National Perspective Relative to CY 2014 Commercial Assessment Changes
Unlike stocks, bonds, and other paper assets, which tend to fluctuate rapidly and react swiftly to economic sentiment, commercial real estate is viewed as a more predictable investment asset. Commercial real estate performance is also sensitive to economic shifts. However, 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 2013, 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. In 2014, there will be opportunities in Class B properties, which are generally older but maintain good management and quality tenants.

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

Unemployment
The City of Alexandria's unemployment rate was 4.1% for November of 2013, just slightly higher than the previous year when it was 4.0% according to statistics compiled by the U.S. Bureau of Labor Statistics. The November 2013 unemployment rate for the Washington-Arlington-Alexandria Metropolitan Statistical Area was 5.3%. The Commonwealth of Virginia's November 2013[P] unemployment rate was 5.4%. All of these rates are significantly lower than the national unemployment rate of 7.0% (seasonally adjusted as of November 2013).

Office Market Overview
The commercial office market can best be described as uneven with values generally declining. While rents were relatively stable, overall vacancy rates generally increased resulting in lower net operating incomes. This phenomenon was, to some extent, reported across all classes of office with property owners offering concessions such as periods of free or reduced rent and substantial build-out allowances in order to attract or retain tenants.

Proximity to Washington D.C. partially insulates the City of Alexandria from large swings in demand and price levels. Despite its strengths, market conditions in Alexandria have remained soft as weak tenant demand and space compression by existing tenants upon renewal kept vacancy elevated.

This property class is segmented by size and includes both large and junior office buildings. The base for this property type in CY 2014 decreased 5.11%, or approximately $237.9 million, from $4.66 billion in CY 2013 to $4.42 billion (Attachment 1, Page 1, Line 34, Column 5).

Four commercial office properties in the City transferred during the course of 2013. These sales are summarized in the table on the following page.

Property Location	Sale Date	Bldg. Size in Sq. Ft. Net Leasable Area	Consideration	Price/Sq.Ft. of NLA
2318 Mill Road	12/19/2013	126,459	$65,750,000	$519.93
4660 Kenmore Avenue	11/20/2013	113,000	$38,602,531	$341.62
601 Prince Street	6/4/2013	13,500	$4,850,000	$286.98
1901 Ballenger	2/14/2013	161,684	$78,000,000	$482.42

According to statistics compiled by the CoStar Group, as of January 1, 2014, the City of Alexandria contained an office inventory of approximately 20.2 million square feet with a direct vacancy rate of 16.9% including Victory Center. Net of the vacant 605,000 square feet that comprises Victory Center, the overall direct vacancy rate is reduced to 14.3%. Northern Virginia as a whole has a vacancy rate of approximately 17.1%. Full service office rents in the City averaged $30.70 per square-foot in the 4th quarter of 2013, compared to $31.05 in the 4th quarter of 2012.

Multi-family Market Overview

The multi-family rental apartment market tax base increased 9.20% for CY 2014 (Attachment 1, Page 1, Line 30, Column 6) to $6.28 billion. This represents a continuation of CY 2013 when this class increased 7.05%, over the previous year. When looking at the equalized numbers (Attachment 2, Page 2, Line 26) there is an overall increase of $420.8 million dollars for CY 2014. New growth of $226.7 million was complemented by $194.1 million in appreciation.

Nationally and locally, the multi-family market showed continued growth throughout 2013. “Meanwhile, a record number of units are underway throughout the region, and apartment stock will rise 4.3 percent as these projects are completed over the next two years.”[1] Large increases in apartment units coming online in 2014 will likely lead to increases in vacancy and concessions, particularly in Class A apartment properties. Further increase in rent is not likely in 2014, which will result in stabilized or declining values for the 2015 valuation.

Three investment grade apartment properties sold in the City in 2013, Bennington Crossing, Hunting Point on the Potomac, and The Broadstone. Bennington Crossing sold on May 3rd for $54,325,000, or $176,380 per unit. Hunting Point on the Potomac sold on March 22nd for $81,000,000, or $152,830 per unit. The Broadstone sold on June 12th for $41,000,000, or $179,825 per unit.

Warehouse Market Overview

The warehouse market in the City often conforms to national and regional data. Both the *PwC Real Estate Investor Survey* and *RERC Real Estate Report* report no change or a small decrease in capitalization rates in the national warehouse, flex, and R&D markets for the first three quarters of 2013. The third quarter PwC report notes that the average warehouse capitalization rates are the lowest since 2002. The Fall 2013 *RERC Real Estate Report* gives warehouses the

[1] Hill, Jessica. 2013. “Apartment Research Market Report: Washington D.C. Metro Area.” *Marcus and Millichap Real Estate Investment Services.*
https://www.marcusmillichap.com/research/reports/Apartment/WashingtonDC_4Q13Apt.pdf

highest investment conditions rating (7.4 out of 10) of all of the surveyed commercial property types; the other commercial investment conditions ratings declined. RERC attributes these ratings to robust demand, low supply and increases in net operating incomes. However, the City does not contain a conventional industrial inventory. There are 149 properties in the City classified as warehouses for assessment purposes for CY 2014; twelve fewer than there were in CY 2013. The number of properties classified as warehouses has decreased for several years due to redevelopment opportunities. As such, valid sales are typically based on redevelopment potential, indicating the warehouse supply will continue to decrease. Redevelopment pressure may be influencing whether space is leased and the terms of leases that landlords are willing to sign. As a result, vacancy rates increased from previous years. Above-market vacancy is only concentrated in a few small submarkets.

Most warehouse properties saw no change or a modest decline in its assessed value as a result of the increased vacancy. Typical decreases ranged from 2% to 4%. The nine self-storage facilities increased in value due to substantial improvements in their operating positions. Overall, the industrial warehouse property tax base decreased $34.7 million, or 4.80%, for CY 2014 to $675.9 million (Attachment 1, Page 1, Line 37, Column 6). This was primarily attributable to land use code reclassifications.

Hotel Market Overview

2013 was not a banner year for Alexandria's hotel market with uneven performance at best. The base for this property type decreased 1.38%, or approximately $11.49 million dollars, from $831.89 million in CY 2013 to $820.40 million for CY 2014. There are a total of 23 operating hotels in the City with a total of 4,062 rooms. The Washington area was generally less affected than the national hospitality market due to the presence of the Federal government, and Alexandria's convenient location inside the Beltway, which tempered the drop in hotel room demand in prior years (2012 and 2013). Local hotel operators estimate that the Federal government generates approximately 30% of the hospitality demand in the City.

Hotels are considered to be leading economic indicators as they are generally operated on a day-to-day basis and respond quickly to changes in the national economy. Changes in Occupancy, Average Daily Room Rate (ADR), and Revenue per Available Room (RevPAR) over the last three years are summarized in the tables below and on the following page. Although several hotels in the City performed very well, the data summarized below indicates all three indices fell from the prior years' data. The first table is an aggregate or summary report that does not distinguish among types of hotel. Smith Travel Research (STR) reports on three categories including "Upper Upscale," "Upscale and Upper Midscale," and "Midscale, Economy and Independent." This data is summarized on the Table 2 below.

Table 1: Occupancy %, ADR, and RevPAR
City of Alexandria CY 2011 - CY 2013

Measure	2011	2012	2013
% Occupancy	70.3%	67.2%	66.1%
ADR	$146.68	$137.41	$129.24
RevPAR	$103.17	$92.38	$85.47
Source: Smith Travel Research - December 2013			

Table 2: Changes by Hotel Class from 2012 and 2013 – July through December

Hotel Class	Occupancy	ADR	RevPAR
Upper Upscale	1.4	- 4.9	- 3.6
Upscale/Upper-Mid	- 3.8	- 8.8	- 12.2
Mid Sale/Economy	- 7.7	- 7.6	- 14.7
Source: Smith Travel Research - December 2013			

The tables above and below are from July through December for each year. Both demonstrate that all but one of these performance indices showed significant declines between 2012 and 2013. Notwithstanding the foregoing, Income and Expense data from responding hotel operators for calendar year 2012 indicate that well located hotels, particularly near the King Street Metro station, in Old Town and North Old Town operate successfully.

There were two hotel sales in the City in 2013; one of which was purchased for a conversion in use. On October 25, 2013 the 107-room Hotel Lorien sold for a consideration of $45,250,000 or $422,897 per room. In addition to the hotel, the facility also features two restaurants and a health spa, all open to the public. The additional income generators provide a superior operating position not available to more conventional hotels. A representative of the buyers reported that the sale price was the result of an arm's length, market oriented transaction. On October 16, 2013 the 184-room Alexandria Suites Hotel sold for $23,500,000 or $127,717 per room, or "key". A representative of the buyers reported that the new owners plan to perform minimal renovations and convert the property to a 184 unit, multi-family apartment building.

The hotels located in the West End of the City are the most distressed segment of the Alexandria hotel market. This market consists of the Washington Suites hotel, the Alexandria Suites hotel, the Days Inn, the Comfort Inn, and Bragg Tower. All five are suffering from persistent destabilized operations with respect to occupancy and, consequently, room rates.

Despite the declines in performance noted above, market evidence indicates that the hotel market is still seen as an attractive investment in the market. This evidenced by the Carr Group building a 109-room "boutique" facility at 1620 Prince Street. The developer recently received approvals to build a 120-room hotel on the former Cummings warehouse site on Union Street as part of the Old Town waterfront re-development plan.

The mid-year 2013 "Alexandria: The State of the Market" report, published by the Alexandria Economic Development Partnership (AEDP) estimates that the 2016 completion of the National Science Foundation in the Hoffman Town Center will add 90,000 hotel room nights annually to hotel room demand in the City.

In spite of the positive activity summarized above, the outlook for the Alexandria hotel market is mixed at best. Interviews with knowledgeable market participants indicate a mood of "cautious optimism" for the hotel market in 2014.

Shopping Center Market Overview

The base for shopping center properties between 2013 and 2014 decreased 3.23%, or $18,269,073, from $565.16 million in CY 2013 to $546.89 million for CY 2014. The 2014 decrease in value was entirely attributable to depreciation and the improvement component of Landmark Mall being removed from the tax rolls. There was no new growth as of January 1, 2014 for this land use.

Although Landmark Mall has continued to struggle and is planned for redevelopment, the City's 25 other centers, including the 589,905 square-foot Potomac Yard Center, have continued to perform well with high 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 are planning for its redevelopment of the property with a 7.5 million square-foot mixed-use project provided the proposed Metrorail is in place. The owners of Landmark Mall have received approvals to redevelop the Landmark Mall inline stores with a large, mixed use development containing multifamily rental apartment units over ground level open air retail. Redevelopment is scheduled to begin in 2014. Macy's and Sears are not part of the redevelopment at this time.

Retail developments published by AEDP include market statistics that the Alexandria regional shopping center vacancy (excluding Landmark Mall) is hovering at 4.5%, up from 3.3% at the beginning of the year. The uptick in vacancy is primarily attributable to grocery store anchored centers in the City that are being redeveloped or released. The Giant on the West End at 1476 Beauregard Street (part of the Mark Center shopping center) closed its 32,000 SF store due its small footprint, but is now under renovation to accommodate a Global Foods supermarket. Giant also closed at Bradlee Center, but the space was quickly leased to Fresh Market which is scheduled to open in early 2014. Magruders at Seminary Plaza closed, but brokers are in negotiations with another undisclosed grocer to occupy 20,000 SF, the Safeway at Bradlee Center closed its existing 40,000 SF store in order to demolish and rebuild the space, creating a Lifestyle Safeway. The new store is expected to reopen in fall 2014 and will contain more than 60,000 SF of gross building area, Giant is expanding its Alexandria Commons location by 10,000 SF, a new Harris Teeter is under construction at 500 Madison Street as part of the mixed use project known as the Kingsley, and another Harris Teeter is also scheduled to be developed in the Hoffman Town Center at 2210 Eisenhower Avenue.

With the exception of Landmark Mall, income and expense surveys supplied to the Department indicate that the majority of vacancy and collection losses in the City's shopping centers are located in the neighborhood shopping centers market and are attributable to smaller, in-line space, most suitable to smaller, local, non-credit tenancies. The AEDP estimated shopping center vacancy at the beginning of 2013 at 4.5%, up from 3.3% in 2012. According to analysts at *Delta Associates*, the region's low vacancy is attributable to steady population growth, high incomes, and the fact that fewer people have lost jobs when compared to other metro areas.

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 that contain less than 12,000 square feet of space. The volume of sales in 2013 for this property type was modest, but it provided an indication of an overall increase in market values. All property types were primarily valued for CY 2013 based on comparable sales in the City of Alexandria and in neighboring Metro area jurisdictions, with Income and Expense data lending support for value increases.

The base for this property type increased 2.68%, or approximately $36.36 million, from $1.36 billion in CY 2013 to in $1.39 billion CY 2014 (Attachment 1, Page 1, Line 33, Column 6). These figures include junior office buildings containing less than 12,000 square feet which are considered part of the general commercial property class.

The American Community Survey estimated 4.52% population growth for the City of Alexandria from the April 1, 2010 Census to July 1, 2012. The region, including the City, experienced above average population growth and below average unemployment (4.1% est. November 2013, Source: U.S. Bureau of Labor Statistics) when compared to the nation as a whole (7.3%, November 2013). This, in addition to high income levels ($83,996 Median Household Income, Source: U.S. Census Bureau) contribute to a strong local economy that is essential for the strength of this property type.