



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 5, 2021

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:

Authorization of Exercise of a Notice of Intent by the City to Purchase Property at 4850 Mark Center Drive (IDA Office Building).

ISSUE: Notice of Intent to exercise the City's option to purchase property located at 4850 Mark Center Drive.

RECOMMENDATION: That City Council authorize the City Manager to give notice to the Institute for Defense Analyses (IDA) by August 19, 2021 of the City's intent to purchase from the IDA, its office building and related property at 4850 Mark Center Drive for \$58.7 million.

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 In general, most of the current DCHS and Health Department space is overcrowded, outdated, and does not meet modern standards for office, client, and clinic space.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

Following space programming, 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 options, 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 the IDA since its construction, has been very well maintained.

4850 Mark Center Drive is an approximately 270,000 square foot, ten (10) story, Class B office building with a four and one half (4-1/2) story below grade parking garage and an open parking deck at the first-floor level. The facility was built in 2001 and is zoned a Coordinated Development District (CDD #4) with an underlying zoning of Office Commercial (OC).

City Council authorized the City Manager to execute a lease for the facility on December 11, 2018, which was subsequently executed on May 26, 2020. The lease included the option to purchase the building. Staff reviewed the different options and determined that owning the building would be less expensive than leasing over time and presented these findings to City Council last July. A purchase would be accomplished by issuing general obligation bonds to finance the acquisition. The purchase 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. On July 7, 2020, City Council authorized the City Manager to enter into a contract to purchase the office building for \$58.7 million. The Notice of Intent to purchase option deadline to give notice of intent to purchase prior to City occupancy is August 19, 2021.

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 consultant, Savills, the City Manager executed a 15.5-year lease for approximately 215,806 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 purchase option for the building is effective on the Lease Commencement Date. The negotiated purchase price is \$58.7 million plus closing costs 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 allows for design and planning to proceed for full utilization of the building. The Purchase Option includes landlord-funded costs of approximately \$25.0 million, including tenant improvement allowance, convertible rent abatement, floor leveling allowance, and interior demolition costs. This results in a net unimproved cost of \$33.7 million or \$125 per square foot.

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. On July 7, 2020, City Council authorized the City Manager to enter into a contract to purchase the office building for \$58.7 million. This action allowed staff to commenced planning for use of the entire building. The current action will reaffirm to the seller the intent to execute the purchase option by August 19, 2021.

FISCAL IMPACT: The sales price to purchase the building is \$58.7 million (plus transaction costs estimated at \$1.2 million) if the Initial Purchase Option is executed by August 19, 2021. In accordance with the lease agreement which carries over to the purchase options, IDA will fund approximately \$25.0 million of the estimated total project costs of \$45.9 million for the entire building (Floors 1-10), including a tenant fit-out allowance (\$90 RSF/Floors 1-8), 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 funded tenant fit-out costs will be fully paid in the event of either City lease or purchase. The City is responsible for the remainder of tenant improvements costs, estimated at \$20.9 million (including Virginia Department of Health one-time project funding of approximately \$1.0 million). By acquiring the building, the City will save \$17.6 million in

lease costs over the term of the lease while also gaining a new long-term City asset.

ATTACHMENTS:

1. 4850 Mark Center Drive Aerial of site
2. 4850 Mark Center Drive Front Elevation

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, Department of General Services

Grant Rogers, Capital Projects Manager, Department of General Services