



Northern Virginia Office Market

New Deliveries Drive Fundamentals in 2022; Optimism in Leasing Activity

Northern Virginia's office market exhibited continued volatility and softening in the second quarter of 2022. The dramatically improved public health conditions have set the foundation for a return to normal business activities, but overall momentum has yet to catch up with the anticipated loosening demand.

Net absorption measured negative 292,386 square feet in the second quarter of 2022, offsetting some of the occupancy gained in the previous quarter. Year-to-date net absorption measured 308,577 square feet. Occupancy contraction in the second quarter of 2022 resulted in a vacancy increase of 20 basis points on the quarter to 20.9%. Over the last six months, the largest contributor to Northern Virginia's rising vacancy has been the delivery of net-new, unoccupied office space. The only construction delivery of the second quarter of 2022 was Tysons Central. Measuring 351,023 square feet, this building delivered fully vacant and contributed 17 basis points to the rise in Northern Virginia's overall vacancy rate.

Despite the steady rise in vacancy and uneven recovery in net absorption, average asking rents continued to increase. Average asking rents appreciated by 1.0% over the last 12 months, reaching \$34.72/SF. Leasing activity has been on the rise through the first half of the year; however, this activity is not equitably distributed among all Northern Virginia's submarkets. Among the region's largest leases in the second quarter of 2022, over 40% of activity was concentrated in Reston, Herndon, and Route 28.

Current Conditions

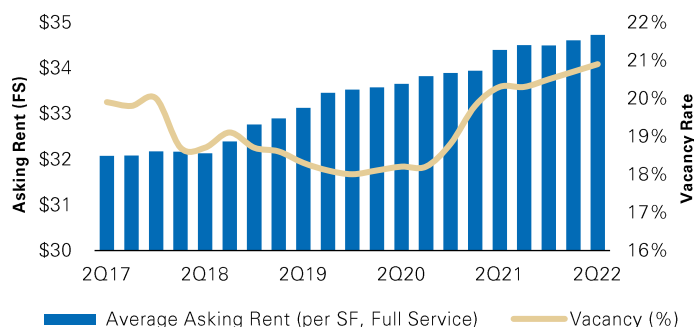
- Quarterly net absorption measured negative 292,386 square feet in the second quarter. This offsets some of occupancy gained from the first quarter, resulting in year-to-date net absorption of 308,577 square feet.
- The overall vacancy rate was 20.9% at the end of the second quarter, up 60 basis points from one year ago.
- Office space under construction, excluding renovations and owner-occupied buildings, totaled 869,414 square feet at the end of the second quarter, with a prelease rate of 40.3%.
- Asking rents rose to \$34.72/SF on the quarter and are up 1.0% from one year ago.

Market Summary

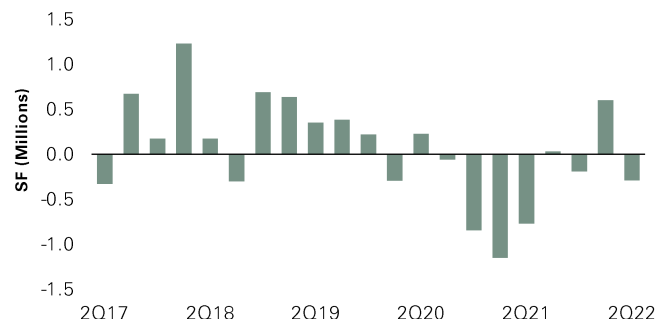
	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	165.7 M	165.9 M	164.5 M	↓
Vacancy Rate	20.9%	20.7%	20.3%	↓
Quarterly Net Absorption (SF)	-292,386	600,963	-771,425	→
Average Asking Rent/SF	\$34.72	\$34.60	\$34.39	↑
Under Construction (SF)	869,414	1.2 M	2.0 M	↓
Deliveries (SF)	351,023	1.1 M	54,000	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q2 2022

Northern Virginia's construction pipeline has contracted significantly over the last two years. Currently, the pipeline measures 869,414 square feet and holds a prelease rate of 40.3%. While the prelease rate has improved from the first quarter of 2022, it is below the region's historical rates, which averaged 60.5% over the last three years. Tenant flight-to-quality is a driving factor in leasing velocity, though leasing among active construction projects has not been strong enough to encourage developers to break ground on speculative projects. As such, Northern Virginia's construction pipeline is expected to remain modest while the market adjusts.

Office Market Activity Concentrated Along Toll Road

Northern Virginia's office market fundamentals have been challenged by suburban oversupply. Older and lower-quality suburban office assets have fallen out of favor among many tenants, which has driven activity to the Class A market. For much of the early 2010s, dense submarkets inside the Beltway provided the greatest opportunity for tenants seeking high-quality space. However, beginning in 2017, suburban markets, led by Tysons and Reston, began to represent the larger share of Northern Virginia's construction pipeline. Several factors helped improve the overall quality of suburban office, including new construction deliveries, which added 4.6 million square feet of new space outside the Beltway over the last five years, as well as the demolition of 1.5 million square feet of the region's most challenged office product by way of renovation or repositioning.

Recent activity has been driven to areas like Reston, Herndon, and Route 28 due to both the impact of new deliveries and the corridor's strength in technology, cybersecurity, and government contracting. Earlier in the year, two office towers on Opportunity Way delivered, resulting in a 739,000 square-foot boost to occupancy. While net absorption has not been positive in every Toll Road-adjacent submarket in 2022, over the last 12 months, net absorption cumulatively measured 457,666 square feet along the Toll Road. As a point of comparison, the Rosslyn-Ballston

Corridor has recorded total net absorption of just 16,302 square feet over the last year. Additional net occupancy gains can be expected in the Toll Road due to the outsized share of leasing activity through the first half of 2022. Among the region's largest second-quarter leases, over 40% of activity was concentrated in Reston, Herndon, and Route 28.

Government Contractors Elevate Northern Virginia's Regional Strength

One of Northern Virginia's biggest economic strengths is its competitive position in attracting an outsized share of federal contracts, and therefore, office-occupying government contractors. The concentration of major federal agencies and supportive network contractors represents a sizable share of Northern Virginia's office occupiers. The region's geographic strength in federal contracting was highlighted in the second quarter of 2022, with independent announcements from Boeing and Raytheon that the firms will relocate their corporate headquarters to Arlington County. Although both firms already occupy office space in the region, the local presence of the company's C-suite and executive leadership teams underscores the growing importance of government contracting to these firms. According to Boeing's annual financial filings, 49.0% of the company's consolidated revenue in 2021 was attributed to the U.S. government, up from 30.0% in 2016.

These two relocations may not have an immediate impact on local employment demand, however. In Boeing's announcement, the firm committed to invest in a future research and technology hub, suggesting that local headcount growth is possible. But the firm also committed to maintain a "significant presence" at its former headquarters in Chicago and announced it would locate the new headquarters in an existing office space. Still, the region is well-positioned to support potential labor demand from these firms. While the locational value of Arlington is beneficial for lobbying, the strength of Northern Virginia's labor market is equally valuable for firms reliant on skilled technology workers.

Notable 2Q 2022 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
GSA – Department of Defense	2530 Crystal Drive	Crystal City	Renewal	558,187
Boeing	460 Herndon Parkway	Herndon	Renewal	204,617
Leidos	14668 Lee Road	Route 28 South	Renewal	158,559
Accenture	800 N. Glebe Road	Ballston	Renewal	120,687
Tech Wish Group	21000 Atlantic Boulevard	Route 28 North	Direct Lease	62,750

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 Q2 2022

Currently, these announcements do not have a known direct impact on office market fundamentals but will serve as further validation of Northern Virginia as a strong, business-friendly market. Including Boeing and Raytheon, Northern Virginia can now claim headquarter locations for 13 Fortune 500 companies.

Although Northern Virginia's strong government contracting environment elevated the region to national prominence in the second quarter of 2022, consolidation in the industry is presenting a threat to office market fundamentals. Specialized government contracting firms are increasingly being targeted for acquisition by larger companies, both for the value of their contracts and their skilled and credentialed workforce. These mergers and acquisitions have recently led to net losses in office occupancy due to consolidations, despite the otherwise strong position of this industry. Since being acquired by General Dynamics, CACI has been placing large blocks of space on the sublease market, totaling nearly 200,000 square feet at 3434 N Washington Boulevard and 3170 Fairview Park. In 2019, SAIC acquired Engility and has since placed the firm's 82,000 square-foot office at 4803 Stonecroft Boulevard on the sublease market years ahead of its expiration. As the concentration of major federal contractors grows in the region, this trend may persist as mergers and acquisitions drive office consolidations.

Northern Virginia Outlook

Northern Virginia's office market has exhibited unsteady recovery in the second quarter of 2022. Office market fundamentals have signaled mixed trajectories in recent quarters, partly driven by significant new construction deliveries. As the market's construction pipeline shrinks to its lowest level in over a decade, the influence of inventory expansion will lessen and drive tenant activity to existing assets. Relatively robust leasing activity in the second quarter of 2022 is a positive indicator for the market, but

pressure among many tenants to reduce their real estate footprints is expected to result in net occupancy loss for many firms when negotiating new long-term leases. Newmark Research projects that Northern Virginia's vacancy will decrease from 20.9% to 20.2% in the second quarter of 2024.

The market's average asking rent increased by 1.0% over the last year, but this rate has been decreasing for each of the last four quarters. Still, concessions remain elevated regionally 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.

Given the dramatically improved public health conditions in the second quarter, many employers have begun to institute return-to-office requirements, at least in a hybrid capacity. This should benefit leasing activity and occupancy requirements in the months ahead. Most notably, the federal government issued a directive, echoed by President Biden in his State of the Union, for agencies to begin recalling remote-based employees back to offices. Conversely, one of Northern Virginia's premier private employers, Capital One, delayed its return-to-office plans until after Labor Day.

Northern Virginia's technology and cybersecurity industries remain major private sector anchors in the region and serve as green chutes for future growth. The growing concentration of world-class headquarters, academic institutions, and training programs in the area present a favorable environment to foster long-term growth of these industries.

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)	2Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
Northern Virginia	165,701,301	19.7%	20.9%	1,558,088	-972,732	-2,085,175	-292,386	308,577
Class A	101,192,583	19.3%	20.7%	713,806	-150,566	-1,216,756	-24,459	769,504
Class B	43,972,733	21.6%	22.9%	673,899	-540,663	-774,988	-291,086	-397,973
Class C	20,535,985	17.4%	17.8%	170,383	-281,503	-93,431	23,159	-62,954

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 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
Northern Virginia	165,701,301	\$37.14	\$31.99	\$34.72	351,023	1,413,023	869,414
Class A	101,192,583	\$37.14	NA	\$37.14	351,023	1,413,023	869,414
Class B	43,972,733	NA	\$31.99	\$31.99	0	0	0
Class C	20,535,985	NA	NA	\$30.01	0	0	0

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

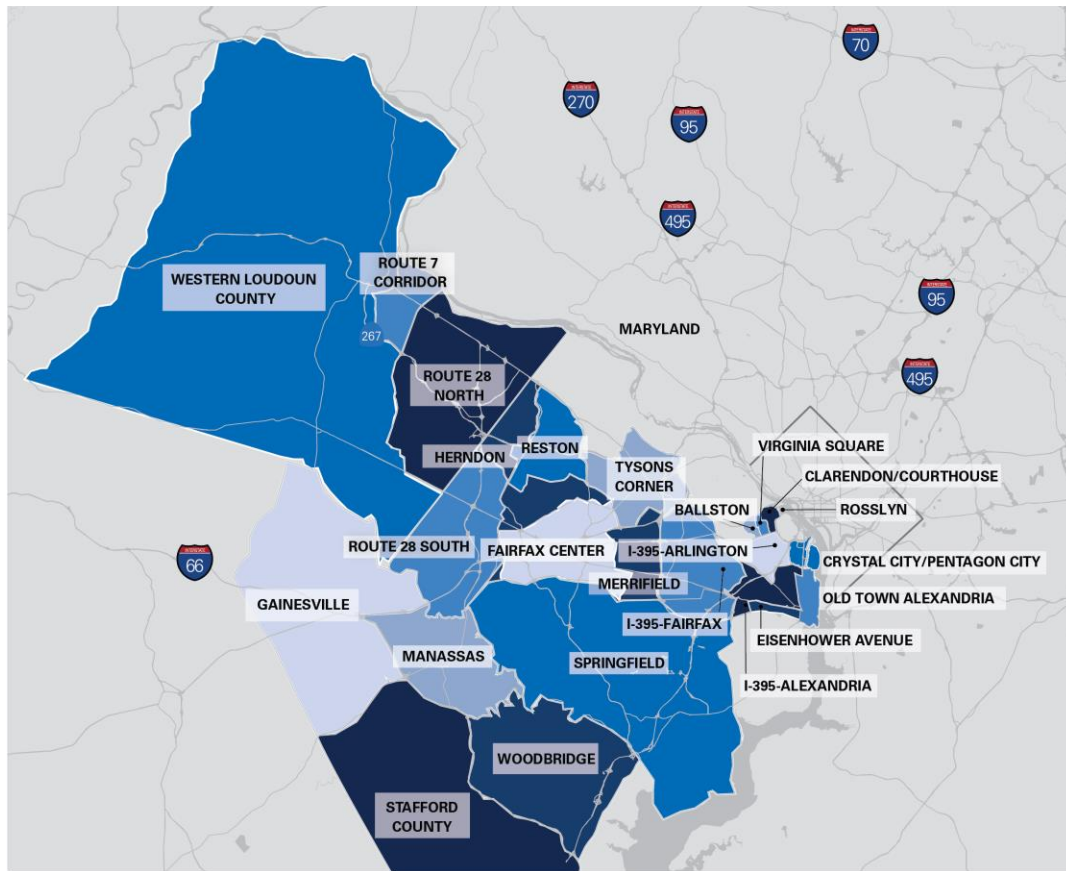
Submarket Statistics—All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2019 Absorption (SF)	2020 Absorption (SF)	2021 Absorption (SF)	2Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)
Northern Virginia	165,701,301	19.7%	20.9%	1,558,088	-972,732	-2,085,175	-292,386	308,577
Ballston	7,645,994	24.9%	25.9%	125,582	65,095	-180,352	17,852	112,549
Clarendon/Courthouse	4,550,562	25.6%	26.9%	8,428	-175,216	-187,143	-26,223	-43,472
Crystal City/Pentagon City	12,585,674	23.8%	26.0%	282,070	-24,886	-1,141,430	-63,427	-67,138
Eisenhower Avenue	1,313,328	54.0%	54.3%	10,159	-3,135	-39,363	-3,119	863
Fairfax Center	9,937,725	22.6%	23.6%	64,910	-344,522	6,592	39,554	71,044
Gainesville	247,772	9.0%	9.0%	-9,694	7,886	1,808	0	-2,882
Herndon	11,589,113	23.2%	24.4%	245,642	-132,779	-326,156	-159,025	-255,393
I-395 Corridor – Alexandria	2,021,964	23.5%	24.6%	25,881	-60,099	48,153	1,390	4,619
I-395 Corridor – Arlington	1,595,158	7.9%	7.9%	26,795	7,576	-9,005	-43,811	-20,749
I-395 Corridor – Fairfax	4,195,444	29.2%	29.6%	166,877	18,234	-4,897	-110,203	-93,871
Manassas	2,802,379	4.4%	5.0%	5,752	-10,424	47,315	2,290	25,659
Merrifield	8,308,665	14.8%	17.5%	-3,312	53,267	62,948	13,032	-2,976
Old Town Alexandria	11,114,080	13.9%	15.3%	26,115	-194,866	-142,517	18,819	-31,458
Reston	18,782,751	17.8%	19.7%	-189,954	-212,773	-59,040	133,126	731,064
Rosslyn	9,304,192	20.3%	21.3%	271,222	100,643	-166,948	-20,040	146,129
Route 28 North	5,480,890	13.0%	13.7%	-88,244	41,167	-35,458	-26,429	31,368
Route 28 South	11,561,987	14.5%	15.0%	125,385	103,142	15,627	-22,626	11,001
Route 7 Corridor	5,190,314	12.1%	12.9%	41,444	38,906	-22,390	-13,567	-26,087
Springfield	4,824,339	21.0%	21.1%	77,173	-67,116	528,977	-24,930	-143,863
Stafford County	886,184	31.6%	31.6%	2,331	-33,147	46,386	0	-10,741
Tysons	28,642,933	21.7%	22.6%	482,664	-129,377	-445,135	973	-127,237
Virginia Square	1,030,321	21.3%	28.0%	-161,903	16,485	-80,045	-4,556	-6,453
Western Loudoun County	795,188	4.2%	4.2%	-3,744	-13,650	2,256	-13,392	-13,183
Woodbridge	1,294,344	10.9%	10.9%	26,509	-23,143	-5,358	11,926	19,784

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 2022 Deliveries (SF)	YTD 2022 Deliveries (SF)	Under Construction (SF)
Northern Virginia	165,701,301	\$37.14	\$31.99	\$34.72	351,023	1,413,023	869,414
Ballston	7,645,994	\$44.53	\$40.07	\$42.42	0	0	191,034
Clarendon/Courthouse	4,550,562	\$44.45	\$39.09	\$43.66	0	0	0
Crystal City/Pentagon City	12,585,674	\$41.25	\$36.62	\$39.27	0	0	0
Eisenhower Avenue	1,313,328	\$30.72	\$25.00	\$30.17	0	0	0
Fairfax Center	9,937,725	\$29.99	\$28.26	\$27.87	0	0	0
Gainesville	247,772	\$29.51	\$23.61	\$25.78	0	0	0
Herndon	11,589,113	\$35.96	\$25.25	\$33.92	0	0	0
I-395 Corridor – Alexandria	2,021,964	\$32.31	\$30.85	\$31.56	0	0	0
I-395 Corridor – Arlington	1,595,158	\$31.68	\$20.00	\$27.57	0	0	0
I-395 Corridor – Fairfax	4,195,444	\$32.59	\$27.00	\$27.91	0	0	0
Manassas	2,802,379	\$25.83	\$21.73	\$23.13	0	0	0
Merrifield	8,308,665	\$33.49	\$32.29	\$31.30	0	0	0
Old Town Alexandria	11,114,080	\$41.79	\$32.39	\$38.29	0	0	0
Reston	18,782,751	\$36.15	\$27.41	\$33.09	0	1,062,000	328,380
Rosslyn	9,304,192	\$54.65	\$41.02	\$41.23	0	0	0
Route 28 North	5,480,890	\$27.79	\$25.04	\$26.05	0	0	0
Route 28 South	11,561,987	\$29.21	\$24.59	\$28.34	0	0	350,000
Route 7 Corridor	5,190,314	\$29.93	\$22.15	\$28.10	0	0	0
Springfield	4,824,339	\$37.91	\$25.69	\$31.56	0	0	0
Stafford County	886,184	\$26.14	\$24.50	\$26.08	0	0	0
Tysons	28,642,933	\$40.51	\$33.24	\$36.53	351,023	351,023	0
Virginia Square	1,030,321	\$43.35	NA	\$42.93	0	0	0
Western Loudoun County	795,188	\$38.00	\$32.10	\$33.01	0	0	0
Woodbridge	1,294,344	\$24.18	\$22.92	\$23.67	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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