



ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item  
April 25, 2009

REVISED REPORT

**DATE:** April 28, 2009

**SUBJECT:** Approval of a Deed of Lease among, FP Republic 2006, LLC, FP Sequoia 2006, LLC, Okland Republic 2006, LLC, Okland Sequoia 2006, LLC, RCI Sequoia Maryland, LLC, and England Sequoia 2006, LLC, Landlord, and the County Board of Arlington County, Virginia, Tenant, for a 13 Year Lease for a Portion of the Building Located at 2100 Washington Boulevard, Arlington, VA (RPC Number 24004015).

**REVISION EXPLANATION:** The report has been revised to add a third recommendation.

**C. M. RECOMMENDATIONS:**

1. Approve the attached Deed of Lease among, FP Republic 2006, LLC, FP Sequoia 2006, LLC, Okland Republic 2006, LLC, Okland Sequoia 2006, LLC, RCI Sequoia Maryland, LLC, and England Sequoia 2006, LLC, Landlord, and the County Board of Arlington County, Virginia, Tenant, for a 13 Year Lease for a Portion of the Building Located at 2100 Washington Boulevard, Arlington, VA (RPC Number 24004015), including the acceptance of \$75,000.00 as additional consideration from the Landlord.
2. Authorize the County Manager, or his designee, to execute and deliver on behalf of the County Board, the Deed of Lease, and all related documents, subject to approval as to form by the County Attorney.
3. Affirm that it is the intention of the Board, and the Manager is so directed, that the savings earned by the County as a result of entering into the proposed Deed of Lease, estimated to be \$4 million over 10 years, shall be used for the purpose of funding local transit service (ART) in the County that supplements those services already in operation or have been recommended for implementation in FY2010.

**ISSUE:** As a part of the lease process, the County Board is being requested to approve and authorize the execution of the Deed of Lease for the Department of Human Services ("DHS") to relocate the staff and programs to 2100 Washington Boulevard.

County Manager: EC / 2/11/09

County Attorney: SM

Staff: Linda DePersis, DES-Real Estate Bureau and Patty Durham, DHS

**SUMMARY:** By approving this Lease, the DHS staff and programs will be authorized to move from 3033 Wilson Boulevard, Arlington, VA to 2100 Washington Boulevard for a period of thirteen (13) years beginning on September 1, 2010.

**BACKGROUND:** The County currently occupies 145,777 square feet of office space for the DHS programs at 3033 Wilson Boulevard, Arlington, VA. The Lease, as amended, is scheduled to expire on August 31, 2010.

After an extensive market search and negotiation efforts with the owners of 2100 Washington Boulevard and 3033 Wilson Boulevard, staff recommends the approval of a new lease for 144,740 SF of office, clinic and conference center space in the building at 2100 Washington Boulevard ("Sequoia Plaza"). The County will lease the majority of the building with the remaining square footage (totaling 5,169 square feet) allocated between an approximate 1,700 SF delicatessen and approximately 3,469 SF of currently vacant office space on the lower level. The building is one of three office buildings in the Sequoia Plaza complex located at the intersection of South Washington Boulevard, South Uhle Street and South Wise Street, which is within the boundaries of the Penrose Civic Association. The facility fit out for DHS programs and staff at Sequoia Plaza will be completed over the summer of 2010, to coincide with the lease ending at 3033 Wilson Boulevard.

The primary benefits of relocating DHS to the Sequoia Plaza complex are:

1. Reduced costs over comparable time periods of approximately \$7.13M for the lease term at Sequoia Plaza in comparison to renewing the lease at 3033 Wilson Boulevard.
2. More efficient space for DHS in the Sequoia Plaza building to meet the current program needs with ample growth space due to a more efficient floor plate. A slightly larger conference center is planned in the building located at Sequoia Plaza for staff and community meetings.
3. Centrally located, which allows shorter travel time for most DHS clients residing in south Arlington.
4. Opportunities for leasing and/or purchasing additional building space in the Sequoia Plaza complex to meet future County space needs.

Additionally, the move to Sequoia Plaza provides opportunity for expansion of County transit services using the annual Landlord allowance outlined in the lease to help defray the costs. The Landlord intends to stop providing the current Sequoia Plaza complex shuttle to the Pentagon and Rosslyn Metrorail Stations and give the County \$137,000 annually (with an escalator over the 13 year lease term) for increasing the public transportation service at the site. The County plans to create an additional ART bus line, providing increased coverage for riders from western Columbia Pike, that continues to Rosslyn via Sequoia Plaza. Board action to approve funding for the acquisition of buses for this proposed route will be required by June, 2009.

Because visibility and accessibility from the street are limited, there is insufficient demand to support additional retail at the Sequoia Plaza complex. Arlington Economic Development's analysis shows that, at full capacity, the Sequoia Plaza complex can only support 1,200 SF of retail in addition to the existing 1,700 SF deli restaurant that serves the workday population. In the past, there has been little interest from the retail market to lease space at the complex and it will be difficult to attract and maintain viable retail uses at this location. It is planned that the

Arlington Employment Resource Center will occupy street front space, at 2100 Washington Boulevard, which will draw increased street traffic and make services more visible. Physical enhancement to the buildings, including improved signage, will help make Sequoia Plaza a more welcoming environment.

Currently, the County's backup Network Operations Center ("NOC") is located at 3033 Wilson Boulevard and will need to be re-located. After an analysis of alternatives has been completed, future Board action may be needed to relocate the NOC.

As a result of the move to Sequoia Plaza, the County will no longer lease, manage, and pay approximately \$331,920 per annum (excluding operating costs and garage management costs), for the 461 parking spaces garage at 3033 Wilson Boulevard that is now open to the public after hours and on weekends. To ease the transition, the County will increase the wayfinding signage for public parking in Clarendon by erecting approximately 20 signs within the area to direct motorists to the six existing garages representing an additional 2,000 spaces. Currently, the garages in the area offering public parking are underutilized.

Staff has finalized the negotiation for a thirteen (13) year lease with the Landlord for the Demised Premises, as defined in the Deed of Lease. In May, 2009 the Board will be requested to award a contract to an architect/engineering firm to design plans for a build out of the Demised Premises. By January, 2010, the Board will be requested to award a construction contract for the tenant improvements in order to meet the move-in schedule. The County expects to complete its move-in to the Demised Premises not later than August 31, 2010.

**DISCUSSION:** The attached Deed of Lease has been structured to provide a commercially viable agreement to protect the County's rights and needs as a local government. Some of the pertinent provisions of the Lease are as follows:

- The Lease commences on September 1, 2010. However, the County will have access to a majority of the Demised Premises within 90 days after the Lease has been fully executed. The remainder of the Demised Premises must be delivered to the County no later than December 31, 2009. The Lease also contains dates which relate to landlord delay, damages payable to the County, and the County's right to terminate the Lease.
- The Demised Premises consist of approximately 144,740 rentable square feet of office space.
- The initial lease term is for thirteen (13) years.
- Initial Base Rent is \$30.00 per rentable square foot, net of electricity and janitorial, minus the abatement of \$156,801.66 per month for the first twelve months. Initial Base Rent equates to \$361.850 per month for the first lease year (\$205k per month after rent abatement). Rent increases by \$1.25 per square foot for the second through tenth lease years, and by 2.75% per square foot for years eleven through thirteen.
- The County is also required to pay for its prorata share of increases in Operating Expenses and Real Estate Taxes starting one year after the Lease Commencement Date. Controllable Operating Expenses are capped at 5.5% per annum. Insurance, taxes and utilities are included under uncontrollable expenses.

- The Landlord is providing the County with a \$60.00 per square foot tenant improvement allowance, which totals \$8,684,400.00. The County's Broker has agreed to accept one half (1/2) of its commission, with an equal amount to be paid to the County as an additional allowance. This constitutes an additional \$6.25 per square foot increase to the tenant improvement allowance, which totals \$904,625.00. The County will complete the tenant improvements for the Demised Premises.
- The County will provide its own janitorial services for its Demised Premises, unless the County exercises its option to have the Landlord perform such services at County expense.
- The Landlord will maintain the Demised Premises and the Common Areas of the Building.
- The Landlord is required to provide 3.6 parking spaces, free of charge, for each 1,000 rentable square feet leased.
- The Landlord has also agreed to pay \$137,000 as a public transportation allowance to the County during the first year of the lease term, plus 4% annual increases thereafter in years two (2) through thirteen (13), for increased access to public transportation.
- The County can assign the Lease, without Landlord consent, to specified entities.
- The Landlord will seek LEED EB (Existing Building) rating for the building.
- The County will pursue LEED CI (Commercial Interiors) Silver rating for the fit out, design and construction.
- Historical energy consumption at Sequoia Plaza indicates that the building will consume approximately 30% less energy per square foot than the existing DHS building at 3033 Wilson Boulevard.
- The County has a Right of First Offer and Right of Last Refusal for additional available space in any part of the complex.
- The County has three (3) choices for an option to renew: Option A is for renewing the Lease term for ten (10) years; Option B is for renewing the Lease term for five (5) years; and, Option C is for renewing the Lease term for one (1) year, if the County elects to purchase the Building and has not closed.
- The County has two (2) options to purchase the building, in specified months of CY 2015 and in CY 2018, at 100% of the fair market value of the Building and the land on which the Building is situated. These purchase rights are subject to various other provisions which are addressed more specifically in the Lease and in a Purchase and Sale Agreement, which is an Exhibit to the Lease.
- During the 13 year Lease term and any renewal thereof, if the Landlord chooses to sell the Sequoia Plaza complex, then the County has a first right to purchase the Building or the entire Sequoia Plaza complex at fair market value (with the then existing tenants), subject to various other contingencies in the Lease.

**FISCAL IMPACT:** Over a ten year lease period, the Lease is anticipated to cost \$7.1 million less than anticipated lease costs at 3033 Wilson Boulevard, including operating costs and capital fit-out and relocation costs.

The cost of the first year of the Lease (starting September 1, 2010 in FY 2011) and related operating expenses will be approximately \$3.0 million less than anticipated costs at 3033 Wilson Boulevard based on FY 2010 budget estimates. The difference in the first year is due largely to the significant rent abatement offered by the Landlord and will be directed to capital fit-out and relocation costs and potentially to NOC relocation costs. For the second year of the lease and beyond, the estimated difference in annual costs between the Lease and 3033 Wilson Boulevard is approximately \$0.7 to \$0.8 million.

Capital fit-out and relocation costs are estimated at approximately \$11.6 million, or \$80 per square foot. Approximately \$9.6 million of these costs are covered by the \$60 per square foot tenant improvement allowance plus \$6.25 per square foot broker rebate. The balance will be covered by using the anticipated budgeted savings in 2011 noted above. The capital costs to relocate the NOC will be the subject of a future board action. Expenses for fit-out and the NOC can be expected within the latter part of FY 2010 and early FY 2011.

The total rent and operational cost estimate for the full 13 year lease term is projected at \$83.0 million.

