

## ECONOMIC DEVELOPMENT UPDATES

Our efforts to lower a historically high office vacancy rate are producing some exciting results. From headquarter recruitments to startups and accelerators, the commercial sector is undergoing a transformation that will result in a more diversified and resilient economic base. We are not done fixing the problem and will continue adapting to the competitive environment and finding imaginative solutions. However, we have made great progress toward positioning Arlington as the locality of choice in the National Capital Region and beyond. Since 2015, we have assisted on more than 3.6 million square feet of new or retained office space representing nearly 17,000 jobs.

- **Vacancy rate update** – A combination of expanded marketing and successful business development projects has the vacancy rate moving in the right direction despite ongoing headwinds. At the end of the 4th quarter 2016, the office vacancy rate in Arlington stood at 19.8% an improvement from the previous two quarters (20.4%), and down from the all-time high of 21.4% in the 1st quarter of 2015. The momentum has continued into the first quarter of 2017 with the Nestlé US announcement of 206,000 square feet at 1812 N. Moore Street, which has been vacant since opening in 2013. The headwinds include the impending departure of the National Science Foundation (Q4 2017); the uncertainty of other large federal leases such as Transportation Security Administration and the Drug Enforcement Administration (1 million square feet total); tenants across industry sectors reducing footprint by 20 to 30 percent upon lease renewal; and the rise of competitive submarkets on the Silver Line and in the District of Columbia.
- **Selected business development accomplishments** – As of February 2017, the Economic Development team had assisted nearly 718,000 square feet of economic development successes in FY 2017. Collectively, these projects represent 2,750 jobs in Arlington County. Notable projects include:
  - The retention and expansion of major employers in media, government, and professional services like WJLA/Sinclair, Willis Towers Watson, and the Metropolitan Washington Airports Authority.
  - The continued attraction of small fast growing tech companies like Trustify and Hungry.
  - Securing Punch Bowl Social, a destination retail tenant for Ballston Quarter.
  - The Nestle USA headquarters as the anchor tenant of 1812 N. Moore Street.
- **Tech ecosystem overview** - The tech ecosystem is best described as the resources and facilities needed for emerging tech companies to succeed. In the past two years, Arlington has added 1776, Eastern Foundry, Make Offices, WeWork/WeLive and coming soon, Regus Spaces. Together these entities occupy about 150,000 square feet of office space. New tech companies like Phone2Action, Trustify, Basket, Hungry, Lyft, and Shift have chosen Arlington for their next stages of growth, while companies like ByteCubed and Distil networks built their companies here and have expanded. The StartUp Arlington program is in its second year and had 120 startups apply from all over the U.S. This program gives great visibility to the County at a very low cost and was recognized by the Virginia Association of Counties (VaCo) as an innovative statewide model.
- **Tourism report** - Following reinstatement of Arlington County's tourism-dedicated 0.25 percent transient occupancy tax, the Arlington Convention and Visitors Service (ACVS) is directing resources to rebuild marketing infrastructure and expand outreach to key travel

audiences. As a result of the reinstated funds ACVS has increased advertising impressions by more than 5,000%, website sessions and users by more than 110%, and visitors served in person by more than 30%. More than 260,000 Arlington Visitors Guides, Meeting Planner Guides, Maps and Rack Cards are now in distribution, and a new StayArlington website is in development for release in August 2017. Two limited-term FTEs (one focused on Destination Sales – Corporate & International, and the other on Content Management and creation) started in December 2016 and are already significantly adding to the ACVS team's reach and performance. Through December 2016, Arlington's annual hotel Occupancy was 77.2% (0.4% over 2015); Average Daily Rate was \$162.03 (2.0% over 2015); and Revenue Per Available Room (RevPAR) was \$125.14 (2.4% over 2015).

- **Small business** – The FY 2018 budget includes funding for an additional FTE in the AED BizLaunch program. The position will strengthen outreach to existing small businesses, with a particular focus on child care providers. This position provides capacity for program activities identified as the top priority among business leaders in the 2016 Arlington Business Survey. BizLaunch is currently averaging 5,000 small businesses reached each year through counseling and educational workshops. Going forward, BizLaunch would have the capacity to strategically assist identified industry sectors such as childcare and to create targeted programming to strengthen a provider's success rate.
- **Ballston Quarter** – The Ballston Quarter redevelopment is now under construction with an expected delivery in the Fall of 2018. The tax increment financed bonds were issued and sold in November 2016, completing a two-year effort to implement the public-private partnership that was a critical component of the Ballston Quarter project. In FY 2018, we will continue to work toward delivery of the Ballston Quarter project by assisting the developer with necessary permitting and regulatory approvals, leasing, and marketing and communication efforts.
- **Connect Arlington for Economic Development** – In February 2015, the County Board unanimously approved a policy resolution, standard form license agreement, and schedule of rates that would allow non-County entities to utilize excess ConnectArlington dark fiber for economic development purposes. The necessary agreements with VDOT and infrastructure associated with Phase II of the network, which substantially increased the availability of excess dark fiber in our major commercial corridors, was completed in May of 2016. ConnectArlington represents a digital innovation unlike any undertaken before by the County, and its potential as an important economic development tool is now ready to be realized.

As such, AED will perform the following functions, in partnership with DTS, to implement ConnectArlington as an economic development tool:

- Reach out to localities that are implementing the same or similar technology for their private businesses such as ConnectNYC Fiber Access/NYCEDC, and Dublin, Ohio, and ascertain the methods used to implement their programs and the level of success they have had over what period of time and at what cost to the jurisdiction;
- Enhance outreach efforts towards the "early adopters" of ConnectArlington, including businesses and institutions who are critical components of Arlington's tech eco-system and likely users of high speed dedicated fiber, including entities involved in media, big data analytics, cyber security, med tech, gamers, virtual reality, augmented reality and innovation centers, as well as small to medium sized telco providers who want to

enter or expand into Arlington market but face high barriers to entry and forward-thinking commercial property owners;

- Design collateral materials and an improved web presence that more effectively markets the value associated with ConnectArlington, including already achieved success stories associated with Arlington County government, Arlington Public Schools, Virginia Tech and University of Maryland/MAXX;
- Develop processes to better connect, in an efficient manner, the end users, i.e., the commercial office tenants, to higher-quality "lit service" that will be provided by dark fiber licensees; and,
- Provide targeted incentive grants to overcome a critical hurdle identified by the County's work with early adopter ConnectArlington customers – the cost and capacity to construct and maintain lateral connections from the County-owned into private commercial office buildings.