

Office Competitiveness & Conversion



COG Region Forward Coalition - July 27, 2018

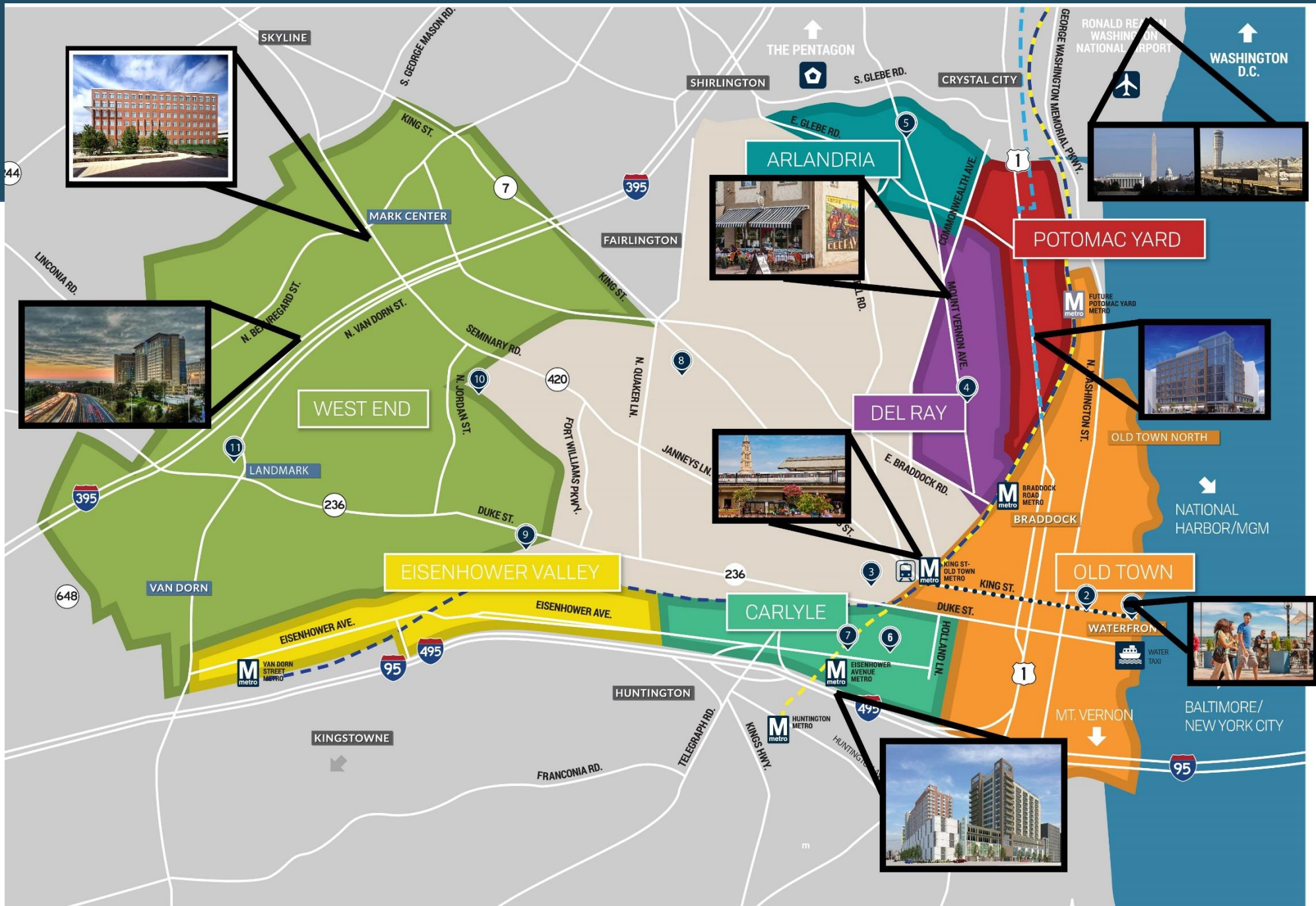
Discussion Topics

- **Setting the Stage:** Alexandria's office market
- **Challenge:** Expanding the Commercial Tax Base
- **Analysis:** Office Conversions – Epidemic or Cure?
- **Findings:** Fiscal Impact of Conversions
- **Looking Ahead:** Changing Goals and Policy Recommendations

Alexandria Office Market

At 15%, office vacancy in Alexandria is aligned with the region

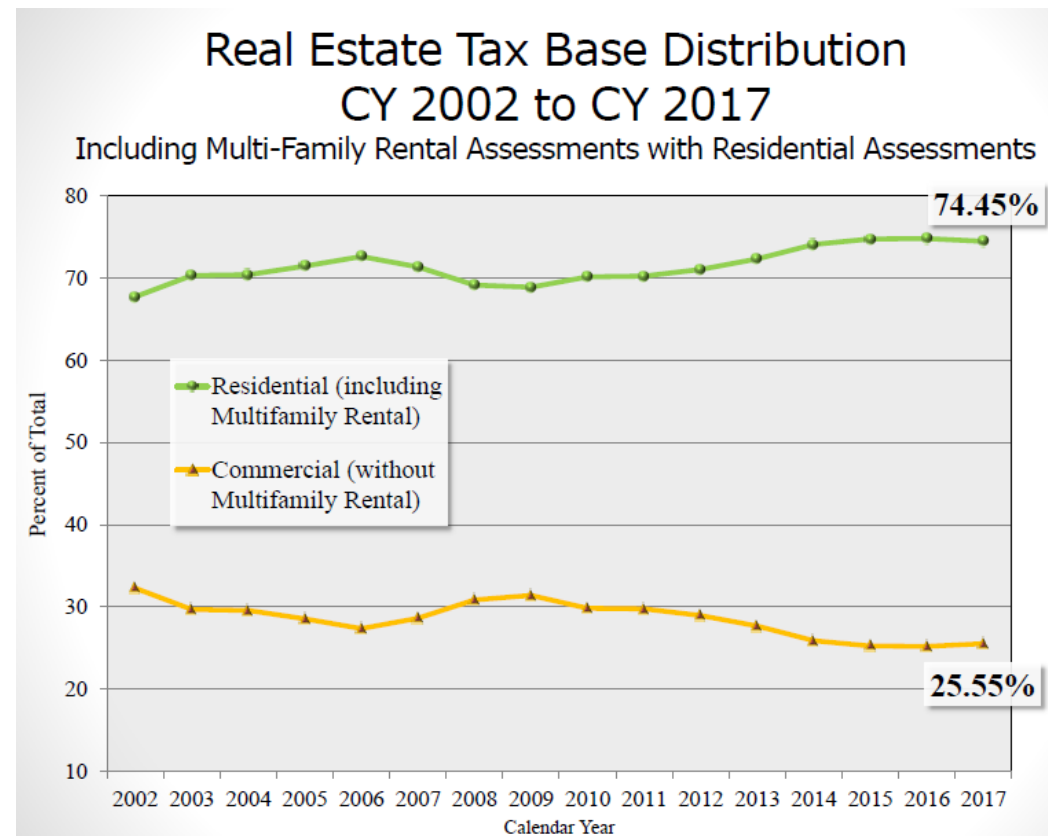
- However, vacancy rates vary greatly by location
 - East of the Metro tracks office market remains highly competitive with vacancy in Old Town and Carlyle at or below 10%
 - The West End of the city – home to more traditional suburban office parks – is experiencing vacancy of 28%
- New office construction is occurring around Metro/transit
 - 600K square foot National Science Foundation HQ at Eisenhower Metro
 - 100K square foot National Industries for the Blind HQ and 110K square foot American Physical Therapy Association HQ at Potomac Yard



Expanding the Commercial Tax Base

Tax base distribution between residential and commercial continues to widen

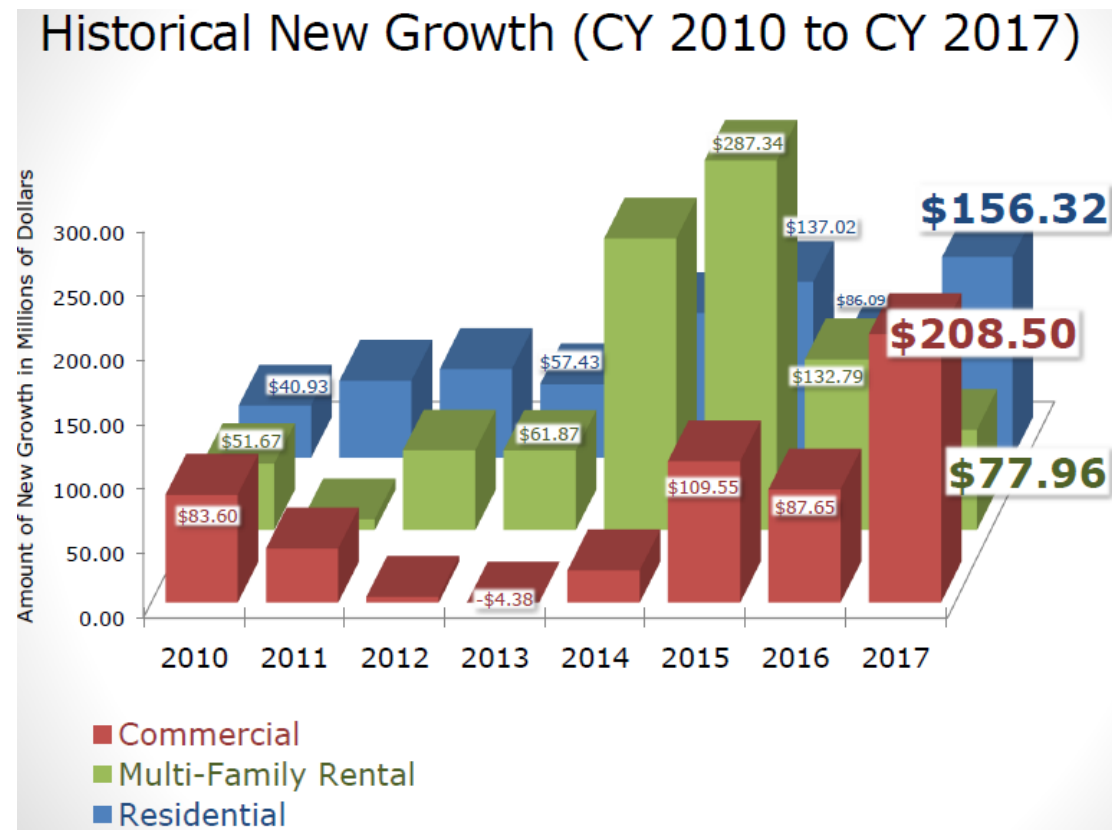
- Current tax base distribution places burden to fund government services on residential property owners
- Growing the commercial tax base to close the tax base distribution gap between residential and commercial is a top priority



Expanding the Commercial Tax Base

New construction has been almost exclusively multifamily residential (rental and for sale)

- Recent exception was construction of the new NSF HQ which delivered in 2017
- Considerable concern that increased office conversions will only widen the gap between residential and commercial taxpayers



Office Competitiveness Study

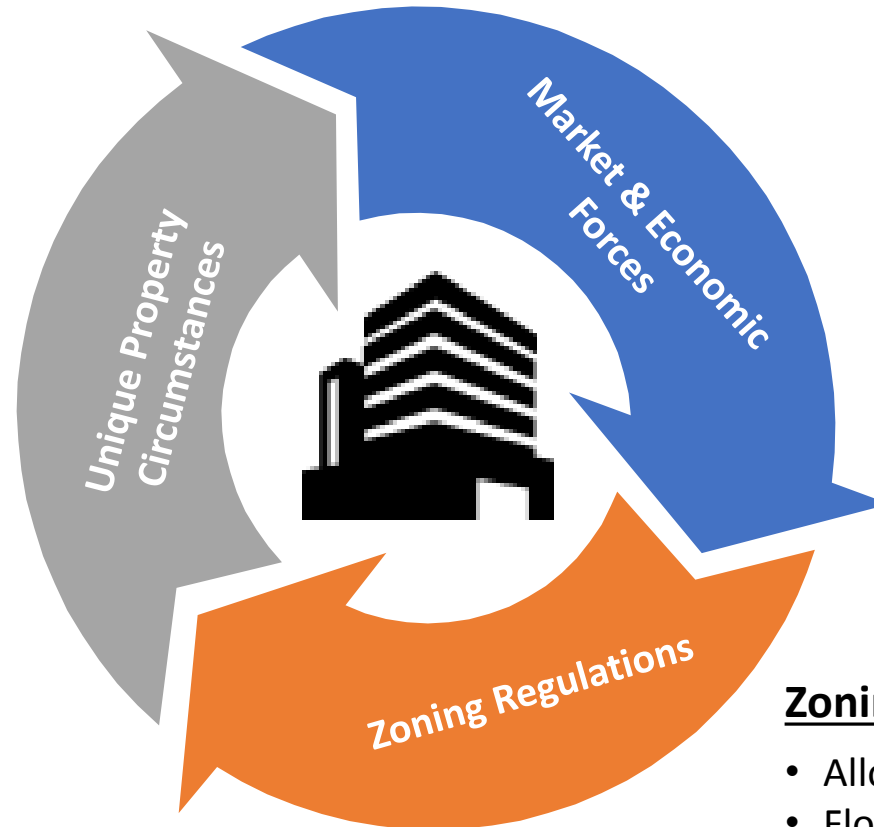
- In 2016, planning and economic development staff were asked to study the impact of office conversions
 - Assumption: an increasingly competitive office market, the lack of new high quality office properties, and the potential for office conversions are threats to Alexandria's competitive position in the region
 - Goal: produce policy recommendations and guidelines to preserve and encourage commercial development and to maintain/improve the City's competitiveness in the regional economy

Office Conversion Study

Major factors driving conversions

Unique Property Circumstances

- Pending Capital Events (lease expirations, renovations/replacements, loan maturity, etc.)
- Building layout/design
- Vacancy
- Location
- Nature of ownership



Market & Economic Forces

- Office rental rates, vacancy, and value
- Residential rates, vacancy/demand, and value
- Credit Markets
- **Tenant Preferences**

- Location and access
- Amenity base
- Building age
- Building layout/design

Zoning Regulations

- Allowable uses v. special use
- Floor Area Ratio (FAR)
- Open space requirements

Alexandria Office Conversions

Recent/proposed conversions equate to minimal amount of total office stock

11 buildings = <1% of 706 office buildings in Alexandria

1.3M SF = 6% of 20+M SF of office stock in Alexandria

• Forces driving these conversions include:

- High vacancy
- Obsolete design
- Over ½ mile from Metro
- Change in ownership
- Mostly by-right

Address	Total SF	Conversion To	\$ Value Before	\$ Value After*
601 N. Fairfax	129,000	Residential	\$21M	\$70M
515 N. Washington	26,000	Residential	\$5M	\$9.1M
805-809 Franklin Street	3,000	Residential	\$0.85M	\$1.6M
509 N. Saint Asaph	32,000	Residential	\$0	\$TBD
200 Stovall	610,000	Residential	\$42M	\$TBD
4501 Ford Avenue	235,000	Residential	\$20M	\$TBD
1701 N. Beauregard	126,000	School	\$16M	\$TBD
312 S. Washington	22,000	Residential	\$3M	\$TBD
2000 N Beauregard	102,000	Residential	\$5M	\$TBD
699 Prince	66,000	Hotel	\$16M	\$TBD

Alexandria Office Conversions

City's fiscal impact model shows conversions have a net positive impact on General Fund revenues

Developers inject significant capital into buildings extending their life cycle by 25-30 years



4501 Ford Avenue - Office-to-Residential

Tax Year	Taxable Assessment	Tax Levied
2016	\$20,057,200	\$215,214
2017	\$55,000,000	\$621,500
\$ Change	\$34,942,800	\$406,286

Conversion results in **\$251,897** in new revenue to the General Fund when applying the Fiscal Impact Ratio of 62% to the increased tax revenue (\$406,286)

Land Use	Fiscal Impact Ratio*	1999 Fiscal Impact Ratio
Single Family Detached	70%	40%
Townhouse	67%	
Multifamily	62%	
Retail (general)	84%	87%
Retail (restaurant)	89%	
Hotel	93%	93.5%
Office	88%	83%
Industrial	78%	---

Office Conversion Conclusions

Office Conversions positively impact tax base and community

- ❖ Market/economic forces and unique circumstances are driving decisions to convert office
- ❖ City's zoning regulations have limited influence (positive or negative) on conversion decisions
- ❖ Most conversions are older, obsolete buildings in submarkets that no longer support office uses



- ❖ Conversions result in significant private investment that increases building values / tax revenues
- ❖ Create net positive impact to General Fund
- ❖ Removes excess office space from market preventing years of high vacancy, special servicing, or foreclosure
- ❖ New, high-quality residential brings human capital to city
- ❖ Conversion to uses like schools solves other community issues

Policy Considerations

Incentivize conversions and new construction

CONVERSION / REVITALIZATION PROGRAM

To encourage and support the conversion or revitalization of obsolete buildings
Note: may include existing residential

Optimal for buildings with:

- Location, characteristics, and age not aligned with current tenant/market preferences
- High and/or chronic vacancy
- Significant loss in value

Policy Tools:

- Expedited development review process
- Regulatory relief
- Tax Abatement

NEW CONSTRUCTION PROGRAM

To incentivize the construction of new office developments at Alexandria's metro stations

Optimal for:

- Development opportunities located within ½ mile of a metro station

Policy Tools:

- Tax Abatement

Outcomes

Reduce stock of obsolete office and incentivize new construction at metro stations

Revitalize aging assets to extend useful life and increase property values

Inject commercial activity, human capital, and vitality into neighborhoods

Enhance the city's competitive position

Questions?

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