



MARKET OPPORTUNITIES

Understanding market trends and opportunities is a critical component of a successful plan. This chapter highlights key findings relating to the market potential for the Rockville Town Center. In particular, office, retail, and housing markets are profiled. Key findings that will impact future development in the Town Center follow. See the *Town Center Master Plan Newsletter* (Appendix D) for a full market summary.

Regional Trends and Characteristics

The Washington, D.C./Maryland/Virginia Primary Metropolitan Statistical Area (PMSA) benefits from a healthy local economy. The population is increasing and becoming more affluent and diverse. Initial estimates indicated an annual PMSA growth rate of 1.2 percent between 1990 and 1999. New census data indicates that the PMSA population actually grew at a compound annual rate of 1.54%, resulting in an increase of approximately 693,500 new residents during the 1990s. 51,000 new jobs were created countywide between May 1999 and May 2000, with unemployment in Montgomery County averaging just 1.8% in 1999. Many of the County's new jobs are high-wage, high technology jobs. Retail buying power is strong, home prices are above average, and vacancy rates for office buildings and rental housing are at historically low levels.

Rockville Resident Profile

Three trade areas were analyzed for the market study. The trade areas were defined by drive times from the intersection of Middle Lane and

North Washington Street. Five-minute, ten-minute, and fifteen-minute drive times were analyzed (see *Trade Area Map*, page 34) using data from CACI Marketing Systems. The ten-minute drive time trade area was used for the analysis below unless otherwise noted.

The population of Montgomery County is expected to increase by 50,000 people during the next five years. The area within a ten-minute drive of the Town Center is projected to add 26,000 residents during the same time period.

As a part of the market analysis a consumer classification methodology was utilized. A Classification of Residential Neighborhoods (ACORN) is a segmentation system for defining 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 with three to seven clusters, for a total of 43 clusters. The clusters provide a classification system for predicting the purchasing habits of neighborhood residents, and are used by many retailers and commercial developers when making location decisions for retail investment.

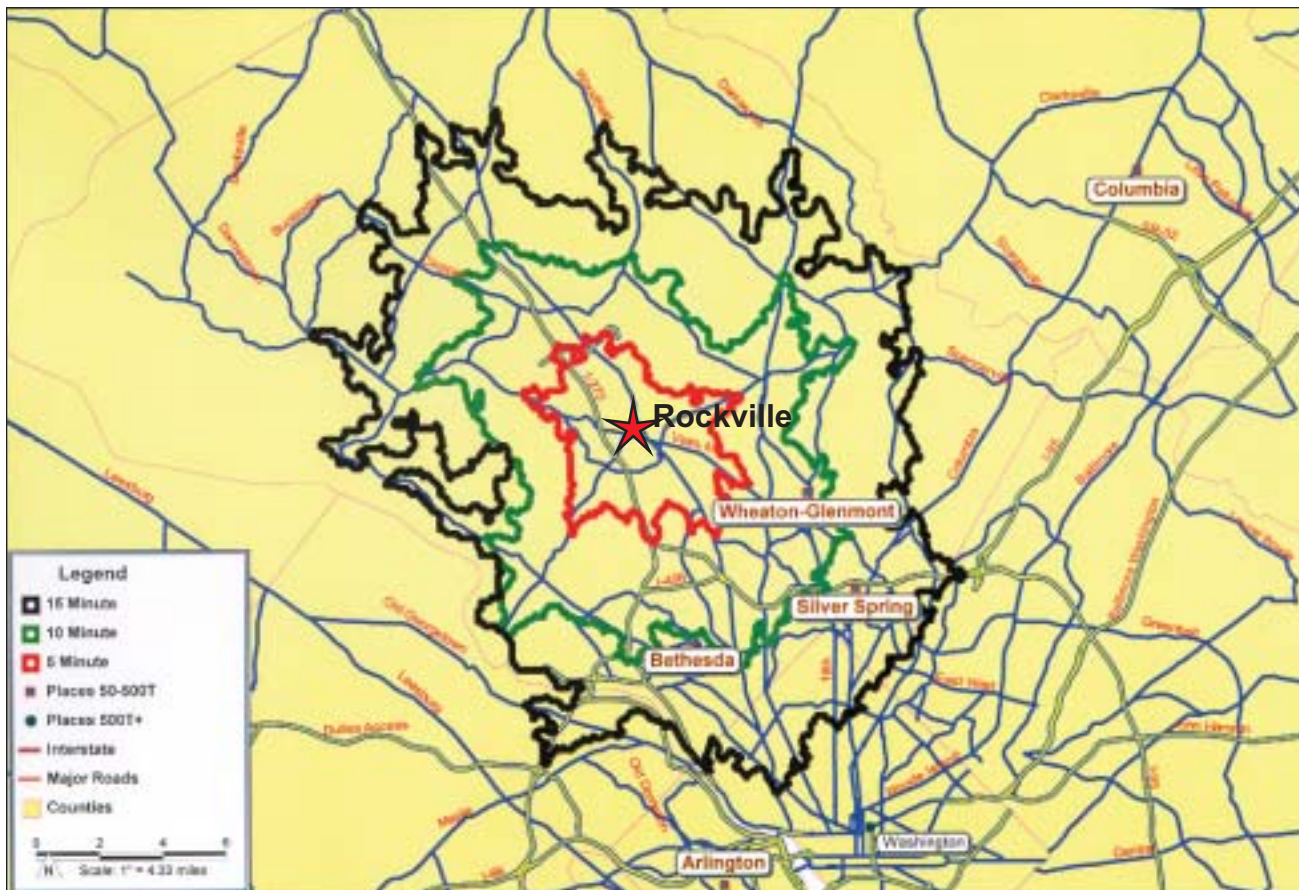
San Antonio began an aggressive effort to attract high-technology firms and research centers in the early 1980s by focusing on arts and conservation in order to appeal to the generally well-educated employees of these high-tech firms. Improvements to the Paseo del Rio walkway on the San Antonio River assisted in the effort by providing a high quality urban space.

Upper-income households dominate the three trade areas. The top three ACORN clusters are “Wealthy Seaboard Suburbs,” “Top One Percent,” and “Successful Suburbanites,” accounting for 46% of the population within a 15-minute drive of the Town Center and a similar percentage in the smaller trade areas. These groups rank high for expenditures on apparel, home furnishings and improvements, and electronics.

Households near the Town Center have considerable buying power. The 154,587 households within a ten-minute drive of the Town Center have a median income of \$54,024 and represent combined annual expenditures of \$6.1 billion. It is estimated that \$200 million of this spending is at restaurants and \$226 million is on apparel, making them two of the largest con-

sumer spending categories in the market. Rockville Town Center’s daytime population is estimated by the Greater Rockville Partnership to be 13,000, and combined with a 230,000 daytime population within a 10-minute drive, represents another significant source of purchasing power. The current lack of shopping opportunities in the Town Center represents a tremendous missed opportunity to capitalize on the spending power of Town Center workers and residents.

The *Ten-Minute Drive Time* table on page 35 profiles consumer spending of the 406,000 residents within a ten-minute drive of Middle Lane and North Washington Street and illustrates potential capture rates to determine which retail uses demonstrate the greatest opportunities.



Trade area map.

TEN MINUTE DRIVE TIME
Middle Lane and Wadsworth Street

	Current			Estimated Demand - Scenario #1			Estimated Demand - Scenario #2		
	Total Dollar Spend*	Current Spending Potential Index**	Potential Capex Rate	Total Sales Capex***	Market Sales Per Square Foot****	Potential Square Demand (sq ft)	Total Sales Capex***	Market Sales Per Square Foot****	Potential Square Demand (sq ft)
PERSONAL PRODUCTS									
Apparel	\$26,276,000	1.30	1.0%	\$30,113,751	\$17,666	136,000	\$65,977,000	\$144.74	251,411
Women's Apparel	\$16,144,000	1.30	1.0%	\$15,713,110	\$17,229	75,542	\$45,444,200	\$114.20	120,076
Men's Apparel	\$9,386,000	1.30	1.0%	\$8,107,000	\$17,826	55,274	\$16,075,800	\$107.74	83,704
Children's/Toddler's Apparel	\$6,900,000	1.07	1.0%	\$5,025,130	\$147.31	41,146	\$11,470,200	\$100.40	73,717
Footwear/Accessories	\$3,256,000	1.34	1.0%	\$3,320,700	\$177.27	15,215	\$11,107,600	\$195.25	36,000
Wardrobe to Jewelry	\$20,154,000	1.27	1.0%	\$16,320,100	\$201.52	14,649	\$3,746,100	\$202.24	26,508
Accessories	\$25,101,000	1.17	1.0%	\$13,953,100	\$204.14	23,079	\$7,590,000	\$183.04	45,346
Sporting Goods	\$21,207,000	1.15	1.0%	\$1,206,550	\$145.02	13,705	\$4,307,100	\$140.39	42,045
Toy & Hobbies	\$2,500,000	1.14	1.0%	\$3,340,000	\$162.34	24,000	\$6,276,000	\$144.10	46,530
Pet & Supplies	\$11,101,000	1.10	1.0%	\$1,011,200	\$117.43	14,502	\$3,341,400	\$127.39	26,530
Outdoor & Equipment	\$6,811,000	1.14	1.0%	\$1,010,250	\$262.35	3,016	\$1,942,000	\$399.37	6,941
Cycling Goods	\$4,076,000	1.05	1.0%	\$41,400	\$294.55	3,073	\$21,300	\$115.09	4,291
Luggage	\$1,735,000	1.07	1.0%	\$20,050	\$110.03	1,230	\$5,304	\$144.44	3,407
HOUSEHOLD PRODUCTS									
Decorative	\$124,000,000	1.14	1.0%	\$6,303,530	\$113.74	49,407	\$17,447,300	\$246.24	305,204
Home Improvement	\$461,560,000	1.10	1.0%	\$62,020,400	\$154.81	20,205	\$72,464,800	\$170.89	421,314
Alcohol Beverage	\$17,980,000	1.15	1.0%	\$1,530,400	\$103.00	43,941	\$15,142,000	\$142.04	76,770
Electronics	\$44,481,000	1.15	1.0%	\$6,004,130	\$272.83	35,446	\$15,474,200	\$116.47	61,313
Home Furnishings	\$17,900,000	1.20	1.0%	\$5,020,500	\$156.37	43,274	\$11,301,000	\$150.01	75,033
Furniture	\$11,300,000	1.11	1.0%	\$4,777,000	\$217.44	34,431	\$4,594,000	\$132.13	63,000
Appliances	\$1,320,000	1.07	1.0%	\$1,220,200	\$177.34	6,091	\$4,076,000	\$155.94	13,630
PERSONAL SERVICES									
Theater & Cinema	\$13,318,000	0.95	1.0%	\$43,21,500	\$191.81	66,195	\$4,025,400	\$66.81	7,670
Video Rental	\$4,800,000	0.95	1.0%	\$1,024,400	\$81.40	11,525	\$1,020,000	\$90.40	1,440

* Source: CACI Marketing System
 ** Spending potential index measures the relative growth opportunities for the national category of retail. The sample is made up of 100 national spending patterns and 100 points after the national average.
 *** Source: Urban Land Institute

Within the trade area, capture rates of 15% and 30% were projected and included as Scenarios #1 and #2 on the table. With these forecasts, the table indicates the amount of retail space that could be supported in each category. Using the assumed capture rates, the total amount of space supported by the selected spending categories is 1.1 - 2.1 million square feet.

According to the City of Rockville, the area in and around the Town Center currently contains just 290,000 square feet of retail space. Competition from surrounding shopping districts and other factors, such as parking availability, will heavily influence the actual capture rates and amount of square footage that can be supported within the Town Center. It can be concluded, however, that if properly positioned, new Town Center retail shops may be able to take advantage of the strength of the marketplace.

Trends in Rockville

■ Office

The office market in suburban Maryland is sizeable. According to CB Richard Ellis, Montgomery County has 327 multi-tenant buildings of 30,000 or more square feet, totalling 35 million square feet. Single-tenant, owner-occupied buildings are not tracked by the real estate community, but would increase this total. The entire suburban Maryland market (Montgomery, Prince George's, and Frederick counties) 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 was 4.51% in second quarter 2000, a historic low for the County. More than one-third of the planned space for 2000 and 2001 was pre-leased. During 2001 alone, 2.6 mil-

lion square feet of new office space is planned to come on-line.

Low vacancy has increased market lease rates. Lease rates in Montgomery County for the second quarter of 2000 averaged \$26.08 per full-service square foot, up from \$22.00 per square foot the prior year. Class A space in Montgomery County averaged \$27.84 per square foot, while submarket averages for all office space ranged from \$19.01 in Germantown to \$30.99 in Bethesda/Chevy Chase.

The Rockville office submarket (an area larger than just the Town Center) 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. As of the second quarter of 2000, Rockville had an additional 641,000 square feet under construction, and construction is predicted to continue due to the low (0.96%) vacancy rate and strong economy.

Accessibility and parking in the Town Center are significant issues that are influencing the marketability of office space. Congestion along Rockville Pike and MD 28 has warranted a State Highway Administration study of the Middle Lane/Park Road/Rockville Pike intersection to identify ways of improving traffic flow while still respecting pedestrian connectivity. Parking is an issue from a supply and management/operations standpoint, both of which will be further impacted as approved developments move ahead. Although the presence of the Rockville Metro station provides a transit alternative to the congestion and parking impediments, many developers still report tenant demands for parking ratios of 3.3-3.5 spaces per 1,000 square feet, which have been difficult to meet in the Town Center,

primarily for economic reasons.

Small- and medium-sized tenants, up to 25,000 square feet, currently dominate the Town Center office market. While small companies fuel much of the job growth throughout the country, large companies are also important for a healthy community. According to local real estate professionals, the lack of large office users in the Town Center has multiple causes, with the most important being a lack of space available in a timely manner and parking concerns.

■ **Retail**

The primary shopping area in Rockville is along Rockville Pike, a major, automobile-oriented thoroughfare. While parts of Rockville Pike are within walking distance of the Town Center, high traffic volumes make it less pedestrian-friendly for Town Center workers. 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 and Montrose Crossing, as well as many other shopping centers and big box retailers.

The amount of existing Town Center retailing is limited in comparison to that along Rockville Pike. As described above, the Rockville area retail market is very strong and can support considerable retail space. It is likely that the Town Center could capture a significant amount of new retail space if it were properly configured.

■ **Residential**

Between 1990 and 1998 Montgomery County 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 authorized 5,315 new housing units, ranking it first in the State in housing starts. Of that total, 3,548 were single-family homes and 1,767 were to be built in 79 new multi-family buildings. The average construction cost for a single-family unit, not including land, was \$141,692, while the average construction cost for a multi-family unit was \$45,413.

Rockville housing prices are considerably higher than the State average. Local real estate experts believe that Rockville Town Center can attract additional homebuyers in the \$200,000 to \$400,000 price range, given its economy, city services, schools, and amenities.

Targeted Market Opportunities

The economies 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. The Rockville submarket office occupancy rate (99.04% in 2000) is above the County average (95.49%), which is at a historically high rate. Housing starts in Montgomery County are the highest of any Maryland county and have been so 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 of 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 a 10-minute drive time, to create a niche that will distinguish the Town Center from other markets in Montgomery County. The Town Center appears to have a wide variety of opportunities within the residential, office, retail, and tourism markets, and each of these opportunities is presented below.

■ **Residential**

The residential sector continues to be a strong market force in Montgomery County and in the region. Future study and exploration will assist in determining the specific types of housing that would address current market demand and have a synergistic effect on other desired development.

Numerous issues need to be addressed in determining the role of the housing component in future Town Center development, including:

- Key market segments
- Housing design/styles
- Single-use versus integrated -uses development
- Required support services
- Land assembly

Some of these issues are addressed later in the Master Plan while others will require a full, more detailed market analysis focusing solely on residential development.

■ **Mixed Uses**

The Town Center provides the opportunity for a mix of uses not possible in most parts of Rockville. Retail and entertainment uses on the ground floors with residential or office space on upper floors are the most desirable combination of uses in the Town Center if a vibrant district with activity for 18-20 hours per day seven days a week is to be created.

■ **Office**

The office sector is especially strong in the greater Rockville area. The current below-average lease rates in the Rockville office market should appeal to businesses that are concerned about overhead costs. This is especially true of start-up businesses in the

technology sector that will benefit from both the lower lease rates in the Rockville area and the proximity of other technology businesses, government agencies, and the Metro station.

The convenience of a revitalized Town Center containing services, restaurants, and retail will appeal to a variety of businesses, particularly law offices and title companies, which benefit from locating in the County seat. Small- and medium-sized businesses that cannot afford or choose not to have on-site services, such as specialty printing, lawyers, and financial services, will benefit from the close proximity of these amenities, 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 prolonged work, shopping, and entertainment-related commutes.

Future office development will be impacted by how well the Town Center 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 & Entertainment**

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 Barnes and Noble, are locating their stores in pedestrian-friendly town settings where customers not only come to shop, but to enjoy the atmosphere and activity.

One of Rockville’s best opportunities for this type of pedestrian-oriented shopping and entertainment environment is the Town Center, but currently it lacks the necessary critical mass of retail and restaurants to attract a larger customer base. If positioned correctly and the needed critical mass could be attracted to the Town Center, the area should be able to capitalize on the significant purchasing power of the residents and workers of Rockville and the surrounding areas.

The Town Center will play a distinctive retail role versus the many other retail opportunities that currently exist elsewhere. The Town Center must develop a role that will allow it to successfully co-exist with the retail options already in the three trade areas defined earlier. 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, Rockville residents, and regional visitors. Retailers that complement the existing offerings should be identified.

■ **Regional Visitors**

Rockville Town Center could be an attractive location for a moderately priced hotel near the Metro station. 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, the 230,000 daytime workers, and visitors that could stay into the evening if given a reason to do so.

