



TRANSWESTERN

# NORTHERN VIRGINIA OFFICE MARKET

## Q1 2023



### TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.5	2.5	↔	3.3	↓
NET ABSORPTION (Thousands SF)	(575.0)	278.0	↓	(22.6)	↔
DIRECT VACANCY RATE	16.6%	16.2%	↑	15.4%	↔
DIRECT VACANT SF (MSF)	32.5	31.8	↑	30.2	↔
UNDER CONSTRUCTION (MSF)	4.6	3.7	↑	3.7	↓
ASKING RENT, FULL SERVICE (PSF)	\$33.47	\$33.25	↑	\$33.28	↔
SALES VOLUME (Millions)	\$137.8	\$556.9	↓	\$585.5	↓

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

## OFFICE MARKET TRENDS DOWNWARD IN FIRST QUARTER

The Northern Virginia office market weakened in the first quarter, totaling 575,000 SF of negative absorption. The direct vacancy rate slightly increased by 30 basis points to 16.6%. Asking rentals rates edged up slightly to \$33.47 PSF, up from \$33.45 PSF in the previous quarter.

Northern Virginia has yet to fully realize the full impact of tenant rightsizing to accommodate expanded hybrid work schedules. The majority of companies believe a physical office is needed but are shedding real estate on average of 20%. This will impact the office market over the next several quarters. Flight to quality will keep top tier office space healthy with lower grade space struggling to keep and attract tenants. Given record level availability, landlords will compete with generous concession packages. Conversions of obsolete office buildings could help stabilize the market, but it is unlikely all announced buildings will convert leaving some owners exploring options.

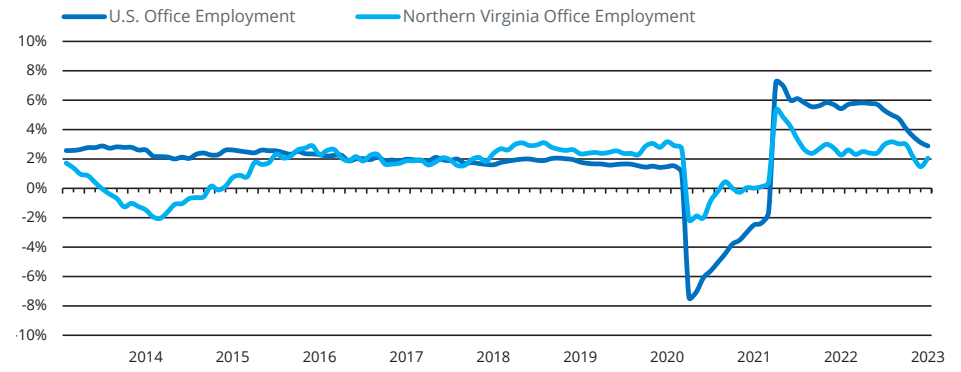


### ECONOMY

#### Strong Performance by Office-Using Jobs in Past 12 Months

- 51,700 new jobs were added to the Northern Virginia economy during the 12-months ending in January 2023. The industry sectors that experienced the largest growth in the timespan were professional/business services and leisure/hospitality, which added 12,500 and 12,300 new jobs respectively.
- Office-using jobs added 14,800 new employees in the 12 months ending January 2023, which exceeds the pre-pandemic 5-year average of 14,500. The industries that have the highest growth professional/business services and information.
- The unemployment rate in Northern Virginia is 2.8% in January 2023 and averaged 2.5% over the past three months. Arlington County continues to have one of the lowest unemployment rates in the Washington metro area, at 2.4%.
- We expect office-using jobs to continue to grow but at a decelerating pace over the next several years due to inflation and other negative economic factors. Growth will likely be concentrated within the medical and consulting sectors.

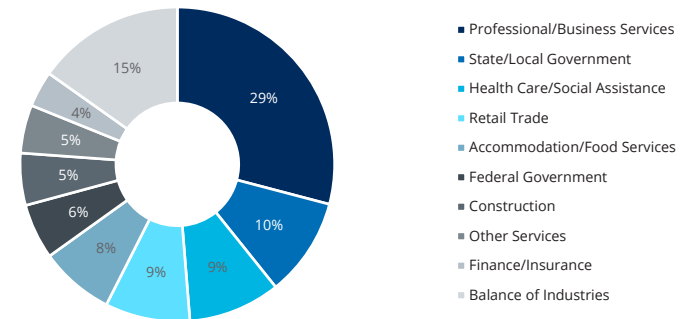
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

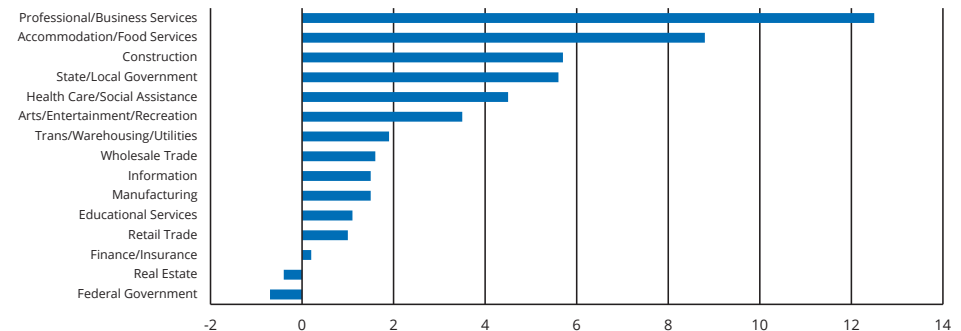
#### Northern Virginia | January 2023



Source: Bureau of Labor Statistics, Transwestern

### Y-O-Y CHANGE IN JOBS BY INDUSTRY

#### Northern Virginia



Source: Bureau of Labor Statistics, Transwestern

In Thousands

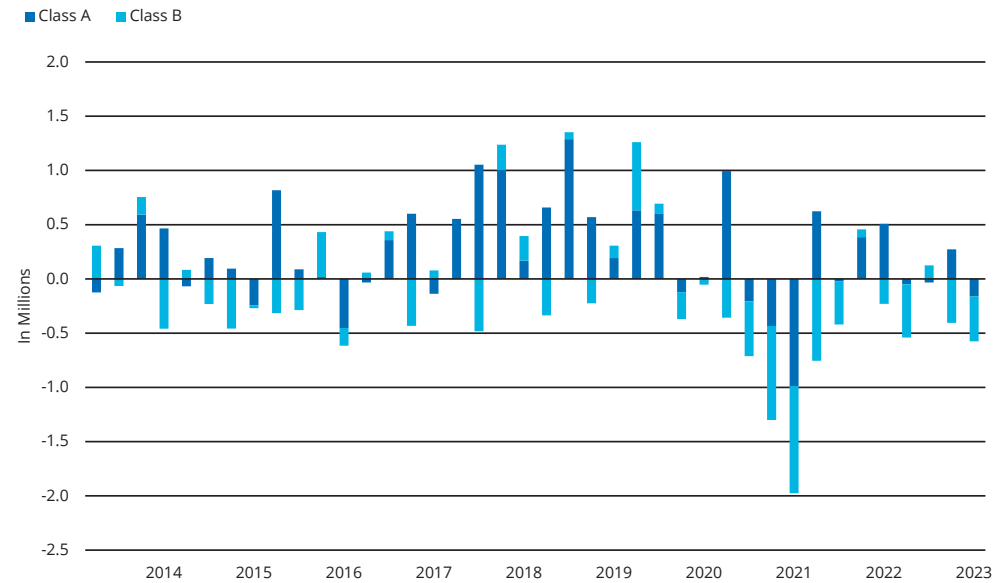


### NET ABSORPTION

#### Office Market Regresses in First Quarter

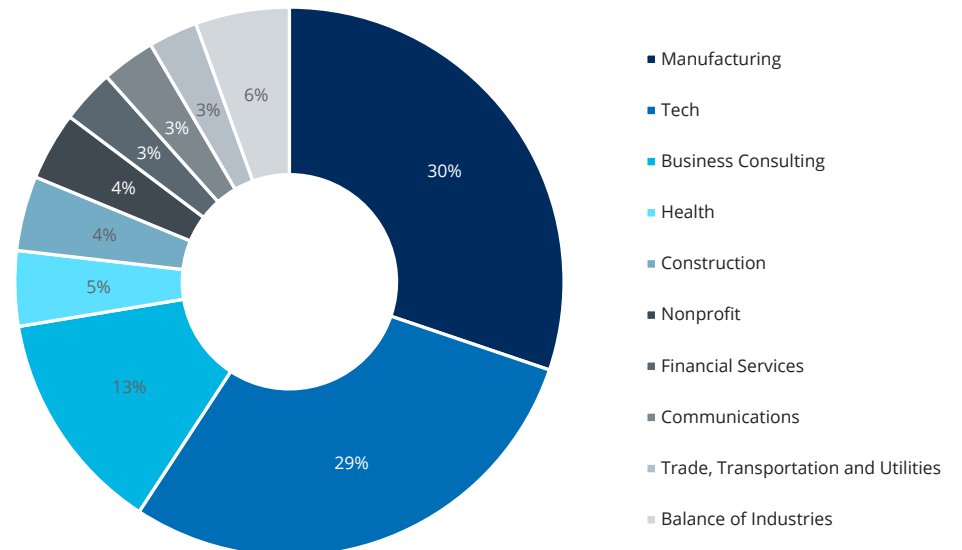
- The Northern Virginia office market experienced a downward trend in the first quarter with a total of 575,000 SF of negative absorption. Year-over-year, net absorption registered negative 1.2 million SF.
- Class B/C product struggled this quarter with negative 413,000 SF of net absorption. While Class A product experienced negative absorption, it was less severe at negative 162,000 SF.
- Significant leases that occurred over the past three months included Arete taking 64,000 SF at 3130 Fairview Park Drive in Merrifield, and Cogent Communications inking 54,803 SF at 198 Van Buren Street in Herndon. A significant renewal that occurred was Northrop Grumman renewing at 45101, 45201, and 45301 Wasp Drive for a total of 337,228 SF in Loudoun County.
- Merrifield was the largest source of positive absorption this quarter with 83,000 SF. This was primarily due to the 64,000 SF Arete lease signing. McLean/Vienna experienced the largest decline in absorption, totaling negative 369,000 SF due to ICF International moving to their new headquarters in Reston.
- Despite economic headwinds and a weak start to 2023, we expect office net absorption to trend positive as large-scale deliveries such as Amazon HQ2, which is 100% pre-leased, are anticipated to be delivered in the coming months.

### NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

### SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

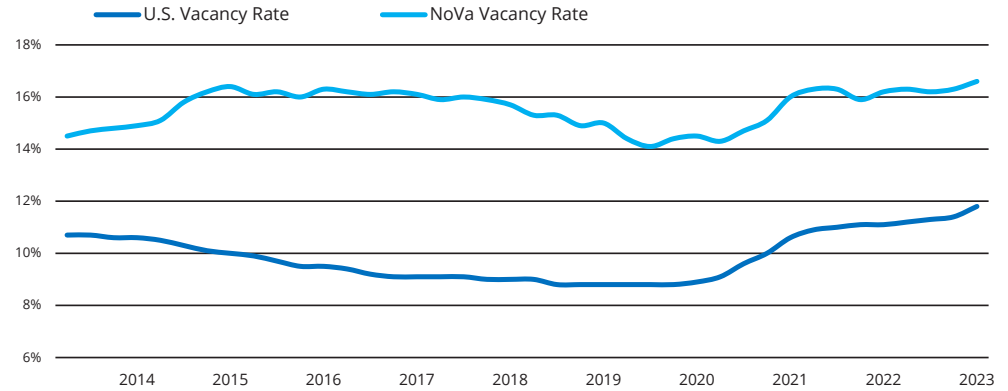


### VACANCY

#### Vacancy Rates Increase in First Months of 2023

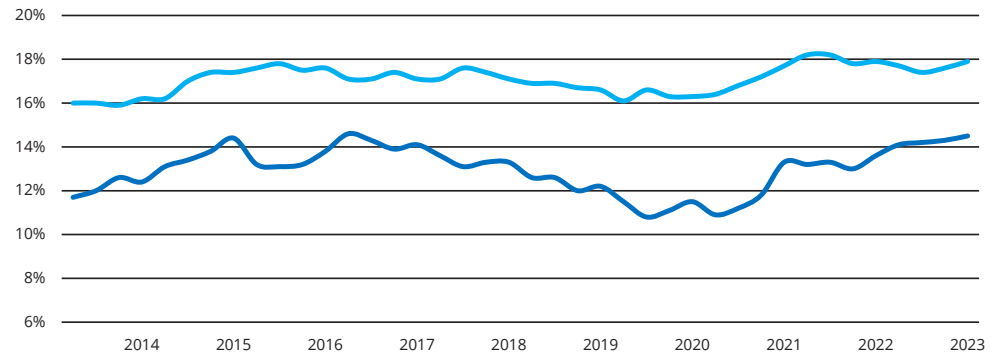
- The direct vacancy rate in Northern Virginia edged-up in the quarter, increasing 30-basis points to 16.6%. This marks the highest vacancy rate for Northern Virginia in recent history.
- Class A increased 20-basis points to 14.5% aided by BAE Systems vacating 133,806 SF of space at 11487 Sunset Hills Road. Class B/C space also experienced an increase in vacancy rate, rising 30-basis points to 17.9%.
- Merrifield had the largest decline in vacancy rate, dropping 90-basis points to 12.1%. McLean/Vienna had the largest increase in vacancy rate, jumping 15.5% to 25.0% due to ICF vacating their two buildings at 9300 & 9302 Lee Highway totaling 337,400 SF.
- The vacancy rate is likely to remain relatively stable in the coming quarters as tenants make decisions on upcoming expirations and aging, vacant office product is removed from the inventory due to conversions.

### DIRECT VACANCY RATE



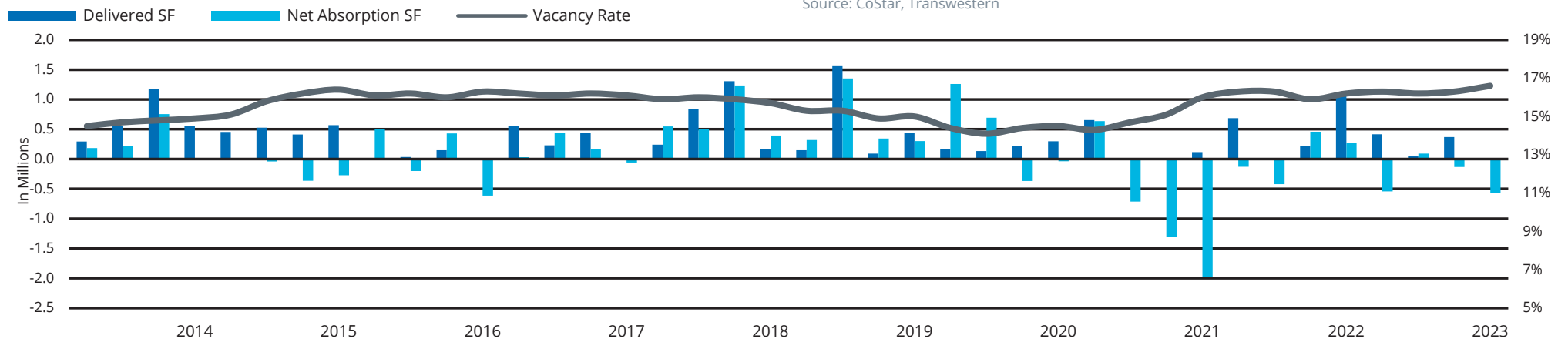
Source: CoStar, Transwestern

### DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

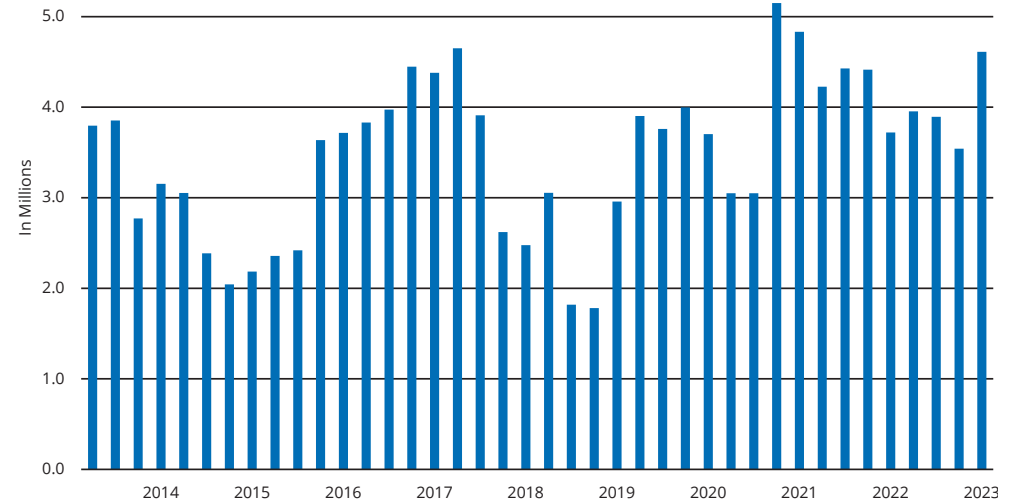


### UNDER CONSTRUCTION

#### Pipeline Remains Steady with Zero Deliveries in First Quarter

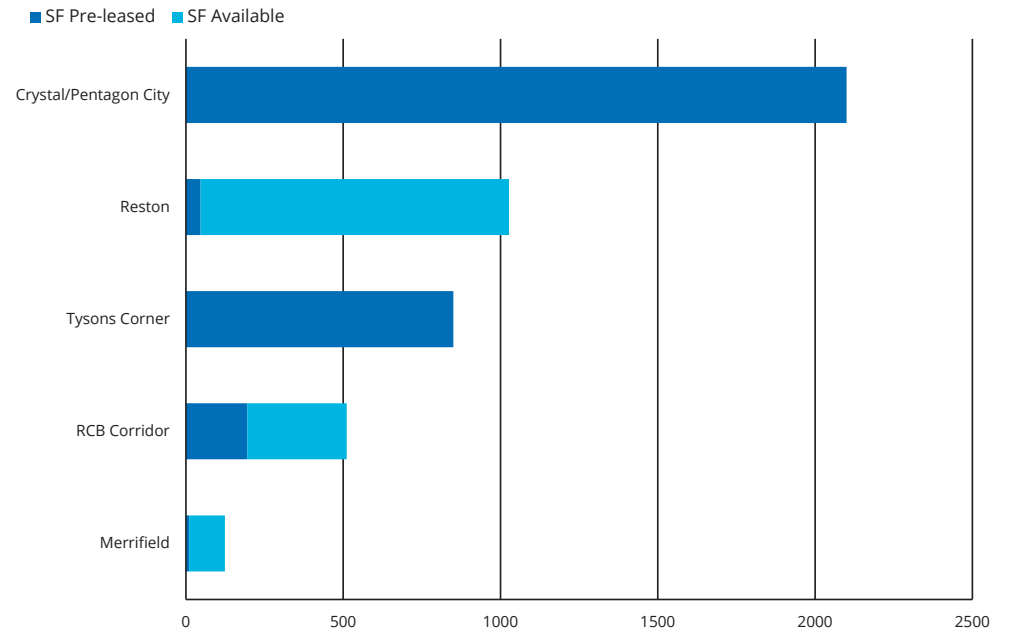
- There were no deliveries this quarter, as most projects are anticipated to deliver in mid-to-late 2023 and in 2024.
- 1675 Capital One Drive was added to the pipeline this quarter, which will add 850,000 SF to the inventory. This project is 100% pre-leased by Capital One and is slated to deliver by December 2023. The current construction pipeline has 4.6 million SF under construction at 69% pre-leased.
- With Amazon HQ2 anticipated to be completed by mid- 2023, Crystal City/Pentagon City remains the largest source of office construction with 2.1 million SF. Besides 1675 Capital One Drive the biggest project outside of HQ2 is 3401 Fairfax Drive, which will add 310,641 SF when completed in mid-2024.
- Construction pipeline levels should decrease throughout 2023 and beyond as high interest rates, construction costs, and increasing vacancy rates will give developers pause before pursuing new construction, including Phase Two of Amazon HQ2 of which has been delayed.

### UNDER CONSTRUCTION



Source: CoStar, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

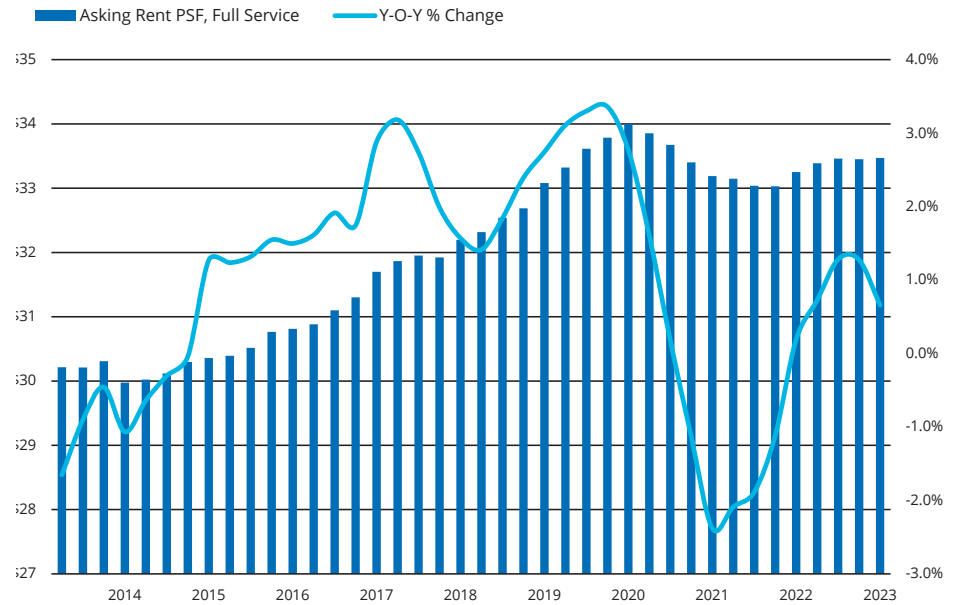


### RENTAL RATES

#### Asking Rental Rates Edge Up Slightly in Q1

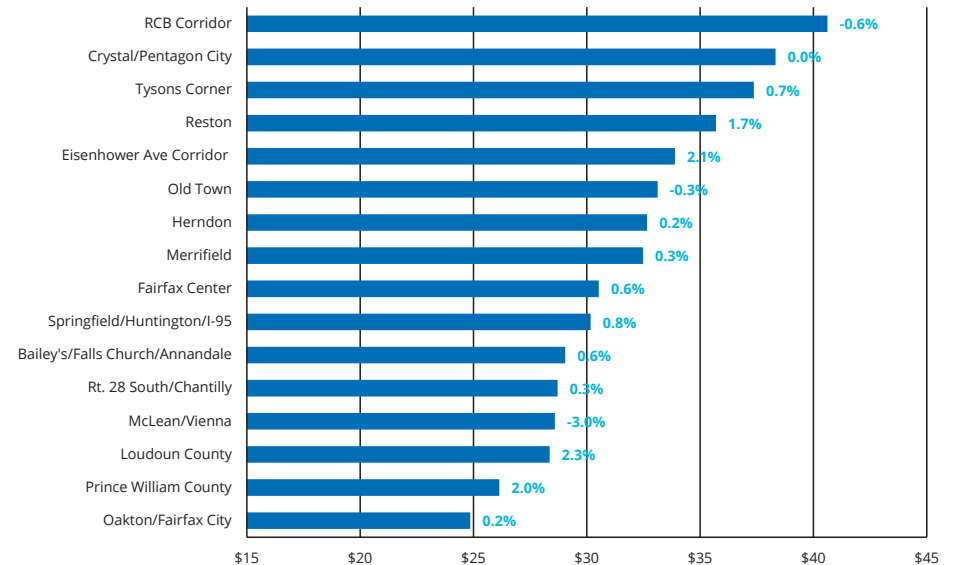
- Northern Virginia office asking increased in the first quarter, reaching \$33.47 PSF. Rents increased 0.6% year-over-year.
- Class A remained stable with a 10-basis point decrease to \$38.75 PSF, while Class B/C space saw a 20-basis point increase to \$27.99 PSF.
- Prince William County had the largest increase in asking rental rate, rising by 60-basis points to \$26.14 PSF. McLean/Vienna experienced the largest decline at 140-basis points, reaching \$28.59 PSF, down from \$28.99 PSF in the previous quarter.
- Concession packages will likely remain elevated through 2023, which will continue to put downward pressure on effective rates. For a typical ten-year or greater term for a new lease signed during the first quarter of 2023, tenant improvement allowances averaged approximately \$115 PSF with 14.2 months of free rent. This compares to \$114 PSF and 15.4 months during 2022.
- Asking rent growth is likely to be tepid throughout 2023 as elevated vacancy rates may force landlords of aging product to compete, while new product can charge at a higher premium due to greater demand for quality space.

### ASKING RENT



Source: CoStar, Transwestern

### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

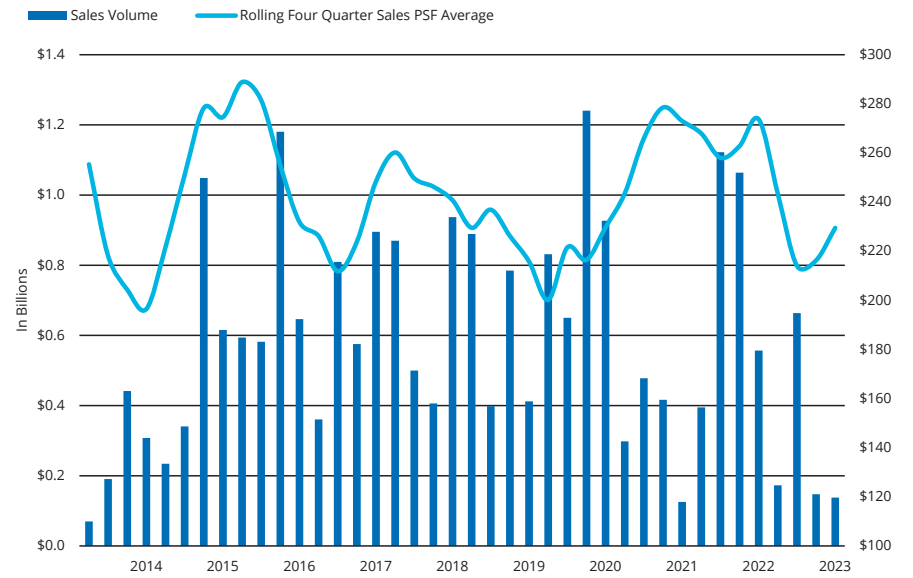


### SALES

#### Investment Sales Lessen in the First Quarter

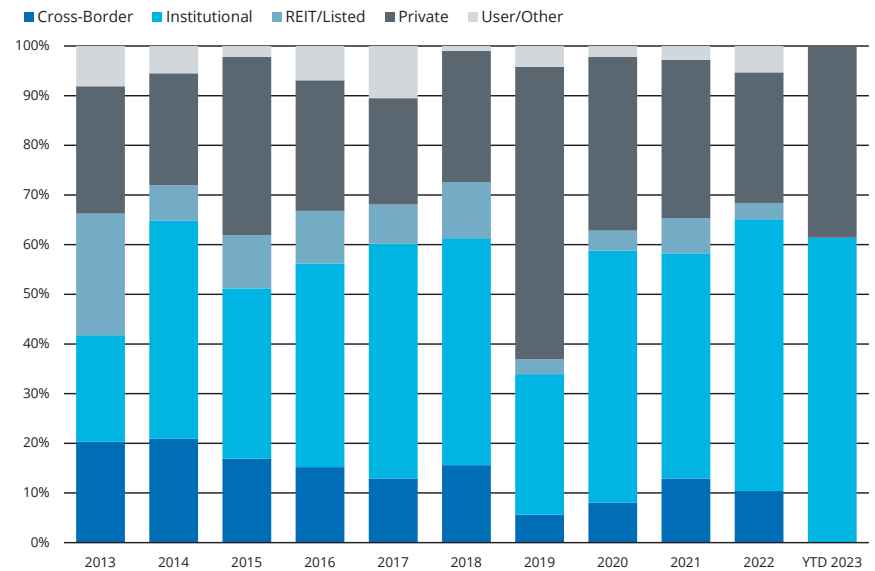
- Investment sales totaled \$137.5 million on three transactions during the first quarter of 2023. Investors are hesitant to pursue office properties given high interest rates and increasing vacancy rates in the market.
- The most notable sale was 13820 Sunrise Valley Drive. This property was purchased by Vision Properties for \$110.2 million, or \$409 PSF. Also, Oppidan purchased 22630 & 22636 Davis Drive for a total of \$27.5 million, or \$184 PSF.
- Activity remains muted in the first quarter, as investors continue to be sidelined due to the current economic climate and continuous Federal Reserve interest rate increases.
- Transaction volume will continue to be limited as investors remain wary of current market conditions and will wait to see the pace at which the Federal Reserve raises interest rates in mid-2023.

### SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern

### BUYER CAPITAL COMPOSITION



Source: CoStar, Real Capital Analytics, Transwestern



**NOTABLE LEASES**

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
<b>NORTHROP GRUMMAN</b>	45101 Warp Dr	Loudoun County	Renewal	160,502
<b>RAYTHEON TECHNOLOGIES</b>	22265 Pacific Blvd	Loudoun County	Renewal	113,361
<b>NORTHROP GRUMMAN</b>	45201 Warp Dr	Loudoun County	Renewal	88,363
<b>NORTHROP GRUMMAN</b>	45301 Warp Dr	Loudoun County	Renewal	88,363
<b>GDIT</b>	14700 Lee Rd	Rt. 28 South/Chantilly	Renewal	84,652
<b>IDIRECT TECHNOLOGIES</b>	13861 Sunrise Valley Dr	Herndon	Renewal	78,031

Source: CoStar, CompStak, Transwestern

**NOTABLE SALES**

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
<b>13820 SUNRISE VALLEY DR</b>	Herndon	Mar-23	\$110,250,000	269,873	\$409	Vision Properties, LLC	Griffin Realty Trust
<b>22636 DAVIS DR</b>	Loudoun County	Feb-23	\$13,802,044	75,150	\$184	Oppidan	Interra Properties LLC
<b>22630 DAVIS DR</b>	Loudoun County	Feb-23	\$13,697,956	74,360	\$184	Oppidan	Interra Properties LLC
<b>12700 SUNRISE VALLEY DR</b>	Reston	Dec-22	\$13,000,000	95,400	\$136	Empire Leasing, Inc.	JBG Smith Properties
<b>2300 DULLES STATION BLVD</b>	Herndon	Dec-22	\$51,500,000	178,291	\$289	Spear Street Capital	TA Realty
<b>8819 WELLINGTON RD</b>	Prince William County	Nov-22	\$5,744,520	37,311	\$154	Peterson Companies	Fidelitone

Source: CoStar, Real Capital Analytics, Transwestern.

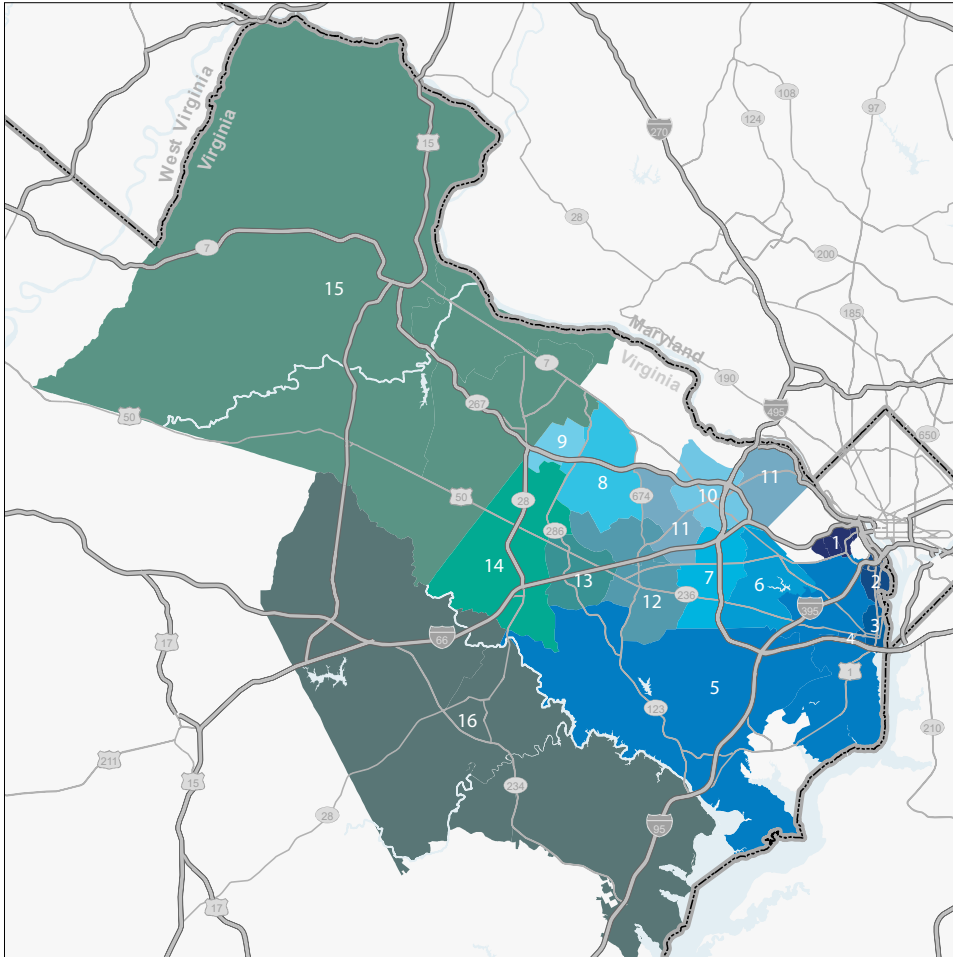


**MARKET INDICATORS**

All Classes of Space | Q1 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
RCB CORRIDOR	24,964,552	4,980,428	20.0%	22.1%	511,217	62,000	(237,000)	\$40.62
CRYSTAL CITY/PENTAGON CITY	14,339,962	2,473,643	17.3%	19.5%	2,100,000	(36,000)	346,000	\$38.33
OLD TOWN	8,134,615	1,330,010	16.4%	18.4%	0	4,000	32,000	\$33.13
EISENHOWER AVE CORRIDOR	8,343,378	639,103	7.7%	8.3%	0	(9,000)	(31,000)	\$33.89
SPRINGFIELD/HUNTINGTON/I-95	8,550,670	1,919,625	22.5%	22.6%	0	(34,000)	(81,000)	\$30.17
BAILEY'S/FALLS CHURCH/ANNANDALE	6,342,695	1,281,224	20.2%	20.3%	0	(6,000)	(57,000)	\$29.05
MERRIFIELD	9,247,243	1,118,916	12.1%	13.8%	124,000	83,000	60,000	\$32.48
RESTON	20,777,227	3,158,139	15.2%	17.1%	1,026,781	(112,000)	(649,000)	\$35.70
HERNDON	12,029,084	2,550,166	21.2%	22.3%	0	(18,000)	(125,000)	\$32.66
TYSONS CORNER	30,171,909	3,922,348	13.0%	14.1%	850,000	(106,000)	(40,000)	\$37.37
MCLEAN/VIENNA	2,388,725	597,181	25.0%	25.6%	0	(369,000)	(373,000)	\$28.59
OAKTON/FAIRFAX CITY	5,725,889	1,099,371	19.2%	19.2%	0	11,000	(72,000)	\$24.86
FAIRFAX CENTER	7,254,955	1,621,410	22.3%	23.1%	0	11,000	33,000	\$30.53
RT. 28 SOUTH/CHANTILLY	14,492,593	1,942,007	13.4%	14.1%	0	(80,000)	94,000	\$28.71
LOUDOUN COUNTY	16,597,058	2,552,863	15.4%	16.3%	0	28,000	58,000	\$28.36
PRINCE WILLIAM COUNTY	6,694,183	1,292,647	19.3%	19.7%	0	(4,000)	(108,000)	\$26.14
<b>TOTAL</b>	<b>196,054,738</b>	<b>32,479,081</b>	<b>16.6%</b>	<b>17.8%</b>	<b>4,611,998</b>	<b>(575,000)</b>	<b>(1,150,000)</b>	<b>\$33.47</b>

Source: CoStar, Transwestern



### NORTHERN VIRGINIA OFFICE SUBMARKETS

- 1 RCB Corridor
- 2 Crystal City/Pentagon City
- 3 Old Town
- 4 Eisenhower Avenue Corridor
- 5 Springfield/Huntington/Lorton
- 6 Bailey's/Falls Church/Annandale
- 7 Merrifield
- 8 Reston
- 9 Herndon
- 10 Tysons Corner
- 11 McLean/Vienna
- 12 Oakton/Fairfax City
- 13 Fairfax Center
- 14 Route 28 South (Chantilly)
- 15 Loudoun County
- 16 Prince William County

### RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Northern Virginia. This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding those properties owned by a government agency.

### ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at [transwestern.com](https://transwestern.com) and [@Transwestern](https://twitter.com/Transwestern).

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