NATIONAL PERSPECTIVE OF COMMERCIAL MARKET RELATIVE TO CY 2016 ASSESSMENT CHANGES

- 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 2015, 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.

- 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.

UNEMPLOYMENT

- The City of Alexandria's unemployment rate was 2.9 % for November of 2015, just slightly lower than the previous year when it stood at 3.8% according to statistics compiled by the U.S. Bureau of Labor Statistics. The November 2015 unemployment rate for the Washington-Arlington-Alexandria Metropolitan Statistical Area was 4.1%. These compare favorably with the November rate of 4.0% within Commonwealth of Virginia, and the national unemployment rate of 4.8% (seasonally adjusted as of November 2015).

OFFICE MARKET OVERVIEW

- This year, the City's overall commercial office property tax base increased by 1.46% from the original January 1, 2015 assessment to January 1, 2016, or $64.8 million from $4.445 billion in CY 2015 to $4.510 billion in CY 2016.

- 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.

New Construction Activity

- The 700,000 square foot headquarters of the NSF is under construction at 2401 Eisenhower Avenue in the Hoffman Town Center. It is scheduled for completion in the first quarter of 2017. 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.

- The number of office building sales remains low. There were six sales of commercial office buildings in 2015 versus 13 transfers in 2014. The purchasers of the 2015 transfers were attracted to the stability and diversity of the City's office inventory. The 2015 office sales are summarized in the table below.

Property Location	Sale Date	Building Size in SF NLA	Consideration	Price/SF of NLA
1680 Duke Street	4/1/2015	50,400 SF	$12,250,000	$243SF
110 S Union Street	5/27/2015	37,700 SF	$13,500,000	$358 SF
277S Washington Street	2/17/2015	138,093 SF	$53,500,000	$387 SF
500 Montgomery Street	2/2/2015	115,000 SF	$26,900,000	$233 SF
2461 Eisenhower Avenue	9/11/2015	309,376 SF	$56,750,000	$183 SF
108 N Alfred Street	2/26/2015	11,925 SF	$2,500,000	$209 SF

HOTEL MARKET OVERVIEW

- The operating statistics summarized for hotels indicate improvements in hotel operations in 2015. For the first time in three years the assessed value base for this property type increased, in this case by 3.02%, or approximately $21.5 million, from $711.5 million in CY 2015 to $733.1 million for CY 2016.

- There are a total of 23 hotels in the City with a total of 4,236 rooms. This number includes the 88-room Fairfield Time Share near the King Street Metro. The smallest hotel is the 26-room Towne Motel on North Washington Street in Old Town and the largest is the 496-room Hilton Mark Plaza, a high-rise, convention hotel located near the Mark Center office park in the north-west quadrant of the City. The City's hotels are scattered throughout Alexandria with a large concentration in the Landmark/Van Dorn area and in the Old Town/Old Town North areas.

- Historically, the Washington area was less affected than the national hospitality market due to the presence of the Federal government, and Alexandria's convenient inside the Beltway, which tempered the drop in hotel room demand in prior years (2013 and 2014). Local hotel operators estimate that the Federal government consisted of about 30% of 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 in the table below. Taken as a whole, hotels in the City performed well, the data summarized in Table 1 below indicates all three indices rose from the prior years' data. Although it will likely require another year of data to provide definitive support, the tables below indicate that 2014 data represents the worst year, with the lowest operational data for hotels in the City in recent years as regards Average Daily Room Rate (ADR) and Revenue per Available Room (RevPAR).

  These statistics somewhat overstate rates of growth as a number of lower priced hotels closed during this three year time period.

  - The first table is an aggregate, or summary, report which does not distinguish among types of hotel. Smith Travel Research (STR) also reports hotel summaries divided into three categories: "Upper Upscale," "Upscale and Upper Midscale," and "Midscale, Economy and Independent."

Table 1: Occupancy %, ADR, and RevPAR: City of Alexandria CY 2013 - CY 2015

Measure	**2013**	**2014**	**2015**
% Occupancy	67.2%	66.1%	71.6%
ADR	$137.41	$129.31	$143.52
RevPAR	$92.38	$85.51	$102.78
Source: Smith Travel Research - December 2015			

Table 2: Changes by Hotel Class from 2014 and 2015 – July through December

Hotel Class	**Occupancy**	**ADR**	**RevPAR**
Upper Upscale	0.14%	1.87%	7.02%
Upscale/Upper-Mid	1.59%	4.67%	6.22%
Midscale/Economy	0.91%	-11.44%	-10.72%
Source: Smith Travel Research - December 2015			

- Both tables demonstrate that 2015 was a year of improvement for the Alexandria hotel market place for all but the Midscale Economy category. This is due, in part, to the fact that several hotels, which have performed poorly over the last several years either closed or underwent a changes in highest and best use and are no longer part of the hotel room inventory in the City.

- Overall, the market appears to have improved for hotels; as indicated by recent construction of new hotels including: The Hilton Garden Inn on Prince Street and The Indigo Hotel at the waterfront on Union Street. Also of merit are plans for another hotel as part of the Robinson Terminal North redevelopment site.

SHOPPING CENTER MARKET OVERVIEW

- The base for shopping center properties between 2015 and 2016 showed strong growth in 2016. It increased by 10.45%, or $62.2 million; from $595.67 million in CY 2015 to $657.91 million for CY 2016. The 2016 increase in value was entirely attributable to appreciation. There was no new growth as of January 1, 2016 for this land use. This 10.45% increase in the base for shopping centers is modest but also indicates a complete recovery from the 3.23% decrease in shopping center values suffered between 2013 and 2014.

- The city has 26 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 25 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 are continuing to plan for the future redevelopment of the property. A 7.5 million square-foot, mixed-use project was previously approved by the City.

- The Alexandria Economic Development Partnership's publication: *Alexandria, The State for the Market* for mid-year 2015 (attached) reports the following developments in the Alexandria for shopping centers:

    - Alexandria regional shopping center vacancy (excluding Landmark Mall) is hovering at 3.8%, down from 4.5% at the end of the second quarter of 2015. The vacancy rate for neighborhood and community centers in Northern Virginia was 5.9% for the same period.
    - A Harris Teeter is also approved for potential development in the Hoffman Town Center at 2210 Eisenhower Avenue.
    - Walgreens recently opened a store in the former Del Ray shopping center.
    - Abramson Properties is seeking approvals for a 62,000 square foot Harris Teeter supermarket anchor as part of a mixed-use project now in the planning process for 4600 King Street.

- Delta Associates: Washington Region Market Maker Survey Report for Year End 2015, (attached) page 3, reports, "The most outstanding investment opportunities appear to be (include)… Grocery Anchored Shopping Centers- aided by declining vacancy rates and household income growth." Market evidence in Alexandria provides support for this premise particularly with respect to the arrival of Walgreens, Harris Teeter and Aldi tenants in several centers in the city, including the Foxchase Shopping Center (Harris Teeter), Seminary Plaza (Aldi) and the Del Ray Shopping Center (Walgreens).

- Income and Expense data from shopping centers in the City indicate that this market sector continues to perform well, with a strong growth of 10.45% over the prior year. A continued strong performance for this market sector is projected for calendar year 2016.

MULTI-FAMILY MARKET OVERVIEW

- The multi-family rental apartment market tax base increased 4.35% for CY 2016 (Attachment 1, Page 1, Line 30, Column 5) to $6.8 billion. New growth in CY 2015 of $133.4 million was complemented by $179.6 million in appreciation.

- Nationally the multi-family market leveled off in 2015. The lack of multi-family transfers during 2014 support this trend. Locally, the market saw continued, moderate growth based on investor demands due to historically low interest rates and commercial credit availability. Demand from buyers has been strongest within the "Beltway where rents can be much higher than the average." Construction of new multifamily projects in Alexandria has slowed, as several projects have completed construction and entered lease up.

- There were 3 investment grade apartment properties sold in the City in 2015, The Kingsley, which sold in November 2015 for $75 million; The Strand, which sold in March 2015 for $66 million; and The Mark, which sold in April 2015 for $33.44 million. Additionally, adjacent jurisdictions reported investment grade apartment sales in 2015. Arlington County reported the sales of 2 high-rise and 3 mid-rise apartment properties and Fairfax County reported the sale of 2 mid-rise apartment properties in the Eastern part of the County.

WAREHOUSE MARKET OVERVIEW

- The warehouse market in the City often conforms to national and regional data. The *PwC Real Estate Investor Survey* for Q4 2015 reports that cap rates continue to decrease and they range from 5.35 to 7.15%.

- The City does not have a conventional industrial inventory. There are 144 properties in the City classified as warehouses for assessment purposes for CY 2016; 1 fewer than there was in CY 2015. The number of properties classified as warehouses has decreased for several years due to redevelopment opportunities. 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. Above-market vacancy is only concentrated in a few small submarkets. Oakville Industrial Park is an example of a site with proposals to redevelop as a mixed use project with apartments, townhouses, condo townhouses, retail, office and hotel uses.

- Most warehouse properties saw an increase in their assessed values as a result of the lower cap rates and lower vacancy rates. Typical increase ranged from 2.5% to 5%. Overall, the industrial warehouse property tax base increased from 686,995,675 in 2015, to 747,443,614 in 2016 (an 8.8% increase). The average assessment of warehouse properties 20,000 square feet or larger is $148.00 per square foot.

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 2015 for this property type was modest, but it provided an indication of only modest change in some property types, such as convenience stores and drug stores. There are mixed indicators for small offices, small strip centers/general retail and service stations/garages as well for other types such as restaurants (fast or sit-down) resulting in few changes in market values for 2016 Assessments. All property types were primarily valued for CY 2016 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 5.43%, or approximately $78.36 million, from $1.444 billion in CY 2014 to in $1.522 billion CY 2015 (Attachment 1, Page 1, Line 33, Column 6).

- The City of Alexandria Department of Planning and Zoning estimated 5.46% population growth for the City of Alexandria from the April 1, 2010 Census to July 1, 2015. Additionally, the Census Bureau's estimate of the City's 2013 median household income of $86,775, demonstrates the health of the Alexandria economy essential to the strength of this property type.

- *Retail Research-Market Overview, Washington D.C. Metro Area*, published by Marcus & Millichap, 3rd Quarter 2015 claims that "vacancy was lowest in suburban Virginia after falling 40 basis points year over year to 4.2%." The report states that "banks, drugstores, restaurants and fast food establishments remained in the highest demand during the period, drawing a significant number of buyers to the market."

- The assessed value changes made to the following general commercial categories were based on national and regional trends, as well as higher rents and lower capitalization rates, and higher sales prices: fast food, convenience stores, drug stores, banks, auto dealerships, specialty shops and restaurants

- Alexandria's sales tax receipts grew by 8.3% in FY 2015, from $27.6 to $29.9 million. A significant portion of this growth has been reflected in the sales activity that occurred in the retail categories listed above. Of particular interest are the national chain stores that are trading at lower cap rates with what is perceived as a lower risk investment.

- The Alexandria Economic Development Partnership (AEDP) and Smith Travel Research notes hotel room rates (ADRs), occupancy and RevPAR (revenue per available room) all experienced healthy growth in 2015. Transient foot traffic also drives retail sales, and ultimately, real estate values.

- An additional stimulus to the health of the general commercial property market is growth in the apartment sector. In 2015, 970 new apartment units in three communities were completed in the City, with many more units in the pipeline. These new City residents have high disposable incomes that enrich the local retail trade area and grow retail sales and expenditures on services.

- According to *Washington, DC Metro Retail Outlook* published by Delta Associates, 3rd Quarter 2015, “The regional economy is performing better at the moment than it has since 2008, and the retail real estate market in the Washington metro area is showing consistent, if modest, improvement.”