NATIONAL PERSPECTIVE OF COMMERCIAL MARKET RELATIVE TO CY 2018 ASSESSMENT CHANGES

- The City divides the commercial real estate market into the following classes of property: conventional office buildings; hotels/motels; traditional shopping centers; multi-family rental apartments; industrial warehouses; and general commercial.

- Commercial real estate is viewed as a more predictable investment asset, unlike stocks, bonds, and other paper assets, which tend to fluctuate rapidly and react swiftly to economic sentiment. Commercial real estate performance is also sensitive to economic shifts. Changes tend to happen more slowly with assets usually encumbered with long-term leases which allow commercial assets to better weather downside risk.

- The volume of commercial acquisitions in the City involving other commercial property classes was nominal during the course of 2017, with owners of performing assets unwilling to sell, except at a premium. For the most part, purchasers have a clear preference for Class A "core" investment-grade properties which has acted to compress capitalization rates and increase values.

UNEMPLOYMENT

- The City of Alexandria's unemployment rate was 2.8% for November of 2017, just slightly lower than the previous year when it stood at 3.0 % according to statistics compiled by the U.S. Bureau of Labor Statistics. The November 2017 unemployment rate for the Washington-Arlington-Alexandria Metropolitan Statistical Area was 3.7%. These are comparable with the November rate of 3.7% within Commonwealth of Virginia, and favorably with the national unemployment rate of 4.1% (seasonally adjusted as of November 2017).

OFFICE MARKET OVERVIEW

- This year, the City's overall commercial office property tax base decreased by 8.66% from the original January 1, 2017 assessment to January 1, 2018, or $392 million from $4.523 billion in CY 2017 to $4.131 billion in CY 2018.

- Location remains the motivating factor in the City. Old Town and Carlyle areas remain the most desirable. The West end of the City – Park Center, Mark Center, and the Landmark area – continues to suffer vacancy problems.

- Market conditions in Alexandria remained soft as weak tenant demand kept vacancy elevated. Growth is primarily attributed to escalated rental rates of in-place leases. New office construction in the region is almost exclusively occurring within a ¼ mile of operating Metrorail stations.

- Proximity to Washington, DC remains a long-term advantage for the Northern Virginia office market. Offices located inside the Capital Beltway (I-495) continue to outperform their counterparts outside the ring. Generally, the diversified tenant base provides an element of stability.

- The number of office building sales remains low. There were only two sales of commercial office buildings in 2017, compared to seven sales in 2016.

New Construction Activity

- The 700,000 square-foot headquarters of the NSF at 2401 Eisenhower Avenue in the Hoffman Town Center is complete and fully occupied. The improvement, however, is tax exempt which contributed to the decline in this sector. The National Industries for the Blind headquarters is currently under construction at 3000 Potomac Avenue in Potomac Yard. The 605,000 square-foot Victory Center, in the West End of the City along the Eisenhower Avenue corridor, remains completely vacant with only core and shell complete.

HOTEL MARKET OVERVIEW

- The operating statistics summarized for hotels indicate slight improvement in hotel operations in 2018. On an equalized basis, the assessed value base for this property type increased, in this case by 4.23%, or approximately $33.0 million, from $781.5 million in CY 2017 to $814.5 million for CY 2018. Of this increase, approximately $22.2 million was attributable to new growth.

- There are 26 hotels in the City with a total of 4,705 rooms. This number includes the 88-room Fairfield Time Share near the King Street Metro. The City's hotels are scattered throughout Alexandria with the largest of the City’s concentration in the Landmark/Van Dorn area and in the Old Town/Old Town North areas.

- There were a number of hotel sales in the City and surrounding jurisdictions in 2017. In 2017 sales in the City included: The Residence Inn on Duke Street which sold in May 2017 for $72 million, or $0.3 million per room, and the Courtyard Marriott on Kenmore Avenue which sold in January 2017 for $27 million, or $0.1 million per room.

- Overall, the market appears to have modestly improved for hotels; as indicated by recent sales in the City and surrounding jurisdictions. Select Service and Economy hotels showed the greatest increase in value, largely driven by increased Revenue per Available Room (RevPAR) reported on 2016 Income & Expense statements.

SHOPPING CENTER MARKET OVERVIEW

- The base for shopping center properties between 2017 and 2018 showed moderate growth in 2018. It increased by 3.1%, or $18.5 million, from $599.7 million in CY 2017 to $618.2 million for CY 2018.

- The city has 25 properties classified as shopping centers. Except for Landmark Mall and the Potomac Yard Center, the remaining multi-tenant shopping centers would generally be considered neighborhood strip centers.

- Although Landmark Mall has continued to struggle and is planned for redevelopment, the City's 24 other centers, for the most part, have continued to perform well with most enjoying stable levels of occupancy and stable operating positions. Most of these centers have a grocery and/or drug store anchor tenants. The owners of the highly successful Potomac Yard Center continue to plan for the future redevelopment of the property with a 7.5 million square-foot, mixed-use project.

- There was one non-portfolio sale of shopping centers in the City, the July sale of 1550 and 1551 Potomac Greens Drive for $7.9 million. Income and Expense data from shopping centers in the City indicate that this market sector continues to perform well. The Shops at Mark Center sold in August as part of a larger portfolio of properties in Mark Center.

MULTI-FAMILY MARKET OVERVIEW

- The multi-family rental apartment market tax base increased 7.68% for CY 2018 (Attachment 1, Page 1, Line 30, Column 6) to $7.463 billion. New growth in CY 2017 of $174.6 million (2.54%) was complemented by almost $423.5 million (6.17%) in appreciation.

- Included in the appreciation figure above is the impact of fully leasing the newer units that were delivered from 2014-2016 that are now reaching full occupancy. These include the Parc Meridian at Eisenhower Station, Notch 8, the Frasier, Station 650, and Modera Tempo. Additionally, Novus E-lofts is currently in the process of leasing. This project, which is a repurposed office building located at 4501 Ford Avenue in Park Center, completed in 2016 and thus far has achieved an occupancy of about 70% as of December of 2017.

- Locally, rents have increased slightly over the prior year and vary depending upon location with buildings located near Metro stations achieving the highest rents. Vacancy levels have improved overall; a combination of continuing demand and the lack of new deliveries over the last year have allowed vacancies to drop below the metro area average. The Alexandria West and Old Town submarkets benefit from locations near the Metro and easy access to I-395 and I-495. Likewise, there may be greater demand resulting from the relocation of the NSF, which moved its headquarters to Alexandria in the fall, bringing over 2,000 people into the area.

- Apartment sales in the City of Alexandria in 2017 included:
    - Curve 6100 (formerly the Linc) located at 6100 Lincolnia Road, Class A, 136-unit mid-rise, sold in September for $36.5 million ($268,382/unit)
    - Porter Del Ray (formerly the Bell Del Ray) at 625 E. Monroe Avenue, Class A, 276-units, sold for $100.5 million ($364,000/unit) in April of 2017 (this property delivered in 2014 and is now fully occupied)

- EOS-21 apartments, Class B, 1,180-unit mid-rise, sold in November for $227.8 million ($193,000/unit)
- The Alexander located at 4390 King Street, Class B, 276-unit high-rise, sold in March for $70.1 million ($254,000/unit)
- Eaton Square Apartments located at 801 Four Mile Road, Class C, 416-unit Garden, sold in December for $79 million ($189,900/unit)
- Parc Square, Class B, 66-unit garden, which sold in January for $10.1 million ($153,030/unit).

In addition, there were some portfolio sales of note that included properties in Alexandria including the following:

- The Mark Center portfolio was sold on August 29, 2017 for $509 million. The portfolio of adjacent properties located in Alexandria, included 2,664 apartment units and 63,320 square-feet of retail space. The sale included the 472-unit Brookdale Apartments, the 198-unit StoneRidge Apartments, 991 units at Lynbrook & Meadow Creek, 399 units at Willow Run, and 604 units at Hillwood. (The Shops at Mark Center, a 63,320 square-foot shopping center, was also part of the transaction.)
- A portfolio of 26 properties that include a total of 9,677 apartment units was sold on November 30, 2017 for $1.8 billion. The properties involved are located in the Washington, D.C. metro area, Philadelphia, Baltimore, Chicago and Boston, and included Seminary Hills and Braddock Lee apartments in Alexandria.
- Three multi-family properties totaling 41 units in Del Ray and Old Town Alexandria were sold as part of a portfolio on June 30, 2017 for $11.25 million. The sold properties include 18 units at 2701-2705 Mount Vernon Avenue, 11 units at 401 E Alexandria Avenue, and 12 units at 321 Wilkes Street. Overall, this traded for an impressive $274,390 per unit.

- Projects underway and expected to begin to lease over the next year include The Dalton containing 270 units and The Thornton containing 443 units. These projects started in February of 2016 and April of 2016 respectively, and are expected to be delivered in mid-2018.

WAREHOUSE MARKET OVERVIEW

- The warehouse market in the City often conforms to national and regional data, despite having an inventory characterized with service commercial uses. The *PwC Real Estate Investor Survey* for Q4 2017 reports warehouse capitalization rates have decreased from the prior year, ranging from 3.0 to 6.9% with an average of 5.1% (the lowest ever reported in this survey) and continues to identify this sector as the top ranked investment. Rents continue to increase, vacancy has leveled, but more competition is entering the market, contributing to its overall stabilization.

- The City does not have a conventional industrial inventory. There are 138 properties in the City classified as warehouses for assessment purposes for CY 2018. However, over the last several years, the number of properties classified as warehouses declined due to redevelopment. Valid warehouse sales are typically based on redevelopment potential, indicating the warehouse supply will continue to decrease over the long term, as land values are not forecasted to experience a significant decline. Redevelopment pressure influences whether space is leased and the terms of leases landlords are willing to accept. There is very little above-market vacancy concentrated in the City's few submarkets.

- Most warehouse properties saw an increase in their assessed values because of lower capitalization and vacancy rates. The median warehouse assessment did not change, with the typical range from 0 to 8%. There was an overall increase of $89.8 million in warehouse assessments from 2017 to 2018. The average assessment of warehouse properties over 20,000 square-feet increased to $159.84 per square-foot of gross building area.

GENERAL COMMERCIAL OVERVIEW

- General Commercial properties typically contain uses such as small retailers, repair and service establishments, restaurants, and financial institutions. This property type is broadly defined as commercial properties with less than 12,000 square-feet of space. There were few 2017 sales in the West End of this property type, but there was a robust sales sample in Old Town which served as an indication of the overall market value. All property types were primarily valued for CY 2018 based on comparable sales in the City of Alexandria and in neighboring Metro area jurisdictions and supported by analysis of available Income and Expense data.

- The base for this property type decreased 0.49%, or approximately $8.2 million, from $1.68 billion in CY 2017 to in $1.67 billion CY 2018 (Attachment 2, Page 2, Line 29, Column 5). There was $13.4 million in growth from new construction, but an overall depreciation of $21.6 million.

- Old Town retail continues to draw the attention of institutional investors. In 2016, 21 parcels were purchased by a single institutional investor. This same investor purchased an additional 9 parcels in 2017 with a combined sales price of $30.73 million.