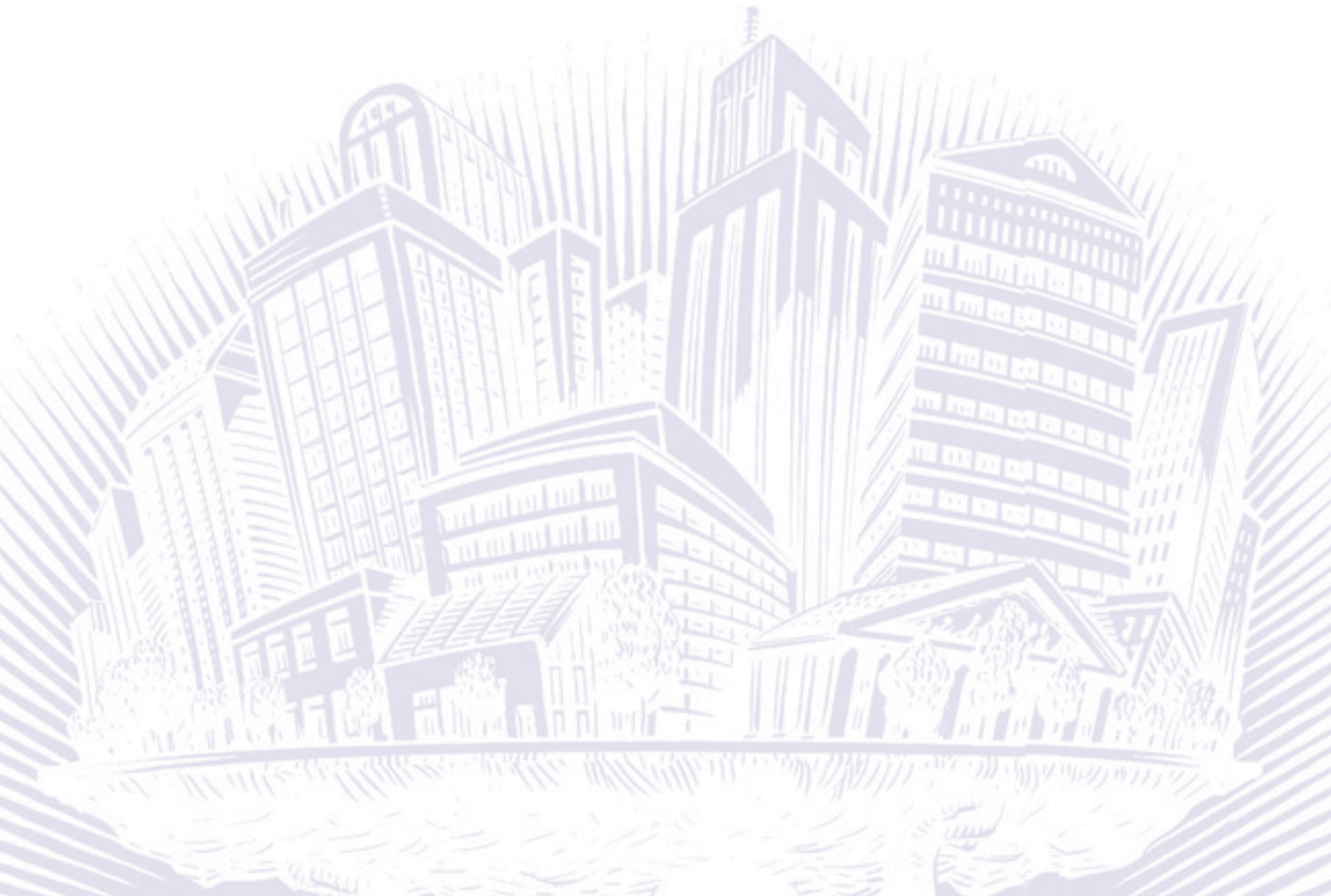


NORTH BETHESDA OFFICE MARKET REPORT

THIRD QUARTER 2016



Market Summary

The current office market has not changed considerably since last quarter--vacancy has seen a minimal decrease of 0.1%, essentially still staying steady at 17% and rental rates have dropped by seventy cents bringing them down to \$30.20 Gross Rent /SF.

This quarter, Federal Government agencies completed their renewals which triggered a spike in market activity. Health and Human Services renewed 155,000 square feet at 12501 Ardennes Avenue and the Nuclear Regulatory Commission renewed 348,000 square feet at 11545 Rockville Pike where they have been for the last two decades.

What does this mean for tenants?

Over the last two quarters, it has been musical chairs with landlords up and down the Pike.

11300 Rockville Pike was the last portion of the WRIT portfolio to be delivered, bought by Brookfield in the \$240-million sale. Along with 11300, Brookfield now owns 51 Monroe Street and 600 Jefferson Plaza in the North Bethesda market.

12300 Twinbrook has also been purchased by MRP at \$15.5-million and 1700 Rockville Pike was just purchased by Ivy Realty for \$33-million. With all of these buildings changing hands in the market means tenants with upcoming lease expirations can go out and really shop for concession packages and leverage these new landlords in the market.

We have seen major improvements done by Hines in the neighboring 5515 Security and 11400 Rockville Pike. Their implementation of a gym and a shared conference facility are amenities becoming expected and demanded by tenants. The bar has been set by Hines and new landlords entering the market will be conducting vast improvements to common areas and shared spaces.

Opportunities for Tenants

Thanks to the exchange of buildings along the Pike, landlords are going to be competitive in attempting to attract new tenants. Expect to see improved buildings, tenant-friendly amenities, and being able to find class A space in a market that has largely been Class B in the past.

Opportunities for Landlords

Being largely a class B market it is crucial for landlords to not only update the common areas and fixtures but also to begin including amenities such as shared conference facilities. These are now becoming a norm in the market and are now necessary to compete for tenants in the market

Forecast

The market still needs to make great strides in order to begin competing with the numbers that we currently see in the Bethesda market. Though with the developmental projects such as Pike & Rose Phase II seeing the light at the end of the tunnel, plus the vast office building improvements being done, there is a strong possibility we can see tenants coming north to escape the higher Bethesda rents.

For additional market insight, contact:

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CURRENT VACANCY RATE

17.6%

ASKING RENTAL RATE

\$32.20

RECENT TRANSACTIONS



51 Monroe Street purchased by Brookfield Properties.



1700 Rockville Pike bought for \$33,000,000 by Ivy Realty.