



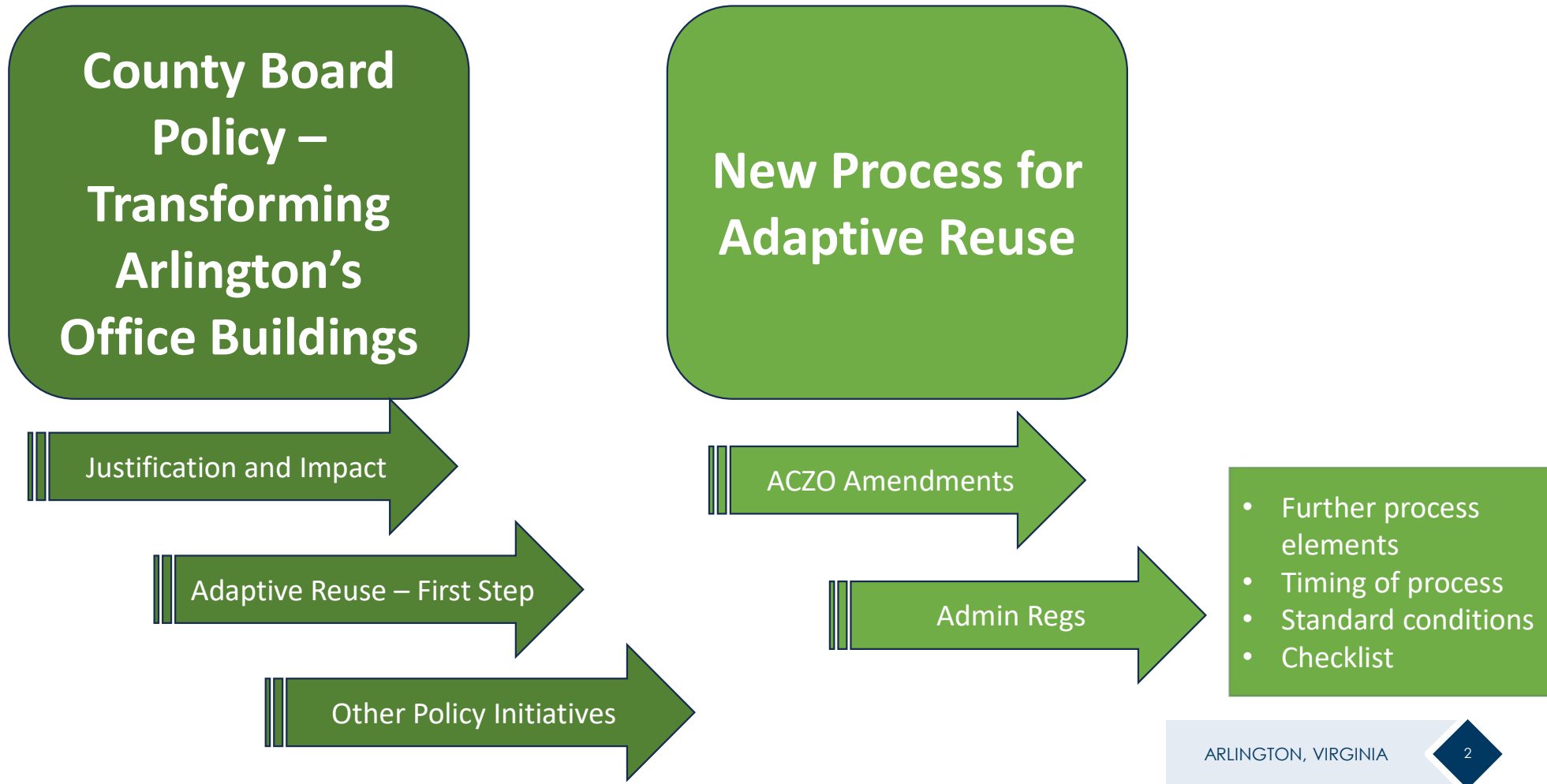
**COMMERCIAL MARKET  
RESILIENCY INITIATIVE (CMRI)**

# **Transforming Arlington's Office Buildings: A New Policy Approach**

**Presentation to LRPC  
September 24, 2024**

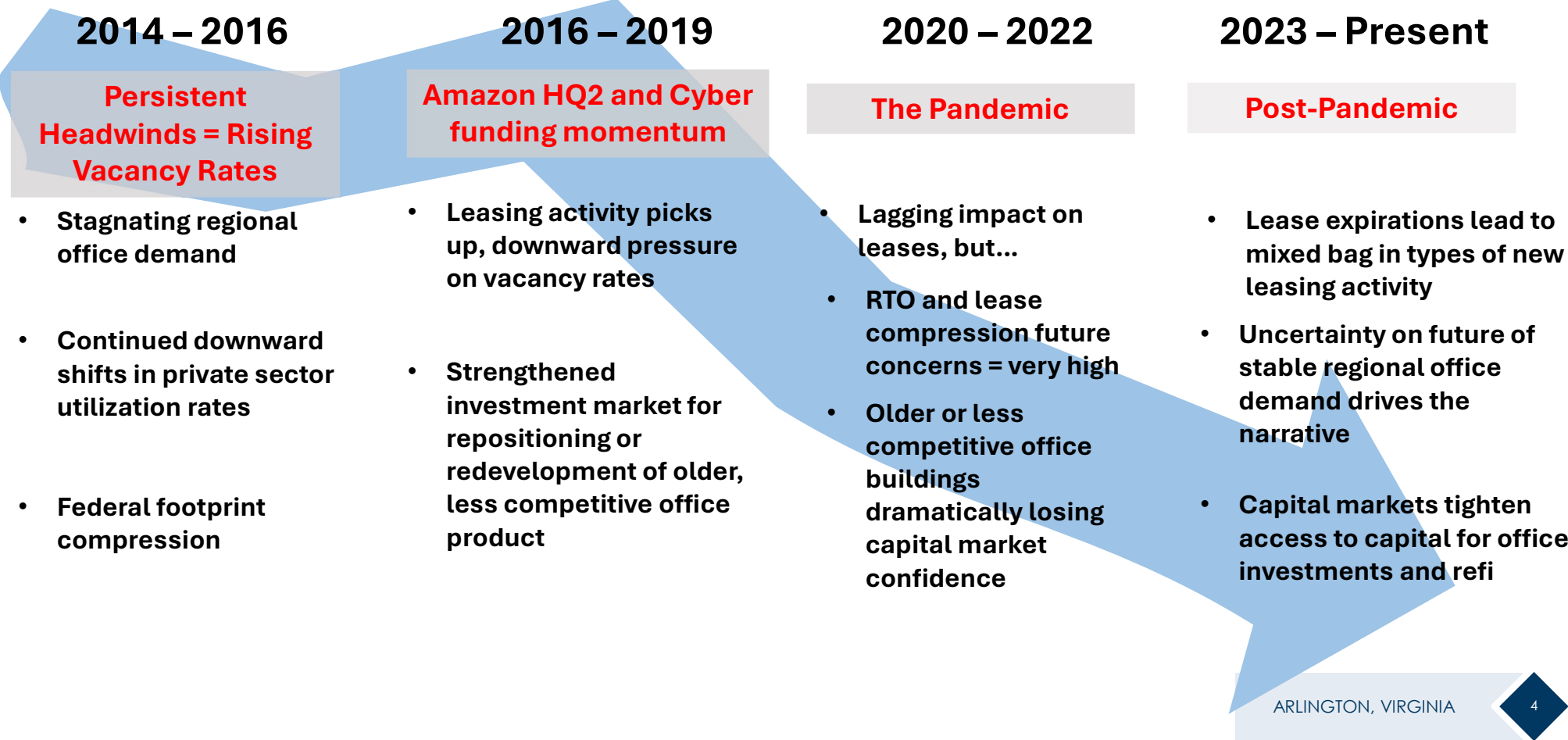


# SEPTEMBER RTA – NOVEMBER CB ACTION



# I. OFFICE MARKET HEADWINDS AND CHALLENGES

# STRUCTURAL SHIFTS IN THE ARLINGTON OFFICE MARKET



# REACTIONS OF OFFICE ASSETS TO MARKET DISTRESS



## “Race to Bottom”

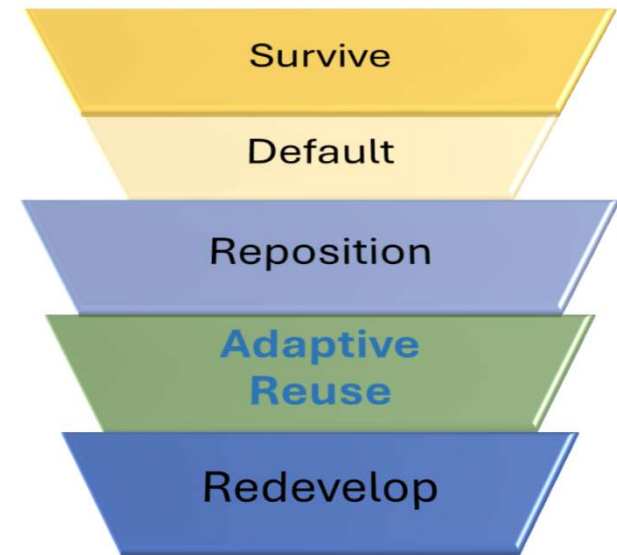
Leasing activity out of desperation driving down income



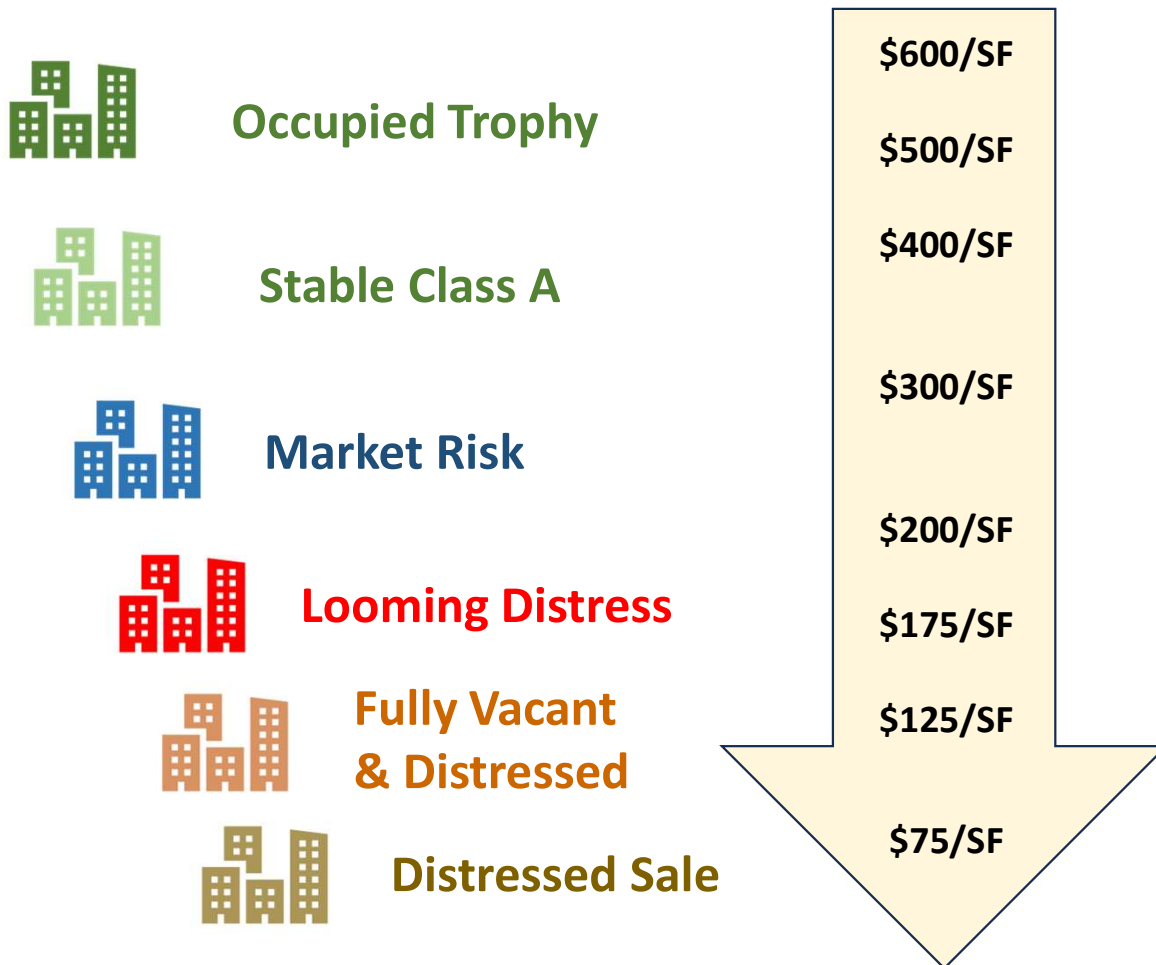
## “Flight to Quality”

Existing Class A/trophy assets benefit from shifting demand, often at no net gain in occupied office space, still challenging rent environment

What happens to less competitive and/or obsolete assets that can't immediately benefit from flight to quality?



# OFFICE MARKET VALUES IMPACTED



- Quality buildings struggle to maintain value given macro trends
- Threats to values: Rising cap rates and significant number BoE appeals
- Value drops are now beginning to show up in the assessment rolls
- Vacancy & need for upgrades to remain competitive and re-lease space key factors of level of distress
- Refinancing challenges triggering defaults
- Distressed sales driving redevelopment and adaptive reuse interest

# THE ARLINGTON OFFICE MARKET – A NEW REALITY

## STRUCTURAL CHANGE UNDERWAY

- Current market distress is not just cyclical, the **oversupply of non-competitive office assets** is a structural challenge to solve.
- The amount of vacant square footage relative to the most optimistic net absorption projections means the **supply and demand does not balance long term.**

## REVENUE IMPACTS LAG BEHIND CURRENT REALITIES

- Commercial tax **assessments are lagging behind new realities.**
- Public sector inaction could result in the **acceleration of market distress.**

## POLICY ACTION FOR STABILIZATION AND INCREMENTAL RECOVERY

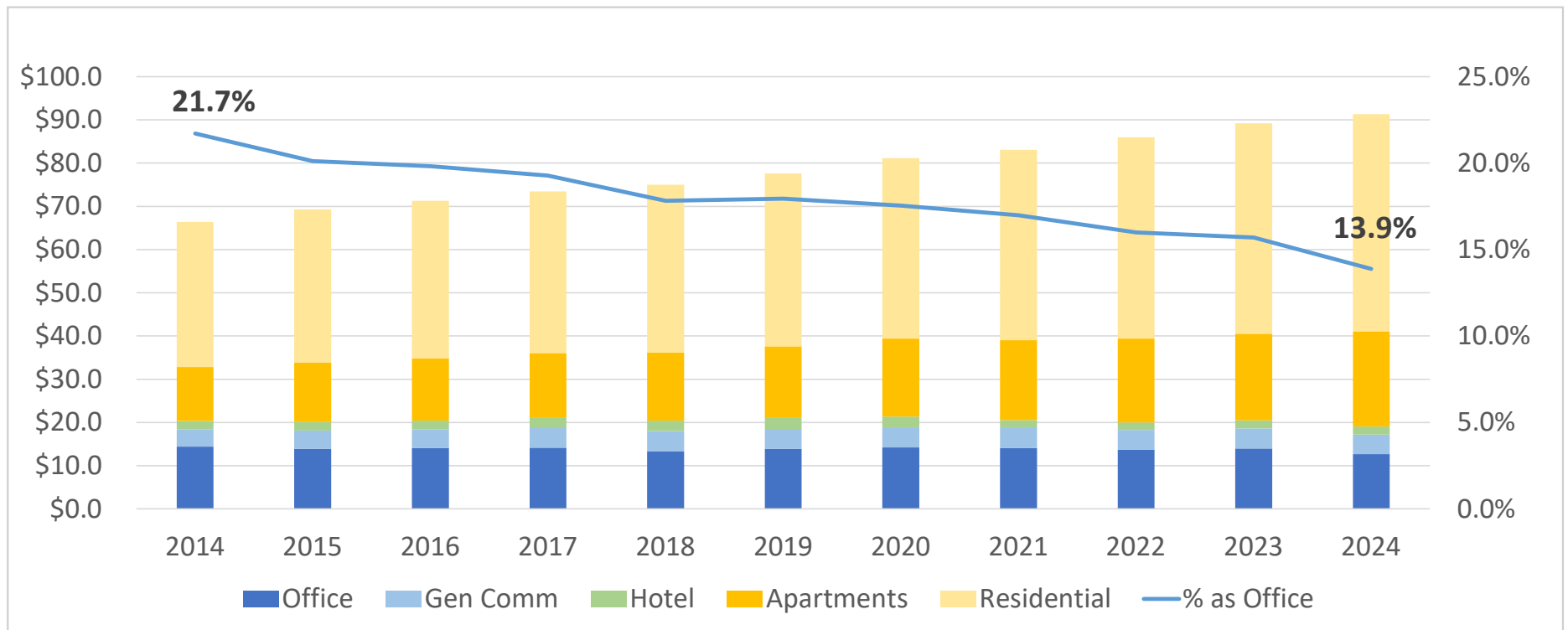
- Significant real estate value has already been lost or is on the immediate precipice, thus **first focus of interventions should be on stabilization.**
- Addressing over supply longer term requires both **policy change and robust and innovative business retention and attraction efforts** to support incremental recovery.

## **II. FISCAL IMPACT OF A DECLINING COMMERCIAL OFFICE SECTOR**



# IMPACT OF COMMERCIAL SECTOR DECLINE

*Assessed Values in Billions by Land Use Type by Year and Percent of Total Assessed Value for Office*



# **III. THE JUSTIFICATION AND OPPORTUNITY FOR PUBLIC INTERVENTION IN THE COMMERCIAL OFFICE SECTOR**

# POLICY APPROACH & REGULATORY REFORM

## *The Value of Starting With a County Board Policy Process*



Provides justification for urgency of action



Establishes a platform for robust consideration of a wide swath of solutions to the commercial market crisis



Allows for specific policy guidance that can facilitate changes in process that improve time and efficiencies for approvals



Provides for further policy discussion/study around more complicated items without disrupting consensus-driven, near-term solutions



Offers clarity to the market by setting near-, mid- and longer-term implementation timelines of considered changes to ordinance and administrative regulations

# OVERARCHING POLICY GOALS

A bold and robust public intervention into the commercial market, specifically efforts to streamline processes and allow for market-driven recovery strategies.

Reduce less competitive and functionally obsolete office inventory to:

- Support the fiscal health and growth of office assets in Arlington
- Remove the performance and valuation drag on viable current and future office properties
- Remove obsolete office properties and transition to alternative use(s)

**The reduction and repurposing of obsolete office building is a PUBLIC PRIORITY that should be reflected in Arlington's processes.**

# FOCUSED POLICY RESPONSES TO MARKET DISTRESS

*Reduce time and money needed to move from obsolescence to market viability*

## Adaptive Reuse

- **Changes in principle use when minimal changes to building form, site development and community benefit assets are maintained**

## Repositioning

- **Substantial building and site upgrades, but principal use is retained**

## Redevelopment

- **Major changes to primary use, building structure and site; or complete demolition and new build**

# **IV. A FIRST FOCUS ON ADAPTIVE REUSE**

# FIRST FOCUS OF POLICY: THE ADAPTIVE REUSE PROCESS

Adaptive Reuse defined as:

- Change in primary use
- Interior fit out/conversion
- Common area upgrades – amenities, storage, etc.
- Relatively little change to building or exterior site
- Exceptions:
  - Ground-floor repositioning
  - Rooftops
  - Terraces/mezzanines
  - Façade refresh
  - Landscaping refresh, outdoor amenities
- No altering of significant community benefit assets
- Nominal increases in density

**Adaptive Reuse: Policy intends to provide specific, near-term guidance on ordinance amendments regulatory changes and administrative guidelines.**

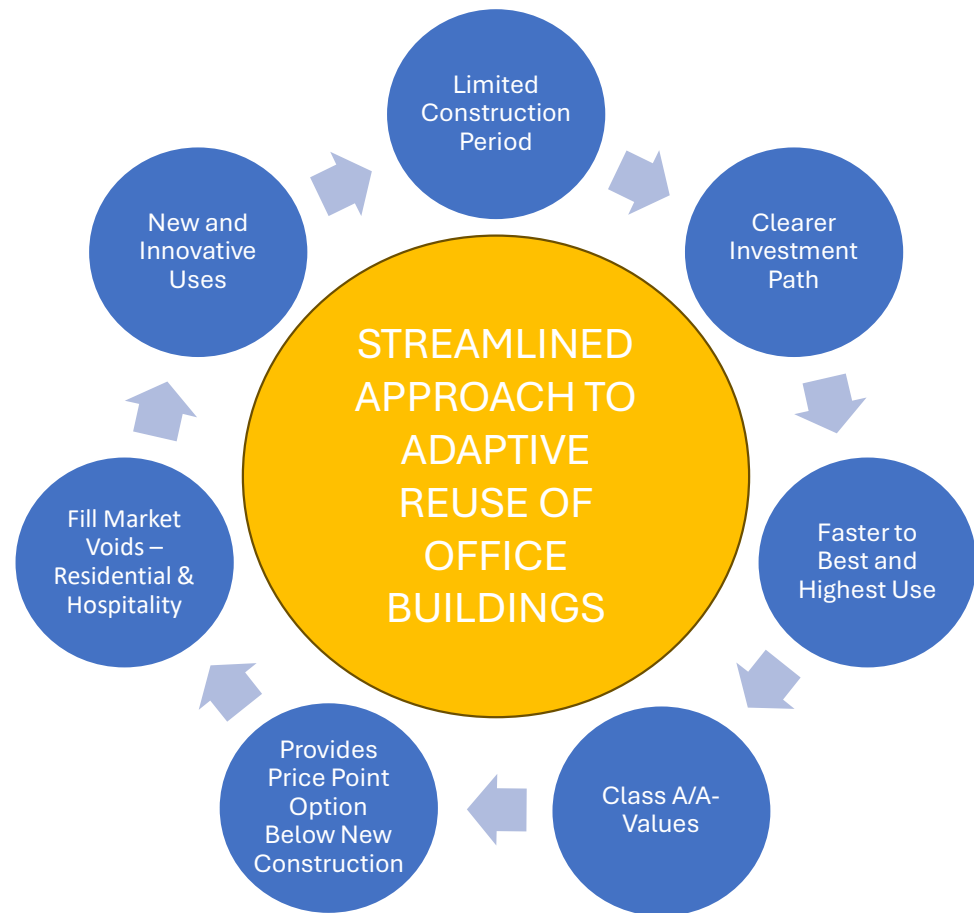
**The process may ultimately include mix of Policy guidance, ACZO amendments, and 4.1 Admin Regs changes.**

# VALUE PROPOSITION OF POLICY ACTION

Bringing distressed office properties back into productive use is a critical path to **incremental recovery of building values**, maintenance of **quality place and placemaking efforts**, and **stabilization of overall fiscal balance**.

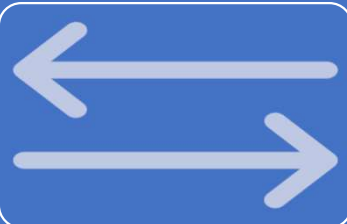
*The adaptive reuse of obsolete office buildings clearly benefits the County...*

*with some potential trade-offs and longer-term impacts.*





# ADAPTIVE REUSE PROCESS CONSIDERATIONS



## What needs to change?

- Embracing risk with the appropriate level of urgency
- Streamlined processes to amend site plans
- Less reliance on policy guidance of building use



## What is success?

- Fiscal stabilization and recovery
- Innovative use of buildings
- Maintenance of dynamic urban places/placemaking



## What are the risks?

- Change from the known level of community review
- Foregoing spots of envisioned transformational change
- Market resistance – nothing happens

# **V. ADAPTIVE REUSE POLICY AND REGULATIONS IN ARLINGTON COUNTY**

# EXISTING PROCESS FOR ADAPTIVE REUSE

## §15.5.3. Scheduling

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### A. Major amendment

Any modification of the approved site plan which meets one or more of the following criteria:

1. Principal use of the building would change in more than five percent of the total floor area of the building.
2. Density would change by more than five percent of the total floor area of the building.
3. Building height would change by more than 12 feet.
4. Gross floor area of the first floor would change in more than 20 percent of the area of the first floor.
5. Change in the site area which is used to calculate density.
6. Any change which the zoning administrator determines is similar in significance to the above stated changes.

### B. Minor amendment

Any modification of the approved plan which is not considered a major amendment and which cannot be approved administratively is a minor amendment. The subdivision of land involved in an approved site plan is a minor amendment, except, that if the following criteria are met, such subdivision may be approved as an administrative change by the zoning administrator:

1. Density allocation is consistent with the zoning and approved site plan;
2. Parking is consistent with the zoning and the approved site plan;
3. Public improvements are consistent with the zoning and approved site plan; and
4. Clear evidence exists that all conditions of the approved site plan have been met or are bonded in a manner acceptable to the county manager.

### C. Administrative change

Any minor modification of the approved site plan which complies with the spirit of this zoning ordinance, the intent of the County Board in its approval of the site plan, and the general purpose of the Comprehensive Plan for the development of the area. Administrative changes may be approved by the zoning administrator.

Adaptive reuse of an existing building approved by site plan is allowed in the ACZO, as defined in 15.5.3...

***However, only per Major Site Plan Amendment***

***Which is time consuming and often costly, which creates a disincentive to pursue this type of investment in existing, obsolete office buildings.***

# CURRENT PROCESS BARRIERS TO ADAPTIVE REUSE

- ✓ Change in primary use requires a **major site plan amendment**
- ✓ **Sector plan specificity limits adaptability** to structural changes in market
- ✓ Existing site plan conditions limit flexibility to change use without potentially triggering updated or additional site plan condition requirements

*The time, cost and uncertainty associated with the current entitlements process limits the ability of owners to secure financing on already risky adaptive reuse projects.*

# LESSONS LEARNED FROM OTHER JURISDICTIONS

## ENTITLEMENT PROCESS

- Each jurisdiction has somewhat different processes
- Key focus – removing a key step or two in process to reduce time

## USES

- Primarily residential, but hotel being looked at
- By-right uses are key to process efficiency

## CRITERIA

- Many began with criteria based upon age
- Constant resetting of criteria questions effectiveness

## ADMIN SUPPORT

- Danger of staff understanding of process starting over each time
- Dedicated staff POC and team is best practice

## BUILDING CODE

- Address code challenged early in the process
- Often relies on most restrictive code elements for multiple uses

## FINANCIAL INCENTIVES

- Mixed-bag of efforts and results
- Needs to be targeted, with criteria, based upon cost-benefit

# **VI. SCOPE OF PROSPECTIVE REGULATORY CHANGE FOR ADAPTIVE REUSE PROJECTS**

# STREAMLINED PROCESS GUIDANCE

## Relationship to current process

- **NEW PROCESS** -- Not amending Minor or Major definitions in ACZO
- Coordination with administrative CMRI workstream on Major-Minor-Admin processes for all site plans
- Timing: **Aiming for 100 days or less to get to approval**

## Method of review and approval

- Administrative path considered and studied – but not viable or sufficient
- Will still end with **County Board Consideration**
- Role of SPRC/PC

## Criteria and limitations

- Approved and constructed site plan projects – no FBC or by right as of yet
- Thresholds – % of office use in a building, % of existing office space adaptively reused
- Age, vacancy, etc. considered but not initially proposed
- **Changes to major community benefits not considered** in this new process

# ROLE OF PC/SPRC IN PROJECT REVIEW

*A key element of both thoroughness of review and timing/certainty from application to final CB consideration*

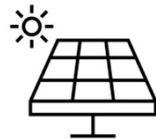
Application Type	SPRC Review	PC Hearing	CB Approval	Typical Timing
Administrative Change	No	No	No	Case-by-case
Minor Site Plan (Typically minor changes to approved building plans and site plan conditions)	No	No	Yes	3 - 5 months
Major Site Plan I (Primarily use change and minimal building changes)	Yes – sometimes just a single meeting	Yes	Yes	6 + months
Major Site Plan II (More significant use and building changes, including types of redevelopment)	Yes – typically 3 SPRC meetings	Yes	Yes	9+ months



# POLICY GUIDANCE: SITE PLAN STANDARDS

*Existing policy guidance and regulations will provide a starting framework for review of adaptive reuse applications.*

*The policy addresses areas where exceptions for adaptive reuse projects may be considered.*



Green Building



Multi-modal  
Transportation



Parking &  
Loading



Streetscape  
Standards



Landscaping and  
Tree Canopy  
Standards



Other Legacy  
Site Plan  
Conditions

*Note: Not an exhaustive list*

# ADDRESSING ADDITIONAL DENSITY REQUESTS

- 1. Will Require Definition/Limits**
- 2. Will Address Methods for achieving – initial goal of limited to no additional costs to earn**
- 3. Potential examples of Additional Density Requests**

Density calculation changes under zoning

Ground-floor bump outs

Inclusion of previously excluded SF

Mezzanines

Terraces

Rooftops

Façade replacement

Conversion of unused parking

# RELATIONSHIP TO SECTOR PLANS

- Sector plans often provide guidance on:
  - Land use, including
    - Preferred land use for a specific site
    - Use mix by block or district within sector plan
    - Use mix by sector plan area
  - New infrastructure or open space in place of existing buildings

2020: Initial effort to understand and consider pathways for site plan applications whose proposed use differs from sector plan guidance

## ADMINISTRATIVE GUIDANCE FOR OFFICE CONVERSIONS

Arlington County  
December 2020

This document outlines the Administrative Guidance for Office Conversions (Administrative Guidance), the purpose of which is to provide consistently applied administrative guidance on Key Areas of Consideration when reviewing office conversion proposals.

### CONTEXT

In August 2014, the Arlington Future Office Market Task Force of the Economic Development Commission (EDC) released a report – *Arlington Future Office Market Study* – outlining some of their key findings relative to systemic shifts in the regional and local office market. This effort was conducted in response to a variety of land use requests to convert existing or planned office uses to other uses, primarily residential. The report stopped short of providing direct guidance on how specific land use requests should be analyzed, but did conclude that a variety of systemic shifts in the regional and local office market require a more flexible approach to the consideration of land use applications that sought to amend the primary use and character of existing or planned office buildings.

In 2020, Arlington remains a highly competitive office location, but within the context of national and regional trends that have dampened overall demand relative to existing and planned supply as well as localized impacts of market events such as loss of leased space through the Base Realignment and Closure (BRAC) Act and shifts in federal government leasing policies. This data provides a baseline for understanding of the current and future status of the Arlington office market.

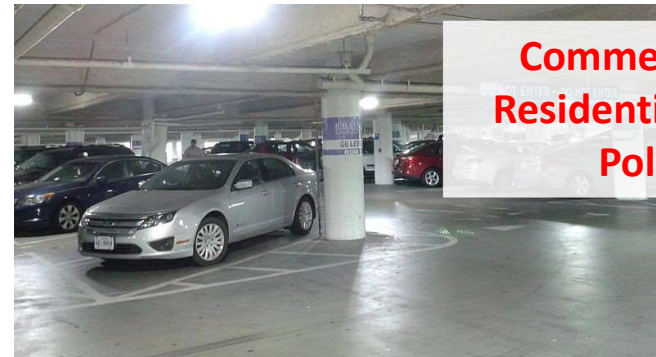
***The new policy shall consider further guidance on how adaptive reuse proposals shall be reviewed when in direct or indirect conflict with adopted sector plans.***

# RELATIONSHIP TO COUNTY POLICIES

## Affordable Housing Master Plan



AN ELEMENT OF ARLINGTON COUNTY'S  
COMPREHENSIVE PLAN  
ADOPTED – SEPTEMBER 2015



**Commercial and Residential Parking Policies**

# **VII. OTHER POLICY GUIDANCE AND CONSIDERATIONS FOR REDUCTION AND REPOSITIONING OF OBSOLETE OFFICE SUPPLY**

# ADDITIONAL POLICY RESPONSES

## NOVEMBER CB POLICY EXPECTED TO PROVIDE GUIDANCE ON FUTURE EFFORTS TO INTRODUCE A WIDER VARIETY OF TOOLS FOR ADDRESSING OBSOLETE OFFICE SUPPLY

### Building Repositioning

- Significant investments made to an existing office buildings that maintains the office use and seeks to increase its quality and competitiveness.
- **Potential redefinition and streamlining of Administrative Change and/or Minor Site Plan Amendment processes** – collaboration with ongoing CMRI workstream
- Much like with adaptive reuse, may look at how to achieve nominal density for related improvements

# ADDITIONAL POLICY RESPONSES

## NOVEMBER CB POLICY EXPECTED TO PROVIDE GUIDANCE ON FUTURE EFFORTS TO INTRODUCE A WIDER VARIETY OF TOOLS FOR ADDRESSING OBSOLETE OFFICE SUPPLY

### Other types of redevelopment that could remove obsolete office supply

1. The adaptive reuse of an office building WITH a significant addition of new density associated with additional floors or building additions.
2. The redevelopment of an office building where major building elements -- e.g., parking or podiums – are maintained.
3. The pre-construction switch of an approved office site to a new redevelopment proposal
4. Full redevelopment in alignment with zoning ordinance and relevant sector plans

***Current process  
for each – a  
Major Site Plan  
Amendment***



# ADDITIONAL POLICY RESPONSES

**A study of future redevelopment in Arlington shall consider the following structural development trends:**

- Interest rate/cost of capital cyclical and stability
- Construction costs
- Alternative construction types
- Land costs/existing building basis
- Community benefits costs and cost certainty
- Impact of cost and revenue trends on preferred redevelopment densities
- Alignment of feasible densities with long range land use plans and expected community benefits

**Future policy elements may consider for one or all of each key elements of the different redevelopment tools**

- Tweaks to major amendment or new process
- Regulations in ACZO
- Standards to apply
- Community review
- Methods for achieving additional density



# ENGAGEMENT PROCESS & FEEDBACK

# PROCESS TO NOVEMBER

- September RTA CB Report
- No later than Oct 1 – publication of draft policy and any potential ACZO changes
- Concurrent Admin Regs draft documents through November
  - Process changes or new language
  - Standard conditions
  - Submittal form
- Input can be provided prior to draft documents
- Future touch points
  - Recorded Lunch and Learn
  - Virtual public meeting: Mid-Oct
  - Commissions and Committees
    - Mid-October LRPC/ZoCo meeting being considered
  - Developer/practitioner “focus groups”

# LRPC DISCUSSION

Depth of challenge and removal obsolete office supply a PUBLIC PRIORITY

Adaptive reuse and the need for a new, streamlined approach to approvals

Elements of a new process that go into Policy, ACZO and/or Admin Regs

Scale of change, increases in density, adaptive reuse building/site standards

Relationship to other County plans and policies

Community review process

Other repositioning and redevelopment tools to consider

# Thank you



CMRI website with online portal:

[Commercial Market Resiliency Initiative –  
Official Website of Arlington County Virginia  
Government \(arlingtonva.us\)](https://www.arlingtonva.us)

## Staff Contact Info:

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703-228-0835

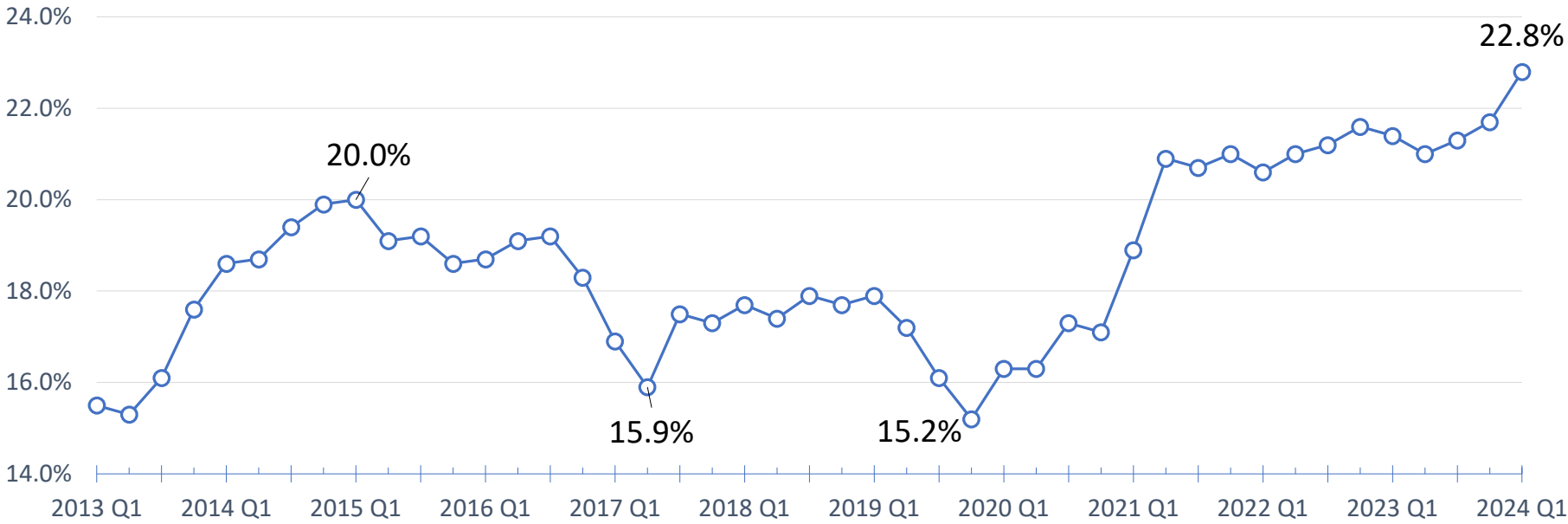
Jill Hunger  
Department of Community Planning,  
Housing & Development (CPHD)  
[jhunger@arlingtonva.us](mailto:jhunger@arlingtonva.us)  
703-228-0832



# ADDITIONAL SLIDES

# THE STATE OF THE ARLINGTON COUNTY OFFICE MARKET

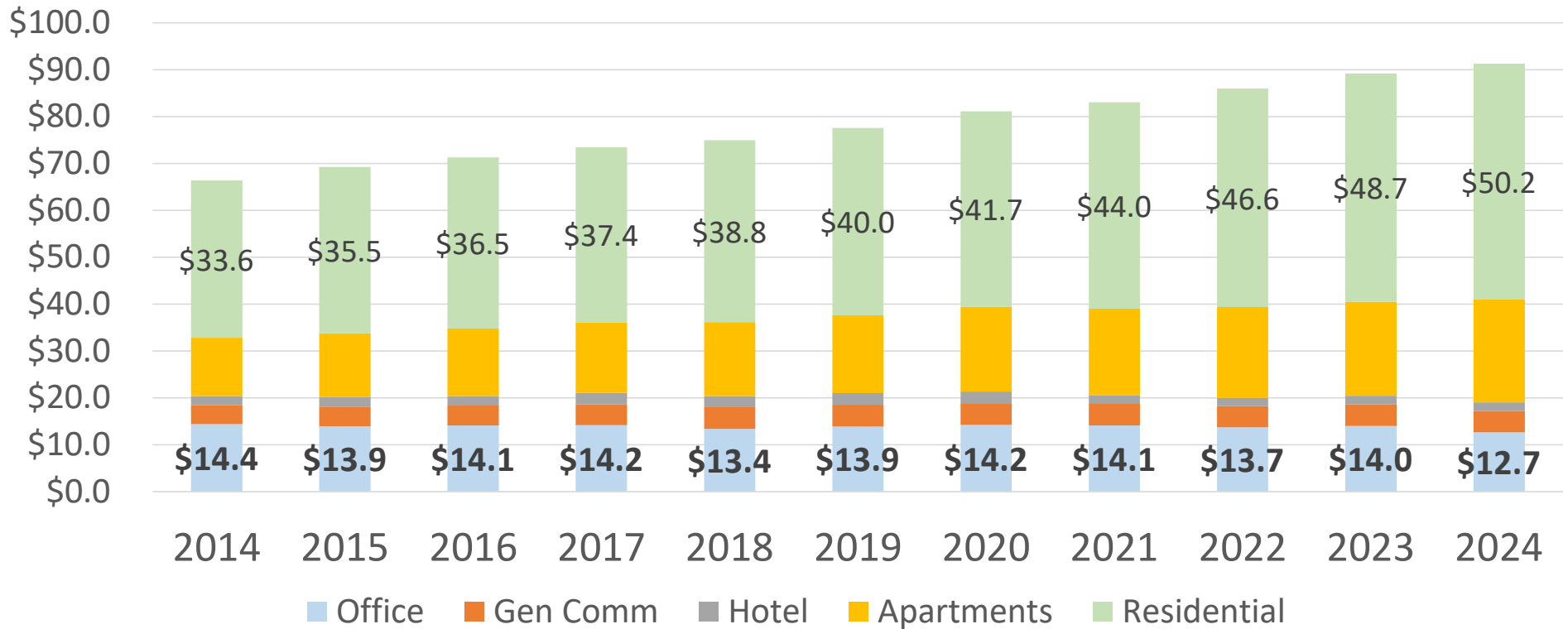
## Office Vacancy Trends, Arlington County, 2013-2024



Source: CoStar 4/3/24, AED

# IMPACT ON ARLINGTON'S FISCAL BASE

## Assessed Values by Land Use Type by Year In Billions



# IMPACT ON ARLINGTON'S FISCAL BASE

**Office Property Taxes per Year and Cumulative versus Base Year (2014) and Accrual Growth (2.5%/year) Scenarios**

