



City of Takoma Park, Maryland  
**TAKOMA JUNCTION QUESTIONS AND ANSWERS**  
**PUBLIC BENEFITS & FINANCIAL INFORMATION**  
April 5, 2018

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The following material was prepared in response to questions raised by members of the community interested in learning more about the public benefits that would be derived from the Takoma Junction redevelopment project and the City Council's decision to enter into a long term lease arrangement with the Neighborhood Development Company (NDC). It also addresses comments regarding the extent to which the City has subsidized the project.

For more information, please check the City webpage for the Takoma Junction Redevelopment: <https://takomaparkmd.gov/initiatives/takoma-junction-redevelopment/>

### **What are the public benefits of the project?**

The City Council's overarching goals for the Takoma Junction project are that the redevelopment will "act as a stimulus to the commercial district and locally-owned, independent businesses; improve the aesthetic appeal of the district; and be contextually sensitive and environmentally sustainable."

The public benefits that will be realized by the community as a result of this project include:

- Increased activity and vibrancy of the area which will benefit existing businesses;
- Creation of appealing space for new and expanding local and regional businesses;
- Creation of an attractive, inviting area for community members to interact;
- Improved circulation of pedestrians and bicyclists traveling through the Junction;
- Increased parking options for the customers of area businesses;
- Mitigation of the environmental impacts created over the years by the dump located under the asphalt surface of the parking lot;
- Reduction of the heat sink effect created by the asphalt parking lot;
- Reduction in the carbon footprint of the community through the introduction of sustainability features such as a vegetative roof and other energy conserving improvements;
- Diversion and treatment of run-off into the Chesapeake Bay with the construction of various storm water management features; and
- Retention of the green area on Columbia Avenue, the stabilization of the wooded slope, the removal of invasive plants, and the introduction of new landscaping elements.

**What are the benefits of leasing the property rather than selling it outright?**

The City Council, having carefully considered the option of developing the property itself to address a public need, selling the property outright, or leasing the land on a long-term basis, determined that it would be in the best interests of the community to retain control over the site on a long term basis and partner with another entity to redevelop the site. By entering into a 99-year ground lease with Neighborhood Development Company (NDC), the City will retain control over the redevelopment of the site, at little or no financial risk to the community, while continuing to collect revenue generated by the lease in addition to the real property taxes that will be paid by NDC.

The cost of developing and managing the project - the actual construction of the development, all site improvements and the amenities required under the Development Agreement - are the sole responsibility of NDC.

In December 2014, the appraised value of the property was \$1,475,000. The assessed value at that time was \$1,975,700.

**What are the general terms and conditions of the ground lease? How much revenue will be generated as a result of the ground lease?**

The Ground Lease will remain in effect for a period of 99 years. Under the terms of the lease, the City retains ownership of the property with NDC assuming ownership and responsibility for the planned development. The ownership of these improvements will transfer to the City upon expiration or early termination of the lease.

The lease rate escalates over time though the base rent will remain flat at \$10,000 per year for the first five years of the lease. This base rent is scheduled to increase at a rate of 3% per year beginning Year 6. The base rent will be increased by 25% in Year 33 and by another 25% in Year 66. The first ten years of rental income averages \$20,400 per year, increasing to an average of \$38,500 during Year 11 through Year 20, \$52,000 in Year 21 through Year 30, etc.

The first lease payment is due in July 2018. Over the course of the 99-year lease agreement, the City will receive a total of roughly \$20 million in lease payments. The assessed value of the property, effective July 1, 2018, is \$2.2 million.

The [Development Agreement and Ground Lease](#) can be viewed on the Takoma Junction Redevelopment page on the City website.

**What additional revenue will the City receive from this development?**

Additional income will be generated by the development of this site from the following revenue streams: Real Property Taxes, Personal Property Taxes, and, to a lesser extent, Stormwater Fees.

Real Property Tax: In addition to the rental payment, NDC will be responsible for paying real property taxes on the building and on the revenue-generating areas of the site once the Ground Lease is signed. Based on the assessed value for July 1, 2018 and using the proposed FY19 tax rate, the property taxes, for the property in its current vacant state, will be an estimated \$12,000 per year.

This figure does not account for the value that will be added – and taxed – once the project is completed. Rough estimates indicate that NDC will pay the City in excess of \$100,000 per year in real property taxes once construction is completed and the property is fully leased. Additional real property taxes will be paid to Montgomery County and the State of Maryland.

Personal Property Tax: The City will also receive personal property tax from the commercial tenants occupying the new development. This tax has no correlation to the number of employees that a business might have, their revenue or the physical space they occupy, but rather is based on the value of the furniture, fixtures, office and industrial equipment, machinery, tools, supplies, inventory and any other property owned by the businesses which is not classified as real property.

It is difficult to estimate the amount of revenue that may be generated at this time given the lack of information about the nature of the operations of the businesses that will occupy the building, their size and the value of the inventory they may handle.

Stormwater Fees: A stormwater fee will be assessed to NDC to offset the costs of stormwater management facilities and services throughout the community. The annual fee will be established once the site has been developed and the impervious area has been calculated.

**How are commercial lease rates established? What are the rental rates currently being charged for commercial space in Takoma Junction and Main Street Takoma area?**

Unlike residential rental rates which are often a fixed rate based on the number of bedrooms in a unit and the size or location of the unit, commercial lease rates are typically established through a negotiation process with many factors impacting the financial arrangement reached by the commercial tenant and the landlord. Typically different rates apply for different types of space, even within the same building. For instance, a ground level storefront space would be at a premium rent rate, while second floor space would be rented at a lower rate, and basement, storage or parking areas would be valued separately.

Common considerations which impact commercial rent rates are the length of the lease, the location and size of the space that is being leased and the nature of the business that will be occupying the space in addition to the cost to build-out and maintain the space, and the cost of maintaining common areas shared by all of the tenants. Lease rates are also impacted by real property taxes, property insurance and utility costs. The age of the building and the physical condition of the rental space will also impact the rental rate.

Some contracts include a base rent and a percent of the business revenue; other contracts may set a low initial rent while a business gets established with escalator clauses as it matures.

At this time, the number of leased spaces in the Takoma Junction area is small, with over half – 52% - of the commercial properties owned by the businesses that occupy the space. The rents for the remaining commercial spaces range from \$27 to \$38 per square foot of leased space. These buildings are, on average, 80 years old with many having been constructed between 1920 and 1940.

Commercial rents in new and newly renovated buildings in the Old Takoma area currently range from \$45 to \$50 per square foot of occupied space, based on information provided by CoStar, a national commercial real estate firm specializing in providing analytic services to both property owners and brokers, and Main Street Takoma.

### **How much of a subsidy is the City providing to NDC to develop the site?**

Residents have expressed concern about the level of subsidy being provided to NDC.

The City of Takoma Park is NOT providing a subsidy to NDC.

The City of Takoma Park has NOT deeply discounted the lease rate for the property. The lease rate is comparable to current market rates in the region. The initial lease rate of \$10,000 per year is within the range of market rents in the DC region based on the assessed value of the property, using cap rates published by Calkain Research for a single tenant net lease. The lease rate has been fixed for a period of five years, recognizing that the development will not be fully constructed and leased up for several years. NDC will be required to pay rent once the Ground lease goes into effect in July 2018, before permits are obtained or construction begins.

The City of Takoma Park is NOT providing a property tax subsidy to benefit the development. The City will collect in excess of \$100,000 a year in local property taxes from the development once it is completed. This figure does not include the additional County and State property taxes that will be paid.

The City of Takoma Park is NOT providing financing to offset pre-development costs, any construction costs or the cost of the public amenities required in the Development Agreement. Nor is the City paying for any of the environmental clean-up that may be required.