

# On the rise?

## BRAC relocations could boost soft market in Prince William



There's space to fill at Prince William Commons Business Park, a development of flex-space buildings, located off Interstate 95.

by Robert Burke

**B**ill Lynch has been waiting awhile for his phone to ring, hoping that prospects looking for office space along Prince William County's Interstate 95 corridor would want to see the buildings his company has to offer. "I was twiddling my thumbs pretty much for the last couple of years," he says. Then in May calls started coming in, mostly from federal subcontractors. "And now, I'm really busy," he says.

If that market is warming up, it's good news for Lynch and the county, which has long depended on its proximity to the federal government to help fill commercial office space. All the localities around Washington share in the fruits of that market,

with the closer-in counties traditionally getting the biggest share.

But now it might be Prince William's turn to rise. In the next few years Prince William is likely to get a bigger boost in federal spending than most other localities as the federal agencies — driven by decisions of the Base Relocation and Closure (BRAC) commission — start moving south to Fort Belvoir, a few miles away in Fairfax County, and Marine Corps Base Quantico, which borders Prince William's southern boundary.

The office market isn't racing forward yet. At the end of the third quarter, the vacancy rate stood at 16.7 percent, above

C O M M E R C I A L R E A L E S T A T E

Bill Lynch is starting to see interest from new tenants in properties owned by his company, I-95 Business Parks Mgmt LLC.



Photo by Sharon Harper

the 13.8 percent rate for Northern Virginia region overall, according to a market report from CB Richard Ellis. Concerns about possible cuts in government spending and how that would affect government contractors is putting the brakes on some leasing. Still, the BRAC-related shift of federal agencies is a zero-sum game, in which the inner suburbs of Arlington County and Alexandria will lose jobs and the outer suburbs will gain them.

"You've almost got a perfect storm,"

says Larry Fitzgerald, a broker with Grubb & Ellis who works in Prince William. Besides the shifting of thousands of federal jobs to these military bases, there's also a push at Quantico to get private-sector firms off base property, he says. That's also driving the need for office space nearby. "It's going to be a period of time before the county has any significant gains from this, but from the long-term picture it's all good for the county," Fitzgerald says. "I would say we're still in a soft market, though

I would say we're beginning to enter a recovery phase."

Lynch's company owns and manages Prince William Commons Business Park, a cluster of 11 flex-space buildings next to the Prince William Parkway and I-95. It has another office park in Lorton in southern Fairfax. That one is almost full. Lynch says companies have gotten more willing to look at locations south of the Occoquan River, which separates Fairfax and Prince William. Until lately, he says, "The Occoquan's really been a psychological barrier."

Fitzgerald also thinks there's not enough office space to meet the expected demand, which creates a kind of Catch-22. Subcontractors that win a contract with some federal agency want to lease office space near their client quickly, but builders often can't get financing until they have a signed lease. He predicts the winners in that kind of market will be the bigger firms with the capital to build now. "Developers who have the risk tolerance are going to reap the benefits," he says.

The county's location is another plus. Since it's a little farther out, about 30 miles from Washington, D.C., traffic congestion isn't as bad as in other areas, and yet it's within easy access to the region's work force. In fact, as the population and the work force migrated farther out in recent years, some companies followed to give their employees a shorter commute. Lockheed Martin, Micron Technology, BAE Systems and AOL all have offices in Prince William.

## Office market snapshot: Prince William County

Total inventory .....	5,362,024 square feet
Vacancy rate .....	16.7 percent
Year-to-date net absorption .....	188,501 square feet
Under construction .....	46,632 square feet
Average asking lease rate .....	\$22.57 per square foot

Source: CB Richard Ellis, third quarter 2010

Background photo by Sharon Harper

### Lower rental rates

Compared with closer-in locations, rental rates are lower in the county. The average lease rate for Prince William's office space was \$22.57 per square foot at the end of the third quarter, the lowest in Northern Virginia. That's \$7.14 lower than the \$29.71 average rental rate for the entire Northern Virginia area.

Besides federal contractors, the county is targeting a couple of other sectors. For more than a decade it's been building the power grid and fiber network to attract data centers, along with cutting applicable taxes. Since 2000 more than 10 data centers have been built in the county, with a total investment of



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\$1.8 billion. McLean-based Power Loft built the most recent center at Innovation Technology Park. Completed this fall, the cutting-edge, 220,000-square-foot center, which uses 30 percent less power than other centers, was scooped up by Corporate Office Properties Trust. The Columbia, Md.-based real estate investment trust purchased the project for \$115 million.

The county is determined to win its share of this market, with neighboring Loudoun a main competitor. Prince William has cut its tax rate for data centers from \$1.50 per \$100 of assessed value to \$1.25 “which is very competitive,” says county spokesman Brent Heavner. “We can save a data center millions of dollars.”

The county also is going after the biotech and life sciences sector. The Innovation Technology Park in Manassas is home to George Mason University’s Life Sciences Campus. In the past decade, says Martin Briley, executive director of Prince William’s Department of Economic Development, 15 companies have opened up shop in the county, creating

about 1,200 jobs and a total payroll of about \$90 million.

The park, though, has grown in fits and starts. Eli Lilly announced big plans in 2002 to build an insulin manufacturing plant but abandoned the idea three years later. Then New Jersey-based Covance, a drug development firm, came forward in 2007 and said it wanted the Lilly site for a \$175 million, 410,000-square-foot, drug-testing lab. But it quashed those plans last month after reporting a third quarter loss. Covance also decided to close an existing facility in Vienna, citing weakened market conditions.

The park has other major tenants, such as the private, nonprofit American Type Culture Collection, which opened its headquarters in 1998. In 2007, the Federal Bureau of Investigation relocated its regional headquarters from Tysons Corner to a 199,110-square-foot, build-to-suit office in the park. Then last year the Virginia Department of Forensic Science and the Office of the Chief Medical Examiner relocated to Prince William from Fairfax County.

Building a cluster of life sciences companies “is a slow process,” says Briley, but the county is digging in. Two years ago it teamed up with Loudoun, Fairfax and Arlington to make a regional marketing pitch. A group, called the Northern Virginia Life Sciences Communities, markets the region’s assets to biotech firms around the country.

The hope behind that effort is that a rising tide will lift all boats. In many ways that’s how the market moves here. Even though Prince William borders on two of the wealthiest counties in the nation, Loudoun and Fairfax, the power of federal government spending is so strong that even an outer suburb like Prince William “can tell a good story,” Fitzgerald says. It has a decent transportation network, with the I-66 and I-95 corridors and the Prince William Parkway connecting both ends of the county.

Despite a slow 2009 — the weakest year since 2000 for new and expanding businesses with just \$62 million invested — many remain bullish on its future. “It’s just a matter of time,” Fitzgerald says. **VB**