

ALEXANDRIA

STATE OF THE MARKET

MID-YEAR 2020



**Alexandria
Economic
Development
Partnership**

Alexandria Economic
Development Partnership

625 N. Washington St., Ste. 400
Alexandria, Virginia 22314
(703) 739-3820

WWW.ALEXANDRIAECON.COM



Alexandria Economic
Development Partnership



@AlexandriaEcon



@AlexandriaEcon

Contact us for information on:

- Development opportunities
- Office/retail vacancies
- Alexandria/submarket statistics
- Questions on economic development topics



Rendering of the proposed first academic building of the Virginia Tech Innovation Campus - North Potomac Yard

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

Virginia Tech, Lionstone, and JBG Smith are progressing with building design and infrastructure approvals for **Phase I of North Potomac Yard**, the site of the closed Regal Theater. Development changes to the previous plan increase the amount of commercial space in the district, swapping residential for office. The site will now include four office buildings totaling 715,000 SF, two residential buildings totaling 365,500 SF, and 100,000+ SF of ground floor retail. Initial development will start later this fall for Virginia Tech's first campus building (300,000 SF) as well as a 205,000 SF office complex. The first phase was designed by **Virginia Tech** and **SmithGroup**, in partnership with

2

Inova HealthPlex will anchor the previously planned 13-acre mixed-use development in **Oakville Triangle**. Developed by **Stonebridge Associates**, it will include residential, retail and significant enhancements to the local Mount Jefferson Park. It is anticipated that the HealthPlex will be roughly 135,200 SF.

3

The **Potomac Yard Metro Station** is under construction for a targeted late 2022 delivery. Alexandria City Council approved \$50 million in funding from the Virginia Department of Rail and Public Transportation (DRPT) for an enhanced southwest access to the new station.

4

The **Institute for Defense Analyses (IDA)** is constructing their new 370,000 SF HQ location in **Potomac Yard South**. The lease of its existing building at 4850 Mark Center Drive to the City of Alexandria accelerated plans to start new construction. IDA is utilizing \$250 million in tax exempt bonds, facilitated by the City of Alexandria's Industrial Development Authority to secure the project.

5

In the Braddock neighborhood, **Avanti Holdings** received approval for a residential development at **701 N. Henry Street** which will replace Alexandria Lighting and Supply with a 94-unit residential complex with a small bay for retail. At least seven of the units will be dedicated affordable housing.

6

The Aspire, a six-story, age-restricted multifamily building developed by **Bonaventure** will be constructed in the Braddock neighborhood at **1112 First Street**. The project will include 133 multifamily units, including nine one-bedroom affordable units, for those 62 years of age and older as well as a 4,500 SF ground floor restaurant.

7

Winchester Homes is purchasing the southern parking lot (6+ acres) just south of **5001 Eisenhower Avenue**. The proposed project will consist of 138 townhomes. **Stonebridge Associates** previously purchased the long-vacant 600K SF office building in May 2019. Stonebridge hopes to develop a small retail center (9,000 SF on the north parking lot) to increase marketability of the office building.





Regional Office Forecast

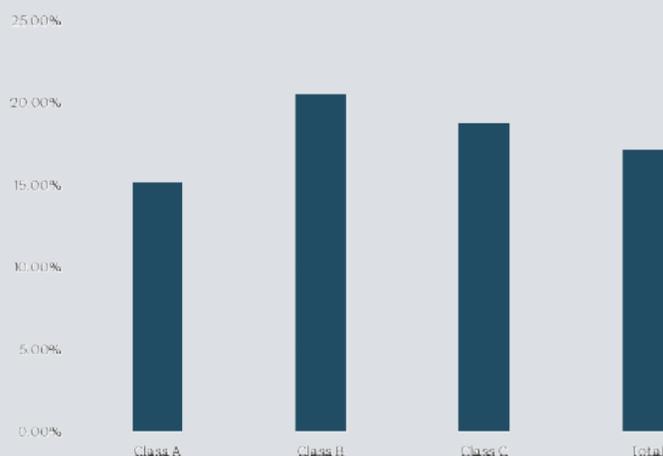
- Much like LEED made its way into real estate decisions in the late '90s, the real estate industry will need to respond to climate change measures as companies will increasingly look at sustainability standards as a way to measure building health and wellness when making real estate decisions about where to locate in the '20s.
- Health-and-wellness certification systems, building-resilience codes, net-zero carbon building frameworks and water efficiency standards will be challenging for the existing as-built market to compete with new office product. Companies are actively seeking evidence of property technologies (PropTech) that can ensure health and safety of their employees.
- Office trends pre-Covid19 included open plan layouts, hoteling or hot desks, amenity rich, collaboration spaces. Future trends include more virtual meetings, closed office environments, limited conference/collaboration spaces.
- Partial telework options are currently being considered for a slow return to the office. In some industry sectors, decisions are being made to eliminate the physical office all together as companies are experiencing greater efficiencies teleworking. However, businesses are contemplating a decrease in office footprints due to the success of teleworking are offset by an increase in demand for space (employee per square foot ratio) to

accommodate social distancing. Overall, it is anticipated that a 10% decrease in office footprint will be the norm, which poses a risk to existing office buildings that may not be able to adapt to new standards required for health and wellness of employees.

Source: JLL, Newmark

YTD 2020 Total Vacancy by Class

Northern Virginia



Source: AEDP

ALEXANDRIA OFFICE MARKET

Direct Vacancy Rate: 13.1%

This represents no change in vacancy from Q2 2019. Total Vacancy (includes sublets) was 13.7%, representing a modest (.2%) increase over last year. It is anticipated that vacancy and sublease availability could rise in the near term as firms reevaluate their real estate office needs post-Covid. In the interim, companies are opting for short term solutions or renewals until the office market can be assessed.

Largest Lease Transaction: City of Alexandria, 215,000 SF

The largest lease transaction in the City by mid-year 2020 was a lease signed by the City for 215,000 sf at 4850 Mark Center, who will consolidate the Department of Community and Human Services and the Alexandria Health Department into a single location that is more fitting for collaboration and better serves the public. The City recently exercised an option to purchase the building for \$58.7M, effective on its projected occupancy date of Feb. 19, 2023.

Source: Costar

YTD Positive Absorption: 114,626 SF

Absorption for the first half of 2020 was higher than average and is largely attributable to the completion of a City of Alexandria consolidation at 4850 Mark Center Drive for 215,000 SF. This building is the former location of the Institute for Defense Analyses (IDA) that is under construction for 370,000 SF build-to-suit in the South Potomac Yard submarket.

Alexandria Rental Rates - \$33.88/SF

Average rental rates have fallen slightly, mostly due to several larger lease transactions occurring in non-metro locations. Markets such as Carlyle continue to average rents in the mid \$40s with large tenant improvement packages (\$80-\$100/sf) and rent concessions averaging 12+ months free rent.



4850 Mark Center Drive, where City of Alexandria's Department of Community and Human Services and the Alexandria Health Department plans to move into roughly 215,000 SF of office space.



National and Regional Retail Trends and Forecasts

- COVID-19 has had a dramatic impact on both the national and regional retail scene, with many stores closing or entering Chapter 11 bankruptcy. The Paycheck Protection Program (PPP) helped prevent the entire retail scene from collapsing after shutdown orders imposed by state governments to control the spread of the virus. However, more retail businesses are very likely to close in the months ahead because of the lack of consumer spending and uncertainty of when the COVID-19 crisis will end.
- As of 1Q2020, national retail was strong, recording positive 3.4 million SF of net absorption across all retail sectors. However, with stay at home orders in effect across the nation as of 2Q2020, retail net absorption will trend downward through the remainder of 2020. Only “Main Street” retail had positive 2Q2020 net absorption, while neighborhood, community and shopping center segments posted a negative 148,000 SF, according to CBRE.
- Recent research conducted by Newmark Knight Frank determined that brick-and-mortar retail businesses have been the most significantly impacted by the COVID-19 crisis. E-commerce and essential retail (ex. grocery stores) have largely filled the void of consumer spending. The most impacted in the long term are the retail markets of Old Town Alexandria, Barracks Row, and Bethesda with their clustering of independent retail stores. Areas like Georgetown, National Harbor, and Tysons will experience shorter term economic fallout due to the nature of fluid retail tenants.

Regional & National Brands Recently Opened:

- Sephora
- DC Rowing School
- Jeni’s Ice Cream
- E60 Fitness
- Japanese Steakhouse
- Club Pilates
- Code Ninjas

Regional & National Brands Coming Soon to Alexandria:

- Patagonia
- Sisters Thai
- Silver Diner
- Loyal Companion
- Fat Face
- Pho Nam
- CorePower Yoga

Sources: CBRE, Newmark

ALEXANDRIA RETAIL OPENINGS & CLOSINGS

LOCAL BRANDS RECENTLY OPENED:

- Whiskey & Oyster
- Lost Boy Cider
- Chop Shop Taco
- Boxwood
- Seedling Collective
- Inq Tattoo Spa
- The Garden (Del Ray Beer Garden)
- Riverside Taco Company
- Urbano 116
- Hops N’ Shine

LOCAL BRANDS COMING SOON:

- M-O-N-T-E
- The Company of Books
- Old Hat Gastro Pub
- Hank & Mitzi’s Italian Kitchen
- Hinata Sushi Bar & Grill
- St. Elmo’s Coffee Pub (Second location – Old Town North)
- Barca, Waterfront
- The Mill
- Del Ray Boccato
- Brewski’s Barkhaus

CLOSURES:

- Pier 1
- Shoppers Food & Pharmacy
- Walgreens – Old Town
- Bon Vivant Cafe + Farm Market
- Charlie’s on the Ave
- La Tasca Spanish Tapas
- Blüprint Chocolatiers
- Nectar Coffee and Wine
- Sears
- Papyrus
- GNC
- The Christmas Attic



Interior of Hops N Shine, new local restaurant and craft beer garden, located at 3410 Mt. Vernon Ave. in the Arlandria neighborhood.



ECONOMIC TRENDS IN THE D.C. REGION

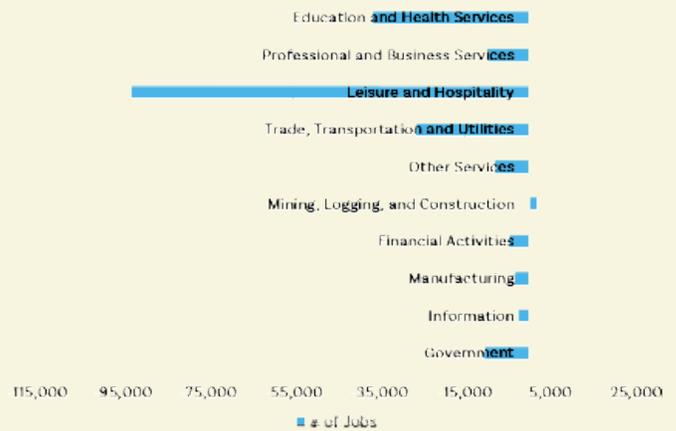
- According to the Bureau of Economic Analysis, the Washington Metro Region lost 215,800 nonfarm jobs in the twelve-month period ending in June 2020. Payroll job decline was led by the Leisure/Hospitality and Education/Health Services sectors.
- The Washington Metro Region had 3.0% unemployment rate in May 2019, which increased sharply to 9.0% in May 2020 (6% increase). The City of Alexandria's May 2019 unemployment rate was 2%, which increased to 8.7% (6.7% increase) for May 2020.
- The primary drivers of job loss in the Washington Metro Region continues to be the loss of business and activity in the service industries. The leisure and hospitality services sector was most impacted, losing about 112,100 jobs in the region from June 2019 to July 2020.
- The federal government has modestly increased its employment footprint in the Washington Metro Area, whereas state and municipal governments have downsized during 2020. The federal government increased by 3,700 jobs from April 2019 to April 2020, and state and local governments lost 13,600 jobs during the same period.
- According to the Fuller Institute, the Washington Metro Area's economy has experienced sharp economic contraction starting in mid-March 2020, due primarily to the COVID-19 economic shutdown. The region's economy has experienced decline in employment, consumer confidence (down 59.5%) and domestic airline passenger volume (down 95.5%). This economic contraction will slow down with adjustment to the "new normal" throughout the region, though it depends on what reopens and how economic recovery takes place through COVID-19 crisis.
- Due to zoning and permitting changes at both the City and Commonwealth level, Alexandria's retail businesses have utilized the following, showing adaptability,

- partnership, tech applications and social media activism.
- Delivery/curbside pick-up options/pick up windows
- Free delivery and return options
- Touchless payment systems, online order and prepay option
- Distance dining and increased outdoor dining options – street closures, parklet programs, beer gardens
- Temporary small business zoning and code changes, parking moratoriums, expedited approvals allowing for flexibility, creativity and marketability to encourage sales
- Adopting new ABC licensing rules (to-go options) to help sales

Sources: BLS, The Stephen S. Fuller Institute

Payroll Job Growth

Washington, D.C. Metro Area, 6 months ending June 2020



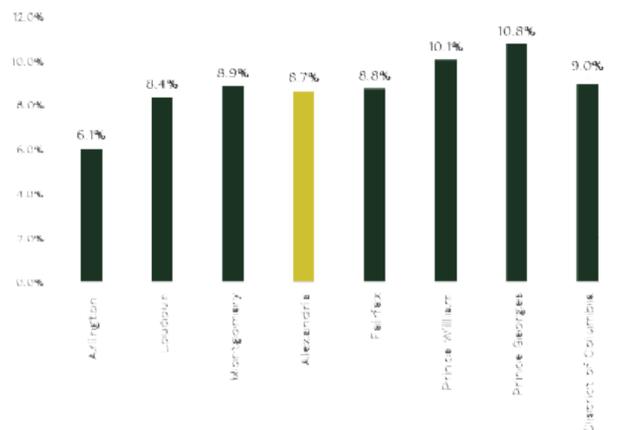
Source: Bureau of Labor Statistics

ALEXANDRIA ECONOMIC INDICATORS

	Mid-Year 2020	Mid-Year 2019	Change
Unemployment Rate	8.7%	2.0%	6.7%
Average Weekly Wages	\$1,494	\$1,458	0.02%
Job Count	100,599	101,979	-0.01%

The unemployment rate in Alexandria has sharply increased between May 2019 to May 2020. This was driven from massive national economic shutdowns and recession caused by COVID-19. Alexandria has the third lowest unemployment rate in the Washington Metro Region, only behind Arlington and Loudoun Counties. Unemployment has increased across all of the Washington Metro Region and will likely remain fluid throughout the remainder of year.

D.C. Metro Area Unemployment Rate



Source: Bureau of Labor Statistics



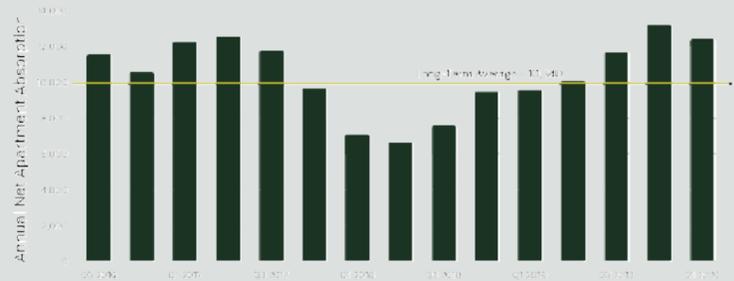
National and Regional Residential Trends and Forecasts

- Nationally, multifamily property continues to remain a stable investment for real estate investors. According to Newmark Knight Frank, 2Q 2020 recorded \$9.5 billion of sales volume, a 20.2% decrease from 2Q 2019. This is driven by COVID-19 limiting deal listings and greatly reduced the ability for groups to travel and tour properties.
- The demand for Class A and B apartment units continues to remain strong throughout the Washington DC Metro Area, with 4Q 2019 being the highest quarter recording over 13,147 units absorbed. There is strong possibility that there will be decline in unit absorption from economic fall out caused by COVID-19 and mass layoffs that have occurred across the Metro Washington area. This will be seen towards the end of the calendar year and into 2021.
- According to Delta Associates, the 36-month development pipeline for Class A apartment projects within the DC Metro Area is projected to remain highly active, with 39,495 additional units projected to deliver. This is the tenth year in a row the development pipeline has been above 30,000 units.

Sources: Delta Associates, Newmark

Annual Net Absorption - Class A& B Apartment Units

Washington Metro Region



Source: Delta Associates

Net absorption for Class A and B apartments within the Washington Metro Region has experienced a slight decline in Q1 2020, though has consistently exceeded the long-term quarterly average of 10,340 units absorbed over last four years.

ALEXANDRIA RESIDENTIAL MARKET

Alexandria Residential Indicators

	Mid-2020	Mid-2019	Change
Average home sale price	\$618,352	\$581,357	+6.36%
Average sale price, 1-2 bedroom homes	\$703,816	\$571,775	+23.09%
Average sale price, condominiums	\$378,397	\$360,268	+5.03%
Total units sold	871	1,029	-15.35%
Average days on the market	17	33	-48.48%

The Alexandria residential market showed an overall increase in average home sale price and condo sale price by mid-year 2020, but a decrease in the total number of units sold compared to mid-2019. This lack of supply is due largely from the impacts of COVID-19 “Stay At Home” orders that limit residential movement throughout the United States. It is notable that there was a dramatic decrease in the number of days on the market, with May 2020 having an average of only 15 days on market.



Rendering of Braddock Gateway Phase II & III, a 628-unit multi-apartment complex at 1001-1087 N. Fayette Street under construction and owned by Carmel Partners. The project also includes 10,850 SF of retail.

Source: Northern Virginia Association of Realtors