

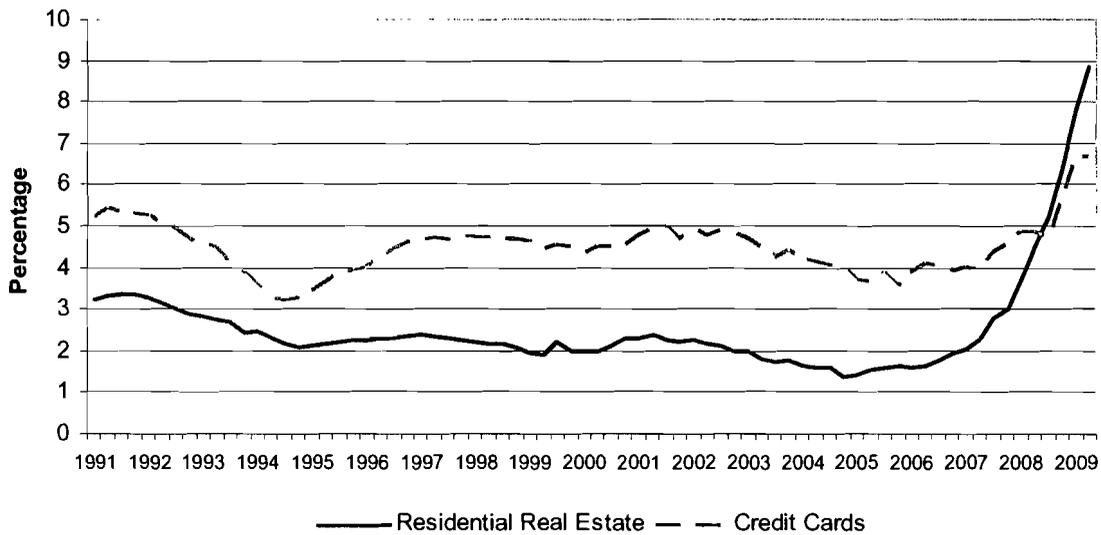
ECONOMY:

Online Reference 1

National Economy. The U.S. economy is showing signs of improvement. In a Brookings Institution forum the week of September 14, Federal Reserve Board Chairman Bernanke declared that the recession “was very likely over” and that forecasters generally agree that “at this point we are in a recovery.” In its September 23, 2009 statement, the Federal Reserve Open Market Committee suggested that “economic activity has picked up following its severe downturn,” and that “financial markets have improved further” and “activity in the housing sector has increased.” Despite its more optimistic outlook, the FOMC is maintaining the federal funds rate at 0 to ¼ percent and will continue to support the residential real estate market through the continued purchase of mortgage backed securities, which lower mortgage interest rates, through the first quarter of next year.

In the short run, government support is making up for the shortfall in consumer demand, but consumer expenditures make up around 70% of the economy, and in the longer term, without increases in consumer spending, it is likely that any recovery will be tepid. As the chart below illustrates, the highly leveraged American consumer is facing difficulties dealing with existing debt which may inhibit future spending.

National Delinquency Rates



Second quarter 2009 delinquency rates for mortgage debt are almost three times the previous high. Credit card delinquencies are also at a record high.

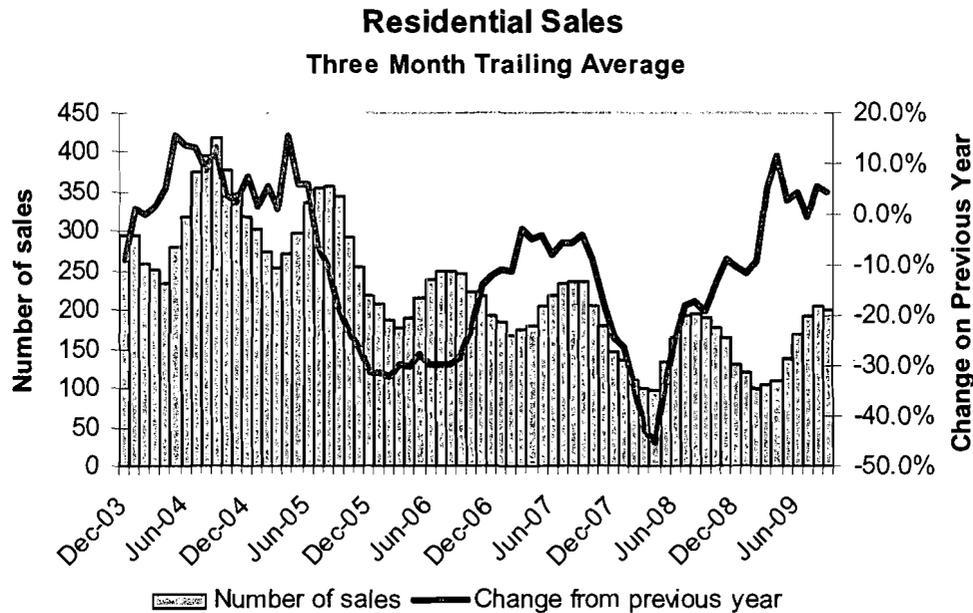
Alexandria’s economy and revenues. There are indications that the City of Alexandria is emerging from the recession more quickly than the nation as a whole. In July, the City’s employment rate dropped for the second straight month to 4.9%, a little more than half of the national unemployment rate. So, too, Virginia’s unemployment rate dropped for a second straight month to 6.5% in August. A three month average of sales tax collections ending in July was off by 4.5% in Alexandria compared to last year, while US

retail sales were down by 9.1% during that same period. While the inauguration effect in January provided a temporary boost to this moving average, most significant is that the three month moving average has been increasing since April. Transient lodging collections from the \$1 per room fee were up by 8% for the three month period ending in July, while the take from the lodging tax was down by 1.8%. This is evidence that hotels have been cutting their room rates to maintain occupancy levels. Beginning in September, business travel becomes relatively more important than leisure travel which may have implications for revenues going forward. Meals tax collections were down by about 3% year-over-year through June on a three month trailing average. That number was steady from April through June.

In August, the Commonwealth of Virginia reduced its General Fund revenue forecast for the fourth time since the original 2008-2010 budget was adopted. The Governor has announced a new series of reductions which would reduce the City's revenues by over \$1.3 million in total, including over \$1.0 million in General Fund reductions below the budgeted amounts. On September 8, the City's Legislative Director presented preliminary estimates of the cuts to Council. As needed, staff will provide updated reduction estimates on October 13, at the time the Monthly Financial Report is presented.

Real Estate

Data show a mixed to slightly negative picture in the residential real estate market. The good news is that residential real estate sales volume for the year-to-date through August 2009 increased 4.1% compared to last year. The increase was the first year-over-year increase in sales since 2004. Even with the modest uptick in sales, the number of homes sold is less than half of the number sold at the peak in 2004.



The average sales price for the year to date through August was \$440,652, 6.23% less than a year ago at this time. The number of foreclosures in Alexandria increased sharply in August to their highest level since December 2008. However, year-to-date foreclosures in Alexandria are running about 15% behind last year's pace. According to Realtytrac, a company that tracks foreclosure rates, Alexandria continues to have the second lowest rate of foreclosures in the region, behind Arlington County. Regionally, a year-over-year comparison of Realtytrac's foreclosure rates from August 2008 to August 2009 shows half of the eight local jurisdictions have lower foreclosure rates and half have higher foreclosure rates. It should be noted that a major support to the lower end of the market, the first time homebuyer's tax credit, will expire at the end of November unless extended by Congress.

As Council was briefed in June, the credit crunch hit the commercial real estate market hard, and the commercial real estate market is trending downward. Nationally, commercial property sales this year may fall to an 18 year low. In Alexandria, the number of year-to-date commercial real estate sales in Alexandria through August 2009 is down by over 60% compared to August 2007. There is also little new commercial construction activity. The American Institute of Architects' billing index, an indication of future construction activity, has been contracting since January 2008. Any recovery in the commercial real estate market is likely to lag the overall economic recovery by a considerable time period, and in fact the City (as well as the region and much of the country) will see commercial real estate assessments decline going forward).