NATIONAL PERSPECTIVE OF COMMERCIAL MARKET RELATIVE TO CY 2020 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 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, arms-length acquisitions used for the assessment in the City was plentiful in 2019. Nine large apartment projects, nine office buildings/parks, and approximately 30 general commercial properties transferred. The transactions in all property classes were a mixture of performing assets, value-add, and conversions of buildings into other uses.

- As in 2019, the rate of change to the total 2020 residential tax base outpaced that of the commercial tax base. Nonetheless, all commercial property classes, except for hotels/motels, saw an increase in assessment for 2020.

OFFICE MARKET OVERVIEW

- This year, the City's overall equalized commercial office property tax base increased slightly (1.86%) from the original January 1, 2019 assessment to January 1, 2020, or $75,970,348 from $4.08 billion in CY 2019 to $4.156 billion in CY 2020**.**

- Location remains the motivating factor in the City. Old Town and Carlyle areas remain the most desirable. The west end of the City – Park Center, Mark Center, and the Landmark area – continues to suffer vacancy problems due to a lack of nearby amenities and public transportation options. Many vacant buildings are in the process of being repurposed and converted into multi-family rental buildings.

- Market conditions in Alexandria remained soft as weak tenant demand kept vacancy elevated. Growth is primarily attributed to stabilized vacancy in the smaller, single tenant and/or owner operated buildings. New office construction in the region is almost exclusively occurring within one-quarter mile of operating Metrorail stations.

- Proximity to Washington, DC remains a long-term advantage for the Northern Virginia office market. Submarkets inside the Capital Beltway (I-495) continue to outperform their counterparts outside the ring. Generally, the diversified tenant base provides an element of stability.

- There were nine sales of commercial office buildings in 2019 – considerably less than the fifteen transactions that occurred the previous year.

New Construction Activity

- The American Physical Therapy Association broke ground on their new headquarters during 2019 at 3030 Potomac Avenue. The building was approximately 25% complete as of 1/1/2020.

- Another headquarters project broke ground in 2019 – The Institute for Defense Analyses' 370,000 SF building will deliver in 2022, also in Potomac Yard.

- The office portion of the mixed-use project at West Alex (f/k/a The Gateway), is estimated to be 75% complete.

- WMATA will be breaking ground on their headquarters building at 2395 Mill Road early in 2020.

HOTEL MARKET OVERVIEW

- The operating statistics summarized for hotels indicates a slight decline in hotel operations in 2020. On an equalized basis, the assessed value base for this property type decreased by 2.89%, or approximately $21.7 million, from $777.6 million in CY 2019 to $751.8 million for CY 2020.

- There are 27 hotels in the City with a total of 4,315 rooms. Additionally, there is the 88-room Fairfield time share near the King Street Metro. The City's hotels are scattered throughout Alexandria with the largest of the City's concentration in the Landmark/Van Dorn area and in the Old Town/Old Town North areas.

- Two hotels, the Crowne Plaza and the Old Colony Inn, went dark as conversion into residential properties began. This decrease in hotels will be offset with opening of the Hyatt Centric Hotel on King Street containing 124 rooms in January 2020.

- There were no valid 2019 hotel sales in the City of Alexandria and only a few in surrounding jurisdictions.

- Overall, the market decreased slightly as RevPAR leveled out in 2018 income and expense information. Additionally, the recent Metro shutdown impacted average daily room rates and occupancy rates that will be reported on 2019 income and expense surveys.

SHOPPING CENTER MARKET OVERVIEW

- The base for shopping center properties between 2019 and 2020 showed growth in 2019. It increased by 8.10%, or $52.2 million, from $645.0 million in CY 2019 to $697.2 million for CY 2020.

- The city has 20 properties classified as shopping centers. Except for Landmark Mall and the Potomac Yard Center, the remaining multi-tenant shopping centers are considered neighborhood centers with a grocery anchor.

- Although Landmark Mall has continued to struggle and is planned for redevelopment, the City's 20 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.

- There were no 2019 arm's-length sales of shopping centers in the City, but Bradlee and Foxchase Shopping Centers sold as part of a portfolio sale. Income and Expense data from shopping centers in the City indicate that this market sector continues to perform well.

MULTI-FAMILY MARKET OVERVIEW

- The multi-family rental apartment market tax base increased 4.98% for CY 2020 (Attachment 1, Page 1, Line 30, Column 6) to $8.15 billion. New growth in CY 2020 of $72.3 million (0.92%) was complemented by $186.3 million (2.36%) in appreciation.

- Included in the appreciation figure above is the impact of the newer apartments that are now coming out of lease-up and have achieved stabilized occupancy such as The Dalton and The Thornton.

- Overall, local rents have increased over the prior year and vary depending upon location. Projects located near Metro stations are typically achieving higher rents than those less transit accessible. However, most luxury Class-A apartments saw less rent growth than the older, more affordable apartments. Despite all the new supply over the past couple of years, most apartments saw a decrease in their vacancy rates.

- There was a total of nine arms-length transactions for large apartments in 2019. Many of the sales were older high-rise apartment projects such as Broadstone at Van Dorn, The Cascades at Landmark, Key Towers and The Summit which had sales price per units between $175,500 and $258,000. The largest apartment sale was for the new Class A, 439-unit mid-rise on S. Washington St. known as the Thornton. It sold in October for $180,175,000 or around $410,400/unit. The highest price per unit apartment sale was for the 270-unit high-rise, the Dalton, located next to Braddock Metrorail Station that was built in 2016. It sold for $117,750,000 or over $436,000/unit.

WAREHOUSE MARKET OVERVIEW

- There are 130 properties in the City classified as warehouses for assessment purposes for CY 2020. The City does not have a conventional industrial inventory. Over the last several years, the number of properties classified as warehouses declined due to redevelopment. Valid warehouse sales are often based on redevelopment potential, indicating the warehouse supply will continue to decrease over the long term, as land values are not forecasted to experience a significant decline. Redevelopment pressure also influences occupancy and the lease terms landlords are willing to accept. There is very little above-market vacancy in the City's existing warehouse inventory.

- There was one sale of a self-storage facility at 4900 Eisenhower Avenue for $15.1 million.

- There was an overall increase of $13.75 million in warehouse assessments from 2019 to 2020. Most warehouse property assessed values increased because of higher net operating incomes. The median warehouse assessment change was 3.00%, with the typical range from 2 to 10%. The average assessment of warehouse properties over 20,000 square feet increased to $170.21 per square foot of gross building area.

GENERAL COMMERCIAL OVERVIEW

- The General Commercial class includes uses such as small retailers, repair and service establishments, nursing homes, restaurants, grocery stores, office properties with less than 12,000 square feet of space (generally referred to a junior office buildings), and financial institutions. There were few 2019 sales of this property type in the West End, but there was a large sales sample in Old Town and a moderate sales sample in Del Ray, which served as an indication of the overall market value. The General Commercial property types were valued for CY 2020 primarily using comparable sales in the City of Alexandria and neighboring jurisdictions and supported by analysis of available Income & Expense data.

- The base for this property type increased 13.82%, or approximately $236.2 million, from $1.71 billion in CY 2018 to $1.94 billion in CY 2019 (Attachment 2, Page 2, Line 29). There was $40.6 million in growth from new construction, and appreciation of $195.6 million. Much of this increase is attributed to the reclassification of The Envoy of Alexandria from a hospital to a nursing home.

- *Washington D.C. Retail Market Report* (4th Quarter 2019), published by the CoStar Group, indicated that the Old Town General Retail submarket had an existing inventory of 2,632,845 sq. ft., with a vacancy rate of 2.2% (down from 3.5% last year). Market vacancy in the I-395 submarket (which includes the West End) remained unchanged from 2018 at 2.1%. The I-395 submarket as defined by CoStar also includes portions of Arlington and Fairfax counties. The Eisenhower Ave submarket comprises 435,830 sq. ft., 5.9% of which was vacant at the end of 2019 (up from 5.3% in 2018).

- The Alexandria Economic Development Partnership (AEDP) noted that several national chains, such as Oak Steakhouse, West Elm and Patagonia, and regional businesses such as Toastique and Aslin Beer Company, have or will be coming to Alexandria.