



RIVERFRONT RECAPTURED

HOW PUBLIC VISION & INVESTMENT CATALYZED
LONG-TERM VALUE IN THE CAPITOL RIVERFRONT



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RCLCO
REAL ESTATE ADVISORS

Research by RCLCO



Report Commissioned by the Capitol Riverfront Business Improvement District



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EXECUTIVE SUMMARY

Over the last decade, the Capitol Riverfront has undergone an exciting transformation, from an emerging destination for new development to a vibrant neighborhood with a mix of uses. Today, modern buildings sit atop former parking lots and excess federal land, and their redevelopment has created significant new tax revenues for the District.

This transformation is the result of the public sector's vision, planning, and investment to unlock exceptional market opportunity. Concurrent with the initial public investments, the Capitol Riverfront Business Improvement District (BID) was created to manage the neighborhood's growth, maintain the quality of the public realm, facilitate economic development and business attraction, and foster a sense of community.

A decade later, it is clear that the neighborhood has evolved into a regional waterfront and entertainment destination that attracts national attention from the real estate and capital community. But locally, the lingering question is whether initial and ongoing public investments have leveraged sufficient return on investment.

In this new report, *Riverfront Recaptured*, RCLCO examines the fiscal and economic impact of new growth – past, present, and future – in the Capitol Riverfront. Of all the neighborhood's benefits, most significant is the Capitol Riverfront's emergence as a **major economic contributor to the District** since the inception of the BID in 2007. In fiscal year (FY) 2018, the annual net fiscal impact of the neighborhood is expected to be nearly \$132 million, **more than triple what the neighborhood generated before the BID was created.**

Even considering the upfront and planned expenditures into the Capitol Riverfront, we project that the District will break-even on its \$1.1 billion in investments by the end of this year, with only 14 million of the envisioned 37 million square feet built out. As new development occurs, the public return on investment will continue to grow; at build-out in 2040, the Capitol Riverfront will have generated a cumulative net fiscal impact of \$8.3 billion since 2007 – a return of nearly \$7.40 per every initial dollar that the District invested.

The public vision and investment that helped unlock the Capitol Riverfront's potential is already paying financial dividends and setting the stage for the neighborhood's long-term economic contribution. Just as importantly, the Capitol Riverfront's first decade of growth also reintroduced residents of the District to their riverfront, and created a vibrant neighborhood where they can live, work, and play – benefits that extend beyond an economic impact analysis.



STUDY OBJECTIVES & METHODOLOGY

The following study highlights how the Capitol Riverfront contributes economically to the District by analyzing its **net fiscal impact**, defined as the annual tax revenues that the neighborhood generates to the General Fund, less the operating expenses necessary to serve it each year. In this analysis, annual tax revenues include real and personal property taxes, residents' and employees' income taxes, sales taxes, meals taxes, hotel taxes, and recordation taxes, as well as miscellaneous permitting, licensing, and other service-oriented revenues. The forward-looking projection is based on detailed parcel-by-parcel build-out estimates, compiled by the BID as of November 6, 2017.

The objectives of the study were to:

- » Assess how the economic impact of the Capitol Riverfront has evolved over the past decade, as the neighborhood has transformed from industrial lands to a mixed-use community.
- » Create a forward-looking fiscal and economic impact of the Capitol Riverfront today and through its projected build-out in 2040.
- » Analyze the "return on investment" for the upfront public spending that the District put into the neighborhood, relative to the long-term value created by private investment occurring in the neighborhood.



5 KEY HEADLINES

1

THE DISTRICT WILL BREAK EVEN ON ITS \$1.1 BILLION OF PUBLIC INVESTMENTS INTO THE CAPITOL RIVERFRONT IN 2018, just 10 years after the BID was created. This swift payback period highlights that the neighborhood will **GENERATE LONG-TERM VALUE FAR BEYOND ITS INITIAL PUBLIC COSTS**. By 2025, the District will have made back double its investment in the neighborhood.

2

THE PRIVATE SECTOR HAS MORE THAN MATCHED THE DISTRICT'S CONTRIBUTIONS TO THE NEIGHBORHOOD. To date, every dollar of public investment in the Capitol Riverfront has leveraged \$1.92 of private investment. **THIS PER DOLLAR CO-INVESTMENT WILL MORE THAN DOUBLE IN JUST THE NEXT FOUR YEARS, AND EXCEED \$8.00 BY 2035**.

3

IN 2018, THE CAPITOL RIVERFRONT WILL GENERATE \$287 MILLION IN REVENUES TO THE DISTRICT, MORE THAN 3.5 TIMES WHAT IT GENERATED BEFORE THE BID WAS CREATED IN 2007. Once the Capitol Riverfront reaches its projected buildout in 2040, it will produce over **\$1.1 BILLION IN THAT SINGLE YEAR**, highlighting its **LONG-TERM ECONOMIC POTENTIAL**.

4

Since the inception of the BID, total annual revenues in the Capitol Riverfront have exceeded the cost to serve the neighborhood by \$1.1 billion. **BY 2040, THIS CUMULATIVE NET FISCAL IMPACT IS EXPECTED TO EXCEED \$8.3 BILLION THAT CAN BE USED TO HELP FUND OTHER PUBLIC INITIATIVES ACROSS THE DISTRICT**.

5

In 2018, the Capitol Riverfront will generate:

- » **THREE TIMES** more real property tax revenue;
- » **FOUR TIMES** more income tax revenue; and
- » **FIVE TIMES** more sales, meals, and hotel tax revenue than in 2007.

This expansion highlights the transformation of the Capitol Riverfront, and offers a glimpse of the economic growth that will occur as it continues to evolve.

1 The District will break even on its \$1.1 billion of public investments into the Capitol Riverfront in 2018, just 10 years after the BID was created. This swift payback period highlights that the neighborhood will generate long-term value far beyond its initial public costs. By 2025, the District will have made back double its investment in the neighborhood.

To-date, the District has invested over \$1.1 billion into the Capitol Riverfront.

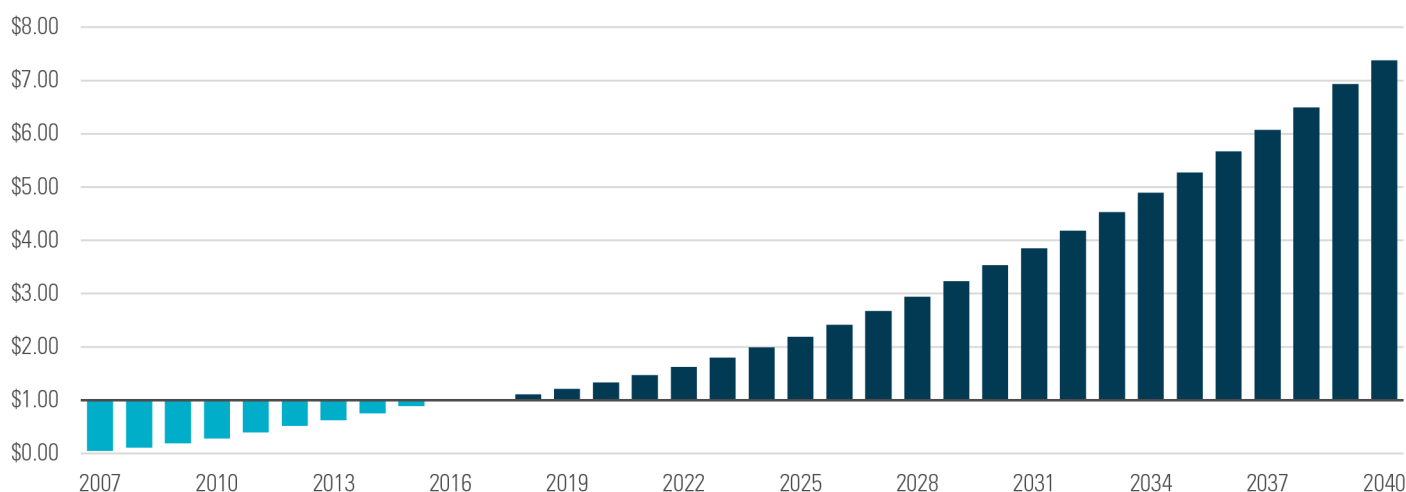
DISTRICT INVESTMENTS INTO THE CAPITOL RIVERFRONT¹

INVESTMENT	YEAR	PROJECT VALUE	EST. D.C. CONTRIBUTION	NEIGHBORHOOD CAPTURE ¹	EST. NEIGHBORHOOD INVESTMENT
Douglass Bridge	2018-2021	\$900,000,000	\$700,000,000	5%	\$34,000,000
D.C. United Stadium	2017	\$300,000,000	\$150,000,000	100%	\$150,000,000
Canal Park	2013	\$14,000,000	\$14,000,000	100%	\$14,000,000
Van Ness Elementary School	2013	\$12,000,000	\$12,000,000	100%	\$12,000,000
11th Street Bridges	2012	\$309,000,000	\$116,800,000	5%	\$5,700,000
SE/SW Water & Sewer Improvements	2007	\$13,000,000	\$7,000,000	100%	\$7,000,000
Navy Yard-Ballpark Metro Improvements	2007	\$20,000,000	\$20,000,000	100%	\$20,000,000
Nationals Park	2006	\$701,000,000	\$670,300,000	100%	\$670,300,000
US DOT	2005	\$70,000,000	\$70,000,000	100%	\$70,000,000
SE Federal Center	2004	\$98,000,000	\$98,000,000	100%	\$98,000,000
ACC HOPE VI	2004	\$85,000,000	\$50,000,000	100%	\$50,000,000
TOTAL		\$2,522,000,000	\$1,908,100,000		\$1,131,000,000

SOURCE: The Capitol Riverfront BID; RCLCO

The District will more than make back this original investment in 2018, at which point the Capitol Riverfront will have generated a cumulative net fiscal impact of \$1.2 billion since the inception of the BID. Once the neighborhood builds out in 2040, the overall return to the District is projected to be approximately \$7.37 for every upfront dollar invested. This return translates to more than \$8.3 billion in excess revenues that can be used on future projects and programs in the District.

CUMULATIVE NET FISCAL IMPACT PER \$1.00 OF D.C. PUBLIC INVESTMENT



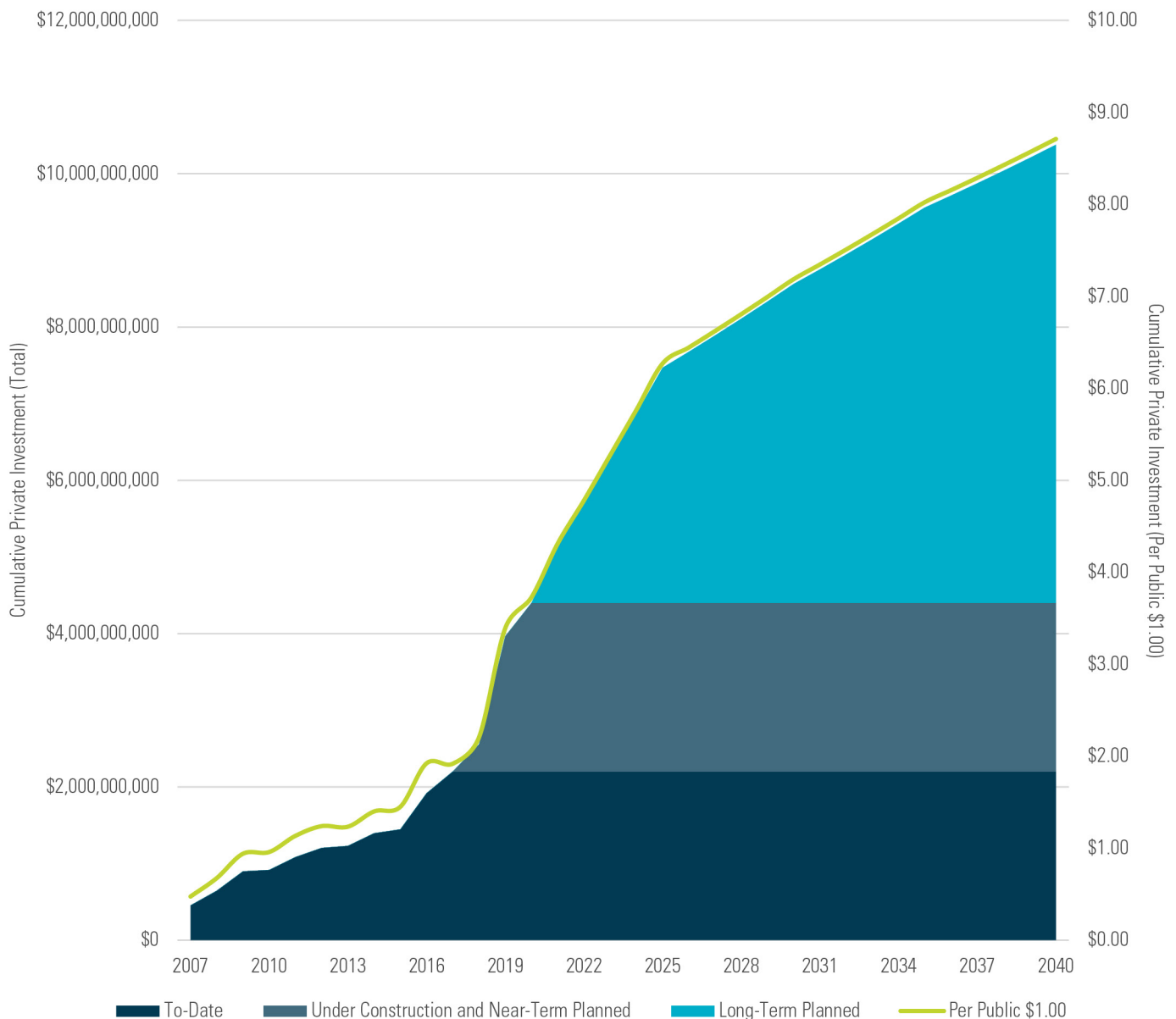
SOURCE: The Capitol Riverfront BID; RCLCO

¹ Assumes the Capitol Riverfront will take on 5% of the expenses from the Douglass and 11th Street Bridge projects, based on its "fair share" of office space relative to other neighborhoods in the District that benefit from these regional transportation projects. For this analysis, these neighborhoods were defined as those south of Florida Avenue to the Potomac and Anacostia rivers.

2 The private sector has more than matched the District's contributions to the neighborhood. To date, every dollar of public investment in the Capitol Riverfront has leveraged \$1.92 of private investment. This per dollar co-investment will more than double in just the next four years, and exceed \$8.00 by 2035.

More than \$2.2 billion in private investments occurred in the Capitol Riverfront between 2007 and 2017². This amount will continue to increase as projects which are currently under construction or planned deliver in the neighborhood. By the time the Capitol Riverfront builds out in 2040, an estimated \$10.4 billion of private investments will have gone into the neighborhood.

CUMULATIVE PRIVATE INVESTMENT INTO THE CAPITOL RIVERFRONT



SOURCE: The Capitol Riverfront BID; RCLCO

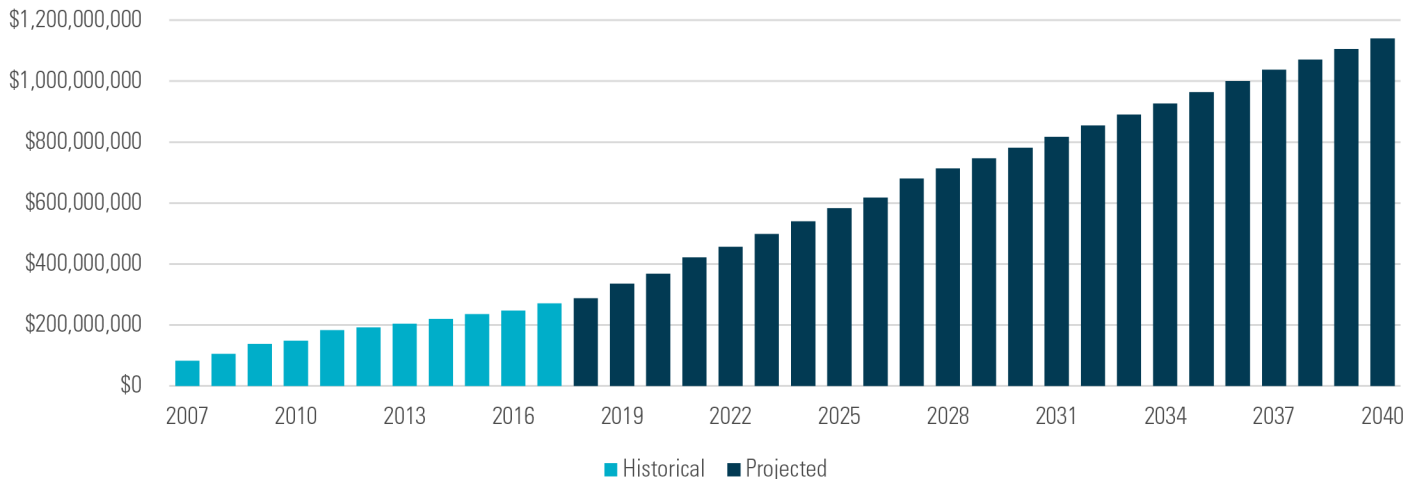
As such, every dollar of public investment has already been more than matched by the private sector. By 2040, every dollar of public spending will have generated approximately \$8.71 in cumulative private investment.

² Cumulative private investment is calculated based on the construction value of new development, taking into account an additional 15% capture for other development costs.

3 In 2018, the Capitol Riverfront will generate \$287 million in revenues to the District, more than 3.5 times what it generated before the BID was created in 2007. Once the Capitol Riverfront reaches its projected buildout in 2040, it will produce over \$1.1 billion in that single year, highlighting its long-term economic potential.

The Capitol Riverfront will generate an estimated \$287 million in general fund revenues to the District in 2018, more than 3.5 times more than it did before the \$82 million it produced before the inception of the BID in 2007, and 3.7 times its share of the District's land area. This annual revenue will continue to increase as additional development occurs in the Capitol Riverfront, and as new households and jobs move to the neighborhood.

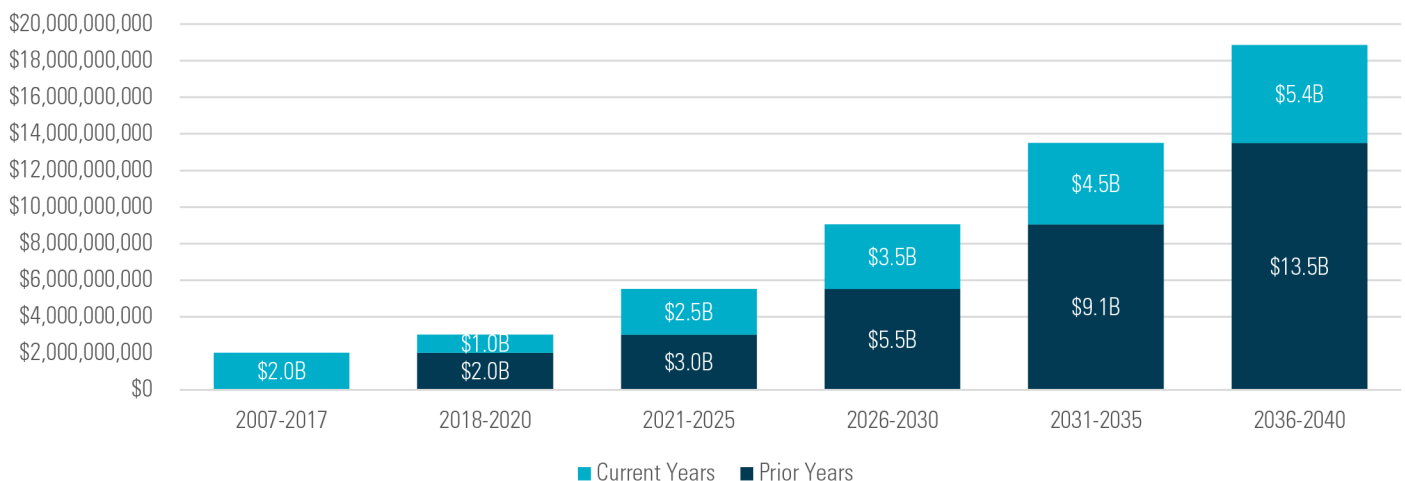
ANNUAL REVENUE TO GENERAL FUND



SOURCE: D.C. FY 2007 Budget; D.C. FY 2018 Proposed Budget; RCLCO³

With only 14 million square feet currently built out, there remains significant room to produce additional revenue in the Capitol Riverfront. By 2040, the neighborhood will have generated a cumulative \$18.8 billion to the District, well over the \$2.0 billion that has been produced to-date.

CUMULATIVE REVENUE TO GENERAL FUND (IN 5-YEAR INCREMENTS)



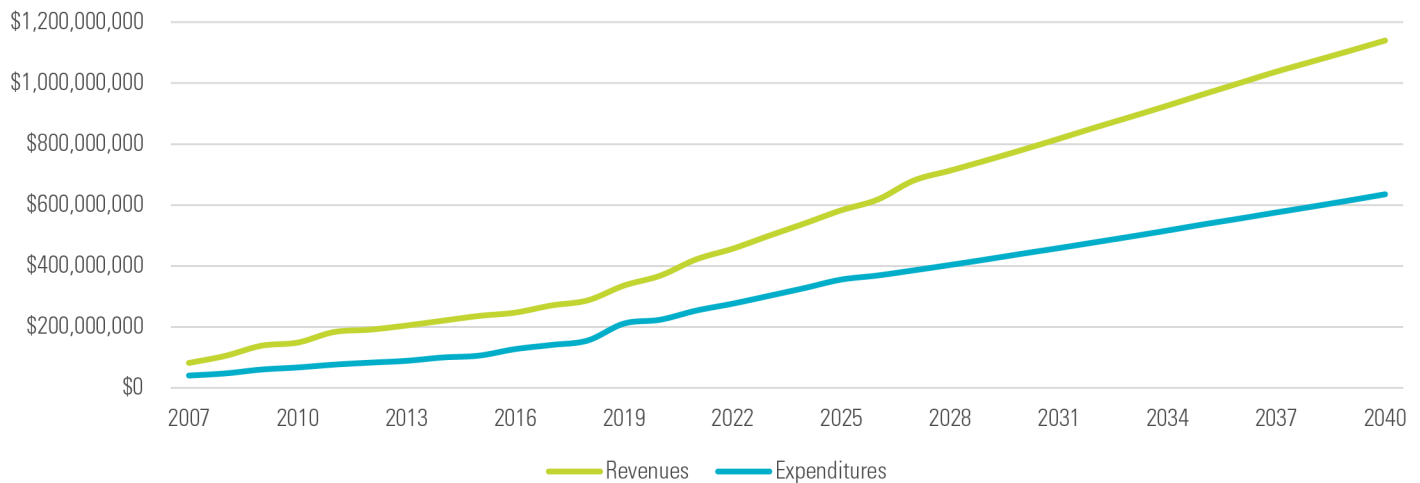
SOURCE: D.C. FY 2007 Budget; D.C. FY 2018 Proposed Budget; RCLCO

³ Tax revenues for the years between 2007 and 2018 have been estimated based on the pace and type of new development in the BID, taking into factors such as historic assessed values, construction cost estimates, and multifamily rent trends.

4 Since the inception of the BID, total annual revenues in the Capitol Riverfront have exceeded the cost to serve the neighborhood by \$1.1 billion. By 2040, this cumulative net fiscal impact is expected to exceed \$8.3 billion that can be used to help fund other public initiatives across the District.

The Capitol Riverfront generated \$2.0 billion to the District between 2007 and 2017, well above the \$932 million in expenditures the neighborhood incurred to serve its residents and employees. During this time, the gap between revenues and expenditures widened, as new and more valuable forms of development occurred in the Capitol Riverfront.

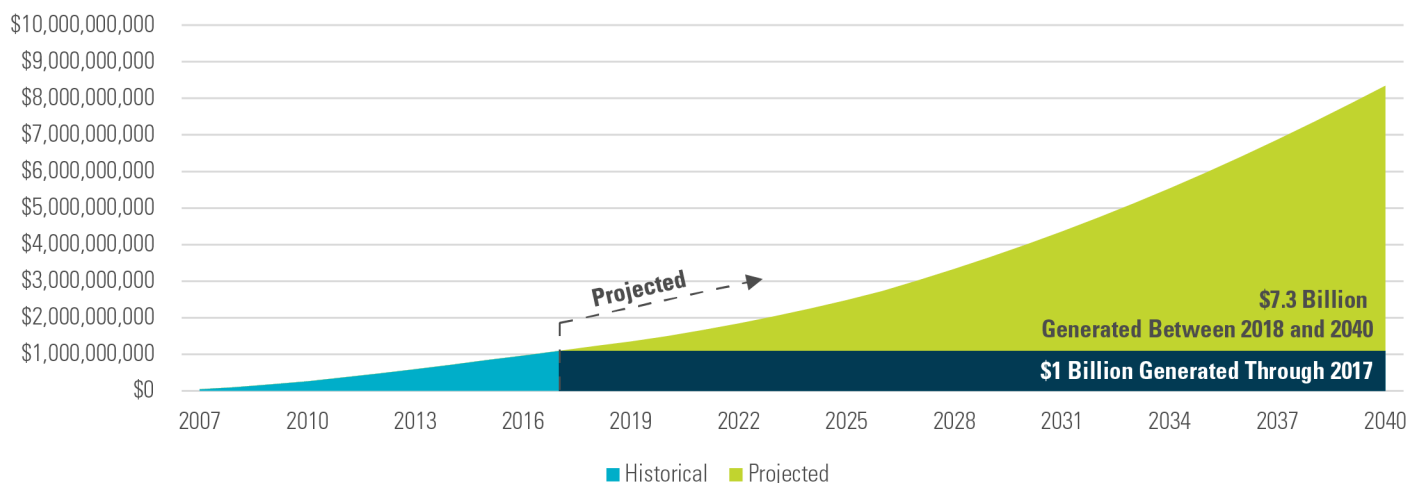
ANNUAL GENERAL FUND REVENUES AND EXPENSES



SOURCE: D.C. FY 2007 Budget; D.C. FY 2018 Proposed Budget; RCLCO⁴

As a result, the annual net fiscal impact of the Capitol Riverfront increased following the inception of the BID, from \$42 million in 2007 to an estimated \$130 million in 2017. This trend is expected to continue going forward, with the cumulative net fiscal impact increasing from \$1.1 billion in 2017 to \$8.3 billion in 2040.

CUMULATIVE NET FISCAL IMPACT



SOURCE: D.C. FY 2007 Budget; D.C. FY 2018 Proposed Budget; RCLCO

⁴ Expenditures are calculated per person, employee, and student, and are assumed to increase at a linear rate between 2007 and 2018. Approximately 35% of Governmental Direction and Support expenditures were excluded, in order to take into account fixed costs that are not incrementally more expensive as additional residents, jobs, or students are added to the District.

5 In 2018, the Capitol Riverfront will generate three times more real property tax revenue, four times more income tax revenue, and five times more sales, meals, and hotel tax revenue than in 2007. This expansion highlights the transformation of the Capitol Riverfront, and offers a glimpse of the economic growth that will occur as it continues to evolve.

As public and private investment has occurred in the Capitol Riverfront, the amount of revenue that the neighborhood generates in any given year has increased over time. This change is due to the fact that property values and household incomes have increased, and there are more retail, restaurants, and hotels attracting a greater number of people.

ANNUAL REVENUE GENERATED TO THE GENERAL FUND IN THE CAPITOL RIVERFRONT

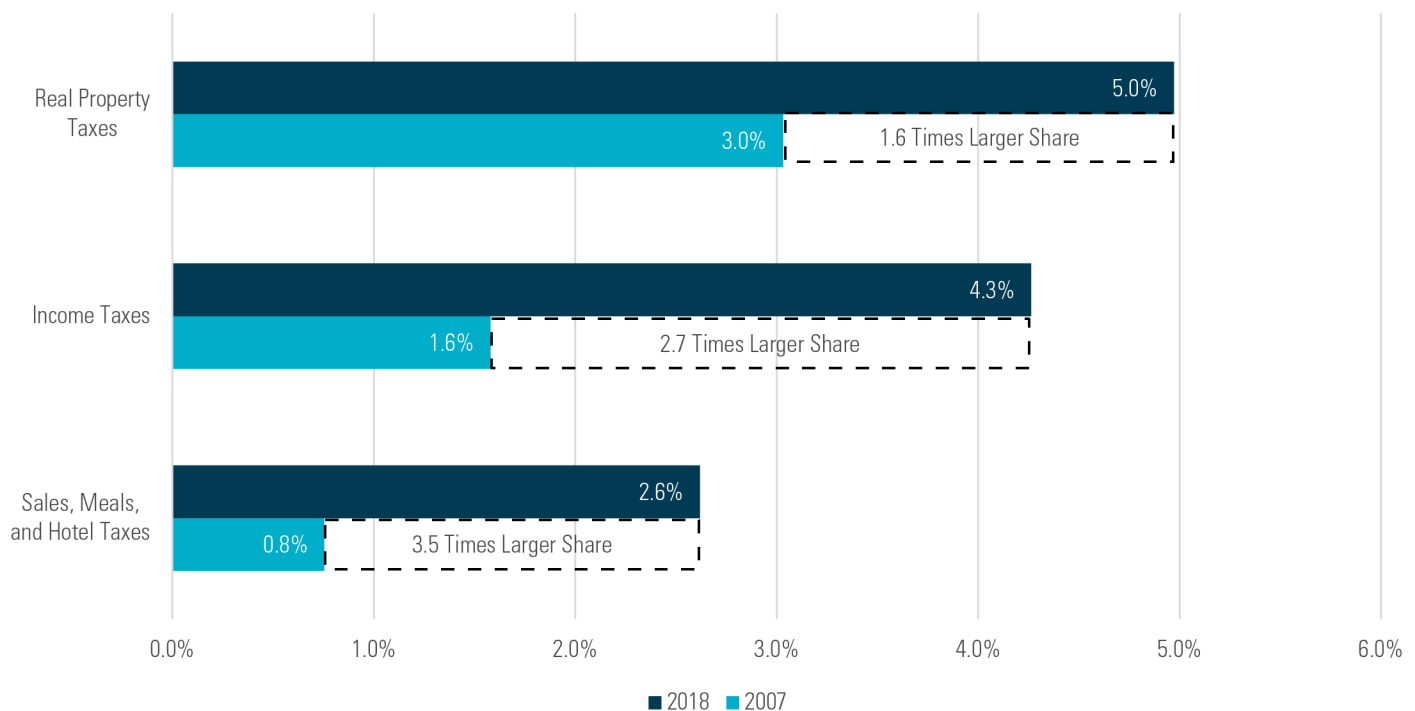
REVENUE SOURCE	2007	2018	GROWTH
Real Property Tax Revenue	\$39,100,000	\$125,200,000	3.2 Times More Revenue
Income Tax Revenue	\$19,200,000	\$83,200,000	4.3 Times More Revenue
Sales, Meals, and Hotel Tax Revenue ⁵	\$5,600,000	\$31,100,000	5.5 Times More Revenue
Other Revenue	\$17,600,000	\$47,300,000	2.7 Times More Revenue
TOTAL ANNUAL REVENUE	\$81,500,000	\$287,000,000	3.5 TIMES MORE REVENUE

SOURCE: D.C. FY 2007 Budget; D.C. FY 2018 Proposed Budget; RCLCO

As a result, the Capitol Riverfront now accounts for a much larger portion of the District's tax base than it did before the inception of the BID, even as the District's tax base increased significantly over the same time period.

In 2018, the neighborhood will account for 5.0% of all real property taxes, 4.3% of all income taxes, and 2.6% of all sales, meals, and hotel taxes generated in the District. These shares are substantially higher than what they were in 2007, before the inception of the BID.

PERCENT OF THE DISTRICT'S TAX REVENUE GENERATED IN THE CAPITOL RIVERFRONT

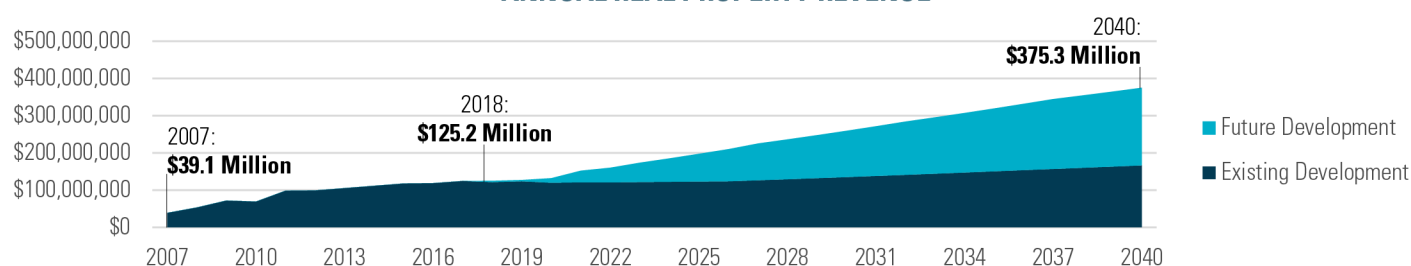


SOURCE: D.C. FY 2007 Budget; D.C. FY 2018 Proposed Budget; RCLCO

⁵ Excludes sales tax revenue generated at Nationals Park, which is assumed to go towards paying off the bonds issued to finance the project until 2026, after which the tax revenue is assumed to divert back to the General Fund.

Real Property Taxes: By the time the neighborhood builds out in 2040, it will generate more than \$375 million in annual real property tax revenues, nearly 10 times more than it generated before the inception of the BID.

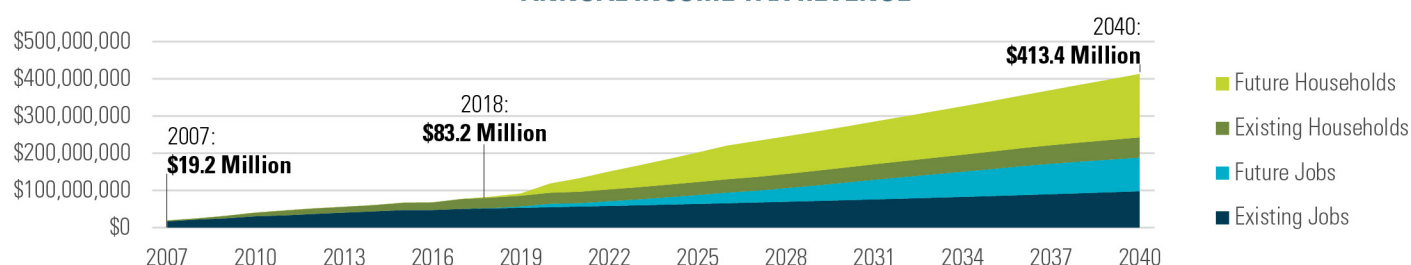
ANNUAL REAL PROPERTY REVENUE



SOURCE: D.C. FY 2007 Budget; D.C. FY 2018 Proposed Budget; RCLCO⁶

Income Taxes: At the same time, new residential development in the Capitol Riverfront will be the single-largest driver of its income tax growth. By 2040, annual income tax revenue will exceed \$413 million, driven in large part by new households entering the neighborhood.

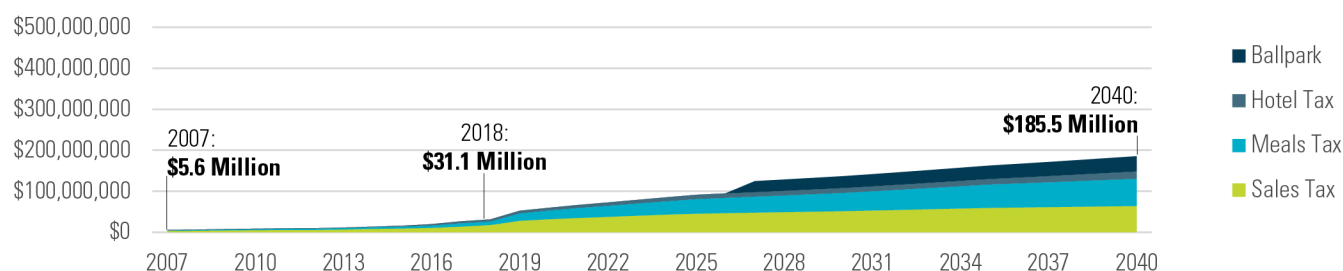
ANNUAL INCOME TAX REVENUE



SOURCE: D.C. FY 2007 Budget; D.C. FY 2018 Proposed Budget; RCLCO⁷

Sales, Meals, and Hotel Taxes: By 2040, the Capitol Riverfront will generate nearly \$186 million in annual sales, meals, and hotel taxes, primarily due to increased retail development, as well as the sales tax revenue from Nationals Park after the bonds are paid off in 2026.

ANNUAL SALES, MEALS, & HOTEL TAX REVENUE



SOURCE: D.C. FY 2007 Budget; D.C. FY 2018 Proposed Budget; RCLCO⁵

⁶ Real property tax revenue for 2007 and 2018 is estimated using the annual budget for each year, along with the assessed value and property type for parcels in the Capitol Riverfront for those years. Tax revenues for 2008 through 2017 were approximated using the change in assessed values for those years, while tax revenues for 2019 onwards were calculated using the same budget and assessed values as 2018, taking into account the pipeline and likely delivery timing of new projects in the neighborhood.

⁷ Income tax revenue for the years between 2007 and 2018 are calculated using the annual budget and economic data. Household incomes were estimated based on apartment rent growth trends in the BID, and incomes for employees were assumed to increase at a linear rate. The estimates take into account changes in tax brackets which occurred in 2013, 2016, and 2018.



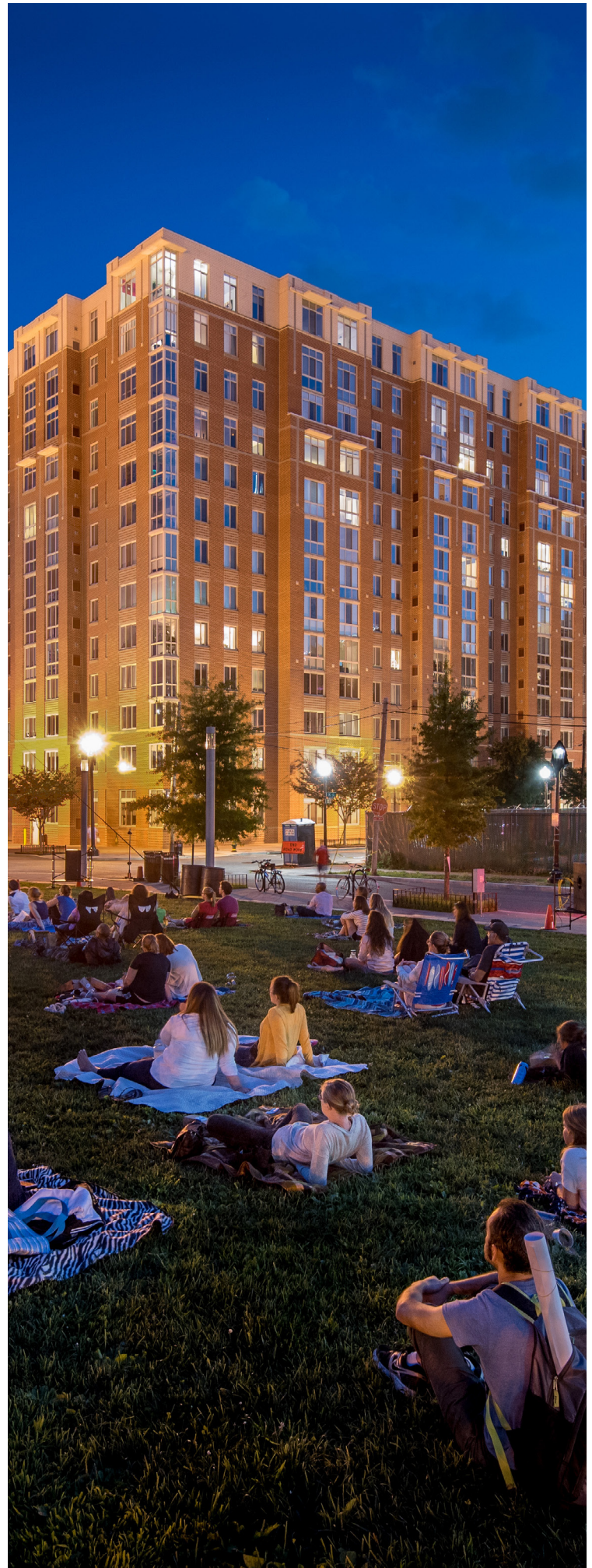
IN SUMMARY

Over the course of the last decade, the Capitol Riverfront has emerged as an established urban neighborhood on the Green Line and the Anacostia River, as well as a true regional waterfront destination. This transformation highlights a key principle of economic development; through public investment, municipalities can leverage significant private reinvestment and help fuel the creation of new housing, office, retail, hospitality, and entertainment.

While the physical benefits of public vision, planning, and investment into the Capitol Riverfront are already apparent, *Riverfront Recaptured* offers the first look at the economic rewards to the District. This critical analysis provides a national case study that proves municipalities can not only drive new development by investing in their neighborhoods, but also realize significant economic benefits as well. In the case of the Capitol Riverfront, the District will break even on its \$1.1 billion of public investments in 2018, just 10 years after the BID was created. By the time the neighborhood reaches its estimated buildout in 2040, the District will have generated a total return of almost \$7.40 for every dollar it invested. This return translates to greater funding for other programs and initiatives across the District.

As *Riverfront Recaptured* reveals, the public vision, planning, and investment into the Capitol Riverfront is already setting the stage for the neighborhood's long-term economic contribution to the District. However, there are many additional community and social benefits, which are not quantifiable in an economic impact analysis. In just over a decade, the Capitol Riverfront also reintroduced residents of the District to their riverfront, and created a vibrant neighborhood where they can live, work, and play.

Nevertheless, the full range of these impacts have yet to be seen, and will not be realized until the neighborhood reaches its projected buildout in 2040. At this time, the Capitol Riverfront will represent over 37 million square feet of new mixed-use development, which will continue to yield broader cultural and economic benefits to the community that surrounds it.





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