

MEMORANDUM

April 2, 2019

TO: Planning, Housing, and Economic Development (PHED) Committee

FROM: Gene Smith, Legislative Analyst *GS*

SUBJECT: Discussion – County Incubator Programs

PURPOSE: Discussion with Executive staff about the direction of the County’s incubators.

Expected Attendees

Jerome Fletcher, Assistance Chief Administrative Officer
Ruth Semple, Economic Development Manager, Department of Finance (Finance)

See Executive staff’s presentation slides on ©1-13.

I. Possible Discussion Topics

Incubator models. **The PHED Committee should discuss what model(s) the Executive intends to consider implementing in the County.** The County’s current model includes publicly-subsidized lease space and privately-led program management. Several of the largest Maryland incubators are managed and operated by either public-private non-profits or private non-profits.¹ In addition to incubators, there are accelerators which provide short-term assistance to a cohort of businesses to scale an idea, not provide space long-term.

Leveraging the County’s physical assets. **The PHED Committee should discuss how the Executive will utilize the County’s current assets.** The County owns or leases three facilities. It operates them at a loss of approximately \$1.3 million a year to generate economic development via new business creation. However, more co-working spaces, such as Launch Workplaces, Regus, etc., are becoming available at cost-effective rates in the region. The County should determine the best way to leverage, and maybe reposition, its physical assets for economic development given the current trends in the co-working office market.

Industry-focus. **The PHED Committee should discuss with the Executive the industry-focus of the County’s incubator programs.** The past and current focus of the incubator

¹ <https://www.bizjournals.com/baltimore/subscriber-only/2018/11/01/largest-incubators-accelerators-and.html>.

programs are the County’s strategic industries (i.e., biotech and information technology). It will be important to consider how the County expands incubation to other industries, such as small-scale manufacturing, while maintaining an emphasis on its strategic industries to spur economic development.

II. Background

The County Business Innovation Network’s (BIN) facilities and programming were managed and administered by the Department of Economic Development (DED) before FY17. Prior to FY17, the BIN included five facilities: the Germantown Innovation Center (GIC); the Rockville Innovation Center (RIC); the Silver Spring Innovation Center (SSIC); the William E. Hanna Jr. Innovation Center (WHIC); and the Wheaton Innovation Center (WIC). **Both the WHIC and the WIC are no longer part of the BIN.** The WHIC was converted to the National Cybersecurity Center of Excellence (NCCoE) in 2015 and is a partnership involving the County, the State, and the National Institutes of Standards and Technology (NIST) to address commercial-sector cybersecurity challenges. The WIC’s lease expired in June 2016, and rather than renew the lease, the County’s funds now support the Wheaton Technical Assistance Program as part of the Small Business Assistance Program.

The County chose to pursue a new model for the BIN in FY17 to complement the planned transition of economic development from a public department to a private organization. The current model for the BIN is that the County will fund debt service obligations related to the BIN facilities but will contract with third-party operators for the BIN programming. The third-party operators will be private organizations with expertise in a specific industry (e.g., biotechnology, health care, information technology, etc.) and will provide relevant guidance, programming, and support to the incubator companies. The expectation is that these industry-specific operators will be in a better position than the County to identify the necessary resources and to determine the viability of the current and future incubator tenants.

Below are tables that detail the specifications and operations for the three incubators currently owned or leased by the County. Occupancy data is based on lease information as of December 31, 2018.

Germantown Innovation Center’s Specifications and Operating Details

Owner	Montgomery College
Lease term	2026 – 2029*
<i>Space</i>	
Office space	8,759 square feet
Wet lab space	8,040 square feet
Common space	15,201 square feet
Total space	32,000 square feet
Occupancy	93%
<i>Annual Operations</i>	
Lease expenditures	(\$521,000)
Operating expenditures	(\$598,000)
Tenant revenue	\$544,000
Operating income (loss)	(\$575,000)

<i>Tenants</i>	
Number of businesses	21
Number of full-time jobs	108
Average occupancy	3.7 years
Longest occupancy	6.5 years

* Lease term is dependent on when the County repays the bonds.

Rockville Innovation Center's Specifications and Operating Details

Owner	County
Debt term	2023*
<i>Space</i>	
Office space	10,000 square feet
Coworking space	2,000 square feet
Common space	8,000 square feet
Total space	20,000 square feet
Occupancy	93%
<i>Annual Operations</i>	
Debt expenditures	(\$370,000)
Operating expenditures	(\$649,000)
Tenant revenue	\$379,000
Operating income (loss)	(\$590,000)
<i>Tenants</i>	
Number of businesses	25
Number of full-time jobs	92
Average occupancy	3.0 years
Longest occupancy	8.4 years

* The County will pay a \$2.0 million balloon payment in 2023.

Silver Spring Innovation Center's Specifications and Operating Details

Owner	County
Debt term	Paid off
<i>Space</i>	
Office space	75,000 square feet
Total space	75,000 square feet
Occupancy	50% (excludes HOC)
<i>Annual Operations</i>	
Operating expenditures	(\$291,000)
Tenant revenue	\$184,000
Operating income (loss)	(\$107,000)
<i>Tenants</i>	
Number of businesses	8
Number of full-time jobs	38
Average occupancy	5.5 years
Longest occupancy	10.5 years

There is a lack of performance metrics from the BIN's operations during DED; Finance notes that many of the files were lost or deleted in the transition. Finance states that a 2014 DED presentation claimed that 275 businesses participated in the BIN program since inception, with 100 graduating from the BIN and 17 "terminated early." It was believed that the other 158 were still in the program in 2014. In 2018, there were 54 businesses in the program and ten graduated to other space in the region.

This packet contains:

Presentation slides

Circle #

1

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Montgomery County Innovation Centers



Quick History

1995: Incubator program initiated by the County.

1999: Opened Maryland Technology Development Center
(renamed twice: Shady Grove Innovation Center and then William Hanna Center for
Innovation at Shady Grove)

2004: Opened Silver Spring Innovation Center

2005: Opened Wheaton Business Innovation Center

2006: Opened Rockville Innovation Center

2008: Opened Germantown Innovation Center

2014: Closed MTDC. Repurposed for NCCoE

(County still owns land and building today)

2015: Closed Wheaton Business Innovation Center

2016: Privatized the operations of the remaining three
incubators upon closure of MoCo Dept. of Economic
Development

2018: MEDCO/Scheer/BHI incubator contracts terminated.

Market Changes Impacting MoCo's Incubator Network

- ❖ In 1995 there were no incubators or coworking sites within the County. Only a few shared office suites such as Regus, that provided space but were not "entrepreneurship centers".
- ❖ In 2019 there are 31 shared office suites, incubators and coworking sites, exclusive of the County's three incubators, advertised on the MCEDC website. Seven provide full menu of entrepreneurship support; Five provide limited support; Nineteen are pure real estate offerings.
- ❖ By 2030 JLL predicts 30% of the U.S. commercial real estate market will be small, mobile, coworking "flex Spaces"; it is only 5% right now.

www.us.jll.com/en/trends-and-insights/research/flex-space

Our Current Facilities – 2019

- ❖ ***Silver Spring Innovation Center (County owned)***

20,000 sf of office space in downtown Silver Spring, 20-25 companies, near Metro.

- ❖ ***Rockville Innovation Center (County owned)***

23,000 sf of office space in Rockville Town Square near Metro, 20-30 companies

- ❖ ***Germantown Innovation Center (County leased until 2026)***

32,000 sf of office and 12 wet labs in partnership with Montgomery College, 25-35 companies



Silver Spring Innovation Center

- ❖ 20,000 square feet (70% office, 30% core), paid parking environment.
- ❖ No long term County financial obligation.
- ❖ County owns the property outright.
- ❖ Occupancy = 95% (50% HOC, 45% tenants)
- ❖ Nine Tenants: six on site since 2016, three recent graduations and two new companies since 9/2018
- ❖ Plus three Virtual Tenants: all prior to 2016

Rockville Innovation Center

- ❖ 23,000 square feet: 60% office, 40% core.
Paid parking environment.
- ❖ In August, 2018, \$3.3MM mortgage refinanced out of MEDCO and into County's debt portfolio on an unsecured basis with a five year maturity. Upon maturity the mortgage will have a remaining balance of \$2.0MM
- ❖ County owns the RIC pursuant to a condominium structure. RIC is a two story unit that can be bifurcated.

Rockville Portfolio

- ❖ Idea Stage: 7 companies
- ❖ Pilot Stage: 8 companies
- ❖ Growth Stage: 5 companies
- ❖ Soft Landing: 5 companies

- ❖ 25 companies – 98 jobs
 - a) 13 companies in program prior to 2016
 - b) 17 health/bio related, 8 non-health

- ❖ 5 graduations since 2016

Germantown Innovation Center

- ❖ 32,000 sf: 12 wet labs (25%), 49 offices (45%), core (30%). Free surface parking.
- ❖ All wet labs are fully occupied.
- ❖ Space is leased from Montgomery College until 2026 or until last payment is made on MCRA bond (2029). Annual lease cost \$521K.

Germantown Portfolio

- ❖ Idea Stage: 7 companies
- ❖ Pilot Stage: 8 companies
- ❖ Growth Stage: 3 companies
- ❖ Soft Landing: 4 companies

- ❖ 21 companies - 111 employees
 - a) 12 companies in program prior to 2016
 - b) 20 health/bio related, 1 non-health company

- ❖ 5 Graduations since 2016



Montgomery County Innovation Centers

**WHERE CAN MOCO GO FROM
HERE?**

Strategy is twofold:

- ❖ Assess the existing incubators from a real estate perspective and programmatic view to ensure they are operationally efficient, filling a critical need not otherwise filled, and supporting business and job creation in the County; viewed through the lens of economic development.
- ❖ Identify opportunities for new incubators that address gaps in industry segments that have been under-served in the past and provide other services such as job training, community placemaking and economic empowerment; viewed through the lens of community development.

Action Items

- ❖ Initiated to date:
- ❖ Scheduled tours of existing incubators and meetings with incubator CEO's.
- ❖ Currently identifying industry expert to provide strategic comprehensive incubator strategy.

- ❖ Next Steps:
- ❖ Develop a comprehensive incubator strategy by the end of the calendar year with the assistance of industry experts and community input.
- ❖ Inform Council of progress and results on a periodic basis.
- ❖ Incorporate the strategy and any funding elements into the FY21 budget recommendations.



Thank You

Jerome Fletcher, ACAO, CEX
Ruth Semple, Dept of Finance