TRANSWESTERN

NORTHERN VIRGINIA OFFICE MARKET

Q4 2023

TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.6	2.5	↑	3.3	↓
NET ABSORPTION (THOUSANDS SF)	(547.0)	(133.0)	↓	(25.1)	↔
DIRECT VACANCY RATE	16.5%	16.3%	↑	15.6%	↔
DIRECT VACANT SF (MSF)	32.8	31.9	↑	30.6	↔
UNDER CONSTRUCTION (MSF)	1.1	3.5	↓	3.6	↓
ASKING RENT, FULL SERVICE (PSF)	$33.39	$33.45	↓	$33.42	↔
SALES VOLUME (MILLIONS)	**$144.7**	**$147.3**	↓	**$500.6**	↓

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

OFFICE MARKET WEAKENS IN LAST QUARTER OF 2023

The office market weakened in the fourth quarter with 547,000 SF of negative absorption, due to the several large-scale move-outs across the region. The direct vacancy rate increased by 10 basis points to 16.5%. Asking rentals rates declined 10 basis points to $33.39 PSF.

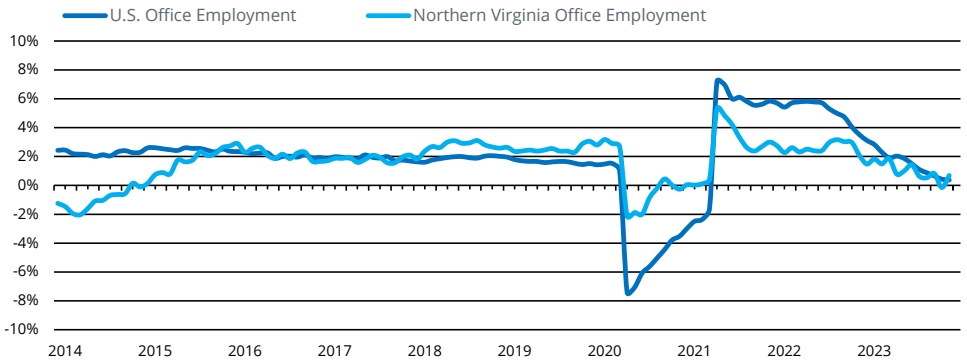
We expect office market conditions to remain soft in Northern Virginia through 2024, as future move-outs and rightsizing, coupled with limited leasing activity, will drag the overall market. Top tier space will remain in demand, with most of the pressure on Class B product. Although demolitions and conversions of obsolete office product to alternative property types will help, it will not be the entire solution. The recent news of the possible relocation of the Washington Capitals and Wizards out of the East End to Alexandria, could boost economic development and spur demand in the area. However, traffic and other concerns voiced by residents could alter this plan.

ECONOMY

Office-Using Job Growth Steady Year-Over-Year

- 24,500 new jobs were added to the Northern Virginia economy during the 12-months ending in November 2023, which is just below the pre-COVID average of 27,100. The industry sector that experienced the largest growth was healthcare, which added 8,400 new jobs in that timespan.
- Office-using jobs added 5,100 new employees in the 12-months ending November 2023, which is below the pre-COVID average of 14,500. Physician offices were the most successful in the past 12 months, adding 6,300 new jobs. Administrative support positions shed 4,000 jobs during this period.
- The unemployment rate in Northern Virginia is 2.6% in October 2023 and averaged 2.7% over the past three months. Arlington County has the lowest unemployment rate in Northern Virginia, at 2.2%.
- We expect office-using jobs to add just under 5,000 new jobs annually through the next five years. Most of this growth will occur within tech, physician offices, and the federal government.

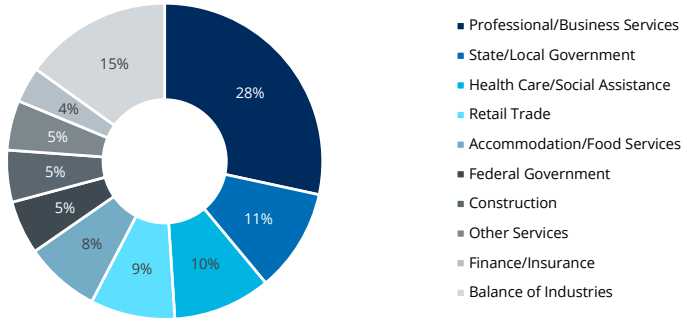
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

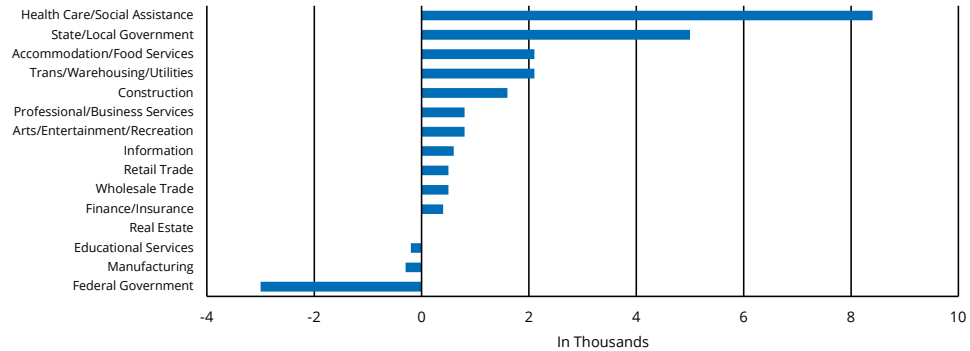
Northern Virginia | November 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Northern Virginia



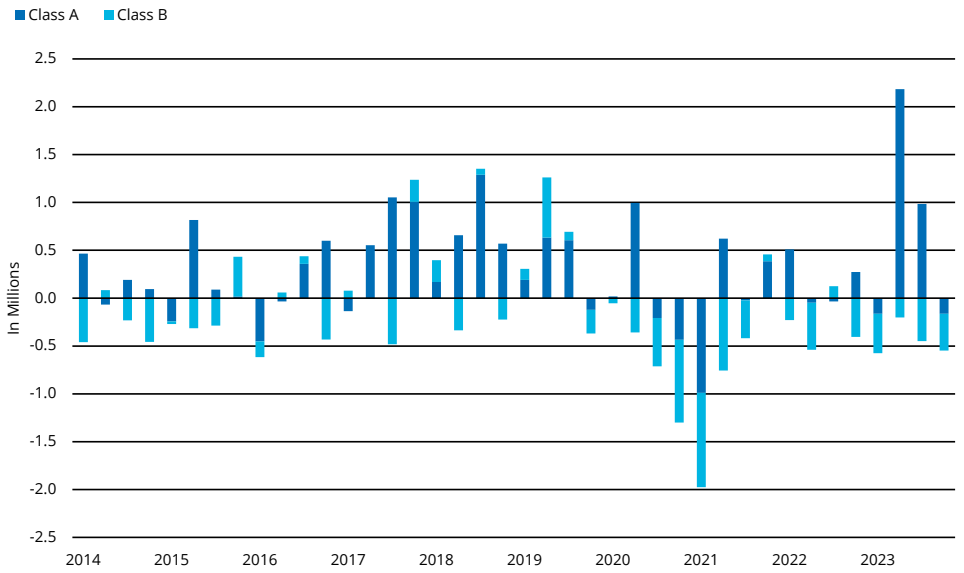
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

Office Market Swings Negative in Q4

- The Northern Virginia office market struggled at the end of 2023 as the net absorption totaled negative 547,000 SF. This negative absorption was aided by multiple large-scale move-outs that occurred across several submarkets.
- Class A product weakened in the quarter, totaling 163,000 SF of negative absorption. Class B/C product also struggled in the quarter as it totaled 384,000 SF of negative absorption.
- The Eisenhower Avenue Corridor was the largest source of positive net absorption at 94,000 SF. This was primarily aided by Washington University of Science & Technology signing for 59,600 SF, and then the GSA inking two deals at 4825 Mark Center Drive for 28,165 SF and 17,678 SF.
- Herndon had the largest decline in absorption, totaling negative 180,000 SF, due largely to Volkswagen vacating 185,013 SF at 2200 Woodland Pointe Avenue. In second was Reston, totaling negative 148,000 SF which was due to an undisclosed tenant vacating 28,786 SF at 1881 Campus Commons Drive.
- Net absorption should struggle to hit positive territory in 2024, as leases come due and tenants opt to right size their office space. Newer product will continue to outperform with greater gains in occupancy compared to older product, which will struggle.

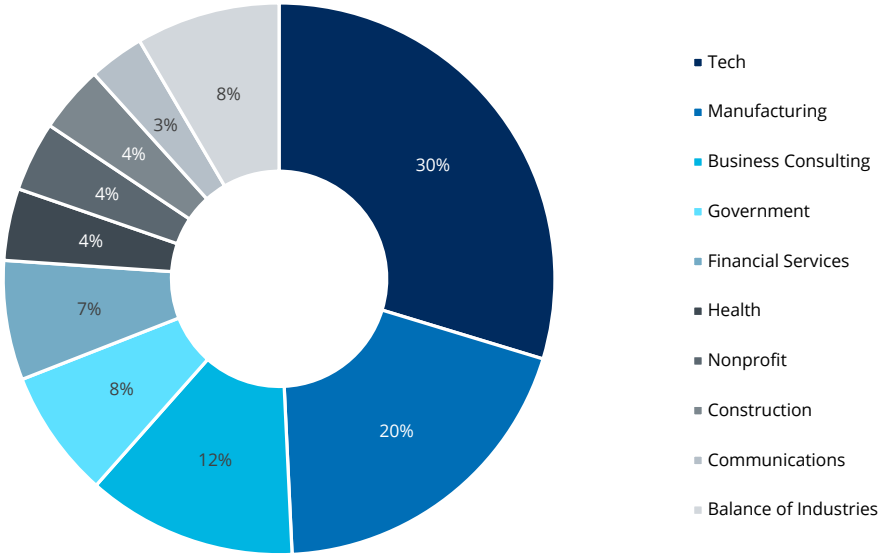
NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY

YTD 2023



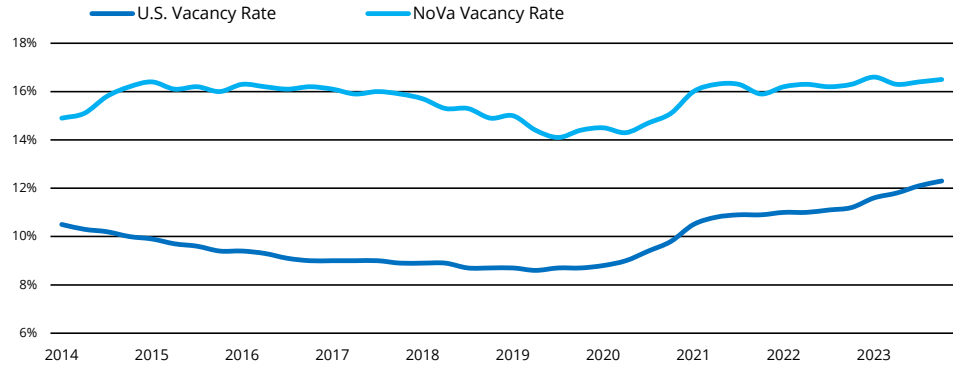
Source: CoStar, Transwestern

VACANCY

Vacancy Rate Slightly Increases

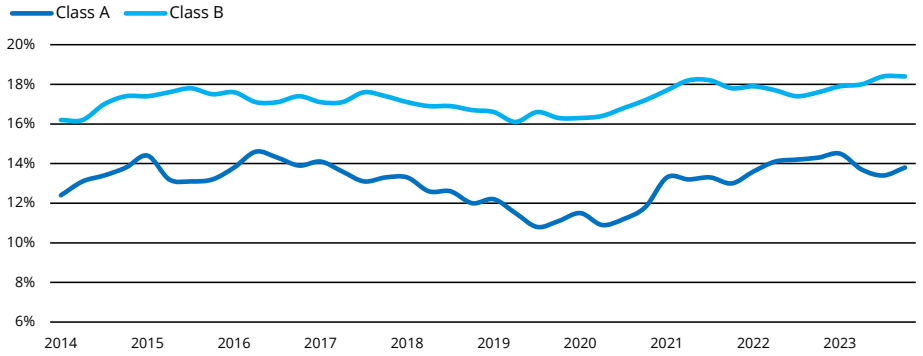
- The direct vacancy rate in Northern Virginia increased in the fourth quarter, ticking up 10-basis points to 16.5%. This marks the third quarter in a row with an increasing vacancy rate.
- Class A increased 40-basis points to 13.8% due in part to the Volkswagen vacancy in Herndon but also with In-Q-Tel vacating 60,679 SF at 2107 Wilson Boulevard in the RCB Corridor. Class B/C product vacancy rate remained stable at 18.4% as a demolition removed vacant product.
- Loudoun County had the largest decline in vacancy rate, decreasing 150-basis points to 13.7%, due largely the demolition of 22070 Broderick Drive which removed 397,344 SF from the inventory. Herndon had the largest increase in vacancy rate, increasing 150-basis points to 24.8%, due to aforementioned move-out.
- The vacancy rate is likely to rise as tenants rethink their current office space layout and potentially downsize and/or move to higher quality space.

DIRECT VACANCY RATE



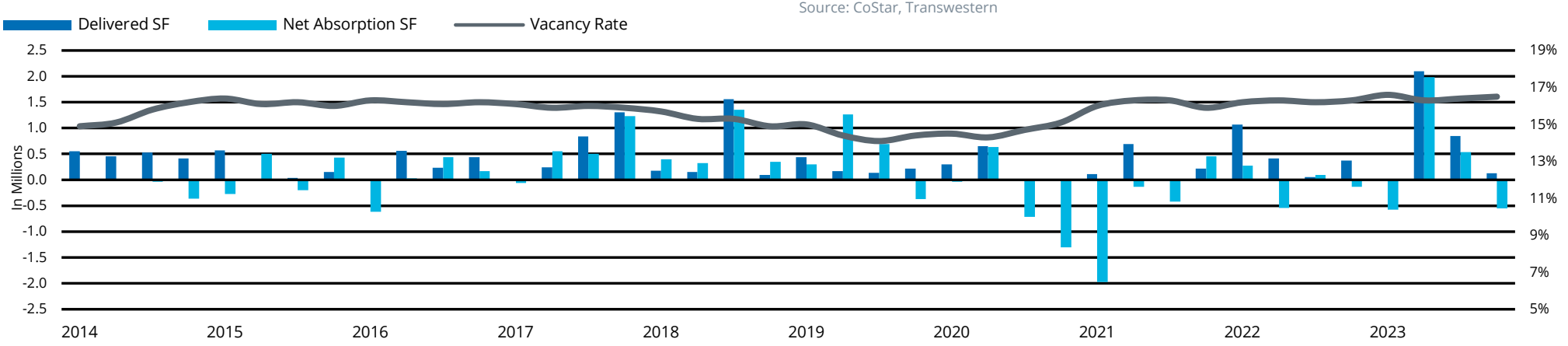
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



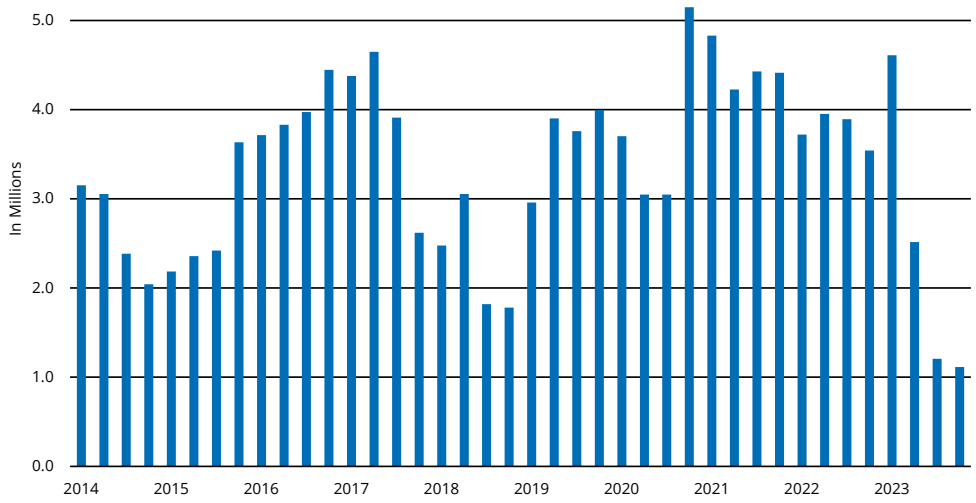
Source: CoStar, Transwestern

UNDER CONSTRUCTION

One Project Delivers as Construction Pipeline Shrinks

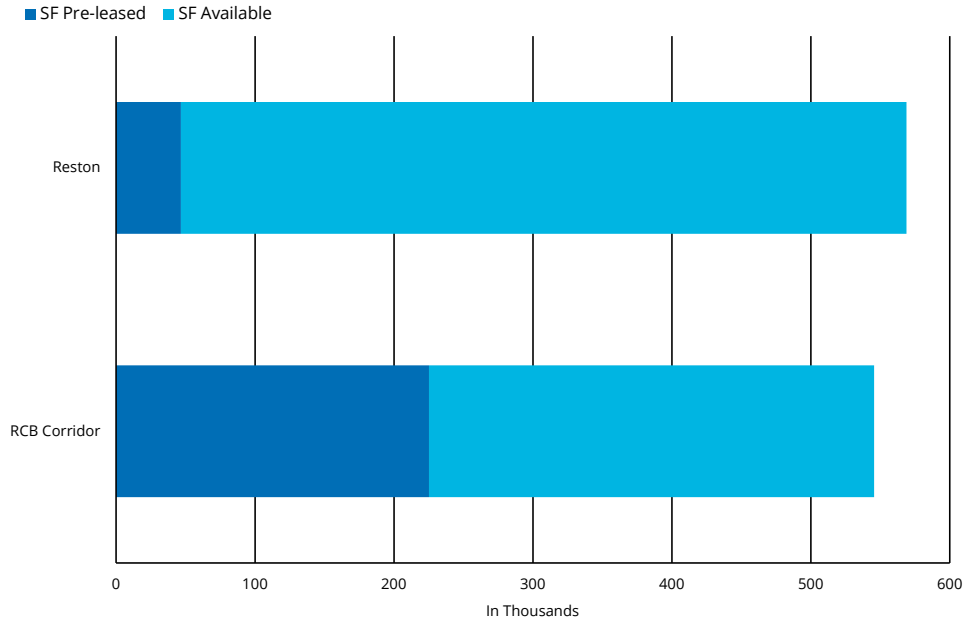
- 7171 Leesburg Pike delivered in the quarter. This building added 125,000 SF to the Merrifield office market and was 0% pre-leased at the time of delivery.
- There were no additions to the construction pipeline in the quarter. The current pipeline has 1.1 million SF under construction at 24% pre-leased, with two projects 3901 N. Fairfax Drive in the RCB Corridor and 1800 Reston Row Plaza in Reston, anticipated to deliver in the first quarter of 2024.
- The largest construction project continues to be 3401 Fairfax Drive – Fuse at Mason Square totaling 345,000 SF in the RCB Corridor. This project is currently 65.3% pre-leased 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 the construction pipeline to shrink as investors and developers pause plans due to the state of the office market and higher costs to develop. However, buildings that are able to find an anchor tenant may break ground.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



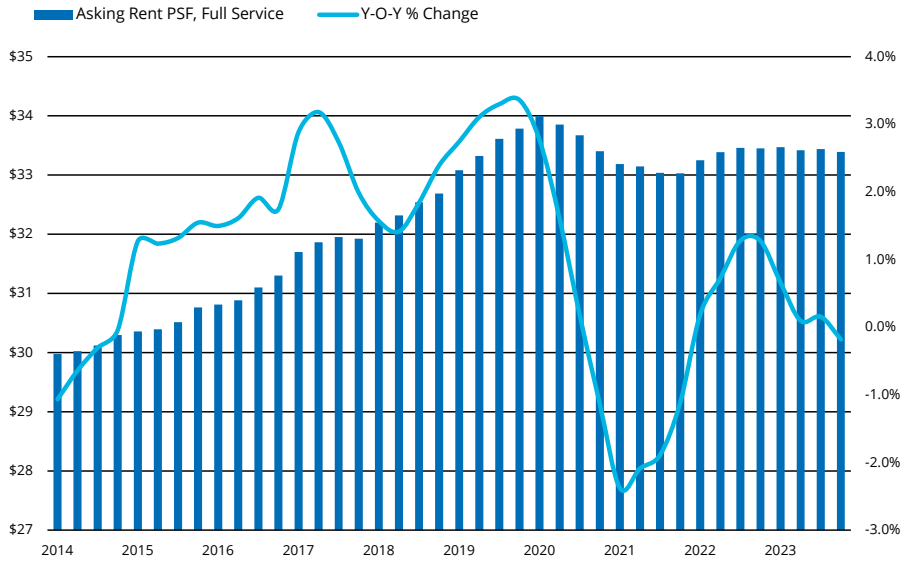
Source: CoStar, Transwestern

RENTAL RATES

Asking Rental Rates Trend Downward in Q4

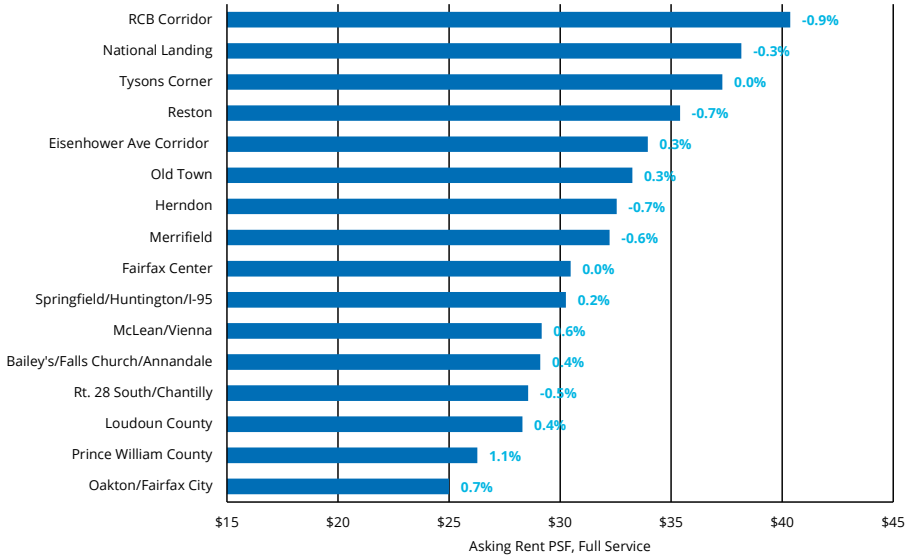
- Northern Virginia office asking rents slightly decreased in the fourth quarter, averaging $33.39 PSF. This is a 10-basis point decrease from the third quarter of 2023 and is a 20-basis point decreased since the fourth quarter of 2022.
- Class A rents experienced a decline of 30-basis points, falling to $38.56 PSF, while Class B/C space saw a 10-basis point increase to $28.03 PSF.
- Oakton/Fairfax City and McLean/Vienna tied at having the largest increase in asking rental rate, rising by 30-basis points to $25.00 PSF, and $29.17 PSF, respectively. RCB Corridor, Reston, and Rt. 28 South/Chantilly all experienced 40-basis point decline.
- 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 2023, tenant improvement allowances averaged approximately $115 PSF with 16.0 months of free rent. This compares to $114 PSF and 15.4 months during 2022.
- Asking rents will likely stabilize throughout 2024, while effective rents will remain under pressure due to elevated concessions. However, owners of aging and vacant product will be forced to lower asking rents to attract potential tenants.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



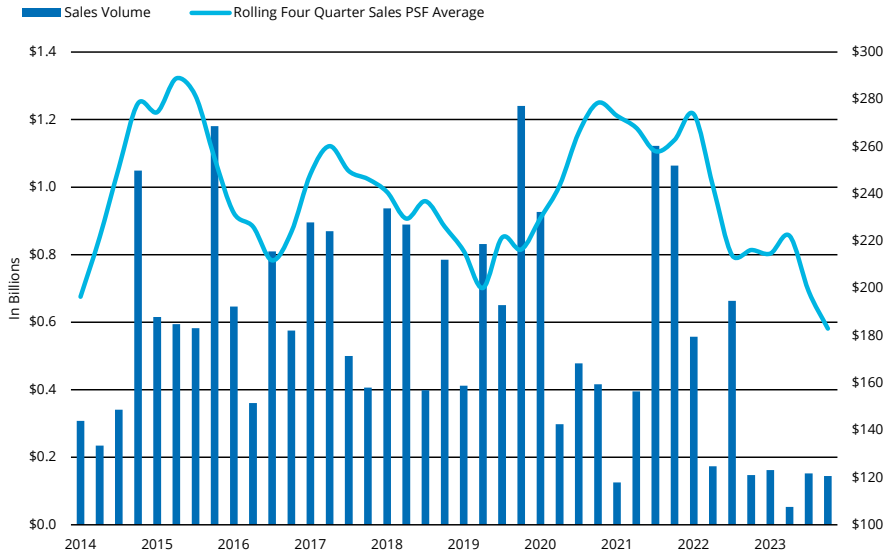
Source: CoStar, Transwestern

SALES

Investment Sales Market Soft

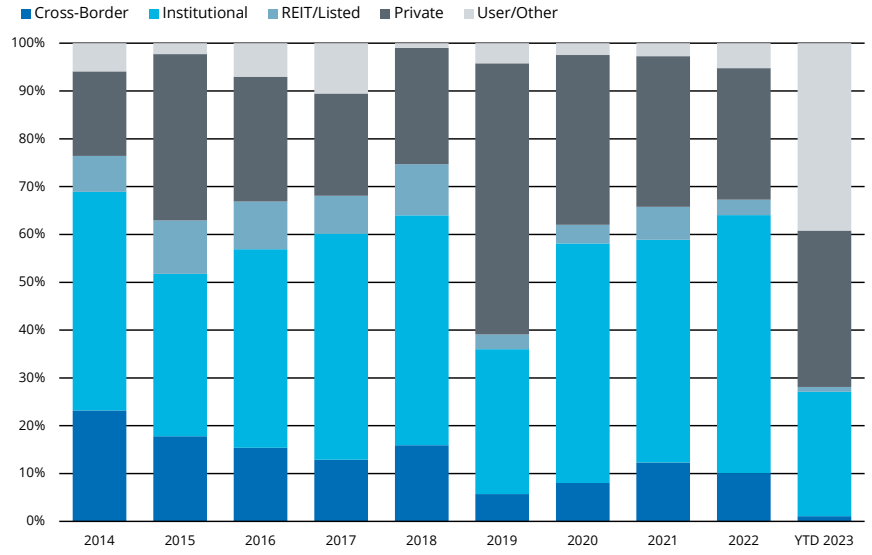
- Investment sales totaled $144.6 million on seven transactions during the fourth quarter of 2023. This is the second lowest total in 2023, with the second quarter totaling $54.8 million remains the lowest.
- The most notable sale was 13921 Park Center Road in Rt. 28 South/ Chantilly. This property was purchased by Starwood Capital Group for $40.8 million, or $260 PSF. Another notable sale was Penzance purchasing 1911 N. Fort Myer Drive in the RCB Corridor for $36 million, or $236 PSF.
- Out of the seven total transactions, two of the buildings were Class A product, while the remaining five were Class B/C. The Class A product totaled $59.3 million, or $188 PSF. While the Class B/C product totaled $85.3 million, or $199 PSF.
- Transaction volume will be limited in early 2024 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
AMAZON	1770 Crystal Dr	National Landing	Renewal	260,000
AMAZON	241 18th St S	National Landing	Renewal	88,000
AT&T	4807 Stonecroft Blvd	Rt. 28 South/Chantilly	New Lease	81,000
WASHINGTON UNI. OF SCIENCE & TECH	2900 Eisenhower Ave	Eisenhower Ave Corridor	New Lease	59,600
CAMBRIDGE ASSOCIATES	950 N Glebe Rd	RCB Corridor	New Lease	48,181
BAKER TILLY	8270 Greensboro Dr	Tysons Corner	New Lease	44,316

Source: CoStar, CompStak, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
8609 WESTWOOD CENTER DR	Tysons Corner	Nov-23	$18,518,500	157,700	$117	Bernstein Management Group	Atlantic Realty Companies TPG Angelo Gordon & Co., L.P.
1911 N FORT MYER DR	RCB Corridor	Nov-23	$36,008,762	152,869	$236	Penzance	JBG SMITH Properties
1901 N FORT MYER DR	RCB Corridor	Nov-23	$15,991,238	102,131	$157	Penzance	JBG SMITH Properties
13921 PARK CENTER RD	Rt. 28 South/Chantilly	Oct-23	$40,850,000	157,327	$260	Starwood Capital Group	The Peter Lawrence CRE
8607 WESTWOOD CENTER DR	Tysons Corner	Oct-23	$17,380,000	87,545	$199	Bernstein Management Group	The Brick Companies

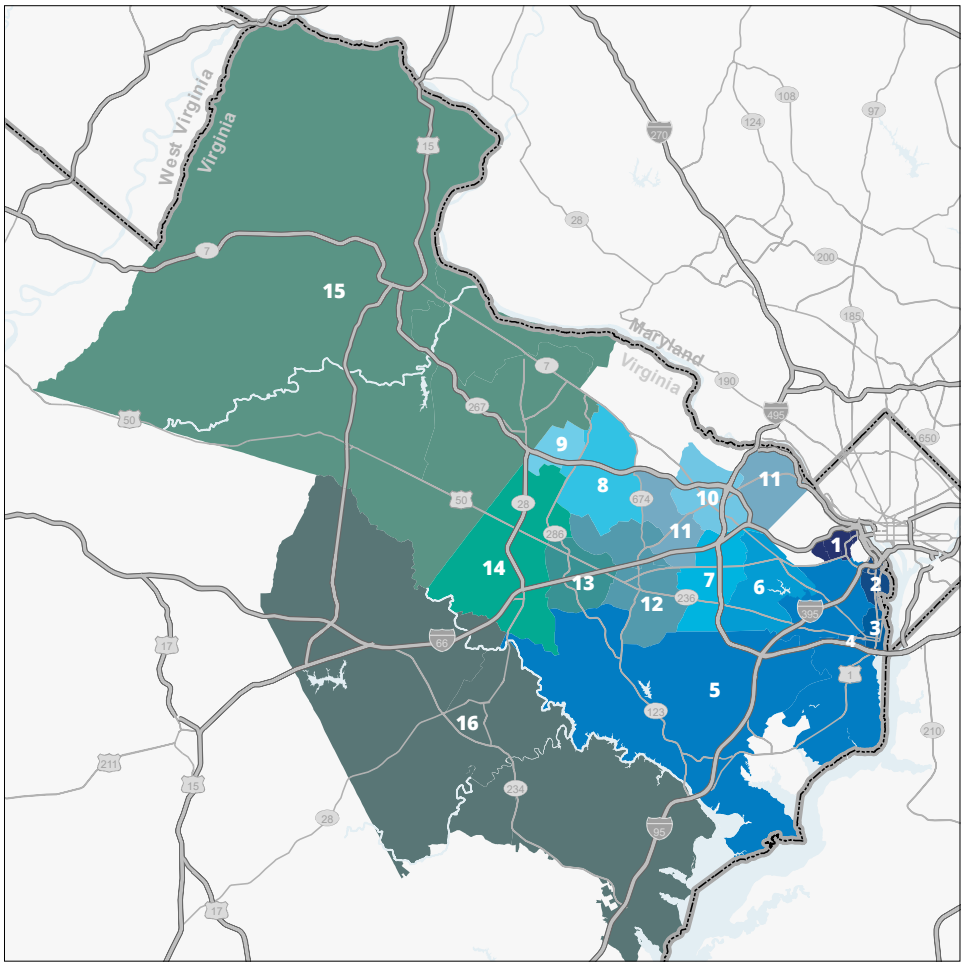
Source: CoStar, Real Capital Analytics, Transwestern.

MARKET INDICATORS

All Classes of Space | Q4 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	4,859,894	19.6%	21.5%	545,576	(114,000)	39,000	$40.36
NATIONAL LANDING	16,439,962	2,633,682	16.0%	17.7%	0	(39,000)	1,904,000	$38.17
OLD TOWN	8,068,615	1,355,527	16.8%	18.6%	0	15,000	(87,000)	$33.25
EISENHOWER AVE CORRIDOR	8,343,378	617,410	7.4%	8.2%	0	94,000	13,000	$33.95
SPRINGFIELD/ HUNTINGTON/I-95	8,329,354	1,878,269	22.6%	22.6%	0	(21,000)	(214,000)	$30.27
BAILEY'S/FALLS CHURCH/ ANNANDALE	6,342,695	1,293,910	20.4%	20.9%	0	(11,000)	(19,000)	$29.11
MERRIFIELD	9,372,243	1,173,405	12.5%	13.3%	0	0	154,000	$32.23
RESTON	20,777,227	3,293,190	15.9%	17.9%	568,925	(148,000)	(247,000)	$35.40
HERNDON	12,029,084	2,983,213	24.8%	24.6%	0	(180,000)	(451,000)	$32.55
TYSONS CORNER	31,021,909	4,032,848	13.0%	14.2%	0	56,000	634,000	$37.31
MCLEAN/VIENNA	2,388,725	633,012	26.5%	26.9%	0	(12,000)	(405,000)	$29.17
OAKTON/FAIRFAX CITY	5,725,889	1,089,637	19.0%	19.1%	0	4,000	21,000	$25.00
FAIRFAX CENTER	7,254,955	1,547,482	21.3%	22.9%	0	(28,000)	85,000	$30.47
RT. 28 SOUTH/CHANTILLY	14,492,593	1,789,835	12.4%	13.2%	0	(32,000)	72,000	$28.57
LOUDOUN COUNTY	16,199,714	2,219,361	13.7%	15.1%	0	(101,000)	(36,000)	$28.30
PRINCE WILLIAM COUNTY	6,694,183	1,355,572	20.3%	20.4%	0	(30,000)	(67,000)	$26.27
TOTAL	**198,301,230**	**32,756,247**	**16.5%**	**17.7%**	**1,114,501**	**(547,000)**	**1,396,000**	**$33.39**

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.

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