

**NATIONAL PERSPECTIVE OF COMMERCIAL MARKET
RELATIVE TO CY 2021 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. 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.
- Due to the pandemic, there were fewer valid commercial arms-length transactions used for the assessment in 2020. However, those that did occur were adequate to judge market sentiment. Five large rental apartment projects, four office buildings, one large warehouse, and approximately thirty-five general commercial properties transferred in 2020. The transactions in all property classes were a mixture of performing assets, value-add, and buildings that involve a conversion in land use.
- As in 2019 and 2020, the rate of change to the total 2021 residential tax base outpaced that of the commercial tax base. Most commercial property classes saw a decrease in assessment for 2021. Multi-family rental apartments and warehouse/industrial were the only commercial property classes to increase.

OFFICE MARKET OVERVIEW

- This year, on an equalized basis, the City's overall commercial office property tax base decreased 3.32%, or \$133,503,328 from \$4.018 billion in CY 2020 to \$3.885 billion in CY 2021.
- There were only two sales of traditional commercial office buildings in 2020 – considerably less than the nine transactions that occurred the previous year. Important to note, there were also two transactions of office buildings/parks that will be converted to multi-family that also transferred.
- Many vacant office buildings are in the process of being repurposed and converted into multi-family rental buildings or residential condominiums. Construction began and/or continued during 2020 on the following conversion projects:
 - 312 South Washington Street, a vacant office building, is being converted, into 11 high-end residential condominiums called The View.
 - 3101 Park Center Drive and 4401 Ford Avenue were two high-rise office buildings in Park Center that are being converted into two multi-family rental projects containing a total of 435 units known as The Park and The Ford.

Attachment 9: Analysis of the Commercial Market

- 2000 North Beauregard Street was a vacant office building that was demolished in 2020. The site is now being redeveloped with a 292 multi-family rental project known as The Blake.
- During 2020 the following projects received approvals allowing conversion from office buildings to residential:
 - Trans Potomac Plaza, called Tide Lock, three vacant office buildings that will undergo renovation and conversion into approximately 232 residential units consisting of condominiums and rental units.
 - 801 N Fairfax Street, a vacant office building, is planned to be converted into 54 multi-family units.

New Construction Activity

- The American Physical Therapy Association new headquarters delivered at the end of 2020 at 3030 Potomac Avenue.
- The 370,000 square foot Institute for Defense Analyses building in Potomac Yard is a build-to-suit scheduled to deliver in 2022.
- WMATA broke ground on its headquarters building at 2395 Mill Road and should be completed by mid-year 2022.

HOTEL MARKET OVERVIEW

- The operating statistics summarized for hotels reflects the major impact of the COVID-19 pandemic on the hospitality industry. On an equalized basis, the assessed value base for this property type decreased by 25.49%, or approximately \$180.9 million, from \$709.9 million in CY 2020 to \$529.0 million for CY 2021.
- There are 24 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 2020 hotel sales in the City of Alexandria or in surrounding jurisdictions. Recovery of the hospitality market is difficult to predict with any degree of the certainty, but the most recent anecdotal data suggests a three to four-year period before stabilized operations are achieved.

SHOPPING CENTER MARKET OVERVIEW

- The base for shopping center properties between 2020 and 2021 decreased 7.24% as the COVID-19 pandemic ravaged the retail sector. It decreased by \$48.5 million, from \$671.0 million in CY 2020 to \$622.5 million for CY 2021.

- The city has 21 properties classified as shopping centers. Except for the vacant Landmark Mall and 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 2020 shopping center sales in the City of Alexandria or surrounding jurisdictions.

MULTI-FAMILY MARKET OVERVIEW

- The equalized multi-family rental apartment market base increased 2.28% for CY 2021 to \$8.44 billion. New growth of \$110.1 million was complemented by \$77.9 million in appreciation.
- Market appreciation reflect the impact of the newer apartments that are seeing a more stabilized occupancy, such as Gables of Old Town and The Denizen.
- There was a slight uptick in vacancy and a minor decrease in asking rents. According to CoStar submarket reports, the Old Town/Potomac Yard submarket exhibited the best performing projects. In the other neighborhoods, the highest vacancy rates were generally in the luxury 4- and 5-star properties still in lease-up. These include: The Foundry (520 units) in Hoffman Town Center, Array at West Alex (278 units) in Alexandria Gateway, and Cameron Square (302 units) along the South Pickett Street corridor.
- There are several apartment projects currently under construction. The former WMATA bus barn located at 600 North Royal Street is expected to finish construction during the Third or Fourth Quarter of 2021 with 286 units. The Park and Ford conversions located off King Street on Park Center Drive is set to deliver 435 total units between two buildings during the Fourth Quarter of 2021. The project known as Platform, part of Braddock Gateway at 1200 North Fayette, is expected to deliver an additional 628 units in 2022.
- The multi-family market remained steady and still has the support of investors. Although the City did not see many multi-family sales during 2020, the transactions that did occur support a positive outlook for the future of the multi-family market. The most notable 2020 sale was that of the multi-parcel Southern Towers (5055 Seminary Road) built from 1960 to 1963. The five high-rise multi-family buildings each sold between \$86.1 million and \$123.4 million (\$197,561 to \$268,801 per unit). Including an undeveloped commercial parcel at the intersection of Seminary Road and North Beauregard Street, the entire complex sold for just under \$506 million, or approximately \$219,000 per unit.

WAREHOUSE MARKET OVERVIEW

- There are 134 properties in the City classified as warehouses for assessment purposes for CY 2021. The City does not have a conventional industrial inventory. The number of properties classified as warehouses has declined over the years due to redevelopment. Many valid warehouse sales are based on their redevelopment potential, indicating that the inventory warehouse space will continue to decline in the coming years. Redevelopment pressure coupled with the less-restrictive industrial zoning in locations near major highways and population centers will continue to influence sustained demand.

- There was one sale of a large warehouse facility at 841 - 847 South Pickett Street for \$46.3 million, or \$187.82 per square-foot for traditional high-bay warehouse space.
- There was an overall increase of \$41.57 million in warehouse assessments from 2020 to 2021. Most warehouse property assessed values increased because of higher net operating incomes. Overall, the equalized value of warehouse and self-storage space increased 5.33%. The average assessment of warehouse properties over 20,000 square feet increased to \$173.20 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, repair and service garages, junior office buildings less than 12,00 square feet, financial institutions, auto dealerships and nursing homes.
- The equalized base for this property type decreased by 2.72%, or approximately \$52.5 million, from \$1.93 billion in CY 2020 to \$1.88 billion in CY 2021.
- The COVID-19 pandemic has reduced demand for general commercial properties throughout the City. Vacancy rates have increased and asking rent has decreased in all of the Alexandria submarkets. Several property types have outperformed others during the pandemic. These include grocery stores, fast food with drive-throughs, pharmacies and bank branches with drive throughs.