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2-10-09

City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 10, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #2: CALENDAR YEAR 2009 REAL PROPERTY ASSESSMENT REPORT

ISSUE: The Calendar Year 2009 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 property¹ 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 2008 to CY 2009 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 2008 to CY 2009 are summarized below.

OVERALL CHANGE IN CY 2009 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) decreased 2.06%, or \$723.7 million from \$35.1 billion in CY 2008 to \$34.38 billion² in CY 2009 (Attachment 1, Page 3, Line 66, Column 5).

The reduction of 2.06% in the tax base represents the first drop in the total tax base since CY 1994 when the tax base declined 1.61%. The decline in the tax base reflects the continuation of a general

¹Real 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 (2008-2009 Ed.), p.U-4.

²The 2009 valuation includes the 2008 value of state-assessed public service corporation property. This value was certified by the State Corporation Commission and Virginia Department of Taxation in September 2008.

downward trend reported over the previous two years when the tax base grew at a significantly slower pace, increasing by 4.02% (CY 2008) and 4.43% (CY 2007), respectively. This is the first tax base decline since 1994. The following represents a 10-year history of the City's property tax base.

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

| CY | Percent Change | CY | Percent Change |
|------|----------------|------|----------------|
| 2000 | 9.1% | 2005 | 21.2% |
| 2001 | 10.1% | 2006 | 20.4% |
| 2002 | 11.2% | 2007 | 4.4% |
| 2003 | 19.9% | 2008 | 4.0% |
| 2004 | 18.4% | 2009 | -2.1% |

Points of Interest Relating to CY 2009 Assessment Changes:

- ▶ **Locally assessed real property** assessments decreased 2.07% (which consists of new construction and loss in value of existing property), or \$708.6 million, from \$34.2 billion in 2008 to \$33.5 billion in 2009 (Attachment 1, Page 2, Line 42, Column 5).
- ▶ **Residential property** decreased 4.39%, or \$883.7 million, from \$20.1 billion in 2008 to \$19.3 billion in 2009 (Attachment 1, Page 1, Line 18, Column 5).
- ▶ The **commercial property** tax base increased in 2009 by 1.24%, or \$175.1 million, from \$14.1 billion in 2008 to \$14.3 billion in 2009 (Attachment 1, Page 2, Line 40, Column 5).
- ▶ **State-assessed public service corporation property** assessments decreased 1.69%, or \$15.1 million, from \$892.1 million in 2008 to \$877.0 million in 2009 (Attachment 1, Page 3, Line 64, Column 5). The 2009 assessment is the value effective January 1, 2008. These values are certified by the State Corporation Commission (SCC) and the Virginia Department of Taxation (VDoT) in late September of the effective year of the valuation. The City bills all non-locally assessed properties on a fiscal year basis which allows for accuracy in the budget and collection process.
- ▶ **Tax exempt real property** assessments increased from \$4.95 billion in 2008 to \$5.1 billion in 2009. This represents an increase of 2.19%, or \$108.5 million (Attachment 1, Page 4, Line 85, Column 5). This increase was largely driven by the Department of Defense purchase of a building site at Mark Center.
- ▶ New construction activity added \$268.4 million for CY 2009 which partially offset the total tax base decrease of \$723.65 million. Residential construction accounted for \$64.5 million

- of the new growth, while the commercial sector accounted for the balance of \$204 million. In CY 2008, \$433.5 million in new residential and commercial growth was added to the City's tax base. Overall, \$702 million in new construction has been added to the tax base over last two years. This equates to approximately 2% of the current total taxable base.
- ▶ Over the last five-year period, new construction (apart from its appreciation once completed) has added \$2.7 billion to the tax base, or 7.9% of the current total tax base.
 - ▶ Based on data compiled by the Department of Planning and Zoning, a total of 2,130 residential units in 20 projects of all types were in the construction phase during CY 2008. Of these, 33% were designated for owner-occupancy, while the balance of 1,426 units, or 67%, were being constructed as rental housing. Symptomatic of residential real property markets and financial sectors, the total number of units under construction represents a 28% decline from the previous year when 2,940 units were under construction.
 - ▶ Residential projects currently under construction and planned for completion during CY 2009 include: Oak Grove (8 single-family detached), Coopers Grove (9 single-family detached), Potomac Greens (227 single-family attached), Beauregard Station (41 townhouse condominium units), The Duke Old Towne (18 townhouse and 40 mid-rise condominium units), Brandt Condominiums (56 mid-rise condominium units), The Station at Potomac Yard (64 mid-rise rental apartments), and Alexan Carlyle (280 mid-rise rental apartments).
 - ▶ Real property classified as residential for assessment purposes for CY 2009 represents 56.01% of the total real property taxable base, while property classified as commercial, and public service corporations, represents 43.99% of the base. Distribution of the City's real property tax base allocated between classifications of real property for assessment purposes is shown in Table 2 below.

Table 2: Distribution of CY 2009 Real Property Assessments by Property Classification

| Property Classification | Percentage | CY 2009 Assessments |
|-------------------------------------|------------|---------------------|
| Residential Single Family | 38.8% | \$13,331,170,896 |
| Residential Condominium | 16.9% | \$5,803,246,763 |
| Residential Vacant Land | 0.4% | \$121,488,192 |
| Commercial Multi-Family Rental | 12.8% | \$4,416,807,164 |
| Commercial Office, Retail & Service | 27.1% | \$9,299,034,332 |
| Commercial & Industrial Vacant Land | 1.5% | \$530,430,624 |
| Public Service Corporation | 2.5% | \$876,984,914 |

| | | |
|-------|------|------------------|
| Total | 100% | \$34,379,162,885 |
|-------|------|------------------|

RESIDENTIAL PROPERTY

Points of Interest Relating to CY 2009 Residential Assessment Changes:

- ▶ The average assessed value for an existing residential property (consisting of single-family homes, residential condominiums) decreased 4.75%, from \$500,234 in 2008 to \$476,490 in 2009 (Attachment 1, Page 1, Lines 6 and 14, Column 8).
- ▶ The average assessed value for a residential single-family home as of January 1, 2009, decreased 3.46%, from \$659,990 in CY 2008 to \$637,154.
- ▶ The average assessed value for a residential condominium as of January 1, 2009, decreased 7.57%, from \$326,429 to \$301,718.
- ▶ For 2009, 87% of all residential condominiums decreased in value, 2% did not change, and 11% increased in value.
- ▶ The median assessment and the number of parcels by range of assessed value are shown in Table 3 below. The number of properties valued under \$250,000 grew from 6,098 in CY 2008 to 8,323 in CY 2009 reflecting a 36.6 increase. Likewise, the number of properties assessed over \$500,000 also decreased from 15,241 in CY 2008 to 13,856 in CY 2009, or a decrease of 9.1%. For CY 2009, 65.3% of all residential properties are valued at \$500,000 or less.

Table 3: CY 2009 Median Residential Assessments

| Assessment Range | Number of Units | Total Assessments | Median Assessment |
|---------------------------|-----------------|-------------------|-------------------|
| Less than \$100,000 | 21 | \$1,613,717 | \$86,541 |
| \$100,000 - \$249,999 | 8,302 | \$1,622,392,219 | \$195,094 |
| \$250,000 - \$499,999 | 17,747 | \$6,481,963,264 | \$362,563 |
| \$500,000 - \$749,999 | 8,549 | \$5,172,707,061 | \$598,195 |
| \$750,000 - \$999,999 | 3,485 | \$2,968,992,700 | \$842,544 |
| \$1,000,000 - \$1,999,999 | 1,593 | \$2,051,069,834 | \$1,210,815 |
| \$2,000,000 + | 229 | \$835,474,211 | \$2,419,628 |

- ▶ The 2009 assessed value ranges for single-family homes and condominiums within each small area plan are included as Attachment 4 to this memo.
- ▶ The assessment/sales ratio for residential property (including single-family homes and condominium units) for CY 2008 was 99.04%, and for this same period the previous year the assessment sales ratio was 98.11%. This statistic is simply a measure of CY 2008 assessments (as of January 1, 2008) against subsequent CY 2008 sales. In a market that is characterized as stable to moderately declining, an AV/sales ratio of 99.04% simply confirms current projections that housing assessments will generally continue their downward trend over the next year. It should be noted that only validated 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 below.

**Table 4: Residential Assessment/Sales Ratio Studies Summary
Results for Calendar Years 2000-2008**

| Calendar Year | Units Sold³ | Total Sale Price | AV/Sales Ratio | Average Assessed Value % Change In Year After Study |
|----------------------|-------------------------------|-------------------------|-----------------------|--|
| 2008 | 1,382 | \$705,104,165 | 99.0% | N/A |
| 2007 | 2,120 | \$1,059,816,576 | 98.1% | -1.9% |
| 2006 | 2,376 | \$1,182,106,929 | 97.4% | -2.9% |
| 2005 | 3,252 | \$1,556,139,684 | 80.8% | 19.5% |
| 2004 | 3,746 | \$1,476,487,148 | 78.9% | 21.3% |
| 2003 | 3,516 | \$1,144,718,513 | 82.3% | 16.9% |
| 2002 | 3,401 | \$934,579,588 | 76.5% | 24.5% |
| 2001 | 3,088 | \$732,429,726 | 78.3% | 15.3% |
| 2000 | 2,769 | \$609,111,863 | 84.2% | 10.6% |

³ It should be emphasized that the units sold represent those transfers that satisfied certain criteria for use in the State's Annual Sales Ratio Study, and does not include the total number of transfers that occurred during the calendar year. For example, there were a total of 2,040 residential property sales in the City in 2008. This represents a 27.3% decrease from 2007 when 2,806 sales were reported, and a decrease of 42.6% from 2006 when 3,551 were reported.

- ▶ Due to the continuing credit crisis and a deepening recession, most economists are forecasting another down year for the U.S. housing market in 2009. Few would contradict this prediction given rising unemployment, higher mortgage delinquencies, and increasing foreclosures which are a frequent topic of discussion. Despite all these indices, there are factors that will help curtail the severity of the downturn, particularly in Alexandria where the economy is not in a state of substantial decline. Mortgage rates are relatively affordable and were at or below 5 percent for 30-year conventional conforming loans in January 2009. Fannie Mae recently announced that it was loosening lending guidelines for home refinances even though it only applies to loans it owns or guarantees. Another reason for some optimism is the fact that homes prices at the national level have fallen approximately 20 percent from 2006 levels resulting in greater affordability. Housing starts have also declined, which will help balance supply and demand, thereby reducing the glut of unsold homes. The proposed federal economic stimulus package will also help the housing market by creating new jobs, curtailing the number foreclosures, and creating liquidity in the credit markets. Another recent development is the possible passage of a federal home buyer tax credit which could spur demand. Housing recently received good news when it was announced that December sales of existing homes increased 6.5 percent from the previous month, and unsold inventories dropped by 12 percent. This could provide an indication that buyers are re-entering the market, but it is too early to make any prediction of a sustained turnaround.
- ▶ Notwithstanding potential bright spots, most indices provide convincing evidence that declining home sales and prices are continuing to impact the metropolitan area. The effects are worse in those jurisdictions located furthest from the Capital Beltway (I-495). In the Northern Virginia area these would include Prince William and Loudoun Counties. Table 5 below compares 2007 and 2008 sales prices in the City of Alexandria and other jurisdictions in Northern Virginia. It should be noted that these statistics are compiled for individual months and fluctuations do occur based on the inventory available and settled within that month. Also, Alexandria's average prices tend to be lower, as lower priced condominiums are a larger percentage of the City's residential tax base, than in other Northern Virginia jurisdictions. The real story is the significant drop in values for areas outside the beltway. In general, localities located closest the District have historically, and will continue to command higher prices.

Table 5: 2007 and 2008 Sales Price Comparison For Selected Northern Virginia Jurisdictions

| Jurisdiction | 2007 Price | 2008 Price | \$ Change | % Change |
|---------------------|-------------------|-------------------|------------------|-----------------|
| Alexandria | \$502,900 | \$471,200 | -\$31,700 | -6.3% |
| Arlington Co. | \$559,000 | \$539,300 | -\$19,700 | -3.5% |
| Fairfax Co. | \$542,000 | \$445,900 | -\$96,100 | -17.7% |

| | | | | |
|---|-----------|-----------|------------|--------|
| Loudoun Co. | \$516,800 | \$389,000 | -\$127,800 | -24.7% |
| Pr. William Co. | \$395,000 | \$257,900 | -\$137,100 | -34.7% |
| Source: Metropolitan Regional Information Systems, Inc. GMU Center for Regional Analysis | | | | |

- ▶ Residential Real Property Sales Statistics for 2006, 2007, and 2008 which reflect the dollar volume, the number of units sold and the average sales price are included as Attachment 5. These statistics were prepared by the Department of Real Estate Assessments. Based on validated arms-length transfers, the average sale price for a single-family dwelling decreased 5.65% from the previous year to \$607,567. Condominiums decreased 9.43% to 301,115 in 2008. Combined, the average price decreased 6.37% from \$495,052 in 2007 to \$463,527 in 2008. This was supported by statistics compiled by the *Center for Regional Analysis* that reported a calendar year-over-year decrease of 6.3% from 502,990 in CY 2007 to \$471,200 in CY 2008.
- ▶ In December 2008, the number of active listings in the City stood at 678 (297 single-family and 381 condominiums). Of these, 43 percent are priced between \$350,000 and \$999,999, 11 percent are priced in excess of \$1,000,000, and 46 percent are priced below \$350,000. Of those priced below \$350,000, 45 are single-family and 271 are condominiums.
- ▶ On a month-over-month basis, average days on the market in December 2008 decreased 8.7 percent to 84 days. Based on 149 sales during the month (which compared to 153 sales in 2007), the unsold inventory stood at approximately 4.5 months. This available supply figure could be misleading given the potential number of homeowners that are not willing to market their homes at current price levels.
- ▶ According to recent presentations prepared by the George Mason University *Center for Regional Analysis* discussing the regions economy and housing market, housing activity is projected to be weak in 2009, but start to improve toward the second half of the year. Despite significant job losses in other parts of the country, particularly in the manufacturing states, the Washington, D.C. Metro Area was still generating jobs with approximately 25,600 created during 2008. The Washington, D.C. Metro Area is the only metropolitan area of the country adding jobs. Of these, 12,500, or 48.8 percent were created in Northern Virginia. The largest gains were reported in the professional and business service sectors where the jobs are generally higher paying than those that were lost in other sectors. This would help explain why home prices are more stable in close-in locations inside the Capital Beltway. Job growth in Northern Virginia is expected to continue over the next several years with 12,200, 19,800, and 23,500 new jobs created in 2009, 2010, and 2011, respectively. Notwithstanding job growth in the various sectors of the economy, the federal government will remain a primary source of economic stimulus for the region. Consumer confidence will also play a major role in any market reversal. As always, price and income will be the determining factor relative to demand over the long-term. In other words, salaries

associated with these new jobs have to be commensurate with price in order maintain overall affordability.

- ▶ Despite current market conditions, the region’s employment picture is still better than most being third in the nation in terms of new job creation. A regional unemployment rate as of January 1 of 4.5 percent compares favorably with the current national average of 7.6 percent. As of December 2008, the unemployment rate in the City of Alexandria was 3.2 percent. This compares favorably with the 3.9 percent rate in Northern Virginia and 5.2 percent in the Commonwealth of Virginia.

- ▶ Current statistics indicate that one out of four foreclosures nationwide involve an investor. Regionally, the greatest risk for these types of properties exists in the outer suburbs, or those areas located outside of the Capital Beltway (I-495) which experienced the highest rates of appreciation from 2003 through 2006. On a positive note, the sub prime market represents a small percentage of the total mortgage debt. As of January 1, 2008, the sub prime market in Northern Virginia only totaled 5.5% all mortgage debt. Maryland and the District of Columbia maintained slightly higher percentages of 7.1% and 5.9%, respectively. Refer to Table 6 for foreclosure activity in the City of Alexandria from 2006 through 2008.

**Table 6: Foreclosures In The City of Alexandria
By Property Type 2006, 2007 and 2008**

| Year | 2006 | 2007 | 2008 |
|---|------|------|------|
| Condominium | 21 | 83 | 241 |
| Single-Family | 1 | 56 | 123 |
| Commercial | 1 | 0 | 1 |
| Vacant Land | 0 | 1 | 0 |
| Total | 23 | 140 | 365 |
| Source: Department of Real Estate Assessments | | | |

- ▶ Based on the data, the number of recorded foreclosures increased 160.71 percent between 2007 and 2008. According to statistics compiled by the George Mason University *Center for Regional Analysis*, the foreclosure rate in the City is significantly less than Northern Virginia jurisdictions outside the Capital Beltway.

In conclusion, both the single-family and condominium markets remain in transition. The *Washington Business Journal* recently asked three experts what to expect in 2009 and received three different answers. The market, while potentially “firming up” for close in

locations, will remain volatile due to overpriced housing relative to incomes, and the potential for more foreclosures.

COMMERCIAL PROPERTY

Points of Interest Relating to CY 2009 Commercial Assessment Changes:

- ☛ The value of existing locally-assessed commercial property on January 1, 2009, increased 1.24%, or \$175.12 million. Property depreciation of \$28.83 million was offset by \$203.96 million in new construction value (Attachment 1, Page 2, Line 40, Columns 6 & 8).
- ▶ According to the Fourth Quarter 2008 *Korpacz Real Estate Investor Survey*, a publication of PriceWaterhouseCoopers, the continuing financial crisis and recent job losses have become much more broad-based, and are reaching far beyond industries associated with the housing downturn. Nationally, large job losses have been reported in the retail, and professional and business service sectors. As such, investors in the commercial real estate industry are cautious about market fundamentals and bracing themselves for the impact in 2009. The national office market has already seen signs of trouble ahead with increasing vacancy rates reported within both CBD and suburban sectors. With the pullback in consumer spending it will only follow that the retail sector will turn negative. Commercial real estate has typically been viewed as a lagging market, thus, it would not be unorthodox to predict that further market deterioration through the domino affect should be expected in 2009 and into 2010. With the projected depth of the recession only worsening, supply will likely outpace demand in most, if not all, of the commercial market sectors. This will effectively create a tenants' market resulting in lower rental rates. These factors combined with higher rates of capitalization and more stringent underwriting standards will result in declining property values. The impact on individual markets and specific property types will vary greatly based on a region's underlying fundamentals and property characteristics. Commercial markets such as those that characterize the Washington metropolitan area are also expected to experience adjustments. Notwithstanding, the challenge for market participants in 2009 will be dealing with price corrections and the lack of available financing. After months of compressed capitalization rates, risk measurement will play a controlling role in purchase and financing decisions.
- ▶ As if increasing vacancy, falling rents, and higher capitalization rates are not enough, the market is also having to contend with the lack of available debt capital. With investment banking and commercial mortgage-backed securities losing their once dominant role as a financing mechanism, commercial property owners are now faced with finding sources of

new funding as existing loans mature. According to a recent article in the Business Section of the *Washington Post*, approximately one-third of the loans used to finance commercial buildings in the Washington area that were subsequently sold to Wall Street are maturing in the next five years. Property owners of office buildings, shopping centers, hotels and rental apartments are scrambling to secure new funding. This is proving increasingly difficult in a credit market that is virtually frozen. In the event new financing cannot be secured, they may be forced to sell otherwise performing assets during a downward trend in the market. According to data compiled by *Real Capital Analytics*, approximately \$21 billion in existing commercial debt must be refinanced by the end of 2013. Banks are now, however, requiring larger equity positions and personal recourse. It is estimated that approximately one-half of \$61.2 billion of such loans made in the Washington metropolitan region are for properties located in Virginia and will come due over the next five years. Delinquencies are not yet an issue. The international real estate investor community has just ranked the Washington, D.C. area as the most attractive investment opportunity region in the world. While this is a very positive statement, the global financial crisis, coupled with the large drop in oil prices, has drastically shrank the potential international investor pool.

In conclusion, the first cracks in the commercial market were exposed during 2008. Continued difficulties in the credit market in 2009 will result in lower rental rates, higher vacancy, and lower market values. Expect capitalization rates across all commercial sectors to increase as the market re-prices risk and demands greater equity positions from investors. Increasingly likely, higher capitalization rates during 2009 will probably result in a drop in the City's commercial tax base to be reflected in 2010 assessments.

Land Values

Unimproved land remains a scarce commodity in the City of Alexandria. Uncertainty about the timing of a sustained recovery have resulted in fewer land sales over the last year. Other than scattered residential lot sales, there were two land transfers of interest during 2008.

On December 4, 2008, Mark Center Land LLC (Duke Realty), transferred 15.9 acres to the United States of America for a recorded consideration of \$105 million. This equates to \$151.60 per square foot of ground, or \$76.00 per FAR based on a proposed office development containing 1.4 million square feet. While this land sale is a strong indication of value in the west end, this parcel will remain tax exempt now that it is owned by the Federal Government.

On May 20, 2008, Alexandria-Southern Properties, Inc., transferred 4.6 acres to the Carlyle Plaza, LLC, for a recorded consideration of \$17 million. This equates to \$85.50 per square foot of land, or \$45.71 per FAR based on a proposed development. The property constitutes Block P of Carlyle.

New Construction Activity

New construction activity continues to show signs of slowing for projects that are currently being developed as well as for new starts. Some of the more significant new construction projects are summarized in Table 7 below and continued on the top of the following page.

Table 7: Selected New Construction Projects

| Project Name Address | Land Use | % Complete As of 1-1-09 | Comments |
|---|----------------------------|------------------------------------|---|
| Beaugard Station 520 Armistead Street | Residential Condominium | 40% | 41 townhouse condo units. 13 units have been completed. |
| Patent & Trade Center, Block J 2050 Ballanger Ave. | Office/Retail | 80% | 52,037 square feet of office space and 16,319 square feet of retail. |
| Patent & Trade Center, Block K 1900 Ballanger Ave. | Office/Retail | 80% | 32,594 square feet of office space and 29,048 square feet of retail. |
| Kimpton Hotel 1514-1520 King Street | Hotel | 90% | 107 rooms within a 121,670 square-foot mid-rise building.. |
| Alexan /Carlyle Center 310 Hooffs Run Drive | Multifamily Rental | 30% | 281 rental apartments within two mid-rise buildings. |
| The Duke Old Towne 1300 Duke Street | Residential Condominium | 25% | 18 townhouse and 40 condo flats within a mid-rise building. |
| Brandt Property 900 N. Washington Street | Residential Condominium | 50% | 56 condominium flats within three mid-rise buildings. |
| Victory Center 5001 Eisenhower Avenue | Office | 33% of existing bldg | 512,089 square feet of office space. |
| Edmunson Plaza 1701 Duke Street | Office/Retail | site imps. only | 101,108 square feet of office space and 27,800 square feet of retail. |

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 a nominal 0.8%, or approximately \$40.6

million, from \$4.99 billion in CY 2008 to \$5.03 billion for CY 2009 (Attachment 1, Page 2, Line 30, Column 5). The net increase to the base was the result of \$65.0 million in new growth offset by \$24.4 million in property depreciation.

The Northern Virginia office market was relatively well insulated from the downturn recorded during the fourth quarter of 2008, but is none the less contending with declining demand and increasing vacancy. Not all submarkets though are being impacted the same as office areas located inside the Capital Beltway (I-495) which continue to outperform their counterparts outside the ring. Generally, the diversified tenant base provided an element of stability. Sub-markets inside I-495 have performed better and maintained tight dynamics. Relative low vacancy and high rents, the office market in Alexandria and neighboring Arlington County contrasts sharply with western Fairfax and eastern Loudoun Counties where an oversupply exists due to a number of new building deliveries during late 2007 and throughout 2008.

As with most commercial property, the number of office buildings sales fell significantly during 2008. Capitalization rates trended upward and this is expected to continue into 2009. While new development projects are planned, new construction for the most part is expected to taper off significantly until the financial markets recover and signs of a general recovery become apparent. As of January 1 only three office buildings totaling 258,906 square are scheduled to be delivered in the City during 2009.

According to statistics compiled by the *CoStar Group*, the City of Alexandria, as of January 1, 2009, contained 19 million square feet of office space. At this time, direct vacancy averaged 6.3% (excluding Victory Center). This compares with a direct vacancy rate in Northern Virginia of 13.7%. Full service office space rents in the city average \$32 per square foot. It should be noted that the average asking rent actually increased 3.5% between 2007 and 2008.

According to data detailed in the *Fourth Quarter 2008 Korpacz Real Estate Investor Survey*, overall capitalization rates in the Northern Virginia Office Market ranged from 5.0% to 9.0% with an average of 7.08%. This represents an increase of 25 basis points from the same period one year earlier when the average rate was 6.83%. Office building sales that occurred in the City during 2008 are summarized in Table 8 on the following page.

Table 8: 2008 Office Building Sales

| Property Location | Sale Date | Bldg. Size In Sq.Ft. Net Leaseable Area | Consideration | Price/Sq.Ft. of NLA |
|---------------------------|-----------|--|---------------|------------------------|
| 720 N. Saint Asaph Street | 2-29-2008 | 20,000 | \$5,850,000 | \$292.50 |
| 2800 Shirlington Road | 3-14-2008 | 205,127 | \$62,500,000 | \$304.69 |
| 1650 Diagonal Road | 1-14-2008 | 28,045 | \$10,196,200 | \$363.57 |

| | | | | |
|------------------------|-----------|---------|--------------|----------|
| 2051 Jamieson Avenue | 3-11-2008 | 139,194 | \$65,795,987 | \$472.69 |
| 2318 Mill Road (Condo) | 4-23-2008 | 123,251 | \$50,391,919 | \$408.85 |
| 2318 Mill Road (Condo) | 2-29-2008 | 126,459 | \$50,583,664 | \$400.00 |

Multi-Family Apartment Market Overview

The multi-family (rental) property base increased 0.8% for CY 2009 (Attachment 1, Page 2, Line 26, Column 5) to \$4.4 billion. This is significantly less than CY 2008 when this class increased \$367.8 million, or 9.1%, over the previous year. Overall, there is a \$33 million increase for CY 2009. New growth of \$82.5 million was substantially offset by \$49.5 million in depreciation.

The national apartment market is only now reacting to the current employment trends which is its primary generator of demand. It is now common for some tenants to consolidate with friends or exit the market entirely by moving back home with parents. According to the *Fourth Quarter 2008 Korpacz Real Estate Investor Survey*, the national apartment market vacancy rate increased to 6.1% up from 5.7% the previous year. Owners are now focusing all efforts on preserving income streams.

With debt capital hard to obtain, investors are shifting away from acquisitions and concentrating on existing property operations and asset management. Like the office market, retaining tenants and luring new ones is the name of the game to safeguard revenue. It is important to note that sales of apartment projects have not been as severely impacted compared to other sectors of the commercial market with well-located projects in close proximity to employment centers and transportation modes still perceived to be solid investments. Overall, the Washington metropolitan area continues to be one of the top apartment markets due to continued employment growth and a highly transient workforce.

According to data detailed in the *Fourth Quarter 2008 Korpacz Real Estate Investor Survey*, overall capitalization rates in the National Apartment Market ranged from 3.8% to 8.5% with an average of 6.13%. This represents an increase of 38 basis points from the same period one year earlier when the average rate was 5.75%.

Warehouse Market Overview

The industrial warehouse property tax base increased \$5.3 million, or 0.7%, for CY 2009 (Attachment 1, Page 2, Line 33, Column 5) to \$780.1 million. This is significantly less than CY 2008 when this class increased \$73.2 million, or 10.3%.

The only new construction in the City during the 2008 was in the form of the partial redevelopment

of the Hoffman Town Center. Here, approximately 26,100 square feet of flex warehouse space was converted for retail known as the Shops at Eisenhower East. The existing structure was razed, and a new building is being constructed using the same footprint. As commercial and mixed-use land in the City becomes more scarce, market evidence suggests that large warehouse properties will continue to sell in the future for the purposes of redevelopment. Current uses, however, will be retained on an interim basis pending more favorable economic conditions.

The national warehouse market has deteriorated from 2008 with supply now exceeding demand. All facets of the larger economy are affecting demand for general warehouse space, distribution facilities, and flex industrial uses. Of the 2.6 million jobs lost in the United States in 2008, significant reductions were reported in the manufacturing, retail, and wholesale trade sectors that essentially drive industrial demand.

According to the *CoStar Group* statistics, the City has an overall direct vacancy rate of 5.6%. Triple net asking rents for industrial space average of \$11.50 per square-foot.

According to data detailed in the *Fourth Quarter 2008 Korpacz Real Estate Investor Survey*, overall industrial capitalization rates ranged from 5.0% to 9.0% with an average of 6.73%. This represents an increase of 25 basis points from the same period one year earlier when the average rate was 6.48%. Industrial building sales that occurred in the City during 2008 are summarized in Table 11 below.

Table 11: 2008 Industrial Building Sales

| Property Location | Sale Date | Bldg. Size In Sq.Ft. Gross Floor Area | Consideration | Price/Sq.Ft. of GFA |
|---------------------|------------|---------------------------------------|---------------|---------------------|
| 3655 Wheeler Avenue | 8-18-2008 | 18,096 | \$2,671,667 | \$147.64 |
| 5703 Edsall Road | 12-19-2008 | 29,400 | \$5,150,000 | \$175.17 |

Hotel Market Overview

The base for this property type increased 6.8%, or approximately \$63.3 million, from \$930 million in CY 2008 to \$993.3 million for CY 2009 (Attachment 1, Page 2, Line 34, Column 5). Of this, \$44.1 million is attributable to appreciation, while the balance of \$19.2 million is derived from new growth. The CY 2009 percentage increase is less than those in CY 2008 and CY 2007 when the hotel tax base increased 17.8% and 27.4%, respectively.

On a national scale, the hospitality industry is the story of the day. A multitude of economic challenges during 2008 negatively impacted the demand for lodging. Lower occupancies combined with supply growth more than offset any gains derived through higher Average Daily Rates (ADR), and now that a recession is firmly in-place with rising unemployment, the state of the national hospitality industry is only expected to worsen. A recent report issued by *PricewaterhouseCoopers*,

forecasted a significant reduction in Revenue Per Available Room (RevPAR) in 2009 due to the sharp economic deceleration. Based on data compiled by *Smith Travel Research*, an 11.2% decrease in RevPAR is projected for 2009; this after a 1.9% decrease during 2008. Occupancy in 2008 is expected to decline 3.9 percentage points to 56.5% primarily attributable to a year-over-year decline in demand. A recent article in the *Washington Post*, also cited data prepared by *PKF Hospitality Research* indicating declines within all key measures. However, the Washington area will probably be less impacted than the national market due to the presence of the federal government, and Alexandria's drivetime accessibility to most residents of the Eastern U.S. will help temper the likely drop in hotel room demand.

In the City, declines in occupancy have been more than offset by increases in both ADR and RevPAR. Refer to Table 12 at the top of the following page which detail these measures over a three-year period.

**Table 12: Occupancy %, ADR, and RevPAR
City of Alexandria CY 2006 - CY 2008**

| Measure | 2006 | 2007 | 2008 |
|---|----------|----------|----------|
| % Occupancy | 69% | 68.2% | 67.1% |
| ADR | \$139.41 | \$145.88 | \$155.67 |
| RevPAR | \$96.23 | \$99.46 | \$104.48 |
| Source: Smith Travel Research - December 2008 | | | |

New hotel construction in the City includes the Westin at Carlyle which is a 312 room full service facility, the 180-room Marriott Residence Inn located at 2345 Mill Road, and a 107-room Kimpton hotel being developed on the 1500 block of King Street. The first two facilities were delivered in 2008. The Kimpton facility on King Street will be delivered during the first quarter of 2009. There were no sales of hotels in the City during 2008.

According to data detailed in the *Third Quarter 2008 Korpacz Real Estate Investor Survey*, National Full-Service Lodging capitalization rates ranged from 6.0% to 10.5% with an average of 8.50%. This represented an increase of 20 basis points from the same period one year earlier when the average rate was 8.30%. The National Luxury/Upper-Upscale Lodging capitalization rates ranged from 5.0% to 11.0% with an average of 8.71%. This was no change from the previous year.

Shopping Center Market Overview

The base for shopping center properties increased 5.8%, or approximately \$33.6 million, from \$575.1 million in CY 2008 to \$608.6 million for CY 2009 (Attachment 1, Page 2, Line 32, Column 5).

Based on data compiled by the Department of Finance and the Virginia Department of Taxation, third quarter 2008 gross retail receipts totaled \$518 million. This was a 4.6% decrease from the previous year quarter with gross receipts totaled \$543

According to the *CoStar Group* statistics, the overall direct vacancy rate is 3.5%. Including a very limited inventory of sublet space, the overall vacancy rate increases to 3.6%. Triple net asking rents for retail space average of \$32 per square foot. Notwithstanding the current situation, a moderate increase in the City's vacancy rate for this land use should be anticipated during the course of 2009.

For the most part, the City is characterized by neighborhood shopping centers. According to the Fourth Quarter 2008 *Korpacz Real Estate Investor Survey*, capitalization rates for these property types ranged from 6.0% to 10.0% with an average of 7.57%. This represented an increase of 25 basis points from the same period one year earlier when the average rate was 7.24%.

Although Landmark Mall has continued to struggle, the performances of the City's 28 neighborhood centers and Potomac Yard Retail Center continued to perform well with high occupancy levels and stable operating positions. General Growth (which manages Landmark Mall and owns a majority of it) continues to struggle with debt obligations and the Mall will be facing redevelopment in the future. The current economic conditions are likely to delay the redevelopment of this site. Potomac Yard Retail Center has subdivided the theater component and will be most likely looking to develop the site.

Nationally, a decrease in consumer spending and increasing in vacancy rates is making for cautious investors. According to *Emerging Trends in Real Estate 2009*, well located strip centers with a grocery anchor will continue to draw necessity shoppers. Centers located in high-density areas with demographic characteristics that include high disposable incomes and higher than average wage increases will receive the most focus. Above average incomes of Washington Metro area residents are more than adequate to support most types of retail development. Due to the area's relative low unemployment rate, companies have used high salaries as a lure to attract qualified individuals. Despite moderate growth, the Washington Metro economy is projected to outperform most other areas of the country in 2009 with improvement expected during 2010. There were no shopping center sales in the City during 2008.

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 generally stable or slightly declining as reflected by the sales prices for these types of properties during 2008. It also has the highest percentage of owner-occupied properties compared to other classes of property in the City.

The base for this property type decreased 1.36%, or approximately \$19.2 million, from \$1.42 billion in CY 2008 to \$1.40 billion for CY 2009 (Attachment 1, Page 2, Line 28, Column 5). The past

several years has seen rental rates lagging behind what an investor would expect based on the market transactions relative to a competitive rate of return. During CY 2008, 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. These are expected to stabilize, or decrease slightly, during 2009.

ASSESSMENT PROCESS

The legislation enabling and requiring the City to annually assess real property for local taxation is found in the Virginia Constitution, Code of Virginia, Charter of the City of Alexandria and Alexandria City Code. The Department of Real Estate Assessments (DREA) annually assesses all parcels of real estate in the City at 100% of fair market value. In establishing annual real property assessments, DREA uses mass appraisal methods to estimate the fair market value. Mass appraisals replicate the market for one or more land uses across a wide geographic area, while single-property appraisals represent the market for one kind of land use in a limited area. Notwithstanding the relative difference, mass appraisal builds on the same principles as single-property appraisal. The CY 2009 real property assessments are the result of measuring market indicators from arms's length transactions, property income and expense information, and comparable construction cost data. Staff also employs numerous data services and our Computer Assisted Mass Appraisal (CAMA) System to produce equitable values for all properties in the City.

For CY 2009, 43,529 local taxable properties were assessed. Also assessed on an annual basis were 1,047 tax exempt parcels. Assessment notices were mailed to property owners on February 10, 2009. Real estate assessment information was available on the city's web site on February 10th in conjunction with the City Council presentation, which included the information about the forms needed for the review and appeal process, the 2009 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 recent sales data, as well as the sales used to determine their assessment.

The 2009 assessment notices included information about requesting a review of assessment with DREA by April 1, and information about filing an appeal of the assessment with the Board of Equalization and Assessment Review by July 1. Typically less than 2% of owners or real property challenge the assessed value of their property through the annual assessment review and appeal process. In 2008, the number of requests for assessment reviews filed with DREA and appeals to the Board represented 1.65% (720) and 1.08% (471), respectively, of the 43,532 locally assessed properties in the City. The number of reviews and appeals has seen an increase as the markets continue to decline, and we expect this trend to continue during 2009.

STAFF: Department of Real Estate Assessments

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William Bryan Page, Deputy Director
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Stephanie Wilson, Real Estate Appraiser II
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Jamie Carden-Levanthal, Assessment Records Specialist
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Jean Monroe, Account Clerk III

ATTACHMENTS:

- Attachment 1: CY 2009 Real Property Assessment Summary Including Appreciation and New Growth
- Attachment 2: Map Showing 2008 to 2009 Residential Property Appreciation by Geographic Area
- Attachment 3: CY 2009 Median Assessments for Single Family Homes and Residential Condominiums (by value ranges and small area plan)
- Attachment 4: CY 2009 Average Real Property Assessments for Single Family Homes and Residential Condominiums by Geographical Area
- Attachment 5: Residential Sales Statistics (January 2006 through December 2008) Prepared by the Department of Real Estate Assessments
- Attachment 6: Map of 2008 Foreclosed Properties
- Attachment 7: "Existing-Home Sale Spike As Bargains Glut Market," The Washington Post, January 27, 2009
- Attachment 8: "Residential Real Estate-The Housing Market In '09? It's Anyone's Guess," Washington Business Journal, January 2-8, 2009
- Attachment 9: "Tough '09 Is Seen for Commercial Real Estate," The Washington Post, January 20, 2009

Attachment 10: "Commercial Sector Expects Things to Get Worse," The Wall Street Journal,
January 14, 2009

City of Alexandria, Virginia
CY 2009 REAL PROPERTY ASSESSMENT SUMMARY INCLUDING APPRECIATION AND GROWTH
Comparison of 2008 Equalized Assessments (December 31, 2008) to January 1, 2009

| Real Property Classification & (Parcel Count) | 2008 Equalized Assessments | 2009 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 (9,115) | \$6,990,309,991 | \$6,804,569,686 | -\$185,740,305 | -2.66% | \$27,847,154 | 0.40% | -\$213,587,459 | -3.06% |
| 3 Semi-Detached (5,601) | 3,259,958,431 | 3,120,875,848 | -139,082,583 | -4.27% | 4,643,807 | 0.14% | -143,726,390 | -4.41% |
| 4 Row House (6,207) | 3,520,108,647 | 3,405,725,362 | -114,383,285 | -3.25% | 5,434,130 | 0.15% | -119,817,415 | -3.40% |
| 5 | | | | | | | | |
| 6 Total Single Family (20,923) | <u>\$13,770,377,069</u> | <u>\$13,331,170,896</u> | <u>-\$439,206,173</u> | <u>-3.19%</u> | <u>\$37,925,091</u> | <u>0.28%</u> | <u>-\$477,131,264</u> | <u>-3.46%</u> |
| 7 | | | | | | | | |
| 8 Residential Condominium | | | | | | | | |
| 9 Garden (10,418) | \$3,246,273,780 | \$3,063,305,258 | -\$182,968,522 | -5.64% | \$22,092,717 | 0.68% | -\$205,061,239 | -6.32% |
| 10 High-rise (7,838) | 2,509,155,154 | 2,260,406,869 | -248,748,285 | -9.91% | 0 | 0.00% | -248,748,285 | -9.91% |
| 11 Residential Cooperative (18) | 21,302,200 | 22,148,200 | 846,000 | 3.97% | 0 | 0.00% | 846,000 | 3.97% |
| 12 Townhouse (960) | 475,647,721 | 457,386,436 | -18,261,285 | -3.84% | 2,015,164 | 0.42% | -20,276,449 | -4.26% |
| 13 | | | | | | | | |
| 14 Total Residential Condominium (19,234) | <u>\$6,252,378,855</u> | <u>\$5,803,246,763</u> | <u>-\$449,132,092</u> | <u>-7.18%</u> | <u>\$24,107,881</u> | <u>0.39%</u> | <u>-\$473,239,973</u> | <u>-7.57%</u> |
| 15 | | | | | | | | |
| 16 Total Vacant Residential Land (690) | <u>\$116,857,939</u> | <u>\$121,488,192</u> | <u>\$4,630,253</u> | <u>3.96%</u> | <u>\$2,442,203</u> | <u>2.09%</u> | <u>\$2,188,050</u> | <u>1.87%</u> |
| 17 | | | | | | | | |
| 18 Total Residential Real Property (40,847) | <u>\$20,139,613,863</u> | <u>\$19,255,905,851</u> | <u>-\$883,708,012</u> | <u>-4.39%</u> | <u>\$64,475,175</u> | <u>0.32%</u> | <u>-\$948,183,187</u> | <u>-4.71%</u> |

City of Alexandria, Virginia
CY 2009 REAL PROPERTY ASSESSMENT SUMMARY INCLUDING APPRECIATION AND GROWTH
Comparison of 2008 Equalized Assessments (December 31, 2008) to January 1, 2009

| Real Property Classification & (Parcel Count) | 2008 Equalized Assessments | 2009 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 | | | | | | | | |
| 19 Commercial Real Property | | | | | | | | |
| 20 | | | | | | | | |
| 21 Commercial Multi-Family Rental | | | | | | | | |
| 22 Garden (207) | \$1,899,097,981 | \$1,925,135,230 | \$26,037,249 | 1.37% | \$32,400,650 | 1.71% | -\$6,363,401 | -0.34% |
| 23 Mid-rise (18) | 832,310,761 | 836,675,362 | 4,364,601 | 0.52% | 13,720,000 | 1.65% | -9,355,399 | -1.12% |
| 24 High-rise (32) | 1,652,371,620 | 1,654,996,572 | 2,624,952 | 0.16% | 36,417,067 | 2.20% | -33,792,115 | -2.05% |
| 25 | | 0 | | | | | | |
| 26 Total Multi-Family Rental (257) | \$4,383,780,362 | \$4,416,807,164 | \$33,026,802 | 0.75% | \$82,537,717 | 1.88% | -\$49,510,915 | -1.13% |
| 27 | | | | | | | | |
| 28 Commercial Office, Retail, and Service | | | | | | | | |
| 29 General Commercial (683) | \$1,416,244,072 | \$1,397,045,497 | -\$19,198,575 | -1.36% | -\$2,024,830 | -0.14% | -\$17,173,745 | -1.21% |
| 30 Office (560) | 4,994,477,475 | 5,035,097,189 | 40,619,714 | 0.81% | 64,995,495 | 1.30% | -24,375,781 | -0.49% |
| 31 Office or Retail Condominium (596) | 474,590,461 | 484,830,105 | 10,239,644 | 2.16% | 9,956,652 | 2.10% | 282,992 | 0.06% |
| 32 Shopping Center (31) | 575,082,616 | 608,632,620 | 33,550,004 | 5.83% | 17,590,045 | 3.06% | 15,959,959 | 2.78% |
| 33 Warehouse (167) | 774,770,476 | 780,107,914 | 5,337,438 | 0.69% | 5,731,520 | 0.74% | -394,082 | -0.05% |
| 34 Hotel/Motel and Extended Stay (29) | 929,995,797 | 993,321,007 | 63,325,210 | 6.81% | 19,233,421 | 2.07% | 44,091,789 | 4.74% |
| 35 | | | | | | | | |
| 36 Total Commercial Office, Retail and Service (2,066) | \$9,165,160,897 | \$9,299,034,332 | \$133,873,435 | 1.46% | \$115,482,303 | 1.26% | \$18,391,132 | 0.20% |
| 37 | | | | | | | | |
| 38 Total Vacant Commercial and Industrial Land (359) | 522,208,413 | 530,430,624 | 8,222,211 | 1.57% | 5,938,030 | 1.14% | 2,284,181 | 0.44% |
| 39 | | | | | | | | |
| 40 Total Commercial Real Property (2,682) | \$14,071,149,672 | \$14,246,272,120 | \$175,122,448 | 1.24% | \$203,958,050 | 1.45% | -\$28,835,602 | -0.20% |
| 41 | | | | | | | | |
| 42 Total Locally Assessed Taxable Real Property (43,529) | \$34,210,763,535 | \$33,502,177,971 | -\$708,585,564 | -2.07% | \$268,433,225 | 0.78% | -\$977,018,789 | -2.86% |

City of Alexandria, Virginia
CY 2009 REAL PROPERTY ASSESSMENT SUMMARY INCLUDING APPRECIATION AND GROWTH
Comparison of 2008 Equalized Assessments (December 31, 2008) to January 1, 2009

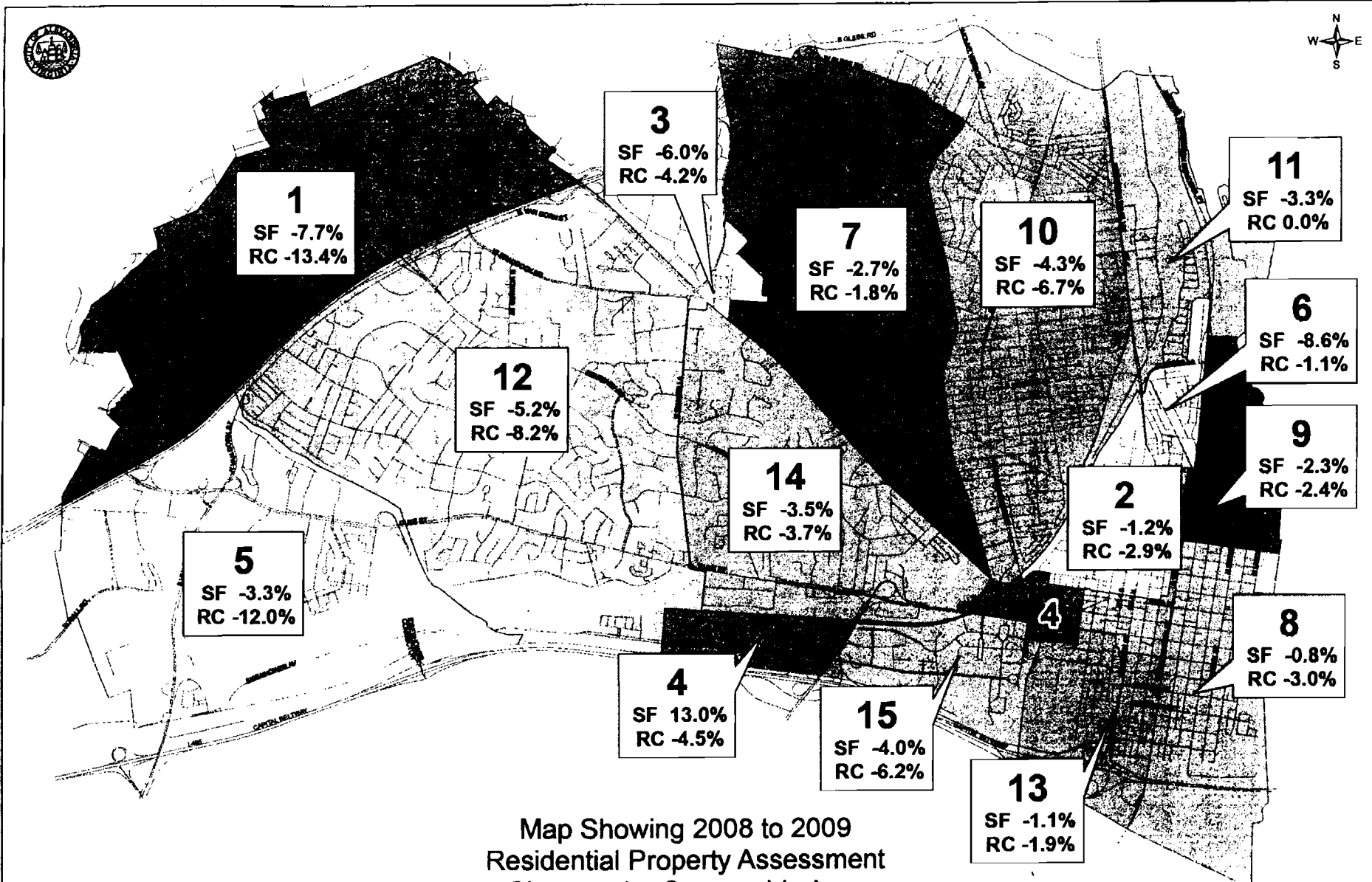
| Real Property Classification & (Parcel Count) | 2008 Equalized Assessments | 2009 Assessments | (\$) Amount of Change | % Change | New Growth (\$) | % New Growth | (\$) Amount of Appreciation | % Appreciation |
|---|-------------------------------|-------------------------|-----------------------------|---------------|----------------------|-----------------|-----------------------------------|-------------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| 43 Non-Locally Assessed Taxable Real Property | | | | | | | | |
| 44 | | | | | | | | |
| 45 Assessed by State Corporation Commission (SCC) | | | | | | | | |
| 46 Gas & Pipeline Distribution Corporation | \$32,078,405 | \$32,372,712 | \$294,307 | 0.92% | \$0 | 0.00% | \$294,307 | 0.92% |
| 47 Light & Power Corporation | 546,916,872 | 553,793,202 | 6,876,330 | 1.26% | 0 | 0.00% | 6,876,330 | 1.26% |
| 48 Telecommunication Company | 136,073,048 | 102,894,042 | -33,179,006 | -24.38% | 0 | 0.00% | -33,179,006 | -24.38% |
| 49 Water Corporation | 43,834,643 | 45,615,229 | 1,780,586 | 4.06% | 0 | 0.00% | 1,780,586 | 4.06% |
| 50 | | | | | | | | |
| 51 Total SCC Assessed Property | \$758,902,968 | \$734,675,185 | -\$24,227,783 | -3.19% | \$0 | 0.00% | -\$24,227,783 | -3.19% |
| 52 | | | | | | | | |
| 53 Assessed by Virginia Department of Taxation (VDT) | | | | | | | | |
| 54 Interstate Pipeline Transmission | \$299,719 | \$321,039 | \$21,320 | 7.11% | \$0 | 0.00% | \$21,320 | 7.11% |
| 55 Operating Railroad | | | | | | | | |
| 56 Richmond, Fredericksburg & Potomac Railway Co. | \$65,071,553 | \$68,772,942 | \$3,701,389 | 5.69% | \$0 | 0.00% | \$3,701,389 | 5.69% |
| 57 Norfolk Southern Railway Co. | 67,734,403 | 73,170,393 | 5,435,990 | 8.03% | 0 | 0.00% | 5,435,990 | 8.03% |
| 58 CSX Transportation, Inc. | 45,355 | 45,355 | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| 59 | | | | | | | | |
| 60 Total Operating Railroads | \$132,851,311 | \$141,988,690 | \$9,137,379 | 6.88% | \$0 | 0.00% | \$9,137,379 | 6.88% |
| 61 | | | | | | | | |
| 62 Total VDT Assessed Property | \$133,151,030 | \$142,309,729 | \$9,158,699 | 6.88% | \$0 | 0.00% | \$9,158,699 | 6.88% |
| 63 | | | | | | | | |
| 64 Total Non-Locally Assessed Taxable Real Property | \$892,053,998 | \$876,984,914 | -\$15,069,084 | -1.69% | \$0 | 0.00% | -\$15,069,084 | -1.69% |
| 65 | | | | | | | | |
| 66 Grand Total Taxable Real Property Assessments | \$35,102,817,533 | \$34,379,162,885 | -\$723,654,648 | -2.06% | \$268,433,225 | 0.76% | -\$992,087,873 | -2.83% |

Department of Real Estate Assessments, January 12, 2009

City of Alexandria, Virginia
CY 2009 TAX EXEMPT REAL PROPERTY ASSESSMENT SUMMARY INCLUDING APPRECIATION AND GROWTH
Comparison of 2008 Equalized Assessments (December 31, 2008) to January 1, 2009

| Real Property Classification & (Parcel Count) | 2008 Equalized Assessments | 2009 Assessments | (\$) Amount of Change | % Change | New Growth (\$) | % New Growth | (\$) Amount of Appreciation | % Appreciation |
|--|-------------------------------|------------------------|-----------------------------|--------------|----------------------|-----------------|-----------------------------------|-------------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| 67 Tax Exempt Real Property | | | | | | | | |
| 68 | | | | | | | | |
| 69 Governmental | | | | | | | | |
| 70 Federal (18) | \$606,180,317 | \$665,349,921 | \$59,169,604 | 9.76% | \$60,071,058 | 9.91% | -\$901,454 | -0.15% |
| 71 State (33) | 261,277,600 | 261,267,860 | -9,740 | 0.00% | 0 | 0.00% | -9,740 | 0.00% |
| 72 Regional (4) | 40,142,970 | 40,106,863 | -36,107 | -0.09% | 0 | 0.00% | -36,107 | -0.09% |
| 73 Local (552) | 2,591,132,987 | 2,633,255,453 | 42,122,466 | 1.63% | 51,509,726 | 1.99% | -9,387,260 | -0.36% |
| 74 WMATA (52) | 325,871,539 | 325,871,539 | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| 75 | | | | | | | | |
| 76 Total Governmental (659) | \$3,824,605,413 | \$3,925,851,636 | \$101,246,223 | 2.65% | \$111,580,784 | 2.92% | -\$10,334,561 | -0.27% |
| 77 | | | | | | | | |
| 78 Non-Governmental | | | | | | | | |
| 79 Religious (200) | \$467,463,602 | \$474,399,342 | \$6,935,740 | 1.48% | \$7,384,937 | 1.58% | -\$449,197 | -0.10% |
| 80 Charitable (56) | 272,833,952 | 273,388,705 | 554,753 | 0.20% | 0 | 0.00% | 554,753 | 0.20% |
| 81 Educational (132) | 382,812,979 | 382,598,760 | -214,219 | -0.06% | 0 | 0.00% | -214,219 | -0.06% |
| 82 | | | | | | | | |
| 83 Total Non-Governmental (388) | \$1,123,110,533 | \$1,130,386,807 | \$7,276,274 | 0.65% | \$7,384,937 | 0.66% | -\$108,663 | -0.01% |
| 84 | | | | | | | | |
| 85 Total Tax-Exempt Real Property (1,047) | \$4,947,715,946 | \$5,056,238,443 | \$108,522,497 | 2.19% | \$118,965,721 | 2.40% | -\$10,443,224 | -0.21% |

Department of Real Estate Assessments, January 12, 2009
 cspage2 \ CY 2009 Assessment Summary 2.c



Map Showing 2008 to 2009
Residential Property Assessment
Changes by Geographic Area

City of Alexandria, Virginia

Department of Real Estate Assessments
February 2009

Map prepared by the GIS Section of
the Department of Planning and Zoning

LEGEND

SF - Single Family Residential
RC - Residential Condominium

NOTES:

Numbers designate the geographic areas of the City that approximate the small areas developed for the Master Plan revision. The 2009 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.

CY 2009 Real Property Assessment Report

2009 MEDIAN ASSESSMENT FOR SINGLE
FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 1

| <i>Alexandria West</i> | | |
|----------------------------|-----------------|-----------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 11 | \$ 88,698 |
| \$100,000 to \$249,999 | 2,262 | 190,138 |
| \$250,000 to \$499,999 | 1,706 | 386,944 |
| \$500,000 to \$749,999 | 600 | 551,838 |
| \$750,000 to \$999,999 | 15 | 808,135 |
| \$1,000,000 to \$1,999,999 | 3 | 1,121,800 |
| \$2,000,000 and over | 0 | \$ - |

Small Area Plan 2

| <i>Braddock Road Metro Station</i> | | |
|------------------------------------|-----------------|-----------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 4 | \$ 80,000 |
| \$100,000 to \$249,999 | 20 | 173,400 |
| \$250,000 to \$499,999 | 1012 | 375,536 |
| \$500,000 to \$749,999 | 655 | 565,964 |
| \$750,000 to \$999,999 | 126 | 837,644 |
| \$1,000,000 to \$1,999,999 | 27 | 1,194,511 |
| \$2,000,000 and over | 1 | 3,000,000 |

Small Area Plan 3

| <i>Fairlington/Bradlee</i> | | |
|----------------------------|-----------------|-----------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 | \$ - |
| \$100,000 to \$249,999 | 0 | \$ - |
| \$250,000 to \$499,999 | 119 | 362,117 |
| \$500,000 to \$749,999 | 6 | 546,847 |
| \$750,000 to \$999,999 | 0 | \$ - |
| \$1,000,000 to \$1,999,999 | 0 | \$ - |
| \$2,000,000 and over | 0 | \$ - |

CY 2009 Real Property Assessment Report

2009 MEDIAN ASSESSMENT FOR SINGLE
FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 4

| <i>King St./Eisenhower Ave. Metro Station</i> | | |
|---|-----------------|-----------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 \$ | - |
| \$100,000 to \$249,999 | 0 \$ | - |
| \$250,000 to \$499,999 | 114 | 321,908 |
| \$500,000 to \$749,999 | 43 | 588,089 |
| \$750,000 to \$999,999 | 2 | 933,674 |
| \$1,000,000 to \$1,999,999 | 1 | 1,117,031 |
| \$2,000,000 and over | 0 \$ | - |

Small Area Plan 5

| <i>Landmark/Van Dorn</i> | | |
|----------------------------|-----------------|-----------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 \$ | - |
| \$100,000 to \$249,999 | 3,780 | 199,038 |
| \$250,000 to \$499,999 | 2,743 | 310,563 |
| \$500,000 to \$749,999 | 950 | 556,492 |
| \$750,000 to \$999,999 | 126 | 804,711 |
| \$1,000,000 to \$1,999,999 | 3 | 1,003,268 |
| \$2,000,000 and over | 0 \$ | - |

Small Area Plan 6

| <i>Northeast</i> | | |
|----------------------------|-----------------|-----------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 \$ | - |
| \$100,000 to \$249,999 | 219 | 225,800 |
| \$250,000 to \$499,999 | 530 | 419,824 |
| \$500,000 to \$749,999 | 207 | 547,582 |
| \$750,000 to \$999,999 | 14 | 862,993 |
| \$1,000,000 to \$1,999,999 | 0 \$ | - |
| \$2,000,000 and over | 0 \$ | - |

CY 2009 Real Property Assessment Report

2009 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 7

| <i>Northridge/Rosemont</i> | | |
|-----------------------------|---------------------|---------------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 1 \$ | 85,000 |
| \$100,000 to \$249,999 | 223 | 200,069 |
| \$250,000 to \$499,999 | 2,082 | 304,693 |
| \$500,000 to \$749,999 | 1,472 | 651,460 |
| \$750,000 to \$999,999 | 802 | 845,562 |
| \$1,000,000 to \$1,999,999 | 347 | 1,222,071 |
| \$2,000,000 and over | 51 | 2,404,930 |

Small Area Plan 8

| <i>Old Town</i> | | |
|-----------------------------|---------------------|---------------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 \$ | - |
| \$100,000 to \$249,999 | 64 | 214,922 |
| \$250,000 to \$499,999 | 554 | 378,161 |
| \$500,000 to \$749,999 | 823 | 633,159 |
| \$750,000 to \$999,999 | 780 | 862,366 |
| \$1,000,000 to \$1,999,999 | 680 | 1,230,580 |
| \$2,000,000 and over | 116 | 2,455,562 |

Small Area Plan 9

| <i>Old Town North</i> | | |
|-----------------------------|---------------------|---------------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 4 \$ | 52,116 |
| \$100,000 to \$249,999 | 272 | 197,480 |
| \$250,000 to \$499,999 | 840 | 345,244 |
| \$500,000 to \$749,999 | 369 | 601,606 |
| \$750,000 to \$999,999 | 202 | 794,723 |
| \$1,000,000 to \$1,999,999 | 47 | 1,220,435 |
| \$2,000,000 and over | 0 \$ | - |

CY 2009 Real Property Assessment Report

2009 MEDIAN ASSESSMENT FOR SINGLE
FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 10

| <i>Potomac West</i> | | |
|----------------------------|-----------------|-----------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 \$ | - |
| \$100,000 to \$249,999 | 529 | 186,250 |
| \$250,000 to \$499,999 | 3,082 | 404,609 |
| \$500,000 to \$749,999 | 1,814 | 594,927 |
| \$750,000 to \$999,999 | 399 | 827,552 |
| \$1,000,000 to \$1,999,999 | 75 | 1,113,962 |
| \$2,000,000 and over | 2 | 2,850,000 |

Small Area Plan 11

| <i>Potomac Yard/Potomac Greens</i> | | |
|------------------------------------|-----------------|-----------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 \$ | - |
| \$100,000 to \$249,999 | 0 \$ | - |
| \$250,000 to \$499,999 | 75 | 452,137 |
| \$500,000 to \$749,999 | 172 | 626,694 |
| \$750,000 to \$999,999 | 220 | 826,891 |
| \$1,000,000 to \$1,999,999 | 0 \$ | - |
| \$2,000,000 and over | 0 \$ | - |

Small Area Plan 12

| <i>Seminary Hill/Strawberry Hill</i> | | |
|--------------------------------------|-----------------|-----------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 \$ | - |
| \$100,000 to \$249,999 | 873 | 189,653 |
| \$250,000 to \$499,999 | 2,934 | 362,563 |
| \$500,000 to \$749,999 | 506 | 578,012 |
| \$750,000 to \$999,999 | 421 | 863,118 |
| \$1,000,000 to \$1,999,999 | 170 | 1,241,173 |
| \$2,000,000 and over | 27 | 2,383,656 |

CY 2009 Real Property Assessment Report

2009 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 13

| <i>Southwest Quadrant</i> | | |
|----------------------------|--------------|--------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 | \$ - |
| \$100,000 to \$249,999 | 15 | 212,987 |
| \$250,000 to \$499,999 | 546 | 414,871 |
| \$500,000 to \$749,999 | 226 | 559,030 |
| \$750,000 to \$999,999 | 92 | 836,493 |
| \$1,000,000 to \$1,999,999 | 39 | 1,070,736 |
| \$2,000,000 and over | 0 | 0 |

Small Area Plan 14

| <i>Taylor Run/Duke Street</i> | | |
|-------------------------------|--------------|--------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 | \$ - |
| \$100,000 to \$249,999 | 35 | 240,532 |
| \$250,000 to \$499,999 | 773 | 314,239 |
| \$500,000 to \$749,999 | 563 | 600,196 |
| \$750,000 to \$999,999 | 243 | 872,792 |
| \$1,000,000 to \$1,999,999 | 201 | 1,249,747 |
| \$2,000,000 and over | 25 | 2,320,918 |

Small Area Plan 15

| <i>Eisenhower East</i> | | |
|----------------------------|--------------|--------------|
| Assessed Value Range | No. of Units | Median Value |
| Less than \$100,000 | 0 | \$ - |
| \$100,000 to \$249,999 | 10 | 246,650 |
| \$250,000 to \$499,999 | 637 | 388,613 |
| \$500,000 to \$749,999 | 143 | 595,432 |
| \$750,000 to \$999,999 | 43 | 816,786 |
| \$1,000,000 to \$1,999,999 | 0 | 0 |
| \$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 2008 Real Property Assessment Report

**AVERAGE 2008 REAL PROPERTY ASSESSMENTS FOR SINGLE FAMILY HOMES
AND RESIDENTIAL CONDOMINIUMS BY GEOGRAPHICAL AREA**

| Small Area Plan Name | Single Family Homes | | Residential Condominiums | |
|--|-----------------------------|-----------------------|-----------------------------|-----------------------|
| | 2008 Average Assessed Value | % Change 2007 to 2008 | 2008 Average Assessed Value | % Change 2007 to 2008 |
| (1) | (2) | (3) | (4) | (5) |
| 1 Alexandria West | \$546,709 | -0.4% | \$ 271,438 | -4.3% |
| 2 Braddock Road Metro Station | 544,663 | -1.0% | \$ 345,690 | -5.9% |
| 3 Fairlington/Bradlee | 518,016 | 0.0% | \$ 375,991 | -2.6% |
| 4 King St/Eisenhower Ave Metro Station | 463,585 | 0.5% | \$ 418,757 | -1.3% |
| 5 Landmark/Van Dorn | 583,840 | -1.6% | \$ 299,795 | -5.6% |
| 6 Northeast | 523,551 | 0.5% | \$ 285,049 | -3.2% |
| 7 Northridge | 799,397 | 0.3% | \$ 287,742 | -4.0% |
| 8 Old Town | 990,319 | -1.7% | \$ 564,058 | -4.1% |
| 9 Old Town North | 819,599 | -2.9% | \$ 384,815 | -5.2% |
| 10 Potomac West | 517,222 | -1.0% | \$ 253,857 | -7.5% |
| 11 Potomac Yard/Potomac Greens | 755,561 | 1.4% | \$ 484,692 | -8.7% |
| 12 Seminary Hill/Strawberry Hill | 591,451 | -0.7% | \$ 268,423 | -6.0% |
| 13 Southwest Quadrant | 575,048 | 1.8% | \$ 412,097 | -6.2% |
| 14 Taylor Run/Duke St | 746,672 | -0.3% | \$ 296,634 | -6.0% |
| 15 Eisenhower East | 870,058 | 1.5% | \$ 473,510 | -7.8% |

Department of Real Estate Assessments, January 31, 2008
file name: rea:\2008av\JBandy\values\avchgadj08.xls

**City of Alexandria, Virginia
CY 2008 Real Property Assessment Report**

RESIDENTIAL REAL PROPERTY SALES STATISTICS FOR CY 2006, 2007, AND 2008

DOLLAR VOLUME

| | Sales Statistic | CY 2006 | CY 2007 | Percent of Change 2006 to 2007 | CY 2008 | Percent of Change 2007 to 2008 |
|----|--------------------------------------|------------------------|------------------------|--------------------------------------|----------------------|--------------------------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| | Dollar Volume of Sales | | | | | |
| 1 | Residential Single Family | | | | | |
| 2 | Detached | \$337,177,477 | \$336,660,199 | (0.15) | \$235,064,807 | (30.18) |
| 3 | Semi-Detached | 217,922,098 | 196,653,986 | (9.76) | 152,796,802 | (22.30) |
| 4 | Row House | 272,493,702 | 229,733,311 | (15.69) | 181,428,413 | (21.03) |
| 5 | | ----- | ----- | | ----- | |
| 6 | Total Single Family | \$827,593,277 | \$763,047,496 | (7.80) | \$569,290,022 | (25.39) |
| 7 | | | | | | |
| 8 | Residential Condominium | | | | | |
| 9 | Garden | \$262,847,361 | \$207,399,831 | (21.09) | \$144,033,341 | (30.55) |
| 10 | High-Rise | 147,232,799 | 119,590,497 | (18.77) | 84,143,691 | (29.64) |
| 11 | Residential Cooperative | | | | | |
| 12 | Townhouse | 28,185,688 | 33,730,950 | 19.67 | 22,049,300 | (34.63) |
| 13 | | ----- | ----- | | ----- | |
| 14 | Total Residential Condominium | \$438,265,848 | \$360,721,278 | (17.69) | \$250,226,332 | (30.63) |
| 15 | | ----- | ----- | | ----- | |
| 16 | Total Dollar Volume of Sales | \$1,265,859,125 | \$1,123,768,774 | (11.22) | \$819,516,354 | (27.07) |

47

City of Alexandria, Virginia
CY 2008 Real Property Assessment Report

RESIDENTIAL REAL PROPERTY SALES STATISTICS FOR CY 2006, 2007, AND 2008

NUMBER OF UNITS SOLD

| Sales Statistic | CY 2006 | CY 2007 | Percent of Change 2006 to 2007 | CY 2008 | Percent of Change 2007 to 2008 |
|-----------------------------|--------------------------------------|--------------|--------------------------------------|----------------|--------------------------------------|
| (1) | (2) | (3) | (4) | (5) | (6) |
| Number of Units Sold | | | | | |
| 17 | Residential Single Family | | | | |
| 18 | Detached | 447 | 447 | 0.00 | 331 (25.95) |
| 19 | Semi-Detached | 366 | 345 | (5.74) | 276 (20.00) |
| 20 | Row House | 454 | 393 | (13.44) | 330 (16.03) |
| 21 | | ----- | ----- | | ----- |
| 22 | Total Single Family | 1,267 | 1,185 | (6.47) | 937 (20.93) |
| 23 | | | | | |
| 24 | Residential Condominium | | | | |
| 25 | Garden | 776 | 626 | (19.33) | 481 (23.16) |
| 26 | High-Rise | 446 | 395 | (11.43) | 304 (23.04) |
| 27 | Residential Cooperative | | | | |
| 28 | Townhouse | 58 | 64 | 10.34 | 46 (28.13) |
| 29 | | ----- | ----- | | ----- |
| 30 | Total Residential Condominium | 1,280 | 1,085 | (15.23) | 831 (23.41) |
| 31 | | ----- | ----- | | ----- |
| 32 | Total Number of Units Sold | 2,547 | 2,270 | (10.88) | 1,768 (22.11) |

**City of Alexandria, Virginia
CY 2008 Real Property Assessment Report**

RESIDENTIAL REAL PROPERTY SALES STATISTICS FOR CY 2006, 2007, AND 2008

AVERAGE SALE PRICE

| Sales Statistic | CY 2006 | CY 2007 | Percent of Change 2006 to 2007 | CY 2008 | Percent of Change 2007 to 2008 |
|--|------------------|------------------|--------------------------------------|------------------|--------------------------------------|
| (1) | (2) | (3) | (4) | (5) | (6) |
| Average Sale Price * | | | | | |
| 33 Residential Single Family | | | | | |
| 34 Detached | \$754,312 | \$753,155 | (0.15) | \$710,166 | (5.71) |
| 35 Semi-Detached | 595,416 | 570,012 | (4.27) | 553,612 | (2.88) |
| 36 Row House | 600,206 | 584,563 | (2.61) | 549,783 | (5.95) |
| 37 | | | | | |
| 38 Total Single Family | \$653,191 | \$643,922 | (1.42) | \$607,567 | (5.65) |
| 39 | | | | | |
| 40 Residential Condominium | | | | | |
| 41 Garden | \$338,721 | \$331,310 | (2.19) | \$299,446 | (9.62) |
| 42 High-Rise | 330,118 | 302,761 | (8.29) | 276,788 | (8.58) |
| 43 Residential Cooperative | | | | | |
| 44 Townhouse | 485,960 | 527,046 | 8.45 | 479,333 | (9.05) |
| 45 | | | | | |
| 46 Total Residential Condominium | \$342,395 | \$332,462 | (2.90) | \$301,115 | (9.43) |
| 47 | | | | | |
| 48 Average Sale Price for Residential | \$497,000 | \$495,052 | (0.39) | \$463,527 | (6.37) |

Notes:

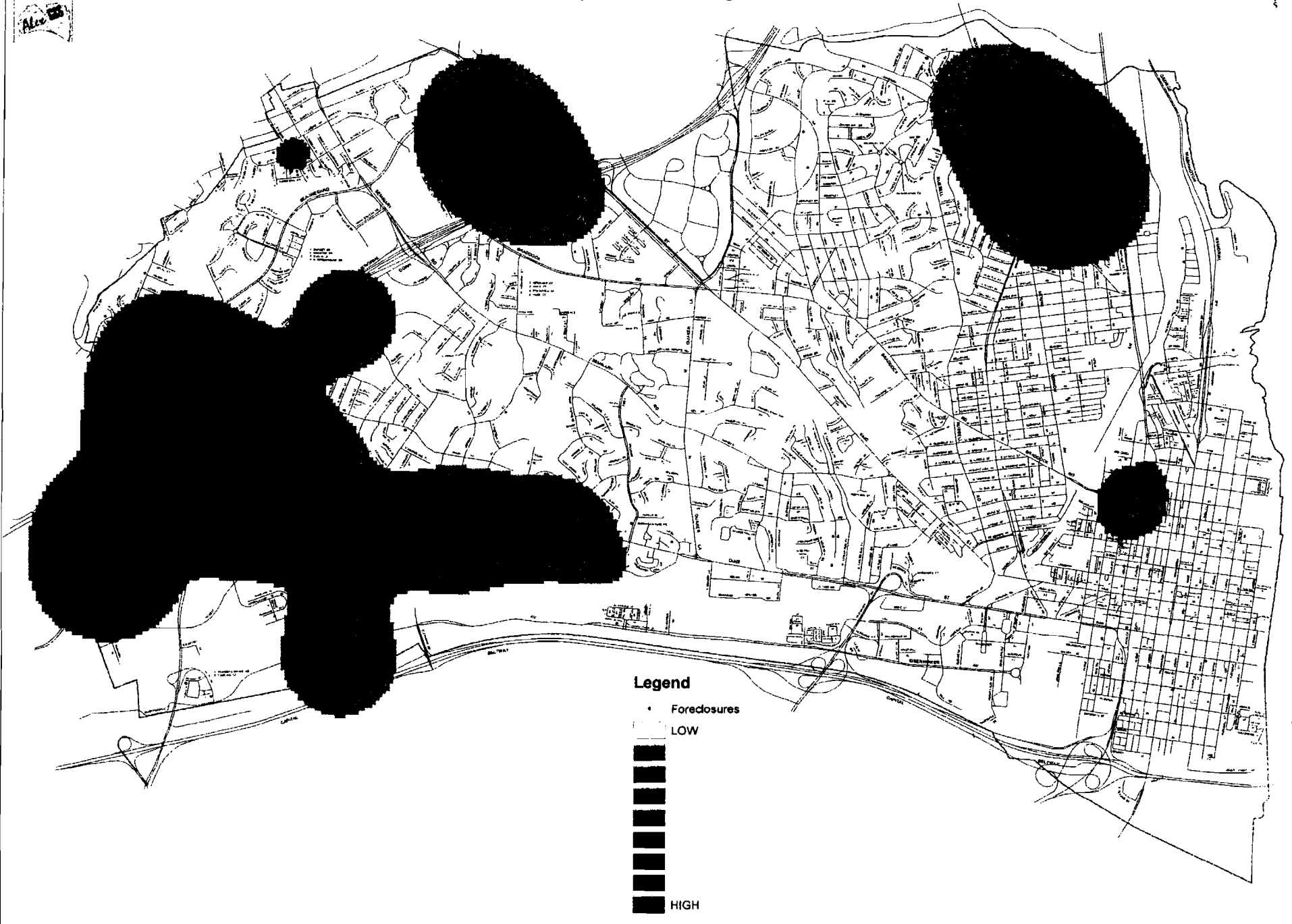
* Average sale price for each class of residential property and the average residence is calculated by dividing the dollar volume of sales (page 1) by the number of units sold (page 2). For the purposes of this report, sales of apartments converted into condominium units or newly constructed condominium or townhouse properties throughout the City were not included in the 2006, 2007 and 2008 sales totals.

Department of Real Estate Assessments, February 6, 2009
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Foreclosure Sales 2008

City of Alexandria, Virginia



JANUARY 27, 2009

The Washington Post

Existing-Home Sales Spike As Bargains Glut Market

Sales Up a Surprising 6.5 Percent in December

By RENAE MERLE
Washington Post Staff Writer

Homes sales surged unexpectedly last month, fueled by record-setting price declines in one of the weakest housing markets in 20 years.

Bargain hunters are making their way through the backlog of homes, but the market remains weak, analysts said. The recession is weighing on potential buyers, making a market recovery — or even stabilization — unlikely soon, the analysts said.

Existing-home sales climbed 6.5 percent to a seasonally adjusted annual rate of 4.74 million in December, according to the National Association of Realtors. That was better than analysts expected. Sales fell 3.5 percent compared with December 2007.

These "are steps in the right direction, but the market is still far from normal, balanced conditions," said Lawrence Yun, NAR's chief economist.

The glut of foreclosed homes has pushed down prices, and distress sales now make up about half the market. Median home prices fell to \$177,000 in December, down 15.3 percent compared with the same period a year earlier.

The regions of the country hardest hit by the housing downturn, including California and Nevada, are seeing the biggest price declines, thus fueling the surge in sales, economists said. In December, sales in the West outpaced the rest of the country, surging 13.6 percent, but prices also fell the fastest, 31.5 percent, compared with last year.



BY PAUL SARRAMA — ASSOCIATED PRESS

A sold sign has been posted on a home in Palo Alto, Calif. Sales in the West outpaced the rest of the country in December, but prices also fell the fastest, 31.5 percent, compared with last year.

"I think Americans love a bargain and I think that is what we saw last month," said Mike Larson, housing analyst for Weiss Research. "The real question is whether that momentum can be sustained, especially since almost every day you hear about more layoffs. If the jobless rate keeps going up, that is going to trump any impact of lower prices."

During 2008, the number of homes sold tumbled 13.1 percent, to 4.91 million, compared with 2007, according to the Realtor association data. That is the lowest volume of sales since 1997 and the biggest yearly drop since 1989. Median prices fell 7.1 percent in 2008 to \$198,600 — the biggest yearly decline on record and likely since the Great Depression, according to the association. Prices are now at 2003 levels.

There are still far more homes on the market than buyers. At the current pace, it would take more than nine months to sell the 3.68 million existing homes on the market. That is down from last month, but still high compared with past levels.

Those figures likely understate the severity of the inventory problem because many foreclosed homes are sold through auction houses and not included in NAR's figures, said Patrick Newport, U.S. economist for IHS Global Insight. "The big problem with the housing market all along has been there are too many homes," he said.

The housing market has yet to receive a bounce from buyers taking advantage of historically low interest rates, analysts said. Last week, the average 30-year mortgage interest rate was 5.12 percent, according to Freddie Mac. But it takes months for lower prices to make an impact as buyers find homes, they said.

"We should expect to see a further drop in home sales over the next few months, even if mortgage rates continue to fall," Newport said.

The housing industry continues to lobby for measures in the stimulus package being debated in Congress that would increase tax credits available to buyers. "There is a pent-up demand which could be unleashed with the right stimulus," Yun said.

Residential real estate

The housing market in '09? It's anyone's guess

By Mara Lee
Staff Reporter

We asked three experts in the local housing market what to expect in 2009. We got three different answers.

But our experts did agree on one thing: Prices are not going to fall much more in Prince William County, where they have already plummeted 42 percent from their peak in 2006.

Stephen Fuller, director of George Mason University's Center for Regional Analysis, is the most optimistic, partly because of his recent personal experience in the housing market. Late in 2008 he sold his Old Town Alexandria house in six days and paid list price for an Arlington County condominium.

Another reason for his optimism: Inventory declined significantly in Prince William and Loudoun counties as distress-sale prices attracted bargain-hunting buyers.

Fuller said "prices are starting to firm up" in Arlington and Alexandria, a trend he predicts will spread to close-

er-in parts of Fairfax and Montgomery counties, but he does not think the slump is over.

Housing is still overpriced relative to incomes, he said. Without creative financing or, as Fuller says, a "rich daddy," average house prices cannot grow 7 percent a year when average incomes grow just 3 percent. Unfortunately, there are not enough rich daddies to go around. And we all know how the creative financing turned out.

Our second expert, Robert Sheehan, who has been analyzing construction and real estate for 48 years, said the region is two or three years away from the bottom.

"It's still pretty gruesome out there," said Sheehan, president of Regis J. Sheehan and Associates. "After '89, it took till 1996 until people got whole again. That could be even longer this time."

Why does he think prices still have further to fall?

"There are going to be more foreclosures," Sheehan said. "I don't care what program they come up with nationally, that changes every day."

Sheehan's own market experience colors his view too. In 2002, he and his wife bought a condo in Prince William



JUANPERE LAWTON

County during pre-construction, agreeing to pay \$250,000. By the time the building was completed in 2004, the same 1,400-square-foot model was selling for \$440,000. The latest sale, a foreclosure in 2008, was \$220,000.

"In our buildings, there have been only two foreclosures — they were both investors," Sheehan said.

The builder at his development tore the framing down from one building under construction. A building with 27 units that was completed two years ago has only had four sales.

Expert No. 3, Thomas Lawler, an independent housing economist in Loudoun County, said the recession will keep housing sales at a slow pace.

"I talk to a lot of Realtors," he said. "When the financial markets virtually collapsed in October, I heard of a boatload of canceled sales. The notion that the D.C. area is immune is silly."

He predicts Montgomery County prices will fall more than 10 percent as additional distressed properties come onto the market. Prices there have fallen 9 percent so far.

While the number of loan modifications is going to increase, "the real question is whether it will work," Lawler said.

National regulators said more than half of borrowers who got workouts early this year missed a payment again within six months. Lawler an-

ticipates that problem to be especially apparent in Prince George's County, which is at the leading edge of a foreclosure wave.

Bankers are reluctant to forgive principal, he said. When borrowers bought with no money down, they used piggyback loans of 20 percent — and it is against the lenders' interest to help borrowers avoid foreclosure through short sales or loan modifications that wipe out that value.

Lawler has had a devilish time trying to get a handle on the District's market fundamentals, he said. "Home prices appear somewhat inflated, [but] so far the price levels appear to be amazingly resilient."

Home building in the region is the slowest Sheehan has ever seen it.

"I would say in 2011 or 2012, you're going to see some perceptible increase in new construction," he said. "That is still sort of iffy."

He predicts some builders heavily exposed to condos will fail next year.

Lawler, who advises builders, said he urged them to stop building and sell land two years ago.

"There were many, many projects that were still done and never should've been," he said.

Lawler thinks a rebound is possible later this year. "We're unlikely to return to any meaningful level [of new construction] until November 2009," he said, "but that is optimistic."

JANUARY 6, 2009

Tough '09 Is Seen for Commercial Real Estate

Industry Reports Cite Vacancies, Falling Rents

By DANA HEDGPETH
Washington Post Staff Writer

This year will be among the worst for the U.S. commercial real estate industry, as unemployment leads to a drop of as much as 30 percent in rents in some places and more office towers from Washington to Chicago and Los Angeles sit empty, according to several research reports from large commercial real estate service companies.

"2009 is going to be dismal for commercial real estate," said John F. Sikaitis, director of research for Jones Lang LaSalle, a real estate services company. "Demand for space is way down. Sales activity is down. Rents are falling dramatically and vacancies are increasing. That's forcing landlords to compete and lower their rents."

Nationally, rents are expected to drop 10 to 15 percent. Manhattan rates could drop as much as 30 percent. Nationally, the vacancy rate is likely to rise to 18 percent from 15.3 percent, Sikaitis said. Especially hard hit could be places where there's a lot of office construction, including the Washington region, Miami, Atlanta, Chicago and Houston.

This comes as billions of dollars in loans on office buildings, malls and warehouses are coming due in the next few years and real estate owners are struggling to refinance their deals. That could lead to banks taking back properties and force some owners to sell at a loss.

Roughly \$107 billion worth of hotels, office buildings and shopping centers are in trouble, ranging from mortgage delinquency to foreclosure, according to a report from Real Capital Analytics, a research firm.

"It's not going to be a good 2009," said Dan Fasulo, managing director at Real Capital. "We're at the point where a normal, functioning market doesn't exist. Buyers are there, but they don't necessarily want to make an acquisition. It's a pile on top of everything that we don't have a functioning debt market. It creates paralysis in the market."

New York is projected to be among the hardest hit. The financial services industry there has been decimated by job losses, and companies are dumping office space back on the market. In Chicago, a 12 percent vacancy rate is expected to reach 15 percent or higher by the end of 2009. And in Orange County, Calif., vacancy rates could hit 19 percent from 15 percent in

In the District, vacancy rates could hit double digits for the first time in a decade, as 9.3 million square feet of office space is under construction. It could take four years to lease that much space, according to Cushman & Wakefield.

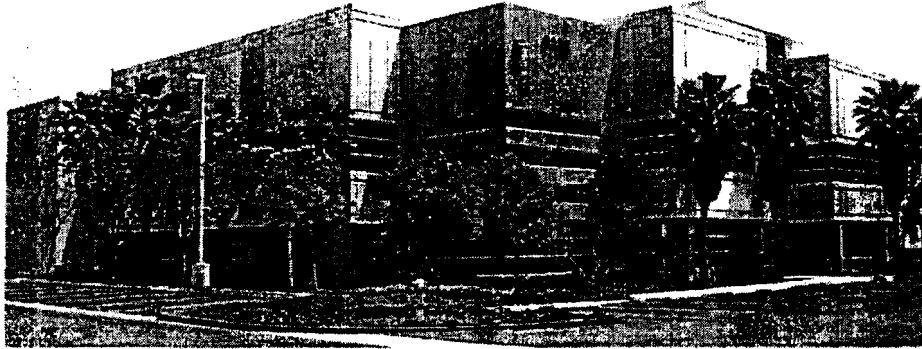
Kevin Thorpe, vice president of research at Cassidy & Pinkard, said the vacancy rate in the District could reach 11.9 percent in 2010, making it the "highest since the S&L crisis of the early 1990s."

The Washington region, unlike other places, is expected to add between 20,000 and 25,000 jobs this year, which will create a demand for office space.

"You've got \$8.6 trillion that has been pledged to address this financial crisis and that's going to require significant oversight in the D.C. region," Thorpe said. "That has to translate to job growth and a demand for office space among law firms, accountants, consultants and others. Over time, demand will increase."

For landlords, weakness elsewhere in the private sector is creating a new "love of government tenants," said Keith Lipton, executive vice president and managing director of Grubb & Ellis's Washington-area offices. "They're the best tenant you're going to find. People who shied away from government tenants are now pursuing them. They are the strongest, most stable tenant out there."

Commercial Sector Expects Things to Get Worse



BY MAURA WEBBER SADOVI

Special to the WSJ

California's Inland Empire, the two-county region that stretches east of Los Angeles, has gone from a booming development smorgasbord to a basket case in a few short years.

The Riverside-San Bernardino area's unemployment level rose to 9.5% in November, tying with Detroit to lay claim to the highest unemployment rate of any large U.S. metropolitan area, according to the Labor Department. Third-quarter home-foreclosure rates were the third-highest of the nation's metros surveyed by RealtyTrac and the area's median single-family home price fell 39.4% to \$227,200 in the third quarter from a year earlier, according to the National Association of Realtors.

The Inland Empire's commercial real-estate market also is by no means the picture of health. Roughly one-fifth of its office market is now vacant, store rents are plummeting and a rising number of warehouses are emptying as retailers have filed for bankruptcies and imports into the nearby ports of Los Angeles have slumped.

Still, as in many parts of the country, for now the downturn of commercial property in this region isn't as severe as that of its residential sector and job market.

Home to about 4.2 million people, the Inland Empire was favored in recent years by new residents and many industrial investors drawn to its expanse of relatively affordable land near Los Angeles.

So far, the region's commercial market isn't yet topping out the nation's various misery indexes, but it appears likely things will get worse before they get better. "We don't know when and where the bottom is," says Tim O'Rourke, executive vice president with Jones Lang LaSalle's industrial group in Los Angeles.

Mr. O'Rourke says the Inland Empire industrial market is still viewed as having long-term promise due to the area's above-average population growth and location. But as retail bankruptcies mount, an increasing amount of distribution space is going vacant, including a warehouse in Rancho Cucamonga previously occupied by Wickes Furniture Co., he says.

Warehouse vacancies in the third quarter remained among the country's lowest, even after roughly doubling over the past 12 months, according to Boston-based Property & Portfolio Research Inc., a real-estate research firm. Harder hit are metrowide office vacancies, which rose above 20%, and fourth-quarter retail rents, which had the third-highest percentage

This warehouse in Rancho Cucamonga, Calif., is now vacant, after Wickes Furniture moved out.

By the Numbers

| Riverside-San Bernardino, Calif. Metro | Third quarter | |
|--|---------------|-----------|
| | 2008 | 2007 |
| Office vacancy ¹ | 20.7% | 13.5% |
| effective rent/s.f. | \$18.60 | \$19.53 |
| Retail vacancy ² | 8.6% | 5.0% |
| effective rent/s.f. | \$19.27 | \$20.26 |
| Warehouse vacancy ³ | 6.8% | 3.3% |
| Annual asking rent/s.f. | \$6.01 | \$6.14 |
| Single-family home price, median ⁴ | \$227,200 | \$375,100 |

¹ Retail data are for neighborhood and community shopping centers. Warehouse and home-price data are for third quarter of respective years. All rents are on an annual basis.

Sources: Reis Inc., Property & Portfolio Research Inc.; Nat. Assn. of Realtors

decline of 76 major metros tracked by New York-based Reis Inc., a real-estate research firm.

Delinquencies on commercial mortgages packaged and sold as bonds, which represent nearly a third of the commercial real-estate debt market, suggest the Inland Empire's retail market is getting hit particularly hard by the downturn, as evidenced by delinquencies on commercial mortgage-backed securities, or CMBS. A study of delinquencies in the region's largest cities and towns showed four retail properties with delinquent CMBS loans valued at a total of \$165 million, according to Richard Parkus, head of research on such bonds for Deutsche Bank.

There were no delinquent office, warehouse, apartment or hotel loans in the region, according to the CMBS survey. But the retail problems gave the market an aggregate commercial delinquency rate of 3.8% as of December, well above the overall national delinquency rate of 1.2%, Mr. Parkus says. "Retail is going to get slammed in the Inland Empire, and it's already starting," Mr. Parkus says.

That outlook for the office and warehouse sector is also looking tougher. Financial companies are still emptying office space, including about 265,000 square feet in Rancho Cucamonga to be vacated by a unit of Citigroup Inc. in March.

New supply also will raise competition for shrinking warehouse users. While most public companies have ended any speculative building in the area, some 7.4 million square feet of warehouse facilities are expected to be completed this year, the highest volume of major markets tracked by PPR in the U.S.