

Northern Virginia Office Market

Quarterly Leasing Activity Rises; Vacancy Increases Due to New Deliveries

Northern Virginia's overall office market recovery was relatively steady in the first quarter. New construction deliveries were a strong influence on market fundamentals and drove significant positive net absorption while simultaneously causing vacancy to rise. Two Reston deliveries located at 1950 and 2000 Opportunity Way added over 1.1 million square feet of new inventory to the market, with Fannie Mae occupying 793,000 square feet upon delivery. The remaining space delivered vacant, causing the vacancy rate to rise 10 basis points on the quarter. Overall quarterly net absorption measured 774,574 square feet, marking the first quarter of positive net occupancy since the fourth quarter of 2019. The overall vacancy rate measured 20.6% at the end of the first quarter, up 70 basis points from one year ago. Asking rents averaged \$34.59/SF, up \$0.10 from the previous quarter.

Leasing activity remained strong in the first quarter of 2022, with multiple leases transacted greater than 50,000 square feet. The diversity of leasing activity is particularly noteworthy, highlighted by new leases, expansions, relocations, and renewals. Improved public health conditions and the easing of pandemic mandates have resulted in more firms reengaging in real estate planning. New leasing activity illustrates that companies are starting to plan for future real estate needs and are likely to consider instituting return-to-work plans for their employees, at least in a hybrid capacity, in the near term.

Current Conditions

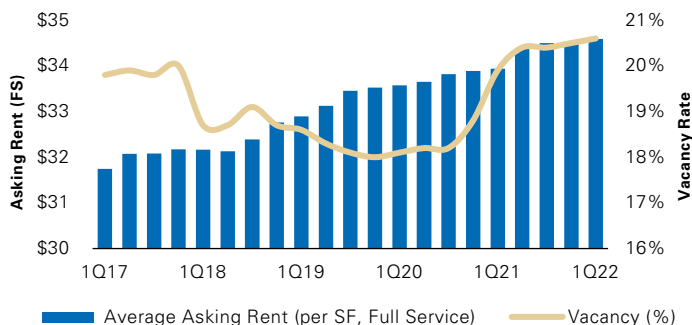
- Quarterly net absorption was 774,574 square feet. This marks the first quarter since late 2019 that Northern Virginia has recorded positive quarterly net absorption.
- The overall vacancy rate was 20.6% at the end of the first quarter, up 70 basis points from one year ago.
- Office space under construction, excluding renovations and owner-occupied buildings, totaled 1.4 million square feet at the end of the first quarter, with a prelease rate of 24.3%.
- Asking rents rose to \$34.59/SF on the quarter and are up 1.9% from one year ago.

Market Summary

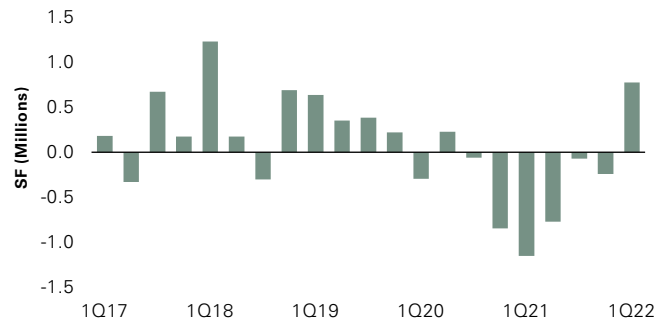
	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	166.1 M	165.0 M	164.6 M	↑
Vacancy Rate	20.6%	20.5%	19.9%	→
Quarterly Net Absorption (SF)	774,574	-242,284	-1,151,981	→
Average Asking Rent/SF	\$34.59	\$34.49	\$33.94	↑
Under Construction (SF)	1.4 M	2.2M	2.1 M	↓
Deliveries (SF)	1,062,000	260,000	625,000	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q1 2022

Northern Virginia's construction pipeline measured 1.4 million square feet with a 24.3% prelease rate at the end of the first quarter. The low prelease rate is driven by the recent delivery of two highly-leased buildings, and the subsequent outsized share of speculative construction in the pipeline. 1950 and 2000 Opportunity Way delivered in the first quarter, measuring just under 1.1 million square feet and boasting a prelease rate of 88.0%.

Silver Line Expansion Increases Ease of Public Transit Access to Suburbs

Northern Virginia has grown its competitive position in attracting tenants, due to its proximity to the nation's capital, and its highly-educated and skilled workforce. The area has historically been noted for its concentration of government employment and private sector contracting for defense and intelligence agencies. This clustering of high-skill industries has supported the growth of the region's technical workforce and has subsequently attracted large private tech businesses to the area. Most notably, Amazon is well underway with construction on their East Coast headquarters in Arlington's Crystal City submarket. In addition, however, several other technology-focused firms have been active in leasing space during the pandemic, including Microsoft, which expanded into about 180,000 square feet at 1300 Wilson Boulevard in the first quarter, and government contracting firms, like Raytheon and L3Harris, which have renewed significant real estate commitments in the area.

In recent years, Northern Virginia's tech-led corporate growth, has begun to sprawl beyond the Capital Beltway. This commercial growth has necessitated the expansion of public transit further into Fairfax and Loudoun Counties, to connect submarkets such as Herndon and Reston to the Metrorail network. In 2014, the Washington Metro Transit Authority completed the first of two Silver Line extensions, adding five stations and connecting Tysons and Reston to mass transit. The

second Silver Line expansion should deliver next quarter. This second phase will provide an additional 11.4 miles of access and six additional stations, including Dulles International Airport. The completion of this project will connect all three metropolitan airports to rail service; an important milestone for regional economic development.

Increased transit access is essential given the magnitude of the developments and commercial investments in Herndon, Reston, and Tysons. In the past six months, three Metro-adjacent office buildings have delivered along the Silver Line; 1950 and 2000 Opportunity Way and 1902 Reston Metro Plaza have added over 1.3 million square feet of Metro-accessible office inventory to the market. Growth in office demand within these newly-serviced transit-oriented areas will yield above-average net absorption. Fannie Mae has already occupied a significant block of space in Reston, but Volkswagen will be occupying newly-delivered space by year-end. Increased development activity in these submarkets has helped to attract tenancy, as flight to quality remains a strong driver among office occupiers.

Return to Office Indicators Trending Up; Some Hesitancy Remains

Public health conditions improved throughout the first quarter of 2022, noted by a significant reduction in the spread of Omicron in February. Although most Northern Virginia counties did not re-institute indoor mask mandates in response to the spread of Omicron, many office occupiers ultimately delayed reboarding plans originally scheduled for early 2022. Pandemic-related restrictions began easing nationwide in February and March, as the threat of the pandemic began to wane for vaccinated individuals. The removal of mask mandates in all local jurisdictions will make returning to offices more feasible for employers and approachable for employees. Furthermore, the region's relatively high vaccination rates are providing additional support to reboarding efforts.

Notable 1Q 2022 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
T-Mobile	2340 Dulles Corner Boulevard	Herndon	Direct Lease	190,000
In-Q-Tel, Inc	1800 Tysons Boulevard	Tysons	Direct Lease	79,716
Vomela Commercial	8000-8080 Grainger Court	Springfield	Direct Lease	71,875
SOC	3975 Virginia Mallory Drive	Route 28 South	Renewal	36,748
Octagon	7950 Jones Branch Road	Tysons	Renewal	34,000

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Quantum Park	Route 28 North	\$330,000,000	\$268	1,231,738
Commonwealth Tower	Rosslyn	\$245,000,000	\$714	343,000
Sequoia Plaza I, II & III	I-395 Corridor - Arlington	\$206,000,000	\$559	369,215
1400 Crystal Drive	Crystal City	\$203,000,000	\$657	308,898

RESEARCH Q1 2022

The federal government will play a key role in defining the overall pace of local reboarding. Following a federal directive to begin return-to-office planning, several agencies have started recalling some or all workers back to offices. Each agency will dictate its own return-to-office plan, but like private firms, many government agencies are expected to permit more hybrid and telework arrangements based on need and function. Some federal workers, including those on mission critical teams, have already returned to offices, but this new effort to draw back more employees is a positive sign for the recovery. The federal government should serve as a litmus test for gauging the market's return-to-office momentum given the region's high concentration of federally-related jobs. Many private companies have been hesitant to be "first movers" in requiring employees to come back to the office. Given tight labor market conditions, talent retention is a top priority for many firms, and employees have come to appreciate the flexibility of a remote schedule.

Northern Virginia Outlook

Northern Virginia's office market showed modest signs of recovery in early 2022, registering positive absorption for the first time since the fourth quarter of 2019. Leasing activity was steady with several significant deal signings, including long-term renewals. Improved leasing activity over the last six months signals that tenants are becoming more confident in making long-term real estate decisions while also weighing future space needs. With employers increasingly optimistic about instituting return-to-office requirements for employees, at least in a hybrid capacity, greater pent-up leasing demand is likely to loosen. The overall vacancy rate has risen over the last year, driven by consistently negative net absorption for much of 2021. Vacancy increased to 20.6% in the first quarter, up 10 basis points from the fourth quarter of 2021. Newmark Research projects that

vacancy will decrease to 20.2% by March 2024. The market's average asking rent increased by 1.9% over the last year, but concessions remain elevated and effective rents are under downward pressure. Tenants have maintained considerable leverage throughout the pandemic, given high availability in most submarkets. Tenants should expect generous concessions to last well into 2022 in most submarkets.

Northern Virginia's current development pipeline measures 1.4 million square feet, with a prelease rate of 24.3%. At less than one percent of the existing inventory, the construction pipeline is modest, but active projects are mostly speculative with low prelease rates. Given tenant preference for high quality office space, the market could support new ground breakings especially if preleasing activity accelerates in the existing pipeline.

Northern Virginia maintains its business-friendly reputation and has effectively managed and deployed incentives to attract large tenants. Steady gains to public health have set the foundation for a return to offices in 2022, which should accelerate leasing activity and loosen pent-up demand. Still, many office occupiers will reassess space needs in the coming years, possibly leading to net occupancy losses on balance. Growth in new industries, like technology, could insulate Northern Virginia by boosting net-new occupancy growth in the period ahead.

For additional information on the Washington metropolitan area economy and office market outlook, please visit the [Mid-Atlantic Market Reports](https://www.newmark.com/mid-atlantic-market-reports) page at nmrk.com.

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2019 Absorption (SF)	2020 Absorption (SF)	2021 Absorption (SF)	1Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
Northern Virginia	166,106,919	19.5%	20.6%	1,558,088	-972,732	-2,238,240	774,574	774,574
Class A	100,622,434	18.9%	20.1%	713,806	-150,566	-1,299,821	962,769	962,769
Class B	44,940,146	21.7%	22.8%	673,899	-540,663	-844,988	-114,092	-114,092
Class C	20,544,339	17.4%	17.8%	170,383	-281,503	-93,431	-74,103	-74,103

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 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
Northern Virginia	166,106,919	\$37.12	\$31.90	\$34.59	1,062,000	1,062,000	1,440,937
Class A	100,622,434	\$37.12	NA	\$37.12	1,062,000	1,062,000	1,440,937
Class B	44,940,146	NA	\$31.90	\$31.90	0	0	0
Class C	20,544,339	NA	NA	\$29.76	0	0	0

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

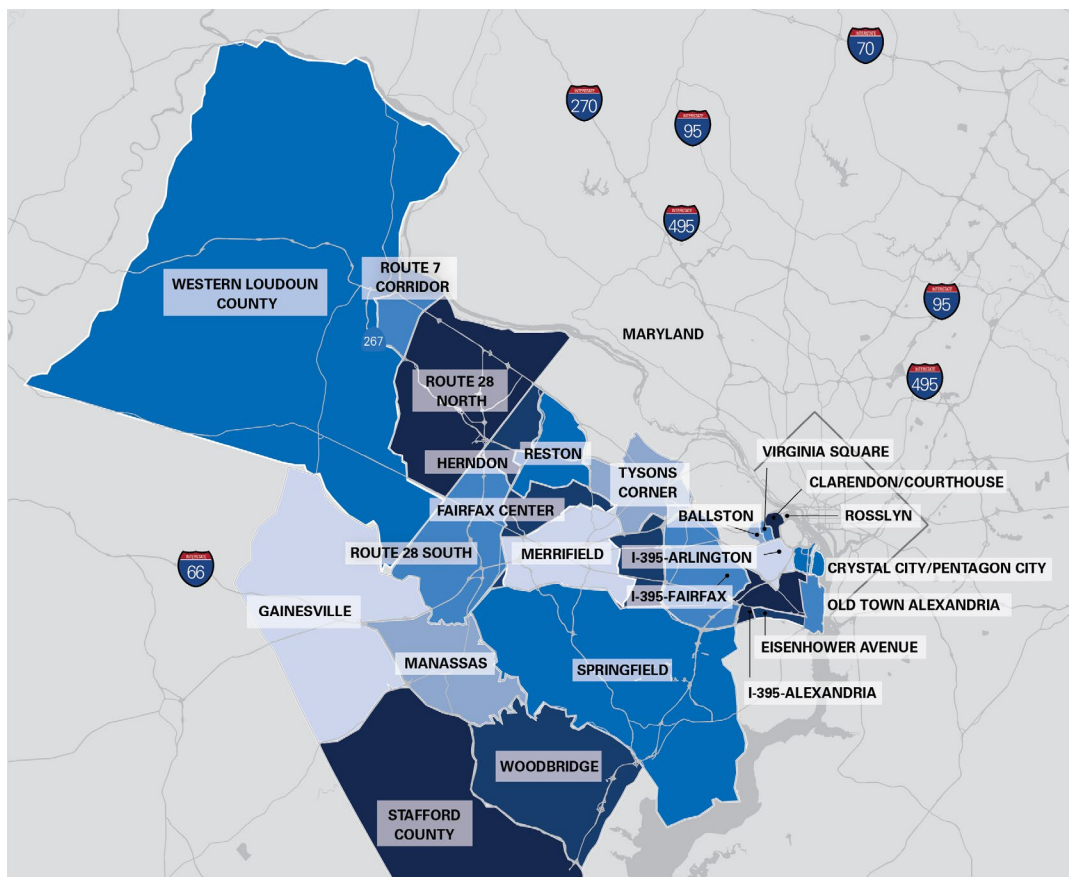
Submarket Statistics—All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2019 Absorption (SF)	2020 Absorption (SF)	2021 Absorption (SF)	1Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
Northern Virginia	166,106,919	19.5%	20.6%	1,558,088	-972,732	-2,238,240	774,574	774,574
Ballston	7,645,994	25.0%	26.1%	125,582	65,095	-180,352	94,697	94,697
Clarendon/Courthouse	4,550,562	24.5%	26.3%	8,428	-175,216	-187,143	-17,249	-17,249
Crystal City/Pentagon City	12,585,674	23.4%	25.5%	282,070	-24,886	-1,191,495	-3,711	-3,711
Eisenhower Avenue	1,313,328	54.1%	54.1%	10,159	-3,135	-39,363	3,982	3,982
Fairfax Center	9,937,725	22.8%	24.0%	64,910	-344,522	6,592	31,490	31,490
Gainesville	247,772	9.0%	9.0%	-9,694	7,886	1,808	-2,882	-2,882
Herndon	11,589,113	22.6%	23.0%	245,642	-132,779	-326,156	-96,368	-96,368
I-395 Corridor – Alexandria	2,021,964	23.6%	24.6%	25,881	-60,099	48,153	3,229	3,229
I-395 Corridor – Arlington	1,595,158	5.1%	5.1%	26,795	7,576	-9,005	23,062	23,062
I-395 Corridor – Fairfax	4,747,633	31.4%	31.8%	166,877	18,234	-4,897	16,332	16,332
Manassas	2,802,379	4.5%	5.1%	5,752	-10,424	47,315	23,369	23,369
Merrifield	8,339,672	15.6%	18.2%	-3,312	53,267	-40,052	-3,998	-3,998
Old Town Alexandria	11,134,276	13.9%	15.3%	26,115	-194,866	-142,517	-50,277	-50,277
Reston	18,693,528	16.2%	18.0%	-189,954	-212,773	-59,040	784,071	784,071
Rosslyn	9,304,192	20.5%	21.1%	271,222	100,643	-166,948	166,169	166,169
Route 28 North	5,480,890	12.9%	13.2%	-88,244	41,167	-35,458	57,797	57,797
Route 28 South	11,561,987	14.6%	15.1%	125,385	103,142	15,627	9,095	9,095
Route 7 Corridor	5,190,314	12.4%	12.6%	41,444	38,906	-22,390	-12,520	-12,520
Springfield	5,066,811	23.8%	24.0%	77,173	-67,116	528,977	-118,933	-118,933
Stafford County	886,184	31.6%	31.6%	2,331	-33,147	46,386	-10,741	-10,741
Tysons	28,291,910	20.7%	21.7%	482,664	-129,377	-445,135	-128,210	-128,210
Virginia Square	1,030,321	20.8%	27.6%	-161,903	16,485	-80,045	-1,897	-1,897
Western Loudoun County	795,188	2.6%	2.6%	-3,744	-13,650	2,256	209	209
Woodbridge	1,294,344	11.9%	11.9%	26,509	-23,143	-5,358	7,858	7,858

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 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
Northern Virginia	166,106,919	\$37.12	\$31.90	\$34.59	1,062,000	1,062,000	1,440,937
Ballston	7,645,994	\$44.86	\$39.93	\$42.28	0	0	191,034
Clarendon/Courthouse	4,550,562	\$44.15	\$39.68	\$43.52	0	0	0
Crystal City/Pentagon City	12,585,674	\$41.37	\$36.80	\$39.30	0	0	0
Eisenhower Avenue	1,313,328	\$30.04	\$25.00	\$29.77	0	0	0
Fairfax Center	9,937,725	\$30.41	\$28.28	\$28.03	0	0	0
Gainesville	247,772	\$31.07	\$23.61	\$26.45	0	0	0
Herndon	11,589,113	\$36.02	\$25.36	\$33.96	0	0	0
I-395 Corridor – Alexandria	2,021,964	\$32.37	\$30.85	\$31.58	0	0	0
I-395 Corridor – Arlington	1,595,158	\$31.56	\$20.00	\$26.95	0	0	0
I-395 Corridor – Fairfax	4,747,633	\$32.59	\$29.43	\$29.37	0	0	0
Manassas	2,802,379	\$25.26	\$21.49	\$22.86	0	0	0
Merrifield	8,339,672	\$33.37	\$31.62	\$31.11	0	0	0
Old Town Alexandria	11,134,276	\$41.28	\$32.27	\$38.07	0	0	0
Reston	18,693,528	\$36.37	\$27.48	\$32.96	1,062,000	1,062,000	328,380
Rosslyn	9,304,192	\$53.93	\$40.82	\$41.00	0	0	0
Route 28 North	5,480,890	\$28.48	\$25.04	\$26.56	0	0	0
Route 28 South	11,561,987	\$29.10	\$24.32	\$28.19	0	0	350,000
Route 7 Corridor	5,190,314	\$29.65	\$22.37	\$27.80	0	0	0
Springfield	5,066,811	\$37.80	\$25.62	\$31.81	0	0	0
Stafford County	886,184	\$26.14	\$24.50	\$26.08	0	0	0
Tysons	28,291,910	\$40.31	\$32.99	\$36.47	0	0	571,523
Virginia Square	1,030,321	\$43.39	NA	\$42.96	0	0	0
Western Loudoun County	795,188	\$31.87	\$27.43	\$30.27	0	0	0
Woodbridge	1,294,344	\$25.69	\$22.87	\$24.77	0	0	0

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

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.

For more information:

TYSONS

1420 Spring Hill Road
Suite 600
McLean, VA 22102
703.448.2000

Matt Kruczlnicki

Director

t 202-312-5757

matthew.kruczlnicki@nmrk.com

Adam Reiskin

Research Analyst

t 202-312-5763

adam.reiskin@nmrk.com

Miles Barkley

Research Analyst

t 202-664-5894

miles.barkley@nmrk.com

nmrk.com

ALABAMA

Birmingham

ARIZONA

Phoenix

ARKANSAS

Bentonville
Fayetteville
Little Rock

CALIFORNIA

El Segundo
Fresno
Irvine
Los Angeles
Newport Beach
Pasadena
Sacramento
San Francisco
San Jose
San Mateo
Santa Rosa
Visalia

COLORADO

Denver

CONNECTICUT

Stamford

DELAWARE

Wilmington

DISTRICT OF COLUMBIA

FLORIDA

Boca Raton
Jacksonville
Jupiter
Miami
Palm Beach
Tampa

GEORGIA

Atlanta
St. Simons Island

ILLINOIS

Chicago

INDIANA

Indianapolis

KENTUCKY

Louisville

LOUISIANA

New Orleans

MARYLAND

Baltimore
Salisbury

MASSACHUSETTS

Boston

MICHIGAN

Detroit

MINNESOTA

Minneapolis

MISSOURI

Kansas City
Lee's Summit
St. Louis

NEVADA

Las Vegas
Reno

NEW JERSEY

East Brunswick
Morristown
Rutherford

NEW YORK

Buffalo/Amherst
New York

NORTH CAROLINA

Charlotte

OHIO

Cincinnati
Cleveland
Columbus

OKLAHOMA

Oklahoma City
Tulsa

OREGON

Portland/Lake
Oswego

PENNSYLVANIA

Allentown
Philadelphia
Pittsburgh

TEXAS

Austin
Dallas
Houston

UTAH

Salt Lake City

VIRGINIA

Tysons Corner

WASHINGTON

Seattle

WISCONSIN

Milwaukee

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.

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof and not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.