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[00:00:10] Good morning, everyone. Welcome to the July 18th meeting of the Economic Advisory Commission. We have a couple of items I wanted to bring to your attention.

[00:00:26] As members of the Economic Advisory Commission, projects that in large measure you've either initiated or have been involved in over the past several months, first of all is the Talent Up Fund.

[00:00:44] Many of you will recall that you met in a work session, and then we, as a full EAC, discussed that project. On July 11th, the Board of Supervisors approved the Talent Up Fund, which is a work-based learning opportunity fund.

[00:01:04] The Talent Up will match local employers with qualified but untapped talent through paid temp-to-permanent work-based learning internships. Selling up as a pilot program utilizing $2.5 million of ARPA funding, federal funding.

[00:01:21] The program will launch later this year and run through 2024. It is an initiative of the Economic Advisory Commission, and we thank you for your work and input. Last year, staff then developed a program based on that input, guidance, and your expertise.

[00:01:40] Staff's going to communicate with the EAC when the employer engagement begins this fall. So the second program I wanted to mention was the Thrive Small Business Technical Assistance Program.

This is an initiative of the Department of Economic Initiatives, and they would like you to know about the program because we need your input.

[00:02:02] It's going to provide up to $10,000 in technical assistance to small businesses in areas including marketing, operations, and finance. It's currently recruiting experienced consultants to provide that technical assistance.

[00:02:22] And there are RFPs that are now open through August 4th. So if you're interested or you know a consulting firm that might be able to offer its services to this program or you know a small business that would be in need of these technical services, please let us know.

[00:02:44] You can reach out to Rebecca Modery and the Department of Economic Initiatives with that information. So the meeting we have today is focused on one of the biggest challenges we, I think, as a board, see going forward, and that is the preservation and expansion of our commercial office space.

[00:03:11] Very fortunate to have some great speakers here today to help us understand the issues and discuss with you your suggestions and ideas on how we move forward in that arena. Our first presentation is going to be an overview by Rebecca Mildry, the director of the Department of Economic Initiatives, and Scott Sizer, who works in that department.

[00:03:43] We'll then have a presentation on a current office market and leasing trends with the EDA and also the EDA will present an office vacancies and solutions presentation. And finally, Andy Dorlester from the Department of Planning and Development will present on building conversions.

[00:04:10] And I want to point out that if Andy screws up, there's nothing we can do because she's leaving Fairfax County on Thursday. So, you know, so we're at her mercy. And she said something about getting it off her mind.

[00:04:26] I'm not sure what that meant. Anyway, Andy, it's been fun working with you, and you've done a great job for the county over 24 years. So thank you for that, and good luck at your next endeavor. We had an excellent, I think, set of minutes from our last get-together that was distributed.

[00:04:47] Did anyone have any changes or revisions to those minutes? If not, they'll stand as a record of our last EAC meeting. So with that, I think I will just turn it over to Rebecca Mowdry because we have a very busy agenda.

[00:05:09] We do. I'm going to briefly introduce the topic and the agenda. But before I do, I'm going to do something that I don't get a chance too often, which is recognize someone who helps us put this entire meeting together, even picks up coffee so that we can all have a little networking beforehand, puts the slides up, creates the agenda.

[00:05:31] So I just want to recognize my colleague, Mariam Clumley. Thank you very much, Mariam, for all of your help. Lots of behind-the-scenes work, of course. So again, I'm going to introduce the topic. and many would say that this conversation is a long time coming, but we really believe that today, right now, is the best time to discuss the office market. Since March of 2020, we have certainly been moving through some uncertain economic times, and in spite of that uncertainty,

[00:06:04] or maybe because of that uncertainty, we have all responded and acted in creative and courageous ways and that has helped to continue a strong economy and workforce and we continue to see

robust economic activity even now. We've seen many changes and perhaps one of the greatest changes that we've seen is changes in the workplace. How we work, where we work, when we work, why we work

[00:06:35] And these questions and our response to it are crucial for us today and also for our tomorrow, especially given that in Fairfax County, we have 120 million square feet of office space.

[00:06:53] So this discussion today and our ongoing activities certainly will have an impact on our economy and our workers. And we see a lot of news stories and data and analysis from different parts of our region and our nation on different office markets.

[00:07:12] Many of those are ominous. Many are conflicting and certainly can create more uncertainty and perhaps more fear. So we are excited today to focus in on our unique office market in Fairfax County and review what's happening here and trends and also have a robust discussion about what we are doing and what we could be doing to continue to support our economy and ensure that businesses and workers want to come here, stay here, grow here.

[00:07:50] Moving on, I went through the goals and some of the topics that we're going to go through. In terms of our agenda, Supervisor Faust presented the topics as well as our speakers. We have reserved a significant amount of time for discussion.

[00:08:07] And what we'd like to do is kind of go through the presentations, present the information, close out with Andy, which feels appropriate as your swan song. and at the conclusion of Andy's presentation, open it up for questions and discussion as well as feedback. So with that, I'd like to turn it over to Scott Sizer. Thank you, Rebecca. As mentioned, I'm Scott Sizer with the Department of Economic Initiatives, and really one of the foundational documents and one of the big changes that happened since 2020 was the adoption of the countywide strategic plan by the board in 2021. This is really our shared vision of what the

[00:08:44] community's goals and outcomes are in our county. It was adopted with 10 community outcome areas, These are the 10 issues of greatest importance to the community. And all of these are relevant and interrelated to the work of the EAC and economic development more broadly. But today, I wanted to focus on that economic opportunity outcome area, and the expressed vision that all businesses, people, and places are thriving economically.

[00:09:10] So while it was adopted, really one of the big questions is, what's next? You know, how do we move from this goal to implementation? What does success look like? So that's where these five bullets on this slide start to speak to those desired outcomes of what this economic opportunity can look like for our community.

[00:09:27] And it also includes a number of strategies that were proposed to meet these goals. The economic outcome section of the countywide strategic plan has 19 different strategies related to economic opportunity. And these, again, came out of work with the community as part of the strategic planning effort, as well as informed by the chairman's task force on equity and opportunity.

[00:09:48] And so as the countywide plan moves into our second year of operation, the county executive has created an implementation team to make recommendations to move forward these 19 strategies, help to identify and prioritize those. And I think members of the EAC and members of the Board of Supervisor and staff will be helping with those efforts.

[00:10:07] And today's discussion is really informing that work going forward. And it's really key for our discussion today, as Rebecca touched on, is the health and economic vibrancy of a subset of our economy, and that's really the office market. This dashboard that you see in front of you is currently up on the county's website.

[00:10:25] And this is our key set of headline metrics for the economic opportunity section of the strategic plan. These are really used to help us identify those areas of performance and evaluate the goals and potential areas either for policy development, intervention. Again, this is currently up online.

[00:10:42] These are really just those top headline measures. Behind these, there's additional data that's on the website that's shown below. Each one of these is really just the tip of the iceberg. As we'll see today, as we dive into the office market, there's just a tremendous amount of information and data and questions.

[00:10:59] And every time you see a piece of information, sort of I've heard from folks as we were preparing for today, asking more questions and wanting to know more information about what's here. But today, really, we're going to be looking at that overall vacancy rate that's highlighted. But they're all linked and interrelate.

[00:11:14] And I just want to show two quick graphs before we have our experts from the Fairfax County Economic Development Authority chime in. So this first graph is unemployment rate in Fairfax County. So what you're looking at here are monthly unemployment percentages dating back from 1990 all the way to 2022, the end of last year.

[00:11:35] And so you can see a couple of different trends. The gray areas as well are areas, those are the months that the United States was in a national recession. And so you can start to see some patterns between recession impacts on unemployment rates. But I really just want to focus on that last end.

[00:11:53] And as Rebecca mentioned, sort of the impact of the COVID-19 emergency and how unprecedented it was, this graph shows you that. I mean, it is, they were record high unemployment. It happened pretty immediately. There wasn't the buildup that you see in some of these other events.

[00:12:08] It happened immediately, but then it has pretty quickly dropped back and returned to post-recession or post-COVID emergency or pre-COVID emergency numbers, including a recent report from the Northern Virginia Regional Commission has declared that we are back at pre-pandemic levels of unemployment going forward. And that's a very different graph than you'll see on the next one.

[00:12:34] In this graph, I know when we look at it, there's just so much information and so much data here, and that's really the bulk of the discussion for today. This is illustrating our office market in Fairfax County from 1980 to December of 2022. So the past 42 years of our office market is represented in this one image. And so the yellow line is the direct vacancy rate. This is the amount of existing office square footage in those years that were vacant or unleased. A little bit of the darker line shows the sublet vacancy rates. So that also includes areas that are leased,

[00:13:13] but the current tenant is seeking someone to either backfill or take space that they don't anticipate that they need. So that number is always going to be slightly higher than the yellow line. And then really important, to Rebecca's point, are those blue bars.

[00:13:29] Those show the total office inventory that we have in the county. So in 1980, we had about 20 million square feet of office. And you could see the tremendous increase in growth to about 120 million

square feet of office that we have today. So that's a tremendous amount of growth over those 40 years.

[00:13:46] That means fundamental change in our office market as we went from a smaller, maybe more emerging office market to one of the largest, most diverse office markets in the nation. And so that really impacts those trend lines that we're seeing and how we're viewing those top line measures, but also our interventions and our policy strategies going forward.

[00:14:06] And again, I would just point out, we saw in that previous slide, sort of that tremendous immediate impact of the COVID-19 emergency on the economic numbers. This graph looks very different. You've got basically since 2000, kind of an increase in vacancy rates for the last 20 years.

[00:14:25] And so it's a very different trend and a fundamental trend and a long-term trend. And so I'm so happy that we have Victor Hoskins and Stephen Tardidi from the Economic Development Authority to really help us understand what's happening in our office market, how has that changed, and what does that mean going forward.

[00:14:41] Thank you for that excellent introduction. And I guess we'll just go to the presentation by the Economic Development Authority, and then we'll take questions and comments. Mr. Victor Hoskins.

[00:14:58] Thank you, Mr. Chairman. My name is Victor Hoskins. I am the President and CEO of Fairfax County Economic Development. And I won't be reading these slides. I'd encourage you to read them. What I'm going to do is give you context for these slides. And this first one is really all about our mission.

[00:15:15] We would not be able to achieve our mission without this board, without the executives in this room, the county executive and his team. There's no way 40 employees could do the kinds of things that we do unless we had partners like this incredible group here.

[00:15:31] Whether it's Chairman McKay, you know, being on a show with Paraton, Talking about, you know, a virtual career fair we have or, you know, Supervisor Stork down at the National Building Museum, National Army Museum, recruiting, helping us recruit, you know, talent from the veterans.

[00:15:48] Or Supervisor Gross helping us develop relationships with Fort Belvoir so that we can go down there every week and help these veterans in transition. Mike Batt has a team down there every week talking to these veterans, and he is a veteran, so he speaks their language. But we couldn't do these things without you.

[00:16:06] And I will just say this. Last Friday, County Executive Hill and his team, the transportation team, working with VDOT, solved the problem for one of our biggest tenants, a 400,000-square-foot tenant that was not very happy with some of the things that were going on. So you help us with solutions.

[00:16:22] You help us with talent and skill. You're involved in our work in ribbon cuttings like Supervisor Alcorn was with us at Cargo Sense, small company with a big global footprint. That kind of support, we couldn't win without it. These numbers prove it. 652,000 payroll jobs right now, highest number ever in the history of this county.

[00:16:42] There was a report that just came out from Stephen Fuller Institute, which basically said, the center of growth for this region has moved. It's moved to Northern Virginia. Not only has it moved to Northern Virginia, but it's primarily here, here in Fairfax County. On a veteran side, I just want to mention, I have to mention this number because in the last two quarters, we work with these V3 companies.

[00:17:01] These are Virginia Values Veteran companies. We have to certify these. We went from 700 last year to 1,400 this year. In the last two quarters, they have hired 3,800 veterans or spouses through our efforts.

[00:17:17] And it's only because you funded those efforts. That's the only reason we can do it. And it just makes a huge difference in these numbers. The programs that you supported during the crisis, during the pandemic, Giving grants to these companies with 50 employees or less made a huge difference.

[00:17:34] That 42,000 employee establishments, that number, the highest number was 36,000. It's 42,000 now. You have more employer establishments. That's people with payroll, with employees, because you created that bridge, you created a pivot, and now you've created a Thrive program.

[00:17:53] And these have come out of DEI, the county executive's office, and they have made a huge difference. We have over 8,000 minority companies. This is all about our services. We deliver a lot of services. We meet with thousands of companies a year. Two-thirds of our job is to retain our clients, to keep the clients that are here, here.

[00:18:11] We almost lost a major hotelier. It was an interesting competition, but because of the efforts of Supervisor Palachuk, the county executive, and others, we were able to retain them with help from the state of Virginia. But we do that only because you are our partners.

[00:18:28] You make the difference. What I'd like to do is talk about some of these companies. These are some of the companies that have come to us recently. Great corporate citizens like StarKiss, they came here, they immediately started a food program of feeding families. You know, Hilton, incredible brand, went out of the Fortune 500, came back into the Fortune 500.

[00:18:50] We have 10 Fortune 500 companies again, which is great. We have 113 Inc. 5000, fastest-growing companies in the country here in Fairfax. We are really – we're getting our share of business out there right now. And we have companies, of course, like Amazon working down in Supervisor Lusk area doing some interesting work.

[00:19:12] But we also have these really focused on diversity. As you can see up there, we're number one on the eastern seaboard for diverse companies prospering. We have some incredible companies here, like Thompson. I know a lot of you know that this company started with only a few employees, now has thousands of employees.

[00:19:31] I think their revenues last year were $825 million. They're targeting a billion for the next 24 months. You had the St. James. A lot of you guys have taken your kids to soccer games there. St. James just expanded into Reston. We have companies that believe in this community and are an integral part of this community and trust you and trust us.

[00:19:52] Talent. Talent is a new currency of economic development. When I arrived here four years ago, you had funded a talent program, and we designed that program and implemented that program. And at this point, we can boast that we've had over 2,500 people connected directly to jobs through our digital hub.

[00:20:10] We've had 1.5 million visitors there in the last three years. We started it right at COVID. We've had 10,000 in-person or virtual career interviews directly with recruiters, and we work with over 17,000 companies. On the academic side, we started out with 15 universities.

[00:20:27] We now work with over 100 universities across the country, 40 of them at historically black colleges. We work with Women That Code and a number of other organizations. A big part of what we do is marketing. We've had a great year, actually the greatest year in the history of our county for earned media.

[00:20:45] We get roughly a million dollars in media money from you every year. in 2020, we hit $36 million in earned media. This year, we hit $1.1 billion. I've only been able to do that one other time in my history of my career, and that was in Arlington County, and I had Amazon. So it's interesting to do it with smaller companies and really getting them into the Wall Street Journal. We had Appian in the Wall Street Journal twice. We've been in Fortune Japan. We do this globally, and we do this locally, but it's because of people like

[00:21:21] Anna Nenissen and Andrew and the other people on our team that we're able to do this. And with that, I'm going to turn it over to Stephen Tardidi to talk about the office market. Thank you very much, supervisors and commissioners, for giving us the opportunity to give you a peek under the hood into our local office market. I think the conversation today will spark a lot of healthy discussion regarding the insights provided and possible actions taken. But before we can get into our local market, I think it's really important to put the vacancy rate issue into

[00:22:00] context. And we want to do that by taking a look at this on a national level. This is Cushman and Wakefield's U.S. office market report. And these metro markets you see here with the accompanying vacancy rates, those are our peer competitors. Those are the regions that we compete with to attract and retain office-based companies.

[00:22:23] As you can see, many of them, compared to the Northern Virginia, Washington, D.C. region, are not looking at as favorable. And in fact, a lot of them have crossed the 25% vacancy rate mark, you know, even since then, and show no signs of slowing.

[00:22:43] So before I get into our local market, I think it's also important to understand that the office market is a lagging economic indicator. And what I mean by that is exemplified or illustrated here in this slide. We had ICF, a company that's now headquartered in Reston.

[00:23:04] They decided to lease this space, this brand new trophy office space in 2019 before the pandemic hit. So I think an article comes out like this or the move out of this company comes out and it looks like it might be a pandemic-induced response, but this was a decision and this flight to quality is a trend that's been happening for a while. Now, what we need to reconcile with is the 300,000 square feet plus that they vacated in that 1980s inventory and what would possibly

[00:23:38] be the new demand in that building. But speaking of the inventory, we have 120 million square feet. that makes us the second largest suburban office market in the US. So as Scott mentioned, not only are we a large office market, not only are we a diverse office market, but, you know, we're also a very mature office market. And, you know, another way to put the word mature is by our inventory, aging inventory. So close to half of our office inventory was built before 1990.

[00:24:10] So there is going to need to be action on that inventory that has not kept up with the demand in the workforce expectations of today and tomorrow. And for that, and for examples like ICF that I mentioned, our vacancy rate is now at 16.7%. That's a direct office vacancy rate that recently crossed our previous 10-year high, which was as a result of sequestration. And so we just crossed that mark. I think

there's still, I think the vacancy rate is going to climb a little bit more across the board on national level before it starts coming down. But I think where we,

[00:24:48] when we're talking about relative to other markets and where we might have a competitive advantage is our diverse tenant base. Now, we have obviously our government contractors who, you know, a lot of that might be mission critical space in office use, and they're retaining that space. And you'll see that in a second. But in addition to that, in some of the companies that Victor was showing, we have corporate headquarters, which, you know, we count as an industry because they chose to be here for their stable business environment, and there's so many of them today.

[00:25:17] We have 10 Fortune 500 companies headquartered here. We also have other office-based employers or employers that tend to use office space more, and that's in the construction and engineering, and some law firm presence as well, which a lot of them, they tell us when we talk to them that they didn't leave their office space even, you know, two days after the pandemic or got their employees back in. So they're able to build in that habit. So what we're hearing and seeing as far as it pertains to office leasing

[00:25:52] and demand, our demand, the demand side of that is picking back up. Last year, we had 6.6 million square feet of office space leased. So we're at 37% below our pre-pandemic average. And comparing that to 2021, we were about 4.5 million square feet. So we continue to see these companies not only retain their space, but we're seeing new space added on there as well. Problem is we're seeing a bifurcation of the market, right? The class B, class C inventory, that's not seeing your net new tenant demand. It's your trophy office buildings. In fact, the trophy office

[00:26:30] vacancy rate for Fairfax County is right around 10%, which is very healthy. So it's about solving for that the older inventory while taking a look away at catalyzing the new inventory and as I mentioned before the larger tenants are staying in place in the next slide I have some more information that really strongly reflects that point and then another another way that we're seeing the vacancy build up is the mid-sized tenants your 50,000 square foot tenants who might be in a class B building and they've decided I can cut my footprint in half take

[00:27:06] 25,000 square feet in a new office product, and I'll still pay the same paycheck to the landlord. The good news here, or the silver lining, is demand can be so volatile, so you can cut back on space. But if you're bringing your employees back in and they're demanding individual workplaces, you're going to have to build back that space up. Another strong sector of the market that we're seeing demand is co-working space. We've actually had two new co-working operators open in the past couple months, and we really stayed steady in that market, showing the small office businesses

[00:27:40] increasing in that demand. There's actually a report from publication Coworking Cafe, and they ranked the top suburban office markets for coworking, and Washington, D.C. was number two behind L.A. So we have those options, and I think more and more building operators, if there is vacant space in newer buildings, they're looking to incorporate coworking space and have them graduate in that space.

[00:28:07] You know, they grow a little bit longer. Okay, now we can lock you into a longer lease term. And across the board, from every brokerage firm we're talking to, tour activity is up, which is your first leading indicator of a space being leased. And I think it was 11% quarter over quarter, according to Lincoln Property Company.

[00:28:25] So as I mentioned, when we're looking at our top tenants, our largest tenants and top deals for 2022, there's a couple stories here. The first one is we really know where our wheelhouse is, and that's in those government contractors.

[00:28:41] You can see these deals are broken out into renewal, renewal contraction, or renewal growth, and then net new space. You can see only one company, when given the decision when their lease was expiring, decided to contract their space.

[00:28:58] The rest of them either retained their space when they had that decision that they could cut out footprint. they've added more. Or, you know, we had one company that, or two companies that took new space. And that leads me into the other side of this story. The top two deals you see there are not government contractors. So, we continue to diversify our tenant base, while also recognizing that this is becoming a more and more competitive market every day for retention. We definitely recognize that the demand pie across the U.S. is smaller, so that makes retention very important.

[00:29:33] And you see that second deal, the hospitality company that Victor mentioned, that was a competitive retention deal. So a lot of that, you know, we talk about the net new demand coming in, but we also need to make sure that the companies that are here are happy and looking to grow.

[00:29:53] And then, so, you know, we were focusing on the larger companies. Now I'm going to go on to some of the smaller businesses and where we're seeing good leading indicators for future office demand. And remember what I said in the beginning, the office market is a lagging economic indicator.

[00:30:09] But for these, all record highs that we're seeing could eventually lead to office space or already have. So record number of businesses. We have over 42,000 employer businesses. Victor mentioned this before, companies with payroll. One of the largest industry sectors that we saw a jump in those employer businesses was computer systems and design. So that's good, and that shows that there would be future office demand as a new company is established. The money is in flowing.

[00:30:39] Typically, we would see around $500 million in venture capital come into Fairfax County-based companies. Last year, we had over a billion, and we're expecting across that number as well. I think the latest is we're already at $800 million. And then the record labor force and employees that Victor was mentioning before. So you have your companies, they're getting the funding, and we have the workforce to support them. We think this is a good leading indicator for future office demand for homegrown businesses. But now looking at the national context again and seeing where

[00:31:15] we're hearing about either economic indicators or stories about economic trends and how they might impact our market we broke that out into low impact medium impact and high impact uh you know we've been through several recession cycles before here in fairfax county with a similar market and both times um especially relative uh to the national level we've come out on top this time around i think it's uh really because of the um you know the industry mix that we have you know you look at these other markets where they either had uh mass layoff events or they're putting large

[00:31:52] blocks of space on the market. And those are centralized in a lot of your consumer tech. So we're fortunate to have more of that, either business to government or business to business tech. And so we haven't really seen major light off events in Fairfax County. Where we could see some impact coming is obviously in office activity. And I think what I'd want to stress with this is that the dust is very much not settled on this. I think, you know, we're looking, we hear a different story about RTO and where, where it's

going. But recently in the past couple of months, we're seeing, especially for Fairfax County companies, we're seeing the biggest push to get

[00:32:28] their employees back into the office. Um, and you know, I think the, it's a double-edged sword because the other side of that is we have such a high concentration of office using industries. So that can, you know, you're talking about a large market and the industries that will call back their employees and have them come in and somehow push back and what that will mean for vacant space in the future. Interest rates would really see that impact on the inventory side, not necessarily the leasing side for our market. Other markets, because of what interest rates

[00:33:04] have done, companies have paused their either expansion plans or their decisions or have gone through those mass levels that I was talking about before. But on the product side is where we're seeing that when these building owners, you know, going into refinancing at the current interest rates, it really poses a problem for how office buildings are valued. And that is still very much a bit in the air, but we're starting to see that come on the horizon. Some of the high impact areas, listen, we're in a tight labor market. We really are. I think last year we had

[00:33:38] across the U.S. we had two open jobs for every worker. Now I think that number is more around 1.5. But if you have a high office base of employment and you have a very tight labor market, there's more chance or opportunity for volatility there. Someone saying, well, I can go to this company, I can go here. And especially if there is more of that hybrid work or remote work, they, you know, they could choose to lose the area, and we are, but we're such a strong market for talent. We want to make sure we're monitoring that, and we continue to keep those employees here. I think at the end of the day, we're already seeing this. Employees are

[00:34:18] saying, you at least need to be tied to the office. You know, if, at the very least, if I call you into the office, you need to, it shouldn't be a four-hour flight, right, or a different time zone. You have to sit here, so. And then, of course, going to the office market vacancy, which we were talking about. I mean, the fact of the matter is, we are a large office market, and so it's, you know, as far as tracking when employers are leaving or going to the space and making sure they're staying here, you know, there is a bit of a spinning plate effect just because we have such a robust inventory. There's more opportunities for that vacancy to come online.

[00:34:56] So, I was focusing more on the demand side. Now, I'll go into our inventory. there was, when we're looking at both our inventory and our vacancy, there's a couple ways to cross cut that. Inventory, like I said before, almost half of our office inventory was built before 1990. So if you think about what type of building that was, that was typically a three building suburban office campus on top of surface parking lot with not a lot of walkable amenities and not really, you know, aside from some employers and office-based industries,

[00:35:31] not really tuned to the workforce of today and tomorrow of what they're looking for. And then in the beginning of the 21st century is when we saw another jump. And, you know, that building, those buildings are still, what I'd say, is have good bones, but needs the placemaking or sense of place built around it, woven through it.

[00:35:51] And there is one area in particular, say it's south of the toll road, where we're starting to see that. Much of that inventory was built 2000 to 2010. If you're familiar with the Woodland Park area, Dulles

Corner, now you're starting to see residential and retail woven within that, and that will really make that an attractive neighborhood.

[00:36:11] Now, when we're looking at the vacancy rate, we'll start at the highest level here, and we really broke this out into what is vacant office space that will either be released or a building might go through renovation, and then what's a vacant office space that is planned for redevelopment?

[00:36:29] I mean, someone came in, they either acquired an office building or held it for a while and had plans to demolish that office building. Well, that number is close to 6 million square feet. So if you were to take 6 million square feet of inventory off the market, you would actually have the impact of reducing the vacancy rate to around 13%.

[00:36:51] The problem is those projects aren't moving forward right now for various ways. A lot of that is the underlying market and finances behind the project. but it's in the can, right? It's planned for, and especially where the market's going right now, we see eventually they'll be replaced. You can also take a look, in addition to what will be held for redevelopment or adaptive reuse, the various different types of office product and how the market solves for them or comes in. The new product is pretty obvious. That's really coming

[00:37:26] online in those high demand areas um you know they usually have options for for transit they usually have amenities surrounding and um and typically the between the the work that the the brokerages do and also what we do with our our talent team and filling the talent in there that product solves for itself uh and then we look into sort of the second generation that's your established or a commodity space. A lot of times where we see this inventory and when it turns over is it's client serving. This might be that more mission critical space that's in Chantilly that

[00:38:03] might be vacant for half a year and might be a little bit older, but it's imperative to be close to that three-letter agency. And then renovation. This is when the landlord needs to decide whether they're going to infuse that capital and make that decision to get that building up to speed or to what the demands of the employers in the workforce is. Then, you know, we look at the product level and we'll go on to the space level here. I think this is, you know, I mentioned the diverse office product as one of the competitive advantages. We actually recently

[00:38:39] had a company that was new to market and they were in a market that only or primarily only had high rise office buildings. But for their operations, they had deliveries coming in and they really need to be in a one-story office building. We were fortunate enough that we could offer that opportunity and provide that space for them in the future. And then also for future growth, you know, we have similar product like that. So I do think you, you know, while too much vacancy obviously is not good, you do want a certain level of vacant office space and a diverse

[00:39:12] office product for those companies that can come and be attracted to our accounting. We can also look at where the location of the large blocks or vacant spaces and how much of it is. I'd say about 70% of our large block spaces reside in what we constitute as the dullest toll road submarkets. The good news here is a lot of that inventory was built out in the 1980s and will be part of that held for redevelopment and slated for demolition. So there's, you know, as far as action to take, you know, the landlord already has those plans. And we're seeing demolition

[00:39:52] across those markets right now, typically with your residential over retail. And then, you know, just reiterating that when we're breaking down that space that is slated for demolition, much of it is in that inventory that is considered obsolete and it's planned for itself. Again, you take that 5.9 million square feet off the market and or demolish that product and the vacancy rate is heavily reduced from that. It's just a matter of when. In addition to the redevelopment, also I know this is leading into the next presentation, but with the right

[00:40:31] opportunity where an office product is considered obsolete and can have that capital infusion for an adaptive reuse, we see what it has done to the assessed values of the product coming in. So when the right opportunity, I know we have several projects that are in the canister for for adaptive reuse but you always want to look at when there is that right opportunity to spark that and you know really would just like to thank the board for the work that they did prior to the pandemic to put this into place so those projects could go forward when there was

[00:41:05] the right opportunity and so with that I'll hand it off. You know we may not want to get too far If that's the end of the presentation by the EDA and Andy, it's going to be next.

[00:41:26] Why don't we just see if anybody has any questions or thoughts, suggestions. I see Supervisor Gross has her hand up and then Supervisor Alport. Thank you. The COG retreat on the eastern shore revealed something a little different.

[00:41:44] I think Rodney would agree with me. A little different, at least from the regional perspective. You know, some of the areas that you've indicated are losing even more space than we are. We're also identified as the areas that we're trying to compete with us on talent.

[00:42:06] So as the office space is reducing, they're also looking at other locations to poach our workers. So that doesn't quite jive here. I also, out of that particular COG retreat, Montgomery County, well, Victor, first of all, your ear should have been burning because you were referred to several times during the retreat in a positive manner, I will say in a positive manner. And I think that the Northern Virginia

[00:42:39] Economic Alliance has done a great deal of positive work. Montgomery County is still smarting even six or seven years later about the Marriott piece. And they kept Marriott, but they still are.

[00:42:57] And so they're looking at, you know, how to compete with us still even more. And interestingly, Loudoun County would like to just punch us down to, you know, a lower size and become the, I know, I know, I know.

[00:43:21] But they really, you know, Chair Randall said, you know, she wanted to, you know, she loves Jeff McKay, but boy, she wants to punch him all the time. So there's a lot of still very, almost a negative competitiveness in the region.

[00:43:40] And so I'm trying to figure out how what has been presented here can turn into a positive for everybody rather than a negative, because as we continue to try to solve this problem, there's this competition that's going to happen.

[00:44:02] So how do we take what the Northern Virginia Economic Alliance has done so very well and make that into a positive understanding by everybody that we're all in this together instead of being this way all the time?

[00:44:21] Thank you for your observation, Supervisor Gross, and I know that you and Supervisor Lusk were there. And in terms of the alliance, first of all, the Economic Development Alliance, it's not perfect, okay? This is the first time, four years ago I arrived here, you gave me permission to actually engage with them and to bring them together.

[00:44:42] And that's what we did. So it's not perfect yet. And there are actually some differences between the elected context and the worker context. You have to understand, we've been working very closely with Buddy Reiser. And we're doing things with Buddy that we've never done before.

[00:45:00] And some of these things are actually regional. But let me talk briefly about the larger region, because that's what really you were referring to. We have been engaged in conversation for three years with suburban Maryland, Prince George's County, Howard County, and Montgomery County, with Washington, D.C., and of course, our alliance.

[00:45:23] And we've been doing that through a group called Connected DMV. You may have heard of Connected DMV. they helped create the biotech pandemic response center in Montgomery County. That was part of their work. Right now, they're working on a green print for hydrogen energy for the entire region.

[00:45:41] It has all the power companies involved. By the way, I got Buddy Riser on that committee. He's working on that. So that Exelon from BGE, you know, Pepco, you know, Dominion, all involved, plus all three airports, BWI, Reagan, and Dulles, both ports, Baltimore and Southland Virginia, Newport News, Hampton Roads. So they're all working together on this. These are not easy things to get done. We're not competing there. We're working together there. Another, Quantum World Congress. Quantum World Congress last year was in Washington, D.C. 700 people, 100 content

[00:46:17] speakers, 18 countries involved. This year is going to be here in Fairfax County at the Cap One Center. I talked to Supervisor Palchuk about this. She said, bring a conference. We got one for you. Okay, there will be about 1,200 people there. Some of you will be engaged in the process. We're expecting about a third investors, a third company, and third researchers. And these people will be coming from all around the world. But that we're working together as a group. When it gets down to companies, that's where we have the competition. And we can't help that. If someone comes to us and says, we would like a location in Fairfax County, trust me, I do not send them

[00:46:53] away. I welcome them in. I think the issue is that we have been disproportionately benefiting from the strategic moves that you have made. The county executive, the board of supervisors, you have made long-term strategic moves that are hard to match. And if you're not matching those moved, you are essentially going behind. And that's why the center of growth has moved to Northern Virginia. I'll just give you two numbers. July 2019, I was just coming to this job. There

[00:47:28] were 15,000 job openings here in Fairfax County. Right now, there are 67,000 job openings in Fairfax County, four and a half X. Can you imagine that? They would wish they're declining. It's because they haven't made the strategic moves that you made.

[00:47:45] You funded a talent initiative. They didn't want anything to do with it. I've been trying to draw them into it. They don't even want to talk about it. I want to double down on it. That's, to me, that's where we will win. It's the currency of economic development right now. So we're trying to bring them in, but it's

going to be a long process because the battle lines were drawn a long time ago, and they've been active for a long time, and it's going to be a long time in order to heal them.

[00:48:09] And the generals change all the time. Yes. So the generals change, but it would be helpful to have some of the troops be a little bit more aware of this. Because it seemed to me from the discussion this weekend with all people from all over the region, elected leaders, that not everybody was very well briefed about some things.

[00:48:33] And so it may be that we need to, I think we have a better sense in Fairfax Park. But a lot of people aren't paying attention, and they need to pay attention. Thank you. Supervisor Alcorn. Thank you, Mr. Chairman.

[00:48:52] Great presentations. This is super helpful. This is actually the conversation I think we needed to have. So I want to focus on the implications of all this for our tax base. We haven't really talked much about that. And need to also, you know, I guess understand, with a couple of understandings, assumptions that I go into this.

[00:49:16] First of all, when we're talking about conversion of old office to new residential, and I know the last slide on the EDA presentation addressed an example of that, I understand we need to understand scale. You know, any one particular change or not change is not going to move the needle in terms of our tax base.

[00:49:38] But I want to make sure that as a board, as a county, we go in with our eyes open because because once residential, once commercial property changes to residential, it's generally not going back. We're not going to see, we're not going to see it go back. So, so we need to go into this with our, with our eyes open. And, you know, countering that a little bit, we certainly, and I've heard from, from commercial property owners that have office buildings that have been vacant for some time. And, you know, if you have an old office, it's vacant for six months. That's a big problem

[00:50:15] for that property owner. If you have an old office building that's vacant for six years, that's a community problem. So we're starting, at least in the Hunter Mill District, to see some of those properties that have been vacant for multiple years. So we're getting to that point. But with that slide in particular, thank you for pulling that up. Thank you for pulling that up. This does a good job, I think, of showing on an assessed value basis, basically a revenue basis, if you will, for a particular property. What would really help me as we go

[00:50:50] forward is to get a little better understanding of the expenditure side of converting to residential. I mean, I already know, I've known this for a long time, high rises are a bargain compared to single family development in terms of the number of kids that generate, go to public schools, other services required. What I don't know is what it looks like to convert office, even underutilized office, to residential. You know, what is the impact financially on the

[00:51:25] county? Not just on the revenue side, but also on the expenditure side. So getting that information, because we've got a slug of these decisions coming. And again, no single one is going to, you know, move the needle. But let's be sure we go into this with our eyes open. And getting that information would be super helpful. Okay. Thank you. Thank you. Yes. I think Arlington has done a study similar to that we might be able to leverage, and they went further and looked at affordable housing and the cost in affordable housing versus market-based housing. So that's

[00:52:00] something we might want to also take a look at and pull the string on. But it is going to have an important and dramatic impact on both sides of our budget, the revenue side and the expenditure side. It's my biggest worry with the office market.

[00:52:18] Very quickly, on that point, too, we have to be mindful of the vacancy rate driving the office valuation, too. So the higher that vacancy rate is, we're seeing decline in the office market valuation, too, which hits our tax assessment office as well. And so finding the right point on that is important, but just buildings sitting there for six years vacant, we should not be concerned about converting those because they're having an effect on the commercial market values, too.

[00:52:46] And so we need to have a sweet spot here, but we also need to understand that some of these buildings are in locations that have an effect on all the other commercial properties around them as well. I mean, Skyline is a good example. You know, having just toured that, nothing good happening in that area for a very long time.

[00:53:05] And finally, there's people and foot traffic, and the retailers are excited, and the rents are going up for retail. And so there's a lot of other accessory things that have to be looked at here, and we have to look at them completely. Mr. Chairman, just real quick on the last point was economic, basically in the proposed strategies document, Five and six talk about more or less accelerating development process.

[00:53:31] I know we've got that in there, but let's know this before we go too far down that road. I don't want to facilitate a rapid conversion if it doesn't make sense for us physically. So, yeah, let's make sure we keep all this together.

[00:53:47] Thank you. Supervisor Pulcher. Thank you, Mr. Chairman. Thank you so much. I think it's good to meet you. I believe it was the first time you were presenting to us, Stephen, wonderful, and to Scott and to the whole team. I think I'm coming at it from a slightly different question and a little bit more holistic.

[00:54:05] As we know, we are doing really well, as was mentioned earlier, in attracting diverse businesses. I know I was recently in a meeting with some other regional leaders, and they were concerned because they did not have the diverse employer base that we do.

[00:54:25] You know, their top employers were pretty much the government and then maybe Walmart. And so I really applaud us because I think this is incredible work that's been done by the county over the years to bring that where we are struggling and we know and it's getting worse and worse, especially knowing that new land isn't being built and interest rates are really affecting the housing market is the high need for housing.

[00:54:52] And knowing we have those many employees, but my understanding is a lot of the need in the workforce is very much tied to the ability to have workforce and affordable market rate and not market rate, affordable housing for those employees.

[00:55:11] And we are seeing more and more move out of the area because it has become so unattainable. So while we're talking about the costs and benefits of converting these older, you know, B and C office, older office to multifamily, and I've been very, very cautious, but I think when we do, like it says here, when we have those right opportunities, there is definitely that benefit, especially in our more urban areas where we know that some of those ICF has an SSPA.

[00:55:44] And we know it's going to be difficult to try to fill in such a large old office building or some smaller ones that maybe are ripe either for reuse, readaptation. And I don't know the finances, but they seem to be working for the people looking at them to be able to have more of that mix.

[00:56:03] We know some of the areas like the borough that are doing so well and filling their office, very low vacancy rate because they have that mix of what employees are looking for, you know, livability, walkability, a place to live and work and feel a little bit more like you do in other urban areas that we haven't, we've separated so much our office from our residential.

[00:56:23] So I guess my question as we answer those questions is how does the ability to change from multifamily to, from office to multifamily bring other benefits such as the ability to attract employees and employers and to give a little bit more of that livability that, you know, the new generation is looking for.

[00:56:45] Can I interrupt one second? We have a presentation coming up on that specific subject. Perfect. Yes, I just want to make sure the conversation is kind of going in one direction. Yeah, and I think probably we should move on so that, because obviously the subjects are interrelated. I just wanted to say, you know, one thing that we as a board and as a community are concerned about is the assessed value of commercial real estate. And hopefully somebody can, as we talk about vacancy rates, which are

[00:57:20] important to determine, but what's happening to the commercial market? What are the buildings worth these days? And I know we have people here from the private sector who have some strong opinions about that hopefully and willing to share them with us and uh you know the one thing we read about all the time i mean constantly almost is the percentage of the workforce that has returned to the office and it's like 50 across the country you read that over and over again

[00:57:55] what's happening in fairfax county and i'm not asking you to answer that right now i want to hear from andy but then you know whenever we pick things up and what percent is downsizing you know that's the other thing we hear about 25 to 50 percent of lease renewals we're hearing are downsizing you know is that what's happening in our market and i don't know if we could maybe get in these uh presentation and then throw it open and i encourage did i call on all the board

[00:58:29] members, Rodney. I apologize. I did shake my head. Yes. You did shake your head. And then we'll get to Andy. Go ahead, Rodney. So you stole some of my thunder. So my question was going to be on the return of the work as well. So looking at what D.C. has shown with their agencies, 25 percent of federal government agencies are back in the office and about 50 percent, I guess, for the non-agencies. To the point you made, what's happening in Fairfax County? And I'd be curious to know on the businesses, on the contractors, and then on those that are government agencies

[00:59:08] as well, looking at those three different categories. And I think on the subleasing, I noticed that we had a percentage for it, like roughly 17%. Is there any trends on that? Because it didn't look like it really went up very much, which was kind of a surprise to me.

[00:59:27] I would have intuitively thought that the sub-leasing number would have been radically higher. So, no, I'm just saying intuitively. But the data proves something different. So just making sure that that's the trend as well. Okay, why don't I let you go ahead, because we'll never get back to these.

[00:59:47] Well, yeah, I'll just quickly respond to that. Two things we're working on right now. We are engaging with employers across the board on a return to office analysis, so we can get a better picture of that and breaking it out by industry. We held up on doing that because it was so up and down.

[01:00:03] It was so, oh, come back and, you know, maybe not now. So we didn't want to – we wanted to pick a better time to do it, and right now we're seeing the most consistent push for return to office. So that is in process, and actually we'll have that by next month, and we'll continue building upon it too with all of our employers.

[01:00:23] And then a second item that we're working on in response to that GAO report, they broke it down to the quartiles and the agencies that are using office at a higher rate. We're going to compare that against our agencies here and what concentration that we have.

[01:00:41] And so I can report back on that. And then the sublet market, we have been very fortunate compared to some other markets. That is true. I think there's some West Coast markets that have seen a 6% increase when you add in sublet vacant space. But we talked to a couple of brokerages, and they said the sublet market companies are sort of just throwing it out there, and they're pulling it back to us as fast.

[01:01:08] So, yeah, we'll have follow-ups in both of those points. Okay. Andy, go ahead. Okay, thank you. I am mindful of the time, so I'll try to go through these quickly. As I'm sure you've noticed, and as Mr. Hoskins mentioned, what to do about vacant office buildings has definitely been in the news for the last six months or the last year.

[01:01:31] And repurposing of office buildings to other uses is one tool in the toolbox that you have to address the vacancy problem. It's not the big solution, but it is one tool that you can use. And we are seeing it happen here in Fairfax County. In fact, it's something that the county and the Department of Planning and Development had been looking at even prior to the pandemic, going all the way back to 2015, when a work group was established by the board to study the office market, the state of office buildings in the county.

[01:02:07] And one of the recommendations of that report that came out of that work group was to repurpose to other uses, in particular to residential. And at the time, looking at the office buildings in the county, the recommendation of that work group was that there were probably about 10 to 20 office buildings in the county that would be ideal for repurposing.

[01:02:30] So with that in mind, later on, I'm going to show you how many are in the entitlement and development pipeline for conversion, in particular to residential use. So DPD and myself and the team of people have been studying this issue since about January-December time frame.

[01:02:52] And we found that it's not just a topic in the news. It's also a subject of interest in the building industry, both private sector firms such as Cushman and Wakefield, as well as industry organizations like the National Association of Realtors, Urban Land Institute.

[01:03:13] This is a topic that they're interested in, and they've done a lot of research, and so the research from these kinds of reports has informed our study. And in addition, the George Mason University School of Business Department of Real Estate Development, or the Real Estate Development Program, has been sponsoring a number of lectures, symposia, and even tours to learn about this particular type of thing, this tool in the toolbox for repurposing vacant office buildings.

[01:03:48] And so staff has attended those, and that has also informed our research. So what we found is that not every vacant office building is ideal or appropriate for conversion to a residential use because there's a number of factors that go into what makes an office building prime for that kind of conversion.

[01:04:16] So I'm going to talk about each of these success factors one at a time. So first, location and land use. And with regard to planning and zoning, Fairfax County is in a really good position because we started thinking about this eight years ago, established the work group, and actually that led to a comprehensive policy plan amendment to facilitate office building repurposing and commercial building repurposing but in some places in order to convert an office building to

[01:04:55] residential there needs to be a comprehensive plan amendment and a rezoning and that can be a long drawn out process here in fairfax county we have a policy in place that makes that a more streamlined effort and later on i'm going to show you a map of where that's occurring in the county We feel like that policy has been a success so far.

[01:05:16] It's also important to look at what are the surrounding uses. If you're going to introduce residential into what was previously a suburban office park, sprawling with a lot of surface parking and not much residential around, it needs to be turned into a nice community where people will want to live that has all the amenities that people are looking for, parks, open space, recreational amenities, schools.

[01:05:42] schools, public safety facilities, other, you know, community centers, other things that make up a neighborhood and a community so that it doesn't feel like you're just, you're living in an office building. People want to feel like they're living in a community. So next slide is about architectural features. This is also really important because not every office building has the appropriate floor plate or building systems that make it easy conversion to residential. First, the floor plate. Long and narrow is good for conversion to residential because for, you know, quality of life reasons and to meet building codes,

[01:06:22] you need light and forms of egress. And if a building isn't long and narrow and it has a big interior space, it's not ideal space to be turned into an apartment or you can't put bedrooms there. You might be able to put some closets, storage space, but it could lead to unusual configurations of floor plans and apartments when the building is more square than long and rectangular. There are some possible solutions to that by creating an interior

[01:06:56] light well, courtyards, or perhaps turning the interior of a building into self-storage or like a theater, like some amenity space that doesn't require windows, fitness, even indoor farming is a possibility for the interior of that kind of building. But long and narrow is best.

[01:07:17] And then building systems. Think about an office building. There's probably, you know, two restrooms, a men's room and a women's room, or, you know, maybe even just one on a floor. But when you are converting into apartments every apartment needs its own plumbing and so most often most likely an office building will need a plumbing upgrade hvac systems and older buildings probably have to be upgraded sometimes the building facade needs to be changed if there's asbestos that has to be

[01:07:49] remediated lead and all of that so those are just things to think about okay and finally financial conditions buildings that are in a developer's portfolio they don't have to purchase the building or the land that that becomes a more feasible project for them because they don't have to add the cost of purchase to the project the ability to obtain financing is important and looking at interest rates that's that's a concern that's something to consider and then as i mentioned before the retrofitting costs. New facades, plumbing, HVAC, asbestos remediation, other

[01:08:29] kinds of upgrades, amenities that you might not have in an office building that you would want to have in a residential building, such as a rooftop swimming pool. That all adds to the cost. And then finally, and some localities are doing this, providing tax breaks or grants or partnerships to incentivize office building repurposing.

[01:08:55] This next slide, I actually already talked about this, the commercial building repurposing policy. In 2018, the board adopted a policy that addresses office buildings in mixed-use activity centers, and then we came back a year later and expanded that to include office buildings outside of the mixed-use activity centers, as well as looking at other commercial uses countywide, such as retail repurposing or other types of non-residential building repurposing.

[01:09:27] So like I said, we have that policy in place. It has streamlined the process for several developers, and my next slide shows you a map of where that's occurring in the county. So since 2014, the board has approved rezoning requests for eight office buildings to be repurposed to residential uses. That is 10 buildings providing up to 1,889 new units. There are two buildings pending in the entitlement process right now, and there's one that a zoning

[01:10:05] application was filed but has been deferred, and I guess we're not sure when that's going to come back for review, if it does. We also have a couple of site-specific plan amendment nominations that also in two locations that are proposing either to repurpose an office building to residential or to include an option to do that with a number of additional units that could be provided.

[01:10:33] So let's see what else I can say about that is two of these sites that were approved were preceded by plan amendments, but most of them did not require a site-specific plan amendment because we have the policy in place that allows for entitlement process to occur without a site-specific plan amendment when certain conditions and criteria are met that are included in the policy.

[01:11:06] So, we in DPD consider that to be a success, that the policy is working as intended. If we were to update it or tweak it in any way, we might expand it to include hotel repurposing, as we've started to see one or two requests or interest expressed in doing that in the county.

[01:11:30] But there are other strategies and other recommendations that we could make on how to further facilitate repurposing of office buildings to residential in the county, but they wouldn't be necessarily the purview of the Department of Planning and Development.

[01:11:46] perhaps other county agencies. With that, my last slide, we will be publishing a white paper later this month that will summarize all the research that we've been doing in DPD. I do want to thank Rebecca and Scott in the Department of Economic Initiatives as well as the Economic Development Authority for data they have provided that has helped to inform this report as well.

[01:12:17] this is going to be the first white paper in a series of our plan forward effort which is the overall policy plan update that the board authorized last december and we intend to study other land use issues in a similar way that will we hope will inform that policy plan update thank you thank you um i'm wondering if uh there's any members of the eac who uh live with this day to day in their work work environment who want to offer some insights as to what's happening yes

[01:12:49] hi thank you everybody good morning Brian Winterhalter at DLA Piper for those of you who don't know me already I'm a land use lawyer and work with a lot of developers office owners residential developers mixed-use developers and so forth across the region and in particular in Fairfax County I've got

a couple of quick questions and observations one thing I will say is and maybe you all have had some of these conversations as well. But working with the owners of office buildings, I will say I unfortunately don't have quite as sanguine as a view of the future of the office market as some of what we've heard, quite frankly. Most of our clients who own office buildings

[01:13:28] that are not connected to other assets are quite concerned. The thing that resonates the most with me from the presentation earlier was the bifurcation of the office market. That is absolutely true. It's quite real. There is interest in developing space in key amenitized office locations, transit locations. That is definitely strong. Everywhere else is really struggling, really struggling. And I want to emphasize that we, one of the things that, one of my quick questions is, have you all, do you have any visibility into the timing of when

[01:14:05] office owners' mortgages run. And the reason I ask that, and in all seriousness, I think this is a very serious issue and consideration, which is from our perspective, what we're hearing from our office owner clients is we're at the beginning, not the end of this. And most commercial mortgages are relatively short term. Most of them have large balloon payments at the end. The typical industry practice is to continue to refinance. That is not going to happen with interest rates the way they are, especially if buildings are underutilized or vacant. And we've had clients

[01:14:42] who own office, there's an office building, I won't say which client or which office building, but 100,000 plus square foot office building in Reston along the toll road, buildings vacant, owner wanted to give it back to the lender, the lender didn't want to take it. Which gives you some sense of what the market is perceiving as the value of that property, right? And I don't know all the numbers. I don't know all the details. But just to give you a sense of where things are in the market for certain struggling office assets. So that's one piece.

[01:15:12] So my one question is, if there is any visibility into that timing, that would be helpful to know. Because as mortgages run and either an owner sells in a distressed asset deal or the lender takes the property back and then the lender sells, that valuation then affects the next building and the next building and the next building right and there is a likely and nobody knows how big it's going to be but there is some wave whether it's a small shallow wave or whether it's a tidal wave of office building valuation changes that are coming and so the that's my one piece of of

[01:15:52] sort of I offer as a suggestion in terms of looking to the visibility of how long that is obviously there's more activity than there was in the height of COVID people are coming back to the office, it's still an open question from our clients of how many people are coming back, how regularly, is it real, is it really coming back, is it a lull, you know, everybody's seeing all those same things and nobody has the crystal ball in the answer to that. But one thing that seems to be, seems to be, I think sort of an assumption, if you will, at this point is their return to office is not going to happen fast enough to save all these buildings for when

[01:16:29] their mortgages are going to run. I think that's the reality that we're looking at now, at least that's the reality that a lot of our clients are planning for. And as an EAC member who's interested in the economy of Fairfax County, I think that it would be helpful to try to start planning for that as well as we can as a county. Excellent. Thank you. That's why we have you on the commission. Thank you for that insight. Anyone else who? Yes. Hey, John. Brian Shanaman. I'm the Frankfort representative. I just wanted

to know in terms of the county processes. I saw the repurposing, I think that's great. I think that's probably where we're going to need to move in the

[01:17:08] future, but I'm concerned about the amount of time that it takes to do that. I think Brian's point, when we're looking at a fiscal clip potentially on some of these mortgages running out, how long are these projects sitting in the zoning, rezoning process? I mean, how long does it take from start to finish to get a site plan amendment or a comprehensive plan change? And have any of these program any of these buildings that have been approved were they were they all pre-pandemic or any of them after the pandemic you know we do have tracy strunks on the phone oh actually um suzanne wright the director of the zoning evaluation division is here um hopefully she

[01:17:47] could answer that question for us i do know that some of these approvals did occur after the pandemic yeah suzanne wright department of planning and development zoning evaluation division Yes, the first answer is that these occurred both pre- and post-pandemic.

[01:18:08] There's a few that are ready to be going to the Board of Supervisors fairly soon. There's one that went last time, I believe. And then the 5,600 is obviously the one that was the bellwether, the trailblazer, and so that's been active. Also, the Skyline cases sort of went through both pre- and post-pandemic.

[01:18:29] the question of how long applications take obviously there's the what we're trying to do by reducing the need for the plan amendment with the policy is to take off some of the time at the beginning the applications I don't I don't have a good I don't have a number for you the applications depend on the quality of the submission and how well all the issues have been resolved at the beginning and I would say that the timelines have been getting getting shorter because we've done it before so the 5600 application was the one that every issue was new you know we had to sort of resolve it all but now that we're

[01:19:07] more used to it we've built the first bicycle we can do it a little bit quicker and everybody has the same expectations so I think things are moving a pace so I can get any numbers you want on that kind of thing but I think that we're getting a lot better on both sides at processing those thank you you know for those who do this stuff for a living, we talk about repurposing from office to residential.

[01:19:35] And, you know, are there other things we should be thinking about, like office to light industrial, to retail, to arts, government use, live work? Anyone have any thoughts on that? Are we too narrow in our focus in terms of repurposing? I know there's going to be zoning issues that come into play but i'm talking about from a market standpoint uh initially i was just going to say that in our in our research we did find that there are there's one architecture firm specifically in the dc area that is converting office spaces to self-storage which solves a double problem that

[01:20:13] we have where to put self-storage and what to do with vacant office that's one possible use indoor farming there's an indoor farm in herndon i'm sure you've heard about beanstalk that's a something that could be done. So there are other non-residential potential uses for vacant office.

[01:20:31] Okay. Well, I hope your white paper will get into some of that. Anyone? Yes, Supervisor Stewart. To some degree, this question ties into that and really needs to be included as part of the analysis, which is we all know historically when there's been a deep decline in the valuations, or at least valuations are flat and other areas are going up, there's obviously lower cost areas and higher cost areas, and what do we see because we recognize, I mean, I recognize as a small business person that I'm going to go where I

can get a lower rent or a lower cost because that will only reduce my overhead and gives me the opportunity to grow, you

[01:21:11] know, keeping my own dollars. And so looking at, you know, Richmond Highway Corridor, we know that there's a lot of redevelopment that's going to happen there because there's a lot of remodeling or really revitalization with the right-of-way acquisitions and so forth, but do we have any data internally for Fairfax County that shows and helps us to understand how to pitch that or how to market that or ways to capture, you know, maybe a lower cost part of the market that ultimately becomes a higher cost part of the market because it becomes more of a place that people want to go to and redevelop

[01:21:47] and grow. We have a number of industrial areas as well as obviously older commercial areas that that can lend itself to, but I particularly wanted to make sure that that's part of our conversation Part of the analysis that's shared, I know we all have seen the history of places that were at one time one of the lower-cost areas that ultimately become the most expensive part.

[01:22:09] And you can think of Manhattan and areas there that particularly that happened over time. I think those opportunities are here. But what do we know about it, and how do we understand how to support and encourage or incentivize that process? I don't necessarily need an answer, but I need somebody to pick that up as an analysis or part of the work that's included with the residential to commercial conversion.

[01:22:42] And we're told, I'm told routinely that staff does not want industrial areas to be converted to commercial areas because we don't have enough industrial areas. Well, that may be nice, but in terms of those areas where the industrial areas are, the communities don't necessarily agree with that.

[01:22:59] And so part of that tension is constant. Anyone else? So kind of, yeah, I'm sorry, go ahead. Sorry. Microphone.

[01:23:16] I was just sitting, oh, I'm sorry. I was just sitting thinking about two cities, urban centered, one in New York. They have similar issues, and they're taking residential and including a very famous museum in their lower section.

[01:23:34] In L.A., a lot of it is manufacturing. And I think, as I was listening to the analysis, I thought it was spot on. There's a change on horizon. I believe that the past perception of the large office space is starting to change.

[01:23:56] In addition with the next generation of talent development, talent development really jumped out at me. What we're talking about is the next generation of professionals who do not have a perception that going into an office is part of their upward trajectory.

[01:24:18] With that said, although I think it's a change, I don't think it's the demise of, I think it's a change. And one of the things that I know, that we all know about this region, is that it's a GovCon, government-based.

[01:24:36] But with this new generation, it also can be micromanufacturing. And there are some urban centers right now around the country that as a result of our supply chain debacle, that we decided, many of us have decided that two things need to happen. We need to be America-based on a lot of our supply chain, and what better location with our populace of intelligent people coming up with supply chain solutions in this area. Talent is a big deal. Developing talent and attracting the talent

[01:25:15] to get them to solve these problems. I have a tendency to like to work with universities, and I heard George Mason was used, and I work closely with George Mason. We can invite other universities that were on the list that Victor showed us and invite or launch a seminar or a hackathon of some sort.

[01:25:36] That's the term young people use. But the idea is what other business can be brought to our community and used in that environment, in that footprint. With that said, we bring the bankers together to that conversation.

[01:25:54] We bring our venture capitalists into that conversation because it reflects next. It reflects where we're going in the future. One of the areas that is huge in our area is aerospace. Aerospace has decided to move to Virginia, and it is growing, which ties with our defense, our intelligence, as well as manufacturing.

[01:26:19] We could become a manufacturing hub, not the old school football-sized manufacturing, because the footprint on that for sustainability is no longer viable. But micromanufacturers, AI, I think we are in position and well-placed with the workforce to jettison a whole new movement into manufacturing supply chain issues and leveraging the smart people in our universities.

[01:26:52] That's just a thought. A lot of good thoughts there. Thank you very much. I'm going to let the chairman close this out. Yeah, and it's actually related to what was just said and also to what stuck out to me in the presentation as well, which was the bifurcation comment.

[01:27:08] And this is one of the reasons why we can't put our head in the sand to what's really changing in the world around us. And this idea that we just hold on to office space because we want to have the highest numbers possible and let those buildings decline, those buildings in a lot of cases are also in places that have communities around them that suffer the long-term consequences of that.

[01:27:33] And they're on the brink in some cases. And so the worst thing is to have these vacant buildings that are obsolete sitting there taking up space, not contributing anything to the economy. We have to be concerned about the tax-based ramifications, not just of that building, but the whole community around that building that can be affected by it. And so we can't, you know, bury our head in the sand here. And this is one of the reasons why the repurposing initiative is an important one, and we have to be aggressive on it.

[01:28:02] It doesn't mean that every property is a candidate for repurposing every commercial property. And so one of the questions I think that we're going to need some clarity on, is there a type of product that is worth the fight to preserve, understanding the consequences of that preservation? An example was given of the one-story office building. Luckily, we happen to have one of those hanging around. But is there a type of building in a type of market in the county that we should absolutely not be pursuing for repurposing. And what does that look like is one of the questions I hope

[01:28:39] we're going to get an answer to, because we should have, we should be out there as the jurisdiction that will most aggressively work with anyone who comes through the door that wants to put their building into use that contributes to the vitality of our economy, whatever that use happens to be.

[01:28:56] And that's something that we should have a reputation for here in Fairfax County. I'm concerned about residential and the impact on the tax base, but I'm also concerned about the over 100,000 vacant jobs in our region that are desperately waiting for someone to fill them who can't afford to live here.

[01:29:15] And the lack of housing and the demand on housing is a huge driver on that. That's a piece we haven't really talked heavily about here, but is a part of the total equation that supports an overall vibrant economy. And so I just really want to thank the folks who put together the presentation a lot to think about here. And I would say to industry, you know, these questions for discussion, if we're running into situations where there is a county obstacle in place, whether it's time, whether it's comprehensive plan, whether it's building architecture, whether it's parking tabs,

[01:29:50] whatever it happens to be, that the sooner we as board members hear about those obstacles, the sooner we can fix them for projects that will contribute to our economy and to our vitality here and we're not the technical experts but we also play a major political role here not only in making sure the county processes are working but to the question earlier about time sometimes the time is the time it takes us to get community support in our district for some of these projects to happen and that's on us you know we have to build that support and build that build that you

[01:30:25] know community support and i think one thing that brian said that we can all take away with is the office markets that are working are the ones that have the amenities, that have the walkability, that have the mixed uses, that have the transportation, that have the things that young workers in particular are looking for. And we have heard that in past EDA presentations. So we have to wrap our hands and our heads around all of those issues when we're looking at repurposing.

[01:30:53] But great conversation, great data, and ending on a high note, it is good to be in the position we're in here. You know, we hear a lot of negativity out there in media and other places about what's happening, but we should be darn proud of the position and reputation that we've built and be doing everything we can to continue to support that as we move forward. Thank you very much. Well, thank you all for an excellent meeting. I hope that if you have thoughts or suggestions or comments after the meeting that come to you, please reach out to myself or Rebecca

[01:31:30] and help us deal with these issues. Thank you very much. We won't be meeting again as an EAC this year, but we'll be getting back to you in terms of dates for next year. Thank you. Thank you.

