ALEXANDRIA

THE STATE OF THE MARKET

YEAR END 2018

Rendering of the new National Industries for the Blind Headquarters in Potomac Yard (Courtesy of NIB)

ALEXANDRIA ECONOMIC DEVELOPMENT PARTNERSHIP

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This publication is part of our research and data series on the City of Alexandria. This report is released twice a year and provides the latest updates on the City's economy, the status of different development projects, insights into the office and retail markets, and residential sales patterns. With this information, we hope to provide a comprehensive snapshot of the City of Alexandria for real estate professionals, business owners, and the general public. If you would like an update on any of this information between our major publications, please feel free to reach out to us.

UPDATES ON DEVELOPMENT IN ALEXANDRIA

1. City Council has approved amendments to the original development special use permit for the new Potomac Yard metro station. The amendments keep the original station design elements largely the same. The project currently entails a 46,922 sf above ground metro station with access points to the east and west. This project is essential to the future development of Potomac Yard and to the overall enhancement of public transit within the City. The State of Virginia has also announced $50 million in future grant funds for the project, which is tied to Amazon's announced job creation targets for National Landing.

2. The zoning designation of AREP's Canal Center office park has been approved to change from W-1 to CRMU-H. This change is the first step in the approval process that will allow an expansion of the existing buildings' lower floors by 19,000 sf for retail use. These changes would allow for placemaking to occur within an area of the City that currently lacks any significant retail or restaurant options.

3. The third phase of Carmel Partners' Braddock Gateway project has been approved, which is a significant element of the long-term, mixed-use and pedestrian friendly vision for the Braddock neighborhood. This phase involves the redevelopment of an existing warehouse/church site at 1200 N Fayette St into a 336,358 sf mixed-use building and a parking garage containing 337 spaces. The mixed-use building will include 370 residential units (4 designated as affordable) and 2,700 sf of ground-floor retail.

4. Dechantal Associates will move forward with their King Street Condo development at 1604-1614 King St. The project will incorporate the construction of a new, 49-unit residential building on Dechantal Street as well as the rehabilitation of 10 units within 5 historic townhouses along King Street. The project will also include a publicly accessible central courtyard.

5. J Street Cos. has placed the Campagna Center at 418 S Washington St under contract. J Street plans to add around 8,000 sf to the existing 17,000 sf building and will convert the property into residential condominiums with the potential for ground floor retail.

6. Greenhill Capital Corps' proposed mixed-use project continues to move through the planning approval process that will enable the redevelopment of seven blocks located a half-mile north of the Van Dorn Metro. The entire planned development totals 14.9 acres and the proposed plan will allow for up to 2.13 million sf of mixed-use development. This development will include 223,000 sf of ground floor retail and 97,000 sf of above grade parking, along with central public open space and extensive road and pedestrian access improvements.

7. The Landmark/Van Dorn Corridor Plan implementation will continue to have periodic community workshops throughout early 2019, culminating with City Council hearings in May 2019. The plan will spur the redevelopment of Landmark Mall and along Van Dorn Street by allowing greater land use flexibility, increased building heights, new bus rapid transit routes, and greater pedestrian accessibility.

Alexandria Office Indicators

Change from Year-end 2017

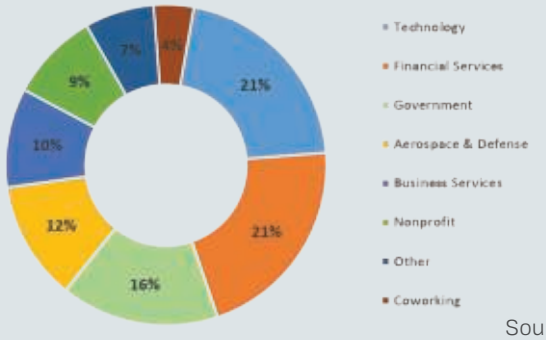
Vacancy ↑
Net Absorption ↑
Asking Rents ↑

Regional Office Market:

- Direct office vacancy within the Washington Metro Area decreased from 13.1% at the end of 2017 to 12.8% by the end of 2018, which demonstrates an overall strengthening of the office market. Northern Virginia demonstrated a marked decrease in year-over-year vacancy, falling 100 basis points to 14.9% by the end of 2018. Delta Associates projects that, due in part to Amazon's HQ2, vacancy rates within Northern Virginia will decline to the mid-to-upper 13% range by the end of 2020.
- During 2018, developers broke ground on 2.7 million SF of office space within the Washington Metro Area, which is a 1.2 million SF decrease from the prior year. Suburban Maryland accounted for 40% of all new construction regionally in 2018, whereas DC accounted for only 27%. This is a dramatic shift from 2017 where DC accounted for over 50% of all construction starts in the region. Most of the new construction activity in Suburban Maryland was driven by Marriott's new 785,000 sf headquarters at 7750 Wisconsin Avenue in Bethesda. Construction starts in Northern Virginia accounted for 33% of this total.

YTD 2018 Leasing Activity by Industry Sector

Washington Metro Area



Source: Delta

ALEXANDRIA OFFICE MARKET

Direct Vacancy Rate: 15.0%

This represents a 2.0% increase from the fourth quarter 2017. Total Vacancy (which includes sublets) within the City was 15.4%, which is no net change from the fourth quarter 2017.

YTD Positive Absorption: 33,391 square feet

Absorption for 2018 was positive, marking the third consecutive year of positive absorption for the City. The largest office occupancy of the year was caused by the National Center for Missing and Exploited Children, who took 64,614 sf at 333 John Carlyle St.

Largest Lease Transaction: USPTO, 2.4M square feet

The largest lease transaction in Alexandria during 2018 was an early renewal of the USPTO's 2.4 million sf headquarters campus in Carlyle. The fourth quarter 2018 was also host to other significant deals, with the American Academy of Physician Assistants renewing 23,970 sf at 2318 Mill Road and the National Ready Mixed Concrete Association signing a 13,857 sf relet at 66 Canal Center Plaza. Discounting the USPTO renewal, Alexandria finished 2018 with 847,588 sf of total office leasing activity, which is the highest year-end level of leasing activity within the City since 2014.

Alexandria Average Office Rents Continue to Increase

Average office rents in Alexandria have increased to $33.54 FS by the end of 2018, a 0.33% increase from the end of 2017. Although there has been a slight rent increase across the City, rents in the Carlyle neighborhood have decreased 4.6% from $40.23 FS from the end of 2017 to $38.38 FS at the end of 2018.

Source: CoStar Group, Lincoln Property Company

USPTO Campus in Carlyle: The USPTO renewed its 2.4 million SF campus in Carlyle, and occupies the entirety of the LCOR-owned buildings at 400, 401, 500, 501 and 600 Dulany St.

Alexandria Retail Indicators

Change from Year-end 2017

Vacancy ↓
Net Absorption ↑
Asking Rents ↑

National and Regional Retail Trends and Forecasts

- There is currently just under 1.15 million square feet of shopping center space under construction in Northern Virginia, and around 8 million square feet of planned shopping center space slated to begin construction soon. Weingarten's Gateway in Alexandria is pre-leased to a 62,000 SF Harris Teeter, which is currently the third largest grocery anchor pre-lease in the Washington Metro Area.
- Omnichannel strategy development has become increasingly important within the retail sector on a national level, particularly within the restaurant industry. The rise of third-party delivery platforms such as UberEats and Postmates over the last few years has pushed many restaurant brands to form delivery services that work through these platforms. For example, in less than two years, McDonald's has grown from 200 test sites to 5,000 locations offering delivery services. There has also been a push to experiment with more specialized restaurant space designed to facilitate online deliveries. Chick-fil-A is currently testing a model specifically geared towards fulfilling online orders in Louisville and Nashville.

Regional & National Brands Recently Opened:

- Cava Grill
- Goldfish Swimming School
- Glory Days Grill
- &pizza
- Five Guys
- Warby Parker
- Taco Bell Cantina
- Pump It Up
- J. McLaughlin
- Home Goods
- Michaels

Regional & National Brands Coming Soon to Alexandria:

- Patagonia
- Jeni's Splendid Ice Creams
- DryBar
- DC Rowhouse

Sources: Delta Associates; Buxton

ALEXANDRIA RETAIL OPENINGS & CLOSINGS

LOCAL BRANDS COMING SOON:

- Urbano 116
- Yunnan by Potomac Noodle House
- Augie's Mussel House

LOCAL BRANDS RECENTLY OPENED:

- People's Drug
- Augie's Pop-Up Garden
- Old Town Books
- Catch on the Avenue
- Charlies on the Avenue
- Pendeton Carryout

CLOSURES:

- Restaurant Eve
- Burger Fi
- BGR
- Nine West
- Williams Sonoma
- ZBot Art Gallery
- Specs of New York
- Monday's Child
- Victoria Sanchez

Interior of Old Town Books, a bookstore opened through AEDP's Pop-Up Program.

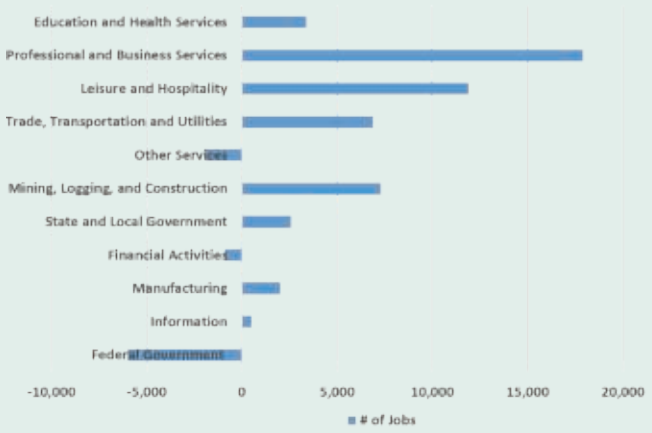
ECONOMIC TRENDS IN THE D.C. REGION

- According to the Bureau of Labor Statistics, the Washington Region added 31,700 new non-farm jobs in the twelve-month period ending in December 2018. Payroll job growth was led by the Professional/Business Services, Leisure and Hospitality and Education and Health Services sectors.
- The D.C. Metro Area unemployment rate finished out 2018 at 2.9%, which is a decrease from the 3.4% unemployment recorded at the end of 2017. Unemployment in Washington DC and Northern Virginia submarkets have decreases across the board since 2017. Alexandria's unemployment rate was 2.1% at the end of 2018, which down from 2.7% at the end of 2017. Out of all major submarkets within the DC Metro Area, only Arlington County has a lower rate.
- The primary drivers of job growth in the D.C. region continue to be various service industries. The strongest job sector was the professional and business services sector, which added about 12,900 jobs to the region from December 2017 to December 2018.
- As of February 2019, the Washington Metro Area's economy have been expanding for 57 consecutive months ever since federal sequestration. Although it remains unclear as to whether another national economic recession is on the horizon, what is clear is that since sequestration the Washington Metro Area has undergone a significant employment shift away from the federal government and increasingly towards the private sector. Federal spending currently accounts for 31% of the Washington Metro Area's economic activity, down from 40% in 2010. The Stephen A. Fuller Institute predicts that federal spending will continue to decrease down to 25% within the next ten years.

Sources: Delta Associates, The Stephen S. Fuller Institute

Payroll Job Growth

Washington, D.C. Metro Area, 12 months ending December 2018



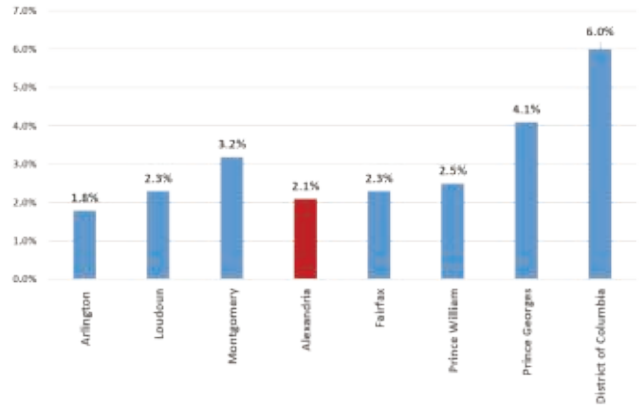
Sources: Delta Associates, BLS

ALEXANDRIA ECONOMIC INDICATORS

	End of Year 2018	End of Year 2017	Change
Unemployment Rate	2.1%	2.6%	-19.23%
Average Weekly Wages	$1,416	$1,389	1.94%
Job Count	91,967	94, 831	-3.02%

The unemployment rate in Alexandria made a marked decrease between the end of 2017 to the end of 2018. Alexandria has the second lowest unemployment rate in the Washington Metro Region, only behind Arlington County. Every tracked county in Northern Virginia and DC have posted an unemployment decrease since 2017, whereas unemployment has increased in suburban Maryland.

D.C. Metro Area Unemployment Rate



Source: Bureau of Labor Statistics

National and Regional Residential Trends and Forecasts

- Over 38,000 class A apartment units are slated to deliver within the next 36 months in the Washington Metro Area. Due to their average annual median income of $150,000, Amazon HQ2 workers are projected to focus upon class A apartment product for housing and further drive demand. It is projected that 78% of all regional housing demand for Amazon employees will fall within Northern Virginia. To help meet this demand, there are an estimated 5,300 multifamily units under development within National Landing, alongside additional planned development projects that could add another 2,800 units.
- In addition to increased apartment demand, Amazon's HQ2 workforce is also predicted to increase demand for residential condominiums, with 78% of that demand focused on Northern Virginia. By 2030, Delta Associates estimates there will be roughly 1,176 units of condo demand from HQ2 employees within Arlington county and 686 units of condo demand within Alexandria. Based on the current 36-month development pipeline, there are only 276 condo units planned in Arlington and 196 units planned in Alexandria.
- The median housing sales price in the Washington Metro Area has increased to $449,800 (as of November 2018), which is the highest November price recorded in the last decade.
- Over 9,800 apartment units delivered in the DC Metro Area in 2018.

Sources: Delta Associates, BrightMLS

Market-Rate Apartment Development Pipeline, Washington Metro Area, 2008-2018

Apartment vacancy rates increased from 4.1% at the end of 2017 to 4.2% at the end of 2018. Despite this increase, the region is still below the year-end 2018 national vacancy average of 4.8%.

Source: Delta Associates

ALEXANDRIA RESIDENTIAL MARKET

Alexandria Residential Indicators

	2018	2017	Change
Average home sale price	$565,560	$544,150	+ 4.41%
Average sale price, single family homes	$777,113	$776,072	+ 1.76%
Average sale price, condominiums	$347,680	$347,668	+ .91%
Total units sold	2,709	2,579	+ 4.15%
Average days on the market	53	42	- 4.44%

The Alexandria residential market continues to see steady sales growth for single family homes and condominiums.

Source: Delta Associates, Northern Virginia Association of Realtors

Rendering of The Denizen, 336-unit multifamily tower under construction at 2827 Telek Place, and owned by Rushmark. The project will also include 30,000 SF of retail.