

**NATIONAL PERSPECTIVE OF COMMERCIAL MARKET  
RELATIVE TO CY 2024 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 be more volatile and react swiftly to economic sentiment. While commercial real estate performance is also sensitive to economic shifts, changes typically happen slowly. Since the pandemic, however, the commercial real property has demonstrated considerable downside risk. This is particularly evident in the office market where high vacancy, inflated tenant fit-up costs, and significant increases in capitalization rates have been detrimental to values.
- Due to increased interest rates and continuing uncertainty in the market, there were few arm's-length commercial sales transactions in 2023. However, those that did occur were adequate to judge market sentiment. Three large rental apartment projects, four office buildings, and approximately sixteen general commercial properties transferred in 2023. The transactions in all property classes were a mixture of performing assets, value-add, and buildings that involve a conversion in land use.
- The rate of change to the total residential tax base outpaced that of the commercial tax base again in 2024. Some commercial property classes saw moderate increases in assessment for 2024, though only hotels increased more than 3.1%. Office and multi-family rental apartment values decreased.

**OFFICE MARKET OVERVIEW**

- This year, the City's overall commercial office property tax base decreased 12.38% from the original January 1, 2023, assessment to January 1, 2024, or \$443,119,494 from \$3.58 billion in CY 2023 to \$3.14 billion in CY 2024.
  - There were four sales of office buildings in 2023. At the time of the sales, there was no indication of conversion to other uses for any of these properties, all are to remain as traditional office buildings.
  - However, many vacant buildings are in the process of being repurposed and converted into multi-family rental buildings or residential condominiums. The following offices were converted to other uses in 2023:
    - 801 N Fairfax Street converted into 54 condominium units.
    - 625 and 635 Slaters Lane converted into 80 condominium units.
    - 4900 Seminary Road converted into 212 multifamily rental units.
- The following office conversions have been proposed:
- 901 N Pitt Street
  - Transpotomac Plaza
  - 1101 King Street

## **HOTEL MARKET OVERVIEW**

- The operating statistics summarized for hotels reflects increases in travel from 2022 to 2023, though business travel is still substantially lower than pre-pandemic levels. Comparing January 1 to January 1 (unequalized), the assessed value base for this property type increased by 4.32%, or approximately \$22.1 million, from \$510.3 million in CY 2023 to \$532.4 million for CY 2024.
- There are 33 hotels in the City with a total of 4,439 rooms. Additionally, there is the 88-room Fairfield time share located near the King Street Metro. The City's hotels are scattered throughout the jurisdiction with the largest concentrations located in the Landmark/Van Dorn and Old Town/Old Town North areas.
- There were no valid 2023 hotel sales in the City of Alexandria but a few sales occurred in Washington DC, Montgomery County and Arlington County. These sales indicate continued recovery in the hospitality market as travel increases after years of reduced travel during the Covid-19 pandemic.
- Work on the Hotel Heron, located at 699 Prince Street, has continued on-pace for a 2024 projected opening. The construction on the Holiday Inn Express at 808 N. Washington Street has stalled based on current construction costs. Additionally, the former Holiday Inn on First Street reopened as the Hotel AKA in spring 2023.

## **SHOPPING CENTER MARKET OVERVIEW**

- The base for shopping center properties between 2023 and 2024 (unequalized) increased 3.04%. It increased by \$17.9 million, from \$589.1 million in CY 2023 to \$607.0 million for CY 2024.
- The city has 21 properties classified as shopping centers. Except for the Potomac Yard Center, the City's inventory is primarily comprised of traditional neighborhood multi-tenant shopping centers with a grocery anchor.
- There were no valid 2023 shopping center sales in the City of Alexandria and very few shopping center sales in the surrounding jurisdictions in 2023 that did not involve adverse circumstances.

## **MULTI-FAMILY MARKET OVERVIEW**

- The limited rent growth that was seen in apartments was not enough to offset the increase in capitalization rates. The unequalized multi-family rental apartment market base had an overall decrease of 2.26% from \$9.89 billion to \$9.67 billion. The decrease totals \$223.8 million, including \$161.4 million of new growth.
- Over the past few years, the City has had significant new growth and deliveries of multi-family apartments. For 2024, The Grayson (1200 N Henry St) was the only 100%

complete project with a total of 119 units. The Alate (1112 First St.) and the Meridian 2250 (2250 Dock Ln) are expected to deliver later in 2024.

- There are several under-construction projects (including affordable) which are anticipated to deliver over the next few years including: The Raeburn and Ives (2601 Oakville St and 400 Swann Ave), Heritage at Old Town (431 S Columbus St), Sansé and Naja (Arlandria/Mt. Vernon Ave) and Witter Place (2712 Duke St).
- There were three valid 2023 sales of market-rate large apartments within the City. The properties sold for sale prices per unit between \$301,000 up to \$374,000.

### **WAREHOUSE MARKET OVERVIEW**

- There are 125 properties in the City classified as warehouses for assessment purposes for CY 2024. The City does not have a conventional industrial inventory. Many valid warehouse sales are based on their redevelopment potential, indicating that the inventory warehouse space will still decline in the coming years. Redevelopment pressure and the less-restrictive industrial zoning in locations near major highways and population centers sustain the demand for these properties. The number of properties classified as warehouses decreased by one from the prior year.
- There were no sales of a large warehouse or self-storage facilities in the City. There were two sales of small warehouses, both on Colvin Street with less than 10,000 square feet. 3007 Colvin Street sold for \$1,100,000, or \$488.89 per square-foot of gross building area. 3221 Colvin Street sold for 2,350,000, or \$252.69 per square-foot.
- Warehouse/industrial assessments saw an overall unequalized increase of \$5.09 million from 2023 to 2024. This equates to an increase of 0.47 percent. Warehouse and industrial properties are still in high demand by owner-occupants, e-commerce operations, and endpoint distribution facilities. The Alexandria market saw rising net operating incomes and less vacancy, but the capitalization rates are also increasing. The average assessment of warehouse properties over 10,000 square feet increased to \$216.98 per square-foot of gross building area.

### **GENERAL COMMERCIAL OVERVIEW**

- The general commercial property classification includes uses such as small retailers, restaurants, supermarkets, convenience stores, pharmacies, gas stations, repair and service garages, junior office buildings less than 12,000 square feet, financial institutions, auto dealerships, funeral homes, veterinary clinics, and nursing homes.
- The unequalized value for this property type decreased by 2.12%, or approximately \$39.6 million, from \$1.87 billion in CY 2023 to \$1.83 billion in CY 2024.
- The post-pandemic economy has resulted in tepid demand for general commercial properties in most areas of the City. Vacancy rates and asking rents remained largely flat

## Attachment 9: Analysis of the Commercial Market

in most Alexandria submarkets. Properties located in both pedestrian and automobile-oriented submarkets have shown modest signs of improvement over the past year. Property uses which outperformed others during the past year include small retailers, repair and service garages, gas kiosks and veterinary clinics.

- There were a few notable general commercial sales in 2023. The largest transaction was the sale of the Koons Collision Center at 5800 Edsall Rd for \$16,775,000. The sale of the Royal Restaurant at 602 Madison St for \$4.2 million was also significant. In Old Town, transaction activity declined as higher interest rates dampened buyer interest, only 15 small office and retail properties traded hands at prices ranging from \$400,000 to \$4.2 million.
- Notable retail openings include the expanded 7,500 square foot Jula's on the Potomac restaurant at Canal Center Plaza and the Frances Valentine boutique at 924 King St. Numerous restaurants and small retailers opened in 2023 in the Old Town and Del Ray neighborhoods.