City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 13, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #2: CALENDAR YEAR 2007 REAL PROPERTY ASSESSMENT REPORT

ISSUE: The Calendar Year 2007 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 2006 to CY 2007 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 2006 to CY 2007 are summarized below.

OVERALL CHANGE IN CY 2007 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 4.43%, or $1.45 billion from $32.79 billion in CY 2006 to $34.24 billion[2] in CY 2007 (Attachment 1, Page 3, Line 68, Column 4).

Though positive, the 4.43% increase is a significant change from the preceding four years when the real property tax base increased by an average of 19.98% per year. It is also the smallest increase since CY 1998 when percentage changes in the tax base increased 4.0%. Refer to the table on the

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[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 (2006 Ed.), p.4.

[2]The 2007 valuation includes the 2006 value of state-assessed public service corporation property. This value is certified by the State Corporation Commission and Virginia Department of Taxation in September 2006.

following page details the 10-year history of the City's property tax base changes.

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

CY	Percent Change	CY	Percent Change
1998	4.0%	2003	19.9%
1999	5.0%	2004	18.4%
2000	9.1%	2005	21.2%
2001	10.1%	2006	20.4%
2002	11.2%	2007	4.4%

Points of Interest Relating to CY 2007 Assessment Changes:

☞ Locally assessed real property assessments (which consisted of new construction and appreciation of existing property) increased 4.31%, or $1.38 billion, from $32.0 billion in 2006 to $33.4 billion in 2007 (Attachment 1, Page 2, Line 44, Column 4).

☞ Residential property decreased 0.82%, or $166.2 million, from $20.37 billion in 2006 to $20.21 billion in 2007 (Attachment 1, Page 1, Line 16, Column 5). The overall value of the City's commercial real property tax base increased in 2007 by 13.27%, or $1.54 billion, from $11.64 billion in 2006 to $13.18 billion in 2007 (Attachment 1, Page 2, Line 42, Column 5).

☞ State-assessed public service corporation property assessments increased 9.5%, or $74.1 million, from $780.0 million in 2006 to $854.1 million in 2007 (Attachment 1, Page 3, Line 66, Column 5). The 2007 assessment is the value effective January 1, 2006, which is received in September 2006. 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 (which State law requires to be done even though there is no tax bill) increased from $4.3 billion in 2006 to $4.6 billion in 2007. This equates to an increase of 6.4%, or $274.5 million (Attachment 1, Page 4, Line 87, Column 5). These assessments are not considered as part of the tax base.

☞ New construction added a total of $715.8 million for CY 2007, or 49.3% of the total increase of $1.45 billion. Residential construction accounted for $424.1 million of the new growth, while the commercial sector accounted for the balance of $291.7 million. In CY 2006, $584.5 million in new residential and commercial growth was added to the City's real property tax base in form of new construction. Overall, $1.3 billion in new construction has been added to the tax base over last two years. This equates to approximately 3.8% of the current total taxable base.

- Over the last five-year period, new construction (apart from its appreciation in subsequent years once completed) has added $3.1 billion to the tax base, or 9.0% of the current total tax base.

- Based on data compiled by the Department of Planning and Zoning, a total of 2,942 residential units in 26 projects of all types were in the construction phase during CY 2006. Of these, 51.1% were designated for owner-occupancy, while the balance of 1,439 units were being constructed as rentals. Overall, 429 residential units of all types were completed in CY 2006. Of these, 332, or 77.4 percent were for owner-occupancy, while the balance of 97 were designated as rental units.

- Residential projects currently under construction and designated for completion during CY 2007 include: Quaker Village (4 SFD), Cameron Station, Phase VI (97 SFA), Quaker Ridge (23 SFA), West Glebe Townhouse (24 SFA), Gibbon Row (4 SFD and 4 Low-Rise Condominium), Cromley Lofts (8 Low-Rise Condominium), Abington Row (53 Low-Rise Condominium), WashREIT (75 Mid-Rise Multi-Family Rental), Cameron Station, Phase VII (148 Mid-Rise Condominium), Monarch (168 Mid-Rise Condominium), The Strand (104 Mid-Rise Multi-Family Rental), Carlyle Square a/k/a The Post at Carlyle (350 High-Rise Multi-Family Rental), Halstead Tower (173 High-Rise Multi-Family Rental), Northhampton II (275 High-Rise Condominium), and the Jamieson/Westin Hotel (79 High-Rise Condominium). Projects scheduled to be completed in January 2008 include The Preston (10 SFA and 53 Mid-Rise Condominium) and Mill Race (696 High-Rise Multi-Family Rental.

- Of the $1.45 billion increase in the tax base, $736.7 million, or 50.7% of the total increase is the result of appreciation. This includes a reduction of $590.2 million in the residential market, and appreciation of $1.25 billion in the various commercial markets. The balance of $74.01 is accounted for in the non-locally assessed taxable real property. In CY 2006, approximately $5.0 billion was added to the base as a result of value appreciation (as compared to $736.7 million for CY 2007).

- Real property classified as residential for assessment purposes for CY 2007 represents 59.01% of the total real property tax base, while property classified as commercial, vacant land, and public service corporations, represents 40.99% of the base. Distribution of the City's real property tax base allocated between classifications[3] of real property for assessment purposes is shown in Table 2 at the top of the following page.

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

Table 2: Distribution of CY 2007 Real Property Assessments by Property Classification

Property Classification	Percentage	CY 2006 Assessments
Residential Single Family	40.3%	$13,810,783,797
Residential Condominium	18.7%	$6,394,580,077
Commercial Multi-Family Rental	12.0%	$4,102,177,834
Commercial Office, Retail & Service	24.5%	$8,386,547,954
Vacant Commercial, Industrial, & Residential Land	2.0%	$694,879,261
Public Service Corporation	2.5%	$854,062,991
Total	100.0%	$34,243,031,914

RESIDENTIAL PROPERTY

Points of Interest Relating to CY 2007 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 2.90%, from $524,812 in 2006 to $509,593 in 2007 (Attachment 1, Page 1, Line 16, Column 3).

☞ The average assessed value for a residential single-family home as of January 1, 2007, depreciated 1.26%, from $669,299 in CY 2006 to $660,866.

☞ The average assessed value for a residential condominium as of January 1, 2007, depreciated 6.39%, from $364,286 to $341,008.

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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.

☞ 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 4,000 in CY 2006 to 4,728 in CY 2007 reflecting a 18.2% increase. Likewise, the number of properties assessed over $500,000 also decreased from 16,278 in CY 2006 to 15,690 in CY 2007. This represented a nominal decrease of 3.61%. For CY 2007, 39.82% of all residential properties are valued at $500,000 or greater.

Table 3: CY 2007 Median Residential Assessments

Assessment Range	Number of Units	Total Assessments	Median Assessment
Less than $100,000	31	$2,241,864	$78,200
$100,000 - $249,999	4,697	$998,271,094	$216,300
$250,000 - $499,999	18,989	$6,893,379,467	$353,700
$500,000 - $749,999	10,029	$6,062,685,725	$594,400
$750,000 - $999,999	3,764	$3,212,023,919	$845,400
$1,000,000 - $1,999,999	1,667	$2,142,589,013	$1,206,500
$2,000,000 +	230	$872,590,225	$2,423,600

☞ The 2007 assessed value ranges for single-family homes and condominiums within each small area plan are included as Attachment 4.

☞ The assessment/sales ratio for residential property (including single-family homes and condominium units) for CY 2006 was 97.43%, and for this same period last year the assessment sales ratio was 80.89%. This statistic is a measure of CY 2006 assessments (as of January 1, 2006) against subsequent CY 2006 sales. In a market that is characterized as stable or moderately declining, an AV/sales ratio of 97.43% would indicate that the days of a rapidly escalating residential 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 2000-2006

Calender Year	Units Sold	Total Sale Price	AV/Sales Ratio	Average Assessed Value Change In Year After Study
2006	2,376	$1,182,106,929	97.43	N/A
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 2004, 2005, and 2006 which reflect the dollar volume, the number of units sold and the average sales price are included as Attachment 5. These statistics were calculated by the Department of Real Estate Assessments.

☞ As many analysts had predicted, 2005 was likely the peak of the housing market cycle. With homes on the market longer and asking prices ticking down to accommodate softening demand, the area housing market is returning to normal appreciation levels. Most analysts also predicted improving market conditions beginning in 2007. The City as a whole, however, has shown early signs of improvement with strong sales and contract activity during December. The last month of 2006 also saw a significant decline in the available inventory with only 665 homes on the market on the 31st of December. This compares to average monthly inventories of 1,050 to 1,100 units during the summer of 2006. At the end of 2006 there were 154 homes under contract, and the number of days on the market had declined from previous months. At the end of December, there were 287 homes listed on the market for sale under $400,000. Of these, 263 were condominiums. In the $400,000 to $700,000 range, there were 248 active listings, and in the over $700,000 market there were 130 homes available for purchase. According to local agents, December's activity continued into January with sustained demand in the for sale and rental markets.

☞ According to a recent article in the *Washington Business Journal*, many economists and analysts have indicated that the residential market in the metropolitan area will recover quicker than the rest of the country due to continued job growth and increased confidence among prospective purchasers who have been waiting on the sidelines for price decreases. Purchasers who lost their confidence in the market in 2006 due to bidding wars one year earlier will likely return. This will be particularly true if long-term mortgage interest rates remain low.

☞ The Metropolitan Regional Information Systems, Inc., statistics for the City of Alexandria reflected in Table 5 show sales that occurring between January 1, 2006 and December 31, 2006, indicate that the average sales price had increased by 2.65% from the same twelve month period of CY 2005 from $489,445 to $502,415. The average median price also increased 4.73% during CY 2006 to $436,400. Typical throughout the metropolitan area, however, the average days on the market increased from 25 days during CY 2005 to 81 days in CY 2006. The percentage of sales price to the list price during CY 2006 dropped approximately four percentage points to 95.13%. These statistics further support the information derived from the Department of Real Estate Assessments statistics. Despite a 29.18% decrease in the number of sales, the CY 2006 data provides evidence that the City's residential real property market has maintained strength relative to price, particularly in the single-family sector. Obviously, the limited number of single-family homes and the City's proximity to major employment, social, and cultural centers have had a stabilizing impact on values.

Table 5 - MRIS Year End Real Estate Trend Indicator

Category	2006	2005	% Change
Total Sold Dollar Volume	$1,163,074,369	$1,593,631,862	-27.02%
Average Sold Price	$502,415	$489,445	+2.65%
Median Sold Price	$436,400	$416,700	+4.73%
Total Units Sold	2,306	3,256	-29.18%
Average Days on Market	66	25	+264.00%
Average List Price	$528,080	$495,000	+6.68%
Avg Sale Price As % Avg List Price	95.13%	98.88%	-3.79%

☞ Overall, the housing market in the Washington metropolitan area continues its return to normal conditions after attaining price increases of 27%, and an annual sales volume of 110,000 units at its peak. With longer marketing times and more reasonable asking prices, the market is returning to an average annual sales volume of 85,000 units, and possibly hold the potential for annual appreciation in the 5% to 7% range. Continued job growth in the metropolitan area should result in sustained near-term demand. In fact, area economists have indicated that the production of new units still lags behind demand due to area employment growth. As always, price and income will be the determining factor relative to demand over the long-term.

COMMERCIAL PROPERTY

Points of Interest Relating to CY 2007 Commercial Assessment Changes:

☞ The assessed value of existing locally-assessed commercial property existing on January 1, 2007, increased 13.3%, or $1.54 billion. Appreciation accounted for 81.1% of the increase, or $1.25 billion (Attachment 1, Page 2, Line 42, Column 8).

☞ New commercial construction added $291.7 million, or 18.9% of the increase in the commercial tax base.

☞ According to the Fourth Quarter 2006 *Korpacz Real Estate Investor Survey*, a publication of PriceWaterhouseCoopers, property and geographical preferences among investors changed little in 2006. Supply and demand fundamentals continue to improve in the major commercial sectors offering potential purchasers and investors diverse opportunities. While stable Class A assets remain prime targets, some investors have shifted their focus to lower class investments and nonstable assets with upside potential. Some investors indicated that their change in direction was mandated due to a lack of quality offerings. All property sectors demonstrate reasonably good prospects led by moderate-income multi-family rental apartments, full-service hotels, and warehouses. Office markets are expected to improve with declining vacancies and increasing rents. The retail market, however, is projected to stabilize somewhat due to decreased consumer spending.

☞ Regardless of the investment strategy, many investors still believe that sound fundamentals will continue into 2007 resulting in income growth (rental rate increases) and property appreciation, albeit at lower levels than those experienced over the last several years. Investment capital is expected to pour into the commercial real property markets, but at more restrained levels in anticipation of lower return expectations. Investors continue to rank major urban cities on the East and West Coasts as their desired locations. East coast locations include Manhattan, Washington, D.C. (including Northern Virginia), Atlanta, Charlotte, and Miami.

☞ Local economic indicators for all segments of the commercial real estate market continued to strengthen over the past year. 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. There has generally been upward pressure on the prices of existing properties due in large part to a limited supply of properties for sale.

Land Values

As unimproved land remains a scarce commodity, developers continue to purchase improved property for the purpose of redevelopment. The shrinking supply of sites suitable for redevelopment has driven up prices significantly. A good example of this escalation in land prices is the recent sale of 1125 North Royal Street. This 30,247-square-foot site is zoned CDX, and sold March 31, 2006, for $4.3 million, or $140.62 per square-foot of land. The property is being redeveloped with a mixed-use residential (21 townhouse style condominiums) and 2,076 square feet of street level retail development with a combination of structured and curb parking.

New Construction Activity

There is a significant number of new construction projects approved and underway. A number of these developments are mixed-use projects which contain various combinations of residential, office, and retail spaces. Some of the more significant projects are summarized in Table 6.

Table 6: Selected New Construction Projects

Project Name Location	Map/Block/Lot	Percent Complete As of 1-01-2007	Comments
The Monarch 500 N. Henry Street	64.01-03-10	40%	168 residential condominiums units and 15,869 square feet of street level retail.
The Jamieson & Westin Hotel 2050 Jamieson Avenue	73.03-02-13	50%	79 residential condominium units and 312 full service hotel rooms, and 5,500 square feet of street level retail.
The Brandt Building 1725 Jamieson Avenue	73.02-09-08	80%	12,086 square feet of office and 5,846 square feet of street level retail.
The Lane Building 1900 Jamieson Avenue	73.03-02-16	90%	98,342 square feet of office and 70,000 square feet of first and second floor retail.
WashREIT 800 South Columbus Street	80.04-03-25	40% Apartments 95% Shopping Ctr.	75 multi-family apartment units and the renovation of an existing neighborhood shopping center.
Ellsworth Place a/k/a W. Glebe Townhouses 800 - 910 W. Glebe Road	Multiple	10%	24 single-family fee townhouse units. Site development is in progress. Unit construction to begin in March.
The Prescott 1115 Cameron Street	64.03-04-21	25%	64 residential condominium units.

Table 6: Selected New Construction Projects (Continued)

Project Name Location	Map/Block/Lot	Percent Complete As of 1-01-2007	Comments
Mill Race Apartments 2251 & 2351 Eisenhower Avenue	72.04-03-21 & 23	50%	695 multi-family rental apartment units within three high-rise buildings. Two of the three tower were originally to be marketed as condominium units. This project will also include 221,850-square-foot office building with an additional 3,906 square feet of retail.
520 John Carlyle Street Carlyle, Block G	73.04-01-33	85%	145 residential condominium units and 19,716 square feet of street level retail.
The Strand (Tuscany) 240 Yoakum Parkway	57.01-02-01	35%	104 multi-family rental apartment units within two mid-rise buildings. These units were originally to be marketed as condominiums.
Commerce Bank 557 South Van Dorn Street	64.03-03-18	45%	Two-story bank building containing 5,086 square feet with four drive-thru lanes.
Abington Row 1023 North Royal Street	55.01-03-7	15%	53 residential condominium units.
Hoffman Parking Garage 2380 Mill Road	72.04-03-13	25%	7 story concrete parking garage structure with 2,885 spaces.

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 12.3%, or approximately $515 million, from $4.2 billion in CY 2006 to $4.7 billion for CY 2007 (Attachment 1, Page 2, Line 28, Column 5). Of this, 90.2%, or $464.7 million is attributable to appreciation, while the balance of $50.3 million was derived from new construction. This compares to a $715.7 million total new construction figure for CY 2007. This means that 93% of new construction values were non-office properties and only 7% were office properties.

Improving fundamentals in both the CBD and suburban sectors continue to attract investors. Until recently values were being driven by low capitalization rates. Currently values are being influenced primarily by rent increases and low vacancy rates. According to the Fourth Quarter 2006 *Korpacz Real Estate Investor Survey*, rents in the Northern Virginia office market increased an average of 2.88 percent, while expenses increased at an average of 3.06 percent. Survey participants reported overall rates of capitalization ranging from 5% to 9% with an average of 6.99%.

Overall, the health of the Northern Virginia office market is being attributed to steady demand for space from new and existing tenants. Both governmental agencies and non-government companies continue to be active participants. According to *CB Richard Ellis (CBRE)*, net absorption totaled approximately 4 million square feet during the first nine months of 2006. Neighboring Fairfax County captured the bulk of the activity with 2.86 million square feet absorbed.

According to statistics complied by *Grubb and Ellis*, the overall vacancy rate in Northern Virginia declined to 10.7% during the 3rd quarter of 2006. This was approximately 120 basis points lower than the average one quarter earlier (11.9%), and was 260 basis points lower than two years ago when the average overall vacancy rate was 13.3%. With strong demand still present and overall vacancy rates approaching single digits, developers will continue to seek both build-to-suit and speculative opportunities.

The City's office vacancy rate is now at 10.9% which is 163 basis points higher than two years ago, and reflects the vacancy of the Victory Center on Eisenhower Avenue, as well as the vacancy of much of the former PBS space at Braddock Place. This means that while the office vacancy rate was dropping over the last two years with the regional job boom, the City's office vacancy rate increased.

Similar to the current correction taking place in the residential condominium market, the region's commercial office market could be seeing signs of a slow-down. According to statistics compiled by *Delta Associates*, vacancies in the Washington, D.C. region increased to 8.5%. In 2006, leased office space was 1.5 million square feet short of the forecast based on 65,100 new jobs added in the region. That is a reversal from the last couple years when tenants leased more space than they needed in anticipation of future expansion. In 2006, however, it appears that tenants, in fear of an economic slowdown, looked for ways to reduce occupancy costs. Other contributing factors included traffic congestion, an increased number of telecommuters, and reduction in federal procurement dollars. Despite these concerns, the region's office buildings are still in demand among investors because of economic stability aspects and the presence of federal dollars. Overall, *Delta* forecasts office space absorption of 15.5 million square feet over the next two years. While there are lingering concerns that an oversupply situation may be created over the next few years, projected employment growth is reassuring landlords, developers, and investors that the Northern Virginia office market will continue to perform well during the coming months.

According to statistics complied by CoStar, the City of Alexandria, as of November 1, 2006, contained 18,8 million square feet of office space within 502 buildings spanning all classes. At this time, vacancy averaged 10.1 percent, and average full service rents were $31.13 per square-foot. Recent office building sales are summarized in Table 7 on the following page.

Table 7: 2006 Office Building Sales

Property Location	Sale Date	Bldg. Size In Sq.Ft. Net Leaseable Area	Consideration	Price/Sq.Ft. of NLA
2800 Shirlington Road	6-14-2006*	205,127	$55,000,000	$268.13
4501 Ford Avenue	1-10-2006	227,674	$56,960,000	$250.18
4401 Ford Avenue	1-10-2006	218,252	$53,775,000	$246.39
4300 King Street	1-10-2006**	117,233	$24,265,000	$206.98
4660 Kenmore Avenue	4-11-2006	113,000	$26,850,000	$237.61
1725 Duke Street	1-31-2006	146,693	$61,600,000	$419.92***
1500, 1600, 1701, 1800, 1900, 2000, & 2001 N. Beauregard Street 4900 Seminary Road 4825 Mark Center Drive	2-28-2006****	1,137,186 (9 Buildings)	$283,938,075	$249.68

* Previous sale was 11-12-2004, for $40,500,000, or $197.44 per square-foot of net floor area.
** Price is per square-foot is skewed due to the presence of a health club in the basement.
*** This is a Trophy Class building.
**** Represents the office building component of the Winkler portfolio.

Multi-Family Apartment Market Overview

The multi-family (rental) property base increased 22% for CY 2007 (Attachment 1, Page 2, Line 24, Column 5) to $4.1 billion. This is comparable to CY 2006 when this commercial class increased 20.8% over the previous year. Overall, there is a $739.4 million increase for CY 2007, of which, 82.7 percent ($611.3 million) is attributable to appreciation. The balance of $128.1 billion is from new growth.

Positive rent growth throughout much of the country continues to attract capital in the multi-family sector. Investors continue to favor this property type due the sector's strong fundamentals which are a result of positive economic and demographic trends, and the erosion in single-family housing affordability. Despite the positive trends and a national apartment vacancy rate of 5.4 percent, there is concern in some markets about the return of condominium units to the rental supply as the economics specific to conversion projects prove infeasible. Nationally, the number of conversion projects dropped from 54,700 units in the 3rd quarter of 2005 to 7,400 units during the same period in 2006. In markets heavy with conversion and new construction activity, the return and introduction of condominium units to the rental market may negatively impact vacancy rates.

According to the Fourth Quarter 2006 *Korpacz Real Estate Investor Survey*, overall multi-family capitalization rates ranged from 3.5% to 8% with an average of 5.97%. Changes in market rents increased from a negative 2% to 9% with an average of 3.66%. The upper limit of the growth range occurred in markets where there were nominal additions to the available supply. Corresponding expenses grew between 2% and 3.5% in the 4th quarter with an average of 2.8%.

The Washington metropolitan area multi-family market continues to be the strongest in the nation. This is attributable to a strong employment growth, a transient work force characterized by Class A renters by choice, and an uncertain condominium sector that has turned "would be purchasers" into renters as market seeks a bottom. The region's market is highlighted by low vacancy rates, upward pressures on rents, and continued net absorption. As of the 3rd quarter, the region's stabilized vacancy rate for Class A and B apartments declined to 1.4 percent from 2% in 2005. This compares favorably with the aforementioned national vacancy rate of 5.6%. For the 12 month period through the 3rd quarter of 2006, 5,066 Class A and B apartments units had been absorbed. This rate continues to outpace deliveries resulting in rent spikes.

Through the 3rd quarter 2006, Northern Virginia's apartment available supply had been reduced by virtue of absorption in excess of deliveries over the last 12 months, and by condominium conversion projects. However, according to a recent study issued by *Delta Associates*, by the 2nd and 3rd quarters of 2006, there had been a significant increase in the pipeline inventory for 2007 through 2009. According to a January 5, 2007, article in the Business Section of the *Washington Post*, there has been a shift in the region's market due a large influx of single-family units and condominium units for rent. As competition for tenants increased, apartment rents did not increase as sharply during the last three months of 2006 when compared to earlier in the year. Though reduced, the average rent from a higher peak during 2006 still increased 4.7% from 12 months earlier to $1,410 per month.

According to the *Delta* study, the climate has changed during the short term as fewer than 700 new condominium units sold during the last three months of 2006. This compared with 1,327 unit sales during the previous quarter, and an average of 3,000 per quarter in 2005. Many developers who had planned condominiums are switching their projects to rentals. In the 4th quarter of 2006, developers in the region announced that they intended to switch as many as 5,915 units from condominium to rental.

While not disastrous, vacancy were reported up at the end of the 4th quarter to 2.9%. The current 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 8.

Table 8: Condominiums Reverting 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
The Strand (New Construction) a/k/a Tuscany at Landmark	240 Yoakum Parkway	Mid-Rise	104
Park Center II (Conversion)	2701 Park Center Drive	High-Rise (540) & Townhouse (34)	574

Table 9: 2006 Multi-Family Rental Apartment Sales

Property Location Project Name	Sale Date	Number of Units	Consideration	Price/Unit
260 South Reynolds Street The Summit Apartments	6-28-2006	141	$26,500,000	$187,943
5380 Holmes Run Parkway Landmark Apartments	11-16-2006	159	$24,009,000	$151,000
115 South Patrick Street	2-15-2006	11	$2,050,000	$186,364
5440 Richenbacher Avenue Willow Run Apartments f/k/a Hamlet South Apartments	3-14-2006	400	$81,896,631*	$204,742**
5600 Sanger Avenue & 1250 N. Beauregard Street Brookdale Apartments f/k/a Hamlet West Apartments	3-14-2006	474	$63,154,430*	$133,237
1459 N. Beauregard Street Millbrook Apartments	5-18-2006	406	$110,000,000*	$270,936
1401 N. Beauregard Street Millbrook II Apartments	5-18-2006	272	$95,000,000*	$349,265
501 Sanger Avenue Lynbrook & Meadow Creek Apts. f/k/a Hamlet East Apartments	3-14-2006	996	$138,157,603*	$138,712

* Represents the multi-family component of the Winkler portfolio. Considerations were assigned by allocation.
** Price per unit incorporates excess land and possibly future additional density.

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 9.8% for CY 2007 (Attachment 1, Page 2, Line 31, Column 5) to $726.8 million. This compares to CY 2006 with the industrial based increased 20.1% or $112.3 million to $670.9 million. All of the CY 2007 increase is attributable to appreciation. There 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 as interim uses pending approvals necessary to redevelop with alternative uses at greater densities.

The national warehouse market continues to show signs of improvement. For the most part, tenant demand remains concentrated in the country's larger coastal ports. Smaller industrial markets, however, have also reported declines in vacancy as demand has increased. Although many investors believe that market fundamentals will remain favorable during the foreseeable future, concerns linger about the recent increase in new construction starts in those markets where land is zoned and readily available for the development of this particular property type. High acquisition prices associated with existing product along with probable rent growth will result in pressure for new development..

According to the Fourth Quarter 2006 *Korpacz Real Estate Investor Survey*, overall industrial capitalization rates ranged from 5% to 8.5% with an average of 6.82%. Changes in market rent increased from a negative 2% to a positive 6% with an average of 2.65%. Corresponding expenses grew between 2% and 3.5% in the 4th quarter with an average of 3%.

According to an article dated December 25, 2006, in the Business Section of the *Washington Post*, developers are building more industrial buildings in Northern Virginia and Maryland suburbs. This is in direct response to a growing number of tenants that need warehouses and distribution centers. Given current land prices, very little, or none, of this activity is occurring within the City limits. In the case of Northern Virginia, industrial development is 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.

In Northen Virginia, the 3rd quarter 2007 industrial vacancy rate was 5.2 percent, up from 4.5 percent during the same period one year earlier. Rents in Northern Virginia are up slightly at 9.14 per square-foot, compared with $8.63 per square-foot in 2005. Much of the new development has been spurred by proximity to the Washington Dulles International Airport satisfying the need for distribution facilities. There is approximately 1 million square feet currently under construction in the Northern Virginia, of which 48% is preleased.

According to *CoStar* statistics, the City has an existing industrial inventory of 6.3 million square feet within 150 building. Of this, 369,803 square currently vacant and available for lease indicating an overall vacancy rate of 5.8%. Rents average $9.26 per square-foot triple net, $18.00 per square-foot full service (flex), and $12.50 per square-foot on an industrial gross basis. The most recent improved industrial property sales in the City are summarized in Table 10 below.

Table 10: 2006 Industrial Building Sales

Property Location	Sale Date	Bldg. Size In Sq.Ft. Gross Floor Area	Consideration	Price/Sq.Ft. of GFA
1000 Bernard Street	9-27-2006	9,520	$2,300,000	$241.59
4720 Eisenhower Ave.	1-10-2006	106,943	$17,138,723	$160.26*
* Property was part of a multi-property transaction. Consideration was assigned by allocation.				

Hotel Market Overview

The hotel market has improved over the last several years, as a result of improving average daily room rates (ADR's) and 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 are two to three years remaining in the cycle.

The base for this property type increased 27.42%, or approximately $157.7 million, from $575.1 million in CY 2006 to $732.9 million for CY 2007 (Attachment 1, Page 2, Line 32, Column 5). Of this, 75.9%, or $119.8 million is attributable to appreciation, while the balance of $37.9 million is derived from new growth. The CY 2007 percentage increase is similar to that in CY 2006 when the hotel tax base increased 30.17%.

New hotel construction in the City includes the Westin in Carlyle which is a 312 room full service facility scheduled to be delivered in 2007. The proposed Marriott Residence Inn will be a 180-room facility scheduled to start construction in 2007/2008. According to the statistics compiled by the Smith Travel Research, the average occupancy rate was 71.1% during 2006. This compares with average occupancy rate of 73.4% one year earlier. Average daily room rate was $129.52 in September 2006. This was an increase of 13.8% from September 2005 when the average daily rate was $113.81. Occupancy rates in the City have begun to drop, in part caused by a higher federal government per diem which has resulted in a shift in room demand towards Washington D.C. The most recent improved hotel property sales in the City are summarized in Table 11 below. It is believed that all of these facilities conveyed with furniture, fixtures, and equipment.

Table 10: 2006 Hotel Property Sales

Property Location	Sale Date	Number of Rooms	Consideration	Price/Room
420 N. Van Dorn Street	1-17-2006	185	$24,325,000	$131,486
480 King Street	1-26-2006	228	$66,000,000	$289,500
4641 Kenmore Avenue	9-29-2006	191	$35,000,000	$183,246
116 S. Alfred Street	8-04-2006	45	$14,400,000	$320,000*
* Property sale included three in-house restaurant facilities.				

Shopping Center Market Overview

Although the Landmark Mall has continued to struggle, the performances of the City's twenty-eight (28) other shopping centers continued to be strong with high occupancies and stable operating positions. The base for this property type increased 12.52%, or approximately $62.8 million, from $501.3 million in CY 2006 to $564 million for CY 2007 (Attachment 1, Page 2, Line 30, Column 5). Of the total increase, 68.79%, or $43.2 million is attributable to appreciation, while the balance of $19.6 million is derived from new growth. The CY 2007 percentage increase is similar to that in CY 2006 when the shopping center tax base increased 14.65%, or $66.7 million. Based on data compiled by the Department of Finance and the Virginia Department of Taxation, retail 3rd quarter 2006 gross retail receipts totaled $628,048,539. This was a 5.98% increase from one year earlier when gross receipts totaled $592,600,309.

For the most part, the City is characterized by neighborhood- and community-level shopping centers. According to the Fourth Quarter 2006 *Korpacz Real Estate Investor Survey*, overall national strip shopping center capitalization rates ranged from 5.5 to 9% with an average of 7.21%. Changes in market rent increased from 0% to 5% with an average of 2.88%. Corresponding expenses grew between 3% and 4% in the 4th quarter with an average of 3.07%. While some investors expect overall capitalization rates to increase due to an increasing supply and the anticipation of higher interest rates in the general market, most all agree that rates will remain low for properties located in affluent trade area, particularly those with "big box" anchors.

Landmark Mall remains stagnant as a regional mall, however, according to General Growth Properties planning will soon be restarted towards a major re-development of the entire center with a mixed-use residential/commercial project. Landmark Mall (including Macy's and Sears) assessment dropped 20.7% from $106 million at the beginning of 2006 to $84 Million in 2007. Potomac Yard Retail Center continues to be a very strong big box center with continued appreciation. The City's neighborhood centers continue to be strong with little vacancy and increases in rental rates.

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 increasing sales prices for these types of properties. It also has the highest percentage of owner-occupied properties of all the department's land use groups. The typical purchasers of these properties in 2006 were motivated by expenses stabilization and tax benefits by virtue of owner-occupancy.

The base for this property type increased 6.93%, or approximately $86.5 million, from $1.25 billion in CY 2006 to $1.3 billion for CY 2007 (Attachment 1, Page 2, Line 27, Column 5). Of the total increase, 72.6%, or $62.7 million is attributable to appreciation, while the balance of $23.7 million is derived from new growth. The past several years had seen rental rates lagging behind what an investor would expect based on the market transactions relative to a competitive rate of return. During CY 2007, we continued to see increases in rental rates to levels more commensurate to what would be expected based on the sales prices of these properties.

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 of real property. 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 2007 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.

During the past year the City installed a new CAMA System and a thorough analysis of the converted data (old to new system) was completed. While DREA has every reason to believe that the data conversion was correctly executed, a sentence about the data conversion was included in the assessment notices, so as to alert property owners to call DREA if their assessment value "appears to be significantly different than you would anticipate as the fair market value.."

For CY 2007, 42,988 local taxable properties were assessed. Also, as required by State law, assessed on an annual basis are 971 tax exempt parcels. Assessment notices were mailed to property owners on February 12, 2007. Real estate assessment information will be available on the City's web site on February 13th (in conjunction with the City Council presentation), which included the forms needed for the review and appeal process, the 2007 assessments for all locally assessed properties, general assessment information, and our improved data search capability on the real estate portion of the City's web site, enabling residents to view current sales and sales used to determine their assessment.

The 2007 assessment notices included information about requesting a review of assessment with DREA by April 2, 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 2006, the number of requests for assessment reviews filed with DREA and appeals to the Board represented 2% (838) and 0.84% (352), respectively, of the 41,824 locally assessed properties in the City.

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Jean Monroe, Account Clerk III

ATTACHMENTS:

Attachment 1:	CY 2007 Real Property Assessment Summary Including Appreciation and New Growth
Attachment 2:	Map Showing 2006 to 2007 Residential Property Appreciation by Geographic Area
Attachment 3:	CY 2007 Median Assessments for Single Family Homes and Residential Condominiums (by value ranges and small area plan)
Attachment 4:	CY 2007 Average Real Property Assessments for Single Family Homes and Residential Condominiums by Geographical Area
Attachment 5:	Residential Sales Statistics (January 2003 through December 2005) Prepared by the Department of Real Estate Assessments
Attachment 6:	"The Tide is Turning," The Washington Post, January 6, 2007
Attachment 7:	"Alexandria Home Sales Close 2006 on An Upswing," The Alexandria Times, January 11-18, 2007
Attachment 8:	"D.C. Housing Market May Bounce Back Faster Than Nation," Washington Business Journal, January 19-25, 2007
Attachment 9:	"Dread on Arrival - Property Tax Assessments Aren't Always Bad News," The Washington Post, February 3, 2007
Attachment 10:	"Marriott's Profit Falls Despite Its Hotels' Strength," The Washington Post, February 9, 2006

City of Alexandria, Virginia

CY 2007 REAL PROPERTY ASSESSMENT SUMMARY INCLUDING APPRECIATION AND GROWTH

Comparison of 2006 Equalized Assessments (December 31, 2006) to January 1, 2007

	Real Property Classification & (Parcel Count)	2006 Equalized Assessments	2007 Assessments	($) Amount of Change	% Change	New Growth ($)	% New Growth	($) Amount of Appreciation	% Appreciation
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Locally Assessed Taxable Real Property								
	Residential Real Property								
1	Residential Single Family								
2	Detached (9,132)	$6,935,072,223	$6,981,892,282	$46,820,059	0.68%	$48,334,006	0.70%	-$1,513,947	-0.02%
3	Semi-Detached (5,447)	3,234,618,699	3,184,838,789	-49,779,910	-1.54%	26,420,598	0.82%	-76,200,508	-2.36%
4	Row House (6,319)	3,700,086,533	3,644,052,726	-56,033,807	-1.51%	41,083,851	1.11%	-97,117,658	-2.62%
5									
6	Total Single Family (20,898)	$13,869,777,455	$13,810,783,797	-$58,993,658	-0.43%	$115,838,455	0.84%	-$174,832,113	-1.26%
7									
8	Residential Condominium								
9	Garden (10,031)	$3,419,272,442	$3,317,835,459	-$101,436,983	-2.97%	$191,297,444	5.59%	-$292,734,427	-8.56%
10	High-rise (7,762)	2,570,983,315	2,575,577,027	4,593,712	0.18%	101,991,631	3.97%	-97,397,919	-3.79%
11	Residential Cooperative (18)	17,490,300	21,354,800	3,864,500	22.10%	0	0.00%	3,864,500	22.10%
12	Townhouse (941)	494,016,160	479,812,791	-14,203,369	-2.88%	14,926,125	3.02%	-29,129,494	-5.90%
13									
14	Total Residential Condominium (18,752)	$6,501,762,217	$6,394,580,077	-$107,182,140	-1.65%	$308,215,200	4.74%	-$415,397,340	-6.39%
15									
16	**Total Residential Real Property (39,650)**	$20,371,539,672	$20,205,363,874	-$166,175,798	-0.82%	$424,053,655	2.08%	-$590,229,453	-2.90%

Attachment 1

City of Alexandria, Virginia
CY 2007 REAL PROPERTY ASSESSMENT SUMMARY INCLUDING APPRECIATION AND GROWTH
Comparison of 2006 Equalized Assessments (December 31, 2006) to January 1, 2007

Real Property Classification & (Parcel Count)	2006 Equalized Assessments	2007 Assessments	($) Amount of Change	% Change	New Growth ($)	% New Growth	($) Amount of Appreciation	% Appreciation
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Locally Assessed Taxable Real Property								
Commercial Real Property								
Commercial Multi-Family Rental								
Garden (208)	$1,543,161,100	$1,826,752,616	$283,591,516	18.38%	$0	0.00%	$283,591,516	18.38%
Mid-rise (17)	627,994,000	783,153,435	155,159,435	24.71%	13,414,856	2.14%	141,744,579	22.57%
High-rise (30)	1,191,629,500	1,492,271,783	300,642,283	25.23%	114,642,730	9.62%	185,999,553	15.61%
Total Multi-Family Rental (255)	$3,362,784,600	$4,102,177,834	$739,393,234	21.99%	$128,057,586	3.81%	$611,335,648	18.18%
Commercial Office, Retail, and Service								
General Commercial (694)	$1,247,158,525	$1,333,626,724	$86,468,199	6.93%	$23,736,622	1.90%	$62,731,577	5.03%
Office (554)	4,176,138,669	4,691,132,439	514,993,770	12.33%	50,317,270	1.20%	464,676,500	11.13%
Office or Retail Condominium (477)	308,925,100	338,059,641	29,134,541	9.43%	16,150,000	5.23%	12,984,541	4.20%
Shopping Center (30)	501,257,944	564,022,424	62,764,480	12.52%	19,588,114	3.91%	43,176,366	8.61%
Warehouse (176)	661,877,100	726,847,700	64,970,600	9.82%	0	0.00%	64,970,600	9.82%
Hotel/Motel and Extended Stay (27)	575,149,100	732,859,026	157,709,926	27.42%	37,929,226	6.59%	119,780,700	20.83%
Total Commercial Office, Retail and Service (1,958)	$7,470,506,438	$8,386,547,954	$916,041,516	12.26%	$147,721,232	1.98%	$768,320,284	10.28%
Other Commercial Property								
Vacant Residential Land (730)	$150,853,457	$125,155,973	-$25,697,484	-17.03%	$0	0.00%	-$25,697,484	-17.03%
Vacant Commercial and Industrial Land (395)	654,886,281	569,723,288	-85,162,993	-13.00%	15,915,676	2.43%	-101,078,669	-15.43%
Total Other Commerical Property (1,125)	$805,739,738	$694,879,261	-$110,860,477	-13.76%	$15,915,676	1.98%	-$126,776,153	-15.73%
Total Commercial Real Property (3,338)	**$11,639,030,776**	**$13,183,605,049**	**$1,544,574,273**	**13.27%**	**$291,694,494**	**2.51%**	**$1,252,879,779**	**10.76%**
Total Locally Assessed Taxable Real Property (42,988)	**$32,010,570,448**	**$33,388,968,923**	**$1,378,398,475**	**4.31%**	**$715,748,149**	**2.24%**	**$662,650,326**	**2.07%**

City of Alexandria, Virginia

CY 2007 REAL PROPERTY ASSESSMENT SUMMARY INCLUDING APPRECIATION AND GROWTH

Comparison of 2006 Equalized Assessments (December 31, 2006) to January 1, 2007

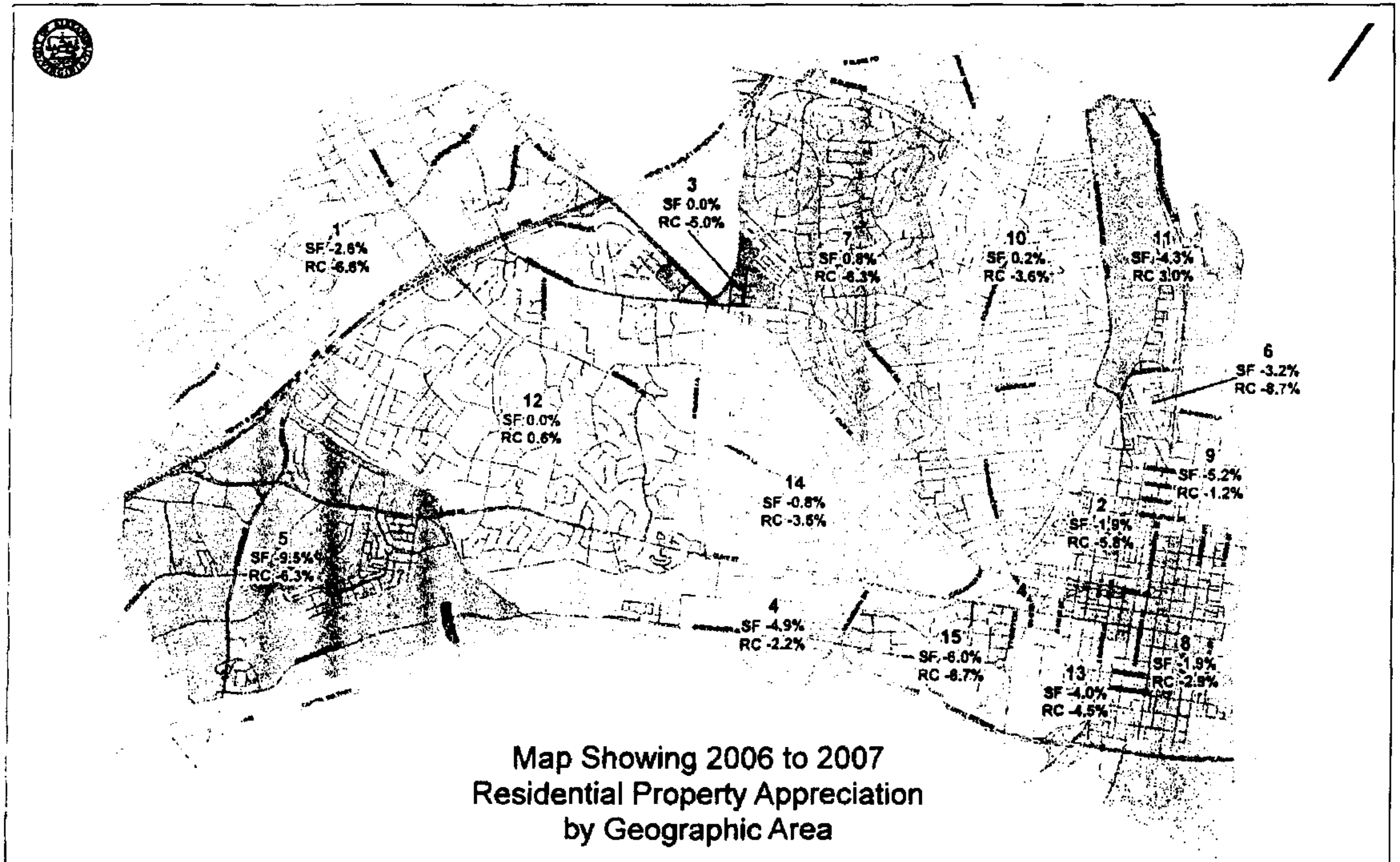
#	Real Property Classification & (Parcel Count)	2006 Equalized Assessments	2007 Assessments	($) Amount of Change	% Change	New Growth ($)	% New Growth	($) Amount of Appreciation	% Appreciation
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
45	**Non-Locally Assessed Taxable Real Property**								
47	**Assessed by State Corporation Commission (SCC)**								
48	Gas & Pipeline Distribution Corporation	$29,189,900	$31,361,305	$2,171,405	7.44%	$0	0.00%	$2,171,405	7.44%
49	Light & Power Corporation	480,920,700	533,685,645	52,764,945	10.97%	0	0.00%	52,764,945	10.97%
50	Telecommunication Company	127,075,100	127,929,859	854,759	0.67%	0	0.00%	854,759	0.67%
51	Water Corporation	34,930,500	38,923,866	3,993,366	11.43%	0	0.00%	3,993,366	11.43%
53	**Total SCC Assessed Property**	$672,116,200	$731,900,675	$59,784,475	8.89%	$0	0.00%	$59,784,475	8.89%
55	**Assessed by Virginia Department of Taxation (VDT)**								
56	Interstate Pipeline Transmission	$340,600	$310,744	-$29,856	-8.77%	$0	0.00%	-$29,856	-8.77%
57	Operating Railroad								
58	Richmond, Fredericksburg & Potomac Railway Co.	$55,341,300	$58,806,099	$3,464,799	6.26%	$0	0.00%	$3,464,799	6.26%
59	Norfolk Southern Railway Co.	52,152,700	63,001,308	10,848,608	20.80%	0	0.00%	10,848,608	20.80%
60	CSX Transportation, Inc.	41,300	44,165	2,865	6.94%	0	0.00%	2,865	6.94%
62	Total Operating Railroads	$107,535,300	$121,851,572	$14,316,272	13.31%	$0	0.00%	$14,316,272	13.31%
64	**Total VDT Assessed Property**	$107,875,900	$122,162,316	$14,286,416	13.24%	$0	0.00%	$14,286,416	13.24%
66	**Total Non-Locally Assessed Taxable Real Property**	$779,992,100	$854,062,991	$74,070,891	9.50%	$0	0.00%	$74,070,891	9.50%
68	**Grand Total Taxable Real Property Assessments**	$32,790,562,548	$34,243,031,914	$1,452,469,366	4.43%	$715,748,149	2.18%	$736,721,217	2.25%

Department of Real Estate Assessments, January 15, 2007

City of Alexandria, Virginia
CY 2007 TAX EXEMPT REAL PROPERTY ASSESSMENT SUMMARY INCLUDING APPRECIATION AND GROWTH
Comparison of 2006 Equalized Assessments (December 31, 2006) to January 1, 2007

Real Property Classification & (Parcel Count)	2006 Equalized Assessments	2007 Assessments	($) Amount of Change	% Change	New Growth ($)	% New Growth	($) Amount of Appreciation	% Appreciation
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Tax Exempt Real Property								
Governmental								
Federal (17)	$490,333,400	$514,567,607	$24,234,207	4.94%	$0	0.00%	$24,234,207	4.94%
State (31)	234,392,500	245,358,360	10,965,860	4.68%	0	0.00%	10,965,860	4.68%
Regional (4)	35,537,000	37,480,842	1,943,842	5.47%	0	0.00%	1,943,842	5.47%
Local (478)	2,218,660,800	2,393,545,106	174,884,306	7.88%	52,400,096	2.36%	122,484,210	5.52%
WMATA (52)	286,617,600	303,412,648	16,795,048	5.86%	0	0.00%	16,795,048	5.86%
Total Governmental (582)	**$3,265,541,300**	**$3,494,364,563**	**$228,823,263**	**7.01%**	**$52,400,096**	**1.60%**	**$176,423,167**	**5.40%**
Non-Governmental								
Religious (196)	$412,068,000	$431,159,946	$19,091,946	4.63%	$0	0.00%	$19,091,946	4.63%
Charitable (59)	256,846,100	267,420,192	10,574,092	4.12%	0	0.00%	10,574,092	4.12%
Educational (134)	355,400,500	371,440,631	16,040,131	4.51%	0	0.00%	16,040,131	4.51%
Total Non-Governmental (389)	**$1,024,314,600**	**$1,070,020,769**	**$45,706,169**	**4.46%**	**$0**	**0.00%**	**$45,706,169**	**4.46%**
Total Tax-Exempt Real Property (971)	**$4,289,855,900**	**$4,564,385,332**	**$274,529,432**	**6.40%**	**$52,400,096**	**1.22%**	**$222,129,336**	**5.18%**

Department of Real Estate Assessments, January 15, 2007



Map Showing 2006 to 2007 Residential Property Appreciation by Geographic Area

City of Alexandria, Virginia

LEGEND

SF - Single Family Residential
RC - Residential Condominium

Department of Real Estate Assessments
February 2007
Map prepared by the GIS Section of
the Department of Planning and Zoning

NOTES:
Numbers designate the geographic areas of the City that approximate the small areas developed for the Master Plan revision. The 2007 Notices of Assessment include the study group number. The first two digits of the study group number will designate the geographic area that corresponds with the map.

Attachment 2

34

CY 2007 Real Property Assessment Report

2007 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 1

Alexandria West		
Assessed Value Range	**No. of Units**	**Median Value**
Less than $100,000	7	$ 76,500
$100,000 to $249,999	1,429	211,200
$250,000 to $499,999	2,253	330,000
$500,000 to $749,999	867	558,700
$750,000 to $999,999	30	779,000
$1,000,000 to $1,999,999	5	1,134,200
$2,000,000 and over	0	0

Small Area Plan 2

Braddock Road Metro Station		
Assessed Value Range	**No. of Units**	**Median Value**
Less than $100,000	6	$ 80,500
$100,000 to $249,999	15	173,400
$250,000 to $499,999	781	387,300
$500,000 to $749,999	619	571,000
$750,000 to $999,999	153	829,100
$1,000,000 to $1,999,999	30	1,146,800
$2,000,000 and over	0	0

Small Area Plan 3

Fairlington/Bradlee		
Assessed Value Range	**No. of Units**	**Median Value**
Less than $100,000	0	$ -
$100,000 to $249,999	0	0
$250,000 to $499,999	115	388,300
$500,000 to $749,999	10	536,300
$750,000 to $999,999	0	0
$1,000,000 to $1,999,999	0	0
$2,000,000 and over	0	0

CY 2007 Real Property Assessment Report

2007 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 4

King St./Eisenhower Ave. Metro Station

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$ -
$100,000 to $249,999	7	230,000
$250,000 to $499,999	92	333,000
$500,000 to $749,999	59	551,200
$750,000 to $999,999	1	831,200
$1,000,000 to $1,999,999	2	1,060,600
$2,000,000 and over	0	0

Small Area Plan 5

Landmark/Van Dorn

Assessed Value Range	No. of Units	Median Value
Less than $100,000	5	$ 53,100
$100,000 to $249,999	1,657	216,500
$250,000 to $499,999	4,518	314,800
$500,000 to $749,999	1,112	565,100
$750,000 to $999,999	127	841,400
$1,000,000 to $1,999,999	2	1,163,800
$2,000,000 and over	0	0

Small Area Plan 6

Northeast

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$ -
$100,000 to $249,999	218	232,600
$250,000 to $499,999	401	429,200
$500,000 to $749,999	336	566,100
$750,000 to $999,999	15	921,500
$1,000,000 to $1,999,999	0	0
$2,000,000 and over	0	0

2007 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 7

Northridge/Rosemont		
Assessed Value Range	**No. of Units**	**Median Value**
Less than $100,000	3	$ 75,900
$100,000 to $249,999	211	198,900
$250,000 to $499,999	2,040	320,800
$500,000 to $749,999	1,446	663,500
$750,000 to $999,999	858	834,000
$1,000,000 to $1,999,999	380	1,189,900
$2,000,000 and over	45	2,369,800

Small Area Plan 8

Old Town		
Assessed Value Range	**No. of Units**	**Median Value**
Less than $100,000	0	$ -
$100,000 to $249,999	59	233,700
$250,000 to $499,999	512	386,200
$500,000 to $749,999	790	632,900
$750,000 to $999,999	795	864,000
$1,000,000 to $1,999,999	724	1,229,100
$2,000,000 and over	129	2,488,500

Small Area Plan 9

Old Town North		
Assessed Value Range	**No. of Units**	**Median Value**
Less than $100,000	6	$ 53,500
$100,000 to $249,999	195	199,000
$250,000 to $499,999	824	328,500
$500,000 to $749,999	412	622,700
$750,000 to $999,999	200	845,500
$1,000,000 to $1,999,999	57	1,257,700
$2,000,000 and over	0	0

2007 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 10

Potomac West

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$ -
$100,000 to $249,999	317	205,100
$250,000 to $499,999	2,975	419,700
$500,000 to $749,999	2,078	587,600
$750,000 to $999,999	430	820,200
$1,000,000 to $1,999,999	77	1,086,800
$2,000,000 and over	0	0

Small Area Plan 11

Potomac Yard/Potomac Greens

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$ -
$100,000 to $249,999	0	0
$250,000 to $499,999	64	447,600
$500,000 to $749,999	186	654,100
$750,000 to $999,999	202	819,200
$1,000,000 to $1,999,999	9	1,043,600
$2,000,000 and over	0	0

Small Area Plan 12

Seminary Hill/Strawberry Hill

Assessed Value Range	No. of Units	Median Value
Less than $100,000	4	$ 93,600
$100,000 to $249,999	565	208,200
$250,000 to $499,999	2,845	382,800
$500,000 to $749,999	945	554,300
$750,000 to $999,999	454	865,100
$1,000,000 to $1,999,999	160	1,246,300
$2,000,000 and over	25	2,328,900

2007 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 13

Southwest Quadrant

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$ -
$100,000 to $249,999	13	242,400
$250,000 to $499,999	446	393,800
$500,000 to $749,999	326	541,300
$750,000 to $999,999	94	822,300
$1,000,000 to $1,999,999	39	1,082,300
$2,000,000 and over	0	0

Small Area Plan 14

Taylor Run/Duke Street

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$ -
$100,000 to $249,999	11	221,600
$250,000 to $499,999	758	333,900
$500,000 to $749,999	598	613,100
$750,000 to $999,999	327	858,000
$1,000,000 to $1,999,999	181	1,259,500
$2,000,000 and over	23	2,275,800

Small Area Plan 15

Eisenhower East

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$ -
$100,000 to $249,999	0	0
$250,000 to $499,999	365	409,600
$500,000 to $749,999	245	542,200
$750,000 to $999,999	78	834,400
$1,000,000 to $1,999,999	1	1,030,200
$2,000,000 and over	0	0

The median assessed value is the point within the stated range at which half of the assessments are higher and half are lower.

City of Alexandria, Virginia
CY 2007 Real Property Assessment Report

AVERAGE 2007 REAL PROPERTY ASSESSMENTS FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS BY GEOGRAPHICAL AREA

		Single Family Homes		Residential Condominiums	
	Small Area Plan Name	2007 Average Assessed Value	% Change 2006 to 2007	2007 Average Assessed Value	% Change 2006 to 2007
	(1)	(2)	(3)	(4)	(5)
1	Alexandria West	$546,693	-2.6	$283,688	-6.6
2	Braddock Road Metro Station	551,440	-1.9	367,352	-5.8
3	Fairlington/Bradlee	518,015	0.0	386,199	-5.0
4	King St/Eisenhower Ave Metro Station	461,221	-4.9	424,110	-2.2
5	Landmark/Van Dorn	582,672	-9.5	318,132	-6.3
6	Northeast	520,886	-3.2	294,503	-8.7
7	Northridge	794,125	0.8	299,907	-6.3
8	Old Town	1,006,546	-1.9	585,650	-2.9
9	Old Town North	844,539	-5.2	406,265	-1.2
10	Potomac West	523,186	0.2	273,768	-3.6
11	Potomac Yard/Potomac Greens	728,288	-4.3	532,700	3.0
12	Seminary Hill/Strawberry Hill	596,208	0.0	283,071	0.6
13	Southwest Quadrant	563,555	-4.0	440,163	-4.5
14	Taylor Run/Duke St	746,101	-0.8	315,617	-3.5
15	Eisenhower East	857,121	-6.0	506,917	-6.7

Department of Real Estate Assessments, January 30, 2007
file name: rea:\2007av\MSlavin\values\avchgadj.xls

Attachment 4

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City of Alexandria, Virginia
CY 2007 Real Property Assessment Report

RESIDENTIAL REAL PROPERTY SALES STATISTICS FOR CY 2004, 2005, AND 2006

DOLLAR VOLUME

	Sales Statistic	CY 2004	CY 2005	Percent of Change 2004 to 2005	CY 2006	Percent of Change 2005 to 2006
	(1)	(2)	(3)	(4)	(5)	(6)
	Dollar Volume of Sales					
1	Residential Single Family					
2	Detached	$392,365,082	$418,623,673	6.69	$337,177,477	(19.46)
3	Semi-Detached	247,362,667	304,369,078	23.05	217,922,098	(28.40)
4	Row House	301,628,384	309,844,292	2.72	272,493,702	(12.05)
5						
6	**Total Single Family**	**$941,356,133**	**$1,032,837,043**	**9.72**	**$827,593,277**	**(19.87)**
7						
8	Residential Condominium					
9	Garden	$298,010,667	$336,484,311	12.91	$262,847,361	(21.88)
10	High-Rise	216,012,190	221,589,751	2.58	147,232,799	(33.56)
11	Residential Cooperative					
12	Townhouse	42,783,783	41,465,735	-3.08	28,185,688	(32.03)
13						
14	**Total Residential Condominium**	**$556,806,640**	**$599,539,797**	**7.67**	**$438,265,848**	**(26.90)**
15						
16	**Total Dollar Volume of Sales**	**$1,498,162,773**	**$1,632,376,840**	**8.96**	**$1,265,859,125**	**(22.45)**

City of Alexandria, Virginia
CY 2007 Real Property Assessment Report

RESIDENTIAL REAL PROPERTY SALES STATISTICS FOR CY 2004, 2005, AND 2006

NUMBER OF UNITS SOLD

Sales Statistic	CY 2004	CY 2005	Percent of Change 2004 to 2005	CY 2006	Percent of Change 2005 to 2006
(1)	(2)	(3)	(4)	(5)	(6)
Number of Units Sold					
Residential Single Family					
Detached	611	560	(8.35)	447	(20.18)
Semi-Detached	502	504	0.40	366	(27.38)
Row House	571	523	(8.41)	454	(13.19)
	--------	--------		--------	
Total Single Family	**1,684**	**1,587**	**(5.76)**	**1,267**	**(20.16)**
Residential Condominium					
Garden	1,093	1,001	(8.42)	776	(22.48)
High-Rise	858	716	(16.55)	446	(37.71)
Residential Cooperative					
Townhouse	101	74	(26.73)	58	(21.62)
	--------	--------		--------	
Total Residential Condominium	**2,052**	**1,791**	**(12.72)**	**1,280**	**(28.53)**
	--------	--------		--------	
Total Number of Units Sold	**3,736**	**3,378**	**(9.58)**	**2,547**	**(24.60)**

City of Alexandria, Virginia
CY 2007 Real Property Assessment Report

RESIDENTIAL REAL PROPERTY SALES STATISTICS FOR CY 2004, 2005, AND 2006

AVERAGE SALE PRICE

Sales Statistic	CY 2004	CY 2005	Percent of Change 2004 to 2005	CY 2006	Percent of Change 2005 to 2006
(1)	(2)	(3)	(4)	(5)	(6)
Average Sale Price *					
Residential Single Family					
Detached	$642,169	$747,542	16.41	$754,312	0.91
Semi-Detached	492,754	603,907	22.56	595,416	(1.41)
Row House	528,246	592,437	12.15	600,206	1.31
Total Single Family	**$559,000**	**$650,811**	**16.42**	**$653,191**	**0.37**
Residential Condominium					
Garden	$272,654	$336,148	23.29	$338,721	0.77
High-Rise	251,762	309,483	22.93	330,118	6.67
Residential Cooperative					
Townhouse	423,602	560,348	32.28	485,960	(13.28)
Total Residential Condominium	**$271,348**	**$334,751**	**23.37**	**$342,395**	**2.28**
Average Sale Price for Residential	**$401,007**	**$483,238**	**20.51**	**$497,000**	**2.85**

Notes:

* Average sale price for each class of residential property and the average residence is calculated by dividing the dollar volume of sales (page 1) by the number of units sold (page 2). For the purposes of this report, sales of apartments converted into condominium units or newly constructed condominium or townhouse properties throughout the City were not included in the 2004, 2005 and 2006 sales totals.

Department of Real Estate Assessments, February 6, 2007
file name: rea:\2006av\MSlavin\SLSRPRTS\06YrEnd.xls

Attachment 6 44

JANUARY 6, 2007

THE WASHINGTON POST

THE NATION'S HOUSING

Kenneth R. Harney

The Tide Is Turning

What's the shape of a post-bubble, post-correction real estate market? And more to the point: What does that mean for you?

Those questions are becoming increasingly relevant as the latest sales data show a small but unmistakable uptick in activity and declining unsold inventories. In late December, the National Association of Realtors reported that existing home sales were up by a hair in November, 0.6 percent, the second straight month of modest increases off the cyclical trough in September.

That same week, the Commerce Department reported that sales of new houses rose 3.4 percent in November over the prior month, while builders' unsold inventories dropped.

All of which suggests that the 18-month market correction that followed the four-year housing boom has just about run its course. From a national statistical perspective, we're somewhere near slack tide — but no one's looking for another frothy high tide anytime soon.

Some local markets are moving contrary to the relatively flat national trend. Three dozen metropolitan areas — primarily markets with moderate prices and solid employment growth — were still racking up low

See HARNEY, F13, Col. 3

HARNEY, *From F1*

double-digit house price inflation at the end of the third quarter of 2006, according to federal data. Dozens of others, primarily where unemployment has been a persistent and increasing economic drag, showed continued signs of modest deflation in home values, according to the same data.

In the main, however, the housing market appears to have weathered the correction phase of the cycle without the blood running in the streets that some bubble-bust bears had forecast. Median prices of resale houses have fallen 3.6 percent nationally year to year, and anecdotal reports of 10 percent to 20 percent asking-price reductions in formerly hyperinflated markets are commonplace. But that's what corrections are all about, as opposed to outright busts.

Moderate price cuts also eventually stimulate buyers who d been sitting on the sidelines ondering when the market might bottom out to wade back in and start shopping. That's where we appear to be at the moment, and where we are headed in 2007, absent unexpected economic jolts to the global capital markets that could send mortgage rates spiking. In that event, all bets are off.

So what are smart strategies in a slowly recovering real estate environment?

One good rule: Think baby steps instead of big leaps. Sellers shouldn't assume that with the trend turning positive they can suddenly price their house for what they might have commanded in early 2005. Forget about it. In most places, buyers still have the upper hand. There's plenty of inventory to choose from; shoppers are picky; and unrealistic pricing is a guaranteed route to sitting dead in the water for months, unvisited and unsold. Be real on pricing. And be happy there are buyers out there again.

On the other hand, smart shoppers should recognize that the game is changing, the spring buying season is just on the horizon and lobbing lowball offers at already marked-down properties isn't a winning strategy. If you are seriously in the market, be prepared to pay a price that may not be as low as you had hoped; but that just might be your last shot at a particular house before it sells for closer to the asking price a few weeks from now.

Shoppers also need to understand that today's prevailing mortgage rates — a little above 6 percent for 30-year money, and the high-5 percent range for 15-year loans — are less than a point above 40-year lows. They won't be around indefinitely, so a fairly priced house combined with a low-cost mortgage adds up to a potentially great deal.

A second essential for the emerging market: Smart buyers and sellers need to be well-informed. They need to plug themselves into all the key local information that shapes pricing and dealmaking: time on the market, inventory declines and increases, the overall pace of sales, and the average gap between asking prices and closing prices. Be in command of these numbers and you will be well equipped to play heads-up ball, whether as buyer or seller.

A lot of these numbers are available online and offline from real estate Web sites, regional or local multiple listing services, Realtor associations, and mortgage lenders and brokers. It's also available person-to-person from the front-line experts on any given micro-market: the real estate agents who work in specific neighborhoods or market segments. They make their living, in up cycles and down, by listing, selling and thoroughly knowing what's happening inside their target areas.

Better yet: There are no commissions for information from these specialists. All you need to do is show that you're serious and you can compile a lot of valuable market intelligence for free.

Kenneth R. Harney's e-mail address is KenHarney@earthlink.net.

January 11-18, 2007

Attachment 7

45

ALEXANDRIA TIMES

Alexandria homes sales close 2006 on an upswing

From November through December of last year, interested home buyers and sellers probably heard what could be the changing of a Buyer' Market to a Level Playing Field Market. Both in the press, on TV and most-notably on CNBC there were reinforcing reports of consecutive months of increased resale of homes and numerous analyses at the federal level that the housing market was looking at better times in 2007.

True to form in Alexandria, the Old Town area showed surprisingly strong sales and contract offers being written in the month of December. The city, as a whole, saw the existing inventory of homes for sales dropped dramatically, by almost 40 percent (only 665 homes were available on the 31st) over the average monthly inventory of 1050 to 1100 homes from mid-summer 2006.

At the end of the year there were 154 homes under contract in the city and the number of days on market to reach contract agreement declined over previous months. For those buyers sitting on the fence at the beginning of December waiting for a deepening housing decline (perhaps, the same individuals who wished for snow on Christmas) they were sorely disappointed.

The buzz from real estate agents throughout the city indicate that the upbeat December activity is flowing through to January with both rental and sales of homes expected to increase further.

High-end new home sales are also showing strength. A few weeks ago the premier $2-million dollar plus luxury "Oak Grove" Craftmark Homes development at the corner of Quaker and Janney's Lane noted their first sale. As they noted then, there has been significant interest and activity on the remaining lots and they have increased their sales prices by $50,000 per home.

Last month's sales were quite significant considering the year of negative press bombarding both buyer's and seller's psyche. This December, 182 homes settled in Alexandria compared to 259 last year. Yet, the leading homes sales trend that Old Town is setting for the upcoming year is up — 67 homes settled in Old Town compared to 65 in 2005. For the year, 700 homes settled in Alexandria compared to 854 last year (i.e., 82 homes sold this year for every 100 homes sold last year). Although the opportunity for buyers to "get a good deal is shrinking" the market is still a bit a way from the heady days of 2004 and spring 2005.

In the Old Town area (zip code 22314) only 15 percent of the homes closing in December settled at their original asking list price (10 out of 67). Most homes closed somewhere within a 5 to 10 percent reduction from their original list price (seller subsidies included). One of the largest reductions in price was a Green Street home that sold for $1,200,000, a drop of $549,000 from the original list price.

At the end of December, in all of Alexandria there were 287 homes actively listed on the market for sale under $400,000 (48 in Old Town) with 263 of them being condos. In the $400,000 to $700,000 market, there were 248 homes (93 in Old Town) and in the over $700,000 range, 130 homes were available to purchase (with more than half, 75 homes, in Old Town).

A Park Place condo listed at $164,000 was the lowest price property available. The highest, a single family home on Russell Road, listed at $4,489,000.

If home buyers act soon (with interest rates still near historic lows of 6 percent (for 30-year and yes, 40-year mortgages), they will be saying Happy New Year for months to come. If home sellers continue realistic pricing that supports reducing the time on market for a sale, they too to will be singing a new tune in 2007.

Washington
BUSINESS JOURNAL

Attachment 8
JANUARY 19-25, 2007

D.C. housing market may bounce faster than nation

By Joe Coombs
Senior Staff Reporter

Sellers in Greater Washington's housing market haven't faced facts yet.

Prices in most local jurisdictions fell again in December, according to data compiled by Metropolitan Regional Information Systems, but many sellers weren't ready to come down on their asking prices.

In D.C., the average list price of homes for sale was $538,175, and the median actual sales price was a paltry $388,250.

However, many economists and market observers say the local market will bounce back quicker than the rest of the country because of continued job growth and increased confidence among prospective buyers who have been sitting on the sidelines.

"Things should look much better in D.C. in the spring," says Lawrence Yun, a senior economist with the National Association of Realtors. "People will say, 'I had the financial capacity two years ago, but I got outbid on a lot of houses.' In 2006, they lost their confidence. But now an improving market for buyers will restore their confidence."

Median housing prices in most jurisdictions fell roughly 3 to 6 percent in December compared with the same month in 2005.

In Loudoun County, the median single-family home price was $440,000, down more than 13 percent on an annual basis.

Prices should rise close to 5 percent on an annual basis by the end of this year, says John McClain, senior fellow and deputy director of the Center for Regional Analysis at George Mason University. By 2008-09, prices should get back to the standard 7 percent increase that the region has seen historically, he says.

About 80,000 housing units were sold in Greater Washington in 2006, according to the center's research. That's down sharply from 111,000 in 2005 and 116,000 in 2004, but there's still a housing-supply shortage in the region, McClain says.

Housing market

Prices, they keep a fallin' — for now.

	MEDIAN SALES PRICE (DEC. 2006)	% CHANGE (FROM DEC. 2005)
D.C.	$388,250	-2.9
Northern Virginia*	$451,750	-5.6
Loudoun County	$440,000	-13.7
Prince William County	$379,900	-6.3
Montgomery County	$435,600	-2.9
Prince George's County	$330,000	+4.7

* INCLUDES ARLINGTON AND FAIRFAX COUNTIES AND THE CITIES OF ALEXANDRIA, FALLS CHURCH AND FAIRFAX.
SOURCE: METROPOLITAN REGIONAL INFORMATION SYSTEMS

WASHINGTON POST

February 3, 2007

Dread on Arrival

Property Tax Assessments Aren't Always Bad News

By DINA ELBOGHDADY
Washington Post Staff Writer

Even before Jennifer Brandel received the property tax assessment for her Arlington condominium, she was online researching how to challenge what she expected would be a lofty valuation.

For each of the four years that Brandel has lived in the condo, the assessment has risen. But with home prices softening this past year, she was not willing to accept yet another increase.

To her surprise, she did not have to — because Arlington County "was right on the money," she said. When she got her notice in mid-January, her assessment was down by $41,500 from the previous year.

"In my head I had been preparing for a battle, sort of gearing up to contest the assessment so I could bring it down to something approaching market value," said Brandel, 36. "I opened up the envelope and I was really relieved that I didn't have to fight."

Around the Washington region, many homeowners who have not already received their property assessments will get them soon.

The notices will be the first in many years to try to capture values in a less-than-booming and rapidly changing housing market. Many homeowners say they expect this year's assessments — and the related property taxes — to reflect the market's downturn. If not, assessors across the region may be dealing with angry calls and more than the usual smattering of appeals from disgruntled homeowners.

In Arlington County, the average home value decreased for the first time in a decade, by 0.8 percent. In Fairfax County and Alexandria, which both plan to mail notices this month, local officials expect values to be flat.

But not everyone will see that, as many Maryland homeowners will attest. The state, which sent its notices at the end of December, assesses a third of the properties every year. The average home value there rose 59.4 percent from 2003 through 2006, in part because of the record-breaking home sales in the first two years of the triennial cycle. Values spiked most sharply in Prince George's and St. Mary's counties and in parts of Baltimore County, where demand for high-end housing outpaced supply. In Montgomery, Howard and Anne Arundel counties, assessments increased, too, but at less than the state average.

Homeowners who think their assessment is too high have the right to challenge it. But before they do so, many assessors urged that they take what Thomas Rice calls the "the common sense test."

"Ask yourself: 'Based on my knowledge of the properties around me, do I think my home should be valued higher, lower or the same?' " said Rice, Arlington County's director of real estate assessments. "The assessment should bear a reasonable relationship to the prices for which comparable properties are selling."

The assessment is the local government's estimate of what a home would sell for if exposed to the market for a reasonable period of time by an owner who is not acting under duress. In other words, that owner is in no rush to leave because of a pending foreclosure or maybe a last-minute, job-related move.

An assessment is not the same as an appraisal, which is an individual determination of the value of a house, usually performed for a mortgage lender. Government assessors do not appraise individual houses. Instead, they conduct a "mass appraisal" of homes that are close to each other and have similar characteristics, sometimes thousands of homes at a time. That involves reviewing deeds for the prices of homes sold and then using those prices to value properties that have not been sold.

Assessors also canvass neighborhoods on occasion and keep a watchful eye on building permits to track renovations that might alter a home's value.

"People think that because homes are assessed at the full market value that we should be on top of every single sales price, and that's really not how it works," said Janet Coldsmith, director of Fairfax County's Real Estate Division. "We're looking at a group of sales in a neighborhood and trying to come up with the most likely value."

The goal is to assign reasonable values to properties so that homeowners carry their fair share of the tax burden, said John McIlwain, a senior fellow at the Urban Land Institute. "Valuations are always a best guesstimate," he said.

These valuations are listed on tax rolls that legislators use to figure out the taxable property base in their districts. They then set rates for those properties at the levels needed to fund the jurisdiction's many needs: schools, roads, firetrucks, etc.

The assessment multiplied by the tax rate (usually expressed in so many dollars per $100 or $1,000) equals the tax bill — or the out-of-pocket cost for a homeowner.

"People constantly want to appeal based on what they think their tax bill will be," said Todd Kaufman, the Loudoun County assessor. "But that is not a bona fide reason to appeal because that's an issue very separate from the assessment or the value of the home."

Just because the assessment is up does not mean the tax bill is up proportionally, if it's up at all. The determining factor is the tax rate. And that isn't all. Both the District and Maryland have laws designed to cap increases when prices jump. Virginia doesn't.

The subjective nature of some of these elements is what can make property taxes rankle, said Stanley J. Fineman, president of Wilkes Artis, a D.C.-based real estate law firm.

"With the income tax, for instance, the government says: 'Here is what you earned, send me half of it,' " Fineman said. "The real estate tax is very unusual in that it's subjectively based. It's a rate set by legislators that is applied to a number that somebody determines to be the value of your property."

That's why there's an appeals process. Some areas offer online applications or hearings by phone.

The rules and laws that affect appeals vary by jurisdiction. The assessment notice itself includes some of the steps needed to appeal. All local jurisdictions also maintain Web sites that offer more information and, in some cases, allow appeals online. (See charts.) But most assessment offices agree that before filing, homeowners should first call their assessment offices to discuss their concerns.

"If your questions are answered, there's no sense in filing paper," said Rice of Arlington County. "If they're not answered, you might be better positioned to appeal if you understand how your house was assessed."

Start by making sure the assessors have the correct physical description of your home, including the proper square footage and the correct number of bathrooms and bedrooms. If they are mistaken, these are relatively easy details to confirm. For instance, if the records show you have three bathrooms and in reality there are only ... fixing the error can knock tens ... thousands of dollars off the value, assessors said.

Assessors do not go inside a home unless invited. So a homeowner should tell them about what they cannot see, including the leaky basement, the crack in the foundation and other problems that one assessor described as "incurable."

"This is the only time we have an opportunity to hear and see what goes on inside the house," said C. John Sullivan, director of Maryland's Department of Assessments and Taxation, which mailed out 661,000 notices. "We will take a look, and we allow depreciation for things over and above the normal wear and tear."

The assessment is based not only on the physical attributes of the house, but also on how it compares to other nearby houses of a similar age, quality and style. If your assessment is way out of line with that of these comparable houses, that can be grounds for an appeal.

The assessment on every house is public information and available on government Web sites. To find houses comparable to yours, start by looking at those closest, advised Daniel Ercolani, supervisor of assessments in Montgomery County. "Start with the street, and if there's nothing, then go to the general subdivision. . . . Go as far as you have to until you find a house similar in size and quality, and then make adjustments for location."

Historically, only a tiny percentage of homeowners have appealed their taxes in most jurisdictions.That appears to be the pattern so far in the areas that have sent notices.

Alexandria resident Bob Soltys figures that many people shy away from the process because it's somewhat intimidating. "Many people think they can come out worse as opposed to better, and that was not my experience," said Soltys, 67.

That experience has involved about five appeals since Soltys moved into his home in 1998. Three times, the appeal worked in his favor, though his assessment was not lowered much in each case.

"I did find errors and I don't think those errors were intentional, but they somehow crept into the system," Soltys said.

In any case, if errors exist, they should be fixed, even if the financial gains seem minimal from a homeowner's perspective, said Cindy Smith-Page, director of real estate assessments for Alexandria.

"If it's an error, it's worth asking for a review," Smith-Page said. "You don't want to perpetuate even a $100 error into the future, because $100 this year is $100 next year and the year after that."

Besides, look at it this way, said James P. Soresi, supervisor of assessments for Prince George's County: "You can always cancel an appeal, but you can't always appeal after the deadline passes."

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Marriott's Profit Falls Despite Its Hotels' Strength

By Michael S. Rosenwald
Washington Post Staff Write

Marriott International's fourth-quarter profit fell 7 percent because of a steep drop in revenue from its synthetic-fuel operation, but the company still beat Wall Street's expectations because of strong performance in its core lodging business.

The hotel chain, based in Bethesda, reported a fourth-quarter profit of $220 million (52 cents a share), down from $237 million (54 cents) in the comparable period a year earlier. Analysts had predicted earnings of 49 cents per share. Marriott's revenue increased 6 percent — to $3.86 billion — despite a 46 percent drop in revenue from synthetic fuel.

The company, which makes most of its money by managing hotels rather than owning them, is exiting the synthetic-fuel business because tax credits it earns from the government will soon expire.

Marriott officials said yesterday that the $60 million investment, first undertaken in 2002, had resulted in credits that netted $407 million in profit.

For the year, Marriott earned $608 million ($1.41), compared with $669 million ($1.45) in 2005. Revenue came in at $12.16 billion, up from $11.55 billion.

During the fourth quarter, Marriott's revenue per available room — a key measure of operating strength — increased 8.4 percent. Average daily rates jumped nearly 10 percent in North America.

Analysts said Marriott's results, taken together with strong earnings reports from such notable competitors as Starwood and Hilton, confirmed that the hotel industry was still benefiting from tight supply and strong demand, particularly from business travelers.

"Clearly, the market was relieved to have these results from us," said Arne Sorenson, Marriott's chief financial officer.

"It's confirmation from yet another lodging company that the business is strong and the market looks good."

David Katz, an analyst with CIBC World Markets, said, "At the end of the day, it's all in keeping with our thesis — it's really too early to give up on hotel stocks. They've had a nice run, but we think there's more to go."

Marriott shares closed at $51.21, up $1.08, or 2.2 percent.