



MASTER PLAN

MARKET NEWSLETTER

TOWN CENTER MASTER PLAN NEWSLETTER

Market Summary

September 2000



Primary Market Findings

This newsletter, prepared as part of the Rockville Town Center Master Plan by Development Concepts, Inc. and HNTB, highlights key findings relating to the market potential for the Rockville Town Center. In particular, office, retail, and housing markets are profiled. These findings will help provide a direction for assembling an implementable master plan and focusing on key development initiatives throughout the Town Center. Key findings that will impact future development in the Town Center follow.

“Economic conditions should allow the Town Center Master Plan to capitalize on activity in all market segments.”

The Washington, D.C./ Maryland/Virginia Primary Metropolitan Statistical Area (PMSA) and the City of Rockville benefit from a healthy local economy. The population is increasing and becoming

wealthier, 51,000 jobs were created countywide between May 1999 and May 2000, retail buying power is strong, home prices are above average, and vacancy rates for office buildings are at historically low levels. The strong regional economy provides an opportunity for a revitalized Rockville Town Center, if selected market segments are targeted and viable development projects identified.

The population is growing. The population of Montgomery County is expected to increase by 50,000 people over the next five years. The area within a ten-minute drive of the Town Center (see trade area map on page 2) is projected to add 26,000 residents during the next five years.

The local economy is one of the strongest in the country. Unemployment in Montgomery County averaged 1.8% in 1999. The area within a ten-minute drive of the Town Center has a median household income 80% higher than the national average. Many of the county's new jobs are high-wage, high technology jobs in the “New Economy.”

Households near Town Center have considerable buying power. The 154,587 households within a ten-minute drive of the Town Center represent combined annual expenditures of \$6.1 billion. It

is estimated that approximately \$200 million of this spending is at restaurants and \$230 million is on apparel. These are two of the largest consumer expenditure categories. The 13,000 workers in the Rockville Town Center represent another significant source of purchasing power. The lack of shopping opportunities in the Town Center represents a tremendous missed opportunity to capitalize on the spending power of the Town Center workers and residents.

The Rockville office market is large and growing. With 6.3 million square feet of leasable space, the Rockville submarket has the third largest supply of office space in Montgomery County. This market has an additional 641,000 square feet under construction. Construction is predicted to continue due to the low, 0.96%, vacancy rate and strong economy.

Area housing prices are considerably higher than the national average. In 1990 the median housing value near Town Center was slightly more than \$200,000 as compared to Maryland's average of \$115,500. Local real estate experts believe that Rockville Town Center can attract additional homebuyers in the \$200,000 to \$400,000 range, given of its economy, city services, schools, and amenities.

UNDERSTANDING MARKET TRENDS AND OPPORTUNITIES IS A CRITICAL COMPONENT OF A SUCCESSFUL PLAN. THIS NEWSLETTER PROVIDES AN OVERVIEW OF THE ROCKVILLE MARKET AND HOW THE ROCKVILLE TOWN CENTER CAN POSITION ITSELF FOR DEVELOPMENT IN THE YEARS AHEAD.

INFORMATION WAS GATHERED FOR THIS NEWSLETTER IN A VARIETY OF WAYS. DEMOGRAPHIC DATA WAS PURCHASED FROM A NATIONAL DATABASE. INTERVIEWS WERE CONDUCTED WITH LOCAL REAL ESTATE PROFESSIONALS, RESIDENTS, AND BUSINESS OWNERS. EXISTING STUDIES WERE EXAMINED, AS WAS INFORMATION FROM THE U.S. CENSUS BUREAU AND OTHER NATIONAL, STATE, AND LOCAL GOVERNMENT AGENCIES.

THE INFORMATION WAS ANALYZED AND CONCLUSIONS DRAWN REGARDING THE MARKET POTENTIAL OF THE ROCKVILLE TOWN CENTER. THESE CONCLUSIONS WILL BE INCORPORATED INTO THE FINAL DEVELOPMENT RECOM-

Prepared by



Development Concepts Inc.

HNTB

Retail Trade Areas

Trade Areas

The intersection of Middle Lane and Washington Street was used as the centerpoint for defining the three retail trade areas:

5-Minute Drive Time
- Approximately 3 miles each way from centerpoint.

10-Minute Drive Time
- Approximately 6 miles each way from centerpoint.

15-Minute Drive Time
- Approximately 9 miles each way from centerpoint.

Three retail trade areas were defined for the Rockville Town Center: five-minute, ten-minute, and fifteen-minute drive times. Travel time is an important variable which influences the shopping patterns of Rockville and County residents. For example, a higher percentage of residents living within five minutes of the Town Center are likely to patronize this area that those residents having to commute 15 minutes or more. Additionally, the number of households, along with a measurement of disposable income in each of these trade areas, will influence the

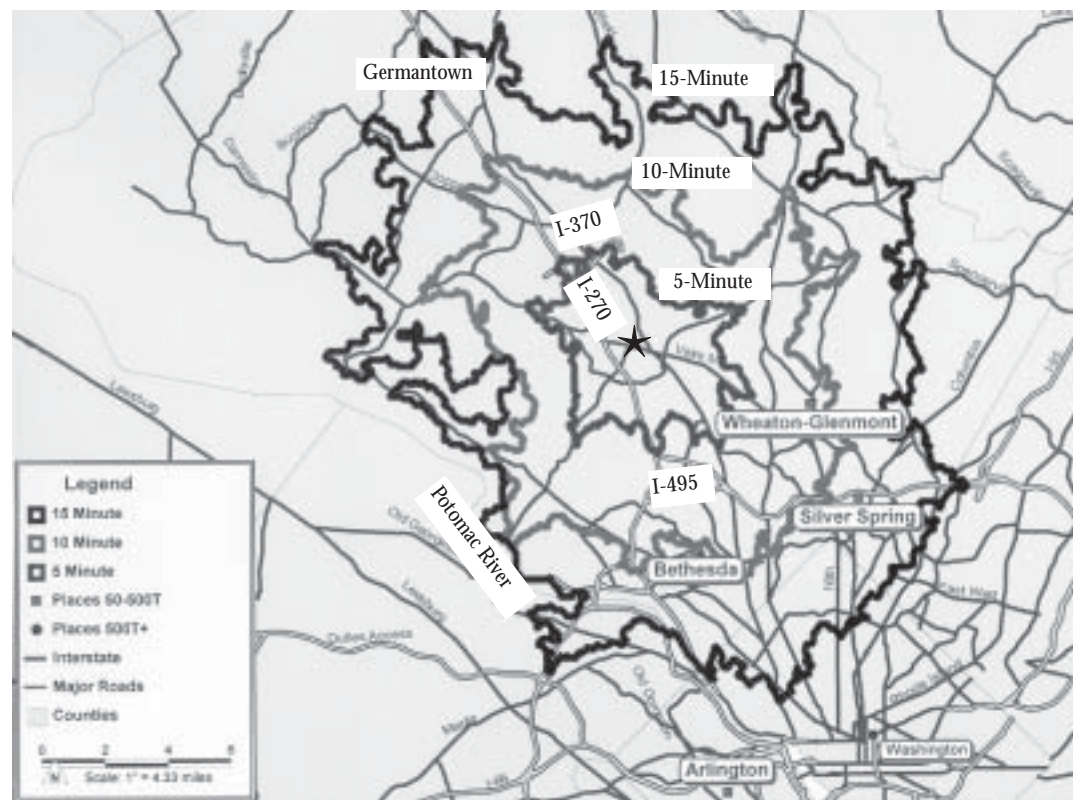
type of retail to be considered for the Town Center. A resident more than 10 minutes away is more likely to travel this distance for high end apparel and niche retail opportunities than for convenience retail. Understanding the demographic dynamic within each of the "drive time trade areas" will help establish the specific types of retail opportunities which are in the marketplace.

In other words, the Rockville Town Center could attract residents from the more distant trade areas if they are provided a

reason to shop in the Town Center. These reasons could be unique shops and restaurants not found elsewhere, a critical mass of specialty retail stores, a pleasant or unique shopping experience, or entertainment venues that complement shopping.

The five-minute, ten-minute, and fifteen-minute drive time trade areas are approximately 28, 113, and 255 square miles, respectively. For comparison, The City of Rockville is 13 square miles, and Montgomery County is 497 square miles.

Retail Trade Areas from the Intersection of Middle Lane and Washington Street



Source: CACI Marketing Systems

Population Increases

The Washington, D.C./ Maryland/Virginia Primary Metropolitan Statistical Area (PMSA), comprised of Washington, D.C.; Montgomery, Prince George's, Charles, Frederick, and Calvert counties in Maryland; and Arlington, Fairfax, Loudoun, Prince William, and Stafford counties in Virginia, grew at a compound annual rate of 1.2 percent between 1990 and 1999. The PMSA increased in population by approximately 446,000 residents during the 1990s.

The City of Rockville also increased in population during the 1990s, although not at quite as rapid a pace as the PMSA. According to the U.S. Census Bureau, the City of Rockville increased from 44,788 residents

in 1990 to 46,788 residents in 1998, an annual increase of 0.5%.

Three trade areas were defined for the Town Center based on drive times. The trade areas are five-, ten-, and fifteen-minute drives from the intersection of Middle Lane and Washington

Street. Within all three of these trade areas the population increased during the 1990s and is projected to continue to increase until 2005. The annual rate of increase for the trade areas was equal to or slightly less than the rate of increase for the Washington, D.C./Maryland/ Virginia PMSA.

“The PMSA increased in population by approximately 446,000 residents during the 1990s.”

Population

	1990	2000 Estimate	2005 Projection	1990-2000 Annual Change
5-Minute Drive Time	71,468	78,408	81,789	0.9%
10-Minute Drive Time	369,037	406,073	432,190	1.2%
15-Minute Drive Time	738,540	817,767	863,784	1.0%
Rockville	44,835	46,788*	N/A	0.5%
PMSA	3,923,600	4,369,800**	N/A	1.2%

Source: CACI Marketing Systems & ULI Market Profiles: 2000

** 1998 Estimate*

*** 1999 Estimate*

Tight Labor Market

The strength of the local economy is good news. It is also bad news. The strong economy translates into job growth and demand for personnel. The local market, for all intents and purposes, is fully employed. In 1999, Montgomery County averaged a 1.8% unemployment rate. A tight labor market will most often negatively impact retail and service businesses the most, especially the lower paying jobs.

National retailers and restaurants that already have a presence in the Rockville market, mainly along Rockville Pike, may be concerned about adding more locations when the employment market is tight.

The tight labor market may negatively affect business profitability, due to anticipated higher wages required to attract the personnel. Some of this negative impact may be softened

given two local conditions. First, the population of the PMSA is growing and can be expected to provide more employees to help fill the growing number of jobs. Second, the location of the Metro station in the Town Center may help attract employees from a larger market area. Access to and from the Town Center by the regional workforce is a critical economic development issue impacting future investment.

Unemployment Rates

Montgomery Co. - 1.8%
PMSA - 2.1%
Maryland - 3.5%
United States - 4.2%

Resident Profile

2000 Estimate for 10-Minute Drive Time Trade Area

Median Age
37.8

Per Capita Income
\$38,338

\$100,000+ Household Income
30.1%

Average Household Size
2.59

Homeowners
67.7%

The residents within the three trade areas are well-educated and highly paid. Half the population 25 years and older possess a bachelor's or more advanced degree. Estimated median household income is approximately \$70,000 in 2000, 80% higher than the national average.

The residents are most likely to work in service industries (45%). Wholesale and retail trade (17%) and public administration (12%) are also important employment sectors for residents. The residents are predominately in managerial/professional (47%) and sales/administrative support (26%) occupations.

Educational Attainment Persons 25+ Years

	10-Minute Drive Time*	Maryland	United States
Less Than High School	10%	22%	25%
High School Graduate	90%	78%	75%
Bachelor's Degree	50%	26%	20%
Graduate/Professional Degree	24%	11%	7%

** The educational attainment was approximately the same for the three trade areas*

Source: CACI Marketing Systems & U.S. Census Bureau

Household Income

	1990	2000 Estimate	2005 Projection
5-Minute Drive Time	\$55,337	\$72,856	\$79,116
10-Minute Drive Time	\$54,024	\$70,832	\$77,486
15-Minute Drive Time	\$53,317	\$69,894	\$76,835
Maryland	\$39,386	\$50,016*	N/A
United States	\$30,056	\$38,885*	N/A

**1998 Estimate*

Source: CACI Marketing Systems & U.S. Census Bureau



All levels of government are important employers in Rockville.

A Classification of Residential Neighborhoods (ACORN)

A Classification of Residential Neighborhoods (ACORN) is a segmentation system of neighborhoods. Sixty-one lifestyle characteristics, such as income, age, and occupation, are used to determine the consumer behavior of residents. ACORN has nine general groups. Each group contains three to seven clusters for a total of 43 clusters. The clusters provide a classification system for predicting the

purchasing habits of neighborhood residents. Many retailers and commercial developers use the ACORN classification system when making location decisions for retail investment.

Upper-income households dominate the three trade areas. The top three ACORN clusters are Wealthy Seaboard Suburbs, Top One Percent, and Successful Suburbanites. These three segments account for 46% of

the population within a 15-minute drive of the Town Center and similar percentages in the smaller trade areas. These groups rank high for expenditures on apparel, home furnishings and improvements, and electronic "toys." These top three ACORN clusters are further defined on the following page.

ACORN (con't)

Top One Percent

Residential: Most own their single-family homes found in the older suburbs of large metropolitan fringe areas scattered throughout the U.S. High concentrations of "Top One Percent" are found in California, New York, New Jersey, Illinois and Texas. Their median home value of over \$400,000 is more than four times the national average. Well over 80 percent of these homes are valued at \$250,000 or more.

Preferences: "Top One Percent" households rank high for many consumer purchases including most clothing and apparel categories, frequently buying via mail or phone orders. They drive luxury cars and enjoy taking domestic and foreign excursions. They are active volunteers and fund-raisers. They also enjoy reading newspapers and playing racquet sports.

Wealthy Seaboard Suburbs

Residential: They own their single-family homes that were built between 1950 and 1969. The median home value reflects the markets where these neighborhoods are located, \$261,900; more than two and one half times the national average of \$99,800. "Wealthy Seaboard Suburbs" are found in the suburban areas of East and West Coast urban metros.

Preferences: "Wealthy Seaboard Suburbs" pursue physical fitness

by playing a variety of racquet sports, golf, working out at the gym, and taking vitamins regularly. They spend freely on home furnishings and improvements, and also travel extensively, preferring foreign to domestic trips. They read two or more daily newspapers and metropolitan and business-related magazines and listen to classical, jazz and alternative radio.

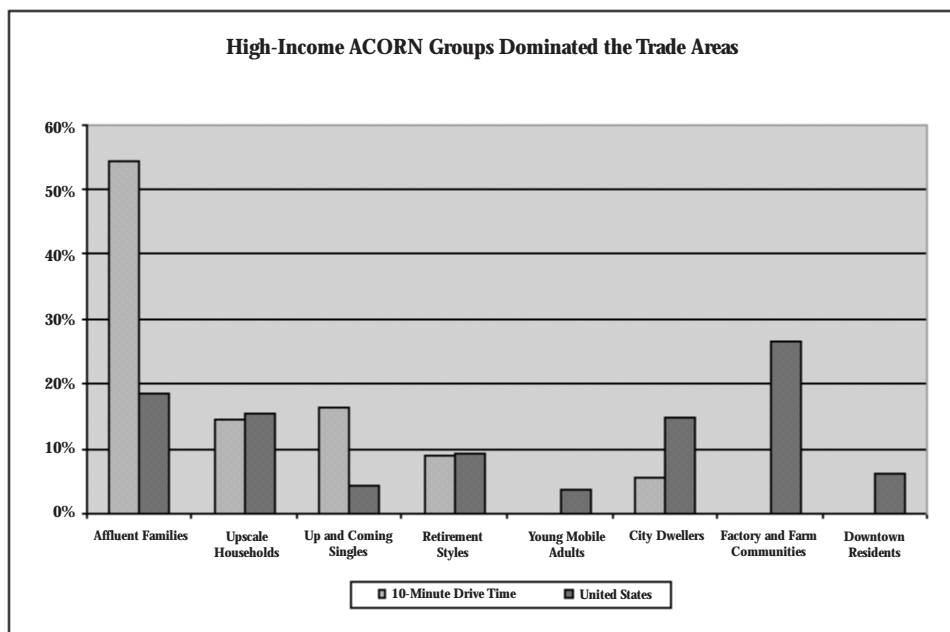
Successful Suburbanites

Residential: "Successful Suburbanites" own homes in newer suburbs with a median home value of \$210,500, twice the national average. Most of their single-family houses were recently built between 1980 and 1990. Located predomi-

nantly in the urban areas of metropolitan centers, they traded convenience for lifestyle and moved out to newer, suburban developments; over 30 percent commute across county or state lines to work.

Preferences: "Successful Suburbanites" drive minivans and luxury cars, own swimming pools and PCs, and play golf and tennis. They splurge on home furnishings and improvements, apparel, electronic "toys", and travel, and fund much of this spending with credit cards and loans. In fact, "Successful Suburbanites" are more likely than most of the other consumer markets to have loans. They attend concerts and movies; read two or more daily newspapers; and business, finance and metropolitan magazines.

"Rockville residents rank high for expenditures on apparel, home furnishings and improvements, and electronic 'toys.'"



Source: CACI Marketing Systems

Retail Trends in Rockville

Major Rockville Pike Shopping Centers

Congressional Plaza
 Congressional South
 Wintergreen Plaza
 Twinbrook Square
 Congressional North
 Ritchie Center
 Talbott Center
 Edmonston Crossing

These centers total
 1,048,285 square feet

Source: City of Rockville

Town Center Shopping Centers

One-Stop Shop
 Hungerford Plaza
 Hungerford Square
 City Centre
 Twin Oaks
 Saah Plaza
 Courthouse Plaza

These centers total
 289,000 square feet

Source: City of Rockville

Three retail trade areas were defined for the Town Center based on drive times. These areas are illustrated on the map on page 2. The five-minute drive time trade area encompasses an area within roughly a three-mile radius from the intersection of Middle Lane and Washington Street. The ten-minute drive time trade area covers nearly a six-mile radius from the intersection of Middle Lane and Washington Street. The fifteen-minute drive time trade area covers nearly a nine mile radius from the intersection of Middle Lane and Washington Street. These three areas were profiled and analyzed with regards to their retail spending patterns to help define the strongest opportunities for new investment in Town Center.

According to CACI Marketing Systems, the households in the three trade areas spend more than the national average on all types of goods and services except video rentals, theaters, and concerts. The Spending Potential Index (SPI) compares the average expenditure for a product or service locally to the average amount spent for the product or service nationally. The national average is 100.

	SPI*	Annual Amount Spent Per Consumer Household*
Restaurants	129	\$1,482
Household Furnishings	126	\$1,188
Apparel	128	\$1,765
Entertainment	133	\$666
Books and Periodicals	124	\$299

*Estimates for the 10-minute drive time trade area. Other trade areas are similar.

Source: CACI Marketing Systems



Regal Cinemas 13 is a major attraction in the Town Center.

The most relevant categories for the Town Center are below.

The 154,587 households within the 10-minute drive time trade area had combined total expenditures of \$6.1 billion, including

- \$201 million at restaurants,
- \$126 million on household furnishings,
- \$226 million on apparel,
- \$75 million on entertainment, and
- \$37 million on books and periodicals.

The table shown at right profiles consumer spending from the 406,000 residents within the ten-minute drive time trade area

and illustrates potential capture rates to determine which retail uses demonstrate the greatest opportunities. Within the ten-minute drive time trade area, capture rates of 15% and 30% were projected, see scenario #1 and scenario #2 on table on page 7. With these forecasts, the tables indicate the amount of retail space that could be supported in each category. The total amount of space projected for the selected categories with the capture rates in the two scenarios is between 1.1 million and 2.1 million square feet.

As shown on this table, the current market area provides opportunities for retail uses in every category. The largest demand is for groceries, home improvements, and restaurants. It is important to note several points. First, a significant level of the demand is being met by existing retailers. Second, demand is likely to increase when accounting for area employees and visitors. Finally, the above analysis points to a dynamic marketplace that is

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Retail Trends (con't)

likely to support additional development in most of the retail segments.

In addition to resident spending, the Town Center captures spending by workers and visitors. The daytime population of the ten-minute drive time trade area is approximately 232,000 people. Some of these workers and visitors utilize restaurants and retail opportunities in the Town Center, but the potential impact of Town Center workers and visitors could be much more significant. For example, assuming the average worker and visitor eats lunch at a restaurant one day each week

and the lunch costs \$6 then they would contribute more than \$72 million in restaurant spending to the area annually. Additional restaurants in the Town Center will increase the likelihood of capturing a greater percentage of this significant lunch time trade. Businesses catering to the lunch time trade will also open up opportunities to serve other market segments, such as shoppers, therefore patrons and other visitors will spend more money in the Town Center.

The major shopping in Rockville is along Rockville Pike, a major, automobile-oriented thoroughfare. Rockville Pike,

while parts of it are within walking distance of the Town Center, is not easily walkable for Town Center workers due to high traffic volumes. White Flint Mall, an 860,000 square foot enclosed mall with approximately 100 stores and restaurants, is three and one-half miles south of the Town Center. Also along Rockville Pike are Congressional Plaza, Montrose Crossing, many other shopping centers, and big box retailers. These centers currently provide lunchtime destinations for Town Center workers who choose to get in their cars and drive during the noon hour.

"The 154,587 households within the 10-minute drive time trade area had combined total expenditures of \$6.1 billion."

TEN MINUTE DRIVE TIME Middle Lane and Washington Street

	Current Total Dollars Spent*	Current Spending Potential Index**	Estimated Demand - Scenario #1				Estimated Demand - Scenario #2			
			Potential Capture Rate	Total Sales Captured	Nat'l Ave. Sales Per Square Foot***	Potential Space Demand (s.f.)	Potential Capture Rate	Total Sales Captured	Nat'l Ave. Sales Per Square Foot***	Potential Space Demand (s.f.)
PERSONAL PRODUCTS										
Men's Apparel	\$54,586,000	123	15%	\$8,187,900	\$178.94	45,758	30%	\$16,375,800	\$197.78	82,798
Women's Apparel	\$84,814,000	123	15%	\$12,722,100	\$172.99	73,542	30%	\$25,444,200	\$191.20	133,076
Children's/Infants' Apparel	\$38,901,000	107	15%	\$5,835,150	\$145.21	40,184	30%	\$11,670,300	\$160.49	72,717
Footwear	\$25,101,000	117	15%	\$3,765,150	\$150.14	25,078	30%	\$7,530,300	\$165.94	45,380
Watches & Jewelry	\$29,154,000	127	15%	\$4,373,100	\$298.52	14,649	30%	\$8,746,200	\$329.94	26,508
Restaurants	\$200,793,000	129	15%	\$30,118,950	\$200.66	150,099	30%	\$60,237,900	\$221.78	271,611
Books & Periodicals	\$37,158,000	124	15%	\$5,573,700	\$177.99	31,315	30%	\$11,147,400	\$196.73	56,663
Cameras & Equipment	\$6,811,000	118	15%	\$1,021,650	\$266.33	3,836	30%	\$2,043,300	\$294.37	6,941
Luggage	\$1,713,000	109	15%	\$256,950	\$210.63	1,220	30%	\$513,900	\$232.81	2,207
Optical Goods	\$3,076,000	105	15%	\$461,400	\$194.55	2,372	30%	\$922,800	\$215.03	4,291
Pets & Supplies	\$11,208,000	110	15%	\$1,681,200	\$115.43	14,565	30%	\$3,362,400	\$127.59	26,353
Sporting Goods	\$21,957,000	115	15%	\$3,293,550	\$145.06	22,705	30%	\$6,587,100	\$160.33	41,085
Toys & Hobbies	\$20,920,000	112	15%	\$3,138,000	\$130.38	24,068	30%	\$6,276,000	\$144.10	43,553
HOUSEHOLD PRODUCTS										
Groceries	\$574,909,000	114	15%	\$86,236,350	\$311.72	276,647	30%	\$172,472,700	\$344.54	500,588
Alcoholic Beverages	\$57,063,000	115	15%	\$8,559,450	\$203.60	42,041	30%	\$17,118,900	\$225.04	76,070
Home Improvement	\$240,156,000	119	15%	\$36,023,400	\$154.61	232,995	30%	\$72,046,800	\$170.89	421,598
Appliances	\$8,262,000	107	15%	\$1,239,300	\$177.28	6,991	30%	\$2,478,600	\$195.94	12,650
Electronics	\$44,241,000	115	15%	\$6,636,150	\$195.85	33,884	30%	\$13,272,300	\$216.47	61,312
Furniture	\$31,980,000	121	15%	\$4,797,000	\$137.64	34,852	30%	\$9,594,000	\$152.12	63,069
Home Furnishings	\$37,970,000	127	15%	\$5,695,500	\$136.27	41,796	30%	\$11,391,000	\$150.61	75,632
PERSONAL SERVICES										
Theater & Concerts	\$15,518,000	99	15%	\$2,327,700	\$57.91	40,195	30%	\$4,655,400	\$64.01	72,729
Video Rental	\$6,836,000	83	15%	\$1,025,400	\$81.87	12,525	30%	\$2,050,800	\$90.49	22,663

* Source: CACI Marketing Systems

** Spending potential index measures the amount spent for a product compared to the national average of 100. For example, an index of 105 indicates spending patterns are 5% greater than the national average

*** Source: Urban Land Institute

The Large and Growing Office Sector

“The vacancy rate in Montgomery County is 4.51%, a historic low for the county.”

The Montgomery County employment base is composed of a variety of government agencies, biotech companies, and high technology businesses. Government employment accounts for 18.2% of the Montgomery County employment base. This percentage increases significantly in the Rockville Town Center. In the private sector, the service industry (i.e. doctors' offices, architectural offices, testing laboratories, car washes, dry cleaners, etc.) accounts for 40.3% of total employment and retail trade accounts for 16.9%. Approximately 415,000 people are employed countywide.

The office market in suburban Maryland is sizeable. According to CB Richard Ellis, Montgomery County has 327 multi-tenant buildings with more than 30,000 square feet of leasable space. This represents a minimum of 35 million square feet of leasable office space. Prince George's County contains another 139 buildings with 11.3 million square feet of leasable space. Including Frederick County, the suburban Maryland market contains at least 47 million square feet of leasable office space and "accounts for just over 21% of the Washington, D.C. competitive real estate market." (CB Richard Ellis, Market Index Brief)

The vacancy rate in Montgomery County is 4.51%, a historic low for the county. In an attempt to not overbuild the



The Rockville office submarket is the third largest in suburban Maryland and has the lowest vacancy rate.

Largest Employers in Montgomery County

National Institutes of Health*	15,500 employees
Food & Drug Administration*	4,650 employees
Lockheed Martin Corp	4,200 employees
Hughes Network Systems	2,600 employees
Aspen Systems Corporation*	1,500 employees
Life Technologies, Inc*	550 employees
Celera Genomics*	500 employees
Manugistics Inc*	550 employees

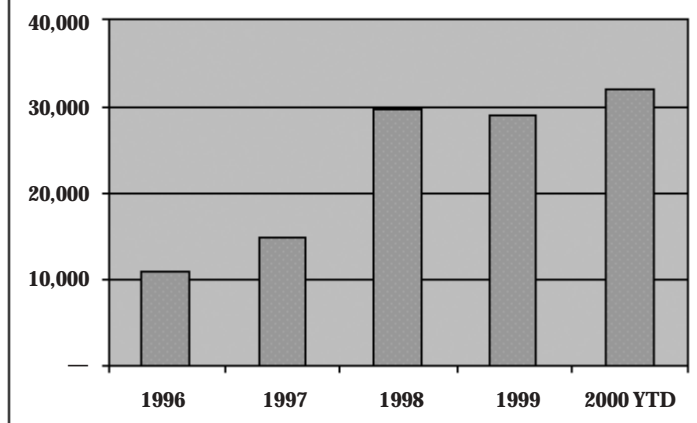
**Located in City of Rockville*

Source: Greater Rockville Partnership and State of Maryland Department of Business & Economic Development

market, pre-lease rates are high. More than one-third of the planned space for 2000 and 2001 is pre-leased. During these two years, 3.9 million square feet of new office space is planned to come online, 1.3 million in 2000 and 2.6 million in 2001.

Low vacancy rates have increased lease rates. Lease rates in Montgomery County currently average \$26.08 per full-service square foot. One year ago lease rates were approximately \$22.00 per full-service square foot. Class A space averages \$27.84 per full-service square foot.

Annual Job Growth Montgomery County



Source: CB Richard Ellis, Market Index Brief, 2nd Quarter 2000

Strength of the Rockville Office Market

The Rockville submarket is the third largest office market in suburban Maryland and has the lowest vacancy rate. The vacancy rate for the 6.3 million square feet of office space is 0.96%, and the average lease rate is a competitive \$25.12 per square foot. In the second quarter of 2000, 641,000 square feet of office space was under construction.

Several office buildings have also sold in the past few years. A Class A building at 600 Jefferson Plaza in the Town Center sold for \$124 per square foot in 1999. Class A buildings along Rockville Pike sold for \$169 to \$194 per square foot. Class B and C buildings are

selling in the \$55 to \$107 per square foot range.

Both the suburban Maryland market and the Rockville submarket are heavily dependent on government agencies, government contractors, biotech firms, and high-technology

firms. The expansions of the National Institute of Health, Food and Drug Administration, and the Department of Health and Human Services all created the need for large amounts of new office space in suburban Maryland and in Rockville itself.

Largest Office Submarkets in Suburban Maryland

Submarket	Net Rentable Area - SF	Vacancy Rate	Average Asking Lease Rate
Bethesda/Chevy Chase	7,689,724	3.16%	\$30.99
North Bethesda	7,286,931	2.29%	\$27.98
Rockville	6,333,874	0.96%	\$25.12
North Rockville	4,985,969	4.79%	\$25.18

Source: CB Richard Ellis, Market Index Brief, 2nd Quarter 2000

Small and Medium Tenant Market

Small- and medium-sized tenants dominate the Rockville Town Center office market. While small companies fuel much of the job growth in the country, large companies are important for a healthy community. The lack of large office users in the Town Center has multiple causes. According to the Greater Rockville Partnership, the two major reasons are a lack of space available in a timely manner and parking concerns in the Town Center.

Over the past three months alone, the Greater Rockville Partnership has received four inquiries from businesses wanting

more than 100,000 square feet of office space in the Town Center. They have been unable to provide this space within the desired timeframe. New buildings in the Town Center take at least two years to bring to market and no speculative buildings are under construction. The lack of new construction and the lack of existing space forces large companies that need space within 12 to 18 months to other parts of the city or county.

The tight parking situation also discourages large tenants from locating in the Town Center. In today's labor market, businesses

need to provide convenient parking as a benefit to attract employees. The provision of parking on site that meets tenant demand (of between three and five spaces per 1,000 square feet) has major construction cost and urban design implications. The parking issue has inhibited leasing activity. Convenient and plentiful parking is one remedy. Encouraging the use of Metro and the creation of a Town Center environment that is so desirable that users enjoy walking from satellite parking locations to work also will help to resolve the always present parking concern.

“Potential large space users have shown interest in locating in Rockville Town Center.”

Residential Market

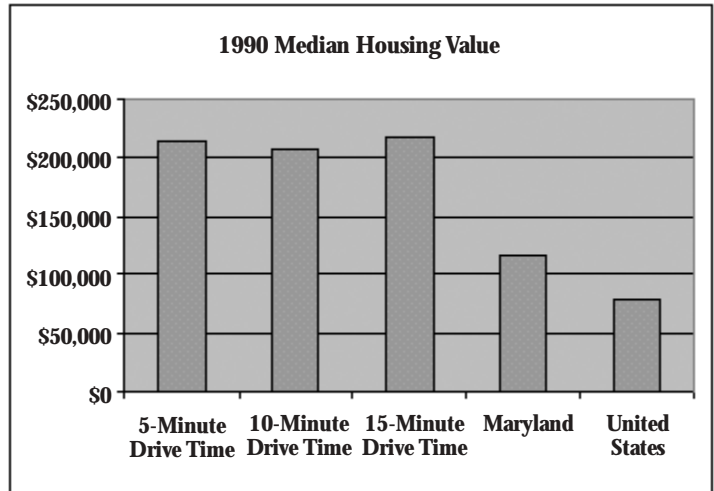
“Area population growth as well as notable City services, such as parks and recreation facilities, will allow Rockville’s residential development to thrive.”

Between 1990 and 1998 Montgomery County has authorized 34,310 new housing units for construction. This is an average of 3,812 units annually. In 1998, the most recent year for which data is available the county saw an above average number of authorizations with 5,315 units, which ranked first in Maryland. Of these units 3,548 were single-family. Seventy-nine new multifamily buildings with 1,767 units were also authorized for construction. The average construction cost for a single-family unit was \$141,692, while the average construction cost for a multifamily unit was \$45,413.

According to the 1990 Census, the median home value for owner-occupied units was considerably greater than the national and state averages.

Records of recently sold properties (1998-2000) in the neighborhoods surrounding the Town Center show the median housing value of recently sold residential properties to be \$189,000.

According to local citizens, Rockville has an undeserved reputation as being a middle market that has not attracted a significant number of very low or very high priced homes. The City services and schools are very good, as is the shopping along Rockville Pike. A real estate professional believes that a large

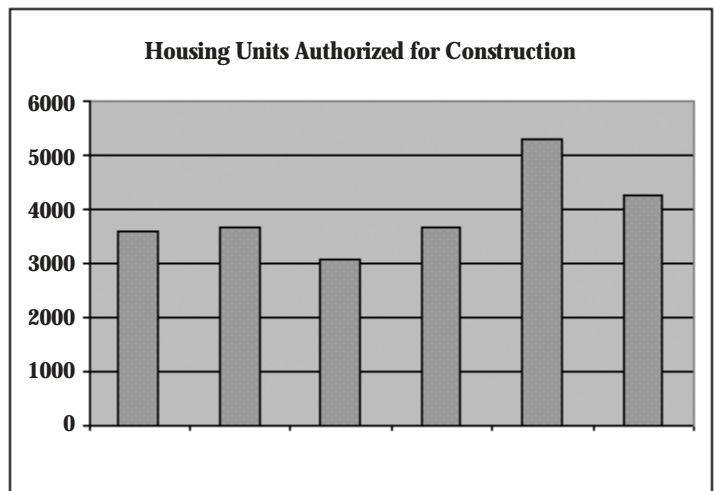


Owner occupied units

Source: CACI Marketing Systems & U.S. Census Bureau

residential project is needed to activate the market. The market could attract buyers in the \$200,000 to \$400,000 range or renters in the \$2,000 to \$2,500 range. Eighty-three of the 197 houses sold in the surrounding neighborhoods

recently were in this price range. Since apartments and condos primarily attract singles and couples, townhouses would also be desirable, but the land costs are likely to be prohibitively high for low or medium density residential projects.



Source: Maryland Department of Planning



A variety of housing types and styles are in and around the Rockville Town Center.

Potential Market Directions

The economy of Montgomery County and Rockville are very strong. The incomes of the residents in and around the Rockville Town Center are high and increasing, which translates into strong purchasing power. County office occupancy is at a historically high rate, and Rockville's rate is above the County average. Housing starts in Montgomery County are the most for any Maryland county and have been for three years. The more than 30,000 jobs created in Suburban Maryland in the first two quarters of 2000 have resulted in an unemployment rate at 2.1%.

The challenge for the Rockville Town Center is to capitalize on the strong regional economy and the daytime business population of more than 230,000 within the 10-minute drive time trade area to create a niche that will distinguish it from other markets in Montgomery County. The Town Center appears to have a wide variety of niche markets that it can appeal to within the residential, office, retail, and tourism markets. Each of these potential markets is further explained below.

Residential

The residential sector continues to be a strong market force in Montgomery County and in the region. The Town Center should explore the types of housing opportunities that would address current market

demand and have a synergistic affect on other desired development.

Numerous issues need to be addressed in determining the role of the housing component in future Town Center development. Several issues are listed below.

- Identify key market segments
- Identify housing design/styles
- Single development uses vs. integrated development uses
- Support services required

Office

The office sector is especially strong in the greater Rockville area. The below average lease rates in the Rockville office market (\$25.12 vs. \$26.08 for the County average) should appeal to businesses that are concerned about overhead costs. This is especially true of start-up businesses in the technology sectors that will benefit from both the lower lease rates and the proximity of other technology businesses and government agencies.

The convenience of a revitalized Town Center containing business services, restaurants, and retail will appeal to a variety of businesses. Small- and medium-sized businesses that cannot afford or choose not to have on-site business services, such as specialty printing, lawyers, and financial services,

will benefit from the close proximity of these services, as well as the restaurants and retail options that will be accessible without the use of a vehicle.

The convenience of office space to nearby neighborhoods will also be attractive to some entrepreneurs. The ability to live, work, and shop in a compact area will be attractive to people who work long hours and want to avoid a long commute to and from work or extended drives to shopping and entertainment venues.

Future office development will be impacted by how well the Town Center Master Plan accommodates this intense use. Land availability, parking, public transportation, and compatibility to surrounding developments are critical components in attracting the type of commercial office investment that will serve as a catalyst in the Town Center. Special attention should be given to the potential role of entrepreneurial firms in the development of an expanded Town Center business core.

Retail

The desire by many companies to locate in town centers and have identifiable and distinctive shopping areas or districts should benefit the Rockville Town Center, as should the trend toward "shopping as entertainment". Many companies, such as Old Navy and

Potential Development Directions for Rockville Town Center

Office

- Start-up technology companies that desire to be near other technology companies and government agencies at a below average lease rate
- Entrepreneurs that want to live near work and shopping

Retail

- Retailers that desire a pedestrian-oriented environment and unique character

Tourism

- Competitively priced hotel near the Metro station
- Unique bed and breakfast
- Nightclubs and other evening entertainment

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Potential Market Directions (con't)

Barnes and Noble, are locating their stores in pedestrian-friendly town settings. Customers are coming to these places to shop, but they are also coming to "hang out" and enjoy the atmosphere and activity.

Rockville lacks this type of pedestrian-oriented shopping and entertainment area except in the Town Center, but it lacks the critical mass of retail and restaurants necessary to attract a large customer base. If positioned correctly a critical mass of shopping and entertainment could be attracted to the Town Center and capitalize on the significant purchasing power of the residents and workers of Rockville and the surrounding areas.

It will be important to understand the specific retail role the

Town Center will play versus the many other retail options that currently exist. The Town Center must develop a role that will allow it to coexist with the retail options already in the three trade areas defined in this newsletter. The successful formats will likely focus on appealing to the needs and desires of five- to ten-minute drive time households, Town Center office workers, and regional visitors. Retailers that complement the existing retail offerings should be identified. Finally, a Town Center retail district that is "user friendly" will offer several advantages over several existing retail centers.

Regional Visitors

Rockville Town Center could be an attractive location for a competitively priced hotel near

the Metro station or a bed and breakfast. The large and growing office market will provide a market for overnight visitors, while the Metro station provides quick and convenient access to Washington, D.C. A revitalized Town Center will be an added attraction by providing entertainment, restaurants, and shopping in a pedestrian-friendly setting for tourist and business travelers.

The Town Center could also attract more evening entertainment, shopping, and dining to service the 406,000 residents within the 10-minute drive time trade area and the 230,000 daytime workers and visitors in this trade area that could stay into the evening if given a reason to stay.

Your Turn

What additional information do you think we should know regarding the Rockville Town Center's market opportunities or conditions? Please send your thoughts to

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We appreciate your input on this important project.



Development Concepts Inc.

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