

FUTURE OFFICE DEVELOPMENT IN CLARENDON

Introduction

This report was prepared by Arlington Economic Development (AED) in support of the planning process associated with the review of the Clarendon Sector Plan. The analysis has a number of specific purposes:

- Provide an update on the Arlington office market;
- Describe and define office product types that may be applicable to the Clarendon market;
- Match product types to the projected demand for office space in Clarendon; and
- Suggest a product mix with appropriate locational considerations as input into the Sector Plan.



Station Square at Clarendon

The report is limited in scope and does not repeat or supplant the economic and fiscal analysis prepared by Economic Research Associates as part of the Sector Plan review.

Office Development in Arlington

Prior to 1960, there was relatively little leased office space in Arlington. The only significant leased office space that existed was represented by small buildings in proximity to the County

Courthouse and Arlington Hospital, serving the government and medical functions respectively.¹ This changed dramatically with the redevelopment of Rosslyn and Crystal City. During the 1960s, some 2,418,097 square feet of office space was built in Rosslyn and 2,890,452 square feet was constructed in Crystal City.² Arlington's leased space office market grew from 1.3 million square feet to 7.7 million square feet in a decade.³ Both of these business districts were pre-Metro office markets. The

planning for the Orange Line and its opening in 1978 expanded the potential office capacity in Arlington to about 60 million square feet, as office centers were added in Court House and Ballston and to a lesser extent in Clarendon and Virginia Square. In 1996, the revised Rosslyn Sector Plan added another potential 2 million square feet to this total with the approval of the C-O Rosslyn high density overlay district.

¹ These statistics do not include the 6.5 million square foot Pentagon building which was completed in 1942 and was never part of the private leased office market.

² From *Development in the METRO CORRIDORS 2000*, Arlington County Department of Community Planning, Housing and Development (CPHD), July 2002.

³ From *Development Capacity in Arlington's Metro Corridors*, (CPHD), September 2004.

By 2002, Arlington's office base had increased to 42,386,709 square feet, representing 68 percent of the total development potential of 62.4 million square feet.⁴ Of the 19,988,648 square feet of office development remaining, some 3.2 million square feet had achieved site plan approval for construction. In total, more than 30 million square feet of office space was added during the 1960 to 2002 period, an average annual increment of approximately 700,000 square feet. Of course, there has never been an "average" year, and at times the office market has been stronger or weaker than this average. The 1960s, late 1980s and late 1990s were especially hot office markets just as the 1970s, early 1980s and early 1990s were relatively weak in terms of new construction.

In September 2002, the County Board requested that Arlington Economic Development provide an examination of the office development potential in Clarendon. Concerns centered on why office development in Clarendon was being "crowded out" by residential development, what was the projected and most desirable mix of office and residential development, and what was the appropriate "character" of future development. The resulting report entitled *Shifting Markets: Office Development in Clarendon*, documented the crowding out of office development by an especially hot housing market. The report also referenced Clarendon's growing importance as a major regional retail center. The report suggested a strong need for further study of the office market. It also provided some guiding principles for more immediate consideration of economic development planning factors:

- Provide greater specificity in planning documents for the submarket, more closely indicating the desired mix of uses and possibly develop a

concurrency provision to ensure the desired balance such as the one which has worked so well in Ballston.

- Consider the revenue impacts of different development options, not to the exclusion of other factors, but in concert with them.
- Use a longer-range perspective that transcends short-term market cycles in considering the economic needs of the community or submarket. At any point in time, one sector is likely to be stronger than the other.
- Be concerned about the relative scarcity of prime office sites, in Clarendon as well as other submarkets, and understand that the "loss" of office sites could negatively affect future economic development efforts throughout the County.
- Consider maximizing the density of the remaining core sites, providing bonuses for commercial development in the most desirable locations.



RED indicates Clarendon Core - Prime Office

⁴ Total development potential includes federally owned space, privately owned built-to-suit space and the leased inventory.

Table 1: Major Office Development in Arlington 2003 to Date

Project Name	Year Completed	Submarket	Square Footage			Residential Units	Hotel Rooms
			Office	Retail	Other		
Ballston Point	2004	Ballston	251,170	17,377	0	0	0
Liberty Center Office, Phase I	2005	Ballston	328,740	5,000	0	0	0
4401 Wilson Blvd (NRECA II)	2006	Ballston	248,401	12,000	0	0	0
Kettler Capitals Iceplex	2006	Ballston	19,986	2,000	120,000	0	0
The Regent	UC*	Ballston	248,962	14,401	0	0	0
The Hartford (Offices)	2003	Clarendon	207,125	15,617	0	0	0
Station Square at Clarendon	2006	Clarendon	64,545	21,515	0	308	0
The Phoenix at Clarendon Metro	UC*	Clarendon	74,475	13,650	39,900	194	0
Zoso Condominium	UC*	Clarendon	16,573	6,846	0	114	0
One and Two Potomac Yard	2006	Crystal City	641,069	8,489	0	0	0
Waterview	UC*	Rosslyn	623,176	7,510	0	185	160
Ballston Gateway	2003	Virginia Square	122,904	13,784	0	0	0
GMU Foundation Office	2006	Virginia Square	192,448	13,275	0	0	0
FDIC Phase II	2006	Virginia Square	410,364	5,108	0	0	0
3803 Fairfax Drive Expansion	UC*	Virginia Square	43,045	0	0	0	0
Total			3,492,983	156,572	159,900	801	160

Source: CPHD, Quarterly Development Tracking Reports
* Under Construction

In response to the *Shifting Markets* report, the County Board adopted an interim policy that designated the major blocks in the core of Clarendon for office development. The Sector Plan review would be used to provide additional analysis and specificity to the issues of mix, density and character.

Snapshot of the Arlington Office Market

Since late 2002, when the *Shifting Markets* report was presented, the Arlington office market has substantially recovered from the weak market brought on by the dot.com collapse of 2001. More than 2.5 million square feet of office space has been added throughout Arlington, with another 963,000 under construction in December 2006. This construction activity has been dispersed throughout the County, with significant projects in Ballston, Virginia Square, Rosslyn and Crystal City. Within Clarendon, the Hartford delivered 207,000 square feet of conventional office space in 2003. Two additional projects are currently under construction, Station Square at Clarendon and The

Phoenix at Clarendon Metro, which together represent another 140,000 square feet of condominium office space. In addition, the pipeline for future projects remains strong in all submarkets.

Office sales prices have increased substantially since 2002. Arlington recorded six office building sales at prices above \$300 per square foot in 2003 and 12 in 2004. The highest price attained was \$560 per square foot for a building in Rosslyn in 2005. Prices for newer Class A office space regularly exceed \$400 per square foot and approach new high-rise residential yields. The office market has strengthened substantially over the past several years and the differential in prices between office and residential space has narrowed considerably.

Arlington has a well defined profile of its office supply. Larger buildings, with floor plates greater than 30,000 square feet, comprise only 8.1 percent of all office buildings, but 21.5 percent of the total rentable building area (Table 2). More than 70 percent of the office stock has floor plates sized less than 20,000 square feet in size. These are

mostly 1960s and 1970s vintage buildings constructed during the early boom in Rosslyn and Crystal City. More than half of the total office stock is sized with floor plates between 15,000 and 25,000 square feet with an overall rentable building area of 150,000 to 250,000 square feet, representing the “conventional” office building profile in Arlington.

Table 2: Arlington Office Space by Floor Plate Size in Leased Buildings

Floor Plate (SF)	Number of Buildings	Total Square Footage	Percent of All Space
40,000 +	9	3,878,562	11.1%
30,000 to 39,999	12	3,654,366	10.4%
25,000 to 29,999	10	2,811,793	8.0%
20,000 to 24,999	44	10,339,516	29.5%
15,000 to 19,999	43	8,008,500	22.9%
10,000 to 14,999	43	4,501,268	12.9%
Less than 10,000	97	1,814,662	5.2%
Total	258	35,008,667	100.0%

On the demand side, the great majority of office users in Arlington lease relatively small spaces, those less than 10,000 square feet in size (Table 3). There are only 109 tenants leasing more than 50,000 square feet of office space, yet they account for more than 58 percent of all space leased. The ability to accommodate sizeable tenants is extremely important to the Arlington economy, even though 85 percent of all office tenants lease 10,000 square feet or less.

An analysis of Arlington Economic Development’s prospect list emphasizes the importance of large tenants. Even though only 17.7 percent of all prospects have requirements of 50,000 square feet or more, they account for three-fourths of the prospective space (Table 4). Large prospects are especially important to developers of new projects who are reluctant to divide full floors and desire initial tenants at least 20,000 – 25,000 square feet in size. Most new office projects require lead tenants capable of leasing two or more full floors or 25 percent of the building.

Table 3: Arlington Office Space by Tenant Size

Square Footage Occupied	Number of Tenants	Total Leased Square Footage	Percent of All Space
400,000+	2	1,040,284	4.0%
200,000 to 399,999	23	6,319,153	24.6%
150,000 to 199,999	6	988,073	3.8%
100,000 to 149,999	22	2,685,689	10.4%
50,000 to 99,999	56	4,066,317	15.8%
30,000 to 49,999	63	2,377,099	9.2%
20,000 to 29,999	82	1,961,287	7.6%
10,000 to 19,999	199	2,837,895	11.0%
5,000 to 9,999	241	1,694,883	6.6%
2,000 to 4,999	385	1,228,566	4.8%
Less than 2,000	597	535,149	2.1%

There may be demand for a wider variety of office space types than the market has provided in recent years. The established development rules and incentives may have contributed to this situation as consolidated sites and conventional products have dominated new office construction. However, as in-fill sites become increasingly difficult to consolidate and as incentives are applied to other product types (e.g. the form-based code on Columbia Pike), a broader variety of office types may emerge. Some of these products are described in the following section.

Table 4: Arlington Office Space by Prospect Size

Square Footage	Number of Prospects	Total Square Footage	Percent of All Space
400,000+	4	2,011,000	18.2%
200,000 - 400,000	8	1,645,000	14.9%
150,000 - 200,000	8	1,235,000	11.2%
100,000 - 150,000	15	1,755,815	15.9%
50,000 - 100,000	25	1,550,800	14.0%
30,000 - 50,000	21	808,609	7.3%
20,000 - 30,000	29	717,721	6.5%
10,000 - 20,000	41	629,762	5.7%
5,000 - 10,000	48	396,500	3.6%
2,000 - 5,000	64	230,415	2.1%
Less than 2,000	76	76,161	0.7%
Total		11,056,783	100.0%

Source: Arlington Economic Development, 2002-2004

Office Product Typology

Office space is usually developed within a limited range of product types. These product types achieve market acceptance and can be matched to a number of common financing vehicles. Non-standard products are more difficult to finance and market. A greater diversity of office types could realistically be developed in Clarendon than in most other submarkets.

Conventional Office Buildings

In Arlington terms, conventional office buildings are those with floor plates ranging from 20,000 to 30,000 square feet in buildings with a Rentable Building Area (RBA) ranging from about 200,000 to 300,000 square feet. Nearly all have been built in the Metro corridors since 1980. Some of the earlier buildings constructed in Rosslyn and Crystal City in the 1960s were smaller, with floor plates below 15,000 square feet and an RBA below 200,000 square feet. Of the 19 buildings built in Rosslyn during the first decade of major development, only one had floor plates above 15,500 square feet. The overall building RBAs were also small – 15 of the 19 buildings were less than 150,000 square feet in total size. Over time, floor plates and buildings increased in size in response to market pressures and today a conventional building is usually at least 200,000 square feet in size with floor plates of approximately 25,000 square feet.

Conventional buildings are generally for lease and are all office use, except for ground floor retail. Arlington has few built-to-suit office buildings.⁵ Developers prefer full-floor tenants in new buildings and are reluctant to split a floor for smaller

tenants. Over time, however, through subleases and economic necessity, floors are broken into smaller suites and today many tenants in conventional office buildings occupy less than 5,000 square feet.

Office Condominiums

Office condominiums are relatively rare in Arlington and to date have been small suites designated for medical office use. The 12,800 square foot building at 2501 Glebe Road is the most prominent example in Arlington. Developers of office condominiums are generally cautious about sizing their product and indicate that it is easy to overestimate the market. New generation projects in the Northern Virginia suburbs seldom exceed approximately 40,000 square foot and have been sold as suites in 1,000 square foot increments.⁶ A smaller free-standing building or a condominium component in a mixed use building in Clarendon may prove to be highly marketable, given appropriate accessibility, visibility and parking.



2501 Glebe Road

⁵ The two buildings in Court House constructed by Bell Atlantic are one exception, although they have since been sold and are leased back by Verizon. The FDIC complex in Virginia Square and the Nature Conservancy building in Ballston are examples of built-to-suit development by the public and non-profit sectors respectively.

⁶ “Old” generation office condominiums were typically townhouse style buildings built in increments of less than 20,000 square feet.



16 Market Square, Denver

Large Mixed Use

While the large mixed use product is new to Arlington, the national development community has begun to accept a product that features uses mixed by floor, e.g. ground floor retail, several floors of offices, topped by residential uses. One good example of this type of development is presented as an Urban Land Institute (ULI) case study – 16 Market Square in Denver, Colorado. This building is 388,000 square feet in size and is located near the LoDo district, an area with a number of parallels to Clarendon. It is an infill project in a historic and entertainment district and is a prime example of transit-oriented development in the Denver market. The project features 23,500 square feet of ground floor retail space, 183,000 square feet of offices on five floors, and 23 “penthouse” residential condominiums on the top two floors. It meets several criteria of the Clarendon Sector Plan: mixed uses including ground floor retail, underground on-site parking, efficient floor plates for office tenants and high quality design and streetscape. This project could serve as a model for some of the larger redevelopment sites.

Small or Component Office

In Arlington today, some 1.8 million square feet of office space is located in office buildings with floor plates smaller than 10,000 square feet. About half

of these 97 buildings have an RBA of 20,000 square feet or less. Most are older buildings located outside of the Metro corridors. There is clearly a rental market for small office spaces and small office buildings. Arlington Economic Development also receives many calls from companies or investors looking to purchase a small office building. The economic constraints of developing a small building in the Arlington marketplace may be difficult to overcome, however, a smaller component building of a larger project or the in-fill redevelopment of a small site may prove feasible, especially for an existing property located outside of Clarendon’s core. This form is also suitable for sale as office condominiums.

Work/Live Space

Specialty space for joint residential or commercial use is a relatively new concept, although some projects have been approved with this combination of uses. The “live/work” spaces at Avalon at Arlington Square on South Glebe Road feature ground floor retail spaces with apartments located above the stores/offices. In most cases, the residential units and the commercial units are rented to different entities. The form-based code on Columbia Pike is designed to allow/encourage this type of small scale mixed use development. It



Avalon at Arlington Square

is important to differentiate “work/live” units, which are business premises, from “live/work” units which have a more residential character.⁷ Small mixed use in-fill projects of this type would be an appropriate, but yet untested addition to the Clarendon market.

Supply and Demand

The Clarendon Sector Plan envisions the development of approximately 1.1 million square feet of new office space.⁸ The community has expressed a desire for development of “creative class” office space in lieu of solely conventional products. Based on the product descriptions presented above, AED has projected a hypothetical mix of products that could prove marketable in Clarendon (Table 5). This is not a market analysis or marketability study as such, but matches product types and quantities with factors of demand and current property ownership patterns.

Approximately one-third of the additional space would be located in conventional office buildings. These buildings would hold about 17 percent of the new tenants, each about average size for an AED prospect. All conventional office buildings would be located in the Clarendon core.

The mix also includes several mixed use larger buildings to be located in proximity to the core. These buildings would contain some 430,000 square feet of space and perhaps 35 tenants. Clarendon can also accommodate another four

small freestanding or mixed use buildings/spaces of 40,000 square feet each, most likely located along Washington Boulevard or North 10th Street.

AED’s hypothetical office mix includes approximately four small in-fill buildings of a form-based design to be developed or renovated on the two blocks on the north side of Central Park. Although these buildings would contain only about 20,000 square feet each, these blocks could accommodate 80,000 square feet or six percent of all new office development.

Table 5: Hypothetical Mix of New Office Development in Clarendon*

Type	Building RBA	Number of Buildings/Units	Number of Tenants	Total RBA
Conventional	150,000-220,000	2	18	370,000
Large Mixed Use	65,000-120,000	5	35	430,000
Small Mixed Use	40,000	4	20	160,000
Form-based	20,000	4	12	80,000
Work/Live	2,000	20	20	40,000
Total		35	105	1,080,000

* Includes buildings under construction

Source: Arlington Economic Development

Finally, the potential mix could include up to 20 work/live spaces on upper floors of mixed use buildings or store-front buildings with upstairs living spaces. Appropriate locations would generally be small in-fill sites in non-core areas.

This hypothetical mix of office space types and tenant sizes generally conforms to the current office and tenant profiles within Arlington. As discussed above, some of these office products are untested within the Arlington market, although there is evidence of market demand in Clarendon

⁷ Arlington Economic Development is working with the Planning Division on a background paper on the distinction between live/work and work/live space and the way each is best treated regarding the zoning use list, number of employees permitted, parking, access and signage.

⁸ This includes the 360,000 square feet under construction or approved in the Station Square at Clarendon, The Phoenix at Clarendon Metro and Clarendon Center projects.

currently for non-conventional office space. The feasibility of new products would need to be tested on a project-by-project basis, with site acquisition and development costs likely to differ widely. The Clarendon Sector Plan is not predicated on allowing the highest and best use of each parcel - it imposes some development constraints in order to promote a broader public vision of Clarendon. AED does believe, however, in a development scenario whereby two-thirds of the future office development in Clarendon can be provided by non-conventional office products.

Indeed, Clarendon is already well on the way to a unique and non-conventional office mix. Some of the most interesting office projects in Arlington are under construction or have been recently approved in Clarendon. The developer of Station Square at Clarendon (formerly 2900 Clarendon, the subject of the *Shifting Markets* study) has constructed some 86,000 square feet of office and retail condominium space as part of a larger mixed use project. Similarly, The Phoenix at Clarendon Metro features approximately 75,000 square feet of office condominium space in a tower being constructed above a new postal facility as part of a large mixed use complex. The office condominium market is, so far, relatively untested, although these two projects should provide some evidence of the strength and depth of that market soon.



*Concept Sketch: East End
(looking east from N. Fillmore St.)*

Clarendon Center, a two-building project in the Clarendon core, represents still another hybrid example of creative office space. While one building is of conventional office design, the other incorporates a 70,000 square foot office building onto an in-fill site wrapped by a larger residential component. This project has been approved and is in the pipeline for future construction.

The Clarendon Sector Plan represents some of the most creative thinking yet about the future Arlington office market. Also the most detailed analysis, block by block, of any recent planning effort. Innovation in future office development will not be constrained by the plan, which relies heavily on the creativity of the development community and the continued strength of the Arlington market.

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