



RESEARCH 2Q 2021

Northern Virginia Office Market

Demand is Light but Construction Pipeline Remains Controlled

The effects of the pandemic on the Northern Virginia office market continued into the second quarter of 2021, as leasing activity remained limited. However, the second quarter also saw a nationwide vaccine rollout and the lifting of COVID-19 restrictions across the Washington area, which foreshadows a return to normalcy. Gross leasing in the second quarter was still below pre-pandemic levels. Five of the six top leases of the second quarter were renewals, but all of them had terms longer than three years. It is a positive sign from an owner's perspective that tenants are no longer signing short-term renewals to wait out the pandemic, but instead are committing to their space long term, even if at a discounted rental rate.

The most significant lease of the quarter was Raytheon's 521,366-square-foot renewal across three buildings in Route 28 North. Overall vacancy was 20.4% in the second quarter, an increase of 50 basis points from last quarter and 220 basis points from one year ago. The average overall asking rent increased 2.2% from one year ago to \$34.38/SF. Despite the increase in asking rents from the second quarter of 2020, 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 second quarter. The overall pre-lease rate of the buildings under construction was 83.0%.

One project delivered in the second quarter of 2021: One Endicott at 44679 Endicott Drive, a 54,000-square-foot building partially preleased to Venture X. There were no significant groundbreakings in Northern Virginia during the second quarter, as developers continue to assess post-pandemic space needs and construction costs remain high due to supply constraints. This was the third consecutive quarter in which the pandemic-driven slow leasing velocity has been clearly reflected in market fundamentals. Light demand likely will persist during the remainder of 2021, although the Northern Virginia office market remains fairly well positioned to strengthen in 2022. The Northern Virginia market has been good at attracting new headquarters locations and is known for being business friendly. These factors—combined with the re-boarding of office space during the second half of 2021, an increase in real estate decision-making, and a strong mix of industries—may lead to pent-up demand being released in 2022 and 2023.

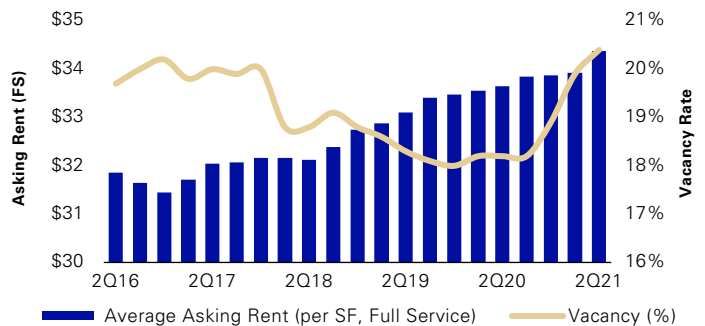
NEWMARK

Current Conditions

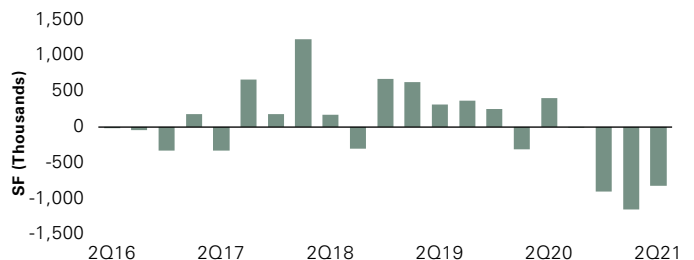
- Market indicators softened during the second quarter, the result of slow leasing activity as tenants reassess their post-COVID space needs.
- The largest lease of the quarter was signed by Raytheon, a renewal of a three-building complex for 521,366 square feet in the Route 28 North submarket.
- One building delivered in the second quarter of 2021: One Endicott at 44679 Endicott Drive, a 54,000-square-foot building in the Route 7 Corridor that is partially leased to coworking company Venture X.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	165.1 M	165.0 M	164.6 M	↑
Vacancy Rate	20.4%	19.9%	18.2%	↑
Quarterly Net Absorption (SF)	-823,606	-1,155,713	404,177	↑
Average Asking Rent/SF	\$34.38	\$33.93	\$33.65	→
Under Construction (SF)	2.1 M	2.1 M	2.7 M	↓
Deliveries (SF)	54,000	625,000	473,457	↑

Northern Virginia Shines as Business Friendly

The COVID-19 pandemic has brought on unprecedented challenges for the region. The economy has diversified since the Great Recession, which is both a benefit and a disadvantage during this latest downturn. However, over the past ten years, Northern Virginia has been good at attracting companies to relocate to the area by leveraging financial incentives and via a continuing commitment to infrastructure improvements. Fairfax County alone has 11 Fortune 500 headquarters, which is more than 35 states and the District. This will be an advantage during the ongoing economic recovery from COVID-19, and asset owners and tenants alike have reason to expect a market rebound in the years ahead. Following is a recap of Northern Virginia's recent standout performance on the economic development front.

The most consequential headquarters announcement in recent years was Amazon's HQ2 in November 2018. Amazon has leased approximately 850,000 square feet in the Crystal City/Pentagon City submarket and has started construction on phase one of its owner-occupied complex, which includes two 22-story office buildings. The designs for phase two were announced in the first quarter of 2021 and will include three 22-story office buildings. The project is also expected to include 2.5 acres of public space and 100,000 square feet of retail.

Arlington and the Commonwealth of Virginia worked together to offer an attractive incentive package to Amazon. Amazon will receive \$550 million in workforce cash grants from the Commonwealth of Virginia for the creation of 25,000 new jobs. Additionally, Amazon can receive up to \$200 million in grants if it delivers on an additional 12,850 jobs beyond the initial requirement. Amazon will receive a cash grant of \$23 million from Arlington County for the incremental growth of an existing local Transient Occupancy Tax over the next 15 years.

The direct impact of Amazon's second headquarters is important to the region; the firm's indirect impact on the region's academic institutions and infrastructure are arguably more important. The Commonwealth of Virginia has pledged \$250 million toward Virginia Tech's \$1.0 billion new Potomac Yard campus that is

expected to break ground this fall. The new campus will offer degrees in software engineering and computer science. 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. These investments in education, plus the co-location with Amazon, will be an asset for the region when trying to attract companies similar to Amazon.

Amazon is just one of many recent successes for Northern Virginia. In the second quarter of 2021, StarKist announced it would be relocating its U.S. headquarters from Pittsburgh to 1875 Explorer Street in Reston, and consulting firm Guidehouse announced it would invest \$12.7 million to create a new headquarters at 1676 International Drive in Tysons. Other notable companies to relocate their headquarters to the region include Nestle/Gerber and Bechtel. Other firms have recently recommitted to the region by signing significant new leases for headquarters space; these include Volkswagen at Reston Gateway, Leidos at 1750 Presidents Street, ICF International at Reston Station and Appian at 7950 Jones Branch Drive.

Northern Virginia has had continued success in the public sector as well, with the General Services Administration or relocating agency headquarters within the substate area. In the first quarter of 2021, the new 625,000-square-foot Transportation Security Administration (TSA) headquarters building delivered in Springfield. The Central Intelligence Agency (CIA) leased the Dulles Discovery Campus in Route 28 South and has a new 350,000-square-foot building under construction. U.S. Customs and Border Protection announced in 2018 it would consolidate its Office of Information Technology headquarters to 450,000 square feet at Quantum Park in the Route 7 Corridor by 2021.

Despite the global pandemic and economic uncertainty, Northern Virginia remains an attractive market for both tenants and asset owners. There are many diverse submarkets to choose from in Northern Virginia and a continued commitment to improving transportation options, infrastructure and housing. The potential to co-locate with Amazon and the additional talent that will be produced by the new Virginia Tech and GMU programs will further enhance the area's appeal.

Notable 2Q 2021 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Raytheon	22110, 22260 and 22270 Pacific Boulevard	Route 28 North	Renewal	521,366
L3Harris Technologies	2235 Monroe Street	Reston	Renewal	161,359
GSA – Department of State	1400 Wilson Boulevard	Rosslyn	Renewal	105,597
Boeing	14660 Lee Road	Route 28 South	Renewal	80,339
Guidehouse Inc.	1676 International Drive	Tysons	Direct Lease	74,532

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Dulles Executive Plaza I & II	Herndon	\$113,500,000	\$298	380,764
Plaza East I & II	Route 28 South	\$72,100,000	\$292	246,957

Class A Market Endures Occupancy Losses Due to Slow Leasing Velocity

Northern Virginia's Class A properties recorded net absorption of -514,032 square feet in second-quarter 2021. The consolidation of government contractors and the General Services Administration (GSA) has been a theme for Class A space in 2021. Slow leasing velocity and a lack of lease commencements has generated negative absorption over the past three quarters. Northern Virginia's Class A vacancy rate was 20.3% at second-quarter 2021, up 250 basis points from a year ago. Class A asking rents increased 2.5% over the past year, bolstered by new product.

Investment Sales Volume Remains Modest

Northern Virginia's investment sales activity had picked up in the fourth quarter of 2020 but has since slowed. There were two significant sales in the second quarter of 2021. The largest sale of the quarter was Dulles Executive Plaza I & II in Herndon. The 380,764-square-foot complex was purchased by Innovatus from a joint venture between Lionstone Investments and Columbia Real Estate for \$113.5 million, or \$298 per square foot. The sales momentum seen from 2018 to 2019 was slowed in 2020 by COVID-19 and that has bled into 2021. However, there has been a notable uptick in properties being marketed and Northern Virginia's strong mix of industries likely will attract investors.

Northern Virginia Outlook

Northern Virginia's office space absorption was soft during the second quarter of 2021 due to slow leasing velocity over the past year and continued consolidations of office space. However, the rapid rollout of COVID-19 vaccines and the high vaccine uptake rate in the region has resulted in an end of pandemic-related business restrictions. New leasing velocity remained muted although there were significant long-term renewals, signaling that tenants are confident in their office space needs in Northern Virginia. Tenant movement is likely to accelerate in the second

half of the year now that companies can begin having their employees safely return to the office. However, many forthcoming leases could include space reductions, as flexible work schedules will lead some occupiers to take less space. There has also been a shift toward redesigned office space, with an emphasis on collaboration instead of individual work stations.

Northern Virginia's overall vacancy rate ticked up during the second quarter to 20.4%, as absorption was negative for the fourth consecutive quarter. The vacancy rate likely will continue to rise during the next quarter as a result of slow leasing velocity, but leasing activity should pick up in late 2021 and into 2022. Newmark Research projects that the vacancy rate will settle at 21.0% as of June 2023. The market's average asking rental rate rose 2.2% over the past year, but concessions remain elevated and effective rents are under downward pressure. Tenants will maintain considerable leverage through the remainder of 2021, but that leverage is likely to wane in 2022 as leasing velocity increases and tenants reoccupy space. Northern Virginia's development pipeline is 2.1 million square feet, with a pre-leasing rate of 83.0%. However, at 1.2% of the existing inventory, the construction pipeline is manageable.

Northern Virginia's diversification over the past decade—blending government contracting with direct federal leasing, attracting headquarters locations, technology sector growth, investments in higher education and medicine—has set it up well for success following the pandemic-induced economic downturn. However, the continued consolidation of government contractors in the area and the rise of hybrid work schedules may result in sluggish net demand over the next two years.

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)	2Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Northern Virginia	165,072,819	19.2%	20.4%	1,765,088	1,573,728	-820,430	-823,606	-1,979,319
Class A	98,665,921	18.9%	20.3%	1,407,847	730,637	-119,660	-514,032	-1,260,380
Class B	45,806,599	21.5%	22.5%	380,056	672,708	-419,267	-346,699	-816,801
Class C	20,600,299	16.2%	16.4%	-22,815	170,383	-281,503	37,125	97,862

Market Statistics By Class

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Northern Virginia	165,072,819	\$36.91	\$32.07	\$34.38	54,000	679,000	2,061,023
Class A	98,665,921	\$36.91	NA	\$36.91	54,000	679,000	2,061,023
Class B	45,806,599	NA	\$32.07	\$32.07	0	0	0
Class C	20,600,299	NA	NA	\$29.20	0	0	0

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

Submarket Statistics—All Classes

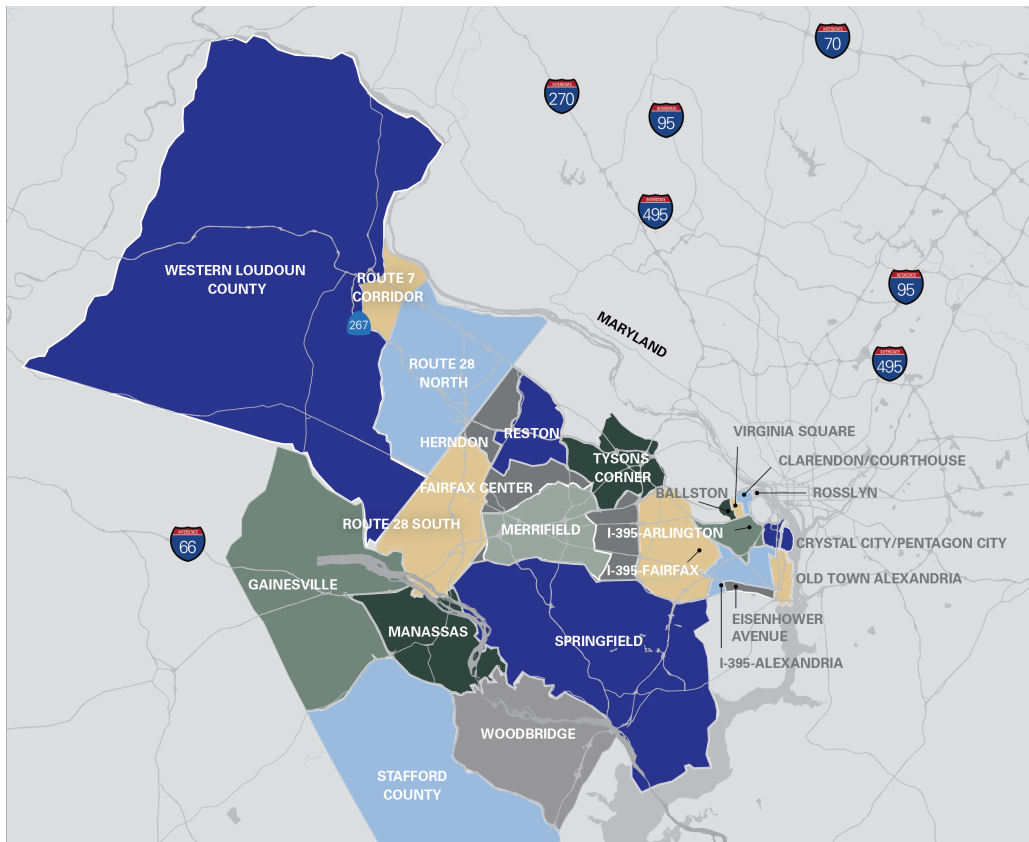
	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2018 Absorption (SF)	2019 Absorption (SF)	2020 Absorption (SF)	2Q 2021 Absorption (SF)	YTD 2021 Absorption (SF)
Northern Virginia	165,072,819	19.20%	20.40%	1,765,088	1,573,728	-820,430	-823,606	-1,979,319
Ballston	7,645,994	23.3%	24.9%	107,710	151,407	66,959	-23,562	-17,545
Clarendon/Courthouse	4,671,737	25.7%	27.0%	26,287	8,428	-175,216	-33,094	-146,331
Crystal City/Pentagon City	12,585,674	22.5%	24.1%	383,529	282,070	-24,886	-155,588	-1,023,228
Eisenhower Avenue	1,313,328	51.2%	51.2%	-2,288	10,159	-3,135	1,590	1,590
Fairfax Center	10,284,691	23.2%	24.7%	10,068	66,815	-344,273	22,463	-47,547
Gainesville	247,772	7.9%	7.9%	0	-9,694	7,886	0	1,808
Herndon	11,634,113	20.5%	21.2%	87,664	245,642	-85,364	-43,405	-242,147
I-395 Corridor – Alexandria	2,021,964	21.5%	22.6%	-26,084	25,881	32,676	-31,348	187
I-395 Corridor – Arlington	1,595,158	6.8%	6.9%	16,180	26,795	7,576	-77	-14,799
I-395 Corridor – Fairfax	4,810,633	32.0%	32.2%	-47,133	166,877	18,234	13,770	-29,812
Manassas	2,802,379	6.3%	6.8%	112,066	5,752	-10,424	9,007	22,934
Merrifield	8,339,672	16.4%	18.2%	-24,505	-15,402	53,267	-53,627	-9,534
Old Town Alexandria	11,296,640	14.1%	15.8%	-61,426	26,115	-194,866	-98,021	-233,568
Reston	17,364,296	15.5%	17.2%	56,280	-189,954	-84,721	-157,534	-103,476
Rosslyn	9,304,192	21.5%	22.8%	667,690	271,222	100,643	-59,601	-158,065
Route 28 North	5,440,496	14.2%	14.6%	89,114	-88,244	13,826	-21,840	-27,724
Route 28 South	10,982,708	15.7%	16.2%	188,870	125,385	78,564	-9,632	-3,507
Route 7 Corridor	5,190,314	15.6%	15.9%	111,620	41,444	-27,228	-16,076	-120,389
Springfield	5,066,811	21.4%	21.5%	-18,486	77,173	-67,116	-77,775	535,661
Stafford County	886,184	33.8%	33.8%	10,780	2,331	-33,147	16,241	16,119
Tysons	28,468,210	19.3%	20.5%	95,273	482,664	-129,377	-20,124	-271,573
Virginia Square	1,030,321	19.5%	26.2%	-84,672	-161,903	16,485	-67,015	-68,068
Western Loudoun County	795,188	4.9%	4.9%	42,285	-3,744	-13,650	-5,554	-16,377
Woodbridge	1,294,344	13.4%	13.9%	24,266	26,509	-23,143	-12,804	-23,928

Submarket Statistics—All Classes

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2021 Deliveries (SF)	YTD 2021 Deliveries (SF)	Under Construction (SF)
Northern Virginia	165,072,819	\$36.91	\$32.07	\$34.38	54,000	679,000	2,061,023
Ballston	7,645,994	\$44.83	\$40.29	\$42.34	0	0	0
Clarendon/Courthouse	4,671,737	\$44.10	\$40.09	\$43.64	0	0	0
Crystal City/Pentagon City	12,585,674	\$41.49	\$37.37	\$39.53	0	0	0
Eisenhower Avenue	1,313,328	\$31.86	\$23.00	\$30.06	0	0	0
Fairfax Center	10,284,691	\$30.01	\$28.12	\$27.87	0	0	0
Gainesville	247,772	\$31.07	\$23.29	\$26.25	0	0	0
Herndon	11,634,113	\$36.04	\$24.88	\$33.49	0	0	0
I-395 Corridor – Alexandria	2,021,964	\$31.61	\$30.08	\$30.70	0	0	0
I-395 Corridor – Arlington	1,595,158	\$28.94	\$20.00	\$25.39	0	0	0
I-395 Corridor – Fairfax	4,810,633	\$32.63	\$29.52	\$29.32	0	0	0
Manassas	2,802,379	\$24.88	\$21.33	\$22.40	0	0	0
Merrifield	8,339,672	\$33.05	\$32.92	\$31.51	0	0	0
Old Town Alexandria	11,296,640	\$41.33	\$31.63	\$37.78	0	0	0
Reston	17,364,296	\$36.55	\$27.36	\$33.45	0	0	1,360,000
Rosslyn	9,304,192	\$52.84	\$42.03	\$42.61	0	0	0
Route 28 North	5,440,496	\$28.75	\$23.88	\$25.78	0	0	0
Route 28 South	10,982,708	\$29.08	\$24.44	\$28.23	0	0	350,000
Route 7 Corridor	5,190,314	\$29.12	\$22.94	\$27.45	54,000	54,000	0
Springfield	5,066,811	\$37.04	\$25.94	\$30.63	0	625,000	0
Stafford County	886,184	\$25.78	\$24.50	\$25.74	0	0	0
Tysons	28,468,210	\$40.84	\$34.11	\$36.30	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	\$27.53	0	0	0
Woodbridge	1,294,344	\$25.64	\$22.75	\$24.79	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.

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