

COUNTY BOARD POLICY ON THE TRANSFORMATION OF COMMERCIAL OFFICE BUILDINGS IN ARLINGTON

**As Adopted by the Arlington County Board
on November xx, 2024**

Arlington County Board

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DISCLAIMER

This version of the Policy document represents a preliminary draft version made publicly available to allow for further, robust County analysis and public discussion of the desired outcomes of the policy and its specific areas of guidance. Future versions of this draft will highlight any significant document changes that occur as the result of this further analysis and engagement up until the release of a final draft version prepared for County Manager recommendation and County Board consideration. As such, policy statements made in this draft are intended to provide a baseline for discussion, and in no way represent final findings and recommendations from the County Manager or any current County Board intent to adopt any specific policy guidance.

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List of Policy Statements

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| I | Introduction |
| Foundational Policy Guidance | A bold public policy and regulatory intervention is required to urgently address the adverse economic and fiscal impacts on Arlington of a declining commercial office sector AND to establish as a <u>public priority</u> new or amended policies, programs and regulatory processes that support and incentivize private-market efforts to transform the supply of existing, obsolete office buildings to more productive uses. |
| II | The State of Arlington’s Office Market |
| II.1 | Arlington’s office market is facing structural demand and supply challenges that will impact office market performance for the foreseeable future. |
| II.2 | Arlington continues to face strong office demand headwinds and efforts to generate and capture new sources of office demand are critical to addressing a declining office market but will likely not be able to sufficiently fill the large amount of vacant office space in Arlington in a reasonable amount of time. |
| II.3 | The continued significant presence of obsolete office supply will continue to place a drag on the overall office sector performance despite any realistic growth in office demand capture. |
| II.4 | Arlington’s office market exposure to widespread office building distress and default put Arlington in a precarious position, but also presents an opportunity to combine our strong economic foundation with bold, forward-thinking action to transform distressed assets and reimagine our urban landscape. |
| II.5 | The elimination of Arlington’s inventory of obsolete office supply is critical to office market stabilization and capturing this once in a generation opportunity. |
| II.6 | Adapting to and recovering from the challenges facing the office sector requires bold and urgent public intervention; specifically the easing of regulatory hurdles to allow for market-driven solutions. |
| III | The Impacts on Arlington of a Declining Market Sector |
| III.1 | Values are declining rapidly and drastically for Arlington office properties across the spectrum of quality and performance due to an overall weakened market and loss of investor confidence, with a cratering of values for older, noncompetitive buildings viewed as obsolete and thus worth only the value of the building or land for alternative uses. |
| III.2 | The ability of Arlington to provide clear and consistent paths to repurposing obsolete office supply will remove this noxious supply from the office market while increasing values of office properties sold for repurposing, thus establishing a higher office value floor. |

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| III.3 | Arlington has experienced a steady, multi-decade trend of a reduced commercial office assessment base that is now rapidly deteriorating further, with the true impact of most recent value corrections yet to be fully realized in property assessments. |
| III.4 | The impact of the office market value declines on available tax revenues is projected to be significant and truly threatens Arlington’s over fiscal health and its ability to fund core investments and services that benefit the entire Arlington community. |
| III.5 | A stagnant supply of obsolete, chronically vacant office buildings has strong negative impacts on neighborhoods and place, ranging from lack of activity, declining customer base for local businesses, and poor maintenance and management of abandoned assets leading to aesthetic and public safety concerns. |
| IV | Arlington’s Policy Response to the Commercial Office Market Crisis: Justification and Opportunities and the Costs of Inaction |
| IV.1 | A <u>bold, forward-thinking and urgent policy response</u> to Arlington’s commercial office sector challenges, specifically all efforts to eliminate current and future obsolete office buildings and introduce more productive uses on those sites, is justified given the negative impact of a declining office market has on Arlington’s overall health as a community and the significant costs of inaction. |
| IV.2 | Programmatic and regulatory approaches to effectuate elimination and repurposing of obsolete office supply shall be considered a <u>public priority</u> alongside other County priorities and goals. |
| IV.3 | County policy and regulations that help repurpose obsolete office space is required regardless of seismic shifts in how workspace is being continually redefined but should reflect and continually adapt to changing market realities, most notably with a focus away from concepts of use towards buildings as vessels for all forms of human activity. |
| IV.4 | Various market-based opportunities for eliminating and repurposing obsolete office space exist in the marketplace but currently face significant regulatory hurdles. |
| IV.5 | County processes for the review of projects that remove obsolete office buildings should be streamlined to remove any unnecessary or impeding regulatory hurdles, time, and costs. |
| IV.6 | A streamlined process will require a shift in how the County has typically approached the review and approval of land use proposals with less focus on risk aversion and the acceptance of measured building and site standards tradeoffs to achieve viable, impactful projects. |
| IV.7.a | The inability to streamline processes for projects that remove and repurpose obsolete office buildings will limit the optimal number of projects seeking land use approvals due to the time of the review and overall |

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| | uncertainty of entitlement outcomes not aligning with investor decision-making timelines. |
| IV.7.b | The inability to streamline processes for projects that remove and repurpose obsolete office buildings will limit the optimal number of projects that are financed and delivered due to application of ambitious site conditions and community benefits deliveries that aligned with County goals and priorities but that are not economically supportable. |
| IV.8 | <p>The design of a streamlined process for projects that remove and repurpose obsolete office buildings should at a minimum consider:</p> <ul style="list-style-type: none"> A. A new process that is clear to follow in both the ACZO and Admin Regulations (or new administrative companion piece). B. Amended site plan amendment application checklist to require documentation of only those elements of a land use approval, building and site that are significantly changing. C. Focus of detailed staff review to primarily the truly impactful building, site and impact elements of a proposal given the scale of the project. D. A more concise community engagement structure. E. Reflect the broader County benefits of repurposing obsolete office buildings while evaluating and applying adopted sector plans if a project type presents some conflicts with long-term, transformative goals. F. Limiting or amending the application of current County goals and policies if such aspirational requirements are viewed as in direct conflict with economic viability of certain project types. G. Limiting or amending the application of current County site plan conditions and standards typically applied to conventional site plan development reviews if they are found to be inconsistent with the scale of the project and/or impact the proposed project viability. H. Changing approaches for evaluating proposed building modifications, such as additional height or density, that reflects the repurposing of obsolete office buildings as a public priority. I. Amending other aspects of legislative and administrative review and approval that may be appropriate given the public priority of obsolete office building repurposing. |
| V | A Regulatory Framework for the Adaptive Reuse of Obsolete Office Buildings |
| V.1 | The first focus of a new regulatory framework for the Adaptive Reuse of obsolete office buildings reflects their limited neighborhood but high potential market impact, the existing gap between ease of current processes and impacts of Adaptive Reuse, the ability to use Adaptive Reuse regulatory reform as a “test case” for future, broader regulatory changes across the options for addressing obsolete office supply, and the core |

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| | advantages of Adaptive Reuse relative to speed to market and opportunities to accommodate alternative uses. |
| V.2 | Arlington should pursue a new, discrete streamlined regulatory process for the legislative approval of site plan amendments to adaptively reuse obsolete office buildings. |
| V3.a | The Adaptive Reuse regulatory framework should initially limit applications to proposed site plan amendments and consider additional criteria regarding age of the building, the percentage of the existing building that is office and percentage that is proposed to change, and appropriate purposes for any requested increase in density. |
| V.3.b | The Adaptive Reuse regulatory framework should not consider applications that seek to increase height through additional stories, add significant new building additions, significantly alter existing site design and/or request vacations of public land or easements, or alter standards or community benefits commitments established by previous approvals in exchange for bonus density. |
| V.4 | The streamlined Adaptive Reuse process should focus on efficient review timelines that includes, if appropriate, innovative approaches to community engagement and Commission/ subcommittee review and deliberation, and as such this Policy directs staff to further work with the Planning Commission to develop an Adaptive Reuse review and engagement framework. |
| V.5 | In Adaptive Reuse projects, modifications of height and density should be considered in accordance with building improvements related to the investment in change of principal use but still reflect relatively minimal changes to building form and limited negative impacts on the surrounding neighborhood. |
| V.6 | Application of County goals, policies and standards to Adaptive Reuse applications should reflect the core guidance of this Policy that repurposing of obsolete office buildings is a public priority and that projects that do not proceed to completion deliver no benefits at all, and therefore the policy goals, site plan standards and requirements applied to Adaptive Reuse projects must reflect tradeoffs necessary to achieve project viability. |
| V.6.a | Adaptive Reuse projects are very unlikely to be able to financially support committed affordable or reduced rent units and thus should be exempt from affordable housing requirements in the ACZO, until such a time the ability of such projects to accommodate more affordable units is reevaluated or additional federal, state or local resources are brought to bear. |
| V.6.b | Guidelines for energy performance and green building upgrades sought for Adaptive Reuse projects should reside in the most current version of the GBIP with a distinct section on Adaptive Reuse, and such guidelines should broadly reflect the primary purpose of Adaptive Reuse projects are the fiscal |

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| | and placemaking benefits and thus carefully consider tradeoffs of maintaining project economic viability and more ambitious green building standards, as well as an acknowledgement of the built in benefits of building systems replacements, building exterior improvements and embodied carbon savings associated with Adaptive Reuse projects. |
| VI | Other Tools to Achieve the Repurposing of Obsolete Office Buildings |
| VI.1 | Staff should continue to bring forward for County Board consideration amendments and additions to ACZO use tables to allow for uses and activities that may leverage and support repurposed office buildings, such as but not limited to live-work concepts, self storage and data centers. |
| VI.2 | Review processes for switches from a principal office use building after entitlement, inclusion in a phased development site plan or identified for specific use guidance in a sector plan but prior to construction should seek a major site plan amendment and utilize the current practice of utilizing the <i>Administrative Guidance for Office Conversions</i> during the review process, but future consideration should be given to updating the administrative guidelines and presenting it as Board-approved policy. |
| VI.3 | The County should pursue with similar urgency to Adaptive Reuse the streamlining of processes for approval of building modifications for the purposes of <u>repositioning existing office buildings</u> which is a key tool for both repurposing obsolete office buildings and providing a high-quality inventory of office spaced to maximize tenant demand retention and attraction. |
| VI.4 | Staff should study the tools for streamlining the review and approval of significant modifications to projects that seek to <u>adaptively reuse an existing structure AND add additional stories of height or building density</u> , with a guiding principle that these processes should be more efficient and timely than a ground-up redevelopment project and tools may be made available for these projects to earn additional height and density through the application of obsolete office building repurposing as a public priority. |
| VI.5 | For redevelopment projects that demolish the primary office building structure but <u>retain and build upon existing building elements</u> such as podiums or structure or below-grade parking, staff should study the tools to earn additional height and density and provide some process streamlining for redevelopment, through the application of obsolete office building repurposing as a public priority as well as acknowledgement of the speed and environmental benefits of maintaining significant building elements |
| VI.6 | Staff should study the current methods for identifying the earning additional heights and densities for conventional redevelopment projects where an office building was removed within the context of whether application of this Policy and the repurposing of obsolete office buildings as |

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| | a public priority should allow for new tools such as density or height credits that will compete with other land use policy goals and public priorities. |
| VI.7 | While the primary tools of this Policy focus on regulatory tools and practices that act like financial incentives in terms of cost savings, study the use of direct financial incentives to achieve the repurposing of obsolete office buildings, accelerate market response and/or introduce more significant realization of other County goals, policies or standards, either through local sources and programs that have passed a robust analysis of the costs and benefits of incentives and/or leveraging available federal or state resources. |

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I. Introduction

The Commercial Market Resiliency Initiative (CMRI) was established in April 2022 with the primary objective of identifying ways that Arlington County can respond to the quickening pace of economic change and innovation, shifting consumer behaviors and expectations, and business practices through removing regulatory barriers to achieve market-based solutions. CMRI provided the foundation for the public discourse around the level of creativity, boldness and urgency required to address the serious challenges to Arlington’s fiscal health and stability caused by a declining commercial office sector.

The *County Board Policy on the Transformation of Commercial Office Buildings in Arlington* (“Policy”) is an element of the CMRI. The Policy seeks to restructure how the County processes one major aspect of the commercial office market challenge – the current and future damages caused by a declining office sector and the persistent presence of a large supply of obsolete office space. More specifically, the Policy is intended to establish:

1. A policy foundation for further policy, regulatory and programmatic intervention into the challenge facing Arlington’s commercial office market and related fiscal health; and,
2. An understanding of the elements of the current and future commercial office market challenges; and,
3. An understanding of a weakened commercial office sector’s impact on Arlington’s fiscal balance and stability; and,
4. Policy guidance on the urgency and significance of public intervention into the identified impediments to commercial office market stabilization and recovery, most notably the repurposing of obsolete office buildings; and,
5. Relationships of this policy to other County policies and goals; and,
6. Direct, near-term policy guidance on potential amendments to County policies, ordinance, regulations and practices related to the adaptive reuse of obsolete commercial office buildings; and,
7. Policy guidance and direction on the future study of improvements to policies, ordinance, regulations and practices related to other important tools for transforming Arlington’s office buildings, including office building investment and repositioning and various forms for redevelopment; and,
8. Policy guidance on the hurdles and guardrails for future study of any use of financial incentives that leverage policy and regulatory efforts to support and incentivize office building reuse, repositioning or redevelopment.

The Foundational Policy Guidance of this document is:

FOUNDATIONAL POLICY GUIDANCE

A bold public policy and regulatory intervention is required to urgently address the adverse economic and fiscal impacts on Arlington of a declining commercial office sector AND to establish as a public priority new or amended policies, programs and regulatory processes that support and incentivize private-market efforts to transform the supply of existing, obsolete office buildings to more productive uses.

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II. The State of Arlington’s Commercial Office Market

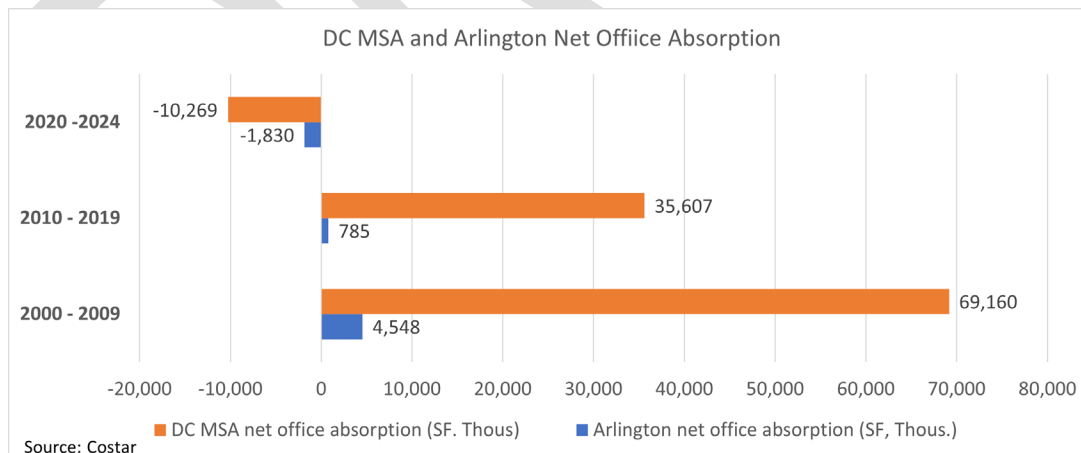
Arlington’s commercial office sector is experiencing historical challenges. Due to a combination of macro and micro trends, tenant demand for square footage of office space is stagnant. At the same time, aging office buildings that comprise a significant portion of Arlington’s office inventory are less effective competing for available office tenancy. The result is declining office building performance, most notably rising vacancy rates, lower net rents and declining values across the entire Arlington office sector.

Policy Statement II.1

Arlington’s office market is facing structural demand and supply challenges that will impact office market performance for the foreseeable future.

Structural office demand challenges in Arlington

Office demand, often measured as the net change in occupied office space or net absorption, has been essentially stagnant in Arlington for more than two decades. Since 2000, Arlington has a total net absorption of 3.5 million square feet, or under 4% of the regional total. This diluted market share is less than half of the percentage of regional occupied office square feet in Arlington in 2000. In other words, on the demand-side, Arlington has lost ground regionally, even more so when you consider phase one of Amazon’s HQ2 accounted for approximately two million square feet of net absorption.



The reasons for Arlington’s persistent office demand challenges are multifold. Office tenants have been incrementally incorporating workplace concepts around formal telework, hoteling and collaborative office designs to more become more efficient and right-size their office space utilization rate. While this is a macro-level trend, it inordinately affects higher-cost office

locations such as Arlington, where tenants are even more aware of office occupancy costs and the need to be efficient in space planning.

Competition from other quality and emerging office submarkets in Northern Virginia has increased significantly over the past two decades, specifically the proliferation of mixed-use office environments. This suburban/urban mixed-use concept was a competitive advantage that Arlington used to hold over most other locations. Further, the expansion of Metro’s Silver Line has mostly closed the transit gap. This increased level of competition has clearly challenged Arlington’s market share of regional office demand.

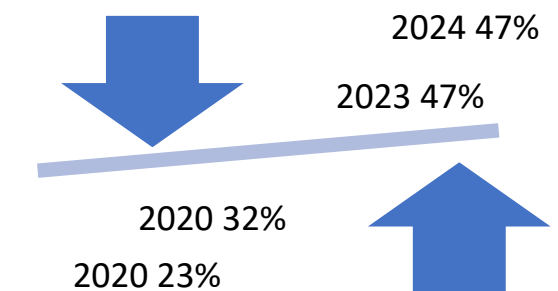
But much of the answer is associated with past, system-level shocks such as the movement of approximately four million square feet of leased space out of Arlington due to the Base Realignment and Closure (BRAC) process. Arlington was forced to play catch up to backfill large blocks of vacant space.

At a slower but more painful burn, sustained federal policies have significantly altered the federal footprint in Arlington by pushing government leasing efforts to achieve greater space utilization, consolidation, and lowest occupancy cost. Arlington struggles to compete with lower-cost locations. Federally leased space accounts for approximately 13% of all leased space in Arlington in 2024. This is a sharp reduction over the past two decades. In 2004 the amount of federal leased space accounted for nearly 30% of Arlington’s leased office inventory.

The nearly 5.4 million square feet of federal leased space that remains in Arlington today is still at risk. The federal footprint strategy in Arlington thus focuses on retaining the core agencies that generate broader economic growth, primarily through contractor “tail” and technology research and development. However, a further reduction in federally occupied space and structural limitations on net new federal leasing volume are clear realities for Arlington’s office sector looking forward.

The pandemic has added another, structural challenge to office demand. The dramatic and sudden shift to a work-from home model at scale called into question the very utility of brick-and-mortar office space during and coming out of the pandemic. Data shows that the average employee attends the office less than half of the week. This current reality has had market-altering impacts on future leasing volume and investor confidence in the office sector as a whole.

**Northern Virginia Average Weekly Office Attendance
April 2020 to March 2024**



Source: JLL, Kastle Systems

Efforts to Increase Office Market Demand

Efforts to increase market demand for office space in Arlington focus on both:

- Growing “the pie”, or increasing the total amount of regional office demand, through leveraging core competitive strengths, cultivating of high-growth economic sectors, creative use of public-institutional-private partnerships, and regional marketing and cooperation, among other strategies, and;
- Arlington capturing a larger piece of the regional pie, or office demand market share, through marketing, outreaching, placemaking and quality of life investments, production of competitive office supply, and process and financial incentives, among other strategies.

The Commercial Market Resiliency (CMRI) 1.0 work looked at opportunities to expand allowable uses in commercial spaces in Arlington to help fill vacant office space and increase the presence of placemaking tenants that would encourage return-to-office.

All these demand-inducing strategies, public policies and actions are critical resource investments but must still operate within the macro and structural demand limitations discussed above. Even more so, the pace of net absorption over the past 25 years, even if it was doubled, would take a generation or more to reach office market stability.

Policy Statement II.2

Arlington continues to face strong office demand headwinds and efforts to generate and capture new sources of office demand are critical to addressing a declining office market but will likely not be able to sufficiently fill the large amount of vacant office space in Arlington in a reasonable amount of time.

Policy Statement II.3

The continued significant presence of obsolete office supply will continue to place a drag on the overall office sector performance despite any realistic growth in office demand capture.

Arlington’s office supply

With the vacancy rate hovering around 24% in 2024, there is approximate ten million square feet of vacant space on the market in Arlington. A large share of the vacant or soon-to-be vacant

space is in older buildings much of which of is challenged to remain competitive for new tenant demand. Approximately 74% of Arlington’s vacant space is in buildings built in 1994 or earlier. Of particular concern to older assets is the trend of tenant flight to quality buildings and locations. This leaves older, less competitive properties as under threat of tenant loss and eventually holding chronically vacant space. In many cases the physical attributes of older office properties, with inefficient floor plates, low ceilings, and inefficient building systems combined with vacancies result in buildings that are functionally obsolete.

Ongoing analyses by Arlington Economic Development on the state of Arlington’s office inventory has found:

- 78 of the 326 buildings in Arlington were determined to be “At-Risk” for market distress and significant value distress
- 26 buildings at the top end of the distress metric
- 22.3M SF of RBA in “At-Risk” buildings, or 50.9% of total RBA
- 7.7M SF of vacant space in “At-Risk” buildings, or 75.4% of total vacant space

A building in distress is the result of many factors, including chronic vacancies, future vacancy risks, low quality of office spaces and amenities, and capital and financing disruptions, among others. The result of large movement of buildings into distress is a drag on the market. Large blocks of vacant or available space creates an oversupply condition with high levels of competition for new leases, thus placing a downward pressure on rents market wide. Large blocks of office buildings in distress, specifically in buildings that are poorly positioned, creates leasing desperation.

Policy Statement II.4

Arlington’s office market exposure to widespread office building distress and default put Arlington in a precarious position, but also presents an opportunity to combine our strong economic foundation with bold, forward-thinking action to transform distressed assets and reimagine our urban landscape.

A specific focus must be placed on the elimination and repurposing of distressed and/or obsolete office supply to address the demand-supply imbalance. The significant presence of this dead or dying office stock has the broadest impacts on office market viability and stability, office market values, and County fiscal health. Removing obsolete office stock addresses the denominator (total office square feet) of the vacancy problem and allows healthy office stock to stabilize its occupancy and rents. The repurposing of obsolete office supply both removes the negative impacts associated these buildings as well capturing the opportunities to utilize those building or sites, in a land constrained environment, for higher and better uses.

Arlington does maintain competitive location strengths to able to compete for its share of regional office tenant demand, particularly if it maintains a stock of high-quality office buildings in attractive and amenity-served locations.

A demand-led office market recovery in Arlington is not likely. Public intervention must address the structural oversupply of office space to reach market stability. Inaction will likely lead to full blown crisis.

Policy Statement II.5

The elimination of Arlington’s inventory of obsolete office supply is critical to office market stabilization and capturing this once in a generation opportunity.

While reducing obsolete office supply, Arlington should also look for opportunities to support new or repositioned office production for tenants seeking best-in-class, modernized and/or customized build-to-suit spaces. Many of these tenants in many of Arlington’s key growth and

Policy Statement II.6

Adapting to and recovering from the challenges facing the office sector requires bold and urgent public intervention; specifically the easing of regulatory hurdles to allow for market-driven solutions.

target sectors, such as headquarters spaces and mature tech companies. Adding new commercial space may also allow for innovations that can capture niche but growing demand segments and create a unique competitive advantage for Arlington.

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III. The Impacts on Arlington of a Declining Office Sector

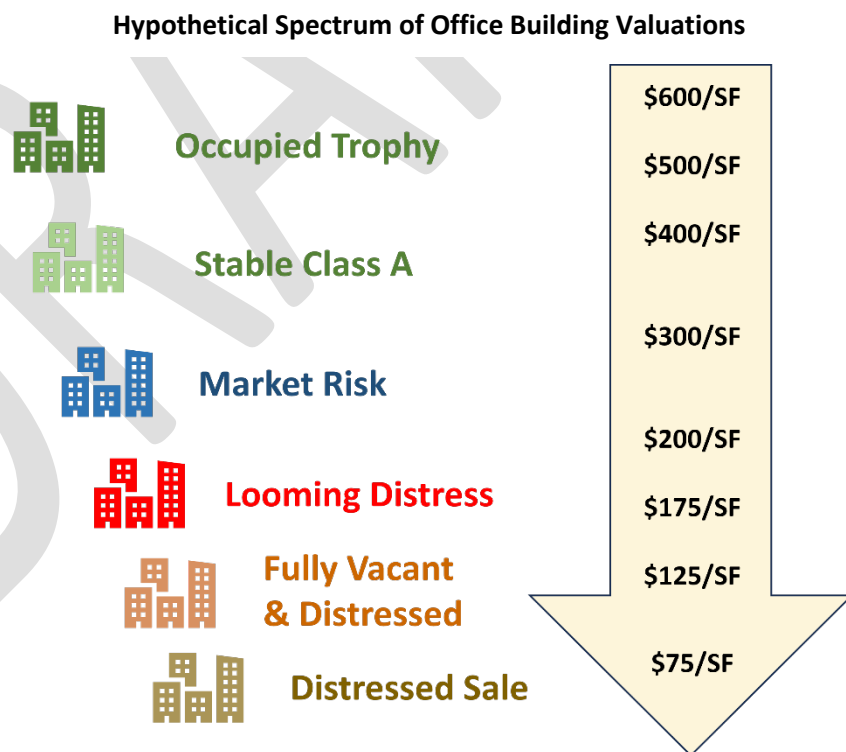
The challenges facing the Arlington County office market are significant. The challenges have significant negative impacts on Arlington and its residents. The impacts are felt in two areas:

- Fiscal health and stability of tax revenues. Significantly declining office building values rapidly result in significantly lower real property taxes year over year. Empty office buildings don't support other business taxes such as business licenses (BPOL) and business tangible personal property taxes or taxes derived from area businesses that benefit from office worker spending.
- Impact on the place and quality of life: Lower tax revenues limits the ability of Arlington to fund core public services and infrastructure. At a neighborhood level, empty office buildings result in a degradation of place.

The anatomy of value loss in commercial office buildings

Arlington's office market has a valuation problem. Office building values are dropping rapidly due to declining building income and rising cap rates. Arlington has already observed significant value declines in a range of office properties, from vacant and distressed assets to more healthy assets with

decent occupancy and decent rents. Even buildings at the top end of the market are impacted. It is now typical to see recent valuations drop of 40-60% in buildings generally once viewed as healthy. Assessments often lag the market corrections by a year, but similar value corrections are now showing up in the tax rolls.



Policy Statement III.1

Values are declining rapidly and drastically for Arlington office properties across the spectrum of quality and performance due to an overall weakened market and loss of investor confidence, with a cratering of values for older, noncompetitive buildings viewed as obsolete and thus worth only the value of the building or land for alternative uses.

The most significant value declines are in older, less competitive properties with significant vacancy or looming vacancy risk. In these cases, even competing for new tenants with low rents is not a viable strategy, given better building options elsewhere also willing to compete on rents. These buildings soon become chronically vacant whose value is solely attached to the value of the building (or land) for repurposing to an alternative use. Distressed office sales are showing up at 20% or less of the value of a healthy office product. The value of an office asset whose sole worth is repurposing is greatly affected greatly by the ease, certainty, and costs of entitlement processes.

Policy Statement III.2

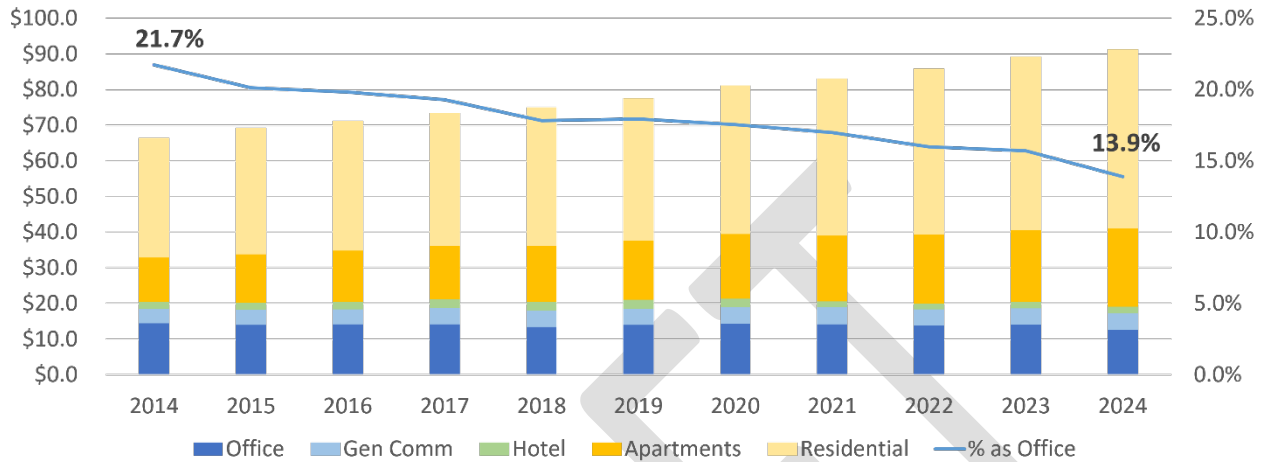
The ability of Arlington to provide clear and consistent paths to repurposing obsolete office supply will remove this noxious supply from the office market while increasing values of office properties sold for repurposing, thus establishing a higher office value floor.

Office sector assessed value trends in Arlington and their tax impacts

Arlington's commercial office assessments have been stagnant in nominal terms for the past decade, and when adjusted for inflation has shown a sharp decline. In 2004 office building assessments were at \$14.4B, or just under 22% of total real property assessments in Arlington. By 2024 office building values drop to \$13.9B, or 14% of total assessments. The biggest threat

may still be to come, as further degradation of office values observed in recent in sales and refinancings have not yet fully hit the assessments.

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



Source: Arlington County Department of Real Estate Assessments

Arlington has long been the benefit of a ~50/50 balance of commercial and residential tax base, where cyclical volatility in one sector can be supported by strength in other sectors, and more critically where the ability to provide world-class services and public investments did not overly burden residents. The commercial to residential ratio now stands at 45/55. As the commercial office sector has shown value declines, the overall commercial market value has been supported by significant value growth in commercial apartments through strong market performance and significant addition of new supply. Any cyclical disruption to the commercial apartment market, such as delays in construction starts as has occurred in the past 12 months, will no longer provide the cushion for rapidly declining office values.

The loss of direct real property revenues due to a declining office sector are substantive fiscally:

- If office values had merely stayed the same from 2014 to 2024, with no change in value due to inflation, the County would have collected over \$60M dollars in increased revenue.

Policy Statement III.3

Arlington has experienced a steady, multi-decade trend of a reduced commercial office assessment base that is now rapidly deteriorating further, with the true impact of most recent value corrections yet to be fully realized in property assessments.

- If an inflation rate of 2.5% is applied, this revenue loss over the ten years rises to over \$310M. This is does not even suggest real, robust growth in the office sector over this time.
- Another 20% drop in 2024 office values will result in annual revenue losses of \$29M.

Policy Statement III.4

The impact of the office market value declines on available tax revenues is significant and truly threatens Arlington’s over fiscal health and stability and its ability to fund core investments and services that benefit the entire Arlington community.

The declining commercial tax revenues greatly impedes the ability of the County to fund growing needs in key areas of public services, programs, and infrastructure investments. Further threats of tax revenue decline make it hard to realistically project out future years of tax revenues and plan for necessary capital expenses that benefit the long-term health of Arlington. Within the dire recent and future commercial tax revenue picture is the reduced revenues associated with 12.5 cent additional tax on commercial properties that is a significant, dedicated source for transportation investments in Arlington.

Commercial market decline impacts on quality of place

Policy Statement III.5

A weakened office sector leads to sharp drops in values which leads to reduced tax revenues that are available to pay for key services, programs, and infrastructure. This has an impact on Arlington’s overall quality of life.

A stagnant supply of obsolete, chronically vacant office buildings has strong negative impacts on neighborhoods and place, ranging from lack of activity, declining customer base for local businesses, and poor maintenance and management of abandoned assets leading to aesthetic and public safety concerns.

At the neighborhood level, the presence of several vacant, and even more so distressed or defaulted, office buildings have a significant negative impact on the neighborhood aesthetic and sense of place that can create a market performance and value spiral, where a declining quality of place can affect the viability and value of all real estate properties.

- Lack of human activity in a building, such as workers entering and exiting a building several times a day, can reduce the overall sense of street activity, vibrancy and safety.
- Lack of a daytime population reduces the consumer dollars that support restaurants, retailers, and service providers that help support the amenity base for all residents, workers, and visitors.

- Office buildings in distress often are not most effectively managed, leading to conditions such as persistent vacancy in ground floor spaces and deferred aesthetic maintenance of landscaped areas, sidewalks, street furniture, etc.
- At its worst, abandoned properties fall into full disrepair and are an aesthetic nuisance and potential threat to public safety.

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IV. Arlington’s Policy Response to the Commercial Office Market Crisis: Justification and Opportunities and the Costs of Inaction

Policy Statement IV.1

A bold, forward-thinking and urgent policy response to Arlington’s commercial office sector challenges, specifically all efforts to eliminate current and future obsolete office buildings and introduce more productive uses on those sites, is justified given the negative impact of a declining office market has on Arlington’s overall health as a community and the significant costs of inaction.

Arlington’s commercial office market’s structural challenges threaten the future of Arlington’s the fiscal stability and quality of place. The direct negative impact on revenues – specifically the assessed values of existing office buildings – has been significant and could worsen. The indirect negative impacts on our urban neighborhoods’ sense of place impacts many other fiscal revenue sources and the quality of the Arlington experience for broad swath of residents, workers, and visitors in those neighborhoods.

The reduction in direct and indirect tax revenues associated with a declining office sector impact Arlington’s future ability to fund the wide variety of core public infrastructure and service investments that maintain Arlington’s overall quality of life. The cost of inaction will be potentially severe, as today’s challenged if left unaddressed could approach a crisis level and future public interventions, in that context, could become reactionary and desperate.

Thus an urgent and bold public response is required with a focus on regulatory reform and streamlined processes to best clear the path for market-based solutions. And the elimination and repurposing of obsolete office buildings is established, per this Policy, as a public priority, which places processes furthering these efforts in a unique place in Arlington’s ordinances and regulations, specifically providing the County Board to modify some land use regulations. Often public priorities are established, such as affordable housing, sustainable design, or community facilities that are meant to mitigate the impact of the modifications. In this case, the repurposing of obsolete office space is a priority to mitigate the impacts of the very presence of obsolete office buildings.

Market options for repurposing office buildings in Arlington

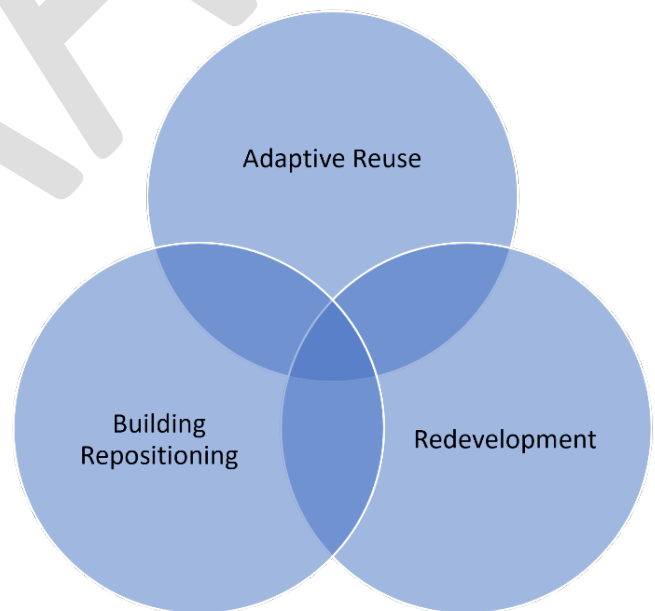
Policy Statement IV.2

Programmatic and regulatory approaches to effectuate elimination and repurposing of obsolete office supply shall be considered a public priority alongside other County priorities and goals.

The Policy should address and support the spectrum of potential actions that could lead to the repurposing of obsolete office buildings into more viable and productive assets.

- The adaptive reuse of an office building, generally defined as a change in all or part of the principal use of the building from office to an alternative use(s) with minimal changes to building height, building massing and site development and design.
- The repositioning of an office building, generally defined as changes made to an existing building to increase its competitiveness and often requiring some minimal changes to building form and amendments to existing site plan conditions and standards.
- Redevelopment of current office building sites, generally defined as proposals that seek more significant changes to building height, building form and gross density, and site development and design, that potentially have greater impacts than existing building reuse alone, including:
 - The combination of adaptive reuse and redevelopment, where the principal office use is proposed to change and building structure is maintained in full or in part AND the proposal of additional stories of height, significant changes to building form and density and/or alterations of existing site development and design may result in changes in the building's impacts on and off site.
 - The redevelopment of an existing office building and its site where the existing structure is demolished and rebuilt, but elements of the past structure such as building podiums or structured and below-grade parking are maintained and changes to site design and development vary, which results in a different analysis of impacts and benefits than conventional redevelopment.
 - The more conventional practice of the complete redevelopment of an existing office site with complete building and site redesign, often as guided by sector plans or other land use policies.

Pathways for Office Building Transformation



A Policy to adapt to shifting market conditions and support for healthy office supply

The Policy represents a bold response to this challenge through the removal of regulatory barriers to allow for the widest spectrum of appropriate private market response to the damaging supply of obsolete office space. This may imply an overall sense that the Policy suggests that the office sector as a whole should shrink and/or that decades-long visions of use balance in Arlington and its neighborhoods are foregone.

While the reduction of total square footage in office buildings may indeed be reduced over time, this Policy also does support market-based efforts to also add competitive supply through:

- The repositioning of existing office space through significant new investments;
- The construction of new office inventory; and,
- The development of new, innovative uses that reflect the changing nature of how buildings will be used in the future.

Specifically, at its core is the question – “In the future, what is an office building?” – that this Policy intends as a first step to allow the market to shape and define.

Permanent teleworking, entrepreneurs starting businesses in home offices or in third places, the spectrum of co-working concepts, and nonresidential spaces being designed as convening rather than working spaces are just a few examples of the blurring of definitions of office use. The expectation is that soon the sense of balance will be solely focused not on some outdated definition of use, but instead as a spectrum of human activity where buildings are merely the vessel.

Policy Statement IV.3

County policy and regulations that help repurpose obsolete office space is required regardless of seismic shifts in how workspace is being continually redefined but should reflect and continually adapt to changing market realities, most notably with a focus away from concepts of use towards buildings as vessels for all forms of human activity.

Regulatory and process challenges to repurposing obsolete office supply

Policy Statement IV.4

Various market-based opportunities for eliminating and repurposing obsolete office space exist in the marketplace but currently face significant regulatory hurdles.

In general, there are elements of the current County’s policies, regulatory framework, and processes that, unintentionally in many cases, present barriers to repurposing of obsolete office buildings in the most effective and efficient way. In practice, from staff

review to community engagement to County Board consideration, the County review processes typically are diligent efforts to provide flexibility, creativity, and sensitivity to private market hurdles. However, the regulatory framework as prescribed in the Arlington County Zoning

Ordinance (ACZO) and Administrative Regulations 4.1 Governing the Submittal of Site Plans (“Administrative Regulations”) and implemented through approved 4.1 special exception site plans present barriers to remove and reuse obsolete office space efficiently and effectively. Such barriers include:

- A change in principal use of a building of more than five percent (5%) is defined in the ACZO as requiring an applicant to go through the major site plan amendment process.
- Major amendment processes can be costly (in terms of application fees), time consuming, and final outcomes can be unclear (specifically in terms of costs of site plan standards and community benefit contributions).
- The process can lead to iterative changes to the proposal due to ongoing staff analysis and community review. This can create further time delay and entitlement uncertainty.
- The accommodation by the applicant of County requested changes to the building or site (and sometimes even off-site improvement requests) can be costly and uncertain, making it very challenging to maintain project cost control.
- Elements of the ACZO create inflexibility for modifications to certain aspects of site plans.
- Allowed uses of occupiable space is prescribed in the ACZO, so new trends where space could be used more flexibly or fluidly are challenging to accommodate.
- Site plan conditions are unique to the site (even standard site plan conditions applied to all site plans change over time), interwoven among each other and often overly prescriptive so that quick administrative review and change and even legislative consideration.
- Site plan conditions often require certain commitments and standards that when reviewed years later are unclear as to purpose and benefit of application.
- The review process often must, in real time, integrate and balance competing County policies and goals to the detriment of clear guidance to the applicant and expected outcomes.

Policy Statement IV.5

County processes for the review of projects that remove obsolete office buildings should be streamlined to remove any unnecessary or impeding regulatory hurdles, time, and costs.

Opportunity of a streamlined review process

Land use proposals that remove and reuse obsolete office space should be considered for a streamlined approach. A streamlined approach is defined as a new or amended process that seeks to reduce some or all of the following:

- The elements of a site plan required to submit an application;
- The time to appropriately review such an application;
- The uncertainty of process outcomes; and,

- The cost associated with the requirement of development standards and/or community benefits, specifically through application of the reuse of obsolete office buildings as a public priority through the existing incentive-based zoning structure.

Policy Statement IV.6

Addressing the challenges and looming crisis, specifically the removal and repurposing of obsolete office buildings, will require a shift in how the County approaches the review and approval of land use proposals, with acceptance of measured tradeoffs to achieve viable, impactful projects.

A hallmark of Arlington County’s process has been its thorough, detail-focused review and approval of site plans, a focus on certainty of outcomes through site plan conditions, and achievement of ambitious site plan standards and community benefits contributions through its incentive-based zoning approach. Under any context the County and community site plan review process must allow for an appropriately thorough review of the impact of any proposal on the immediate neighborhood and broader community.

Changing review processes are not without real challenges and tradeoffs, particularly how to manage guidance in long-range sector plans, dueling County policies, community expectations, and general adherence to processes that have been in place for decades.

A streamlined approach places a specific type land use proposal in the proper context of the broader desired outcomes for the County, the potential need for tradeoffs between County goals and standards and project viability, and the need to accept a greater albeit still acceptable level of risk of unknown impacts associated with land use approvals. An assessment of true level of risk associated with new processes should be

Policy Statement IV.7.a

The inability to streamline processes for projects that remove and repurpose obsolete office buildings will limit the optimal number of projects seeking land use approvals due to the time of the review and overall uncertainty of entitlement outcomes not aligning with investor decision-making timelines.

Policy Statement IV.7.b

The inability to streamline processes for projects that remove and repurpose obsolete office buildings will limit the optimal number of projects that are financed and delivered due to application of ambitious site conditions and community benefits deliveries that aligned with County goals and priorities but that are not economically supportable.

weighed against the urgency to respond to the identified threats of the commercial market crisis. The County processes should be more willing and able to quickly react to market opportunities and embrace bold and innovative proposals by the private market to address obsolete office supply.

The inability of the County to develop new, streamlined pathways for the removal and reuse of obsolete office will maintain in place barriers for market-based solutions to the daunting challenges facing the County. This cost of inaction is of greater risk than targeted alterations to some aspects of land use review for the reuse and repurposing of obsolete office buildings. The County must avoid the mirage of false tradeoffs – following a process seeking upgrades to buildings and sites that meet ambitious County standards and goals but in fact getting none of those benefits nor the fiscal and placemaking benefits of repurposing of obsolete buildings when the proposed, transformative projects are not economically viable.

Design of a streamlined approach

The process for reviewing proposals to remove and repurpose obsolete office supply should reflect the need for urgency to remove and repurpose obsolete.

- The key differentiators of certain type of proposals as it relates to the elements and significance of change building and site requests; and,
- How the review process can and should vary from the review and application of development/site standards of conventional redevelopment proposals; and,
- What aspects of the proposed project do require specific mitigation of impacts, and which mitigation efforts typically applied to site plans are not necessary in a streamlined approach; and,
- How the policy guidance that the removal and repurposing of obsolete office space is a public priority clarifies tradeoffs and application of the County’s incentive-based zoning framework; and,
- The benefits associated with the retention of all or some of an existing building or its site infrastructure (e.g., parking, access, streets and streetscapes, landscaping areas and open space, etc.); and,
- The perspective, requirements, and hurdles of the private investor for these types of investments, specifically:
 - the challenge of acquiring financing for more risky or innovative types of investments, such as projects seeking to repurpose obsolete office buildings, and
 - the need for an investor to have a clear sense of upfront costs, and
 - the need for an investor to maintain cost control up to closing on construction financing, and

- the increased speed of decision-making required for projects repurposing obsolete office buildings due to the immediacy of market opportunities (e.g., distressed assets coming onto the market).
- The desired and achievable ability to reduce review and approval times and lower costs of uncertainty and site plan amendment requirements.

Policy Statement IV.8

The design of a streamlined process for projects that remove and repurpose obsolete office buildings should at a minimum consider:

- A. A new process that is clear to follow in both the AZCO and Admin Regulations (or new administrative companion piece).
- B. An amended site plan amendment application checklist to require documentation of only those elements of a land use approval, building and site that are significantly changing.
- C. Focus of detailed staff review to primarily the truly impactful building, site and impact elements of a proposal given the scale of the project.
- D. A more concise community engagement structure.
- E. Reflect the broader County benefits of repurposing obsolete office buildings while evaluating and applying adopted sector plans if a project type presents some conflicts with long-term, transformative goals.
- F. Limiting or amending the application of current County goals and policies if such aspirational requirements are viewed as in direct conflict with economic viability of certain project types.
- G. Limiting or amending the application of current County site plan conditions and standards typically applied to conventional site plan development reviews if they are found to be inconsistent with the scale of the project and/or impact the proposed project viability.
- H. Changing approaches for evaluating proposed building modifications, such as additional height or density, that reflects the repurposing of obsolete office buildings as a public priority.
- I. Amending other aspects of legislative and administrative review and approval that may be appropriate given the public priority of obsolete office building repurposing.

Tracking the impacts of the repurposing of obsolete office space

Bold policy and regulatory interventions into the commercial office market are intended to have significant impact stabilizing the office market, reducing negative fiscal and placemaking impacts, and ultimately resulting in net positive benefits to Arlington County. The success of public actions in creating these positive impacts will be judged over years.

Other types of potential impacts may be a consequence of the success repurposing office buildings to alternative uses. These alternative uses will have different impacts on areas such as transportation and public services than conventional office did, and certainly different than vacant office buildings. Arlington staff should more routinely monitor and report any identified impacts that would need to be mitigated. In some areas of regulatory reform, such as a streamlined process for the adaptive reuse (or also called conversion) of office buildings, the scale of activity should be somewhat limited and easier to track and evaluate in terms of total impacts.

Arlington has also been developing a fiscal impact model that should be ready to utilize in the first half of 2025. The use of this model will not be to analyze the impacts of individual projects at the entitlement phase, but to use hypothetical building typologies to provide a holistic view of the fiscal impact of development trends over time. This tool could be used, similarly, for a holistic view of the fiscal impact of efforts to encourage obsolete office building repurposing.

V. A Regulatory Framework for the Adaptive Reuse of Obsolete Office Buildings

Adaptive reuse regulations as first focus of the Policy

The removal of obsolete office buildings, stabilization and recovery of the office market, and a broader shift towards viewing buildings as hubs for human activity rather than defined uses will take a variety of forms. A restructured regulatory framework addressing all elements of needed change at once would be daunting, time consuming, and thus not meet the urgency that is required to deal with the immediacy of the challenges facing Arlington. This Policy directs that the first substantive regulatory reform should focus on the Adaptive Reuse of obsolete office buildings.

Adaptive reuse for the purposes of this Policy is defined as:

“For one or more buildings within a site plan project, a request to change the principal use of office to an alternative use(s) that also includes primarily interior building alterations and minimal changes, as further defined, to the exterior of the building, building height, form and density, and site design and development.”

Policy Statement V.1

The first focus of a new regulatory framework for the Adaptive Reuse of obsolete office buildings reflects their limited neighborhood but high potential market impact, the existing gap between ease of current processes and impacts of Adaptive Reuse, the ability to use Adaptive Reuse regulatory reform as a “test case” for future, broader regulatory changes across the options for addressing obsolete office supply, and the core advantages of Adaptive Reuse relative to speed to market and opportunities to accommodate alternative uses.

The County expects that the universe of currently or soon-to-be obsolete office buildings that will seek an Adaptive Reuse as defined is limited to less than a dozen properties over the first several years of new regulations, with three to five applications expected in the first 12 to 18 months. The general limitations on Adaptive Reuse are more attractive redevelopment or repositioning options, physical attributes such as ceiling heights and floor plate dimensions that make conversion to an alternative use challenging, and the complexity of these projects that results in a niche financing opportunity. However, Adaptive Reuse was chosen as a first step to address with regulatory reform because:

- The scale of activity of site plan amendments would be relatively limited and thus a good “test case” of broader regulatory reform.

- The impact on surrounding neighborhoods should be modest given minimal change to building height or form.
- The scale of activity while modest, also could have significant immediate market impact with over a million square feet of repurposed to alternative uses.
- The speed to market following land use approvals is a fraction of that of redevelopment.
- The current gap from the time and cost of current approval processes for this type of site plan amendment to the real impact of such changes on building form and neighborhood impact was significant.

Advantages of Adaptive Reuse projects

There are several critical market advantages to the Adaptive Reuse process for repurposing obsolete office supply:

- A limited construction period provides speed to market that allows for more rapid transformation of the building, efficient capture of market opportunities, and realization of fiscal and place benefits for the County.
- Mostly interior construction and a shortened construction timeline reduces greatly the impact of nuisances on the neighborhood typically associated with new construction.
- Ability to deliver higher and better uses and fill identified market voids.
- Opportunity to deliver innovative building types serving a broad range of activity.
- Market-rate rent and price points are typically positioned below new construction thus offering greater cost diversity in the stock of alternative uses, such as housing.

Lessons learned from other jurisdictions.

Cities and counties across the region and U.S. have recognized the crucial role of revitalizing vacant and underutilized buildings for new uses. Specifically, as the most notable comparable jurisdictions, the City of Alexandria, Fairfax County and the District of Columbia have all advanced efforts to address obsolete office supply through adaptive reuse (also typically referenced as conversions). While market conditions, regulations, and development patterns are unique in each jurisdiction, many experience a common set of challenges, including inflexible zoning and development standards, parking requirements, and inflexible building codes, that inhibit the reuse of buildings. This section focuses on key takeaways from regulatory solutions other communities have used to expand reuse opportunities.

- Policies that have the greatest impact provide maximum flexibility and more specifically remove 1-2 key steps in the entitlement process to increase certainty and reduce time. There was no identified silver bullet, given the unique nature of entitlement processes among relevant jurisdictions. While other challenges exist, such as financial gaps, that other jurisdictions also sought to address, the first and primary focus was on

- Strict criteria for eligibility loosen over time. Several communities have regulations that limit adaptive reuse policies to older building stock (e.g., 1960s/70s) and in specific neighborhoods. Eventually, this strict criteria stifles opportunity and the pool of eligible conversion projects with no real or perceived benefits to those communities, and as such criteria is continually readjusted to meet market opportunities over time. As one example, Alexandria has opted to approach each case with openness and flexibility on a case-by-case basis. Given Arlington's limited size and scale of potential opportunities, the County should not limit the pool of eligible projects by age or market status of the building stock, location in the County, or other criteria.
- Greater flexibility of long-range plans increase certainty and reduce process. Fairfax County amended its Comprehensive Plan in 2016 and later in 2018 to facilitate repurposing of vacant office buildings. Like in Arlington, changes in use requires an authorization of an amendment to the Comprehensive Plan by the Board of Supervisors if the proposed use is not consistent with the planned use. This proposed amendment established guidance for considering uses other than those envisioned by the adopted Comprehensive Plan for vacant office buildings in certain mixed-use centers as well as industrial areas, thus streamlining the process. In addition to any changes to Arlington County's Comprehensive Plan and in the Zoning Ordinance, sector plans can prescribe uses at specific sites that limit the flexibility of adaptive reuse. To achieve the same impact as Fairfax County, Arlington should consider how an adaptive reuse policy impacts the entire process impacting eligible uses – from the Comprehensive Plan to Sector Plans to the zoning ordinance and eventually to site plans.
- Some form of legislative review and approval is still the norm. While other jurisdictions have peppered in administrative pathways as part of the adaptive reuse or conversion processes, the legislative nature of an initial approval most often requires a legislative approval to amend. This is the case in Arlington. However, administrative paths are not in and of themselves a cure all, and the focus of successful communities has been on streamlining in the best and legally allowable ways the process from application to review and approval.
- Flexible administrative regulation and practices help projects conform existing building to new needs. A range of administrative and legislative reforms were viewed as best practices to achieving best results. Alexandria focuses less on written changes to regulations but strongly pushes trust in a staff review culture that is focused on flexibility. clear communication with the developer/applicant within existing processes, and administrative discretion to problem solve without formal guidance. Fairfax County has more formalized in its regulations as they permit minor design modifications with specific conditions. Arlington likely has restrictions on what is legally able to be modified administratively as well as a culture where legislative transparency is highly valued. Continued testing of the regulatory reforms for Adaptive Reuse could further consider greater administrative authority if its presents a clearer path to more streamlined processes.

- Dedicated staff point of contact and/or team is best practice. A rapid response team and/or a Point of Contact to facilitate internal coordination and liaise with the developers and the community will help streamline process and retain institutional knowledge of policy and process. Other jurisdictions have learned this lesson and now have one or more staff designated specifically to coordinating adaptive reuse projects. Arlington should pursue a similar level of administrative efficiency.
- Building code challenges should be addressed early in the process and often relies on the most restrictive code elements for multiple uses. The State Building Code has discrete requirements for unique uses. This is particularly important for flexible, live-work projects where there could be more than one use in each unit at a given time. Once the purpose or level of activity within a building changes the state building code necessitates a change in application of the requirements. To enable live-work projects to occur, Fairfax County, Alexandria, and others circumvent the issue by requiring the developer to apply the most prescriptive part of the code so that if use changes, additional construction to meet code requirements would not need to occur. Arlington will focus on building code implications early and often in the implementation phase of the new regulatory framework.

Many jurisdictions have also introduced financial incentives on top of improved regulatory frameworks to further accelerate the repurposing of obsolete office buildings. This Policy provides guidance in Section VI for staff to further study the use of a wide variety of incentive tools in Arlington.

A new regulatory framework for adaptive reuse

Arlington County should pursue a new regulatory framework that provides for streamlined administrative review and legislative approval of site plan amendments to obsolete office buildings. Specifically, the regulatory framework should:

- Create a new discrete process in the ACZO that is clearly defined and where the path from application. This Policy guides against amending existing site plan amendment process as defined in the ACZO both for the purposes of clarity for Adaptive Reuse applicants and to not unintentionally conflate the Adaptive Reuse process with other proposals to amend site plans.
- Utilize all tools available to create this new regulatory framework, including amendments to the ACZO, amended Administrative Regulations or some other form of new administrative guidelines, and the application of the guidance provided in this policy. Final determination of which regulations should be codified in the ACZO versus provided in administrative regulations will be determined at the time of County Board approval of any ACZO text amendments.

Policy Statement V.2

Arlington should pursue a new, discrete streamlined regulatory process for the legislative approval of site plan amendments to adaptively reuse obsolete office buildings.

- Require final legislative approval. While various forms for administrative approvals were considered and studied by staff, the finding is that given the legislative nature of initial site plan approvals that significant amendments to those existing site plans would also require a legislative act. In any case, legislative approval should not be considered a tradeoff on timing, complication, and certainty, as such regulatory barriers can exist to the same or even greater extent with administrative approvals.

Policy Statement V.3.a

The Adaptive Reuse regulatory framework should initially limit applications to proposed site plan amendments and provide additional criteria regarding age of the building, the percentage of the existing building that is office and percentage that is proposed to change, and appropriate purposes for any requested increase in density.

- Attempt to address optimal and realistic timing of process from receipt of completed applications to County Board consideration. The general policy goal is a process significantly shorter than the existing process of a major site plan amendment, with a reference to a “100-day process” to encapsulate the spirit of that goal. The 100-day policy guideline however must be further translated into realistic timing regarding time for staff review, community engagement and Commission/subcommittee dates, and advertisement and preparation of materials for public hearings. The ACZO may or may not codify a minimum standard for timing for Adaptive Reuse site plan amendments; as a point of reference, the ACZO currently codifies a minimum of 120 days for major site plan amendments to reach the County Board although the process for typically takes significantly longer.

Policy Statement V.3.b

The Adaptive Reuse regulatory framework should not consider applications that seek to increase height through additional stories, add significant new building additions, significantly alter existing site design and/or request vacations of public land or easements, or alter standards or community benefits commitments established by previous approvals in exchange for bonus density.

Criteria to limit Adaptive Reuse amendments to site plan approved projects, initially

The ACZO should limit proposed Adaptive Reuse amendments to existing approved and constructed site plans with a primary office use. By-right projects are those approved under the Columbia Pike form-based code are not reflected in these changes given the desire to focus on the impactful yet complicated process of repurpose obsolete site plans.

Future County efforts could consider also addressing Adaptive Reuse of projects approved by means other than site plans, including by right projects. Further consideration will also be given to how to apply, if at all, the Adaptive Reuse framework to projects that may have been approved by right but are then seeking site plan approval.

Other Criteria and limitations

Criteria and limitations for eligibility of site plan amendments to pursue the Adaptive Reuse process set the appropriate guardrails for staff review and public expectations. Criteria and limitations can either be codified in the ACZO or provided in administrative regulations, or both.

The criteria will focus on the priority of providing change in principal office use for existing office buildings. The ACZO may consider thresholds for percentage of a building comprised of office and the percentage of the existing office use proposed to change. Total allowable changes to overall building form will be limited by purpose that is in line with the relatively minimal changes to building form acceptable through the new Adaptive Reuse process.

Further limitations on site plan amendment eligibility for the Adaptive Reuse process should further clarify the intent of this policy and the following ordinance changes and regulations. These further limitations should include:

- Increases in height through the construction of additional stories, although converting a rooftop into occupiable square footage is able to be considered;
- New building additions beyond those typically associated with ground-level investments and bump outs;
- Vacation of existing easements (to the extent such vacations may be required to implement an Adaptive Reuse project, that vacation process should be able to be pursued outside of this process); and,
- Any diminishment of standards or community benefits previously committed to within an approved site plan in exchange for bonus density.

If an application does not meet criteria and/or exceeds the limitations, there remains the option to pursue site plan amendments per existing process, such as the major site plan amendment process, or in other processes developed in the future per guidance in this Policy.

Requested changes to the Arlington County General Land Use Plan (GLUP) for an Adaptive Reuse proposal would need to be coordinated with the current rules around GLUP change reviews.

Application submittal requirements

The Administrative Regulations or a similar administrative document will provide the detailed application submittal requirements, otherwise known as the submittal “checklist.” The checklist should differ from that of a major site plan amendment, with a focus of an Adaptive

Reuse submittal checklist on providing only those exhibits that are required for the streamlined review of the proposal.

Policy Statement V.4

The streamlined Adaptive Reuse process should focus on efficient review timelines that includes, if appropriate, innovative approaches to community engagement and Commission/ subcommittee review and deliberation, and as such this Policy directs staff to further work with the Planning Commission to develop an Adaptive Reuse review and engagement framework.

amendments are not reviewed by either the SPRC or PC, unless under special circumstances. Major site plan amendments are typically reviewed by both the SPRC and PC. The Adaptive Reuse site plan amendment process should likely fall somewhere in between.

Modifications to height and density

Adaptive Reuse has been established in this Policy as a public priority. The modifications to height and density are justified as key, supporting elements of a land use application that achieves that goal of repurposing office space. In particular, the ACZO should codify the following elements of a site plan amendment that can be modified, including but not limited to:

- Density above the underlying zoning district is achieved without amendments to building height or form, most typically associated with per acre zoning districts where conversions from office to alternative uses loses the project base density;
- Rooftop uses that were not included in the approved site plan or were previously excluded from gross floor area;
- Previously excluded density in the interior of the building;
- Building façade changes that affect exterior wall widths;

Elements of the community review process

The Adaptive Reuse community review process should focus on time and efficiency. This efficiency should not be the result of less than thorough community review and discussion, but instead through a combination of utilization of innovations related to pre-recorded presentations, live online chats/office hours, and online comment portals and message boards.

Staff should also engage with the Planning Commissioner chair to discuss the appropriate role of review by the Site Plan Review Committee (SPRC) and the Planning Commission (PC) as a whole. In current practice, minor site plan

Policy Statement V.5

In Adaptive Reuse projects, modifications of height and density shall be considered in accordance with building improvements related to the investment in change of principal use but still reflect relatively minimal changes to building form and limited negative impacts on the surrounding neighborhood.

- Ground- and second-floor infill, or extensions that create a projection in an existing, exterior wall;
- Addition of mezzanine spaces;
- Addition of covered balconies or terraces that qualify as occupiable square feet;
- The conversion of gross parking area, as determined by the County Board to be unnecessary to the functioning of the building per existing minimum parking requirements in the ordinance or County Board policy, to gross square footage; and
- Other increases in density the County Board finds are in a similar purpose and level of impact as those listed above.

These modifications often will be critical to achieving project viability, allowing for building improvements that improve the relationship of the adaptively reused building to the surrounding area, and encouraging the innovative use of repurposed buildings.

Application of County site plan standards

Major site plan amendments often use that review process to apply current site plan development and condition standards. These standards are typically provided within Administrative Regulations. Adaptive Reuse process should establish its own criteria and standards to apply within the Administrative Regulations or a similar administrative document. For the Adaptive Reuse site plan amendments, the application of site plan conditions should seek optimal building performance and building and site design, but with the overarching priority shown towards the following tradeoffs, among others:

Policy Statement V.6

- The upfront clarity of expectations and standards;
 - The goal of streamlined timelines of review that can't accommodate prolonged negotiations between staff and the applicant;
 - The need to maintain cost controls;
 - The reality of physical constraints to achieve certain standards when reusing a structure;
 - The reliance on maintenance or like-for-like replacement of existing conditions, particularly in landscaped areas and streetscape elements; and,
- Application of County goals, policies and standards to Adaptive Reuse applications should reflect the core guidance of this Policy that repurposing of obsolete office buildings is a public priority and that projects that do not proceed to completion deliver no benefits at all, and therefore the policy goals, site plan standards and requirements applied to Adaptive Reuse projects must reflect tradeoffs necessary to achieve project viability.

- Conditions related to construction hours and mitigation that reflect the primarily internal nature of construction.

Parking and loading

Parking review and recommendations within the Adaptive Reuse site plan amendment process should follow the current ACZO and application of County Board policies, guidelines or past precedents, including where appropriate the modification of required parking ratios and mix of parking space types. Parking ratio requests that differ from the ordinance but can be modified as guided by existing commercial and residential policy or guidelines should still strive to meet necessary transportation demand management best practices and provisions of on-site improvements, such as lockers and storage, in support of targeted multimodal splits. The requirement of off-site transportation improvements should be considered more carefully, given the significant costs that such requests can place on a project as well as a finding of whether the Adaptive Reuse project itself created the need for such off-site improvements. Staff can also further study if certain thresholds of gross floor area achieved by converting unrequired parking could be used to justify requirements for off-site improvements.

Loading capacity review must reflect the significant challenged associated with adding new bay or extending existing loading docks within existing buildings. To all extent possible, flexibility in loading dock standards should be applied consistent with past practice and precedent.

Affordable housing

Affordable housing is a key County public priority. Adaptive Reuse projects, often assumed to include a conversion to residential units, can meet the County goal of increased housing production. Adaptive Reuse also provides for opportunities to deliver residential units for rent and price positioning below those typically required for new construction, thus diversifying the housing stock. Finally, housing units in previous office buildings often can offer unit sizes and dimensions that are typical in new construction projects focused on maximizing efficiency of square footage.

Policy Statement V.6.a

Adaptive Reuse projects are very unlikely to be able to financially support committed affordable or reduced rent units and thus should be exempt from affordable housing requirements in the ACZO, until such a time the ability of such projects to accommodate more affordable units is reevaluated or additional federal, state or local resources are brought to bear.

However, it is unlikely that Adaptive Reuse projects can financially support significant cash payments and/or on-site committed affordable units. This Policy directs that initial Adaptive Reuse projects are exempt from affordable housing requirements in the ACZO. This Policy guidance and ordinance language should be reevaluated after the completion of the first three

(3) Adaptive Reuse projects from office to commercial apartments, or within the first two years, whichever comes first. Affordable housing commitments may also be negotiated if additional federal, state and/or local resources are brought to the table.

Green building

The Adaptive Reuse of obsolete buildings does provide an opportunity for significantly improving the repurposed building's energy efficiency and climate footprint. The detail of the green building standards applied to Adaptive Reuse projects should be provided in the Green Building Incentive Policy (GBIP) within which a section will directly address standards and incentives for energy performance of Adaptive Reuse projects. The key differentiator from past examples of the GBIP is that the primary incentive tool of bonus density may not be relevant to Adaptive Reuse projects.

This Policy establishes the fiscal and placemaking of benefits to be the primary purpose of the streamlined Adaptive Reuse process. The GBIP, as coordinated with and influenced by this Policy, should effectively address important opportunities and tradeoffs when establishing baseline and aspirational building standards, including:

- The repurposing of obsolete office buildings in and of itself as a public priority alongside other major Count goals, including Sustainable Design.
- The poor energy performance and green building elements of existing, older and obsolete office buildings and the guiding principle that leaving such buildings in place is the worst potential energy and climate outcome.
- The gain in energy efficiency associated with conversion of uses that almost always require new investments in core building systems and at times changes to building facades and openings, including windows.
- The embodied carbon savings due to retention of building structure;

Policy Statement V.6.b

Guidelines for energy performance and green building upgrades sought for Adaptive Reuse projects shall reside in the most current version of the Green Building Incentive GBIP with a distinct section on Adaptive Reuse, and such guidelines shall broadly reflect the primary purpose of Adaptive Reuse projects are the fiscal and placemaking benefits and thus carefully consider tradeoffs of maintaining project economic viability and more ambitious green building standards, as well as an acknowledgement of the built in benefits of building systems replacements, building exterior improvements and embodied carbon savings associated with Adaptive Reuse projects.

- The opportunity for significant greening investments on building elements such as rooftops or terraces;
- The impact of more ambitious sustainable building elements, often outside the improvements typically considered for most Adaptive Reuse projects but driven by broader GBIP and Community Energy Plan goals, on project economics viability; and,
- Other federal, state and local resources that could achieve more ambitious energy and green building standards while maintaining project economic viability.

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VI. Other Tools to Achieve the Repurposing of Obsolete Office Buildings

This Policy directs staff to continue to study and prepare further actions for County Board consideration and/or administrative review that seek to provide regulatory reforms, streamline processes, and overall encourage or incentivize the repurposing obsolete office buildings. Later versions of this draft document will incorporate priorities and timing expectations of those areas of further study and analysis listed below. This list is not expansive and may be expanded or contracted through further internal staff discussion and community engagement.

Continuation of CMRI work on new or amended use in the ACZO

Policy Statement VI.1

Staff should continue to bring forward for County Board consideration amendments and additions to ACZO use tables to allow for uses and activities that may leverage and support repurposed office buildings, such as but not limited to live-work concepts, self storage and data centers.

Exploring new ways to utilize space in existing, repositioned or redeveloped office buildings remains a priority. New use concepts, such as the live-work use typology introduced into Fairfax County's ordinance, reflect the benefit of flexibility of activity in a building than a preoccupation with (often outdated) definitions of building use types.

Staff is also preparing an analysis of self storage as an important use for buildings in urban environments. Currently storage uses are only allowed in industrial (M-1) districts, which are limited in land area and often removed from most clusters of residential density. Self storage is of particularly high demand in urban environments where in-unit space for storage is limited but storage still needs to be easily accessible from where people live.

Data centers have also been initially studied. Initial findings are that major hurdles such as grid capacity, load requirements, and the relative little human activity generated through such a use do not make it an ideal fit for repurposing obsolete office properties. Staff should continue to explore this option however, particularly related to edge data centers and micro grids.

Pre construction "switches"

Land use applications that propose a change in a principal office use when it had been previously entitled through an approved site plan, allocated through an approved phased development site plan (PDSP), or guided as the preferred use per a sector plan often must justify why the requested change in use from office is appropriate and justified.

Currently, staff utilizes *Administrative Guidance for Office Conversions* to guide this discussion through the review process. This Policy recommends that it is the appropriate time to update this guidance AND adopt the updated document as County Board policy.

Policy Statement VI.2

Review processes for switches from a principal office use building after entitlement, inclusion in a phased development site plan or identified for specific use guidance in a sector plan but prior to construction should seek a major site plan amendment and utilize the current practice of utilizing the *Administrative Guidance for Office Conversions* during the review process, but future consideration should be given to updating the administrative guidelines and presenting it as Board-approved policy.

Streamlined process for office building repositioning

Building repositioning refers to proposals to reinvest in existing office buildings to increase the quality of the building – upgraded lobbies, amenities, ground-floor bump outs and public real improvements, and replacement of outdated building systems, among other types of investments.

Policy Statement VI.3

The County shall pursue with similar urgency to Adaptive Reuse the streamlining of processes for approval of building modifications for the purposes of repositioning existing office buildings which is a key tool for both repurposing obsolete office buildings and providing a high-quality inventory of office spaced to maximize tenant demand retention and attraction.

These investments are critical to the Policy goal of reinvesting in quality office supply as one means of repurposing obsolete office space. Investment levels can occur on a spectrum of more modest to very significant capital investments, but very often require time consuming site plan amendments.

Policy Statement VI.4

Staff shall study the tools for streamlining the review and approval of significant modifications to projects that seek to adaptively reuse an existing structure AND add additional stories of height or building density, with a guiding principle that these processes should be more efficient and timely than a ground-up redevelopment project and tools may be made available for these projects to earn additional height and density through the application of obsolete office building repurposing as a public priority.

A streamlined process for building repositioning should consider replicating regulatory relief and incentives utilized in Adaptive Reuse, specifically shortened timeline for review, modest application of new site plan conditions and standards, and minimal modifications to building height and density that do not significantly alter existing building form.

Any future study on ways to streamline office building repositioning will coordinate with the ongoing work undertaken as part of a CMRI workstream to study the definitions and application

of Major, Minor and Administrative Change (MMA) site plan amendments.

Additional height or density to retained structures and valuing retention of building elements in redevelopment projects

These two redevelopment options are variations on the same theme – where all or some of an existing building is retained and significant new and reconstructed height and density are requested. The concept is that the additional height and density has impacts to review, but the maintenance of some components the existing structure offers the ability for more streamlined reviews. Appropriate building design standards to apply to the project and methods for earning the density should be studied and aligned with lessons learned from Adaptive Reuse regulations, as much as is deemed appropriate. There is also the consideration of the environmental value of retaining some part of the existing building, and whether that benefit in addition to the benefits of repurposing of obsolete office buildings justify some form of density credits.

Of particular concern is the hurdle of density conversions in certain zoning districts of an existing office building to a redeveloped residential or hotel use, where smaller unit and room sizes in unit/room per acre district often result in less base density for the alternative use. This requires the project to “re-earn” density that is already built. Further study is required to address this issue in detail but some lessons learned can be mined from the Adaptive Reuse regulatory framework and initial approved projects as well.

Policy Statement VI.5

For redevelopment projects that demolish the primary office building structure but retain and build upon existing building elements such as podiums or structure or below-grade parking, staff shall study the tools to earn additional height and density and provide some process streamlining for redevelopment, through the application of obsolete office building repurposing as a public priority as well as acknowledgement of the speed and environmental benefits of maintaining significant building elements.

Policy Statement VI.6

Staff shall study the current methods for identifying the earning additional heights and densities for conventional redevelopment projects where an office building was removed within the context of whether application of this Policy and the repurposing of obsolete office buildings as a public priority should allow for new tools such as density or height credits that will compete with other land use policy goals and public priorities.

community benefits costs are unintentionally limiting achievable density in redevelopment proposals, and this underutilized density has significant impacts on long-range neighborhood visions and County goals such as housing production. A study of this type could be combined with other studies, such as a better understanding of the opportunities associated with mass timber construction.

Policy Statement VI.7

While the primary tools of this Policy focus on regulatory tools and practices that act like financial incentives in terms of cost savings, study the use of direct financial incentives to achieve the repurposing of obsolete office buildings, accelerate market response and/or introduce more significant realization of other County goals, policies or standards, either through local sources and programs that have passed a robust analysis of the costs and benefits of incentives and/or leveraging available federal or state resources.

leverage and accelerate the private market. County staff should continue to monitor financial

Community benefits and application of public priority

A study better understand the current effectiveness of long-held regulations and practices for earning redevelopment density would be complex. This study could be undertaken in the context of the public priority of the timely replacement of obsolete office space. One concept referenced in other sections of this Policy would be some form of density credit when a redevelopment project removes obsolete office space.

Broader interest in this potential study is based not only in the office market challenge and impacts, but also the sense that

In any case a study of this fundamental component of Arlington's incentive-based zoning would need to be carefully scoped and provided sufficient resources that would replace other desirable planning studies. This Policy is first seeking initial stakeholder, community and County Board input on the level of interest in such an undertaking.

Financial incentives

Regulatory reform has been the primary focus of this Policy and the guidance on implementing Adaptive Reuse as a first step and then pursuing study of additional tools for transforming Arlington's office market.

However, the County Board's Economic Development Commission has advocated for consideration of financial incentives to both

incentives used in other jurisdictions and where appropriate model specific financial incentives with a thorough cost benefit analysis. Financial incentives studied may include tax refunds for an office reuse or redevelopment project during the period of construction or the first several years of project stabilization, deeper incentives to reach specific outcomes related to County goals such as affordable housing or green building, tax increment policy to fund related infrastructure, and incentives to accelerate office tenant movement to tee up reuse or redevelopment projects, among other ideas.

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