

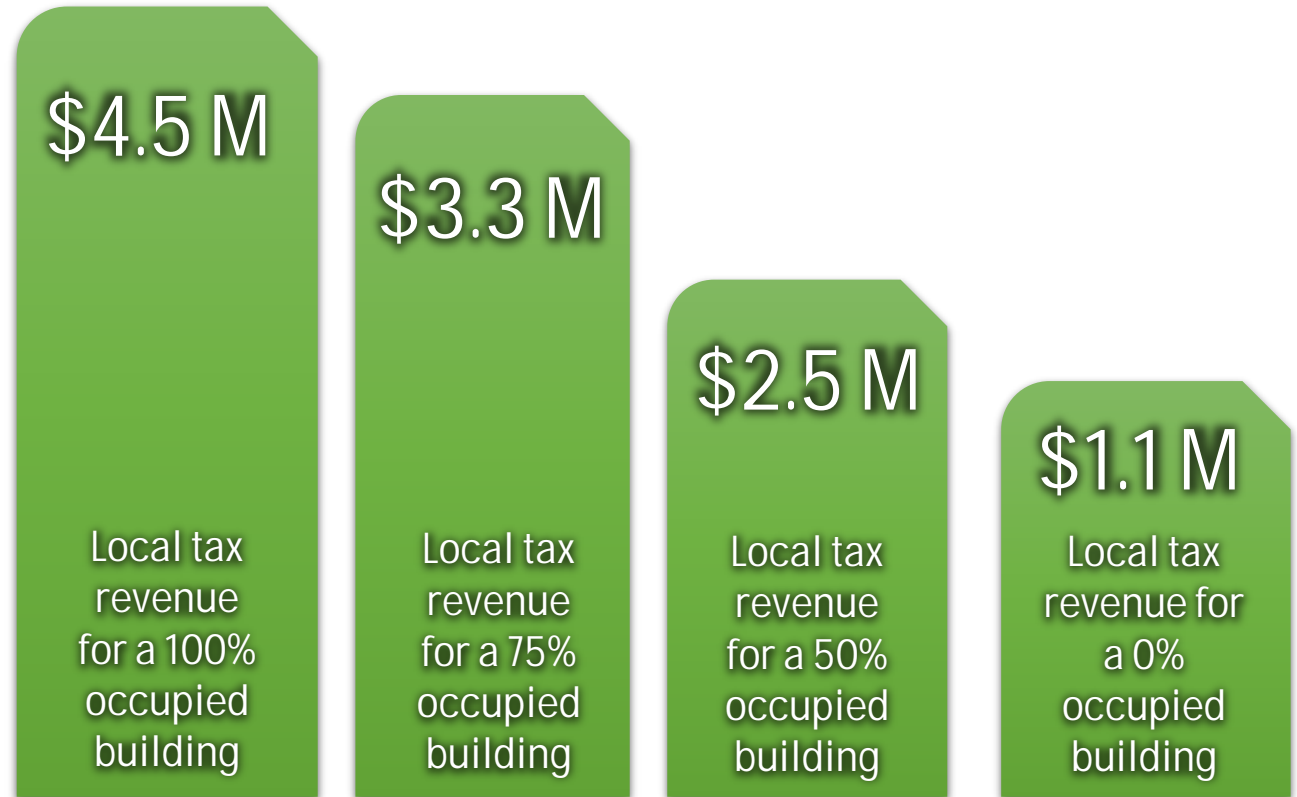
Arlington
Community Facilities Study

A resource and facilities plan for our future

February 25, 2015
Economic Overview



Each 1% of Office Occupancy is Worth \$3.4 million in Local Taxes



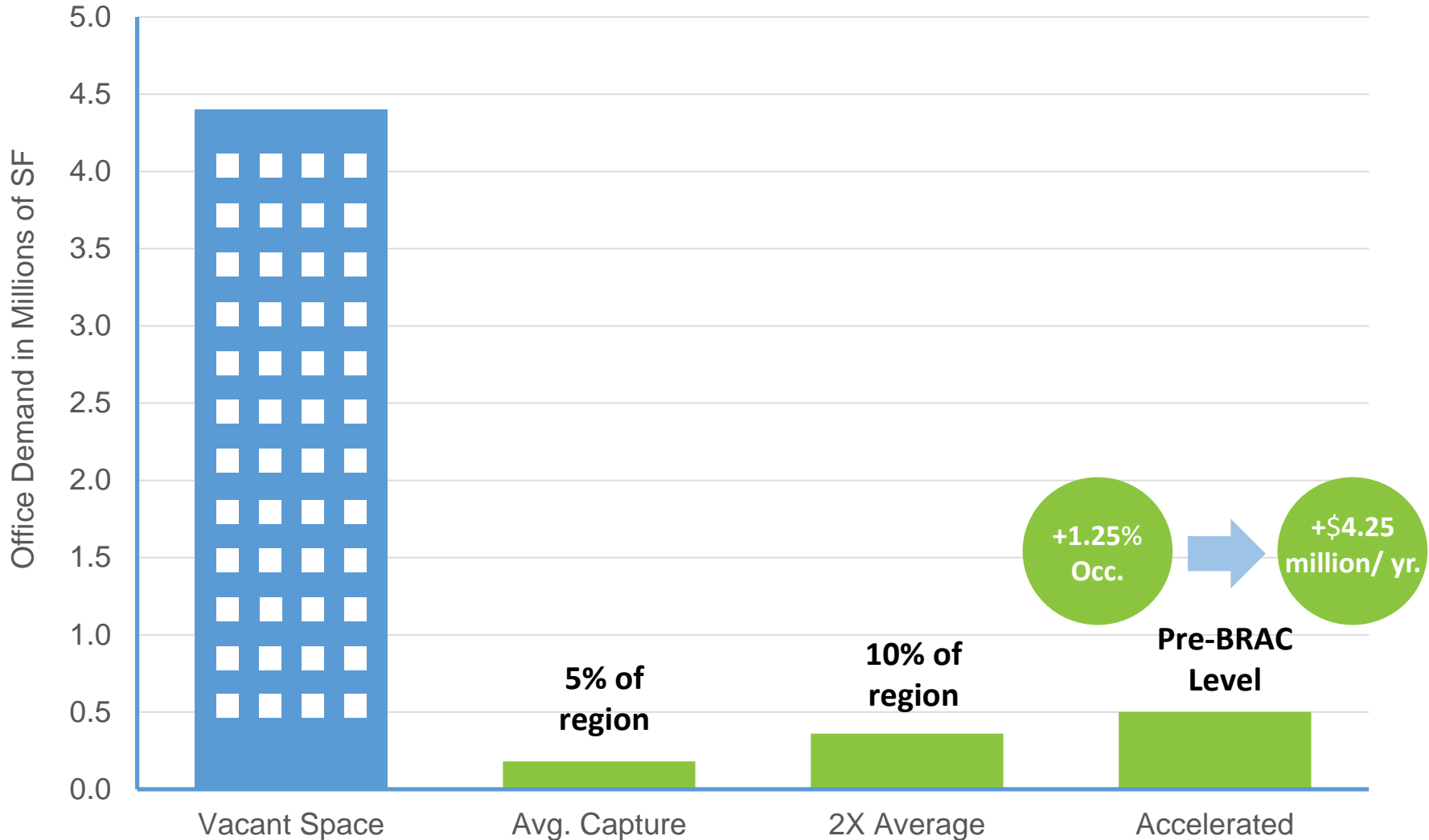
The Importance of Office Market Performance

- Office vacancy is 10% above its 15-year historical average.
- An improvement of 10% in occupancy would represent \$34 million annually in local tax revenues.

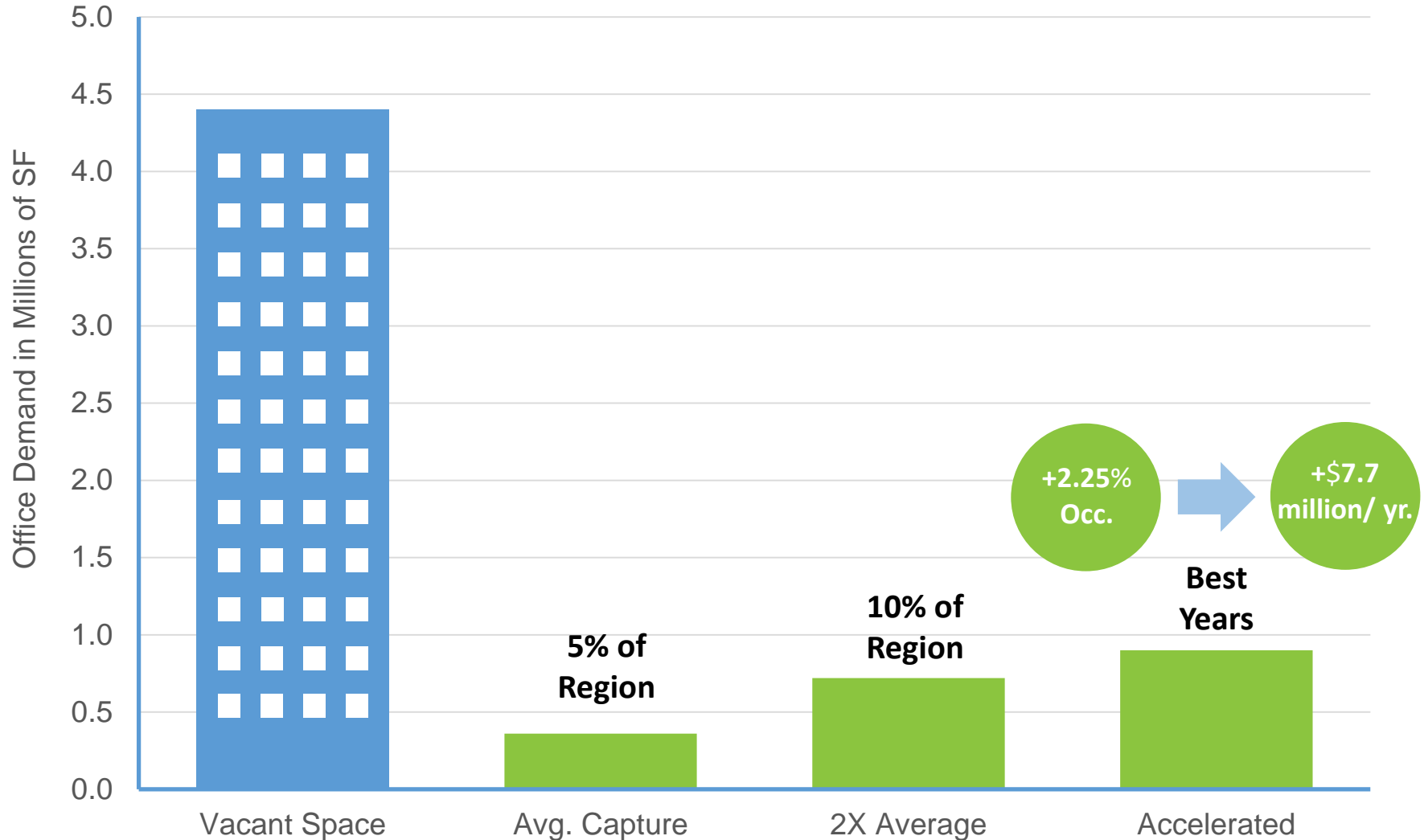
The Challenge Ahead

- 4.4 million square feet (s.f.) of office space must be filled for the vacancy rate to reach 10%.
- The entire region is projected to add 3.6 million s.f. per year over the next two years.

Scenario 1: Regional Demand of 3.6 M s.f. per year

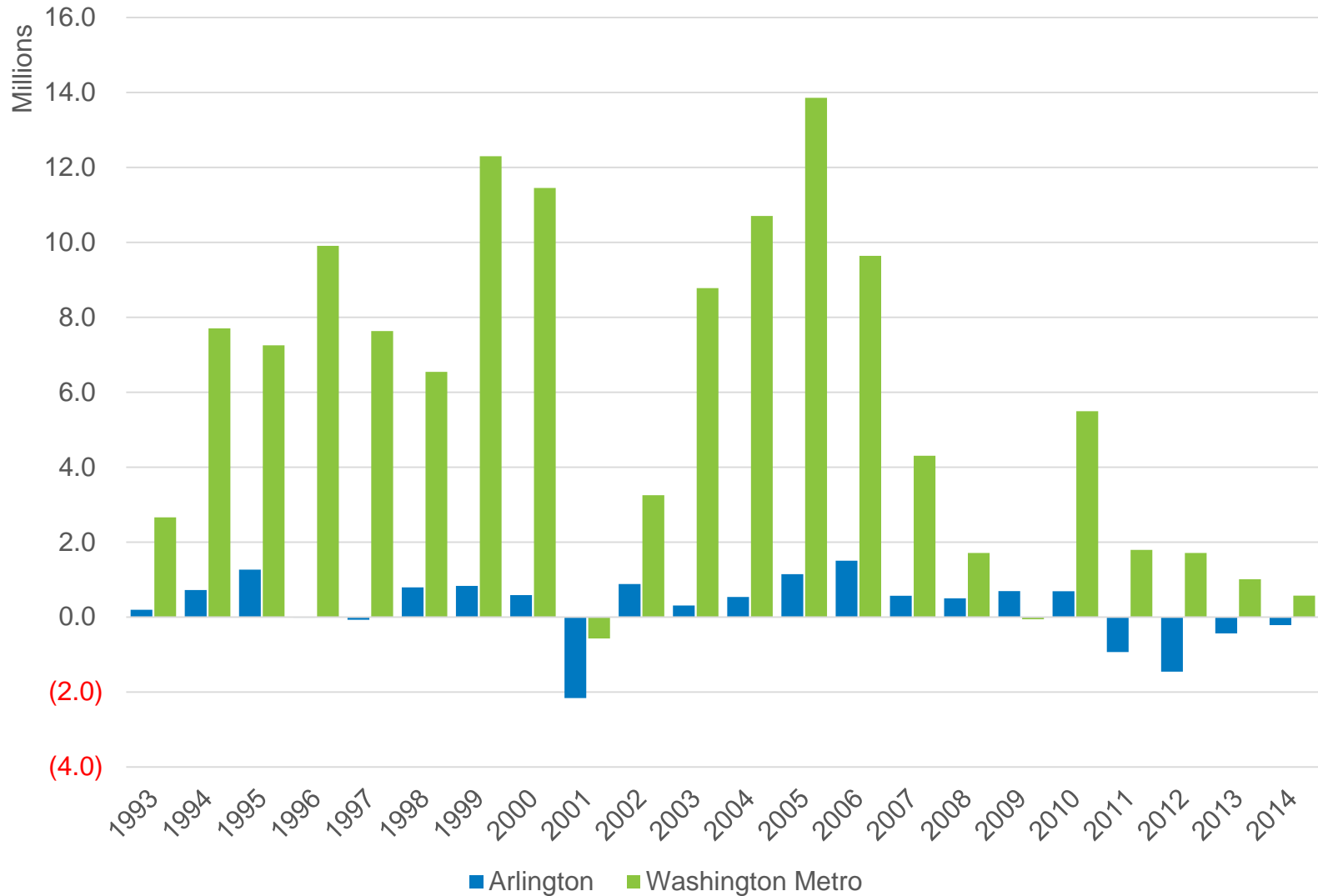


Scenario 2: Regional Demand of 7.2 M s.f. per year

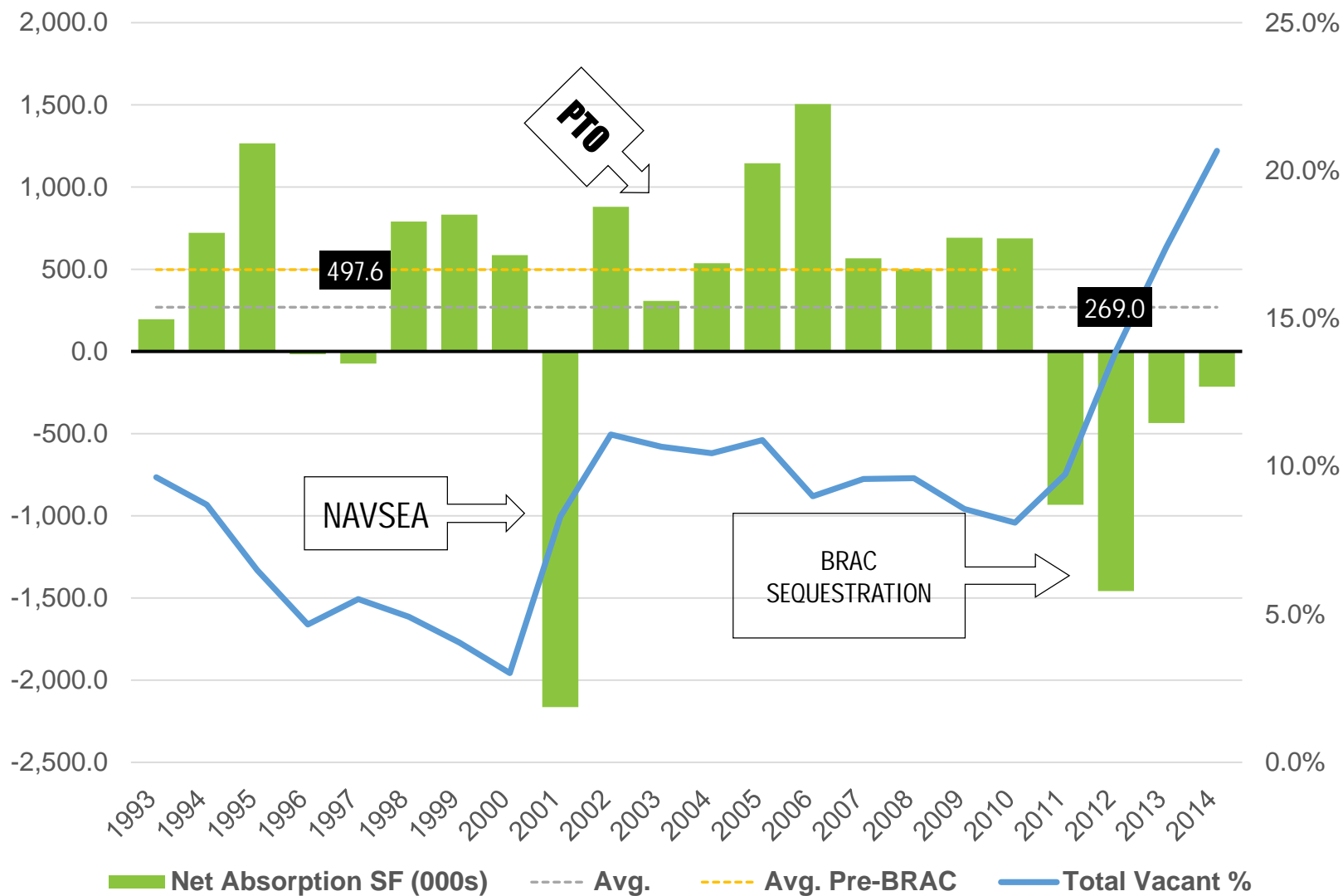


Market Overview

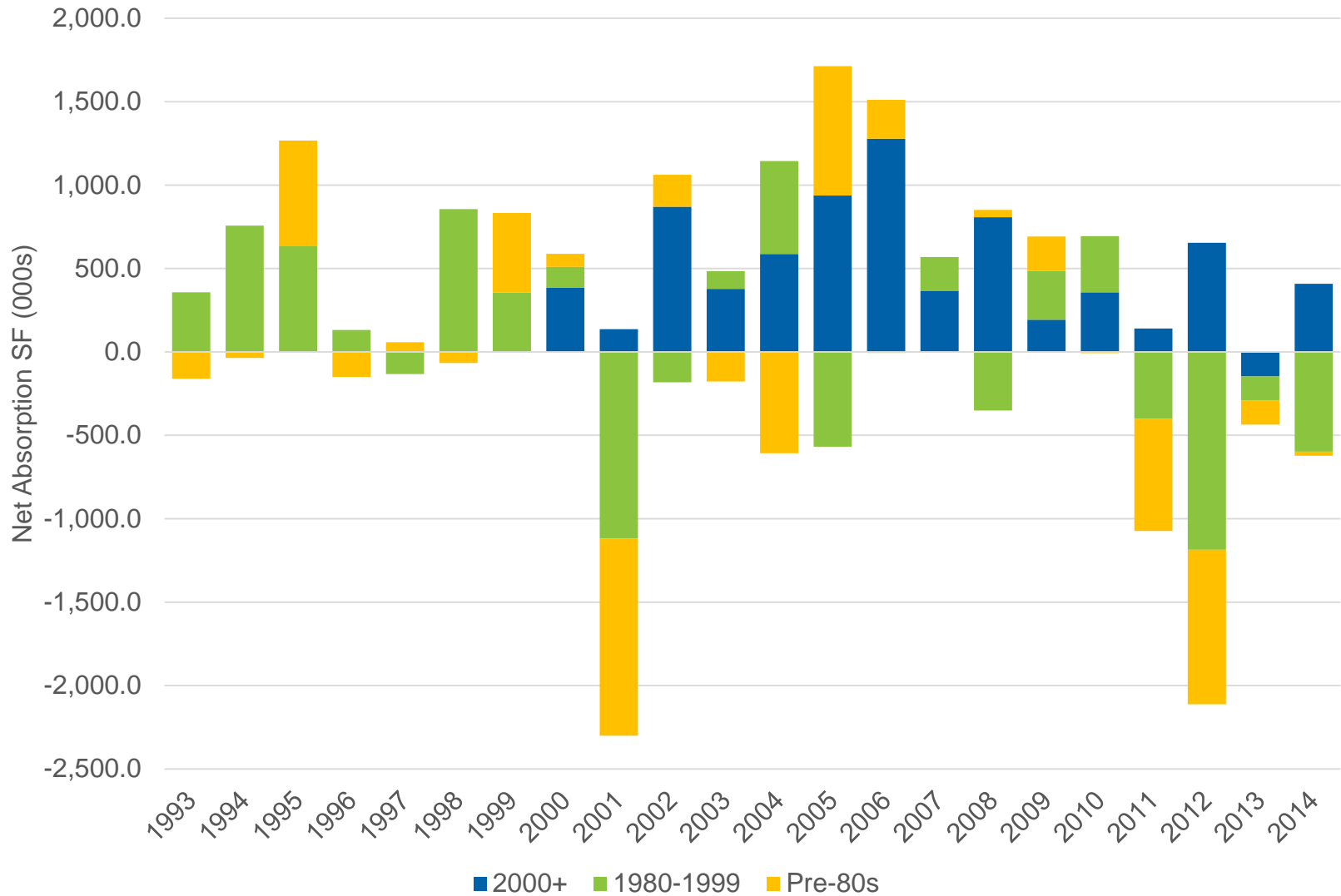
Regional Net Office Absorption Has Been Slow to Recover



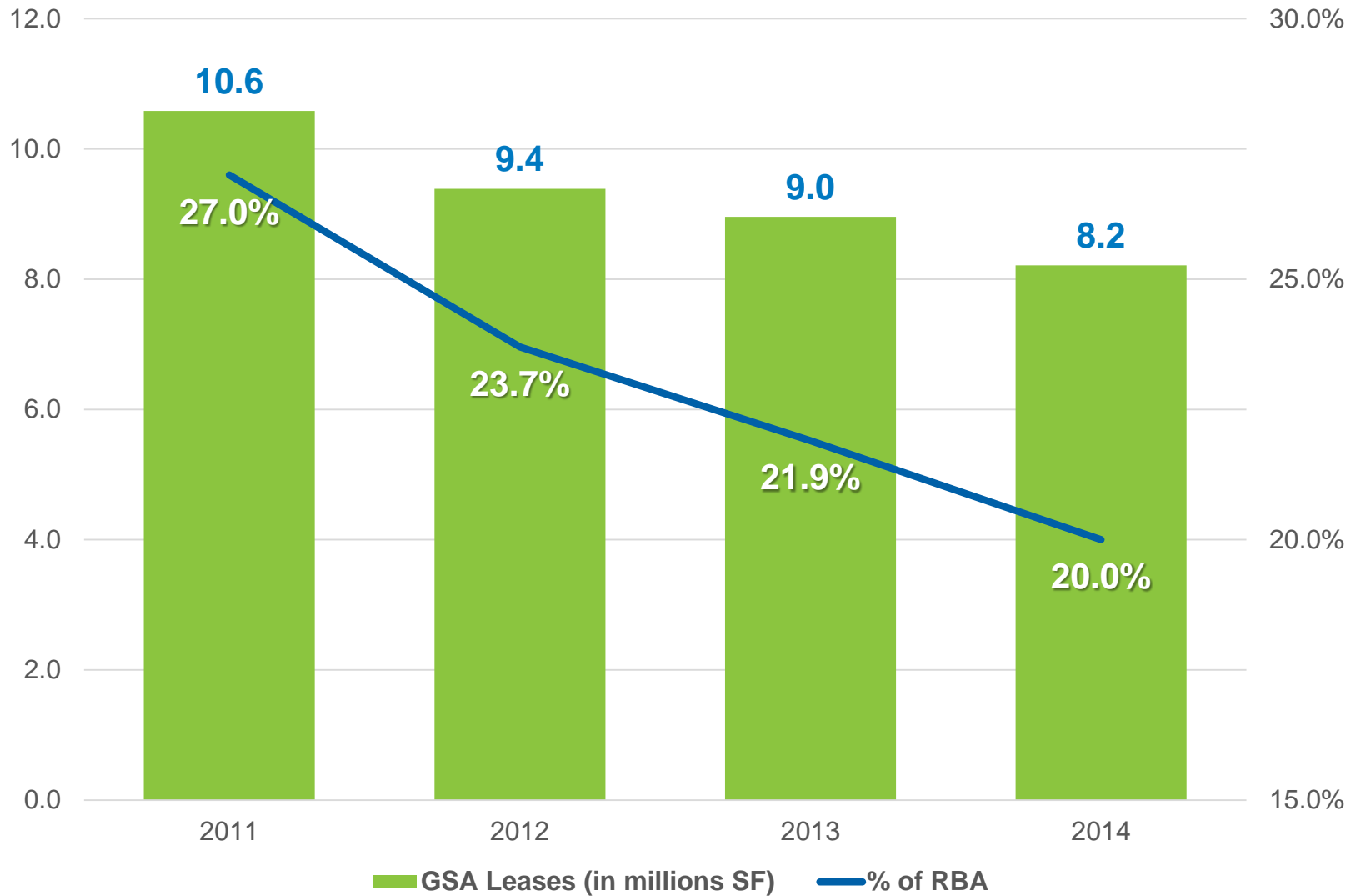
Net Absorption Has Declined by 3 million s.f. in the Past 4 Years



Positive Net Absorption is Attributable to Newer Buildings



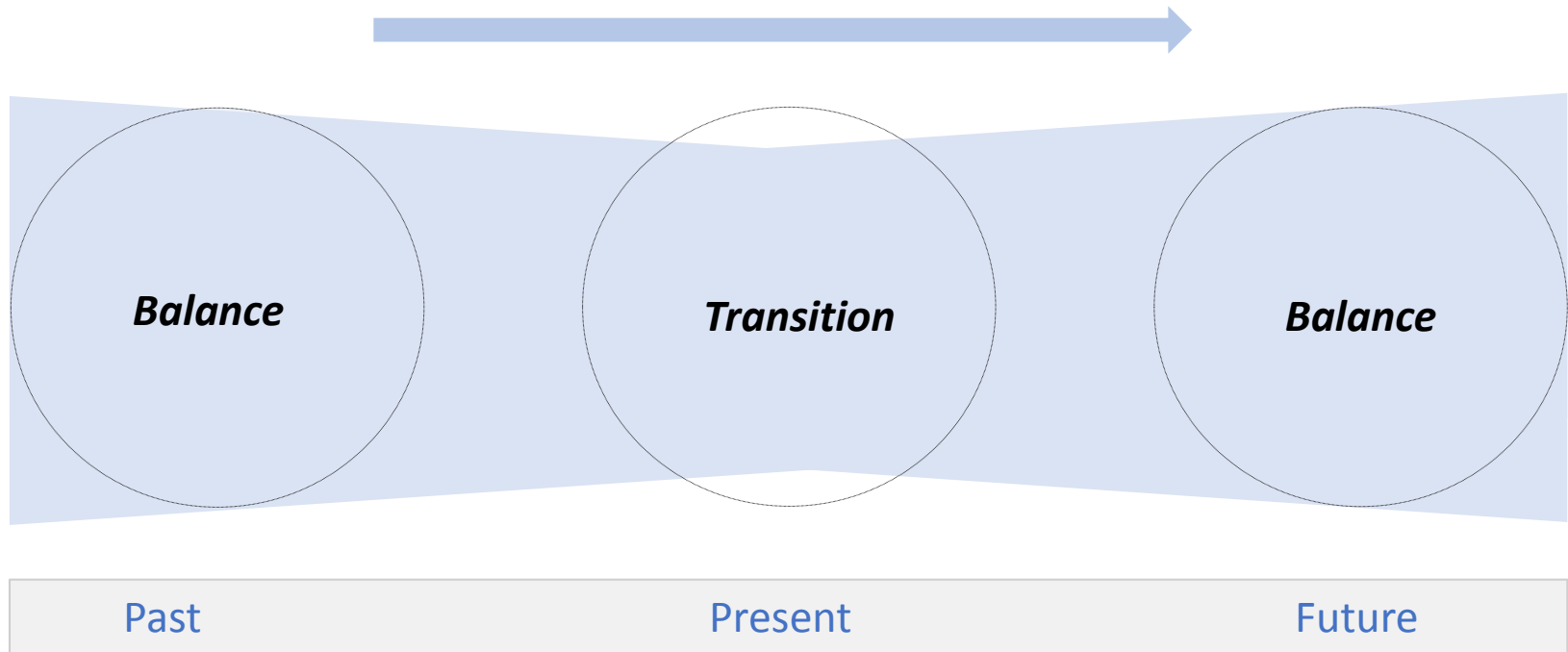
Federal Lease Holdings Have Declined by 2.4 million Square Feet



Factors Driving the Current Environment

- Federal repositioning continues to be a drag on the market and net new demand for office space has been relatively weak.
- Workplace design efficiency and a more mobile workforce has lessened square footage requirements by 15-20% depending on the company.
- Historical advantages in lease and tax rates have declined in light of new TOD submarkets and aggressive incentives.

An Office Market in Transition



- *Office product matches tenant base composition and workplace preferences*

- *Federal repositioning*
- *Regional TOD submarkets*
- *Evolving tenant base*
- *Changing nature of work*

- *Range of products and spaces align with transitions in economy and workplace*



Future Office Market Study

Selected Excerpts

- Adaptation of existing building stock is already happening (1.9 M SF in past three years).
- Legacy tenants still matter: the government and contractors occupy nearly 50% of office space.
- Tenants greater than 150K s.f. occupy 25% of the office space while making up 1% of companies.
- Tech-oriented companies in cybersecurity, education and healthcare applications are leading the flight-to-quality and tenant base diversification.

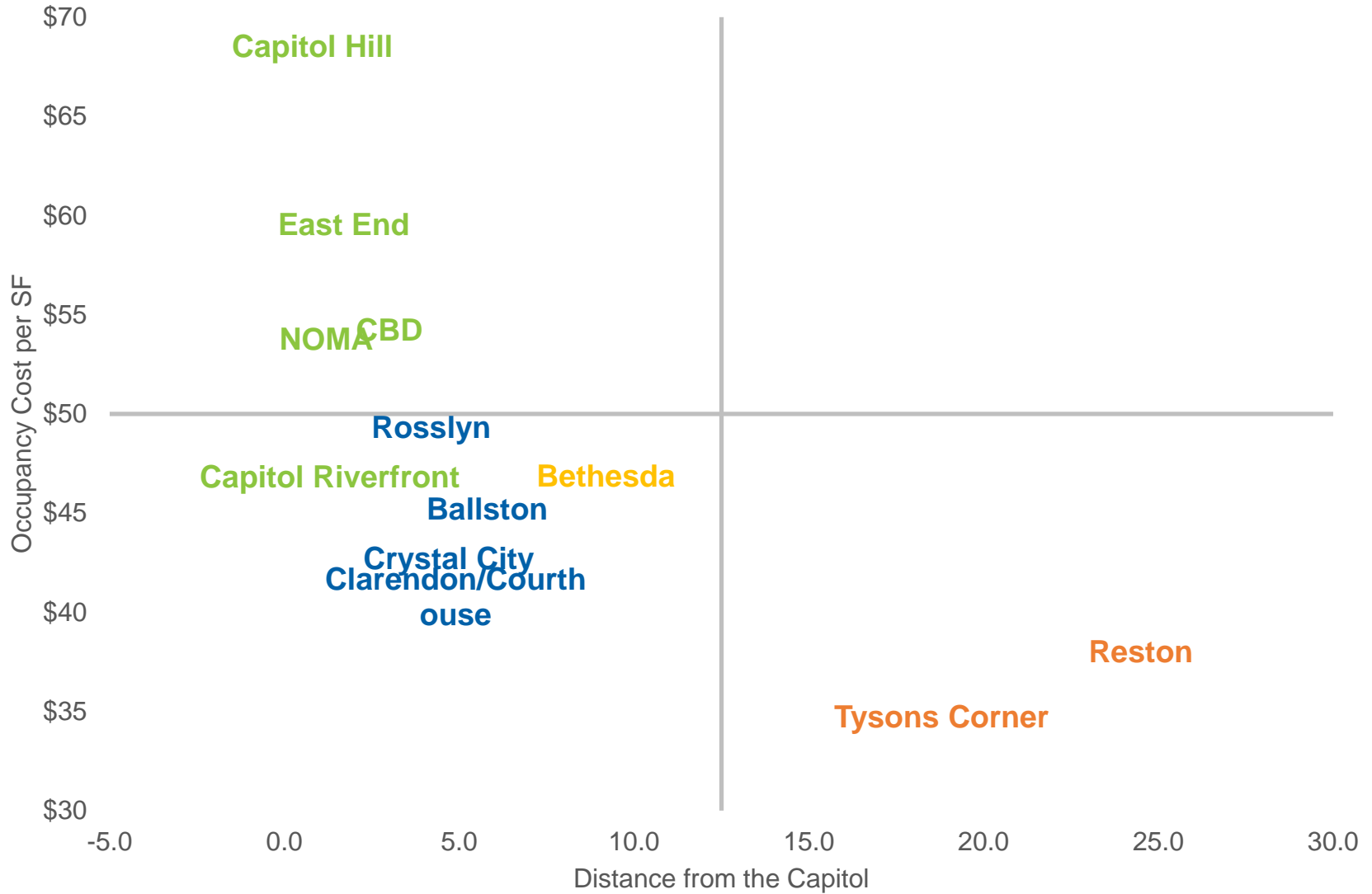
Tenant-base Diversification

Selected sectors and companies

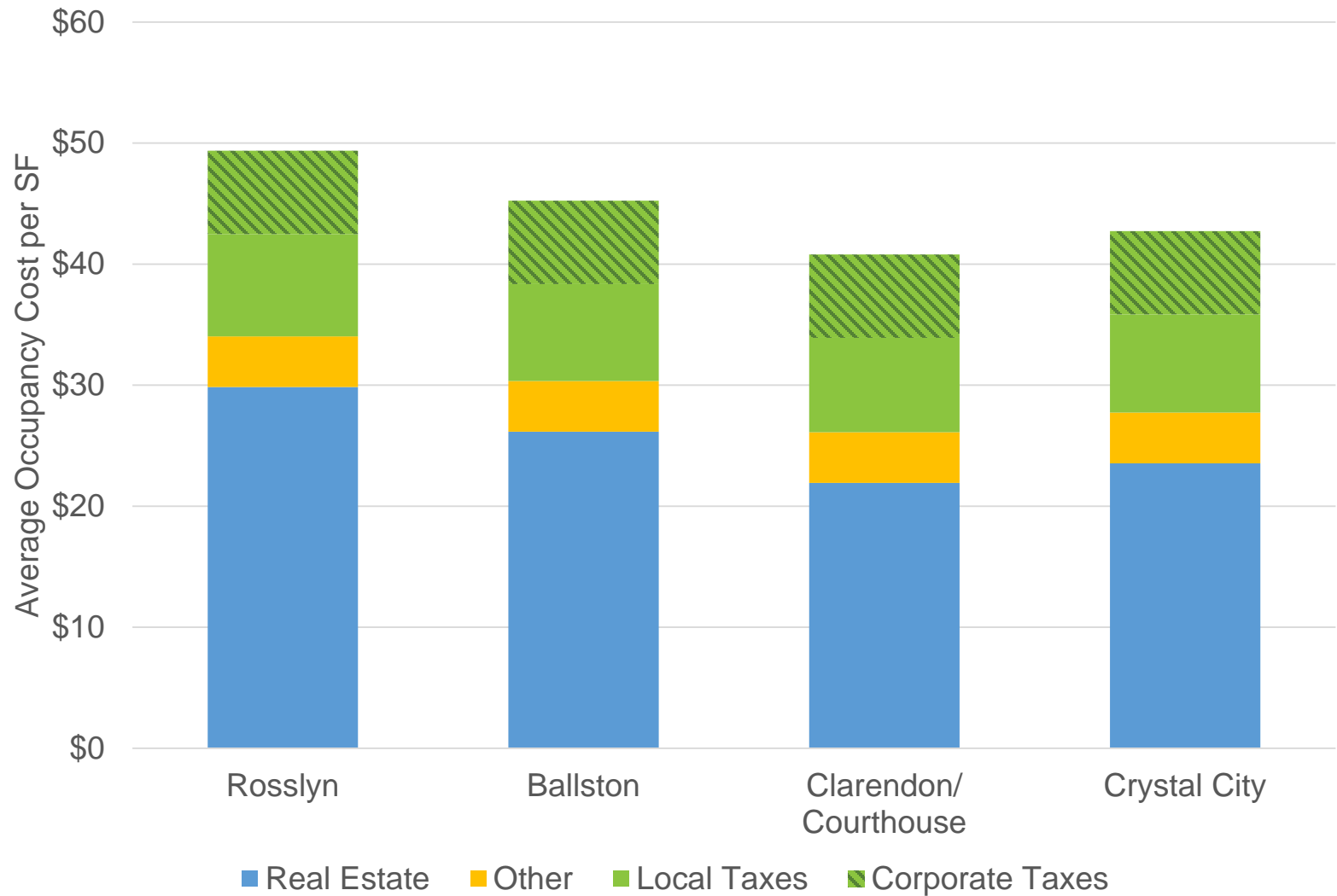
Sector	Company	Jobs	Square Feet	Submarket
Education IT	Rosetta Stone	186	31,000	Rosslyn
	Hobson's	150	39,000	Clarendon
	Common Application	110	22,000	Clarendon
Healthcare IT	Evolent Health	479	93,000	Ballston
	Privia Health	75	11,000	Ballston
Cybersecurity	Decisive Analytics	120	24,000	Crystal City
	Lunarline	100	Variable	Virginia Square
	Distil.it	15	4,000	Ballston
Data Analytics	Applied Predictive	150	36,000	Ballston
	Decision Lens	65	20,000	Ballston
	Endgame	40	10,000	Clarendon
Energy	Opower	255	40,000	Courthouse
	AES	450	120,000	Ballston
TOTAL		2,450	460,000	

Competitive Setting

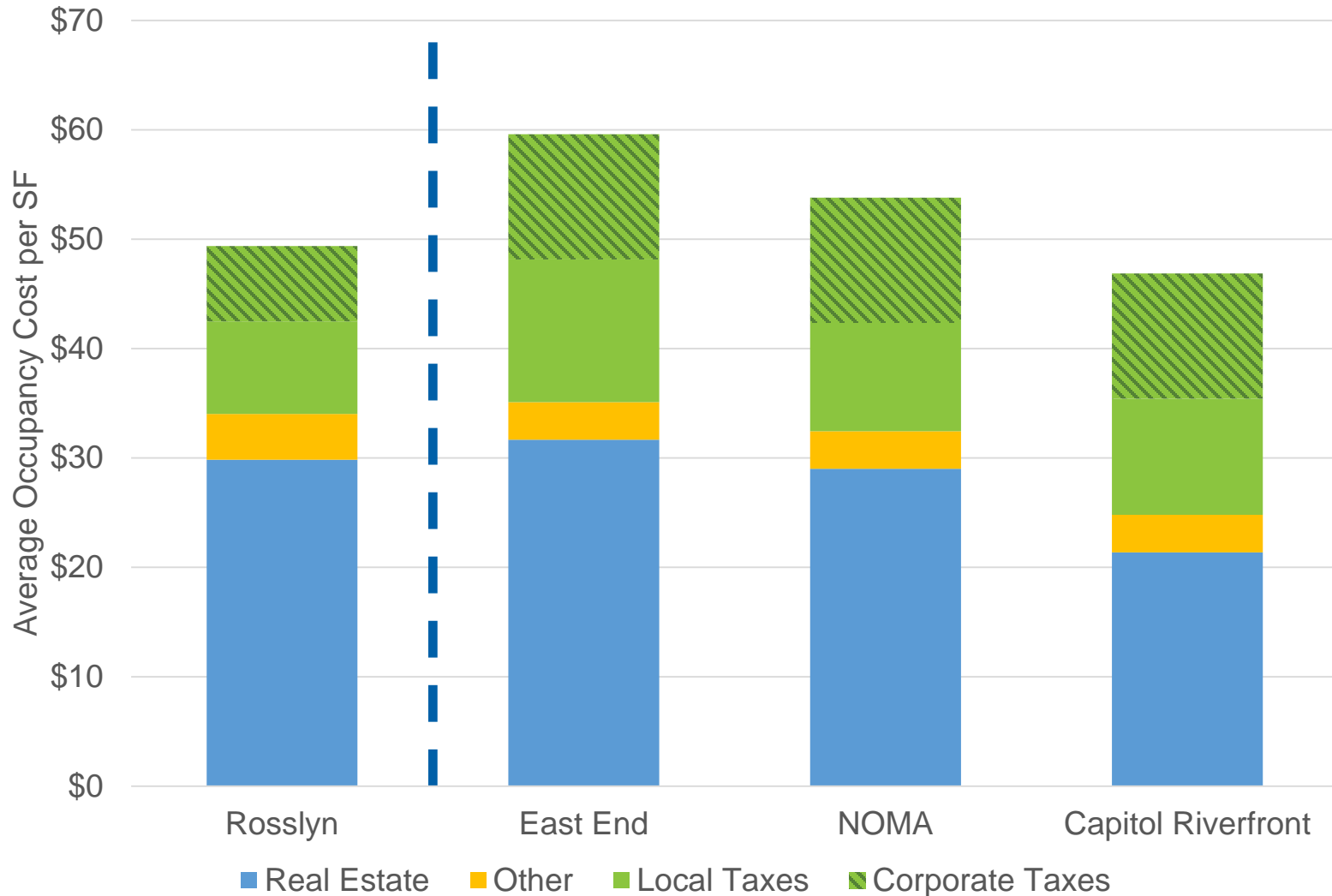
Arlington's Closest Competitive Set includes Capitol Riverfront, NOMA, Downtown, and Bethesda



Occupancy Costs are Fairly Consistent Across Arlington Submarkets



Arlington is Typically Less Expensive than Comparable D.C. Submarkets Until Incentives Are Applied



Arlington is Typically More Expensive than other Virginia Submarkets, and about the Same Cost as Bethesda



The Way Forward

Positioning



Selected Marketing Activities 2015

Scope	Activity	Purpose
Intl./U.S.	Corenet	Corporate recruitment
	ICSC	Retail attraction
	Select USA	Foreign investment
	SXSW	Tech sector
	Marketing missions	Targeted industries
Regional	Meetup Arlington	Tech and startups
	Tandem NSI	Natl security cluster
	Area E.D. organizations	Retention and branding

Understanding Your Competition



Economic Development Investment Tools

D.C., Arlington & Va.

Category	D.C.	Arlington	Virginia
Grants	✓		✓
Tax credits	✓		✓
Partial tax exemptions	✓	✓	✓
Tax increment financing	✓	✓	
Tax-exempt bonds	✓	✓	✓
Small business financing	✓		✓
International offices	✓		✓
Land write-downs	✓		

Low Cost Approaches

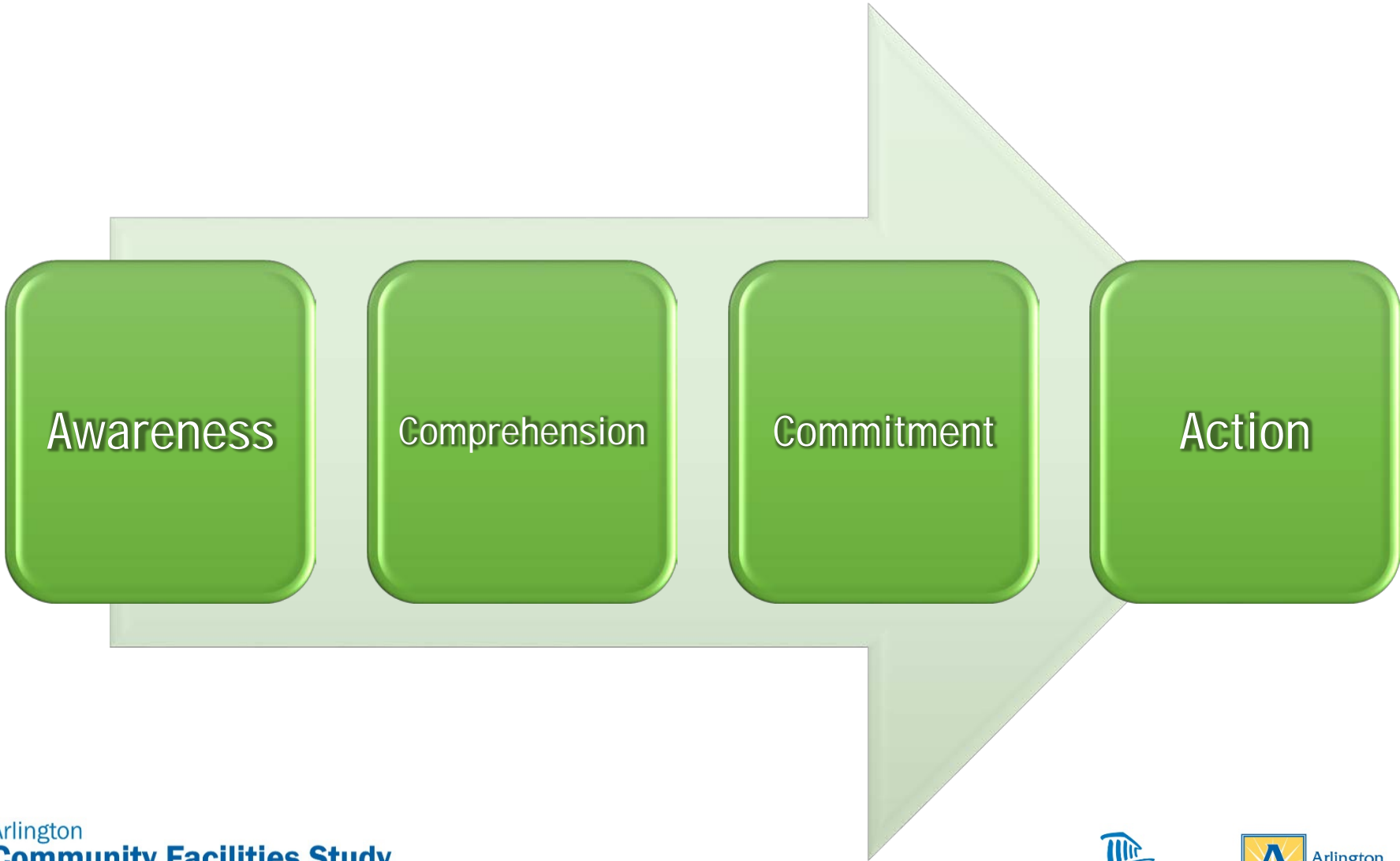
Regulatory Reform

Expedited Permitting

Crowd Sourcing Community Input

Creative Placemaking

Marketing Process



Questions?