

BACKGROUND: DCHS, Neighborhood Health Services and the Alexandria Health Department operations currently occupy over 210,000 square feet of office, client and clinic space 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 In general, most of the current DCHS and Health Department space is overcrowded, outdated, and does not meet modern standards for office, client and clinic space. In addition, staff assessed the location of current client residences across the City and identified that a more western location in the City which would be more accessible to a majority of their clients.

Following space programming, a market survey analysis of available properties on 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 I-395, Seminary Road and Beauregard Street were considered as potentially meeting the most criteria. Based on the results of the analyses, staff recommended the building at 4850 Mark Center Drive as it best meets the needs for co-location, is the newest, is in the best physical condition and is the least expensive of the options. The approximately \$19.0 million cost differential between the lowest cost of the 4850 Mark Center Drive building and the next lowest option, as well as the additional space available for the Health Department were considered in making this determination. Building assessments show that 4850 Mark Center Drive, which has been owner-occupied by IDA since its construction, has been very well maintained.

4850 Mark Center Drive is a 270,000 square foot, ten (10) story, Class B office building with a four (4) story below grade parking garage, built in 2001 and owned by the Institute for Defense Analyses (IDA). The property is zoned Coordinated Development District (CDD #4) with an underlying zoning of Office Commercial (OC). The building can accommodate all DCHS, Health Department and Neighborhood Health Services requirements with additional space for future growth, relocation of City Offices from the Old Town/City Hall area, and/or swing space when City Hall is renovated. The additional space could also help facilitate a West End City service location for governmental services for City residents or other future City needs

City Council authorized the City Manager to execute a lease for the facility on December 11, 2018 which was executed by the City Manager on May 26, 2020. The lease includes two options to purchase the building. Staff has reviewed the different options and has determined that owning the building would be less expensive than leasing over a longer term. A purchase would be accomplished by issuing general obligation bonds to finance the acquisition. The purchasing of the building will not displace an Alexandria business as IDA is building a new headquarters office building in Potomac Yard and will remain in the City.

DISCUSSION: After receiving City Council authorization to lease with the option to purchase and after conducting extensive due diligence and negotiations by City staff and real estate consultants, Savills Studley, the City Manager executed a 15.5-year lease for approximately 215,806 square feet of rentable square feet (RSF) of contiguous space on Floors 1-8 (not including floors 9 and 10) at 4850 Mark Center Drive with a projected occupancy date of February 19, 2023 (Lease Commencement Date) following tenant fit-out.

The lease included two purchase options. The first purchase option (the "Initial Purchase Option"), was to purchase the building effective on the Lease Commencement Date. The negotiated purchase price is \$58.7 million and requires the City to post a five percent (5%) deposit, or \$2.935 million. The deadline for the City to execute this option is August 19, 2021 with an effective purchase date of February 19, 2023 which coincides with the lease commencement and occupancy date. Moving forward with the purchase option at this time instead of waiting until 2021 allows for the design and planning for the full utilization of the building. The Initial Purchase Option includes landlord-funded costs of approximately \$25 million including tenant improvement allowance, convertible rental abatement, floor leveling allowance and interior demolition costs.

If the City does not exercise the Initial Purchase Option, the City has a Second Purchase Option. The Second

Purchase Option period is between 30 months to 24 months prior to lease expiration (August to February, 2036). Under the Second Purchase Option, the purchase price of the building shall be the greater of (a) one hundred percent of the fair market value, or (b) a pre-determined floor based on inflation indices outlined in the contract. If the City does not complete either purchase options as outlined in the lease agreement, the City would forfeit these terms of purchase.

By purchasing the building, the City would save, over a 15-year period, approximately \$17.6 million when comparing the cost of owning to the cost of leasing the building. In addition, the City would have ownership of the entire building and related land. Purchasing the building will provide the City more flexibility and efficiency in programming and use now and in the future. Lobbies, elevators, corridors, amenities, roof, garage, storage space, service areas and the site would all be under City control. If the City leased just eight floors and not the top two floors, the City would need to utilize part of the first-floor space to create a lobby along with dedicated elevator use for those two top floors. By buying the building and controlling all ten floors, the City would also have the flexibility to relocate and provides services for other City agencies/offices now located in City Hall/Old Town or other locations.

FISCAL IMPACT: The sales price to purchase of the building is \$58.7 million (plus transaction costs estimated at \$1.2 million) if this Initial Purchase Option is executed by August 19, 2021. In accordance with the terms of the lease agreement which carryover to the purchase options, IDA will fund approximately \$25 million of the estimated total fit-out costs of \$45.6 million for the entire building (Floors 1-10), including a tenant fit-out allowance (\$90 RSF/Floors 1-8 RSF), or \$19.4 million; floor leveling allowance (\$3 RSF/Floors 1-8), or \$0.65 million; demolition costs (Floors 1-8), and free rent abatement, or \$3.3 million. The IDA cost of the build-out is included in the purchase price. The City would be responsible for the remainder of tenant improvements costs estimated at \$20.9 million. By acquiring the building the City will save \$17.6 million in lease cost over the term of the lease while also gaining a new City asset.

At its meeting on June 25, 2020, the Planning Commission found that the proposed purchase of the building at 4850 Mark Center Drive is consistent with the City of Alexandria Master Plan pursuant to Section 9.06 of the City Code.

ATTACHMENTS:

1. 4850 Mark Center Drive Aerial
2. 4850 Mark Center Drive Picture

STAFF:

Laura B. Triggs, Deputy City Manager
Jeremy McPike, Director, Department of General Services
Alfred Coleman, Deputy Director, Department of General Services
Donna Poillucci, Deputy Director, Department of General Services
William Miner, Capital Projects Division Chief, General Services
Grant Rogers, Capital Projects Manager, General Services