

# ADMINISTRATIVE GUIDANCE FOR OFFICE CONVERSIONS

## Arlington County

December 2020

**This document outlines the Administrative Guidance for Office Conversions (Administrative Guidance), the purpose of which is to provide consistently applied administrative guidance on Key Areas of Consideration when reviewing office conversion proposals.**

### CONTEXT

In August 2014, the Arlington Future Office Market Task Force of the Economic Development Commission (EDC) released a report – *Arlington Future Office Market Study* -- outlining some of their key findings relative to systemic shifts in the regional and local office market. This effort was conducted in response to a variety of land use requests to convert existing or planned office uses to other uses, primarily residential. The report stopped short of providing direct guidance on how specific land use requests should be analyzed, but did conclude that a variety of systemic shifts in the regional and local office market require a more flexible approach to the consideration of land use applications that sought to amend the primary use and character of existing or planned office buildings.

In 2020, Arlington remains a highly competitive office location, but within the context of national and regional trends that have dampened overall demand relative to existing and planned supply as well as localized impacts of market events such as loss of leased space through the Base Realignment and Closure (BRAC) Act and shifts in federal government leasing policies. This data provides a baseline for understanding of the current and future status of the Arlington office market.

- Arlington has approximately 41.5 million square feet (SF) of multi-tenant office inventory, 56% of which is in Class A properties competing at the top end of the office rent spectrum.
- In the last ten years (2011-2020) in Arlington the amount of occupied space has declined by ~93,000 SF – typically referred to as negative net absorption. In 2020 total vacant space in Arlington stood at 7.3M SF.
- Despite negative net absorption, since 2011 3.6M SF of new office product has been delivered in Arlington, with a net inventory growth over this same period of 3.1M (net growth accounts for the redevelopment of older office buildings). The last five years accounted for 1.2M SF of this inventory growth, reflecting a slowdown of the pace of new deliveries.
- There is approximately 9M SF of office space in approved but not yet constructed office space in Arlington. This future office supply includes ~2M SF approved as part of Amazon HQ2 Phase I (Metropolitan Park 6-8), but does not include the expected request for additional office development of as part of Phase 2 (Pen Place). More critically the 9M SF in approved office space does not reflect the significantly greater capacity for new office development recommended in approved sector plans.

Alongside this baseline data, many of the observed systemic and fundamental office market shifts have become even more pronounced since the EDC released its report in 2014. Most notably, the longer-term office market trends that provide a foundation for this Administrative Guidance are:

- A constriction of regional net new office demand, primarily due to a continued trend of increased tenant space efficiency (less office square footage utilized per employee), as well as the localized impact of reductions in federal leased space.
- Expansion of the number of competitive, transit-served office submarkets in Northern Virginia and Washington, D.C.
- As such, a highly competitive regional office market that has resulted in a coalescing of office tenant demand around high-quality, competitive office supply within established or rapidly emerging, clustered submarkets with a strong brand, infrastructure and amenities.
- A significant reduction in speculative office construction, with new supply delivery driven by pre-leasing to a sliver of the office tenant demand seeking new modern buildings in Class A locations.
- Underperformance of older, non-competitive office product, which requires an owner to decide to either undergo a significant investment into office building repositioning or pursue redevelopment or conversion; older office supply in less attractive fringe office locations are particularly challenged to maintain a productive market positioning.

These trends are sustaining through typical short-term market cycles, and thus are considered as systemic and structural when analyzing the longer-term feasibility of new planned office supply.

This is not to conclude that there will be no demand for new office construction in Arlington. A segment of office tenants will continue to seek out new building opportunities in prime locations, and thus the demand for and feasibility of new office construction will be highly sensitive to location. It is a reality that some older office buildings, specifically those in fringe locations, may require a conversion option through rehabilitation or redevelopment in order meet current and future longer-term market conditions, and that some planned office space may not be viable given the location of that planned space. Long-range planning policies or existing land use entitlements that designated a specific site or block for office use may have been approved within a different context, leading to a disconnect between those plans and systemic and structural market realities.

Alongside a need to reflect these systemic and structural office market trends in long-range land use planning decisions, a number of development and redevelopment proposals to convert existing or planned office buildings to an alternative use are expected in the near term. A clear framework for County staff and community review of proposals and long-range planning policies is both necessary and timely.

## **CORE PRINCIPLES**

Staff developed this Administrative Guidance to provide a clear and consistent framework for staff analysis and presentation, and ultimately the formation of a formal staff recommendation to the County Board when considering land use approvals or policies. It is also an important tool for use by advisory

commissions, community members and property owners/developers to be able to discuss the merits of a land use proposal through a consistent and transparent framework. As such, the following core principles of application and limitation of this Administrative Guidance are:

- It is not County Board policy. It does not change existing CB land use policy but does provide input into how diversions from or formation of County Board policy may be considered.
- It does not fundamentally alter existing land use review processes. It will be an input into the existing land use processes, including staff review and analysis, community review and discussion (including the processes of the Planning Commission and its subcommittees), and County Manager recommendation to the County Board on any relevant legislative action.
- It is not intended to be solely reactive to near-term market cycles or near-term challenges.
- Land use decisions should consider longer-term systemic and foundational shifts in the office market that can be best aligned with long-term land use visions.
- It does not establish a quantitative, metric-based approach that results in a binary “yes or no” outcome through application of the Administrative Guidance alone. It is meant to guide an eventual recommendation through analysis, review and discussion based upon a consistently applied framework, but that recommendation should reflect the unique context of each proposal.
- It deals only with the singular issue of whether planned office uses should be considered for an alternative use. It does not address other land use issues related to proposed office conversions, such as impacts on built form; density calculations for different types of uses and the earning of any required density; the accommodation of alternative uses that may not be allowed within an existing zoning district; and parking requirements. These land use issues, among others, that are outside of the purview of this Administrative Guidance will be addressed using existing practices, policies and ordinance; any future effort to further address these through changes in administrative regulations, County Board policy, or the zoning ordinance will require additional process and public engagement.

## **APPLICATION OF GUIDANCE**

This Administrative Guidance will be utilized during the staff review processes related to any question of amending or establishing land use guidance on the requirement or preference for office use in a specific location. Specifically, the Administrative Guidance is expected to be applied in the following scenarios:

- Site plan proposals for a non-office use within a Phased Development Site Plan (PDSP) where density was allocated for office use;
- Site plan proposals for a non-office use where sector or area plan guidance indicates a preference for an office use;

- Site plan proposals to amend an approved office site plan where the nature of the office use was a critical component of the approval; and
- Formation of or updates to use mix guidance within sector or area plans.

The Administrative Guidance can be applied to a variety of land use scenarios, including the switch of planned office use to an alternative use on undeveloped land or a planned redevelopment site, as well as the adaptive reuse conversion of an existing office building.

The Key Areas of Consideration discussed below provide the core components of this framework.

## KEY AREAS OF CONSIDERATION

The following Key Areas of Consideration comprise this framework for the Administrative Guidance:

Existing PDSP approval and/or land use policy guidance: PDSP approvals, sector/area plan policy guidance, and individual site plan approvals that designate specific land uses for identified sites can result from a broader vision for the long-term character of an area. As these visions often assume a level of patience to reach the desired goals for an area, they should not be dismissed solely due to near- or mid-term market dynamics. However, such visions also must be reconsidered when appropriate in the context of long-term systemic shifts in the marketplace. Key questions to consider include:

Is there a defined use designation for the site as part of a PDSP or sector/area plan, or did a previous site plan approval identify office use a central component of the approval, that ties directly to a long-term vision for the area?

What was the expressed justification/vision for the previous policy guidance or approval related to the presence of the office use, if known or in the public record?

Are the previous assumptions made to justify specificity of use still as viable and critical to success of the long-term vision for an area?

Has realized development of the area since the existing guidance or approval provided further insight into the long-term viability of office use at the site?

Will the requested office conversion materially impact achievement of other critical aspects of the long-term vision for the relevant planned area?

Transformative nature of infrastructure improvements or public benefits: Often long-term land use plans envision transformative infrastructure improvements (roads, streetscapes, transit, parks, etc.) that require the redevelopment of buildings. In these cases, the development or redevelopment of a site, regardless of use, provides a critical component of plan realization. In these cases, a “patient” approach to land use designation may hamper the ability to achieve placemaking goals and transform an area into a more functional urban environment. Conversely, conversions of existing office assets to an alternative use, which typically requires significant capital investment, may be viewed as delaying the realization of a plan goal.

Does a proposed redevelopment provide significant realization of transformative plan goals that otherwise would not occur if the site is not developed/redeveloped?

Is maintaining an office use designation expected to significantly stall development or redevelopment that impacts a broader area?

Does a proposed conversion of an existing building (adaptive reuse) stall anticipated redevelopment and limit the realization of an otherwise near- or mid-term plan goal, or is it sufficiently “temporary” in nature to still allow for long-term plan realization through future redevelopment?

Will the proposed conversion provide extraordinary community benefits that significantly further Countywide or plan level policy goals?

Proposed conversion results in equally or more desirable land use type: A proposed conversion of conventional office to an alternative use may in fact, upon closer examination, result in a land use that advances other sector plan or Countywide goals.

Does a proposed conversion to an alternative use provide a more acceptable or desirable land use balance in a planning area upon further consideration of existing guidance?

Does the proposed conversion impact concepts such as daytime/nighttime/weekend activity and other related concepts such as retail viability and positioning, use of transportation systems, activation of open spaces and parks, etc.?

Does a proposed conversion to an alternative use further local area or Countywide commitments to the preservation or creation of affordable housing, location of civic uses, realization of community energy goals, etc.?

Does the proposed conversion result in land use type, such as hotels, that also contribute greatly to the economic sustainability of an area and viability of other planned office sites?

Systemic office demand/clustering/critical mass: Office markets operate most efficiently when office supply is clustered in submarkets with sustainable commercial office demand. Office tenants typically seek out locations in well understood and branded office clusters. Companies view clusters as critical to real estate choice diversity, inter-company collaboration, access to labor force, and proximity to amenities that support workforce retention. A critical mass of office supply is key to a submarket’s success. Office buildings viewed by tenants as isolated or on the fringe of a submarket significantly underperform the market.

Has a verified shift in the systemic and structural demand for commercial office space, over several market cycles, occurred Countywide and/or in the subject area?

Is the site in an established office submarket with critical mass of office supply that would indicate a long-term viability for office use at the site, or is it more of an isolated or fringe site?

Would the removal of an existing or planned office use diminish the viability of an established office market? Or likely create increased interest in office conversions?

Would the removal of an existing or planned office use diminish the ability of an emerging office submarket reach its potential?

Adjacent areas of significant future supply: One of the goals of a defined land use mix should be to allow the market to evolve over time while also ensuring an adequate supply of land uses that results in a desired balance. From an office perspective, the County should work to ensure that adequate supply of inventory will exist that will allow it to continue to grow its economic base. This includes specialty needs such as large block headquarters spaces. However, if a proposed conversion is in a nascent submarket, or is isolated or on a submarket fringe, the future supply in adjacent or proximate submarkets, especially if these submarkets are more established, must be considered. This should include planned areas outside of Arlington borders, if appropriate.

Is the proposed site/planned area adjacent to other planned areas with significant future office space capacity?

Are there effective multimodal connections from the site/planned area to these adjacent or proximate areas of potential future inventory growth?

If the proposal aims to convert a large block of existing planned office space that would be useful in attracting headquarter tenants, are there other equally or more competitive locations in the County or in adjacent areas to meet this potential tenant demand?

Have land use plans in adjacent or proximate areas altered the context of the land use mix vision for the relevant planned area? Most notably has significant capacity for clustered commercial office development in more established and/or viable submarkets been added since the existing policy guidance was adopted or the entitlement was approved?

Transportation infrastructure: Office buildings historically, and even more so today, have a higher attraction than other uses (particularly residential) to immediate adjacency to a robust transportation infrastructure, specifically rail transit. Office sites tend to perform less when farther removed from these transportation facilities (often then resorting to stop gap measures such as private shuttles). Robust bus service also can provide an alternative for an office use but is not as highly valued as immediate proximity to rail. Residential uses, as an example, tend to be less sensitive and more accepting of alternative (to distance to rail) transportation options. Parking is also a key consideration, as clustered office uses make it easier to establish shared parking districts, but isolated office sites tend to be more inward focused on their parking.

Is the site located in close distance (several blocks) from a Metro station?

Will an alternative proposed use be more accepting of the current and future transit options available to the site, specifically if these options are non-rail modes of transportation and transit?

Is the site within an existing or future planned shared parking district? Will the proposed conversion negatively impact needed shared/public parking in an area?

Amenities: A critical mass of amenities is a core component of a functioning office submarket. Most office tenants will seek out locations that offer a robust supply of these amenities such as hotels, business services, convenience retail and restaurants of varying type. Office sites without access to these types of amenities will generally underperform and be viewed solely as a price alternative. Stand-alone or fringe office sites often struggle in this regard, as a single building or small cluster of office space does not ever create the depth of market that can support a robust amenity base.

What is the naturally occurring retail and amenity positioning in the subject area?

Does the office site have access to an existing or forming amenity base that specifically suits office tenancy?

Will removal of the planned office space diminish future efforts to create the critical mass of office uses that could support a more robust amenity base?

Site/building constraints: Many planned office sites, once more detailed design of a building is undertaken, face site challenges that diminish the viability of an office use. Issues for new development or redevelopment typically relate to site dimensions and impacts on floor plates and building efficiency, access and visibility to an and from primary street addresses, and height constraints. For rehabilitation opportunities in older office buildings, existing floor heights and column structures are also typically impediments to continuing to pursue a primary office use. When considering a conversion of a planned or existing office building, any identified constraints should be strongly considered. With that said, unique sites can also lead to unique office building types, which may have a niche but strong market; however, these niche markets tend to be most successful in the strongest office locations.

Are there identified site and zoning constraints that affect key building factors such as floor plate size and efficiency, floor heights, frontage, visibility and accessibility, etc., that will continually challenge the construction of new office space?

Are there identified existing building constraints, such as age and/or obsolescence of the building, that make continued office use particularly challenging?

Is the site well positioned to capture niche or underserved market opportunities – e.g., small tenant sizes, Class B and C office demand -- with a unique new or existing office building type?

Creative workplaces: One of the clear takeaways from the *Arlington Future Office Market Study* as well as many other studies on the issue, it is clear “how we work” continues to evolve. This does not mean the death of conventional office product, but has and will continue to lead how

office spaces are built out, positioned and leased. It also leads to even more creative concepts that move away from conventional office to a more shared work environment that doesn't necessarily need to be in a primary office building, to third place/community work nodes (everything from coffee shops to significant workspace amenities in multifamily buildings), and evolving live-work concepts. The proposed office conversion should consider whether these more creative concepts can be effectively integrated into an alternative use, particularly if daytime population is a stated and needed goal for a planned area.

Does the proposed conversion include any of these or other creative workplace elements, and if not, can be they explored through the staff review and feedback process?