TRANSWESTERN

# NORTHERN VIRGINIA OFFICE MARKET

Q2 2024

## TRENDLINES

| | Q2 2024 | Q2 2023 | ONE-YEAR TREND | FIVE-YEAR AVERAGE | 12-MONTH FORECAST |
|---|---|---|---|---|---|
| UNEMPLOYMENT RATE | 2.3 | 2.4 | ↓ | 3.3 | ↓ |
| NET ABSORPTION (THOUSANDS SF) | (210.0) | 1,985.0 | ↓ | (76.0) | ↔ |
| DIRECT VACANCY RATE | 16.7% | 16.3% | ↑ | 15.7% | ↔ |
| DIRECT VACANT SF (MSF) | 33.1 | 32.2 | ↑ | 30.9 | ↔ |
| UNDER CONSTRUCTION (MSF) | 1.0 | 2.5 | ↓ | 3.4 | ↓ |
| ASKING RENT, FULL SERVICE (PSF) | $33.27 | $33.42 | ↓ | $33.43 | ↔ |
| SALES VOLUME (MILLIONS) | **$65.6** | **$52.9** | ↑ | **$477.0** | ↓ |

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

## OFFICE MARKET SOFTENS IN THE SECOND QUARTER OF 2024

The office market weakened in the second quarter with 210,000 SF of negative absorption, due to several large-scale move-outs across the substate. The direct vacancy rate increased by 10 basis points to 16.7%. Asking rentals rates decreased 20 basis points to $33.27 PSF.

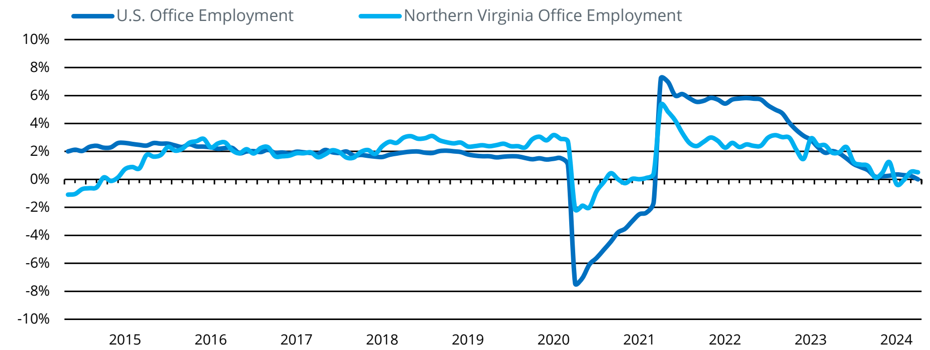
Elevated inflation and interest rates will fuel economic uncertainty for most of 2024. This will cause select tenants to limit inking new deals and most lease transactions will right size. Businesses are watching the Fed, as a rate cut could come if inflation lowers to their target rate of 2.0% later this year. The pipeline is at historic lows and will help even out supply/demand. We expect generous concession levels to moderate as landlords who have the resources to perform shrink. This should spark tenants in the market to act sooner rather than later.

## ECONOMY

### Office-Using Job Growth Turns Positive For Second Quarter of 2024

- 20,900 new jobs were added to the Northern Virginia economy during the 12-months ending in April 2024, this is below the pre-COVID average of 27,100. The industry sector that experienced the largest growth continues to be healthcare and social services, which added 5,400 new jobs in that timespan.
- Office-using jobs increased by 3,800 net jobs in the 12-months ending April 2024. Professional and business services experienced the highest growth for office-using jobs in the past 12 months, adding 2,300 new jobs. Information services shed 700 jobs during this period.
- The unemployment rate in Northern Virginia is 2.1% in April 2024 and averaged 2.3% over the past three months. Arlington County continues to have the lowest unemployment rate in Northern Virginia, at 1.7%.
- 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.

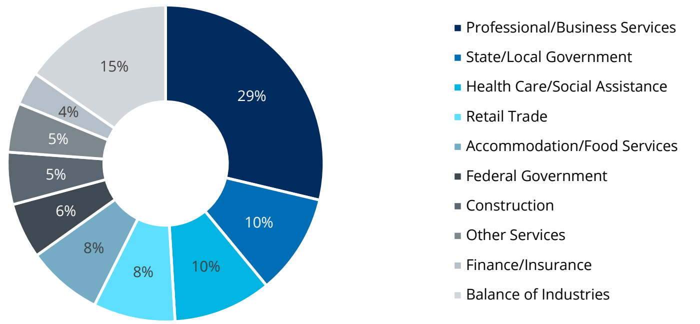
## Y-O-Y CHANGE IN OFFICE JOBS




Source: Bureau of Labor Statistics, Transwestern

## SHARE OF EMPLOYEES BY INDUSTRY

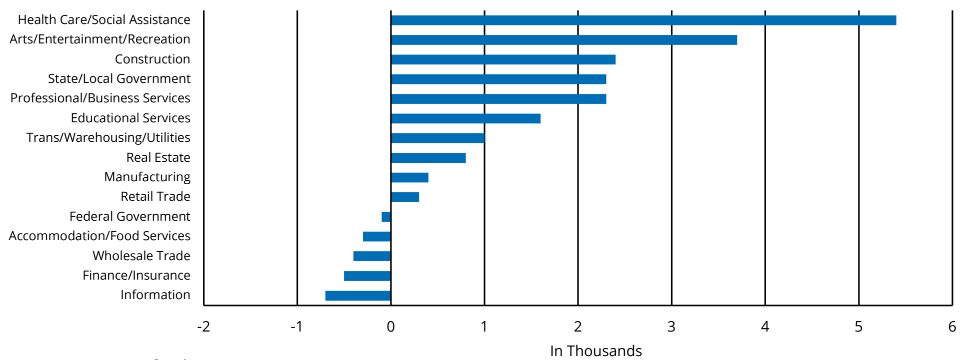
### Northern Virginia | April 2024




Source: Bureau of Labor Statistics, Transwestern

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

### Northern Virginia



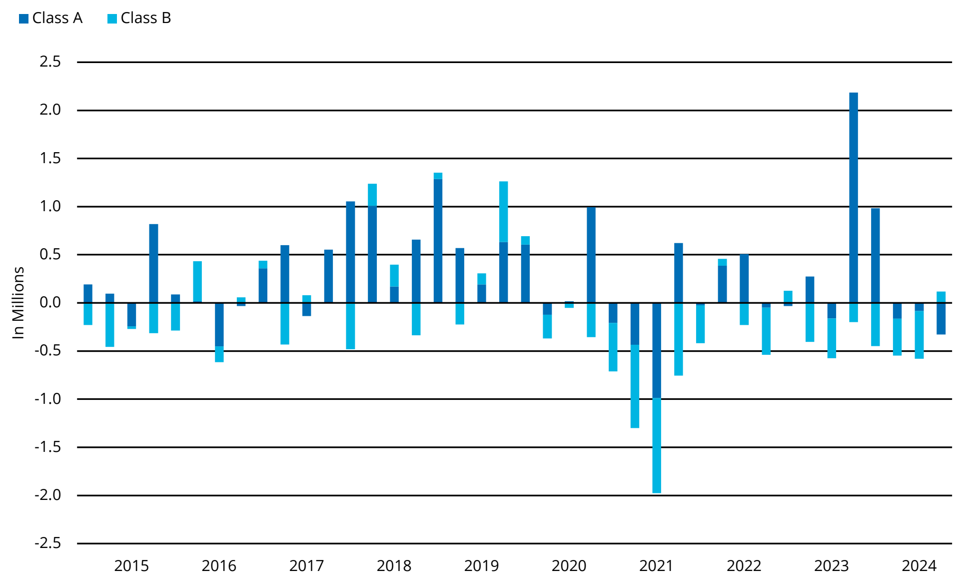

Source: Bureau of Labor Statistics, Transwestern

## NET ABSORPTION

### Office Market Experiences Another Down Quarter in Q2 2024

- The Northern Virginia office market struggled throughout the second quarter of 2024, totaling negative 210,000 SF net absorption. This was aided by multiple large-scale move-outs, including Capital One vacating at two locations in Tysons Corner, 183,269 SF at 8020 Towers Crescent Drive and 90,084 SF at 8000 Towers Crescent Drive.
- Class A product declined in the quarter, totaling negative 328,000 SF in net absorption. Class B/C absorption was positive, totaling 119,000 SF.
- Fairfax Center was the largest source of positive net absorption at 76,000 SF. This was aided by several lease executions over the course of the second quarter, including ABA Centers of Virginia signing for 11,258 SF at 3928 Pender Drive, and limited moveouts to counteract any lease signings.
- Old Town had the second largest negative absorption after Tysons Corner, totaling 82,000 SF which was aided by Oblon, McClelland, Maier & Neustadt downsizing 84,294 SF at 1940 Duke Street.
- Office demand will face challenges through 2024, as select tenants pause lease decisions or right size space. Tenants will analyze their options carefully, especially as select landlords are under pressure financially.

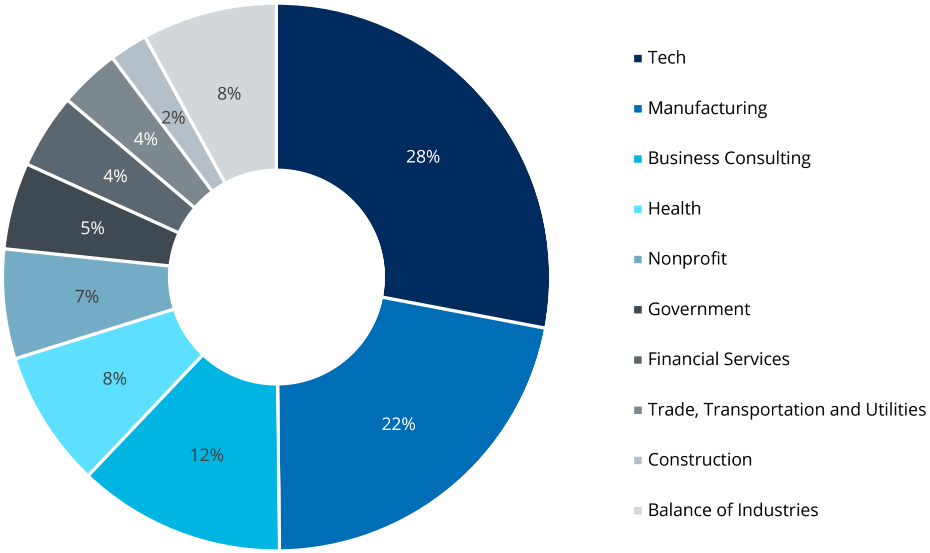
## NET ABSORPTION BY CLASS




Source: CoStar, Transwestern

## SHARE OF LEASING ACTIVITY BY INDUSTRY

YTD 2024



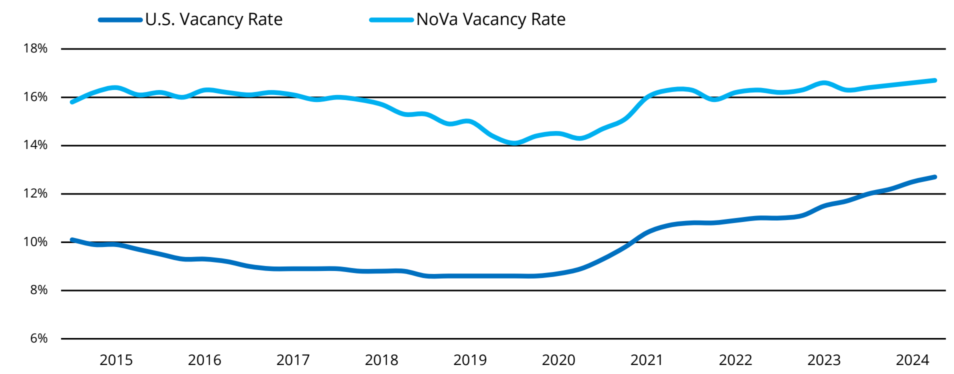

Source: CoStar, Transwestern

## VACANCY

### Vacancy Rate Raises Slightly

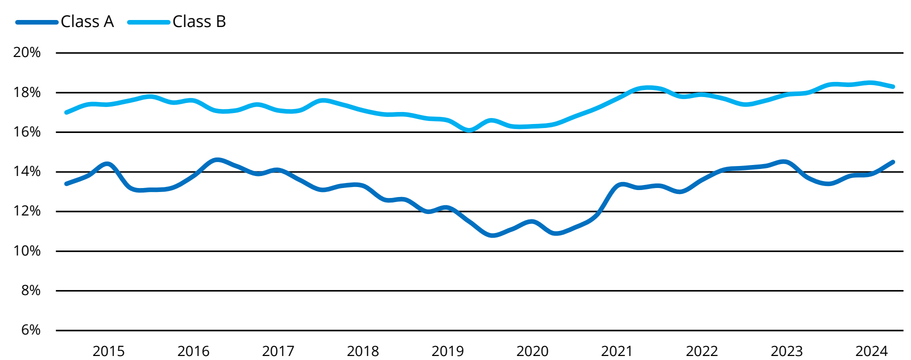
- The direct vacancy rate in Northern Virginia rose 10-basis points in the second quarter of 2024, to 16.7%. This is the fourth consecutive quarter that there was a 10-basis point increase in vacancy.
- Class A office product saw a 60-basis point increase to 14.5% while Class B/C experienced a 20-basis point decrease to 18.3%. This is the third consecutive quarter where Class A space has seen rises in vacancy rate. It was also the biggest quarterly increase since the first quarter of 2022, due to the delivery of 200,576 SF of 0% pre-leased space at 3901 North Fairfax Drive.
- Fairfax Center had the largest decline in vacancy rate, decreasing 110-basis points to 20.4%. Old Town had the largest increase in vacancy rate, rising 100-basis points to 14.7%, aided by the downsizing of 84,294 SF at 1940 Duke Street by Oblon, McClelland, Maier & Neustadt.
- The vacancy rate will be under pressure during 2024 as tenants continue to right size. The rate could somewhat be protected if more obsolete office buildings get demolished in preparation for conversion to another product type.

## DIRECT VACANCY RATE



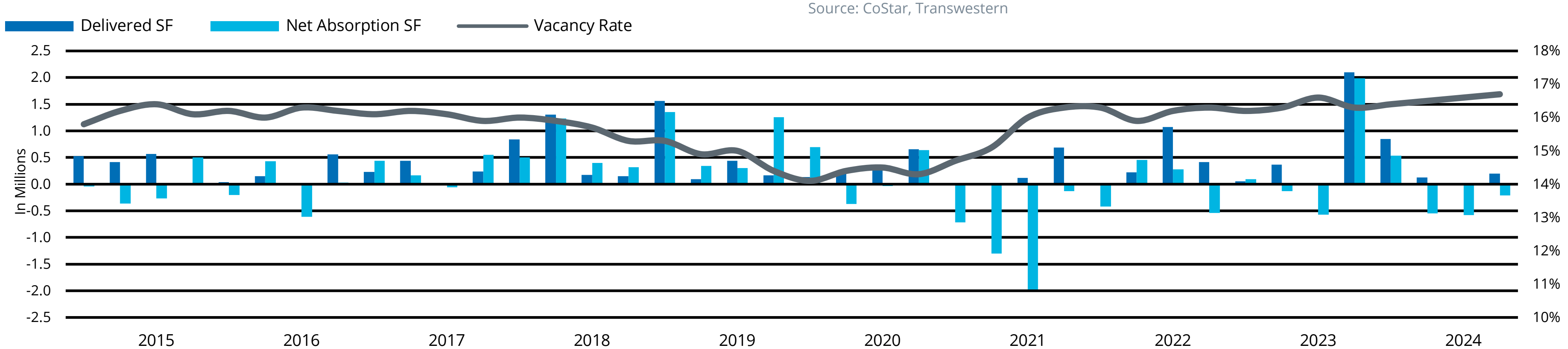

Source: CoStar, Transwestern

## DIRECT VACANCY RATE BY CLASS




Source: CoStar, Transwestern

## DELIVERY IMPACT ON KEY INDICATORS



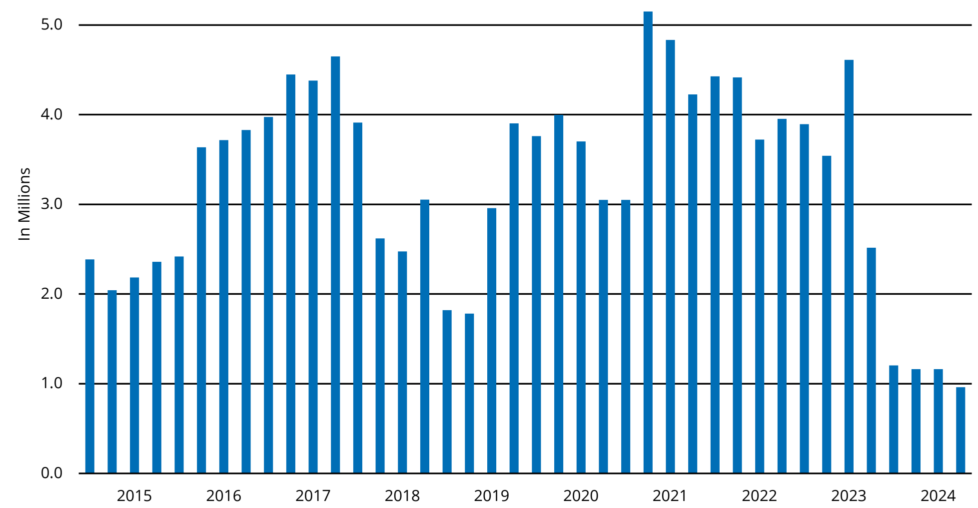

Source: CoStar, Transwestern

## UNDER CONSTRUCTION

### Construction Pipeline Decreases to Four Projects

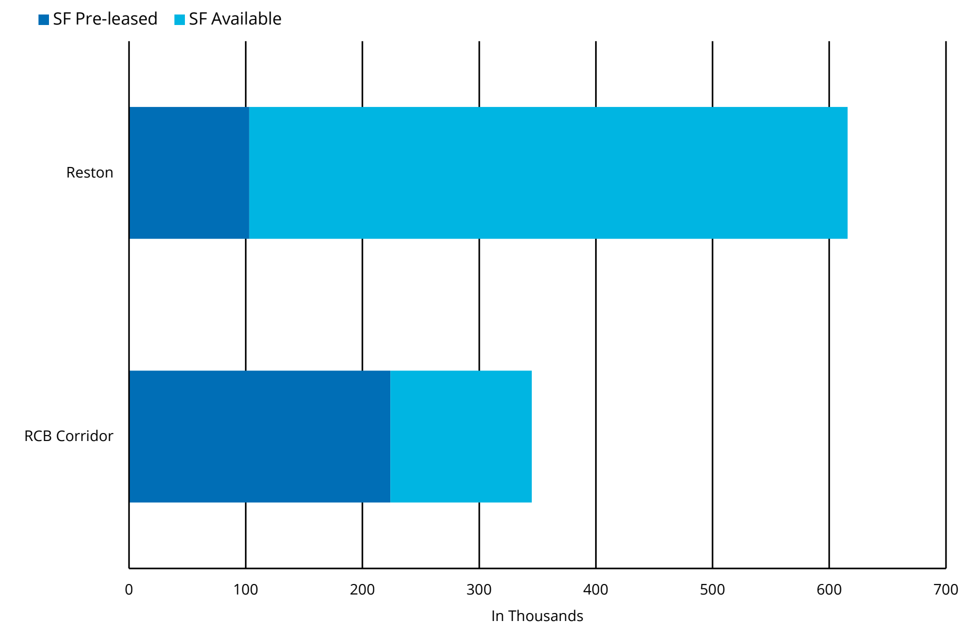
- There was one delivery in the second quarter of 2024 at 3901 N Fairfax Drive, totaling 200,576 SF. There is now a total of four projects underway, totaling 960,611 SF at 34% pre-leased.
- Three projects are slated to be delivered in the third quarter of 2024, 3401 Fairfax Drive in the RCB Corridor totaling 345,000 SF, 1800 Reston Row Plaza and 12050 Inspiration Plaza in Reston totaling 328,380 SF and 77,231 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 64.9% pre-leased and is slated to deliver in the third quarter of 2024.
- We expect the construction pipeline to continue to shrink in the remainder of 2024 as investors and developers pause due to elevated interest rates and weak demand for office product.

## UNDER CONSTRUCTION




Source: CoStar, Transwestern

## UNDER CONSTRUCTION BY SUBMARKET



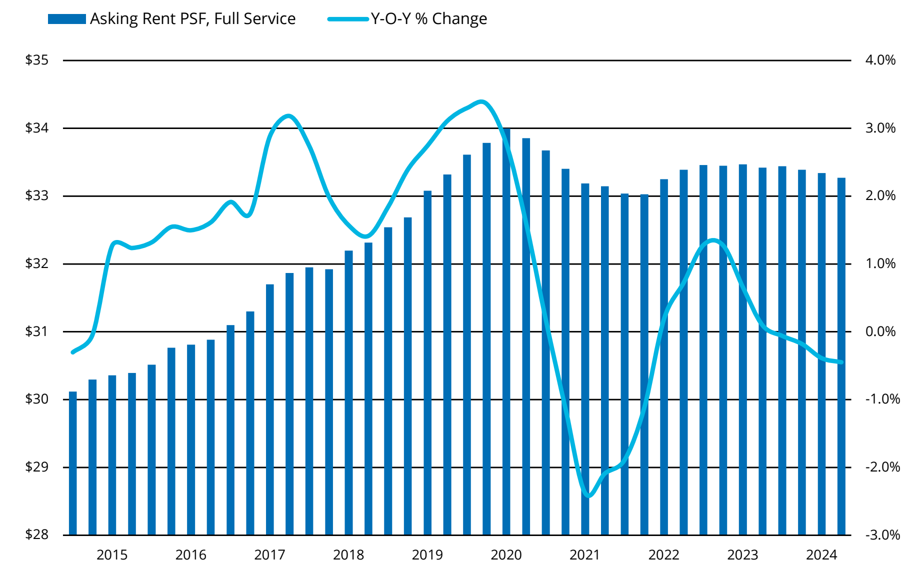

Source: CoStar, Transwestern

## RENTAL RATES

### Asking Rental Rates Edge Down in Second Quarter of 2024

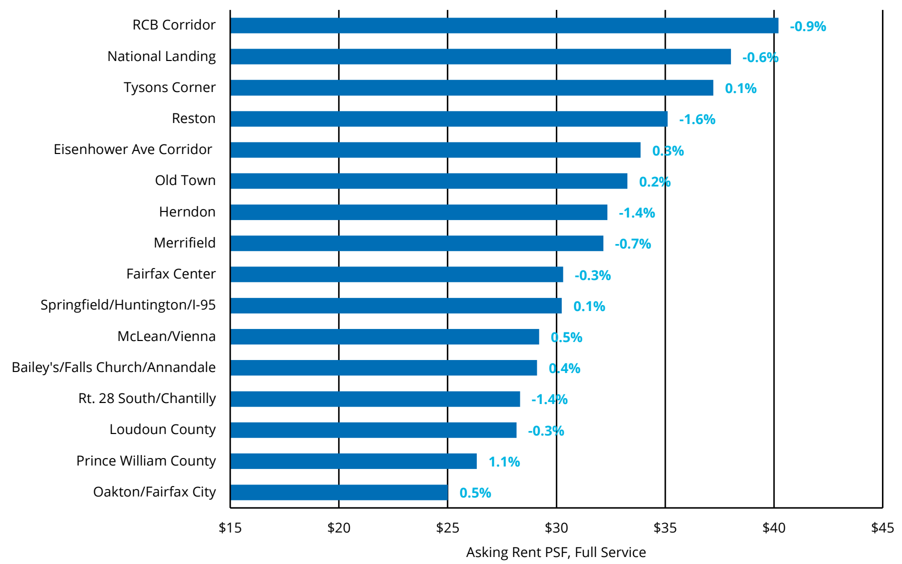
- Northern Virginia office asking rents declined 20-basis points in the second quarter to $33.27 SF. This marks a year-over-year decrease of 50-basis points, when rents averaged $33.42 PSF in the second quarter of 2023.
- Class A rents decreased 30-basis points to $38.34 PSF, while Class B/C space continues to be stable with a two cent decrease to $28.00 PSF.
- Rt. 28 South/Chantilly had the largest decrease in asking rental rate, landing at $28.32 PSF at mid-year 2024, from $28.46 PSF the quarter prior. Prince William County was the only submarket that experienced an increase in asking rental rate, up 10-basis points to $26.33 PSF.
- Concession packages may begin to plateau throughout 2024. For a typical ten-year or greater term for a new lease signed during the first half of 2024, tenant improvement allowances averaged approximately $128 PSF with 11.5 months of free rent. This compares to $115 PSF and 16 months during 2023.
- We anticipate limited asking rent growth during 2024. Landlords facing financial headwinds in offering generous concessions could lower the asking rent to compete. However, most landlords will hold asking rents.

## ASKING RENT




Source: CoStar, Transwestern

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



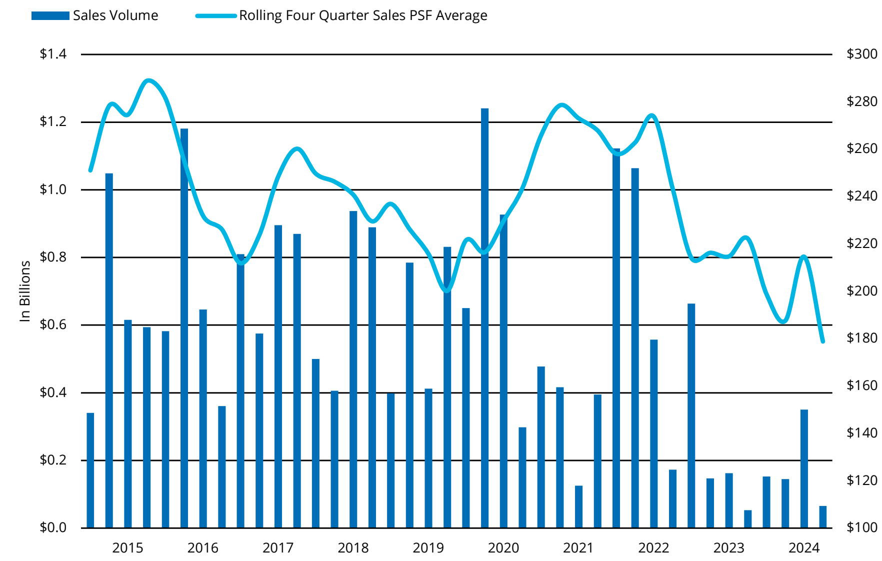

Source: CoStar, Transwestern

## SALES

### Investment Sales Modest with Low Transaction Volume

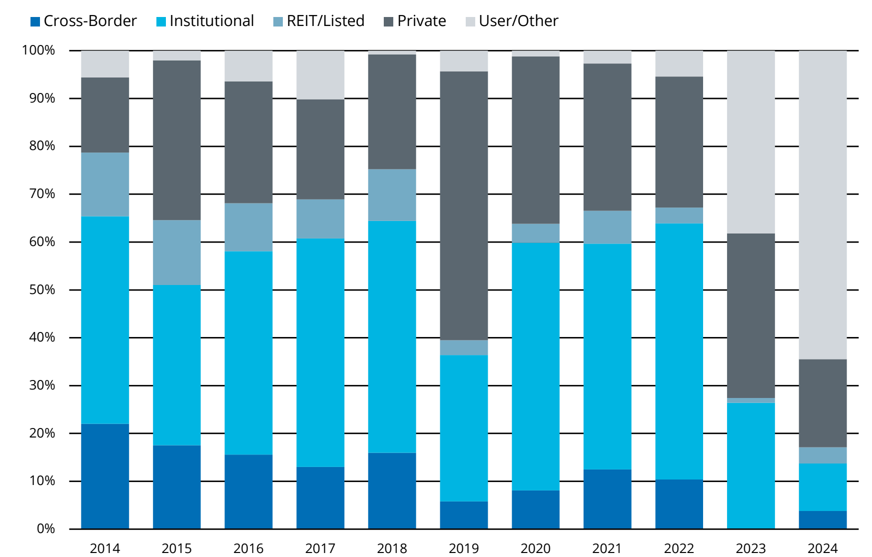
- Investment sales totaled $65.6 million in the second quarter from six transactions.
- The largest sale was 11350 Random Hills Road in Fairfax Center. 550 Sunnyside Road purchased the asset for $27.8 million, or $151 PSF. The first and second quarters of 2024 have totaled 76% of the number of sales that occurred in all of 2023, which accumulated $561.3 million.
- Another notable sale that occurred was Zumot Real Estate Management purchasing three properties at 2250, 2300, and 2350 Corporate Park Drive in Herndon for $27 million, or $55 PSF. The low price PSF was driven by high vacancy in the portfolio. Each of the properties were sold for an equal $9 million.
- Elevated interest rates, coupled with a soft office market, will limit investment volume in the near-term. The office market largely remains in a period of price discovery. With office debt maturities still set to occur throughout 2024, opportunistic capital will be looking for distressed assets that they can purchase at a discounted rate.

## 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 |
|---|---|---|---|---|
| **NORTHROP GRUMMAN** | 12900 Federal Systems Park Dr | Fairfax Center | Renewal | 309,757 |
| **KBR** | 15020 Conference Center Dr | Rt. 28 South/Chantilly | Renewal | 105,000 |
| **BOEING** | 14660 Lee Rd | Rt. 28 South/Chantilly | Renewal | 80,339 |
| **AES** | 4300 Wilson Blvd | RCB Corridor | Renewal | 75,722 |
| **MANTECH ADVANCED SYSTEMS INTL** | 14280 Park Meadow Drive | Rt. 28 South/Chantilly | Renewal | 67,514 |
| **GSA** | 14501 George Carter Way | Rt. 28 South/Chantilly | Renewal | 54,419 |

Source: CoStar, CompStak, Transwestern

## NOTABLE SALES

| ADDRESS | SUBMARKET | SALE DATE | SALES PRICE | BUILDING SF | PRICE PSF | BUYER | SELLER |
|---|---|---|---|---|---|---|---|
| **11350 RANDOM HILLS RD** | Fairfax Center | May-24 | $27,800,000 | 183,810 | $151 | 550 Sunnyside Road, LLC | Novel Office |
| **7500 IRON BAR LN** | Prince William County | May-24 | $7,255,029 | 40,000 | $181 | Federal Realty Investment Trust | Crow Holdings |
| **2300 CORPORATE PARK DR** | Herndon | Apr-24 | $9,000,000 | 164,823 | $55 | Zumot Real Estate Management, Inc. | American Real Estate Partners (AREP) |
| **2350 CORPORATE PARK DR** | Herndon | Apr-24 | $9,000,000 | 164,823 | $55 | Zumot Real Estate Management, Inc. | American Real Estate Partners (AREP) |
| **2250 CORPORATE PARK DR** | Herndon | Apr-24 | $9,000,000 | 160,045 | $56 | Zumot Real Estate Management, Inc. | American Real Estate Partners (AREP) |
| **45925 HORSESHOE DR** | Loudoun County | Mar-24 | $11,423,125 | 64,905 | $176 | TA Realty | Stewart Investment Partners |

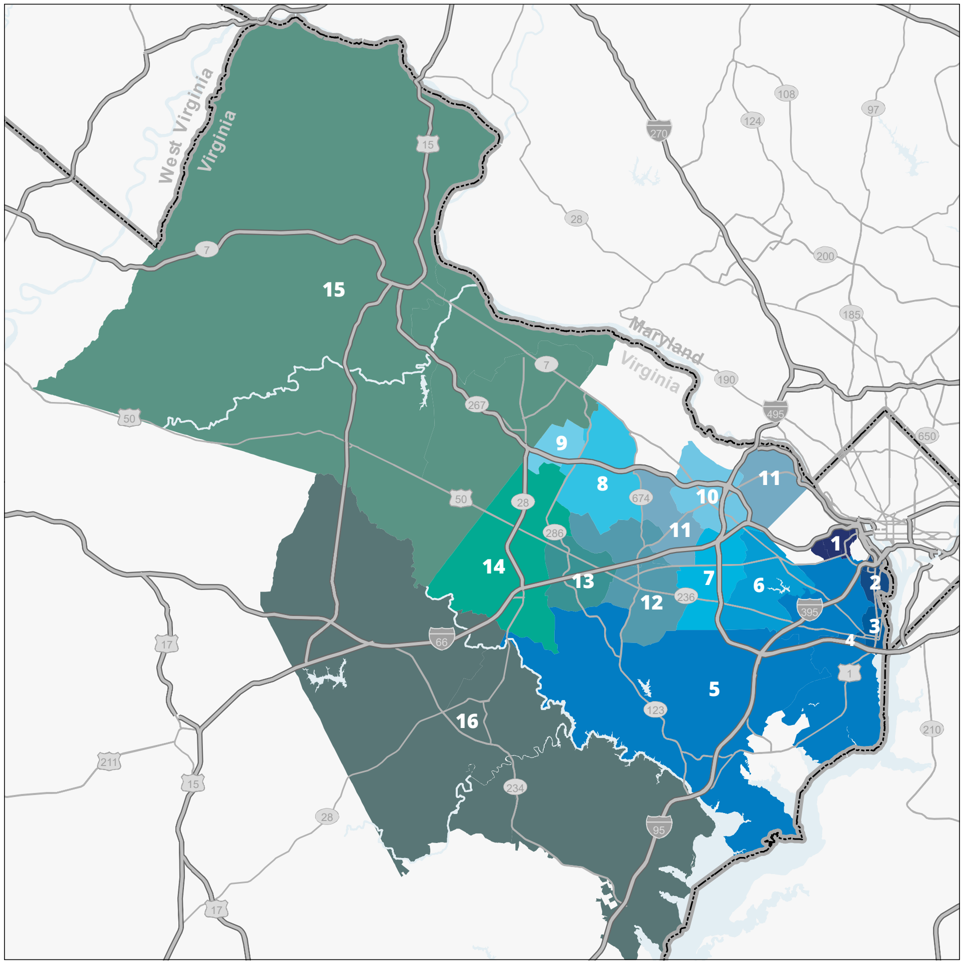
Source: CoStar, Real Capital Analytics, Transwestern.

## MARKET INDICATORS

All Classes of Space | Q2 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 | 24,859,493 | 4,999,244 | 20.1% | 21.7% | 345,000 | 10,000 | (178,000) | $40.21 |
| NATIONAL LANDING | 16,439,962 | 2,756,982 | 16.8% | 18.2% | 0 | (12,000) | (192,000) | $38.03 |
| OLD TOWN | 7,764,037 | 1,141,313 | 14.7% | 16.4% | 0 | (82,000) | (198,000) | $33.26 |
| EISENHOWER AVE CORRIDOR | 8,343,378 | 674,145 | 8.1% | 8.7% | 0 | 10,000 | (3,000) | $33.87 |
| SPRINGFIELD/ HUNTINGTON/I-95 | 8,329,354 | 1,865,775 | 22.4% | 22.6% | 0 | (13,000) | (177,000) | $30.25 |
| BAILEY'S/FALLS CHURCH/ ANNANDALE | 6,342,695 | 1,267,270 | 20.0% | 20.1% | 0 | 14,000 | 8,000 | $29.11 |
| MERRIFIELD | 9,372,243 | 1,283,997 | 13.7% | 15.0% | 0 | 56,000 | (65,000) | $32.16 |
| RESTON | 20,777,227 | 3,203,848 | 15.4% | 17.0% | 615,611 | 69,000 | 91,000 | $35.12 |
| HERNDON | 12,029,084 | 3,009,677 | 25.0% | 26.2% | 0 | 22,000 | (406,000) | $32.34 |
| TYSONS CORNER | 30,878,977 | 4,261,299 | 13.8% | 14.7% | 0 | (269,000) | 413,000 | $37.21 |
| MCLEAN/VIENNA | 2,388,725 | 668,843 | 28.0% | 28.1% | 0 | (5,000) | (57,000) | $29.20 |
| OAKTON/FAIRFAX CITY | 5,725,889 | 1,061,580 | 18.5% | 18.7% | 0 | 21,000 | 55,000 | $25.01 |
| FAIRFAX CENTER | 7,254,955 | 1,480,011 | 20.4% | 21.6% | 0 | 76,000 | 80,000 | $30.31 |
| RT. 28 SOUTH/CHANTILLY | 14,492,593 | 1,750,705 | 12.1% | 12.6% | 0 | (19,000) | 170,000 | $28.32 |
| LOUDOUN COUNTY | 16,183,528 | 2,281,877 | 14.1% | 14.9% | 0 | (40,000) | (222,000) | $28.17 |
| PRINCE WILLIAM COUNTY | 6,694,183 | 1,416,489 | 21.2% | 21.3% | 0 | (48,000) | (125,000) | $26.33 |
| **TOTAL** | **197,876,323** | **33,123,057** | **16.7%** | **17.8%** | **960,611** | **(210,000)** | **(806,000)** | **$33.27** |

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

Four dynamic, integrated companies make up the Transwestern enterprise, giving us the perspective to think broadly, deeply and creatively about commercial real estate. Clients and investors rely on us for expertise that spans institutional and opportunistic investment, development, hospitality, and brokerage and asset services. Our award-winning, collaborative culture empowers team members with resources and independence to work across boundaries in pursuit of innovative solutions, reinforcing a reputation for service excellence that translates to measurable results. Through offices nationwide and alliance partners around the globe, we positively impact the built environment and our communities while fostering a work climate that champions career vitality for all. Learn more at transwestern.com and @Transwestern.

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