City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 12, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #2: CALENDAR YEAR 2008 REAL PROPERTY ASSESSMENT REPORT

ISSUE: The Calendar Year 2008 Real Property Assessment Report for the City of Alexandria.

RECOMMENDATION: That City Council receive this report showing the results of the annual assessment of real property[1] made pursuant to Section 4.08 of the City Charter.

DISCUSSION: Included in this report are the annual changes in real property assessments from CY 2007 to CY 2008 and historical statistics related to assessment appreciation, new construction, and residential sales activities. For valuation purposes, annual assessments have an effective date of January 1. Assessment reports typically represent data on a calendar year basis. Key changes in the assessed valuation of real property from CY 2007 to CY 2008 are summarized below.

OVERALL CHANGE IN CY 2008 REAL PROPERTY TAX BASE

This year, the City's overall real property tax base (including both locally assessed real property and state-assessed public service corporation property) increased 4.02%, or $1.37 billion from $34.18 billion in CY 2007 to $35.55 billion[2] in CY 2008 (Attachment 1, Page 3, Line 66, Column 4).

While the tax base change is positive, 4.02% is a slight decrease from CY 2007 when annual growth of 4.43% was reported, and represents the smallest gain in 10 years, since CY 1998 when the base increased 4.0%. Two consecutive years of single-digit growth represents a significant change from the preceding four years (2003 - 2006) when the real property tax base increased by an average of 19.98% per year. Refer to the table on the following page for a 10-year history of the City's property tax base.

[1] Real Property is defined as the interests, benefits, and rights inherent in the ownership of real estate. The Appraisal Foundation, Uniform Standard of Professional Appraisal Practice (2003 Ed.), p.4.

[2] The 2008 valuation includes the 2007 value of state-assessed public service corporation property. This value is certified by the State Corporation Commission and Virginia Department of Taxation in September 2007.

Table 1: 10-Year History of Percentage Change in Real Property Tax Base

CY	Percent Change	CY	Percent Change
1999	5.0%	2004	18.4%
2000	9.1%	2005	21.2%
2001	10.1%	2006	20.4%
2002	11.2%	2007	4.4%
2003	19.9%	2008	4.0%

Points of Interest Relating to CY 2008 Assessment Changes:

☞ Locally assessed real property assessments (which consisted of new construction and appreciation of existing property) increased 4.01%, or $1.34 billion, from $33.3 billion in 2007 to $34.7 billion in 2008 (Attachment 1, Page 2, Line 42, Column 5).

☞ Residential property decreased 1.12%, or $228.6 million, from $20.37 billion in 2007 to $20.14 billion in 2008 (Attachment 1, Page 1, Line 18, Column 5). The overall value of the City's commercial real property tax base increased in 2008 by 12.08%, or $1.56 billion, from $12.95 billion in 2007 to $14.52 billion in 2008 (Attachment 1, Page 2, Line 40, Column 5).

☞ State-assessed public service corporation property assessments increased 4.45%, or $38 million, from $854.1 million in 2007 to $892.1 million in 2008 (Attachment 1, Page 3, Line 64, Column 5). The 2008 assessment is the value effective January 1, 2007, which is received in September 2007. 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 which allows for accuracy in the budget and collection process.

☞ Tax exempt real property assessments increased from $4.6 billion in 2007 to $4.9 billion in 2008. This equates to an increase of 6.8%, or $311.8 million (Attachment 1, Page 4, Line 85, Column 5).

☞ New construction added a total of $433.5 million for CY 2008, or 31.5% of the total increase of $1.37 billion. Residential construction accounted for $157.3 million of the new growth, while the commercial sector accounted for the balance of $276.2 million. In CY 2007, $715.7 million in new residential and commercial growth was added to the City's real property tax base in the form of new construction. Overall, $1.15 billion in new construction has been added to the tax base over last two years. This equates to approximately 3.2% of the current total taxable base.

- ☞ Over the last five-year period, new construction (apart from its appreciation once completed) has added $3.0 billion to the tax base, or 8.5% of the current total tax base.

- ☞ Based on data compiled by the Department of Planning and Zoning, a total of 2,940 residential units in 24 projects of all types were in the construction phase during CY 2007. Of these, 43.6% were designated for owner-occupancy, while the balance of 1,659 units were being constructed as rentals. Overall, 1,079 residential units of all types were completed in CY 2007. Of these, 377, or 35% were for owner-occupancy, while the balance of 702 were designated as rental units.

- ☞ Residential projects currently under construction and planned for completion during CY 2008 include: Potomac Greens (227 single-family attached), Cameron Station, Phase VI (97 single-family attached), Quaker Ridge (23 single-family attached), Gibbon Row/Old Club (4 single-family attached and 4 condominium), Beauregard Station (41 condominium townhouse), Abington Row (53 low-rise condominium flats), Clayborne Apartments (75 low-rise apartments), and Ellsworth Places (24 single-family attached)

- ☞ Of the $1.37 billion increase in the tax base, $941 million, or 68.5% of the total increase is the result of appreciation. This includes a reduction of $386 million in the residential market, and appreciation of $1.29 billion in the various commercial markets including $246 million in multi-family property. The balance of $37.99 million is accounted for in the non-locally assessed taxable real property.

- ☞ Real property classified as residential for assessment purposes for CY 2008 represents 56.65% of the total real property tax base, while property classified as commercial, and public service corporations, represents 43.35% of the base. Distribution of the City's real property tax base allocated between classifications[3] of real property is shown in Table 2 at the top of the following page.

[3] Historically, and consistent with the practice of other Northern Virginia jurisdictions, real property classified as residential property for assessment purposes includes single-family homes, residential condominiums and cooperatives, vacant residential land, but does not include multi-family apartments. Real property classified as commercial property for assessment purposes includes multi-family rental apartments, office, retail and service properties, vacant commercial and industrial land, and public service corporation properties assessed by the State. Classifications assigned to real property for assessment purposes concentrate on how a property is viewed from the perspective of informed buyers and sellers.

Table 2: Distribution of CY 2008 Real Property Assessments by Property Classification

Property Classification	Percentage	CY 2008 Assessments
Residential Single-Family	38.7%	$13,748,710,311
Residential Condominium	17.6%	$6,256,439,412
Residential Vacant Land	0.4%	$138,253,574
Commercial Multi-Family Rental	12.4%	$4,431,653,668
Commercial Office, Retail & Service	26.5%	$9,419,337,508
Commercial & Industrial Vacant Land	1.9%	$668,509,727
Public Service Corporation	2.5%	$892,053,998
Total	100.00%	$35,554,958,198

RESIDENTIAL PROPERTY

Points of Interest Relating to CY 2008 Residential Assessment Changes:

☞ The average assessed value for an existing residential property (consisting of single-family homes[4], residential condominiums[5], and cooperatives[6]) decreased 1.98%, from $508,743 in 2007 to $498,670 in 2008 (Attachment 1, Page 1, Lines 6 and 14, Column 3).

☞ The average assessed value for a residential single-family home as of January 1, 2008, decreased a nominal 0.86%, from $662,683 in 2007 to $656,984 in 2008.

☞ For 2008, 59% of all single-family homes decreased in value, 2% did not change, and 39% increased in value.

☞ The average assessed value for a residential condominium as of January 1, 2008, decreased 4.31%, from $340,711 in 2007 to $326,026 in 2008.

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[4]Single-family homes include detached homes, semi-detached homes (duplexes and end town home units), and row houses (town homes that are generally interior units).

[5]Residential condominiums include garden condominium units, high-rise units, and town home units located in condominium communities which have legally declared the condominium form of ownership.

[6]Cooperative is defined as a form of ownership in which each owner of stock in a cooperative community or housing corporation receives a proprietary lease on a specific unit and is obligated to pay a rental rate that represents the proportionate share of operating expenses and debt service on the underlying mortgage.

☞ For 2008, 83% of all residential condominiums decreased in value, 4% did not change, and 13% increased in value.

☞ The median assessment and the number of parcels by range of assessed value are shown in Table 3 below. The number of properties valued under $250,000 grew from 4,728 in CY 2007 to 6,094 in CY 2008 reflecting a 28.9% increase. From 2006 to 2007, the number of properties under $250,000 increased by 18.2%, reflecting an increase of 47% over the past 2 years. Likewise, the number of properties assessed over $500,000 decreased from 15,690 in CY 2007 to 15,241 in CY 2008. This represented a decrease of 2.9%. For CY 2008, 38.2% of all improved residential properties are valued at $500,000 or greater.

Table 3: CY 2008 Median Residential Assessments

Assessment Range	Number of Units	Total Assessments	Median Assessment
Less than $100,000	10	$717,432	$79,687
$100,000 - $249,999	6,084	$1,277,875,456	$217,300
$250,000 - $499,999	18,523	$6,727,176,684	$355,000
$500,000 - $749,999	9,695	$5,871,334,457	$597,700
$750,000 - $999,999	3,637	$3,106,065,963	$844,500
$1,000,000 - $1,999,999	1,689	$2,164,826,659	$1,204,500
$2,000,000 +	220	$583,513,634	$2,410,800

☞ The 2008 assessed value ranges for single-family homes and condominiums within each study group are included as Attachment 4 to this memo.

☞ The assessment/sales ratio for residential property (including single-family homes and condominium units) for CY 2007 was 98.11%, and for this same period the previous year the assessment sales ratio was 97.43%. This statistic is simply a measure of CY 2007 assessments (as of January 1, 2007) against subsequent CY 2007 sales. In a market that is characterized as stable or moderately declining, an AV/sales ratio of 98.11% would indicate that the days of pursuing escalating transaction prices are over for the foreseeable future. It should be noted that only arm's length transactions are used for assessment/sales ratio study purposes. A summary of prior year assessment/sales ratio results is shown in Table 4 at the top of the following page.

Table 4: Residential Assessment/Sales Ratio Studies Summary Results for Calendar Years 2000-2007

Calender Year	Units Sold	Total Sale Price	AV/Sales Ratio	Average Assessed Value % Change In Year After Study
2007	2,120	$1,059,816,576	98.1%	N/A
2006	2,376	$1,182,106,929	97.4%	-2.9%
2005	3,252	$1,556,139,684	80.8%	19.5%
2004	3,746	$1,476,487,148	78.9%	21.3%
2003	3,516	$1,144,718,513	82.3%	16.9%
2002	3,401	$934,579,588	76.5%	24.5%
2001	3,088	$732,429,726	78.3%	15.3%
2000	2,769	$609,111,863	84.2%	10.6%

☞ Residential Real Property Sales Statistics for 2005, 2006, and 2007 which reflect the dollar volume, the number of units sold, and the average sales price are included as Attachment 5. These statistics were compiled by the Department of Real Estate Assessments.

☞ According to a recent *Washington Post* article, the slump in home sales and prices is continuing to impact the entire metropolitan region. In fact, data indicated that every jurisdiction experienced a period during 2007 when prices were declining. The article cited statistics detailed within the *Case-Schiller Home Price Index* that indicated prices for single-family homes fell 7.7 percent during the third quarter of 2007 compared with the same period one-year earlier. The effects are worse in those jurisdictions located outside the Capital Beltway (I-495). In the Northern Virginia area these would include Stafford, Prince William, and Loudoun Counties which have a considerable amounts of vacant developable land that was the target of developers and homebuilders during the market expansion that occurred from 2001 through 2005. With the slowdown in the market, builders have been forced to discount their existing and near-term completion units to levels that effectively compete with the existing housing stocks. Unlike our more distant neighbors, prices in the City of Alexandria and Arlington County have reported price declines of 2 percent or less. This phenomenon illustrates the dramatic regional variations where some areas prosper while others struggle with precipitous declines. In general, jurisdictions located closest to the District, and without significant new competing "for sale" housing, will continue to command existing prices. According to data compiled by the Metropolitan Regional Information System (MRIS), median sale prices in December 2007 were up 3 percent in the District and 1.2 percent in the City of Alexandria compared to the same month in 2006. Refer to the table on the following page for a comparison of sales activity.

Table 5: Market Characteristics for The City of Alexandria
December 2006 and 2007

Category	2007	2006	% Change
Total Dollar Volume	$74,066,577	$100,090,331	-26.00%
Average Sold Price	$510,804	$505,507	+1.05%
Median Sold Price	$440,000	$435,000	+1.15%
Total Units Sold	145	198	-26.77%
Average Days on Market	92	81	+13.58%
Average List Price For Solds	$548,710	$543,169	+1.02%
Average Sale Prices As % Of List Price	93.09%	93.07%	N/A
Source: Metropolitan Regional Information Systems, Inc. - MLS Resale Data			

☞ In December 2007, the number of active listings in the City totaled 657. These had asking prices that ranged from $129,900 to $3,495,000, with an average of $522,841. There were 93 units identified as being under contract with an average list price of $531,982. Area Realtors project that the overhang inventory will be reduced during the course of 2008, and that home selection will subsequently become more limited, but that may not occur until early 2009.

☞ According to statistics compiled by the **George Mason University's Center for Regional Economic and Public Policy Analysis** the current prognosis for the region's housing market is "bleak to stable;" particularly for those jurisdictions located outside the Capital Beltway (I-495). The number of foreclosures and short sales are projected to increase as sub prime and a multitude of other creative loan instruments continue to cycle. With the number of days on the market increasing, bloated inventories will need to be substantially absorbed before any market correction is sustainable. There is currently a nine to ten month supply of homes available in the Northern Virginia area.

☞ According to Doug Duncan, Chief Economist of the Mortgage Bankers Association, there are currently good values in the market for residential condominiums, particularly those that target the entry level purchaser. Duncan indicates that mortgage loans above the $417,000 conforming level, otherwise known as jumbo loans, will require greater rate spreads to offset market risk, and that underwriting practices will be more stringent. Currently, jumbo mortgages command a 100 basis point extra interest rate cost when compared to the $417,000 conforming loan interest rates. However at the end of last week, Congress approved the economic stimulus measure that allows Fannie Mae and Freddie Mac to buy loans worth as much as $729,750 (made between July 31, 2007 and Dec. 31, 2008), a move that will help homeowners refinance large mortgages at a lower interest rate. Additionally, this measure also allows The Federal Housing Administration to insure loans as high as $729,750.

☞ Over the short-term, decreases in the Federal Reserve's discount rate will provide banks the opportunity to access credit, but will not necessarily impact long-term debt rates. Current projections are that the housing correction should bottom out during the third quarter of 2008 in the Northern Virginia area. New home cancellation rates have recently escalated to 38% in the region, and the builders will have to burn off any surplus inventory before any sustained improvement will be seen in this sector of the housing market. The positive news is that the condominium market appears to be at or approaching bottom.

Current statistics indicate that one out of four foreclosures nationwide involve an investor. Regionally, the greater risk for these types of properties exist in the outer suburbs, or those areas located outside of the Capital Beltway (I-495) which also experienced the highest rates of appreciation from 2003 through 2006. On a positive note, the sub prime market represents a small percentage of the total mortgage debt. The sub prime market in Northern Virginia only represents approximately 5.5 percent of all mortgage debt. Maryland and the District of Columbia are slightly higher at 7.1 percent and 5.9 percent, respectively. According to statistics complied by *Delta Associates*, as of January 2008 there were approximately 136 homes in the City that were in foreclosure. Foreclosure activity in the City totaled 23 in 2006, and 140 in 2007. Job growth and low unemployment in the area will help preclude foreclosure rates increasing beyond current levels. Refer to the following table for the foreclosure activity in the City of Alexandria for 2006 and 2007 by land use.

Table 6: Foreclosures In The City of Alexandria
By Property Type 2006 and 2007

Property Type	**Residential Condominium**		**Single-Family**		**Commercial**		**Vacant Land**	
Year	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
1st Qtr.	0	7	0	4	0	0	0	1
2nd Qtr.	4	19	0	10	0	0	0	0
3rd Qtr.	4	28	1	18	0	0	0	0
4th Qtr.	13	29	0	24	1	0	0	0
Total	21	83	1	56	1	0	0	1
Source: Department of Real Estate Assessments								

☞ According to Dr. Stephen Fuller, 1st quarter 2008 housing activity is projected to be weak, but not negative, indicating slow growth for the year. Despite procurement and federal government contract out source spending expected to level off over the next four years, the federal government will remain the foundation as well as a primary source of economic stimulus (albeit at significantly slower growth rates) for the region. Consumer confidence will also play a large role in any market reversal. Notwithstanding the foregoing, the region's employment picture is still better than most being third in the nation in terms of new job creation. A regional unemployment rate of approximately 3 percent also compares favorably with the national average of 5 percent. The challenge over the long-term will be how to replace decreasing government spending with other businesses if current levels of reduced consumer spending are sustained. These considerations will ultimately have an impact on housing prices. Price and income will also play a large role relative to demand over the long-term. In other words, salaries associated with new jobs will have to be commensurate with price in order maintain overall affordability.

In conclusion, the single family market is in transition from the growth years (2002-2006) to the declining years (2006-2007), and it remains to be seen if the market will remain flat or continue to slowly decline (particularly if national trends go negative), or will it start to pick up again.

COMMERCIAL PROPERTY

Points of Interest Relating to CY 2008 Commercial Assessment Changes:

☞ The assessed value of existing locally-assessed commercial property existing on January 1, 2008, increased 12.08%, or $1.57 billion. Appreciation accounted for 82.4% of the increase, or $1.29 billion (Attachment 1, Page 2, Line 40, Column 8).

☞ New commercial construction added $276.2 million, or 17.6% of the increase in the commercial tax base.

☞ According to the Fourth Quarter 2007 *Korpacz Real Estate Investor Survey*, a publication of PriceWaterhouseCoopers, property and geographical preferences among investors changed little in 2007. Despite the underlying fundamentals remaining sound in most of the commercial sector, turmoil in the capital markets has resulted in the pricing gaps between buyers and sellers. As a result, deals are in danger of unraveling, loan terms change on a daily basis, and offerings have been delayed until market conditions can stabilize. Just how far these conditions will extend into 2008 remains to be seen, but investors are predicting fewer transactions, more stringent underwriting standards, extended marketing periods, lower property values, and higher rates of capitalization. The impact on individual markets and specific property types will vary based on a region's underlying fundamentals and property characteristics. Secondary markets and those considered to be third tier will likely experience declining values and higher capitalization rates compared to primary markets which are more dynamic and self-supporting. Commercial markets such as those that characterize the Washington metropolitan area are expected to experience mild adjustments. Notwithstanding, the real challenge for market participants in 2008 will be dealing with price corrections. After months of easy debt acquisition and compressed capitalization rates which emphasized upside potential, risk evaluation is once again playing a significant role in purchase decisions.

☞ Local economic indicators for all segments of the City's commercial real estate market continued to strengthen over the course of 2007. As a result, there were double-digit assessment increases in several classes of commercial property. The City's commercial real estate market is characterized by new development, redevelopment, and changes in use within older existing properties. In 2007, there generally was upward price pressure on existing commercial buildings due largely to a limited supply of properties that were marketed.

In conclusion, while 2008 commercial assessments reflect a strong 2007 market, the tightening credit mandates on real estate, like higher capitalization rates, higher office vacancy rates, a slowing regional economy, coupled with the extraordinary prices paid for commercial property over the last few years, points to the potential for flat or declining commercial property assessments for 2009.

Land Values

As unimproved land remains a scarce commodity, developers continued to purchase improved property for the purpose of redevelopment more commensurate with increased densities and recommendations detailed within the Small Area Plans.

Perhaps the most notable land sale in the City occurred in May 2007, when RP MRP Potomac Yard LLC (MRP Realty) purchased 13.279 acres (Land Bay G and Part of H) in the Town Center area of Potomac Yard for $70,000,000. This equates to $12.02 per square foot of land, or $32.16 per FAR.

In November 2007, Carlyle Center LP (% Trammel-Crow Residential) purchased 2.8362 acres located on the east side of Hooffs Run Drive south of Eisenhower Avenue for $18,000,000. This equates to a price of $145.70 per square foot, $131.36 per FAR, or $64,286 per unit based on 280 multifamily units within two mid-rise buildings with structured parking.

In August 2007, WRIT-MBA LLC (Washington Real Estate Investment Trust) purchased 34,998 square feet of land located at the northwest quadrant of the intersection of Seminary Road and

Kenmore Avenue for $3,750,000, or $107.15 per square foot. Demolition of an existing restaurant and redevelopment with a 70,000 square-foot medical office building is currently proposed.

New and Proposed Construction Activity

There is a significant number of new construction projects currently under development, approved but not started, or in various stages in the approval process. A number of these developments are mixed-use projects which contain various combinations of office, retail, and residential. Some of the more significant new and proposed construction projects are summarized in Table 7 located below and on the following page.

Table 7: Selected New Construction and Approved Projects

Project Name Property Address	Map/Lot/Block	% Complete As of 1-1-08	Comments
Marriott Residence Inn 2345-2347 Mill Road	072-04-02-10	15%	180-room hotel containing 125,000 square feet. The building will be 15 stories with structured parking.
Clayborne Apartments WashREIT 801 S. Washington Street 800 S. Columbus Street	80.04-03-25	Shopping Center 100% Apartments 80%	75 multi-family rental apartment units and the renovation of an existing neighborhood shopping center.
Ellsworth Place a/k/a W. Glebe Townhouses 800-910 W. Glebe Road	006.01-02-02	Townhouse Units 17% Site Development 100%	24 single-family townhouse units. Home construction is in progress.
Abington Row a/k/a Postmasters 1023 N. Royal Street	055.01-03-18	80%	53 residential condominium units.
Beauregard Station 520 Armistead Street	037.02-01-16	Townhouse Units 15% Site Development 100%	41 townhouse condominium units.
Mill Race Office Building 2201 Eisenhower Avenue	072.04-03-20	70%	High-rise office building containing a gross floor area of 262,108 square feet and a net floor area of 227,479 square feet.

Table 7: Selected New Construction and Approved Projects (Continued)

Project Name Address	Map/Lot/Block	% Complete As of 1-1-08	Comments
Carlyle, Block J 2050 Ballenger Avenue	073.03-02-17	Excavation In Progress	This building will contain 52,037 square feet of office space and 16,319 square feet of street level retail.
Carlyle, Block K 1900 Ballenger Avenue	073.03-02-22	Excavation In Progress	This building will contain 52,037 square feet of office space and 16,319 square feet of street level retail.
Eisenhower Avenue III 2320 Mill Road	073.03-01-07	40%	This building will contain 98,618 square feet of gross floor area and 5,812 square feet of street level retail.
DSF/Long King Street 1514-1520 King Street	063.04-09-21	Excavation IN Progress Facade Stabilized	107-room hotel containing 121,670 square feet. The building will be 6 stories with structured parking.
Alexan a/k/a Carlyle Center 310 Hoofs Run Drive	079.02-01-11	Site Demolition Complete	280 multifamily rental apartments within two, 5-story buildings containing a gross floor area of 293,944 square feet
Fannon Oil Site 1300 Duke Street	074.01-13- 1 thru 4 074.03-01-01 & 02	Site Demolition Complete	58 residential condominium flats (40)and townhouses (18).
Potomac Yard, Land Bay H 2501 Jefferson Davis Hwy	025.03-03-01 & 04	Land Bay Condition Site Infrastructure Work Only	103 fee single-family townhouses, 113 low-rise condo flats, 51,616 square feet of office, and 4,851 square feet of street level retail.
Mount Vernon Commons 3105 Mt. Vernon Avenue	015.04-07-01 & 02 024.02-02-03 - 10	Work Has Not Been Started.	141multifamily rental apartments within 3 and 4 story low-rise buildings.
Carlyle, Block O 601 Holland Lane	073.04-01-03	Land Bay Condition With Off-Site Infrastructure	332 rental apartment units and 5,946 square feet of retail within mid- and high-rise buildings.
Victory Center 5001 Eisenhower Avenue	068.04-01-05	Existing Building Striped Down To Structural Shell	Completely renovated office building containing 532,903 square feet of gross floor area.
Carlyle, Block P Carlyle Plaza 1800 Eisenhower Avenue	079.01-01-14	Land Bay Condition With Off-Site Infrastructure	Office building containing a gross floor area of 364,761 square feet, and 29,724 square feet of street level retail.

Source: Department of Planning and Zoning, Development Activity in Alexandria, Fourth Quarter 2007

Office Market Overview

This property class is segmented by size and includes both large office buildings and junior office buildings. The base for this property type increased 15.4%, or approximately $708.9 million, from $4.6 billion in CY 2007 to $5.3 billion for CY 2008 (Attachment 1, Page 2, Line 30, Column 5). Of this, 87.8%, or $622.2 million is attributable to appreciation, while the balance of $86.8 million, or 12.2% is derived from new growth. Overall, office building construction contributed 20% of the new growth for 2008.

Despite general stability in the Northern Virginia office market during 2007, changing economic conditions have begun to impact some of the region's submarkets going into 2008. Dominated by pre-leased deliveries, absorption in 2007 was below average and vacancy rates began inching upward. Even in the face of these negative indices, rents increased at a modest rate as construction starts slowed in an effort to absorb overhang inventory. It only stands to reason that the residual speculative space is likely to push overall vacancy rates upward over the near-term. With construction costs increasing, the development of new office space has become an expensive venture requiring full service rents in excess of $40 per square-foot. Given market conditions which are pointing to a moderate decline, new development should drop off as it becomes more difficult to command threshold rents.

According to statistics complied by *Delta Associates*, rental rates grew at a 0.7% rate in Northern Virginia during 2007. This compares to a growth rate of 3.7% during 2006. It should be noted, however, that several submarkets outperformed others. Better performing submarkets included the Old Town Submarket where office rents increased 2.2% during the period from December 2006 to December 2007. Current projections are that rents should increase 1% to 2% in 2008 in the Northern Virginia submarkets located inside the Capital Beltway (I-495), and decrease in those submarkets outside.

According to a report prepared by *Delta Associates*, the overall office vacancy rate in Northern Virginia stood at 10.3% by the end of the 3rd quarter 2007. This was an increase of 0.4% from the previous quarter, and an increase of 1.2% from the previous year. The overall office vacancy rate is expected to increase to 11.1% by the end of 2009, with supply outpacing demand by approximately 2.3 million square feet over the next two years despite continued job growth. Even though most investors have lowered value and appreciation expectations, many still desire office building assets given their proven ability to weather market downturns.

According to data compiled by the Fourth Quarter 2007 *Korpacz Real Estate Investor Survey*, overall capitalization rates in the Northern Virginia office market ranged from 5% to 9% with an average of 6.83%. This represents a decrease of 16 basis points from the same period one year earlier when the average rate was 6.99%. Changes in market rents increased from 0% to 4% with an average of 2.94%. Corresponding expenses grew between 3% and 3.5% with an average of 3.06%. Based on data averages, capitalization rates generally continued to compress even when operating expense increases offset any potential gains from higher rents.

According to *CoStar* statistics, the City has an existing industrial inventory slightly in excess of 19 million square feet with a corresponding vacancy rate, depending on the data source and sample size, ranging between 5.5% and 6.5%. Full service office space rents range from $15.00 per square-foot to $46.00 per square-foot with an average $30.90 per square-foot. Office building sales that occurred in 2007 are summarized in Table 8 below.

Table 8: 2007 Office Building Sales

Property Location	Sale Date	Bldg. Size In Sq.Ft. Net Leaseable Area	Consideration	Price/Sq.Ft. of NLA
3101Park Center Drive	9-18-2007	218,943	$73,000,000	$333.42
2000 Duke Street	6-13-2007	149,665	$87,000,000*	$581.30
1725 Duke Street	6-14-2007	146,693	$80,540,000*	$549.04
1940 Duke Street	6-13-2007	205,300	$130,000,000*	$633.22
1555 King Street	7-18-2007	28,519	$11,600,000	$406.75
* Trophy Class Investment Grade Property				

Multi-Family Apartment Market Overview

The multi-family (rental) property base increased 9% for CY 2008 (Attachment 1, Page 2, Line 26, Column 5) to $4.4 billion. This was significantly less than CY 2007 when this class increased 22% over the previous year. Overall, there is a $367.8 million increase for CY 2008, of which, 66.9% ($246 million) is attributable to appreciation. The balance of $121.8 million was new growth.

Notwithstanding the impact of the shadow market (condominium conversions to rental and single-family homes), investors still favor the rental apartment market as the sector can provide competitive long-term returns. As indicated by *Emerging Trends in Real Estate 2008*, apartment demand is projected to increase due an influx of young adult professionals, immigrants, prospective future home buyers, and “mortgage market compromised homeowners.”

Overall, the Washington metropolitan area continues to be one of the top apartment markets due to continued employment growth and a highly transient workforce. Additional support is provided by a poorly performing condominium sector where potential purchasers are waiting out the market. In 2007, however, the market was impacted by the introduction of single-family rentals, condominium project reversions, additional pipeline development, and moderating job growth.

According to statistics compiled by *Delta Associates* the 36-month Northern Virginia pipeline has the potential of delivering 17,120 units. Therefore, if developed, it stands to reason that the area supply will exceed projected demand over the next 24 months and vacancy rates will increase. The affects were illustrated using historical data collected over the last 21 months where as inventory increased rent growth either slowed or decreased.

According to the Fourth Quarter 2007 *Korpacz Real Estate Investor Survey*, overall multi-family capitalization rates ranged from 3.5% to 8% with an average of 5.75%. Changes in market rents increased from 0% to 8% with an average of 3.54%. Corresponding expenses grew between 2% and 3.75% with an average of 2.91%. Based on this data, operating expense increases significantly offset any potential gains from increased rents.

The shadow market phenomenon is considered to be short-term by many analysts, and will last only as long as the current housing market remains cool. In the event of a sustained correction, apartment seekers may possibly see lower rents. A summary of the projects in the City that initially were started as condominium or condominium conversions, but switched to rental is presented in Table 9 below.

Table 9: Condominiums That Switched to Rental Projects

Project Name	Location	Project Type	Number of Units
Halstead Tower at Park Center (New Construction)	4380 King Street	High-Rise	173
Mill Race (New Construction)	2251 Eisenhower Avenue	High-Rise	326
Tuscany at Landmark (New Construction)	240 Yoakum Parkway	Mid-Rise	104
The Monarch (New Construction)	500 N Henry Street	Mid-Rise	168
Park Center II (Apartment Conversion)	2701 Park Center Drive	High-Rise (540) & Townhouse (34)	574

Selected 2007 multi-family apartment project sales where the intent was to remain as rental are summarized in Table 10 at the top of the following page.

Table 10: 2008 Multi-Family Rental Apartment Sales

Property Location Project Name	Sale Date	Number of Units	Consideration	Price/Unit
Kingsport Apartments 3800 Florence Drive	7-31-2007	416	$64,000,000	$153, 846
Hampton Court Apartments 435 N Armistead Street	12-19-2007	307	$38,000,000	$123,778
250 S Whiting Street Foxwood Place	7-23-2007	228	$35,100,000	$153,947
Halstead Towers* 4380 King Street	1-18-2007	173	$76,000,000	$439,306
Northampton II 4390 King Street	7-6-2007	275	$97,500,000	$354,545
* Originally developed a condominiums and subsequently converted to rental.				

Warehouse Market Overview

The City's warehouse properties are in low supply (176 parcels), and demand continues by many users to occupy the limited amount of space. The industrial warehouse property tax base increased 10.3% for CY 2008 (Attachment 1, Page 2, Line 33, Column 5) to $786.4 million. This is consistent with CY 2007 with the industrial based increased 9.8%, or $65 million, to $726.8 million. Of the total CY 2008 increase, 94.6% was attributable to appreciation. There is no new industrial development taking place in the City. As commercial land in the City becomes more scarce, market evidence suggests that large warehouse properties will continue to sell for the purposes of redevelopment. Current uses, however, will be retained on an interim basis pending approvals necessary to redevelop with alternative uses at greater densities.

According to the Fourth Quarter 2007 *Korpacz Real Estate Investor Survey*, overall industrial capitalization rates ranged from 5% to 8% with an average of 6.48%. Changes in market rent increased from 0% to10% with an average of 3.23%. Corresponding expenses grew between 2% and 3.5% with an average of 3%.

Developers are building warehouse and distribution type buildings in Northern Virginia. This is in direct response to a growing number of tenants that require these type of facilities. However, given current land prices none of this activity is occurring within the City limits. In Northern Virginia, industrial development is mostly being pushed out to the Dulles Corridor in eastern Loudoun County and along the Route 234 Bypass off of Interstate 66 in western Prince William County.

According to *CoStar* statistics, the City has an existing industrial inventory slightly in excess of 6 million square feet with a corresponding vacancy rate, depending on the data source and sample size, ranging between 5% and 6%. Triple net asking rents for industrial space range from $7.95 per square-foot for larger space increments to $16.50 per square-foot for smaller spaces with a higher percentage of finish. The average was $10.08 per square-foot. The most recent improved industrial property sales in the City are summarized in Table 11 below.

Table 11: 2007 Industrial Building Sales

Property Location	Sale Date	Bldg. Size In Sq.Ft. Gross Floor Area	Consideration	Price/Sq.Ft. of GFA
430-450 S Pickett Street	1-8-2007	181,166	$23,000,000	$126.96
725 S Pickett Street	2-28-2007	54,000	$6,500,000	$120.37
801 S Pickett Street	4-3-2007	43,400	$5,875,000	$135.37
631-641 S Pickett Street	1-8-2007	144,626	$18,000,000	$124.46
3025 Colvin Street	10-10-2007	6,350	$1,500,000	$236.22
100 Telegraph Road*	6-6-2007	110,443	$14,850,000	$134.46
* Multi-story mini-warehouse building.				

Hotel Market Overview

The base for this property type increased 17.8%, or approximately $137.6 million, from $772 million in CY 2007 to $909.6 million for CY 2008 (Attachment 1, Page 2, Line 34, Column 5). Of this, 94.2%, or $129.7 million is attributable to appreciation, while the balance of $7.9 million is derived from new growth. The CY 2007 percentage increase is less than those in CY 2007 and CY 2006 when the hotel tax base increased 27.4% and 30.2%, respectively.

The hotel market has improved over the last several years, as a result of improving average daily room rates (ADR's) and somewhat increasing occupancy levels. According to a February 2, 2007, article in the *Washington Post*, money is pouring into the hotel sector, particularly for existing facilities. In the top markets, this is being attributed to high land costs and increasing construction costs that make the acquisition of existing buildings approximately 70% of what would be incurred to construct new. That would indicate that the introduction of additional rooms is unlikely at a time characterized by sustained demand and when room rates have been increasing at double-digit increments over the last several years. The economic hotel cycle, however, is demonstrating signs of reaching its peak with rooms rates beginning to flatten and record amounts of new construction in the pipeline. Analysts still project that approximately two years remain in the cycle.

According to the Third Quarter 2007 *Korpacz Real Estate Investor Survey*, average capitalization rates for this sector, depending on the type of facility (full service, economy, luxury upscale or extended stay), ranged from 8.3% for full service to 10.75% for extended stay. The overall range of rates (low to high) was 4% for luxury upscale to 14% for economy. Average daily rate changes also exceeded expense increases by an average of 1.3%. The overall range of the differential (low to high) was 0.5% for extended stay to 2.1% for luxury upscale.

Unlike trends in other sectors, two economic indicators for hotels in the City have generally been improving over time. Refer to Table 12 below detail these measures over a five-year period.

Table 12: Average Occupancy and Daily Room Rates FY 2004 - FY 2007

Measure	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Average Occupancy	64.6%	67.7%	71.9%	71.1%	66.7%
Average Daily Room Rate	$99.64	$101.92	$107.86	$117.56	$126.52
Source: Alexandria Convention and Visitors Association FY 2004 - FY 2008					

During the 5-year period, the average occupancy rate increased 2.1% despite several new hotels coming on-line over the period. Also during this period, the average daily room rate increased 27%. New hotel construction in the City includes the Westin in Carlyle which is a 312 room full service facility completed in 2007, and the 180-room Marriott Residence Inn located at 2345 Mill Road. Recent hotel sales in the City are summarized in Table 13 below.

Table 13: 2007 Hotel Property Sales

Name Property Location	Sale Date	No. of Rooms	Consideration	Price/Room
Marriott Duke Street 1460 Duke Street	4-25-2007	240	$79,100,000	$329,583
Sheraton 801 N. St. Asaph Street	6-7-2007	247	$69,000,000	$279,352
Crown Plaza 901 N. Fairfax Street	5-10-2007	253	$56,440,000	$223,083
Holiday Inn North Old Town 515 First Street	5-10-2007	178	$37,460,000	$210,449
Comfort Inn 6254 Duke Street	4-4-2007	150	$13,667,300	$91,115
Days Inn 110 Bragg Street	4-4-2007	200	$11,320,400	$56,602

Shopping Center Market Overview

Although the Landmark Mall has continued to struggle, the performances of the City's 28 neighborhood centers and the Potomac Yard Power Center (as it heads towards total redevelopment of its 55 acres) continued to be strong with high occupancies and stable operating positions. The base for this property type increased 5.62%, or approximately $30.7 million, from $546.8 million in CY 2007 to $577.5 million for CY 2008 (Attachment 1, Page 2, Line 32, Column 5). All of the increase was attributable to appreciation. Based on data compiled by the Department of Finance and the Virginia Department of Taxation, retail 3rd quarter 2007 gross retail receipts totaled $608,212,627. This was a 2.7% decrease from the previous quarter, and a decrease of 3.3% from the same period in 2006. Reduced consumer spending due to uncertainties about the overall economy may impact future shopping center vacancy rates.

According to the Fourth Quarter 2007 *Korpacz Real Estate Investor Survey*, capitalization rates for this property type ranged from 5.8 to 9% with an average of 7.24%. During all of 2007, capitalization rates for this asset class ranged from 5.7% to 9% with an average of 7.29%. Changes in market rent increased from 1.2% to 3.9% with an average of 2.86%. Corresponding expenses grew between 3% and 4% with an average of 3.10%. Based on this data, operating expense increases offset any potential gains from increased rents.

Nationally, a decrease in consumer spending and an increase in vacancy rates is making investors cautious. According to *Emerging Trends in Real Estate 2008*, centers of interest will be those in desirable infill locations with demographic characteristics that include high disposable incomes and high income earners. Above average incomes of Washington metro area residents are more than adequate to support most types of retail development. According to statistics compiled by *Delta Associates*, the average household income in the metro area is projected to be $110,300 by 2012. This compares to the projected national average of $73,700. Over the period from 2000 to 2007, average household income increased 36.9%, while individual income increased by 21.8%. Due to the area's low unemployment rate, companies have used high salaries as a lure to attract qualified individuals. As of 3rd quarter 2007, the City's unemployment rate stood at 2.1%, which compared favorably with Virginia's 2.8%, and the nation's 4.5%. Despite much more moderate growth, the Washington metro area economy is projected to remain healthy in 2008 with improvement expected over the next two years compared to 2007. As of year-end 2007, grocery store anchored centers in the City had an average vacancy rate of 2.8%

The general strength of the retail sector in Alexandria is the city's high household incomes, and the lack of a contemporary regional shopping mall filled with name national retailers, all point to the viability of a totally redeveloped Landmark mall site. Once Sears and Macy's both agree to the redevelopment, the owner of Landmark Mall (General Growth Properties, the second largest mall owner in the United States) will proceed with redevelopment.

The most recent shopping center sale in the City is summarized in Table 14 below.

Table 14: 2007 Shopping Center Sales

Center Name Property Location	Sale Date	Bldg. Size In Sq.Ft. Leasable Floor Area	Consideration	Price/Sq.Ft. of LFA
Van Dorn Plaza* 201 S Van Dorn Street	1-10-2007	127,764	$30,214,000	$236.48

* A representative of the grantee indicated that the property was purchased for redevelopment with a mixed-use project in 5 to 7 years, and that the existing rents are adequate to carry the property during the interim period.

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 market for smaller, leased and owner-occupied commercial space continued to be very strong as reflected in the sales prices for these types of properties. With the exception of service station and repair garage facilities, the range of sale prices in 2007 were for the most part similar to those reported the previous year. These properties also have the highest percentage of owner-occupied properties of all the commercial use groups. Typical purchasers of these properties are motivated by such considerations as expense stabilization, tax benefits, and security of occupancy.

The base for this property type increased 7.5%, or approximately $100 million, from $1.3 billion in CY 2007 to $1.4 billion for CY 2007 (Attachment 1, Page 2, Line 29, Column 5). Of the total increase, 94.4%, or $94.4 million is attributable to appreciation, while the balance of $5.6 million is derived from new growth. During CY 2007, we continued to see steady increases in rental rates. Smaller properties (less than 3,000 square feet GFA) are typically purchased by owner-occupants at price levels that are somewhat higher than what an investor seeking a competitive rate of return would consider.

ASSESSMENT PROCESS

The legislation enabling and requiring the City to annually assess real property for local taxation is found in the Virginia Constitution, Code of Virginia, Charter of the City of Alexandria and Alexandria City Code. The Department of Real Estate Assessments (DREA) annually assesses all parcels of real estate in the City at 100% of fair market value. In establishing annual real property assessments, DREA uses mass appraisal methods to estimate the fair market value. Mass appraisals replicate the market for one or more land uses across a wide geographic area, while single-property appraisals represent the market for one kind of land use in a limited area. Notwithstanding the relative difference, mass appraisal builds on the same principles as single-property appraisal.

The CY 2008 real property assessments are the result of measuring market indicators from arms's length transactions, property income and expense information, and comparable construction cost data. Staff also employs numerous data services and our Computer Assisted Mass Appraisal (CAMA) System to produce equitable values for all properties in the City.

For CY 2008, 43,532 local taxable properties were assessed. Also assessed on an annual basis are 971 tax exempt parcels. Assessment notices were mailed to property owners today, and assessment information is now available on the city's web site in conjunction with the City Council presentation. Information about the forms needed for the review and appeal process, the 2008 assessments for all locally assessed properties, general assessment data, and recent sales used to determine individual assessment is also available.

The 2008 assessment notices included information about requesting a review of assessment with DREA by April 1, and information about filing an appeal of the assessment with the Board of Equalization and Assessment Review by July 1. Typically less than 2% of owners or real property challenge the assessed value of their property through the annual assessment review and appeal process. In 2007, the number of requests for assessment reviews filed with DREA and appeals to the Board represented 1.07% (460) and 0.54% (234), respectively, of the 42,988 locally assessed properties in the City.

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ATTACHMENTS:

Attachment 1:	CY 2008 Real Property Assessment Summary Including Appreciation and New Growth
Attachment 2:	Map Showing 2007 to 2008 Residential Property Appreciation by Geographic Area
Attachment 3:	CY 2008 Median Assessments for Single Family Homes and Residential Condominiums (by value ranges and small area plan)
Attachment 4:	CY 2008 Average Real Property Assessments for Single Family Homes and Residential Condominiums by Geographical Area
Attachment 5:	Residential Sales Statistics (January 2005 through December 2007) Prepared by the Department of Real Estate Assessments
Attachment 6:	Map of 2007 Foreclosed Properties
Attachment 7:	"Region's Home Prices Continue To Fall: Some Pockets Thrive," The Washington Post, January 20, 2008
Attachment 8:	"How Low Will It Go? Well, Where Do You Live," The Washington Post, July 7, 2007
Attachment 9:	"2008 Will See Further Correction In Housing Market," The Alexandria Times, January 17-24, 2008
Attachment 10:	"Local Home Foreclosures On The Rise," The Washington Post, December 10, 2007
Attachment 11:	"Brokers Fell Sting Of Low Absorption," Washington Business Journal, July 6-12,2007