

MEMORANDUM

TO: Mayor & City Council
Planning Commission

VIA: Laura Mehfoud, Planner II

CC: Tom Lonergan-Seeger, Assistant City Manager

FROM: Sharon Disque, Economic Development Manager

DATE: October 21, 2024

RE: Gateway Lakeforest & 702 Russell Avenue - Z-9928-2024

In the application and supporting documentation for the above, the applicant proposes to address a perceived redevelopment opportunity for aging office buildings – near-term demolition of 98,730 square feet of office (employment) space; to be replaced with 410 multifamily units and 7000-20,100 square feet of retail space.

Economic Development staff has reviewed the application material in the context of the relevant components of the City’s 2022 Strategic Plan:

Strategy 3.2: Develop Gaithersburg as a regional employment center that attracts and supports an array of entrepreneurial and established businesses from a variety of industries.

Key Action Item 3.3.2: Develop a methodology for assessing aging properties.

Key Action Item 3.3.6: Perform real estate market analysis and feasibility to forecast post-COVID demand and estimate fiscal impacts on City revenue.

Paired with the above strategy and action items are the following public sector objectives:

- Preserving economic opportunities (jobs) for residents.
- Maintaining commercial assessments.
- Expediting new investment in aging properties by encouraging redevelopment that is consistent with site characteristics.
- Encouraging uses that will retain long-term value.
- Support proposed uses for which market demand is consistent.

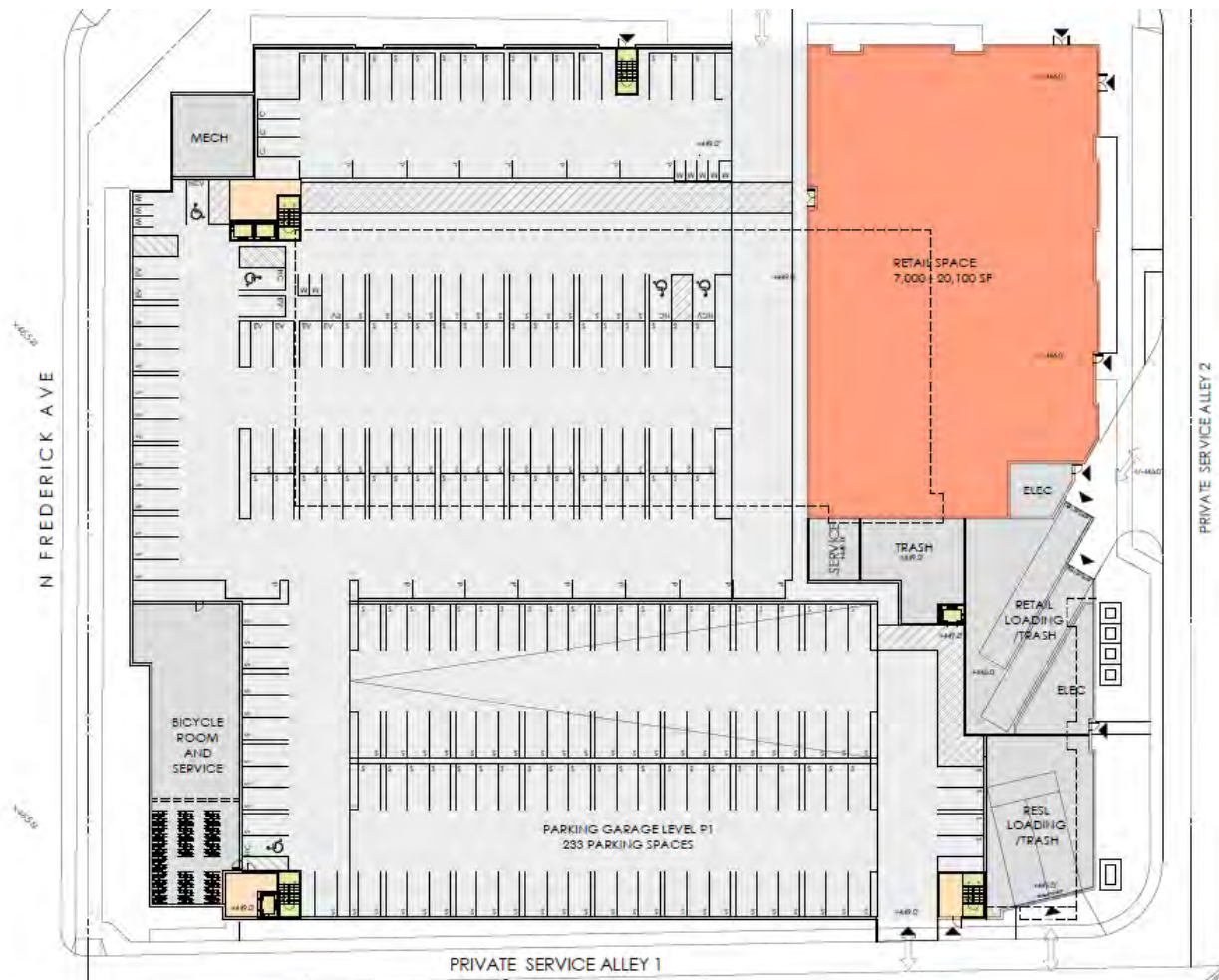
EVALUATION

Staff finds the following:

1. Changing from the existing (General Commercial) to proposed uses (primarily residential) on the parcels at 481 North Frederick Avenue and 101 Lakeforest Boulevard will reduce the land area available to attract new commercial uses to Gaithersburg.

2. The two office buildings to be demolished have reached the point of economic obsolescence, but the proposed uses are not consistent with the location's characteristics.
 - ➔ The Frederick Avenue Corridor's high traffic count and area demographics have attracted, and continue to attract, new commercial investment, particularly retail, as evidenced by the investments made by national Real Estate Investment Trusts.
 - ➔ Office-to-residential conversions are popular news stories, but the fundamental regulatory issue is a dramatic change of land use. Each situation is unique.

3. The proposed retail space, identified as 7,000-20,100 square feet, mid-block, does not exploit the site location's strong commercial-retail characteristics.
 - ➔ For reference, at Downtown Crown, Coastal Flats has 7712 square feet; Harris Teeter has 53,518 square feet.
 - ➔ The proposed space cannot be easily divided to attract multiple retail tenants.



4. When compared with other proposed multifamily construction approved by the City but not yet built, the location is not competitive and, if built, less likely to hold value over time.

- The City’s development pipeline has nearly 7000 unbuilt multifamily units, many of which are located in established mixed-use areas, buffered from high volume automobile traffic and proximate to desirable commercial and recreational amenities.

Multifamily Rental Projects

Gaithersburg Development Pipeline: Projects with various regulatory approvals

SOURCE: Gaithersburg Pipeline Development Report, July 2024

Project	Units	Approval
KENTLANDS APARTMENTS, PHASE 1	271	SDP-7362-2016
KENTLANDS APARTMENTS, PHASE 2	94	SDP-7362-2016
MARKET SQUARE REDEVELOPMENT, PHASE 1	245	SDP-8146-2019
TRAVIS AVE REDEVELOPMENT (KIMCO)	580	Z-8911-2021 SP-8910-2021
SPECTRUM: AGE-RESTRICTED MULTIFAMILY BLDG R	158	SDP-11-002 SP-9569-2023
SPECTRUM: MULTIFAMILY BUILDING S/T	234	SDP-9269-2022 SDP-09-001
GATEWAY: PHASE 1 (E OF FIRSTFIELD RD)	254	Z-312 SDP-09-001
GATEWAY: PHASE 2 (W OF FIRSTFIELD RD)	409	Z-312
KENTLANDS SQUARE, PHASE I SKETCH	1450	SK-7503-2017
KENTLANDS MARKET SQUARE REDEVELOPMENT SKETCH	1369	SK-7837-2018 SDP-9736-2024
LAKEFOREST: HIGH-RISE APARTMENTS	850	Z-9444-2022
NIKE SITE REDEVELOPMENT	380	SK-9497-2023
PARK AVENUE REDEVELOPMENT	151	SP-9149-2021
CASEY FOUNDATION ANNEXATION	280	X-9683-2024 Z-309
CHELSEA PARK (EXECUTIVE GARDENS/SUITES 355)	176	SDP-08-005
TOTAL	6901	

- Only if appropriate uses are identified in the predevelopment phase does a proposed strategy for aging, obsolete office buildings address two opportunities for the City,
 - Prevention of vacancy and blight via applicable regulatory tools;
 - Creation of locations for new investment in a land-locked city.
 - Approval of regulatory changes that are not consistent with market forces and location characteristics, such as requested in this application, will delay – not expedite – redevelopment.

- The City has a recent history of enabling office building redevelopment through adaptive reuse and demolition, demonstrating the feasibility of protecting economic opportunity for residents while still addressing the question of re-use.

Office Property Redevelopment

EXAMPLES: City of Gaithersburg

Address	Type	Transition
704 Quince Orchard Road	Adaptive Re-use	Office ⇒ Bio
800 North Frederick Avenue	Demolition/New Construction	Office ⇒ Industrial
700 Quince Orchard Road	Adaptive Re-Use	Office ⇒ Bio
700 North Frederick Avenue	Demolition/New Construction	Office ⇒ Retail, Bio, Industrial
200 Professional Drive	Adaptive Re-Use	Office ⇒ Bio
700 Professional Drive	Adaptive Re-use	Office ⇒ Medical, Sr. Daycare

RECOMMENDATION

A meaningful increase in the applicant’s commercial square footage could address the City’s economic development objectives of providing land area for business activities and preserving the commercial assessable tax base.

Alternatively, a second development program – an “Option 2” – that exploited the location characteristics and market demand could enable faster redevelopment.