Urban, Mixed-Use Development in Arlington

Presentation to the Arlington Civic Federation

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November 11, 2025

Introduction

1. Real Estate Fundamentals
2. Arlington's Economic Future
3. Segway to Panel Discussion: A New Approach?

Real Estate Development Costs

Debt

- Short-term (Construction)

Soft Costs

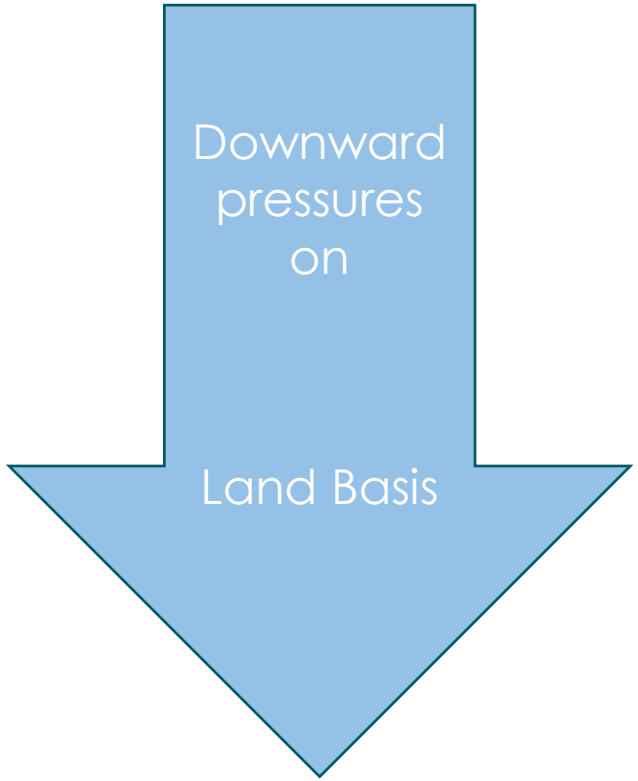
- A&E, legal, permitting
- Developer fees

Hard Costs

- Materials & labor
- Parking

Land Basis

- Legacy value
- Cost of acquisition



Return on Cost Model

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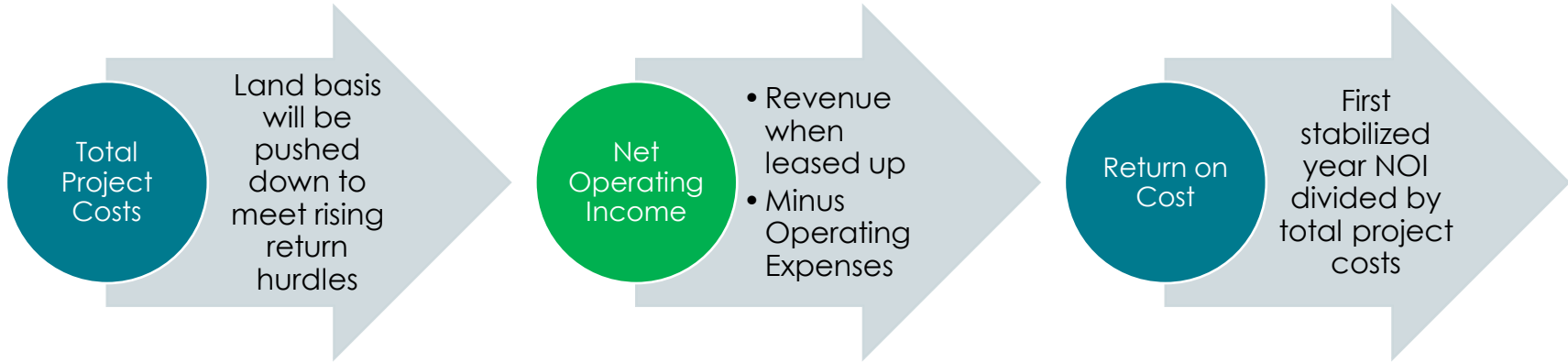
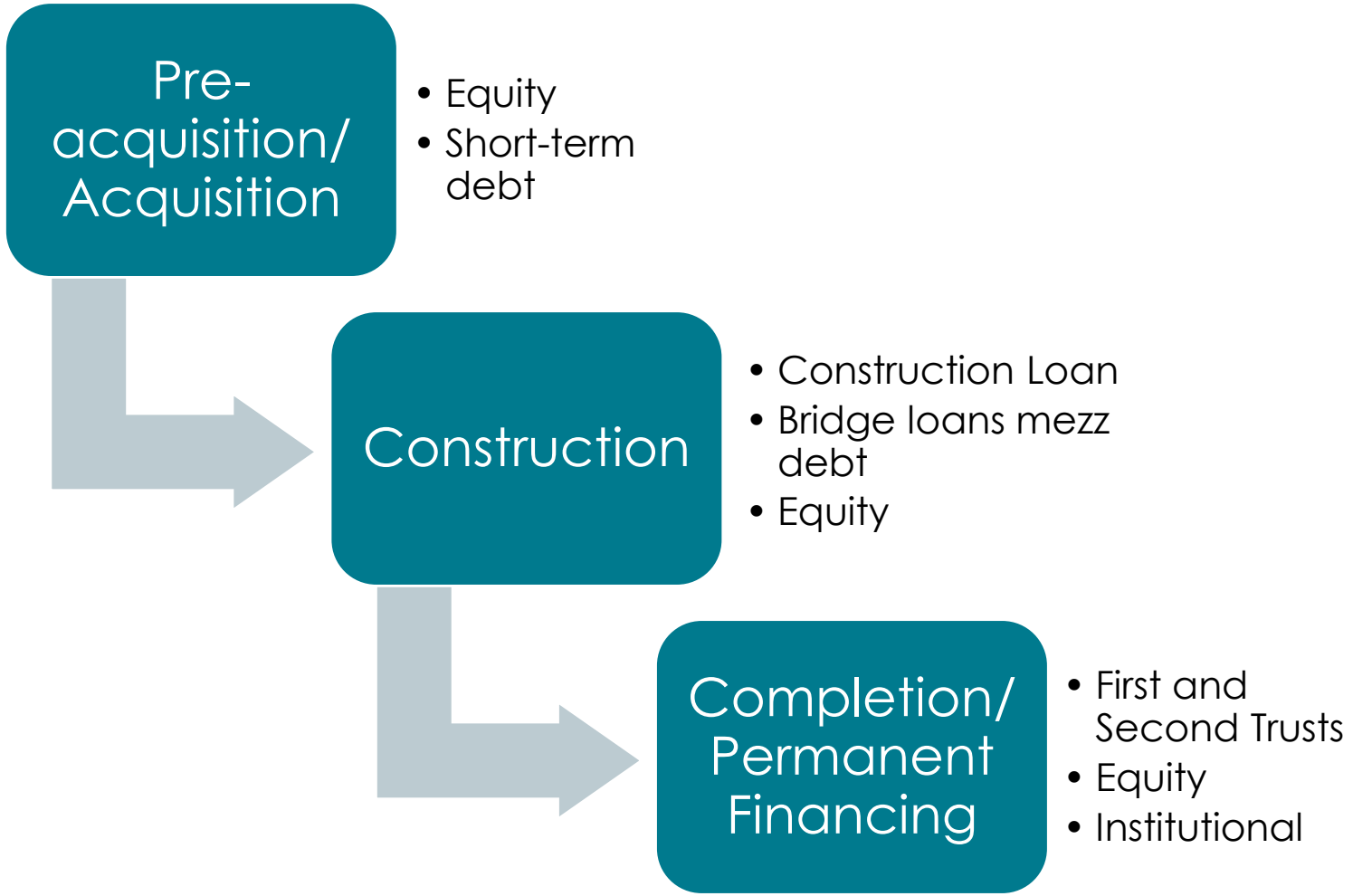


Return on Cost – Hurdle Rates:
- **Driven by assessment of market risk**
- **Fed rates/access to capital**
- **Capitalization rates (valuation)**

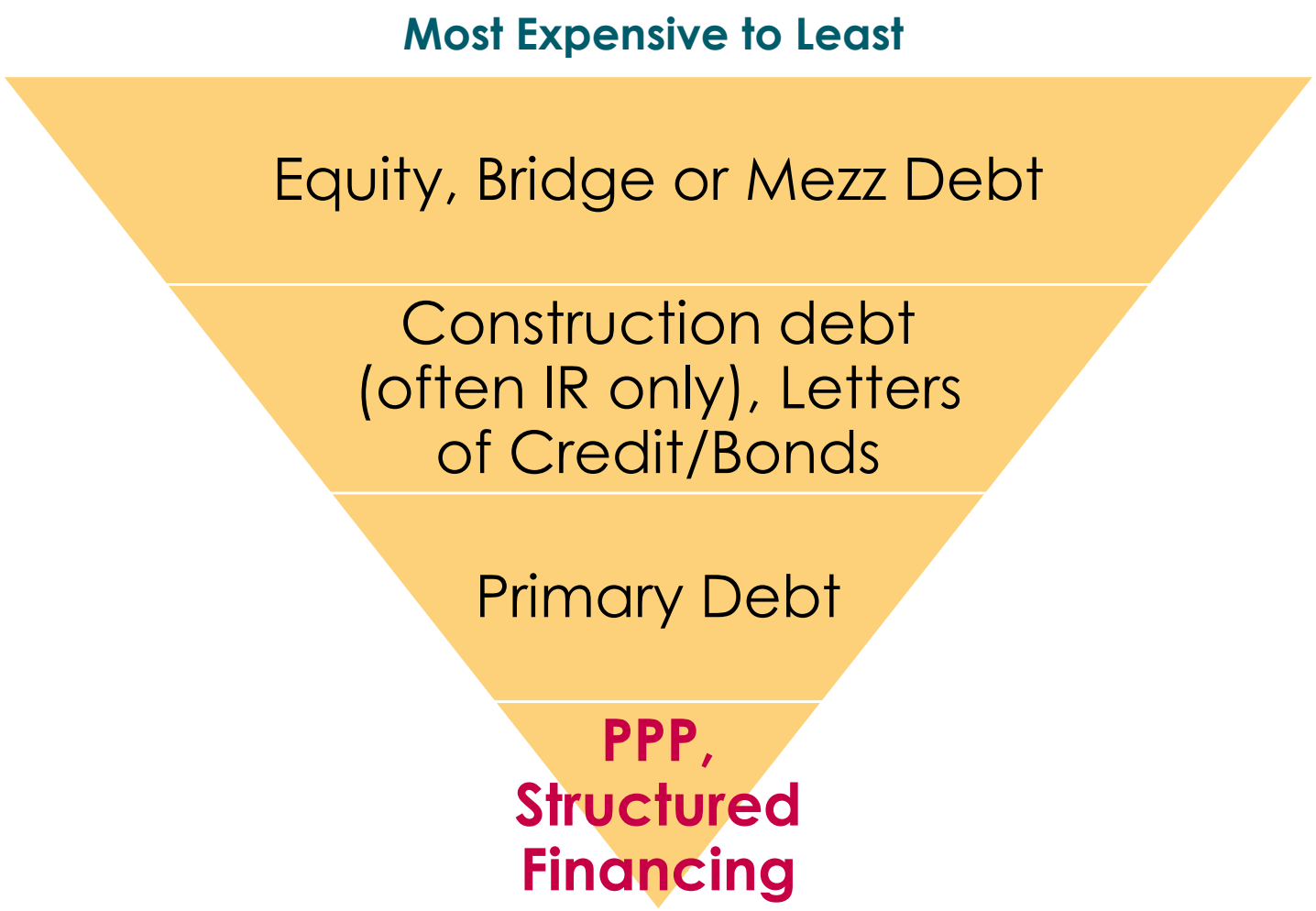
Development & Sources of Capital



Capital market disruptions affect all stages of the real estate development cycle.

- Access to capital/liquidity
- Cost of capital/debt
- Variable rates
- Equity requirements
- Recourse requirements

The Cost of Sources of Capital



Community Benefits agreed to by the Developer during a site plan review often requires discrete moments of capital outlays, even if the capital is very expensive at the time.

What are the missed opportunity costs?

The Changing Development Context

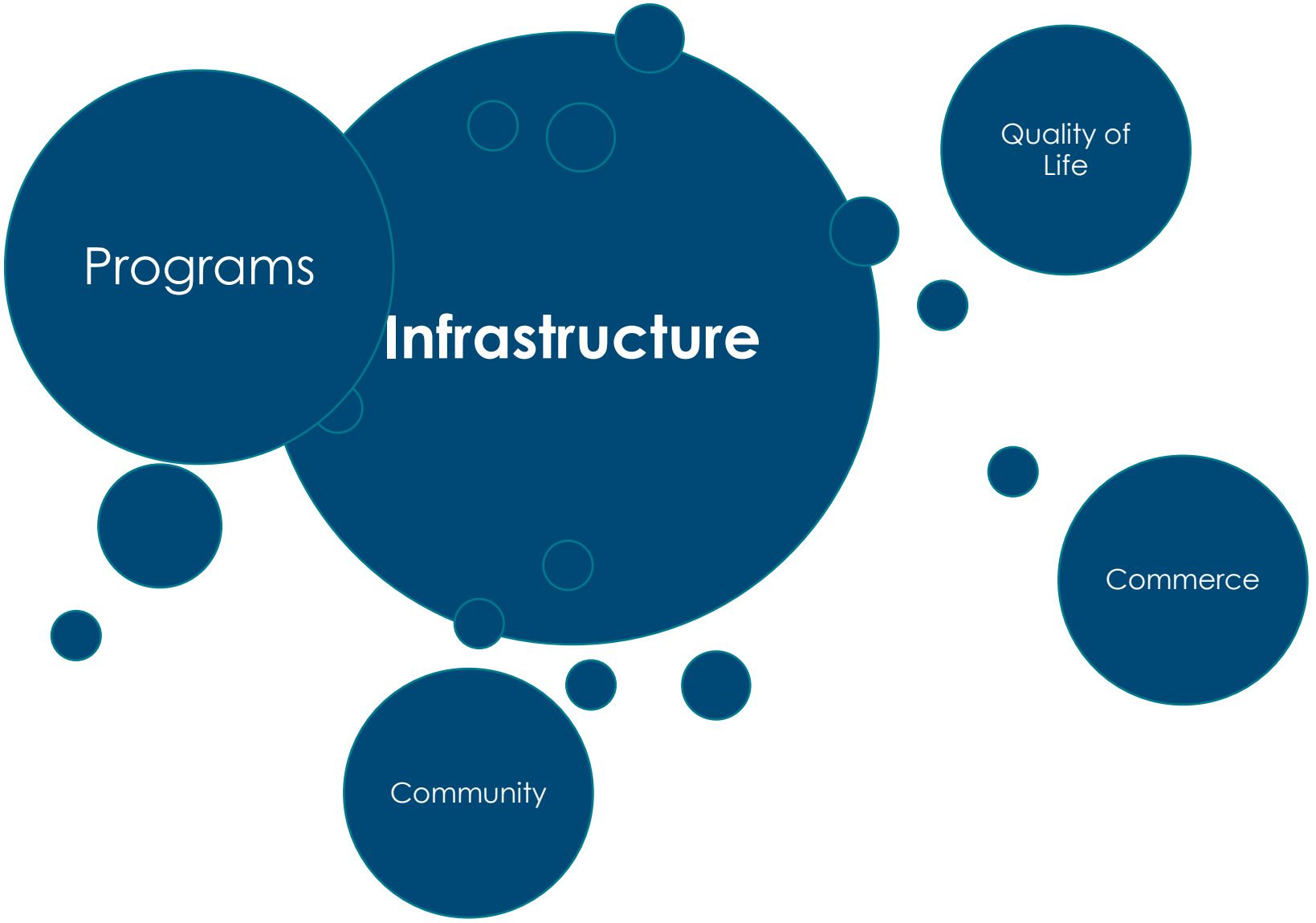
- For the past several decades Incentive-based Zoning leveraged the inherent value of density, or land basis
- This model delivered key infrastructure, urban design and placemaking investments

- **The value of density has significantly declined over the past decade due to factors such as rising costs, cost of debt and market risks.**
- **Perhaps structurally…is a density a currency that has outlived its usefulness?**
- **Dangers of a "Patient" approach in the face of decline?**
- **False tradeoff paralysis**
- **Need to understand shared, achievable visions for our neighborhoods**

Signs Ahead: already seeing changing development proposals

- **More viable construction types – lower density**
- **Not achieving max density**
- **Less use of density-based incentives**
- **Less people**
- **Less taxes**

The Critical Role of Place



Key Challenges and Opportunities:

1. **Sustainable source for funding and maintaining infrastructure**
2. **Partnership opportunities around programming**

State of commercial markets today

Fed Rates — Cautiously Optimistic

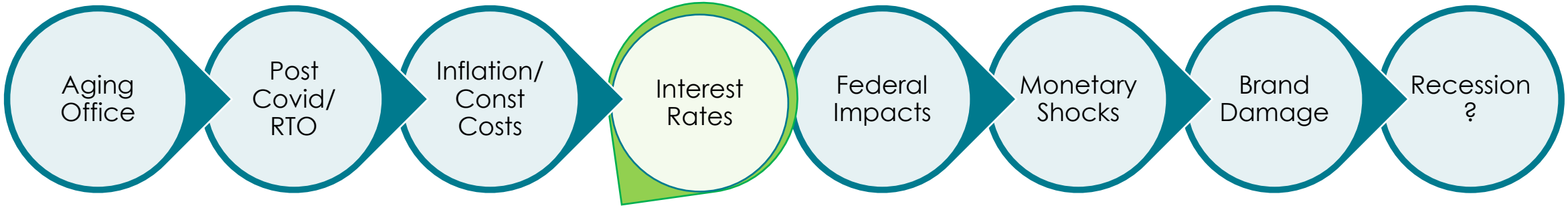
Liquidity — Cherry picking best projects (MF)

Cap Rates — Plummeting for Office, Stable for MF

Confidence — Adaptive reuse interest, Impact of Fed job cuts could stall MF housing production

Commercial Market Crisis – Urgency Remains

Economic and commercial market headwinds are growing, not subsiding



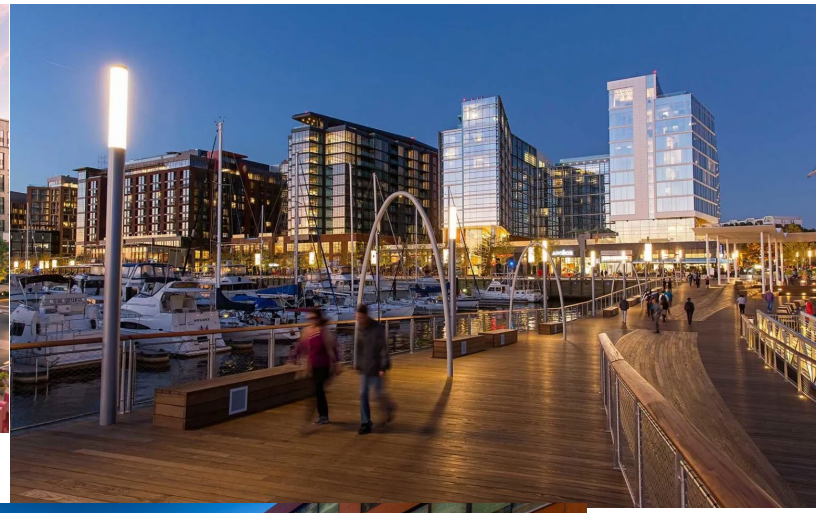
<u>Devaluation</u> and <u>Uncertainty</u> continue to define the commercial markets.

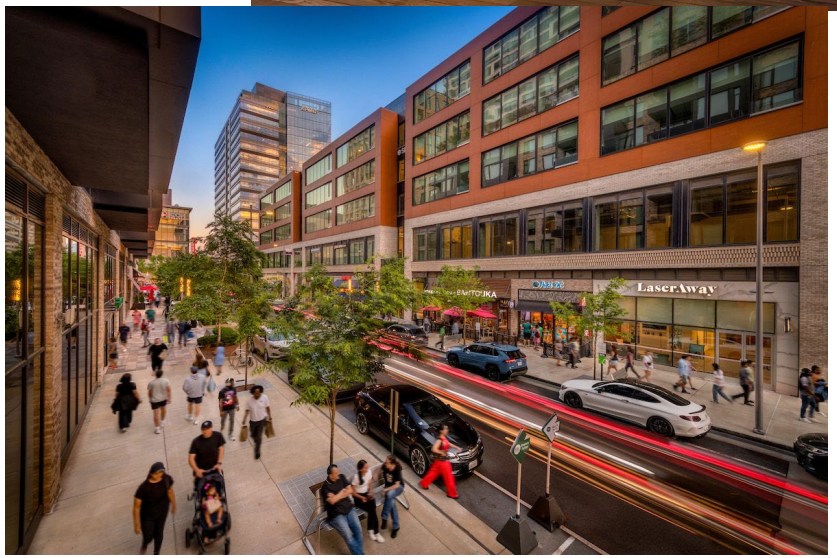
- **Office demand – supply imbalance persists**
- **Consumer spending on a precipice - major disruptions facing retail and services sectors**
- **Hotel industry facing new challenges**

Negative impacts on the County's fiscal base will be felt for years or longer

Inaction Today Weakens Our Future Resiliency & Recovery

Regional Competition High





Demand for capital will remain high

Capital is transient

Capital will have options

Challenge: To Be Forward Looking

Big Picture transformations *and Near-term perquisites of recovery*

What does Arlington's economy look like in the context of a post-Federal Region?

What are the challenges that we must address today?

A New Approach to Development

Healthy, evolving mixed-use urban cores will continue to be critical to Arlington's long-term fiscal health…

But the Approach through which private and public investments are planned, entitled and implemented in our urban cores may be evolving.

Outcomes over Process
Value of De-Risking over Opportunity Costs
Priorities over Piecemeal
Collaboration over Negotiation
Partnership over Regulation

Questions?

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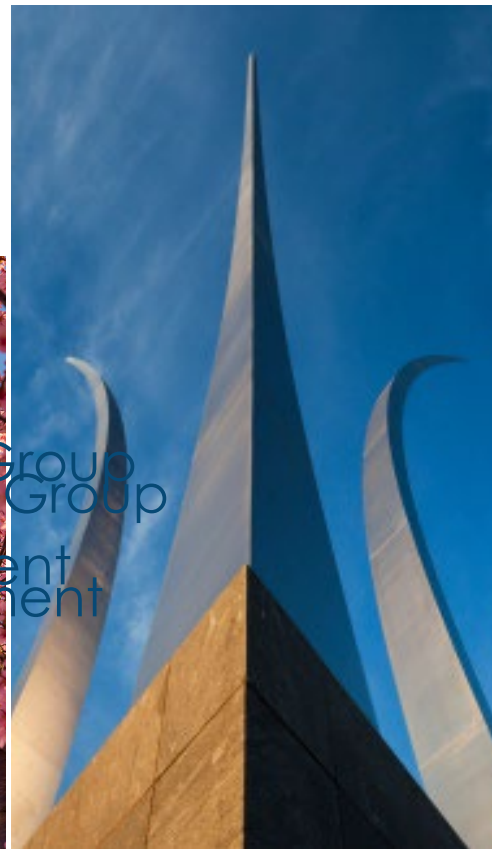

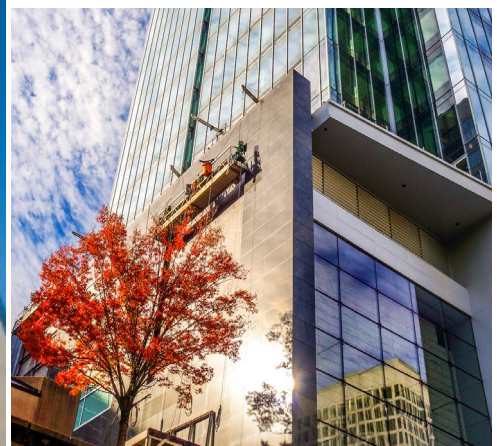

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