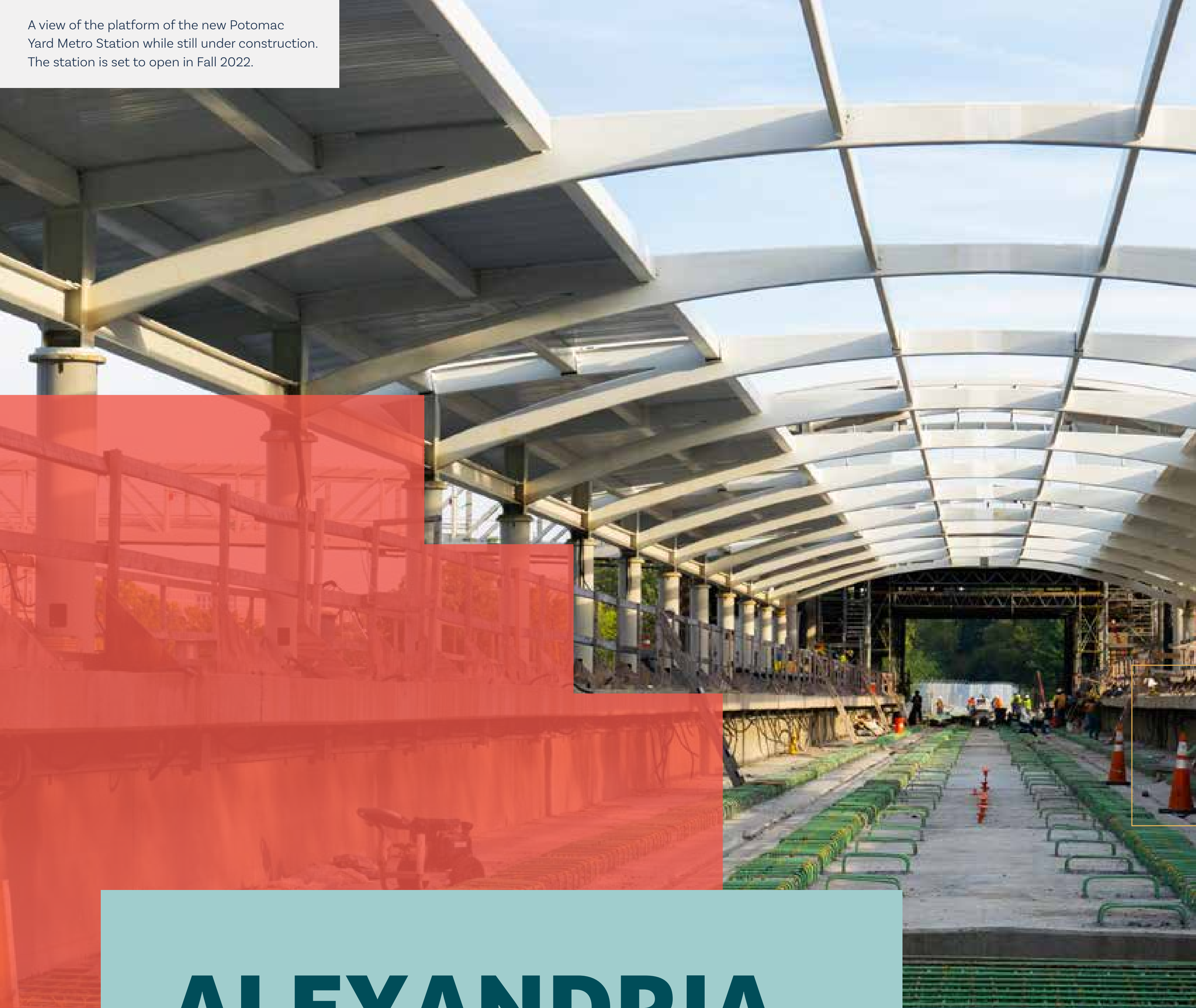
A view of the platform of the new Potomac Yard Metro Station while still under construction. The station is set to open in Fall 2022.



ALEXANDRIA STATE OF THE MARKET

2021 YEAR-END REPORT

DEVELOPMENT UPDATE

DEVELOPMENT IN ALEXANDRIA

1

Institute for Defense Analysis
POTOMAC YARD

Delivery of 370,000-square-foot office headquarters building in Potomac Yard. IDA leased its office building in the West End at 4850 Mark Center Drive to the City of Alexandria.

2

Oakville Triangle
POTOMAC YARD

Stonebridge broke ground on the $300 million redevelopment project, which includes a 93,000-square-foot Inova HealthPlex and a 324-unit apartment building with 40,000 square feet of retail, a 235-unit apartment building with 15,000 square feet of retail, and 84 townhomes to be constructed by Tri Pointe, which bought a 3.25-acre site. The new homes would range in size from 2,100 to 3,100 square feet.

3

Braddock West Development
OLD TOWN

The new 180-unit multifamily building across West Street from the Braddock Road Metro station will include 14 affordable units and retail space at the street level.

4

The Heritage Redevelopment
OLD TOWN

To preserve and create additional affordable housing, the proposed 750-unit redevelopment would keep 140 deeply affordable HUD units currently on site and create an additional 55 affordable units.

5

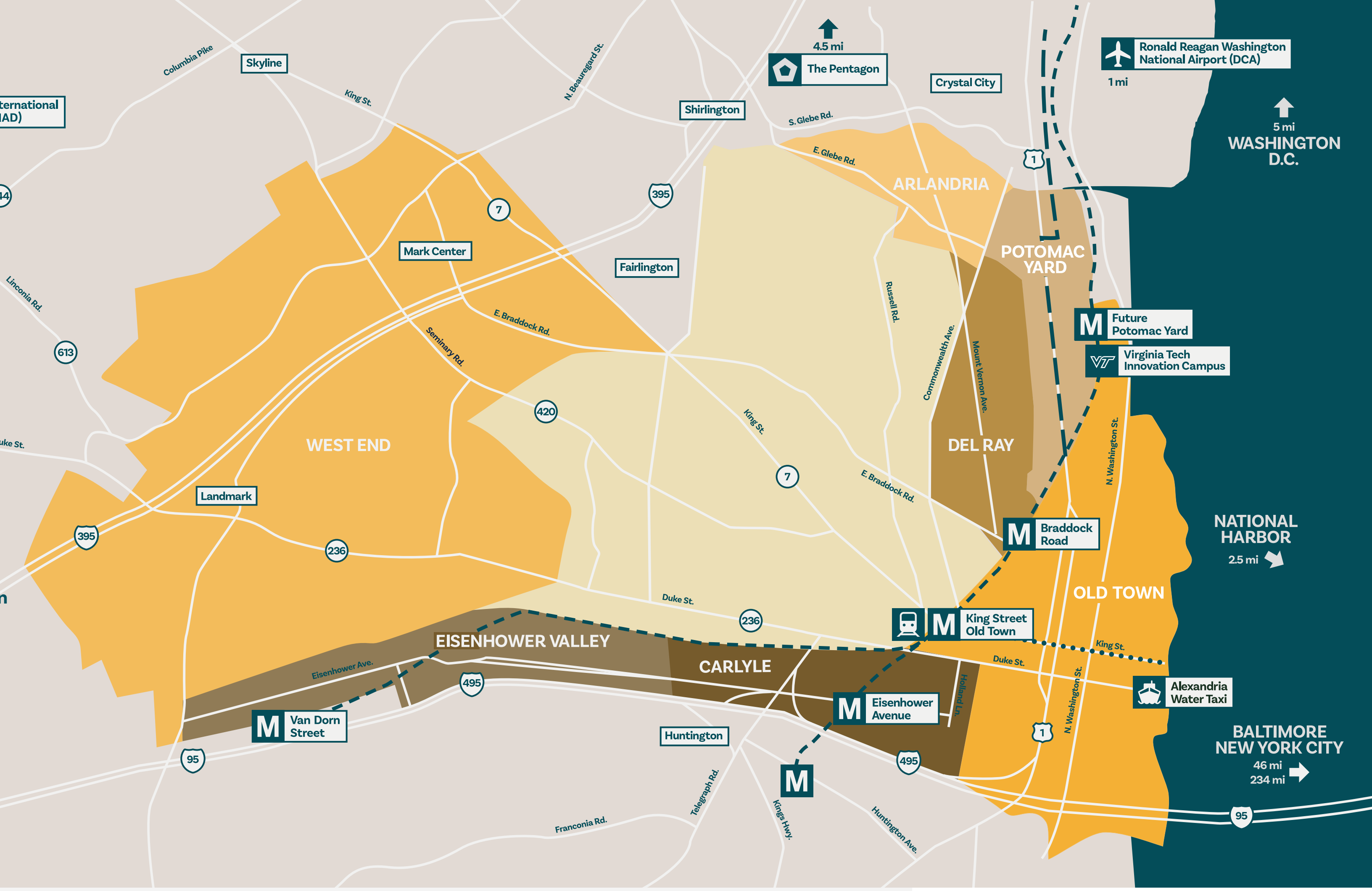
Carlyle Plaza Two
OLD TOWN

Approval for residential uses in all buildings, ground floor retail along Eisenhower Avenue, and several changes to the site plan and open space design for the construction of four residential towers, including 1,378,170 gross square feet of development, 1,414 residential units, up to 15,000 square feet of ground floor retail, and more than five acres of integrated open space.

6

AHDC Seminary Road
EISENHOWER VALLEY

31 townhomes and five condominium units for sale and redevelopment of Sheltered Homes of Alexandria Community. As AHDC's first homeownership endeavor, this development will create two- and three- bedroom homes for first-time buyers making up to 80% of the area's median household income (AMI), which in 2021 was roughly $103,000 per year.



WHAT'S NEXT?

7

AHDC Mt. Vernon and Glebe Road

ARLANDRIA-CHIRILAGUA

The 475-unit, 100% affordable housing community and neighborhood-serving commercial development at Mt. Vernon and Glebe will include over 100 apartments for those earning up to 40% AMI (about $52,000 for a family of four in 2021). In addition, more than 200 units will serve families making up to 60% AMI, and over 100 units will support families at 80% AMI. AHDC also plans to include more than 50 condominium units for affordable homeownership and 38,000 SF of commercial space.

8

TideLock

OLD TOWN

The three brick buildings that served as the former headquarters of the American Physical Therapy Association will be converted and expanded into 240,000 square feet of residential, retail, and arts space. Two of the buildings will be combined to offer 169 rental units, 11 of which will be affordable units. The third building will contain 65 condominium units, including four affordable units.

2021 IN REVIEW

Development Applications

2021 **16**

2020 **32**

2019 **26**

Square Feet of Approved Development

2021 **6.6 million SF**

2020 **2.1 million SF**

2019 **6.2 million SF**

Community Contribution

2021 **$32.5 million**, primarily to affordable housing, open space, and public art.

2022's development goals will focus on **affordable housing** and **green building,** as well as equity and inclusion.

2022's development goals will focus on affordable housing and green building, as well as equity and inclusion.

Canal Center Plaza sold for $170.6 million in 2021.

OFFICE UPDATE

2021 OFFICE TRENDS

After significant declines in office demand at the beginning of the pandemic, interest in office space accelerated in the middle of 2021. This led to significant increases in office leasing in Q2 and Q3. However, uncertainty about the future of the workplace has led some businesses to be cautious about long-term commitments. For those organizations, “flexible office” is a short-term—and potentially long-term—solution to help rationalize corporate real estate portfolios until the “new normal” of office becomes clear.

Many workers who have worked remotely or work from home have noted the benefits of reduced commute times and greater ability to focus. However, growing evidence suggests that working from home makes it harder to divide one’s work from home life. Flexible office provides a “third place” for workers who want to be productive but want an alternative to their home. The commercial real estate industry is taking a more consultative approach to workspace post-pandemic. More thought will be given to how the space operates versus just the terms of a lease.

Prior to the pandemic, office users were exploring a strategy mix of core and flexible office to meet workplace needs. The most aggressive estimates were looking at a 70/30 split, with 70% of space devoted to main corporate offices with traditional, longer-term leases and the remaining 30% leveraging flexible office space. Post-pandemic, some users may alter that ratio and end up somewhere like 60/40 or even 50/50.

Office build-outs and move-ins can take twice as long to complete these days, courtesy of pandemic-induced supply-chain disruptions.

Often delays in furniture shipments or a shortage in construction materials required to finish a build-out can cost a project in time. Office leases are now being negotiated to ensure a tenant will not pay double rent by allowing enough time between an office lease commencement and the rent commencement date to accommodate delays.

Negotiating with a landlord for additional free rent is frequently being pursued as well. Before the pandemic, it was typical for companies to start looking for space 10 to 15 months ahead of a lease expiration. Today, it's typically at least two years.

Office tenants are redesigning spaces to be attractive enough to bring people back to the office. Some 20,000-square-foot tenants, for example, are spending $1 million or more on new furniture systems, collaborative workspaces, and privacy features such as soundproof phone rooms.

Close to 720,000 square feet of office buildings (27 properties) are currently on the market for sale, primarily in Old Town as associations look to take advantage of conversion potential.

Sources: Cushman, Transwestern, CBRE

↔ Vacancy
↓ Net Absorption
↔ Rental Rates

OFFICE UPDATE

NET ABSORPTION -255,313 SF

The Northern Virginia office market strengthened in the fourth quarter of 2021 with positive 458,000 SF of net absorption. This marks the first quarter of positive net absorption since the second quarter of 2020. Positive net absorption should continue into 2022 and beyond as the office space demand increases with many companies finally returning to work.

Although Alexandria posted a negative 255,313 square feet of annual net absorption, the last half of the year showed promise with positive absorption totaling 112,142 square feet. We expect absorption to slowly trend upward throughout 2022.

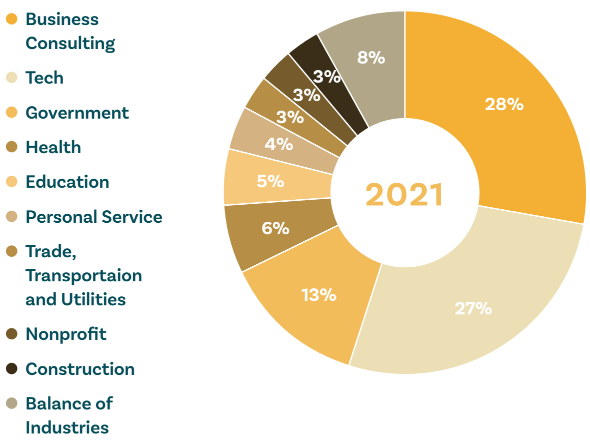
The Institute for Defense Analysis' January delivery of its 370,000-square-foot headquarters in Potomac Yard added net new absorption, which should improve vacancy in the first quarter of 2022.

DIRECT VACANCY RATE 15.2%

The direct vacancy rate for Northern Virginia office space declined 40 basis points to 15.9%, making the fourth quarter the first in 2021 to experience a vacancy rate below 16%. The rate could begin a sustained decrease as tenants return to the market; however, large-scale construction projects set to deliver in early 2022 with low pre-leasing levels could dampen this momentum.

Alexandria recorded a similar vacancy rate of 15.2%. Tenants giving back space to the market is slowly being offset by office leasing momentum that is expected to continue throughout the year. Consider 2022 a stabilization year as some office assets are shed and converted to residential, while other office users continue to resize their requirements to accommodate hybrid telework policies and flexible use of office space going forward.

BUSINESS CONSULTING, TECH, AND GOVERNMENT DOMINATED 2021 LEASING ACTIVITY



Consulting, tech, and government tend to have a longer lead time when negotiating leases. For most of 2021, new leasing activity was scarce.

RENTAL RATE $34.42/SF

Northern Virginia rental rates were unchanged during the fourth quarter, remaining at $33.03 per square foot. However, rates are down 1.1% year-over-year. Asking rental rates may become stagnant in the early portion of 2022 as tenants return to the office and overall office space demand increases, but rates could begin to rise as vacancy rates lower and the market tightens.

Alexandria asking rents continue to average slightly above market at $34.42 per square foot; however, concessions continue to rise with rents. Rising construction costs and construction material delays have prompted office users to begin their searches sooner and to ask for more free rent to offset potential delays in space delivery.

Sources: Cushman, Transwestern, CBRE

↑ Vacancy
↑ Net Absorption
↓ Asking Rents

OFFICE UPDATE

NOTABLE LEASE TRANSACTIONS

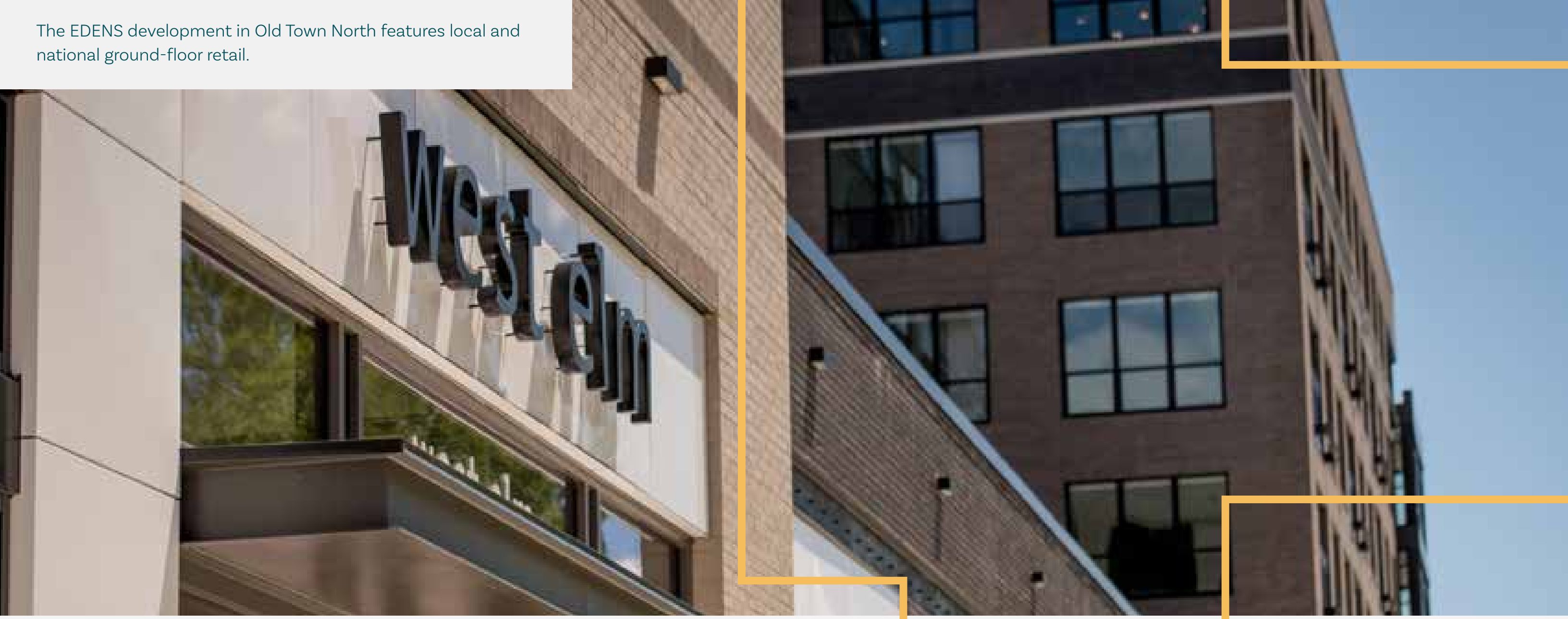
Cross Screen Media	127 S. Peyton Street	10,965 SF
IAP Worldwide Services	44 Canal Center Plaza	22,978 SF
Virginia Hospital Center	2800 S. Shirlington	18,184 SF
Alliance Consulting Group	King Street Exchange	16,500 SF

NOTABLE OFFICE SALES

Madison Place	500 Montgomery Ave.	$29,250,000 ($273/SF)	Asana Partners
Montgomery Center	Madison/Royal/Fairfax/ Montgomery Streets	$35,000,000 ($354/SF)	Carr Properties
Canal Center Plaza	Canal Center	$170,625,000 ($315/SF)	Opal Holdings
515 King Street	515 King Street	$11,000,000 ($147.01/SF)	Brookfield Asset Management, Inc.
Courthouse Square	510 King Street	$26,000,000 ($216/SF)	Brookfield Asset Management, Inc.
Harbor Center Office	211 N. Union Street	$14,000,000 ($279/SF)	Capital Investment Advisors, LLC

Sources: Cushman, Transwestern, CBRE

The EDENS development in Old Town North features local and national ground-floor retail.



RETAIL UPDATE

NATIONAL AND REGIONAL RETAIL TRENDS AND FORECASTS

The pandemic accelerated changes in the ways shoppers interact in the digital and physical worlds. Retailers and brands reacted quickly as shoppers embraced new outlets and options. Now, retailers and brands are moving to scale as they adapt to continued shifts and increased shopper expectations.

To scale efficiently and effectively, brands and retailers need the foundation that gives them access, agility, and intelligence to meet shoppers where they are, redefine the store as a critical touchpoint, and drive loyalty through personalized engagement. Many are upgrading their technology, increasing access to data, and investing in new channels for browsing, buying, and service to keep pace with and stay ahead of change.

Shoppers were embracing a range of digital channels to make purchases during the pandemic. Between 2019 and 2021, three types of digital channels grew transaction share by nearly 40%: brand websites and apps, retailer websites and apps, and online marketplaces. Emerging channels like delivery apps and social media and messaging platforms became serious market players with their share of transactions increasing by more than 20%.

Shoppers began to expect "shopping at the edge," where they start and even complete the shopping experience outside of a brand or retailer's physical or digital space. Customers expect brands to meet them on their terms in the places they regularly engage, including social media, messaging apps, and live-streaming services.

Physical stores still have appeal, but their role is evolving to the shopper's needs. Although transactions between 2019 and 2021 have declined in brick-and-mortar stores by 27%, over the next two years stores are expected to rebound slightly with about 2% in growth. Shoppers will still seek physical stores to touch and feel the merchandise, get merchandise immediately, avoid shipping fees, and take advantage of in-store discounts.

Loyalty is the new brand differentiator, with shoppers seeking incentives like free shipping, simple and/or free returns, and loyalty or rewards programs. When it comes to the top traits of shoppers' favorite brands, loyalty programs top the list. Shoppers also seek customized engagements that are genuine and meet them on their terms (i.e. exclusive shopping experiences, early access to products).

Source: Retail Touchpoints

RECENT OPENINGS

- 1799 Prime Steak & Seafood
- Aslin Coffee
- Athleta
- Beeliner Diner
- B.E.S.T. Gift Shop
- Bob & Edith's Diner
- Bonchon
- Chewish Deli
- Cortado Café
- ESP Tea & Coffee
- Ferman Bar & Grill
- Foxtrot
- Fresh Baguette
- Hank's Oyster Bar
- Happy Cat Hotel & Spa
- Happy Place
- Intertribal Creatives
- Le Vintage Wine Shop
- Mae's Market and Café
- Manse
- Matt & Tony's All Day Kitchen + Bar
- Old Hat Bar & Kitchen
- Pluma Cafe & Wine Bar
- Simon Pearce
- Sprig's Coffee & Pastry Cafe
- Stracci
- Sur La Table
- Turkish Coffee Lady

COMING SOON

- ALX Dog Walk
- Bad Ass Coffee
- Del Ray Cigars & More
- Electric Café
- Evolution Home
- Frank Pepe Pizzeria Napoletana
- Hangry Joe's Chicken
- Jersey Mike's
- Lady Camellia
- Mudhouse Coffee Roasters
- Roho Ethiopian Restaurant
- Saltbox
- Snouts & Stouts
- St. Elmo's Coffee
- Wegmans

CLOSINGS

- Alley Cat
- Atlantis Restaurant
- Banana Republic
- Big Lots
- Dunya Banquet Hall
- Gap Outlet
- LaTasca
- Kiskadee
- Periwinkle
- Silver Parrot

Source: Retail Touchpoints

In 2021, City Council voted to permanently close the 100 block of King Street to vehicular traffic to create a pedestrian plaza with outdoor dining.

ECONOMIC UPDATE

ECONOMIC TRENDS IN THE D.C. REGION

The U.S. economy added 467,000 jobs in January 2022, according to the U.S. Bureau of Labor Statistics, more than triple what was expected.

The unemployment rate ticked up from 3.9% to 4.0%, still significantly below January 2021 when the unemployment rate was 6.3%.

Leisure and hospitality employment expanded by 151,000 jobs in January 2022, including 108,000 jobs added in food and beverage services. Retail trade employment also jumped, adding 61,000 jobs.

January saw the transportation and warehousing sector add 54,000 jobs, pushing the industry 542,000 jobs above where it was in February 2020. Other commercial real estate-related industries, including manufacturing and construction, saw little change over the month.

"The employment report shows massive jobs growth beating expectations. The big take away is that the economy is strong. And while millions of people may have been out sick at some point in January, most didn't lose their job or go an entire pay period without pay," says University of Michigan political science and economics professor Betsey Stevenson.

"The US economy ADDED 467,000 jobs in January despite the Omicron wave. This is way higher than expected. Big gains in leisure and hospitality, which added 151,000 in January. The unemployment rate is 4%, slightly up from December, but for good reasons [i.e.] more searching," tweeted Heather Long, *Washington Post* economics columnist.

The Northern Virginia economy should gradually improve through 2022 if COVID cases are controlled. The Delta variant that paused the market mid-summer and into fall 2021 has a new competitor in the Omicron variant. Although recent surveys note most employers are returning to the office at the start of 2022, some have once again paused this decision. It will take most of 2022 to recover given the sizable amount of market oversupply mixed with tenants rethinking their office strategy in a post-COVID world. The market remains in tenant's favor in most submarkets, as landlords offer generous concession packages to keep and attract tenants. However, Northern Virginia is a front runner to recover quickly given its tech and contractor tenant base.

Job growth in the Washington Region is up 128,800 jobs year-over-year ending in November 2021.

Source: Transwestern

“The employment report shows massive jobs growth beating expectations. The big take away is that the economy is strong.”

—Betsey Stevenson, University of Michigan economist

Residential growth in Potomac Yard remains strong with several buildings already under construction and more in the pipeline. The Virgina Teach Innovation Campus broke ground in 2021, just north of here.

RESIDENTIAL UPDATE

NATIONAL AND REGIONAL RESIDENTIAL FORECAST

Across Northern Virginia, the housing market saw a continuous decline in housing inventory. As of January 2022, there were just 855 active listings in the entire NOVA region, a 46% decline from January 2021 (though some of this decline is likely due to a variability in seasonal listing activity).

While total inventory has been decreasing, **affordable inventory** has all but disappeared, and the issue of workforce housing has become even more critical.

As the region's economy continued to grow in 2021, **housing prices grew** as well. Residents looking for detached single-family homes will find that 90% of active listings are over $1 million.

As millennial households began forming families, they were initially helped by lower mortgage rates. Those rates began increasing this year, and this economically vital group of young professionals are finding homeownership increasingly out of reach.

Further impacting potential first-time homeowners was the rental market, which reported a **14.8% increase in rental rates last year**, proving to be even more problematic for lower-income workers.

Analysts suggest the new model of **hybrid working** as a primary reason for housing growth. Some residents are considering moving into larger homes with dedicated office space or leaving the region altogether.

With a growing economy, regional employers are trying to meet labor demand by hiring more of these **remote workers** who have no intention of moving to this region. Employers are also physically relocating offices or creating new **satellite offices** in locations closer to their employee base.

Time will tell how remote work will play out in various labor markets; however, if workforce housing options don't meet the needs and affordability characteristics of our emerging employment base, the NOVA region's ability to perform at its economic peak will become constrained.

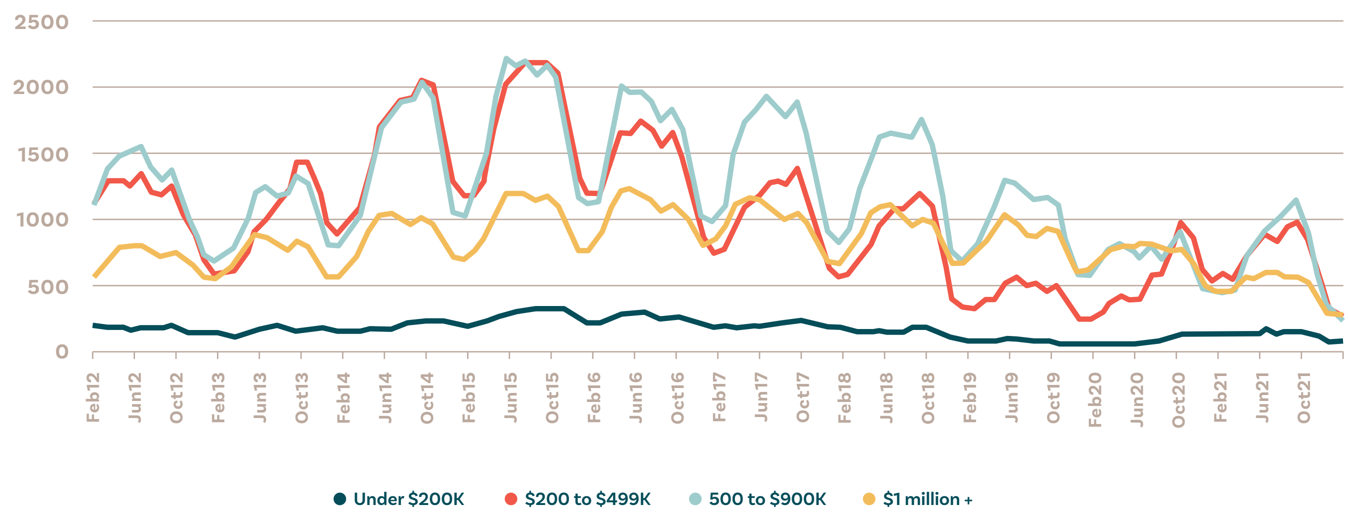
In short, the continued housing price growth may impact the region's economic competitiveness as housing affordability limits available workforce housing options.

Sources: Northern Virginia Association of Realtors, Delta Associates

↑ Units Sold
↔ Avg. Days on Market
↑ Median Sales Price

RESIDENTIAL UPDATE

Active Listings in the NOVA Region by Listing Price



Active Listings in the NOVA Region by Housing type and Listing Price (JANUARY 2022)

	Detached	Attached/TH	Condo	TOTAL
Under $200k	5	0	63	**68**
$200k to $499k	5	23	233	**261**
$500 to $999k	76	48	124	**248**
$1 million or more	213	18	47	**278**
TOTAL	**299**	**89**	**467**	**855**

Source: Bright MLS, GMU Center for Regional Analysis

Alexandria Economic Development Partnership

703-739-3820 | info@alexandriaecon.org | 601 Prince St., Alexandria, VA 22314
Alexandria Economic Development Partnership | @alexandriaecon | @alexandriaecon

alexandriaecon.org

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.