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City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 3, 2016

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

DOCKET TITLE:
Consideration of Receipt of the Calendar Year 2016 Real Property Assessment Report.

ISSUE: Consideration of the Calendar Year 2016 Real Property Assessment.

RECOMMENDATION: That City Council receives the report.

BACKGROUND: Included in the attached report are the annual changes in real property assessments from CY 2015 to CY 2016 and historical statistics related to assessment appreciation/depreciation, new construction, and residential sales activities.

Assessment notices will be mailed to property owners on February 10 and reflect updated market value as of January 1, 2016, as well as those for the previous two years. The comparative estimates are mandated by a 2014 amendment to §58.1-3330(B) of the Code of Virginia which requires disclosure of the assessment (land, improvements, and total), tax rate, tax levy, and percent change for the previous two years. The 2016 tax rate applicable to the January 1, 2016 assessed value is not scheduled to be set by the City Council until May 5, 2016; therefore, a tax rate and associated tax liability are not reflected in the notice of assessments.

DISCUSSION:

OVERALL CHANGE IN CY 2016 REAL PROPERTY TAX BASE

- This year, **the City's overall real property tax base, including all taxable property, increased 2.82%** from the original January 1, 2015 assessment to January 1, 2016, or $1.05 billion from $37.15 billion in CY 2015 to $38.20 billion in CY 2016 (Attachment 1, Page 2, Line 74, Column 6). This increase reflects continued, though more moderate, improvement in both the residential and rental apartment sectors of the market. Commercial assessments also increased with the retail, industrial warehouse, and hospitality sectors leading the way. The following table shows the year-over-year land book change in grand total taxable real property assessments citywide from CY 2012 to CY 2016.

Calendar Year	Grand Total Taxable Real Property Assessments (in billions)	Change from Prior Year
2012	$33.78	3.5%
2013	$34.72	2.8%
2014	$35.90	3.3%
2015	$37.15	3.5%
2016	**$38.20**	**2.8%**

Attachment 2 shows the change in the tax base from a starting point of the 2015 equalized assessments. The equalized assessment represents the year-ending 2015 assessments (as of December 31, 2015), and reflect 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 3.14% (Attachment 2, Page 3, Line 66).

Points of Interest Relating to CY 2016 Assessment Changes:

- **Locally assessed real property assessments increased 2.81%** (which consists of both new construction and appreciation), or $1.03 billion, from $36.57 billion in 2015 to $37.60 billion in 2016 (Attachment 1, Page 1, Line 49, Column 6).

- The **residential property tax base increased 2.44%**, or $517.19 million, from $21.20 billion in 2015 to $21.71 billion in 2016 (Attachment 1, Page 1, Line 21, Column 6).

  The average assessed value for a residential single-family home as of January 1, 2016 increased 2.25%, from $704,783 in CY 2015 to $720,701 in CY 2016 (Attachment 2, Page 1, Line 6, Column 9). For 2016, 67.6% of homes increased in value, 12.0% decreased, and 20.4% remained unchanged.

  The average assessed value for a residential condominium as of January 1, 2016 increased 0.94%, from $304,014 in CY 2015 to $306,883 in CY 2016 (Attachment 2, Page 1, Line 14, Column 9). For 2016, 39.1% of all condominium properties increased in value, 24.7% decreased, and 36.2% remained unchanged.

- **The commercial property tax base increased by 3.32%**, or $510.04 million, from $15.38 billion in 2015 to $15.89 billion in 2016 (Attachment 1, Page 1, Line 47, Column 6). This compares to a 2.37% increase the previous year. The 2016 commercial increase is primarily associated with the continued expansion of multi-family residential housing sector which increased 4.35% on a year-over-year basis. Approximately 1,507 Class A rental apartments within eight projects were delivered over the course of 2015. For 2016, an additional 1,321 apartments in six projects are scheduled to be delivered.

- The City's conventional office market remains flat and continues to face challenges due to a general lack of demand, tenant concessions, lower effective rents and continued space compression upon renewal. Despite current market conditions, 2016 capitalization rates remained unchanged or even lower for Class A (investment grade) property in close proximity to metro rail. Overall, the office market has increased 1.46% on a year over year basis.

- **State-assessed public service corporation property assessments increased 3.61%**, or $20.78 million, from $575.19 million in 2015 to $595.97 million in 2016 (Attachment 1, Page 2, Line 72, Column 6). In 2016, Richmond, Fredericksburg and Potomac Railway Co. (RF&P) has finally legally merged with CSX Transportation, Inc. after having been owned by CSX for a number of years. The entire assessment is now shown as part of CSX. The 2016 state-assessed Public Service Corporation assessments are effective January 1, 2015. 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 0.80%**, or $43.08 million, from $5.36 billion in 2015 to $5.40 billion in 2016 (Attachment 1, Page 2, Line 108, Column 6).

- **Taxable new construction activity added $306.53 million for CY 2016**. Residential construction accounted for $86.09 million of the new growth, while the commercial sector, which includes multifamily rental, accounted for $220.44 million. The expansion of the multi-family residential sector alone was $132.88 million. This compares to CY 2015 when $538.96 million in new residential and commercial growth was added to the City's tax base. Overall, $1.42 billion in new growth has been added to the tax base over the last five years. This equates to approximately 3.77% of the CY 2016 locally assessed taxable base. Historical new growth figures are detailed in Attachment 3.

- **On-going new and recently developed apartment projects** include: Braddock Gateway I, a 14-story high-rise apartment containing 270 units located at the Braddock Road Metro (5%). Notch 8, a 233 unit mid-rise apartment building with a ground floor grocer in Potomac Yard (100%); The Frasier, a 249 unit mid-rise apartment building in Potomac Yard (100%); Station 650, a 183-unit mid-rise apartment building in Potomac Yard (100%); Modera Tempo, a 502-unit mid-rise apartment complex located along the Van Dorn Street corridor near its intersection with Eisenhower Avenue (100%); The Mill Apartments, a 33-unit mid-rise apartment conversion located on the 515 North Washington Street (100%); Jackson Crossing, 78 affordable apartments located at the intersection of Jefferson Davis Highway and East Reed Street (100%); The Mark, a 262-unit high-rise apartment building formerly operated as the Washington Suites Hotel; and Parc Meridian at Eisenhower Station, a 24-story high-rise apartment containing 505 units (35%).
  New construction also includes a variety of land uses located throughout the City. These are in various stages of construction and include: Tony's Corner, two commercial retail buildings containing 10,525 square feet located on the 2700 block of Jefferson Davis Highway (60%); Cambria Square, 48 condominium townhouses and two-over-two stacked units located on South Pickett Street near its intersection with Duke Street (demolition, Bowl America site); 67 townhouse units within four infill projects located throughout Old Town (various stages); Hotel Indigo, a 120-key hotel with ground floor restaurant located at 220 South Union Street (excavation); 700 North Washington Street, 31 mid-rise apartment units with structured parking (Final Site Plan Approved, former Econolodge site), the Brightleaf & Cooper property, seven conventional townhouses and nine adaptive reuse units located at North St. Asaph and Oronoco Streets (25% former Health Department Property); and The National Science Foundation (NSF), a 19-story Class A high-rise office building containing 697,417 square feet of leasable area located directly across the street from the Eisenhower Avenue Metrorail station (45%).

The NSF project is expected to serve as a catalyst for additional commercial development, particularly in the hospitality sector.

- The table below compares the City of Alexandria's median assessment sales ratio for tax year CY 2014 to the following Northern Virginia jurisdictions. The assessment sales ratio compares the assessed value of properties in 2014 to their selling price and is a measure of the accuracy of the property's assessed value compared to the market rate. The higher the median ratio percentage, the closer to the assessed values the sales value were.

Jurisdiction	**Median Ratio**
Falls Church	94.98%
Alexandria	**94.76%**
City of Fairfax	93.30%
Arlington County	90.17%
Fairfax County	89.54%
Prince William County	87.54%

Distribution of Real Property Assessments

- Real property classified as residential for assessment purposes for CY 2016 represents 56.85% of the total real property taxable base, while property classified as commercial and public service corporations represents 43.15% of the base. If multifamily housing is excluded, commercial comprises 25.22% of the base. This compares to 2015 when 57.06% of the tax base was residential, and property classified as commercial and public service corporations represented 42.94% of the base. If multifamily housing is excluded, commercial comprised 25.27% of the CY 2015 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 2016 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.

ATTACHMENTS:

Attachment 1: CY 2016 Real Property Assessment Land Book
Attachment 2: CY 2016 Real Property Assessment Summary Including Appreciation and Growth
Attachment 3: Historical New Growth (CY 2011 to CY 2016)
Attachment 4: Real Estate Tax Base Distribution (CY 2002 to CY 2016)
Attachment 5: Distribution of 2016 Assessments by Land Use
Attachment 6: Points of Interest - CY 2016 Residential Assessment Changes
Attachment 7: Analysis of the Commercial Market
Attachment 8: Overview of the Assessment Process
Attachment 9: Staff PowerPoint presentation

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