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Title: Discussion of a Conversion of 5001 Eisenhower Avenue Office Building to Residential Use, to Include Possible City Financial Participation to Induce the Conversion.

Sponsors: City Council Legislative Meeting

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Date	Ver.	Action By	Action	Result

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 6, 2024

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES F. PARAJON, CITY MANAGER /s/

DOCKET TITLE:
Discussion of a Conversion of 5001 Eisenhower Avenue Office Building to Residential Use, to Include Possible City Financial Participation to Induce the Conversion.

ISSUE: Facilitating economic use of a long-vacant office building and a portion of a 9.73-acre site located at 5001 Eisenhower Avenue.

RECOMMENDATION: That City Council direct staff to undertake community engagement and prepare an ordinance for First Reading on December 10, 2024, and for Public Hearing, Second Reading, and Adoption on December 14, 2024, defining possible City financial participation to induce redevelopment of 5001 Eisenhower Avenue.

SUMMARY: 5001 Eisenhower Avenue is a large, outdated office building, originally constructed in 1973 for the U.S. Army Material Command. Since that agency's move to
Ft. Belvoir in 2003, the 600,000+ SF building has been vacant. Despite the efforts of two owners over 21 years to identify and secure federal tenants, the most likely user of an office building of this size and orientation, no lease was ever executed. The building's chronic vacancy has significantly raised Alexandria's total office vacancy rate and is a contributing impediment to significant Eisenhower West redevelopment activity.

Most recently, in 2019, in an effort to induce commercial activity, the City granted the owner, an affiliate of Stonebridge, a partial real estate tax abatement to make the site conducive to office redevelopment and leasing. Similar to a previous partial real estate tax abatement granted for the site, these proposed projects were not realized because office tenants never leased the facility.

The City has also granted development requests and Development Special Use Permits to improve the building's marketability as an office space - to allow for the construction of street level retail and for the construction of housing on a portion of the site. These changes, and the previously granted tax abatement, still have not induced office tenancy.

With that in mind, and in light of the current post-pandemic state of the office market, the property owner has determined that conversion of the existing building to residential use is its highest and best use. At the owner's request and, because of this proposed change of use, City and Alexandria Economic Development Partnership (AEDP) staff have evaluated the viability of 5001 Eisenhower Avenue remaining an office building. Based on the building's age, location, floorplate, and ceiling heights, the owner's inability to lease the building with office users over multiple decades-even with City incentives offered-AEDP and City staff concur that the building is obsolete for office use. The building is responsible for approximately 3% of the City's office vacancy rate of 15.5% (midyear, 2024).

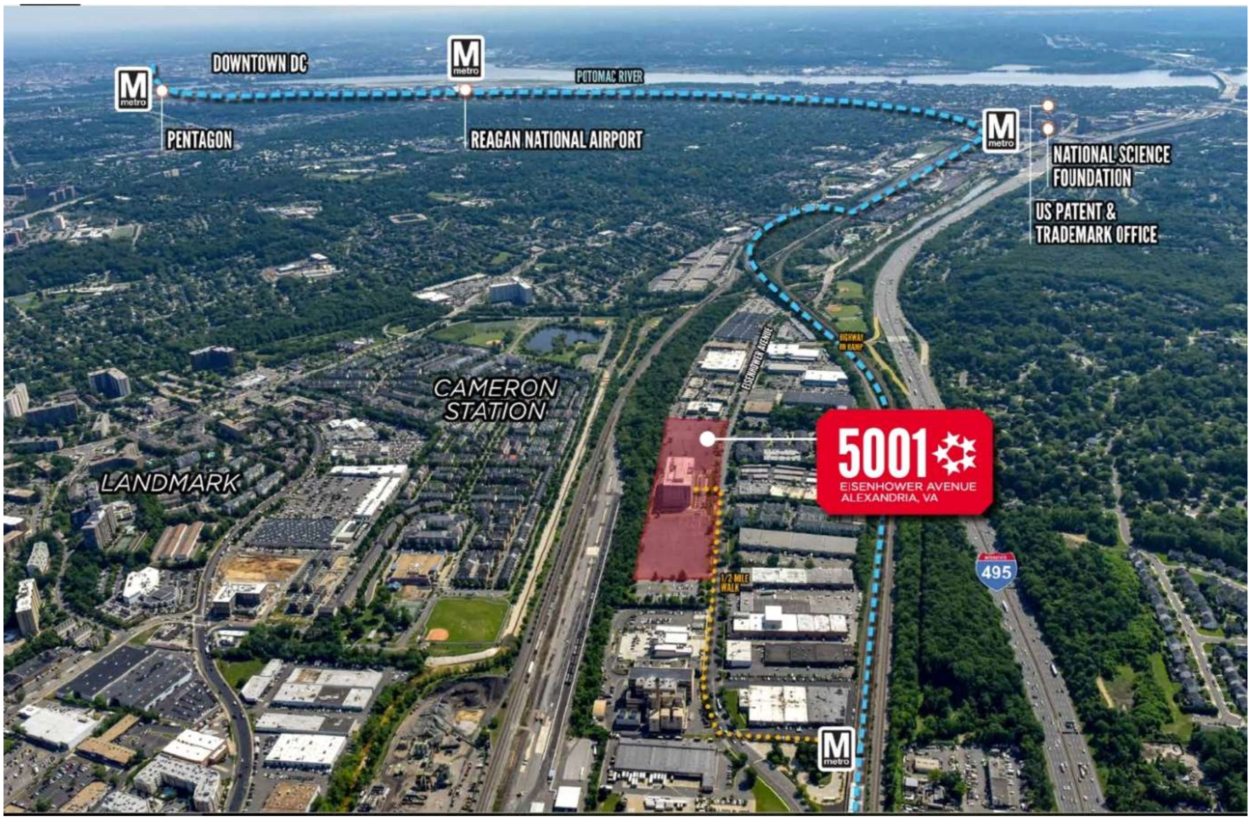
The building owner requested that City staff review a potential opportunity to utilize City financial participation, in the form of partial tax abatement on improvements to the building, to encourage the developer to incorporate a significant number of committed affordable and workforce units into the residential conversion of the building. In addition to the committed affordable and workforce rental units, conditions of the proposed City financial participation also require future development adjacent to the existing building as well as other community benefits.

BACKGROUND: Over the last decade, the 5001 Eisenhower Avenue building and site have ultimately lost out on four large federal government procurements. For the first two, no City incentives or inducements were contemplated. For the third (Transportation Security Administration or "TSA"), the property owner included a partial real estate tax abatement incentive as part of the Best and Final Offers (BAFOs). The site initially won that procurement, but it was eventually overturned, and the lease did not come to fruition. In the fourth attempt, no incentive was included. Details of those pursuits are below.

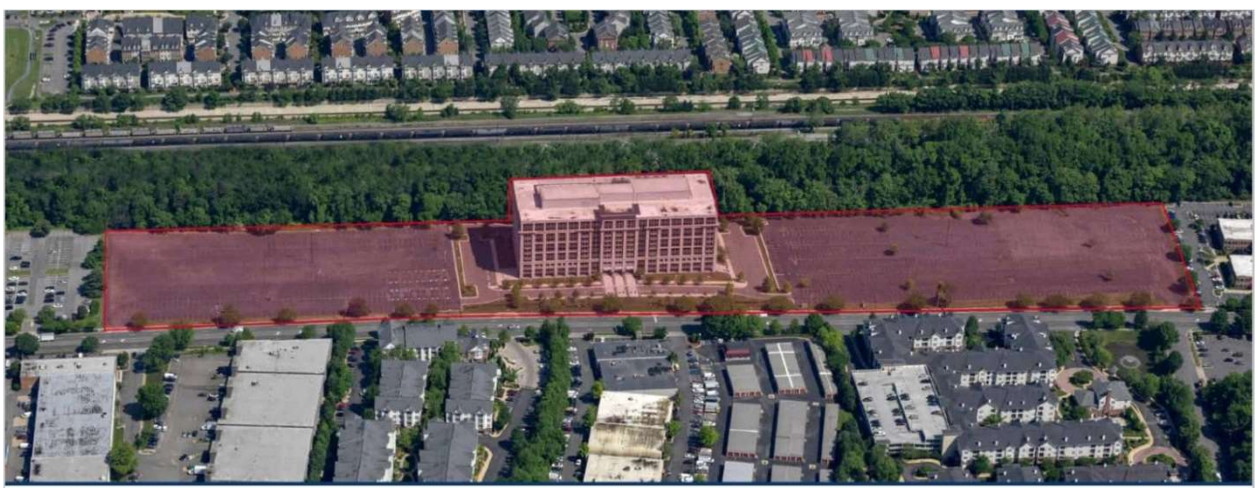
2005 Base Realignment and Closure (BRAC) Requirements

As a result of the national 2005 BRAC, millions of square feet of office space in Arlington and Alexandria, which were then leased by the Department of Defense (DoD), were vacated and moved onto bases and installations in Northern Virginia and throughout the United States. During the consolidation process, the DoD identified groups of commands that needed to remain in the National Capital Region, and thus conducted separate procurement processes for these. The Victory Center (now 5001 Eisenhower Avenue) competed for two of these procurements. The first, known as the **BRAC 133 Proposed Consolidation**, was a collection of 6,400 employees working for the Washington Headquarters Service (WHS) and related commands in the DoD. Victory Center and Alexandria's Mark Center were the two finalist locations for the 1.75 million square foot office requirement- Mark Center was ultimately selected in September 2008 and the DoD contracted for construction of the major office building at that site largely because the Victory Center's pricing was much higher.

The second, known as **Tricare** or the **Medical Command Headquarters**, was a procurement for more than 700,000 square feet of office for 3,000 workers. The DoD initially looked at 17 potential sites, narrowing it down to three, including the Victory Center, before ultimately choosing a site in Fairfax County in July 2010.



Transportation Security Administration (TSA)



In 2015, after an intense regional competition (where lease cost and the City's proposed partial real tax abatement were major determining factors) the Federal government awarded a lease for the relocation of the TSA headquarters to the Victory Center site (5001 Eisenhower Avenue) in Alexandria. The proposed relocation would have utilized most of the existing building and included construction of a new building and parking garage to suit the needs of the proposed federal tenant.

In order to win the deal, during the final stages of that competitive pursuit, the ownership of the Victory Center approached the City with a request for a partial real estate tax abatement similar in structure to one the City provided to win the National Science Foundation (NSF) procurement a few years earlier. The need for the partial real estate abatement was driven largely by the fact that during the lease negotiations, the federal government changed its requirements and drove up the lease costs to the point that the property owner could not make a competitive bid without the City's participation via a partial real estate tax abatement. As a result, the property owner requested and received up to a potential $1.6 million fixed annual partial real estate tax abatement over a 15-year period. The nominal value of the abatement was about $25 million. The partial real estate tax abatement could have been earned if performance requirements of TSA-occupancy of the building were met. That abatement was never put in place as the TSA bid ultimately was not successful.

Drug Enforcement Administration (DEA)

5001 Eisenhower Avenue also competed for the relocation of the Drug Enforcement Administration (DEA) headquarters from Pentagon City in Arlington. The DEA requirement was the smallest of the four pursued at 575,000 SF and would have occupied the existing building on site. The Victory Center site did not formally request a tax abatement for the DEA headquarters project even though the City indicated a willingness to consider one, if needed. Given the project economics, the tax abatement offer eventually became moot. As an existing building, and by choosing not to construct parking as part of its response, the increased real estate value would have been much lower than in previous procurements, and hence, the level of abatement would have been lower than that previously provided to that ownership entity for the TSA requirement.

In March 2018, with all signs pointing towards GSA choosing a different site, the Victory Center ownership filed a bid protest challenging the government's plans to keep the DEA in Pentagon City. A judge eventually denied that challenge and, in September 2018, the GSA signed a lease for the DEA headquarters at the stay-in-place option in Arlington. That County worked with the property owner to provide a financial incentive of $11.5 million.

Eisenhower West Redevelopment District: The City has officially adopted two separate partial tax abatement districts; one for the National Science Foundation and one at 5001 Eisenhower Avenue for the planned TSA headquarters. In both districts, real estate taxes on the office building(s) and other improvements are partially abated over 15-years, aligned with the term of the proposed office leases. Taxes on the land and any existing other building(s) continue to be levied by the City.

The existing real estate tax abatement districts were established as the "*National Science Foundation Redevelopment District*" and the "*Eisenhower West Victory Center Redevelopment District*," which were each defined to include only the parcels where catalyst projects are located. All other adjacent existing real estate, including the value of other buildings that may be constructed or developed to fulfill other spin-off needs are fully taxable unless the City were to amend its tax policies in the future. Under Virginia law, in a partial real estate tax abatement only the value of new improvements is subject to partial tax abatement, while the value of any existing structures and land remains fully taxable.

While this district is still an active ordinance, the benefits of abatement as proposed will never be realized as the terms will never be met, since TSA did not occupy the building as an office user.

DISCUSSION: PGIM Real Estate, formerly known as Prudential Real Estate Investors (and priority affiliated entities) acquired the property in 2004 and began an extensive exterior renovation after the building was vacated by the Army Material Command as part of consolidation activities to Fort Belvoir. In the summer of 2018, PGIM Real Estate retained Cushman & Wakefield to seek buyers for 5001 Eisenhower Avenue, and the 16 acres on which the vacant office building sits.

When Cushman-Wakefield was brought in, the owners had spent a decade actively pursuing federal tenants to lease the building, and potential new construction on site. PGIM's decision to sell the asset in 2018 was the result of multiple failed pursuits..

Located within the Eisenhower West Small Area Plan boundaries, the 5001 Eisenhower Avenue building and the remaining ~9 acres of undeveloped land, currently paved for surface parking, are envisioned as a catalyst for continued investment in the west end of the City. Specifically, the plan calls for redevelopment of the entire site into a mixture of office, residential, and retail uses. The western portion of the existing 11-story building is within ½ mile of the Metrorail station and was taken down to the concrete slabs and columns in a $60 million renovation years ago in anticipation of winning the BRAC-133 development. As renovated, the building meets the most rigorous GSA Level-IV Security Standards (i.e., major blast-proof protections) and addresses key federal government leasing criteria, including physical construction, transportation, accessibility, and proximity to amenities.

After purchasing the asset in 2018, the current owner, "5001 Eisenhower Office Owner, LLC," which is affiliated with Stonebridge Associates, Inc., also actively pursued federal agency procurements for the existing building, almost all of which came to a halt in 2020 with the pandemic. At the time of purchase, Stonebridge identified a backup position- conversion of the existing building and property to multi-family residential uses as well as subdividing and rezoning the eastern portion of the site to accommodate a residential townhouse development. Following approval of the latter in 2019, 6.37 acres of the 16-acre site have been developed as townhomes as the empty office building and its parking lot remain in place.

Utilizing the Redevelopment District to Induce a Range of Committed Housing Affordability: The City has been a national leader in allowing, facilitating, and encouraging the conversion of obsolete offices into different, viable uses. The removal of obsolete office from inventory benefits the City in multiple ways:

- New investment in old buildings raises property values and assessments;
- Conversions have created new housing units, school space and hotel rooms;
- Removal of office space from inventory reduces the City's office vacancy rate, positively impacting supply/demand to allow for new office construction; and
- The project potentially catalyzes other nearby mixed-use development.

The City's office vacancy rate is approximately 15% (including sublet space) for the 20.9 million sq. ft. of office inventory citywide. Removing 5001 Eisenhower (through successful conversion) would result in a vacancy rate of 12.5% with an inventory of 20.2M sq ft.

Although the City of Alexandria has experienced conversion of many commercial buildings to residential use in recent years, this trend has produced a limited number of committed affordable units. In the absence of additional square footage being requested, which would require the onsite provision of affordable housing, based on current housing contribution procedures regarding conversions, a developer proposing conversion is asked to make a monetary contribution ($1.76/SF, 2024 dollars). This amount may be reduced by credits given for any prior contributions made pursuant to the City's affordable housing contribution policy.

In discussions with the building owner, City staff has reviewed the request to utilize City financial participation (in the same format as previously approved - partial tax abatement) to achieve two of the City's strategic priorities - conversion of obsolete office buildings for return to active use and creation of affordable housing units. The existing Redevelopment District can be repurposed to structure City financial participation to induce/catalyze the conversion of a challenging commercial building to residential use while also meeting Alexandria's need for committed affordable and workforce housing. Additional details regarding possible City financial participation and public benefits will be presented at the November 12, 2024, Legislative Meeting.

ATTACHMENTS: None

STAFF:
Bonnie Brown, Deputy City Attorney
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Stephanie Landrum, President and CEO, Alexandria Economic Development Partnership
Helen McIlvaine, Director, Office of Housing
Karl Moritz, Director, Department of Planning & Zoning