

NORTHERN VIRGINIA OFFICE MARKET

Q3 2024



TRENDLINES

| | Q3 2024 | Q3 2023 | ONE-YEAR TREND | FIVE-YEAR AVERAGE | 12-MONTH FORECAST |
|---------------------------------|-----------|---------|----------------|-------------------|-------------------|
| UNEMPLOYMENT RATE | 2.9 | 2.5 | ↑ | 3.3 | ↓ |
| NET ABSORPTION (THOUSANDS SF) | (1,465.0) | 533.0 | ↓ | (205.8) | ↔ |
| DIRECT VACANCY RATE | 17.6% | 16.4% | ↑ | 15.9% | ↔ |
| DIRECT VACANT SF (MSF) | 34.9 | 32.5 | ↑ | 31.2 | ↔ |
| UNDER CONSTRUCTION (MSF) | 0.6 | 1.2 | ↓ | 3.2 | ↓ |
| ASKING RENT, FULL SERVICE (PSF) | \$33.24 | \$33.44 | ↓ | \$33.42 | ↔ |
| SALES VOLUME (MILLIONS) | \$151.8 | \$152.4 | ↓ | \$444.6 | ↓ |

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

OFFICE MARKET WEAKENS IN THE THIRD QUARTER OF 2024

The office market struggled in the third quarter with 1.5 million SF of negative absorption. This was due to a few large-scale move-outs and downsizes across the substate. The direct vacancy rate increased by 90 basis points to 17.6%. Asking rental rates decreased 10 basis points to \$33.24 PSF.

The employment market remains steady, despite ongoing economic headwinds. The Fed cut rates by 50 basis points at the most recent meeting with the intention to keep the economy humming. The pipeline is at historic lows and will help even out supply/demand in time. 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. However, rightsizing of space as leases roll will act as a drag to the market over the next several quarters.

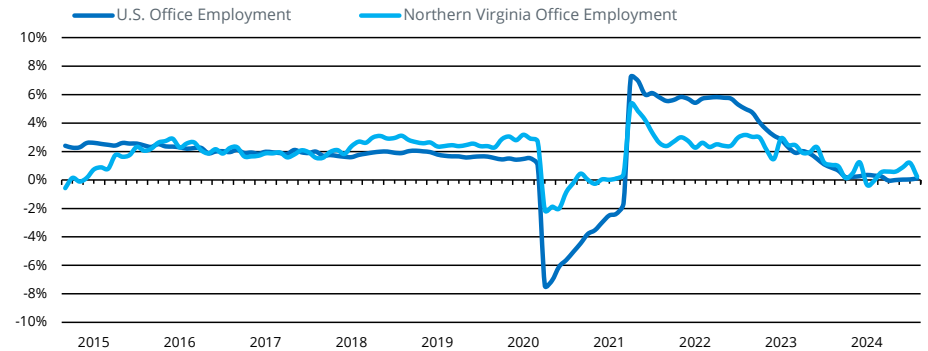


ECONOMY

Office-Using Job Growth Steady

- 8,000 new jobs were added to the Northern Virginia economy during the 12-months ending in August 2024, this is below the pre-COVID average of 27,100. The industry sector that experienced the largest growth was the construction industry, which added 8,100 new jobs in that timespan. The government sector shed 8,000 jobs.
- Office-using jobs increased by 1,800 net jobs in the 12-months ending August 2024, below the pre-COVID average of 14,800. The ambulatory healthcare (physician offices) sector experienced the highest growth for, adding 2,200 new jobs.
- The unemployment rate in Northern Virginia is 3.0% in July 2024 and averaged 2.9% over the past three months. Arlington County continues to have the lowest unemployment rate in Northern Virginia, at 2.5%.
- 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.

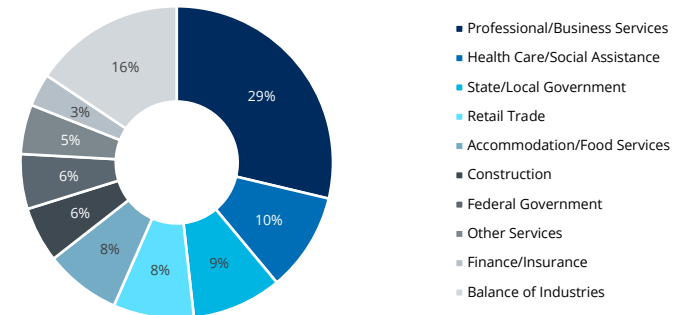
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

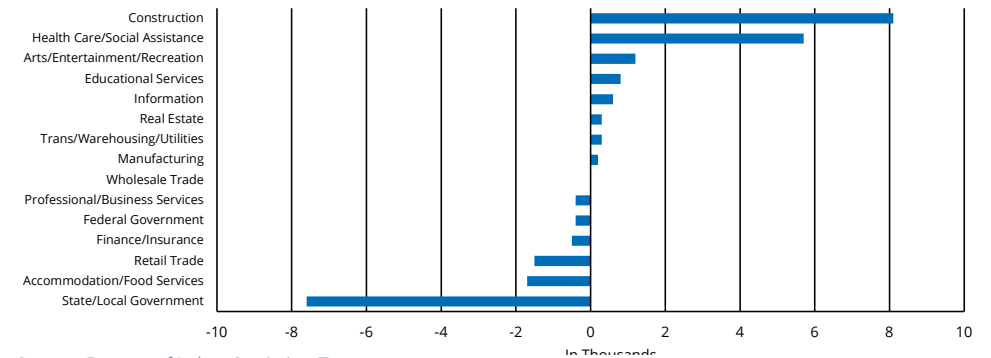
Northern Virginia | August 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Northern Virginia



Source: Bureau of Labor Statistics, Transwestern

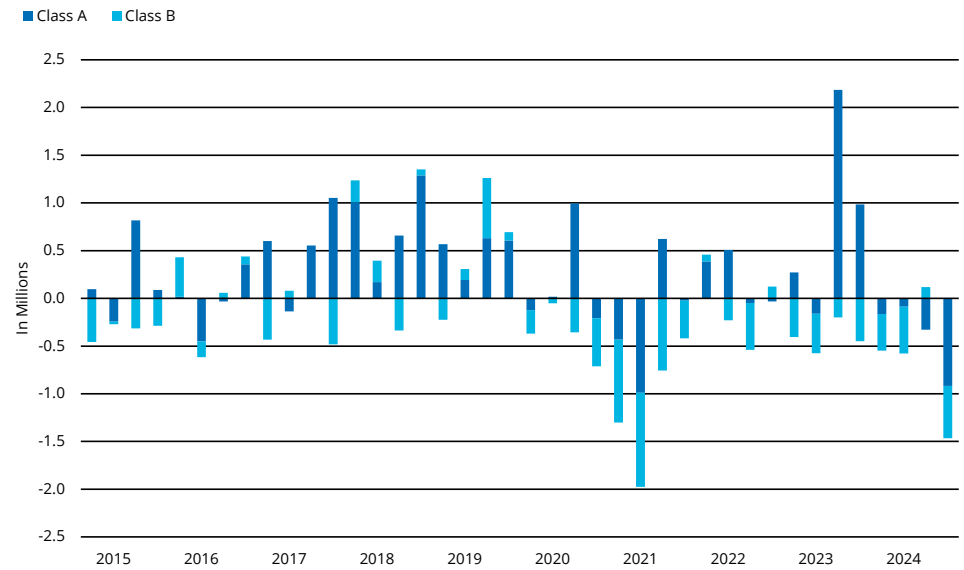


NET ABSORPTION

Office Market Experiences More Negativity in Q3 2024

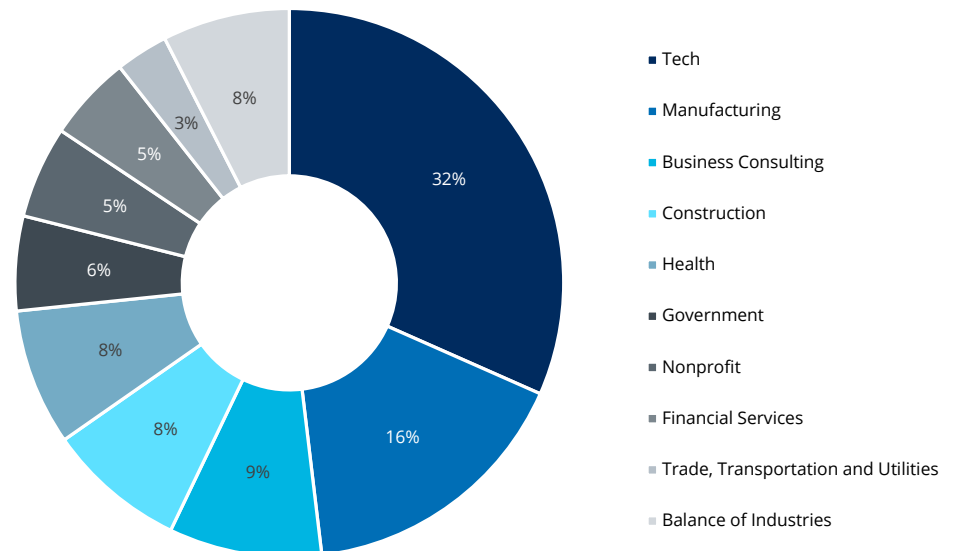
- The Northern Virginia office market retracted notably during the third quarter of 2024, with negative 1.5 million SF of net absorption. This was driven by U.S. Patent and Trademark Office (PTO) downsizing by 764,000 SF at 400-401 Dulany Street in the Eisenhower Avenue Corridor. Also notable was UNICOM Global downsizing 356,994 SF in the building they own at 15000 Conference Center Drive in Chantilly/Route 28 South.
- The most notable deal was Inova taking 42,252 SF at 14349 Gideon Drive in Prince William County. Other notable moveouts include Baker Tilly vacating 91,968 SF at 8219 Leesburg Pike, and Community Brands vacating 24,411 SF at 7901 Jones Branch Drive. These moveouts contributed to the 232,000 SF of negative absorption that occurred in the Tysons Corner submarket.
- 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

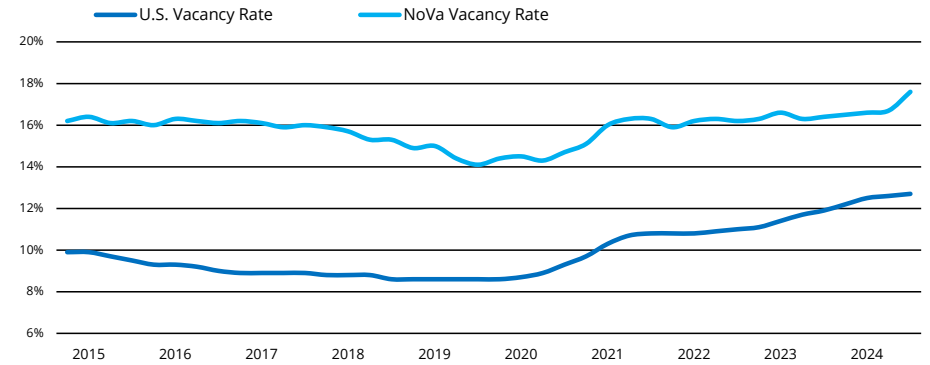


VACANCY

Vacancy Rate Jumps during Q3

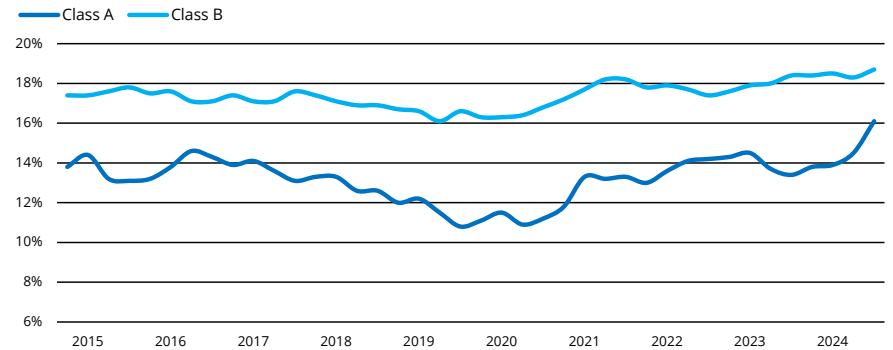
- The direct vacancy rate in Northern Virginia jumped 90-basis points in the third quarter of 2024, to 17.6%. This is the largest increase in vacancy since the first quarter of 2021.
- Class A office product saw a 160-basis point increase to 16.1% while Class B/C experienced a 40-basis point rise to 18.7%. This is the fourth consecutive quarter where Class A space has seen rises in vacancy rate.
- Prince William County had the largest decline in vacancy rate, decreasing 70-basis points to 20.5%. Trailing the Eisenhower Avenue Corridor for the largest increase in vacancy rate was Route 28 South/Chantilly, rising 250-basis points to 14.6%, due in large part to the downsizing at 15000 Conference Center Drive.
- The vacancy rate will be under pressure during the balance of 2024 and into 2025 as select tenants right size. The rate could somewhat be protected if obsolete office buildings get demolished in preparation for conversion to another product type.

DIRECT VACANCY RATE



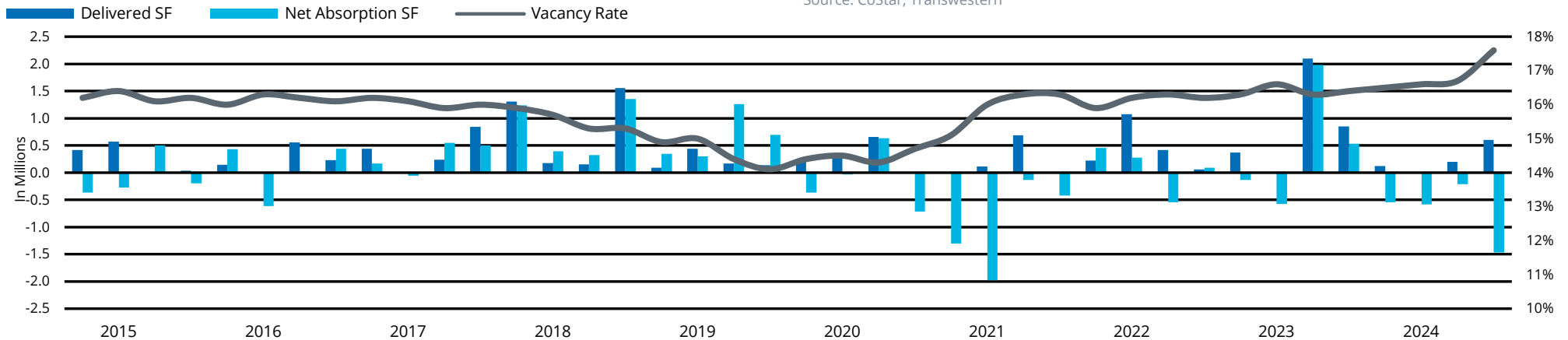
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

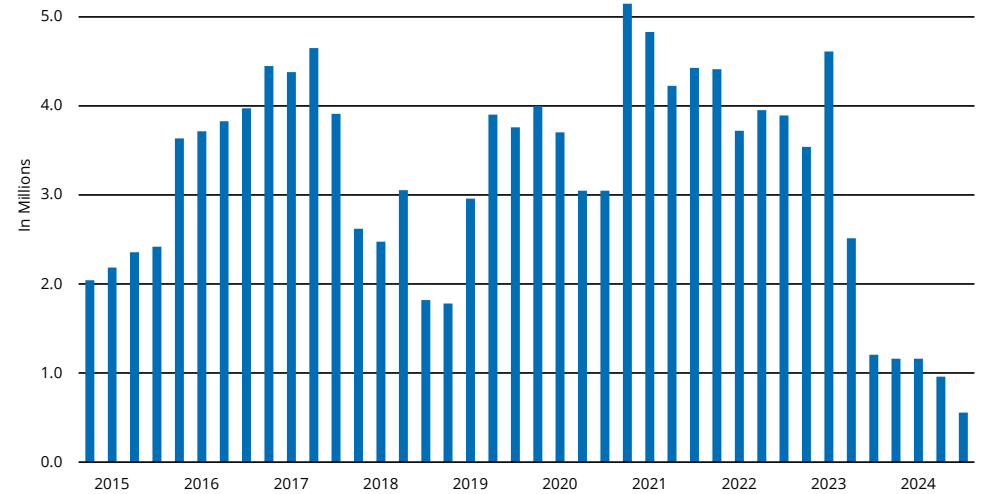


UNDER CONSTRUCTION

Construction Pipeline Shrinks to Two Projects

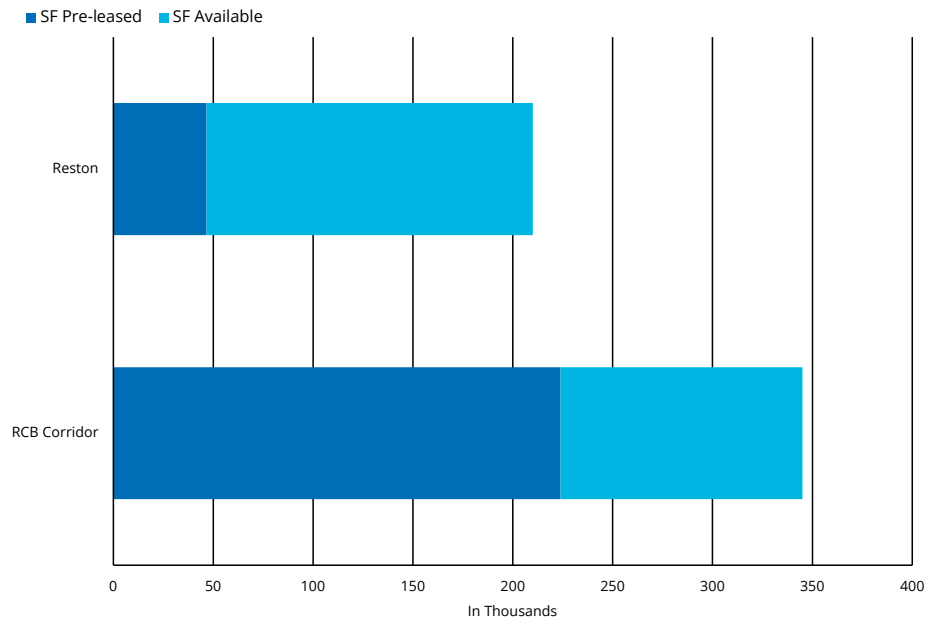
- There were two deliveries in the third quarter of 2024, one at 12050 Inspiration Street totaling 77,231 SF of 0% space leased, and the other being 1800 Reston Row Plaza totaling 328,380 SF at 17.2% pre-leased space. Both projects are in Reston. There is now a total of two projects underway, totaling 555,000 SF at 49% pre-leased.
- One project is slated to deliver in the fourth quarter of 2024, 3401 Fairfax Drive. The campus, Fuse at Mason Square, is the new George Mason University campus in the RCB Corridor. This is the largest construction project in the pipeline, totaling 345,000 SF. Fuse at Mason Square is currently 64.9% pre-leased and will be delivered in October.
- We expect the construction pipeline to shrink over the next year as developers pause on any spec projects due to weak demand for office product.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

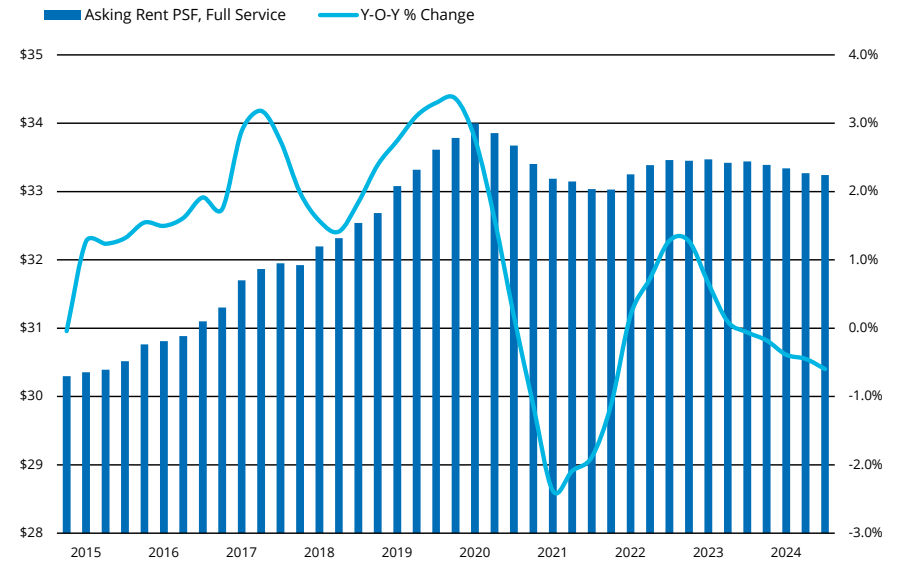


RENTAL RATES

Asking Rental Rates Shrink in Q3

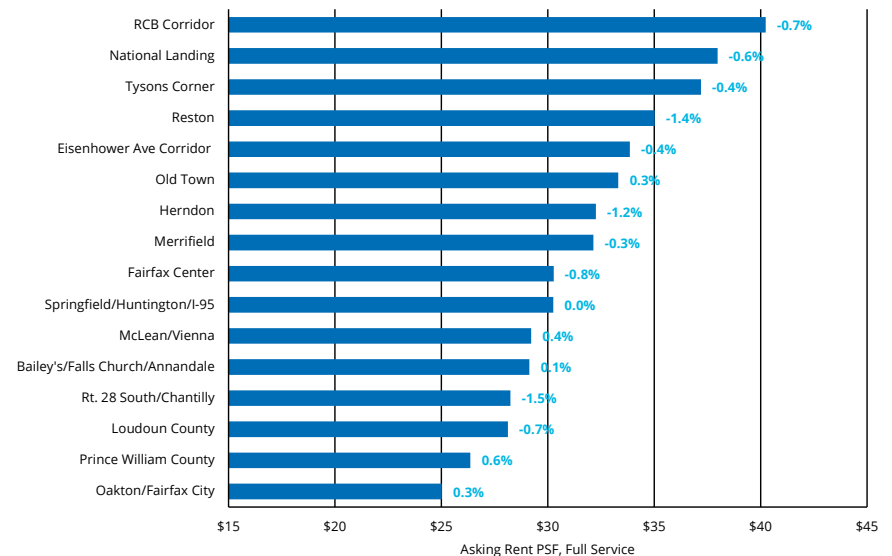
- Northern Virginia office asking rents declined 10-basis points in the third quarter to \$33.24 SF. This marks a year-over-year decrease of 60-basis points, when rents averaged \$33.44 PSF in the third quarter of 2023.
- Class A rents decreased 10-basis points to \$38.29 PSF, while Class B/C space continues its trend of stability with a one cent increase to \$28.01 PSF.
- Concession packages should remain elevated but could plateau during the balance of 2024. For a typical ten-year or greater term for a new lease signed during the first nine months of 2024, tenant improvement allowances averaged approximately \$125 PSF with 12.6 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 try to hold asking rents.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

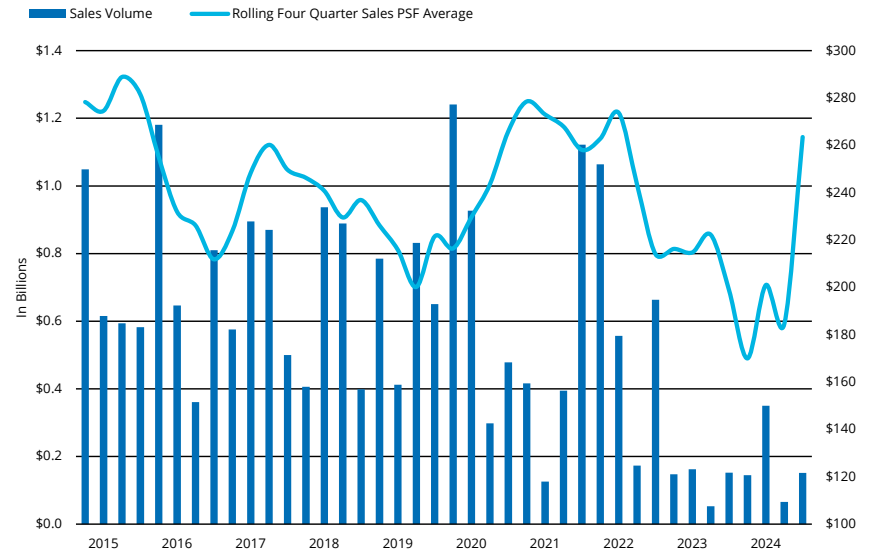


SALES

Investment Sales Prices Jump Despite Low Transaction Volume

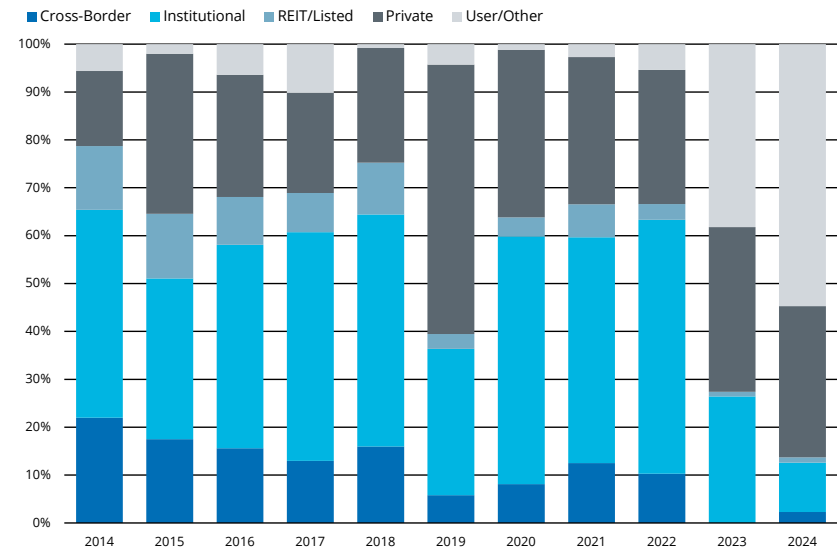
- Investment sales totaled \$185.8 million at \$428 PSF in the third quarter from four transactions. This is higher than all of 2023, where eight transactions occurred totaling \$102 million at \$83 PSF.
- The largest sale was 1001 N 19th Street in Rosslyn. Venture Global LNG purchased the asset from Brookfield Properties for \$143 million, or \$592 PSF. Another notable sale was Ambrish Gupta purchasing 8000 Towers Crescent Drive in Tysons Corner for \$34 million, or \$71 PSF. The low price PSF was primarily due to more than half of the building being vacant.
- 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 and into 2025, 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 |
|-----------------------------|----------------------------|------------------------|-----------|-----------|
| BECHTEL CORPORATION | 12011 Sunset Hills Rd | Reston | Renewal | 289,380 |
| CACI | 14370 Newbrook Dr | Rt. 28 South/Chantilly | Renewal | 160,191 |
| PERATON TECHNOLOGY SERVICES | 15052 Conference Center Dr | Rt. 28 South/Chantilly | Renewal | 140,635 |
| CVENT | 1765 Greensboro Station Pl | Tysons Corner | Extension | 128,757 |
| MASTERCARD | 4250 N Fairfax Dr | RCB Corridor | Renewal | 74,978 |
| INOVA | 14349 Gideon Dr | Prince William County | New Lease | 42,252 |

Source: CoStar, CompStak, Transwestern

NOTABLE SALES

| ADDRESS | SUBMARKET | SALE DATE | SALES PRICE | BUILDING SF | PRICE PSF | BUYER | SELLER |
|-------------------------|-------------------------|-----------|---------------|-------------|-----------|-----------------------------------|------------------------|
| 1901 N BEAUREGARD ST | Eisenhower Ave Corridor | Aug-24 | \$3,920,625 | 88,997 | \$44 | Blackstreet Capital Holdings, LLC | Grubb Properties |
| 1001 N 19TH ST | RCB Corridor | Aug-24 | \$143,000,000 | 241,710 | \$592 | Venture Global LNG | Brookfield Properties |
| 2745 HARTLAND RD | Merrifield | Jul-24 | \$4,830,000 | 23,694 | \$204 | Dr. Vineet Mehan | Don Larue |
| 8000 TOWERS CRESCENT DR | Tysons Corner | Jun-24 | \$34,000,000 | 477,290 | \$71 | Ambrish Gupta | AEW Capital Management |

Source: CoStar, Real Capital Analytics, Transwestern.

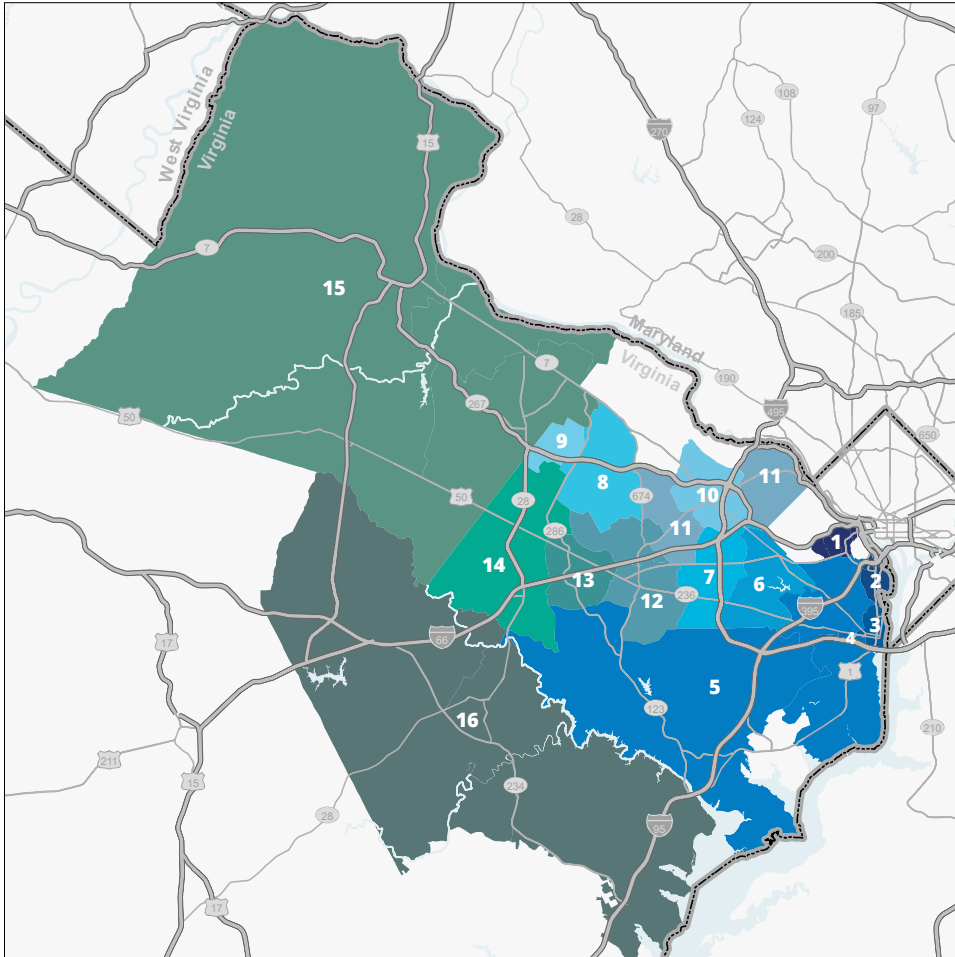


MARKET INDICATORS

All Classes of Space | Q3 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 | 5,063,879 | 20.4% | 22.1% | 345,000 | (65,000) | (279,000) | \$40.24 |
| NATIONAL LANDING | 16,439,962 | 2,732,322 | 16.6% | 18.2% | 0 | 25,000 | (138,000) | \$37.98 |
| OLD TOWN | 7,764,037 | 1,149,077 | 14.8% | 16.5% | 0 | (8,000) | (84,000) | \$33.31 |
| EISENHOWER AVE CORRIDOR | 8,343,378 | 1,443,404 | 17.3% | 17.8% | 0 | (769,000) | (732,000) | \$33.86 |
| SPRINGFIELD/HUNTINGTON/I-95 | 8,329,354 | 1,842,453 | 22.1% | 22.3% | 0 | 23,000 | 15,000 | \$30.25 |
| BAILEY'S/FALLS CHURCH/ANNANDALE | 6,342,695 | 1,298,350 | 20.5% | 20.7% | 0 | (31,000) | (15,000) | \$29.13 |
| MERRIFIELD | 9,372,243 | 1,287,746 | 13.7% | 14.7% | 0 | (4,000) | (114,000) | \$32.15 |
| RESTON | 21,182,838 | 3,579,900 | 16.9% | 18.5% | 210,000 | 30,000 | (29,000) | \$35.03 |
| HERNDON | 11,947,084 | 2,986,771 | 25.0% | 26.3% | 0 | (59,000) | (266,000) | \$32.26 |
| TYSONS CORNER | 30,878,977 | 4,492,891 | 14.6% | 15.2% | 0 | (232,000) | (547,000) | \$37.19 |
| MCLEAN/VIENNA | 2,388,725 | 680,787 | 28.5% | 28.7% | 0 | (12,000) | (60,000) | \$29.22 |
| OAKTON/FAIRFAX CITY | 5,725,889 | 1,031,612 | 18.0% | 18.1% | 0 | 30,000 | 62,000 | \$25.02 |
| FAIRFAX CENTER | 7,254,955 | 1,519,913 | 21.0% | 21.8% | 0 | (40,000) | (1,000) | \$30.28 |
| RT. 28 SOUTH/CHANTILLY | 14,492,593 | 2,115,919 | 14.6% | 15.0% | 0 | (365,000) | (358,000) | \$28.24 |
| LOUDOUN COUNTY | 16,183,528 | 2,314,245 | 14.3% | 15.2% | 0 | (32,000) | (212,000) | \$28.13 |
| PRINCE WILLIAM COUNTY | 6,694,183 | 1,372,308 | 20.5% | 20.6% | 0 | 44,000 | (47,000) | \$26.36 |
| TOTAL | 198,199,934 | 34,911,575 | 17.6% | 18.6% | 555,000 | (1,465,000) | (2,805,000) | \$33.24 |

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 Baileys/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](https://twitter.com/Transwestern).

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