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. Each report features a spotlight section that will go into more depth on a particular topic. 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.
Development Trends

- As the Waterfront plan moves forward, developers have turned their eyes to the Old Town North area to identify additional opportunities for new projects and redevelopment. Please see our spotlight piece at the end of this report for more information on the exciting changes in the area.
- Potomac Yard is positioned to attract several office build-to-suit projects pending the announcement of a metro location and timeline, expected to be confirmed in early 2015.
- Strong residential development in the City has reached critical mass and has put many neighborhoods on the radar as desirable locations for retail/restaurant and other amenities.

Noteworthy Development Projects

1. EYA and JBG have submitted concept plans for Robinson Terminal South to the City’s Planning & Zoning department, which includes luxury condominiums, townhomes, a waterfront restaurant, and a new boat pier.

2. The redevelopment of the Mount Vernon Village Center in Arlandria is planned to break ground later this year, following engineering review. Upon completion, the site will have 478 residential units, retail to include MOM’s, and underground parking.

3. Service on the Route 1 Bus Rapid Transit (BRT) began in August and connects the Potomac Yard corridor with the Braddock Road and Pentagon City Metro Stations. This route features distinct blue “Metroway” buses and is the first BRT in the region. The Arlington portion of the route will be completed in coming years.

4. The Oakville Triangle Advisory Group is examining a 13-acre warehouse site owned by The Blackstone Group on the west side of Route 1 at Swann Avenue. Potential redevelopment uses could include residential, retail, and hospitality.

5. JBG has submitted its first concept plans for the Beauregard Town Center, located at North Beauregard Street and Reading Avenue. The proposed plan includes residential, retail, and parking. Construction on this phase of the project will begin in late 2015 at the earliest.

6. WMATA has announced plans to release an RFP for joint development of the Braddock Road Metro Station in 2015. City plans allow office, hotel, and retail uses on the site and will work with WMATA throughout the planning process.

7. City Council approved a plan to build two five-story multifamily apartment buildings in south Old Town. The project, known as Hunting Terrace, will have 443 units and underground parking. Foulger-Pratt, the developer, hopes to break ground next year.

8. Wood Partners has begun construction on Station 650, a mixed-use project with 183 luxury apartment units and 2,500 sf of retail. The building will include eight affordable units and is anticipated to be open in early 2015.

Recently Completed Projects

- 2461 Eisenhower (O/Rt)
- Bell Del Ray (Rs/Rt)
- The Oronoco (Rs)
- The Belle Pre (Rs/Rt)
- Modera Tempo (Rs/Rt)
- The Alric (Rs)
- The Kingsley (Rs/Rt)
- Del Ray Tower (Rs/Rt)
- Safeway at Bradlee Center (Rt)
- Modera Tempo (Rs/Rt)
- The Alric (Rs)

Expected 2014 Deliveries

- The Kingsley (Rs/Rt)
- Del Ray Tower (Rs/Rt)
- Safeway at Bradlee Center (Rt)
- Modera Tempo (Rs/Rt)
- The Alric (Rs)
- 2461 Eisenhower (O/Rt)

For more development updates, please visit: www.AlexandriaIdeal.com/real-estate/development-search
Regional Office Trends and Forecasts

- Regionally, Northern Virginia will continue to see vacancies outpace occupancies as companies maximize workplace efficiencies and continue to lease less space.
- An improving economy combined with generous incentive packages from landlords will spur leasing activity in the region, even as absorption rates continue to lag.
- Although the 2014 budget deal restored some funding for government contracts, prospectuses for federal government tenants still call for significant reductions in usable square feet per person. The new standard is 114 sf per person, compared to 190 sf per person in 2010.
- Several GSA requirements have recently been released, and there are other large tenants looking for incentives to relocate between states. Northern VA GSA prospectuses include TSA, two DOJ sites, and the DHS’s cybersecurity office.

ALEXANDRIA OFFICE MARKET

- As of Q2 2014, the vacancy rate was 17.3%, a decrease of 0.6% over vacancy at mid-year 2013.
- Vacancy rates in Old Town and Carlyle are lower than many other submarkets across the region (see below), reflecting their ideal locations near public transit and other amenities.

Comparison of Class A Office Vacancy Rates for Submarkets with 4.0M - 6.0M sf Total RBA

Source: CoStar Mid-Year 2014 Report

Overall, the Class A vacancy rate in Alexandria is fairly low, which indicates an opportunity for additional Class A development in metro-centric submarkets in the City.
THE CHANGING FACE OF OFFICE SPACE

As technology changes and new workers join the workforce, companies are beginning to rethink how they treat office space. Historically, companies in the market for office space would begin the process by examining their existing office configurations and determining their future expansion needs. Many companies saw lowering real estate costs as the primary metric for a successful office move or expansion.

Today, companies are utilizing a more thoughtful strategy for determining their office requirements. Companies are collecting information from their employees regarding their work habits, then designing a balanced mix of workspaces that better align with how their employees actually work.

**What's Driving this Shift?**

Recent studies on employee work practices indicate that, when employees are in the office, they tend to spend less than 50% of their work day at their desk. Employees typically spend about half of their time working independently and half of their time working with others.

Given these increasing trends towards collaboration, traditional hard-wall office and cubicle layouts are being replaced with a variety of work spaces that are more in line with how employees actually work and are most productive.

Employers are also making changes in their office environments to attract young talent. Millennials have demonstrated that they have different metrics for job satisfaction, and flexibility is often at the top of this list. In order to attract MBAs and engineers, for example, more traditional industries are following the lead of tech startups and adapting their work environments.

**Number of Workers per 10K sf of Office Space**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Workers</th>
<th>10K sf of Office Space</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>225</td>
<td>44.4</td>
</tr>
<tr>
<td>2012</td>
<td>176</td>
<td>56.8</td>
</tr>
<tr>
<td>2017</td>
<td>151</td>
<td>66.2</td>
</tr>
</tbody>
</table>

Source: NAIOP

What are the Impacts of These Changes?

Recent research indicates there are measurable increases in staff productivity and satisfaction when companies allow their employees to self-select their work spaces. Studies conclude that today’s ideal workplaces provide transparent, independent workspaces, where people can see each other working, while maintaining access to both formal and informal co-working spaces.

From glass lined offices and conference rooms to open kitchens, lounge areas, and collaborative work settings, companies are moving away from the “one size fits all” attitude of office space. By more efficiently using their office environments, companies are able to reduce costs, and many are using those savings to reinvest in technology and a host of on-site services that their employees desire.

**Who Else is Benefiting?**

Large companies are not the only ones who are adapting to these trends. Executive office suite concepts and co-work spaces are proving that this concept is highly desirable for small businesses as well. These companies not only provide office space but all of the other services and environment that go with it.

Capitalizing on fundamental shifts in workspace, co-work spaces focus on facilitating business-to-business activity. As small businesses increasingly demand opportunities to network with and learn from one another, the companies are becoming an ecosystem that can fulfill a complex set of needs.

The City of Alexandria has numerous executive office and co-work spaces. For a list of these locations in the City, please visit www.Alexandrialdeal.com/real-estate/available-space.
### National Retail Trends and Forecasts

- Forecasted retail sales growth for 2014 was lowered to 3.6% (expected closer to 4.1%) by the National Retail Federation because of slow growth in the first half of the year.
- Communities continue to favor shopping experiences with a general mix of merchandise and convenience combined with restaurant and entertaining options. Strategically incorporating new lifestyle centers into historic areas, with gardens, plazas, trendy retailers, and upscale restaurants, creates an experience that consumers can’t get online.
- Brick and mortar retailers are adapting their business models to reflect consumer desire for physical places to congregate, connect, and engage. Shopping centers are redefining themselves from strictly retail stops to “activity centers” woven into the social fabric of communities.
- Expect big box retailers like Walmart and Target to open smaller stores. Walmart to Go’s convenience store (5,000 sf) will carry a scaled-down offering of products at comparable prices to their big-box stores. Walmart will also begin offering Internet grocery pick up stores (15,000 sf sites).
- Regionally, retail employment is growing. A net of 5,100 retail jobs were added during the 12 months ending May 2014.
- Grocers, national discount chains, gyms, and fast-casual restaurants are likely to continue to expand their presence in the Washington metro area during the balance of 2014.
- In the DC metro region, there was 3.0M sf of community/neighborhood shopping center development under construction as of July 2014.

### Sources: AEDP, LA Times, Washington Business Journal, CNBC, The Sheet

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### ALEXANDRIA RETAIL MARKET

- In total, Alexandria has 7.7M sf of retail space inventory.
- The Alexandria retail vacancy rate at mid-year was 3.8%, which is down from 4.5% at the end of Q2 2013. Some of this is attributed to the opening of the Fresh Market grocery store.
- Existing restaurateurs continue to seek new locations with creative concepts. New restaurants this year include Tres Hermanas Mexican, Kaizen Tavern, Casa Rosada Gelato, John Strongbow’s Tavern, Artfully Chocolate Bistro and Wine Bar, and Bombay Curry Company.
- New retail includes FineTique, Frolick Dogs, Floyds 99 Barbershop, Xtend Barre Old Town, Your Dog’s Best Friend’s Dog Store, and Lululemon.
- National retailers are taking a much stronger interest in Old Town, which is putting an upward pressure on rents.
- Vacancy rates for neighborhood and community centers in Northern Virginia and Suburban Maryland are 5.9% and 8.4%, respectively.
- Neighborhood and community center effective rents rose an average of 0.4% in Northern Virginia during the 2nd quarter, to $24.73/SF. In Suburban Maryland, effective rents rose 0.1%, to $22.65/SF.

### Retail Trends for 2014

Source: AEDP

Sales in women’s sunglasses have risen faster than sales in women’s apparel in general (9% vs 4%). Middle-class shoppers are turning to accessories to upgrade their style for less.

Yoga apparel is a growing niche for traditional retail clothing lines. Retailers seek to compete with brands like Lululemon, which has some of the highest sales per square foot in the apparel industry.

Restaurants have yet to reach their pre-recession traffic levels and are expected to grow by less than 1% over the next several years. Fast casual restaurants and those that offer breakfast are fairing better than their peers.

Electronics and furniture sales were among the fastest growing sectors, while grocery stores and personal care stores grew the least. Total sales growth is projected to be 3.6% for 2014.
BLURRING THE LINES BETWEEN E-COMMERCE AND TRADITIONAL RETAIL

In our increasingly Internet-dependent world, it seems possible to envision a future where consumers no longer leave their homes to purchase goods. In a time where anything from electronics to groceries can be ordered online and delivered to your door, some may fear that the end of neighborhood retail is just around the corner.

However, the data seems to indicate that a different trend is taking place. According to Nielsen studies, “one-click convenience” online shopping is projected to account for only 5%-6% of consumer packaged goods sales in 2015. Online retailers are seeing value in opening traditional brick-and-mortar shops, which have been coined “click-and-mortar.” Internet-based companies, like Athleta and Birchbox, recognize that there are challenges with online shopping, because consumers can’t touch, feel, smell, or taste products. Opening flagship retail locations allows them to meet these demands.

In a related trend, new data is showing the increasingly important role that mobile apps are playing inside brick-and-mortar stores. People are using smartphones to make shopping more efficient and to identify valuable savings. Data indicates that apps with an in-store mode result in 4 to 5 times the interaction when compared to apps without an in-store mode. For example, big box stores like Lowe’s are using this technology to allow customers to identify the location of a specific item within the store.

With 41% of consumers actively using mobile apps to access relevant information while shopping, and 45% of consumers redeeming coupons and special offers via mobile devices, it’s not surprising that stores are taking advantage of these trends. As technology changes, online retailers and brick-and-mortar stores will continue to adapt to meet their customers’ demands.

Source: Alexandria Economic Development Partnership

NON RETAIL IN RETAIL SPACES - THE CASE FOR BEING ADAPTIVE

Retail spaces in office buildings are no longer just delis, convenience stores and restaurants; they’re now dentists offices, gym facilities, nightclubs, real estate offices, and day care facilities.

In a challenging and competitive office market, landlords are exploring new ways to meet office tenants’ demands for amenities and services within the proximity of the office. Landlords are beginning to re-characterize ground floor retail uses, offering tenants on-site conference centers, first floor full service gyms, and day care facilities.

Federal government tenants became accustomed to these uses in their facilities. For example, when the Patent and Trademark Office relocated its facility to Alexandria in 2005, it was able to house its own full-service cafeteria, quick-service restaurants, and day care facility. However, new GSA standards have limited non-traditional retail uses from being incorporated into government facilities.

These new regulations open up additional retail opportunities in buildings near government facilities. Landlords in the region are now exploring options to fill chronic vacancies and activate space in other ways to serve public and private sector office workers.

During its recent site search, the National Science Foundation outlined its desire for a site in a submarket that could provide services such as daycare, pharmacy, and quick service restaurants within proximity of the headquarters.

Moving forward, this gives other landlords in Carlyle an opportunity to capitalize on the NSF move by incorporating these services into their existing and future retail spaces. Allowing landlords flexibility with the approved uses for retail spaces prevents over-saturation of retail-dense markets and provides services that workers need and want.
The Washington, DC MSA continues to see slow job growth, adding around 20,000 jobs from July 2013 - July 2014. The region has fallen to the bottom of the 15 largest national job markets on this metric.

The region has suffered from slow growth in the business & professional services sector, which is the largest sector in the region. Additionally, the region has been impacted by the decline in federal government jobs, which has historically been the second largest sector in the region.

New jobs are being added in sectors with lower wages, such as retail and leisure/hospitality. Lower wage health care industry jobs have also increased. In the near future, the education and health services industry will become the second largest sector in the region, passing the federal government.

Despite slow job growth, the region continues to have lower unemployment than many of the other largest job markets.

### Alexandria Economic Indicators

- **Breakdown of Median Salary by Industry**
  - Prof. & Biz Srvcs: $90
  - Retail: $43
  - Health/Social Asst.: $66
  - Admin/Support: $73
  - Hospitality/Food: $39
  - Other Services: $68
  - Finance/Insurance: $74
  - Public Admin: $81

  *Industries are listed in descending order by number of job postings in July 2014.

- **Growth in Sales Tax Revenue over 12 Months Ending in June 2014**
  - Alexandria: +0.4%
  - Fairfax: -0.9%
  - Arlington: -1.2%
  - Loudoun: -2.7%

For the second period in a row, Alexandria was the only major NoVA jurisdiction to see positive growth in sales tax revenue since mid-year 2013. Sales tax revenue figures for all jurisdictions were better in the first half of 2014 than they were at year-end 2013.
Residential Trends and Forecasts

- Nationally, home prices in June were up 7.5% over June 2013. In the Washington, DC area, median sales prices were up 4.6%, the lowest growth of the ten major U.S. cities. The region has been affected, in part, by an increase in housing inventory, which has kept downward pressure on prices.

- Mortgage rates are expected to rise, which will likely keep residential sales prices from growing rapidly.

- Days on the market for the region are up slightly from last year (41 days), while the average sales to list price (98.9%) is at the highest it has been since 2005.

- As home prices increase and the region’s economic future becomes more stable, more homeowners have decided to put their homes on the market. This has contributed to a significant increase in the number of homes on the market over 2013.

- The regional housing market will likely continue to make gains through the remainder of 2014. However, the rate of price increases may slow due to declining apartment rents.

- The region is projected to add 1.7M new residents by 2040, many of whom are expected to be younger workers seeking multi-family housing in walkable locations. This has led to a rise in development of apartment housing across the region. This influx of multi-family inventory has led to rent declines in certain parts of the region.

- Developers are looking for new ways to capture young workers seeking an urban setting and are exploring micro-units as a potential solution. These units are typically 350 sf or less and are designed for single professionals. Micro-unit buildings sometimes feature shared living and kitchen space.

ALEXANDRIA RESIDENTIAL MARKET

- Home sales in Alexandria are down slightly from 2013.

- The median sales price for homes in Alexandria is down approximately $15K from June 2013, or 0.9%. This may be due in part to the slight increase in inventory on the market over the past year.

- Median home prices in Alexandria are still higher than the peak pre-recession value, coming in at 103% of the peak bubble price in 2007.

- Median sales price to list price remains high, with homes selling at approximately 98% of the list price. Single family attached homes are performing the strongest and are selling at more than 99% of their list price on average.

- Alexandria continues to be a “sellers market,” and sellers have not typically needed to offer large subsidies in order to sell their homes. The average subsidy is just over $2,200.

Summary of Home Sales, January - June 2014

<table>
<thead>
<tr>
<th></th>
<th>Single Family Detached</th>
<th>Single Family Attached</th>
<th>Condo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Price</td>
<td>$834,628</td>
<td>$620,393</td>
<td>$306,498</td>
</tr>
<tr>
<td>Units Sold</td>
<td>182</td>
<td>434</td>
<td>441</td>
</tr>
<tr>
<td>Average Days on the Market</td>
<td>57</td>
<td>36</td>
<td>52</td>
</tr>
<tr>
<td>Average List to Sold Ratio</td>
<td>98.4%</td>
<td>99.1%</td>
<td>98.3%</td>
</tr>
<tr>
<td>Average Total Livable Sq Ft</td>
<td>1,616</td>
<td>1,276</td>
<td>1,035</td>
</tr>
<tr>
<td>Average Subsidy</td>
<td>$2,705</td>
<td>$2,415</td>
<td>$1,804</td>
</tr>
</tbody>
</table>
With the significant press and attention being paid to the Waterfront Plan and development at Potomac Yard, it would be easy to miss the steady increase in interest in the North Old Town area. As the surrounding areas have changed, Old Town North has attracted the attention of developers and investors.

North Old Town is considered the area bounded by Washington St on the west, Oronoco St on the south, and the Potomac River on the east. Currently, the area includes apartments and condos, townhouses, and commercial office space. There are also restaurants, neighborhood retail establishments, and hotels.

The largest potential redevelopment site in North Old Town is the Potomac River Generating station, which closed in 2013. The City Council “plan for planning” identifies the need for a new small area plan for Old Town North, which is currently scheduled to begin in fiscal year 2016.

While there is no formal small area plan for North Old Town, development planning for the area continues. Several significant projects are planned or under construction and will be transformative for the area.
**BOOMING DEVELOPMENT IN OLD TOWN NORTH**

### What’s Attracting Investors and Developers?

In an urban area like Alexandria, there are limited opportunities for new construction, so developers often examine the potential of the existing building stock to gauge reuse possibilities. In many cases, when a building is sold, the primary use of the building remains the same.

In other cases, though, developers take an innovative approach to creating something new using an existing building. The Torpedo Factory is one of Alexandria’s most famous examples of this type of adaptive reuse. In Old Town North, there are currently several interesting redevelopment projects underway.

Old Town North is also attractive for many other reasons:

- Proximity to amenities on King Street
- Excellent public transit access, with frequent bus service along Washington Street and access to Braddock Road Metro
- More opportunities in the type of uses allowed and in the potential for building out space

Developers are looking to capitalize on the redevelopment planned for the Waterfront and the spillover effect of that development to adjacent areas. Investors have expressed an increased interest in Alexandria, both in terms of commercial office and residential mixed-use projects; Old Town North offers opportunities for both of these types of projects.

In light of these points, it should be no surprise that sites in Old Town North are being evaluated for their potential. The following are examples of the types of projects that are likely to be seen over the next five to ten years.

### Active Development Projects:

1. **The Kingsley**
   - This mixed-use project features 175 apartment units and a 55,000 sf Harris Teeter grocery store. The building includes studio, one bedroom, and two bedroom apartments, with rents ranging from $1,850 to more than $4,000. Apartments are leasing, and the Harris Teeter is expected to open in October.

2. **515 N. Washington St**
   - While this building was most recently the headquarters for the International Association of Chiefs of Police, it was originally built as a cotton mill in 1847. In subsequent years, it was a bottling factory, a spark plug factory, and an apartment building. In a return to its residential roots, this building will be converted to 49 luxury condo units, and the building should be complete in 2015. While the interior renovations are currently under way, proposed changes and additions to the exterior of the building will require a Development Special Use Permit from the City.

3. **Alexandria Health Department Building**
   - This former City of Alexandria building is being converted to 16 condos and town homes. The City decided to sell the property when it was determined that it was cost prohibitive to renovate the building for use as City offices. There is a historic component to this building that will be addressed during development.

### Planned Development Projects:

4. **700 N. Washington St**
   - Located on the site of the former Travelodge motel and an adjacent townhouse, this mixed-use development will feature 32 residential units and 6,300 sf of ground floor retail, as well as underground parking.

5. **WMATA Bus Barn**
   - The City is working together with the Washington Metropolitan Area Transit Authority (WMATA) to sell this site. The City involved the community to establish redevelopment parameters. An RFP for the site will be issued in late 2014.

6. **Giant Grocery/ABC Site**
   - The current Giant grocery store site and the adjacent Virginia Department of Alcoholic Beverage Control site was purchased by Edens, the developer of the Mosaic District in Merrifield. No formal plans have been submitted, but the project will most likely be mixed-use retail and residential.

### Building Sales

- **401 Wythe St**: This building is under contract for $250/sf to the Alexandria Housing and Redevelopment Authority for its administrative headquarters. It was previously occupied by the National Association of Children’s Hospitals.
- **Canal Center**: This four building office complex is under contract for $180M. The building has a strong tenant base, and future plans for the complex are yet to be determined.
- **Waterfront Center**: This two-building office complex was purchased by Finmarc Management Inc for $31.5M. The buildings are reportedly 69% leased, which includes the Old Town Sport & Health. Finmarc plans to invest in the properties to make additional tenant improvements.