

NORTHERN VIRGINIA OFFICE MARKET

Q1 2024

TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.5	2.5	↔	3.3	↓
NET ABSORPTION (THOUSANDS SF)	(581.0)	(575.0)	↓	(69.3)	↔
DIRECT VACANCY RATE	16.6%	16.6%	↔	15.7%	↔
DIRECT VACANT SF (MSF)	32.9	32.5	↑	30.8	↔
UNDER CONSTRUCTION (MSF)	1.2	4.6	↓	3.5	↓
ASKING RENT, FULL SERVICE (PSF)	\$33.34	\$33.47	↓	\$33.43	↔
SALES VOLUME (MILLIONS)	\$350.0	\$162.3	↑	\$497.5	↓

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

OFFICE MARKET SOFTENS IN THE FIRST QUARTER OF 2024

The office market struggled in the first quarter with 581,000 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 16.6%. Asking rentals rates decreased 20 basis points to \$33.34 PSF.

Economic uncertainty will impact overall demand in 2024, as tenants show caution inking new deals and most lease transactions right size. These headwinds will limit leasing activity and drag the overall market. The pipeline has eased which will help even out supply/demand fundamentals. In addition, several obsolete office buildings are slated to convert or be demolition, which will further help stabilize the market.

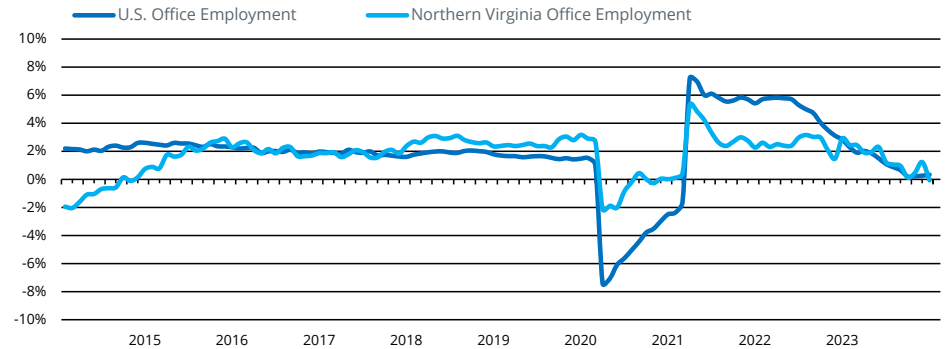


ECONOMY

Office-Using Job Market Stagnates at Start of 2024

- 14,900 new jobs were added to the Northern Virginia economy during the 12-months ending in January 2024, this is well below the pre-COVID average of 27,100. The industry sector that experienced the largest growth continues to be healthcare, which added 7,500 new jobs in that timespan.
- Office-using jobs declined by 500 net jobs in the 12-months ending January 2024, marking the first year-over-year job loss since November 2020. 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 2.4% in January 2024 and averaged 2.5% over the past three months. Arlington County continues to have the lowest unemployment rate in Northern Virginia, at 2.1%.
- 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.

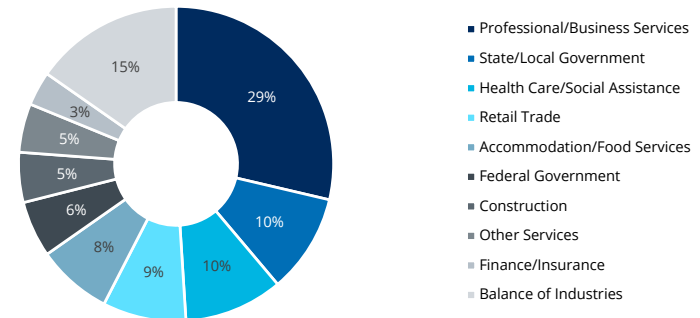
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

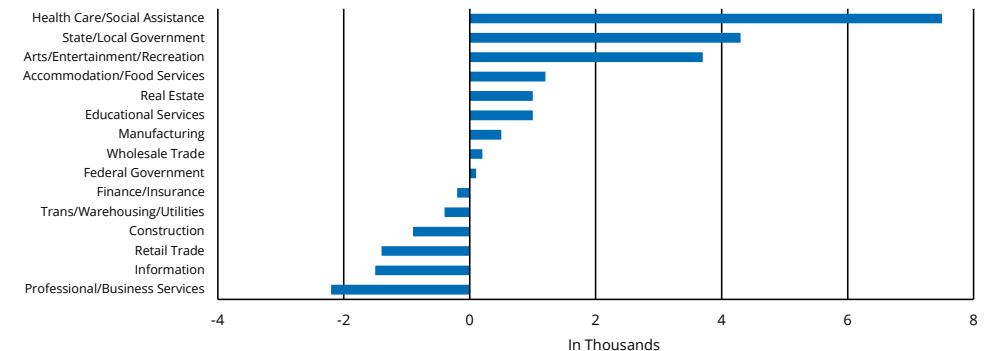
Northern Virginia | January 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Northern Virginia



Source: Bureau of Labor Statistics, Transwestern

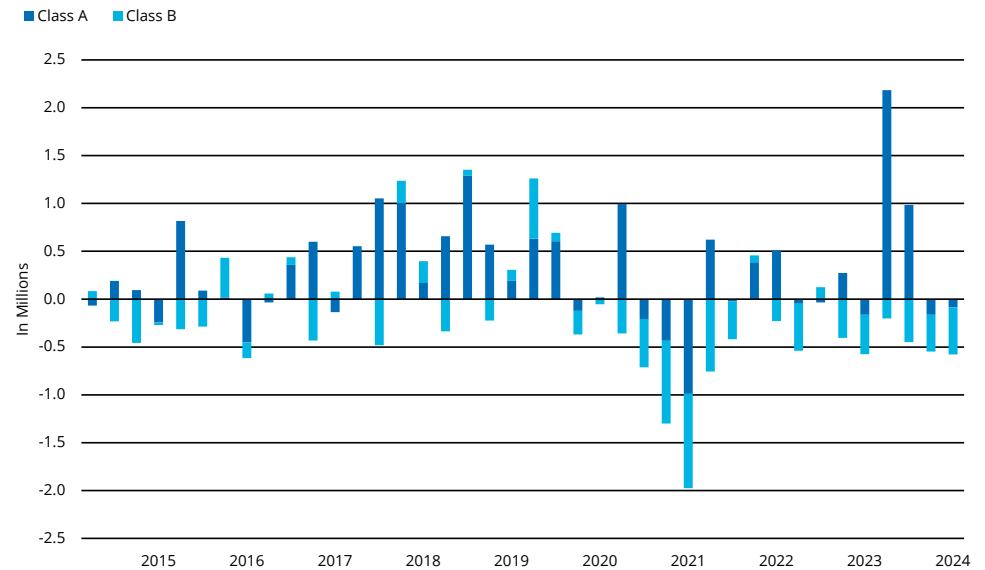


NET ABSORPTION

Office Market Remains Negative in Q1 2024

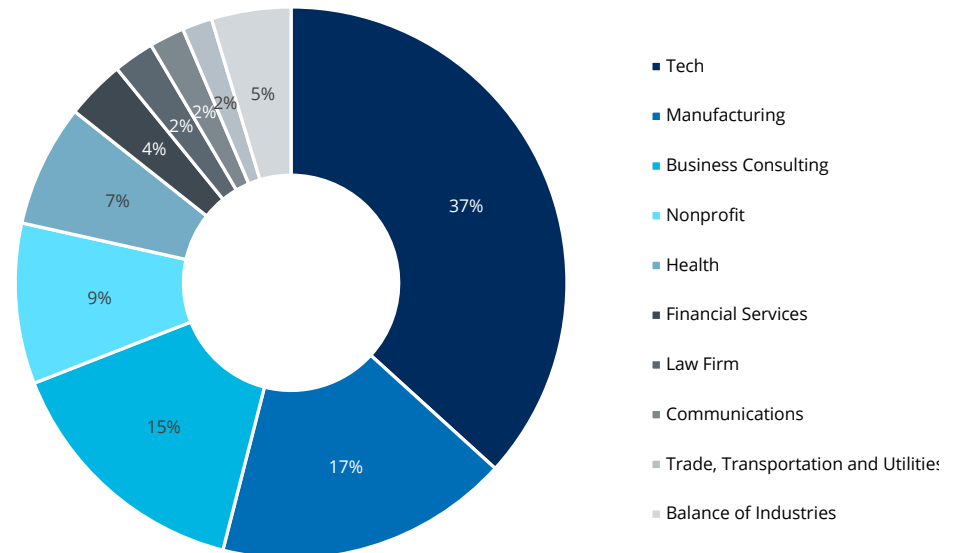
- The Northern Virginia office market weakened throughout the first quarter of 2024, totaling negative 581,000 SF net absorption. This was aided by multiple large-scale move-outs including Deloitte vacating 108,000 SF at 1777 N Kent Street.
- Class A product struggled in the quarter, totaling negative 86,000 SF in net absorption. Class B/C absorption declined significantly, totaling negative 493,000 SF.
- Rt. 28 South/Chantilly was the largest source of positive net absorption at 58,000 SF. This was aided by Blue Halo signing for 19,800 SF at 13900 Lincoln Park Drive and limited moveouts to counteract any lease signings.
- Merrifield experienced the largest decline in absorption, totaling negative 167,000 SF, aided by Inova vacating 91,889 SF at 8111 Gatehouse Road. National Landing had the second largest negative absorption, totaling 112,000 SF which was aided by Amazon vacating 69,000 SF at 2345 Crystal Drive.
- Net absorption will likely oscillate but remain mostly negative throughout 2024 as select tenants right size when their leases expire. Class A buildings will continue to perform better than Class B/C product as tenants may seek smaller, higher quality, space.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2024



Source: CoStar, Transwestern

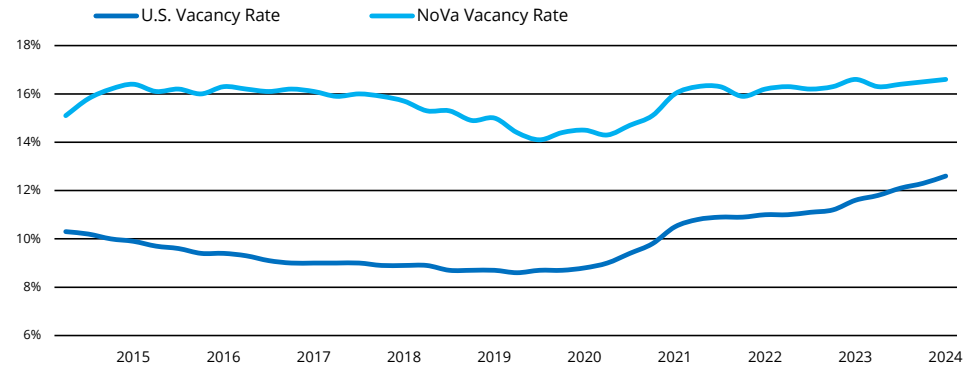


VACANCY

Vacancy Rate Raises Slightly

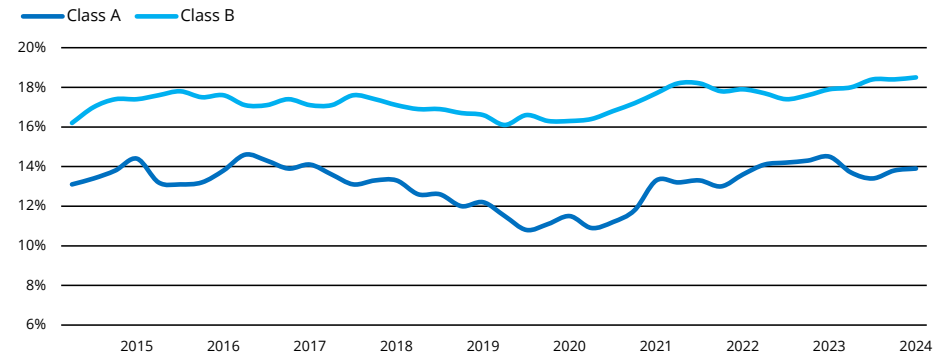
- The direct vacancy rate in Northern Virginia rose at the start of 2024, edging up 10-basis points to 16.6%. This is the fourth quarter in a row to experience a 10-basis point increase.
- Both Class A and Class B/C product experienced a 10-basis point increase, rising to 13.9% and 18.5%, respectively. This is the second consecutive quarter where Class A space has seen rises in vacancy rate.
- Old Town had the largest decline in vacancy rate, decreasing 310-basis points to 13.7%, due primarily to the conversion of 1101 King Street to multifamily, removing 196,120 SF of office space from the inventory. Merrifield had the largest increase in vacancy rate, rising 180-basis points to 14.3%, due to aforementioned Inova move-out.
- The vacancy rate is likely to continue to rise as tenants rethink their current office space layout and potentially downsize and/or move to higher quality space.

DIRECT VACANCY RATE



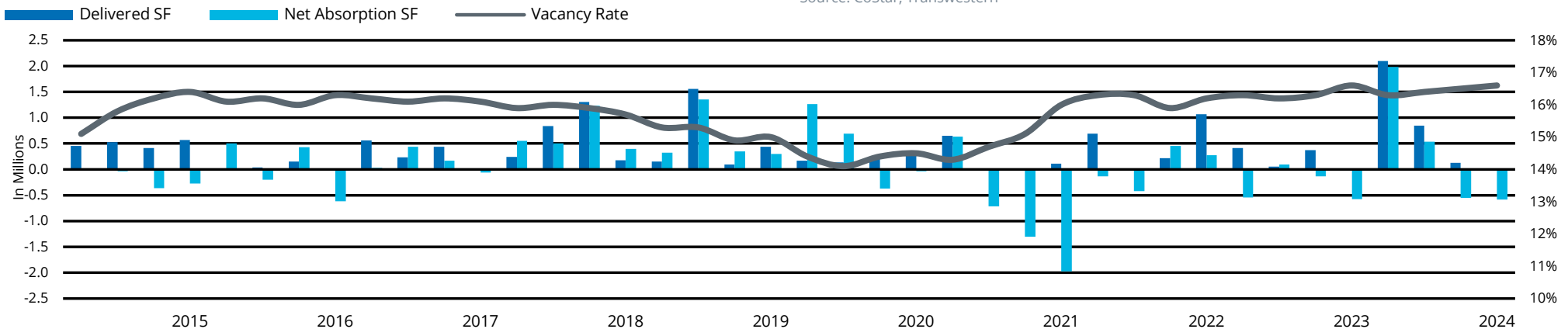
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

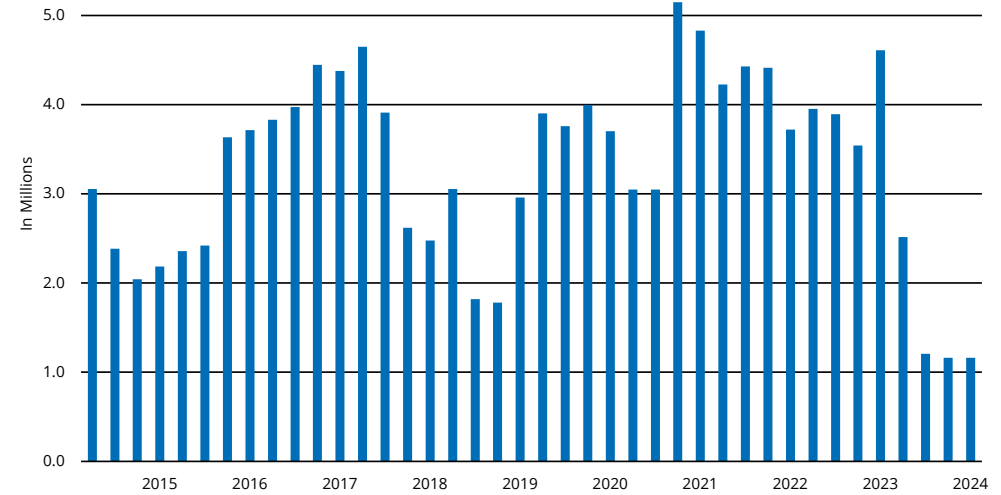


UNDER CONSTRUCTION

Construction Pipeline Holds at Five Projects

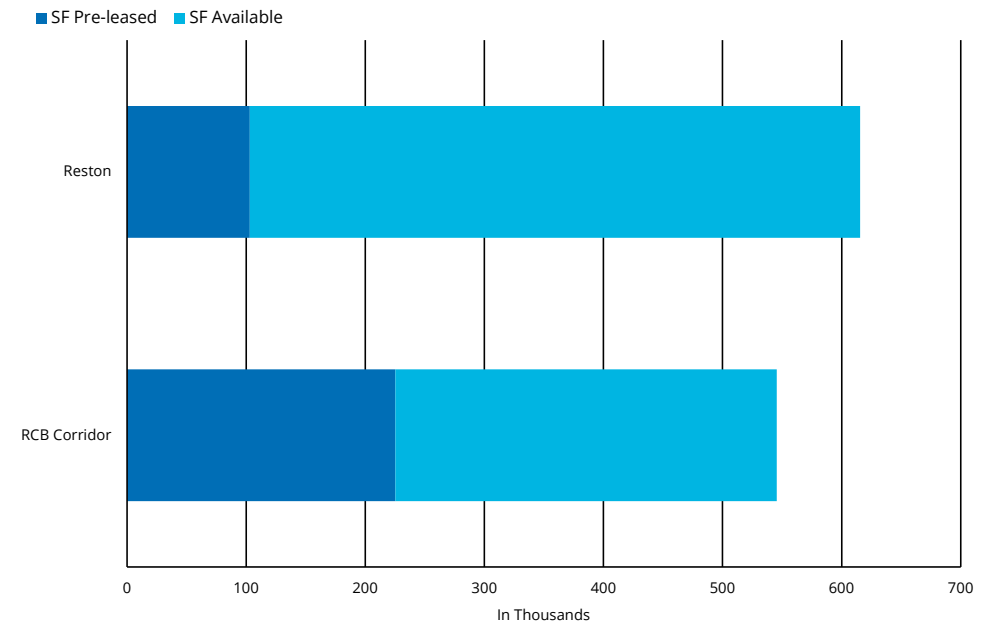
- There were no deliveries from the construction pipeline in the first quarter of 2024. There is a total of five projects underway, totaling 1.1 million SF at 28% pre-leased, with four of those projects anticipated to deliver throughout 2024.
- Two projects are slated to be delivered in the second quarter of 2024, 3901 N. Fairfax Drive in the RCB Corridor and 1800 Reston Row Plaza in Reston, which total 200,576 SF and 328,380 SF, respectively.
- 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.
- We expect the construction pipeline to likely shrink in the coming quarters as investors and developers pause due to elevated interest rates and tighter lending. Office construction projects will likely only break ground if a strong anchor tenant is located.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

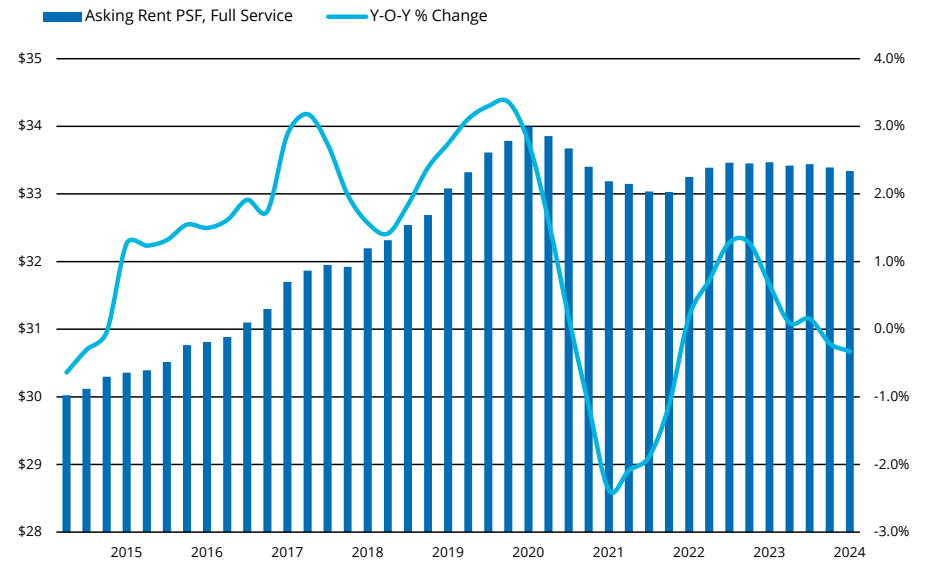


RENTAL RATES

Asking Rental Rates Maintain Downward Trend in Q1 2024

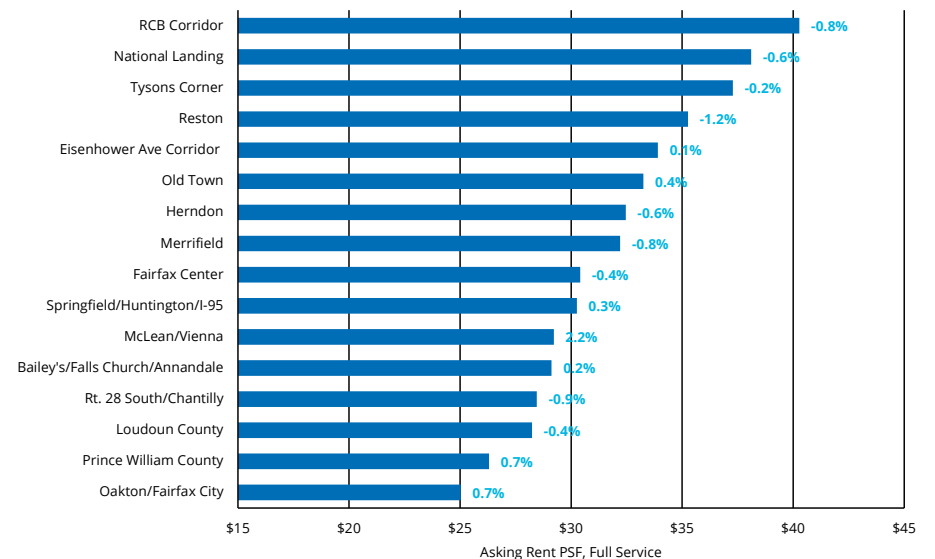
- Northern Virginia office asking rents decreased in the first quarter, declining 20-basis points to \$33.34 SF. This marks a year-over-year decline of 40-basis points, when rents averaged \$33.47 PSF in the first quarter of 2023.
- Class A rents edged down 20-basis points, declining to \$38.46 PSF, while Class B/C space remained stable with a one cent decrease to \$28.02 PSF.
- Reston and Rt. 28 South/Chantilly had the largest decrease in asking rental rate, dropping 40-basis points to \$35.26 PSF, and \$28.46 PSF, respectively. RCB Corridor, Reston, and Rt. 28 South/Chantilly all experienced 40-basis point decline.
- Concession packages will likely remain elevated throughout 2024, which will put downward pressure on effective rates. For a typical ten-year or greater term for a new lease signed in the first quarter of 2024, tenant improvement allowances averaged approximately \$127 PSF with 16.1 months of free rent. This compares to \$115 PSF and 16 months during 2023.
- Asking rents will likely stabilize throughout 2024, as demand for office space remains sluggish. Landlords facing financial pressure could lower asking rents, as offering generous concessions becomes increasingly challenging.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

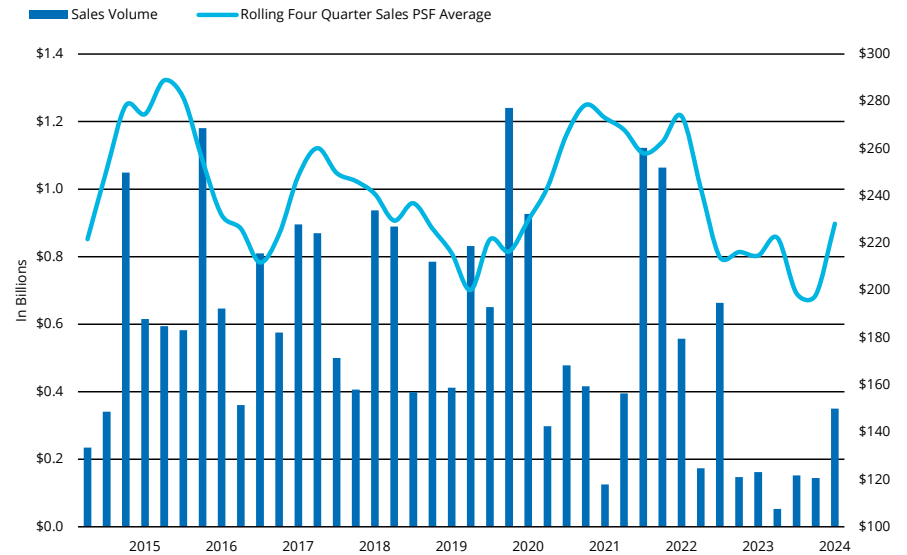


SALES

CoStar Group Sale Anchors Investment Market

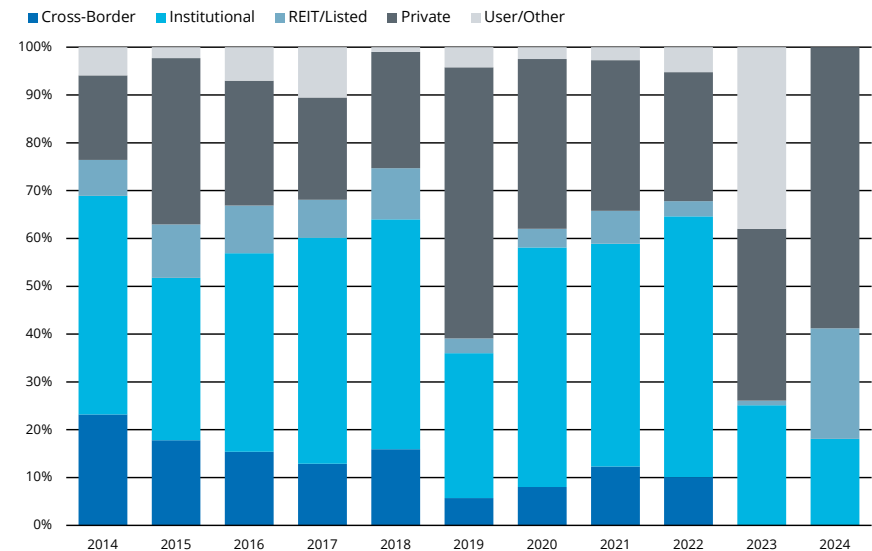
- Investment sales totaled \$350 million in the first quarter from two transactions, this is the highest total since the third quarter of 2022 which totaled \$663 million.
- The spike in transaction volume can be attributed to one sale, CoStar Group purchasing 1201 Wilson Boulevard in the RCB Corridor for \$325 million, or \$588 PSF. The other transaction, also in the RCB Corridor, was 1616 N. Fort Myer Drive which was purchased by Dreyfuss Management for \$25 million, or \$83 PSF.
- With the CoStar Group deal at 1201 Wilson Boulevard buoying the investment sales market for the quarter, the first quarter of 2024 has hit 62% of the amount of sales that occurred in all of 2023, which totaled \$556.7 million.
- Transaction volume will remain low throughout 2024 as interest rates remain high and the demand for office space continues to be low, giving investors pause until market conditions become more favorable.

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
COSTAR	1201 Wilson Blvd	RCB Corridor	Owner User	150,000
GDIT	7770 Backlick Rd	Springfield/Huntington/I-95	Renewal	114,867
BOEING	14660 Lee Rd	Rt. 28 South/Chantilly	Renewal	80,339
ACCENTURE	5155 Parkstone Dr	Rt. 28 South/Chantilly	Renewal	77,000
WEWORK	1201 Wilson Blvd	RCB Corridor	Renewal	64,728
PALO ALTO NETWORKS INC	1950 Opportunity Way	Reston	New Lease	58,004

Source: CoStar, CompStak, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1201 WILSON BLVD	RCB Corridor	Feb-24	\$325,000,000	552,279	\$588	CoStar Group	JBG SMITH Properties PGIM, Inc.
1616 N FORT MYER DR	RCB Corridor	Jan-24	\$18,518,500	302,816	\$83	Dreyfuss Management	Nuveen
13600 DULLES TECHNOLOGY DR	Herndon	Dec-23	\$36,008,762	119,070	\$102	Mandrake Capital Partners	The Goldman Sachs Group, Inc.
13650 DULLES TECHNOLOGY DR	Herndon	Dec-23	\$15,991,238	117,800	\$100	Mandrake Capital Partners	The Goldman Sachs Group, Inc.
10621 GATEWAY BLVD	Prince William County	Dec-23	\$40,850,000	31,041	\$147	Viresh & Surekha B Desai	WDP & Associates Consulting Engineers, Inc.

Source: CoStar, Real Capital Analytics, Transwestern.

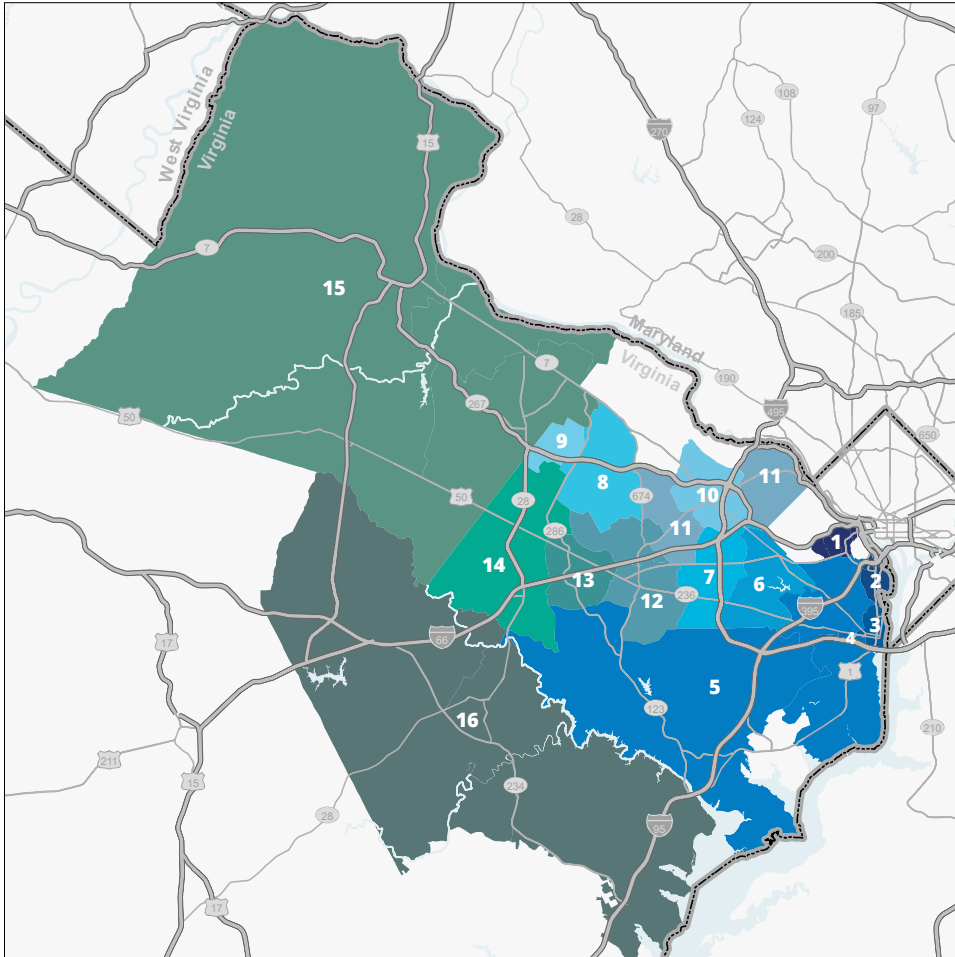


MARKET INDICATORS

All Classes of Space | Q1 2024

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	24,658,917	4,808,489	19.5%	21.4%	545,576	(110,000)	(134,000)	\$40.28
NATIONAL LANDING	16,439,962	2,745,474	16.7%	18.1%	0	(112,000)	1,828,000	\$38.11
OLD TOWN	7,764,037	1,059,791	13.7%	15.1%	0	(9,000)	(100,000)	\$33.26
EISENHOWER AVE CORRIDOR	8,343,378	684,157	8.2%	9.0%	0	(67,000)	(45,000)	\$33.91
SPRINGFIELD/HUNTINGTON/I-95	8,329,354	1,852,448	22.2%	22.2%	0	26,000	(154,000)	\$30.26
BAILEY'S/FALLS CHURCH/ANNANDALE	6,342,695	1,281,224	20.2%	20.7%	0	13,000	0	\$29.12
MERRIFIELD	9,372,243	1,340,231	14.3%	15.5%	0	(167,000)	(96,000)	\$32.21
RESTON	20,777,227	3,272,413	15.8%	17.6%	615,611	21,000	(114,000)	\$35.26
HERNDON	12,029,084	3,031,329	25.2%	25.8%	0	(48,000)	(481,000)	\$32.46
TYSONS CORNER	31,021,909	4,135,220	13.3%	14.3%	0	(102,000)	637,000	\$37.28
MCLEAN/VIENNA	2,388,725	664,066	27.8%	28.2%	0	(31,000)	(67,000)	\$29.22
OAKTON/FAIRFAX CITY	5,725,889	1,082,766	18.9%	19.0%	0	7,000	17,000	\$25.03
FAIRFAX CENTER	7,254,955	1,556,188	21.5%	23.1%	0	(9,000)	65,000	\$30.41
RT. 28 SOUTH/CHANTILLY	14,492,593	1,731,865	12.0%	12.7%	0	58,000	210,000	\$28.46
LOUDOUN COUNTY	16,183,528	2,241,419	13.9%	15.1%	0	(38,000)	(102,000)	\$28.24
PRINCE WILLIAM COUNTY	6,694,183	1,368,960	20.5%	20.6%	0	(13,000)	(76,000)	\$26.31
TOTAL	197,818,679	32,856,040	16.6%	17.7%	1,161,187	(581,000)	1,388,000	\$33.34

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

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FOR MORE INFORMATION

Elizabeth Norton

Senior Managing Research Director | Research Services
 Elizabeth.Norton@transwestern.com
 202-775-7026

Trey Wells

Senior Researcher | Mid-Atlantic
 Robert.Wells@transwestern.com
 202-775-7015