Fairfax County Board of Supervisors
Economic Initiatives Committee (EIC)
J. Hamilton Lambert Conference Center (Room 11)
July 23rd, 2024

Meeting Summary

Board Members present: EIC Chairman Supervisor Daniel G. Storck, Board of Supervisors (BOS) Chairman Jeffrey C. McKay, Supervisor Andres F. Jimenez, Supervisor James N. Bierman, Supervisor James R. Walkinshaw, Supervisor Walter L. Alcorn, Supervisor, Rodney L. Lusk, Supervisor Pat Herrity, Supervisor Dalia A. Palchik, Supervisor Kathy L. Smith

Opening Remarks and Approval of Meeting Summary

The July 23rd Economic Initiatives Committee Meeting began with a post event summary of the Accelerate Breakfast Pitch Series, a quarterly event organized by Fairfax County and George Mason University to connect business leaders, entrepreneurs, and investors in the Washington DC metropolitan area. Storck recognized Supervisor Lusk as being the recipient of the inaugural Spirit of Accelerate award. The previous meeting minutes were approved as read.

Local Economy and Office Market Update

The first agenda item was a joint presentation from the Fairfax County Economic Development Authority (FCEDA), Department of Economic Initiatives, and Fairfax County Department of Planning and Development on the local economy and office market. As an update to a previous Economic Initiatives Committee Meeting, the presentation addressed general economic stability, local office market vacancy trends. Rebecca Moudry, Director, Department of Economic Initiatives introduced the item's presenters: Stephen Tarditi, Director, Marketing Intelligence, Fairfax County Economic Development Authority, and Clara Johnson, Planning Division Branch Chief, Department of Planning and Development.

Tarditi opened the presentation with an overview of workforce, business industry, and real estate economic indicators from the Fairfax County Pulse dashboard. Tarditi spoke about positive trends in employment, and capital investment in the County. It was reported that at the end of 2023, a total of $1.6 billion of capital investment had been raised by firms. Fairfax County's office vacancy rate and industrial vacancy rates were reported to be 17.2 percent and 4.6 percent. It was noted that the five-year office vacancy rate increase was more heavily impacted by anchor tenants' leasing and construction decisions made prior to the COVID-19 pandemic in 2020. Experts project that future vacancy rates will be influenced by factors such as federal government spending, inflation, and access to capital. FCEDA tracks proposed commercial office demolition and adaptive reuse projects to inform its office vacancy rate forecasts and develop its attraction efforts. To address rising vacancy rates in the County, FCEDA will focus recruitment on companies in high-growth industries like quantum computing and artificial intelligence.

FCEDA's recruitment efforts are enhanced by the activities of the Department of Economic Initiatives and planning efforts by the Department of Planning and Development. The Department of Economic Initiatives continues to develop programming and implement strategies that are focused on innovation and new business development. Moudry spoke to the Fairfax Founder Fund pilot, an existing grant and technical assistance program for promising technology enterprises, as a business retention strategy for companies in high growth sectors. Similarly, the department is involved in the coordination of the Accelerate Breakfast series, a dealmaking forum for local entrepreneurs and investors. Moudry shared that the Department of Economic Initiatives has engaged a consultant to prepare the "Blueprint for the Future", a study of Fairfax County's high growth industries and competitiveness. The department also intends to engage with the business community to advise on economic development policy and initiatives, through the newly established Council for Economic Opportunity.

Johnson presented the Department of Planning and Development's land use policies and guidelines that allow for flexible use of commercial spaces. Adaptive reuse allow for repurposing of underutilized office buildings. In her presentation, Johnson spoke about the flexibility and efficiency of the comprehensive plan, trends and activities addressed in the Office Building Repurposing white paper, and current zoning ordinance measures for new uses and special events. Repurposing has increased housing options in Fairfax County. Johnson shared that in the last decade the Board had approved the conversion of 12 underutilized office buildings. Those developments have resulted in the creation of 2194 residential units. Skyline and Madison Live/Work Lofts were given as examples of recent repurposing projects. Ongoing efforts include plans to incorporate new office space retention criteria into their comprehensive plan policy amendment, analyzing the County's inventory, and identifying conversion opportunities.

Supervisor Storck opened the discussion by noting his interest in the "work from home – other jurisdictions" table in the appendix of the "Fairfax County Office Market" presentation. In the appendix, Fairfax County had the lowest percentage of remote workers than other regional jurisdictions. Supervisor Storck also remarked that the County's budget is largely funded by real estate tax revenue and called for the current structure to be considered to allow the County to capitalize on other sources of revenue. Chairman McKay spoke to how responsiveness to the changing real estate market and further economic growth will impact funding for public education. Chairman McKay asked if County metrics related to the number of working individuals and the number of businesses established had continued to trend upwards from its peak in 2023. Staff were also asked to explain how they arrived at the actionable office totals included on slide 11 of the presentation.

Supervisor Alcorn framed the duration of an office vacancy as both a property owner and community issue. Alcorn explained that a short-term vacancy, a vacancy of six months or less, is a property owner's problem. Long-term vacancies, vacancies of more than six years, affect the community. Supervisor Lusk was intrigued by the capital investment numbers reported in the presentation. Lusk was encouraged by the metric, as it could result in increased employment prospects, lease of space, and ultimately an expanded tax revenue base. Lusk sought staff recommendations for how the Board of Supervisors may better support current strategies for retaining and attracting businesses in high growth industries. Victor Hoskins thanked the Board for their current efforts and asked for continued representation at events organized to attract leaders in high growth industries (ex. Quantum World Congress). Lusk also asked staff to explain their methods for calculating office utilization rates, identify the drivers for the current industrial office rate, and describe how the rates compare to neighboring counties in Maryland.

Supervisor Herrity inquired whether parking lot usage affects utilization rates and if staff were tracking leases set to expire in the next three to five years. Supervisor Herrity also asked staff to provide data related to retail space vacancies. Supervisor Palchik inquired about current strategies for tracking the impact of adaptive reuse on neighboring buildings. Palchik also requested that staff provide Board offices with more information related to the preservation of industrial spaces in the County. Supervisor Walkinshaw asked staff to confirm that it tracks federal spending in the County. Walkinshaw also sought to understand how vacancy rates will affect the average cost of rent per square foot. Walkinshaw commented that many property owners see vacancies as an opportunity to acquire their neighboring buildings and garner new tenants. Supervisor Bierman addressed the challenge in discerning between elements of the office vacancy rate are cyclical and those that are related to the COVID-19 pandemic. Supervisor Jimenez expressed interest in office building repurposing as an affordable housing strategy for workers in the County.

<u>Economic Opportunity Reserve (EOR) Nomination Review - McLean Project for the Arts Downtown Center</u>

The second item was a presentation of a $500,000 nomination for an Economic Opportunity Reserve (EOR) project. Scott Sizer, Deputy Director, Department of Economic Initiatives and Lori Carbonneau, Executive Director, McLean Project for the Arts presented the proposal. The McLean Project for the Arts Downtown Center is an adaptive reuse project proposed by the McLean Project for the Arts, a 501(c) 3 charitable organization, to create an arts venue at The Signet in downtown McLean.

The project was nominated for screening at the June 25th, 2024, meeting of the Board of Supervisors. The arts venue is being developed with goals of creating a retail space, contributing to existing placemaking programming and design, and enhancing public finance sustainability. The Signet is a commercial condominium within a residential structure that has been vacant since 2018. The space falls within the McLean Revitalization District and center zone of the area's comprehensive plan. The proposed plans include the purchase of the condominium space, and renovations that include two new gallery spaces, facilities for education services, a commercial café and retail space, and activation of the adjacent park spaces.

The project has the potential to increase the property value by 40%, draw new business personal property revenue, provide new full-time, part-time and contract employment opportunities, and generate local sales tax revenue. After reviewing the proposal, evaluation materials, and potential economic benefits to the county, County staff recommend that $500,000 from the Economic Opportunity Reserve be invested in the project. The McLean Project for the Arts will be responsible for the remaining costs associated with the project including real estate acquisition, renovation, equipment, and soft costs.

Chairman McKay opened the discussion with two questions: one about the zoning interpretation and the second about the primary drivers of the proposed renovation costs. Staff clarified that the costs are driven by updates to the building's heating, ventilation, and air conditioning (HVAC), lighting, ductwork, and utilities. Supervisor Palchik said that the proposal could be a good model for other arts spaces in Fairfax County. In her question, Palchik asked if staff had identified any direct revenue impacts on neighboring property assessments. Supervisor Herrity questioned staff about the difference between the value of the property and the cost of the project, and whether the funding was contingent on the purchase of the property. Supervisor Lusk shared that he understood the importance of pursuing projects like the one proposed, and asked staff to clarify how the $500,000 ask was determined. Lusk also asked staff to articulate other proposed economic benefit metrics that may be tracked by the project. Supervisor Bierman spoke to his excitement in the project and reviewed other revitalization efforts in the area. The Board of Supervisors will take action to fund the project at a future Board of Supervisors meeting.

<u>Review of Staff Report/NIP</u>

The meeting was adjourned after discussion of the McLean Project for the Arts Downtown Center proposal and announcement of upcoming events.