



**BACKGROUND:** DCHS and Health Department operations currently occupy over 210,000 SF in eight different locations, with leases at four facilities expiring in the near term. In general, most of the current DCHS and Health Department space is overcrowded, outdated and does not meet modern standards for office and clinic space. In addition, the two largest leased DCHS buildings are on the eastern end of the City, while most of DCHS clients now live on the western end of the City.

Following space programming, market survey analysis of available properties in the western end of the City, staff site tours, due diligence studies, and space stacking exercises, three properties in the Mark Center office park bordered by 1-395, Seminary Road, and Beauregard Street were considered. Staff is recommending the 4850 Mark Center Drive building as it best meets the space needs for co-location is the newest, is in the best physical condition, and is the least expensive of the options. The occupancy of 4850 building will occur later than the other options, as it is projected to occur in the 3<sup>rd</sup> Quarter/ 4<sup>th</sup> Quarter of 2022, because IDA needs to construct a new headquarters building. However, the \$19 million cost differential between the lowest cost 4850 building and the next lowest option, as well as the additional space available for the Health Department were considered in making this determination. Given the poor conditions of two existing DCHS office sites, (2525 Mount Vernon Avenue and 720 N. St. Asaph Street) and the longer wait to occupy the 4850 building, General Services and DCHS will work with DCHS staff to enhance their existing office space as part of the longer term transition plan to the new building.

### **RECOMMENDED FACILITY**

**4850 Mark Center Drive (IDA Building) = 230,000 sq. ft.**

- 15-year lease term
- \$30.67@ sq. ft. (2022 rate) with annual lease rate escalations
- Accommodates all DCHS and Health Department requirements with approximately 30,000 sq. ft. of space left over for future growth and/or swing space when City Hall is renovated
- Room for future growth
- Newer building, owner occupied, well maintained, and in very good shape
- Lowest rental rate
- Tenant build out allowance of \$15 million
- Purchase price if exercised is reasonable/fair
- Good ceiling heights
- Good column spacing
- Downside is availability to move in is end of 2022
- Parking more than sufficient
- Building is occupied, IDA needs to construct new building at Potomac Yard
- Occupancy anticipated 3<sup>rd</sup> Quarter/ 4<sup>th</sup> Quarter of 2022

Based on the above findings, staff determined that the property located at 4850 Mark Drive not only has the lowest rental rate and most reasonable purchase price option, but also best meets the requirements of DCHS and the Health Department and will enable both departments to fully collaborate and engage staff in a comprehensive service delivery model that will result in better outcomes for the residents of the City of Alexandria.

The City will have an option to buy 4850 Mark Center Drive for \$66.7 million in mid-2021 prior to DCHS occupancy, as well as for fair market value in 2037 which is near the end of the initial 15-year lease term. Owning would be less expensive than leasing over time, however it will entail the City issuing debt obligations

to finance. Staff will continue to analyze various lease or own scenarios and develop a debt financing plan that smooths debt service payments over a 20-year period. Once staff has analyzed options, if acquisition remains the best long-term financial option, staff will return to Council (likely in 2019) to request authorization to acquire 4850 Mark Center Drive.

**FISCAL IMPACT:** The lease space at 4850 Mark Center Drive is the least expensive option by about \$19 million over the 15-year term compared to the competing buildings. The net increase in annual DCHS lease and building operating expenses is anticipated to be \$1.9 million starting in FY 2023 after taking into account the planned request for State Health Department share of the lease costs. Additionally, the City will need \$13.8 million in up front tenant fit out costs, which is \$2 million less in upfront capital costs compared to other options that would be needed as the City's share of tenant buildout costs at 4850 Mark Center Drive.

It should be noted that DCHS lease extensions to match the timing availability of 4850 Mark Center Drive, 720 North Saint Asaph Street, 2525 Mount Vernon Avenue, 1900 North Beauregard are also docketed for Council approval. However, for the other DCHS leased site at 4401 Ford Avenue, the owners at 4401 Ford Avenue have decided to decline the City's extension in order to convert the building (and the office building next to it) to residential use. The City will be pursuing an alternate location for this DCHS leased space and will be coming to City Council in 2019 for lease approval for a new short-term lease for the duration necessary at a to-be-determined site to coincide with the colocation of DCHS at 4850 Mark Center Drive.

**ATTACHMENTS:**

- 1) 4850 Mark Center Drive site map/exterior building photo
- 2) Summary of terms for Letter of Intent

**STAFF:**

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