



# THE ANALYST

## CAPITAL MARKETS OVERVIEW

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**DUVALL**  
COMMERCIAL REAL ESTATE INVESTMENTS

**Q4 2019**

## Recent Local Sale Transactions



Sale Date: October 25, 2019

### **5600 Fishers Lane, Rockville, MD**

Sale Price: \$436,000,000 (\$340 PSF)

Leased at Sale: 72.9%

Buyer: Tritower Financial Group, LLC

Seller: Wealth Capital Management, Inc. & JBG SMITH

Story: JBG, looking to reposition their portfolio is selling many of their office assets. Fishers Place III is a 185,000-square-foot commercial building located within walking distance from the Twinbrook Metro Station. Tritower, who recently sold a flex/lab portfolio in Gaithersburg, is clearly optimistic about the suburban Maryland market and looks to lease the remaining 80,000. Much like 6120 Executive Boulevard - this area will likely see benefit as a low cost alternative to Bethesda. Also, the surrounding federal buildings including HHS will likely create demand from a GSA tenant. Tritower has had a hot hand locally that could continue here with a multiple floor tenant.



Sale Date: September 6, 2019

### **6120-6130 Executive Boulevard, Rockville, MD**

Sale Price: Not Disclosed    Cap Rate: N/A    Leased at Sale: 100%

Buyer: MC Real Estate Partners    Seller: Monument Realty LLC

Story: A 327,000-square-foot office complex comprised of two eight-story buildings located at 6120 and 6130 Executive Blvd., about 15 miles north of downtown Washington, D.C. The buildings were recently renovated to include a new fitness center, 3,500-square-foot conference center, cyber café and an outdoor plaza.

It is exciting to see new firms with an appetite for suburban office in Montgomery County. This acquisition speaks to the strength of the Pike and Rose district and the future of North Bethesda. As rents rise in Bethesda, more firms will look to this area to relocate, increasing demand.



Sale Date: September 10, 2019

### **2000 North 15th Street, Arlington, VA**

Sale Price: \$57,500,000 (\$294.68 PSF)    Leased at Sale: 96.0%

Buyer: American Real Estate Partners & Rockwood Capital LLC

Seller: Carr Properties

Story: Arlington Plaza, a 195,128 square foot office building, was 98% leased at sale, there was a first floor retail space and a small lower level space available. However, BAE leased the top 3 floors on a lease expiring in 2020. MedStar Health occupied about 46% of the building on a lease expiring in 2022. The property was on market as a potential conversion to residential, however, the buyers issued a press release stating they intend to continue to operate the building as office space.

Despite Arlington's vacancy rate in the mid to high teens - investors are bullish. Amazon coming to Crystal City is a tide that will lift all boats in Northern Virginia. Also this is the second recent purchase by Rockwood Capital in the DC metro area following an acquisition in downtown Bethesda.

## Life Science VC and Sale Transactions



### Local VC Funding notable transactions

- i. D&D Pharmatech - Germantown, MD  
Services: Biotechnology, Drug Discovery and Therapeutic Devices  
Type: Series B  
**Funding: \$137,100,000**
- ii. Graybug Vision - Redwood City, CA  
(Spin out from Johns Hopkins, Baltimore)  
Services: Drug Discovery, Drug Delivery and Biotechnology  
Type: Series C  
**Funding: \$80,000,000**



### National VC notable transactions

- i. Ginkgo Bioworks - Boston, MA  
Services: Developer of Biological Engineering Products  
Type: Series E  
**Funding: \$290,000,000**
- ii. Freenome - San Francisco, CA  
Services: Cancer Research  
Type: Series B  
**Funding: \$160,000,000**
- iii. Sema4 - Stamford, CT  
Services: Laboratory Services & Health Information  
Type: Series B  
**Funding: \$127,000,000**

#### iv. Seattle, WA

According to Pitchbook - Seattle has seen over \$2 Billion in VC funding in the Life Sciences field since the beginning of 2018. This outpaces Washington DC by over \$400,000,000. It is no wonder Alexandria has identified a \$142 Million Acquisition in downtown Seattle for 2020, is delivering a 198,000 newly constructed building in Q4 2019 and delivering another 100,000 SF building in 2020. This amount of VC funding is similar to the amount raised by Boston area companies in 2013-2014 when that cluster really began to take off.



### Local Life Science Related Sales

- i. University of Maryland BioPark - The University of Maryland, Baltimore plans an ambitious expansion of its BioPark, with a \$200 million building that will nearly double the size of the life science hub to the west of the main medical campus downtown. The plans call for a 10-story, 300,000-square-foot tower atop an underground parking garage to be built on two acres at West Baltimore Street and Martin Luther King Boulevard, the thoroughfare that separates the BioPark from the university's professional schools and the rest of downtown.

- ii. 25, 35 and 45 West Watkins Mill Road was sold by TriTower Financial Group to Alexandria Real Estate Equities for 53,250,000 - approximately \$383 PSF. This enhances ARE's seemingly monopolistic hold over life science real estate in the I-270 corridor. The only way it seems to get a foothold in life science real estate in the I-270 corridor is to create it yourself - otherwise ARE already owns it or will compete aggressively for the acquisition.
- iii. The sale of Traville Gateway, a plot of land adjacent to the Shady Grove Life Sciences Center and GSK has occurred or is imminent. This land has development approved for 480,000 sf of research and development space. The buyer has yet to be named but is anticipated to be ARE. This would give them room to expand their Life Science Center.



### **Macro Life Science Real Estate**

- i. **Longfellow** - US property investor Longfellow Real Estate Partners has acquired a \$405 million, 1.34m square foot portfolio from Bain Capital's property investment arm. Longfellow was an original operating partner in this portfolio and has recapitalized their position through this sale. The portfolio, which is 94% leased, consists of 18 buildings on four campuses across Research Triangle.
- ii. **Thor Equities** - The former Sanofi U.S. research and development campus, now known as the New Jersey Center of Excellence, in Bridgewater, New Jersey, has sold for \$152 million, roughly triple its purchase price in 2013. New York City-based Thor Equities acquired the 48-acre campus, which has seven interconnected laboratory and R&D office buildings, from CrossHarbor Capital Partners of Boston and Advance Realty Investors of Bedminster, New Jersey, according to the broker on the deal, Newmark Knight Frank of Rutherford, New Jersey. (CoStar)
- iii. **ARE** - Developer Alexandria Real Estate Equities Inc. plans to open the first San Francisco Bay Area location of its life science startup accelerator after winning the rights to redevelop a building in Stanford University's 700-acre research park in Palo Alto, California, a region with the nation's second-largest biotechnology cluster. The biotechnology-focused real estate investment trust won the bidding for a 51-year ground lease that gives the company rights to use and improve a 92,000 square foot building at 3160 Porter Drive for \$26 million, according to a Stanford statement. (CoStar)
- iv. **ARE and Hatchworkspaces** have both invested in the Conejo Valley west of Los Angeles. The Conejo Valley is home to Amgen and numerous other life science companies. ARE has previously invested in Culver City and Pasadena in Los Angeles and Hatch has previously invested near USC in east LA. This could be a sign that institutional equity could help create a more mature life science hub in the Conejo Valley.

## Macroeconomic

### Interest Rate Forecasts

While the US Economy is still performing well, interest rates remain at historic lows. According to Chatham financial, current One Month LIBOR (on October, 24) is 1.82%. However, this is forecasted to continue a decline over the next two years.

Investors have priced in a 25 bps reduction of the fed funds rate at the end of October. This will lower the rate to a range between 1.5% - 1.75%. Despite a historically low unemployment rate the fed has said that threats to the economy's strength are abundant.

### Stock Market / Bond Market

S&P 500 has continued its strong performance and the overall stock market continues to expand. One of the main stories however is this rise is due in large part to stock buybacks performed by the companies listed on the markets. Goldman Sachs recently reported that the amount of stock buybacks is decreasing sharply. This could slow growth in the stock market.

## THE ANALYST'S Opinion

There have been some positive headwinds in the past quarter. First, it seems that the escalating trade war with China has slowed. While a deal hasn't been struck it seems unlikely many more additional tariffs will be levied. Also, the odds of a "No-Deal Brexit" have decreased which would have shocked markets.

The biggest potential shock would come with the 2020 US election. With tax increases attached to most of the candidate's platforms. The Iowa Caucuses are February 3rd and Super Tuesday would be March 3rd. It will become more clear then if the Democratic Party is taking a more centrist approach or a more progressive approach that wants to go after business.

Prediction markets and the Federal reserve have all been pessimistic about economic growth for the past year, leading to interest rate cuts. However the economy continues to perform. Current data seems to say the economy is doing well despite the Federal Reserve's assessment. I think that growth will continue to be extremely low for some time until a shock to the system occurs.

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