City of Alexandria
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Legislation Text

File #: 16-5991, **Version:** 1

City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 8, 2017

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

DOCKET TITLE:
Consideration of the Calendar Year 2017 Real Property Assessments.

ISSUE: (1) 2017 Notices of Assessment will be mailed to property owners on February 15; and (2) OREA staff will present the new real estate values at the February 14 City Council legislative meeting.

RECOMMENDATION: That City Council receives the report.

BACKGROUND: Included in the attached report are the annual changes in real property assessments from CY 2016 to CY 2017 and historical statistics related to assessment appreciation/depreciation, new construction, and residential sales activities.

Assessment notices will be mailed to property owners on February 15 and reflect updated market values as of January 1, 2017, as well as those for the previous two years. The 2017 tax rate applicable to the January 1, 2017 assessed value is not scheduled to be set by the City Council until May 4, 2017. Therefore, the annual tax liability cannot be reflected in the Notice of Assessment.

DISCUSSION:

OVERALL CHANGE IN CY 2017 REAL PROPERTY TAX BASE

This year, **the City's overall assessed real property tax base increased 2.07%** from the original January 1, 2016 assessment to January 1, 2017, or $792 million from $38.2 billion in CY 2016 to $39.0 billion in CY 2017 (Attachment 1, Page 2, Line 73, Column 6). This is the lowest tax base increase since the Great Recession impacted assessments in 2009 and 2010. It is also the third worst performing change in the tax base in the last two decades. This increase reflects stable to moderate improvements in both the residential and rental apartment sectors of the market. Commercial assessments also increased with general commercial and hospitality sectors leading the way. The following table shows the year-over-year land book change in grand total taxable real property assessments from CY 2012 to CY 2017.

Calendar Year	Grand Total Taxable Real	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%
2017	**$38.99**	**2.1%**

Attachment 2 shows the change in the tax base from a starting point of the 2016 equalized assessments. The equalized assessment represents the year-ending 2016 assessments (as of December 31, 2016), 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 2.94% (Attachment 2, Page 3, Line 66).

Points of Interest Relating to CY 2017 Assessment Changes:

- **Locally assessed real property assessments increased 2.07%** (which consists of both new construction and appreciation), or $778.6 million, from $37.6 billion in 2016 to $38.38 billion in 2017 (Attachment 1, Page 1, Line 49, Column 6).

- The **residential property tax base increased 1.75%**, or $379.8 million, from $21.71 billion in 2016 to $22.02 billion in 2017 (Attachment 1, Page 1, Line 21, Column 6).

  The average assessed value for a residential single-family home as of January 1, 2017 increased 1.26%, from $721,367 in CY 2016 to $730,449 in CY 2017 (Attachment 2, Page 1, Line 6, Column 9). For 2017, 39.6% increased in value, 6.2% decreased, and 54.2% remained unchanged.

  The average assessed value for a residential condominium as of January 1, 2017 increased 0.16%, from $310,485 in CY 2016 to $310,990 in CY 2017 (Attachment 2, Page 1, Line 14, Column 9). For 2017, 26.7% of all condominium properties increased in value, 29.9% decreased, and 43.4% remained unchanged.

- **The commercial property tax base increased by 2.51%**, or $398.8 million, from $15.89 billion in 2016 to $16.28 billion in 2017 (Attachment 1, Page 1, Line 47, Column 6). This compares to a 3.3% increase the previous year. The 2017 commercial increase is primarily associated with significant improvements in the general commercial and hospitality sectors of 10.27% and 12.58% on a year-over-year basis. Multi-family rental development which led the commercial market for the past several years has begun to stabilize with lower effective rents and higher expense ratios. Approximately 2,828 Class A rental apartment units were delivered over the course of the last two years.

- Despite the significant increase in inventory, the *Year - End 2016 Washington Region Market Marker Survey* published by *Delta Associates* reports that apartment capitalization rates for all apartment class remain historically low. This was supported by the Delta's *Investor Worthiness Index* which reported gains in investment worthiness across all apartment types.

- 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 18.7% within conventional office buildings containing a minimum of 15,000 square feet of net leaseable area.

Despite current market conditions, 2017 capitalization rates generally remained unchanged or even slightly compressed for Class A investment grade property in close proximity to Metrorail stations. Overall, the office sector increased 0.28% on a year-over-year basis from $4.51 billion in 2016 to $$4.523 in 2017.

➢ **State-assessed public service corporation property assessments increased 2.24%**, or $13.4 million, from $595.97 million in 2016 to $609.34 million in 2017 (Attachment 1, Page 2, Line 71, Column 6). The 2017 state-assessed Public Service Corporation assessments are effective January 1, 2016. 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 decreased 9.3%**, or $502.17 million, from $5.40 billion in 2016 to $4.90 billion in 2017 (Attachment 1, Page 2, Line 107, Column 6). The decrease was attributable to depreciating improvements and the ongoing revaluation of land parcels zoned for public open space (POS) uses, which have limited development potential.

- **Taxable new construction activity added $442.77 million for CY 2017**. Residential construction accounted for $156.32 million of the new growth, while the commercial sector, which includes multifamily rental, accounted for $286.46 million. The expansion of the multi-family residential sector was $77.96 million. This compares to CY 2016 when $306.53 million in new residential and commercial growth was added to the City's tax base. Overall, $1.86 billion in new growth has been added to the tax base over the last six years. This equates to about $20 million per year in annual new tax revenues or about 5 cents on the real estate tax rate. This equates to approximately 4.77% of the CY 2017 locally assessed taxable base. Historical new growth figures are detailed in Attachment 3.

- **On-going new and recently developed apartment projects include**:
  - The Dalton, a 14-story high-rise apartment containing 270 units located at the Braddock Road Metro;
  - 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;
  - The 116-unit assisted living complex on South Pickett Street;
  - Cameron Park, 66 townhomes built by Pulte and 312 apartments with 27,000 square feet of retail; and,
  - St. James Plaza, AHC's 93-unit affordable apartment complex on Fillmore Avenue.

- **New construction** also includes a variety of land uses located throughout the City. These projects 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% complete);

- 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 of completion);
- Hotel Indigo, a 120 key hotel with ground floor restaurant located 220 South Union Street; and,
- Brightleaf & Cooper property, seven conventional townhouses (complete) and nine adaptive reuse units located at North Saint Asaph and Oronoco Streets.
- 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. This project is expected to serve as a catalyst for additional commercial development, particularly in the hospitality sector.
- The National Industries for the Blind broke ground on a 100,000 square-foot office complex at Potomac Yard in late 2016.
- Robinson Landing, where EYA has started site-work on 26 luxury townhouses, 70 luxury condos, 6,000 square feet of restaurant space and 3,000 square feet of office/warehouse (preserved historic building).

- The table below compares the City of Alexandria's median assessment sales ratio for tax year CY 2015 to the Northern Virginia jurisdictions listed below. Alexandria's 96.47% 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**
Falls Church	96.71%
Alexandria	**96.47%**
City of Fairfax	95.72%
Arlington County	93.34%
Fairfax County	92.41%
Prince William County	91.96%

Distribution of Real Property Assessments

- Real property classified as residential for assessment purposes for CY 2017 represents 56.67% of the total real property taxable base, while property classified as commercial and public service corporations represents 43.33% of the base. If multifamily housing is excluded, commercial comprises 25.55% of the base. This compares to CY 2016 when 56.85% of the tax base was residential, and property classified as commercial and public service corporations represented 43.154% of the base. If multifamily housing is excluded, commercial comprised 25.22% of the CY 2016 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 2017 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 2017 Real Property Assessment Land Book
Attachment 2: CY 2017 Real Property Assessment Summary Including Appreciation and Growth
Attachment 3: Historical New Growth (CY 2010 to CY 2017)
Attachment 4: Potomac Yard
Attachment 5: Real Estate Tax Base Distribution (CY 2002 to CY 2017)
Attachment 6: Distribution of 2017 Assessments by Land Use
Attachment 7: Points of Interest - CY 2017 Residential Assessment Changes
Attachment 8: Average 2017 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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