

NORTHERN VIRGINIA OFFICE MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.4	2.4	↔	3.3	↓
NET ABSORPTION (THOUSANDS SF)	1,985.0	(541.0)	↑	73.0	↔
DIRECT VACANCY RATE	16.3%	16.3%	↔	15.4%	↔
DIRECT VACANT SF (MSF)	32.2	32.0	↑	30.3	↔
UNDER CONSTRUCTION (MSF)	2.5	4.0	↓	3.6	↓
ASKING RENT, FULL SERVICE (PSF)	\$33.42	\$33.39	↑	\$33.29	↔
SALES VOLUME (MILLIONS)	\$31.8	\$173.0	↓	\$560.3	↓

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

OFFICE MARKET CARRIED BY AMAZON HQ2 DELIVERY

The office market significantly strengthened this quarter with 1.9 million SF of positive absorption in the second quarter, due to the delivery of Phase I of Amazon HQ2. The direct vacancy rate decreased by 30 basis points to 16.3%. Asking rentals rates edged down 10 basis points to \$33.42 PSF at June 2023.

Despite the surge this quarter, which was due to Amazon's HQ2, we expect market conditions to ease in Northern Virginia during the second half of 2023, as future move-outs and rightsizing, coupled with limited leasing activity, will limit overall growth. However, this market is poised to remain relatively stable with slight fluctuations, as demand momentum is pushed by federal contractors. A reduced construction pipeline, which is down 36% year-over-year will help stabilize the market in due time. Although this will limit options to tenants looking to upgrade to new construction, these tenants could backfill 2nd generation Class A space as an alternative. Conversions of obsolete office buildings could help the broader market, but it is unlikely all announced buildings will convert leaving some owners exploring alternative options.

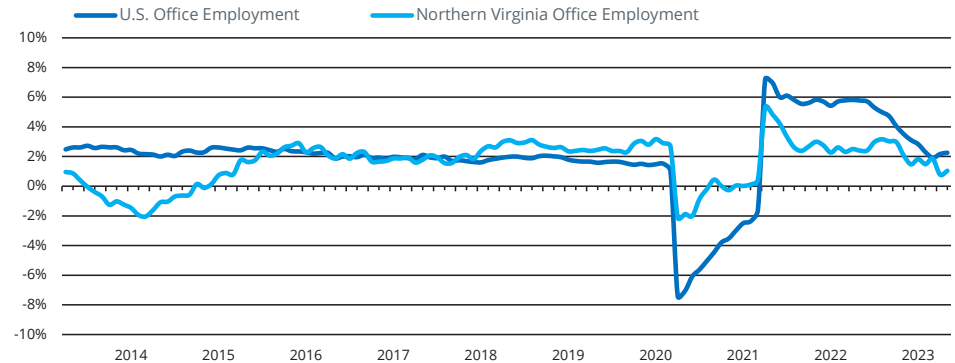


ECONOMY

Office-Using Jobs Growth Slows

- 36,700 new jobs were added to the Northern Virginia economy during the 12-months ending in May 2023. The industry sectors that experienced the largest growth were education/health and state/local government, which added 6,700 and 6,600 net new jobs, respectively.
- Office-using jobs added 7,600 new employees in the 12-months ending May 2023, which falls below the pre-pandemic 5-year average of 14,500. Business consulting and physician offices drove this growth. The federal government has struggled with a loss of 2,100 jobs since May 2022.
- The unemployment rate in Northern Virginia is 2.4% in May 2023 and averaged 2.4% over the past three months. Arlington County maintains one of the lowest unemployment rates in the Washington metro area, at 2.0%.
- We expect office-using jobs to add just over 5,000 new jobs annually through the next five years. However, growth will be restrained in 2023 due to economic headwinds such as inflation. Most of this growth will occur within business consulting and tech, which houses federal contractors.

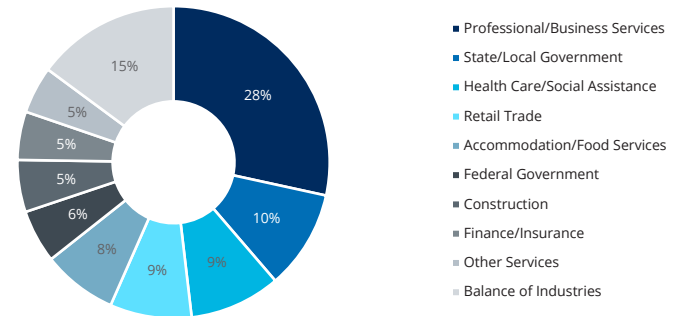
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

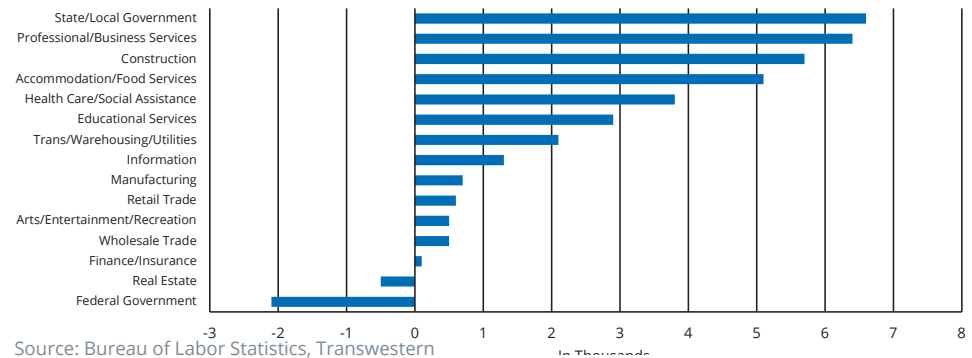
Northern Virginia | May 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Northern Virginia



Source: Bureau of Labor Statistics, Transwestern

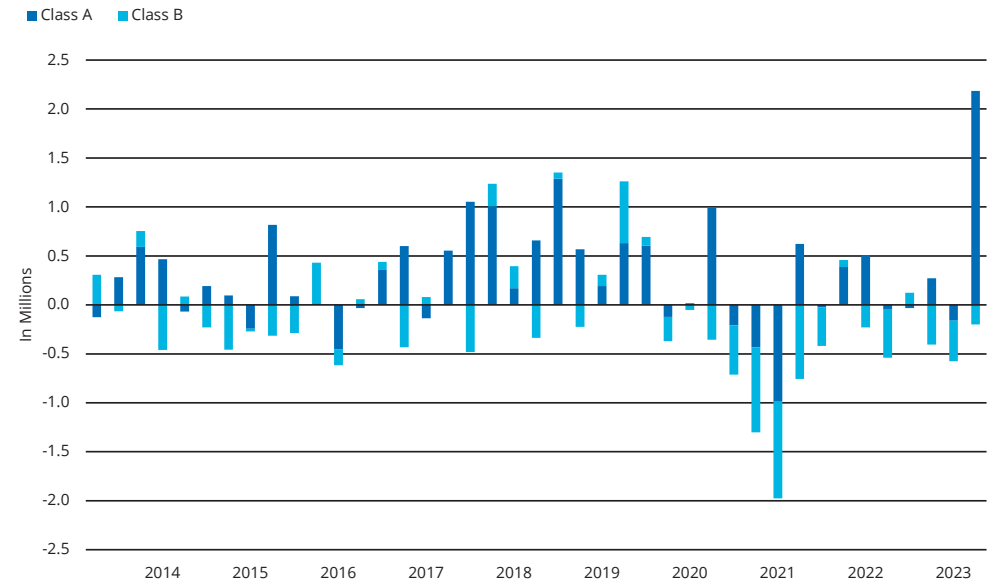


NET ABSORPTION

Office Market Absorption Surges with HQ2

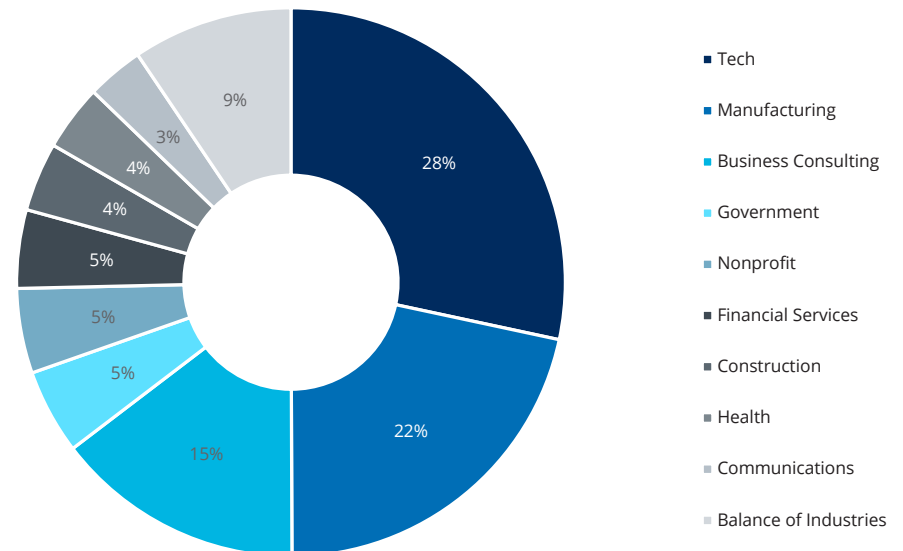
- The Northern Virginia office market experienced a significant surge in positive absorption, totaling 1.9 million SF. This was due to the delivery of HQ2 - Phase I, which came online 100% pre-leased by Amazon in National Landing. However, this gain was slightly offset by Amazon employees vacating other temporary buildings in the submarket. For example, the tech company vacated 191,000 SF at 1800 S. Bell Street.
- Class A product witnessed strong absorption in the quarter, totaling 2.2 million SF. However, the removal of HQ2 from the numbers flattens any gain. Class B/C product continued to struggle against flight to quality and totaled negative 201,000 SF.
- Significant leases that occurred over the past three months include Shield AI inking 42,872 SF at 2450 Crystal Drive in National Landing, and ANSER signing for 40,205 SF at 4040 Wilson Boulevard in the RCB Corridor.
- In second behind National Landing was Loudoun County with positive 80,000 SF of net absorption. Driving this growth was Southland Industries inking for 46,768 SF at 21000 Atlantic Boulevard. Reston had the largest decline in absorption, totaling negative 137,000 SF, due in part to Harness Dickey vacating 25,637 SF at 11730 Plaza America Drive.
- We expect net absorption to stay relatively tame due to economic headwinds. Companies will likely continue to downsize or push off their real estate decisions until conditions become clearer.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

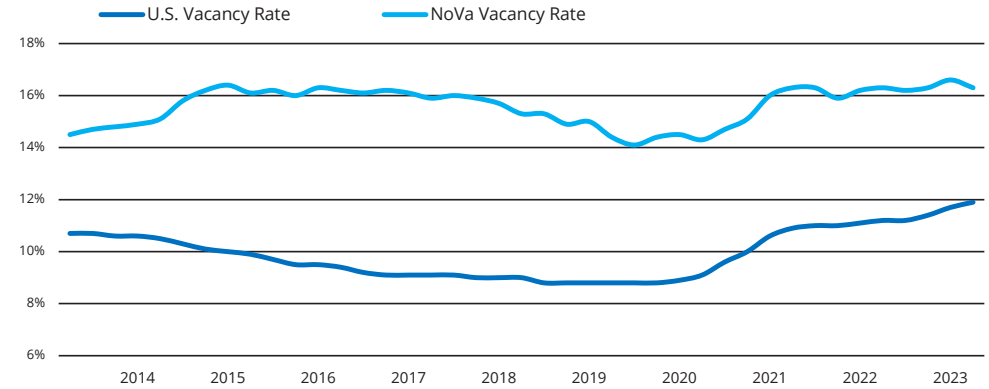


VACANCY

Vacancy Rate Lowers 30 Basis Points

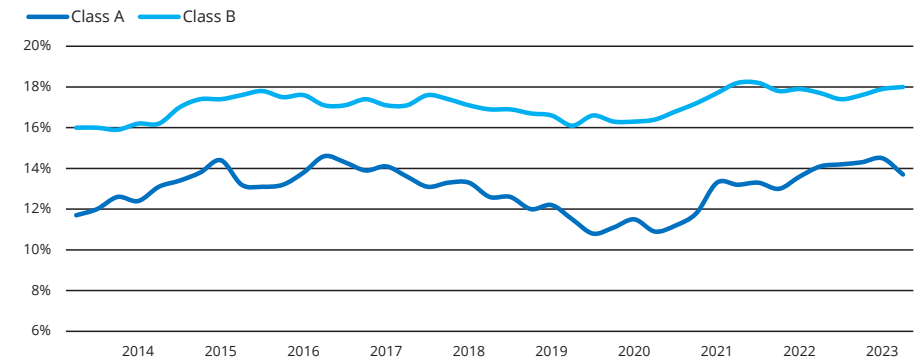
- The direct vacancy rate in Northern Virginia decreased in the second quarter, declining 30-basis points to 16.3%. This mirrors the vacancy rate for the market in the fourth quarter of 2022.
- Class A decreased 80-basis points to 13.7% due in large part to Amazon occupying their new East Coast headquarters. Class B/C product vacancy rate slightly edged up 10-basis points to 18.0%.
- Springfield/Huntington/I-95 had the largest decline in vacancy rate, dropping 220-basis points to 20.3%, due largely to demolitions. Reston had the largest increase in vacancy rate, increasing 70-basis points to 15.9%, aided by Harness Dickey vacating 11730 Plaza America Drive and Hewlett Packard vacating 26,606 SF at 12010 Sunset Hills Road.
- The vacancy rate is likely to fluctuate as office tenants remain hesitant in their decision making in returning to the office, often times deciding to downsize to maximize space while waiting on making longer term decisions.

DIRECT VACANCY RATE



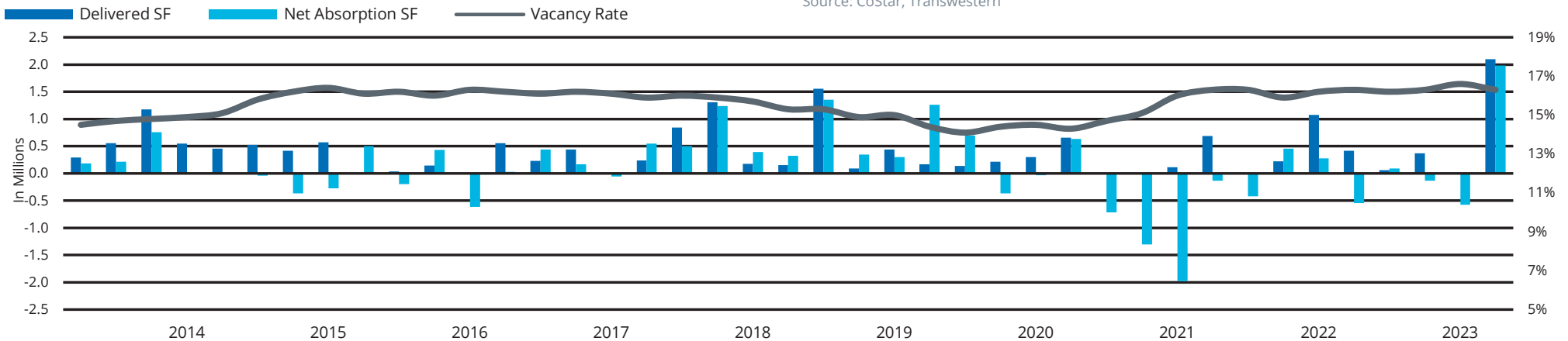
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

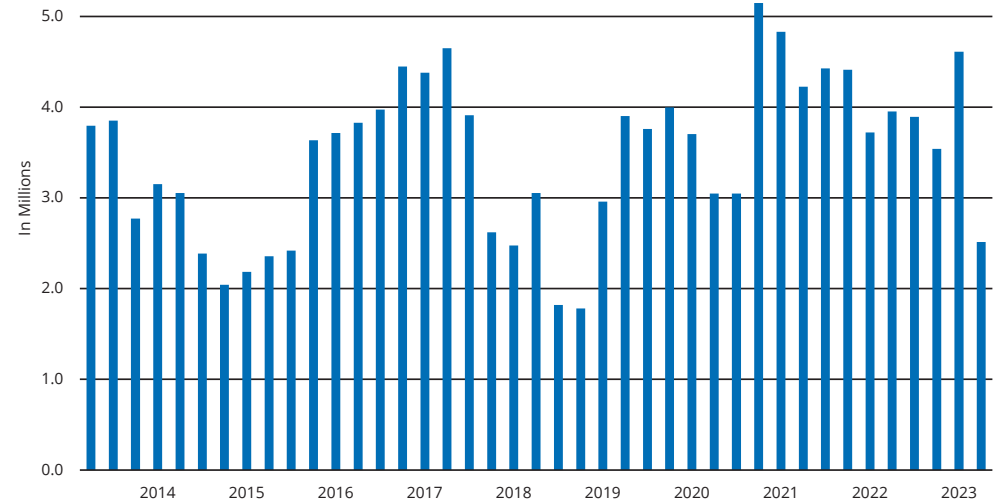


UNDER CONSTRUCTION

Amazon HQ2 Delivery Clears Large Portion of Pipeline

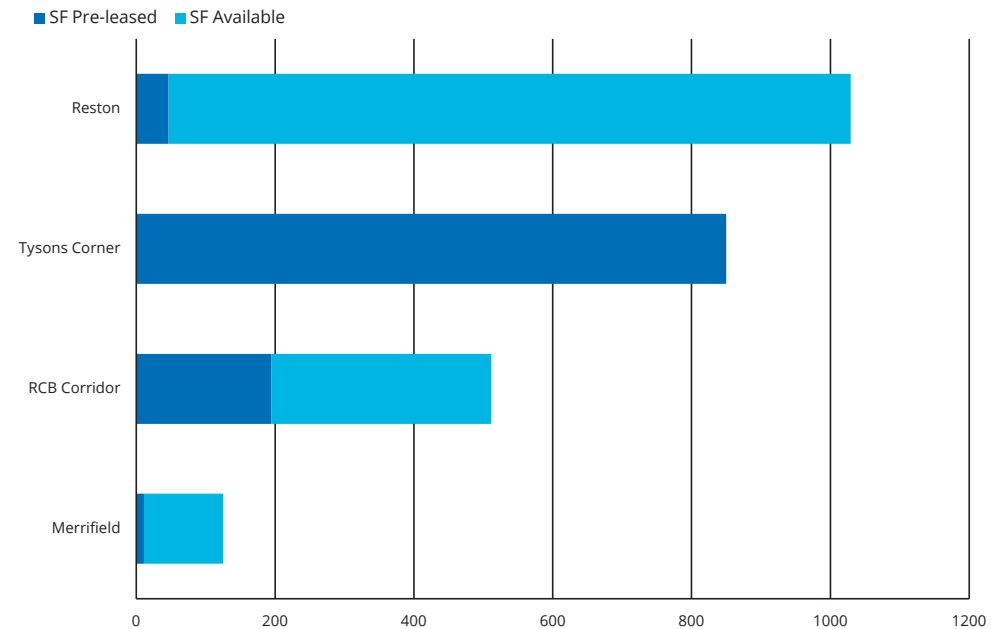
- Amazon delivered 510 & 525 14th Street S. in National Landing this quarter. These two buildings added 2.1 million SF to the inventory and was 100% pre-leased to Amazon.
- There were no additions to the construction pipeline in the quarter. The current pipeline has 2.5 million SF under construction at 44% pre-leased, with several projects slated to deliver by year-end 2023.
- The largest construction project is 850,000 SF at 1675 Capital One Drive in Tysons Corner, which is 100% pre-leased by Capital One and is anticipated to deliver before the end of 2023. Another project anticipated to deliver this year is 3901 N. Fairfax Drive in RCB Corridor, totaling 200,576 SF and is currently 0% pre-leased.
- We expect construction pipeline levels to decelerate as economic factors such as inflation and high interest rates give developers pause in developing spec. Select projects could break ground with a sizable tenant in place.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

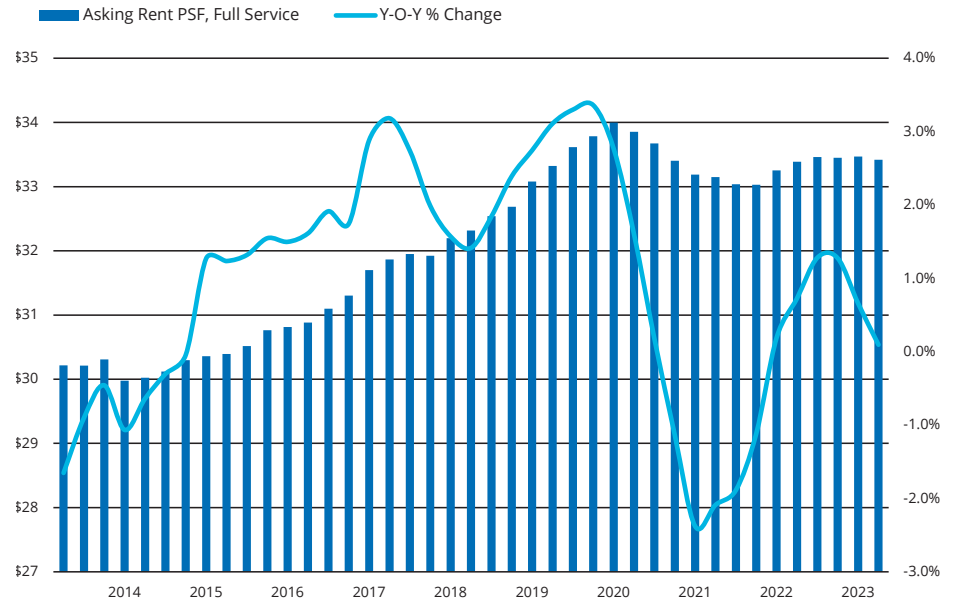


RENTAL RATES

Asking Rental Rates Edge Down in Second Quarter

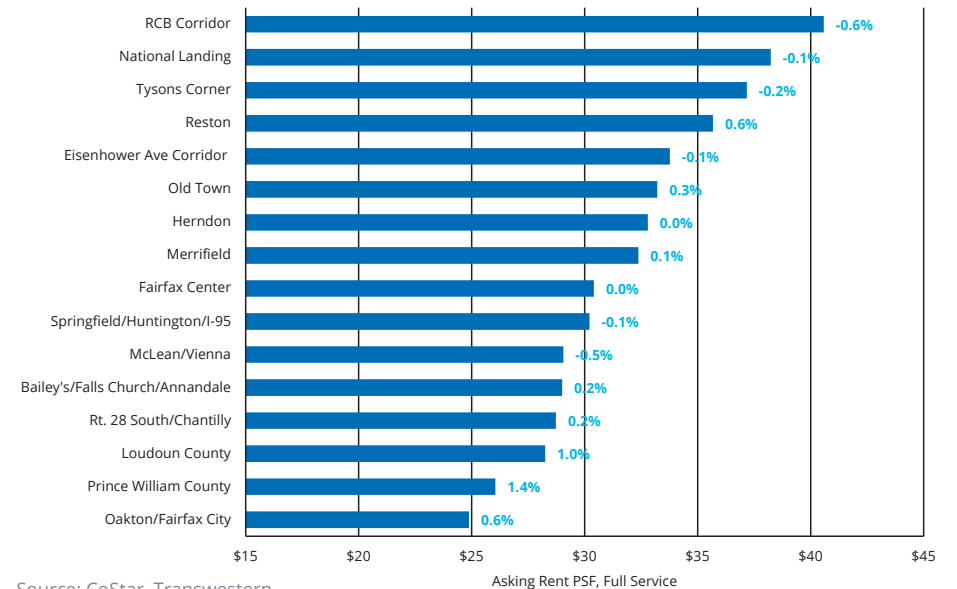
- Northern Virginia office asking slightly decreased through the second quarter, averaging \$33.42 PSF. This is a 10-basis point decline from the first quarter of 2023 but remains a 10-basis point increase from the second quarter of 2022.
- Class A rents edged down in the quarter, declining 30-basis points to \$38.63 PSF, while Class B/C space saw a 10-basis point increase to \$28.02 PSF.
- McLean/Vienna had the largest increase in asking rental rate, rising by 170-basis points to \$29.06 PSF, up from \$28.59 PSF in the previous quarter. Tysons Corner experienced the steepest decline, decreasing 50-basis points to \$37.17 PSF.
- 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 half of 2023, tenant improvement allowances averaged approximately \$115 PSF with 16.5 months of free rent. This compares to \$114 PSF and 15.4 months during 2022.
- Asking rents will likely stabilize during the balance of 2023. Quality product will continue to outperform. However, landlords of aging buildings with high vacancy could be forced to lower rental rates in order to compete for tenants.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

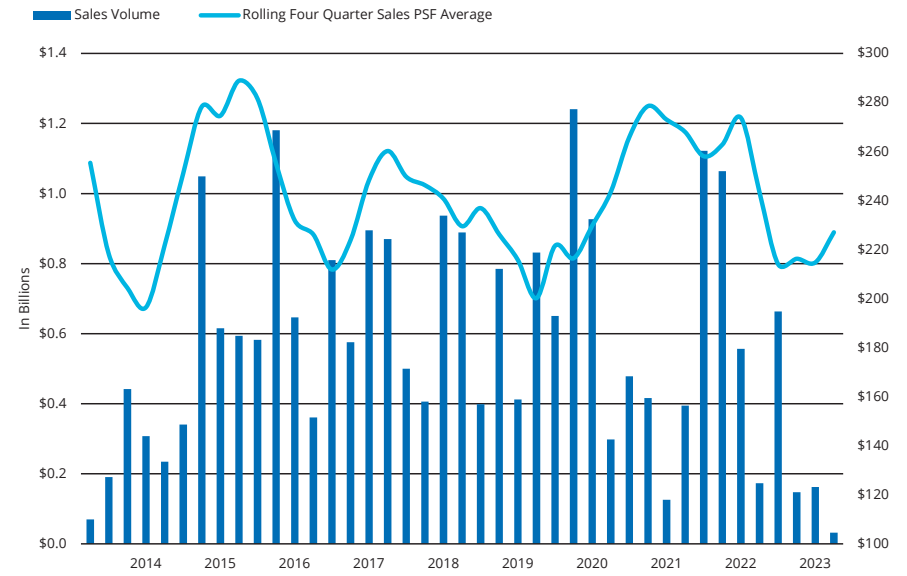


SALES

Investment Sales Continue Slow 2023 At Mid-Year Mark

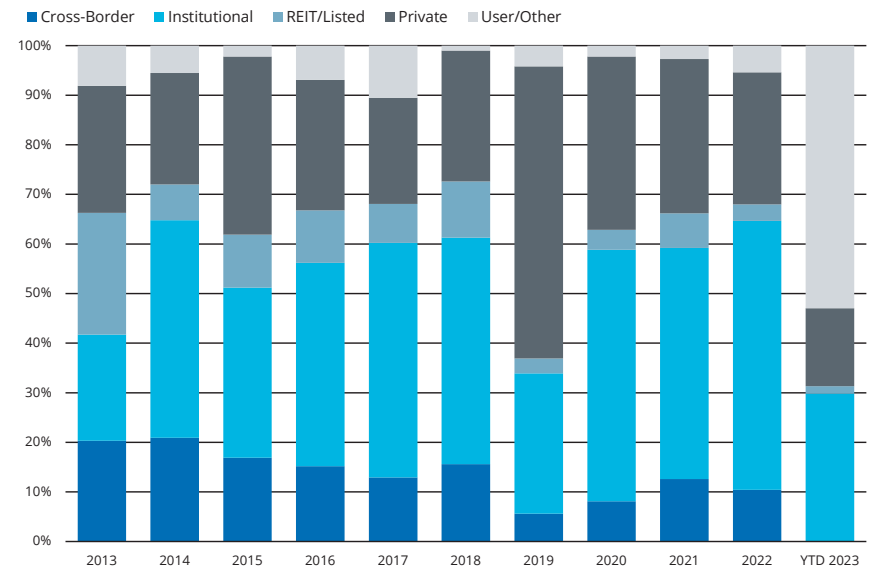
- Investment sales totaled \$31.7 million on three transactions during the second quarter of 2023. Investors are hesitant to pursue office properties given high interest rates and increasing vacancy rates in the market.
- The most notable sale was 1501 Langston Boulevard in the RCB Corridor. This property was purchased by Taicoon Property Partners for \$16.2 million, or \$190 PSF. Also, Aria Development Group purchased 4420 N. Fairfax Drive in the RCB Corridor for a total of \$11.1 million, or \$194 PSF.
- Transaction volume will continue to be limited as investors remain wary of current market conditions and will wait to see how the economy progresses. Interest rates remain elevated compared to recent lows. However, the Fed paused, for now, raising the rate at their recent meeting in June, keeping it at 5.25%.

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
FBI	15030 Conference Cetner Dr	Rt. 28 South/Chantilly	Renewal	156,995
ARCFIELD	14295 Park Meadow Dr	Rt. 28 South/Chantilly	Sublease	124,000
MANTECH	2251 Corporate Park Dr	Herndon	Renewal	118,678
PARSONS	5875 Trinity Pky	Rt. 28 South/Chantilly	Renewal	58,403
PARSONS	5885 Trinity Pky	Rt. 28 South/Chantilly	Renewal	51,156
SOUTHLAND INDUSTRIES	21000 Atlantic Blvd	Loudoun County	New Lease	46,768

Source: CoStar, CompStak, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1501 LANGSTON BLVD	RCB Corridor	Jun-23	\$16,250,000	85,422	\$190	Taicoon Property Partners	Air & Space Forces Association
4420 N FAIRFAX DR	RCB Corridor	May-23	\$11,150,000	57,496	\$194	Aria Development Group	Washington Capitol Partners
14102 SULLYFIELD CIR	Rt. 28 South/Chantilly	May-23	\$4,384,029	38,502	\$114	Brookfield Corporation	Link Logistics Real Estate
9522-9526 FAIRVIEW AVE	Prince William County	Mar-23	\$3,000,000	19,556	\$153	Edugenius US RE Group	Parsons Farm
11107 SUNSET HILLS RD	Reston	Mar-23	\$14,162,771	105,194	\$135	Stewart Investment Partners	Penzance
11109 SUNSET HILLS RD	Reston	Mar-23	\$5,037,229	40,290	\$125	Stewart Investment Partners	Penzance

Source: CoStar, Real Capital Analytics, Transwestern.

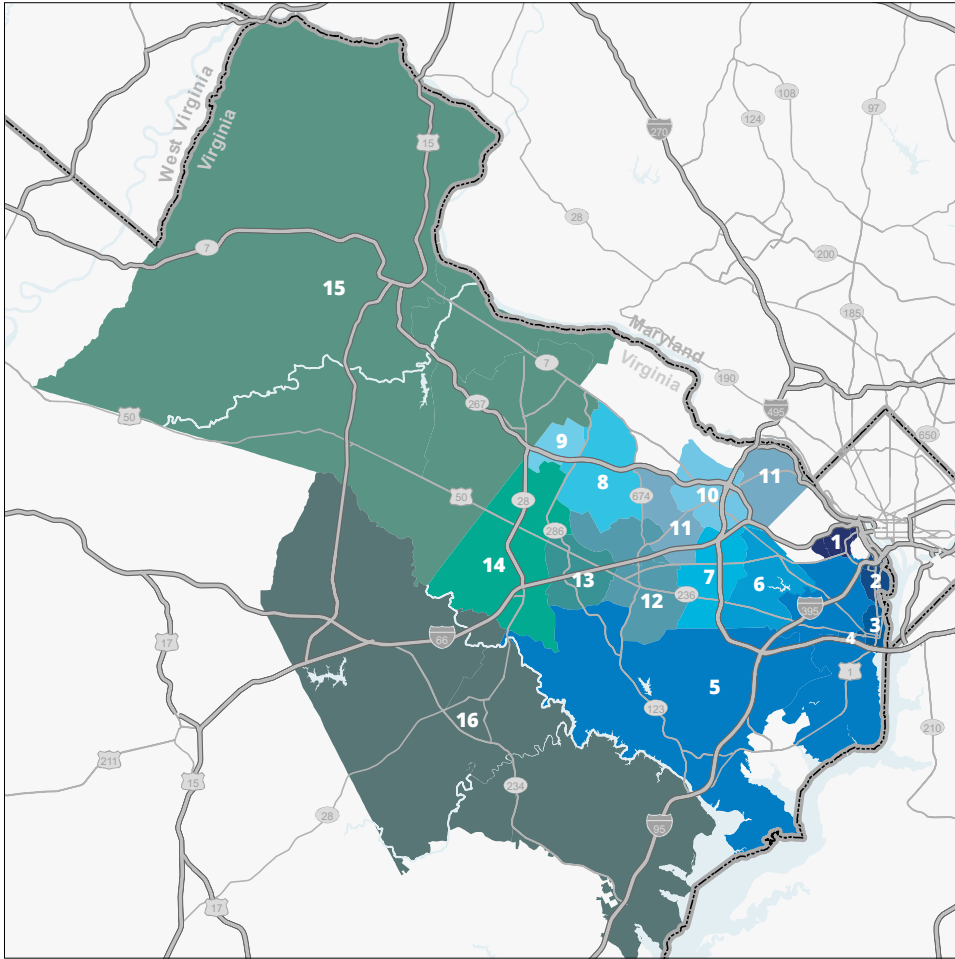


MARKET INDICATORS

All Classes of Space | Q2 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	24,820,704	4,782,950	19.3%	21.5%	511,217	54,000	(84,000)	\$40.58
NATIONAL LANDING	16,439,962	2,564,634	15.6%	17.8%	0	2,009,000	2,432,000	\$38.24
OLD TOWN	8,134,615	1,313,740	16.2%	17.5%	0	16,000	37,000	\$33.21
EISENHOWER AVE CORRIDOR	8,343,378	671,642	8.1%	8.6%	0	(33,000)	(79,000)	\$33.77
SPRINGFIELD/HUNTINGTON/I-95	8,329,354	1,688,360	20.3%	20.3%	0	10,000	(37,000)	\$30.21
BAILEY'S/FALLS CHURCH/ANNANDALE	6,342,695	1,274,882	20.1%	20.2%	0	6,000	(22,000)	\$29.00
MERRIFIELD	9,247,243	1,093,949	11.8%	12.6%	125,000	25,000	127,000	\$32.38
RESTON	20,777,227	3,295,268	15.9%	18.0%	1,029,412	(137,000)	(376,000)	\$35.68
HERNDON	12,029,084	2,603,777	21.6%	22.8%	0	(54,000)	(203,000)	\$32.79
TYSONS CORNER	30,171,909	3,967,606	13.2%	14.6%	850,000	(45,000)	(148,000)	\$37.17
MCLEAN/VIENNA	2,388,725	611,514	25.6%	25.9%	0	(14,000)	(387,000)	\$29.06
OAKTON/FAIRFAX CITY	5,725,889	1,116,548	19.5%	19.7%	0	(17,000)	(80,000)	\$24.88
FAIRFAX CENTER	7,254,955	1,559,815	21.5%	22.7%	0	62,000	109,000	\$30.41
RT. 28 SOUTH/CHANTILLY	14,492,593	1,920,269	13.3%	14.2%	0	22,000	145,000	\$28.73
LOUDOUN COUNTY	16,597,058	2,472,962	14.9%	15.8%	0	80,000	43,000	\$28.25
PRINCE WILLIAM COUNTY	6,694,183	1,291,977	19.3%	19.6%	0	1,000	(102,000)	\$26.05
TOTAL	197,789,574	32,229,892	16.3%	17.6%	2,515,629	1,985,000	1,375,000	\$33.42

Source: CoStar, Transwestern



NORTHERN VIRGINIA OFFICE SUBMARKETS

- 1 RCB Corridor
- 2 National Landing
- 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 and [@Transwestern](https://twitter.com/Transwestern).

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