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Title:	Consideration of the Calendar Year 2018 Real Property Assessments.		
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Attachments:	1. 18-7148_Attachment 1 CY 2018 Real Property Assessment Land Book (002), 2. 18-7148_Attachment 2 CY 2018 Real Property Assessment Including Appreciation and Growth, 3. 18-7148_Attachment 3 Historical New Growth (CY 2011 to CY 2018), 4. 18-7148_Attachment 4 Potomac Yard.docx, 5. 18-7148_Attachment 5 Real Estate Tax Base Distribution (CY 2003 to CY 2018), 6. 18-7148_Attachment 6 Distribution of 2018 Assessments by Land Use, 7. 18-7148_Attachment 7 Points of Interest - CY 2018 Residential Assessment Changes, 8. 18-7148_Attachment 8 Average 2018 Real Property Assessment Changes, 9. 18-7148_Attachment 9 Analysis of the Commercial Market, 10. 18-7148_Attachment 10 Overview of the Assessment Process, 11. 18-7148_Attachment 11 New Construction Projects, 12. 18-7148_Attachment 12 FY 2018 Staff Presentation v2		

Date	Ver.	Action By	Action	Result
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City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 7, 2018

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:
Consideration of the Calendar Year 2018 Real Property Assessments.

ISSUE: 2018 Real Property Assessments.

RECOMMENDATION: That City Council receive this report detailing the City’s 2018 Real Property Assessments.

BACKGROUND: Included in the attached report are the annual changes in real property assessments from calendar year (CY) 2017 to (CY) 2018 and historical statistics related to assessment appreciation/depreciation, new construction, and residential sales activities.

Assessment notices will be mailed to property owners on February 14 and reflect updated market values as of January 1, 2018, as well as those for the previous two years. The 2018 tax rate applicable to the January 1, 2018 assessed value is scheduled to be set by the City Council on May 3, 2018.

DISCUSSION:

OVERALL CHANGE IN CY 2018 REAL PROPERTY TAX BASE

This year, the City's overall assessed real property tax base increased 2.34% from the original January 1, 2017, assessment to January 1, 2018, or \$983 million from \$38.9 billion in CY 2017 to \$39.9 billion in CY 2018 (Attachment 1, Page 2, Line 73). This increase reflects stable to moderate improvements in both the residential and rental apartment sectors of the market. Commercial assessments also increased, mainly attributable to multi-family and warehouse properties. The following table shows the year-over-year land book change in grand total taxable real property assessments from CY 2013 to CY 2018.

Calendar Year	Grand Total Taxable Real Property	% Change from Prior Year
2013	\$34.72	2.8%
2014	\$35.90	3.3%
2015	\$37.15	3.5%
2016	\$38.20	2.8%
2017	\$38.99	2.1%
2018	\$39.90	2.3%

Attachment 2 shows the change in the tax base from a starting point of the 2017 equalized assessments. The equalized assessment represents the year-ending 2017 assessments (as of December 31, 2017), and reflects changes that occurred throughout the calendar year including administrative reviews, appeals, decisions of the Board of Equalization, supplemental assessments, subdivisions, consolidations and demolitions. On this basis, locally and non-locally assessed real property assessments increased 2.97% (Attachment 2, Page 3, Line 66).

Points of Interest Relating to CY 2018 Assessment Changes:

- **Locally assessed real property assessments increased 2.35%** (which consists of both new construction and appreciation), or \$976 million, from \$38.3 billion in 2017 to \$39.3 billion in 2018 (Attachment 1, Page 1, Line 49). Although improved from the 2017 increase of 2.1%, it is the second lowest increase in the last eight years.
- **The residential property tax base increased 3.4%**, or \$751 million, from \$22.1 billion in 2017 to \$22.8 billion in 2018 (Attachment 1, Page 1, Line 21).

The average assessed value for all residential property (including Single Family and Condominium) as of January 1, 2018 increased 3.33%, from \$529,987 in CY 2017 to \$547,626 in CY 2018. For 2018, 77% increased, 13% decreased and 10% remained the same.

The average assessed value for a residential single-family home as of January 1, 2018 increased 3.40%, from \$727,851 in CY 2017 to \$752,585 in CY 2018. For 2018, 82% of properties increased in value, 13% decreased, and roughly 5% remained unchanged.

The average assessed value for a residential condominium as of January 1, 2018 increased 3.15%,

from \$314,125 in CY 2017 to \$324,024 in CY 2018. For 2018, 72% of all condominium properties increased in value, 12% decreased, and nearly 16% remained unchanged.

- **The commercial property tax base increased by 0.93%**, or \$225 million, from \$16.3 billion in 2017 to \$16.4 billion in 2018 (Attachment 1, Page 1, Line 47). This compares to a 2.51% increase the previous year. The 2018 commercial increase is primarily attributed to increased values in warehouse properties. Multi-family rental property which led the commercial market for the past several years increased 7.68%.
- The City's conventional office market is flat and continues to face challenges due to a general lack of demand, particularly in non-Metrorail accessible sites, tenant concessions, lower effective rents and continued space compression upon renewal. The City has a direct vacancy rate of 20.2% within conventional office buildings containing a minimum of 15,000 square feet of net leasable area. Overall, the office sector decreased 8.66% or \$391.9 million on a year-over-year basis from \$4.52 billion in 2017 to \$4.13 billion in 2018. About half of that decrease reflects the change in the National Science Foundation's (NSF) new building from taxable to tax exempt status in 2018 due to the occupancy in 2017 by NSF.

Despite current market conditions, 2018 capitalization rates generally remained unchanged.

- **State-assessed public service corporation property assessments increased 1.25%**, or \$7.6 million, from \$609.3 million in 2017 to \$616.9 million in 2018 (Attachment 1, Page 2, Line 71). The 2018 state-assessed Public Service Corporation assessments are effective January 1, 2017. These values are certified by the State Corporation Commission (SCC) and the Virginia Department of Taxation (VDoT) in late September of the effective year of the valuation. The City bills all non-locally assessed properties on a fiscal year basis in order to accurately reflect these assessment changes.
- **Tax exempt real property assessments increased 5.4%**, or \$266 million, from \$4.9 billion in 2017 to \$5.2 billion in 2018 (Attachment 1, Page 2, Line 107). During Calendar Year 2017 the classification of two properties changed from Commercial Office to tax exempt. In September 2017, the National Science Foundation achieved more than 80 percent occupancy, which, according to their agreement with the City, enables the new building (but not its land) to be tax exempt. The building is assessed at \$238 million in Calendar Year 2018. Also in Calendar Year 2017, a vacant office building at 1701 N. Beauregard was purchased by the Alexandria City Public Schools to be repurposed into a new West End Elementary School. The land and building value, totaling \$16.3 million, are now tax exempt.
- **Taxable new construction activity added \$299.9 million for CY 2018.** Residential construction accounted for \$61.0 million of the new growth, while the commercial sector, which includes multifamily rental, accounted for \$238.8 million. The expansion of the multi-family residential sector was \$174.6 million. This compares to CY 2017 when \$442.8 million in new residential and commercial growth was added to the City's tax base. Overall, \$1.95 billion in new growth has been added to the tax base over the last five years. This equates to about \$22 million per year in annual new tax revenues or nearly six cents on the real estate tax rate. This equates to approximately 4.96% of the CY 2018 locally assessed taxable base. Historical new growth figures are detailed in Attachment 3.
- **New construction projects** include a variety of land uses located throughout the City. These projects are in various stages of construction and include:

- The Thornton - a six-story, 440-unit apartment on South Washington Street;
- The Rushmark property - a mixed-use property with 500 apartments and 67 townhomes on Eisenhower Avenue;
- A five story mixed-use property in the 700 block of North Washington with first-floor retail and 30 apartment units;
- Woodbine Memory Care Center - a 66-unit addition to the existing facility;
- Cameron Park - 66 townhomes built and 312 apartments with 27,000 square feet of retail;
- St. James Plaza - AHC's 93-unit affordable apartment complex on Fillmore Avenue.
- 67 townhouse units within four infill projects located throughout Old Town (various stages of completion);
- The National Industries for the Blind headquarters - a 100,000 square-foot office complex at Potomac Yard;
- Gables Old Town North - a mixed-use residential and retail project;
- Gateway at King and Beauregard - a mixed-use project consisting of office, grocery (Harris Teeter), and apartments.

The table below compares the City of Alexandria's median assessment to sales ratio for tax year CY 2016 to the Northern Virginia jurisdictions listed below. Alexandria's 96.6% ratio was the second highest in Northern Virginia, which means that the City's assessments were closer to market value than all but one other Northern Virginia locality.

Jurisdiction	Median Ratio
City of Fairfax	97.6%
Alexandria	96.6%
Falls Church	95.5%
Arlington County	93.7%
Fairfax County	93.5%

Impact of Tax Relief. In 2011 the Commonwealth of Virginia expanded the eligibility for real estate tax relief to include military veterans who are considered completely and permanently disabled. In FY 2017 the City relieved \$3.1 million of real estate taxes for property owners who qualify under the parameters of the Elderly and Disabled Tax Relief Program and \$1.9 million of real estate taxes for property owners who qualify for military-related tax relief.

Distribution of Real Property Assessments

- Real property classified as residential for assessment purposes for CY 2018 represents 57.3% of the total real property taxable base, while property classified as commercial and public service corporations represents 42.7% of the base. If multifamily housing is excluded, commercial comprises 24.0% of the base. This compares to CY 2017 when 56.7% of the tax base was residential, and property classified as commercial and public service corporations represented 43.3% of the base. If multifamily housing is excluded, commercial comprised 25.6% of the CY 2017 tax base. A historical distribution of the City's real property tax base allocated between classifications of real property for assessment purposes is detailed in Attachment 4.
- Attachment 5 details the distribution of the CY 2018 assessments in terms of actual dollars and percentages by land use. Land uses include: residential single-family; residential condominium;

residential vacant land; commercial multifamily rental; commercial office, retail and service; commercial and industrial vacant land; and public service corporations.

- The U.S. Census Bureau estimated population growth of 11.3% for the City of Alexandria from April 1, 2010 (140,006) Census to July 1, 2016 (155,810). The last estimate of the number of households showed a 5.71% increase from 72,376 in 2010 to 76,512 units in 2015. From 2012 to 2016, the Census estimated that 42.2% of the estimated housing units in the City were owner-occupied. 62.1% of persons 25 years of age or older have Bachelor's Degree or higher. 77.0% of the population over age sixteen was estimated to be in the civilian workforce from 2012 to 2016 with the median household income at \$89,200 in 2016 dollars.

ATTACHMENTS:

- Attachment 1: CY 2018 Real Property Assessment Land Book
Attachment 2: CY 2018 Real Property Assessment Summary Including Appreciation and Growth
Attachment 3: Historical New Growth (CY 2011 to CY 2018)
Attachment 4: Potomac Yard
Attachment 5: Real Estate Tax Base Distribution (CY 2003 to CY 2018)
Attachment 6: Distribution of 2018 Assessments by Land Use
Attachment 7: Points of Interest - CY 2018 Residential Assessment Changes
Attachment 8: Average 2018 Real Property Assessment Percentage Changes
Attachment 9: Analysis of the Commercial Market
Attachment 10: Overview of the Assessment Process
Attachment 11: New Construction Projects
Attachment 12: PowerPoint presentation

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