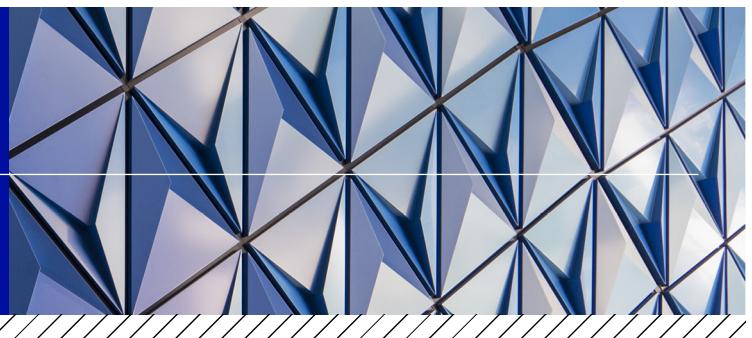




RESEARCH 1Q 2021



Northern Virginia Office Market

Conditions Soften During First Quarter as Tenants Reassess Needs

The effects of the pandemic on the Northern Virginia office market continued to be felt during the first quarter of 2021, as 659,905 square feet was absorbed. Gross leasing was weak in the first quarter; however, there was an uptick in new leases compared to the large percentage of renewals seen in the previous two quarters. Tenants are reassessing their space needs and showing a willingness to move, creating opportunity for asset owners even as some of those new leases are likely to result in a reduction of space under lease for the tenant.

Microsoft has leased almost 800,000 square feet of office space in Northern Virginia over the past year, solidifying a long-term commitment to the region. The most significant lease of the quarter was Microsoft's lease of 180,000 square feet at 1300 Wilson Boulevard in Rosslyn. Overall vacancy ended the fourth quarter at 19.6%, an increase of 70 basis points from the prior quarter and 140 basis points from one year ago. The average overall asking rent increased 0.9% from one year ago to \$33.86/SF, primarily due to new supply that delivered last year without any preleases. However, effective rents remain under downward pressure as concessions are elevated.

Office space under construction in Northern Virginia, excluding renovations and owner-occupied buildings, totaled 2.1 million square feet at the end of the first quarter. The overall pre-lease rate of the buildings under construction was 82.1%. Tenants that have preleased large blocks of space recently include Volkswagen (196,000 square feet), Fannie Mae (850,000 square feet), and ICF International (260,000 square feet). Reston leads the way in new development, with 1.3 million square feet of office space under construction.

One major project delivered in the first quarter of 2021. That building was 6595 Springfield Center Drive, a 625,000-square-foot build-to-suit for the Transportation Security Administration's new headquarters. There were no significant groundbreakings in Northern Virginia during the first quarter, as developers continue to assess their post-pandemic space needs. This was the second consecutive quarter in which the pandemic-driven slow leasing velocity has been clearly reflected in market fundamentals. Weak demand likely will persist during the remainder of 2021, although the Northern Virginia office market remains fairly well positioned compared to its regional rivals and the nation overall, and there is an end to the pandemic in sight with the rapid rollout of vaccines across the United States. The re-boarding of office space during the second half of 2021, an increase in real estate decision-making, and Northern Virginia's strong mix of industries may lead to pent-up demand being released in 2022 and 2023.

Current Conditions

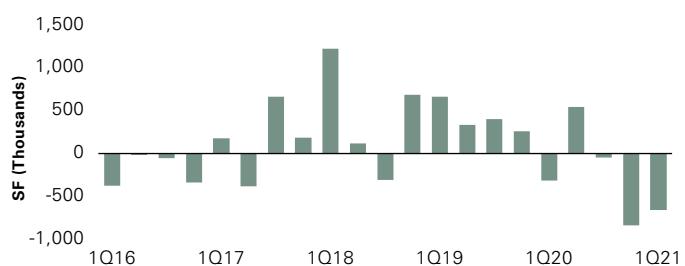
- Market indicators softened during the first quarter, the result of slow leasing activity.
- The largest lease of the quarter was signed by Microsoft: a new lease for 180,000 square feet in Rosslyn. This lease underscores Microsoft's commitment to the region, which has been enhanced over the past year.
- One building delivered in the first quarter of 2021: 6595 Springfield Center Drive, a 625,000-square-foot build-to-suit for the Transportation Security Administration (TSA).

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	165.4 M	164.6 M	164.0 M	↑
Vacancy Rate	19.6%	18.9%	18.2%	↑
Quarterly Net Absorption (SF)	-659,905	-840,225	-316,961	↑
Average Asking Rent/SF	\$33.86	\$33.80	\$33.55	→
Under Construction (SF)	2.1 M	2.7 M	2.8 M	↓
Deliveries (SF)	625,000	0	329,788	↑

Future of Arlington is Bright as Infrastructure Projects Gain Traction

Notwithstanding the challenges brought about by the pandemic, asset owners in Arlington have reason to be particularly optimistic about the future of the commercial real estate market. Since Amazon announced it would open a second headquarters in National Landing, questions have swirled about exactly what Arlington might look like in ten years. Now, many of the projects that will shape that future are coming into focus.

Amazon, since making its headquarters announcement in 2018, has leased approximately 850,000 square feet of space in the Crystal City submarket and has started construction on phase one of its owner-occupied office buildings. Phase one includes two 22-story office buildings on the Metropolitan Park site, which are set to deliver in 2023. As of December, Amazon has hired 1,600 employees and is on track to meet its 25,000 hires over the next decade. The designs for phase two were announced in the first quarter of 2021, and will include three 22-story office buildings along with a building called "The Helix" that will be 370,000 square feet and be landscaped with a walking path spiraling around the building. Phase two is tentatively set to deliver in 2025. Along with office space, the project is also expected to include 2.5 acres of public space and 100,000 square feet of retail. Amazon also announced plans to create a new Housing Equity Fund and pledges to invest \$382 million in creating and preserving affordable housing units in the area.

Although the direct impact of Amazon's second headquarters is important, the firm's indirect impact on the region's academic institutions and infrastructure are arguably more important. Virginia Tech is going to build a \$1.0 billion computer science campus at Potomac Yard. Although the ground-breaking is set for 2021, Virginia Tech has already started growing the program by offering classes virtually until the campus is complete. George Mason University (GMU) is also making a large investment to expand its Virginia Square campus and create the Institute for Digital Design and School of Computing. In February, the university announced it had picked a team of developers from Edgemore Infrastructure & Real Estate and Harrison Street to lead the project. The project will be a new 360,500-square-foot building that includes academic offices, classrooms and research labs. The building also will have private

offices where companies can locate to easily collaborate with students.

Over the past two years, other technology companies have committed to large amounts of space in Arlington, and in Northern Virginia more broadly. Northern Virginia stands out for its status as one of the premier data center hubs in the U.S., its abundance of federal contracting opportunities and its proximity to Capitol Hill for lobbying purposes. Notably, in the first quarter of 2021, Microsoft signed a 180,000-square-foot lease at 1300 Wilson Boulevard in Rosslyn. This new office location will be home to Microsoft's regional Global Sales and Marketing teams and the Microsoft sales headquarters for the District, Maryland and Virginia. The office will also house the Microsoft Federal organization. Employees are expected to be able to occupy the space in mid-2022. This 180,000-square-foot commitment is on top of the more than 600,000 square feet of leases signed in the last year in the Reston submarket.

In conjunction with Amazon's arrival, there are eight major transportation projects planned in and around National Landing that will expand heavy rail access, add Metrorail entrances, expand bus lanes, increase the amount of protected bike lanes and help the area become more pedestrian-friendly. These projects will be financed with \$270 million in public and Tax Increment Financing (TIF) funds. Near National Landing, Reagan National Airport (DCA) is in the midst of a \$1.0 billion modernization expansion project. This includes 50,000 square feet of new security checkpoints set to open in the fall of 2021 and a new 14-gate concourse set to fully open in July 2021. This new concourse has eliminated the customer-unfriendly 35X gate. This expansion has already seen airlines preparing to add routes to cities not previously serviced by DCA and will provide easier access to National Landing and the region for both business and leisure travel.

Despite the global pandemic and the uncertainty that lies ahead as the country attempts to get back to normal, all of these factors help make Arlington and Northern Virginia an attractive opportunity for both asset owners and tenants. The potential to co-locate with Amazon and the additional talent that will be produced by the new Virginia Tech and GMU programs will only continue to enhance the area's appeal.

Notable 1Q 2021 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Microsoft	1300 Wilson Boulevard	Rosslyn	Direct Lease	180,000
GSA – Executive Office of Immigration Review (EOIR)	7619 Little River Turnpike	I-395 Corridor – Fairfax	Direct Lease	70,297
Tetra Tech, Inc.	1515 Wilson Boulevard	Rosslyn	Renewal	52,941
GSA – Department of Defense (DOD)	2900 Crystal Drive	Crystal City/Pentagon City	Renewal	47,252
Bank of America	8300 Greensboro Drive	Tysons	Renewal	31,556

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
2001 N Beauregard Street	I-395 Corridor – Alexandria	\$71,700,000	\$299	239,945
Monument II at Worldgate	Herndon	\$53,000,000	\$250	211,996

RESEARCH Q1 2021

Class A Market Endures Occupancy Losses but Captures Some Tenant Consolidations

Northern Virginia's Class A properties absorbed -244,620 square feet in first-quarter 2021. The consolidation of government contractors across Northern Virginia continues to be a theme for Class A space in 2021. Companies such as Northrop Grumman and ASRC Federal consolidated office space across the region during the first quarter. Northern Virginia's Class A vacancy rate measured 19.3% at first-quarter 2021, up 140 basis points from a year ago. Class A asking rents increased 0.7% over the year, bolstered by new product. With 2.1 million square feet under construction, the Class A inventory in Northern Virginia will continue to grow over the next two years.

Investment Sales Market Slows Again in Early 2021

Northern Virginia's investment sales activity picked up in the fourth quarter of 2020 but slowed again in the first quarter of 2021, with only one sale over \$20 million. The only significant sale of the quarter was 2001 North Beauregard Street in the I-395 Corridor – Alexandria submarket. The 239,945-square-foot building was purchased by Grupo Haddad from G8 Capital for \$71.7 million, or \$299 per square foot. The sales momentum seen in 2018 and 2019 was slowed in 2020 by COVID-19. Fundamentals have remained challenged in the first quarter of 2021; however, it is likely activity increases during the remainder of 2021 as public health conditions improve and Northern Virginia's strong mix of industries attracts investors.

Northern Virginia Outlook

Northern Virginia's office market demand continued to soften in the first quarter of 2021. Even though there appears to be an end in sight to the pandemic with the rapid rollout of three different vaccines, commercial real estate tends to be a lagging indicator. New lease velocity increased this quarter relative to renewals and extensions, which could signal that tenants are feeling more comfortable making important real estate decisions. Tenant movement is likely to accelerate during the balance of the year now that companies have a better idea of when it will be safe to return employees to the office. However, many forthcoming leases are likely to include space reductions, as flexible work schedules will lead some occupiers to take less space.

Northern Virginia's overall vacancy rate ticked up during the first quarter to 19.6%. The vacancy rate likely will continue to rise during the next quarter or two of 2021 but may stabilize by the fall. Newmark Research projects that the vacancy rate will settle at 20.1% as of March 2023 but may exceed that level in the interim before returning to that rate. The market's average asking rental rate rose 0.9% over the past year, primarily a function of new space delivering at top of the market rates, but concessions are elevated and effective rents are under downward pressure. Tenants will maintain considerable leverage through the summer, but that leverage is likely to wane later in the year. Northern Virginia's development pipeline remains a robust 2.1 million square feet, with a pre-leasing rate of 82.1%. However, at 1.2% of the existing inventory, the construction pipeline is manageable.

Most of Northern Virginia's office market fundamentals continued to soften in the first quarter of 2021, which was expected given the winter uptick in COVID-19 cases and lack of leasing activity in the region. However, Congress did pass a \$1.9 trillion relief bill for individuals, some businesses, and state and local governments in March, which is likely to spur leasing activity. Although asking rents are modestly higher than a year ago, gross leasing in the first quarter was well below the performance of the first quarter of 2020; absorption was negative for the third consecutive quarter. It is certain that job losses already endured in the private sector, especially in the service and retail industries, will continue to have an impact on Northern Virginia's economy during the remainder of 2021. That said, Northern Virginia's office market has been bolstered by its strength in technology and government contracting.

Northern Virginia's diversification over the past decade—blending government contracting with direct federal leasing, technology sector growth, investments in higher education (especially the digital sciences), and medicine—have set it up well for a quicker-than-average office market recovery during the remainder of 2021 and beyond. In addition, a lack of overbuilding and a high pre-lease rate compared to prior cycles puts the market in a better position to rebound faster.

For additional information on the Washington metropolitan area economy and office market outlook, please visit the [Mid-Atlantic Market Reports](#) page at nmrk.com.

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	1Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Northern Virginia	165,380,579	18.6%	19.6%	1,719,823	1,658,670	-655,548	-659,905	-659,905
Class A	98,494,857	18.1%	19.3%	1,394,944	808,699	-73,832	-244,620	-244,620
Class B	46,025,463	20.8%	21.7%	347,694	679,588	-349,196	-491,276	-491,276
Class C	20,860,259	16.2%	16.5%	-22,815	170,383	-232,520	75,991	75,991

Market Statistics By Class

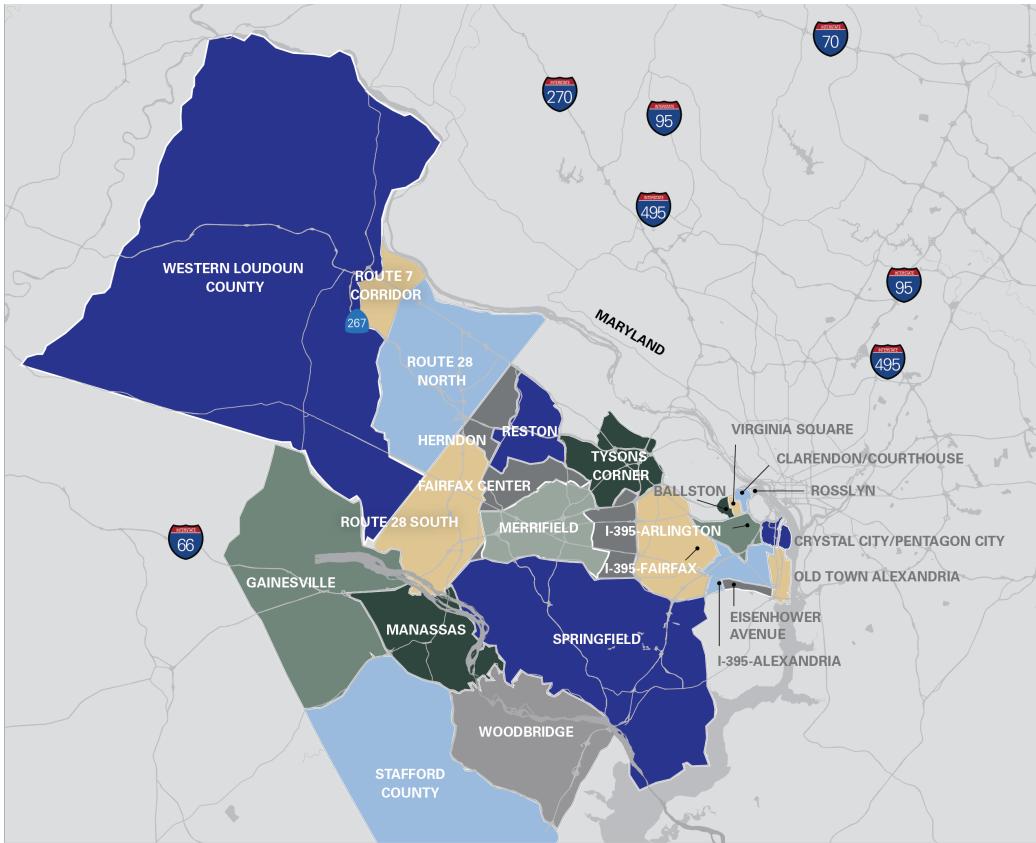
	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Northern Virginia	165,380,579	\$36.26	\$31.52	\$33.86	625,000	625,000	2,061,023
Class A	98,494,857	\$36.26	NA	\$36.26	625,000	625,000	2,061,023
Class B	46,025,463	NA	\$31.52	\$31.52	0	0	0
Class C	20,860,259	NA	NA	\$29.52	0	0	0

Note: Asking rents are quoted on a full service basis.

Submarket Statistics—All Classes								
	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	1Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Northern Virginia	165,380,579	18.6%	19.6%	1,719,823	1,658,670	-655,548	-659,905	-659,905
Ballston	7,645,994	22.6%	24.5%	107,710	191,521	60,741	-19,617	-19,617
Clarendon/Courthouse	4,671,737	25.5%	26.5%	26,287	8,428	-200,058	-101,016	-101,016
Crystal City/Pentagon City	12,739,392	19.1%	20.6%	379,957	282,070	-45,701	-536,963	-536,963
Eisenhower Avenue	1,313,328	51.4%	51.4%	-2,288	10,159	-3,135	0	0
Fairfax Center	10,284,691	22.4%	24.1%	10,068	66,815	-301,122	-29,961	-29,961
Gainesville	247,772	7.9%	7.9%	0	-9,694	7,886	1,808	1,808
Herndon	11,634,113	18.4%	19.5%	87,664	287,490	-1,256	-166,781	-166,781
I-395 Corridor – Alexandria	2,471,576	22.6%	22.6%	-26,084	25,881	32,676	31,535	31,535
I-395 Corridor – Arlington	1,595,158	6.9%	6.9%	16,180	26,795	7,576	-14,722	-14,722
I-395 Corridor – Fairfax	4,810,633	33.0%	33.2%	-47,133	166,877	3,014	-24,430	-24,430
Manassas	2,802,379	7.2%	7.4%	84,302	1,852	-5,424	31,090	31,090
Merrifield	8,339,672	17.3%	18.0%	-24,505	-15,402	25,718	31,370	31,370
Old Town Alexandria	11,296,640	13.2%	14.6%	-61,426	26,115	-194,866	-98,445	-98,445
Reston	17,364,296	16.0%	16.7%	38,034	-208,568	-82,021	8,954	8,954
Rosslyn	9,304,192	20.3%	21.2%	653,574	296,716	149,236	-83,152	-83,152
Route 28 North	5,092,684	14.7%	15.2%	89,114	-88,244	13,826	-5,884	-5,884
Route 28 South	10,982,708	15.7%	16.3%	207,303	125,385	78,564	3,845	3,845
Route 7 Corridor	5,136,314	15.1%	15.3%	111,620	41,444	-27,228	-131,047	-131,047
Springfield	5,173,053	20.7%	20.9%	-18,486	77,173	-39,439	545,647	545,647
Stafford County	886,184	35.6%	35.6%	10,780	2,331	-33,147	-122	-122
Tysons	28,468,210	18.3%	19.6%	95,273	482,664	-81,080	-79,014	-79,014
Virginia Square	1,030,321	19.5%	19.7%	-84,672	-161,903	16,485	-1,053	-1,053
Western Loudoun County	795,188	4.2%	4.2%	42,285	-3,744	-13,650	-10,823	-10,823
Woodbridge	1,294,344	12.4%	12.9%	24,266	26,509	-23,143	-11,124	-11,124

Submarket Statistics—All Classes							
	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	1Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Northern Virginia	165,380,579	\$36.26	\$31.52	\$33.86	625,000	625,000	2,061,023
Ballston	7,645,994	\$45.41	\$40.13	\$42.24	0	0	0
Clarendon/Courthouse	4,671,737	\$44.11	\$40.96	\$43.79	0	0	0
Crystal City/Pentagon City	12,739,392	\$41.47	\$37.43	\$39.56	0	0	0
Eisenhower Avenue	1,313,328	\$31.23	\$23.00	\$29.65	0	0	0
Fairfax Center	10,284,691	\$29.72	\$28.13	\$27.91	0	0	0
Gainesville	247,772	\$31.07	\$22.00	\$25.83	0	0	0
Herndon	11,634,113	\$35.48	\$24.21	\$32.70	0	0	0
I-395 Corridor – Alexandria	2,471,576	\$30.46	\$29.47	\$29.79	0	0	0
I-395 Corridor – Arlington	1,595,158	\$30.77	\$20.00	\$26.84	0	0	0
I-395 Corridor – Fairfax	4,810,633	\$32.20	\$29.40	\$29.31	0	0	0
Manassas	2,802,379	\$22.59	\$20.46	\$20.92	0	0	0
Merrifield	8,339,672	\$32.65	\$31.87	\$30.91	0	0	0
Old Town Alexandria	11,296,640	\$40.17	\$31.30	\$36.49	0	0	0
Reston	17,364,296	\$36.48	\$27.13	\$33.32	0	0	1,360,000
Rosslyn	9,304,192	\$52.85	\$41.82	\$43.14	0	0	0
Route 28 North	5,092,684	\$28.70	\$23.88	\$25.65	0	0	0
Route 28 South	10,982,708	\$29.04	\$23.31	\$28.08	0	0	350,000
Route 7 Corridor	5,136,314	\$28.86	\$21.65	\$27.62	0	0	0
Springfield	5,173,053	\$37.10	\$25.54	\$30.24	625,000	625,000	0
Stafford County	886,184	\$25.74	\$24.50	\$25.69	0	0	0
Tysons	28,468,210	\$39.50	\$33.28	\$35.48	0	0	351,023
Virginia Square	1,030,321	\$43.41	NA	\$42.98	0	0	0
Western Loudoun County	795,188	\$30.91	\$25.19	\$27.50	0	0	0
Woodbridge	1,294,344	\$25.82	\$22.95	\$24.95	0	0	0

Northern Virginia Office Submarkets



Methodology

Market statistics are calculated from a base building inventory of office properties 20,000 SF and larger that are deemed to be competitive in the Washington Metro Area office market. Properties that are more than 75% owner-occupied and federally owned buildings are generally excluded from inventory.

Glossary

Asking Rental Rate: The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year. Average asking rents are calculated on a weighted average basis, weighted by the amount of available space. Asking rents are quoted on a full service basis, meaning all costs of operation are paid by the landlord up to a base year or expense stop.

Class A: The most prestigious buildings competing for premier office users with rents above average for the area. Class A buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B: Buildings competing for a wide range of users with rents in the average range for the area. Class B building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

Class C: Buildings competing for tenants requiring functional space at rents below the area average.

Deliveries: Projects that have completed construction and received a certificate of occupancy.

Net Absorption: The net change in physically occupied space from one quarter to the next. **Year-to-Date (YTD) Net Absorption** is the net change in physically occupied space from the start of the calendar year to the current quarter. Net absorption is counted upon physical occupancy, not upon execution of a lease.

Sublease: Sublease space is offered and marketed as available by the current tenant, rather than directly from the owner.

Under Construction: Properties undergoing ground-up construction in which work has begun on the foundation. Properties that have only undergone grading or other site work are not included as under construction.

Under Renovation: Properties undergoing significant renovations that require all tenants to be out of the building. These properties are removed from inventory during the renovation period and delivered back to inventory upon completion of the renovations. These properties are not included in under construction totals.

Vacancy Rate: The amount of space that is physically vacant, expressed as a percentage of inventory. (Space that is being marketed as available for lease but is largely occupied is not included in the vacancy rate.) The **Overall Vacancy Rate** includes all physically vacant space, both direct and sublease, while the **Direct Vacancy Rate** includes only direct space.

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/research.

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