NATIONAL PERSPECTIVE OF COMMERCIAL MARKET RELATIVE TO CY 2022 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 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 2021. However, those that did occur were adequate to judge market sentiment. Four large rental apartment projects, three office buildings, four large warehouses, and approximately forty general commercial properties transferred in 2021. 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 2020 and 2021, the rate of change to the total 2022 residential tax base outpaced that of the commercial tax base. Most commercial property classes saw little change in assessment for 2022, with slight increases or decreases reflecting stabilization. Multi-family rental apartments, offices and warehouse/industrial were the only commercial property classes to increase more than 5%.

OFFICE MARKET OVERVIEW

- This year, the City's overall equalized commercial office property tax base increased 7.16% from the original January 1, 2021 assessment to January 1, 2022, or $265,917,106 from $3.711 billion in CY 2021 to $3.977 billion in CY 2022.

- There were two sales of traditional commercial office buildings in 2021 (the same as in 2020). There was also one transaction of a two-building office portfolio that will be converted into residential condominiums.

- Many vacant buildings are in the process of being repurposed and converted into multi-family rental buildings or residential condominiums. Construction began and/or continued during 2021 on the following conversion projects:

    - 801 N Fairfax Street – vacant office building to be converted into 54 condominium units.

    - 625 and 635 Slaters Lane – office building to be converted into 80 condominium unit.

- 4900 Seminary Rd – vacant office building to be converted into 212 multifamily rental units.

New Construction Activity

- The Institute for Defense Analyses' 370,000 square-foot building in Potomac Yard delivered at the end of 2021.

- WMATA's headquarter building at 2393 Mill Road should be completed by mid-year 2022.

HOTEL MARKET OVERVIEW

- The operating statistics summarized for hotels reflects the continuing impact of the COVID-19 pandemic on the hospitality industry. On an equalized basis, the assessed value base for this property type decreased by 2.36%, or approximately $11.3 million, from $476.0 million in CY 2021 to $464.7 million for CY 2022.

- 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 2021 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 2021 and 2022 increased 0.58% as the retail sector began to stabilize from the effects of the COVID-19 pandemic. It increased by $3.3 million, from $578.9 million in CY 2021 to $582.2 million for CY 2022.

- The city has 21 properties classified as shopping centers. With the except of 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 2021 shopping center sales in the City of Alexandria or surrounding jurisdictions.

MULTI-FAMILY MARKET OVERVIEW

- The equalized multi-family rental apartment market base increased 9.49% for CY 2022 to over $9.316 billion. New growth of approximately $398,567,000 was complemented by around $408,762,000 in appreciation.

- The City's multi-family saw a considerable amount of new growth between CY 2021 and CY 2022. There were many recent deliveries and projects near completion, such as: The Platform (1100-1200 N Fayette St.), The Blake (2000 N Beauregard St.), Park + Ford (4401 Ford Ave.), the Alexan (600 N Royal St) and Dylan, Reese, and Easton (all three currently under the address of 2424 Mill Rd).

- The City's multi-family inventory will continue to grow over the next few years. In addition to the aforementioned projects, there are several additional projects currently under construction and in the pipeline, such as: 1200 N Henry St. (to be called The Grayson), 701 N Henry St. and 4900 Seminary Rd.

- The multi-family market saw nationwide increases in market rents. According to submarket reports from CoStar, over the past 12 months the City's Old Town/Potomac Yard and I-395 submarkets saw increases in asking rents of 11.6% and 14%, respectfully.

- There was a total of five valid 2021 apartment sales within the City. All five of the properties where either a mid-rise or a high-rise that was built sometime after 1991. The sales prices ranged from $35 million to $166 million or between $232,159/unit and $425,662/unit.

WAREHOUSE MARKET OVERVIEW

- There are 126 properties in the City classified as warehouses for assessment purposes for CY 2022. 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 were four sales of a large warehouse or self-storage facilities, excluding the sale of properties which are part of the Oakville development. 3640 Wheeler Avenue, a self-storage facility, sold for $55,355,458, or $427.08 per square-foot of gross building area. 405 Swann Avenue, also a self-storage facility, sold for $32,500,000, or $290.01 per square-foot (this property has been subdivided and consolidated and now has an address of 2500 Oakville Street). The properties at 621 & 623 S Pickett Street sold for $9,000,000, or $334.57 per square-foot. The Eisenhower Industrial Center at 5150 & 5200 Eisenhower Avenue sold for $60,750,000, or $294.84 per square-foot.

- There was an overall increase of $139.11 million in warehouse assessments from 2021 to 2022. Warehouse and industrial properties are in high demand by owner-occupants, e-commerce operations, and endpoint distribution facilities. Most warehouse property assessed values increased due to less vacancy and higher net operating incomes. Overall, the equalized value of warehouse and self-storage space increased 19.28%. The average assessment of warehouse properties over 20,000 square feet increased to $181.65 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 12,000 square feet, financial institutions, auto dealerships, funeral homes, veterinary clinics, and nursing homes.

- The equalized base for this property type increased by 4.27%, or approximately $74.1 million, from $1.73 billion in CY 2021 to $1.81 billion in CY 2022.

- The COVID-19 pandemic has continued to reduce demand for general commercial properties in most areas of the City. Vacancy rates have increased and asking rent has declined in some Alexandria submarkets, particularly Old Town. Properties located in more automobile-oriented submarkets have shown signs of improvement over the past year. Property uses which outperformed others during the pandemic include supermarkets, fast food restaurants, pharmacies, convenience stores and service garages.