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MEMORANDUM

To: Radhika Mohan, City of Alexandria

From: HR&A Advisors, Inc.

Date: December 5, 2014

Re: HR&A Response to Market Analysis Guiding Questions

The purpose of this memorandum is to respond to the Market Analysis Guiding Questions received on November 12, 2014 and outline HR&A's next steps and information needed to complete the next phase of work on the Eisenhower West Small Area Plan.

I. Responses to Market Analysis Guiding Questions

HR&A responses are in bold italics under each question.

SG additions to responses are in blue under HR&A's responses.

RETAIL: What role can Eisenhower West play in the retail makeup of the City?

This question is more of a planning question than a market question.

From the planning/urban design perspective, this will likely depend on the vision of plan area community members and stakeholders.

- If uses (like the Braddock Post Office Distribution Center, Shoppers Food Warehouse/big box, or the smaller retail in Landmark Mall) are being displaced elsewhere in the City, where can they go? Is Eisenhower West the best place for them?

As markets for these uses likely still exist, this question is more of a physical planning question than a market question. The question of whether Eisenhower West is the best place depends on the community vision for the area and policy decisions by the City.

Eisenhower West consists of many parcels owned by a variety independent owners. For a big box center to be located here would likely require the assemblage of a number of parcels, and the provision of a great deal of surface parking. We will have to determine if, from the planning/urban perspective, this would meet the vision of the community for this area. The large land areas and surface parking typically required by big box retail tends to cut off connectivity rather than promote it.

- What are some new models for car dealerships and big box uses? How can they exist in multi-story, mixed use buildings?
There are precedents for car dealerships and big box uses in multi-story, mixed use buildings in dense urban areas. HR&A and SmithGroupJJR will try to provide some examples as part of our work on implementation.

OFFICE: How can Eisenhower West attract office uses?

While in the short to medium term new office development is challenging, the City could encourage office uses in Eisenhower West by actively marketing sites and providing incentives to office users, most likely property tax abatements and/or active assistance in obtaining incentives from the Commonwealth of Virginia. HR&A will address this question as part of its next phase of work related to implementation..

- What are some economic strategies to incentivize office?
HR&A will address under Implementation Strategy in the next phase of work.
- What kinds of office uses would work in Eisenhower West?
Current and expected near term office market conditions suggest that small professional services or medical offices uses would work in Eisenhower West. These uses would benefit from the area's highly accessible regional location and proximity to residential neighborhoods.
What is a realistic timeframe to expect office demand in Eisenhower West? **The timeframe for office in Eisenhower West depends on trends in the overall regional economy and the level of effort/investment the City makes into attracting office to this location. HR&A estimated that new class A office development is challenging in the next decade given regional vacancy rates (which are even higher in suburban pockets affected by BRAC) and the retraction in government spending.**
- **Factors that may accelerate demand for office in Eisenhower West:**
 - **Reduced worker space utilization rates may drive demand for new buildings, as older Class B and C buildings will struggle to compete without major redevelopment**
 - **Relocation of the National Science Foundation to Alexandria in 2017 may drive demand for contractors seeking nearby locations**
 - **Opportunities to harness transit-oriented development to attract new office development**
 - **Growth in private sector employment—for example, professional services and tech—is supporting some level of re-absorption of office space vacated by BRAC, and depending on the rate of growth in these sectors, could accelerate demand for new office development in Alexandria and potentially in Eisenhower West**
- **Factors that may slow down demand for office in Eisenhower West:**
 - **Increasing competition from submarkets experiencing high rates of vacancy—namely, Arlington**
 - **Increasing competition from submarkets that now have Silver Line access—namely, Tysons Corner**
 - **Increasing competition from Class B properties elsewhere in the region, which were hit the hardest by BRAC**
 - **Increasing competition from existing Class A properties elsewhere in the region which are offering competitive rents and considerable concessions**
 - **The GSA's overall space reduction goals will continue to result in a stagnant regional office market that becomes more dependent on private sector demand**

INDUSTRIAL/FLEX/WAREHOUSE: How essential is industrial use in the vitality of Eisenhower West and the City of Alexandria in the future?

- If we subsidize flex/warehouse/light industrial, what would that cost the City?
HR&A will address this question on a simplified basis as part of our implementation strategy. The total cost to the City would depend on the amount of space it wants to subsidize.
- What can coexist with industrial or warehouse uses?
There are few examples of industrial co-locating within specific buildings, but several examples of industrial co-locating within districts (e.g., Burlington's South End, 22@District in Barcelona, Milwaukee's 30th Street Corridor, Hackeschen Höfe in Berlin). HR&A and SmithGroup will discuss further under implementation

PHASING/IMPLEMENTATION: How can existing land uses be transitioned to achieve the vision for Eisenhower West?

- Which of the uses displaced elsewhere in the City would set us on a right path for Eisenhower West? Could they be part of incremental steps/phasing of the Plan?
This is a citywide planning question, not a market analysis question.

In order to begin the discussion of phasing and implementation as we move to one concept, P&Z and SmithGroup should create a diagram of the plan area that shows:

- *properties that are likely to be redeveloped in the near term (based on interest expressed by developers)*
 - *properties that are more likely to be redeveloped in the medium term*
 - *properties that are likely to remain for a long time, such as Home Depot/Trade Center (25-year lease); Virginia Paving.*
- Should we land bank the Metro sites?
The acquisition costs to the City of land banking sites near the Metro would likely exceed any long-term benefits. However, to some extent, there exists a “de facto land bank” with the Virginia Paving and other sites occupied by users who want to remain for the foreseeable future. This creates an opportunity for the City to implement a flexible plan for Eisenhower West that could continue the vision for the area around the Metro as a job center, while being responsive to market demand for residential and retail uses elsewhere in the study area.

II. Overview of HR&A’s Next Phase Scope

HR&A has the following tasks to complete under the original scope of work.

Subtask 8.2 – Conceptual Financial Analysis of Potential Land Uses

HR&A will utilize market data collected in the Economic and Market Assessment, along with industry standards for construction and financing assumptions, to analyze the economic fundamentals of development in the study area. Together with the assessment of demand drivers identified in Subtask 8A, the output of this analysis will be a recommendation of market-feasible product types for new development or adaptive reuse of existing structures. Additionally, this analysis will include order-of-magnitude financial gap (or surplus) per unit or per square foot for the selected product types.

To perform this analysis, HR&A will prepare a stabilized year financial model for the candidate land uses identified in the previous subtask to provide the City with an understanding of the financial feasibility of the selected land uses and order-of-magnitude financial gap (or surplus) associated with developing product types that have the greatest potential within the study area. The analysis will enable the City and the consultant team to conduct high-level feasibility analyses of currently proposed and potential future development projects. After assessing the feasibility of the proposed project(s), the City will then be positioned to identify which project(s) are likely to be market-feasible and/or identify potential order of magnitude financial gaps that need to be filled in order to enable a project to be economically viable.

To complete this analysis, HR&A will work with SmithGroupJJR to identify catalytic sites and obtain estimates for required site-specific infrastructure costs, building typologies for new construction or reuse potential, and construction costs.

Subtask 8.3 – Redevelopment Strategy Framework

After identifying the recommended mix of interim and long-term uses for the Eisenhower West study area and evaluating the development feasibility for the potentially catalytic sites, HR&A will develop a roadmap that will describe the critical next steps necessary to advance key project(s) and guide overall future growth. The roadmap will also articulate a *high level* funding strategy that may include public

economic development incentives, the use of value capture mechanisms, and developer partnerships, among others.

Task 8 Deliverables To Be Completed

- Technical memo detailing the methodology and findings from the Conceptual Financial Analysis of Potential Land Uses.
- Implementation framework identifying critical next steps that should be undertaken by the City and/or private stakeholders to advance redevelopment in the Eisenhower West study area, including discussion of economic development incentives and value capture strategies that can be leveraged to support near term development of desired uses.

Task 9 - Infrastructure Cost and Development Contribution Analysis

Goal - Determine the level of infrastructure investment necessary to spur new development within Eisenhower West, and to identify potential sources of infrastructure funding.

Process - The SmithGroupJJR team will work with the City to identify and recommend infrastructure investments that will catalyze redevelopment in the Eisenhower West study area, but fall outside the typical development review process. Based on our collective experience, we will quantify an order of magnitude cost for recommended infrastructure improvements and identify creative and realistic sources of potential funding. In order to determine the potential for developer contributions to fund a portion or all of the costs for recommended infrastructure improvements, we will complete the following:

- Review current methodologies employed by the City of Alexandria to estimate developer contribution potential;
- Determine existing land values for selected redevelopment sites in the Eisenhower West study area based on available data with respect to current land use patterns and assessed/appraised land values;
- Based on the stabilized year financial analyses completed in Task 8 for selected redevelopment sites, calculate the incremental land value and economic benefit that is unlocked by recommended zoning changes, increased development potential, and the evolution of the Eisenhower West study area as a targeted location for future private investment;
- Quantify the portion of incremental value that can be leveraged through developer contributions after the cost of land acquisition, project development, and minimum investment returns have been met;
- Evaluate the timing of new development absorption and value creation relative to the phasing of infrastructure improvements to quantify near term funding gaps (or surpluses).

As part of this task, we will recommend an evaluation of additional value capture strategies and funding mechanisms that could be employed alongside developer contributions to fund near- and long-term infrastructure improvements. Funding strategies and mechanisms may include, but not limited to special assessments, tax increment financing (TIF), Transportation Utility Fees (TUF), parking monetization, State of Virginia funding sources, WMATA funding sources, and Federal programs.

Task 9 Deliverables

- Technical memo detailing the assumptions, methodology and findings from the Developer Contribution Analysis. This will include a summary of infrastructure funding mechanisms, including Developer Contributions, with an evaluation matrix assessing order of magnitude funding potential, stability and predictability of revenue sources, alignment with City and other stakeholder objectives, and overall ease of implementation.