



DEPARTMENT
OF GENERAL
SERVICES

CENTER FOR
INNOVATIVE
TECHNOLOGY
DISPOSITION

Quarterly Report
October 1, 2018



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Introduction

This quarterly report is an addendum to the previous Department of General Services (DGS) quarterly reports submitted October 1, 2016 through July 1, 2018, to the Chairmen of the House Appropriations and Senate Finance Committees and to the Governor. The report provides an update on DGS' progress identifying disposal options of real property located in Loudoun and Fairfax Counties, owned by the Innovative and Entrepreneurship Investment Authority (IEIA) and improved with the Center for Innovative Technology (CIT) complex, as required by Item 428 U.1. of Chapter 780, 2016 Acts of Assembly.

Background

On June 15, 2017, as per §2.2-1156, DGS received written authorization from the Secretary of Administration, as delegated by the Governor, to market the Loudoun County and Fairfax County parcels improved with the CIT complex property for sale.

Leased Occupancy

DGS continues to work with the OAG to execute the lease amendments and termination notices for tenants in both the Midrise and Tower Buildings, confirming their expiration dates are on or before December 31, 2018. DGS will continue to work with the OAG to process such lease amendments accordingly.

Two tenant leases currently extend past December 31, 2018. The first tenant is a technology council, whose lease expires in 2022. They have requested a reduction in rent, space and lease term to June 30, 2020. Pursuant to their current lease, CIT is required to provide "an on-site, staffed food service (e.g., a restaurant or a cafeteria)." In early May, CIT informed DGS that its on-site cafeteria was terminating its lease effective May 30, 2018. On May 24, 2018, DGS notified the technology council tenant by email that DGS would agree to their requested terms. This would be subject to the amended lease terminating effective December 31, 2018, with an opportunity to extend month-to-month, if the property has not sold. DGS also informed the technology council tenant that the on-site cafeteria was terminating its lease, effective May 30, 2018. The technology council tenant did not respond to DGS until July 5, 2018. DGS received a letter from the technology council tenant's attorney requesting that the Landlord restore the café as soon as possible. On August 31, 2018, DGS received another request from the technology council tenant requesting free rent and a lease term reduction to December 31, 2018; however, their request also included month-to-month and notice provisions effectively extending the lease well beyond December 31, 2018. On September 20, 2018, DGS notified the technology council tenant that lease termination effective December 31, 2018 was acceptable; however, their proposed free rent, month-to-month and notice provisions effectively extending the lease well beyond December 31, 2018 were not acceptable terms. On September 21, 2018, the technology council tenant notified DGS that they were withdrawing their request for an amendment and would continue with their current lease term to June 30, 2022.

The second tenant, whose lease extends past December 31, 2018, has two (2) three-year tenant extension options that will extend the current term ending July 31, 2019 to July 31, 2025. The tenant's premises includes a Sensitive Compartmented Information Facility (SCIF). The tenant confirmed its intent to exercise both options at the end of its current lease term.

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Additionally, one (1) private tenant, with an expired license, has been unresponsive to DGS' phone calls and emails. DGS has requested the OAG prepare an appropriate notice for the tenant to vacate the property by December 31, 2018.

DGS, working with the OAG, has prepared a lease for CIT consideration. The lease addresses CIT's current occupancy and future occupancy, if CIT is still in the complex at the time of the sale. The OAG informed DGS that CIT will need to seek guidance from its own counsel regarding clarifying the relationship between CIT and IEIA within the lease.

Metro Rail Station

The Fairfax Water Authority contacted DGS requesting utility easements on the property to accommodate a new water main crossing beneath the Dulles Toll Road, between Route 28 and the Innovation Center Metro Station. This project is driven by potential development and the need to provide additional reliability and redundancy to existing water customers in the area, including Loudoun County and the Town of Herndon. DGS has requested that the authority avoid encumbering CIT properties with any new easements. DGS recommended placing the water main within the right-of-way of Innovation Avenue, providing a stub for future service improvements to the CIT properties, and to the extent necessary, within the Innovation Center Metro Station properties to serve the station.

Rock Hill Road Realignment

In January 2017, Fairfax County requested property from IEIA for the realignment of Rock Hill Road at its intersection point with Innovation Drive. The road realignment will provide better ingress/egress to the new Metro Rail Station. A section of Rock Hill Road (8,654 square feet) will be abandoned by Fairfax County in the future. DGS is requesting that 8,654 square feet be conveyed, as consideration, to IEIA for the new section of IEIA property (9,592 square feet) needed for the realignment.

DGS, the OAG and Fairfax County are continuing to work together to draft the required documents for the dedication and the right-of-way transfer. The documents are ready to circulate for signature once Fairfax County approves the survey and the consideration of transferring the 8,654 square feet to IEIA. While the consideration is being finalized with Fairfax County, an access agreement was executed. This will prevent construction delay of the metro station.

Title Concerns

In preparation for the surplus sale, DGS, the OAG, outside counsel and the title company investigated concerns relating to any encumbrances that may affect the marketability of the title. Through the survey and title report, an unreleased restrictive covenant, requiring the property to be used for public purposes, was identified. The title company has determined what is required to release this covenant on the undeveloped portion of the property by all current beneficiaries and it is likely that the title company used by a prospective purchaser will require the same release. The OAG is using outside counsel to assist with requesting the releases and the release requests have been sent to all beneficiaries listed by the title company. Fairfax County, one of the beneficiaries identified by the title company, has agreed to release and terminate the restrictive covenant. The release and termination agreement with Fairfax County has been

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approved and executed by the Governor and has been sent to the title company for recordation. The OAG and outside counsel will then contact the remaining beneficiaries to obtain their release of the restrictive covenant.

Fairfax County

The Fairfax County Board of Supervisors authorized a plan amendment, in October 2017, to consider increasing density and the land use mix for the area. More details on the plan amendment, 2017-III-DS1, can be found on the following Fairfax County website:

<https://www.fairfaxcounty.gov/planning-zoning/plan-amendments/innovation-center-station-north>

Fairfax County is expediting review of this amendment, and anticipate it going to the Planning Commission by mid-November and the Board of Supervisors by early December 2018. Fairfax County has been provided access to the property to perform survey work, an environmental site assessment, and wetlands delineation studies, at their sole expense, to assist the County in its comprehensive plan review process.

In addition, Fairfax County has a separate planning process to facilitate community-based plan changes, the Site Specific Plan Amendment (SSPA). There was a nomination submitted by Stout & Teague, who owns some of the nearby properties to the CIT property. The accepted nomination is posted on the Fairfax County website:

<https://www.fairfaxcounty.gov/planning-zoning/site-specific-plan-amendment-process/track-nomination>

DGS obtained an updated valuation of the property to reflect the higher density that would be permitted under Fairfax County's revised comprehensive plan and zoning. The valuation addendum indicated that the higher density would have a significant impact to the value of the property.

Divaris Marketing Update

Divaris continues to list the property on their website and respond to calls. They have received over 50 calls expressing interest in the property and have provided over 15 groups tours of the property. A call for offers have been delayed pending the outcome of development opportunities being pursued by the Virginia Economic Development Partnership.

Attachments

August 2018 Rent Roll for the CIT Tower and CIT Midrise, with DGS Transaction Status

Midrise Building								
Suite No.	Tenant	Start Date	End Date	RSF	Monthly Rent	PSF Rate	Option Terms (Under Review)	ANTICIPATED LEASE CHANGES
1st floor	Corridor common area			2,167				
150	Foreground Security	04/01/2014	08/31/2018	8,126	\$ 16,892.70	\$ 24.95	See next column.	Amendments complete for Midrise Suites 150, 165, and Tower Suite 201, terminating effective 8/31/18, with option to extend to 12/31/18. Tenant has option to terminate Tower Suite 201 only early upon 3 months notice. Fully executed.
160	Vacant			3,680	\$ -	\$ -		
165	Foreground Security	10/06/2012	08/31/2018	1,500	\$ 3,371.42	\$ 26.97	See next column.	Amendments complete for Midrise Suites 150, 165, and Tower Suite 201, terminating effective 8/31/18, with option to extend to 12/31/18. Tenant has option to terminate Tower Suite 201 only early upon 3 months notice. Fully executed.
170	American Institute of Artificial Intelligence*	05/01/2017	04/30/2018	1,173	\$ 2,101.67	\$ 21.50		Amendment in process, terminating effective 12/31/18.
180	ESTA International, LLC	09/01/2012	12/31/2018	1,300	\$ 2,638.75	\$ 24.36		Amendment complete, terminating effective 12/31/18. Fully executed.
190	Vacant			2,500		\$ -		
250	Edgeone, LLC	05/19/2014	12/31/2018	1,664	\$ 3,050.00	\$ 22.00		Amendment complete, terminating effective 12/31/18. Fully executed.
260	Vacant			4,177	\$ -	\$ -		
265	ECIA, Inc.	02/14/2014	02/13/2017	1,674	\$ 3,789.60	\$ 27.17		Tenant unresponsive to communication attempts. OAG preparing termination agreement.
270	Vacant			7,611		\$ -		CIT/Mach37 Cyber Accelerator vacated this space in 9/2017.
280	Vacant			5,320	\$ -	\$ -		
350	Honeywell*	05/01/2012	07/31/2019	7,515	\$ 14,372.73	\$ 22.95	Two (2) three-year extension options	Amendment in process for Honeywell to expand to Suite 380, tenant has two (2) three-year extension options and the right of first offer on any space contiguous to their premises. If early lease termination is desired, DGS will need to negotiate with tenant mutually agreeable early termination terms to include SCIE costs.
355	Honeywell*	08/20/2014	07/31/2019	5,362	\$ 10,255.03	\$ 22.95	Two (2) three-year extension options	Amendment in process for Honeywell to expand to Suite 380, tenant has two (2) three-year extension options and the right of first offer on any space contiguous to their premises. If early lease termination is desired, DGS will need to negotiate with tenant mutually agreeable early termination terms to include SCIE costs.
360 & 370	Honeywell*	06/01/2016	07/31/2019	4,369	\$ 8,355.71	\$ 22.95	Two (2) three-year extension options	Amendment in process for Honeywell to expand to Suite 380, tenant has two (2) three-year extension options and the right of first offer on any space contiguous to their premises. If early lease termination is desired, DGS will need to negotiate with tenant mutually agreeable early termination terms to include SCIE costs.
380	Vacant			1,600	\$ -	\$ -		
390	IT Vertex/Diligent Group	09/05/2014	08/31/2017	1,600	\$ 3,347.00	\$ 25.10		Tenant sent notice of intent to vacate, effective 8/31/2018.
				Total Occupied SF				46,071
				Total Rental Income CIT		\$ 68,174.61		
				Average PSF Rate		\$ 23.86		
				Market PSF Rate		\$24		
*Amendment pending.								
Data reflects 8/2018 P&L, subject to further review.								
New leases/amendments drafted and approved by the OAG.								