



Response to Questions on the 2016 LOBs

Request By: Supervisor Foust

Relevant LOB(s): LOB #46

Question: Identify metrics that measure EDA's success at expanding the commercial tax base.

Response:

The discussion included queries about two metrics related to the commercial tax base: a) the current vacancy rate (approximately 20 million square feet); and, b) the real estate tax base. These will be addressed separately below, including the factors which the Economic Development Authority directly impacts.

Vacancy Rate

Total occupied office space in Fairfax County is greater than the total inventories of all the surrounding cities and counties of Northern Virginia, including Arlington, Alexandria, Loudoun, Prince William and others. Currently, Fairfax County has 20 million square feet of vacant office space. A more accurate depiction of the vacancy level in the county is somewhat less. More than one million square feet of office space in the County is vacant but not on the market. 600,000 square feet of that space is in Tysons Corner alone. Owners have indicated that they have no intention of putting that space on the market and will ultimately take it down. Other space is available only for short-term leases because the owners are positioning the buildings for redevelopment. This further inflates the vacancy numbers.

That leaves a more accurate amount of vacant space of 19 million square feet. Of the total amount of vacant space, the overwhelming majority is more than twenty years old and thus considered by the commercial real estate community to be "obsolete." Of the total inventory of 116 million square feet of office space in the County, nearly 73 million square feet is more than twenty years old.

The Tysons Corner market represents a unique situation. New office space is being filled, to some extent, by companies vacating the older space. This has encouraged additional new construction, despite the vacancy rates, because land owners observe the new space filling up and because money is relatively cheap at present. We refer to this as a "flight to quality." The result is that we are left with 20-, 30- and 40-year old buildings to market that have different technology amenities and are not proximate to a Metro station.

The vacancy rate in office space is a function of vacant space and the total inventory. To measure the EDA against changes in the vacancy rate would include growth in the inventory over which



the EDA has no influence. We could measure EDA performance as a function of the changes in the amount of vacant office space that becomes **or stays** occupied.

One possibility is to measure the total amount of vacant office space, minus that which is not on the market, and excluding space after the measure began. That is, we start with the 19 million square feet of office space that is currently vacant and address that base (that is, excluding new construction) each year, and consider how much of that base is filled at the end of the year. New space would become part of the metric in the ensuing years. Thus, we could measure the amount of the space at the starting point that was absorbed or re-leased.

The latter point is important because re-leasing is critical to our economic growth. Indeed, business people always state that return business is the source of stability. However, it also means that such a metric can be misleading. For example, we could start with a base of 19 million square feet and end with a base of 19 million square feet. On the surface, this might be regarded as having no change and thus a low performance, whereas it may actually reflect a great deal of success in retaining the businesses that were leasing that space.

Percentage of Real Estate Taxes Coming From the Commercial Side

The portion of the real estate tax rate that is non-residential has varied between 19 and 27 percent. The variation has not always reflected declining assessments of commercial values, but rather increasing assessments on the other side of the equation: residential.

The EDA contributes to the commercial side of the real estate tax base. As such, a relevant consideration is how much the total dollar amounts of commercial assessments change over time.