



Fiscal Impact of New Development Office Competitiveness/Conversion Eisenhower East (Blocks 4, 5, 6a, 20)

Planning Commission Work Session

May 2, 2017



Introduction: Defining a Balanced Land Use

- Fiscal Impact of New Development
- Office Competitiveness and Conversion
- Eisenhower East (Blocks 4, 5, 6a, 20)

Fiscal Impact of New Development

- **Background:** City staff and AEDP collaborated with TischlerBise Inc. to develop a fiscal impact analysis model and fiscal impact ratios



- Planning & Zoning
- Office of Management and Budget
- Finance
- Real Estate Assessments



ALEXANDRIA
ECONOMIC
DEVELOPMENT
PARTNERSHIP

TischlerBise
FISCAL | ECONOMIC | PLANNING



Fiscal Impact of New Development

- **Purpose of the Project:**
 - To ensure the City is economically sustainable by measuring how development is contributing to the health and success of the City.
 - To provide insights on how land use strategies and development proposals impact the City's fiscal position.
 - To develop a tool to estimate the net impact to the City's General Fund for different classes of property (residential, commercial, industrial, etc.) using fiscal impact ratios.
 - To analyze revenues generated by different types of development in relation to city services needed to support that development (i.e., police, fire, schools).



Fiscal Impact of New Development

- Fiscal Impact Ratios: New development pays for itself**

* net revenue (after City expenses) divided by gross revenue

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%	---

For every dollar in tax revenues from multifamily residential projects, 38 cents are needed to provide government services to directly support the use and 62 cents are available for general budget needs.

Fiscal Impact of New Development

- **Sample applications of the model and ratios:**
 - Testing the fiscal sustainability of small area plans
 - Determining the fiscal impact of individual development projects
 - Examining the fiscal impacts from land use conversions



Office Competitiveness and Conversion

- Growing the commercial tax base as an alternative to raising taxes or decreasing services has been identified as a top priority
- An increasingly competitive office market, the lack of high quality office properties, and the potential for office conversions are threats to Alexandria's competitive position in the region
- Goal of the study is to produce policy recommendations and guidelines to preserve and encourage commercial development and to maintain/improve the City's competitiveness in the regional economy



Forces & Circumstances Driving Conversions

- Conversions are driven by market and economic forces and circumstances unique to each property
- When all of these factors come together it may result in a building declining in economic value and it may be more financially compelling for a residential developer to purchase and convert an office building
- The City's current zoning regulations contain limited barriers to stopping this event
- Every conversion identified in Alexandria was preceded by the sale of a building; only one required special approval through a public hearing

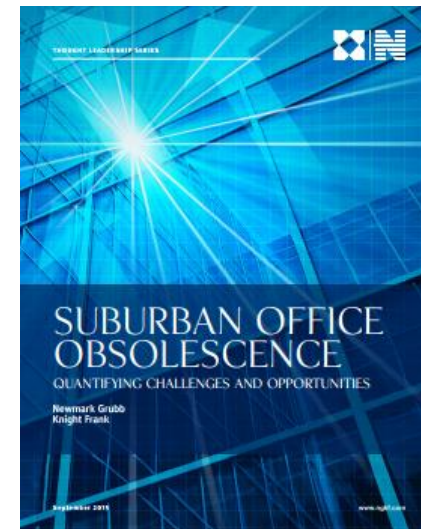
Market and Economic Forces

- Office rental rates, vacancy rates, and values
- Residential rental rates, vacancy rates, and values
- Credit Markets
- Tenant preferences

Office Obsolescence

- **Obsolescence** is the decline in the economic value and desirability of an office building
- Net operating income is not sufficient enough to offset costs for building operations and land value
- Factors contributing to obsolescence include a building's age, size, location, and access to transit and amenities
- Changing tenant use and preferences, technology, and economic considerations also play a role

14%-22%
of the U.S.
suburban
office
inventory is
obsolete



Unique Property Circumstances

- Pending capital events (lease expirations, renovation/replacement, loan maturity, etc.)
- Layout and Design
- Location
- Vacancy
- Nature of ownership

Regulatory Environment

- Conversions can take place in a variety of ways depending on the zoning and/or existing approvals
- Current zoning regulations provide few barriers to conversion
 - Many zones allow office and residential as “Permitted Uses” versus requiring special approval or review
 - Some zones allow a higher Floor Area Ratio (FAR) maximum for residential than office (no known conversions have taken advantage of this)
 - Many zones permit rooftop areas or other amenities to function as open space thus diminishing the ground floor open space requirements of residential uses
- No discernable zoning pattern among known conversions, except all were uses permitted by right

Findings Overview

- Conversions to date have resulted in:
 - Net positive impact to General Fund
 - Significant private investment in Alexandria
 - Change of obsolete office buildings to a higher and better use
 - Minimal impact on the neighborhood mix of uses
- Market/economic forces and unique circumstances are driving decisions to convert commercial to residential; current City zoning regulations offer limited barriers to influence conversion decisions
- Difficult to predict if and when conversions will occur; commercial leasing trends may result in more frequent conversions of obsolete office
- Options are available to help inform and influence conversion decisions

Conversion Impact on Tax Base

- Conversions to date have adjusted the commercial/residential tax ratio but will likely generate higher revenue returns to the city
 - 4 major office properties converted (or are under construction) to residential
 - Totals 420,000 SF or 2% of the City's 20 million SF of office stock
 - Conversions may increase levels of required City services, however, analysis indicates conversions increased building value eclipses cost of services

Address	Total SF	Location	\$ Value Before *	\$ Value Today *
601 N. Fairfax	129,000	Old Town North	\$21M	\$126M
515 N. Washington	26,000	Old Town North	\$5.2M	\$9.6M
Brightleaf & Cooper	32,000	Old Town North	\$0	\$TBD
4501 Ford Avenue	235,000	Park Center	\$20M	\$55M
*Assessed value				



Conversions Positively Impact City Competitiveness

- Encourages private investment in real estate that has likely not seen investment in recent years
- Takes excess office space off market which may drive new development in commercial corridors
- High quality and unique residential properties bring human capital into Alexandria
- Prevents obsolete office buildings from potential years of high vacancy, special servicing, or foreclosure



Policy Recommendations

- Consider conversion projects on a case by case basis for properties >3,000 SF
 - Calculate fiscal impact to City
 - Evaluate project competitiveness and circumstances
 - Consider impacts to mix of uses in neighborhood and public need
- Public intervention to enhance competitiveness
 - RE Tax Credits for Capital Investments in Legacy Properties (25+ years old)
 - Consider RE Tax Abatements for new office development or uses the City deems important to promote/maintain land use mix and other priorities
- Option not recommended:
 - Prevent office to residential conversions by eliminating by-right residential uses in commercial zones the City wants to protect (downzoning)

Eisenhower East



Background

- SAP adopted in 2003: “balanced” land uses 50/50
- Market trends have changed since then, particularly with office
- Requested amendments for Blocks 4 and 5, Block 6a, and Block 20
- Small population impedes retail growth and overall sense of place
- Land Use Analysis: What does “balance” mean today?

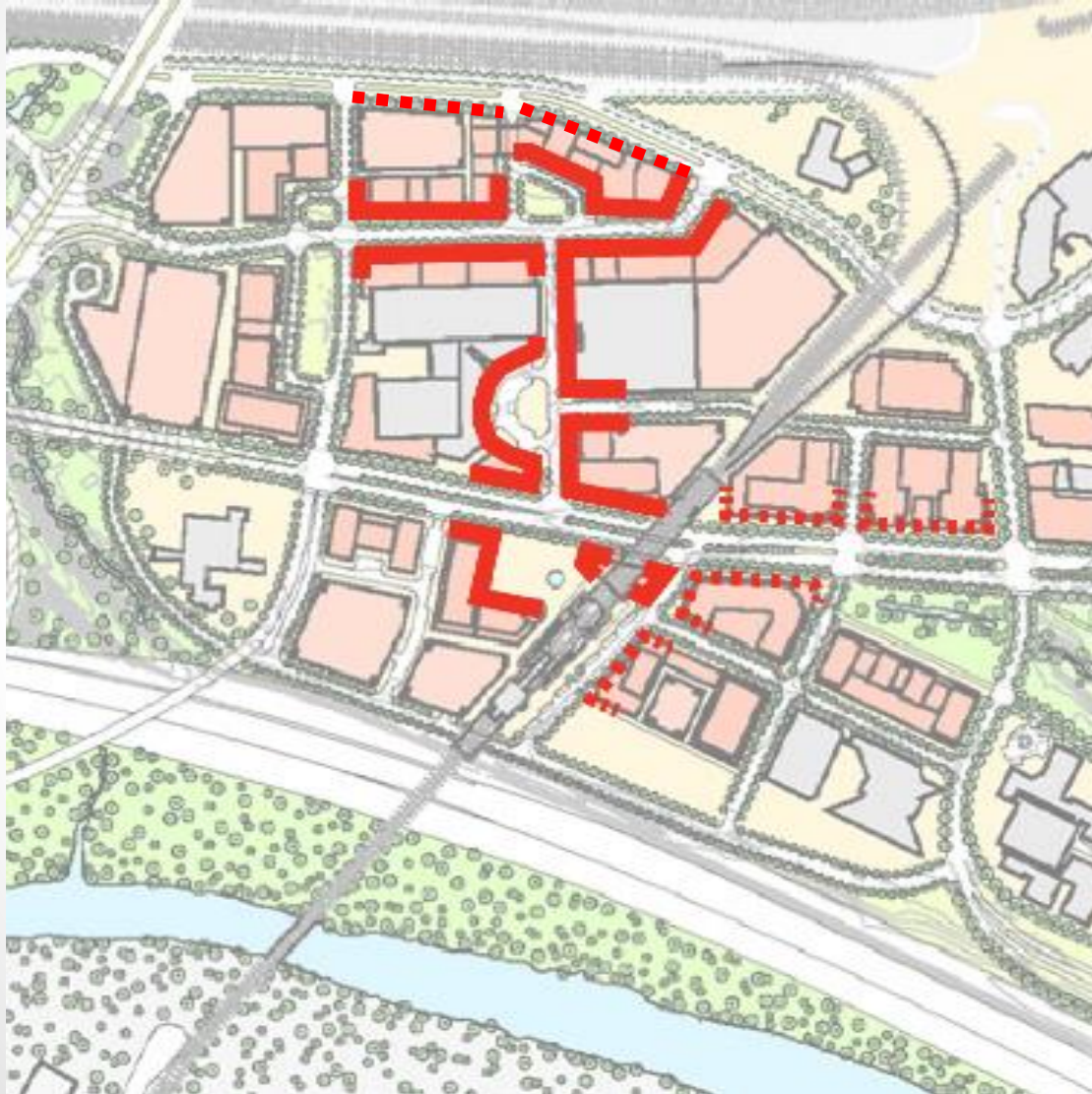




Eisenhower East Land Use Analysis

- A balanced mix of uses is still important, but we have a new metric.
 - People vs. Square Feet
 - 4.0-5.0 employees/1,000 sf
 - +/- 1.5 residents/1,000 sf (multifamily, metro-adjacent)
- Work and home are merging and mixing, becoming more fluid and less defined.
- Strategies for repurposing obsolete office buildings (depth and ceiling height) are needed.
- Placemaking and clustering retail is important.
- Office is not a pioneer and needs retail and amenities in place before it arrives, whereas residential can bring retail.
- Management entities for retail and programming are important.

Strengthening Town Center Retail

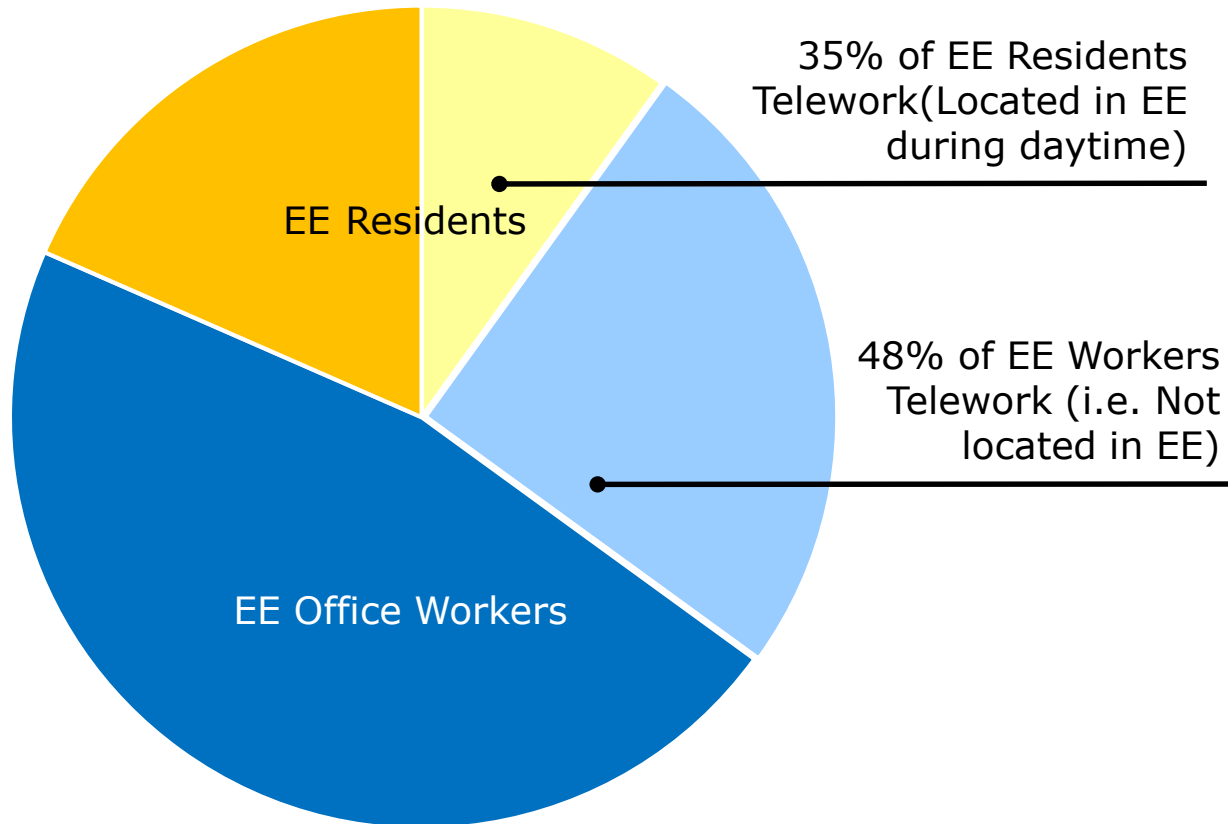


— Retail focus on Mandeville Lane and Swamp Fox Road

- - - Additional approved/optional retail

Teleworking: Merging Work and Home

Proposed Residents/Workers Teleworking (Occupancy)

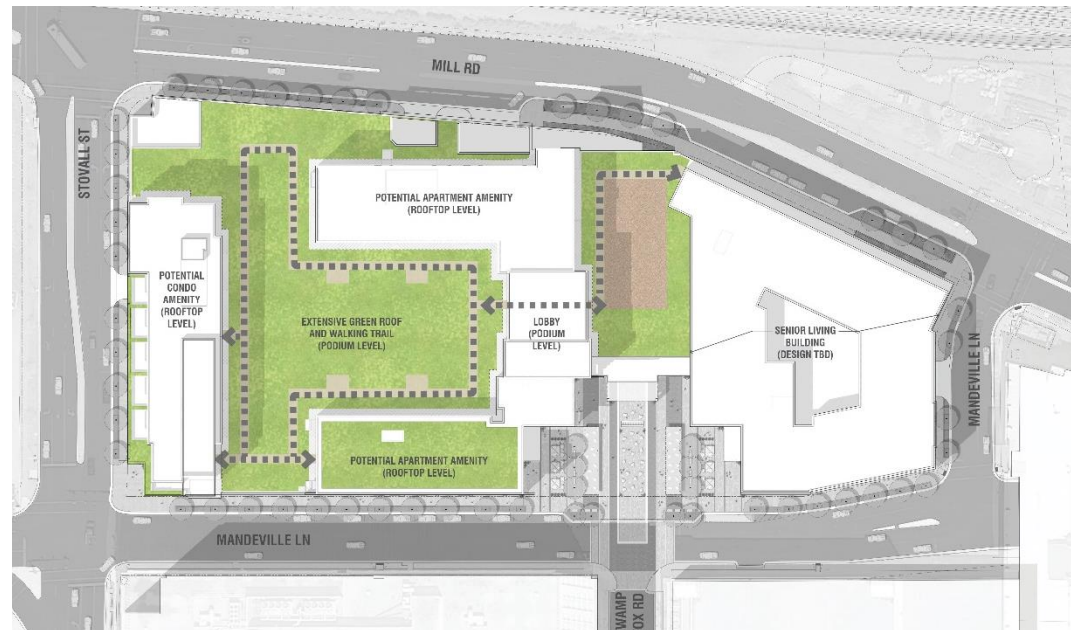


* **Resident Occupancy** is based on 1.5 people per 1000 sf;

* **Worker Occupancy** is based on 4 people per 1000 sf

Blocks 4 & 5 Proposal

- Proposal to convert ~420,000 SF of office to residential use
- Increase retail from 61,000 to 220,000 SF
- Increase the amount of development from ~790,000 SF to 975,000 SF
- ~1,600 parking spaces in four levels (500,000-600,000 sq. ft.)

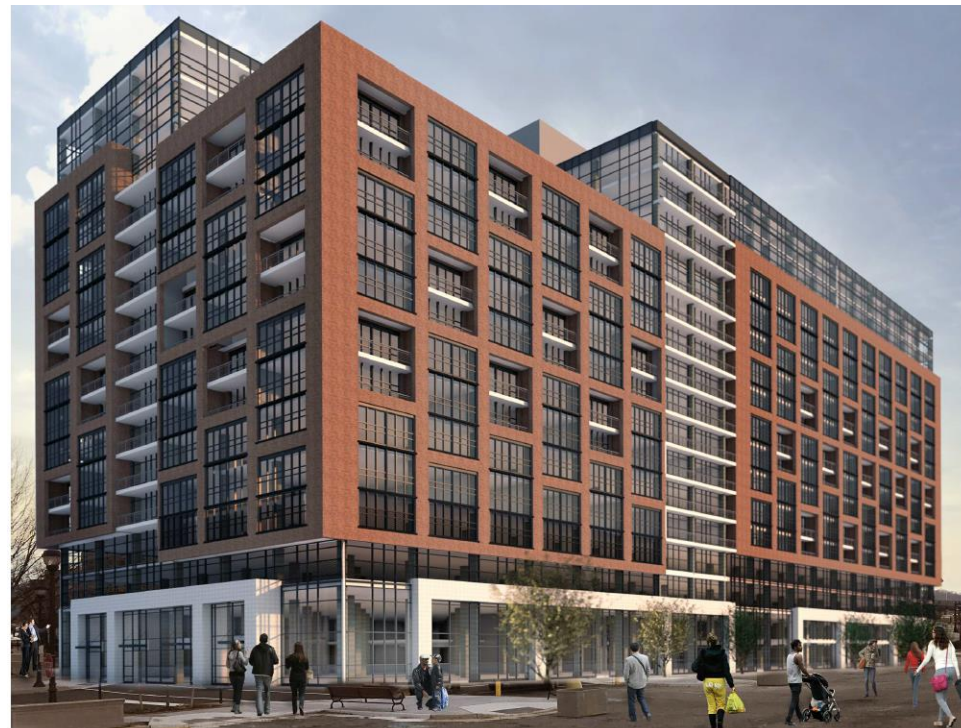


Block 6A Proposal

- Convert an existing 660,000 SF office building into a residential building with ground floor retail

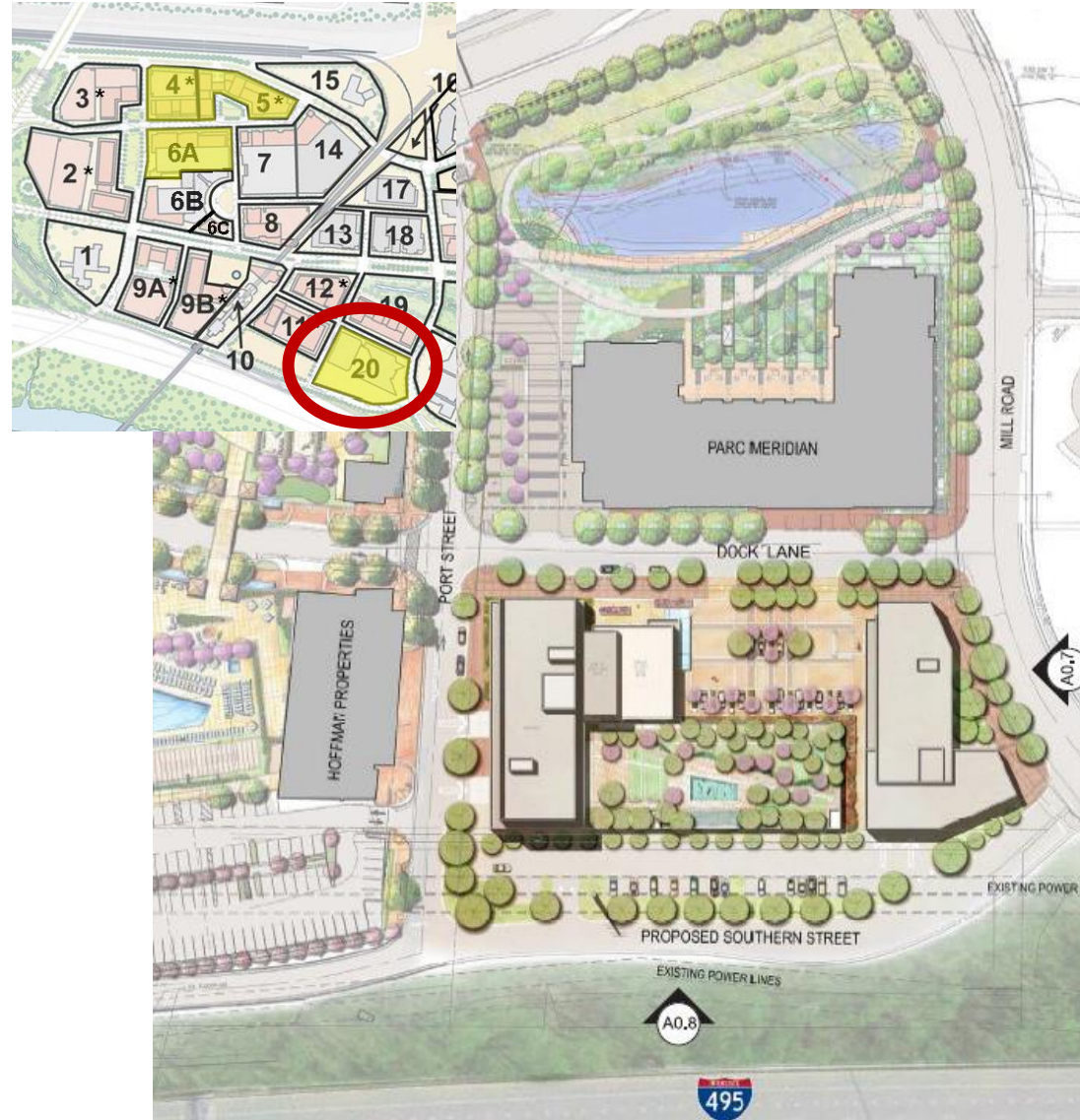


- 660,000 SF residential
- Increase the amount of retail to 25,000 SF
- Increase height from 150 to 200 FT






Block 20 Proposal

- Convert 450,000 SF of office to residential use
- Convert 110,000 SF of office to hotel/office
- Increase height from 220 FT to 300 FT



Land Use with Proposed Amendments



-  Office
-  Hotel
-  Residential
-  Open Space
-  Proposed Amendments

Findings

- Blocks 4 and 5 enable the retail/retail anchor and open space critical for placemaking.
- Block 6a supports a double-sided retail corridor on Mandeville Lane and occupancy of an obsolete and vacant office building with residents.
- Block 20 will allow needed additional residential occupancy in the plan area while still maintaining commercial uses on the site.
- Proposed amendments will result in an improved balance of workers and residents in Eisenhower East.
- Retail management in the plan area as well as pop-up uses and programming near Metro will enable a more lively daytime and nighttime environment.
- “Balanced” land use in Eisenhower East will require additional residential SF, up to 2-3 times more residential than office.

Conclusion and Recommendation: Proposed land use amendments for Blocks 4, 5, 6a, and 20 are consistent with the intent of the Eisenhower East SAP and staff supports the proposed conversions.

Next Steps

- September 2017: Master Plan Amendments
- Fall 2017: Consideration of Approvals for Blocks 4, 5, 6a, and 20
- January 2020: Eisenhower East SAP Update Phase II (scheduled in long range work program)

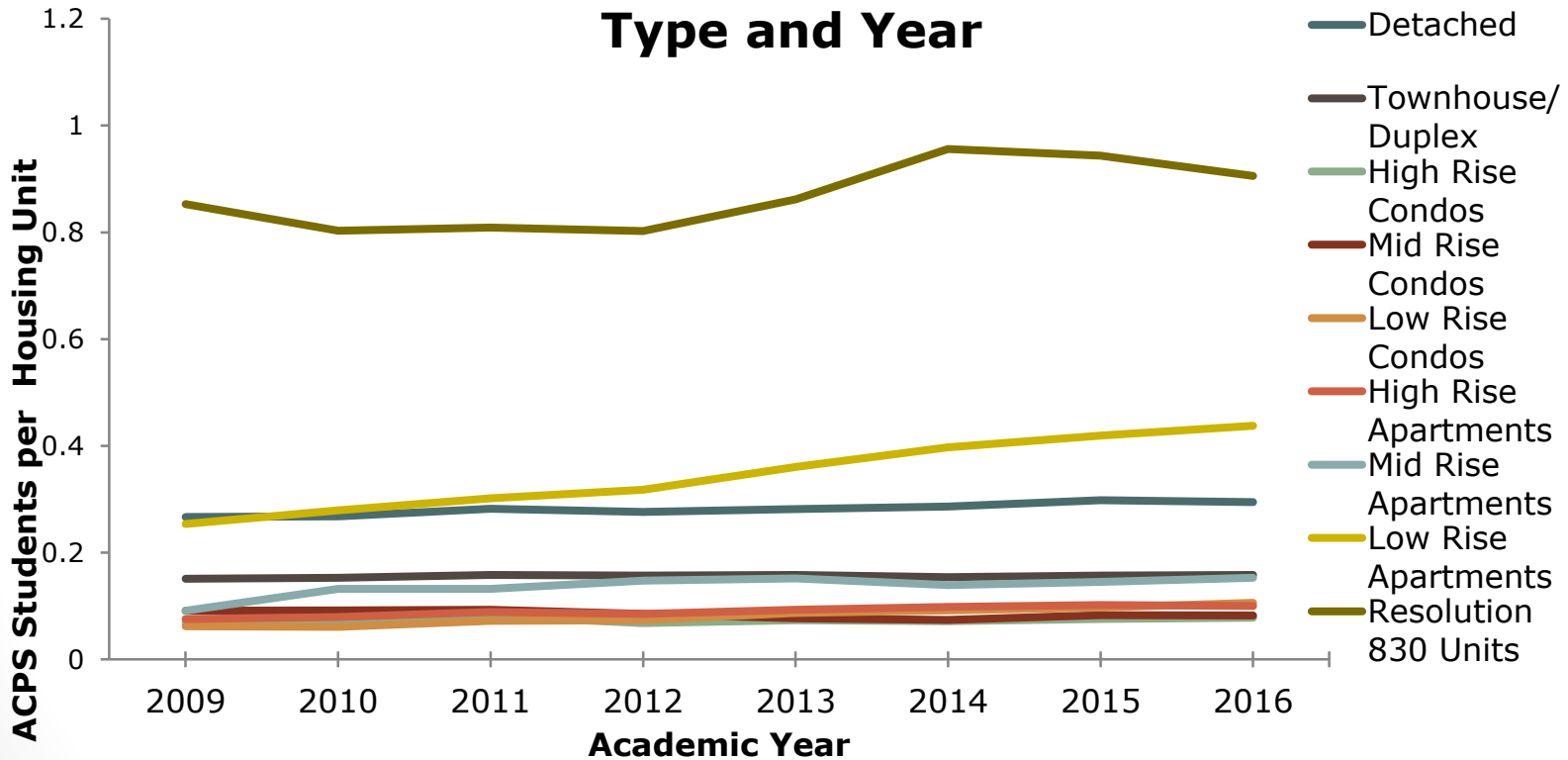


Appendix



Student Generation Rates

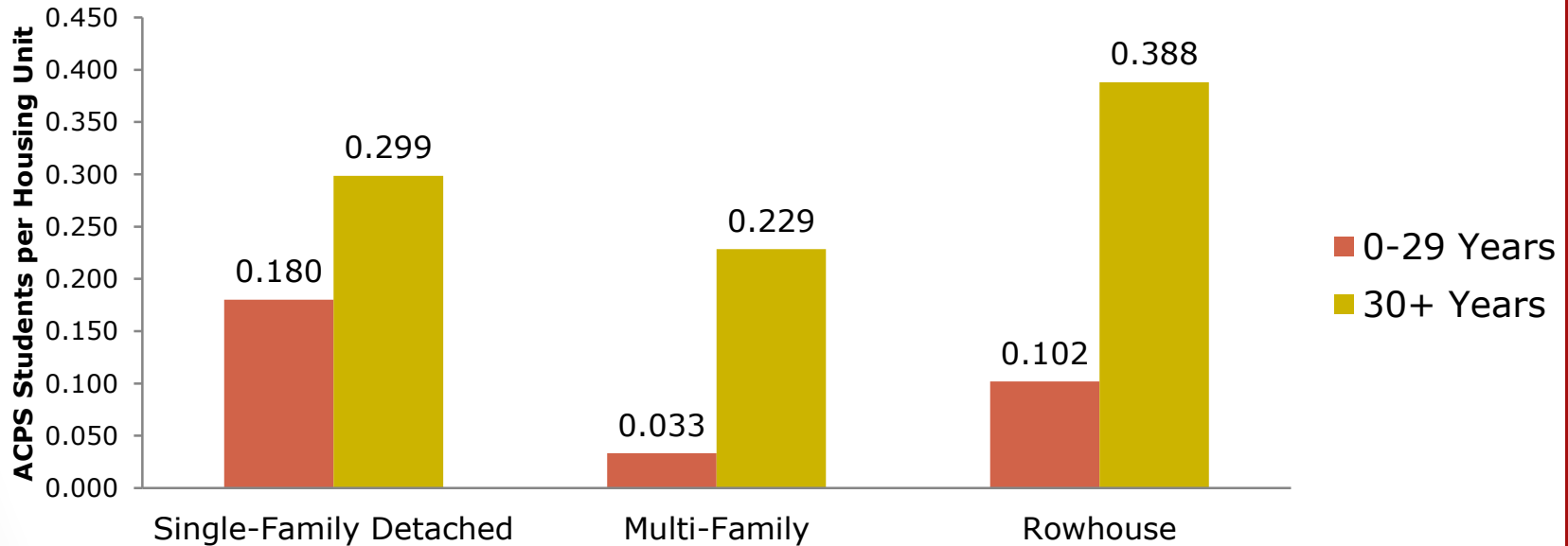
ACPS Student Generation Rates by Housing Type and Year



Student Generation Rates

ACPS Student Generation Rates by Unit Type and Age of Unit

Academic Years 2014-15, 2015-16, and 2016-17



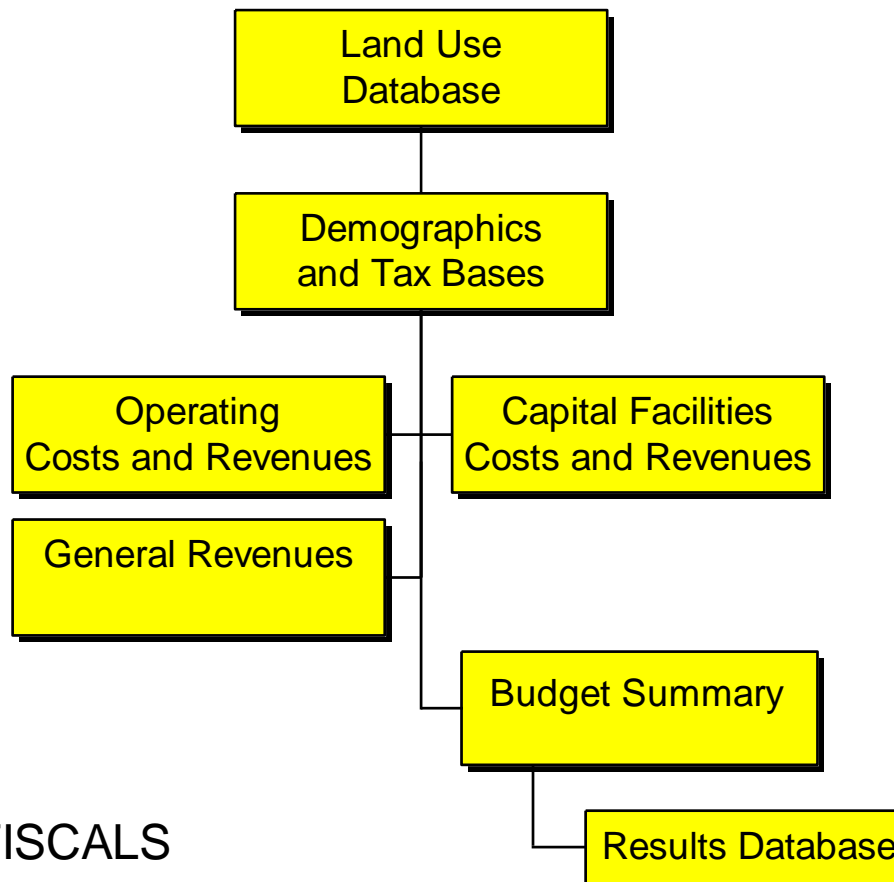


Fiscal Impact of New Development

- **Methodology:**
 - Cost of Land Uses Fiscal Impact Model
 - Hybrid approach with both marginal and average cost methodologies
 - Detailed interviews conducted with management in departments linked to the General Fund
 - FY2017 budget incorporated into model, will be updated annually

Fiscal Impact of New Development

Model Components



FISCALS
Worksheets



Highly Desirable Factors for Office Tenants

Desirable	Metrics
Location & Access <ul style="list-style-type: none">• Distance to Metrorail Station• Transit availability• Highway access• Parking Ratio	<ul style="list-style-type: none">• ¼ mile walking distance to Metrorail station• Transit Score• 1 mile to highway access• 1.5-4.0/1,000 SF
Amenity Base <ul style="list-style-type: none">• In-building amenities• Walkable dining, retail and public spaces	<ul style="list-style-type: none">• Fitness center, conference/shared space, and/or food service (2 or more)• Walk score rating, mixed land uses
Building Age <ul style="list-style-type: none">• Year built or renovated	<ul style="list-style-type: none">• Constructed or renovated within the last 15 years
Building Characteristics <ul style="list-style-type: none">• Elements of design and construction	<ul style="list-style-type: none">• 8'6"+ ceiling heights• < 20,000 SF floor plates• LEED certified (Silver or above)• Modern buildings systems• Natural light

Trends Create Opportunities

Trends	Opportunities
Competition for workers	Create appealing environment
Metro proximity	Capitalize on Metro station
Premium on mixed use environments	Better balance land uses
Sense of place	Invest in quality and programming of open space
E-commerce expansion	Cluster and focus retail
More people working outside offices	Support at-home workers
Office conversions	Reposition obsolete office space
Less space per employee	Redefine land use balance