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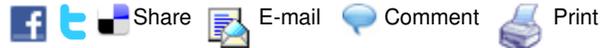
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Wednesday, December 19, 2012



With surplus of office space in Montgomery County, companies can shop around

Sodexo, Choice Hotels may be part of new trend

By Elizabeth Waibel Staff Writer

Government incentives packages to attract large companies like Sodexo Inc. and Choice Hotels — and keep them here — may be the new norm as Montgomery County competes with Northern Virginia.

Steve Silverman, director of the Montgomery County Department of Economic Development, said the area has plenty of vacant office space, so large companies can shop around for the best deals. Montgomery County has about 4 million square feet of vacant class A space, while Fairfax County has 11 million square feet, he said.

“That’s what we’re up against right now — a huge inventory at rock-bottom prices in Northern Virginia requires Montgomery County to do more incentives than we would have had to do in the past,” Silverman said. “We wish we didn’t have to play in this game, but we’re going to do everything we can to keep Montgomery County companies here.”

Choice Hotels plans to move its headquarters from Silver Spring to Rockville sometime next year, and Sodexo agreed to renew its lease in Gaithersburg on Tuesday after considering moving its North American headquarters to another location.

Silverman said he expects the office market to remain flat for several years, and large companies will continue to look for the best deals in Montgomery County and across the Potomac River.

“Whether we like it or not, we will end up incentivizing companies to stay because of the deals they can get from owners of vacant space in Northern Virginia,” he said.

The Choice Hotels incentives package, as outlined in an October 2010 letter of intent, included grant money, reduced-price parking spaces and tax credits from the state, county and city of Rockville in exchange for Choice Hotels hiring and retaining employees.

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According to the letter, Rockville's portion of the incentives package totaled just more than \$1.8 million, including a \$156,000 conditional grant, a \$180,000 permit fee waiver and tax credits estimated to be between \$290,000 and \$490,000.

The city also offered to give Choice Hotels monthly parking spaces in Town Square at the discounted price of \$30 per month instead of \$65; to expedite permit review and to make an effort to rename East Middle Lane to Choice Lane.

In return, Choice Hotels must sign a 10-year lease, employ at least 375 people at its headquarters and add 75 more employees within five years from moving into the building.

The formal agreements between the city and other entities about grants and parking have not yet been officially finalized.

Rockville Assistant City Manager Jenny Kimball said the final agreement will look slightly different, since Federal Realty Investment Trust, the company that developed Town Square, has taken over management of the garages.

"Now that FRIT is operating the garages for the city, they'll be involved in getting those parking benefits to Choice Hotels," Kimball said.

Choice Hotels broke ground on the new headquarters in August 2011 and hopes to move into the building in April.

In October, Choice Hotels announced it planned to operate a Cambria Suites hotel just across the street from the headquarters site at the corner of East Middle Lane and Monroe Street. The hotel is part of a \$100 million development by Duball LLC that also will include apartments, retail space and a parking garage.

Rockville agreed to provide a \$980,000 grant for the Duball project, and the county plans to provide more than \$3 million.

On Dec. 18, state, county and Gaithersburg officials announced that they put together a \$4 million grant and loans incentives package to keep Sodexo's North American headquarters in Gaithersburg.

In the cases of Choice Hotels and Sodexo, Silverman said the companies agreed to retain and add a certain number of jobs in exchange for the incentives.

"What we try to do is incentivize companies that are here to stay and expand, but there are going to be situations where we are simply incentivizing companies to stay, because we do not want to lose the tax revenue produced by those companies if they go to a different jurisdiction," he said.

Although the office market remains flat, Silverman said large companies looking for 50,000 square feet or more of office space will continue looking at relocating outside of Montgomery County.

"It's possible that there might be two or three companies a year that are going to be looking at relocation options," he said. "... The loss of the tax revenue will require us to invest in the retention of companies."

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December 27, 2012 1:45 pm

Despite the fact that over the years, the Montgomery County Department of Economic Development (MCDED) and the Fairfax County Economic Development Authority (FCEDA) have negotiated incentive packages with businesses wishing to do business in the greater D. C. area, we see the two counties are dealing with 16 million square feet of vacant Class A space. So how does each go about solving this problem? We compete with each other to find the greatest incentive package we can to either keep businesses where they are or attract new ones. This can lead only to a race to the bottom, in a variation of the classical "Prisoner's Dilemma" problem, where two individuals might not cooperate, even if it appears that it is in their best interests to do so.

In the case of Choice Hotels, we see what seems to be only a portion of the incentives package offered by the city of Rockville and none of the county or state incentives. It is impossible to tell what proportion of the 375 people to be employed for ten years and the additional 75 to be employed for five years will contribute to the tax revenue sought and whether or not this revenue will exceed the value of the incentives package.

The MCDED website states that "Montgomery County is one of the best places in the world to live, work and play." The FCEDA similarly "promote[s] the county's excellent school system, educated workforce quality of life and tech-savvy business community." Based on such similar outlooks, we cooperate as members of such organizations as the Metropolitan Council of Governments and the Washington Metropolitan Area Transit Authority.

It is time that the FCEDA and the MCDED negotiate with each other about how, together, we can present a united front to those wishing to do business in the National Capital area's historically two wealthiest counties. As a result, any "loss of tax revenue" will be mitigated, if not surpassed, by far smaller "government incentive packages."

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