

Commercial Market Resiliency Initiative 2.0

County Board Work Session
October 10, 2023

Arlington Economic Development
Community Planning, Housing & Development



AGENDA

Context – Why the CMRI is Important

Guiding Principles, Strategic Goals & Approach

Workstream Discussion

Next Steps & Conclusion

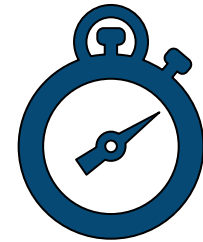
UNPRECEDENTED CHANGE REQUIRES NEW THINKING AND BOLD ACTION



The continuation of remote work has upended Arlington's office market. Today, we have an oversupply of office space when demand is at an all-time low.



The potential for structural office vacancy for years requires us to explore new pathways to drive economic growth. This may necessitate investments in new and existing tools and changes to how we do business.



Other jurisdictions, both regionally & nationally, are also trying to identify and implement creative solutions to encourage economic growth. The most resilient communities will be those who act boldly and quickly.

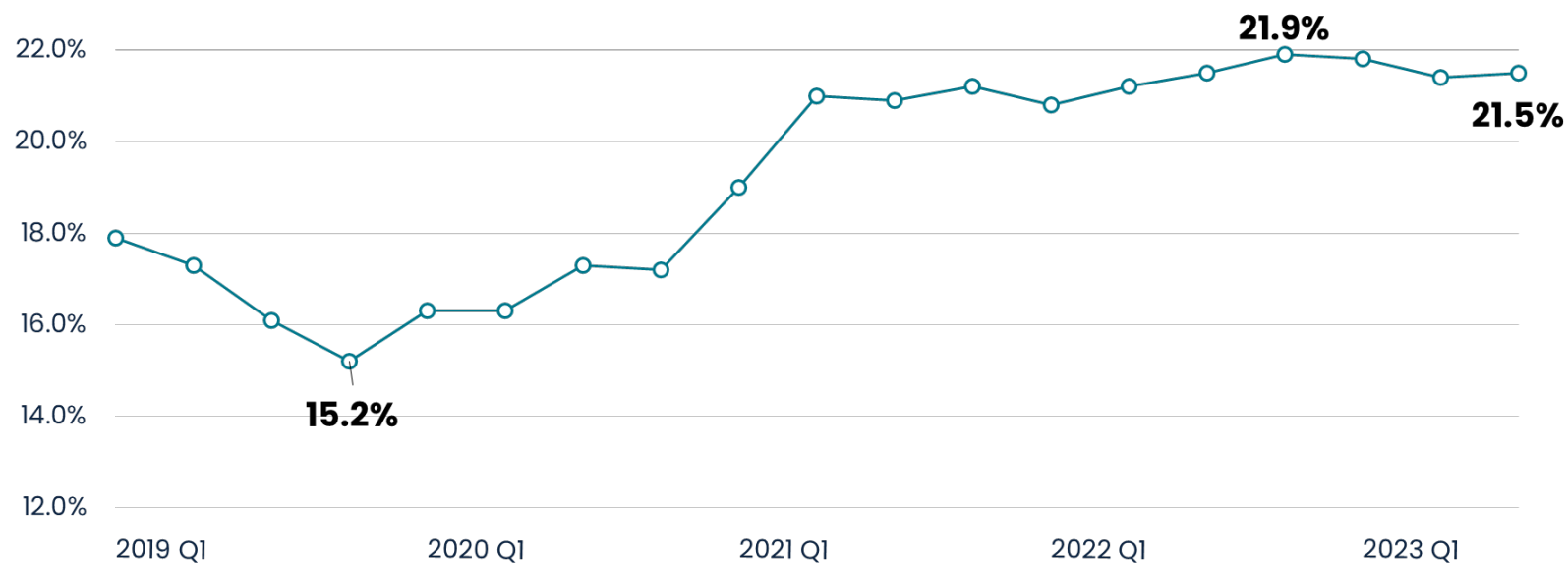
WHAT'S GOING ON IN THE MARKET?

- Employers still in flux on balance between return to office and work from home
- Overall commercial values impacted by sustained vacancies and rising loan defaults
- Recent sale of high vacancy office building came in at 66% of assessed value
- And yet...Arlington remains an incredibly attractive location for high tech and federal contracting tenants
- Therefore, we need to continue evolving our supply to meet new market demands



SCALE OF POTENTIAL IMPACT

Historic Office Vacancy – Arlington County (2019-Present)



21.5% vacancy rate = 9M Square Feet

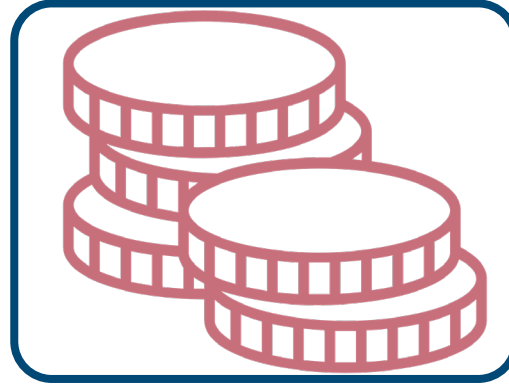
- Arlington's office market is comprised of 328 buildings and 42M sf of Rentable Building Area (RBA)
- Analysis by staff indicates a potential of **76 buildings and 17M of RBA is at risk** for sustained vacancy/obsolescence to today's market

WHY IT MATTERS



50/50

Historically, Arlington had close to an even split between its residential and commercial tax bases.



Taxes

A decrease in commercial property tax revenue shifts more burden to residential tax revenue.



Services

When these revenues decrease, services and programs that benefit all residents are impacted.

ROBUST RESPONSE TO ADDRESS INCREASING VACANCY & DECLINING VALUES



Addressing Office Demand

Focus on a robust business retention and expansion program, aggressive efforts to attract high-growth companies in emerging markets, and new and creative uses to lease office space



Rethinking Office Supply

Streamlining zoning and land use processes to enable the alternative use, conversion, redevelopment and repositioning of office buildings through the County's Commercial Market Resiliency Initiative

REMOVE REGULATORY BARRIERS TO ACHIEVE MARKET SOLUTIONS

Redevelopment

Tear downs and reconstruction of an entirely new building (although sometimes parking is retained).

Conversion

Converting an existing building to an adaptive reuse. Includes Conversion+ - when some floors are added.

Repositioning

Making significant investments in existing office buildings to upgrade market competitiveness.

QUESTIONS OR COMMENTS?

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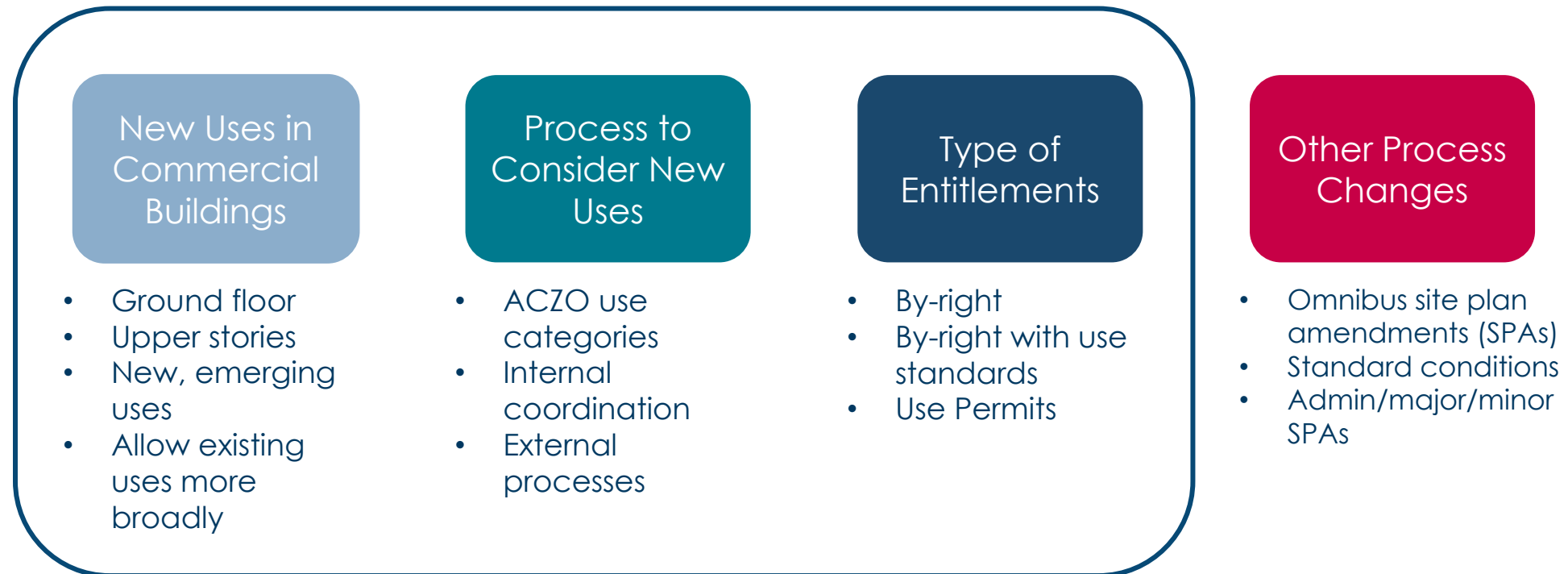
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COMMERCIAL MARKET RESILIENCY INITIATIVE (CMRI) 1.0

*Modernize regulations, practices, and processes to ensure we can more nimbly accommodate the fullest **range of existing and emerging new uses** where appropriate.*



COMMERCIAL MARKET RESILIENCY INITIATIVE (CMRI) 2.0

Modernize regulations, practices, and processes to affect **building supply**, specifically the reposition, conversion of obsolete commercial inventory. **CMRI 2.0 is intended to tackle the big regulatory issues resulting in big changes – apropos of the challenge of the structural change of the commercial market.**

New Uses in Commercial Buildings

- Ground floor
- Upper stories

Process to Consider New Uses

- ACZO use categories

Type of Entitlements

- By-right
- By-right with use

Completed as part of CMRI 1.0

- Micro-fulfillment centers
- Artisan Beverage: Breweries, wineries, distilleries and non-alcoholic beverage makers
- Artisan Workshops, Urban agriculture, animal board
- Expansion of usage for colleges and universities
- Indoor recreation
- Audio-visual production and Broadcast studios
- Flex R&D/Laboratory space
- Commercial/Ghost kitchens

Greater Focus on Major Process Changes

- Omnibus site plan amendments (SPAs)
- Standard conditions
- Admin/major/minor SPAs
- Office to residential conversion
- GLUP Studies
- Etc.

CMRI 2.0 STRATEGIC GOALS

Strategic Goals	Description
1. Improve redevelopment processes	<ul style="list-style-type: none"> • Most likely approach to removing obsolete inventory • Many sites guided by existing plans • Need more nimble and less costly approach to redevelopment of obsolete assets
2. Streamline processes for building repositioning	<ul style="list-style-type: none"> • Functioning buildings still need new investments in highly competitive market • Often benefits public realm
3. Create new process for adaptive reuse – conversions	<ul style="list-style-type: none"> • Smaller opportunity • Beginning to receive more inquiries from owners/developers • Arlington processes should not be the barrier • Considering process changes and targeted incentives
4. Address regulatory relief tools for capturing tenant demand	<ul style="list-style-type: none"> • Highly competitive market – speed to market will be critical • Tenants are more than ever making quicker leasing decisions on shorter terms • Typical pain points: use tables and site plan use conditions • Process for minor changes to buildings, signs, parking
5. Enhance placemaking efforts	<ul style="list-style-type: none"> • Great places supports all the above • Assists return to office

CMRI 2.0 INTERNAL GUIDING PRINCIPLES

Taking Big Swings

URGENCY - RAPID PROGRESSION OF WORK

Tactical
Approach
to Staff
Work

**Incremental
Outcomes**

Discrete Workstreams with
Cross-Pollination

Community Education

CONTINUED CMRI ENGAGEMENT APPROACH

Streamlined approaches to engagement for changes with limited impact.

- Public education about commercial real estate issues and their impacts
- Appropriate levels of community engagement for each workstream — with a continued focus on nimbleness, urgency, and suitable risk taking.
- Opportunities for innovative engagement strategies.



CMRI 1.0 Engagement Approach

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INITIAL LIST OF REGULATORY CHANGE WORKSTREAMS

	Redevelopment	Conversions	Repositioning/ Tenant Support	Placemaking
Communications & Engagement		Redefine Admin-Minor-Major Site Plan Amendments		
		Amendments to Use Tables (Continuation of CMRI 1.0)		
	Office Conversions (to Residential and other uses)			
			Incent Repositioning to Existing Office Buildings	
	Special GLUP Study Process			
	Flexibility on the Application of Existing Land Use Policies and Practices			
	Sign Ordinance Flexibility			
	Align Site Plans with Retail Plan			
	Study Parking Regulations			
			Special Events/Culture (BIDs)	
	Green Building and CMRI			
			FOOD Study	

ADMINISTRATIVE CHANGE – MINOR – MAJOR SITE PLAN AMENDMENTS



County Board
Guidance
and Factors
to Consider

- Current regulations in the ACZO
- Challenges of current regulations
 - Timing
 - Cost
 - Staff Resources
- Examples of past applications that required CB action
- Will tie into building repositioning workstream and tenant attraction/ retention efforts
- Potential workstream outcomes
 - Redefine ACZO standards for Major SPA
 - Guidance on Admin vs Minor SPA

OFFICE CONVERSIONS



County Board
Guidance
and Factors
to Consider

- Challenges of office conversions
- Limited but still important opportunity
- Past Arlington examples
- Increased interest in Arlington
- Lessons learned from other jurisdictions
- Potential workstream outcomes
 - Streamlined processes (including an administrative path)
 - Solving for Conversions+ (additional density)
 - Green building incentives

SPECIAL GLUP STUDY PROCESS



County Board
Guidance
and Factors
to Consider

- Current process
- Observed challenges to current process
- Potential workstream outcomes
 - Coupling GLUP study and site plan in certain instances
 - Criteria where this would apply

APPLICATION OF EXISTING LAND USE POLICIES



County Board
Guidance
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to Consider

- Sector plans and other land use policies were often created in a different context than exists today and into the foreseeable future
- Potential workstream outcomes
 - Aligning all site plans with current Retail Plan
 - Revisiting use requirements in sector plans
 - Updating Administrative Guidance on Office Conversions
 - Flexibility on height and density caps when it results in removal of obsolete office space

SIGN ORDINANCE FLEXIBILITY



County Board
Guidance
and Factors
to Consider

- Sign ordinance today is primarily administrative with very stringent rules
- Greater flexibility for signs is a significant economic development tool
- Example of where this level of inflexibility has led to significant challenges for businesses
- Potential workstream outcomes
 - Provide CB option of legislative approval of deviations for ACZO (and perhaps develop criteria for such actions)
 - Placement and size of signs above 40 feet
 - Large media screens
 - Monument signs
 - Aligning existing comprehensive sign plans with ACZO

PARKING REGULATIONS



County Board
Guidance
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- Will not include a complete rethinking of existing parking policy – more of an application of current policy into outdated zoning regulations
- Potential workstream outcomes
 - Flexibility on parking requirements for smaller and/or legacy sites
 - Shared and off-site parking
 - Converting unused parking into GFA

CMRI 2.0 ADDITIONAL RELATED EFFORTS

EDC Working Group Recommendations Review

Financial Incentives

Demographics and Fiscal Impact

Impact on FY25–27 Budgets

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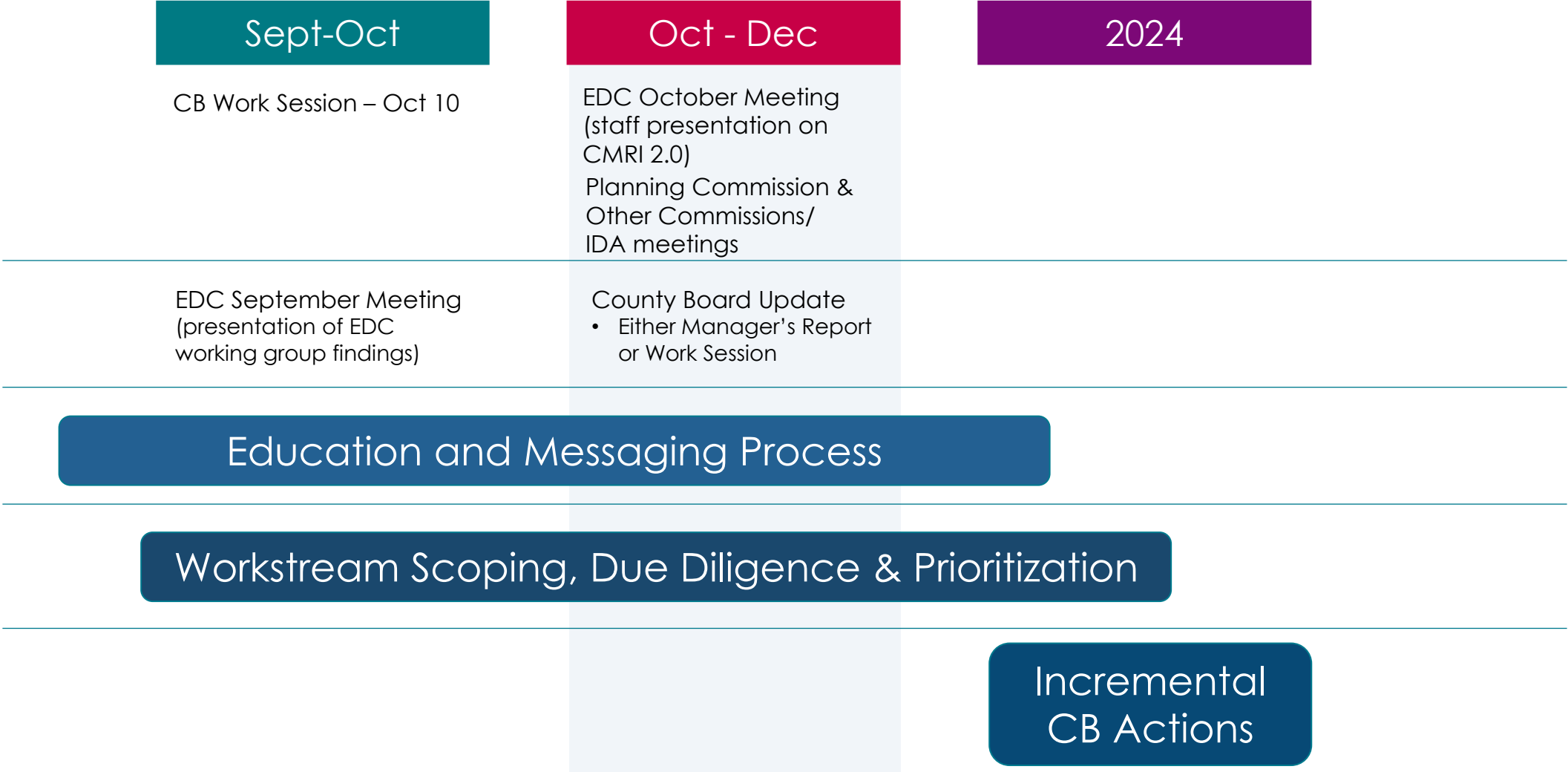
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NEXT STEPS



CONCLUSIONS

- Recognize the need for action
- Overall support for the approach
 - The value of an **“Incremental Approach”**
- Anything we missed?
- Broader community awareness campaign

Thank You.

QUESTIONS OR
COMMENTS?



ARLINGTON
VIRGINIA

