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FEDERAL GOVERNMENT DRIVES NATION'S RECOVERY

KEVIN WAYER AND JOE BRENNAN

ALTHOUGH FINANCIAL CONDITIONS in the United States look to be on the mend, the federal government likely will remain the primary driver of the nation's economic recovery in the near term. This affects real estate because big government programs require a lot of office space. Demand over the next year will intensify as the administration shifts from the planning stage to implementation and execution on a broad spectrum of new programs and initiatives.

The U.S. General Services Administration (GSA) plays the major role in public sector real estate transactions, particularly around Washington, D.C., where the government is the largest occupier of office space. Government-occupied space constitutes one-third of the region's inventory. GSA leases over 10 million square feet (930,000 sq m) of space in Maryland, 21.4 million square feet (2 million sq m) in the District of Columbia, and 19.2 million square feet (1.8 million sq m) in northern Virginia. The other major occupier and builder of office space is the U.S. Department of Defense (DOD), which has special authority for construction projects and independent authority for lease transactions.

As private sector industries have consolidated, contracted, and subleased space over the past 24

months, the U.S. government has been one of the few expanding sectors in commercial office space. Financial recovery and regulatory measures fueled an initial wave of leasing activity in Washington, D.C., from agencies such as the Federal Deposit Insurance Corporation, Commodity Futures Trading Commission, Securities and Exchange Commission, Federal Reserve, and the Treasury Department's newly created Troubled Asset Relief Program.

BRAC and Enhanced Security Measures

A DOD initiative, Base Realignment and Closure (BRAC), is reshuffling the government's presence in Washington and elsewhere. BRAC's purpose is to maximize efficiency and adapt to changing military needs. Although BRAC is a decades-old program, the terror attacks of September 11, 2001, prompted heightened security concerns; accordingly, DOD is shifting occupancy from urban locations to rural and suburban areas that can accommodate higher security standards.

Arlington County, Virginia, may lose 17,000 jobs by September 2011, including 13,000 in the Crystal City area. An estimated 35 percent of displaced federal workers will relocate to bases in other states, but northern Virginia is working to backfill office vacancies.

About 8,500 employees from DOD's National Geospatial-Intelligence Agency will move to a 2.4 million-square-foot (223,000-sq-m) facility under construction at a Fort Belvoir outpost in Springfield, Virginia.



As the private sector continues to recover from the economic downturn, the federal government remains one of the few viable, dynamic engines of job growth and tenant demand in the Washington, D.C., region and the United States in general.

On the plus side for northern Virginia, Fort Belvoir is gaining more jobs than any other military installation in the nation as relocations of U.S. Army–leased space and the construction of the new DeWitt Medical Center bring 5,500 employees to the installation. In addition, about 6,200 jobs associated with the Washington Headquarters Services, which provides support and operational services to DOD, are headed to the Mark Center submarket in Alexandria along Interstate 395, and 8,500 employees from DOD’s National Geospatial-Intelligence Agency (NGA) will move to a 2.4 million-square-foot (223,000-sq-m) facility under construction at a Fort Belvoir outpost in Springfield. These moves also have a ripple effect on the local economy because the Fort Belvoir expansion necessitates improvements to infrastructure such as roads, sewers, and schools, while the NGA relocation is expected to attract contractors who work for the agency.

In Maryland, the National Navy Medical Center in Bethesda will merge with the army’s Walter Reed Army Medical Center Hospital, leaving the vacant 113-acre (46-ha) Walter Reed site in the heart of the city as an opportunity for private and public sector redevelopment. Outside the Capital Beltway in Anne Arundel County, Fort Meade, which is roughly equidistant from

Washington, Baltimore, and Annapolis, will gain up to 10,000 jobs associated with three defense agencies.

The bottom line for Washington is a lot of new construction, increased traffic congestion, and higher vacancy rates in some submarkets. The widespread transfer of jobs from Metrorail-accessible locations to destinations served only by roads will result in 85,000 additional car trips daily, according to Jones Lang LaSalle, while mass transit ridership is projected to decline in the metro D.C. region. But BRAC will also deliver long-term economic benefits for the area and enhance the safety of the federal workforce.

Megaprojects and New Government Partnerships

Fort Meade is one example of the megaprojects that the BRAC process is creating in the Washington area. BRAC will add \$4 billion annually to Fort Meade with 10,000 on-base jobs and 12,000 more at associated defense contractors and businesses. The Defense Information Systems Agency (DISA) is consolidating local operations at a 1.1 million-square-foot (102,000-sq-m) headquarters at Fort Meade to be completed by early 2011. In addition, the DOD Adjudication Office and the Office of Hearings and Appeals need 250,000 square



NGA



The 1.35 million-square-foot (125,000-sq-m) U.S. Department of Transportation headquarters building at New Jersey Avenue and M Street, S.E., occupies 11 acres (4.5 ha) and accommodates 7,000 workers.

feet (23,000 sq m) of space and the Defense Media Authority requires 186,000 square feet (17,000 sq m) to add a combined 1,400 jobs to the area next year.

A new 1.75 million-square-foot (163,000-sq-m) enhanced-use lease (EUL) on military property at Fort Meade is designed to accommodate contractors serving DISA and other agencies slated to move in the next year. EUL authority allows for the private sector redevelopment of underused federal property under a ground lease in exchange for cash and/or in-kind consideration, such as free rent. In turn, government agencies can benefit from fast-tracked construction. Because many functions under BRAC are mandated but not funded, EUL provides a mechanism for meeting BRAC requirements outside the traditional congressional funding process.

The federal government is facilitating its megaprojects at Fort Meade by also helping the local and state government handle increased infrastructure demands. Anticipated population and job growth over the next decade exceeds current limits on road capacity, so the Maryland State Highway Administration is conducting an extensive study on a project to widen Route 175 outside Fort Meade. The base will provide up to 80 feet (24 m) for the expanded right of way.

Elsewhere in the region, the Department of Homeland Security (DHS) broke ground in 2009 on a new headquarters in southeast Washington at the

site of the former St. Elizabeth's Hospital. With final master plans approved by the National Capital Planning Commission, DHS is constructing a 4.5 million-square-foot (418,000-sq-m) campus, the largest building project in the Washington metropolitan area since construction of the Pentagon beginning in 1941. Designs call for preservation of historic buildings and construction of new facilities on the 176-acre (71-ha) site. Upon completion in about seven years, DHS will accommodate at the site 14,000 employees—more than half its total workforce—from component agencies such as the Coast Guard, Federal Emergency Management Agency, Customs and Border Protection, Immigration and Customs Enforcement, and Transportation Security Administration.

More Leasing to Come

Federal tenants currently possess strong leverage in the softened real estate market. GSA is able to reap deep discounts at high-quality buildings across all U.S. markets, including Washington, while the DOD and other agencies are able to embark on extensive building projects while construction costs are depressed.

The alignment of Congress and the White House under the same political party and the broad political will for change provided a path for sweeping reforms and large-scale government expansion in 2009. Stimulus initiatives and increased government intervention in the financial markets produced an initial wave of new GSA space requirements this year, and ambitious health care and energy initiatives have built an expectation of more leasing to come. As the private sector continues to recover from the economic downturn, the federal government remains one of the few viable, dynamic engines of job growth and, thereby, tenant demand in the Washington region and the United States in general. **UL**

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