

A "Free" Art Center? A Wonderful Fantasy or What?

By
Jasbinder Singh

Nothing in life is free and this situation is no exception. To build an Art center, the Town will either have to pony up at least ten million dollars (on top of the \$5 million spent over the last 12 years) or increase density substantially in the Downtown. Those who make claims of building an Art Center at no cost to the taxpayers are either out-of-touch with reality, or mislead our citizens, stifle debate and divide us politically.

On November 11, 2010, during the Downtown Master Plan development process, the Town's financial consultant, Alvarez & Marsal opined that the development of an 18,000 sq ft Art Center on Block E would add about \$5,000,000 to the infrastructure gap (or financing shortfall). Accordingly, the Town would have to contribute about \$5 million more to build the Art Center at that site than under an alternative plan.

On November 23, 2010, **Robin Carroll**, the then President of the Herndon Foundation for the Cultural Arts, **Richard Downer**, the then Vice-President and Co-Chair of the Facilities Committee and **Les Zeidel**, the then Boardmember and Co-Chair of the Facilities Committee contested the findings of the consultant's report. Among other things, they made the following counter claims in their comments to the Planning Commission: (see [Foundation letter - Nov 2010](#))

- "Our current proposal does not contemplate any funding from taxpayers in Herndon" and suggested that the "infrastructure gap" should be ... shown as zero."
- "Our proposal for the "associated use component of the proposed project are nontraditional commercial uses such as studios for recording, film, design, etc. and their value is not adequately reflected in the Alvarez and Marsal report."
- "Rather than being a drain on the Town, the Art/Associated-Use Center could be a driver of economic development in downtown contributing funds towards shared public parking" (emphasis added)

As usual, Messers Downer and Zeidel and Ms Carroll did not provide any supporting data or analysis. Like them, the Foundation, and its agents and supporters have consistently made such claims in the past and continue to do so. This brief report examines the validity of the first two claims.

The analysis begins with a brief presentation of two estimates of the cost of an art center. It then estimates the number of additional apartments that would have to be built in order to build an Art Center free-of-charge. In a subsequent section the article discusses how the 2010 proposal advanced by the Foundation seriously falls short of paying for a "free" art center. Finally it presents four options for building an art center. Needless to say, none of them is "free".

COST OF THE ART CENTER AND ITS PARKING

In 2005, Herndon Station LLC submitted an unsolicited proposal under the provisions of the Public-Private Educational and Infrastructure Act (PPEA) to develop parts of the downtown including Blocks D and E. Herndon Station LLC provided a detailed breakdown of the costs of, among other things, building an underground parking garage and constructing an 18,000 sq ft art center, but withdrew the proposal when it could not reach an agreement with the Town. In 2007, JPI submitted a less ambitious proposal containing cost estimates for a less fancy and smaller Art Center and an above-ground garage. These two costs estimates are presented below in 2015 dollars, that is, after inflating the 2005 and 2007 costs by applying applicable inflation factors.

1. The Herndon Station LLC's Proposal

Item	2015 Cost (million \$s)
2005 Art Center (31,000 sq ft – 275 seat theater)	\$ 14.60
Garage Parking (110 spaces)	\$ 3.70
Total	\$ 18.30

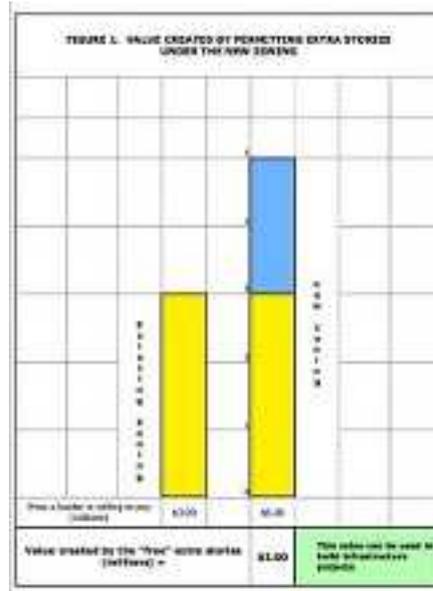
2. The JPI Proposal

Item	2015 Cost (million \$s)
2007 Art Center (12,000 sq ft – 250 seat theater)[1]	\$ 5.20
Garage Parking (110 spaces)	\$ 5.24
Total	\$10.44

The Art Center and Garage Parking in both proposals were presumably supported by the extra value generated by the proposed high density development containing retail, commercial, and residential spaces. The question that many find difficult to answer is, “How can we determine the value generated by the extra density allowed by the Town?” The following section presents one method that can be used to answer this question in a reasonable manner.

ESTIMATING THE “VALUE” GENERATED BY INCREASED DEVELOPMENT DENSITY

Figure 1 illustrates that the extra value is generated, because a builder is generally willing to pay more for a piece of land if he is allowed to build a more dense development. The figure shows that if a builder is willing to pay \$3 million for a piece of land on which he/she can build a three story structure, then he/she would be willing to pay \$5 million provided he can build a 5-story structure on it. The \$2 million difference represents the value generated by the extra density allowed. It can be used to build an infrastructure project of equal value.



(click on image to zoom)

In its 2007 proposal, JPI asked the Town to allow it to build 50 apartment units on top of the Art Center. Had the project been successful, JPI would have incurred the cost of designing and building the apartments, but it would not have incurred the cost of the land. This implies that, in essence, JPI would have gotten the land for free.

THE VALUE OF THIS "FREE" LAND WOULD HAVE REPRESENTED JPI'S EXTRA PROFIT AND WOULD HAVE EQUALED THE VALUE OF EXTRA DENSITY.

Now, we must ask, another question, "How do builders generally value the economic feasibility of any piece of land?"

ESTIMATING ADDITIONAL DENSITY, OR, CAPITAL REQUIRED TO BUILD A "FREE" ART CENTER

To put an initial value on a plot of land, a developer normally uses rules of thumb such as, \$35,000/apartment, \$20,000/hotel room, \$30/sq ft of commercial space, etc. Accordingly, if he/she is permitted and is willing to built 100 extra apartment units on a lot, his starting point for negotiating the price of land would be \$3.5 million (\$35,000/apartment X100 apartment).

IF THE TOWN HAD PERMITTED JPI TO BUILD 50 APARTMENTS ON TOP OF THE ART CENTER IN 2007, IT WOULD HAVE BEEN TANTAMOUNT TO GIVING JPI "FREE" LAND WORTH \$1.75 MILLION.

All things being equal, JPI should have been willing to contribute this sum, \$1.75 million, for building an Art Center for the Town.

However, as shown above, the Art Center would have cost about \$5.2 million. This means, the value generated by the extra density, or, 50 additional apartment units would not have been sufficient to build an Art Center free-of-charge. The Town would have had to either

contribute the difference (\$3.45 million) or allow JPI to build 99 more apartments on top of the Art Center or somewhere else in the project.

If the town had wanted JPI to provide structured parking (costing \$5.24 million) as well, it would have had to allow JPI to build 150 more apartments. This calculation implies that in order for JPI to build an Art Center and provide 110 spaces in a garage at no cost to the Town, the Town would have had to permit it to build a total of 299 more apartments than otherwise permitted under the regulations.[2] This information along with that for the 2005 design is summarized in the following table.

Additional Density Needed By a Developer to Provide the Item Free of Charge

Item	Cost 2015 dollars (millions)	No. of Apartment Units
2007 Art Center (Excluding Parking)	\$5.20	149
2007 Art Center and Parking	\$10.44	299
2005 Art Center & Parking, Herndon Station LLC Proposal	\$18.30	523

If an Art Center is now built to the standards given in the 2007 JPI proposal, then the Town will have to allow a developer to build 299 extra apartment units. However,

THE DEVELOPER WILL NOT BE ABLE TO BUILD ALL OF THE REQUIRED UNITS ON TOP OF THE ART CENTER; HE WILL HAVE TO SPREAD THEM OUT TO OTHER LOCATIONS IN THE DOWNTOWN.

Most likely, he/she will propose to place them on top of the structures approved for Elden, Center and Station streets. In other words, the Town will have to agree to increase the density of the development substantially beyond the community vision reflected in the Master Plan.

Note that even if we assume that the \$35,000/apartment rule-of-thumb used by some developers, is off the mark by 40% (that is, a developer places 40% more value on the land), the Town still will have to permit a developer to build 214 (=299/1.4) **additional** apartments in order for him/her to provide the Art Center and related facilities free-of- charge.

INADEQUACY OF THE 2010 DESIGN BY THE FOUNDATION FOR BUILDING A "FREE" ART CENTER

On page 24, the Patternbook shows that Block E (Art Space) will have 20,000 sq ft of arts-related office spaces above a 18,000 sq. ft. Art Center. Further, sixty-six parking spaces will be reserved for these offices in an adjoining parking garage.[3] Assuming that the land for building Arts-related condos or offices is valued at the same rate as residential apartments, and 20,000 sq ft of extra space can accommodate 20 extra apartments atop the Art Center, the developer will realize a value of only \$700,000 (=20*\$35,000). In other words, the Foundation, or, the Town on their behalf will have to come up with an additional \$3.5 million just to build the Art Center. Alternatively, the Town will have to increase the permitted

density by allowing the builder to build 100 (= \$3,500/35) more apartment units along Elden, Center and Station Streets. If the Foundation wants 110 parking spaces in a garage, then it or the Town will have to come up with \$9.14 million (= \$10.44 - \$0.7) to cover the construction costs. Alternatively, the Town will have to permit the developer to build 279 (= 299-20) extra apartment units along the surrounding streets.

In summary, the Town will have four choices to build an Art Center and provide for the associated parking:

- *The Town forces the Foundation to raise about \$10 million and pay its share of the parking,*
- *The Town raises and contributes about \$10 million to build the Art Center, or*
- *The Town transfers the title to the town-owned parcels to the developer at no cost to him/her, or*
- *The Town increases the permitted development density by the equivalent of at least 299 apartment units*

Increasing the density is the only real feasible option for receiving a “free” or highly subsidized Art Center at this time, because the Foundation has not demonstrated any capacity to raise even a small fraction of the needed capital. Further, Town residents, most likely, will neither agree to raising the necessary funds for the Foundation nor permit free transfer of the titles (to town-owned land) to a developer. [4]

FOR THIS REASON, THOSE INTERESTED IN BUILDING AN ART CENTER AT NO COST TO THEMSELVES HAVE BEEN PUSHING FOR HIGH DENSITY AND 5, 6, 7 STORY BUILDINGS IN THE DOWNTOWN FOR MANY YEARS.[5]

In pursuit of their unbridled and unjustified ambition for obtaining a “free” Art Center, they have vilified and demeaned those who have championed a small-town-feel or opposed increased taxes. Many supporters of the Art Center have deemed the latter to be less sophisticated, culturally deficient or backward in their thinking. In 2006, councilmembers representing the vilified residents won the majority on the Town Council. By 2011, they had produced a Downtown Master Plan with a small town feel; however, the principals of the Foundation, working behind the scenes in 2011 and 2012 began to undermine the approved low density. When a new town council was elected in 2012, their supporters gained a majority. By 2013, the new council had produced a regulatory document (called, the Patternbook) that would allow increased density in the applicable downtown area. It seems the supporters of a “free” Art Center had successfully undermined the will of the community, at least to some extent. Still, it remains to be seen, if a “free” art center will come to fruition in the near future.[6]

Regardless, this article demonstrates that, back in 2010, the then three principals of the Foundation made an unsupported, unfounded and nonsensical claim that “our current proposal does not contemplate any funding from taxpayers in Herndon”.

Notes:

[1] The 2005 Art Center had the following characteristics: A 275 Theater with 30'x60' stage and a 30' high rigging loft; Gross Area = 18,000 sq. ft.; 4,670 sq ft lobby and gallery area; 100 seat community function room; TV Broadcast/Recording Studio; Rehearsal Room 30' x40', Commercial Space = 5,000 sq ft and was fully functional for a variety of uses. The design of the 2007 Art Center, on the other hand, was substantially more spartan. It was essentially a "black box". It was not obvious how much more investment the Town would have had to make in order to render it suitable for a variety of uses.

[2] In the same vein, if Herndon LLC had to build an Art Center (and parking) for \$18.3 million, the Town would have had to permit it to build 523 more apartments or contribute more capital.

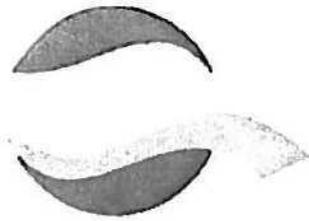
[3] In addition, 84 parking spaces will be set aside for a 250 seat theater in the parking garage. Thus, the Art Center and related uses will occupy a total of 150 parking spaces. Thus, Block E will be allocated 40 more spaces (costing more than \$1.2 million). This part of the report ignores the effect of the 40 extra spaces on the density required to support the Art Center.

[4] In the past decade or so, since the Town purchased the Art Space property, the Foundation has raised less than \$100,000 in capital even while paying a mere \$2,400 in yearly rent and receiving substantial grants from the Town every year. The Foundation does not seem to have the technical, administrative, financial, and executive capability to raise any meaningful capital.

The Town could raise \$15 million (or more) to pay for an Art Center, a garage and a few infrastructure improvements. However, the Town government would experience a strong push back from the residents if it tried to issue bonds. Alternatively, the Town could transfer titles to its land to a developer at little or no cost. But, this strategy also would experience a strong pushback from the public.

[5] The interested parties can be divided into three groups. The first group consists of artists and art enthusiasts who just want to enjoy the arts or showcase their talents. The second group consists of some of the downtown property owners who stand to benefit from potential increases in values of their properties. The third group consists of the political class that uses the art center to win elections. Most of the artists, by the way, do not live in the Town and many patrons of the art center come from the adjoining areas.

[6] This issue would be discussed in detail in a forthcoming article.



Herndon Foundation
for the
Cultural Arts

Board of Directors

Robin F. Carroll, *President*
Richard Downer, *Vice President*
Melody Fetske, *Treasurer*
Michael J. Sherman, *Secretary*

Art Anselene
Edward Hahn
Pat Macintyre
Shella Olem
Harlon Reeca
Al Robertson
Jack Seeley
Les Zidel

ArtSpace Herndon
*is owned and operated
by the Herndon Foundation
for the Cultural Arts,
a not-for-profit
501(c)3 organization*

www.ArtSpaceHerndon.org
750 Center Street
Herndon, VA 20170
703-956-6590
nfo@artspaceherndon.com

RECEIVED
NOV 23 2010
DEPARTMENT OF
COMMUNITY DEVELOPMENT

To: Town of Herndon Planning Commission

Re: The Draft Infrastructure Analysis on the Downtown Master Plan

Date: November 23, 2010

We are writing to comment on the draft report from Alvarez & Marsal Real Estate Advisory Services, LLC, dated November 11, 2010 which provides an analysis of the potential "gap" in infrastructure needs based on Option A of the proposed Master Plan for the Downtown. There are assumptions in the report that do not accurately reflect the Foundation's proposal for Block E.

The Foundation has requested that Block E in Option A of the Downtown Master Plan be amended to include an Art/Associated-Use Center. Our current proposal does not contemplate any funding from taxpayers in Herndon. Instead, we are merely asking that Block E be designated as the location for a future Art/Associated-Use Center so that we can apply for grants and private funding to move the project forward.

Given the intent on our part to bring additional funds to the project, the net effect on the infrastructure gap should be corrected and shown as zero. The report should reflect an additional line item on page 11 under Sources of Funds for *Grants/Foundations/Private Funding (Art/Associated-Use Center)*. The additional funding also dramatically changes the conclusion in Section 3.3 of the report.

Rather than being a drain on the Town, the Art/Associated-Use Center could be a driver of economic development in downtown contributing funds toward shared public parking that is so vital to further growth in downtown and raising the value of the other land owned by the Town.

The proposed Art/Associated-Use Center differs significantly from previous proposals for a downtown arts center. It provides greater return to the Town by increasing the density on Block E and including commercial uses within the center. Our proposal for the "associated use" component of the proposed project are nontraditional commercial uses such as studios for recording, film, design, etc. and their value is not adequately reflected in the Alvarez and Marsal report. Our research and discussions with economic development agencies indicate that this market has been largely ignored in Northern Virginia and can be used by Herndon to develop a unique niche in the marketplace.

We are presenting an opportunity to deliver a privately funded arts center to the Town of Herndon and its citizens. What is needed at this time is wording in the Downtown Master Plan Resolution designating an Art/Associated-Use Center as a desirable use for Block E. Inclusion of this proposed use on Block E in the Master Plan is necessary and vital to applying for grants and other funding.

Robin Carroll
President

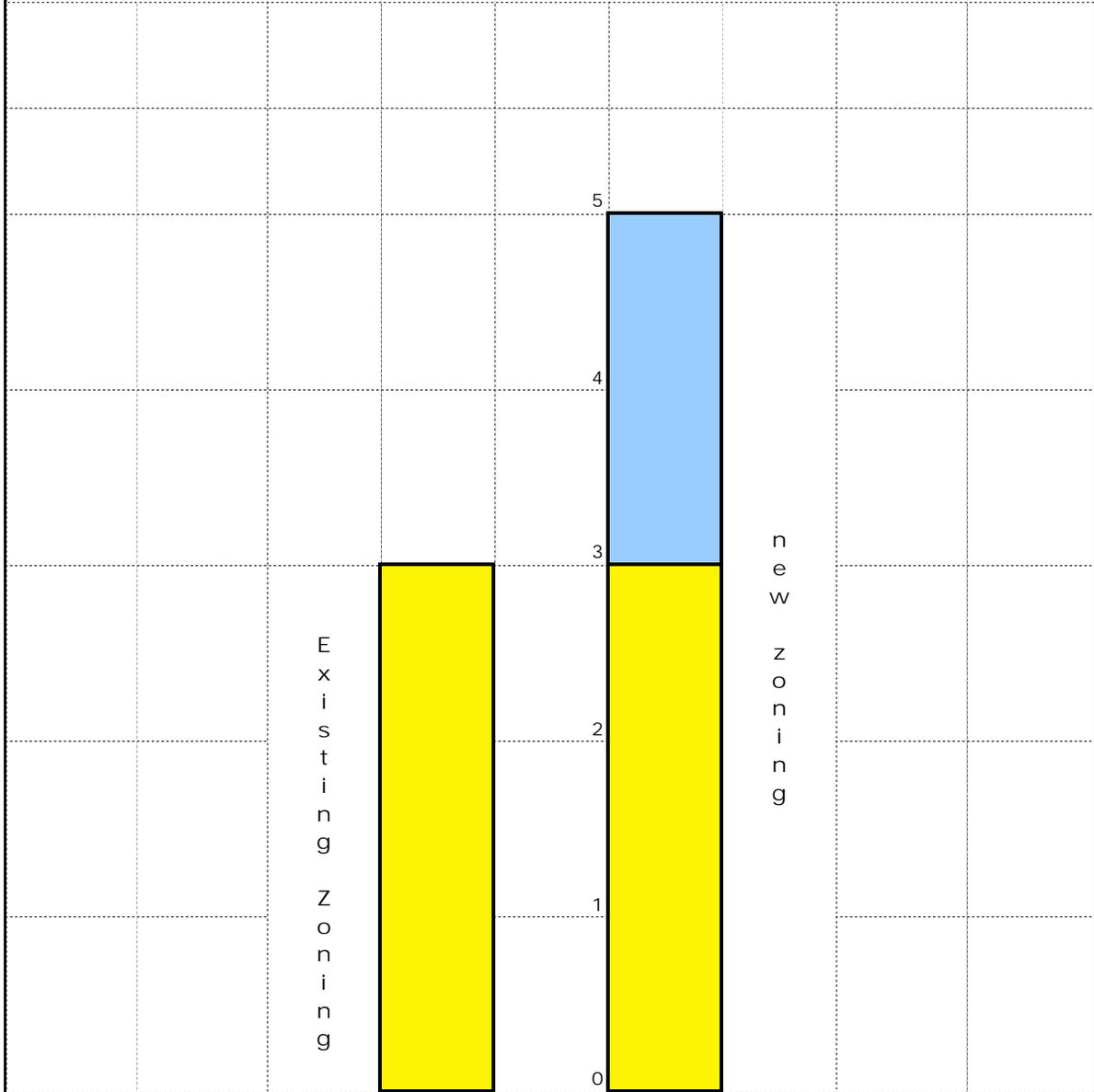
Richard Downer
Vice President and
Co-Chair of Facilities
Committee

Les Zidel
Board Member and
Co-Chair of Facilities
Committee

cc. Herndon Town Council, Community Development Staff

Attachment #2

FIGURE 1. VALUE CREATED BY PERMITTING EXTRA STORIES UNDER THE NEW ZONING



Price a buider is willing to pay (millions)

\$3.00

\$5.00

Value created by the "free" extra stories (millions) =

\$2.00

This value can be used to build infrastructure projects