Ballston Mall Redevelopment
Outline of a Public-Private Agreement with Forest City Enterprises

County Manager’s Report to the Arlington County Board
July 21, 2015
The Manager shall report the results to the Board, including an outline of a possible agreement, within the next 30 days.

- The outline of a public-private partnership agreement with Forest City Enterprises for the redevelopment of the Ballston Common Mall property shall address the following elements, among others:
  - Economic and place-making benefits to the County.
  - The range of land use incentives (e.g. density, height, and modifications to parking ratios), that could be used in combination to achieve the mixed-use, redevelopment vision for the Ballston Common Mall site.
  - Strategic and measured use of public investment and financing tools in order to achieve the optimal economic and place-making benefits to the County of this redevelopment project.
What is a public-private partnership (PPP)?

A formal partnership between a public and private entity for the purposes of jointly pursuing a shared objective.

A Public-Private Partnership Should Not Be About Public Subsidy. It Should Be About Strategic Public Investment to Realize a Greater Public Good.
The Ballston Common Mall has been the guiding catalyst of Ballston’s growth over the past three decades.

The redevelopment of this site into Ballston Quarter, will have an equal, if not greater, impact on the next several decades of Ballston’s growth and evolution.

The potential of a partnership playing a key role in shaping this project is consistent with Arlington’s long-range plans.
General Land Use Plan

Ballston Station Area Concept: High density office and residential uses with a regional shopping center forming a new downtown in central Arlington

Relevant Plan Features:
Regional Shopping Facilities (Ballston Common Mall)
Commercial Revitalization and Growth

Ballston Sector Plan Guidance
• The County Board should continue to encourage major revitalization of commercial facilities in Ballston.
• Emphasis placed on Parkington with alternative sites to also be explored.
• Existing commercial development recognized as a key asset in the Ballston Community.
• Parkington provides a focus for commercial expansion.
“Study and identify zoning and other tools to facilitate opportunities to reposition and redevelop Arlington’s aging regional shopping centers.”

- Arlington County Retail Plan
In addition to the critical role that the redevelopment of BCM will play in the future of Ballston, it is truly a unique opportunity:

- Legacy of partnerships on this site
- Adjacent/connected owned assets
- Impact on the broader neighborhood
- Response to economic challenges and the cost of inaction
Legacy of Public-Private Partnerships at Ballston Mall

- **1986** – Public-Private Partnership to Transform Site from Parkington into an Urban Regional Mall
- County Support of Above-Grade Parking Structure, Entitlement Support
- **1999 & 2004**: Office and Retail Expansions Introduced Mixed-Use Element
- **2006**: Public-Private Partnership to Deliver Kettler Ice Plex
Ballston Mall’s Impact on the Perception of Ballston

“Ballston mall. Make it better and everything else will fall in place.”

“Better shopping for the young business professionals.”

“More high end restaurants and shopping.”

“The new mall will be a great boost to Ballston. Overall Ballston is on the right track.”

“More dining (especially ethnic) and retail options! Redevelop the mall.”

“I like what I’ve heard about the changes proposed to the Ballston Commons mall.”

“Hopefully the improvements being made there will echo throughout the rest of the community…”

“It's awful right now. If it was a good, current mall I would be over there all the time during lunch, etc. Having an option to go grab a quick gift or go shopping for an hour would be awesome.”

Write in comments from Ballston BID April 2015 survey of office workers, in response to question: “What needs to be improved in Ballston?”

CONFIDENTIAL DRAFT 9
Broader Fiscal and Economic Impacts

A Fiscal Base Under Threat

18.2% office vacancy rate
1.45M SF of vacant office space
32.2% office space listed as available
-324,000 net office space absorption since 1Q09
Broader Impact on Real Estate Development

- Office Buildings with over 100k SF of Available Space
- Office Buildings with 50k-100k SF of Available Space
- New Construction Office
- Recent or Potential Future New Resi/Hotel Constr.
The Challenge Facing Us Today

• BCM in its current form is in a retail “death spiral”
• Greater competition for consumer dollars and retail tenants
• Poor fiscal performance
• The cost of inaction
BCM Sales in Precipitous Decline

BC Mall Sales Relative to County Sales/Meals Receipts, 2004-2015

Sources: Forest City internal sales figures; Arlington County, Dept of Management and Finance
Existing and Looming Vacancies

Stores to Remain Open:
- Regal Cinemas
- Sport & Health
- CVS
- Select Restaurants (Shiki, Panera, Noodles&Co)

Macy’s not included in GLA but will also remain open
Increased Competition
The Future of the BCM is Bleak

The anatomy of the regional retail center “death spiral”

- Shifts in Consumer Behavior
- Lose Ground to Competition
- Drops in Sales Volumes
- Key/Anchor Retailers Close or Negatively Reposition
- Vacancies & Substandard Retailers
- Co-Tenancy Requirements Triggered
- Repositioning Efforts Fail or Have Only Temporary Impacts
The Mall Site is Dramatically Underutilized Fiscally

Assessed Value per Acre

Typical Ballston Urban Development: $98.0M

Current Assessments at BCM: $15.4M

The Mall site generates nearly 6.5X times less in assessed property value than a typical development with this site location and transit access.
Why is Now the Time to Consider a PPP?

Why is the proposed timeline critical:
• Rapidly deteriorating tenant base
• Declining NOI
• Carry of recent acquisition and sunk costs
• Retail leasing rhythm & regional competition

But more critically for the County:
• Project will become more, not less expensive, the longer we wait.
• Forest City’s appetite to take a bold risk will wane with significant delay and uncertainty.
• Future investment decisions may be less bold, and less impactful, reducing the catalytic impact on Ballston that the current proposal could have.
### Examples of other projects

<table>
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<tr>
<th>Project</th>
<th>Total SF</th>
<th>Additional SF Entitled</th>
<th>Estimated Net Value of Addt’l Density</th>
<th>Public Financing Bonds</th>
<th>Significant Modifications to Conditions</th>
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<td>Ballston Quarter</td>
<td>658,515</td>
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<tr>
<td>Mosaic District</td>
<td>1.89M</td>
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<td>Tysons I</td>
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<td>Springfield Mall</td>
<td>5.7M</td>
<td>5.73M</td>
<td>$230m-$300M</td>
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</tbody>
</table>
CONCLUSION: It is the County Manager’s recommendation that the initial analysis of a potential partnership with Forest City for the redevelopment of the Ballston Mall site indicates a strong justification for pursuing a partnership, in some form, and this should be analyzed further, in greater detail, in order to understand the full placemaking and economic benefits of the deal to Arlington County.
Objectives of a public-private partnership (PPP)

Optimally, a PPP will only be considered when both Long-Term Planning and Economic Development objectives are met:

**Long-Term Planning:**
- The project is consistent with broader planning and land use policy.
- The project is of a scale and level of importance that will result in a significant positive placemaking change for the broader community.
- Public investments are in public areas – owned assets, public infrastructure, public spaces, and in some cases urban design elements.
- The project is appropriately unique in its character and context.

**Fiscal Impact & Economic Development:**
- There is a broader economic and fiscal impact of the public and private investments.
- Inaction will have significant negative impacts thus time is of the essence.
- There is a measurable and direct fiscal return on the public investment.
- Private investment alone can not realistically achieve the outcome that is in the public’s best interest.
- Public investment is leveraging private investment that comprises the significant majority of project costs.
- Risk is appropriately allocated and mitigated within the deal structure.
- Manageable impact on County’s bond rating & balance sheet
Identifying the Private Investment Gap

If directed, staff will continue to go through an extensive process of analysis to determine the private investment gap associated with this project.

- Market Feasibility & Performance
- Infrastructure Investments
- Development Costs
- Revenues/Net Operating Income
- Risk & Return Hurdles

The development review process will undoubtedly shift and evolve the project towards the highest value project for the community, and this process will likely have an impact on the project economics.
Public Investments in Public Assets

County-Owned Assets
- Garage
- Kettler Iceplex

Public Infrastructure
- Streets and Streetscapes
- Pedestrian Bridge

Public Spaces
- Plaza
- Public Paths/Walkways

Urban Design Elements
- Facades
Potential Elements of a PPP

• Land Use Components
  • Height and Density
  • Site Design
  • Building Design
  • Transportation Network
  • Streetscape and Landscape
  • Signs
Potential Elements of a PPP

• Economic Tools
  • In-Kind Contributions
• Public Finance Tools
  • Bonds/CDA
  • Developer Financed/Tax Rebate
Key Issues to Consider

• Allocation of Risk
• Mitigation of Risk
• Performance Hurdles/Commitments
• Capture of Upside
• Relationship of Public Investment to Private Capital
• Impact of Investments on other County Investment Priorities
Measurable Benefits

- Fiscal Benefits
- Placemaking Benefits

Value of Partnership Investments to Arlington County
The analysis -- and deal formation – of a PPP is inherently different than the community review process of a development project.

Still, it will be critical to engage in public discussions, where possible, through the analysis and potential deal-making periods. This may include:

- Economic Development Commission (EDC)
- Fiscal Affairs Advisory Commission (FAAC)
- CB Work Sessions and Public Meetings
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Relationship to PPTA

• The Public-Private Transportation Act (PPTA) is focused on delivery and financing methods of *public transportation projects* – not development projects
  – Allows public entities (like Arlington) the authority to allow private entities to construct, operate, and/or finance certain transportation facilities if private involvement allows for more timely or cost-effective delivery
  – The public entity is the controlling partner

• Unlike a PPTA project, the Ballston Quarter proposal is a multi-use development proposal involving a private landowner