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D.C. real estate firm scores hat trick with latest office-to-lab conversion

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A D.C.-based real estate firm recently acquired another Rockville office it intends to convert to life sciences labs, exemplifying an increasingly common strategy to land coveted space in a hyper-competitive property market for that industry sector.

Rock Creek Property Group LLC bought 51,000 square feet, or the top two floors, of a three-story commercial condo at 9707 Key West Ave. from an affiliate of Bright MLS LLC, which is moving out of its offices there. The \$8.9 million deal closed July 8.

Rock Creek is still in the process of planning its improvements. It might convert the floors in phases and try to land smaller tenants faster, or wait to see if it can land a bigger tenant to take the whole available space, Rich Lane, a Rock Creek principal, said in an interview. Improvements would include, for example, upgrading



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Office space at 9707 Key West Ave. in Rockville will be converted to life sciences lab space.

electrical capacity and waste water monitoring for a commercial laboratory. Lane expects building out a spec lab would cost on the order of \$150 to \$200 per square foot and could deliver by about this time next year.

The new addition, which Rock Creek is dubbing Precision Labs Shady Grove, is the company's third office-to-lab undertaking in as many years. Last year, it acquired Precision Labs Germantown, comprising 121,000 square feet in three buildings along Century Boulevard. Construction is underway with delivery expected sometime in the fourth quarter. Rock Creek's first conversion was 700 Quince Orchard Road in Gaithersburg, which it sold to Alexandria Real Estate Equities Inc. (NYSE: ARE) in 2020 — a finalist that year for the Washington Business Journal's Deal of the Year Award. It's now the headquarters for biotech company Novavax Inc. (NASDAQ: NVAX).

What made the Key West Avenue property particularly attractive is its proximity to the Shady Grove life sciences cluster, Lane said. The area is a hotspot for that industry sector, situated near several major relevant federal agencies, including the National Institutes of Health, the National Institute of Standards and Technology and the Food and Drug Administration. Rock Creek's acquisition also sits within about a mile of R&D giant Johns Hopkins University's Belward Campus, on a portion of which Trammell Crow Co. is in the initial stages of building 1.6 million square feet of private lab space. The whole 108-acre Belward site is cleared by the county for 4.7 million square feet of new development, according to a person familiar with the university's plans.

But in the meantime, Montgomery County has far more demand for lab space than what's available. Commercial real estate for life sciences has a vacancy rate around 3%, according to a Rock Creek spokesperson. The recent sale of another Rockville office-to-lab conversion weighed in at a record-setting \$284 per square foot — up from a prior year record of \$268 per square foot for Boston Properties' Shady Grove Innovation District, also in Rockville.

Lane said his firm has other office-to-lab conversions in the works, though nothing yet under contract.

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