

NORTHERN VIRGINIA OFFICE MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.4	2.6	↓	3.3	↓
NET ABSORPTION (THOUSANDS SF)	533.0	93.0	↑	19.6	↔
DIRECT VACANCY RATE	16.4%	16.2%	↑	15.5%	↔
DIRECT VACANT SF (MSF)	32.5	31.7	↑	30.4	↔
UNDER CONSTRUCTION (MSF)	1.2	3.9	↓	3.6	↓
ASKING RENT, FULL SERVICE (PSF)	\$33.44	\$33.46	↓	\$33.38	↔
SALES VOLUME (MILLIONS)	\$69.0	\$663.5	↓	\$528.5	↓

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

CAPITAL ONE DELIVERY LIFTS NORTHERN VIRGINIA OFFICE MARKET

The office market strengthened in the quarter with 533,000 SF of positive absorption in the second quarter, due to the pre-leased delivery of 1675 Capital One Drive. The removal of this delivery would put the market at negative 311,000 SF for the quarter. The direct vacancy rate increased by 10 basis points to 16.4%. Asking rentals rates edged up 10 basis points to \$33.44 PSF at September 2023.

We expect office market conditions to remain soft in the Northern Virginia through 2024, as future move-outs and rightsizing, coupled with limited leasing activity, will drag the overall market. This will put pressure on all constituents to explore creative solutions. Given record level availability, landlords will need to be creative in deploying hospitality approaches to make the office more desirable than alternative work options.

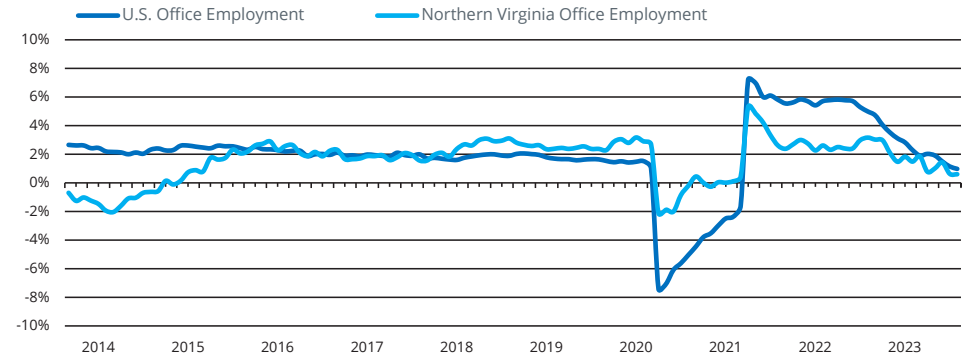


ECONOMY

Office-Using Job Growth Pace Lessens

- 24,400 new jobs were added to the Northern Virginia economy during the 12-months ending in August 2023. The industry sectors that experienced the largest growth were education/health which added 10,400 new jobs in that timespan.
- Office-using jobs added 4,500 new employees in the 12-months ending August 2023, which falls well below the pre-pandemic 5-year average of 14,500. Physician offices were the most successful in the past 12 months, adding 6,300 new jobs. However, the tech sector struggled with 4,700 in job cuts.
- The unemployment rate in Northern Virginia is 2.3% in July 2023 and averaged 2.4% over the past three months. Arlington County has the lowest unemployment rate in the Northern Virginia, at 1.9%.
- 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. Most of this growth will occur within business consulting and tech, which houses federal contractors.

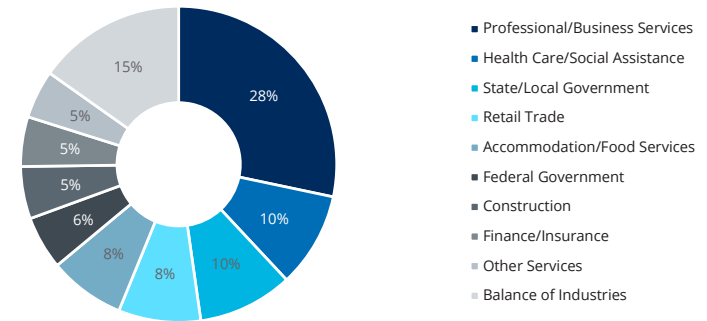
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

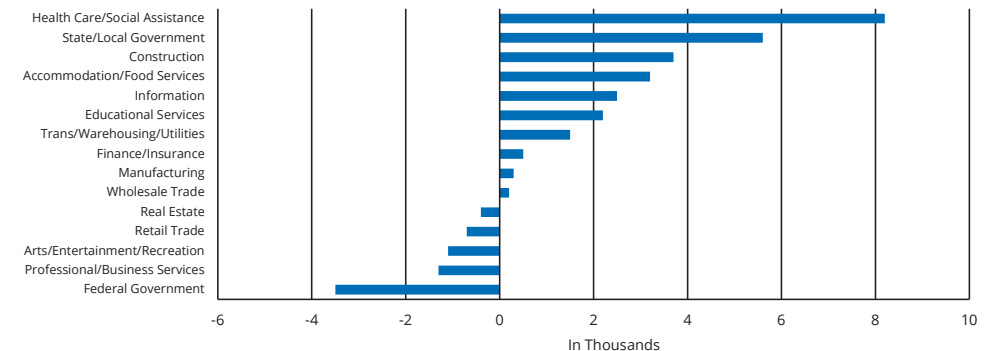
Northern Virginia | August 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Northern Virginia



Source: Bureau of Labor Statistics, Transwestern

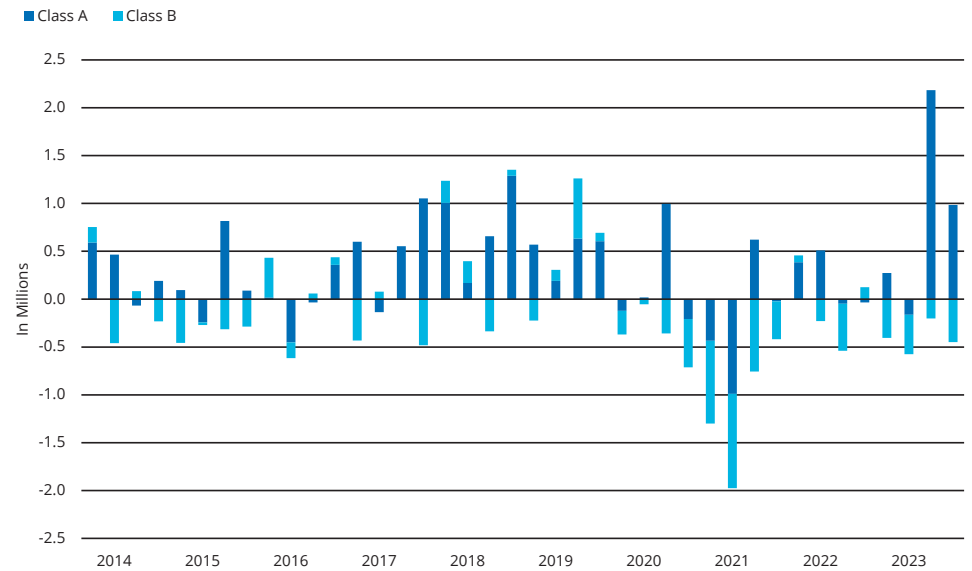


NET ABSORPTION

Office Market Maintains Positive Absorption with Capital One Delivery

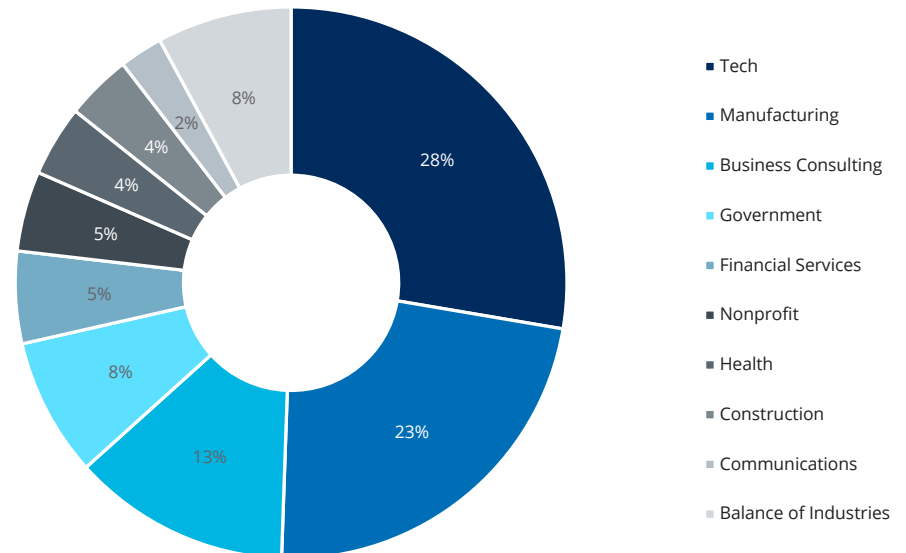
- The Northern Virginia office market experienced a strong quarter of absorption, totaling 533,000 SF. However, this was due to the delivery of 1675 Capital One Drive, which came online 100% occupied by the owner, Capital One. This gain was slightly offset by several large-scale move outs, including Booz Allen Hamilton reducing their footprint and consolidating their office locations throughout select submarkets in Northern Virginia.
- Class A product performed well in the quarter, experiencing 983,000 SF of positive absorption. If 1675 Capital One Drive delivery is removed, the product still totaled 133,000 SF of positive absorption. Class B/C product struggled to keep pace as it totaled 449,000 SF of negative absorption.
- In second behind Tysons Corner was Rt. 28 South/Chantilly with positive 162,000 SF of net absorption. The primary driver of this was the Drug Enforcement Agency signing for 175,000 SF at 15000 Conference Center Drive, but was also aided by Arcfield signing a direct lease at 14291 Park Meadow Drive for 122,557 SF. This was slightly offset by Long & Foster vacating 111,388 SF at 14501 George Carter Way.
- Herndon had the largest decline in absorption, totaling negative 199,000 SF, due largely in part to Booz Allen Hamilton vacating 135,880 SF at 575 Herndon Parkway.
- We expect net absorption to trend to closer to negative as economic headwinds continue to give tenants pause and the construction pipeline has a low number of SF pre-leased, totaling 20%, which has been the predominant reason for positive absorption throughout 2023.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

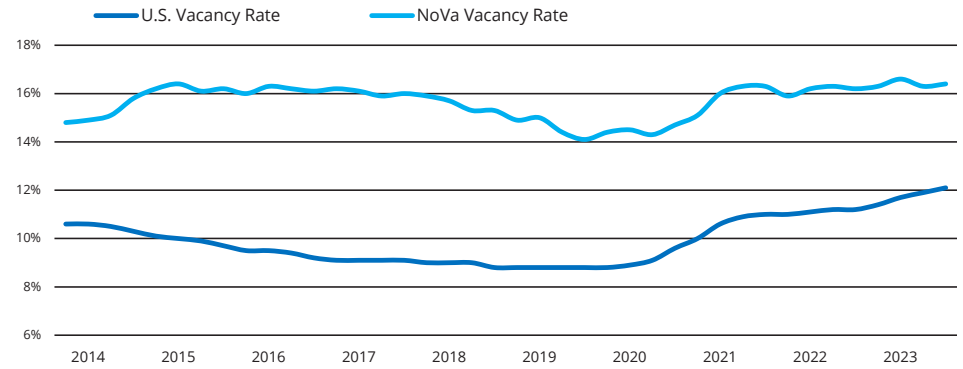


VACANCY

Vacancy Rate Edges Up Slightly in Third Quarter

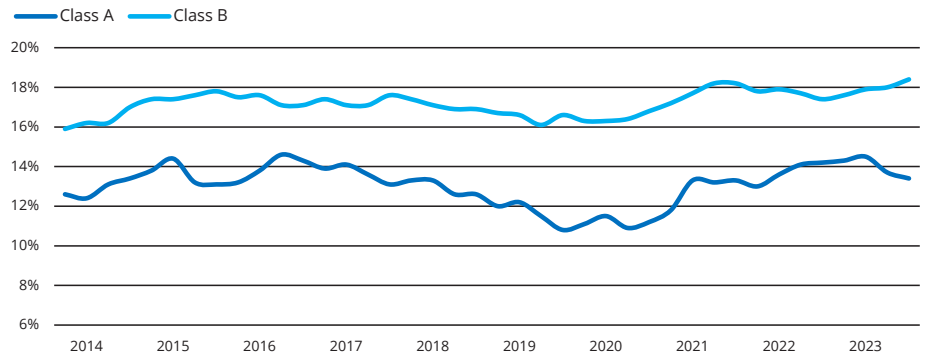
- The direct vacancy rate in Northern Virginia increased in the third quarter, edging up 10-basis points to 16.4%. This marks the second highest vacancy rate in recent history, just behind the first quarter of 2023 which averaged 16.6%.
- Class A decreased 30-basis points to 13.4% due in part to Clark Realty Capital inking 38,749 SF at 950 N. Glebe Road and Mars Inc, signing 36,296 SF at 1676 International Drive. Class B/C product vacancy rate increased 30-basis points to 18.3%.
- Rt. 28 South/Chantilly had the largest decline in vacancy rate, decreasing 120-basis points to 12.1%, due largely to DEA signing their large-scale lease. Springfield/Huntington/I-95 had the largest increase in vacancy rate, increasing 200-basis points to 22.3%, aided by Booz Allen Hamilton vacating 57,134 SF at 6361 Walker Lane.
- The vacancy rate is likely to continue to fluctuate as office tenants pause on long-term decisions until economic headwinds and their effects become clearer.

DIRECT VACANCY RATE



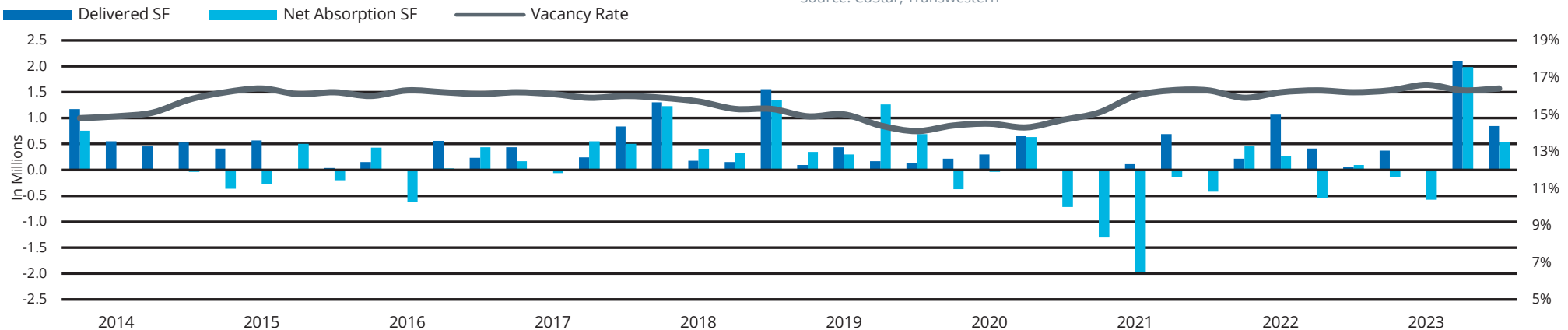
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

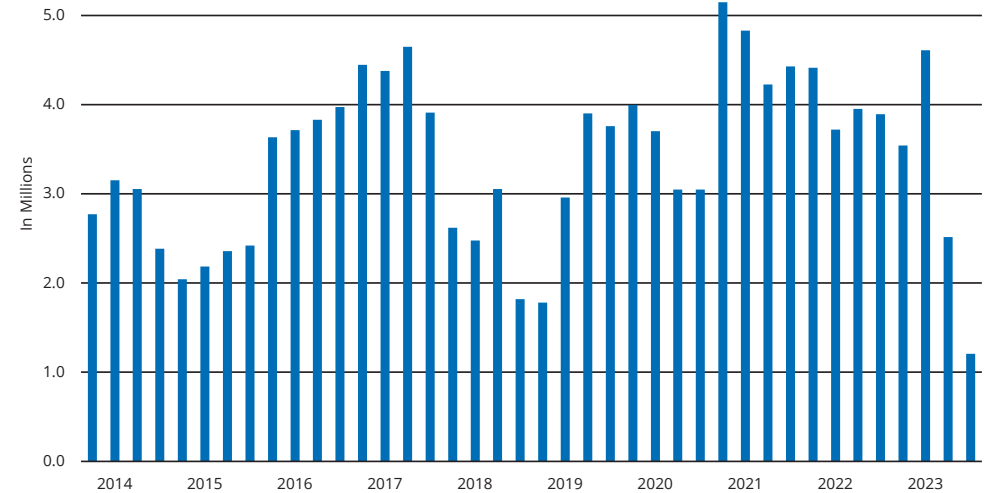


UNDER CONSTRUCTION

Capital One Delivery Removes Last Large-Scale Project From Pipeline

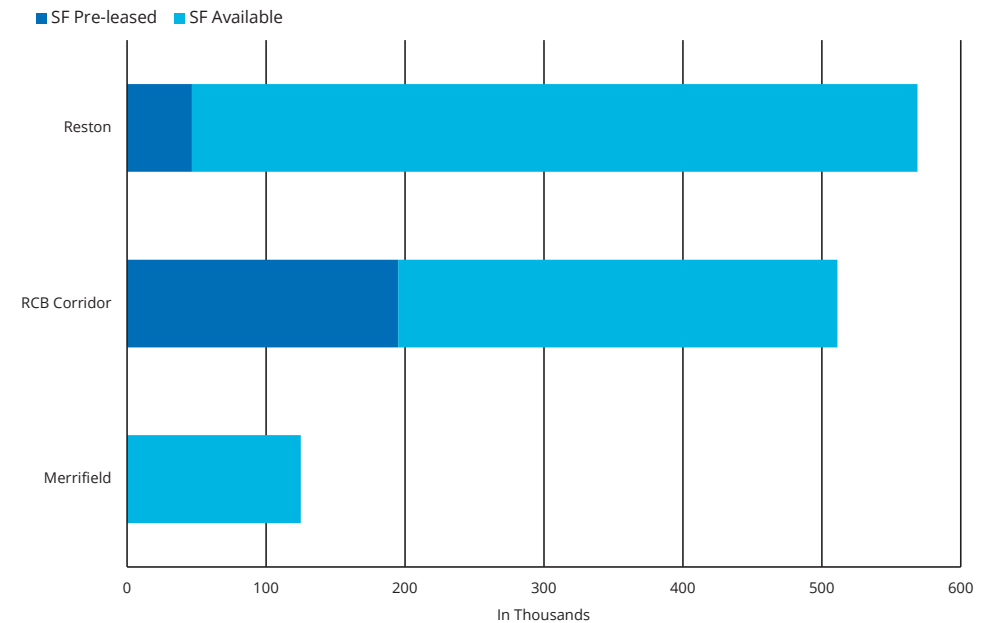
- Capital One delivered 1675 Capital One Drive in the quarter. This building added 850,000 SF to the inventory and was 100% pre-leased to Capital One in Tysons Corner.
- There were no additions to the construction pipeline in the quarter. The current pipeline has 1.2 million SF under construction at 20% pre-leased, with one project, 7171 Leesburg Pike – The Wellness Center anticipated to be delivered in the fourth quarter of this year.
- The largest construction project is 310,641 SF at 3401 Fairfax Drive – Fuse at Mason Square in the RCB Corridor. This project is currently 62.8% occupied by the owner - George Mason University and is slated to deliver in the third quarter of 2024. The second largest project is 1800 Reston Row Plaza – OB4 – which includes 281,694 SF of office space that is anticipated to be delivered in the first quarter of 2024.
- We expect construction pipeline levels to continue 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

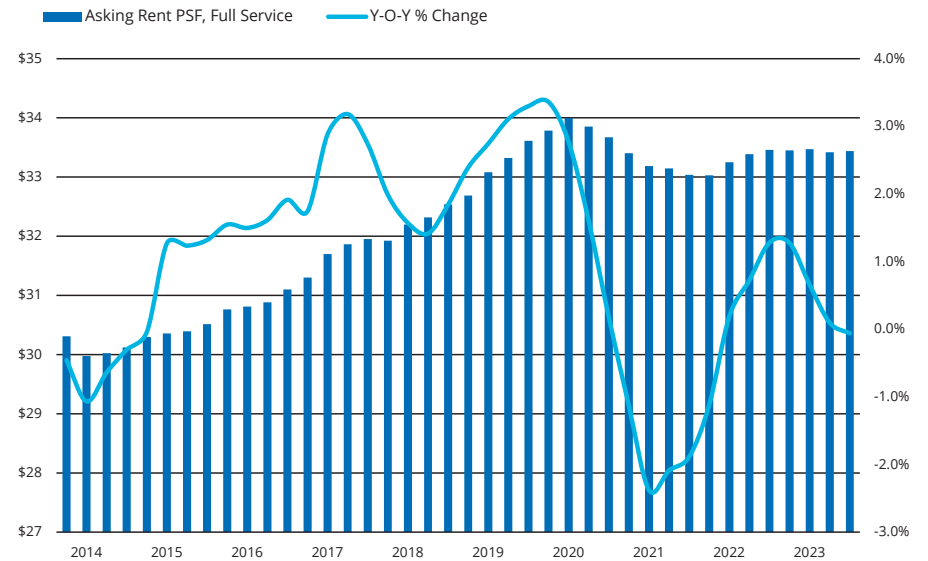


RENTAL RATES

Asking Rental Rates Slightly Rise in Third Quarter

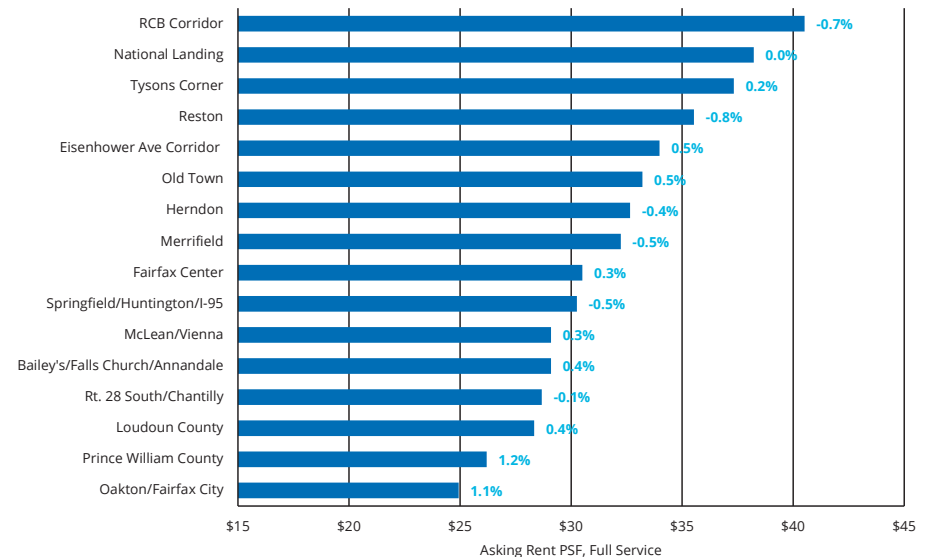
- Northern Virginia office asking slightly increased through the third quarter, averaging \$33.44 PSF. This is a 10-basis point increase from the second quarter of 2023 and is a 10-basis point decrease since the third quarter of 2022.
- Class A rents edged up in the quarter, increasing 10-basis points to \$38.69 PSF, while Class B/C space saw a 10-basis point increase to \$27.99 PSF.
- Eisenhower Avenue Corridor and Prince William County tied at having the largest increase in asking rental rate, rising by 60-basis points to \$33.99 PSF, and \$26.20 PSF, respectively. Merrifield, Reston, and Herndon all experienced 40-basis point declines in rental rate, tied for the largest drop, now averaging \$32.24 PSF, \$35.54 PSF, and \$32.66 PSF, respectively.
- Concession packages will likely remain elevated through 2024, which will put downward pressure on effective rates. For a typical ten-year or greater term for a new lease signed during the first three quarters of 2023, tenant improvement allowances averaged approximately \$110 PSF with 19.0 months of free rent. This compares to \$114 PSF and 15.4 months during 2022.
- Asking rents will likely continue to stabilize through 2024. However owners of aging and vacant product will be forced to lower rents to attract potential tenants.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

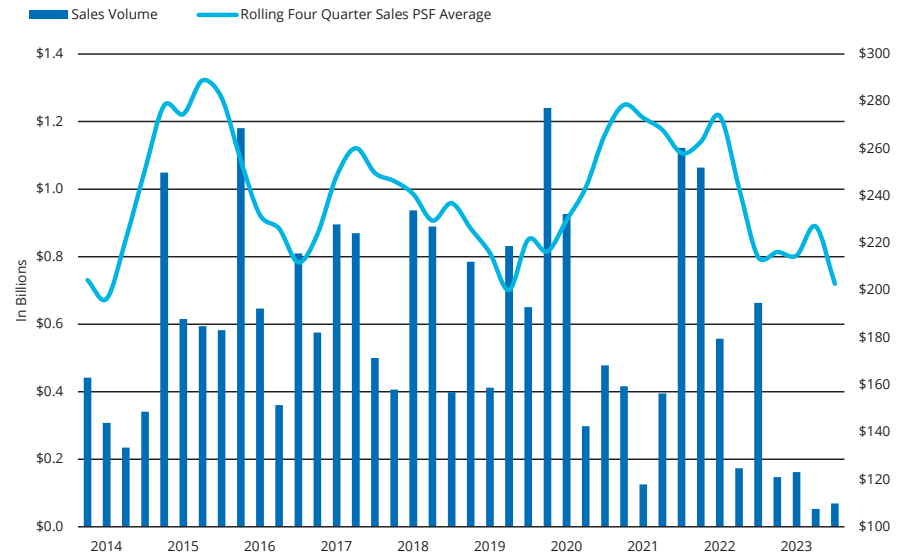


SALES

Investment Sales Experience Slight Uptick in Volume

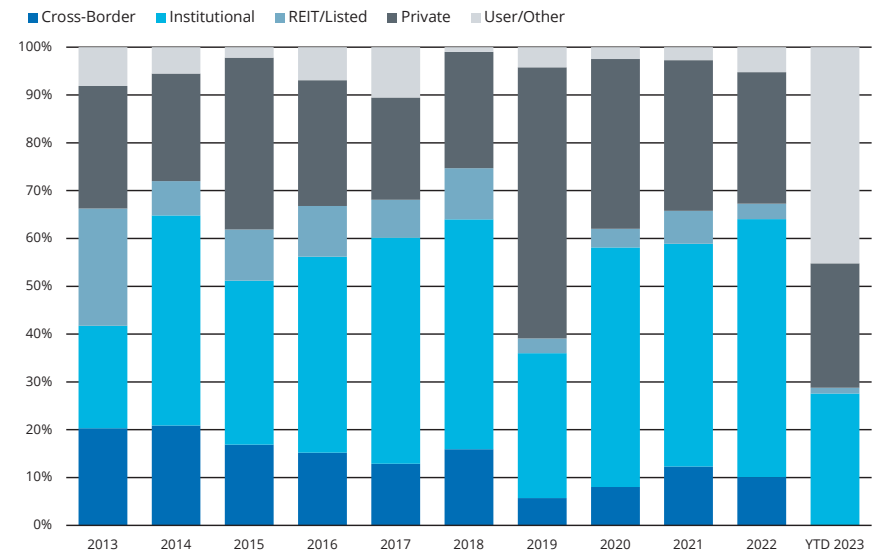
- Investment sales totaled \$69 million on five transactions during the third quarter of 2023. This mirrors the total amount of sales from the second quarter of 2023, but with higher sales prices as the previous quarter totaled \$52.8 million.
- The most notable sale was 510-526 King Street in Old Town. This property was purchased by Melrose Solomon Enterprises for \$29.5 million, or \$246 PSF. Also, Young Nam Chun purchased 10201 Fairfax Boulevard in Fairfax City for a total of \$12.5 million, or \$140 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.

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
GENERAL DYNAMICS MISSION SYSTEMS INC	13857 McLearen Rd	Herndon	Renewal	202,075
LOCKHEED MARTIN	13560 Dulles Technology Dr	Herndon	Extension	189,764
GSA - DEA	15000 Conference Center Dr	Rt. 28 South/Chantilly	New Lease	175,000
VERISIGN	12120 Sunrise Valley Dr	Reston	New Lease	124,225
ARCFIELD	14291 Park Meadow Dr	Rt. 28 South/Chantilly	New Lease	122,557
GSA - DEA	22400 Shaw Rd	Route 28 Corridor North	Renewal	75,963

Source: CoStar, CompStak, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
3702 PENDER DR	Fairfax Center	Aug-23	\$7,000,000	77,595	\$90	Undisclosed	Ambrish Gupta
10201 FAIRFAX BLVD 	Oakton/Fairfax City	Aug-23	\$12,500,000	88,995	\$140	Young Nam Chun	Acento Real Estate Partners Transwestern Investment Group
510-526 KING ST	Old Town	Jul-23	\$29,500,000	120,030	\$246	Melrose Solomon Enterprises	Brookfield Asset Management
1593 SPRING HILL RD	Tysons Corner	Jul-23	\$10,047,076	173,062	\$58	Berman Enterprises	Atlantic Realty Companies
1595 SPRING HILL RD	Tysons Corner	Jul-23	\$9,952,924	173,061	\$58	Berman Enterprises	Atlantic Realty Companies

 = Transwestern deal

Source: CoStar, Real Capital Analytics, Transwestern.

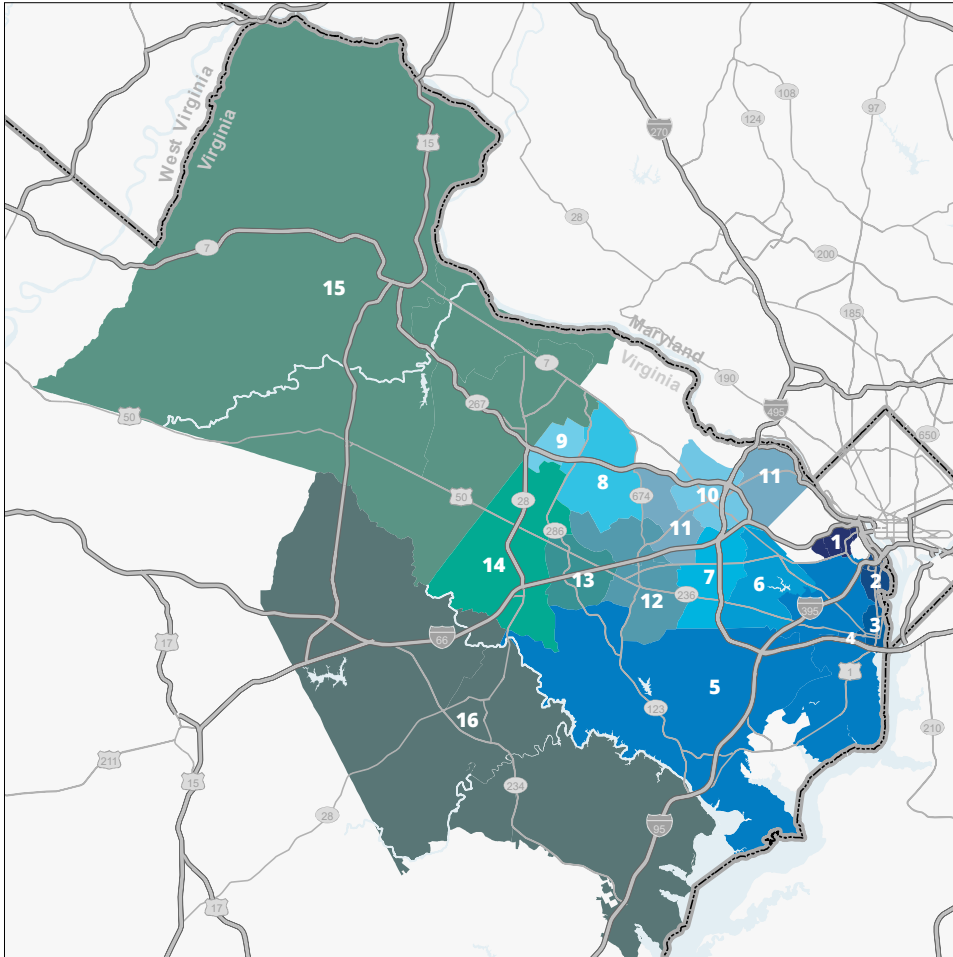


MARKET INDICATORS

All Classes of Space | Q3 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	4,745,719	19.1%	21.2%	511,217	37,000	(81,000)	\$40.51
NATIONAL LANDING	16,439,962	2,594,226	15.8%	17.8%	0	(30,000)	2,374,000	\$38.22
OLD TOWN	8,068,615	1,370,051	17.0%	18.3%	0	(122,000)	(135,000)	\$33.21
EISENHOWER AVE CORRIDOR	8,343,378	711,690	8.5%	9.0%	0	(40,000)	(107,000)	\$33.99
SPRINGFIELD/HUNTINGTON/I-95	8,329,354	1,857,446	22.3%	22.3%	0	(169,000)	(240,000)	\$30.26
BAILEY'S/FALLS CHURCH/ANNANDALE	6,342,695	1,283,127	20.2%	20.7%	0	(8,000)	(18,000)	\$29.09
MERRIFIELD	9,247,243	1,048,637	11.3%	12.3%	125,000	45,000	98,000	\$32.24
RESTON	20,777,227	3,145,672	15.1%	16.9%	568,925	150,000	(102,000)	\$35.54
HERNDON	12,029,084	2,802,777	23.3%	24.4%	0	(199,000)	(268,000)	\$32.66
TYSONS CORNER	31,021,909	4,088,688	13.2%	14.4%	0	729,000	569,000	\$37.33
MCLEAN/VIENNA	2,388,725	621,069	26.0%	26.4%	0	(10,000)	(387,000)	\$29.09
OAKTON/FAIRFAX CITY	5,725,889	1,093,645	19.1%	19.3%	0	23,000	(34,000)	\$24.94
FAIRFAX CENTER	7,254,955	1,519,188	20.9%	22.5%	0	41,000	116,000	\$30.51
RT. 28 SOUTH/CHANTILLY	14,492,593	1,757,952	12.1%	13.2%	0	162,000	170,000	\$28.68
LOUDOUN COUNTY	16,597,058	2,516,114	15.2%	16.2%	0	(43,000)	(20,000)	\$28.34
PRINCE WILLIAM COUNTY	6,694,183	1,325,448	19.8%	20.2%	0	(33,000)	(123,000)	\$26.20
TOTAL	198,573,574	32,481,447	16.4%	17.6%	1,205,142	533,000	1,812,000	\$33.44

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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