ECONOMIC DEVELOPMENT IN THE CITY OF GAITHERSBURG

Tom Lonergan
Assistant City Manager
OVERVIEW

- Maryland's 3rd largest incorporated city
- Less than 20 Miles From Washington, DC
- ~40 Miles From Baltimore
- 3 major airports within 35 miles
- Metro/MARC rail service
QUICK FACTS

- 10 square miles
- I-270, I-370 and Maryland 200
- Council-Manager Government
- 298 F/T Employees
- 26 City Parks
- 29 Public Schools
- Blair Witch
15% INCREASE SINCE 2010

- NEARLY 40% OF RESIDENTS ARE FOREIGN BORN
DIVERSITY
- MOST DIVERSE CITY IN AMERICA (2019)

SOURCE: WALLETHUB
EDUCATION

- 54% possess bachelor’s degree or higher
• 9% HIGHER THAN STATE OF MARYLAND

• 29% HIGHER THAN US AVERAGE
OCCUPATIONS OF RESIDENTS
- TOTAL CITY WORKFORCE: 35,091

- Management, Business, Science: 52%
- Service: 18%
- Sales: 19%
- Construction: 5%
- Production & Transportation: 6%
<table>
<thead>
<tr>
<th>Company</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIST</td>
<td>2730</td>
</tr>
<tr>
<td>AZ</td>
<td>2290</td>
</tr>
<tr>
<td>Leidos</td>
<td>1200</td>
</tr>
<tr>
<td>Asbury Methodist Village</td>
<td>820</td>
</tr>
<tr>
<td>Gene DX</td>
<td>556</td>
</tr>
<tr>
<td>Sodexo USA</td>
<td>511</td>
</tr>
<tr>
<td>Hughes Network Systems</td>
<td>450</td>
</tr>
<tr>
<td>Adventist Health</td>
<td>400</td>
</tr>
<tr>
<td>Emergent Biosolutions</td>
<td>387</td>
</tr>
<tr>
<td>Kaiser Permanente</td>
<td>350</td>
</tr>
</tbody>
</table>
STATE OF THE MARKET
Class A & B Office Vacancy

- Approximately 8.6M square feet of office and flex space
- Vacancy Rate: 6.4%
- Market Rent: $25.93/ square feet
- Lab Space Vacancy: 3%
- Unemployment Rate: 3.4%

Source: CoStar
Retail Vacancy

- Vacancy Rate: 3.4%
- Market Rent: $31.68/ square feet

Source: CoStar
BIOTECHNOLOGY INDUSTRY
• Heart of BioHealth Capital Region - the nation’s 4th largest Biohealth region
• Proximity to NIST, NIH and dozens of other Federal Labs
• Region has the highest concentration of graduate and professional degrees in the nation
• Proximity to dozens of biohealth incubators and accelerators that provide business services, mentoring, and miles of lab space
• Tax incentives, grants, and investment programs throughout the region, including a 50% biotechnology investor tax credit in Maryland.
• More than half of the lab space in the I-270 Biotech Corridor located in Gaithersburg
• Great public schools
• STEM education in local colleges
MAINTAINING THE BIOTECH MOMENTUM

• Demand for lab space is strong, vacancy rates low, but available inventory is also low.
• Asking rents have increased, but still generally not high enough to support new construction.
• Conversion of vacant and/or obsolete office space is costly, and the industry is very specialized.
704 QUINCE ORCHARD ROAD

- Conversion of 77,000 square feet, obsolete office building located in heart of city’s life science cluster
- Ready-to-occupy lab/office spaces for companies of all sizes
- Lab-friendly amenities include an autoclave, glass wash station, sink, and ice maker for use by all of the tenants, as well as an onsite self-service supply store
- Amenities including big screen TV’s, kitchen, and a coffee/tea station- all free for the tenants’ use
- Meeting spaces available for tenants
- Schedule of speakers and activities attractive to those in the life sciences sector
LAUNCHLABS
708 QUINCE ORCHARD ROAD

- Conversion of ~ 6,000 square feet of obsolete, Class C office space located in heart of city’s life science cluster

- Established in 2015 to support early stage biotechnology companies, with $100,000 grant provided by City of Gaithersburg to support construction costs

- Five, move-in ready lab/office modules (~1,200 sq ft) with fully fitted wet laboratory space including casework, fume hood, equipment storage, and emergency generator, office and cubicle furniture

- Shared conference rooms, IT closet, glass wash, and ice maker

- Biohealth Innovation (BHI), a public-private partnership created in 2011 to foster health and life sciences commercialization in Maryland, provides startup and entrepreneur-in-residence programs to guide early-stage life science companies
700 QUINCE ORCHARD ROAD

- 165,000 square feet vacant Class C office/manufacturing property located in heart of Gaithersburg’s life science cluster
- New ownership planning a full renovation of the property
- Targeting either a single tenant, or potential dividing the interior to accommodate smaller companies
700 NORTH FREDERICK AVENUE

- Matan Companies planning to demolish 2 functionally obsolete office buildings
- Project includes constructing two interconnected lab/office/flex buildings totaling 538,916 square feet
- Bio/lab and logistics tenants
REDEVELOPMENT & INFILL DEVELOPMENT
• As “greenfield” and annexation areas become sparser, future opportunity for development will likely come through redevelopment and infill development.

• Many commercial buildings, especially along the City’s northern and eastern commercial corridors, are nearing the point where redevelopment potential exists.

• Properties with 3 or more acres offer the best potential for redevelopment, but many parcels are significantly smaller.

• The strong demand for local real estate is driving a trend toward denser development, with the market focused on townhouse and condo (multifamily) construction.
LAKEFOREST MALL

• 1,049,000 GLA constructed in 1978
• 4 anchor properties + core
• 102 acres
• Zoned C-2 (Commercial), Master Planned MXD (Mixed-Use Development)
• Core recently acquired by WRS Realty
• Lord & Taylor/JCP Closed; Sears sold to Northwood Ravin but remains on a lease-back
• Significant private legal restrictions on development and re-use
315 EAST DIAMOND AVENUE

- 1-acre parcel located in heart of Olde Towne, adjacent to MARC Station
- Acquired by City of Gaithersburg in 2001; existing building demolished
- City executed a Purchase and Development Agreement with Ellisdale Construction to develop a mixed-use project for the site
- 108 mixed income apartments
- 8,500 sq ft ground floor retail
- Groundbreaking anticipated in 2020
303-309 SOUTH FREDERICK AVENUE

- Acquired over time, with first acquisition in 1998 and last one in 2017
- For the purpose of removing blight and consolidating land area
- 4 parcels, 4 houses
- Totaling 0.87 acres
- At the southern gateway to Olde Towne
- Identified in the local master plan for townhouse style redevelopment (ground floor retail, upper floor residential)
- Fronting MD Rt. 355
  - Annual Average Daily Traffic: 33,900+ vehicles
ADDITIONAL REDEVELOPMENT OPPORTUNITIES

- Identifying Commercial Buildings Constructed Prior to 1980
- On 3+ acres
- The City could see 8,800 to 11,500 new households by 2045
- That translates to 6,700 to 9,700 additional housing units to accommodate that growth
- New housing will need to occur on the same available land as commercial growth.
INCENTIVES
TOOLBOX GRANT PROGRAM

- Created in 2010 and funded entirely by the City of Gaithersburg

- Designed to provide diversified economic development incentives that can be broadly applied to existing businesses and eligible commercial buildings/spaces across the City.

- Consists of a program of one-to-one matching grants directed toward businesses that exhibit growth potential and provide stable, well-paying jobs.
TOOLBOX GRANT PROGRAM

- Tenant Fit-Up ($2 square feet - $4 square feet)
- Job Training
- Commercial Signage Assistance
- Demolition Assistance
- ADA Upgrades
- Utility Upgrades
- Storefront/Landscaping (Olde Towne & Kentlands Main Street)
- Custom
TOOLBOX GRANT PROGRAM

- Maximum grant award of $50,000
- Staff approval
- Funded through city budget, typically averaging $200,000 annually
- 70 grants totaling $1,323,109 awarded to date
- 1382 jobs supported
The Economic Development Opportunities Fund was established in 2010 to support unique business development opportunities and to provide a ready pool of cash that can be drawn from to help entice companies to, or remain within, the City of Gaithersburg.

- 8 Grants Awarded to date totaling $1,523,758
- 1785+ Jobs Supported
- 536,00 square feet Office/Lab Space Secured/Improved
- Require Mayor & Council Approval
ENTERPRISE ZONE

- State program
- Expanded local boundaries, effective July 2018
- City, County & State real estate tax credits
- Affordable Housing Exemption
- Employer income tax credits
- Well-established process and benefits
OPPORTUNITY ZONES

- 3 designated tracts in Gaithersburg
- National program
- Tax benefits for investors (Deferred capital gains)
- Initiated in 2018
- Unproven benefit
- Key locations include Lakeforest Mall, Perry Parkway & the Fairgrounds
Challenges Remain

- Softening demand for commercial space
- Aging inventory
- Rents not supporting new construction financing
- Competing submarkets
- Retail surplus
- Lab supply