

City of Alexandria, Virginia

MEMORANDUM

DATE: OCTOBER 30, 2009
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER 
SUBJECT: REAL ESTATE ASSESSMENT OUTLOOK FOR DISCUSSION AT
NOVEMBER 7 BUDGET RETREAT

ISSUE: Projected Calendar Year 2010 (CY 2010) Real Property Assessment Changes from January 1, 2009 based on information available as of September 30, 2009.

DISCUSSION: At this time the Department of Real Estate Assessments (DREA) projects a decrease in the real property tax base (locally and non-locally) for CY 2010. The uncertainty remaining in the real estate market, primarily in the commercial market sector, makes this projection the most difficult we have made in decades. Currently, we are giving a range of changes by property class which result in a range of decreases to the 2009 tax base of -5.74% as the lowest estimate of decline, to a high range of a -9.38% decline. The midrange projection we have made results in a decline of -8.07%. Attachment 1 shows the low, midrange and high ranges by types (or classes) of property. The only assessments which are complete and not projections are the non-locally assessed properties which we received from the State in the last month.

Due to the uncertainty in the commercial market we will continue to monitor these changes through the end of the year and reflect them in the 2010 assessments. We will bring you revised information at your Legislative Meeting in December and again in January, both prior to when the final assessment numbers will be available to the public. We understand the importance of remaining diligent in our efforts to stay apprised of market conditions and to reflect these in our assessments, but also the need for you to have this information to make informed decisions regarding the City's budget.

Residential Property: Existing residential properties (including single family homes and residential condominiums) will likely decrease -4.8% from 2009 to 2010, with single family properties decreasing slightly or remaining flat in most neighborhoods, while many of the condominiums will receive more significant declines similar to last year. Our current projected range for residential property is a decline of 4.26% to 5.29% with a midrange of 4.79%.

Attachment 2 is a Cumulative Residential and Commercial Assessment Sales Ratio Study which reflects the sales ratio for all classes of property. This represents the relationship between the 2009 assessment for properties that are sold and are considered arm's length transactions during the time frame of sales we are relying on for the 2010 assessments and their respective sales prices. In mass appraisal, this is one tool that we rely on to determine the market movement by types (or classes) of property. You will notice in reviewing this data that the sales ratios for the condominiums are higher (hovering around 100%) as compared to the single family properties. This would indicate that the 2009 condominium assessments would receive a greater reduction in their 2010 assessments. The median sales ratio is the center point of a bell curve indicating that a greater majority of condominiums would have 2009 assessments that are greater than their sales price, an indication that the market has continued to fall since January 2009.

Attachment 3 is a Cumulative sales volume by property type (class). While this data does not show any particular information that directly assists us in determining fair market value, we do believe that it is additional information that points to a slower market in both volume and sales price. With the lower number of sales the past few years this data becomes more easily skewed, as compared to the years of larger sales volume.

Attachment 4 even better depicts the decline in the Northern Virginia Market. This data is from the Metropolitan Regional Information System (MRIS) and this data includes data collected from the counties of Fairfax and Arlington, and the cities of Alexandria, Falls Church, Fairfax, and the towns of Vienna, Herndon and Clifton. While this data changes month to month, all of this again reflects the continued slowness in the residential market sector.

From all of the data we have reviewed, we primarily rely on the sales ratios within the City of Alexandria (Attachment 2) for our projected changes to the assessments. All indications noted above lead to the conclusion that the residential market will remain slow for the remainder of this calendar year without significant swings.

Commercial Property: Existing commercial properties (including multi-family rental apartments, general commercial, office buildings, hotels, shopping centers, warehouses and vacant land) is expected to decrease in the midrange estimate by -13.04%, for 2010, based upon the lack of sales activity, and trends that were anticipated at the end of last year, and remain uncertain to date. Attachment 2 reflects the lack of sales in the commercial property types and therefore does not give us a clear indication of how these properties have been impacted.

While Income and Expense Survey data are provided to the department and analyzed, we have found that the actual income for most types (classes) of property has changed only slightly. We do have higher vacancy rates in certain property types, but rents have remained close to the same levels as earlier. The key component to the valuation of the commercial property is the capitalization rate. With so few sales on which to rely we are looking at data from other "close in" counties on which to determine a market value and a capitalization rate on which these properties traded. In the past month we have had our

first multi-family sales in the City and we are verifying those sales and looking for an indication of the market value.

PriceWaterhouseCoopers publishes the most renowned market indicators for capitalization rates for commercial properties, The Korpacz Realty Investors Survey. We recently received the 3rd Quarter information which indicates capitalization rate changes on a national level for most classes of property, with the exception of office buildings which does have a change for the Northern Virginia market. These changes are significant and we believe are higher than what investors are considering appropriate for the Northern Virginia market due to certain level of insulation we continue to feel during this real estate market decline.

The 2010 assessment decline range projected currently is a low of -7.66% to a high of -15.52% for all commercial properties. This estimate does consider significant changes to the capitalization rates for office buildings and apartments. However, the change in capitalization rates is not as great as those indicated in the Korpacz Survey referenced above. Many market participants are starting to indicate that the "crash" in the commercial market may not actually occur. There will be a slowdown, but not the drastic drop in values that was anticipated earlier. We can only say at this point, our projection is based on as much information as is available at this time, and we will continue to seek additional information. While the apartment and office markets are the largest components to our commercial tax base, the general commercial properties will not decline as much as the larger investor grade market properties. Again, we will continue to give you updates on what we find in the market and how that impacts the 2010 assessments.

Non-Locally Assessed Property: The assessments were recently finalized and received by the City for all non-locally assessed properties (i.e., utilities). The actual assessments are reflected in the midrange and high ranges. The low range was our initial projection in early September when this information was not available. There were only minor changes to these properties resulting in a .73% increase in the assessed values.

New Construction: New construction and growth have been included in the estimates by property type (class) above. We estimate approximately \$133 million in total new construction for 2010. This again is very difficult to project as several of the projects are progressing much slower than usual due to their concern over the ability to lease or sell the space once it is completed. We certainly will monitor this component of our projections as well over the next 8 weeks.

Summary: Our best indications as we have stated give us a range of total property assessment changes from -5.74% to -9.38% at this time. Our best guess within that range is -8.07%. We will be completing residential assessments earlier and have more certainty in that area. However, we will be waiting until as close to the end of the year as possible to finalize the commercial assessments. It is imperative for us to have all of the data available before finalizing the assessments so we can defend these assessments before our Board of Equalization and potentially later before the Alexandria Circuit Court.

Attachments:

Attachment 1 – Projected CY 2010 Real Property Assessment Changes

Attachment 2 – Cumulative Residential and Commercial Assessment/Sales Ratio Study

(As of September 30, 2009)

Attachment 3 – Real Estate Statistics/Sales Volume by Classification

Attachment 4 – Northern Virginia Area Home Sales Report

Attachment 5 – Northern Virginia, Washington DC Sales Statistics Comparison

Attachment 6 – Foreclosed Properties in Alexandria 2006 - Present

Department of Real Estate Assessments

Date: October 28, 2009

Projected CY 2010 Real Property Assessment Changes**Locally Assessed Real Property**

	<u>Low</u>	<u>Mid-Point</u>	<u>High</u>
Residential Property			
Single Family	-3.43%	-3.76%	-4.16%
Residential Condominium	-6.50%	-7.25%	-8.25%
Total Residential Property	-4.26%	-4.79%	-5.29%
Commercial Property			
Multi-family Rental	-7.74%	-14.15%	-20.07%
Office, Retail, and Service	-7.68%	-12.62%	-13.61%
Other Commercial	-6.60%	-11.13%	-11.13%
Total Commercial Property	-7.66%	-13.04%	-15.52%
2010 Total Locally Assessed	-5.70%	-8.30%	-9.64%
Non-Locally Assessed Real Property			
SCC Assessed Real Property	-7.00%	0.93%	0.93%
VDT Assessed Real Property	-7.00%	-0.30%	-0.30%
Total Non-Locally Assessed Real Property	-7.00%	0.73%	0.73%
Total Real Property Assessments	-5.74%	-8.07%	-9.38%

City of Alexandria, Virginia

CUMULATIVE RESIDENTIAL AND COMMERCIAL ASSESSMENT/SALES RATIO STUDY

For period from January 1, 2009, through September 30, 2009

	Real Property Classification	No. Sales	2009 Assessment	Total Sales Price	2009 Ratio
	(1)	(2)	(3)	(4)	(5)
	Locally Assessed Real Property				
	Residential Real Property				
1	Residential Single Family				
2	Detached	213	\$148,644,492	\$151,916,767	97.85
3	Semi-Detached	181	94,286,542	96,224,438	97.99
4	Row House	206	116,000,010	120,493,959	96.27
5		-----	-----	-----	
6	Total Single Family	600	\$358,931,044	\$368,635,164	97.37
7					
8	Residential Condominium				
9	Garden	271	\$90,924,616	\$91,505,293	99.37
10	High-rise	149	47,959,202	47,238,844	101.52
11	Residential Cooperative	0	0	0	0.00
12	Townhouse	31	13,361,289	13,925,850	95.95
13					
14	Total Residential Condominium	451	\$152,245,107	\$152,669,987	99.72
15		-----	-----	-----	
16	Total Residential Real Property	1,051	\$511,176,151	\$521,305,151	98.06
17					
18	Commercial Real Property				
19					
20	Commercial Multi-Family Rental				
21	Garden	3	\$33,117,610	\$36,900,000	89.75
22	Mid-Rise	1	26,970,000	26,500,000	101.77
23	High-Rise	0	0	0	0.00
24		-----	-----	-----	
25	Total Multi-Family Rental	4	\$60,087,610	\$63,400,000	94.78
26					

City of Alexandria, Virginia

CUMULATIVE RESIDENTIAL AND COMMERCIAL ASSESSMENT/SALES RATIO STUDY

For period from January 1, 2009, through September 30, 2009

	Real Property Classification	No. Sales	2009 Assessment	Total Sales Price	2009 Ratio
	(1)	(2)	(3)	(4)	(5)
27	Commercial Office, Retail, and Service				
28	General Commercial	7	\$7,352,330	\$7,423,000	99.05
29	Office	4	11,893,131	10,131,484	117.39
30	Office or Retail Condominium	3	1,748,355	1,735,655	100.73
31	Shopping Center	0	0	0	0.00
32	Warehouse	3	25,572,778	20,219,000	126.48
33	Hotel/Motel and Extended Stay	0	0	0	0.00
34		-----	-----	-----	
35	Total Commercial Office, Retail, and Service	17	\$46,566,594	\$39,509,139	117.86
36					
37	Other Commercial Property				
38	Vacant Land Residential	1	\$185,680	\$155,000	119.79
39	Vacant Commercial and Industrial Land	1	4,545,200	5,200,000	87.41
40		-----	-----	-----	
41	Total Other Commercial Property	2	\$4,730,880	\$5,355,000	88.35
42		-----	-----	-----	
43	Total Commercial Real Property	23	\$111,385,084	\$108,264,139	102.88
44		-----	-----	-----	
45	Total Locally Assessed Real Property	1,074	\$622,561,235	\$629,569,290	98.89

Notes:

¹ The ratio is determined by dividing the assessed value (column 3) by the sale price (column 4).

Department of Real Estate Assessments, October 20, 2009

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City of Alexandria, Virginia

REAL ESTATE SALES STATISTICS
 CUMULATIVE SALES VOLUME BY CLASSIFICATION

For the periods from January 1, 2008, through September 30, 2008
 and from January 1, 2009, through September 30, 2009

Real Property Classification	2008 No. Sales	2008 Total Sales Price	2008 Average Sale Price	2009 No. Sales	2009 Total Sales Price	2009 Average Sale Price	% Change of Number of Sales	% Change of Total Sales Price	% Change of Average Sale Price	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
Locally Assessed Real Property										
Residential Real Property										
1	Residential Single Family									
2										
	Detached	260	\$194,129,123	\$746,650	278	\$188,081,858	\$676,553	6.9	(3.1)	(9.4)
3	Semi-Detached	235	141,058,833	600,250	236	120,046,301	508,671	0.4	(14.9)	(15.3)
4	Row House	292	165,999,387	568,491	251	140,818,090	561,028	(14.0)	(15.2)	(1.3)
5		-----	-----	-----	-----	-----				
6	Total Single-Family	787	\$501,187,343	\$636,833	765	\$448,946,249	\$586,858	(2.8)	(10.4)	(7.8)
7										
8	Residential Condominium									
9	Garden	544	\$173,103,174	\$318,204	458	\$135,977,028	\$296,893	(15.8)	(21.4)	(6.7)
10	High-Rise	254	72,279,132	284,564	229	61,700,805	269,436	(9.8)	(14.6)	(5.3)
11	Residential Cooperative									
12	Townhouse	43	20,766,300	482,937	35	15,810,090	451,717	(18.6)	(23.9)	(6.5)
13		-----	-----	-----	-----	-----				
14	Total Residential Condominium	841	\$266,148,606	\$316,467	722	\$213,487,923	\$295,690	(14.1)	(19.8)	(6.6)
15		-----	-----	-----	-----	-----				
16	Total Residential Real Property *	1,628	\$767,335,949	\$471,337	1,487	\$662,434,172	\$445,484	(8.7)	(13.7)	(5.5)

* If the sales of newly built or converted condominium properties, as well as any unusually large sales prices, were removed from the sales statistics of both 2008 and 2009, the percentage change of the average sales price of the Total Residential Real Property from 2008 to 2009 would be (5.6%).

City of Alexandria, Virginia

NORTHERN VIRGINIA AREA HOME SALES REPORT 1/

For period January 1, 2007 through September 30, 2009

Real Property Classification	CY 2007	CY 2008	CY 2009	Percent Of Change 2007 to 2008	Percent Of Change 2008 to 2009	Percent Of Change 2007 to 2009
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1 SALES VOLUME						
2						
3 First-Quarter						
4 January	\$706,209,398	\$348,018,904	\$375,915,589	-50.7%	8.0%	-46.8%
5 February	738,225,951	464,461,021	405,542,587	-37.1%	-12.7%	-45.1%
6 March	932,968,994	595,427,372	547,388,164	-36.2%	-8.1%	-41.3%
7						
8 Total First-Quarter	\$2,377,404,343	\$1,407,907,297	\$1,328,846,340	-40.8%	-5.6%	-44.1%
9						
10 Second-Quarter						
11 April	\$864,337,416	\$704,849,071	\$626,113,757	-18.5%	-11.2%	-27.6%
12 May	997,342,637	825,229,804	781,162,490	-17.3%	-5.3%	-21.7%
13 June	1,140,220,908	926,342,579	978,987,575	-18.8%	5.7%	-14.1%
14						
15 Total Second-Quarter	\$3,001,900,961	\$2,456,421,454	\$2,386,263,822	-18.2%	-2.9%	-20.5%
16						
17 Third-Quarter						
18 July	\$1,030,395,171	\$901,061,916	\$946,037,232	-12.6%	5.0%	-8.2%
19 August	953,410,787	857,407,428	830,665,928	-10.1%	-3.1%	-12.9%
20 September	567,386,421	672,783,420	720,552,225	18.6%	7.1%	27.0%
21						
22 Total Third-Quarter	\$2,551,192,379	\$2,431,252,764	\$2,497,255,385	-4.7%	2.7%	-2.1%
23						
24 Fourth-Quarter						
25 October	\$584,890,887	\$622,869,723	\$0	6.5%		
26 November	547,335,079	465,396,519	0	-15.0%		
27 December	652,219,723	638,238,018	0	-2.1%		
28						
29 Total Fourth-Quarter	\$1,784,445,689	\$1,726,504,260		-3.2%		
30						
31 Total Through September	\$7,930,497,683	\$6,295,581,515	\$6,212,365,547	-20.6%	-1.3%	-21.7%

City of Alexandria, Virginia

NORTHERN VIRGINIA AREA HOME SALES REPORT 1/

For period January 1, 2007 through September 30, 2009

Real Property Classification	CY 2007	CY 2008	CY 2009	Percent Of Change 2007 to 2008	Percent Of Change 2008 to 2009	Percent Of Change 2007 to 2009
(1)	(2)	(3)	(4)	(5)	(6)	(7)
32 NUMBER OF UNITS SOLD						
33						
34 First-Quarter						
35 January	1,349	716	998	-46.9%	39.4%	-26.0%
36 February	1,462	969	1,067	-33.7%	10.1%	-27.0%
37 March	1,752	1,250	1,384	-28.7%	10.7%	-21.0%
38	-----	-----	-----			
39 Total First-Quarter	4,563	2,935	3,449	-35.7%	17.5%	-24.4%
40						
41 Second-Quarter						
42 April	1,631	1,455	1,544	-10.8%	6.1%	-5.3%
43 May	1,816	1,724	1,803	-5.1%	4.6%	-0.7%
44 June	2,001	1,900	2,169	-5.0%	14.2%	8.4%
45	-----	-----	-----			
46 Total Second-Quarter	5,448	5,079	5,516	-6.8%	8.6%	1.2%
47						
48 Third-Quarter						
49 July	1,859	1,857	2,053	-0.1%	10.6%	10.4%
50 August	1,713	1,812	1,813	5.8%	0.1%	5.8%
51 September	1,072	1,650	1,684	53.9%	2.1%	57.1%
52	-----	-----	-----			
53 Total Third-Quarter	4,644	5,319	5,550	14.5%	4.3%	19.5%
54						
55 Fourth-Quarter						
56 October	1,123	1,457	0	29.7%		
57 November	1,065	1,100	0	3.3%		
58 December	1,199	1,510	0	25.9%		
59	-----	-----	-----			
60 Total Fourth-Quarter	3,387	4,067		20.1%		
61	-----	-----	-----			
62 Total Through September	14,655	13,333	14,515	-9.0%	8.9%	-1.0%

City of Alexandria, Virginia

NORTHERN VIRGINIA AREA HOME SALES REPORT 1/

For period January 1, 2007 through September 30, 2009

Real Property Classification	CY 2007	CY 2008	CY 2009	Percent Of Change 2007 to 2008	Percent Of Change 2008 to 2009	Percent Of Change 2007 to 2009
(1)	(2)	(3)	(4)	(5)	(6)	(7)
63 AVERAGE SALE PRICE						
64						
65 First-Quarter						
66 January	\$523,506	\$486,060	\$376,669	-7.2%	-22.5%	-28.0%
67 February	504,943	479,320	\$380,077	-5.1%	-20.7%	-24.7%
68 March	532,517	476,342	\$395,512	-10.5%	-17.0%	-25.7%
69						
70 Total First-Quarter	\$521,018	\$479,696	\$385,285	-7.9%	-19.7%	-26.1%
71						
72 Second-Quarter						
73 April	\$529,943	\$484,432	\$405,514	-8.6%	-16.3%	-23.5%
74 May	549,197	478,672	\$433,257	-12.8%	-9.5%	-21.1%
75 June	569,826	487,549	\$451,354	-14.4%	-7.4%	-20.8%
76						
77 Total Second-Quarter	\$551,010	\$483,643	\$432,608	-12.2%	-10.6%	-21.5%
78						
79 Third-Quarter						
80 July	\$554,274	\$485,225	\$460,807	-12.5%	-5.0%	-16.9%
81 August	556,574	473,183	\$458,172	-15.0%	-3.2%	-17.7%
82 September	529,278	407,748	\$427,881	-23.0%	4.9%	-19.2%
83						
84 Total Third-Quarter	\$549,352	\$457,088	\$449,956	-16.8%	-1.6%	-18.1%
85						
86 Fourth-Quarter						
87 October	\$520,829	\$427,502		-17.9%		
88 November	513,930	423,088		-17.7%		
89 December	543,970	422,674		-22.3%		
90						
91 Total Fourth-Quarter	\$526,851	\$424,515		-19.4%		
92						
93 Total Through September	\$541,146	\$472,180	\$427,996	-12.7%	-9.4%	-20.9%

Northern Virginia, Washington DC Sales Statistics Comparison

September 2009 Amounts of Residential Sales Activity and Percentage Change from September 2008 to September 2009

Information compiled by Metropolitan Regional Information Systems, Inc.

Jurisdiction	Total Contracts and Contingencies		Total Units Sold		Average Sold Price		Median Sold Price		Average Days on Market	
	Amount	Pct. Chg.	Amount	Pct. Chg.	Amount	Pct. Chg.	Amount	Pct. Chg.	Amount	Pct. Chg.
Alexandria	210	33.76%	152	(5.00%)	427,687	(5.51%)	384,000	(3.99%)	65	(25.29%)
Arlington Co.	265	55.88%	221	15.10%	478,911	(6.42%)	419,000	(6.37%)	62	(27.06%)
Fairfax Co.	1,491	5.52%	1,269	0.95%	416,046	8.64%	365,000	11.96%	62	(35.42%)
Loudoun Co.	527	8.44%	426	(5.54%)	387,843	7.03%	342,000	6.88%	61	(37.11%)
Prince William Co.	858	(18.98%)	588	(37.04%)	249,827	8.15%	220,000	11.77%	51	(52.34%)
Washington DC	722	38.05%	552	34.96%	457,059	(12.15%)	371,568	(4.70%)	94	14.63%

Foreclosed Properties in Alexandria 2006 - Present

Calendar Year 2006

Month	Condo	SF	Com	Land	
Jan	0	0			
Feb	0	0			
Mar	0	0			
April	0	0			
May	2				
June	2				
July	3				
August	0				
Sept	1	1			
Oct	3				
Nov	2		1		
Dec	8				
Total	21	1	1	0	[23]

Calendar Year 2007

Month	Condo	SF	Com	Land	
Jan	3	2		1	
Feb	4	2			
Mar	0	0			
April	6	4			
May	7	3			
June	6	3			
July	14	12			
August	3	3			
Sept	11	3			
Oct	14	6			
Nov	8	4			
Dec	7	14			
Total	83	56	0	1	[140]

Calendar Year 2008

Month	Condo	SF	Com	Land	
Jan	8	2			
Feb	18	8			
Mar	12	7	1		
Apr	16	6			
May	24	12			
June	18	13			
July	23	14			
August	28	17			
Sept	32	12			
Oct	20	14			
Nov	14	5			
Dec	28	13			
Total	241	123	1		[365]

Calendar Year 2009

Month	Condo	SF	Com	Land	
Jan	12	10			
Feb	19	6			
Mar	11	6	1		
Apr	10	11			
May	13	5	2		
June	15	12			
July	13	9			
August	29	8	1		
Sept	18	5			
Oct					
Nov					
Dec					
Total	140	72	4		[216]

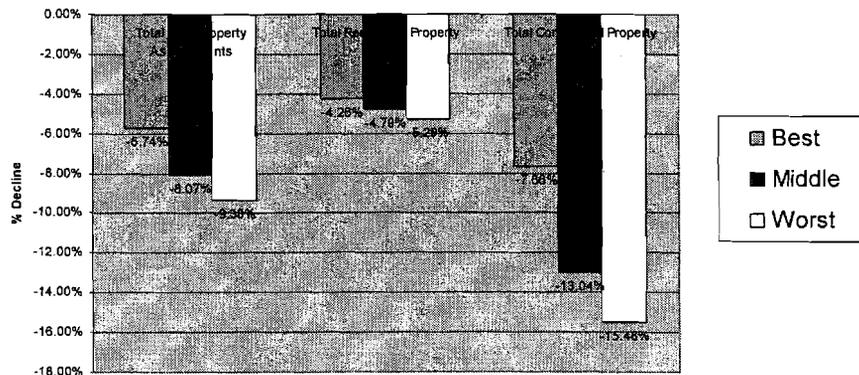
Real Estate Assessment Outlook for CY 2010

Sign, Sign, Everywhere a Sign...



- Real Estate Assessment Indicators
- Projected Changes in Residential and Commercial Property Values

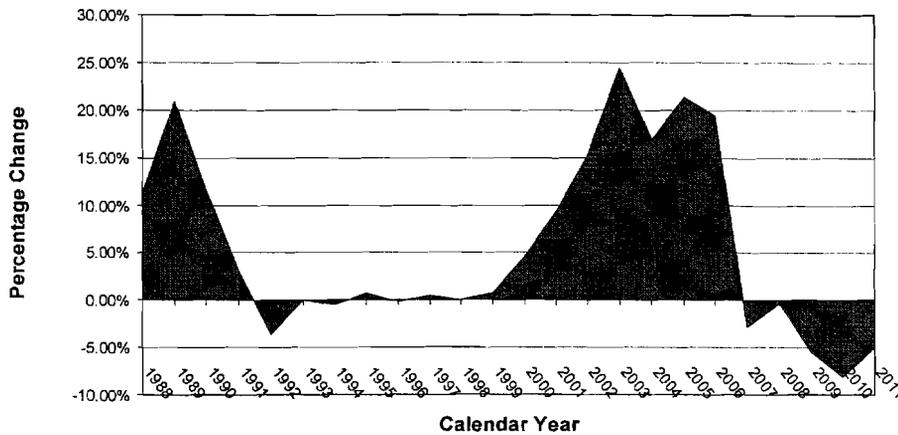
Real Property Assessment Outlook CY 2010



City of Alexandria

FY 2011 Council Retreat

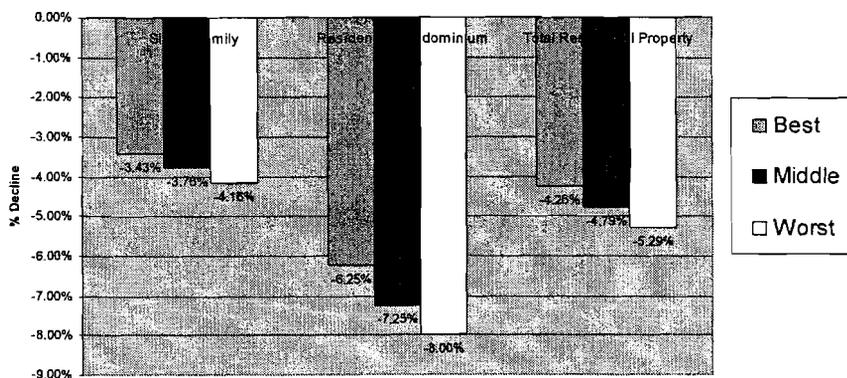
Existing Residential Appreciation % Change 1988-2011



City of Alexandria

FY 2011 Council Retreat

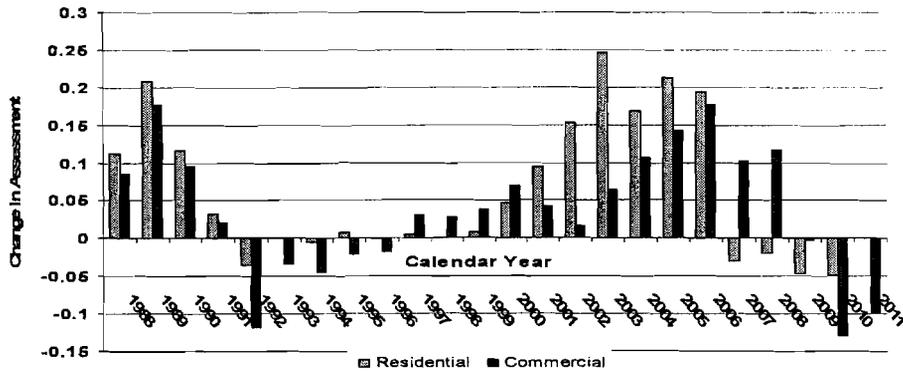
Residential Property Assessment Outlook CY 2010



City of Alexandria

FY 2011 Council Retreat

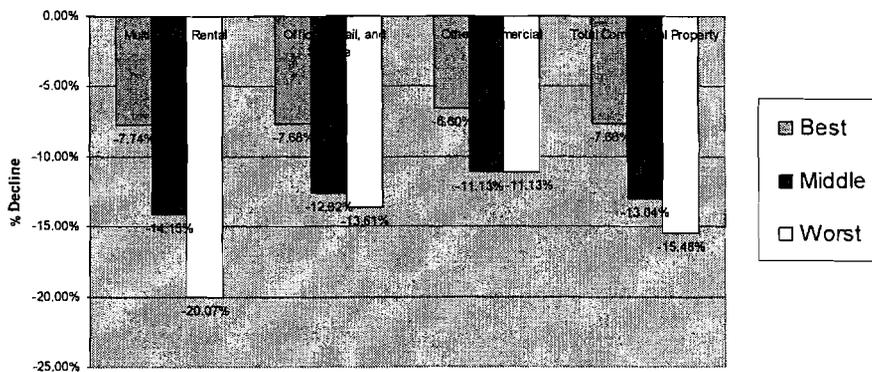
Appreciation Commercial & Residential 1988-2011



City of Alexandria

FY 2011 Council Retreat

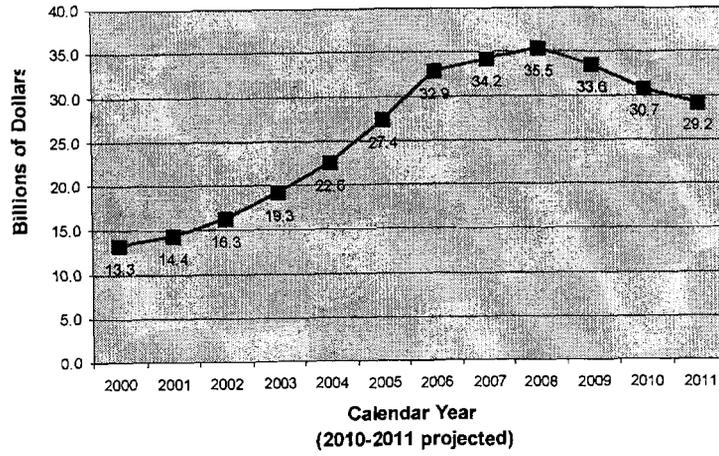
Commercial Property Assessment Outlook CY 2010



City of Alexandria

FY 2011 Council Retreat

Real Property Tax Base 2000-2011



City of Alexandria

FY 2011 Council Retreat